


June | 2013

The Colorado Outlook

Economic and Fiscal Review


Governor’s Office of State Planning and Budgeting

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Summary

- General Fund revenue for the current budget year (FY 2012-13) is forecast to be 3.7 percent, or $307.5 million, higher than the March forecast. The higher amount is mostly from a substantially larger-than-expected amount of estimated individual income tax payments that the State received in April. The surge in revenue appears to be from tax liabilities on capital gains and other investment income. Revenue in FY 2012-13 is now estimated to increase 11.1 percent over FY 2011-12. The General Fund surplus this fiscal year, or the amount of money above the required reserve amount, is projected at $1.1 billion. All of this money goes to the State Education Fund.

- General Fund revenue for the next budget year (FY 2013-14) will slow markedly to a 0.8 percent growth rate. This is less than anticipated in March. Due to the surge in revenue this year, it appears that more tax revenue from investment and other income was shifted into FY 2012-13 from FY 2013-14 than previously projected. However, capital gains are volatile and difficult to predict, thus OSPB will continue to monitor trends in investment income and tax revenue and make any necessary revisions to future forecasts. The robust growth in corporate income tax revenue is also not expected to be sustained in FY 2013-14. Further, a slight moderation in economic activity will temper revenue growth.

- Despite the slower growth rate, General Fund revenue is 2.5 percent, or $213.2 million, higher in FY 2013-14 than the prior projection. This is a result of the higher level of collections in FY 2012-13 than forecast in March. Thus, under currently authorized spending levels, General Fund revenue will be $181.4 million above the required reserve amount in FY 2013-14. Under current law, $30 million of this amount is transferred to the Colorado Water Conservation Board Fund and 75 percent of the remainder, or a projected $113.6 million, is transferred to the State Education Fund.

- Cash fund revenue subject to TABOR will decrease 0.9 percent in FY 2012-13 and total $2.5 billion. The expected decline is the result of decreases across several categories of cash funds. Severance tax revenue will post the largest decline, falling by 24.4 percent as a consequence of a drop in natural gas prices last year coupled with a high amount of severance tax credits. In FY 2013-14, cash fund revenue will grow 2.1 percent to $2.6 billion as severance tax revenue rebounds. Also, continued job and income growth will support more economic activity to generate fee revenue for public services.

- As expected in the previous forecast, the national economy has shown signs of softening, continuing a pattern of uneven growth since the end of the Great Recession. However, Colorado has maintained its economic momentum, making it among the best performing economies in the nation. The state's economic performance can be attributed to a high level of human capital and solid growth in most of its major industries. This momentum could cause revenue to outperform expectations. However, Colorado's economy, and thus tax revenue, can still be adversely affected by several outside factors, including potential further slowing in the national economy. The economy also continues to be vulnerable to the recession in Europe and the potential for adverse consequences from federal fiscal and monetary policies.

General Fund Budget

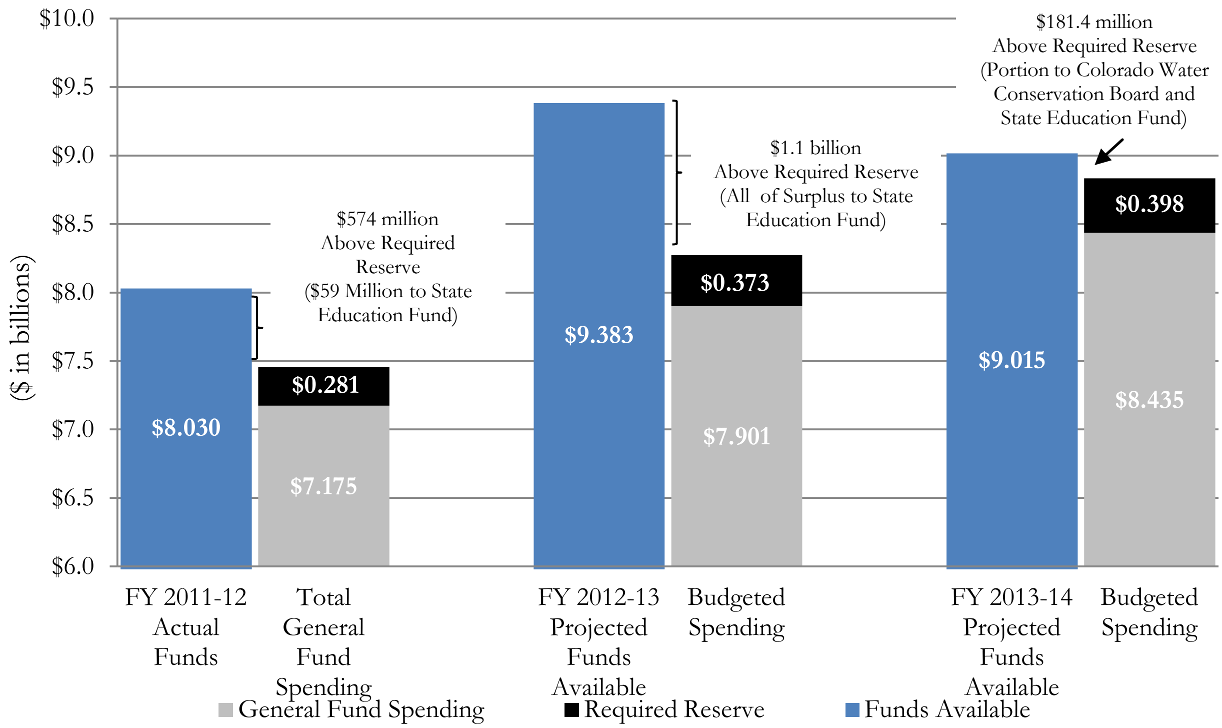
GENERAL FUND OVERVIEW AND BUDGET IMPLICATIONS OF THE FORECAST

This section discusses General Fund revenue available for spending, current General Fund spending levels, and end-of-year reserves through the forecast period. The General Fund provides funding for the State's core programs and services, such as K-12 and higher education, assistance to low-income populations, the disabled and elderly, courts, public safety, and the correctional system. It also helps fund capital construction and maintenance needs for State facilities, and in some years, transportation projects. The largest revenue sources for the General Fund are income and sales taxes.

Table 1 presents the General Fund Overview for the June 2013 OSPB revenue forecast under current law and is located at the end of this section following page 9. The amounts are subject to change based on updates to the revenue forecast and future budget actions.

Summary of General Fund Overview – Figure 1 below shows total projected General Fund revenue available, total spending, and reserve levels from FY 2011-12 through FY 2013-14 based on the June forecast and current law. It also shows how much General Fund revenue is projected above the State's required reserve level. The spending amounts for FY 2012-13 and FY 2013-14 are the budgeted amounts under current law. The information in the figures is discussed below and is shown in further detail in Table 1 following page 9.

Figure 1. General Fund Money, Spending, and Reserves, FY 2011-12 though FY 2013-14, $ in Billions



Funds available – The top portion of Table 1 after page 9 shows the amount of General Fund money available for spending. The forecast for General Fund revenue is discussed in further detail in the *General Fund Revenue Forecast* section starting on page 11. In addition to General Fund revenue, the amount of funds available includes the beginning fund balance, and any money transferred into or out of the General Fund from/to various State cash funds. The table below summarizes the amount of General Fund available by fiscal year. The decline in total General Fund available for FY 2013-14 is attributable to projected modest revenue growth and a smaller beginning fund balance. In contrast with FY 2012-13's beginning balance, the end-of-year excess reserves in FY 2012-13 will not be carried forward and become part of the beginning FY 2013-14 balance, but instead will be transferred to the State Education Fund.

GF Funds Available under Current Law ($ in Millions)			
	FY 2012-13	**FY 2013-14**	**FY 2014-15**
Beginning Balance	$795.8	$373.0	$466.2
General Fund Revenue	$8,591.7	$8,662.6	$9,238.0
Net Transfers to/(from) the General Fund	-$4.2	-$20.7	-$31.5
Total General Funds Available	**$9,383.4**	**$9,014.9**	**$9,672.8**
Dollar Change from Prior Year	$1,353.6	-$368.5	$657.8
Percent Change from Prior Year	16.9%	-3.9%	7.3%

Spending subject to the appropriations limit – Line 5 in Table 1 shows the amount of General Fund appropriations subject to the limit of five percent of Colorado personal income as specified in Section 24-75-201.1 (1) (a) (II) (A), C.R.S. This limit means that the level of General Fund appropriations for certain programs cannot exceed a dollar amount equal to five percent of total statewide personal income. The appropriations subject to the limit help fund the State's largest core programs, such as K-12 education, Medicaid, human services, corrections, and higher education. The limit is projected to be $11.3 billion in FY 2013-14. Thus, the General Fund appropriations for these programs are $3.1 billion under the limit.

The General Fund appropriations for FY 2013-14 in Table 1 reflect current law and are subject to change based on future budget decisions. The FY 2014-15 amount in Table 1 reflects the level of spending that can be supported by forecasted revenue while maintaining the required reserve level. The appropriation amounts for FY 2012-13 and FY 2013-14, as well as the dollar and percent change per year, are shown in the table below.

GF Spending Subject to the Appropriations Limit under Current Law ($ in Millions)

	FY 2012-13	FY 2013-14
Appropriations	**$7,459.2**	**$7,967.4**
Dollar Change from Prior Year	$431.5	$508.2
Percent Change from Prior Year	6.1%	6.8%

Spending not subject to the appropriations limit – Lines 9 through 15 in Table 1 summarize spending that is outside the General Fund appropriations limit. A large portion of this spending is "Rebates and Expenditures." The largest programs in this line are: (1) the Cigarette Rebate, which distributes money from a portion of State cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the Old Age Pension program, which provides assistance to eligible low-income elderly individuals who meet certain eligibility requirements; (3) the Property Tax, Heat, and Rent Credit, which provides property tax, rent, or heating bill assistance to qualifying low income disabled or elderly individuals; and (4) contributions to the Fire and Police Pensions Association (FPPA) to help fund the pension plans and other benefits of certain police officers and firefighters. SB 13-234 paid off the state's obligation for "old hire" pension plans associated with the FPPA in one lump sum payment in FY 2012-13. Projected expenditures for each of these programs are outlined at the bottom of Table 2 following page 16.

The homestead property tax exemption (Line 12 in Table 1) reduces property tax liabilities for qualifying seniors and disabled veterans. The exemption can be reduced or eliminated by law in certain years for budgetary or policy reasons. The homestead exemption expenditure amount increased substantially under current law this fiscal year to about $103 million as the exemption for qualifying seniors returned. From FY 2009-10 through FY 2011-12, the exemption was available only to qualifying disabled veterans.

Spending not subject to the limit includes any TABOR refunds, which occur when State revenue exceeds its cap. TABOR refunds are not expected to occur during the forecast period as revenue will be about

$340 million below the cap in FY 2012-13 and between $500 million and $600 million below the cap through FY 2014-15. These amounts are shown in line 10 of Table 4 following page 25.

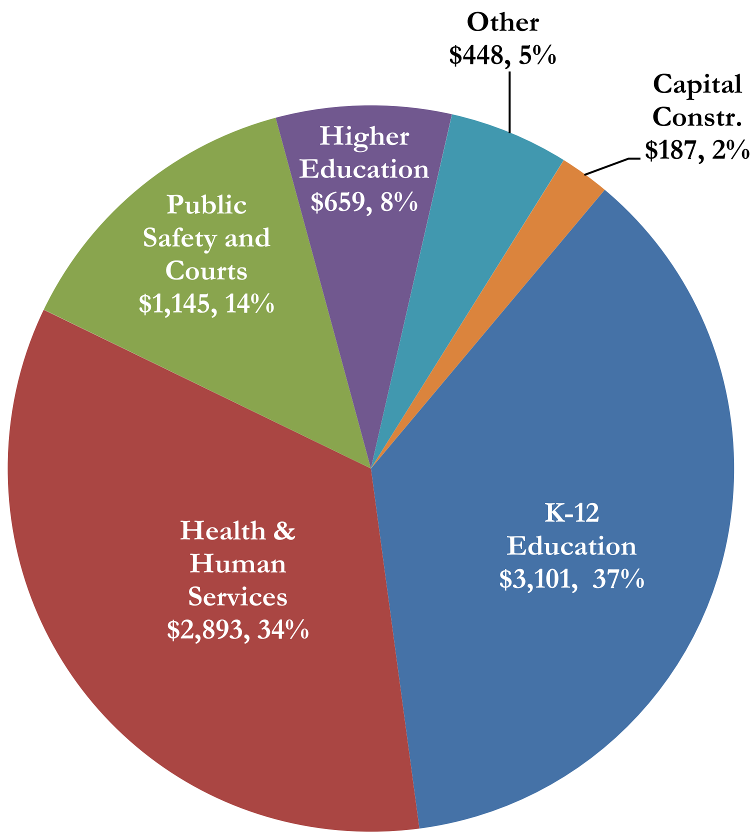
General Fund money transferred for State capital construction and facility maintenance as well as transportation projects are also not subject to the limit. The transfers can be made at the discretion of the General Assembly and Governor. The FY 2013-14 budget includes a total transfer of $186.7 million for capital construction projects (Line 13 in Table 1). Transfers to capital construction and transportation *are required* if growth in statewide personal income exceeds five percent. This forecast projects that personal income growth will exceed 5 percent in 2014, which will trigger these transfers in FY 2015-16.

Finally, in addition to paying off the State's liability for FPPA old hire pension plans, SB 13-234 requires annual General Fund transfers to the State Education Fund from FY 2013-14 through FY 2018-19 (Line 15 in Table 1). The FY 2013-14 transfer is $45.3 million, while the amount in FY 2014-15 is $25.3 million. The spending discussed above is summarized in the table below.

GF Spending Not Subject to the Appropriations Limit under Current Law ($ in Millions)			
	FY 2012-13	**FY 2013-14**	**FY 2014-15**
TABOR Refund	$0.0	$0.0	$0.0
Rebates and Expenditures	$277.5	$128.5	$117.5
Homestead Exemption	$102.7	$107.2	$113.5
Transfers to Capital Construction	$61.4	$186.7	$77.9
Transfers to Highway Users Tax Fund	$0.0	$0.0	$0.0
Transfers to State Education Fund per SB 13-234	$0.0	$45.3	$25.3
Total	**$441.6**	**$467.7**	**$334.2**
Dollar Change from Prior Year	$257.5	$26.1	-$133.5
Percent Change from Prior Year	139.9%	5.9%	-28.6%

Composition of General Fund Budget – The following graph, Figure 2, shows the composition of the General Fund budget for FY 2013-14 by major department or program area ($ in millions). Under the budget, total General Fund spending amounts to $8,435.1 million, a 6.8 percent, or $534.3 million, increase compared with FY 2012-13.

Figure 2. Composition of FY 2013-14 General Fund Budget, ($ in Millions)



Reserves – The final section of the General Fund Overview table ("Reserves") shows General Fund remaining at the end of each fiscal year. The "Year-End General Fund Balance," in the overview table (Line 18) reflects the difference between total funds available (Line 4) and total outlays (Line 17). Line 20 shows the statutorily determined reserve requirement and the following line indicates any variance from the target (Money Above (Below) Statutory Reserve). For FY 2012-13, the reserve will be $1.1 billion above the 5.0 percent of appropriations requirement that was raised from a 4.0 percent level by SB 13-237. Under current law, all of the FY 2012-13 excess is transferred to the State Education Fund.

For FY 2013-14, under this forecast, the reserve is projected to be $181.4 million above the required amount. Of this excess amount, $30 million goes to the Colorado Water Conservation Board (CWCB) Fund and 75 percent of the remainder goes to the State Education Fund – a projected $113.6 million under this forecast. These transfers will occur in FY 2014-15. The transfer to the CWCB fund is included in line 3 of Table 1, while the transfer to the State Education Fund is included in line 22. The remaining amount of the excess – a projected $37.9 million under this forecast – becomes part of the funds available in FY 2014-15. The beginning reserve for FY 2014-15 in line 1 of Table 1 equals the FY 2013-14 excess reserves minus the projected $113.6 million transfer to the State Education Fund.

Current law requires the reserve to increase in the third fiscal year after personal income increases by more than 5 percent. This is projected to occur in 2014, which will trigger a reserve increase of 0.5 percentage points in FY 2017-18. The reserve is required to increase by 0.5 percentage points each year thereafter until it reaches 6.5 percent of appropriations, which would occur in FY 2019-20 under this forecast. The dollar amounts for the required reserve and ending fund balance from Table 1 are summarized below. The transfers of excess reserves to the State Education Fund and CWCB Fund are also shown.

GF Reserves under Current Law ($ in Millions)			
	FY 2012-13	FY 2013-14	FY 2014-15
Year-End General Fund Balance	$1,482.6	$579.8	$444.7
Balance as a % of Appropriations	19.9%	7.3%	5.0%
General Fund Required Reserve	**$373.0**	**$398.4**	**$444.7**
Money Above/Below Req. Reserve	**$1,109.6**	**$181.4**	**$0.0**
Excess Reserve to State Education Fund	**$1,109.6**	**$113.6**	**N/A**
Excess Reserve to CWCB Fund	**N/A**	**-$30.0**	**N/A**

State Education Fund – For informational purposes, the last line of Table 1 shows the amount of money credited to the State Education Fund both from Amendment 23 and other sources. Under the State constitutional provisions of Amendment 23, the State annually diverts an amount equal to one-third of one percent of State taxable income to the State Education Fund to help fund preschool through 12th grade education in the state.

In recent years, the fund has also received all or a portion of the State's excess reserves. Under HB 12-1338, in FY 2012-13, the fund received $59 million of the FY 2011-12 excess reserves in addition to the annual Amendment 23 diversion. Under current law, for FY 2013-14 it will receive all of the FY 2012-13 excess reserves, or a projected $1.1 billion. Also in FY 2013-14, the fund will receive a General Fund transfer of $45.3 million pursuant to SB 13-234. This transfer is also discussed in the "Spending not subject to the appropriations limit" section above. Thus, in FY 2013-14, the State Education Fund is projected to receive $1.6 billion.

In FY 2014-15, the State Education Fund is projected to receive $639.0 million. As discussed in the "Reserves" section above, in FY 2014-15 the State Education Fund receives a projected $113.6 million of the FY 2013-14 excess reserves. This estimate will change based on updates to the revenue forecast and future budget actions. In addition to the portion of the excess reserves, the State Education Fund will receive its annual Amendment 23 diversion, as well as a General Fund transfer of $25.3 million pursuant to SB 13-234.

State Education Fund under Current Law ($ in Millions)			
	FY 2012-13	FY 2013-14	FY 2014-15
One-third of 1% of State Taxable Income	$464.1	$461.1	$500.1
Money from Prior Year-end Excess Reserves	$59.0	$1,109.6	$113.6
Transfers under SB 13-234	N/A	$45.3	$25.3
Total Funds to State Education Fund	**$523.1**	**$1,616.0**	**$639.0**

Risks to the Budget Outlook

Economic conditions that differ appreciably from expectations can generate relatively large swings in the amount of General Fund money available. Even small changes in projected revenue growth rates resulting from higher or lower levels of economic activity can change the budget outlook considerably. For example, if revenue growth were to increase or decrease by just three percentage points in FY 2013-14 from the current projected growth rate, General Fund revenue would be approximately $260 million higher or lower.

Colorado's economy is among the best performing in the nation. Its economic momentum could continue to build and cause revenue to outperform expectations. However, the state economy can still be adversely affected by outside factors that could cause State revenue collections to come in below forecast.

The national economy is particularly vulnerable to negative events, which could spill over and impact Colorado. A potential further slowing in the national economy would likely affect the state. Volatility in financial markets, such as a higher-than-expected rise in interest rates and declines in the stock market, is another such risk. Further, the impacts of federal budget reductions and increases in federal tax rates could result in larger-than-expected adverse economic impacts. Colorado could particularly be more negatively affected by reductions in federal spending due to its concentration of defense-related entities and research institutions that rely on federal funding. Disagreements over the lifting of the federal debt ceiling later this year could result in a spike in uncertainty which would result in a pullback in economic activity. Further, the global economy has slowed. In particular, the European economy remains in recession. Its debt and banking conditions could worsen again and strain the global financial system.

Table 1. General Fund Overview under Current Law

(Dollar Amounts in Millions)

Line No.		Actual FY 2011-12	June 2013 Estimate by Fiscal Year FY 2012-13	FY 2013-14	FY 2014-15
Revenue					
1	**Beginning Reserve**	**$156.7**	**$795.8**	**$373.0**	**$466.2**
2	**Gross General Fund Revenue**	**$7,736.0**	**$8,591.7**	**$8,662.6**	**$9,238.0**
3	*Net Transfers to/(from) the General Fund*	**$137.1**	**($4.2)**	**($20.7)**	**($31.5)**
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$8,029.7**	**$9,383.4**	**$9,014.9**	**$9,672.8**
Expenditures					
5	**Appropriation Subject to Limit /A**	**$7,027.8**	**$7,459.2**	**$7,967.4**	**$8,893.9**
6	*Dollar Change (from prior year)*	*$216.7*	*$431.5*	*$508.2*	*$926.5*
7	*Percent Change (from prior year)*	*3.2%*	*6.1%*	*6.8%*	*11.6%*
8	**Exemptions to Limit and Adjustments to Appropriations /B**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
9	**Spending Outside Limit**	**$184.0**	**$441.6**	**$467.7**	**$334.2**
10	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
11	*Rebates and Expenditures /C*	*$133.0*	*$277.5*	*$128.5*	*$117.5*
12	*Homestead Exemption*	*$1.8*	*$102.7*	*$107.2*	*$113.5*
13	*Transfers to Capital Construction /D*	*$49.3*	*$61.4*	*$186.7*	*$77.9*
14	*Transfers to Highway Users Tax Fund /D*	*N/A*	*N/A*	*$0.0*	*$0.0*
15	*Transfers to State Education Fund under SB 13-234 (Section 24-75-220 (3) (b)) /G*	*N/A*	*N/A*	*$45.3*	*$25.3*
16	Reversions and Accounting Adjustments	*($36.9)*	*$0.0*	*$0.0*	*$0.0*
17	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,174.9**	**$7,900.8**	**$8,435.1**	**$9,228.1**
Reserves					
18	**Year-End General Fund Balance**	**$854.8**	**$1,482.6**	**$579.8**	**$444.7**
19	*Year-End General Fund as a % of Appropriations*	*12.2%*	*19.9%*	*7.3%*	*5.0%*
20	**General Fund Statutory Reserve /E**	**$281.1**	**$373.0**	**$398.4**	**$444.7**
21	**Money Above (Below) Statutory Reserve /F**	**$573.7**	**$1,109.6**	**$181.4**	**$0.0**
22	*Addendum: State Education Fund /G*	*$638.5*	*$523.1*	*$1,616.0*	*$639.0*

Totals may not sum due to rounding.

/A This limit equals 5.0% of Colorado personal income. The appropriations amounts for FY 2012-13 and FY 2013-14 reflect current law. The FY 2014-15 amount represents the level of spending that can be supported by projected revenue while maintaining the required reserve amount.

/B Spending by the Medicaid program that is above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount for this line.

/C Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association contributions as outlined at the bottom of Table 2.

/D Current law requires transfers to capital construction and the Highway Users Tax Fund when personal income increases by more than 5.0 percent. This is projected to occur in 2014, which will trigger the transfers in FY 2015-16. Expected and budgeted transfers to capital construction are occurring each fiscal year regardless of the requirement.

/E SB 13-237 set the required reserve level to 5.0% in FY 2012-13. Current law requires the reserve to increase in the third fiscal year after personal income increases by more than 5 percent. This is projected to occur in 2014, which will trigger a reserve increase of 0.5 percentage points in FY 2017-18. The reserve is required to increase by 0.5 percentage points each year thereafter until it reaches 6.5 percent of appropriations, which would occur in FY 2019-20 under this forecast.

/F Per HB 12-1338, $59.0 million of the FY 2011-12 excess amount above the required reserve and all of the FY 2012-13 excess is transferrred to the State Education Fund. After the $59 million transfer, the remaining amount of the FY 2011-12 excess was carried forward and became part of the beginning FY 2012-13 balance. Pursuant to SB 13-236, $30 million of the excess reserves in FY 2013-14 is transferred to the Colorado Water Conservation Board Construction (CWCB) Fund, while 75% of the remaining excess is transferred to the State Education Fund pursuant to SB 13-260. Both of these transfers will occur in FY 2014-15. The transfer to the CWCB Fund appears in line 3, while the transfer to the State Education Fund is included in line 22. Thus, the beginning reserve in line 1 for FY 2014-15 equals the FY 2013-14 excess reserves minus the projected $113.6 million transfer to the State Education Fund.

/G The State Education Fund annually receives one-third of 1% of Colorado taxable income. In FY 2011-12, it also received $221.4 million of the FY 2010-11 excess reserves and $9.6 million from the tax amnesty program created by SB 11-184. In FY 2012-13, the fund received $59 million of the FY 2011-12 excess reserves. In FY 2013-14, it receives all of the FY 2012-13 excess reserves, or a projected $1.1 billion, while in FY 2014-15, it receives 75% of the FY 2013-14 excess reserves pursuant to SB 13-260, minus $30 million that is credited to the CWCB Fund. This equates to $113.6 million in excess reserves to the State Education Fund in FY 2014-15. Pursuant to SB 13-234, starting in FY 2013-14, and annually through FY 2018-19, the State Education Fund also receives transfers of General Fund money. These amounts are shown in line 15 of the table.

General Fund Revenue Forecast

General Fund revenue for the current budget year (FY 2012-13) is forecast to be 3.7 percent, or $307.5 million, higher than the March forecast. The higher amount is mostly from a substantially larger-than-expected amount of estimated individual income tax payments that the State received in April. April's estimated income tax payments were 57 percent higher than last April's. It is likely that much of this spike in revenue came from taxpayers paying their 2012 tax liabilities on a large amount of capital gains income. Also, it appears that companies made extra dividend payments at the end of 2012 that boosted tax liabilities.

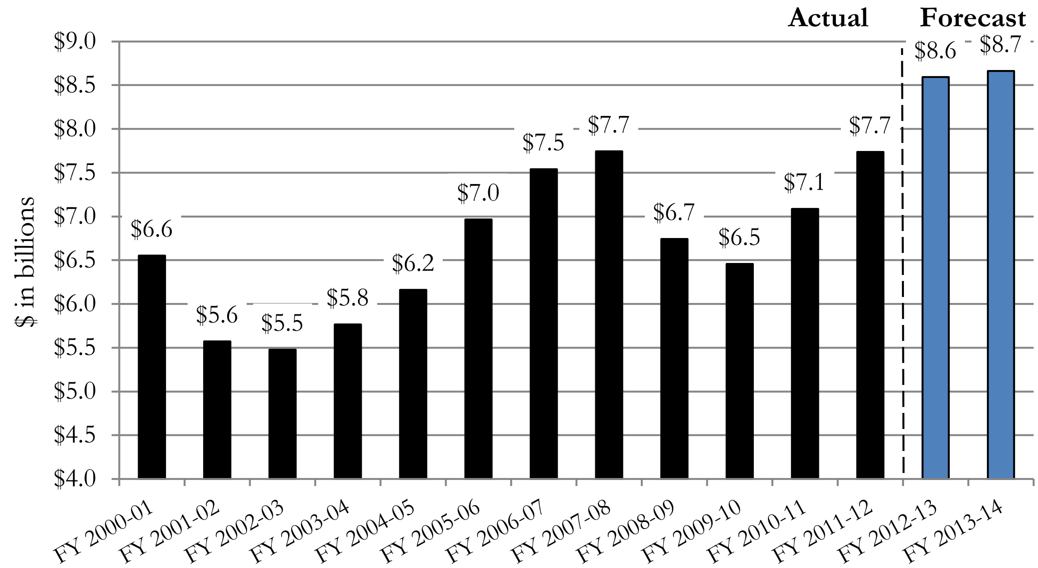
The high amount of tax revenue from capital gains income as well as income from dividend payments is not expected to be repeated in FY 2013-14. The growth in equities has recently not maintained the same pace as the stock market rebound from its recessionary trough that generated substantial investor income. Further, a large portion of the income tax revenue from these sources appears to have been pulled from FY 2013-14 and subsequent years as taxpayers realized gains and received dividend payments sooner than otherwise in anticipation of federal tax increases in 2013. However, it should be noted that capital gains are volatile and difficult to predict; thus, OSPB will continue to monitor this issue and make revisions to the forecast if necessary. The trends in tax revenue from investor income are discussed further in the individual income tax revenue section below.

Largely because of the above factors, General Fund revenue is expected to grow only 0.8 percent in FY 2013-14. This is a slower growth rate than anticipated in March as it appears that more tax revenue from capital gains, dividend, and other income was shifted into FY 2012-13 from FY 2013-14 than previously projected. Despite the slower growth rate, FY 2013-14 General Fund revenue is 2.5 percent, or $213.2 million, higher than the prior projection as a result of the higher level of collections in FY 2012-13.

In addition to the expected decline in investor income, economic growth is expected to moderate slightly in the second half of 2013. This was projected in prior forecasts and is due to several factors, such as recent federal tax rate increases and budget reductions, heightened uncertainty surrounding the federal debt level, and headwinds from a slower global economy, particularly in Europe. These issues are discussed in further detail in *The Economy: Current Conditions and Forecast* section starting on page 27.

Figure 3 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2013-14. The figure illustrates the surge in General Fund revenue in FY 2012-13 and subsequent slower growth in FY 2013-14. A more detailed forecast of General Fund revenue is provided in Table 2 following page 16.

Figure 3. General Fund Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14



Forecast Discussion of Major General Fund Revenue Sources

The following section discusses the forecasts for the three major General Fund revenue sources – individual income taxes, corporate income taxes, and sales and use taxes. These sources represent 95 percent of total General Fund revenue. General Fund revenue from the remaining group of miscellaneous sources, such as taxes paid by insurers on premiums, interest income, and certain excise taxes will be essentially flat over the forecast period.

Individual income tax – Individual income taxes are the largest source of General Fund revenue, comprising roughly 60 percent of the total. As shown in Figure 4 on the following page, this revenue source has exhibited robust growth beginning with FY 2010-11 when the economy began to recover from the recession. After growing 10.1 percent in FY 2010-11 and 11.5 percent in FY 2011-12, individual income tax revenue is expected to grow another 12.6 percent in FY 2012-13.

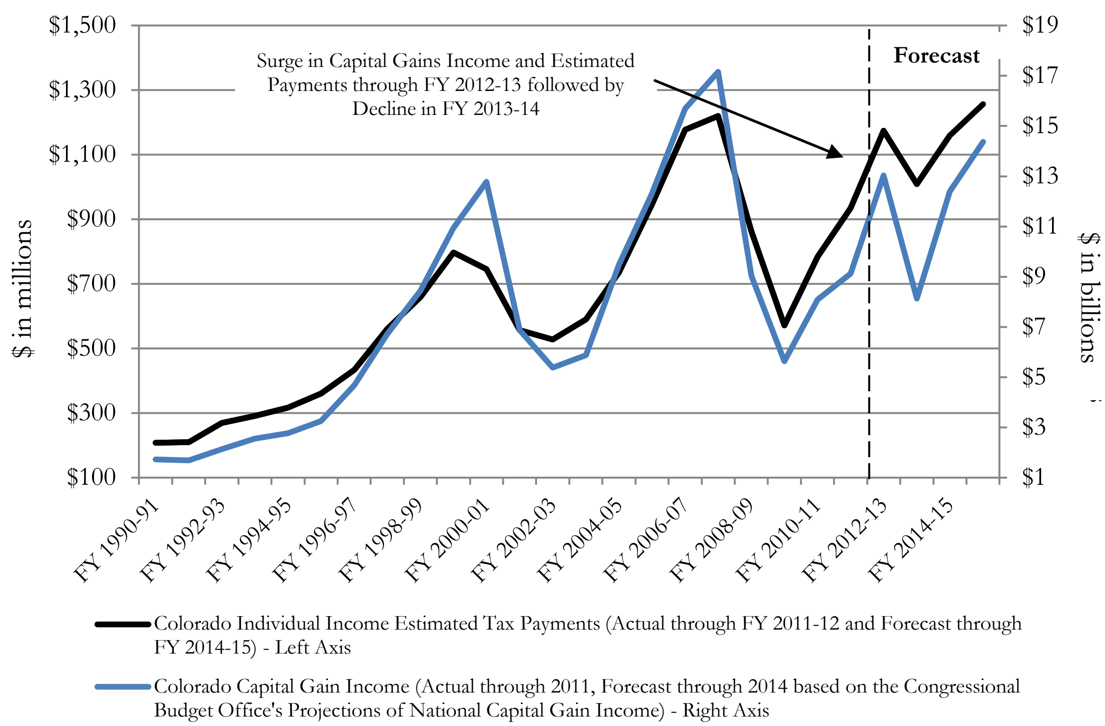
Some of the increase is from growth in income to workers and businesses from a relatively strong Colorado economy, which is discussed in *The Economy: Current Conditions and Forecast* section starting on page 27. The increase is also due to royalties paid to mineral rights owners that are coming from the growth in oil and gas production in the state, especially in northeast Colorado.

A large portion of the growth, however, also appears to be from a surge in income from capital gains and other investor income resulting from the sustained robust performance of the stock market. Growth in income tax revenue appears to be especially strong this fiscal year as a result of taxpayers shifting their investment income into 2012 before the 2013 increase in federal tax rates so their income would be subject to lower tax rates. The April surge in estimated income tax payments discussed above provides evidence of this phenomenon. Investors with high amounts of income pay their tax liabilities through estimated payments periodically over the year.

The higher-than-expected amount of April collections caused the projections for estimated income tax revenue to increase by $224 million compared with the last forecast. Based on projections of capital gains income nationally from the Congressional Budget Office (CBO), OSPB estimates that over $100 million in tax revenue from capital gains received by Colorado taxpayers was shifted into FY 2012-13. Investors will also have fewer gains in the near term due to slower growth in equities. This, along with the moderation in economic activity, will weigh on income tax revenue in FY 2013-14.

The historical and projected trends in estimated tax payments and capital gain income to Coloradans is shown in Figure 4 below. The forecast for capital gains income is based on the CBO's most recent national capital gains income forecast which includes the shifting of capital gains income into 2012 that results in a 37.7 percent drop in 2013 capital gains realizations.

Figure 4. Capital Gain Income to Coloradans and State Individual Income Estimated Tax Payments, Actual and Forecast, FY 2000-01 to FY 2014-15



Source: Internal Revenue Service, Colorado Department of Revenue, and Congressional Budget Office. OSPB Calculations.

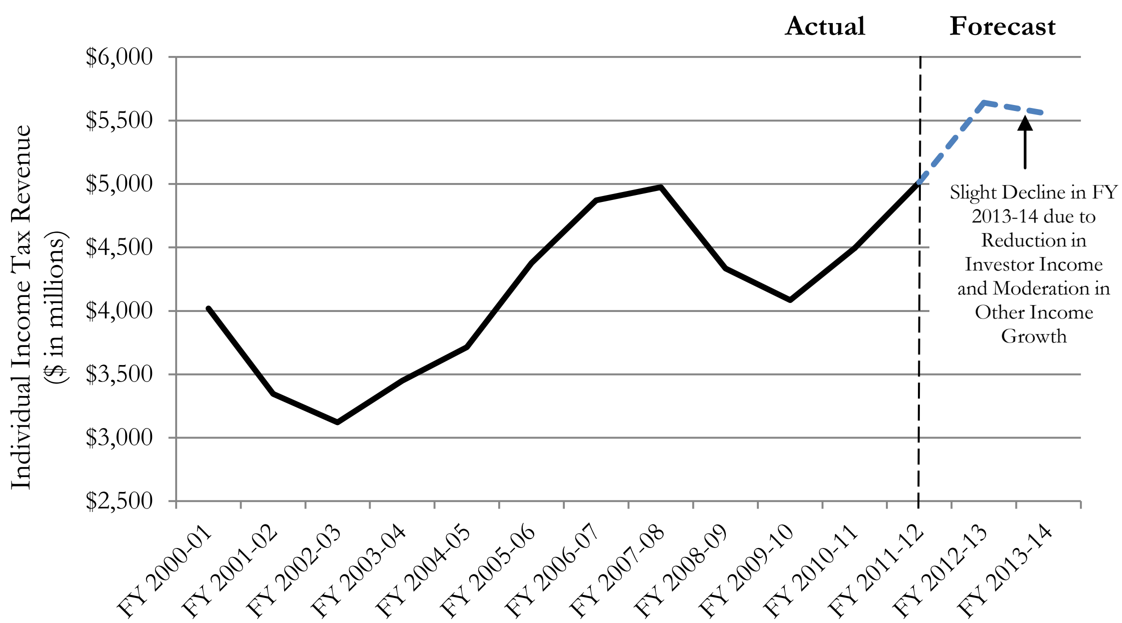
Tax policy changes, both at the state and federal level, will affect individual income tax revenue over the forecast period. These tax policies will reduce revenue on net in FY 2013-14. The return of the tax credit for child care contributions is the largest contributor to the net decline. In FY 2013-14, the credits are expected to reduce General Fund revenue by about $30 million.

Another bill has the potential to reduce General Fund at a point in the future if certain events occur. SB 13-001 makes the state earned income tax credit permanent. Prior to this bill, the credit was only available when a certain amount of TABOR surplus revenue needed to be refunded. The bill will make the credit permanent the first tax year after it becomes available as a TABOR refund mechanism. This is not expected during the forecast period. In addition, the bill creates a child tax credit tied to a percentage of the federal child tax credit. However, the credit becomes available conditional upon the passage of federal legislation to require out-of-state retailers to collect and remit sales taxes to states. This legislation, along with the State legislation (HB 13-1295) needed to implement the requirements of the federal legislation, are also discussed in the sales tax revenue forecast below.

The most significant of 2013 legislation to increase FY 2013-14 individual income tax revenue is HB 13-1183, which continues the cap on the amount of conservation easement state income tax credits that can be claimed by taxpayers. Before the enactment of this bill, the elimination of the cap would have resulted in a $13 million and $23 million reduction in FY 2012-13 and FY 2013-14, respectively.

After the brisk growth over the past few fiscal years, individual income tax collections will post a slight decline of 1.6 percent in FY 2013-14 due to the factors discussed above. The strong pace of individual income tax revenue growth since the end of the recession as well as the modest decline in FY 2013-14 is depicted in Figure 5 below.

Figure 5. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14

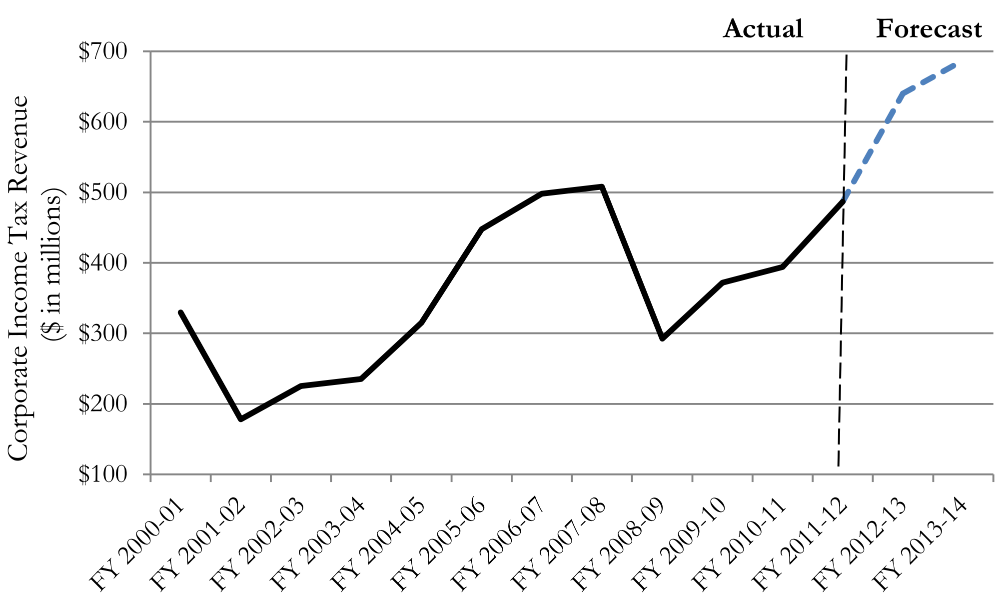


Corporate income tax – Corporate income tax revenue has grown at an even more robust rate than individual income tax revenue. In addition to strong sales and leaner operations, a 2010 state tax policy change capping the amount of net operating losses that corporations could deduct for tax purposes, has bolstered corporate income tax revenue. After increasing 23.5 percent in FY 2011-12, corporate income tax revenue will jump another 31.6 percent in FY 2012-13. With this high growth pace, the amount of corporate income tax revenue will be 119 percent, or $347.6 million higher than its level at the low point of the recession.

In FY 2013-14, however, corporate income tax revenue growth will moderate to a 7.4 percent increase. Corporate profits will be tempered by economic headwinds and as companies will likely not continue to benefit from further efficiency gains that have increased their margins. Also, the end of the cap on net operating losses in 2014 will slow revenue growth as certain companies will be able to deduct more losses than in previous years, resulting in lower taxable income. Further, the business expensing provisions in the federal American Taxpayer Relief Act enacted at the beginning of 2013 will reduce corporate tax revenue. However, revenue growth is expected to be slightly higher in FY 2013-14 relative to the March forecast mostly as a result of the enactment of HB 13-1142. This bill made changes to certain enterprise zone tax credits, including the continuation of a cap on tax credits for investments in enterprise zones.

A graph of historical and forecast corporate income tax collections which illustrates the trends discussed above is provided in Figure 6.

Figure 6. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14



Sales and use tax – Sales tax revenue comprises 25 to 30 percent of General Fund revenue, depending on the year. This category of revenue has experienced more modest growth than income tax revenue collections. After increasing 2.4 percent in FY 2011-12, sales tax revenue will grow 4.5 percent in FY 2012-13 and 4.2 percent in FY 2013-14. As expected in past forecasts, growth in FY 2013-14 sales tax revenue will be slightly lower due to some softening in consumer spending as discussed in *The Economy: Current Conditions and Forecast* section.

Several factors have and will continue to constrain sales tax revenue growth. Tax policy changes, such as the partial resumption of the vendor discount which allows a portion of sales tax collections to be retained by retailers, have slowed revenue growth. Also, elevated food and gas prices, which are not subject to the state sales tax, appear to be pulling from spending on other taxable items.

An increase in purchases online, where sales taxes are not collected for many transactions, is also likely contributing to the modest revenue growth. Legislation that passed in 2013, HB 13-1295, implements requirements to allow the State to receive sales tax revenue from more online transactions. The bill essentially simplifies the collection of sales taxes from out-of-state retailers. However, the bill, and thus the estimated $75 million in estimated annual tax revenue from online sales, is contingent upon the enactment of federal legislation currently pending in Congress to require out-of-state retailers to collect and remit sales taxes to states.

Despite the slower growth rate relative to FY 2012-13, the increase in FY 2013-14 sales tax revenue is higher than in March. This is due to HB 13-1144 which continues the taxation of cigarette sales. The tax exemption on such sales was scheduled to be reinstated in FY 2013-14, which would have lowered sales tax revenue by roughly $30 million.

Use taxes, which are mostly paid by businesses, are generally paid on taxable items in which the seller did not collect and remit sales taxes for the State. Many of these transactions occur with out-of-state sellers. Business investment, especially in the oil and gas industry, has bolstered use tax revenue. In FY 2012-13, use tax revenue will grow 17.4 percent. Although continued investment by oil and gas companies will cause use tax revenue to continue to grow, the moderation in business spending activity expected in 2013 will temper growth. Use tax revenue will post a slower growth rate of 5.8 percent in FY 2013-14.

Total sales and use tax revenue from FY 2000-01 through FY 2013-14 is shown in Figure 7.

Figure 7. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2013-14

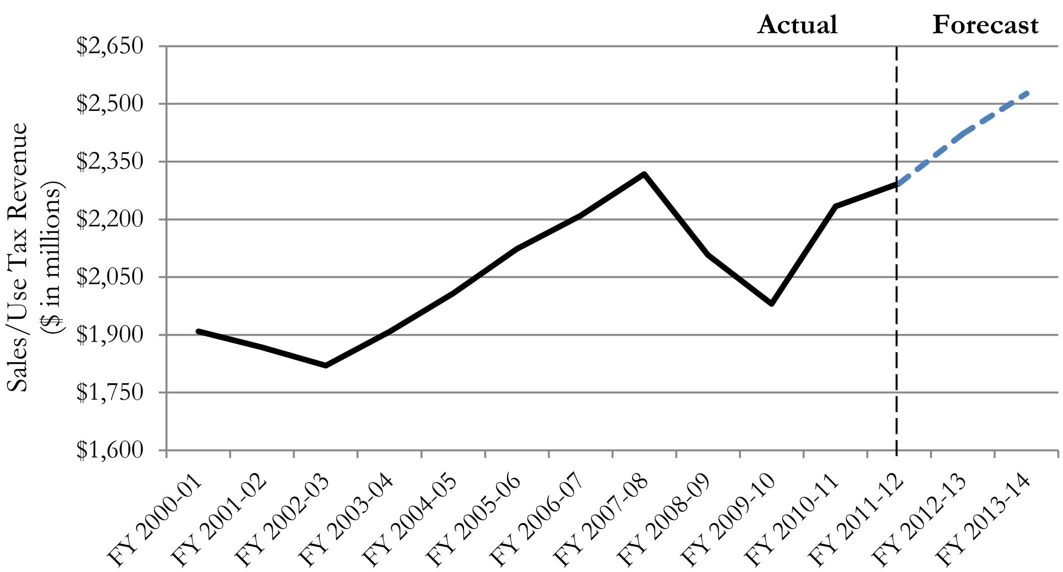


Table 2
Colorado General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	Actual FY 2011-12	% Chg	June 2013 Estimate by Fiscal Year FY 2012-13	% Chg	FY 2013-14	% Chg	FY 2014-15	% Chg
	Excise Taxes:								
1	Sales	$2,093.2	2.4%	$2,186.4	4.5%	$2,278.0	4.2%	$2,407.5	5.7%
2	Use	$200.6	5.6%	$235.5	17.4%	$249.2	5.8%	$264.8	6.2%
3	Cigarette	$39.5	0.5%	$38.2	-3.2%	$36.8	-3.6%	$35.5	-3.6%
4	Tobacco Products	$16.0	16.1%	$15.9	-0.6%	$16.6	4.0%	$17.0	2.5%
5	Liquor	$38.4	5.3%	$38.7	0.9%	$39.0	0.7%	$39.9	2.4%
6	**Total Excise**	**$2,387.7**	**2.8%**	**$2,514.9**	**5.3%**	**$2,619.6**	**4.2%**	**$2,764.7**	**5.5%**
	Income Taxes:								
7	Net Individual Income	$5,011.6	11.5%	$5,641.5	12.6%	$5,551.5	-1.6%	$5,933.5	6.9%
8	Net Corporate Income	$486.5	23.5%	$640.1	31.6%	$687.2	7.4%	$763.9	11.2%
9	**Total Income**	**$5,498.1**	**12.4%**	**$6,281.6**	**14.2%**	**$6,238.7**	**-0.7%**	**$6,697.4**	**7.4%**
10	*Less: State Education Fund Diversion*	*$407.5*	*10.0%*	*$464.1*	*13.9%*	*$461.1*	*-0.7%*	*$500.1*	*8.5%*
11	**Total Income to General Fund**	**$5,090.6**	**12.6%**	**$5,817.4**	**14.3%**	**$5,777.6**	**-0.7%**	**$6,197.3**	**7.3%**
	Other Revenues:								
12	Estate	$0.3	N/A	$0.0	N/A	$0.0	N/A	$0.0	N/A
13	Insurance	$197.2	4.0%	$206.6	4.8%	$209.1	1.2%	$215.7	3.2%
14	Interest Income	$13.6	71.5%	$14.7	8.5%	$16.1	9.1%	$17.2	7.1%
15	Pari-Mutuel	$0.6	14.4%	$0.5	-25.0%	$0.4	-20.0%	$0.3	-10.0%
16	Court Receipts	$2.6	-27.6%	$1.1	-57.4%	$0.3	-72.7%	$0.3	0.0%
17	Gaming	$20.3	-0.5%	$12.8	-37.0%	$14.1	10.1%	$15.6	10.9%
18	Other Income	$23.1	8.8%	$23.8	3.0%	$25.5	7.1%	$26.9	5.5%
19	**Total Other**	**$257.6**	**5.9%**	**$259.4**	**0.7%**	**$265.4**	**2.3%**	**$276.0**	**4.0%**
20	GROSS GENERAL FUND	$7,736.0	9.2%	$8,591.7	11.1%	$8,662.6	0.8%	$9,238.0	6.6%
	Rebates & Expenditures:								
21	Cigarette Rebate	$11.2	1.8%	$10.8	-3.7%	$10.2	-5.4%	$10.0	-2.6%
22	Old-Age Pension Fund	$103.3	1.1%	$111.6	8.0%	$105.4	-5.5%	$94.3	-10.6%
23	Aged Property Tax & Heating Credit	$7.2	5.1%	$7.0	-3.0%	$7.0	1.0%	$7.2	2.0%
24	Interest Payments for School Loans	$0.7	-16.3%	$0.6	-10.7%	$0.7	16.5%	$0.9	28.6%
25	Fire/Police Pensions	$9.7	125.4%	$146.7	1412.3%	$4.3	-97.1%	$4.4	2.3%
26	Amendment 35 General Fund Expenditure	$0.9	1.9%	$0.8	-5.0%	$0.8	-4.3%	$0.8	-4.3%
27	**Total Rebates & Expenditures**	**$133.0**	**5.5%**	**$277.5**	**108.7%**	**$128.5**	**-53.7%**	**$117.5**	**-8.6%**

Cash Fund Revenue Forecast

Cash fund revenue subject to TABOR will decline approximately 0.9 percent to $2.54 billion in FY 2012-13. Many categories of cash funds will post revenue growth in FY 2012-13 as the economy continues to recover and more taxes and fees are generated by new business and household activity. However, severance tax revenue will fall by approximately $50 million due to low natural gas prices in 2012 and the impact of property tax credits for oil and gas taxpayers.

Cash fund revenue will grow in FY 2013-14 to $2.59 billion, an increase of 2.1 percent. Most categories of cash fund revenue will grow again, led by a roughly $36 million increase in severance tax revenue that will come with higher natural gas prices and continued strong oil production. The implementation of bills passed during the 2013 legislative session will have a net positive impact on cash fund revenue subject to TABOR. Further, economic activity is forecast to extend a period of strengthening into 2014 within Colorado, a trend that will support growth in tax and fee payments. OSPB's forecast of cash fund revenue subject to TABOR is shown in Table 3 following page 23.

Transportation-Related Cash Funds

Revenue to transportation-related cash funds that is subject to TABOR will decline by 0.7 percent to $1.104 billion in FY 2012-13 and grow slightly to $1.114 billion in FY 2013-14. Transportation-related cash funds include the Highway Users Tax Fund (HUTF), State Highway Fund (SHF), and several smaller cash funds. Funds in this category receive revenue from fuel taxes, vehicle registrations and permits, other fines and fees related to transportation, and interest on fund balances. The HUTF accounts for more than 80 percent of the revenue in this category and over half of HUTF revenue comes from excise taxes on gasoline and diesel fuel. Revenue in the HUTF is distributed by statutory formula to the Colorado Department of Transportation (CDOT), local counties and municipalities, and the Colorado State Patrol.

The FY 2012-13 decline in revenue is primarily due to a drop in income to the State Highway Fund which receives revenue dedicated for use on projects in partnership with local governments, among other sources. Several local government partnership projects were completed in FY 2011-12 and so funds related to those projects will not be deposited in the SHF in FY 2012-13, causing a $14.3 million decline in revenue to the fund.

Some of the recently robust vehicle sales activity will likely taper off as households work through the pent-up demand that came from putting off new vehicle purchases in the wake of the Great Recession. However, OSPB expects vehicle sales to remain stable in 2013 and 2014, supported by a more stable employment outlook and increased household wealth due to recovery in the housing and stock markets. In addition, continued low interest rates should also bolster vehicle sales. The outlook for vehicle sales indicates that higher revenue from vehicle registrations observed in FY 2013-14 will likely be sustained in FY 2014-15.

HB 13-1110, which was signed by the Governor on May 15, 2013, will increase revenue to three cash funds by an estimated $192,000 in FY 2013-14 ($86,000 of which will go to the HUTF) and $500,000 in

FY 2014-15 ($261,000 of which will go to the HUTF). This bill changes taxes and fees for electric and alternative fuel vehicles beginning January 1, 2014 by repealing the decal system for natural gas-powered vehicles and implementing an excise tax based on gasoline-equivalent energy content of natural gas fuel. HB 13-1110 also implements a decal system for electric vehicle owners beginning January 1, 2014 which will collect revenue from electric vehicles to contribute to roadway maintenance costs.

Limited Gaming

Despite the reversal of the 5 percent gaming tax reduction on July 1, 2012, limited gaming revenue will grow just 1.5 percent to $106.4 million in FY 2012-13. Gaming revenue growth has remained sluggish throughout FY 2012-13 as household disposable income grew only modestly and as households remained cautious about their economic prospects. It is possible that memories of the Great Recession have resulted in a change in households' willingness to spend on gaming that may endure even as the economy continues to recover. Limited gaming revenue will grow by an estimated 3.0 percent in FY 2013-14 to $109.6 million.

Of the total expected limited gaming revenue for FY 2012-13, $97.9 million will be subject to TABOR. This is the amount reflected in Table 3, "Cash Fund Revenue Subject to TABOR," after page 23. Of this amount, $95.1 million is classified as "base limited gaming revenue" and the remainder comes from interest earned on the balance of the Limited Gaming Cash Fund throughout the year. The additional $8.5 million in gaming-related revenue is exempt from TABOR and is called "extended gaming revenue," as defined and permitted by Amendment 50 to the Colorado Constitution.

Distribution of limited gaming revenue is calculated according to a formula in Colorado law. Base limited gaming revenue is shared by the State General Fund, the State Historical Society, cities and counties that are impacted by gaming activity, and a few other state programs and funds. SB 13-133 was signed into law on March 8, 2013 and changed the formula used to distribute base limited gaming revenue to each of these funds. The impact of SB 13-133 was discussed in further detail in OSPB's March, 2013 revenue forecast. Additionally, HB 13-1001, which was signed into law on May 15, 2013, created the Advanced Industries Acceleration Fund which will be credited all limited gaming revenue that is currently distributed to the Bioscience Discovery Fund beginning in FY 2013-14. Figure 8 on the following page shows in detail the anticipated distribution of limited gaming revenues.

Figure 8. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Actual FY11-12	Forecast FY 12-13	Forecast FY 13-14	Forecast FY 14-15
A. Total Limited Gaming Revenues	**$104.8**	**$106.4**	**$109.6**	**$114.3**
Annual Percent Change	-3.0%	1.5%	3.0%	4.3%
B. Base Limited Gaming Revenues (max 3% growth)	**$92.7**	**$95.1**	**$97.9**	**$100.9**
Annual Percent Change	-2.2%	2.6%	3.0%	3.0%
C. Gaming Revenue Subject to TABOR	**$95.2**	**$97.9**	**$100.8**	**$103.8**
Annual Percent Change	-2.2%	2.9%	3.0%	3.0%
D. Total Amount to Base Revenue Recipients	**$82.6**	**$85.6**	**$88.2**	**$91.2**
Amount to State Historical Society	*$23.1*	*$24.0*	*$24.7*	*$25.5*
Amount to Counties	*$9.9*	*$10.3*	*$10.6*	*$10.9*
Amount to Cities	*$8.3*	*$8.6*	*$8.8*	*$9.1*
Amount to Distribute to Remaining Programs (State Share)	*$41.3*	*$42.8*	*$44.1*	*$45.6*
Amount to Local Government Impact Fund	*$3.3*	*$5.0*	*$5.0*	*$5.0*
Colorado Tourism Promotion Fund	*$11.0*	*$15.0*	*$15.0*	*$15.0*
Creative Industries Cash Fund	*$0.9*	*$2.0*	*$2.0*	*$2.0*
Film, Television, and Media Operational Account	*$0.2*	*$0.5*	*$0.5*	*$0.5*
Bioscience Discovery Evaluation Fund	*$4.0*	*$5.5*	*N/A*	*N/A*
Advanced Industries Acceleration Fund	*N/A*	*N/A*	*$5.5*	*$5.5*
Innovative Higher Education Research Fund	*$1.5*	*$2.0*	*$2.0*	*$2.0*
Transfer to the General Fund	*$20.3*	*$12.8*	*$14.1*	*$15.6*
E. Total Amount to Amendment 50 Revenue Recipients	**$8.6**	**$8.3**	**$8.5**	**$9.8**
Community Colleges, Mesa and Adams State (78%)	*$6.7*	*$6.5*	*$6.6*	*$7.7*
Counties (12%)	*$1.0*	*$1.0*	*$1.0*	*$1.2*
Cities (10%)	*$0.9*	*$0.8*	*$0.8*	*$1.0*

Hospital Provider Fee

Colorado hospitals pay a fee, called the Hospital Provider Fee (HPF), which is calculated as a percentage of net patient revenue. Each year, the Colorado Department of Healthcare Policy and Financing determines the fee in cooperation with the Hospital Provider Fee Oversight and Advisory Board. Revenue generated by the fee is matched by dollars from the federal government to be used for the expansion of health care under Medicaid and to limit cost-shifting for under- and uninsured patients to the private healthcare market.

Hospital Provider Fee revenue will increase by 11.2 percent to $652.5 million in FY 2012-13, primarily due to expected increases in the cost of care for populations funded by the HPF. Additionally, targeted supplemental payments to hospitals will be higher and administrative expenditures will grow slightly, each contributing to increases in HPF rates and revenue.

HPF revenue will fall by an estimated $25 million, or 3.8 percent, in FY 2013-14 following implementation of SB 13-200. This bill, signed by the Governor on May 13, 2013, implements the State's decision to participate in the expansion of Medicaid as allowed by the federal Affordable Care Act (ACA). Under ACA, federal funding will be made available to expand Medicaid coverage to a greater population of households with income up to 133 percent of the Federal Poverty Level (FPL). Federal funding will finance the majority of the cost of Medicaid coverage for these expanded populations starting on January 1, 2014. As a result, the amount that the State needs to collect in HPF revenue will begin to decrease in FY 2013-14. The State's HPF collections will decline further in FY 2014-15 when the full-year impact of new federal Medicaid financing is implemented.

Severance Tax

The State collects severance tax revenue on mineral resources that are extracted ("severed") from deposits in Colorado. Oil and natural gas wells account for the vast majority of severance tax revenue in the state, while extraction of coal, molybdenum, and metallic minerals also generate severance tax payments.

Colorado law allows for oil and gas severance taxpayers to deduct 87.5 percent of the local property tax paid on the value of oil and gas production from their severance tax liability to the State. This is called the ad valorem credit. This credit often exacerbates changes in State severance tax revenue because credits claimed from a previous year's property tax liability, reflecting oil and gas prices at different levels, impact the current year's severance tax liability.

Severance tax revenue will total $157 million in FY 2012-13, a decline of 24.4 percent. The decrease is attributable primarily to lower natural gas prices in 2012 and the effect of ad valorem tax credits for property taxes paid in 2011 when natural gas prices, and thus property tax liabilities, were higher. Severance tax revenue will grow 23.2 percent to $193.4 million in FY 2013-14 as the price of natural gas rises, oil production continues to be robust, and the effect of ad valorem tax credits is smaller.

Since natural gas makes up the largest source of severance tax revenue, the price of natural gas has a large impact on this category of cash fund. Natural gas prices declined significantly in 2012, falling below $2.00 per thousand cubic feet (Mcf) in April, before rising again. The low price of natural gas throughout much of 2012 resulted in lower severance tax liability for taxpayers in FY 2012-13. The price of Colorado natural gas has since risen to roughly $4.00 per Mcf and is expected to remain near this level for 2013 and 2014. National inventories of the resource have fallen from the record highs observed in 2012, despite steady increases in production, due to greater use of natural gas as an energy resource for manufacturing, fleet vehicles, and other activities.

In addition to natural gas, petroleum production contributes to Colorado's severance tax collections. The price of Colorado oil averaged just over $86 per barrel in 2012 and is expected to remain near this level in 2013 and 2014 as global economic growth remains tepid and new oil supply comes to market as a result of innovative drilling technologies. Oil production has displayed strong growth, especially in the northwest region of the state, as new technologies and infrastructure have come online. Investment for future production growth has also been strong. Some companies report having invested nearly $1 billion in 2012 for operations in Colorado and say they are planning to increase investment again in 2013, totaling more than $3 billion in anticipated expenditures by the two largest operators in Colorado.

The majority of recent production increases have occurred in the Niobrara formation and specifically in Weld County, which maintains a much higher mill levy for oil and gas property relative to other counties with significant oil and gas production. As a result, higher ad valorem tax credits have moderated the growth of State severance tax revenue relative to the pace of oil and gas production growth. As new wells are drilled to test potential oil and gas production in other areas of the state, severance tax revenue growth could potentially accelerate beyond the forecast growth rate. Additional upside risks to the forecast include a rise in oil or gas prices caused by accelerated global demand or a higher rate of natural gas consumption.

Severance taxes collected on coal provide a much smaller portion of overall severance tax revenue than oil and gas receipts. Increasing demand for coal abroad, led by growing industrial activity in China, is expected to support production operations in Colorado. This continued production, combined with increases in the severance tax rate on coal, which is tied by law to changes in the producer prices index, will cause severance tax revenue from coal to grow modestly. OSPB estimates that severance tax revenue from coal production will grow to $9.5 million in FY 2012-13 and $10.0 million in FY 2013-14.

Federal Mineral Leasing Revenue

Federal mineral leasing (FML) revenue is generated by mineral extraction activities on federal land. The federal government distributes a portion of FML revenue to the State. Like severance tax revenue, FML revenue is largely influenced by the price of resources, especially natural gas, that are produced on federal land and sold in the market place. Price fluctuations are not exacerbated by year-to-year changes in ad valorem tax credits because operators do not pay local property tax for resources extracted from federal lands. The forecast for FML revenue to the State is shown in Figure 9 on the following page.

Two factors involving federal government policy will cause FML revenue to Colorado to decline substantially in FY 2012-13. First, the Bureau of Land Management recently granted a royalty rate reduction for three coal mines operating in Colorado. This decision was made effective as of certain dates in 2009, and thus royalty collections from these specific operators will be reduced in FY 2012-13 to account for the lower royalty rates that have been granted for the past three years. This will result in a reduction of approximately $9.2 million to Colorado's share of FML revenue in FY 2012-13.

Secondly, the federal government is reducing the distribution of the States' shares of FML revenue due to the implementation of federal legislation known as sequestration. Because FML distributions to States are an appropriated expenditure of the federal government, it has been determined that these distributions are subject to sequestration requirements. As a result, the United States Department of the Interior will reduce the amount of FML distributions to Colorado by approximately $8.4 million in the 2013 federal fiscal year. Under current federal law, the sequestration spending cuts will remain in place unless the US Congress passes an annual budget that appropriates funds in a different way. Because current law indicates continuation of sequestration-driven cuts to State FML payments, this forecast accounts for similar reductions to Colorado's FML revenue in FY 2013-14 and FY 2014-15.

With these factors, OSPB forecasts FML revenue will fall $36.1 million, or about 22 percent, to $128.8 million in FY 2012-13. FML revenue will grow by 14.3 percent to $147.2 million in FY 2013-14.

Figure 9. Federal Mineral Leasing (FML) Payments

Federal Mineral Lease (FML) Payments				
Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2011-12	$2.49	$162.45	$164.94	10.3%
FY 2012-13	$4.10	$124.70	$128.80	-21.9%
FY 2013-14	$3.68	$143.55	$147.23	14.3%
FY 2014-15	$3.88	$151.34	$155.22	5.4%

Dollars are in millions. FY 2011-12 figures reflect actual collections, and FY 2012-13 through FY 2014-15 are projections.

Other Cash Funds

The Colorado Department of Regulatory Agencies (DORA) is responsible for regulatory oversight of a wide variety of industries. OSPB estimates that revenue to DORA-related cash funds subject to TABOR will grow 2.1 percent to $66.3 million in FY 2012-13 as the result of a pick-up in activity for regulated entities and a higher rate of new business formation in regulated sectors. This category of cash fund revenue is expected to grow again by 3.1 percent to $68.3 million in FY 2013-14 as business activity continues to increase and as several bills impacting cash funds for regulatory agencies take effect. Insurance-related cash fund revenue includes revenue from a surcharge on workers' compensation insurance policy premiums that is used to fund the Division of Workers' Compensation within the Colorado Department of Labor and Employment. A portion of the surcharge is also used to fund the Major Medical Insurance Fund and Subsequent Injury Fund. Revenue from the surcharge will decline by 3.2 percent to $21.9 million in FY 2012-13 and will grow slightly to $22.6 million in FY 2013-14.

Table 3 following this page includes a category called "Other Miscellaneous Cash Funds" which represents a large variety of smaller individual cash funds that are not exempt from TABOR. These funds hold revenue collected in the form of various fines and fees as well as interest earnings on the balance of a variety of cash funds. Interest rates, which have remained at historic lows, have caused declines or muted growth throughout interest-related cash funds. Moderate economic growth has also acted to limit the revenues to many miscellaneous cash funds which receive fees paid for public services. Revenue to the miscellaneous cash funds will decline by 6.9 percent to $440.5 million in FY 2012-13 and will grow 5.9 percent to $466.4 million in FY 2013-14.

Two bills passed the Colorado Legislature in 2013 that pertain to revenue to cash funds from taxes and fees on the sale of marijuana. HB 13-1317 implements many provisions of Amendment 64, which was passed by Colorado voters in 2012. This bill specifies that all sales tax from the retail sale of marijuana, as well as application and licensing fees from marijuana businesses, will be directed to a cash fund for the Marijuana Enforcement Division. This will increase revenue to cash funds by an estimated $10.9 million in FY 2013-14 and $14 million in FY 2014-15. HB 13-1318 refers to the voters a special excise tax and sales tax on retail marijuana in Colorado. If voters pass the measure during the 2013 election, it will increase cash fund revenue by approximately $24.5 million in FY 2013-14 and $49 million in FY 2014-15. However, the measure specifies that such revenue will be exempt from TABOR and thus it will not be included in Table 3 on the following page.

Table 3
Cash Fund Revenue Subject to TABOR Forecast by Major Category
(Dollar amount in millions)

Category	Actual FY 2011-12	June 2013 Estimate by Fiscal Year FY 2012-13	FY 2013-14	FY 2014-15	FY 2011-12 to FY 2014-15 CAAGR*
Transportation-Related /A	$1,112.2	$1,104.2	$1,114.0	$1,117.1	
Change	2.7%	-0.7%	0.9%	0.3%	0.1%
Limited Gaming Fund /B	$95.6	$97.9	$100.8	$103.8	
Change	-2.4%	2.3%	3.0%	3.0%	2.8%
Capital Construction - Interest	$1.1	$0.7	$0.6	$1.6	
Change	-62.5%	-36.4%	-17.4%	162.1%	11.3%
Regulatory Agencies	$64.9	$66.3	$68.3	$70.0	
Change	-6.6%	2.1%	3.1%	2.5%	2.5%
Insurance-Related	$22.6	$21.9	$22.6	$23.4	
Change	-14.5%	-3.2%	3.0%	3.5%	1.1%
Severance Tax	$207.7	$157.0	$193.4	$180.1	
Change	39.0%	-24.4%	23.2%	-6.9%	-4.6%
Hospital Provider Fees /C	$586.5	$652.5	$627.5	$574.0	
Change	32.5%	11.2%	-3.8%	-8.5%	-0.7%
Other Miscellaneous Cash Funds	$472.9	$440.5	$466.4	$480.0	
Change	-4.5%	-6.9%	5.9%	2.9%	0.5%
TOTAL CASH FUND REVENUE	***$2,563.6***	***$2,541.0***	***$2,593.6***	***$2,549.9***	
Change	8.3%	-0.9%	2.1%	-1.7%	-0.2%

* CAAGR: Compound Annual Average Grow th Rate.

/A Includes revenue from SB 09-108 (FASTER) w hich began in FY 2009-10. Roughly 40% of FASTER-related revenue is directed to tw o State Enterprises. Revenue to State Enterprises is exempt from TABOR and is thus not included in the figures reflected by this table.

/B Excludes tax revenue from extended gaming as allow ed by Amendment 50 to the Colorado Constitution as this revenue is exempt from TABOR. The portion of limited gaming revenue that is exempt is projected based on the formula outlined in HB 09-1272.

/C Figures include the impact of SB 13-200 w hich put into statute the expansion of Colorado's Medicaid program beginning on January 1, 2014, as allow ed by the federal law know n as the Affordable Care Act.

The Taxpayer's Bill of Rights: Revenue Limit

The Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limits the State's revenue growth to the sum of inflation plus population growth in the previous calendar year. Under the provisions of TABOR, revenue collected above the TABOR limit must be returned to taxpayers, unless voters decide the State can retain the revenue. In November 2005, voters approved Referendum C, which allowed the State to retain all revenue through FY 2009-10, during a five-year TABOR "time out." Referendum C also set a new cap on revenue starting in FY 2010-11.

Beginning in FY 2010-11, the amount of revenue that the State may retain under Referendum C (line 9 of Table 4) is calculated by multiplying the revenue limit between FY 2005-06 and FY 2009-10 associated with the highest TABOR revenue year (FY 2007-08) by the allowable TABOR growth rates (line 6 of Table 4) for each subsequent year. OSPB does not project that any refunds will occur during the forecast period (line 10 of Table 4). Revenue is projected to be about $340 million below the Referendum C cap this fiscal year and between $500 million and $600 million below the cap through FY 2014-15. Table 4 summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

Table 4
TABOR Revenue & Referendum C Revenue Limit
(Dollar Amounts in Millions)

Line No.		Actual FY 2011-12	June 2013 Estimate by Fiscal Year FY 2012-13	FY 2013-14	FY 2014-15
	TABOR Revenues:				
1	General Fund /A	$7,709.6	$8,578.9	$8,648.5	$9,222.4
	Percent Change from Prior Year	*9.2%*	*11.3%*	*0.8%*	*6.6%*
2	Cash Funds	$2,563.6	$2,541.0	$2,593.6	$2,549.9
	Percent Change from Prior Year	*8.3%*	*-0.9%*	*2.1%*	*-1.7%*
3	**Total TABOR Revenues**	**$10,273.2**	**$11,119.9**	**$11,242.1**	**$11,772.3**
	Percent Change from Prior Year	*9.0%*	*8.2%*	*1.1%*	*4.7%*
	Revenue Limit Calculation:				
4	Previous calendar year population growth	*0.1%*	*1.7%*	*1.4%*	*1.5%*
5	Previous calendar year inflation	*1.9%*	*3.7%*	*1.9%*	*2.4%*
6	**Allowable TABOR Growth Rate**	***2.0%***	***5.4%***	***3.3%***	***3.9%***
7	TABOR Limit	$8,799.8	$9,274.9	$9,581.0	$9,954.7
8	General Fund Exempt Revenue Under Ref. C /B	$1,473.4	$1,844.9	$1,661.1	$1,817.6
9	**Revenue Cap Under Ref. C /C**	**$10,871.4**	**$11,458.5**	**$11,836.6**	**$12,298.2**
10	*Amount Above/(Below) Cap*	*($598.2)*	*($338.6)*	*($594.5)*	*($526.0)*
11	TABOR Reserve Requirement	$308.2	$333.6	$337.3	$353.2

/A Amounts differ from the General Fund revenues reported in Table 2 as some double counting exists when cash funds are transferred to the General Fund (for instance, limited gaming revenues), and due to other accounting adjustments.

/B Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of money collected in excess of the TABOR limit in accordance with voter-approval of Referendum C.

/C The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "Revenue Cap Under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit is based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate." FY 2007-08 was the highest revenue year during the Referendum C timeout period.

The Economy: Current Conditions and Forecast

Summary

The nation's economic performance continues to be uneven – The nation's economy overall is exhibiting mixed conditions. As expected in the previous forecast, it has shown signs of softening in recent months, continuing a pattern of uneven growth since the end of the Great Recession. Unlike Colorado, it has yet to develop a more solid foundation for stronger growth. It also continues to face an elevated level of economic headwinds, including federal fiscal policy issues and a slower global economy. Heightened risk aversion and uncertainty appear to be impeding more productive risk taking. Structural issues are also preventing more robust growth. Certain parts of the economy, particularly the labor market, are having difficulty adapting to the continued transition to a more information-, technology-, and knowledge-intensive economy that is disrupting traditional patterns in both how people work and earn income and how businesses operate.

There are pockets of the national economy with more strength. These are generally areas with more dynamic and creative workforces – or high concentrations of "human capital" – that are better equipped to succeed in the new economy and that are involved with new business ventures and expansions. More successful areas also usually have the presence of energy development and certain types of more technology-related industries, such as advanced manufacturing and bioscience. Also, the housing and stock markets are performing relatively well.

Colorado is one area of the nation that continues to exhibit stronger economic performance – Colorado appears to be on more solid footing than the nation as a whole. It has many favorable ingredients to help it continue to grow, most notably a high level of human capital and robust performance across many of its major industries. It is also the economic hub for much of the Intermountain West and Great Plains regions, two of the fastest growing regions in the country. The Colorado economy does not appear to be burdened by the same factors affecting the larger national economy.

The forecast for the nation and Colorado – The forecast for the economy did not change materially from the March forecast, especially for the nation. Yet, Colorado projections for jobs and personal income were revised upward as labor force and job growth show higher-than-expected momentum. This recent activity is highlighted by the marked decline in the unemployment rate to 6.9 percent in April from 8.2 percent a year ago. However, Colorado will likely experience some minor slowing in the second half of the year as the sluggishness in parts of the national and world economy inevitably affect the state. This is also likely because of the state's large defense and aerospace presence that makes it more vulnerable to federal defense budget "sequestration." Growth will likely pick up from this year's pace in 2014, for both Colorado and the nation. Projections and historical data for selected major economic indicators are shown in Tables 5 and 6 at the end of this section after page 51.

Downside risks to the forecast continue to outweigh the potential for higher-than-expected growth – Despite its stronger footing, Colorado's economy continues to be vulnerable to the recession in Europe and slowing in China – two of the world's largest economies, potential disruptions in the financial system due to high sovereign debt levels, larger-than-expected adverse effects from federal budget sequestration and tax increases, the likely upcoming debate over raising the federal debt ceiling, as well as potential unintended consequences of unconventional monetary policies from several of the world's main central banks.

Central bank policy has particularly come to the forefront. Though it is difficult to determine a single cause to changes in financial markets, Federal Reserve statements in May that signaled the potential for the slowing of its asset purchases, commonly called "quantitative easing," appeared to tighten financial conditions, with a rise in bond yields and some selling-off of stocks and bonds. Continued financial market volatility, including a further rise in interest rates, especially if abrupt, would likely slow growth. Because growth in the economy has coincided with unprecedented monetary policy by the Federal Reserve, it is more vulnerable to the eventual – and perhaps even expectations of – winding down of monetary easing. Thus, we continue to monitor future Federal Reserve action and communication and its effects on markets and the economy.

Overall Economic Conditions

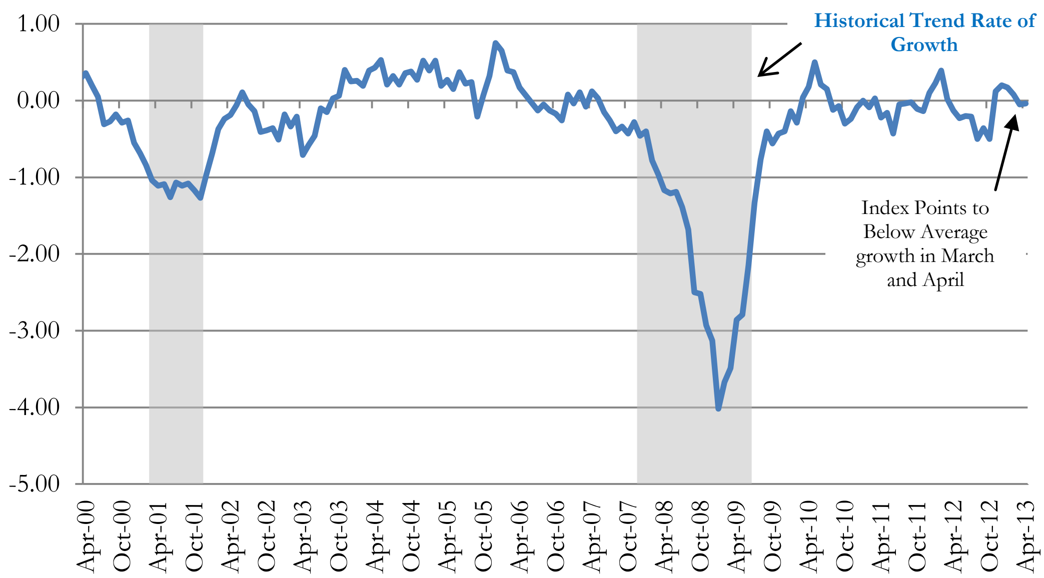
Though there are areas with stronger activity, growth in the national economy overall remains modest – Data on manufacturing and international trade have shown weakness over the course of this year, likely in part due to weaker conditions in major world economies. The Institute for Supply Management's (ISM) survey of manufacturers posted an index reading of 49.0 in May, indicating slight contraction in the sector. This was the first index reading below the growth neutral mark of 50 since the middle of 2009. Also, manufacturing output from the Federal Reserve's industrial production report has declined in three of the first five months of 2013. New business creation, an important contributor to growth and jobs, and business investment has remained below levels needed to elevate growth. Income for many Americans has remained stagnant. Thus, consumer spending, which has been relatively strong since the end of the recession, has recently exhibited a slower growth rate.

On the positive side, the services sector of the economy continues to grow, though still only moderately. This sector makes up the largest portion – around 88 percent – of economic activity. This part of the economy includes a wide-range of industries such as lodging and restaurants, business services, public administration, finance, and health care. The ISM's survey on nonmanufacturing activity (the services sector) registered an index reading of 53.7 in May, an increase above April's reading and its 41st month above the index reading of 50 that signifies expansion.

Also, job growth continues, albeit moderately, and the unemployment rate has generally declined. Further, the housing market continues to gain momentum, spurring additional activity, including increased construction, home sales, and production and consumption of housing-related goods, as well as increased asset wealth. Finally, lending standards have eased, especially for business loans, which is typically a good indicator for future business investment. This should help produce a pickup in activity in the latter part of this year and 2014.

The uneven and modest national economic activity is captured by the Chicago Fed's National Activity Index – One useful assessment of current and future overall economic conditions is the National Economic Activity Index published by the Federal Reserve Bank of Chicago. Research shows that the index is a reliable indicator of current overall economic conditions as well as a predictor of near-term future performance. Figure 10 shows the index from 2000 through April of this year. The index shows that economic activity since the official end of the Great Recession has been uneven and mostly below its historical average rate of growth. Sustained above average growth rates are needed for a further reduction in unemployment and more growth in income. Recent negative values in the index signal that the economy is likely to slow over the summer and early fall. This is consistent with our forecast of a modest 2.0 growth rate in real, or inflation-adjusted, gross domestic product for 2013.

Figure 10. Chicago Federal Reserve National Economic Activity Index, 2000 to April 2013*



Source: Federal Reserve Bank of Chicago. Gray shading represents national recessionary periods.
* A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth, negative values indicate below-average growth, and positive values indicate above-average growth.

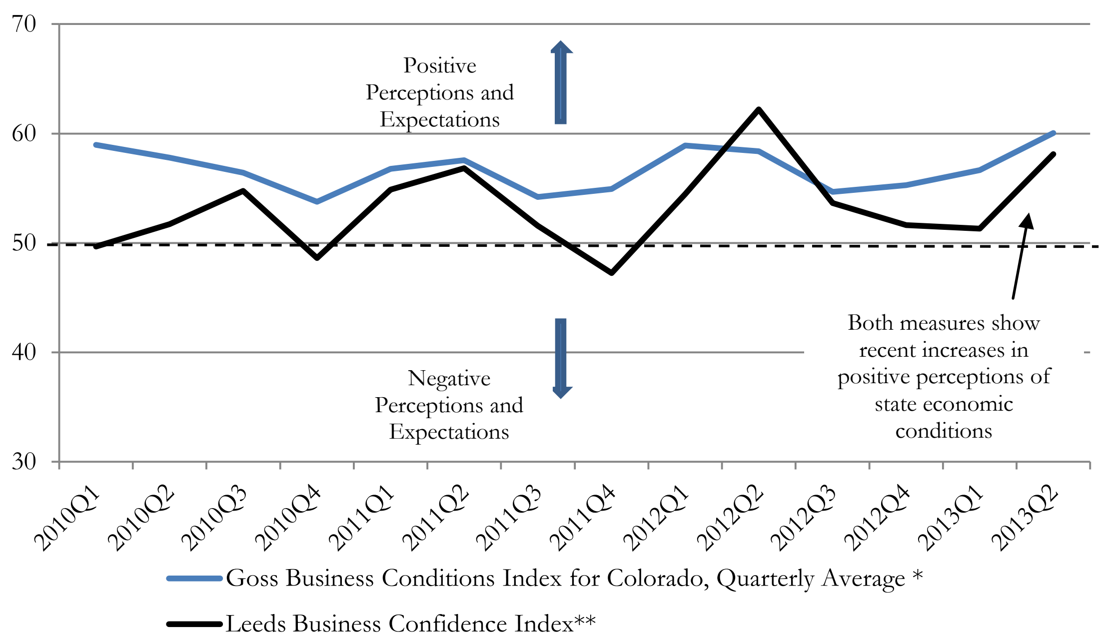
Colorado continues to experience higher levels of economic vitality – The state's economy appears to have reached a point of "critical mass" where many favorable ingredients have come together to generate sustained momentum. Most of its major industries – professional and business services, energy development, finance and insurance, tourism, housing and construction, and manufacturing – are expanding their activities. The state continues to rank highly in many measures of economic performance as well as a place to live, work, and do business. As a result, it is attracting and retaining a high number of young, creative, and skilled professionals that are helping the economy grow.

Colorado appears to be outpacing the nation in entrepreneurial and innovative activities; new business creation continues to grow, a critical element of economic dynamism. As a result of all of these ingredients job and income growth are outpacing the nation. However, as with the nation, economic performance is uneven. Most notably, some rural areas that are dependent on agriculture continue to be hurt by drought conditions, especially in southern Colorado.

Business confidence and expectations for the future have grown – There are some economic data that can help provide a current picture of Colorado's overall level of economic activity. The Leeds Business Confidence Index (LBCI), published by the University of Colorado, Leeds School of Business, measures business assessments about economic and industry conditions for the upcoming quarter. Colorado business leaders' expectations going into the second quarter of 2013 were positive overall, though expectations for the national economy and industry hiring plans were softer for the state.

The Goss Institute's Business Conditions Index for Colorado, a leading economic indicator that is based on a monthly survey of Colorado business supply managers, also continues to show expansion for the state. In May, the index reading surged to 62.8, a two year high, fueled by strength in the manufacturing and construction sectors. The index has increased in four of the first five months of 2013. The Goss index averages individual readings for new orders, production or sales, employment, inventories, and delivery lead time. Both the LBCI and Goss Index back to 2010 are shown in Figure 11.

Figure 11. CU Leeds Business Confidence and Goss Colorado Business Conditions Indices, 2010 through the Spring of 2013



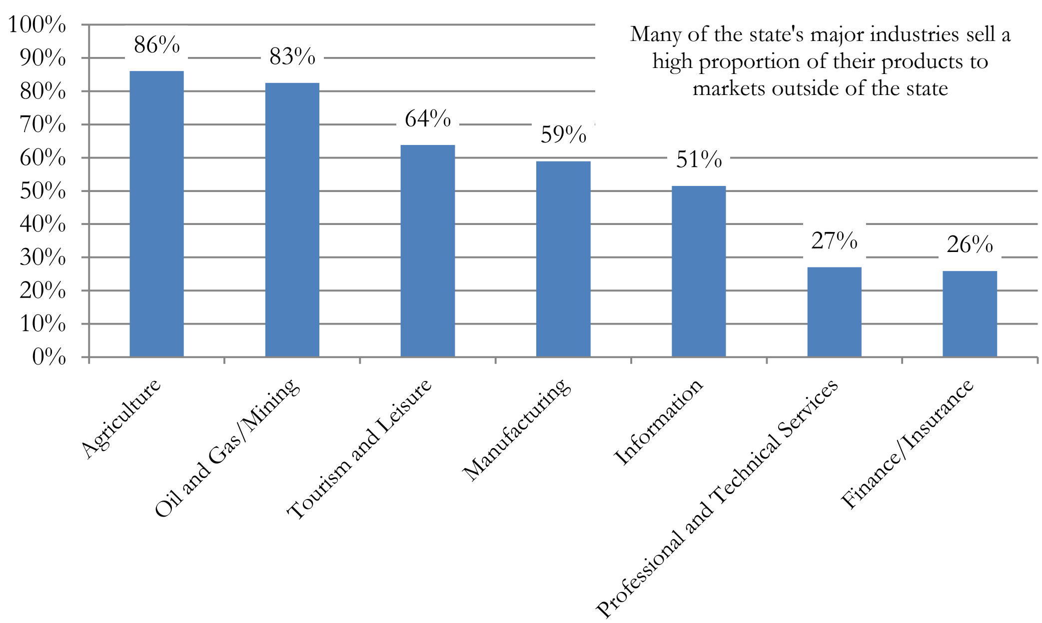
Source: University of Colorado, Leeds School of Business and Goss Institute for Economic Research
* Readings greater than 50 indicates expectations of an expanding economy over the next three to six months.
** Readings above 50 indicate positive expectations; while below 50 represent negative perceptions.

Colorado's large and diverse mix of "tradable" industries are adding to the state's economic momentum – Tradable industries are those that sell their products to areas both within and outside the region, including exports to other countries. In contrast, non-tradable industries, such as retail trade and personal services – dry cleaning, lawn care, hair salons – sell most or all their products to customers within the region.

Tradable industries bring new money into a region that circulates throughout the economy through spending and investment, which help expansion. Further, businesses in such industries are forced to compete with other businesses for sales in outside markets, providing an incentive to continually improve their products and find ways to upgrade their business practices. Such innovation also enhances an economy.

Many of Colorado's major industries are in the tradable sector, including agriculture, energy development, manufacturing, tourism, business services, telecommunications (or information), and finance. Based on data from Economic Modeling Specialists International, an economic data and analysis firm, these industries generated $150 billion in sales from outside the state in 2011, the latest data available. This represented about 40 percent of all sales by the state's private industries. Some of the state's industries, such as agriculture, oil and gas, and manufacturing generate a large proportion of their total sales from other states and countries. Figure 12 shows the proportion of sales that come from markets outside Colorado for the state's largest tradable industries.

Figure 12. Proportion of Select Colorado Industries' Sales to Outside Markets, 2011



Source: Economic Modeling Specialists International; OSPB calculations

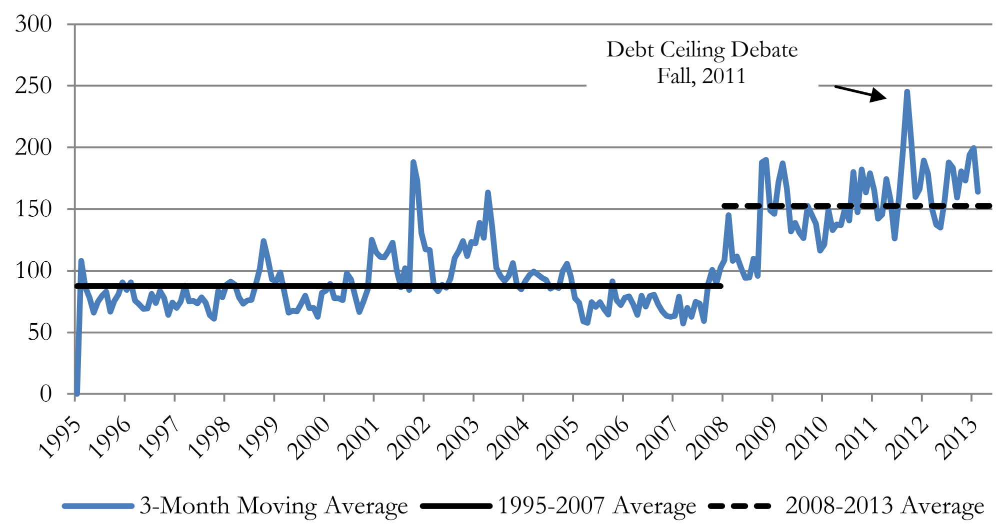
Economic uncertainty appears to be restraining growth, more so for the nation than Colorado – Elevated uncertainty about the future course of the economy and economic policy, including questions about the future of tax rates and rules, regulation, monetary policy, government spending, and national debt, makes decisions about spending and investment more difficult. As uncertainty increases, people tend to act more cautiously, often putting off purchases, investments, and other potential risks until they have more clarity about the future.

Elevated uncertainty appears to continue to be a factor in holding back economic activity, especially for the nation overall. Several studies have identified links between increased economic uncertainty and declines in investment and economic output, including reports by the International Monetary Fund and the University of Colorado. Organizations representing the nation's manufacturers and the chief executives of large companies recently cited uncertainty among their members as an obstacle to more robust investment and hiring.

While some general uncertainty is always present in the economy, it tends to have a greater impact during times of economic weakness because there is a lack of sufficient momentum in the economy to cause people to more readily look past potential risks. Although Colorado businesses participating in the LBCI discussed above continue to cite elevated uncertainty about the nation's political and economic environment as an issue, the state has stronger economic momentum that creates more confidence in the future and thus more productive risk taking.

Economists from Stanford University and the University of Chicago developed an Economic Policy Uncertainty (EPU) Index, shown in Figure 13 below. The substantial rise in uncertainty during and since the Great Recession stems from unknowns or questions about monetary policy, disagreements among federal policymakers, challenges in the euro zone, uncertain expectations of future economic performance, and other circumstances. It is noteworthy that uncertainty levels measured by the index have come down somewhat in recent months, though the index remains elevated.

Figure 13. Economic Policy Uncertainty Index for the United States, 1995 to Present



Source: Economic Policy Uncertainty, www.policyuncertainty.com

The largest spike in the EPU index since 2008 occurred during the fall of 2011 when federal policy makers debated federal fiscal policy while the cap on the federal government's borrowing authority (known as the "debt ceiling") approached. As federal borrowing approaches the statutory limit set by Congress, another debt ceiling debate will likely occur this year which presents risk for increasing uncertainty and thus dampening the pace of recovery.

Labor Market Conditions and Trends

***The labor market continues to improve, especially in Colorado* –** Colorado has had the fourth fastest job growth in the nation since job growth resumed after the recession, according to the Bureau of Labor and Statistics (BLS). Further, the Conference Board's Help Wanted Online series indicates Colorado was one of only six states with an increase of online job ads in May. Colorado's strength stems from a favorable mix of industries and a high-skilled, creative, and dynamic workforce. Regions and economies with this blend of human capital are most likely to flourish in today's knowledge- and technology-based economy.

Colorado's job market is showing sustained momentum as the state nears pre-recession job levels – In 2013, the nation has averaged monthly job growth of 189,000 jobs while the state has averaged growth of 6,700 jobs. Because of Colorado's recent job growth, the number of total nonfarm jobs is finally near its pre-recession level.

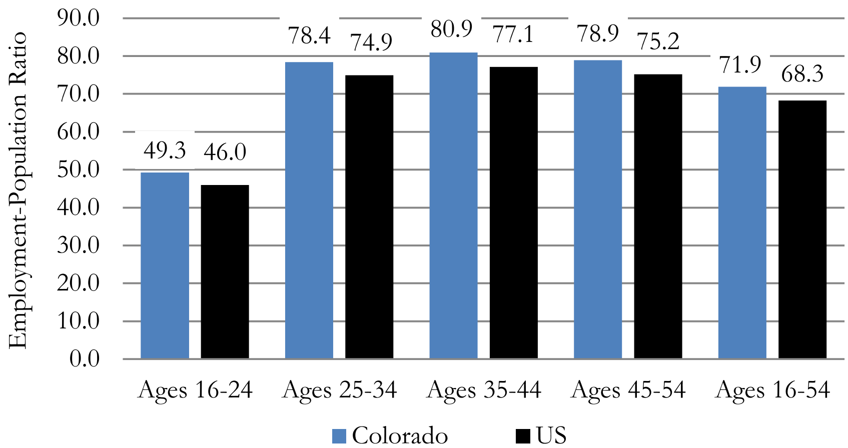
Because Colorado has a large concentration of defense-related entities as well as a significant aerospace industry, federal defense spending reductions are expected to temper job growth in the state this year. Sluggishness in the national and global economy, as well as the uncertainty that is likely to accompany the federal budget debate later this year, is also expected to moderate job growth as businesses become more cautious in their hiring decisions. However, because of the momentum in many sectors of Colorado's economy, job growth will continue at a relatively strong pace

Payroll jobs from Colorado employers will increase 2.2 percent in 2013, and pick up in 2014 to a 2.3 percent growth rate. Nationally, job growth will follow a similar pattern but will be slower, posting rates of 1.4 and 1.5 percent, respectively.

Colorado has more working-age individuals employed compared to the national average - The employment-population ratio measures the proportion of the working-age population (ages 16-64) that is employed. It is therefore a good indicator of the strength of the job market and the economy. Calculated as the ratio of individuals employed to the total working age-population, this indicator effectively gauges the ability of the economy to create job opportunities.

Higher employment-population ratios are typically a sign of economic strength as more people are producing and earning income, which contributes to economic growth. In general, developed economies have employment-population ratios between 50 and 60 − a ratio below 50 percent is concerning as fewer than half of working-age people are employed. In 2012, the national employment-population ratio was 58.6 percent compared to 63.7 percent for Colorado − the eighth highest ratio in the nation. As seen in Figure 14, for all age groups, Colorado has a higher employment-population ratio than the nation as a whole.

Figure 14. Employment Population Ratio for Colorado and the Nation, 2012



Source: Bureau of Labor Statistics and Colorado State Demography Office

Colorado's higher proportion of younger individuals working and the influx of young people is likely one reason its economy is outperforming many other areas – As shown in Figure 14 above, "Millennials," or individuals born between 1980-2000, are more prevalent in Colorado's labor market than in the broader national labor market. This younger population, between 18 and 34 years old, comprised 63.4 percent of all working age in-migrants to Colorado from another state, according to 2011 U.S. Census Bureau data. In 2011, 74 percent of in-migrants to Colorado had some level of higher education or advanced degree. These younger migrants to the state bring the skills relevant to the changing economy.

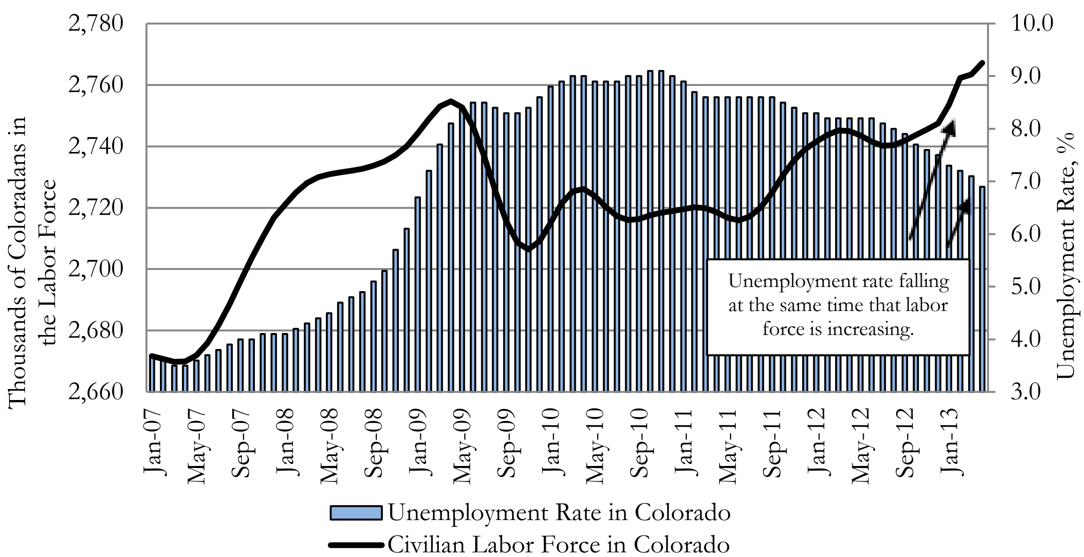
Millenials are a more entrepreneurial and innovative population and are bolstering the Colorado economy and creating a dynamic workforce – The state's high level of human capital is resulting in more business creation, innovation, and the production of high value goods and services that is helping to fuel the economy. In a 2013 study by oDesk, an online employment marketplace, 58 percent of Millennials surveyed classify themselves as entrepreneurs.

Digitization, ubiquitous information, and global high speed connectivity is transforming the way businesses operate and individuals work. Increasing use of mobile technology and easy access to information from the Internet, as well as growing interest in workplace flexibility, influence an increasing number of individuals to forgo work at a single firm and instead work as independent contractors or "economic free agents." Although many areas struggle to adapt to the challenges brought by the above trends, Colorado's young, well-educated, and entrepreneurial population is better positioned to find success in the current economy.

Though the labor market has improved, unemployment remains elevated – Despite job growth, unemployment remains a challenge for many individuals. Fortunately, the state unemployment rate has begun to fall at a faster rate at the same time that the state's labor force has resumed growth. A higher rate of job creation in Colorado has absorbed more job seekers, reducing the state's unemployment rate to a greater extent than the nation's. This dynamic is shown in Figure 15, and is yet another indicator of the state's economic momentum.

Colorado's unemployment rate fell to 6.9 percent in April from 8.2 percent the previous year, its lowest level since January 2009. The national unemployment rate increased to 7.6 percent from 7.5 percent in May but is down from 8.1 percent a year ago. The labor force nationally grew 660,000 in May, and without a corresponding increase in job growth, it put upward pressure on the unemployment rate. It appears that more firms at the national level see hiring as risky given the uncertainty of the economy or do not see enough demand for their products or investment opportunities to bring on more workers.

Figure 15. Colorado Labor Force and Unemployment Rate, January 2007 through April 2013



Source: U.S. Department of Labor: Bureau of Labor Statistics

Unemployment remains elevated with a less dynamic labor market with apparent continued "structural" issues – Companies have increasingly achieved leaner operations with the implementation of new management practices and from automation using new technology. Also, the labor market appears less flexible and dynamic than in the past. Some firms are struggling to hire new employees as many applicants do not have the requisite skills and experience. At the same time, other workers are unwilling to accept a lower wage than they earned prior to the recession. Further, many homeowners remain unable or unwilling to sell their home and relocate where job growth is stronger. These continued "structural" issues in the labor market, as well as a lower hiring rate among businesses, will continue to pose challenges for some workers and keep the unemployment rate above pre-recession levels.

Broader measures of unemployment show the continued challenges in the labor market – Because the hiring rate is still relatively low, the "underemployment" rate, or "U-6" rate published by the BLS remains high. This rate includes those counted as unemployed in the traditional unemployment rate as well as those who are underemployed (working less than full-time when a full-time position is preferred) and discouraged workers who would like to work but have temporarily stopped their search. Colorado's underemployment rate averaged 14.1 percent from the second quarter of 2012 through the first quarter of 2013, not far below its peak of 15.7 percent in 2010 and the first part of 2011. However, the recent momentum in the state's job market should begin to push this rate down more markedly. The national underemployment rate averaged 14.5 percent during the same time period and registered 13.8 percent in May.

Unemployment rates of 6.8 percent and 6.5 percent are forecast for Colorado in 2013 and 2014, respectively. The national unemployment rate will be higher in those years, at 7.5 percent and 7.0 percent.

Income and Wages

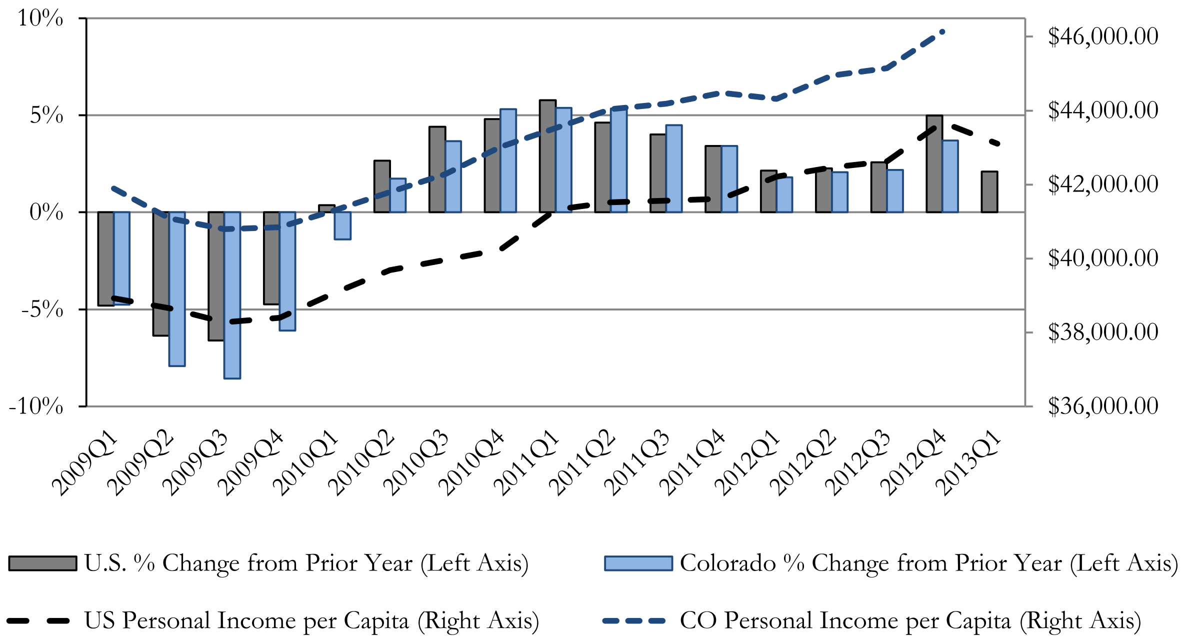
Personal income includes wage and salary income, proprietors' and business income, government transfer receipts, such as Social Security, disability, and unemployment insurance payments, and earnings from interest and dividends. This statistic provides an important barometer of economic strength because it indicates the amount of money received by households from economic activities.

Nominal personal income continues to grow, but growth has slowed since the end of 2011 – The total level of nominal personal income (income not adjusted for changes in prices, or inflation, for all households) has grown every quarter since the beginning of 2010 for both Colorado and the nation. As illustrated in Figure 16, the growth rate of personal income decreased beginning in 2011 to approximately two percent year-over-year by the first quarter of 2012. The slower personal income growth rates were consistent with generally uneven economic growth during the same period, although it is possible that data for 2012 may be revised upward as sometimes occurs during periods of recovery. This is especially likely for Colorado, where job growth has performed better than the personal income data currently indicates. Colorado's overall per capita personal income of about $46,100 is higher than the national average of roughly $43,400 as measured in the last quarter of 2012.

Income growth for both Colorado and the nation will be constrained by the pulling forward of some income into 2012 and payroll tax increases in 2013 – Scheduled and anticipated federal income tax increases at the beginning of 2013 resulted in individuals pulling forward some of their dividends, bonuses, and other forms of income into 2012 that they normally would have received in 2013 to avoid having the income taxed at a higher rate. The spike and subsequent weakness in personal income at the end of 2012 and beginning of 2013 for the nation is shown in both Figures 16 and 17. This dynamic will reduce the level of personal income in 2013.

Further, the Federal Insurance Contributions Act (FICA) tax commonly referred to as the "payroll tax" increased from 4.2 percent to its previous rate of 6.2 percent on January 1, 2013. The tax was temporarily lowered for 2011 and 2012 as part of the federal government's policies to stimulate economic activity. This will effectively reduce wage and salary income starting in the first quarter of 2013 and thus will limit the overall growth rate of personal income this year.

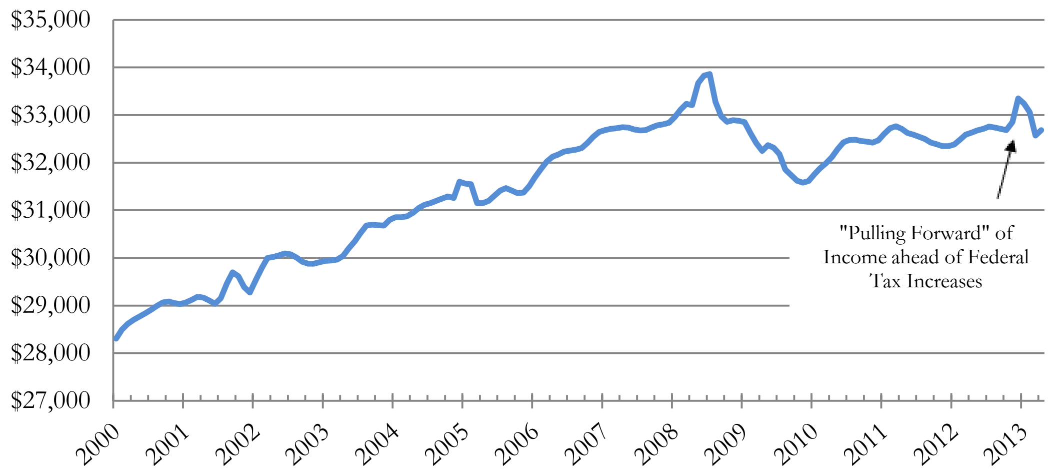
Figure 16. Personal Income and Percent Change from Year Ago, United States and Colorado



Source: US Bureau of Economic Analysis and US Census Bureau

Real personal income growth at the national level has been stagnant since 2010 – While nominal personal income grows, real disposable personal income (personal income adjusted for inflation) is still growing too slowly to fuel sustained strong increases in household spending. This is a reflection of lackluster economic activity at the national level. Figure 17 shows inflation-adjusted per capita personal income for the nation as a whole since the year 2000. The figure illustrates that personal income grew steadily from 2000 until 2008, when it began to fall due to the severe economic downturn. Following a small rebound from November 2009 to May 2012, the statistic has been basically flat. Real disposable personal income grew just 0.6 percent in each of the last two years.

Figure 17. United States Real Disposable Personal Income Per Capita, 2000 through April 2013

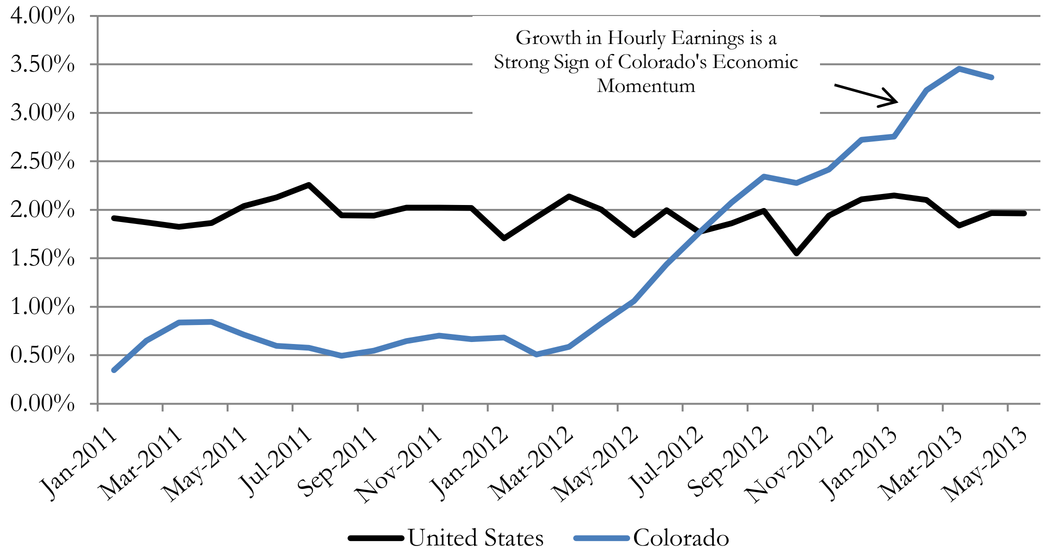


Source: Bureau of Economic Analysis

Total Colorado personal income growth will slow to a rate of 4.0 percent in 2013 due to the FICA tax increase, the shifting of income into 2012, and minor slowing in economic growth. Growth will accelerate to 5.2 percent in 2014. Personal income will be somewhat weaker for the nation as a whole over this period, growing 3.3 percent in 2013 and 4.7 percent in 2014.

Recent trends in hourly wage growth help show that Colorado's economy is strengthening – Figure 18 shows that growth in hourly earnings for the nation has remained at about two percent since the beginning of 2010, again reflecting the mostly sluggish nature of the nation's overall economic activity. Because this nominal growth rate does not outpace price inflation, the ability of workers to sustainably increase expenditures is constrained. Colorado's nominal wage growth has begun to grow more quickly, reflecting stronger economic conditions, reaching almost 3.5 percent year-over-year growth in April of 2013. Colorado's workforce saw more depressed hourly wages than the nation during the recession.

Figure 18. Average Hourly Earnings Percent Change from a Year Ago, United States and Colorado, 2011 to Spring of 2013

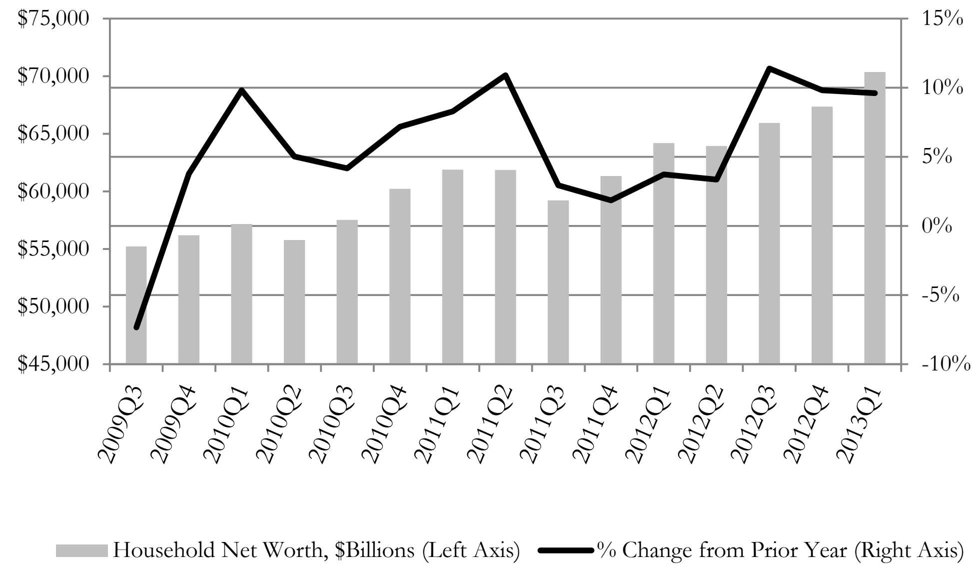


Source: US Bureau of Labor Statistics

After growing at the fastest pace since the Great Recession in 2012, wages and salaries in Colorado will increase 4.4 percent in 2013 and 4.8 percent in 2014. The slower growth in 2013 is due to a slight moderation in job growth.

Household wealth is growing due to improvement in the housing and stock markets and a reduction in debt – Household wealth is rebounding faster than wage earnings as a result of increases in asset prices, such as homes and stock market investments, and a reduction in debt loads. As depicted in Figure 19, the total net worth (assets minus liabilities) of American households grew to more than $70 trillion in the first quarter of 2013, maintaining a nearly 10 percent year-over-year growth rate. This increase in household net worth is a likely contributor to recent growth in consumer spending data, which has grown at a higher rate than personal income or wages as discussed in the next section.

Figure 19. Total Household Net Worth and Percent Change from a Year Ago, United States, 2009 through the First Quarter of 2013

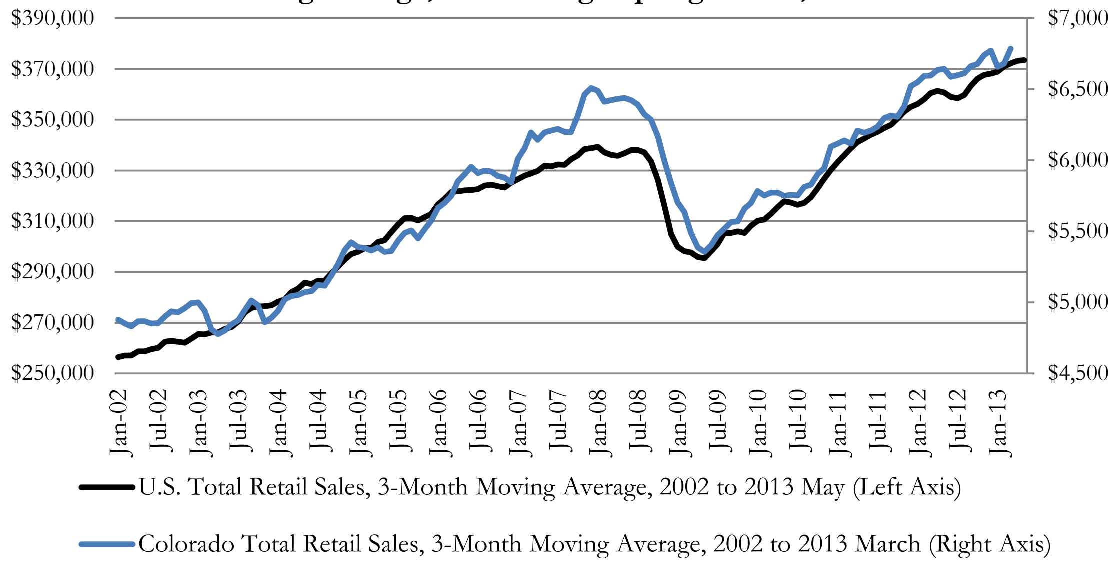


Source: Board of Governors of the Federal Reserve System

Consumer Spending

***Consumer spending for Colorado and the nation continues to grow steadily though at a slower rate recently* –** The sustained level of growth in consumer spending since the end of the recession has been surprising given persistently high unemployment, low income growth, recent increased payroll tax rates, and overall elevated uncertainty. However, retail trade has shown some softening recently, perhaps in response to the above factors. In Colorado, retail trade sales were up 2.9 percent year-to-date through March (the latest data available) from a year ago, down from annual growth of 5.4 percent in 2012 and 7.7 percent in 2011. Though according to the Colorado Department of Revenue, there may be some one-time factors in the retail trade data that has made the growth rate through March artificially low. National year-to-date retail trade was up 3.5 percent through May compared to the same period last year, also a slower growth rate than for 2011 and 2012. The trends in retail trade spending for Colorado and the nation overall are illustrated in Figure 20.

Figure 20. U.S. and Colorado Total Retail Trade, Seasonally Adjusted, 3-Month Moving Average, 2002 through Spring of 2013, million dollars



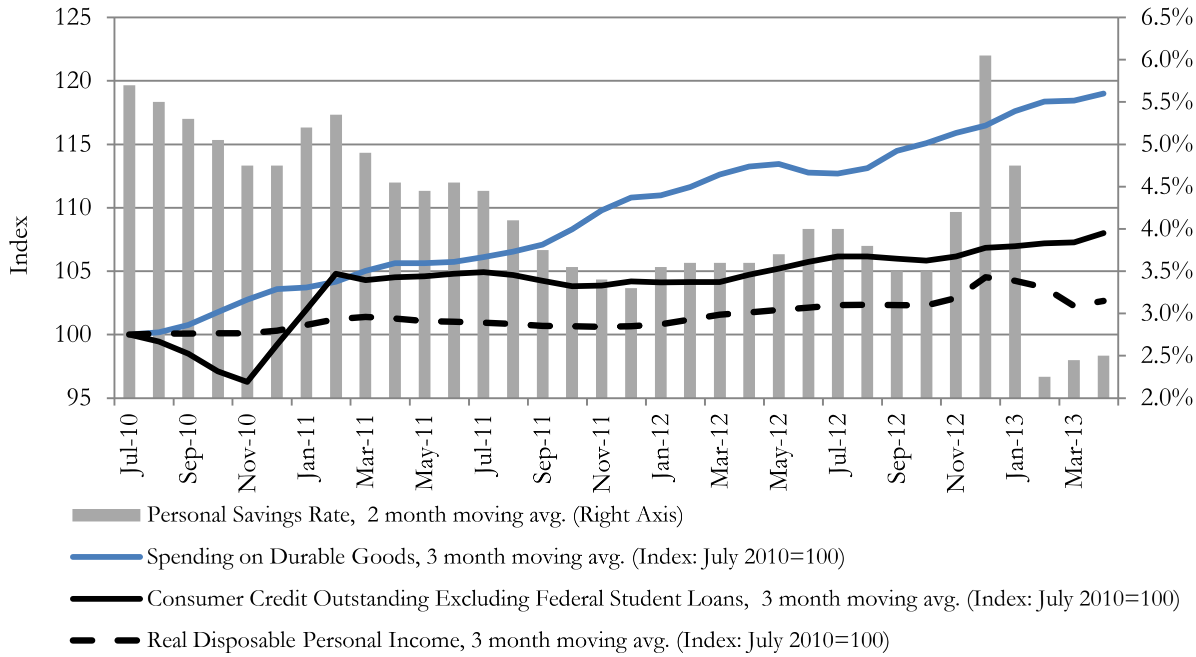
Source: U.S. Census Data and the Colorado Department of Revenue

Spending on durable goods has been particularly strong – Growth in household spending on durable goods can be a leading indicator for the overall economy and the financial positions of households. Durable goods are generally expensive, may require the use of credit, and are long-lasting items that people purchase less frequently. Durables include items such as cars, appliances, electronics, and furniture.

Nationally, spending on vehicles and building materials, which has recently comprised most of the value of all spending on durable goods, grew 8.5 and 10.1 percent in May compared with a year ago, respectively. The available spending data for Colorado in the first quarter of 2013 shows 3.1 percent growth in vehicles and 7.7 percent growth in building materials, after growing 10.8 percent and 6.3 percent, respectively, in 2012. Much of the growth in durables has been driven by low financing costs, pent-up demand, and the necessity to replace old vehicles. Additionally, as the housing market rebounds, more purchases are being made on home-related items.

The level of growth in consumer spending is surprising given low income growth, especially at the national level – As discussed in the income section starting on page 36, income growth has been lackluster for many households, especially at the national level. Thus, lower household savings, lower debt liabilities, more home equity, rising stock values, and borrowing appear to be bolstering spending. Some of the growth also may be driven by higher income households who have better means to spend as they are more likely to benefit from rising asset values. Further, given the economic changes driven by technology, it is likely that households are finding other, nontraditional ways to earn income that are not as easily captured in official employment and income statistics. Figure 21 shows the trends in spending on durable goods, real disposable personal income, consumer borrowing excluding federal student loans, and the personal savings rate from the summer of 2010 through the spring of this year.

Figure 21. National Household Income, Borrowing, Saving, and Spending Indicators, Summer of 2010 through the Spring of 2013



Source: Federal Reserve, U.S. Bureau of Economic Analysis, and U.S. Census Bureau

The graph depicts sustained growth in spending on durable goods at the national level despite the small gains in real disposable income. Typically, spending grows commensurately with income. It also shows the drop in the savings rate that appears to be contributing to continued spending growth. Because of the divergence between income and spending levels, consumer spending is likely to slow over the coming months, unless income growth picks up more than expected. Other economic factors, including the reinstatement of the payroll tax, higher taxes on upper income earners, a slowdown in pent-up demand, and an expected moderation in employment growth, will constrain retail trade in 2013. Spending will grow at a higher rate next year with better economic conditions.

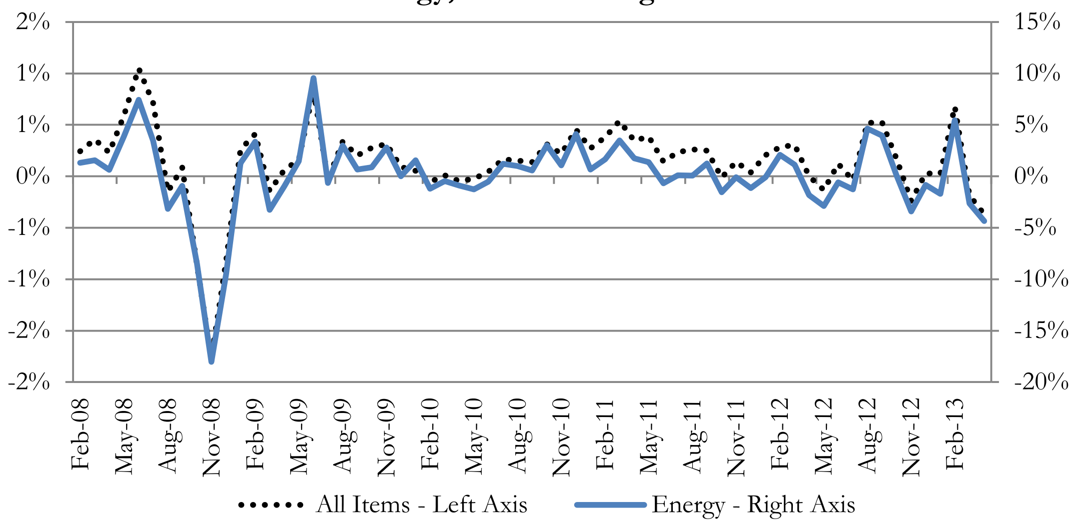
Colorado's retail trade will grow 4.3 percent in 2013 and will accelerate to a 5.2 percent growth rate in 2014. Retail trade for the nation in 2013 will grow 3.8 percent and will grow 4.5 percent in 2014.

Price Levels

Price levels for consumers as measured by the consumer price index are showing small increases – The consumer price index (CPI), the change in the price for a market "basket" of household expenditures, increased 1.1 percent over the last twelve months for the nation in April. Data on the Denver-Boulder-Greeley area CPI for 2013 is not yet available.

Due to decreases in the price of energy in March and April, the CPI experienced its first consecutive two-month decline since the start of the Great Recession. The monthly change in the national CPI is shown in Figure 22. Since the relatively high levels of food price inflation in 2011, month-over-month increases have remained rather flat. The Economic Research Service at the US Department of Agriculture forecasts that national food prices will rise between 2.5 and 3.5 percent in 2013, near their historical average. However, OSPB expects that the lingering effects of drought conditions and its adverse impacts on the food supply will place more upward pressure on food prices at some point in the near term.

Figure 22. National CPI, Seasonally Adjusted,
All Items and Energy, Percent Change from Prior Month



Source: Bureau of Economic Analysis

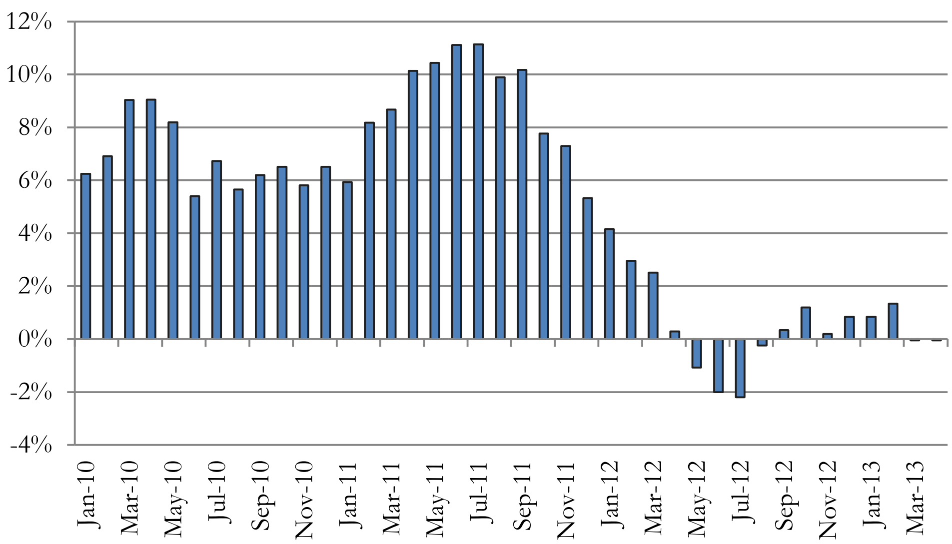
Rising rents in many metro areas of Colorado, especially the Denver area, will likely put upward pressure on the national CPI growth rate – Housing is the largest component of the CPI. Low levels of apartment vacancies have translated into increased rents in all metro areas of the state except for Grand Junction. In total, Colorado statewide rents increased 4.1 percent year-over-year in the first quarter of 2013. The trends in the rental market are described in further detail in the *Housing and Construction* section on page 44. In comparison, the shelter component of the CPI nationally increased only 2.4 percent year-over-year in March 2013. CPI growth is expected to be modest overall in 2013. However, because housing costs are the largest component of the CPI, rising rents in Colorado are expected to result in higher growth for the Denver-Boulder-Greeley CPI than the national index.

The Denver-Boulder-Greeley Consumer Price Index is forecast to increase 2.4 percent in 2013 and 2.2 percent in 2014. Nationally, the CPI will increase 1.9 percent in 2013 and 2.3 percent in 2014.

Business input price pressures nationally are muted, reflecting the sluggish economy – Both manufacturing and non-manufacturing businesses continue to report falling prices for inputs. In May, the Institute for Supply Management reported that input prices fell for the fourth consecutive month, though the decline was minimal for non-manufacturing industries.

The official data on input prices confirm the experiences of businesses responding to the ISM survey. As measured by the Producer Price Index (PPI) published by the BLS, year-over-year input prices have declined for the past two months, as shown in Figure 23. Additionally, the continued softness in labor markets nationally has resulted in little or no upward pressure on wages, contributing to the decline or flattening in costs facing businesses. In general, falling input prices for businesses translate into lower prices for finished goods and, thus, less price inflation for consumer goods.

Figure 23. Producer Price Index for All Commodities, January 2010 to April 2013, Year-over-Year Change



Source: US Bureau of Labor Statistics

Housing and Construction

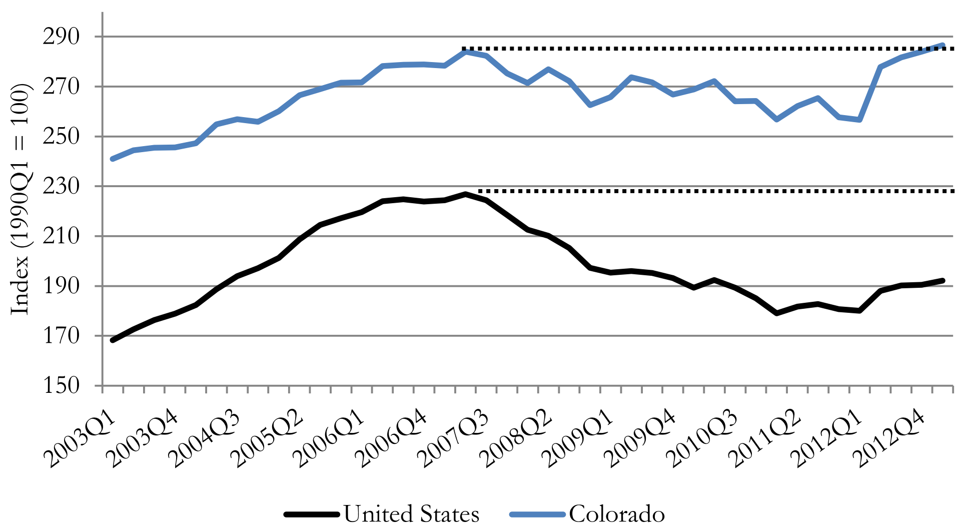
The housing market is showing sustained momentum and has moved from being a headwind to a tailwind for the economy – Home prices continue to rise in most areas of Colorado and the nation as the housing market rebounds from the downturn that began nearly five years ago. Several factors have combined to increase activity and home prices. Fewer foreclosures and distressed sales have limited the supply of homes on the market. Growth in employment, though modest, and relatively higher confidence levels have caused more buyers to return to the market. Further, low mortgage interest rates supported by the Federal Reserve's policies have also helped spur home buying activity. Thus, a material rise in rates, especially if unexpected, is a downside risk to the current momentum in the housing market. Because of the connection between the housing market and economic growth, it is also a risk for the overall economy.

Increasing prices are lifting many homeowners out of negative equity positions, which will help sustain continued momentum in the housing market as more homeowners are more willing to sell. Higher home equity also has other positive economic effects, such as increased consumer confidence and providing a source for financing business activity.

Average housing prices in Colorado have surpassed the pre-recession peak – In the fourth quarter of 2012, the House Price Index for Colorado published by the Federal Housing Finance Agency (FHFA) reached 284.05, roughly equal to the peak of 284.03 in the second quarter of 2007. The index grew again in the first quarter of 2013 to 286.56. Figure 24 shows the FHFA House Price index for Colorado and the nation since 2003 and identifies the peaks reached in 2007.

Despite the recent increases, home prices for the nation as a whole remain well below their peak reached in the second quarter of 2007. The national average accounts for all housing markets across the country and, thus, includes factors that are not applicable to Colorado. Especially important is the high inflation of home prices that occurred in some markets in the first half of the 2000s. Many markets that experienced dramatic price increases felt more severe declines during the bust. These markets are still well below pre-recession levels. Colorado's home price inflation was less extreme and, thus, the fallout was less severe. Additionally, Colorado's overall economy has outpaced the nation's on average during the recovery, which has supported more home sales and price appreciation.

Figure 24. FHFA House Price Index, United States and Colorado, 2003 through the First Quarter of 2013

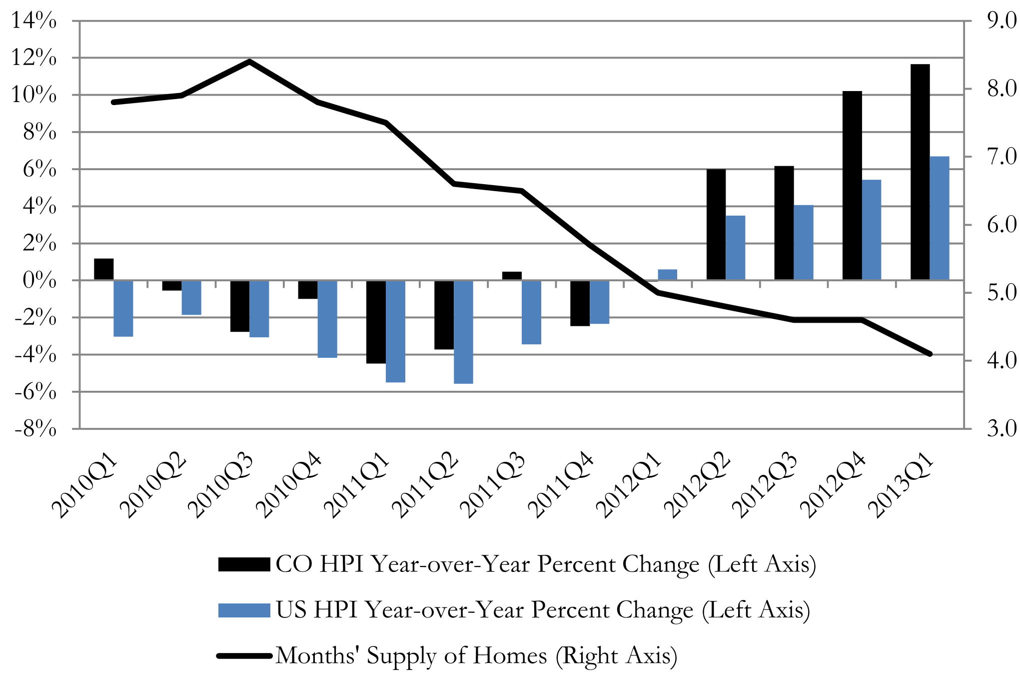


Source: Federal Housing Finance Agency

Lower inventories are supporting higher home values and rents – In addition to the factors discussed above, there are other factors that have caused the inventory of homes for sale to be exceptionally low. In response to current market conditions, more institutional and high net worth investors have entered the housing market, buying up existing inventory to earn rental income or to later sell at a higher price. Further, there are still many homeowners who are unable or unwilling to put their houses on the market. Prices have not appreciated sufficiently in some cases to cover transaction costs and lift homeowners out of negative equity positions, while others may be waiting for prices to rise further before putting their home on the market.

These dynamics have caused inventories to fall substantially since 2010, reaching 4.5 months' supply in the first quarter of 2013. Figure 25 shows the number of months' supply of existing homes reported by the US Census Bureau and includes the year-over-year FHFA House Price Index percent change for both Colorado and the nation. As the inventory of homes falls, the price of homes increases, as reflected by accelerating appreciation shown in Figure 25.

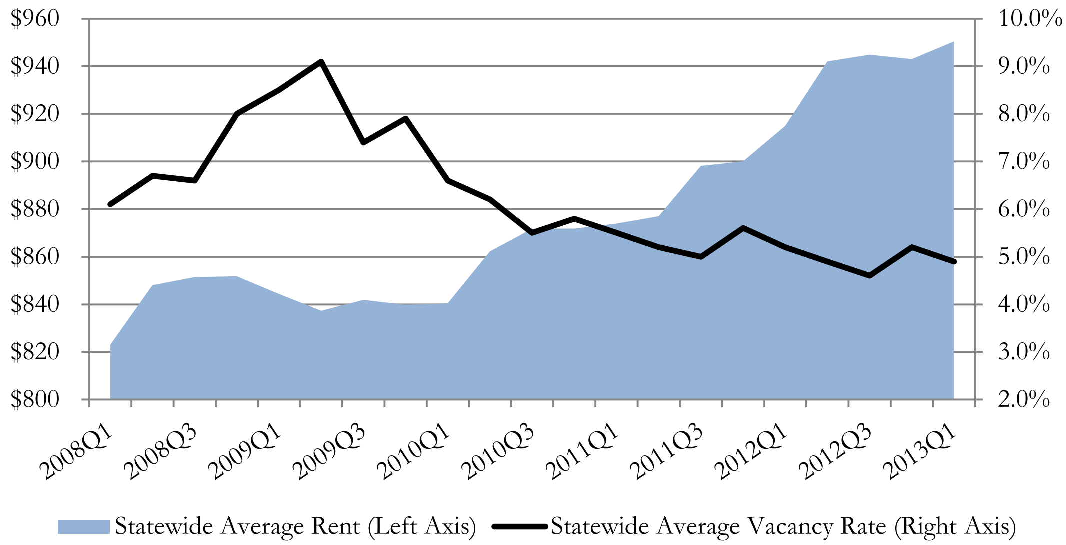
Figure 25. FHFA House Price Index Year-over-Year Change with National Months' Supply of Existing Homes, 2010 through the First Quarter of 2013



Source: Federal Housing Finance Agency and US Census Bureau

Average rents continue to grow as vacancies remain low – Despite improvement in the housing market, many households continue to face economic troubles that, combined with memories of the housing crash and higher preferences for flexibility and mobility, are causing them to rent rather than purchase a home. Additionally, many prospective homebuyers have been unable to secure a sufficient salary to purchase a home and mortgage lending standards remain tight. Because of these factors, rental vacancies have declined and rental rates have increased since 2009. While uneven across the state, the overall average rent in Colorado has grown every quarter since the beginning of 2010, as shown in Figure 26. High rents are also attracting more investors to the housing market who purchase properties for rental income. As discussed above, this trend is one factor placing upward pressure on home prices. Additionally, growing rent rates are putting upward pressure on households' cost of living, as discussed further in the *Price Levels* section on page 43.

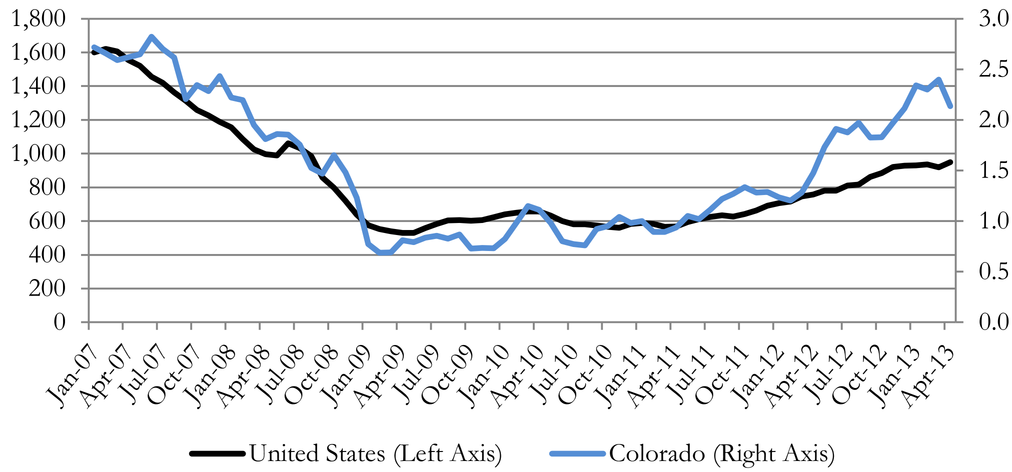
Figure 26. Colorado Statewide Average Rent and Vacancy Rate, First Quarter of 2008 through First Quarter of 2013



Source: Colorado Division of Housing

Higher prices and rents are driving increased building activity – The number of new residential construction permits has grown every year since 2010. Recent growth rates are very high – 30 percent or more in both Colorado and the nation – as growth is coming from an extremely low level experienced during the Great Recession. Rising home prices, low housing inventory, and a more positive housing outlook are causing homebuilders to ramp up activity. Figure 27 shows the dramatic decline before and during the recession and the recent increase in building permits.

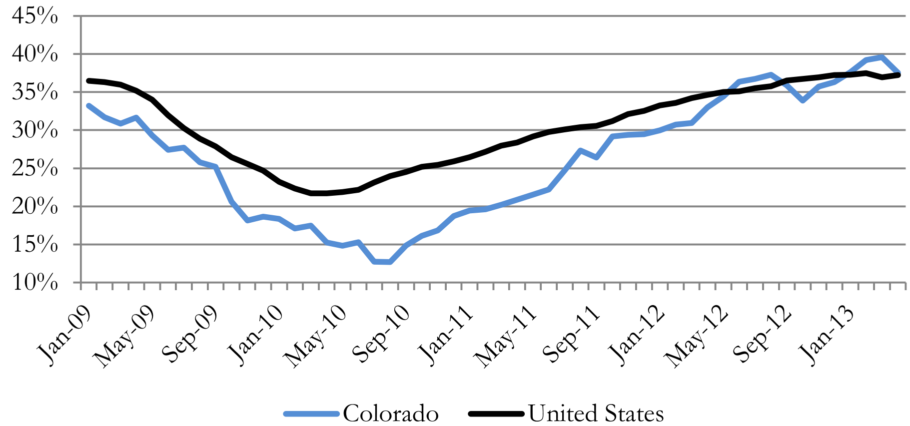
Figure 27. New Residential Construction Permits, Seasonally Adjusted 3-Month Moving Average (in Thousands), January 2007 through April 2013



Source: US Census Bureau

Higher rents are making multi-family construction projects more attractive – Figure 28 shows the percentage of total permits for new residential construction projects that are for multi-family units. High rents, low vacancy rates, and increased demand for such properties among younger populations have made multi-family projects attractive to developers. As a result, the number of multi-family housing starts has grown relatively steadily since 2010. As the large number of new multi-family units reaches completion, the supply of rental units is expected to increase substantially and this may put downward pressure on rents.

Figure 28. Multi-family permits as a share of all Residential Permits, 12-month Trailing Average, January 2009 through April 2013

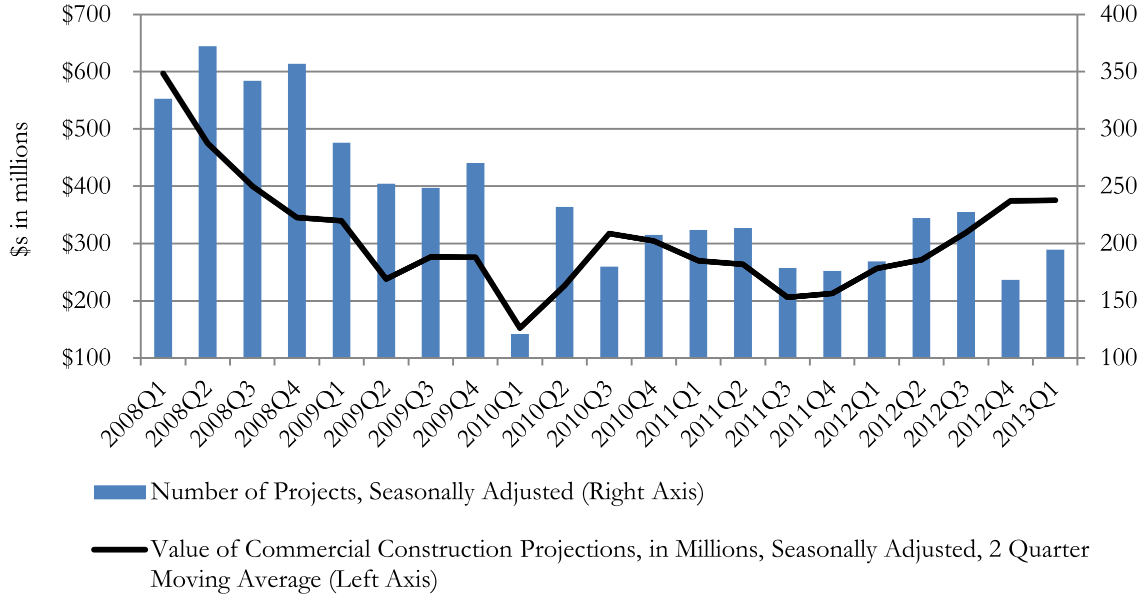


Source: US Census Bureau

New housing permits in Colorado will grow to 30,800 in 2013 and 38,700 in 2014. National residential permits will grow to 1,025,000 in 2013, reaching 1 million new housing permits for the first year since 2007.

Commercial construction remains at relatively low levels – The number and value of non-residential construction starts has increased modestly since the recession as shown in Figure 29. Continued elevated uncertainty has caused businesses to hold off on new capital investments, including production facilities and office spaces. Additionally, the large number of business failures and contractions that occurred during the economic downturn has caused commercial vacancies to remain elevated, and the changing nature of employment practices in today's technology-driven economy is allowing more people to work away from traditional office buildings. These factors have resulted in a significant supply of existing office space and other commercial buildings that are an alternative to new construction.

Figure 29. New Commercial Construction Project Starts in Colorado, 2008 through the First Quarter of 2013



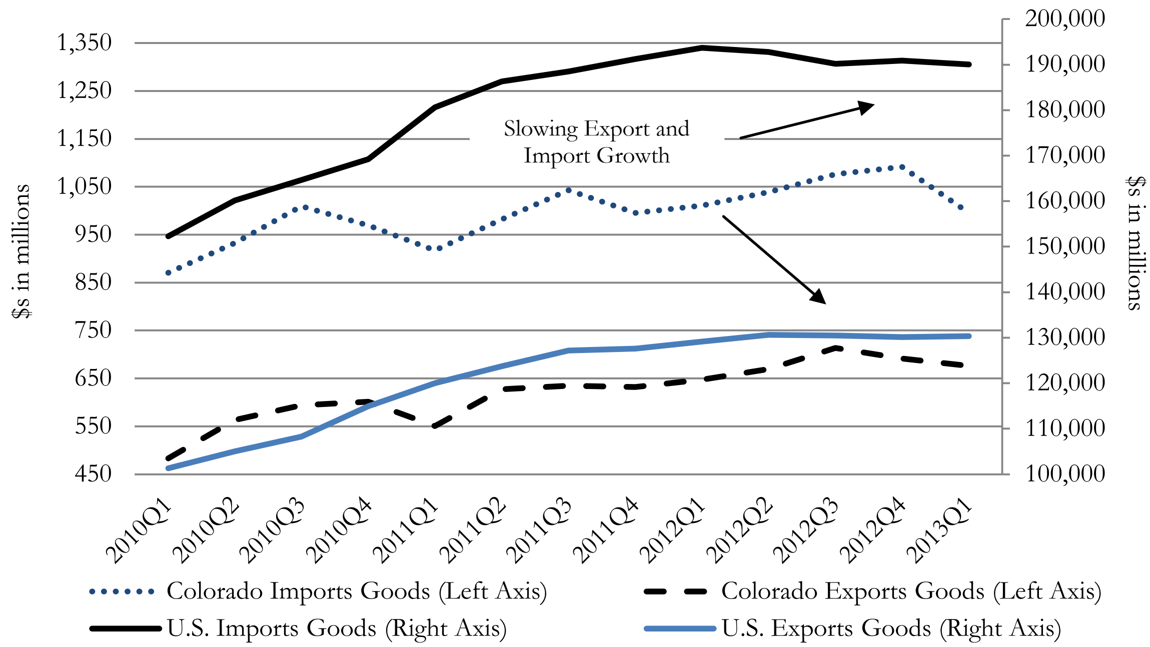
Source: McGraw-Hill Construction

Growth in the value of new nonresidential construction will remain muted over the forecast period. The value of projects in Colorado is expected to grow 1.3 percent in 2013 and 4.0 percent in 2014. The same pattern is expected nationally.

International Trade

U.S. and Colorado international trade has trended downward as areas of the global economy experience slower activity – Growth in both the nation's and Colorado's exports and imports was essentially flat in the first quarter of 2013. The World Bank forecasts global trade will expand 4.0 percent in 2013, down from the pre-recession pace of 7.3 percent. The trends in exports and imports for Colorado and the nation are shown in Figure 30.

Figure 30. Exports and Imports for the Nation and Colorado, Quarterly Average 2010 through the First Quarter of 2013



Source: U.S. Census Bureau and WISER trade data

The JPMorgan Global Manufacturing PMI, a composite index tracking global economic indicators and activity in manufacturing sectors, reported that after seven straight months of growth, the global manufacturing sector experienced only slight expansion of production and new business during May. Even as developing countries expand at high rates, European countries, constrained by the effects of the euro area crisis, remain an obstacle to global expansion and thus growth in trade. U.S. exports to Europe decreased 6.3 percent in April from a year ago. High levels of unemployment and sluggish economic activity in the euro area and weakening economic growth in Mexico, Canada, and China will continue to dampen demand for American goods and services.

The Institute of Supply Management's (ISM) new export orders index for services and non-manufacturing activities for May in the U.S. registered 50.0, down from 53.5 in April, indicating that service exports continue to grow but at slower rate. A mining industry representative commented that "North America continues to improve at a modest rate but Europe is still a problem for global recovery." Also, after four consecutive months of growth, the ISM non-manufacturing imports index contracted in May to 49.5 percent, a 9.0 percent drop from April. A decline in imports indicates dampening U.S. demand for foreign items, demonstrating slower economic activity. However, the trend is also partly attributed to increased domestic oil production resulting in a reduction in U.S. demand for foreign oil. Currently, unlike goods exports, there is not state-level data available on the amount of services traded. Colorado is a highly services-based economy and likely exports more services than the nation as a whole.

Table 5
History And Forecast For Key Colorado Economic Variables
Calendar Year 2007 - 2015

Line No.		Actual						June 2013 Forecast		
		2007	2008	2009	2010	2011	2012	2013	2014	2015
	Income									
1	Personal Income (Billions) /A	$205.2	$216.0	$205.8	$212.5	$225.4	$235.1	$244.5	$257.2	$270.2
2	Change	5.6%	5.3%	-4.7%	3.3%	6.1%	4.3%	4.0%	5.2%	5.1%
3	Wage and Salary Income (Billions) /A	$113.0	$117.0	$112.6	$114.2	$119.148	$124.6	$130.2	$136.4	$142.9
4	Change	6.7%	3.6%	-3.8%	1.4%	4.3%	4.6%	4.4%	4.8%	4.7%
5	Per-Capita Income ($/person)	$42,724	$44,070	$41,154	$42,107	$44,053	$45,306	$46,415	$48,044	$49,686
6	Change	4.5%	3.2%	-6.6%	2.3%	4.6%	2.8%	2.4%	3.5%	3.4%
	Population & Employment									
7	Population (Thousands)	4,821.8	4,901.9	4,976.9	5,049.7	5,118.5	5,189.2	5,267.8	5,352.5	5,438.1
8	Change	1.6%	1.7%	1.5%	1.5%	1.4%	1.4%	1.5%	1.6%	1.6%
9	Net Migration (Thousands)	34.8	39.7	36.4	36.9	34.7	34.7	42.5	48.2	48.9
10	Unemployment Rate	3.8%	4.8%	8.1%	9.0%	8.6%	8.0%	6.8%	6.5%	5.9%
11	Total Nonagricultural Employment (Thousands) /B	2,331.3	2,350.3	2,245.6	2,222.3	2,257.8	2,308.7	2,360.1	2,415.0	2,466.3
12	Change	2.3%	0.8%	-4.5%	-1.0%	1.6%	2.3%	2.2%	2.3%	2.1%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	30.4	19.1	9.4	11.6	13.5	23.4	30.8	38.7	43.8
14	Change	-20.7%	-37.2%	-51.0%	23.9%	16.5%	57.9%	31.5%	25.9%	13.1%
15	Nonresidential Construction Value (Millions) /C	5,259.5	4,114.0	3,354.5	$3,146.4	$3,922.6	$3,665.8	$3,713.5	$3,860.6	$4,075.4
16	Change	13.3%	-21.8%	-18.5%	-6.2%	24.7%	-6.5%	1.3%	4.0%	5.6%
	Prices & Sales Variables									
17	Retail Trade (Billions) /D	$75.3	$74.8	$66.5	$70.5	$75.9	$80.0	$83.4	$87.8	$92.4
18	Change	6.9%	-0.7%	-11.1%	6.0%	7.7%	5.4%	4.3%	5.2%	5.3%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	220.3	224.6	230.0	235.2	241.6
20	Change	2.2%	3.9%	-0.6%	1.9%	3.7%	1.9%	2.4%	2.2%	2.7%

/A Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proporietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance. The 2012 personal income and wages and salaries amounts are estimates as full year data is not yet available.

/B Includes OSPB's estimates of forthcoming revisions to jobs data that are currently not published . The jobs figures will be benchmarked based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in the state than what was estimated based on a survey of employers.

/C Nonresidential Construction Value is reported by Dodge Analytics (McGraw-Hill Construction) and includes new construction, additions, and major remodeling projects predominately at commercial and manufacturing facilities, educational institutions, medical and government buildings. Nonresidential does not include non-building projects (such as streets, highways, bridges and utilities).

/D Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods / books / music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants).

Table 6
History And Forecast For Key National Economic Variables
Calendar Year 2007 - 2015

Line No.		Actual						June 2013 Forecast		
		2007	2008	2009	2010	2011	2012	2013	2014	2015
	Inflation-Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$13,206.4	$13,161.9	$12,757.9	$13,063.0	$13,299.1	$13,593.2	$13,865.1	$14,197.8	$14,552.8
2	Change	1.9%	-0.3%	-3.1%	2.4%	1.8%	2.2%	2.0%	2.4%	2.5%
3	Personal Income (Billions) /B	$11,912.3	$12,451.7	$11,852.7	$12,321.9	$12,947.3	$13,402.4	$13,844.7	$14,495.4	$15,234.6
4	Change	5.7%	4.5%	-4.8%	4.0%	5.1%	3.5%	3.3%	4.7%	5.1%
5	Per-Capita Income ($/person)	$39,484	$40,914	$38,578	$39,777	$41,492	$42,539	$43,635	$45,255	$47,113
6	Change	4.7%	3.6%	-5.7%	3.1%	4.3%	2.5%	2.6%	3.7%	4.1%
	Population & Employment									
7	Population (Millions)	301.6	304.4	307.1	309.6	311.9	314.3	317.3	320.3	323.4
8	Change	1.0%	0.9%	0.9%	0.8%	0.7%	1.0%	1.0%	1.0%	1.0%
9	Unemployment Rate	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.5%	7.0%	6.5%
10	Total Nonagricultural Employment (Millions)	137.6	136.9	130.9	129.9	131.5	133.7	135.6	137.7	140.0
11	Change	1.1%	-0.6%	-4.4%	-0.7%	1.2%	1.7%	1.4%	1.5%	1.7%
	Price Variables									
12	Consumer Price Index (1982-84=100)	207.3	215.3	214.5	218.1	224.9	229.6	233.9	239.4	245.7
13	Change	2.9%	3.8%	-0.4%	1.6%	3.1%	2.1%	1.9%	2.3%	2.7%
14	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.7	201.0	202.2	208.0	218.9	229.9
15	Change	4.8%	9.8%	-8.8%	6.8%	8.8%	0.6%	2.9%	5.2%	5.0%
	Other Key Indicators									
18	Corporate Profits (Billions)	1,510.6	1,248.4	1,342.3	1,702.4	$1,827.0	$1,950.6	$2,015.3	$2,139.9	$2,286.7
19	Change	-6.1%	-17.4%	7.5%	26.8%	7.3%	6.8%	3.3%	6.2%	6.9%
20	Housing Permits (Millions)	1.398	0.905	0.583	0.605	0.607	0.805	1.025	1.328	1.675
21	Change	-24.0%	-35.3%	-35.6%	3.7%	0.3%	30.9%	27.2%	29.6%	26.1%
22	Retail Trade (Billions)	$4,446.3	$4,393.9	$4,080.1	$4,306.4	$4,650.8	$4,883.7	$5,069.8	$5,298.4	$5,563.8
23	Change	3.3%	-1.2%	-7.1%	5.5%	8.0%	5.0%	3.8%	4.5%	5.0%

/A BEA revised NIPA component

/B Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

Governor's Revenue Estimating Advisory Committee

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