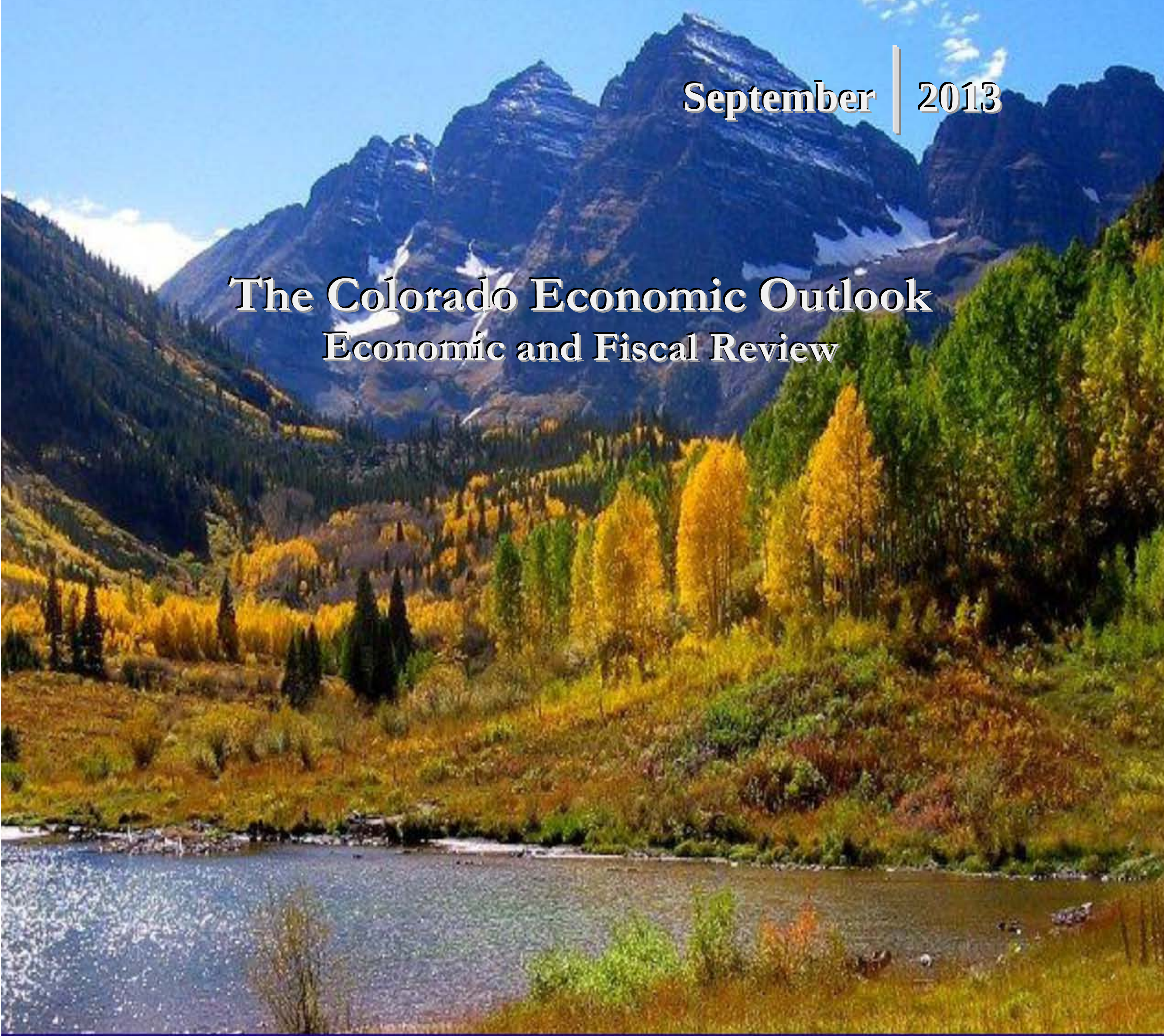
September | 2013

The Colorado Economic Outlook
Economic and Fiscal Review



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Summary

- The General Fund revenue forecast for the current budget year (FY 2013-14) as well as for FY 2014-15 is essentially unchanged from the June forecast as expectations for jobs, income, business activity, and spending in Colorado have not changed appreciably. After posting a robust increase of 10.6 percent in FY 2012-13, revenue growth will slow to 1.0 percent in FY 2013-14 in large part due to an expected moderation in corporate income tax revenue and a drop in capital gains income. However, capital gains income is volatile and can be difficult to predict. A large enough difference from this forecast's projection will result in noticeably higher or lower revenue. The factors slowing General Fund revenue growth in this fiscal year will diminish for FY 2014-15 when continued economic growth is expected to generate a revenue increase of 7.1 percent.

- The strong growth in FY 2012-13 revenue resulted in a General Fund surplus (the amount of money above the required statutory reserve) of $1.1 billion. All of this money is transferred to the State Education Fund. Despite the modest revenue growth expected in this fiscal year, General Fund revenue will still be $162.9 million above the required reserve with the current level of authorized spending. As a result of 2013 legislation, $30 million of this excess General Fund reserve amount is transferred to the Colorado Water Conservation Board Construction Fund and 75 percent of the remainder, or a projected $99.6 million, is transferred to the State Education Fund. The remaining amount after these transfers, a projected $33.2 million, becomes part of the beginning reserve and funds available in FY 2014-15.

- The amount of revenue to the State is determined fundamentally by the performance of the economy. With its diverse industries and high levels of human capital, Colorado's economy continues to have a solid foundation for growth. Many state economic indicators are outperforming national averages and unemployment continues to decline from its high level. Colorado's economic momentum, however, does not insulate it from potential adverse shocks to economic activity that could cause State revenue collections to come in below forecast. On the other hand, the state's economy could grow faster than forecast and cause revenue to outperform expectations. As of the time of publication, it is too early to know the scale of the economic and budgetary impacts of the recent tragic flooding in the state.

- Cash fund revenue subject to TABOR will grow 3.6 percent to $2.63 billion in FY 2013-14, led by an $80 million increase in severance tax revenue resulting from higher natural gas prices and continued growth in oil and gas production. While hospital provider fee revenue will decline, most other main categories of cash funds will increase, reflecting continued economic growth in the state. Cash fund revenue will decrease modestly in FY 2014-15 to $2.61 billion. Continued growth in most of the larger cash fund sources will be offset by a decline of $53.5 million in hospital provider fee revenue.

- This forecast does not expect that the State will reach its TABOR revenue cap through FY 2015-16. The State, however, is within 5.1 percent of reaching the cap in FY 2013-14 and within 4.0 percent of the cap in FY 2014-15 and FY 2015-16. If revenue exceeds the limit due to higher-than-expected revenue growth, the State would need to refund the excess revenue or ask voters to retain it.

General Fund Budget

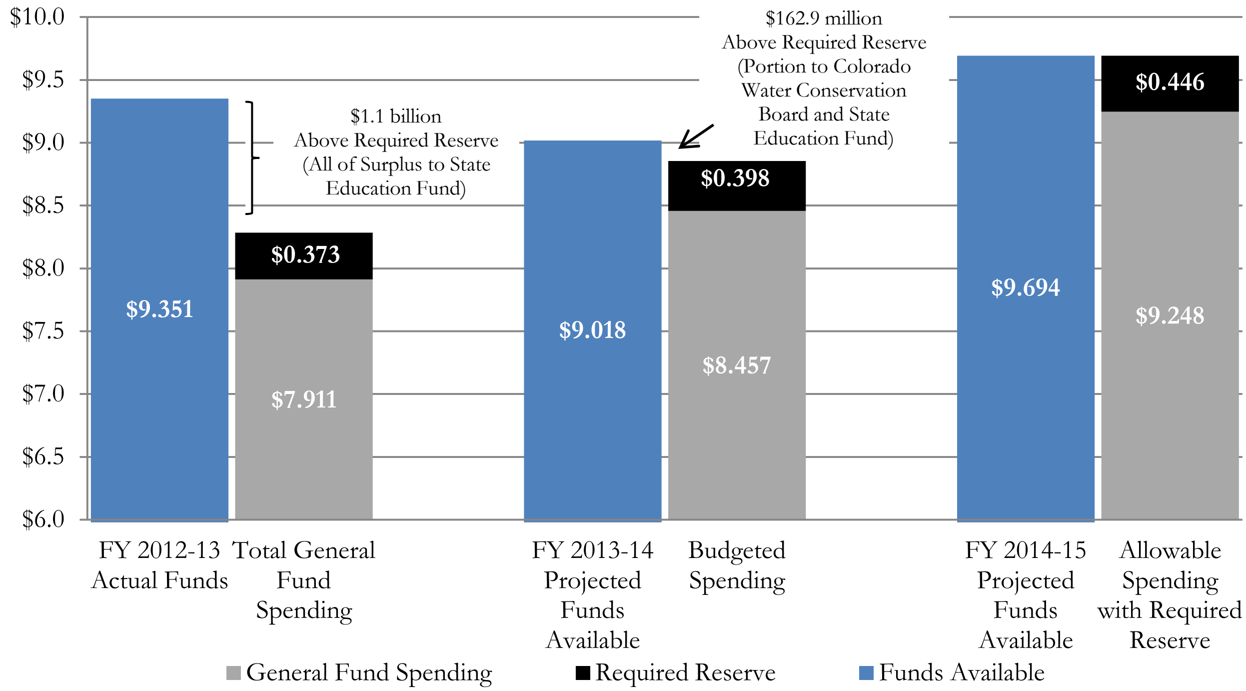
GENERAL FUND OVERVIEW, STATE EDUCATION FUND OVERVIEW, AND BUDGET IMPLICATIONS OF THE FORECAST

This section discusses General Fund and State Education Fund revenue available for spending, 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 preschool through 12th grade 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. Under the state constitution, the State Education Fund helps fund preschool through 12th grade education and annually receives a portion of income taxes. In recent years, it has also received money from the General Fund.

Table 1 presents the General Fund Overview for the September 2013 OSPB revenue forecast. It is located at the end of this section following page 11. We are also introducing an additional presentation of the General Fund in Table 1a, which presents the same General Fund overview but incorporates information about the State Education Fund. Because of the State Education Fund's importance in funding preschool through 12th grade education and because it receives money primarily from the General Fund, Table 1a provides a comprehensive summary of the General Fund's obligations and resources. Further discussion about Table 1a starts on page 7. The amounts in both tables primarily reflect current law and important assumptions are noted accordingly.

Summary of General Fund Overview – Figure 1 below shows total projected General Fund revenue available, total spending, and reserve levels from FY 2012-13 through FY 2014-15 based on the September 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 amount for FY 2014-15 represents the level of spending that could be supported by projected revenue while maintaining the required five percent reserve amount. The information in the figure is discussed below and is shown in further detail in Table 1 and Table 1a following page 11.

Figure 1. General Fund Money, Spending, and Reserves, FY 2012-13 though FY 2014-15, $ in Billions



Funds available – The top portion of Table 1 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 14. In addition to General Fund revenue, the amount of funds available includes the beginning fund balance and any money transferred into the General Fund from 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. Higher revenue growth in FY 2014-15 and FY 2015-16 will result in an increase in funds available.

GF Funds Available under Current Law ($ in Millions)			
	FY 2013-14	**FY 2014-15**	**FY 2015-16**
Beginning Balance	$373.0	$431.6	$445.9
General Fund Revenue	$8,642.7	$9,259.8	$9,715.6
Transfers to the General Fund	$2.4	$2.4	$2.4
Total General Funds Available	**$9,018.0**	**$9,693.8**	**$10,164.0**
Dollar Change from Prior Year	-$332.9	$675.8	$470.2
Percent Change from Prior Year	-3.6%	7.5%	4.9%

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 preschool through 12th grade education, Medicaid, human services, corrections, and higher education. The limit is projected to be $11.3 billion in FY 2013-14. Thus, the current fiscal year's General Fund appropriations for these programs are $3.1 billion under the limit.

The General Fund appropriations amount for FY 2013-14 in Table 1, and shown below, reflects current law and is subject to change based on future budget decisions. The FY 2014-15 and FY 2015-16 amounts in Table 1 reflect the level of spending that can be supported by forecasted revenue while maintaining the required reserve level.

GF Spending Subject to the Appropriations Limit under Current Law ($ in Millions)	
	FY 2013-14
Appropriations	**$7,967.4**
Dollar Change from Prior Year	$508.2
Percent Change from Prior Year	6.8%

Spending not subject to the appropriations limit – Lines 8 through 15 in Table 1 summarize spending that is outside the General Fund appropriations limit. The largest portion of this spending is "Rebates and Expenditures" (Line 10 in Table 1). The programs in this line with the most expenditures 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 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) the Homestead Property Tax Exemption, which reduces property tax liabilities for qualifying seniors and disabled veterans.

General Fund money transferred for State capital construction and facility maintenance, as well as transportation projects, are also not subject to the limit (Lines 11 and 12 in Table 1). Transfers for these purposes can be made at the discretion of the General Assembly and Governor through legislation. The FY 2013-14 budget includes a total transfer of $186.7 million for capital construction projects. The capital construction amounts in subsequent years mostly reflect needed funding levels for specific "certificate of participation" (COP) financing agreements used for capital projects, as well as priority, or "Level I," building maintenance projects. 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 an expected transfer of $194.3 million for transportation in FY 2015-16. The amount needed for capital construction in FY 2015-16 shown in Table 1 for COP payments and priority facility maintenance projects exceeds the amount of the required transfer.

SB 13-234 requires annual General Fund transfers to the State Education Fund from FY 2013-14 through FY 2018-19 (Line 13 in Table 1). The FY 2013-14 transfer is $45.3 million, while the amount in FY 2014-15 and FY 2015-16 is $25.3 million. In addition, state law requires a relatively small amount of transfers of General Fund money to various State cash funds (Line 14 in Table 1). In some years, certain programs need to exceed their appropriated funding near the end of the fiscal year in order to meet services demands. These amounts are shown under "Other Expenditures Exempt from the General Fund Appropriations Limit" (Line 15 in Table 1). Any "overexpended" amounts must receive an appropriation in the subsequent year to authorize the spending. Spending by the Medicaid program, or "Medicaid overexpenditures," is usually the largest amount for this line. The entire FY 2012-13 amount in Table 1 is Medicaid-related overexpenditures.

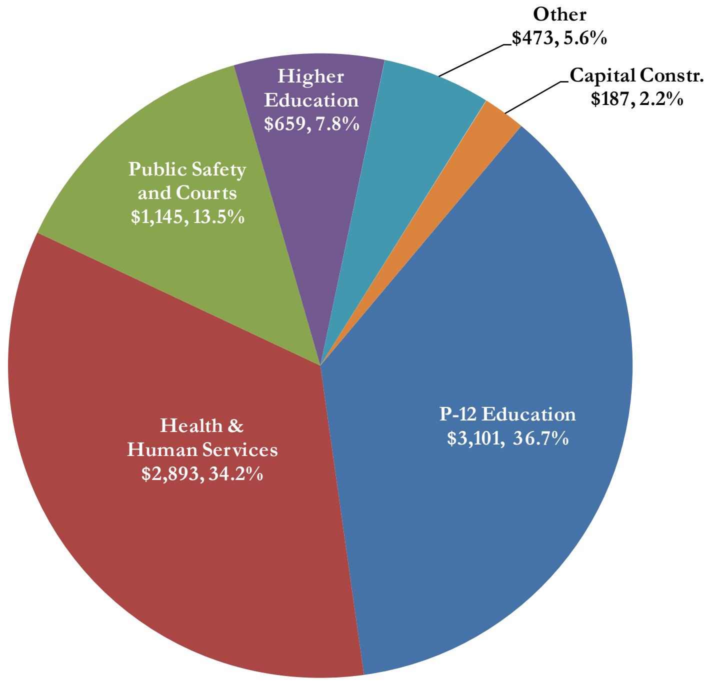
Finally, spending not subject to the limit includes any TABOR refunds (Line 9 in Table 1), which occur when State revenue exceeds its cap. TABOR refunds are not expected to occur during the forecast period as revenue will be between approximately $500 million and $600 million below the cap through FY 2015-16. Page 31 and Table 4 provide further detail on TABOR revenue.

All of the expenditures discussed above are summarized in the following table.

GF Spending Not Subject to the Appropriations Limit under Current Law ($ in Millions)			
	FY 2013-14	**FY 2014-15**	**FY 2015-16**
TABOR Refund	$0.0	$0.0	$0.0
Cigarette Rebate	*$9.5*	*$9.0*	*$8.7*
Old-Age Pension Fund/Older Coloradans Fund	*$105.4*	*$94.3*	*$90.1*
Aged Property Tax & Heating Credit	*$6.9*	*$6.9*	*$6.9*
Homestead Exemption	*$108.6*	*$117.0*	*$123.7*
Interest Payments for School Loans	*$0.8*	*$1.3*	*$1.5*
Fire/Police Pensions	*$4.3*	*$4.3*	*$4.3*
Amendment 35 General Fund Expenditure	*$0.8*	*$0.8*	*$0.8*
Total Rebates and Expenditures	**$236.3**	**$233.6**	**$236.0**
Transfers to Capital Construction	$186.7	$68.2	$64.8
Transfers to Highway Users Tax Fund	$0.0	$0.0	$194.3
Transfers to State Education Fund per SB 13-234	$45.3	$25.3	$25.3
Transfers to Other Funds	$21.1	$1.9	$1.9
Other	$0.0	$0.0	$0.0
Total	**$489.4**	**$329.0**	**$522.4**
Dollar Change from Prior Year	$37.2	-$160.4	$193.4
Percent Change from Prior Year	8.2%	-32.8%	58.8%

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. Under the budget, total General Fund spending amounts to $8,456.8 million, a 6.9 percent, or $545.3 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 19) reflects the difference between total funds available (Line 4) and total outlays (Line 16). Line 21 shows the statutorily determined reserve requirement and the following line indicates any variance from the requirement ("Above (Below) Statutory Reserve"). For FY 2012-13, the reserve was $1.1 billion above the 5.0 percent of appropriations requirement. By statute, the entire FY 2012-13 excess is transferred to the State Education Fund.

For FY 2013-14, under this forecast, the reserve is projected to be $162.9 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 $99.6 million under this forecast. These transfers, shown in line 23, will occur in FY 2014-15. The remaining amount of the excess – a projected $33.2 million under this forecast – becomes part of the beginning reserve and funds available in FY 2014-15.

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 in the table on the next page. The transfers of excess reserves to the State Education Fund and CWCB Fund are also shown.

GF Reserves under Current Law ($ in Millions)			
	FY 2013-14	FY 2014-15	FY 2015-16
Year-End General Fund Balance	$561.2	$445.9	$459.1
Balance as a % of Appropriations	7.0%	5.0%	5.0%
General Fund Required Reserve	**$398.4**	**$445.9**	**$459.1**
Money Above/Below Req. Reserve	**$162.9**	**$0.0**	**$0.0**
Excess Reserve to State Education Fund	**$99.6**	**N/A**	**N/A**
Excess Reserve to CWCB Fund	**$30.0**	**N/A**	**N/A**

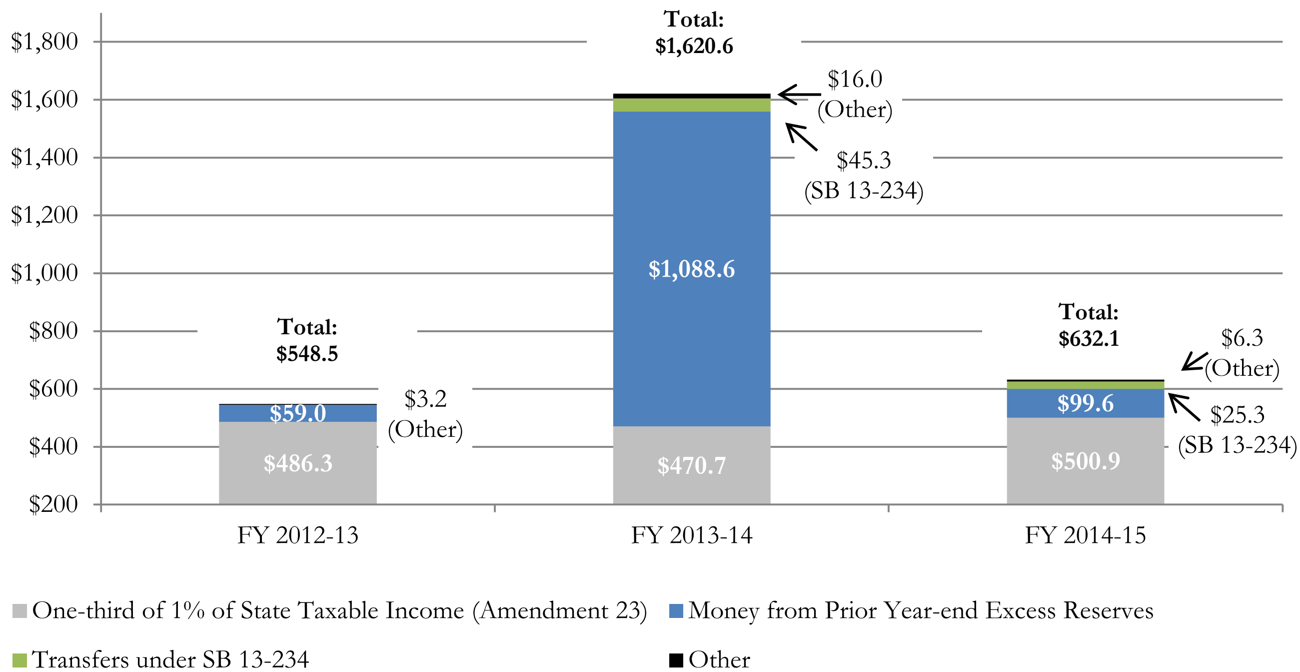
***Summary of General Fund with the State Education Fund Overview* –** Table 1a following Table 1 incorporates all of the same information from the General Fund overview in Table 1 that is discussed above, but also includes spending, revenue, and fund balance information for the State Education Fund.

Funds available – Line 4 of Table 1a shows the amount of money credited to the State Education Fund each year. 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 Fund. This diversion is projected to be $470.7 million in FY 2013-14. In recent years, the fund has also received all or a portion of the State's excess reserves as a result of legislation passed by the General Assembly and signed by the Governor. In FY 2012-13, the fund received $59 million of the FY 2011-12 excess reserves. For FY 2013-14, it receives all of the FY 2012-13 excess reserves, or $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, as discussed in the "Spending not subject to the appropriations limit" section. 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 $632.1 million. As discussed in the "Reserves" section above, in FY 2014-15 the State Education Fund receives a projected $99.6 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.

In addition to these larger sources, the State Education Fund annually receives investment earnings and a relatively small amount revenue from other sources, including transfers from other funds and refunds of any unexpended money from school districts from prior years. Figure 3 below shows the actual and expected amount of income to the State Education Fund.

Figure 3. State Education Fund Revenue from All Sources, Actual and Forecast, FY 2012-13 to FY 2014-15, $s in millions



Appropriations and Fund Balance – In addition to income to the State Education Fund, Table 1a includes information on State Education Fund spending, or appropriations (line 9). The amount for FY 2013-14 reflects current law and is subject to change based on future budget decisions. The FY 2014-15 and FY 2015-16 amounts reflect the amount of revenue the State Education Fund is expected to receive each year. However, the actual appropriations from the State Education Fund will be adopted in future budget legislation. Thus, these fund balance projections are illustrative only.

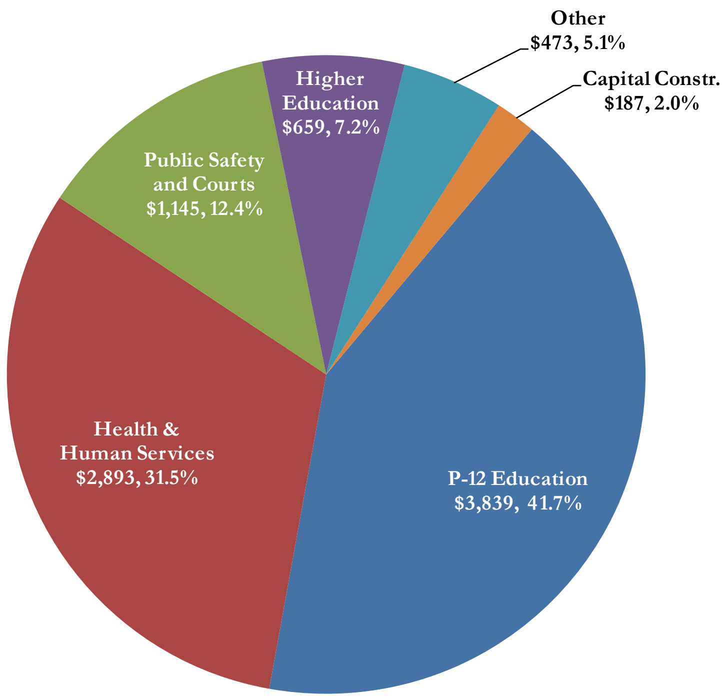
It is important to consider the implications of the level of State Education Fund appropriations for the General Fund budget. Higher or lower appropriations generally mean that General Fund appropriations for school funding can be lower or higher to support the targeted level of funding for schools. However, decisions in one year very much affect the range of choices in the next year. Preschool through 12th grade education receives the largest amount of General Fund compared with other programs, thus, the balance between funding from the State Education Fund and General Fund has a sizable impact on the overall State budget. Further, because income taxes largely fund both accounts, a unified and multi-year view provides important insight to the sustainability of budgeting decisions.

The table on the following page summarizes the amounts discussed above on State Education Fund annual revenue and spending, and includes each year's actual and projected beginning and ending fund balance. Transfers of excess reserves in recent years, especially the excess from FY 2012-13, have caused the State Education Fund to increase its fund balance significantly.

State Education Fund under Current Law ($ in Millions)			
	FY 2013-14	**FY 2014-15**	**FY 2015-16**
Beginning Balance	*$183.4*	*$1,065.8*	*$1,065.8*
One-third of 1% of State Taxable Income	*$470.7*	*$500.9*	*$527.4*
Money from Prior Year-end Excess Reserves	*$1,088.6*	*$99.6*	*$0.0*
Transfers under SB 13-234	*$45.3*	*$25.3*	*$25.3*
Other	*$16.0*	*$6.3*	*$5.5*
Total Funds to State Education Fund	**$1,620.6**	**$632.1**	**$558.2**
Appropriations from State Education Fund	**$738.1**	**$632.1**	**$558.2**
Year-end Balance	**$1,065.8**	**$1,065.8**	**$1,065.8**

Composition of General Fund and State Education Budget – The following graph, Figure 4, shows the composition of the General Fund budget, incorporating spending on education from the State Education Fund, for FY 2013-14 by major department or program area ($ in millions). Under the budget, total General Fund and State Education spending amounts to $9,194.9 million, a 9.2 percent, or $772.5 million, increase compared with FY 2012-13.

Figure 4. Composition of FY 2013-14 General Fund and State Education Fund Budget, $ in Millions



Risks to the Budget Outlook

The performance of the economy is the fundamental factor determining revenue to the General Fund and State Education Fund. Economic conditions that differ appreciably from expectations can generate relatively large swings in the amount of General Fund and State Education Fund money available. Differing economic conditions can also cause changes in the use of many State services, such as Medicaid, the court system, and higher education.

Importantly, even smaller changes in projected revenue growth rates can noticeably change the budget outlook. 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 this fiscal year, and $275 million higher or lower in FY 2014-15. As discussed in the *General Fund Revenue Forecast* section starting on page 14, a drop in capital gains income from equity and other asset sales is expected to dampen General Fund revenue growth this fiscal year. However, capital gains income is volatile and can be difficult to predict. A large enough difference from this forecast's projection will result in higher or lower General Fund and State Education Fund revenue.

Colorado's economy is among the best performing in the nation. Its momentum, however, does not insulate it from potential adverse shocks to economic activity that would cause State revenue collections to come in below forecast, perhaps by a large amount. Volatility in financial markets and interest rates, potentially resulting from unintended consequences of monetary policy, is a risk. Further, federal fiscal policy issues surrounding debt and budget levels could result in larger-than-expected negative economic consequences. Also, tensions in the Middle East could begin to have more widely-spread economic impacts. Additionally, although its economic conditions have improved marginally, Europe's structural economic and financial issues have not been resolved. Conditions there could worsen again and strain the global financial system and economy. Finally, it is too early to know the scale of the economic and budgetary impacts of the recent tragic flooding in the state.

On the other hand, the state's economic momentum continues to surprise amidst only modest economic growth at the national and global level. Colorado's economy could grow faster than forecast and cause revenue to outperform expectations. Additionally, higher job and income growth could cause personal income to grow more than 5.0 percent in 2013, triggering transfers to transportation and capital construction in FY 2014-15, one year earlier than forecast. Moreover, the State is within 5.1 percent of reaching its TABOR revenue cap in FY 2013-14 and within 4.0 percent in FY 2014-15 and FY 2015-16. If revenue exceeds the limit, the State would need to refund the excess revenue or ask voters to retain it.

Table 1. General Fund Overview under Current Law

(Dollar Amounts in Millions)

Line No.		Preliminary FY 2012-13	September 2013 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserve**	**$795.8**	**$373.0**	**$431.6**	**$445.9**
2	**Gross General Fund Revenue**	**$8,554.8**	**$8,642.7**	**$9,259.8**	**$9,715.6**
3	*Transfers to the General Fund*	*$0.3*	*$2.4*	*$2.4*	$2.4
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,351.0**	**$9,018.0**	**$9,693.8**	**$10,164.0**
Expenditures					
5	**Appropriation Subject to Limit /A**	**$7,459.2**	**$7,967.4**	**$8,918.8**	**$9,182.5**
6	*Dollar Change (from prior year)*	*$431.5*	*$508.2*	*$951.4*	$263.6
7	*Percent Change (from prior year)*	6.1%	6.8%	11.9%	3.0%
8	**Spending Outside Limit**	**$452.2**	**$489.4**	**$329.0**	**$522.4**
9	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	$0.0
10	*Rebates and Expenditures /B*	*$380.8*	*$236.3*	*$233.6*	$236.0
11	*Transfers to Capital Construction /C*	*$61.4*	*$186.7*	*$68.2*	$64.8
12	*Transfers to Highway Users Tax Fund /C*	*N/A*	$0.0	$0.0	$194.3
13	*Transfers to State Education Fund under SB 13-234*	*N/A*	$45.3	$25.3	$25.3
14	*Transfers to Other Funds*	*$4.6*	$21.1	$1.9	$1.9
15	*Other Expenditures Exempt from General Fund Appropriations Limit /D*	$5.4	$0.0	$0.0	$0.0
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,911.5**	**$8,456.8**	**$9,247.8**	**$9,704.9**
17	*Percent Change (from prior year)*	9.6%	6.9%	9.4%	4.9%
18	Reversions and Accounting Adjustments	*$22.0*	*$0.0*	*$0.0*	$0.0
Reserves					
19	**Year-End General Fund Balance**	**$1,461.5**	**$561.2**	**$445.9**	**$459.1**
20	*Year-End General Fund as a % of Appropriations*	*19.6%*	*7.0%*	*5.0%*	5.0%
21	*General Fund Statutory Reserve /E*	$373.0	$398.4	$445.9	$459.1
22	*Above (Below) Statutory Reserve /F*	$1,088.6	$162.9	$0.0	$0.0
23	*Transfer of Excess Reserve to State Education Fund/Other Funds /F*	-$1,088.6	-$129.6	$0.0	$0.0
24	*Balance After Any Funds Above Statutory Reserve are Allocated*	$0.0	$33.2	$0.0	$0.0

/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 and FY 2015-16 amounts represent the level of spending that can be supported by projected revenue while maintaining the required reserve amount; thus, these amounts will change based on future budgeting decisions and updates to the revenue forecast.

/B Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, Homestead Exemption, and Fire and Police Pensions Association contributions as outlined in the table on page 5.

/C 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. The capital construction amounts for FY 2012-13 and FY 2013-14 reflect current law, while the amounts in subsequent years mostly reflect the needed levels to fund specific "certificate of participation" financing agreements used for capital projects, as well as priority, or "Level I," building maintenance projects.

/D Spending by the Medicaid program above the appropriated amount, called “Medicaid Overexpenditures,” is usually the largest amount in this line.

/E 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, all of the FY 2012-13 excess is transferrred to the State Education Fund. 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, pursuant to SB 13-260, 75% of the remaining excess is transferred to the State Education Fund. Both of these transfers will occur in FY 2014-15.

Table 1a. General Fund with State Education Fund Overview under Current Law

(Dollar Amounts in Millions)

Line No.		Preliminary FY 2012-13	September 2013 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserves**	**$929.6**	**$556.3**	**$1,497.5**	**$1,511.8**
2	*State Education Fund*	$133.8	$183.4	$1,065.9	$1,065.9
3	*General Fund*	$795.8	$373.0	$431.6	$445.9
4	**Gross State Education Fund Revenue**	**$548.5**	**$1,620.6**	**$632.1**	**$558.2**
5	**Gross General Fund Revenue**	**$8,554.8**	**$8,642.7**	**$9,259.8**	**$9,715.6**
6	*Transfers to the General Fund*	*$0.3*	*$2.4*	*$2.4*	$2.4
7	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$10,033.2**	**$10,822.0**	**$11,391.8**	**$11,788.1**
Expenditures					
8	General Fund Appropriations Subject to Limit /A	$7,459.2	$7,967.4	$8,918.8	$9,182.5
9	State Education Fund Appropriations /B	*$510.9*	*$738.1*	*$632.1*	*$558.2*
10	**Total Appropriations**	**$7,970.2**	**$8,705.5**	**$9,550.9**	**$9,740.7**
11	*Percent Change (from prior year)*	3.8%	9.2%	9.7%	2.0%
12	**Other Expenditures**	**$452.2**	**$489.4**	**$329.0**	**$522.4**
13	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
14	*Rebates and Expenditures /C*	*$380.8*	*$236.3*	*$233.6*	*$236.0*
15	*Transfers to Capital Construction /D*	*$61.4*	*$186.7*	*$68.2*	$64.8
16	*Transfers to Highway Users Tax Fund /D*	*N/A*	*$0.0*	*$0.0*	*$194.3*
17	*Transfers to State Education Fund under SB 13-234*	*N/A*	*$45.3*	*$25.3*	*$25.3*
18	*Transfers to Other Funds*	*$4.6*	*$21.1*	*$1.9*	*$1.9*
19	*Other Expenditures Exempt from General Fund Appropriations Limit /E*	$5.4	$0.0	$0.0	$0.0
20	**TOTAL OBLIGATIONS**	**$8,422.4**	**$9,194.9**	**$9,879.9**	**$10,263.1**
21	*Percent Change (from prior year)*	7.0%	9.2%	7.5%	3.9%
22	*General Fund Reversions and Accounting Adjustments*	*$22.0*	*$0.0*	*$0.0*	*$0.0*
23	*State Education Fund Reversions and Accounting Adjustments*	*$12.0*	*$0.0*	*$0.0*	*$0.0*
Reserves					
24	**Year-End Balance**	**$1,644.9**	**$1,627.1**	**$1,511.8**	**$1,525.0**
25	State Education Fund /B	$183.4	$1,065.9	$1,065.9	$1,065.9
26	General Fund	$1,461.5	$561.2	$445.9	$459.1
27	*Year-End General Fund as a % of Appropriations*	*19.6%*	*7.0%*	*5.0%*	*5.0%*
28	*General Fund Statutory Reserve /F*	$373.0	$398.4	$445.9	$459.1
29	*Money Above (Below) General Fund Statutory Reserve /G*	$1,088.6	$162.9	$0.0	$0.0
30	*Transfer of Excess General Fund Reserve to State Education Fund/Other Funds /G*	-$1,088.6	-$129.6	$0.0	$0.0
31	*General Fund Excess After Any Funds Above Statutory Reserve are Allocated*	$0.0	$33.2	$0.0	$0.0

/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 and FY 2015-16 amounts represent the level of spending that can be supported by projected revenue while maintaining the required reserve amount; thus, these amounts will change based on future budgeting decisions and updates to the revenue forecast.

/B State Education Fund appropriations, and consequently, fund balance information, through FY 2013-14 reflect current law. The appropriations amounts for FY 2014-15 and FY 2015-16 reflect the amount of new revenue to the fund. However, the actual appropriations from the State Education Fund will be adopted in future budget legislation. Thus, the appropriations amounts and fund balance projections are illustrative only.

/C Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, Homestead Exemption, and Fire and Police Pensions Association contributions as outlined in the table on page 5.

/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. The capital construction amounts for FY 2012-13 and FY 2013-14 reflect current law, while the amounts in subsequent years reflect the needed levels to fund specific "certificate of participation" financing agreements used for capital projects, as well as priority, or "Level I," building maintenance projects.

/E Spending by the Medicaid program above the appropriated amount, called “Medicaid Overexpenditures,” is usually the largest amount in this line.

/F 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.

/G Per HB 12-1338, all of the FY 2012-13 excess is transferrred to the State Education Fund. 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, pursuant to SB 13-260, 75% of the remaining excess is transferred to the State Education Fund. Both of these transfers will occur in FY 2014-15.

General Fund Revenue Forecast

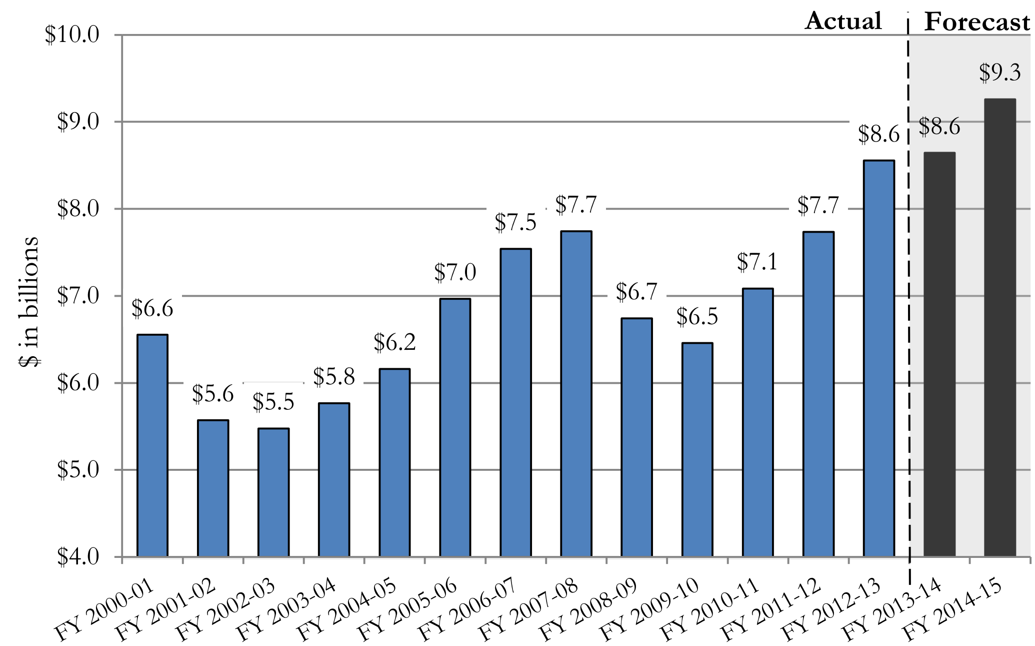
General Fund Revenue – OSPB expects General Fund revenue growth of only 1.0 percent in FY 2013-14. This modest growth is not due to a slowdown in overall economic activity, but largely from an expected drop in capital gains income after surging over the past few years. Most notably, it is presumed that taxpayers realized gains sooner in anticipation of federal tax increases in 2013. Thus, a portion of income tax revenue is assumed to have been pulled into FY 2012-13 from FY 2013-14. However, 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.

In addition to the expected decline in investor income, corporate profit growth, and thus corporate income tax revenue, is expected to moderate this fiscal year. After helping boost tax collections to the General Fund since the end of the recession, this moderation will also contribute to the modest revenue growth this year. Finally, as discussed in further detail in the forecast discussion of the main General Fund revenue sources, tax policy changes at both the state and federal level will lower income tax revenue collected from individuals and corporations in FY 2013-14.

The factors slowing General Fund revenue growth this fiscal year will diminish in FY 2014-15, when continued expected economic growth will generate a General Fund revenue increase of 7.1 percent.

Figure 5 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2014-15. The figure illustrates the boost in General Fund revenue in FY 2012-13 and subsequent slower growth in FY 2013-14. A more detailed forecast of General Fund revenue by source is provided in Table 2 following page 20.

Figure 5. General Fund Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



Forecast Discussion of Major General Fund Revenue Sources

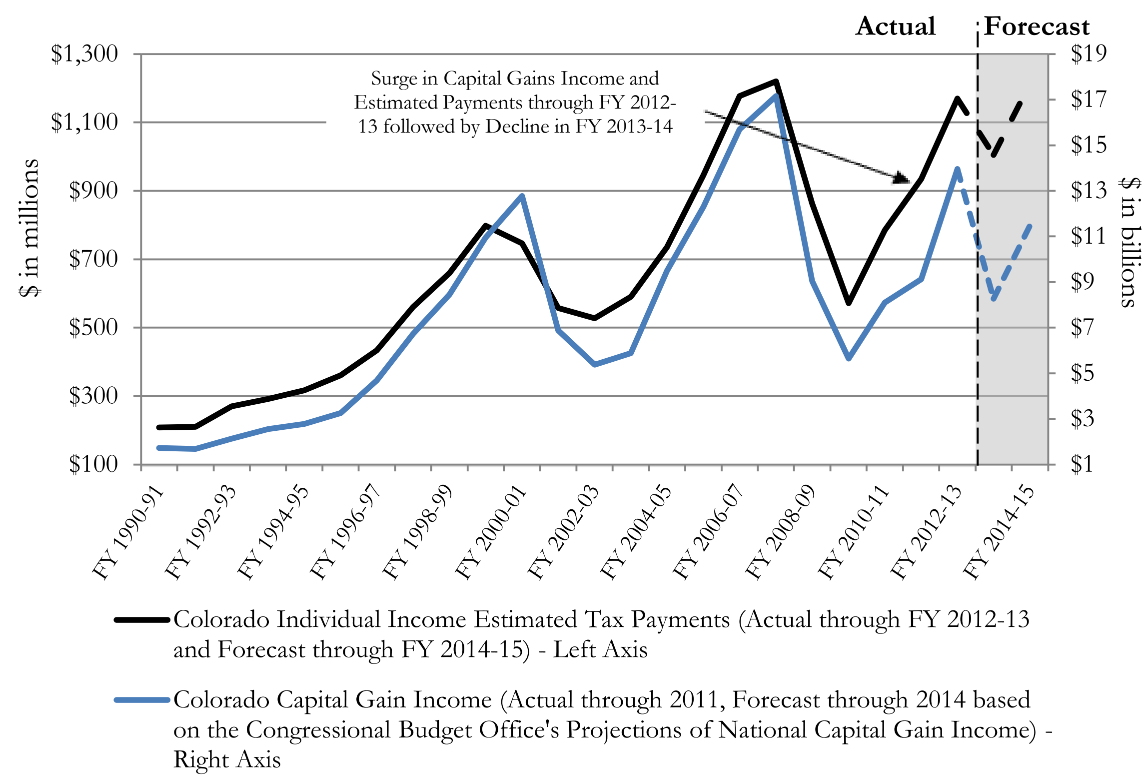
The following section discusses the forecasts for the three major General Fund revenue sources – individual income taxes, corporate income taxes, and sales and use taxes. These sources represent 95 percent of total General Fund revenue. General Fund revenue from the remaining group of miscellaneous sources,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

Individual income tax – Individual income tax collections have exhibited robust growth during the current economic expansion. From FY 2009-10 through FY 2012-13, this revenue source grew by $1.5 billion, or 37.0 percent. Growth in income to workers and businesses from a relatively strong Colorado economy – discussed in further detail in *The Economy: Current Conditions and Forecast* section starting on page 33 – is a main factor in the rebound. The growth is also attributable to strong gains in investor income from rising equity and other asset values. In addition, the increase is due to higher royalties paid to mineral rights owners from the growth in oil and gas production in the state. Because individual income taxes are the largest source of General Fund revenue, comprising roughly 60 percent of the total, its strong growth has bolstered total General Fund revenue overall.

After the sustained brisk increases over the past few fiscal years, individual income tax collections will post a slight decline of 1.2 percent in FY 2013-14. This decline is mostly due to a drop in investor income from capital gains as taxpayers appear to have shifted some of their investment income into 2012 before the 2013 increase in federal tax rates so their income would be subject to lower tax rates. OSPB estimates that around $120 million in tax revenue from capital gains received by Colorado taxpayers was shifted into FY 2012-13 that would have otherwise been collected in FY 2013-14. This estimate is based on projections of national capital gains income from the Congressional Budget Office (CBO). It is also assumed that some of the gains from strong equity growth since 2009 have been realized already and received as income. This will also lead to a pause in the growth in investor income this fiscal year. The CBO projects that income from capital gain realizations will decline roughly 40 percent in 2013. However, this decline is expected to be one time in nature. Capital gains income is expected to rebound for FY 2014-15 as long as equities and other assets continue to gain value.

Investors with high amounts of income pay their tax liabilities through estimated payments periodically throughout the year. The historical and projected trends in estimated tax payments and capital gain income to Coloradans are shown in Figure 6 below. Estimated payments grew 25.2 percent in FY 2012-13, and have doubled since their nadir during the recession in FY 2009-10. They will fall 14.1 percent in FY 2013-14 due to the decline in capital gains income.

Figure 6. Capital Gain Income to Coloradans and State Individual Income Estimated Tax Payments, Actual and Forecast, FY 2000-01 to FY 2014-15



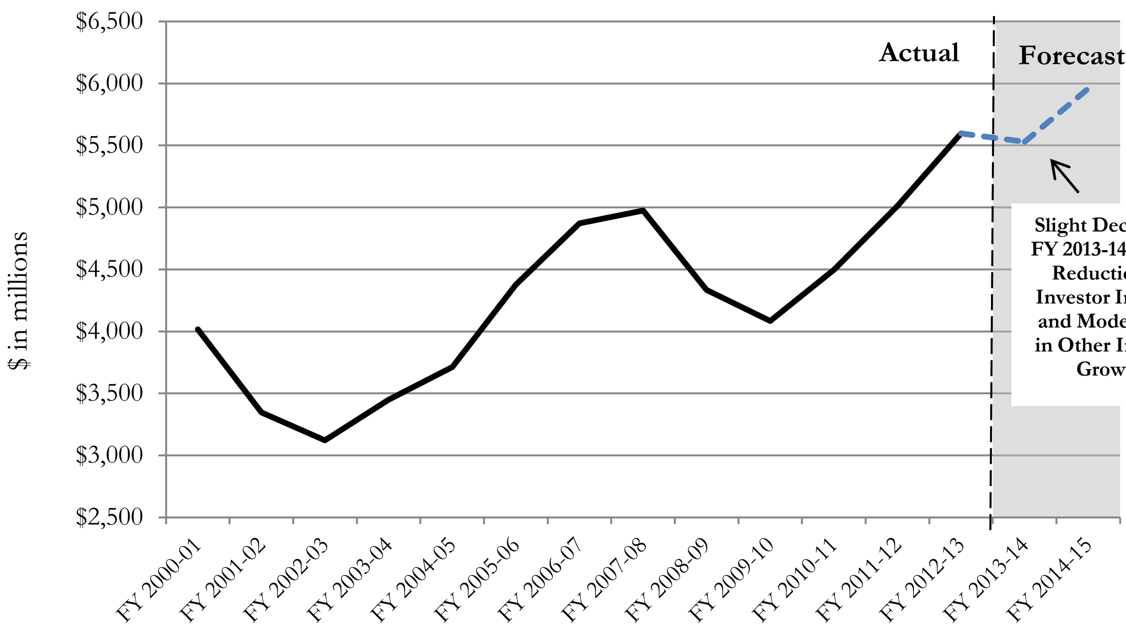
Source: Internal Revenue Service, Colorado Department of Revenue, and Congressional Budget Office. OSPB Calculations.

Tax policy changes, both at the state and federal level, will affect individual income tax revenue over the forecast period. Because taxable income for State individual income tax purposes is based on federal taxable income, certain federal tax policy changes that affect deductions and exemptions can affect Colorado income tax collections.

Tax policy changes will serve, on net, to lower revenue in FY 2013-14, and to a lesser extent in FY 2014-15. The return of the State tax credit for child care contributions is the largest contributor to the net decline. The credits are expected to reduce General Fund revenue by about $25 million to $30 million annually. Further, the business expensing provisions that allow taxpayers to deduct larger investment amounts for tax purposes are another main contributor to the net decline. These provisions were enacted earlier this year in the federal American Taxpayer Relief Act (ATRA). Limitations on federal tax deductions and exemptions in ATRA will increase taxable income for some households and thus offset some of the reduction in revenue from tax policy changes.

The resumption of growth in income from capital gains realizations, along with continued growth in income from wages and business activity, and combined with smaller impacts from tax policy changes, will generate individual income tax revenue growth of 7.7 percent in FY 2014-15. The strong pace of individual income tax revenue growth since the end of the recession, the modest decline in FY 2013-14, and the forecast rebound for FY 2014-15 are depicted in Figure 7.

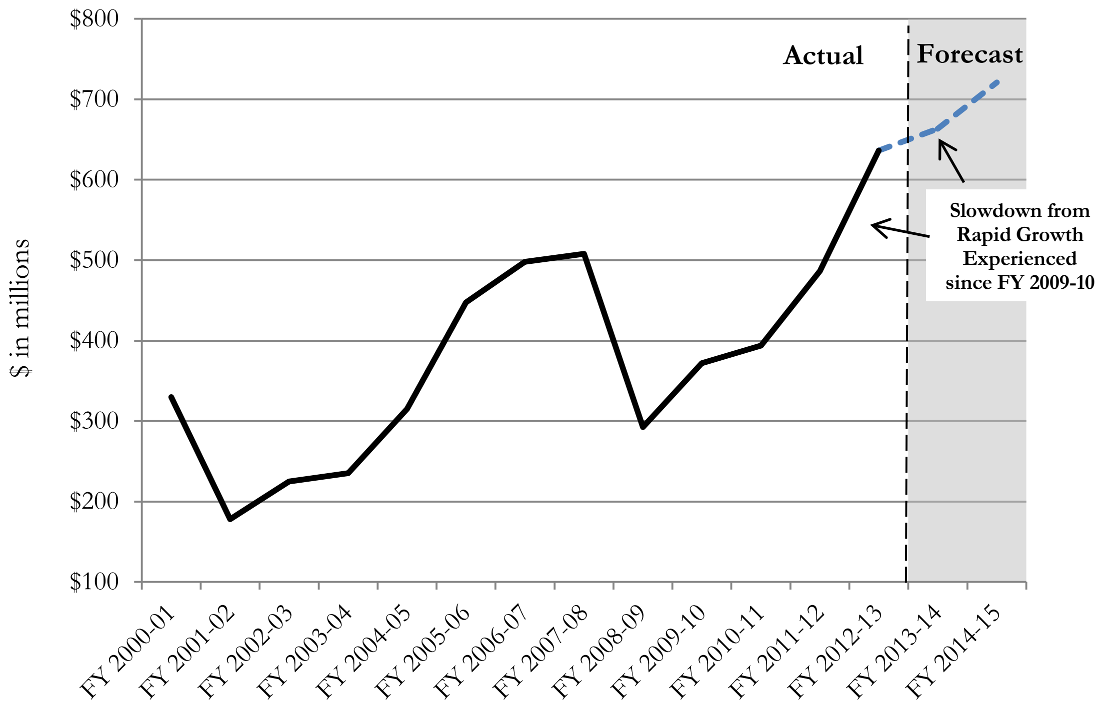
Figure 7. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



Corporate income tax – Corporate income tax revenue has exhibited the most sustained growth during the current economic expansion, having more than doubled since it fell precipitously during the recession in FY 2008-09. Growth in sales and leaner operations have increased business margins and thus supported the tax revenue growth. Additionally, a 2010 state tax policy change capping the amount of net operating losses that corporations could deduct for tax purposes has also bolstered revenue.

After surging 30.8 percent in FY 2012-13, corporate income tax revenue growth will slow to a 4.2 percent increase in FY 2013-14 as corporate profit growth slows. As with individual income tax revenue, tax policy changes, including the federal business expensing provisions in ATRA, will lower corporate income tax revenue compared with previous years. In addition, certain companies will be able to deduct more losses than in previous years as the cap on net operating losses will expire in 2014, resulting in lower taxable income. A graph of historical and forecasted corporate income tax collections is provided in Figure 8.

Figure 8. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15

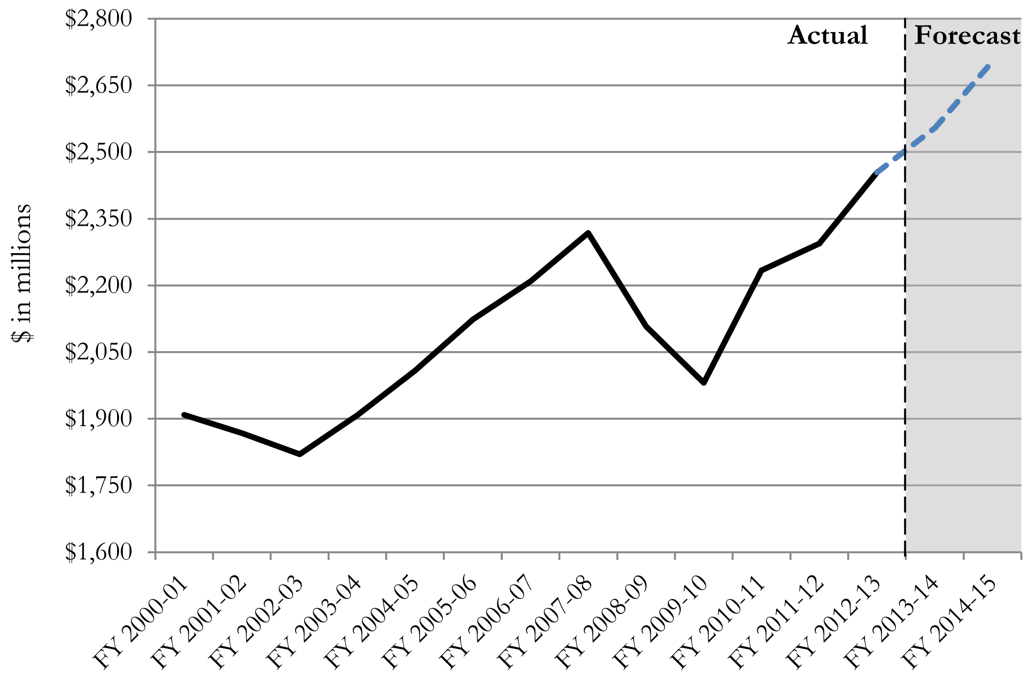


Sales and use tax – Sales tax revenue comprises 25 to 30 percent of General Fund revenue, depending on the year. This category of revenue has experienced more modest growth than income tax revenue collections, having grown 21.2 percent from FY 2009-10 through FY 2012-13. After increasing 5.7 percent in FY 2012-13, sales tax revenue will grow another 4.7 percent in FY 2013-14. Continued income and job growth, along with more activity in the housing market, will continue to support consumer spending. Also, because certain purchases by businesses are taxable, continued growth in overall economic activity will help sales tax revenue continue to increase. Growth in FY 2013-14 sales tax revenue will be slightly lower from the prior year in part because of less robust growth in vehicle sales, which comprise around 12 percent of sales tax collections. After strong growth since mid-2009, vehicle sales will moderate due to higher financing costs and diminishing pent-up demand for new and replacement vehicles.

Use taxes 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; thus use taxes are mostly paid by businesses. Business investment, especially in the oil and gas industry, as well as a pickup in construction activity, has bolstered use tax revenue. In FY 2012-13, use tax revenue grew 21.0 percent. OSPB expects use tax revenue growth will pause in FY 2013-14, declining 1.8 percent. However, use tax revenue will resume growth in FY 2014-15, posting an increase of 6.7 percent.

Total sales and use tax revenue from FY 2000-01 through FY 2014-15 is shown in Figure 9.

Figure 9. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



State Education Fund Revenue – As discussed on page 7 in the *State Education Fund Budget* section, the state constitution requires that one third of one percent of taxable income from Colorado taxpayers be credited to the State Education Fund. Because this revenue comes from taxable income, it largely follows the trends in individual income and corporate income tax revenue collections discussed above. After a 19.3 percent gain in FY 2012-13, this revenue source will decline 3.2 percent in FY 2013-14 due to the slowdown in corporate income taxes and the decline in investor income. However, the annual constitutional diversion to the State Education Fund will grow again in FY 2014-15 along with overall income tax revenue, posting an increase of 6.4 percent.

Figure 10 shows the diversion of one third of one percent of taxable income to the State Education Fund from FY 2000-01 to FY 2014-15. In addition to this dedicated source of revenue, the State Education Fund also receives income from other sources – some of which are one time in nature – mostly from the General Fund, which is shown in detail on page 8.

Figure 10. State Education Fund Revenue from One Third of One Percent of Taxable Income, Actual and Forecast, FY 2000-01 to FY 2014-15

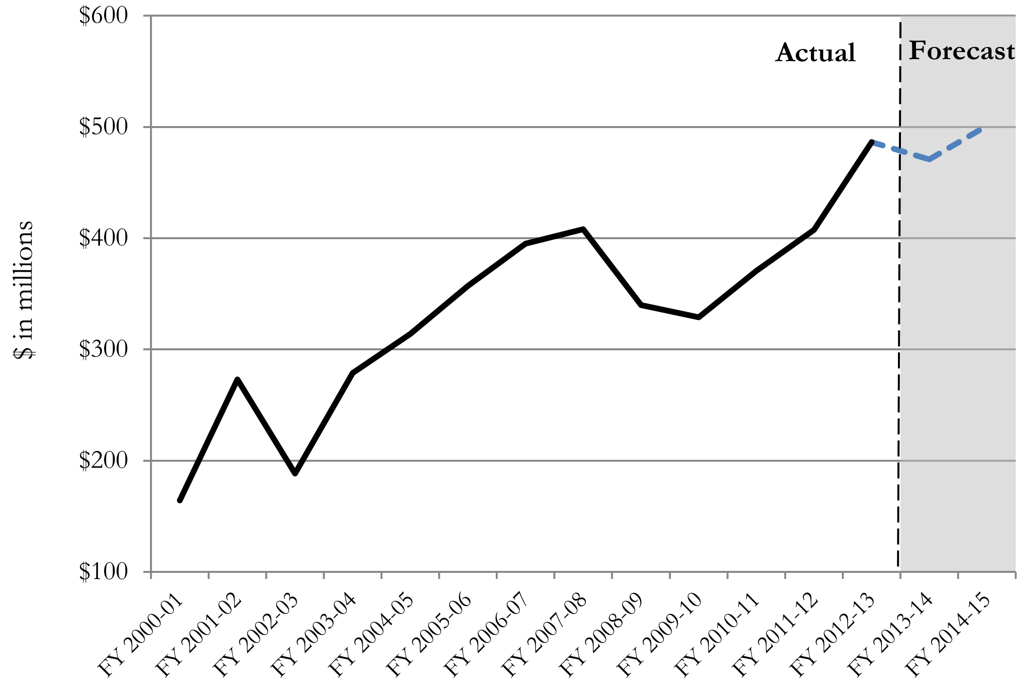


Table 2. General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	Preliminary FY 2012-13	%Chg	September 2013 Estimate by Fiscal Year FY 2013-14	%Chg	FY 2014-15	%Chg	FY 2015-16	%Chg
	Excise Taxes:								
1	Sales	$2,211.7	5.7%	$2,316.3	4.7%	$2,449.4	5.7%	$2,548.7	4.1%
2	Use	$242.7	21.0%	$238.3	-1.8%	$254.3	6.7%	$272.0	6.9%
3	Cigarette	$38.3	-3.1%	$37.4	-2.4%	$35.6	-4.7%	$34.4	-3.3%
4	Tobacco Products	$15.6	-2.9%	$17.0	8.8%	$17.0	0.2%	$17.5	3.0%
5	Liquor	$39.2	2.2%	$40.8	4.0%	$40.4	-1.0%	$41.2	2.1%
6	**Total Excise**	**$2,547.5**	**6.7%**	**$2,649.7**	**4.0%**	**$2,796.8**	**5.5%**	**$2,913.8**	**4.2%**
	Income Taxes:								
7	Net Individual Income	$5,596.3	11.7%	$5,529.9	-1.2%	$5,957.4	7.7%	$6,260.7	5.1%
8	Net Corporate Income	$636.3	30.8%	$663.3	4.2%	$721.0	8.7%	$770.7	6.9%
9	**Total Income**	**$6,232.6**	13.4%	**$6,193.2**	-0.6%	**$6,678.4**	7.8%	**$7,031.5**	**5.3%**
10	*Less: State Education Fund Diversion*	*$486.3*	*19.3%*	*$470.7*	*-3.2%*	*$500.9*	*6.4%*	*$527.4*	*5.3%*
11	**Total Income to General Fund**	**$5,746.2**	**12.9%**	**$5,722.5**	**-0.4%**	**$6,177.5**	**8.0%**	**$6,504.1**	**5.3%**
	Other Revenue:								
12	Insurance	$210.4	6.7%	$214.4	1.9%	$221.1	3.1%	$226.0	2.2%
13	Interest Income	$17.4	28.6%	$19.8	13.3%	$23.1	16.8%	$26.2	13.4%
14	Pari-Mutuel	$0.7	10.3%	$0.6	-12.9%	$0.5	-10.0%	$0.5	-5.0%
15	Court Receipts	$2.3	-9.0%	$2.4	1.0%	$2.3	-5.0%	$2.1	-5.0%
16	Gaming	$12.1	-40.4%	$14.0	15.7%	$15.1	7.9%	$17.5	15.9%
17	Other Income	$18.1	-21.6%	$19.4	7.4%	$23.5	20.7%	$25.4	8.5%
18	**Total Other**	**$261.1**	**1.3%**	**$270.5**	**3.6%**	**$285.5**	**5.5%**	**$297.7**	**4.3%**
19	**GROSS GENERAL FUND**	**$8,554.8**	**10.6%**	**$8,642.7**	**1.0%**	**$9,259.8**	**7.1%**	**$9,715.6**	**4.9%**

Cash Fund Revenue Forecast

Cash fund revenue subject to TABOR will grow by 3.6 percent to $2.63 billion in FY 2013-14 after a decline of $21 million, or 0.8 percent, in FY 2012-13. Cash fund revenue growth will be led by an $80 million increase in severance tax revenue resulting from higher natural gas prices and continued strong oil production, combined with lower ad valorem tax credits from the prior year. While hospital provider fee revenue will decline in response to higher Medicaid program support from the federal government, most other categories of cash funds will grow, reflecting stronger economic activity within the state in the second half of 2013 and 2014.

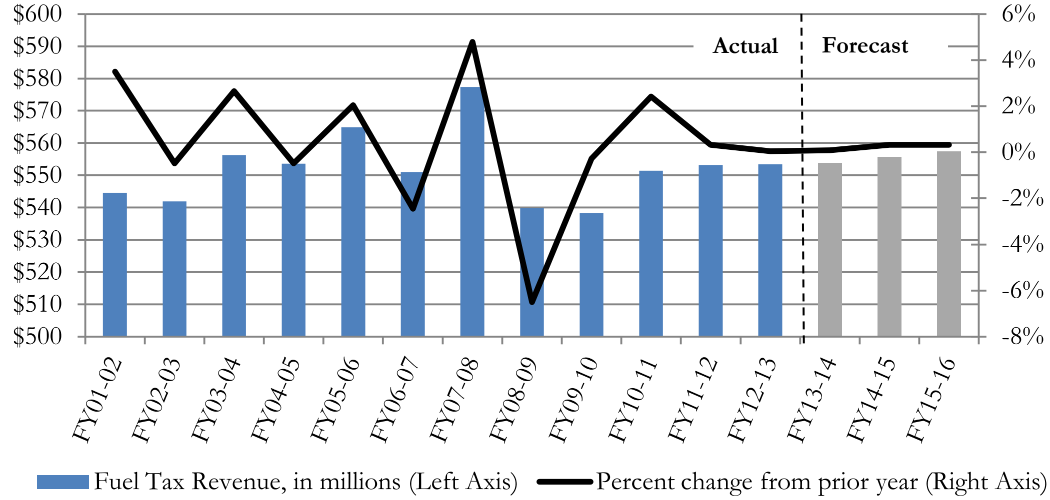
Cash fund revenue will fall by 0.8 percent in FY 2014-15 to $2.61 billion due to a further decline of $53.5 million in hospital provider fee revenue which is discussed in further detail on page 25. OSPB's forecast of cash fund revenue subject to TABOR is shown in Table 3 following page 29. The cash fund forecast focuses on revenue subject to TABOR because the Colorado constitution places a limit on the amount of revenue from certain sources that can be retained by the State each year. Cash Fund revenue that is not subject to TABOR generally includes revenue exempted by Colorado voters, federal money, and revenue received by entities designated as enterprises, such as public universities and colleges. More information on TABOR revenue and the revenue limit can be found on page 31 of this document.

Transportation-Related Cash Funds

Revenue to transportation-related cash funds that is subject to TABOR will grow 1.2 percent to $1.11 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, local counties and municipalities, and the Colorado State Patrol.

Relatively small growth in transportation-related cash funds is largely explained by subdued growth in fuel tax collections, which account for roughly half of all transportation-related revenue subject to TABOR. The history and forecast of fuel tax revenue subject to TABOR, including excise tax on both gasoline and diesel, is shown in Figure 11 below. Fuel taxes have grown less than one half percent in each of the last two years. This trend, partially driven by growing consumer preferences for greater fuel economy and alternative fuel vehicles, is expected to continue through the forecast period.

Figure 11. Fuel Tax Revenue and Year-over-Year Change, FY 2002 – FY 2016



HB 13-1110 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. This bill will increase revenue to three cash funds by an estimated $192 thousand in FY 2013-14 ($86 thousand of which will go to the HUTF) and $505 thousand in FY 2014-15 ($261 thousand of which will go to the HUTF). By collecting fuel taxes from drivers of natural gas-powered vehicles rather than an annual decal fee, the bill aims to collect revenue according to a better approximation of the actual amount of wear that each vehicle places on the road. HB 13-1110 also implements a decal system for electric vehicles beginning January 1, 2014 that will collect revenue from electric vehicles, which do not generate fuel tax revenue, to contribute to roadway maintenance costs. Over time, the revenue generated by these two programs will grow proportionally to the number of alternative fuel vehicles on Colorado's highways, and will partially offset slower growth in fuel taxes. However, the impact of taxes and fees related to natural gas and electric vehicles is not expected to become a significant portion of transportation revenue for several years.

As anticipated in prior OSPB forecasts, vehicle sales have remained quite strong through the first half of 2013. Robust auto sales have likely been supported by strengthening job growth in Colorado as well as low interest rates and increased household wealth due to recovery in the housing and stock markets. Some of the recently robust vehicle sales activity may taper off as consumers work through pent-up demand from the wake of the Great Recession and as interest rates begin to rise.

Limited Gaming

Limited gaming revenue will grow by an estimated $2.7 million, or 2.5 percent, in FY 2013-14 to $109.9 million. This increase will be the highest rate of growth since expanded gaming authorized by Amendment 50 took effect in FY 2009-10. This growth is reflective of the state's stronger labor market and greater household net worth as a result of home price appreciation and stock market performance.

However, limited gaming revenue growth of 2.5 percent is slower than overall employment and income growth. Despite the reversal of the 5 percent gaming tax reduction, limited gaming revenue grew just 2.3 percent to $107.2 million in FY 2012-13. The slowdown in gaming activity signals that there has been a change in households' willingness to spend on gaming, possibly due in part to the experience of the Great Recession. This shift in consumer and household behavior has continued even as the economy continues to recover.

Of the total expected limited gaming revenue for FY 2013-14, $100.7 million will be subject to TABOR. This is the amount reflected in Table 3, "Cash Fund Revenue Subject to TABOR". Of this amount, $97.8 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 as well as fines and fees related to gaming. The additional $9.2 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 certain economic development-related programs. Figure 12 below shows in detail the anticipated distribution of limited gaming revenues.

Figure 12. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Preliminary FY 12-13	Forecast FY 13-14	Forecast FY 14-15	Forecast FY 15-16
A. Total Limited Gaming Revenues	**$107.2**	**$109.9**	**$112.5**	**$115.0**
Annual Percent Change	2.3%	2.5%	2.4%	2.2%
B. Base Limited Gaming Revenues (max 3% growth)	**$95.5**	**$97.8**	**$100.2**	**$102.4**
Annual Percent Change	3.0%	2.5%	2.4%	2.2%
C. Gaming Revenue Subject to TABOR	**$98.1**	**$100.7**	**$103.1**	**$105.3**
Annual Percent Change	2.6%	2.6%	2.4%	2.2%
D. Total Amount to Base Revenue Recipients	**$84.4**	**$88.1**	**$90.2**	**$95.0**
Amount to State Historical Society	*$23.6*	*$24.7*	*$25.3*	*$26.6*
Amount to Counties	*$10.1*	*$10.6*	*$10.8*	*$11.4*
Amount to Cities	*$8.4*	*$8.8*	*$9.0*	*$9.5*
Amount to Distribute to Remaining Programs (State Share)	*$42.1*	*$44.0*	*$45.1*	*$47.5*
Amount to Local Government Impact Fund	*$5.0*	*$5.0*	*$5.0*	*$5.0*
Colorado Tourism Promotion Fund	*$15.0*	*$15.0*	*$15.0*	*$15.0*
Creative Industries Cash Fund	*$2.0*	*$2.0*	*$2.0*	*$2.0*
Film, Television, and Media Operational Account	*$0.5*	*$0.5*	*$0.5*	*$0.5*
Bioscience Discovery Evaluation Fund	*$5.5*	*N/A*	*N/A*	*N/A*
Advanced Industries Acceleration Fund	*N/A*	*$5.5*	*$5.5*	*$5.5*
Innovative Higher Education Research Fund	*$2.0*	*$2.0*	*$2.0*	*$2.0*
Transfer to the General Fund	*$12.1*	*$14.0*	*$15.1*	*$17.5*
E. Total Amount to Amendment 50 Revenue Recipients	**$8.3**	**$8.9**	**$9.1**	**$9.4**
Community Colleges, Mesa and Adams State (78%)	*$6.5*	*$6.9*	*$7.1*	*$7.3*
Counties (12%)	*$1.0*	*$1.1*	*$1.1*	*$1.1*
Cities (10%)	*$0.8*	*$0.9*	*$0.9*	*$0.9*

Hospital Provider Fee

Hospital Provider Fee revenue will decrease an estimated $25 million, or 3.8 percent, in FY 2013-14 following implementation of SB 13-200. This bill implements the State's participation in the expansion of Medicaid under 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).

Colorado hospitals pay the Hospital Provider Fee (HPF), which is calculated as a percentage of net patient revenue. Revenue generated by the fee is matched by dollars from the federal government to cover certain Medicaid costs and to limit cost-shifting for under-insured patients to the private healthcare market. Because ACA specifies that the federal government will match state HPF funds at a more favorable ratio for payments under the Medicaid program, its implementation causes the need for HPF funds to decrease. 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, to an estimated $574.0 million, when the full-year impact of new federal Medicaid financing is implemented.

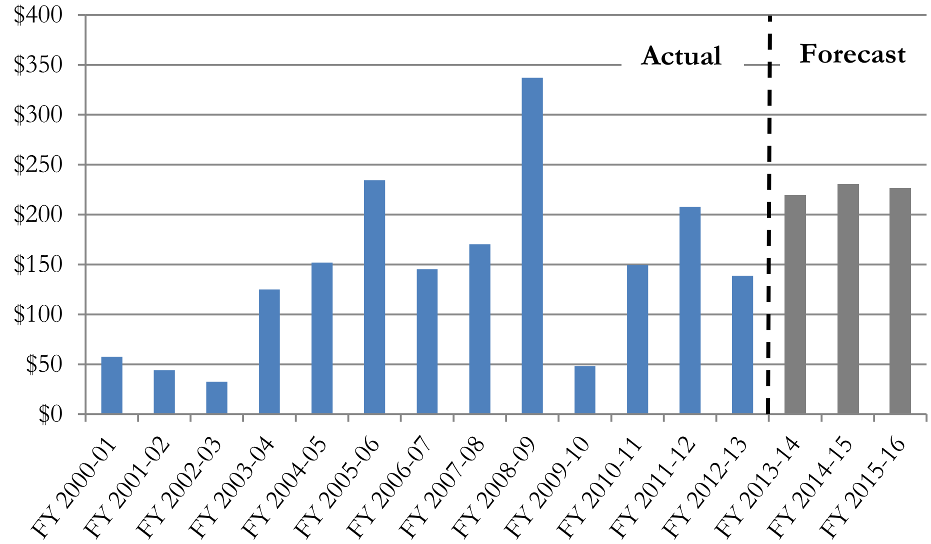
Severance Tax

Severance tax revenue will total $219.0 million in FY 2013-14, an increase of 58.0 percent over FY 2012-13, reflecting higher natural gas prices, continued growth in oil production, and ad valorem tax credits that are smaller than the prior year (explained in further detail below). The higher credits in FY 2012-13, coupled with lower natural gas prices, helped cause a 33.3 percent decline in severance tax revenue last year. Due to gradually increasing prices for oil and natural gas, as well as growing production output, severance tax will grow again in FY 2014-15 by 5.1 percent to $230.1 million.

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. This dynamic is a primary reason for the level of volatility seen in severance tax revenue, as demonstrated in Figure 13 below.

Figure 13. Severance Tax Revenue, FY 2001 – FY 2016, $s in Millions



Because natural gas is the largest source of severance tax revenue, its price has a large impact on this category of cash funds. Natural gas prices declined significantly in 2012, falling below $2.00 per thousand cubic feet (Mcf) in April, before rising again. 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. The U.S. Energy Information Administration noted recently that national inventories of gas have fallen from the record highs observed in 2012; they are slightly below their five-year average. Greater use of natural gas is occurring as manufacturers, drivers, and other energy consumers begin using the fuel source in place of petroleum or coal. This will put downward pressure on natural gas inventories, causing prices to rise slightly despite continued robust production of the resource.

The price and production of oil are also determinants of severance tax revenue, though less so than natural gas. The price of oil extracted in Colorado will grow to nearly $94 per barrel in 2013, a roughly $7 per barrel increase from 2012. The higher forecast price of Colorado oil is reflective of many factors, including a global increase in oil prices due to conflict in Syria and Egypt, as well as greater infrastructure to support the transportation and sale of oil from Colorado, which allows the commodity to fetch a higher price. Oil production continues to grow strongly, especially in the northeast region of the state, as operators continue to invest in the deployment of equipment and new extraction technologies in the region.

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 overall. Severance tax revenue growth could potentially accelerate beyond the forecast growth rate if new production opportunities are pursued in other parts of the state. Another upside risk to the forecast is that prices may rise unexpectedly due to growing tensions in major oil-producing parts of the world and/or better-than-expected economic growth at the national level that could drive greater demand.

Severance taxes collected on coal provide a much smaller portion of overall severance tax revenue than oil and gas receipts. Colorado coal production in the first six months of 2013 declined 20 percent from the same period in 2012 as a result of several factors, including wildfire impacts and uncertainties regarding the market for selling extracted coal. Many American power plants and manufacturers have switched to natural gas to satisfy energy needs. Other countries with large manufacturing industries, such as China, still use a significant amount of coal. However, it can be difficult for producers to establish sales in new markets abroad and many American operators, including those that operate mines in Colorado, have slowed extraction efforts in response to falling domestic demand. OSPB estimates that severance tax revenue from coal production will decline by 13 percent to $7.7 million in FY 2013-14 and 3.0 percent to $7.5 million in FY 2014-15.

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 cannot claim ad valorem tax credits for resources extracted from federal lands.

Two factors involving federal government policy will impact Colorado's FML revenue growth in FY 2013-14. First, the US Bureau of Land Management granted a royalty rate reduction for three Colorado coal mines in 2013 which was applied retroactively to royalty payments already made by the operators. This resulted in a reduction of approximately $9.2 million from Colorado's share of FML revenue in FY 2012-13. Since this is not anticipated to occur in FY 2013-14, it will boost Colorado's share of FML revenue compared with last fiscal year.

Secondly, the federal government withheld a portion of States' share of FML revenue in FY 2012-13 due to the implementation of the federal Balanced Budget and Emergency Deficit Control Act often referred to as "sequestration." The US Department of the Interior initially interpreted States' shares of FML royalty payments as federal expenditures subject to sequestration, and thus began withholding a portion of Colorado's share of FML royalties. The Department of the Interior recently announced that a legal review determined that States' shares of FML royalty payments will be disbursed to States in federal fiscal year 2014. The Department also indicated, however, that it will continue to withhold 5.1 percent of Colorado's share of FML royalty payments throughout the remainder of the federal fiscal year 2013 until they are distributed to the State after September 30. No official statement has been made regarding the Department's intention to withhold or not to withhold a portion of FML payments in federal fiscal year 2014.

For this forecast, OSPB has assumed that the Department of the Interior will continue withholding a portion of Colorado's FML payment during federal fiscal year 2013-14, and then, again, disburse the withheld amount in the following federal fiscal year. As a result of these factors, along with a modest increase in energy prices and continued growth in production, OSPB forecasts FML revenue will grow $21.8 million, or 18 percent, to $142.6 million in FY 2013-14. FML revenue will grow by 12.6 percent to $160.6 million in FY 2014-15.

Figure 14. Federal Mineral Leasing (FML) Payments

Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2012-13	$5.07	$115.72	$120.79	-26.8%
FY 2013-14	$3.56	$139.02	$142.59	18.0%
FY 2014-15	$4.01	$156.54	$160.56	12.6%
FY 2015-16	$3.79	$169.99	$173.78	8.2%

Dollars are in millions. FY 2012-13 figures reflect actual collections, and FY 2013-14 through FY 2015-16 are projections.

Other Cash Funds

The Colorado Department of Regulatory Agencies (DORA) is responsible for regulatory oversight of several industries through licensing, rulemaking, enforcement, and approval of rates charged to consumers by regulated entities. The Department oversees a wide variety of entities, including homeowners associations, medical professionals, and land surveyors. Fees paid by regulated entities generate revenue to a number of cash funds that help finance DORA's regulatory activities. OSPB estimates that revenue to DORA-related cash funds subject to TABOR will grow 3.1 percent to $66.8 million in FY 2013-14 as several bills impacting cash funds for regulatory agencies take effect, and as new business activity continues to expand. This category of cash fund revenue is expected to grow again by 2.5 percent to $68.4 million in FY 2014-15.

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 which were created to absorb costs for certain populations of people injured during a period prior to 1981. Revenue from the surcharge grew 16.6 percent in FY 2012-13, to $26.4 million, reflecting stronger-than-expected hiring by Colorado companies that resulted in a higher level of workers' compensation insurance premiums. Insurance-related cash fund revenue will grow 3.0 percent to $27.2 million in FY 2013-14 and to $28.2 million in FY 2014-15.

Table 3 includes a category called "Other Miscellaneous Cash Funds" which represents a large array of smaller individual cash funds that are not exempt from TABOR. These funds hold revenue collected from various fines and fees as well as interest earnings on the balance of a variety of other State funds. Low interest rates have dampened growth and caused declines among many cash funds. Continued state economic growth is expected to bolster revenue to many miscellaneous cash funds which receive fees paid for public services. Revenue to the miscellaneous cash funds will grow by 3.7 percent to $480.1 million in FY 2013-14 and will grow 3.3 percent to $495.9 million in FY 2014-15.

Two bills passed the Colorado Legislature in 2013 that may create new revenue to cash funds from taxes and fees on the sale of medical and retail marijuana. HB 13-1317 implements many provisions of Amendment 64 which authorized the sale and possession of small amounts of marijuana by adults in Colorado. It is expected that this bill will increase miscellaneous cash fund revenue by $10.9 million in

FY 2013-14. However, it should be noted that the amount of revenue collected may differ substantially from this estimate because of the uncertainty surrounding the volume of future sales of marijuana. 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 November 2013 election, it will increase cash fund revenue by approximately $24.5 million in FY 2013-14. 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 amounts in millions)

Category	Preliminary	September 2013 Estimate by Fiscal Year			FY 2012-13 to FY 2015-16 CAAGR *
	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	
Transportation-Related /A	**$1,098.6**	**$1,112.0**	**$1,112.7**	**$1,125.1**	
Change	-1.2%	1.2%	0.1%	1.1%	0.8%
Limited Gaming Fund /B	**$98.1**	**$100.7**	**$103.1**	**$105.3**	
Change	2.6%	2.6%	2.4%	2.2%	2.4%
Capital Construction - Interest	**$0.8**	**$0.7**	**$1.4**	**$1.4**	
Change	-29.0%	-13.8%	100.8%	1.8%	20.8%
Regulatory Agencies	**$64.8**	**$66.8**	**$68.4**	**$70.3**	
Change	-0.2%	3.1%	2.5%	2.7%	2.7%
Insurance-Related	**$26.4**	**$27.2**	**$28.2**	**$29.2**	
Change	16.6%	3.0%	3.5%	3.5%	3.4%
Severance Tax	**$138.6**	**$219.0**	**$230.1**	**$226.3**	
Change	-33.3%	58.0%	5.1%	-1.7%	17.8%
Hospital Provider Fees /C /D	**$652.6**	**$627.5**	**$574.0**	**$574.0**	
Change	11.3%	-3.8%	-8.5%	0.0%	-4.2%
Other Miscellaneous Cash Funds	**$462.9**	**$480.1**	**$495.9**	**$502.7**	
Change	-2.1%	3.7%	3.3%	1.4%	2.8%
TOTAL CASH FUND REVENUE	***$2,542.8***	***$2,633.9***	***$2,613.9***	***$2,634.2***	
Change	-0.8%	3.6%	-0.8%	0.8%	1.2%

* CAAGR: Compound Annual Average Growth Rate.

/A Includes revenue from SB 09-108 (FASTER) which began in FY 2009-10. Roughly 40% of FASTER-related revenue is directed to two 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 allowed 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 which put into statute the expansion of Colorado's Medicaid program beginning on January 1, 2014, as allowed by the federal law known as the Affordable Care Act.

/D Figure for FY2015-16 has not been forecast as of this writing. The forecast of HPF revenue for this year is pending projections of the size of Medicaid expansion populations and other factors that have not yet been published by the Department of Healthcare Policy and Financing.

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 growth in State revenue 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) as revenue will be between roughly $500 million and $600 million below the cap through FY 2015-16. Most General Fund revenue and a large portion of cash fund revenue are included in calculating the revenue cap under Referendum C. Cash fund revenue that is not subject to TABOR generally includes revenue exempted by Colorado voters, federal money, and revenue received by entities designated as enterprises, such as public universities and colleges.

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.		Preliminary FY 2012-13	September 2013 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
	TABOR Revenues:				
1	General Fund /A	$8,566.7	$8,628.7	$9,244.7	$9,698.1
	Percent Change from Prior Year	11.0%	0.7%	7.1%	4.9%
2	Cash Funds /A	$2,542.8	$2,633.9	$2,613.9	$2,634.2
	Percent Change from Prior Year	-0.5%	3.6%	-0.8%	0.8%
3	**Total TABOR Revenues**	**$11,109.5**	**$11,262.6**	**$11,858.5**	**$12,332.4**
	Percent Change from Prior Year	8.1%	1.4%	5.3%	4.0%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.7%	1.4%	1.6%	1.7%
5	Previous calendar year inflation	3.7%	1.9%	2.6%	2.4%
6	**Allowable TABOR Growth Rate**	5.4%	3.3%	4.3%	4.1%
7	TABOR Limit	$9,247.5	$9,552.6	$9,963.4	$10,371.9
8	General Fund Exempt Revenue Under Ref. C /B	$1,862.1	$1,710.0	$1,895.2	$1,960.5
9	**Revenue Cap Under Ref. C /C**	**$11,460.2**	**$11,838.4**	**$12,347.5**	**$12,853.7**
10	***Amount Above/(Below) Cap***	**-$350.7**	**-$575.8**	**-$488.9**	**-$521.4**
11	TABOR Reserve Requirement	$333.3	$337.9	$355.8	$370.0

/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 revenue), and due to 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

With its diverse industries and high level of human capital, Colorado's economy has continued to show that it has established a solid foundation for growth. The state's growing energy and technology-related sectors continue to provide economic vitality. A rebound in new business formation has also been a key factor. Many state economic indicators are outperforming national averages. As a result, unemployment continues to come down from its high level. Still, further progress is needed so that more individuals and areas outside the Front Range can participate in the expansion.

Though certain economic activity is expanding, stronger sustained economic momentum continues to evade the nation overall. Several factors are hindering better economic performance. Progress has been uneven across regions and sectors in the difficult transition to the increasingly technology- and information-based economy. In some cases, demand for labor has been permanently diminished and increased training is necessary so workers can adapt to changing economic needs. Also, business investment has only modestly begun to rebuild the nation's productive capacity after the Great Recession. Tables 5 and 6 following page 58 provide historical data and projections for key economic indicators for Colorado and the nation.

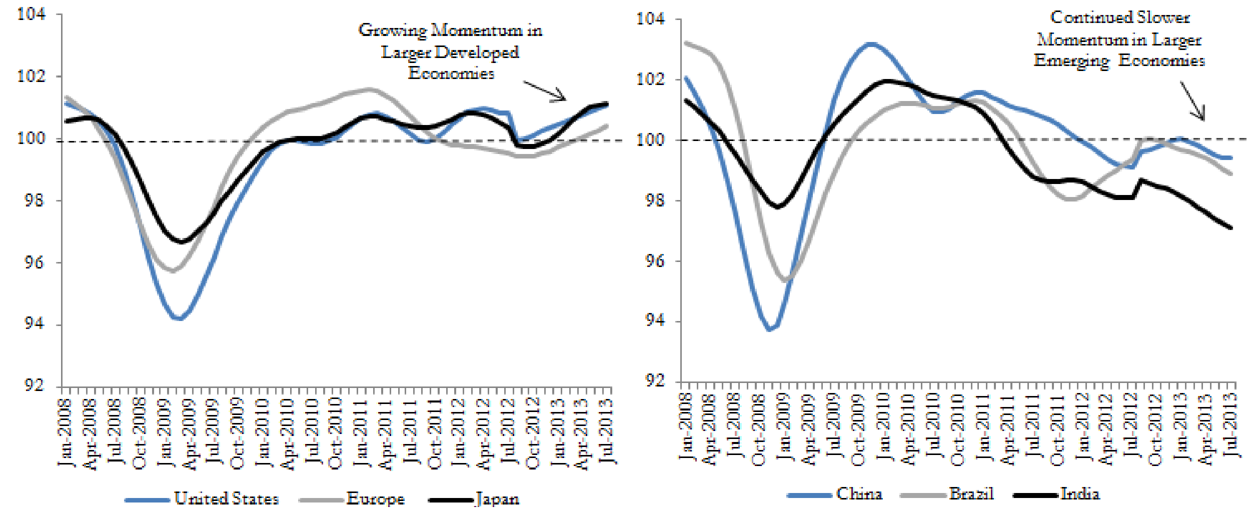
Though the economy is growing, it continues to be vulnerable to adverse economic events. There remain unanswered questions regarding the effects of current monetary policy on financial markets and the broader economy. Any unexpected or appreciable changes in the stance of monetary policy may disrupt financial markets in particular and slow the rebounding housing market and other interest-rate sensitive activities, such as vehicle sales and business investment. Further, turmoil in the Middle East poses a risk through heightened economic uncertainty and additional increases in oil prices. Economic uncertainty may also arise with discussion of federal fiscal and debt issues this fall. Despite Colorado's better economic foundation, it is not insulated from these larger economic issues.

Overall Economic Conditions

On a global level, more advanced economies have shown better economic growth, while emerging economies are slower – The global economy is highly connected, and conditions in other parts of the world impact the nation and state. Thus, the sluggish nature of global growth over the past few years is one factor hampering the U.S. economy's ability to expand. The world's largest advanced economies have recently picked up momentum, most particularly Europe and Japan. However, economic activity in the largest emerging economies, including China, India, and Brazil, continues to be subpar. These trends can be seen in Figure 15, which provides composite leading indicators published by the Organization for Economic Co-Operation and Development (OECD). These indicators were created to anticipate the economic activity of an economy about six months into the future.

On a positive note, the HSBC China Composite Purchasing Managers' Index (PMI) and its emerging markets index both showed marginal improvement in their August reading after weaker signals in prior months. Overall global manufacturing output is also showing renewed signs of strengthening. The JP Morgan Global Manufacturing PMI, though still indicating only moderate activity, was at its highest level in August since June 2011.

Figure 15. OECD Composite of Leading Indicators* for Major Global Economies, 2008 through July 2013



Source: Organization for Economic Cooperation and Development
* The horizontal line at 100 represents the trend of economic activity. A reading that is rising predicts expansion while a falling reading predicts a slowdown.

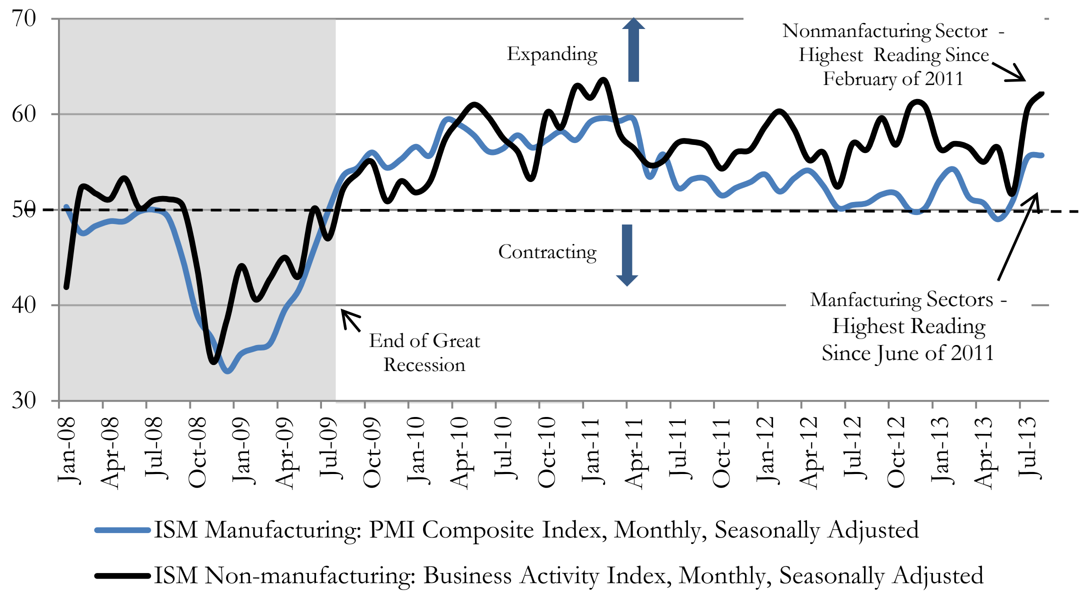
Though there are industries and regions with better performance, the national economy overall has been in a lull. There are some recent signs of increased momentum – The performance of the national economy continues to be uneven. There is momentum in certain geographic regions – especially those with advanced innovative industries and with energy development – and some sectors, such as the housing market and vehicle sales. Also, jobless claims have fallen to their lowest level since before the Great Recession. However, overall output growth has been muted. Further, income and job growth has been only modest and many individuals remain unemployed or "underemployed." Participation in the labor force is at a 40-year low. On a positive note, after slower growth over much of the past year, overall economic activity at the national level has recently shown signs of expansion.

The uneven nature of growth suggests there has not been enough productive risk taking to fuel more sustained growth and to enable more individuals to earn higher incomes. Greater business expansion and formation is needed to create more jobs. Net business investment remains at low levels as a percent of the overall economy; thus the nation's capital stock remains depleted. It is possible that too many businesses are unable or unsure of how to deploy capital to boost productive capacity.

Evidence of the nation's sluggish and unsteady economic performance, as well as the recent pickup in activity, can be found in the Institute for Supply Management's (ISM) business surveys that are used to gauge economic conditions and trends. ISM surveys businesses in manufacturing, which represents about 23 percent of the nation's total private sector output, and in a separate survey, business in all other sectors. Not surprisingly, the indices measuring economic activity developed from ISM surveys closely track trends in the nation's gross domestic product.

Figure 16 shows the ISM manufacturing and nonmanufacturing indices since the beginning of 2008. These indices show the slowdown of economic activity that has occurred through most of 2013. Indeed, the manufacturing sector fell into contraction for part of the year. The nonmanufacturing sectors of the economy, mostly services-based industries, but also mining, construction, and agriculture, have outperformed manufacturing. Both measures of the economy have picked up markedly in recent months, hitting levels not seen since 2011.

Figure 16. Comparison of ISM Manufacturing and Non-manufacturing Indices*



Source: Institute for Supply Management

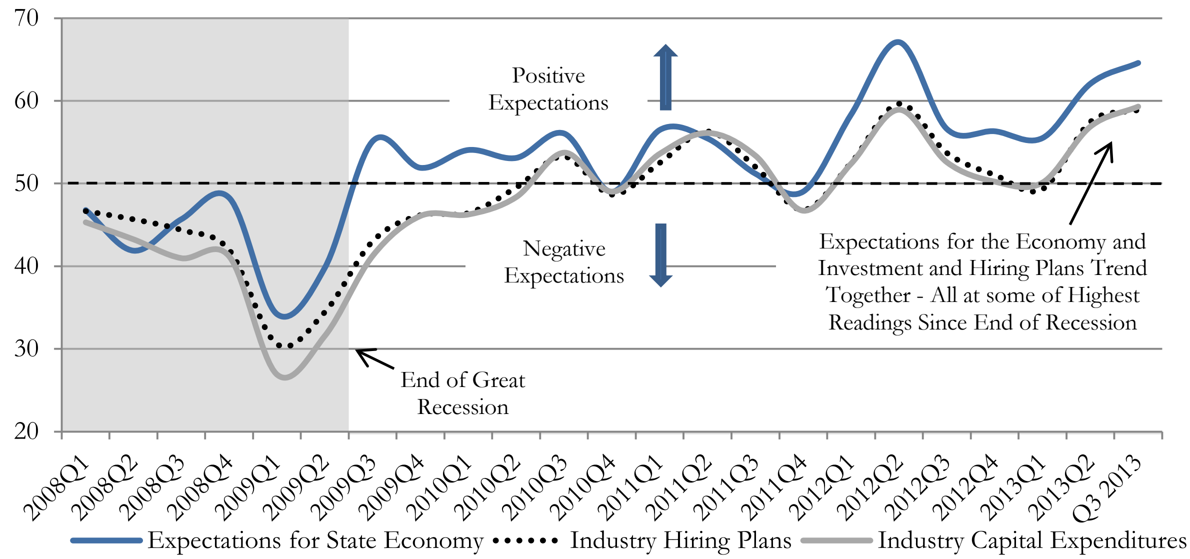
*Index readings calculated from the surveys above 50 indicate that business activity is expanding, while levels below 50 indicate contraction.

Colorado's economic momentum continues due to the state's more favorable attributes – Many of the state's major industries – professional and business services, energy development, finance and insurance, tourism, housing and construction, and certain manufacturing sectors – are growing. Job growth has picked up this year to its fastest pace in more than a decade and the housing market continues to rebound. As a result, unemployment continues to decline, albeit slowly.

High levels of human capital, entrepreneurship, and innovation appear to be key to Colorado's growth. The state has more people with the talent and skills to succeed in our increasingly technology- and information-intensive economy. Another reason for Colorado's performance is that the state's economy is at the center of two of the fastest growing regions in the country – the "inland west" and the "great plains". These regions have high levels of population growth, as well as growth in advanced, innovative industries and energy development. These positive forces continue to outweigh negative factors, such as the slower global economy and federal spending reductions.

Business confidence and expectations for the future continue to grow – Expectations for the future play a large role in the performance of an economy. Businesses and consumers are more likely to invest, spend, and hire if they expect positive outcomes from those decisions. 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. Figure 17 shows business leaders' expectations for the overall state economy as well as for hiring and capital expenditures in the third quarter of 2013. These measures trend closely together over time. Colorado business leaders' expectations going into the third quarter of 2013 were at some of their highest levels during the current economic expansion.

Figure 17. CU Leeds Business Confidence Indices,*
2008 through the Third Quarter of 2013



Source: University of Colorado, Leeds School of Business
* Readings above 50 indicate positive expectations; while below 50 represent negative perceptions.

Stronger economic performance has not reached all areas and populations of the state – Though more communities are beginning to show economic vitality, economic performance is uneven across the state. Rural and agricultural areas are particularly having a more difficult time. Because of the more favorable economic conditions in Colorado, the proportion of the state's population that is in the labor force is higher than the nation's. However, labor force participation has still declined, along with the nation's, to lower levels, and unemployment remains elevated. Income growth is still only modest for many individuals. This suggests there are still many individuals struggling to find ways to fully participate in the economy.

Overall economic activity for Colorado will continue its momentum, with current levels of growth sustained in 2014. Nationally, growth through the remainder of 2013 and in 2014 will pick up from its lower levels over the past year. However, national economic activity will continue to be modest to moderate.

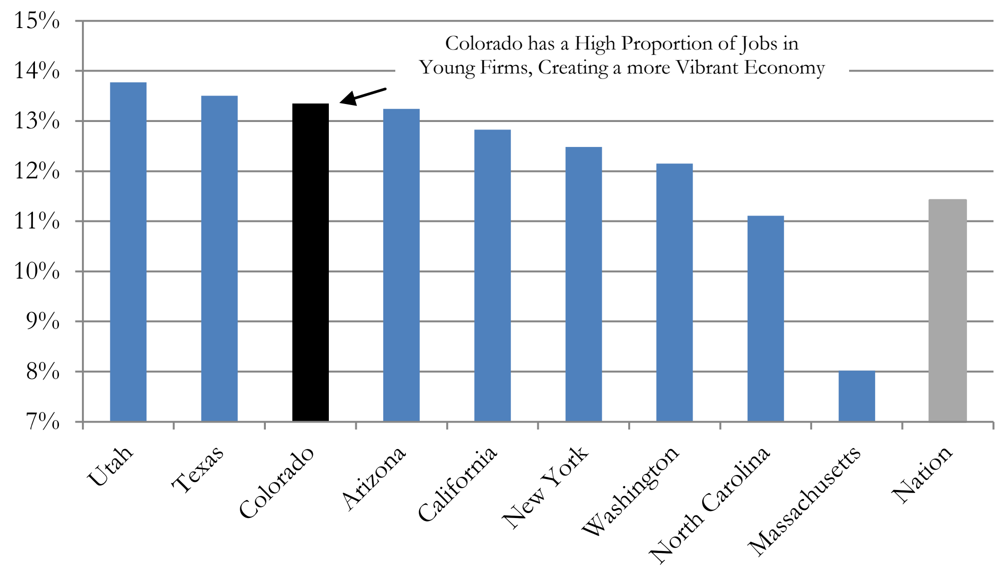
Colorado's Growing Entrepreneurial Economy

Entrepreneurship, as measured by the activity of start-up firms and young businesses, is an integral part of employment growth and is a key to economic vitality. Entrepreneurs and new businesses find ways to profitably produce goods and services as they strive to discover the most valued uses of the economy's scarce resources. In doing so, they also provide opportunities for the unemployed or underemployed while utilizing the economy's idle or underused resources. This activity generates wealth and spurs economic growth.

New and young firms are a leading source of new jobs for the economy. Thus, the proportion of a state's employment in new and young firms correlates highly with a state's overall employment growth, meaning that higher levels of entrepreneurial activity are closely associated with higher levels of employment growth.

Colorado generally outpaces states with comparable business environments for young businesses and the nation as a whole. In 2010 and 2011, using the latest data available, Colorado ranked ninth for the highest percentage of employment in young firms (aged 0 to 5) across the nation, according to OSPB calculations of Business Dynamics Statistics from the U.S. Census Bureau. Young enterprises in 2010 and 2011 comprised 13.3 percent of the state's total employment at firms, whereas businesses in the same age group encompassed 11.4 percent of the nation's employment, as shown in Figure 18.

Figure 18. Percentage of Jobs in Young Firms, Age 0 to 5, 2010 and 2011

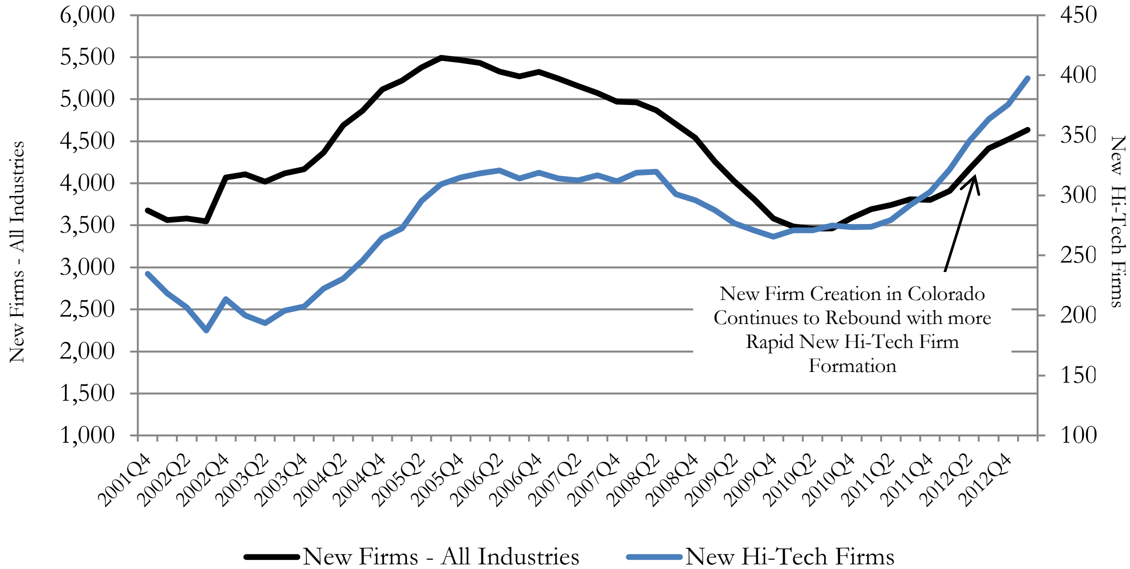


Source: U.S. Census Bureau, OSPB calculations

Colorado has a comparative advantage in hi-tech sectors, spurring higher levels of job growth – The proportion of Colorado's jobs in hi-tech sectors was 7.6 percent in 2012. In that same year, high-tech jobs represented 5.6 percent of jobs nationally. Figure 19 shows the recent high growth in the number of new high-tech firms in Colorado. Due to the importance of overall business creation to job growth and economic dynamism, it also shows new firm formation in all industries.

In the first quarter of 2013, new high-tech firm creation was 76.0 percent higher than the first quarter of 2012. Most of the high-tech firms are involved with computing and software, as well as coding-driven processes. High-tech startups are particularly important to the economy because of their innovative activities and higher paying jobs. As a result, growth in high-tech sectors leads to job growth in other sectors, from doctors and lawyers to services jobs, such as in restaurants and salons. Thus, the increasing high-tech firm creation is an important reason for Colorado's pickup in overall job growth.

Figure 19. New High-Tech Firms and All New Firms in Colorado by Quarter, 2002 to First Quarter 2013



Source: Colorado Department of Labor and Employment,[1] OSPB calculations. Four quarter moving average.

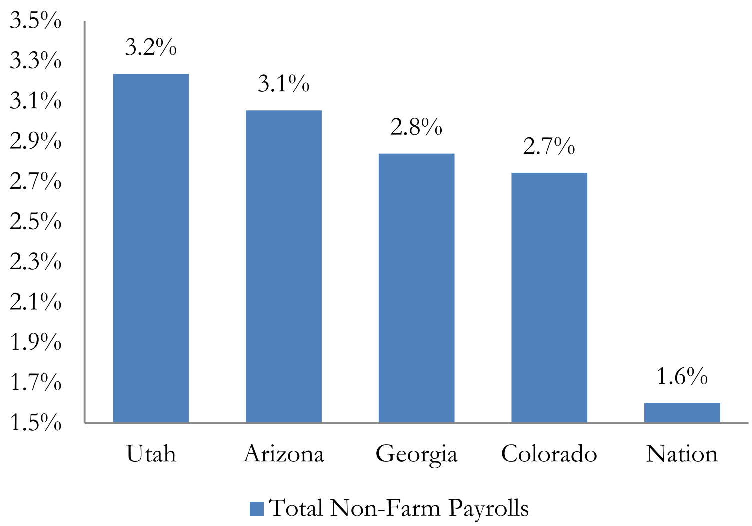
An important economic benefit of the high-tech sector is the propensity of companies to spinoff other enterprises. Studies have found that the most fertile source of entrepreneurial activity is the population of existing companies. Growing activity in a sector helps attract other companies, talent, and investment to a region. This is especially true when the sector has "anchor tenants," or leading companies with prestige and name recognition. The growing presence of existing tech companies and anchor tenants is a key to Colorado's success in becoming a leader in the high-tech sector. Thus, the increasing high-tech firm creation is an important reason for Colorado's pickup in overall job growth.

[1] As with many statistics, these data do not provide a perfect representation of economic activity. Some of the data may not correctly indicate a new firm was created in a given time period. However, for the most part, the data represent new business creation.

Labor Market Conditions and Trends

Job growth continues, with Colorado among the top performing states – Colorado's job growth in 2013 through July ranks fourth fastest in the nation based on data from the U.S. Bureau of Labor Statistics (BLS). Figure 20 shows the change in the level of nonfarm payroll jobs in July 2013 compared to July 2012 levels for the top five fastest growing states and the nation as a whole. During this time period, Colorado added 63,400 nonfarm payroll jobs, a 2.7 percent increase. In contrast, the national economy's job growth was 1.6 percent in August over the same month a year ago. Colorado's growth indicates that many businesses need to expand as their products are in higher demand. Further, it shows that the state's employers are having greater success finding workers to meet their needs. This momentum must be maintained to continue to reduce the unemployment rate.

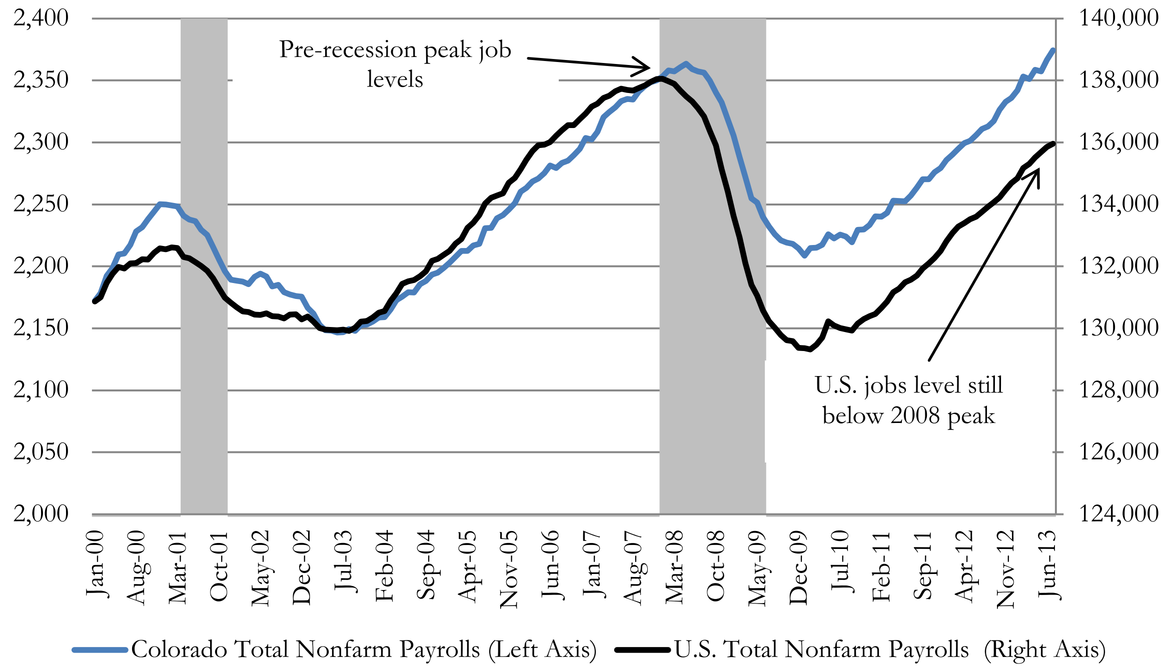
Figure 20. Fastest State Payroll Job Growth Compared to the Nation, Percent Change, July 2013 over July 2012



Source: U.S. Bureau of Labor Statistics

Colorado's level of payroll jobs reached 2.4 million in July. This is above its peak level before the Great Recession in the spring of 2008. In August, the nation's employment level of 136.1 million jobs is 1.4 percent below its 2008 peak level.. Figure 21 shows the trends in the level of nonfarm payroll jobs for both Colorado and the nation from 2000 through July of 2013.

Figure 21. Payroll Jobs Nationally and in Colorado, in Thousands, 2000 through July 2013



Source: U.S. Bureau of Labor Statistics

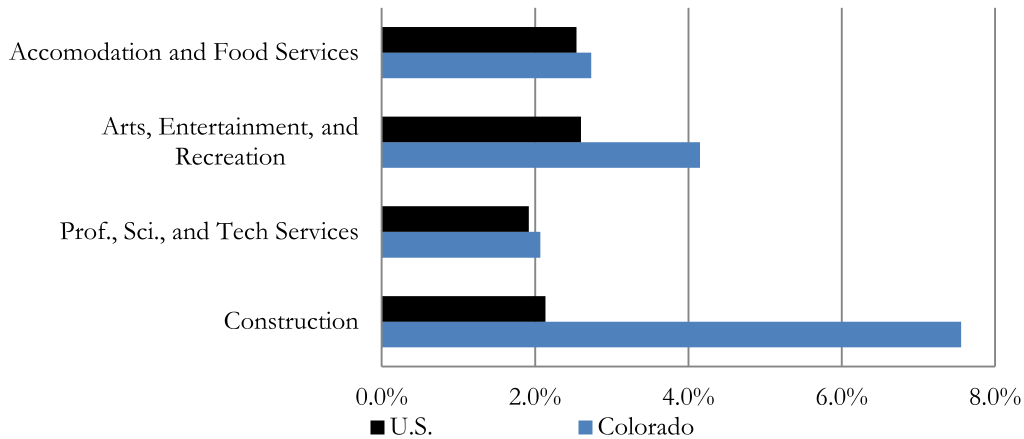
Payroll jobs from Colorado employers will increase 2.6 percent in 2013, and 2.4 percent in 2014. Nationally, job growth will follow a similar pattern but will be slower.

Industry composition of job growth – Colorado's job growth stems in part from its large concentration of high-skilled workers that are in high demand in today's information- and technology-based economy. Growth in sectors that employ these workers, such as engineering, consulting, and technological product development and services, helps generate growth in peripheral sectors, as well as housing-related industries and services-based sectors, such as retail trade and leisure and hospitality.

As illustrated in Figure 22, much of Colorado's job growth in 2013 has occurred in professional, scientific, and technical services, construction, arts and entertainment, and accommodation and food services. Construction employment in Colorado grew 7.6 percent from December 2012 to July 2013, a much faster rate than the nation, an indicator of the state's stronger economic growth. The rebound in construction activity from its depressed level is making it difficult for some construction companies to find workers with certain skills, including welders, equipment operators, carpenters, electricians, laborers, and cement masons. Some of the job growth for the nation and Colorado has been in lower paying sectors such as leisure and hospitality, which also characteristically hire more part-time or temporary workers.

A decline in federal government jobs for both Colorado and the nation is pulling down overall job growth. In July, federal government jobs in Colorado decreased 3.0 percent compared to the same month last year and 2.5 percent in August for the nation as a whole.

Figure 22. Job Growth in Colorado's Fastest Growing Industries, Colorado and the US, Percent Change, 2013 Year to Date



Source: U.S. Bureau of Labor Statistics; seasonally adjusted data; growth is calculated using a three-month moving average to smooth out month-to-month volatility.

It should be noted that an industry can expand without job growth. This occurs in industries that use high levels of equipment and technology, as well as industries that employ workers with increasing levels of productivity. Certain types of manufacturing, as well as oil and natural gas production, are examples of growing industries that may not be seeing commensurate growth in jobs.

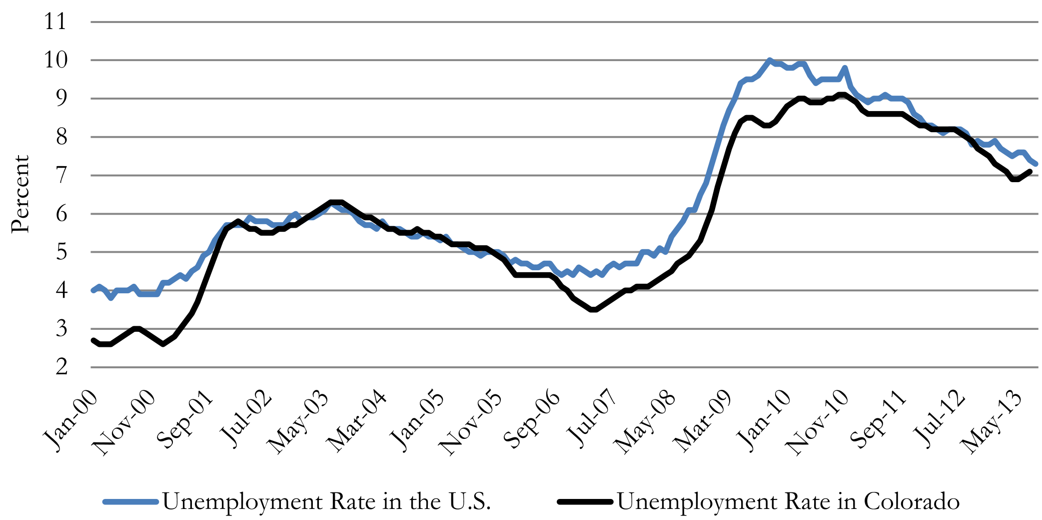
The job market may be performing better than official data suggests – Changes in how individuals earn income likely means that some income earning activities may not be fully shown in the official jobs data, most notably data reporting jobs at traditional companies and from surveys that sample households. Independent and freelance work is a growing trend. MBO Partners, a business services consulting firm, reports that there are 17.7 million individuals nationally that identify themselves as contractors, freelancers, consultants, temporary workers, microbusiness owners, and entrepreneurs who do not work at just one firm. The MBO Partners' *The State of Independence in America* workforce study stated that independent workers generated $1.2 trillion in total income in 2013, a 20 percent increase from 2012.

Unemployment

Unemployment remains a challenge, though it continues to improve gradually – Though job growth continues, it has not been strong enough to fully re-employ the substantial number of individuals who lost their jobs during the recession, as well as increases in the working age population. The BLS reported a national unemployment rate of 7.3 percent in August, down from 8.1 percent the prior year. Colorado's unemployment rate in July was 7.1 percent, down from 8.1 percent the prior year. This rate is also known as "U-3," the most commonly reported measure of unemployment. Figure 23 shows the decline in the unemployment rate for the U.S. and Colorado after surging during the Great Recession.

One possible reason for these high levels of unemployment include the reluctance of businesses to hire employees as future economic conditions still remain relatively uncertain. In addition, there appears to be some mismatch between the skills and salary expectations of jobseekers and the needs of employers. The state's lower unemployment and higher job growth indicates that these issues are less prevalent in Colorado.

Figure 23. Colorado and US Unemployment Rate, Seasonally Adjusted, 2000-2013

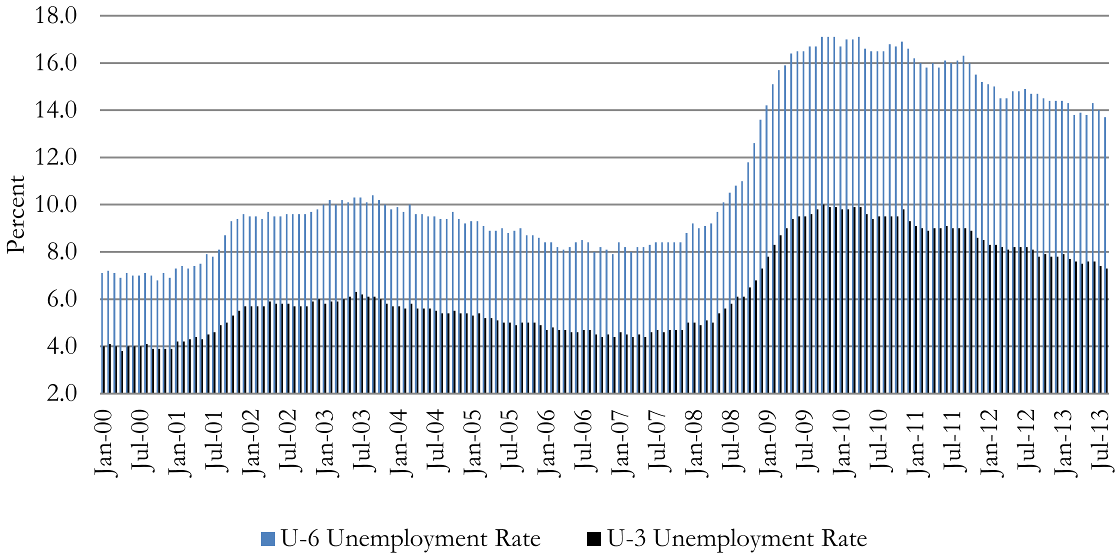


Source: U.S. Bureau of Labor Statistics

Lower levels of participation in the workforce - The labor force participation rate – the labor force as a percent of the population– for both Colorado and the U.S. began to decline around 2000 mostly due to demographic reasons. However, in 2008 the participation rate fell more sharply as the economy shed jobs and there were fewer work opportunities. Currently, the nation's and Colorado's labor force participation rates are 63.2 percent and 68.4 percent, respectively. Colorado's higher participation rate in the labor market provides further evidence of the state's higher level of economic opportunity and activity. The national participation rate is at its lowest level since the late 1970s.

A broader measure of unemployment also remains high – The "U6" rate is another measure of unemployment published by the BLS. This measure captures the number of unemployed counted in the traditional U3 rate, plus individuals who want to be employed but who have not recently looked for work, often because they are discouraged by their job prospects, and individuals who want to work full time but who are only employed part time for economic reasons. At the end of the third quarter of 2012, through the second quarter of 2013, Colorado's U6 rate averaged 13.8 percent, below its peak of 15.7 percent that it averaged in most of 2010 and the beginning of 2011. The national U6 rate was 14.3 percent in August of this year, below its peak of 17.1 percent in 2010. The national U6 and U3 rates are slowly decreasing as shown in Figure 24.

Figure 24. U3 and U6 for the Nation, January 2000 to July 2013



Source: U.S. Bureau of Labor Statistics

Initial claims for unemployment insurance continue to fall – Initial claims for unemployment insurance measure the number of individuals that have filed for unemployment benefits. The continued decline in initial claims may signal that the economic outlook is improving. Unemployment insurance claims in both Colorado and the nation are near their pre-recession levels. At the end of August, claims in Colorado were 6.7 percent lower than a year ago, and 38.9 percent below their levels in 2010 when the state was still struggling to emerge from the recession.

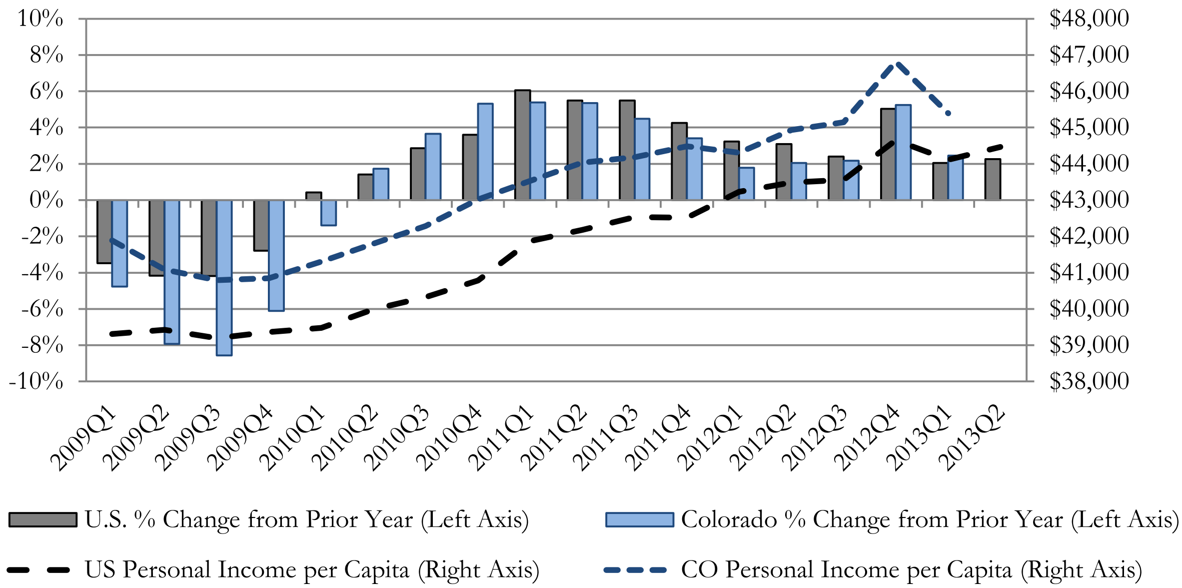
Unemployment rates of 6.9 percent and 6.5 percent are forecast for Colorado in 2013 and 2014, respectively. The national unemployment rate will be higher in those years, at 7.5 percent and 7.0 percent.

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 a barometer of economic performance because it indicates the amount of money received by households from economic activities.

Personal income for both Colorado and the nation continues its trend of modest growth – As shown in Figure 25, the level of personal income per capita has steadily grown since the beginning of 2010. However, this growth comes off of a prolonged period of declines. Further, higher rates of growth would be expected during a typical recovery period. One factor preventing stronger income growth is the ongoing weakness observed in the labor market, particularly at the national level. Overall modest growth in the economy also dampens personal income growth because it results in less money being exchanged in transactions of all sorts, including consumer purchases, business acquisitions, and investments, which generate income. Personal income growth in Colorado was slightly higher than the national average over the past two quarters for which Colorado data is available.

Figure 25. Personal Income and Percent Change from Year Ago, United States and Colorado

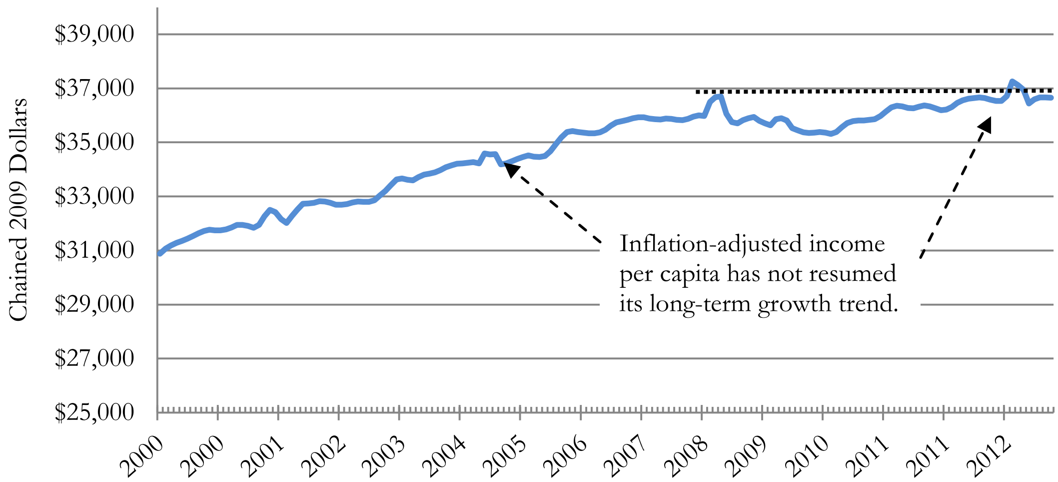


Source: US Bureau of Economic Analysis and US Census Bureau

Income growth in 2013 is constrained by payroll tax increases and the pulling forward of some income into 2012 – Some of the moderation in income growth this year is attributable to the increase in the Federal Insurance Contributions Act (FICA) tax commonly known as the "payroll tax," which effectively reduced personal income to most wage earners by two percent beginning on January 1, 2013. Additionally, anticipated federal income tax increases at the beginning of 2013 resulted in individuals pulling forward 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. This dynamic is evident in Figure 25, which show an upward spike at the end of 2012 followed by a decline at the beginning of 2013.

Inflation-adjusted personal income for the nation has failed to sustain growth above pre-recession levels – Figure 26 shows the 3-month average of inflation-adjusted disposable personal income per capita for the United States since the beginning of 2000. Adjusted for inflation, per capita income reached a peak of $37,584 in May, 2008 before falling during the Great Recession. Since that time, this measure of per capita income has grown at a slow rate and, as of July 2013, remained below the pre-recession peak at $36,626. This performance perhaps best reflects the overall sluggishness of the national economy. Income growth that exceeds inflation is typically necessary to sustain greater household spending and consumer activity.

Figure 26. United States Inflation-Adjusted Disposable Income per Capita, 2000 through July 2013

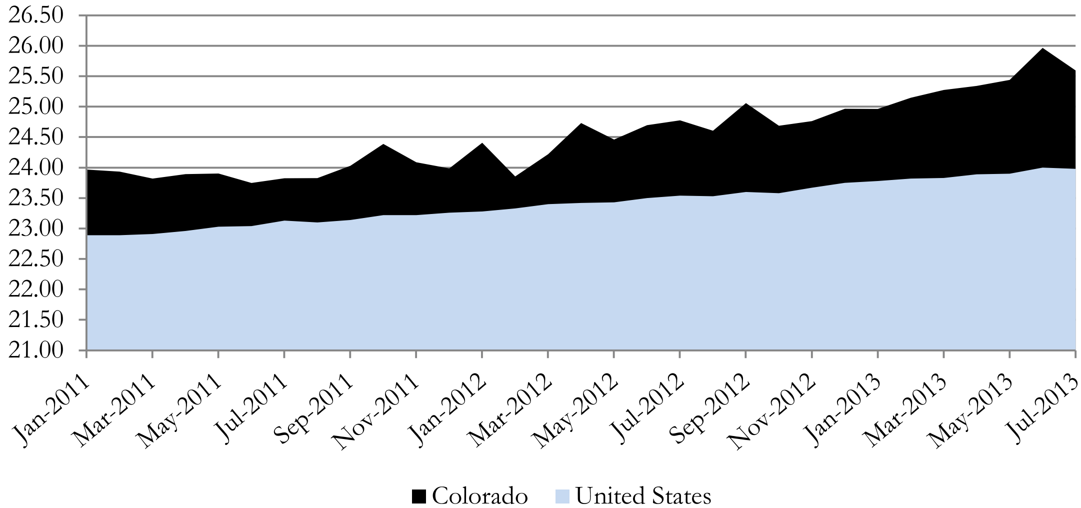


Source: US Bureau of Economic Analysis and US Census Bureau. Data is monthly, seasonally adjusted annual rate, three month trailing average.

Total Colorado personal income received by households will grow 4.3 percent in 2013 and accelerate to 5.4 percent growth in 2014. Personal income will be somewhat weaker for the nation as a whole over this period, growing 3.9 percent in 2013 and 4.8 percent in 2014.

Hourly wages in Colorado are higher and growing more quickly than the national average – Earnings for workers in both Colorado and the United States have grown consistently since January, 2011. Figure 27 shows the seasonally adjusted average hourly wage for workers at the state and national level. Because of Colorado's smaller population of workers, changes from month-to-month cause more volatility in the data. Both show a consistent trend of slow but steady growth since 2011, with the gap between Colorado's hourly earnings and the national average hourly earnings widening since September, 2012. The state also has higher hourly wages overall. These are indicators of Colorado's economic momentum as it shows that the economy is strong enough to support higher wage growth.

Figure 27. Average Hourly Earnings, United States and Colorado Seasonally Adjusted, January 2011 to July 2013



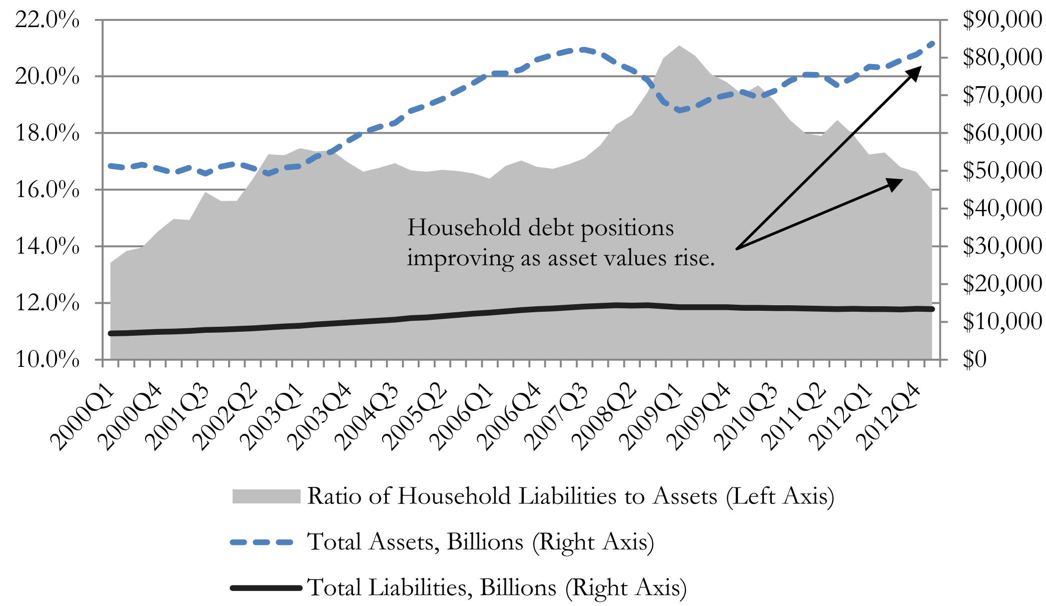
Source: US Bureau of Labor Statistics

Certain industries are experiencing faster hourly wage growth – The average hourly earnings of an industry provide different information than total wages or number of jobs because they show changes in the amount of money that people in the industry earn when working the same amount of hours. Over time, healthy industries tend to see growing hourly wages. Since the end of the Great Recession, average hourly wages for the United States have grown the most in the financial activities (14.7 percent), information (10.4 percent), education and health services (10.4 percent), wholesale trade (9.2 percent), and mining and logging (8.7 percent) industries.

Wages and salaries in Colorado will increase 4.8 percent in 2013 and 5.0 percent in 2014, reflecting continued growth of the state's economy.

Household debt positions have improved as home and stock prices rise alongside a reduction in debt – Due to appreciation in home values, as discussed in the *Housing and Construction* section on page 52, as well as the strong performance of stock markets, the overall value of household assets has increased faster than wage and salary growth. At the same time, total household debt has decreased slightly since the Great Recession due to tighter credit standards and because households have become more averse to carrying high levels of debt. The result has been a steady decline in the ratio of household liabilities to assets and growth in household net worth, as illustrated in Figure 28. These trends reflect the estimated total of all household assets and household liabilities in the United States. The change in net worth varies widely across households. Those with larger portfolios of stocks and other investments have seen greater gains in net worth compared with households with few or no stock holdings.

Figure 28. Household Liabilities and Household Assets
2000 Quarter 1 to 2013 Quarter 1



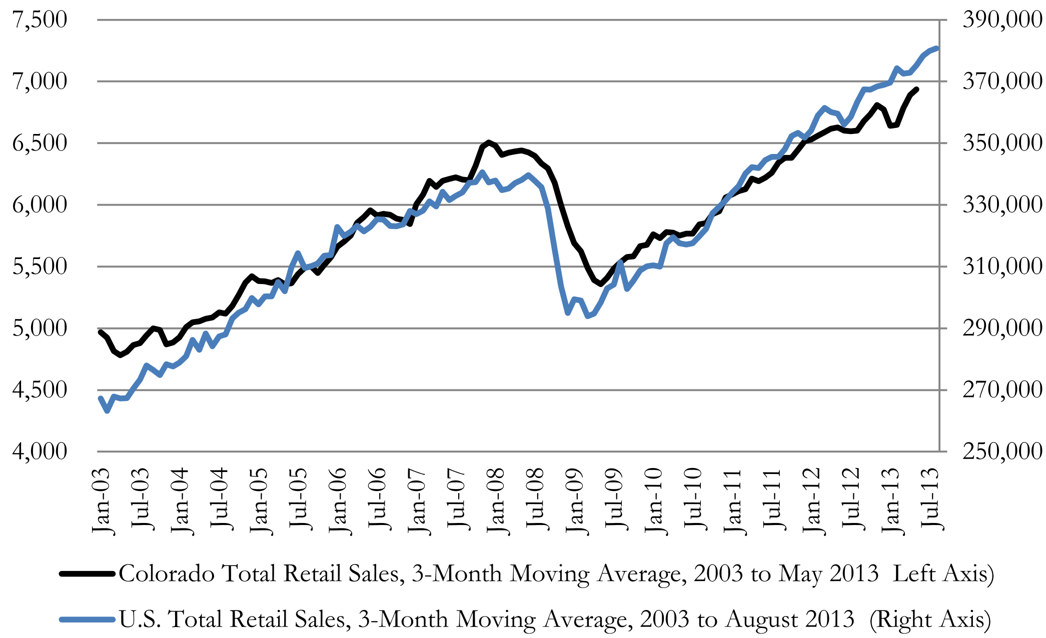
Source: Board of Governors of the Federal Reserve System, OSPB Calculations

Consumer Spending

Consumer spending remains strong through the first half of 2013 – Consumer spending has grown consistently in both Colorado and the nation overall since the middle of 2009. This growth has been surprisingly strong given the elevated levels of unemployment and only modest income growth for many households. Due to the divergence of consumer spending and income levels, consumer spending is likely to moderate, unless income grows at a faster pace than expected. In Colorado, total retail trade was up 6.3 percent year-over-year in May and total retail trade in the United States as a whole in August was 4.8 percent higher than a year ago. Figure 29 shows total retail trade levels in the United States and Colorado since 2002.

The continued relative strength in spending growth may be fueled in part by lower debt burdens, the recent decline in the household savings rate, a rebound in home and stock values, and continued consumer credit growth. The rise in spending levels that appears high in relation to job and income growth may also provide more evidence that households are finding new ways to earn income that are not easily captured in official employment and income statistics. This trend is discussed further in the employment section on page 41.

Figure 29. U.S. and Colorado Total Retail Trade, 2002 – Mid 2013
$s in Million



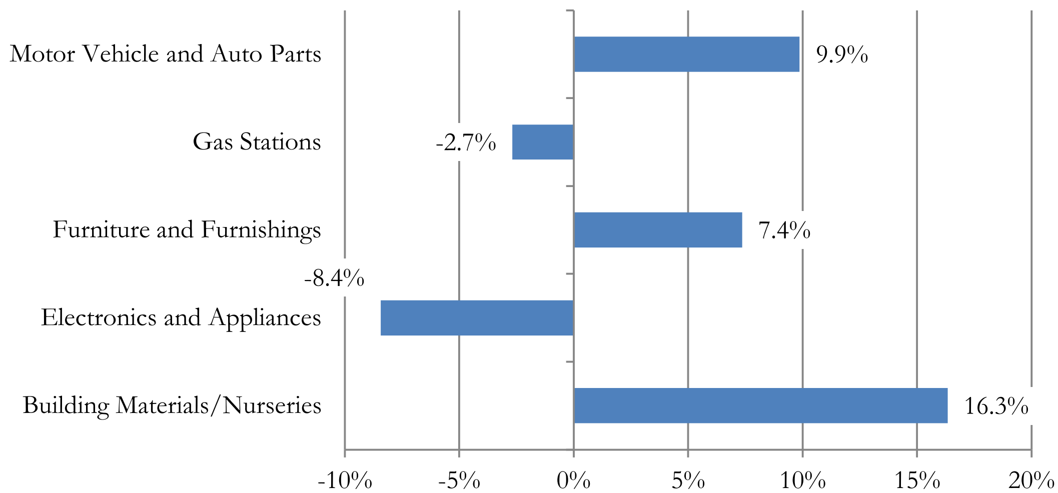
Source: U.S. Census Bureau; Seasonally Adjusted, Three-Month Moving Average

Spending on vehicles, building materials, and furniture have shown robust growth –The increase in retail trade is in large part attributed to a higher purchase volume of various durable goods such as vehicles, building materials, and furniture. Figure 30 shows the change in select categories of retail trade sales in Colorado for the first half of 2013 compared with a year ago.

As the housing market rebounds, more purchases are being made on home-related items. Though spending on electronics and appliances can also be driven by housing activity, Figure 30 reflects a decline in spending on these items. The data for this segment reflect spending only at electronics and appliance-related stores, so increased purchases of such items online may be the reason for the decrease. Since the data reflects the value of purchases, the decline in spending at gas stations is due mostly to lower gas prices this year.

Much of the continued growth in vehicle sales has been driven by low financing costs and the necessity to replace old vehicles. Colorado total vehicle sales as measured by value are up 60 percent from recession lows.

Figure 30. Colorado Retail Trade Spending and Select Retail Categories, Percent Change in First Half of 2013 from the Same Period in 2012



Source: Colorado Department of Revenue

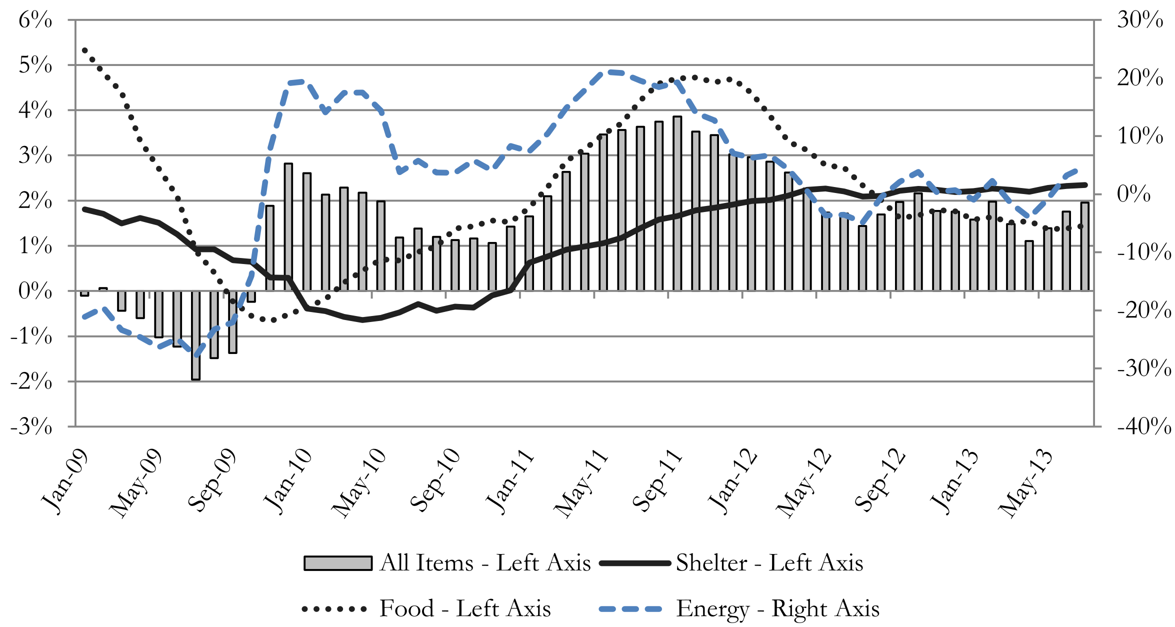
Colorado's retail trade will grow 4.8 percent in 2013 and will accelerate to a 5.4 percent growth rate in 2014. Retail trade for the nation will grow 4.0 percent in 2013 and 4.5 percent in 2014.

Price Levels

Consumer prices remain stable, showing consistently low growth – The consumer price index (CPI) tracks changes in the prices for a market "basket" of household expenditures. Figure 31 shows year-over-year changes in the CPI for the nation as well as some of the main consumer items in the index since January 2009. While fluctuations resulting mostly from changes in the price of energy and food have been observed since 2009, there has not been a year-over-year change in the total index of more than 3.9 percent during this time period, indicating relatively stable price levels. The Denver-Boulder-Greeley CPI, the only measure of consumer prices for Colorado, generally follows the same pattern as the national CPI.

Changes in the national CPI have remained below two percent every month since May 2012, indicating low price growth. This trend reflects generally subdued overall growth in economic activity. Changes in the producer price index, discussed below, depict a similar story.

Figure 31. National Consumer Price Index and Selected Consumer Items in Index, Seasonally Adjusted, Percent Change from Year Ago

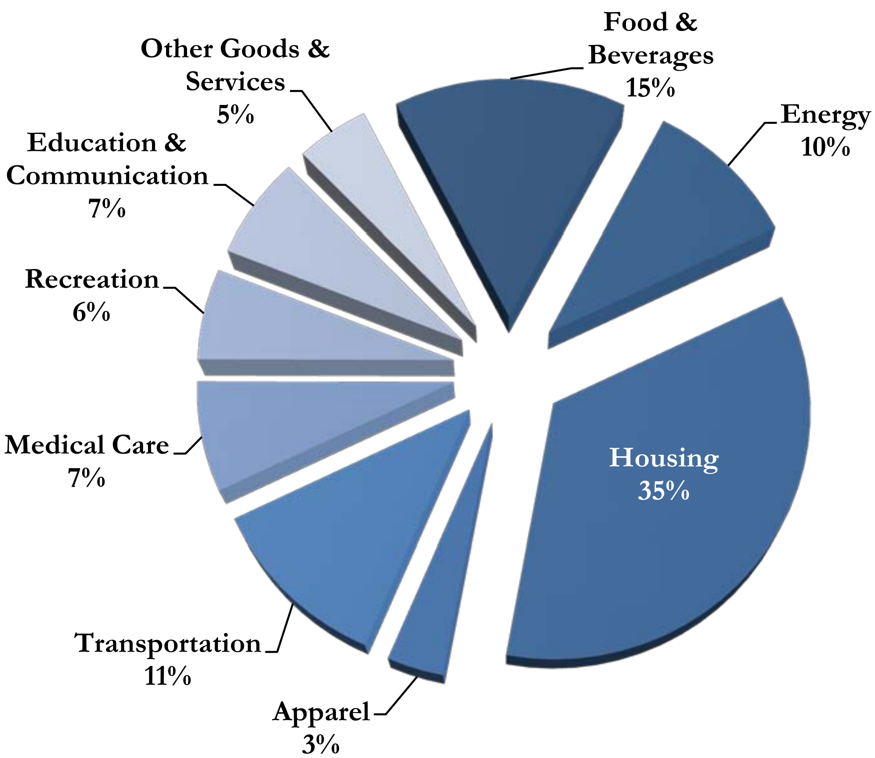


Source: Bureau of Economic Analysis

As the largest share of CPI, housing costs will place mild upward pressure on price measures – Figure 32 shows the proportional size of each major component of the CPI relative to the other components. Recent increases in the cost of housing, mostly from higher rents, which are further discussed in the *Housing and Construction* section on page 52, have put upward pressure on the total CPI value, mostly for Colorado.

In the first half of 2013, the Denver Boulder-Greeley CPI was 2.8 percent higher than its level a year ago. Much of the increase was due to rises in housing-related costs. Increases in food costs, which were previously anticipated due to drought conditions across large parts of the United States, have slowed, as depicted by the dotted line in Figure 31. The US Department of Agriculture now forecasts overall food price increases of just 2.0 to 3.0 percent in 2013 and 2.5 to 3.5 percent in 2014.

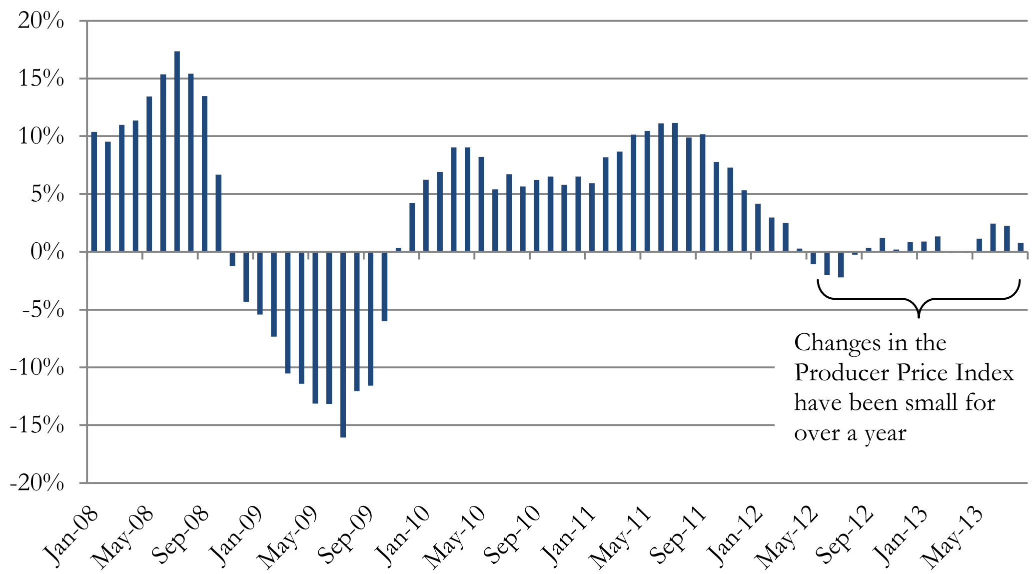
Figure 32. Relative Importance of Major CPI Components



Source: Bureau of Economic Analysis, July 2013 Weights
*Percentages do not add to 100% due to rounding.

Prices paid by businesses are essentially stagnant – While the CPI measures changes in prices paid by consumers for goods and services, the Producer Price Index (PPI) measures changes in prices paid to producers that supply products for business and industry. Because commodity prices set on the global market can fluctuate widely, the PPI is often more volatile than the CPI. Since the beginning of 2012, producer prices have changed minimally, as illustrated by Figure 33. Because business activity has remained at modest levels, especially for the nation, the demand for inputs has also been muted, leading to lower pressure on prices. Producer prices tend to rise before consumer prices, so the stagnation in PPI values is an indication that increases in overall prices paid by consumers will remain muted in the near future.

Figure 33. U.S. Producer Price Index for All Commodities, January 2008 to July 2013, Year-over-Year Change



Source: Bureau of Economic Analysis

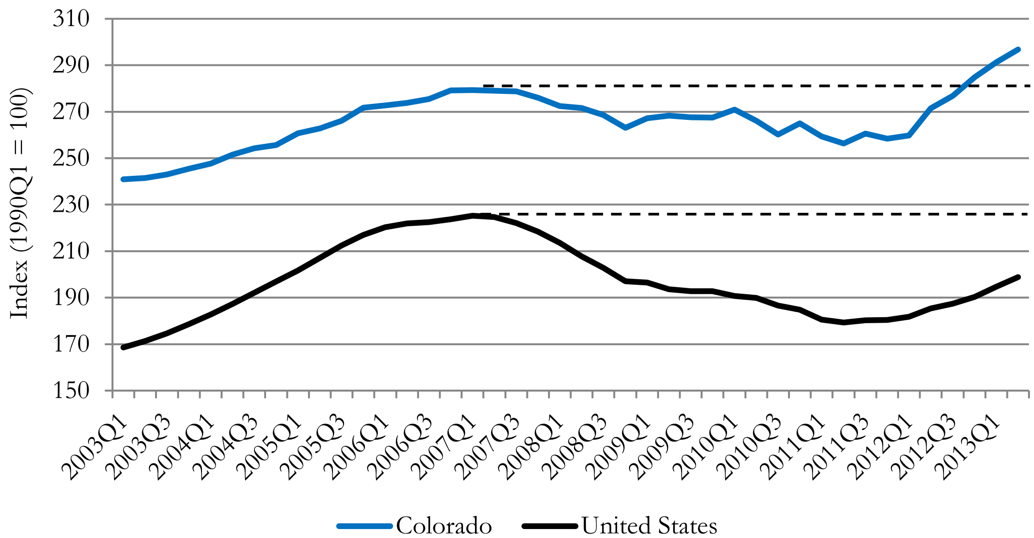
The Denver-Boulder-Greeley Consumer Price Index is forecast to increase 2.6 percent in 2013 and 2.4 percent in 2014. Nationally, the CPI will increase at lower rates of 1.6 percent in 2013 and 2.1 percent in 2014, reflecting the more modest economic growth and less price pressure from housing costs relative to Colorado.

Housing and Construction

Home prices continue to sustain gains, though the pace of appreciation appears to be slowing – Home values have sustained their growth that began in 2012, with many markets across Colorado and the nation experiencing rising prices. In recent weeks, the pace of home price appreciation has slowed as mortgage rates ticked upward and the inventory of homes for sale also rose slightly. Figure 34 shows the FHFA House Price index for Colorado and the nation since 2003. While Colorado's overall home values have surpassed their pre-recession peak, the national average of home prices has not. This is partially because the nationwide housing market is subject to factors that do not apply to Colorado. Most markets in the state did not experience rapid price appreciation as some markets did nationally prior to 2005 that resulted in a much larger decline during the recession. Also, Colorado's economy has performed better than the national average, which has helped boost the state's home values.

Home price appreciation has been supported by continued healing in the underlying fundamentals of the housing market, including declining foreclosures and distressed sales, as well as modest growth in employment and income. Low interest rates, supported by monetary policy from the Federal Reserve, remain a key contributor to growth in the housing market. Recent increases in the volatility of housing market indicators, such as mortgage application filings, appear to be related to an increase in interest rates over the past three months. The mildly increased volatility has not had large impacts on the overall housing market, but a slowdown in housing activity may occur if interest rates rise further.

Figure 34. FHFA House Price Index, United States and Colorado Seasonally Adjusted, 2003 through the Second Quarter of 2013



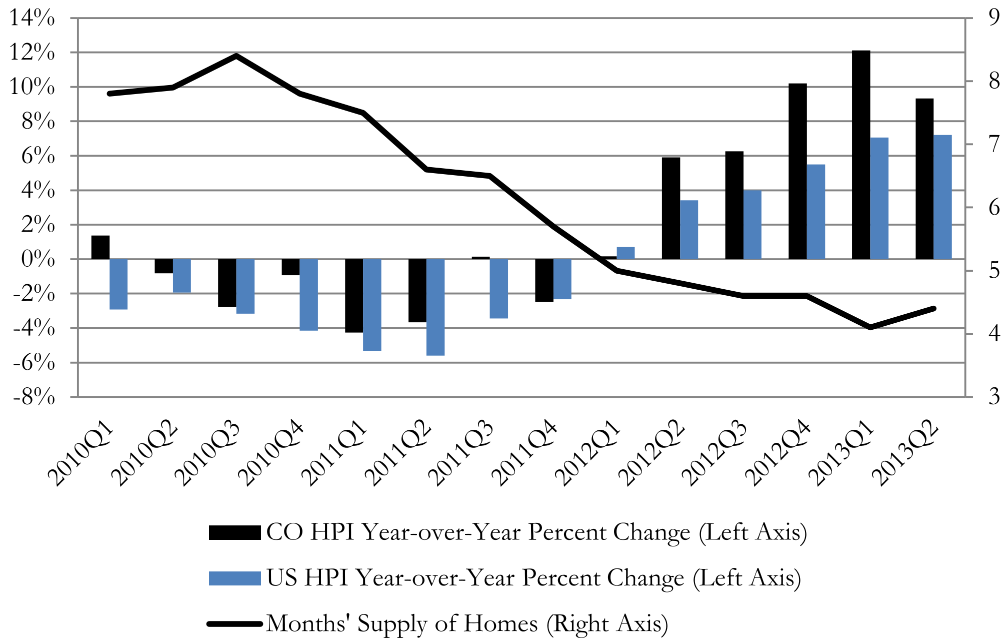
Source: Federal Housing Finance Agency

Rising home values are having substantial positive effects on home equity positions – As prices rise, more homeowners have increasing equity in their properties, while at the same time the proportion of mortgages that are "underwater"– meaning that the property is worth less than the amount owed on the loan – declines. According to real estate data firm CoreLogic, the proportion of mortgage loans that were underwater nationally in the second quarter of 2013 fell to 14.5 percent, down from 19.7 percent in the previous quarter. This means that between the first and second quarters of 2013, roughly 2.5 million homeowners changed from negative equity to positive equity situations in the United States. The proportion of underwater mortgage loans in Colorado was lower than the national average, at 9.5 percent in the second quarter of 2013, down from 14.2 percent in the first quarter. The proportion in the state was as high as 21 percent in 2011.

Home equity is important to the economy because it can be used as collateral for households to finance spending on home improvement projects or other major purchases. Positive equity can also be used as collateral for entrepreneurs to borrow money in order to start or grow a business, leading to higher rates of business formation that support employment and commerce. Increasing equity can also have the effect of making households feel wealthier – a phenomenon called the "wealth effect" – which can cause them to feel more comfortable making larger purchases or taking economic risk.

Home price appreciation moderated slightly in the second quarter of 2013 as inventory ticked upward and interest rates rose – Low inventories of homes on the market since the end of 2010 have played a key role in the appreciation of home values as the demand for homes exceeds supply. Figure 35 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. After four consecutive quarters of increasing year-over-year percent changes, the FHFA home price index for both Colorado and the nation grew by less in the second quarter of 2013 than the prior quarter. At the same time, the national inventory of homes for sale increased slightly from 4.1 months' supply to 4.4 months, marking the first year-over-year increase in inventory since 2010. In the coming months, an increase in the inventory of homes for sale and slightly rising interest rates should moderate home price increases.

Figure 35. FHFA House Price Index Year-over-Year Change with National Months' Supply of Existing Homes, 2010 through the Second Quarter of 2013

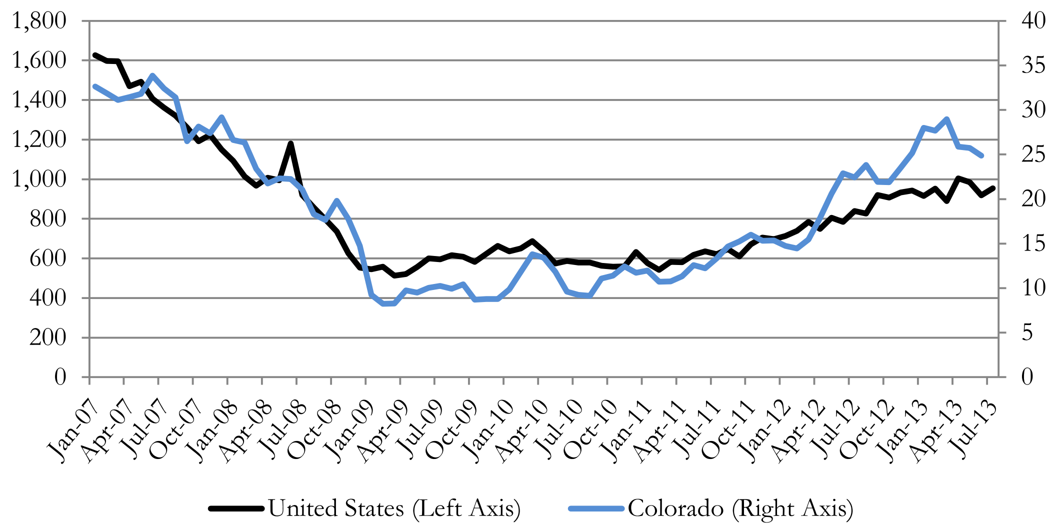


Source: Federal Housing Finance Agency and US Census Bureau

Vacancies in many areas of Colorado remain low, supporting continued rent increases – In recent years, a larger portion of households are choosing to rent rather than purchase a home. This trend is influenced by several factors, including uncertainty in the labor market, tighter credit standards, growing preferences for living in more urban, dense places, and the long period of home price declines beginning in 2007 that made more people averse to homeownership. The greater proportion of renters has caused the vacancy rate of apartments and other rental properties to reach record lows in many areas. This has resulted in high rents in parts of Colorado, especially in urban areas. As discussed in the *Price Levels* section on page 50, the very high average rent rates in Colorado will put upward pressure on renters' cost of living in 2013 and 2014. Meanwhile, as the full impacts of the recent floods become known, localized housing issues may develop; we will report on these in December's Colorado Outlook.

Sustained price and rent increases are driving strength in residential construction – As home prices have grown since the beginning of 2012, homebuilders have increased construction activity. New residential construction permits grew 33 percent for the nation in 2012 and 73 percent for Colorado. While these growth rates are large compared to prior years, they represent growth from historically low levels of construction activity. The overall number of permits remains far below the level of activity seen prior to the housing downturn. Still, growth in residential construction activity is anticipated as rising home prices, low housing inventory, and a more positive outlook spur homebuilding activity. Figure 36 shows the recent increase in building permits in both Colorado and the United States.

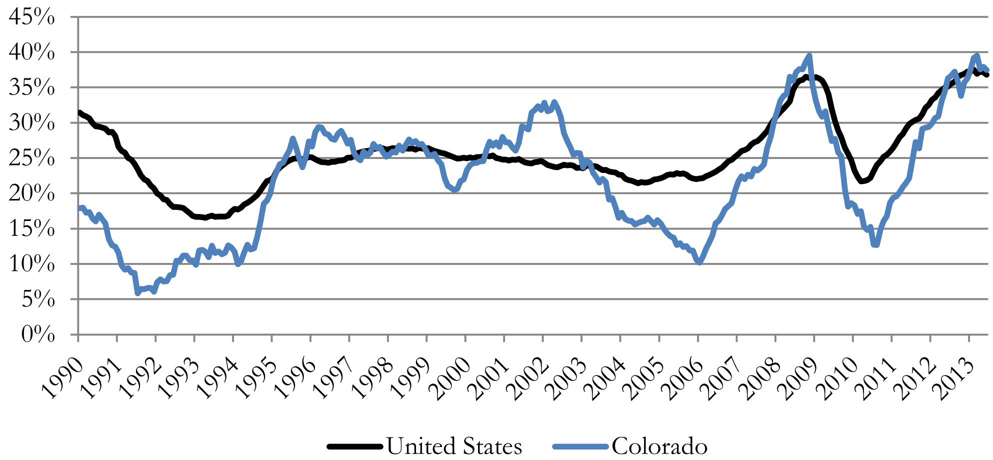
Figure 36. New Residential Construction Permits, 3-Month Moving Average of Seasonally Adjusted Annual Rate January 2007 through June 2013, in Thousands



Source: US Census Bureau

Multi-family construction projects represent a large portion of total residential construction activity – Figure 37 shows the percentage of total permits for new residential construction projects that are for multi-family units. As shown in the chart, the proportion of multi-family construction permits as a share of total permits is higher than the long-term average since 1990. The persistently low inventory of rental housing and the resulting high rent rates have increased the attractiveness of multi-family construction projects for developers and investors.

Figure 37. Multi-family permits as a share of all Residential Permits, 12-month Trailing Average, January 1990 through June 2013

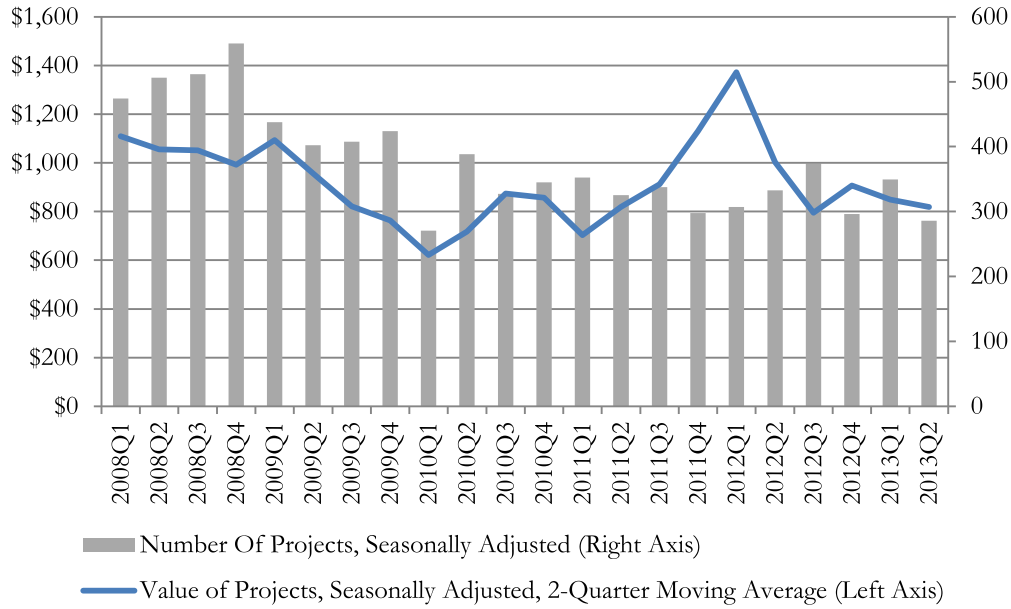


Source: US Census Bureau, OSPB Calculations

New housing permits in Colorado will grow to 29,600 in 2013 and 37,300 in 2014. National residential permits will grow to 1,046,000 in 2013, reaching 1 million new housing permits for the first year since 2007.

Nonresidential construction activity remains at a moderate level – The number and value of non-residential construction starts in Colorado, including offices, retail stores, manufacturing facilities, and other commercial property, have remained relatively flat since the end of the Great Recession, as shown in Figure 38. There remains substantial inventory of unused commercial real estate that rose during the economic downturn as many businesses closed or contracted. At the same time, many new and growing businesses are taking advantage of technology that allows greater flexibility for remote work arrangements, which minimizes the need for physical commercial space. Due to these factors, non-residential construction activity is not expected to exhibit much growth over the forecast period.

Figure 38. New Residential Construction Project Starts in Colorado, 2008 through the Second Quarter of 2013, $s in Millions



Source: McGraw-Hill Construction

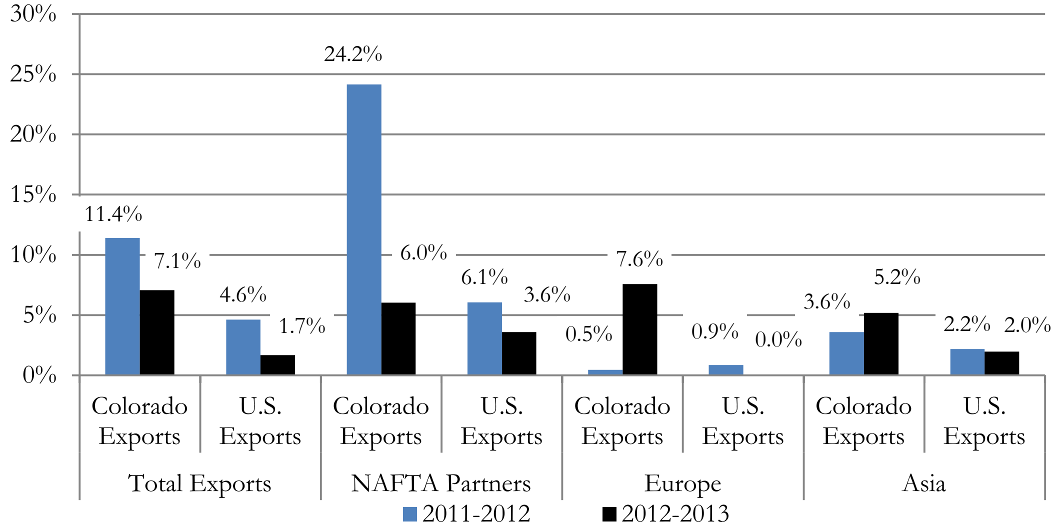
The value of projects in Colorado is expected to fall 2.9 percent in 2013 and then grow 4.0 percent in 2014. The same pattern is expected nationally.

International Trade

U.S. and Colorado exports continue to grow, though modestly due to global economic conditions – International trade data helps assess the level of economic activity in the highly globalized economy. Exports also reflect U.S. and Colorado competitiveness in world markets. Export growth indicates that an economy is producing what other countries want and need, which generates higher levels of income for a region. Colorado's largest exports in terms of total dollar value include health- and medical-related products, meat, aerospace and aviation goods, various machinery and equipment used in production processes, manufactured chemical products, and a wide array of technology-related products.

Exports increased 2.5 percent in the U.S. and 11.9 percent in Colorado through July compared to the same period a year ago. Figure 39 provides information on exports to both Colorado's and the nation's largest trading partners. Colorado trade with Asia and North American Free Trade Agreement (NAFTA) countries has picked up recently. However, exports to Europe have declined. US trade with Europe is expected to remain weak as long as Europe experiences very low levels of economic growth and thus depressed demand for American goods.

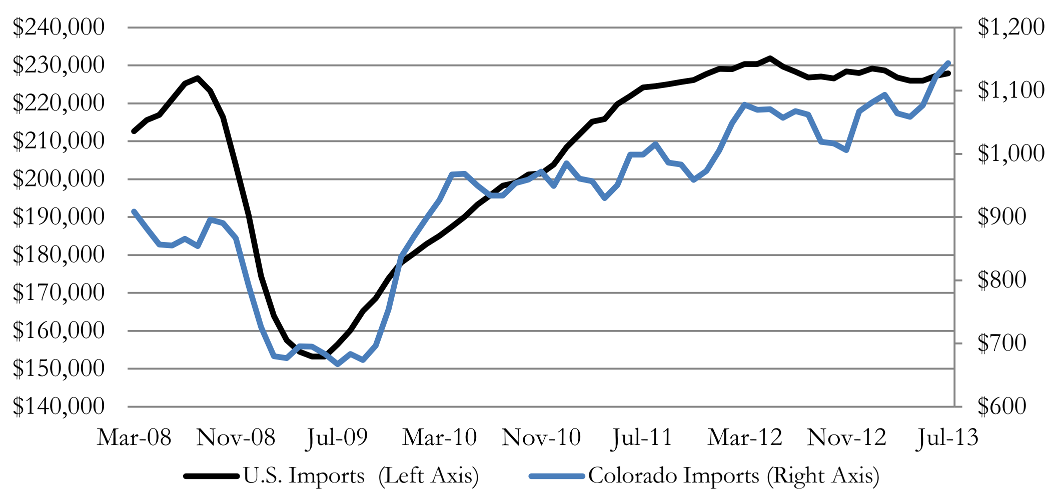
Figure 39. Colorado Export of Goods and Total U.S. Exports to Major Trading Partners Annual Percent Change*



Source: World Institute for Strategic Economic Research (WISERTrade) base on data from the U.S. Census Bureau
*Export data for 2011 and 2012 are total year figures. Data for 2013 is seasonally adjusted annual rate using year-to-date figures through July.

Imports have slowed for the nation but continue to grow in Colorado – As shown in Figure 40, total year-to-date imports to the U.S. were flat through July. In contrast, Colorado's imports of goods increased 7.2 percent over that same period. These trends reflect modest demand and slower economic activity at the national level and the state's higher level of growth as the economy continues to demand foreign goods used for both consumption and business purposes.

Figure 40. U.S. and Colorado Imports of Goods
March 2008 through July 2013, $s in Millions



Source: U.S. Census Bureau; Three-Month Moving Average, Seasonally Adjusted

Table 5

History And Forecast For Key Colorado Economic Variables

Calendar Year 2007 - 2015

Line No.		Actual						September 2013 Forecast		
		2007	2008	2009	2010	2011	2012	2013	2014	2015
	Income									
1	Personal Income (Billions) /A	$205.2	$216.0	$204.6	$212.5	$225.4	$234.9	$245.0	$258.2	$271.8
2	Change	5.6%	5.3%	-5.3%	3.9%	6.1%	4.2%	4.3%	5.4%	5.3%
3	Wage and Salary Income (Billions) /A	$113.0	$117.0	$112.6	$114.2	$119.148	$124.4	$130.4	$137.0	$144.0
4	Change	6.7%	3.6%	-3.8%	1.4%	4.3%	4.4%	4.8%	5.0%	5.1%
5	Per-Capita Income ($/person)	$42,724	$44,180	$41,154	$42,107	$44,053	$45,135	$46,465	$48,140	$49,821
6	Change	3.7%	3.4%	-6.8%	2.3%	4.6%	2.5%	2.9%	3.6%	3.5%
	Population & Employment									
7	Population (Thousands)	4,821.8	4,901.9	4,976.9	5,049.7	5,118.5	5,188.7	5,273.7	5,363.7	5,456.1
8	Change	1.6%	1.7%	1.5%	1.5%	1.4%	1.4%	1.6%	1.7%	1.7%
9	Net Migration (Thousands)	34.8	39.6	36.7	37.2	33.9	37.2	48.3	52.9	55.0
10	Unemployment Rate	3.8%	4.8%	8.1%	9.0%	8.6%	8.0%	6.9%	6.5%	5.9%
11	Total Nonagricultural Employment (Thousands)	2,331.3	2,350.3	2,245.6	2,222.3	2,258.2	2,310.0	2,370.7	2,428.2	2,489.5
12	Change	2.3%	0.8%	-4.5%	-1.0%	1.6%	2.3%	2.6%	2.4%	2.5%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	30.4	19.1	9.4	11.6	13.5	23.4	29.6	37.3	42.5
14	Change	-20.7%	-37.2%	-51.0%	23.9%	16.5%	73.2%	26.5%	25.9%	14.1%
15	Nonresidential Construction Value (Millions) /B	5,259.5	4,114.0	3,354.5	$3,146.7	$3,923.1	$3,669.7	$3,562.0	$3,703.2	$3,909.3
16	Change	13.3%	-21.8%	-18.5%	-6.2%	24.7%	-6.5%	-2.9%	4.0%	5.6%
	Prices & Sales Variables									
17	Retail Trade (Billions) /C	$75.3	$74.8	$66.5	$70.5	$75.9	$80.0	$83.8	$88.4	$93.3
18	Change	6.9%	-0.7%	-11.1%	6.0%	7.7%	5.4%	4.8%	5.4%	5.6%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	220.3	224.6	230.5	236.1	242.3
20	Change	2.2%	3.9%	-0.6%	1.9%	3.7%	1.9%	2.6%	2.4%	2.6%

/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 of forthcoming revisions to the data.

/B 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).

/C 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						September 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	$14,876.8	$14,833.6	$14,417.9	$14,779.4	$15,052.4	$15,470.7	$15,724.4	$16,101.8	$16,520.5
2	Change	1.8%	-0.3%	-2.8%	2.5%	1.8%	2.8%	1.6%	2.4%	2.6%
3	Personal Income (Billions) /B	$11,995.7	$12,430.6	$12,082.1	$12,435.2	$13,191.3	$13,743.8	$14,279.8	$14,965.2	$15,743.4
4	Change	5.3%	3.6%	-2.8%	2.9%	6.1%	4.2%	3.9%	4.8%	5.2%
5	Per-Capita Income ($/person)	$39,761	$40,817	$39,325	$40,143	$42,275	$43,731	$45,126	$46,913	$48,909
6	Change	4.3%	2.7%	-3.7%	2.1%	5.3%	3.4%	3.2%	4.0%	4.3%
	Population & Employment									
7	Population (Millions)	301.2	304.1	306.7	309.3	311.6	313.9	$316.4	$319.0	$321.9
8	Change	1.0%	1.0%	0.9%	0.8%	0.7%	0.7%	0.8%	0.8%	0.9%
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	135.9	138.1	140.6
11	Change	1.1%	-0.6%	-4.4%	-0.7%	1.2%	1.7%	1.6%	1.6%	1.8%
	Price Variables									
12	Consumer Price Index (1982-84=100)	207.3	215.3	214.5	218.1	224.9	229.6	233.2	238.2	244.0
13	Change	2.9%	3.8%	-0.4%	1.6%	3.1%	2.1%	1.6%	2.1%	2.5%
14	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.7	201.0	202.2	206.0	214.7	224.4
15	Change	4.8%	9.8%	-8.8%	6.8%	8.8%	0.6%	1.9%	4.2%	4.5%
	Other Key Indicators									
18	Corporate Profits (Billions)	1,529.0	1,285.1	1,392.6	1,740.6	$1,877.7	$2,009.5	$2,073.0	$2,186.7	$2,336.7
19	Change	-7.1%	-16.0%	8.4%	25.0%	7.9%	7.0%	3.2%	5.5%	6.9%
20	Housing Permits (Millions)	1.398	0.905	0.583	0.605	0.624	0.829	1.046	1.314	1.658
21	Change	-24.0%	-35.3%	-35.6%	3.7%	3.1%	32.9%	26.2%	25.6%	26.1%
22	Retail Trade (Billions)	$4,443.8	$4,402.5	$4,082.1	$4,307.9	$4,631.1	$4,881.4	$5,077.2	$5,306.1	$5,571.8
23	Change	3.4%	-0.9%	-7.3%	5.5%	7.5%	5.4%	4.0%	4.5%	5.0%

/A U.S. Bureau of Economic Analysis, National Income and Product Accounts

/B Personal Income as reported by the U.S. 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

The Governor's Office of State Planning and Budgeting would like to thank the following individuals that provided valuable feedback on key national and Colorado-specific economic indices included in this forecast. All of these individuals possess expertise in a number of economic and financial disciplines and were generous with their time and knowledge.

- Tucker Hart Adams – Senior Partner, Summit Economics LLC
- John Cuddington – W.J. Coulter Professor of Mineral Economics and Professor of Economics and Business, Colorado School of Mines; President, JTC Economics+Finance LLC
- Elizabeth Garner - State Demographer, Colorado Department of Local Affairs
- Alexandra Hall - Labor Market Information Director, Colorado Department of Labor and Employment
- Robert Jaros - State Controller, Department of Personnel and Administration
- Ronald New – Capital Markets Executive
- Patricia Silverstein - President, Development Research Partners
- Richard Wobbekind - Associate Dean, Leeds School of Business; University of Colorado, Boulder

In addition to the above individuals, the Governor's Office of State Planning and Budgeting would like to thank Dr. Phyllis Resnick, Managing Director of R Squared Analysis, LLC for her valuable contributions in producing this forecast.