

Issue Brief



December 2008

Comparing State Revenue Forecasts

Summary

Economists for the state legislature and governor released their December forecasts last week. This Issue Brief by the *Center for Colorado's Economic Future* examines the two forecasts. We look at the imprecision of the forecasts since March and the extent that they differ.

Introduction

We noted in a review of the March 2008 revenue forecast that “when the economy is contracting, forecasters typically underestimate how far the economy and revenue will slow or shrink.” We also stated that “it seems likely that future revenue forecasts will be reduced below current predictions until the economy improves.” Our comments at the time have been realized as each quarterly forecast since then has declined, including a drastic drop in the recent December forecast by legislative economists.

To be fair, the vast majority of economists did not predict the severity of the credit crunch and how it would impact the economy. But it is another indication of how the economics profession cannot tell the degree that excesses in the economy will unwind. In this case, every sector of the economy in every part of the country is affected by this downturn. At this point, it seems likely that the national recession will be the most severe since the double-dip recessions of the early 1980s.

Changes Since March 2008

The chart on this page shows changes in the General Fund revenue forecast by the Legislative Council since March. An estimated \$2.15 billion

will not be available for spending over the two-year period as originally projected. The decline in estimates by the governor’s Office of State Planning and Budgeting is not nearly as severe.

General Fund Revenue Forecasts by Legislative Council (dollars in millions)

Forecast	FY 2008-09	FY 2009-10
June 2008	-\$66.2	-\$32.1
September 2008	-\$269.7	-\$291.4
December 2008	-\$798.8	-\$1,347.0

Comparing December 2008 Forecasts

The two forecasting offices diverge widely on their forecasts for General Fund revenue. For FY 2008-09, the Legislative Council estimate is \$561.6 million lower than the Office of State Planning and Budgeting estimate. The difference increases to \$692 million for FY 2009-10.

The Colorado Department of Revenue collects most General Fund revenue. It reported that the largest parts of the General Fund were essentially flat through November with a 0.1% decline. As they look to the near-term future, however, Legislative Council economists are more pessimistic as

to how they believe revenue will react to the recent decline in the state's economy. They also believe that tax receipts from capital gains will drop significantly during the rest of the current budget year, following a year-long decline in stock prices. The chart below shows how the two offices differ in projected growth rates for the major General Fund components, as well as the current growth through November.

Implications of the Forecasts

The General Assembly and the governor will have to choose which forecast is likely to be the most accurate. The legislative forecast implies that \$604 million will have to be cut from appropriations in the current budget to preserve the 4 percent savings account. Under the governor's office forecast, only \$42.5 million would have to be cut. Because only six months are left in the budget year, the choice is crucial. The choice of actions to be taken would be vastly different under the two fore-

casting scenarios. Under the pessimistic revenue forecast, the budget-balancing choices are limited and painful.

The *Center for Colorado's Economic Future* will examine the budget-balancing choices that the General Assembly and governor will face in an upcoming Issue Brief. In other upcoming analyses, we will examine cost pressures on the state budget, revenue shortfalls that may face local governments, and budget choices and possible solutions after Referendum C's timeout from TABOR revenue limits ends in 2010.

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The Center for Colorado's Economic Future at the University of Denver is an independent, nonpartisan organization that conducts research on matters related to Colorado's fiscal health, trends affecting the state's economy and proposed legislation relating to taxation and public spending.

Comparison of December 2008 Forecasts					
Tax Category	FY 2008-09		YTD Growth Thru November	FY 2009-10	
	LCS	OSPB		LCS	OSPB
Sales	-6.4%	-3.9%	-4.0%	-0.2%	3.2%
Use	-4.3%	5.6%	4.9%	-4.3%	7.0%
Other Excise	3.0%	1.6%	6.4%	-1.8%	2.9%
Individual Income	-5.8%	3.0%	3.1%	1.7%	1.2%
Corporate Income	-22.6%	-6.6%	-18.2%	-9.3%	4.8%
Other Revenue	-5.0%	-1.2%	NA	5.6%	6.6%
Total	-6.8%	0.4%	NA	0.7%	2.3%

LCS—Legislative Council Staff

OSPB—Governor's Office of State Planning and Budgeting

NA—Not available