

Is Colorado's Budget Ready for a Recession?

Common Sense Policy Roundtable releases: "Colorado's Revenue Outlook Has Rapidly Changed from Record Highs to a Potential \$3 Billion Shortfall?"



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economy. Stay-at-home orders and other forms of social distancing have closed or restricted business operations in almost every sector, triggering layoffs, furloughs, salary reductions and other sharply negative economic impacts with unprecedented speed. With these impacts, tax revenues are also falling, because taxes depend on

activity in the private economy.

When and how our economy will recover is the question Coloradans are asking today and the subject of CSPR's latest analysis. While the situation is highly fluid, the severe budget challenges facing the state include a sharp decline in tax revenues, growing unemployment and increased pressure from Medicaid and PERA (Public Employee Retirement Association).

State lawmakers will convene next month to take up the state budget and focus on recovery. This will require a new mindset.

Policies and programs that appeared feasible just a



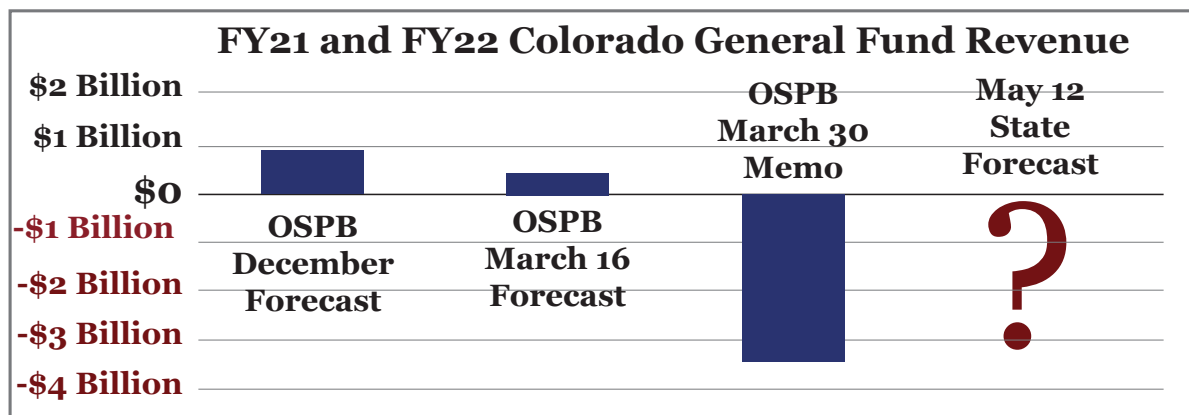
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few short weeks ago cannot be viewed in the same light today. To get through the COVID-19 crisis, and position Colorado's economy and state budget for a strong recovery, policymakers will need to focus on the core responsibilities of government and getting the fundamentals right.

In almost a blink of an eye, the global economy has come to a grinding halt to stop the spread of COVID-19. Across the United States, roughly 95% of the population was under some form of stay-at-home order in early April, including all of Colorado's 5.76 million residents.

In addition to claiming thousands of lives, COVID-19 has sent a shockwave across the entire

According to a recent Office of State Planning & Budgeting (OSPb) presentation, state revenue over the current and next budget could decline by \$3.2 Billion based on current expectations. An official update to the state revenue forecast will be issued prior to the continuation of the legislative session.



Additional Key Findings of the CSPR Analysis

- The current state general fund reserve amounts to roughly \$1 Billion, just above the statutorily required rate of 7.25%.
- **The long-term budget pressures presented by PERA (Public Employee Retirement Association) and any increase in Medicaid enrollment will also play a major factor in budget considerations.**
- **The economic fallout caused by COVID-19, has overshadowed the potential economic impacts from the rapid drop and volatility in oil and gas prices.** That fallout translates to a significant cut oil and gas property tax revenues to local government.
- Recently passed revenue line items, including an increased general fund contribution to PERA (\$225M annually) and the state funding of full-day kindergarten (Est \$200 M annually) will add pressure to other state budget items such as transportation and higher education in order to make up for lost revenues.
- **A majority of the estimated \$2.5 Billion in federal stimulus will not be able to cover losses in revenue, and will go directly to help state departments cover new costs related to the current crisis, such as expenses related to transitioning education from the classroom to online.**
- **A significant reduction in state revenue between \$2 Billion to \$3.2 Billion dollars over the next months.** For additional perspective, this decline is equivalent to the total budgets for both Transportation and Human Services.



COMMON SENSE
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We believe sound fiscal and economic research is essential to uphold Colorado's economic vitality, future, and individual opportunity.

For more information or to read the full report, visit

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