COLORADO
Office of State Planning & Budgeting

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The Colorado Economic Outlook
Economic and Fiscal Review

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Summary

- General Fund revenue is forecast to increase 3.9 percent in FY 2015-16. This projection is $78.9 million, or 0.8 percent, lower than forecasted in June. The lower forecast is mostly due to slightly slower job and income gains in the state than projected in June, the recent declines in the stock market, and further weakening in oil prices that will lower income tax revenue from royalty payments. 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, the FY 2016-17 General Fund revenue growth rate of 6.7 percent is still below the high rates experienced in most years of the current expansion.

- Under this forecast, the State's General Fund reserve is projected to be $34.3 million below the required amount of 6.5 percent of appropriations in FY 2015-16. The projected shortfall in FY 2015-16 is smaller than forecasted in OSPB's June forecast, mostly due to the new expectation that transfers to transportation and capital construction under Senate Bill 09-228 will occur at half the levels anticipated in June. This is a result of a larger projected TABOR refund in FY 2015-16 compared with June's forecast.

- Based on preliminary figures, TABOR revenue exceeded the Referendum C cap by $150.0 million in FY 2014-15. TABOR revenue is projected to exceed the cap by $116.7 million in FY 2015-16, $398.0 million in FY 2016-17, and $474.5 million in FY 2017-18.

- The projected TABOR refunds in FY 2015-16 are slightly above the level that triggered the reduction in the SB 09-228 transfers to transportation and capital construction. Therefore, only a small downward revision in the revenue forecast would cause additional General Fund obligations for the transfers, further increasing the FY 2015-16 shortfall in the required reserve, making larger budget balancing actions necessary. As a result of the expected size of the TABOR refunds in FY 2016-17 and FY 2017-18, SB 09-228 transfers are projected to be eliminated.

- Revenue above the Referendum C cap from FY 2014-15 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 $19 per taxpayer, while the EITC will average about $217 per qualifying taxpayer. In FY 2015-16, revenue above the Referendum C cap will be refunded through the sales tax refund. In FY 2016-17 and FY 2017-18, the refund will occur through a temporary income tax rate reduction and the sales tax refund.

- Expansion in many of the state's industries appears strong enough for the overall economy to absorb the contraction in the oil and gas industry and global economic headwinds. The economy is expected to continue growing through the forecast period, though not at the robust level experienced in 2014. Indicators associated with the business cycle at the national level, such as business lending practices and the hiring of temporary workers, currently point to continued expansion. However, financial conditions began to tighten in August with declines in equity assets and widening credit spreads, signaling concerns over global economic growth, especially in China.

- Economic momentum is a powerful force for generating continued growth, but it does not shield the state economy from the risks associated with a slowdown in global economic activity. This is especially so if recent volatility in financial markets sharply weaken expectations and cause disruptions in credit conditions. In addition, continued low oil prices may further reduce oil and gas employment and investment in the state, with possible broader economic impacts than those currently being experienced.

- Cash fund revenue subject to TABOR in FY 2015-16 will be $115.5 million, or 4.2 percent, higher than FY 2014-15, primarily as a result of growth in revenue from the Hospital Provider Fee. This growth will offset a sharp decline in revenue from severance taxes. The forecast for FY 2015-16 is $120.8 million, or 4.4 percent, higher than projections from the June forecast, mostly due to a substantial upward revision to the Hospital Provider Fee forecast. Cash fund revenue will increase 1.8 percent in FY 2016-17.

The Economy: Issues, Trends, and Forecast

Economic conditions provide the foundation for trends in tax collections and the demand for State services. The following section discusses overall economic conditions in Colorado, the nation, and around the world. Our forecast for job and income growth for the 2015 to 2017 period is similar to the June Colorado Economic Outlook. The following section includes an analysis of:

Trends and forecasts for key economic indicators **—** A summary of key economic indicators with their recent trends and statistics, as well as forecasts, is provided at the end of this section. 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 — The state's economy continues to show momentum, indicating its resilience in the face of slow global growth, the contraction in the oil and gas industry, and volatility in the financial markets. Recent indicators on the underlying health of the economy are mostly positive, such as declining initial claims for unemployment insurance and solid small business employment growth. Expansion in many of the state's industries appears strong enough for the overall economy to absorb the contraction in the oil and gas industry and global economic headwinds. The economy is expected to continue growing through the forecast period, though not at the robust level experienced in 2014. Job growth for the state is forecast to be 2.8 percent in 2015, 0.7 percentage points less than 2014's 3.5 percent growth.

The overall national economy is also showing some momentum despite sluggish global conditions. Growth in the U.S. continues to be influenced more by domestic rather than international factors. Construction activity is growing and recent survey results from businesses outside the manufacturing sector remain at their highest level of the current expansion. The labor market continues to improve with sustained job gains and lower unemployment, though wage gains remain lower than in previous expansions. Indicators associated with the business cycle, such as business lending practices and the hiring of temporary workers, currently point to continued expansion. However, financial conditions have tightened with declines in equity assets and widening credit spreads, signaling concerns over global economic growth, especially in China, and the possibility of upcoming monetary policy tightening by the Federal Reserve.

Economic risks **—** World economic growth overall remains muted and global trade has slowed. Economic momentum is a powerful force for generating continued growth, but it does not shield the state economy from the risks associated with a slowdown in global economic activity. This is especially so if recent volatility in financial markets sharply weakens expectations and causes disruptions in credit conditions. Further, the Federal Reserve appears close to tightening monetary policy by targeting an increase in the federal funds short-term interest rate after being near zero for several years. Financial markets look to be signaling that economic conditions may not warrant monetary tightening at this time. Developments in worldwide economic conditions and financial markets will be important to monitor going forward; further weakening may warrant a downgrade to the economic forecast.

Conditions in the oil and gas industry also pose a downside risk to the forecast, especially when combined with sluggish global growth and financial market volatility. Continued low oil prices may further reduce oil and gas employment and investment in the state, with possible broader economic impacts than those currently being experienced. Drilling rigs operating in the state began to decrease again at the beginning of September and oil and gas companies remain cautious given the possibility of a prolonged low-price environment.

Overview of Colorado's Economy

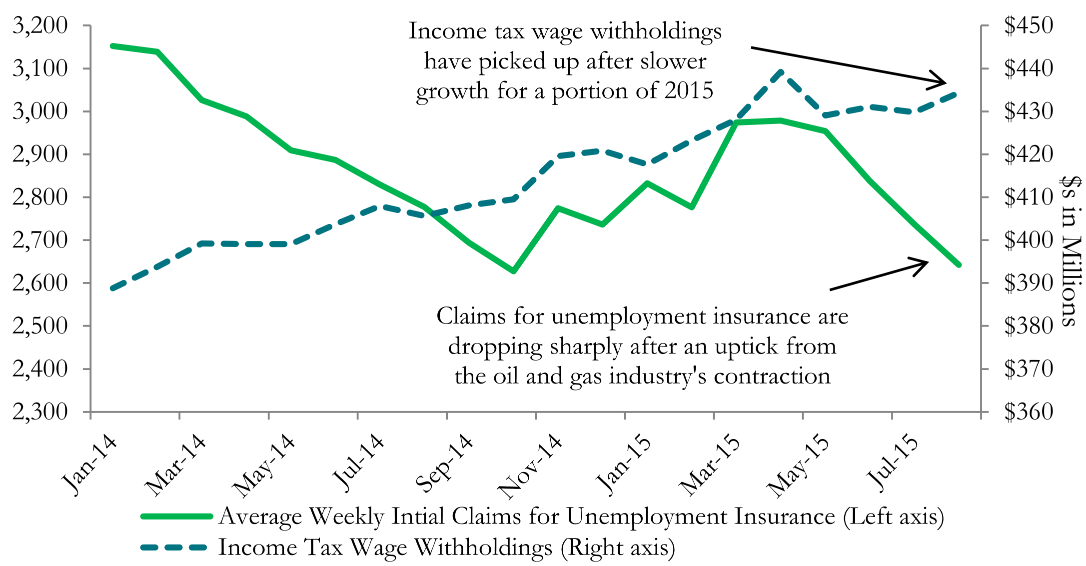
Colorado's economy continues to exhibit momentum and resilience — The state's economy continues to show momentum, indicating its resilience in the face of slow global growth, the contraction in the oil and gas industry, and volatility in financial markets. This shows that the state continues to have many favorable ingredients for economic growth, most notably its diverse mix of industries producing goods and services in high demand in today's economy. However, the oil and gas industry's contraction is contributing to slower overall job and income growth in 2015 compared with the robust growth of 2014. Job growth for the state is forecast to be 2.8 percent in 2015, 0.7 percentage points less than 2014's 3.5 percent growth.

The state's economy continues to show momentum, indicating its resilience in the face of several headwinds. However, the oil and gas industry's contraction is contributing to slower overall job and income growth in 2015 compared with the robust growth of 2014.

Recent indicators on the underlying health of the economy are mostly positive — New business activity in the state, a main source of job and economic growth, continued to expand through the first half of the year, the latest data available. Further, the most recent data on initial claims for unemployment insurance and income tax collections from wage withholding indicate a healthy job market.

The following graph shows the recent trends in initial unemployment insurance claims and income tax wage withholdings —two key, near-real-time indicators of broad economic performance. Though initial claims ticked up during the first half of 2015 as a result of layoffs in the oil and gas industry, they have declined sharply in recent months. The decline in layoffs indicates the expansion of several industries across the economy. Growth in income tax withholdings from wages also softened somewhat in the spring and early summer, but has picked up again recently.

Figure 1. Indicators of Colorado's Recent Economic Performance, 2014 through August 2015*



*Seasonally adjusted, three-month moving average
Source: Colorado Department of Revenue and the Colorado Department of Labor and Employment

Colorado's small businesses continue to grow — Colorado ranked in the top ten among states in small business job growth in each month from June through August, according to the Intuit Small Business Employment Index. Intuit, a business services firm, publishes the index to gauge employment trends for firms with fewer than 20 employees in most states and regions of the United States.

Colorado ranked in the top ten in small business job growth in each month from June through August.

Job growth in Colorado continues despite the oil and gas slowdown — Colorado added 64,900 new jobs from July 2014 to July 2015, a year-over-year increase of 2.6 percent. The leisure and hospitality sector led job growth by adding 14,800 jobs, while most other industries experienced more modest increases. The contraction in the oil and gas industry continued to result in job losses for the sector, although recent survey data suggests that employment losses are slowing (see Oil and Gas Industry Conditions section for more detail).

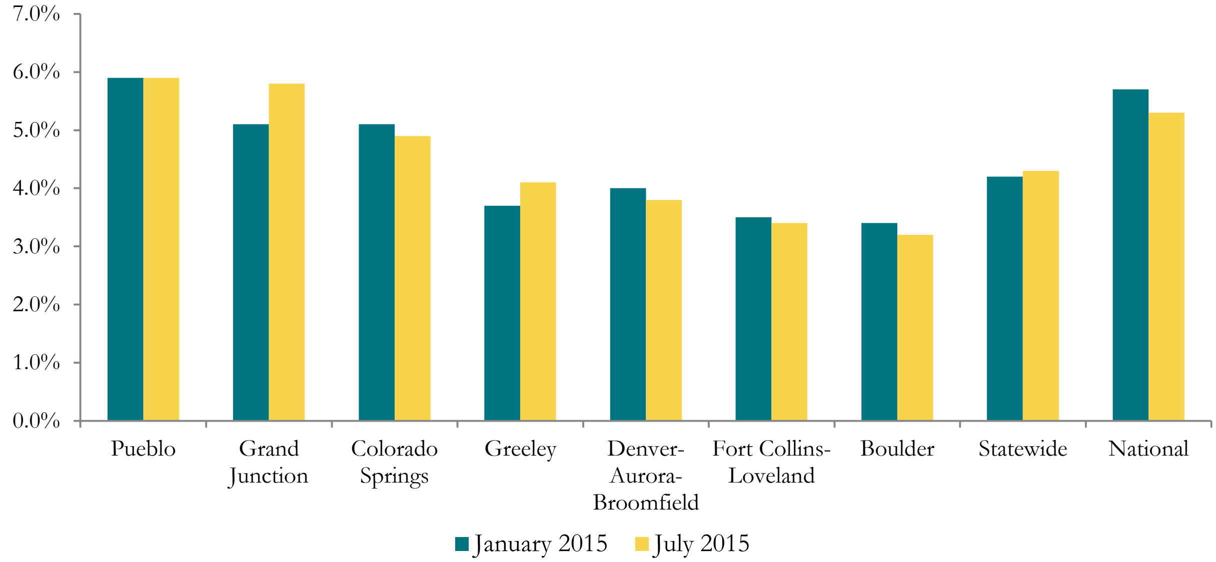
While more recent data at the metro level is less reliable, initial estimates show uneven job growth across the state. The Fort Collins-Loveland area saw the most growth in the first part of the year, fueled by population growth and a high concentration of technology-oriented businesses. Greeley experienced job losses due to the oil and gas slowdown. Denver and Colorado Springs grew modestly, while Grand Junction employment was essentially flat.

Online help-wanted ads grew in Colorado as the unemployment remained steady at 4.3 percent.

The Conference Board's "Help-Wanted OnLine" index, which tracks online help-wanted ads, provides positive signs for the state's labor market. Total online ads were up 6.1 percent throughout the state from July 2014 to July of this year. However, ad increases were concentrated almost entirely in Pueblo and the Denver metro area; other urban areas saw declines or only modest increases. Among higher-wage jobs across the state, healthcare practitioners saw the biggest increase in demand for their services, while architects, engineers, and legal professionals all saw ad declines from 15 to 18 percent. Lower wage occupations saw more muted increases, although ads for health care support workers and food service workers increased 22.1 and 17.9 percent, respectively.

Unemployment rose slightly across some Colorado regions, but the statewide rate remains below the national average — The statewide "U-3" unemployment rate dropped to 4.2 percent in August from 4.3 percent in July and remains nearly a full percentage point below the national rate. As shown in Figure 2, Greeley and Grand Junction experienced modest increases in their unemployment rates through July of 2015, which is likely tied to the slowdown in the oil and gas industry. All of the northern Front Range areas saw modest declines in their unemployment rates.

Figure 2. Unemployment Rate by Colorado Region Compared with Colorado and U.S. Overall, January and July 2015



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

Colorado fares well against other states in terms of unemployment levels. As of July, the state's 4.3 percent unemployment rate was the 14th-lowest in the nation. Likewise, the broader U-6 rate of 8.8 percent, measured as a year-long average through the second quarter of 2015, tied Colorado with Texas for 12th-lowest in the country.

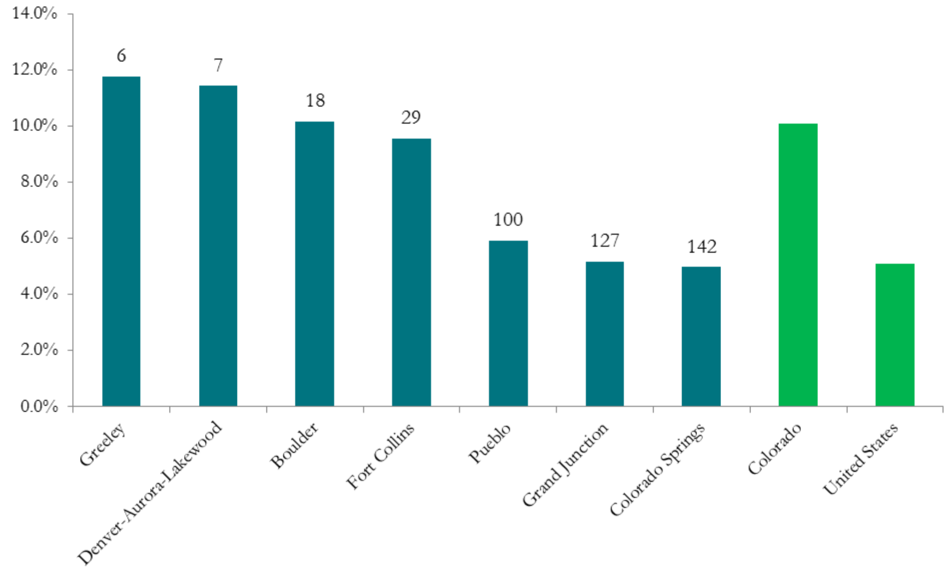
Housing prices continue to rise at strong rates, another indicator of the state's economic growth— Housing prices continue to grow as high demand outpaces the supply of homes, especially in Front Range urban areas. Higher construction costs are also contributing to the strong appreciation. Rents are increasing at similarly fast rates. These sustained strong increases in housing costs, especially in Front Range urban areas, are acting as a constraint on growth and making affordable housing a challenge for some.

The four major urban areas in the northern Front Range region — Denver metro, Boulder, Greeley, and Fort Collins — posted year-over-year home price growth at or above 10 percent in the second quarter of 2015. This growth placed the four areas in the top 30 of the largest 403 metro areas across the country, with two in the top ten — Greeley and the Denver metro area.

Home price gains in several of Colorado's urban areas continue to be among the highest in the country.

Figure 3 shows home price growth in the second quarter of 2015 from the first quarter of 2014 for all of Colorado's larger urban areas, compared with Colorado and the nation overall. All of the state's larger metro areas are experiencing gains in home prices, though the growth is much less robust outside the northern Front Range.

Figure 3. Change in Home Prices, 2014Q2-2015Q2
Rank among 403 Largest U.S. Metro Areas Shown Above Bars



Source: Federal Housing and Finance Authority Home Price Index (all-transactions, not seasonally adjusted)

Not all areas of the state are experiencing the same levels of growth — Nonurban areas that lack concentrations of diverse growing industries are not doing as well as some of the urban areas in the state. Regional agricultural economies are among these areas. Income to farmers and ranchers has weakened due to the strong dollar and lower crop prices.

Nonurban agricultural and energy sector-dependent areas of Colorado are experiencing more sluggish economic conditions due to the strong dollar, lower crop prices, and the contraction in the oil and gas industry.

Creighton University's Rural Mainstreet Index for Colorado has hovered just slightly above the growth-neutral "50" threshold in recent months after being below the growth threshold for much of 2015. The index in August registered 51.5. Some of the weakness in the rural index is likely also tied to the slowdown in the oil and gas industry. The index surveys rural community banks in nonurban agricultural and energy sector-dependent areas regarding current economic conditions and their projected economic outlooks.

National Economy Overview

The national economy showed improvement heading into the second half of 2015 – Many economic indicators showed continued improvement as the economy headed into the second half of 2015. The latest annualized growth figures for real, or inflation-adjusted, gross domestic product (3.7 percent), consumer spending (3.1 percent), and business investment (3.2 percent) were all relatively strong during the second quarter. Additionally, the value of construction put in place in July hit its highest level since May 2008 with a growth rate of 13.7 percent over July 2014.

Although many indicators point to improved growth, the sluggish global economic environment and financial market volatility present downside risk.

Although continued growth is expected throughout the remainder of the year, the global economic environment and financial market volatility continue to present challenges. The global economic environment is discussed in more detail in the international economy section starting on page 15.

According to the Federal Reserve's most recent "Beige Book," business and other contacts across the economy indicated that economic activity expanded across most regions and industries in July and August. Reports on manufacturing were mostly positive. However, several factors were cited as slowing demand in the manufacturing sector, including weaker conditions in the agricultural sector, the strength of the U.S. dollar, falling energy prices, and the slowdown in China. Retail spending, tourism, and auto sales continued to expand across most districts. Existing home sales and rental activity improved noticeably, leading to increased home prices in most areas. Business contacts reported moderate growth in labor demand and indicated that tightening in the labor market has begun to put upward pressure on wages.

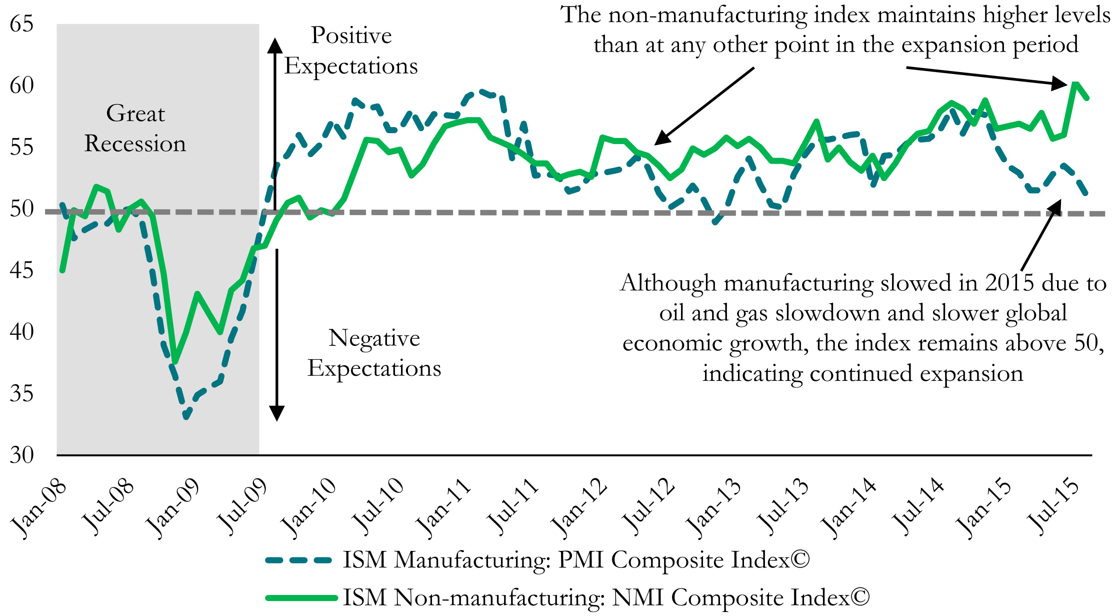
Broad measures of manufacturing and non-manufacturing activity show sustained growth **—** The Manufacturing Composite Index and the Non-manufacturing Composite Index, both published by the Institute for Supply Management (ISM), indicate both sectors continue to expand, although growth in manufacturing is more modest. 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 4, the ISM manufacturing index decreased slightly to 51.1 in August from 52.7 in July. However, a reading above 50 indicates that the manufacturing economy continues to expand. Comments from representatives indicate modest to strong growth moving forward, with some noting that lower raw material prices continue to boost manufacturing, while sluggish export growth presents challenges. The month of August marked the thirty-second consecutive month of growth in manufacturing.

The ISM non-manufacturing index remains at a higher level than at any other point in the expansion. Further, businesses in non-manufacturing industries expect continued growth throughout the remainder of the year.

The non-manufacturing index, which covers the largest portion of economic activity in the U.S., dropped slightly to 59.0 in August from 60.3 in July. Despite the decline, the index remains at a higher level than at any other point in the expansion. The month of August marks the sixty-seventh consecutive month for growth in the non-manufacturing sector. Importantly, comments from representatives carried an overall positive tone, indicating expectations for continued growth throughout the remainder of the year.

Figure 4. ISM Manufacturing and Non-Manufacturing Indices, January 2008 to August 2015



Source: Institute for Supply Management

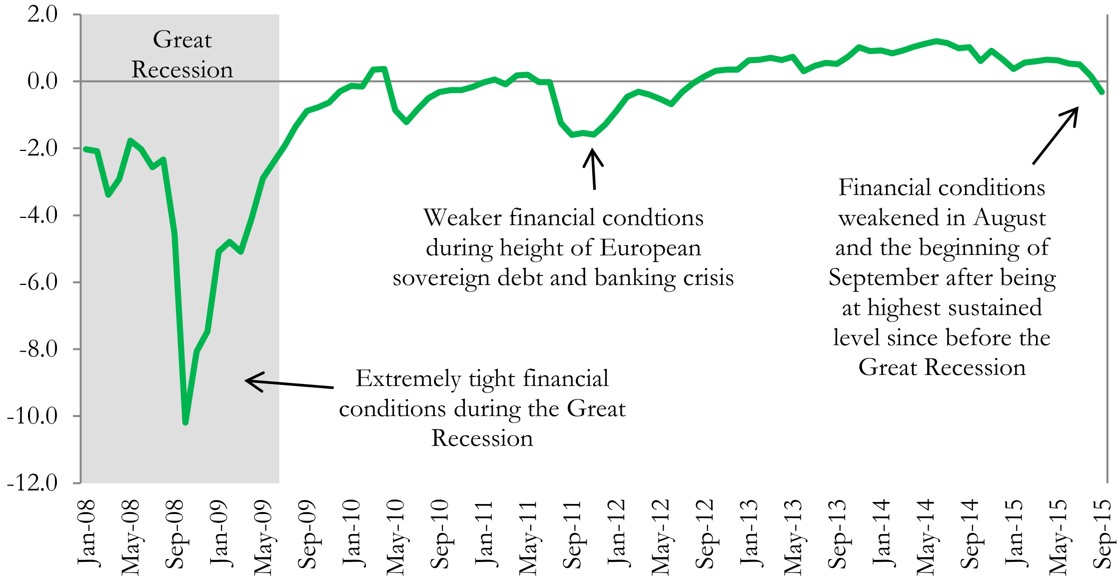
Financial conditions began to tighten in August, signaling concerns over economic growth – Financial conditions in August began to tighten mostly due to concerns over the slowdown in China's growth and the possibility of upcoming monetary policy tightening by the Federal Reserve. The Federal Reserve appears close to targeting an increase in the federal funds short-term interest rate after being close to zero for several years. Financial markets appear to be signaling that economic conditions may not warrant monetary tightening at this time. Prior to the recent volatility, financial conditions were at stronger levels from 2013 through much of 2015, following a prolonged weaker period coming out of the recession and financial market stress emanating from Europe.

In addition to providing information on the outlook among investors, tighter financial conditions can also act as a headwind on economic activity as funding for growth becomes more constrained. Positive financial conditions are important for facilitating economic transactions and channeling funds efficiently to productive uses in the economy.

Additionally, depending on the severity and length of financial market volatility, consumer and business confidence may be negatively impacted by weakening conditions, putting further downward pressure on economic growth. These dynamics show the importance of expectations for economic growth as concerns over future conditions can contribute to a slowdown.

The financial analysis firm Bloomberg publishes an index to measure financial conditions in the U.S. The index assesses the level of stress in the money, bond, and equity markets by measuring yield spreads, financial market volatility, and asset prices. Figure 5 shows the monthly average of the Bloomberg Financial Conditions Index (BFCI) for the U.S. since 2008.

Figure 5. U.S. Financial Conditions, 2008 through mid-September 2015*



Source: Bloomberg
*BCFI levels below 0 represent higher funding stress, volatility in the financial system, and weaker asset prices.

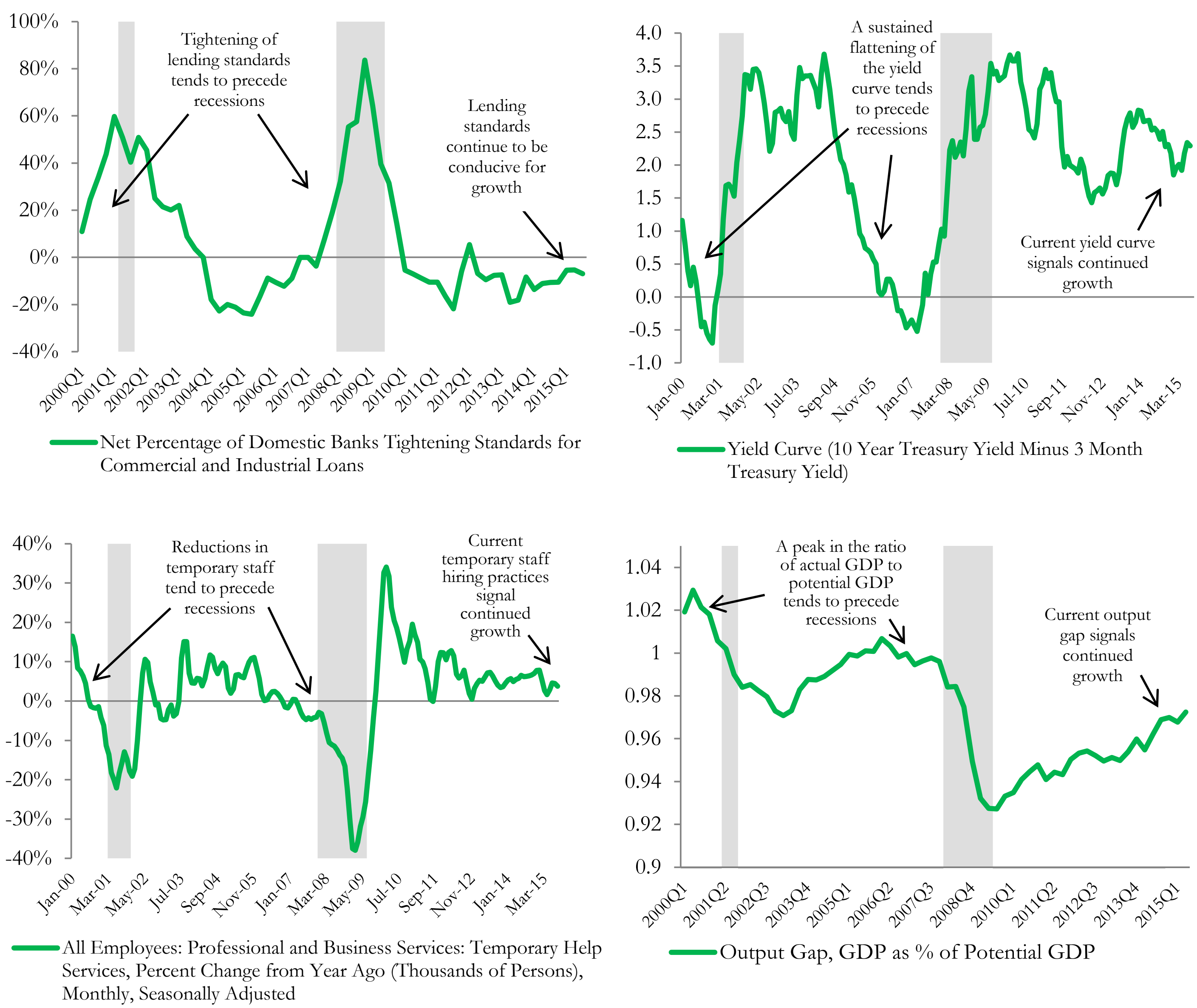
Select economic data associated with the business cycle indicate the economy is expected to continue expanding — Changes in certain economic sectors and activities have historically tended to precede broader changes in overall economic conditions. For example, growth in new business formation indicates that entrepreneurs are undertaking more projects, often leading to new jobs and a broader increase in economic activity. In addition, information from financial markets reflects investors' and risk managers' assessments of current and future economic conditions. Higher expectations can influence future economic activity through the increased supply of credit and investment.

Economic indicators associated with the business cycle, such as business lending practices and the hiring of temporary workers, currently point to continued expansion. Financial markets, though recently volatile, also show expectations of continued, albeit modest, growth.

This type of data can be used as a guide to understand where the economy may be in the business cycle, and whether any change in momentum is likely in the near future. However, business cycles are extremely difficult to predict and no information can reliably determine the point in the business cycle in real time.

Indicators associated with the business cycle across sectors of the economy, such as business lending practices and the hiring of temporary workers, currently point to continued expansion. Further, financial markets, such as stocks, credit spreads, and treasury inflation-protected securities — though in some cases volatile recently — are not showing expectations of a major slowdown. Figure 6 depicts the behavior of four such economic indicators that can provide information on future economic conditions.

Figure 6. Selected Indicators on Business Cycle, 2000 to Present*



*Shading indicates recessionary periods
Source: U.S Bureau of Labor Statistics, Federal Reserve, Congressional Budget Office

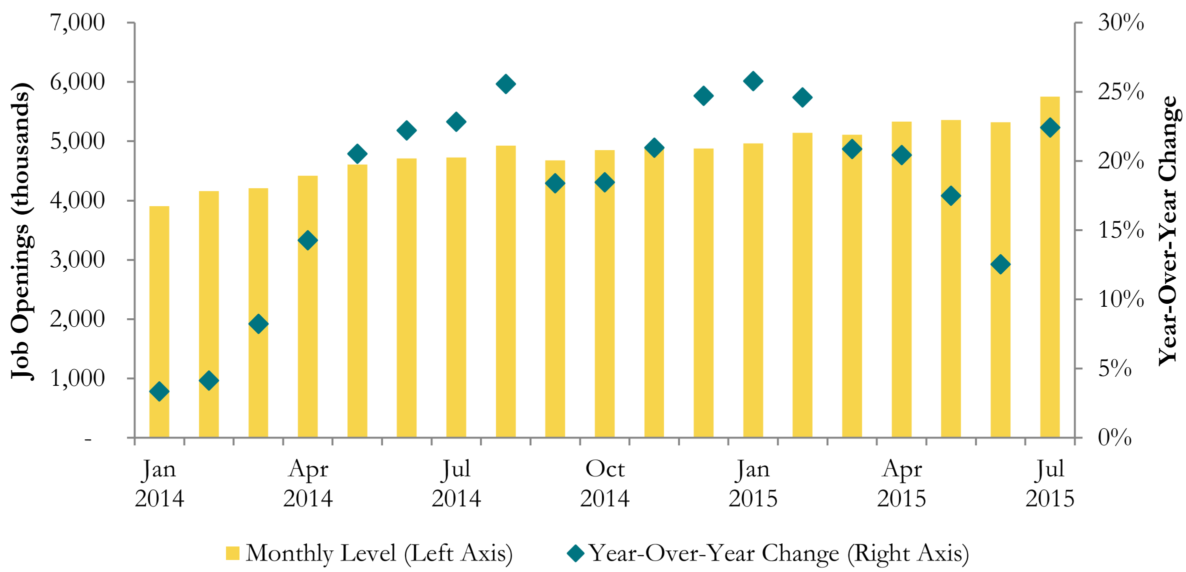
The top left graph shows banks continuing to have more accommodative lending standards for commercial and industrial (business) loans. This indicates a rise in the supply of credit to borrowers that helps sustain economic growth. The top right graph shows that the "yield curve" — the difference between the yield on the three-month Treasury bill and the ten-year Treasury bond — indicates continued modest to moderate growth. The yield curve helps gauge risk appetite in financial markets as well as expectations of future inflation. The yield curve has been found to signal the future rate of growth in the economy as well as potential recessions.

The bottom left graph shows businesses increasing their hiring of temporary employees, indicating continued growth in economic activity. Businesses tend to reduce their temporary workers before permanent staff when they experience slower business activity. The bottom right graph shows the "output gap" — measured by the current level of U.S. gross domestic product (GDP) compared with "potential GDP" as estimated by the Congressional Budget Office. The current gap shows that the national economy has been operating below potential, indicating that the excesses that have tended to precede economic downturns in the past do not exist on a large scale in the current economic environment.

In July, job openings reached their highest levels ever, while total new online help-wanted ads through August were 4.7 percent higher compared with the same period last year. Other indicators also point to more positive labor market conditions.

The national job market continues to grow — The U.S. economy added 2.9 million jobs from August 2014 to August of this year, up from growth of 2.7 million in the previous one-year period. Several other indicators point to an improving labor market across the country. As shown in Figure 7, seasonally-adjusted job openings hit their highest level ever in July, growing by 22.4 percent from a year earlier to 5.75 million openings. In addition, the quit rate remained steady at 1.9 percent, much higher than its recession era low of 1.3 percent. The quit rate is a good indicator for gauging workers' level of confidence in leaving their job, so higher measurements indicate a more positive outlook in the labor market.

Figure 7. Job Openings, Monthly Level and Year-Over-Year Percent Change

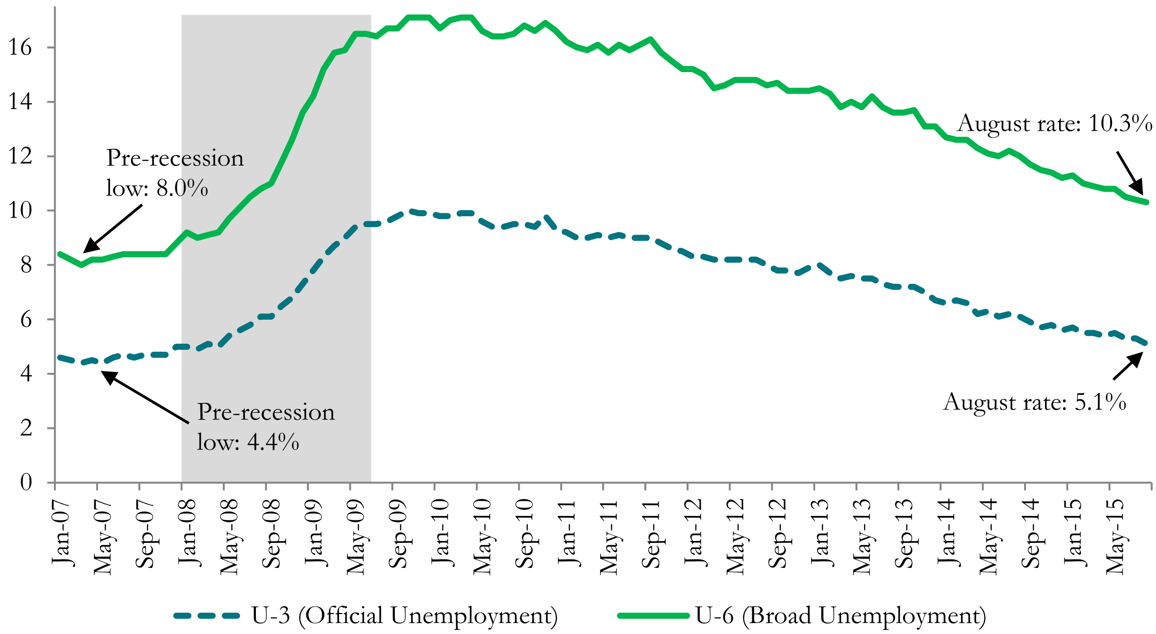


Source: U.S. Bureau of Labor Statistics

Unemployment insurance claims fell consistently through early September; the initial claims number of 275,000 for the week ending September 5 was among the lowest in the past 40 years. The Conference Board's "Help-Wanted OnLine" index, which tracks online help-wanted ads, showed that employers posted 21.3 million new advertisements through August of this year, a 4.7 percent increase over the same period last year. In addition, nearly 22 percent of respondents to the August Consumer Confidence Index survey believed that jobs were plentiful, a higher share than any month since the Great Recession.

The national unemployment rate has fallen to a new post-recession low — The official unemployment rate—referred to as the U-3 rate —dipped to 5.1 percent in August, down 0.6 percentage points from January and a full percentage point from August 2014. In addition, a broader measure of unemployment suggests a continued slow but steady recovery in the labor market. The U-6 rate augments the official unemployment rate by accounting for individuals who are discouraged from searching for work, or who are only working part time for economic reasons. As Figure 8 shows, the U-6 rate dropped to 10.3 percent in August, its lowest level in seven years. While the gap between the current U-6 level and its pre-recession low is still bigger than the same gap for the U-3 rate, consistent decreases point to a strengthening in worker expectations and the job market in general.

Figure 8. National U-3 and U-6 Rates



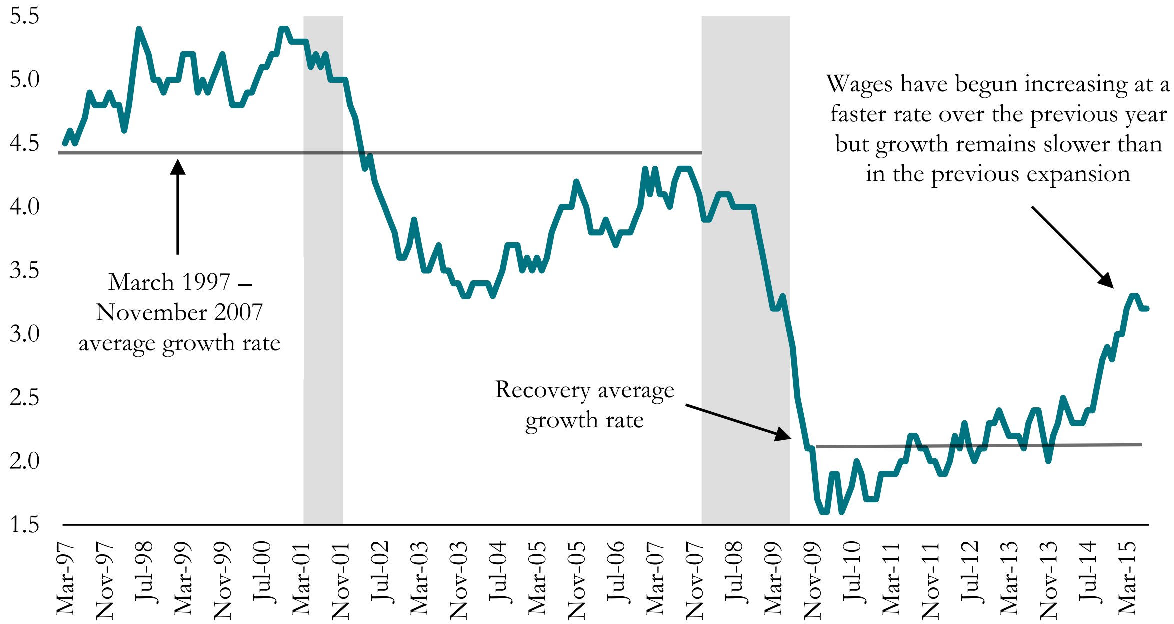
Source: U.S. Bureau of Labor Statistics

Wage growth has picked up, but remains lower than the previous expansion – The following figure illustrates the wage growth tracker produced by the Federal Reserve Bank of Atlanta. The tracker indicates wages are currently increasing at a pace of 3.2 percent. The wage tracker is constructed using data from the Current Population Survey administered by the Bureau of Labor Statistics and tracks the median percent change in the hourly wage of individuals compared with the previous year.

Wage growth continues its upward trend, but remains below pre-recession levels.

Although wage growth is trending upward and has accelerated, wage growth remains lower than the period before the Great Recession. Wage growth averaged 4.4 percent over the period March 1997 through December 2007, but has averaged only 2.2 percent since January of 2010.

Figure 9. Federal Reserve Bank of Atlanta's National Wage Growth Tracker (3-month moving average), March 1997 to July 2015



Source: Federal Reserve Bank of Atlanta

International Economic Conditions and Trade

Turbulence in China's financial sector and real economy pose a downside risk for the global economy **—** The slowdown in China's economy and tumult in the country's stock market are weakening growth prospects for countries around the world. Chinese exports were down 2.2 percent in the second quarter from the same period last year, an especially worrying sign in a country where exports account for nearly a quarter of GDP. Market research firm Markit reported that China's Purchasing Managers' Index—a snapshot of operating conditions in the manufacturing sector—fell at its fastest rate in August since March 2009.

China's stock market lost over 34 percent of its value from June to August despite intervention from the central government, contributing to volatility in markets around the world. In response to these indicators, Goldman Sachs analysts have revised down their China growth forecasts by three to four percentage points for each of the next three years.

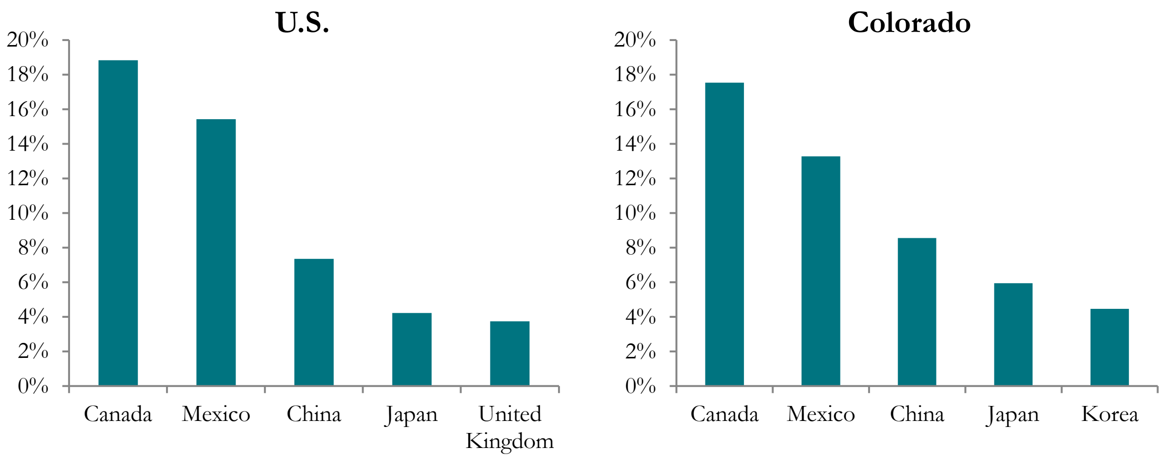
Growth in China's economy has fueled a large share of global economic growth in recent years. The rapid spread of market volatility in several countries in August and September is a sign of China's increasing importance to the world economy, and an indication of the risks posed by a prolonged slowdown for the country.

Chinese exports were down 2.2 percent in the second quarter from the same period last year, and manufacturing conditions are deteriorating at their fastest rate since early 2009.

The U.S. and Colorado's limited exposure to China should act as a buffer from the negative impacts of the slowdown there **—** As shown in Figure 10, the U.S. sent only 7.3 percent of exported goods and services to China in the first half of 2015. Similarly, Colorado's goods exports to China made up only 8.5 percent of the state's total goods exports. This represents less than half of a percent of Colorado's GDP. As a result, the direct trade-related impacts of China's slowdown on the U.S. and Colorado economies should be limited.

Other global economies that rely on China more heavily as a purchaser of their commodity exports, such as Australia and many developing economies, stand to feel the effects of the slowdown more acutely. Colorado could be affected to a larger extent from the slowdown in China if it has a major impact on the economies of other important trading partners like Canada, Mexico, and Japan. Further, a prolonged slowdown in China that greatly lowers expectations for growth in the U.S. with continued tightened financial conditions would have larger negative effects on the Colorado and U.S. economies.

Figure 10. Share of U.S. and Colorado Exports to Top Five Trading Partners, First Half of 2015



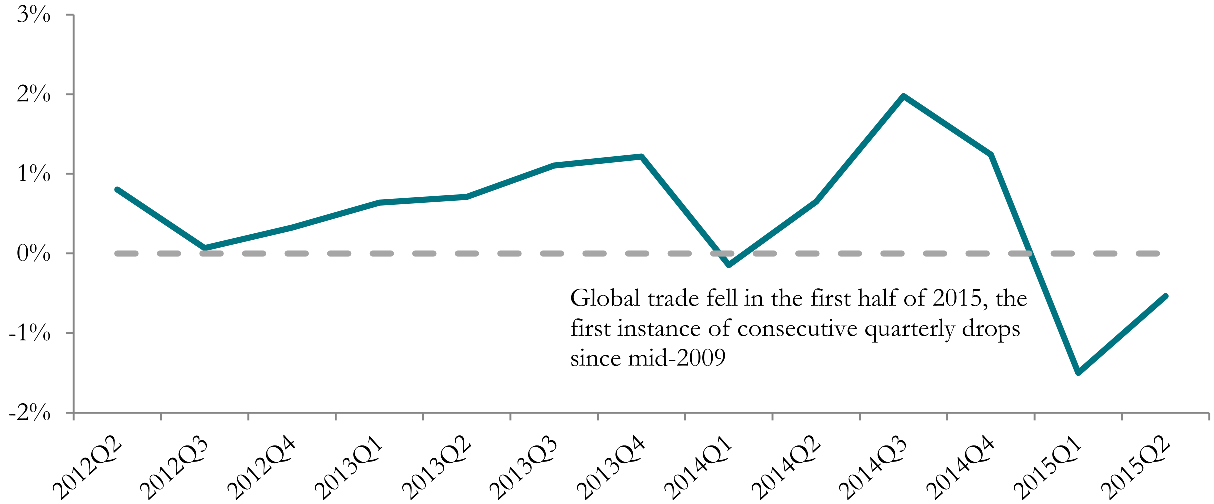
Source: WISERTrade

U.S. net exports fall at the same time that global trade lags, acting as a headwind on economic growth – The U.S. dollar has appreciated against major currencies by 24.7 percent since the beginning of 2013, and by 8.9 percent in 2015 alone. This has resulted in a more "expensive" dollar compared to foreign currencies. Net exports fell during the same period, dropping by 4.3 percent from July 2014 to July 2015. Weaker net exports act as a drag on economic growth in the U.S., although the impact is limited as exports make up only 12 to 13 percent of overall output.

Global trade stalled in the first half of this year as economic growth around the world remained weak. Sluggish global conditions will act as a headwind on economic growth in the U.S. and Colorado, but are not expected to cause a downturn.

Global trade also slowed in the first half of this year. Figure 11 shows that total world trade fell by 1.9 percent in the first half of 2015, the biggest decrease since 2009. August export numbers for many countries indicate that trade continues to fall. Exports from countries like Korea, Japan, and China, and regions such as Europe and Latin America all fell in August from their levels a year ago. One bright spot was Canada, where exports in July reached a record high, thanks in large part to the strength of the U.S. economy and the dollar.

Figure 11. Quarter-Over-Quarter Percent Change in International Trade Index



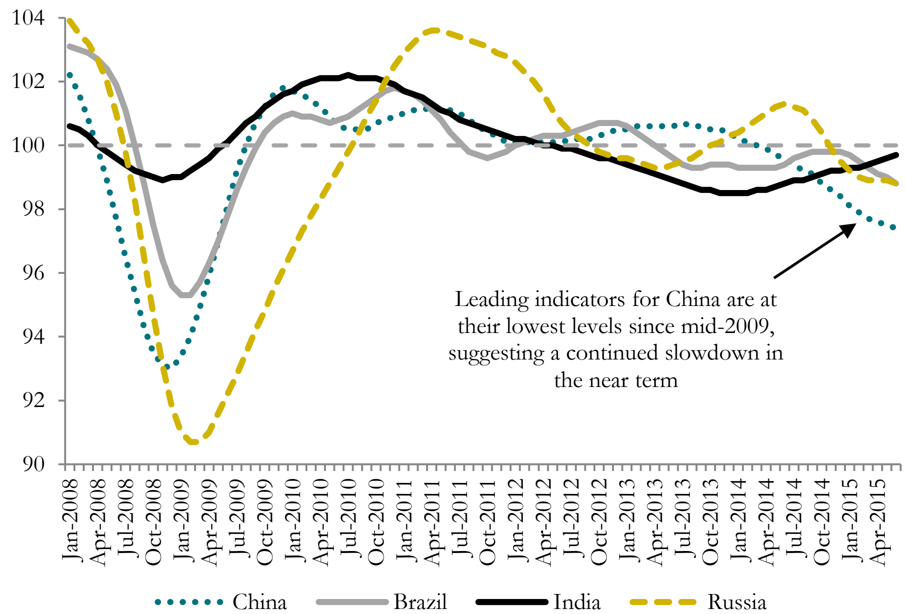
Source: CPB World Trade Monitor

Leading indicators for BRIC countries suggest significant downturns in major developing economies, especially those that are dependent on commodity exports.

Leading indicators point to continued struggles in developing economies — The Composite Leading Indicators, published by the Organization for Economic Cooperation and Development (OECD), were created to anticipate the activity of an economy about six months into the future. As shown in Figure 12, these measurements portend continued slower growth for developing countries like China, Brazil, India, and Russia (the so-called BRIC countries), each of which come in under the growth-neutral index score of 100.

China's leading index is at its lowest point since mid-2009, suggesting a continued slowdown for the country over the coming months. Industry survey data from research firm Markit shows that manufacturing in China and Southeast Asia fell throughout the first half of this year. Growth prospects are especially weak for economies like Brazil and Russia that are heavily reliant on China's purchases of commodity exports.

Figure 12. Composite Leading Indicators for Major Developing Economies



Source: Organization for Economic Cooperation and Development

Oil and Gas Industry Conditions

Further contractions in the oil and gas industry are expected due to the recent downturn in oil prices.

As oil and gas prices remain suppressed by robust supply and dampened demand, further contraction in the industry is expected. Based on more recent jobs data, and with the recent volatility and decrease in the price of oil, it is likely that oil and gas industry employment losses will be larger than the 10 percent drop estimated in prior OSPB forecasts. Direct employment in the oil and gas industry is now expected to decline by approximately 15 percent this year.

As growth in the oil and gas industry over the previous few years contributed a large share of the overall growth in employment and income in Colorado, the slowdown in the industry has implications for the rest of the economy. However, expansion in other industries in Colorado continues to outweigh the slowdown in the oil and gas industry. Further, lower oil prices help households and businesses that consume oil-related products. Therefore, overall employment growth is expected to continue in 2015, albeit at a slower pace than in 2014. Job growth for the state is forecast to be 2.8 percent in 2015, 0.7 percentage points slower than 2014's 3.5 percent growth.

Oil prices continue to drop below expectations – After averaging $53 per barrel during the first half of 2015, the price of West Texas Intermediate crude oil dropped to a low of $42.87 in August and has remained below $50 in September. Forecasts for future prices range widely and energy analysts continue to reduce their estimates. The Energy Information Administration (EIA) has lowered its price projection of West Texas Intermediate oil to an average of $49.23 per barrel this year and to $53.57 per barrel in 2016. It is possible, however, that oil prices will be lower than forecast due to continued global oil production growth.

According to the July Energy Survey administered by the Federal Reserve Bank of Kansas City, firms within the Kansas City District, which includes Colorado, said an oil price of $73, on average, would be needed for a substantial increase in activity to occur. The respondents expected prices to remain below that level through the end of 2016.

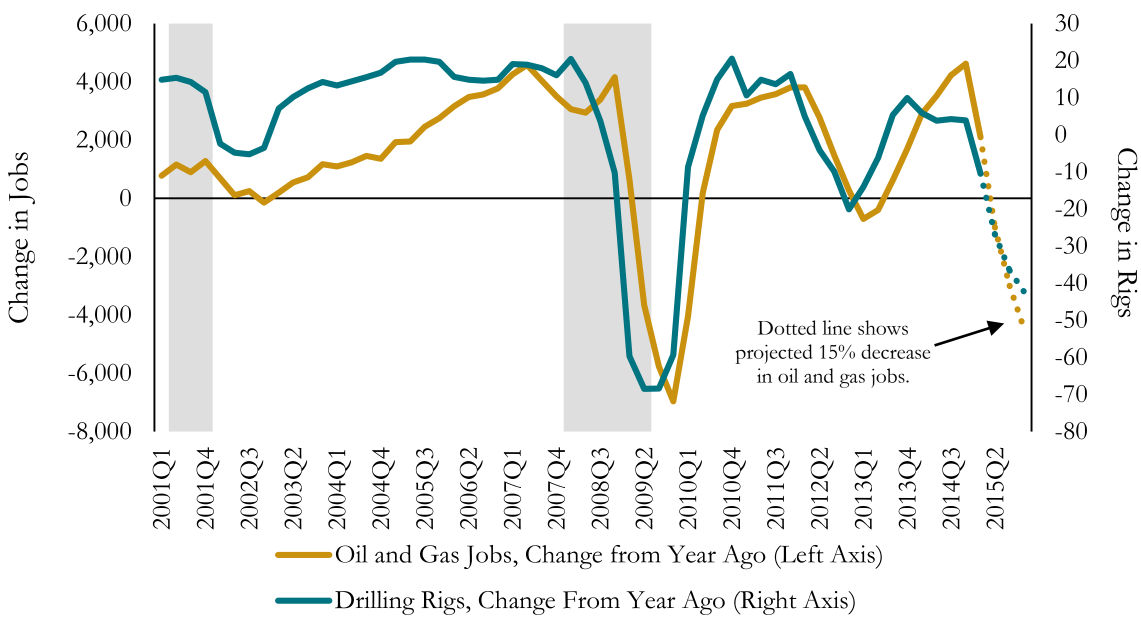
The oil and gas industry continues to contract **–** Employment data from the Colorado Department of Labor and Employment indicates that employment in the industry decreased 11 percent, or by 3,434 jobs, from December 2014 to March 2015. Continued contractions in employment are expected to result in approximately 15 percent fewer jobs in the industry by the end of 2015, which equates to 4,500 jobs.

Continued contractions in oil and gas employment are expected to result in approximately 15 percent fewer jobs in the industry by the end of 2015.

The number of oil and gas rigs operating in Colorado appeared to be stabilizing around the 38 rig mark as of the middle of August, down from 77 last September. However, recent weekly rig counts suggest a further contraction. The number of rigs in operation stood at 33 in the third week of September.

Figure 13 examines the relationship between drilling rigs and oil and gas employment. The data indicates that changes in drilling rigs are highly associated with changes in employment levels. The current trends in operating rigs are consistent with about a 15 percent decline in employment this year if the relationship maintains a similar pattern.

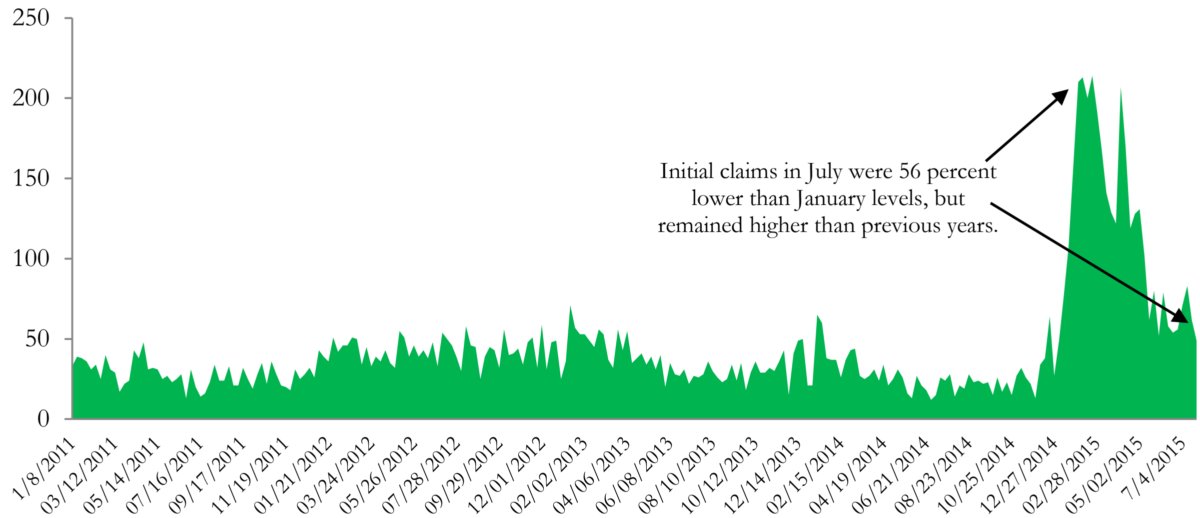
Figure 13. Oil and Gas Employment and Operating Drilling Rigs in Colorado, 2001 through First Quarter of 2015, Projections through Fourth Quarter of 2015



Source: Colorado Department of Labor and Employment; Baker Hughes

Recent trends in initial unemployment claims in the oil and gas industry indicate layoffs in the industry have slowed since the beginning of the year. As shown in Figure 14, initial claims reached their highest levels in January and February of this year with 603 and 819 claims, respectively. Initial claims trended downward through July, decreasing to 265 claims, but remain higher than in the previous four years. While the recent trend indicates that the majority of layoffs in the industry may have already occurred, layoffs could begin to increase again if oil prices remain at their current levels or drop further.

Figure 14. Oil and Gas Weekly Initial Unemployment Claims, January 2011 through July 25th 2015



Source: Colorado Department of Labor and Employment

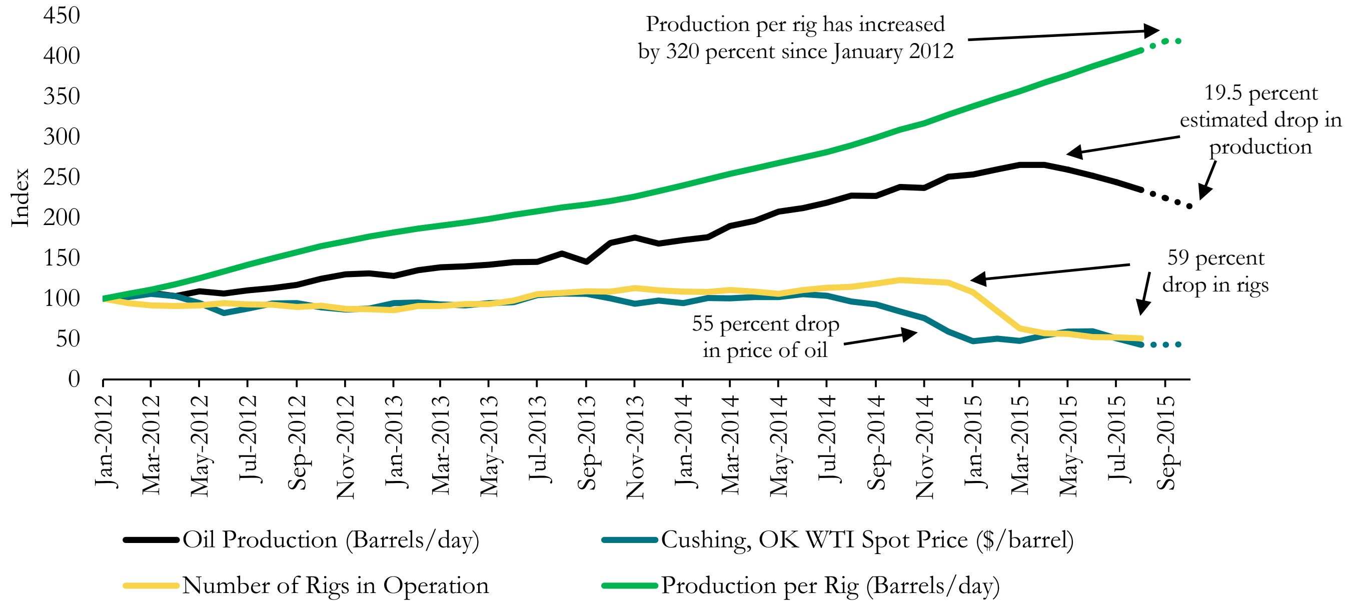
Oil production is beginning to decrease **–** Until recently, production of crude oil seemed to be little impacted by the 55 percent drop in oil prices as firms became increasingly efficient at producing oil with new technology and extraction methods. With the expectation that prices would begin rebounding by the end of 2015, firms continued to increase production well into the first half of 2015. As prices remain low and have recently dropped further, production has begun to fall and is expected to continue on its downward trajectory. National forecasts by the EIA have daily oil production decreasing by 2 percent through the end of 2015, then decreasing another 4.3 percent in 2016.

Oil production in the Niobrara region has been a key driver of Colorado's current oil expansion. As shown in Figure 15, production in the Niobrara increased rapidly since 2012 and continued to increase while rigs began dropping in January 2015. This rise in production was possible because of the rapid increase in productivity per rig, which has increased 320 percent since January 2012.

Projections for the Niobrara region have oil production decreasing by 92,000 barrels per day, or 19.5 percent, from March through October of this year.

Oil production in the region began declining in April 2015 and is projected to continue falling. EIA projects a decrease in production in the Niobrara region of 92,000 barrels per day, or 19.5 percent, from March 2015 through October 2015. The declines in oil production in Colorado and the U.S. along with increasing demand for oil-related products from lower prices will eventually begin to place upward pressure on prices. However, high oil production capacity worldwide should keep prices at lower levels for some time.

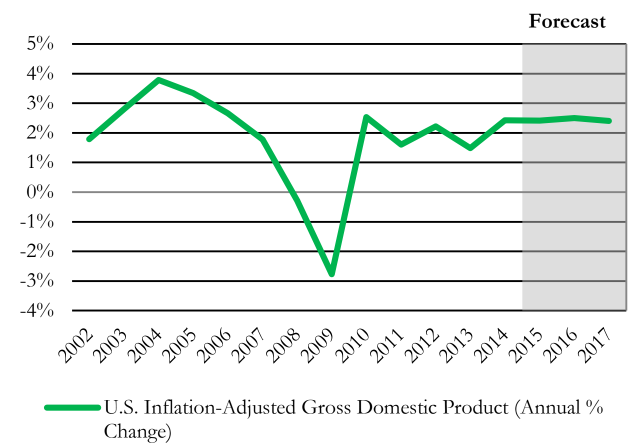
Figure 15. Index of Daily Crude Oil Production and Operating Drilling Rigs in Niobrara Region, Price of West Texas Intermediate Crude Oil per Barrel, January 2012 through August 2015, EIA Projections through October 2015



Source: U.S. Energy Information Agency, Baker Hughes. January 2012 Index = 100

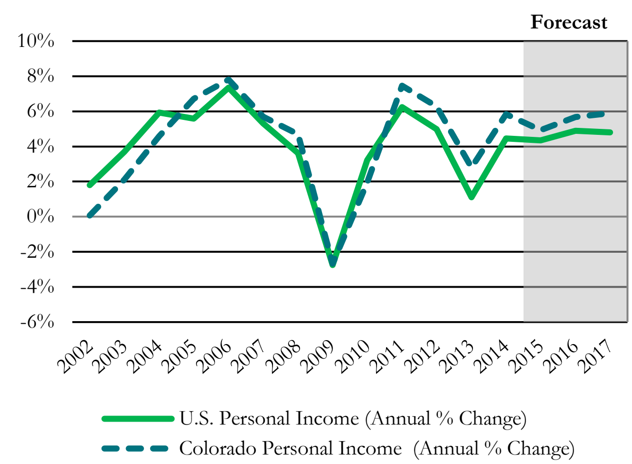
Summary of Key Economic Indicators
Actual and Forecast

U.S. Gross Domestic Product (GDP)



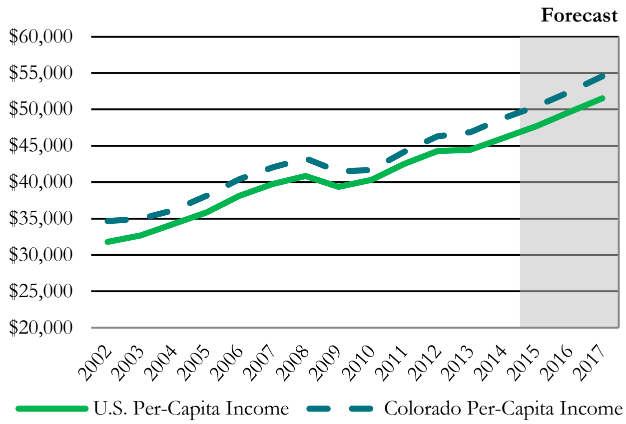
- GDP is a barometer for the economy's overall performance and reflects the value of final output in the U.S.
- The U.S. economy is expected to weather some global headwinds to achieve GDP growth of 2.4 percent in 2015 and slightly higher growth of 2.5 percent in 2016.

U.S. and Colorado Personal Income



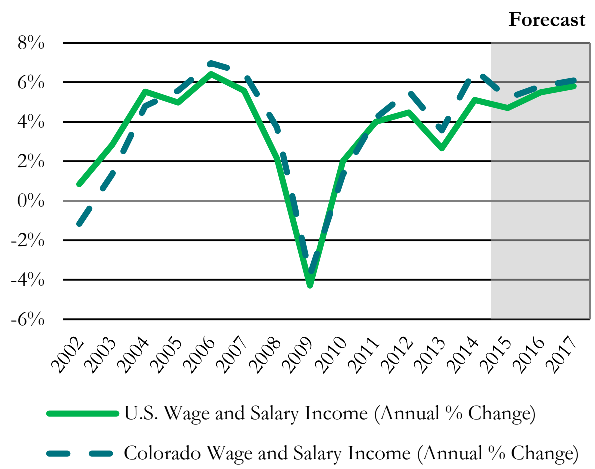
- Personal income growth in Colorado will slow to 4.9 percent in 2015, largely as the result of the oil and gas slowdown. However, the state's healthy overall economy will result in a rebound in 2016 to 5.7 percent personal income growth.
- National data for the first two quarters of 2015 shows that personal income growth is on track to be 4.3 percent for the year, and continued improvements in the labor market will lead to 4.9 percent growth in 2016.

U.S. and Colorado Per-Capita Income



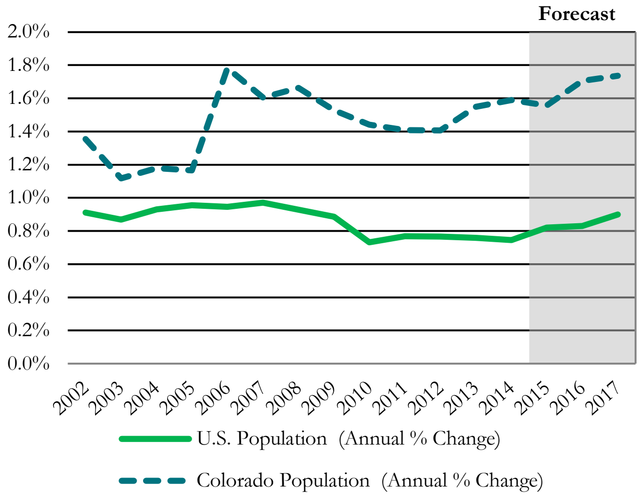
- Per-capita income in Colorado will grow to $50,441 in 2015 and $52,407 in 2016.
- Nationally, per-capita income will increase to $47,693 in 2015 and $49,618 in 2016.

U.S. and Colorado Wage and Salary Income



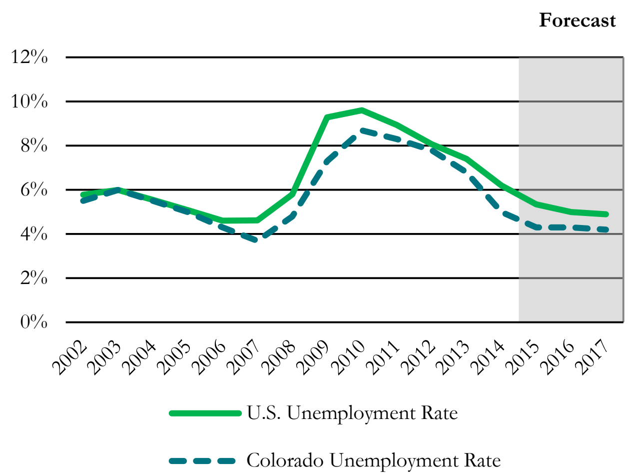
- Wage and salary growth in Colorado will slow somewhat in 2015 from the 2014 increase of 6.3 percent, partly as the result of the oil and gas slowdown. The forecast growth rate for 2015 is 5.2 percent, with higher growth of 5.8 percent in 2016.
- Wage and salary income for the nation will increase 4.7 percent in 2015 and 5.5 percent in 2016.

U.S. and Colorado Population



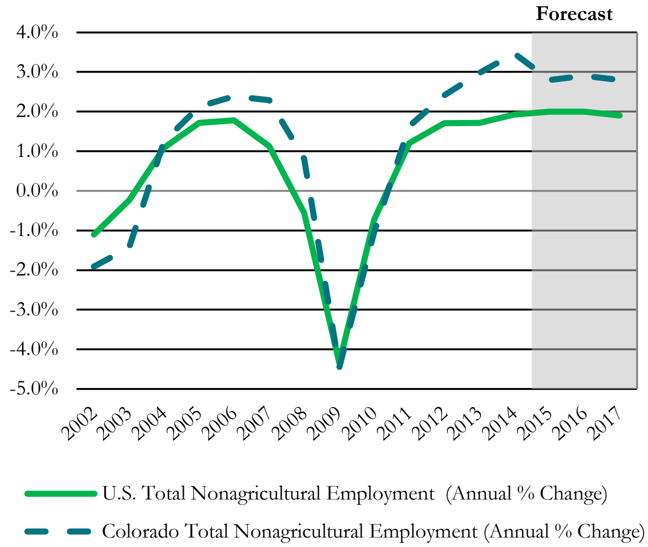
- Increasing net migration rates are expected to boost Colorado's population 5.1 percent from 2014 to 2017. The state's total population is expected to reach 5.63 million by the end of that period.
- The country as a whole is expected to grow about half as quickly on an annual basis, with population rising by only 2.6 percent between 2014 and 2017.

U.S. and Colorado Unemployment



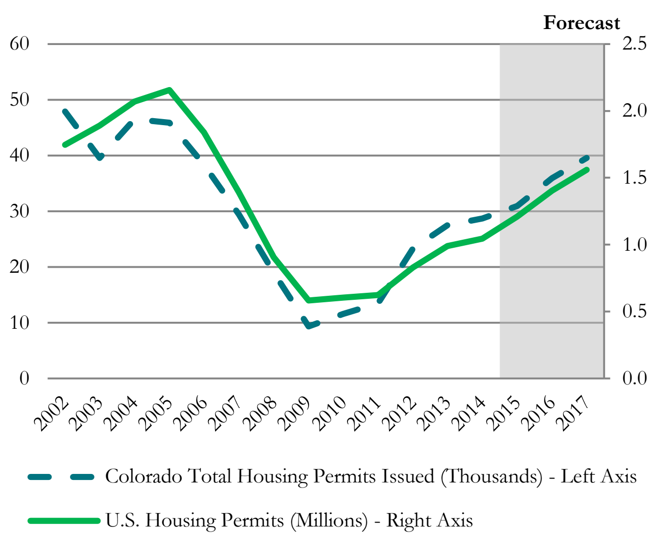
- Colorado's unemployment rate fell to 4.2 percent in January of this year and has remained at or near that level despite a contraction in the oil and gas industry. OSPB forecasts that the state will average 4.3 percent for 2015 and remain at that level through 2016.
- OSPB forecasts the national unemployment rate will remain higher than Colorado's at 5.4 percent in 2015, and drop to 5.0 percent in 2016.

U.S. and Colorado Total Nonagricultural Employment



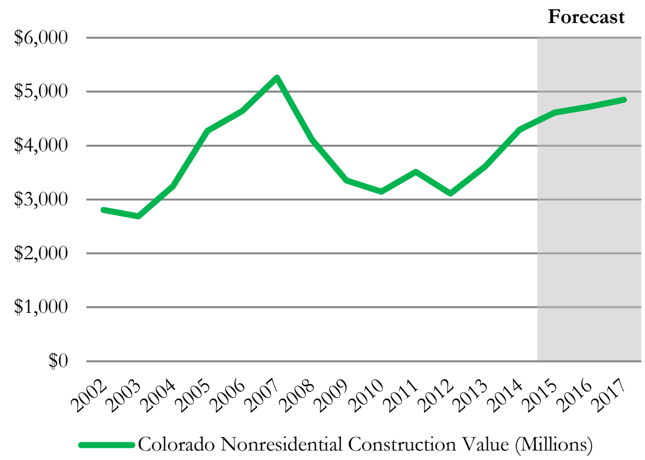
- OSPB projects that continued broad-based economic growth in the state will result in a 2.8 percent rise in nonfarm employment in 2015. Growth in 2016 should increase slightly to 2.9 percent.
- U.S. nonfarm payroll jobs will increase 2.0 percent in both 2015 and 2016.

U.S. and Colorado Housing Permits Issued



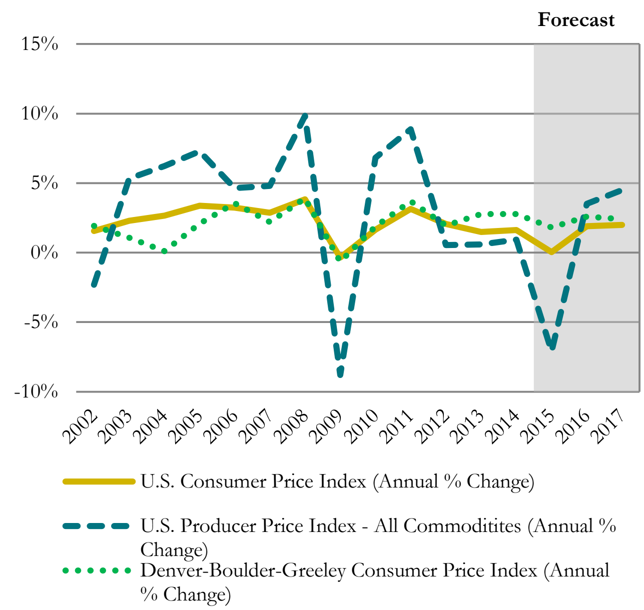
- After slow growth in 2014, Colorado residential construction permits will increase 7.9 percent in 2015 and 16.1 percent in 2016, when 35,900 permits will be issued. The increases will be driven by strong housing markets in metro areas in the state.
- Similarly, U.S. housing permits will rebound from slow 2014 growth to increase 15.6 percent in 2015 and 16.1 percent in 2016.

Colorado Nonresidential Construction Permits



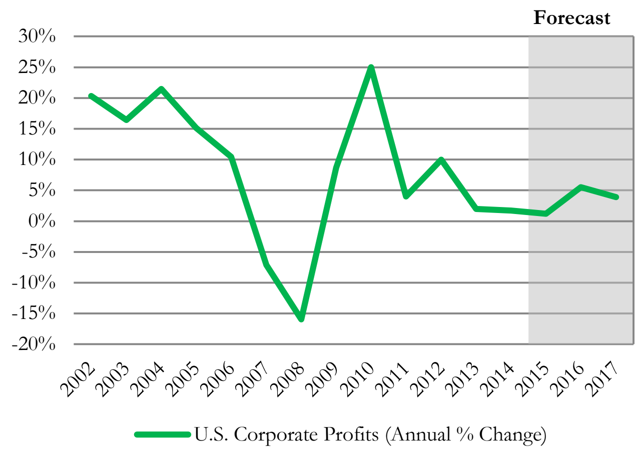
- Following 2014, in which the value of nonresidential construction permits reached $4.3 billion, growth will moderate in 2015 to 7.3 percent for a final value of $4.6 billion. The value of nonresidential construction is expected to grow throughout the forecast period.

Consumer Price Index and Producer Price Index



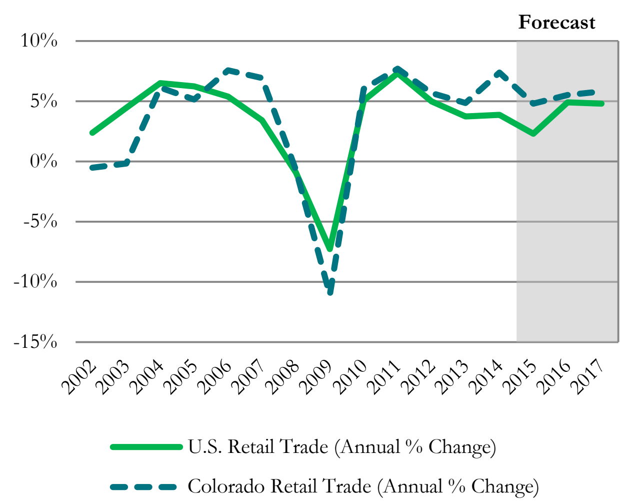
- Nationally, prices have remained essentially flat for the first seven months of 2015, largely due to falling gas prices. OSPB projects zero growth in the nationwide Consumer Price Index for the year. Prices are expected to rise 1.9 percent in 2016.
- The national Producer Price Index will fall 7.1 percent in 2015, largely due to low fuel and commodity prices, but will grow 3.5 percent in 2016.
- The Denver-Boulder-Greeley Consumer Price Index (CPI) will grow 1.8 and 2.6 percent in 2015 and 2016, respectively, mostly due to continued rising housing costs.

U.S. Corporate Profits



- U.S. corporate profits will continue to grow slowly throughout the forecast period as the business cycle matures and rapid post-recession gains become harder to achieve.
- Profit growth will fall slightly in 2015 to 1.2 percent before recovering with 5.5 percent growth in 2016.

Retail Trade



- Retail trade sales in Colorado will grow more slowly in 2015 than in the previous year, posting 4.8 percent growth. Sales will increase 5.5 percent in 2016.
- Nationwide retail trade will grow 2.3 percent in 2015 and 4.9 percent in 2016.

General Fund and State Education Fund Revenue Forecast

The forecast for General Fund revenue in FY 2015-16 is a 3.9 percent increase. This projection is $78.9 million, or 0.8 percent, lower than forecasted in June. The lower forecast is mostly due to reduced expectations for individual and corporate income tax collections based on slightly slower job and income gains in the state than projected in June, the recent declines in the stock market, and further weakening in oil prices that will lower income tax revenue from royalty payments. Preliminary total collections data for FY 2014-15 shows that General Fund revenue was $15.3 million, or 0.2 percent, lower than June's forecast. General Fund revenue increased 9.2 percent in FY 2014-15 over the prior year.

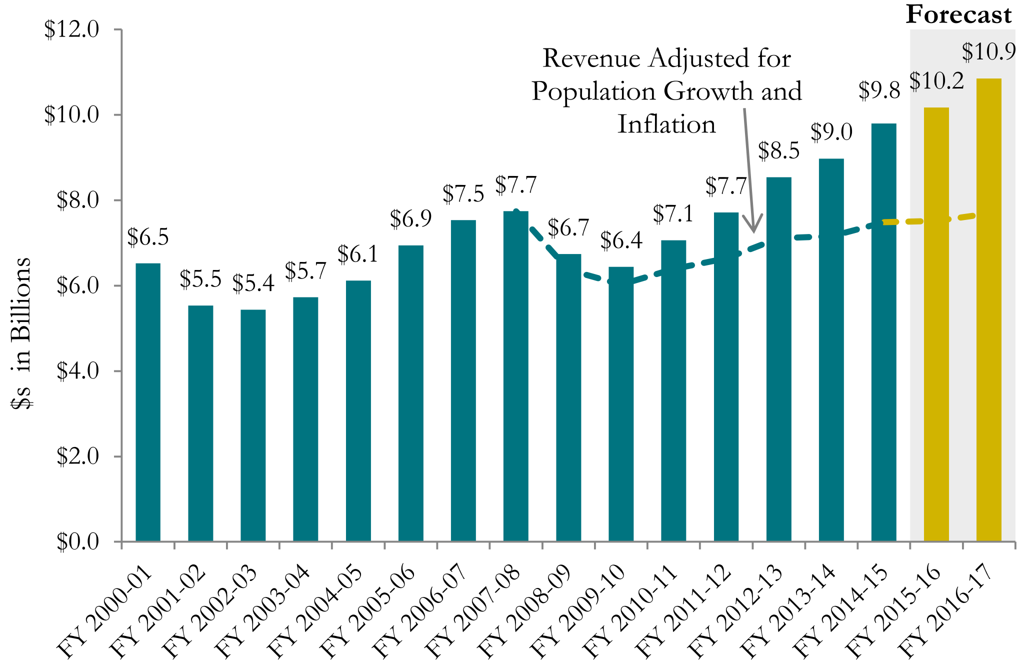
After robust growth in income tax wage withholdings, estimated payments, and sales tax collections in FY 2014-15, more modest growth in these revenue sources ─ the largest sources of General Fund revenue ─ will occur in FY 2015-16. Economic growth is moderating somewhat due to the contraction in the oil and gas industry and from global economic headwinds. An expectation for more modest growth in capital gains income and a decline in oil and gas royalty income will also contribute to slower income tax revenue growth for FY 2015-16. Furthermore, the availability of the State Earned Income Tax Credit will begin to reduce tax collections starting in FY 2015-16. After becoming a TABOR refund mechanism in FY 2014-15, the credit will be available starting in tax year 2016, lowering revenue collections throughout the forecast period. It should be noted these factors were expected in prior forecasts, and the recent adjustments are small in the context of the continuation of similar basic assumptions about the future.

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. General Fund revenue is forecast to increase 6.7 percent in FY 2016-17. Despite the increase, the FY 2016-17 growth rate is still below the high rates experienced in most years of the current expansion.

After strong increases in General Fund revenue in FY 2014-15, growth will moderate in FY 2015-16 due to several factors, including the contraction in the oil and gas industry and less growth in income sources subject to estimated income tax payments, most notably capital gains and oil and gas royalty payments.

Figure 16 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 16. General Fund Revenue, Actual and Forecast, with Revenue Adjusted for Population Growth and Inflation



Source: Office of the State Controller and OSPB

Discussion of Forecast for Major General Fund Revenue Sources

The following section discusses the forecasts for the three major General Fund revenue sources that together 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 included a portion of severance tax collections from mineral extraction in the state. As discussed on page 46, SB 15-255 credited the first $20 million of state severance tax revenue received in May and June to the General Fund. Actual severance tax collections in these months amounted to only $16.2 million. This amount is included in other income in line 16 of Table 3 in the Appendix. This money helps pay for the FY 2014-15 TABOR refund paid out of the General Fund.

Individual income tax – Growth in individual income tax collections will moderate to 3.6 percent in FY 2015-16 after robust gains of 11.5 percent last fiscal year. Individual income tax revenue will grow 8.1 percent in FY 2016-17.

Growth in individual income tax collections will moderate in FY 2015-16 after robust growth last fiscal year. The slower growth is due to the contraction in the oil and gas industry, slower expected growth in investment income, and tax policies that will reduce tax liabilities.

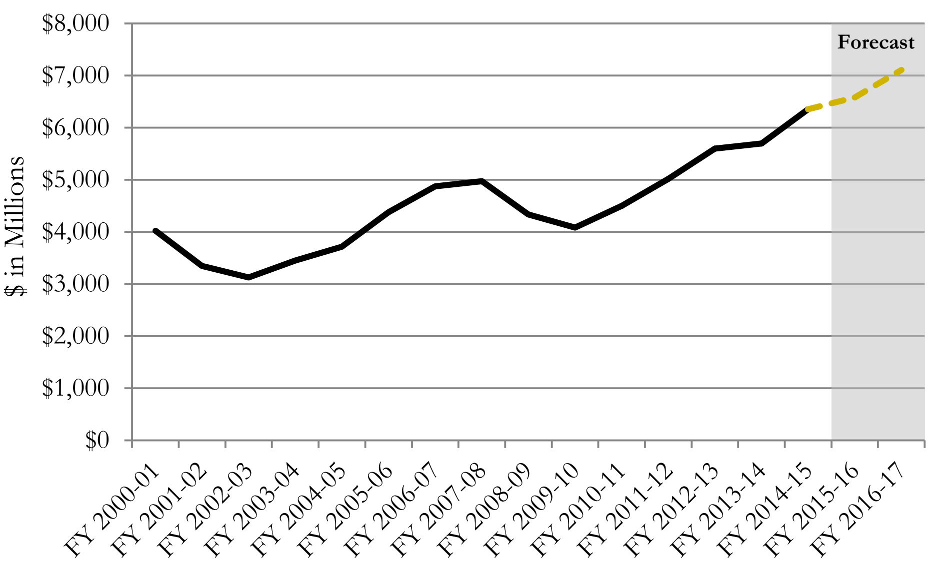
The slower growth this fiscal year is due in part to the contraction in the oil and gas industry, which will reduce wages, business income, and oil and gas royalty payments. Global headwinds are also weighing on economic growth. Wage withholdings collections are forecast to grow 4.3 percent this fiscal year after 8.1 percent growth in FY 2014-15. Wage withholding will increase 7.1 percent in FY 2016-17, though a portion of the increase is due to an expected large accrual accounting adjustment tied to the end of June's pay period that year.

Estimated income tax payments are expected to grow 7.3 percent in FY 2015-16, much slower than the 24.7 percent increase last fiscal year. This slower growth is due to declining oil and gas royalty payments from the fall in the oil and gas prices and slower growth in capital gains income. Estimated payments are still projected to increase overall as economic growth will generate income gains from several sources that are typically subject to estimated payments, such as business income and rental income. Rent growth along the Front Range has been particularly strong, boosting the income of property owners. Moreover, despite recent volatility, equity assets are expected to increase in value overall this year, which will help generate estimated payments growth from capital gains income. Estimated payments growth will rebound somewhat in FY 2016-17 with continued economic expansion and as tax collections are less adversely affected by the decline in oil and gas royalty payments.

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 $45.0 million — half of the full-year impact of the credit — and by $93.6 million in FY 2016-17.

Also, the tax credit for gross conservation easements is allowed as a refundable credit when revenue exceeds the Referendum C cap, as expected throughout the forecast period. This will reduce income tax revenue by $12.0 million in FY 2015-16. Additionally, SB 15-206 increased 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 $7.0 million annually.

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



Source: Office of the State Controller and OSPB

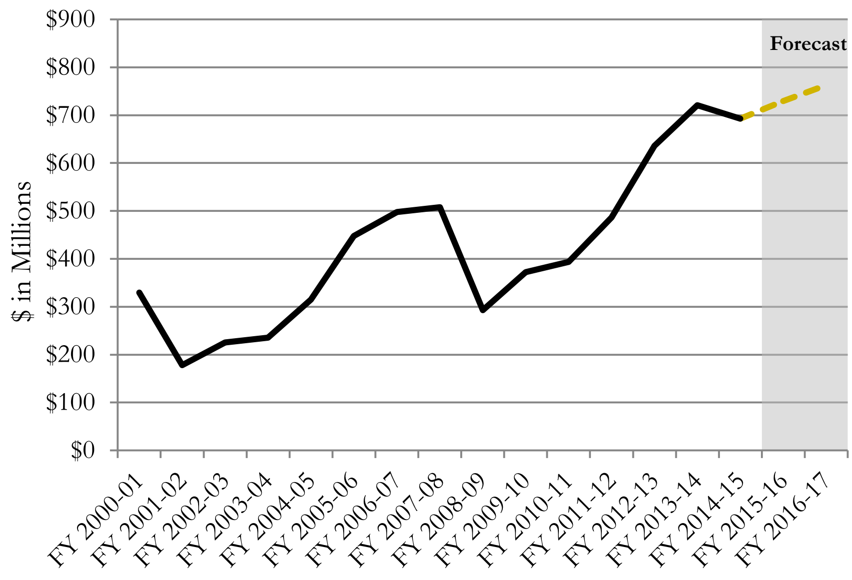
Corporate income tax – Corporate income tax revenue is expected to increase 5.3 percent to $729.5 million in FY 2015-16 and 4.6 percent to $763.1 million in FY 2016-17. This growth follows a 3.9 percent decline in corporate income tax revenue in FY 2014-15.

Projected revenue growth in this category for the forecast period is lower than overall historical averages for non-recession years, but more in line with trends from the later stages of economic expansions. These periods are characterized by higher levels of business competition, tighter labor conditions, and more costly business inputs. While input prices have remained low in the last few years, this forecast assumes that higher levels of competition and wage gains will combine to moderate corporate profit growth and, therefore, corporate income tax revenue. The U.S. Congressional Budget Office (CBO) points to similar factors in its own forecast of federal corporate income taxes, and adds growing interest payments on corporate debts as another source of downward pressure on profits and tax revenue.

Corporate income tax revenue growth will remain moderate through the forecast period due to federal tax policies and higher business costs in the maturing economic expansion.

Tax policy at the state and federal level can also impact corporate income tax revenue. For example, the repeal of a state law capping the amount of deductions for net operating losses is estimated to have reduced collections substantially in FY 2014-15. In addition, the federal government enacted provisions as part of fiscal stimulus during the Great Recession that allow firms to deduct a larger portion of equipment investment in the tax year that the investment is made, ultimately leading to lower tax liabilities for those companies. Congress has renewed these provisions several times. This forecast assumes they will be renewed throughout the forecast period. If the provisions are not renewed, corporate income tax revenue would be higher than projected in this forecast. These provisions also impact tax liabilities on business income paid through the individual income tax system.

Figure 18. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2016-17



Source: Office of the State Controller and OSPB

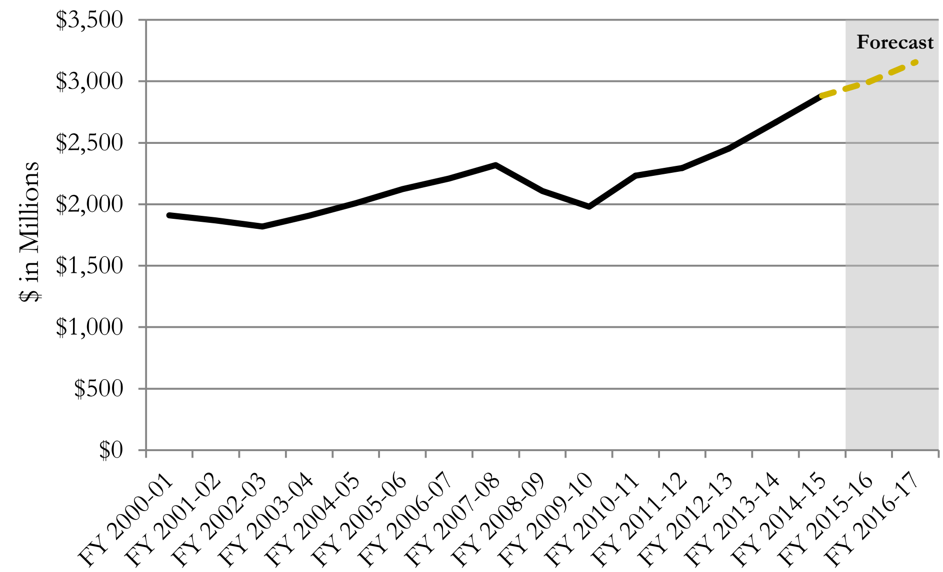
Sales and use tax – Sales tax revenue will grow 4.6 percent in FY 2015-16 after increasing 8.1 percent in FY 2014-15. Slower growth in total wages paid in the state and a decline in investment from the oil and gas industry will moderate consumer and business spending compared with the robust growth of last fiscal year. Sales tax revenue is forecast to grow 5.7 percent in FY 2016-17 as the conditions weighing on growth this fiscal year will be less prevalent.

Slower growth in total wages paid in the state and a decline in investment from the oil and gas industry will moderate sales tax collections this fiscal year tied to consumer and business spending. Sales tax revenue will grow 4.6 percent in FY 2015-16 after an increase of 8.1 percent in FY 2014-15.

Growth in revenue from the 10 percent sales tax on retail marijuana bolstered sales tax revenue to the General Fund in FY 2014-15. Revenue from the retail marijuana sales tax, approved by voters in 2013 under Proposition AA, 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. The tax generated $42.1 million in FY 2014-15. HB 15-1367 reduces the 10 percent tax rate to 8 percent starting in FY 2017-18. (HB 15-1367 also temporarily reduces the 10 percent rate to 0.1 percent as a refund mechanism only if voters reject Proposition BB in the November election.) 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 growing 7.8 percent in FY 2014-15, use tax revenue is expected to decrease slightly in FY 2015-16 as a result of a decline in business spending tied to the oil and gas industry. Collections will rebound with 3.4 percent growth in FY 2016-17. 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 19. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2016-17



Source: Office of the State Controller and OSPB

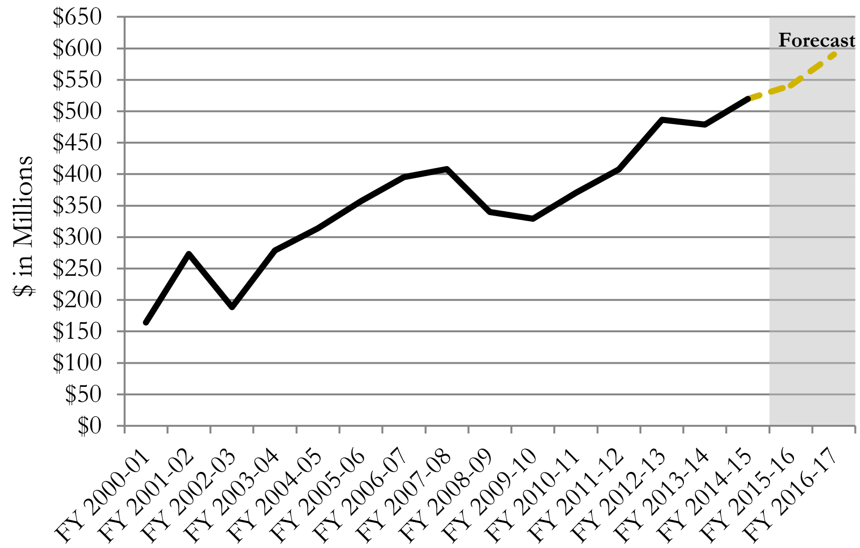
State Education Fund Revenue Forecast

Tax revenue to the State Education Fund will increase 4.0 percent in FY 2015-16 and 9.2 percent in FY 2016-17. Because this revenue is derived from taxable income, it follows the trends in individual income and corporate income tax revenue collections discussed above. The moderation in economic activity tied to the contraction in the oil and gas industry and global economic headwinds, along with slower growth in investment income and weaker oil and gas royalty payments, is diminishing growth in revenue to the State Education Fund in FY 2015-16. However, these factors will abate in FY 2016-17, resulting in stronger revenue growth to the Fund.

Tax revenue to the State Education Fund will increase 4.0 percent in FY 2015-16 and 9.2 percent in FY 2016-17. State Education Fund revenue is derived from taxable income, and thus follow trends in individual income and corporate income tax revenue collections.

As shown on page 34 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 State Education Fund, which is shown in detail in Figure 28 on page 42.

Figure 20. 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

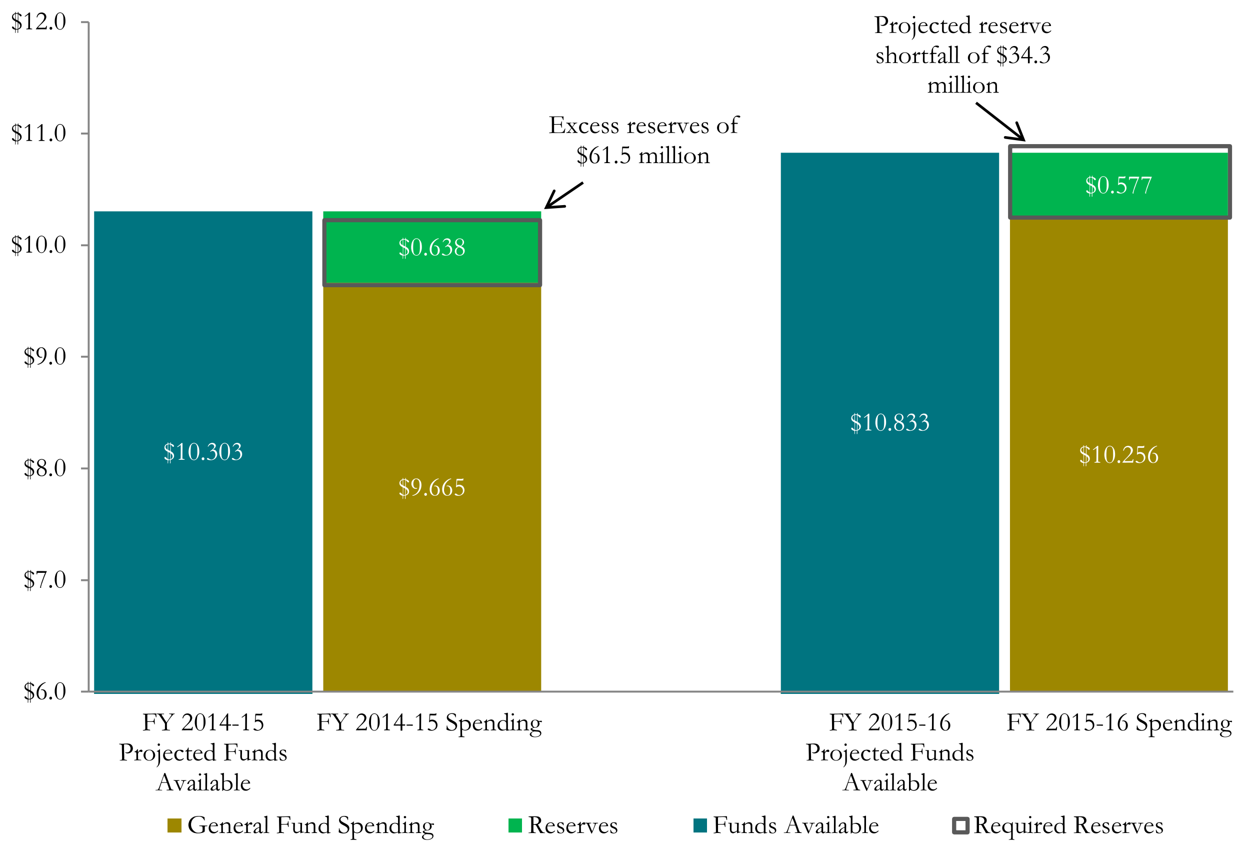
General Fund and State Education Fund Budget

Summary

General Fund **–** As discussed in the *General Fund Revenue Forecast* section starting on page 28, projections for General Fund revenue for FY 2015-16 are about 0.8 percent lower than in the June forecast, and 0.6 percent lower for FY 2016-17.

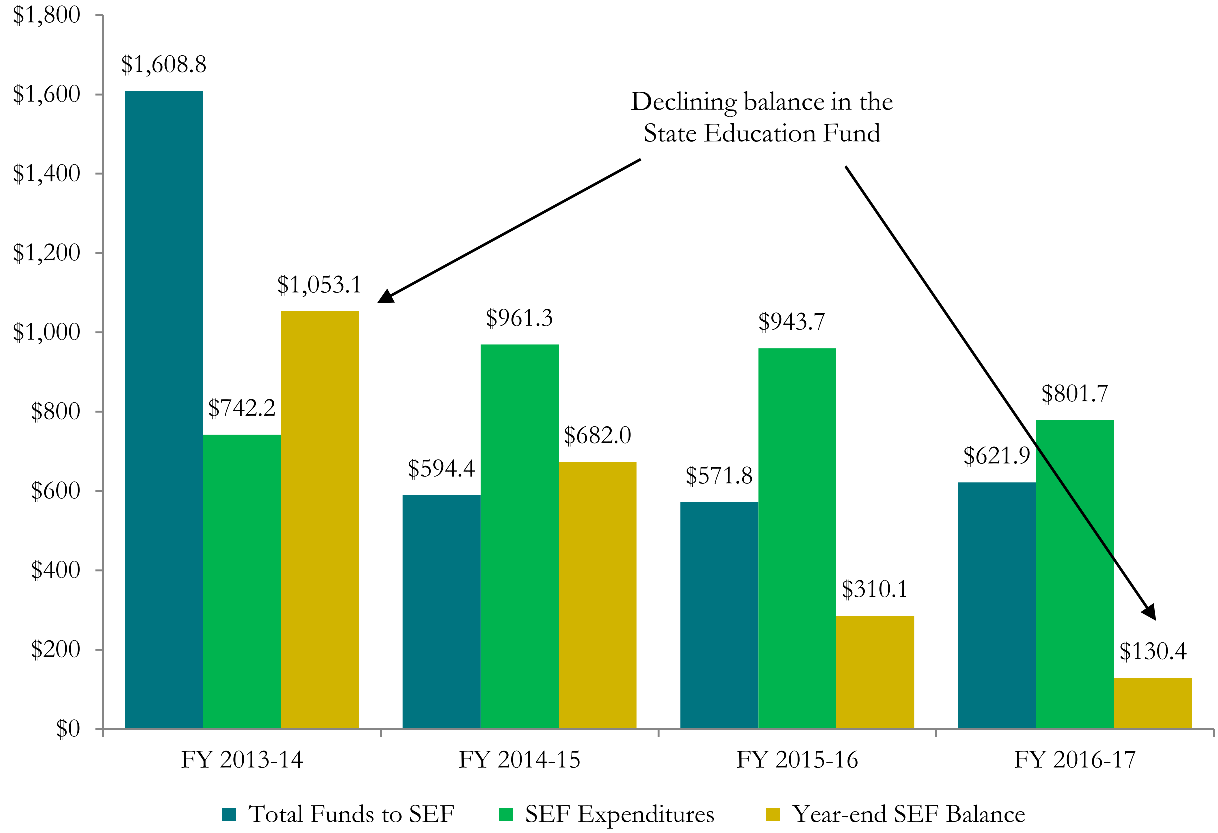
Under this forecast, the State's General Fund reserve is projected to be $34.3 million below the required amount of 6.5 percent of appropriations in FY 2015-16. On a preliminary basis, reserves were $61.5 million above the required amount in FY 2014-15. The projected shortfall in FY 2015-16 is smaller than forecasted in OSPB's June forecast, mostly due to the new expectation that transfers to transportation and capital construction under Senate Bill 09-228 will occur at half the levels anticipated in June. Figure 21 summarizes total General Fund revenue available, total spending, and reserve levels for FY 2014-15 and projections for FY 2015-16.

Figure 21. 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 22 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2013-14 through FY 2016-17. In FY 2015-16, the year-end balance in the Fund is expected to drop 55 percent from its level in FY 2014-15, and a similar drop is expected in FY 2016-17.

Figure 22. 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.

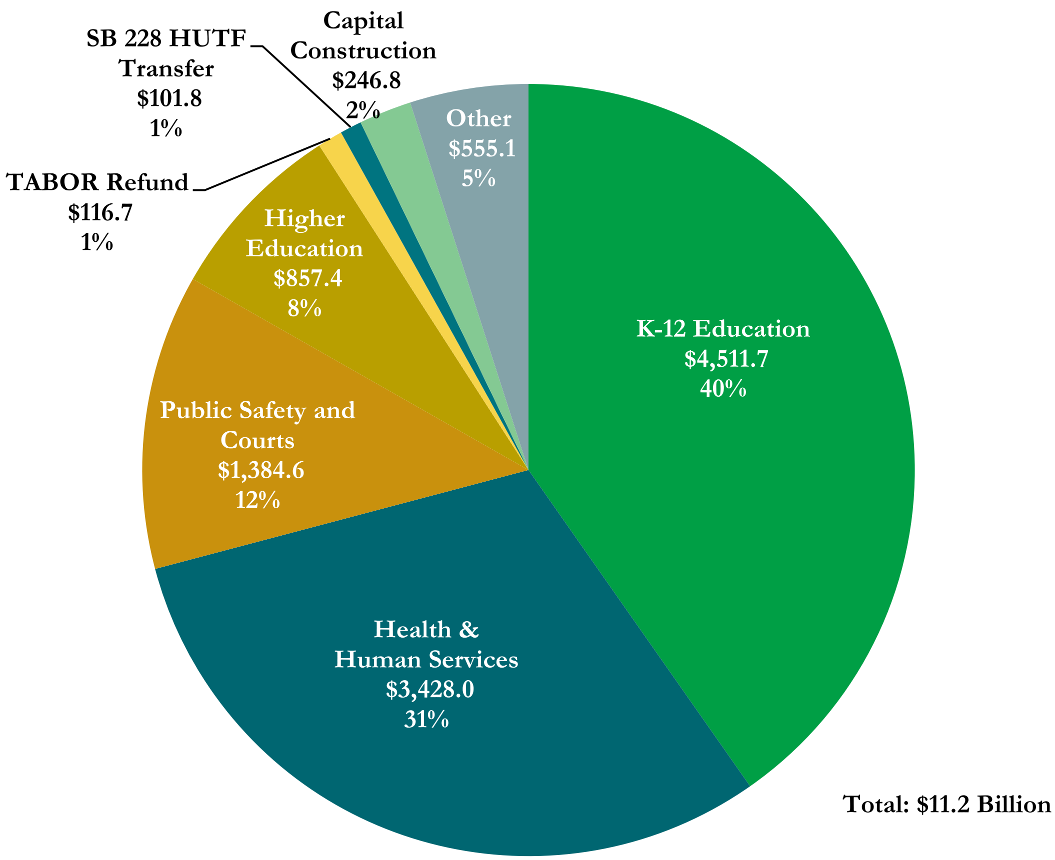
Detailed Overview Tables – A detailed overview of the amount of money available in the General Fund and State Education Fund, expenditures, and end-of-year reserves are provided in the overview tables in the Appendix at the end of this document.

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 23 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 $116.7 million required for TABOR rebates. As noted above, the current forecast estimates that the General Fund will be $34.3 million below the required reserve amount in FY 2015-16.

Figure 23. Composition of FY 2015-16 General Fund and State Education Fund Budget, $ in Millions



Risks to the Outlook and Budget Implications

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 education and training to better their job prospects.

Although Colorado's economy is demonstrating momentum, economic conditions around the world exhibit some weakness, especially in China and other large developing economies. The recent turmoil in financial markets may also be cause for concern if the instability persists and leads to further tightening credit conditions or a material downgrade in expectations for economic growth. The slowdown in the oil and gas industry could hamper growth further, as well, especially if oil prices remain at low levels for an extended period of time.

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 2015-16 through FY 2017-18. 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 $101.8 million from the General Fund for transportation projects and an additional $25.4 million to capital construction, as dictated by Senate Bill 09-228 (for more details, see page 50). However, a decrease of just 0.15 percentage points, or $15.0 million, in revenue subject to TABOR would result in these transfers doubling. This amount is well within the amount of typical forecast error. Therefore, future revisions to the forecast could show the full transfers occurring. This would cause the amount of funds below the required reserve in FY 2015-16 to potentially decline by a further $100 million from the current level of $34.3 million, requiring larger budget balancing actions.

The budget implications of the current forecast are significant. In the current year, the enacted budget has a small shortfall that can be managed within existing flexibility and reserves. As readers know, the Colorado Legislative Council Staff also prepares a revenue forecast each quarter. In June, there was approximately a two percent difference between the two General Fund revenue projections, with the OSPB forecast being higher.

Based on that difference and if it remains true, the current year shortfall is bigger and would carry forward to FY 2016-17. As we assess the impact of the TABOR limit, the potential transfers under Senate Bill 09-228, and the expected cost of maintaining the negative factor at its current level, the available new revenue for the General Fund are potentially severely limited.

For example, if the forecast for this year and next are two percent lower than the current OSPB forecast, the available new General Fund money for FY 2016-17 under current law is $224 million. Meanwhile, the OSPB projection for the General Fund needed to keep the negative factor at its current level is $338 million. Under the current OSPB forecast, the available new General Fund money for FY 2016-17 is $521 million.

The current budget situation is the result of a combination of many factors that have developed over decades. These include State constitutional rules that have contradictory purposes and economic conditions wherein two major downturns each resulted in approximately 17 percent drops in General Fund revenue. Meanwhile, relative to the State revenue cap, new cash fund growth is contributing to refund obligations in the General Fund, notably the result of growth in the Hospital Provider Fee. Most cash funds have rules that prevent their use in paying for any share of rebates that they generate and this is true for the Hospital Provider Fee. Excluding the Hospital Provider Fee, State revenue subject to TABOR is below the limit of population growth and inflation by $688.3 million in FY 2015-16.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview for the September 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 24, 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 28. In addition to General Fund revenue, the General

Fund receives money transferred from other State funds each fiscal year, although these transfers generally account for less than one percent of total revenue (shown in line 3 below).

Figure 24. General Fund Revenue Available, FY 2014-15 to FY 2016-17 (from Table 4 in Appendix),$ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16	FY 2016-17
1	Beginning Balance	$435.9	$638.0	$577.0
2	General Fund Revenue	$9,801.0	$10,179.7	$10,864.1
3	Transfers to the General Fund	$65.8	$15.6	$16.8
4	**Total General Funds Available**	**$10,302.8**	**$10,833.2**	**$11,458.0**
	Dollar Change from Prior Year	$938.0	$530.4	$624.7
	Percent Change from Prior Year	10.0%	5.1%	5.8%

Expenditures

Spending subject to the appropriations limit – The middle portion of the General Fund overview in Table 4 shows General Fund spending. Each year, the total of most General Fund spending cannot exceed five percent of the aggregate level of personal income received by Coloradans. This limit was $12.0 billion in FY 2014-15 and $12.4 billion in FY 2015-16. Therefore, the General Fund appropriations shown in the Figure 25 are about $3.0 billion under the limit in both years. 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 in the Appendix 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 25. 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	$9,442.1
6	Dollar Change from Prior Year	$650.3	$573.1
7	Percent Change from Prior Year	7.9%	6.5%

Spending not subject to the appropriations limit – Figure 26 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 26. 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)	$153.6	$116.7
10	Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)	$58.0	$0.0
	Cigarette Rebate to Local Governments	*$12.3*	*$9.6*
	Marijuana Rebate to Local Governments	*$6.3*	*$7.2*
	Old-Age Pension Fund/Older Coloradans Fund	*$109.9*	*$109.0*
	Aged Property Tax & Heating Credit	*$5.7*	*$5.4*
	Homestead Exemption	*$116.9*	*$125.7*
	Interest Payments for School Loans	*$0.7*	*$1.2*
	Fire/Police Pensions	*$4.2*	*$4.2*
	Amendment 35 General Fund Expenditure	*$0.9*	*$0.9*
11	**Total Rebates and Expenditures**	**$256.7**	**$263.1**
12	Transfers to Capital Construction	$248.5	$246.8
13	Transfers to Highway Users Tax Fund	$0.0	$101.8
14	Transfers to State Education Fund per SB 13-234	$25.3	$25.3
15	Transfers to Other Funds	$44.0	$60.4
16	Other	$9.7	$0.0
	Total	**$795.8**	**$814.2**
	Dollar Change from Prior Year	$250.3	$18.4
	Percent Change from Prior Year	45.9%	2.3%

Lines 9 and 10: Revenue exceeded the Referendum C cap by $150.0 million in FY 2014-15 and is projected to exceed the cap by $116.7 million in FY 2015-16.[1] Therefore, taxpayers will receive a refund in both years unless voters allow the State to retain the revenue. 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"). The FY 2014-15 TABOR refund is smaller than forecasted in June primarily because of slightly lower than expected General Fund revenue. In contrast, the expected FY 2015-16 TABOR refund grew since the June forecast because of higher forecasted growth in cash fund revenue resulting from an increase in the Hospital Provider Fee. This higher cash fund revenue is outweighing the decline in the forecast for General Fund revenue. For more information on the TABOR refund, see the *Taxpayer's Bill of Rights: Revenue Limit* section later in this report.

The $58.0 million shown in line 10 reflects money set aside by HB 15-1367 in a special account to 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. General Fund obligations to pay for the refund are $4.3 million higher than the amount set aside in the $58 million special account. See page 50 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

[1] The $153.6 million TABOR refund amount shown in the table for FY 2014-15 includes $150.0 million in revenue above the Referendum C Cap for FY 2014-15, as well as $3.6 million in pending amounts owed related to refunds from prior years.

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 June.

Lines 12 and 13: 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 $246.8 million. This amount includes a projected $25.4 million SB 09-228 transfer (see below) and a $221.3 million transfer set by SB 15-250. The capital construction funding amount of $86.7 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 and priority, or "Level I," building maintenance projects, taking into account the amount of funding available in the Capital Construction Fund.

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 $116.7 million in FY 2015-16 represents an amount equal to 1.15 percent of General Fund revenue. This means that transfers for transportation and capital construction will be made at 50 percent of their full levels, resulting in transfers of $101.8 million and $25.4 million, respectively, in FY 2015-16. However, a very small decrease in revenue from projections would result in a full transfer, essentially doubling the numbers for both capital construction and transportation. The projected FY 2016-17 TABOR refund of $398.0 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 transfers in each of 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 is usually the largest amount in this line. The $9.7 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"). The reserve is required to be 6.5 percent of General Fund appropriations subject to the appropriations limit discussed above. Starting with FY 2015-16, appropriations for finance, or "lease-purchase" payments, called Certificates of Participation, for certain capital projects were made exempt from the reserve calculation requirement by SB 15-251. Figure 27 provides information on the General Fund ending balance.

Figure 27. 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	$638.0	$577.0
21	Balance as a % of Appropriations	7.2%	6.1%
22	**General Fund Required Reserve**	**$576.5**	**$611.3**
23	Money Above/Below Req. Reserve	$61.5	-$34.3

The State's General Fund reserve is projected to be $61.5 million above its required amount for FY 2014-15. Under this forecast, the Fund will be $34.3 million below the required amount for FY 2015-16 with the current level of General Fund obligations. This shortfall is smaller than projected in OSPB's June forecast, mostly due to the new assumption that transfers to transportation and capital construction under SB 09-228 will occur at half their potential levels, as discussed above. In contrast, the June forecasts from both Legislative Council Staff and OSPB projected that the transfers would be made at their full amounts in FY 2015-16.

State Education Fund Overview

Figure 28 summarizes State Education Fund annual revenue and spending. It also includes projected beginning and ending fund balances. 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 revenue will put increasing strain on the fund's balance in the coming years. For example, spending from the State Education Fund in FY 2015-16 is 165 percent of new projected revenue to the Fund. By the end of FY 2015-16, the balance is projected to fall nearly 55 percent to $310.1 million from levels a year earlier. The trend is projected to continue into FY 2016-17, as the year-end balance drops by another 58 percent to $130.4 million.

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 $130 million in the Fund, which equates to about two percent of total program funding costs for education.

Figure 28. 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	***$1,048.9***	***$682.0***	***$310.1***
One-third of 1% of State Taxable Income	*$519.8*	*$540.8*	*$590.4*
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	*$10.6*	*$5.7*	*$6.2*
Total Funds to State Education Fund	**$594.4**	**$571.8**	**$621.9**
State Education Fund Expenditures	**$961.3**	**$943.7**	**$801.7**
Year-end Balance	**$682.0**	**$310.1**	**$130.4**

*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.

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.

Cash Fund Revenue Forecast

Cash fund revenue subject to TABOR in FY 2015-16 will be $115.5 million, or 4.2 percent, higher than FY 2014-15, primarily as a result of growth in revenue from the Hospital Provider Fee. This growth will offset a sharp decline in revenue from severance taxes and a decrease in insurance-related revenue. The forecast for FY 2015-16 is $120.8 million, or 4.4 percent, higher than projections from the June forecast, mostly due to the upward revision to the Hospital Provider Fee forecast.

Cash fund revenue subject to TABOR will increase 1.8 percent in FY 2016-17 when growth in revenue from most of the major categories of cash funds, most notably severance taxes, will offset an expected 6 percent decrease in revenue from the Hospital Provider Fee. The forecast for FY 2016-17 is $33.0 million, or 1.1 percent, higher compared with projections in June.

Hospital Provider Fee revenue in FY 2015-16 is forecast to increase $276.2 million above FY 2014-15's collections.

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 are directed to a cash fund used to fund the program. 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, such as public universities and colleges, that receive most of their money from sources other than the State. More information on TABOR revenue and the revenue limit can be found on page 48.

Transportation-related cash funds **—** From FY 2013-14 to FY 2014-15, transportation-related cash fund revenue subject to TABOR grew $28.9 million (2.5 percent) to $1.16 billion. Revenue to these funds is forecast to grow 1.3 percent in FY 2015-16 and 2.4 percent in FY 2016-17.

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 registration fees and permits, other fines and fees related to transportation, and interest on fund balances. HUTF funds, which account for roughly 85 percent 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.

Revenue from fuel taxes and vehicle registrations will continue to grow as the economy expands, but at a more moderate pace than in FY 2014-15.

Revenue from gasoline and diesel taxes and from vehicle registrations grew 4.7 and 4.5 percent in FY 2014-15, respectively, their fastest growth since before the Great Recession. Changes in these revenue streams have a large influence on overall transportation-related cash funds because they account for approximately three-quarters of all revenue in the category.

Robust growth in fuel taxes and registrations indicates that Coloradans ramped up vehicle purchases and driving over the past fiscal year. Data from the Colorado Automobile Dealers Association show the magnitude of the activity: new vehicle registrations increased 5.4 percent in the first six months of 2015 from the same period in 2014. This forecast assumes these car-buying and driving trends will continue their upward trajectory, but at a more moderate pace, with overall HUTF revenue averaging about 1 percent growth over the next three fiscal years.

Limited Gaming **—** Limited gaming revenue will grow by $4.5 million, or 4.1 percent, in FY 2015-16, after increasing 3.3 percent in FY 2014-15. Revenue from gaming will grow an additional $3.5 million, or 3.0 percent, to $119.4 million in FY 2016-17.

The gaming industry has experienced a slow recovery from the Great Recession, with limited gaming revenue yet to reach its pre-recession peak of $122 million in FY 2006-07. However, growth in the overall state economy will cause gaming activity to continue to post modest increases over the forecast period.

A growing economy with continued job gains and lower levels of unemployment in Colorado will lead to modest but stable growth in limited gaming revenue.

Of the total expected limited gaming revenue for FY 2015-16, $102.4 million will be subject to TABOR, as reflected in Figure 29. Of this amount, $101.0 million is classified as "base limited gaming revenue" as designated by State law after the passage of Amendment 50 in 2008. 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 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. These distributions will grow along with overall gaming revenue, totaling $11.4 million and $12.0 million in FY 2015-16 and FY 2016-17, respectively. Figure 29 shows the distribution of limited gaming revenues in further detail.

Figure 29. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Preliminary FY 14-15	Forecast FY 15-16	Forecast FY 16-17	Forecast FY 17-18
A. Total Limited Gaming Revenues	**$111.4**	**$115.9**	**$119.4**	**$123.3**
Annual Percent Change	3.3%	4.1%	3.0%	3.2%
B. Base Limited Gaming Revenues (max 3% growth)	**$98.1**	**$101.0**	**$104.0**	**$107.2**
Annual Percent Change	3.0%	3.0%	3.0%	3.0%
C. Gaming Revenue Subject to TABOR	**$99.3**	**$102.4**	**$105.4**	**$108.6**
Annual Percent Change	1.1%	3.1%	3.0%	3.0%
D. Total Amount to Base Revenue Recipients	**$87.3**	**$90.4**	**$93.1**	**$95.5**
Amount to State Historical Society	*$24.4*	*$25.3*	*$26.1*	*$26.7*
Amount to Counties	*$10.5*	*$10.8*	*$11.2*	*$11.5*
Amount to Cities	*$8.7*	*$9.0*	*$9.3*	*$9.5*
Amount to Distribute to Remaining Programs (State Share)	*$43.6*	*$45.2*	*$46.6*	*$47.7*
Amount to Local Government Impact Fund	*$5.0*	*$5.0*	*$5.0*	*$5.0*
Colorado Tourism Promotion Fund	*$15.0*	*$15.0*	*$15.0*	*$15.0*
Creative Industries Cash Fund	*$2.0*	*$2.0*	*$2.0*	*$2.0*
Film, Television, and Media Operational Account	*$0.5*	*$0.5*	*$0.5*	*$0.5*
Bioscience Discovery Evaluation Fund	*N/A*	*N/A*	*N/A*	*N/A*
Advanced Industries Acceleration Fund	*$5.5*	*$5.5*	*$5.5*	*$5.5*
Innovative Higher Education Research Fund	*$2.0*	*$2.0*	*$2.0*	*$2.0*
Transfer to the General Fund	*$13.6*	*$15.2*	*$16.6*	*$17.7*
E. Total Amount to Amendment 50 Revenue Recipients	**$10.0**	**$11.4**	**$12.0**	**$12.5**
Community Colleges, Mesa and Adams State (78%)	*$7.8*	*$8.9*	*$9.4*	*$9.8*
Counties (12%)	*$1.2*	*$1.4*	*$1.4*	*$1.5*
Cities (10%)	*$1.0*	*$1.1*	*$1.2*	*$1.3*

Hospital Provider Fee **—** Hospital Provider Fee (HPF) revenue is expected to increase 52.2 percent, or $276.2 million, to $805.0 million in FY 2015-16. HPF revenue will then decrease 6.0 percent, or by $48.7 million, to $756.3 million in FY 2016-17. It will grow by an additional 5.6 percent, or $42.5 million, in FY 2017-18.

The projections for HPF revenue are influenced by federal funding levels associated with the Affordable Care Act as well as changes in the population receiving medical care support under the Medicaid program. An increase in populations receiving medical services will generate higher HPF revenue starting in FY 2015-16. Growth in these populations occurred at a strong rate in 2014, which is driving the large increase in HPF revenue over the next few fiscal years.

As noted as a likelihood in OSPB's June forecast, this forecast's projections for HPF revenue have increased: HPF revenue for FY 2015-16 is now expected to be $117 million higher. The increase is due to the caseload growth associated with expansion of the Medicaid program, as well as later than expected federal approval of the HPF funding levels associated with higher program costs. This later approval prevented the higher fee collections from taking effect earlier, shifting the higher collections to FY 2015-16. Projected revenue from the HPF has also increased in FY 2016-17 and FY 2017-18, but to a lesser extent.

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.

***Severance tax revenue*—** Severance tax revenue will decrease 61.1 percent, or $171.1 million, to $109.0 million in FY 2015-16 after strong growth in FY 2013-14 and FY 2014-15. The robust severance tax revenue growth in the last few fiscal years resulted from the higher price environment for natural gas and oil prior to last summer that boosted the value of the production of the resources in Colorado. Prices for both natural gas and oil have since fallen substantially, contributing to the large decrease in severance tax revenue in FY 2015-16. A modest and gradual rebound in prices will lead to an increase of 49.4 percent in severance tax revenue for FY 2016-17. The local ad valorem credit for State severance taxes is also contributing to these large swings in revenue collections.

The price of natural gas and oil are key drivers of severance tax revenue because the tax is based on a percentage of the income received from selling the commodities. Because of the increase in oil production over the past few years in the state, the proportion of severance taxes from oil has increased to nearly the same as the proportion from natural gas production. Prior to 2012, severance tax revenue from oil was smaller than half the proportion from natural gas. Therefore, revenue from severance taxes is more responsive to changes in oil prices than in the past. Oil prices in 2015 are nearly 50 percent lower than they were in 2014 as growing production in the United States boosted oil inventories and a sluggish global economy dampened demand.

Continued low prices for natural gas and oil, combined with ad valorem tax credits, will result in a decline of $171.4 million in severance taxes in FY 2015-16. Revenue collections will rebound in FY 2016-17 with gradually increasing prices and smaller ad valorem tax credits.

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, however, as inventories have been largely restored and the demand for natural gas returned to more typical levels. Prices are currently 40 percent lower than the second quarter of 2014.

In FY 2015-16, the impact of ad valorem tax credits will exacerbate the decline of severance tax revenue from lower oil and natural gas prices. Severance taxpayers claim ad valorem tax credits based on the local property taxes they paid on the value of mineral extraction in the prior year. Although 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 on severance tax liabilities, helping generate the 61.1 percent forecasted decline for severance taxes in FY 2015-16. Along with gradual increases in prices, this dynamic will also contribute to the projected rebound in severance taxes in FY 2016-17 when the ad valorem credits will be much smaller as they will based on the current low level of oil and natural gas prices.

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 3.0 percent, to $5.2 million, in FY 2015-16 after falling 33.2 percent, to $5.4 million, in FY 2014-15.

Senate Bill 15-255 credited the first $20 million of state severance tax revenue received in May and June of 2015 to the General Fund. Actual severance tax collections in these months amounted to $16.2 million. Therefore, the total severance tax revenue for FY 2014-15 shown in Table 6 is $16.2 million lower than actual collections, but General Fund revenue shown in line 16 of Table 3 in the Appendix is $16.2 million higher. This money helps pay for the 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 17.7 percent to $119.4 million, in FY 2015-16. This follows a decline of 16.4 percent in FY 2014-15. FML revenue is decreasing again in FY 2015-16 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 revenue is expected to rebound 8.4 percent to $129.5 million in FY 2016-17 and an additional 5.0 percent in FY 2017-18.

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 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.

FML revenue will fall 17.7 percent in FY 2015-16 due to lower oil and gas prices and one-time refunds to leaseholders, but will rebound in FY 2016-17 and FY 2017-18 with gradual increases in commodity prices.

A portion of the reduced levels in FML revenue in FY 2015-16 through FY 2017-18 is a result of refunds to holders of cancelled leases on land for mineral extraction on the Roan Plateau in Colorado. The federal Bureau of Land Management (BLM) carried out auctions for leases to produce natural gas on the Roan Plateau in 2008, collecting significant bonus payments. The BLM 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 FY 2015-16 and each of the next two 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 three fiscal years in order to backfill the decline in FML distributions.

The impact of lower oil and natural gas prices was larger 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.

Figure 30. Federal Mineral Leasing (FML) Payments, $ in Millions

Fiscal Year	Bonus Payments	Non-Bonus	Total FML	% Change
FY 2014-15	$1.1	$144.0	$145.1	-16.4%
FY 2015-16	$3.9	$115.6	$119.4	-17.7%
FY 2016-17	$1.9	$127.6	$129.5	8.4%
FY 2017-18	$2.0	$133.9	$135.9	5.0%

FY 2014-15 figures reflect preliminary collections, and FY 2015-16 through FY 2017-18 are projections.

Other cash funds — Cash fund revenue to regulatory agencies will grow 2.6 percent to $66.4 million in FY 2015-16 after decreasing 5.5 percent in FY 2014-15. 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 3.5 percent to $68.7 million in FY 2016-17.

Insurance-related cash fund revenue is obtained largely from a surcharge on workers' compensation insurance programs. Revenue from this source will decrease 36.4 percent to $13.7 million 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 DOWC 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 to pay and administer claims for FY 2015-16.

The category called Other Miscellaneous Cash Funds in Table 6 includes revenue from a large array of mostly smaller cash funds that generally collect revenue from fines, fees, and interest earnings. Revenue from these funds is expected to be $584.0 million in FY 2015-16, a decrease of 0.2 percent, after growth of 2.9 percent the prior year. Revenue to these funds is expected to grow 2.9 percent in FY 2016-17.

Revenue from the 2.9 percent sales tax on retail and medical marijuana, as well as fees related to regulation of the marijuana industry, is reflected in the miscellaneous cash funds category in Table 6. 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 credited to public school cash funds, a majority of which goes to a cash fund for public school capital construction projects.

HB 15-1367, passed during the 2015 legislative session, 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. Voters must confirm again that the State can retain the money 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.

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 32 in the General Fund budget section and on page 48 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.

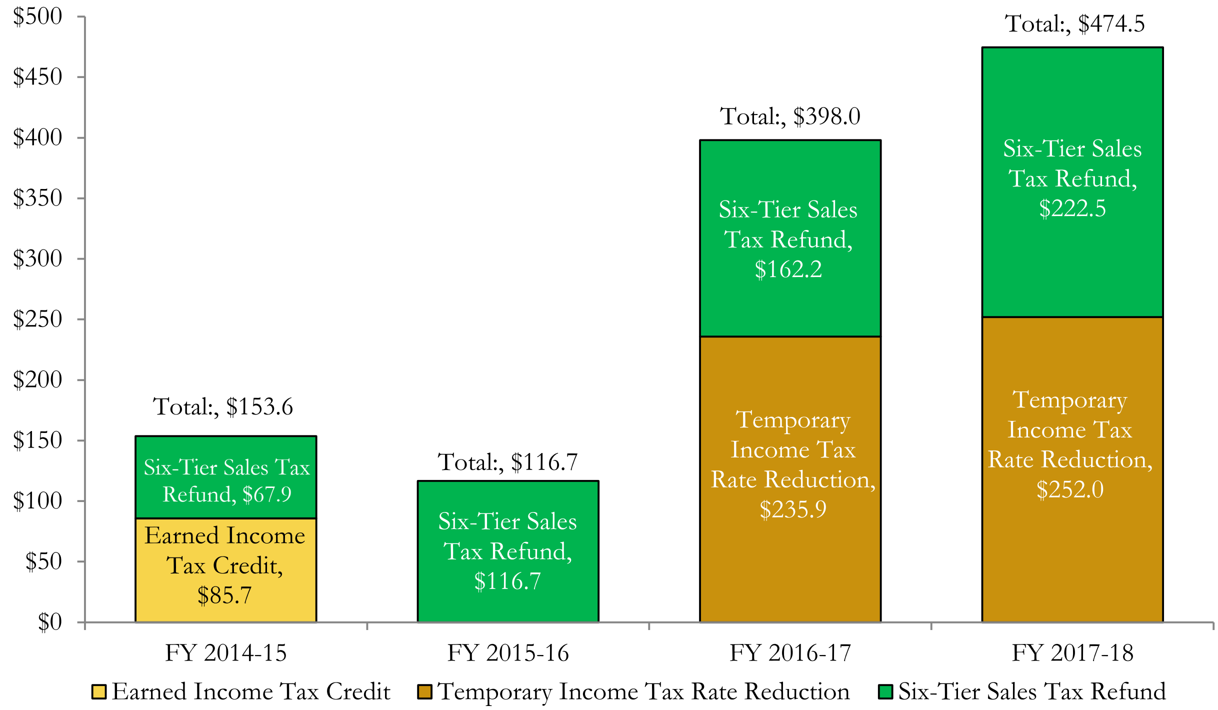
In November 2005, voters approved Referendum C, which allowed the State to retain all revenue through FY 2009-10 during a five-year TABOR "time out." Referendum C also set a new cap on revenue starting in FY 2010-11. Starting with FY 2010-11, the amount of revenue that the State may retain under Referendum 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 portion of cash fund revenue are included in calculating the revenue cap under Referendum C. Revenue that is not subject to TABOR includes revenue exempt 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 every year of this forecast – TABOR revenue exceeded the Referendum C cap by $150.0 million in FY 2014-15. TABOR revenue is projected to exceed the cap by $116.7 million in FY 2015-16, $398.0 million in FY 2016-17, and $474.5 million in FY 2017-18. Consequently, a refund to taxpayers will occur for all four years, 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 31 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.

In FY 2014-15, revenue above the cap exceeded the 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 $85.7 million and the credit is estimated to average about $217 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 use of the EITC as a refund mechanism in FY 2014-15, it will be available to qualifying taxpayers on an ongoing basis.

Figure 31. Projected Distribution of Revenue in Excess of the Referendum C Cap, $ in Millions



* The FY 2014-15 amount includes $150.0 million in revenue above the Referendum C Cap 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.

The six-tier sales tax refund will distribute the remaining $67.9 million of the refund in FY 2014-15 as specified by Section 39-22-2002, C.R.S. The amount of the refund that can be claimed by each taxpayer is calculated according to a statutory formula that includes six adjusted gross income tiers and the total amount to be refunded. Estimates of the amount of the refund per taxpayer based on income tier expected to be distributed by the six-tier sales tax refund are shown in Figure 32.

In FY 2015-16, the six-tier sales tax refund mechanism will be used to distribute the projected $116.7 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 the threshold for activating the income tax rate reduction to be $222.7 million for FY 2015-16, over $100 million higher than this forecast's projection for revenue in excess of the cap.

Revenue in excess of the cap in FY 2016-17 and FY 2017-18, projected at $398.0 million and $474.5 million respectively, 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 years 2017 and 2018. This would reduce state income tax liabilities for individual income taxpayers by about $53 for tax year 2017 and $56 for tax year 2018 on average per taxpayer, though the amount will vary greatly based on a taxpayer's taxable income level. The amounts refunded through this mechanism are estimated to be $235.9 million in FY 2016-17 and $252.0 million in FY 2017-18. The remaining portions, shown in figure 32, will be refunded through the six-tier sales tax refund mechanism.

Figure 32. Projected Distribution of Refunds via the Six-Tier Sales Tax Refund Mechanism

	FY 2014-15*	FY 2015-16	FY 2016-17	FY 2017-18
Projected Total Refund via Six-Tier Sales Tax Refund	**$67.9 million**	**$116.7 million**	**$162.2 million**	**$222.5 million**
Adjusted Gross Income Tier	Estimated Refund per Taxpayer			
First 35% (Up to $36,001)	$13	$22	$30	$40
Next 27% ($36,001 - $77,000)	$18	$30	$40	$53
Next 17% ($77,001 - $120,000)	$21	$34	$46	$62
Next 9% ($120,001 - $163,000)	$23	$39	$53	$71
Next 4% ($163,001 - $204,000)	$25	$42	$57	$76
Last 7% ($204,001 and Up)	$41	$68	$91	$122

*The number of taxpayers that will claim refunds used for calculating the estimated refund per taxpayer for tax year 2015, as well as the adjusted gross income tiers, are the Colorado Department of Revenue's projections. Income tiers represent tax year 2015.

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 1.15 percent of General Fund revenue. Therefore, the transfers for transportation and capital construction will be reduced by half – from $203.6 million to $101.8 million and $50.9 million to $25.4 million, respectively – under this forecast. However, a small decrease in revenue subject to TABOR would push the TABOR refund below 1 percent of General Fund revenue, increasing the transfers to their full amounts.

According to current projections, the transportation and capital construction transfers will be reduced to zero for FY 2016-17 and FY 2017-18 because the TABOR refund is expected to be larger than 3 percent of total General Fund revenue. This forecast projects the refund to be 3.7 percent of total General Fund revenue in FY 2016-17 and 4.2 percent of total General Fund revenue in FY 2017-18.

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 were to have exceeded 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. Actual retail marijuana tax collections in FY 2014-15 were $66.1 million, just under 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. Revenue exceeded this amount in FY 2014-15, meaning that a refund to taxpayers needs to occur unless voters decide that the State can retain the revenue. However, the refund associated with the estimates for Proposition AA cannot exceed the actual amount of new marijuana tax revenue collected in FY 2014-15.

As a result of the 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 created a special account in the General Fund consisting of $58.0 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 was 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 was 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. 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 $17 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 $24 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 32 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 $67.9 million in FY 2014-15 shown in Figure 32 to be refunded through the six-tier sales tax refund mechanism. General Fund obligations to pay for the refunds through the three mechanisms are $4.3 million higher than the amount set aside in the $58 million special account.

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 remaining $14.1 million to remain in the General Fund.

HB 15-1367 also temporarily reduced both the 10 percent special sales tax and 15 percent excise tax rates on retail marijuana to zero for one day on September 16, 2015, regardless of voter approval. This was to satisfy the TABOR provisions to reduce tax rates if revenue estimates given to voters are exceeded. However, the rate reduction was 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

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

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Appendix – Reference Tables

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

Line No.		Actual					September 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	$273.8	$289.4	$306.4
2	Change	1.9%	7.5%	6.3%	2.8%	5.6%	4.9%	5.7%	5.9%
3	Wage and Salary Income (Billions) /A	$113.8	$118.6	$125.1	$129.6	$137.7	$144.9	$153.3	$162.6
4	Change	1.3%	4.2%	5.5%	3.6%	6.3%	5.2%	5.8%	6.1%
5	Per-Capita Income ($/person) /A	$41,685.8	$44,171.8	$46,294.9	$46,863.6	$48,730.3	$50,343.6	$52,306.1	$54,446.9
6	Change	1.5%	6.0%	4.8%	1.2%	4.0%	3.3%	3.9%	4.1%
	Population & Employment								
7	Population (Thousands) /B	5,049	5,120	5,192	5,272	5,356	5,439	5,532	5,628
8	Change	0.5%	1.4%	1.4%	1.5%	1.6%	1.6%	1.7%	1.7%
9	Net Migration (Thousands)	37	34	39	45	53	56	60	63
10	Unemployment Rate	8.7%	8.3%	7.8%	6.8%	5.0%	4.3%	4.3%	4.2%
11	Total Nonagricultural Employment (Thousands) /C	2,222.3	2,258.6	2,313.0	2,381.9	2,464.7	2,533.7	2,607.2	2,680.2
12	Change	-1.0%	1.6%	2.4%	3.0%	3.5%	2.8%	2.9%	2.8%
	Construction Variables								
13	Total Housing Permits Issued (Thousands)	11.6	13.5	23.3	27.5	28.7	31.0	35.9	39.6
14	Change	23.9%	16.5%	72.6%	18.1%	4.2%	7.9%	16.1%	10.1%
15	Nonresidential Construction Value (Millions) /D	$3,146.7	$3,516.2	$3,112.3	$3,614.0	$4,301.1	$4,614.6	$4,718.0	$4,849.1
16	Change	-6.2%	11.7%	-11.5%	16.1%	19.0%	7.3%	2.2%	2.8%
	Prices & Sales Variables								
17	Retail Trade (Billions) /E	$70.5	$75.9	$80.2	$84.1	$90.3	$94.6	$99.8	$105.6
18	Change	6.0%	7.7%	5.7%	4.8%	7.4%	4.8%	5.5%	5.8%
19	Denver-Boulder-Greeley Consumer Price Index (1982-	212.4	220.3	224.6	230.8	237.2	241.5	247.7	253.7
20	Change	1.9%	3.7%	1.9%	2.8%	2.8%	1.8%	2.6%	2.4%

/A Personal Income as reported by the federal Bureau of Economic Analysis includes: w age and salary disbursements, supplements to w ages and salaries, proporietors' 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.

/B Population as reported by the U.S. Bureau of the Census. Population forecasts according to Colorado Department of Local Affairs State Demography Office.

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

/D 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, highw ays, bridges and utilities).

/E 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 w arehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants).

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

Line No.		Actual					September 2015 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017
	Inflation-Adjusted & Current Dollar Income Accounts								
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$14,783.8	$15,020.6	$15,354.6	$15,583.3	$15,961.7	$16,346.4	$16,755.0	$17,157.2
2	Change	2.5%	1.6%	2.2%	1.5%	2.4%	2.4%	2.5%	2.4%
3	Personal Income (Billions) /B	$12,477.1	$13,254.5	$13,915.1	$14,068.4	$14,694.2	$15,331.9	$16,083.2	$16,855.2
4	Change	3.2%	6.2%	5.0%	1.1%	4.4%	4.3%	4.9%	4.8%
5	Per-Capita Income ($/person)	$40,334	$42,520	$44,300	$44,450	$46,084	$47,693	$49,618	$51,536
6	Change	2.4%	5.4%	4.2%	0.3%	3.7%	3.5%	4.0%	3.9%
7	Wage and Salary Income (Billions) /B	$6,377.5	$6,633.2	$6,930.3	$7,114.4	$7,477.8	$7,829.3	$8,259.9	$8,738.9
8	Change	2.0%	4.0%	4.5%	2.7%	5.1%	4.7%	5.5%	5.8%
	Population & Employment								
9	Population (Millions)	309.3	311.7	314.1	316.5	318.9	321.5	324.1	327.1
10	Change	0.8%	0.8%	0.8%	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%	5.0%	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	236.8	241.3	246.1
15	Change	1.6%	3.1%	2.1%	1.5%	1.6%	0.0%	1.9%	2.0%
16	Producer Price Index - All Commodities (1982=100)	184.7	201.1	202.2	203.4	205.3	190.7	197.4	206.3
17	Change	6.8%	8.9%	0.5%	0.6%	0.9%	-7.1%	3.5%	4.5%
	Other Key Indicators								
18	Corporate Profits (Billions)	$ 1,746.4	$ 1,816.6	$ 1,998.2	$ 2,037.4	$ 2,072.9	$ 2,097.8	$ 2,213.2	$ 2,299.5
19	Change	25.0%	4.0%	10.0%	2.0%	1.7%	1.2%	5.5%	3.9%
20	Housing Permits (Millions)	0.605	0.624	0.829	0.990	1.046	1.210	1.404	1.560
21	Change	3.7%	3.2%	32.9%	19.4%	5.7%	15.6%	16.1%	11.1%
22	Retail Trade (Billions)	$4,288.3	$4,601.8	$4,831.1	$5,011.7	$5,204.7	$5,324.4	$5,585.3	$5,853.4
23	Change	5.4%	7.3%	5.0%	3.7%	3.8%	2.3%	4.9%	4.8%

/A U.S. Bureau of Economic Analysis, National Income and Product Accounts. Inflation-adjusted, in 2009 dollars.

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

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

Line No.	Category	Preliminary FY 2014-15	% Chg	September 2015 Estimate by Fiscal Year FY 2015-16	% Chg	FY 2016-17	% Chg	FY 2017-18	% Chg
	Excise Taxes:								
1	Sales	$2,621.2	8.1%	$2,741.4	4.6%	$2,897.0	5.7%	$3,030.5	4.6%
2	Use	$260.2	7.8%	$257.4	-1.1%	$266.2	3.4%	$282.5	6.1%
3	Cigarette	$37.9	3.6%	$37.4	-1.3%	$35.6	-4.7%	$34.5	-3.2%
4	Tobacco Products	$17.8	5.3%	$22.0	23.5%	$20.3	-7.7%	$20.8	2.6%
5	Liquor	$41.5	2.8%	$42.4	2.2%	$42.9	1.3%	$44.0	2.5%
6	**Total Excise**	**$2,978.6**	**7.9%**	**$3,100.6**	**4.1%**	**$3,262.0**	**5.2%**	**$3,412.3**	**4.6%**
	Income Taxes:								
7	Net Individual Income	$6,350.1	11.5%	$6,579.2	3.6%	$7,109.5	8.1%	$7,460.9	4.9%
8	Net Corporate Income	$692.9	-3.9%	$729.5	5.3%	$763.1	4.6%	$799.3	4.7%
9	**Total Income**	**$7,043.0**	9.8%	**$7,308.6**	**3.8%**	**$7,872.5**	**7.7%**	**$8,260.2**	**4.9%**
10	*Less: State Education Fund Diversion*	*$519.8*	*8.6%*	*$540.8*	*4.0%*	*$590.4*	*9.2%*	*619.5*	*4.9%*
11	**Total Income to General Fund**	**$6,523.1**	**9.9%**	**$6,767.8**	**3.8%**	**$7,282.1**	**7.6%**	**$7,640.6**	**4.9%**
	Other Revenue:								
12	Insurance	$257.6	7.8%	$270.0	4.8%	$276.2	2.3%	$281.5	1.9%
13	Interest Income	$8.1	-46.6%	$14.6	79.6%	$15.4	5.8%	$16.3	5.7%
14	Pari-Mutuel	$0.6	0.2%	$0.6	-3.0%	$0.6	-3.0%	$0.6	-2.0%
15	Court Receipts	$2.6	0.3%	$2.5	-4.3%	$2.4	-1.0%	$2.4	0.0%
16	Other Income	$30.4	42.5%	$23.6	-22.3%	$25.4	7.3%	$26.8	5.8%
17	**Total Other**	**$299.3**	**7.2%**	**$311.3**	**4.0%**	**$320.0**	**2.8%**	**$327.7**	**2.4%**
18	**GROSS GENERAL FUND**	**$9,801.0**	**9.2%**	**$10,179.7**	**3.9%**	**$10,864.1**	**6.7%**	**$11,380.6**	**4.8%**

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

Line No.		Preliminary FY 2014-15	September 2015 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-18
Revenue					
1	**Beginning Reserve**	**$435.9**	**$638.0**	**$577.0**	**$644.4**
2	**Gross General Fund Revenue**	**$9,801.0**	**$10,179.7**	**$10,864.1**	**$11,380.6**
3	*Transfers to the General Fund*	*$65.8*	*$15.6*	*$16.8*	*$17.9*
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$10,302.8**	**$10,833.2**	**$11,458.0**	**$12,042.9**
Expenditures					
5	**Appropriation Subject to Limit**	**$8,869.0**	**$9,442.1**	**$9,962.7**	**$10,485.6**
6	*Dollar Change (from prior year)*	*$650.3*	$573.1	$520.6	$522.9
7	*Percent Change (from prior year)*	7.9%	6.5%	5.5%	5.2%
8	**Spending Outside Limit**	**$795.8**	**$814.2**	**$850.9**	**$878.9**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	*$153.6*	*$116.7*	*$398.0*	*$474.5*
10	*Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)*	*$58.0*	*$0.0*	*$0.0*	*$0.0*
11	*Rebates and Expenditures*	*$256.7*	$263.1	$278.0	$290.2
12	*Transfers for Capital Construction*	*$248.5*	$246.8	$86.7	$41.9
13	*Transfers to Highway Users Tax Fund*	$0.0	$101.8	$0.0	$0.0
14	*Transfers to State Education Fund under SB 13-234*	$25.3	$25.3	$25.3	$25.3
15	*Transfers to Other Funds*	$44.0	$60.4	$62.8	$47.0
16	*Other Expenditures Exempt from General Fund Appropriations Limit*	$9.7	$0.0	$0.0	$0.0
17	**TOTAL GENERAL FUND OBLIGATIONS**	**$9,664.8**	**$10,256.2**	**$10,813.6**	**$11,364.5**
18	*Percent Change (from prior year)*	10.3%	6.1%	5.4%	5.1%
19	Reversions and Accounting Adjustments	*$0.0*	$0.0	$0.0	$0.0
Reserves					
20	**Year-End General Fund Balance**	**$638.0**	**$577.0**	**$644.4**	**$678.4**
21	*Year-End General Fund as a % of Appropriations*	*7.2%*	6.1%	6.5%	6.5%
22	*General Fund Statutory Reserve*	$576.5	$611.3	$644.4	$678.4
23	*Above (Below) Statutory Reserve*	$61.5	-$34.3	$0.0	$0.0

/A See the section discussing the General Fund and State Education Fund budget starting on page 34 for information on the figures in this table.

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

Line No.		Preliminary FY 2014-15	September 2015 Estimate by Fiscal Year		
			FY 2015-16	FY 2016-17	FY 2017-18
Revenue					
1	**Beginning Reserves**	**$1,484.9**	**$1,319.9**	**$887.1**	**$774.7**
2	*State Education Fund*	$1,048.9	$682.0	$310.1	$130.4
3	*General Fund*	$435.9	$638.0	$577.0	$644.4
4	**Gross State Education Fund Revenue**	**$594.4**	**$571.8**	**$621.9**	**$651.3**
5	**Gross General Fund Revenue /B**	**$9,866.9**	**$10,195.3**	**$10,881.0**	**$11,398.5**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,946.1**	**$12,087.0**	**$12,390.0**	**$12,824.5**
Expenditures					
7	General Fund Expenditures /C	$9,664.8	$10,256.2	$10,813.6	$11,364.5
8	State Education Fund Expenditures	*$969.2*	*$943.7*	*$801.7*	*$644.9*
9	**TOTAL OBLIGATIONS**	**$10,634.0**	**$11,199.9**	**$11,615.3**	**$12,009.4**
10	*Percent Change (from prior year)*	11.9%	5.3%	3.7%	3.4%
11	*Reversions and Accounting Adjustments*	*($7.9)*	*$0.0*	*$0.0*	*$0.0*
	General Fund Reversions and Accounting Adjustments	*$0.0*	*$0.0*	*$0.0*	*$0.0*
	State Education Fund Reversions and Accounting Adjustments	*($7.9)*	*$0.0*	*$0.0*	*$0.0*
Reserves					
12	**Year-End Balance**	**$1,319.9**	**$887.1**	**$774.7**	**$815.1**
13	State Education Fund	$682.0	$310.1	$130.4	$136.7
14	General Fund	$638.0	$577.0	$644.4	$678.4
15	*Transfer of Excess General Fund Reserve to Other Funds*	$0.0	$0.0	$0.0	$0.0
16	*General Fund Excess After Any Funds Above Statutory Reserve are Allocated*	$61.5	-$34.3	$0.0	$0.0

/A See the section discussing the General Fund and State Education Fund budget starting on page 34 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	Preliminary FY 2014-15	September 2015 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-2018
Transportation-Related /A	**$1,164.6**	**$1,179.4**	**$1,207.4**	**$1,234.3**
Change	2.5%	1.3%	2.4%	2.2%
Limited Gaming Fund /B	**$99.3**	**$102.4**	**$105.4**	**$108.6**
Change	1.1%	3.1%	3.0%	3.0%
Capital Construction - Interest	**$4.7**	**$4.4**	**$1.5**	**$1.3**
Change	94.0%	-4.4%	-67.1%	-13.2%
Regulatory Agencies	**$64.7**	**$66.4**	**$68.7**	**$71.3**
Change	-5.5%	2.6%	3.5%	3.8%
Insurance-Related	**$21.5**	**$13.7**	**$13.8**	**$14.0**
Change	4.1%	-36.4%	0.7%	1.4%
Severance Tax /C	**$280.2**	**$109.0**	**$162.9**	**$198.4**
Change	4.3%	-61.1%	49.4%	21.8%
Hospital Provider Fee /D	**$528.8**	**$805.0**	**$756.3**	**$798.8**
Change	-6.7%	52.2%	-6.0%	5.6%
Other Miscellaneous Cash Funds	**$585.1**	**$584.0**	**$601.2**	**$615.5**
Change	2.9%	-0.2%	2.9%	2.4%
TOTAL CASH FUND REVENUE	***$2,748.8***	***$2,864.4***	***$2,917.3***	***$3,042.2***
Change	0.7%	4.2%	1.8%	4.3%

/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 FY 2014-15 figure includes the impact of SB 15-255 which credits severance tax collections between May 1st and June 30th, 2015, up to $20 million, into the General Fund. Actual collections were equal to $16.2 million.

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

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

Line No.		Preliminary FY 2014-15	September 2015 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-18
	TABOR Revenues:				
1	General Fund /A	$9,755.4	$10,131.9	$10,811.2	$11,335.9
	Percent Change from Prior Year	8.8%	3.9%	6.7%	4.9%
2	Cash Funds /A	$2,748.2	$2,864.4	$2,917.3	$3,042.2
	Percent Change from Prior Year	0.7%	4.2%	1.8%	4.3%
3	Total TABOR Revenues	$12,503.7	$12,996.3	$13,728.4	$14,378.1
	Percent Change from Prior Year	6.9%	3.9%	5.6%	4.7%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.5%	1.6%	1.7%	1.7%
5	Previous calendar year inflation	2.8%	2.8%	1.8%	2.6%
6	Allowable TABOR Growth Rate	4.3%	4.4%	3.5%	4.3%
7	TABOR Limit	$9,969.6	$10,390.6	$10,754.3	$11,216.7
8	General Fund Exempt Revenue Under Ref. C /B	$2,384.1	$2,489.0	$2,576.1	$2,686.9
9	Revenue Cap Under Ref. C /C	$12,353.7	$12,879.6	$13,330.4	$13,903.6
10	Amount Above/(Below) Cap	$150.0	$116.7	$398.0	$474.5
11	TABOR Reserve Requirement	$370.6	$386.4	$399.9	$417.1

/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 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.