COLORADO
Office of State Planning
& Budgeting

March | 2016

The Colorado Economic Outlook

Economic and Fiscal Review

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Summary

- General Fund revenue is forecasted to increase just 1.5 percent in FY 2015-16. Several factors are converging to cause the marked slowdown in revenue growth this fiscal year, including the deep contraction in the oil and gas sector that has reduced spending and income in the state, a continued tepid stock market, and global economic pressures that are reducing corporate profits. General Fund revenue growth is expected to rebound moderately in FY 2016-17 from continued economic expansion and as some of the factors weighing on revenue collections this fiscal year abate. General Fund revenue is projected to increase 6.4 percent in FY 2016-17, which is below the rates experienced in most years of the current expansion.

- Projections for General Fund revenue for FY 2015-16 are $51.0 million, or 0.5 percent, lower than in the December 2015 forecast. The forecast for FY 2016-17 is lower by $88.1 million, or 0.8 percent. With the current budget for FY 2015-16, the State's General Fund reserve is now projected to be $98.1 million below the required amount of 6.5 percent of appropriations.

- Despite the higher projected revenue growth next fiscal year, General Fund appropriations in FY 2016-17 can grow 4.5 percent after accounting for the required reserve amount and based on expectations for other General Fund obligations, including TABOR refunds and transfers to transportation and capital construction under Senate Bill 09-228. General Fund and State Education Fund expenditures combined can grow just 1.3 percent, assuming that the negative factor is maintained at its current level, as there is less funding available from the State Education Fund to support school finance.

- Under this forecast, transfers to transportation and capital construction under Senate Bill 09-228 will occur at their full amounts in FY 2015-16. Half transfers are expected for FY 2016-17 due to the forecasted size of TABOR refunds. Refunds above one percent of General Fund revenue trigger a 50 percent reduction in the transfers; refunds above three percent reduce them to zero. A relatively small downward revision in the revenue forecast in FY 2016-17 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 would be zero.

- Cash fund revenue subject to TABOR in FY 2015-16 is projected to be $119.6 million, or 4.3 percent, higher than FY 2014-15, primarily as a result of growth in revenue from the Hospital Provider Fee and miscellaneous cash funds. This growth will offset a sharp decline in revenue from severance taxes and insurance-related revenue. Cash fund revenue subject to TABOR will decrease 0.1 percent in FY 2016-17 as a projected 9.4 percent decrease in revenue from the Hospital Provider Fee will offset growth in revenue from most of the major categories of cash funds.

- TABOR revenue is projected to come in $80 million below the cap in FY 2015-16, but is expected to come in over the cap in the following two years, by $149.3 million in FY 2016-17 and $350.9 million in FY 2017-18. The amounts above the cap in these two fiscal years include a projected $34.8 million and $37.3 million, respectively, for transfers from the Unclaimed Property Fund to the Adult Dental Fund that have been reclassified as subject to TABOR. In addition to the $149.3 million above the cap in FY 2016-17, $19.6 million will need to be refunded from FY 2014-15 due to this recent reclassification of money.

- Colorado's economy continues to grow at a slower pace than in recent years. However, the labor market remains strong and the state is weathering the oil and gas industry's contraction better than other states. The northern Front Range continues to bolster the economic indicators for the state; rural areas and regions with oil and gas activity are experiencing weaker economic activity. The U.S. economy continues to post mostly modest growth. A stronger labor market and sustained consumer spending growth continue to propel the national economy forward while a slower global economy, stronger dollar, and financial market volatility present obstacles.

- Weaker global economic activity and increased levels of uncertainty pose heightened downside risks to the economy. In addition, although Colorado's economy has been resilient during the deep contraction in oil and gas activity thus far, continued weakness in the industry may yet have larger adverse impacts on economic activity for the state.

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 services. The OSPB forecast for job and income growth for Colorado is similar to the December Colorado Economic Outlook, though there are heightened downside risks from the deep contraction in the oil and gas sector, weak global growth, and higher levels of uncertainty. This section includes an analysis of:

- Economic conditions in Colorado (page 4)
- Housing costs (page 9)
- Oil and gas industry conditions (page 11)
- Economic conditions for the nation (page 15)
- Financial and monetary conditions (page 20)
- International economic conditions and trade (page 25)

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 — Colorado's economy continues to grow at a slower pace than in recent years. However, the labor market remains strong and the state is weathering the oil and gas industry's contraction better than other states. The northern Front Range continues to bolster the economic indicators for the state; rural areas and regions with oil and gas are experiencing weaker economic activity. Due to limited housing supply and the state's population growth, Colorado home prices grew faster than any other state in the nation in 2015. Rents also continue to increase at strong rates in the state's more populated areas, but new rental inventory in the Denver Metro area should lead to moderated rent growth over the next year. Given the extremely low price environment from high oil supply levels and weakened demand, the oil and gas industry continues to contract. Employment in the oil and gas industry in Colorado decreased an estimated 25 percent through the end of 2015 and expectations are for another 10 to 15 percent decrease to occur in 2016.

The U.S. economy continues to post mostly modest growth. A stronger labor market and sustained consumer spending growth continues to propel the economy forward while a slowing global economy, stronger dollar, and financial market volatility present obstacles. While the manufacturing sector has been hit particularly hard by slow global growth and the deep contraction in the oil and gas industry, some recent indicators point toward modest improvement in the sector. The services sector, which makes up a larger portion of the U.S. economy, has been more resilient to these factors, but has recently showed signs of slowing.

Economic risks — Weaker global economic activity and increased levels of uncertainty pose heightened downside risks. Further, expectations for further tightening in U.S. monetary policy despite only modest economic growth and low inflation has raised uncertainty. The higher levels of uncertainty and weaker expectations for growth have manifested in weakening global financial markets to start 2016. Credit conditions for businesses have been under increasing strain in recent months. This is an important trend to monitor because the flow of credit influences the level of investment that helps drive economic growth. Although Colorado's economy has been resilient during the deep contraction in oil and gas activity thus far, continued weakness in the industry may yet have larger adverse impacts on economic activity for the state.

Colorado Economy

Colorado's economy continues to grow at a slower pace due to global headwinds, a tight labor market, and the oil and gas industry's contraction — Colorado's economy exhibited slower growth over the course of 2015. Recently released state gross domestic product (GDP) data shows growth moderated through the third quarter of 2015, the latest data available, from the state's robust growth of 2014. Further, the pace of the state's job growth has slowed, though to a lesser degree than GDP. This slower growth pace is expected to continue in 2016, as well.

Much of the moderation in economic activity can be attributed to the sharp contraction in oil and gas activity. A strong dollar is also impacting some of the economic activity in the state, most notably in the tourism and agriculture industries. Further, a very tight labor market is making it more difficult for employers to find workers for expansion. In addition, although only a relatively small portion of Colorado's economy is tied to global economic conditions, the slowdown in certain regions abroad is also a drag on growth.

Colorado's economy continues to grow at a slower pace in the face of several headwinds. However, unemployment remains low and the state is weathering the oil and gas industry's contraction better than other states.

Despite these negative factors, there continues to be enough positive ingredients for Colorado's economy to post stronger growth than the nation overall. It is also weathering the oil and gas industry's contraction better than other states with an oil and gas sector, though the sector's activity represents a smaller portion of the economy than in most of these states.

The northern Front Range, which accounts for nearly three-quarters of Colorado's economy, continues to bolster economic indicators for the state. Other areas are experiencing less growth.

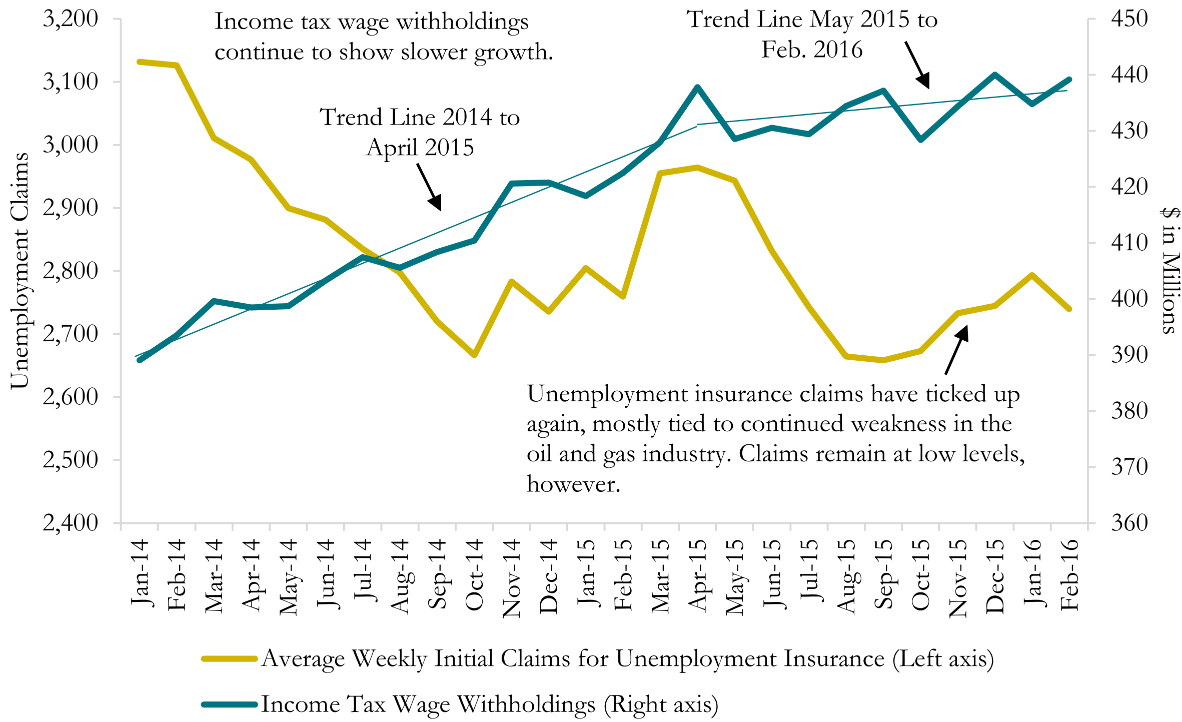
The northern Front Range, which accounts for nearly three-quarters of Colorado's economy, continues to bolster overall indicators for the state. The region remains a center for innovation and entrepreneurship, population growth, a highly skilled workforce, and diverse industries producing higher valued products that are in demand in today's economy. The Colorado Springs area, the largest regional economy outside the northern Front Range, is developing more of these ingredients, helping to bolster its growth. Other areas of the state are generally experiencing weaker economic activity. Some regions lost jobs in 2015, including certain rural counties, but also the cities of Greeley and Grand Junction, which can be attributed partly to the oil and gas industry's contraction.

Despite the slower job growth over the past year, Colorado's statewide unemployment rate continued to drop, registering 3.2 percent in January, the lowest since 2001. The broader U-6 measure of unemployment, which includes marginally attached workers and people working part-time for economic reasons, was 7.9 percent on average in 2015, the fifth-lowest of any state in the country. Job growth for the state is forecast to be 2.6 percent in 2016, following growth of 3.5 percent and 3.1 percent in 2014 and 2015, respectively. Colorado's unemployment rate is forecast to average 3.3 percent during 2016.

Recent indicators on the underlying health of the economy remain mostly positive, but show tempered growth and a slight uptick in layoffs — Figure 1 shows the trends in initial unemployment insurance claims and income tax wage withholdings, two near-real-time indicators of broad economic performance. The moderation in wage withholdings growth that started in 2015 has continued into the first part of 2016. Much of the slower growth can be attributed to the loss of the high wages tied to the oil and gas industry's activity. In addition, initial claims ticked up during the first half of 2015 and have again in the first part of 2016, but remain at a low level. The increase in layoffs is mostly confined to the oil and gas sector, indicating that the industry's contraction has not adversely affected the overall economy to a large degree. However, initial claims

for industries with some of their activity related to oil and gas and global conditions, such as construction and manufacturing, have picked up slightly in recent months.

Figure 1. Indicators of Colorado's Recent Economic Performance*

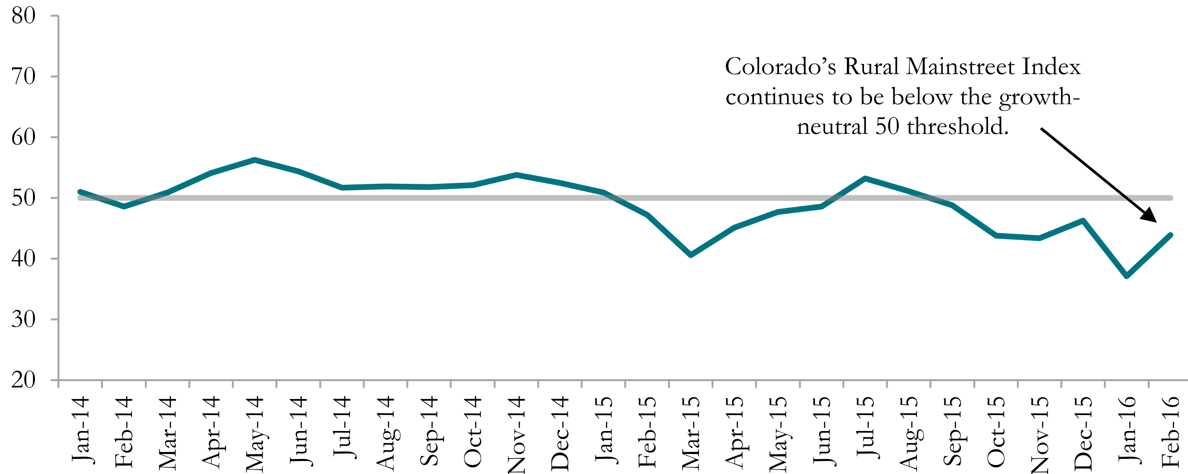


*Seasonally adjusted, three-month moving average
Source: Colorado Department of Revenue and the Colorado Department of Labor and Employment, OSPB calculations

Nonurban areas tied to agricultural economies continue to experience weaker economic activity – Persistent low prices for certain crops and livestock, along with a strong 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, maintained a reading below the growth-neutral 50 threshold in the first part of 2016, as shown in Figure 2. The index in February registered 43.9, rebounding from a low of 37.1 in January. Some of the weakness in the rural index is also tied to the contracting 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.

Weaker economic activity persists in nonurban agricultural and energy sector-dependent areas of Colorado due to the strong dollar, lower crop prices, and the deep contraction of the oil and gas industry.

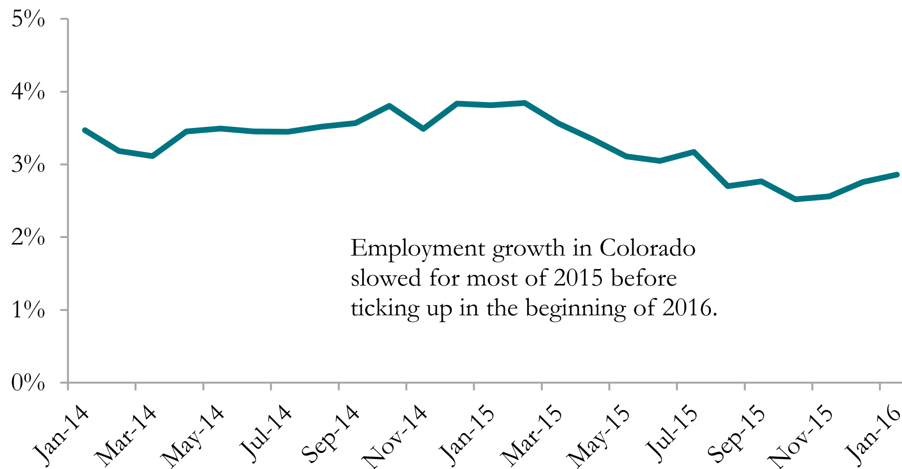
Figure 2. Colorado's Rural Mainstreet Index



Source: Creighton University

Colorado employment growth continues to slow, but remains above the national rate – Job gains in Colorado have followed a similar trend to the nation's, as year-over-year growth ticked downward for much of 2015. As shown in Figure 3, monthly year-over-year job growth rates peaked in February 2015 at 3.8 percent before dropping to 2.5 percent in October and then recovering at the beginning of 2016. The January growth rate in Colorado of 2.9 percent remained a full percentage point higher than the national rate of 1.9 percent over the same time frame and ranks Colorado ninth out of 50 states and Washington, D.C. The labor force participation rate in Colorado stood at 66.3 percent in January, down nearly a full percentage point from the 67.2 rate a year earlier, but still higher than the national ratio. As with the nation, Colorado's lower labor force participation is in part due to the state's aging population.

Figure 3. Colorado Year-over-Year Employment Growth by Month



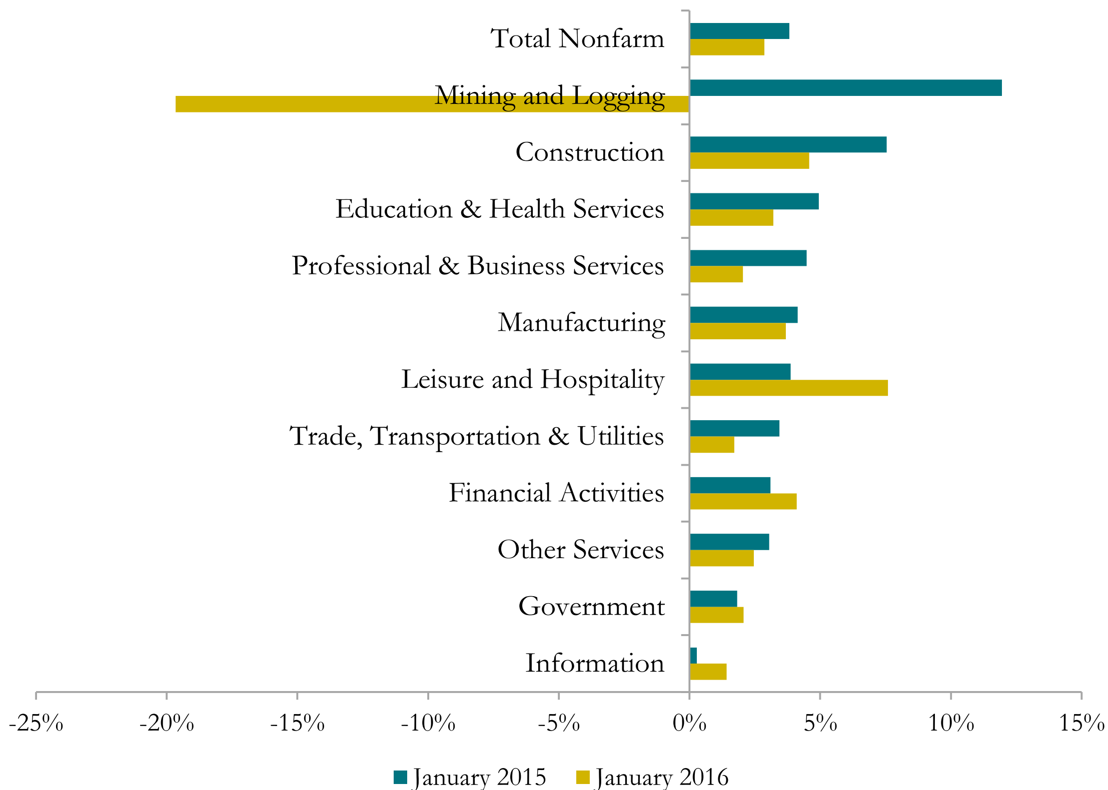
Source: Bureau of Labor Statistics, OSPB calculations

Jobs in the services sectors grew by 4.0 percent year-over-year in January, driving overall growth of 2.9 percent.

Manufacturing is stronger in Colorado than for the nation overall, but services are still driving most job growth – In contrast to the national trend, manufacturing jobs in Colorado grew 4.1 percent year-over-year in January 2016, making it one of the stronger sectors in the state's labor market. Figure 4 shows job growth by sector in the state. Colorado's relatively healthy manufacturing sector can be attributed in part to the higher amount of in-demand, more advanced products that tend to be produced in the state, such as renewable energy-related and aerospace-related products. Beverage manufacturing employment also grew by about 11 percent year-over-year in the third quarter of 2015, the most recent period for which reliable data is available. However, manufacturing only accounts for 5.6 percent of Colorado's jobs, which means that other sectors have a more substantial impact on overall growth.

In particular, service jobs[1], which account for just over half of all nonfarm employment, continued to grow year-over-year at a 4.0 percent clip in January 2016, though that was lower than the 4.2 percent growth in January 2015. This healthy growth dampened the impact of losses in the mining and logging industry, where employers cut nearly 20 percent of their labor force in 2015.

Figure 4. Colorado Year-over-Year Employment Growth by Sector



Source: Bureau of Labor Statistics, OSPB Calculations

Other signs point to a generally strong Colorado jobs market, but there are signs that it is moderating along with the rest of the country. The Conference Board's "Help Wanted Online" report for February showed that the ratio of unemployed persons to online ads was 0.74, tied with Minnesota for the lowest in the nation.

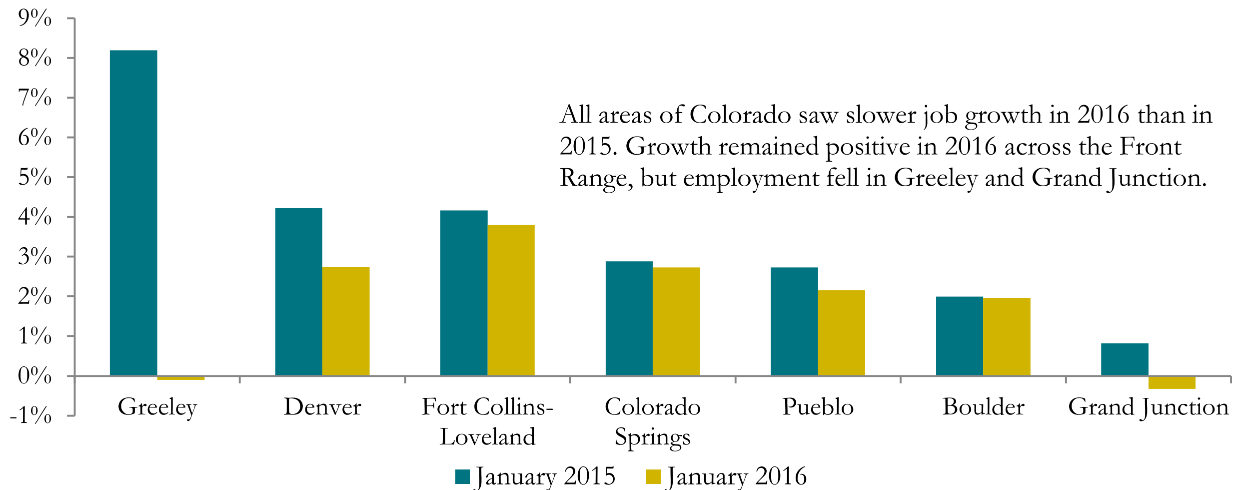
[1] Services jobs include professional and business services, education and health services, leisure and hospitality, and financial activities.

Likewise, Denver's "supply/demand" ratio measured 0.64, the lowest of any major metropolitan area tracked by the Conference Board. Anecdotal evidence also indicates that the state's labor market, especially along the northern Front Range, remains very tight as employers report difficulty in finding labor. Tempering these strong numbers is the fact that online help-wanted ads have been flat in the first part of the year for Colorado, as they have been for the majority of the states for which this metric is reported. Thus, the slowdown is likely a sign that growth is moderating in both the nationwide and the state's job markets.

Job growth has slowed in all areas of Colorado since last year and growth has been concentrated in the central and northern Front Range regions – Job growth over the past year was driven by gains in the Front Range cities. As shown in Figure 5, these metro areas together accounted for nearly all of the employment gains over the year. The smaller cities of Greeley and Grand Junction lost jobs over the year after keeping pace with the rest of the state in 2014. After experiencing among the fastest job growth in the country in 2014 attributable to the oil and gas boom, Greeley's recent decline in jobs was due to the contraction in the industry.

Larger urban centers are accounting for most of the job growth, while some smaller cities are experiencing slight declines.

Figure 5. Average Year-over-Year Employment Growth by Colorado Metro Area

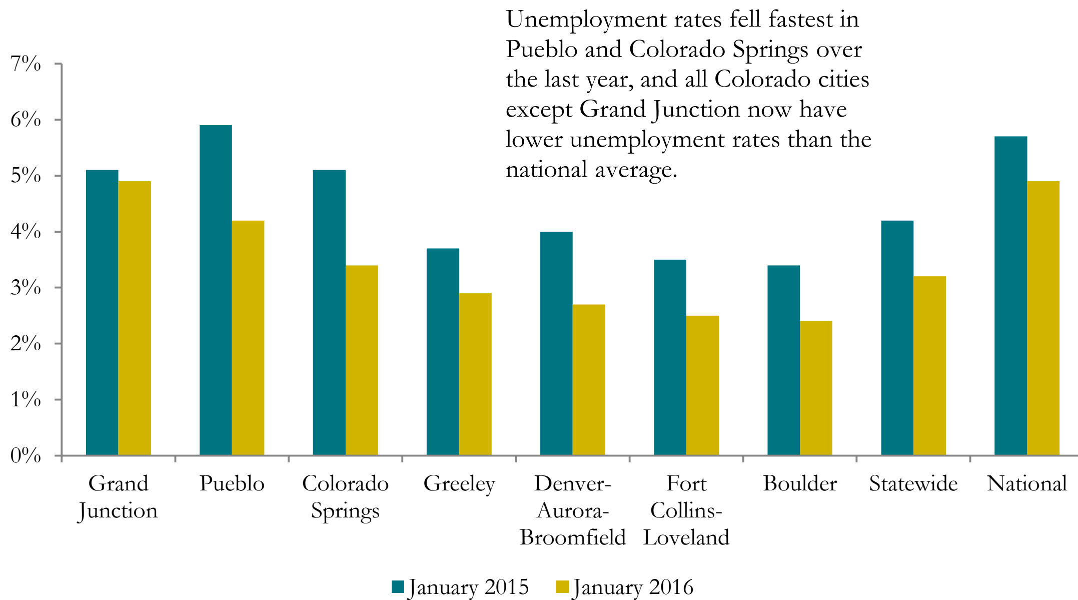


Source: Colorado Department of Labor and Employment, OSPB Calculations

Unemployment continues to fall in the state, but rates vary across regions – The official U-3 unemployment rate in Colorado fell to 3.2 percent in January, 1.7 percentage points below the national average and 1.0 percentage points below the statewide level at the beginning of 2015. In addition, the broader U-6 measure, which includes marginally attached workers and people working part-time for economic reasons, fell to 7.9 percent on average in 2015, down from 9.4 percent in 2014 and fifth-lowest of any state in the country. Figure 6 shows unemployment rates for January 2015 and 2016, the latest month for which local area data is available. As the figure demonstrates, all of Colorado's larger cities have seen a drop in the unemployment rate, though the magnitude of the change varies across the state. For instance, Pueblo and Colorado Springs saw the greatest improvement in unemployment over the past year, but also started with higher levels than cities along the northern Front Range.

Colorado's broad U-6 unemployment rate averaged 7.9 percent in 2015, the fifth-lowest in the nation, down from 9.4 percent the year prior.

Figure 6. Unemployment Rates by Colorado Metro Area



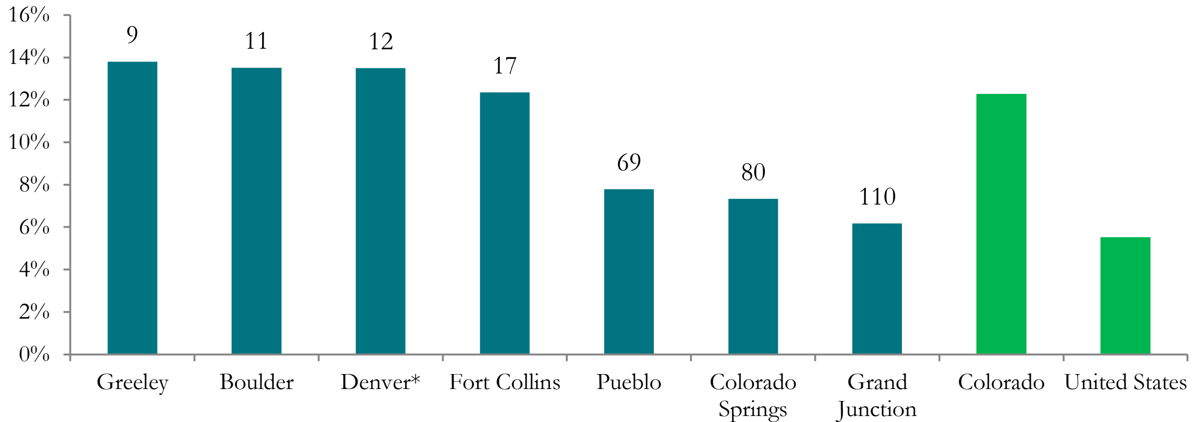
Source: Bureau of Labor Statistics

Housing Costs

Home prices across the state rose faster than the nationwide average in 2015 – The Federal Housing Finance Agency's House Price Index shows that home prices in the principal large Colorado cities grew faster than the national average in 2015. Four of these cities ranked in the top 20 for home-price appreciation, and contributed to Colorado home prices growing faster than any other state in the nation. Robust population growth fueled by high levels of in-migration, as well as low supply, have contributed to these high levels of appreciation. According to the National Association of Realtors, Boulder's median single-family home price of $469,900 in the fourth quarter of 2015 was the seventh-most expensive of the 181 large cities tracked by the organization. Denver's median home price was $353,300 and Colorado Springs' was $237,600 in the same period.

High levels of in-migration and low supply caused home prices to rise faster than the national average in all of Colorado's biggest cities.

Figure 7. Change in Home Prices, Fourth Quarter 2014 to Fourth Quarter 2015, Rank among 402 large U.S. cities shown above bars



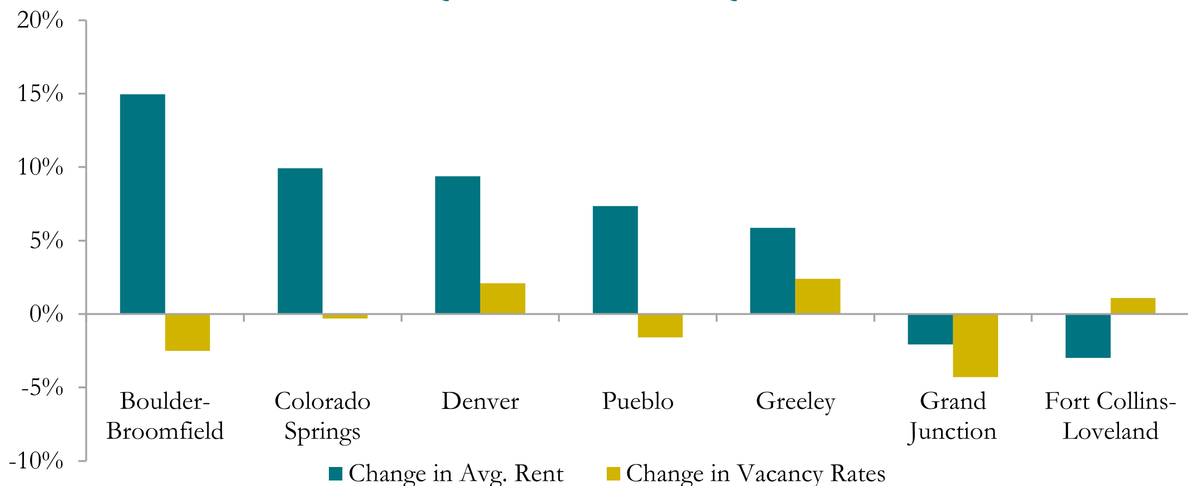
*Includes Aurora and Lakewood
Source: Federal Housing Finance Administration, OSPB Calculations

Rents continue to rise in most metropolitan areas, but increasing vacancy rates may lead to slower growth – As shown in Figure 8, rents in most large Colorado cities rose through 2015. The Boulder/Broomfield area saw both the strongest growth and highest average rents. The figure also shows the relationship between vacancy rates and average rent. Typically, rents increase as vacancy rates decrease. This relationship holds for about half of the cities in the figure. Two notable exceptions are Denver and Greeley, where rents rose despite increasing vacancy rates.

Average rents rose by 5 percent or more in five of Colorado's largest cities. New rental inventory in the Denver Metro area could lead to tempered rent growth over the next year.

In Denver, vacancy rates rose consistently beginning in late 2014 and saw their biggest quarterly jump since 2009 in the fourth quarter of 2015. Increasing vacancy rates were partly the result of a spike in new inventory: the Denver area added over 8,400 new units through the third quarter of 2015. That rents rose over this same period is reflective of the strong economic and population growth in the Metro area. Additional new inventory in 2016 should moderate rent growth in Denver.

Figure 8. Change in Average Rent and Vacancy Rates, Fourth Quarter 2014 to Fourth Quarter 2015



Source: Colorado Division of Housing, Apartment Association of Metro Denver

Oil and Gas Industry Conditions

The outlook for oil and gas prices is for continued weakness at least through the remainder of 2016. Further, absent a major shock such as heightened political upheaval in the Middle East, prices will likely not return to their 2014 levels for many years. Given the extremely low price environment, the oil and gas industry continues to contract. Employment in the oil and gas industry in Colorado decreased an estimated 25 percent through the end of 2015 and expectations are for another large decrease to occur in 2016.

Employment in the oil and gas industry contracted an estimated 25 percent in 2015 and could decrease another 10 to 15 percent in 2016.

Although employment in the oil and gas industry makes up a small share of overall employment in Colorado (roughly 1.5 percent)[2], the industry and its associated activity made a strong contribution to Colorado's overall growth, helping it to outpace national growth during the current expansion. The industry invests large sums of money and pays high wages, increasing the amount of money circulating in the economy. Average earnings in the industry are more than twice the average earnings in Colorado. Therefore, there can be material impacts on the state from growth or contraction in the industry.

Growth in wages from the oil and gas sector comprised about 7.5 percent of the growth in total wages that occurred in the state from 2009 to 2014, based on Quarterly Census of Employment and Wages data. However, considering the multiplier effect of the industry, which includes economic activity within the oil industry's supply chain as well as in industries throughout the economy resulting from spending in the oil and gas industry, the sector contributed an estimated 13 percent to total wage growth over the period.[3]

The oil and gas industry contributed an estimated 13 percent to overall wage growth during the expansion, and the contraction in the industry is slowing overall economic growth.

The decrease in investment and employment in the industry has contributed to the slowing overall growth in the state. However, Colorado's economy has been more resilient than other oil and gas intensive states because of its economic diversity and growth in other industries. In addition, lower gasoline prices have given consumers and businesses more money to spend on other goods and services, softening some of the shock. On average, gasoline prices were around 28 percent lower in 2015 than in 2014.

Oil and gas prices remain suppressed due to continued oversupply ― Oil prices have been hovering around the $30 per barrel range in 2016 after averaging $48 in 2015 and $93 dollars in 2014. Price projections for the remainder of the year indicate only minor improvements, and prices are generally expected to remain in the $40-$50 range through 2017, although there is a high degree of uncertainty in the trajectory of oil prices. Sustained expansion of oil production globally, combined with modest growth in global demand, continue to put downward pressure on prices. Additionally, natural gas prices remain nearly 50 percent lower than their 2014 levels, due to oversupply and slower demand. Natural gas prices are also expected to remain depressed through at least the remainder of 2016.

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

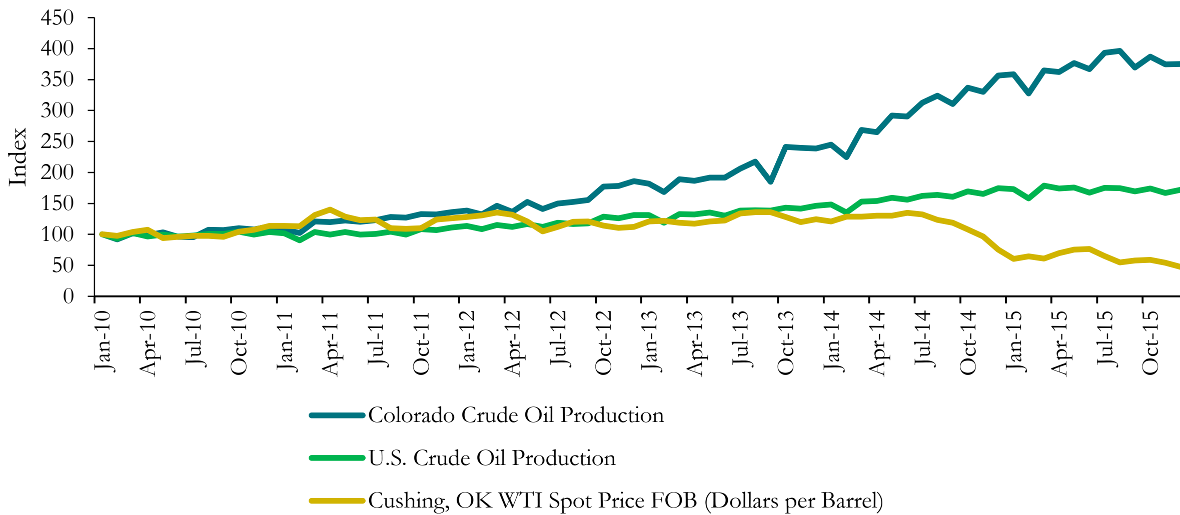
[3] The multiplier effects are based on EMSI's (Economic Modeling Specialists International) input-output model for Colorado. EMSI's estimated multiplier effects for the oil and gas industry are similar to the University of Colorado's Leeds School of Business's estimates using the IMPLAN software package reported in a study of the industry published in December 2015. The wage growth data is based on Quarterly Census of Employment and Wages from the Colorado Department of Labor and Employment, which provides data on the employment and wages of employer firms. The data excludes wages from non-employer businesses, such as self-employed, that do not file with the State's unemployment insurance system.

Given the dramatic decline in oil prices, expectations were for a large decline in production during 2015. However, production in Colorado was 25 percent higher in 2015 than it was in 2014. This compares with an 8 percent increase at the national level. As shown in Figure 9, production in Colorado has been increasing at a much faster rate than the national level, and continued to do so through the drop in oil prices.

Production of oil in Colorado reached record highs in 2015 with a 25 percent increase over 2014 levels.

Energy firms have become increasingly efficient as they focus on the most productive areas to drill new wells and technology advances have allowed them to produce more oil using fewer resources. The Denver-Julesburg Basin in northeast Colorado has been identified as one of the nation's more productive and cost-effective areas to extract oil, which has contributed to the robust increase in Colorado's production over the past few years.

Figure 9. Crude Oil Production and Price Indices (January 2010=100)



Source: U.S. Energy Information Administration

Although production continued at unexpectedly high levels through 2015, national oil production has been on a downward trend recently. Production is expected to decrease by about 8 percent, on average, in 2016. Decreases will vary greatly by region and firm, though, as they require different price levels to remain profitable. Average breakeven prices - the price necessary to remain profitable - have continued a downward trend over the past few years as firms become more efficient. Breakeven prices vary greatly by firm though, with some firms reporting breakeven prices as low as $30 while others are as high as $80.

According to the Kansas City Federal Reserve's 2015 4th Quarter Energy Survey, energy firms in the 10th District, which includes Colorado, require an oil price of $60, on average, for a substantial increase in drilling to occur. When asked about expectations for oil prices moving forward, the respondents expected prices to remain below this level through most of 2017.

Firms require $60 oil prices, on average, to increase drilling. The same firms expected the price to remain below $60 through most of 2017.

The energy companies that can remain profitable in this lower price environment will be those that continue to adapt and focus on the areas, such as the Denver-Julesburg Basin, that are the most efficient and cost-effective. As a result, production levels in Colorado may not decrease as significantly as other areas around the nation in 2016.

The oil and gas industry's employment base continues to contract — Based on OSPB's estimates of labor market data, employment in the oil and gas industry is nearly 25 percent, or approximately 7,900 jobs, lower in December 2015 compared with the prior year. Given continued expectations of low prices, trends in operating rigs around the state, and initial unemployment claims, the state could experience another 10 to 15 percent decrease in employment by the end of 2016.

On a more positive note, the prospects for these displaced workers is better than in the previous downturn in the industry during the Great Recession. Recent research conducted at the national level indicated that although the amount of layoffs in the industry has been larger during this downturn than in the late 2000's, oil and gas workers are having an easier time finding work in other industries[4]. Of the individuals surveyed in the oil and gas industry in 2008, 7.3 percent were unemployed the following year. Of the individuals surveyed from September 2014 to September 2015, only 4.2 percent were unemployed. Furthermore, the individuals laid off in the oil and gas industry during the current downturn have been able to move into a broader range of other industries and have been able to maintain or even increase their level of earnings.

Due to lower oil and gas prices, employment in the oil and gas industry in Colorado dropped nearly 25 percent through the end of 2015.

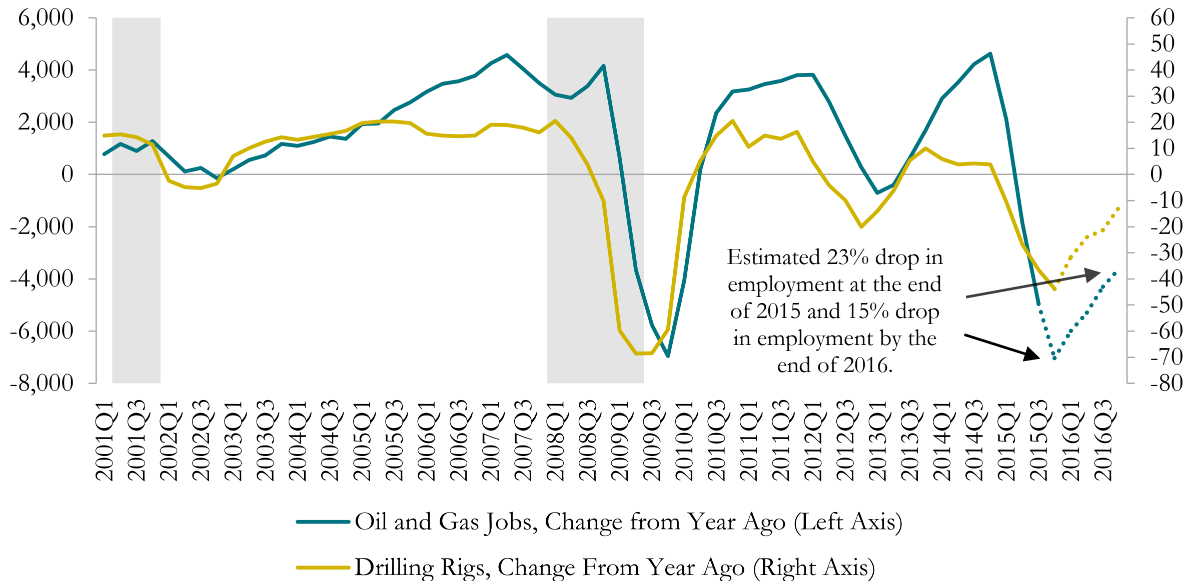
The number of oil and gas rigs operating in Colorado continues to track closely with the trend in oil prices. After averaging 68 rigs in 2014 and 38 rigs in 2015, rigs in operation around the state have declined to just 17 as of the second week in March.

Figure 10 examines the relationship between drilling rigs and oil and gas employment, both historically and projected through the end of 2016. Historically, the change in drilling rigs is highly correlated with the change in employment in the oil and gas industry. The decline in rigs and employment is expected to continue through 2016, but at a slower rate than 2015. Prices are expected to remain weak through the year, reducing incentives for exploration and drilling.

An increasing number of firms are struggling in the current environment. Many have been operating at minimal levels with the expectation that prices would have rebounded by now. Additionally, many firms in the industry are deeply indebted as they became highly leveraged during the boom years to extract as much oil as possible when prices were well over $100 a barrel. Expectations for 2016 are for more mergers and acquisitions to occur and, unfortunately, for more bankruptcies, as firms cannot afford to cover their debt payments at the current low prices. The impact will disproportionally hit smaller firms the hardest, as they tend to be the most highly leveraged firms in the industry.

[4] Brown, Jason P. & Kodaka, Andres. 2016. "The Reallocation of Energy-Sector Workers after Oil Price Booms and Busts." Federal Reserve Bank of Kansas City.

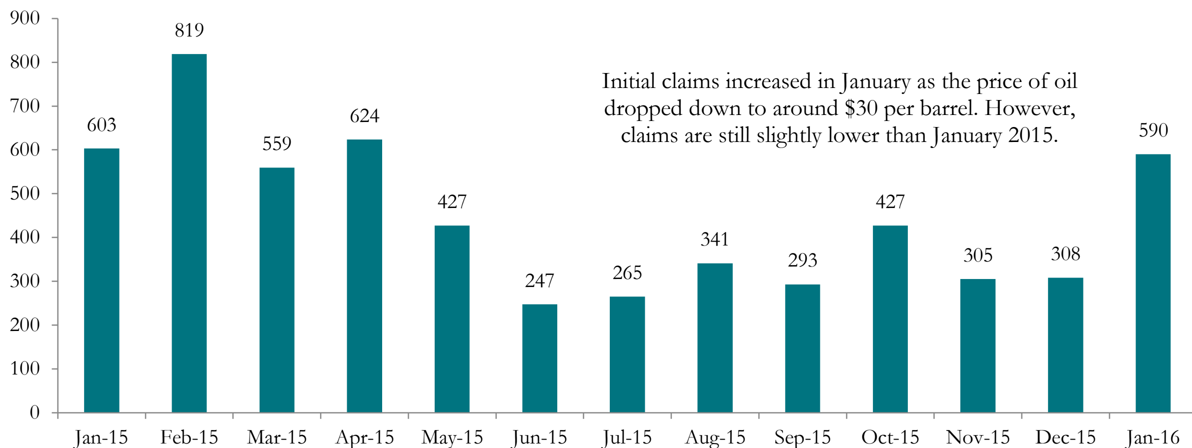
Figure 10. Year over Year Change in Oil and Gas Employment and Operating Drilling Rigs in Colorado*



*Actual data on drilling rigs through the fourth quarter of 2015, actual employment data through the third quarter of 2015. The dotted lines show projections for employment and drilling rigs.
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 picked up in January 2016 when oil prices began to soften further, although claims remain slightly lower than January 2015, as shown in Figure 11. Overall unemployment claims in Colorado also ticked up in January and are slightly elevated over previous year's levels. This provides some evidence that the impact of the oil and gas industry's contraction may be having some negative impact on other industries, most notably construction.

Figure 11. Initial Unemployment Claims in the Oil and Gas Industry



Source: Colorado Department of Labor and Employment

National Economy

> **The U.S. economy continues to post modest growth. Obstacles such as the weak global economy and financial market volatility are preventing more robust expansion.**

The national economy continues to grow at a modest pace –While the national economy continues to face obstacles, it has maintained a steady growth pattern. A strengthening labor market and sustained solid consumer spending continue to propel the economy forward while a slowing global economy, stronger dollar, and financial market volatility have presented obstacles. While the manufacturing sector has been hit particularly hard by slow global growth and the deep contraction in the oil and gas industry, some recent indicators point toward improvement in the sector. The services sector, which makes up a larger portion of the U.S. economy, has been more resilient to these factors, but has recently showed signs of slowing.

Other factors have led to constrained growth throughout this recovery period. In particular, official measures of productivity continue to show growth at a modest pace. Productivity growth is essential for long-run growth in an economy, as it allows economies to use their current level of resources more efficiently and is a necessary ingredient for higher living standards. Especially when coupled with the slowdown in population growth, mostly due to changing demographics, a lack of productivity growth inhibits the U.S. economy from experiencing more robust activity. A lack of strong business investment and fewer business startups during the current expansion, compared with historical trends, have been large contributors to the lack of stronger gains in productivity.

According to the Federal Reserve's February "Beige Book," businesses and other contacts across the economy indicated that economic activity continued to expand modestly across most regions and industries in recent months. Overall, manufacturing activity was flat, with some regions indicating flat to moderate growth while others indicated slight declines. Labor market conditions continued to improve with wage growth varying considerably, from flat to strong, across regions. Consumer spending increased in most areas, with relatively strong auto sales.

Broad measures of economic activity show slowing growth —The Manufacturing Composite Index and the Non-manufacturing Composite Index, both published by the Institute for Supply Management (ISM), give an indication of how these broad sectors of the economy are performing. The most recent February indices show that the non-manufacturing sector continued to expand, but at a slower pace, while the manufacturing sector remains in contraction territory. However, manufacturing has shown some modest improvement over the past few months. 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.

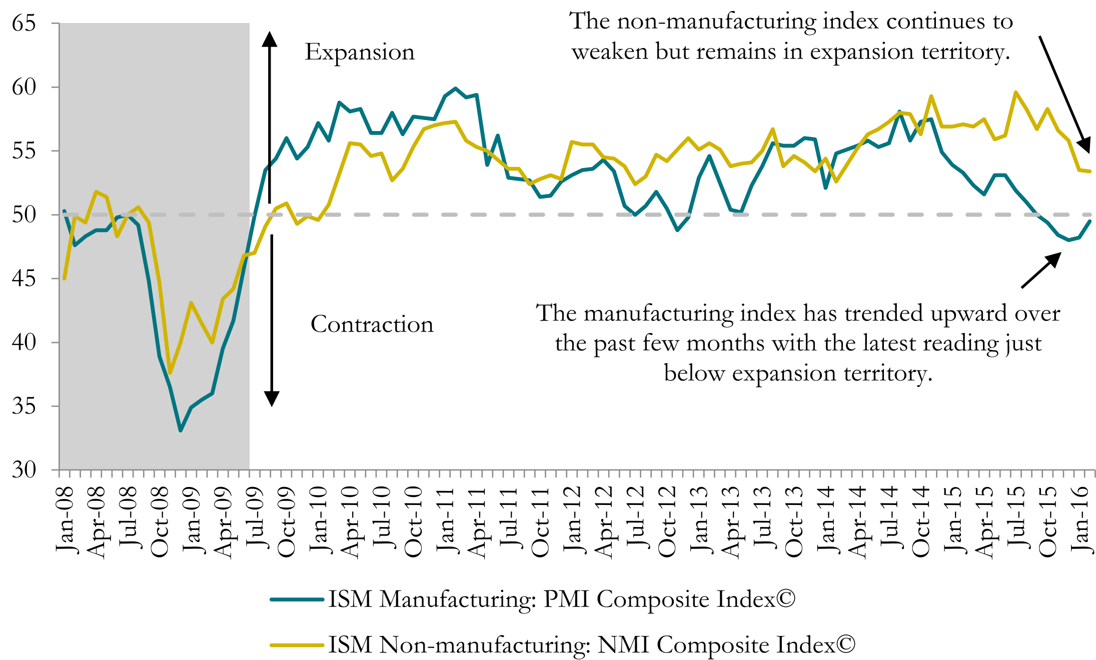
As shown in Figure 12, the non-manufacturing index, which covers the largest portion of economic activity in the U.S., dropped to 53.4 in February from 53.5 in January. Despite the decline, the index remains above the 50 threshold, indicating that the industry continues to expand. The employment component of the index entered contractionary territory for the first time since 2014, which weighed down the overall index. The month of February marked the 73rd consecutive month for expansion in the non-manufacturing sector. Comments from respondents indicated overall positive expectations about the future, with some concerns related to low commodity prices and lower demand for U.S. exports.

> **The ISM non-manufacturing index, which looks at the largest portion of U.S. economic activity, shows continued but slower expansion in the sector. The manufacturing index has regained some lost ground over the past few months but remains in contraction territory.**

The manufacturing sector contracted for the fifth consecutive month in February, according to the ISM manufacturing index. However, February's index of 49.5 indicated slower contraction than January's index of

48.2. Comments from representatives indicated that domestic demand continues to be strong while international demand is weaker. It is notable that the manufacturing index has indicated contraction in several other periods of economic expansion in the past, and then rebounded to expand along with the broader economy.

Figure 12. ISM Manufacturing and Non-Manufacturing Indices*

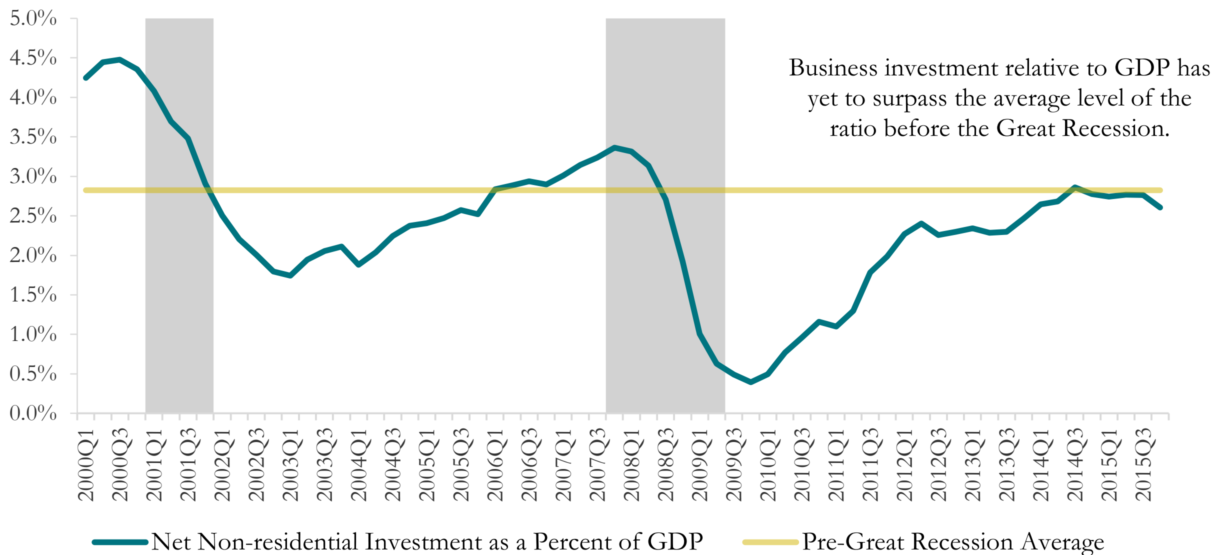


*Readings above 50 indicate expansion in the industry while readings below 50 indicate contraction.
Source: Institute for Supply Management

Business investment continues lackluster pace and has slowed more recently – Corporate profit growth slowed in 2015, decreasing the ability of businesses to invest. As shown in Figure 13, non-residential business investment has been relatively flat over the past few years and turned down slightly in the last quarter of 2015. Other business investment indicators have shown a slowing trend continuing in the first part of 2016.

Business investment is vital for the overall economy in that it enables continued growth and job creation. Furthermore, business investment is critical for enabling greater productivity growth, which allows for a higher sustained level of longer-run growth in an economy. The recent trends in business investment suggest that the slower pace of growth for the U.S. overall in the current expansion is likely to continue, at least in the near term.

Figure 13. Non-residential Business Investment as a Percent of Gross Domestic Product



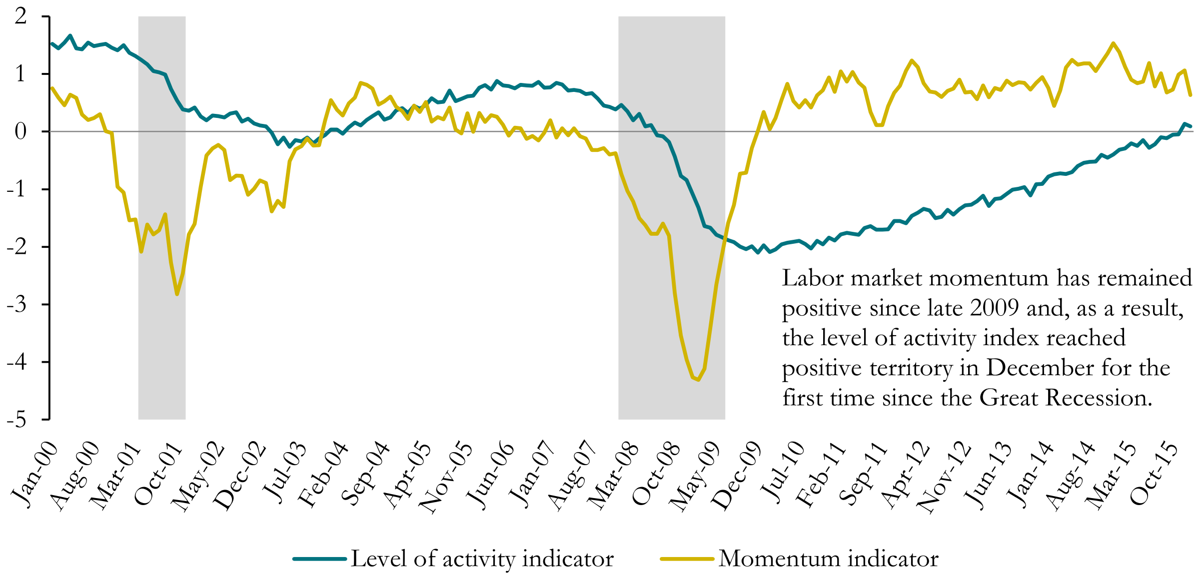
Source: Bureau of Economic Analysis

The national labor market continues to improve – Both narrow and broad measures of unemployment continued to fall in the last part of 2015 and at the beginning of this year. The U-3 rate, the most often reported unemployment metric, was 4.9 percent in February, down from 5.5 percent in the same month last year. The U-6 rate, which includes marginally attached workers and people working part-time for economic reasons, dropped to 9.7 percent in February, a decline of 1.3 percentage points since February 2015. Both indicators are still above their lows before the Great Recession, but the marked improvement over the last year points to a tightening labor market. In addition, as a positive indication of the stronger jobs market, the labor force participation rate rose for four months straight through February, and now stands at 62.9 percent.

Based on the Kansas City Federal Reserve's Labor Market Conditions Index, labor market conditions in December rose above their long-term average for the first time since before the Great Recession.

The Kansas City Federal Reserve's Labor Market Conditions Index (LMCI), pictured in Figure 14, underscores the story of gradual but significant improvement from the extremely low levels that followed the Great Recession. The LMCI incorporates data from 24 employment- and jobs-related variables to gauge the current activity level (blue line) and momentum (gold line) in the labor market. As the figure shows, labor market momentum has remained above long-term average levels since early 2010, but it was only in December 2015 that the activity level reached the above-average threshold. Falling unemployment rates are the largest contributors to this long-term upward trend, but recent increases in quit rates, a long-term rise in the contracting of temporary help, and trends in initial unemployment insurance claims have also pushed up activity levels.

Figure 14. Labor Market Conditions Index



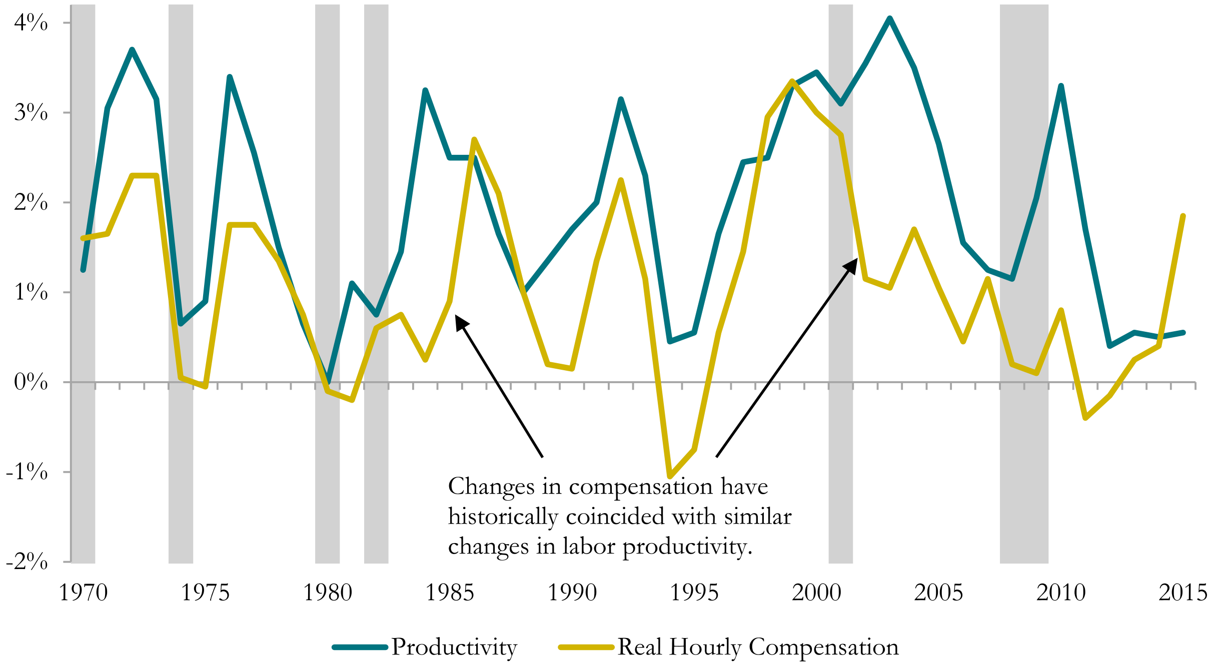
Source: Kansas City Federal Reserve

Worker compensation has started to rise despite long-term trend towards lower productivity growth – U.S. workers saw their inflation-adjusted hourly compensation rise by 2.7 percent in 2015, the largest increase since 2010. Recent data from the Federal Reserve's February "Beige Book" indicates that these gains are continuing in the first part of this year, as wages increased in most of the Fed districts through late February. Compensation trends are important because higher pay and benefits can help sustain economic growth by creating greater consumer confidence and higher levels of spending.

Real hourly compensation increased by 2.7 percent in 2015, likely driven by a tightening labor market rather than increases in productivity.

As Figure 15 shows, growth in compensation has historically mirrored trends in overall worker productivity—as workers become more productive, their compensation rises. This relationship has generally held since 2000, when growth rates for both productivity and real hourly compensation began falling from their peak annual growth of around 3.4 and 3.8 percent, respectively. However, as shown in the figure, real hourly compensation matched productivity growth in 2014 and far outstripped it in 2015, both years in which productivity growth remained relatively flat. This suggests that other factors may be responsible for the recent rise in compensation.

Figure 15. Year-over-Year Change, U.S. Labor Productivity and Real Hourly Compensation, 2-year averages



Source: Bureau of Labor Statistics, OSPB calculations

One possible explanation is that an increasingly tight labor market is giving workers more leverage to demand higher compensation. Figure 16 shows one proxy indicator for labor market tightness: the number of unemployed individuals per job opening, as reported by the Bureau of Labor Statistics. As the graphic demonstrates, there were 1.41 unemployed people per job opening at the end of 2015, compared to 2.63 people at the beginning of 2014. In July 2009, near the end of the Great Recession, there were 6.8 unemployed people per job opening. February data for online help-wanted ads from the Conference Board shows some slowing in openings at the beginning of this year, but the general trend in online job postings, combined with the fall in unemployment rates discussed above, provide further evidence that the labor market is tightening, and likely contributing to higher compensation for workers.

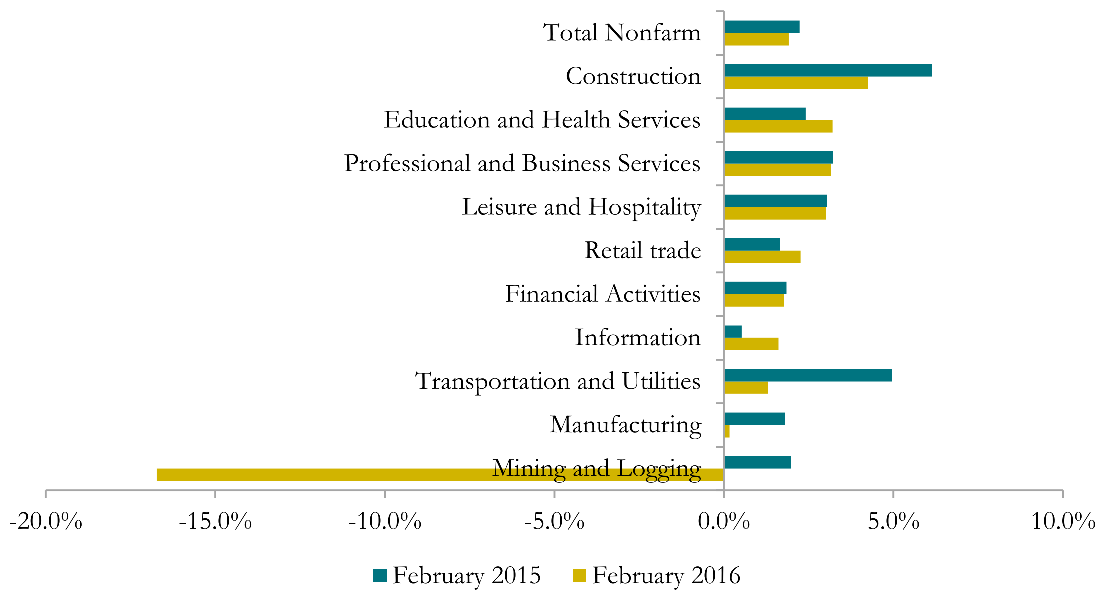
Figure 16. Unemployed Persons per Job Opening

Source: Bureau of Labor Statistics, OSPB calculations

Employment growth is slowing as a result of weakness in manufacturing and mining – As Figure 17 shows, year-over-year job growth slowed from 2.2 percent in February 2015 to 1.9 percent in the same month this year. While the services sectors—professional and business services, leisure and hospitality, education and health services, and financial activities—continue to perform well, manufacturing and extractive industries are acting as a drag on job creation. Mining and logging has been hit especially hard by low oil and commodity prices as firms have shed over 15 percent of their workforce since February 2015. Fortunately, the services industries noted above account for about 46 percent of total nonfarm employment, compared to only 10 percent in the manufacturing and mining and logging industries, dampening the impact of the decline in those sectors.

Over-the-year job growth slowed to 1.9 percent in February of this year from 2.2 percent in February 2015.

Figure 17. Year-over-Year National Job Growth by Sector



Source: Bureau of Labor Statistics, OSPB calculations

Financial and Monetary Conditions

Financial conditions have improved recently after further weakening in the first part of 2016, an important signal for the economic growth outlook – Financial conditions began to tighten in August 2015 and tightened further during the first part of this year. Most notably, stock markets fell in the U.S. and other major economies. Further, credit conditions in bond markets and in bank lending practices also continued to tighten. However, financial conditions have improved recently, although stock markets remain below their highs in 2015.

Information from financial markets reflects investors' and risk managers' assessments of current conditions and their expectations for future economic activity. These assessments are important to monitor as they are based on the aggregation of a large amount of information on numerous sectors of the economy across the world. Additionally, expectations are integral to the performance of the economy. If expectations are higher among a greater numbers of households, businesses, and investors, more investing, spending, and hiring is likely to occur, and vice versa.

Financial conditions continued weakening in the first part of 2016, indicating heightened downside risks. However, financial markets have improved recently, an important signal that the outlook for the economy has improved.

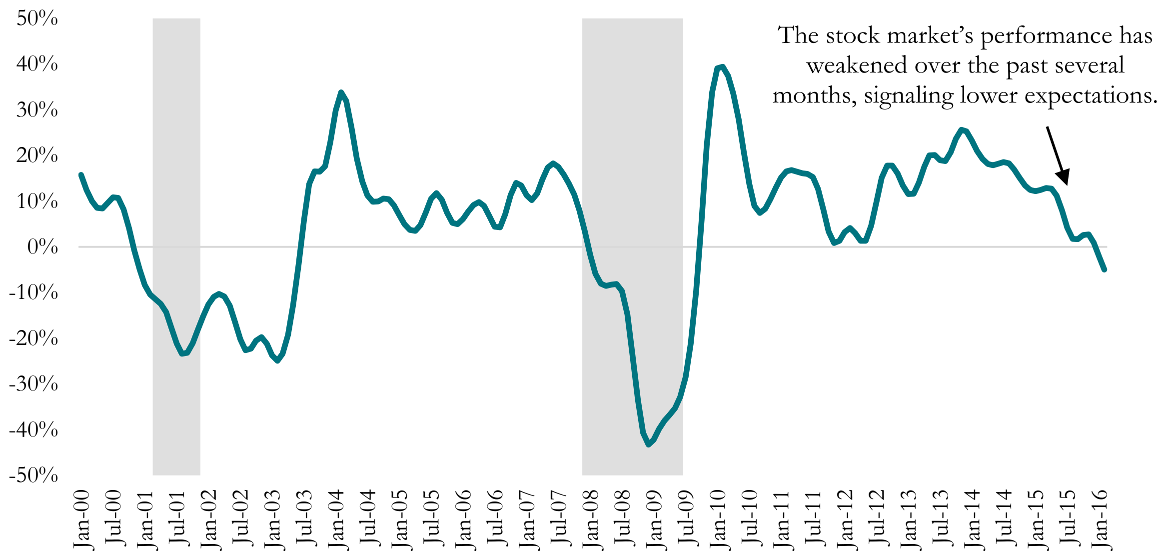
The continued weakening in financial conditions to start 2016 was an important signal that the outlook for the economy became more pessimistic and uncertain. In addition to providing information on the outlook among investors, tighter financial conditions can adversely impact economic activity as funding for growth becomes more constrained. The general improvement in financial conditions recently is an important development indicating that the outlook for the economy has improved and will better support growth. However, developments in financial conditions will be important to monitor over coming months given weaker global economic conditions and the likely further tightening of monetary policy by the Federal Reserve.

The equities markets have generally shown weaker expectations for the economy over the past several months, but have improved recently – The performance of the stock market is largely determined by expectations for the current and future earnings of businesses, which are heavily influenced by the performance of the overall economy. The stock market has generally exhibited weaker performance over the past several months, as shown in Figure 18, and remains below levels from a year ago.

Equity performance worldwide has generally been weaker in recent months, as investors have lower expectations of the performance of the economy and earnings. Importantly, equity markets have improved of late.

However, the stock market is weighted toward larger companies that tend to have greater exposure to global economic conditions. Oil and gas and other commodities-related industries are also more heavily weighted in stock markets. Because of ongoing weakness in these areas as well as the strengthening dollar, all of which have weighed on earnings, the poor performance of equities markets is not entirely representative of the overall economy. Also, the stock market began to perform better over recent weeks, erasing some of its losses and signaling that investors have more positive expectations about the economy's performance.

Figure 18. Change in S&P 500 Index, Percent Change Year over Year



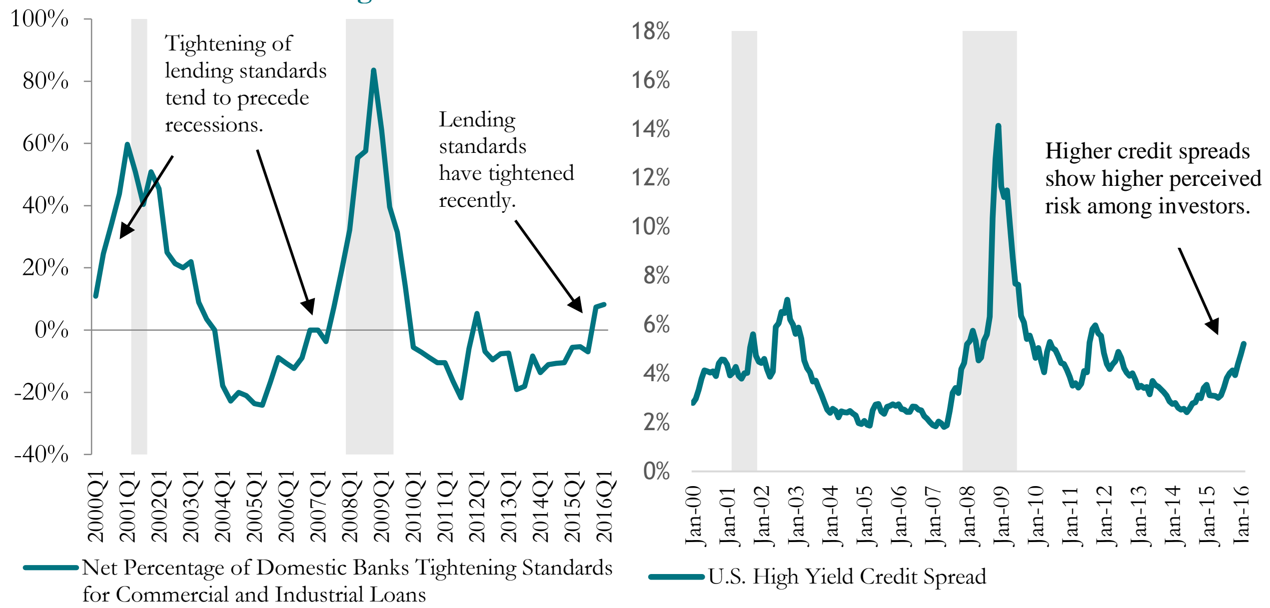
Source: Standard and Poors, Federal Reserve

The tightening of lending standards and higher borrowing costs for businesses also signal heightened downside risks – Along with the stock market, credit conditions for businesses have been under increasing strain in recent months. This is an important development to monitor because the flow of credit influences the level of investment that helps drive economic growth. Based on a Federal Reserve survey, banks have tightened their lending standards for commercial and industrial (business) loans starting in the fourth quarter of 2015. In their recent survey responses, senior loan officers gave several reasons for the stricter stance on commercial and industrial credit, including the uncertain outlook for the economy, weakness in specific industries—particularly energy—and a reduced tolerance for risk. However, despite the tightening in lending standards, data through the end of February shows that commercial and industrial loan growth continued.

Credit conditions for businesses have shown increasing strain, though some of the stress is tied to the contracting oil and gas sector and other commodities-related activity.

In addition, the borrowing rate for some businesses has increased, indicating that investors perceive higher levels of risk with extending credit. These tighter conditions for businesses can be measured by the high-yield credit spread, defined as the difference between below investment grade-rated corporate debt and U.S. Treasury securities. However, as with weaker performance in equity markets, some of the higher rates for credit can be attributed to the weakness in the oil and gas industry, as well as other commodities-based sectors, not widespread weakening in the overall economy. Further, concerns over liquidity in the corporate credit market have helped push rates higher. The trends in the tightening of credit for businesses are shown in Figure 19.

Figure 19. Trends in Business Credit Conditions



Source: Federal Reserve

Source: Bank of America, Merrill Lynch, Federal Reserve

Weaker financial conditions can adversely affect the economy through several different channels, though such conditions are not always associated with an economic downturn – Weaker, or "tighter," financial conditions often correspond with heightened levels of uncertainty. Uncertainty may increase the value of delaying spending and investments, which leads to slower economic growth. Further, higher uncertainty among investors and lenders may cause them to demand a higher premium on investments and loans, making funding for business expansion more costly and harder to obtain. Additionally, depending on the extent and length of financial market volatility, consumer and business confidence may be negatively impacted, putting further downward pressure on economic growth. These dynamics show the importance of expectations for economic growth as concerns over future conditions can help contribute to a slowdown.

Although weaker financial conditions can adversely impact the economy, research on the relationship between such conditions and economic performance shows that such conditions are not always associated with an economic downturn.

Although weaker financial conditions can adversely impact the economy, research on the relationship between such conditions and economic performance shows that such conditions are not always associated with an economic downturn. One study from the Kansas City Federal Reserve found that increased financial stress in the U.S. can have a major negative impact on the economy when the level of financial stress is already high and economic activity is already low. The same study found that financial stress has a smaller impact on economic activity if the economy is relatively healthy, as could be considered the case now. Another study examined 17 developed economies and found that periods of significant financial stress were followed by economic downturns or recessions in only 58 of 113 cases.[5]

The level of the "natural" interest rate remains low and suggests that monetary policy may not be overly accommodative – Many economic and financial commentators perceive that monetary policy has been highly accommodative, or "loose," based on the Federal Reserve's targeting of the federal funds rate at near zero since 2008. The federal funds rate is the rate that commercial banks charge each other for overnight loans.

[5] Cardarelli, Roberto, et al. "Financial stress and economic contractions." *Journal of Financial Stability* 7 (2011): 78-97. International Monetary Fund. Web. 17 Feb 2016.

However, recent research indicates that the "real" or "natural" rate of interest remains at historically low levels due to continued subpar economic growth in the aftermath of the Great Recession and financial crisis. The estimated low natural interest rate suggests that monetary policy has not been particularly loose despite the near-zero federal funds rate.

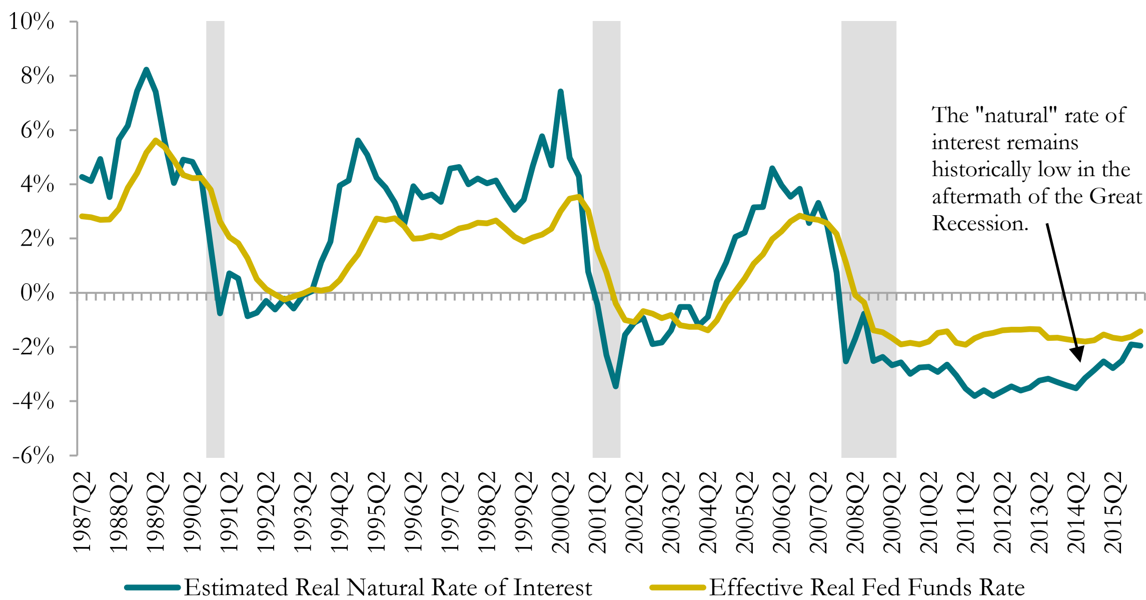
The natural interest rate is a hypothetical figure that cannot be directly observed, and it represents the inflation-adjusted interest rate consistent with an economy at full employment and with stable inflation. The rate is determined "naturally" by economic and financial conditions, productivity growth, and the supply and demand for credit. As these conditions change, so does the natural rate of interest.

The estimated "natural" rate of interest remains historically low in the aftermath of the Great Recession, suggesting that monetary conditions are not overly accommodative.

In general, the natural interest rate rises when the economy is expanding, and falls when economic activity slows, as well as when savings are at higher levels. In an expanding economic climate, firms finance increased production by borrowing more money or deploying savings. At the same time, households that expect higher future incomes borrow more and reduce savings. As a result, demand for credit increases and savings decrease, pushing up the natural interest rate. The reverse occurs during periods of higher levels of savings and weaker economic conditions. An actual, observed interest rate (for instance, the federal funds rate) above the estimated natural interest rate suggests "tight" monetary conditions, while an actual interest rate below the natural rate implies "loose" monetary conditions.

Figure 20 shows the inflation-adjusted effective federal funds rate and the inflation-adjusted natural interest rate.[6] The natural rate began falling rapidly with the onset of the Great Recession, and was followed by a drop in the federal funds rate by the Federal Reserve. However, a gap between the two rates grew as the Federal Reserve did not drop its rate below zero, suggesting tight monetary conditions. The estimates show the natural rate remaining below zero, as well as below the current federal funds rate, through the first part of 2016.

Figure 20. Inflation-Adjusted Natural Interest Rate and Effective Federal Funds Rate



Source: Federal Reserve

[6] Inflation-adjusted natural interest rate as estimated by the Federal Reserve Bank of San Francisco.

In past monetary policy tightening, the natural rate of interest generally increased above the federal funds rate prior to the Federal Reserve raising the rate. Given continued modest growth with low inflation and an estimated low natural rate, it is possible that the recent increase in the federal funds rate, combined with expectations for further tightening of monetary policy, contributed to the lower expectations for the economy and tightening in financial conditions that marked the beginning of this year.

International Economic Conditions and Trade

Despite many indications that the U.S. economy continues to achieve stable levels of growth, global conditions do pose some risk for the nation and, by extension, for Colorado. The global economy continues to show signs of weakness, stoking more concern about the sustainability of the current expansion. After global GDP grew by an estimated 2.4 percent in 2015, the World Bank in January revised down its expectations for 2016 world real GDP growth from 3.3 to 3.1 percent.

The strength of the dollar has hurt U.S. exporters as their goods and services become more expensive to foreign buyers, although services do show more resilience to this pressure. Weakness in China continues to be a concern playing out in financial markets: the Shanghai Composite Index has fallen by nearly 20 percent this year alone as investors assess the potential for an extended slowdown. Slow growth in China has also affected developing countries that depend on exports of raw materials to fuel their economies. Lower demand from China has led to lower commodity prices, which in turn means these export economies are creating a drag on global growth. Perhaps more importantly, some of the U.S.'s principal trading partners are seeing weaker growth. Slower expansion or contractions in those countries would negatively impact U.S. exports, presenting downside risk for overall growth in the economy.

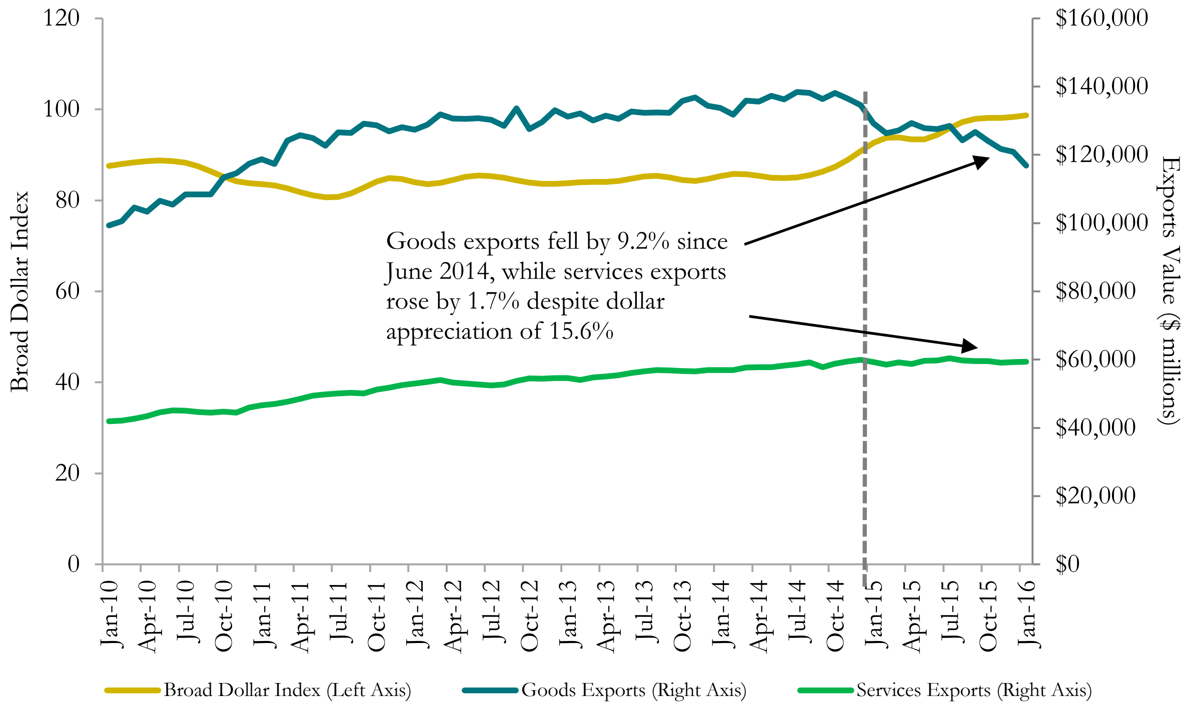
The strong dollar and weak global growth are having a disproportionately negative effect on goods exporters – The rising value of the dollar against the currencies of major U.S. trading partners has eroded exporter competitiveness, while slowing global growth has reduced demand. Both of these forces have depressed U.S. exports, though the impact can be seen much more starkly in goods exports.

A relatively strong U.S. services industry has shown some resilience in the face of a strong dollar and weak global growth, but goods exports have fallen 9.2 percent since the summer of 2014 as products become more expensive on international markets.

From June 2014 to November 2015, the dollar appreciated by 15.6 percent against a broad basket of currencies. Figure 21 shows the relationship between the stronger dollar and both goods and services exports. As shown in the figure, the value of services exports has actually risen slightly during this period of dollar appreciation, although the growth rate has fallen since the summer of 2014. On the other hand, the dollar value of goods exports has been declining since the summer of 2014. Importantly, the drop in the value of goods exports is also driven in part by falling commodity prices, so not all of the decline is due to a weaker volume of exports.

The contrast in performance between goods and services exports is further confirmation of the relative strength and importance of the much larger service sector in the U.S. economy's continued growth. The most recent Institute for Supply Management data on new export orders suggests that this trend will continue, as manufacturing exports may be softening further, while non-manufacturing exports could pick up moving into the second quarter of this year.

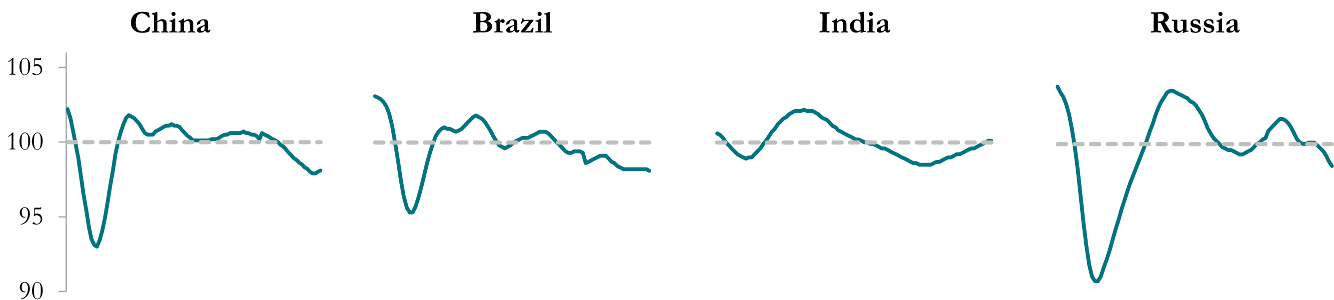
Figure 21. Broad Dollar Index and Exports



Source: Federal Reserve Bank of St. Louis

Slow global growth is also contributing to the decline in U.S. exports. Sluggish growth is especially apparent in developing economies, many of which have been harmed by falling commodity prices and a slowing in China's economy. A set of leading indicators from the Organization of Economic Cooperation and Development, shown in Figure 22, anticipates the activity of four of the world's largest developing economies. Readings below 100 indicate the likelihood of slower economic growth in the next six months. The indicators suggest that China, Brazil, and Russia could expect slower near-term growth, while India is just above the growth-neutral measure.

Figure 22. OECD Leading Indicators for Large Developing Economies, January 2008 to December 2015



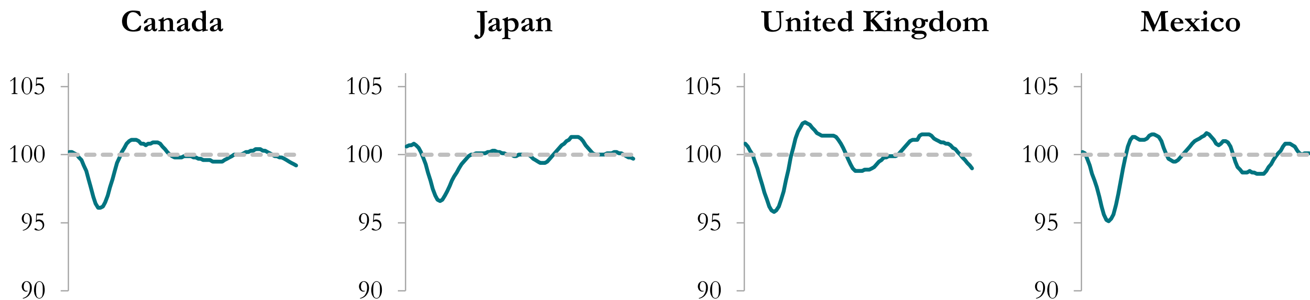
Source: Organization of Economic Cooperation and Development

But the slowdown in China and other developing nations may not have a significant impact on growth in the U.S., partly because of limited direct trade connections. Exports to China accounted for only 7.7 percent of total U.S. exports in 2015, compared with 18.6 and 15.7 percent for exports to Canada and Mexico, respectively. Other countries like Brazil, Japan, and Korea depend on China to buy nearly 20 percent or more of their exports, which means they are more exposed to the ups and downs of the world's second-largest economy. Colorado sends 8.6 percent of its exports to China, a slightly higher portion than the U.S. overall. However, exports make up only 2.7 percent of Colorado's GDP, compared to 9.4 percent of national GDP. Thus, Colorado is likely even more insulated from the direct trade effects of a global slowdown.

The global economy continues to present downside risk for the U.S., but continued momentum in domestic fundamentals is likely to dampen the negative effects.

As Figure 23 shows, the U.S.'s principal trading partners are on somewhat stronger footing than China and other BRIC countries, despite each being below peak activity levels achieved earlier in this expansion. Thus, in the short-term, slow growth in these countries—and especially in Mexico and Canada—could put more downward pressure on exports for the U.S.

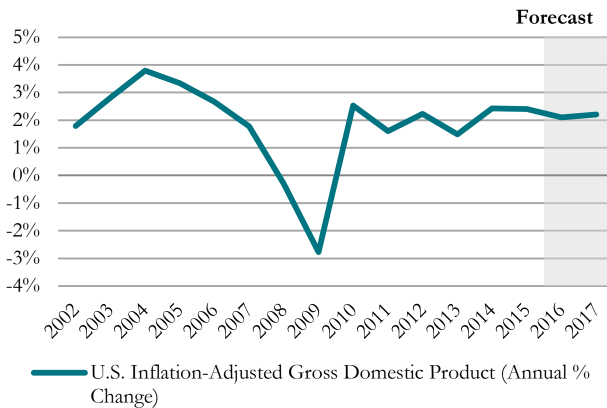
Figure 23. OECD Leading Indicators for Principal U.S. Trading Partners, January 2008 to December 2015



Source: Organization of Economic Cooperation and Development

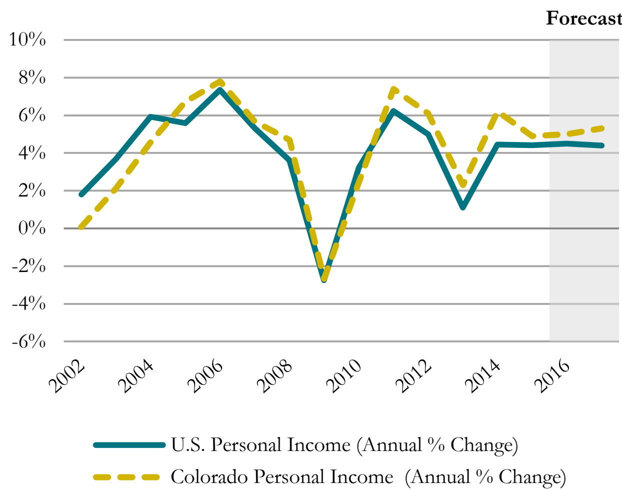
Summary of Key Economic Indicators
Actual and Forecast

U.S. Gross Domestic Product (GDP)



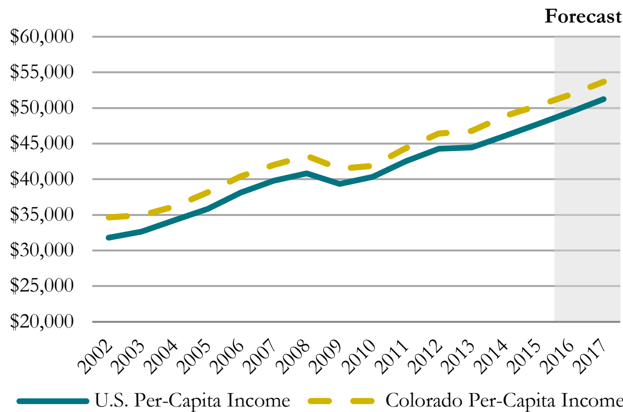
- GDP is a barometer for the economy's overall performance and reflects the value of final output in the U.S.
- The U.S. economy posted a moderate expansion of 2.4 percent in 2015 in the face of slow global growth. The pace of growth will moderate further in 2016 to 2.1 percent.

U.S. and Colorado Personal Income



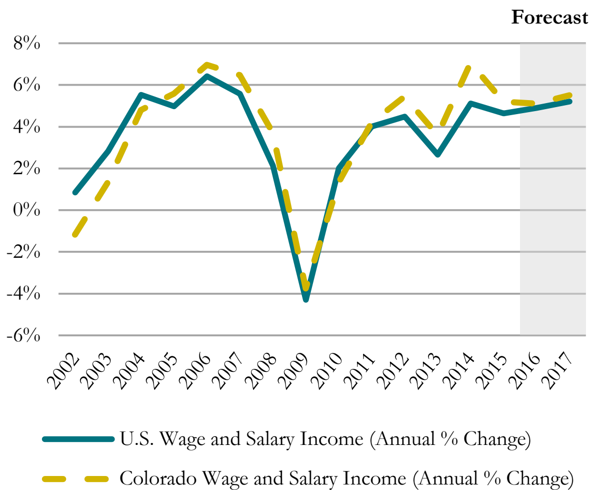
- Personal income growth in Colorado slowed to 4.9 percent in 2015 from a 6.2 percent rate in 2014, largely due to slowing employment growth and especially the oil and gas slowdown. The Colorado economy will continue on a similar trajectory in 2016.
- Nationwide, personal income growth remained steady at 4.4 percent in 2015. A tighter labor market and gradual wage increases will allow personal income growth to remain steady through the forecast period.

U.S. and Colorado Per-Capita Income



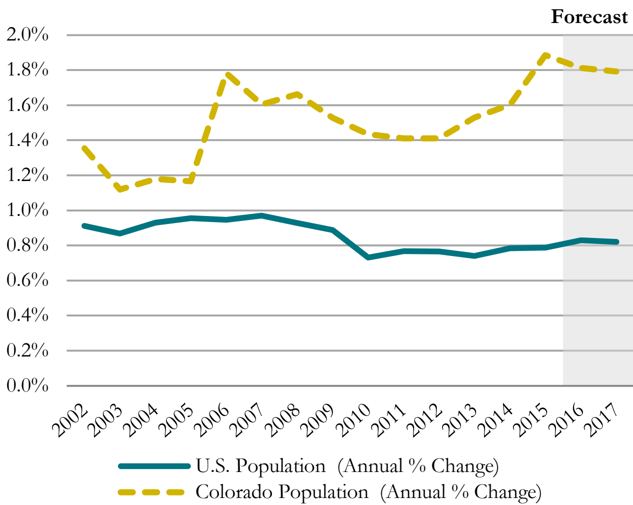
- Per-capita income in Colorado increased to $50,317 in 2015 and will grow 3.1 percent to $51,893 in 2016.
- In the U.S., per-capita income increased to $47,732 in 2015 and will grow 3.6 percent to $49,469 in 2016.

U.S. and Colorado Wage and Salary Income



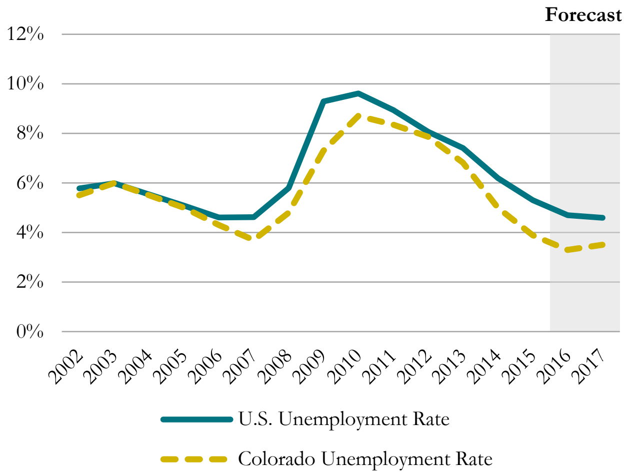
- Wage and salary growth in Colorado flagged in 2015 to 5.2 percent, largely due to the loss of relatively high-paying oil and gas jobs. Growth will stay around the same level in 2016.
- Wage and salary income for the nation increased 4.6 percent in 2015. A tighter labor market will result in more upward pressure on wages, driving the growth rate to 4.9 percent in 2016.

U.S. and Colorado Population



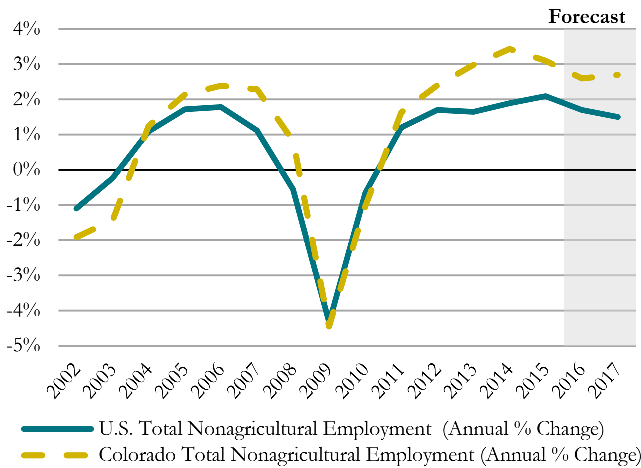
- High in-migration rates pushed Colorado's population growth rate to 1.9 percent in 2015, over double the national rate. This trend will continue in 2016 and 2017, both years in which the state is expected to add 67,000 people through net migration alone. The state's total population is expected to reach 5.7 million by 2017.
- The nation's population growth rate will remain steady at about 0.8 percent per year, and the population will reach 326.7 million people by 2017.

U.S. and Colorado Unemployment



- The unemployment rate in Colorado averaged 3.9 percent in 2015, down over a full percentage point from 2014 despite the oil and gas slowdown. Unemployment is expected to average 3.3 percent in 2016.
- The national unemployment rate followed a similar trend in 2015, but remained more than a percentage point higher than in Colorado, averaging 5.3 percent in 2015. Continued improvements in the labor market will cause the rate to drop to 4.7 percent in 2016.

U.S. and Colorado Total Nonagricultural Employment

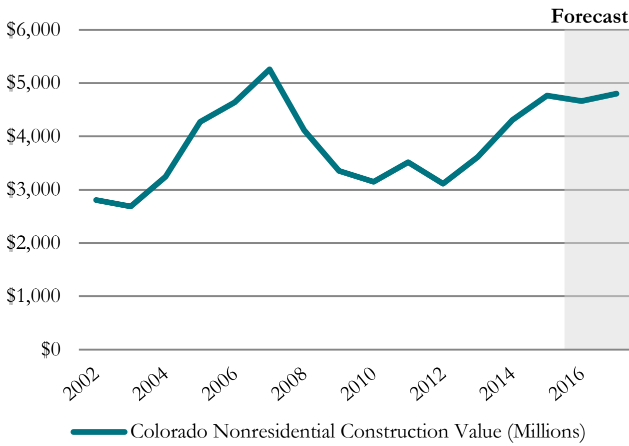


- Despite slowing job growth throughout the year, average employment in Colorado grew 3.1 percent in 2015, slightly lower than in 2014. Continued weakness in the energy sector and a tighter labor market will result in slower growth of 2.6 percent in 2016.
- In contrast to Colorado, U.S. nonfarm payroll jobs in 2015 increased at a faster rate than in 2014 — 2.1 percent versus 1.9 percent. Job growth has slowed nationwide, and OSPB forecasts an increase of 1.7 percent in 2016.

U.S. and Colorado Housing Permits Issued

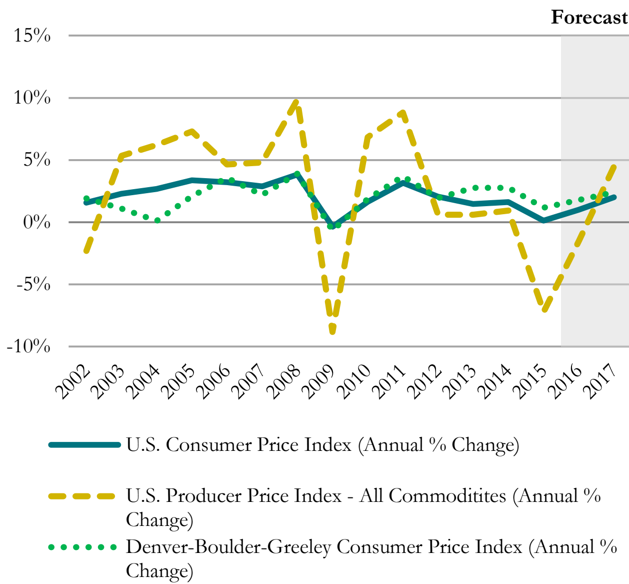
- In 2014 and 2015, housing permits grew at their slowest rate since the Great Recession. In 2016, Colorado permits will increase 22.0 percent, when 37,910 permits will be issued. The increases will be driven by population growth and continued strength in the state's metro housing markets.
- U.S. housing permits posted growth of 12.0 percent in 2015, but the rate will increase to 16.1 percent in 2016.

Colorado Nonresidential Construction Value



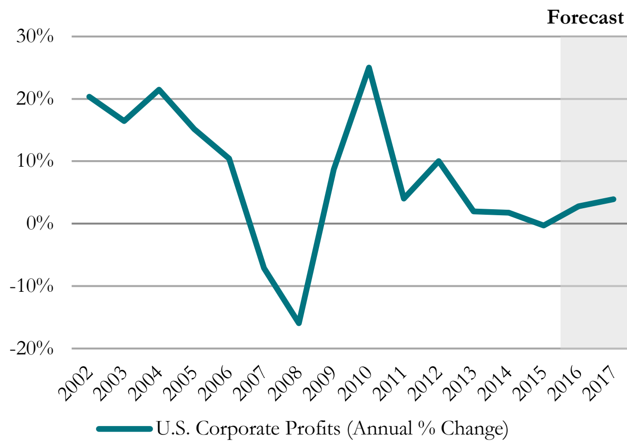
- Growth in nonresidential construction value slowed to 10.7 percent in 2015 from 19.2 percent in 2014, the highest growth rate since before the Great Recession. The value of total nonresidential construction in the state will decrease 2.2 percent in 2016 before recovering to moderate growth in 2017.

Consumer Price Index and Producer Price Index



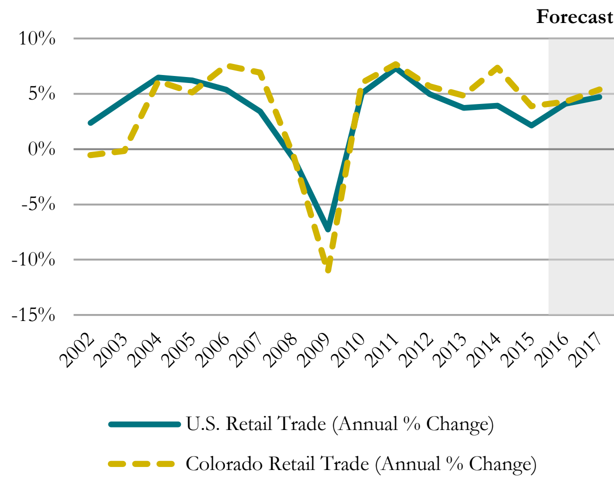
- National consumer prices remained essentially flat through 2015, growing only 0.1 percent, largely due to falling gas prices. OSPB expects prices to rise 1.0 percent in 2016, still lower than any year since the Great Recession.
- The national Producer Price Index fell 7.2 percent in 2015, largely due to low fuel and commodity prices. This trend will continue in 2016 when the index will fall another 1.5 percent before recovering to moderate growth in 2017.
- The Denver-Boulder-Greeley CPI grew more than the national index in 2015, though the 1.2 percent increase was still low by historical standards. Growth will recover slightly in 2016 to 1.8 percent as the impact of lower gas prices will be less pronounced.

U.S. Corporate Profits



- U.S. corporate profits fell 0.3 percent in 2015 as a weak global economy and a strong dollar impacted earnings.
- Profit growth will modestly recover to 2.8 percent in 2016, but will still face international headwinds and increased downward pressure from rising wages.

Retail Trade



- Retail sales in Colorado will grow 4.3 percent in 2016 after 3.9 percent growth in 2015.
- Nationwide retail trade increased 2.1 percent in 2015, the lowest rate since the Great Recession. Sales will grow 4.1 percent in 2016.
- The lower growth rates for both the nation and the state in 2015 were due in part to the lower value of sales at gas stations from the sharp drop in gas prices.

General Fund and State Education Fund Revenue Forecast

General Fund revenue is forecasted to increase just 1.5 percent in FY 2015-16. This forecast is $51.0 million, or 0.5 percent, lower than projections in December. Several factors are converging to cause the marked slowdown in revenue growth this fiscal year, including the deep contraction in the oil and gas sector that has reduced spending and income in the state, a continued tepid stock market, and global economic pressures that are reducing corporate profits.

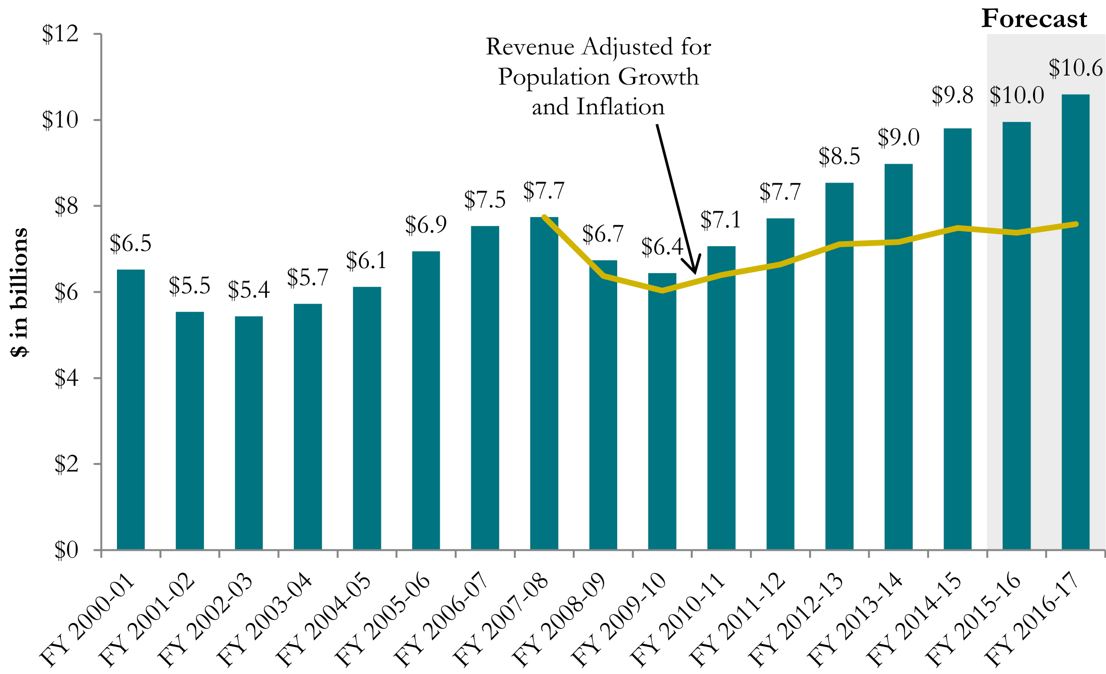
General Fund revenue growth is still expected to rebound moderately in FY 2016-17 due to continued economic expansion and as some of the factors weighing on revenue collections this fiscal year abate. General Fund revenue is projected to increase 6.4 percent in FY 2016-17. The FY 2016-17 forecast was lowered by $88.1 million, or 0.8 percent, from December's projections due to decreased revenue expectations resulting from ongoing weakness in the oil and gas sector along with weak stock market gains.

General Fund revenue is projected to increase just 1.5 percent in FY 2015-16. General Fund revenue growth is still expected to rebound moderately in FY 2016-17 with growth of 6.4 percent.

The economic conditions and other factors slowing revenue growth this fiscal year were mostly expected in prior forecasts. Therefore, the adjustments to the revenue projections in this forecast 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.

Figure 24 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 24. 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.

Individual income tax **–** The forecast for individual income tax collections in FY 2015-16 is essentially unchanged from the December forecast. These collections have slowed markedly to growth of just 2.2 percent in FY 2015-16, following robust gains of 11.5 percent in FY 2014-15. Individual income tax revenue is expected to rebound with growth of 7.1 percent in FY 2016-17.

Growth in individual income tax collections has slowed markedly to just 2.2 percent in FY 2015-16 due to the convergence of several factors. Individual income tax revenue is expected to rebound to growth of 7.1 percent in FY 2016-17 with continued economic expansion in the state.

A convergence of factors is slowing income tax revenue growth this fiscal year. The downturn in the oil and gas industry has reduced wages, business income, and oil and gas royalty payments. A material portion of the growth in income in Colorado after the Great Recession was tied to the oil and gas industry, so the sharp contraction is slowing income gains. Further, more tepid stock market gains in 2015 will dampen income tax revenue.

These factors will continue to be present in 2016 but to a lesser extent, and they are expected to have less downward influence on income tax revenue growth for FY 2016-17. The oil and gas sector is estimated to have shed about 25 percent of its jobs base in 2015, and is projected to lose 10 to 15 percent of its jobs in 2016. Therefore, the industry's continued contraction will again reduce income and wages in the state in 2016, but to a lesser degree. Wage withholdings collections are forecast to grow 3.8 percent this fiscal year, less than half of FY 2014-15's 8.1 percent. Wage withholdings are expected to increase 7.2 percent in FY 2016-17, though this growth rate overstates actual growth because a portion of the increase is due to an expected larger-than-typical accrual accounting adjustment tied to the end of June's pay period that year.

Estimated income tax payments are expected to grow 5.5 percent in FY 2015-16, much slower than the 24.7 percent increase in FY 2014-15. Estimated income tax payments are taxes paid 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.

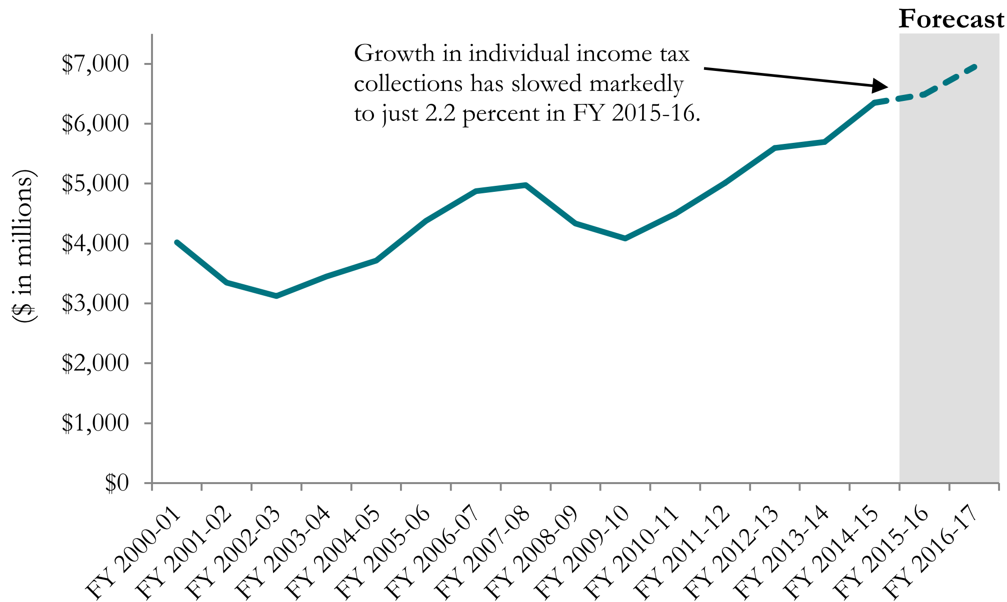
After growing by an estimated 25 percent in 2014, capital gains are estimated to be essentially flat in 2015 and to post only modest growth in 2016 as a result of a volatile and generally weaker equity market. Additionally, lower oil and gas prices are leading to a decline in royalty payments. However, estimated payments are still projected to increase modestly 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.

In FY 2016-17, estimated payments growth will be similar to FY 2015-16, posting an increase of 6.8 percent. Continued economic expansion will help produce modest growth, though persistent weakness in oil and gas royalty payments and expected tepid stock market gains will temper revenue increases.

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 $7.0 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 further reduce income tax revenue by $7.0 million annually.

Figure 25. Individual Income Tax Revenue, Actual and Forecast



Source: Office of the State Controller and OSPB

Corporate income tax – The forecast for corporate income tax revenue for FY 2015-16 was lowered $27.4 million, or 4.1 percent, from December. Collections are now expected to decrease 7.9 percent in FY 2015-16 and rebound with modest growth of 5.5 percent in FY 2016-17. This follows a 3.9 percent decline in corporate income tax revenue in FY 2014-15. International headwinds and narrowing profit margins are negatively impacting U.S. corporate profits, the primary driver behind corporate income tax revenue. In addition, changes to federal corporate tax policy may decrease State tax revenue in the last half of FY 2015-16. 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 a decrease in profit margins.

As outlined in the "International Economic Conditions" section, the dollar appreciated by 15.6 percent against major foreign currencies from June 2014 to November 2015. A stronger dollar makes goods and services from U.S. firms more expensive and, therefore, less competitive on international markets. Sustained weakness in foreign markets in 2015 also weighed on exporters' profits, especially as growth slowed for primary trading partners like Japan and Canada. Both of these trends are putting downward pressure on corporate income tax revenue in FY 2015-16, but their impact should abate somewhat in FY 2016-17.

Rising wages and low energy prices are also putting pressure on profit margins. As discussed in the "National Economy" section of this report, workers are starting to see wages rise, and it is likely that this trend will continue as the labor market tightens further. Higher wages translate to lower profit margins for companies in the form of higher labor costs. Energy and commodities companies especially continue to see margins decline as the result of falling prices for their products. Recent analysis shows that energy companies are acting as a drag on profit margins: while overall average margins for S&P 500 firms declined a full percentage point from the third quarter of 2014 to the third quarter of 2015, they remained almost level if energy companies are excluded. Expectations are for prices to remain low through 2016, so energy firms' earnings are likely to remain a drag.

Finally, the forecast accounts for a change in federal tax policy that affects corporate income tax revenue. The federal government enacted provisions as part of a fiscal stimulus package during the Great Recession that allowed firms to deduct a larger portion of equipment investment in the tax year that the investment is made, ultimately leading to lower tax liabilities for those companies. Congress allowed these provisions to expire at the end of 2014, but approved a retroactive and proactive extension in late 2015. According to the Congressional Budget Office, corporations likely paid higher estimated taxes than required during the period in which this provision lapsed. As a result, companies may end up making smaller estimated payments in 2016 than they did in 2015 and may also receive larger refunds than expected, putting further downward pressure on State revenue from corporate income taxes in FY 2015-16.

Figure 26. Corporate Income Tax Revenue, Actual and Forecast

Source: Office of the State Controller and OSPB

Sales and use tax – Sales tax revenue will grow 2.4 percent in FY 2015-16 after increasing 8.0 percent in FY 2014-15. The forecast for FY 2015-16 was lowered by $38.5 million, or 1.4 percent, compared with December as sales tax collections began to soften over the past few months. Slowing collections are perhaps due in part to the drop in spending tied to the oil and gas industry's contraction. However, continued economic expansion and an increasingly tight labor market with rising wages are expected to push up the sales tax growth rate to 5.7 percent in FY 2016-17.

In addition, next fiscal year's sales tax collections will be boosted by sales tax collections by the online retailer Amazon. On February 1 of this year, Amazon began collecting state sales taxes on items purchased directly from the company and shipped to Colorado addresses. OSPB estimates that this new corporate policy will result in an increase to state sales tax revenues of $6.8 million in FY 2015-16 and an additional $22.0 million in FY 2016-17. This represents less than 1 percent of total state sales tax revenue.

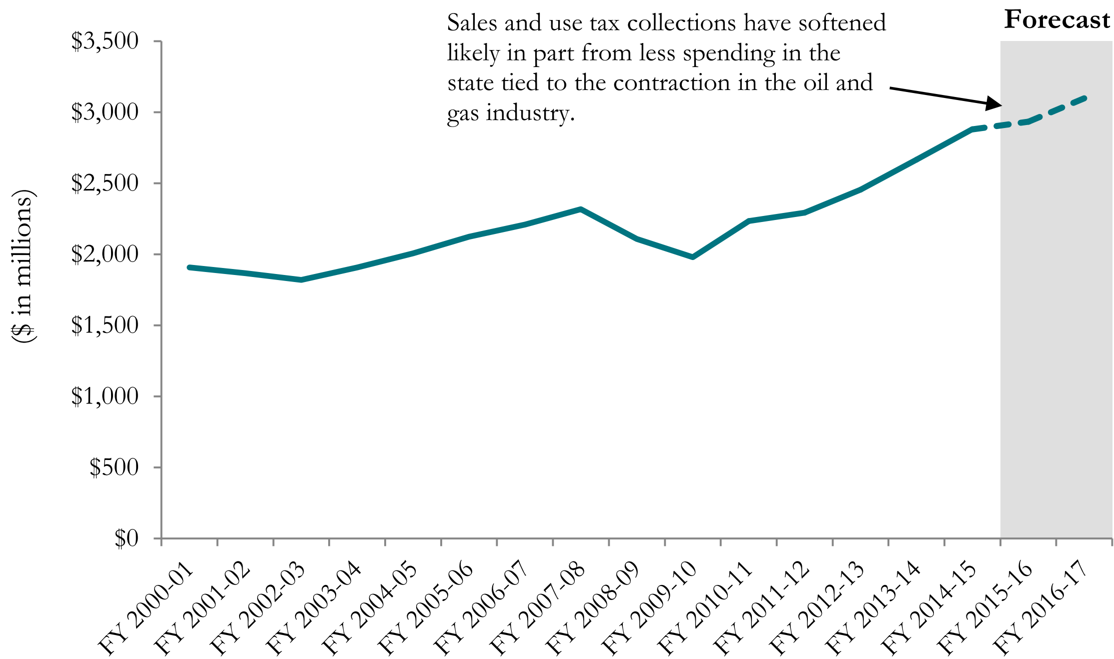
Rising wages and continued job growth will help lead to a rebound in sales tax revenue growth in FY 2016-17 after modest growth of 2.4 percent in FY 2015-16.

Sales tax revenue to the General Fund includes the 10 percent sales tax on retail marijuana. 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. 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 2.8 percent in FY 2015-16, mostly as a result of the decline in business spending tied to the oil and gas industry. Collections will rebound with 5.1 percent growth in FY 2016-17. The use tax is a companion to the sales tax and is paid by Colorado residents and businesses on purchases that did not include a Colorado sales tax. Use taxes bring in a much smaller amount of revenue than sales taxes 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.

Beginning with the 2015 individual income tax return form, individuals are asked about the total value of purchases made over the previous year for which sales or use taxes were not previously paid. Individuals are then required to pay the use tax due with their return. This is expected to increase the level of use tax revenue by about $2.3 million in FY 2015-16 and $2.9 million in FY 2016-17.

Figure 27. Sales and Use Tax Revenue, Actual and Forecast



Source: Office of the State Controller and OSPB

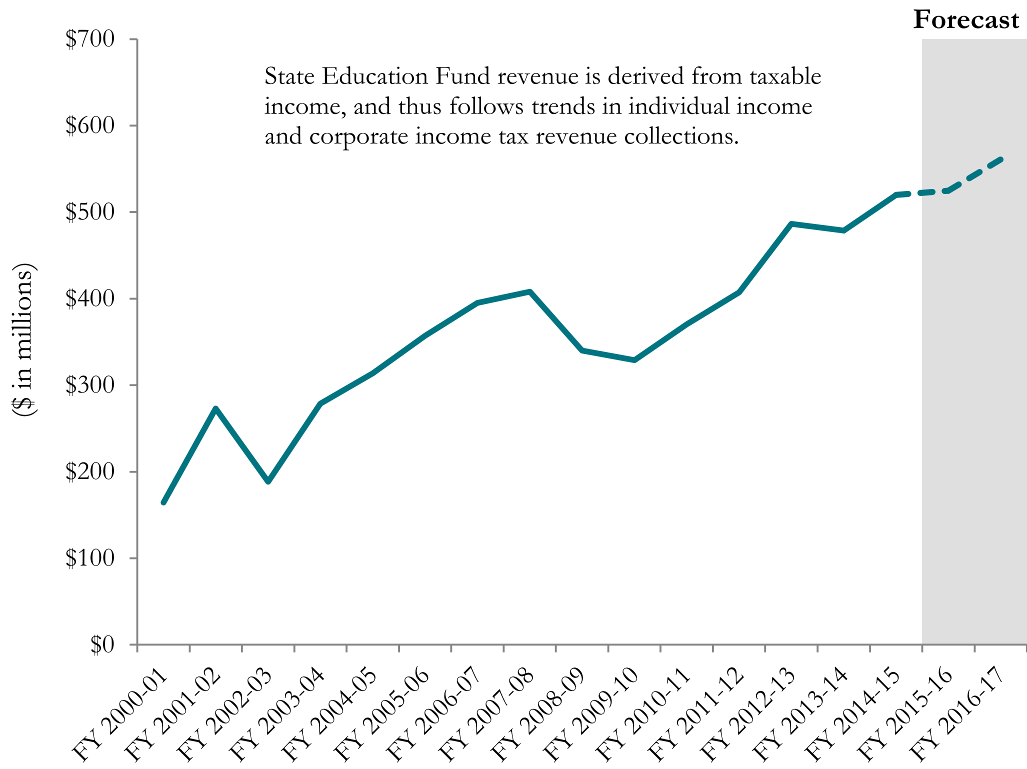
State Education Fund Revenue Forecast

Tax revenue to the State Education Fund will increase 0.9 percent in FY 2015-16 and 6.9 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. Less income resulting from the contraction in the oil and gas industry, global economic headwinds, and weaker growth in investment income is diminishing growth in revenue to the State Education Fund in FY 2015-16. However, some of 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 0.9 percent in FY 2015-16 and 6.9 percent in FY 2016-17. State Education Fund revenue is derived from taxable income, and thus follows 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 35.

Figure 28. State Education Fund Revenue from One-Third of One Percent of Taxable Income, Actual and Forecast



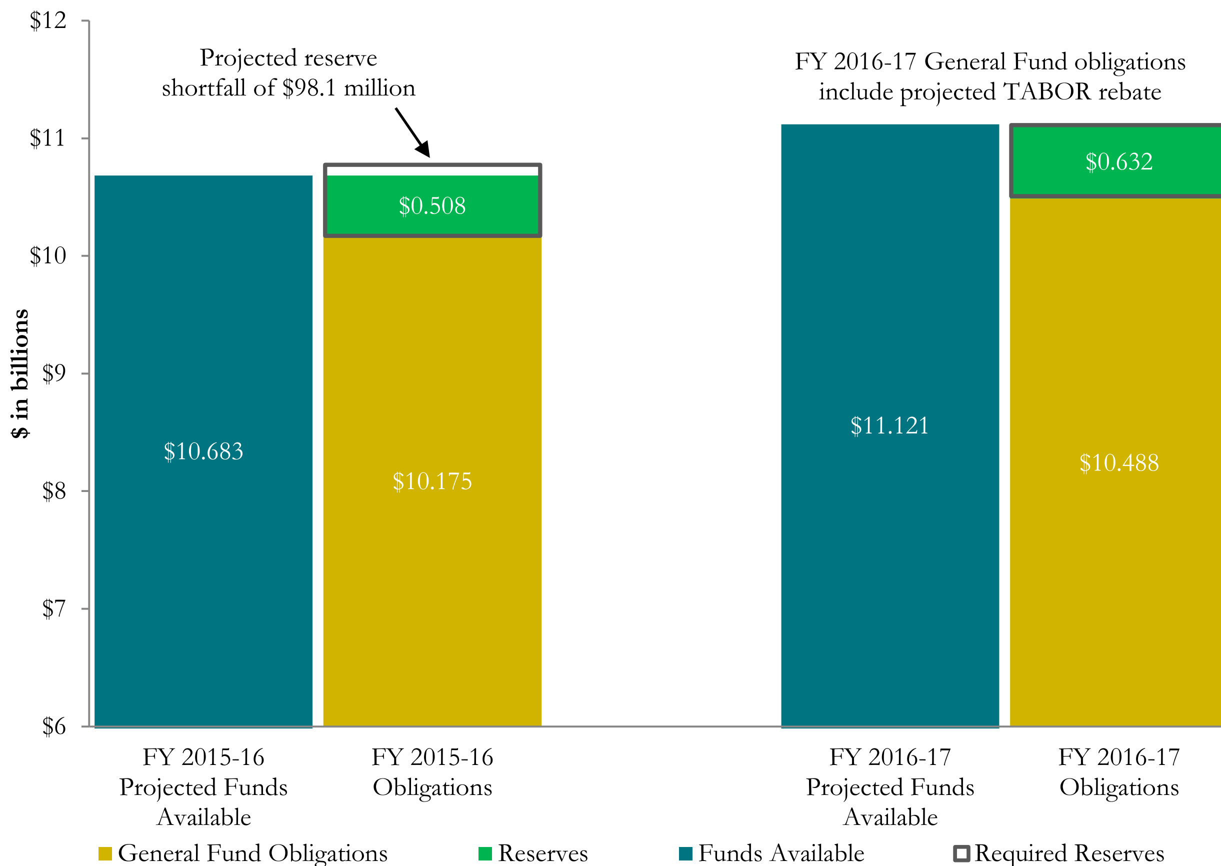
Source: Office of the State Controller and OSPB

General Fund and State Education Fund Budget

General Fund **–** As discussed in the "General Fund Revenue Forecast" section starting on page 34, projections for General Fund revenue for FY 2015-16 are $51.0 million, or 0.5 percent, lower than in the December 2015 forecast. The forecast for FY 2016-17 is lower by $88.1 million, or 0.8 percent. With the current budget as amended this legislative session for FY 2015-16, the State's General Fund reserve is now projected to be $98.1 million below the required amount of 6.5 percent of appropriations.

Figure 29 summarizes total projected General Fund revenue available, total obligations, and reserve levels for FY 2015-16 and FY 2016-17. The appropriations amounts for FY 2015-16 reflect current law. The FY 2016-17 amounts represent the level of spending that can be supported by projected revenue while maintaining the General Fund's 6.5 percent required reserve. General Fund appropriations in FY 2016-17 can grow 4.5 percent based on current-law expectations for other General Fund obligations, including TABOR refunds and transfers to transportation and capital construction under Senate Bill 09-228. These amounts will change based on future budgeting decisions and updates to the revenue forecast.

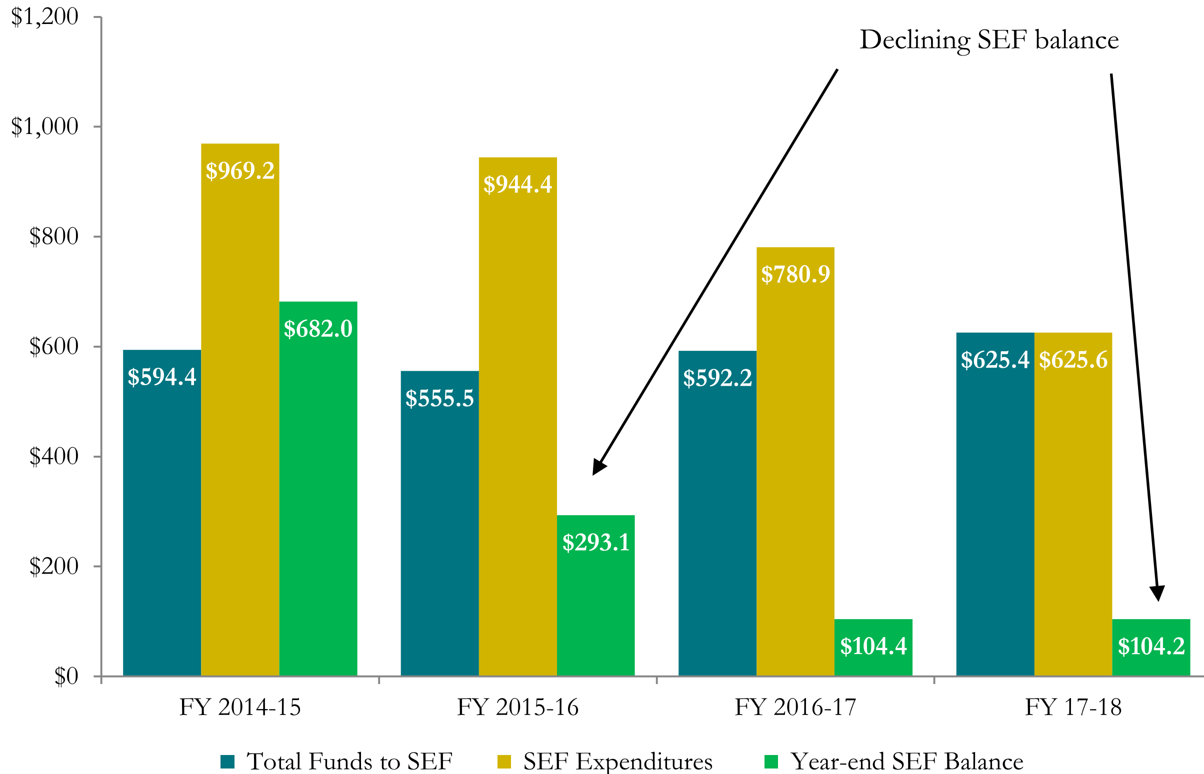
Figure 29. General Fund Money, Obligations, and Reserves



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 30 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2014-15 through FY 2017-18. In FY 2015-16, the year-end balance in the Fund is expected to drop 57.0 percent from its level in FY 2014-15, and a larger drop of 64.4 percent is expected in FY 2016-17 when the projected balance will be just over $100 million. General Fund and State Education Fund expenditures combined can grow just 1.3 percent in FY 2016-17, assuming

that the negative factor is maintained at its current level, due to the smaller amount of funding available from the State Education Fund to support school finance.

Figure 30. State Education Fund Money, Spending, and Reserves



*Actual expenditures from the State Education Fund for FY 2016-17 and FY 2017-18 will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections shown 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.

Risks to the Outlook and Budget Implications

This budget outlook is based on OSPB's economic analysis and forecast, discussed in more detail 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, Colorado's economic growth has slowed over the past year. Employment growth moderated throughout 2015, although Colorado still has among the lowest unemployment numbers in the country. The oil and gas industry continues to contract, and projections for sustained low oil and gas prices could lead to larger adverse effects for the state's economy. 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. In addition, although financial markets have improved recently, tighter credit conditions for businesses and a volatile equities market could signal slowing economic activity.

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 $106.0 million from the General Fund for transportation projects and an additional $26.5 million to capital construction, as dictated by Senate Bill 09-228 (for more details, see page 45). However, a decrease of just 0.59 percentage points, or $62.9 million, in revenue subject to TABOR would result in these transfers doubling, adding to General Fund spending obligations. This amount is well within the amount of typical forecast error. Thus, small differences in revenue subject to TABOR could result in material revisions to these transfers.

Because TABOR refunds are paid out of the General Fund, fluctuations in cash fund revenue (outside of the General Fund) subject to TABOR can have a large impact on General Fund obligations. For example, this forecast assumes that severance tax revenue will be relatively low over the forecast period due to the expectation for persistently low oil and gas prices. However, oil and gas prices can be volatile and are very difficult to predict. Therefore, future revisions to the forecast for this and other cash fund revenue sources could result in material revisions to total revenue subject to TABOR and, therefore, to TABOR refunds and General Fund obligations.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview for the March 2016 OSPB revenue forecast, providing details on forecasts for available General Fund money, expenditures, and end-of-year-reserves. The following section discusses the information presented in Table 4, and includes figures showing each section of the detailed overviews found in the Appendix.

Revenue

The top portion of the overview, shown in Figure 31, 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 34. 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).

Figure 31. General Fund Revenue Available, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
1	Beginning Balance	$709.2	$507.6	$632.2
2	General Fund Revenue	$9,957.8	$10,595.6	$11,144.0
3	Transfers to the General Fund	$16.1	$17.3	$18.1
4	**Total General Funds Available**	**$10,683.1**	**$11,120.5**	**$11,794.3**
	Dollar Change from Prior Year	$374.2	$437.4	$673.8
	Percent Change from Prior Year	3.6%	4.1%	6.1%

Expenditures

Spending subject to the appropriations limit – The middle portion of the General Fund overview in Table 4 shows General Fund spending. Each year, by statute, 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 32 are about $3.0 and $3.3 billion under the limit in these two years, respectively. The amounts subject to the limit shown below and in Table 4 for FY 2015-16 reflect current law, while the FY 2016-17 and FY 2017-18 amounts represent the level of spending that can be supported by projected revenue while maintaining the General Fund's required reserve amount; these amounts will change based on future budgeting decisions and updates to the revenue forecast.

Figure 32. General Fund Spending Subject to the Appropriations Limit, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
5	**Appropriations**	**$9,356.5**	**$9,777.3**	**$10,333.8**
6	Dollar Change from Prior Year	$487.5	$420.8	$556.5
7	Percent Change from Prior Year	5.5%	4.5%	5.7%

Spending and outlays not subject to the appropriations limit – Figure 33 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 33. General Fund Spending Not Subject to the Appropriations Limit, $ in Millions

Table 4 Line No.		FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
9	TABOR Refund under Art. X, Section 20, (7) (d)	$153.7	$0.0	$168.9	$350.9
10	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*	*$9.5*	*$8.9*	*$8.5*
	Marijuana Rebate to Local Governments	*$5.9*	*$7.2*	*$7.9*	*$6.8*
	Old-Age Pension Fund/Older Coloradans Fund	*$111.0*	*$119.0*	*$116.0*	*$120.6*
	Aged Property Tax & Heating Credit	*$5.7*	*$6.2*	*$6.0*	*$6.5*
	Homestead Exemption	*$116.9*	*$133.0*	*$147.4*	*$157.3*
	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*	*$0.7*
11	**Total Rebates and Expenditures**	**$257.4**	**$281.0**	**$292.4**	**$305.9**
12	Transfers to Capital Construction	$248.5	$271.1	$61.8	$68.3
13	Transfers to Highway Users Tax Fund	$0.0	$199.2	$106.0	$0.0
14	Transfers to State Education Fund per SB 13-234	$25.3	$25.3	$25.3	$25.3
15	Transfers to Other Funds	$42.2	$100.4	$56.7	$41.6
16	Other	$0.5	$0.0	$0.0	$0.0
	Total	**$785.7**	**$819.0**	**$711.0**	**$792.0**
	Dollar Change from Prior Year	$240.2	$33.3	-$108.0	$81.1
	Percent Change from Prior Year	44.0%	4.2%	-13.2%	11.4%

Lines 9 and 10: 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"). The FY 2016-17 refund amount includes the projected $149.3 million exceeding the Referendum C cap plus $19.6 million that needs to be refunded from FY 2014-15. The $19.6 million from FY 2014-15 is due to the reclassification of the revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund. The legal analysis and audit review on this occurred after FY 2014-15 refund amounts were established on state income tax forms. Such adjustments and audit findings have occurred in the past and the process calls for the money to be refunded in the next year a refund is due. For more information on the TABOR refund, see the "Taxpayer's Bill of Rights: Revenue Limit" section later in this report.

The $58.0 million shown in line 10 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 2015 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 10 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 as part of "Transfers to Other Funds" in line 15 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 as part of "Appropriations Subject to the Limit" in line 5 under FY 2015-16); and the remaining $6 million is available for use by the General Fund for any purpose.

Line 11: "Rebates and Expenditures" account for a large portion of General Fund spending not subject to the appropriations limit. The primary programs under rebates and expenditures are: (1) the Cigarette Rebate, which distributes money from a portion of State cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the Marijuana Rebate, which distributes 15 percent of the retail marijuana sales tax to local governments based on the percentage of retail marijuana sales in local areas; (3) the Old-Age Pension program, which provides assistance to low-income elderly individuals who meet certain eligibility requirements; (4) the Aged Property Tax, Heat, and Rent Credit, which provides property tax, heating bill, and rent assistance to qualifying low-income, disabled, or elderly individuals; and (5) the Homestead Property Tax Exemption, which reduces property-tax liabilities for qualifying seniors and disabled veterans.

Lines 12 and 13: 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.

Since 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 $199.2 and $49.8 million, respectively, in FY 2015-16. As shown in line 12, a total of $271.1 million will be transferred in FY 2015-16 for capital construction projects. This amount includes the projected $49.8 million SB 09-228 transfer and a $221.3 million transfer set by SB 15-250.

The projected FY 2016-17 TABOR refund of $168.9 million is equal to 1.6 percent of General Fund revenue, meaning that the SB 09-228 transfers will only be made at half levels. However, a relatively small decrease in revenue from projections would result in full transfers.

Line 14: Senate Bill 13-234 requires annual General Fund transfers to the State Education Fund from FY 2013-14 through FY 2018-19. The transfer in each fiscal year through FY 2017-18 is $25.3 million.

Line 15: 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 16: 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. With the current budget for FY 2015-16, the State's General Fund reserve is projected to be $98.1 million below the required amount. The FY 2016-17 and FY 2017-18 amounts in the table represent the required reserve levels supported by projected General Fund available in those years. Starting in FY 2015-16, General Fund appropriations for "lease-purchase" payments, called Certificates of Participation, for certain capital projects were made exempt from the reserve calculation requirement by SB 15-251. These appropriations amount to $38.6 million in FY 2015-16. Figure 34 provides information on the General Fund ending balance.

Figure 34. General Fund Reserves, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
20	Year-End General Fund Balance	$507.6	$632.2	$668.5
21	Balance as a % of Appropriations	5.4%	6.5%	6.5%
22	**General Fund Statutory Reserve**	**$605.7**	**$632.2**	**$668.5**
23	Money Above/Below Statutory Reserve	-$98.1	$0.0	$0.0

State Education Fund Overview

Figure 35 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 and higher expenditures in recent years have put increasing strain on the fund. By the end of FY 2015-16, the balance is projected to fall 57.0 percent, to $293.1 million, from levels a year earlier. The trend is projected to continue into FY 2016-17, as the year-end balance drops another 64.4 percent to $104.4 million.

State Education Fund expenditures for FY 2015-16 reflect current law. The FY 2016-17 and FY 2017-18 expenditure amounts project spending needed to keep the negative factor in the School Finance Act at the current law dollar amount of $830.7 million, while maintaining a balance in the Fund of about $100 million.

Figure 35. State Education Fund Revenue, Spending, and Reserves*, $ in Millions

	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
Beginning Balance	***$1,048.9***	***$682.0***	***$293.1***	***$104.4***
One-third of 1% of State Taxable Income	*$519.8*	*$524.7*	*$561.0*	*$593.9*
Money from Prior Year-end Excess Reserves	*$38.6*	*$0.0*	*$0.0*	*$0.0*
Transfers under SB 13-234	*$25.3*	*$25.3*	*$25.3*	*$25.3*
Other	*$10.6*	*$5.5*	*$5.9*	*$6.2*
Total Funds to State Education Fund	**$594.4**	**$555.5**	**$592.2**	**$625.4**
State Education Fund Expenditures	**$969.2**	**$944.4**	**$780.9**	**$625.6**
Year-end Balance	**$682.0**	**$293.1**	**$104.4**	**$104.2**

*Actual FY 2016-17 and FY 2017-18 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. As shown in Table 5, General Fund and State Education Fund expenditures combined can grow just 1.3 percent in FY 2016-17, assuming that the negative factor is maintained at its current level, due to the smaller amount of funding available from the State Education Fund to support school finance.

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 projected to be $119.6 million, or 4.3 percent, higher than FY 2014-15, primarily as a result of growth in revenue from the Hospital Provider Fee and miscellaneous cash funds. This growth will offset a sharp decline in revenue from severance taxes and insurance-related revenue. The forecast for FY 2015-16 is $44.6 million, or 1.6 percent, higher than projections from the December forecast, as higher projections for revenue to the group of miscellaneous cash funds and transportation-related cash funds are offsetting lower projections for severance tax revenue.

Cash fund revenue subject to TABOR will decrease 0.1 percent in FY 2016-17 as a projected 9.4 percent decrease in revenue from the Hospital Provider Fee will offset growth in revenue from most of the major categories of cash funds, most notably severance taxes. The forecast for FY 2016-17 is $7.5 million, or 0.3 percent, higher compared with projections in December.

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 1.9 percent in FY 2015-16 and 1.6 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.

Coloradans are buying more expensive vehicles in larger quantities, driving growth in registration fee revenue. This trend is expected to moderate slightly in coming years.

Through January of this fiscal year, revenue from HUTF vehicle fuel taxes and vehicle registrations grew 2.0 and 1.9 percent, respectively, from their levels in FY 2014-15. Changes in these revenue streams have a substantial influence on overall transportation-related cash funds because they account for approximately 80 percent of HUTF revenue and three-quarters of all transportation-related revenue.

Registration-related revenue is being driven by strong growth in vehicle purchases and changing preferences among Colorado drivers. In 2015, Coloradans registered 8.0 percent more new vehicles than they did in 2014. In addition to buying more vehicles, drivers are also choosing more expensive vehicles like SUV's due to low gas prices. This trend is reflected in data from the Colorado Automobile Dealers Association, which found that light truck registrations grew 15.3 percent in 2015, while generally less expensive car registrations actually decreased 3.5 percent. Vehicle registration fees are assessed based on vehicle value, so consumer preferences for more expensive vehicles is helping drive growth in HUTF revenue. The upward trend in registration revenue offsets relatively flat revenues from fuel taxes due to the introduction of more fuel-efficient cars.

This forecast assumes that the recent car-buying and driving trends will moderate slightly, with overall HUTF revenue growth averaging 1.5 percent over the next three fiscal years.

Limited Gaming — Total limited gaming revenue is forecast to grow by $8.7 million, or 7.8 percent, in FY 2015-16, after increasing 3.3 percent in FY 2014-15. Revenue from gaming will grow an additional $3.9 million, or 3.3 percent, to $124.0 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 is causing gaming activity to post its strongest increase since the downturn this fiscal year. Gaming revenue is expected to grow at more modest rates over the remainder of 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 is important because the graduated tax schedule for casinos means that larger facilities pay a higher effective tax rate than smaller venues.

Gaming revenue continues to grow at a healthy pace as casinos benefit from a growing Colorado economy, population, and labor market.

Of the total expected limited gaming revenue of $120.1 million in FY 2015-16, $102.4 million will be subject to TABOR, as reflected in Figure 36. 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 $14.7 million and $15.7 million in FY 2015-16 and FY 2016-17, respectively. Figure 36 shows the distribution of limited gaming revenues in further detail.

Figure 36. 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**	**$120.1**	**$124.0**	**$127.6**
Annual Percent Change	3.3%	7.8%	3.3%	2.9%
B. Base Limited Gaming Revenues (max 3% growth)	**$98.1**	**$101.0**	**$104.0**	**$107.1**
Annual Percent Change	3.0%	3.0%	3.0%	2.9%
C. Gaming Revenue Subject to TABOR	**$99.3**	**$102.4**	**$105.5**	**$108.6**
Annual Percent Change	1.1%	3.1%	3.0%	2.9%
D. Total Amount to Base Revenue Recipients	**$87.3**	**$91.4**	**$94.1**	**$95.9**
Amount to State Historical Society	$24.5	$25.6	$26.3	$26.9
Amount to Counties	$10.5	$11.0	$11.3	$11.5
Amount to Cities	$8.7	$9.1	$9.4	$9.6
Amount to Distribute to Remaining Programs (State Share)	$43.7	$45.7	$47.0	$48.0
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	$15.7	$17.0	$18.0
E. Total Amount to Amendment 50 Revenue Recipients	**$9.9**	**$14.7**	**$15.7**	**$16.4**
Community Colleges, Mesa and Adams State (78%)	$7.7	$11.4	$12.2	$12.8
Counties (12%)	$1.2	$1.8	$1.9	$2.0
Cities (10%)	$1.0	$1.5	$1.6	$1.6

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 9.4 percent, or by $75.6 million, to $729.4 million in FY 2016-17 and grow 5.8 percent, or by $42.5 million, in FY 2017-18. The forecast for FY 2016-17 is $26.9 million, or 3.6 percent, lower compared with projections in December.

The projections for HPF revenue are influenced by federal funding levels associated with the Affordable Care Act as well as changes in the population receiving medical care support under the Medicaid program. The 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 74.3 percent, or $209.0 million, to $72.3 million in FY 2015-16 due to the sharp decline in oil and natural gas prices. Severance tax revenue projections are $5.3 million lower than the December OSPB forecast.

Robust severance tax revenue growth in the last few fiscal years resulted from the higher price environment for natural gas and oil prior to the summer of 2014. 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 $39.2 million, or 54.3 percent, in severance tax revenue for FY 2016-17. The ad valorem credit for State severance taxes is contributing to the 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, 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 $209.0 million in severance taxes in FY 2015-16. Revenue collections will rebound moderately in FY 2016-17 with gradually increasing prices and smaller ad valorem tax credits.

Average oil prices in 2015 were 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. Oil prices have persisted at very low levels so far in 2016. Only a moderate increase in prices is expected through 2017, but there is a high degree of uncertainty in the trajectory of oil prices. Thus, the actual amount of severance tax revenue may differ from the present forecast depending on the actual trajectory of energy prices. If collections come in higher than currently projected, it will push revenue further above the State's revenue cap.

The price of natural gas also remains well below the previous few years as supply has outpaced demand. Natural gas prices in 2015 were 40 percent below 2014 levels and prices are expected to remain low through 2016. More discussion of the oil and gas industry is included in "The Economy: Issues, Trends, and Forecast" section of this forecast, which starts on page 3.

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 timing difference increases the impact of lower prices on severance tax liabilities, thus the 74.3 percent forecasted decline in FY 2015-16 severance taxes. Along with gradual increases in prices, the timing difference will contribute to the projected rebound in severance taxes in FY 2016-17 when the ad valorem credits will be much smaller because of 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 not as significantly as prices. A 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 these resources have been declining over the past few years as prices of commodities, in general, remain suppressed. Severance tax revenue from coal production is expected to fall 7.0 percent, to $5.0 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 in the Appendix 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 30.9 percent to $100.3 million in FY 2015-16. This follows a decline of 16.4 percent in FY 2014-15. FML revenue continues to decline due to the persistent lower oil and natural gas prices and the refund of FML "bonus" payments to mineral extraction leaseholders on the Roan Plateau. As commodity prices begin to increase, FML revenue is expected to rebound 10.8 percent to $111.1 million in FY 2016-17 and an additional 13.4 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 30.9 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 is withholding $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 half of FY 2015-16, thus the forecast for this fiscal year is $3.6 million lower than in December. Although FML revenue is declining in FY 2015-16, the decline is not 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 37. Federal Mineral Leasing (FML) Payments, $ in Millions

Fiscal Year	Bonus	Non-Bonus	Total FML	% Change
FY 2014-15	$1.1	$144.0	$145.1	-16.4%
FY 2015-16	$3.8	$96.5	$100.3	-30.9%
FY 2016-17	$1.7	$109.4	$111.1	10.8%
FY 2017-18	$1.9	$124.1	$126.0	13.4%

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

Other cash funds ─ Cash fund revenue to the Department of Regulatory Agencies (DORA) will increase 2.0 percent to $67.0 million in FY 2015-16 after decreasing 4.1 percent in FY 2014-15. Cash fund revenue related to regulatory agencies will grow another 3.0 percent to $69.0 million in FY 2016-17. 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 31.3 percent to $13.7 million in FY 2015-16 as a result of a reduction in the surcharge used to fund the Division of Workers' Compensation (DOWC), as well as the Major Medical Insurance Fund and Subsequent Injury Fund. These funds were created to absorb costs for workers 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 over 300 cash funds that generally collect revenue from fines, fees, and interest earnings. However, approximately 75 percent of the revenue comes from the largest 30 funds. These larger funds include such things as the Employment Support Fund, Medicaid Nursing Facility Cash Fund, and the Marijuana Tax Cash Fund. Total revenue to miscellaneous cash funds is expected to be $645.3 million in FY 2015-16, an increase of 5.4 percent, after growth of 7.4 percent the prior year. Revenue to these funds is expected to grow 1.3 percent in FY 2016-17.

The FY 2015-16 projection is $43.7 million higher than the December forecast, due in large part to the recent determination that the revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund, to help fund dental services for adults under the Medicaid program, is subject to TABOR. The amount of money for this program is projected to be $30.6 million in FY 2015-16 and $34.8 million in FY 2016-17. Previously, this money was not counted as TABOR revenue and thus was not included in Table 6.

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. Proposition AA 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 could 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. 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 occurring for FY 2014-15 and are projected again for FY 2016-17 and FY 2017-18 – TABOR revenue exceeded the Referendum C cap by $169.7 million in FY 2014-15. Of this amount, $150.1 is being refunded to taxpayers when taxpayers file their 2015 tax return, along with an additional $3.6 million owed related to refunds from prior years, for a total of $153.7 million. The remaining $19.6 million of the $169.7 million is from a reclassification that the revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund is subject to TABOR. This money helps fund dental services for adults under the Medicaid program. Previously, the money was not counted as TABOR revenue. However, the legal analysis and audit review on this occurred after rebate amounts were established for state income tax forms. Such adjustments and audit findings have occurred in the past and the process calls for the money to be refunded in the next year a refund is due, which, according to this forecast, is FY 2016-17, as discussed below.

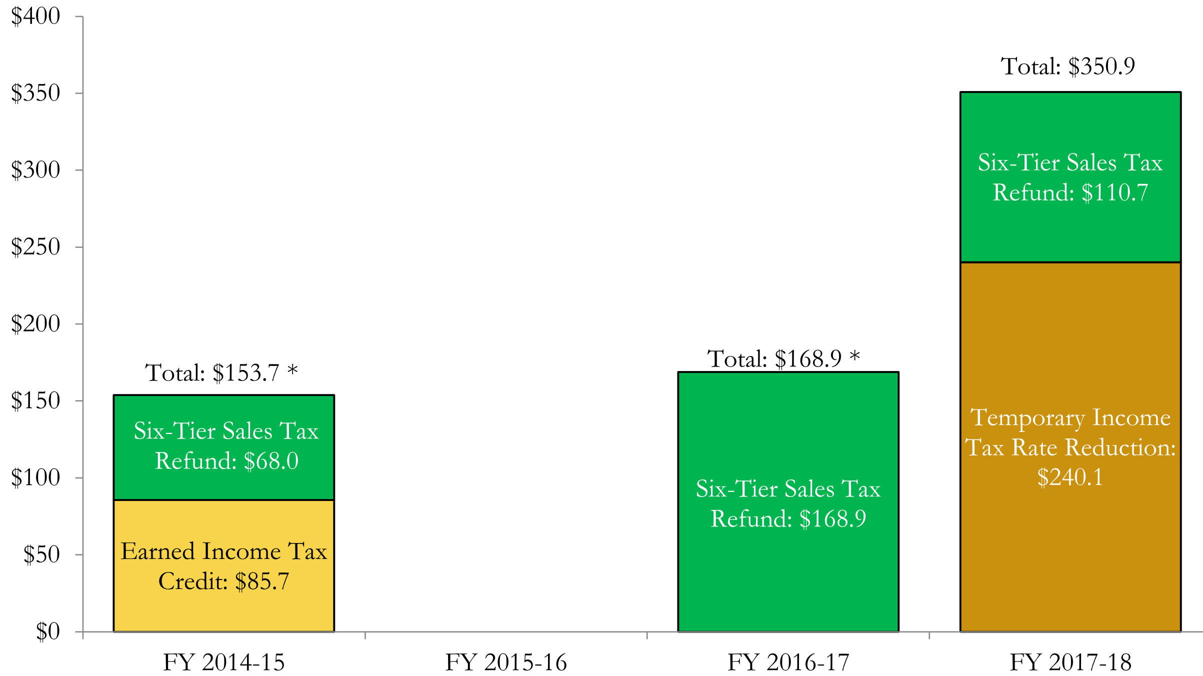
TABOR revenue is projected to come in $80.0 million below the cap in FY 2015-16, but is expected to come in over the cap in the following two years by $149.3 million in FY 2016-17 and $350.9 million in FY 2017-18. The amounts above the cap in these two fiscal years include a projected $34.8 million and $37.3 million, respectively, for transfers from the Unclaimed Property Fund to the Adult Dental Fund now subject to TABOR.

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 (EITC) to qualified taxpayers, and a temporary income tax rate reduction. The refund amount determines which refund mechanisms are used. Figure 38 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, the amount needed to be refunded exceeded the threshold that activates the State EITC, as specified by Section 39-22-123, C.R.S. Colorado taxpayers who qualify for the federal EITC can claim 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 and will reduce revenue to the General Fund through the reduction in income tax liabilities and higher income tax refunds.

Figure 38. Projected Distribution of TABOR Refunds, $ in Millions



* The FY 2014-15 amount includes $150.1 million in revenue above the Referendum C cap in FY 2014-15, as well as $3.6 million in pending amounts owed related to refunds from prior years. These pending 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 FY 2016-17 amount includes $149.3 million in revenue above the Referendum C cap for FY 2016-17, as well as $19.6 million from FY 2014-15 due to the recent determination that revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund is subject to TABOR. The legal analysis and audit review on this occurred after rebate amounts were established for state income tax forms and therefore the additional refund amount for FY 2014-15 is to be refunded during the next year a refund is due which, according to this forecast, is FY 2016-17.

The remaining $68.0 million of the refund for FY 2014-15 is being 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 39 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 $149.3 million exceeding the Referendum C cap plus the $19.6 million that needs to be refunded from FY 2014-15, as shown in Figure 39. The $19.6 million from FY 2014-15 is due to the reclassification of the revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund. The total 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 $227.7 million for FY 2016-17, about $58.8 million higher than this forecast's projection for the amount needed to be refunded.

Revenue in excess of the cap in FY 2017-18 is projected to be $350.9 million. This amount meets the refund threshold 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 39. The total amount refunded through this mechanism is estimated to be $240.1 million in FY 2017-18 with the remaining portion, $110.7 million, to be refunded through the six-tier sales tax refund mechanism.

Figure 39. 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. The 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	$31	$0	$31	$62	$0	$62
$38,001 - $80,000	$43	$0	$43	$86	$0	$86
$80,001 - $125,000	$50	$0	$50	$100	$0	$100
$125,001 - $169,000	$55	$0	$55	$110	$0	$110
$169,001 - $212,000	$58	$0	$58	$116	$0	$116
$212,001 and Up	$98	$0	$98	$196	$0	$196

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	$20	$8	$28	$40	$2	$42
$39,001 - $82,000	$28	$48	$76	$56	$30	$86
$82,001 - $128,000	$32	$108	$140	$64	$78	$142
$128,001 - $173,000	$36	$158	$194	$72	$130	$202
$173,001 - $217,000	$37	$197	$234	$74	$182	$256
$217,001 and Up	$63	$602	$665	$126	$557	$683

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 expected to be unaffected by these provisions. However, the projected TABOR refund for FY 2016-17 represents an amount equal to 1.6 percent of General Fund revenue. Therefore, the transfers for transportation and capital construction will be reduced by half – from $212.0 million to $106.0 million and from $53.0 million to $26.5 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.

According to current projections, the transportation and capital construction transfers will be suspended in full in FY 2017-18 because the TABOR refund is expected to be 3.2 percent of total General Fund revenue. However a small decrease in revenue subject to TABOR would lower the refund amount below 3 percent resulting in half transfers.

TABOR election provisions and Proposition BB – HB 15-1367 referred a measure to voters — "Proposition BB" — asking if the State could 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.

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

Appendix – Reference Tables

Table 1. History and Forecast for Key Colorado Economic Variables
Calendar Year 2010-2018

Line No.		Actual						March 2016 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017	2018
	Income									
1	Personal Income (Billions) /A	$211.4	$227.1	$240.9	$246.4	$261.7	$274.6	$288.3	$303.6	$320.0
2	Change	2.4%	7.4%	6.1%	2.3%	6.2%	4.9%	5.0%	5.3%	5.4%
3	Wage and Salary Income (Billions)	$113.8	$118.6	$125.0	$129.5	$138.7	$145.9	$153.3	$161.7	$170.8
4	Change	1.3%	4.2%	5.4%	3.6%	7.1%	5.2%	5.1%	5.5%	5.6%
5	Per-Capita Income ($/person) /A	$41,880	$44,351	$46,402	$46,754	$48,871	$50,317	$51,893	$53,681	$55,633
6	Change	0.9%	5.9%	4.6%	0.8%	4.5%	3.0%	3.1%	3.4%	3.6%
	Population & Employment									
7	Population (Thousands)	5,048.3	5,119.5	5,191.7	5,271.1	5,355.6	5,456.6	5,555.5	5,655.1	5,751.2
8	Change	1.5%	1.4%	1.4%	1.5%	1.6%	1.9%	1.8%	1.8%	1.7%
9	Net Migration (Thousands)	37.5	36.0	39.8	47.9	50.8	67.8	67.0	67.0	63.0
10	Unemployment Rate	8.7%	8.4%	7.9%	6.8%	5.0%	3.9%	3.3%	3.5%	3.6%
11	Total Nonagricultural Employment (Thousands)	2,222.3	2,258.6	2,313.0	2,381.9	2,464.9	2,541.2	2,607.3	2,677.7	2,744.6
12	Change	-1.0%	1.6%	2.4%	3.0%	3.5%	3.1%	2.6%	2.7%	2.5%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	11.6	13.5	23.3	27.5	28.7	31.1	37.9	41.3	44.1
14	Change	23.9%	16.5%	72.6%	18.1%	4.2%	8.3%	22.0%	9.1%	6.6%
15	Nonresidential Construction Value (Millions) /B	$3,146.7	$3,516.2	$3,112.3	$3,614.0	$4,307.0	$4,765.8	$4,660.9	$4,801.7	$4,991.4
16	Change	-6.2%	11.7%	-11.5%	16.1%	19.2%	10.7%	-2.2%	3.0%	4.0%
	Prices & Sales Variables									
17	Retail Trade (Billions) /C	$70.5	$75.9	$80.2	$84.1	$90.3	$93.8	$97.8	$103.1	$108.5
18	Change	6.0%	7.7%	5.7%	4.8%	7.4%	3.9%	4.3%	5.4%	5.2%
19	Denver-Boulder-Greeley Consumer Price Index (1982-	212.4	220.3	224.6	230.8	237.2	240.0	244.3	250.2	255.2
20	Change	1.9%	3.7%	1.9%	2.8%	2.8%	1.2%	1.8%	2.4%	2.0%

/A Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance. 2015 data is not final and represents OSPB's estimates.

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

/C Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods/books/music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants). E-commerce retail trade and other sales by a retailer that does not have a state sales tax account are not included in these figures. Retail trade 2015 data is not final and represents OSPB's estimate.

Table 2. History and Forecast for Key National Economic Variables
Calendar Year 2010 – 2018

Line No.		Actual						March 2016 Forecast		
		2010	2011	2012	2013	2014	2015	2016	2017	2018
	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	$16,345.0	$16,688.2	$17,055.4	$17,396.5
2	Change	2.5%	1.6%	2.2%	1.5%	2.4%	2.4%	2.1%	2.2%	2.0%
3	Personal Income (Billions) /B	$12,477.1	$13,254.5	$13,915.1	$14,068.4	$14,694.2	$15,341.9	$16,032.3	$16,737.7	$17,440.7
4	Change	3.2%	6.2%	5.0%	1.1%	4.4%	4.4%	4.5%	4.4%	4.2%
5	Per-Capita Income ($/person)	$40,334	$42,521	$44,301	$44,460	$46,077	$47,732	$49,469	$51,226	$52,943
6	Change	2.4%	5.4%	4.2%	0.4%	3.6%	3.6%	3.6%	3.6%	3.4%
7	Wage and Salary Income (Billions) /B	$6,377.5	$6,633.2	$6,930.3	$7,114.4	$7,477.8	$7,824.4	$8,207.8	$8,634.6	$9,066.3
8	Change	2.0%	4.0%	4.5%	2.7%	5.1%	4.6%	4.9%	5.2%	5.0%
	Population & Employment									
9	Population (Millions)	309.3	311.7	314.1	316.4	318.9	321.4	324.1	326.7	329.4
10	Change	0.8%	0.8%	0.8%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%
11	Unemployment Rate	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.7%	4.6%	4.6%
12	Total Nonagricultural Employment (Millions)	130.4	131.9	134.2	136.4	139.0	141.9	144.3	146.4	148.6
13	Change	-0.7%	1.2%	1.7%	1.6%	1.9%	2.1%	1.7%	1.5%	1.5%
	Price Variables									
14	Consumer Price Index (1982-84=100)	218.1	224.9	229.6	233.0	236.7	237.0	239.4	244.2	249.1
15	Change	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.0%	2.0%	2.0%
16	Producer Price Index - All Commodities (1982=100)	184.7	201.0	202.2	203.4	205.3	190.5	187.6	196.1	203.9
17	Change	6.8%	8.8%	0.6%	0.6%	0.9%	-7.2%	-1.5%	4.5%	4.0%
	Other Key Indicators									
18	Corporate Profits (Billions)	$1,746.4	$1,816.6	$1,998.2	$2,037.4	$2,072.9	$2,066.7	$2,124.5	$2,207.4	$2,284.7
19	Change	25.0%	4.0%	10.0%	2.0%	1.7%	-0.3%	2.8%	3.9%	3.5%
20	Housing Permits (Millions)	0.605	0.624	0.830	0.991	1.052	1.178	1.368	1.521	1.545
21	Change	3.7%	3.2%	32.9%	19.4%	6.2%	12.0%	16.1%	11.2%	1.6%
22	Retail Trade (Billions)	$4,288.3	$4,601.8	$4,831.1	$5,011.7	$5,208.4	$5,319.8	$5,537.9	$5,798.2	$6,059.1
23	Change	5.4%	7.3%	5.0%	3.7%	3.9%	2.1%	4.1%	4.7%	4.5%

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

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

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

Category	Preliminary FY 2014-15	% Chg	March 2016 Estimate by Fiscal Year FY 2015-16	% Chg	FY 2016-17	% Chg	FY 2017-18	% Chg
Excise Taxes:								
Sales	$2,619.2	8.0%	$2,681.6	2.4%	$2,833.1	5.7%	$2,960.0	4.5%
Use	$260.3	7.8%	$252.9	-2.8%	$265.8	5.1%	$280.5	5.5%
Cigarette	$37.9	3.6%	$37.1	-2.2%	$34.7	-6.2%	$33.1	-4.7%
Tobacco Products	$17.8	5.3%	$20.6	15.9%	$19.0	-7.9%	$19.4	2.4%
Liquor	$41.5	2.8%	$44.4	7.0%	$44.1	-0.6%	$45.2	2.5%
Total Excise	**$2,976.7**	**7.8%**	**$3,036.6**	**2.0%**	**$3,196.7**	**5.3%**	**$3,338.3**	**4.4%**
Income Taxes:								
Net Individual Income	$6,350.1	11.5%	$6,491.2	2.2%	$6,949.2	7.1%	$7,324.4	5.4%
Net Corporate Income	$692.9	-3.9%	$638.1	-7.9%	$673.5	5.5%	$722.7	7.3%
Total Income	**$7,043.0**	9.8%	**$7,129.3**	**1.2%**	**$7,622.7**	**6.9%**	**$8,047.1**	**5.6%**
Less: State Education Fund Diversion	*$519.8*	*8.6%*	*$524.7*	*0.9%*	*$561.0*	*6.9%*	*593.9*	*5.9%*
Total Income to General Fund	**$6,523.1**	**9.9%**	**$6,604.6**	**1.2%**	**$7,061.7**	**6.9%**	**$7,453.2**	**5.5%**
Other Revenue:								
Insurance	$256.7	7.4%	$280.1	9.1%	$295.7	5.6%	$308.5	4.3%
Interest Income	$8.1	-47.0%	$10.4	28.4%	$13.9	34.6%	$14.8	6.5%
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	$40.4	89.2%	$23.1	-42.8%	$24.5	6.1%	$26.2	6.9%
Total Other	**$308.3**	**10.4%**	**$316.6**	**2.7%**	**$337.2**	**6.5%**	**$352.5**	**4.5%**
GROSS GENERAL FUND	**$9,808.1**	**9.3%**	**$9,957.8**	**1.5%**	**$10,595.6**	**6.4%**	**$11,144.0**	**5.2%**

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

Line No.		Preliminary FY 2014-15	March 2016 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-18
Revenue					
1	**Beginning Reserve**	**$435.9**	**$709.2**	**$507.6**	**$632.2**
2	**Gross General Fund Revenue**	**$9,808.1**	**$9,957.8**	**$10,595.6**	**$11,144.0**
3	*Transfers to the General Fund*	*$64.9*	*$16.1*	*$17.3*	*$18.1*
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$10,308.9**	**$10,683.1**	**$11,120.5**	**$11,794.3**
Expenditures					
5	**Appropriation Subject to Limit**	**$8,869.0**	**$9,356.5**	**$9,777.3**	**$10,333.8**
6	*Dollar Change (from prior year)*	*$650.3*	$487.5	$420.8	$556.5
7	*Percent Change (from prior year)*	7.9%	5.5%	4.5%	5.7%
8	**Spending Outside Limit**	**$785.7**	**$819.0**	**$711.0**	**$792.0**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	*$153.7*	*$0.0*	*$168.9*	*$350.9*
10	*Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)*	*$58.0*	*-$58.0*	*$0.0*	*$0.0*
11	*Rebates and Expenditures*	*$257.4*	$281.0	$292.4	$305.9
12	*Transfers for Capital Construction*	*$248.5*	$271.1	$61.8	$68.3
13	*Transfers to Highway Users Tax Fund*	$0.0	$199.2	$106.0	$0.0
14	*Transfers to State Education Fund under SB 13-234*	$25.3	$25.3	$25.3	$25.3
15	*Transfers to Other Funds*	$42.2	$100.4	$56.7	$41.6
16	*Other Expenditures Exempt from General Fund Appropriations Limit*	$0.5	$0.0	$0.0	$0.0
17	**TOTAL GENERAL FUND OBLIGATIONS**	**$9,654.7**	**$10,175.5**	**$10,488.3**	**$11,125.9**
18	*Percent Change (from prior year)*	10.2%	5.4%	3.1%	6.1%
19	Reversions and Accounting Adjustments	*-$54.9*	$0.0	$0.0	$0.0
Reserves					
20	**Year-End General Fund Balance**	**$709.2**	**$507.6**	**$632.2**	**$668.5**
21	*Year-End General Fund as a % of Appropriations*	*8.0%*	5.4%	6.5%	6.5%
22	*General Fund Statutory Reserve*	$576.5	$605.7	$632.2	$668.5
23	*Above (Below) Statutory Reserve*	$132.7	-$98.1	$0.0	$0.0

/A See the section discussing the General Fund and State Education Fund Budget starting on page 41 for information on the figures in this table.

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

Line No.		Preliminary FY 2014-15	March 2016 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-18
Revenue					
1	**Beginning Reserves**	**$1,484.9**	**$1,391.1**	**$800.7**	**$736.7**
2	*State Education Fund*	$1,048.9	$682.0	$293.1	$104.4
3	*General Fund*	$435.9	$709.2	$507.6	$632.2
4	**Gross State Education Fund Revenue**	**$594.4**	**$555.5**	**$592.2**	**$625.4**
5	**Gross General Fund Revenue /B**	**$9,873.0**	**$9,973.9**	**$10,612.9**	**$11,162.1**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,952.2**	**$11,920.6**	**$12,005.9**	**$12,524.1**
Expenditures					
7	General Fund Expenditures /C	$9,654.7	$10,175.5	$10,488.3	$11,125.9
8	State Education Fund Expenditures	*$969.2*	*$944.4*	*$780.9*	*$625.6*
9	**TOTAL OBLIGATIONS**	**$10,623.9**	**$11,119.9**	**$11,269.2**	**$11,751.5**
10	*Percent Change (from prior year)*	11.8%	4.7%	1.3%	4.3%
11	*Reversions and Accounting Adjustments*	*($62.8)*	*$0.0*	*$0.0*	*$0.0*
Reserves					
12	**Year-End Balance**	**$1,391.1**	**$800.7**	**$736.7**	**$772.6**
13	State Education Fund	$682.0	$293.1	$104.4	$104.2
14	General Fund	$709.2	$507.6	$632.2	$668.5
15	*Transfer of Excess General Fund Reserve to Other Funds*	$0.0	$0.0	$0.0	$0.0
16	*General Fund Excess After Any Funds Above Statutory Reserve are Allocated*	$132.7	-$98.1	$0.0	$0.0

/A See the section discussing the General Fund and State Education Fund Budget starting on page 41 for information on the figures in this table.

/B This amount includes transfers to the General Fund shown in line 3 in Table 4.

/C General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 5 in Table 4 as well as all spending outside the limit shown in line 8 in Table 4.

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

Category	Preliminary FY 2014-15	March 2016 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-2018
Transportation-Related /A	**$1,164.6**	**$1,186.8**	**$1,205.7**	**$1,225.2**
Change	2.5%	1.9%	1.6%	1.6%
Limited Gaming Fund /B	**$99.3**	**$102.4**	**$105.5**	**$108.6**
Change	1.1%	3.1%	3.0%	2.9%
Capital Construction - Interest	**$5.6**	**$4.7**	**$4.7**	**$3.6**
Change	134.2%	-16.2%	-0.5%	-23.8%
Regulatory Agencies	**$65.6**	**$67.0**	**$69.0**	**$70.4**
Change	-4.1%	2.0%	3.0%	2.1%
Insurance-Related	**$19.9**	**$13.7**	**$13.8**	**$14.0**
Change	-3.5%	-31.3%	0.7%	1.4%
Severance Tax /C	**$281.3**	**$72.3**	**$111.5**	**$160.6**
Change	4.7%	-74.3%	54.3%	44.1%
Hospital Provider Fee /D	**$528.8**	**$805.0**	**$729.4**	**$771.9**
Change	-6.7%	52.2%	-9.4%	5.8%
Other Miscellaneous Cash Funds /E	**$612.4**	**$645.3**	**$653.7**	**$663.2**
Change	7.4%	5.4%	1.3%	1.4%
TOTAL CASH FUND REVENUE	**$2,777.6**	**$2,897.2**	**$2,893.3**	**$3,017.5**
Change	1.7%	4.3%	-0.1%	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.

/E Figures include the additional revenue related to the recent determination that the revenue transferred from the Unclaimed Property Fund to Adult Dental Fund is subject to TABOR.

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

Line No.		Preliminary FY 2014-15	March 2016 Estimate by Fiscal Year FY 2015-16	FY 2016-17	FY 2017-18
	TABOR Revenues:				
1	General Fund /A	$9,753.1	$9,910.1	$10,542.8	$11,098.5
	Percent Change from Prior Year	8.8%	1.6%	6.4%	5.3%
2	Cash Funds /A	$2,777.6	$2,897.2	$2,893.3	$3,017.5
	Percent Change from Prior Year	1.7%	4.3%	-0.1%	4.3%
3	**Total TABOR Revenues**	**$12,530.8**	**$12,807.3**	**$13,436.0**	**$14,116.0**
	Percent Change from Prior Year	7.2%	2.2%	4.9%	5.1%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.5%	1.6%	1.9%	1.8%
5	Previous calendar year inflation	2.8%	2.8%	1.2%	1.8%
6	**Allowable TABOR Growth Rate**	**4.3%**	**4.4%**	**3.1%**	**3.6%**
7	TABOR Limit /B	$9,976.9	$10,398.3	$10,720.6	$11,106.6
8	General Fund Exempt Revenue Under Ref. C	$2,384.1	$2,409.0	$2,566.1	$2,658.5
9	**Revenue Cap Under Ref. C /B**	**$12,361.0**	**$12,887.3**	**$13,286.8**	**$13,765.1**
10	**Amount Above/(Below) Cap**	**$169.7**	**-$80.0**	**$149.3**	**$350.9**
11	TABOR Reserve Requirement	$370.8	$384.2	$398.6	$413.0

/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. Cash Funds amounts include the additional revenue related to the recent determination that the revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund is subject to TABOR.

/B The TABOR limit and Referendum C cap is adjusted to account for changes in the enterprise status of various state entities. The account consists of money collected in excess of the TABOR limit in accordance with voter-approval of Referendum C. 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.