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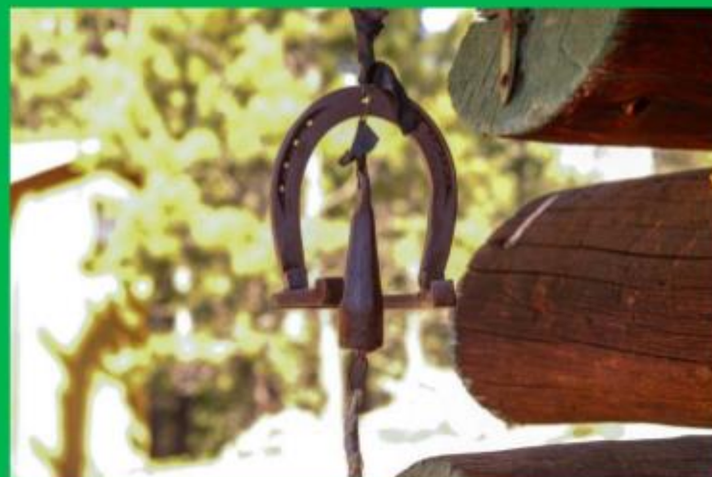


The Colorado Economic Outlook

Economic and Fiscal Review

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Summary

- General Fund revenue is expected to be $48.2 million, or 0.5 percent, higher in FY 2014-15 than forecasted in March. However, $15 million of this increase is from SB 15-255 which credits up to the first $20 million in severance taxes collected in May and June of this year to the General Fund. The forecast for FY 2015-16 is essentially unchanged from the previous forecast.

- After a strong gain of 9.3 percent in FY 2014-15 from the state's solid economic expansion, General Fund revenue growth will moderate in FY 2015-16 with a 4.5 percent increase. The slower growth is due in part to the contraction in the oil and gas industry as well as less growth in capital gains income.

- Under this forecast, the State's General Fund reserve is projected to be $35.6 million above its required amount for FY 2014-15. For FY 2015-16, the reserve is projected to be $69.0 million below its required amount. This shortfall is mostly due to projections for full transfers to transportation and capital construction under SB 09-228 that were not projected in March.

- TABOR revenue is projected to exceed the Referendum C cap by $190.4 million in FY 2014-15, $76.2 million in FY 2015-16, and $385.2 million in FY 2016-17, meaning that a refund to taxpayers will occur for each of those years under this forecast, unless voters allow the State to retain the revenue. The projected TABOR refunds in FY 2015-16 are below the level that would trigger a reduction in the SB 09-228 transfers to transportation and capital construction. However, as a result of the expected size of the TABOR refunds in FY 2016-17, SB 09-228 transfers are projected to be eliminated.

- 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. The sales tax refund is projected to average $33 per taxpayer. In FY 2015-16, revenue above the Referendum C cap will be refunded through the sales tax refund. In FY 2016-17, the refund will occur through a temporary income tax rate reduction and the sales tax refund.

- Colorado's economy continued to grow through the first part of 2015. Housing costs continue to rise as a result of the strong economic expansion, especially in urban areas along the northern Front Range. There are more signs of higher wage growth and the strongest overall job growth in 2014 came from the state's middle-wage paying industries. Further, there are signs that the expansion is more fully reaching other areas of the state outside the northern Front Range.

- OSPB continues to expect that the contraction in the oil and gas industry will slow economic growth in the state due to the sizable contribution the industry has made in the current expansion. However, the expansion of many of the state's other industries will provide enough momentum to continue to generate growth. Overall job growth for the state is forecast to be 2.9 percent in 2015, less than 2014's 3.5 percent growth. However, projections of the oil and gas industry's contraction, as well as its broader economic impacts are imprecise.

- The forecast for cash fund revenue subject to TABOR in FY 2014-15 is $75 million, or 2.7 percent, lower than projections from the March forecast, mostly due to lower-than-expected severance tax collections. However, a portion of the difference is due to the diversion of up to $20 million of severance taxes to the General Fund under SB 15-255. The cash fund revenue forecast for FY 2015-16 is $36.9 million, or 1.3 percent, lower compared with projections in March. Cash fund revenue will decline 0.1 percent in FY 2015-16 as an expected large decrease in severance tax revenue will offset growth in revenue from most of the other major categories of cash funds that year, most notably the Hospital Provider Fee. Projections for Hospital Provider Fee revenue are likely to increase further with the September forecast.

The Economy: Issues, Trends, and Forecast

Economic conditions provide the foundation for trends in tax collections and the demand for certain State services. The following section discusses overall economic conditions in Colorado, nationally, and around the world. Our forecast for job and income growth is similar to our March Colorado Economic Outlook. Following robust growth in 2014 for the Colorado economy, we continue to expect slower growth this year due to the contraction in the oil and gas industry. The following section includes:

Trends and forecasts for key economic indicators — The end of this section provides 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 economy's performance and OSPB's economic projections, which are informed by the following analysis of the economy.

Summary — Colorado's economy continued to grow through the first part of 2015, and there is evidence that the expansion is spreading more broadly across the state. This momentum means that the most likely scenario is for the economy to continue growing through the forecast period. Rising housing costs continue to be an issue in many areas of the northern Front Range as a result of the region's strong growth combined with lower levels of inventory. As expected in prior forecasts, the oil and gas industry is experiencing job losses due to the sharp drop in oil prices. So far there is little conclusive evidence that the industry's pullback is causing weakening conditions across the broader state economy. Nevertheless, because of the large contribution the industry has made in the current expansion, overall job and income growth are expected to slow this year as the industry contracts.

The national economy continues on its post-recession trajectory of modest and uneven growth. A slowdown in consumer spending, lower levels of business investment due to the pullback in the oil and gas industry, and weaker exports have hampered growth in the first part of 2015. Nevertheless, the labor market continues to improve steadily, and overall growth is expected to persist. Major global economies continue to experience only modest growth, reducing demand for U.S. exports. A stronger dollar is also weighing on exports. However, the dollar's value is benefiting the economy by reducing the costs of imports for U.S. consumers and businesses.

Economic risks — It is unlikely that the pullback in the oil and gas industry will result in a downturn for the Colorado economy. A contraction in one industry does not generally lead to a material downturn in broader economic activity for a large, diverse economy, such as Colorado's. A special set of circumstances usually must come together on a broad-based level to produce recessions. These circumstances often include a pullback in credit, a marked weakening in confidence, reduced investment and spending, and lower expectations for future growth.

Nonetheless, because the oil and gas industry is strongly linked with the growth in 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. This may occur if oil prices fall again or if prices remain at a lower level compared with industry expectations. Much will depend on the size of the loss of wages resulting from the slowdown in the industry, how quickly oil and gas job losses can be absorbed by expanding industries, and the extent that businesses dependent on oil and gas activity can find other sources of growth.

There is also a risk that continued sluggish growth in major global economies will weigh more heavily on the national and state economies than anticipated, especially if these conditions lead to financial instability and weakened investment.

Colorado's Economy

> Colorado's economy continued to grow at a solid pace through the first part of 2015, and there are recent signs that the expansion is more fully reaching areas outside the northern Front Range. The slowdown in the oil and gas industry is having minimal broader economic impacts thus far.

Colorado's economy continues to grow, with the expansion spreading more broadly — Colorado's economy continued to grow through the first part of 2015. After falling sharply in 2014, the unemployment rate statewide has remained stable at 4.2 percent. Growth has been widespread across most of the state's industries, with the strongest overall job growth coming from the state's middle-wage paying industries. There are also continued signs of higher wage growth. Data on the average weekly wages paid to Coloradans through the end of 2014 showed sustained increases at higher rates, while income tax collections from wage withholding through May continued to post solid gains.

Much of the growth in Colorado's economy since the Great Recession has been fueled by its favorable mix of industries and skilled workforce. Colorado's entrepreneurial and collaborative culture has also been vital. The Kauffman Foundation recently ranked Colorado as having the fourth-most new business startup activity among states in its entrepreneurial index for 2015.

These ingredients for growth are more concentrated along the northern Front Range, which has led to a stronger economic expansion than in other areas of the state. This region also has seen stronger gains in population. As a result, housing costs continue to rise. The Denver area in particular has experienced among the highest home price increases in the nation. Housing affordability has become an issue, particularly for younger people preparing to form new households.

However, there are recent signs that the expansion is more fully reaching other areas of the state. Notably, job growth in Colorado Springs and Grand Junction has picked up. These areas experienced higher job growth than the state's other metro areas from January through April of this year. They are also experiencing stronger home price appreciation.

Nonurban areas continue to have less growth — There continues to be less growth outside of urban areas, and some of Colorado's rural counties have experienced a loss of population and jobs. Further, a stronger dollar in relation to other currencies is contributing to weaker exports of some of Colorado's largest agricultural products, such as meat and dairy products. Lower prices for certain crops, notably for corn and wheat, are further dampening farm income expectations. However, the wet spring will benefit growing conditions. Colorado's Rural Mainstreet Index, published by Creighton University, registered below the growth-neutral 50 threshold for four consecutive months through May. The index surveys rural community banks regarding current economic conditions and their projected economic outlooks. In addition to the issues with certain crop prices and exports, some of the recent weakness in the index is also likely tied to the slowdown in the oil and gas industry.

The oil and gas industry has contracted, with minimal broader economic impacts to date **—** As expected in prior forecasts, the oil and gas industry has contracted due to the substantial decline in oil prices over the past year. Claims for unemployment insurance in the mining industry, which is mostly oil and gas workers, have increased; employment data show a decline in mining industry employment in the state. Further, job growth in the Greeley metro area, the area closest to the oil and gas industry's expansion, has weakened. However, there is little conclusive evidence that the pullback in the industry is causing weakening conditions across the broader state economy at this time. Claims for unemployment insurance have not increased outside of the mining sector, overall employment continues to grow, and income and sales tax revenue continue to post solid gains.

There are also signs that the industry's contraction may be slowing. Oil prices have rebounded slightly from earlier this year, and are expected to gradually increase over the rest of the year and into 2016. The sharp declines in oil and gas drilling rigs operating in the state ended at the beginning of March, and rigs have remained at a steady level since then. The industry continues to have a presence in the state, just at a lower level than before oil prices dropped.

OSPB continues to expect that the state's economic momentum will produce economic growth, though at a slower rate without the strong boost the economy has received from an expanding oil and gas industry.

OSPB continues to expect that the state's economic momentum and favorable mix of ingredients for growth noted above will continue to produce an economic expansion, though at a slower rate without the strong boost the economy has received from expanding oil and gas activities.

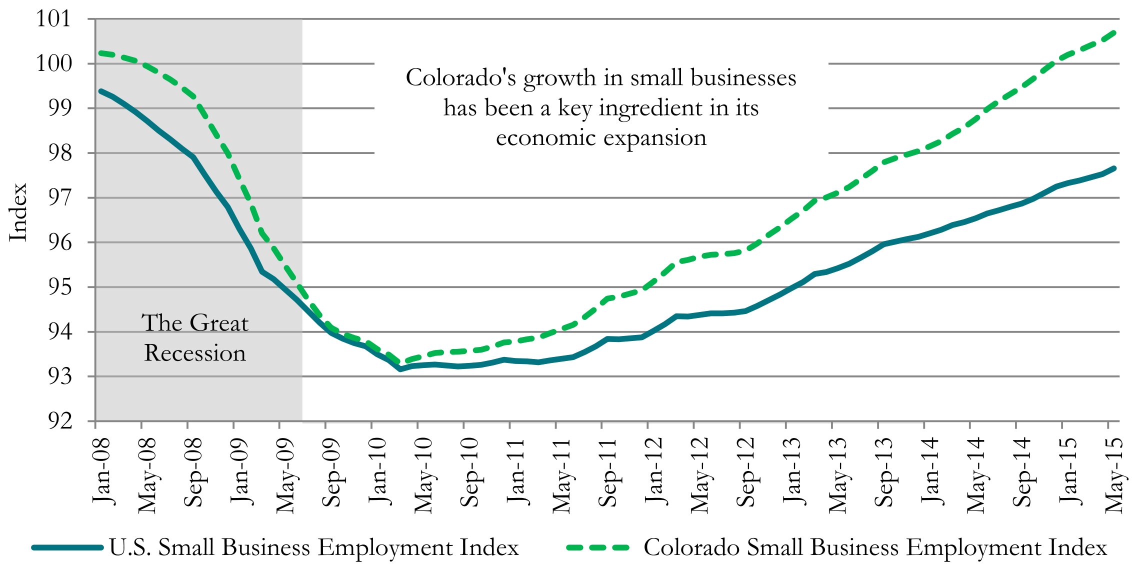
Overall job growth for the state is forecast to be 2.9 percent in 2015, 0.6 percentage points less than the 3.5 percent growth in 2014. However, this forecast is uncertain as it is difficult to precisely account for how the oil and gas industry's contraction will affect the overall economy. Also, the level of oil prices in the future is highly uncertain, and another drop in prices is possible if continued growth in oil supplies greatly outweighs demand. Under this scenario, larger reductions in oil and gas employment and investment will likely occur, with possible broader economic impacts. More discussion of the trends in the oil and gas industry starts on page 7.

Colorado's small businesses continue to grow, helping maintain economic expansion **—** Historically, economies that have a greater number of small firms tend to experience more growth compared to those that have a smaller number of large firms. Based on the data from the U.S. Census Bureau's Business Dynamic Statistics, Colorado is among the top ten states with the highest concentration of businesses with fewer than 20 employees.

Colorado's higher concentration of small businesses is experiencing solid growth overall, helping the overall economy grow.

To assess the performance of smaller businesses, the business services firm, Intuit, publishes the Intuit Small Business Employment Index to gauge employment trends for firms with fewer than 20 employees in most states and regions of the United States. The Small Business Employment Index for Colorado has outpaced growth nationally, and was tied for 13th among states for gains in small-business employment in May. Figure 1 shows the Small Business Employment Index for Colorado and the nation overall from 2008 through May 2015. The index is based on information from businesses that use Intuit's small-business payroll service, as well as jobs data from the Bureau of Labor Statistics.

Figure 1. Intuit Small Business Employment Index, January 2008 through May 2015



Source: Intuit

Oil and Gas Industry Conditions

OSPB expects that the contraction in the industry will slow economic growth in the state due to the sizable contribution the industry has made in the current expansion. Recently released state gross domestic product information from the Department of Commerce shows that the mining industry made the largest contribution to the state's growth in 2014. We assume that direct employment in the oil and gas industry will decline by approximately 10 percent this year, however, sustained lower oil prices continue to present uncertainty.

> Although employment in the oil and gas industry is expected to decrease, expansion in other industries will provide enough momentum to maintain job growth in 2015.

We also assume that the expansion of many of the state's other industries will provide enough momentum to continue to generate growth. Overall job growth for the state is forecast to be 2.9 percent in 2015, 0.6 percentage points less than 2014's 3.5 percent growth. However, projections of the industry's contraction, as well as its broader economic impacts are imprecise. Therefore, there is downside risk to this forecast, especially if oil prices drop further or if prices remain lower for a longer period than the industry's current expectations.

The oil and gas industry continues to adapt to lower oil and gas prices by downsizing and finding efficiencies — The price of West Texas Intermediate crude oil began dropping in the late summer of 2014. The price per barrel decreased 55 percent from June 2014 through January 2015. Prices have since increased but still remain nearly 50 percent below their June 2014 levels. 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 marginally from current levels through 2016 as the oil market rebalances supply and demand. EIA forecasts West Texas Intermediate oil prices will average $55 per barrel this year and $62 per barrel in 2016. It is possible, however, that oil prices will be lower due to continued global oil production growth.

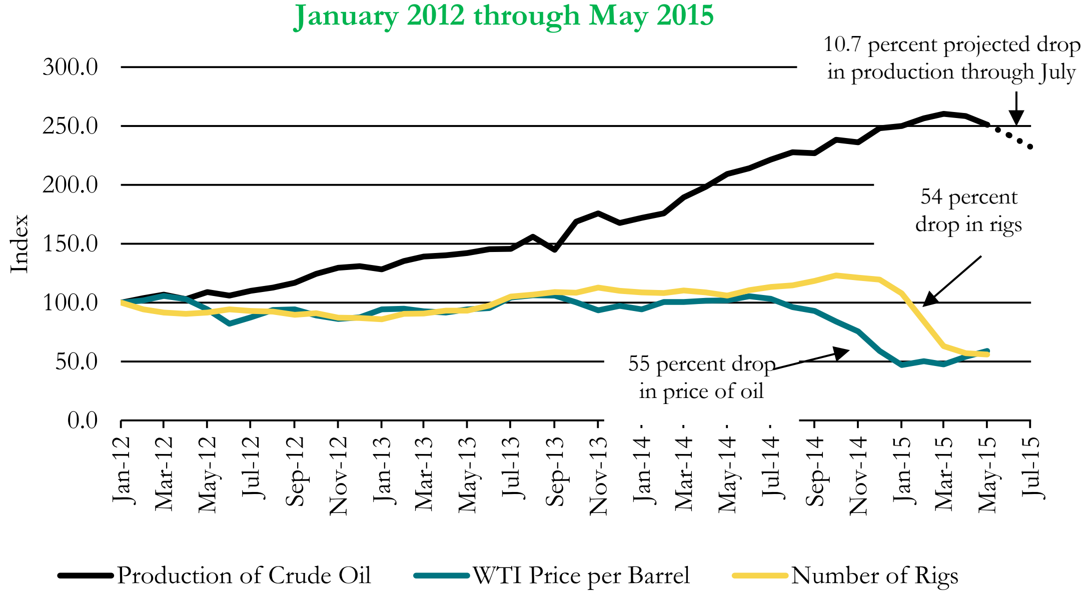
The number of oil rigs operating in Colorado declined sharply beginning a few months after the initial drop in prices. According to data from Baker Hughes, the number of rigs operating in Colorado dropped over 50 percent from September 2014 to March 2015. However, since then rig counts have leveled out. The number of rigs in operation has even increased slightly during some of the past recent weeks. The number of rigs in operation stood at 38 in the second week of June, down from their peak level of 77 last fall.

> Firms within the oil and gas industry continue to find more efficient methods of extraction. Breakeven oil prices, on average, decreased from \$79 to \$62 per barrel in a recent six-month period.

Crude oil production levels continued an upward trend over the period of decreasing prices and are just now showing signs of easing. A few factors are likely at play in leading to this counter intuitive trend in production patterns. First, forward pricing contracts take time to expire, which is driving the time lag between a decrease in spot pricing and the decrease in production. Secondly, firms are becoming increasingly effective in their production process and the cost of oil and gas services and equipment has declined. According to a recent survey conducted by the Federal Reserve Bank of Kansas City, the breakeven oil prices for firms in the district, which includes Colorado, have fallen from \$79 to \$62 per barrel over just a six-month period. Firms are shifting towards higher producing rigs and shifting production to high performing "sweet spots". As a result of these trends, we do not expect to see a large decrease in oil production. National forecasts by the EIA have oil production decreasing by 3 percent through the end of 2015 then another 1.7 percent in 2016.

Oil production in the Niobrara region has been a key driver of Colorado's current oil expansion. Therefore, we focus attention on recent trends in the region looking at rig counts and oil production levels against the price of oil. As shown in Figure 2, production in the Niobrara increased rapidly since 2012 and continued to do so amidst decreasing oil prices. However, oil production in the region began declining in April 2015 and is projected to continue to fall. EIA projects a decrease in production in the Niobrara region of 49,000 barrels per day, or 10.7 percent, from March 2015 through July 2015.

Figure 2. Production of Crude Oil and Operating Drilling Rigs in Niobrara Region, Price of West Texas Intermediate Crude Oil per Barrel, January 2012 through May 2015



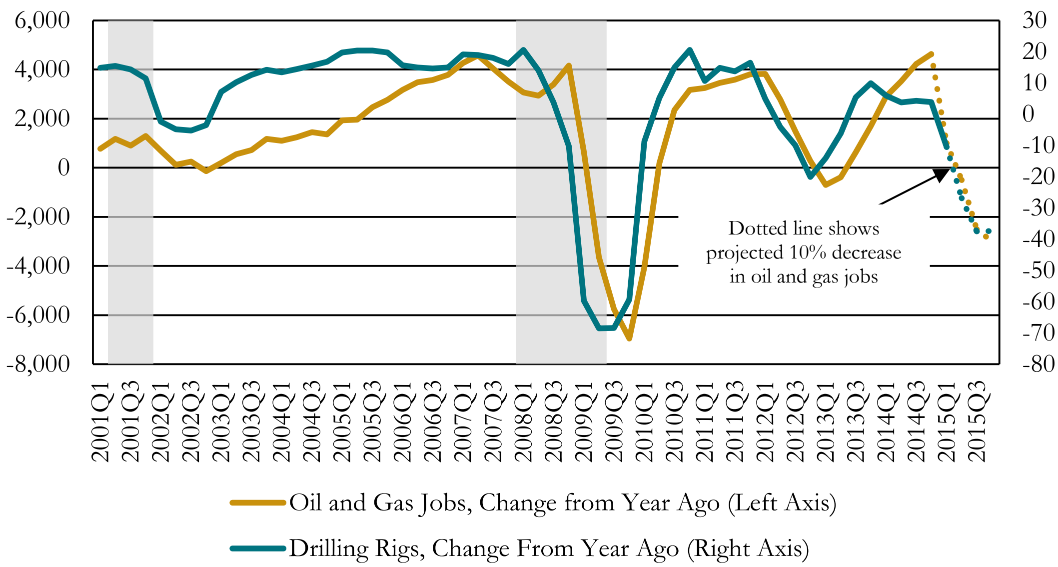
Source: EIA, Baker Hughes. January 2012 Index = 100

The oil and gas industry continues to shed jobs — One concern related to the industry's downward trend is the impact on employment. According to the Kansas City Fed survey, firms expect to cut employment by 12 percent, on average, this year across the district. Preliminary estimates of Colorado's employment in the overall mining sector — which mostly consists of oil and gas jobs — show month-over-month declines following the peak level of 36,000 jobs in December 2014. April 2015 mining sector employment levels are 1,300, or 4.0 percent, lower than the peak in December. Data on the oil and gas portion of mining is only available through the end of 2014.

The March 2015 OSPB forecast projected a 10 percent decrease in employment in oil and gas-related jobs throughout 2015, 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, which is about half a percent decline. Unemployment insurance and severance pay will offset a portion of the loss in wages, however. Looking at general trends and relationships with other variables, the 10 percent expected decrease in oil and gas employment is substantiated in the present forecast, however recent unemployment claims data may point toward a larger than 10 percent decrease in oil and gas employment.

Figure 3 examines the relationship between drilling rigs and oil and gas employment. The data indicates that the change in drilling rigs tends to predate the change to employment. The drop in drilling rigs that occurred from last fall through March of this year is consistent with about a 10 percent decline in employment if the relationship continues in a similar pattern.

Figure 3. Oil and Gas Employment and Operating Drilling Rigs in Colorado, 2001 through Third Quarter of 2015



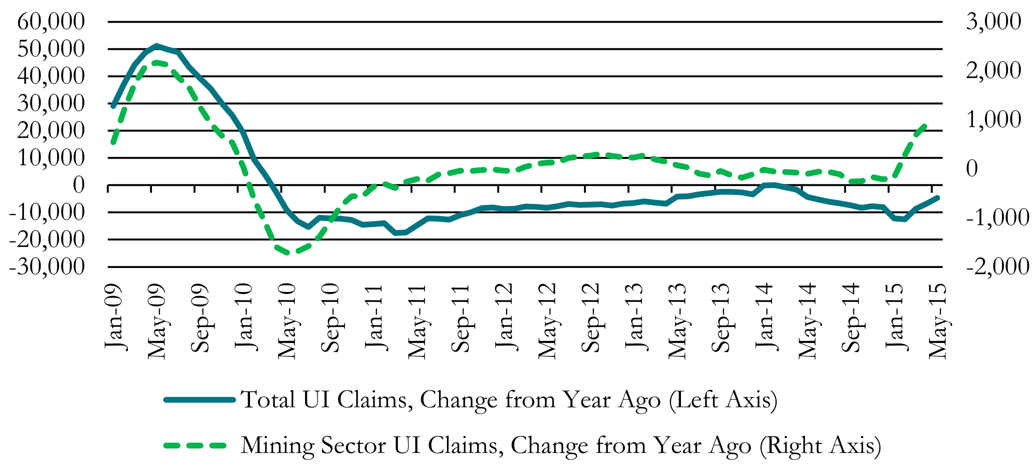
Source: Colorado Department of Labor and Employment, Baker Hughes

Mining sector unemployment claims increased 62 percent in 2015. Overall claims are still below previous year figures as other industries maintain job growth.

Recent trends in mining sector unemployment claims provide more indication of the impact of oil and gas prices on employment. Figure 4 compares continued unemployment insurance claims in the mining sector, which mostly consists of oil and gas-related jobs, with continued unemployment claims in all sectors. Through April, claims in the mining sector have increased 62 percent over the same time frame in 2014. Overall claims for all industries are still below their previous year levels, though, as the decrease in claims in other industries have largely outweighed the increase in claims in the mining sector. Overall claims for all industries through May of 2015 have decreased 21 percent over the same time frame in 2014.

Using the relationship between unemployment claims and oil and gas employment during the Great Recession as an indicator of what is expected to happen in the current downturn, recent increases in unemployment claims are consistent with a decrease of 10 percent in oil and gas employment. Unemployment claims are expected to continue to increase, though, implying a larger than 10 percent decline in oil and gas employment.

Figure 4. Overall and Mining Sector Unemployment Claims in Colorado, January 2009 through May 2015



Source: Colorado Department of Labor and Employment. Mining sector claims through April 2015.

National Economy Overview

> While some indicators show the national economy's expansion slowed in quarter one of 2015, expectations for the remainder of the year are generally positive.

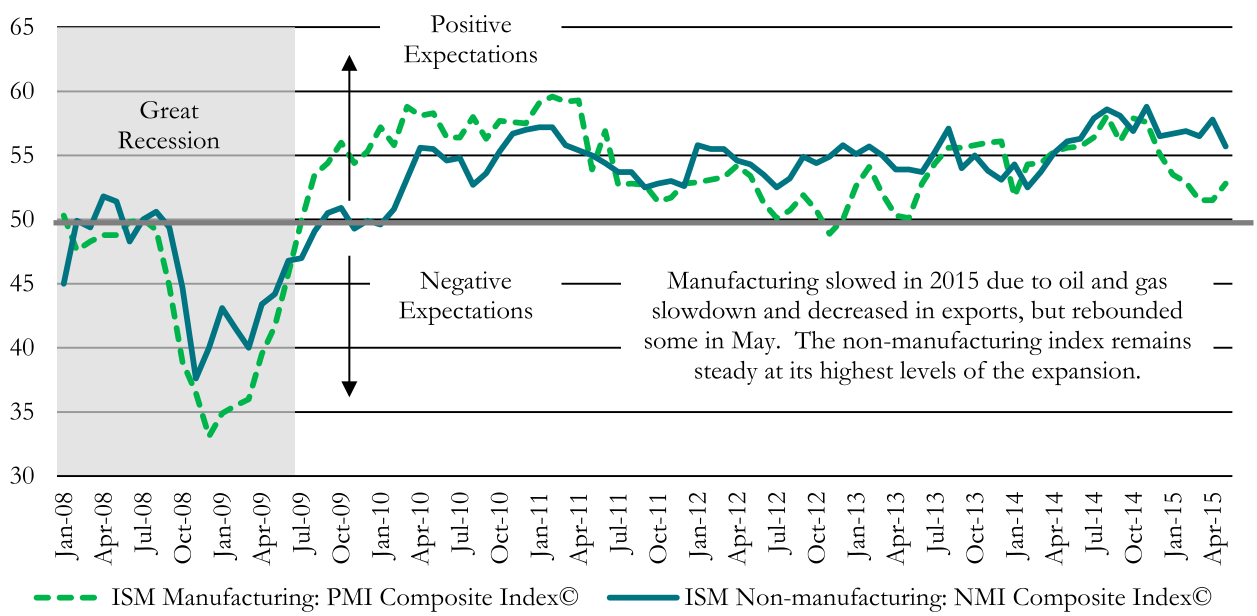
Data provides reason for optimism despite slower growth in recent months – Some economic indicators show slower growth than expected in the first quarter of 2015, as U.S. gross domestic product (GDP) shrank at a 0.7 percent annualized rate. Several factors contributed to lower measured GDP, including a decline in investment from the contracting oil and gas industry and a decline in exports. Expectations for the remainder of the year are generally positive, however. Furthermore, the labor market continues to improve with sustained healthy job increases, growth in the labor force, and more evidence of wage acceleration.

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 across most regions in April and May. Manufacturing activity remained steady or increased over the period in most districts, except in the Kansas City District where it declined sharply due to the contraction in the oil and gas industry. Retail spending and tourism increased across most districts and more growth is expected through the summer. Although oil and gas activity continued to decline, overall employment levels and wages rose slightly. The business and other contacts in several districts continued to expect the economy to expand at a modest to moderate pace.

Broad measures of economic activity show growth — OSPB forecasts often include two measures of economic momentum: the Manufacturing Composite Index and the Non-manufacturing Composite Index, both published by the Institute for Supply Management (ISM). These two indices use data collected from business surveys that gauge activity by tracking key behaviors, such as placing new orders, increasing production volume, hiring new employees, and making deliveries. Because these activities tend to precede growing business output, they also can serve as a leading indicator of overall activity.

As shown in Figure 5, the ISM manufacturing index increased slightly to 52.8 in May from 51.5 in April, after trending downward for four months. A reading above 50 indicates that the manufacturing economy is generally expanding. The month of May marks the twenty-ninth consecutive month of growth in manufacturing. Although the non-manufacturing index dropped slightly to 55.7 in May from 57.8 in April, the index is still well above 50, indicating continued growth in the non-manufacturing sector. The month of May marks the sixty-fourth consecutive month for growth in the non-manufacturing sector. Comments from representatives in both the manufacturing and non-manufacturing sectors carried a positive tone of an improving economy overall, although there are continued concerns over the price of the dollar and the decline in activity in the oil and gas industry.

Figure 5. ISM Manufacturing and Non-Manufacturing Indices, January 2008 to May 2015



Source: Institute for Supply Management

The labor market continues to show improvement – The May monthly national jobs report, published by the Bureau of Labor Statistics, indicated another solid month of growth in employment. Employers added 280,000 jobs in May, compared with an average monthly gain of 251,000. Additionally, weekly unemployment insurance claims hit a fifteen-year low in May. The insured unemployment rate, a measure of continued claims relative to the workforce, also hit a fifteen-year low at 1.6 percent.

> Initial unemployment insurance claims drop to fifteen year low as the labor market continues to strengthen.

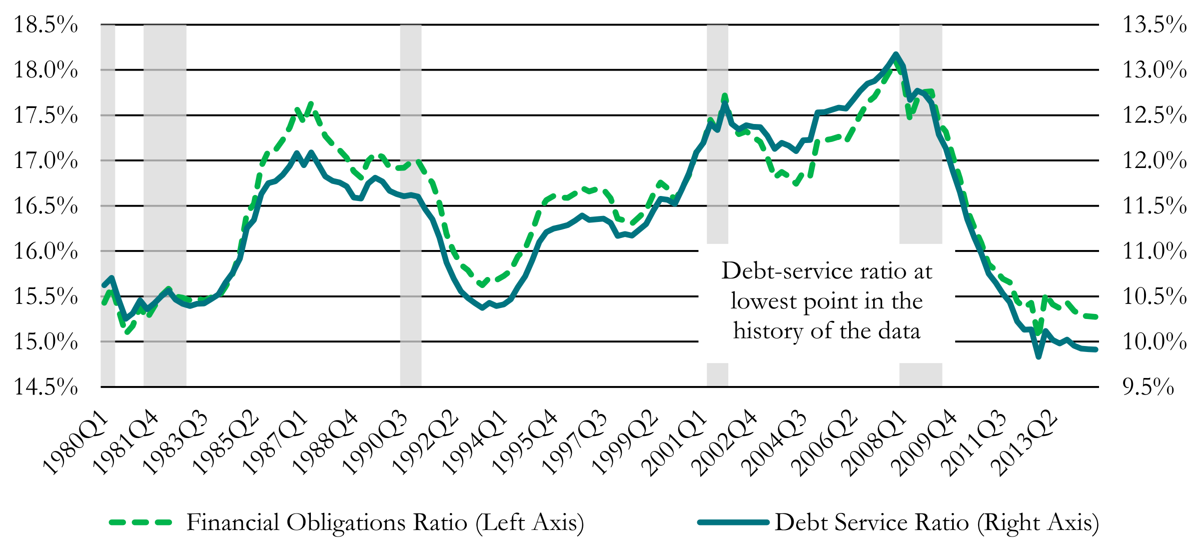
Wage growth data also suggests an improving labor market. Wages have remained stagnant throughout the recovery, but recent indicators point toward stronger wage growth nationally. Inflation-adjusted hourly earnings growth has accelerated since last winter according to data from the Bureau of Labor Statistics. Additionally, the rate of earnings growth for production and nonsupervisory employees has outpaced the rate of growth for all employees. The Employment Cost Index, which measures wages, salaries and employer costs for employee benefits, also increased at a faster rate over the past three quarters, a further indicator of upward pressure on wages. For a more detailed look at the national and state labor market, see page 15.

Overall household debt levels have improved since their high levels prior to the Great Recession – Consumer debt balance sheets are in much better condition than they were at the onset of the Great Recession. As Figure 6 shows, according to data from the Federal Reserve Board, the debt-service ratio has continued a downward trend since peaking in 2007. The debt-service ratio is the share of household after-tax income obligated to debt repayment, excluding recurring obligations such as rent and auto leases. The debt-service ratio is currently near its lowest levels since data collection began in 1980. The financial obligations ratio, a broader measure of debt to income which includes recurring obligations, also has decreased significantly since 2007.

The debt-to-income ratio in the U.S. is the lowest since data collection began in 1980.

Although average consumer debt in the U.S. has increased slowly since the post-recession low, revolving debt continues to decline. Revolving debt is the sum of balances on open lines of credit, mostly credit card debt. Installment debt, which is total debt less revolving debt, has been driving the increase in total consumer debt. Most of the growth in installment debt is a result of an increase in student and auto loans. Average student loan debt increased 73 percent in the past ten years and 3.7 percent in the past year. Total outstanding auto debt in the U.S. increased 11 percent in the past year.

Figure 6. Financial Obligations and Debt-Service Ratio
1980Q1 to 2014Q4



Source: Board of Governors of the Federal Reserve System

Consumer spending picking up – Department of Commerce figures indicate that consumer spending rebounded in May after stalling in April. Slower consumer spending in quarter one of 2015 contributed to slower growth in U.S. GDP. Lower gasoline prices and increased incomes did not lead to increased spending as was expected during the first few months of 2015. May figures indicate consumer spending patterns will be similar to previous years with a strong rebound in the summer months.

International Economic Conditions and Trade

Economic growth across the world's larger economies remains sluggish – The JPMorgan Global PMI Report on manufacturing and services reported that global economic output in May expanded for the thirty-second consecutive month, albeit at a slower pace than the past few months. However, the report showed that total employment continued to rise and the pace of job growth in May was the quickest since the end of 2007. The United States, the United Kingdom, and Spain were the strongest contributors to global economic output in May. The HSBC Emerging Markets Index (EMI), a monthly indicator derived from survey data, indicated the rate of growth in global emerging economies' output weakened in May with the lowest reading in 12 months. The index remains above 50, however, signaling modest growth.

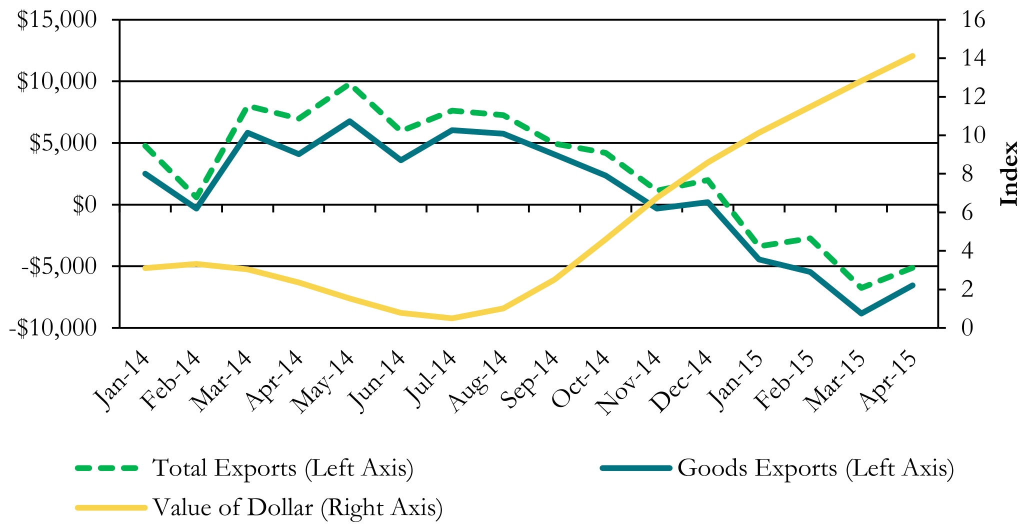
According to a recent report by the World Bank, the European Central Bank (ECB) plans to accelerate its one trillion euro bond-buying program by frontloading a large portion of the purchases into May and June. The ECB hopes to encourage investment and consumption, spurring growth. Eurozone GDP in quarter one of 2015 expanded 0.4 percent over the previous quarter and 1.0 percent over the previous year according to estimates by Eurostat.

Strong U.S. dollar continues to hurt exports – Exports reflect U.S. and Colorado competitiveness in world markets, as well as the types of products the state and nation specialize in producing. Exports contribute around 13 percent to gross domestic product (GDP) in the U.S.; therefore, negative shocks to exports can impact growth.

> The strength of the U.S. dollar and continued sluggish global growth have contributed to a 3.6 percent decrease in U.S. exports since the summer of 2014.

A strengthening dollar makes exports more expensive to foreign consumers and businesses. Figure 7 shows the relationship between U.S. exports and an index of the value of the U.S. dollar versus other currencies. U.S. exports of goods declined following an increase in the value of the dollar during the summer of 2014. However, exports of services continued to rise. Overall exports decreased by 3.6 percent from July 2014 until April 2015. Goods exports decreased by nearly 7.0 percent over the same period, while service-related exports increased by 4.1 percent. According to the Department of Commerce, the trade deficit (exports minus imports) is estimated to have subtracted nearly 2 percentage points from GDP growth in quarter one of 2015 over the previous year, the largest amount since 1985.

Figure 7. U.S. Exports ($ millions) and Value of US Dollar, Change over prior year



Source: U.S. Census Bureau, U.S. Board of Governors of the Federal Reserve System

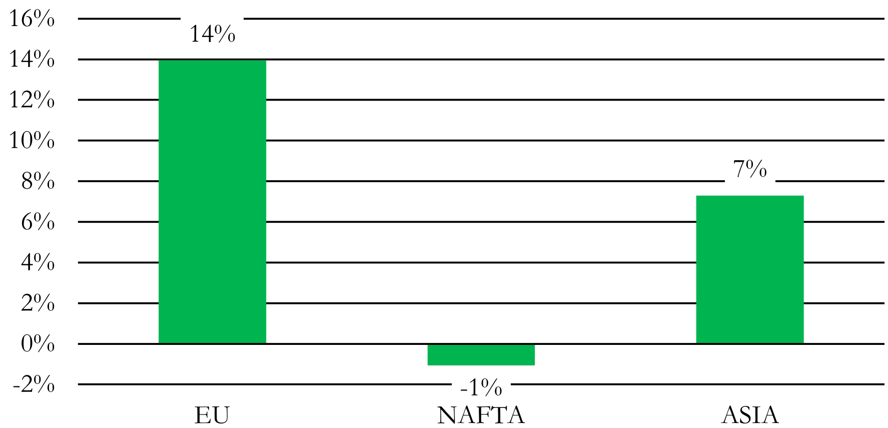
U.S. services-related exports continue to rise – New export orders for non-manufacturing activities (mostly services) in the United States grew in May after a sharp decline in April, according to the Institute for Supply Management (ISM). The ISM index for May registered at 55, an increase of 6.5 points over April's index of 48.5. May's index was more in line with recent trends as April's index was the first month to drop below 50 since early 2014. A value above 50 indicates growth in new export orders for non-manufacturing activities. Industries reporting increases in new export orders include: information; real estate, rental and leasing; management of companies and support services; arts, entertainment and recreation; construction; and finance and insurance. Service-related exports have been more resilient than goods exports to the strength of the dollar. The value of U.S. services exports hit a record high in April 2015.

Service-related exports from the U.S. have been resilient to the strength of the dollar.

Colorado exports have rebounded from declines in 2014 – Figure 8 shows the trends in Colorado's goods exports to major trade partners. Comparing year to date totals through April in 2015 with the same period in 2014, the state's overall exports have grown despite the strength of the dollar. Colorado exports increased by $140 million, or 5.4 percent, in the first four months of 2015 over the same period in 2014. With the exception of NAFTA members, Colorado's trade with all major trading regions increased compared with 2014.

The products that contributed the most to the increase in Colorado exports were industrial and electric machinery and pharmaceutical products. However, some agricultural products and mineral fuels exports may have been particularly impacted by the strength of the dollar. Mineral fuels exports declined by $35 million, or 78 percent, over the same period in 2014. It is important to note that exports are in dollar terms, so price changes largely affect the overall value of exports. The 50 percent decrease in oil and gas prices plays a large part in the 78 percent drop in the value of mineral fuels exports.

Figure 8. Colorado Exports to Major Trade Partners, January through April 2015, Percent change over period the prior year



Source: Wiser Trade Data

Compared with the nation, Colorado's economy is more services-intensive, particularly in regard to services that can be exported, such as engineering, legal, accounting, technological, and business consulting services. Unfortunately, in contrast with goods exports, state-level data on the amount of services exported is unavailable. Continued growth of services exports at the national level is a positive indication that Colorado's economy is benefiting from selling its services in foreign markets as well.

Labor Market Conditions

> Recent national indicators – payrolls, unemployment and initial jobless claims – point to continued improvements in the labor market.

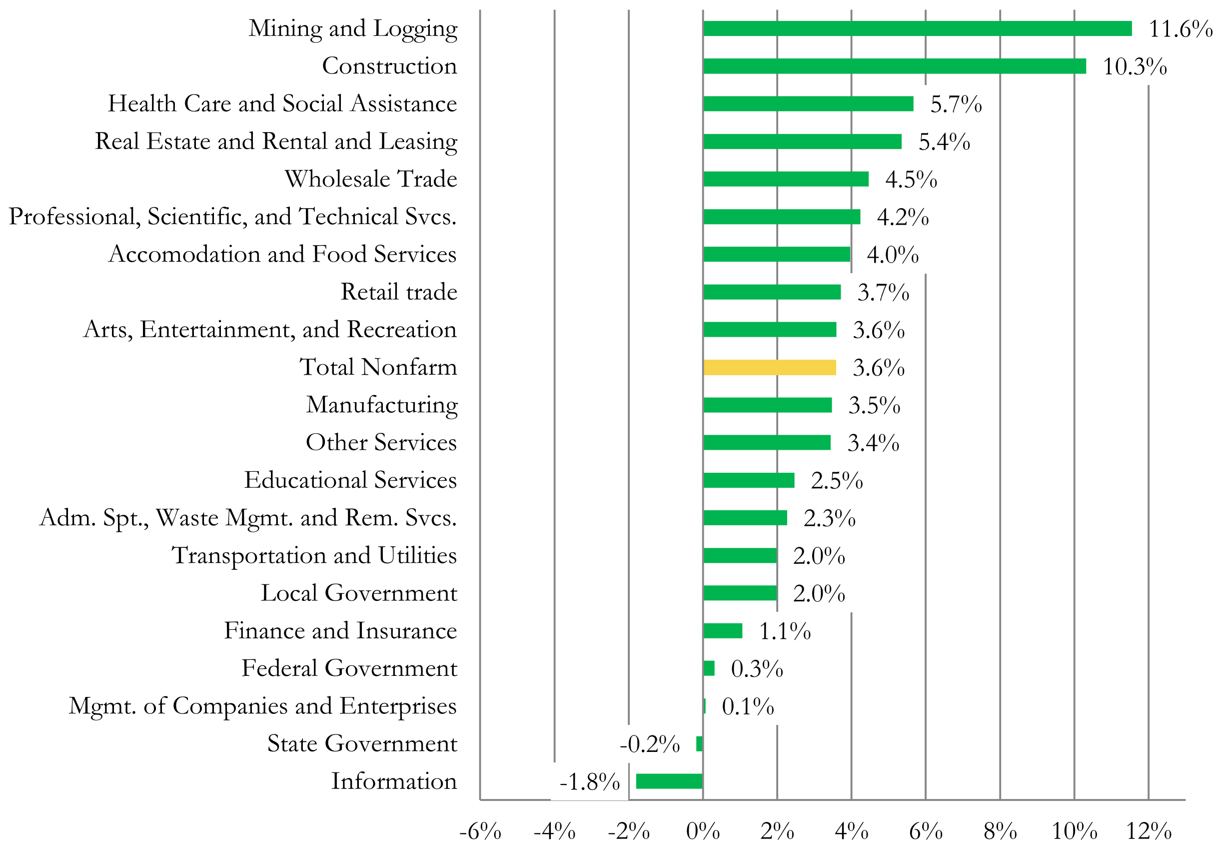
Recent indicators point towards improvements in the national labor market – Recent national indicators, such as payrolls, the unemployment rate, initial jobless claims, and the quit rate all point to an improving labor market. For example, the number of jobless claims are at a fifteen-year low and data on people who quit their jobs voluntarily suggest that these individuals are nearly as optimistic about labor market opportunities as they have been at any time in the past fifteen years.

A number of other indicators also suggest an overall improving labor market nationally. A report from the New York Federal Reserve Bank indicates continued improvement in the labor market for college graduates. Additionally, the "U-6" rate for recent graduates is decreasing, reversing a disappointing upward trend over the past few years. The U-6 is a broader measure of unemployment that captures the number of unemployed as counted in the traditional unemployment rate (U-3), plus individuals who want to be employed but who have not recently looked for work, and individuals who want to work full-time but who are only employed part-time for economic reasons.

In addition, the Federal Reserve Bank of Kansas City found that the U.S. has entered a phase of the labor market recovery where workers are being employed in positions that better suit their training. For example, workers with a bachelor's degree no longer dominate growth in middle-skill jobs. These jobs are increasingly filled with individuals with less than a bachelor's degree. Furthermore, high-skills jobs are being filled at a higher rate by those with a bachelor's degree or higher.

Colorado's labor market continues to expand – Colorado experienced healthy, broad-based employment growth in 2014. Figure 9 shows that the state gained 87,200 jobs from the first four months of 2014 to the first four months of 2015, an increase of 3.6 percent. Fueled by Colorado's housing market growth, the construction and real estate industries had 10.3 percent and 5.4 percent growth, respectively. The oil and gas-driven mining and logging industry showed employment 11.6 percent above the 2014 level, but the mining industry has lost jobs thus far in 2015. Twelve other industries achieved job growth of greater than 2.0 percent.

Figure 9. Colorado Industry Job Growth, 2015 through April over Same Period of 2014, Percent Change



Source: U.S. Bureau of Labor Statistics. The seasonally adjusted data 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 than has been estimated based on a survey of employers.

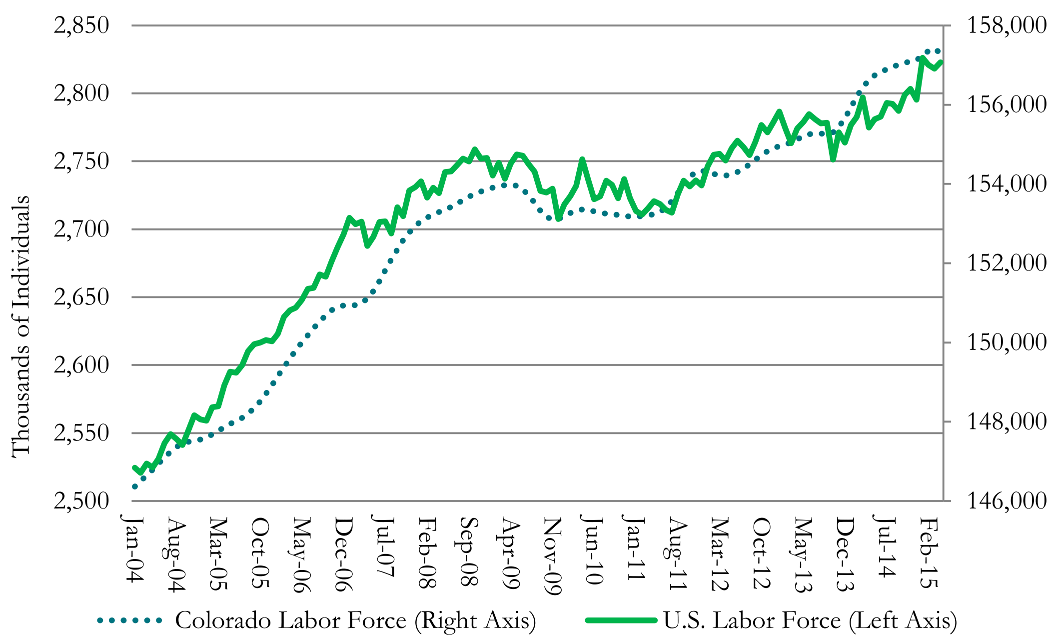
Preliminary survey data from the first four months of 2015 indicate that job growth in the state may be slowing. While these figures are not as reliable as more precise data based on administrative records that are not yet available for 2015, they do suggest a moderation in job growth for the year due in part to the oil and gas industry's pullback.

Other sources point to Colorado maintaining its position as a lead job creator and a healthy labor market. For example, as discussed on page 5 in the section on Colorado's overall economy, growth in employment from the state's small businesses continues and Colorado's small business growth was still ranked highly among states in May. Further, the AIM WorkForce Index (WFI), published by AIM and Creighton University, is a ratio of online job postings and the number of unemployed in Colorado that measures the relative strength of the Colorado labor market. Colorado's April index reading of 66.6 indicated continued healthy job growth. A WFI below 50.0 indicates short-term job contraction, while an index score above 50.0 indicates job expansion. According to the WFI, Colorado had the 8th best labor market in the nation in April. It posted the 6th best reading for the first quarter of 2015. Additionally, statewide wage withholding growth has remained solid and unemployment insurance claims outside of the mining sector still remain below last year's levels through May.

> The recent increase in the labor force for both Colorado and nation signals continued improvement in the economy.

Growth in Colorado's labor force is an indication of the growing economy – The slowdown in growth in the labor force since the Great Recession, both nationally and in Colorado, can be attributed to several factors, including an aging population, more people attending school and taking care of family, as well as more people having difficulty finding employment opportunities. However, there has been an uptick in labor force growth recently. Colorado's labor force expanded by 47,000 people, or 1.8 percent, from December 2013 to April 2015, while it grew 1.0 percent over the same period at the national level. The recent increase in the labor force for both Colorado and the nation, shown in the Figure 10, signals continued improvement in the economy as individuals see that there are more opportunities to earn income.

Figure 10. Colorado and U.S. Labor Force, January 2004 to April 2015

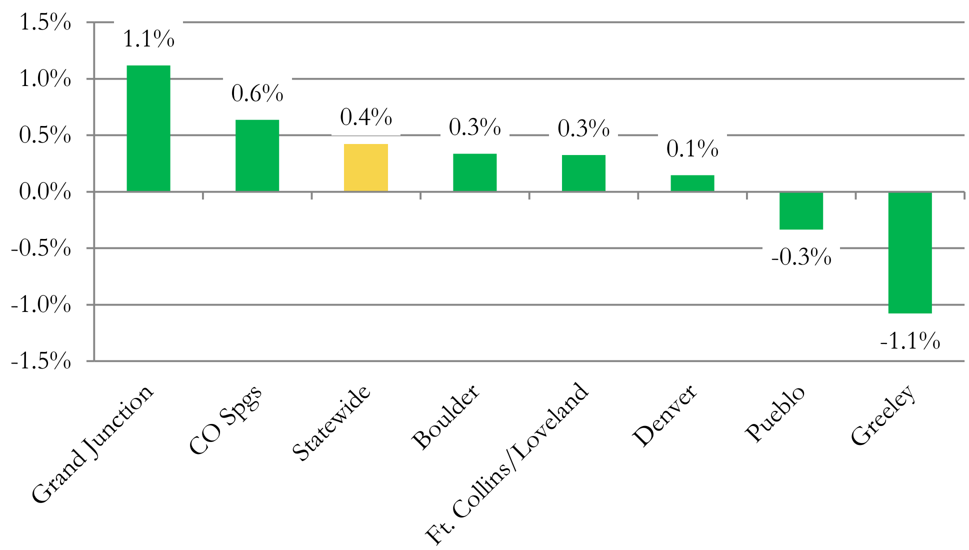


Source: U.S. Bureau of Labor Statistics

Regional job growth data shows more growth for areas outside the northern Front Range — Figure 11 shows job growth by region in Colorado since the beginning of 2015. Greeley experienced a decline in employment levels through April, likely as a result of the slowdown in the oil and gas industry. After several years of stronger growth concentrated along the northern Front Range, other areas, notably Colorado Springs and Grand Junction have experienced faster growth in the first four months of 2015. Further, a survey of

Colorado Springs employers by the workforce services firm Manpower showed a continued strengthening labor market there heading into the third quarter of 2015. The survey put Colorado Springs in a six-way tie for 15th best hiring outlook among the nation's 100 largest metropolitan areas.

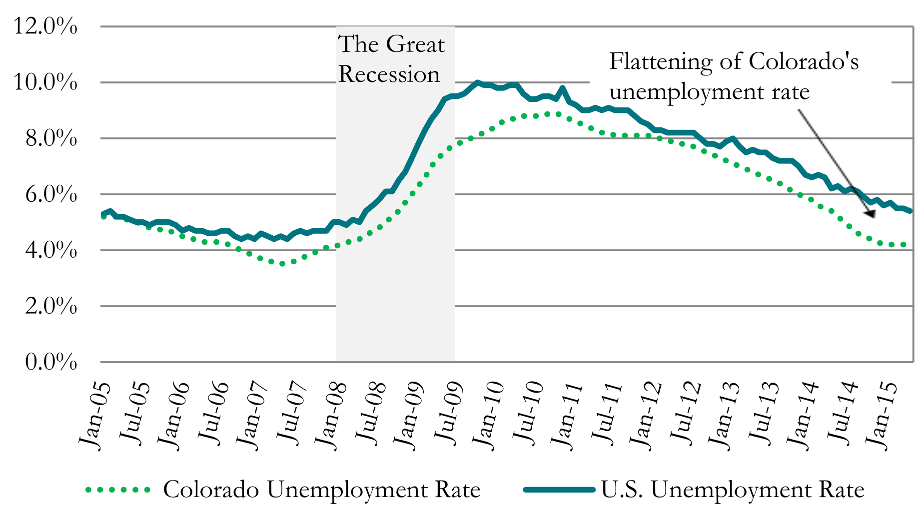
Figure 11. Growth in Jobs by Colorado Region, April 2015 over January 2015



Source: U.S. Bureau of Labor Statistics

The state's unemployment rate has held steady thus far in 2015 – Colorado's overall unemployment rate ─ officially, the "U-3" rate ─ remained at 4.2 percent in April, the fifth consecutive month at this level. The U.S. unemployment rate was 5.5 percent in May. In April, the number of unemployed in Colorado had increased 1.5 percent, or by 1,806 individuals, over January 2015 levels. This slight uptick in the number of unemployed is likely related in part to the slowdown in oil and gas production.

Figure 12. U.S. and Colorado Monthly Unemployment Rate (U-3), January 2005 to April 2015

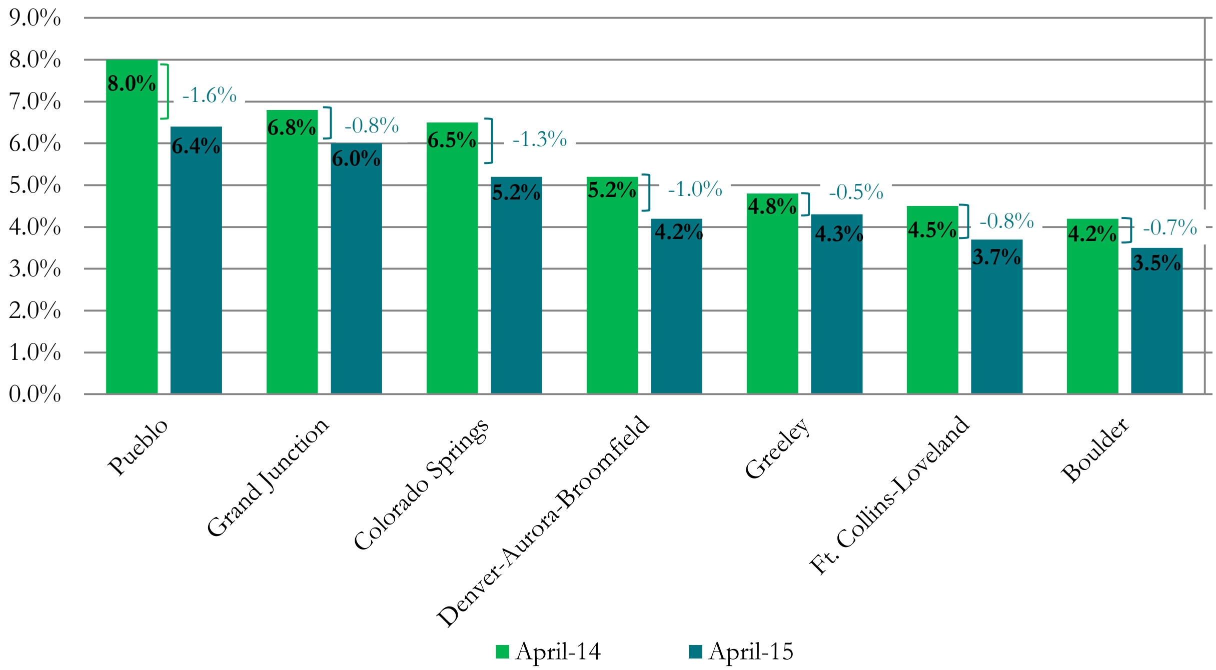


Source: U.S. Bureau of Labor Statistics

Differences in unemployment rates across the state – Differences in both the levels and the rate of decline of unemployment rates across the state illustrate the unevenness of the expansion. Figure 13 compares the unemployment rate for various regions of Colorado in April of 2015 and 2014, depicting the regional variability of the economic expansion. Although unemployment has declined across the state, in general, the regions with the highest concentration of skilled workers and more diverse growing industries have bounced back the most from the disruptions of the Great Recession. Despite continued progress, areas outside of the northern Front Range have higher unemployment rates compared to pre-recession levels. However, two of these areas — Pueblo and Colorado Springs — experienced the largest decline in their unemployment rates from a year ago.

The economic expansion has varied across regions as areas outside of the northern Front Range have had higher unemployment rates. Some of these regions have seen larger declines in unemployment recently, however.

Figure 13. Unemployment Rate (U-3) by Region of Colorado, Not Seasonally Adjusted April 2015 over April 2014

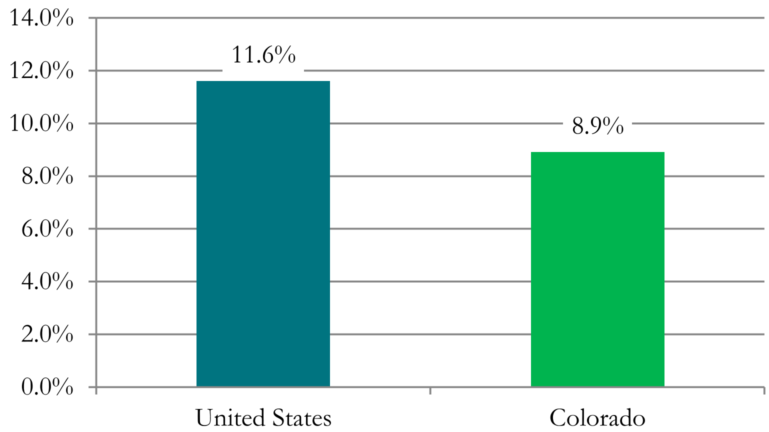


Source: U.S. Bureau of Labor Statistics, non-seasonally adjusted

Underemployment and the duration of unemployment continues to be a lingering problem in the labor market – Short-term unemployment, those unemployed for less than 27 weeks, has returned to pre-recession levels, based on national data. In contrast, national long-term unemployment, those unemployed over 27 weeks, has remained above pre-recession levels.

The U-6 rate, a broader measure of unemployment than U-3, captures the number of unemployed as counted in the traditional U-3 rate, plus individuals who want to be employed but who have not recently looked for work, sometimes because they are discouraged by their job prospects, and individuals who want to work full-time but who are only employed part-time for economic reasons. As shown in Figure 14, the Colorado U-6 rate of unemployment averaged 8.9 percent in the second quarter of 2014 through the first quarter of 2015, a decrease from the recession high of 15.4 percent in 2010. The national U-6 rate was higher at 11.6 percent in the same period.

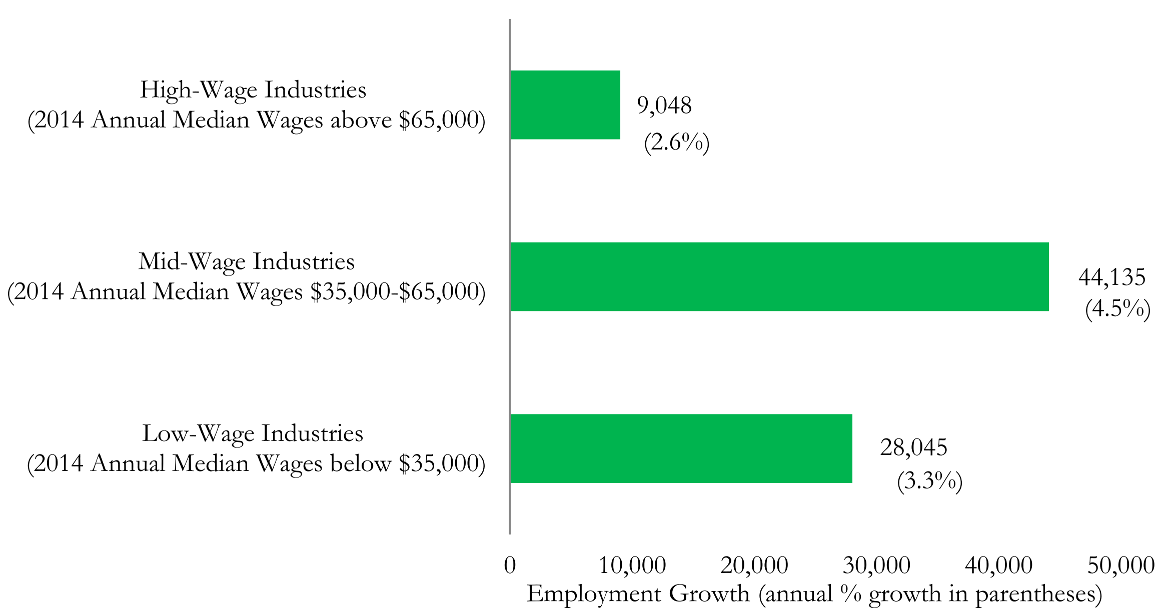
Figure 14. Colorado and U.S. U-6 Unemployment Rate, Second Quarter of 2014 through the First Quarter of 2015



Source: U.S. Bureau of Labor Statistics

Recent trends show mid-wage industries adding more jobs – As a sign that Colorado's economic expansion has taken hold at a broader level, growth in middle-wage paying industries – which employ the most people – outpaced growth in lower- and high-wage industries in 2014. This is a reversal of the trends since at least the early 2000's in which Colorado's economy added high-wage and low-wage jobs at slightly faster rates. As Figure 15 shows, employment gains in Colorado's middle-wage industries accounted for 54 percent of total job growth in 2014 as middle-wage employment grew by 44,135 jobs, or 4.5 percent. This is compared to job growth of 9,048, or 2.6 percent, and 28,045, or 3.3 percent, in high-wage and low-wage industries, respectively.

Figure 15. Change in Employment by Industry Grouped by Median Wage Level, 2013 to 2014



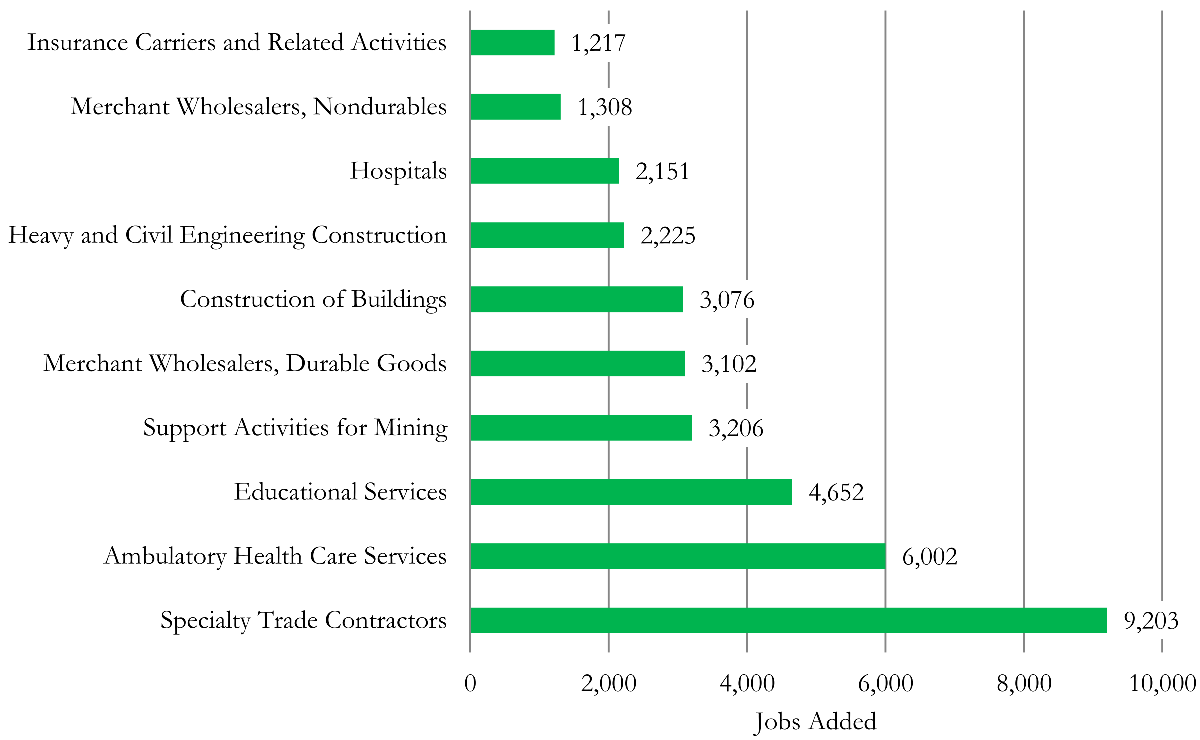
Source: Colorado Department of Labor and Employment and U.S. Bureau of Labor Statistics

A broad array of mid-wage industries accounted for employment growth in Colorado, as shown in Figure 16 below. Fueled by Colorado's housing and nonresidential construction growth, the specialty trade contractors industry added over 9,200 new jobs, while several other construction-related industries were also in the top ten. Health care and education were also key contributors to growth in the mid-wage industries.

Fueled by Colorado's housing and nonresidential construction growth, the specialty trade contractors industry added over 9,200 new jobs in 2014.

Support activities for mining was the only natural resource-related industry in the top ten list of high growth, middle-wage paying industries; while employment in the industry grew at 21 percent in 2014, it employs a relatively small number of people compared to other industries in the state. This industry is expected to contract in 2015 due to the pullback in oil and gas investment in the state. Other small but rapidly growing industries not on the top ten list include beverage and tobacco product manufacturing (8 percent growth) and truck transportation (5 percent growth).

Figure 16. Top Ten Middle-Wage Growth Industries by Jobs Added, 2013 to 2014



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

Housing Market Conditions

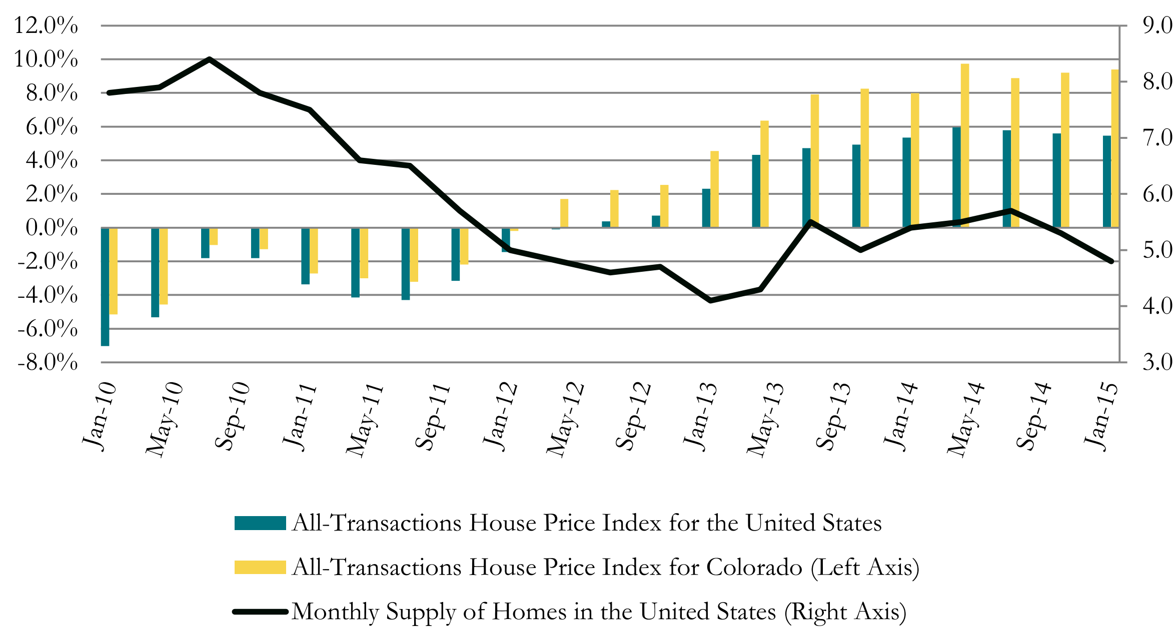
> Improvements in the economy and increased housing demand are continuing to boost the housing market.

Home prices continued to rise in the first quarter of 2015 as demand for homes remained relatively strong in many regions across the country. Reduced inventories of homes for sale and fewer distressed properties are also contributing to this price growth. Additionally, higher confidence and improvements in the labor market are encouraging home buyers and are supporting the housing market.

Figure 17 graphs the House Price Index (HPI) published by the Federal Housing Finance Agency (FHFA), as well as the inventory of homes for sale at the national level as reported by the U.S. Census Bureau. Prices overall have grown at both the state and national level, while the inventory of homes for sale nationally has fallen. Housing inventory in Colorado is low, contributing to the state's higher price appreciation.

The pace of growth and the price of homes vary widely among regions depending on market and economic conditions. By late 2012, average housing prices for Colorado surpassed their pre-recession peak; however, average home prices at the national level remain lower than their peak reached in early 2007.

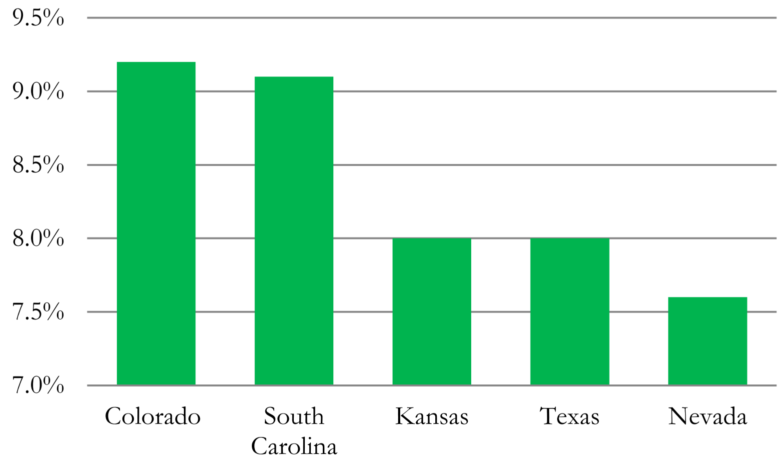
Figure 17. FHFA House Price Index Year-over-Year Change with National Months' Supply of Existing Homes, 2010 through First Quarter of 2015



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

Home prices in Colorado have appreciated at a faster rate than in other states – According to CoreLogic's Home Price Index, Colorado home prices, which include distressed sales, rose by 9.2 percent in March year-over-year, while U.S. home prices increased 5.9 percent. Colorado led the nation in home price appreciation rates followed by South Carolina, Kansas, Texas, and Nevada as represented in Figure 18. Over the same period, home prices decreased in Maryland and Connecticut. Low interest rates, stronger consumer confidence, economic growth, and low home inventories contributed to the home price appreciation trends.

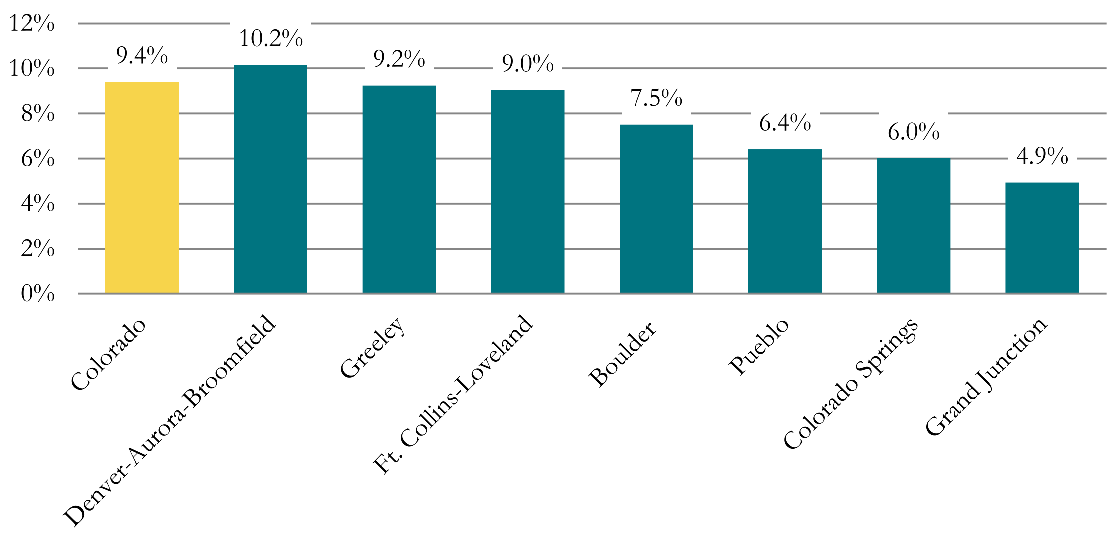
Figure 18. Home Price Appreciation in Top Five States, Percent Growth, March 2015, Year-Over-Year



Source: CoreLogic House Price Index

Home prices increase across Colorado metro areas, though growth remains uneven – Home prices have grown at a strong pace in the northern Front Range's metro areas including Denver, Boulder, Greeley, and Ft. Collins. However, after several years of stronger growth concentrated along the northern Front Range, rising home values in other areas, notably Colorado Springs, Grand Junction, and Pueblo is more evidence that the expansion has taken hold more broadly across the state. Figure 19 charts the percentage change in home prices over the last year in each region of Colorado for which the FHFA publishes its House Price Index.

Figure 19. Changes in FHFA House Price Index for Regions of Colorado, First Quarter of 2015 over First Quarter of 2014



Source: Federal Housing Finance Agency

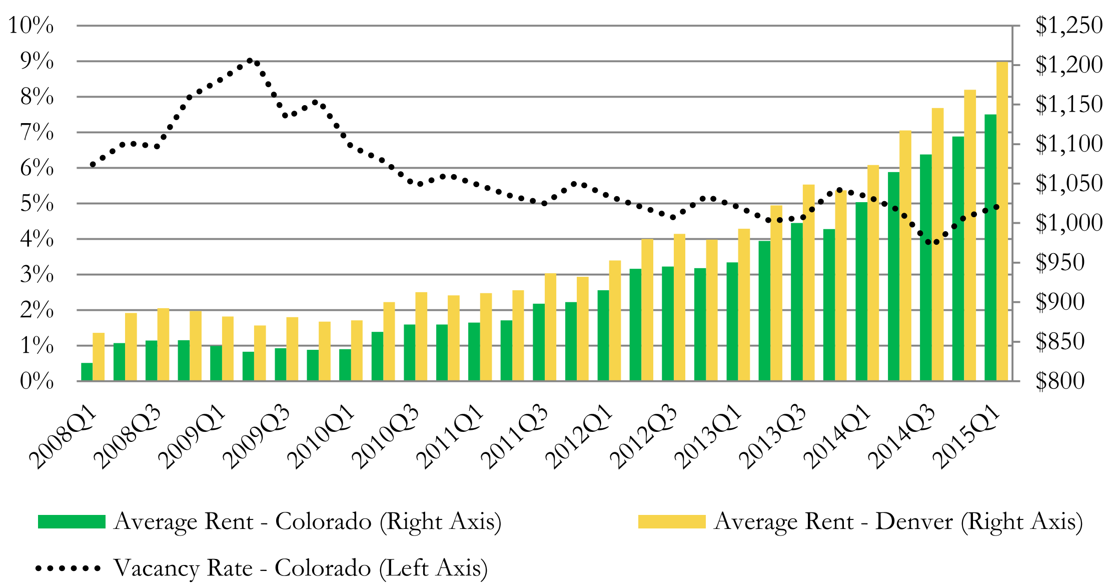
Historic low housing inventory and high home prices could moderate Colorado's housing market – According to data from the Colorado Association of Realtors' (CAR) April 2015 Statewide Report, inventory of single family and multi-family homes has dropped to historic lows. In April 2015, the state had a 2.7 month supply, representing a 32.5 percent reduction from April 2014 levels. Generally, a six-month supply of homes signifies a housing market with a supply-demand balance. The lower inventory of homes for sale portends continued strong levels of home price appreciation in the near term.

> The reduced affordability of homes coupled with low inventory levels and higher prices could moderate growth Colorado's housing market.

In April 2015, CAR reported that active listings in Colorado, a measure of the number of homes available for sale, declined 28.0 percent in 12 months to 23,328 active listings. Fewer listings are boosting home price levels in the face of strong demand in Colorado's growing economy. The April statewide average sales price of a home at $347,198 represented an annual increase of 10.6 percent. CAR's Affordability Index, a measure of how affordable a region's housing is based on interest rates, median sales price, and average income, has decreased since 2012. The reduced affordability is due to a decline in home inventories, fewer distressed properties, and a higher demand for homes as buyers enter the market.

Rising rents continue to define many of the state's housing markets – Rents continue to increase in most of the state's largest metro areas due to population growth and as the rate of household formation grows. According to reports sponsored by the Colorado Division of Housing, average rent for the Denver metro area rose 12.1 percent to $1,204 and statewide average rent grew 10.8 percent, reaching $1,138 in the first quarter of 2015 over levels in the first quarter of 2014. These figures mark record high rental rates for both the Denver metro area and for Colorado as a whole. Along with population growth, low vacancy rates are contributing to the increases. The rent increases, coupled with the trends in home price appreciation, are making housing affordability an issue for some job seekers and young people preparing to form new households, especially in the northern Front Range's urban centers.

Figure 20. Average Rent and Vacancy Rate for Colorado, Statewide and Denver Metro Area, 2008 through First Quarter of 2015

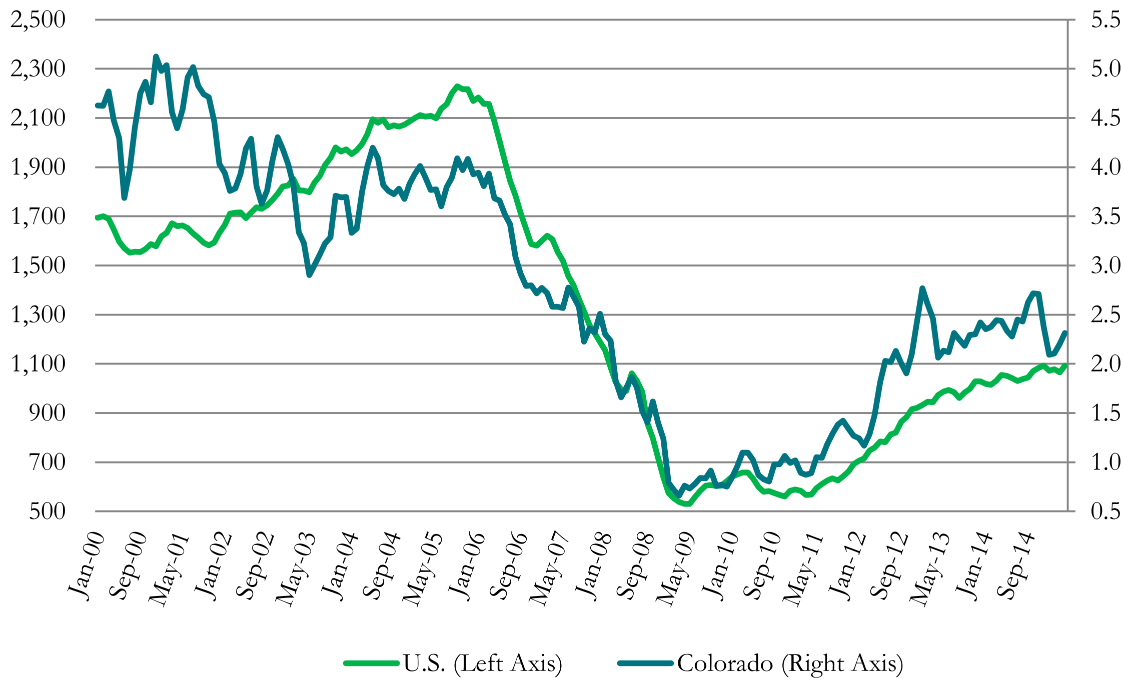


Source: Colorado Department of Local Affairs, Division of Housing

However, not all rental housing markets in Colorado match the pronounced rent growth of the Denver metro area and the statewide average. In Ft. Collins/Loveland, rents declined 2.5 percent in the first quarter of 2015 over 2014 fourth quarter levels, and Pueblo rents have been mostly flat over the past few years. On the other hand, rents grew in the Greeley, Colorado Springs, and Grand Junction markets in the last several quarters, reaching average rents of $882.78, $878.86, and $538.64 respectively in the first quarter of 2015.

Residential construction continues to rebound gradually – In response to strengthening housing markets and low housing inventories, builders have increased residential construction projects. However, home construction remains well below its pre-recession levels. The number of residential construction permits issued in the United States and Colorado in Figure 21 depicts slightly stronger growth in Colorado's residential construction market than in the nation overall. Nationally, growth in new residential construction permits remains slow due to unevenness in the recovery. Home construction in parts of Colorado's urban areas is being constrained by labor supply and higher construction and land costs. Continued home price and rent growth, coupled with an increasing population and a pickup in household formation, especially among younger people, are expected to result in growth in home construction over the coming years.

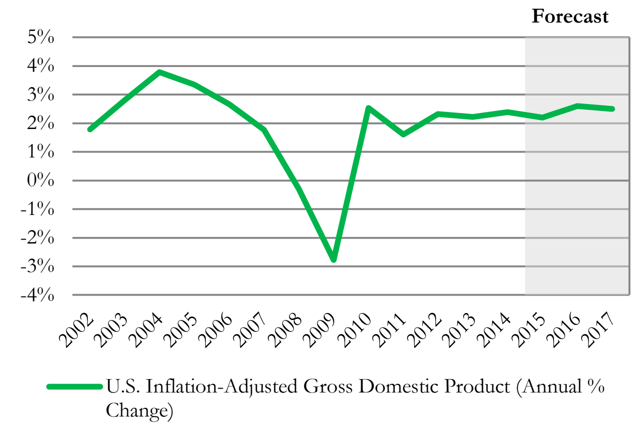
Figure 21. New Residential Construction Permits, 3-Month Moving Average, Seasonally Adjusted January 2007 through April 2015, in Thousands



Source: U.S. Census Bureau

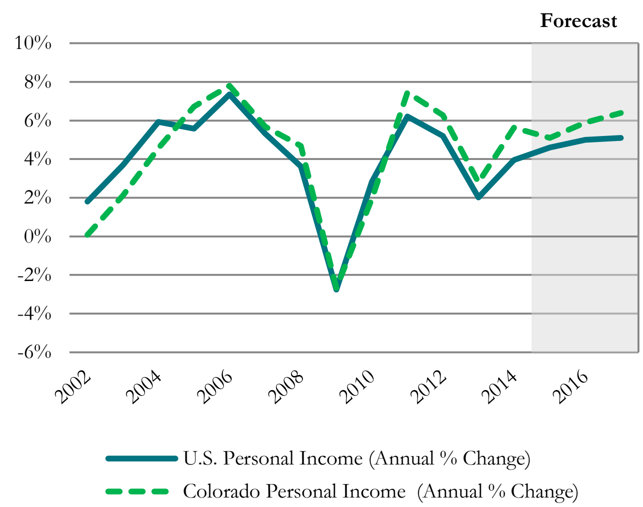
SUMMARY OF KEY ECONOMIC INDICATORS
ACTUAL AND FORECAST

U.S. Gross Domestic Product (GDP)



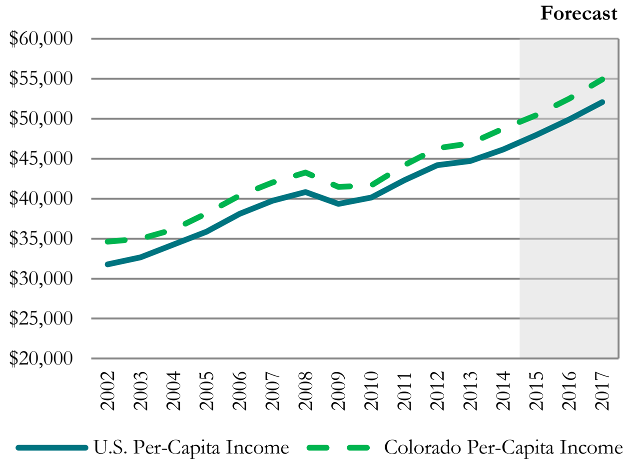
- GDP is a barometer for the economy's overall performance and reflects the value of final output in the U.S.
- GDP growth for the nation is expected to be 2.2 percent in 2015 and 2.6 percent in 2016.

U.S. and Colorado Personal Income



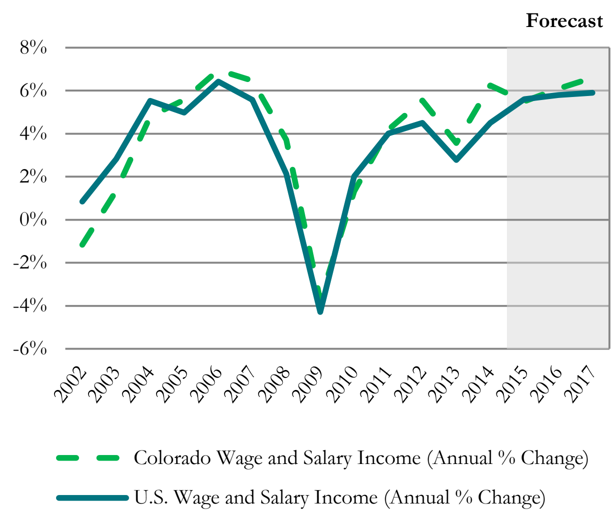
- Personal income is expected to grow 5.1 percent in Colorado in 2015 and will grow 5.9 percent in 2016. Growth in 2015 is slower due to the pullback in the oil and gas industry.
- Personal income for the nation will grow 4.6 percent in 2015 and 5.0 percent in 2016.

U.S. and Colorado Per-Capita Income



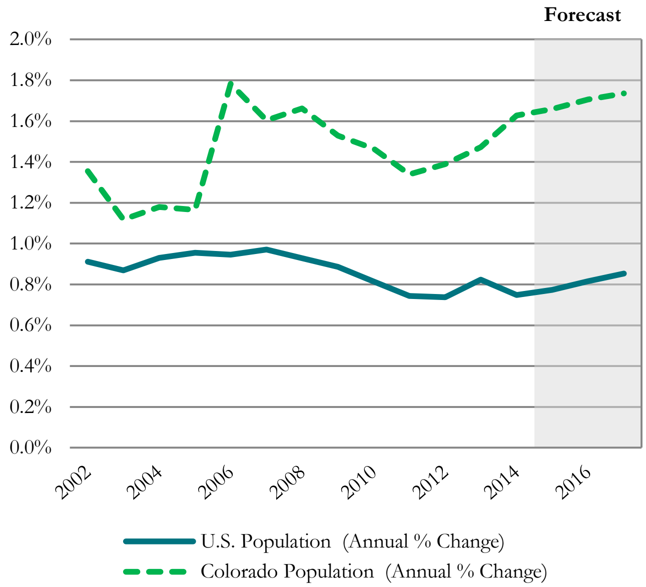
- Per-capita income in Colorado will grow to $50,430 in 2015 and $52,510 in 2016.
- Nationally, per-capita income will increase to $47,941 in 2015 and $49,921 in 2016.

U.S. and Colorado Wage and Salary Income



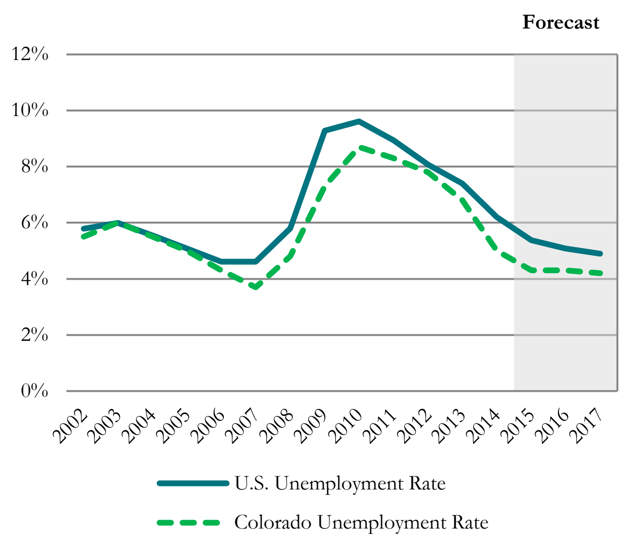
- Total wages and salaries paid to workers grew in Colorado at an estimated rate of 6.3 percent in 2014.
- In Colorado, total wages and salaries will grow 5.5 percent in 2015 and 6.1 percent in 2016. Like with personal income, wages and salaries are expected to grow at a slower rate in 2015 as a result of decreased activity in oil and gas production.
- Wage and salary income for the nation will increase 5.6 percent in 2015 and will grow 5.8 percent in 2016.

U.S. and Colorado Population



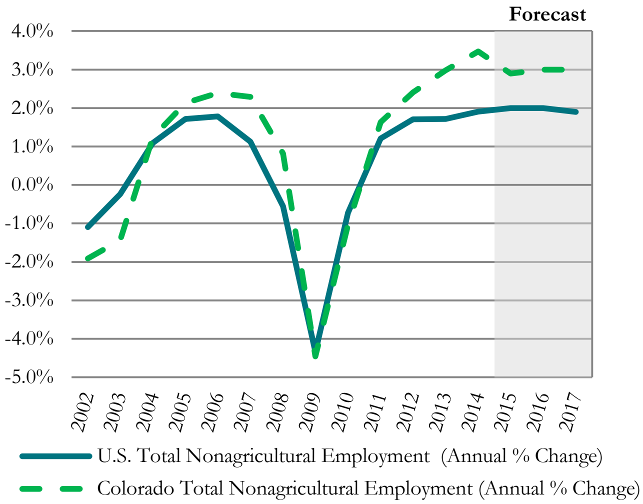
- The state's average population growth rate from 2008 to 2014 was approximately 1.5 percent. Nationally, average population growth was slightly less than 1.0 percent.
- Colorado's population is expected to grow 1.7 percent and reach 5.4 million in 2015. The state will continue to experience a relatively 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



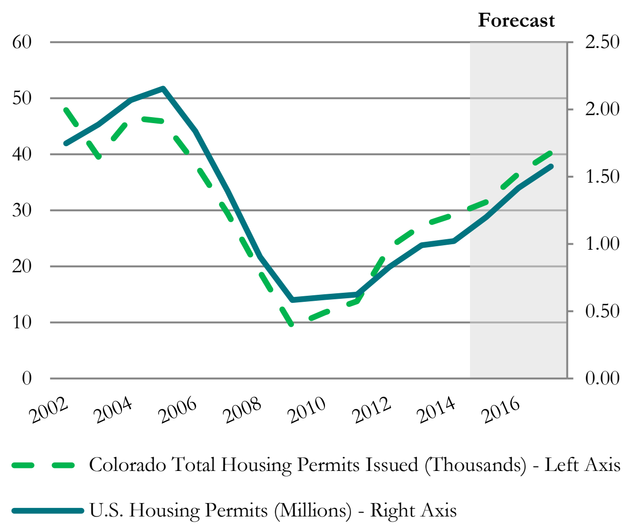
- After falling sharply in 2014, OSPB forecasts Colorado's unemployment rate will average 4.3 percent in 2015 and 4.3 percent in 2016. Unemployment is expected to rise slightly from current levels due to the oil and gas slowdown.
- The national unemployment rate will average 5.4 percent in 2015 and 5.1 percent in 2016.

U.S. and Colorado Total Nonagricultural Employment



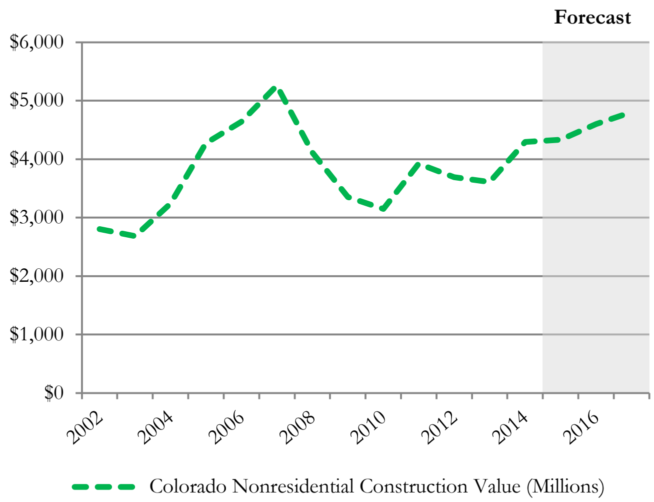
- Colorado nonfarm jobs grew 3.5 percent in 2014, with broad-based growth across industries.
- Nonfarm payroll jobs are expected to reach 2.54 million in Colorado, a 2.9 percent increase, in 2015. Payroll jobs will grow 3.0 percent in 2016. As with income and wage growth, these are slower growth rates 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 2.0 percent in 2016.

U.S. and Colorado Housing Permits Issued



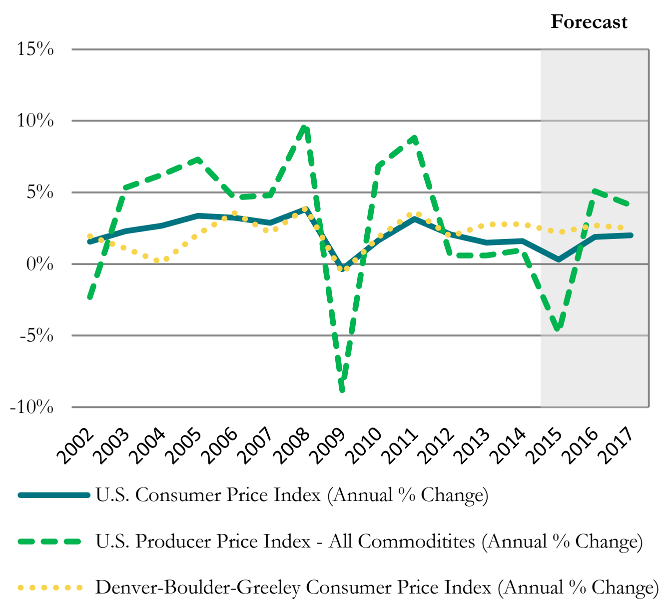
- Colorado residential construction permits will number 31.5 thousand in 2015 and grow to 36.6 thousand in 2016.
- Housing permits for the nation will number 1.2 million in 2015 and 1.4 million permits will be issued in 2016.

Colorado Nonresidential Construction Permits



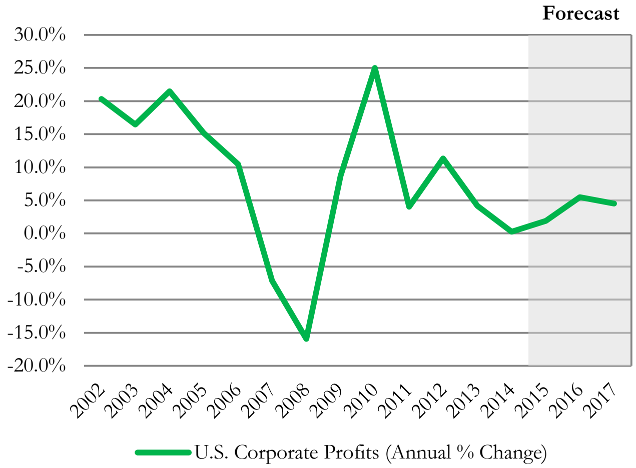
- Non-residential construction strengthened in Colorado in 2014. Momentum in the economic recovery and population growth is encouraging businesses to invest in new facilities and locations. The total value of non-residential construction projects was up 18.9 percent in 2014.
- Non-residential construction will grow 1.0 percent in 2016, reaching $4.3 billion in total construction value.

Consumer Price Index and Producer Price Index



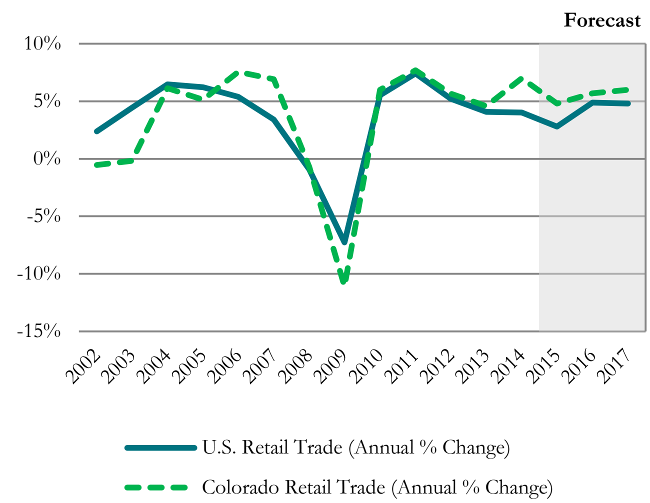
- The Denver-Boulder-Greeley Consumer Price Index (CPI) increased 2.8 percent in 2014 and will increase 2.2 percent in 2015, largely pushed down by lower gas prices.
- Nationally, increases in consumer price levels remain muted. The national CPI will grow 0.3 percent in 2015 due to the fall in gas prices and 1.9 percent in 2016.
- The more volatile producer prices in the U.S. will decrease 4.8 percent in 2015 and increase 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 0.2 percent in 2014 and will grow 1.9 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. Continued slow growth in 2015 is attributable in part to a stronger dollar and less export growth.

Retail Trade



- Retail trade sales in Colorado will grow at a slower pace compared with the strong growth in 2014. In 2015, retail trade will grow 4.8 percent. For 2016, 5.7 percent growth is forecast.
- Nationwide retail trade will grow 2.8 percent in 2015 and 4.9 percent in 2016.

General Fund and State Education Fund Revenue Forecast

General Fund revenue is expected to be $48.2 million, or 0.5 percent, higher in FY 2014-15 than forecasted in March. However, $15 million of this increase is from SB 15-255 which credits up to the first $20 million in severance taxes collected in May and June of this year to the General Fund. The forecast for FY 2015-16 is essentially unchanged from the previous forecast.

General Fund revenue will grow 9.3 percent in FY 2014-15 over the prior year. This strong growth is a result of Colorado's solid economic expansion. Income tax wage withholdings and sales tax collections – the State's largest sources of General Fund revenue – grew at particularly robust rates this fiscal year. Also, as expected in prior forecasts, tax collections on capital gains income appears to have solidly rebounded from a decline in FY 2013-14 that resulted from federal tax policy changes. In contrast to the solid growth in the other major revenue sources, corporate income tax revenue was essentially flat for FY 2014-15, in part due to tax policy changes that reduced tax liabilities.

After strong growth in General Fund revenue in FY 2014-15, General Fund revenue will moderate in FY 2015-16 due in part to the contraction in the oil and gas industry as well as slower growth in capital gains income.

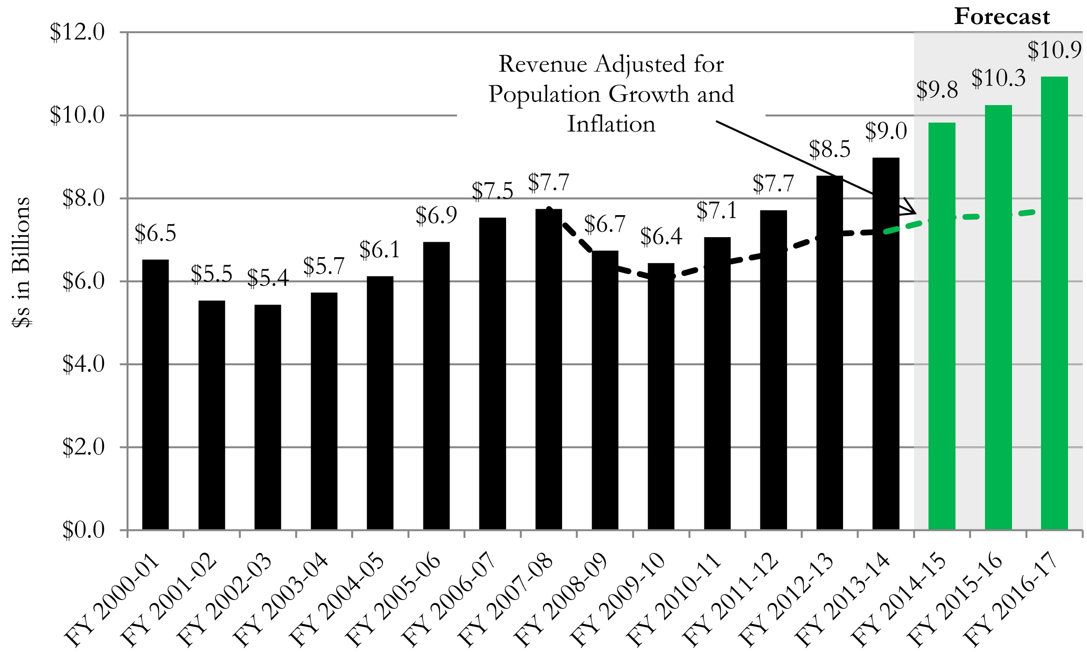
General Fund revenue is expected to grow 4.5 percent in FY 2015-16 when income and sales tax collections are expected to moderate from the robust gains this fiscal year. Contributing to the slower growth is the contraction in the oil and gas industry that is resulting in job losses and less spending and investment in the state. Oil and gas industry conditions are discussed starting on page 7 in the *Economy: Issues Trends and Forecasts* section. An expectation for more modest growth in capital gains income is also contributing to slower income tax revenue growth for FY 2015-16.

Furthermore, the slower growth in General Fund revenue in FY 2015-16 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 starting in tax year 2016, lowering revenue collections on an ongoing basis starting in FY 2015-16.

General Fund revenue growth for FY 2016-17 is expected to rebound from the slower growth in FY 2015-16 with continued economic expansion in the state. However, revenue growth in FY 2016-17 is forecast to remain below the high rates experienced in most years of the current expansion.

Figure 22 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2016-17. 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 22. General Fund Revenue, Actual and Forecast, with Revenue Adjusted for Population Growth and Inflation, FY 2000-01 to FY 2016-17



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.

For FY 2014-15 only, this miscellaneous group of sources includes a portion of severance tax collections from mineral extraction in the state. As discussed on page 49 in the section discussing the cash funds revenue forecast, Senate Bill 15-255 credits the first $20 million of state severance tax revenue received in May and June to the General Fund. However, actual collections are expected to be lower than $20 million. OSPB assumes that $15 million in severance taxes will be collected. This amount is included in other income in line 16 of Table 3 in the Appendix. This money helps pay for the expected FY 2014-15 TABOR refund to be paid out of the General Fund.

> Individual income tax collections growth was very strong in FY 2014-15 due to robust gains in wage withholding tax receipts and a rebound in investment income. Collections will moderate in FY 2015-16 due to the contraction in the oil and gas industry, slower expected growth in investment income, and tax policies that will reduce tax liabilities.

Individual income tax – Individual income tax collections growth was very strong in FY 2014-15 due to robust gains in wage withholding tax receipts and a rebound in tax collections from investment income. After projected growth of 11.8 percent for FY 2014-15, individual income tax collections will moderate to a 4.7 percent growth rate in FY 2015-16. The slower growth is due in part to the contraction in the oil and gas industry that has been an important part of the state's economic expansion.

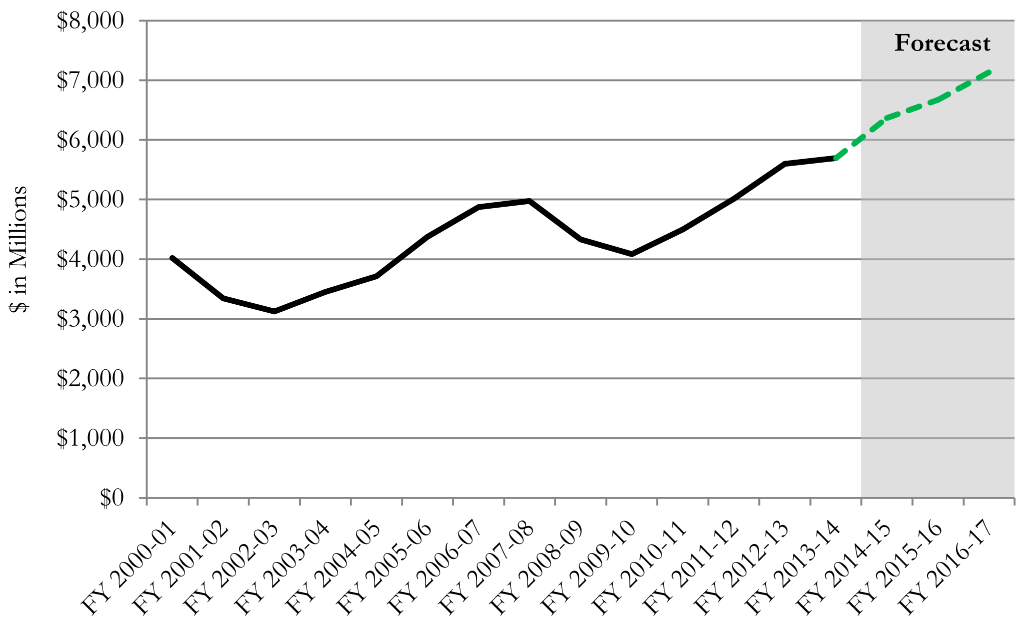
The industry's pullback will reduce wages, business income, and oil and gas royalty payments, which will consequently lower individual income tax collections. Slower expected growth in capital gains income also is contributing to the lower overall growth rate.

As discussed further starting on page 7 in the *Economy: Issues Trends and Forecasts* section, OSPB continues to assume 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. These losses will negatively impact other economic activity in the state — the multiplier effect of the industry is larger than most other industries due to its higher wages, large amounts of investment and business spending, and high levels of income generated from exporting its products outside the state. 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 adjustments that individuals and businesses are making in response to a contracting oil and gas industry. Further, estimates of the size and length of the industry's contraction are uncertain at this time.

Changes in tax deductions and credits also are impacting revenue collections over the forecast period; the largest of these 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 income tax 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 will reduce income tax revenue by approximately $7 million in FY 2014-15 and $12 million in FY 2015-16. Legislation from the 2015 session will also reduce income tax collections by about $8 million in FY 2015-16 and $9 million in FY 2016-17. SB 15-206 has the largest revenue impact to individual income taxes. The bill increases the size of the gross conservation easement income tax credit beginning with tax year 2015. The change is expected to reduce income tax revenue by $7 million annually.

Figure 23. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2016-17



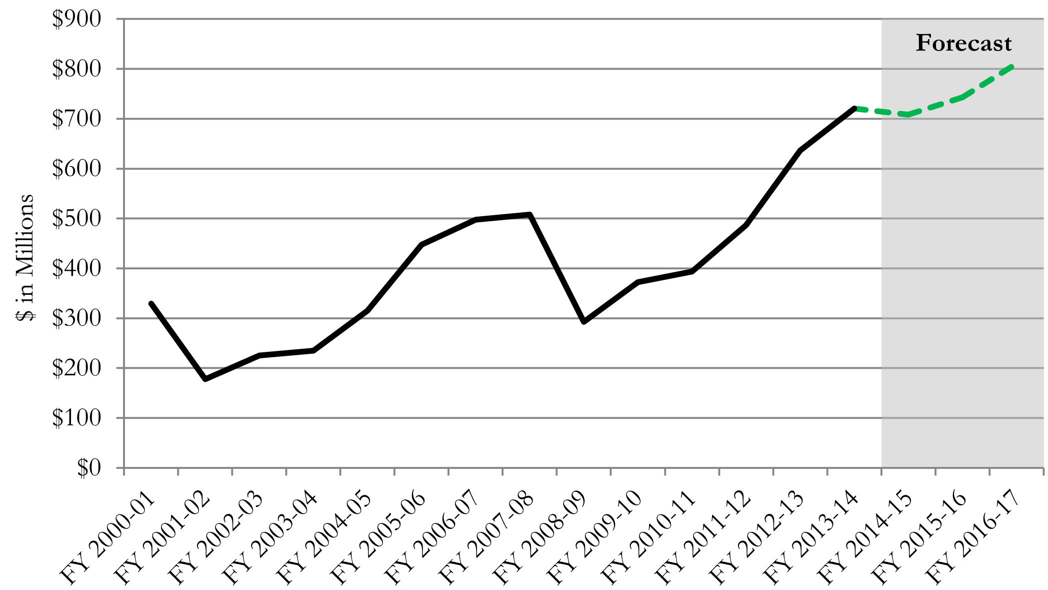
Source: Office of the State Controller and OSPB

Corporate income tax – Growth in corporate income tax revenue stalled in FY 2014-15 after robust gains since the end of the Great Recession. Corporate income tax collections are projected to decrease 1.7 percent in FY 2014-15, but grow 4.9 percent in FY 2015-16. Corporate profit growth, and thus tax liabilities, has moderated due to rising business costs in the maturing expansion. Labor costs have particularly been growing as companies expand payrolls and wage gains begin to accelerate.

Growth in corporate income tax revenue stalled in FY 2014-15 after robust gains since the end of the Great Recession. Higher business costs from the maturing expansion and tax policies are tempering collections over the forecast period.

Tax policy changes can have large impacts on revenue collections, making corporate income taxes more volatile over the business cycle. The state set a cap on the amount of net operating losses that corporations could deduct during the Great Recession to help bolster corporate income tax collections. The repeal of this cap is estimated to have reduced collections substantially in FY 2014-15. A retroactive extension of higher business investment tax deductions at the end of 2014 at the federal level[1] also reduced corporate income tax revenue in FY 2014-15. The tax credit for businesses undertaking job creation projects is expected to grow over the forecast period, which will weigh on tax revenue growth.

Figure 24. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2016-17



Source: Office of the State Controller and OSPB

Sales and use tax – Sales tax revenue will grow 8.3 percent in FY 2014-15, but slow to 4.6 percent growth in FY 2015-16. Momentum in the state economy that has produced strong consumer and business spending led to the robust growth this fiscal year. However, the contraction in the oil and gas industry will slow growth in total wages paid in the state, and thus consumer spending. Business spending that is subject to sales tax is also expected to slow as a result of the pullback in the industry. These conditions will weigh on sales tax revenue growth in FY 2015-16.

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

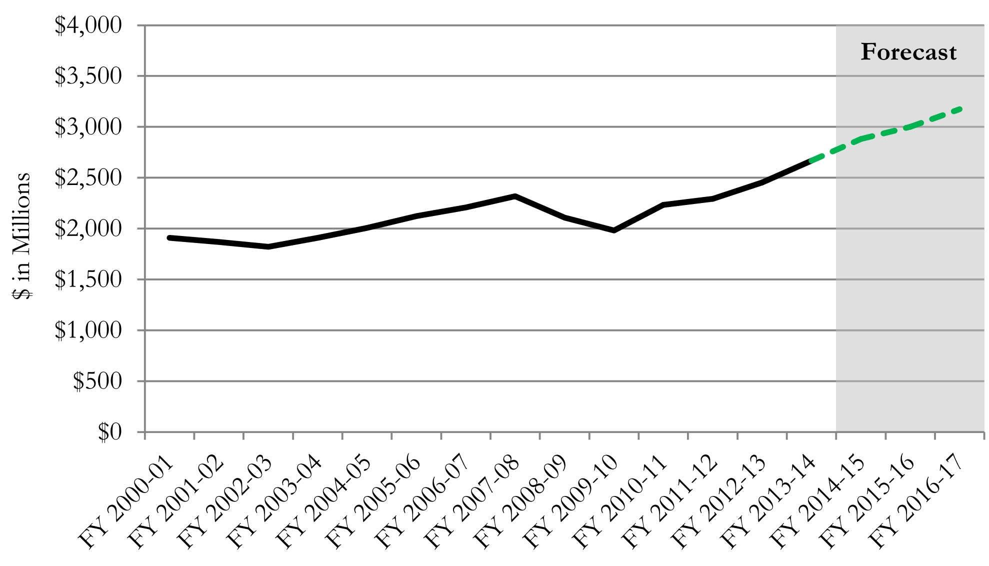
The State's collection of a new 10 percent sales tax on retail marijuana from the passage of Proposition AA is also bolstering sales tax revenue to the General Fund. (Voters also approved an excise tax of 15 percent on retail marijuana that is mostly credited to a cash fund for public school capital construction projects.) Revenue from the retail marijuana 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 in localities where retail marijuana sales occur.

Strong growth in consumer and spending resulting from the state's economic momentum generated robust gains in sales tax collections in FY 2014-15. As with individual income taxes, the oil and gas industry's contraction will contribute to slower sales and use tax collections in FY 2015-16.

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. HB 15-1367 reduces the 10 percent tax rate to 8 percent starting in FY 2017-18. 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.

Figure 25. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2016-17



Source: Office of the State Controller and OSPB

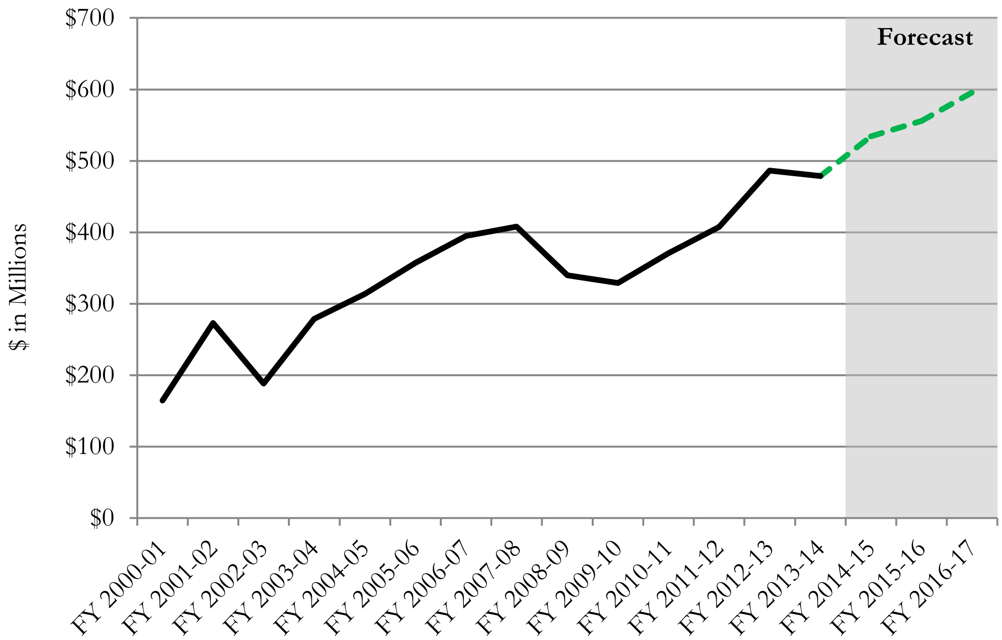
State Education Fund Revenue Forecast

Tax revenue to the State Education Fund will increase 11.6 percent in FY 2014-15 and 4.1 percent in FY 2015-16.

Tax revenue to the State Education Fund will increase 11.6 percent in FY 2014-15 and 4.1 percent in FY 2015-16. Because this revenue is derived from taxable income, it follows the trends in individual income and corporate income tax revenue collections discussed above. Similar to individual income tax collections, strong growth in taxable income from wages and investments boosted State Education Fund revenue this fiscal year. Moderating economic activity, due mostly to the contraction in the oil and gas industry, and slower growth in investment income will diminish growth in revenue to the State Education Fund in FY 2015-16.

As shown on page 45 in the *General Fund and State Education Fund Budget* section, the state constitution requires that one-third of one percent of taxable income from Colorado taxpayers be credited to the State Education Fund. In addition to this money, policies enacted over the past few years have transferred other General Fund money to the Fund, which is shown in detail in Figure 34 on page 45.

Figure 26. State Education Fund Revenue from One-Third of One Percent of Taxable Income, Actual and Forecast, FY 2000-01 to FY 2016-17



Source: Office of the State Controller and OSPB

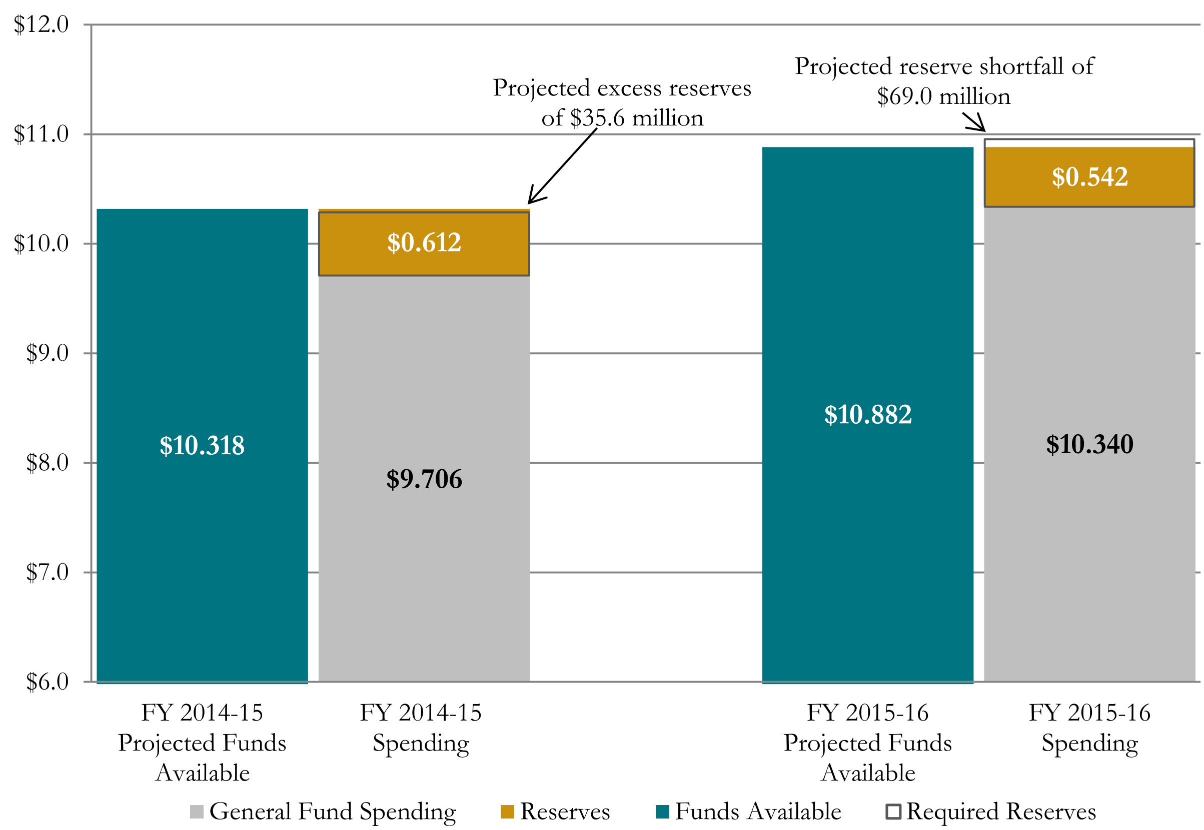
General Fund and State Education Fund Budget

Summary

General Fund **–** As discussed in the *General Fund Revenue Forecast* section starting on page 33, projections for General Fund revenue for FY 2014-15 are about 0.5 percent higher than in the March forecast. Projections for FY 2015-16 are essentially the same as the estimates made in March.

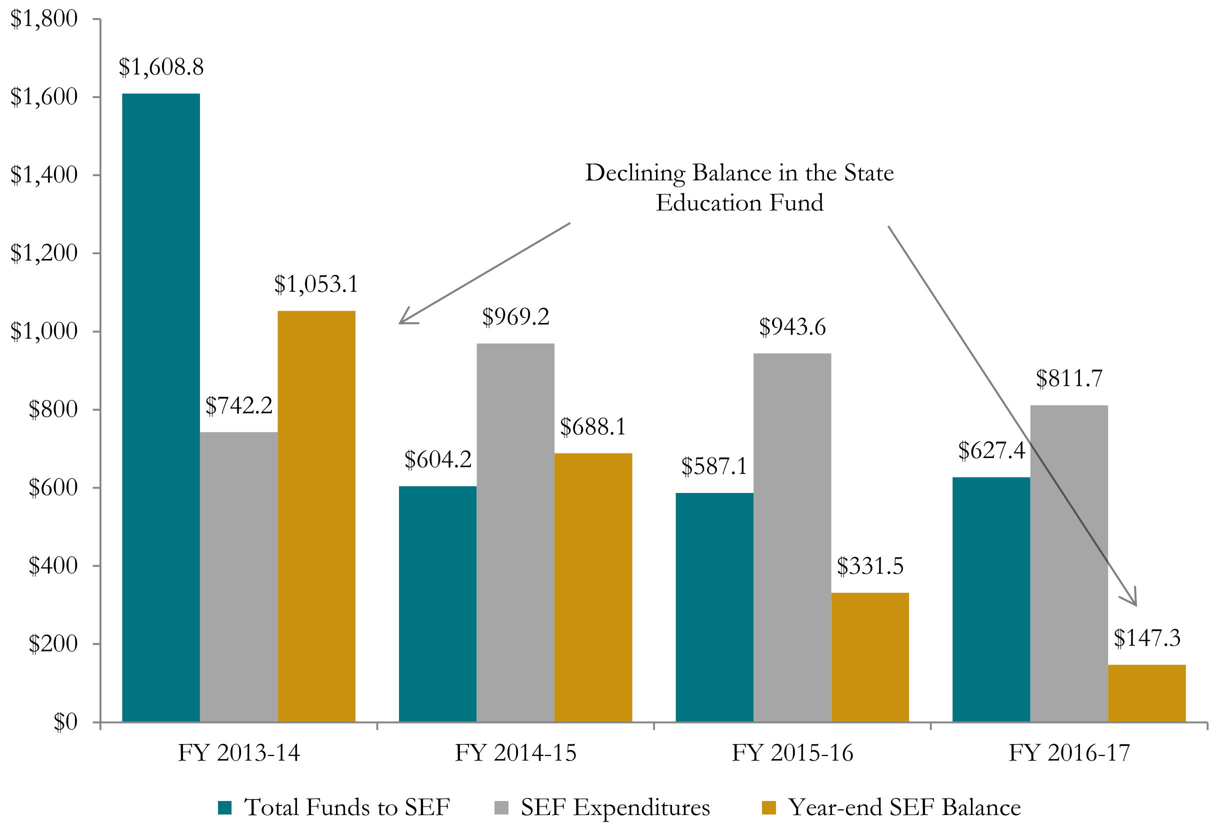
Under this forecast, the State's General Fund reserve is projected to be $35.6 million above its required amount for FY 2014-15. In contrast, for FY 2015-16, the reserve is projected to be $69.0 million below its required amount of 6.5 percent of General Fund appropriations. This shortfall is mostly due to new projections for full transfers to transportation and capital construction under Senate Bill 09-228 as discussed further on page 44. In contrast, the March forecast from both Legislative Council Staff and OSPB projected that the transfers would be half of their full amounts in FY 2015-16 due to the forecast for TABOR rebates being above a certain amount. The budget plan for FY 2015-16 also planned on the lower amounts for these items. Figure 27 below summarizes total General Fund revenue available, total spending, and reserve levels for FY 2014-15 and FY 2015-16.

Figure 27. General Fund Money, Spending, and Reserves
FY 2014-15 and FY 2015-16, $ in Billions



State Education Fund – The State Education Fund is supporting a larger share of education funding than it has historically, which is drawing down its fund balance. Figure 28 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2013-14 through FY 2016-17.

Figure 28. State Education Fund Money, Spending, and Reserves FY 2013-14 through FY 2016-17*, $ in Millions



*Actual FY 2016-17 expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections for that year are illustrative only.

Detailed Overview Tables – A detailed overview of 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.

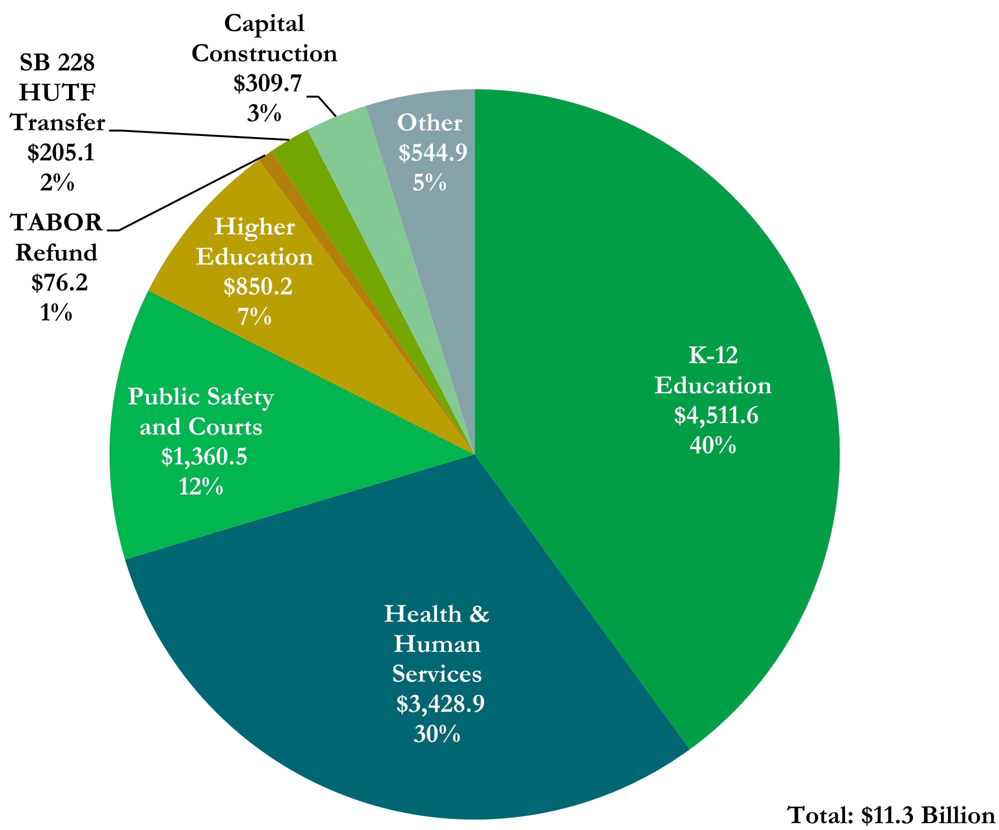
Spending by Major Department or Program Area

The General Fund provides funding for the State's core programs and services, such as preschool through 12th grade education, 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 one-third of one percent of taxable income. In recent years, it has also received supplemental money from the General Fund as authorized by statute.

Figure 29 shows the allocation of General Fund and State Education Fund spending for FY 2015-16 by major department or program area. This projection accounts for an estimated $76.2 million required for

TABOR rebates. As noted above, the current forecast estimates that the General Fund will be $69.0 million below the required reserve amount in FY 2015-16.

Figure 29. Composition of FY 2015-16 General Fund and State Education Fund Budget, $ in Millions



Risks to the Budget Outlook

This budget outlook is based on OSPB's economic analysis and forecast, discussed in the section titled *The Economy: 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 incomes decline, unemployment grows, and more people seek further education to better their job 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. This may occur if oil prices fall again or if prices remain at a lower level compared with industry expectations. Additionally, economic conditions for many of the world's largest economies continue to be sluggish. These conditions will pose a risk to the outlook for Colorado, especially if such conditions lead to tighter financial conditions and reduced investment.

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 State's revenue cap in all three years of the forecast, 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 would result in future forecasts showing smaller amounts above the cap, or perhaps revenue being below the cap.

These changes would have implications for critical components of the budget, such as the amount of General Fund money available for spending and the amount required to be transferred to transportation and capital construction. As an example, this forecast assumes that the amount of the TABOR rebate for FY 2015-16 will result in a transfer of $205.1 million from the General Fund for transportation projects and an additional $51.3 million to capital construction, as dictated by Senate Bill 09-228 (for more details, see page 44). However, just 0.2 percent, or $26.3 million, more in the FY 2015-16 forecast for revenue subject to TABOR would result in these transfers being reduced by half. Further, the transfers would be eliminated with 1.8 percent, or $231.4 million, higher-than-expected TABOR revenue in FY 2015-16. This scenario could occur under a variety of circumstances, including a smaller-than-projected slowdown in economic growth due the contracting oil and gas industry, accelerating wage growth, or unexpected increases in various State revenue sources.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview for the June 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. The following section discusses the information presented in Table 4. To aid understanding, the discussion includes figures showing each section of the detailed overviews found in the Appendix.

Revenue

The top portion of the overview, shown in Figure 30 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 and State Education Fund Revenue Forecast* section starting on page 32. In addition to General Fund revenue, the General Fund receives money transferred from other State funds each fiscal year, although these transfers account for less than one percent of total revenue in both FY 2014-15 and FY 2015-16 (shown in line 3 below).

Figure 30. General Fund Revenue Available, FY 2014-15 and FY 2015-16 (from Table 4 in Appendix),$ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
1	Beginning Balance	$435.9	$612.1
2	General Fund Revenue	$9,816.3	$10,253.7
3	Transfers to the General Fund	$65.6	$16.4
4	**Total General Funds Available**	**$10,317.8**	**$10,882.2**
	Dollar Change from Prior Year	$953.1	$564.4
	Percent Change from Prior Year	10.2%	5.5%

Expenditures

Spending subject to the appropriations limit – The middle portion of the General Fund overview in Table 4 shows General Fund spending. Each year, most General Fund spending cannot exceed five percent of the aggregate level of personal income received by Coloradans. This limit is projected to be $12.0 billion in FY 2014-15 and $12.4 billion in FY 2015-16. Therefore, the General Fund appropriations shown in the figure below are $3.1 billion and $3.0 billion under the limit, respectively. The amounts subject to the limit shown below and in Table 4 for FY 2014-15 and FY 2015-16 reflect current law. The FY 2016-17 amount shown in Table 4 represents the level of spending that can be supported by projected revenue while maintaining the General Fund's required reserve amount; this amount will change based on future budgeting decisions and updates to the revenue forecast.

Figure 31. General Fund Spending Subject to the Appropriations Limit, FY 2014-15 and FY 2015-16 (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
5	**Appropriations**	**$8,869.0**	**$9,405.0**
6	Dollar Change from Prior Year	$650.3	$536.0
7	Percent Change from Prior Year	7.9%	6.0%

Spending not subject to the appropriations limit – Figure 32 summarizes General Fund spending that does not count under the General Fund appropriations limit. More information about each line item is presented below the table.

Figure 32. General Fund Spending Not Subject to the Appropriations Limit, FY 2014-15 and FY 2015-16 (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
9	TABOR Refund under Art. X, Section 20, (7) (d)	$194.0	$76.2
10	Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)	$58.0	$0.0
	Cigarette Rebate to Local Governments	*$8.6*	*$8.2*
	Marijuana Rebate to Local Governments	*$5.7*	*$6.4*
	Old-Age Pension Fund/Older Coloradans Fund	*$105.0*	*$109.9*
	Aged Property Tax & Heating Credit	*$5.9*	*$6.9*
	Homestead Exemption	*$116.9*	*$125.1*
	Interest Payments for School Loans	*$0.8*	*$0.9*
	Fire/Police Pensions	*$4.1*	*$4.1*
	Amendment 35 General Fund Expenditure	*$0.8*	*$0.8*
11	**Total Rebates and Expenditures**	**$247.9**	**$262.3**
12	Transfers to Capital Construction	$248.5	$309.7
13	Transfers to Highway Users Tax Fund	$0.0	$205.1
14	Transfers to State Education Fund per SB 13-234	$25.3	$25.3
15	Transfers to Other Funds	$40.6	$56.3
16	Other	$22.4	$0.0
	Total	**$836.7**	**$934.9**
	Dollar Change from Prior Year	$291.2	$98.2
	Percent Change from Prior Year	53.4%	11.7%

Lines 9 and 10: 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"). Revenue is projected to exceed the Referendum C cap by $190.4 million in FY 2014-15[2] and by $76.2 million in FY 2015-16, meaning that a refund to taxpayers will occur for both years under this forecast, unless voters allow the State to retain the revenue. TABOR refund projections for both fiscal years are lower than OSPB's forecasts from March 2015, largely due to lower cash fund revenue forecasts (see *Cash Fund Revenue Forecast* for more details).

Current law requires TABOR refunds to be accounted for in the year in which excess revenue is collected. The refund mechanisms projected will reduce revenue to the General Fund. The refund mechanisms are not shown as reducing revenue in this forecast, however. Instead, these amounts are shown as obligations from the General Fund that need to be refunded. The net impact to the General Fund under both scenarios is essentially the same.

The $58.0 million shown in line 10 reflects money set-aside by HB 15-1367 in a special account that will cover a potential refund relating to the passage of Proposition AA, which created excise and sales taxes on retail marijuana. HB 15-1367 submits Proposition BB to voters this November to ask if the State can retain and spend this money. See page 55 in the *Taxpayer's Bill of Rights: Revenue Limit* section of this forecast for more details.

Line 11: "Rebates and Expenditures" account for a large portion of General Fund spending not subject to the appropriations limit. The primary programs under rebates and expenditures are: (1) the Cigarette Rebate, which distributes money from a portion of State cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the 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, and 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. The forecast for total rebates and expenditures in both fiscal years changed very little from OSPB's projections in March 2015.

Lines 12 and 13: General Fund money transferred for State capital construction, facility maintenance, and transportation projects is also not subject to the spending limit. Additionally, starting with FY 2015-16, appropriations for finance, or "lease-purchase" payments, called Certificates of Participation, for certain capital projects were also made exempt from the limit by SB 15-251. FY 2014-15 includes a total transfer of $248.5 million for capital construction projects, shown in line 12. Total construction transfers for FY 2015-16 are forecast at $309.7 million. This amount includes a projected $51.3 million SB 09-228 transfer (see below), a $221.3 million transfer set by SB 15-250, and $37.1 million in appropriations for certain certificate of participation payments for capital projects. The capital construction funding amount of $110.3 million for FY 2016-17 shown in the General Fund Overview in Table 4 in the Appendix reflects the needed level to fund the continuation of projects funded in prior years, certificate of participation financing agreements used for capital projects, and priority, or "Level I," building maintenance projects, taking into account the amount of funding available in the Capital Construction Fund.[3]

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[2] The FY 2014-15 TABOR refund amount shown in the table includes $190.4 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.

[3] This forecast projects that the full $51.3 million SB 09-228 transfer will be made in FY 2015-16. However, the FY 2015-16 transfer for capital construction in SB 15-250 anticipated that the SB 09-228 transfer would be half of this amount. Therefore, this forecast projects that the Capital Construction Fund will have $25.6 million in additional funding for FY 2015-16 that can be used for FY 2016-17.

Transfers to capital construction and transportation are required if growth in statewide personal income exceeds 5 percent. This 5 percent trigger and the associated transfers are commonly referred to as “228” transfers because they were put into law by Senate Bill 09-228. Personal income growth exceeded 5 percent in the 2014 calendar year, which triggers the required transfers in FY 2015-16. However, these transfers are reduced by half if there is a TABOR refund in an amount between 1 and 3 percent of total General Fund revenue in the same fiscal year. 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 refund of $76.2 million in FY 2015-16 represents an amount equal to 0.7 percent of General Fund revenue. This means that transfers for transportation and capital construction will be made at their full required level of $205.1 million and $51.3 million, respectively, in FY 2015-16. However, the projected FY 2016-17 TABOR refund of $385.2 million exceeds 3 percent of General Fund revenue, meaning that the SB 09-228 transfers are eliminated for that fiscal year.

Line 14: 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.

Line 15: State law requires transfers of General Fund money to various other State cash funds. The largest transfer in this line is money from the 10 percent special sales tax on retail marijuana tax credited to the General Fund, 85 percent of which is transferred to the Marijuana Tax Cash Fund.

Line 16: This line usually includes any expenditures for certain programs that have exceeded their appropriated amount, called “overexpenditures.” Spending by the Medicaid program above its appropriated amount, called “Medicaid overexpenditures,” is usually the largest amount in this line. The $22.4 million shown for FY 2014-15 is all Medicaid overexpenditures.

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 (“Money Above/Below Statutory Reserve”). Figure 33 provides information on the General Fund ending balance.

Figure 33. General Fund Reserves under Current Law, FY 2014-15 and FY 2015-16 (from Table 4 in Appendix), $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16
20	Year-End General Fund Balance	$612.1	$542.3
21	Balance as a % of Appropriations	6.9%	5.8%
22	**General Fund Required Reserve of 6.5%**	**$576.5**	**$611.3**
23	Money Above/Below Req. Reserve	$35.6	-$69.0
24	Excess Reserve to Other Funds	$0.0	$0.0
25	**Balance After Any Funds Above Statutory Reserve are Allocated**	**$35.6**	**-$69.0**

The State's General Fund reserve is projected to be $35.6 million above its required amount for FY 2014-15. Under this forecast, the Fund will be $69.0 million below the required amount for FY 2015-16 with the current level of General Fund obligations. This shortfall is mostly due to new projections for full transfers to transportation and capital construction under SB 09-228 as discussed on page 44. In contrast, the March forecast from both Legislative Council Staff and OSPB projected that the transfers would be half of their full amounts in FY 2015-16 due to the forecast for TABOR rebates being above a certain amount.

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 affects General Fund appropriations in order to support the targeted level of school funding. Decisions in one year 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 in Table 4, but also includes spending, revenue, and fund-balance information for the State Education Fund. Given 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 into the sustainability of budgeting decisions.

Figure 34 summarizes State Education Fund annual revenue and spending. It also includes projected beginning and ending fund balances. State Education Fund expenditures for FY 2014-15 and FY 2015-16 reflect current law. The FY 2016-17 expenditures amount projects spending needed to keep the negative factor in the School Finance Act at the current dollar amount of $855.2 million, while maintaining a balance of about $150 million in the Fund.

Transfers of excess reserves over the past few fiscal years have caused a significant increase in the balance of the State Education Fund. However, higher spending and lower projected revenue are putting a strain on the fund's balance. For example, spending from the State Education Fund in FY 2015-16 is 161 percent of new projected revenue to the Fund. By the end of FY 2015-16, we expect the balance to fall by nearly 52 percent to $331.1 million from levels a year earlier. The trend is projected to continue into FY 2016-17, as the year-end balance drops by another 55 percent to $147.3 million.

Figure 34. State Education Fund Revenue, Spending, and Reserves FY 2014-15 through FY 2016-17,* $ in Millions

	FY 2014-15	FY 2015-16	FY 2016-17
Beginning Balance	***$1,053.1***	***$688.1***	***$331.5***
One-third of 1% of State Taxable Income	*$534.3*	*$555.9*	*$595.9*
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	*$6.0*	*$5.8*	*$6.2*
Total Funds to State Education Fund	**$604.2**	**$587.1**	**$627.4**
State Education Fund Expenditures	**$969.2**	**$943.6**	**$811.7**
Year-end Balance	**$688.1**	**$331.5**	**$147.3**

*Actual FY 2016-17 expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections for that year are illustrative only.

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 $17.38 million, or 0.6 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 $75 million, or 2.7 percent, lower than projections from the March forecast. However, a portion of this difference is due to SB 15-255 which diverts the first $20 million of severance taxes collected in May and June of this year to the General Fund, reducing cash fund revenue this fiscal year.

Cash fund revenue subject to TABOR will decline 0.1 percent in FY 2015-16 as an expected large decrease in severance tax revenue will offset growth in revenue from most of the other major categories of cash funds that year, most notably the Hospital Provider Fee. The forecast for FY 2015-16 is $36.9 million, or 1.3 percent, lower compared with projections in March, primarily due to a larger projected drop 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 52.

Transportation-related cash funds **—** Transportation-related cash funds subject to TABOR will grow $39.1 million, or 3.4 percent, to $1.17 billion in FY 2014-15. Revenue to these funds will grow 1.8 percent to $1.2 billion in FY 2015-16.

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.

> Fuel tax collections continue to grow as a result of lower gas prices and Colorado's economic expansion.

After two consecutive years of decline in revenue collected from taxes on gasoline and diesel fuel in FY 2011-12 and FY 2012-13, revenue collected from these sources has been increasing. Changes in revenue from these 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 appear to be encouraging drivers and businesses to use more fuel. Consumers are also purchasing more expensive trucks and sport utility vehicles, resulting in higher collections of vehicle registration fees.

Limited Gaming **—** Limited gaming revenue will grow by $4.2 million, or 3.9 percent, in FY 2014-15, after increasing just 0.6 percent in FY 2013-14. It will grow an additional 3.6 percent, or $4 million, to $116.1 million in FY 2015-16.

Gaming revenue is growing at a faster rate, but growth remains modest compared with the period prior to the Great Recession.

Gaming activity in Colorado has been growing at a steady pace as the industry continues to rebuild momentum after declines in the wake of the Great Recession. With continued growth in the overall state economy, gaming activity will likely continue to increase at a similar rate.

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 Subject to TABOR 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 35 below shows the anticipated distribution of limited gaming revenues in further detail.

Figure 35. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Actual 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, or by $156.2 million, 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.

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

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. The decrease in HPF revenue in FY 2014-15 is largely being driven by an increase in federal funding that is reducing the HPF that must be collected from hospitals to support Colorado's Medicaid program.

However, an increase in populations receiving medical services will generate higher HPF revenue starting in FY 2015-16. Recent data shows that growth in these populations occurred at a strong rate in 2014, so the anticipated HPF revenue calculated by the formula will also grow over the next two fiscal years. Additionally, the Department of Health Care Policy and Financing is evaluating current trends and anticipates that an increase in forecasted HPF revenue above the current projections is likely for the September forecast.

Severance tax revenue **—** Severance tax revenue will grow 6.8 percent, or $18.36 million, to $287.1 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 61.4 percent in FY 2015-16. A gradual increase in prices will help generate a rebound in severance tax revenue for FY 2016-17.

The price of natural gas and oil are key drivers of this revenue because severance taxes on these resources are based on a percentage of the income received from selling them. 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 increase in severance tax revenue in FY 2014-15. Oil prices fell by nearly 50 percent from the summer of 2014 as growing production in the United States boosted oil inventories while a sluggish global economy dampened demand. Oil prices continue to show signs of stabilizing but will likely remain at their lower level through 2015.

Falling prices for natural gas and oil, combined with ad valorem tax credits, will result in a decline of $176.28 million in severance taxes in FY 2015-16.

The price of natural gas rose at the beginning of 2014 as demand for natural gas to heat homes and businesses grew amidst very cold winter temperatures. Natural gas prices have fallen back to lower levels, currently 50 percent lower than quarter one of 2014, as inventories were largely restored and the demand for natural gas returned to more typical levels.

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 prices of natural gas and oil declined this year, taxpayers will claim ad valorem credits based on the value of oil and gas in 2014, when prices were much higher. This dynamic increases the impact of lower prices, helping generate the 61.4 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 producers have begun to temper 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 at much lower levels than oil and natural gas production. Severance tax revenue from coal production is expected to fall 33 percent, to $5.4 million, in FY 2014-15 after falling 9.4 percent, to $8.1 million the prior year.

Senate Bill 15-255 credits the first $20 million of state severance tax revenue received in May and June to the General Fund. However, actual collections may be lower than $20 million. OSPB assumes that $15 million in severance taxes will be collected in May and June. Therefore, the total severance tax revenue shown in Table 6 is $15 million lower than actual collections, but General Fund revenue shown in Table 3 in the Appendix is $15 million higher. This money helps pay for the expected FY 2014-15 TABOR refund paid out of the General Fund.

Federal Mineral Leasing revenue — Colorado's share of Federal Mineral Lease (FML) revenue will fall by 15.5 percent, to $146.6 million, in FY 2014-15, after growing by nearly 44 percent, to $173.6 million, in FY 2013-14. The estimates from the March forecast for FY 2014-15 were revised down by $16.6 million due to lower-than-expected collections of FML revenue in the second half of FY 2014-15. FML revenue will decrease 8.5 percent in FY 2015-16, to $134.1 million, due to continued lower oil and natural gas prices and the refund of FML "bonus" payments to mineral extraction leaseholders on the Roan Plateau.

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 disbursement of FML revenue to Colorado in FY 2012-13, contributing to the large subsequent 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.

The impact of lower oil and natural gas prices were more severe than initially estimated for the second half of FY 2014-15. Although FML revenue will continue to decline into FY 2015-16, the decline will not be nearly as severe as the drop in severance tax revenue. The impact of lower prices on FML revenue is much smaller than the impact on severance taxes because the revenue stream is not affected by the ad valorem tax credits that reduce severance tax gross liabilities.

A portion of the expected decline in FML revenue in FY 2015-16 is a result of refunds to holders of cancelled leases on land for mineral extraction on the Roan Plateau in Colorado. The BLM carried out auctions for leases to produce natural gas on the Roan Plateau in 2008, collecting significant bonus payments. 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 the bonus payments that were originally made. Colorado's share of this amount, $23.4 million, will be recouped 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, reducing FML revenue starting in FY 2015-16. As a result, the distributions of FML revenue to the State Public School Fund, the Colorado Water Conservation Board Construction Fund, and the Local Government Mineral Impact Fund would be proportionately reduced.

However, Senate Bill 15-244 transfers money from the General Fund to these funds in each of the next three fiscal years in order to backfill the decline in FML distributions.

Figure 36. 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	$0.5	$146.1	$146.6	-15.5%
FY 2015-16	$1.3	$132.8	$134.1	-8.5%
FY 2016-17	$2.2	$144.0	$146.2	9.0%

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 3.7 percent to $73 million in FY 2015-16.

Insurance-related cash fund revenue is obtained largely from a surcharge on workers' compensation insurance programs. Insurance-related cash fund revenue will increase 4 percent to $21.5 million in FY 2014-15, but will decline by almost 50 percent in FY 2015-16 due to a reduction in the surcharge. The surcharge is used to fund the Division of Workers' Compensation (DoWC), as well as the Major Medical Insurance Fund and Subsequent Injury Fund which were created to absorb costs for individuals injured prior to 1981. Each year, the division is required to perform a review to determine the funding needed to operate its programs. The DOWC recently projected that a 50 percent reduction in premium surcharges would generate sufficient funding for the funds to pay and administer claims for FY 2015-16 while maintaining its necessary cash balances.

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 prior year. 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, are reflected in the miscellaneous cash funds category in Table 6. However, the table does not include the proceeds from marijuana taxes authorized by Proposition AA in November 2013 as they are not subject to TABOR. These taxes are transferred to the Marijuana Tax Cash Fund, local governments, and school construction. Revenue from the 10 percent retail marijuana 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.

HB 15-1367 contains several provisions affecting the taxes collected on retail marijuana authorized by Proposition AA. Most notably, it refers a measure to voters asking if the State can retain and spend the money collected from the taxes in FY 2014-15. This money is expected to be refunded under the provisions of TABOR because total TABOR revenue exceeded the estimate in the "Blue Book" voter guide, not because estimates of new marijuana taxes were exceeded. However, the most recent data indicate that retail marijuana tax revenue will come in close to the estimate given to voters.

HB15-1367 also reduces both the 10 percent special sales tax and 15 percent excise tax rates on retail marijuana to zero for one day. This is to satisfy TABOR's provisions to reduce the tax rates associated with a tax increase when revenue exceeds the estimates given to voters. However, the rates are reduced only temporarily because voters allowed the State to increase the rates under Proposition AA without further voter approval, as long as they do not exceed 15 percent. The bill also lowers the 10 percent special sales tax on retail marijuana sales to 8 percent starting in FY 2017-18. More information on HB 15-1367 and its impact on the General Fund can be found starting on page 43 in the General Fund budget section and on page 55 in the TABOR section.

Taxpayer's Bill of Rights: Revenue Limit

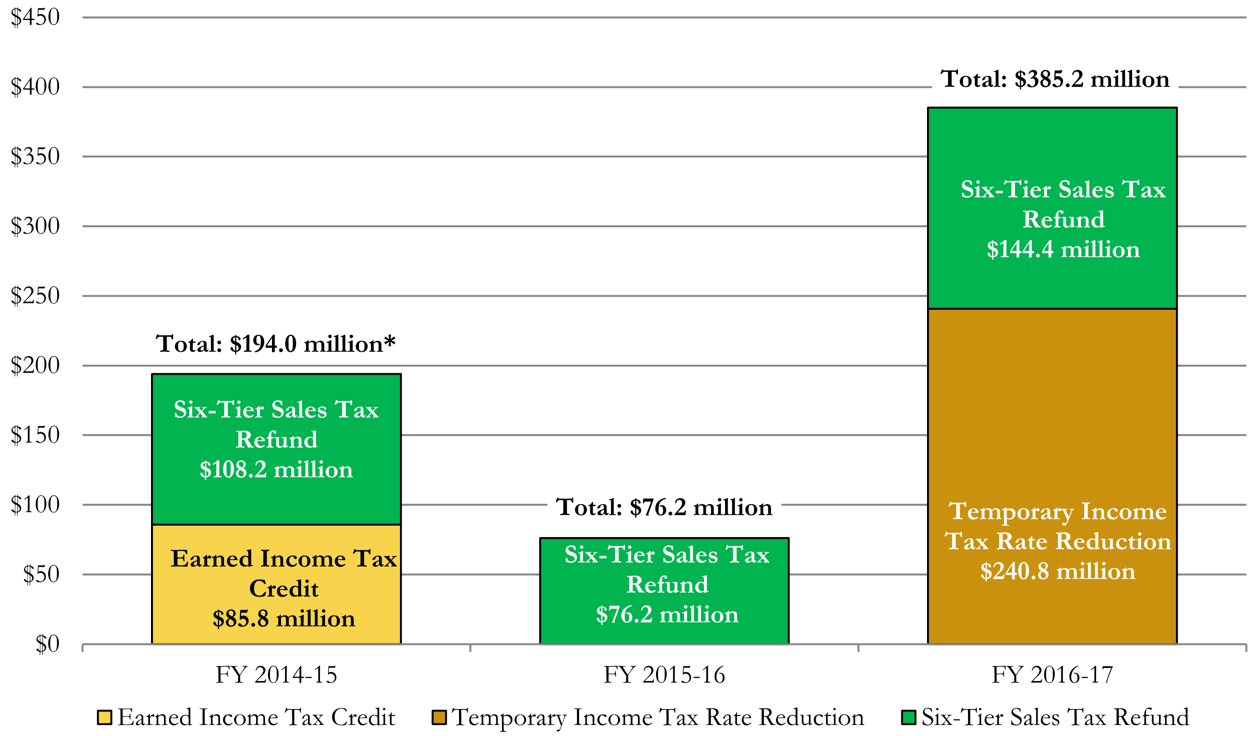
Background on TABOR – Provisions in the Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limit the growth of a large portion of State revenue to the sum of inflation plus population growth in the previous calendar year. Revenue collected above the TABOR limit must 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 $190.4 million in FY 2014-15, $76.2 million in FY 2015-16, and $385.2 million in FY 2016-17. Consequently, a refund to taxpayers will occur in all three years 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 refund amount determines which refund mechanisms are used. Figure 37 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 37. Projected Distribution of Revenue in Excess of the Referendum C Cap, $ in Millions



* This amount includes $190.4 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 (a) adjustments that were made to State accounting records for years in which TABOR refunds occurred that resulted in additional required refunds to taxpayers and (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, projected 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 $85.8 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 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 $108.2 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 based on income tier expected to be distributed by the six-tier sales tax refund are shown in Figure 38.

In FY 2015-16, the six-tier sales tax refund mechanism will be used to distribute the projected $76.2 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 $225.1 million.

The revenue in excess of the cap in FY 2016-17, projected at $385.2 million, 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 to 4.5 percent for tax year 2017. This would reduce state income tax liabilities for individual income taxpayers by about $55 on average per taxpayer for tax year 2017, though the amount will vary greatly based on a taxpayer's taxable income level. The amount refunded through this mechanism is estimated to be $240.8 million, which will account for a large portion of the required TABOR refund from FY 2016-17. The remaining $144.4 million will be refunded through the six-tier sales tax refund mechanism.

Figure 38. 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	$108.2 million	$76.2 million	$144.4 million
Adjusted Gross Income Tier	Estimated Refund per Taxpayer		
First 35% (Up to $37,000)*	$23	$16	$29
Next 27% ($37,000 - $79,600)*	$30	$21	$39
Next 17% ($79,600 - $115,800)*	$35	$24	$45
Next 9% ($115,800 - $150,300)*	$42	$29	$54
Next 4% ($150,300 - $183,700)*	$45	$31	$58
Last 7% ($183,700 and Up)*	$72	$50	$93

*Income tiers represent an individual taxpayer filing as a single filer for tax year 2015. The income tiers for taxpayers filing jointly will differ from these.

TABOR refund amounts will affect transfers to transportation and capital construction (SB 09-228 transfers) – In addition to activating distributions of refunds to taxpayers, projected revenue in excess of the Referendum C cap affects the transfers to transportation and capital construction created by Senate Bill 09-228, as specified by Section 24-75-219, C.R.S. Because total personal income in Colorado grew by more than 5 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 1 and 3 percent of total General Fund revenue. The transfers are suspended in full if there is a TABOR refund in excess of 3 percent of total General Fund revenue.

The projected TABOR refund in FY 2015-16 represents an amount equal to 0.7 of General Fund revenue. Therefore, the transfers for transportation and capital construction should be made at an unreduced level of $205.1 million and $51.3 million, respectively, in FY 2015-16. However, a small increase in revenue subject to TABOR could push the TABOR refund above 1 percent of General Fund revenue, decreasing the transfers by one-half. According to current projections, the transportation transfer of $218.5 million and capital construction transfer of $54.6 million in FY 2016-17 will be reduced to zero because the TABOR refund is expected to be larger than 3 percent of total General Fund revenue. This forecast projects the refund to be 3.5 percent of total General Fund revenue in FY 2016-17.

TABOR election provisions and Proposition AA – TABOR also has provisions regarding estimates of revenue from new taxes approved by voters. In November 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 distributed to voters prior to the election, as specified by the Colorado Constitution. If the excise and special sales tax revenue exceed the $67 million estimate, the excess must be refunded to voters – unless voters decide that the State can retain the revenue – and the tax rates must be reduced. The most recent data for retail marijuana tax collections indicate that retail marijuana tax revenue is likely to fall just short of the $67 million estimate.

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 this amount, meaning that a refund to taxpayers should occur unless voters decide that the State can retain the revenue. A legal analysis determined that the refund associated with the estimates for Proposition AA should not exceed the actual amount of new marijuana tax revenue collected in FY 2014-15.

As a result of the expected refund requirement, HB 15-1367 refers a measure to voters – "Proposition BB" – asking if the State can retain and spend the revenue collected from the Proposition AA taxes. The bill creates a special account in the General Fund consisting of $58 million, the amount forecasted by Legislative Council Staff in March to be collected from Proposition AA taxes in FY 2014-15. The $58 million special account is funded by a $27.7 million transfer from the Marijuana Tax Cash Fund pursuant to Senate Bill 15-249, and $30.3 million from the General Fund. The special account is set aside (shown in line 10 of Table 4) in case the money needs to be refunded to taxpayers if voters do not pass Proposition BB. Regardless of the outcome of the election, HB 15-1367 creates a mechanism to help repay the $30.3 million of General Fund for the special account over a period of time using money collected from the special sales tax on retail marijuana.

If voters do not allow the State to retain the revenue, HB 15-1367 requires the money to be refunded through three different mechanisms: 1) a temporary reduction in the special sales tax on retail marijuana sales from 10 percent to 0.1 percent (about $13 million of the required refund); 2) a refund to marijuana cultivation facilities of all the marijuana excise taxes they paid in FY 2014-15 (about $20 million of the required refund); and 3) the six-tier sales tax refund mechanism that is used to refund revenue above the Referendum C cap discussed above ($25 million of the required refund). The $25 million refunded through the six-tier sales tax refund mechanism is excluded from the amounts shown in Figure 38 that are projected to occur due to revenue exceeding the Referendum C cap. If voters reject Proposition BB, the $25 million would be added to the $108.2 million in FY 2014-15 shown in Figure 37 to be refunded through the six-tier sales tax refund mechanism.

If voters approve the measure, allowing the State to retain the marijuana tax revenue, HB 15-1367 requires $40 million to be credited to public school capital construction; $12 million to be used for various other purposes, such as law enforcement, youth programs, and marijuana education and prevention programs; and the projected remaining amount, around $6 million, to remain in the General Fund.

HB 15-1367 also temporarily reduces both the 10 percent special sales tax and 15 percent excise tax rates on retail marijuana to zero for one day regardless of voter approval. This is to satisfy the TABOR provisions to reduce tax rates if revenue estimates given to voters are exceeded. However, the rate reduction is temporary because Proposition AA allowed the State to increase the rates without further voter approval so long as the rate of either tax does not exceed 15 percent. It also lowers the 10 percent special sales tax on retail marijuana sales to 8 percent starting in FY 2017-18.

Governor's Revenue Estimating Advisory Committee

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

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- Elizabeth Garner - State Demographer, Colorado Department of Local Affairs
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- 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					June 2015 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017
	Income								
1	Personal Income (Billions) /A	$210.5	$226.1	$240.3	$247.1	$261.0	$274.3	$290.5	$309.1
2	Change	1.9%	7.5%	6.3%	2.8%	5.6%	5.1%	5.9%	6.4%
3	Wage and Salary Income (Billions)	$113.8	$118.6	$125.1	$129.6	$137.7	$145.3	$154.1	$164.3
4	Change	1.3%	4.2%	5.5%	3.6%	6.3%	5.5%	6.1%	6.6%
5	Per-Capita Income ($/person) /A	$41,676	$44,192	$46,324	$46,928	$48,778	$50,430	$52,510	$54,917
6	Change	0.5%	6.0%	4.8%	1.3%	3.9%	3.4%	4.1%	4.6%
	Population & Employment								
7	Population (Thousands)	5,049.7	5,117.4	5,188.5	5,264.9	5,350.6	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	53.3	56.2	59.6	62.5
10	Unemployment Rate	8.7%	8.3%	7.8%	6.8%	5.0%	4.3%	4.3%	4.2%
11	Total Nonagricultural Employment (Thousands) /B	2,222.3	2,258.6	2,313.0	2,381.9	2,464.5	2,535.9	2,612.0	2,690.4
12	Change	-1.0%	1.6%	2.4%	3.0%	3.5%	2.9%	3.0%	3.0%
	Construction Variables								
13	Total Housing Permits Issued (Thousands)	11.8	13.8	23.4	27.3	29.2	31.5	36.6	40.3
14	Change	26.1%	16.9%	69.6%	16.7%	7.0%	7.9%	16.1%	10.1%
15	Nonresidential Construction Value (Millions) /C	$3,146.7	$3,923.2	$3,692.0	$3,609.7	$4,292.2	$4,335.1	$4,599.6	$4,801.9
16	Change	-6.2%	24.7%	-5.9%	-2.2%	18.9%	1.0%	6.1%	4.4%
	Prices & Sales Variables								
17	Retail Trade (Billions) /D	$70.5	$75.9	$80.2	$83.9	$89.8	$94.1	$99.4	$105.4
18	Change	6.0%	7.7%	5.7%	4.6%	7.0%	4.8%	5.7%	6.0%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	212.4	220.3	224.6	230.8	237.2	242.4	249.0	255.2
20	Change	1.9%	3.7%	1.9%	2.8%	2.8%	2.2%	2.7%	2.5%

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

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

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

/D Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods / books / music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants). 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					June 2015 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017
	Inflation-Adjusted & Current Dollar Income Accounts								
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$14,783.9	$15,020.5	$15,369.2	$15,710.6	$16,085.6	$16,439.4	$16,866.9	$17,288.5
2	Change	2.5%	1.6%	2.3%	2.2%	2.4%	2.2%	2.6%	2.5%
3	Personal Income (Billions) /B	$12,429.3	$13,202.0	$13,887.7	$14,166.9	$14,728.6	$15,405.5	$16,175.7	$17,000.7
4	Change	2.8%	6.2%	5.2%	2.0%	4.0%	4.6%	5.0%	5.1%
5	Per-Capita Income ($/person)	$40,146	$42,328	$44,200	$44,721	$46,148	$47,941	$49,921	$52,065
6	Change	2.0%	5.4%	4.4%	1.2%	3.2%	3.9%	4.1%	4.3%
7	Wage and Salary Income (Billions) /B	$6,378	$6,633	$6,932	$7,124.7	$7,446.0	$7,863.0	$8,319.0	$8,809.9
8	Change	2.0%	4.0%	4.5%	2.8%	4.5%	5.6%	5.8%	5.9%
	Population & Employment								
9	Population (Millions)	309.6	311.9	314.2	316.8	319.2	321.3	324.0	326.5
10	Change	0.8%	0.7%	0.7%	0.8%	0.7%	0.8%	0.8%	0.9%
11	Unemployment Rate	9.6%	8.9%	8.1%	7.4%	6.2%	5.4%	5.1%	4.9%
12	Total Nonagricultural Employment (Millions)	130.3	131.8	134.1	136.4	139.0	141.8	144.6	147.4
13	Change	-0.7%	1.2%	1.7%	1.7%	1.9%	2.0%	2.0%	1.9%
	Price Variables								
14	Consumer Price Index (1982-84=100)	218.1	224.9	229.6	233.0	236.7	237.4	241.9	246.8
15	Change	1.6%	3.1%	2.1%	1.5%	1.6%	0.3%	1.9%	2.0%
16	Producer Price Index - All Commodities (1982=100)	184.7	201.0	202.2	203.4	205.4	195.5	205.5	213.9
17	Change	6.8%	8.8%	0.6%	0.6%	1.0%	-4.8%	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	$2,152.1	$2,270.5	$2,372.7
19	Change	25.0%	4.0%	11.4%	4.2%	0.2%	1.9%	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	$5,419.5	$5,685.0	$5,957.9
23	Change	5.5%	7.4%	5.2%	4.1%	4.0%	2.8%	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: w age and salary disbursements, supplements to w ages and salaries, proprietors' income w ith inventory and capital consumption adjustments, rental income of persons w ith 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	June 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%	$2,626.6	8.3%	$2,748.5	4.6%	$2,910.6	5.9%
2	Use	$241.3	-0.6%	$254.3	5.4%	$251.1	-1.3%	$262.0	4.3%
3	Cigarette	$36.6	-4.5%	$37.1	1.5%	$35.1	-5.5%	$33.8	-3.8%
4	Tobacco Products	$16.9	8.5%	$17.8	5.3%	$17.7	-0.3%	$18.2	2.6%
5	Liquor	$40.3	2.9%	$41.6	3.0%	$41.7	0.3%	$42.8	2.6%
6	**Total Excise**	**$2,760.4**	**8.4%**	**$2,977.4**	**7.9%**	**$3,094.2**	**3.9%**	**$3,267.4**	**5.6%**
	Income Taxes:								
7	Net Individual Income	$5,696.1	1.8%	$6,368.1	11.8%	$6,669.6	4.7%	$7,134.8	7.0%
8	Net Corporate Income	$720.7	13.3%	$708.2	-1.7%	$743.1	4.9%	$810.4	9.1%
9	**Total Income**	**$6,416.8**	3.0%	**$7,076.2**	10.3%	**$7,412.7**	**4.8%**	**$7,945.2**	**7.2%**
10	*Less: State Education Fund Diversion*	*$478.8*	*-1.6%*	*$534.3*	*11.6%*	*$555.9*	*4.1%*	*$595.9*	*7.2%*
11	**Total Income to General Fund**	**$5,938.0**	**3.3%**	**$6,542.0**	**10.2%**	**$6,856.7**	**4.8%**	**$7,349.3**	**7.2%**
	Other Revenue:								
12	Insurance	$239.1	13.6%	$250.6	4.8%	$260.5	3.9%	$263.8	1.3%
13	Interest Income	$15.2	-12.8%	$11.2	-26.6%	$17.0	52.4%	$18.0	5.5%
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%	$31.4	46.9%	$21.7	-30.8%	$25.7	18.3%
17	**Total Other**	**$279.2**	**12.1%**	**$296.9**	**6.3%**	**$302.8**	**2.0%**	**$310.8**	**2.7%**
18	**GROSS GENERAL FUND**	**$8,977.7**	**5.1%**	**$9,816.3**	**9.3%**	**$10,253.7**	**4.5%**	**$10,927.5**	**6.6%**

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

Line No.		Actual FY 2013-14	June 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserve**	**$373.0**	**$435.9**	**$612.1**	**$542.3**
2	**Gross General Fund Revenue**	**$8,977.7**	**$9,816.3**	**$10,253.7**	**$10,927.5**
3	*Transfers to the General Fund*	*$14.1*	*$65.6*	*$16.4*	*$17.9*
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$9,364.8**	**$10,317.8**	**$10,882.2**	**$11,487.7**
Expenditures					
5	**Appropriation Subject to Limit**	**$8,218.7**	**$8,869.0**	**$9,405.0**	**$9,983.1**
6	*Dollar Change (from prior year)*	*$759.5*	*$650.3*	$536.0	$578.1
7	*Percent Change (from prior year)*	10.2%	7.9%	6.0%	6.1%
8	**Spending Outside Limit**	**$545.5**	**$836.7**	**$934.9**	**$855.7**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	*$0.0*	*$194.0*	*$76.2*	*$385.2*
10	*Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)*	*$0.0*	*$58.0*	*$0.0*	*$0.0*
11	*Rebates and Expenditures*	*$250.2*	*$247.9*	$262.3	$278.0
12	*Funding for Capital Construction*	*$186.7*	*$248.5*	$309.7	$110.3
13	*Transfers to Highway Users Tax Fund*	$0.0	$0.0	$205.1	$0.0
14	*Transfers to State Education Fund under SB 13-234*	$45.3	$25.3	$25.3	$25.3
15	*Transfers to Other Funds*	$30.9	$40.6	$56.3	$56.9
16	*Other Expenditures Exempt from General Fund Appropriations Limit*	$32.4	$22.4	$0.0	$0.0
17	**TOTAL GENERAL FUND OBLIGATIONS**	**$8,764.3**	**$9,705.7**	**$10,339.8**	**$10,838.8**
18	*Percent Change (from prior year)*	10.8%	10.7%	6.5%	4.8%
19	Reversions and Accounting Adjustments	*-$50.4*	*$0.0*	$0.0	$0.0
Reserves					
20	**Year-End General Fund Balance**	**$650.9**	**$612.1**	**$542.3**	**$648.9**
21	*Year-End General Fund as a % of Appropriations*	*7.9%*	*6.9%*	5.8%	6.5%
22	*General Fund Statutory Reserve*	$410.9	$576.5	$611.32	$648.9
23	*Above (Below) Statutory Reserve*	$240.0	$35.6	-$69.0	$0.0
24	*Transfer of Excess Reserve to Other Funds*	-$215.0	$0.0	$0.0	$0.0
25	*Balance After Any Funds Above Statutory Reserve are Allocated*	$25.0	$35.6	-$69.0	$0.0

/A See the section discussing the General Fund and State Education Fund budget starting on page 38 for information on the figures in this table.

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

Line No.		Actual FY 2013-14	June 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Revenue					
1	**Beginning Reserves**	**$556.3**	**$1,489.1**	**$1,300.2**	**$873.9**
2	*State Education Fund*	$183.4	$1,053.1	$688.1	$331.5
3	*General Fund*	$373.0	$435.9	$612.1	$542.3
4	**Gross State Education Fund Revenue**	**$1,609.6**	**$604.2**	**$587.1**	**$627.4**
5	**Gross General Fund Revenue /B**	**$8,991.8**	**$9,881.9**	**$10,270.1**	**$10,945.4**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,157.7**	**$11,975.1**	**$12,157.4**	**$12,446.7**
Expenditures					
7	General Fund Expenditures /C	$8,764.3	$9,705.7	$10,339.8	$10,838.8
8	State Education Fund Expenditures	*$742.2*	*$969.2*	*$943.6*	*$811.7*
9	**TOTAL OBLIGATIONS**	**$9,506.4**	**$10,674.9**	**$11,283.5**	**$11,650.5**
10	*Percent Change (from prior year)*	12.9%	12.3%	5.7%	3.3%
11	*Reversions and Accounting Adjustments*	*($52.8)*	*$0.0*	*$0.0*	*$0.0*
Reserves					
12	**Year-End Balance**	**$1,704.0**	**$1,300.2**	**$873.9**	**$796.2**
13	State Education Fund	$1,053.1	$688.1	$331.5	$147.3
14	General Fund	$650.9	$612.1	$542.3	$648.9
15	*Transfer of Excess General Fund Reserve to Other Funds*	-$215.0	$0.0	$0.0	$0.0
16	*General Fund Excess After Any Funds Above Statutory Reserve are Allocated*	$25.0	$35.6	-$69.0	$0.0

/A See the section discussing the General Fund and State Education Fund budget starting on page 38 for information on the figures in this table.
/B This amount includes transfers to the General Fund shown in line 3 in Table 4.
/C General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 5 in Table 4 as well as all spending outside the limit shown in line 8 in Table 4.

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

Category	Actual FY 2013-14	June 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
Transportation-Related /A	**$1,135.7**	**$1,174.9**	**$1,196.5**	**$1,214.7**
Change	3.4%	3.4%	1.8%	1.5%
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**	**$3.4**	**$3.3**	**$1.2**
Change	139.1%	42.3%	-3.4%	-62.5%
Regulatory Agencies	**$68.5**	**$70.3**	**$73.0**	**$75.7**
Change	5.3%	2.7%	3.7%	3.7%
Insurance-Related	**$20.7**	**$21.5**	**$10.8**	**$11.4**
Change	-21.7%	4.0%	-49.7%	5.6%
Severance Tax	**$268.7**	**$287.1**	**$110.8**	**$171.6**
Change	93.9%	6.8%	-61.4%	54.9%
Hospital Provider Fees /C	**$566.7**	**$532.3**	**$688.5**	**$727.3**
Change	-13.2%	-6.1%	29.3%	5.6%
Other Miscellaneous Cash Funds	**$568.3**	**$555.9**	**$555.4**	**$573.7**
Change	22.2%	-2.2%	-0.1%	3.3%
TOTAL CASH FUND REVENUE	***$2,729.3***	***$2,747.7***	***$2,743.6***	***$2,884.3***
Change	7.2%	0.7%	-0.2%	5.1%

/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	June 2015 Estimate by Fiscal Year FY 2014-15	FY 2015-16	FY 2016-17
	TABOR Revenues:				
1	General Fund /A	$8,962.6	$9,778.1	$10,210.9	$10,881.4
	Percent Change from Prior Year	5.0%	9.1%	4.4%	6.6%
2	Cash Funds /A	$2,729.3	$2,747.7	$2,743.6	$2,884.3
	Percent Change from Prior Year	6.2%	0.7%	-0.2%	5.1%
3	**Total TABOR Revenues**	**$11,691.9**	**$12,525.9**	**$12,954.4**	**$13,765.7**
	Percent Change from Prior Year	5.3%	7.1%	3.4%	6.3%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.4%	1.5%	1.6%	1.7%
5	Previous calendar year inflation	1.9%	2.8%	2.8%	2.2%
6	**Allowable TABOR Growth Rate**	3.3%	4.2%	4.4%	3.9%
7	TABOR Limit /B	$9,566.6	$9,953.7	$10,391.6	$10,796.9
8	General Fund Exempt Revenue Under Ref. C /C	$2,125.3	$2,572.2	$2,562.8	$2,968.8
9	**Revenue Cap Under Ref. C /B, D**	**$11,852.4**	**$12,335.5**	**$12,878.2**	**$13,380.5**
10	***Amount Above/(Below) Cap***	**-$160.5**	**$190.4**	**$76.2**	**$385.2**
11	TABOR Reserve Requirement	$350.8	$370.1	$386.3	$401.4

/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.