

Joint Budget Committee
September 19, 2024 9:00 a.m.

September Economic & Revenue Forecast

Legislative Council Staff

General Fund Budget Outlook

- FY 2023-24: The General Fund ended FY 2023-24 with a reserve of just under \$3.1 billion, or \$1.0 billion more than the required 15% reserve. Revenue exceeded the cap by \$1.37 billion. The state is also obligated to refund an additional \$288.8 million to correct prior underrefunds, for a total refund of \$1.66 billion.
 - General Fund revenue fell by about \$747 million, mostly as a result of income tax credits enacted during the 2024 session. Despite the decrease in revenue and an 8.5 percent increase in the Referendum C cap.
- FY 2024-25: The General Fund is expected to end FY 2024-25 with a 12.7 percent reserve, \$370.8 million below the statutory reserve requirement. This amount may change based on ballot measures approved at the November 2024 election, legislation enacted during the 2025 legislative session, and forecast revisions. State revenue subject to TABOR is expected to exceed the Referendum C cap by only \$365.2 million. Given normal forecast error, it is possible that state revenue subject to TABOR may fall below the Referendum C cap, which would cause the FY 2024-25 budget to be constrained by available revenues, rather than the TABOR limit.
- FY 2025-26: General Fund revenue is expected to grow 6.1 percent and total \$17.96 billion, with state revenue subject to TABOR exceeding the Referendum C cap by \$747.3 million. The General Fund is projected to have \$911.8 million, or 5.0 percent, more available to spend or save than what is budgeted to be spent in FY 2024-25, after current law transfers and the statutory reserve requirement. This amount does not incorporate caseload growth, inflation, or other budgetary pressures. When accounting for those other budgetary pressures, the year-end General Fund reserve could fall short of the reserve requirement by \$921.3 million.

Risks to the General Fund Budget Outlook

- Risk to the budget outlook has increased relative to earlier forecasts, as reduced revenue expectations raise the possibility that state revenue may fall short of the Referendum C cap in forecasted years, even without a recession.

Cash Fund Revenue

- In FY 2024-25, cash fund revenue subject to TABOR is projected to increase 7.5 percent and total just over \$3.01 billion, driven by a rebound in severance tax revenue growth paired with moderate increases in transportation related revenue and other cash fund revenue. Finally, revenue is expected to increase by 2.4 percent in FY 2025-26 and 1.3 percent in FY 2026-27 as growth in the largest revenue streams moderates.

Refund obligation for exceeding Proposition FF Blue Book estimate

- Income tax revenue attributable to Proposition FF reached \$127.0 million in FY 2023-24 on an accrual basis based on preliminary figures, exceeding the estimate provided to voters in the 2022 Blue Book by \$26.3 million.

School Finance and State Education Fund (SEF) Transfers

- For FY 2024-25, total program is expected to increase by \$561 million as a result of the required inflationary increase, elimination of the budget stabilization factor, and addition of a rural school factor to the formula. Additionally, the property tax changes in SB24-233 and HB24B-1001 shifted a portion of total program funding from the local share to the state share, resulting in a total increase of \$524 million in the state share.
- For FY 2025-26, the state share requirement is expected to decrease by about \$7 million on a year-over-year basis, due to the factors described below. Total program requirements will increase by \$290 million in FY 2025-26.
- This projection is based on the new formula in House Bill 24-1448, which increases total program requirements by about \$95 million, an expected decrease in the funded pupil count as a result of both formula and enrollment changes, and a projected inflation rate of 2.7 percent.
- Revenue to the SEF. The Colorado Constitution requires the State Education Fund to receive one-third of one percent of taxable income. In FY 2025-26, the State Education Fund is expected to receive \$1.2 billion from the requirement. Similar amounts, excluding the one-time adjustment, are expected in the following years of the forecast. Figure 2 shows a history and forecast for revenue sources to the State Education Fund through the end of the forecast period.

Economic Outlook

- Overall, U.S. economic growth exceeded expectations in 2024 but is expected to slow. Colorado's economy has modestly outperformed the nation's through the first half of 2024, with comparable employment growth, higher income growth, and inflation down to 1.9% from a peak of 9% in 2022. Colorado's unemployment rate continues to remain low but has begun to tick up in recent months. This is in line with expectations and in part due to new individuals entering the workforce. Unemployment rates are expected to increase to 4.2% in 2025 before coming back down to 4% in 2026. Throughout the state, home prices have leveled out and are now growing at a slower pace than in the U.S.

Costs driving the shortage of general fund revenue shortage

- Based on LCS final fiscal notes, FY 2025-26 General Fund expenditures for 2024 legislation are expected to be \$5.6 million more than FY 2024-25 expenditures. The growth rate assumptions provided below are based on JBC Staff analysis of prior year budget actions, and may overstate or understate needed cost increases for FY 2025-26 specifically:
 - \$127.2 million in increased General Fund appropriations for school finance, representing 3.0 percent year-on-year growth;

- \$367.3 million in forecast-driven increases in General Fund appropriations for the Department of Health Care Policy and Financing, mostly for medical services premiums;
- \$82.7 million in increased General Fund appropriations for higher education institutions, representing 5.3 percent year-on-year growth, the 20-year compound average annual growth rate for this appropriation;
- \$74.2 million in increased General Fund appropriations for community providers, representing 2.0 percent year-on-year growth with similar targeted rates to those for FY 2024-25; and
- \$117.3 million in increased General Fund appropriations for state employee salaries, representing similar increases to those for FY 2024-25.

Severance Tax Revenue

- Declined by 42 percent in FY 2023-24, largely due to a steep decline in oil and gas collections that were partially offset by increased coal, molybdenum and metals taxes, and interest earnings. In FY 2024-25, severance tax revenue subject to TABOR is expected to increase by 21.3 percent, largely reflecting more stable oil and gas markets and lower ad valorem tax credit utilization.

Governor's Office of State Planning & Budgeting

General Fund

- General Fund revenue expectations in FY 2023-24 are downwardly revised from the March forecast due to year-to-date individual income refunds above previous forecast expectations and legislative changes, despite stronger expected corporate revenue growth. General Fund revenue in FY 2024-25 is downwardly revised again, largely as a result of changes from the 2024 legislative session. In FY 2023-24, general fund revenue from non-exempt sources is expected to decrease by 4.0 percent year-over-year to \$16,759.1 million before increasing by 1.0 percent in FY 2024- 25 to \$16,927.1 million. General Fund revenue is projected to grow an additional 3.9 percent in FY 2025-26 to \$17,594.0 million. General Fund revenue for FY 2023-24 is revised down by \$528.6 million from March, while revenue in FY 2024-25 is revised down by \$677.2 million and FY 2025- 26 revenue is revised down by \$1,049.2 million.

Cash Funds

- Cash funds are expected to shrink by 1.1 percent in FY 2023-24 and then increase 5.9 percent in FY 2024-25. Compared with the March forecast, cash funds are revised down \$38.2 million and \$16.8 million in FY 2023-24 and FY 2024-25 respectively, as severance and limited gaming revenue declines more than offset increases to miscellaneous and transportation revenue.