CASB BRIEF - June 24 Vol. 38

Unsettled June Revenue Forecast Raises More Questions

Advocacy Newsletter

The <u>Colorado General Assembly</u> concluded their legally allowed 120-day legislative session more than a month ago. The interim has provided time to review and begin analysis of the impacts of bills passed. The <u>Joint Budget Committee</u> (JBC) recently received economic forecasts that calls into question some of the spending decisions legislators have made. The JBC received quarterly updates from the non-partisan <u>Legislative Council Staff</u> (LCS) and from Governor Polis's <u>Office of State Planning and Budget</u> (OSBP).

The June revenue forecasts traditionally are the least interesting of the four quarterly presentations, because they're issued after the annual session has adjourned and months before the JBC starts work on the next budget cycle. June forecasts usually just serve as a reality check on the March projections that were used to finalize the so called "long bill" which sets the budget for the state for every department except education funding. The June forecast also provide a high-level overview of what legislators will have to work with for the next fiscal year budget.

The presentation members of the JBC received on June 18th set a different tone, and not necessarily in a good way. Two new subjects before the committee caused angst and left many questions unanswered. The first was the possible ill effects of the massive federal policy changes proposed by President Trump's administration. The second was the possible negative effect of smaller TABOR surpluses on major tax credits approved by the legislature in recent sessions.

The OSPB provided extensive analysis of the potential impacts of both the congressional budget bill and a recession, if it occurs. OSPB now believes there is a 50/50 chance of a recession. Slides 44-51 of the OSPB presentation provides some interesting insight on this topic.

OSPB and LCS provided pessimistic forecasts for both the economy in general and state revenues specifically. Both forecasts made significant changes to the guidance they issued in March. Both agencies conclude downside risks outweigh upside risks in all elements of the forecasts.

LCS projects shortfalls below the 15 percent reserve in 2024-25, 2025-26 and 2026-27. OSPB was slightly more optimistic. If revenues are lower than previously forecast, it means there will be less money for TABOR refunds. Recently lawmakers have used these refunds for various tax credit programs including:

- Senior homestead exemption
- Decarbonization credits
- Opportunity Now credits and grants
- Family affordability credit and the expanded earned income tax credit.

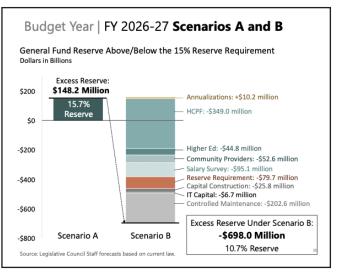
Take a peak at slides 25-32 of the <u>LCS presentation</u> for more information on these topics.

Normally the most-watched item of the forecasts is whether LCS projects a shortfall in the subsequent budget year (i.e., starting July 1, 2026). LCS estimates that projected continuing spending could leave the 2026-27 budget \$690 million short of the 15 percent reserve required by policy.

Legislative Council Staff economists project that the 2024-25 budget - which closes June 30 -will have a \$8.6 million shortfall below the 15 percent reserve requirement. The 2025-26 budget shortfall will be \$83.6 million.

The chart to the right shows the LCS scenario for 2026-27.

Mark Ferrandino, the director of the Office of State Planning and Budget, said the 2024-25 budget is projected to be [...]



Read the Entire Advocacy Newsletter Here!