COLORADO
Office of State Planning & Budgeting

December | 2015

# The Colorado Economic Outlook

## Economic and Fiscal Review

## Table of Contents



**John W. Hickenlooper**
**Governor**

**Henry Sobanet**
**Director**

**Jason Schrock**
**Chief Economist**

**Greg Lestikow**
**Economist**

**Michael Yeadon**
**Economist**

For additional information about the Governor's Office of State Planning and Budgeting, and to access this publication electronically, please visit www.colorado.gov/ospb.

To sign up for economic updates from the Governor's Office of State Planning and Budgeting, visit https://sites.google.com/a/state.co.us/ospb-live/live-form.

Follow the Governor's Office of State Planning and Budgeting on Twitter @COBudgetOffice.

Connect with us on Facebook by searching *CO Budget Office*.

Front page photos courtesy of Colorado Tourism.

**Summary**

- General Fund revenue is forecasted to increase just 2.1 percent in FY 2015-16, a lower growth rate than forecast in September. Projected revenue is $170.8 million, or 1.7 percent, lower compared with September. The slower economic activity that was projected in prior forecasts has weakened tax collections more than expected. Also, corporate income tax collections continue to decline and underperform expectations as a result of weak corporate earnings. Further, declining oil prices have lowered expectations for income tax revenue from royalty payments.

- General Fund revenue growth is still expected to rebound moderately in FY 2016-17 as economic expansion continues and the factors weighing on growth this fiscal year ease. However, the FY 2016-17 General Fund revenue growth rate of 6.7 percent is still below the rates experienced in most years of the current expansion.

- Under this forecast, the State's General Fund reserve is projected to be $156.5 million below the required amount of 6.5 percent of appropriations in FY 2015-16. The projected shortfall is larger than in OSPB's September forecast, due to lower revenue projections and the new expectation that transfers to transportation and capital construction under Senate Bill 09-228 will occur at their full amounts rather than being reduced by half. Full transfers are now expected as no TABOR refunds are forecast for FY 2015-16. Refunds above one percent of General Fund revenue trigger a reduction in the transfers.

- Under the Governor's November budget request and this forecast, the State's General Fund reserve in FY 2016-17 is projected to be $47.1 million above the required amount of 6.5 percent of appropriations.

- After exceeding the Referendum C cap in FY 2014-15, TABOR revenue is projected to come in below the cap in FY 2015-16. TABOR revenue is expected to come in over the cap by $212.0 million in FY 2016-17 and $340.9 million in FY 2017-18.

- The projected TABOR refund in FY 2016-17 under the Governor's budget request is only slightly above the level that would trigger full SB 09-228 transfers to transportation and capital construction. Therefore, a small downward revision in the revenue forecast would result in additional General Fund obligations to cover full transfers. As a result of the expected size of the TABOR refunds in 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 (EITC) 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 2016-17, revenue above the Referendum C cap will be refunded through the sales tax refund. In FY 2017-18, the refund will occur through a temporary income tax rate reduction and the sales tax refund.

- As expected in prior forecasts, Colorado's economic growth slowed during the course of 2015 from its robust pace in 2014. The contraction in the oil and gas sector, a tighter labor market, and sluggish global growth all have contributed to the slowdown. The core of the state's economy, with its diverse industry base and stronger population growth, remains resilient in the face of these headwinds. Because of these favorable attributes, Colorado's economy is expected to continue to post stronger levels of growth than the nation overall, but slower than the high growth experienced in 2014.

- Sluggish global economic conditions continue to pose downside risks to the forecast. Further, recent weakness in areas of corporate credit markets is making it harder for some businesses to borrow money and could imply broader deteriorating economic conditions. In addition, oil prices have dropped further recently and another major contraction in the industry presents a downside risk to the forecast.

- Cash fund revenue subject to TABOR in FY 2015-16 is forecasted to be $103.7 million, or 3.8 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. Cash fund revenue subject to TABOR will increase 1.2 percent in FY 2016-17.

# The Economy: Issues, Trends, and Forecast

The following section discusses overall economic conditions in Colorado, nationally, and around the world. Economic conditions provide the foundation for trends in tax collections and the demand for State services. The OSPB forecast for job and income growth for Colorado is slightly lower compared with the September Colorado Economic Outlook. The contraction in the oil and gas sector, a tighter labor market, and a global downturn in commodities and manufacturing all have contributed to slower growth for the state, though the core of the state's economy remains solid. This 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 —*** As expected in prior forecasts, Colorado's economic growth slowed during the course of 2015 from its robust pace in 2014. The contraction in the oil and gas sector, a tighter labor market, and sluggish global growth all have contributed to the slowdown. However, much of the slowdown in economic activity worldwide has been confined to the manufacturing and mining sectors, which make up a relatively small portion of Colorado's economy. Therefore, the core of the state's economy, with its diverse industry base and stronger population growth, remains resilient in the face of these headwinds. Because of the state's favorable economic attributes, Colorado's economy is expected to continue to post stronger levels of growth than the nation overall, but slower than the high growth experienced in 2014. The state is forecast to achieve job gains of 2.6 percent in 2016, after growth of 3.4 percent and 2.8 percent in 2014 and 2015, respectively.

In the midst of headwinds from sluggish global economic conditions, the U.S. economy overall continues to grow at a modest yet steady pace. Although the manufacturing sector has been hit particularly hard by slow global growth and lower commodity prices, the services sector, which makes up a larger portion of the U.S economy, remains resilient. A solid labor market and lower gasoline prices continue to fuel strong growth in consumer spending, one of the largest factors contributing to overall growth in the U.S. economy.

This forecast includes an analysis of housing cost trends and their implications for the economy. The recent increases in home prices and rents for parts of Colorado, especially the northern Front Range, have been among the highest in the nation, making these regions less affordable. However, higher housing costs are not generally associated with lower in-migration rates or slower economic growth. Some of the least affordable areas in the nation have among the highest in-migration rates of young and educated populations and experience some of the strongest job growth in the country. Other factors thus can outweigh housing costs in determining growth, namely economic diversity and vibrancy, the amount and quality of economic opportunities, quality of schools, and other amenities. Therefore, higher housing costs in Colorado do not necessarily portend a slowdown in economic growth for the state.

There is some evidence, however, that higher housing costs can reduce job growth and increase out-migration rates compared to scenarios in which housing costs were lower, especially over time. Therefore, although higher housing costs do not necessarily cause an area to have poor economic performance, they can act as a growth constraint.

***Economic risks* —** Sluggish global economic conditions continue to pose downside risks to the forecast. Colorado's economy does not have a large amount of direct exposure to the global slowdown in manufacturing activity and trade in goods and commodities, but a larger sustained downturn may begin to have larger negative spillover effects for the state. In addition, recent weakness in higher-yield, more risky corporate bonds is making it harder for some businesses to borrow money and could imply broader deteriorating economic conditions.

Oil prices have dropped further recently due to continued oil production growth amidst weak global demand. The oil and gas industry's contraction in the state has contributed to overall slower growth in Colorado and future contractions in the industry will weigh further on growth.

Finally, the economy faces risks associated with the Federal Reserve's tightening of monetary policy through raising the target for the federal funds rate. The Federal Reserve raised the target range for the federal funds rate to 0.25-0.5 percent, up from 0-0.25 percent, at its meeting on December 16. It also signaled future increases are expected in 2016 but are likely to be gradual and dependent on the economy. Although the financial markets and broad economic conditions appear to be ready for such an increase, further tightening in the rate, after being at near-zero levels for an extended period of time, creates some uncertainty.

## Colorado Economy

As expected in prior forecasts, Colorado's economic growth slowed during the course of 2015 from its robust pace in 2014. Recently released state gross domestic product data from the U.S. Bureau of Economic Analysis confirms the slower growth this year through the second quarter after the state experienced among the highest rates of growth in the country in 2014.

The contraction in the oil and gas sector, a tighter labor market, and sluggish global growth all have contributed to the slowdown. Colorado's agricultural sector is also experiencing weakened conditions due to lower crop and livestock prices, a stronger dollar, and less global demand for its products. These adverse conditions are impacting some areas of the state more than others, most notably nonurban areas, the northeast, and the western slope. The Denver Metro region is also feeling the impact of the oil and gas industry's contraction due the industry's large presence there.

**Because of the state's favorable economic attributes, Colorado's economy is expected to continue to post stronger levels of growth than the nation overall, but below the robust growth experienced in 2014.**

The core of the state's economy, however, with its diverse industry base, remains resilient in the face of these headwinds. The professional and business services, high-tech, finance, and health care sectors all continue to grow as they are producing goods and services that remain in demand in the current economic environment. As a result of sustained expansion in these key economic drivers, the construction, real estate, retail, restaurant, and entertainment sectors continue to add jobs. Solid population gains and a higher concentration of skilled workers also bolster the state's economy.

Despite the slowdown in overall job growth, Colorado's unemployment rate has continued to drop, falling to 3.6 percent in November after hovering above 4.0 percent for most of 2015. This is the lowest unemployment level since the summer of 2007. Further, layoffs in most sectors remain at low levels outside of an uptick in unemployment insurance claims related to oil and gas.

Because of the favorable economic attributes that remain for the state, Colorado's economy is expected to continue to post stronger levels of growth than the nation overall, but below the high growth experienced in 2014. The state is forecast to post job gains of 2.6 percent in 2016, after growth of 3.4 percent and 2.8 percent in 2014 and 2015, respectively.

***Recent indicators point to slower growth for the state*** – The following graph shows the recent trend in income tax wage withholdings, a near-real-time indicator of broad economic performance that shows actual collections from employers across the state economy through November. The slower growth in income tax withholdings from wages is a telling indicator of the slowdown in job growth in the state.

**Figure 1. Income Tax Wage Withholdings for Colorado***

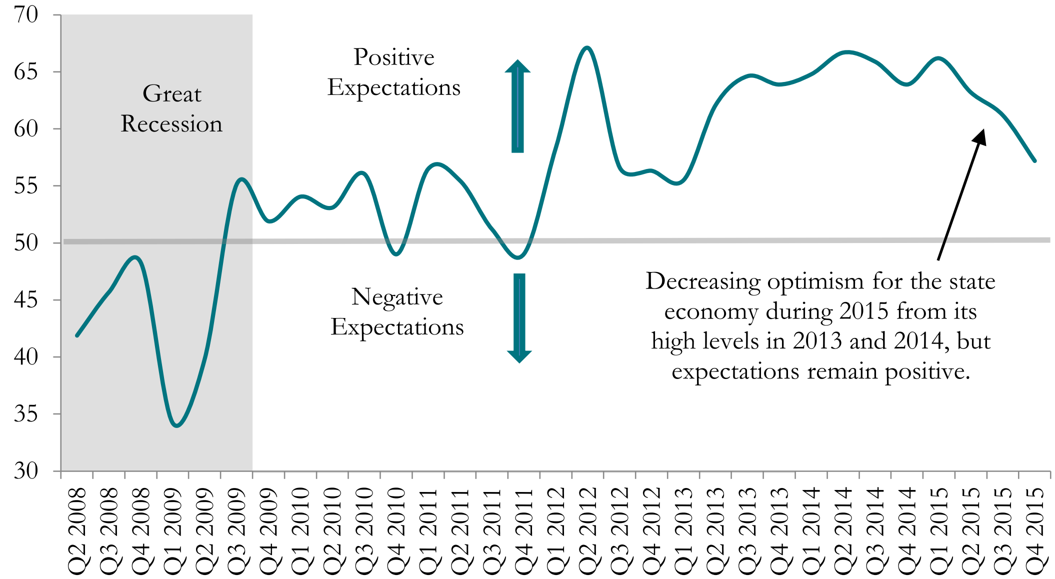

*Seasonally Adjusted, Three-month moving average
Source: Colorado Department of Revenue

***Expectations for the state economy have become less positive*** – The Leeds Business Confidence Index, published by the University of Colorado at Boulder, Leeds School of Business, measures business assessments about economic conditions for the upcoming quarter. Figure 2 shows the index for business expectations for the overall state economy since the Great Recession and entering the fourth quarter of 2015.

**Expectations for the state economy declined for the third consecutive quarter entering the fourth quarter of 2015, mirroring the slowdown in the state's economic growth.**

The index declined for the third consecutive quarter, mirroring the slowdown in the state's economic growth during 2015. However, despite the decline, the index continues to post positive readings above the neutral threshold score of 50. Further, businesses remained more positive about the state economy than the national economy. Expectations for the economy are a key factor for future performance. When expectations for the economy are positive, businesses are more likely to hire and invest. Therefore, positive readings in the index point to continued expansion in the near term.

**Figure 2. CU Leeds Business Confidence Index on Expectations for the State Economy***




* Readings above 50 indicate positive expectations, with higher readings signifying greater business confidence, while readings below 50 represent negative expectations.
Source: CU Leeds School of Business, Business Research Division

***Colorado's more advanced, knowledge- and services-based economy is withstanding the global downturn in the manufacturing and mining sectors –*** Much of the slowdown in economic activity worldwide has been confined to the manufacturing and mining sectors. However, these two sectors make up a relatively small portion of Colorado's economy. In 2014, the sectors represented about 13 percent of the state's gross domestic product. Further, in contrast to national and global trends, Colorado's manufacturing sector continues to grow. Manufacturing employment in the state posted gains through October. This resilience may owe to the fact that much of Colorado's manufacturing sector produces advanced goods that are less tied to the global slowdown in commodities and heavy equipment.

**Despite the recent slower growth, Colorado's concentration of diverse services, knowledge-based, and high-tech industries, combined with stronger population growth, will help it continue to perform better than the nation.**

Most of Colorado's economic activity involves higher value professional and business services, such as architecture, engineering, accounting, and information technology, as well as financial and health care products and services. These activities continue to be in demand in the current economic environment despite the slowdown in oil and gas and manufacturing across the economy.

Several of the above industries are considered high-tech industries due to their high proportion of scientists, engineers, and technicians. These industries typically have higher paying jobs. Further, the state's economy has become increasingly knowledge-based, in which economic value is created through ideas, information, innovation, and relationships. Knowledge-based and high-tech industries are involved with developing new products and production processes that lead to increased productivity and overall economic growth. Regions with concentrations of this activity have better economic competitiveness and more growth.

The following graph demonstrates that Colorado has a stronger concentration of high-tech industries, professional and business services, and information and financial services than the national economy as a whole.

The graph shows the location quotient of these industries for Colorado, which is based on the share of industry employment in an area.

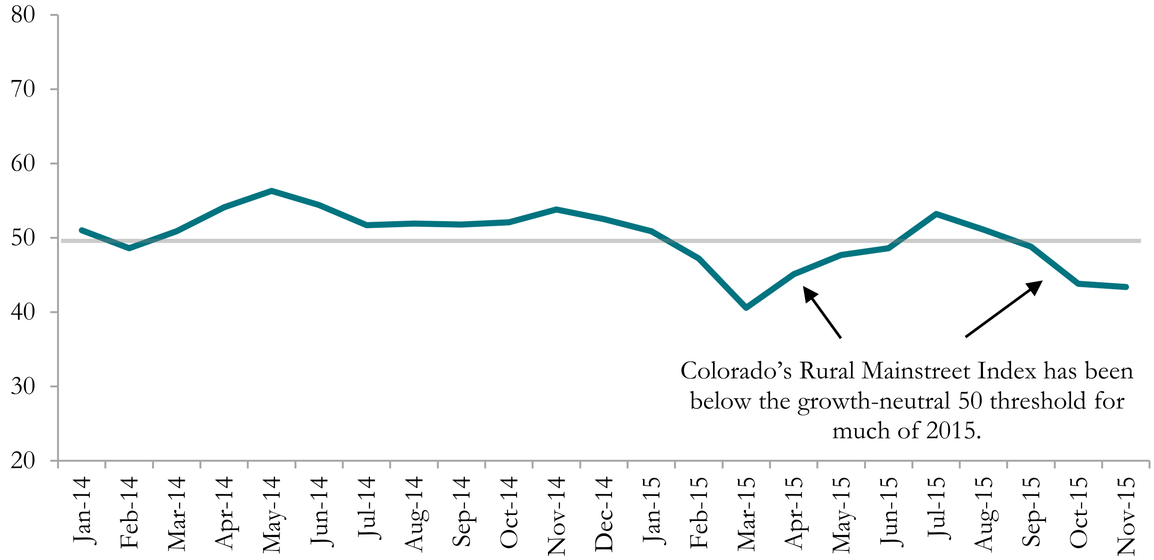
A location quotient greater than one indicates the state has a greater concentration of the industry compared with the U.S. economy overall. Industries with higher location quotients are typically export-oriented industries as they generally produce more than the region in which they operate consumes. Exporting industries are important because they bring money into the region for investment and hiring. The state's higher concentration of these industries will help its economy continue to perform better than the nation.

**Figure 3. Colorado's Concentration (Location Quotient) of High-Tech, Knowledge, and Services-related Industries***


* The location quotient is the ratio of an industry's employment to total employment in Colorado divided by the ratio of the industry's employment to total employment for the U.S. overall. Some of the detailed high-tech industries listed are also part of the broader professional and business services and information sectors.
Source: U.S. Bureau of Labor Statistics

***Nonurban areas tied to agricultural economies continue to experience more sluggish conditions –*** Low prices for certain crops and livestock, combined with a stronger dollar and weaker exports, continue to dampen farm income and negatively impact some of Colorado's regional agricultural-based economies. Colorado's Rural Mainstreet Index, published by Creighton University, has hovered below the growth-neutral 50 threshold for much of 2015, as shown in Figure 4. The index in November registered 43.4, similar to October's level. Some of the weakness in the rural index is likely tied to the slowdown in the oil and gas industry. The index surveys rural community banks in nonurban agricultural and energy-dependent areas regarding current economic conditions and their economic outlooks.

**Figure 4. Colorado's Rural Mainstreet Index**



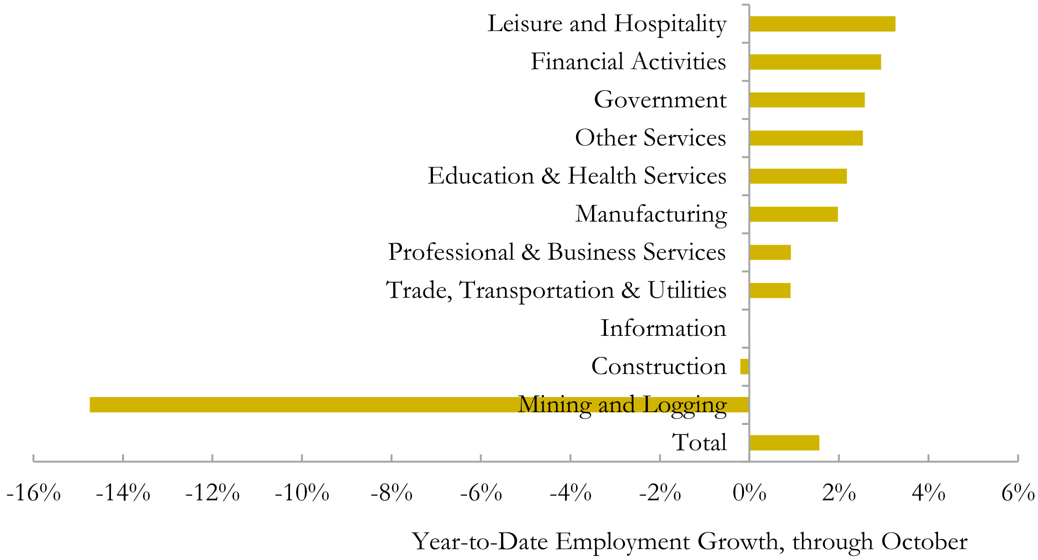

Source: Creighton University

***Service-related job growth is leading the Colorado employment expansion while construction and extractive industries lag –*** Colorado has seen broad-based employment growth throughout this year, with the notable exceptions of information, construction, and especially the oil and gas industry, where low oil prices have caused firms to shed workers. As Figure 5 demonstrates, job growth has been especially concentrated in services sectors such as leisure and hospitality, financial services, and education. The slight drop in construction employment may reflect a low supply of workers, many of whom left the industry in the wake of the recession. The oil and gas industry lost over 15 percent of its total workforce in the first half of 2015. The impact of persistently low oil prices on the industry remains to be seen, but job losses have slowed in the second half of the year based on preliminary survey data. For further discussion on the oil and gas industry, see page 19.

**Job growth in the state has been solid in most sectors, and especially in service-related industries, dampening the negative impact of the slowdown in the oil and gas industry.**

Other signs point to a solid Colorado jobs market. According to a report from the Conference Board concerning online help-wanted ads, the ratio of unemployed persons to online ads was 0.78, the lowest in the Western region of the country and roughly half the nationwide average. Likewise, Denver's "supply/demand" ratio measured 0.5, the lowest of any major metropolitan area tracked by the survey. These low ratios indicate that employers in the state are having a more difficult time filling their openings, and that Coloradans continue to have more job opportunities relative to the rest of the nation.

**Figure 5. Colorado Year-to-Date Employment Growth by Sector***



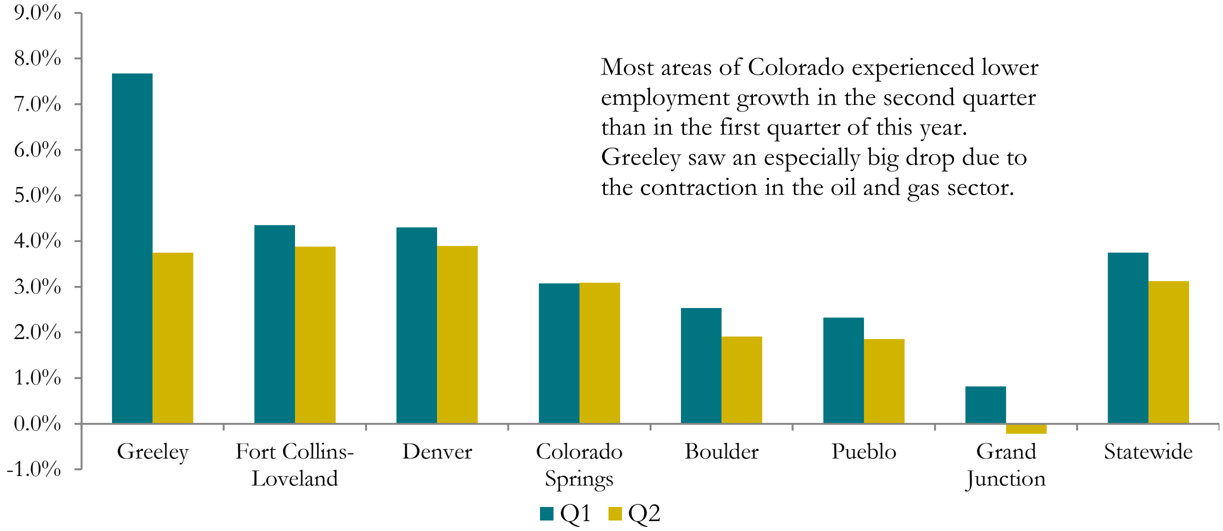

*Seasonally adjusted data
Source: Bureau of Labor Statistics, OSPB Calculations

***Job growth is concentrated in the central and northern Front Range regions, but is slowing across the state –*** While Colorado has experienced healthy growth in employment over the course of the year, gains have not been spread evenly across the state. The northern Front Range fared best early in the year as employment in Greeley, Denver and the Fort Collins-Loveland area grew by 7.7, 4.4 and 4.3 percent in the first quarter over the same period in 2014. Jobs in Grand Junction, and Pueblo grew slower than the state average.

Despite these positive developments, though, employment growth slowed in the state over the course of the year. As shown in Figure 6, year-over-year growth slowed from 3.7 percent in the first quarter to 3.1 percent in the second quarter. Growth stalled in all metro areas except Colorado Springs, and the slowdown was especially marked in Grand Junction and Greeley, both of which lost jobs during the second quarter.

**Year-over-year job growth fell from 3.7 percent in the first quarter to 3.1 percent in the second, and almost all areas of the state have experienced some slowing.**

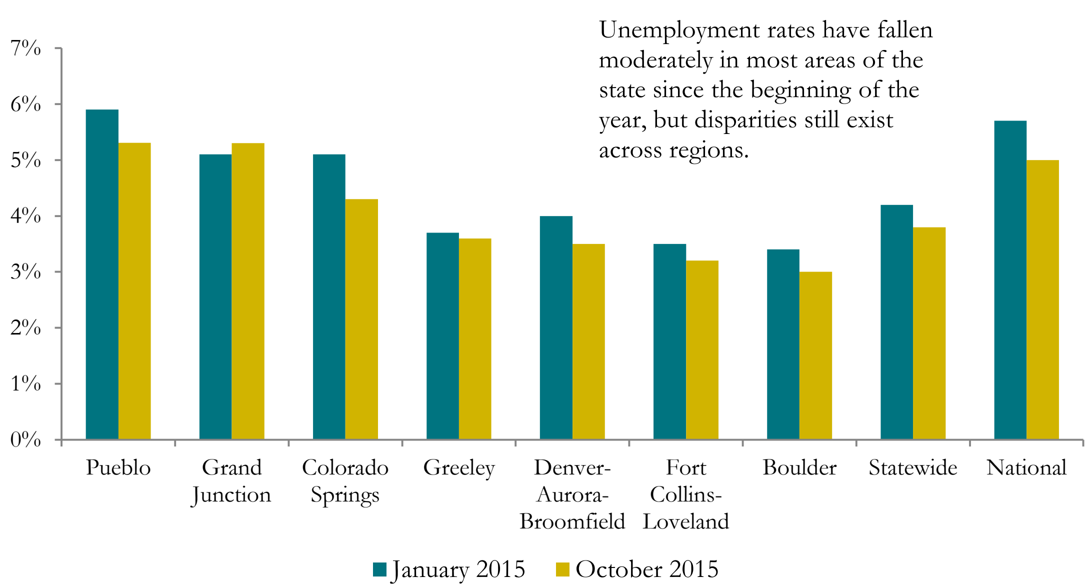
**Figure 6. Year-over-Year Employment Growth in First and Second Quarter, 2014 to 2015**




Source: Colorado Department of Labor and Employment, OSPB Calculations

***Unemployment continues to fall, but unemployment levels vary widely across the state –*** The official unemployment rate in Colorado fell to 3.6 percent in November, 1.4 percentage points below the national average and 0.6 percentage points below the level at the beginning of the year. In addition, the broader U-6 measure of underemployment averaged 8.4 percent for Colorado from the fourth quarter of 2014 through the third quarter of this year, compared to 10.8 percent for the same metric at the national level. As shown in Figure 7, topline state numbers mask significant variation across the state. For instance, Boulder's unemployment rate stood at 3.0 percent in October, while Pueblo and Grand Junction both had rates of 5.3 percent.

**Figure 7. Unemployment Rates by Colorado Metro Area**



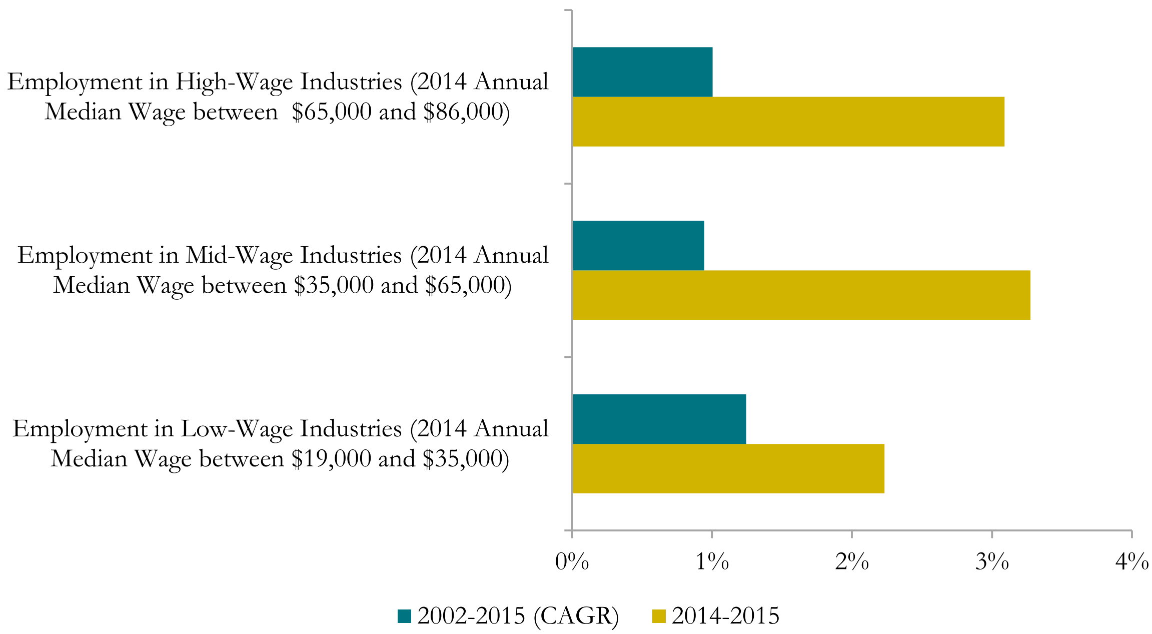

Source: Bureau of Labor Statistics

***Colorado is breaking with long-term trends by adding more high- and middle-wage jobs –*** As Figure 8 shows, lower-wage jobs in Colorado grew at an average annual rate of 1.2 percent between 2002 and 2015, compared to growth of only 1.0 percent for middle- and higher-wage jobs. More recently, though, higher- and middle-wage jobs have grown faster. From the first half of 2014 to the same period in 2015, higher-wage jobs grew by 3.1 percent, middle-wage jobs by 3.3 percent, and lower-wage jobs by 2.2 percent. This translated into roughly 43,600 new middle- and higher-wage jobs over the year, and shows that Colorado's economic expansion has created opportunities across occupations and industries

Over the long term, wage disparity has increased, however. From 2002 to 2014, workers in high-wage industries saw their real median annual wages increase 24.4 percent. On the other hand, middle-wage industries increased real median wages by only 1.8 percent, while workers in low-wage industries experienced an 8.1 percent erosion over the period.

**Middle- and higher-wage jobs grew 3.3 and 3.1 percent respectively from 2014 to 2015, a higher rate than lower-wage jobs and significantly better than long-run averages.**

**Figure 8. Growth in Colorado Employment by Wage Level***




*Data represents average employment levels from the first half of each year. Median wage data is not available for 2015, so 2014 median wages are applied to all years.
Source: Colorado Department of Labor and Employment, Bureau of Labor Statistics, OSPB Calculations

## National Economy

***The national economy continues to grow at a modest pace –*** In the midst of headwinds from sluggish global economic conditions, the U.S. economy continues to grow at a modest yet steady pace. Although the manufacturing sector has been hit particularly hard by slow global growth and lower commodity prices, the services sector, which makes up a larger portion of the U.S economy, remains resilient. Additionally, multiple labor market indicators continue to point towards a tightening labor market putting more upward pressure on wages, although still sluggish compared with historical trends. A solid labor market and lower gasoline prices continue to fuel strong growth in consumer spending, one of the largest factors contributing to overall growth in the U.S. economy.

**The U.S. economy continues modest yet steady growth in the midst of sluggish global economic conditions.**

According to the Federal Reserve's most recent "Beige Book," business and other contacts across the economy indicated that economic activity expanded modestly across most regions and industries in recent months. Reports on manufacturing were mixed with contacts indicating that the strong dollar, low commodity prices, and weak global demand remain constraining factors. Business contacts reported modest growth in labor demand and that wages have increased modestly, but mostly in higher-skilled occupations.

***Longer-term drivers of the overall health of the economy point to continued moderate growth —*** The recent trend toward moderated growth in the national economy may be a preview of longer-term expectations. One simple measure of longer-term economic growth is population growth plus productivity growth. Given the long-term downward trend in measured productivity growth and the demographic shifts in the U.S., overall economic growth will likely be constrained in the near term and potentially over the long term, as well.

**A long-run downward trend in measured productivity, demographic shifts, and a smaller prevalence of new businesses are slowing growth in the U.S.**

Furthermore, the U.S. has traditionally been a highly entrepreneurial and dynamic economy. However, new business formation and the prevalence of small businesses have been on a slow decline over the past few decades giving further indication that, without any fundamental shift in the economy, the U.S. economy is on a slower growth trajectory than in previous periods. This national trend masks the performance of many areas around the U.S., Colorado among them, that have more of an entrepreneurial culture with younger, growing populations that helps facilitate business formation and growth. These regions continue to outperform other areas in the nation.

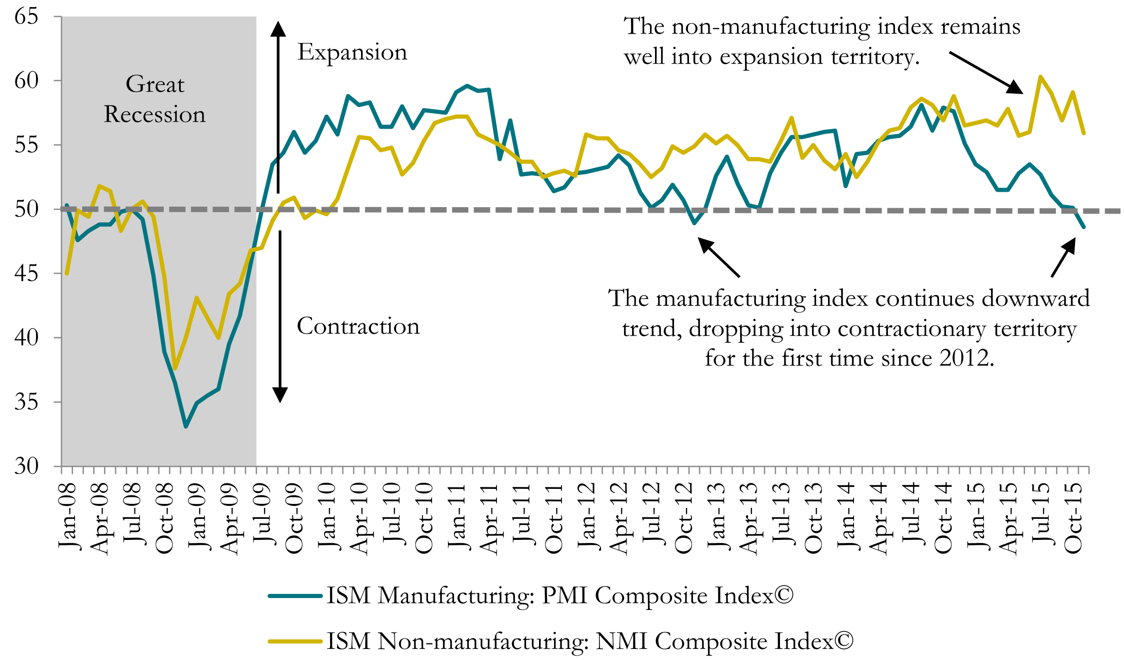
***Broad measures of manufacturing and non-manufacturing activity show diverging patterns between the two sectors —*** The Manufacturing Composite Index and the Non-manufacturing Composite Index, both published by the Institute for Supply Management (ISM), indicate that the non-manufacturing sector continued to expand while the manufacturing sector entered contractionary territory in November. 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.

**The ISM non-manufacturing index, which looks at the largest portion of U.S. economic activity, indicates continued expansion while the manufacturing index dropped into contractionary territory in November for the first time in three years.**

As shown in Figure 9, the non-manufacturing index, which covers the largest portion of economic activity in the U.S., dropped to 55.9 in November from 59.1 in October. Despite the decline, the index remains above the 50 threshold, indicating that the industry continues to expand. The month of November marked the 70th consecutive month for expansion in the non-manufacturing sector. Importantly, comments from representatives remained positive about business conditions in the non-manufacturing sector.

The ISM manufacturing index decreased to 48.6 in November from 50.1 in October. A reading below 50 indicates a contraction in the industry. Comments from representatives were mixed, with some indicating sales remained consistent while others indicated that the global economy and low commodity prices continue to put downward pressure on sales.

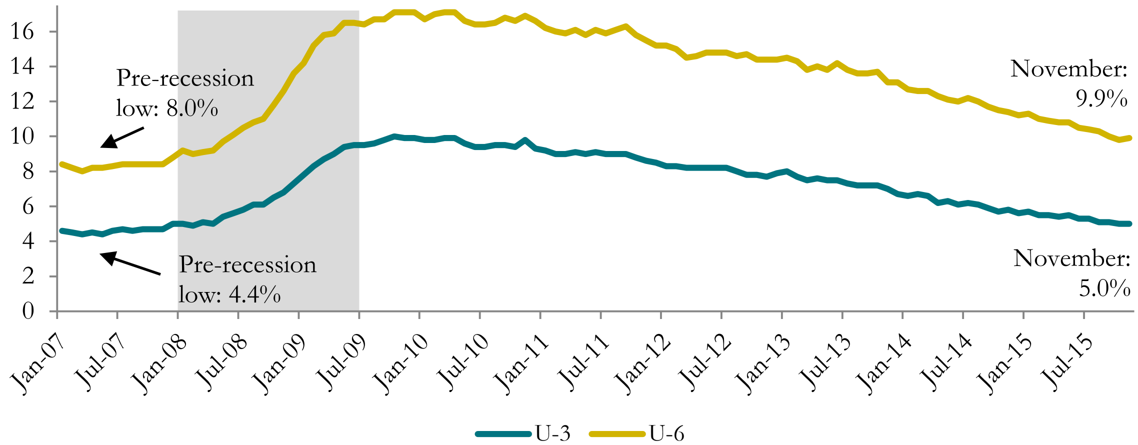
**Figure 9. ISM Manufacturing and Non-Manufacturing Indices***




*Readings above 50 indicate expansion in the industry while readings below 50 indicate contraction.
Source: Institute for Supply Management

***Unemployment numbers and other measures indicate improving labor market conditions*–** After years of stubbornly high unemployment figures, the U.S. official, or "U-3," unemployment rate dropped to 5.0 percent in October and remained there in November, only 0.6 percentage points above the pre-recession low of 4.4 percent. Likewise, the U-6 rate, long seen as an indication of excessive slack in the U.S. economy, saw its fastest quarter-over-quarter post-recession drop to end at 9.9 percent in November, despite a 0.1 percent rise over the previous month. The Federal Reserve's Labor Market Conditions Index also suggests a tightening jobs landscape. The index gauges national labor market activity and momentum using the unemployment rate and other indicators. The momentum measure fell over the last few months, but still remains close to post-recession highs, while the level of activity indicator shows its strongest reading since June 2008.

**Figure 10. National Unemployment Indicators**

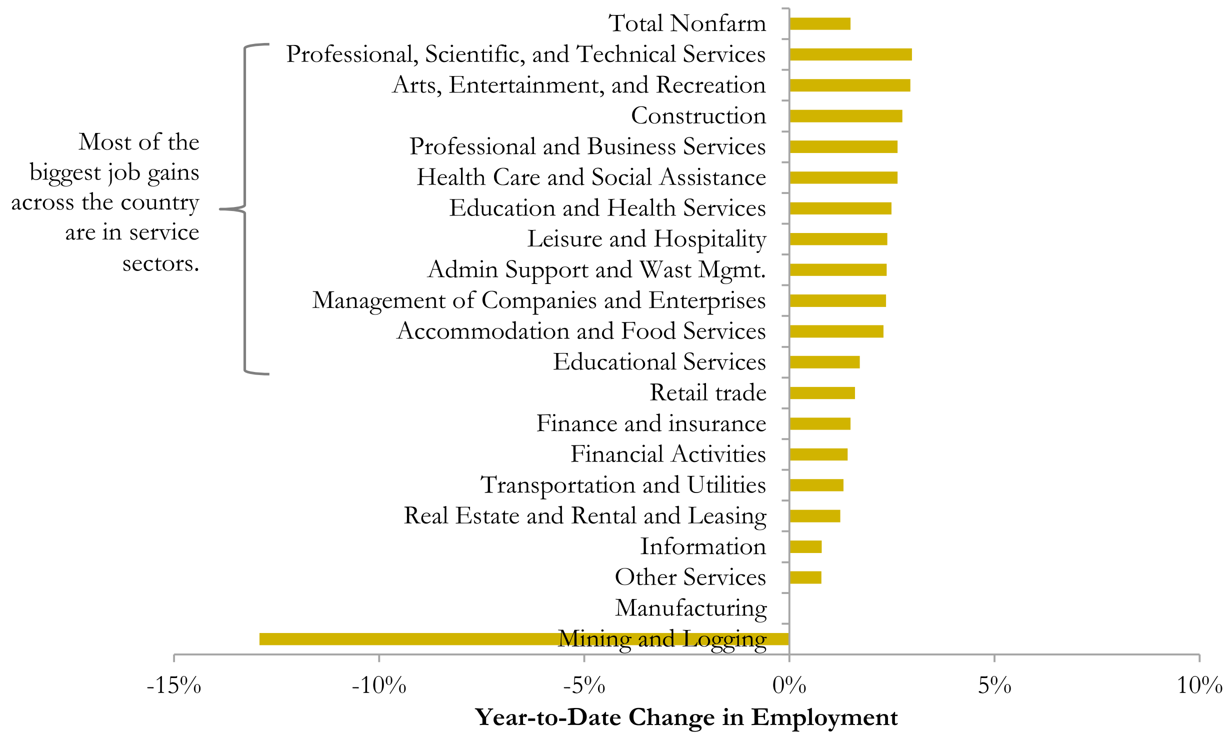



Source: Bureau of Labor Statistics

***Job gains are being led by services sectors, easing the drag from extractive industries and manufacturing –*** As Figure 11 shows, the service sector accounts for nearly all of the fastest growing industries in the country. The construction sector is an important exception, as firms and employees have benefited from a rebound in housing and construction in many parts of the country. Manufacturers experienced the lowest job growth over the past year. The mining and logging sector endured the effects of low energy and commodity prices and actually shed nearly 14 percent of its total workforce. This picture is consistent with global trends in which service industries are generally outperforming goods-producing industries. The year-over-year job growth rate slowed from 2.3 percent in January to a low of 1.9 percent in November. This may be an indication that the country is approaching full employment.

**Nearly all of the top industries for national job gains this year are services-based, reflecting the general strength of services industries versus goods-producing sectors.**

**Figure 11. National Year-to-Date Job Growth by Sector***




*Seasonally adjusted data
Source: Bureau of Labor Statistics, OSPB calculations

***Job openings growth points to further tightening in the labor market, despite recent slowdown –*** As shown in Figure 12, nationwide job openings have grown at an above-average pace for most of the last 18 months. Although the pace of growth fell in the last few months for which data is available, this momentum is a positive sign that the labor market continues to recover.

In another encouraging development, the number of unemployed people per job opening fell from 2.6 in January 2014 to 1.4 in September 2015, its lowest level since the recession began. This means that less people are likely to be competing for a given position, but it also shows that employers have less applicants to fill positions. In addition, recent data from the Society for Human Resources Management shows that companies are having more difficulty recruiting and that they must offer better compensation, further evidence that the labor market continues to tighten.

**The number of unemployed people per job opening fell to its lowest post-recession level in September, while survey data confirmed that many firms are finding it increasingly difficult to find workers.**

Figure 12 also shows the national quit rate, which is often considered a proxy for worker confidence: a higher quit rate points to increased confidence as employees have more faith in their ability to get a new job after leaving a current position. The quit rate did fall recently but, as with the unemployment indicators described above, the long-term move towards pre-recession averages suggests that the labor market is healthier than it has been in years. One result of this renewed health is rising wages: real average hourly earnings rose by over 1.5 percent year over year during every month in 2015, the first such run since 2010. However, growth in overall wages remain below prior economic expansions.

**Figure 12. National Quit Rate and Growth in Job Openings**


Source: Bureau of Labor Statistics, OSPB calculations

## International Economic Conditions and Trade

While the U.S. economy has shown signs of continued modest expansion, the world economy overall continues to struggle as it lacks solid drivers of economic growth. Some indicators point to increased stability in the developed, more advanced economies whose economic activity is based more on services and information, rather than manufacturing and mining. The severity of the slowdown in China will play a large role in determining global progress over the next several quarters, especially in parts of the world that have grown dependent on Chinese consumption of raw materials.

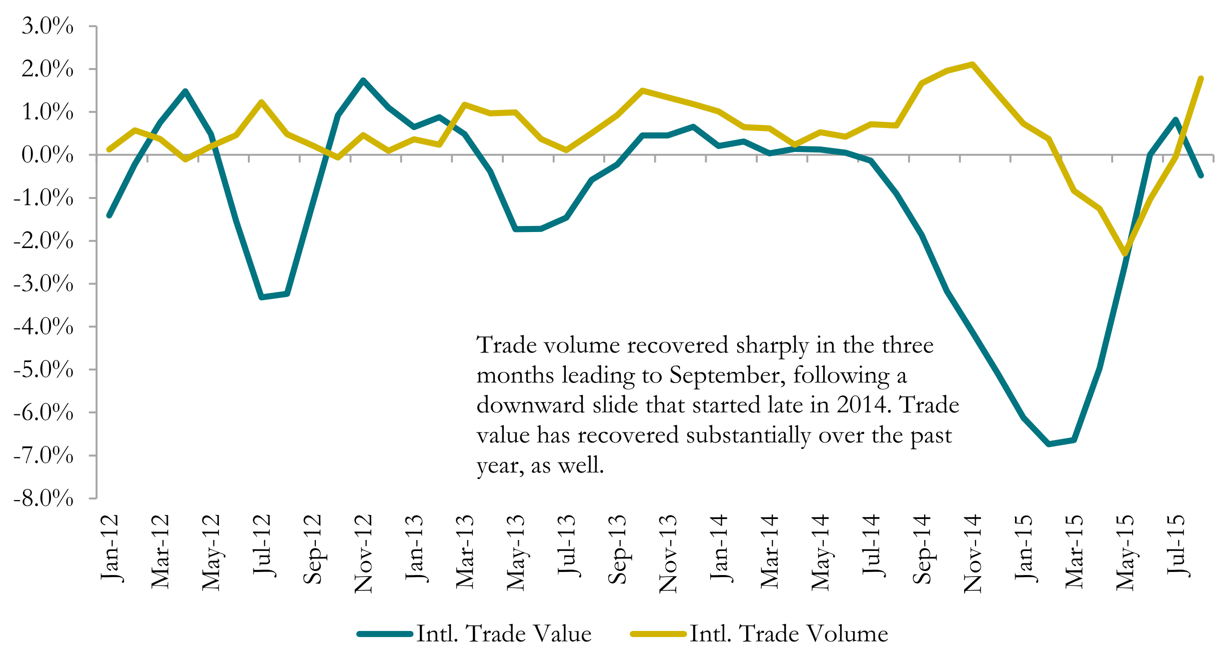
**The volume of international goods trade grew only 1.5 percent over the last year as commodity demand dropped substantially due in part to the economic slowdown in China.**

***The slowdown in China is taking a toll on the world economy, especially in developing economies –*** As China's economic growth slows from its rapid pace of the last decade, growth is also declining in countries around the world that have helped supply the raw materials for development in the world's second-largest economy. For decades, China consumed an ever-greater amount of commodities to build infrastructure and supply its manufacturing activities, much of which it imported from the rest of the world. Resource-rich developing economies became especially reliant on commodity exports. For instance, according to The Economist magazine, between 2010 and 2013 primary commodity exports accounted for 17.7 percent of Chile's GDP, 27.1 percent of Nigeria's GDP, and 17.4 percent of Russia's GDP.

The slowdown in China has had a cascading effect on these countries. Chinese builders and factories use less inputs, which in turn reduces the income for countries supplying the inputs. This fall in demand was an important contributor to the Dow Jones All Metals Commodity Price Index falling by over 27 percent in the past year.

***Trade growth remains slow, though there are some signs of progress –*** International trade as a share of global GDP shrank slightly between 2013 and 2014, and the commodities decline described above has further weakened trading between countries in 2015. Figure 13 shows longer-term measures of the global volume and value of goods traded. As the figure shows, the drop in commodities traded hit international trade in late 2014 and early 2015. Although trade volume continued to rise modestly at the beginning of this period, the sharp decline in commodity prices caused the total value of trade to plummet. More recently, trade appears to be stabilizing, and trade volumes grew at their fastest rate of the year in the three months ending in September. However, gains in the last few months are almost entirely the result of Asian countries increasing imports, and overall year-to-date trade volume grew only 1.5 percent, compared with 3.9 percent growth from 2013 to 2014.

**Figure 13. Change in International Merchandise Trade, Volume and Value***




*Percent change in three-month averages.
Source: CPB World Trade Monitor

***Weak trade and a strong dollar are hurting exporters and U.S. firms with international exposure, but services exports are growing –*** The U.S. dollar has appreciated 24 percent against other major currencies in trade-weighted terms since January 2013, and by 4.8 percent this year alone. A stronger dollar affects American firms in a few important ways. First, U.S. exporters become less competitive as their goods and services become more expensive relative to foreign competitors. Firms that produce goods abroad and sell them through foreign-currency denominated contracts are shielded from this impact, but their profits are reduced when they exchange foreign currency back to dollars. The impact of the strong dollar is especially important for large, publicly traded companies, which is one reason stock markets have been weaker over the past year.

**U.S services exports have experienced modest growth over the last six months, but goods exports continue to drop, reflecting a global trend that saw merchandise trade fall beginning in late 2014.**

Despite currency headwinds, U.S. exports have recovered over the last quarter, and service exports have returned to positive growth. As shown in Figure 14, goods exports fell precipitously starting at the end of 2014, reflecting the worldwide drop in merchandise trade discussed above. However, services exports experienced a milder drop, and posted modest monthly gains for each of the six months leading to October. More recent data corroborate tepid export performance: the ISM new export orders index for the U.S. fell to 47.5, its sixth consecutive month in contractionary territory. The non-manufacturing component of the index fell slightly below the neutral mark of 50 to 49.5 in November, but still remained above the manufacturing component, which hovered near its six-month average at 47.5. The high concentration of services exporters in the U.S. insulates the country from some of the international headwinds. In addition, exports comprise only about 9.4 percent of GDP, and thus weakness in trade from slower growth around the world typically does not have broad negative impacts.

**Figure 14. U.S. Exports of Goods and Services**


*Percent change in three-month averages.
Source: Bureau of Economic Analysis, OSPB calculations

***Colorado's limited direct exposure to international markets is cushioning the state from global headwinds –*** Colorado's goods exports shrank by 2.4 percent year over year through October, after dropping by the same amount from 2013 to 2014. However, while Colorado has developed a broad range of industries to fuel economic growth, the state remains relatively insulated from the global economy through direct trade.

**Although Colorado's exports dropped in the first part of this year, the state's focus on service-related industries and relatively narrow exposure to international goods markets provide protection from global headwinds.**

Exports of goods make up only 2.7 percent of Colorado GDP, compared with 9.4 percent for the country as a whole. This means that, although individual sectors like mining and agriculture are feeling the effects of a commodity-led trade slowdown more acutely, the state as a whole will likely be less affected. However, though the state's economy has less direct trade of goods with other countries, it does sell products to other states with more international trade exposure, and thus is affected by slowing activity in those states.

Though data on Colorado's export of services is not readily available, the state likely is more engaged in the trading of services than the nation overall. Because the services-related sectors across the global economy are performing better than goods sectors, the state economy is also better positioned to withstand the current global headwinds.

## Oil and Gas Industry Conditions

As oil and gas prices remain suppressed due to weakened demand combined with abundant supply, the industry continues to contract. Given the latest employment data and expectations for suppressed oil and gas prices, direct oil and gas industry employment in Colorado will likely decrease nearly 20 percent by the end of 2015, higher than estimated in prior OSPB forecasts.

Although employment in the oil and gas industry makes up a small share of overall employment in Colorado, wages in the industry tend to be relatively high and the industry invests large sums of money. Therefore, there can be material impacts on the state from growth or contraction in the industry. However, Colorado's economy is diverse with many growing industries that have been able to dampen the impact of the oil and gas contraction. In addition, lower gasoline prices have given consumers and businesses more money to spend on other goods and services, softening some of the shock.

**The oil and gas industry continues to contract due to low prices.**

***Oil and gas prices remain suppressed, but production levels remain high* —** Oil prices dropped below $40 at the beginning of December, causing concern that prices will remain low for longer than expected. Price projections for 2016 are expecting only a minor improvement to $51 with downward risk associated with the continued expansion of oil production globally, combined with modest growth in global demand. Natural gas prices also remain substantially lower than their 2014 levels due to oversupply and are expected to rebound only slightly in 2016.

Given the dramatic decline in oil prices, expectations were for a much larger decline in production during 2015. However, as of August 2015, production in Colorado is still higher in 2015 than it was in 2014. More recent data exists on production levels in the Niobrara Region, which accounts for a majority of Colorado's overall production. Although production began to decrease in May 2015, production levels from January 2015 to November 2015 remain 20.2 percent higher than the same timeframe in 2014. Energy firms have become increasingly efficient, focusing on the most productive areas to drill new wells. As a result, producers are able to extract more oil using half as many rigs. Further, firms have cut expenses to make continued production more profitable. However, this trend in production will likely reverse as prices continue to stay low, causing firms to ramp down production. Thus, a downward trend in production through the remainder of 2015 into 2016 is expected.

**Although prices remain suppressed, continued efficiencies in the industry have enabled firms to continue to produce at record levels this year.**

According to the October Energy Survey administered by the Federal Reserve Bank of Kansas City, firms within the Kansas City District, which includes Colorado, continue to need oil prices around $60 per barrel, on average, to be profitable. Prices are not expected to rebound to this level until at least 2017, so many of the survey's respondents indicated plans for further capital spending cuts and layoffs. However, the Wattenberg Field in the Denver-Julesburg Basin remains one of the least costly and most profitable places for oil and gas extraction in the nation, making it relatively more attractive for continued activity even as prices remain low.

***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 18 percent, or by 5,709 jobs, from December 2014 to June 2015. The contraction in employment is expected to slow through the remainder of the year, resulting in approximately 20 percent, or 6,200, fewer jobs in the industry by the end of 2015.

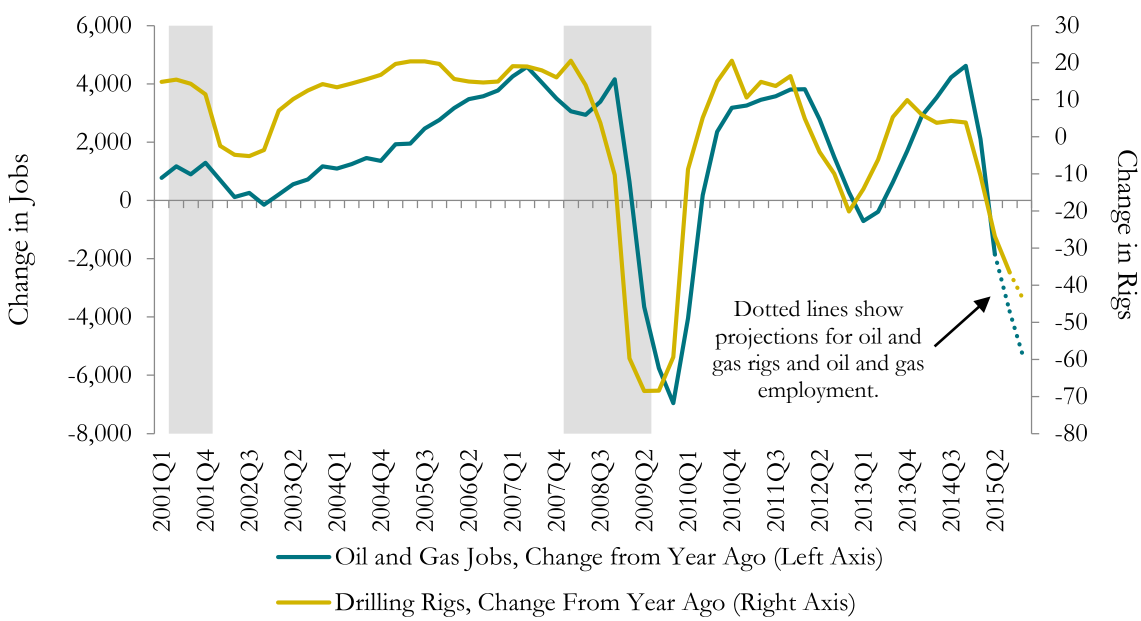
The number of oil and gas rigs operating in Colorado continues to track closely with the trend in oil prices. The number of rigs in operation appeared to stabilize in the second quarter of 2015 in the upper 30's range and then turned down again beginning in August as oil prices continued to soften. As of the second week in December, the number of rigs in operation stood at 25, down from a rig count of 77 in September 2014.

**Continued contractions in oil and gas employment are expected to result in approximately 20 percent fewer jobs in the industry by the end of 2015.**

Figure 15 examines the relationship between drilling rigs and oil and gas employment historically and projected through the end of 2015. 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 20 percent decline in employment this year if the relationship maintains a similar pattern.

The decline in employment will likely continue into 2016, although at a slower rate than occurred in 2015. Prices are expected to remain weak through the year, reducing incentives for exploration and drilling. Many firms were holding out as long as possible with the expectation of a rebound in prices; this appears less likely as growth in global supply remains stronger than expected. Many of the current hedges made at higher prices are expiring in the end of 2015, which will likely lead to another round of industry cutbacks. Access to financing continues to present challenges, especially for smaller firms, as investment in the industry remains less profitable. However, firms continue to adapt to lower prices by becoming more efficient and requiring less resources and time to drill wells, with the most productive firms remaining profitable at oil prices below $50. Future drilling will focus on the most productive regions around the nation, including the Wattenberg Field in Colorado, leading to a softer slowdown in these areas.

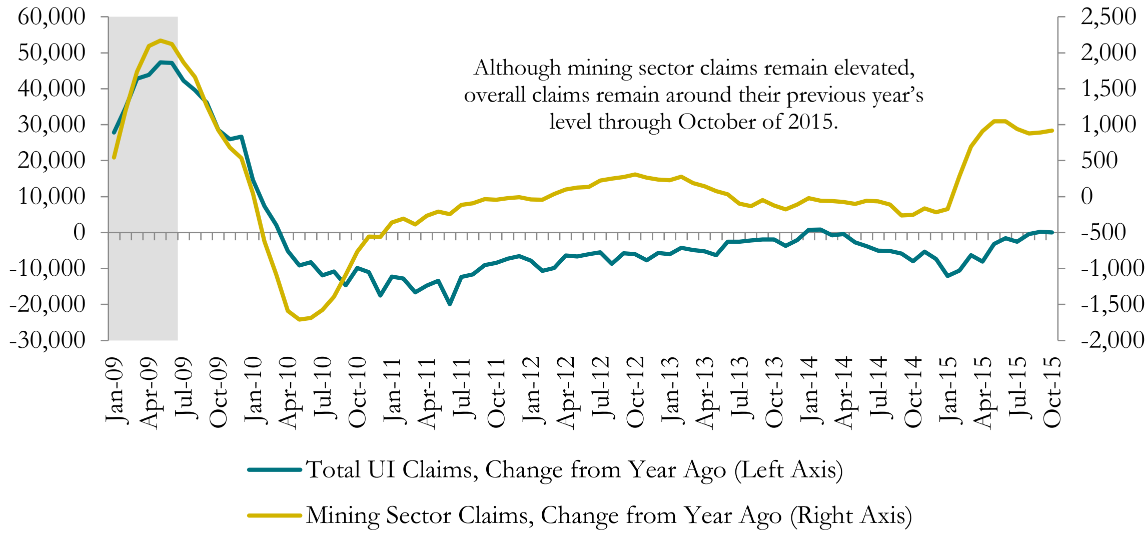
**Figure 15. Oil and Gas Employment and Operating Drilling Rigs in Colorado***




*Actual data on drilling rigs through the third quarter of 2015, actual employment data through the second quarter of 2015. The dotted line shows fourth quarter projections for drilling rigs, third and fourth quarter projections for industry employment.
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 picked up slightly over the previous few months when oil prices began to soften further, although they remain lower than the beginning of the year. As shown in Figure 16, unemployment claims in the oil and gas industry remain well above their previous year's levels. However, overall claims in Colorado remain about even with prior year levels, indicating that the overall economy continues to be able to withstand the contraction in the oil and gas industry. For more information on the Colorado economy, see the Overview of Colorado's Economy section.

**Figure 16. Colorado Unemployment Claims by Industry**




Source: Colorado Department of Labor and Employment

## Housing Costs and the Colorado Economy

The recent increases in home prices and rents have made parts of Colorado, especially the northern Front Range, less affordable. Home prices in Colorado increased 28.4 percent from the second quarter of 2012 to the second quarter of 2015, and appreciation has accelerated in the last few quarters. Rents have increased at similar rates. This section explores recent trends in housing costs and the implications of rising home prices and rent for the Colorado economy.

***Recent home price increases have led to less affordable housing in Colorado metro areas –*** Home prices in Colorado increased 28.4 percent from the second quarter of 2012 to the second quarter of 2015, when the median Colorado home price rose to $271,167. Price increases for some areas in the northern Front Range have been among the highest in the country. At the national level, median home prices have grown 16.2 percent since 2012, with a median price of $197,641 in the second quarter of 2015.

While trends in median home price figures can be useful for understanding general market conditions, they do not account for variations in income levels across geographies that help determine the affordability of homes. To assess affordability, this analysis looks at housing costs in relation to income levels, measuring the percentage of income that a median household must spend on mortgage payments and property taxes in order to buy a median-priced house in a specific state or metro area.[1]

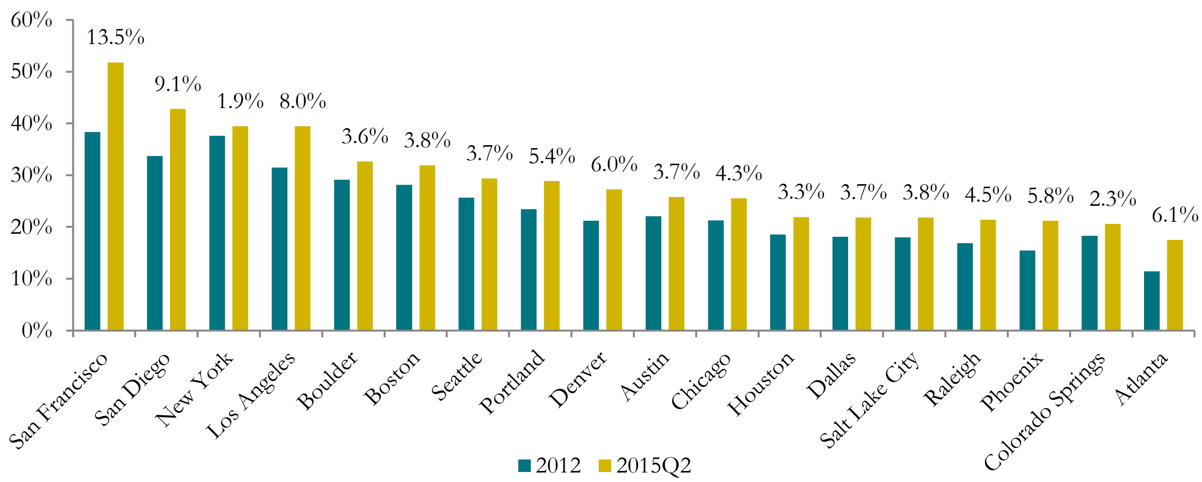
[1] For median home prices, the analysis incorporates data compiled by the Federal Housing Finance Authority (FHFA), available at http://www.fhfa.gov/DataTools/Downloads/Pages/House-Price-Index-Datasets.aspx#atvol. Using 2010 as a base year, home prices from 1984 to 2015 were estimated using the FHFA's House Price Index. The home affordability indexes for metro areas were estimated using National Association of Realtor home price data, which is available publicly from 2012 to 2015. For all geographies, the analysis uses median household income data from the U.S. Census Bureau's American Community Survey (ACS). The ACS only contains data up to 2014. Therefore, to show affordability levels for 2015, the analysis projects median household income using the growth rate of statewide personal

Figure 17 shows affordability across 18 selected major metropolitan areas including Denver, Boulder, and Colorado Springs from 2012 to the second quarter of 2015. Colorado Springs was the group's second-most affordable city in the second quarter of 2015, behind Atlanta. Denver and Boulder, on the other hand, ranked fifth- and ninth-most expensive relative to income, respectively. Denver and Boulder rank in the bottom 10 percent of the 165 largest U.S. metro areas in terms of home affordability.

**Denver is becoming less affordable at a faster rate than almost all of 18 select metro areas outside of California. However, the metro area remains more affordable based on median prices and incomes compared with other urban areas like Boston, New York, and larger coastal California metro areas.**

In addition, Denver is becoming less affordable at a faster rate than almost all of the metro areas in this group outside of California cities and Atlanta. Neither Boulder nor Colorado Springs saw significant changes in affordability over the period. However, Boulder remains one of the least affordable metro areas in the country, while Colorado Springs became more affordable than places like Houston, Salt Lake City, and Raleigh.

**Figure 17. Affordability Index for Selected Metro Areas, Percent Change Shown Above Bars**




Source: National Association of Realtors, American Community Survey (U.S. Census Bureau), Bureau of Economic Analysis.

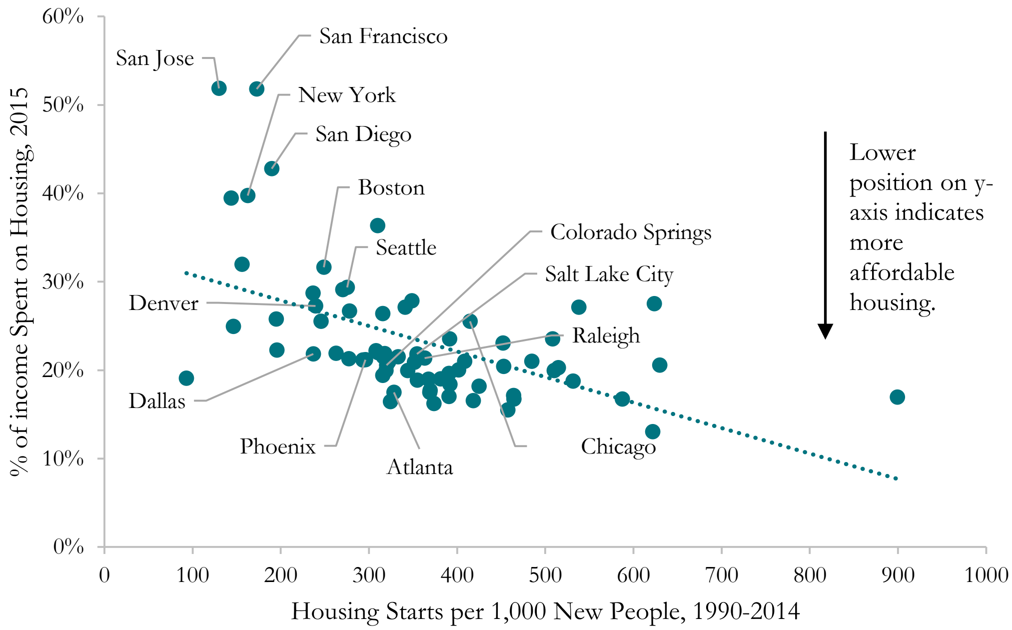
***A region's ability to build enough homes to meet new demand is a key factor in maintaining affordability*—** While a number of factors contribute to home price variations and affordability across cities, housing is generally more affordable in urban areas where housing construction has been higher in relation to population growth. As shown in Figure 18, cities that built more homes per 1,000 new residents from 1990 to 2014 are generally more affordable in 2015 than cities that built less. This demonstrates that increased

**Housing is generally more affordable in urban areas where housing construction has been higher in relation to population growth.**

income obtained from the Bureau of Economic Analysis. Due to data limitations at the metro area level, the state-level growth rate of each state that the metro area is located in is used to project metro area household income in 2015. Property tax payments are derived from the American Community Survey's "Median Real Estate Taxes Paid for Units with a Mortgage," table B25103. Property tax data is available from 2005 to 2014. For all other years, tax payments are imputed using the average ratio of tax payment to median home price from all years with available data.

housing units in an area can place downward pressure on housing costs, though other factors will also influence house prices and affordability.

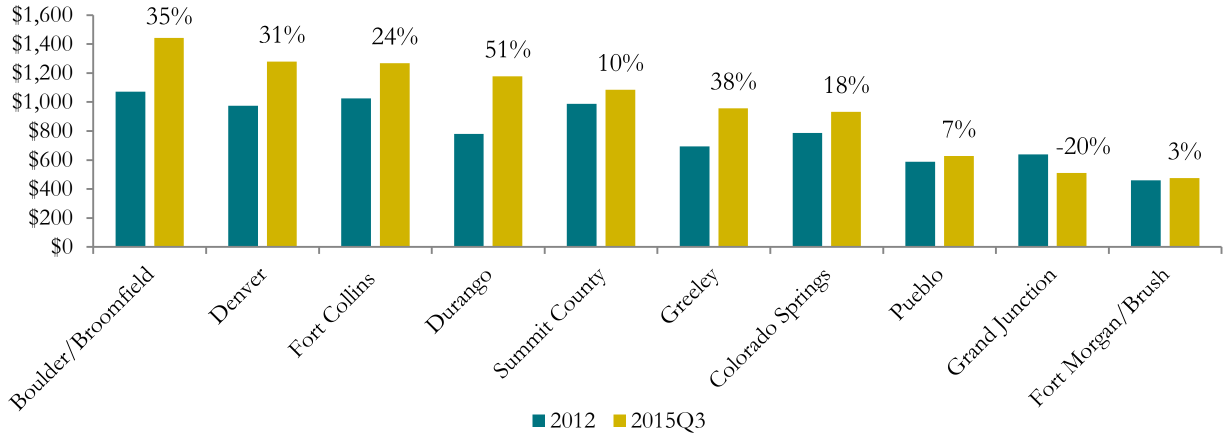
**Figure 18. Affordability and Housing Starts in Select Cities**




Source: National Association of Realtors, American Community Survey (U.S. Census Bureau), Bureau of Economic Analysis, Federal Reserve Bank of St. Louis, OSPB calculations

***Rents are rising fast in Colorado metro areas, raising concerns about rental affordability*** — As Figure 19 shows, rents rose by 20 percent or more in Boulder, Denver, Fort Collins, Durango, and Greeley from 2012 to the third quarter of 2015. Rent growth was much slower in Pueblo and average rent decreased in Grand Junction. Among the country's largest 643 cities, Boulder was the 35th most expensive city to rent based on data from Zillow, while Denver and Colorado Springs were 37th and 119th, respectively.

**Figure 19. Average Rent by Colorado Metro Area, Percent Change Shown Above Bars***




*2015 figures are from Q3 for all areas except Denver and Boulder/Broomfield, for which data is only available through Q2. Denver and Colorado Springs growth rates differ slightly from national analysis above due to different data sources being used.
Source: Colorado Division of Housing, OSPB calculations

The strong rent growth provides some justification for the recent growth in home prices. Rental costs help show the fundamental value of housing as they indicate the value that households receive from housing, or how much households are willing to pay to live in an area. One commonly used ratio of home price to monthly rent suggests that, despite their strong recent growth, home prices in Metro Denver and the U.S. as a whole are not significantly elevated when compared to their long-term relationship to rent prices.

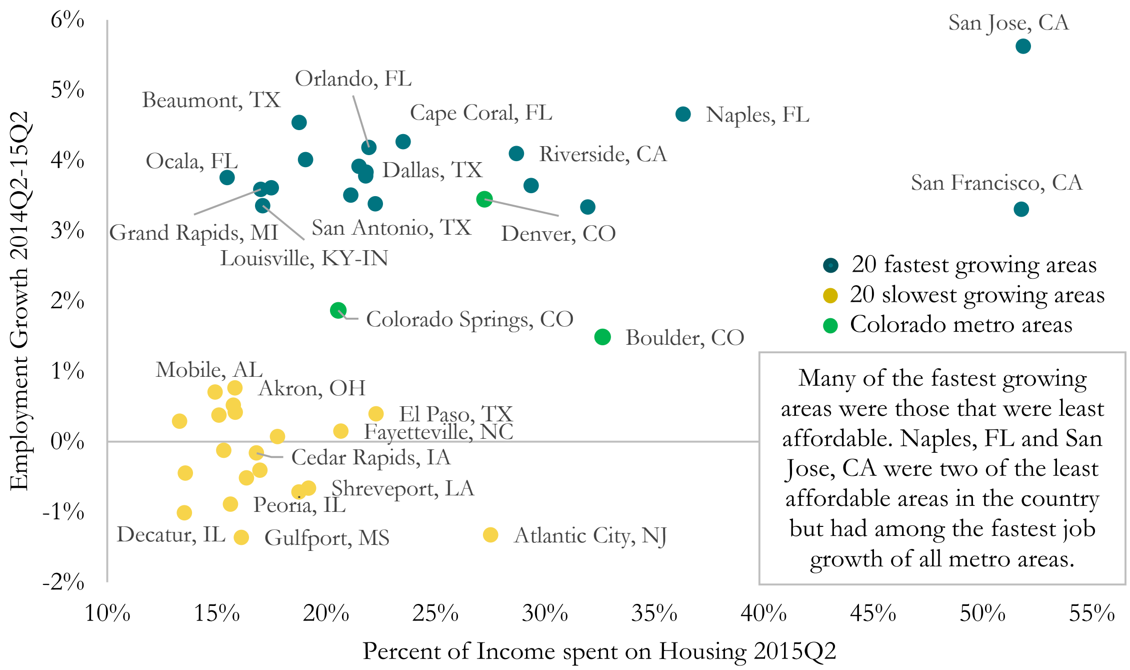
***Regions with higher housing costs can still have strong economies and high in-migration rates*** **–** Rapid home price and rent appreciation have caused concerns about the impact of falling affordability on Colorado's economy. As Figure 20 shows, though, no clear relationship exists between home price affordability and employment growth rates. The graph depicts the 20 areas in the nation with the most job growth between the second quarters of 2014 and 2015, the 20 slowest growing areas, and select Colorado MSA's.

As shown, most of the areas with the fastest job growth have much less affordable homes than average, though some fast growing areas do have relatively more affordable housing. While San Jose, CA was the least affordable area overall, the area had the fastest employment growth rate from the second quarter of 2014 to the second quarter of 2015. Naples, FL, the metro area with the second-highest employment growth during the same period, was the sixth-least affordable area in the country. Both of these areas are much less affordable than areas along the Front Range of Colorado. They have also had high housing costs for many years.

Similar analyses show that housing affordability has little bearing on in-migration rates for educated individuals, or even for young people who may be more price sensitive in the early stages of their careers. This indicates that other factors are often more important for economic performance and an area's ability to attract migrants. These factors include a concentration of industries involved with products in high demand in the economy, higher levels of innovation and entrepreneurship, and a high-skilled workforce. In many cases, people appear willing to pay a premium to live in areas with these conditions and attributes.

**Some of the least affordable areas in the nation in the first part of 2015 experienced robust job growth. This indicates that other factors are often more important for economic performance, most notably a high level of economic opportunities and local amenities.**

**Figure 20. Percent Change in Employment and Homeownership Affordability**




Source: U.S. Bureau of Labor Statistics, National Association of Realtors, Federal Housing Finance Agency, American Community Survey (U.S. Census Bureau), OSPB calculations

**Although higher housing costs do not necessarily cause an area to have poor economic performance, they can act as a constraint on growth.**

***Some evidence suggests that high housing costs can act as a constraint on growth—*** There is a small body of evidence on the impacts of high housing costs on job growth and migration trends. Some economic research has found that areas with less affordable housing have greater amounts of out-migration[2] and lower employment growth[3] over time than they would have with lower housing costs. Other research found a negative impact on economic growth from high housing costs as people are excluded from living in the most productive regions.[4]

Although higher-cost areas may continue to have better performing economies and thus be attractive places to move, this evidence suggests that they may have had stronger growth had housing been more affordable. Therefore, although higher housing costs do not necessarily cause an area to have poor economic performance, they can act as a constraint on growth. This implies that areas of Colorado with higher housing costs could experience less growth than if housing costs were lower.

[2] Sasser, A. 2010. "Voting with their feet: Relative economic conditions and state migration patterns." *Regional Science and Urban Economics 40: 122-135.* This study notes that other empirical evidence on the relationship between migration and house prices is mixed, with some studies finding no significant relationship. Taylor, M. 2015. "California's High Housing Costs: Causes and Consequences." California Legislative Analyst's Office. This study found that the state would have had lower priced housing had more housing units been built, resulting in less out-migration from the state.
[3] Chakrabarti, R and Zhang, J. 2015. "Unaffordable housing and local employment growth: Evidence from California municipalities." *Urban Studies 52(6): 1134-1151.*
[4] Hsieh, C. and Moretti, E. 2015. "Why Do Cities Matter? Local Growth and Aggregate Growth." National Bureau of Economic Research Working Paper No. 21154

***Although economies can continue to perform well with lower housing affordability, there are still negative consequences to higher housing costs, many of which are less visible*—** Many of the negative economic impacts associated with high housing costs are less visible because they are activities or spending that may have happened if housing costs were lower. Higher housing costs reduce the amount of income that can be spent in other areas of the economy, thus potentially reducing sales and other business activity. This may be one reason job growth can be slower than if housing costs were lower as found in the aforementioned economic research. As an example, the median income household owning a median-priced home in Colorado spends about 23 percent of its income on mortgage and property tax payments. This compares to 21 percent nationally. If a Colorado median-income household devoted this smaller portion of its income to housing costs, it would have over $1,000 more a year to spend elsewhere. This equates to an additional $1.5 billion for the state overall if all homeowners experienced this savings.

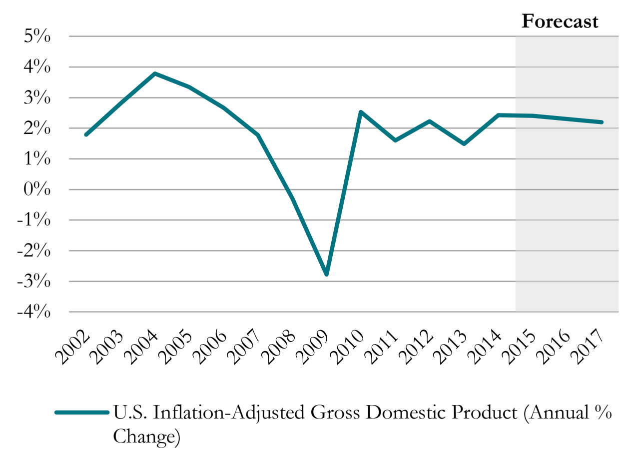
**Less visible economic impacts of high housing costs include less money for spending in other areas of the economy, fewer households that can gain the benefits of homeownership, and more workers and businesses are excluded from participating in the most productive economies.**

Lower income households typically need to devote a higher portion of their income to housing. Therefore, higher cost housing can place a disproportionate burden on lower income households and cause greater financial difficulties.

Higher housing costs have other negative impacts on the economy, as well. Places with higher housing costs typically have higher labor costs, thus making these areas less attractive for businesses to locate and expand. High housing costs can also make it more difficult to attract and retain a skilled workforce, which is a vital factor in economic performance. These are the factors that can cause job growth and in-migration to be slower than if housing costs were lower. Also, higher housing costs can result in longer commute times as people may need to live further away to find lower-cost housing. Furthermore, people may need to live together in more crowded housing conditions to share housing costs.

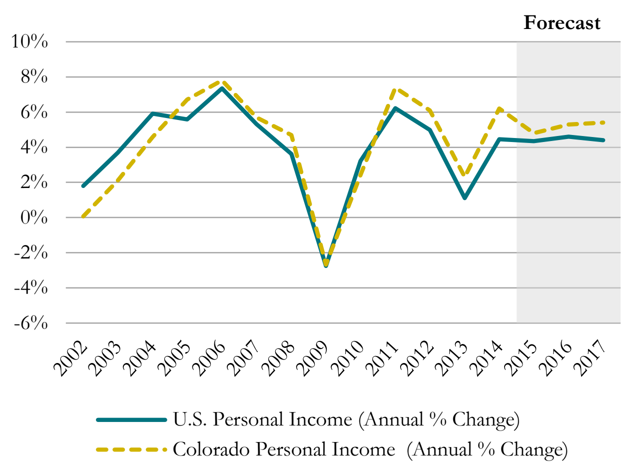
# Summary of Key Economic Indicators
## Actual and Forecast

### U.S. Gross Domestic Product (GDP)



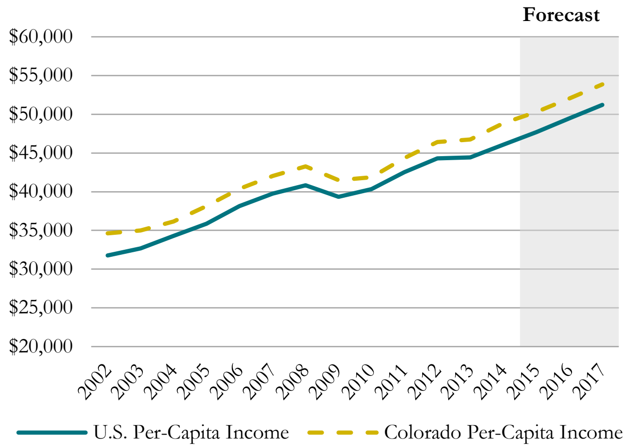

- GDP is a barometer for the economy's overall performance and reflects the value of final output in the U.S.
- In the midst of headwinds from a sluggish global economy, along with the continuing slowdown in growth in the labor force, the U.S. economy will continue modest growth of 2.4 percent in 2015 and slightly slower growth of 2.3 percent in 2016.

### U.S. and Colorado Personal Income



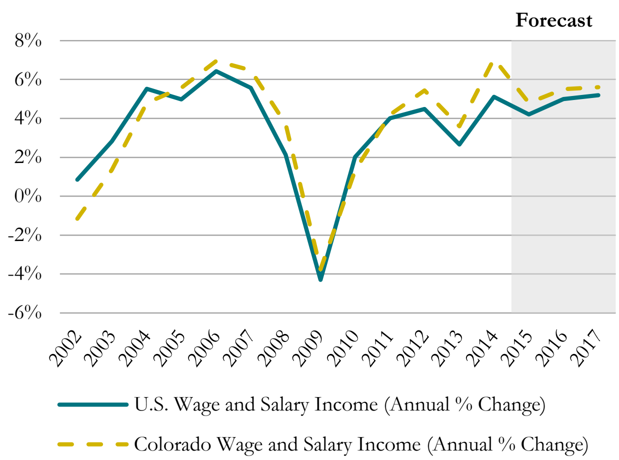

- Personal income growth in Colorado will slow to 4.8 percent in 2015, largely as a result of the oil and gas slowdown. Although the oil and gas industry will continue to weigh on the Colorado economy in 2016, the state's diverse economy will dampen the impact, resulting in a modest rebound in 2016 to 5.3 percent personal income growth.
- Personal income for the nation is on track to grow 4.3 percent for 2015. Continued improvements in the labor market will lead to 4.6 percent growth in 2016.

## U.S. and Colorado Per-Capita Income



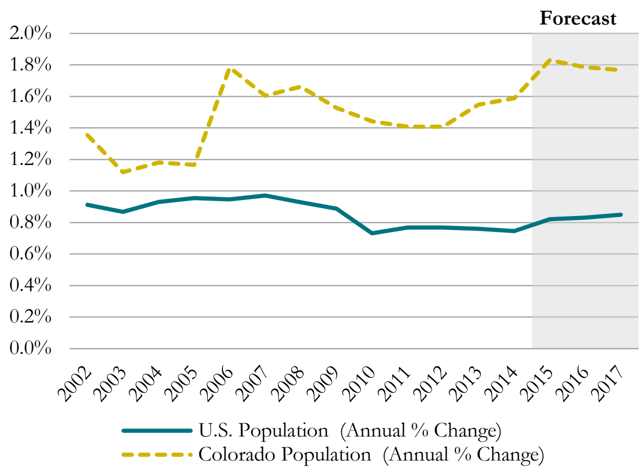

- Per-capita income in Colorado will grow to $50,294 in 2015 and $52,031 in 2016.
- In the U.S., per-capita income will increase to $47,693 in 2015 and $49,476 in 2016.

## U.S. and Colorado Wage and Salary Income



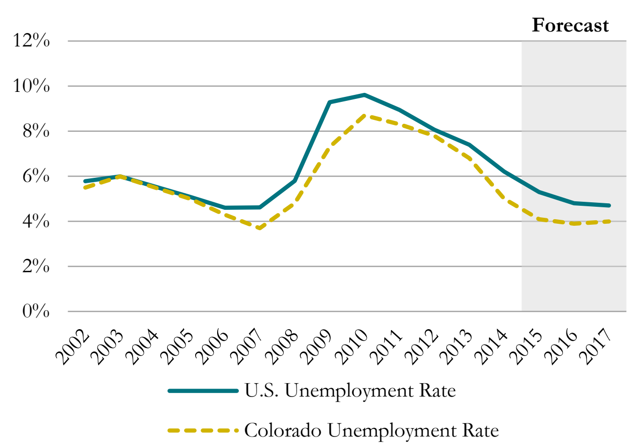

- Wage and salary growth in Colorado will slow in 2015 from the strong 2014 increase of 7.1 percent, partly as the result of the oil and gas slowdown. The forecast growth rate for 2015 is 4.8 percent, with higher growth of 5.5 percent in 2016.
- Wage and salary income for the nation will increase 4.2 percent in 2015 and 5.0 percent in 2016.

## U.S. and Colorado Population



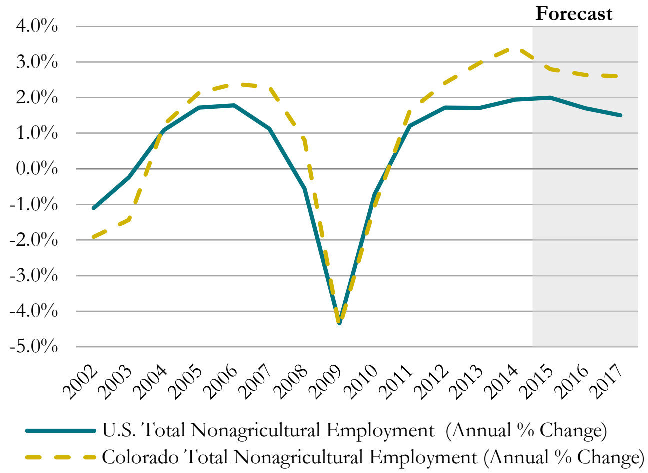

- Colorado continues to be an attractive place to move and the population is expected to grow over twice as fast as the national average at 5.5 percent from 2014 to 2017. The state's total population is expected to reach 5.65 million by 2017.
- Population continues to grow sluggishly across the country, rising by 2.5 percent between 2014 and 2017.

## U.S. and Colorado Unemployment



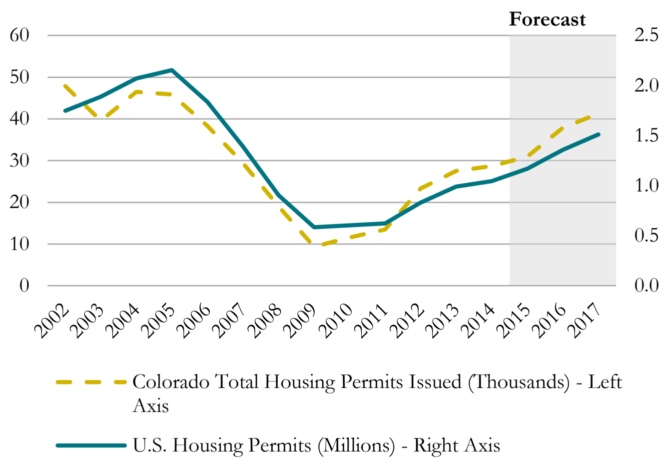

- The unemployment rate in Colorado continued a downward trend through 2015 despite a contraction in the oil and gas industry. OSPB forecasts that the rate will average 4.1 percent for 2015 and 3.8 percent in 2016.
- The national unemployment rate is following a similar trend but remains roughly a percentage point higher, averaging 5.3 percent in 2015 then dropping to 4.8 percent in 2016.

### U.S. and Colorado Total Nonagricultural Employment



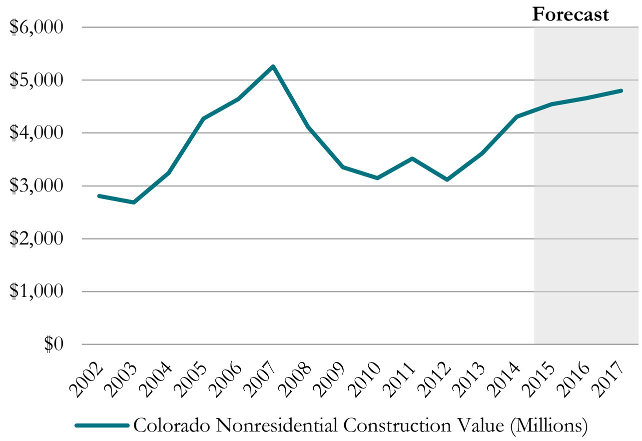

- Slower Colorado employment growth is projected over the forecast period than experienced in 2014 given the slowdown in the energy sector and the continued tightening of the labor market. 2015 is on track for a 2.8 percent increase in nonfarm employment. Growth in 2016 should decrease slightly to 2.6 percent.
- U.S. nonfarm payroll jobs will increase 2.0 percent in 2015 followed by slower growth of 1.7 percent in 2016.

### U.S. and Colorado Housing Permits Issued



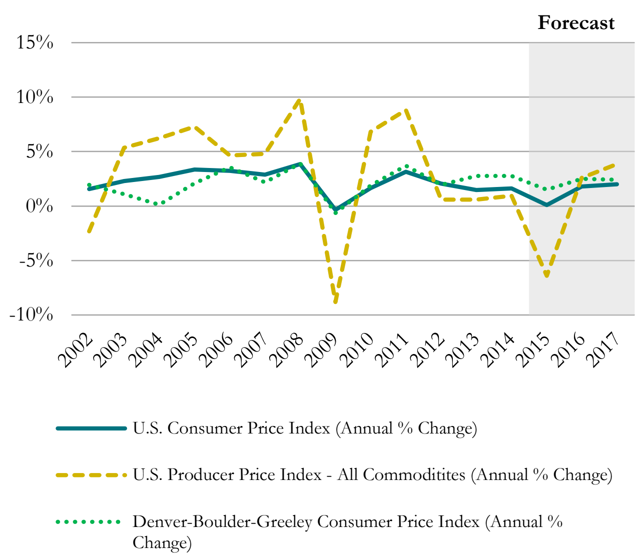

- After slow growth in 2014, Colorado residential construction permits will increase 7.9 percent in 2015 and 22.3 percent in 2016, when 37,850 permits will be issued. The increases will be driven by population growth and strong housing markets in metro areas in the state.
- Similarly, U.S. housing permits will rebound from slow 2014 growth to increase 11.9 percent in 2015 and 16.1 percent in 2016.

**Colorado Nonresidential Construction Permits**



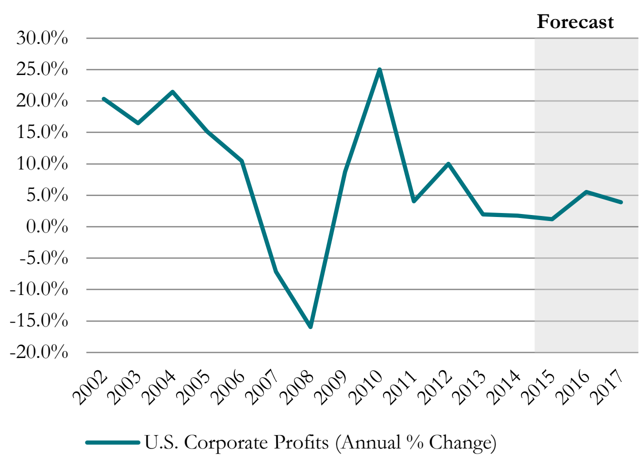

- Following robust growth in 2014, in which the value of nonresidential construction permits reached $4.3 billion, growth will moderate to 5.5 percent in 2015 for a final value of $4.5 billion. The value of nonresidential construction is expected to grow throughout the forecast period with the expanding economy.

**Consumer Price Index and Producer Price Index**



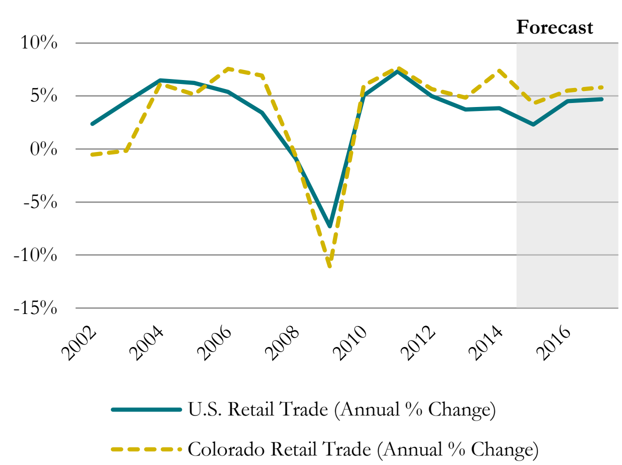

- Nationally, prices have remained essentially flat through 2015, largely due to falling gas prices. OSPB projects 0.1 percent growth in the nationwide Consumer Price Index (CPI) for the year. Prices are expected to rise 1.8 percent in 2016.
- The national Producer Price Index will fall 6.4 percent in 2015, largely due to low fuel and commodity prices, but will grow 2.6 percent in 2016.
- The Denver-Boulder-Greeley CPI is also being pulled down by low gasoline prices, but stronger growth rates in housing costs are leading to higher growth of 1.5 percent in 2015 followed by 2.5 percent in 2016.

## U.S. Corporate Profits




- U.S. corporate profits will continue to grow slowly throughout the forecast period as the business cycle matures and a challenging global environment depresses revenue growth.
- Profit growth will fall slightly in 2015 to 1.2 percent before recovering to 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 4.3 percent growth. Sales will increase 5.5 percent in 2016.
- Nationwide retail trade will grow 2.3 percent in 2015 and 4.5 percent in 2016.

# General Fund and State Education Fund Revenue Forecast

General Fund revenue is forecasted to increase just 2.1 percent in FY 2015-16, a lower growth rate than forecast in September. With the reduction in revenue expectations, General Fund revenue is projected to be $170.8 million, or 1.7 percent, lower for FY 2015-16 compared with September's forecast. Slower job and income growth from the contraction in the oil and gas sector, a weaker stock market, and sluggish global growth is resulting in the marked slowdown in revenue growth. General Fund revenue increased 9.2 percent in FY 2014-15.

Growth in income taxes from wage withholdings have slowed noticeably, resulting in lower revenue expectations for the year. Also, corporate income tax collections continue to decline and underperform expectations as a result of weak corporate earnings. Sales and use tax collections growth has also recently softened, in part tied to reduced spending from the oil and gas sector in the state and slower income growth. It should be noted these trends were mostly expected in prior forecasts, and the recent adjustments are relatively small in the context of the continuation of similar basic assumptions about the economy. OSPB's assessment and forecast for the economy can be found starting on page 3 in this report.

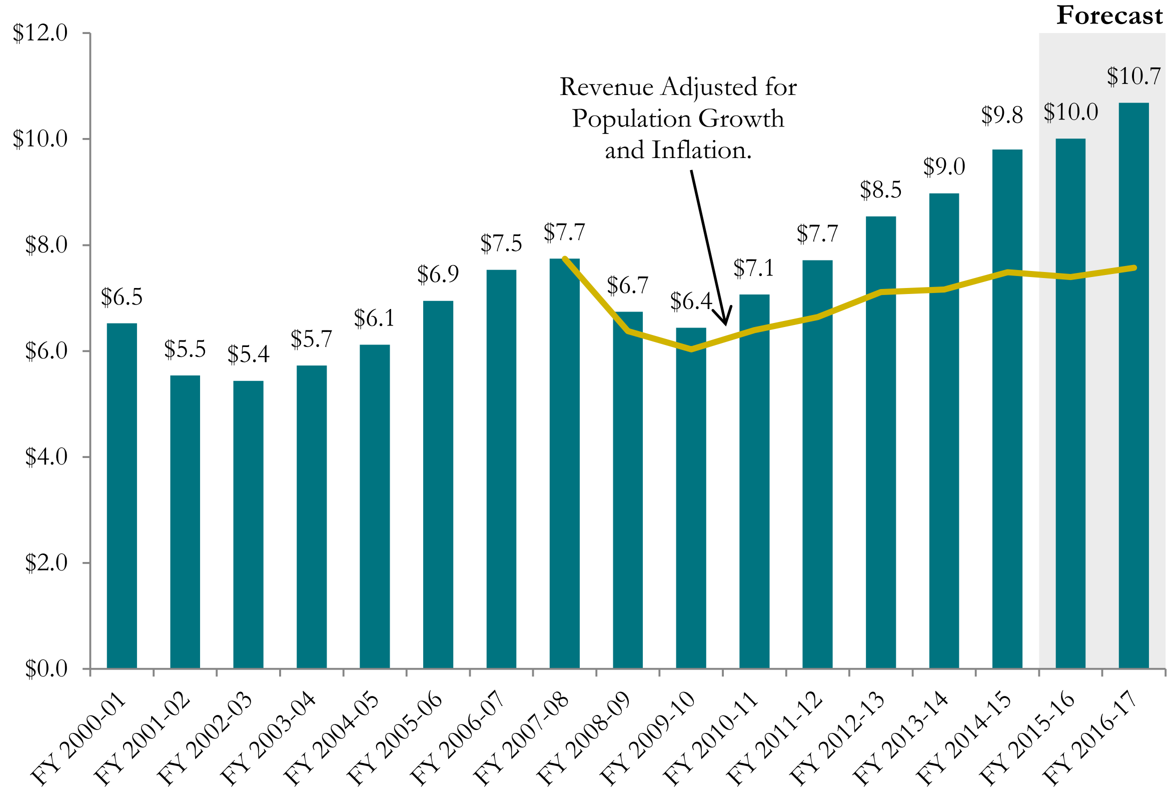
**General Fund revenue is forecasted to increase just 2.1 percent in FY 2015-16. Moderating job and income growth from the contraction in the oil and gas sector, a weaker stock market, and sluggish global growth is resulting in the marked slowdown in revenue growth. General Fund revenue growth in FY 2016-17 is expected to rebound moderately.**

General Fund revenue growth is still expected to rebound moderately in FY 2016-17 from the slower growth in FY 2015-16. Continued economic expansion in the state combined with less downward impacts from the factors weighing on growth this fiscal year will result in FY 2016-17 General Fund revenue growth of 6.7 percent.

The availability of the State Earned Income Tax Credit will begin to reduce tax collections starting in FY 2015-16, which is also contributing to the decreased rate of revenue growth this fiscal year. 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.

Figure 21 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2016-17. The figure includes a 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 21. General Fund Revenue, Actual and Forecast, with Revenue Adjusted for Population Growth and Inflation**




Source: Office of the State Controller and OSPB

### *Discussion of Forecasts 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 52, 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*** – Individual income tax collections will slow markedly to growth of just 2.0 percent in FY 2015-16, following robust gains of 11.5 percent last fiscal year. Individual income tax revenue will rebound with growth of 7.7 percent in FY 2016-17 as some of the negative factors impacting this fiscal year abate.

**Growth in individual income tax collections has slowed substantially in FY 2015-16. This slowdown is due to more modest economic growth, the contraction in the oil and gas industry, weakness in growth in investment and royalty income, and tax policies that reduce tax liabilities.**

A convergence of factors is slowing income tax revenue growth this fiscal year. The downturn in the oil and gas industry is reducing wages, business income, and oil and gas royalty payments. A material portion of Colorado's expansion in recent years was tied to the industry, so the sharp contraction is slowing income gains. A tight labor market in Colorado with less available workers to fill employers' hiring needs is also weighing on growth. Further, weaker stock market gains in 2015 will dampen income tax revenue.

These factors are expected to have less downward influence on income tax revenue growth next year with continued economic expansion. Most notably, the oil and gas sector's sharp contraction that reduced income and wages in the state this year is not expected to occur to the same extent in 2016. Further, the sharp increase in the dollar and weakening global growth that occurred over this year that hit the stock market are not forecast to be repeated in 2016.

Wage withholdings collections are forecast to grow 3.5 percent this fiscal year, less than half of FY 2014-15's 8.1 percent. Wage withholding will increase 6.6 percent in FY 2016-17, though this growth rate overstates actual growth because 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 5.6 percent in FY 2015-16, much slower than the 24.7 percent increase last fiscal year. Estimated income tax payments are used to pay tax on income that is not subject to withholding, such as earnings from self-employment, rents, interest, and dividends. Capital gains account for the largest proportion of income sources that are subject to estimated payments, accounting for about 30 to 35 percent of the total. Income from rents and royalties comprise around 25 to 30 percent, while business income accounts for about 15 percent of the total.

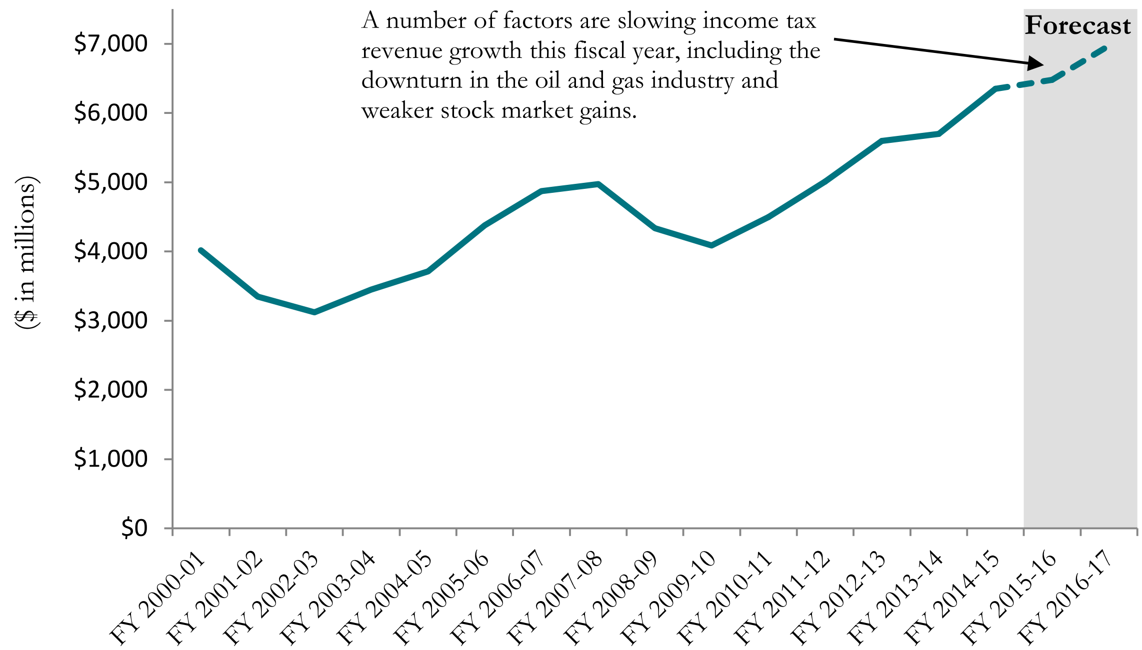
Slower growth is projected for estimated income tax payments due to weaker capital gains and a decline in royalty payments as a result of lower oil and gas prices. Estimated payments are still projected to increase overall as economic growth will generate income gains from other sources, such as business 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 moderately 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 as the price of oil and gas increases gradually over the next few years. Improvement in the stock market will also help generate a modest rebound.

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. This occurred in FY 2014-15 and is forecasted again in FY 2016-17 and FY 2017-18. This will reduce income tax revenue by about $7 million annually. 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 22. 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 decrease 3.9 percent in FY 2015-16 and rebound with modest growth of 4.6 percent in FY 2016-17. This follows a 3.9 percent decline in corporate income tax revenue in FY 2014-15. A strong dollar, weak global growth, higher business costs, and weaker earnings for oil and gas firms are negatively impacting U.S. corporate profits, the primary driver behind corporate income tax revenue. Some of these headwinds are expected to weaken through the course of FY 2016-17, resulting in modest revenue growth.

**Corporate income tax revenue will fall again in FY 2015-16 as firms face global headwinds and an increasingly competitive environment.**

The U.S dollar has appreciated by about 24 percent against other major currencies in trade-weighted terms since January 2013. A stronger dollar affects U.S. firms by making their goods and services more expensive relative to foreign competitors, and through foreign exchange channels when companies convert foreign currencies back to dollars.

Although the U.S. and Colorado economies have limited exposure to international markets, U.S. firms' earnings are being affected by tepid international growth. While the slowdown in China has received most attention from the media, weakening conditions in Canada and slow growth in Japan—the U.S.'s number one and number four trading partners, respectively—have contributed to slow revenue growth for export-oriented firms. Continued slow growth in Europe is also a factor weighing on corporate profits.

Finally, the earnings of energy and commodities companies have seen downward pressure this year due to unfavorable market conditions. As discussed in the section on oil and gas in this report, crude oil prices have fallen 57 percent since June 2014. Commodity prices have experienced a similarly precipitous drop, due largely to weak economic conditions in China and other parts of the world. Expectations are for prices to remain low through 2016, so energy firms' earnings are likely to remain a drag in the near term.

Consensus estimates suggest a return to healthy earnings growth in 2016, and some analysts point out that earnings would be growing now if not for the dollar- and energy-related drags discussed above. However, some cyclical trends are likely to prevent a strong rebound in earnings growth. As the economic recovery matures, topline revenue growth may flatten out, which could lead to weaker earnings. Indeed, according to the Financial Post, only about 40 percent of publicly traded companies reported increases in sales in the third quarter of this year. In addition, companies may see wages rise as the labor market continues to tighten. Higher wages would put more downward pressure on profits, especially for firms in labor-intensive industries like retail and food service.

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


Source: Office of the State Controller and OSPB

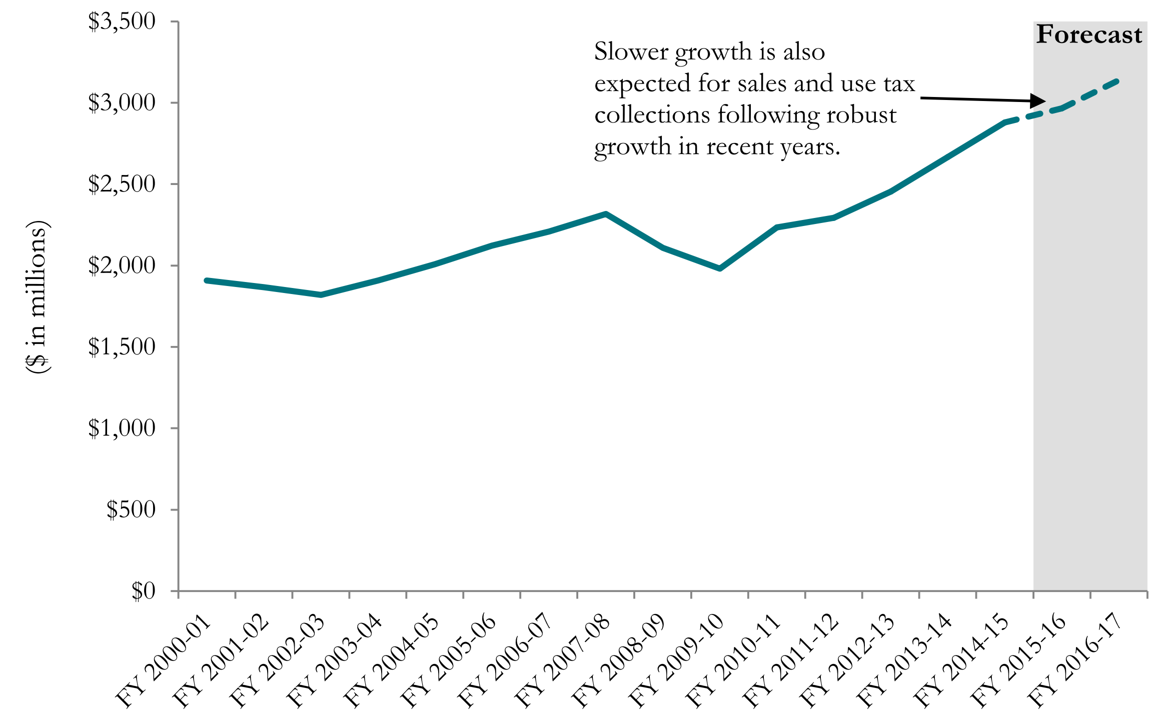
***Sales and use tax –*** Sales tax revenue will grow 3.8 percent in FY 2015-16 after increasing 8.0 percent in FY 2014-15. This growth rate is lower than the average of 7.1 percent during economic expansions since 1990. Slower growth in car sales in the state — a sizable component of sales tax-related transactions — and a decline in investment from the oil and gas industry are leading factors in moderating consumer and business spending compared with the robust growth of last fiscal year. Similarly, slower employment growth will slow spending, although a tighter labor market should lead to some upward pressure on wages. Sales tax revenue is forecast to grow 5.9 percent in FY 2016-17 as the conditions mentioned here that are weighing on growth this fiscal year, most notably the contracting oil and gas industry, will be less prevalent.

**Car sales will moderate and extractive industries investment will decline in FY 2015-16, resulting in lower-than-average sales tax growth. Sales tax revenue will grow 3.8 percent in FY 2015-16 after an increase of 8.0 percent in FY 2014-15. FY 2016-17 sales tax revenue will rebound with 5.9 percent growth.**

Growth in revenue from the 10 percent sales tax on retail marijuana will bolster sales tax revenue to the General Fund in each year of the forecast period. Revenue from the retail marijuana sales tax, approved by voters in 2013 under Proposition AA, goes first to the General Fund and is then transferred to the Marijuana Tax Cash Fund to support regulation and enforcement. A portion is also distributed to local governments in localities where retail marijuana sales occur. The tax will generate $47.7 million in revenue in FY 2015-16 and $52.8 million in FY 2016-17. HB 15-1367 reduces the 10 percent tax rate to 8 percent starting in FY 2017-18. Revenue from the regular 2.9 percent sales tax on marijuana sales does not go to the General Fund but is credited to the Marijuana Tax Cash Fund, which is included in the Miscellaneous Cash Funds category in Table 6 in the Appendix.

After growing 7.8 percent in FY 2014-15, use tax revenue is expected to decrease 5.3 percent in FY 2015-16 mostly as a result of a decline in business spending tied to the oil and gas industry. Collections will rebound with 5.6 percent growth in FY 2016-17. The use tax is a companion to the sales tax and is paid by Colorado residents and business on purchases that did not include a Colorado sales tax. Use taxes bring in a much smaller amount of revenue and are 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 24. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2016-17**




Source: Office of the State Controller and OSPB

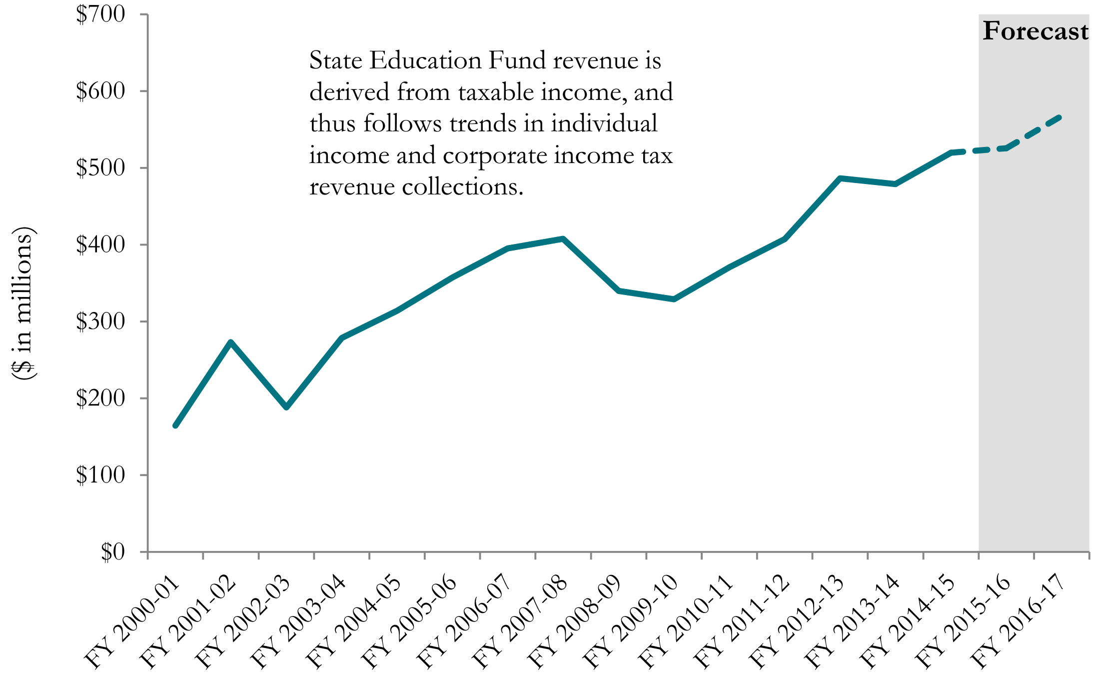
### State Education Fund Revenue Forecast

Tax revenue to the State Education Fund will increase 1.1 percent in FY 2015-16 and 8.0 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. Slower 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 partially abate in FY 2016-17, resulting in more revenue growth to the Fund.

**Tax revenue to the State Education Fund will increase 1.1 percent in FY 2015-16 and 8.0 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.**

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 33 on page 47.

**Figure 25. State Education Fund Revenue from One-Third of One Percent of Taxable Income, Actual and Forecast, FY 2000-01 to FY 2016-17**




Source: Office of the State Controller and OSPB

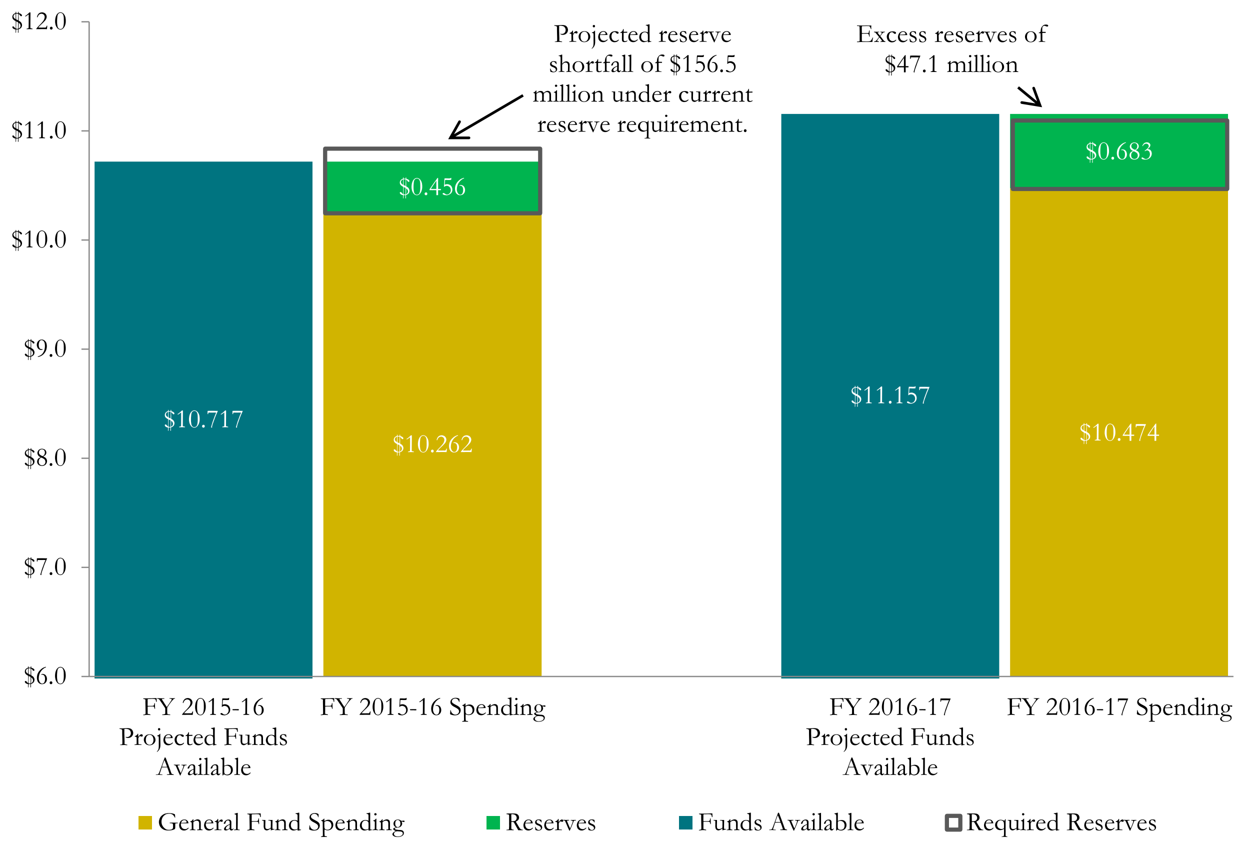
# General Fund and State Education Fund Budget

**Summary**

***General Fund –*** As discussed in the *General Fund Revenue Forecast* section starting on page 33, projections for General Fund revenue for FY 2015-16 are $170.8 million, or 1.7 percent, lower than in the September forecast. The forecast for FY 2016-17 is lower by $180.3 million, or 1.7 percent.

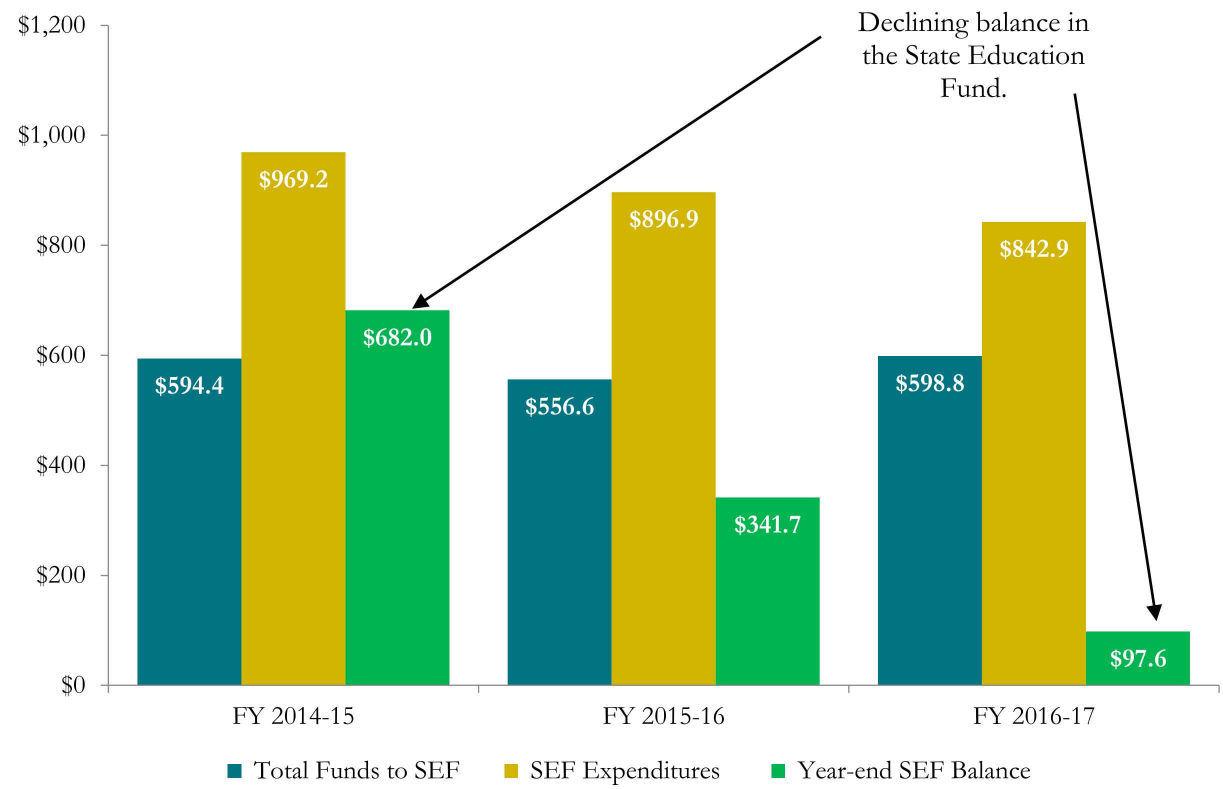
The State's General Fund reserve ended FY 2014-15 with $112.1 million above its required amount, based on preliminary figures. With the current budget for FY 2015-16 and under the Governor's November 2015 budget request, the State's General Fund reserve is projected to be $156.5 million below the current law required amount of 6.5 percent of appropriations in FY 2015-16, and $47.1 million above the reserve requirement in FY 2016-17. The budget request restores the full reserve amount in FY 2016-17. Figure 26 summarizes total General Fund revenue available, total spending, and reserve levels for FY 2015-16 and FY 2016-17 based on this forecast, the enacted budget and the Governor's budget request.

**Figure 26. General Fund Money, Spending, and Reserves under Governor's Budget Request, $ 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 27 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2014-15 through FY 2016-17. In FY 2015-16, the year-end balance in the Fund is expected to drop 50 percent from its level in FY 2014-15, and a larger drop of 71.4 percent is expected in FY 2016-17 when the projected balance will be just under $100 million.

**Figure 27. State Education Fund Money, Spending, and Reserves under Governor's Budget Request*, $ in Millions**




*FY 2015-16 and FY 2016-17 expenditures represent the Governor's November 2015 budget request. Actual expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections are illustrative only.

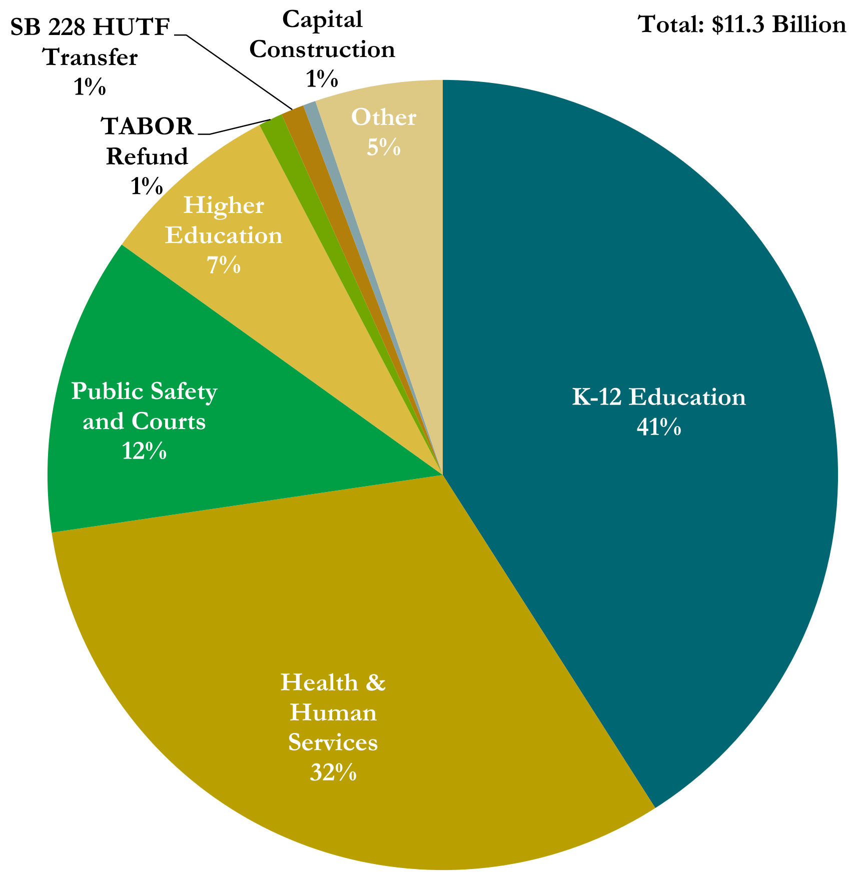
***Detailed Overview Tables –*** A detailed overview of the amount of money available in the General Fund and State Education Fund, expenditures, and end-of-year reserves are provided in the overview tables in the Appendix at the end of this document. These overviews are discussed further starting on page 43.

**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 28 shows the allocation of General Fund and State Education Fund spending for FY 2016-17 by major department or program area under the Governor's November 2015 budget request. As noted above, the current forecast shows $47.1 million above the required General Fund reserve amount for FY 2016-17 under the request.

**Figure 28. Composition of Governor's FY 2016-17 General Fund and State Education Fund Budget Request**




***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 3. Changes in the 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.

As noted elsewhere in this document, key economic indicators in Colorado are exhibiting some signs of slowing down. For instance, the rate of job growth fell throughout 2015, although Colorado still has some of the healthiest unemployment numbers in the country. The slowdown in the oil and gas industry could hamper growth further, especially if oil prices decline further and remain at lower levels for an extended period of time. Weaker global conditions may also impact Colorado, but the state's relatively low exposure to international markets and its highly diversified economy should help mute these effects. Nonetheless, an economic downturn would likely cause State revenue to decline and have substantial impacts on the budget outlook.

However, even relatively small changes in the projected growth rate of revenue sources has 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 2016-17 will result in a transfer of $106.8 million from the General Fund for transportation projects and an additional $26.7 million to capital construction, as dictated by Senate Bill 09-228 (for more details, see page 57). However, a decrease of just 0.05 percentage points, or $5.2 million, in revenue subject to TABOR (assuming the lower Hospital Provider Fee collections) would result in these transfers doubling, adding to General Fund spending obligations. This amount is well within the amount of typical forecast error. Therefore, future revisions to the forecast could result in material revisions to these transfers.

**General Fund Overview Table**

Table 4 in the Appendix presents the General Fund Overview for the December 2015 OSPB revenue forecast, providing details on forecasts for available General Fund money, expenditures, and end-of-year-reserves under the Governor's budget request. The following section discusses the information presented in Table 4. To aid understanding, the discussion includes figures showing each section of the detailed overviews found in the Appendix.

**Revenue**

The top portion of the overview, shown in Figure 29, 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 33. 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 1 percent of total revenue (shown in line 3 below).

The proposed policy changes shown in line 4 are from the Governor's November budget request. The FY 2015-16 $3.8 million amount is a proposed transfer from severance taxes to the General Fund. This is the amount needed to fulfill the intent of SB 15-255, which required $20 million in severance tax revenue to be credited to the General Fund at the end of FY 2014-15. The proposed transfer of $500,000 in FY 2016-17 is associated with a Department of Health Care Policy and Financing marijuana-funded measure.

**Figure 29. General Fund Revenue Available under Governor's Budget Request (from Table 4 in Appendix), $ in Millions**

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|
| 1 | Beginning Balance | $688.6 | $455.9 | $682.9 |
| 2 | General Fund Revenue | $10,008.8 | $10,683.8 | $11,253.6 |
| 3 | Transfers to the General Fund | $16.3 | $16.9 | $17.1 |
| 4 | Proposed Policy Changes Affecting Revenue | $3.8 | $0.5 | NA |
| **5** | **Total General Funds Available** | **$10,717.4** | **$11,157.0** | **$11,953.6** |
| | *Dollar Change from Prior Year* | $413.9 | $439.6 | $796.6 |
| | *Percent Change from Prior Year* | 4.0% | 4.1% | 7.1% |

**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 5 percent of the aggregate level of personal income received by Coloradans. This limit is projected to be $12.3 billion in FY 2015-16 and $13.1 billion in FY 2016-17. Therefore, the General Fund appropriations shown in Figure 30 are about $3.0 and $3.2 billion under the limit in these two years, respectively. The General Fund appropriation amounts for FY 2015-16 and FY 2016-17 reflect the Governor's budget request. The FY 2015-16 amount includes the $12.0 million in General Fund appropriations authorized by the passage of Proposition BB in November (Proposition BB is discussed further in the next section). The appropriations amount in line 6 for FY 2017-18 in Table 4 in the Appendix reflects the level of spending that can be supported by forecasted revenue while maintaining the required reserve level.

### Figure 30. General Fund Spending Subject to the Appropriations Limit Under Governor's Budget Request (from Table 4 in Appendix), $ in Millions

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 |
|---|---|---|---|
| 6 | Appropriations | $9,458.0 | $9,830.1 |
| 7 | Dollar Change from Prior Year | $589.0 | $372.1 |
| 8 | Percent Change from Prior Year | 6.6% | 3.9% |

***Spending not subject to the appropriations limit*** – Figure 31 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 31. General Fund Spending Not Subject to the Appropriations Limit Under Governor's Budget Request (from Table 4 in Appendix), $ in Millions

| Table 4 Line No. | | FY 2014-15 | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|---|
| 10 | TABOR Refund under Art. X, Section 20, (7) (d) | $156.5 | $0.0 | $112.0 | $340.9 |
| 11 | Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c) | $58.0 | -$58.0 | $0.0 | $0.0 |
| | Cigarette Rebate to Local Governments | $12.3 | $9.3 | $8.9 | $8.7 |
| | Marijuana Rebate to Local Governments | $6.3 | $7.2 | $7.9 | $6.8 |
| | Old-Age Pension Fund/Older Coloradans Fund | $111.3 | $105.1 | $109.1 | $114.0 |
| | Aged Property Tax & Heating Credit | $5.7 | $6.2 | $6.0 | $6.5 |
| | Homestead Exemption | $116.9 | $130.4 | $146.4 | $154.5 |
| | Interest Payments for School Loans | $0.7 | $1.2 | $1.2 | $1.3 |
| | Fire/Police Pensions | $4.2 | $4.2 | $4.2 | $4.2 |
| | Amendment 35 General Fund Expenditure | $0.9 | $0.8 | $0.8 | $0.8 |
| 12 | **Total Rebates and Expenditures** | **$258.1** | **$264.3** | **$284.5** | **$296.8** |
| 13 | Transfers to Capital Construction | $248.5 | $271.4 | $58.7 | $68.3 |
| 14 | Transfers to Highway Users Tax Fund | $0.0 | $200.2 | $106.8 | $0.0 |
| 15 | Transfers to State Education Fund per SB 13-234 | $25.3 | $25.3 | $25.3 | $25.3 |
| 16 | Transfers to Other Funds | $44.0 | $100.4 | $56.7 | $41.6 |
| 17 | Other | $0.5 | $0.0 | $0.0 | $0.0 |
| | **Total** | **$791.0** | **$803.6** | **$644.0** | **$772.9** |
| | *Dollar Change from Prior Year* | $245.4 | $12.6 | -$159.5 | $128.9 |
| | *Percent Change from Prior Year* | 45.0% | 1.6% | -19.9% | 20.0% |

**Lines 10 and 11**: Revenue exceeded the Referendum C cap in FY 2014-15 and is projected to exceed the cap again in FY 2016-17 and FY 2017-18, but not this fiscal year. 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"). For more information on the TABOR refund, see the Taxpayer's Bill of Rights: Revenue Limit section later in this report. The projected TABOR refund shown in line 10 for FY 2016-17 incorporates the $100 million reduction in Hospital Provider Fee revenue under the Governor's November budget request for FY 2016-17 to make more General Fund available for spending. The proposal would reduce total TABOR revenue and thus the TABOR refund by $100 million in FY 2016-17.

The $58.0 million shown in line 11 for FY 2014-15 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 submitted Proposition BB to voters in November to ask if the State can retain and spend the money. Because voters approved Proposition BB, the State is able to use the money for the uses outlined in HB 15-1367. Therefore, a reversal of the $58 million set aside is shown in line 11 under FY 2015-16 to make it available for spending.

Of the $58.0 million, $40.0 million is transferred to public school capital construction (and is thus included in "Transfers to Other Funds" in line 16 under FY 2015-16); $12 million is used by the General Fund for appropriations for various purposes, such as law enforcement, youth programs, and marijuana education and prevention programs (and is thus included in "Appropriations Subject to the Limit" in line 6 under FY 2015-16); and the remaining $6 million is available for use by the General Fund for any purpose.

**Line 12**: "Rebates and Expenditures" account for a large portion of General Fund spending not subject to the appropriations limit. The primary programs under rebates and expenditures are: (1) the Cigarette Rebate, which distributes money from a portion of State cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the Marijuana Rebate, which distributes 15 percent of the retail marijuana sales tax to local governments based on the percentage of retail marijuana sales in local areas; (3) the Old-Age Pension program, which provides assistance to low-income elderly individuals who meet certain eligibility requirements; (4) the Aged Property Tax, Heat, and Rent Credit, which provides property tax, heating bill, and rent assistance to qualifying low-income, disabled, or elderly individuals; and (5) the Homestead Property Tax Exemption, which reduces property-tax liabilities for qualifying seniors and disabled veterans.

**Lines 13 and 14**: 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 SB 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 3.0 percent of total General Fund revenue.

Because no TABOR refund is projected for FY 2015-16, SB 09-228 transfers for transportation and capital construction are projected to be made at full levels, resulting in transfers of $200.2 and $50.0 million, respectively, in FY 2015-16. As shown in line 13, a total of $271.4 million will be transferred in FY 2015-16 for capital construction projects. This amount includes the projected $50.0 million SB 09-228 transfer and a $221.4 million transfer set by SB 15-250.

The Governor's November 2015 budget request for FY 2016-17 includes a total General Fund transfer of $58.7 million for capital construction. This amount incorporates the additional $25.0 million from the full SB 09-228 transfer in FY 2015-16 that was not projected when the FY 2015-16 budget was adopted. The adopted budget assumed a half SB 09-228 transfer of $25.0 million.

The projected FY 2016-17 TABOR refund of $112.0 million (assuming the lower Hospital Provider Fee collections) is equal to 1.05 percent of General Fund revenue, meaning that the SB 09-228 transfers will only be made at half levels. However, a very small decrease in revenue from projections would result in full transfers.

**Line 15**: 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 fiscal year through FY 2017-18 is $25.3 million.

**Line 16**: State law requires transfers of General Fund money to various other State cash funds. Generally, the largest transfer in this line is money from the 10 percent special sales tax on retail marijuana tax (reduced to 8 percent starting in FY 2017-18) credited to the General Fund, 85 percent of which is transferred to the Marijuana Tax Cash Fund. However, for FY 2015-16 only, as discussed above, $40.0 million of the transfer to other funds amount is a transfer to public school capital construction related to the passage of Proposition BB.

**Line 17**: This line includes any expenditures for certain programs that have exceeded their appropriated amount for a fiscal year, called "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"). Under current law, the reserve is required to be 6.5 percent of General Fund appropriations subject to the appropriations limit. Starting in 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 32 provides information on the General Fund ending balance. As the figure shows, the State's General Fund reserve is projected to be $156.5 million below the current law required amount for FY 2015-16. However, the Governor's November 2015 budget request restores the 6.5 percent reserve in FY 2016-17.

**Figure 32. General Fund Reserves under Governor's Budget Request (from Table 4 in Appendix), $ in Millions**

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|
| 21 | Year-End General Fund Balance | $455.9 | $682.9 | $679.4 |
| 22 | Balance as a % of Appropriations | 4.8% | 6.9% | 6.5% |
| 23 | **General Fund Statutory Reserve** | **$612.4** | **$635.8** | **$679.4** |
| 24 | Money Above/Below Statutory Reserve | -$156.5 | $47.1 | $0.0 |

**State Education Fund Overview**

Figure 33 summarizes State Education Fund annual revenue and spending. It also includes projected beginning and ending fund balances. As the figure shows, lower revenue to the fund will put increasing strain on the fund's balance in the coming years despite lower expenditure levels. By the end of FY 2015-16, the balance is projected to fall nearly 50.0 percent, to $341.7 million, from levels a year earlier. The trend is projected to continue into FY 2016-17, as the year-end balance drops by another 71.4 percent to $97.6 million.

State Education Fund expenditures for FY 2015-16 and FY 2016-17 reflect the Governor's November 2015 budget request. The FY 2017-18 expenditure amount projects spending needed to keep the negative factor in the School Finance Act at the proposed FY 2016-17 dollar amount of $905.2 million, while maintaining a balance in the Fund at about the same level as FY 2016-17.

**Figure 33. State Education Fund Revenue, Spending, and Reserves under Governor's Budget Request,* $ in Millions**

| | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|
| **Beginning Balance** | ***$682.0*** | ***$341.7*** | ***$97.6*** |
| *One-third of 1% of State Taxable Income* | *$525.7* | *$567.6* | *$609.8* |
| *Transfers under SB 13-234* | *$25.3* | *$25.3* | *$25.3* |
| *Other* | *$5.5* | *$5.9* | *$6.4* |
| **Total Funds to State Education Fund** | **$556.6** | **$598.8** | **$641.5** |
| **State Education Fund Expenditures** | **$896.9** | **$842.9** | **$645.7** |
| **Year-end Balance** | **$341.7** | **$97.6** | **$93.4** |

*Actual expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections 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 supports a wide array of State programs that collect taxes, fees, fines, and interest to fund services. When fees or other revenue are designated for a particular program, they typically 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.

Cash fund revenue subject to TABOR in FY 2015-16 is forecasted to be $103.7 million, or 3.8 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 $11.9 million, or 0.4 percent, lower than projections from the September forecast, as lower projections for severance tax revenue are offsetting an increase in expectations for revenue to the group of miscellaneous cash funds.

Cash fund revenue subject to TABOR will increase 1.2 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 6.0 percent decrease in revenue from the Hospital Provider Fee. The forecast for FY 2016-17 is $31.5 million, or 1.1 percent, lower compared with projections in September.

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 54.

***Transportation-related cash funds —*** Transportation-related cash fund revenue is forecast to grow 1.4 percent in FY 2015-16 and 1.2 percent in FY 2016-17. In FY 2014-15, transportation-related cash fund revenue subject to TABOR grew $28.9 million, or 2.5 percent, to $1.16 billion.

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and several smaller cash funds. HUTF collections, 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.

**Low fuel prices and an expanding economy will drive continued growth in vehicle purchases and fuel consumption, though at a slower rate than in FY 2014-15.**

In FY 2014-15, revenue from HUTF vehicle fuel taxes and vehicle registrations grew 4.7 and 4.5 percent, respectively, the fastest growth since before the Great Recession. Strong growth continued in the first part of FY 2015-16, posting 3.0 percent year-to-date growth through November. Changes in these revenue streams have a substantial influence on overall transportation-related cash funds because they account for approximately three-quarters of all revenue in the category.

Coloradans ramped up vehicle purchases and driving over the past fiscal year in the growing economy. According to the Colorado Automobile Dealers Association, new vehicle registrations increased 8.0 percent through September of this year over the same period in 2014. Low gas prices are facilitating more purchases of light trucks, for which registrations grew 15.0 percent. Conversely, car registrations actually declined 2.8 percent. This purchasing behavior should offset to some degree the downward pressure on gas tax revenue that results from improving auto fuel efficiency. This forecast assumes that the recent car-buying and driving trends will moderate, with overall HUTF revenue growth averaging 1.1 percent over the next three fiscal years.

***Limited Gaming*** **—** Limited gaming revenue is forecast to grow by $10.4 million, or 9.3 percent, in FY 2015-16, after increasing 3.3 percent in FY 2014-15. Revenue from gaming will grow an additional $3.0 million, or 2.4 percent, to $124.8 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 posting modest increases over the forecast period. In addition, the gaming landscape is undergoing a gradual transition as some smaller gaming venues close and larger operations absorb market demand. This has important implications for revenue because casinos are taxed on a graduated scale based on adjusted gross proceeds. For instance, a casino with adjusted gross proceeds of $2.0 million pays taxes at an effective rate of 0.25 percent, while a casino with proceeds of $10 million pays an effective rate of 5.6 percent. In FY 2014-15, two small- to medium-sized casinos closed. Assuming some clients from these smaller casinos instead played at larger establishments, the state could expect higher tax revenues even if the same amount were wagered. Thus, the trend toward larger casinos could have a noticeable impact on gaming revenue in the coming years.

**Growth in the economy and wages, combined with industry consolidation, will produce continued moderate growth in gaming revenue in FY 2015-16 and FY 2016-17.**

Of the total expected limited gaming revenue of $121.8 million for FY 2015-16, $102.4 million will be subject to TABOR, as reflected in Figure 34. 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 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 $13.6 million and $14.6 million in FY 2015-16 and FY 2016-17, respectively. Figure 34 shows the distribution of limited gaming revenues in further detail.

**Figure 34. 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** | **$121.8** | **$124.8** | **$126.8** |
| Annual Percent Change | 3.3% | 9.3% | 2.4% | 1.6% |
| | | | | |
| **B. Base Limited Gaming Revenues (max 3% growth)** | **$98.1** | **$101.0** | **$103.5** | **$105.1** |
| Annual Percent Change | 3.0% | 3.0% | 2.4% | 1.6% |
| | | | | |
| **C. Gaming Revenue Subject to TABOR** | **$99.3** | **$102.4** | **$104.9** | **$106.6** |
| Annual Percent Change | 1.1% | 3.1% | 2.4% | 1.6% |
| | | | | |
| **D. Total Amount to Base Revenue Recipients** | **$87.3** | **$91.7** | **$93.2** | **$93.9** |
| Amount to State Historical Society | $24.5 | $25.7 | $26.1 | $26.3 |
| Amount to Counties | $10.5 | $11.0 | $11.2 | $11.3 |
| Amount to Cities | $8.7 | $9.2 | $9.3 | $9.4 |
| Amount to Distribute to Remaining Programs (State Share) | $43.7 | $45.9 | $46.6 | $47.0 |
| 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 |
| 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 | $13.7 | $15.9 | $16.6 | $17.0 |
| | | | | |
| **E. Total Amount to Amendment 50 Revenue Recipients** | **$9.9** | **$16.1** | **$17.2** | **$17.6** |
| Community Colleges, Mesa and Adams State (78%) | $7.7 | $12.5 | $13.5 | $13.7 |
| Counties (12%) | $1.2 | $1.9 | $2.1 | $2.1 |
| Cities (10%) | $1.0 | $1.6 | $1.7 | $1.8 |

***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 5.6 percent, or by $42.5 million, in FY 2017-18. This forecast is unchanged from September.

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.

The large increase in FY 2015-16 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.

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 72.3 percent, or $202.6 million, to $77.6 million in FY 2015-16 due to the sharp decline in oil and natural gas prices. Severance tax revenue projections are $31.5

million lower than the September OSPB Forecast due to lower–than-expected revenue collections through the first part of FY 2015-16.

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 production value 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 $56.3 million in severance tax revenue for FY 2016-17. The local ad valorem credit for State severance taxes is 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.

**Continued low prices for natural gas and oil, combined with ad valorem tax credits, will result in a decline of $202.6 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.**

Average 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. Expectations are for prices to remain low through at least 2016 and possibly into 2017. Given the recent downward trend in prices through the past few months and fact that the Organization of the Petroleum Exporting Countries (OPEC) did not come to an agreement to lower supply at their most recent meeting, there continues to be downside risk to price projections.

The price of natural gas also remains well below the previous few years as supply has outpaced demand recently. Natural gas prices in 2015 are nearly 40 percent below 2014 levels and only a slight increase in prices is expected in 2016.

In FY 2015-16, the impact of ad valorem tax credits is exacerbating 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 pay on the value of mineral extraction in the prior year. Although the prices of natural gas and oil declined this year, taxpayers will mostly 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 72.3 percent forecasted decline for severance taxes in FY 2015-16. Along with gradual increases in prices, this dynamic will 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. A larger decline in production is expected in 2016 as prices are projected to remain suppressed for both oil and gas. 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 28.4 percent to $103.9 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 12.9 percent to $117.3 million in FY 2016-17 and an additional 11.5 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 Bureau of Land Management (BLM) sells leases to extract mineral resources from federal lands. Producers then remit royalties and other payments to the federal government that are shared with the state where production occurred.

**FML revenue will fall 28.4 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 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. 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 gas prices on FML revenue was larger than initially estimated through the first quarter of FY 2015-16, thus the forecast for this fiscal year is $15.5 million lower than in September. Although FML revenue will continue to decline through 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 35. 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 | $3.7 | $100.2 | $103.9 | -28.4% |
| FY 2016-17 | $1.8 | $115.6 | $117.3 | 12.9% |
| FY 2017-18 | $2.0 | $128.9 | $130.8 | 11.5% |

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

***Other cash funds*** ─ Cash fund revenue to regulatory agencies will grow 3.5 percent to $67.0 million in FY 2015-16 after decreasing 5.5 percent in FY 2014-15. Cash fund revenue related to regulatory agencies will grow another 3.5 percent to $69.3 million in FY 2016-17. 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, ranging from landscape architects and psychologists to hunting guides. Revenue from licensing fees and other services fund many of the Department's activities.

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 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 $601.6 million in FY 2015-16, an increase of 2.8 percent, after growth of 2.9 percent the prior year. Revenue to these funds is expected to grow 1.0 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 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 referred a measure to voters asking if the State can retain and spend the money collected from the taxes in FY 2014-15. A majority of voters voted in favor of the measure in November giving the State the authority to retain and spend the money.

HB15-1367 also reduced both the 10 percent special sales tax and 15 percent excise tax rates on retail marijuana to zero for one day. This satisfies TABOR's provisions to reduce the tax rates associated with a tax increase when revenue exceeds the estimates given to voters. However, the rates were 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 38 in the General Fund budget section and on page 57 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.

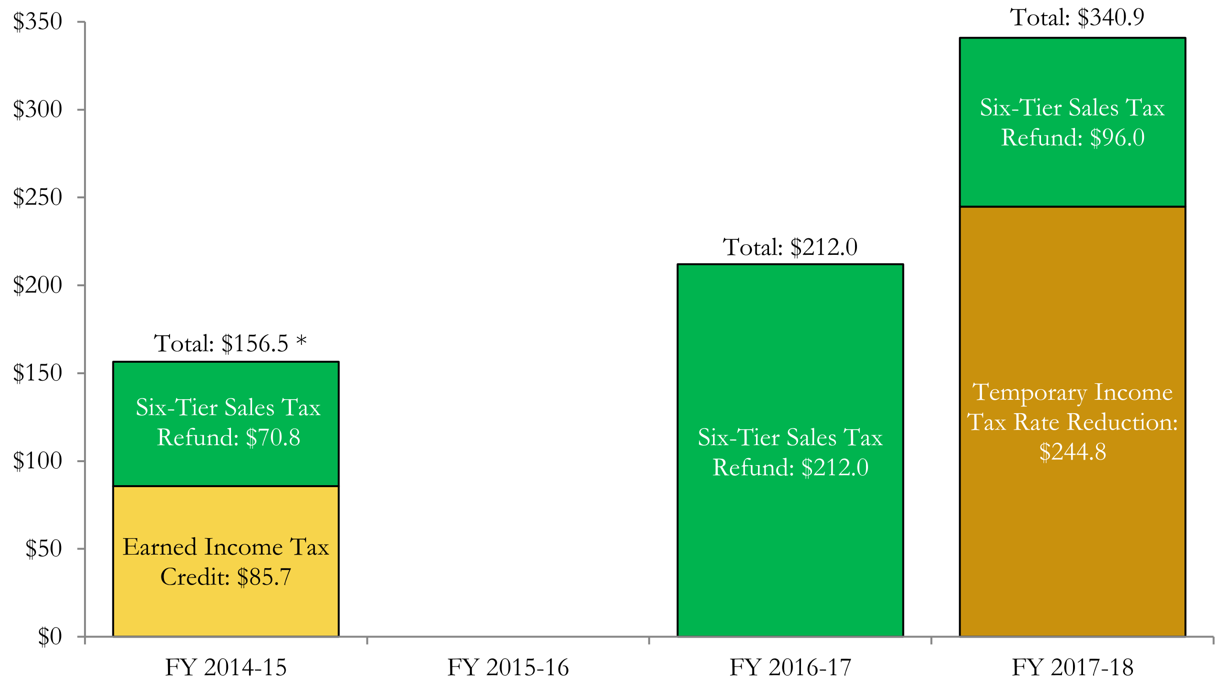
In November 2005, voters approved Referendum C, which allowed the State to retain all revenue through FY 2009-10 during a five-year TABOR "time out." Referendum C also set a new cap on revenue starting in FY 2010-11. Starting with FY 2010-11, the amount of revenue that the State may retain under Referendum 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 FY 2016-17 and FY 2017-18 –*** TABOR revenue exceeded the Referendum C cap by $152.9 million in FY 2014-15 and will be refunded to taxpayers, along with an additional $3.6 million owed related to refunds from prior years. TABOR revenue is projected to come in below the cap in FY 2015-16, but is expected to come in over the cap in the following two years by $212.0 million in FY 2016-17, and $340.9 million in FY 2017-18. 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 36 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 10 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. After the use of the EITC as a refund mechanism for FY 2014-15, it becomes available to qualifying taxpayers on an ongoing basis.

**Figure 36. Projected Distribution of Revenue in Excess of the Referendum C Cap, $ in Millions**




* The FY 2014-15 amount includes $152.9 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 in previous years was less actual money than 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 remaining $70.8 million of the refund for FY 2014-15 will be distributed through the six-tier sales tax refund, as specified by Section 39-22-2002, C.R.S., when taxpayers file their state tax return for the 2015 tax year. 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. Figure 37 shows per-taxpayer refund estimates by income tier for the six-tier sales tax refund.

For FY 2016-17, the six-tier sales tax refund mechanism will be used to distribute the projected $212.0 million exceeding the Referendum C cap, as shown in Figure 37. 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 $231.2 million for FY 2016-17, about $19 million higher than this forecast's projection for revenue in excess of the cap.

Revenue in excess of the cap in FY 2017-18, projected at $340.9 million, will meet the refund threshold amount to activate the temporary income tax rate reduction refund mechanism as specified by Section 39-22-627, C.R.S. This refund mechanism will reduce the state income tax rate from 4.63 to 4.5 percent for tax year 2018. This would reduce the income tax liability for individual income taxpayers by about $52 for tax year 2018 on average per taxpayer, though the amount will vary greatly based on a taxpayer's taxable income level as shown in Figure 37. The total amount refunded through this mechanism is estimated to be $244.8 million in FY 2017-18 with the remaining portion, $96.0 million, to be refunded through the six-tier sales tax refund mechanism.

## Figure 37. Projected Distribution of Refunds per Taxpayer by Fiscal Year

| FY 2014-15 TABOR Refund per Taxpayer | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Individual Returns | | | | Joint Returns | | | |
| Adjusted Gross Income Tier | Earned Income Tax Credit* | Six-Tier Sales Tax | Income Tax Rate Cut | Total | Earned Income Tax Credit* | Six-Tier Sales Tax | Income Tax Rate Cut | Total |
| Up to $36,000 | $234 | $13 | $0 | $247 | $234 | $26 | $0 | $260 |
| $36,001 - $77,000 | $137 | $18 | $0 | $155 | $137 | $36 | $0 | $173 |
| $77,001 - $120,000 | $0 | $21 | $0 | $21 | $0 | $42 | $0 | $42 |
| $120,001 - $163,000 | $0 | $23 | $0 | $23 | $0 | $46 | $0 | $46 |
| $163,001 - $204,000 | $0 | $24 | $0 | $24 | $0 | $48 | $0 | $48 |
| $204,001 and Up | $0 | $41 | $0 | $41 | $0 | $82 | $0 | $82 |

*EITC applies per household, while the sales tax and income tax refunds are per return. For tax years after 2015, the EITC will no longer be a TABOR refund mechanism and will become a permanent credit. Number of taxpayers and adjusted gross income tiers for FY 2014-15 are the Colorado Department of Revenue's projections.

**No TABOR surplus is projected for FY 2015-16**

| FY 2016-17 TABOR Refund per Taxpayer | | | | | | |
|---|---|---|---|---|---|---|
| | Individual Returns | | | Joint Returns | | |
| Adjusted Gross Income Tier | Six-Tier Sales Tax | Income Tax Rate Cut | Total | Six-Tier Sales Tax | Income Tax Rate Cut | Total |
| Up to $38,000 | $39 | $0 | $39 | $78 | $0 | $78 |
| $38,001 - $81,000 | $54 | $0 | $54 | $108 | $0 | $108 |
| $81,001 - $125,000 | $63 | $0 | $63 | $126 | $0 | $126 |
| $125,001 - $170,000 | $69 | $0 | $69 | $138 | $0 | $138 |
| $170,001 - $213,000 | $72 | $0 | $72 | $144 | $0 | $144 |
| $213,001 and Up | $124 | $0 | $124 | $248 | $0 | $248 |

| FY 2017-18 TABOR Refund per Taxpayer | | | | | | |
|---|---|---|---|---|---|---|
| | Individual Returns | | | Joint Returns | | |
| Adjusted Gross Income Tier | Six-Tier Sales Tax | Income Tax Rate Cut | Total | Six-Tier Sales Tax | Income Tax Rate Cut | Total |
| Up to $39,000 | $17 | $8 | $25 | $34 | $3 | $37 |
| $39,001 - $83,000 | $24 | $49 | $73 | $48 | $30 | $78 |
| $83,001 - $128,000 | $28 | $109 | $137 | $56 | $79 | $135 |
| $128,001 - $174,000 | $31 | $159 | $190 | $62 | $131 | $193 |
| $174,001 - $218,000 | $32 | $199 | $231 | $64 | $184 | $248 |
| $218,001 and Up | $55 | $608 | $663 | $110 | $563 | $673 |

***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.

There is no projected TABOR refund for FY 2015-16, thus the transfers for this fiscal year are currently expected to be unaffected by these provisions. However, the projected TABOR refund for FY 2016-17 represents an amount equal to 2.0 percent of General Fund revenue. Therefore, the transfers for transportation and capital construction will be reduced by half – from $213.7 million to $106.8 million and $53.4 million to $26.7 million, respectively – under this forecast. A relatively 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. The proposed $100 million reduction in Hospital Provider Fee revenue under the Governor's November budget request for FY 2016-17 puts the projected TABOR refund just slightly above the 1 percent threshold.

According to current projections, the transportation and capital construction transfers will be reduced to zero for 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 3.03 percent of total General Fund revenue. Therefore, a small reduction in revenue subject to TABOR would result in half transfers.

***TABOR election provisions and Proposition BB*** – HB 15-1367 referred a measure to voters ─ "Proposition BB" ─ asking if the State can retain and spend the revenue collected from the Proposition AA taxes on marijuana. The legislation set aside $58 million into a special account in the General Fund in case a refund was needed. Statewide voters approved Proposition BB, allowing the state to retain and spend the revenue. The legislation thus requires $40 million of the $58 million that was set aside 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 $6 million is available for use by the General Fund for any purpose. For more information on how these amounts are treated in the General Fund, see the discussion starting on page 40 of the General Fund and State Education Fund Budget section. HB 15-1367 also lowers the 10 percent special sales tax on retail marijuana sales to 8 percent starting in FY 2017-18.

# Governor's Revenue Estimating Advisory Committee

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

- 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

COLORADO
It's our nature.

# Appendix – Reference Tables

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

| Line No. | | Actual 2010 | Actual 2011 | Actual 2012 | Actual 2013 | Actual 2014 | December 2015 Forecast 2015 | December 2015 Forecast 2016 | December 2015 Forecast 2017 |
|---|---|---|---|---|---|---|---|---|---|
| | **Income** | | | | | | | | |
| 1 | Personal Income (Billions) /A | $211.4 | $227.1 | $240.9 | $246.4 | $261.7 | $274.3 | $288.8 | $304.4 |
| 2 | Change | 2.4% | 7.4% | 6.1% | 2.3% | 6.2% | 4.8% | 5.3% | 5.4% |
| 3 | Wage and Salary Income (Billions) | $113.8 | $118.6 | $125.0 | $129.5 | $138.7 | $145.3 | $153.3 | $161.9 |
| 4 | Change | 1.3% | 4.2% | 5.4% | 3.6% | 7.1% | 4.8% | 5.5% | 5.6% |
| 5 | Per-Capita Income ($/person) /A | $41,877 | $44,349 | $46,402 | $46,746 | $48,869 | $50,294 | $52,031 | $53,889 |
| 6 | Change | 0.9% | 5.9% | 4.6% | 0.7% | 4.5% | 2.9% | 3.5% | 3.6% |
| | **Population & Employment** | | | | | | | | |
| 7 | Population (Thousands) | 5,048.6 | 5,119.7 | 5,191.7 | 5,272.1 | 5,355.9 | 5,453.9 | 5,551.2 | 5,649.3 |
| 8 | Change | 1.5% | 1.4% | 1.4% | 1.5% | 1.6% | 1.8% | 1.8% | 1.8% |
| 9 | Net Migration (Thousands) | 37.5 | 36.0 | 39.8 | 47.9 | 50.8 | 68.8 | 63.4 | 63.8 |
| 10 | Unemployment Rate | 8.7% | 8.3% | 7.8% | 6.8% | 5.0% | 4.1% | 3.8% | 3.9% |
| 11 | Total Nonagricultural Employment (Thousands) /B | 2,222.3 | 2,258.6 | 2,313.0 | 2,381.9 | 2,463.7 | 2,532.7 | 2,599.5 | 2,667.1 |
| 12 | Change | -1.0% | 1.6% | 2.4% | 3.0% | 3.4% | 2.8% | 2.6% | 2.6% |
| | **Construction Variables** | | | | | | | | |
| 13 | Total Housing Permits Issued (Thousands) | 11.6 | 13.5 | 23.3 | 27.5 | 28.7 | 31.0 | 37.9 | 41.3 |
| 14 | Change | 23.9% | 16.5% | 72.6% | 18.1% | 4.2% | 7.9% | 22.3% | 9.1% |
| 15 | Nonresidential Construction Value (Millions) /C | $3,146.7 | $3,516.2 | $3,112.3 | $3,614.0 | $4,306.8 | $4,543.7 | $4,659.1 | $4,801.0 |
| 16 | Change | -6.2% | 11.7% | -11.5% | 16.1% | 19.2% | 5.5% | 2.5% | 3.0% |
| | **Prices & Sales Variables** | | | | | | | | |
| 17 | Retail Trade (Billions) /D | $70.5 | $75.9 | $80.2 | $84.1 | $90.3 | $94.2 | $99.4 | $105.1 |
| 18 | Change | 6.0% | 7.7% | 5.7% | 4.8% | 7.4% | 4.3% | 5.5% | 5.8% |
| 19 | Denver-Boulder-Greeley Consumer Price Index (1982-84=100) | 212.4 | 220.3 | 224.6 | 230.8 | 237.2 | 240.8 | 246.8 | 252.7 |
| 20 | Change | 1.9% | 3.7% | 1.9% | 2.8% | 2.8% | 1.5% | 2.5% | 2.4% |

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

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

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

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

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

| Line No. | | Actual | | | | | December 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 | $16,722.3 | $17,090.2 |
| 2 | Change | 2.5% | 1.6% | 2.2% | 1.5% | 2.4% | 2.4% | 2.3% | 2.2% |
| 3 | Personal Income (Billions) /B | $12,477.1 | $13,254.5 | $13,915.1 | $14,068.4 | $14,694.2 | $15,331.9 | $16,037.2 | $16,742.8 |
| 4 | Change | 3.2% | 6.2% | 5.0% | 1.1% | 4.4% | 4.3% | 4.6% | 4.4% |
| 5 | Per-Capita Income ($/person) | $40,334 | $42,520 | $44,300 | $44,450 | $46,084 | $47,693 | $49,476 | $51,218 |
| 6 | Change | 2.4% | 5.4% | 4.2% | 0.3% | 3.7% | 3.5% | 3.7% | 3.5% |
| 7 | Wage and Salary Income (Billions) /B | $6,377.5 | $6,633.2 | $6,930.3 | $7,114.4 | $7,477.8 | $7,791.9 | $8,181.5 | $8,606.9 |
| 8 | Change | 2.0% | 4.0% | 4.5% | 2.7% | 5.1% | 4.2% | 5.0% | 5.2% |
| | **Population & Employment** | | | | | | | | |
| 9 | Population (Millions) | 309.3 | 311.7 | 314.1 | 316.5 | 318.9 | 321.5 | 324.1 | 326.9 |
| 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% | 5.3% | 4.8% | 4.7% |
| 12 | Total Nonagricultural Employment (Millions) | 130.3 | 131.8 | 134.1 | 136.4 | 139.0 | 141.8 | 144.2 | 146.4 |
| 13 | Change | -0.7% | 1.2% | 1.7% | 1.7% | 1.9% | 2.0% | 1.7% | 1.5% |
| | **Price Variables** | | | | | | | | |
| 14 | Consumer Price Index (1982-84=100) | 218.1 | 224.9 | 229.6 | 233.0 | 236.7 | 237.0 | 241.2 | 246.1 |
| 15 | Change | 1.6% | 3.2% | 2.1% | 1.5% | 1.6% | 0.1% | 1.8% | 2.0% |
| 16 | Producer Price Index - All Commodities (1982=100) | 184.7 | 201.0 | 202.2 | 203.4 | 205.3 | 192.2 | 197.2 | 204.7 |
| 17 | Change | 6.8% | 8.8% | 0.6% | 0.6% | 0.9% | -6.4% | 2.6% | 3.9% |
| | **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 | 0.830 | 0.991 | 1.046 | 1.171 | 1.359 | 1.512 |
| 21 | Change | 3.7% | 3.2% | 32.9% | 19.4% | 5.6% | 11.9% | 16.1% | 11.2% |
| 22 | Retail Trade (Billions) | $4,288.3 | $4,601.8 | $4,831.1 | $5,011.7 | $5,204.7 | $5,324.4 | $5,564.0 | $5,825.5 |
| 23 | Change | 5.4% | 7.3% | 5.0% | 3.7% | 3.8% | 2.3% | 4.5% | 4.7% |

**/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: w age and salary disbursements, supplements to w ages and salaries, proprietors' income w ith inventory and capital consumption adjustments, rental income of persons w ith capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

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

| Category | Preliminary FY 2014-15 | %Chg | December 2015 Estimate by Fiscal Year FY 2015-16 | %Chg | FY 2016-17 | %Chg | FY 2017-18 | %Chg |
|---|---|---|---|---|---|---|---|---|
| ***Excise Taxes:*** | | | | | | | | |
| Sales | $2,619.2 | 8.0% | $2,720.0 | 3.8% | $2,879.3 | 5.9% | $3,007.4 | 4.4% |
| Use | $260.3 | 7.8% | $246.5 | -5.3% | $260.2 | 5.6% | $277.1 | 6.5% |
| Cigarette | $37.9 | 3.6% | $36.4 | -4.0% | $34.8 | -4.4% | $34.0 | -2.0% |
| Tobacco Products | $17.8 | 5.3% | $20.9 | 17.7% | $19.4 | -7.5% | $19.9 | 2.5% |
| Liquor | $41.5 | 2.8% | $43.6 | 5.0% | $43.9 | 0.8% | $45.1 | 2.7% |
| **Total Excise** | **$2,976.7** | **7.8%** | **$3,067.4** | **3.0%** | **$3,237.6** | **5.5%** | **$3,383.5** | **4.5%** |
| ***Income Taxes:*** | | | | | | | | |
| Net Individual Income | $6,350.1 | 11.5% | $6,477.5 | 2.0% | $6,973.9 | 7.7% | $7,377.0 | 5.8% |
| Net Corporate Income | $692.9 | -3.9% | $665.6 | -3.9% | $696.0 | 4.6% | $754.1 | 8.4% |
| **Total Income** | **$7,043.0** | 9.8% | **$7,143.1** | **1.4%** | **$7,669.9** | **7.4%** | **$8,131.2** | **6.0%** |
| *Less: State Education Fund Diversion* | *$519.8* | *8.6%* | *$525.7* | *1.1%* | *$567.6* | *8.0%* | *609.8* | *7.4%* |
| **Total Income to General Fund** | **$6,523.1** | **9.9%** | **$6,617.3** | **1.4%** | **$7,102.3** | **7.3%** | **$7,521.3** | **5.9%** |
| ***Other Revenue:*** | | | | | | | | |
| Insurance | $256.7 | 7.4% | $283.4 | 10.4% | $301.0 | 6.2% | $303.4 | 0.8% |
| Interest Income | $8.1 | -47.0% | $14.4 | 77.9% | $15.1 | 5.4% | $16.1 | 6.4% |
| Pari-Mutuel | $0.6 | 0.2% | $0.6 | -3.0% | $0.6 | -3.0% | $0.6 | -2.0% |
| Court Receipts | $2.6 | 0.3% | $2.5 | -4.2% | $2.4 | -1.0% | $2.3 | -4.1% |
| Other Income | $34.0 | 59.1% | $23.2 | -31.8% | $24.7 | 6.7% | $26.4 | 6.8% |
| **Total Other** | **$301.9** | **8.1%** | **$324.0** | **7.3%** | **$343.9** | **6.1%** | **$348.8** | **1.4%** |
| **GROSS GENERAL FUND** | **$9,801.7** | **9.2%** | **$10,008.8** | **2.1%** | **$10,683.8** | **6.7%** | **$11,253.6** | **5.3%** |

## Table 4. General Fund Overview under the Governor's November 2015 Budget Request /A
(Dollar Amounts in Millions)

| Line No. | | Preliminary FY 2014-15 | December 2015 Estimate by Fiscal Year FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| 1 | **Beginning Reserve** | **$435.9** | **$688.6** | **$455.9** | **$682.9** |
| 2 | **Gross General Fund Revenue** | **$9,801.7** | **$10,008.8** | **$10,683.8** | **$11,253.6** |
| 3 | *Transfers to the General Fund* | *$65.9* | *$16.3* | *$16.9* | *$17.1* |
| 4 | *Proposed Policy Changes Affecting Revenue* | *NA* | *$3.8* | *$0.5* | *NA* |
| 5 | **TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE** | **$10,303.6** | **$10,717.4** | **$11,157.0** | **$11,953.6** |
| **Expenditures** | | | | | |
| 6 | **Appropriation Subject to Limit** | **$8,869.0** | **$9,458.0** | **$9,830.1** | **$10,501.3** |
| 7 | *Dollar Change (from prior year)* | *$650.3* | $589.0 | $372.1 | $671.2 |
| 8 | *Percent Change (from prior year)* | 7.9% | 6.6% | 3.9% | 6.8% |
| 9 | **Spending Outside Limit** | **$791.0** | **$803.6** | **$644.0** | **$772.9** |
| 10 | *TABOR Refund under Art. X, Section 20, (7) (d)* | *$156.5* | *$0.0* | *$112.0* | *$340.9* |
| 11 | *Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)* | *$58.0* | *-$58.0* | *$0.0* | *$0.0* |
| 12 | *Rebates and Expenditures* | *$258.1* | $264.3 | $284.5 | $296.8 |
| 13 | *Transfers for Capital Construction* | *$248.5* | $271.4 | $58.7 | $68.3 |
| 14 | *Transfers to Highway Users Tax Fund* | $0.0 | $200.2 | $106.8 | $0.0 |
| 15 | *Transfers to State Education Fund under SB 13-234* | $25.3 | $25.3 | $25.3 | $25.3 |
| 16 | *Transfers to Other Funds* | $44.0 | $100.4 | $56.7 | $41.6 |
| *17* | *Other Expenditures Exempt from General Fund Appropriations Limit* | $0.5 | $0.0 | $0.0 | $0.0 |
| 18 | **TOTAL GENERAL FUND OBLIGATIONS** | **$9,660.0** | **$10,261.6** | **$10,474.1** | **$11,274.2** |
| 19 | *Percent Change (from prior year)* | 10.2% | 6.2% | 2.1% | 7.6% |
| 20 | Reversions and Accounting Adjustments | *-$45.0* | $0.0 | $0.0 | $0.0 |
| **Reserves** | | | | | |
| 21 | **Year-End General Fund Balance** | **$688.6** | **$455.9** | **$682.9** | **$679.4** |
| 22 | *Year-End General Fund as a % of Appropriations* | *7.8%* | 4.8% | 6.9% | 6.5% |
| 23 | *General Fund Statutory Reserve* | $576.5 | $612.4 | $635.8 | $679.4 |
| 24 | *Above (Below) Statutory Reserve* | $112.1 | -$156.5 | $47.1 | $0.0 |

**/A** See the section discussing the General Fund and State Education Fund budget starting on page 40 for information on the figures in this table.

## Table 5. General Fund and State Education Fund Overview under the Governor's November 2015 Budget Request /A
(Dollar Amounts in Millions)

| Line No. | | Preliminary FY 2014-15 | December 2015 Estimate by Fiscal Year FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| 1 | **Beginning Reserves** | **$1,484.9** | **$1,370.6** | **$797.5** | **$780.5** |
| 2 | *State Education Fund* | $1,048.9 | $682.0 | $341.7 | $97.6 |
| 3 | *General Fund* | $435.9 | $688.6 | $455.9 | $682.9 |
| 4 | **Gross State Education Fund Revenue** | **$594.4** | **$556.6** | **$598.8** | **$641.5** |
| 5 | **Gross General Fund Revenue /B** | **$9,867.6** | **$10,028.8** | **$10,701.1** | **$11,270.7** |
| 6 | **TOTAL FUNDS AVAILABLE FOR EXPENDITURE** | **$11,946.9** | **$11,956.0** | **$12,097.5** | **$12,692.7** |
| **Expenditures** | | | | | |
| 7 | General Fund Expenditures /C | $9,660.0 | $10,261.6 | $10,474.1 | $11,274.2 |
| 8 | State Education Fund Expenditures | *$969.2* | *$896.9* | *$842.9* | *$645.7* |
| 9 | **TOTAL OBLIGATIONS** | **$10,629.2** | **$11,158.5** | **$11,317.0** | **$11,919.9** |
| 10 | *Percent Change (from prior year)* | 11.8% | 5.0% | 1.4% | 5.3% |
| 11 | *Reversions and Accounting Adjustments* | *($52.9)* | *$0.0* | *$0.0* | *$0.0* |
| **Reserves** | | | | | |
| 12 | **Year-End Balance** | **$1,370.6** | **$797.5** | **$780.5** | **$772.8** |
| 13 | State Education Fund | $682.0 | $341.7 | $97.6 | $93.4 |
| 14 | General Fund | $688.6 | $455.9 | $682.9 | $679.4 |

**/A** See the section discussing the General Fund and State Education Fund budget starting on page 40 for information on the figures in this table.

**/B** This amount includes transfers to the General Fund and proposed revenue changes shown in lines 3 and 4 in Table 4.

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

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

| Category | Preliminary FY 2014-15 | December 2015 Estimate by Fiscal Year FY 2015-16 | FY 2016-17 | FY 2017-2018 |
|---|---|---|---|---|
| **Transportation-Related /A** | **$1,164.6** | **$1,180.7** | **$1,195.1** | **$1,212.9** |
| Change | 2.5% | 1.4% | 1.2% | 1.5% |
| **Limited Gaming Fund /B** | **$99.3** | **$102.4** | **$104.9** | **$106.6** |
| Change | 1.1% | 3.1% | 2.4% | 1.6% |
| **Capital Construction - Interest** | **$4.7** | **$4.5** | **$4.7** | **$3.6** |
| Change | 94.0% | -2.7% | 3.6% | -23.8% |
| **Regulatory Agencies** | **$64.7** | **$67.0** | **$69.3** | **$70.9** |
| Change | -5.5% | 3.5% | 3.4% | 2.4% |
| **Insurance-Related** | **$21.5** | **$13.7** | **$13.8** | **$14.0** |
| Change | 4.1% | -36.4% | 0.7% | 1.4% |
| **Severance Tax /C** | **$280.2** | **$77.6** | **$133.8** | **$184.2** |
| Change | 4.3% | -72.3% | 72.5% | 37.6% |
| **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** | **$601.6** | **$607.9** | **$618.5** |
| Change | 2.9% | 2.8% | 1.0% | 1.7% |
| ***TOTAL CASH FUND REVENUE*** | ***$2,748.8*** | ***$2,852.5*** | ***$2,885.7*** | ***$3,009.5*** |
| *Change* | 0.7% | 3.8% | 1.2% | 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 | December 2015 Estimate by Fiscal Year FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|---|
| | **TABOR Revenues:** | | | | |
| 1 | General Fund /A | $9,755.4 | $9,961.1 | $10,630.9 | $11,208.1 |
| | Percent Change from Prior Year | 8.8% | 2.1% | 6.7% | 5.4% |
| 2 | Cash Funds /A | $2,751.1 | $2,852.5 | $2,885.7 | $3,009.5 |
| | Percent Change from Prior Year | 0.8% | 3.7% | 1.2% | 4.3% |
| **3** | **Total TABOR Revenues** | **$12,506.6** | **$12,813.6** | **$13,516.6** | **$14,217.6** |
| | Percent Change from Prior Year | 7.0% | 2.5% | 5.5% | 5.2% |
| | **Revenue Limit Calculation:** | | | | |
| 4 | Previous calendar year population growth | 1.5% | 1.6% | 1.8% | 1.8% |
| 5 | Previous calendar year inflation | 2.8% | 2.8% | 1.5% | 2.5% |
| **6** | **Allowable TABOR Growth Rate** | 4.3% | 4.4% | 3.3% | 4.3% |
| 7 | TABOR Limit | $9,969.6 | $10,390.6 | $10,733.5 | $11,195.0 |
| 8 | General Fund Exempt Revenue Under Ref. C /B | $2,384.1 | $2,423.0 | $2,571.1 | $2,681.7 |
| **9** | **Revenue Cap Under Ref. C /C** | **$12,353.7** | **$12,879.6** | **$13,304.6** | **$13,876.7** |
| **10** | **Amount Above/(Below) Cap /E** | **$152.9** | **-$66.0** | **$212.0** | **$340.9** |
| 11 | TABOR Reserve Requirement | $370.6 | $384.4 | $399.1 | $416.3 |

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

**/B** The TABOR limit and Referendum C Cap 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.

**/E** The amount for FY 2016-17 does not incorporate the $100 million reduction in Hospital Provider Fee revenue under the Governor's November budget request for FY 2016-17. This will reduce TABOR revenue and the amount above the cap by $100 million in FY 2016-17.