March 2014

The Colorado Economic Outlook

Economic and Fiscal Review

STATE OF COLORADO
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Governor's Office of State Planning and Budgeting

Table of Contents

John W. Hickenlooper
Governor

Henry Sobanet
Director

Jason Schrock
Chief Economist

Spencer Imel
Economist

Laura Blomquist
Economist

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Summary

- This forecast projects that General Fund revenue will be $93 million higher this fiscal year than forecast in December and $61 million higher in FY 2014-15, roughly a one percent increase. The State's General Fund reserve now is projected to be $88.2 million above its required amount for FY 2013-14 with spending under current law. Most of this excess reserve is transferred to the Colorado Water Conservation Board Fund and State Education Fund.

- Under the Governor's budget request for FY 2014-15, this forecast shows that the General Fund will have $75.8 million above the proposed 6.5 percent reserve requirement.

- Expectations for economic conditions, and thus tax revenue, have not changed materially from recent forecasts, indicating that the economy has grown more stable. General Fund revenue is expected to grow 3.2 percent in the current fiscal year and 7.3 percent in FY 2014-15. Modest revenue growth this year is mostly from an expected decline in income taxes on investment income. The factors slowing revenue growth this year will not affect FY 2014-15.

- The State Education Fund is supporting a larger share of education funding than it has historically, which will draw down its fund balance. The State Education Fund plays an important role in the State's General Fund budget as the level of spending from the fund affects the amount of General Fund spending for education. Thus, decisions on the mix of funding between the two funds have budgetary implications in the future.

- Colorado's economy continues to show sustained economic momentum with many indicators showing that the state has among the best-performing economies in the nation. As with the nation, however, economic progress across the state is uneven. In general, places with greater clustering of skilled workers, entrepreneurs, and diverse industries are generating more opportunities.

- Although the state and national economies now appear to be more durable, downside risks should be considered. Adverse shocks and unexpected events could cause a widespread pullback in economic activity, which would simultaneously reduce tax revenue to the state and increase budgetary pressures.

- Overall cash fund revenue subject to TABOR is expected to post modest growth over the forecast period. Severance tax revenue, transportation-related cash funds, and a broad group of miscellaneous cash funds are expected to grow this fiscal year and in FY 2014-15. These increases will be partly offset by declines in revenue from the hospital provider fee and from taxes and fees on limited stakes gaming.

- This forecast does not project that the State will reach its TABOR revenue cap through FY 2015-16. The State is within four percent of reaching its TABOR revenue cap in FY 2013-14 and within three percent in FY 2014-15. It is possible that better-than-expected economic and revenue growth would cause the State to reach the cap. If that were to happen, the State would need to refund excess revenue to taxpayers or ask voters for permission to retain it.

The Economy: Issues, Trends, and Forecast

Economic conditions determine the amount of opportunities for employment and business expansion. They also drive State tax collections, influence the use of certain State services, and thus underpin the State's budget condition. The following section discusses overall economic conditions in Colorado and around the world, as well as specific issues affecting economic performance. The analysis focuses on conditions specific to Colorado and provides broader context on national and global conditions where appropriate because of how they can affect the state's economy. The discussion includes:

Trends and forecasts for key economic indicators — At the end of this section on page 26 is a summary of key economic indicators with their recent trends and statistics, as well as forecasts. This summary is intended to provide a snapshot of the performance of the broad economy and OSPB's economic projections, which are formed by the following analysis of the economy.

Summary — Colorado's economy continues to show sustained economic momentum. Indeed, many indicators show that the state has among the best -performing economies in the nation. Although the national economy's expansion has become more durable than the few years subsequent to the end of the recession, it still appears to lack some of the ingredients needed for stronger economic growth. Economic performance varies by region across the state and nation. All else equal, places with greater concentrations of entrepreneurship, innovation, highly skilled workforces, and diverse growing industries have greater job growth and thus growing housing and construction markets and consumer spending.

Economic risks — Although risks to economic growth continue to appear diminished, the current expansion could slow or halt if a combination of unexpected events and other forces come together to lower investment, hiring, and spending on a large scale. Fiscal issues have stabilized in the United States, but much of Europe continues to experience only weak growth. China, an important player in the global economy, also has shown recent signs of slowing. Large disruptions in financial markets also could weaken confidence and lower investment. Finally, it also is unknown how tensions between Russia and Ukraine will unfold and impact economic activity.

Colorado Economy Overview

Economic growth continues, but remains uneven – Economic growth continues across the state as Coloradans endeavor to better their livelihoods by working to earn income, spending on goods and services, investing in the future, and taking economic risks. Indeed, many indicators show that Colorado is among the best-performing state economies. Unemployment – both when measured by the traditional unemployment rate and in broader measures – continues to fall. In fact, Colorado's broad unemployment rate fell at the third-fastest rate among states in 2013. This broader measure of unemployment counts "discouraged workers" among other individuals not in the traditional unemployment rate and is called "U-6" by the U.S. Bureau of Labor and Statistics. However, unemployment remains at higher levels than before the economic disruption of the Great Recession.

Many indicators show that Colorado is among the best performing state economies; however, growth across the state remains uneven.

The state has among the highest concentrations of workers involved in technology, science, and engineering-related work. This level of human capital is proving integral in today's economic environment, which is creating more opportunities for people working with information and technology. Further, Colorado businesses export much of their diverse products across the country and around the world, which increases income to the state for further investment and spending.

The pace of growth, however, is uneven. Places with greater clustering of skilled workers and entrepreneurs are generating more opportunities. More vibrant areas also have a diverse mix of growing industries that are producing higher-valued products. These areas are experiencing faster population, wage, and job growth, and thus growing housing and construction markets and greater consumer spending.

Mountain resort areas had a strong ski season. Energy development remains solid in northeast Colorado. The agricultural industry also is experiencing good conditions overall, bolstered by growth in demand within the United States and internationally, especially from Asia's growing middle class. Further, drought conditions have diminished across much of the state, though southeastern Colorado continues to struggle with low moisture levels.

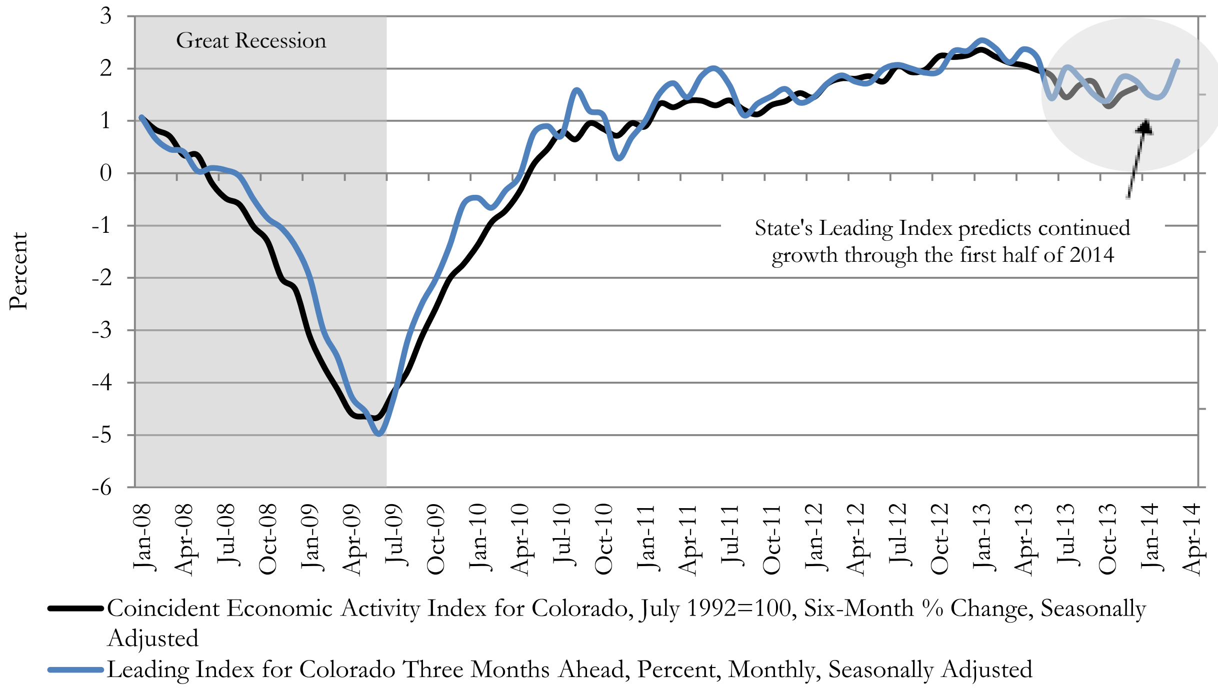
Similar to trends nationwide, economic growth in some less-populated areas remains more modest. These areas tend to have a less diverse economic base, so a slowdown in the regional economy's main industry affects the overall economy. For example, in western Colorado, less economic activity surrounding a slowdown in the energy industry continues to be challenging for regional economies.

Indices that measure Colorado's overall economic performance point to continued growth – A useful measure for state economies places Colorado among the top 10 states for economic growth over the 2012 and 2013 time period. The Federal Reserve Bank of Philadelphia's monthly State Coincident Economic Activity Index combines four state-level indicators to track current economic conditions − employment, average hours worked in manufacturing, the unemployment rate, and inflation-adjusted wage and salary disbursements. As shown in Figure 1, the index for

Colorado has sustained growth since the end of the Great Recession.

Another index shows that the economic expansion in Colorado is likely to continue, at least in the near term. The Philadelphia Federal Reserve Branch's Leading Index for Colorado predicts the near-term growth rate of the state's coincident index. Among the activities used to form the index are housing permits, initial unemployment insurance claims, and delivery times from vendors to producers. These economic indicators have been found to precede slowing or expansion of the overall economy. Figure 1 shows both Colorado's coincident index and leading index constructed by the Philadelphia Federal Reserve Branch.

Figure 1. Colorado Leading and Coincident Economic Indices since 2008



Source: Philadelphia Federal Reserve Branch

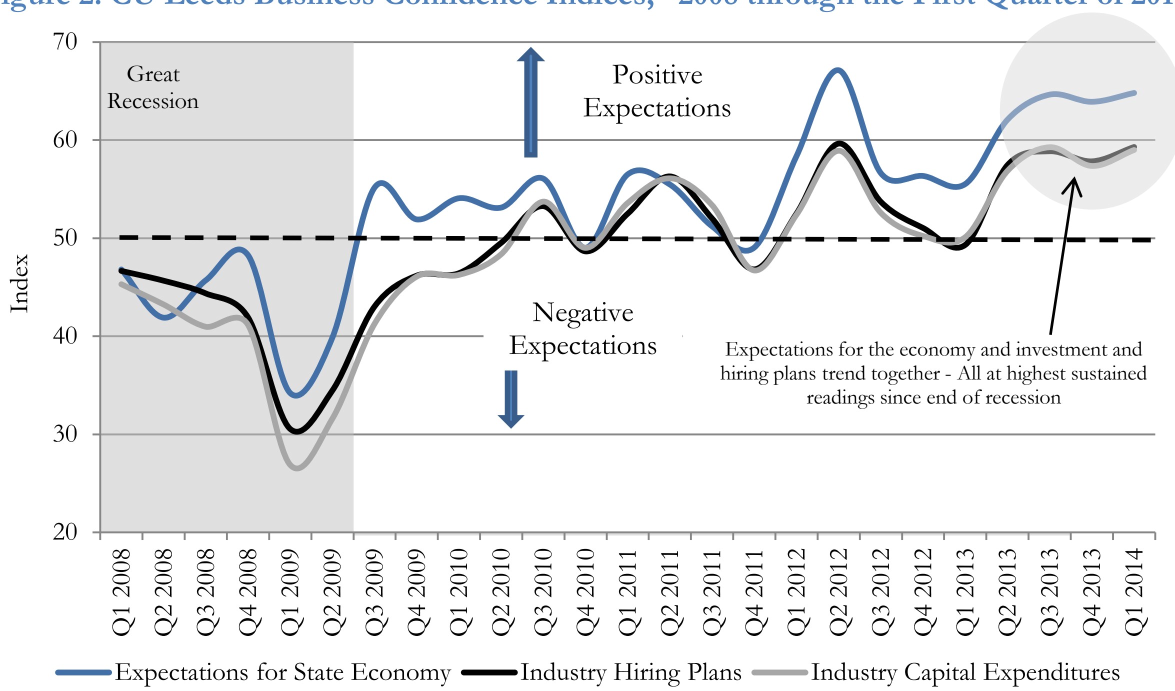
Business confidence and expectations for the future continue to grow – A measure of Colorado business expectations recently has experienced its most positive sustained readings during the current economic expansion. Expectations for the future play an important role in the performance of an economy. Businesses and consumers are more likely to invest, spend, and hire if they expect positive outcomes from those decisions.

> Expectations for the future play an important role in the performance of an economy and Colorado businesses appear to be feeling more positive about the outlook.

The Leeds Business Confidence Index (LBCI), published by the University of Colorado at Boulder, Leeds School of Business, measures business assessments about economic and industry conditions for the upcoming quarter. The index is based on a survey from businesses representing several of the state's largest industries. Closely mirroring the economic distribution of Colorado, many of the

respondents are concentrated along the Front Range, though roughly a quarter of respondents represent other areas. Figure 2 shows business expectations for the overall state economy, as well as for hiring and capital expenditures through the first quarter of 2014. These measures trend closely together over time, showing that better overall economic expectations are associated with hiring and investment.

Figure 2. CU Leeds Business Confidence Indices,* 2008 through the First Quarter of 2014



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

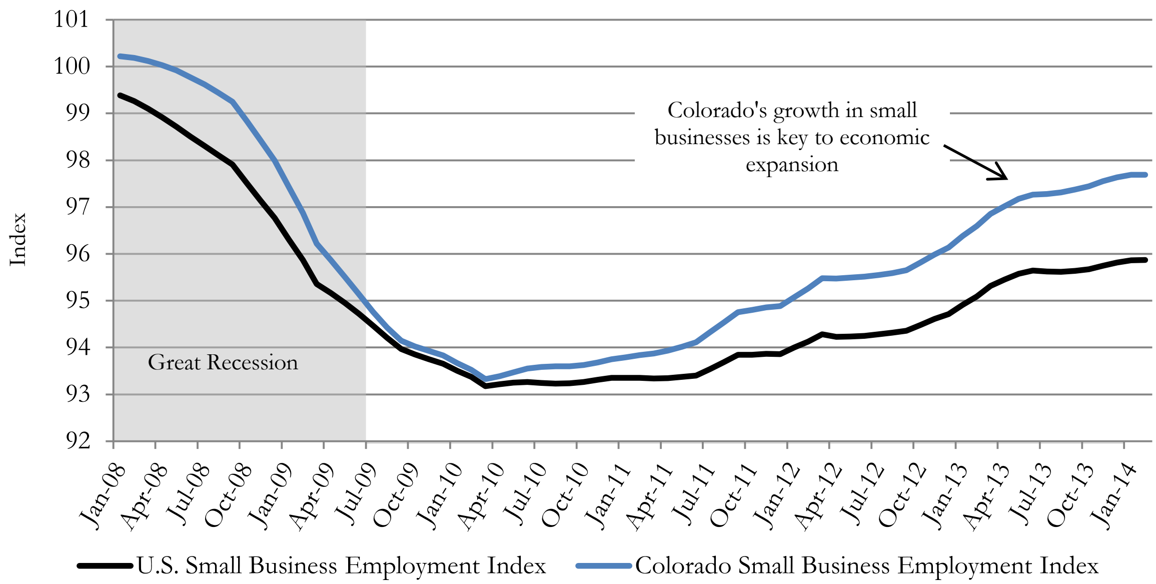
As a group, Colorado's small businesses continue to grow and provide benefits to the state economy — Historically, economies that have a greater number of small firms tend to experience more growth relative to those that have a small number of large firms. Smaller businesses often must rely on their ability to be more innovative and flexible as they discover growth opportunities compared to larger, established firms. Based on the data from the U.S. Census Bureau's Business Dynamic Statistics, Colorado has the seventh-highest concentration of businesses with fewer than 20 employees among the states.

> Economies that have lots of small firms experience more growth. Colorado has the seventh-highest concentration of businesses with fewer than 20 employees among the states.

To assess the performance of smaller businesses, the business services firm, Intuit, publishes the Intuit Small Business Employment Index to gauge employment trends for firms with fewer than 20 employees in most states and regions of the United States. The small-business employment index

for Colorado has outpaced growth nationally, and its performance is among the top 10 of the 37 states with index measures. Figure 3 shows the small-business employment index for Colorado and the nation overall from 2008 through February 2014. The index is based on information from businesses using Intuit's small-business payroll service, as well as jobs data from the Bureau of Labor Statistics.

Figure 3. Intuit Small Business Employment Index, 2008 through February of 2014



Source: Intuit

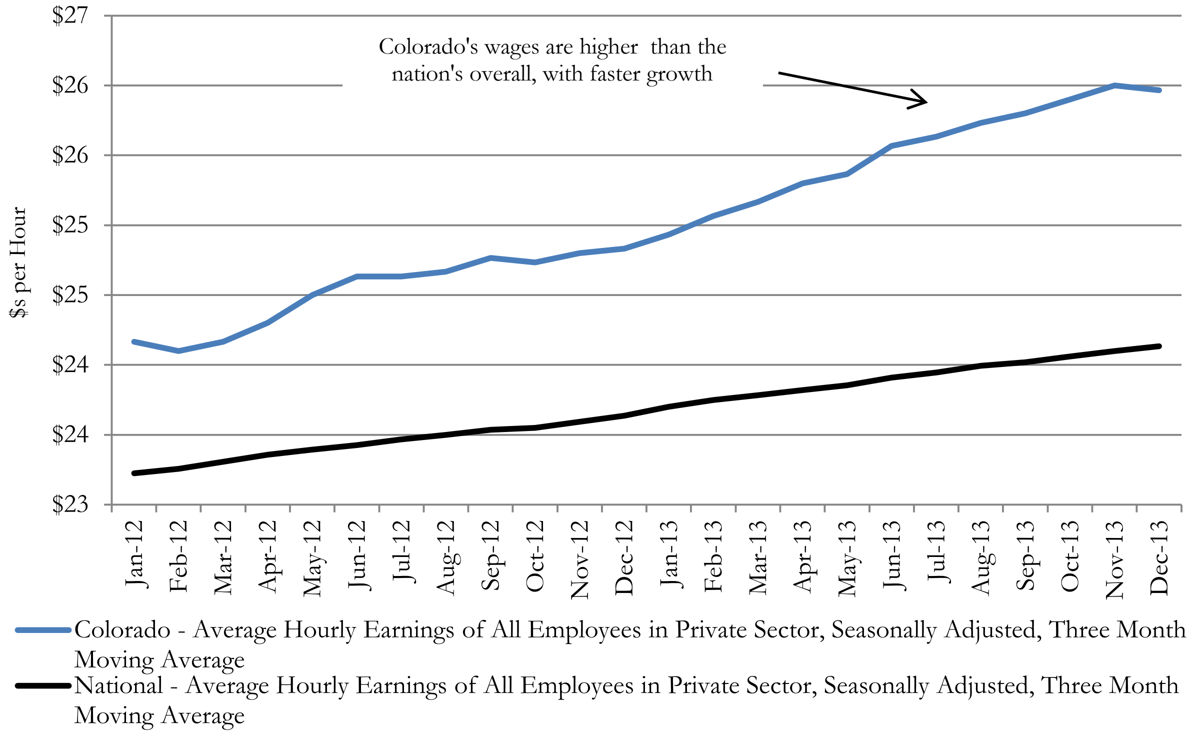
Entrepreneurs and new businesses continue to help move Colorado's economy forward **—** In the second quarter of 2013, the latest data available, Colorado ranked 10th in the nation for growth in net new businesses, according to data from the U.S. Bureau of Labor Statistics. The difference between gains and losses of businesses – the openings and expansions of firms, minus the closings and contractions of firms – is the net gain of business. Colorado tends to have a greater level of dynamism as represented by business and employment "churn," outperforming the nation overall. This is especially noted during the recovery from the Great Recession as measured by Business Employment Dynamics published by the U.S. Bureau of Labor Statistics.

Colorado's average hourly wage growth posted the fourth-fastest growth rate over the past two years among states.

Average hourly wage growth in Colorado is further evidence of a more vibrant economy **—** Colorado's average hourly wages posted the fourth-fastest growth rate over the past two years among states. Average hourly earnings can be important for gauging broad economic conditions. This measure is derived from the monthly survey of businesses and is calculated by the payroll of all businesses divided by all employee hours.

Higher earnings growth is an indication that Colorado has greater levels of economic activity as the state's growing industries can support paying higher wages. It also suggests more productivity among Colorado's workforce than other economies in the United States. In the last quarter of 2013, Colorado workers had the ninth-highest level of average hourly wages among states. It is important to note that the measure is an average, and earnings will vary greatly by geography, industry, and occupation.

Figure 4. Average Hourly Wages for Colorado and the U.S., 2012 and 2013



Source: U.S. Bureau of Labor Statistics

National Economy Overview

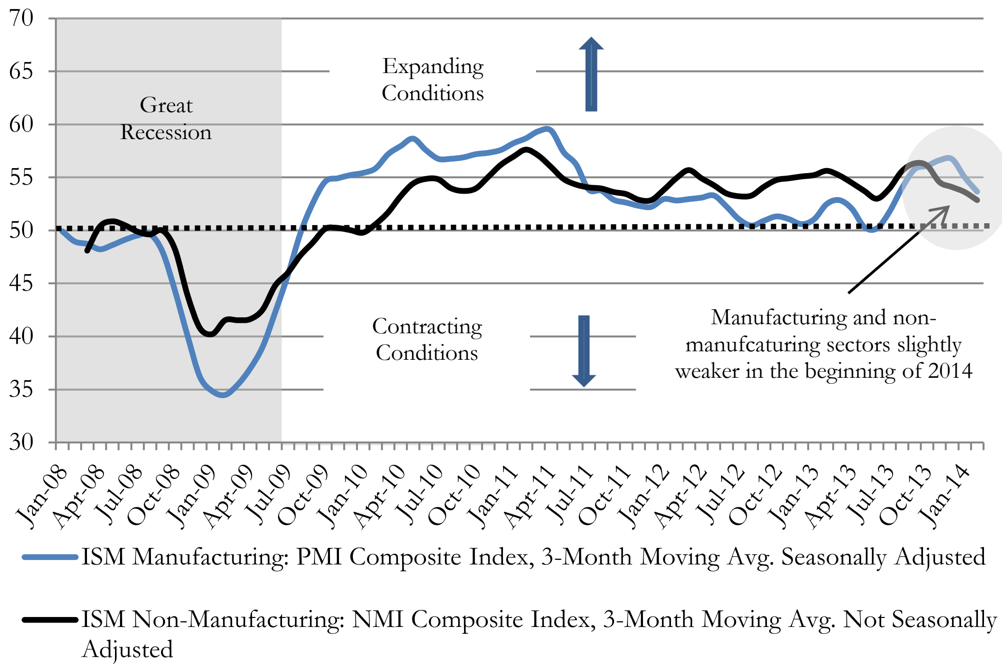
Economic growth remained modest and uneven in the first part of 2014, perhaps affected by a harsh winter across much of the United States – National economic conditions remain similar to those described in OSPB's December 2013 economic forecast. Overall growth continues to vary among regions of the United States and across industries. Severe winter weather across many parts of the country is suspected to have contributed to softer performance in several sectors at the beginning of this year, although the colder winter has benefited certain sectors, such as energy.

> Growth in the first part of 2014 was lower than expected, an outcome that has been attributed to especially harsh winter weather conditions.

The Institute for Supply Management (ISM) publishes two composite indexes that represent the expectations of businesses as determined by survey responses. These indexes provide a leading indication of future economic activity because business expectations often drive important economic activities, such as ordering raw materials, hiring new employees, and increasing production of goods.

While both of the indexes published by ISM had shown improvement throughout the summer and fall of 2013, they weakened during the first two months of 2014. Still, both indices remain above 50, the level that indicates expansion in business activity going forward.

Figure 5. ISM Manufacturing and Non-Manufacturing Indices*, January 2008 to February 2014



Source: Institute for Supply Management
* Readings above 50 indicate positive expectations; while below 50 represent negative perceptions.

Expectations for 2014 remain positive, though mixed **–** Surveys show that households, businesses, and economists continue to expect stable growth in 2014 despite sluggishness in January and February. The labor market continues to improve, though unevenly across regions. The unemployment rate has continued to decline slowly as a result of both new jobs and a decrease in the labor force participation rate. Despite very modest changes in hourly wages across most professions, consumer spending is expected to increase in 2014 as employment growth continues and households build improved expectations about the future. Strength in the housing market, where activity has slowed but remains generally positive, also will support economic growth.

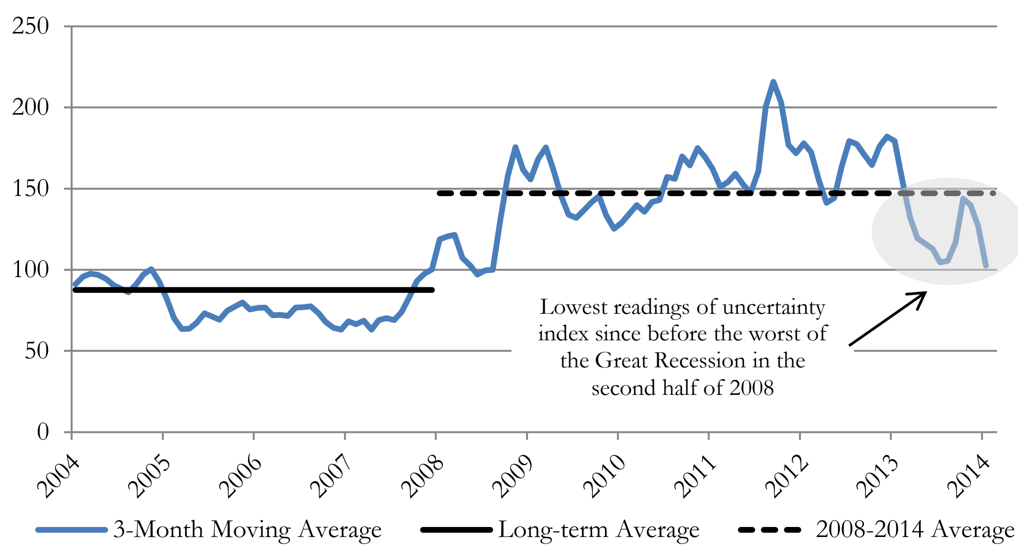
Declining uncertainty will likely contribute to a better environment for economic growth — The level of economic and policy uncertainty fell during 2013 and continues to decline. This is a reflection of more stability in federal fiscal policy, more stable expectations for monetary policy, and greater confidence in the ability to anticipate conditions in the near-term. Lower levels of policy uncertainty should contribute to a more favorable environment for economic growth because businesses are more likely to take risks, hire employees, and move forward with expansion plans.

> Lower levels of uncertainty will create a more favorable environment for economic growth as businesses and households are more willing to take risks and make investments.

Uncertainty about future conditions has been cited as a constraint on the recovery. While uncertainty always exists in the economy, levels have been much higher than usual since the Great Recession. This can be attributed to many factors, notably the nature of the financial crisis, historically unique monetary policy from the Federal Reserve, and a high degree of disagreement among fiscal policy makers at the federal level.

Economists from Stanford University and the University of Chicago developed an Economic Policy Uncertainty (EPU) Index, shown in Figure 6 below, which is constructed using information about news topics, federal tax-code provision changes, and disagreement among economic forecasters. Figure 6 also shows the long-term average index reading, as well as the average from 2008-2014.

Figure 6. Economic Policy Uncertainty Index for the United States, 2004 to Present



Source: Economic Policy Uncertainty, www.policyuncertainty.com

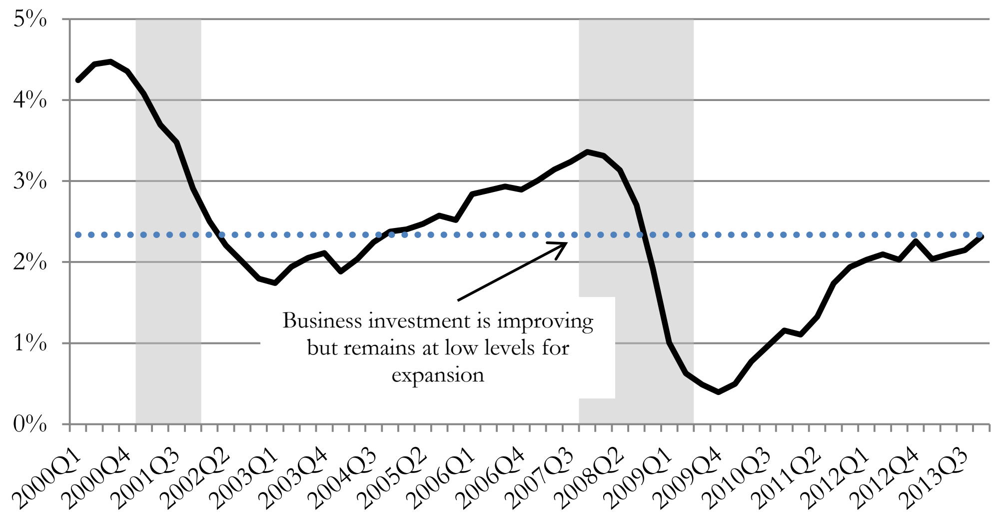
Growing business investment signals the likelihood of future growth — Capital expenditures as a percentage of GDP have grown recently, though they remain below the levels of past economic expansions. Low levels of business investment since the Great Recession have been because businesses are seeing less demand for their products, as well as higher levels of difficulty in discovering how to profitably deploy capital.

> Capital expenditures are expected to increase in 2014. This will put businesses in a better position to expand production and hiring.

Investment in equipment, or "capital expenditures," is an important factor for economic growth; it is necessary both to maintain the existing stock of capital and to add to the productive capacity of the economy. Figure 7 below shows the amount of investment by businesses as a percentage of U.S. gross domestic product (GDP) since 2000.

Leading indicators of business investment, including business managers' reported plans for capital expenditures, indicate that the trend of increased business investment will continue in 2014. Forecasts for improving consumer spending, which results from improvement in the labor market, better household balance sheets, and more consumer confidence, also will support business investment by encouraging businesses to invest in equipment repairs and upgrades to meet new demand.

Figure 7. US Inflation-Adjusted Private Non-Residential Net Domestic Investment as a Percent of GDP, First Quarter of 2000 to Fourth Quarter of 2013



Source: Bureau of Economic Analysis

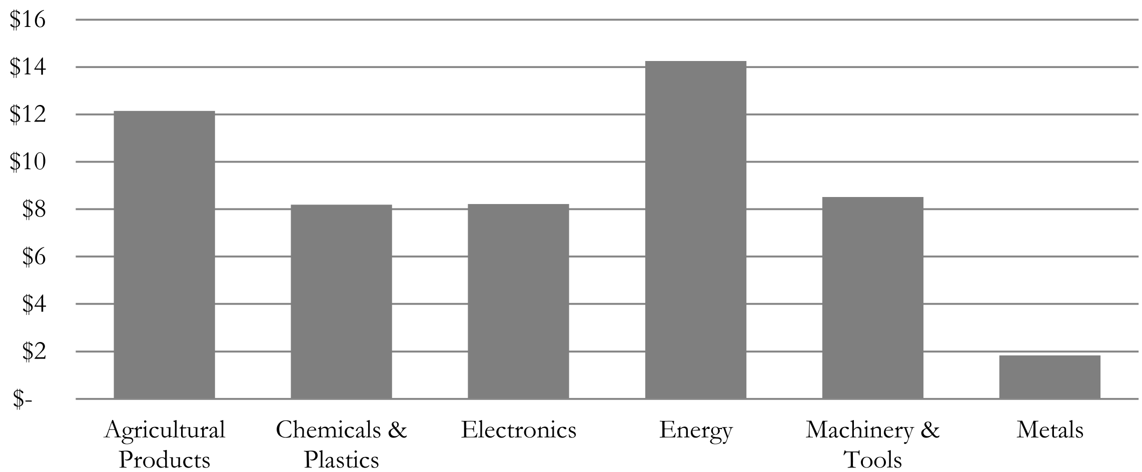
International and Domestic Trade

New data shows Colorado exports span diverse products — A large portion of what Colorado businesses produce is sold to other parts of the United States. The state's exports are diverse, such as agricultural products, chemicals and plastics, electronics, energy products, and machinery and tools.

> Export growth indicates that an economy is producing what other economies demand, generating higher levels of income for the exporting region.

Figure 8 shows Colorado's value of goods exports by product type to other areas of the United States, as estimated by the Brookings Institute. Export growth indicates that an economy is producing what other economies demand, generating higher levels of income for the exporting region and fostering economic ties between businesses. Colorado exports are distributed relatively evenly across the United States. However, the largest domestic exports include energy products to Houston, Dallas, and New York; agricultural products to Los Angeles and Nebraska; and electronics to Chicago.

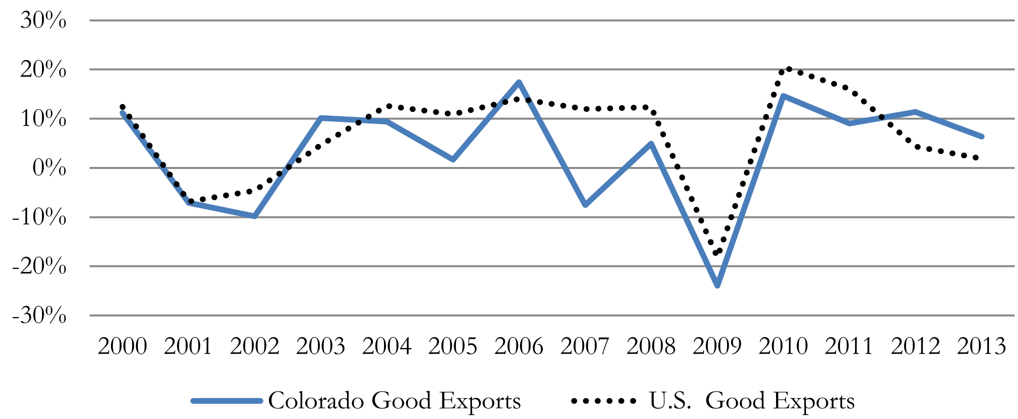
Figure 8. Colorado's Largest Domestic Exports in Goods, Billions of Dollars, 2010



Source: Brookings Institution's Metropolitan Policy Program. Eight separate areas make up the state total for Colorado: Colorado Springs, Denver-Aurora, Boulder, Fort Collins-Loveland, Grand Junction, Greeley, Pueblo, and Rest of Colorado.

As the global economy continues to grow slowly, exports expand at slower rates — The 2013 growth in U.S. goods exports of 2.0 percent and Colorado goods exports of 6.4 percent represent a slowing growth rate, as shown in Figure 9. United States services exports grew a modest 5.0 percent in 2013. There is not data on services exports by states readily available. Given Colorado's competitive advantage and high concentration and growth in business and professional services firms, however, it is likely that the growth rate of Colorado's exports of services exceeds that of the nation.

Figure 9. Colorado Good Exports and U.S. Good Exports,
Percent Change, 2000 through 2013



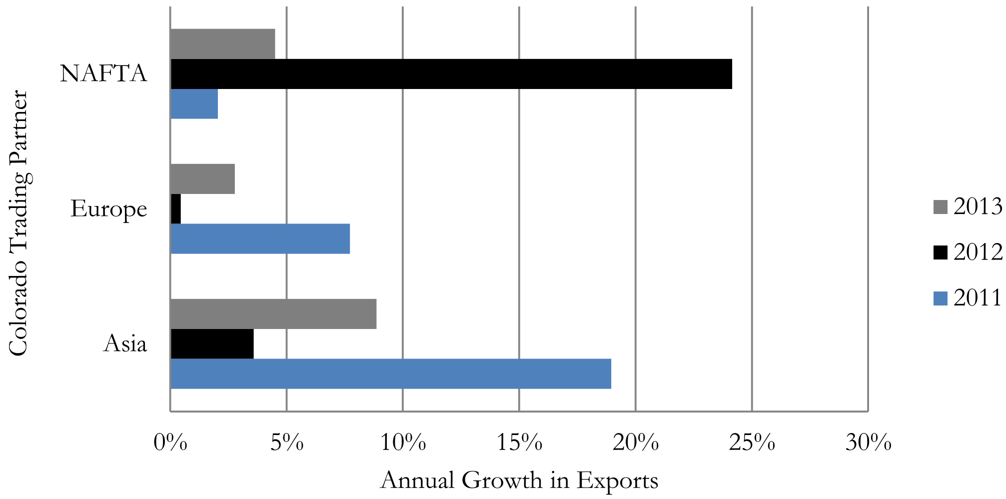
Source: U.S. Census Bureau

The global economy grew modestly in 2013 with a better outlook for 2014 — Much like the U.S. economy, the global economy has taken a slow road to recovery. The International Monetary Fund (IMF) World Economic Outlook reported that advanced economies experienced a modest expansion in 2013, while growth in most emerging economies remained subdued. The IMF expects a pickup in 2014, particularly in advanced economies as demand strengthens, driving export growth in emerging economies.

The IMF expects a pickup in 2014, particularly in advanced economies as demand strengthens, driving export growth in emerging economies.

In 2013, the economies of the U.S., Germany, France, Japan, the UK, and Canada expanded, while the economies of Spain and Italy contracted. As global markets improve, demand for products from the United States and Colorado will likely grow. Figure 10 shows the trends in Colorado exports to major trading partners.

Figure 10. Annual Growth in Colorado Exports with Major Trading Partners, Annual Percent Change, 2011 to 2013



Source: Wiser Trade Data

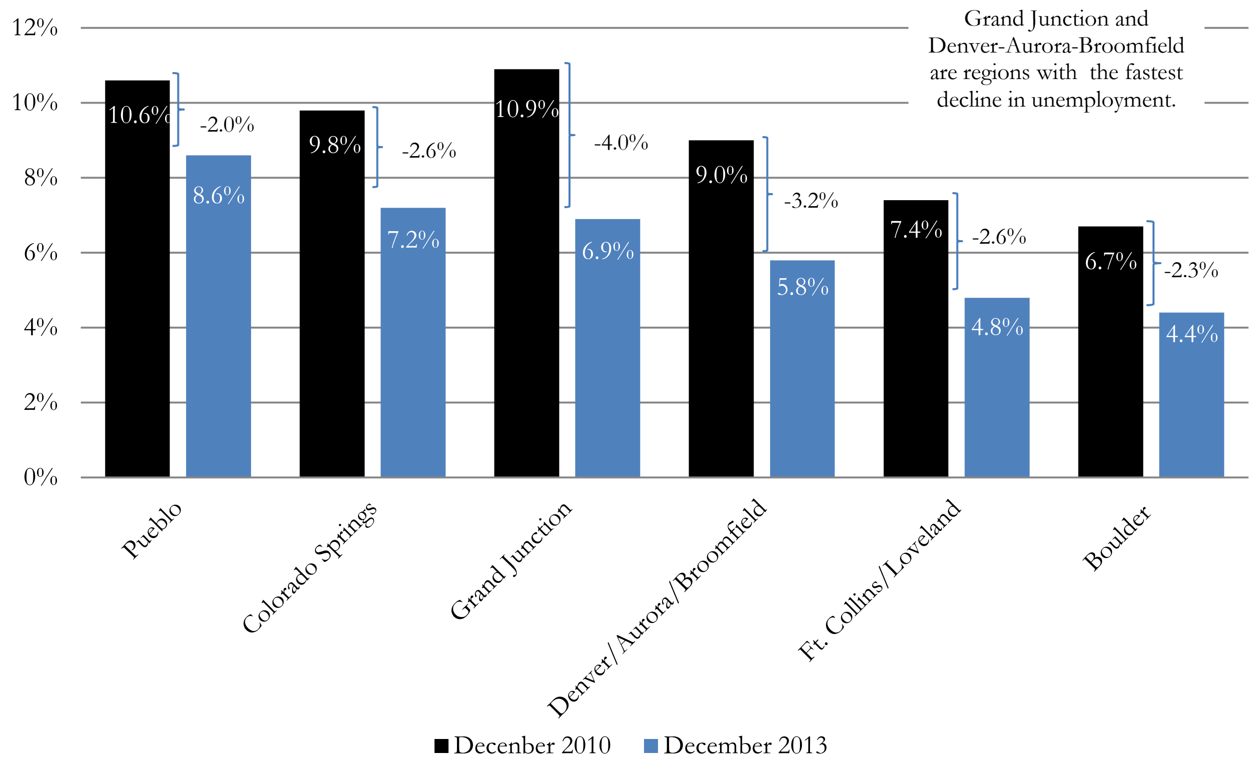
The Labor Market

The labor market continues to make progress, though unevenness persists **—** Employment continues to grow modestly overall, which is pushing down the unemployment rate; however, unemployment remains elevated. In 2013, employment grew 2.6 percent in Colorado and 1.7 percent for the nation as whole, while the unemployment rate in Colorado and the United States averaged 6.8 percent and 7.4 percent for the year, respectively.

Employment continues to grow modestly while unemployment declines.

The unevenness in labor markets is illustrated in Figure 11, which shows the three-year change in the unemployment rate for various regions of Colorado. The regions with the highest concentration of skilled workers and a greater variety of industries are having an easier time adjusting to disruptions of the Great Recession. This faster adjustment is leading to stronger job growth and lowering unemployment levels in these regions.

Figure 11. Change in Unemployment Rate (U-3) by Region of Colorado, December 2010 to December 2013

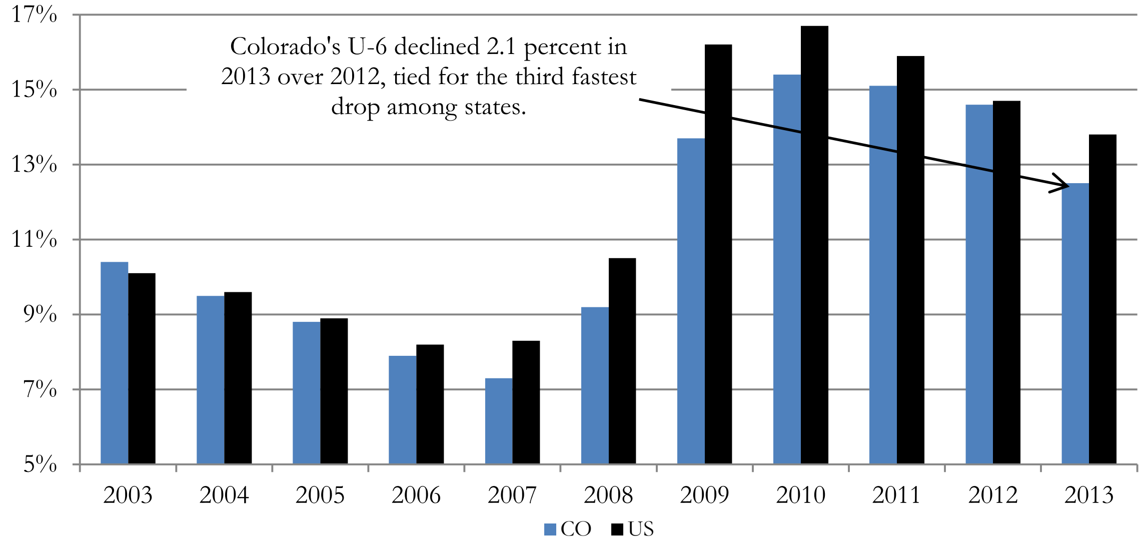


Source: Bureau of Labor Statistics

The data shown in Figure 11 represents the most commonly discussed statistic for unemployment, called U-3, which represents those who are unemployed as a percentage of the civilian labor force. In addition to the U-3 unemployment rate, a broader measure of labor-market conditions called "U-6" is published by the Bureau of Labor and Statistics. The U-6 statistics include the total number of unemployed workers measured in U-3, plus individuals who want to be employed but have not recently looked for work (called "marginally attached workers"), often because they are discouraged by their job prospects, as well as individuals who want to work full time but only are employed part time for economic reasons.

Figure 12 shows the U-6 unemployment rates for both Colorado and the nation as a whole. In Colorado, the U-6 rate of unemployment was 12.5 percent in 2013, the most recent data available, decreasing from the recession high of 15.4 percent in 2010. Colorado's U-6 declined 2.1 percentage points in 2013 from its 2012 average level, tied for the third-fastest drop among states.

Figure 12. U.S. and Colorado Underemployment Rate (U-6), Annual Average, 2003 to 2013

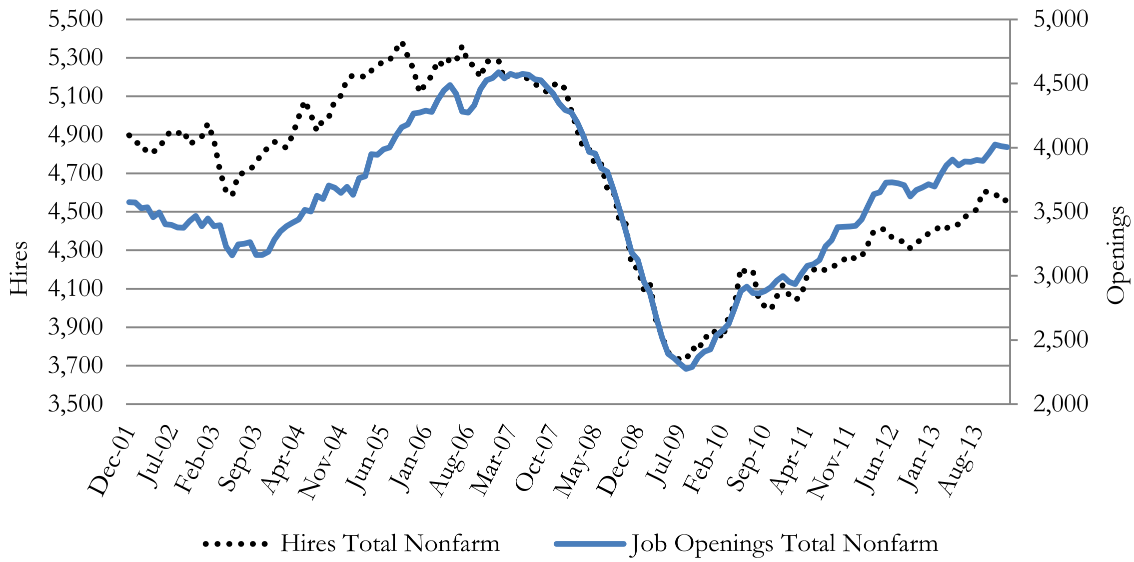


Source: Bureau of Labor Statistics

Although the number of people participating in the labor force continues to decline, much of the drop since 2012 is because of the retirement of baby boomers, rather than the number of discouraged workers. Nationally, the level of discouraged workers decreased 15 percent in February 2014 compared with February 2013 levels. Colorado, on average, also had fewer discouraged workers in 2013 compared with 2012, following national trends. Additionally, Colorado's declining U-6 rate indicates that the state has proportionately fewer discouraged workers, making up a smaller share of the labor force decline.

The unevenness of the labor market recovery may be partially attributable to the difficulty of matching those seeking work with employers' needs. Figure 13 shows the growing gap between job postings and hires at the national level, providing evidence that the job market currently is experiencing less success in matching job openings with individuals looking for work. Over time, the level of job openings and hires generally trends closely together. However, since economic conditions began to improve after the recession, there is a clear divergence in the level of openings and hires. Figure 13 represents all industries across the country – the degree that matching issues exist varies by region and industry.

Figure 13. U.S. Job Openings and Job Hires, 3-Month Moving Average, February 2011 to January 2014



Source: Bureau of Labor and Statistics

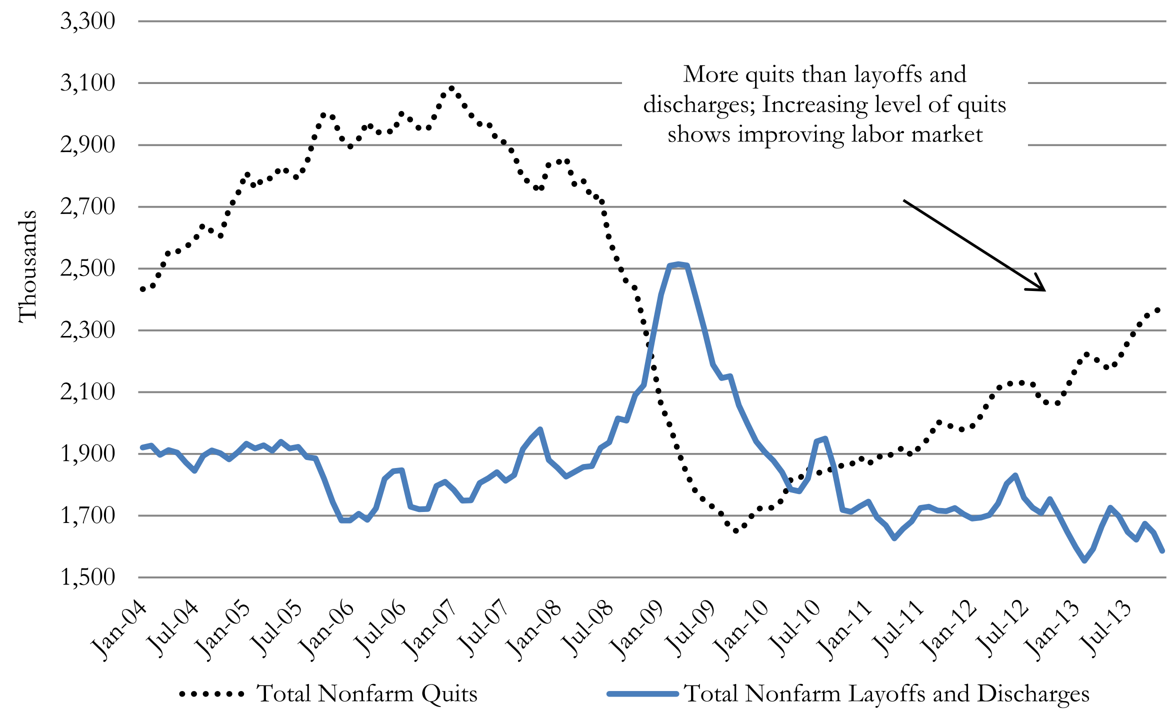
Several factors may be contributing to the divergence in hires and openings. There may be less mobility among workers as some homeowners are unable or unwilling to sell their homes at current prices, preventing them from relocating to areas where job growth is stronger. Additionally, some firms are struggling to hire new employees because many applicants do not have the specific skills and experience they currently need. At the same time, some workers may be unwilling to accept a lower wage than they earned before the recession. These issues generally always exist to varying degrees but appear more pronounced in the current economic environment.

Indicators showing movement within the labor market continue to signal gradually improving conditions. The rate of gross job creation and destruction, or job "churning" indicates how flexible and dynamic an economy is. It signifies that labor is moving to more profitable activities and businesses.

> Indicators showing movement within the labor market continue to signal gradually improving conditions. The growing rate of quits indicates workers' increased willingness or ability to leave jobs as they pursue other opportunities.

Figure 14 shows the number of quits – voluntary separations initiated by the employee – and the number of layoffs and discharges – involuntary separations initiated by the employer. In a growing economy, more people quit than are forced to leave; whereas in a recession, voluntary quits decrease and involuntary layoffs grow. Currently, the growing rate of quits indicates workers' increased willingness or ability to leave jobs as they pursue other opportunities. The level of quits remains low by historical standards, however, and this indicates the need for more progress in the labor market.

Figure 14. Quits and Layoffs, 3-Month Moving Average, 2004 through January 2014



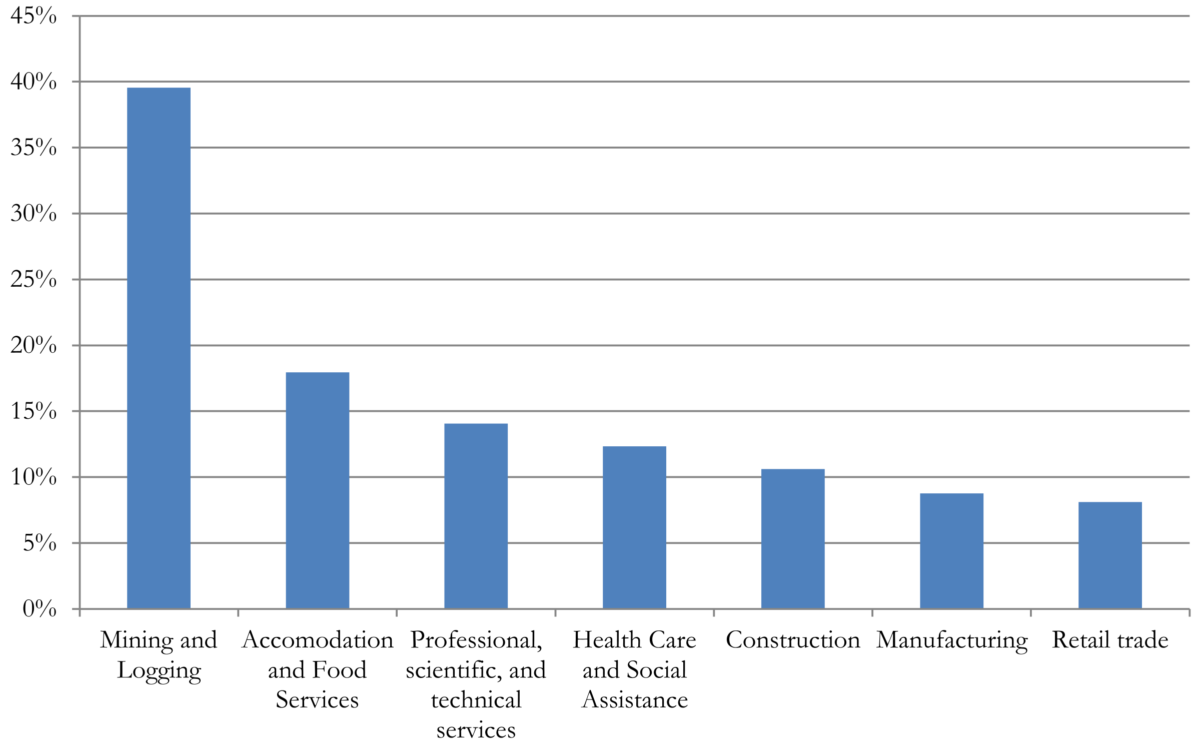
Source: Bureau of Labor and Statistics

Some industries have greater job churning than others. Industries that make up a large portion of Colorado's employment base, such as construction, manufacturing, health care, and professional, scientific, and technical services, have growing rates of quits and declining rates of layoffs and discharges at the national level in the fourth quarter of 2013 compared to the fourth quarter of 2010.

> Since the end of the recession in 2010, the state has added approximately 158,800 jobs, a cumulative growth rate of 7.1 percent.

***Colorado's favorable mix of industries are creating value in today's economy, generating income and job growth* for the state –** Since the end of the recession in 2010, the state has added approximately 158,800 jobs, a cumulative growth rate of 7.1 percent. As shown in Figure 15, more than 56 percent of this job growth has occurred in the following seven major industries: health care and social assistance; professional, scientific, and technical services; accommodation and food services; manufacturing; mining (mostly oil and gas production); construction; and retail trade. Notable areas with more modest growth or job losses include transportation; information; arts, entertainment and recreation; and federal and local government.

Figure 15. Payroll Jobs in Select Growing Industries in Colorado, Percent Change, January 2014 over January 2010



Source: U.S. Bureau of Labor Statistics

As the economy becomes more information- and knowledge-intensive, workers are adapting and self-employment in Colorado is growing **—** According to information from the Bureau of Economic Analysis, Colorado ranked third in the nation for the proportion of self-employed individuals and sole proprietors out of total employment in 2012, the latest data available. As shown in Figure 16, 445,000 Coloradans were self-employed in 2012, making up 15.4 percent of Colorado's total employment, according to estimates from the State Demographer's Office. The graph also shows that the proportion of self-employed has grown since the early 2000s.

> Reflecting Coloradans' entrepreneurial and independent spirit, the state ranked third in the nation for the proportion of self-employed individuals in 2012.

Rather than working at a single firm, more people are independent contractors or self-employed. This may be driven by enhancements in technology, easier access to vast amounts of information, and growing interest in workplace flexibility. Also, businesses appear to be slower to hire full-time staff and may not need the same level of workforce as in the past. The independent and entrepreneurial nature of Colorado's workforce likely helps the state's economy better succeed in today's economic environment. Traditional up-to-date labor market statistics from surveys of employers and households may not be able to fully capture these types of workers. Thus, more Coloradans may be engaged in income-earning activities than official jobs data suggests.

Figure 16. Colorado Total Sole Proprietor Employment and Sole Proprietors as a Percentage of Total Employment, 2001 through 2012

Source: U.S. Bureau of Economic Analysis and Colorado State Demography Office

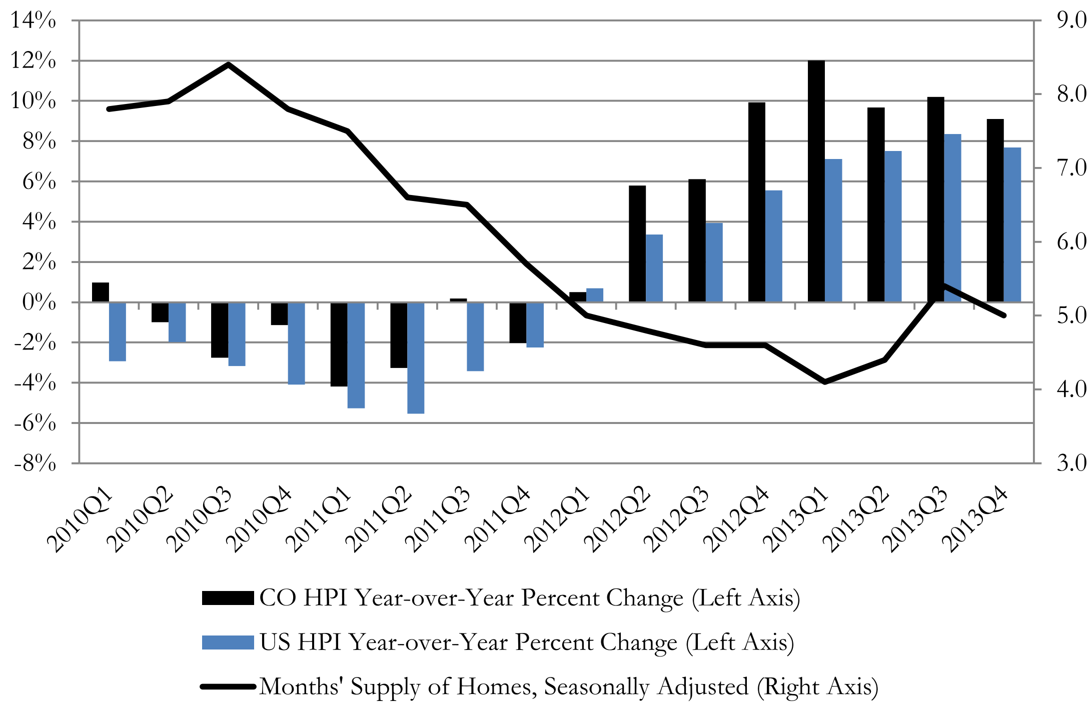
Housing and Construction

Housing markets continue to grow at a moderating pace — Home prices in both Colorado and the nation grew at a slower rate in the fourth quarter of 2013 than the previous three months. Still, housing markets have strengthened in many parts of the country as foreclosures decrease, employment slowly improves, and brighter expectations for the future encourage higher levels of activity. This will bolster the economy through continued construction and home-purchase transactions. Further, homeowners will continue to gain greater flexibility to move for job opportunities and access home equity for spending and entrepreneurial endeavors.

> Stronger housing markets will bolster the economy through continued construction, home sales, higher home equity, and greater workforce mobility.

As shown in Figure 17, home-price appreciation accelerated during the end of 2012 into 2013 as the housing market recovered from the Great Recession. As housing markets return to more normal conditions, the rate of price appreciation is expected to slow, especially in Colorado where average prices have surpassed their pre-recession peak.

Figure 17. FHFA House Price Index Year-over-Year Change with National Months' Supply of Existing Homes, 2010 through 2013

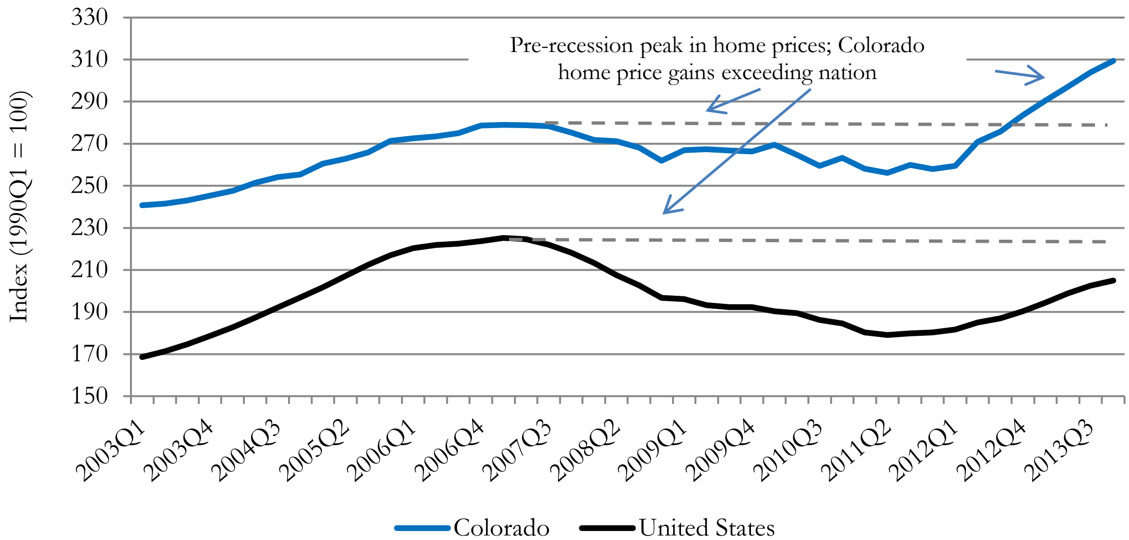


Source: Federal Housing Finance Agency and U.S. Census Bureau

Housing market performance continues to be uneven across the nation and within Colorado – Average home prices such as those shown in Figure 17 above represent aggregated measurements of several markets. While average prices have grown consistently for several quarters, not all markets have experienced the same degree of strengthening over the past two years. Many areas continue to face challenges, such as remaining foreclosure inventories, higher mortgage delinquency rates, and persistently lower demand for housing due to more modest labor-market conditions.

Colorado's housing market, in aggregate, has outpaced many other parts of the country and remains above the national average. Figure 18, which shows the FHFA Home Price Index for Colorado and the United States, illustrates the slower recovery of housing at the national level where prices still remain below the peak reached before the housing market collapse.

Figure 18. FHFA House Price Index for the United States and Colorado, 2010 through 2013

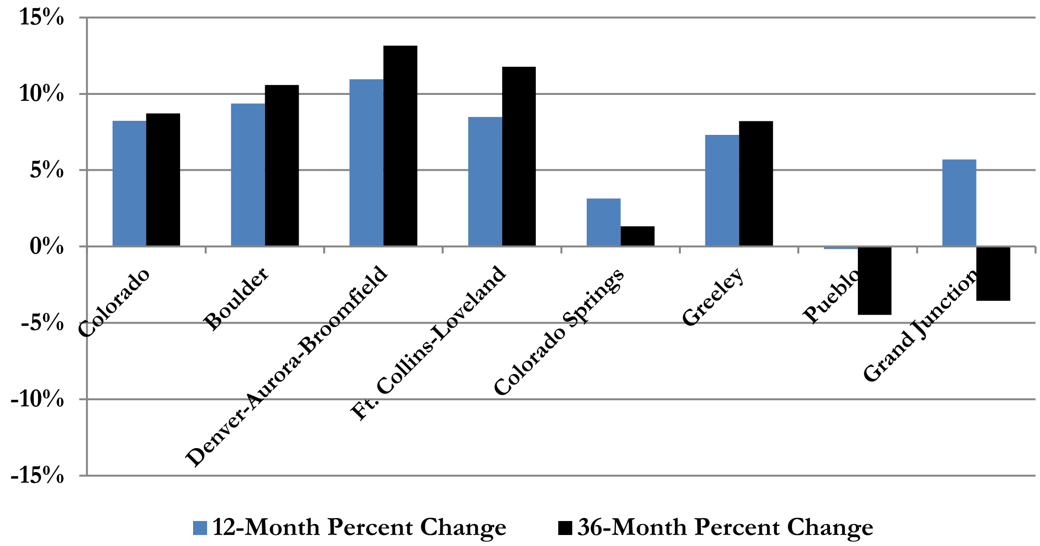


Source: Federal Housing Finance Agency

While Colorado as a whole has outpaced average home appreciation at the national level, housing markets in different parts of the state have not all experienced the same level of strength. Figure 19 illustrates changes in home values for different regions of Colorado over the near term (12 months) and longer term (36 months). While growth has been more robust in the Denver metro area, Fort Collins, and Greeley because of stronger economies and population growth, housing markets only recently have begun to strengthen in Colorado Springs and Grand Junction. Pueblo continued to experience year-over-year price decreases in 2013.

> Colorado's housing market is healthier than the overall national market. However, many markets still have not recovered from the downturn, both within Colorado and across the Nation.

Figure 19. Changes in FHFA House Price Index for Regions of Colorado, as of the Fourth Quarter of 2013



Source: Federal Housing Finance Agency

Negative equity declines have slowed — The nationwide percentage of negative equity mortgage loans remained the same in the fourth quarter of 2013 as it was the prior quarter, at 13.3 percent, according to the most recent Equity Report published by real estate data firm CoreLogic. Colorado's negative equity share was 9 percent of mortgages, which is a slight increase from 8.5 percent in the third quarter of 2013 but still down from the 20 percent level experienced during the recession.

> A recent uptick in Colorado's share of underwater mortgages is an indication of slightly slower momentum in the housing recovery.

As home prices generally improved across the country in 2013, the percentage of home mortgage loans with negative equity decreased substantially. Loans with negative equity – also referred to as "underwater mortgages" – are those where the amount owed on the loan is greater than the market value of the house. The slight uptick in negative equity is most likely a result of temporary factors, such as seasonal fluctuations in housing demand. Still, this recent data provides evidence that the housing recovery will require support from other sectors of the economy, such as employment growth, in order to maintain recent growth rates.

***Low vacancies and strong demand for rental housing continue to push rent higher in Colorado* —** Average rent for the Denver metro area was $1,041.61 in the fourth quarter of 2013, according to a data report that is co-sponsored by the Colorado Division of Housing. This represents a slight decrease of $7.02 from the previous quarter but remains 6.4 percent higher than the same time a year earlier. The average rent is more than 17 percent higher than the fourth quarter of 2008 during the Great Recession. Statewide average rent also rose to $1,000.98 in the third quarter of 2013, the most recent data available on a statewide basis. This is also about 6 percent higher than the prior year and more than 17 percent above the statewide average rent in the fourth quarter of 2008.

> Due to the trend of households choosing to rent rather than buy, combined with growth in new household formation, rent will remain high in many metro areas.

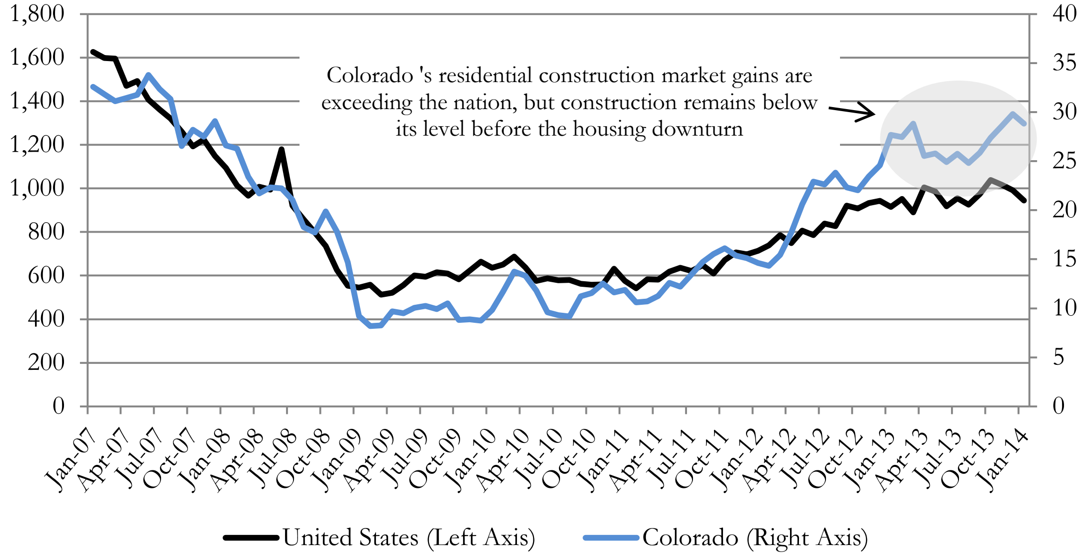
Higher rents have largely been the result of low vacancy rates driven by increased demand for rental housing throughout the state. Many households still have not returned to homeownership since the financial downturn and recession. Additionally, many young people are choosing to rent housing upon moving out of their parents' house in order to limit financial burdens and provide more flexibility in the job market.

Household formation is expected to accelerate over the next two to three years, according to data published by Colorado's State Demography Office. This will further drive demand for all types of housing, including rentals and home purchases. Household formation is thought to have been depressed in the wake of the Great Recession, as young people elected to live with parents longer than they otherwise would have. Improving future expectations are likely to encourage more people to form households, resulting in the expression of "pent-up demand" for housing.

***Residential construction continues to grow* –** In response to strengthening housing markets and low inventories of housing, builders have increased residential construction projects for both single- and multi-family homes. Figure 20 shows the number of new residential construction permits issued in the United States and Colorado. The figure illustrates stronger growth in Colorado's residential construction market compared with the nation overall.

The most recent data indicates that builders nationally have slowed construction activity since the end of 2013. National residential construction permit issuance peaked at an annualized rate of 1.03 million in October 2013 and has fallen in each of the subsequent three months. The downtick in activity at the national level is indicative of the general unevenness in the housing recovery, which is still constrained in parts of the country.

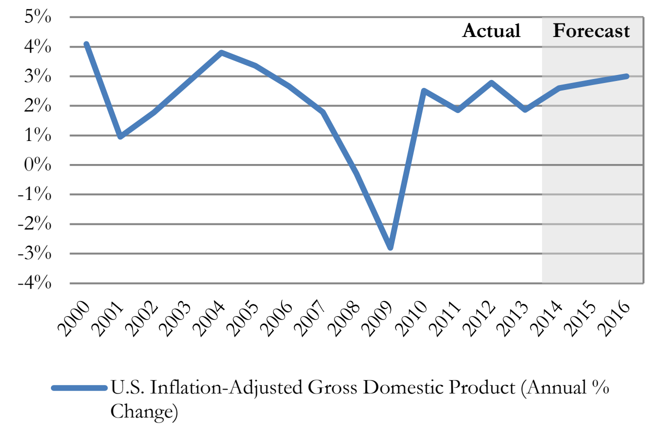
Figure 20. New Residential Construction Permits, 3-Month Moving Average of Seasonally Adjusted Annual Rate January 2007 through January 2014, in Thousands



Source: U.S. Census Bureau

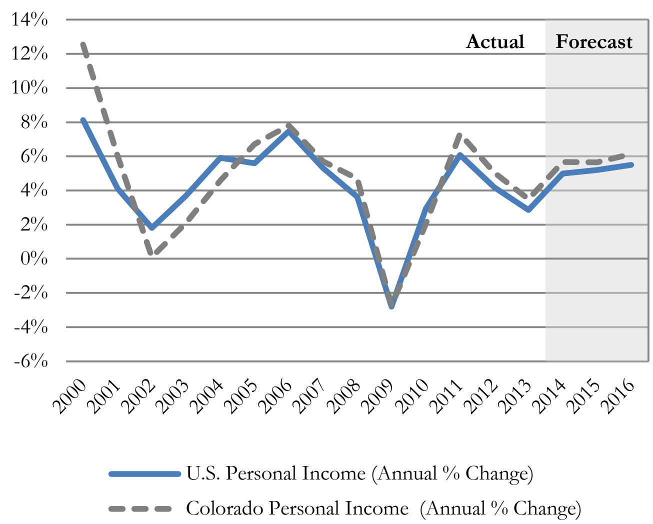
Summary of Key Economic Indicators, Actual and Forecast

U.S. Gross Domestic Product (GDP)



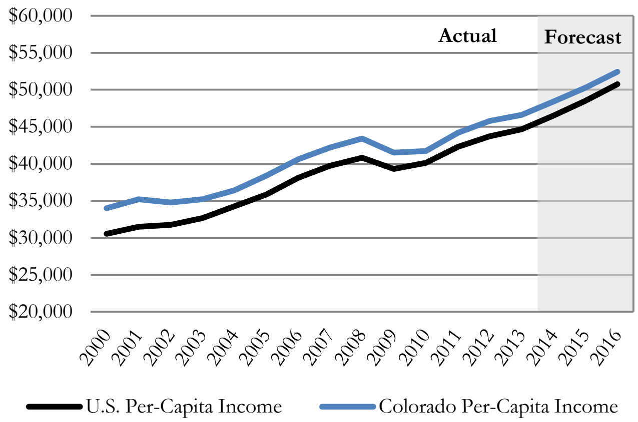
- GDP is a barometer for the economy's overall performance and reflects the value of output in the United States.
- GDP grew 1.9 percent in 2013 and will accelerate to 2.6 percent in 2014.

U.S. and Colorado Personal Income



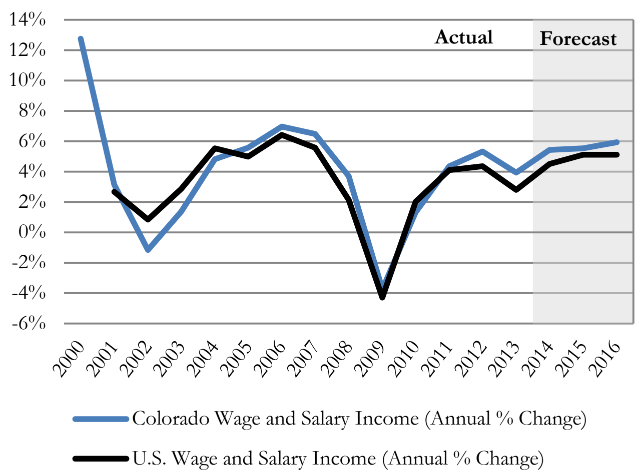
- Personal income in Colorado grew 3.5 percent in 2013 and will accelerate to a growth rate of 5.7 percent in 2014.
- Personal income for the nation grew 2.8 percent in 2013 and will accelerate to 5.0 percent in 2014.
- The slower growth rates in 2013 for Colorado and the nation mostly reflect the shifting of income into 2012 due to federal tax increases in 2013.

U.S. and Colorado Per-Capita Income



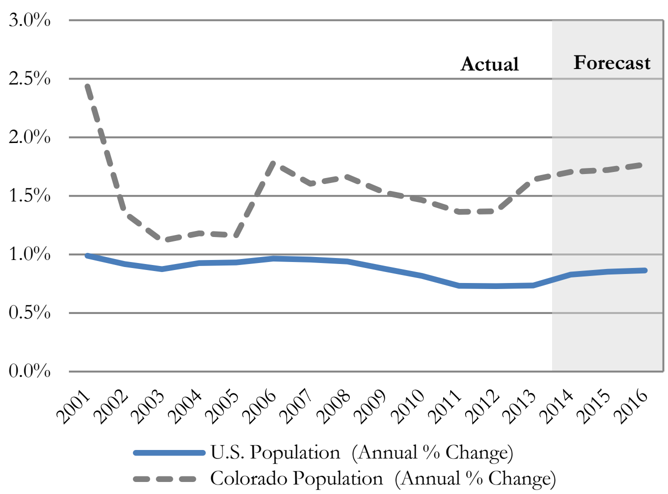
- Per-capita income in Colorado grew to $46,603 in 2013 and will grow to $48,421 in 2014.
- Nationally, per-capita income increased in 2013 to $44,661 and will grow in 2014 to $46,509.

U.S. and Colorado Wage and Salary Income



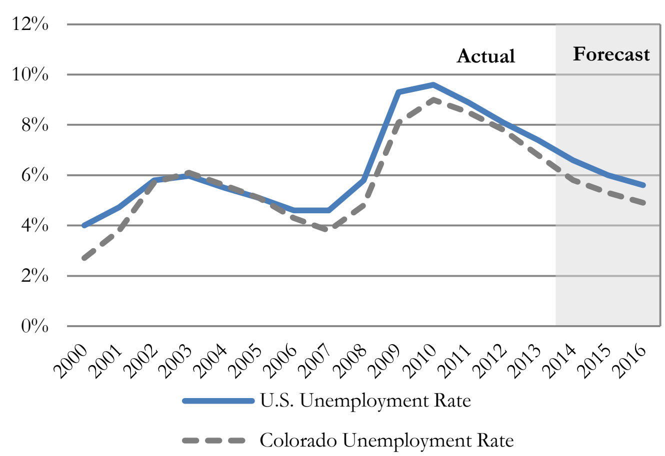
- Total wages and salaries paid to all workers grew in Colorado at a rate of 3.9 percent in 2013 and will accelerate to 5.4 percent in 2014.
- Wage and salary income for the nation increased 3.0 percent in 2013 and will grow 4.6 percent in 2014.
- Similar to personal income, the slower growth for the nation and Colorado in 2013 partially reflects the shifting of income into 2012 due to federal tax increases in 2013.

U.S. and Colorado Population



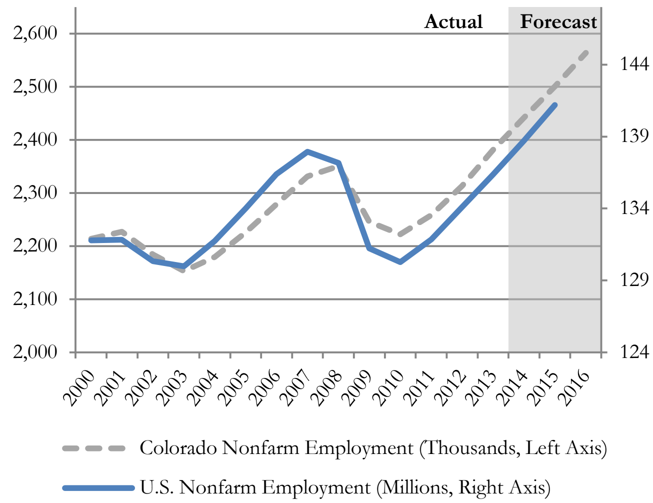
- The state's annual average population growth rate from 2008 to 2013 was approximately 1.5 percent. Nationally, average population growth was slightly less than one percent.
- Colorado's population is expected to grow 1.7 percent and reach 5.3 million in 2014, and increase at similar rates through the forecast period.
- The nation's population will continue to grow less than one percent over the forecast period.

U.S. and Colorado Unemployment



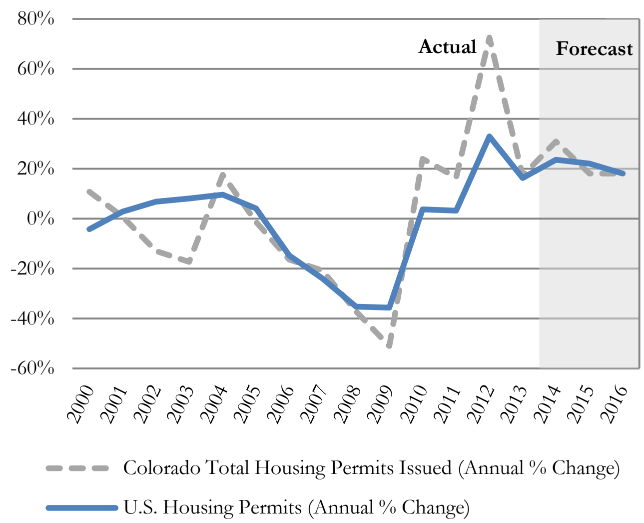
- The unemployment rate continues to fall from its high levels during the Great Recession.
- After averaging 6.8 percent in 2013, OSPB forecasts Colorado's unemployment rate at 5.8 percent on average in 2014.
- The national unemployment rate will be higher than Colorado's average in 2014 at 6.6 percent after averaging 7.4 percent in 2013.

U.S. and Colorado Total Nonagricultural Employment



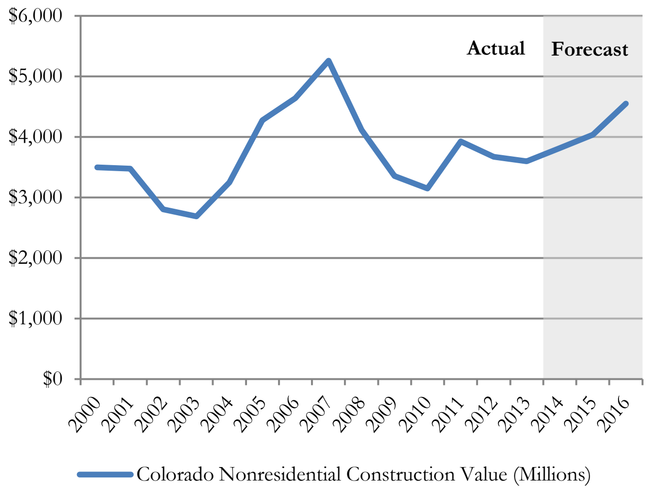
- Colorado gained 59,000 nonfarm jobs, or an increase of 2.6 percent in 2013, with broad growth across industries.
- The nation's employment grew 1.7 percent in 2013.
- Payroll jobs from Colorado employers will increase 2.5 percent in 2014.
- Nationally, job growth is forecast to grow 1.7 percent in 2014.

U.S. and Colorado Housing Permits Issued



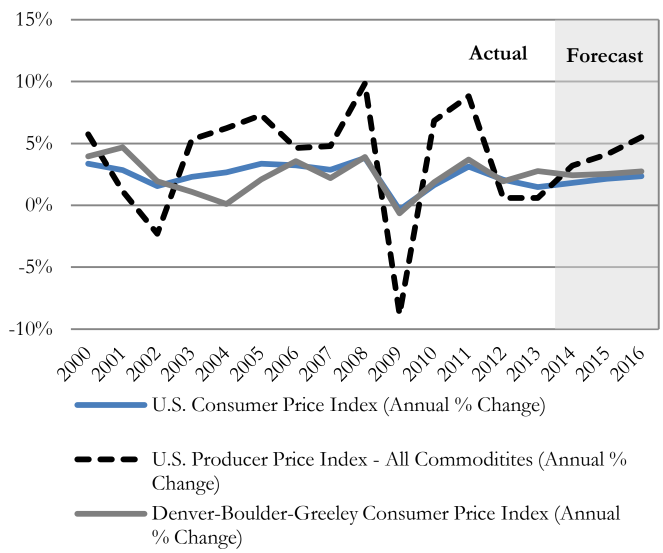
- Colorado residential construction permits grew 16.7 percent in 2013 and will grow 30.9 percent in 2014.
- Housing permits for the nation increased 16.2 percent in 2013 and will grow 23.6 percent in 2014.

Colorado Nonresidential Construction Permits



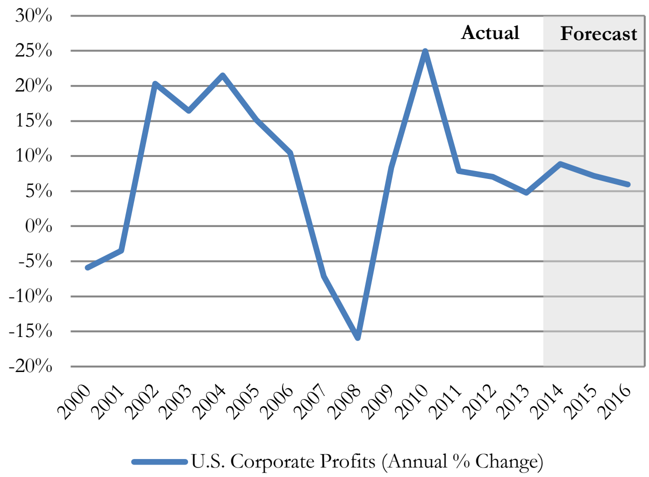
- Nonresidential construction activity growth has been modest due to high commercial vacancies and lower rates of business investment.
- In Colorado, the total value of nonresidential construction projects decreased 2.0 percent in 2013 and will grow 6.1 percent in 2014.

Consumer Price Index and Producer Price Index



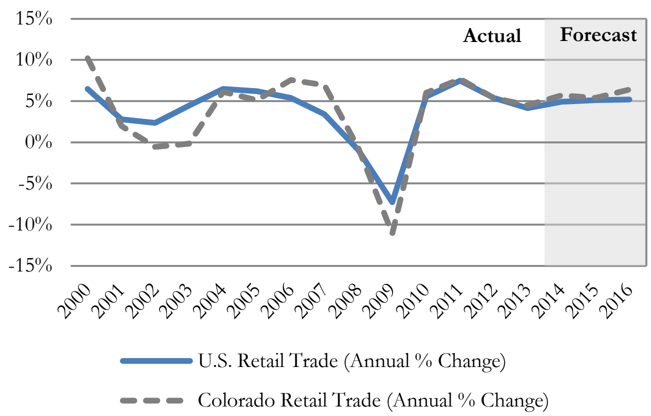
- The Denver-Boulder-Greeley Consumer Price Index increased 2.8 percent in 2013 mostly from higher costs for housing, and will increase 2.4 percent in 2014.
- Nationally, consumer prices increased more slowly at 1.5 percent in 2013, and will grow 1.8 percent in 2014.
- The more volatile producer prices in the U.S. will increase 0.6 percent in 2013 and 3.2 percent in 2014.

U.S. Corporate Profits



- Corporate profits at the national level are now posting more modest growth than in the years following the recession. They increased 4.8 percent in 2013 and will grow 8.9 percent in 2014.

Retail Trade



- Continued improvement in household balance sheets and job growth should push the level of consumer spending higher in 2014.
- Retail sales in Colorado will grow 5.7 percent in 2014 after increasing 4.5 percent in 2013.
- Nationwide retail trade grew 4.3 percent in 2013 and will grow 4.9 percent in 2014.

General Fund and State Education Fund Revenue Forecast

General Fund Revenue Forecast

Projections for General Fund revenue for this fiscal year in this forecast are $93 million higher compared with expectations in December, and $61 million higher for FY 2014-15. This represents roughly a one percent upward adjustment to projected revenue. The figures do not include revenue from upwardly revised estimates of retail marijuana taxes because though this revenue is first credited to the General Fund, it is ultimately transferred to special accounts.

General Fund revenue is expected to grow 3.2 percent in the current fiscal year and 7.3 percent in FY 2014-15. The modest growth rate this year is mostly from a one-time expected decline in income taxes on investment income.

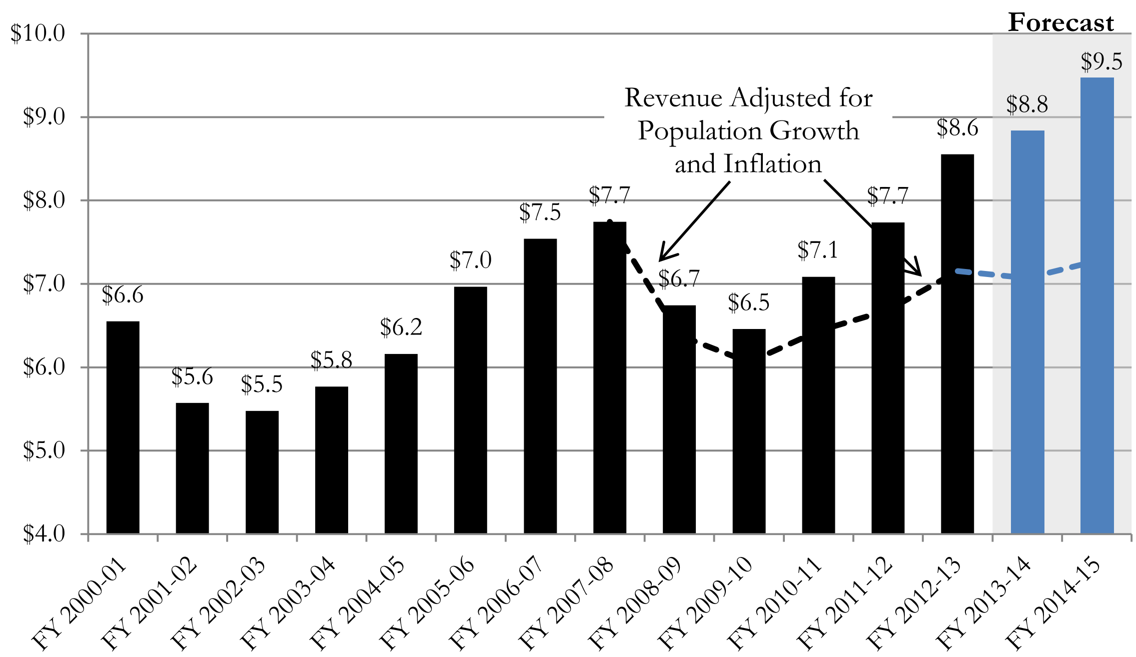
General Fund revenue is expected to grow 3.2 percent in the current fiscal year and 7.3 percent in FY 2014-15. The modest growth rate this year is mostly from an expected decline in income taxes on investment income. This income source is inherently volatile, and it is anticipated that taxpayers shifted some of their investment income from this fiscal year into FY 2012-13 due to federal tax law changes. Less robust corporate income tax revenue growth and weaker use tax collections will also contribute to the moderation in tax collections.

The factors slowing revenue growth this year will not affect FY 2014-15, when a resumption of higher tax collections from investment income combined with continued economic growth will generate higher General Fund revenue growth.

The General Fund is the State's main account for funding its core programs and services such as education, health and human services, public safety, and courts. 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 paid by households and businesses in the state, which are heavily influenced by the performance of the economy.

Figure 21 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2014-15. The figure illustrates the strong General Fund revenue growth since the end of the recession in FY 2009-10, the moderation in growth this fiscal year, and the expected increase in FY 2014-15. A more detailed forecast of General Fund revenue by source is provided in Table X in the Appendix.

Figure 21. General Fund Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



Source: Office of the State Controller and OSPB.

Forecast Discussion of Major General Fund Revenue Sources

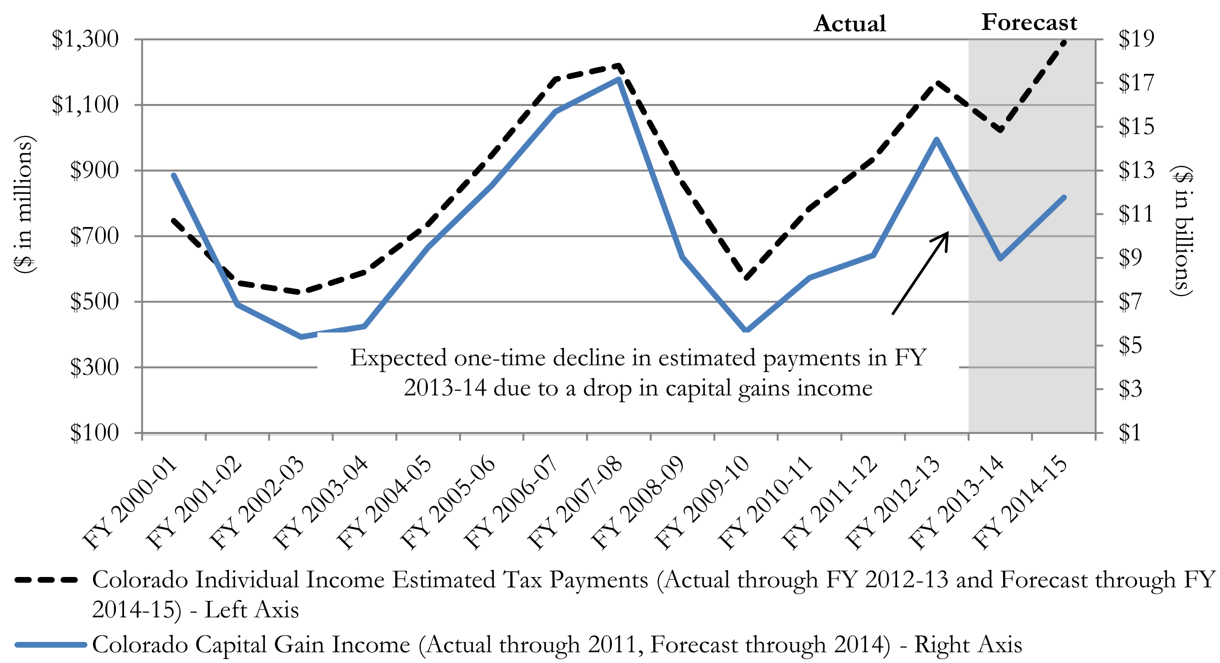
The following discusses the forecasts for the three major General Fund revenue sources that make up 95 percent of the total – individual income taxes, corporate income taxes, and sales and use taxes. General Fund revenue from the remaining group of miscellaneous sources, such as taxes paid by insurers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

Individual income tax – Individual income tax collections will post a slight increase of 0.7 percent this fiscal year, but will rebound in FY 2014-15 with a higher growth rate of 8.5 percent. Income taxes are inherently volatile as economic conditions change and because of fluctuations in investment income from equities and other assets.

Tax collections from Coloradans' investment income have bolstered revenue growth above what data on job and personal income growth would suggest. Tax collections from this income source, however, are expected to substantially moderate this year. OSPB continues to anticipate that taxpayers shifted investment gains into 2012 to avoid a higher tax liability due to federal tax increases in 2013. The Congressional Budget Office projects that capital gains income at the national level dropped 38 percent in 2013, mostly as a result of the tax policy-induced shifting. OSPB projects that the phenomenon pulled an estimated $120 million in income tax revenue from this year into FY 2012-13. As a result, after doubling since FY 2009-10, income taxes paid through estimated payments to the State are expected to decline 12.5 percent this fiscal year. OSPB will have more information on the magnitude of the actual shifting of income when tax collections for April of 2014 are reported in May.

The historical and projected trends in estimated tax payments and capital gains income to Coloradans are shown in Figure 22 below. Investors with high amounts of income pay their tax liabilities through estimated payments periodically throughout the year. Tax liabilities from other sources, such as business income, rental income, and income from energy production royalties are also often paid through estimated payments. After the decline this fiscal year, estimated payments will rebound in FY 2014-15 with continued economic growth and because the one-time shifting of investment income will no longer be a factor.

Figure 22. Capital Gains Income to Coloradans (right axis) and State Individual Income Estimated Tax Payments (left axis), Actual and Forecast, FY 2000-01 to FY 2014-15



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

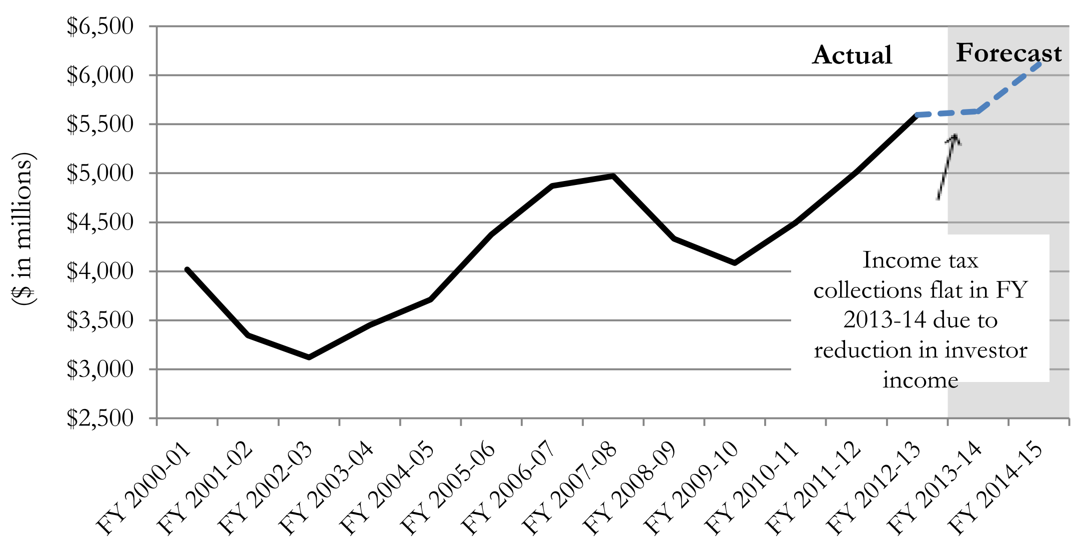
> The resumption of growth in investor income, along with continued growth in income from wages and business activity, will generate individual income tax revenue growth of 8.5 percent in FY 2014-15.

Continued growth in jobs, business income, and other sources of income tax revenue will help offset the decrease in estimated income tax payments and prevent a larger decline in overall individual income tax collections this year. Notably, revenue from wage withholdings of income taxes is expected to grow five percent this year. Tax revenue from withholdings comprises around 80 percent of income tax revenue and close to 50 percent of total General Fund revenue.

Tax policies both at the state and federal level[1] will, on net, lower revenue in the current fiscal year. The availability of the State tax credit for child care contributions and temporarily higher federal tax deductions for business investments are the largest tax policies that reduce tax revenue. The expiration of these federal provisions, along with newly reinstated federal limits on tax deductions and exemptions for higher income earners that started in 2013, will serve to bolster income tax collections going forward.

The resumption of growth in investor income, along with continued growth in income from wages and business activity, will increase individual income tax revenue in FY 2014-15. Figure 23 depicts the robust growth in overall individual income tax revenue since FY 2009-10, the modest decline in FY 2013-14, and the forecasted rebound for FY 2014-15.

Figure 23. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



Source: Office of the State Controller and OSPB.

Corporate income tax – After substantial increases in the prior two fiscal years, corporate tax revenue will grow 12.9 percent this fiscal year and post growth of 7.9 percent in FY 2014-15. Corporate income tax collections comprise about seven percent of General Fund revenue. The amount of corporations' sales in the state, their operating environment,

Corporate tax revenue growth will grow 12.9 percent this fiscal year and post growth of 7.9 percent in FY 2014-15, more moderate growth rates than during the past two fiscal years.

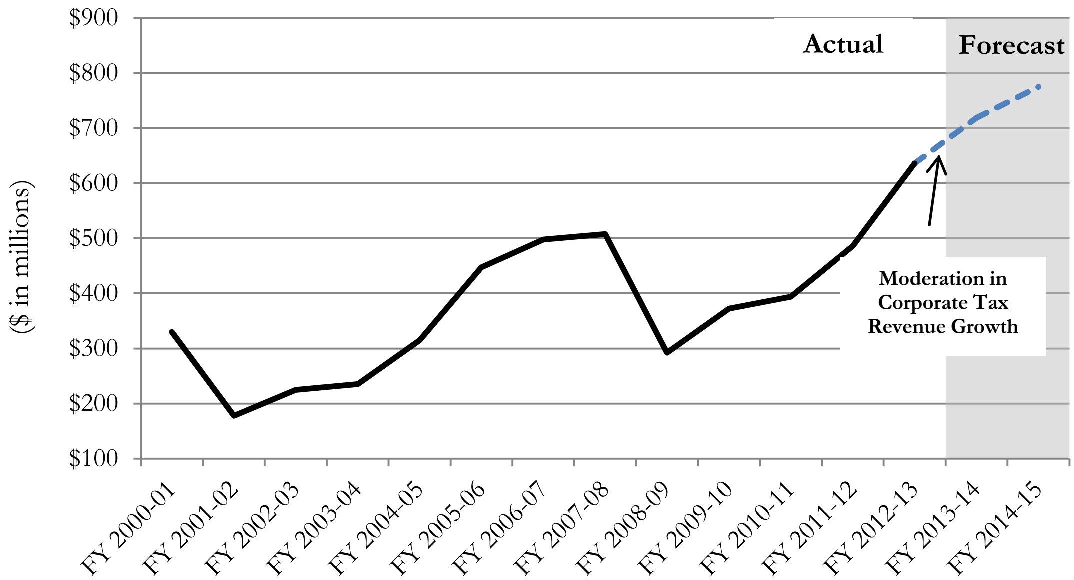
[1] Because taxable income for State income tax purposes is based on federal taxable income, certain federal tax policy changes that affect deductions and exemptions can affect Colorado income tax collections.

such as business costs, and tax policy changes affecting business expensing are important drivers for corporate tax revenue.

The factors that fueled the recent robust growth, most notably high profit margins and a bounce in revenue from the rebound in economic activity from the Great Recession are diminishing. The economic expansion has become more mature and business costs, such as labor and interest payments, are expected to rise and lower profit margins. Also, the reversal of federal and State tax policies that had bolstered revenue will temper corporate tax collections. This includes the temporary State cap on the amount of net operating losses that corporations could deduct and the federal tax policies that increased tax deductions for business investments.

A graph of historical and forecasted corporate income tax collections is provided in Figure 24.

Figure 24. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



Source: Office of the State Controller and OSPB.

Sales and use tax – Sales tax revenue will grow 6.3 percent this fiscal year and 5.3 percent in FY 2014-15. Continued economic growth, along with more activity in the housing market, will continue to support consumer and business spending. Consumer durable goods, such as vehicles, electronics, furniture, appliances, and building materials, generally make up around a quarter of sales tax collections.

Continued economic growth, along with more activity in the housing market, will continue to support consumer and business spending.

The growth rates for sales tax revenue are boosted this fiscal year and next by the State's collection of a new sales tax of 10 percent on retail marijuana from the passage of Proposition AA by voters in

November. (Voters also approved an excise tax of 15 percent on retail marijuana that is mostly credited to a cash fund for public school capital construction projects.) The tax started in January and the Department of Revenue projects that it will generate roughly $19 million for the rest of this fiscal year, but grow to $61 million in FY 2014-15. There could be a substantial revision to the projection, however, when more information becomes available.

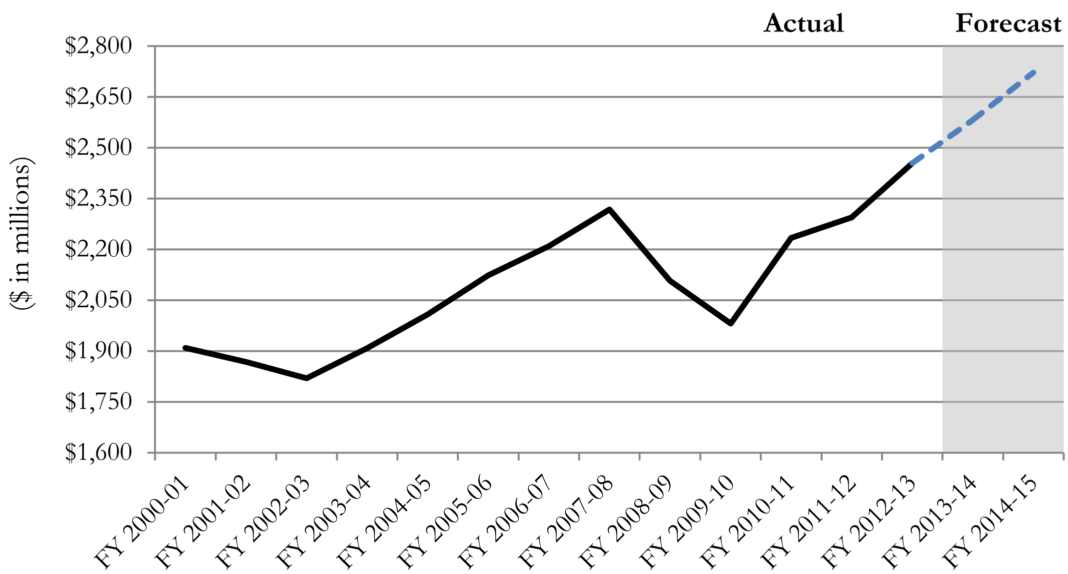
Under current law, this revenue from retail marijuana sales will first go to the General Fund — and is included under sales tax revenue in Table X in the Appendix — but then is transferred to the Marijuana Cash Fund to support regulation and enforcement of the retail marijuana industry. A portion will also be distributed to local governments where retail marijuana sales occur.

Tax policy changes also affect sales tax revenue. The largest tax policy affecting this forecast is a change to the amount of the vendor discount, which allows a portion of sales tax revenue to be retained by retailers who collect and remit the tax to the State. The vendor discount was eliminated during the recession to increase revenue to the State, and then brought back partially in FY 2011-12. The resumption of the vendor discount to its traditional higher amount in FY 2014-15 is estimated to reduce sales tax collections by about $28 million and similar amounts going forward.

Use tax revenue is expected to decline 4.5 percent this fiscal year, and grow 6.7 percent in FY 2014-15. The use tax is a companion to the sales tax that brings in a much smaller amount of revenue. Use taxes are generally paid on items in which the seller did not collect and remit sales taxes for the State. Many of these transactions involve businesses with out-of-state sellers. As such, use tax collections can be volatile and do not always grow commensurately with the economy. Continued construction activity and the growing oil and gas industry, will generate revenue growth again in FY 2014-15.

Total sales and use tax revenue from FY 2000-01 through FY 2014-15 is shown in Figure 25. Sales and use tax revenue makes up about 30 percent of total General Fund revenue.

Figure 25. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2014-15



Source: Office of the State Controller and OSPB.

State Education Fund Revenue Forecast

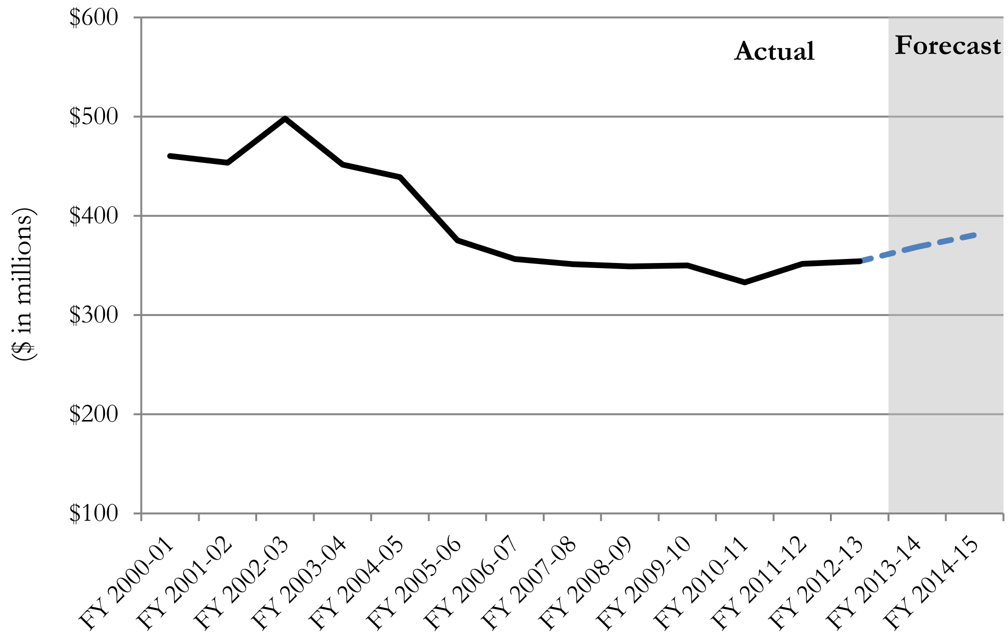
As discussed on page X in the *General Fund with the State Education Fund Overview* section, the state constitution requires that one third of one percent of taxable income from Colorado taxpayers be credited to the State Education Fund. Because this revenue comes from taxable income, it largely follows the trends discussed above in individual income and corporate income tax revenue collections.

State Education Fund revenue from taxable income will decline 3.4 percent in FY 2013-14 due to the decrease in investor income and the slowdown in corporate income taxes. With higher taxable income growth resuming in FY 2014-15, the diversion to the State Education Fund will increase 9.9 percent.

Because State Education Fund revenue comes from taxable income, it largely follows the trends in individual income and corporate income tax revenue collections.

Figure 26 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, recent policies have transferred other General Fund money to the State Education Fund, which is shown in detail in Figure X on page X.

Figure 26. State Education Fund Revenue from One Third of One Percent of Taxable Income, Actual and Forecast, FY 2000-01 to FY 2014-15



Source: Office of the State Controller and OSPB.

General Fund and State Education Budget

Summary

General Fund – As discussed in the *General Fund Revenue Forecast* section starting on page 32, this forecast projects that General Fund revenue will be $93 million higher this fiscal year than forecast in December and $61 million higher in FY 2014-15. With this forecast and under current-law spending levels, the State's General Fund reserve is projected to be $88.2 million above its required amount for FY 2013-14. As shown in the following figures, most of this money is allocated under current law to the Colorado Water Conservation Board Fund and the State Education Fund.

Figure 27 below summarizes total General Fund revenue available, total spending, and reserve levels for FY 2013-14 and FY 2014-15 based on the forecast and current law. The spending amount for FY 2013-14 is the budgeted amount under current law. The amount for FY 2014-15 represents the level of spending that can be supported by projected revenue while holding the required five percent of General Fund appropriations in reserve.

Figure 27. General Fund Money, Spending, and Reserves, FY 2013-14 and FY 2014-15, $ in Billions

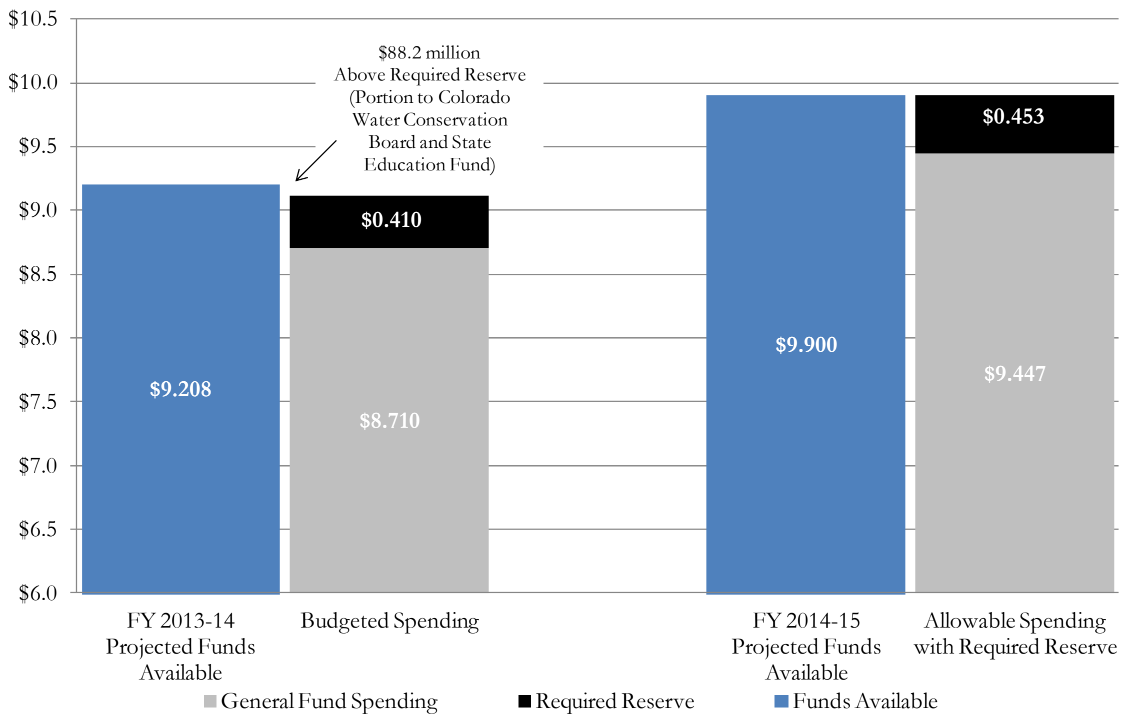
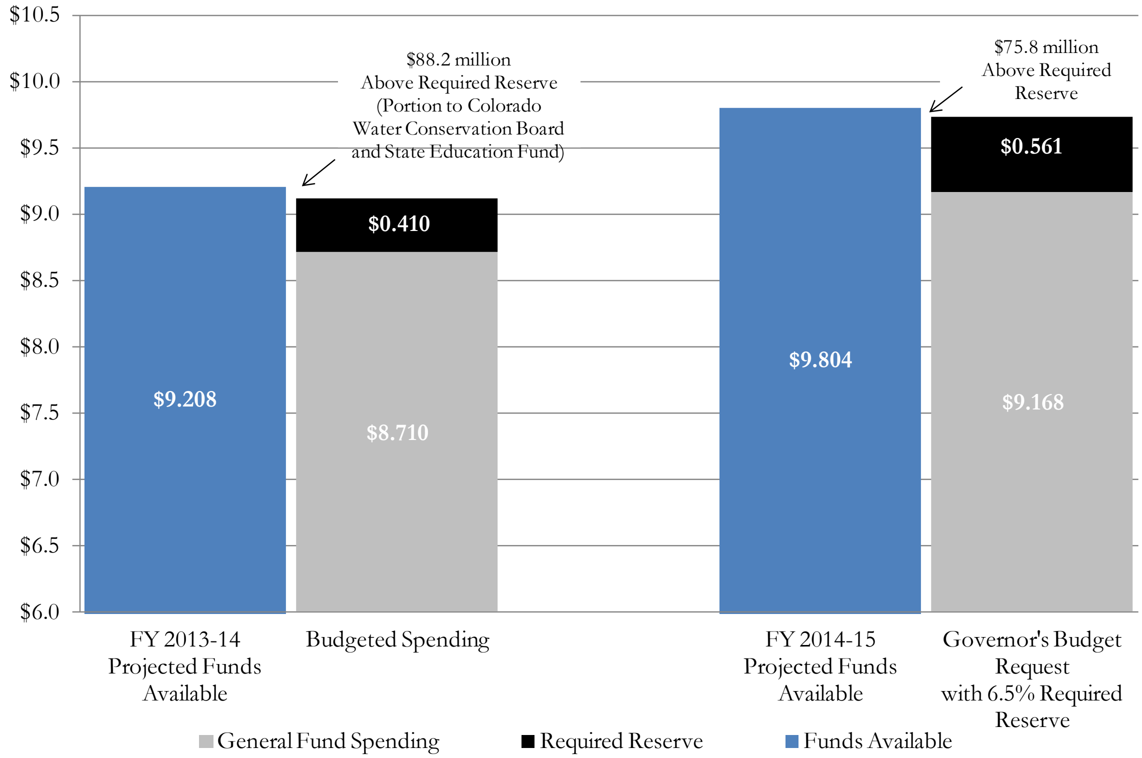


Figure 28 shows the same information as in Figure 27 but incorporates the Governor's budget request for FY 2014-15. Under the request, the General Fund reserve requirement is raised to 6.5

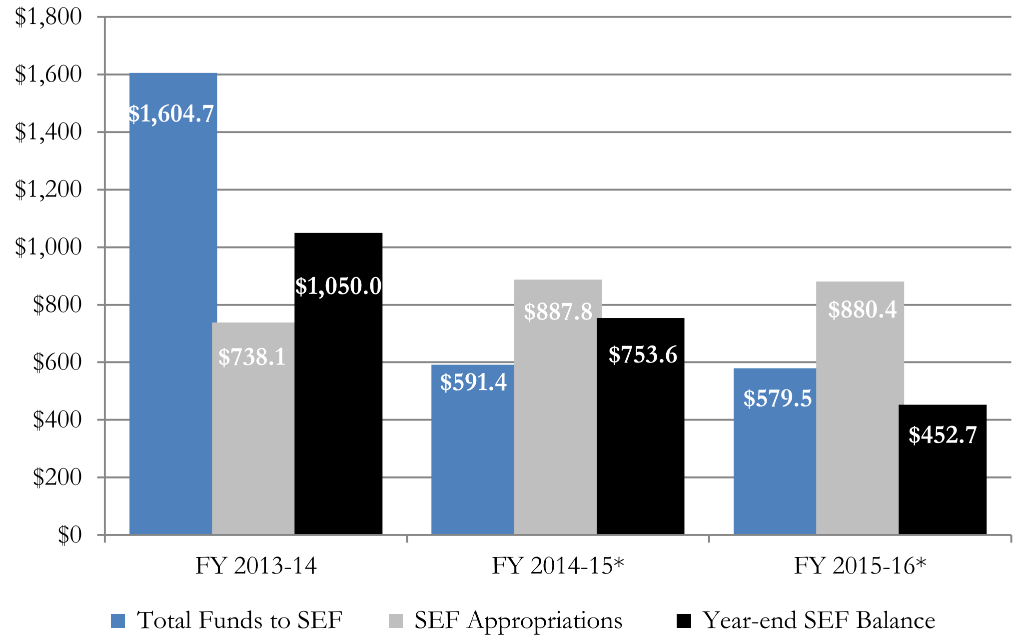
percent of appropriations in FY 2014-15. With the current forecast and this request, the State is projected to end the year with $75.8 million above the required reserve.

Figure 28. General Fund Money, Spending, and Reserves with the Governor's Budget Request, FY 2013-14 and FY 2014-15, $ in Billions



State Education Fund – The State Education Fund is supporting a larger share of education funding than it has historically, which will draw down its fund balance. Figure 29 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2013-14 through FY 2015-16 based on the forecast and under the Governor's budget request. The FY 2015-16 appropriations amount reflects projected spending that can occur while maintaining a reserve in the State Education Fund amounting to roughly 6.5 percent of total State and local school finance expenditures.

Figure 29. State Education Fund Money, Spending, and Reserves with the Governor's Budget Request, FY 2013-14 through FY 2015-16, $ in Millions



*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.

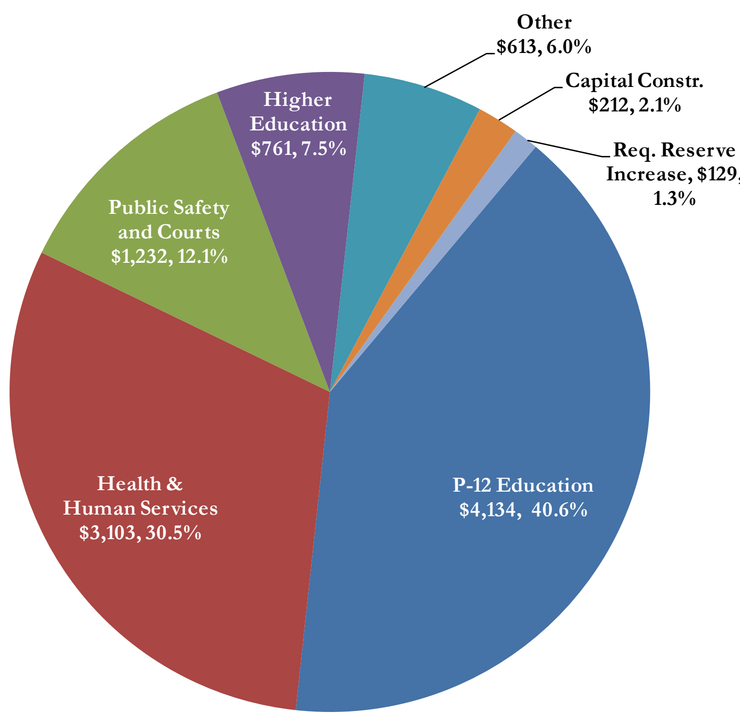
Detailed Overview Tables – A detailed overview on the amount of money available in the General Fund and State Education Fund, expenditures, and end of year reserves are provided in the overview tables in the Appendix at the end of this document. These overviews are discussed starting on page X.

Spending by Major Department or Program Area

Under the budget, total General Fund and State Education spending amounts to $10.1 billion, a 6.4 percent or $607.8 million increase compared with FY 2013-14. 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, and public safety. It also helps fund capital construction and maintenance needs for State facilities, and in some years, transportation projects. 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 supplemental money from the General Fund.

The following graph, Figure 30, shows the composition of the General Fund budget under the Governor's request, incorporating spending on education from the State Education Fund, for FY 2014-15 by major department or program area.

Figure 30. Composition of FY 2014-15 General Fund and State Education Fund Budget, $ in Millions



Risks to the Budget Outlook

This budget outlook is based on OSPB's economic analysis and forecast, discussed in the section titled, *The Economy: Important Issues, Trends, and Forecast*, beginning on page 3. Overall economic activity in Colorado is a primary factor determining revenue to the General Fund and State Education Fund. In addition to revenue, changes in economic conditions also impact the budget outlook because of associated changes in the use of many State services, including higher education, Medicaid, and other human services. In times of weaker economic conditions, the use of government services increases as income declines, more are unemployed, or an increased number of individuals seek more education to better their career prospects.

Although the state and national economy now appear to be more durable, downside risks should be considered. Adverse shocks and unexpected events could cause a widespread pullback in investing, hiring, and spending that would slow the economy. Further, financial and monetary conditions can change quickly, which has played large roles in the past two recessions.

Large enough unexpected changes in the economy likely would result in revenue collections that are substantially different from this forecast. Even relatively small changes in the projected growth rate of revenue sources can materially impact the budget outlook. For example, each percentage point difference from the current General Fund projected growth rate for FY 2013-14 amounts to an $86 million change in General Fund revenue collections.

As discussed in the *General Fund Revenue Forecast* section starting on page 32, the forecast for General Fund revenue is influenced this fiscal year by a projected decline in capital gains income. This income source is volatile and difficult to predict, however, thus tax collections could end up being materially different from expectations.

It is also possible that Colorado's economic growth will outpace expectations, and generate more robust revenue growth. The State is within four percent of reaching its TABOR revenue cap in FY 2013-14 and within three percent in FY 2014-15. It is possible that better-than-expected economic growth would cause the State to reach the cap. If that were to happen, the State would need to refund excess revenue to taxpayers or ask voters for permission to retain it.

General Fund Overview Tables

Details on the amount of money forecasted to be available in the General Fund and State Education Fund, expenditures, and end-of-year-reserves are provided in the overview tables in the Appendix to this document. Table 4 presents the General Fund Overview for the March 2014 OSPB revenue forecast, while Table 4a shows the overview incorporating the Governor's budget request.

Table 4b provides an additional presentation of the General Fund that incorporates revenue, spending, and reserve 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 4b provides a comprehensive summary of the General Fund's obligations and resources. The table incorporates the Governor's budget request. Important information and assumptions in all three tables are noted in footnotes below each table.

The following section discusses the information presented in tables 4, 4a, and 4b. To aid understanding, the discussion includes figures showing each section of the detailed overviews found in the Appendix.

Revenue

The top portion of the overview, shown in the figures below, 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 32.

The 1.5 percent decline in total General Fund available for FY 2013-14 is attributable to projected modest revenue growth and a smaller beginning fund balance than the prior year. Higher revenue growth in FY 2014-15 and FY 2015-16 will result in an increase of 7.5 percent and 5.5 percent, respectively, in funds available.

Figure 31. General Fund Revenue Available under Current Law (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2013-14	FY 2014-15	FY 2015-16
1	Beginning Balance	$373.0	$424.2	$452.5
2	General Fund Revenue	$8,832.5	$9,473.4	$9,992.9
3	Transfers to the General Fund	$2.4	$2.4	$2.4
4	**Total General Funds Available**	**$9,207.8**	**$9,900.0**	**$10,447.9**
	Dollar Change from Prior Year	-$143.2	$692.2	$547.8
	Percent Change from Prior Year	-1.5%	7.5%	5.5%

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 Governor's budget request includes a $4.2 million revenue reduction related to wildfire preparedness, a transfer of $109.4 million from the General Fund to pay back certain cash funds that were transferred during the previous economic downturn, and a transfer into the General Fund of $18 million from the Marijuana Cash Fund associated with the Amendment 64 and Proposition AA budget request. These amounts are shown in Table 4a as "Proposed Changes to General Fund Available."

Figure 32. General Fund Revenue Available with Governor's Budget Request (from Table 4a in Appendix), $ in Millions

Table 4a Line No.		FY 2013-14	FY 2014-15	FY 2015-16
1	Beginning Balance	$373.0	$424.2	$712.2
2	General Fund Revenue	$8,832.5	$9,473.4	$9,992.9
3	Transfers to the General Fund	$2.4	$2.4	$2.4
4	Proposed Changes to General Fund Available	NA	-$95.6	NA
5	**Total General Funds Available**	**$9,207.8**	**$9,804.4**	**$10,707.6**
	Dollar Change from Prior Year	-$143.2	$596.6	$903.1
	Percent Change from Prior Year	-1.5%	6.5%	9.2%

Expenditures

Spending subject to the appropriations limit – Most General Fund spending is limited to be no higher than five percent of the level of personal income received by Coloradans. The limit is projected to be $11.3 billion in FY 2013-14. Thus, the current fiscal year's $8.193 billion in General

Fund appropriations for these programs under current law are $3 billion under the limit. The appropriations amount subject to the limit is shown in the figures below.

Figure 33. General Fund Spending Subject to the Appropriations Limit under Current Law (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2013-14
5	Appropriations	$8,192.7
6	Dollar Change from Prior Year	$733.5
7	Percent Change from Prior Year	9.8%

The General Fund appropriations amount for FY 2013-14 in Figure 33 reflects current law and is subject to change based on future budget decisions. The FY 2014-15 and FY 2015-16 amounts in Table 4 in the Appendix reflect the level of spending that can be supported by forecasted revenue while maintaining the required reserve level.

Figure 34 below shows General Fund appropriations for FY 2014-15 under the Governor's budget request. The General Fund appropriations amount for FY 2013-14 in Figure 34 reflects current law and is subject to change based on future budget decisions. The FY 2015-16 amount in Table 4a reflects the level of spending that can be supported by forecasted revenue while maintaining the higher proposed required reserve level of 6.5 percent of appropriations.

Figure 34. General Fund Spending Subject to the Appropriations Limit with Governor's Budget Request (from Table 4a in Appendix), $ in Millions

Table 4a Line No.		FY 2013-14	FY 2014-15
6	Appropriations	$8,192.7	$8,624.5
7	Dollar Change from Prior Year	$733.5	$431.8
8	Percent Change from Prior Year	9.8%	5.3%

Spending not subject to the appropriations limit – General Fund spending that does not count under the General Fund appropriations limit is summarized in Figure 35. More information about these spending lines is discussed below Figure 35.

Figure 35. General Fund Spending Not Subject to the Appropriations Limit Under Current Law (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2013-14	FY 2014-15	FY 2015-16
9	TABOR Refund	$0.0	$0.0	$0.0
	Cigarette Rebate to Local Governments	*$9.4*	*$8.8*	*$8.4*
	Marijuana Rebate to Local Governments	*$2.9*	*$9.2*	*$10.4*
	Old-Age Pension Fund/Older Coloradans Fund	*$110.4*	*$102.2*	*$105.6*
	Aged Property Tax & Heating Credit	*$6.9*	*$6.9*	*$6.9*
	Homestead Exemption	*$112.1*	*$118.4*	*$125.0*
	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*
10	**Total Rebates and Expenditures**	**$247.7**	**$251.9**	**$262.9**
11	Transfers to Capital Construction	$186.7	$65.6	$64.0
12	Transfers to Highway Users Tax Fund	$0.0	$0.0	$199.9
13	Transfers to State Education Fund per SB 13-234	$45.3	$25.3	$25.3
14	Transfers to Other Funds	$37.6	$54.0	$60.6
15	Other	$0.0	$0.0	$0.0
	Total	**$517.2**	**$396.8**	**$612.7**
	Dollar Change from Prior Year	$64.9	-$120.5	$216.0
	Percent Change from Prior Year	14.3%	-23.3%	54.4%

As shown, "Rebates and Expenditures" account for the largest portion of General Fund spending not subject to the appropriations limit. The largest of these programs 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 Marijuana Rebate, which distributes 15 percent of the retail marijuana sales tax to local governments based on the percentage of retail marijuana sales in local areas; (3) the Old Age Pension program, which provides assistance to low-income elderly individuals who meet certain eligibility requirements; (4) the Property Tax, Heat, and Rent Credit, which provides property tax, heating bill, or rent assistance to qualifying low-income disabled or elderly individuals; and (5) 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, also is not subject to the limit. 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 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 five percent trigger and the associated transfers are referred to as "228" transfers because they were put into law by Senate Bill 09-228. This forecast projects that personal income growth will exceed 5 percent in 2014, which will trigger an expected transfer of

$199.9 million for transportation in FY 2015-16. This explains the large increase in total spending not subject to the limit in Figure 35. The amount needed for capital construction in FY 2015-16 shown in Table 4 and 4a 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. 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 transfers of General Fund money to various State cash funds (line 14). Starting in FY 2013-14, this line includes transfers of General Fund money from the new additional sales tax on retail marijuana approved by voters to the Marijuana Cash Fund.

In some years, State programs may need to exceed their appropriated funding near the end of the fiscal year in order to meet services demands. These amounts are called "overexpenditures" and are shown under "Other Expenditures Exempt from the General Fund Appropriations Limit." 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 4 and Table 4a is Medicaid-related overexpenditures.

Finally, spending not subject to the limit includes any TABOR refunds, which occur when State revenue exceeds its cap as defined in Article X, Section 20 of the Colorado Constitution ("TABOR") and Section 24-77-103.6, C.R.S. ("Referendum C"). TABOR refunds are not expected to occur during the forecast period. Under this forecast, TABOR revenue will be $414.4 million below the cap this fiscal year, $309.2 million under the cap in FY 2014-15, and $315.1 million below the cap in FY 2015-16. Page X and Table 6 in the Appendix provide further detail on TABOR revenue.

Figure 36 summarizes General Fund spending not subject to the appropriations limit under the Governor's budget request, which is also shown in Table 4a in the Appendix. The only difference between this line in the Governor's request and current law is that the Governor's FY 2014-15 budget request includes a total transfer of $212.3 million for capital construction and maintenance projects.

Figure 36. General Fund Spending Not Subject to the Appropriations Limit with Governor's Budget Request (from Table 4a in Appendix), $ in Millions

Table 4a Line No.		FY 2013-14	FY 2014-15	FY 2015-16
10	TABOR Refund	$0.0	$0.0	$0.0
	Cigarette Rebate to Local Governments	*$9.4*	*$8.8*	*$8.4*
	Marijuana Rebate to Local Governments	*$2.9*	*$9.2*	*$10.4*
	Old-Age Pension Fund/Older Coloradans Fund	*$110.4*	*$102.2*	*$105.6*
	Aged Property Tax & Heating Credit	*$6.9*	*$6.9*	*$6.9*
	Homestead Exemption	*$112.1*	*$118.4*	*$125.0*
	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*
11	**Total Rebates and Expenditures**	**$247.7**	**$251.9**	**$262.9**
12	Transfers to Capital Construction	$186.7	$212.3	$64.0
13	Transfers to Highway Users Tax Fund	$0.0	$0.0	$199.9
14	Transfers to State Education Fund per SB 13-234	$45.3	$25.3	$25.3
15	Transfers to Other Funds	$37.6	$54.0	$60.6
16	Other	$0.0	$0.0	$0.0
	Total	**$517.2**	**$543.5**	**$612.7**
	Dollar Change from Prior Year	$69.5	$26.3	$69.2
	Percent Change from Prior Year	15.5%	5.1%	12.7%

Reserves

The final section of the overview tables in the Appendix ("Reserves") shows General Fund remaining at the end of each fiscal year – the "Year-End General Fund Balance." This amount reflects the difference between total funds available and total expenditures. Figure 37 provides information on the General Fund ending balance.

Figure 37. General Fund Reserves under Current Law (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2013-14	FY 2014-15	FY 2015-16
19	Year-End General Fund Balance	$497.9	$452.5	$468.3
20	Balance as a % of Appropriations	6.1%	5.0%	5.0%
21	**General Fund Required Reserve**	**$409.6**	**$452.5**	**$468.3**
22	Money Above/Below Req. Reserve	$88.2	$0.0	$0.0
23	Excess Reserve to State Education Fund/Other Funds	$73.7	N/A	N/A
24	**Balance After Any Funds Above Statutory Reserve are Allocated**	**$14.6**	**N/A**	**N/A**

The section on General Fund reserves shows the statutorily determined reserve requirement and whether the amount of funds is above or below the requirement ("Above (Below) Statutory Reserve"). For FY 2012-13, the reserve was $1.1 billion above the 5 percent of appropriations. By statute, this entire amount was transferred to the State Education Fund as shown in Figure 37.

For FY 2013-14, under this forecast and current law, the reserve is projected to be $88.2 million above the required amount. Of the excess reserves, $30 million goes to the Colorado Water Conservation Board Fund and 75 percent of the remainder goes to the State Education Fund – a projected $43.7 million. The money from these transfers will go to these funds in FY 2014-15. The remaining amount of the excess – a projected $14.6 million– 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.

Figure 38 provides information on the General Fund ending balance under the Governor's budget request. The Governor's budget request raises the reserve to the 6.5 percent level in FY 2014-15. Even with this higher reserve, General Fund reserves are projected to be $75.8 million above the required amount.

Figure 38. General Fund Reserves with Governor's Budget Request (from Table 4a in Appendix), $ in Millions

Table 4a Line No.		FY 2013-14	FY 2014-15	FY 2015-16
20	Year-End General Fund Balance	$497.9	$636.4	$616.1
21	Balance as a % of Appropriations	6.1%	7.4%	6.5%
22	**General Fund Required Reserve**	**$409.6**	**$560.6**	**$616.1**
23	**Money Above/Below Req. Reserve**	**$88.2**	**$75.8**	**$0.0**
24	**Excess Reserve to State Education Fund/Other Funds**	**$73.7**	**N/A**	**N/A**
25	**Balance After Any Funds Above Statutory Reserve are Allocated**	**$14.6**	**N/A**	**N/A**

General Fund with the State Education Fund Overview

The State Education Fund plays an important role in the State's General Fund budget. Under the state constitution, the State Education Fund helps fund preschool through 12th-grade education, the largest General Fund program. Thus, higher or lower spending from the State Education Fund generally means that General Fund appropriations can subsequently be lower or higher to support the targeted level of funding for schools. Decisions in one year, however, very much affect the range of choices in the next year because they impact the available balance in the State Education Fund for future spending and General Fund available for other programs.

Table 4b in the Appendix incorporates all of the same information from the General Fund overview with the Governor's budget request in Table 4a, but also includes spending, revenue, and fund-balance information for the State Education Fund. Because of the budget implications of the balance between funding from the State Education Fund and General Fund, a unified and multi-year view provides important insight to the sustainability of budgeting decisions.

Figure 39 summarizes State Education Fund annual revenue and spending. It includes each year's actual or projected beginning and ending fund balance under the Governor's budget request. State Education Fund appropriations for FY 2013-14 reflect current law and are subject to change based on future budget decisions. The FY 2014-15 amount represents the Governor's budget request, while the appropriations amount shown for FY 2015-16 reflects projected spending that can occur while maintaining a reserve in the State Education Fund amounting to roughly 6.5 percent of total State and local school finance expenditures. Actual appropriations from the State Education Fund will be adopted in future budget legislation. Thus, these fund-balance projections are illustrative only.

Transfers of excess reserves in recent years, especially the excess reserves from FY 2012-13, have caused a significant increase in the balance of the State Education Fund. Still, a combination of higher spending and lower amounts of projected revenue will draw down the balance.

Figure 39. State Education Fund Revenue, Spending, and Reserves with the Governor's Budget Request, FY 2013-14 through FY 2015-16 (from Table 4b in Appendix), $ in Millions*

Table 4b Line No.		FY 2013-14	FY 2014-15	FY 2015-16
2	Beginning Balance	*$183.4*	*$1,050.0*	*$753.6*
	One-third of 1% of State Taxable Income	*$470.0*	*$516.6*	*$548.5*
	Money from Prior Year-end Excess Reserves	*$1,073.5*	*$43.7*	*$0.0*
	Transfers under SB 13-234	*$45.3*	*$25.3*	*$25.3*
	Other	*$15.9*	*$5.9*	*$5.7*
4	Total Funds to State Education Fund	$1,604.7	$591.4	$579.5
8	Appropriations from State Education Fund	$738.1	$887.8	$880.4
16	Year-end Balance	$1,050.0	$753.6	$452.7

*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.

Cash Fund Revenue Forecast

In FY 2013-14, Cash fund revenue subject to TABOR will grow by 3.0 percent to $2.62 billion. This growth will be driven by increases of $89.7 million in severance tax revenue, $36.2 million in transportation-related cash funds, and $41 million in other miscellaneous cash funds. Not all cash fund revenue categories will grow in FY 2013-14, though, as revenue from limited gaming will fall $9.9 million and revenue from the hospital provider fee will decline by $89.6 million. Hospital provider fee revenue will decrease as increased federal matching funds for Medicaid expenditures cause lower collections of the fee from hospitals.

Cash fund revenue will increase slightly in FY 2014-15. The hospital provider fee will continue to decline while the State experiences modest increases in revenue from severance tax, transportation-related cash funds, and other miscellaneous cash funds.

Cash fund revenue supports a wide array of State programs that collect fees, fines, and interest to support services. When fees or other revenue are designated for a particular program, they often are directed to a cash fund that is established to fund the program.

OSPB's forecast of cash fund revenue subject to TABOR is shown in Table 3 at the end of the document. Table 3 shows only the outlook for revenue that is subject to the TABOR provisions in the Colorado Constitution, which places a limit on the amount of revenue 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 that receive most of their money from sources other than the State, such as public universities and colleges. More information on TABOR revenue and the revenue limit can be found on page 58.

Transportation-related cash funds — The transportation-related cash funds subject to TABOR will grow 3.3 percent, or $36.2 million, to $1.13 billion in FY 2013-14. Growth is being driven from a projected increase in gasoline tax collections of 2.3 percent and a projected increase in diesel fuel tax collections of 7 percent. Revenue from these two taxes accounts for approximately half of all revenue in the transportation-related cash funds category. The growth in gasoline tax is likely a reflection of increasing activity among commuters and drivers, even as improving fuel economy in cars and trucks limits the growth of average gasoline taxes paid per vehicle mile traveled. The stronger growth in projected diesel fuel tax collections is at least partially attributable to growing commercial activity, including freight trucking, which is supported by growth in the overall economy. Transportation-related cash fund revenue is expected to grow only 0.7 percent, to $1.14 billion, in FY 2014-15.

Fuel tax revenues are higher in FY 2013-14 than they were at the same time last year, helping push transportation-related cash funds to an anticipated increase of 3.3 percent.

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the 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. Revenue in the HUTF is distributed by statutory formula to the Colorado Department of Transportation, local counties and municipalities, and the Colorado State Patrol.

Limited Gaming — Limited gaming revenue will fall by $9.9 million, or 9.2 percent, to $97.3 million in FY 2013-14. This will be the lowest amount of revenue from taxes and fees on gaming since the passage of Amendment 50 to the Colorado Constitution, which allowed extended hours and new types of games beginning in FY 2009-10.

Gaming in Colorado has not recovered at the same rate as the broader economy. Revenue from fees and taxes related to gaming will fall nearly $10 million in FY 2013-14.

The decrease in revenue in FY 2013-14 reflects continued diminished gaming activity in Colorado since the Great Recession. Revenue from limited gaming grew by 2.3 percent in FY 2012-13; however, this growth came as a result of a 5 percent increase in the gaming tax rate set by the Colorado Gaming Commission, as opposed to actual growth in gaming activity. Limited gaming revenue is projected to grow $2.4 million, to $99.8 million, in FY 2014-15.

Of the total expected limited gaming revenue for FY 2013-14, $89.3 million will be subject to TABOR, as reflected in Table 3, “Cash Fund Revenue Subject to TABOR.” Of this amount, $86.7 million is classified as “base limited gaming revenue” as designated by State law after the passage of Amendment 50. This revenue is distributed by formula defined by Colorado statute to the State General Fund, the State Historical Society, cities and counties that are affected by gaming activity, and economic development-related programs.

Gaming revenue of $8.8 million attributable to Amendment 50, which is not subject to TABOR, is distributed mostly to community colleges with a smaller portion also going to local governments with communities affected by gaming. Figure 40 shows the anticipated distribution of limited gaming revenues in more detail.

Figure 40. 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**	**$97.3**	**$99.8**	**$100.9**
Annual Percent Change	2.3%	-9.2%	2.5%	1.2%
B. Base Limited Gaming Revenues (max 3% growth)	**$95.5**	**$86.7**	**$88.8**	**$89.9**
Annual Percent Change	3.0%	-9.2%	2.5%	1.2%
C. Gaming Revenue Subject to TABOR	**$98.1**	**$89.3**	**$91.5**	**$92.6**
Annual Percent Change	2.6%	-9.0%	2.5%	1.2%
D. Total Amount to Base Revenue Recipients	**$84.4**	**$75.6**	**$78.6**	**$82.2**
Amount to State Historical Society	*$23.6*	*$21.2*	*$22.0*	*$23.0*
Amount to Counties	*$10.1*	*$9.1*	*$9.4*	*$9.9*
Amount to Cities	*$8.4*	*$7.6*	*$7.9*	*$8.2*
Amount to Distribute to Remaining Programs (State Share)	*$42.1*	*$37.8*	*$39.3*	*$41.1*
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*	*$7.8*	*$9.3*	*$11.1*
E. Total Amount to Amendment 50 Revenue Recipients	**$8.3**	**$8.8**	**$7.9**	**$8.1**
Community Colleges, Mesa and Adams State (78%)	*$6.5*	*$6.9*	*$6.2*	*$6.4*
Counties (12%)	*$1.0*	*$1.1*	*$1.0*	*$1.0*
Cities (10%)	*$0.8*	*$0.9*	*$0.8*	*$0.8*

Hospital Provider Fee — Revenue from Hospital Provider Fee (HPF) collections will fall each year during the forecast period, including a decline of 13.7 percent to $563.0 million in FY 2013-14 and a decline of 3.1 percent to $545.3 million in FY 2014-15. The decreases are a result of the federal government providing greater funding for Medicaid coverage for eligible households as part of the Affordable Care Act (ACA), requiring less HPF revenue to support Colorado's Medicaid program.

The Hospital Provider Fee is paid by Colorado hospitals and is calculated as a percentage of net patient revenue earned by each hospital. Revenue collected from the fee is matched by the federal government to help cover the cost of the Medicaid program.

Severance tax revenue — Revenue collected from severance taxes will grow to $228.3 million in FY 2013-14, marking an increase of 65 percent, or $89.7 million, from the prior year. This growth is mostly a result of increases in the price of natural gas from 2012 to 2013 and the reduced impact of ad valorem tax credits compared with the prior year. Severance tax revenue is expected to grow an additional 9.6 percent to $250.2 million in FY 2014-15 as production growth continues, especially for oil resources, and prices for natural gas remain higher in 2014.

Producers of oil, gas, coal, and other mineral resources pay taxes to the State of Colorado, based partially on the sales volume and price of the resources. The tax is called severance tax because the resources are literally severed from the state's deposits of natural resources.

Because severance tax is paid mostly as a percentage of the income from natural gas and oil production, increased prices for these resources cause growth in severance tax revenue. The price of natural gas grew approximately 35 percent from 2012 to 2013, rising from historic lows observed in 2012. The price of oil increased less in 2013, growing 3.8 percent over the average price in 2012. Natural gas accounts for the largest share of mineral resource extraction in Colorado, and the large increase in prices has generated a corresponding increase in severance tax collections in FY 2013-14. Oil prices, on the other hand, have remained much more stable in recent years and are not expected to drive large differences in severance tax revenue over the forecast period.

> The price of natural gas has risen substantially because of harsh winter weather across the United States. This will contribute to the robust growth in severance tax revenue that is forecast for both FY 2013-14 and FY 2015-16.

Natural gas price increases in 2013 came largely in the later part of the year, as particularly cold winter temperatures drove greater consumption of natural gas to heat homes and other buildings. The increased demand caused reductions to the level of inventories, the amount of natural gas that is kept in storage. Lower inventories will help keep prices for natural gas elevated as new supply is directed both to consumption and to re-build stored supplies. Still, technology changes in recent years have increased the capacity for domestic production of natural gas, a factor that will contribute to more price stability over the forecast period.

In addition to increases in the price of resources, overall severance tax collections are increasing this fiscal year due to a smaller impact of tax credits tied to local property taxes, called ad valorem credits, compared with last fiscal year. Severance taxpayers claim ad valorem tax credits based on the property taxes they paid in the prior year. Because prices are expected to grow only moderately over the forecast period, the impact of ad valorem tax credits is not expected to cause a large increase or decrease in severance tax revenue in FY 2014-15.

Changes in the production volume of oil and natural gas are having a smaller impact than other factors on severance tax revenue growth. Natural gas production is not growing as quickly as oil production in Colorado, mostly because of relatively low prices for the resource. Most new oil production in Colorado is occurring in Weld County, where total mill levies for the county, school districts, cities, and special districts are relatively high. This means that larger ad valorem tax credits limit the amount of severance tax revenue the State collects from new oil wells.

Other mineral resources also generate severance tax revenue, including coal, gold, and molybdenum, although the combined impact of all these resources on severance tax collections is much smaller than oil or natural gas. Coal production in Colorado has been impacted by wildfires and the closure of some mines in the State, which will cause a reduction in severance tax revenue from coal production of 13 percent, to $7.7 million in FY 2013-14. A further decline of 3 percent, to $7.5 million is projected for FY 2014-15.

Federal Mineral Leasing revenue — Colorado's share of Federal Mineral Lease (FML) revenue will grow 30.4 percent, to $157.5 million in FY 2013-14, after declining by nearly 27 percent the year before. The growth in FML revenue is impacted by the increased price of natural gas, although recent changes have been mostly the result of federal government policy.

The federal government leases rights to extract mineral resources – such as oil, gas, and coal – from federal lands. Producers remit royalties to the federal government that then are shared with the state where the production occurred. Following the implementation of federal fiscal policy known as "sequestration," the U.S. Department of the Interior began to withhold a portion of states' share of FML royalty payments. This caused a reduction of approximately $7 million in Colorado's FML royalty receipts in FY 2012-13. Later, a legal review determined that states' shares of FML royalty payments should not be subject to sequestration so the amount withheld during the previous federal fiscal year was refunded in October, 2013. This will contribute to the large increase of FML revenue to Colorado in FY 2013-14.

Growth in production and increased prices for oil and natural gas also are expected to bolster FML revenue to Colorado. Lower natural gas inventories likely will support higher prices for natural gas in 2014 and 2015, contributing to a forecast increase of 8.2 percent in FML revenue, to $170.4 million, in FY 2014-15.

Figure 41. Federal Mineral Leasing (FML) Payments

Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2012-13	$5.1	$115.7	$120.8	-26.8%
FY 2013-14	$3.9	$153.6	$157.5	30.4%
FY 2014-15	$4.3	$166.2	$170.4	8.2%
FY 2015-16	$3.8	$176.0	$179.8	5.5%

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

Other cash funds — Cash fund revenue to regulatory agencies will grow 11.4 percent to $72.4 million in FY 2013-14 after falling slightly the year before. This revenue growth reflects increased activity among entities in regulated industries, which the Department of Regulatory Agencies (DORA) oversees through licensing, rulemaking, enforcement, and approval of rates charged to consumers. The Department is responsible for oversight of a wide variety of professions, including engineers, tow truck operators, and acupuncturists. DORA collects fees for licensing and other services that generate revenue to fund the Department's activities. Cash fund revenue related to regulatory agencies will grow 2.4 percent to $74.2 million in FY 2014-15.

Insurance-related cash fund revenue in FY 2013-14 will decline 3.5 percent to $25.5 million, primarily as a result of a reduction in the surcharge on workers' compensation insurance policy premiums. The surcharge on workers' compensation insurance premiums is used to fund the Division of Worker's Compensation, as well as the Major Medical Insurance Fund and Subsequent Injury Fund. These two funds were created to absorb costs for individuals injured during a period prior to 1981. The Division lowered the surcharge as it determined that it will sufficiently fund anticipated expenditures from the three related cash funds.

Growth of 8.3 percent in the Miscellaneous Cash Funds is the result of accelerated economic activity, higher interest rates, and the impact of new marijuana taxes and fees.

The category called Other Miscellaneous Cash Funds in Table 3 includes revenue from a variety of smaller cash funds that collect revenue generated by interest earnings as well as fines and fees. The category will contribute an estimated $503.9 million in FY 2013-14, an increase of 8.3 percent over the prior year. The anticipated growth is a result of overall economic growth and slightly higher interest rates, which contribute to increased revenue from fees and interest earnings on the balance of other cash funds.

Additionally, the Miscellaneous Cash Funds category will grow as a result of increased fee and tax revenue from licensing and regulation of the marijuana industry. Proceeds from marijuana taxes that were authorized by Proposition AA in November 2013 are currently projected to be approximately $30.8 million in FY 2013-14 and $107.2 million in FY 2014-15. These proceeds will be transferred to the Marijuana Cash Fund, local governments, and school construction. Colorado voters exempted revenue from these taxes from TABOR limitations when they approved Proposition AA, so the revenue shown in Table 3 does not include anticipated revenue from marijuana excise taxes or additional sales taxes that the proposition authorized.

Revenue from the 2.9 percent sales tax on retail marijuana, as well as fees related to regulation of the retail marijuana industry that existed prior to Proposition AA's passage, also are directed to the Marijuana Cash Fund, though they are not exempt from TABOR. As such, the anticipated revenue from these sources of approximately $7.3 million in FY 2013-14 and $19.7 million in FY 2014-15 is included in the Miscellaneous Cash Funds line in Table 3. The Governor has proposed spending portions of the revenue from the Marijuana Cash Fund on programs for youth marijuana-use prevention; enhancements to substance abuse treatment; public health; regulatory oversight of the marijuana industry; law enforcement and public safety; and statewide coordination of policies to address marijuana impacts.

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.

Starting with FY 2010-11, the amount of revenue that the State may retain under Referendum C (line 9 of Table 6 found in the Appendix) 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 6). As shown, TABOR revenue will be $414.4 million below the cap this fiscal year, $309.2 million under the cap in FY 2014-15, and $315.1 million below the cap in 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. 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 6 found in the Appendix summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

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

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Appendix – Reference Tables

Table 1. History And Forecast For Key Colorado Economic Variables
Calendar Year 2007-2015

Line No.		Actual							March 2014 Forecast		
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Income										
1	Personal Income (Billions) /A	$202.7	$212.2	$206.4	$210.6	$226.0	$237.5	$245.8	$259.7	$274.4	$291.2
2	Change	5.7%	4.7%	-2.7%	2.0%	7.3%	5.1%	3.5%	5.7%	5.6%	6.1%
3	Wage and Salary Income (Billions) /A	$112.5	$116.7	$112.3	$113.8	$118.7	$125.1	$130.0	$137.0	$144.6	$153.2
4	Change	6.5%	3.7%	-3.8%	1.3%	4.4%	5.3%	3.9%	5.4%	5.5%	5.9%
5	Per-Capita Income ($/person) /A	$42,199	$43,406	$41,515	$41,717	$44,179	$45,775	$46,603	$48,421	$50,287	$52,449
6	Change	3.9%	2.9%	-4.4%	0.5%	5.9%	3.6%	1.8%	3.9%	3.9%	4.3%
	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	5,552.5
8	Change	1.6%	1.7%	1.5%	1.5%	1.4%	1.4%	1.6%	1.7%	1.7%	1.8%
9	Net Migration (Thousands)	34.8	40.5	36.3	37.0	34.9	38.2	48.3	52.9	55.0	58.4
10	Unemployment Rate	3.8%	4.8%	8.1%	9.0%	8.5%	7.8%	6.8%	5.8%	5.3%	4.9%
11	Total Nonagricultural Employment (Thousands)	2,331.3	2,350.3	2,245.6	2,222.3	2,258.6	2,313.0	2,381.1	2,441.3	2,500.5	2,563.6
12	Change	2.3%	0.8%	-4.5%	-1.0%	1.6%	2.4%	2.9%	2.5%	2.4%	2.5%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	30.4	19.1	9.4	11.6	13.5	23.3	27.3	35.7	42.2	49.9
14	Change	-20.7%	-37.2%	-51.0%	23.9%	16.5%	72.6%	17.2%	30.9%	18.1%	18.1%
15	Nonresidential Construction Value (Millions) /B	5,259.5	4,114.0	3,354.5	$3,146.7	$3,923.1	$3,669.7	$3,595.1	$3,813.0	$4,036.6	$4,546.6
16	Change	13.3%	-21.8%	-18.5%	-6.2%	24.7%	-6.5%	-2.0%	6.1%	5.9%	12.6%
	Prices & Sales Variables										
17	Retail Trade (Billions) /C	$75.3	$74.8	$66.5	$70.5	$75.9	$80.0	$83.6	$88.4	$93.1	$99.1
18	Change	6.9%	-0.7%	-11.1%	6.0%	7.7%	5.4%	4.5%	5.7%	5.4%	6.4%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	220.3	224.6	230.8	236.4	242.4	248.6
20	Change	2.2%	3.9%	-0.6%	1.9%	3.7%	1.9%	2.8%	2.4%	2.5%	2.5%

/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.

/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 2. History And Forecast For Key National Economic Variables
Calendar Year 207 - 2015

Line No.		Actual 2007	Actual 2008	Actual 2009	Actual 2010	Actual 2011	Actual 2012	Actual 2013	March 2014 Forecast 2014	March 2014 Forecast 2015	March 2014 Forecast 2016
	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	$15,759.0	$16,168.7	$16,6215	$17,120.1
2	Change	18%	-0.3%	-2.8%	2.5%	18%	2.8%	19%	2.6%	2.8%	3.0%
3	Personal Income (Billions) /B	$11,995.7	$12,430.6	$12,082.1	$12,435.2	$13,1913	$13,743.8	$14,135.2	$14,842.0	$15,613.7	$16,472.5
4	Change	5.3%	3.6%	-2.8%	2.9%	6.1%	4.2%	2.8%	5.0%	5.2%	5.5%
5	Per-Capita Income ($/person)	$39,761	$40,817	$39,325	$40,143	$42,275	$43,736	$44,666	$46,514	$48,519	$50,750
6	Change	4.3%	2.7%	-3.7%	2.1%	5.3%	3.5%	2.1%	4.1%	4.3%	4.6%
7	Wage and Salary Income (Billions) /B	$6,396	$6,533	$6,252	$6,377	$6,639	$6,927	$7,137.8	$7,466.1	$7,839.4	$8,254.9
8	Change	5.6%	2.1%	-4.3%	2.0%	4.1%	4.3%	3.0%	4.6%	5.0%	5.3%
	Population & Employment										
9	Population (Millions)	3016	304.4	307.1	309.6	311.9	314.2	316.5	319.1	3218	324.6
10	Change	10%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.8%	0.9%	0.9%
11	Unemployment Rate	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.6%	6.0%	5.6%
12	Total Nonagricultural Employment (Millions)	137.9	137.2	131.2	130.3	131.8	134.1	136.4	138.7	141.2	143.9
13	Change	13%	-0.6%	-4.3%	-0.7%	12%	17%	17%	17%	18%	19%
	Price Variables										
14	Consumer Price Index (1982-84=100)	207.3	215.3	214.5	218.1	224.9	229.6	233.0	237.2	242.3	248.0
15	Change	2.9%	3.8%	-0.4%	16%	3.1%	2.1%	15%	18%	2.2%	2.4%
16	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.7	2010	202.2	203.4	209.9	218.6	230.7
17	Change	4.8%	9.8%	-8.8%	6.8%	8.8%	0.6%	0.6%	3.2%	4.1%	5.5%
	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	$2,105.6	$2,292.7	$2,456.8	$2,603.1
19	Change	-7.1%	-16.0%	8.4%	25.0%	7.9%	7.0%	4.8%	8.9%	7.2%	6.0%
20	Housing Permits (Millions)	1398	0.905	0.583	0.605	0.624	0.829	0.964	1192	1455	1718
21	Change	-24.0%	-35.3%	-35.6%	3.7%	3.1%	32.9%	16.3%	23.6%	22.1%	18.1%
22	Retail Trade (Billions)	$4,443.8	$4,402.5	$4,082.1	$4,307.9	$4,6311	$4,8814	$5,084.3	$5,333.9	$5,606.4	$5,898.4
23	Change	3.4%	-0.9%	-7.3%	5.5%	7.5%	5.4%	4.2%	4.9%	5.1%	5.2%

/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.

Table 3. General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	Actual FY 2012-13	%Chg	March 2014 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%	$2,350.6	6.3%	$2,474.7	5.3%	$2,575.1	4.1%
2	Use	$242.7	21.0%	$231.7	-4.5%	$247.1	6.7%	$261.0	5.6%
3	Cigarette	$38.3	-3.1%	$37.0	-3.4%	$34.6	-6.5%	$33.3	-3.8%
4	Tobacco Products	$15.6	-2.9%	$16.9	8.7%	$17.1	1.1%	$17.5	2.6%
5	Liquor	$39.2	2.2%	$40.8	4.1%	$40.9	0.2%	$41.8	2.2%
6	**Total Excise**	**$2,547.5**	**6.7%**	**$2,677.0**	**5.1%**	**$2,814.4**	**5.1%**	**$2,928.7**	**4.1%**
	Income Taxes:								
7	Net Individual Income	$5,596.3	11.7%	$5,633.2	0.7%	$6,112.8	8.5%	$6,472.3	5.9%
8	Net Corporate Income	$636.3	30.8%	$718.4	12.9%	$774.9	7.9%	$840.7	8.5%
9	**Total Income**	**$6,232.6**	13.4%	**$6,351.6**	1.9%	**$6,887.7**	8.4%	**$7,313.0**	**6.2%**
10	*Less: State Education Fund Diversion*	*$486.3*	*19.3%*	*$470.0*	*-3.4%*	*$516.6*	*9.9%*	*$548.5*	*6.2%*
11	**Total Income to General Fund**	**$5,746.2**	**12.9%**	**$5,881.6**	**2.4%**	**$6,371.1**	**8.3%**	**$6,764.5**	**6.2%**
	Other Revenue:								
12	Insurance	$210.4	6.7%	$221.3	5.2%	$226.3	2.2%	$231.4	2.3%
13	Interest Income	$17.4	28.6%	$21.8	25.2%	$25.3	16.2%	$28.7	13.3%
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%	$7.8	-35.5%	$9.3	19.2%	$11.1	19.4%
17	Other Income	$18.1	-21.6%	$20.0	10.6%	$24.2	21.1%	$25.8	6.4%
18	**Total Other**	**$261.1**	**1.3%**	**$273.9**	**4.9%**	**$288.0**	**5.1%**	**$299.7**	**4.1%**
19	**GROSS GENERAL FUND**	**$8,554.8**	**10.6%**	**$8,832.5**	**3.2%**	**$9,473.4**	**7.3%**	**$9,992.9**	**5.5%**

Table 4. General Fund Overview under Current Law
(Dollar Amounts in Millions)

Line No.		Actual FY 2012-13	March 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserve**	**$795.8**	**$373.0**	**$424.2**	**$452.5**
2	**Gross General Fund Revenue**	**$8,554.8**	**$8,832.5**	**$9,473.4**	**$9,992.9**
3	*Transfers to the General Fund*	*$0.3*	*$2.4*	*$2.4*	$2.4
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,351.0**	**$9,207.8**	**$9,900.0**	**$10,447.9**
Expenditures					
5	**Appropriation Subject to Limit /A**	**$7,459.2**	**$8,192.7**	**$9,050.7**	**$9,366.8**
6	*Dollar Change (from prior year)*	*$431.5*	*$733.5*	*$858.0*	$316.1
7	*Percent Change (from prior year)*	6.1%	9.8%	10.5%	3.5%
8	**Spending Outside Limit**	**$452.3**	**$517.2**	**$396.8**	**$612.7**
9	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	$0.0
10	*Rebates and Expenditures /B*	*$380.9*	*$247.7*	*$251.9*	$262.9
11	*Transfers to Capital Construction /C*	*$61.4*	*$186.7*	*$65.6*	$64.0
12	*Transfers to Highway Users Tax Fund /C*	*N/A*	$0.0	$0.0	$199.9
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*	$37.6	$54.0	$60.6
15	*Other Expenditures Exempt from General Fund Appropriations Limit /D*	$5.4	$0.0	$0.0	$0.0
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,911.6**	**$8,710.0**	**$9,447.5**	**$9,979.5**
17	*Percent Change (from prior year)*	9.6%	10.1%	8.5%	5.6%
18	Reversions and Accounting Adjustments	*$7.1*	*$0.0*	*$0.0*	$0.0
Reserves					
19	**Year-End General Fund Balance**	**$1,446.5**	**$497.9**	**$452.5**	**$468.3**
20	*Year-End General Fund as a % of Appropriations*	*19.4%*	*6.1%*	*5.0%*	5.0%
21	*General Fund Statutory Reserve /E*	$373.0	$409.6	$452.5	$468.3
22	*Above (Below) Statutory Reserve /F*	$1,073.5	$88.2	$0.0	$0.0
23	*Transfer of Excess Reserve to State Education Fund/Other Funds /F*	-$1,073.5	-$73.7	$0.0	$0.0
24	*Balance After Any Funds Above Statutory Reserve are Allocated*	$0.0	$14.6	$0.0	$0.0

/A This limit equals 5.0% of Colorado personal income. The appropriations amount for FY 2013-14 reflects 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 8.

/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 amount for FY 2013-14 reflects 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 was transferred 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 percent of the remaining excess is transferred to the State Education Fund. The money from these transfers will not be available until FY 2014-15.

Table 4a. General Fund Overview with Governor's Budget Request
(Dollar Amounts in Millions)

Line No.		Actual FY 2012-13	March 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserve**	**$795.8**	**$373.0**	**$424.2**	**$712.2**
2	**Gross General Fund Revenue**	**$8,554.8**	**$8,832.5**	**$9,473.4**	**$9,992.9**
3	*Transfers to the General Fund*	*$0.3*	*$2.4*	*$2.4*	$2.4
4	*Proposed Changes to General Fund Available /A*	*NA*	*NA*	*-95.6*	*NA*
5	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,351.0**	**$9,207.8**	**$9,804.4**	**$10,707.6**
Expenditures					
6	**Appropriation Subject to Limit /B**	**$7,459.2**	**$8,192.7**	**$8,624.5**	**$9,478.7**
7	*Dollar Change (from prior year)*	*$431.5*	*$733.5*	*$431.8*	$854.2
8	*Percent Change (from prior year)*	6.1%	9.8%	5.3%	9.9%
9	**Spending Outside Limit**	**$452.3**	**$517.2**	**$543.5**	**$612.7**
10	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	$0.0
11	*Rebates and Expenditures /C*	*$380.9*	*$247.7*	*$251.9*	$262.9
12	*Transfers to Capital Construction /D*	*$61.4*	*$186.7*	*$212.3*	$64.0
13	*Transfers to Highway Users Tax Fund /D*	*N/A*	$0.0	$0.0	$199.9
14	*Transfers to State Education Fund under SB 13-234*	*N/A*	$45.3	$25.3	$25.3
15	*Transfers to Other Funds*	*$4.6*	$37.6	$54.0	$60.6
16	*Other Expenditures Exempt from General Fund Appropriations Limit /E*	$5.4	$0.0	$0.0	$0.0
17	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,911.6**	**$8,710.0**	**$9,168.0**	**$10,091.4**
18	*Percent Change (from prior year)*	9.6%	10.1%	5.3%	10.1%
19	Reversions and Accounting Adjustments	*$7.1*	*$0.0*	*$0.0*	$0.0
Reserves					
20	**Year-End General Fund Balance**	**$1,446.5**	**$497.9**	**$636.4**	**$616.1**
21	*Year-End General Fund as a % of Appropriations*	*19.4%*	*6.1%*	*7.4%*	6.5%
22	*General Fund Statutory Reserve /F*	$373.0	$409.6	$560.6	$616.1
23	*Above (Below) Statutory Reserve /G*	$1,073.5	$88.2	$75.8	$0.0
24	*Transfer of Excess Reserve to State Education Fund/Other Funds /G*	-$1,073.5	-$73.7	NA	NA
25	*Balance After Any Funds Above Statutory Reserve are Allocated*	$0.0	$14.6	$75.8	$0.0

/A The budget request includes a $4.2 million revenue reduction related to wildfire preparedness, a transfer of $109.4 million to pay back certain cash funds that were transferred during the previous economic downturn, and a transfer into the General Fund of $18 million from the Marijuana Cash Fund associated with the Amendment 64 and Proposition AA budget request.

/B This limit equals 5.0% of Colorado personal income. The appropriations amount for FY 2013-14 reflects current law, while the FY 2014-15 amount is the Governor's budget request. The FY 2015-16 amount represents the level of spending that can be supported by projected revenue while maintaining the required reserve amount; thus, this amount will change based on future budgeting decisions and updates to the revenue forecast.

/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 8.

/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 amount FY 2013-14 reflects current law, while the amount for FY 2014-15 shows the Governor's budget request. The FY 2015-16 amount mostly reflects the needed level 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 The Governor's budget request includes raising the reserve to 6.5 percent of appropriations starting in FY 2014-15. Under current law and this forecast, this level would be reached in FY 2019-20.

/G Per HB 12-1338, all of the FY 2012-13 excess was transferred 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 percent of the remaining excess is transferred to the State Education Fund. The money from these transfers will not be available until FY 2014-15.

Table 4b. General Fund and State Education Fund Overview with Governor's Budget Request
(Dollar Amounts in Millions)

Line No.		Actual FY 2012-13	March 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserves**	**$929.6**	**$556.3**	**$1,474.1**	**$1,465.8**
2	*State Education Fund*	$133.8	$183.4	$1,050.0	$753.6
3	*General Fund*	$795.8	$373.0	$424.2	$712.2
4	**Gross State Education Fund Revenue**	**$548.5**	**$1,604.7**	**$591.4**	**$579.5**
5	**Gross General Fund Revenue /A**	**$8,554.8**	**$8,834.9**	**$9,380.3**	**$9,995.3**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$10,033.2**	**$10,995.9**	**$11,445.8**	**$12,040.7**
Expenditures					
7	General Fund Appropriations Subject to Limit /B	$7,459.2	**$8,192.7**	$8,624.5	$9,481.0
8	State Education Fund Appropriations /C	*$510.9*	*$738.1*	*$887.8*	*$880.4*
9	**Total Appropriations**	**$7,970.2**	**$8,930.8**	**$9,512.3**	**$10,361.4**
10	*Percent Change (from prior year)*	3.8%	12.1%	6.5%	8.9%
11	**Other Expenditures**	**$452.3**	**$517.2**	**$543.5**	**$612.7**
12	**TOTAL OBLIGATIONS**	**$8,422.5**	**$9,448.0**	**$10,055.8**	**$10,974.1**
13	*Percent Change (from prior year)*	7.0%	12.2%	6.4%	9.1%
14	*Reversions and Accounting Adjustments*	*$19.0*	*$0.0*	*$0.0*	*$0.0*
Reserves					
15	**Year-End Balance**	**$1,629.8**	**$1,547.8**	**$1,390.0**	**$1,066.6**
16	State Education Fund /C	$183.4	$1,050.0	$753.6	$452.7
17	General Fund /D	$1,446.4	$497.9	$636.4	$613.9
18	*Transfer of Excess General Fund Reserve to Other Funds /E*	-$1,073.5	-$73.7	NA	NA

/A This amount includes tranfers to and from the General Fund shown in Table 4a. The budget request includes a $4.2 million revenue reduction related to wildfire preparedness, a transfer of $109.4 million to pay back certain cash funds that were transferred during the previous economic downturn, and a transfer into the General Fund of $18 million from the Marijuana Cash Fund associated with the Amendment 64 and Proposition AA budget request.

/B This limit equals 5.0% of Colorado personal income. The appropriations amount for FY 2013-14 reflects 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.

/C State Education Fund appropriations, and consequently, fund balance information, through FY 2013-14 reflect current law. The appropriations amount for FY 2014-15 represents the Governor's budget request, while the appropriations shown for 2015-16 reflects projected spending that can occur while maintaining a reserve in the State Education Fund amounting to roughly 6.5 percent of total State and local school finance expenditures. 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.

/D The Governor's budget request includes raising the reserve to 6.5 percent of appropriations starting in FY 2014-15. Under current law, this level would be reached in FY 2019-20 under this forecast.

/E Per HB 12-1338, all of the FY 2012-13 excess was transferred 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 percent of the remaining excess is transferred to the State Education Fund. The money from these transfers will not be available until FY 2014-15.

Table 5. Cash Fund Revenue Subject to TABOR Forecast by Major Category
(Dollar amounts in Millions)

Category	Actual FY 2012-13	March 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16	FY 2012-13 to FY 2015-16 CAAGR *
Transportation-Related /A	**$1,098.6**	**$1,134.8**	**$1,142.5**	**$1,155.1**	
Change	-1.2%	3.3%	0.7%	1.1%	1.7%
Limited Gaming Fund /B	**$98.1**	**$89.3**	**$91.5**	**$92.6**	
Change	2.6%	-9.0%	2.5%	1.2%	-1.9%
Capital Construction - Interest	**$1.0**	**$1.5**	**$2.3**	**$2.1**	
Change	-11.0%	50.5%	54.7%	-11.2%	27.4%
Regulatory Agencies	**$65.0**	**$72.4**	**$74.2**	**$76.1**	
Change	0.1%	11.4%	2.4%	2.6%	5.4%
Insurance-Related	**$26.4**	**$25.5**	**$24.4**	**$25.6**	
Change	16.6%	-3.5%	-4.2%	4.9%	-1.0%
Severance Tax	**$138.6**	**$228.3**	**$250.2**	**$229.5**	
Change	-33.3%	64.7%	9.6%	-8.3%	18.3%
Hospital Provider Fee /C	**$652.6**	**$563.0**	**$545.3**	**$527.3**	
Change	11.3%	-13.7%	-3.1%	-3.3%	-6.9%
Other Miscellaneous Cash Funds	**$465.2**	**$503.9**	**$516.8**	**$529.8**	
Change	-1.6%	8.3%	2.6%	2.5%	4.4%
TOTAL CASH FUND REVENUE	***$2,545.6***	***$2,618.7***	***$2,647.3***	***$2,638.2***	
Change	-0.7%	2.9%	1.1%	-0.3%	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.

Table 6. Tabor Revenue & Referendum C Revenue Limit
(Dollar Amounts in Millions)

Line No.		Actual FY 2012-13	March 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
	TABOR Revenues:				
1	General Fund /A	$8,537.9	$8,805.3	$9,402.8	$9,912.7
	Percent Change from Prior Year	10.6%	3.1%	6.8%	5.4%
2	Cash Funds /A	$2,569.4	$2,618.7	$2,647.3	$2,638.2
	Percent Change from Prior Year	0.5%	1.9%	1.1%	-0.3%
3	**Total TABOR Revenues**	**$11,107.3**	**$11,424.0**	**$12,050.2**	**$12,551.0**
	Percent Change from Prior Year	8.1%	2.9%	5.5%	4.2%
	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%	2.8%	2.4%
6	**Allowable TABOR Growth Rate**	5.4%	3.3%	4.4%	4.1%
7	TABOR Limit	$9,247.5	$9,552.6	$9,972.9	$10,381.8
8	General Fund Exempt Revenue Under Ref. C /B	$1,859.9	$1,871.4	$2,077.2	$2,169.1
9	**Revenue Cap Under Ref. C /C**	**$11,460.2**	**$11,838.4**	**$12,359.3**	**$12,866.1**
10	***Amount Above/(Below) Cap***	**-$352.9**	**-$414.4**	**-$309.2**	**-$315.1**
11	TABOR Reserve Requirement	$333.2	$342.7	$361.5	$376.5

/A Amounts differ from the General Fund and Cash Fund revenues reported in Table 2 and 3 due to accounting adjustments and because some General Fund revenue is exempt from TABOR.

/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.