



Budget Watch

The Voice of Opportunity in Colorado

**The Bell
Policy Center**

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Budget Watch is the Bell Policy Center's monthly e-newsletter dedicated to tracking policy and political developments related to Colorado's budget and spending process.

Letters to the editor are welcome, and may be published in a future edition (unless you indicate otherwise). Send them to Rich Jones at jones@thebell.org.

Feel free to forward this newsletter to a friend. To subscribe or unsubscribe, contact us at (303) 297-0456 in metro Denver, (866) 283-8051 toll-free in Colorado or via e-mail: AGBell@thebell.org.

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What's ahead for Colorado's economy?

By Rich Jones
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Former Fed Chairman Alan Greenspan told the *Wall Street Journal* on Jan. 15 that the U.S. economy is either in or about to go into a recession. He joins a growing chorus of economists who project a national downturn.

Economists from Goldman Sachs and Merrill Lynch, two of Wall Street's biggest firms, are predicting a national recession. In fact, David Rosenberg, North American Economist, for Merrill Lynch asserts the nation is already in a recession.

Jan Hatzius senior economist at Goldman, says there is a two-in-three chance that the national economy will slide into recession.

A bit closer to home, Tucker Hart Adams, president of the Adams Group economic consulting firm, and Martin Shields, associate professor of economics at Colorado State University, predicted that northern

Colorado and the state are likely to fall into recession. They spoke during the [Northern Colorado Business Report's](#) annual economic forecast on Jan. 15.

In a series of forecasts issued in December, three sets of Colorado economists predicted slow but steady growth for the state's economy in 2008. While each acknowledged the national economy looked shaky, they predict Colorado will buck the trend and avoid a recession.

Determining if, and when, a recession occurs is a bit of an academic exercise that falls to the National Bureau of Economic Research, which uses a sophisticated analysis based on employment, personal income and manufacturing output, among other factors. However, a recession is generally defined as two or more quarters when economic activity declines. It is possible we could avoid entering an official recession but suffer through a period of very

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slow growth that could feel like a recession to many Coloradans.

Colorado economic forecasts

Richard Wobbekind, economist at the University of Colorado at Boulder’s Leeds School of Business, released a [forecast](#) on Dec. 10 that predicted modest growth for Colorado’s economy.

According to Wobbekind, Colorado “seems to be going along at a pretty good clip.” If the national economy turns down, “the impacts on Colorado’s economy would be more incremental.”

The governor’s economists in the [Office of State Planning and Budgeting](#) (OSPB), in a forecast released Dec. 20, also see steady if modest growth for Colorado’s economy in 2008.

While national economic problems could affect Colorado, they assert the immediate outlook for the state is positive. “The continued strength of the energy-production sector and a lack of exposure to the correction in the real estate market will dilute the effects of broader nationwide events.”

The [legislature’s economists](#) project continued but slower growth for Colorado in their forecast, also published on December 20. While the softening national economy could spill over to Colorado, they see employment growth and salary growth remaining solid. “Although a correction in the housing market is expected to persist into 2008 and slow economic growth in the state, it is not expected to trigger a downturn.”

Each set of economists predicts growth in the state’s population, employment and retail sales. OSPB and Legislative Council economists also predict growth in the state’s personal income, an indicator the Leeds economists did not forecast. Depending on the economist, inflation is predicted to increase from 2.7 percent to 3.3 percent.

State Revenue Projections

As part of their forecasts, the OSPB and Legislative Council economists also

project the amount of revenues state government will collect in fiscal years 2007-08 through 2011-12.

OSPB predicts there will be sufficient General Fund revenues over this period to fully fund state government up to the 6 percent limit on General Fund appropriations, put away 4 percent in the statutory reserve and transfer some sales-tax revenues to transportation under Senate Bill 1 for each year of the forecast period.

However, they project generating only enough revenue to transfer 88 percent of the funds allowed under SB 1 to transportation in fiscal year 2010-11 and 93 percent in 2011-12. They also project excess General Fund reserves, two-thirds of which go to transportation and one-third to capital construction, being available only in fiscal years 2007-08 through 2009-10.

Legislative Council economists project stronger growth in General Fund revenues, enough to fully fund state government up to the 6 percent limit, stash 4 percent in the statutory reserve fund and transfer the full amount of sales tax revenues to transportation under SB 1 over the forecast period. They also project a General Fund excess reserve in each year.

The [South Metro Chamber of Commerce](#) will hold its 21st annual economic forecast breakfast, featuring Gov. Bill Ritter, on Thursday, Jan. 17, at the Denver Marriott City Center.

The Federal Reserve Board was to release its most recent [Beige Book](#) report on the nation’s economy on Wednesday, Jan. 16.

Media reports describing the Wall Street projections can be found on the web at:

[CNN Money: Recession may already be here](#)

[MSNBC: Wall Street awaits answer to recession question](#)



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Chieftain vs. the Bell

To the *Pueblo Chieftain*, Looking Forward was a call to raise taxes.

The Bell and its partners couldn't let that stand, so a response was prepared.

[Chieftain editorial](#)
[Bell response](#)

Let's talk about Looking Forward

Looking Forward, an assessment of Colorado's fiscal prospects at the midpoint of Referendum C, is intended to initiate a conversation among Coloradans about the state's fiscal affairs. If your civic group or organization would like a presentation on the report's findings from the research team, email Liz Maushart at fellow4@thebell.org.

Governors, budget officers see economic squeeze

By Robin Baker
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After fairly stable fiscal conditions in 2007, most states are expecting slower revenue growth and tighter conditions in 2008, according to a [December report from the National Governors Association \(NGA\) and the National Association of State Budget Officers \(NASBO\)](#).

The biannual Fiscal Survey of the States found that states expect funding pressures related to education, health care and transportation to increase in 2008 while revenues decrease due to the slowing economy and a weakened housing market. Funding pressures and slower fiscal growth are expected to affect states for the next few years.

In fiscal year 2007, General Fund spending growth for all states was 9.3 percent, compared to the 30-year average of 6.4 percent. According to the report, state revenue collections were up 5.6 percent, with 38 states exceeding their original budget projections, four states meeting projections and eight states below. Colorado's 2007 sales, personal income and corporate income tax collections were about \$600 million more than the original \$6.82 billion estimate.

The single largest expenditure in 2007 was Medicaid medical care and long-term care. Medicaid accounted for nearly one-third of total state spending – about 22 percent of General Fund expenditures.

According to the [Centers for Medicare and Medicaid Services](#), Medicaid spending is expected to grow 8 percent annually over the next decade. Medicaid is a means-tested program that provides comprehensive medical care to very low-income individuals. States and the federal government share in its financing.

The NGA and the NASBO note that health care will be a major budget issue in the next several years. Growth in Medicaid spending will continue to consume a greater share of state budgets over time, particularly when combined with state efforts concerning expanded health care for the uninsured, health-care cost increases, greater utilization of services, an aging population, funding reductions for health-care programs at the federal level, medical-workforce shortages and pressures to raise physician reimbursement rates to maintain participation in Medicaid programs.

The Fiscal Survey of States found that most states, due in part to strong revenue growth, had total year-end balances that were high but beginning to decline. State year-end total balances include both ending balances and the amounts in states' budget stabilization funds.

Year-end balances reflect state fiscal conditions by showing the amount of state reserves available to respond to unforeseen circumstances after budget obligations have been met. As a rule of thumb, states build up a budget reserve that equals at least five percent of total expenditures.

The latest data provided to NASBO shows that total year-end balances as a percentage of expenditures reached a 30-year high in 2006 and are now declining. In 2007, total year-end balances as a percentage of expenditures were 9.6 percent, and they are projected to equal about 6.7 percent in 2008. The historical average is 5.7 percent.

Colorado's total year-end balance as a percentage of expenditures was 14.1 percent in 2006, 11.2 percent in 2007 and is projected to be 9.4 percent in 2008.