COLORADO
Office of State Planning & Budgeting

June 2014

The Colorado Economic Outlook

Economic and Fiscal Review

Table of Contents

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Summary

- Compared with the March 2014 forecast, projections for General Fund revenue for FY 2013-14 are 1.1 percent higher and 1.3 percent higher for FY 2014-15. This translates to $96.4 million in higher collections for FY 2013-14, and $127.6 million more for FY 2014-15.

- The State's General Fund reserve is projected to be $145.6 million above its required amount for FY 2013-14. All but $25 million of this money, which remains in the General Fund, is allocated under current law to various cash funds. Under the adopted budget for FY 2014-15, this forecast shows that the General Fund will have $150.6 million above the 6.5 percent reserve requirement.

- Expectations for economic conditions, and thus tax revenue, have not changed materially from recent forecasts. After growing 4.4 percent this fiscal year, General Fund revenue is expected to grow 7.5 percent in FY 2014-15. As was expected in previous OSPB forecasts, the slowdown in General Fund revenue growth in FY 2013-14 was mostly from a one-time decline in income taxes on investment income. Continued economic growth will generate higher General Fund revenue growth in FY 2014-15.

- The State Education Fund (SEF) is supporting a larger share of education funding than it has historically, which will draw down the fund balance. The SEF plays an important role in the State's General Fund budget because the level of spending from the SEF affects the amount of General Fund spending necessary for education. Decisions on the mix of spending between the General Fund and the SEF have budgetary implications for the future.

- Colorado's economy continues to expand faster than many other states. The state has ingredients that are producing growth in today's high-tech and complex economy, including a skilled workforce, entrepreneurial energy and innovation, diverse industries, and a rich ecosystem that connects ideas and resources. Growth is not uniform in all regions of the state, however. There continue to be areas affected by out-migration, drought, or the loss of key employers.

- The economy appears to have a foundation for further steady growth. Nevertheless, adverse circumstances that could cause a downturn are often hard to identify and can sometimes materialize quickly. Such an event would reduce tax revenue to the state and increase budgetary pressures. Notable visible risks include geopolitical tensions, such as those in Russia and the Middle East, which could cause a material increase in energy prices. In addition, adverse shocks in the financial system similar to those that have preceded previous slowdowns, such as a fall in asset values and decline in the flow of credit, are difficult to predict and pose a risk.

- Cash fund revenue subject to TABOR is forecast to remain roughly flat over the forecast period, growing less than one-half of one percent in FY 2014-15 and falling slightly in FY 2015-16. For FY 2014-15, growth in severance tax revenue and miscellaneous cash funds will be offset by a decline in Hospital Provider Fee revenue and a moderate decrease in transportation-related cash funds.

- This forecast does not project that the State will reach its Referendum C revenue cap through FY 2015-16. TABOR revenue, however, will be just $168.4 million, or 1.4 percent, under the cap in FY 2014-15, and $156.1 million, or 1.2 percent, below the cap in FY 2015-16. Therefore, the cap is within the bounds of typical forecast error and future forecasts may show revenue exceeding the cap if they include upward revisions. Under such a scenario, a refund to taxpayers would occur unless voters allow the State to retain the revenue.

The Economy: Issues, Trends, and Forecast

Our analysis of economic conditions allows us to determine both the extent of opportunities for employment and business expansion and how economic activity will drive State tax collections and influence the use of certain State services. 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 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 25 is a summary of key economic indicators, showing their recent trends and 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 expand faster than many other states. The state has the ingredients that are producing growth in today's high-tech and complex economy, including a skilled workforce, entrepreneurial energy and innovation, diverse industries, and a rich ecosystem enabling the connectivity of ideas and resources. As a result, the labor, construction, retail, and housing markets are all continuing to grow, mostly at a pace higher than the nation. The state's overall job growth is at its highest rate since 2000. We continue to note, however, that growth is not uniform in all regions of the state. There are areas affected by out-migration, drought, or the loss of key employers.

Although the national economy has certain regions experiencing stronger growth like Colorado's Front Range, overall it continues a steady, yet modest expansion. The level of nonfarm employment at the national level finally reached its pre-Great Recession level in May, almost five years after the recovery began. Unemployment levels in both Colorado and the nation continue to steadily fall, but remain elevated compared with before the Great Recession, especially for those unemployed for longer periods of time.

Economic risks **—** The broader economy appears to have a foundation for further steady growth. Nevertheless, adverse circumstances that could cause a downturn are often hard to identify and can sometimes materialize quickly. For example, a fall in asset values (like homes or stock prices) and decline in the flow of credit stemming from disruptions in complex financial markets could weaken confidence and lower investment and hiring. Also, monetary policy can influence the broader economy. Negative unintended consequences from the current policies of central banks, as well as any policy changes, especially if sudden or larger than expected, could contribute to a slowdown. In addition, much of Europe continues to experience only weak growth, and there are concerns over China's s economy and components of its financial system. Due to the highly connected global economy, a major slowdown in these large economies could negatively affect portions of the state and national economies. Further, geopolitical tensions, such as those in Russia and the Middle East, can negatively affect the economy, especially if they cause a material increase in energy prices.

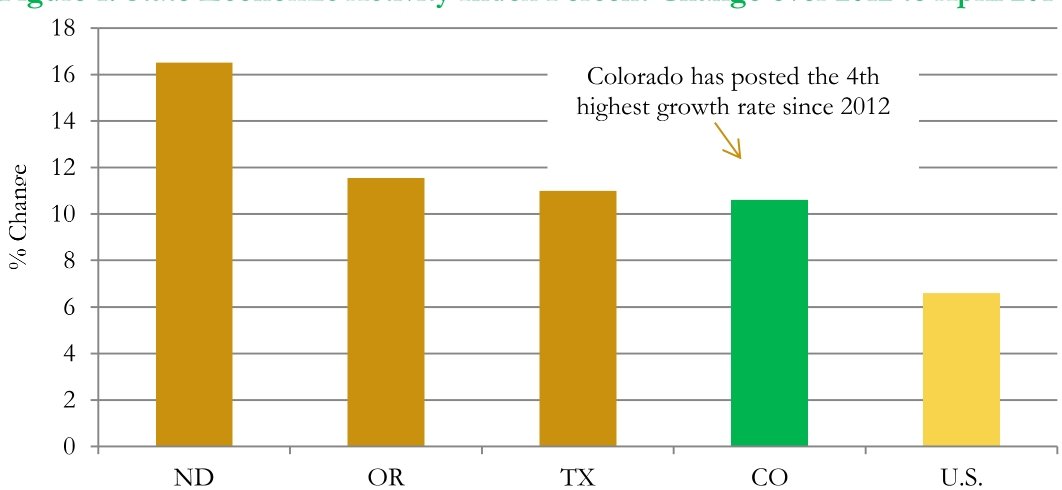
Colorado Economy Overview

Colorado's economy continues to expand faster than most other states — The state has many of the ingredients conducive for producing growth in today's complex, information and technology intensive economy. These ingredients include a skilled workforce, entrepreneurial energy and innovation, diverse industries, and a rich ecosystem enabling the connectivity of ideas and resources. As a result, the labor, construction, retail, and housing markets are all continuing to grow, mostly at a pace higher than the nation. The state's overall job growth is at its highest rate since 2000. The ingredients for stronger growth are less prevalent in some of the state's regional economies, however. In general, less populated and economically diverse regions are experiencing more modest growth compared with the more populated Front Range.

The state's overall job growth is at its highest rate since 2000.

Since 2012, Colorado's economy has had the fourth highest growth among states as measured by the Federal Reserve Bank of Philadelphia's monthly State Coincident Economic Activity Index. This is one of the most up-to-date broad measures of state economic activity. The index tends to match growth in a state's gross domestic product (GDP) over time by combining 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. Recently released state GDP data from the U.S. Bureau of Economic Analysis corroborate Colorado's strong performance as the state posted the sixth highest GDP growth among states in 2013. Figure 1 shows the top performing state economies since 2012 as measured by the State Coincident Economic Activity Index, compared to the U.S.

Figure 1. State Economic Activity Index Percent Change over 2012 to April 2014



Source: Philadelphia Federal Reserve Branch

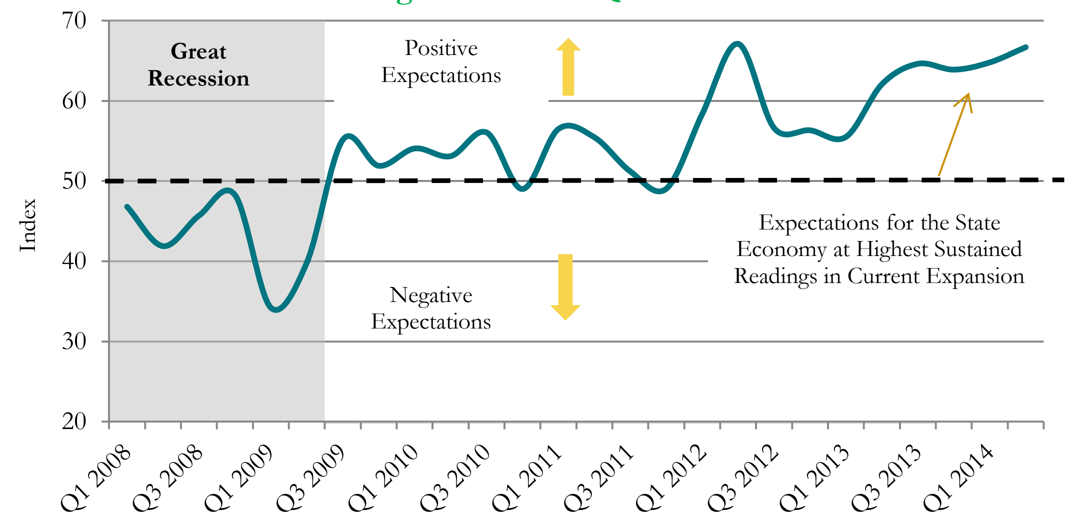
Continued positive broader economic conditions are reflected in business confidence, which will also support continued growth — Many Colorado businesses continue to have positive expectations for the state economy. Expectations not only provide information on current economic conditions, but can also help to predict future performance. Businesses are more likely to hire and invest to help fuel growth if they expect positive conditions in the future.

> Business confidence measured by the CU Leeds Business Confidence Index continues to be at its highest sustained level in the current expansion, which will help fuel further growth.

The Leeds Business Confidence Index (LBCI), published by the University of Colorado at Boulder, Leeds School of Business, measures business assessments about economic conditions for the upcoming quarter. Figure 2 shows the index for business expectations for the overall state economy through the second quarter of 2014. Reflecting Colorado's pickup in growth in 2013 and lower levels of economic uncertainty, the index continues to exhibit the most positive sustained readings in the current economic expansion.

Based on responses from 345 businesses, expectations for the state economy moved higher in the second quarter of 2014, posting a reading of 66.7, up from 64.8 for the first quarter. This was the fifth consecutive quarter above 60. Readings above 50 indicate positive expectations and higher readings signify greater business confidence.

Figure 2. CU Leeds Business Confidence Index on Expectations for the State Economy,* 2008 through the Second Quarter of 2014



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

The respondents represent several industries in the state, though the highest number in the second quarter's survey came from professional and technical services, finance and insurance, and real estate and rental and leasing. Most of the respondents are from businesses five years or older. Closely mirroring the economic distribution of Colorado, many of the respondents were concentrated along the Front Range, though roughly a quarter of respondents represent other areas. Larger businesses indicated slightly higher levels of confidence compared with smaller businesses.

New Business Creation and Economic Dynamism in Colorado

Growth in new businesses will continue to fuel growth **—** The Kauffman Foundation recently reported that Colorado had the 5th highest entrepreneurial activity rate in the nation in 2013. Other measures also rank Colorado among the top 5 or 10 states in entrepreneurship. Colorado's level of entrepreneurship continues to be a main factor behind the state's economic performance.

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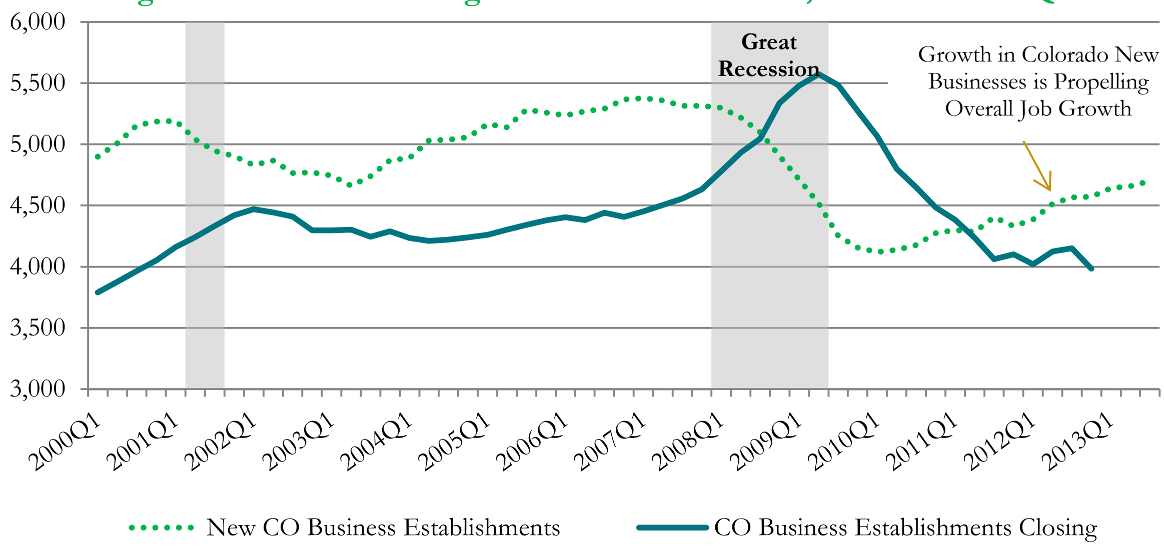
New and young businesses are the main source of net new jobs in the economy. After falling during the Great Recession, growth in new businesses has helped boost overall job creation for the state.

Figure 3 shows the level of new businesses as well as closing businesses since the beginning of 2000. Job creation is a continual process, involving not just the opening of new businesses but the closing of other businesses. In the most recent four quarters of data, on average, around 4,700 new businesses establishments were created each quarter, while 3,980 were closed.

The sharp decline in new businesses combined with the increase in business closings during the Great Recession contributed to the downturn's substantial job loss. It also contributed to the modest jobs recovery in the few years following the end of the recession as there were less young businesses adding jobs. Since its low point in the third quarter of 2009, through the third quarter of 2013, however, new business creation has increased 27 percent, helping push Colorado's overall job creation rate to its highest level since 2000.

New business creation in Colorado has increased 27 percent since the end of the recession, helping boost overall job creation for the state.

Figure 3. New and Closing Businesses in Colorado, 2000 to 2013 3rd Quarter*



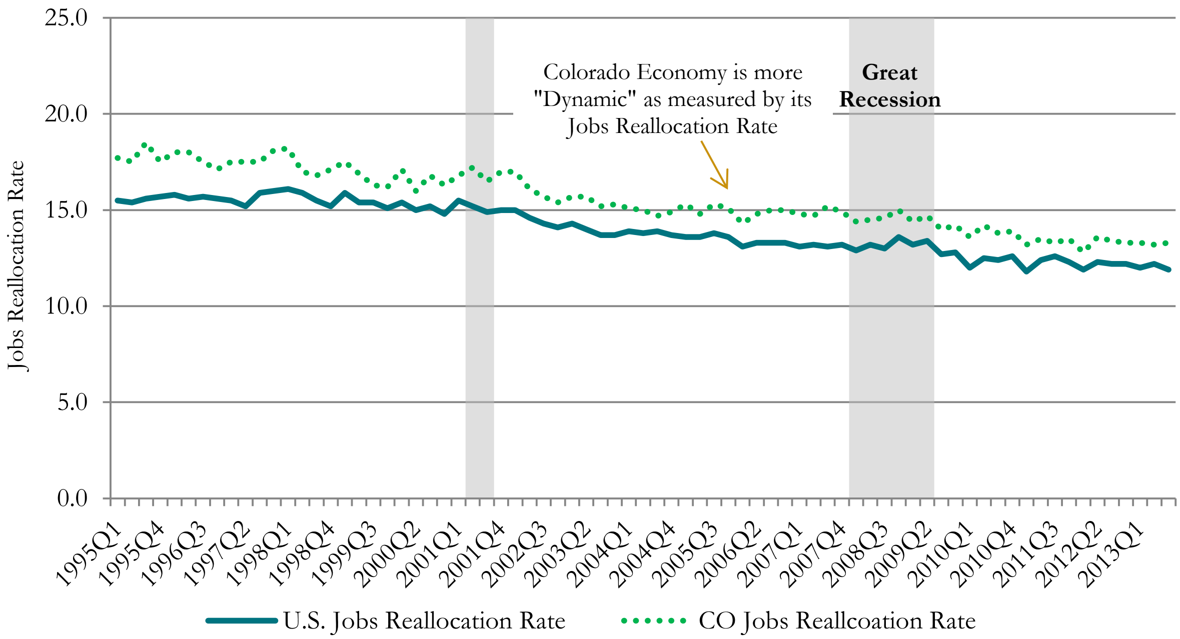
*Data on business closings is only available through the 4th quarter of 2012 as it takes longer to determine whether a business has closed.
Source: Business Employment Dynamics, U.S. Bureau of Labor Statistics

Economic dynamism is also helping growth — In addition to having a relatively higher rate of new business creation compared with other states, data also indicates that Colorado is more "dynamic" in the process of allocating capital and labor to different uses. An economy is able to expand faster over time when resources move more quickly in response to growth opportunities.

An economy's dynamism can be measured by the rate at which jobs are reallocated from closing or contracting businesses to new and expanding ones. A "jobs reallocation rate" is calculated by taking total job gains and losses as a share of total jobs in an economy. Figure 4 shows the job reallocation rates for Colorado and the nation from 1995 through the first three quarters of 2013, the latest data available. Colorado has a higher reallocation rate than the nation's, though both the state and the nation have experienced a slightly declining rate since the late 1990s. Using data from 2013, Colorado was tied for the 11th highest reallocation rate among states.

In addition, the Information Technology and Innovation Foundation recently reported that Colorado has the second highest level of economic dynamism among states according to its 2014 State New Economy Index. In addition to job reallocation, economic dynamism is measured in the index by the number of fast growing firms, initial public offerings, new business creation, and inventor patents. Colorado's economic dynamism is helping the state experience faster growth.

Figure 4. Colorado and National Job Reallocation Rates, 1995 to 2013 3rd Quarter



Source: Business Employment Dynamics, U.S. Bureau of Labor Statistics

The job reallocation rate varies by industry — In the third quarter of 2013, construction had the highest reallocation rate among major industries in Colorado while the information sector, had the lowest level. Construction has recently had one of highest rates of overall job growth while information has experienced flat or declining job levels. After construction, other major industries with higher reallocation rates were leisure and hospitality, other services, professional and business services, and retail trade. These sectors are also among the largest in the Colorado economy.

Entrepreneurial and Innovative Ecosystems

Networks and atmosphere are very important components of entrepreneur's satisfaction with their community – The culture and atmosphere in which businesses operate play an important role in economic performance. Places with greater connectivity and collaboration enable the spread of ideas and information as well as problem solving that helps foster business success. A recent OSPB survey of 348 entrepreneurs and CEO's of young firms in Colorado, or "startups," found that networks and local atmosphere are the two most important attributes of the startup environment.

A summary of the survey data, shown in Figure 5, indicates the average satisfaction levels among entrepreneurs with regard to attributes of their environment. These scores, which fall on a scale from 1 to 10, represent the categories of community characteristics that have been shown to be the most important to entrepreneurial satisfaction. The relative importance column represents how closely each attribute is correlated with overall satisfaction with the entrepreneur's community.

Figure 5. Startup Value Survey of Colorado Entrepreneurs, December 2013

Attribute	Relative Importance	Average Score
What Startups Get		
Network for Startups	38%	7.0
Availability of Talent	6%	6.1
Access to Capital	11%	4.7
Local Atmosphere	29%	8.3
Institutions	15%	6.0
"What Startups Get"	100%	7.0
What Startups Pay		
Business Costs	52%	6.0
Government-Related Costs	18%	5.2
Personal Costs	30%	6.0
"What Startups Pay"	100%	6.3
Overall Value		
What Startups Get	71%	7.0
What Startups Pay	29%	6.3
Overall Value		**7.8**

Source: Office of State Planning
For more information about this data set and detailed analysis, visit www.colorado.gov/StartupValueSurvey

The data indicates that startups in Colorado rate the atmosphere in which they live and work and their networks relatively highly. Because these two attributes are highly important to entrepreneurs, this dynamic helps to add context to the level of new business creation and job growth in the state.

The survey data indicates that entrepreneurs place a strong emphasis on the benefits they are able to access in their community, as opposed to the costs of living and operating there, which are important but are less correlated with overall satisfaction levels. Further analysis of the data also showed unevenness in the satisfaction levels of entrepreneurs in various industries within Colorado. Entrepreneurs in Colorado's information and technology-related industries appear to have the highest levels of satisfaction with access to the resources they require in order to succeed.

The prevalence of networks and collaborative workspaces in Colorado helps form a good foundation for its economy going forward – Networks provide entrepreneurs and innovators access to valuable resources such as the knowledge and experience of other entrepreneurs as well as connections with mentors, leaders, investors, and talent via regularly held events. Through networks, entrepreneurs collaborate, refine their pitch, find investors, share information about business practices and the marketplace, and learn from each other as they share both successes and failures.

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Important resources in a viable network include business incubators and accelerators and collaborative workspaces; also, frequent networking events engage individuals with the entrepreneurial community. Incubators and accelerators provide startup businesses assistance from peer entrepreneurs and mentors to help guide them in the development of their business. With this help, entrepreneurs make contacts and build successful networks in the business and investment communities. The interest and growth in collaborative workspaces stems from an increasingly information- and knowledge-intensive economy expanded by global high-speed Internet connectivity and mobile technology.

National Economy Overview

Economic growth continues to be modest for the nation overall – The national economic recovery still has not established a robust footing and the expansion has been uneven, though some parts of the country are experiencing stronger growth. Unexpected weakness in statistics for the first few months of 2014 reflected the continued sluggishness of the recovery, though it was likely also influenced by the unusually cold winter across most of the country as well as other factors. Economic reports for the spring months indicate general improvement in economic conditions but continue to show modest growth in many areas and sectors.

At the national level, certain "positive feedback mechanisms" have still not sufficiently developed to produce more robust economic growth. For example, in a stronger period of expansion, households with higher expectations for the future make more purchases, which in turn raise confidence among businesses, encouraging them to hire more workers and increase orders for goods and equipment. As of now this cycle is running more slowly than in past expansions.

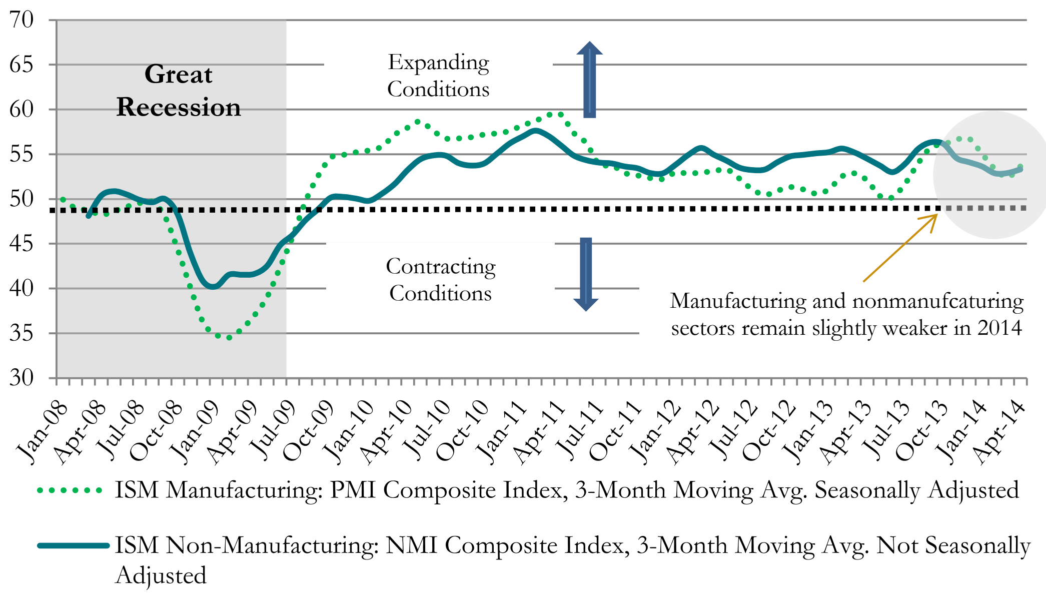
The types of positive feedback mechanisms that tend to drive economic expansion have not been sufficiently established across much of the nation, making the recovery less robust.

There are likely several reasons for the slower positive feedback mechanisms. It may be related to a longer period of adjustment needed in the increased complexity of today's more specialized and technological economy compared with previous economic recoveries. This may especially be the case after the massive disruptions of the Great Recession and the high debt levels, stock and housing market downturns, and financial crisis that accompanied it.

Two measures of economic momentum often included in OSPB forecasts are the manufacturing composite index and the non-manufacturing composite index published by the Institute for Supply Management (ISM). These two indices show data collected from surveys of businesses which gauge business activity by tracking key behaviors, such as placing new orders, increasing production volume, hiring new employees, and making deliveries. Because these activities tend to precede growing business output in the future, they also can serve as a leading indicator of overall activity.

Both ISM indices showed declines every month in 2014 until April, when each index ticked upward slightly. Until April, the manufacturing index had been falling since September 2013, indicating softening confidence among businesses in the manufacturing sector. Still, the readings for both indices have remained above 50, the level that distinguishes between expectations for growth versus expectations for decreasing activity.

Figure 6. ISM Manufacturing and Non-Manufacturing Indices, January 2008 to April 2014



Source: Institute for Supply Management

Many indicators of economic activity improved during the spring **–** Recent data shows at least modest growth in most parts of the economy. Consumer spending, especially on vehicles, has been reported as stable or growing in nearly all regions of the United States. This has supported strength in non-financial services and manufacturing, which was reported as expanding in all twelve Federal Reserve districts in the most recent "Beige Book" summary of economic conditions published by the Federal Reserve System. The financial sector also remained healthy over the first several months of 2014, as loan demand and credit quality remained strong during this time. Demand for auto loans has been especially strong, indicating that consumers have continued to replace automobiles, which, along with other durable goods purchases, indicates a generally positive outlook among households.

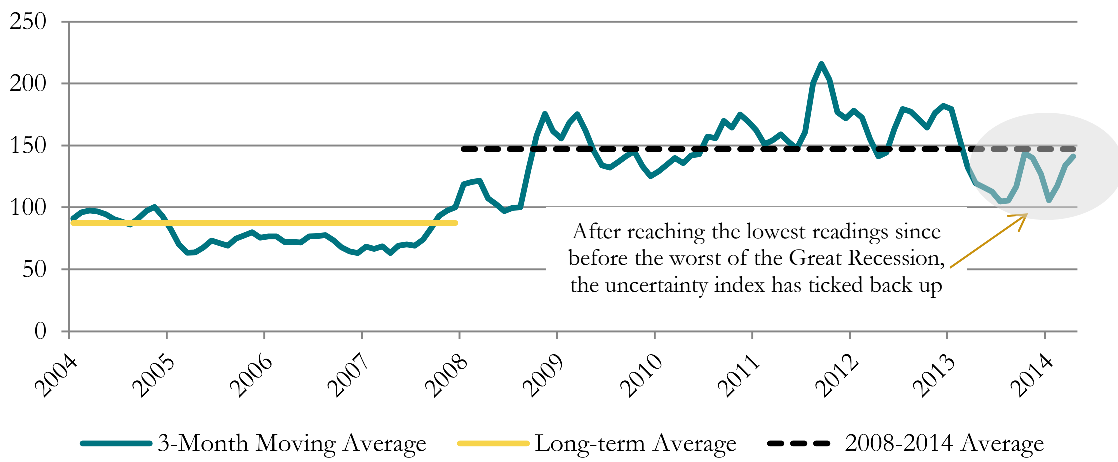
While nearly all parts of the country showed signs of growth in the first part of 2014, the pace of growth has been slow, remaining modest and uneven. Among major sectors, agricultural activity has been the least strong in 2014, having been impacted by the cold winter as well as drought conditions in 2013. The pace of employment growth has also been slow despite increased unfilled job postings by employers.

The highest levels of confidence among business leaders are among those businesses that were most recently opened. The Startup Confidence Index published by The Ewing Marion Kauffman Foundation and LegalZoom gauges the outlook of business owners who have formed their entities within the past six months. The index for the first quarter of 2014 showed that 91 percent of respondents were confident that their business would be more profitable over the next 12 months, remaining at the highest reading since the survey began in the first quarter of 2012. While entrepreneurial confidence levels are typically higher than overall business confidence levels, the reading indicates that those individuals who are taking entrepreneurial risks remain positive about prospects in the near-term.

Uncertainty remains elevated since the recession **–** The Economic Policy Uncertainty (EPU) index, developed by economists from Stanford University and the University of Chicago, ticked upward in the last two months after falling to some of the lowest levels since the recession. The increase in the EPU index indicates that news organizations are still reporting on risks at a higher rate than before the recession. Figure 7 below shows the history of the EPU, which is constructed using information about news topics, federal tax code provision changes, and disagreement among economic forecasters, as well as the long-term average index reading and the average from 2008-2014.

> Even with fewer visible risks to the economy, uncertainty about the future may be continuing to present an obstacle to stronger growth at the national level.

Figure 7. Economic Policy Uncertainty Index for the United States, 2004 to Present



Source: Economic Policy Uncertainty, www.policyuncertainty.com

Elevated uncertainty about future conditions tends to be one of the largest obstacles to economic growth, and uncertainty has been much higher than usual since the Great Recession as a result of many factors such as the nature of the financial crisis, unprecedented monetary policy from the Federal Reserve, and a higher degree of disagreement among fiscal policy makers at the federal level.

International Trade

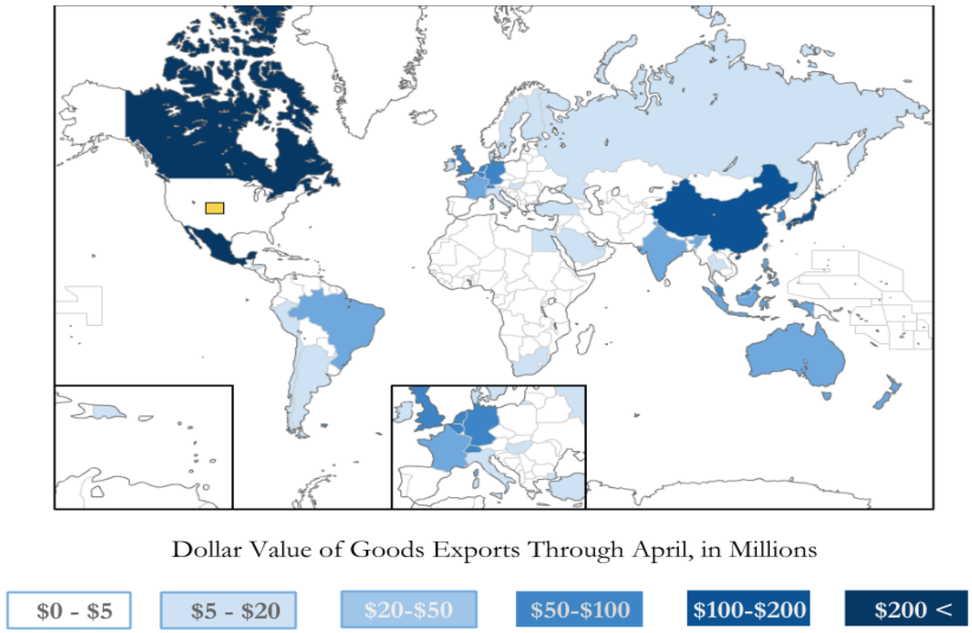
Economic performance across the word is mixed – According to a recent World Bank report, the global economy started the year more slowly than expected, attributable to unusually cold weather in the United States and conflict in the Ukraine and Russia. Additionally, the euro zone, still in an early phase of recovery, has grown tepidly with the larger economies of Germany and the United Kingdom as the key sources of demand for the rest of Europe. Italy, Portugal, and France are slower to recover and overall growth remains weak. Though global activity is slower than forecasted, it is expected to improve throughout 2014 and in 2015, with much of the momentum coming from "advanced economies" such as the U.S., euro zone countries, and Japan.

Though global activity is slower than forecasted, it is expected to improve throughout 2014 and in 2015.

Although activity in many "emerging economies" such as Brazil, China, India, and Russia, remains sluggish, exports to advanced economies are expected to strengthen. In May, the Hongkong Shanghai Bank Corporation (HSBC) China Composite Purchasing Managers' Index (PMI) index showed a fourth successive monthly fall in output. Concurrent to this decline, however, Chinese export orders in May increased at a level not seen since April 2010. Other emerging economies, such as Russia, India, and Brazil saw falling output in April, according to the HSBC Emerging Markets Index. For the highly connected global economy, conditions and economic activity in other parts of the world impact Colorado and the U.S. Therefore, if growth in these regions were higher, it would be reasonable to expect a positive outcome on Colorado's economy.

Signs of slowing export growth for Colorado – The slowing economies in Asia and in emerging countries and a slow recovery in Europe have dampened Colorado and U.S. exports. Colorado's largest export destinations include Canada, Mexico, China, Japan, and euro zone countries, as shown in Figure 8. Thus, a change in economic growth in these economies directly impacts the state. Goods exports decreased 4.3 percent in Colorado and increased 2.1 percent nationally through April compared to the same period a year ago. Most of the drop in Colorado's exports was due to a decline in trade with Europe in industrial and electrical machinery, pharmaceutical products, and plastics. With global growth forecasted to improve, this growth will help bolster Colorado's exports throughout the year.

Figure 8. Colorado's Largest Goods Export Destinations, Million Dollars, Year-to-Date through April 2014



Source: Wiser Trade Data

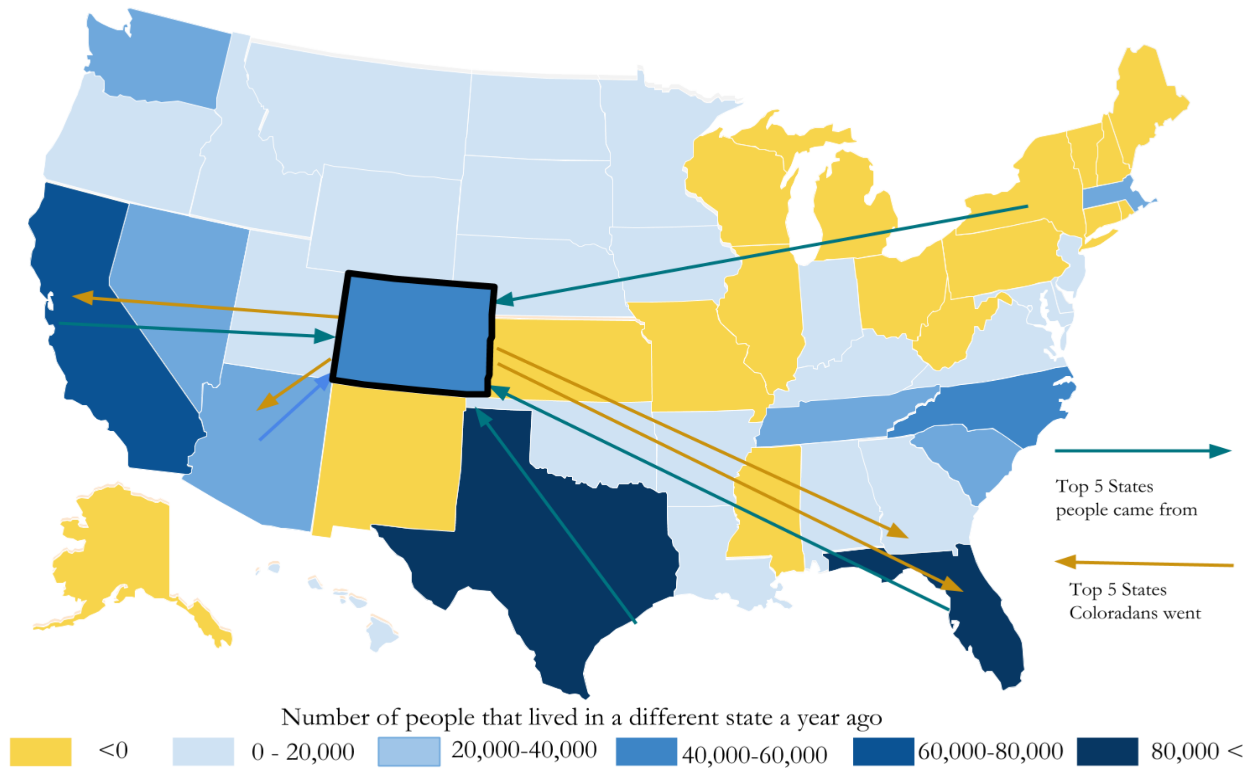
***Colorado's export of services* –** Compared with the nation, Colorado's economy is more services-intensive, particularly in regard to services that can be exported, such as engineering, legal, accounting, technological, and business consulting services. Unfortunately, in contrast with goods exports, state level data on the amount of services exported is unavailable.

The Institute for Supply Management's (ISM) new export orders index for services and non-manufacturing activities in the United States for May registered 53, indicating that the export of services continues to grow. Industries reporting increases in new export orders include, information, retail trade, professional, scientific services and technical services, and finance and insurance. This is positive for Colorado more service-intensive exports.

Labor Market Conditions and Demographics

***Migration to Colorado continues to bolster Colorado's economy and labor force* –** In 2012, Colorado had the fifth highest level of net migration among states. The top states of origin for this migration to Colorado were Texas, Florida, California, and North Carolina as shown in the Figure 9. Factors that attract or "pull" migrants to Colorado include job growth, local atmosphere, varied lifestyle options, business networking and support, and a favorable climate.

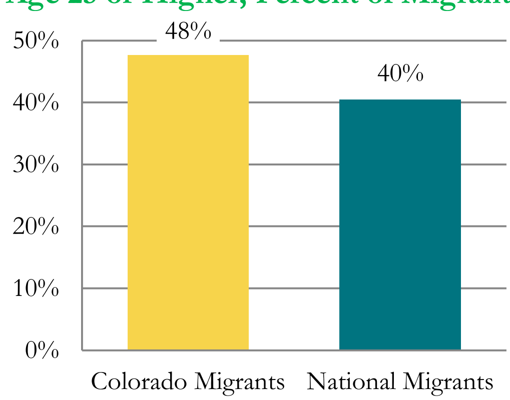
Figure 9. Migration Across States in 2012



Source: Census Bureau

In 2012, 48 percent of in-migrants to Colorado aged 25 years and older had a bachelor's degree or higher. According to Census Bureau data as shown in Figure 10, Colorado's in-migrants on average have higher educational levels than migrants nationally. This level of human capital migrating to Colorado helps fuel the economy by enabling greater business creation, innovation, and production of high value goods and services.

Figure 10. Bachelor's Degree or Higher for Age 25 or Higher, Percent of Migrants



Source: Census Bureau; national migrants are those that have migrated between states in the past year

Job growth in Colorado's industries – Overall, Colorado's job growth has been relatively strong. Based on an analysis by Economic Modeling Specialists Intl, a labor market and economic analysis firm, Colorado had the 5th highest job gains per capita among states, including Washington D.C., from 2010 to 2013.

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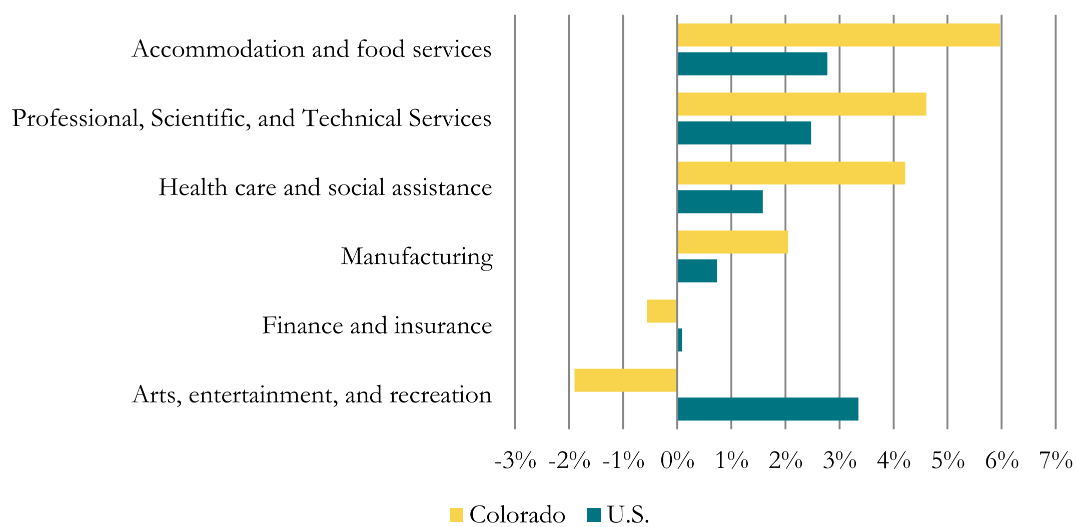
In today's information- and technology- based economy, high-skilled workers play a major role in economic growth. Growth in industries that employ skilled workers, such as engineering, consulting and technological product development and services, help generate growth in peripheral sectors such as housing-related industries and services-based sectors including accommodation and food services.

Figure 11 depicts Colorado's job growth in select industries. Since the end of the Great Recession, much of Colorado's recent job growth has occurred in health care and social assistance, professional, scientific and technical services, and construction, accommodation and food services. Industries with slower or negative growth include finance and insurance, arts, entertainment, and recreation, and manufacturing. It is noteworthy, however, that manufacturing is experiencing job growth both nationally and in Colorado as the industry had a long period of job losses preceding the Great Recession.

Figure 11. Job Growth in Various Industries, Colorado and the US
Percent Change of Monthly Average,
January through April 2014 over January through April 2013

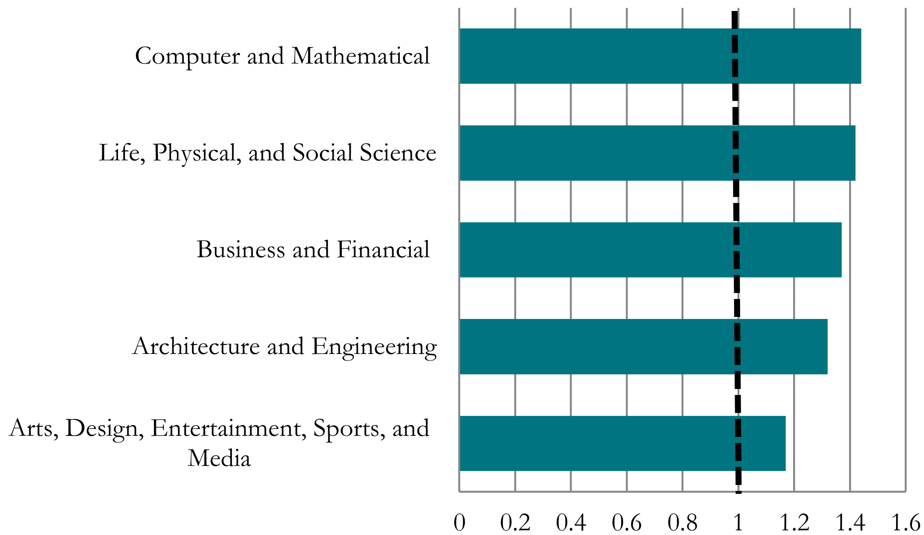


Source: U.S. Bureau of Labor Statistics; non-seasonally adjusted data

Colorado has a concentration of workers in STEM and creative occupations – Regional economies with concentrations of people with science, technology, engineering, and mathematics (STEM) skills and in creative occupations, such as the arts, entertainment and media, tend to experience more growth. These types of workers are generally involved in more innovative activities and produce higher-valued goods and services. These activities promote higher levels of income growth in an economy.

As shown in Figure 12 below, the state has a concentration of STEM and creative-related occupations. An occupation's "location quotient" measures a region's specialization relative to the nation. A location quotient greater than 1 indicates that the state has proportionally more workers compared to the nation as a whole.

Figure 12. Colorado Location Quotient for STEM and Creative Class Occupations, May 2013



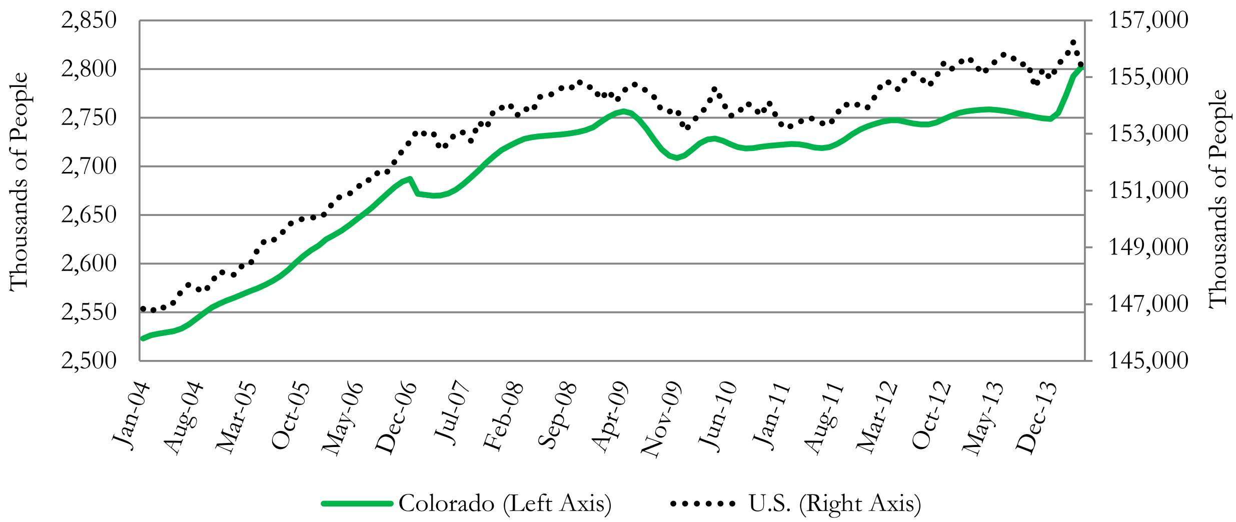
Source: Bureau of Labor and Statistics

Colorado has a high number of STEM job postings **–** Colorado has the most bachelor's level and higher STEM job postings per capita and the second most STEM job postings overall, according to a recent 2014 report on the market for STEM entry-level jobs by Burning Glass Technologies, a Boston-based labor market analytics firm. This level of job postings in STEM occupations signals a potential for continued economic and wage growth in the future in state due to the value of these workers to the economy. In addition, entry-level workers generally have more potential for greater wage increases. Growth in STEM occupations also often leads to job growth in other sectors as STEM occupations are higher paying– nationally averaging $75,454 per year and $77,878 per year in Colorado.

> As a signal of further growth in the economy, Colorado has the most bachelor's level and higher STEM job postings per capita and the second most STEM job postings overall.

Recent growth in Colorado's labor force is a sign of recent economic momentum **–** Colorado's labor force grew by 53,000 people, or 1.9 percent, through April since December of 2013 while it remained flat over the same period at the national level. The lack of growth in the labor force starting in the Great Recession both nationally and in Colorado can be attributed to several factors, including an aging population, more people attending school and taking care of family, as well as more people having difficulty finding employment opportunities. The recent increase in Colorado's labor force, shown in the Figure 13, signals continued improvement in the state economy, and individuals perceive that there are more opportunities to earn income.

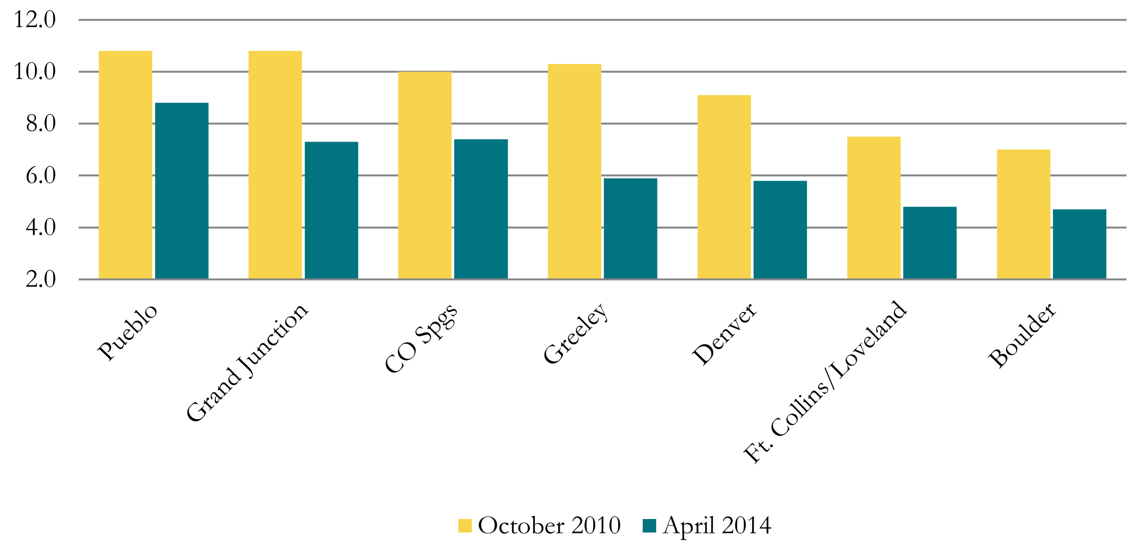
Figure 13. Colorado and US Labor Force, January 2004 to April 2014



Source: U.S. Bureau of Labor Statistics

The state's unemployment rate continues to fall but challenges persist in the labor market – The rate of job creation in Colorado has absorbed migrant and in-state job seekers, thus reducing the state's overall unemployment rate, also known as the "U-3" rate. Though progress has occurred across Colorado and the nation, certain segments of the labor market still face difficult adjustments from the Great Recession. Differences in both the levels and the decline of unemployment rates across the state illustrate the unevenness of the recovery as shown by Figure 14. In general, the regions with the highest concentration of skilled workers and more diverse growing industries have bounced back from the disruptions of the Great Recession with stronger job growth and have lower unemployment levels. Still, though unemployment remains elevated in some parts of Colorado, it has declined in every region since the recession.

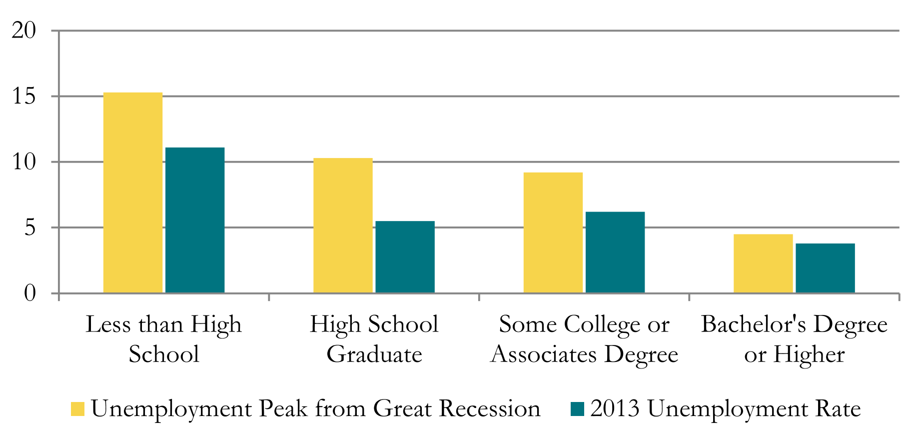
Figure 14. Unemployment Rates Across Colorado's Major Regional Economies, Great Recession Peak, October 2010 to April 2014



Source: U.S. Bureau of Labor Statistics

Figure 15 shows unemployment in Colorado by level of educational attainment both during the Great Recession and in 2013. The unemployment rate dropped faster for less skilled workers, though these individuals had more elevated unemployment rates during the peak of the recession. Some of the drop in the unemployment rate for high school graduates is from a decline in these individuals being counted in the labor force due to several reasons, such as attending college rather than work and less employment opportunities in the aftermath of the Great Recession.

Figure 15. Colorado Unemployment Rates by Level of Educational Attainment, Great Recession Peak and 2013 Unemployment Rate, Percent



Source: U.S. Bureau of Labor Statistics and U.S. Census Bureau, Current Population Survey

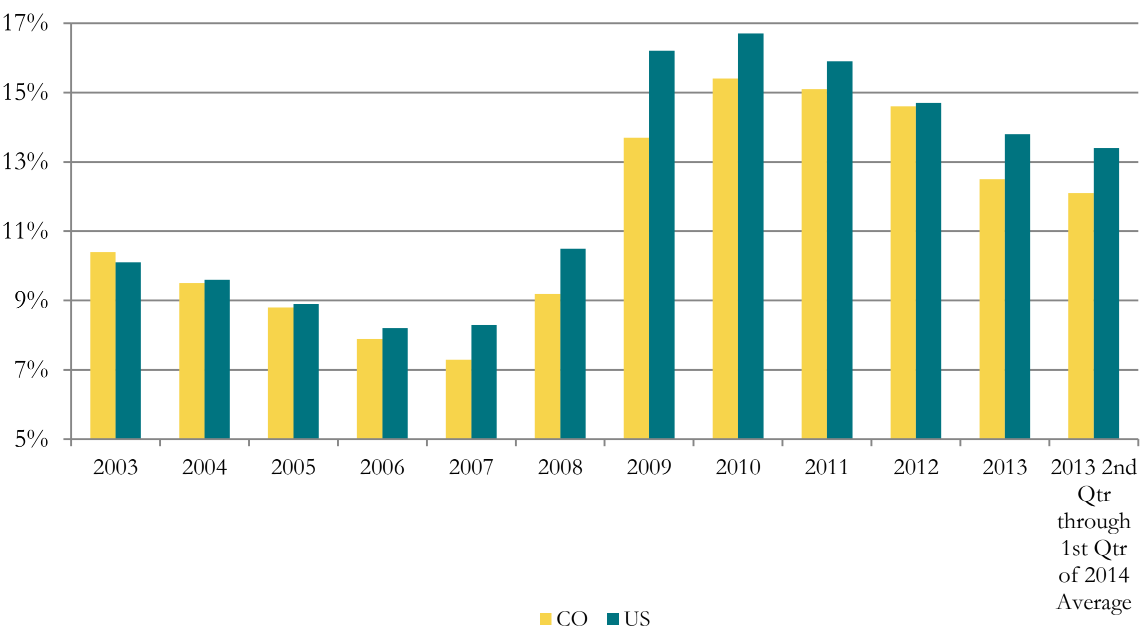
Underemployment and the duration of unemployment continues to be a lingering problem in the labor market – Short-term unemployment, those unemployed for less than 27 weeks, has returned to prerecession levels. In contrast, long-term unemployment, those unemployed over 27 weeks, has remained above prerecession levels, which raises the overall unemployment rate.

In addition, the U-3 rate does not fully capture the broader labor market as some individuals leave the labor force for various reasons, as noted above. These individuals are not actively searching for a job so they are not counted as unemployed nor included in the labor force.

> In Colorado, the U-6 rate of unemployment was 12.1 percent in the second quarter of 2013 through the first quarter of 2014.

The U-6 rate, a broader measure of unemployment, captures the number of unemployed as counted in the traditional U3 rate, plus individuals who want to be employed but who have not recently looked for work, sometimes because they are discouraged by their job prospects, and individuals who want to work full-time but who are only employed part-time for economic reasons. As shown in Figure 16, in Colorado, the U-6 rate of unemployment was 12.1 percent in the second quarter of 2013 through the first quarter of 2014, decreasing from the recession high of 15.4 percent in 2010. The national U-6 rate was slightly higher at 13.4 percent over that same period.

Figure 16. Colorado U-6 Unemployment Rate, 2003 to 2013 Second Quarter through First Quarter of 2014



Source: U.S. Bureau of Labor Statistics

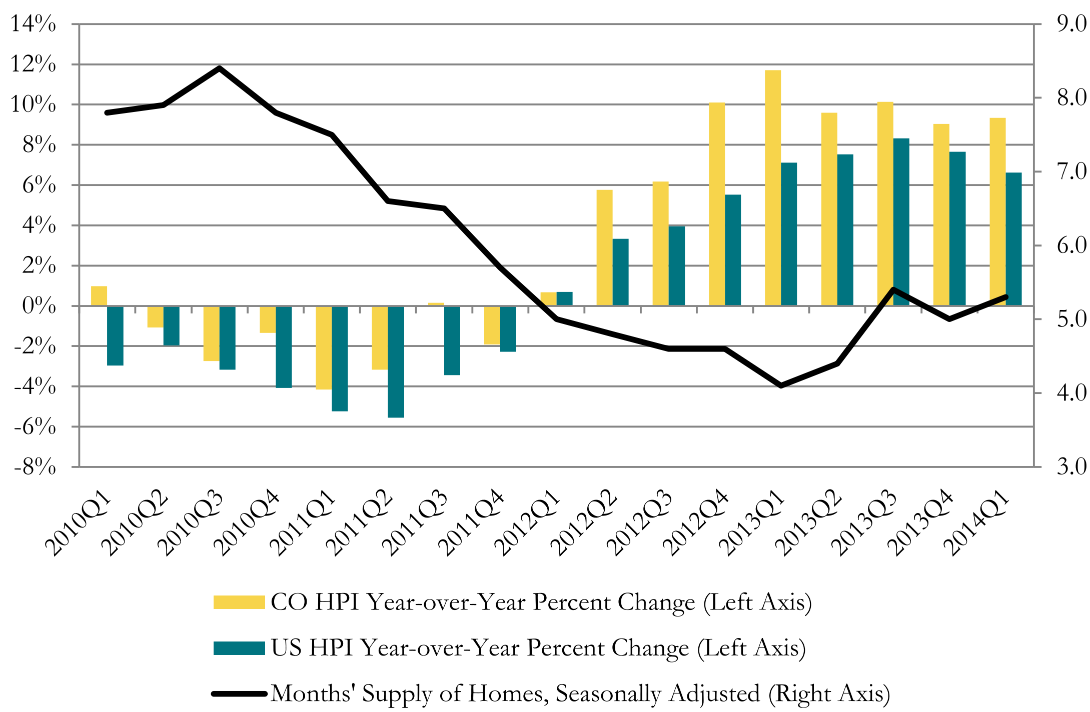
Housing and Construction

> Positive feedback mechanisms appear to have taken hold in the housing market, where rising prices are contributing to more activity and also reducing negative equity. In some areas, supply shortages are constraining growth and causing high prices.

Home prices generally continued to rise in the first quarter of 2014 as demand for homes remained relatively strong in many regions. Price growth is being supported, in part, by lower inventories of homes for sale and fewer distressed properties. Rents are also increasing in the largest metro areas as the rate of household formation grows along with job gains and increased income. High rents in many parts of the country are encouraging homebuilders to focus on apartments and condominium construction projects more than usual.

Figure 17 shows the seasonally-adjusted Home Price Index (HPI) published by the Federal Housing Finance Agency (FHFA), as well as the inventory of homes for sale as reported by the US Census Bureau. The rate of price growth moderated for the nation as a whole while price gains accelerated in Colorado, reflecting the state's better economic performance.

Figure 17. FHFA House Price Index Year-over-Year Change with National Months' Supply of Existing Homes, 2010 through First Quarter of 2014

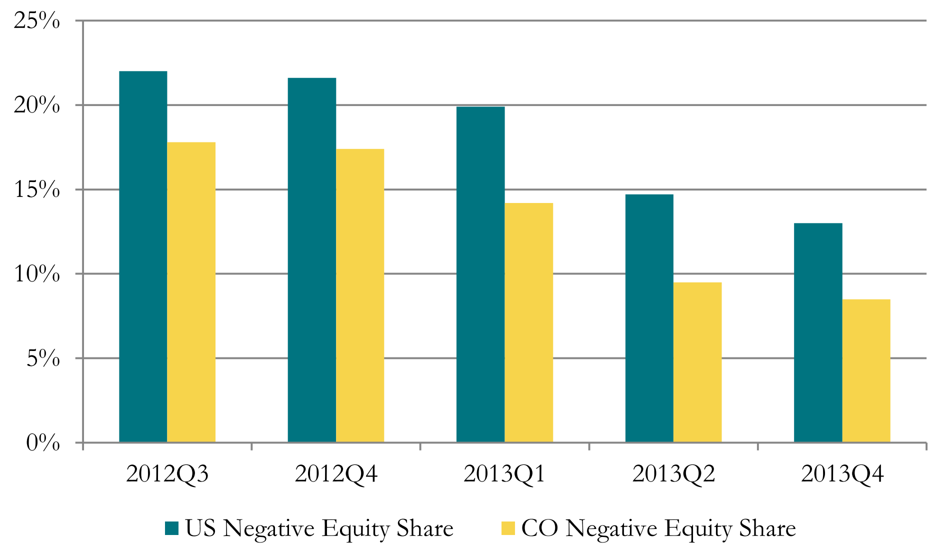


Source: Federal Housing Finance Agency and U.S. Census Bureau

Higher values, combined with economic growth, are resulting in fewer troubled properties – High levels of distressed sales typically put downward pressure on housing prices, so declining numbers of distressed sales tend to predict stronger growth in home values. "Distressed sales" refers to sales of properties that are in foreclosure or sales of properties for less than the amount owed on the mortgage.

One strong predictor of distressed property sales is the number of mortgaged properties that are "underwater," meaning that the amount owed on the mortgage loan is more than the amount for which the property could be sold. Figure 18 illustrates the most recent changes in the share of properties with negative equity as reported by Core Logic, a major provider of data on consumer credit and the housing market. In addition to supporting housing prices, the declining share of negative equity means that more homeowners have access to growing home equity, a factor which supports economic growth by improving consumer confidence and offering more opportunities to finance entrepreneurial endeavors.

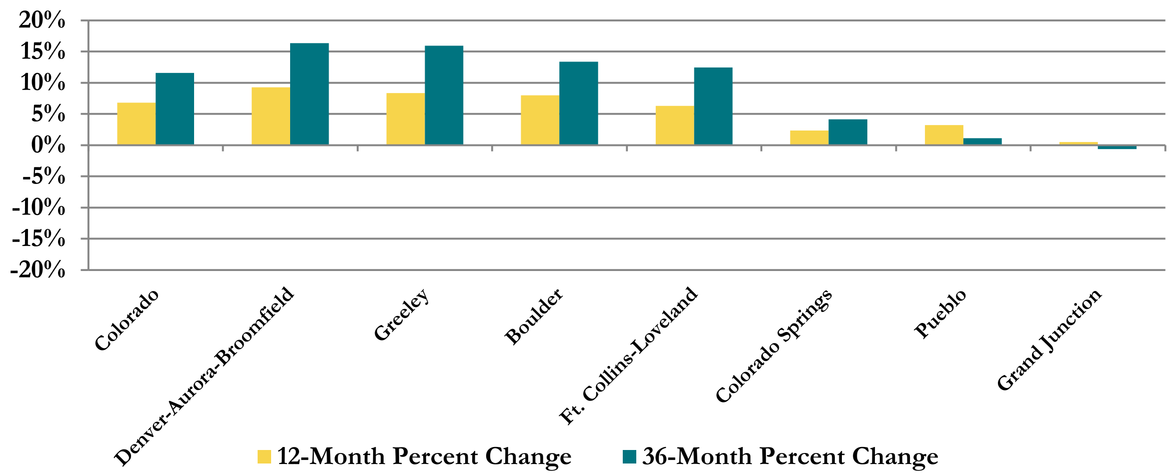
Figure 18. Share of Mortgage Loans with Negative Equity, U.S. and Colorado, Third Quarter of 2012 through Fourth Quarter of 2014



Source: Core Logic

Home prices are now rising in all Colorado markets, though growth remains uneven – For the first time since the Great Recession, average home prices have grown over the last twelve months in all major housing markets in Colorado. Figure 19 shows the percentage change in home prices over the last 12 months and the last 36 months in each region of Colorado for which the FHFA publishes home price data. The pace of growth and the actual average value of homes varies widely among regions in the state.

Figure 19. Changes in FHFA House Price Index for Regions of Colorado, as of the First Quarter of 2014

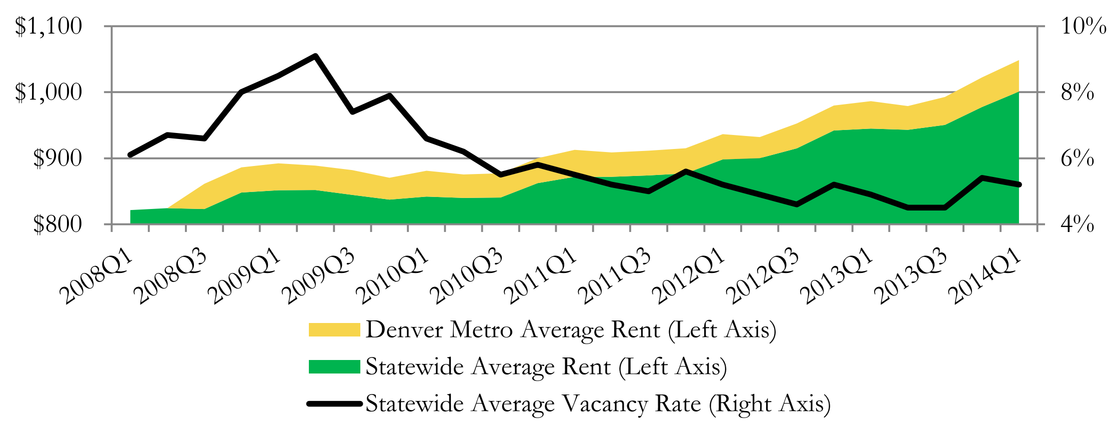


Source: Federal Housing Finance Agency

Housing markets across the United States have experienced wide variation in performance. While housing markets are generally not declining throughout the United States, many areas are sluggish, with some still not seeing home prices rise. Average home prices in Colorado surpassed their pre-recession peak at the end of 2012, yet home prices at the national level still remain below the peak reached in 2007 before the housing market collapse.

Rising rents continue to characterize Colorado's housing market – Average rent for the Denver metro area rose to $1,073 and statewide average rent rose to $1,028 in the first quarter of 2014, according to reports co-sponsored by the Colorado Division of Housing. These figures mark record high rates for both the Denver metro area and for Colorado as a whole, and they continue a pattern of growing rents supported by strong demand for rental units and a growing population.

Figure 20. Average Rent and Vacancy Rate for Colorado, Statewide and Denver Metro Area, 2008 through First Quarter of 2014



Source: Colorado Division of Housing

Not all rental housing markets in Colorado are experiencing rent growth similar to the Denver metro area. Grand Junction has experienced declining rents for five consecutive quarters and Pueblo has seen rents rise and fall in alternating quarters for the last twelve months. On the other hand, the rental housing markets in Greeley, Colorado Springs, and Fort Collins/Loveland have all experienced price growth over the last several quarters, reaching average rents of $793, $822, and $1183, respectively, in the first quarter of 2014.

> The demand for rental housing is strong, in the Denver metro area due to a growing population and economy. Other parts of the state are experiencing mixed conditions in the market for rental housing.

A key contributor to rental demand is reluctance among many households to return to the housing market since the financial downturn and recession, causing them to rent housing as an alternative to owning a home. Even for those who would like to purchase a home, the slower labor market recovery for some sectors and tightened credit standards have increased the difficulty of qualifying for a mortgage loan.

Additionally, as people first form households, it is common for them seek rental housing rather than purchase a home immediately. The rate of household formation in Colorado has increased as economic growth strengthens, allowing many young people to find employment and leave parents' homes, a trend that will continue to support the demand for all types of housing, including rentals and home purchases.

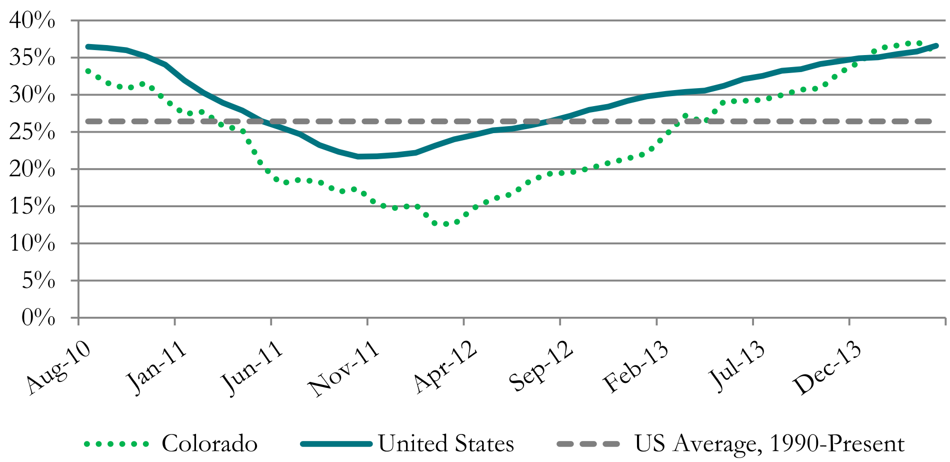
Housing market strength is supporting increased construction, especially of apartments and condominiums – Home builders have increased residential construction projects in response to growing demand. Residential construction in Colorado is accelerating faster than the nation, though all residential construction remains below its levels before the housing downturn.

A growing share of new construction permits are for multi-family units, such as apartments and condominiums. This is reflective of the higher demand for rental housing, low vacancy rates, and resulting high rents. All of these factors indicate that additional supply is needed in the residential rental market, especially in parts of Colorado, which is attracting investors and builders to multi-family construction projects.

> High rent, low vacancy rates, accelerating household formation, and continued population growth are all making multi-family construction more attractive to homebuilders.

Figure 21 shows a history of the share of total building permits that were for multi-family units in both Colorado and the nation. As shown, the current proportion of roughly 35 percent of all construction permits is much higher than the long-term average of about 26 percent. The high proportion of multi-family construction permits will result in a high number of new rental units coming available for Colorado renters over the next several months and the resulting increased inventory is expected to moderate rent increases in the state.

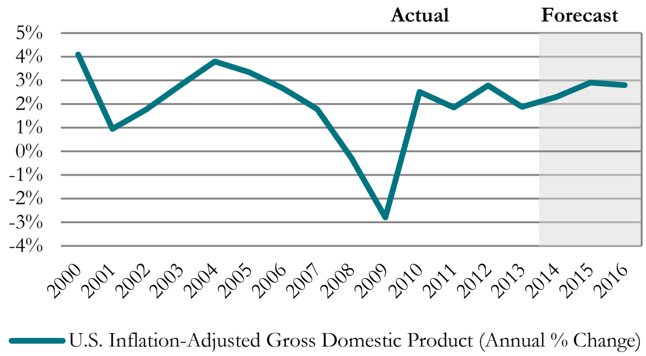
Figure 21. Share of Building Permits for Multi-Family Units, United States and Colorado, August 2010 through April 2014



Source: U.S. Census Bureau

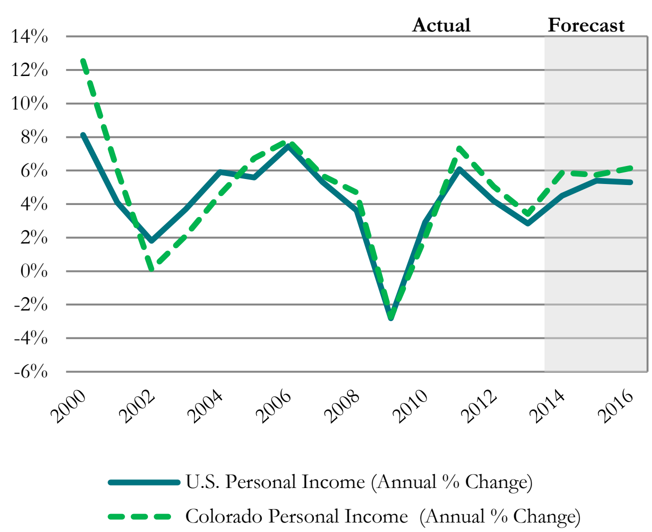
Summary of Key Economic Indicators
Actual and Forecast

U.S. Gross Domestic Product (GDP)



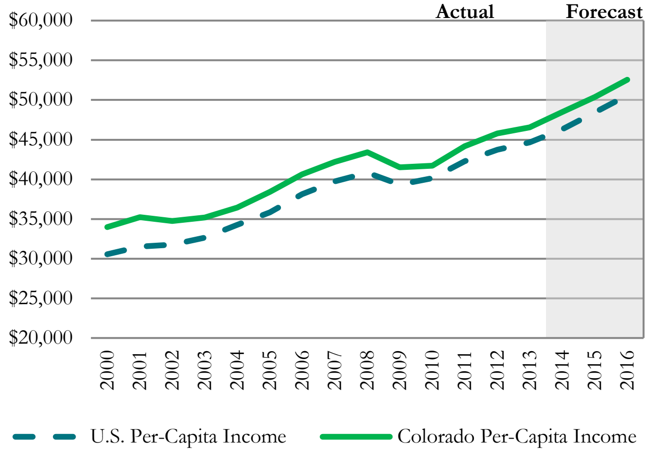
- GDP is a barometer for the economy's overall performance and reflects the final value of goods and services produced in the U.S.
- GDP grew 1.9 percent in 2013 and will grow 2.3 percent in 2014.

U.S. and Colorado Personal Income



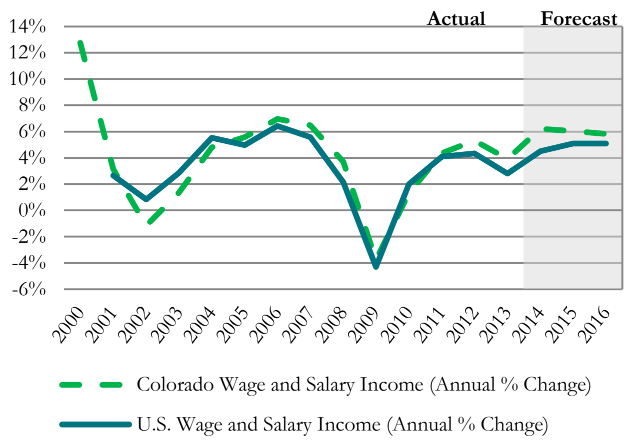
- Personal income consists of wage and salary income, proprietors' income, government transfer receipts, and interest and dividend income. It is an indicator of economic health, as households earn more their finances improve and spending is supported across the economy.
- Personal income received by Coloradans grew at a rate of 3.4 percent in 2013 and will grow 5.9 percent in 2014.
- Personal income for the nation grew 2.8 percent in 2013 and will grow 4.5 percent in 2014.
- The lower growth rates in 2013 were due in part to the shifting of certain income into 2012 from federal tax policy changes.

U.S. and Colorado Per-Capita Income



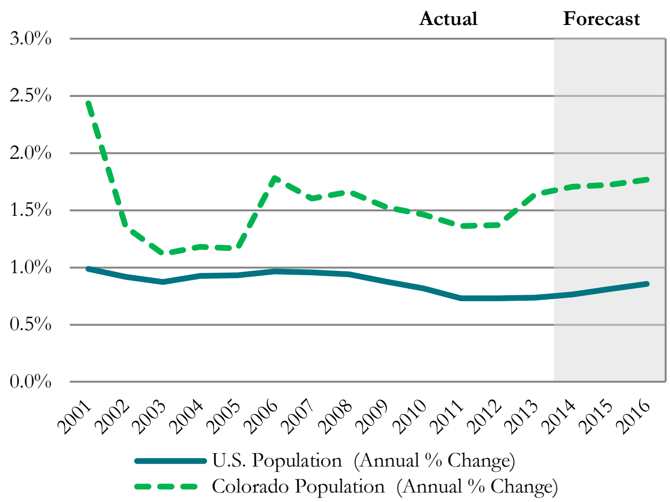
- Per-capita income in Colorado grew to $46,562 in 2013 and will grow 4.1 percent to $48,470 in 2014.
- Nationally, per-capita income increased in 2013 to $44,666 and will grow 3.7 percent in 2014 to $46,320.

U.S. and Colorado Wage and Salary Income



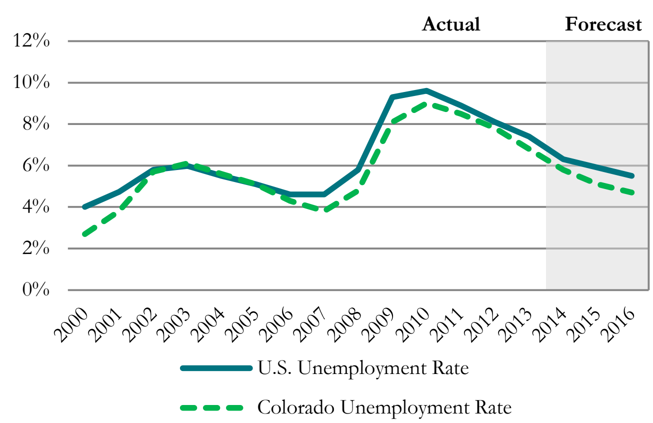
- Total wages and salaries paid to workers grew in Colorado at a rate of 3.9 percent in 2013 and will accelerate to 6.2 percent in 2014.
- Wage and salary income for the nation increased 3.0 percent in 2013 and will grow 5.0 percent in 2014.
- As with personal income, the lower growth rates in 2013 were due in part to the shifting of certain income into 2012 from federal tax policy changes.

U.S. and Colorado Population



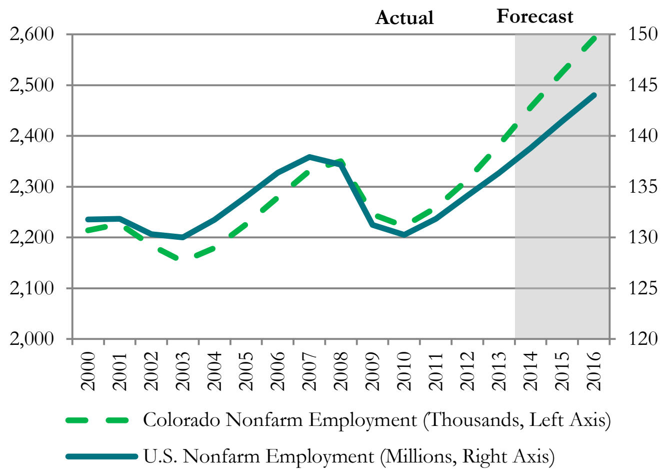
- The state's average population growth rate from 2008 to 2013 was approximately 1.5 percent. Nationally, average population growth was slightly less than one percent.
- Colorado's population is expected to grow 1.7 percent and reach 5.4 million in 2014.
- The nation's population will continue to grow less than one percent throughout the forecast period.

U.S. and Colorado Unemployment



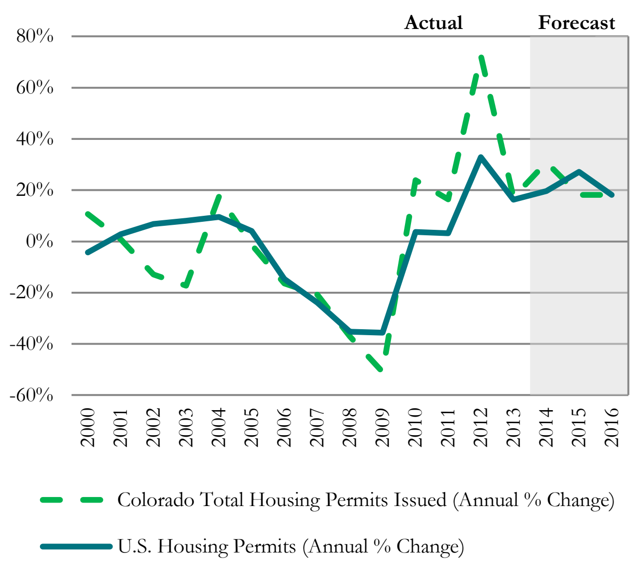
- The unemployment rate continues to fall.
- OSPB forecasts Colorado's unemployment rate at 5.8 percent in 2014 after averaging 6.8 percent in 2013.
- The national unemployment rate in 2014 will average 6.3 percent, after a rate of 7.4 percent in 2013.

U.S. and Colorado Total Nonagricultural Employment



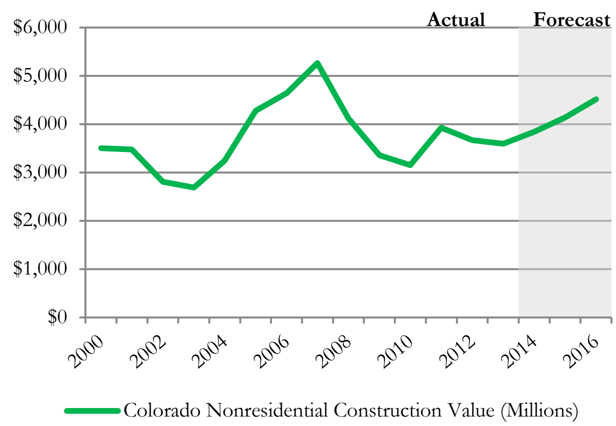
- Colorado gained 69,100 nonfarm jobs, or 3.0 percent in 2013, with broad growth across industries.
- Payroll jobs from Colorado employers will increase 3.1 percent in 2014.
- The nation is seeing signs of pickup in the labor market as over 4 million job openings were recorded for the third consecutive month in April. The number of quits are also increasing, indicating that workers are more optimistic with their job prospects. Nonfarm payroll jobs will increase 1.8 percent in 2014, after growing 1.7 percent in 2013.

U.S. and Colorado Housing Permits Issued



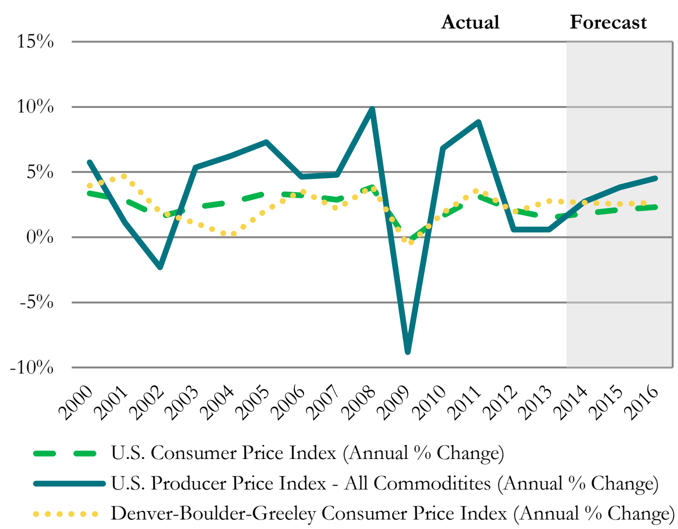
- Home prices in Colorado grew 9.3 percent between the first quarter of 2013 and the same time in 2014, rising to 13.8 percent above their pre-recession peak in 2007.
- National home price growth has decelerated to 6.6 percent year-over-year growth in the first quarter of 2014. Home prices on average nationally remain about 7.9 percent below their 2007 peak.
- Colorado residential construction permits grew 17.2 percent in 2013 and will grow 30.9 percent in 2014.
- Housing permits for the nation increased 16.3 percent in 2013 and will grow 19.6 percent in 2014.

Colorado Nonresidential Construction Permits



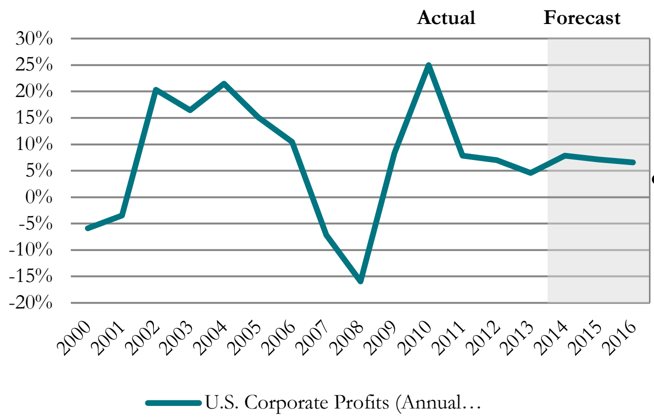
- Growth in nonresidential construction activity remains modest as companies are seeking less office and industrial space, though some stronger regional economies are experiencing higher levels of construction.
- In Colorado, the total value of nonresidential construction projects decreased 2.0 percent in 2013 and will grow 6.7 percent in 2014.

Consumer Price Index and Producer Price Index



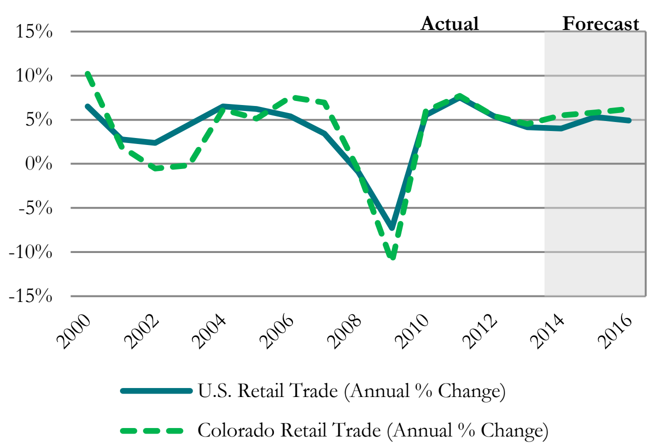
- The Denver-Boulder-Greeley Consumer Price Index increased 2.8 percent in 2013 and will increase 2.6 percent in 2014, driven largely by higher housing costs.
- Nationally, consumer prices increased 1.5 percent in 2013 and will grow 1.8 percent in 2014.
- The more volatile producer prices in the U.S. were flat in 2013 and will increase 2.7 percent in 2014.

U.S. Corporate Profits



- Corporate profits at the national level increased 4.6 percent in 2013 and will grow 7.9 percent in 2014.

Retail Trade



- Retail trade sales in Colorado will grow 5.5 percent in 2014 after increasing 4.5 percent in 2013.
- Nationwide retail trade grew 4.2 percent in 2013 and will grow 4.0 percent in 2014.

General Fund and State Education Fund Revenue Forecast

General Fund Revenue Forecast

Compared with the March 2014 forecast, projections for General Fund revenue for this fiscal year are 1.1 percent higher and 1.3 percent higher for FY 2014-15. This translates to $96.4 million in higher collections this fiscal year, and $127.6 million more for FY 2014-15.

After growing 4.4 percent this fiscal year, General Fund revenue is expected to grow 7.5 percent in FY 2014-15. As was expected in previous OSPB forecasts, the slower growth rate in FY 2013-14 was mostly from a one-time decline in income taxes on investment income due to taxpayers shifting some of their income into FY 2012-13 because of federal tax law changes.

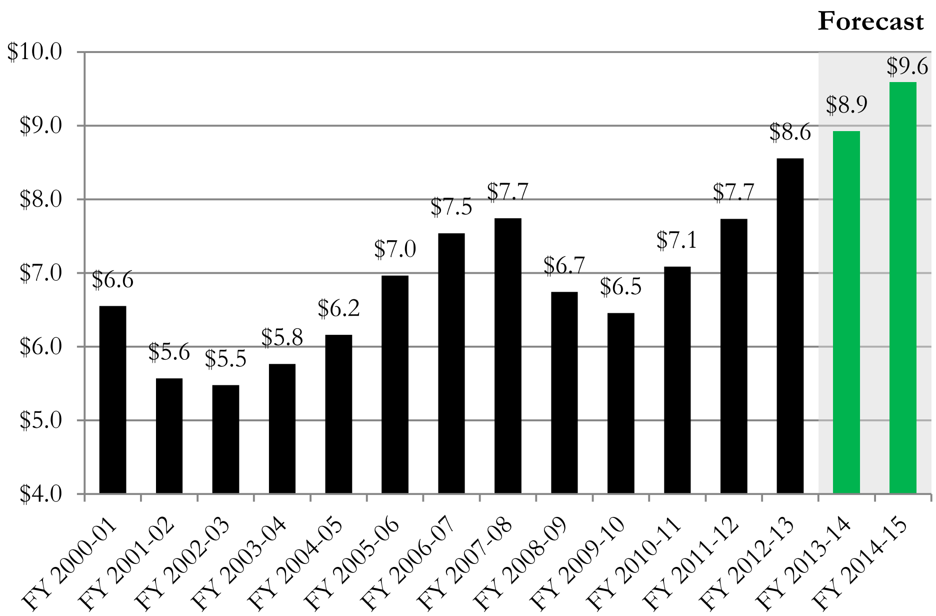
As was expected in previous OSPB forecasts, a slowdown in General Fund revenue growth in FY 2013-14 was mostly from a one-time decline in income taxes on investment income. Due to continued economic growth, General Fund revenue will grow 7.5 percent in FY 2014-15.

A rebound in tax collections from investment income combined with continued economic growth will generate higher General Fund revenue growth in FY 2014-15. Less robust corporate income tax revenue collections, however, will prevent General Fund revenue from reaching the growth rates experienced from FY 2010-11 to FY 2012-13.

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 funds 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. A more detailed forecast of General Fund revenue by source is provided in Table 3 in the Appendix.

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



Source: Office of the State Controller and OSPB

Forecast Discussion of Major General Fund Revenue Sources

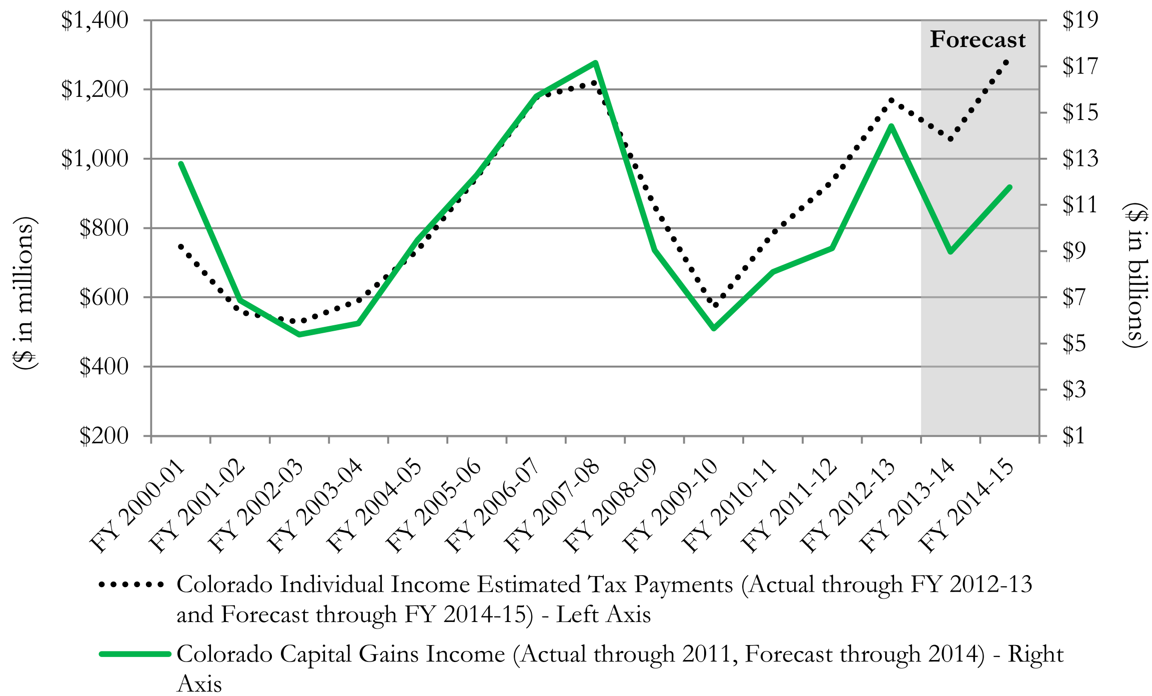
The following discusses the forecasts for the three major General Fund revenue sources that make up 95 percent of the total: individual income taxes, corporate income taxes, and sales and use taxes. General Fund revenue from the remaining group of miscellaneous sources — such as taxes paid by insurers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

Individual income tax – After modest growth of 1.8 percent in FY 2013-14, individual income tax collections will rebound in FY 2014-15, growing 8.6 percent. Income taxes are inherently volatile as economic conditions change and because of fluctuations in investment income from equities and other assets.

As expected in previous forecasts, growth in income tax collections moderated substantially in FY 2013-14. Though final data is not available, tax collections from Coloradans' investment income from capital gains appears to have decreased in tax year 2013, mostly because taxpayers shifted investment gains into 2012 to avoid the higher tax liabilities from federal tax increases that took effect at the beginning of 2013. As a result, income taxes paid through estimated payments and annual tax returns declined 4 percent, or $67.4 million, in FY 2013-14 after surging 30 percent, an increase of $434 million, in FY 2012-13. Continued growth in other categories, such as wages, rental income, and business income, helped offset some of the decline in investment income.

The historical and projected volatility in estimated tax payments and capital gains income to Coloradans are shown in Figure 22 below. Investors with high income levels typically 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 often are also 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 and State Individual Income Estimated Tax Payments, Actual and Forecast, FY 2000-01 to FY 2014-15



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

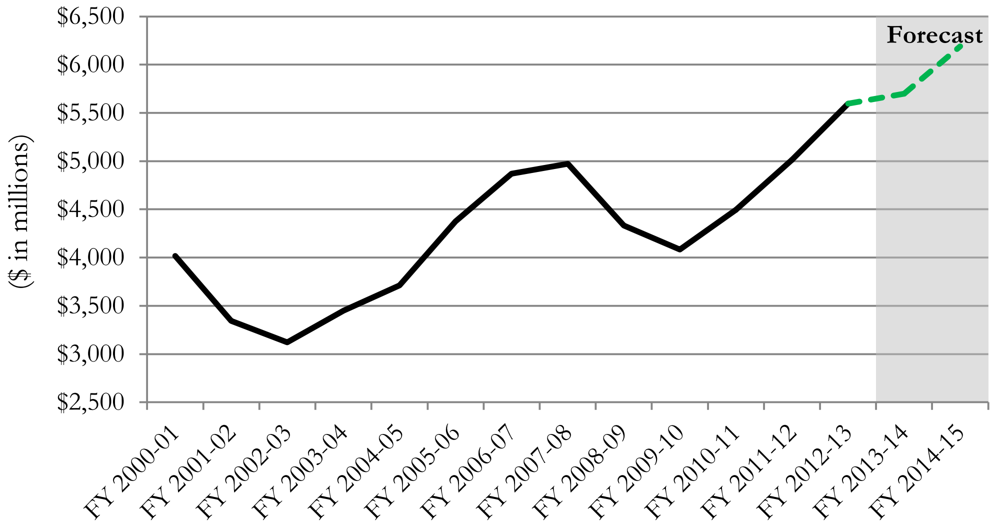
The resumption of growth in investor income, combined with continued economic growth, will cause a larger increase in individual income tax revenue in FY 2014-15. Job growth will continue to post the fastest growth since 2000, helping to generate increases in wage withholding taxes. Tax revenue from withholdings comprises around 80 percent of income tax revenue. Also, Colorado businesses, the majority of which pay their income tax through the individual income tax system, are experiencing income gains.

> The resumption of growth in investor income, combined with continued economic growth, will generate an increase of 8.6 percent in individual income tax revenue in FY 2014-15.

Changes in tax deductions and credits at both the state and federal level[1] are affecting revenue collections over the forecast period. Tax credits for low income housing development, child care, business personal property taxes, historic preservation, alternative-fuel trucks, and brownfield cleanup that were adopted during the 2014 legislative session will reduce revenue by an estimated $16 million in FY 2014-15 and $29.4 million in FY 2015-16. Other changes will increase revenue in the forecast period. The expiration of higher federal tax deductions for business investments, as well as the adoption of limits on federal tax deductions and exemptions for higher income earners that started in 2013, will bolster income tax collections.

[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 impact Colorado income tax collections.

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



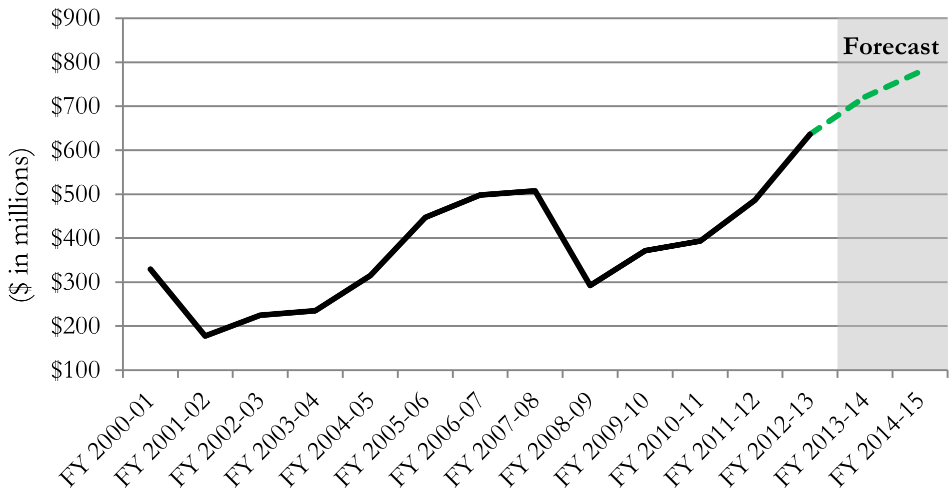
Source: Office of the State Controller and OSPB

Corporate income tax – Corporate tax revenue will grow 7.9 percent in FY 2014-15 after increasing 13.4 percent in FY 2013-14. These growth rates are occurring after substantial increases in the prior two fiscal years.

> Despite moderating in FY 2013-14 and FY 2014-15, corporate income taxes will continue posting growth rates slightly higher than overall General Fund revenue growth during the forecast period.

Business costs, most notably for labor resulting from higher job growth in the state, are expected to rise and reduce profit margins as the economic expansion matures. Also, State tax policies are tempering corporate tax collections over the forecast period. Examples include ending the cap on the amount of net operating losses that corporations can deduct and the tax credit for businesses undertaking job creation projects. Nevertheless, corporate income taxes will continue posting growth slightly higher than overall General Fund revenue. Corporations' sales in the state, a main driver for corporate tax revenue, continue to be fueled by the growing economy.

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 7.3 percent this fiscal year and 5.6 percent in FY 2014-15. Continued economic growth, along with an active housing market, will continue to support consumer and business spending. About 40 percent of State sales tax collections come from purchases by businesses. Continued growth in consumer purchases of durable goods, such as vehicles, furniture, appliances, and building materials, will also contribute to sales tax revenue growth. These items comprise about a quarter of State sales tax collections.

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

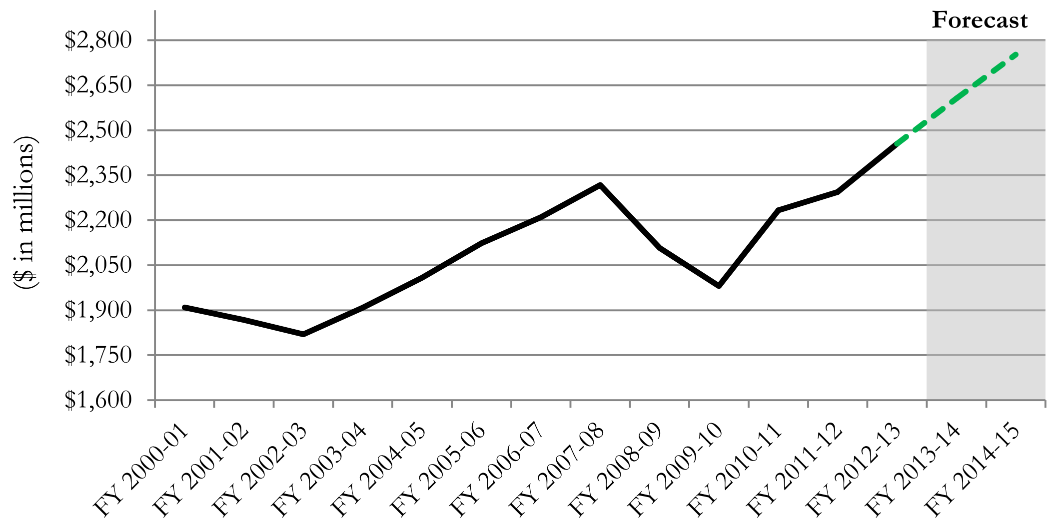
Reinstatement of the vendor discount to its traditional higher level in FY 2014-15 will reduce revenue collections. The vendor discount allows a portion of sales tax revenue to be retained by retailers who collect and remit the tax to the State. This tax policy change, set in 2011 with the adoption of SB 11-223, is estimated to reduce sales tax collections by about $28 million and similar amounts going forward. The vendor discount was eliminated during the recession to increase revenue to the State, and then brought back partially in FY 2011-12.

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.) Revenue from retail marijuana sales will first go to the General Fund ─ and is included under sales tax revenue in Table 3 in the Appendix ─ but then is transferred to the Marijuana Tax Cash Fund to support regulation and enforcement of the retail marijuana industry. Also, a portion is distributed to local governments where retail marijuana sales occur. Projections for this revenue source are highly uncertain and revisions will occur when more information becomes available. At this time, we expect a downward revision from the projections issued in February 2014.

Collections from the use tax, a companion to the sales tax that brings in a much smaller amount of revenue, are expected to increase 8.5 percent in FY 2014-15 after a temporary pause in growth in FY 2013-14.

Continued construction activity, business investment, and the growing oil and gas industry, will generate revenue growth in FY 2014-15. Use tax collections can be volatile and do not always grow commensurately with the economy. Most of the State's use tax revenue comes from Colorado businesses paying the tax on transactions involving out-of-state sellers.

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

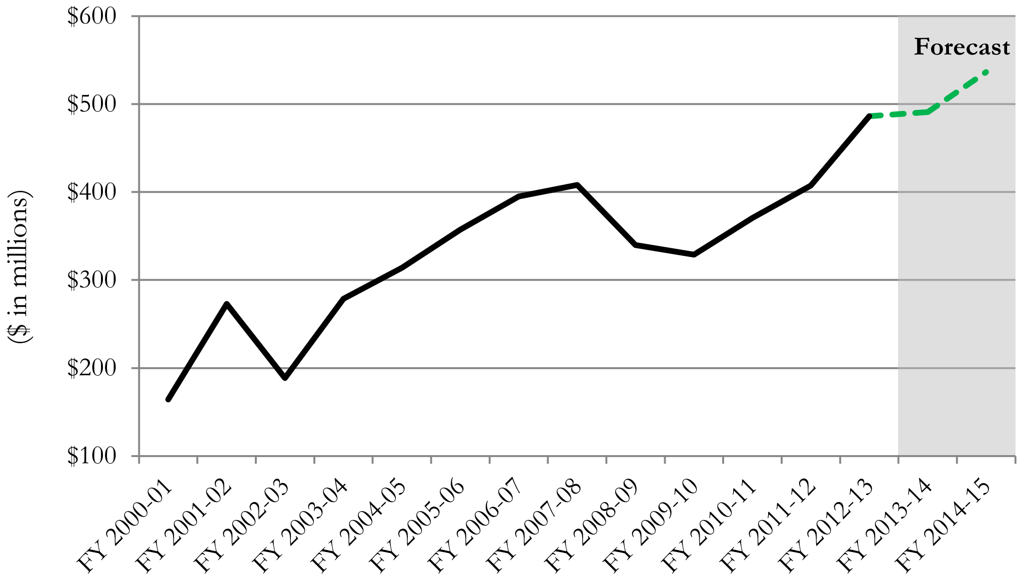
State Education Fund Revenue Forecast

> Tax revenue to the State Education Fund will increase 9.2 percent in FY 2014-15 due to higher taxable income growth.

Tax revenue to the State Education Fund will increase 9.2 percent in FY 2014-15 due to higher taxable income growth following the decline in investor income in tax year 2013, as discussed in the section on individual income tax revenue. This decline contributed to the modest 1.0 percent growth rate in State Education Fund revenue in FY 2013-14.

As discussed on page 46 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. In addition to receiving the percentage of taxable income that is dedicated to the State Education Fund by the state constitution, recent policies have transferred other General Fund money to the State Education Fund, which is shown in detail in Figure 35 on page 46.

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.

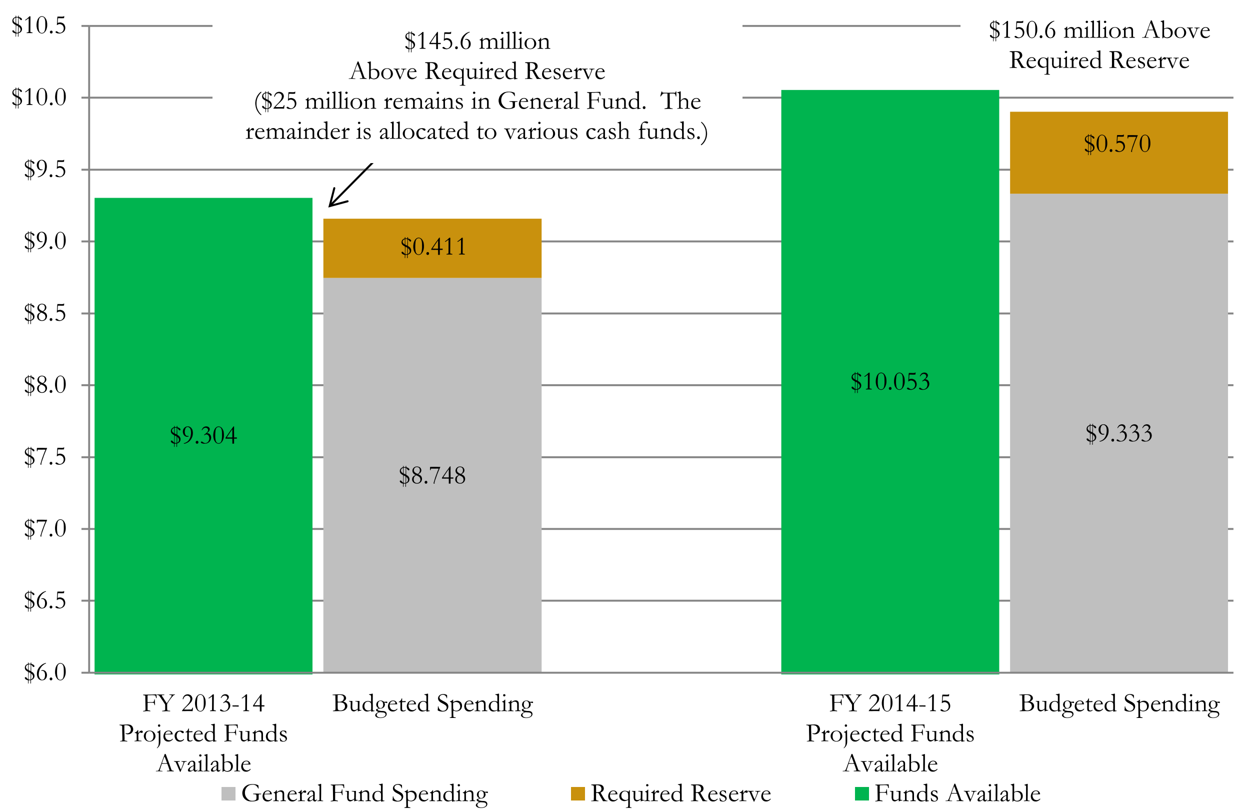
General Fund and State Education Budget

Summary

General Fund – As discussed in the *General Fund Revenue Forecast* section starting on page 31, this forecast projects that General Fund revenue will be $96.4 million higher this fiscal year than forecasted in March and $127.6 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 $145.6 million above its required amount for FY 2013-14. All but $25 million of this money is allocated under current law to various cash funds. The State's General Fund reserve is projected to be $150.6 million above its required amount for FY 2014-15.

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.

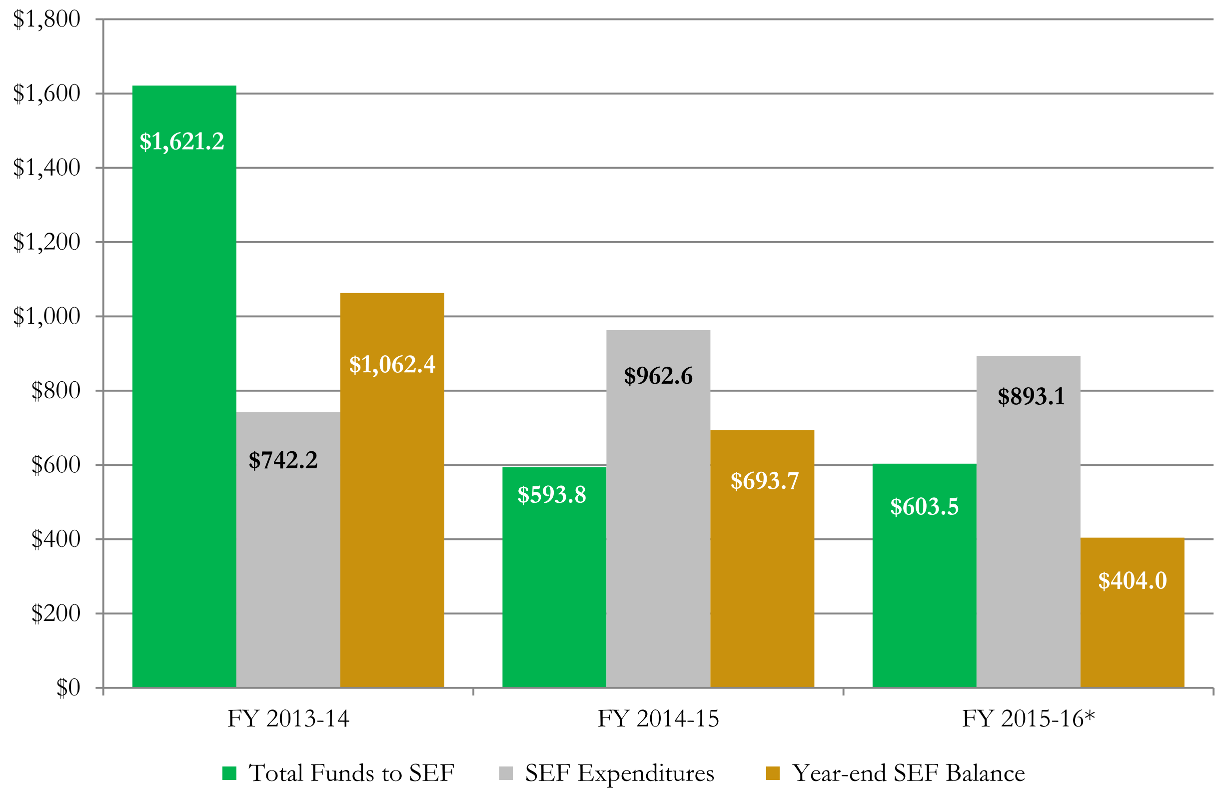
Figure 27. General Fund Money, Spending, and Reserves, FY 2013-14 and FY 2014-15, $ in Billions



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 28 summarizes total

State Education Fund revenue available, total spending, and balance levels from FY 2013-14 through FY 2015-16 based on the forecast. The FY 2015-16 expenditures amount reflects projected spending that could 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 28. State Education Fund Money, Spending, and Reserves FY 2013-14 through FY 2015-16, $ in Millions



*Actual expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections for FY 2015-16 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 46.

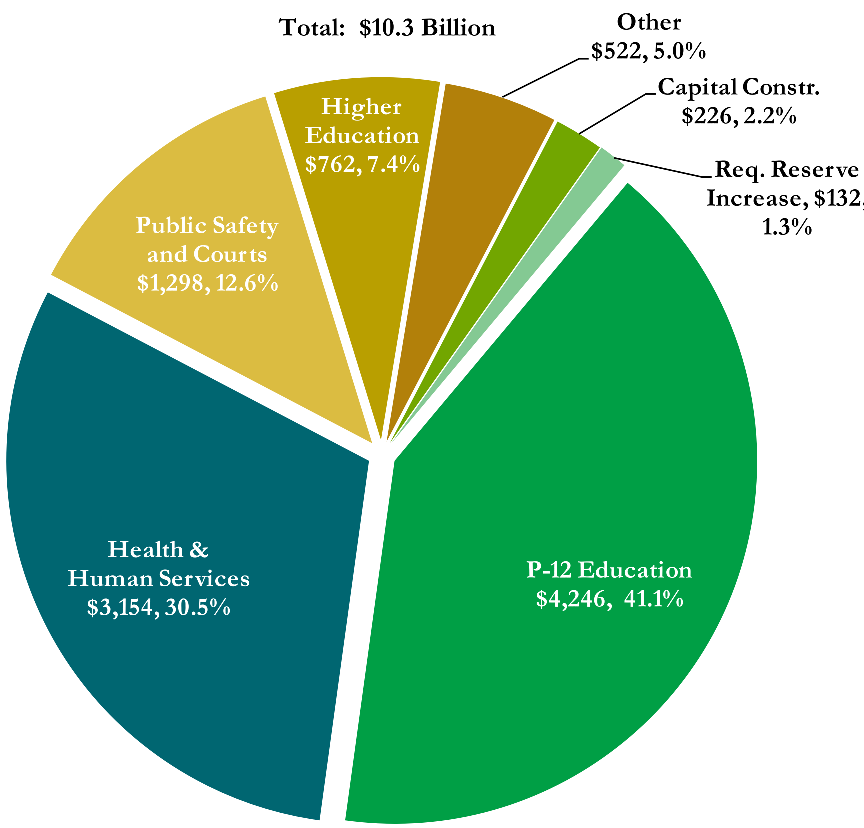
Spending by Major Department or Program Area

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.

Figure 29, shows the allocation of General Fund revenues as enacted into law, incorporating spending on education from the State Education Fund and reserve increases, for FY 2014-15 by major department or program area. As noted above, the current forecast shows $150.6 million above the required General Fund reserve currently unallocated.

Figure 29. 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. Changes in the overall Colorado economy determine revenue to the General Fund and State Education Fund. In addition to revenue, changes in economic conditions impact the budget outlook through 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 economic conditions appear to be more stable than in recent years, downside risks should still be considered. Unexpected events, such as the impact of global conflicts or sudden changes in financial and monetary conditions, could have negative implications for the economy. Such events could spur a pullback in investing, hiring, and spending that would slow the economy.

Colorado's economic growth could also prove to be more robust than expected, generating faster revenue growth. The State is within 1.4 percent of reaching its TABOR revenue cap in FY 2014-15, within the bounds of typical forecast error. It is possible that strong economic growth and other factors could cause future forecasts to show the State exceeding 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.

Unexpected changes in the economy may 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 2014-15 amounts to an $89.2 million change in General Fund revenue collections.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview for the June 2014 OSPB revenue forecast, providing details on the amount of money forecasted to be available in the General Fund, expenditures, and end-of-year-reserves. The following section discusses the information presented in Table 4. 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 31.

The 0.5 percent decline in total General Fund available for FY 2013-14 is attributable to modest revenue growth and a smaller beginning fund balance than the prior year. Higher revenue growth and growth in beginning balances in FY 2014-15 and FY 2015-16 will result in an increase of 8.1 percent and 8.2 percent, respectively, in funds available.

Figure 30. 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	$435.9	$720.5
2	General Fund Revenue	$8,928.9	$9,601.0	$10,158.3
3	Transfers to the General Fund	$2.4	$16.5	$0.4
4	**Total General Funds Available**	**$9,304.2**	**$10,053.5**	**$10,879.2**
	Dollar Change from Prior Year	-$46.8	$749.3	$825.8
	Percent Change from Prior Year	-0.5%	8.1%	8.2%

Expenditures

Spending subject to the appropriations limit – The middle portion of the General Fund overview in Table 4 shows General Fund spending. Most General Fund spending is subject to a limit that cannot exceed five percent of the level of personal income received by Coloradans. The limit is projected to be $11.9 billion in FY 2014-15. Thus, the $8.768 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 31. 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	FY 2014-15
5	**Appropriations**	**$8,218.7**	**$8,767.6**
6	Dollar Change from Prior Year	$759.5	$548.9
7	Percent Change from Prior Year	10.2%	6.7%

The General Fund appropriations amount for FY 2013-14 and FY 2014-15 in Figure 31 reflect current law. The FY 2014-15 amount is subject to change based on future budget decisions. The FY 2015-16 amount in Table 4 in the Appendix reflects the level of spending that can be supported by forecasted revenue while maintaining the required reserve level.

Spending not subject to the appropriations limit – General Fund spending that does not count under the General Fund appropriations limit is summarized in Figure 32. More information about these spending lines is discussed below.

Figure 32. 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*	*$9.3*	*$8.9*
	Marijuana Rebate to Local Governments	*$2.9*	*$9.2*	*$10.4*
	Old-Age Pension Fund/Older Coloradans Fund	*$116.4*	*$107.7*	*$111.4*
	Aged Property Tax & Heating Credit	*$6.9*	*$8.4*	*$8.4*
	Homestead Exemption	*$109.8*	*$115.1*	*$121.5*
	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**	**$251.3**	**$256.2**	**$267.2**
11	Transfers to Capital Construction	$186.7	$225.5	$53.3
12	Transfers to Highway Users Tax Fund	$0.0	$0.0	$203.2
13	Transfers to State Education Fund per SB 13-234	$45.3	$25.3	$25.3
14	Transfers to Other Funds	$39.7	$58.4	$66.9
15	Other	$5.9	$0.0	$0.0
	Total	**$528.9**	**$565.4**	**$615.9**
	Dollar Change from Prior Year	$76.6	$36.4	$50.5
	Percent Change from Prior Year	16.9%	6.9%	8.9%

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 through legislation. The FY 2014-15 budget includes a total transfer of $225.5 million for capital construction projects. The capital construction amount in FY 2015-16 reflects the needed funding level 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 five percent in 2014, which will trigger an expected transfer of $203.2 million for transportation in FY 2015-16. This explains the larger increase in total spending not subject to the limit in Figure 32. The amount needed for capital construction in FY 2015-16 shown in Table 4 for COP payments and priority facility maintenance projects exceeds the amount of the required transfer.

Senate Bill 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. 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 Tax 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 over-expended amounts must receive an appropriation in the subsequent year to authorize the spending. Spending by the Medicaid program, or "Medicaid over-expenditures," is usually the largest amount for this line. The entire FY 2012-13 and FY 2013-14 amounts in Table 4 are Medicaid-related over-expenditures.

Finally, spending not subject to the limit includes any TABOR refunds funded from the General Fund, 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"). Under this forecast, TABOR revenue will be $285.5 million below the cap this fiscal year, $168.4 million below the cap in FY 2014-15, and $156.1 million below the cap in FY 2015-16. Page 53 and Table 7 in the Appendix provide further detail on TABOR revenue.

Reserves

The final section of the overview table 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. The section shows the statutorily-determined reserve requirement and whether the amount of funds is above or below the requirement ("Above (Below) Statutory Reserve"). Figure 33 provides information on the General Fund ending balance.

Figure 33. 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	$556.6	$720.5	$626.4
20	Balance as a % of Appropriations	6.8%	8.2%	6.5%
21	**General Fund Required Reserve**	**$410.9**	**$569.9**	**$626.4**
22	Money Above/Below Req. Reserve	$145.6	$150.6	$0.0
23	Excess Reserve to Other Funds	$120.6	$0.0	$0.0
24	**Balance After Any Funds Above Statutory Reserve are Allocated**	**$25.0**	**$150.6**	**$0.0**

For FY 2013-14, under this forecast and current law, the reserve is projected to be $145.6 million above the required amount. This entire amount, except $25 million that remains in the General Fund, is transferred to various cash funds in a specified order of priority listed in Figure 34 pursuant to HB 14-1339, HB 14-1342, and SB 14-223. The extent of the transfers is contingent upon the amount of excess reserves available at the end of the fiscal year. The $145.6 million in excess reserves projected by this forecast will allow for all of the transfers to occur except for the full $135.3 million transfer to the Capital Construction Fund. The money from these transfers will be available in FY 2014-15.

Figure 34. FY 2013-14 Excess General Fund Reserve Transfers

Total General Fund Excess	**$145.6**
Transfers in order of Priority:	
Colorado Water Conservation Board Construction Fund	$30.0
State Education Fund	$20.0
Remains in General Fund	$25.0
Economic Development Fund	$1.0
Hazardous Substance Site Response Fund	$10.0
Capital Construction Fund (up to $135.3)	$53.5
State Education Fund	$6.1

As shown in Figure 34, under this forecast, $53.5 million of the excess reserves will be transferred to the Capital Construction Fund. Under the provisions of HB 14-1342, if the amount of the capital construction fund transfer is not sufficient to completely fund a prioritized project, then an appropriation is made for the next or following projects on the prioritized list that can be completely funded. Under this forecast, excess reserves will be available for the following projects: Auraria Higher Education Center's Library Renovation, Ft. Lewis College's Bernt Hall Reconstruction, Colorado State University's Chemistry Building Addition, University of Colorado's Ketchum Arts and Sciences Building, Metropolitan State University of Denver's Aviation, Aerospace, and Advanced Manufacturing Building, and Adams State University's East Campus Renovation. Any amount of excess reserves available that are insufficient to cover the capital construction projects or the controlled maintenance projects in the list in HB 14-1342 — $6.1 million under this forecast — are transferred to the State Education Fund.

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. Therefore, 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, 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 5 in the Appendix incorporates all of the same information from the General Fund overview request in Table 4, 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 35 summarizes State Education Fund annual revenue and spending. It includes each year's actual or projected beginning and ending fund balance. State Education Fund expenditures for FY 2014-15 reflect current law and are subject to change based on future budget decisions. The expenditures shown for FY 2015-16 reflect projected spending that could 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 expenditures 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. The fund will receive an additional $26.1 million of FY 2013-14's $145.6 million in excess reserves. Still, a combination of higher spending and lower amounts of projected revenue will draw down the balance.

Figure 35. State Education Fund Revenue, Spending, and Reserves
FY 2013-14 through FY 2015-16 (from Table 4 in Appendix), $ in Millions

	FY 2013-14	FY 2014-15	FY 2015-16
Beginning Balance	*$183.4*	*$1,062.4*	*$693.7*
One-third of 1% of State Taxable Income	*$491.1*	*$536.5*	*$572.2*
Money from Prior Year-end Excess Reserves	*$1,073.5*	*$26.1*	*$0.0*
Transfers under SB 13-234	*$45.3*	*$25.3*	*$25.3*
Other	*$11.3*	*$5.9*	*$6.0*
Total Funds to State Education Fund	**$1,621.2**	**$593.8**	**$603.5**
State Education Fund Expenditures	**$742.2**	**$962.6**	**$893.1**
Year-end Balance	**$1,062.4**	**$693.7**	**$404.0**

Cash Fund Revenue Forecast

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. Cash fund revenue subject to TABOR will grow 4.3 percent to $2.65 billion in FY 2013-14. The increase is mostly attributable to a $115 million increase in severance tax revenue, a $40 million increase in transportation-related cash funds, and a $40 million increase in other miscellaneous cash funds. The large growth in severance tax revenue is a reflection of higher natural gas prices across the United States as well as growing oil production in Colorado. The cash fund revenue forecast also incorporates a decline of $84 million in revenue from the Hospital Provider Fee.

Cash fund revenue subject to TABOR is forecast to remain roughly flat over the remainder of the forecast period, growing less than one-half of one percent in FY 2014-15 and falling slightly in FY 2015-16. For FY 2014-15, additional growth in severance tax revenue and miscellaneous cash funds will be offset by further declines in Hospital Provider Fee revenue and a moderate decrease in transportation-related cash funds.

OSPB's forecast of cash fund revenue subject to TABOR is shown in Table 6 in the Appendix. Table 6 shows only the outlook for revenue that is subject to the TABOR provisions in the Colorado Constitution that place 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 53.

Transportation-related cash funds — Transportation-related cash funds subject to TABOR will grow to $1.14 billion in FY 2013-14, an increase of nearly $40 million, or 3.6 percent, from the prior year. The growth is largely attributable to a combined increase of about 6 percent in gasoline tax and diesel fuel tax revenue over FY 2012-13. This growth in fuel tax collections results from greater quantities of fuel sold in Colorado, an outcome of increased road usage from a growing population and economy that is generating a higher level of recreational travel and road-trips, more people commuting to work, and increased freight shipping via the highway system.

> Fuel tax revenues, which account for a large portion of transportation-related cash funds, will grow about 6 percent in FY 2013-14. This will contribute to overall growth of nearly $40 million in total transportation-related cash funds. Smaller fuel tax growth will be a factor in the slight decline of transportation revenues in FY 2014-15.

Transportation-related cash fund revenue is expected to remain roughly flat over the remainder of the forecast period, falling by one-tenth of one percent in FY 2014-15 and then growing 2.3 percent, to $1.16 billion in FY 2015-16. This is the result of more moderate activity in fuel tax collections and vehicle registration fees, as well as normal variation in revenue related to projects with local government partners.

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, and its funds are 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 decrease $3.7 million, or 3.5 percent, to $103.5 million in FY 2013-14. This forecast reflects an upward revision of $5.5 million, 6.2 percent higher than OSPB's forecast from March, 2014, as a result of recently observed increases in gaming activity. This increased gaming activity will contribute to growth of 2.5 percent, to $106.1 million in gaming-related revenue in FY 2014-15.

During the months of March and April, 2014, Colorado consumers appear to have increased spending on gaming above recent levels. In April, collections of revenue from taxes and fees on gaming were the third highest of all months in the last ten years, and the highest since the Great Recession. The magnitude of the recent growth may suggest that households are regaining willingness to spend on gaming, a major factor in the growth forecast for FY 2014-15.

Despite the recent uptick in gaming activity, limited gaming revenue in FY 2013-14 will be at its lowest amount since the passage of Amendment 50 to the Colorado Constitution, which allowed extended hours and new types of games beginning in FY 2009-10. Since the recession, and through the first part of this fiscal year, households have maintained lower levels of spending on gaming even as other parts of the economy have been expanding. The prolonged reduction in gaming activity is likely related to more careful consumption by households as a result of elevated uncertainty about the future, continued high unemployment, and memories of the impact of the recession. As these factors subside in many parts of Colorado, consumers appear to be regaining their willingness to spend on gaming, a trend which suggests that revenue from taxes and fees on gaming will grow in FY 2014-15.

> Gaming in Colorado has not recovered at the same rate as the broader economy, though recent signs indicate that gaming activity may be strengthening.

Of the total expected limited gaming revenue for FY 2013-14, $94.9 million will be subject to TABOR, as reflected in Table 6, "Cash Fund Revenue Subject to TABOR." Of this amount, $92.1 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 $8.9 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 36 below shows the anticipated distribution of limited gaming revenues in more detail.

Figure 36. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Actual FY 12-13	Forecast FY 13-14	Forecast FY 14-15	Forecast FY 15-16
A. Total Limited Gaming Revenues	**$107.2**	**$103.5**	**$106.1**	**$107.3**
Annual Percent Change	2.3%	-3.5%	2.5%	1.2%
B. Base Limited Gaming Revenues (max 3% growth)	**$95.5**	**$92.1**	**$94.4**	**$95.6**
Annual Percent Change	3.0%	-3.5%	2.5%	1.2%
C. Gaming Revenue Subject to TABOR	**$98.1**	**$94.9**	**$97.2**	**$98.3**
Annual Percent Change	2.6%	-3.3%	2.5%	1.2%
D. Total Amount to Base Revenue Recipients	**$84.4**	**$81.7**	**$84.3**	**$85.4**
Amount to State Historical Society	*$23.6*	*$22.9*	*$23.6*	*$23.9*
Amount to Counties	*$10.1*	*$9.8*	*$10.1*	*$10.3*
Amount to Cities	*$8.4*	*$8.2*	*$8.4*	*$8.5*
Amount to Distribute to Remaining Programs (State Share)	*$42.1*	*$40.8*	*$42.2*	*$42.7*
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*	*$10.8*	*$12.2*	*$12.7*
E. Total Amount to Amendment 50 Revenue Recipients	**$8.3**	**$8.9**	**$8.6**	**$8.8**
Community Colleges, Mesa and Adams State (78%)	*$6.5*	*$7.0*	*$6.7*	*$6.9*
Counties (12%)	*$1.0*	*$1.1*	*$1.0*	*$1.1*
Cities (10%)	*$0.8*	*$0.9*	*$0.9*	*$0.9*

Hospital Provider Fee **—** Revenue from the Hospital Provider Fee (HPF) is expected to fall every year during the forecast period. The largest decline will occur in FY 2013-14, when HPF revenue will fall 12.8 percent to $568.8 million, followed by FY 2014-15 when it will decline 6.4 percent to $532.3 million.

As the federal government increases its funding for certain populations covered by Medicaid as part of the Affordable Care Act, the amount that must be collected from hospitals to support Colorado's Medicaid program is reduced. Additionally, anticipated expenditures for certain populations of Medicaid patients have declined.

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 from severance taxes will grow more than $114 million to $253.3 million in FY 2013-14, an increase of 83 percent from the prior year. The strong growth in severance tax collections, which reflects an upward revision of approximately $25 million from OSPB's March forecast, is a result of increases in the price of natural gas since 2012 and the reduced impact of ad valorem tax credits compared with the prior year. Severance tax revenue is projected to grow an additional 10.8 percent to $280.6 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 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 33 percent from 2012 to 2013, and has grown an additional 33 percent based on the average price in 2014. 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 and FY 2014-15.

> The price of natural gas has risen substantially because of harsh winter weather and other factors impacting the supply of natural gas. The impact of higher natural gas prices is boosting severance tax collections in FY 2013-14 and FY 2014-15.

The sustained growth in natural gas prices has been stronger than expected. It is largely attributable to harsh winter conditions during the first few months of 2014. Supply disruptions, such as an explosion at a natural gas processing plant in Wyoming, have also impacted natural gas prices in the rocky mountain region. Increased demand for natural gas during this past winter resulted in declining inventories of the resource, which have recently started to grow and will continue to recover as producers replenish inventories during the months commonly referred to as "injection season" for natural gas stockpiles. The coming months are expected to bring a slight decline in natural gas prices, helping to moderate the high prices in the first part of the year. Prices are expected to continue to fall which will result in a decline in severance tax collections in FY 2015-16.

Compared with natural gas prices, oil prices 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 oil grew 3.8 percent to almost $94 per barrel in 2013 and OSPB forecasts that it will fall slightly to about $92 per barrel in 2014. Recent events in the Middle East may cause oil prices to rise, which could affect severance collections.

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. With natural gas prices expected to follow a more consistent trend over the forecast period, the impact of ad valorem tax credits is not expected to cause a large change in severance tax revenue in FY 2014-15.

Changes in the production volume of oil and natural gas also impact severance tax revenue, but to a smaller degree than price changes. Natural gas production is growing more slowly than oil production in Colorado, mostly because of relatively low prices for the resource compared with the costs of extracting it. Most new oil production in Colorado is occurring in Weld County, where property taxes are higher than in many other counties with oil and gas production. This means that larger ad valorem tax credits limit the amount of severance tax revenue the State collects from increased oil production in Weld County.

Other mineral resources, including coal, gold, and molybdenum, generate severance tax revenue, though the combined revenue from these sources is much smaller than revenue from oil and natural gas production. Coal production in Colorado has been impacted by wildfires and the closure of some mines due to a decline in the market for coal. The reduced production volume will cause a reduction of approximately 13 percent in severance tax revenue from coal, 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 38.0 percent, to $166.7 million in FY 2013-14, after declining by nearly 27 percent the year before. It will grow an additional 8.2 percent in FY 2014-15, reaching $180.4 million. The growth in FML revenue is impacted by increased prices for mineral resources as well as increased production, which is causing royalties to grow because they are assessed as a percentage of the value of resources produced on leased federal lands. Production includes extraction of natural gas and oil as well as propane, carbon dioxide, coal, and other mineral resources. In addition to price and production growth, federal government policy has affected Colorado's FML revenue over the last several months.

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 are then shared with the state where 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 and the amount withheld during the previous federal fiscal year was refunded in October, 2013. This combined with refunds associated with a reduced royalty rate that was awarded to coal producers in Colorado in FY 2012-13, contributing 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. The same factors discussed in the section on severance tax revenue will also support higher prices for natural gas extracted from federal lands in 2014 and 2015.

Figure 37. Federal Mineral Leasing (FML) Payments

Federal Mineral Lease (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	$2.1	$164.6	$166.7	38.0%
FY 2014-15	$3.6	$176.8	$180.4	8.2%
FY 2015-16	$3.8	$177.4	$181.2	0.4%

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 3.1 percent to $67.0 million in FY 2013-14, reflecting increased demand for services from the regulatory agencies, a result of growing activity in regulated industries. The Department of Regulatory Agencies (DORA) oversees businesses and professionals in certain industries through licensing, rulemaking, enforcement, and approval of rates charged to consumers.

The Department is responsible for oversight of a wide variety of professions, such as social workers, transportation carriers, and water utilities. 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 2.5 percent to $68.7 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. They will fall further by 4.2 percent, to $24.4 million in FY 2014-15 as the full impact of the reduced surcharge is realized. 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 recently lowered the surcharge, having determined that it will sufficiently fund anticipated expenditures from the three related cash funds.

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. Revenue from these cash funds is expected to be $505.1 million in FY 2013-14, an increase of 8.6 percent, or nearly $40 million, from the prior year. Growing economic activity, which generates higher amounts of fees, combined with slightly higher interest rates earned by account balances, account for much of the growth in this category of cash fund revenue. These factors will contribute to further growth of 3.2 percent in these cash funds, to $521.3 million, in FY 2014-15.

Miscellaneous Cash Funds will grow 8.6 percent in FY 2013-14 and an additional 3.2 percent in FY 2014-15, reflecting the continued recovery of Colorado's economy as well as higher interest rates and the impact of taxes and fees on marijuana.

The Miscellaneous Cash Funds category will also 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 will be transferred to the Marijuana Tax 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 6 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 miscellaneous cash funds. Revenue from these sources is not exempt from TABOR, however, and it is included in the Miscellaneous Cash Funds line in Table 6.

The Taxpayer's Bill of Rights: Revenue Limit

Provisions in the Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limit the growth in a large portion of State revenue to the sum of inflation plus population growth in the previous calendar year. 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 7 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 7) for each subsequent year.

TABOR revenue will be $285.5 million below the cap this fiscal year, $168.4 million under the cap in FY 2014-15, and $156.1 million below the cap in FY 2015-16. If revenue grows faster than forecast and exceeds the cap, a refund to taxpayers will occur, unless voters allow the State to retain the revenue. Several factors could lead to this event, including a slower-than-expected rate of inflation and population growth, or if the economy grows more quickly than forecast. The cap is also within the bounds of typical forecast error and future forecasts may show revenue exceeding the cap if they include upward revisions.

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 7 found in the Appendix summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

TABOR also has provisions regarding estimates of revenue from new taxes approved by voters. In November of 2013, voters approved excise and special sales taxes on retail marijuana in Proposition AA on the election ballot. Revenue generated from these taxes was estimated at $67 million in the "Blue Book" voting guide that was distributed to voters prior to the election, as specified by the Colorado Constitution. A forecast for retail marijuana tax collections provided in January of 2014 estimated that retail marijuana tax revenue would exceed this amount, though projections are highly uncertain and are subject to substantial revisions. Based on a legal analysis of the Office of Legislative Legal Services, if the excise and special sales tax revenue exceed $67 million, as estimated in the Blue Book, the excess would have to be refunded to voters – unless voters decide that the State can retain the revenue – and the tax rate reduced.

A legal analysis of the Office of Legislative Legal Services also concludes that the provisions of TABOR indicate a refund must occur if revenue subject to TABOR that is collected by the State in FY 2014-15 exceeds the estimate of $12.08 billion that was shown in the Blue Book analysis of Proposition AA. This forecast indicates that revenue will exceed that estimate by $111.0 million, meaning that a refund to taxpayers should occur unless voters decide that the State can retain the revenue. The legal analysis, however, specifies that any refund associated with the estimates for Proposition AA should not exceed the actual amount of new marijuana tax revenue collected, which will likely be below this amount. State law does not currently stipulate how any refund for this money to taxpayers must occur.

Governor's Revenue Estimating Advisory Committee

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Appendix – Reference Tables

Table 1. History And Forecast For Key Colorado Economic Variables
Calendar Year 2007-2016

Line No.		Actual							June 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	$245.6	$260.0	$274.9	$291.8
2	Change	5.7%	4.7%	-2.7%	2.0%	7.3%	5.1%	3.4%	5.9%	5.7%	6.1%
3	Wage and Salary Income (Billions) /A	$112.5	$116.7	$112.3	$113.8	$118.7	$125.1	$130.0	$138.1	$146.4	$154.9
4	Change	6.5%	3.7%	-3.8%	1.3%	4.4%	5.3%	3.9%	6.2%	6.0%	5.8%
5	Per-Capita Income ($/person) /A	$42,199	$43,406	$41,515	$41,717	$44,179	$45,775	$46,562	$48,470	$50,386	$52,552
6	Change	3.9%	2.9%	-4.4%	0.5%	5.9%	3.6%	1.7%	4.1%	4.0%	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%	5.1%	4.7%
11	Total Nonagricultural Employment (Thousands) /B	2,331.3	2,350.3	2,245.6	2,222.3	2,258.6	2,313.0	2,382.1	2,456.6	2,526.0	2,592.3
12	Change	2.3%	0.8%	-4.5%	-1.0%	1.6%	2.4%	3.0%	3.1%	2.8%	2.6%
	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) /C	5,259.5	4,114.0	3,354.5	$3,146.7	$3,923.1	$3,669.7	$3,595.1	$3,837.0	$4,138.6	$4,516.6
16	Change	13.3%	-21.8%	-18.5%	-6.2%	24.7%	-6.5%	-2.0%	6.7%	7.9%	9.1%
	Prices & Sales Variables										
17	Retail Trade (Billions) /D	$75.3	$74.8	$66.5	$70.5	$75.9	$80.0	$83.6	$88.2	$93.3	$99.1
18	Change	6.9%	-0.7%	-11.1%	6.0%	7.7%	5.4%	4.5%	5.5%	5.8%	6.2%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	220.3	224.6	230.8	236.9	242.9	249.3
20	Change	2.2%	3.9%	-0.6%	1.9%	3.7%	1.9%	2.8%	2.6%	2.5%	2.6%

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

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

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

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

Table 2. History And Forecast For Key National Economic Variables
Calendar Year 2007 – 2016

Line No.		Actual							June 2014 Forecast		
		2007	2008	2009	2010	2011	2012	2013	2014	2015	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	$15,761.3	$16,123.8	$16,591.4	$17,056.0
2	Change	1.8%	-0.3%	-2.8%	2.5%	1.8%	2.8%	1.9%	2.3%	2.9%	2.8%
3	Personal Income (Billions) /B	$11,995.7	$12,430.6	$12,082.1	$12,435.2	$13,191.3	$13,743.8	$14,134.7	$14,770.8	$15,568.4	$16,393.5
4	Change	5.3%	3.6%	-2.8%	2.9%	6.1%	4.2%	2.8%	4.5%	5.4%	5.3%
5	Per-Capita Income ($/person)	$39,761	$40,817	$39,325	$40,143	$42,275	$43,736	$44,666	$46,320	$48,429	$50,562
6	Change	4.3%	2.7%	-3.7%	2.1%	5.3%	3.5%	2.1%	3.7%	4.6%	4.4%
7	Wage and Salary Income (Billions) /B	$6,396	$6,533	$6,252	$6,377	$6,639	$6,927	$7,137.5	$7,494.4	$7,891.6	$8,294.0
8	Change	5.6%	2.1%	-4.3%	2.0%	4.1%	4.3%	3.0%	5.0%	5.3%	5.1%
	Population & Employment										
9	Population (Millions)	301.6	304.4	307.1	309.6	311.9	314.2	316.5	318.9	321.5	324.2
10	Change	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.9%
11	Unemployment Rate	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.3%	5.9%	5.5%
12	Total Nonagricultural Employment (Millions)	137.9	137.2	131.2	130.3	131.8	134.1	136.4	138.83	141.5	144.0
13	Change	1.3%	-0.6%	-4.3%	-0.7%	1.2%	1.7%	1.7%	1.8%	1.9%	1.8%
	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	242.2	247.8
15	Change	2.9%	3.8%	-0.4%	1.6%	3.1%	2.1%	1.5%	1.8%	2.1%	2.3%
16	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.7	201.0	202.2	203.4	208.9	216.9	226.7
17	Change	4.8%	9.8%	-8.8%	6.8%	8.8%	0.6%	0.6%	2.7%	3.8%	4.5%
	Other Key Indicators										
18	Corporate Profits (Billions)	1,529.0	1,285.1	1,392.6	1,740.6	$1,877.7	$2,009.5	$2,102.1	$2,267.9	$2,430.2	$2,589.5
19	Change	-7.1%	-16.0%	8.4%	25.0%	7.9%	7.0%	4.6%	7.9%	7.2%	6.6%
20	Housing Permits (Millions)	1.398	0.905	0.583	0.605	0.624	0.829	0.964	1.153	1.466	1.731
21	Change	-24.0%	-35.3%	-35.6%	3.7%	3.1%	32.9%	16.3%	19.6%	27.1%	18.1%
22	Retail Trade (Billions)	$4,443.8	$4,402.5	$4,082.1	$4,307.9	$4,631.1	$4,881.4	$5,084.3	$5,288.1	$5,568.8	$5,842.2
23	Change	3.4%	-0.9%	-7.3%	5.5%	7.5%	5.4%	4.2%	4.0%	5.3%	4.9%

/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	June 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%	$2,373.2	7.3%	$2,507.1	5.6%	$2,610.6	4.1%
2	Use	$242.7	21.0%	$241.4	-0.6%	$261.9	8.5%	$276.5	5.5%
3	Cigarette	$38.3	-3.1%	$37.0	-3.2%	$36.6	-1.2%	$35.2	-3.7%
4	Tobacco Products	$15.6	-2.9%	$16.9	8.2%	$17.1	1.7%	$17.6	2.5%
5	Liquor	$39.2	2.2%	$40.1	2.3%	$40.4	0.6%	$41.2	2.2%
6	**Total Excise**	**$2,547.5**	**6.7%**	**$2,708.5**	**6.3%**	**$2,863.2**	**5.7%**	**$2,981.1**	**4.1%**
	Income Taxes:								
7	Net Individual Income	$5,596.3	11.7%	$5,698.7	1.8%	$6,189.3	8.6%	$6,577.2	6.3%
8	Net Corporate Income	$636.3	30.8%	$721.4	13.4%	$778.7	7.9%	$853.5	9.6%
9	**Total Income**	**$6,232.6**	13.4%	**$6,420.1**	3.0%	**$6,968.0**	8.5%	**$7,430.7**	**6.6%**
10	*Less: State Education Fund Diversion*	*$486.3*	*19.3%*	*$491.1*	*1.0%*	*$536.5*	*9.2%*	*$572.2*	*6.6%*
11	**Total Income to General Fund**	**$5,746.2**	**12.9%**	**$5,929.0**	**3.2%**	**$6,431.5**	**8.5%**	**$6,858.5**	**6.6%**
	Other Revenue:								
12	Insurance	$210.4	6.7%	$235.3	11.8%	$241.2	2.5%	$247.7	2.7%
13	Interest Income	$17.4	28.6%	$22.1	26.5%	$25.6	16.3%	$29.1	13.7%
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%	$10.8	-10.8%	$12.2	13.0%	$12.7	4.1%
17	Other Income	$18.1	-21.6%	$20.3	11.9%	$24.6	21.5%	$26.5	7.7%
18	**Total Other**	**$261.1**	**1.3%**	**$291.4**	**11.6%**	**$306.4**	**5.1%**	**$318.7**	**4.0%**
19	**GROSS GENERAL FUND**	**$8,554.8**	**10.6%**	**$8,928.9**	**4.4%**	**$9,601.0**	**7.5%**	**$10,158.3**	**5.8%**

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

Line No.		Actual FY 2012-13	June 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserve**	**$795.8**	**$373.0**	**$435.9**	**$720.5**
2	**Gross General Fund Revenue**	**$8,554.8**	**$8,928.9**	**$9,601.0**	**$10,158.3**
3	*Transfers to the General Fund*	*$0.3*	*$2.4*	*$16.5*	$0.4
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,351.0**	**$9,304.2**	**$10,053.5**	**$10,879.2**
Expenditures					
5	**Appropriation Subject to Limit */A***	**$7,459.2**	**$8,218.7**	**$8,767.6**	**$9,637.0**
6	*Dollar Change (from prior year)*	*$431.5*	*$759.5*	*$548.9*	$869.4
7	*Percent Change (from prior year)*	6.1%	10.2%	6.7%	9.9%
8	**Spending Outside Limit**	**$452.3**	**$528.9**	**$565.4**	**$615.9**
9	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
10	*Rebates and Expenditures /B*	*$380.9*	*$251.3*	*$256.2*	$267.2
11	*Transfers to Capital Construction /C*	*$61.4*	*$186.7*	*$225.5*	$53.3
12	*Transfers to Highway Users Tax Fund /C*	*N/A*	$0.0	$0.0	$203.2
13	*Transfers to State Education Fund under SB 13-234*	*N/A*	$45.3	$25.3	$25.3
14	*Transfers to Other Funds /D*	*$4.6*	$39.7	$58.4	$66.9
15	*Other Expenditures Exempt from General Fund Appropriations Limit /E*	$5.4	$5.9	$0.0	$0.0
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,911.6**	**$8,747.6**	**$9,333.0**	**$10,252.8**
17	*Percent Change (from prior year)*	9.6%	10.6%	6.7%	9.9%
18	Reversions and Accounting Adjustments	*$7.1*	*$0.0*	*$0.0*	$0.0
Reserves					
19	**Year-End General Fund Balance**	**$1,446.5**	**$556.6**	**$720.5**	**$626.4**
20	*Year-End General Fund as a % of Appropriations*	*19.4%*	*6.8%*	*8.2%*	6.5%
21	*General Fund Statutory Reserve /F*	$373.0	$410.9	$569.9	$626.4
22	*Above (Below) Statutory Reserve*	$1,073.5	$145.6	$150.6	$0.0
23	*Transfer of Excess Reserve to Other Funds /G*	-$1,073.5	-$120.6	$0.0	$0.0
24	*Balance After Any Funds Above Statutory Reserve are Allocated*	$0.0	$25.0	$150.6	$0.0

/A This limit equals 5.0% of Colorado personal income. The appropriations amounts for FY 2013-14 and FY 2014-15 reflect current law. The FY 2015-16 amount represents the level of spending that can be supported by projected revenue while maintaining the required reserve amount; these amounts will change based on future budgeting decisions and updates to the revenue forecast.

/B Includes the Cigarette and Marijuana Rebates to Local Governments, 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 43.

/C Current law requires transfers to capital construction and the Highway Users Tax Fund when personal income increases by more than 5.0 percent. This is projected to occur in 2014, which will trigger the transfers in FY 2015-16. Expected and budgeted transfers to capital construction are occurring each fiscal year regardless of the requirement. The capital construction amounts for FY 2013-14 and FY 2014-15 reflect current law, while 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.

/D Under current law, General Fund money is transferred to various State cash funds. 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 Tax Cash Fund.

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

/F HB 14-1337 requires the reserve to increase from 5.0 of appropriations subject to the limit to 6.5 percent starting in FY 2014-15.

/G Per HB 12-1338, all of the FY 2012-13 excess was transferred to the State Education Fund. All of the FY 2013-14 excess reserves, except $25 million that remains in the General Fund, are transferred to various funds in a specified order of priority pursuant to HB 14-1339, HB 14-1342, and SB 14-223. See page 45 for further information.

Table 5. General Fund and State Education Fund Overview
(Dollar Amounts in Millions)

Line No.		Actual FY 2012-13	June 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
Revenue					
1	**Beginning Reserves**	**$929.6**	**$556.3**	**$1,498.3**	**$1,414.1**
2	*State Education Fund*	$133.8	$183.4	$1,062.4	$693.7
3	*General Fund*	$795.8	$373.0	$435.9	$720.5
4	**Gross State Education Fund Revenue**	**$548.5**	**$1,621.2**	**$593.8**	**$603.5**
5	**Gross General Fund Revenue /A**	**$8,554.8**	**$8,931.2**	**$9,617.5**	**$10,158.7**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$10,033.2**	**$11,108.7**	**$11,709.7**	**$12,176.3**
Expenditures					
7	General Fund Expenditures /B	$7,911.6	$8,747.6	$9,333.0	$10,252.8
8	State Education Fund Expenditures /C	*$510.9*	*$742.2*	*$962.6*	*$893.1*
9	**TOTAL OBLIGATIONS**	**$8,422.5**	**$9,489.8**	**$10,295.5**	**$11,145.9**
10	*Percent Change (from prior year)*	7.0%	12.7%	8.5%	8.3%
11	*Reversions and Accounting Adjustments*	*$19.0*	*$0.0*	*$0.0*	*$0.0*
Reserves					
12	**Year-End Balance**	**$1,629.8**	**$1,618.9**	**$1,414.1**	**$1,030.4**
13	State Education Fund /C	$183.4	$1,062.4	$693.7	$404.0
14	General Fund /D	$1,446.4	$556.6	$720.5	$626.4
15	*Transfer of Excess General Fund Reserve to Other Funds /E*	-$1,073.5	-$120.6	$0.0	$0.0
16	*General Fund Excess After Any Funds Above Statutory Reserve are Allocated*	$0.0	$25.0	$150.6	$0.0

/A This amount includes tranfers to the General Fund shown in Table 4.

/B General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 5 in Table 4 as well as all spending outside the limit shown in line 8 in Table 4.

/C State Education Fund expenditures, and consequently, fund balance information, through FY 2014-15 reflect current law. The expenditures for 2015-16 reflect 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 expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections are illustrative only.

/D HB 14-1337 requires the General Fund reserve to increase from 5.0 of appropriations subject to the limit to 6.5 percent starting in FY 2014-15.

/E Per HB 12-1338, all of the FY 2012-13 excess was transferred to the State Education Fund. All of the FY 2013-14 excess reserves, except $25 million that remains in the General Fund, are transferred to various funds in a specified order of priority pursuant to HB 14-1339, HB 14-1342, and SB 14-223. See page 45 for further information.

Table 6. Cash Fund Revenue Subject to TABOR Forecast by Major Category
(Dollar amounts in Millions)

Category	Actual FY 2012-13	June 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**	**$1,138.2**	**$1,136.7**	**$1,163.2**	
Change	-1.2%	3.6%	-0.1%	2.3%	1.9%
Limited Gaming Fund /B	**$98.1**	**$94.9**	**$97.2**	**$98.3**	
Change	2.6%	-3.3%	2.5%	1.2%	0.1%
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**	**$67.0**	**$68.7**	**$70.4**	
Change	0.1%	3.1%	2.5%	2.5%	2.7%
Insurance-Related	**$26.4**	**$25.5**	**$24.4**	**$25.7**	
Change	16.6%	-3.5%	-4.2%	5.3%	-0.9%
Severance Tax	**$138.6**	**$253.3**	**$280.6**	**$234.4**	
Change	-33.3%	82.8%	10.8%	-16.5%	19.1%
Hospital Provider Fees /C	**$652.6**	**$568.8**	**$532.3**	**$526.8**	
Change	11.3%	-12.8%	-6.4%	-1.0%	-6.9%
Other Miscellaneous Cash Funds	**$465.2**	**$505.1**	**$521.3**	**$537.2**	
Change	-1.6%	8.6%	3.2%	3.1%	4.9%
TOTAL CASH FUND REVENUE	***$2,545.6***	***$2,654.2***	***$2,663.4***	***$2,658.1***	
Change	-0.7%	4.3%	0.3%	-0.2%	1.5%

* 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 Affordable Care Act.

Table 7. Tabor Revenue & Referendum C Revenue Limit
(Dollar Amounts in Millions)

Line No.		Actual FY 2012-13	June 2014 Estimate by Fiscal Year FY 2013-14	FY 2014-15	FY 2015-16
	TABOR Revenues:				
1	General Fund /A	$8,537.9	$8,898.7	$9,527.5	$10,076.5
	Percent Change from Prior Year	10.6%	4.2%	7.1%	5.8%
2	Cash Funds /A	$2,569.4	$2,654.2	$2,663.4	$2,658.1
	Percent Change from Prior Year	0.5%	3.3%	0.3%	-0.2%
3	**Total TABOR Revenues**	**$11,107.3**	**$11,552.9**	**$12,191.0**	**$12,734.7**
	Percent Change from Prior Year	8.1%	4.0%	5.5%	4.5%
	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%	2.6%
6	**Allowable TABOR Growth Rate**	5.4%	3.3%	4.4%	4.3%
7	TABOR Limit	$9,247.5	$9,552.6	$9,972.9	$10,401.8
8	General Fund Exempt Revenue Under Ref. C /B	$1,859.9	$2,000.3	$2,218.0	$2,332.9
9	**Revenue Cap Under Ref. C /C**	**$11,460.2**	**$11,838.4**	**$12,359.3**	**$12,890.8**
10	***Amount Above/(Below) Cap***	**-$352.9**	**-$285.5**	**-$168.4**	**-$156.1**
11	TABOR Reserve Requirement	$333.2	$346.6	$365.7	$382.0

/A Amounts differ from the General Fund and Cash Fund revenues reported in Table 3 and 6 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.