COLORADO
Office of State Planning & Budgeting

December | 2014

The Colorado Economic Outlook

Economic and Fiscal Review

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Summary

- Projections for General Fund revenue for FY 2014-15 are 1.3 percent, or $127.0 million, higher compared with the September 2014 forecast. Projections for FY 2015-16 are 0.5 percent, or $53.6 million, higher compared with September. Strong growth in income taxes from wage withholdings and sales tax collections this fiscal year reflect solid broad-based economic growth. General Fund revenue is expected to grow 8.8 percent in FY 2014-15. Growth rates will moderate during the remainder of the forecast period.

- Cash fund revenue subject to TABOR in FY 2014-15 will grow 4.2 percent due to sustained solid growth in transportation-related revenue as well as $71.5 million in higher severance tax revenue than previously expected. In FY 2015-16, cash fund revenue subject to TABOR is forecast to increase only slightly as a 29.3 percent increase in Hospital Provider Fee revenue will offset a 47.0 percent decline in severance tax revenue.

- The State's General Fund reserve ended FY 2013-14 with $240.0 million above its required amount. All but $25 million of this money, which remains in the General Fund, is allocated to various cash funds, including $135.3 million to the Capital Construction Fund. Under the Governor's November 3, 2014 budget request, the State's General Fund reserve is projected to be $28.3 million above its required amount for FY 2014-15 and $72.7 million below the required amount for FY 2015-16.

- Though the General Fund revenue forecast is higher, the budget request is short because of increased cash fund revenue that increases the TABOR rebate liability in the General Fund. OSPB will submit balancing measures by January 2, 2014.

- TABOR revenue is projected to exceed the cap by $196.8 million in FY 2014-15, $186.5 million in FY 2015-16, and $269.2 million in FY 2016-17, meaning that a refund to taxpayers will occur for each of those years under this forecast, unless voters allow the State to retain the revenue. Under current law, as a result of the TABOR refunds in FY 2015-16 and FY 2016-17, SB 09-228 transfers will be reduced by half.

- Under this forecast and current law, in FY 2014-15, revenue above the Referendum C cap will be refunded through the State Earned Income Tax Credit to qualified taxpayers and the sales tax refund to all taxpayers. In FY 2015-16, revenue above the Referendum C cap will be refunded through the sales tax refund. In FY 2016-17, the refund will occur through a temporary income tax rate reduction and the sales tax refund.

- Colorado's economy overall continues to show momentum and OSPB expects growth to continue at its recent pace. Unemployment dropped markedly in 2014. In many areas of the state, particularly along the northern Front Range, unemployment rates have fallen to close to their lowest levels during the last expansion. Still, unemployment remains elevated in other areas where job growth is slower. The national economy's expansion continues to show more momentum and on a more widespread basis. Improvements in the labor market are particularly noteworthy. Many parts of the global economy continue to struggle, however.

- A wider and more abrupt pull back in activities associated with oil production than currently expected could weaken the state's economy. It is also important to note that even relatively small changes in the projected growth rate of revenue can materially impact the budget outlook.

THE ECONOMY: ISSUES, TRENDS, AND FORECAST

Economic conditions determine the amount of opportunities for employment and business expansion. They also drive State tax collections, influence the use of certain State services, and thus underpin the State's budget condition. The following section discusses overall economic conditions in Colorado, nationally, and around the world. Our assessment of economic conditions and forecast for future activity has not changed materially from the September Colorado Economic Outlook. This Outlook provides an update on economic conditions. The following section includes:

- An overview of economic conditions in Colorado (page 4)
- Impacts of lower oil prices on Colorado's economy (page 7)
- An overview of economic conditions for the nation overall (page 9)

Trends and forecasts for key economic indicators — At the end of this section on page 14 is a summary of key economic indicators with their recent trends and statistics, as well as forecasts. This summary is intended to provide a snapshot of the performance of the broad economy and OSPB's economic projections, which are informed by the following analysis of the economy.

Summary — Colorado's economy overall continues to show momentum and OSPB expects growth to continue at its recent pace. Labor market conditions continue to improve. Unemployment dropped markedly in 2014. In many areas of the state, particularly in the higher-populated areas of the northern Front Range, unemployment rates have fallen to close to their lowest levels during the last expansion. Still, unemployment remains elevated in Pueblo, Grand Junction, and Colorado Springs, and job growth in and around these regions is slower.

The national economy's expansion continues to show more momentum and on a more widespread basis. Improvements in the labor market are particularly noteworthy, though unemployment is still elevated. Many parts of the global economy continue to struggle. Exports for both the state and the nation have slowed as a result.

The recent decline in oil prices will slow the income and employment growth that has occurred from the boom in energy production. Some businesses and financial instruments associated with oil and gas production will experience losses. While lower prices for crude oil will have negative impacts on the oil production industry and associated activities, other parts of the economy will benefit from lower gas prices and other results of oil price declines. Consumer spending will receive a boost, and business in many industries outside of the oil and gas sector will have more resources for investment.

Economic risks — A broad slowdown in spending, investment, and hiring could occur if a combination of unexpected adverse events and unfavorable forces come together. Economic conditions for many of the world's largest economies continue to be sluggish. Geopolitical tensions, partly arising from slower economic growth in some countries, pose a risk. There is the potential for these conditions to result in disruptions in financial markets, weakened confidence and expectations for future growth, and reduced investment. This would slow growth nationally and in Colorado. Additionally, a wider and more abrupt pull back in activities associated with oil production than currently expected would weaken economies that have close ties with oil production activity, including the northern Front Range of Colorado. Much depends on where oil prices settle over the coming year.

Colorado's Economy

Colorado's economy overall is showing continued momentum through the end of 2014. Unemployment dropped markedly over the past year in many areas of the state. The expansion is providing increased opportunities for work for more Coloradans. Both job growth and consumer spending continues at a solid pace.

Colorado's northern Front Range, which has the state's largest concentration of economic activity, is experiencing higher levels of growth. This region's information and technology-related industries are important drivers of economic growth in today's economy. Further, businesses across many other industries are successfully adopting the use of technological goods and services into their business practices which is helping the overall economy grow by boosting productivity and increasing income and earnings.

> Colorado's economy continues to have momentum, as evidenced by a substantial drop in the statewide unemployment rate in 2014.

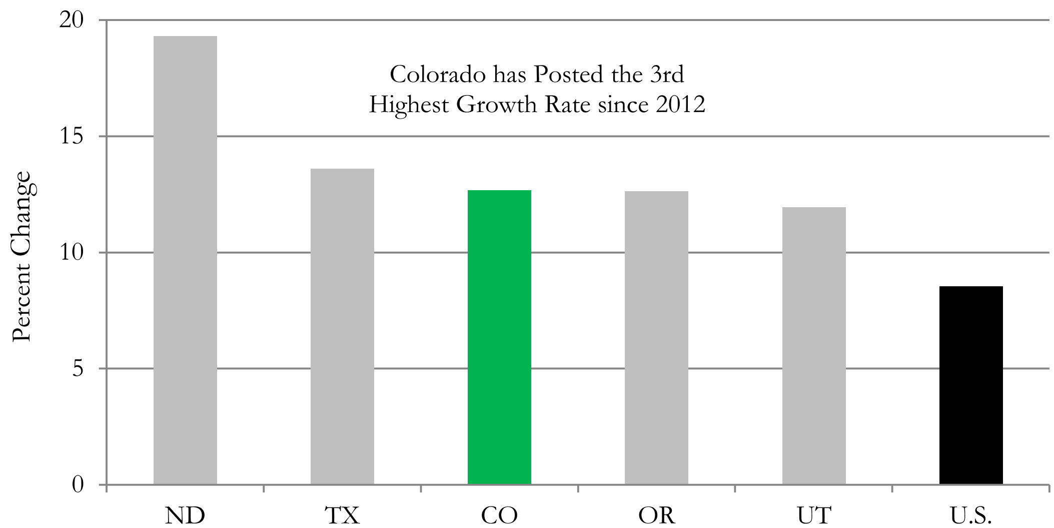
Energy production has also driven income and employment growth along the northern Front Range. The recent decline in oil prices due to the growth in supply from U.S. oil production, coupled with weaker global demand and a stronger dollar, should slow this growth, but it is unlikely to reverse it. Nonetheless, more time is needed to gain a better understanding of the impacts. Much depends on what level oil prices settle over the coming year. However, lower fuel costs for consumers and businesses will boost spending, which will offset slower oil-production-related activities. A further discussion on the potential impact of falling oil prices on the economy starts on page 7.

Construction and real estate activity is expanding, especially in the areas of the state with more growth along the northern Front Range. However, housing costs — both home values and rental rates — in these areas have become a challenge as their economies and populations grow. Higher housing costs are lowering demand among some homebuyers. Increased home construction costs for builders in the face of this lower demand may temper housing market growth going forward, particularly in the areas that have experienced strong price appreciation.

> Economic strength is contributing to rising home prices and rental rates, which support growing construction activity but create challenges for some by making housing less affordable.

Measures of broad statewide economic activity continue to show momentum — Since 2012, Colorado's economy has had the third best growth 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. Figure 1 shows the top five best performing state economies since 2012 as measured by the State Coincident Economic Activity Index compared to the U.S. overall.

Figure 1. State Coincident Economic Activity Index Percent Change January 2012 to October 2014



Source: Philadelphia Federal Reserve Bank

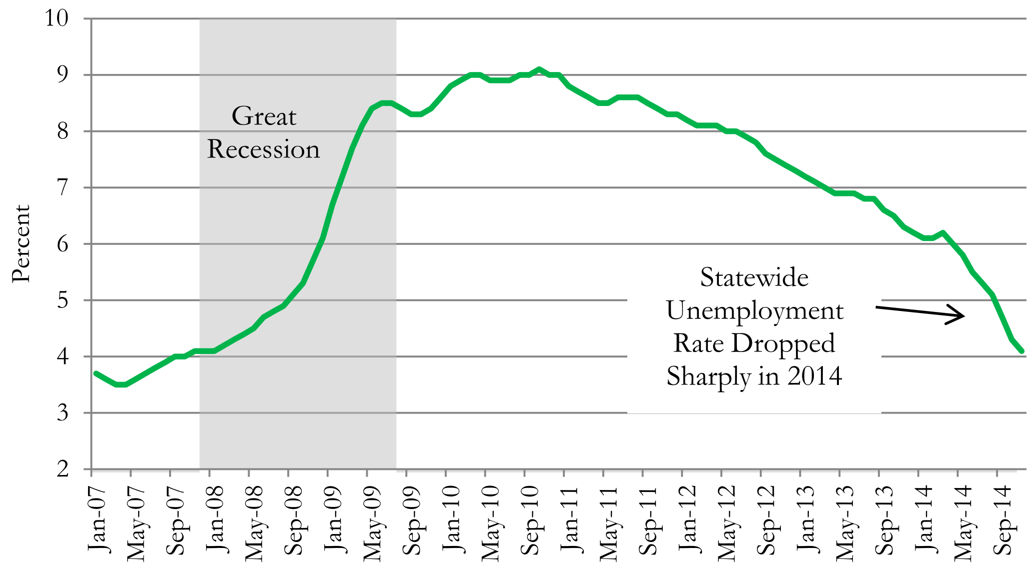
Another index for Colorado's economy created by the Philadelphia Federal Reserve Branch – the leading index for Colorado – shows that the economic expansion in Colorado is also likely to continue, at least into the first half of 2015. This index contains a group of economic indicators that have been found to exhibit certain patterns before the economy slows or expands. Among the activities used to form the state leading indices are housing permits, initial unemployment insurance claims, delivery times from vendors to producers, and the state's coincident index. The leading index for each state predicts the six-month growth rate of the state's coincident index discussed in the last paragraph.

Labor market conditions continue to improve – As shown in Figure 2, the statewide unemployment rate fell sharply in 2014, declining 33 percent through November. In November, the rate stood at 4.1 percent after starting the year in January at 6.1 percent. Further, the rate fell throughout the year while labor force participation stayed steady; thus, the rate did not decline because fewer people were seeking work and were not counted in the unemployment statistics.

> The U-6 unemployment rate, which represents a broad measure of unemployment and marginally attached workers is falling more quickly, though it remains elevated.

It is also noteworthy that a broader measure of labor-market conditions called "U-6" has recently fallen in Colorado at a faster rate. Colorado's most recent U-6 measure – the average during the 4th quarter of 2013 through the 3rd quarter of 2014 – shows a still elevated 10.1 percent, but it declined from 12.5 percent in 2013 and from 15.4 percent in 2010. U-6 is published by the U.S. Bureau of Labor Statistics and covers the traditional unemployment rate, as well as individuals who want to be employed but have not recently looked for work (called "marginally attached workers") and individuals who want to work full time but only are employed part time for economic reasons.

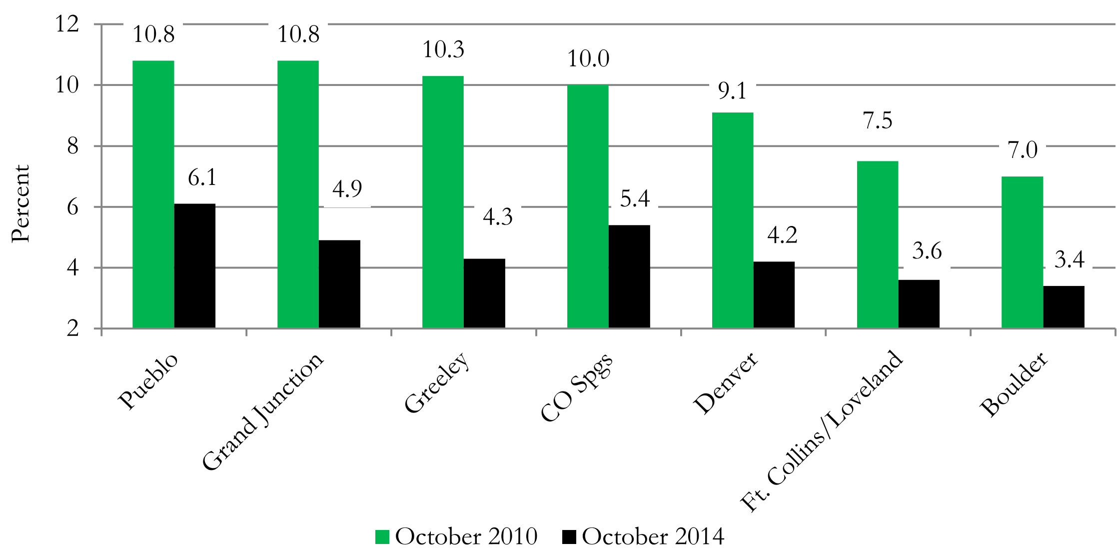
Figure 2. Unemployment Rate, Statewide Average, January 2007 and November 2014



Source: U.S. Bureau of Labor Statistics

The state's unemployment rate of 4.1 percent in November represents the statewide average. Regional economies across the state have rates higher and lower than this level. Generally, the northern Front Range, including Greeley, has lower unemployment than other areas. Unemployment rates in these areas have fallen to close to their lowest levels during the last expansion before the recession. However, unemployment in Pueblo, Grand Junction, and Colorado Springs is still elevated. The unemployment rate by region is shown in Figure 3. The figure also shows how the unemployment rate changed in each region since its peak level in the fall of 2010 after the Great Recession.

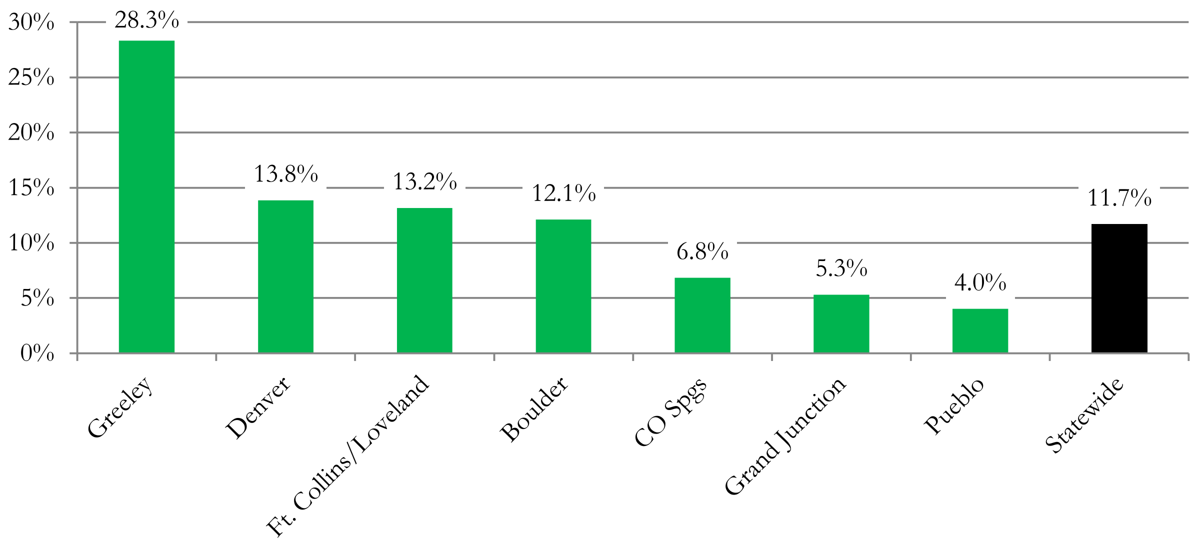
Figure 3. Unemployment Rate by Colorado Region, October 2010 and October 2014



Source: U.S. Bureau of Labor Statistics

In addition to unemployment, the change in the number of jobs is a telling indicator of labor market conditions in a regional economy. For example, unemployment may be falling without much job growth as a result of weak population and labor force growth. Job growth across the state is uneven, with markedly faster growth along the northern Front Range compared with other areas. This region is providing more opportunities due to its mix of industries that are producing more of what is in demand in today's economy. Figure 4 shows job growth by region in Colorado since the beginning of 2010 when broader job growth resumed after the Great Recession. During this time, job growth statewide was 11.7 percent, with Greeley experiencing the most growth among the state metropolitan statistical areas, and Pueblo having the least.

Figure 4. Growth in Jobs by Colorado Region, Beginning of 2010 through October 2014, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; includes the Colorado Department of Labor and Employment's estimates of forthcoming revisions to jobs data. The estimates are based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in than has been estimated based on a survey of employers.

The Impact of Lower Oil Prices on Colorado's Economy

The oil and natural gas extraction industry is an important part of Colorado's economy. The state's deposits of oil and natural gas have attracted production companies to invest in workers, equipment, and land in Colorado as well as establish corporate offices and headquarters in the Denver metro area. The Business Research Division of the University of Colorado Leeds School of Business estimates that the oil and gas industry in Colorado employed nearly 34,000 workers in 2013, paying them wages of about $3.5 billion. Earnings from the oil and gas industry represented 3.8 percent of total earnings in Colorado in 2013, according to the economic research firm RegionTrack. This was the 8th highest among states, but the oil and gas industry's share of total earnings in the state was much lower than Oklahoma's (12.7 percent), Texas's (8.9 percent), Wyoming's (8.5 percent), and North Dakota's (6.8 percent).

Some of the state's recent overall growth in employment and economic activity has been driven by growing oil production in the northeast portion of the state, especially in Weld County. Until recently, oil prices have remained relatively high at the same time that technological advances have provided access to more oil and lowered the cost of extracting it, factors that encouraged strong production growth in the Denver-Julesburg Basin within the Niobrara oil formation. This growth has attracted large amounts of investment by oil producers in equipment, infrastructure, and new wells in northeast Colorado, and has driven recent job growth and economic development in nearby areas. Furthermore, the Denver metropolitan area has also benefited from growing oil production activity because many firms in the industry maintain Denver offices that house management, planning, accounting, and other staff that support field operations both inside and outside of Colorado.

The impact of lower prices on Colorado's oil and gas industry remains unclear, though some businesses will face challenges — Prices for crude oil have fallen substantially in recent weeks, sparking questions about the possibility of a substantial pullback in oil production in Colorado. The current price of West Texas Intermediate (WTI) crude oil, which is commonly used as the benchmark price for oil produced in the United States, is below $60 per barrel, down from around $100 per barrel just a few months ago.

Information provided by experts familiar with Colorado's oil and gas industry indicates that producers can achieve worthwhile rates of return on the investment in new wells in many parts of the Denver-Julesburg basin with prices near the current level. While it is quite possible that oil prices might fall below current levels for a period of time, it appears that prices would have to remain at this lower level for several months before major oil producers would be forced to re-allocate large amounts of investments outside of the region. As such, the overall amount of oil production in Colorado is expected to remain relatively stable unless prices drop further and remain lower for several months.

Still, the rate of production growth will slow in response to lower oil prices, and many industry participants will be negatively impacted. Small and medium-sized firms in particular may have a difficult time operating profitably in a lower price environment and some may contract or close as a result. Reduced prices make it less attractive for producers to pursue wells that may be more expensive to drill or have a lower likelihood of successful production. As a result, producers will limit the extent to which they drill exploratory or higher-cost wells. This will thus reduce orders to companies and professionals that provide services such as transportation, supplies, equipment, and skilled labor. Additionally, lower oil prices will reduce the rate of return on investments that have already been made in exploration and production efforts, possibly causing financial losses among investors and firms that have allocated financial capital to the industry.

> Lower oil prices will impact the oil production industry in Colorado, especially smaller companies and those who supply goods and services to well pads.

Investment in new oil production at the national level will likely slow — In addition to impacts on Colorado's economy, reductions in investment levels by major oil producers at the national level are expected to come as a result of lower oil prices. Production costs in many regions of the United States are higher than the costs faced by producers in the Niobrara formation, making them more susceptible to changes in exploration and production as oil prices fall. The relatively high oil prices experienced in recent history have driven investment in mining shafts, exploration, and wells to its highest share of total investment in nonresidential structures in several decades. Lower oil prices make investments in new oil production less attractive and could drive large changes in the allocation of resources to the national oil and gas industry.

History shows that lower oil prices and resulting lower gasoline prices are very likely to have positive impacts to consumer spending and transportation costs — While lower prices for crude oil may have negative impacts on the oil production industry, other parts of Colorado's economy will benefit from lower gas prices, cheaper diesel fuel, and other results of oil price declines. Over time, changes in the price of gasoline have been associated with increased household spending on goods and services, indicating that many consumers choose to spend savings from lower gas prices in retail stores and restaurants. This will boost demand for products and services and help to sustain the economic expansion.

> Falling oil prices will reduce the cost of gasoline, a factor that will boost consumer spending and make it cheaper for companies to produce and ship goods.

Additionally, lower diesel fuel prices make it cheaper for businesses to transport their goods and tend to encourage greater levels of business activity. Furthermore, lower oil prices will reduce the costs faced by manufacturers that use petroleum products as inputs which will make them more profitable and possibly encourage increased hiring and investment by those types of firms.

National Economy Overview

The national economy is continuing to show signs of increasing strength, although the pace of growth has not yet reached a level that is widely considered to be a strong economic expansion. There is variance in economic performance among regions, although a wide variety of economic indicators show that the United States economy is beginning to establish a more stable foundation that is more widespread. However, the drop in oil prices, especially if sustained, will slow some of the areas with stronger economic activity resulting from the oil production boom. A further discussion on the impact of oil prices on the economy is on page 7.

During the second half of 2014, consumer spending continued to grow as the labor market improved and fuel prices fell. The continued drop in gasoline prices will fuel stronger consumer spending in the coming months. In fact, the University of Michigan's preliminary consumer confidence reading for December shows that consumer confidence is at its highest level since January 2007. While unemployment remains elevated, the national economy has experienced relatively steady job growth, contributing to declines in the unemployment rate. Initial claims for unemployment insurance continue to be at low levels.

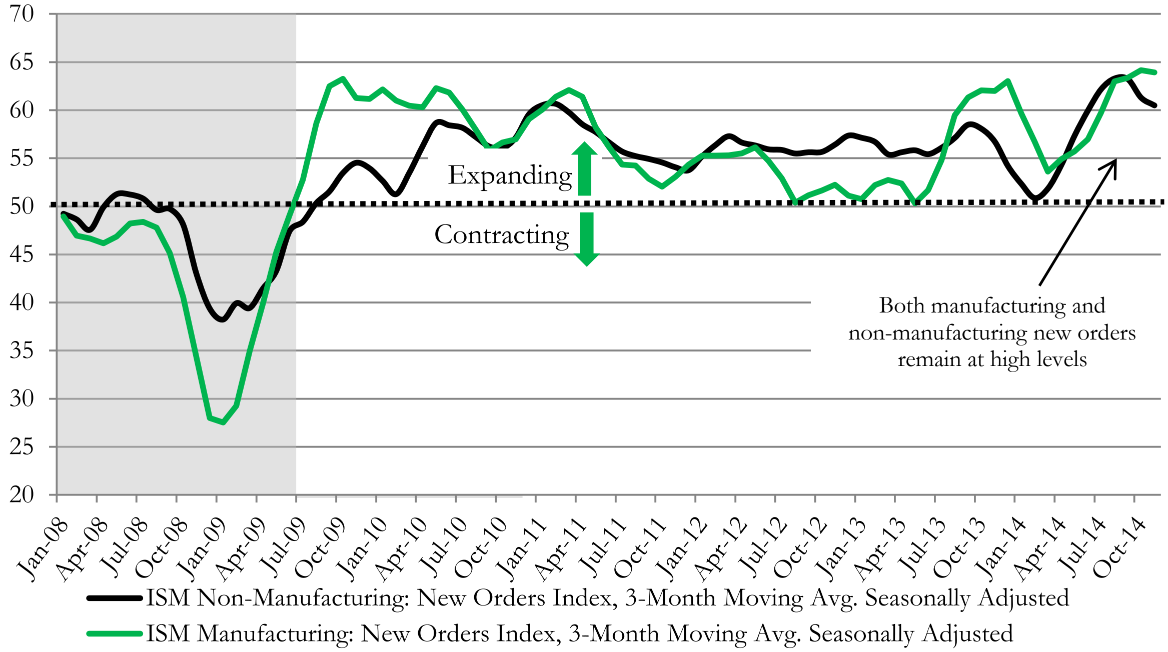
These trends also have supported the national housing market, which continues to grow, albeit at a slower rate. Though price growth has moderated overall, average home prices are now growing in all 50 states. While housing markets in the western United States are generally showing strong growth, home prices in many states in the central and southern parts of the country are growing more slowly. In the most recent data, year-over-year price growth ranged from 1.1 percent in Vermont to 15.0 percent in Nevada.

Positive signals like higher consumer spending have improved business confidence, as evidenced by moderate gains in capital investments, commercial and industrial construction, and hiring over the last several months. Growth in industrial production, which is the output for all facilities located in the United States' manufacturing, mining, and electric, and gas utilities sectors as measured by the Federal Reserve, has gained momentum. It is up close to seven percent since August 2013, a faster rate than at any time during the previous expansion. Generally, it appears that the economy is developing the types of positive feedback mechanisms that are necessary to drive sustained higher rates of growth going forward.

Broad measures of economic activity show sustained momentum **—** Previous issues of this forecast have often included information about two surveys conducted by the Institute for Supply Management (ISM) because they provide information about the outlook across the broader economy. The ISM New Orders Index for Manufacturing, along with its counterpart index for non-manufacturing, shows the level of activity among producers that supply materials and other goods to businesses. This information provides a leading indicator of future activity because it shows the degree to which businesses are making purchases and orders of materials to fulfill customer needs in the near future.

As shown in Figure 5, both the manufacturing and non-manufacturing indices continue to maintain high readings as of November. The non-manufacturing index did fall to 61.4 in November from its recent peak of 64.9 in July, but remains at its highest level since the end of 2012. The manufacturing index reading of 66.0 was just below its August level of 66.7, which was the highest reading since 2004. The continued strength in these two indices provides evidence that businesses are preparing for increased production and sales as demand for their products grows.

Figure 5. ISM Manufacturing and Non-Manufacturing New Orders Indices,* January 2008 to November 2014



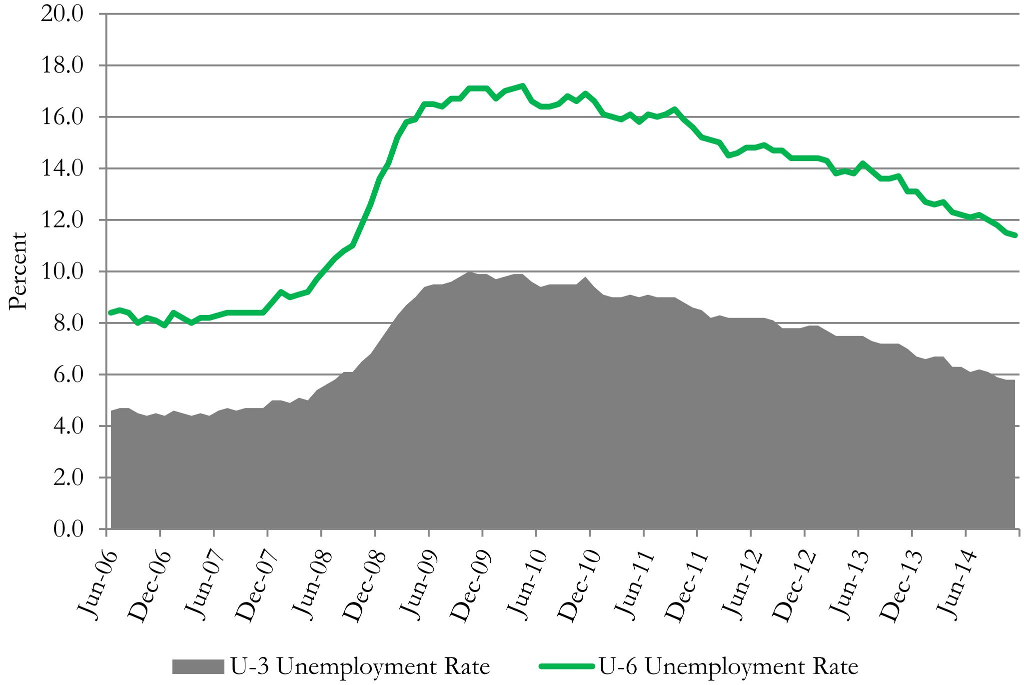
Source: Institute for Supply Management
* Readings above 50 indicate activity is generally expanding; below 50 indicate that it is generally declining. The distance from 50 is indicative of the strength of the expansion or decline.

The labor market continues to improve, as evidenced by falling unemployment and increased numbers of workers quitting their jobs **–** The United States has added jobs steadily throughout 2014, driving the commonly-watched unemployment rate – the "U-3" rate published by the U.S. Bureau of Labor Statistics – down to 5.8 percent in November, the lowest level since July 2008. While there remain many unemployed workers throughout various parts of the economy, the steady pace of job growth offers encouraging news for the economy as a larger number of people are able to spend more money on goods and services.

> The nationwide unemployment rate reached 5.8 percent in November, the lowest it has been since before the Great Recession.

In addition to unemployed workers, there are a larger number of discouraged and underemployed workers compared with previous expansions. Discouraged workers are those who would like to work but have left the labor force due to difficulties finding a job. Underemployed workers are those who would like to work full-time but are only working part time. These types of workers are counted in a broader unemployment rate, called the U-6 rate, which includes data on them in addition to the workers counted in the traditional U-3 rate. Figure 6 shows both the U-3 and U-6 rates for the United States since January 2006

Figure 6. Unemployment Rates for the United States, January 2006 to November 2014



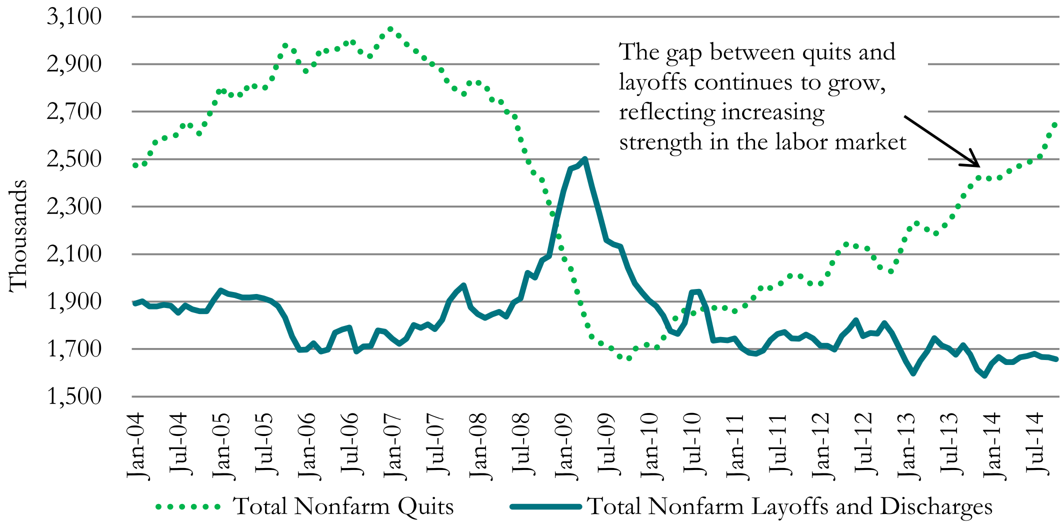
Source: US Bureau of Labor Statistics

Improving labor conditions are also reflected in the growing number of workers quitting their jobs — Many economists, including the Federal Reserve Board of Directors, monitor data that shows how many workers are leaving their jobs voluntarily (quitting) relative to the number of workers that are being terminated or laid-off involuntarily. This data provides information about the amount of opportunities that workers face in the economy. Employees who quit their jobs voluntarily tend to do so in pursuit of more preferred job opportunities, such as jobs that pay more or are a better match with their skills and preferences.

> As more workers quit their jobs to pursue other opportunities, wage competition among employers may start to improve worker pay.

The difference between the number of quits and layoffs has been widening since the second half of 2010 and accelerated over the second half of 2014. Increased rates of employees leaving their jobs, referred to as "labor market churn," indicate that workers and businesses are matching up in more favorable ways, a trend that offers a positive indication for future economic growth as businesses are finding more workers to meet their needs and workers are able to pursue jobs that rely on their skills. Combined with a declining unemployment rate, the growing gap between quits and layoffs should lead to upward pressure on wages as the labor market tightens more. Figure 7 shows the number of voluntary and involuntary separations of employees since January 2004 as recorded by the Bureau of Labor Statistics Job Opening and Labor Turnover Survey (JOLTS).

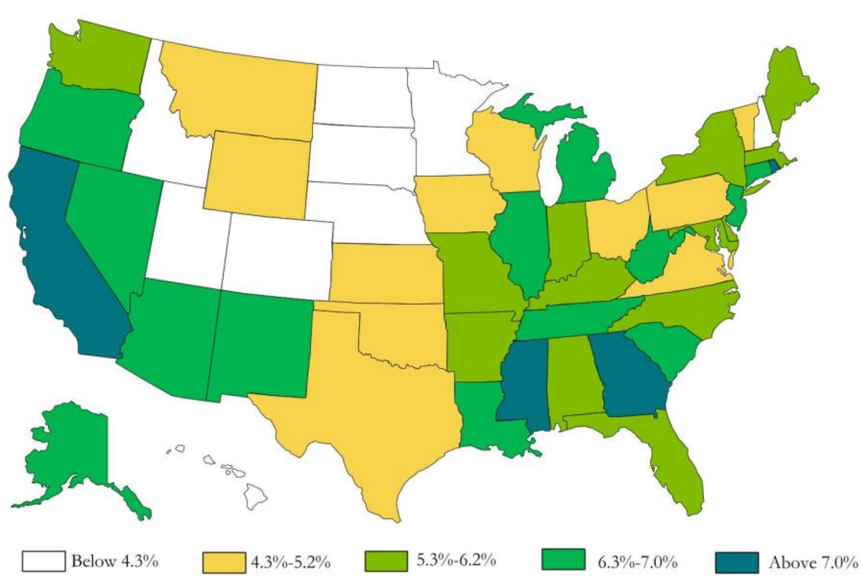
Figure 7. Quits and Layoffs, 3-Month Moving Average, January 2004 through October 2014



Source: US Bureau of Labor Statistics

Some areas and industries have high employment growth while others continue to struggle with elevated unemployment rates **—** The labor market recovery continues to be uneven among different regions and industries. Figure 8 shows the most recent unemployment rate estimates from the Bureau of Labor Statistics for each state. The map illustrates that unemployment rates are lowest throughout the western plains and mountain regions, especially in states that have been experiencing a boom in oil production activity since 2009. Unemployment rates remain generally elevated in the south and along the west coast.

Figure 8. U-3 Unemployment Rate by State, November 2014



Source: U.S. Bureau of Labor Statistics

In addition to differences among regions, workers in various industries are facing differences in the strength of the labor market. Employment growth has been particularly strong in industries that produce the types of goods and services that are the most in-demand in today's economy. Such industries include technology, healthcare, bioscience, and energy. Additionally, unemployment rates are very low for specific professions that require very specialized training, such as skilled craftsmen that serve the construction industry where shortages of certain types of workers are being reported.

Parts of the United States that have higher concentrations of businesses serving in-demand industries have the fastest declining unemployment rates.

Other industries continue to experience slower job growth because they rely on growth in the broader economy to increase demand and hiring. These industries include tourism, food and hospitality services, and certain types of manufacturing. These industries tend to grow as a result of overall economic growth because improving employment and income to workers in other industries spurs higher amounts of travel, visits to restaurants, and demand for basic goods and raw materials.

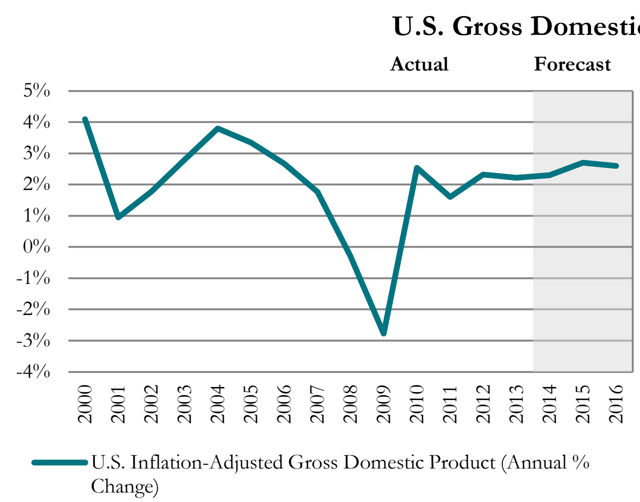
Sluggishness in the global economy remains a headwind **—** While the economic expansion appears to now be spreading more widely across most parts of the United States, many parts of the global economy continue to struggle. Central bank officials in Europe are considering additional changes in monetary policy as several of the region's national economies face ongoing unemployment, high debt levels, and low or shrinking total economic output.

China's growth appears to be slowing in recent months, which poses difficulty for the United States economy because of the high amount of trade activity between the two countries. Additionally, many of the world's economies for which oil production is a major component, such as Russia and parts of Latin America and the Middle East, have already begun to experience challenges and deteriorating expectations in response to falling oil prices.

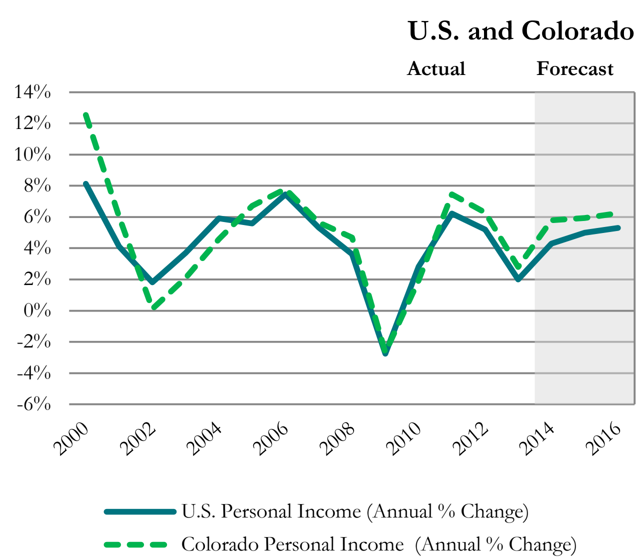
Although the risks and sluggishness in the international economy will continue to act as headwinds for the United States economy, the impacts are not expected to stall or reverse the current expansion. Most of the factors challenging the world's economy have existed to some degree for an extended period of time while the U.S. economy has still found ways to slowly expand the breadth and depth of its growth. Positive changes in Europe or Asia, two of the country's largest regional trading partners, would enhance economic growth in the United States going forward.

The growing strength of the economic expansion in the United States has been occurring even amidst continued struggles in the global economy.

SUMMARY OF KEY ECONOMIC INDICATORS
ACTUAL AND FORECAST

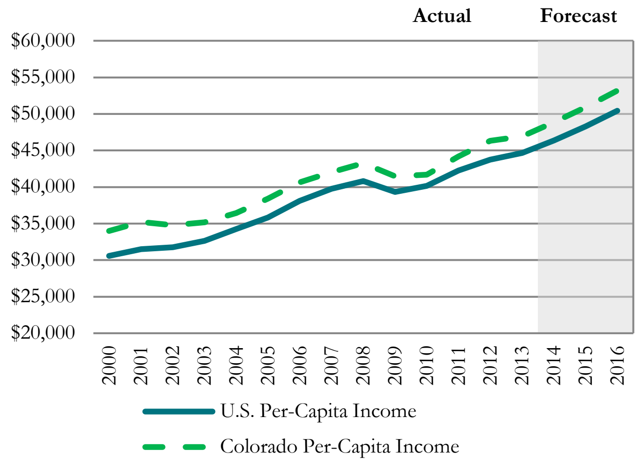


- GDP is a barometer for the economy's overall performance and reflects the value of final output in the U.S.
- GDP will grow 2.3 percent in 2014 and is forecast to grow 2.7 percent in 2015.



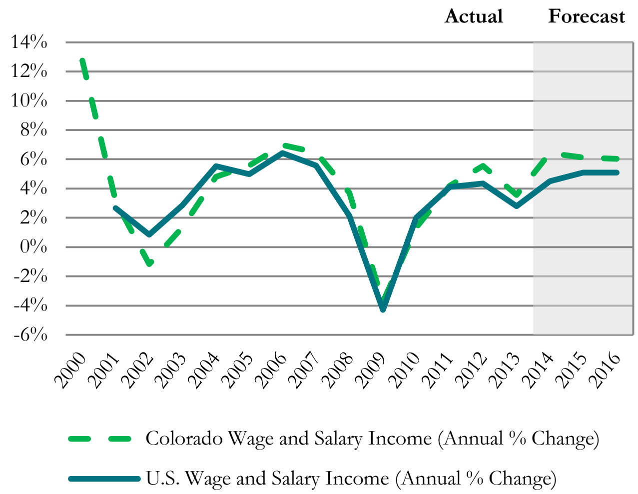
- Personal income is expected to grow 5.8 percent in Colorado in 2014 and will grow 5.9 percent in 2015.
- Personal income for the nation will grow 4.3 percent in 2014 and 5.0 percent in 2015.

U.S. and Colorado Per-Capita Income



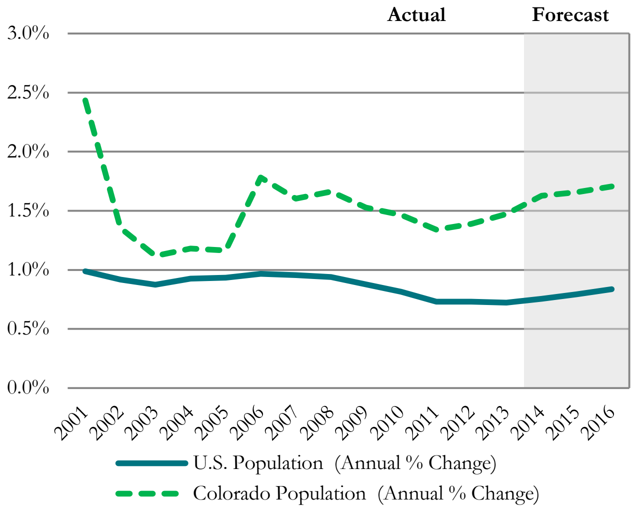
- Per-capita income in Colorado will grow to $48,856 in 2014 and $50,915 in 2015.
- Nationally, per-capita income will increase to $46,348 in 2014 and $48,282 in 2015.

U.S. and Colorado Wage and Salary Income



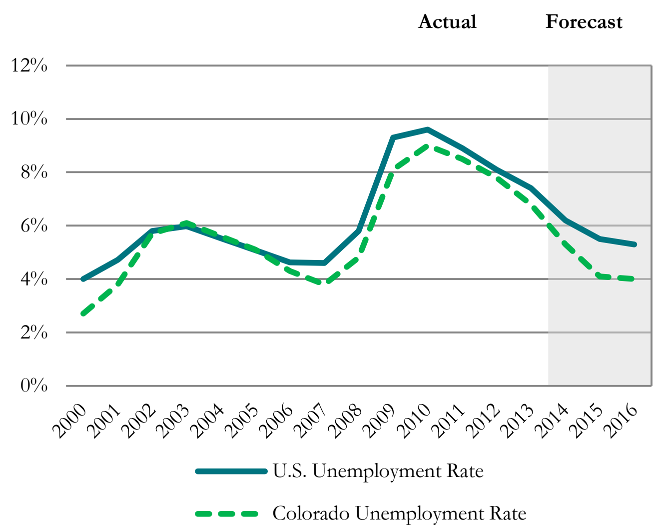
- Total wages and salaries paid to workers will grow in Colorado at a rate of 6.5 percent in 2014 and 6.1 percent in 2015.
- Wage and salary income for the nation will increase 5.1 percent in 2014 and will grow 6.1 percent in 2015.

U.S. and Colorado Population



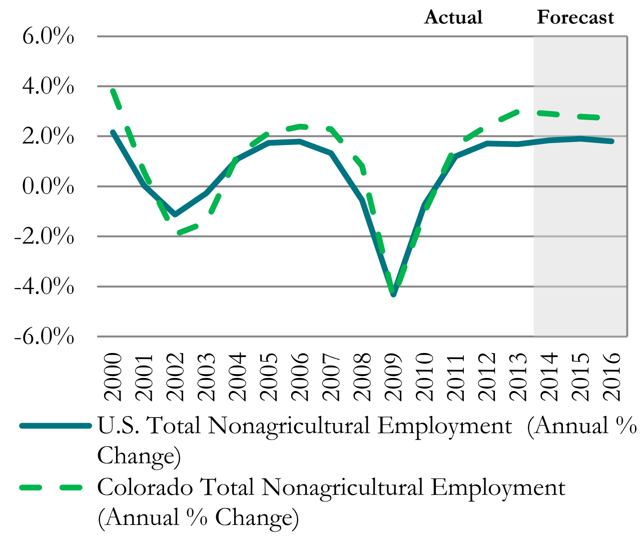
- The state's average population growth rate from 2008 to 2013 was approximately 1.5 percent. Nationally, average population growth was slightly less than one percent.
- Colorado's population is expected to grow 1.6 percent and reach 5.4 million in 2014. The state will continue to experience a relatively high rate of in-migration over the forecast period.
- The nation's population will continue to grow less than one percent throughout the forecast period.

U.S. and Colorado Unemployment



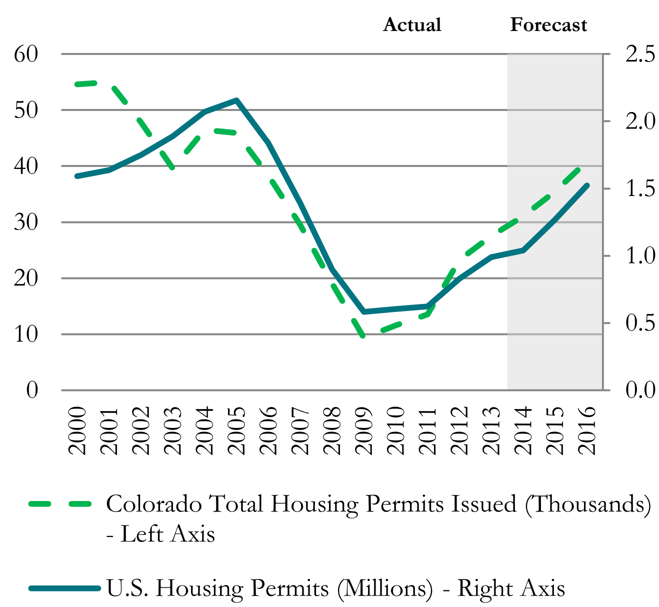
- The unemployment fell sharply in 2014 for the state overall. OSPB forecasts Colorado's unemployment rate will average 5.3 percent in 2014 and 4.0 percent in 2015.
- After an average rate of 7.4 percent in 2013, the national unemployment rate will average 6.2 percent in 2014 and 5.5 percent in 2015.

U.S. and Colorado Total Nonagricultural Employment



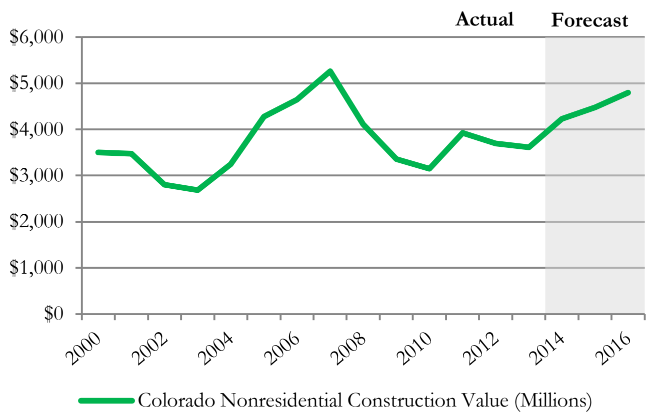
- Colorado nonfarm jobs grew 3.0 percent in 2013, with broad growth across industries.
- Non-farm payroll jobs are expected to reach 2.5 million in Colorado, a 2.9 percent increase, in 2014. Payroll jobs will grow 2.8 percent in 2015.
- U.S. nonfarm payroll jobs will increase 1.8 percent in 2014 and 1.9 percent in 2015, after growing 1.7 percent in 2013.

U.S. and Colorado Housing Permits Issued



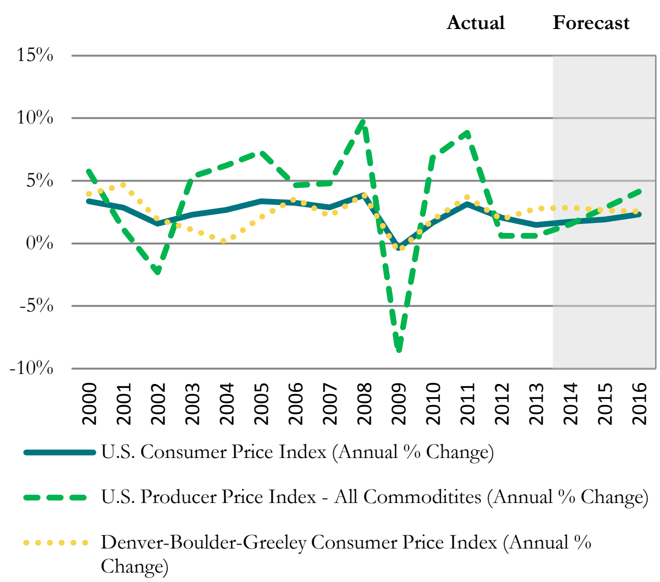
- Colorado residential construction permits will number 31.1 thousand in 2014 and grow to 35.4 thousand in 2015.
- Housing permits for the nation will number 1.04 million in 2014 and 1.3 million permits will be issued in 2015.

Colorado Nonresidential Construction Permits



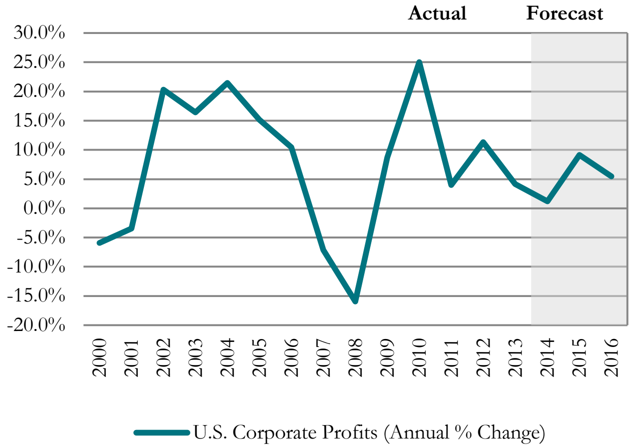
- Non-residential construction strengthened in Colorado in 2014. Momentum in the economic recovery and population growth is encouraging businesses to invest in new facilities and locations.
- In Colorado, the total value of nonresidential construction projects will grow 17.2 percent in 2014 and 5.9 percent in 2015, reaching $4.5 billion in total construction value.

Consumer Price Index and Producer Price Index



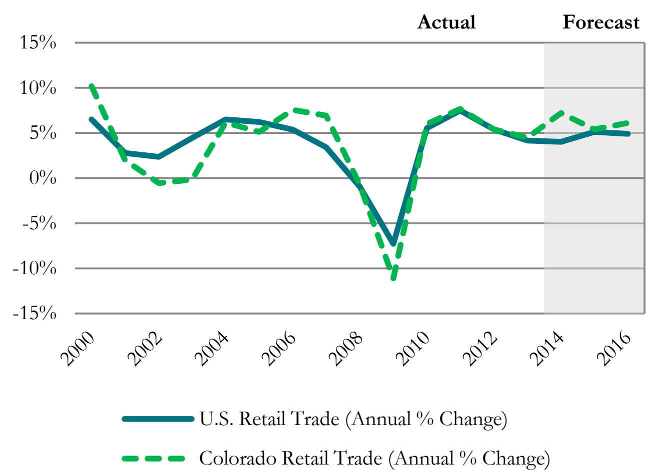
- The Denver-Boulder-Greeley Consumer Price Index (CPI) increased 2.8 percent in 2013 and will increase 2.8 percent in 2014, driven largely by higher housing costs.
- Nationally, increases in consumer price levels remain muted. The national CPI will grow 1.7 percent in 2014 and 1.9 percent in 2015 after increasing 1.5 percent in 2013.
- The more volatile producer prices in the U.S. were flat in 2013 and will increase 1.5 percent in 2014 and 2.8 percent in 2015 with more economic activity. Lower gas prices will put downward pressure on overall inflation for both consumers and businesses.

U.S. Corporate Profits



- Corporate profits at the national level increased 4.2 percent in 2013 and will grow 1.2 percent in 2014 and 9.2 percent in 2015. The slower growth in 2014 is mostly due to changes in federal tax provisions affecting deductions and expensing for business investment.

Retail Trade



- Retail trade sales in Colorado will grow at strong a strong pace. OSPB forecast 7.2 percent growth in 2014 and 5.4 percent growth in 2015.
- Nationwide retail trade will grow 4.0 percent in 2014 and 5.1 percent in 2015.

General Fund and State Education Fund Revenue Forecast

General Fund Revenue Forecast

Continued momentum in the state's economy is fueling strong General Fund growth. Projections for General Fund revenue for FY 2014-15 are 1.3 percent, or $127.0 million, higher compared with the September 2014 forecast. Projections for FY 2015-16 are 0.5 percent, or $53.6 million, higher compared with September.

The upward revision is mostly due to stronger-than-expected year-to-date growth in income taxes from wage withholdings and sales tax collections – the State's largest sources of General Fund revenue. The strong growth in these categories reflects solid broad-based economic growth.

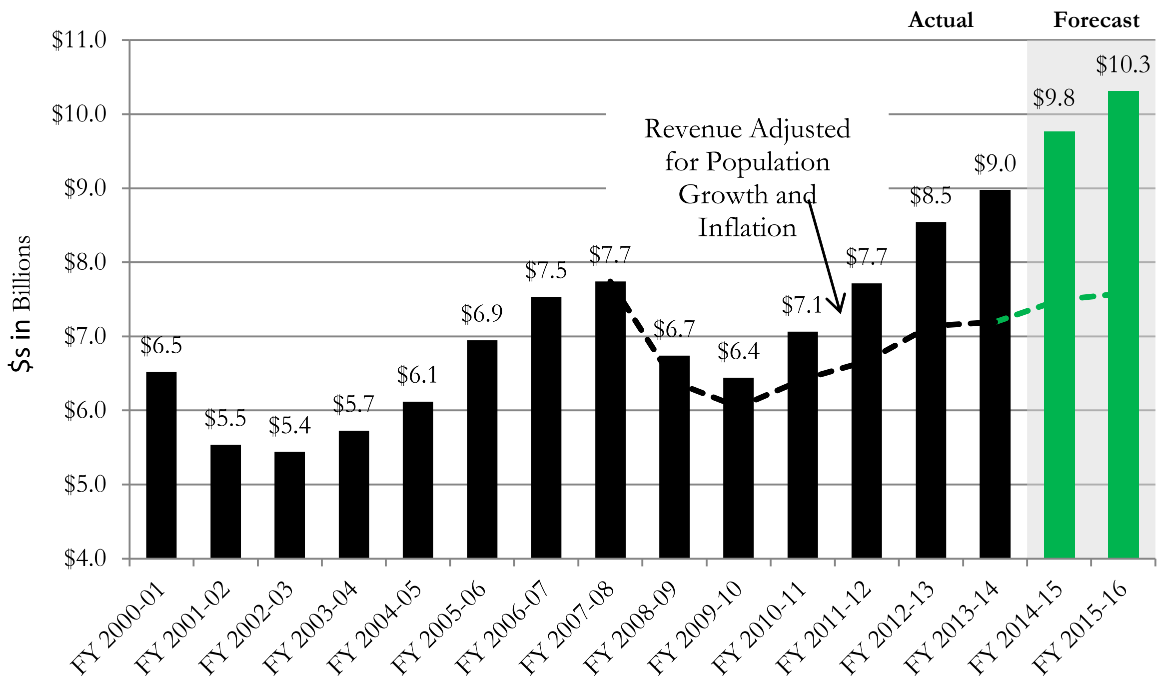
> General Fund revenue is expected to grow 8.8 percent in FY 2014-15. Strong growth in income taxes from wage withholdings and sales tax collections this fiscal year reflect solid broad-based economic growth. A rebound in tax collections this fiscal year from investment income is also boosting General Fund revenue. Growth rates will moderate during the remainder of the forecast period.

General Fund revenue is expected to grow 8.8 percent in FY 2014-15 and 5.6 percent in FY 2015-16. Along with the strong growth in wage withholdings and sales taxes, a rebound in tax collections from investment income is helping produce higher General Fund revenue growth this fiscal year. Growth from the aforementioned sources is offsetting a slowdown in corporate income tax revenue collections after several years of robust gains. Moderating growth rates in individual income and sales taxes from this fiscal year's strong pace will temper overall General Fund revenue during the remainder of the forecast period.

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 9 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2015-16. The figure includes revenue adjusted for inflation and population growth since FY 2007-08. A more detailed forecast of General Fund revenue by source is provided in Table 3 in the Appendix.

Figure 9. General Fund Revenue, Actual and Forecast, with Revenue Adjusted for Population Growth and Inflation, FY 2000-01 to FY 2015-16



Source: Office of the State Controller and OSPB.

Discussion of Forecast for Major General Fund Revenue Sources

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

Individual income tax – Individual income tax collections will grow 10.2 percent FY 2014-15, rebounding from the slowdown in FY 2013-14 that was mostly due to the decline in tax collections from investment income. Collections will moderate in FY 2015-16 and grow 5.9 percent.

> Strong growth in wage withholdings and the resumption of growth in capital gains income is boosting individual income tax revenue 10.2 percent in FY 2014-15. Growth from these sources will moderate in FY 2015-16 when individual income tax revenue is expected to grow 5.9 percent.

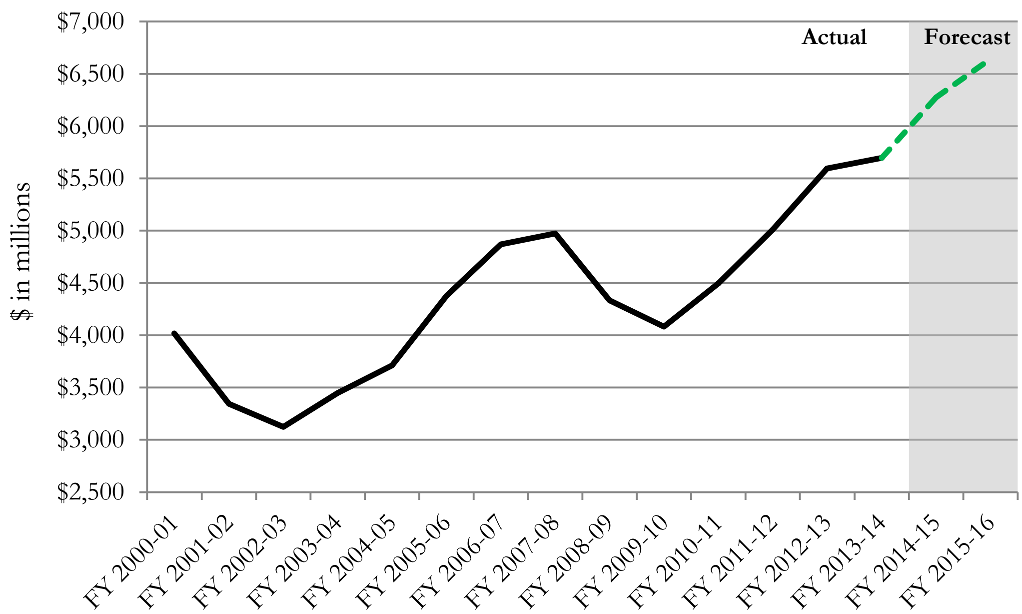
This fiscal year's increase is from strong growth in wage withholdings and the resumption in growth in capital gains income. Trends in wage withholdings reflect solid job growth in the state and also suggest higher wage growth for Coloradans. Estimated income tax payments are rebounding this fiscal year after declining 8.6 percent in FY 2013-14 when taxpayers shifted investment gains to avoid the higher tax liabilities from federal tax increases that took effect at the beginning of 2013. Strong gains in the stock market since this time are expected to have boosted capital gains income. This will result in growth in income tax liabilities and increase estimated tax payments 25.7 percent in FY 2014-15. After the strong growth this fiscal year, growth in estimated income tax payments, as well as wage withholdings, will moderate during the remainder of the forecast period.

Changes in tax deductions and credits at both the state and federal level[1] are affecting revenue collections over the forecast period. Of particular note, after becoming a TABOR refund mechanism in FY 2014-15, the state earned income tax credit will be available on an ongoing basis starting in tax year 2016. This will lower FY 2015-16 collections by an estimated $45 million — half of the full year impact of the credit — and by $94 million in FY 2016-17.

Also, the tax credit for gross conservation easements is allowed as a refundable tax credit when revenue exceeds the Referendum C cap, as forecast throughout the forecast period. This means that credit amounts claimed above a taxpayer's income tax liability can be refunded to the taxpayer, though statute caps the amount. The revenue impact of refundable tax credits is expected to be the largest from taxpayers with unclaimed gross conservation easement credit amounts from prior years. Based on estimates from the Colorado Department of Revenue, the claiming of these credits will reduce income tax revenue by approximately $7 million in FY 2014-15 and $12 million in FY 2015-16. The claiming of new gross conservation easement credits that will be refundable during the forecast period will reduce revenue by a lesser amount.

Other changes in tax policies are increasing 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 is bolstering income tax collections.

Figure 10. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2015-16



Source: Office of the State Controller and OSPB.

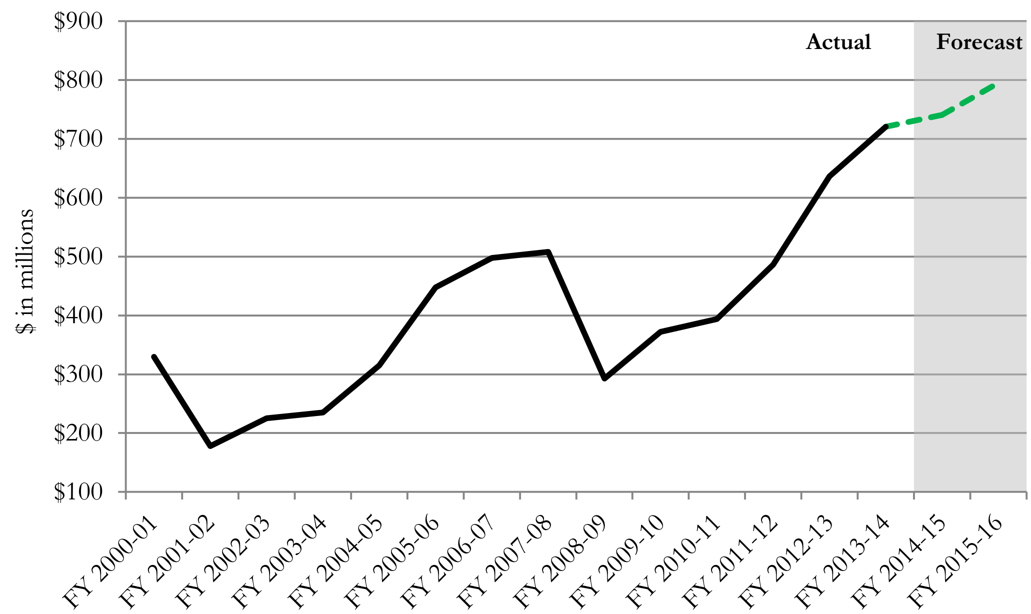
Corporate income tax – Corporate tax revenue growth has moderated after being the fastest growing source of General Fund revenue over the past several fiscal years. Corporate tax revenue collections will slow to a 2.8 percent growth rate in FY 2014-15 and will grow 7.3 percent in FY 2015-16.

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

The slowing in corporate tax revenue growth appears to be in part due to rising business costs that are lowering profit margins as the economic expansion matures. Also, tax policies are tempering corporate tax collections over the forecast period, such as the ending of the cap on the amount of net operating losses that corporations could deduct and the tax credit for businesses undertaking job creation projects.

Corporate tax revenue growth has moderated after being the fastest growing source of General Fund revenue over the past several fiscal years. Higher business costs and tax policies are tempering collections over the forecast period.

Figure 11. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2015-16



Source: Office of the State Controller and OSPB.

Sales and use tax – Sales tax revenue will grow 9.0 percent in FY 2014-15 and 5.0 percent in FY 2015-16. Stronger growth in sales tax revenue over the past year reflects solid, broad-based economic expansion in the state that is sustaining consumer and business spending. The drop in gas prices will boost sales tax collections over the coming months. Lower spending on fuel, which is not subject to sales tax, frees up resources to be spent on other items, some of which will be subject to sales tax.

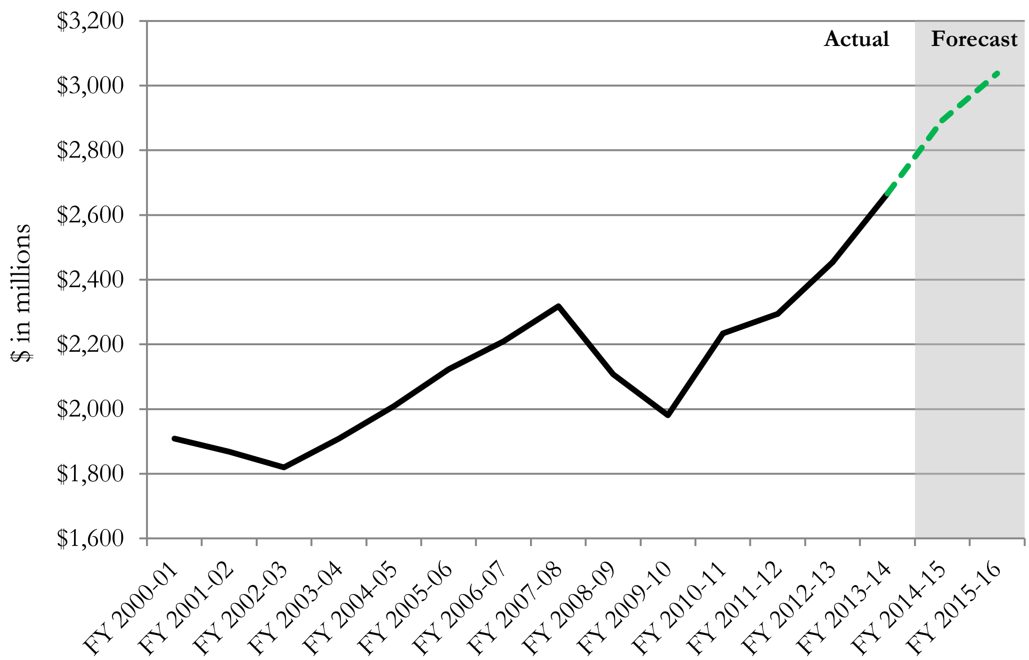
Stronger growth in sales tax revenue over the past year reflects solid, broad-based economic expansion in the state. The drop in gas prices will boost sales tax collections over the coming months.

Sales tax revenue is being bolstered 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 of 2013. (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 the retail marijuana 10 percent sales tax goes first 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.

This tax is projected to generate $32.5 million this fiscal year and $49.7 million in FY 2015-16. Projections for this revenue source are highly uncertain and revisions will occur when more information becomes available. Revenue from the regular 2.9 percent sales tax on marijuana sales does not go to the General Fund but is credited to the Marijuana Tax Cash Fund, which is included in the miscellaneous cash funds category in Table 6 in the Appendix.

Use tax revenue growth is more moderate compared with sales tax revenue. Use tax collections are expected to increase 3.5 percent in FY 2014-15 and 4.6 percent in FY 2015-16. The use tax is a companion to the sales tax that brings in a much smaller amount of revenue and is often more volatile. Much of the State's use tax revenue comes from Colorado businesses paying the tax on transactions involving out-of-state sellers. Continued construction activity and business investment will contribute to use tax revenue growth. A slowdown in oil production-related activity due to the recent decline in oil prices will temper the revenue growth, however.

Figure 12. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2015-16



Source: Office of the State Controller and OSPB.

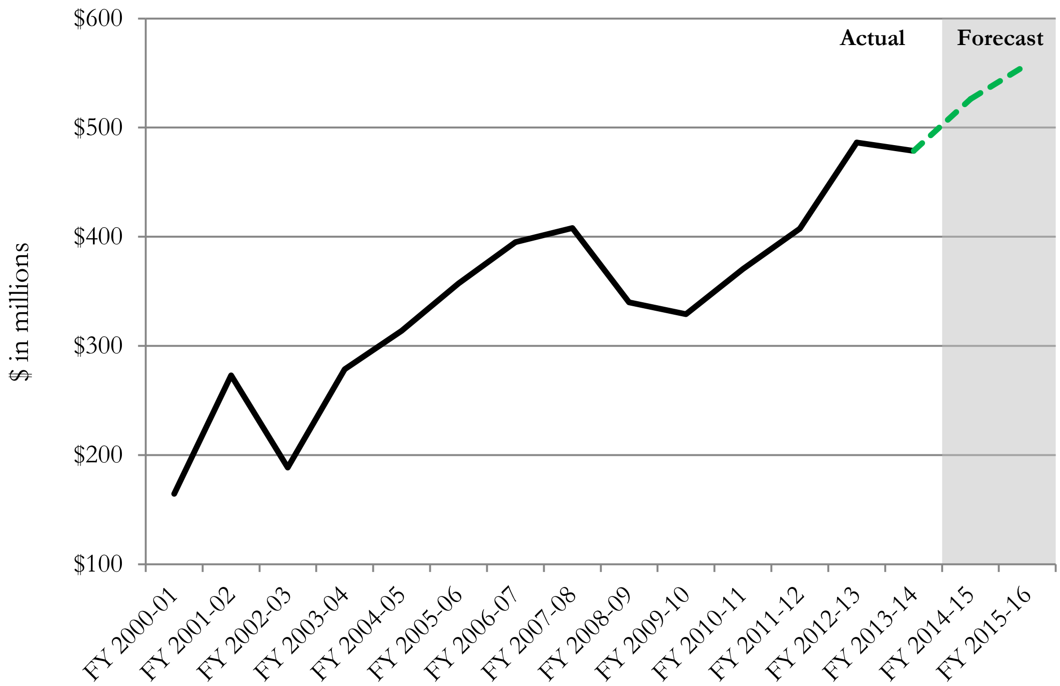
State Education Fund Revenue Forecast

Tax revenue to the State Education Fund will increase 9.9 percent in FY 2014-15 and 6.0 percent in FY 2015-16. Similar to individual income tax collections, strong growth in wage income tax withholdings and capital gains income is boosting State Education Fund revenue this fiscal year. More moderate growth in these sources during the rest of the forecast period will temper tax revenue growth to the State Education Fund.

Tax revenue to the State Education Fund will increase 9.9 percent in FY 2014-15 and 6.0 percent in FY 2015-16.

As shown on page 33 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 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 Fund, which is shown in detail in Figure 22 on page 33

Figure 13. State Education Fund Revenue from One Third of One Percent of Taxable Income, Actual and Forecast, FY 2000-01 to FY 2015-16



Source: Office of the State Controller and OSPB.

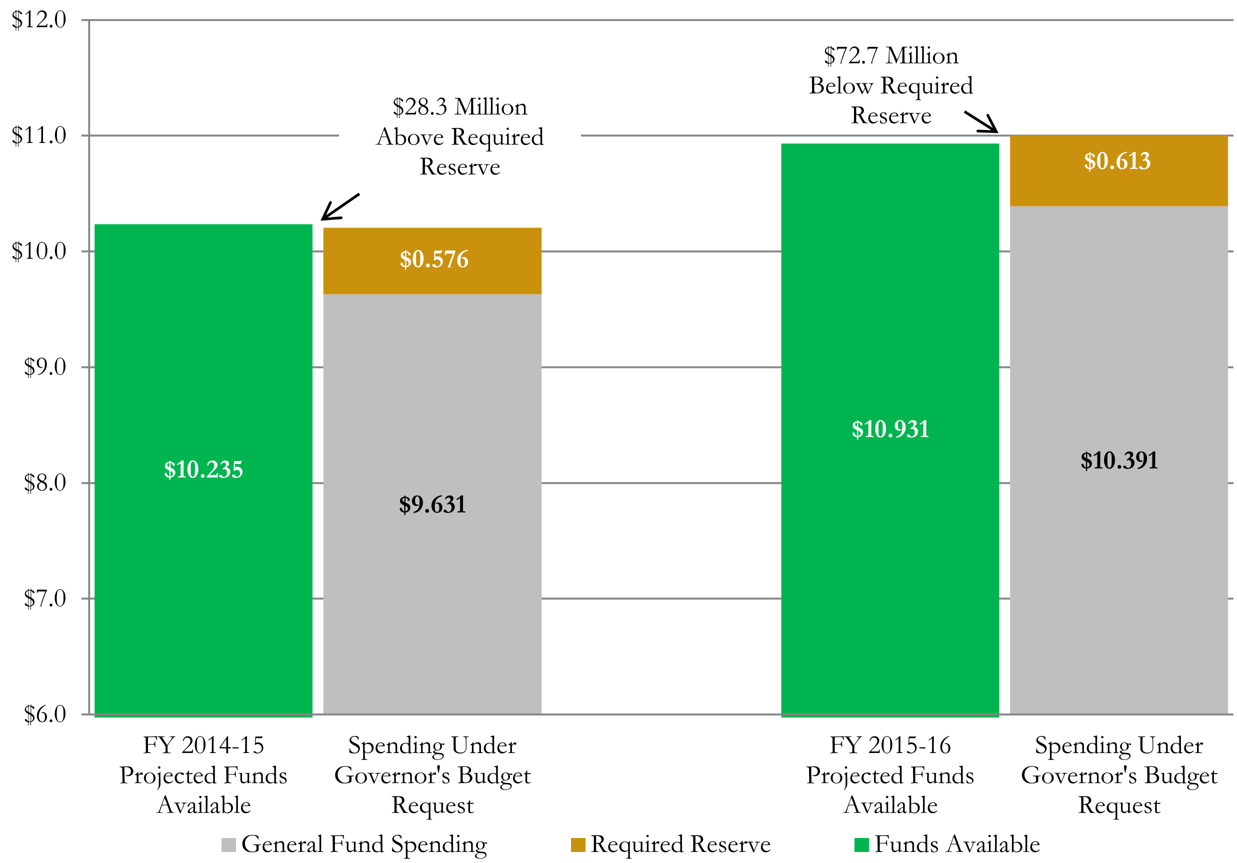
General Fund and State Education Fund Budget

Summary

General Fund **–** As discussed in the *General Fund Revenue Forecast* section starting on page 20, this forecast projects that General Fund revenue for FY 2014-15 will be 1.3 percent, or $127.0 million, higher compared with the September 2014 forecast. Projections for FY 2015-16 are 0.5 percent, or $53.6 million, higher.

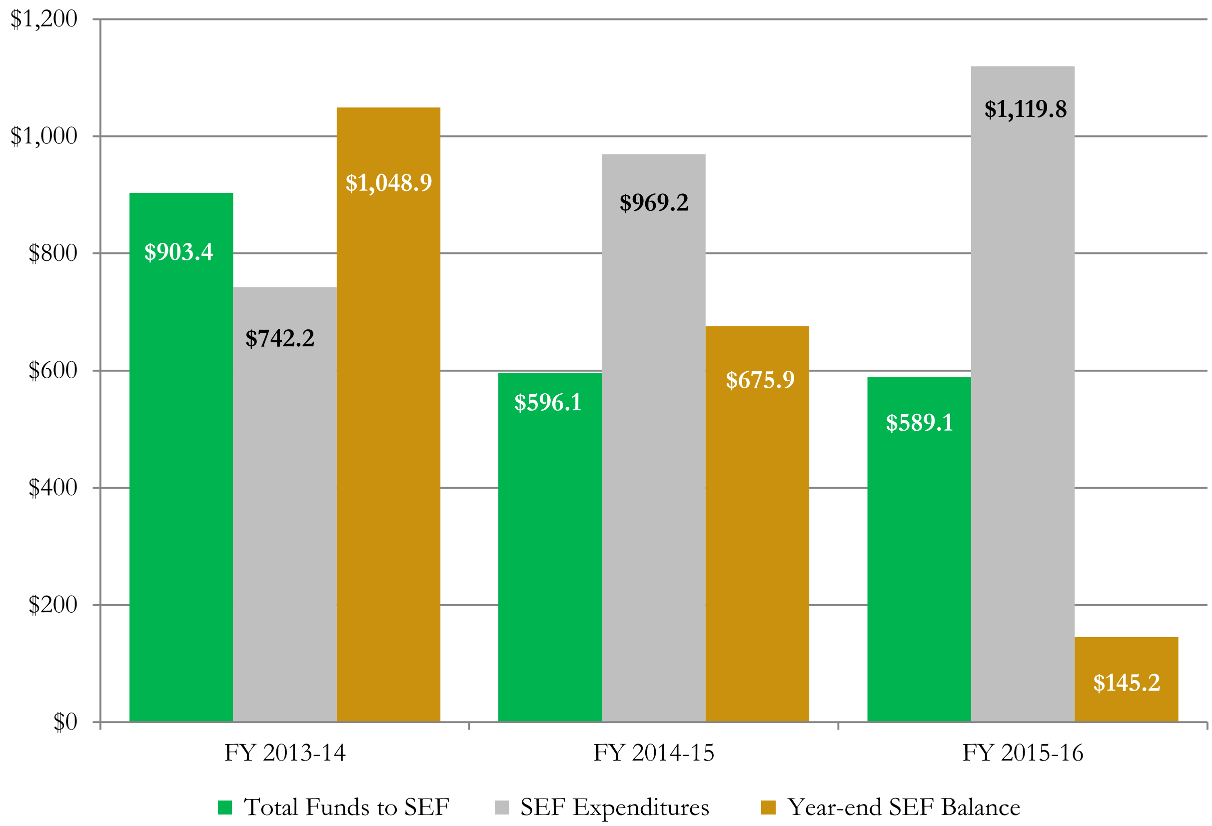
The State's General Fund reserve ended FY 2013-14 with $240.0 million above its required amount. All but $25 million of this money, which remains in the General Fund, is allocated to various cash funds, including $135.3 million to the Capital Construction Fund. Under the Governor's November 3, 2014 budget request, the State's General Fund reserve is projected to be $28.3 million above its required amount for FY 2014-15 and $72.7 million below the required amount for FY 2015-16. The shortfall is the result of higher cash fund revenue that increases the TABOR rebate liability in the General Fund. OSPB will be submitting balancing actions to address this shortfall on January 2, 2014. Figure 14 below summarizes total General Fund revenue available, total spending, and reserve levels for FY 2014-15 and FY 2015-16 based on the forecast and the Governor's budget request.

Figure 14. General Fund Money, Spending, and Reserves Under Governor's Budget Request FY 2014-15 and FY 2015-16, $ in Billions



State Education Fund – The State Education Fund is supporting a larger share of education funding than it has historically, which is drawing down its fund balance. Figure 15 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2013-14 through FY 2015-16 based on the forecast and the Governor's budget request.

Figure 15. State Education Fund Money, Spending, and Reserves Under Governor's Budget Request* 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 2014-15 and FY 2015-16 are illustrative only.

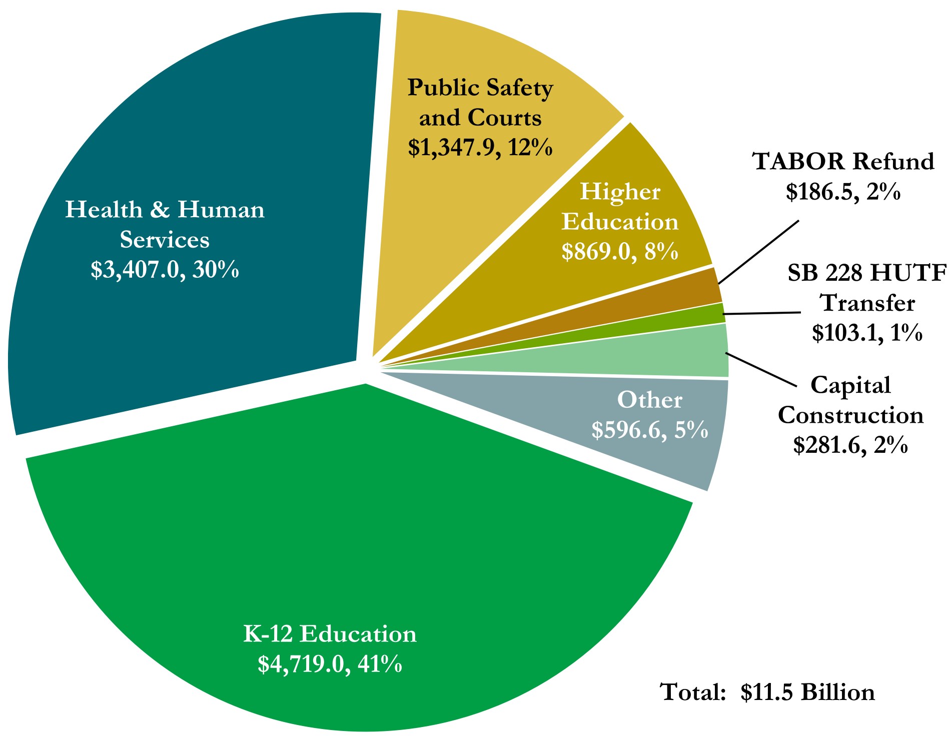
Detailed Overview Tables – A detailed overview on the amount of money available in the General Fund and State Education Fund, expenditures, and end-of-year reserves are provided in the overview tables in the Appendix at the end of this document. These overviews are discussed starting on page 33.

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 16 shows the allocation of General Fund revenue under the Governor's current budget request, incorporating spending on education from the State Education Fund, for FY 2015-16 by major department or program area. The budget request sets aside $186.5 million required for TABOR rebates. As noted above, the current forecast shows $72.7 million below the required General Fund reserve amount.

Figure 16. Composition of FY 2015-16 General Fund and State Education Fund Budget Under Governor's Budget Request, $ 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.

A broad economic slowdown that negatively impacts State tax revenue could occur if a combination of unexpected adverse events and unfavorable forces come together that weaken confidence and expectations for future growth. Economic conditions for many of the world's largest economies continue to be sluggish and geopolitical tensions pose a risk. Additionally, a wider and more abrupt pull back in activities associated with oil production than currently expected could weaken the state's economy.

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 $89.7 million change in General Fund revenue collections. Any future adjustments in forecasted revenue could have potentially large impacts on the amount of revenue collected in relation to the TABOR revenue cap.

This forecast projects TABOR revenue will exceed the cap in all three years from FY 2014-15 through FY 2016-17. Slower-than-expected revenue growth may result in future forecasts showing revenue falling below the cap. In contrast, higher-than-expected revenue collections would result in more revenue above the cap. These changes would have implications for the budget, such as on the amount of General Fund money available for spending and the amount required to be transferred to transportation and capital construction.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview for the December 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 under the Governor's budget request. 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, indicates 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 20.

The 9.3 percent increase in total General Fund available for FY 2014-15 is mostly attributable to revenue growth from the prior year. Continued revenue growth and a larger beginning balance compared with FY 2014-15 accounts for the additional increase of 6.8 percent in funds available in FY 2015-16.

Figure 17. General Fund Revenue Available (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16	FY 2016-17
1	Beginning Balance	$435.9	$604.2	$540.3
2	General Fund Revenue	$9,767.9	$10,310.9	$10,849.8
3	Transfers to the General Fund	$30.9	$16.4	$18.0
4	**Total General Funds Available**	**$10,234.7**	**$10,931.4**	**$11,408.2**
	Dollar Change from Prior Year	$872.8	$696.7	$476.7
	Percent Change from Prior Year	9.3%	6.8%	4.4%

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 $12.0 billion in FY 2014-15. Thus, the $8.9 billion in General Fund appropriations for these programs under current law are $3.1 billion under the limit. The amount of appropriations subject to the limit is shown in the figure below.

Figure 18. General Fund Spending Subject to the Appropriations Limit under Governor's Budget Request (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
5	Appropriations	$8,859.2	$9,431.1
6	Dollar Change from Prior Year	$640.5	$571.9
7	Percent Change from Prior Year	7.8%	6.5%

The General Fund appropriation amounts for FY 2014-15 and FY 2015-16 in Figure 17 reflect the Governor's budget request. The amount for FY 2016-17 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 19. More information about these spending lines is discussed below.

Figure 19. General Fund Spending Not Subject to the Appropriations Limit under Governor's Budget Request (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16	FY 2016-17
9	TABOR Refund under Art. X, Section 20, (7) (d)	$200.4	$186.5	$269.2
10	TABOR Refund under Art. X, Section 20, (3) (c)	$30.5	$0.0	$0.0
	Cigarette Rebate to Local Governments	*$8.6*	*$8.1*	*$7.8*
	Marijuana Rebate to Local Governments	*$4.9*	*$7.4*	*$7.5*
	Old-Age Pension Fund/Older Coloradans Fund	*$110.7*	*$116.5*	*$122.1*
	Aged Property Tax & Heating Credit	*$8.4*	*$8.4*	*$8.3*
	Homestead Exemption	*$117.1*	*$124.4*	*$130.0*
	Interest Payments for School Loans	*$0.8*	*$0.9*	*$1.1*
	Fire/Police Pensions	*$4.3*	*$4.3*	*$4.3*
	Amendment 35 General Fund Expenditure	*$0.8*	*$0.8*	*$0.8*
11	**Total Rebates and Expenditures**	**$255.7**	**$270.9**	**$281.9**
12	Transfers to Capital Construction	$225.5	$281.6	$130.4
13	Transfers to Highway Users Tax Fund	$0.0	$103.1	$108.5
14	Transfers to State Education Fund per SB 13-234	$25.3	$25.3	$25.3
15	Transfers to Other Funds	$33.9	$50.3	$49.6
17	Other	$0.0	$42.3	$0.0
	Total	**$771.4**	**$960.0**	**$865.0**
	Dollar Change from Prior Year	$225.8	$188.7	-$95.1
	Percent Change from Prior Year	41.4%	24.5%	-9.9%

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 (7) of the Colorado Constitution ("TABOR") and Section 24-77-103.6, C.R.S. ("Referendum C"). TABOR revenue is projected to exceed the cap by $196.8 million in FY 2014-15, $186.5 million in FY 2015-16, and $269.2 million in FY 2016-17, meaning that a refund to taxpayers will occur for each of those years under this forecast, unless voters allow the State to retain the revenue. The refund amount for FY 2014-15 includes $196.8 million in revenue above the Referendum C cap, as well as $3.6 million in pending amounts owed related to refunds from prior years. The Governor's budget request has also earmarked a General Fund liability in FY 2014-15 of $30.5 million due to a TABOR refund associated with Proposition AA and Article X, Section 20 (3) (c) of the Colorado Constitution. Page 40 and Table 7 in the Appendix provide further detail on TABOR revenue and refunds.

As shown, "Rebates and Expenditures" account for a large 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 Governor's budget request for FY 2014-15 includes a total transfer of $225.5 million for capital construction projects while the FY 2015-16 budget request includes a transfer of $281.6 million. The capital construction amount of $130.4 in FY 2016-17 reflects the needed funding level for specific "certificate of participation" (COP) financing agreements used for capital projects, "Level I," building-maintenance projects, as well as the continuation of projects funded in prior years.

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 would trigger required transfers in FY 2015-16. However, these transfers are reduced or suspended in years where there is a TABOR refund as projected in this forecast.

The projected TABOR refunds in FY 2015-16 and FY 2016-17 represent an amount equal to 1.8 percent and 2.5 percent of General Fund revenue, respectively. This means that the Senate Bill 09-228 transfers for transportation will be reduced by half in those years – from $206.2 million to $103.1 million in FY 2015-16, and from $217.0 million to $108.5 million in FY 2016-17 under this forecast. The transfers are suspended in full if there is a TABOR refund in excess of three percent of total General Fund revenue.

Due to the expected and budgeted transfers to capital construction are occurring each fiscal year above the required Senate Bill 09-228 transfer amount, they are unaffected by TABOR refunds. The amounts needed for capital construction in FY 2015-16 and FY 2016-17 shown in Table 4 exceed the required Senate Bill 09-228 transfer amounts.

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 was $45.3 million, while the amount in FY 2014-15 through FY 2016-17 is $25.3 million. In addition, state law requires transfers of General Fund money to various State cash funds. 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.

The Governor's budget request includes other spending not subject to the limit of $42.3 million in FY 2015-16. This amount includes $30.0 million associated with the Colorado Opportunity Scholarship Initiative for higher education, $8.0 related to the settlement of oil and gas lease litigation on the Roan Plateau, and $4.3 million to account for TABOR refunds caused by increased fees in the budget request.

Reserves

The final section of the overview table in the Appendix ("Reserves") shows the amount of General Fund money 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 20 provides information on the General Fund ending balance.

Figure 20. 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	FY 2016-17
21	Year-End General Fund Balance	$650.9	$604.2	$540.3	$643.5
22	Balance as a % of Appropriations	7.9%	6.8%	5.7%	6.5%
23	**General Fund Required Reserve**	**$410.9**	**$575.8**	**$613.0**	**$643.5**
24	Money Above/Below Req. Reserve	$240.0	$28.3	-$72.7	$0.0
25	Excess Reserve to Other Funds	$215.0	$0.0	$0.0	$0.0
26	**Balance After Any Funds Above Statutory Reserve are Allocated**	**$25.0**	**$28.3**	**-$72.7**	**$0.0**

The State's General Fund reserve ended FY 2013-14 $240.0 million above its required amount. The State's General Fund reserve is projected to be $28.3 million above its required amount for FY 2014-15. Under the budget request and this forecast, the General Fund reserve will be $72.7 million below its required amount for FY 2015-16.

All but $25 million of the FY 2013-14 excess reserves, which remains in the General Fund, is transferred to various cash funds in a specified order of priority listed in Figure 21 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. FY 2013-14 ended the year with $240.0 million in excess reserves. This is enough money for all of the transfers to occur, including the full $135.3 million scheduled transfer to the Capital Construction Fund. The State Education Fund receives the remainder of the FY 2013-14 excess, or $18.6 million, after all of the other transfers occur.

Figure 21. FY 2013-14 Excess General Fund Reserve Transfers, $ in Millions

Total General Fund Excess	$240.0
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)	$135.3
State Education Fund	$18.6
Total	$240.0

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 availability for other programs.

Table 5 in the Appendix incorporates all of the same information from the General Fund overview under the Governor's budget request in Table 4, but also includes spending, revenue, and fund-balance information for the State Education Fund under the request. Due to 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 22 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 and FY 2015-16 reflect the Governor's budget request from November 3, 2014. The expenditures for FY 2016-17 reflect projected spending if the negative factor in the School Finance Act is at the FY 2014-15 dollar amount. Actual expenditures from the State Education Fund will be adopted in future budget legislation; thus, 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 is expected to receive an additional $38.6 million of the FY 2013-14 excess reserves. Still, as shown, a combination of higher spending and lower amounts of projected revenue is drawing down the fund's balance.

Figure 22. State Education Fund Revenue, Spending, and Reserves FY 2013-14 through FY 2015-16 (from Tables 4 and 5 in Appendix), $ in Millions

	FY 2014-15	FY 2015-16	FY 2016-17
Beginning Balance	***$1,048.9***	***$675.9***	***$145.2***
One-third of 1% of State Taxable Income	*$526.3*	*$557.9*	*$588.5*
Money from Prior Year-end Excess Reserves	*$38.6*	*$0.0*	*$0.0*
Transfers under SB 13-234	*$25.3*	*$25.3*	*$25.3*
Other	*$5.9*	*$5.8*	*$6.1*
Total Funds to State Education Fund	**$596.1**	**$589.1**	**$619.9**
State Education Fund Expenditures	**$969.2**	**$1,119.8**	**$602.9**
Year-end Balance	**$675.9**	**$145.2**	**$162.2**

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 collected by the State in FY 2014-15 will be $112.9 million, or 4.2 percent, higher than FY 2013-14 primarily as a result of growth in severance tax and fuel tax revenue.

Cash fund revenue subject to TABOR grow only slightly in FY 2015-16 as a large expected decrease in severance tax revenue will offset growth in revenue from the Hospital Provider Fee that year. Growth in cash fund revenue will increase to 3.5 percent in FY 2016-17 as most sources of cash fund revenue have moderate changes.

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 40.

Transportation-related cash funds **—** Transportation-related cash funds subject to TABOR will grow $40.1 million, or 3.5 percent, to $1.18 billion in FY 2014-15. They will grow by 0.9 percent to $1.19 billion in FY 2015-16.

> Revenue from fuel taxes is expected to grow throughout the forecast period, reflecting the growing momentum of Colorado's economy and the impact of lower gas prices.

This fiscal year's growth forecast for transportation-related cash funds comes after an increase of 3.4 percent, or $37 million, in FY 2013-14. Increases in revenue from taxes on gasoline and diesel fuel are occurring after two consecutive years of declines. Changes in revenue from these two taxes have a large influence on overall transportation-related cash funds because they account for approximately half of all revenue in the category.

Rising fuel tax collections reflect a higher amount of economic activity in Colorado and are expected to remain strong as consumers and businesses benefit from lower gas prices. Gasoline and diesel taxes are collected as a set amount per gallon of fuel, rather than as a percentage of the total sale, which means that fuel tax revenue does not fall as a direct result of lower prices. Lower prices may encourage drivers and businesses to use more fuel and have been associated with increased purchases of more expensive trucks and sport utility vehicles, which could result in higher collections of vehicle registration fees.

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. Funds in the HUTF, which accounts for the large majority of revenue in this category, 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 grow by $4.2 million, or 3.9 percent, in FY 2014-15, after increasing just 0.7 percent in FY 2013-14. It will grow an additional $4.1 million to $116.1 million in FY 2015-16.

Gaming activity is growing in Colorado as the industry continues to rebuild momentum after declines in the wake of the Great Recession. Revenue from taxes and fees on gaming has been growing since the spring of 2014, marking the first period of sustained growth in gaming activity in several years. Continued improvement in Colorado's employment, coupled with growth in household incomes and broader economic momentum, is expected to support continued strength in Colorado's gaming industry.

Gaming activity in Colorado has grown for several months, suggesting that the industry is recovering from declines that resulted from the Great Recession. As a result, gaming revenue will grow $4.2 million in FY 2014-15.

Of the total expected limited gaming revenue for FY 2014-15, $102.3 million will be subject to TABOR, as reflected in Table 6, "Cash Fund Revenue Forecasts by Major Category." Approximately $98.1 million of this amount is classified as "base limited gaming revenue" as designated by State law after the passage of Amendment 50. This revenue is distributed by formula in state 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 $9.1 million attributable to Amendment 50, which is not subject to TABOR, is distributed mostly to community colleges with a smaller portion going to local governments with communities affected by gaming. Figure 22 below shows the anticipated distribution of limited gaming revenues in further detail.

Figure 22. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Preliminary FY 13-14	Forecast FY 14-15	Forecast FY 15-16	Forecast FY 16-17
A. Total Limited Gaming Revenues	**$107.9**	**$112.1**	**$116.1**	**$121.1**
Annual Percent Change	0.6%	3.9%	3.6%	4.3%
B. Base Limited Gaming Revenues (max 3% growth)	**$95.2**	**$98.1**	**$101.0**	**$104.0**
Annual Percent Change	0.7%	3.0%	3.0%	3.0%
C. Gaming Revenue Subject to TABOR	**$98.3**	**$102.3**	**$105.3**	**$108.5**
Annual Percent Change	0.2%	4.1%	3.0%	3.0%
D. Total Amount to Base Revenue Recipients	**$83.8**	**$88.7**	**$91.9**	**$95.2**
Amount to State Historical Society	*$23.5*	*$24.8*	*$25.7*	*$26.7*
Amount to Counties	*$10.1*	*$10.6*	*$11.0*	*$11.4*
Amount to Cities	*$8.4*	*$8.9*	*$9.2*	*$9.5*
Amount to Distribute to Remaining Programs (State Share)	*$41.9*	*$44.4*	*$46.0*	*$47.6*
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	*$2.1*	*$2.0*	*$2.0*	*$2.0*
Transfer to the General Fund	*$11.8*	*$14.4*	*$16.0*	*$17.6*
E. Total Amount to Amendment 50 Revenue Recipients	**$8.4**	**$9.1**	**$10.1**	**$11.6**
Community Colleges, Mesa and Adams State (78%)	*$6.5*	*$7.1*	*$7.9*	*$9.1*
Counties (12%)	*$1.0*	*$1.1*	*$1.2*	*$1.4*
Cities (10%)	*$0.8*	*$0.9*	*$1.0*	*$1.2*

Hospital Provider Fee — Hospital Provider Fee (HPF) revenue is expected to decline 6.1 percent in FY 2014-15, but increase 29.3 percent, to $688.5 million, in FY 2015-16. It will grow by an additional 5.6 percent, or $38.8 million, in FY 2016-17.

Growth of $156.2 million in hospital provider fee revenue in FY 2015-16 will result primarily from growth among certain populations of Medicaid patients. The amount of Hospital Provider Fee collected each year is calculated by a formula that considers the anticipated cost of care for some Medicaid populations. Recent data shows that growth in these populations occurred at a strong rate in 2014, so the anticipated HPF revenue that will be calculated by the formula will also grow over the next two fiscal years.

The projections for HPF revenue are influenced by federal funding levels associated with the Affordable Care Act as well as changes in the population receiving medical care support under the Medicaid program. An increase in federal funding is reducing the HPF that must be collected from hospitals to support Colorado's Medicaid program for FY 2014-15. Increasing populations receiving medical services, however, will generate higher HPF revenue starting in FY 2015-16.

The Hospital Provider Fee is paid by Colorado hospitals and is calculated based on the amount of inpatient days and outpatient revenue. Revenue collected from the fee is matched by the federal government to help cover the cost of the Medicaid program.

***Severance tax revenue* —** Severance tax revenue will grow 30.1 percent, or $89.0 million, to $349.7 million in FY 2014-15 after nearly doubling to $268.7 million in FY 2013-14. The recent strong growth in severance tax revenue has resulted from increasing prices for natural gas and oil as well as growing production of those resources in Colorado. Prices for both natural gas and oil have fallen in recent months, and are expected to remain lower throughout 2015, contributing to a decrease of 47.0 percent to $185.3 million in FY 2015-16.

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.

The price of natural gas and oil are key drivers of this revenue because severance taxes are based on a percentage of the income received from selling these resources. The price of natural gas rose at the beginning of 2014 as demand for natural gas to heat homes and businesses grew as a result of very cold winter temperatures. Natural gas prices fell back to lower levels over the summer months as inventories were largely restored and the demand for natural gas returned to more typical levels. Although reserves of natural gas remain depressed, experts anticipate that a milder winter, combined with more natural gas production in the United States, will support lower natural gas prices in the near- and medium-term.

> Higher prices for natural gas and growing oil production in the beginning of 2014 are driving severance tax revenue growth of $80.9 million in FY 2014-15. Falling prices for both resources, combined with ad valorem tax credits, will result in a decline of $164 million in severance taxes in FY 2015-16.

Until recently, the price of oil had remained fairly stable for quite some time, and improvements in technology that have improved access to oil and reduced the cost of producing it have resulted in growing production value in Colorado. While the proportion of severance taxes from oil production is lower than severance taxes from natural gas production, increased volume of oil production is contributing to the large increase in severance tax revenue in FY 2014-15. Oil prices have fallen considerably in recent months as growing production in the United States has increased the supply of the resource as a sluggish global economy has dampened demand. As a result, lower oil prices will play a role in the large reduction in severance tax collections in FY 2015-16.

In addition to decreasing prices, the impact of ad valorem tax credits will contribute to the decline of severance tax revenue in FY 2015-16. Severance taxpayers claim "ad valorem" tax credits based on the local property taxes they paid on mineral extraction in the prior year. As the price of natural gas and oil declines into 2015, taxpayers will claim ad valorem credits based on revenue generated in 2014, when prices were higher. This dynamic exacerbates the impact of lower prices, helping generate the 47 percent forecasted decline for severance taxes in FY 2015-16. The annual calendar year filing of taxes versus State fiscal year accrual accounting also affects these dynamics.

The amount of oil and natural gas produced in Colorado – known as production volume – also influences severance tax collections, although production volumes do not tend to fluctuate as significantly as prices. Oil production growth is outpacing natural gas production growth in Colorado amid relatively low natural gas prices compared with several years ago. Most new oil production in Colorado is occurring in Weld County, where property taxes are generally higher than in many other counties with oil and gas production, meaning that larger ad valorem tax credits limit severance tax revenue the State collects from production growth in Weld County.

Other mineral resources, including coal, gold, and molybdenum, generate severance tax revenue, although severance taxes paid on the production of these resources is much smaller than revenue from oil and natural gas production. Severance tax revenue from coal production is expected to fall 5.0 percent, to $7.7 million, in

FY 2014-15 after falling 9.4 percent, to $8.1 million the prior year. These declines are the result of the drop in domestic demand for coal.

Federal Mineral Leasing revenue — Colorado's share of Federal Mineral Lease (FML) revenue will grow 2.3 percent, to $177.6 million in FY 2014-15, after growing by nearly 44 percent, to $173.6 million, in FY 2013-14. Growth will moderate further in FY 2015-16, to 0.9 percent growth, when FML revenue collections reach $179.2 million.

FML revenue is less influenced by price swings than severance tax revenue because production occurs within the provisions of federal contracts that allow producers to access mineral resources for a specified period of time. Additionally, a larger share of production that generates FML revenue is attributed to natural gas, which is not experiencing the same large price decline that is occurring with oil.

FML royalties are assessed as a percentage of the value of resources produced on leased federal lands. FML activity includes production of natural gas and oil as well as propane, carbon dioxide, coal, and other mineral resources. Revenue earned by producers on leased federal lands is not subject to local property taxes, thus there is no impact of ad valorem tax credits to exaggerate price fluctuations the way they do with regard to severance tax revenue. This is a major reason that FML revenue is not expected to fall in FY 2015-16 when natural gas and oil prices are forecast to be lower than this year's levels.

The federal government sells leases to extract mineral resources from federal lands. Producers then remit royalties and other payments to the federal government that are shared with the state where production occurred. The federal fiscal policy known as "sequestration" temporarily reduced collection of FML revenue to Colorado in FY 2012-13, contributing to the large increase in FY 2013-14. The impact of sequestration-related federal adjustments to FML revenue is expected to be small over the forecast period.

Figure 23. Federal Mineral Leasing (FML) Payments

Federal Mineral Lease (FML) Payments				
Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2013-14	$2.0	$171.6	$173.6	43.7%
FY 2014-15	$3.6	$174.0	$177.6	2.3%
FY 2015-16	$3.6	$175.6	$179.2	0.9%
FY 2016-17	$4.7	$184.2	$188.9	5.4%

Dollars are in millions. FY 2013-14 figures reflect actual collections, and FY 2014-15 through FY 2016-17 are projections.

Other cash funds — Cash fund revenue to regulatory agencies will grow 2.7 percent to $70.3 million in FY 2014-15 after growing 5.3 percent the year before. The growth reflects higher use of services by individuals and firms that do business in regulated industries, a factor that is related to overall strength in Colorado's economy. 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 real estate appraisers, electric utilities, and veterinarians. Revenue from licensing fees and other services fund many of the Department's activities. Cash fund revenue related to regulatory agencies will grow 2.8 percent to $72.3 million in FY 2015-16.

Insurance-related cash fund revenue in FY 2014-15 will increase to $21.5 million. Decreased revenue to these cash funds in FY 2013-14 came largely as a result of action taken by the Division of Workers' Compensation to lower the surcharge on workers' compensation insurance premiums. The surcharge is used to fund the

Division of Workers' Compensation, as well as the Major Medical Insurance Fund and Subsequent Injury Fund which were created to absorb costs for individuals injured prior to 1981. Revenue to these cash funds will fall slightly to $21.3 million in FY 2015-16.

Miscellaneous Cash Funds will grow by 3.4 percent in FY 2014-15 after increasing more than 12 percent the year before, mostly as a result of growing momentum in the economy.

The category called Other Miscellaneous Cash Funds in Table 6 includes revenue from a variety of smaller cash funds that mostly collect revenue from fines and fees. Revenue from these funds is expected to be $540.9 million in FY 2014-15, an increase of 3.4 percent after growth of 12.4 percent the year before. Additional growth of 2.6 percent, or $13.8 million, is expected in FY 2015-16.

Revenue from the 2.9 percent sales tax on retail and medical marijuana, as well as fees related to regulation of the marijuana industry, is reflected in the miscellaneous cash funds category in Table 6. Proceeds from marijuana taxes that were authorized by Proposition AA in November 2013 are transferred to the Marijuana Tax Cash Fund, local governments, and school construction. Revenue from the retail marijuana 10 percent sales tax in Proposition AA goes first to the General Fund — and is included under sales tax revenue in Table 3 in the Appendix — before it is transferred to the Marijuana Tax Cash Fund and local governments. Proposition AA also included an excise tax of 15 percent on retail marijuana that is mostly credited to a cash fund for public school capital construction projects. However, Colorado voters exempted revenue from both taxes from TABOR limitations when they approved Proposition AA; therefore the revenue shown in Table 6 does not include revenue from the excise tax.

Taxpayer's Bill of Rights: Revenue Limit

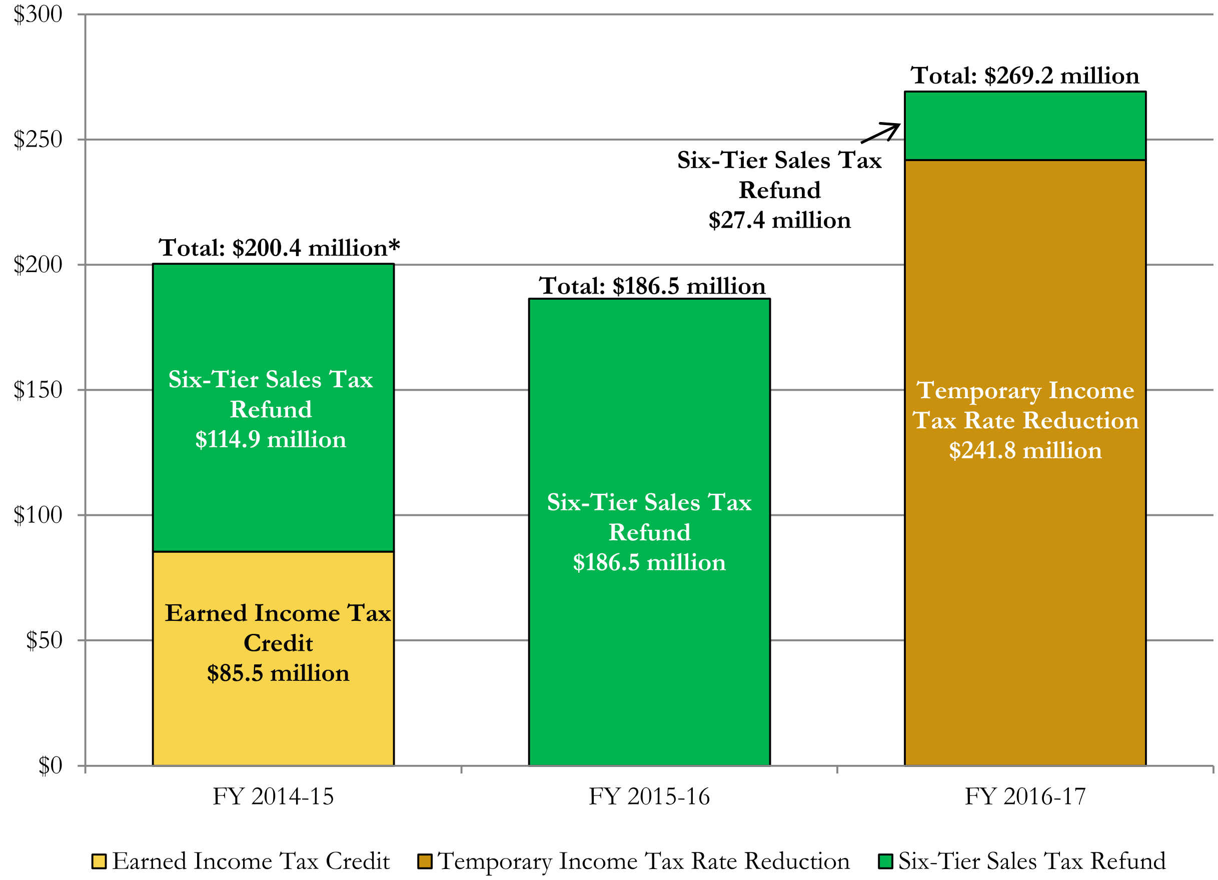
Background on TABOR – Provisions in the Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limit the growth of a large portion of State revenue to the sum of inflation plus population growth in the previous calendar year. Revenue collected above the TABOR limit must 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.

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 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 refunds are projected in all three years of this forecast – TABOR revenue is projected to exceed the Referendum C cap by $196.8 million in FY 2014-15, $186.5 million in FY 2015-16, and $269.2 million in FY 2016-17. Consequently, a refund to taxpayers will occur under this forecast, unless voters allow the State to retain the revenue. Colorado law currently specifies three mechanisms by which revenue in excess of the cap is refunded to taxpayers: a sales tax refund to all taxpayers ("six-tier sales tax refund"), the Earned Income Tax Credit to qualified taxpayers, and a temporary income tax rate reduction. The amount that needs to be refunded determines which refund mechanisms are used. Figure 24 shows the anticipated refund that will be distributed through each mechanism according to the revenue projections in this forecast and the statutorily defined refund mechanisms.

Figure 24. Projected Distribution of Revenue in Excess of the Referendum C Cap (Dollars in Millions)



* This amount includes $196.8 million in revenue above the Referendum C Cap forecast for FY 2014-15, as well as $3.6 million in pending amounts owed related to refunds from prior years. These amounts are the result of either (a) adjustments that were made to State accounting records for years in which TABOR refunds occurred that resulted in additional required refunds to taxpayers, or (b) the refund mechanisms in previous years refunding less actual money than the amount required. Such refunds are held by the State until a future year in which a TABOR refund occurs when they are added to the total refund amount and distributed to taxpayers.

In FY 2014-15, revenue above the cap will exceed the $100 million refund threshold amount that activates the State Earned Income Tax Credit (EITC), as specified by Section 39-22-123, C.R.S. Colorado taxpayers who qualify for the federal EITC will be able to claim up to ten percent of the amount they claim on their federal tax return on their state tax return for the 2015 tax year. The amount refunded through this mechanism is estimated to be $85.5 million and the credit is estimated to average about $220 per qualifying taxpayer. The State EITC is only a TABOR refund mechanism for one year because it becomes permanent after the year it is used as a TABOR refund mechanism. After the projected use of the EITC as a refund mechanism in FY 2014-15, it will be available to qualifying taxpayers on an ongoing basis.

The six-tier sales tax refund will distribute the remaining $114.9 million of the refund in FY 2014-15 as specified by Section 39-22-2002, C.R.S. The amount of the refund that can be claimed by each taxpayer is calculated according to a statutory formula that includes six adjusted gross income tiers and the total amount to be refunded. Estimates of the amount of the refund per taxpayer expected to be distributed by the six-tier sales tax refund are shown in Figure 25.

In FY 2015-16, the six-tier sales tax refund mechanism will be used to distribute the projected $186.5 million exceeding the Referendum C cap. The refund amount is not large enough to trigger the temporary income tax rate reduction. If revenue comes in higher than projected and exceeds the threshold that would activate the temporary tax rate reduction, then the amount refunded via the six-tier sales tax refund will be reduced and the majority of the refund will be distributed via the temporary income tax rate reduction. OSPB projects that threshold to be $224.1 million, or $37.6 million more than the excess revenue projected by this forecast.

The revenue in excess of the cap in FY 2016-17, estimated at $269.2 million in this forecast, will meet the refund threshold amount to activate the temporary income tax rate reduction refund mechanism as specified by Section 39-22-627, C.R.S. This refund mechanism will reduce the state income tax rate from 4.63 percent to 4.5 percent for tax year 2017. The amount refunded through this mechanism is estimated to be $241.8 million, which will account for most of the required TABOR refund from FY 2016-17. The remaining $27.4 million will be refunded through the six-tier sales tax refund mechanism.

Figure 25. Projected Distribution of Refunds via the Six-Tier Sales Tax Refund Mechanism

	FY 2014-15	FY 2015-16	FY 2016-17
Projected Total Refund via Six-Tier Sales Tax Refund	**$114.9 million**	**$186.5 million**	**$27.4 million**
Adjusted Gross Income Tier	Estimated Refund per Taxpayer		
First 35%	$26.2	$41.9	$8.45*
Next 27%	$31.3	$50.0	
Next 17%	$40.0	$63.9	
Next 9%	$48.5	$77.4	
Next 4%	$50.7	$80.9	
Last 7%	$76.4	$121.9	

* Because the amount to be refunded by the six-tier sales tax refund mechanism is not sufficient to pay each taxpayer at least $15 in FY 2016-17, the tiered formula will not be used. Instead, each taxpayer will receive an equal refund, estimated to be $8.45 under this forecast.

TABOR refunds effect on transfers to transportation and capital construction (SB 09-228 transfers) – In addition to activating distributions of refunds to taxpayers, the forecast revenue in excess of the Referendum C cap affects the transfers to transportation created by Senate Bill 09-228, as specified by Section 24-75-219, C.R.S. Because total personal income in Colorado is expected to grow by more than five percent in 2014, this statute requires transfers of General Fund revenue to the Highway Users Tax Fund and the Capital Construction Fund for five years starting in FY 2015-16. However, these transfers are reduced by half if there is a TABOR refund in the same fiscal year in an amount between one and three percent of total General Fund revenue. The transfers are suspended in full if there is a TABOR refund in excess of three percent of total General Fund revenue. Because the expected and budgeted transfers to capital construction are occurring each fiscal year above the required Senate Bill 09-228 transfer amount, they are not affected by TABOR refunds.

The projected TABOR refunds in FY 2015-16 and FY 2016-17 represent an amount equal to 1.8 percent and 2.5 percent of General Fund revenue, respectively. This means that the Senate Bill 09-228 transfers for transportation will be reduced by half in those years – from $206.2 million to $103.1 million in FY 2015-16, and from $217.0 million to $108.5 million in FY 2016-17 – under this forecast.

TABOR election provisions and Proposition AA – 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. The most recent forecasts for retail marijuana tax collections estimated that retail marijuana tax revenue would be less than this amount, though projections are highly uncertain and are subject to substantial revisions. Based on a legal analysis produced by 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 produced by 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 $448.5 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. The November 3, Governor's Budget request has earmarked a General Fund liability in FY 2014-15 of $30.5 million (line 10 of Table 4) to reflect the most recently available forecast for Proposition AA taxes. State law does not currently stipulate how any refund for this money to taxpayers must occur. The amount of the refund associated with the estimates for Proposition AA is not included in the projected refund mechanisms shown in Figure 25.

Governor's Revenue Estimating Advisory Committee

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

- Tucker Hart Adams – Senior Partner, Summit Economics LLC
- Elizabeth Garner - State Demographer, Colorado Department of Local Affairs
- Alexandra Hall - Labor Market Information Director, Colorado Department of Labor and Employment
- Ronald New – Capital Markets Executive
- Patricia Silverstein - President, Development Research Partners
- Richard Wobbekind - Associate Dean, Leeds School of Business; University of Colorado, Boulder

Appendix – Reference Tables

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

Line No.		Actual							December 2014 Forecast		
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
	Income										
1	Personal Income (Billions) /A	$202.6	$212.1	$206.4	$210.5	$226.1	$240.3	$247.1	$261.4	$276.9	$294.2
2	Change	5.6%	4.7%	-2.7%	1.9%	7.5%	6.3%	2.8%	5.8%	5.9%	6.2%
3	Wage and Salary Income (Billions) /A	$112.5	$116.7	$112.3	$113.8	$118.6	$125.1	$129.6	$138.0	$146.5	$155.3
4	Change	6.5%	3.7%	-3.8%	1.3%	4.2%	5.5%	3.6%	6.5%	6.1%	6.0%
5	Per-Capita Income ($/person) /A	$42,017	$43,269	$41,480	$41,676	$44,192	$46,324	$46,928	$48,856	$50,915	$53,186
6	Change	3.4%	3.0%	-4.1%	0.5%	6.0%	4.8%	1.3%	4.1%	4.2%	4.5%
	Population & Employment										
7	Population (Thousands)	4,821.8	4,901.9	4,976.9	5,049.7	5,117.4	5,188.5	5,264.9	5,350.6	5,439.3	5,532.0
8	Change	1.6%	1.7%	1.5%	1.5%	1.3%	1.4%	1.5%	1.6%	1.7%	1.7%
9	Net Migration (Thousands)	35.0	40.5	36.3	37.0	33.7	39.2	45.3	51.3	56.2	59.6
10	Unemployment Rate	3.8%	4.8%	8.1%	9.0%	8.5%	7.8%	6.8%	5.3%	4.0%	4.1%
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	2,451.2	2,519.5	2,588.2
12	Change	2.3%	0.8%	-4.5%	-1.0%	1.6%	2.4%	3.0%	2.9%	2.8%	2.7%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	29.5	19.0	9.4	11.6	13.5	23.3	27.5	31.1	35.4	40.8
14	Change	-23.1%	-35.6%	-50.8%	23.9%	16.5%	72.6%	18.0%	12.9%	14.1%	15.1%
15	Nonresidential Construction Value (Millions) /C	5,259.5	4,114.0	3,354.5	$3,146.7	$3,923.2	$3,692.0	$3,609.7	$4,231.7	$4,479.7	$4,799.2
16	Change	13.3%	-21.8%	-18.5%	-6.2%	24.7%	-5.9%	-2.2%	17.2%	5.9%	7.1%
	Prices & Sales Variables										
17	Retail Trade (Billions) /D	$75.3	$74.8	$66.5	$70.5	$75.9	$80.0	$83.6	$89.6	$94.5	$100.2
18	Change	6.9%	-0.7%	-11.1%	6.0%	7.7%	5.4%	4.5%	7.2%	5.4%	6.1%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	220.3	224.6	230.8	237.3	243.6	249.8
20	Change	2.2%	3.9%	-0.6%	1.9%	3.7%	1.9%	2.8%	2.8%	2.6%	2.5%

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

/B 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							December 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	$14,873.7	$14,830.4	$14,418.7	$14,783.8	$15,020.6	$15,369.2	$15,710.3	$16,071.6	$16,505.6	$16,934.7
2	Change	1.8%	-0.3%	-2.8%	2.5%	1.6%	2.3%	2.2%	2.3%	2.7%	2.6%
3	Personal Income (Billions) /B	$11,994.9	$12,429.6	$12,087.5	$12,429.3	$13,202.0	$13,887.7	$14,166.9	$14,776.1	$15,514.9	$16,337.2
4	Change	5.3%	3.6%	-2.8%	2.8%	6.2%	5.2%	2.0%	4.3%	5.0%	5.3%
5	Per-Capita Income ($/person)	$39,761	$40,817	$39,325	$40,143	$42,275	$43,736	$44,666	$46,348	$48,282	$50,419
6	Change	4.3%	2.7%	-3.7%	2.1%	5.3%	3.5%	2.1%	3.8%	4.2%	4.4%
7	Wage and Salary Income (Billions) /B	$6,395	$6,532	$6,251	$6,378	$6,633	$6,932	$7,124.7	$7,488.1	$7,944.8	$8,445.4
8	Change	5.6%	2.1%	-4.3%	2.0%	4.0%	4.5%	2.8%	5.1%	6.1%	6.3%
	Population & Employment										
9	Population (Millions)	301.6	304.4	307.1	309.6	311.9	314.2	316.4	318.8	321.3	324.0
10	Change	1.0%	0.9%	0.9%	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%
11	Unemployment Rate	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.5%	5.3%
12	Total Nonagricultural Employment (Millions)	137.9	137.2	131.2	130.3	131.8	134.1	136.4	138.9	141.5	144.1
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	237.0	241.5	247.1
15	Change	2.9%	3.8%	-0.4%	1.6%	3.1%	2.1%	1.5%	1.7%	1.9%	2.3%
16	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.7	201.0	202.2	203.4	206.5	212.3	221.1
17	Change	4.8%	9.8%	-8.8%	6.8%	8.8%	0.6%	0.6%	1.5%	2.8%	4.1%
	Other Key Indicators										
18	Corporate Profits (Billions)	1,529.0	1,285.1	1,397.0	1,746.4	$1,816.6	$2,022.8	$2,106.9	$2,131.9	$2,327.1	$2,454.1
19	Change	-7.1%	-16.0%	8.7%	25.0%	4.0%	11.4%	4.2%	1.2%	9.2%	5.5%
20	Housing Permits (Millions)	1.392	0.896	0.582	0.604	0.624	0.829	0.990	1.039	1.268	1.523
21	Change	-24.3%	-35.6%	-35.0%	3.8%	3.3%	32.9%	19.4%	4.9%	22.1%	20.1%
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	$5,558.3	$5,831.1
23	Change	3.4%	-0.9%	-7.3%	5.5%	7.5%	5.4%	4.2%	4.0%	5.1%	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 2013-14	% Chg	December 2014 Estimate by Fiscal Year FY 2014-15	% Chg	FY 2015-16	% Chg	FY 2016-17	% Chg
	Excise Taxes:								
1	Sales	$2,424.6	9.6%	$2,642.5	9.0%	$2,775.6	5.0%	$2,907.2	4.7%
2	Use	$241.5	-0.5%	$250.1	3.5%	$261.5	4.6%	$279.9	7.0%
3	Cigarette	$36.6	-4.5%	$37.0	1.1%	$34.9	-5.5%	$33.7	-3.6%
4	Tobacco Products	$16.9	8.4%	$19.6	16.0%	$19.1	-2.3%	$19.6	2.6%
5	Liquor	$40.3	2.9%	$42.1	4.3%	$42.5	1.1%	$43.6	2.5%
6	**Total Excise**	**$2,759.9**	**8.3%**	**$2,991.2**	**8.4%**	**$3,133.8**	**4.8%**	**$3,284.0**	**4.8%**
	Income Taxes:								
7	Net Individual Income	$5,696.1	1.8%	$6,276.3	10.2%	$6,643.7	5.9%	$6,986.2	5.2%
8	Net Corporate Income	$720.7	13.3%	$741.0	2.8%	$795.4	7.3%	$860.4	8.2%
9	**Total Income**	**$6,416.8**	3.0%	**$7,017.4**	9.4%	**$7,439.1**	**6.0%**	**$7,846.5**	**5.5%**
10	*Less: State Education Fund Diversion*	*$478.8*	*-1.6%*	*$526.3*	*9.9%*	*$557.9*	*6.0%*	*$588.5*	*5.5%*
11	**Total Income to General Fund**	**$5,938.0**	**3.3%**	**$6,491.1**	**9.3%**	**$6,881.2**	**6.0%**	**$7,258.0**	**5.5%**
	Other Revenue:								
12	Insurance	$239.1	13.6%	$246.0	2.9%	$252.2	2.5%	$258.6	2.5%
13	Interest Income	$12.9	-26.1%	$16.1	25.1%	$19.2	18.9%	$20.1	4.9%
14	Pari-Mutuel	$0.6	-8.8%	$0.6	-9.7%	$0.5	-5.0%	$0.5	-5.0%
15	Court Receipts	$2.6	9.5%	$2.7	3.9%	$2.5	-5.0%	$2.4	-5.0%
16	Other Income	$21.3	17.9%	$20.3	-4.8%	$21.6	6.1%	$26.2	21.4%
17	**Total Other**	**$276.9**	**11.2%**	**$285.7**	**3.2%**	**$296.0**	**3.6%**	**$307.8**	**4.0%**
18	**GROSS GENERAL FUND**	**$8,974.8**	**5.1%**	**$9,767.9**	**8.8%**	**$10,310.9**	**5.6%**	**$10,849.8**	**5.2%**

Table 4. General Fund Overview with November 3, 2014 Budget Request
(Dollar Amounts in Millions)

Line No.		Actual FY 2013-14	December 2014 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserve**	**$373.0**	**$435.9**	**$604.2**	**$540.3**
2	**Gross General Fund Revenue**	**$8,974.8**	**$9,767.9**	**$10,310.9**	**$10,849.8**
3	*Transfers to the General Fund*	*$14.2*	*$30.9*	*$16.4*	*$18.0*
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,361.9**	**$10,234.7**	**$10,931.4**	**$11,408.2**
Expenditures					
5	**Appropriation Subject to Limit /A**	**$8,218.7**	**$8,859.2**	**$9,431.1**	**$9,899.7**
6	*Dollar Change (from prior year)*	*$759.5*	*$640.5*	$571.9	$468.6
7	*Percent Change (from prior year)*	10.2%	7.8%	6.5%	5.0%
8	**Spending Outside Limit**	**$545.5**	**$771.4**	**$960.0**	**$865.0**
9	*TABOR Refund under Art. X, Section 20, (7) (d) /B*	*$0.0*	*$200.4*	*$186.5*	*$269.2*
10	*TABOR Refund under Art. X, Section 20, (3) (c) /C*	*$0.0*	*$30.5*	*$0.0*	*$0.0*
11	*Rebates and Expenditures /D*	*$250.2*	*$255.7*	$270.9	$281.9
12	*Transfers to Capital Construction /E*	*$186.7*	*$225.5*	$281.6	$130.4
13	*Transfers to Highway Users Tax Fund /E*	$0.0	$0.0	$103.1	$108.5
14	*Transfers to State Education Fund under SB 13-234*	$45.3	$25.3	$25.3	$25.3
15	*Transfers to Other Funds*	$30.9	$33.9	$50.3	$49.6
16	*Other Expenditures Exempt from General Fund Appropriations Limit /F*	$32.4	$0.0	$0.0	$0.0
17	*Other Expenditures under November 3, Budget Request /G*	NA	NA	$42.3	NA
18	**TOTAL GENERAL FUND OBLIGATIONS**	**$8,764.3**	**$9,630.6**	**$10,391.1**	**$10,764.7**
19	*Percent Change (from prior year)*	10.8%	9.9%	7.9%	3.6%
20	Reversions and Accounting Adjustments	*-$53.2*	*$0.0*	$0.0	$0.0
Reserves					
21	**Year-End General Fund Balance**	**$650.9**	**$604.2**	**$540.3**	**$643.5**
22	*Year-End General Fund as a % of Appropriations*	*7.9%*	*6.8%*	5.7%	6.5%
23	*General Fund Statutory Reserve*	$410.9	$575.8	$613.0	$643.5
24	*Above (Below) Statutory Reserve*	$240.0	$28.3	-$72.7	$0.0
25	*Transfer of Excess Reserve to Other Funds /H*	-$215.0	$0.0	$0.0	$0.0
26	*Balance After Any Funds Above Statutory Reserve are Allocated*	$25.0	$28.3	-$72.7	$0.0

/A This limit equals 5.0% of Colorado personal income. The appropriations amounts for FY 2014-15 and FY 2015-16 reflect the Governor's November 3, 2014 budget request. The FY 2016-17 amount represents the level of spending that can be supported by projected revenue while maintaining the General Fund's required reserve amount. The amounts will change based on future budgeting decisions and updates to the revenue forecast.

/B Current law requires TABOR refunds to be accounted for in the year the excess revenue is collected. The refund amount for FY 2014-15 includes $196.8 million in revenue above the Referendum C cap shown in Table 7, as well as $3.6 million in pending amounts owed related to refunds from prior years. See pages 40-42 for further information. The mechanisms used to refund the excess revenue, such as the Earned Income Tax Credit, will reduce revenue to the General Fund. However, the refund mechanisms are not shown as reducing revenue in this forecast, only as amounts that need to be refunded. The net impact to the General Fund under both scenarios is essentially the same.

/C Reflects liability for TABOR refund relating to Proposition AA. See page 43 for further information.

/D 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 30.

/E SB09-228 transfers to capital construction and the Highway Users Tax Fund are expected in FY 2015-16. The expected and budgeted transfers to capital construction that are occurring each fiscal year in the table exceed the required transfer amount. The amount for FY 2014-15 reflects the budgeted transfers under current law, while the amount for FY 2015-16 is the Governor's budget request. The FY 2016-17 amount reflects the needed level to fund the continuation of projects funded in prior years, specific "certificate of participation" financing agreements used for capital projects, and priority, or "Level I," building maintenance projects. Because TABOR refunds of a certain amount are projected in FY 2015-16 and FY 2016-17, the required transfers for transportation are reduced by 50 percent in those years. See page 42 for further details.

/F Spending by the Medicaid program above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount in this line.

/G This amount includes $30.0 million associated with the Colorado Opportunity Scholarship Initiative, $8.0 related to the settlement of oil and gas lease litigation on the Roan Plateau, and $4.3 million to account for TABOR refunds caused by increased fees.

/H All of the FY 2013-14 excess reserves, except $25 million that remained 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 32 for further information.

Table 5. General Fund and State Education Fund Overview with November 3, 2014 Budget Request
(Dollar Amounts in Millions)

Line No.		Actual	December 2014 Estimate by Fiscal Year		
		FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserves**	**$556.3**	**$1,484.9**	**$1,280.0**	**$685.5**
2	*State Education Fund*	$183.4	$1,048.9	$675.9	$145.2
3	*General Fund*	$373.0	$435.9	$604.2	$540.3
4	**Gross State Education Fund Revenue**	**$1,605.1**	**$596.1**	**$589.1**	**$619.9**
5	**Gross General Fund Revenue /A**	**$8,989.0**	**$9,798.8**	**$10,327.3**	**$10,867.8**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,150.4**	**$11,879.8**	**$12,196.4**	**$12,173.3**
Expenditures					
7	General Fund Expenditures /B	$8,764.3	$9,630.6	$10,391.1	$10,764.7
8	State Education Fund Expenditures /C	*$742.2*	*$969.2*	*$1,119.8*	*$602.9*
9	**TOTAL OBLIGATIONS**	**$9,506.4**	**$10,599.8**	**$11,510.9**	**$11,367.6**
10	*Percent Change (from prior year)*	12.9%	11.5%	8.6%	-1.2%
11	*Reversions and Accounting Adjustments*	*($55.8)*	*$0.0*	*$0.0*	*$0.0*
Reserves					
12	**Year-End Balance**	**$1,699.8**	**$1,280.0**	**$685.5**	**$805.7**
13	State Education Fund /C	$1,048.9	$675.9	$145.2	$162.2
14	General Fund	$650.9	$604.2	$540.3	$643.5
15	*Transfer of Excess General Fund Reserve to Other Funds /D*	-$215.0	$0.0	$0.0	$0.0
16	*General Fund Excess After Any Funds Above Statutory Reserve are Allocated*	$25.0	$28.3	-$72.7	$0.0

/A This amount includes transfers to the General Fund shown in line 3 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 2015-16 reflect the Governor's November 3, 2014 budget request. The expenditures for FY 2016-17 reflect projected spending if the negative factor in the School Finance Act is at the FY 2014-15 dollar amount. 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 All of the FY 2013-14 excess reserves, except $25 million that remained 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 32 for further information.

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

Category	Actual FY 2013-14	December 2014 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Transportation-Related /A	**$1,135.7**	**$1,175.9**	**$1,186.1**	**$1,211.7**
Change	3.4%	3.5%	0.9%	2.2%
Limited Gaming Fund /B	**$98.3**	**$102.3**	**$105.3**	**$108.5**
Change	0.2%	4.1%	3.0%	3.0%
Capital Construction - Interest	**$2.4**	**$4.0**	**$2.2**	**$1.6**
Change	139.1%	66.5%	-43.8%	-29.9%
Regulatory Agencies	**$68.5**	**$70.3**	**$72.3**	**$74.3**
Change	5.3%	2.7%	2.8%	2.9%
Insurance-Related	**$20.7**	**$21.5**	**$21.3**	**$22.5**
Change	-21.7%	4.0%	-1.1%	5.6%
Severance Tax	**$268.7**	**$349.7**	**$185.3**	**$194.5**
Change	93.9%	30.1%	-47.0%	4.9%
Hospital Provider Fees /C	**$566.7**	**$532.3**	**$688.5**	**$727.3**
Change	-13.2%	-6.1%	29.3%	5.6%
Other Miscellaneous Cash Funds	**$523.0**	**$540.9**	**$554.8**	**$573.8**
Change	12.4%	3.4%	2.6%	3.4%
TOTAL CASH FUND REVENUE	***$2,684.0***	***$2,796.9***	***$2,815.8***	***$2,914.2***
Change	5.4%	4.2%	0.7%	3.5%

/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.		Preliminary FY 2013-14	December 2014 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
	TABOR Revenues:				
1	General Fund /A	$8,962.6	$9,735.4	$10,261.3	$10,799.8
	Percent Change from Prior Year	5.0%	8.6%	5.4%	5.2%
2	Cash Funds /A	$2,729.3	$2,796.9	$2,815.8	$2,914.2
	Percent Change from Prior Year	6.2%	2.5%	0.7%	3.5%
3	**Total TABOR Revenues**	**$11,691.9**	**$12,532.3**	**$13,077.1**	**$13,714.1**
	Percent Change from Prior Year	5.3%	7.2%	4.3%	4.9%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.4%	1.5%	1.6%	1.7%
5	Previous calendar year inflation	1.9%	2.8%	2.8%	2.6%
6	**Allowable TABOR Growth Rate**	3.3%	4.2%	4.5%	4.3%
7	TABOR Limit /B	$9,566.6	$9,953.7	$10,401.6	$10,848.9
8	General Fund Exempt Revenue Under Ref. C /C	$2,125.3	$2,578.6	$2,675.5	$2,865.2
9	**Revenue Cap Under Ref. C /B, D**	**$11,852.4**	**$12,335.5**	**$12,890.6**	**$13,444.9**
10	***Amount Above/(Below) Cap***	**-$160.5**	**$196.8**	**$186.5**	**$269.2**
11	TABOR Reserve Requirement	$350.8	$370.1	$386.7	$403.3

/A Amounts differ from the General Fund and Cash Fund revenues reported in Table 3 and Table 6 due to accounting adjustments and because some General Fund revenue is exempt from TABOR.

/B The TABOR limit and Referendum C Cap for FY 2013-14 and FY 2014-15 is adjusted to account for changes in the enterprise status of various State entities.

/C 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.

/D 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.