UNIVERSITY OF DENVER

Center for Colorado's Economic Future

Comparing Colorado's Most Recent State Economic and Revenue Forecasts

A rising unemployment rate and the creation of fewer jobs are signs that the national economic slowdown appears to be affecting Colorado more significantly.

The state added an average of only 850 jobs in April and May, after averaging monthly growth of nearly 4,000 jobs last year. The April data was revised from an initially reported employment gain of 3,800 to only 1,000. The jobless rate jumped to 4.9 percent in May from 4.4 percent in April. **When Colorado's unemployment rate increased by similar amounts over the past 30 years, it presaged difficult, if not recessionary, economic times for the state.**

Skyrocketing energy and food prices, meanwhile, are limiting the flow of revenue into the state's General Fund. These commodities are not subject to the state sales tax and their rising prices reduce the amount of money that most consumers can spend on taxable goods. Falling real estate values also cause consumers to tighten their wallets and purse strings. After increasing 5.9 percent during the first eight months of the state's fiscal year, state sales taxes were flat over the next three months with a gain of only 0.1 percent. It should be noted that economic stimulus checks issued by the federal government had not yet reached taxpayers. They will provide some support to beleaguered consumers, but opinions are mixed as to whether they will significantly increase new spending. Additional spending merely to support inflationary trends in energy and food will not add to the state's sales tax coffers.

Diverging Revenue Forecasts

The latest economic and revenue forecasts from the staffs of the governor and legislature do not take into account the most recent employment data. The two offices released five-year forecasts in March that were similar, but the June forecasts from the Legislative Council Staff (LCS) and the governor's Office of State Planning and Budgeting (OSPB) showed a divergence of opinion. The gap between their five-year forecasts grew to $716 million from only $26 million in March.

Given the apparent turning point in the national and state economies, these forecasts are critical for state budget decisions. Even though the General Assembly concluded its legislative session in May, the budget process is nearly a year-round effort and initial budget planning will be based on these forecasts and upcoming revenue and economic data.

Compared to its March's report, the Legislative Council Staff forecast is relatively unchanged for FY 2007-08 and $66 million lower for FY 2008-09. The legislature's economists now predict a stronger rebound during the final three years of the five-year period and have increased their five-year General Fund revenue estimate by $291 million. The governor's economists are more optimistic about the first two years and more pessimistic about the final three years than they were three months ago. They reduced their five-year revenue estimate by $399 million in June.

The spread between the revenue forecasts reflect growing differences in their economic forecasts. For example, the percentage difference in the employment forecasts for 2011, the last common year of the respective forecasts, is 1.3 percent. The difference in the five-year forecast of revenue is 1.7 percent. The differences also reflect the always present difficulties in how to incorporate inflection points in the economic trends into a new revenue forecast.

Figures 1 and 2 compare the March and June forecasts.

Figure 1. March 2008 Forecasts

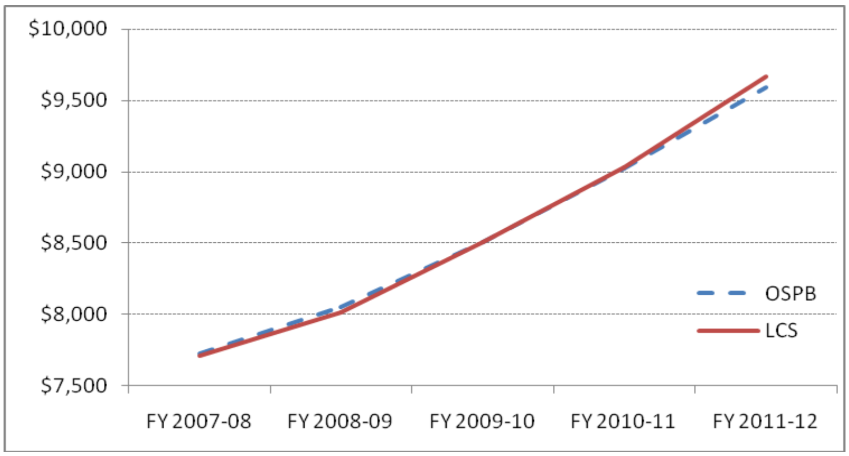
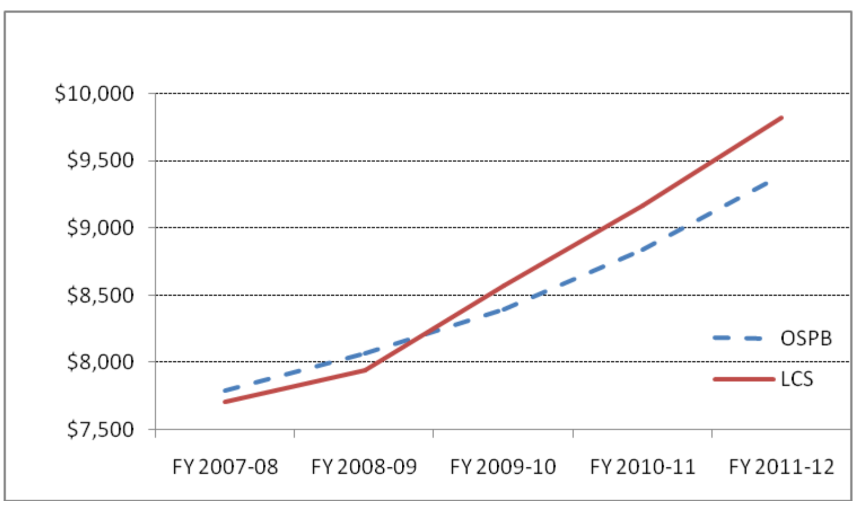


Figure 2. June 2008 Forecasts



Implications of the Revenue Forecasts

Even with growing pessimism from the Office of State Planning and Budgeting, revenue growth is sufficient under both forecasts to increase the state's General Fund appropriations by the maximum limit of six percent in each year. But given the divergence of revenue forecasts, there are different implications for future highway and capital construction spending from the General Fund. These implications are critical because the Highway Users Tax Fund is already beset by the impacts of high energy prices and the economic slowdown. Colorado drivers are driving less, resulting in weaker growth in motor fuel taxes. They are also purchasing fewer new vehicles. Also, they are purchasing lighter, more fuel-efficient cars to cope with higher fuel prices. In addition to further downward pressure on motor fuel taxes, revenue from vehicle registrations will be lower as most of this revenue stream is based on the weight of the vehicle.

Senate Bill 97-01 dedicates sales and use tax revenue, when available, to high-priority transportation projects. Under the OSPB forecast, a full diversion of this money to the Highway Users Tax Fund (HUTF) will occur only in FY 2007-08. After the current year, the diversion will range from just 23 percent to 95 percent of the maximum amount. Surplus funds above a four percent reserve requirement will total just $100 million over the forecast period (only in FY 2007-08). Under House Bill 02-1310, this money is split between the HUTF and the Capital Construction Fund on a two to one ratio.

Under the Legislative Council Staff forecast, a full Senate Bill 97-1 diversion will occur in all but one year. The House Bill 02-1310 transfers over the five years will total $322 million. Most of this transfer is projected to take place in the last two years of the forecast period.

The legislature's economists project that total transfers and diversions to the HUTF will be $547 million higher than OSPB's projection, and they estimate that $74 million in additional revenue will be available for capital construction under HB 02-1310.

Neither office predicts a TABOR surplus through FY 2011-12, the final year of the forecast period. The Referendum C "TABOR timeout" ends after FY 2009-10. "Because growth in the economy, and therefore state revenue, outpaces inflation plus population over time, we do anticipate that the state will have TABOR refunds in the future," the legislative economists said.