COLORADO FISCAL POLICY INSTITUTE

State budget revenue holds steady but faces threats from fragile economy and federal cuts

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Terry Scanlon
Fiscal policy analyst
789 Sherman St.
Suite 300
Denver, CO 80203
www.cclponline.org
303-573-5669 ext. 311
tscanlon@cclponline.org

The Colorado Fiscal Policy Institute is a project of the Colorado Center on Law and Policy, a nonprofit, nonpartisan research and advocacy organization seeking justice and economic security for all Coloradans.

Although the state budget is secure for now, the fragile economy and likely federal budget cuts pose long-term threats to services funded the budget.

The outlook for Colorado's tax revenue has improved slightly in the past few months making budgets for schools, health care and other vital services secure for now. The fragile economy and likely federal budget cuts, however, pose long-term threats to state services.

Revenue up slightly

Higher than expected revenue collections this spring prompted economists for both the Legislative Council Staff (LCS) and the Governor's Office of State Planning and Budgeting (OSPB) on Wednesday to increase their forecasts for revenue in the coming year. For the combination of fiscal year 2011-12 (which ends June 30) and fiscal year 2012-13, the LCS projects that General Fund revenue will be $320.1 million higher than what it projected in March. The OSPB revenue estimates released Wednesday project a $335.3 million increase in General Fund revenue over the same period of time.

Figure 1

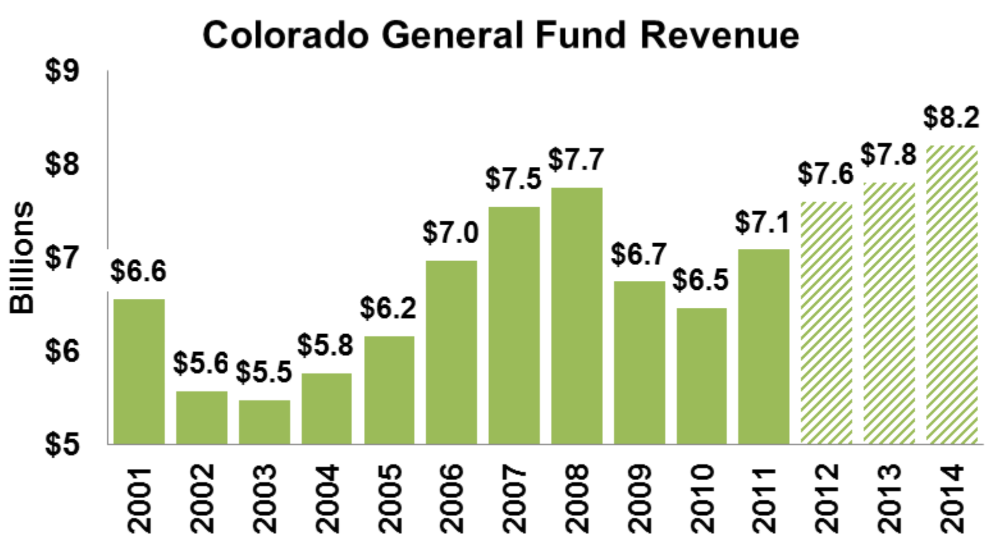

Figure 1 shows the trend of General Fund revenue through the past two recessions and includes the LCS projections for the current year and the next two years. The uptick in revenue means that next year, 2012-13, state General Fund revenue will reach $7.8 billion and exceed the pre-recession peak for the

In 2013, federal aid through grants to Colorado would be reduced $137 million, or roughly 8 percent of the program involved. Cuts of that magnitude would continue every year for 10 years. That would likely force the General Assembly to consider backfilling those draconian cuts to core services.

first time. While the projected growth in General Fund revenue is welcome news, the security of the state budget is threatened by several factors, which include the return of suspended tax breaks, federal budget cuts and an uncertain economy.

Tax breaks return

Sales tax revenue, which accounts for roughly one-third of all General Fund revenue, is expected to grow at a much slower pace than income tax revenue this year and next year. While consumer purchases drive sales tax revenue, there are also a few key policy choices that are reducing sales tax revenue. First, in the current year, the state is allowing store owners to keep $47 million in revenue through a mechanism known as the vendor discount, according to OSPB. Second, two previously suspended sales tax exemptions — energy for manufacturing and software purchases — will be reinstated next year at an estimated cost of $40 million, according to OSPB. As a result, while total General Fund revenue is projected to increase 3.1 percent in 2012-13, sales tax revenue will increase just 0.5 percent.

Pending federal budget cuts

In an effort to reduce the federal deficit, Congress and the President have enacted spending cuts that begin January 1 through a process known as sequestration. The pending spending cuts target defense and non-defense spending equally. Defense cuts would likely hurt some Colorado-based defense contractors and, to some degree, cause a ripple effect in the state's economy, which would hurt state tax revenue collections. On the non-defenses side, the spending cuts would be severe and also result in jobs lost. In 2013, federal aid through grants to Colorado would be reduced $137 million, or roughly 8 percent. Cuts of that magnitude would continue every year for 10 years. That would likely force the General Assembly to consider backfilling those draconian cuts to core services.

Fragile economy

Perhaps the most commonly used word among economists testifying before the JBC Wednesday was "fragile." The economists expressed concerns about signs that the national economy is weakening and that the European economy faces severe trouble. Still, the economists' project continued slow growth in Colorado. According to LCS, non-farm employment is expected to grow 1.6 percent this year and next. Meanwhile unemployment is expected to average 8.0 percent this year and 7.8 percent in 2013.

Transportation, capital construction and reserve transfers

Finally, new General Fund transfers mandated by a 2009 law appear to still be several years off. When personal income grows 5 percent or more the state will begin a five-year process of transfers from the General Fund to transportation, capital construction and the reserve account, according to a plan adopted in 2009 known by its bill number, SB 228. Personal income is expected to hit that threshold in 2014, meaning the first transfers would occur in 2015-16, according to LCS.