COLORADO
Office of State Planning & Budgeting

March | 2015

The Colorado Economic Outlook

Economic and Fiscal Review

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Summary

- Projections for General Fund revenue for FY 2014-15 are essentially unchanged compared with the December 2014 forecast. General Fund revenue is expected to grow 8.8 percent this fiscal year from continued solid economic growth in the state. Revenue growth will be slower in FY 2015-16 resulting in part from a decline in oil and gas industry-related activity. Projections for FY 2015-16 are 0.4 percent, or $43.7 million, lower compared with December.

- Under this forecast, the State's General Fund reserve is projected to be $20.3 million below its required amount for FY 2014-15. The shortfall is the result of higher projections for cash fund revenue that increases the TABOR refund liability in the General Fund. Under the Governor's budget request for FY 2015-16, the State's General Fund reserve is projected to be $0.6 million above its required amount.

- TABOR revenue is projected to exceed the cap by $216.2 million in FY 2014-15, $120.4 million in FY 2015-16, and $316.6 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 size of the TABOR refunds in FY 2015-16 and FY 2016-17, SB 09-228 transfers will be reduced by half. However, smaller TABOR refunds than forecast would trigger the full transfer amount, creating a General Fund shortfall under the Governor's budget request.

- 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.

- The Colorado economy's solid momentum has continued into 2015. Unemployment has returned to near the low levels experienced in 2006 and 2007 during the last expansion. Still, broader measures of unemployment remain elevated and job growth continues to be slower outside the northern Front Range. Growth is expected to slow modestly from its recent pace due to a pullback in the oil and gas industry resulting from the sharp decline in oil prices. The solid momentum in other areas of the economy is expected to continue to produce job and income growth for the state.

- Because the oil and gas industry and the economic activity associated with it have been an important part of the state's growth in the current expansion, there is risk of a larger economic slowdown than forecast, especially if oil prices decline further and remain low. Much will depend on the number of layoffs resulting from a slowdown in the industry as well as how quickly laid-off workers can find opportunities in other sectors. Conversely, employment losses may be less than this forecast assumes, causing less of a slowdown in the overall economy. Further, momentum in the state economy may be strong enough to offset a slowdown in the oil and gas industry to a larger degree than this forecast assumes.

- Cash fund revenue subject to TABOR in FY 2014-15 will be 3.4 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 will decline 1.4 percent in FY 2015-16 as an expected large decrease in severance tax revenue will offset growth in revenue from the Hospital Provider Fee.

THE ECONOMY: ISSUES, TRENDS, AND FORECAST

Economic conditions are the foundation of our ability to predict tax collections and the demand of certain State services. The following section discusses overall economic conditions in Colorado, nationally, and around the world. This Outlook also includes an analysis of wage trends in the economy, specifically for Colorado. Compared with the December Colorado Economic Outlook, our forecast for job and income growth is slower due to an expected contraction in the oil and gas industry resulting from the sharp drop in oil prices. The following section includes:

Trends and forecasts for key economic indicators — At the end of this section on page 28 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 — The Colorado economy's solid momentum has continued into 2015. Unemployment has returned to near the low levels experienced in 2006 and 2007 during the last expansion. Still, broader measures of unemployment remain higher and job growth continues to be slower outside the northern Front Range. Growth is expected to slow modestly from its recent pace due to a pullback in the oil and gas industry resulting from the sharp decline in oil prices. Because of the concentration of the oil and gas industry in the state and the large contribution it has made to growth in the current economic expansion, the negative economic impacts of the industry's slowdown will likely outweigh the positive benefits of lower gas prices to consumers and businesses. Momentum in Colorado's economy, however, will help continue to produce job and income growth for the state.

The national economy's expansion has reached a solid and steady pace, with continued strong job gains. Despite the recent momentum, labor market conditions remain weaker compared to most previous expansions. Major economies in the global economy continue to struggle, which is weighing on exports for both the state and the nation.

Since the early 2000s, industries that have had the fastest-growing wages in Colorado include information and technology, health care, company headquarters, and oil and gas. Consumer retail-related industries have generally experienced the most weakness in wages. Employment in lower-paying and higher-paying industries has increased more than in middle-wage industries since the early 2000s. However, more recently, job growth in middle-paying industries has increased at a faster rate than lower- and higher-paying industries.

Wage growth since the end of the recession has been notably slower than previous expansions, though some regions and sectors have had higher wage growth than others. Some rural areas experienced the most wage growth, including parts of eastern Colorado and southwestern Colorado. Of areas with larger populations and economies, the Larimer and Weld County region experienced the most wage growth. Lower unemployment should begin to make wage gains more widespread.

Economic risks — Because the oil and gas industry is linked with overall economic activity in the state, there is risk of a larger economic slowdown than forecast, especially if the industry's contraction is larger and longer than anticipated. Much will depend on the number of layoffs and the size of the loss of wages resulting from a slowdown in the industry as well as how quickly laid-off workers can find opportunities in other sectors to earn income and help those sectors grow. It will also depend on the extent that businesses dependent on oil and gas activity can find other sources of growth

Slow growth in major global economies also continues to pose a risk. These conditions could result in disruptions in financial markets, weakened confidence, lower expectations for future growth, and reduced investment.

Colorado's Economy

The Colorado economy's solid momentum has continued into 2015, with the northern Front Range experiencing higher levels of growth than other areas. Statewide job growth in 2014 was at its highest pace since the expansion of the latter 1990s and early 2000s. As a result, unemployment is near the low levels reached during the last expansion before the Great Recession.

Colorado's strong growth is due to the state's diverse set of industries, many of which are tied to information and technology, a large part of economic growth in today's economy. A continued increase in new businesses — important for both job creation and economic vitality — due to the state's entrepreneurial ethic also is boosting growth. Based on data from the Colorado Department of Labor and Employment, new businesses filing with the state's unemployment insurance system increased 9.2 percent from the third quarter of 2013 to the third quarter of 2014, the latest data available. This shows that entrepreneurs continue to see opportunities and are pursuing more projects, which is leading to new jobs and a broader increase in economic activity. The state also is experiencing strong tourism activity. As a result of these and other favorable ingredients, many indicators show that Colorado continues to be among the top-performing economies in the nation.

> The Colorado economy's solid momentum has continued into 2015. Slower growth however is expected later in 2015 and into 2016 due to a slowdown in the oil and gas industry.

As economic activity increases, housing costs are appearing as somewhat of a challenge. This is especially the case in Front Range areas where strong demand for housing is outpacing supply. According to the latest Home Price Index from CoreLogic, the value of homes in Colorado grew 9.1 percent in January from a year earlier, led mostly by home price gains in the Denver area. The increase in January was the highest rate of appreciation of any state in the country.

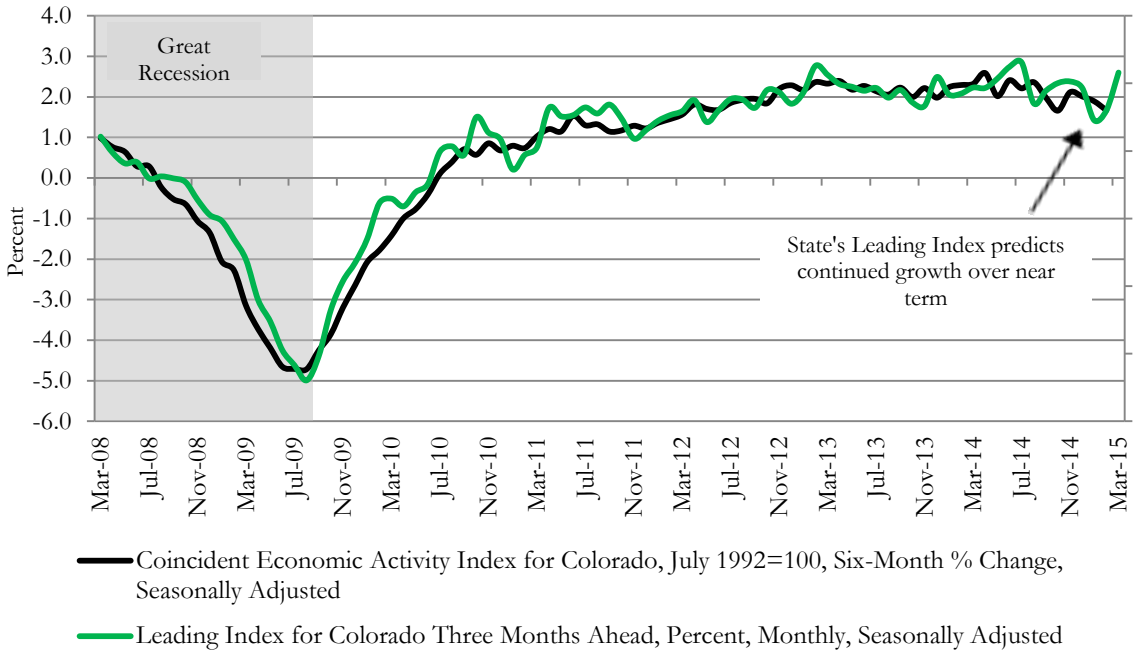
Energy production also has been a large driver of the income and employment growth in Colorado, especially along the northern Front Range. The recent sharp decline in oil prices is slowing the industry's investment in the state, which will reduce jobs and slow overall growth. The solid momentum in other areas of the economy, however, is expected to continue to produce job and income growth for the state. A further discussion on the impact of falling oil prices on the economy starts on page 9.

Indices that measure Colorado's overall economy show strong performance – The Federal Reserve Bank of Philadelphia's monthly State Coincident Economic Activity Index places Colorado among the top states for economic growth. Since 2012, Colorado's economy has had the fifth best growth according to the measure. The index is one of the most up-to-date broad measures of state economic activity and matches growth in a state's gross domestic product (GDP) over time. It combines four state-level indicators to track

current economic conditions – employment, average hours worked in manufacturing, the unemployment rate, and inflation-adjusted wage and salary disbursements.

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

Figure 1. Colorado Leading and Coincident Economic Indices since 2008



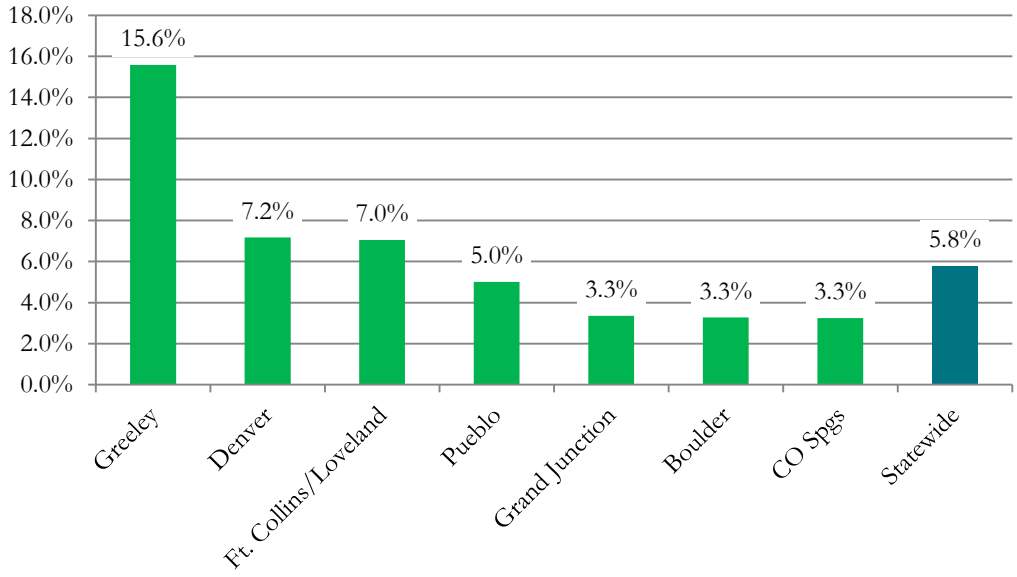
Source: Philadelphia Federal Reserve Branch

Labor market conditions improved markedly in 2014 – The state added 78,900 jobs in 2014, a growth rate of 3.3 percent. Most of the growth was driven by the economic expansion along the northern Front Range. This region is providing more job opportunities due to its growth in new business creation and mix of industries involving products that are in higher demand in today's economy.

Figure 2 shows job growth by region in Colorado since the beginning of 2013. During this time, jobs statewide grew 5.8 percent. Greeley experienced the most growth among the state's metropolitan statistical areas (MSA). This area has experienced among the highest job growth rates in the country, mostly due to growth in the oil and gas industry. Consequently, it is likely to have the largest adverse impact of the slowdown in the industry. Grand Junction, Boulder, and Colorado Springs all posted job growth of 3.3 percent, slower than Denver, Fort Collins/Loveland, and Pueblo.

Labor market conditions in Colorado improved substantially in 2014. The state added 78,900 jobs and unemployment fell sharply across the state.

Figure 2. Growth in Jobs by Colorado Region
January of 2013 through December 2014, Seasonally Adjusted

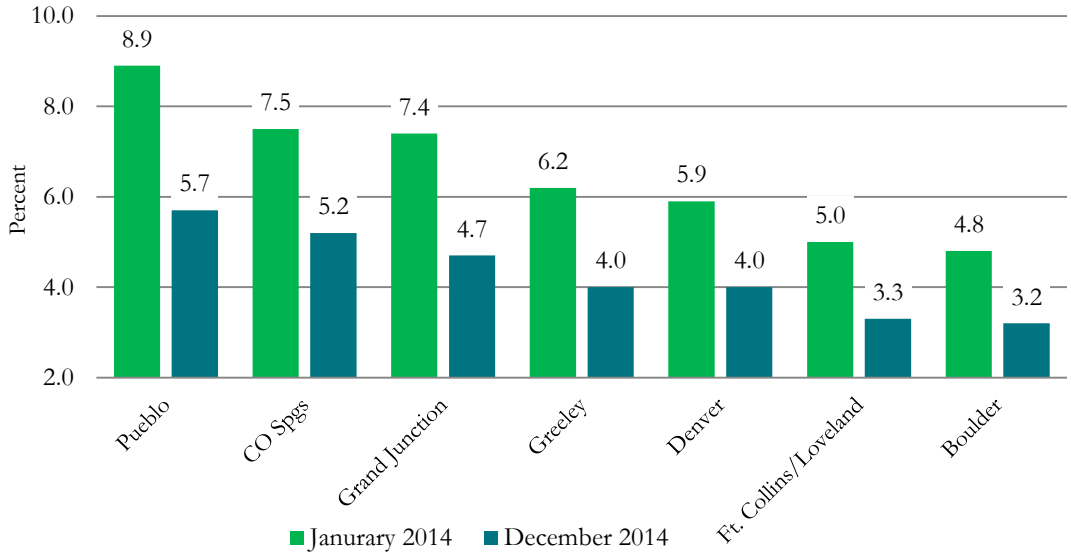


Source: U.S. Bureau of Labor Statistics; includes the Colorado Department of Labor and Employment's estimates of forthcoming revisions to jobs data. The estimates are based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in than has been estimated based on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

Unemployment has dropped sharply — In January of this year, the latest month for which data was available, the statewide average unemployment rate was 4.2 percent, after starting 2014 at 5.8 percent. The rate has come down from its high level of 8.9 percent in the fall of 2010.

Unemployment fell sharply across the state in 2014. Some of the declines in areas with slower job growth however were partly due to weaker population and labor force growth. The northern Front Range continues to have lower unemployment than other areas due to its stronger economic activity. Unemployment rates in this region are near their lowest levels during the last expansion before the recession. Unemployment in Pueblo, Grand Junction, and Colorado Springs are all higher than the statewide average. The December 2014 unemployment rate by region is shown in Figure 3. The figure also shows the unemployment rate for each region at the beginning of 2014.

Figure 3. Unemployment Rate by Colorado Region, January 2014 and December 2014



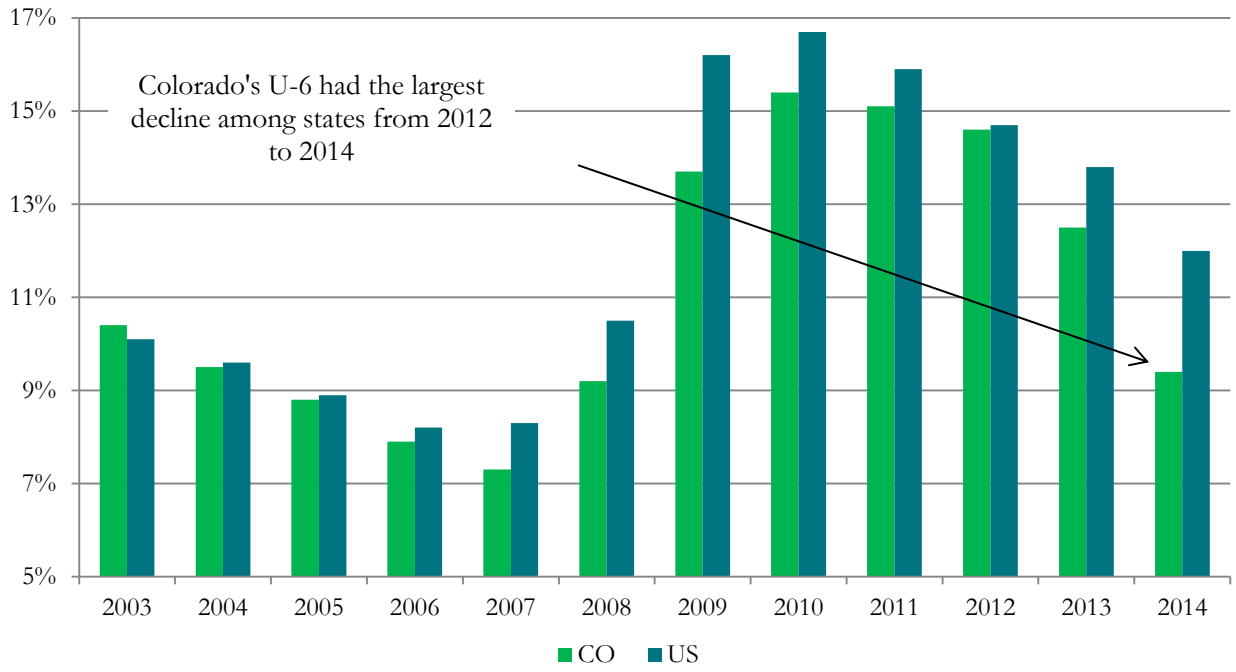
Source: U.S. Bureau of Labor Statistics

Colorado's U-6 unemployment rate, which represents a broad measure of unemployment, had the largest drop among states from 2012 to 2014.

A broader measure of labor-market conditions called "U-6" has also recently fallen sharply in Colorado. (The rate is only available at a statewide level.) Colorado's U-6 measure averaged 9.4 percent in 2014, below 10 percent for the first time since 2008, and substantially below the 12.0 percent U-6 rate registered for the nation in 2014. Colorado's U-6 rate has fallen faster than in most states, and from 2012 to 2014 had the largest drop among states.

As discussed on page 19 in the section on trends in wages, this lower U-6 rate is expected to increase wage growth in the state as employers compete for workers. 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 4 shows the U-6 rate for the nation and Colorado from 2003 to 2014. Despite its recent decline in Colorado, the rate remains elevated compared with the period before the Great Recession.

Figure 4. U-6 Rate for Colorado and US, 2003 to 2014



Source: U.S. Bureau of Labor Statistics

The Impact of Lower Oil Prices on Colorado's Economy

Although the oil and gas industry represents a small part of overall employment in the state (roughly one percent),[1] the industry and the economic activity associated with it have been an important part of the state's growth in the current expansion. Spending by the industry and its high wages have large economic impacts. Consequently, a decrease in investment and employment in the industry due to the recent decline in oil prices will weigh on economic growth and the labor market.

> The oil and gas industry has been an important part of the state's economic growth in the current expansion. Consequently, a decrease in investment and employment in the industry is expected to weigh on growth and the labor market.

Growth in wages from the oil and gas sector comprised about 7 percent of the growth in total wages that occurred in the state from the first half of 2010 to the first half of 2014, based on Quarterly Census of Employment and Wages data. However, considering the multiplier effect of the industry, which includes economic activity within the oil industry's supply chain as well as in industries throughout the economy resulting from spending in the oil and gas industry, the sector contributed an estimated 12 percent to total wage growth over the period.[2]

[1] The oil and gas industry in this analysis includes the following industry NAICS codes: oil and gas extraction (211), drilling oil and gas wells (213111), support activities for oil and gas operations (213112), oil and gas pipeline and related structures construction (237120), and pipeline transportation (486). Other NAICS codes also contain some professions that serve the oil and gas industry, such as truck drivers, staffing agencies, and other professions that are impacted by the industry but do not exclusively serve oil and gas businesses.

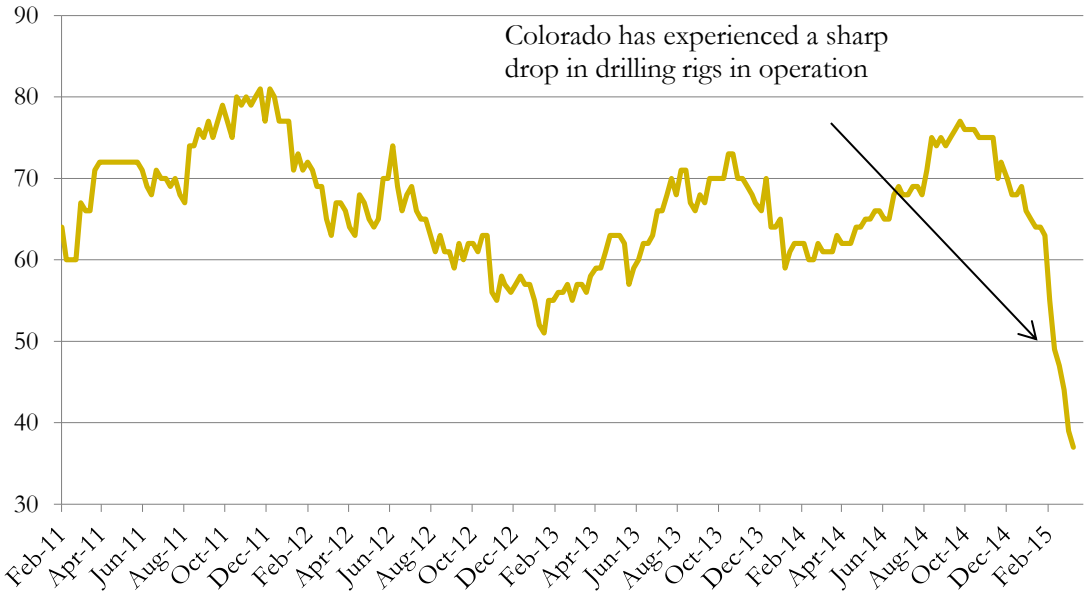
[2] The multiplier effects are based on EMSI's (Economic Modeling Specialists International) input-output model for Colorado. EMSI's estimated multiplier effects for the oil and gas industry are similar to the University of Colorado's Leeds School of Business's estimates using the IMPLAN

As a result of the fast growth in oil supply in recent years, especially from U.S. production, weaker global demand, and a stronger dollar, oil prices have declined about 50 percent since their highs last summer. This is making oil exploration and extraction less profitable in Colorado. Forecasts for future prices range widely, and are highly unpredictable due to the many factors that influence them. The Energy Information Administration (EIA) expects prices to rise slowly from current levels through 2016 as the oil market rebalances supply and demand. EIA forecasts West Texas Intermediate oil prices will average $52 per barrel this year and $70 per barrel in 2016.

Several oil and gas businesses across the country have announced layoffs and reductions in investment and production plans. The number of oil and gas drilling rigs operating across the country has declined 42 percent through the week of March 9th since the fall of 2014, according to oil and gas-services firm Baker Hughes. Employment reports nationally have shown a decrease in jobs in oil and gas related-industries since the end of 2014.

Industry representatives have indicated a pullback in investment in Colorado as well. As shown in Figure 5, there were 40 fewer drilling rigs operating in the state during week of March 9th compared with the fall of 2014, a 52 percent drop, according to data from Baker Hughes. Natural gas prices have also declined, causing natural gas-related activity to slow as well.

Figure 5. Colorado Oil and Gas Drilling Rigs in Operation, January, 2011 through Week of March 9, 2015



Source: Baker Hughes

OSPB's March forecast assumes a 10 percent decrease in employment in oil and gas-related jobs throughout 2015 and 2016, which is a loss of about 3,700 jobs and a reduction in wages paid by the industry in the state of about $425 million. Considering the estimated multiplier effect of reduced oil and gas employment, total wages in the state would be reduced by about $975 million and total employment by roughly 13,000 jobs,

software package reported in a study of the industry published in May 2014. The wage growth data is based on Quarterly Census of Employment and Wages from the Colorado Department of Labor and Employment, which provides data on the employment and wages of employer firms. The data excludes wages from non-employer businesses, such as self-employed, that do not file with the State's unemployment insurance system.

which is about a half a percent decline. Unemployment insurance and severance pay will offset a portion of the loss in wages, however. While we have tried to incorporate the full impact of a drop of this magnitude, it is impossible to capture precisely the full response of adjustments that individuals and businesses would make in response to a contracting oil and gas industry.

The magnitude of the overall economic effects of weaker oil and gas activity will depend on the size of the industry's contraction and how quickly laid-off workers can find opportunities in other sectors to earn income and help those sectors grow. It will also depend on the extent that firms dependent on oil and gas activity can find other sources of growth or replacement business.

Many of the state's other industries have solid momentum that will help absorb some of the losses tied to oil and gas. For example, the overall economic momentum is fueling growth in construction activity. Therefore, some laid-off oil and gas workers could be absorbed into the construction industry, which is currently reporting workforce shortages in some areas. Further, much of the oil and gas industry's employment is along the Front Range where other employment opportunities could help ease adjustment.

We also have estimated a conservative impact of the benefit to the economy from lower energy costs. The decline in fuel prices will also help offset some of the contraction in the oil and gas industry. According to the Energy Information Administration (EIA), the average household nationally is expected to spend around $710 less in gasoline purchases in 2015 compared with last year due to lower prices. This amounts to about $1.7 billion for Colorado households. However, the benefits of lower gasoline prices are likely to be less than the costs of a contracting oil and gas industry in the short term, especially in areas with higher concentrations of oil and gas-related employment and activity. The multiplier effect of higher consumer spending is smaller compared with the oil and gas industry's multiplier. Also, some of the higher spending on other goods and services will benefit businesses outside of the state.

The momentum in Colorado's overall economy, coupled with lower fuel prices for consumers and businesses, will help the overall economy continue to grow, though at a slightly slower rate than the growth experienced over the past few years due to the oil and gas industry's slowdown. OSPB forecasts job growth of 2.6 percent and 2.8 percent in Colorado in 2015 and 2016, respectively, down from the 3.3 percent rate in 2014. Unemployment is also expected to rise slightly from its 4.2 percent rate in January of 2015 as a result of the oil and gas industry's slowdown. Unemployment rates are forecast to average 4.3 percent and 4.4 percent in 2015 and 2016, respectively.

The oil and gas industry slowdown is expected to be temporary and a noticeable slowdown may not materialize for the overall economy — A decline in investment and employment in the state in response to the recent oil price decline is likely to be temporary, which will prevent the industry from undergoing a larger-scale contraction. Expectations are for oil prices to rebound to high enough levels to make continued drilling and exploration more profitable. In addition, the Niobrara formation in northeast Colorado is more attractive for oil production than several other areas in the U.S. in terms of production costs and predictability, especially due to technological advances in extraction.

Today's environment contrasts with the industry's contraction in the 1980s when oil and gas businesses left the state due to expectations that the level of oil prices would make drilling and extraction unprofitable in the long term. As evidence that the current slowdown is likely to be temporary, the development of a new 550-mile oil pipeline was recently announced to transport crude oil from northeast Colorado to one of the nation's main oil storage hubs in Cushing, Oklahoma. Because oil and gas companies expect a rebound, employment losses may be less than this forecast assumes. Further, momentum in the state economy may be strong enough to offset a slowdown in the oil and gas industry to a larger degree than this forecast assumes.

National Economy Overview

The national economy is continuing to show growth — A wide variety of economic indicators continue to show that the national economy has established a more stable and widespread foundation. The drop in oil prices, especially if sustained, will slow some of those areas that have stronger economic activity resulting from the oil production boom. Consumer spending for the nation overall, however, should see a boost from lower gasoline prices.

According to the Federal Reserve's most recent "Beige Book", businesses and other contacts across the economy indicated that national economic activity continued to expand from early January through mid-February. Furthermore, businesses in several sectors and regions expect somewhat faster growth over the coming months. Consumer spending, home sales, and banking conditions generally improved across the districts.

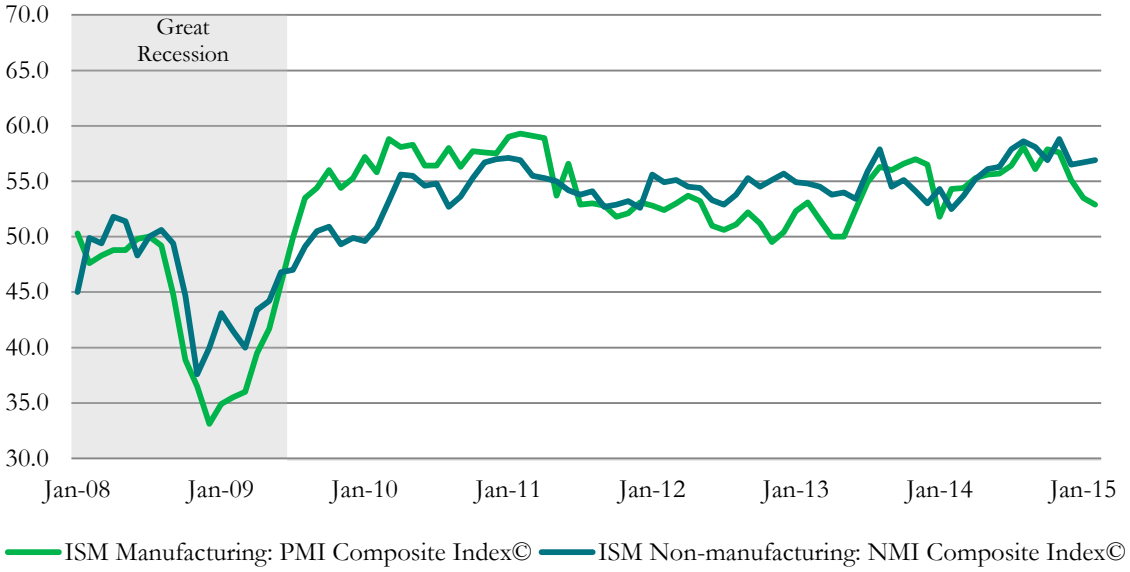
> The national economy's expansion continues. Higher confidence and improved financial conditions among businesses and consumers will help produce continued economic growth.

However, oil and natural gas drilling declined as producers in several of the districts cut capital expenditures during 2015. Industrial production and capacity utilization data released by the Federal Reserve shows a reduction in spending in the mining industry, which includes oil producers, a result of the declining oil prices. A further discussion on the impact of oil prices on the Colorado economy is on page 9.

Broad measures of economic activity show growth — Two measures of national economic momentum are the manufacturing composite index and the non-manufacturing composite index published by the Institute for Supply Management (ISM). These two indices show data collected from surveys of businesses which gauge business activity by tracking key behaviors such as placing new orders, increasing production volume, hiring new employees, and making deliveries.

As shown in Figure 6, both the ISM Manufacturing and Non-manufacturing indices continue to maintain high readings as of February. The non-manufacturing index increased slightly to 56.9 in February from 56.7 in January. The manufacturing index reading of 52.9 was just below its January level of 53.5. The readings for both indices have remained above 50, the level that distinguishes between growth and decreasing activity. The continued strength in these two indices provides evidence that businesses are preparing for increased production and sales as demand for their products grows. Representatives from many of the industries in both the manufacturing and nonmanufacturing sectors in the February ISM surveys noted a slight pickup in activity. Businesses in energy and natural resources, however, cited low oil prices as concerns.

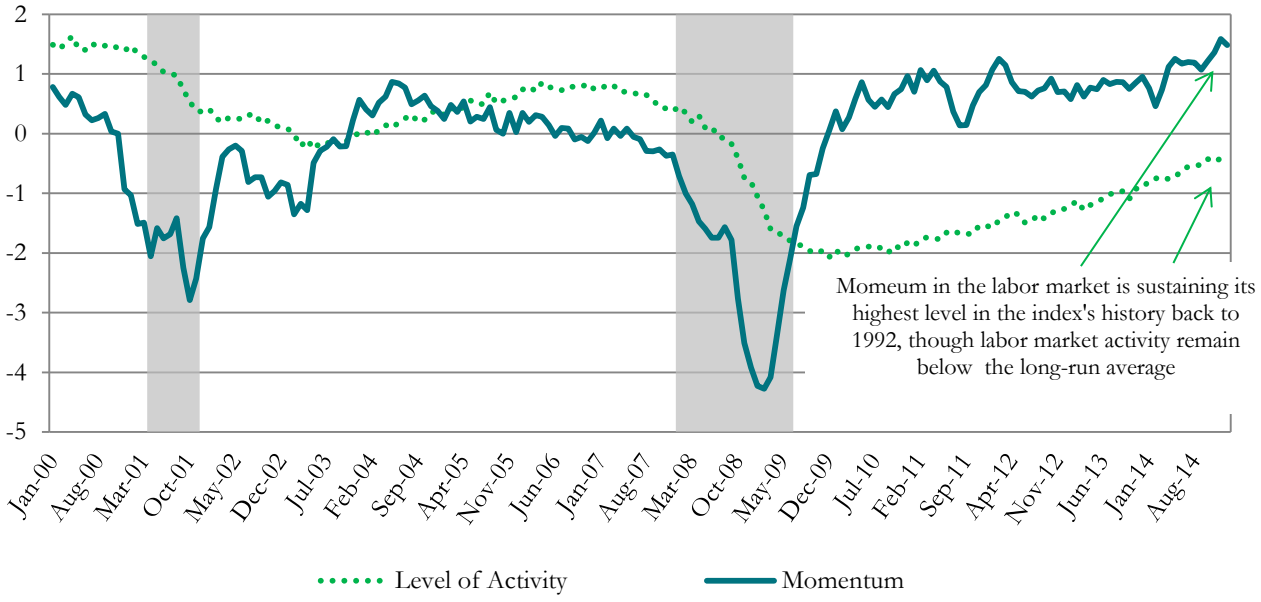
Figure 6. ISM Manufacturing and Non-Manufacturing Indices, January 2008 to February 2015



Source: Institute for Supply Management

National labor market conditions continue to show high levels of momentum – The Kansas City Federal Reserve Bank's Labor Market Conditions Indicators (LMCI) provides monthly tracking of two measures designed to assess overall labor market conditions, labor market activity, and labor market momentum. The labor market activity measure in January increased to -.33 as shown on the graph below. A positive value indicates that labor market conditions are above their long-run average, while a negative value signifies that labor market conditions are below their long-run average. The measure's lowest point was -2.1 in December 2009.

Figure 7. Kansas City Fed Labor Market Conditions Indicators (LMCI), January 2000 to January 2015



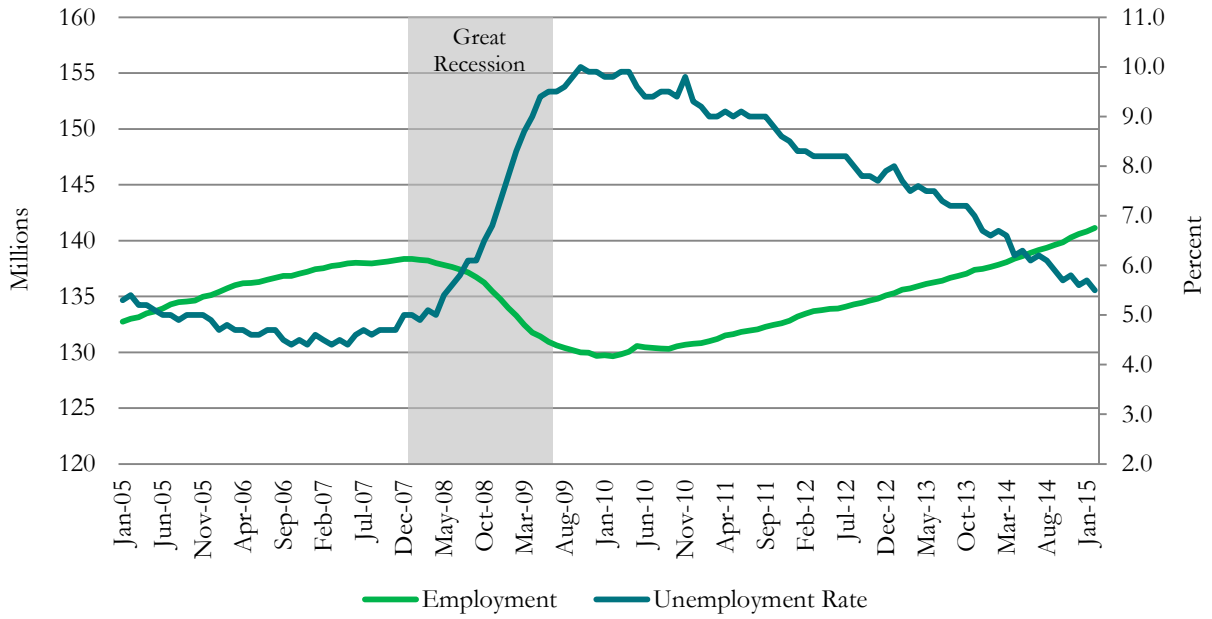
Source: Kansas City Federal Reserve

Over the past six months, a lower share of lost jobs was a large contributor to overall improvement in the level of the activity indicator. Although national conditions are improving, the continued slack in the labor market suggests that more progress is needed. Though slightly declining in January, the momentum indicator remains at historically high levels as twenty-one variables contributed to the indicator's growth, while three indicators made a negative contribution. In January 2015, expected job availability, initials claims, labor force participation, private nonfarm payroll employment, and aggregate weekly hours made the greatest contribution to the indicator's positive value.

The nationwide unemployment rate dropped to 5.5 percent in February, while 3.2 million jobs were added in 2014.

The national economy added 295,000 jobs in February, driving the unemployment rate down to 5.5 percent as shown in the figure below. February marked the 12th straight month that employment gains surpassed 200,000, the longest such run since 1994. The unemployment rate has continued to decline slowly as a result of both new jobs and a decrease in the labor force participation rate. While there remain many unemployed workers throughout various parts of the economy, the steady pace of job growth offers encouraging news both for individuals and for businesses.

Figure 8. Unemployment Rate and Nonfarm Employment for the United States January 2005 to February 2015



Source: U.S. Bureau of Labor Statistics

The labor force participation rate – the number of people working or seeking work as a percent of the population –began to decline around 2000 mostly due to demographic reasons. In 2008, the participation rate fell more sharply as the economy shed jobs and work opportunities declined. However, recent data provides evidence of labor force stabilization. Prime-age workers, individuals between 25 to 54 years old, who dropped out of the labor force during the recession, are returning to the labor force. Additionally, individuals of the prime-age population who say they want a job but are not counted as unemployed, or the shadow labor force, has declined over the past year as well. These trends provide further evidence that the labor market is beginning to tighten as the economy improves.

International Economic Conditions and Trade

Economic performance across the world is slow and uneven – The global economy is still slow to gain momentum as many developed economies, including euro zone countries and Japan, continue to struggle in aftermath of the global financial crisis. However, the United States and the United Kingdom have performed better with improvements in the labor markets and more accommodative monetary policy. The World Bank attributes the slowdown in emerging and developing countries to cyclical factors, domestic policy tightening, and political tensions.

The global economy is still slow to gain momentum, but there are recent encouraging trends.

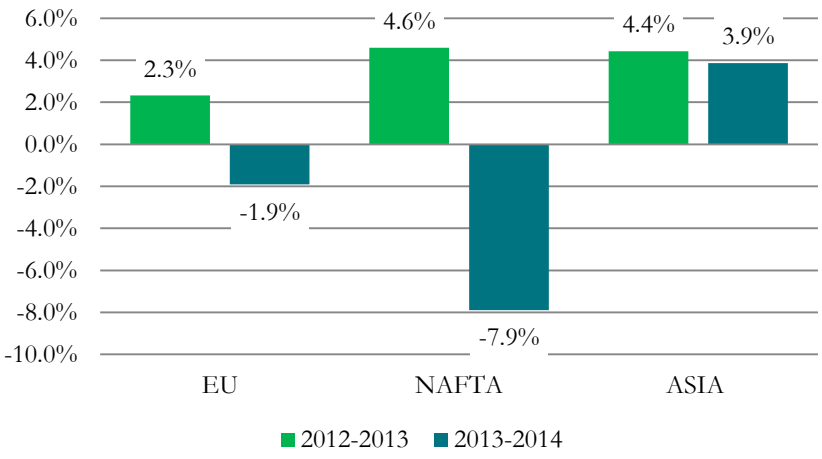
Recent trends in global economic conditions are encouraging, however. The JPMorgan Global PMI Report on manufacturing and services saw global economic activity expand to a five-month high in February, as output grew in both the manufacturing and service sectors. The report cited the United States and the United Kingdom as the prime drivers of the latest increase in global economic output, however. Additionally, according to the HSBC Emerging Markets Index (EMI), a monthly indicator derived from purchasing manager surveys, the rate of growth in global emerging market output strengthened in February. The latest figure signaled the fastest rate of expansion since September 2014;

however, the EMI remained well below its long-run trend level. Three of the four largest emerging economies – India, China, and Brazil – registered higher output in February, while Russia fell deeper into contraction.

Recently, the central banks of several economies have implemented monetary policy measures to stimulate economic growth. The Reserve Bank of India and the People's Bank of China cut interest rates, while the European Central Bank (ECB) has begun a program of large-scale asset purchases, or quantitative easing, similar to the programs undertaken by the U.S. Federal Reserve in the aftermath of the financial crisis. These measures are intended to counter deflationary pressures, encourage lending and consumption, and spur growth.

International trade dampens with weaker global conditions – The level of exports reflects global economic conditions, U.S. and Colorado competitiveness in world markets, and the types of products the state and nation specialize in producing. U.S. goods exports grew 2.2 percent and Colorado goods exports declined 2.9 percent in 2014 over the same period in the prior year. This data reflects economic weakness across Colorado's major trading partners. Figure 9 shows the trends in Colorado's goods exports to major trading partners in 2013 and 2014. Colorado's trade with euro zone countries decreased 1.9 percent and trade with NAFTA members decreased 7.9 percent in 2014 from a year ago. Colorado's largest exports that decreased to these trading partners include industrial and electrical machinery, optic, photo and medical instruments, and mineral fuel and oil. However, exports to Asia continued to show growth in 2014. Continued slower growth globally, combined with a stronger U.S. dollar, which makes U.S. products more expensive for importers, will weigh on exports in 2015 as well.

Figure 9. Colorado Exports to Major Trade Partners, Percent Change, 2013 and 2014 over levels the prior year



Source: Wiser Trade Data

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

The Institute for Supply Management's (ISM) new export orders index for non-manufacturing (mostly services) activities in the United States registered 53.0 in February, growing 12 percent from levels the same time the prior year. A value registered above 50.0 indicates a growth in the export of services. Industries reporting increases in new export orders include, wholesale trade, real estate, rental and leasing, information,

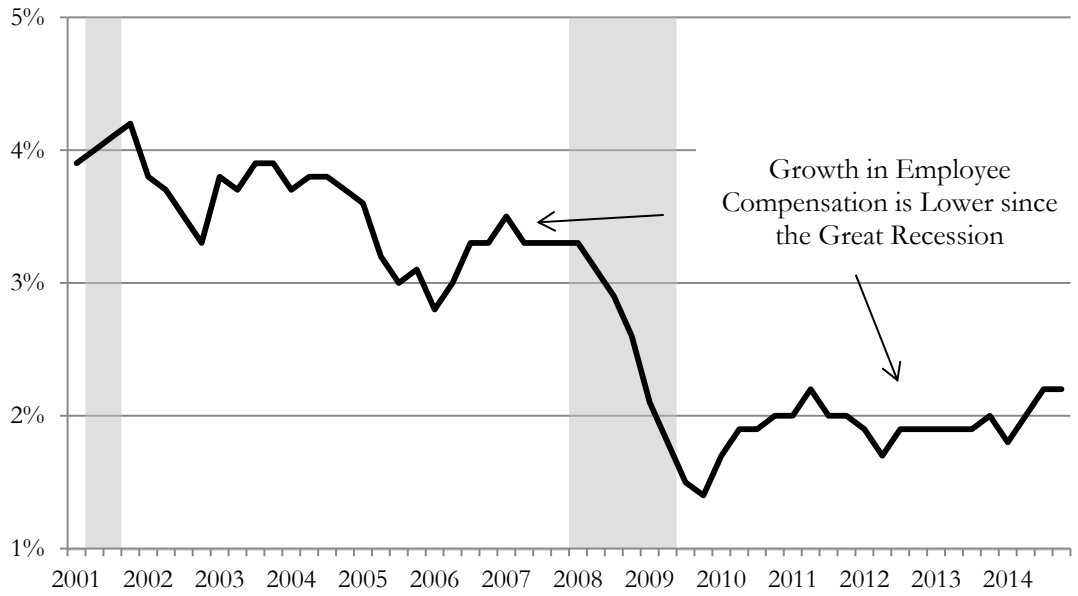
retail trade, professional, scientific services and technical services, and finance and insurance. Representatives noted the benefits of lower fuel prices and positive consumer sentiment, though international markets continue to lag behind the U.S.

Wage Trends in the Economy

The following section discusses some of the recent trends in wages, especially in Colorado, including overall wage trends and trends for specific areas, industries, and occupations. It also discusses some of the factors that influence wage levels.

Growth in employee compensation has slowed since the Great Recession —As shown in Figure 10, growth in compensation for workers has been lower since the Great Recession than prior to the downturn. The graph shows the Employment Cost Index published by the U.S. Bureau of Labor Statistics, which is based on a survey of employers nationwide that tracks the cost of labor, including wages, benefits, and bonuses.

Figure 10. U.S. Employment Cost Index, Annual Percent Change, 2001Q1 through 2014Q4



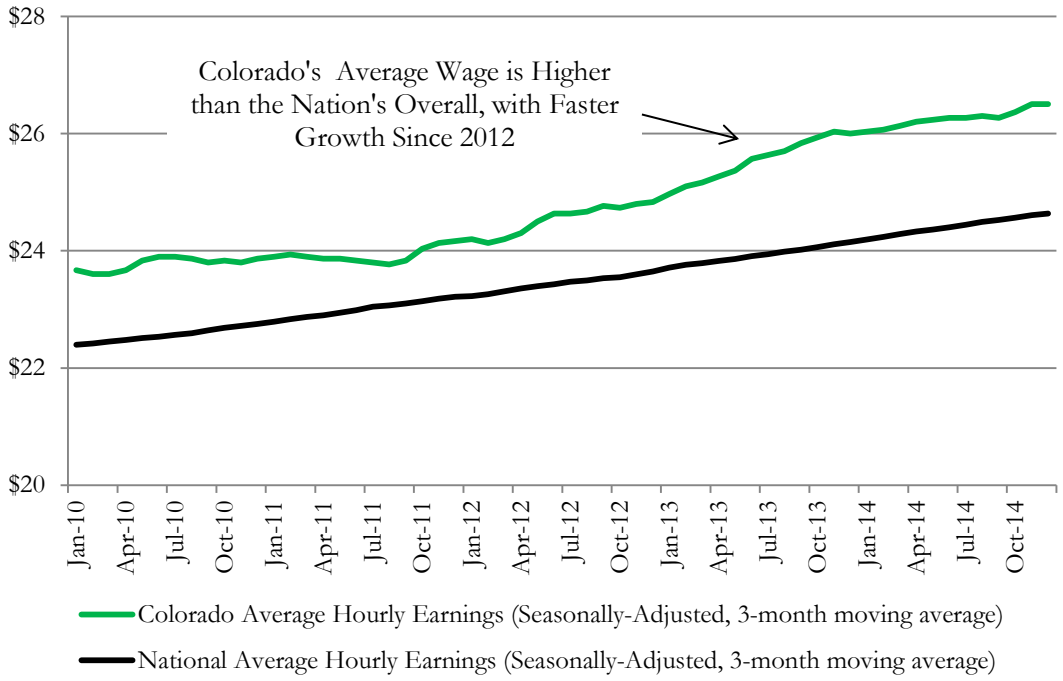
Source: U.S. Bureau of Labor Statistics

Average wages and wage growth are higher in Colorado than the nation — Figure 11 shows average hourly earnings growth for all employees of private industries in Colorado and the nation overall in the current expansion since the beginning of 2010. The figure shows that average wages in Colorado are higher than for the nation, and that wage growth, especially since 2012, is higher. This is consistent with other economic data that shows Colorado's economy is among the best performing in the nation. Colorado's wage growth has averaged 3.2 percent year-over-year since 2012, outpacing the annual increase in the Denver – Boulder – Greeley Consumer Price Index (CPI). Average hourly earnings at the national level have averaged about 2.0 percent year-over-year, about the same as growth in the U.S. CPI.

Colorado's average hourly wages posted the fourth-fastest growth rate since 2012 among states. Further, in 2014, Colorado workers had the ninth-highest level of average hourly wages. Average hourly earnings can be important for gauging broad economic conditions. Higher earnings growth is an indication that Colorado has greater levels of economic activity as the state's growing industries can support paying higher wages. It also suggests more productivity among Colorado's workforce than other regional economies in the United States.

Wage growth in Colorado has been among the highest in the nation since 2012. This is a reflection of the strength in Colorado's overall economy and its more dynamic labor market.

Figure 11. Average Hourly Wages for Colorado and the U.S. in the Current Expansion, 2010 through 2014[3]



Source: U.S. Bureau of Labor Statistics

Factors Influencing Wages

The level of wages paid, as well as wage growth, is affected by numerous factors, many of which are interrelated. The overall performance of the economy, including expectations for the future, is one important determinant of wages. If spending, investment, and hiring activities are higher – leading to economic growth – wages tend to increase, especially if this higher activity leads to more competition for labor. Also, the level of unemployment affects wages. A higher unemployment rate, or more "labor slack," means that there is a larger supply of workers searching for employment in relation to the demand for labor.

[3] The average hourly earnings data does not include other compensation paid to workers in addition to wages, such as health insurance, paid leave, and other benefits. However, the U.S. Employment Cost Index for the nation shown in **Figure 10**, which measures total compensation, has generally followed the same increase as wages during the current expansion.

This tends to place downward pressure on wages. Several economic studies find a strong association between wage growth, unemployment, and labor underutilization, such as higher levels of marginally attached workers and those working part time involuntarily for economic reasons.

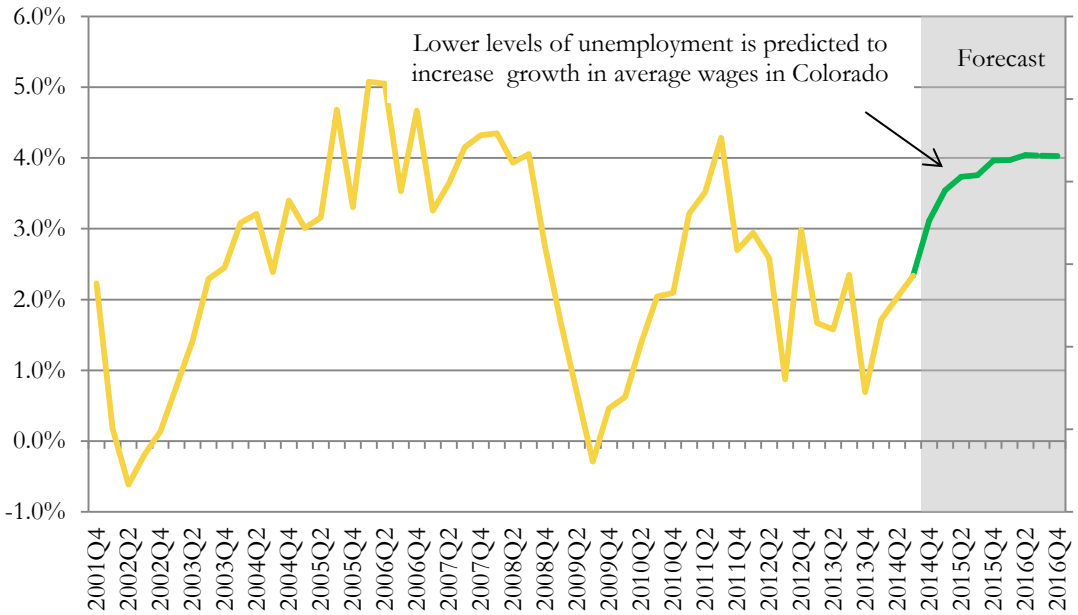
Wage growth since the Great Recession appears to have been affected by elevated unemployment levels for a sustained period of time. One study by the Federal Reserve Bank of Chicago estimated that wage growth would be up to a full percentage point higher if labor market conditions were similar to those during the expansion before the recession.[4]

Improvements in the labor market recently should begin to help boost gains in wages. Data on a rising number of workers who are leaving their jobs voluntarily (quitting) at the national level signals that there is more movement and dynamism within the labor market. This phenomenon is usually associated with workers pursuing more preferred job opportunities, such as jobs that pay more.

Improvements in the labor market recently should begin to help boost gains in wages.

OSPB's econometric analysis of the relationship between the growth in average wages in Colorado and a broad measure of labor underutilization in the state, called the "U-6" unemployment rate, shows that changes in the U-6 rate are measurably associated with the level of wage growth. Because Colorado's U-6 rate has dropped substantially since its peak, especially more recently as discussed on page 8, OSPB's analysis predicts wage growth to be at a higher level in 2015 and 2016 if the U-6 rate continues to follow its recent trend decline. Predicted wage growth through 2016 in Colorado and historical trends since 2001 are shown in Figure 12.

Figure 12. Annual Percent Change in Average Weekly Wages in Colorado,* Actual and Predicted, 2001 to 2016



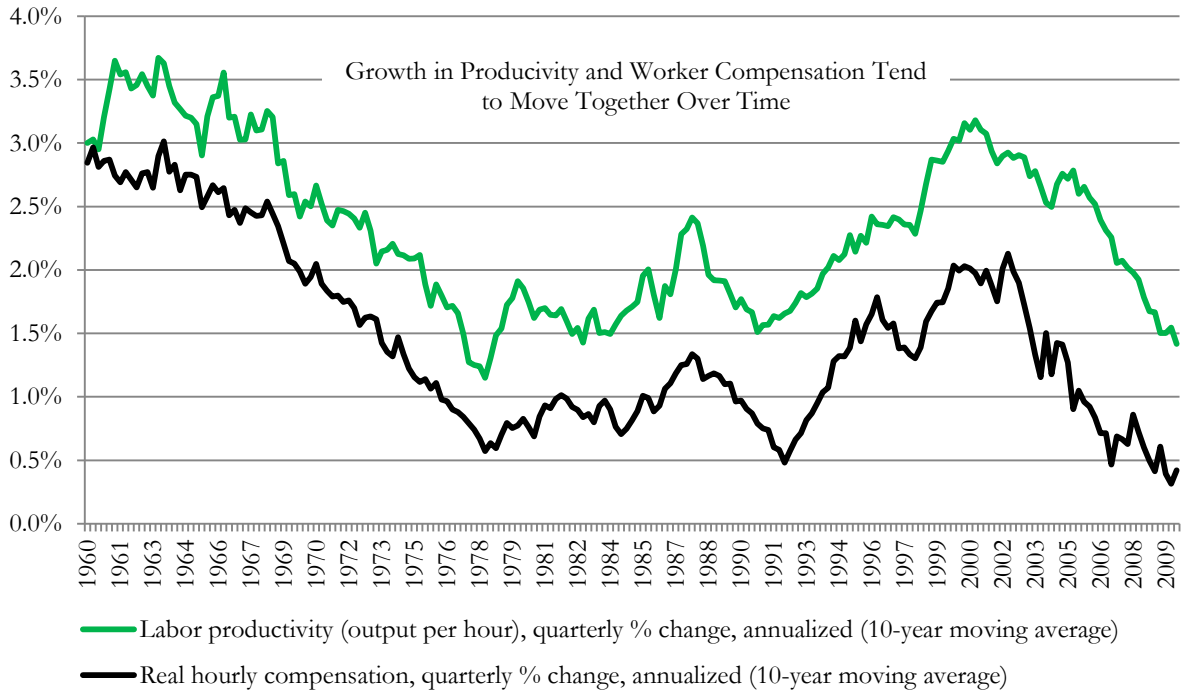
*Data is 4 four-quarter moving-average of average weekly wage.
Source: U.S. Bureau of Labor Statistics; Colorado Department of Labor; and OSPB Analysis

[4] "Understanding the Relationship between Real Wage Growth and Labor Market Conditions," Federal Reserve Bank of Chicago, Chicago Fed Letter, Number 327, October 2014. https://www.fedinprint.org/items/fedhle/00014.html

The productivity of workers, or their output per hour worked, is another main determinant of wage growth, especially over the longer term. This relationship is shown in Figure 13, which illustrates output per hours worked as well as the 10-year moving averages of annualized growth rates in employee compensation (wages combined with other benefits and compensation). The 10-year centered moving average is used to highlight the relationship between productivity and compensation over the longer term, as the two can have larger variation over shorter periods of time.

The recent lower levels of productivity growth recorded at the national level, possibly due in part to lower levels of capital investment by businesses, have been cited by some economists as a factor influencing wage growth. It is important to note that it can often take time for technological innovation to result in higher productivity growth for a large portion of the workforce. For example, the adoption of more computing technology beginning in the 1980s did not translate to productivity gains for the overall labor market until later in the 1990s.

Figure 13. Growth in Productivity and Employee Compensation in the U.S. 10-Year Centered-Moving Average, 1960 through 2010 First Quarter



Source: U.S. Bureau of Labor Statistics

Some of the other factors that influence wage trends include the composition of types of jobs in the economy in relation to the supply of labor available for those jobs. A larger supply of workers in relation to demand in one industry or occupation tends to place downward pressure on wages. For example, recent studies have documented a relative decline in the portion of "middle-skill" jobs, such as office and administrative positions, sales positions, and certain manufacturing jobs. Changes in the economy, such as ongoing technology change and increased globalization of trade and labor, have been cited as potential main factors influencing the number of "middle skill" jobs. Changes in the mix of industries that are expanding, demographics, international trade practices, business practices, the existence of certain institutions, such as unions, cost of living in a region, and labor policy also can all affect wages.

Wage Trends by Industry

Wage growth in Colorado's economy varied by industry from 2002 through 2013, the latest year of data available by industry based on median wages. Information and technology-related industries in Colorado have experienced the most wage growth. The industry classifications of "internet service providers, search portals and data processing" and "other information services" (generally, businesses involved with supplying and managing information, including on the Internet) are the top industries for median wage growth from 2002 to 2013. Other top wage growth industries include: oil and gas, wholesale trade brokers, non-store retailers, religious, civic, and advocacy organizations, management of companies and enterprises, hospitals, and certain manufacturing and finance-related industries. Most of these industries with stronger wage growth also experienced growth in employment during the 2002 to 2013 period.

Industries with weakness and decreases in median wages over the 2002 to 2013 period include certain types of consumer retail, such as electronics and appliances, food and beverage, furniture, clothing, and building materials stores. Personal and laundry services, gasoline stations, vehicle sales, waste management, and printing were also among the state's industries with weakness in wages. Many of these industries also experienced job losses or weak employment growth over the 2002 to 2013 period.

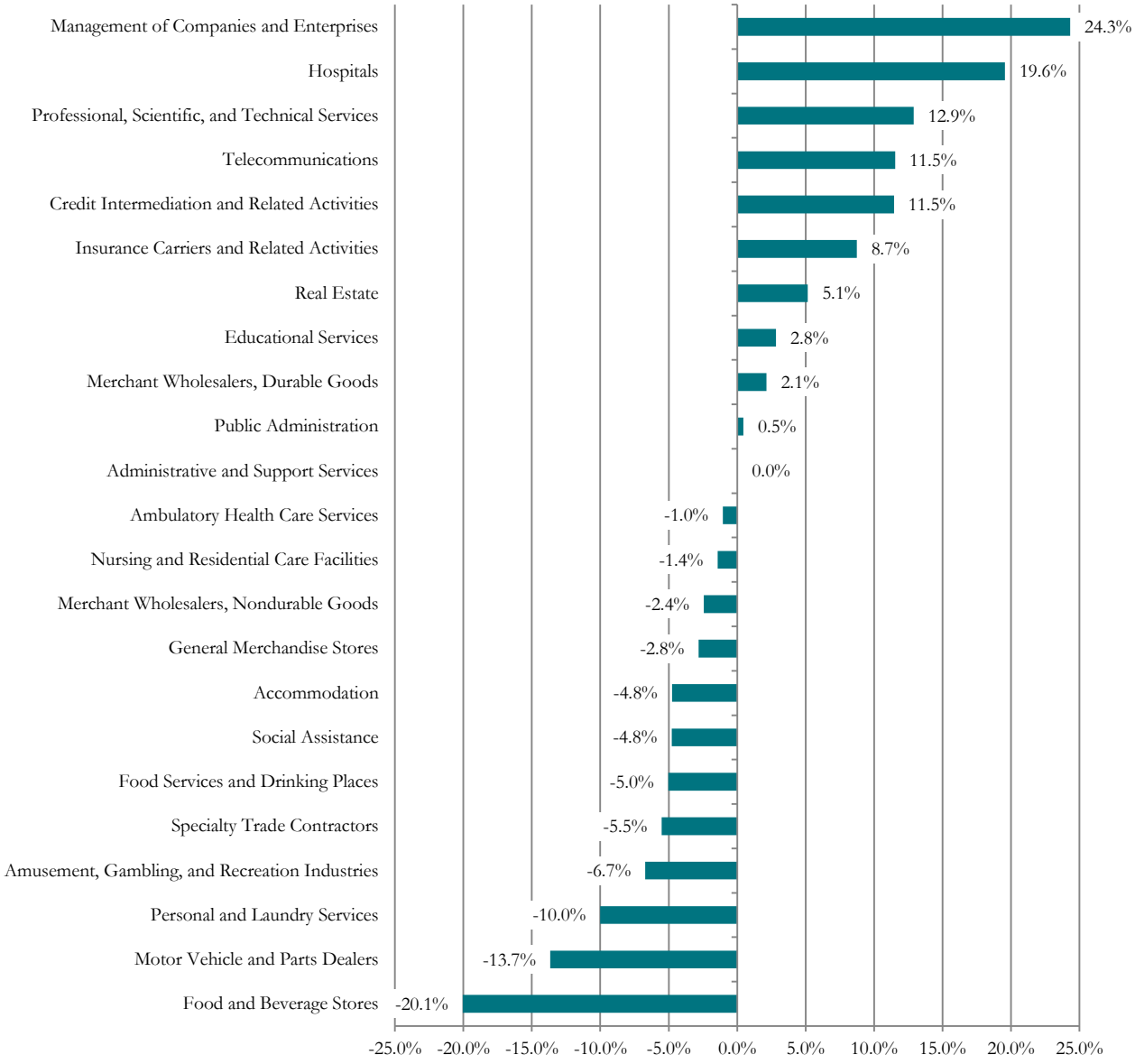
Wage growth has varied in Colorado by industry. Industries with the fastest-growing wages include information and technology, health care, company headquarters, and oil and gas. Consumer retail-related industries generally experienced the most weakness in wages.

Figure 14 shows the change in the median wage from 2002 to 2013 for the state's largest industries in terms of employment. The 2002 wage amounts are adjusted for inflation so that they represent 2013 dollars. Management of companies and enterprises, which are often company headquarters, representing a wide variety of industries, has experienced the most wage growth among the state's largest sectors. The hospital industry had the second most wage growth.

Professional, scientific, and technical services, which is one of Colorado's largest industries in terms of employment (as well as in economic contribution), had the third most growth in median wages. This industry is broad and includes architecture, legal, engineering, information technology, and advertising services, among others. This industry has had strong growth in the current economy, especially its computer services-related activities.

Larger industries in Colorado with weakness in wages from 2002 to 2013 include food and drinking establishments, specialty trade contractors, and food and beverage stores.

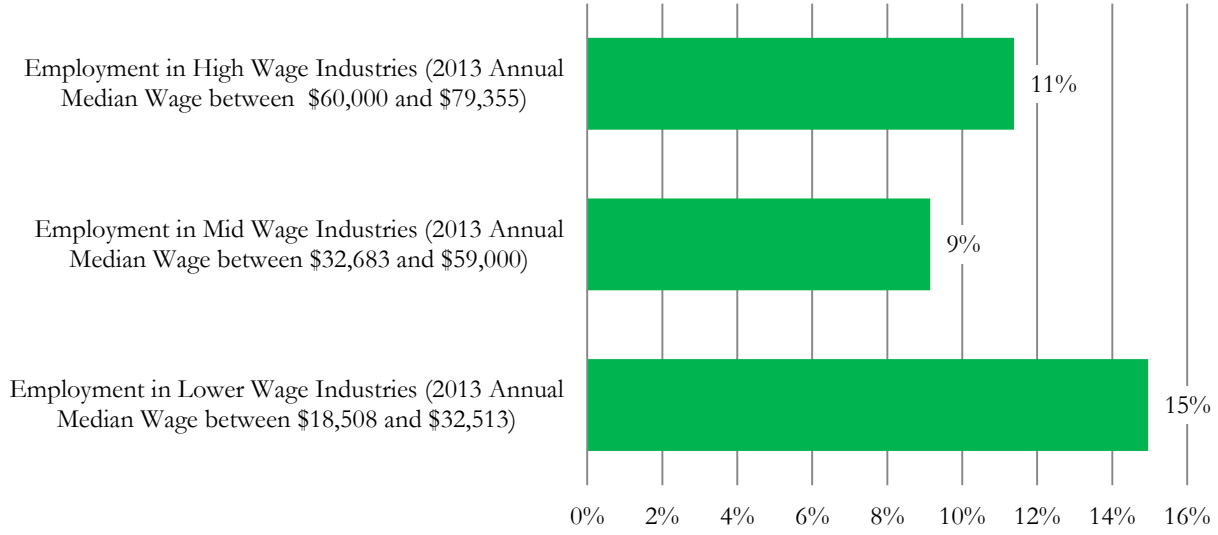
Figure 14. Change in Inflation-Adjusted Median Annual Wage among Colorado's Largest Industries, Percent Change from 2002 to 2013



Source: Colorado Department of Labor and Employment and U.S. Bureau of Labor Statistics

Change in employment by industry wage level —Higher-paying and lower-paying industries have experienced more employment growth on average than middle-paying industries since the early 2000s. Lower-paying industries have had the most employment growth. Figure 15 shows employment growth in higher-paying, middle-paying, and lower-paying industries from the first half of 2002 to the first half of 2014.

Figure 15. Growth in Employment by Industry Median Wage, Percent Change, First Half of 2014 over First Half of 2002



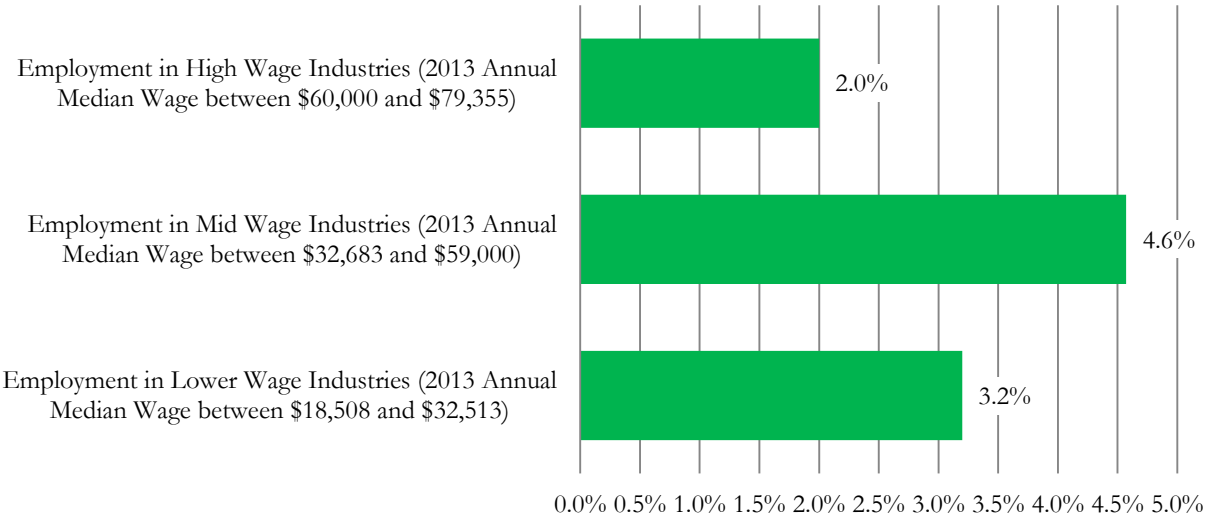
Source: Colorado Department of Labor and Employment and the U.S. Bureau of Labor Statistics

One factor that has been cited as a possible reason for slower growth in middle-income employment is the use of higher levels of technology that reduces the need for some types of work, particularly work that involves more routine types of tasks. Also, in today's economic environment involving a highly globalized system of production and labor, some tasks have increasingly been performed outside the United States.

Higher-paying and lower-paying industries have experienced more employment growth on average than middle-paying industries since the early 2000s. However, middle-paying industries have had more employment growth since 2013 than higher-paying and lower-paying industries.

The recent solid growth in Colorado's economy has, at least temporarily, resulted in a reversal of the trends in job growth by industry wage level. Figure 16 shows the change in employment in the first half of 2014 relative the first half of 2013 with employment in mid-wage industries growing at a faster rate than higher- and lower-wage industries.

Figure 16. Colorado Average Employment by Wage Levels by Industry, Percent Change, First Half of 2014 over First Half of 2013

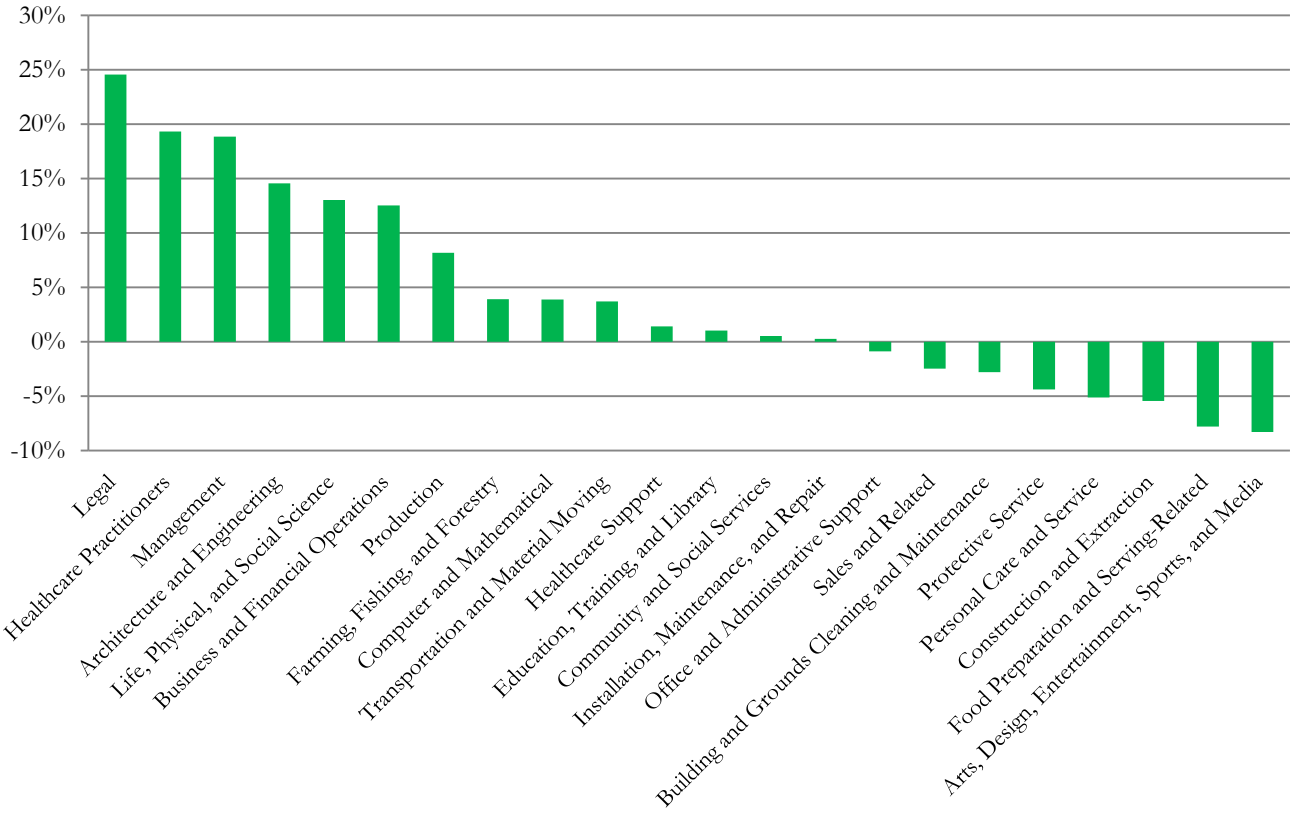


Source: Colorado Department of Labor and Employment and U.S. Bureau of Labor Statistics

Wage Trends by Occupation

In today's information- and technology-based economy, higher-skilled workers play an important role in economic growth. Median annual wage growth in occupations across Colorado reflects more demand for higher-skilled workers. Figure 17 compares the median annual wage across occupations in 2013 with 2000 levels, where the greatest wage increase generally occurred in occupations that require unique skills, especially those involving work with information and technology.

Figure 17. Colorado Inflation-Adjusted Median Annual Wage across Occupations, Percent Change, 2013 over 2000



Source: Bureau of Labor Statistics

Greater wage growth in some occupations is due also to growth in demand for those workers in relation to growth in the supply of individuals who can perform the jobs. For example, demand for health care workers has been strong, but educational, training and licensure requirements constrains the growth in individuals that can fill the positions. Occupations with lower wage growth generally do not face this constraint.

Additionally, higher wage growth for management occupations in part reflects the importance of the occupation in today's information and knowledge-based economy. This environment requires managers who can deal with complexity and work successfully with individuals both within and outside the business.

STEM-related occupations have generally experienced above-average wage growth since the early 2000s.

Occupations using science, technology, engineering, and math (STEM) skills, such as healthcare, architecture and engineering, computer and mathematical, and science-related occupations are among the occupations with the most wage growth from 2000 to 2013. Individuals employed in these occupations generally produce higher-valued goods and services, resulting in higher levels of wage growth. The special set of skills, education, and training required to perform the occupations also limits the supply of individuals who can perform them, which boosts their wages.

Wage Trends by Region

Colorado's average weekly wages grew 3.6 percent from the first half of 2013 to the first half of 2014. On an inflation-adjusted basis, the average weekly wage was up 0.7 percent over the year. Wages on average rose over this time period in all regions of the state, though some regions' wages were lower compared with a year ago on an inflation-adjusted basis. Wage growth varied materially across regions of the state.

Weld and Larimer counties experienced the fastest wage growth among highly populated regions between early 2013 and early 2014. This is fueled at least partially by oil and gas development and growth in technology-related firms.

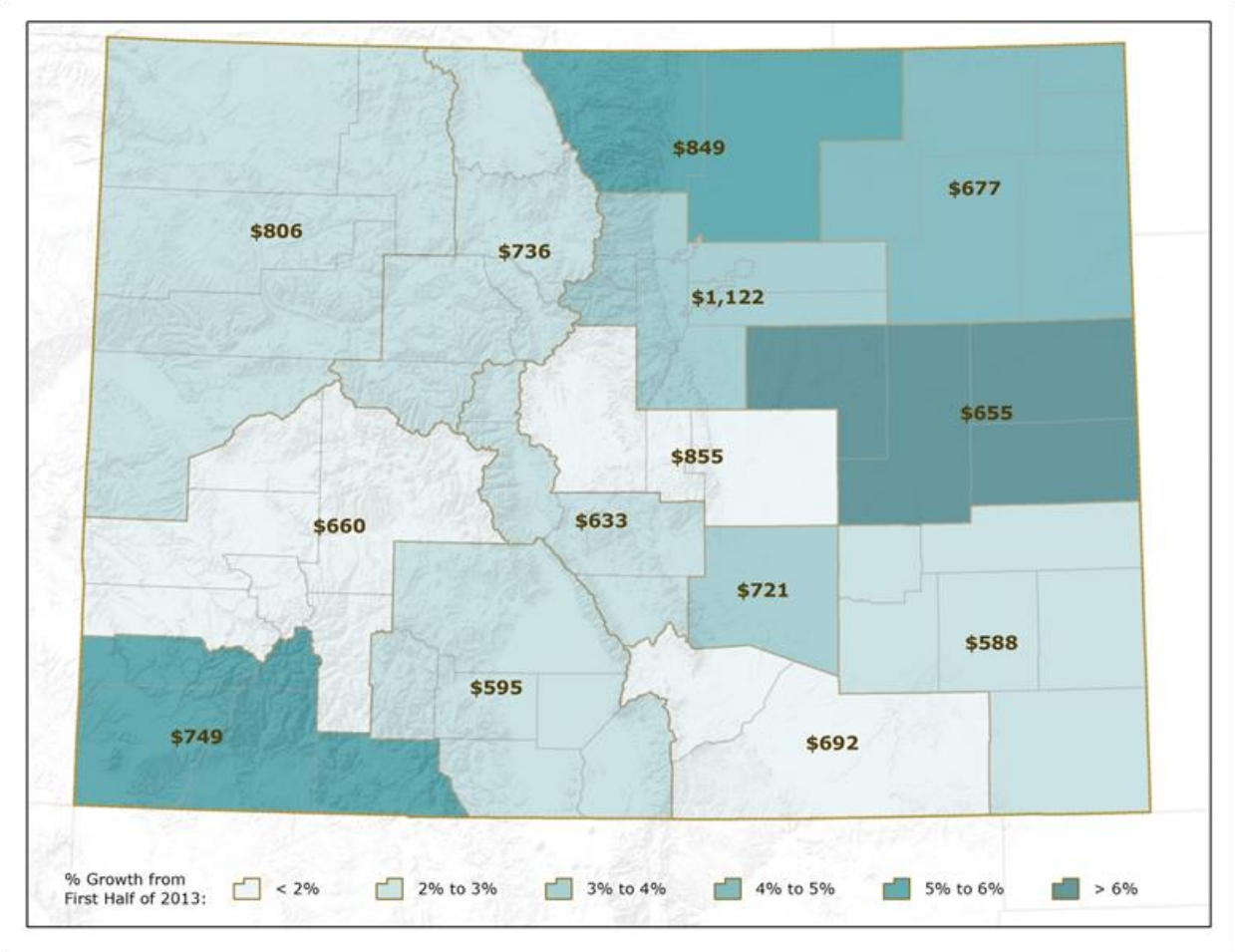
Some rural areas experienced the most wage growth, including parts of eastern Colorado and southwestern Colorado, though these areas also have lower average wages. Of areas with larger populations and economies, the Larimer and Weld County region experienced the most wage growth. This growth mostly stems from the region's concentration of oil and gas-related activities and the information and technology-related industries in the Fort Collins area. Not coincidentally, this region is also experiencing the most overall economic and employment growth and has among the state's lowest unemployment levels. The Denver metro region, including Boulder, also had higher wage growth than the statewide average due to its higher economic growth, greater concentration of expanding industries, and skilled workforce. This region has the state's highest average wages.

Growth in the average weekly wage for all employees from the first half of 2013 through the first half of 2014 in each of the state's planning and management regions is shown in Figure 18. The map also shows each region's average weekly wage in the first half of 2014.

Average weekly wages are derived from the amount of total wages and workers in a region from the Quarterly Census of Employment and Wages (QCEW) data from the Colorado Department of Labor. QCEW data is produced from employment and wage information for workers covered by unemployment insurance laws, which cover most workers in the economy. Therefore, the data provides comprehensive and reliable information on wage trends.

In smaller regional economies, even a small number of changes in employment and wages can have material impacts on overall wage levels reported in the data. For example, the movement of a few larger employers into or out of the area can have substantial effects on the region's average weekly wage. Also, QCEW data shows the average wage, which may be materially different from the median wage depending on the composition of employment in the area. For example, a larger number of workers with high wages will bring up the average wage in relation to the median.

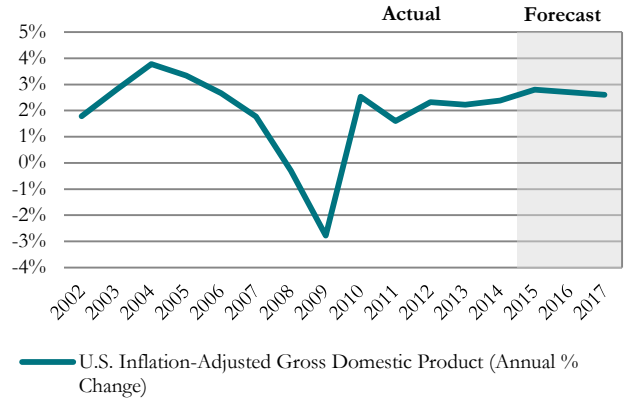
Figure 18. Average Weekly Wages in First Half of 2014 by Colorado Region



Source: Colorado Department of Labor and Employment; OSPB Calculations; Colorado Department of Local Affairs

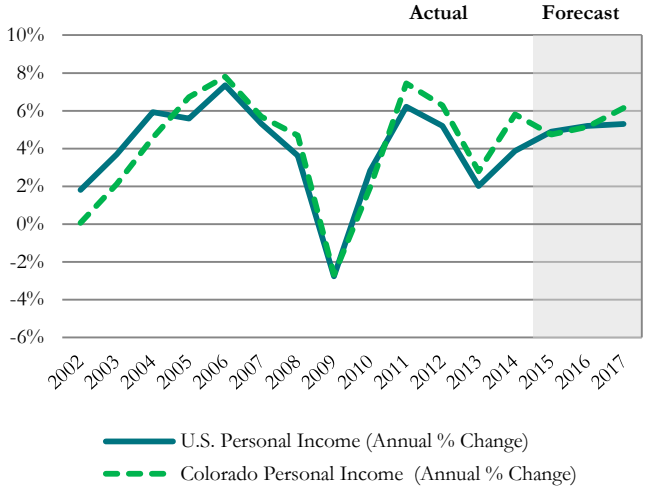
SUMMARY OF KEY ECONOMIC INDICATORS
ACTUAL AND FORECAST

U.S. Gross Domestic Product (GDP)



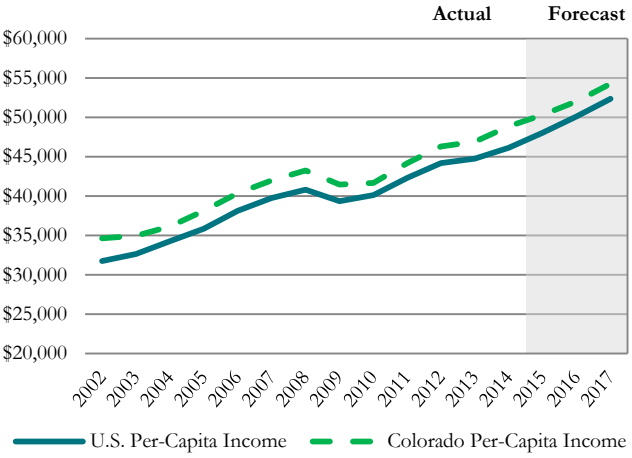
- GDP is a barometer for the economy's overall performance and reflects the value of final output in the U.S.
- GDP growth for the nation is expected to pick-up in 2015, with growth of 2.8 percent.

U.S. and Colorado Personal Income



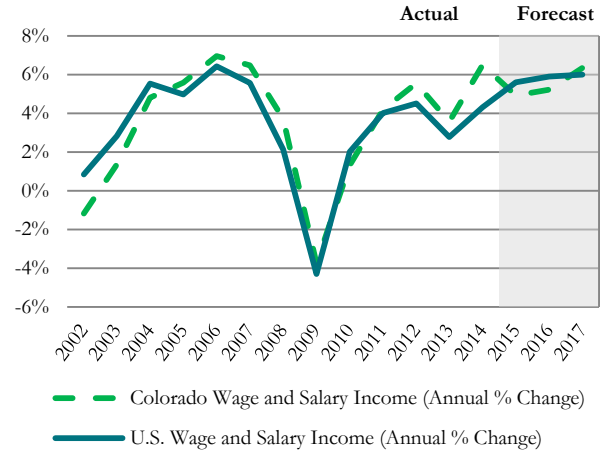
- Personal income is expected to grow 5.1 percent in Colorado in 2015 and will grow 5.6 percent in 2016. These are slightly slower growth rates from 2014 due to the slowdown in the oil and gas industry.
- Personal income for the nation will grow 4.9 percent in 2015 and 5.2 percent in 2016.

U.S. and Colorado Per-Capita Income



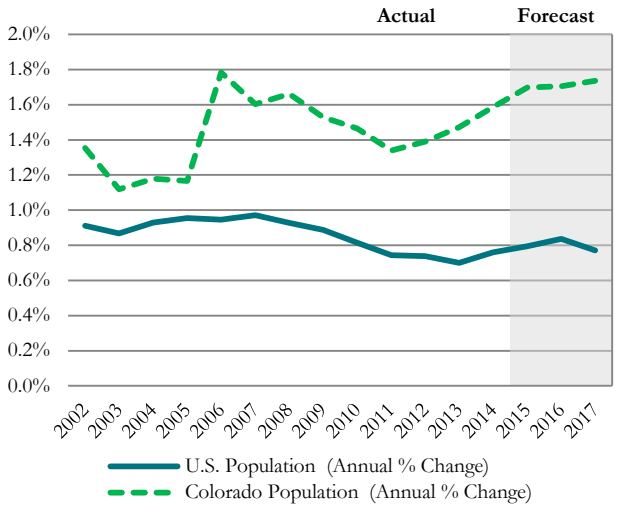
- Per-capita income in Colorado will grow to $50,530 in 2015 and $52,487 in 2016.
- Nationally, per-capita income will increase to $48,042 in 2015 and $50,120 in 2016.

U.S. and Colorado Wage and Salary Income



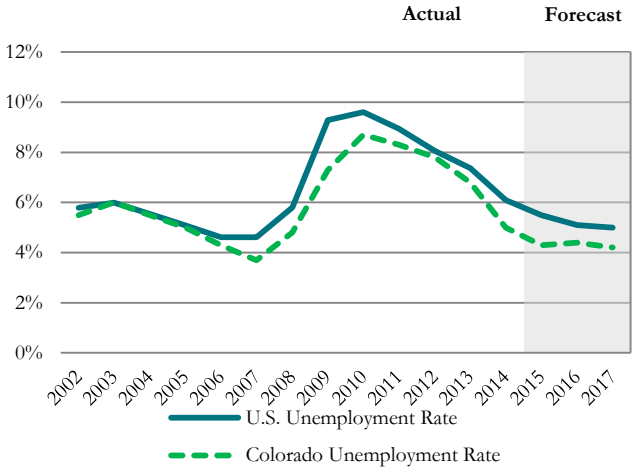
- Total wages and salaries paid to workers grew in Colorado at an estimated rate of 6.5 percent in 2014.
- Like with personal income, growth in wages and salaries is expected to grow at a slower rate in 2015 and 2016 as a result of decreased activity in oil and gas production. In Colorado, total wages and salaries will grow 5.5 percent in 2015 and 5.8 percent in 2016.
- Wage and salary income for the nation will increase 5.6 percent in 2015 and will grow 5.9 percent in 2016.

U.S. and Colorado Population



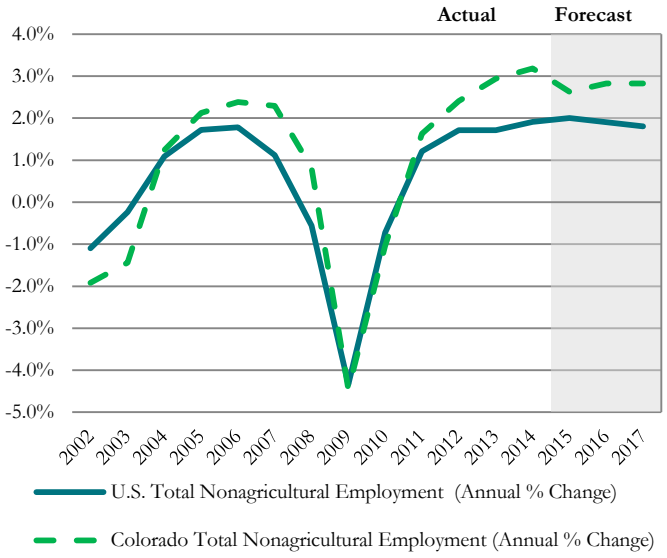
- The state's average population growth rate from 2008 to 2013 was approximately 1.5 percent. Nationally, average population growth was slightly less than one percent.
- Colorado's population is expected to grow 1.7 percent and reach 5.4 million in 2015. The state will continue to experience a relatively high rate of in-migration over the forecast period.
- The nation's population will continue to grow less than 1.0 percent throughout the forecast period.

U.S. and Colorado Unemployment



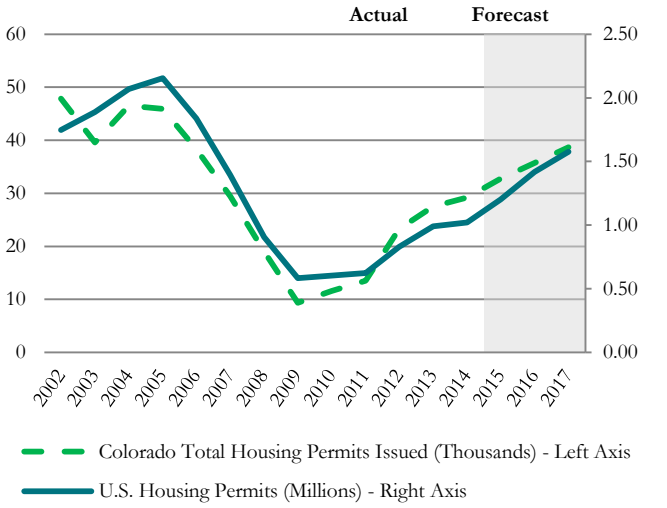
- After falling sharply in 2014, OSPB forecasts Colorado's unemployment rate will average 4.3 percent in 2015 and 4.4 percent in 2016. Unemployment is expected to rise slightly due to the oil and gas slowdown.
- The national unemployment rate will average 5.5 percent in 2015 and 5.1 percent in 2016.

U.S. and Colorado Total Nonagricultural Employment



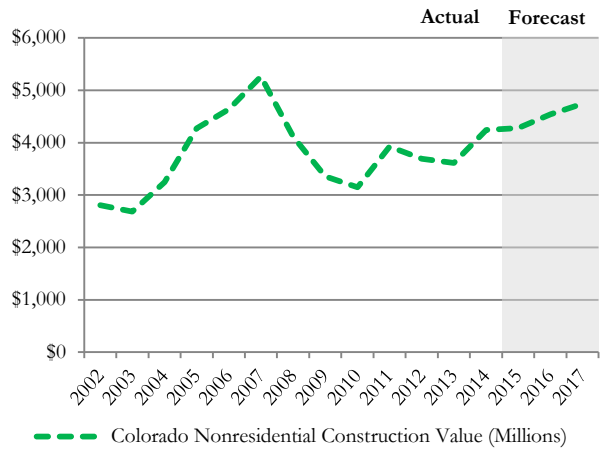
- Colorado nonfarm jobs grew 3.3 percent in 2014, with broad growth across industries.
- Non-farm payroll jobs are expected to reach 2.5 million in Colorado, a 2.6 percent increase, in 2015. Payroll jobs will grow 2.8 percent in 2016. As with income and wage growth, these are slower growth rates compared with 2014 due to a decrease in oil and gas-related activity.
- U.S. nonfarm payroll jobs will increase 2.0 percent in 2015 and 1.9 percent in 2016.

U.S. and Colorado Housing Permits Issued



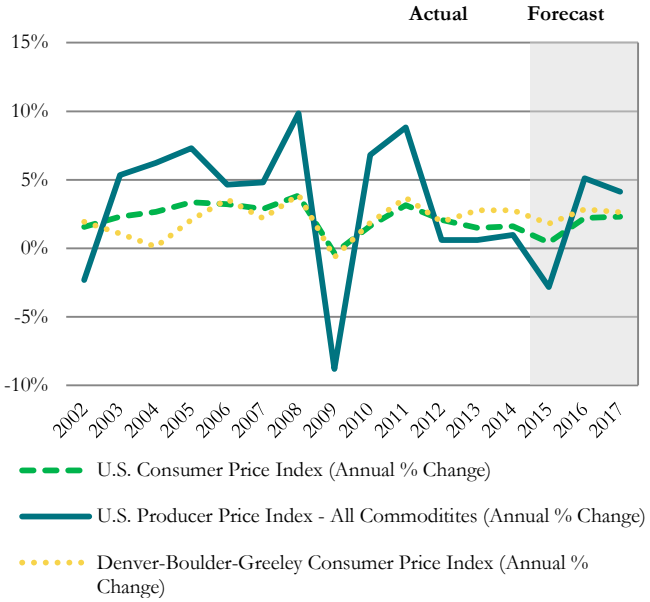
- Colorado residential construction permits will number 32.8 thousand in 2015 and grow to 35.7 thousand in 2016.
- Housing permits for the nation will number 1.2 million in 2015 and 1.4 million permits will be issued in 2016.

Colorado Nonresidential Construction Permits



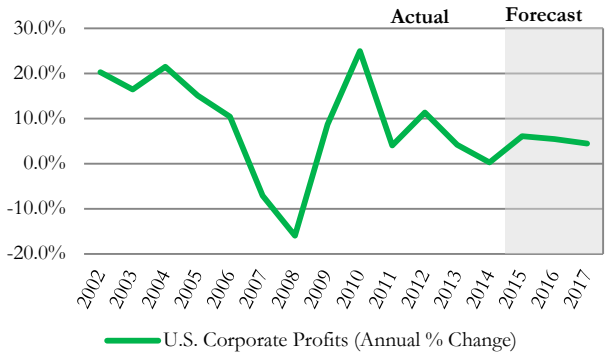
- Non-residential construction strengthened in Colorado in 2014. Momentum in the economic recovery and population growth is encouraging businesses to invest in new facilities and locations. The total value of nonresidential construction projects was up 17.4 percent in 2014.
- Growth is expected to abate as a result of slowdown in oil and gas production. Non-residential construction will grow 1.0 percent in 2015, reaching $4.3 billion in total construction value.

Consumer Price Index and Producer Price Index



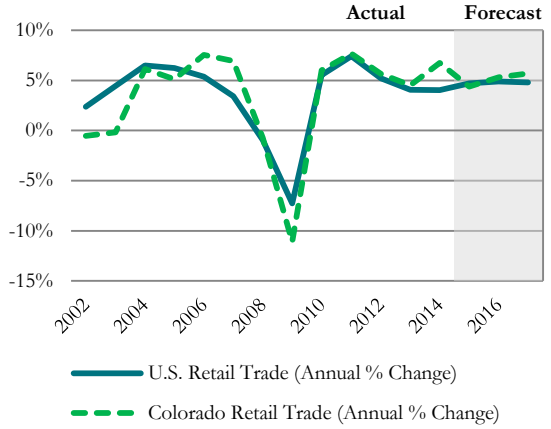
- The Denver-Boulder-Greeley Consumer Price Index (CPI) increased 2.8 percent in 2014 and will increase 1.8 percent in 2015, largely pushed down by lower gas prices.
- Nationally, increases in consumer price levels remain muted. The national CPI will grow 0.4 percent in 2015 due to the fall in gas prices and 2.2 percent in 2016.
- The more volatile producer prices in the U.S. will decrease 2.8 percent in 2015 and bounce up to 5.1 percent in 2016. 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 .2 percent in 2014 and will grow 6.1 percent in 2015 and 5.5 percent in 2016.
- 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 a lesser pace compared with the strong growth in 2014. In 2015, retail trade will grow 4.9 percent. For 2016, 5.5 percent growth is forecast.
- Nationwide retail trade will grow 4.7 percent in 2015 and 4.9 percent in 2016.

General Fund and State Education Fund Revenue Forecast

General Fund Revenue Forecast

Projections for General Fund revenue for FY 2014-15 are essentially unchanged compared with the December 2014 forecast, with a projected increase of 8.8 percent. Colorado's solid economic expansion continues to generate revenue growth to the General Fund, especially from income tax wage withholdings and also sales tax collections — the State's largest sources of General Fund revenue. A rebound in tax collections from investment income also is helping revenue growth. The strong growth in individual income taxes and sales taxes are offsetting a slowdown in corporate income tax revenue collections after several years of robust gains.

Projections for FY 2015-16 are 0.4 percent, or $43.7 million, lower compared with December. General Fund revenue is forecast to grow 5.0 percent in FY 2015-16.

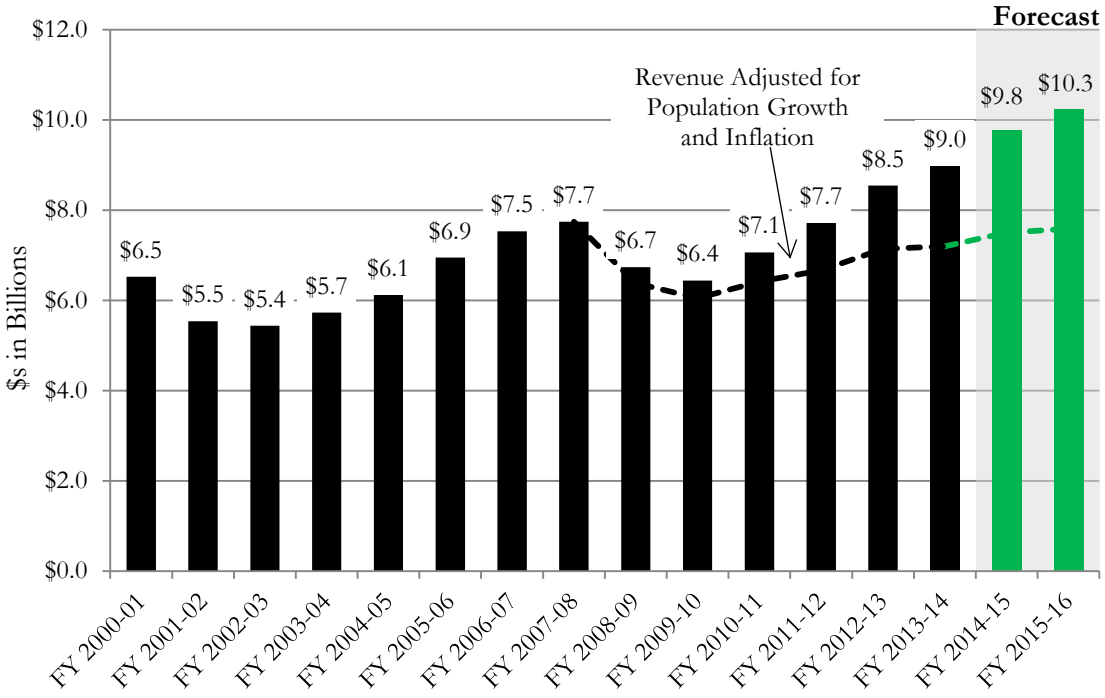
General Fund revenue is expected to grow 8.8 percent in FY 2014-15 from continued solid economic growth in the state. Revenue growth will be slower in FY 2015-16 resulting in part from a decline in oil and gas industry-related activity.

The lower forecast is due to the sharp decline in the price of oil that is causing a pullback in investment by the oil and gas industry in the state, as discussed starting on page 9 in the *Economy: Issues Trends and Forecasts* section. As a result, tax collections are expected to be reduced from lost wages, business income, and spending. However, some of the loss in tax revenue will be offset by increases in sales tax collections due to higher consumer spending as a result of lower gas prices. Also, unemployment insurance and severance packages paid to laid-off workers will help replace some of the lost income.

Part of the slower growth in General Fund revenue in FY 2015-16 also is attributable to the availability of the State Earned Income Tax Credit. After becoming a TABOR refund mechanism in FY 2014-15, the credit will be available and thus lower revenue collections on an ongoing basis starting in tax year 2016, which affects FY 2015-16.

Figure 19 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2015-16. The figure includes a dotted line reflecting 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 19. 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 10.0 percent FY 2014-15 due to strong growth in wage withholding tax receipts and a rebound in tax collections from investment income. Growth will moderate to a 5.5 percent rate in FY 2015-16 partly due to the slowdown in the oil and gas industry.

Growth in total wages paid in the state from Colorado's economic expansion is fueling income tax revenue growth. In addition to solid job growth, trends in wage withholdings also suggest higher wage growth for Coloradans. Job growth and wage trends in the economy are discussed in further detail in the *Economy: Issues Trends and Forecasts* section starting on page 4.

Estimated income tax payments are rebounding this fiscal year which also is helping boost income tax revenue. Taxpayers with higher amounts of investment income pay their tax liabilities periodically during the year through estimated payments. The decline in FY 2013-14 resulted from taxpayers shifting investment gains to avoid the higher tax liabilities from federal tax increases that took effect at the beginning of 2013. Continued solid growth in the stock market in 2013 and 2014 is expected to help boost estimated payments this fiscal year.

Individual income tax revenue growth will slow in FY 2015-16 due in part to less robust growth in estimated payments paid on investment income and because of the slowdown in the oil and gas industry. The industry has been an important part of the state's recent economic growth. A decrease in investment and employment in the industry is expected to lead to a loss in wages and business income, and consequently, lower individual income tax collections.

After strong growth in individual income tax collections in FY 2014-15 fueled by wage withholding receipts and growth in capital gains income, collections will moderate in FY 2015-16. The slower growth is partly due to the slowdown in the oil and gas industry, which is expected to lead to a loss in tax collections on wages and business income.

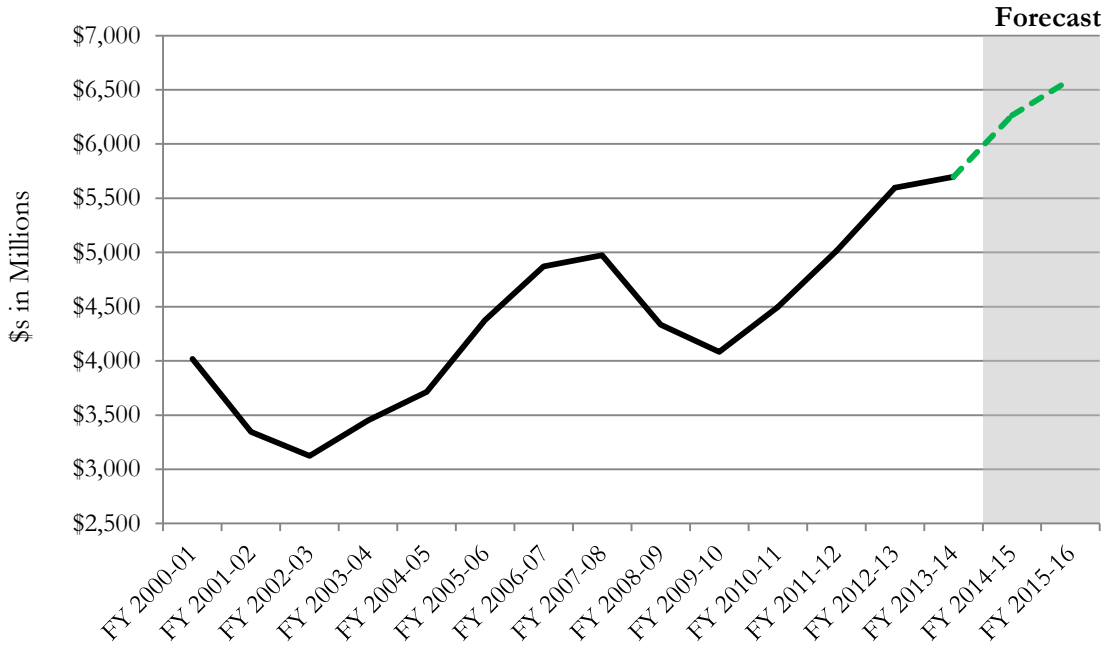
As discussed further starting on page 9 in the *Economy: Issues Trends and Forecasts* section, this forecast assumes a 10 percent reduction in employment in the oil and gas industry. This equates to a loss of 3,700 jobs in the industry and a reduction in wages of about $425 million. Considering the multiplier effect of the industry, however, which includes economic activity within the oil industry's supply chain as well as in other industries resulting from spending from the oil and gas industry, total wages in the state would be reduced by an estimated $975 million and total employment in the economy would still increase, but by roughly 13,000 jobs less than would have occurred. This impact is equivalent to about a half of a percent of total employment. Unemployment insurance and severance packages paid to laid-off workers will help replace some of the lost income and help bolster income tax collections. Nonetheless, income tax collections are $33 million less this forecast compared with December.

It is important to note, however, that while we have tried to account for the potential impacts of a decline in investment and employment, it is impossible to precisely capture the full response of the adjustments that individuals and businesses would make in response to a contracting oil and gas industry. Further, estimates of the size of the industry's contraction are uncertain at this time.

Changes in tax deductions and credits are also impacting revenue collections over the forecast period. The largest of which is the State Earned Income Tax Credit. After becoming a TABOR refund mechanism in FY 2014-15, the 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 expected 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 that can be refunded. 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 also reduce revenue by a lesser amount than the credits from prior years.

Figure 20. 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 – After robust gains since the end of the Great Recession, corporate tax revenue collections have slowed in FY 2014-15. Collections are expected to be only 0.3 percent higher compared with the prior fiscal year. Corporate income tax revenue will grow 8.6 percent in FY 2015-16, which is a slower rate than most years since the recession.

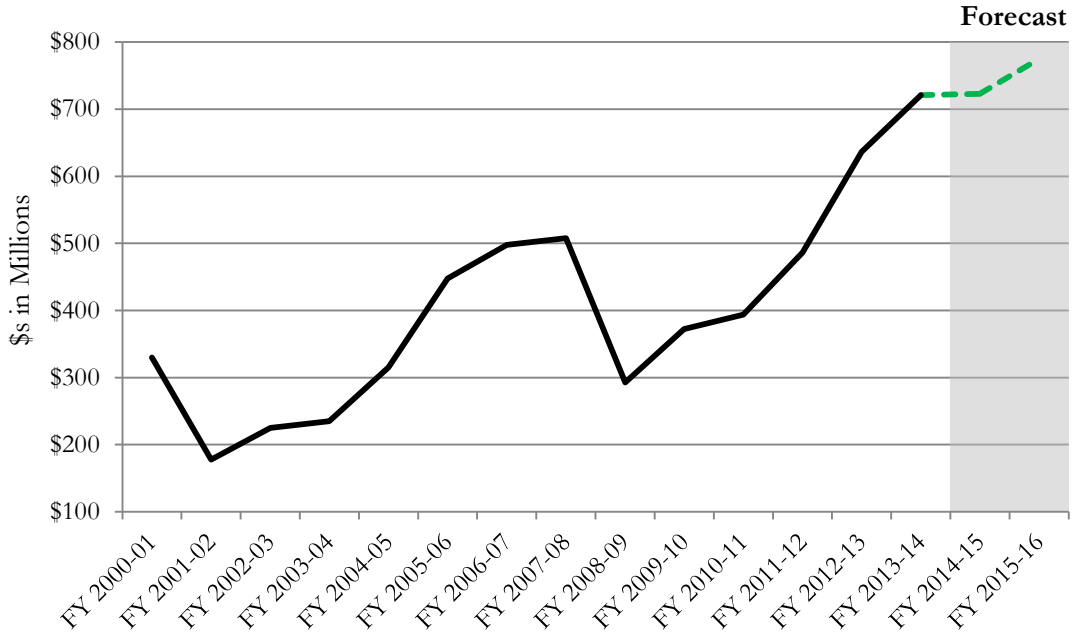
Slower growth is due in part to both higher business costs and state and federal tax policies that affect the tax liabilities of corporations. Corporations reduced their costs in response to the Great Recession, leading to rising profit margins in the ensuing economic expansion. However, as the expansion matures, rising business costs are lowering margins which temper tax collections.

Corporate tax revenue growth has slowed 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.

The ending of the cap on the amount of net operating losses that corporations could deduct that the state set during the Great Recession and the tax credit for businesses undertaking job creation projects are two changes that are having impacts. Also, a retroactive extension of higher business investment tax deductions at the end of 2014 at the federal level[5] is slowing corporate income tax revenue in FY 2014-15.

[5] 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.

Figure 21. 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 9.1 percent in FY 2014-15, but slow to 4.5 percent growth in FY 2015-16. The strong growth this fiscal year is mostly due to the momentum in the state economy that is fueling consumer and business spending. However, losses in wages and business spending tied to the slowdown in the oil and gas industry will weigh on sales tax revenue growth next fiscal year. The drop in gas prices, however, will help offset this weaker spending. 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.

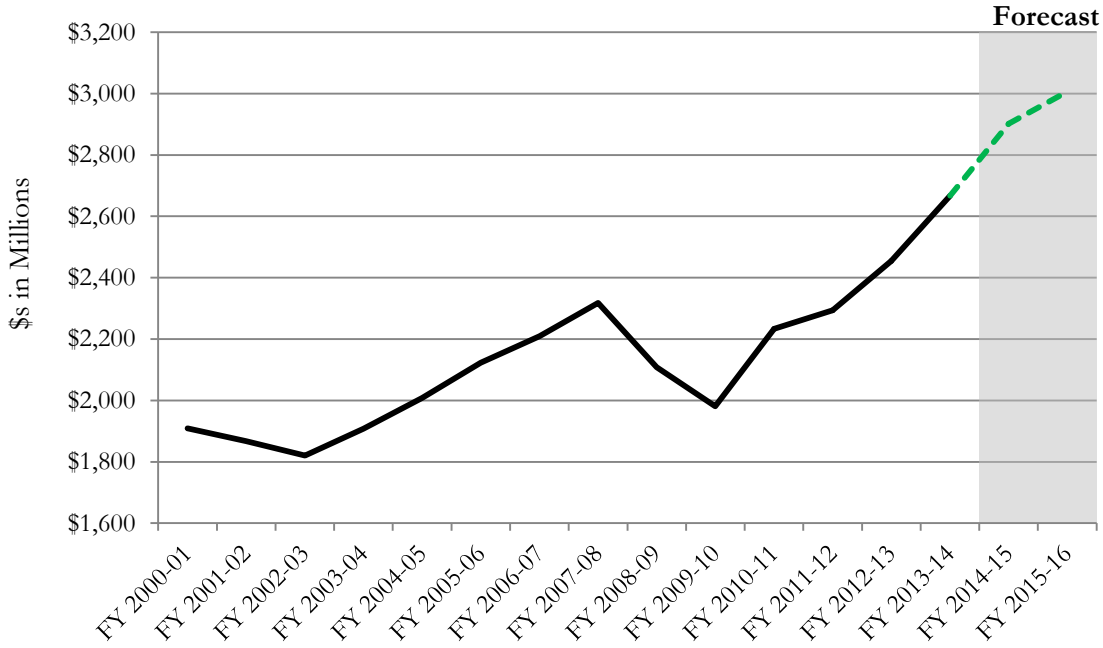
Stronger growth in sales tax revenue over the past year reflects the momentum in the state economy that is fueling consumer and business spending. The oil and gas industry's slowdown will also weigh on sales tax collections. However, the drop in gas prices will increase consumer disposable income to help offset the negative effects.

Sales tax revenue is also 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 $38.2 million this fiscal year and $42.8 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.

After moderate use tax revenue growth this fiscal year, use tax collections are expected to decrease in FY 2015-16 as a result of less business spending tied to the oil and gas industry. 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. The forecast for sales and use tax revenue combined is $19 million lower in FY 2015-16 compared with the December forecast as a result of the slowdown in the oil and gas industry.

Figure 22. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2015-16



Source: Office of the State Controller and OSPB.

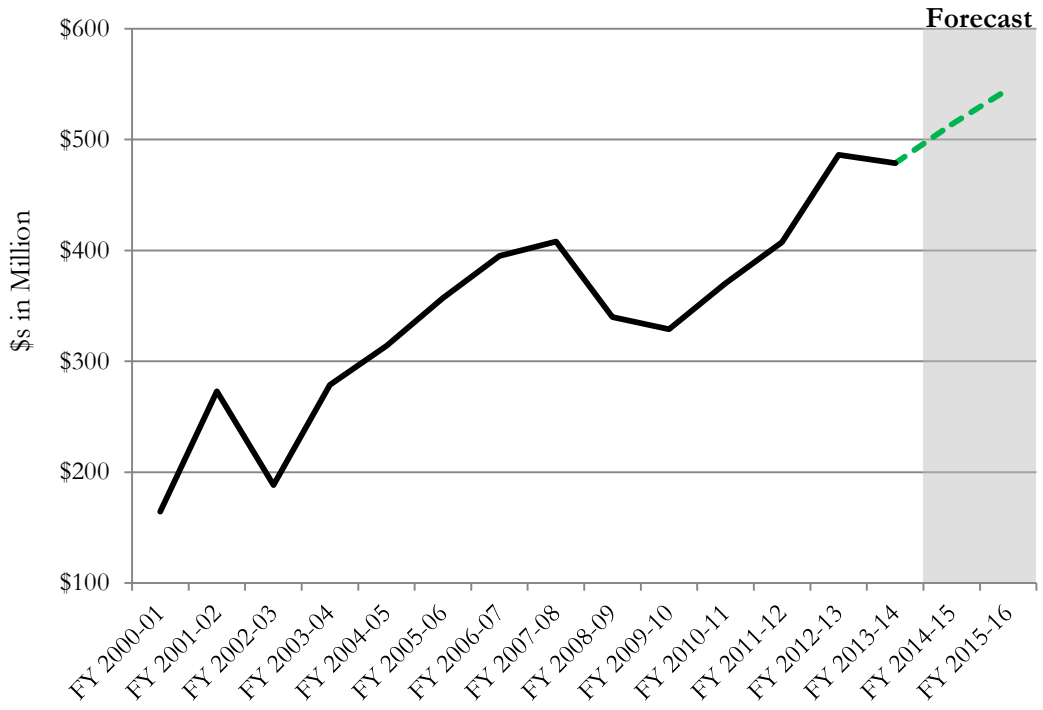
State Education Fund Revenue Forecast

Tax revenue to the State Education Fund will increase 7.3 percent in FY 2014-15 and 6.5 percent in FY 2015-16. Because this revenue is derived from taxable income, it follows the trends discussed above in individual income and corporate income tax revenue collections. Similar to individual income tax collections, strong growth in taxable income from wages and investments is boosting State Education Fund revenue this fiscal year. An increase in corporate taxable income will partly offset slower growth in individual taxable income in FY 2015-16.

Tax revenue to the State Education Fund will increase 7.3 percent in FY 2014-15 and 6.5 percent in FY 2015-16.

As shown on page 48 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. 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 32 on page 49.

Figure 23. 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.

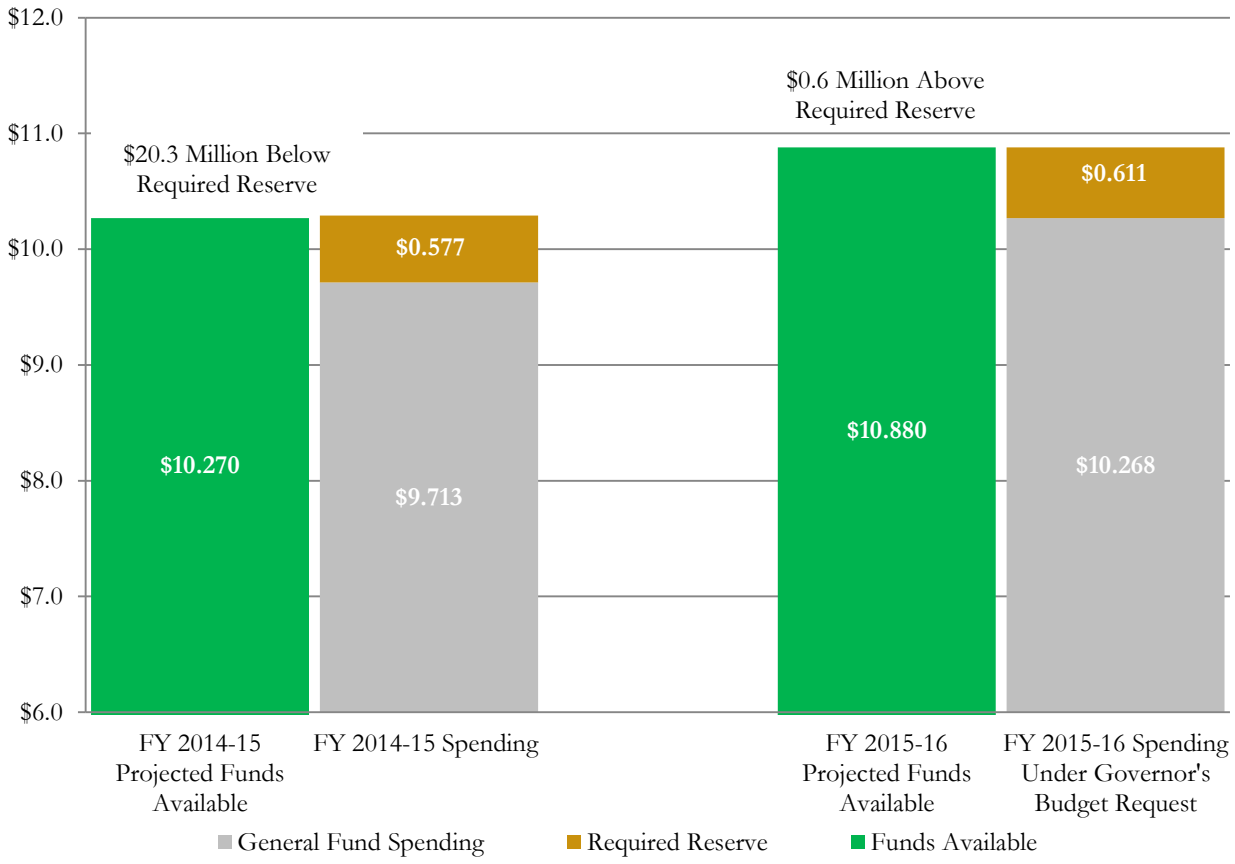
General Fund and State Education Fund Budget

Summary

General Fund – As discussed in the *General Fund Revenue Forecast* section starting on page 34, projections for General Fund revenue for FY 2014-15 are essentially unchanged compared with the December 2014 forecast. Projections for FY 2015-16 are 0.4 percent, or $43.7 million, lower compared with December.

Under this forecast, the State's General Fund reserve is projected to be $20.3 million below its required amount for FY 2014-15. The shortfall is the result of this forecast's higher projections for cash fund revenue that increases the TABOR rebate liability in the General Fund. Under the Governor's budget request for FY 2015-16, the State's General Fund reserve is projected to be $0.6 million above its required amount. Figure 24 below summarizes total General Fund revenue available, total spending, and reserve levels for FY 2014-15 and FY 2015-16.

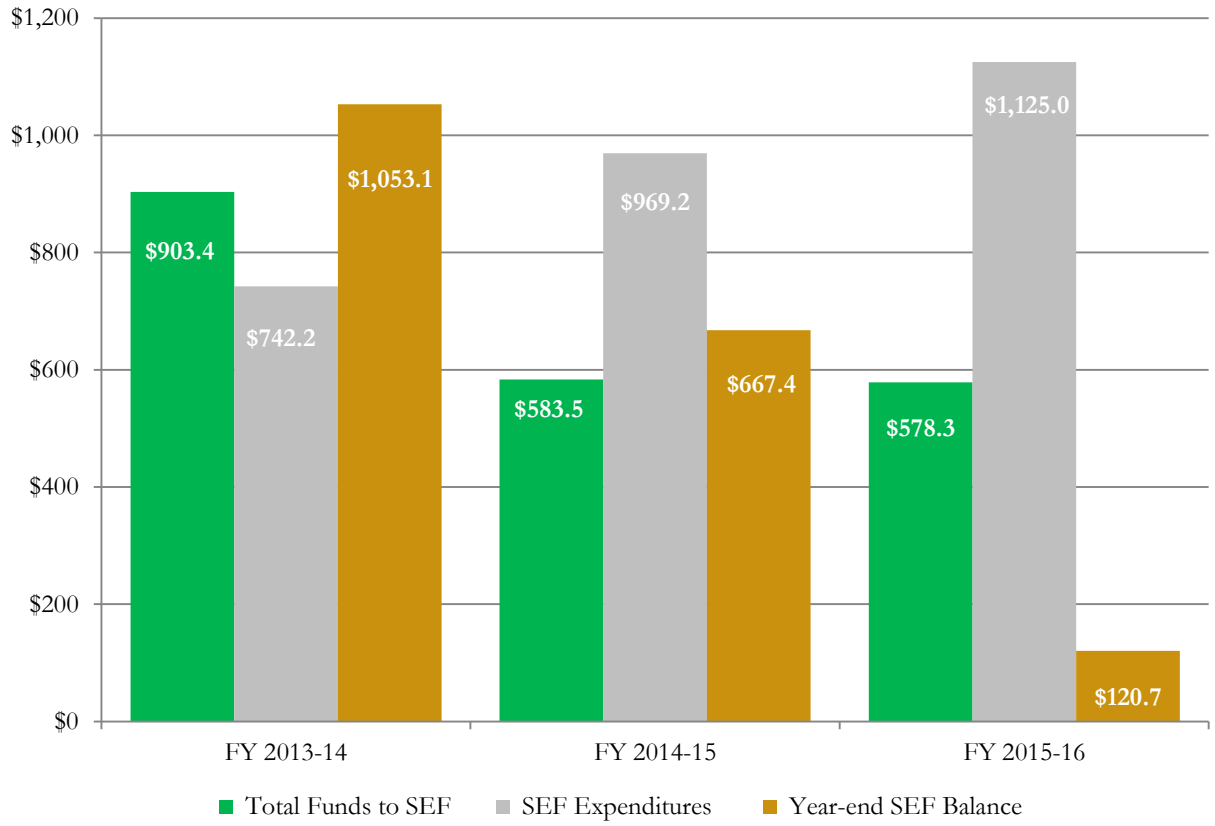
Figure 24. General Fund Money, Spending, and Reserves
FY 2014-15* and FY 2015-16, $ in Billions



*FY 2014-15 General Fund spending reflects anticipated budgetary actions of the legislature and Governor as of the date of publication.

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 25 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 25. 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.

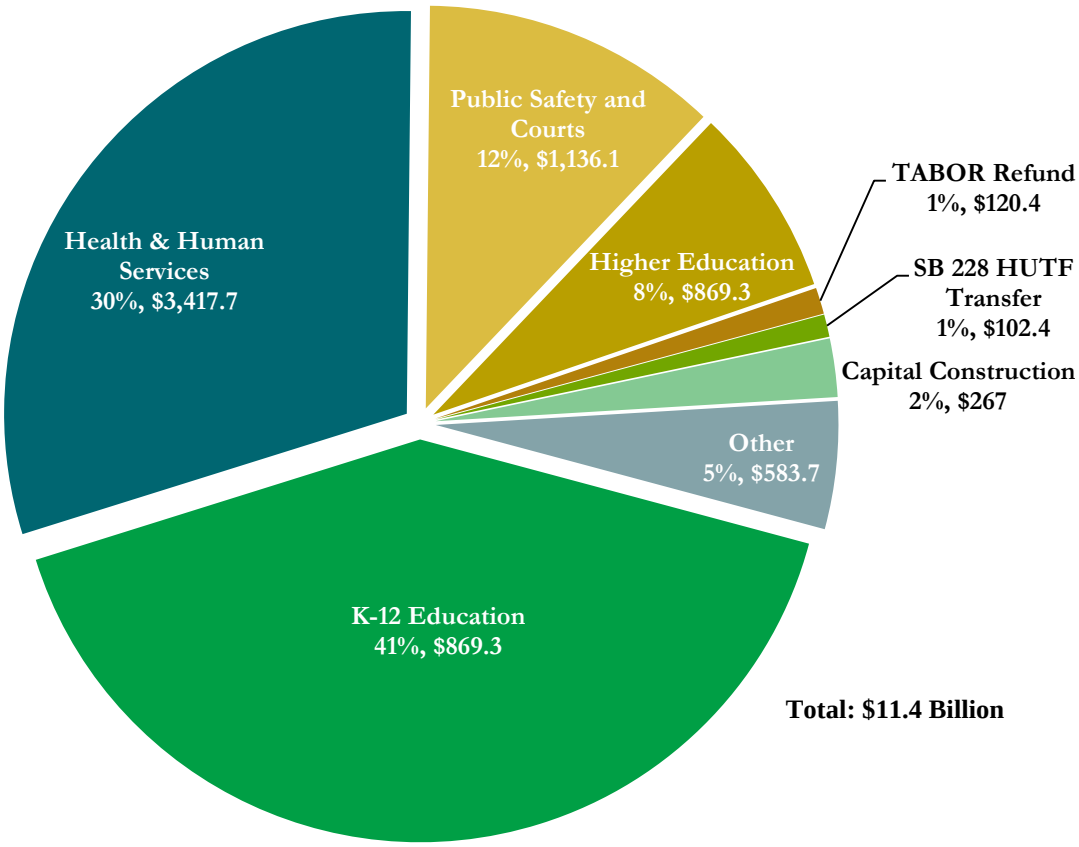
Detailed Overview Tables – A detailed overview on the amount of money available in the General Fund and State Education Fund, expenditures, and end-of-year reserves are provided in the overview tables in the Appendix at the end of this document. These overviews are discussed starting on page 44.

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, services for 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 26 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 $120.4 million required for TABOR rebates. As noted above, the current forecast shows $0.6 million above the required General Fund reserve amount.

Figure 26. 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 4. 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.

Because the oil and gas industry is linked with overall economic activity in the state, there is risk of a larger economic slowdown than forecasted, especially if the industry's contraction is larger and longer than anticipated. Additionally, economic conditions for many of the world's largest economies continue to be sluggish and geopolitical tensions pose a risk.

Even relatively small changes in the projected growth rate of revenue sources can materially impact the budget outlook. This forecast projects TABOR revenue will exceed the cap in all three years from FY 2014-

15 through FY 2016-17. Higher-than-expected revenue collections would result in more revenue above the cap. In contrast, slower-than-expected revenue growth may result in future forecasts showing smaller amounts above the cap.

These changes could 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. As an example, the amount of the TABOR rebate under this forecast reduces the Senate Bill 09-228 transfer for transportation by half in FY 2015-16 (details explained on page 47). However, a decrease in the forecast for TABOR revenue by 0.14 percent or more in FY 2015-16 would reduce the TABOR refund by an amount to require the full transfer to transportation, triggering an additional $102.6 million in spending. This scenario may occur under a variety of circumstances, such as if the oil and gas industry experiences a larger contraction than assumed by this forecast or if other revenue sources are lower than projected. Table 4a in the Appendix shows the General Fund overview under the scenario of a smaller TABOR refund in FY 2015-16 requiring a full transfer to transportation.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview for the March 2015 OSPB revenue forecast, providing details on the amount of money forecasted to be available in the General Fund, expenditures, and end-of-year-reserves based on anticipated budgetary actions of the legislature and Governor at the time of publication for FY 2014-15 and under the Governor's FY 2015-16 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.

The Appendix also includes an alternative forecast scenario for the budget. Table 4a shows the budgetary impact of a full Senate Bill 09-228 transfer to transportation in FY 2015-16 triggered by a lower TABOR refund than projected under this forecast. See the discussion on Senate Bill 09-228 transfers on page 47 for further information.

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 34. In addition to General Fund revenue, the General Fund receives money transferred from other State funds each fiscal year. The $27.7 proposed transfer in FY 2014-15 is from the Marijuana Tax Cash Fund to partially offset the TABOR refund liability associated with Proposition AA. See pages 57-58 for more information. The $47.0 million proposed transfer in FY 2015-16 is from severance tax collections.

Figure 27. General Fund Revenue Available (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
1	Beginning Balance	$435.9	$556.3
2	General Fund Revenue	$9,768.1	$10,260.3
3	Transfers to the General Fund	$37.9	$16.1
4	Proposed Transfers to the General Fund	$27.7	$47.0
5	**Total General Funds Available**	**$10,269.6**	**$10,879.7**
	Dollar Change from Prior Year	$904.8	$610.1
	Percent Change from Prior Year	9.7%	5.9%

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 28. General Fund Spending Subject to the Appropriations Limit (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
6	**Appropriations**	**$8,870.4**	**$9,399.3**
7	Dollar Change from Prior Year	$651.6	$528.9
8	Percent Change from Prior Year	7.9%	6.0%

The General Fund appropriation amounts for FY 2014-15 reflects anticipated legislative and Governor actions as of the date of publication, while the FY 2015-16 amount reflects 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 29. More information about these spending lines is discussed below.

Figure 29. General Fund Spending Not Subject to the Appropriations Limit (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16	FY 2016-17
10	TABOR Refund under Art. X, Section 20, (7) (d)	$219.8	$120.4	$316.6
11	TABOR Refund under Art. X, Section 20, (3) (c)	$60.3	$0.0	$0.0
	Cigarette Rebate to Local Governments	*$8.9*	*$8.4*	*$8.0*
	Marijuana Rebate to Local Governments	*$5.7*	*$6.4*	*$6.9*
	Old-Age Pension Fund/Older Coloradans Fund	*$105.9*	*$111.1*	*$116.6*
	Aged Property Tax & Heating Credit	*$6.4*	*$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	*$0.9*	*$0.8*	*$0.8*
12	**Total Rebates and Expenditures**	**$250.1**	**$264.7**	**$276.0**
13	Transfers to Capital Construction	$248.5	$267.0	$130.1
14	Transfers to Highway Users Tax Fund	$0.0	$102.6	$107.8
15	Transfers to State Education Fund per SB 13-234	$25.3	$25.3	$25.3
16	Transfers to Other Funds	$39.0	$44.5	$46.5
18	Other	$0.0	$44.4	$0.0
	Total	**$843.0**	**$868.9**	**$902.3**
	Dollar Change from Prior Year	$297.4	$26.0	$33.4
	Percent Change from Prior Year	54.5%	3.1%	3.8%

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 $216.2 million in FY 2014-15, $120.4 million in FY 2015-16, and $316.6 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 $216.2 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 also has earmarked a General Fund liability in FY 2014-15 of $60.3 million due to a TABOR refund associated with Proposition AA and Article X, Section 20 (3) (c) of the Colorado Constitution. The section starting on page 55 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 Aged Property Tax, Heat, and Rent Credit, which provides property tax, heating bill, or rent assistance to qualifying low-income, disabled, or elderly individuals; and (5) the Homestead Property Tax Exemption, which reduces property-tax liabilities for qualifying seniors and disabled veterans.

General Fund money transferred for State capital construction and facility maintenance, as well as transportation projects, also is not subject to the limit. Transfers for these purposes can be made through legislation. The FY 2014-15 budget includes a total transfer of $248.5 million for capital construction projects, while the Governor's budget request for FY 2015-16 includes a transfer of $267.0 million. The capital construction amount of $130.1 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,[6] which would trigger required transfers 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.

The projected TABOR refunds in FY 2015-16 and FY 2016-17 represent an amount equal to 1.2 percent and 2.9 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 $205.2 million to $102.6 million in FY 2015-16, and from $215.7 million to $107.8 million in FY 2016-17 – under this forecast.

As noted above, Table 4a in the Appendix presents an alternative budget scenario in which TABOR revenue collections are lower than this forecast in FY 2015-16. Under this scenario, the required TABOR refund amount would be less than one percent of General Fund revenue. This would trigger a full Senate Bill 09-228 transfer to transportation rather than half, requiring an additional $102.4 million in spending. As shown in Table 4a, this would cause the General Fund reserve to be $101.5 million below its statutory amount, requiring reductions in other General Fund spending.

Because the expected and budgeted transfers to capital construction exceed 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 $44.4 million in FY 2015-16. This amount includes $30.0 million associated with the Colorado Opportunity Scholarship Initiative, $8.0 million related to the settlement of oil and gas lease litigation on the Roan Plateau, $4.3 million to account for TABOR refunds caused by increased fees, $1.5 million for the Department of Revenue related to Senate Bill 13-251, and $0.6 million regarding the Department of Public Health and Environment's Radiation Control Cash Fund.

[6] The preliminary estimate for personal income growth in 2014 will be available March 25, 2015.

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 30 provides information on the General Fund ending balance.

Figure 30. 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
22	Year-End General Fund Balance	$650.9	$556.3	$611.5
23	Balance as a % of Appropriations	7.9%	6.3%	6.5%
24	**General Fund Required Reserve**	**$410.9**	**$576.6**	**$611.0**
25	Money Above/Below Req. Reserve	$240.0	-$20.3	$0.6
26	Excess Reserve to Other Funds	$215.0	$0.0	$0.0
27	**Balance After Any Funds Above Statutory Reserve are Allocated**	**$25.0**	**-$20.3**	**$0.6**

The State's General Fund reserve is projected to be $20.3 million below its required amount for FY 2014-15. Under the budget request and this forecast, there will be $0.6 million above the required amount for FY 2015-16.

All but $25.0 million of the FY 2013-14 excess reserves, which remained in the General Fund, was transferred to various cash funds in a specified order of priority listed in Figure 31 pursuant to House Bill 14-1339, House Bill 14-1342, and Senate Bill 14-223. The extent of the transfers was contingent upon the amount of excess reserves available. Fiscal Year 2013-14 ended the year with $240.0 million in excess reserves. This was 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 received the remainder of the FY 2013-14 excess, or $18.6 million, after all of the other transfers occurred.

Figure 31. FY 2013-14 Excess General Fund Reserve Transfers, $ in Millions

Summary of Transfers of FY 2013-14 Excess General Fund Reserves	
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. Due to the budget implications of the balance of funding between the State Education Fund and General Fund, a unified and multi-year view provides important insight to the sustainability of budgeting decisions.

Figure 32 summarizes State Education Fund annual revenue and spending. It includes each year's actual or projected beginning and ending fund balance. State Education Fund expenditures for FY 2014-15 reflect anticipated budgetary actions and FY 2015-16 reflects the Governor's 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; thus, fund-balance projections are illustrative only.

Transfers of excess reserves in recent years have caused a significant increase in the balance of the State Education Fund. However, as shown, a combination of higher spending and lower amounts of projected revenue is drawing down the fund's balance.

Figure 32. 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	*$1,053.1*	*$667.4*	*$120.7*
One-third of 1% of State Taxable Income	*$513.8*	*$547.3*	*$584.0*
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	*$5.8*	*$5.7*	*$6.1*
Total Funds to State Education Fund	**$583.5**	**$578.3**	**$615.4**
State Education Fund Expenditures	**$969.2**	**$1,125.0**	**$602.9**
Year-end Balance	**$667.4**	**$120.7**	**$133.1**

CASH FUND REVENUE FORECAST

Cash fund revenue supports a wide array of State programs that collect taxes, 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 $92.4 million, or 3.4 percent, higher than FY 2013-14 primarily as a result of growth in severance tax and fuel tax revenue. This growth will offset declines in revenue from the Hospital Provider Fee and miscellaneous cash funds. The forecast for FY 2014-15 is $24.8 million, or 0.9 percent, higher compared with projections in December.

Cash fund revenue subject to TABOR will decline 1.4 percent in FY 2015-16 as an expected large decrease in severance tax revenue will offset growth in revenue from the Hospital Provider Fee that year. The forecast for FY 2015-16 is $34.7 million, or 1.2 percent, lower compared with projections in December primarily due to a larger forecast decline in severance tax revenue.

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 55.

Transportation-related cash funds — Transportation-related cash funds subject to TABOR will grow $32.1 million, or 2.8 percent, to $1.17 billion in FY 2014-15. The funds will grow 2.2 percent to $1.19 billion in FY 2015-16.

Increases in revenue from taxes on gasoline and diesel fuel are occurring after two consecutive years of declines before FY 2013-14. 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. According to the Colorado Automobile Dealers Association, light-truck sales were up 3.7 percent in Colorado from November to January from a year ago.

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. Continued improvement in Colorado's employment, coupled with growth in household incomes and broader economic momentum, is expected to support continued steadiness in Colorado's gaming industry.

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." Of this amount, $98.1 million is classified as "base limited gaming revenue" as designated by State law after the passage of Amendment 50. This revenue is distributed by formula 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 33 below shows the anticipated distribution of limited gaming revenues in further detail.

Figure 33. 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 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 37.4 percent, or $100.4 million, to $369.1 million in FY 2014-15 after nearly doubling in FY 2013-14. The recent strong growth in severance tax revenue has resulted from the higher price environment for natural gas and oil prior to last summer that boosted production of those resources in Colorado. Prices for both natural gas and oil have fallen substantially since last summer and are expected to remain lower throughout 2015, contributing to a decrease in severance tax revenue of more than 60 percent in FY 2015-16. Due to the continued drop in oil and natural gas prices, the FY 2015-16 forecast is $43.5 million lower than projected in December.

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. However, there is a delay between the time that natural gas prices fall and the collection of severance tax revenue for natural gas sold at the lower price. Therefore, the lower prices are expected to impact severance tax revenue in FY 2015-16 much more than FY 2014-15.

Higher prices for natural gas and growing oil production in the beginning of 2014 are driving continued strong severance tax revenue growth of in FY 2014-15. Falling prices for both resources, combined with ad valorem tax credits, will result in a decline of $227.3 million in severance taxes in FY 2015-16.

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 by nearly 50 percent since the summer of 2014 as growing production in the United States has boosted oil inventories while a sluggish global economy has dampened demand. As a result, oil prices are expected to remain depressed throughout much of 2015 and will contribute to a large reduction in severance tax collections in FY 2015-16.

The impact of ad valorem tax credits will exacerbate the decline of severance tax revenue from lower oil and natural gas prices 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 much higher. This dynamic increases the impact of lower prices, helping generate the 61.6 percent forecasted decline for severance taxes in FY 2015-16.

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. Oil producers will likely temper new production as lower prices make new exploration and wells less profitable. The pullback in new production will further contribute to lower severance tax revenue growth over the forecast period.

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 13 percent, to $7.0 million, in FY 2014-15 after falling 9.4 percent, to $8.1 million the prior year.

Federal Mineral Leasing revenue — Colorado's share of Federal Mineral Lease (FML) revenue will fall by 6.0 percent, to $163.2 million in FY 2014-15, after growing by nearly 44 percent, to $173.6 million, in FY 2013-14.

The impact of lower prices for natural gas and oil is expected to temper FML royalties in the second half of this fiscal year. Changes in FML revenue as a result of price swings are smaller than the impact on severance tax revenue because production occurs within the provisions of federal contracts and producers do not claim ad valorem tax credits for property taxes paid on prior years' production. This is a major reason that FML revenue will not experience the same decline as severance tax revenue in FY 2015-16 due to lower natural gas and oil prices.

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. The federal Bureau of Land Management (BLM) 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 relatively small over the forecast period.

FML revenue will fall by 3.9 percent in FY 2015-16, to $156.8 million. Much of the decline is a result of refunds to holders of cancelled leases for mineral extraction purposes on the Roan Plateau in Colorado. The BLM carried-out auctions for leases to produce natural gas on the Roan Plateau and collected significant bonus payments in 2008. The Bureau later revisited these leases and determined a need to re-negotiate or cancel several of them. As a result, the Bureau will refund nearly $50 million of bonus payments that were originally made, of which, $23.4 million was distributed to Colorado and now must be refunded from the State's share of FML revenue. The federal government will withhold $7.8 million of Colorado's FML payments in each of the next three fiscal years to complete the required refund, thus reducing FML revenue starting in FY 2015-16. The Governor's budget request for FY 2015-16 includes $8 million in General Fund to backfill the reduced FML revenue.

Figure 34. 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	$1.6	$161.5	$163.2	-6.0%
FY 2015-16	$1.6	$155.3	$156.8	-3.9%
FY 2016-17	$2.5	$163.3	$165.8	5.7%

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 activity among businesses in regulated industries. The Department of Regulatory Agencies (DORA) oversees businesses and professionals in certain industries through licensing, rulemaking, enforcement, and approval of rates charged to consumers. The Department is responsible for oversight of a wide variety of professions, such as landscape architects, psychologists, and hunting guides. Revenue from licensing fees and other services fund many of the Department's activities. Cash fund revenue related to regulatory agencies will grow another 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. In FY 2015-16, revenue to these cash funds will decline slightly to $21.3 million.

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, fees, and interest earnings. Revenue from these funds is expected to be $555.9 million in FY 2014-15, a decrease of 2.2 percent after growth of 22.2 percent the year before. Revenue to these funds is expected to be at about the same level again 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

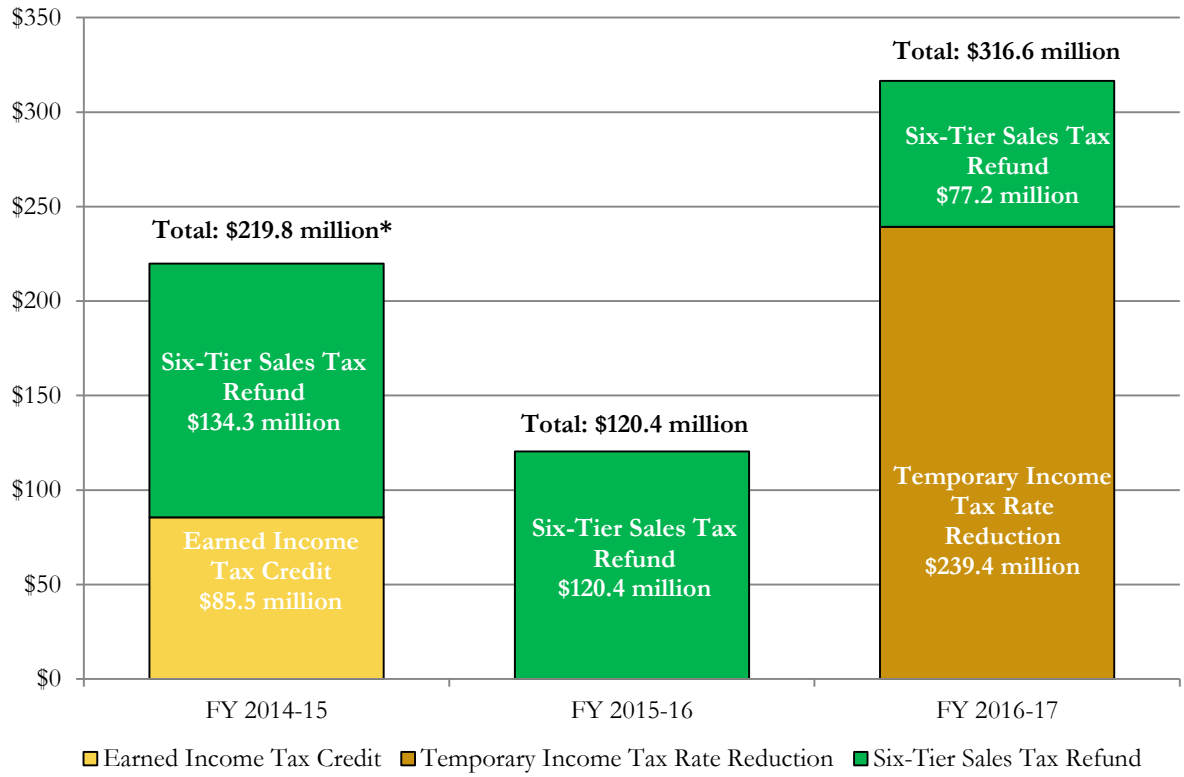
Background on TABOR – Provisions in the Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limit the growth of a large portion of State revenue to the sum of inflation plus population growth in the previous calendar year. Revenue collected above the TABOR limit must 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 $216.2 million in FY 2014-15, $120.4 million in FY 2015-16, and $316.6 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 35 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 35. Projected Distribution of Revenue in Excess of the Referendum C Cap (Dollars in Millions)



* This amount includes $216.2 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 $230 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 $134.3 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 36.

In FY 2015-16, the six-tier sales tax refund mechanism will be used to distribute the projected $120.4 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 $222.4 million.

The revenue in excess of the cap in FY 2016-17, estimated at $316.6 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. This would reduce state income tax liability for individual income taxpayers by about $55 on average per taxpayer. The amount refunded through this mechanism is estimated to be $239.4 million, which will account for most of the required TABOR refund from FY 2016-17. The remaining $77.2 million will be refunded through the six-tier sales tax refund mechanism.

Figure 36. 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	**$134.3 million**	**$120.4 million**	**$77.2 million**
Adjusted Gross Income Tier	Estimated Refund per Taxpayer		
First 35%	$28	$25	$16
Next 27%	$38	$33	$21
Next 17%	$43	$38	$24
Next 9%	$52	$45	$29
Next 4%	$55	$49	$31
Last 7%	$89	$79	$50

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 1.2 percent and 2.9 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 $205.2 million to $102.6 million in FY 2015-16, and from $215.7 million to $107.8 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.

Based on a legal analysis produced by the Office of Legislative Legal Services, under the provisions of TABOR, a refund must also occur if revenue subject to TABOR 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 $470.6 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 Governor's Budget request has earmarked a General Fund liability in FY 2014-15 of $60.3 million (line 11 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 35.

Governor's Revenue Estimating Advisory Committee

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- 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

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Appendix – Reference Tables

Table 1. History and Forecast for Key Colorado Economic Variables
Calendar Year 2010-2017

Line No.		Actual					March 2015 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017
	Income								
1	Personal Income (Billions) /A	$210.5	$226.1	$240.3	$247.1	$261.4	$274.8	$290.4	$308.2
2	Change	1.9%	7.5%	6.3%	2.8%	5.8%	5.1%	5.6%	6.1%
3	Wage and Salary Income (Billions) /A	$113.8	$118.6	$125.1	$129.6	$138.0	$145.6	$154.1	$163.9
4	Change	1.3%	4.2%	5.5%	3.6%	6.5%	5.5%	5.8%	6.3%
5	Per-Capita Income ($/person) /A	$41,676	$44,192	$46,324	$46,928	$48,875	$50,530	$52,486	$54,760
6	Change	0.5%	6.0%	4.8%	1.3%	4.1%	3.4%	3.9%	4.3%
	Population & Employment								
7	Population (Thousands)	5,049.7	5,117.4	5,188.5	5,264.9	5,348.5	5,439.3	5,532.0	5,628.1
8	Change	1.5%	1.3%	1.4%	1.5%	1.6%	1.7%	1.7%	1.7%
9	Net Migration (Thousands)	37.0	33.7	39.2	45.3	51.8	56.2	59.6	62.5
10	Unemployment Rate	8.7%	8.3%	7.8%	6.8%	5.0%	4.3%	4.4%	4.2%
11	Total Nonagricultural Employment (Thousands)	2,222.3	2,258.6	2,313.0	2,381.9	2,460.8	2,525.4	2,596.8	2,670.2
12	Change	-1.0%	1.6%	2.4%	3.0%	3.3%	2.6%	2.8%	2.8%
	Construction Variables								
13	Total Housing Permits Issued (Thousands)	11.6	13.5	23.3	27.5	29.2	32.8	35.7	38.7
14	Change	23.9%	16.5%	72.6%	18.1%	6.2%	12.1%	9.1%	8.1%
15	Nonresidential Construction Value (Millions) /B	$3,146.7	$3,923.2	$3,692.0	$3,609.7	$4,238.8	$4,279.5	$4,541.9	$4,743.3
16	Change	-6.2%	24.7%	-5.9%	-2.2%	17.4%	1.0%	6.1%	4.4%
	Prices & Sales Variables								
17	Retail Trade (Billions) /C	$70.5	$75.9	$80.2	$83.8	$89.5	$93.9	$99.1	$104.7
18	Change	6.0%	7.7%	5.7%	4.5%	6.8%	4.9%	5.5%	5.7%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	212.4	220.3	224.6	230.8	237.2	241.5	248.3	254.9
20	Change	1.9%	3.7%	1.9%	2.8%	2.8%	1.8%	2.8%	2.6%

/A Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance. 2014 data is not final and represents OSPB's estimates.

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

/C Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods / books / music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants). 2014 data is not final and represents OSPB's estimate.

Table 2. History and Forecast for Key National Economic Variables
Calendar Year 2010 – 2017

Line No.		Actual					March 2015 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017
	Inflation-Adjusted & Current Dollar Income Accounts								
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$14,783.8	$15,020.6	$15,369.2	$15,710.3	$16,085.3	$16,535.7	$16,982.2	$17,423.7
2	Change	2.5%	1.6%	2.3%	2.2%	2.4%	2.8%	2.7%	2.6%
3	Personal Income (Billions) /B	$12,429.3	$13,202.0	$13,887.7	$14,166.9	$14,716.6	$15,437.7	$16,240.5	$17,101.2
4	Change	2.8%	6.2%	5.2%	2.0%	3.9%	4.9%	5.2%	5.3%
5	Per-Capita Income ($/person)	$40,146	$42,328	$44,200	$44,775	$46,162	$48,042	$50,120	$52,373
6	Change	2.0%	5.4%	4.4%	1.3%	3.1%	4.1%	4.3%	4.5%
7	Wage and Salary Income (Billions) /B	$6,378	$6,633	$6,932	$7,124.7	$7,432.4	$7,848.6	$8,311.7	$8,810.4
8	Change	2.0%	4.0%	4.5%	2.8%	4.3%	5.6%	5.9%	6.0%
	Population & Employment								
9	Population (Millions)	309.6	311.9	314.2	316.4	318.8	321.3	324.0	326.5
10	Change	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%
11	Unemployment Rate	9.6%	8.9%	8.1%	7.4%	6.1%	5.5%	5.1%	5.0%
12	Total Nonagricultural Employment (Millions)	130.3	131.8	134.1	136.4	139.0	141.8	144.5	147.1
13	Change	-0.7%	1.2%	1.7%	1.7%	1.9%	2.0%	1.9%	1.8%
	Price Variables								
14	Consumer Price Index (1982-84=100)	218.1	224.9	229.6	233.0	236.7	237.7	242.9	248.5
15	Change	1.6%	3.1%	2.1%	1.5%	1.6%	0.4%	2.2%	2.3%
16	Producer Price Index - All Commodities (1982=100)	184.7	201.0	202.2	203.4	205.4	199.6	209.8	218.5
17	Change	6.8%	8.8%	0.6%	0.6%	1.0%	-2.8%	5.1%	4.1%
	Other Key Indicators								
18	Corporate Profits (Billions)	1,746.4	$1,816.6	$2,022.8	$2,106.9	$2,112.0	$2,241.0	$2,363.3	$2,468.6
19	Change	25.0%	4.0%	11.4%	4.2%	0.2%	6.1%	5.5%	4.5%
20	Housing Permits (Millions)	0.605	0.624	0.829	0.990	1.021	1.201	1.418	1.575
21	Change	3.7%	3.2%	32.9%	19.4%	3.1%	17.6%	18.1%	11.1%
22	Retail Trade (Billions)	$4,307.9	$4,627.8	$4,869.0	$5,067.9	$5,271.9	$5,520.1	$5,791.1	$6,069.6
23	Change	5.5%	7.4%	5.2%	4.1%	4.0%	4.7%	4.9%	4.8%

/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	March 2015 Estimate by Fiscal Year FY 2014-15	%Chg	FY 2015-16	%Chg	FY 2016-17	%Chg
	Excise Taxes:								
1	Sales	$2,425.3	9.7%	$2,646.8	9.1%	$2,765.1	4.5%	$2,909.7	5.2%
2	Use	$241.3	-0.6%	$252.3	4.5%	$246.6	-2.2%	$259.7	5.3%
3	Cigarette	$36.6	-4.5%	$38.2	4.5%	$36.1	-5.5%	$34.4	-4.8%
4	Tobacco Products	$16.9	8.5%	$19.1	13.2%	$18.7	-2.2%	$19.2	2.6%
5	Liquor	$40.3	2.9%	$42.8	6.2%	$42.6	-0.5%	$43.7	2.5%
6	**Total Excise**	**$2,760.4**	**8.4%**	**$2,999.2**	**8.6%**	**$3,109.1**	**3.7%**	**$3,266.6**	**5.1%**
	Income Taxes:								
7	Net Individual Income	$5,696.1	1.8%	$6,267.3	10.0%	$6,610.5	5.5%	$6,947.3	5.1%
8	Net Corporate Income	$720.7	13.3%	$722.7	0.3%	$785.1	8.6%	$838.9	6.9%
9	**Total Income**	**$6,416.8**	3.0%	**$6,990.0**	8.9%	**$7,395.7**	**5.8%**	**$7,786.2**	**5.3%**
10	*Less: State Education Fund Diversion*	*$478.8*	*-1.6%*	*$513.8*	*7.3%*	*$547.3*	*6.5%*	*$584.0*	*6.7%*
11	**Total Income to General Fund**	**$5,938.0**	**3.3%**	**$6,476.2**	**9.1%**	**$6,848.4**	**5.7%**	**$7,202.2**	**5.2%**
	Other Revenue:								
12	Insurance	$239.1	13.6%	$254.6	6.5%	$260.8	2.4%	$267.3	2.5%
13	Interest Income	$15.2	-12.8%	$14.2	-6.9%	$17.0	20.3%	$17.8	4.6%
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%	$3.2	23.5%	$3.0	-5.0%	$2.9	-5.0%
16	Other Income	$21.3	17.9%	$20.2	-5.3%	$21.5	6.1%	$25.8	20.2%
17	**Total Other**	**$279.2**	**12.1%**	**$292.7**	**4.8%**	**$302.8**	**3.5%**	**$314.3**	**3.8%**
18	**GROSS GENERAL FUND**	**$8,977.7**	**5.1%**	**$9,768.1**	**8.8%**	**$10,260.3**	**5.0%**	**$10,783.2**	**5.1%**

Table 4. General Fund Overview with Governor's FY 2015-16 Budget Request
(Dollar Amounts in Millions)

Line No.		Actual FY 2013-14	March 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserve**	**$373.0**	**$435.9**	**$556.3**	**$611.5**
2	**Gross General Fund Revenue**	**$8,977.7**	**$9,768.1**	**$10,260.3**	**$10,783.2**
3	*Transfers to the General Fund*	*$14.1*	*$37.9*	*$16.1*	*$17.8*
4	*Proposed Transfers to the General Fund /A*	NA	*$27.7*	*$47.0*	NA
5	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,364.8**	**$10,269.6**	**$10,879.7**	**$11,412.4**
Expenditures					
6	**Appropriation Subject to Limit /B**	**$8,218.7**	**$8,870.4**	**$9,399.3**	**$9,868.7**
7	*Dollar Change (from prior year)*	*$759.5*	*$651.6*	$528.9	$469.4
8	*Percent Change (from prior year)*	10.2%	7.9%	6.0%	5.0%
9	**Spending Outside Limit**	**$545.5**	**$843.0**	**$868.9**	**$902.3**
10	*TABOR Refund under Art. X, Section 20, (7) (d) /C*	*$0.0*	*$219.8*	*$120.4*	*$316.6*
11	*TABOR Refund under Art. X, Section 20, (3) (c) /D*	*$0.0*	*$60.3*	*$0.0*	*$0.0*
12	*Rebates and Expenditures /E*	*$250.2*	*$250.1*	$264.7	$276.0
13	*Transfers to Capital Construction /F*	*$186.7*	*$248.5*	$267.0	$130.1
14	*Transfers to Highway Users Tax Fund /F*	$0.0	$0.0	$102.6	$107.8
15	*Transfers to State Education Fund under SB 13-234*	$45.3	$25.3	$25.3	$25.3
16	*Transfers to Other Funds*	$30.9	$39.0	$44.5	$46.5
17	*Other Expenditures Exempt from General Fund Appropriations Limit /G*	$32.4	$0.0	$0.0	$0.0
18	*Other Expenditures under Budget Request /H*	NA	NA	$44.4	NA
19	**TOTAL GENERAL FUND OBLIGATIONS**	**$8,764.3**	**$9,713.3**	**$10,268.2**	**$10,771.0**
20	*Percent Change (from prior year)*	10.8%	10.8%	5.7%	4.9%
21	Reversions and Accounting Adjustments	*-$50.4*	*$0.0*	$0.0	$0.0
Reserves					
22	**Year-End General Fund Balance**	**$650.9**	**$556.3**	**$611.5**	**$641.5**
23	*Year-End General Fund as a % of Appropriations*	*7.9%*	*6.3%*	6.5%	6.5%
24	*General Fund Statutory Reserve*	$410.9	$576.6	$611.0	$641.5
25	*Above (Below) Statutory Reserve*	$240.0	-$20.3	$0.6	$0.0
26	*Transfer of Excess Reserve to Other Funds /I*	-$215.0	$0.0	$0.0	$0.0
27	*Balance After Any Funds Above Statutory Reserve are Allocated*	$25.0	-$20.3	$0.6	$0.0

/A The $27.7 proposed transfer in FY 2014-15 is from the Marijuana Tax Cash Fund to partially offset the TABOR refund liability associated with Proposition AA. See pages 57-58 for more information. The $47.0 million transfer in FY 2015-16 is from severance tax collections.

/B This limit equals 5.0% of Colorado personal income. The appropriations amount for FY 2014-15 reflects anticipated budgetary actions of the legislature and Governor, while the FY 2015-16 amount reflects the Governor's 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.

/C 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 $216.2 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 55-56 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.

/D Reflects liability for TABOR refund relating to Proposition AA. See pages 57-58 for more information.

/E 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 46.

/F SB09-228 transfers to capital construction and the Highway Users Tax Fund are expected starting 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 47 for further details.

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

/H This amount includes $30.0 million associated with the Colorado Opportunity Scholarship Initiative, $8.0 million related to the settlement of oil and gas lease litigation on the Roan Plateau, $4.3 million to account for TABOR refunds caused by increased fees, $1.5 million for the Department of Revenue related to SB 13-251, and $0.6 million regarding the Department of Public Health and Environment's Radiation Control Cash Fund.

/I All of the FY 2013-14 excess reserves, except $25 million that remained in the General Fund, were transferred to various funds pursuant to HB 14-1339, HB 14-1342, and SB 14-223. See page 48 for further information.

Table 4a. General Fund Overview with Governor's FY 2015-16 Request (Alternative Scenario -- Full SB 09-228 Transfer in FY 2015-16)

(Dollar Amounts in Millions)

Line No.		Actual FY 2013-14	March 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserve**	**$373.0**	**$435.9**	**$556.3**	**$509.4**
2	**Gross General Fund Revenue**	**$8,977.7**	**$9,768.1**	**$10,235.3**	**$10,783.2**
3	*Transfers to the General Fund*	*$14.1*	*$37.9*	*$16.1*	*$17.8*
4	*Proposed Transfers to the General Fund /A*	NA	*$27.7*	*$47.0*	NA
5	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,364.8**	**$10,269.6**	**$10,854.7**	**$11,310.3**
Expenditures					
6	**Appropriation Subject to Limit /B**	**$8,218.7**	**$8,870.4**	**$9,399.3**	**$9,772.8**
7	*Dollar Change (from prior year)*	*$759.5*	*$651.6*	$528.9	$373.5
8	*Percent Change (from prior year)*	10.2%	7.9%	6.0%	4.0%
9	**Spending Outside Limit**	**$545.5**	**$843.0**	**$946.0**	**$902.3**
10	*TABOR Refund under Art. X, Section 20, (7) (d) /C*	*$0.0*	*$219.8*	*$95.4*	*$316.6*
11	*TABOR Refund under Art. X, Section 20, (3) (c) /D*	*$0.0*	*$60.3*	*$0.0*	*$0.0*
12	*Rebates and Expenditures /E*	*$250.2*	*$250.1*	$264.7	$276.0
13	*Transfers to Capital Construction /F*	*$186.7*	*$248.5*	$267.0	$130.1
14	*Transfers to Highway Users Tax Fund /F*	$0.0	$0.0	$204.7	$107.8
15	*Transfers to State Education Fund under SB 13-234*	$45.3	$25.3	$25.3	$25.3
16	*Transfers to Other Funds*	$30.9	$39.0	$44.5	$46.5
17	*Other Expenditures Exempt from General Fund Appropriations Limit /G*	$32.4	$0.0	$0.0	$0.0
18	*Other Expenditures under Budget Request /H*	NA	NA	$44.4	NA
19	**TOTAL GENERAL FUND OBLIGATIONS**	**$8,764.3**	**$9,713.3**	**$10,345.3**	**$10,675.1**
20	*Percent Change (from prior year)*	10.8%	10.8%	6.5%	3.2%
21	Reversions and Accounting Adjustments	*-$50.4*	*$0.0*	$0.0	$0.0
Reserves					
22	**Year-End General Fund Balance**	**$650.9**	**$556.3**	**$509.4**	**$635.2**
23	*Year-End General Fund as a % of Appropriations*	*7.9%*	*6.3%*	5.4%	6.5%
24	*General Fund Statutory Reserve*	$410.9	$576.6	$611.0	$635.2
25	*Above (Below) Statutory Reserve*	$240.0	-$20.3	-$101.5	$0.0
26	*Transfer of Excess Reserve to Other Funds /I*	-$215.0	$0.0	$0.0	$0.0
27	*Balance After Any Funds Above Statutory Reserve are Allocated*	$25.0	-$20.3	-$101.5	$0.0

/A The $27.7 proposed transfer in FY 2014-15 is from the Marijuana Tax Cash Fund to partially offset the TABOR refund liability associated with Proposition AA. See pages 57-58 for more information. The $47.0 million transfer in FY 2015-16 is from severance tax collections.

/B This limit equals 5.0% of Colorado personal income. The appropriations amount for FY 2014-15 reflects anticipated budgetary actions of the legislature and Governor, while the FY 2015-16 amount reflects the Governor's 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.

/C 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 $216.2 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 55-56 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.

/D Reflects liability for TABOR refund relating to Proposition AA. See pages 57-58 for more information.

/E 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 46.

/F SB09-228 transfers to capital construction and the Highway Users Tax Fund are expected starting 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 2016-17, the required transfer for transportation is reduced by 50 percent. See page 47 for further information.

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

/H This amount includes $30.0 million associated with the Colorado Opportunity Scholarship Initiative, $8.0 million related to the settlement of oil and gas lease litigation on the Roan Plateau, $4.3 million to account for TABOR refunds caused by increased fees, $1.5 million for the Department of Revenue related to SB 13-251, and $0.6 million regarding the Department of Public Health and Environment's Radiation Control Cash Fund.

/I All of the FY 2013-14 excess reserves, except $25 million that remained in the General Fund, were transferred to various funds pursuant to HB 14-1339, HB 14-1342, and SB 14-223. See page 48 for further information.

Table 5. General Fund and State Education Fund Overview with Governor's FY 2015-16 Budget Request (Dollar Amounts in Millions)

Line No.		Actual FY 2013-14	March 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserves**	**$556.3**	**$1,489.1**	**$1,223.7**	**$732.2**
2	*State Education Fund*	$183.4	$1,053.1	$667.4	$120.7
3	*General Fund*	$373.0	$435.9	$556.3	$611.5
4	**Gross State Education Fund Revenue**	**$1,609.6**	**$583.5**	**$578.3**	**$615.4**
5	**Gross General Fund Revenue /A**	**$8,991.8**	**$9,833.7**	**$10,323.5**	**$10,800.9**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,157.7**	**$11,906.2**	**$12,125.4**	**$12,148.5**
Expenditures					
7	General Fund Expenditures /B	$8,764.3	$9,713.3	$10,268.2	$10,771.0
8	State Education Fund Expenditures /C	*$742.2*	*$969.2*	*$1,125.0*	*$602.9*
9	**TOTAL OBLIGATIONS**	**$9,506.4**	**$10,682.6**	**$11,393.2**	**$11,373.9**
10	*Percent Change (from prior year)*	12.9%	12.4%	6.7%	-0.2%
11	*Reversions and Accounting Adjustments*	*($52.8)*	*$0.0*	*$0.0*	*$0.0*
Reserves					
12	**Year-End Balance**	**$1,704.0**	**$1,223.7**	**$732.2**	**$774.6**
13	State Education Fund /C	$1,053.1	$667.4	$120.7	$133.1
14	General Fund	$650.9	$556.3	$611.5	$641.5
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	-$20.3	$0.6	$0.0

/A This amount includes transfers to the General Fund shown in lines 3 and 4 in Table 4.

/B General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 6 in Table 4 as well as all spending outside the limit shown in line 9 in Table 4.

/C State Education Fund expenditures for FY 2014-15 reflect anticipated budgetary actions of the legislative and Governor, while the FY 2015-16 amount reflects the Governor's 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, were transferred to various funds pursuant to HB 14-1339, HB 14-1342, and SB 14-223. See page 48 for further information.

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

Category	Actual	March 2015 Estimate by Fiscal Year		
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Transportation-Related /A	**$1,135.7**	**$1,167.9**	**$1,193.2**	**$1,211.7**
Change	3.4%	2.8%	2.2%	1.6%
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**	**$2.4**	**$4.0**	**$2.9**
Change	139.1%	-1.8%	68.4%	-26.4%
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**	**$369.1**	**$141.8**	**$187.3**
Change	93.9%	37.4%	-61.6%	32.1%
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	**$568.3**	**$555.9**	**$554.8**	**$573.8**
Change	22.2%	-2.2%	-0.2%	3.4%
TOTAL CASH FUND REVENUE	***$2,729.3***	***$2,821.7***	***$2,781.1***	***$2,908.4***
Change	7.2%	3.4%	-1.4%	4.6%

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

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

/C Figures include the impact of SB 13-200 which put into statute the expansion of Colorado's Medicaid program beginning on January 1, 2014, as allowed by the federal Affordable Care Act.

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

Line No.		Actual FY 2013-14	March 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
	TABOR Revenues:				
1	General Fund /A	$8,962.6	$9,729.9	$10,217.5	$10,737.1
	Percent Change from Prior Year	5.0%	8.6%	5.0%	5.1%
2	Cash Funds /A	$2,729.3	$2,821.7	$2,781.1	$2,908.4
	Percent Change from Prior Year	6.2%	3.4%	-1.4%	4.6%
3	**Total TABOR Revenues**	**$11,691.9**	**$12,551.6**	**$12,998.7**	**$13,645.5**
	Percent Change from Prior Year	5.3%	7.4%	3.6%	5.0%
	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%	1.8%
6	**Allowable TABOR Growth Rate**	3.3%	4.2%	4.4%	3.5%
7	TABOR Limit /B	$9,566.6	$9,953.7	$10,391.6	$10,755.3
8	General Fund Exempt Revenue Under Ref. C /C	$2,125.3	$2,598.0	$2,607.0	$2,890.2
9	**Revenue Cap Under Ref. C /B, D**	**$11,852.4**	**$12,335.5**	**$12,878.2**	**$13,329.0**
10	***Amount Above/(Below) Cap***	**-$160.5**	**$216.2**	**$120.4**	**$316.6**
11	TABOR Reserve Requirement	$350.8	$370.1	$386.3	$399.9

/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.