



This morning the Joint Budget Committee was joined by Representative Dore, Senator Balmer, Representative Lee, Representative Singer, and Representative Lontine to hear the much anticipated December revenue forecast from Legislative Council and the Office of State Planning and Budgeting. Both Legislative Council and the Office of State Planning and Budgeting had extremely similar forecast projections and both forecasts near mirrored the September revenue forecasts. In December, Legislative Council also provides a comprehensive look at school enrollment and school finance as well as projections of future prison populations.

Legislative Council kicked off the forecast providing an update on the national and Colorado economy. Colorado has seen robust job growth over the last five years and unemployment dropped from a high of 8% to 3.6%. National unemployment sits at 5%. Underemployment has also fallen by half. Colorado continues to out-pace the nation in job growth but hasn't been able to avoid the slow down being faced in the national economy. This slow down is a direct effect of slower global economic growth in the Eurozone and emerging markets such as China; the appreciation of the US dollar relative to other currencies; and low commodity prices for crude oil, natural gas, metals, and agriculture. The moderation in growth is expected to continue in 2016 and potentially taper off in 2017. The decline in crude oil prices has a direct effect on drilling in Colorado, which has decreased substantially. Exports are also down by 6.5% nationwide and 2.4% in Colorado. The United States has a substantial aging population, which results in lower labor market participation and a decrease in consumption. The feds finally increased interest rates. However, the increase will only have significant impacts on short term rates not long term rates and Colorado's housing market is expected to stay strong.

For the upcoming budget year, Legislative Council increased expectations for revenue to \$68 million for FY 2016-17, \$5.6 million higher than September. In September, the state comptroller estimated that the state would end FY 2014-15 with only \$61.5 million, that expectation was increased to \$112 million. However, it is important to note that these numbers are still preliminary and subject to change. In FY 2015-16, general fund revenue will be \$207.8 million short of the amount needed to fully fund the budget and required 6.5% reserve. This number is \$12.7 million smaller than the projected shortfall in January. The state will have \$274.2 million more to spend in FY 2016-17.

Director Henry Sobanet from the Office and State Planning and Budgeting (OSPB) reiterated that there were many similarities between the two projections. OSPB forecasts that general fund revenue will increase by 2.1% in FY 2015-16 with revenue projected \$156.5 million short of what is needed to fully fund the budget and 6.5% reserve. Director Sobanet led the committee to page 62 of his briefing document which clearly outlines the difference between the Legislative Council forecast and the OSPB forecast. In FY 2015-16, OSPB estimates 2.1% growth while Legislative Council estimates 1.8% growth

and in FY 2016-17, OSPB estimates 6.7% growth and Legislative Council comes in at 6.4% growth. Under the Governor's November budget request and the December revenue forecast, Colorado's general fund reserve in FY 2016-17 is projected to be \$47.1 million above the required amount of 6.5% of appropriations. OSPB also attributes slower growth to major contractions in the oil and gas industry. Colorado alone is expecting a 20% job loss in the oil and gas industry. The positive news for Colorado is that the sluggish economic conditions are currently limited to manufacturing and oil and gas. Critical industries to Colorado such as high tech and information technology are still going strong throughout the nation and Colorado.

TABOR and SB 228

TABOR expectations have also slightly changed. TABOR refunds will be \$156.5 million for FY 2014-15 via the Earned Income Tax Credit and a sales tax refund on individual income tax returns. For FY 2015-16, the state budget will fall \$127.5 million lower than the TABOR limit so there will be no refunds in tax year 2016. Legislative Council does project a \$191.2 million TABOR surplus in FY 2016-17 and a \$384.2 million TABOR surplus in FY 2017-18. OSPB also expects TABOR revenue to come in below the revenue cap for FY 2015-16. However, in FY 2016-17 they expect a TABOR surplus of \$212 million and a \$340.9 million in FY 2017-18. SB 228 transfers to the Highway User Tax Fund and Capital Construction Fund will see full transfers in FY 2015-16 - \$199.5 million to the Highway User Tax Fund and \$49.9 million to the Capital Construction Fund. However, Due to implications from the TABOR revenue surplus, Legislative Council anticipates that SB 228 transfers will be cut in half in FY 2016-17 and then completely eliminated by FY 2017-18. The Office of State Planning and Budgeting has matching projections for SB 228.

School Finance Outlook

There is some good news for school finance in Colorado. In FY 2015-16, the average pupil counts came in lower than forecasted, which decreases the cost of school finance by \$24 million before the application of the negative factor. Colorado has a total of 827,000 enrolled students, which is 2,000 less students than forecast last year but still a 1% increase in students over the previous year. Seven of the nine forecast regions saw growth. Pueblo and the Eastern Plains were the only two regions with declining enrollment while Metro Denver added the most students. In the upcoming budget year, Legislative Council expects all nine forecast regions to experience growth with the addition of 8,992 students statewide (1.1%).

Preliminary estimates of the local share are \$135 million higher than projected in school finance last year. The 15% growth in assessed values is due to large gains in oil and gas, commercial and residential property classes. The residential assessment rate is expected to decrease from its current level of 7.96% to 7.78% for 2017 reassessment period which could result in Gallagher amendment implications. Legislative Council expects local share to increase by another \$15 million in FY 2015-16. The lower than expected student enrollment and increase in local share funding gives the state approximately \$159 million in flexibility.

Limited Gaming and Historic Preservation

There are two tax policies that are only available when the Legislative Council forecast indicates general fund revenue growth of 6% or more. One of these is the historic property preservation tax credit. The credit will no longer be available in 2016 and is not expected to be available in tax year 2017. Limited gaming revenue in FY 2014-15 came in at \$99.3 million, a 1% increase from the previous fiscal year. Limited gaming is expected to see a 3.6% increase in FY 2015-16 to \$102.9 million.

Hospital Provider Fee

The hospital provider fee continues to play a big role in the budget. For FY 2014-15, the hospital provider fee revenue sat at \$528.8 million. In FY 2015-16, Legislative Council estimates that revenue will increase by 52.4% to \$805.8 million and then see a 6.1% decrease in FY 2016-17 to \$757 million. At this time, all revenue in the hospital provider fee counts toward the TABOR revenue limit.

The final revenue forecast before the General Assembly finalizes the budget is in mid-March. This is when the Joint Budget Committee decides if they are going to budget to the OSPB forecast or the Legislative Council forecast. In recent years, the JBC has forecasted to the more conservative forecast. If a budget deficit still exists in the March revenue forecast, the Governor's Office and JBC will have to determine how to cut the budget. Colorado is required to have a balanced budget each year.

Office of State Planning and Budgeting Forecast Document:

<https://drive.google.com/file/d/0B0TNLOctD9wXTkQyeHd0YTNNb1k/view>

Colorado Legislative Council Forecast Document:

<https://www.colorado.gov/pacific/sites/default/files/December2015Forecast%20.pdf>

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