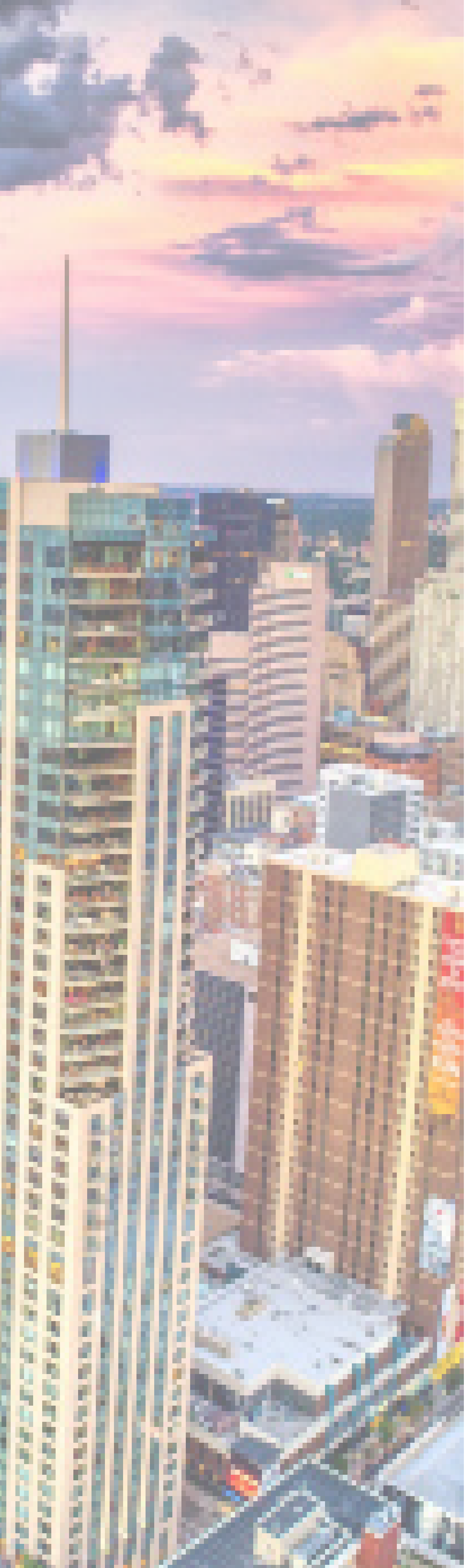


STATE OF CHANGE

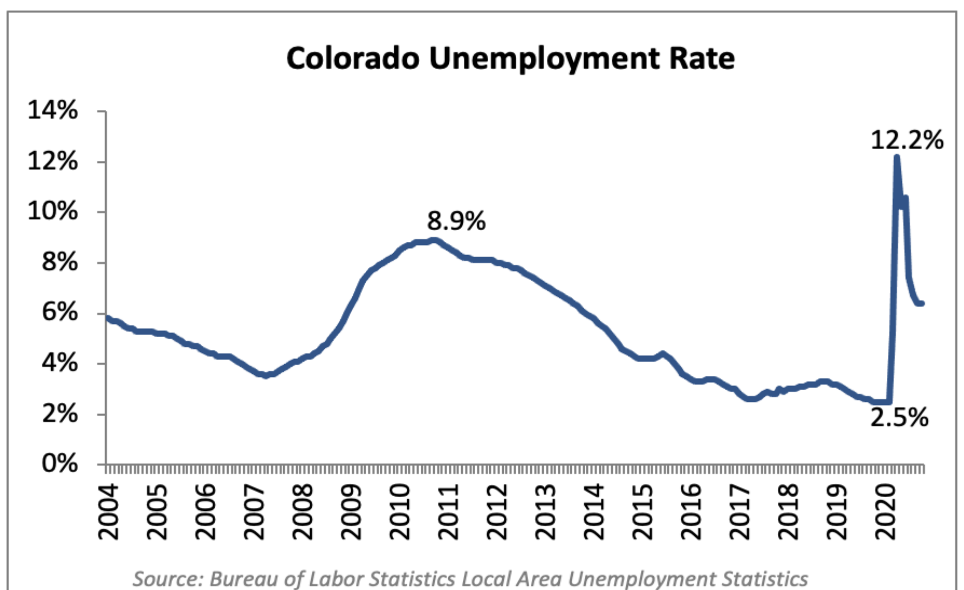
PART 1: OUR ABILITY TO ADAPT

In January 2020, Colorado's unemployment rate of 2.5 percent was the lowest on record—only 79,407 workers were classified as unemployed in a labor force of over 3 million. Less than two months later, the number of unemployed Coloradans was skyrocketing, and the COVID-19 pandemic was forcing the state of Colorado and governments across the world to shut down to stop the spread of the novel coronavirus.

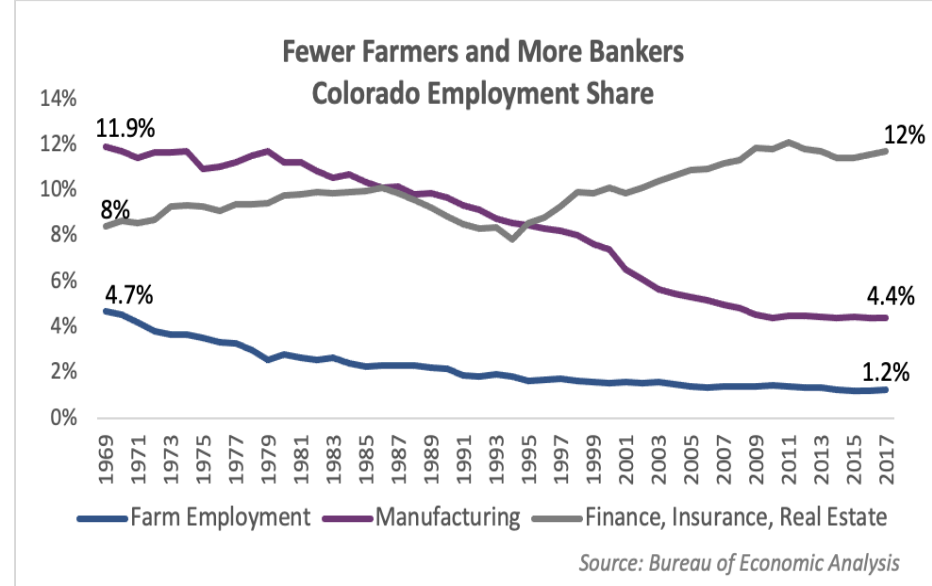
Between February and April 2020, Colorado's unemployment rate climbed from that record low to a record high of 12.2 percent. Even at the height of the recession that followed the 2008 financial crisis, the unemployment rate never passed 8.9 percent.

With record unemployment came plummeting consumer spending. Sales tax collections nose-dived to 81 percent of what they were the same month in 2019. The accommodations industry took the biggest hit in April 2020, only doing 11 percent of the business it did in April 2019. The arts, entertainment, and recreation industry only did 33 percent of the business it did the prior year. And with indoor dining closed by emergency public health order, the food service industry saw their sales fall by more than half.

Because Colorado relies on sales tax revenue much more than other states (Colorado has the third-highest average local sales tax rates behind Alabama and Louisiana), stay-at-home orders had a huge effect on government budgets. On average, states generate about 5 percent of total state and local tax revenue from sales tax, but for Colorado that figure is 15 percent.



Source: Bureau of Labor Statistics Local Area Unemployment Statistics



Source: Bureau of Economic Analysis

COVID-19 showed us how quickly things can change and how important it is for policymakers to be adaptable to changes—even ones nobody sees coming. But while things changed very quickly in spring of 2020, the last several decades brought a great deal of change to the state.

Colorado's labor force and industry composition has shifted since the 1970s. Farming and manufacturing jobs both declined steadily while the share of jobs in the finance, insurance, and real estate industries rose by 50 percent.

Perhaps not coincidentally, while the way we work changed, barriers to economic prosperity grew. The gap between the median wage of high school graduates in Colorado compared to the median wage college graduates earn has grown, and the share of wealth has become more and more concentrated at the top. In the late '70s a high school graduate made about 73 percent of what a college graduate made compared to 56 percent today, and the top 10 percent of income earners—who owned less than one-third of the state's wealth in the mid-'70s—now own over half.

Like a driver who has to navigate the road ahead using only a rear-view mirror, economists and policymakers must use past data to inform their decisions about the future. Though we can't predict the future, the data shows us that we'll need to be able to adapt in the future. Policy needs to adapt over time.

State of Change is designed to help shine a light on the need for flexibility in Colorado's fiscal policy. Each installment will highlight how Colorado has changed over the past 50 years by focusing on a wide array of topics such as demographics, the labor force, state government spending, and even how Coloradans live and play. We hope this deep look in the rear-view mirror will help inform the road ahead.

CO'S TOP 10% WENT FROM OWNING 31% OF WEALTH IN 1975 TO 56% TODAY

Colorado Fiscal Institute