



December 20, 2016

December Revenue Forecast with Legislative Council Staff & the Office of State Planning and Budgeting Staff

General Fund and TABOR Outlook

FY 2014-15. Based on preliminary data, the General Fund ended the year with \$112.1 million more than is required to fully fund the budget and required reserve. Under TABOR, the state will refund \$156.5 million for FY 2014-15 via the Earned Income Tax Credit (\$85.7 million) and a sales tax refund (\$70.8 million) on individual income tax returns filed for tax year 2015.

FY 2015-16. Expectations for General Fund revenue were decreased \$35.3 million, or 0.4 percent, relative to September. Decreased expectations for corporate income, sales, and use tax revenue were partially offset by increased expectations for individual income and insurance premium tax revenue.

The shortfall relative to the 6.5 percent required reserve is expected to be \$207.8 million, or 2.0 percent, lower than the amount budgeted to be spent and saved in the required reserve in FY 2015-16. This amount is \$12.7 million smaller than the shortfall expected in September due to a higher than expected year-end reserve for FY 2014-15. Revenue is expected to be sufficient to allow General Fund operating appropriations to increase 4.1 percent. In addition:

- revenue subject to TABOR is expected to be \$127.5 million lower than the TABOR limit;
- full Senate Bill 09-228 transfers to the Capital Construction Fund (\$49.9 million) and the Highway Users Tax Fund (\$199.5 million) are expected; and
- lower than expected enrollment and increased expectations for local tax revenue collections to the state's public kindergarten through twelfth grade school districts are expected to provide about \$159 million more flexibility in school finance funding than was previously expected.

FY 2016-17. Revenue is expected to be sufficient to grow General Fund appropriations by 2.7 percent in FY 2016-17, assuming the FY 2015-16 budget remains unchanged. Because the TABOR surplus is expected to be \$191.6 million, or 1.8 percent of General Fund revenue, the Senate Bill 09-228 transfers are expected to be halved for FY 2016-17.

Cash Fund Revenue

Cash fund revenue subject to TABOR totaled \$2.75 billion in FY 2014-15, and is expected to increase slightly to \$2.84 billion in FY 2015-16. Increases in transportation-related and hospital provider fee revenue will be offset by declines in severance tax and insurance-related revenue in FY 2015-16. Total cash fund revenue subject to TABOR will increase 2.6 percent to \$2.92 billion in FY 2016-17 as a rebound in severance tax revenue is offset by a decline in hospital provider fee revenue. Cash fund revenue is projected to grow another 5.1 percent to \$3.06 billion in FY 2017-18, as severance tax revenue recovers with increased oil and gas activity.

Economic Outlook

The state and national economies continue to see moderate, broad-based job growth across most industries. Rising household incomes have supported growth in consumer spending, which has propped up economic activity. Business conditions softened in 2015 for energy, manufacturing and export industries on low commodity prices, a stronger U.S. dollar, and slower global economic activity. These trends are expected to continue to moderate growth prospects for Colorado and the nation in 2016. The aging U.S. population, tighter monetary policy, and rising home prices in Colorado are also expected to moderate growth.

Assessed Values

Statewide assessed values increased 15.0 percent in the 2015 reassessment year due to large gains in the oil and gas, commercial, and residential property classes. Although the strongest growth was along the northern Front Range, values increased in every region in the state. In 2016, low commodity prices will reduce the value of oil and gas property leading to a 0.1 percent decrease in overall assessed values. The northern, southwest mountain, and eastern regions have the largest share of oil and gas property, and will see the largest declines in assessed values in 2016. Finally, the residential assessment rate is expected to decrease from its current level of 7.96 percent to 7.78 percent for the 2017 reassessment period.

Kindergarten through Twelfth Grade Enrollment

Enrollment in Colorado's kindergarten through twelfth (K-12) grade public schools increased 1.0 percent during the current 2015-16 school year, or by 7,787 full-time equivalent (FTE) students. K-12 enrollment is expected to increase 1.1 percent in the 2016-17 school year, or by 8,992 FTE students. All nine forecast regions will experience growth in enrollment over the next two school years. Growth will be strongest in the southwest mountain, mountain, and northern regions, where stronger job growth relative to other areas in the state is spurring relatively faster growth in new residential developments attractive to families.

Prison and Parole Populations

The adult incarcerated prison population is expected to decrease from 20,623 inmates in June 2015 to 20,167 inmates in July 2018, an average annual decline of 0.7 percent over three years. The prison population is expected to fall in FY 2015-16 and FY 2016-17 before increasing during the following year. Near-term declines will result from fewer court commitments, fewer parole revocations, and additional releases. The in-state adult parole population is projected to fall from 9,501 offenders in June 2015 to

8,934 in June 2018, an average annual decrease of 2.0 percent. The parole population is expected to decline each year during the forecast period.

The juvenile commitment population is expected to decrease from an average daily population of 740 youths in FY 2014-15 to 660 youths in FY 2017-18, a decrease of 80 youths over the three-year forecast period. The juvenile detention population is expected to decrease by 25 youths, falling from 282 youths on average in FY 2014-15 to 257 youths on average in FY 2017-18. The average daily youth parole population will correspondingly fall from 243 youths in FY 2014-15 to 234 youths in FY 2017-18.

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