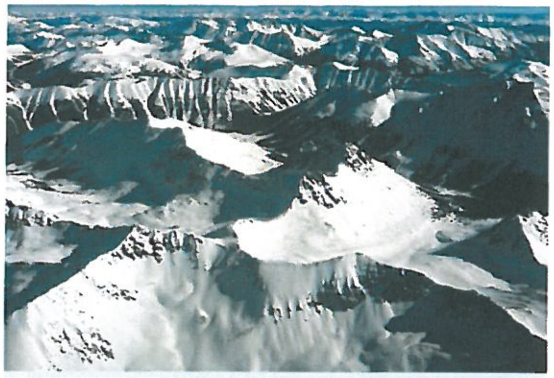

FOCUS COLORADO:
ECONOMIC AND REVENUE FORECAST

COLORADO LEGISLATIVE COUNCIL STAFF
ECONOMICS SECTION

DECEMBER 20, 2017

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Photograph of Elk Mountain Range, courtesy of Ashley Ogden.

HIGHLIGHTS

The **economy** will continue to grow at a moderate pace through 2019. In the maturing economic expansion, job growth will be constrained by an increasingly tighter labor market. Business activity has rebounded from 2015 lulls and consumer activity remains solid, though debt spending is on the rise. Colorado's economy is among the nation's strongest. However, rapid appreciation in housing costs are changing the state's economic landscape.

Assuming no changes to federal or state law, **General Fund revenue** expectations were roughly unchanged relative to September. In **FY 2017-18**, the General Fund is expected to end the year with a 6.5 percent reserve, $2.1 million above the required 6.5 percent statutory reserve. In **FY 2018-19**, the General Assembly will have $747.9 million, or 6.7 percent, more to spend or save in the General Fund than what is budgeted for FY 2017-18.

If enacted, changes under the federal **Tax Cuts and Jobs Act** are expected to increase state revenue. Assuming these changes, the General Fund is expected to end FY 2017-18 with a 6.8 percent reserve, 34.7 million above the required reserve. In FY 2018-19, the General Assembly will have $962.7 million, or 8.7 percent, more to spend or save in the General Fund than what is budgeted for FY 2017-18. Revenue is expected to continue to fall short of the **Referendum C cap** each year throughout the forecast period, with or without federal tax reform.

In FY 2017-18, lower than expected enrollment and increased expectations for local tax revenue collections to the state's public school districts are expected to provide about $110 million more flexibility in **school finance** funding than previously expected. The **residential assessment rate** is projected to fall from 7.2 percent in 2017 to 6.11 percent in 2019.

The state's **adult prison population** is expected to decrease in 2018, before trending upward in 2019. Declines in **juvenile corrections populations** are expected to moderate.

Assessed Value Projections

This section provides projections of assessed values for residential and nonresidential property in Colorado and the residential assessment rate through 2020. Assessed values are an important factor in determining property taxes, which are the largest source of local government tax revenue in Colorado. Counties, cities, and special districts all receive property tax revenue. Local property tax revenue is also the first source of funding for local public school districts. Assessed property values within a school district are thus an important determinant of the amount of state aid provided to each school district. Most districts then receive state equalization payments in an amount equal to the difference between required formula funding and their local share. More information on school finance can be found starting on page 63.

Summary

Statewide assessed (taxable) values increased 9.3 percent between 2016 and 2017. This change reflects new market values assigned by county assessors because 2017 was a reassessment year in addition to new construction that occurred. Every two years, county assessors determine new values for residential, commercial, industrial, and vacant properties, based on the previous 18 months of sales as part of the reassessment process. Statewide assessed values are expected to increase 1.8 percent between 2017 and 2018 due to new construction and an increase in the value of state assessed property. During the next reassessment year, 2019, statewide assessed values are expected to increase 3.8 percent due mainly to increases in nonresidential value. While the actual value of residential property is also expected to increase, a reduction in the residential assessment rate will largely offset the growth in market values. Assessed values in each region of the state are determined by the unique mix of properties and economic forces specific that region.

During the 2017 legislative session, the General Assembly passed House Bill 17-1349, setting the Residential Assessment Rate (RAR) at 7.20 percent for 2017 and 2018. In order to maintain the statutorily required Gallagher Amendment ratio, the RAR is expected to decrease from **7.20 percent to 6.11 percent** for 2019 and 2020.

Residential Assessment Rate

The Gallagher Amendment in the Colorado Constitution requires an adjustment to the RAR in order to maintain a consistent relationship between the statewide share of residential taxable value and the statewide share of nonresidential taxable value. The amendment prevents the share of residential property from increasing relative to the share from other classes of property due to an increase in home values.

Target percentage. The first step in determining the RAR is updating the existing target percentages of residential property and nonresidential property for the prior assessment cycle.

The new target percentage is based on economic activity that occurred between the last reassessment cycle and the current assessment cycle. For the 2017 assessment cycle, the Division of Property Taxation, within the Department of Local Affairs, estimated the target percentage for residential property was 45.76. Based on growth in residential and nonresidential property in this forecast, the target percentage for residential property is expected to decrease from 45.76 percent in 2017 to 45.01 percent in 2019.

Residential assessment rate. Once the target percentage has been determined, the RAR is adjusted so that 2019 residential taxable values meet the target percentage. Based on the projected market values of 2019 residential and nonresidential properties, the RAR for 2019 and 2020 is expected to be 6.11 percent. This rate is based on the Legislative Council Staff forecast for market values. In the spring of 2019, the Division of Property Taxation will estimate the RAR for 2019 and 2020 with data provided by each county assessor.

Statewide Assessed Values

Statewide assessed (taxable) values reached $110.9 billion in 2017 and are expected to increase 1.8 percent in 2018. In 2019, assessed values are expected to increase 3.8 percent due to new construction and more production from oil and natural gas producers. The projected increase in residential market values will largely be offset by the projected decline in the RAR. Residential and nonresidential assessed values are shown in Table 20 on page 68 and Figure 29 on page 69. Maps with assessed values by region and school districts are shown in Figures 31 and 32 on pages 73 and 74.

Table 20
Residential and Nonresidential Assessed Values
Billions of Dollars

Tax Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2007	$39,331	14.5%	$45,816	14.0%	$85,147	14.2%
2008	$40,410	2.7%	$47,140	2.9%	$87,550	2.8%
2009	$42,298	4.7%	$55,487	17.7%	$97,785	11.7%
2010	$42,727	1.0%	$49,917	-10.0%	$92,644	-5.3%
2011	$38,908	-8.9%	$48,986	-1.9%	$87,894	-5.1%
2012	$39,198	0.7%	$50,211	2.5%	$89,409	1.7%
2013	$38,495	-1.8%	$50,153	-0.1%	$88,648	-0.9%
2014	$39,003	1.3%	$52,579	4.8%	$91,582	3.3%
2015	$46,378	18.9%	$58,899	12.0%	$105,277	15.0%
2016	$47,261	1.9%	$54,157	-8.1%	$101,419	-3.7%
2017	$52,199	10.4%	$58,698	8.4%	$110,897	9.3%
2018*	$53,126	1.8%	$59,799	1.9%	$112,925	1.8%
2019*	$52,748	-0.7%	$64,449	7.8%	$117,197	3.8%
2020*	$53,662	1.7%	$65,921	2.3%	$119,583	2.0%

Source: Colorado Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*

Residential assessed values. New construction activity is expected to increase residential assessed values by 1.8 percent in 2018, a non-reassessment year. This level of construction is consistent with new residential construction activity that occurred in 2016, the last non-reassessment year.

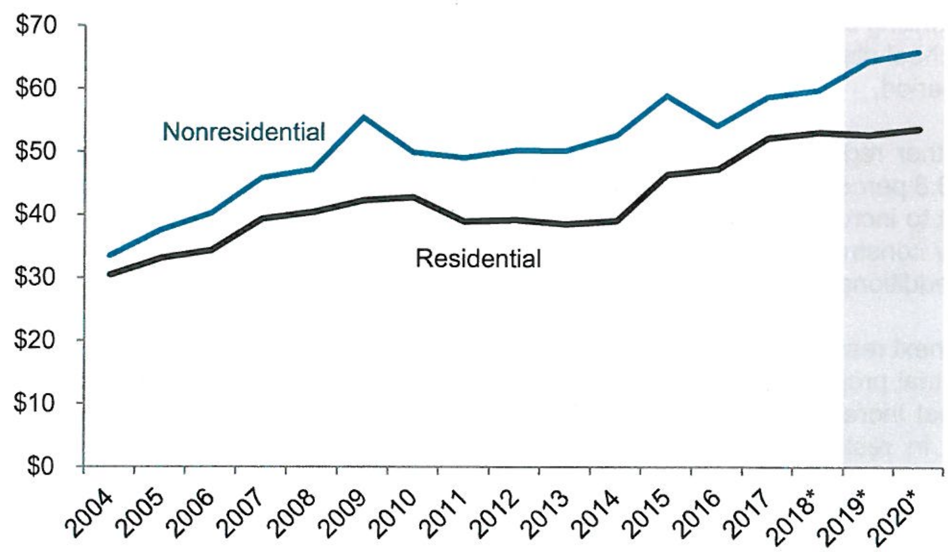
In 2019, statewide residential *market* values are expected to increase 17 percent as county assessors revalue property for the reassessment year. Home sales that occurred in 2017 and the first half of 2018 will determine the 2019 market values. The housing market is expected to remain strong along the northern Front Range, with double-digit price increases forecast in the Denver metro area, northern Colorado, Colorado Springs, mountain resort areas, and rural areas within commuting range of the Denver metro area. Other rural parts of the state are expected to see slower home price appreciation.

The growth in residential *market* values will be offset by the reduction in the RAR. The reduction in the RAR is required to maintain the shares of residential and nonresidential property between reassessment cycles as required by the state constitution. *Assessed* values for residential property will decrease by 0.7 percent in 2019 compared with 2018 values after accounting for the drop in the RAR from 7.20 percent to 6.11 percent.

Nonresidential assessed values. In contrast, the assessment rate for nonresidential property is fixed in the constitution and in law, so changes in actual value are reflected in the assessed (taxable) value. Total statewide assessed nonresidential property values are expected to increase 1.9 percent in 2018. New construction of commercial buildings and increased value for state assessed property will be largely responsible for this growth. The value of oil and gas property is expected to essentially remain constant statewide despite regional differences. Production from older fields will yield modest declines in value, while producers have begun adding new oil wells in several areas of the northern region.

Nonresidential assessed values are expected to increase moderately throughout the forecast period as oil and gas prices are expected to increase modestly and a growing economy will continue to increase rents and maintain low vacancy rates for office buildings and retail spaces. Figure 29 depicts residential and nonresidential assessed values from 2004 through the end of the forecast period ending in 2020.

Figure 29
Residential and Nonresidential Assessed Values
Billions of Dollars



Source: Colorado Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*

Regional Impacts

Assessed values in each region of the state are determined by the unique mix of properties and economic forces specific to that region. Table 21 shows the 2017 assessed value by region and the expected change throughout the forecast period.

Table 21
2017 Assessed Value and Forecast Changes
Billions of Dollars

Region	Preliminary 2017*	2018	2019	2020	3-Year Annual Average
Colorado Springs	$7,449	1.7%	3.1%	1.6%	2.1%
Eastern Plains	$2,883	2.4%	2.6%	2.5%	2.5%
Metro Denver	$60,545	2.3%	6.3%	2.3%	3.5%
Mountain	$12,021	0.8%	-2.0%	0.8%	-0.2%
Northern	$13,668	3.0%	3.9%	2.8%	3.2%
Pueblo	$2,745	1.4%	-1.7%	1.4%	0.4%
San Luis Valley	$661	2.7%	-0.6%	2.8%	1.6%
Southwest Mountain	$2,849	1.2%	-1.4%	1.6%	0.4%
Western	$8,075	-1.6%	-1.9%	1.2%	-0.8%
Statewide Total	$110,897	1.8%	3.8%	2.0%	2.5%

Source: Colorado Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*

All regions of the state are expected to increase in total assessed value between 2017 and 2018, with the exception of the western region. The decline in the western region during the non-reassessment year is the result of annually assessed natural resource classes of property. The western region contains aging natural gas wells that are approaching the end of their productive life. New drilling activity has been concentrated on the oil fields of northern Colorado. In addition, several school districts have coal mines which are expected to decrease in value throughout the forecast period.

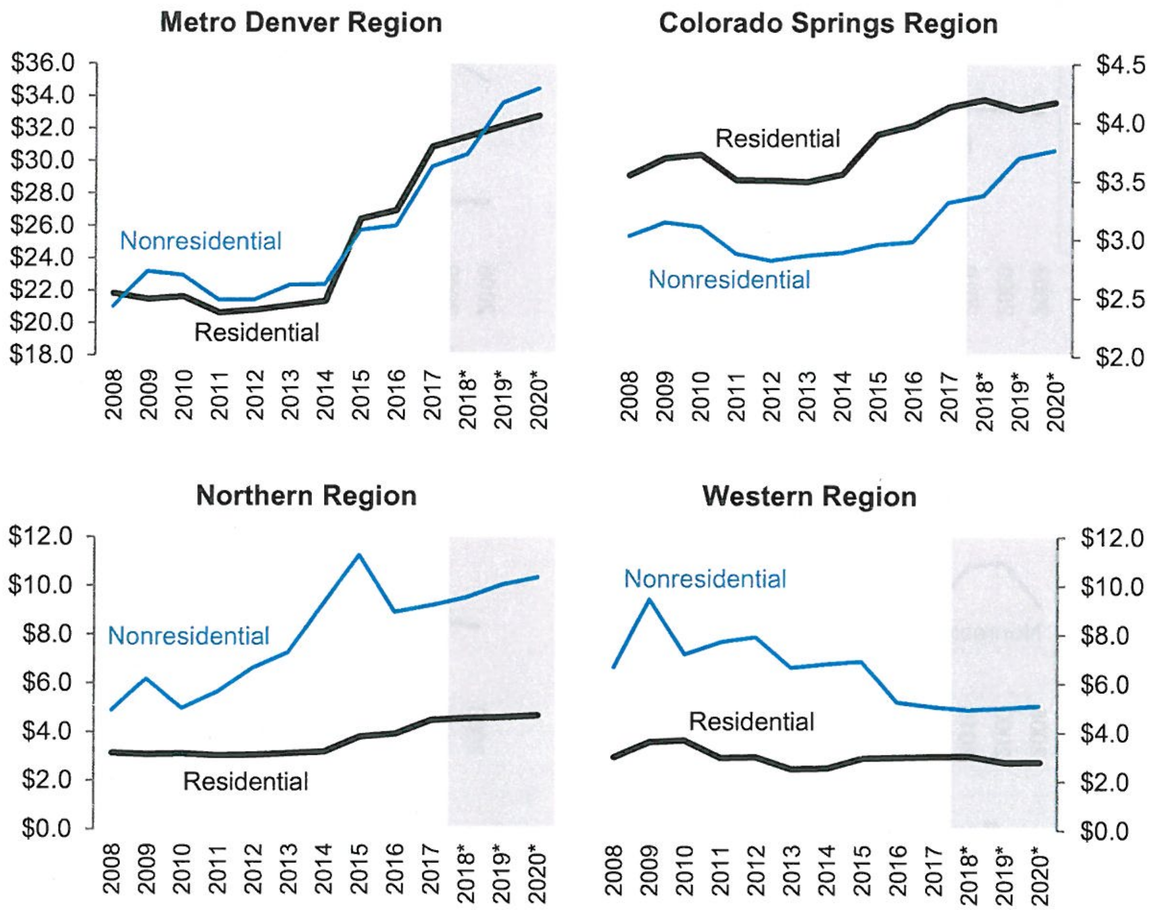
The other regions are expected to experience increases in total assessed values ranging between 0.8 percent and 3.0 percent between 2017 and 2018. Value for state assessed property is forecast to increase each year through the forecast period. Each region of the state will have some new construction and increased values in state assessed property. The northern region will have additional value added from new oil wells developed in 2017.

In the next reassessment year, 2019, values for vacant land, agricultural land, and commercial and industrial property will each increase. These increases in *market* value will translate into a proportional increase in nonresidential *assessed* values. Each region of the state will have increases in residential *market* values. However, the reduction in the RAR will decrease residential *assessed* values in five of the nine regions in the state. The RAR is expected to decrease by 15.1 percent in 2019 based on the statewide growth in the tax base.

Any region with less than a 15.1 percent increase in residential *market* values will experience a reduction in residential *assessed* values.

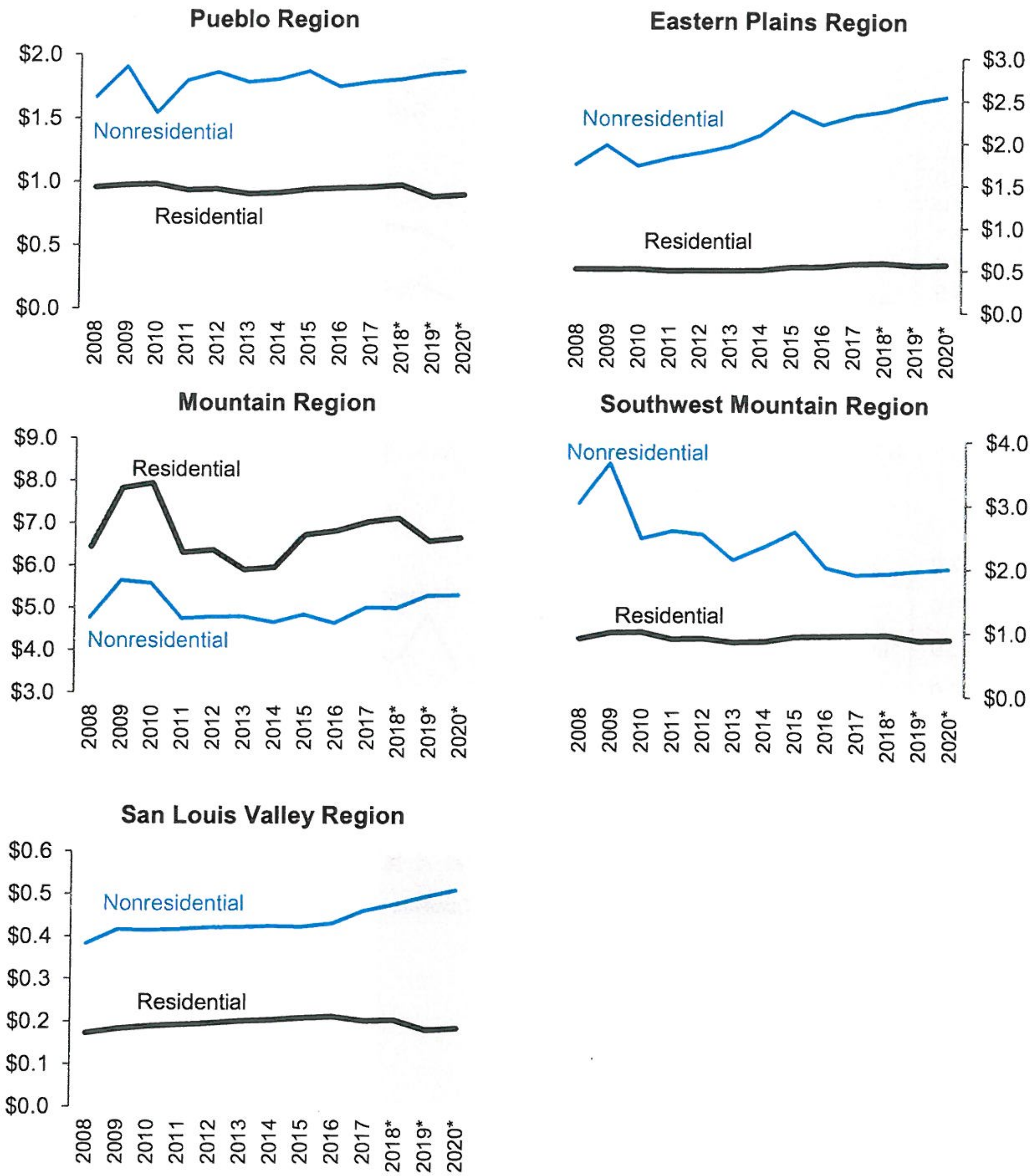
Regional trends for residential and nonresidential assessed (taxable) values are shown in Figure 30 on pages 71 and 72.

Figure 30
Assessed Values by Region
Billions of Dollars



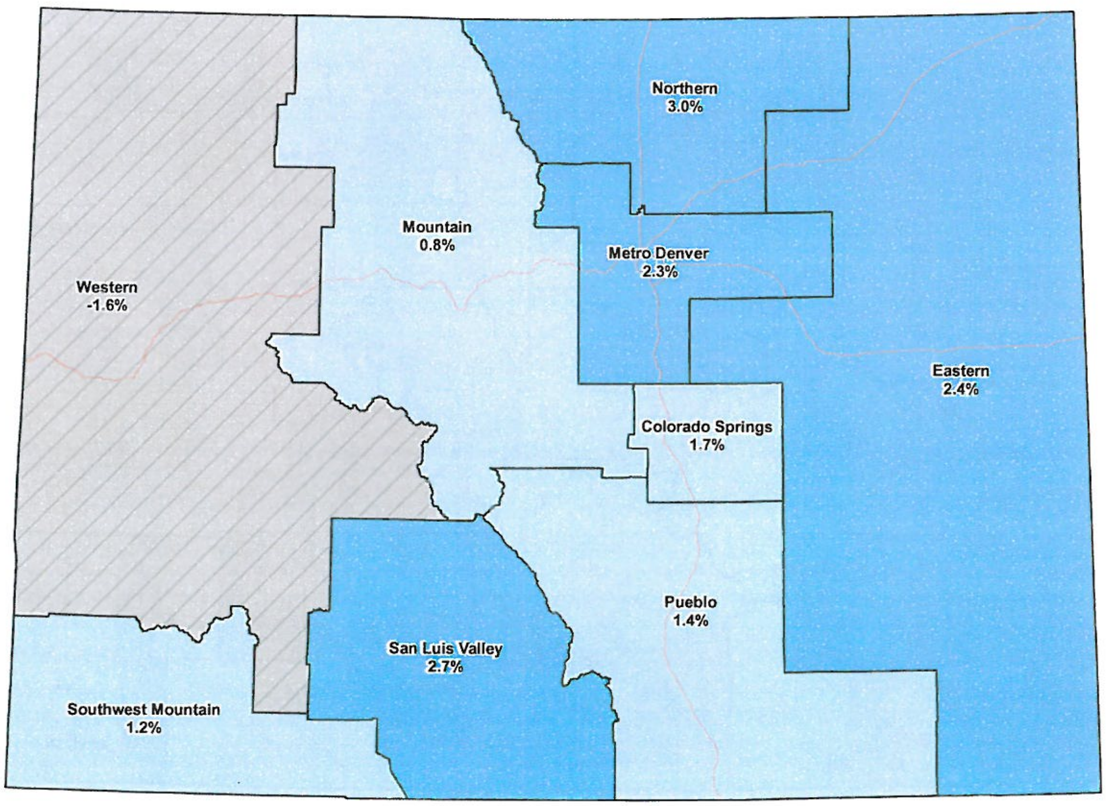
Source: Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*

Figure 30
Assessed Values by Region (Continued)
Billions of Dollars



Source: Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*

Figure 31
Forecast Percent Change in Total Assessed Valuation by Economic Region
2018-19 Assessment Year



Colorado
1.8%

Figure 32
Forecast Percent Change in Total Assessed Valuation by School District
2018-19 Assessment Year