COLORADO
Office of State Planning
& Budgeting

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The Colorado Outlook

Economic and Fiscal Review

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Summary

- General Fund revenue continues to rebound modestly from its marked weakening in FY 2015-16. After an increase of just 1.7 percent last fiscal year, General Fund revenue is forecast to increase 4.0 percent in FY 2016-17. Sales and use taxes and individual income taxes are growing at higher rates with the end of the oil and gas industry's contraction. General Fund revenue is forecast to increase at a slightly faster rate of 5.2 percent in FY 2017-18 with continued economic expansion and as corporate income tax revenue posts an increase for the first time in four fiscal years. Despite this higher growth, the forecasted growth rate is below the increases experienced in most years of the current expansion.

- Relative to the December projections, the FY 2016-17 General Fund forecast is lower by $42.7 million, or 0.4 percent. With this forecast and the current budget, the State's General Fund reserve is projected to be $260.4 million below the required statutory reserve amount of 6.5 percent of appropriations.

- Based on this forecast and current law requirements and assumptions for major programs in FY 2017-18, there is a $696.6 million funding gap in the General Fund. Discussion of this issue is found in the General Fund and State Education Fund Budget section.

- Despite the higher projected revenue growth in FY 2017-18, General Fund appropriations subject to the limit next fiscal year can grow just 0.9 percent, or $92.4 million, based on current-law expectations for other General Fund obligations, including TABOR refunds and Senate Bill 09-228 transfers to transportation and capital construction. Further, combined FY 2017-18 General Fund and State Education Fund expenditures would be 0.6 percent, or $62.5 million, lower than current law expenditures for FY 2016-17. This is based on projected funds available and expectations for General Fund obligations, as well as an assumption that the negative factor is maintained at its current level.

- Cash fund revenue in FY 2016-17 is projected to be 4.6 percent lower than FY 2015-16, as a decrease in revenue from the Hospital Provider Fee and miscellaneous cash funds will offset modest growth in revenue from many of the other major categories of cash funds. The forecast for FY 2016-17 is $26.0 million, or 0.9 percent, lower than projections from the December forecast, which is mostly the result of correcting the accounting of Unclaimed Property Fund transfers. Cash fund revenue will increase 14.8 percent in FY 2017-18. The increase is mostly because of growth in severance taxes and the expiration of the budget restriction on the Hospital Provider Fee.

- Under current law and this forecast, TABOR revenue is projected to be $220.9 million under the cap in FY 2016-17, but is expected to be above the cap by $135.1 million in FY 2017-18 and $145.1 million in FY 2018-19.

- The upward momentum in Colorado's economy that began to occur last year has sustained itself in recent months. However, many agricultural economies continue to struggle with weak commodity prices and reduced incomes. Statewide economic growth for 2017 is forecast to be higher than last year. However, growth is expected to be only modestly higher due to the state's tight labor and housing markets that are acting as a constraint on economic activity. The U.S. and global economies have also recently experienced higher levels of growth. Manufacturing activity in particular has experienced an upswing. Further, business spending in the U.S. has picked up and momentum has increased in the labor market. Financial conditions remain generally supportive of economic growth and signal expectations for continued positive economic momentum.

- The increased momentum in the economy has reduced the probability of an economic downturn. However, the confluence of events that results in downturns is typically difficult to identify in advance. Additionally, there is heightened uncertainty regarding the policies that will be pursued by the new administration and Congress. Although some policies may provide a boost to the economy, others that restrict immigration and raise barriers to imports, if large enough, could slow economic growth.

The Economy: Issues, Trends, and Forecast

The following section discusses overall economic conditions in Colorado, nationally, and around the world. The OSPB forecast for economic conditions is essentially unchanged from the December 2016 Colorado Outlook as the positive momentum in the economy has continued as expected. This section includes an analysis of:

- Economic, labor market, and housing market conditions in Colorado (page 5)
- Economic, labor market, and housing market conditions for the nation (page 14)
- International economic conditions and trade (page 26)

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. The summary of indicators is intended to provide a snapshot of the economy's performance and OSPB's economic projections, which are informed by the following analysis.

Summary — The upward momentum in Colorado's economy has sustained itself in recent months. However, nonurban agricultural economies continue to struggle with weak commodity prices and reduced incomes. Statewide economic growth for 2017 is forecast to be higher than last year. However, growth is expected to be only modestly higher due to the state's persistently tight labor and housing markets that are acting as a constraint on economic activity.

The U.S. and global economies have also experienced higher levels of growth recently. Manufacturing activity in particular has experienced an upswing. Further, business spending in the U.S. has picked up due to the end of the oil and gas contraction, stronger manufacturing activity, and expectations for continued positive economic conditions. Momentum has also increased in the U.S. labor market as it continues to add jobs and approach full employment. As a result, participation in the labor force is increasing. Financial conditions remain generally supportive of economic growth and signal expectations for continued positive economic momentum.

Economic risks — The momentum in the economy that began in the second half of 2016 has persisted into the first quarter of 2017, and thus the probability of an economic downturn has lessened. However, the confluence of events that results in economic downturns is typically difficult to identify in advance. For example, an unexpected weakening in sectors that have been important drivers of economic growth could stall the expansion, as could deteriorating financial conditions that disrupt the flow of money and credit. Further, the stance of monetary policy is always important to monitor as it can be an important determinant of the economy's trajectory. The Federal Reserve has signaled that continued monetary tightening will occur in the future. Excessive tightening amidst the current modest economic growth environment could result in a slowdown in the economy.

Additionally, there is heightened uncertainty regarding the policies that will be pursued by the new administration and Congress. Although some policies, such as tax reform and infrastructure spending, depending on their structure, could boost economic growth in the near term, other policies advocated by the administration could have an adverse effect if implemented. Although the details remain largely unknown, policies that restrict immigration and raise barriers to imports, if large enough, could slow economic growth.

The nation's aging population and slower labor force growth are main factors in the current subdued economic expansion. Slower labor force growth as a result of tighter immigration policies would place a larger constraint on the economy's ability to grow. Further, many of the products purchased by U.S. consumers are imported, and the supply chains used by many U.S. companies depend on imports. Large disruptions to this trade through higher costs and/or reduced access to products would also slow the economy.

Finally, at least a portion of current elevated stock valuations appear to be based on expectations of pro-business policies from Congress and the new administration that are expected to boost corporate earnings and economic growth. Therefore, policy changes that fall materially short of expectations may result in a weakening in equity values in the future, which could dampen confidence and business investment and result in a loss of economic momentum.

Colorado Economy

The pickup in Colorado's economy discussed in the December *Colorado Outlook* continues into the first quarter of this year. The oil and gas sector is growing again, albeit modestly, which is helping bolster overall growth. Further, businesses' expectations for the performance of the state economy remain markedly positive, which is contributing to more investment and hiring in the state. As a result of these positive conditions, overall job and income growth for 2017 is forecast to be higher than last year. However, growth is constrained due to the state's tight labor and housing markets. Indeed, many businesses lack the workers needed to expand their operations. Furthermore, elevated housing prices and low inventory continue to place constraints on growth by limiting in-migration and home buying and selling.

The upward momentum in Colorado's economy has sustained itself in recent months and the expansion is expected to continue at a moderate pace. However, nonurban agricultural economies continue to struggle with weak commodity prices and reduced incomes.

Strong labor market conditions are a telling indicator of Colorado's solid economy. Unemployment rates across most areas of the state are below the national average, and the urban Front Range areas continue to have among the lowest unemployment rates in the country.

Many of Colorado's positive economic indicators are occurring in the urban areas along the Front Range. Nonurban areas with less diverse economies and those dependent on agriculture remain much less robust. Agricultural prices remain low and thus income in these regions remains weak. Further, regional economies outside the Front Range have smaller concentrations of the industries that are generating the most growth in the current expansion, such as professional and business services, information technology, and finance.

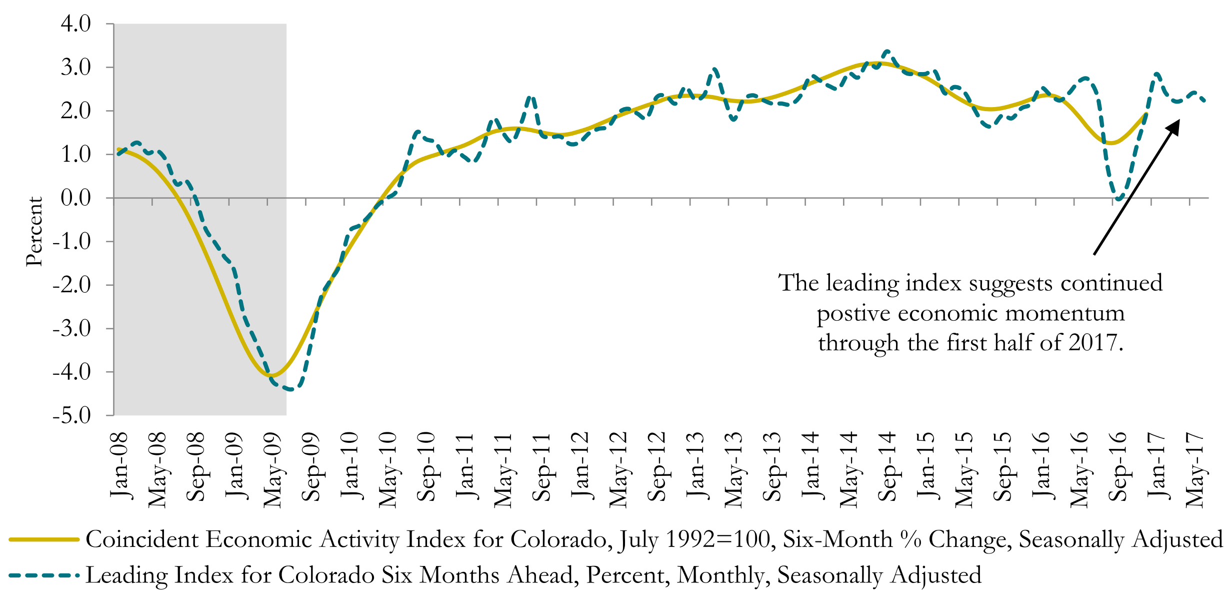
Indices that measure Colorado's overall economy show that economic momentum continues – As shown in Figure 1, the Federal Reserve Bank of Philadelphia's monthly State Coincident Economic Activity Index is showing sustained upward momentum into 2017. The monthly coincident index is one of the most up-to-date broad measures of state economic activity and matches growth in a state's gross domestic product (GDP) over time. It is termed a "coincident" index because it coincides with current economy activity. The index combines four state-level indicators to track current economic conditions − employment, average hours worked in manufacturing, the unemployment rate, and inflation-adjusted wage and salary disbursements.

Another index of economic activity shows that Colorado's economic growth is likely to continue its strong momentum, at least in the near term. The Federal Reserve Bank of Philadelphia's Leading Index for Colorado predicts the growth rate of the state's coincident index six months into the future. Among the activities used to create the index are housing permits, initial unemployment insurance claims, and delivery times from vendors

The state economy's positive momentum is likely to continue in the coming months based on a leading index of economic activity for the state.

to producers. These economic indicators have been found to precede slowing or expansion of the overall economy. Figure 1 shows both Colorado's coincident index and leading index as constructed by the Federal Reserve Bank of Philadelphia. The leading index is shifted six months ahead to demonstrate its reliability in predicting economic activity. The leading index suggests continued economic expansion through the first half of 2017.

Figure 1. Colorado Leading and Coincident Economic Indices



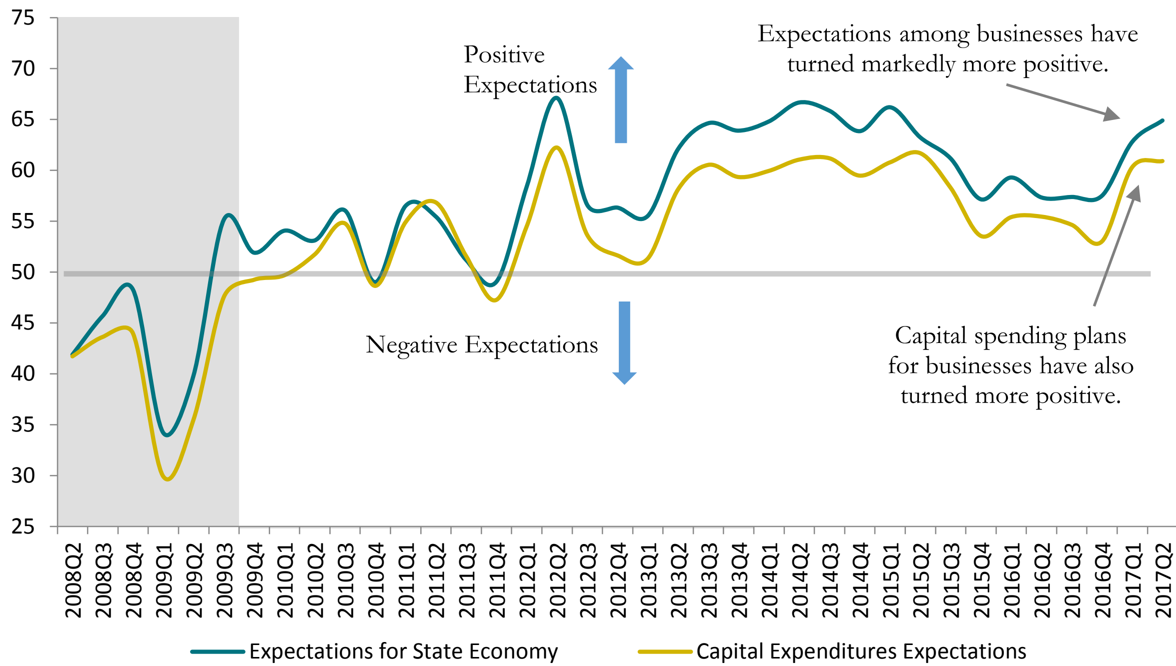
Source: Federal Reserve Bank of Philadelphia

Businesses' expectations for the state economy picked up markedly of late, which will help generate continued economic momentum.

Expectations for the state economy have turned markedly more positive – The Leeds Business Confidence Index, published by the University of Colorado at Boulder's Leeds School of Business, measures business assessments about economic conditions for the upcoming quarter. Figure 2 shows the index for business expectations for both the overall state economy and for capital expenditures since the Great Recession and through the second quarter of 2017.

The indices weakened with slowing economic growth in the state during 2015 and much of 2016. However, as shown, the indices rebounded toward the end of 2016 with higher positive readings above the neutral score of 50. The end of the oil and gas industry's contraction, the abatement of the slowdown in global growth, and expectations for pro-business policies from the federal government have helped boost expectations. Expectations for the economy are a key factor for future performance. When expectations for the economy are positive, businesses are more likely to hire and invest, which then brings about the expected economic growth. Therefore, the recent more positive readings in the index point to continued expansion in the near term.

Figure 2. CU Leeds Business Confidence Index*

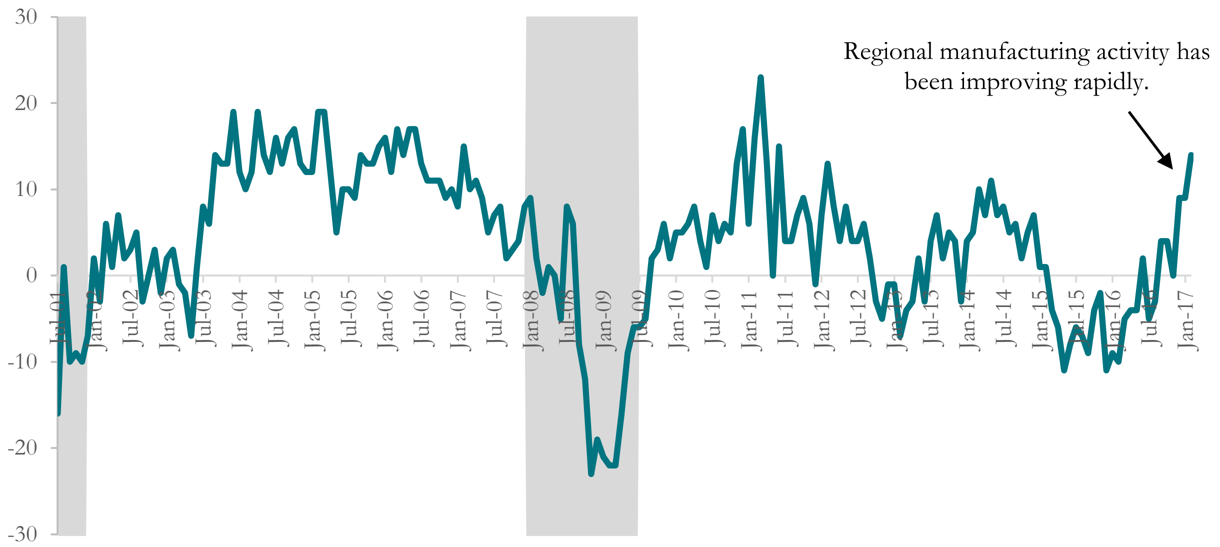


* Readings above 50 indicate positive expectations, with higher readings signifying greater business confidence, while readings below 50 represent negative expectations.
Source: CU Leeds School of Business, Business Research Division

The manufacturing sector in the region that includes Colorado, is showing a marked upturn in momentum – Manufacturing activity has been expanding since fall 2016 as improved expectations for global economic growth and higher oil and gas prices have outweighed the pressure of a strong dollar, which can weigh on exports. According to the Federal Reserve Bank of Kansas City's 10th District Manufacturing Survey, which covers Colorado, expectations for future activity remain high as new orders outpace production capacity, resulting in increasing backlogs of orders.

Manufacturing activity is expanding as energy prices rise and expectations for global economic growth improve.

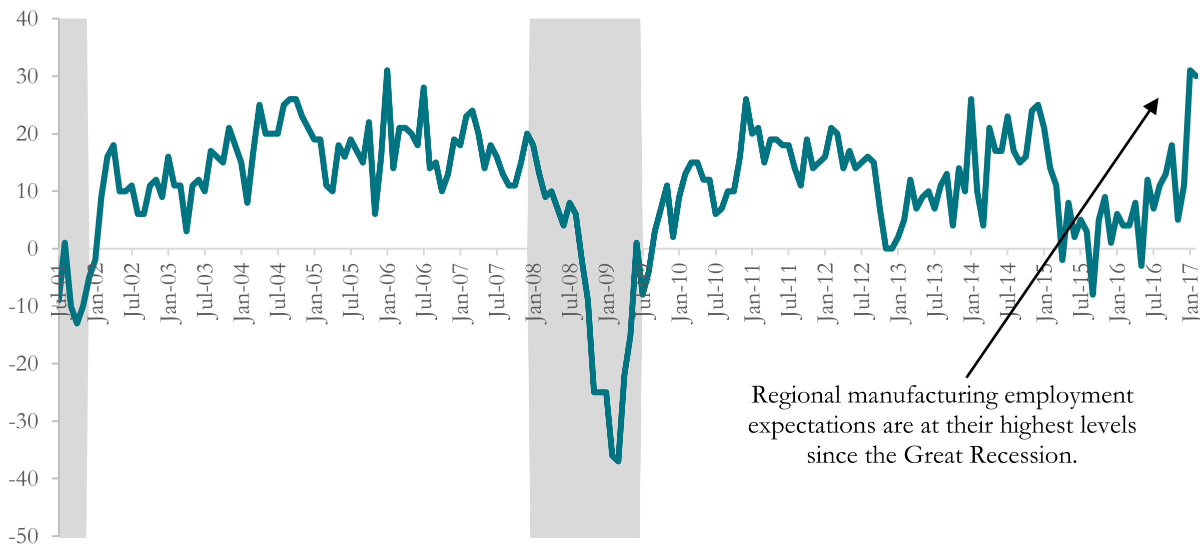
Figure 3. 10th District Manufacturing Survey: Composite Index



Source: Federal Reserve Bank of Kansas City

The manufacturing sector has seen job losses over the last year, but the employment outlook is improving. The Federal Reserve Bank of Kansas City's regional manufacturing survey index also reports that six-month ahead employment expectations in January and February were at their highest levels since 2006, indicating that manufacturers expect to pick up their pace of hiring over the next six months.

Figure 4. 10th District Manufacturing Survey: Number of Employees Expected in Six Months



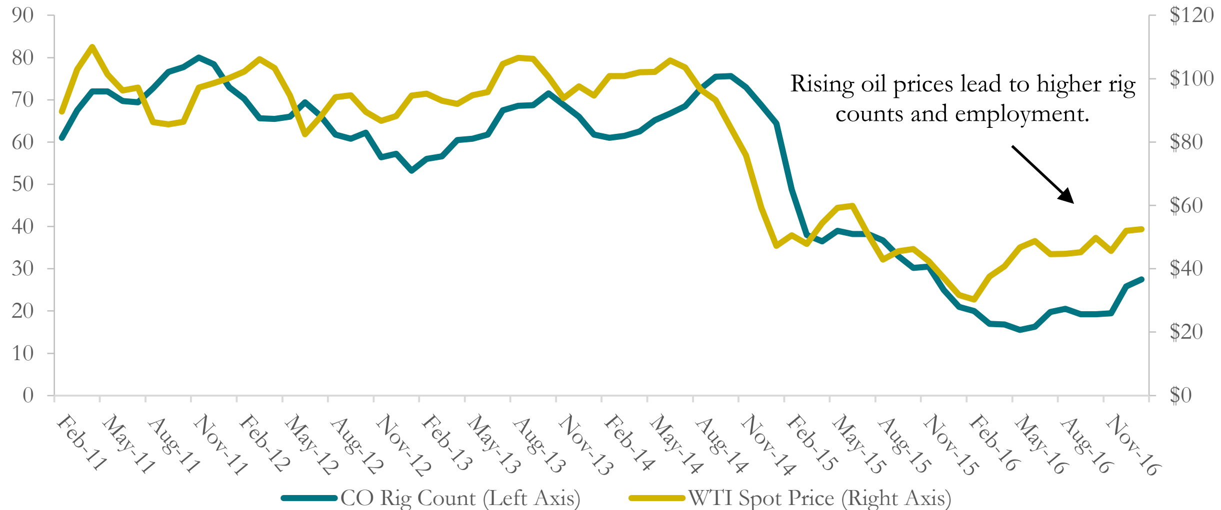
Source: Federal Reserve Bank of Kansas City

Energy industry activity is accelerating as prices rise – Regional oil producers recorded their first profitable quarter in more than two years in the fourth quarter of 2016, according to a survey by the Federal Reserve Bank of Kansas City. Oil prices have remained relatively stable over the last 12 months, rising from lows near $30 per barrel in February 2016 to stabilize between $45 and $55 per barrel, where they have remained since May. Cost-cutting measures and innovations in business practices through technology and engineering during the

U.S. oil producers have become much more efficient, allowing them to remain competitive at lower price levels.

recent industry contraction have enabled U.S. producers to be profitable at lower price levels; on average, regional oil producers can now be profitable with oil prices in the mid-$50's per barrel. Prices in this range allow producers to begin increasing investments and bringing rigs back online. As seen in Figure 5, rig counts are strongly correlated with oil prices, but changes in rig counts lag oil price changes by about three months. Other research indicates that changes in industry employment lag changes in oil prices by about six months, and job losses in Colorado's mining industry seem to be ending as the rig count and oil prices stabilize.

Figure 5. CO Rig Count and Oil Prices



Source: Baker Hughes, U.S. Energy Information Administration

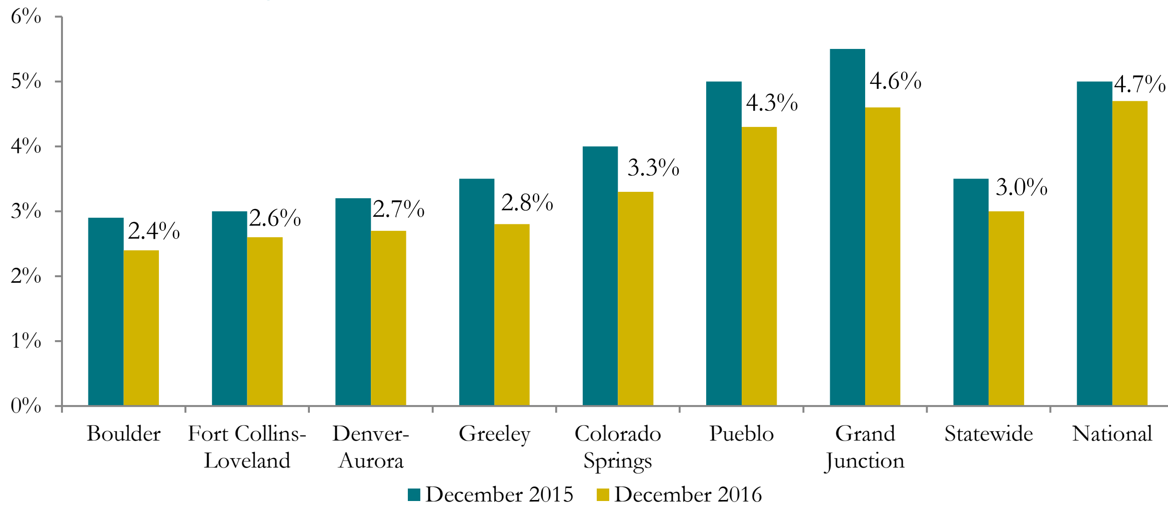
OPEC's production cuts limit supply, but U.S. producers are rapidly filling the gap – OPEC's (the Organization of the Petroleum Exporting Countries) November 2016 agreement to limit oil production has benefited U.S. oil producers, who have expanded production in response to higher prices, driving U.S. oil stockpiles and exports to record levels. Improved technology now allows shale producers to increase production quickly once their break-even prices are reached, with the result that OPEC now has much less influence over the international market. The U.S. Energy Information Administration estimates that global oil inventories fell by almost 1 million barrels per day in February 2017, but higher U.S. production leads them to predict that global supply and demand will be roughly balanced through 2017 and 2018. If OPEC's agreement is not extended, oil prices could fall as global supply will again exceed demand, which would cause U.S. producers to again reduce their activity.

Colorado's labor market remains among the strongest in the nation – Colorado's unemployment rate in January 2017 was the 3rd lowest in the U.S., at 2.9 percent. Several Colorado cities rank highly for labor market conditions, led by Boulder and Fort Collins, which have the 3rd and 4th lowest unemployment rates among all U.S. metro areas, while Denver, at 2.6 percent, had the 2nd lowest unemployment rate among U.S. metro areas with more than 1 million people. While job growth remains slower than the fast pace of 2014, an improved outlook for the energy sector should allow for statewide job growth to accelerate modestly in 2017.

Every metro area in Colorado has an unemployment rate below the national average.

Unemployment is low across the state, but is higher outside the Front Range – As seen in Figure 6, Colorado's low unemployment rate is driven by the metro areas along the Front Range while Grand Junction has the highest unemployment rate of all metro areas in the state. All of Colorado's metro areas had unemployment rates lower than a year ago. One sign of the strength of Colorado's labor market is that every metro area, including Grand Junction, had an unemployment rate below the national average in December 2016.

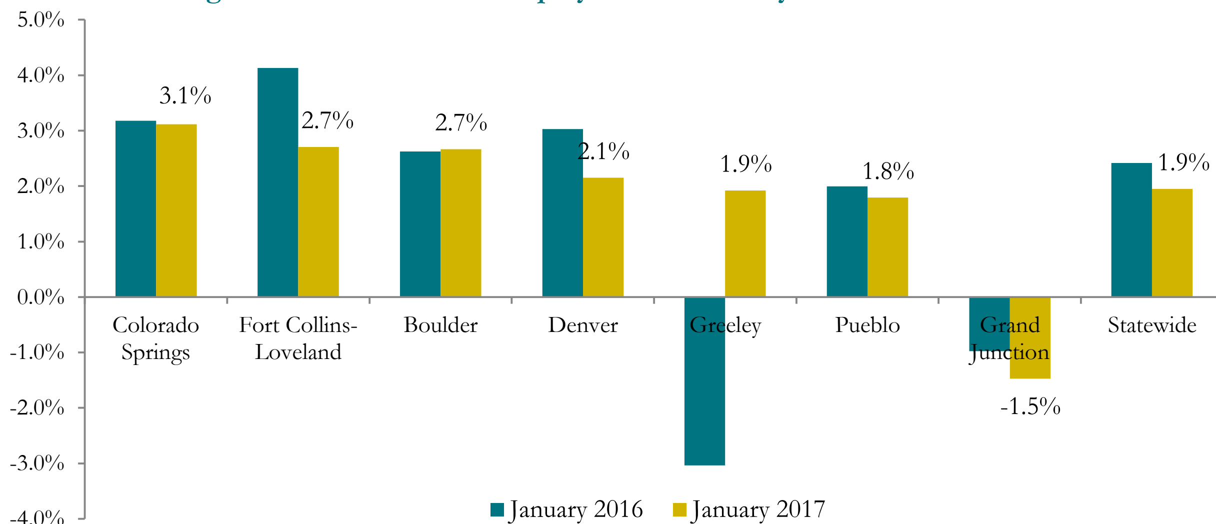
Figure 6. Unemployment Rates by Colorado Metro Area



Source: Bureau of Labor Statistics

After slowing over 2015 and much of 2016, Colorado job growth has stabilized and may be poised to accelerate modestly – Total Colorado nonfarm payroll jobs grew 1.9 percent over the past year. Colorado Springs experienced the fastest growth in the state with a 3.1 percent increase. Grand Junction was the only metro area to experience net job losses with a 1.5 percent decline. Statewide, the 1.9 percent growth rate was lower than the 2.4 percent experienced in the prior year.

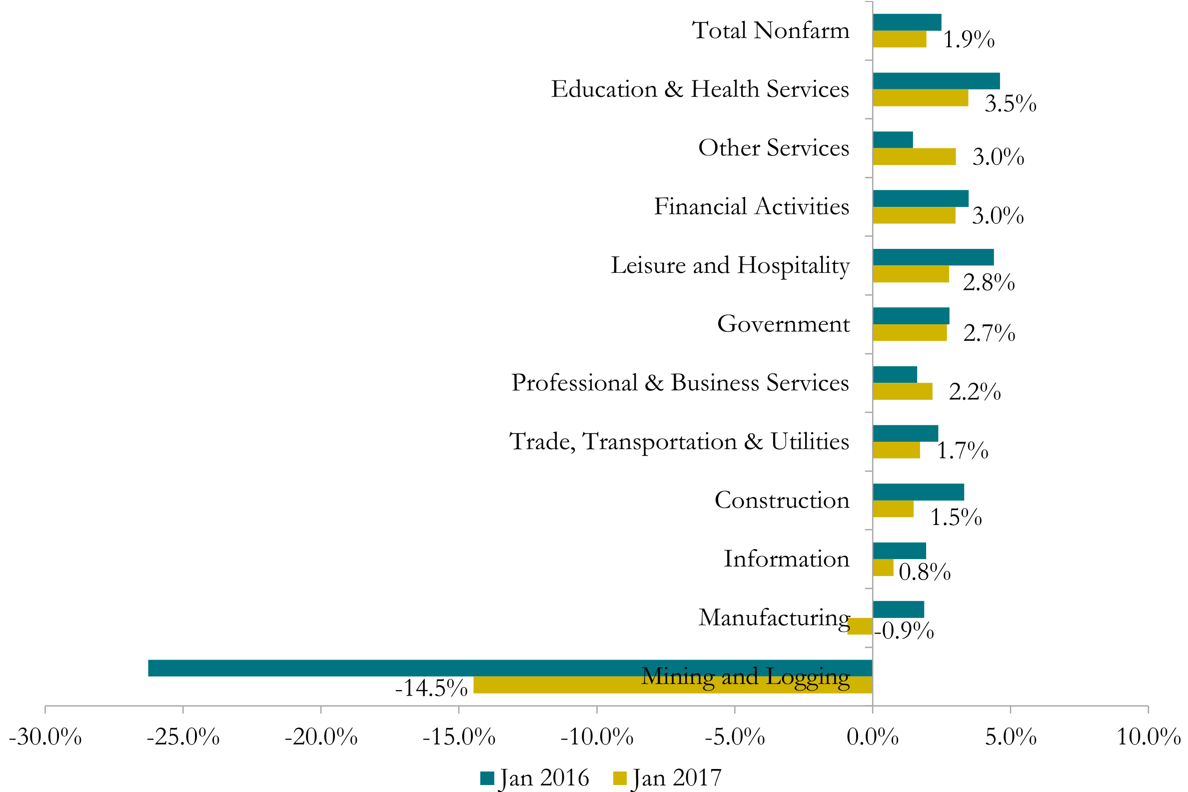
Figure 7. Year-over-Year Employment Growth by Colorado Metro Area



Source: Bureau of Labor Statistics

Job growth slowed across most sectors in 2016, though professional and business services and other services grew at a faster pace than in 2015. Job growth may be poised to accelerate modestly in 2017, however, as the drag on the economy from the downturn in the mining and logging sector (which includes the oil and gas industry) dissipates.

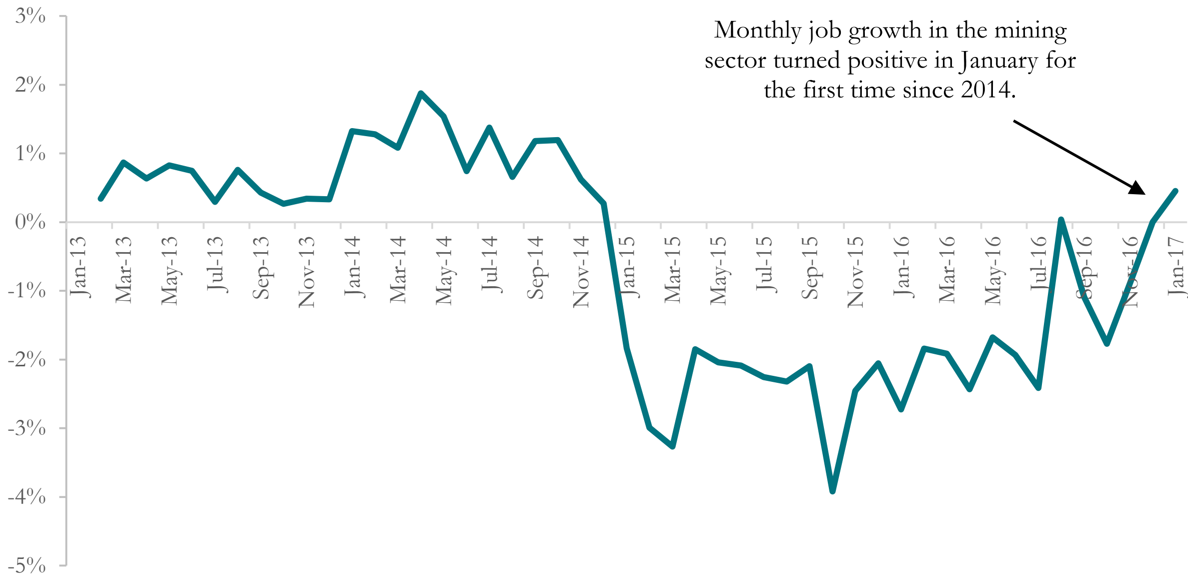
Figure 8. Colorado Year-over-Year Employment Growth by Sector



Source: Bureau of Labor Statistics

The mining and logging sector has been experiencing significant job losses since late 2014 due to the sharp drop in energy prices. As prices have stabilized in recent months, however, job losses have abated; the sector experienced the fastest rate of job growth in January since fall 2014. While a return of robust employment growth in this sector is not expected, the absence of further job losses should provide a boost to job growth both statewide and in regions that are dependent on the sector.

Figure 9. Monthly Job Growth in Colorado Mining and Logging

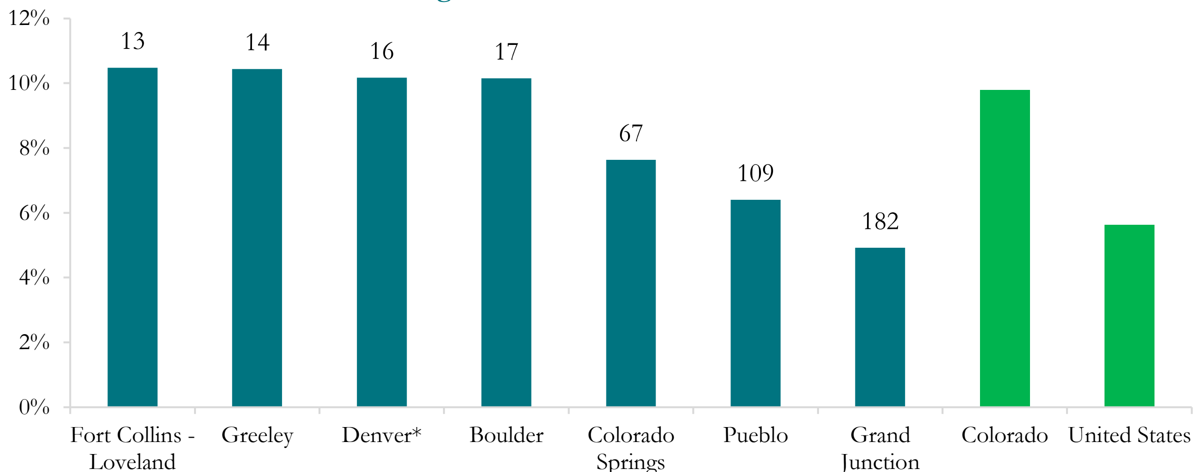


Source: Bureau of Labor Statistics

Colorado home values continue to grow at among the highest rates in the nation — The Federal Housing Finance Agency's House Price Index shows that home values in Colorado grew faster than the national average in 2016. Colorado had four of the top twenty (out of 402) cities for home price appreciation, all in the northern Front Range. Grand Junction was the only metro area in the state to experience home price appreciation less than the national average. Population growth fueled by in-migration, in combination with low housing supply and low mortgage interest rates, have contributed to the high levels of appreciation.

The northern Front Range has four of the top twenty metro areas in the U.S. for home price appreciation.

Figure 10. Home Price Appreciation, Fourth Quarter 2015 to Fourth Quarter 2016, Rank among 402 metro areas shown above bars



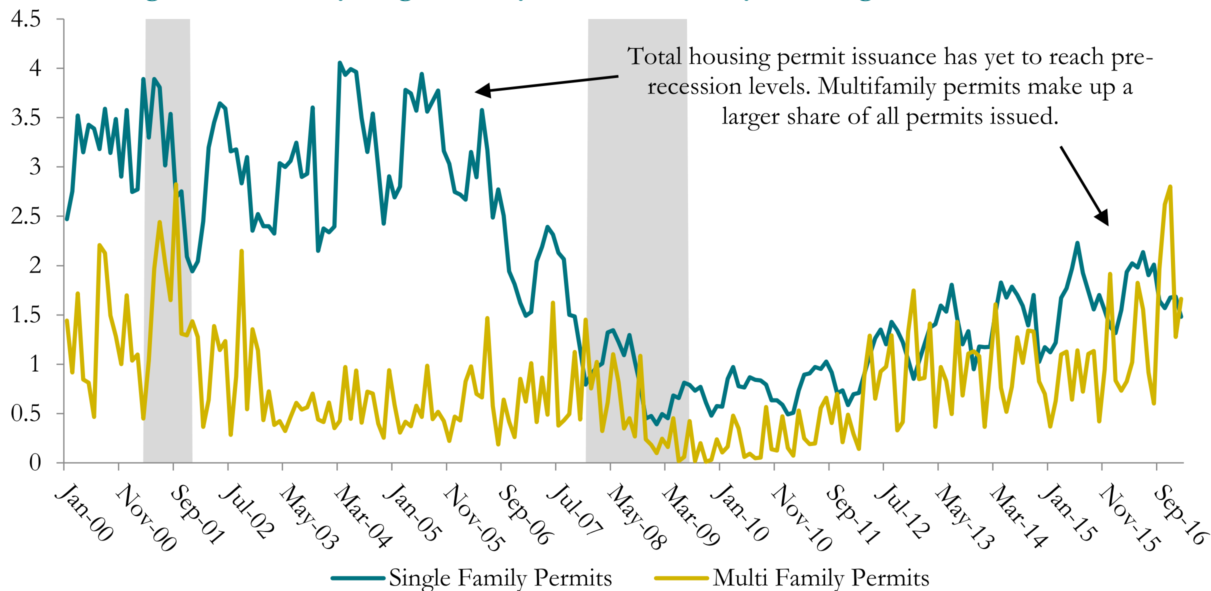
*Includes Aurora and Lakewood
Source: Federal Housing Finance Agency, OSPB calculations

Low housing inventory is an important driver of housing price increases **—** A sharp decline in new housing construction began in 2006 and continued throughout the Great Recession. Construction activity remains well below its pre-2006 levels. Despite low levels of supply, especially for single-family homes, housing construction has been slow to increase in conjunction with home prices. Figure 11 shows housing permits granted to single-family construction as well as multi-family properties.

Housing construction has yet to approach pre-recession levels, despite strong demand.

Many of the workers laid off during the housing bust either retired or found work in other industries, leaving the construction industry with labor shortages and unable to ramp up housing construction. Builders also report higher costs for homebuilding and increased difficulty accessing capital as compared to before the recession.

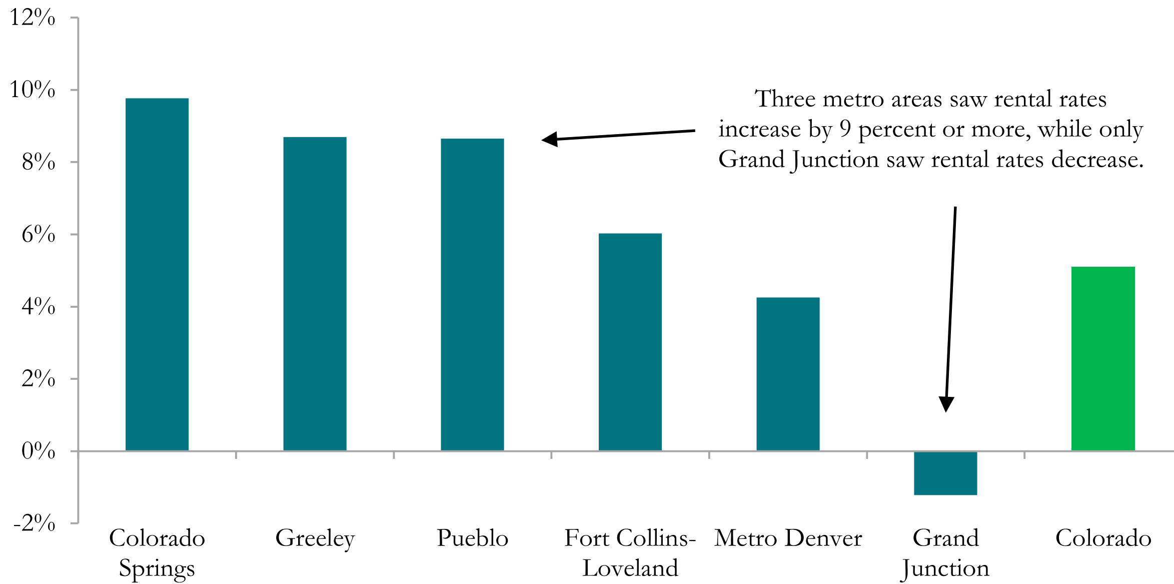
Figure 11. Monthly Single-Family and Multi-Family Housing Permits in Colorado



Source: U.S. Census Bureau, OSPB calculations

Colorado rental rate increases are slowing as new multifamily rental properties come on the market **–** As shown in Figure 12, most metro areas saw rents rise through 2016. The Colorado Springs area saw the greatest increase, while Denver-area rent growth slowed, but remained at the highest level in the state. Rent growth has been slowing due primarily to the large number of multifamily rental properties coming online. Annual rent growth in Colorado fell from 9 percent in the fourth quarter of 2015 to 5 percent in the fourth quarter of 2016. Apartment construction in Denver is expected to peak in early 2018, and thus further downward pressure on rent growth in the metro area is expected in the near term.

Figure 12. Annual Average Rent Increases by Metro Area, Fourth Quarter 2016*



*Boulder is included in the Metro Denver area
Source: Colorado Department of Local Affairs, Apartment Association of Metro Denver, OSPB calculations

U.S. Economic Conditions

The U.S. economy continues to show modest yet uneven improvement — The U.S. economy grew at a rate of 1.6 percent in 2016 compared to 2.6 percent in 2015 and 2.4 percent in 2014. Part of the slowdown in overall economic activity in 2016 can be attributed to the strong dollar effect on industrial production and exports as the U.S. trade deficit increased to its highest level since 2012. Even though economic growth slowed in 2016, the U.S. economy is in its third longest expansion of economic activity since the 1940's. Furthermore, leading economic indicators for 2017 point to increased momentum in the overall economy.

The US economy grew at a 1.6 percent rate in 2016. Leading economic indicators point to a moderate increase in economic growth in 2017.

In February 2017, both business and consumer confidence were near their highest levels in 13 years. In February, manufacturing growth rose to a 30-month high and growth for the services sectors rose to a 16-month high. In January and February employers added jobs at the fastest rates of the last five months, and the labor market has now recorded 77 straight months of positive job growth. However, forecasts of a more robust economy are tempered by U.S. Federal Reserve policy signaling a tightening of monetary policy through multiple increases in the federal funds rate and uncertainty concerning potential new policies on international trade and immigration.

Business contacts across the nation see continued economic growth in 2017—The Federal Reserve beige book survey of business contacts across the nation remained largely unchanged from the November 2016 report with all districts reporting expectations of continued mild to moderate growth in the economy. All districts reported growth in employment with the expectation that labor markets will continue to tighten as the economy approaches full employment. Wage pressures are expected to rise in the coming months while most districts expect modest increases in employment to meet increased demand. Eight of the twelve districts

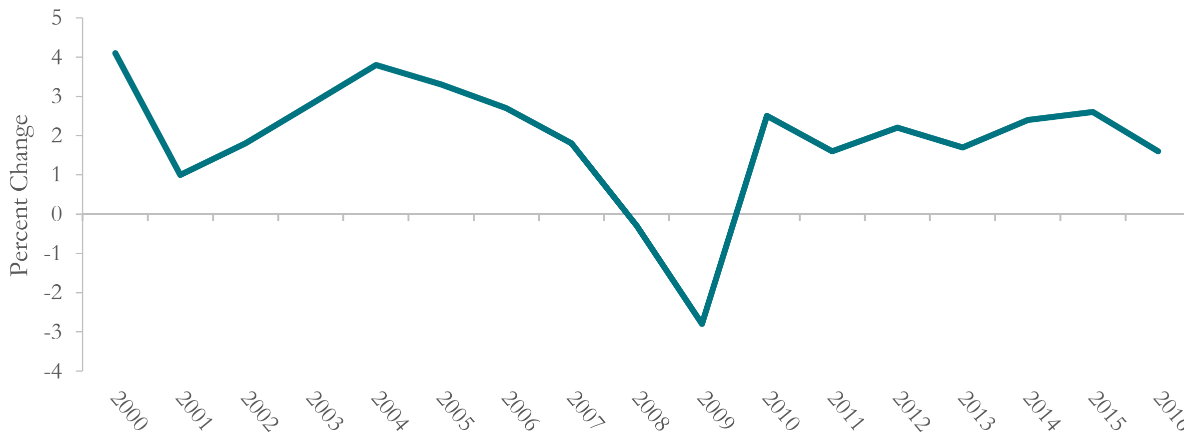
reported rising concern over inflationary pressures as input costs, particularly in the coal, natural gas and construction sectors, outpaced final goods price increases.

***Modest economic growth in 2016*—** Figure 13 shows the year-over-year growth rate in U.S. gross domestic product (GDP) in real, or inflation-adjusted, terms. This indicator is important to monitor as a broad measure of economic activity as it represents the value of goods and services produced in the economy and is a consistent measure of overall economic activity. The 1.6 percent increase in real GDP in 2016 is attributed to increases in most of the major components of GDP. These were offset by decreases in non-residential investment and a worsening trade deficit.

As shown, overall growth has been at a lower level during the current expansion. Changes in demographics along with lower productivity growth are two of the main reasons for the weaker growth.

Despite the recent improvement in economic activity, overall growth remains at a lower level compared with previous expansions.

Figure 13. Year-over-Year Percent Changes in Inflation-Adjusted Gross Domestic Product



Source: Bureau of Economic Analysis

***Other more recent measures of economic activity show more robust improvement*—** The Manufacturing Composite Index and the Non-Manufacturing Composite Index, both published by the Institute for Supply Management (ISM), give an indication of how the overall national economy is performing. The most recent February indices show that both the manufacturing and non-manufacturing sectors continued to expand in the beginning of 2017. These two indices use data collected from business surveys that gauge activity by tracking key behaviors, such as placing new orders, increasing production volume, hiring new employees, and making deliveries.

The ISM non-manufacturing index, which tracks the largest portion of U.S. economic activity, continues to show moderate expansion while the manufacturing index is at its highest level since August of 2014.

The non-manufacturing index, which tracks the largest portion of economic activity in the U.S., covering wide ranging industries such as agriculture, professional, scientific, and technical services, retail, and construction, rose to 57.6 in February, the highest reading since October 2015. The index remains well above the 50 threshold that indicates expansion. Further, the employment component of the

index increased 0.5 percentage points compared to January, reflecting most of the survey respondent's optimism about current business conditions and the trajectory of the overall economy.

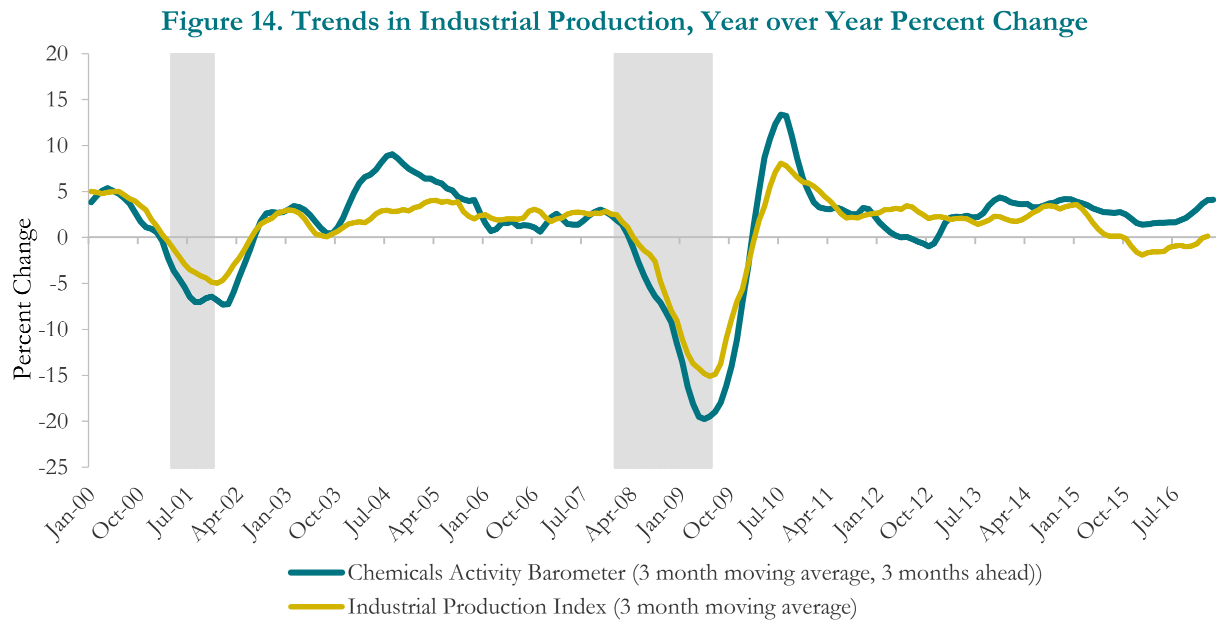
The ISM manufacturing sector index rose to 57.7 in February, the sixth consecutive monthly increase and the highest level since August 2014. Further, the new orders component of the index increased to 65.1, the highest reading since December 2013. Only one industry, furniture and related products, reported a decline in the index in February.

Industrial production weakness is gradually easing **—** The headwinds of global economic weakness, the strong dollar, and low oil prices that have constrained U.S. industrial production in recent years continue to diminish. However, industrial production activity remains sluggish. Total industrial production was down slightly in the first two months of 2017, and Febuary activity was at about the same level as a year ago. Industrial Production is expected to expand in 2017 as manufacturing output ramps up to meet increase demand worldwide and in the U.S.

U.S. industrial production activity remains sluggish, but a leading indicator of the sector shows stronger momentum in 2017.

The Chemical Activity Barometer (CAB) is a leading indicator of industrial activity published by the American Chemistry Council. Conditions in the chemical industry help anticipate the future trajectory of industrial production due to the industry's early position in the industrial supply chain; many chemicals are used in industrial production processes. The CAB is a composite index measured across four primary components: production, equity prices, product prices, and inventories. The CAB continues to post stong gains across all four of the primary components early in 2017; the barometer is up 5.0 percent compared to a year ago, its stongest year-over-year gain since 2010. Figure 14 shows the recent trends in the CAB, as well as its relationship with the industrial production index for the U.S.

Figure 14. Trends in Industrial Production, Year over Year Percent Change



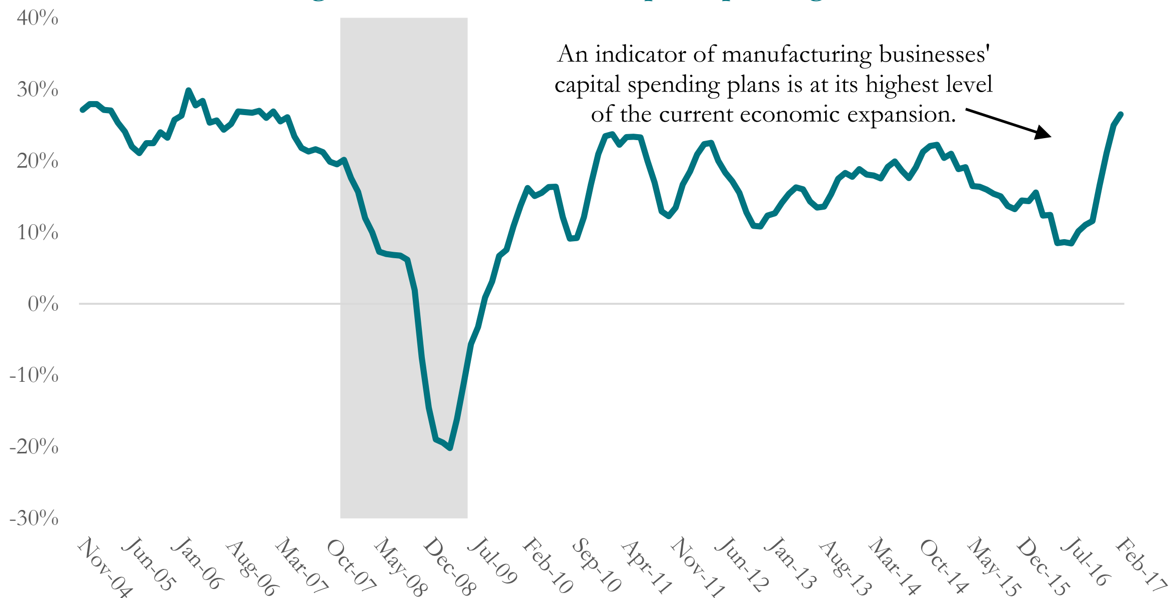
Source: American Chemistry Council, Board of Governors of the Federal Reserve System, and OSPB calculations.

***Business investment has picked up, a positive sign for ongoing economic growth* –** Business spending has picked up due to the end of the oil and gas contraction, stronger manufacturing conditions, and expectations for continued positive economic conditions. Business investment for the U.S. overall has been subdued for much of the current economic expansion. Investment slowed even further over 2015 and into the first part of 2016 with the decline in industrial production. These trends have been an important factor in the U.S. economy's slow growth as business investment enhances the economy's productive capacity. Business spending also signals expectations for future demand. As such, investment can be a reliable indicator of future economic performance. Therefore, recent trends are encouraging.

Business investment looks poised to increase over the next several months, which will support the recent pickup in economic momentum.

Businesses across several industries and regions have indicated they are increasing their capital spending. Business Roundtable, an association of U.S. CEOs, found in a first-quarter survey that 46 percent of CEOs plan to increase capital spending in the next six months while only 13 percent plan to cut back. In addition, analysts predict capital expenditures for companies in the S&P 500 stock index to be at their highest level since 2014. Furthermore, capital spending plans among manufacturing businesses across much of the U.S. are showing the most strength since 2007. Figure 15 shows the capital expenditure plans of manufacturing businesses from several regional surveys by the Federal Reserve.

Figure 15. Manufacturers' Capital Spending Plans*



*Percent of manufacturing businesses reporting that they plan to increase capital expenditures in the next six months minus the percentage reporting plans to decrease expenditures. Not seasonally adjusted, three-month moving average.

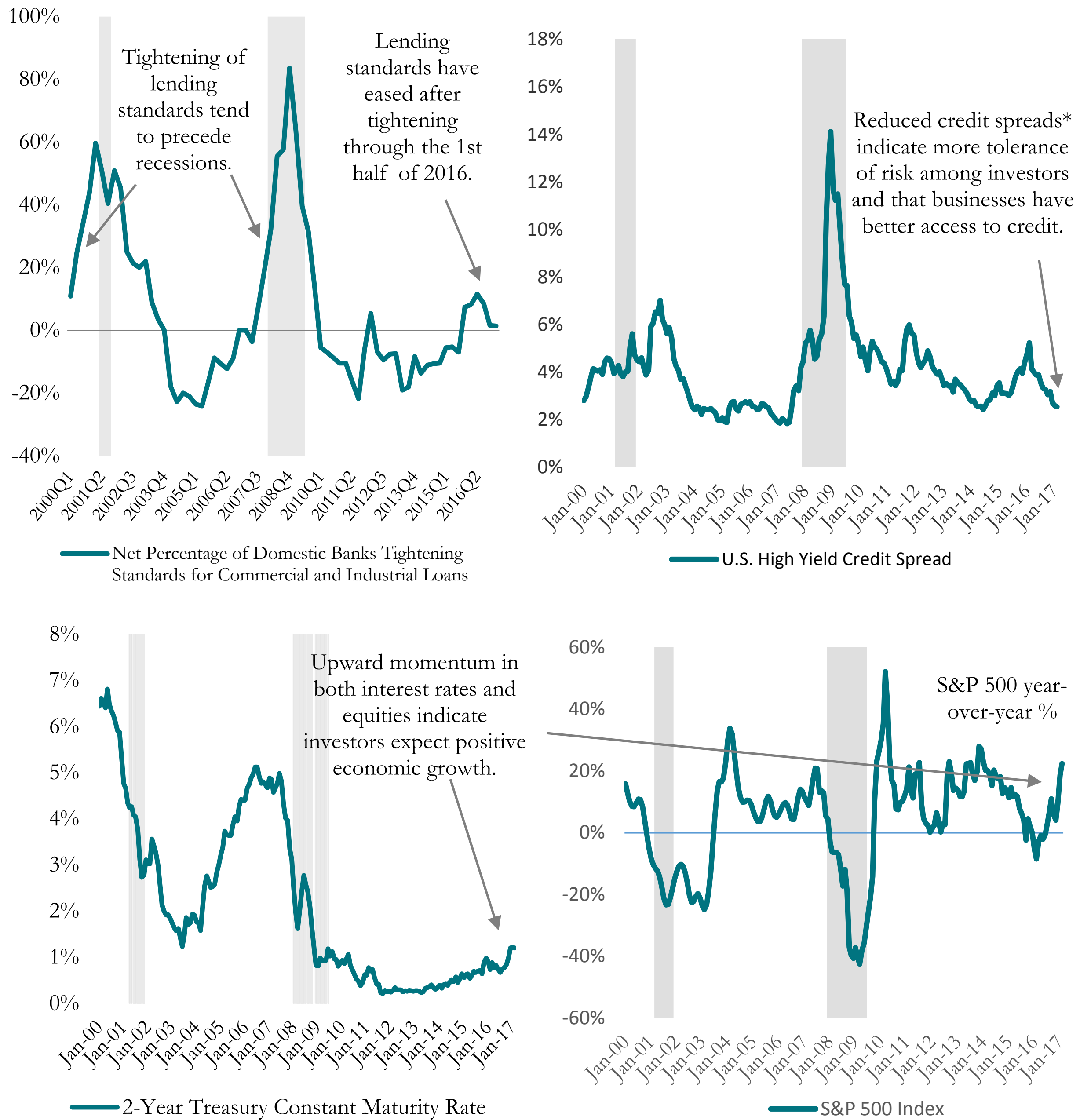
Source: Federal Reserve Banks of Kansas City, New York, Philadelphia, Richmond, and Texas; OSPB calculations

***Financial conditions reflect expectations for sustained economic growth* —** Equity and bond markets, as well as lending conditions, remain generally supportive of economic growth. Financial conditions deteriorated over the course of 2015 and into the first part of 2016 during the recession in industrial production and the slowdown in the global economy. The improvement in financial conditions since that time signals

Financial markets are signaling expectations for continued positive momentum in the economy.

expectations for continued positive economic momentum. Further, it will help sustain economic activity as businesses have better access to funding to meet financing needs for operations and expansion. Figure 16 depicts conditions in the equities and corporate bond markets, as well as trends in interest rates and lending standards among U.S. banks for business loans.

Figure 16. Measures of Financial Conditions



*The U.S. high yield credit spread represents the difference in yields on below investment grade rated corporate debt and yields on U.S. Treasuries.
Source: S&P Dow Jones Indices LLC, Board of Governors of the Federal Reserve System (US), BofA Merrill Lynch

Lending and credit conditions for businesses overall are more positive after tightening over the course of 2015 into the first half of 2016. This indicates that lenders and investors see more positive growth prospects for businesses, which will help fuel continued expansion. Furthermore, the stock market has jumped over the past several months with the accelerating global growth and the end of the declines in industrial production and in corporate earnings.

At the end of 2016, the earnings of companies within the S&P 500 stock market index posted growth in consecutive quarters for the first time since the end of 2014. According to Factset, a financial data and analysis firm, the blended earnings[1] growth for all companies in the S&P 500 was 4.9 percent in the fourth quarter of 2016 compared to a year ago. This was the largest annual growth in corporate earnings since 2011.

At the end of 2016, corporate earnings experienced their first consecutive quarter to quarter increases in two years.

Earnings growth was broad-based across most sectors, with real estate at 15.2 percent, utilities at 13.8 percent, and financial companies at 11.1 percent continuing to post the largest gains. Earnings growth in the energy sector was a positive 4.8 percent, while the industrial and telecom sectors continued to post declines. Generally, investors are bullish and expect company earnings to post larger gains in 2017 with a survey of financial industry analysts projecting earnings growth of 9.8 percent. Expected forward earnings are often a reliable indicator of actual earnings.

Part of the increase in equity values appears to be due to expectations of corporate tax reform, deregulation, and infrastructure spending from both Congress and the new administration that are expected to boost corporate earnings and economic growth. Therefore, policy changes that fall short of expectations may result in a weakening in equity values in the future.

Along with equities, interest rates have also increased due to expectations for increased economic growth and inflation. Although higher rates mean increased borrowing costs for businesses and households, the higher rates also provide more of an incentive for investors to fund investment in the economy, which can help boost growth. The rise in market interest rates is one factor causing the Federal Reserve to further tighten monetary policy by raising its target for the federal funds rate.

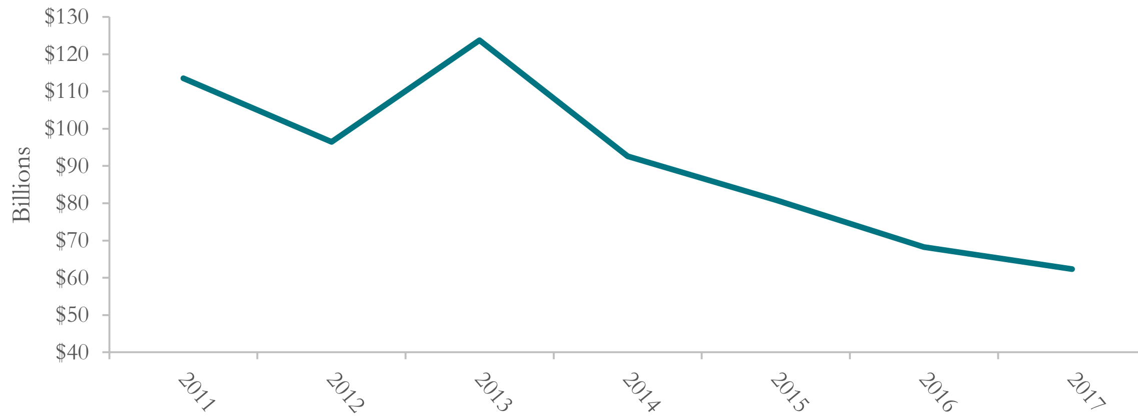
Agricultural markets continue to face difficult times – Agricultural markets continue to face difficulties globally, nationally, and in Colorado as record high amounts of food commodities are being stored. These record stocks are weighing heavily on prices for agricultural products, which saw a decline worldwide of 1.1 percent according to a report by FocusEconomics, a private firm that provides economic analysis and forecasts on the international economy. According to respondents to the Federal Reserve Bank of Kansas City's recent Survey of Agricultural Credit Conditions, only soybeans registered a modest increase in price in 2016 among the major food commodities.

Nationally, falling prices for food commodities and a strong U.S. dollar, which slows exports of agricultural products, have negatively impacted net farm income (cash incomes adjusted for inventory adjustments and depreciation of assets). Farm income has declined since 2013 and is expected to fall another 8.7 percent in 2017 according to a recent United States Department of Agriculture report. This prolonged downturn in the U.S. agricultural sector continues to place financial stress on agricultural borrowers as the volume of new farm loans

[1] Blended earnings includes both the actual earnings of companies and estimated results for companies that have not yet reported actual results.

declined by 40 percent in 2016. This was the largest decline in new farm loans in almost 20 years. Figure 17 shows the decline in net farm income.

Figure 17. U.S. Net Farm Income



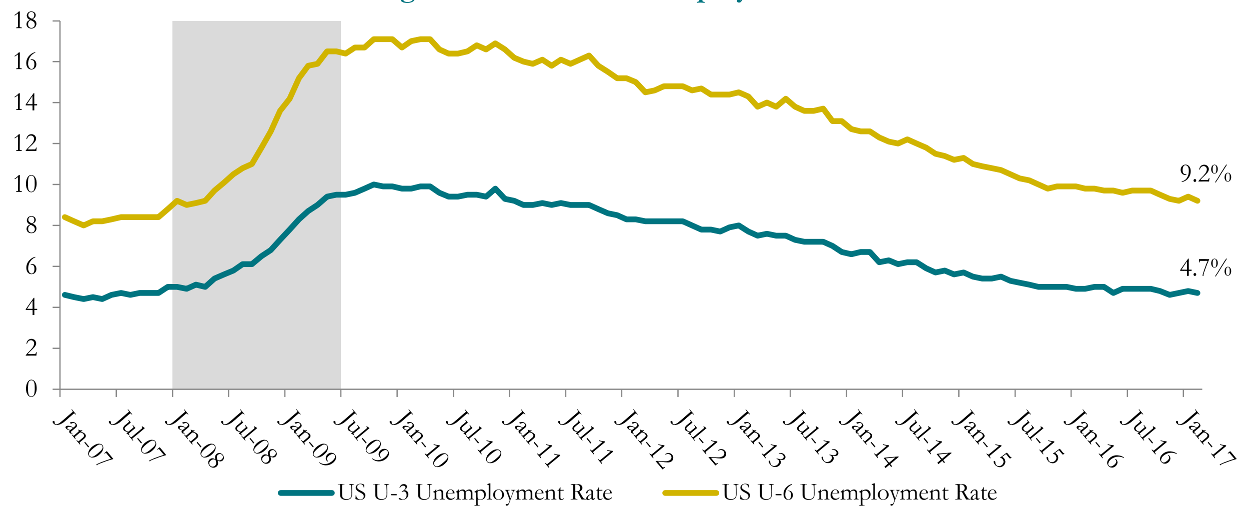
Source: U.S. Department of Agriculture

The U.S. labor market's momentum looks solid as the economy nears full employment – The U.S. labor market remains strong as it continues to add jobs and approach full employment. Monthly job growth has averaged 209,000 over the last three months, a slight increase over the 194,000 and 196,000 averaged over the previous six and twelve months, respectively.

Monthly job growth has averaged nearly 200,000 over the last year, and the unemployment rate has remained at or below 5 percent for 18 months.

The U-3 unemployment rate, the most commonly reported rate that measures the share of people in the labor force looking for work, has remained at or below 5 percent since the fall of 2015. Further, the broader U-6 rate, which also includes workers working part time who would like to work full time as well as discouraged and other marginally attached workers, has remained at or below 10 percent since that time. However, the U-6 rate is still slightly elevated in relation to its level before the Great Recession.

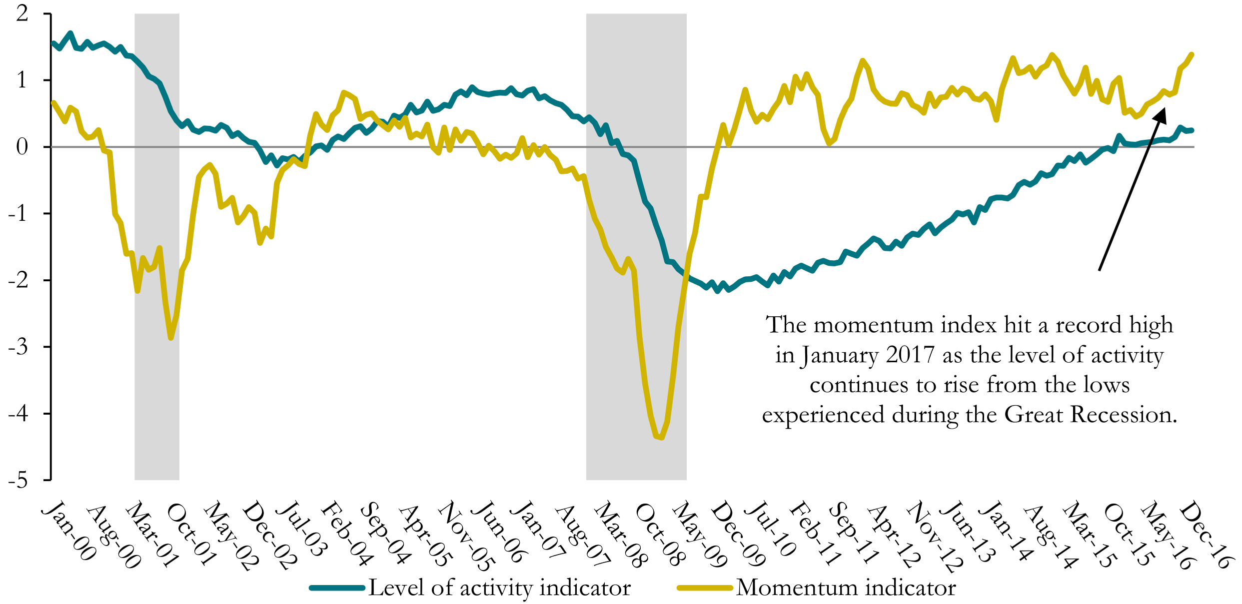
Figure 18. National Unemployment Rates



Source: Bureau of Labor Statistics

The Federal Reserve Bank of Kansas City tracks labor market conditions with a proprietary index measuring both momentum and activity levels. Their analysis shows that labor market momentum has been improving since the spring of 2016 and hit a record high in January 2017, while the level of activity recently surpassed its historical average.

Figure 19. Kansas City Fed Labor Market Conditions Indices

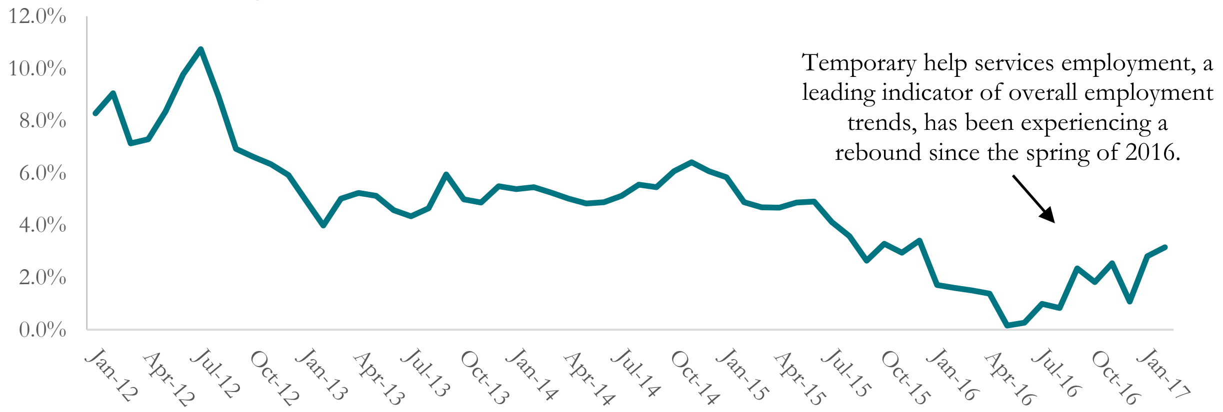


Source: Federal Reserve Bank of Kansas City

Higher rates of hiring of temporary workers signal that the labor market is likely to remain strong.

Changes in the number of temporary workers being hired often serve as a leading indicator for the labor market, as firms find it faster and easier to hire and layoff temporary workers compared with permanent workers. Growth in the number of temporary workers slowed over the course of 2015 and the first part of 2016. However, growth has been accelerating since May 2016, indicating improved strength in the labor market and suggesting that positive momentum is likely to continue into the near future.

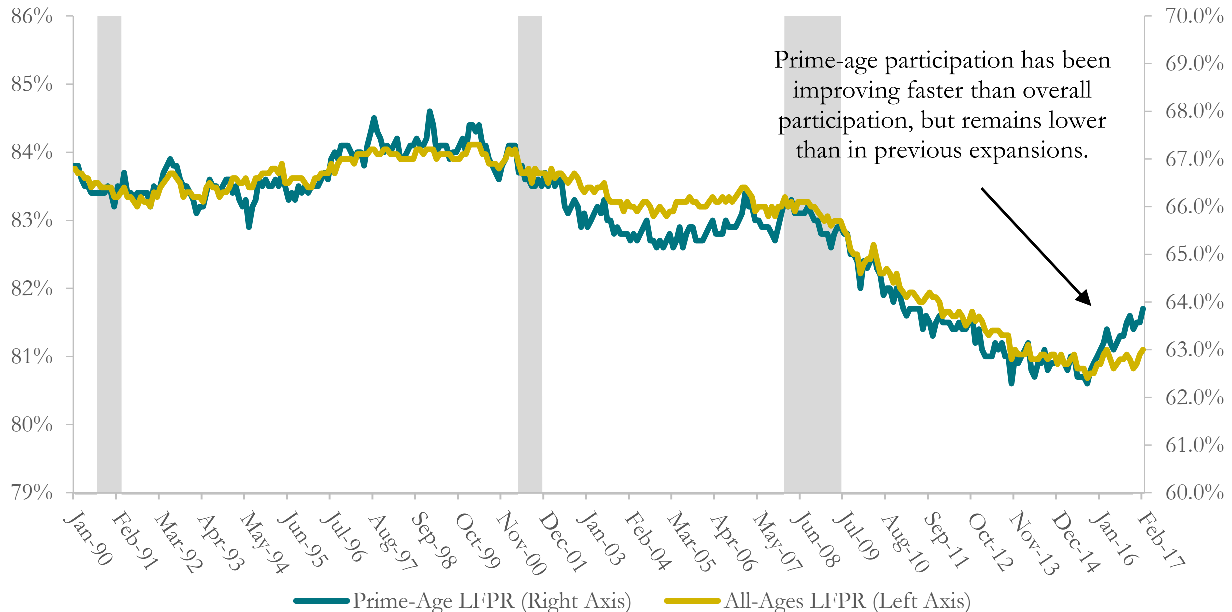
Figure 20. Year-over-Year Growth in Temporary Help Services



Source: Bureau of Labor Statistics

Labor force participation improves despite changing demographics – The strong labor market is attracting more people into the labor force and older workers are delaying retirement. The overall labor force participation rate has remained steady since early 2014. This occurred even as an increasing number of baby boomers dropped out of the labor force. This effect can be seen in Figure 21, which shows the labor force participation rate for all workers as compared to the participation rate for prime-age (25-54 years old) workers. In contrast to the steady participation rate for all workers, the prime-age participation rate has increased by one percentage point over the last 18 months.

Figure 21. Labor Force Participation Rates (LFPR) by Age Group



Source: Bureau of Labor Statistics

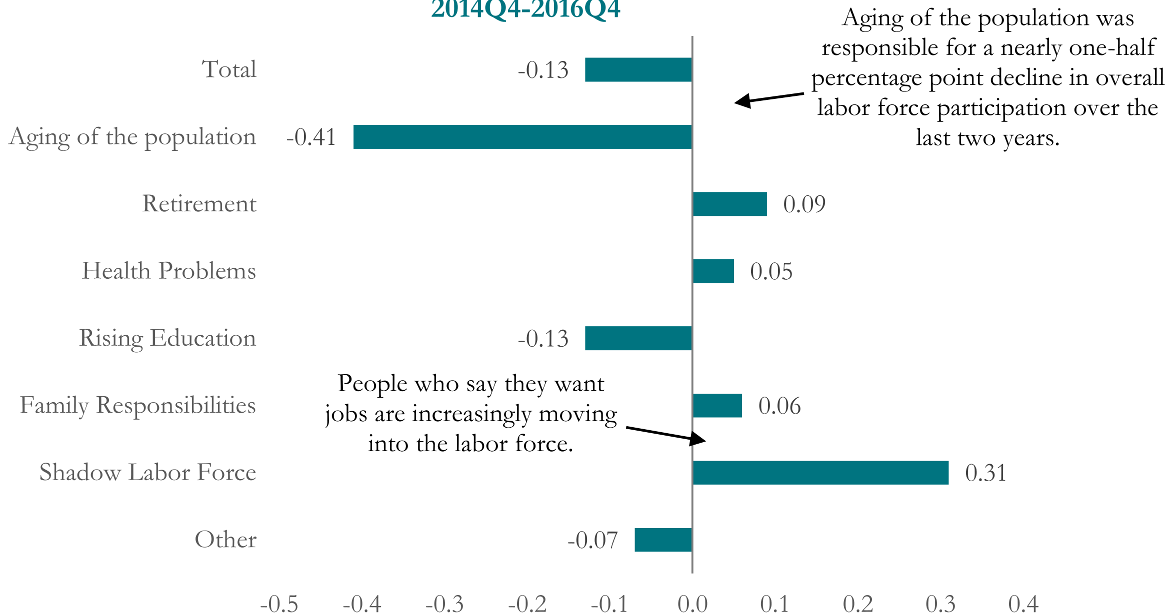
The factors influencing the recent changes in labor force participation can been seen in Figure 22, which shows the change in the labor force participation rate between the fourth quarter of 2014 and the fourth quarter of 2016, broken down by the reasons people gave for not participating.

The largest factor was the aging population, which accounted for nearly half a percentage point reduction in the labor force participation rate. This effect was partially offset by fewer people entering retirement than previously, indicating that some older workers may be re-entering the workforce or remaining in the workforce longer than usual, possibly due to the stronger labor market.

Demographic changes are putting downward pressure on the labor force participation rate as the Baby Boomer generation enters retirement.

The largest factor increasing labor force participation is the decline in the "shadow labor force", which describes people who say that they want a job but have not looked for one in the previous 12 months. People move out of the shadow labor force and into the labor force when they begin applying for jobs.

Figure 22. Changes in Labor Force Participation by Reason given for Non-Participation 2014Q4-2016Q4

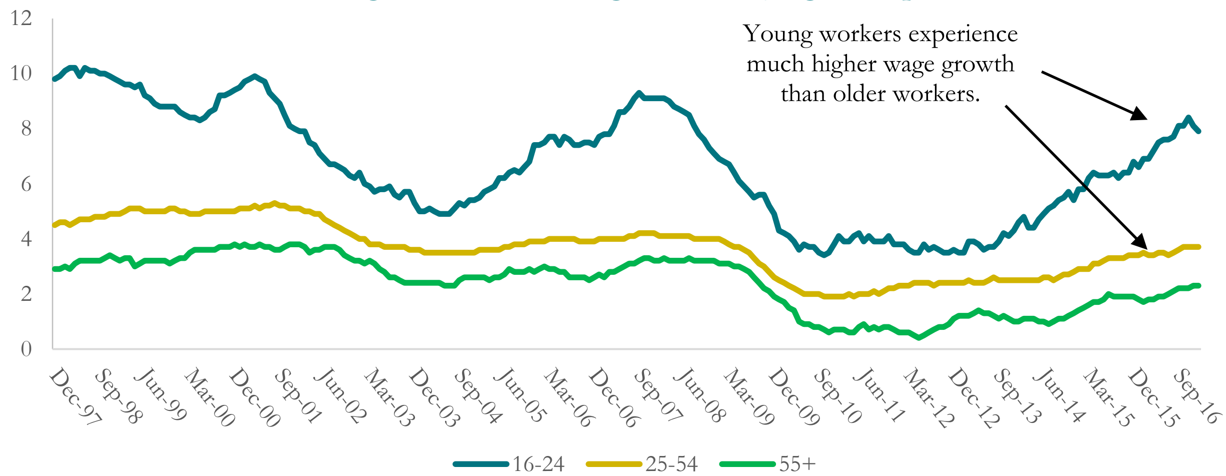


Source: Federal Reserve Bank of Atlanta

Wage growth continues to show slow improvement – Wage growth has continued to rise slowly, indicating a tightening labor market. While the current year-over-year nominal growth rate of 2.8 percent is significantly lower than the 3.6 percent high during the last expansion, there are some signs that this may be consistent with full employment given the aging workforce. As shown in Figure 23, older workers tend to see much smaller wage increases than younger workers. Therefore, because older workers now comprise a larger portion of the labor market, overall wage growth is lower even though wage growth for each demographic group is closer to levels seen in previous expansions. Given the current positive momentum in the labor market, continued wage growth can be expected over the coming months.

Wage growth remains slower than in previous expansions, but this is partly explained by the aging population.

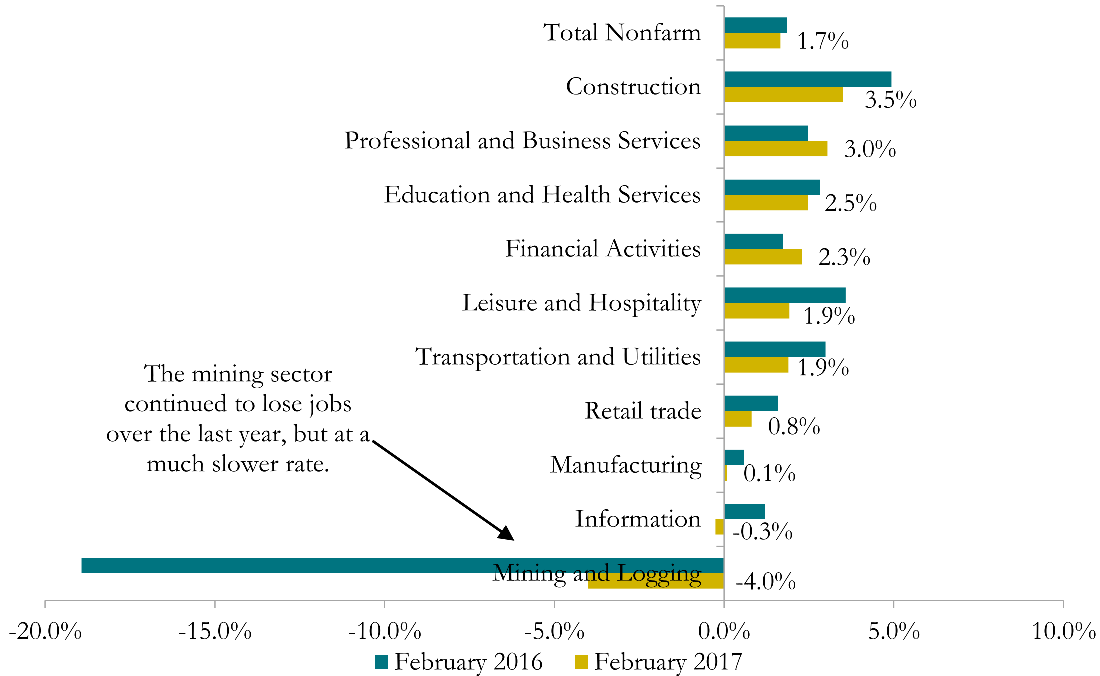
Figure 23. Annual Wage Growth by Age Group



Source: Federal Reserve Bank of Atlanta

Job growth continues across sectors, but at a slower rate – Nationally, year-over-year job growth has slowed in most sectors. The professional and business services sector has seen the most job growth with 597,000 jobs added (3.0 percent). Job losses in the mining and logging sector, at 30,000, have slowed significantly from the year before, when 165,000 jobs were lost, and the sector has added jobs in recent months. Overall, the nation added more than 2.3 million jobs over the past year, equal to 1.7 percent job growth.

Figure 24. National Year-Over-Year Job Growth by Sector



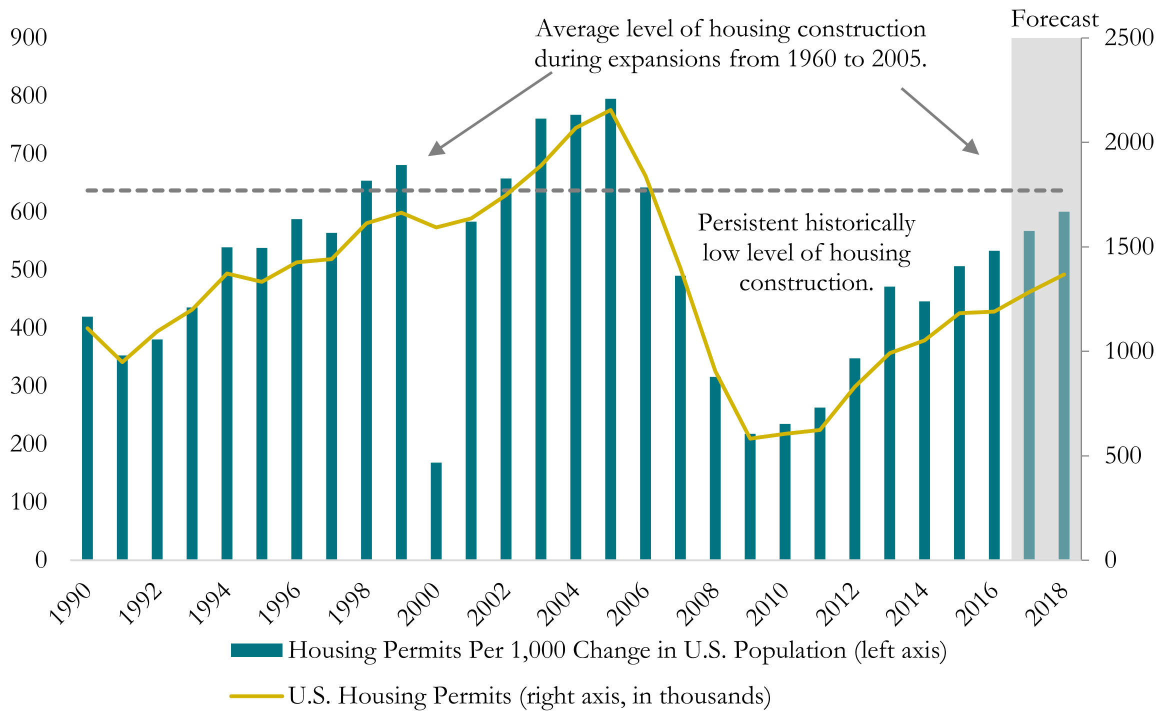
Source: Bureau of Labor Statistics

Housing market activity for the U.S. is increasing gradually, with construction activity remaining at subdued levels — The sustained improvement in the nation's labor market is generating growth in home sales nationally. U.S. new home sales have generally been on an upward trend since 2015, while existing homes sales in the fourth quarter of 2016 surpassed the pre-recession peak in of 2007. The housing market is expected to continue to expand as homebuilders add inventory based on expectations for growing demand. However, the homeownership rate remains historically low, and the relatively low level of housing inventory and homebuilding will constrain housing market activity. Unsold inventory was at a 5.2-month supply in January 2017, while a six-month supply is considered to be a balanced market.

The sustained improvement in the nation's labor market is generating increasing housing market activity, though new housing construction remains at historically low levels.

The number of housing permits authorized nationwide was up 8.2 percent in January 2017 compared to the previous year as homebuilders respond to the increased demand for housing. However, labor shortages, higher building costs, tighter financing for housing development, and restrictive land use policies in some areas are constraining home construction. Single-family housing completions in January were 0.9 percent below completions from a year earlier. The historically low level of new housing construction — both in overall levels and in relation to population growth — is illustrated in Figure 25.

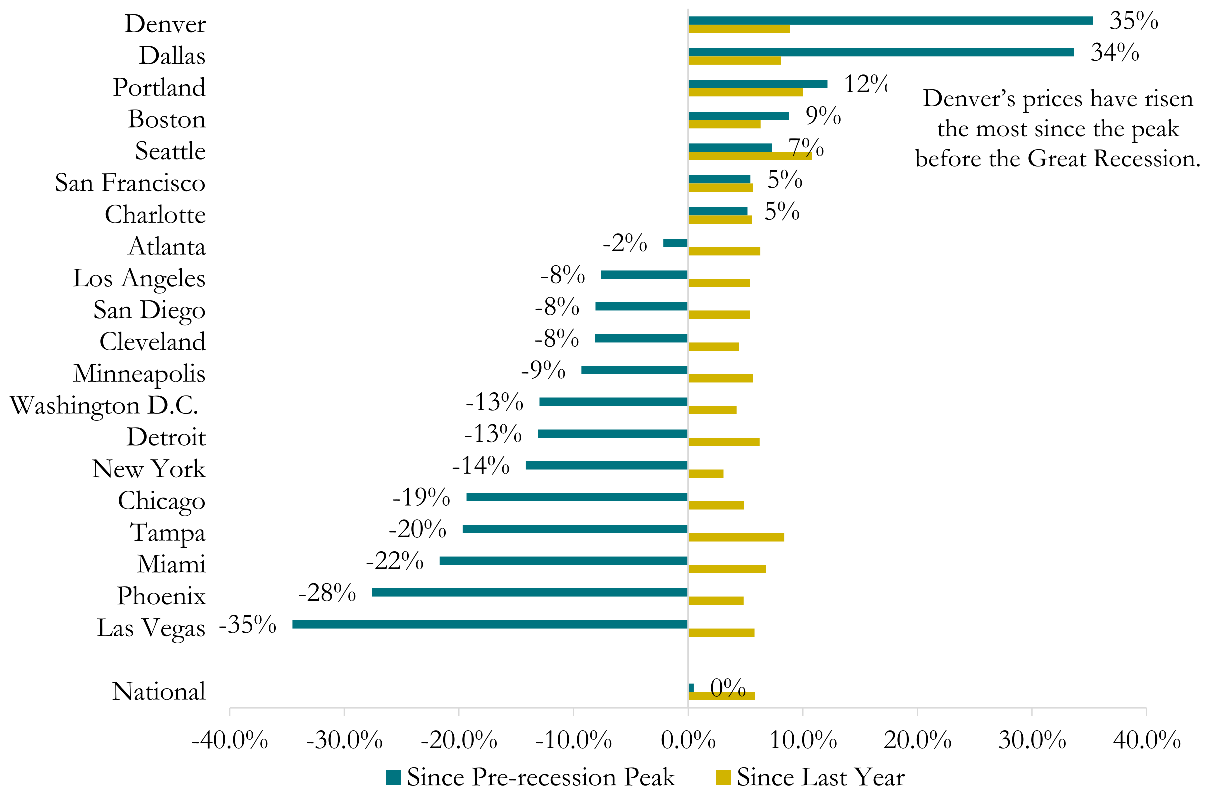
Figure 25. Trends in U.S. Housing Permits



Source: U.S. Census Bureau, State Demography Office, OSPB calculations and forecast

***Home price gains vary widely, with prices in many areas remaining well below their pre-recession peaks* —** The S&P CoreLogic Case-Shiller National Home Price Index reported a 5.8 percent increase in housing prices nationally in December of 2016. Although housing prices were up, Figure 26 shows that most of the nation's largest cities' home prices remain below pre-recession levels. Notably, prices in Las Vegas, Phoenix, Tampa Bay, Miami, and Chicago are still well below their prior peaks. These areas generally had a much larger housing boom and bust than other cities. The areas with the largest gains in home prices are those with the strongest economic growth and in migration, such as Dallas, Denver, Portland, and Seattle. Denver home prices have surpassed their pre-recession levels by the largest amount out of the 20 largest cities that the home price index tracks.

Figure 26. Percent Change in Home Prices, December 2016



Source: S&P Dow Jones Indices

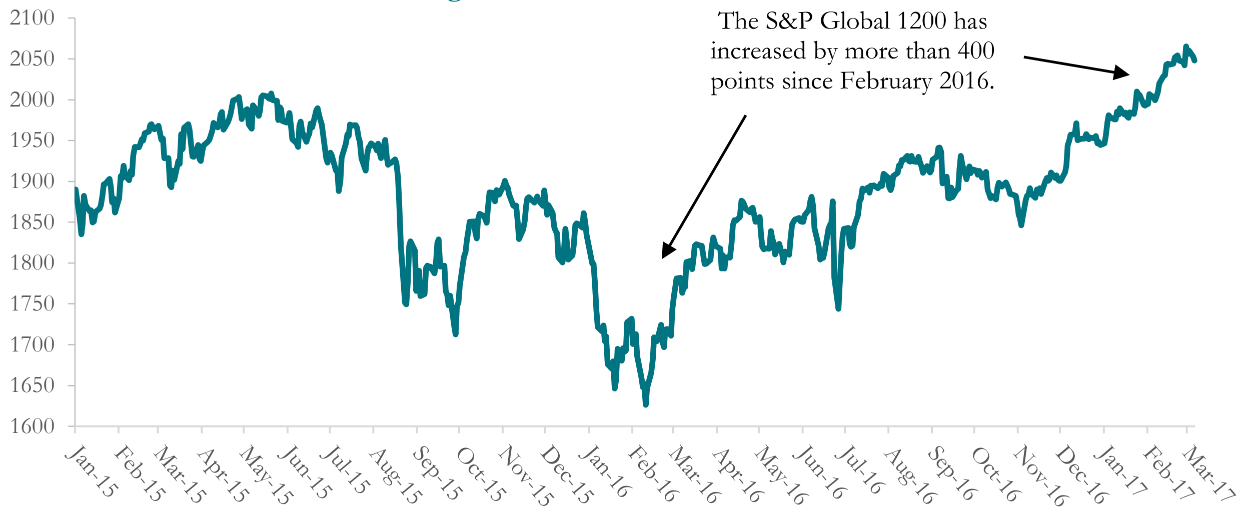
International Economic Conditions

Global economic conditions continue to improve **–** The global economy has been strengthening since mid-2016, and this higher growth rate is expected to continue. According to the Goldman Sachs Current Activity Indicator, global economic growth has accelerated from a low of about 2.5 percent growth in early 2016 to its current level of 4.0 percent growth, mostly due to a rebound in global manufacturing.

Global manufacturing activity has rebounded in recent months, leading global economic growth to increase by 1.5 percentage points.

Many indicators show an improving global economy, including the JP Morgan Global PMI (Purchasing Managers Index), which hit a 22-month high in January 2017, and the S&P Global 1200, a financial index which captures about 70 percent of global market capitalization, has risen by nearly 20 percent over the last year, as seen in Figure 27.

Figure 27. S&P Global 1200 Index

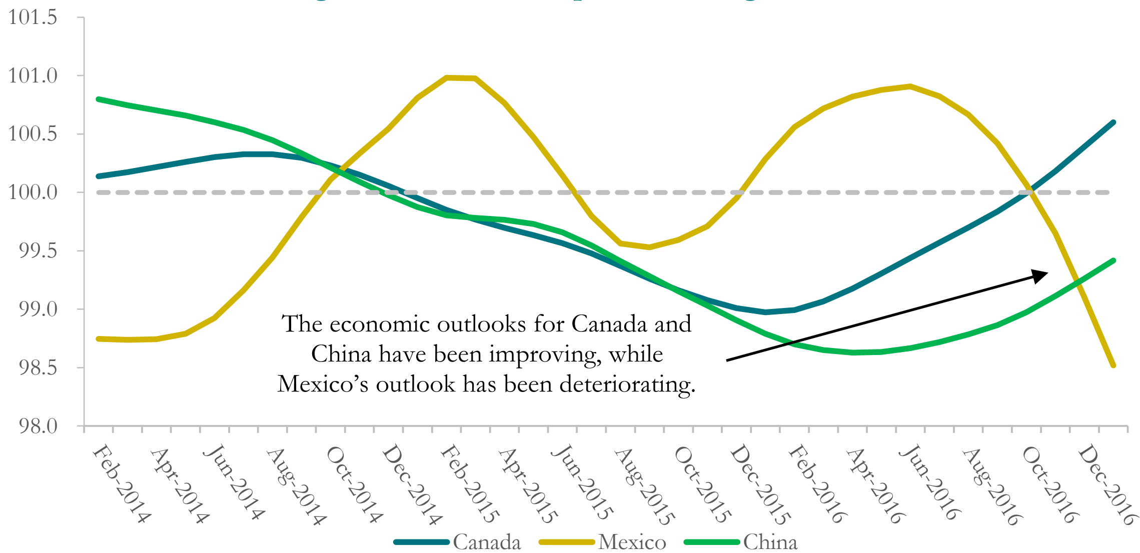


Source: S&P Dow Jones

Improved economic conditions are leading to increased trade momentum, but policy uncertainty remains – Globally, total export values declined from late 2014 through late 2016 due to the weak global economy, the decline in energy prices, the slowdown in China, and the strong U.S. dollar. As these factors have improved or stabilized, total trade values returned to growth on a year-over-year basis in November 2016, according to data from the World Trade Organization. This growth is expected to continue in the near future due to higher energy prices and global growth.

Colorado's export outlook is more mixed due to the mixed economic outlook for the state's largest trading partners. The economic outlooks for Canada and China, Colorado's largest and third-largest trading partners, have improved since early 2016, while the outlook for Mexico, the state's second-largest trading partner, has deteriorated, as seen in Figure 28.

Figure 28. OECD Composite Leading Indicators



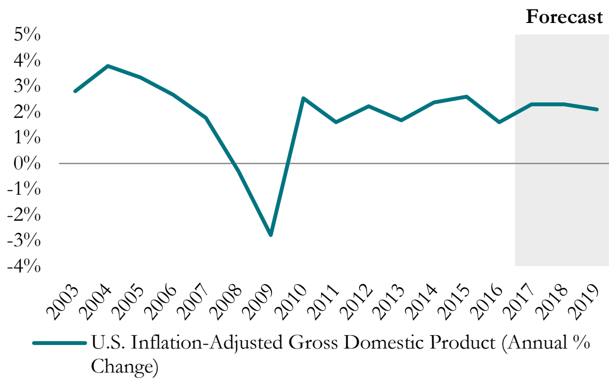
Source: Organisation for Economic Co-operation and Development

Colorado's most export-dependent industries are agriculture, manufacturing, and natural gas.

The direction of U.S. trade policy is also highly uncertain at this time, as the new administration has signaled a desire to raise tariffs and renegotiate the North American Free Trade Agreement (NAFTA). Higher tariffs on imports would likely lead to retaliation by trading partners, which could reduce exports. In Colorado, the agriculture, manufacturing, and natural gas industries are the most export-dependent industries. While Colorado natural gas producers do not export directly to Mexico, the country imports significant amounts of U.S. natural gas. If exports to Mexico are reduced, the excess supply will cause U.S. natural gas prices to fall.

Summary of Key Economic Indicators
Actual and Forecast

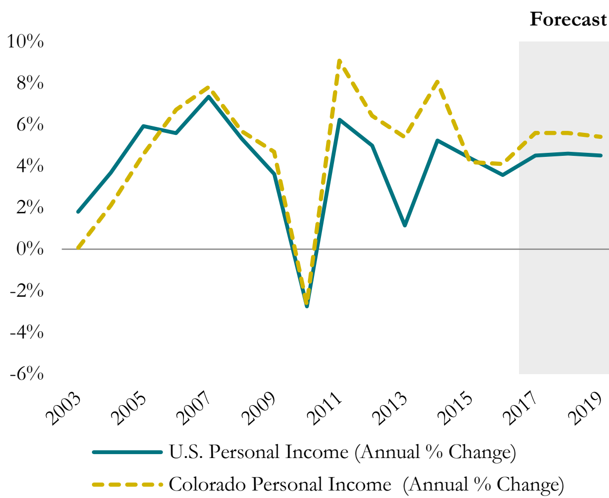
U.S. Gross Domestic Product (GDP)



GDP is a barometer for the economy's overall performance and reflects the value of final output produced in the U.S.

The U.S. economy posted a modest expansion of 1.6 percent in 2016 in the face of slow global growth. The pace of growth will increase to 2.3 percent in 2017 and 2018.

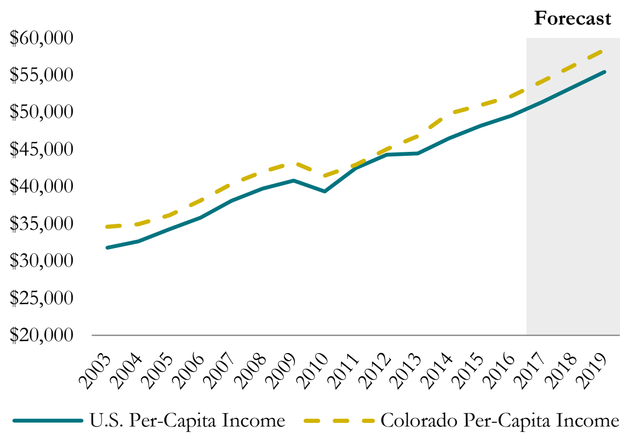
U.S. and Colorado Personal Income



Personal income growth in Colorado slowed to 4.1 percent growth in 2016 from a 4.2 percent rate in 2015 largely due to slowing employment growth, especially in the oil and gas industry. Personal income growth will rebound in 2017 as the energy sector continues to recover; statewide income growth will increase by 5.6 percent in both 2017 and 2018.

Nationwide, personal income growth increased 3.6 percent in 2016, and will grow 4.5 percent in 2017. A tighter labor market and gradual wage increases will help boost personal income growth through the rest of the forecast period.

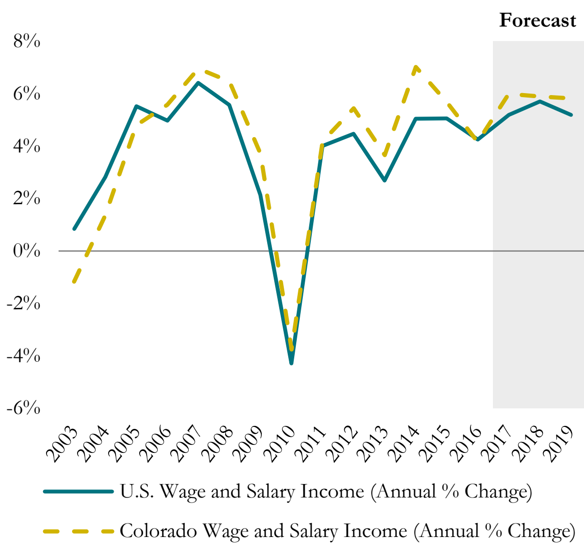
U.S. and Colorado Per-Capita Income



Per-capita income in Colorado increased to $52,182 in 2016 and will grow by 3.8 percent to $54,180 in 2017.

In the U.S., per-capita income increased to $49,553 in 2016 and will grow by 3.8 percent to $51,431 in 2017.

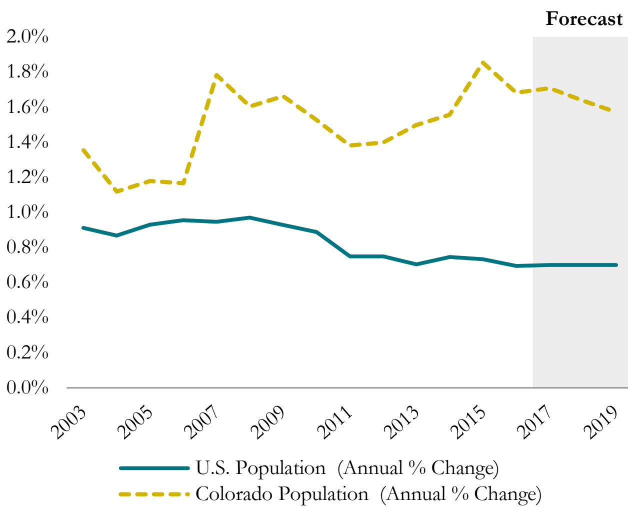
U.S. and Colorado Wage and Salary Income



Wage and salary growth in Colorado moderated in 2016 to 4.2 percent growth, largely due to the loss of relatively high-paying oil and gas jobs. Growth will recover in 2017 to a 6.0 percent increase, but will moderate slightly to a 5.9 percent increase in 2018.

Wage and salary income for the nation increased 4.3 percent in 2016. Continued employment growth and the recovery in the industrial sector will result in wages and salary growth of 5.2 percent in 2017. Growth in wage levels will accelerate to 5.7 percent in 2018.

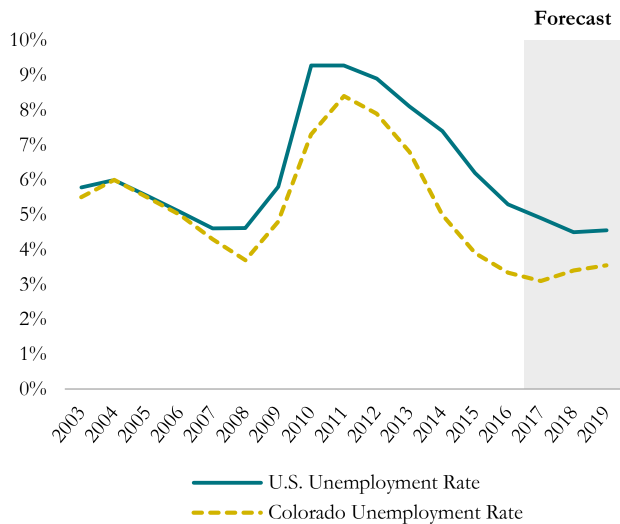
U.S. and Colorado Population



Relatively high in-migration rates pushed Colorado's population growth rate to 1.7 percent in 2016, over double the national rate. A similar trend will continue in 2017, as the state is expected to add 64,000 people through net migration alone. The state's total population is expected to reach 5.82 million by 2019.

The nation's population growth rate will remain steady at about 0.7 percent per year, and the population will reach 330.0 million by 2019.

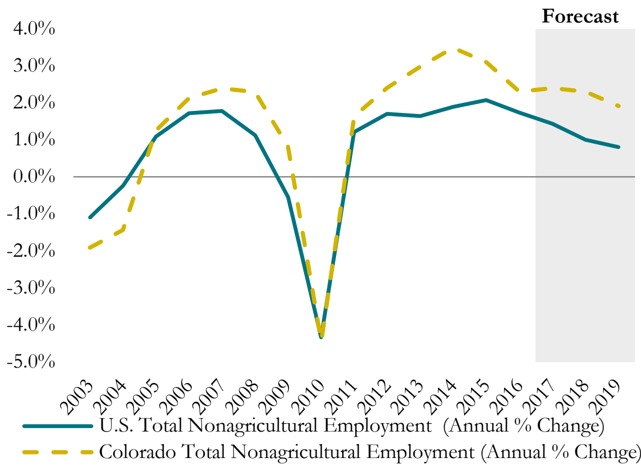
U.S. and Colorado Unemployment



The unemployment rate in Colorado averaged 3.3 percent in 2016, down over 1.5 percentage points from 2014 despite the oil and gas slowdown. Unemployment is expected to average 3.1 percent in 2017 and increase slightly to 3.4 percent in 2018.

The national unemployment rate followed a similar trend in 2016, but remained more than 1.5 percentage points higher than in Colorado, averaging 4.9 percent in 2016. Continued improvements in the labor market will cause the rate to drop to 4.6 percent in 2017 and 4.5 percent in 2018.

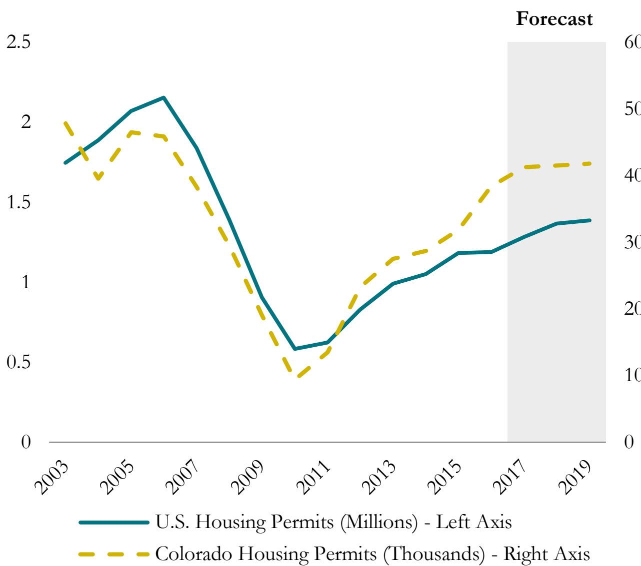
U.S. and Colorado Total Nonagricultural Employment



Average employment in Colorado grew 2.2 percent in 2016, slightly lower than in 2015. Job growth will increase 2.4 percent in 2017 as the energy sector no longer weighs on growth, before moderating in 2018.

Similar to Colorado, the growth rate of U.S. nonfarm payroll jobs slowed in 2016. Job growth will continue to slow nationwide due to the aging population and as the labor market approaches full employment; OSPB forecasts an increase of 1.4 percent in 2017 and 1.0 percent in 2018.

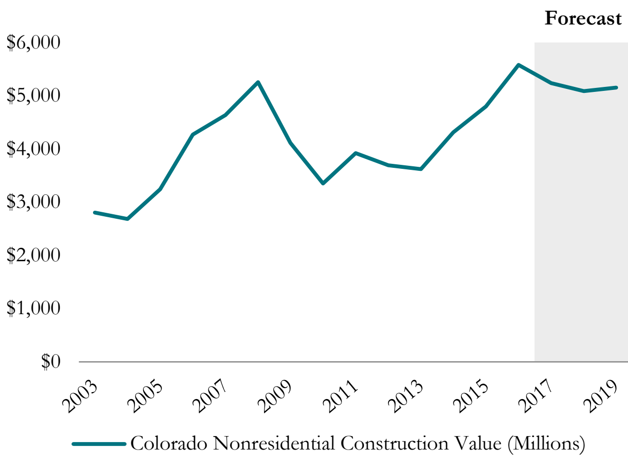
U.S. and Colorado Housing Permits Issued



In 2016, Colorado housing permits increased 20.5 percent, when 38,400 permits were issued; 41,300 permits are projected for 2017. The increases continue to be driven by population growth and strength in the state's metro economies.

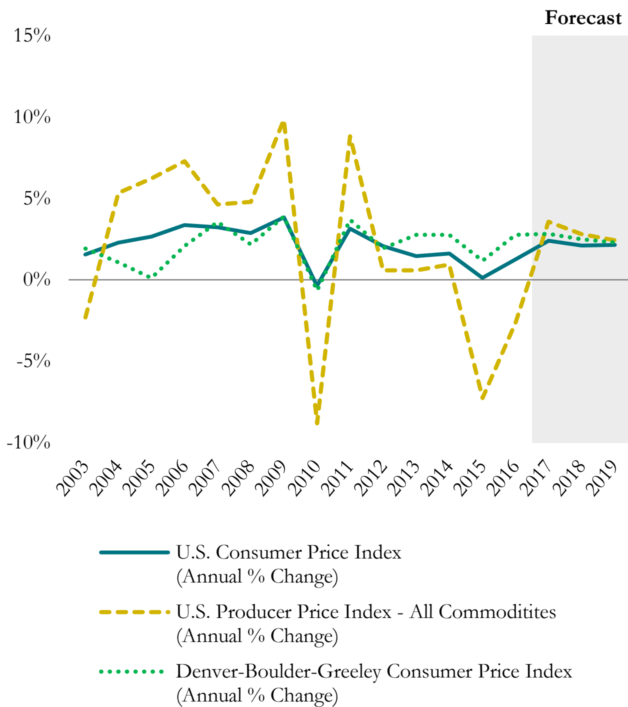
U.S. housing permits posted growth of just 0.6 percent in 2016 compared to the more robust growth rate of 12.4 percent in 2015, but will increase by 7.8 percent in 2017. Growth is forecast to moderate for 2018 but will remain relatively strong.

Colorado Nonresidential Construction Value



Growth in nonresidential construction value in Colorado increased by 16.3 percent in 2016. The value of nonresidential construction will decline modestly over the forecast period.

Consumer Price Index and Producer Price Index

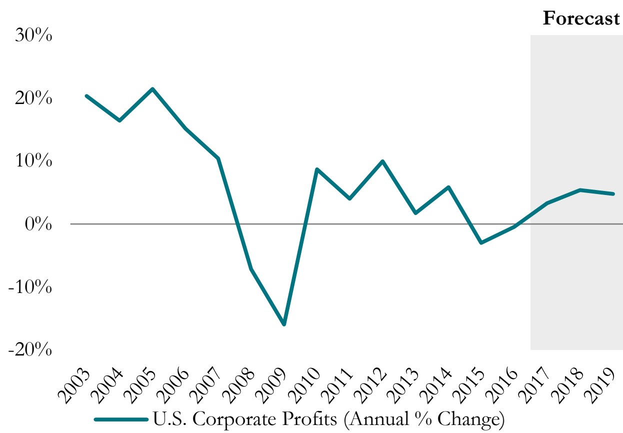


National consumer prices increased by 1.3 percent in 2016. OSPB expects the U.S. CPI to rise 2.4 percent in 2017 and 2.1 percent in 2018.

The national producer price index fell another 2.6 percent in 2016, largely due to low fuel and commodity prices. This trend will not continue in 2017 when the index will rise 3.6 percent before moderating to 2.8 percent growth in 2018.

The Denver-Boulder-Greeley CPI grew by 2.8 percent in 2016, more than twice the national average. CPI growth will post another 2.8 percent increase in 2017 as gas prices increase and as housing costs continue to rise. The CPI will moderate to 2.5 percent growth in 2018.

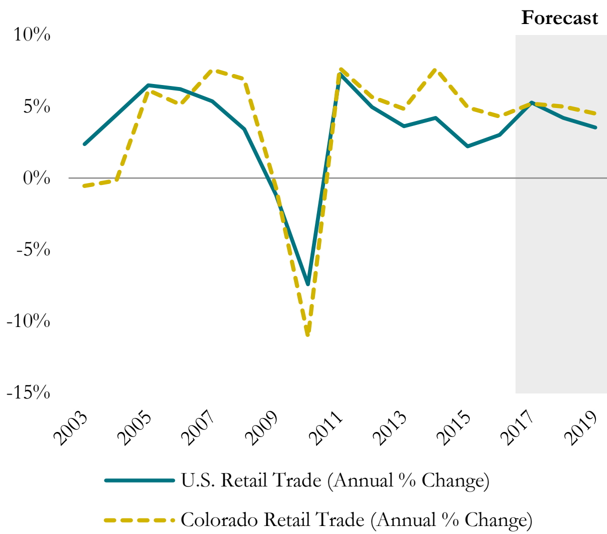
U.S. Corporate Profits



U.S. corporate profits fell by a modest 0.4 percent in 2016 as a weak global economy and a strong dollar impacted earnings early in the year.

Profit growth is expected to recover into 2017 with forecast growth of 3.3 percent as earnings increase.

Retail Trade



Retail sales in Colorado will grow 5.2 percent in 2017 after 4.3 percent growth in 2016; sales will post a more moderate increase of 5.0 percent in 2018.

Nationwide retail trade increased a modest 3.0 percent in 2016. Sales are forecast to grow 5.3 percent in 2017 as part of the continuing economic expansion but moderate to 4.2 percent growth in 2018.

The lower growth rates for both the nation and the state in 2016 were due in part to the lower value of sales due to the sharp drop in gas prices as well as lower prices for other retail goods.

General Fund and State Education Fund Revenue Forecast

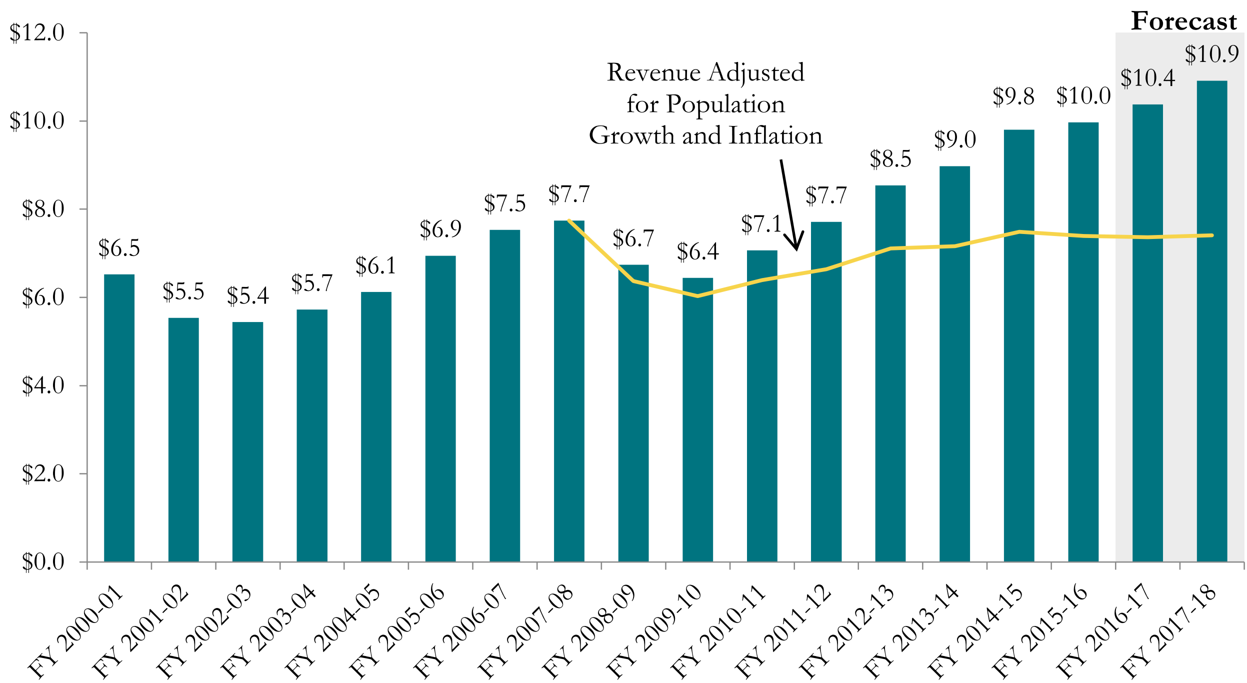
General Fund revenue this fiscal year continues to rebound modestly from its marked weakening in FY 2015-16. After an increase of just 1.7 percent last fiscal year, General Fund revenue is forecast to increase 4.0 percent in FY 2016-17. Sales and use taxes and individual income taxes are now growing at higher rates with the end of the oil and gas industry's contraction, which brought a large drop in income and spending in the state. However, corporate income tax revenue is declining for the third consecutive year. Relative to the December projections, the FY 2016-17 General Fund forecast is lower by $42.7 million, or 0.4 percent.

General Fund revenue is forecast to increase at a slightly faster rate of 5.2 percent in FY 2017-18 with continued economic expansion and as corporate income tax revenue posts an increase for the first time in four fiscal years. For more details on the economy, the main determinant of General Fund revenue, see "The Economy: Issues, Trends, and Forecast" section of this forecast, which starts on page 4.

After the marked slowdown last fiscal year, General Fund revenue is forecast to rebound modestly with 4.0 percent growth in FY 2016-17. General Fund revenue is forecast to increase at a slightly faster rate in FY 2017-18 with continued economic expansion and as corporate income tax revenue is expected to increase after three years of declines.

Figure 29 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2017-18. 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 29. General Fund Revenue



Source: Office of the State Controller and OSPB forecast

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 interest earnings, taxes paid by insurers on premiums, and excise taxes on tobacco products and liquor ─ will grow modestly over the forecast period.

***Individual income tax* –** Individual income tax collections are rebounding modestly in FY 2016-17 with growth of 5.1 percent after an increase of 2.8 percent in FY 2015-16. Collections in FY 2017-18 are forecast to increase another 5.4 percent.

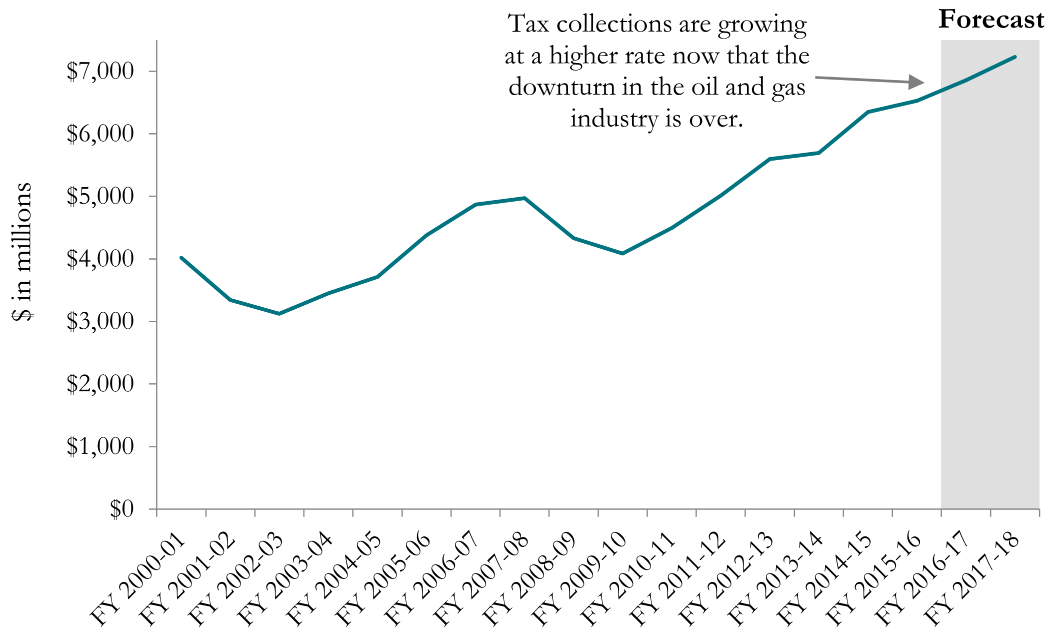
Individual income tax collections are growing at a higher rate now that the downturn in the oil and gas industry is over. Individual income tax collections will increase 5.1 percent in FY 2016-17 and another 5.4 percent in FY 2017-18.

Individual income tax collections are growing at a higher rate now that the downturn in the oil and gas industry is over. Further, investment income returns are expected to be higher as equity markets have posted solid gains. However, the forecasted growth rates are more modest compared with past years of the current expansion. More subdued oil and gas activity compared with the robust levels earlier in the expansion will provide only minimal support to income growth. Further, the state's tight labor and housing markets are expected to prevent economic growth from reaching higher levels.

It is important to note that the forecast for the estimated payments component of individual income tax revenue is highly uncertain as the revenue source can be volatile and difficult to predict. Estimated income tax payments are taxes paid on income that is not subject to withholding, such as earnings from self-employment, rents, and investments. These collections are expected to increase 9.7 percent for FY 2016-17 without the drag from the oil and gas contraction and decline in commodity prices that reduced business income and royalty payments over the last fiscal year. However, anticipation of possible federal tax rate reductions on capital gains is expected to temper growth this fiscal year as investors delay gains in order to reduce their tax liability on such gains in the future. Estimated payment growth is expected to be higher in FY 2017-18 as a result, when these deferred capital gains are realized. Material changes to these expectations may occur in subsequent forecasts with new information on tax changes, the performance of the stock market, and trends in actual collections.

Changes in tax deductions and credits also are impacting revenue collections over the forecast period; the largest of these being the State Earned Income Tax Credit (EITC). Starting with tax year 2016, the EITC is now available as a regular income tax credit on an ongoing basis. This credit is projected to lower FY 2016-17 income tax collections by approximately $80 million and by a similar amount in FY 2017-18.

Figure 30. Individual Income Tax Revenue



Source: Office of the State Controller and OSPB forecast

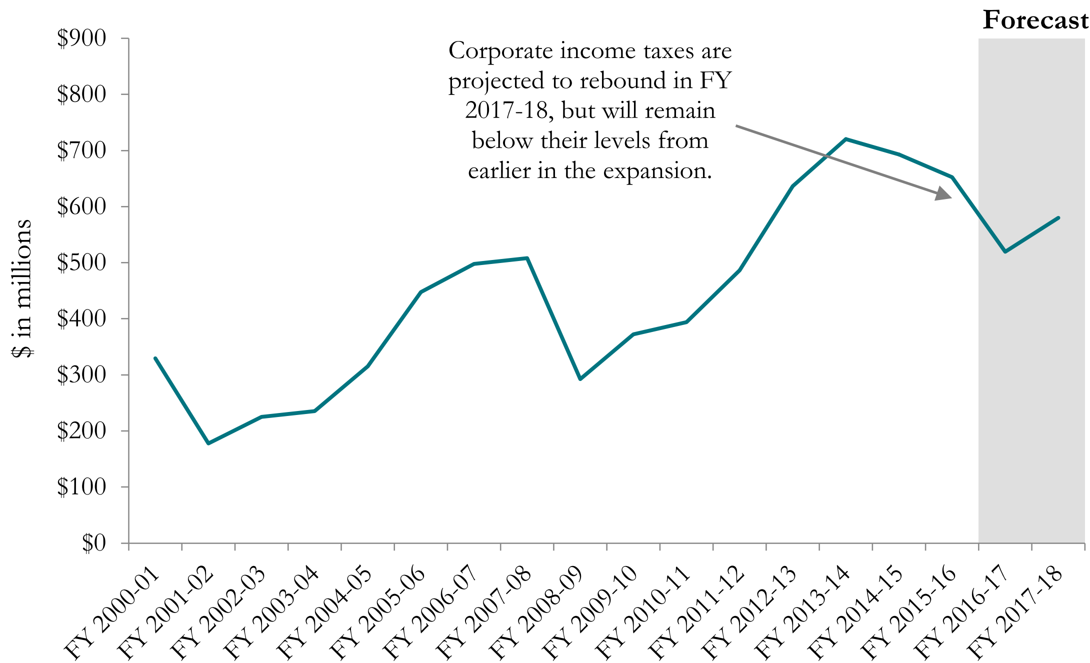
Corporate income tax – Corporate income tax collections are projected to decrease 20.4 percent in FY 2016-17, the third consecutive annual decline. Some of the large decline this fiscal year is a result of expected end-of-year accrual accounting adjustments. However, corporate income tax revenues are projected to increase 11.7 percent in FY 2017-18.

Corporate income tax collections are decreasing again in FY 2016-17, the third consecutive year of declines. Corporate income taxes are projected to rebound in FY 2017-18, but will remain well below their levels from earlier in the expansion.

Corporate income tax revenue is among the most volatile General Fund revenue sources as it is influenced by special economic factors and the structure of the corporate income tax code. Trends in corporate profits are the main determinant of corporate income tax collections. After jumping to high levels earlier in the economic expansion, corporate tax collections began to drop in FY 2014-15 due to sluggish global economic conditions, the decline in commodity prices, and the strong appreciation in the dollar that weighed on exports and the profits of multinational corporations.

The headwinds on corporate income tax collections have lessened, however, which is contributing to the projected increase in collections in FY 2017-18. At the end of 2016, the earnings of companies within the S&P 500 stock market index posted growth in consecutive quarters for the first time since the end of 2014. Further, a survey of financial industry analysts' is projecting earnings growth of 9.8 percent in 2017. Additionally, the value of the dollar is no longer appreciating at high levels and the manufacturing and oil and gas sectors have been experiencing much better conditions. Despite these improvements, growth is expected to be constrained by higher business costs, including for labor and debt payments that will reduce profit margins and result in larger tax deductions.

Figure 31. Corporate Income Tax Revenue, Actual and Forecast



Source: Office of the State Controller and OSPB forecast

Sales and use tax – Sales tax revenue is forecast to increase 6.8 percent in FY 2016-17, after only 1.3 percent growth in FY 2015-16. Collections are forecast to increase an additional 4.5 percent in FY 2017-18.

Sales tax revenue continues to rebound this fiscal year from the slowdown in FY 2015-16, which resulted from the drop in spending tied to the oil and gas industry's contraction as well as the weakness in retail prices. These conditions have abated, boosting collections as the state's economic expansion continues to generate job and wage gains.

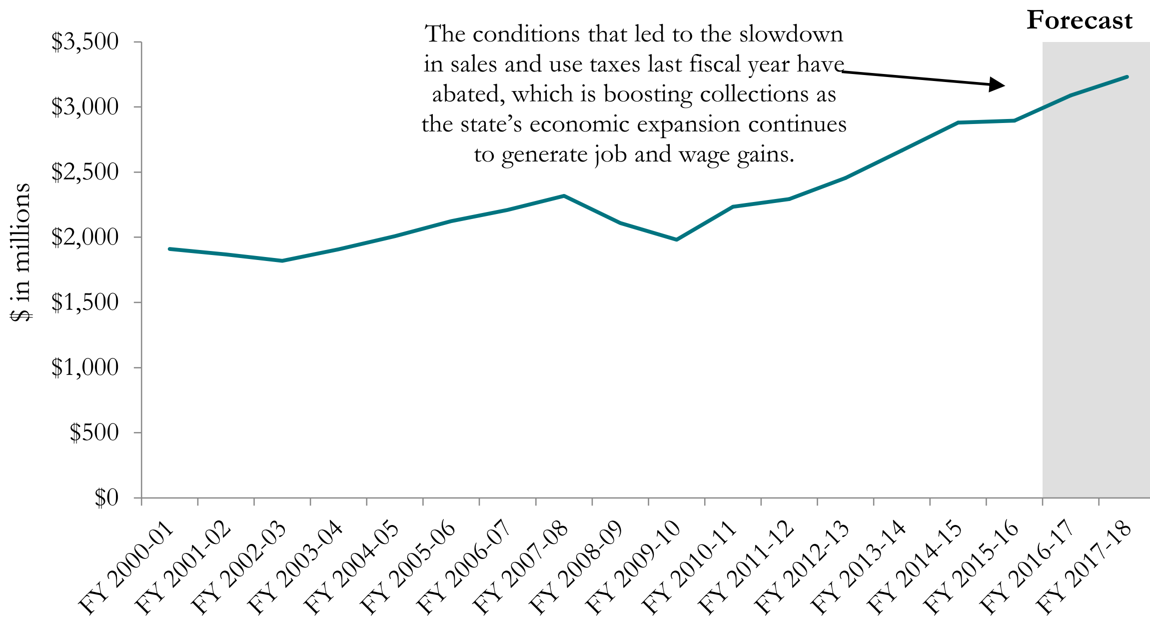
Sales tax revenue continues to rebound this fiscal year from the slowdown in FY 2015-16. Sales tax revenue is forecast to increase 6.8 percent in FY 2016-17.

The 6.8 percent increase for FY 2016-17 is partially bolstered by an accrual accounting adjustment and strong growth in collections from the 10 percent sales tax on retail marijuana. This fiscal year's growth is also being boosted by sales tax collections by the online retailer Amazon. On February 1, 2016, Amazon began collecting state sales taxes on items purchased directly from the company and shipped to Colorado addresses. Collections from Amazon are expected to increase State sales tax revenue by $22.0 million in FY 2016-17.

Use tax revenue is also rebounding this fiscal year after decreasing 7.3 percent in FY 2015-16. Without the oil and gas industry contraction and with less weakness in retail prices, collections are forecast to increase 6.3 percent in FY 2016-17. Use tax revenue is projected to increase another 6.3 percent in FY 2017-18.

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.

Figure 32. Sales and Use Tax Revenue



Source: Office of the State Controller and OSPB forecast

State Education Fund Revenue Forecast

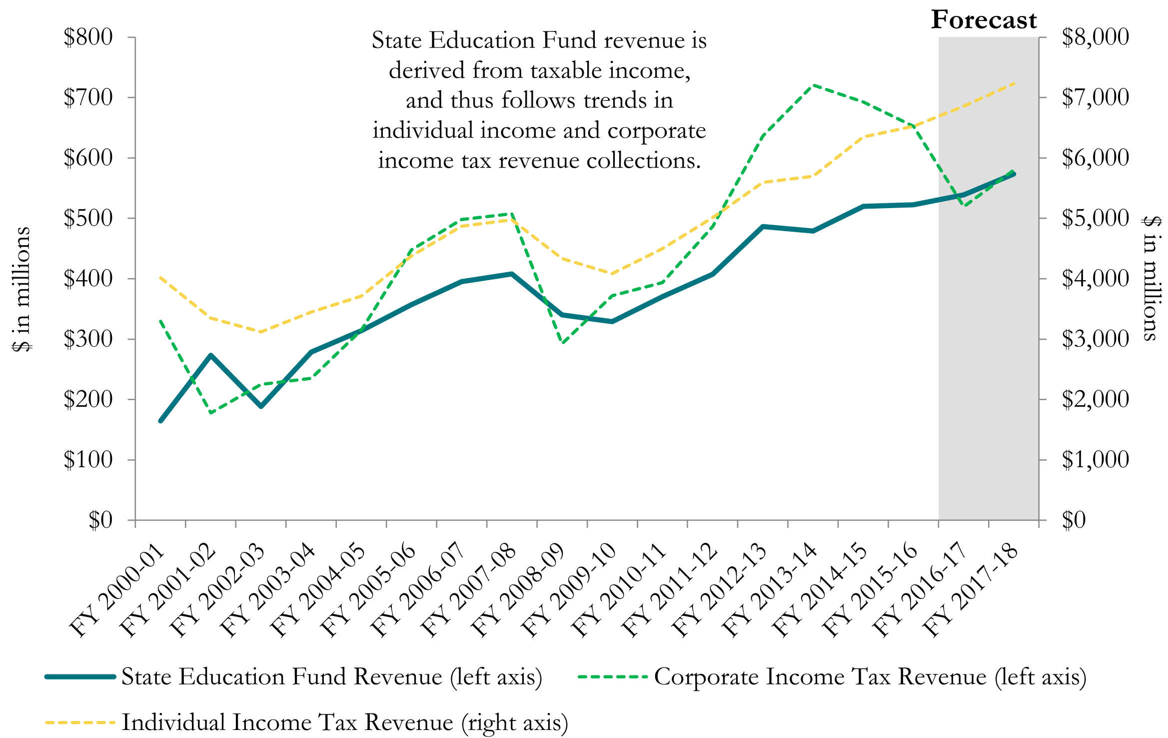
Tax revenue to the State Education Fund will increase 3.1 percent and 6.4 percent in FY 2016-17 and FY 2017-18, respectively.

Tax revenue to the State Education Fund will increase 3.1 percent and 6.4 percent in FY 2016-17 and FY 2017-18, respectively.

Because State Education Fund revenue is derived from taxable income, it follows the trends in individual income and corporate income tax revenue collections discussed above. Higher overall income growth in the state with continued economic expansion absent the drag from the contraction in the oil and gas industry, along with a modest rebound in corporate taxable income, will help generate State Education Fund revenue growth for FY 2016-17 and FY 2017-18.

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 revenue, policies enacted over the past several years have transferred other General Fund money to the State Education Fund.

Figure 33. State Education Fund Revenue from One-Third of One Percent of Taxable Income



Source: Office of the State Controller and OSPB forecast

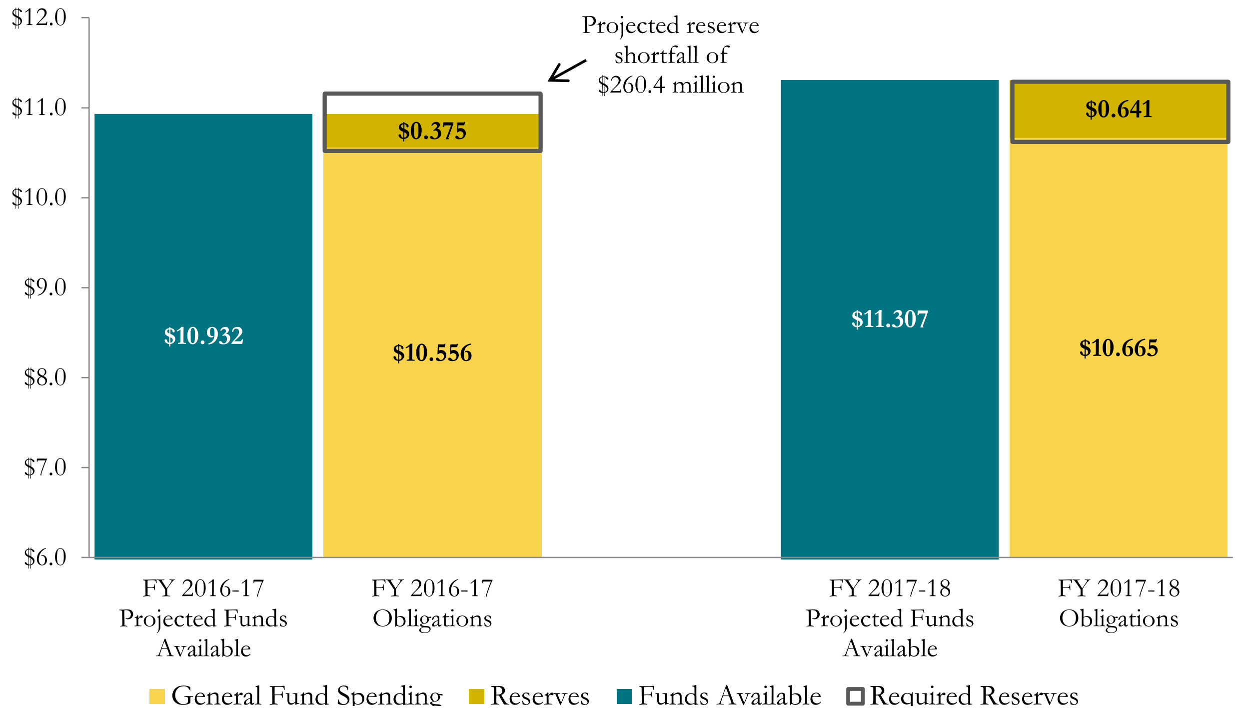
General Fund and State Education Fund Budget

General Fund – As discussed in the "General Fund Revenue Forecast" section starting on page 35, the General Fund revenue forecast for FY 2016-17 is lower by $42.7 million, or 0.4 percent, compared to the December 2016 forecast. The forecast for FY 2017-18 is lower by $40.6 million, or 0.4 percent.

With this forecast and the current budget, as amended this legislative session for FY 2016-17, the State's General Fund reserve is projected to be $260.4 million below the required statutory reserve amount of 6.5 percent of appropriations. This amount is not far enough below the required reserve to trigger budget-balancing actions by the Governor. The Governor is required to take such actions when the ending balance is projected to be under half of its required amount. For FY 2016-17, under current law, half of the required reserve amounts to $317.9 million, $57.4 million less than the ending reserve projected by this forecast.

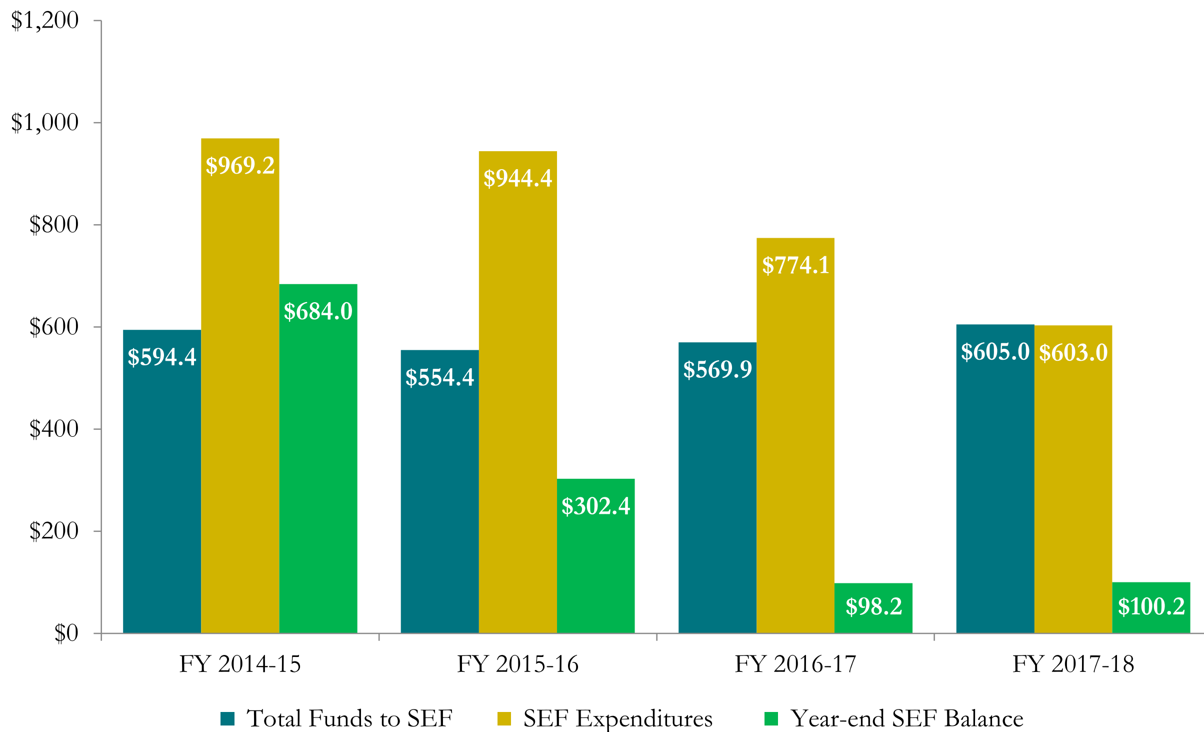
Figure 34 summarizes total projected General Fund revenue available, total obligations, and reserve levels for FY 2016-17 and FY 2017-18. The appropriations amounts for FY 2016-17 reflect current law with all the supplemental bills adopted by the General Assembly as of the date of publication. The FY 2017-18 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 subject to the limit in FY 2017-18 can grow 0.9 percent, or $92.4 million, 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, as shown in Table 4. Under this forecast and current law, total General Fund obligations as shown in Figure 34 below are able to increase 1.0 percent, or 108.6 million, in FY 2017-18 compared with FY 2016-17. The amounts in Figure 34 will change based on future budgeting decisions and updates to the revenue forecast.

Figure 34. General Fund Money, Obligations, and Reserves, $ in Billions



State Education Fund – The State Education Fund is supporting a larger share of education funding than it has historically, which has drawn down its fund balance. Figure 35 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2014-15 through FY 2017-18. In FY 2016-17, the year-end balance in the Fund is expected to drop 67.5 percent to approximately $100 million from its level in FY 2015-16. In order to maintain the required General Fund reserve and a reserve of $100 million in the State Education Fund, combined FY 2017-18 General Fund and State Education Fund expenditures would be 0.6 percent lower than current law expenditures for FY 2016-17. This is based on projected funds available and expectations for General Fund obligations, as well as an assumption that the negative factor is maintained at its current level.

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



*Actual expenditures from the State Education Fund for 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 is provided in the overview tables in the Appendix at the end of this document beginning on page 64.

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 4. 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, such as higher education and Medicaid.

As noted elsewhere in this document, Colorado's economic growth has continued at a moderate pace. Employment growth slowed modestly throughout 2016, though Colorado's unemployment rate is still among the lowest in the nation at 2.9 percent, its lowest level since 2001. Further, job growth is expected to be slightly higher in 2017. The oil and gas industry contraction appears to have ended, which will have a positive impact on the state's economy. Improving U.S. and global economic conditions will also help the state. Nonetheless, although the economy currently appears less vulnerable to recession, the confluence of events that results in economic downturns is typically difficult to identify in advance.

Even relatively small changes in the projected growth rate of revenue sources have implications for critical components of the state 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, because TABOR refunds are paid out of the General Fund, fluctuations in cash fund revenue (outside of the General Fund) subject to TABOR can also have a large impact on General Fund obligations. Therefore, future revisions to the forecast for cash fund revenue sources could result in material revisions to total revenue subject to TABOR and, therefore, to TABOR refunds and General Fund obligations.

In addition, this forecast assumes that the amount of the TABOR refund obligation for FY 2017-18 will result in smaller transfers from the General Fund for transportation and capital construction as dictated by Senate Bill 09-228 (for more details, see page 46). However, a decrease of just 0.24 percentage points, or $25.9 million, in revenue subject to TABOR would result in these transfers doubling, adding to General Fund spending obligations. This amount is well within the range of typical forecast errors. Thus, small differences in revenue subject to TABOR could result in material revisions to these transfers.

The November 1, 2016 Governor's budget request closed a $500 million dollar gap between available revenue and demands from existing programs. However, based on this forecast and updated information on state expenditures, this gap has grown to $696.6 million, as shown in Figure 36. The main contributors to the increased gap are the larger reserve shortfall this fiscal year and the drop in local share funding available for K-12 due to the expected decline in the residential assessment rate under the requirements of the Gallagher Amendment (Article X, Section 3 (1) (b), Colorado Constitution).

Figure 36. Selected Major Demands on FY 2017-18 General Fund Resources, Available New Revenue, and Funding Gap, $ in Millions

Item	Amount	Source of Requirement
K-12 New Enrollment and Inflation	$370.3	State Constitution / State Statute
TABOR Rebate	$135.1*	State Constitution
Repay Budget Reserve from FY 2016-17	$260.4	State Statute / Policy Goal
S.B. 09-228 Transportation and Capital Transfers	$163.7	State Statute
New Medicaid Costs	$141.8	Federal / State Statute
TOTAL	**$1,071.3**	
Available New General Fund Revenue	**$374.7**	
Minimum Funding Gap	**$696.6**	

* The TABOR refund amount shown in this table reflects only the new refund obligation in FY 2017-18, while the amount in Table 4 ($157.8 million) includes this amount plus $22.7 million from outstanding refund obligations from prior fiscal years that have already been accounted for. For more information on the TABOR refund, see the Taxpayer's Bill of Rights: Revenue Limit section in this report.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview under current law for the March 2017 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 in the Appendix.

Revenue

The top portion of the overview, shown in Figure 37, 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 35. 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 37. General Fund Revenue Available, $ in Millions

Table 4 Line No.		FY 2016-17	FY 2017-18
1	Beginning Balance	$512.7	$375.3
2	General Fund Revenue	$10,374.2	$10,914.0
3	Transfers to the General Fund	$44.9	$17.2
4	**Total General Funds Available**	**$10,931.8**	**$11,306.6**
	Dollar Change from Prior Year	$246.7	$374.7
	Percent Change from Prior Year	2.3%	3.4%

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 $13.3 billion in FY 2016-17. Therefore, the General Fund appropriations shown in Figure 38 (and on line 5 of Table 4) are about $3.5 billion under the limit. The amounts subject to the limit shown below and in Table 4 for FY 2016-17 reflect current law, while the FY 2017-18 amount represents the level of spending that can be supported by projected revenue while maintaining the General Fund's required reserve amount; the amount will change based on future budgeting decisions and updates to the revenue forecast.

Figure 38. General Fund Spending Subject to the Appropriations Limit, $ in Millions

Table 4 Line No.		FY 2016-17	FY 2017-18
5	**Appropriations**	**$9,827.3**	**$9,919.7**
6	Dollar Change from Prior Year	$491.7	$92.4
7	Percent Change from Prior Year	5.3%	0.9%

Spending and outlays not subject to the appropriations limit – Figure 39 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 39. General Fund Spending Not Subject to the Appropriations Limit, $ in Millions

Table 4 Line No.		FY 2016-17	FY 2017-18	FY 2018-19
8	**Total**	**$729.2**	**$745.4**	**$766.7**
	Dollar Change from Prior Year	-$165.9	$16.2	$21.2
	Percent Change from Prior Year	-18.5%	2.2%	2.8%
9	TABOR Refund under Art. X, Section 20, (7) (d)	$0.0	$157.8	$145.1
	Cigarette Rebate to Local Governments	*$9.2*	*$8.8*	*$8.5*
	Marijuana Rebate to Local Governments	*$15.2*	*$15.3*	*$17.3*
	Old-Age Pension Fund/Older Coloradans Fund	*$108.0*	*$112.9*	*$114.6*
	Aged Property Tax & Heating Credit	*$6.9*	*$6.8*	*$6.9*
	Homestead Exemption	*$144.2*	*$152.0*	*$162.7*
	Interest Payments for School Loans	*$3.4*	*$3.5*	*$3.5*
	Fire/Police Pensions	*$4.3*	*$4.3*	*$4.3*
	Amendment 35 General Fund Expenditure	*$0.8*	*$0.8*	*$0.8*
11	**Total Rebates and Expenditures**	**$292.0**	**$304.5**	**$318.5**
12	Transfers to Capital Construction	$84.5	$68.3	$57.5
13	Transfers to Highway Users Tax Fund	$158.0	$109.1	$115.1
14	Transfers to State Education Fund per SB 13-234	$25.3	$25.3	$25.0
15	Transfers to Other Funds	$169.4	$103.1	$105.5
19	Reversions and Accounting Adjustments	$0.0	-$22.7	$0.0

Lines 9: Revenue exceeded the Referendum C cap in FY 2014-15 and is projected to exceed the cap again in FY 2017-18 and FY 2018-19. Spending not subject to the limit includes any TABOR refunds funded by 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 TABOR refund shown in line 9 for FY 2017-18 is the amount of revenue projected to be refunded to taxpayers, including $22.7 million from outstanding refund obligations from prior fiscal years. The $157.8 million amount includes $19.6 million due to the reclassification of the revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund, as well as the remaining $17.0 million of the amount scheduled to be refunded for FY 2014-15 that was not refunded on 2015 tax returns. However, partially offsetting these increased amounts, the FY 2014-15 total refund obligation was reduced by $13.9 million due to the net change in the reclassification of FY 2014-15 revenue from TABOR nonexempt to exempt. The following table illustrates these adjustments.

Figure 40. Adjustments to 2017-18 TABOR Refund, $ in Millions

Projected FY 2017-18 TABOR Refund with Adjustments	
Revenue Above the Referendum C Cap	$135.1
Adjustments from Prior Fiscal Years	
Reclassification of Transfer to Adult Dental Fund	$19.6
Other Reclassifications	-$13.9
Remaining Amount not Refunded from 2015 Tax Returns	$17.0
Total Adjustments	$22.7
Total Refund	**$157.8**

The $22.7 million has been accounted for in prior fiscal years in the General Fund overview. Therefore, because the $22.7 million portion of the FY 2017-18 TABOR refund is not a new obligation, it is shown as an accounting adjustment in line 19 in Table 4. For more information on the TABOR refund, see the Taxpayer's Bill of Rights: Revenue Limit section in this report.

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 (Capital Construction Fund) and transportation (Highway Users Tax Fund) are triggered after 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. Based on initial data reported by the U.S. Bureau of Economic Analysis, personal income growth exceeded 5 percent in the 2014 calendar year, which triggered the required transfers in FY 2015-16 through FY 2019-20. 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 percent of total General Fund revenue.

Pursuant to House Bill 16-1416, the dollar amount of the transfers to the HUTF and CCF were set at fixed amounts in FY 2015-16 and FY 2016-17 regardless of the level of any TABOR refund. The transfer amount to the HUTF was $199.2 million in FY 2015-16 and is set at $158.0 million in FY 2016-17 as shown in line 13 in Table 4. The transfer amount to the CCF in House Bill 16-1416 was $49.8 million in FY 2015-16 and is set at $52.7 million in FY 2016-17.

According to current projections, transfers to the HUTF and CCF will be reduced by half in FY 2017-18 and FY 2018-19 because the TABOR refunds are expected to be just above 1 percent of total General Fund revenue in both years. As a result, the SB 228 transfers to the HUTF are projected to be $109.1 million in FY 2017-18 and $115.1 million in FY 2018-19. SB 228 transfers to the CCF are projected to be $54.6 million in FY 2017-18 and $57.5 million in FY 2018-19.

Figure 41. General Fund Transfers for Capital Construction, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
	"228" Transfers	$49.8	$52.7	$54.6
	Additional Transfers	$221.3	$31.8	$13.7
12	**Total**	**$271.1**	**$84.5**	**$68.3**

The capital construction transfer amounts in FY 2015-16 through FY 2017-18 shown in line 12 also include other transfers of General Fund money in addition to the SB 228 transfers. These additional transfer amounts are $221.3 million in FY 2015-16, $31.8 million in FY 2016-17, and $13.7 million in FY 2017-18. The FY 2016-17 capital construction total transfer in line 12 reflects current law, while the FY 2017-18 total transfer reflects the needed funding level for "Level I" building-maintenance projects, as well as the continuation of projects funded in prior years. Figure 41 shows the transfers for capital construction by fiscal year.

Line 14: Senate Bill 13-234 requires annual General Fund transfers to the State Education Fund from FY 2013-14 through FY 2018-19. The transfer for FY 2017-18 is $25.3 million and $25.0 million in FY 2018-19.

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 (reduced to 8 percent starting in FY 2017-18 under current law) credited to the General Fund, 85 percent of which is transferred to the Marijuana Tax Cash Fund.

The FY 2015-16 and FY 2016-17 amounts also include a diversion of income tax revenue out of the General Fund to a separate severance tax fund pursuant to Senate Bill 16-218. This bill was passed in response to the April 2016 Colorado Supreme Court's decision in *BP America v. Colorado Department of Revenue* that allows for taxpayers to claim additional severance tax deductions. Senate Bill 16-218 creates a reserve fund and diverts income tax revenue to the fund to help pay the refunds. However, the legislation does not distinguish between severance tax refunds related to the court decision and severance tax refunds that would have occurred regardless of the decision. For FY 2015-16, $56.8 million in income tax revenue was diverted to the aforementioned reserve fund to pay for severance tax refunds. This forecast projects that about $54.0 million in income tax revenue will be diverted from the General Fund to the reserve fund to pay severance tax refunds in FY 2016-17. More discussion on Senate Bill 16-218 and the impacts of the court decision can be found starting on page 53 in this report.

Line 19: This line includes any General Fund money that was not expended out of appropriations each fiscal year that was "reverted" back to the General Fund. It also includes various accounting adjustments made by the State Controller's office each year. For FY 2017-18, the -$22.7 million adjustment accounts for TABOR refund amounts that were already obligated in prior fiscal years as discussed above and in the Taxpayer's Bill of Rights: Revenue Limit section in this report.

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, titled, "Money Above/Below Statutory Reserve" in the General Fund overview in Table 4.

The FY 2015-16 reserve was required to be 5.6 percent of General Fund appropriations subject to the appropriations limit (excluding Certificates of Participation payments), minus diversions of income tax revenue pursuant to Senate Bill 16-218. As discussed above, $56.8 million in income tax revenue was diverted, and thus the required reserve was lowered by the same amount. The required reserve is 6.5 percent of appropriations (excluding Certificates of Participation payments) for FY 2016-17 and for subsequent fiscal years.

For FY 2015-16, the State's General Fund reserve ended $48.8 million above the required amount. The FY 2016-17 ending balance is projected by this forecast to be $260.4 million below the required reserve level under current law. This amount is not sufficiently enough below the required reserve to trigger budget-balancing actions by the Governor. The Governor is required to take such actions when the ending balance is projected to be under half of its required amount. For FY 2016-17, half of the required reserve amounts to $317.9 million, or $57.4 million lower than the currently projected balance. The FY 2017-18 reserve amount in the table represents the 6.5 percent required reserve level supported by projected General Fund available.

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 Senate Bill 15-251. These appropriations amount to $37.8 million in FY 2015-16 and $46.0 million in FY 2016-17. Figure 42 provides information on the General Fund ending balance.

Figure 42. General Fund Reserves, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
20	Year-End General Fund Balance	$512.7	$375.3	$641.5
21	Balance as a % of Appropriations	5.5%	3.8%	6.5%
22	**General Fund Statutory Reserve**	**$463.9**	**$635.8**	**$641.5**
23	Money Above/Below Statutory Reserve	$48.8	-$260.4	$0.0

State Education Fund Overview

Figure 43 summarizes State Education Fund annual revenue and spending. It also includes projected beginning and ending fund balances. Reduced funding to the State Education Fund as well as higher appropriations have lowered the available balance. By the end of FY 2016-17, the ending balance is projected to be approximately $100 million, a decrease of more than $200 million from its level a year earlier.

State Education Fund expenditures for FY 2016-17 reflect current law. The FY 2017-18 expenditure amount represents projected spending necessary to keep the negative factor in the School Finance Act at the current law dollar amount of $828.3 million, while maintaining a balance in the Fund of approximately $100 million.

Figure 43. State Education Fund Revenue, Spending, and Reserves, $ in Millions*

State Education Fund ($ in Millions)			
	FY 2015-16	FY 2016-17	FY 2017-18
One-third of 1% of State Taxable Income	*$522.6*	*$539.0*	*$573.7*
Transfers under SB 13-234	*$25.9*	*$25.3*	*$25.3*
Other	*$6.0*	*$5.6*	*$6.0*
Total Funds to State Education Fund	**$554.4**	**$569.9**	**$605.0**
State Education Fund Expenditures	**$944.4**	**$774.1**	**$603.0**
Year-end Balance	**$302.4**	**$98.2**	**$100.2**

*Actual 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, combined FY 2017-18 General Fund and State Education Fund expenditures would be 0.6 percent, or $62.5 million, lower than current law expenditures for FY 2016-17. This is based on projected funds available and expectations for General Fund obligations, as well as the assumption that the negative factor is maintained at its current level.

Cash Fund Revenue Forecast

A wide array of state programs collect taxes, fees, fines, and interest to fund services and operations. When fees or other revenue are designated for a particular program, they typically are directed to a cash fund which is used to fund that program. OSPB's forecast of cash fund revenue subject to TABOR is shown in Table 6 in the Appendix.

Cash fund revenue in FY 2016-17 is projected to be $2,793 million, which is $133.8 million, or 4.6 percent, lower than FY 2015-16, as a projected decrease in revenue from the Hospital Provider Fee and miscellaneous cash funds will offset modest growth in revenue from many of the other major categories of cash funds. The forecast for FY 2016-17 is $26.0 million, or 0.9 percent, lower than projections from the December forecast. This downward adjustment is mostly the result of correcting the accounting of the Unclaimed Property Fund transfers.

Cash fund revenue will increase 14.8 percent in FY 2017-18 as the budget restriction on the Hospital Provider Fee expires under current law. If the Governor's November 2016 budget request is approved, the projected increase in cash fund revenue would be $195 million lower than indicated in Table 6 as the request includes another restriction on Hospital Provider Fee revenue for FY 2017-18. Growth in severance tax revenue and other miscellaneous cash funds also contributes to next fiscal year's increase. However, the forecast for FY 2017-18 is $35.7 million, or 1.1 percent, lower compared with projections in December, driven primarily by expectations for lower revenue collections for miscellaneous cash funds.

Table 6 shows only the outlook for revenue subject to the TABOR provisions in the Colorado Constitution limiting 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 exempt by Colorado voters, federal money, and revenue received by enterprises – entities that receive most of their revenue from sources other than the state (e.g., public universities and colleges). More information on TABOR revenue and the revenue limit can be found on page 58.

Transportation-related cash funds **—** Transportation-related cash fund revenue is forecast to grow 2.5 percent to $1,213.8 million in FY 2016-17 and 2.3 percent in FY 2017-18. This is 0.9 and 1.2 percent higher than the December forecast, respectively.

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and several smaller cash funds. HUTF collections are distributed by statutory formula to the Colorado Department of Transportation, local counties and municipalities, and the Colorado State Patrol. The primary revenue source for the transportation-related cash funds is from motor fuel taxes, followed by registration fees. Specific ownership taxes paid on vehicles are retained by local governments in a manner similar to property taxes.

More than 75 percent of motor fuel tax revenue comes from the state gasoline tax, which has been set at 22 cents per gallon in Colorado since 1991. Fuel tax revenues to the HUTF have averaged 1 percent growth per year over the last 10 years. As the economy continues to expand, this growth is expected to continue at a modest rate, as increasingly fuel-efficient vehicles consume fewer gallons of gasoline and reduce fuel tax collections.

Vehicle registration revenue is driven primarily by auto sales, which have been growing steadily since the end of the Great Recession in 2009. As the pent-up demand experienced since the recession decreases, new auto sales are expected to flatten, but not decline. Because vehicle leasing has become more common in recent years, the impending expiration of these leases may cause used vehicle prices to fall, resulting in an increased share of used vehicle sales. As registration fees are based largely on vehicle age and weight, the continuing shift in consumer preference towards heavier SUVs and light trucks should offset any registration revenue lost due to the expected lower growth of new vehicle sales. This trend is also expected to contribute to increased revenue from vehicle fuel taxes. As a result of these trends, HUTF revenue growth is expected to average 2.6 percent over the next three fiscal years.

Consumer preferences for heavier SUVs and light trucks should offset HUTF registration revenue lost due to lower growth in new vehicle sales.

Figure 44. Transportation Funds Forecast by Source

Transportation Funds Revenue	Actual FY 15-16	Forecast FY 16-17	Forecast FY 17-18	Forecast FY 18-19
Highway Users Tax Fund (HUTF)				
Motor and Special Fuel Taxes	**$609.7**	**$630.3**	**$635.8**	**$648.4**
Change	2.1%	3.4%	0.9%	2.0%
Total Registrations	**$242.6**	**$254.6**	**$263.1**	**$271.5**
Change	2.6%	5.0%	3.3%	3.2%
Other HUTF Receipts	**$177.9**	**$182.3**	**$186.8**	**$193.2**
Change	2.7%	2.5%	2.5%	3.4%
Total HUTF	**$1,030.2**	**$1,067.3**	**$1,085.7**	**$1,113.0**
Change	2.3%	3.6%	1.7%	2.5%
State Highway Fund	**$52.2**	**$38.4**	**$47.2**	**$48.9**
Change	23.1%	-26.4%	22.9%	3.7%
Other Transportation Funds	**$98.8**	**$109.3**	**$114.9**	**$116.7**
Change	-7.6%	10.7%	5.1%	1.5%
Total Transportation Funds*	**$1,184.7**	**$1,213.8**	**$1,242.3**	**$1,269.8**
Change	2.2%	2.5%	2.3%	2.2%

*Totals may not sum due to adjustments from recent policy changes that impact revenue.

Limited Gaming — Limited gaming revenue is forecast to grow by $2.4 million, or 2.0 percent, to $120.4 million in FY 2016-17 after increasing 6.0 percent in FY 2015-16. Revenue from gaming in FY 2017-18 will grow an additional $3.2 million, or 2.7 percent, to $123.6 million.

The Colorado gaming industry has only gradually recovered from the Great Recession, with expected FY 2016-17 limited gaming revenue remaining below the pre-recession peak of $122 million in FY 2006-07. However, continued economic growth is expected to contribute to modest increases in limited gaming revenue over the forecast period into FY 2018-19.

Of the total expected limited gaming revenue of $120.4 million in FY 2016-17, $104.8 million will be subject to TABOR, as reflected in Figure 45. Of this amount, $103.0 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 statutory formula to the State General Fund, the State Historical Society, cities and counties affected by gaming activity, and economic development-related programs.

Limited gaming revenue continues to grow with Colorado's economic expansion.

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 grow along with overall gaming revenue and total $13.5 million and $13.7 million in FY 2016-17 and FY 2017-18, respectively. Figure 45 shows the distribution of limited gaming revenues in further detail.

Figure 45. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Actual FY 15-16	Forecast FY 16-17	Forecast FY 17-18	Forecast FY 18-19
A. Total Limited Gaming Revenues	**$118.0**	**$120.4**	**$123.6**	**$126.7**
Annual Percent Change	6.0%	2.0%	2.7%	2.5%
B. Base Limited Gaming Revenues (max 3% growth)	**$101.0**	**$103.0**	**$105.8**	**$108.4**
Annual Percent Change	3.0%	2.0%	2.7%	2.5%
C. Gaming Revenue Subject to TABOR	**$102.8**	**$104.8**	**$107.6**	**$110.3**
Annual Percent Change	3.5%	2.0%	2.7%	2.5%
D. Total Amount to Base Revenue Recipients	**$91.1**	**$92.5**	**$94.6**	**$97.3**
Amount to State Historical Society	$25.5	$25.9	$26.5	$27.2
Amount to Counties	$10.9	$11.1	$11.4	$11.7
Amount to Cities	$9.1	$9.2	$9.5	$9.7
Amount to Distribute to Remaining Programs (State Share)	$45.6	$46.2	$47.3	$48.6
Amount to Local Government Impact Fund	$5.0	$5.0	$5.0	$5.0
Colorado Tourism Promotion Fund	$15.0	$15.0	$15.0	$15.0
Creative Industries Cash Fund	$2.0	$2.0	$2.0	$2.0
Film, Television, and Media Operational Account	$0.5	$0.5	$0.5	$0.5
Advanced Industries Acceleration Fund	$5.5	$5.5	$5.5	$5.5
Innovative Higher Education Research Fund	$2.1	$2.1	$2.1	$2.1
Transfer to the General Fund	$15.5	$16.1	$17.2	$18.5
E. Total Amount to Amendment 50 Revenue Recipients	**$12.5**	**$13.5**	**$13.7**	**$14.1**
Community Colleges, Mesa and Adams State (78%)	$9.8	$10.5	$10.7	$11.0
Counties (12%)	$1.5	$1.6	$1.6	$1.7
Cities (10%)	$1.3	$1.3	$1.4	$1.4

Hospital Provider Fee — The forecast for Hospital Provider Fee (HPF) revenue is unchanged from the December forecast. HPF collections are expected to decrease 18.3 percent, or $147.4 million, to $656.6 million in FY 2016-17. A large portion of this decrease is due to a limit on Hospital Provider Fee revenue adopted for

the FY 2016-17 budget under HB 16-1405 that reduced collections by $73.1 million. Under current law, HPF revenue will then increase 31.7 percent, or by $208.1 million, to $864.7 million in FY 2017-18. The Governor's November 2016 budget request includes another restriction on Hospital Provider Fee revenue in FY 2017-18 that reduces collections by $195 million. This restriction is not reflected in Table 6 in the Appendix.

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 Hospital Provider Fee is paid by Colorado hospitals and is used, together with matching federal funds, to help cover the cost of the Medicaid program. The amount of Hospital Provider Fee collected each year is calculated by a formula that considers the anticipated cost of care for certain Medicaid populations with each hospital's individual fee allocation based on inpatient days and outpatient revenue.

Severance tax revenue **—** Severance tax revenue will increase 265.7 percent, or $50.3 million, to $69.2 million in FY 2016-17. The ad valorem tax credit for State severance taxes is a contributing factor to the relatively low level in revenue collections, as are the persistently low oil and natural gas prices and amended returns filed in response to the Colorado Supreme Court ruling discussed below. Severance tax collections in FY 2017-18 are expected to rebound strongly with gradually rising oil and gas prices, reduced ad valorem credits, and as the court ruling has less of a downward effect on collections. Total severance tax revenue will increase to $180.6 million in FY 2017-18.

The level of oil and natural gas prices is the primary determinant of severance tax collection levels. After falling below $30 a barrel in early 2016, the West Texas Intermediate crude oil price has gradually recovered to around $50 a barrel. Prices are likely to rise slowly; natural gas prices are expected to rise slightly faster.

The ongoing imbalance between the high levels of supply in relation to weakened demand is expected to take time to unwind. Although the November OPEC agreement to limit production was expected to accelerate supply and demand rebalancing, U.S. producers have increased production in response to the recent uptick in prices, limiting the effectiveness of the agreement. Continued modest increases in demand combined with large supply levels are expected to prevent prices from rising at a stronger rate.

Severance tax revenue will increase to $69.2 million in FY 2016-17. Severance tax collections will rebound to $180.6 million in FY 2017-18 due to continued modest increases in oil and gas prices and lower ad valorem credits.

There is a high degree of uncertainty in the trajectory of oil and gas prices as the world energy market is subject to international political developments and other difficult-to-predict factors. For example, oil prices have recently dropped below the $50 a barrel level due to concerns that increased production in the U.S. will prolong the supply glut. Therefore, the actual amount of severance tax revenue could materially differ from this forecast depending on the direction of future energy prices. 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 4.

In addition to persistent low oil and gas prices, ad valorem tax credits are weighing on State severance tax revenue. 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. The impact of these credits was especially pronounced in FY 2015-16, when the incomes of taxpayers, and thus their tax liabilities, were greatly reduced due to plummeting energy prices. At the same time, large ad valorem credits were being claimed that were based on a much higher value

of oil and gas from the prior year. In some cases, the difference in the size of the ad valorem credit in relation to gross severance tax liabilities caused net tax liabilities to fall to zero.

For FY 2016-17, gross liabilities will remain low due to persistent soft energy prices and decreased oil and gas production, but ad valorem credits will be smaller than the previous year, causing severance tax revenue to increase modestly. However, the Supreme Court ruling discussed below that began reducing severance tax collections in FY 2015-16 is also weighing on FY 2016-17 revenue. Higher oil and gas prices in 2017, combined with less of an impact on collections from the court ruling and reduced ad valorem credits, will cause severance tax revenue to rebound to a greater extent in FY 2017-18.

As a result of the April 2016 Colorado Supreme Court's decision in *BP America v. Colorado Department of Revenue (DOR),* taxpayers can claim additional severance tax deductions related to their transportation, manufacturing, and processing costs incurred in their oil and gas extraction activities. In addition to lowering the severance tax collections in the future, this decision is also increasing the refunds being made to severance taxpayers for the current and past tax years.

Senate Bill 16-218 was passed at the end of the 2016 legislative session to account for these severance tax refunds. The bill created a reserve fund and diverts income tax revenue to the fund to help pay the refunds. However, the legislation does not distinguish between severance tax refunds related to the court decision and severance tax refunds that would have occurred regardless of the decision. Therefore, income tax revenue is currently being used to cover some severance tax refunds that would have occurred regardless of the decision.

Senate Bill 16-218 also placed a restriction on $77.4 million of severance tax money allocated to the Department of Natural Resources (DNR) and the Department of Local Affairs (DOLA), preventing the money from being expended in case the money is needed to help cover the refunds. The restriction can be lifted in whole or in part upon a majority vote of the members of the Joint Budget Committee. In August, the Joint Budget Committee voted to release $19.9 million of the amount to DOLA. As such, $57.5 million remains restricted pursuant to Senate Bill 16-218.

Under Senate Bill 16-218, $56.8 million in income tax revenue was diverted in FY 2015-16 to the aforementioned reserve fund to pay for severance tax refunds. This amount is included in the "Transfers to Other Funds" line in Table 4 in the Appendix of this forecast. Of this amount, $17.8 was due to refunds related to the court ruling, while $39.0 million was mostly a result of the large ad valorem credits reducing tax liabilities to zero discussed earlier.

Also under Senate Bill 16-218, in FY 2016-17, during any month in which severance tax refunds are larger than 15 percent of gross severance revenue, income tax is diverted to the reserve to pay the portion of the refund amount that exceeds the 15 percent threshold. This forecast assumes that $54.0 million in income taxes will be diverted from the General Fund to the reserve fund to cover severance tax refunds paid out in FY 2016-17. This amount is also included in the "Transfers to Other Funds" line in Table 4 in the Appendix. Therefore, a total of $110.8 million in General Fund is projected to be used to cover severance tax refunds under Senate Bill 16-218 over FY 2015-16 and FY 2016-17. The amount of refunds projected to be covered by the General Fund may change materially in subsequent forecasts as new information becomes available.

The above refund amounts are related to past tax year impacts of the Supreme Court ruling. Taxpayers will also claim more deductions for future tax years, which will reduce severance tax collections on an ongoing basis. This forecast assumes that the additional deductions will reduce annual severance tax collections by roughly

$20 to $30 million each year. However, the estimated amount of the reduction to ongoing severance tax revenue in the future may change materially as more information becomes available regarding the revenue impacts of the deductions.

Federal Mineral Leasing revenue — Colorado's share of Federal Mineral Lease (FML) revenue will fall 6.8 percent to $86.6 million in FY 2016-17. FML revenue continues to be weak due to ongoing low energy prices. In addition, the refund of FML "bonus" payments to mineral extraction leaseholders on the Roan Plateau is causing reduced collections. As commodity prices gradually increase, FML revenue is expected to rebound modestly, increasing 13.1 percent to $97.9 million in FY 2017-18. The impact of lower energy 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 impact severance tax gross liabilities. Note that while FML revenue is exempt from TABOR, it is included here because of its effect on school finance.

FML royalties are derived from 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 is reduced by a total of $23.4 million between FY 2015-16 and FY 2017-18 due to refunded bonus payments on cancelled leases on the Roan Plateau.

A portion of the reduced levels in FML revenue in FY 2015-16 through FY 2017-18 is the 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 is refunding nearly $50 million of the bonus payments that were originally made.

Colorado's share of this amount, which amounts to $23.4 million, is being recouped from the State's share of FML revenue over a three-year period. The federal government is withholding $7.8 million of Colorado's FML revenue from FY 2015-16 through FY 2017-18 to complete the required refund. Senate Bill 15-244 transfers money from the General Fund to the State Public School Fund, the Colorado Water Conservation Board Construction Fund, and the Local Government Mineral Impact Fund in each of the three fiscal years in order to backfill the decline in FML distributions.

Figure 46. Federal Mineral Leasing (FML) Payments, $ in Millions

Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2015-16	$6.7	$86.1	$92.9	-36.0%
FY 2016-17	$1.7	$84.8	$86.6	-6.8%
FY 2017-18	$2.0	$95.9	$97.9	13.1%
FY 2018-19	$2.0	$107.8	$109.8	12.1%

FY 2015-16 figures are actual collections, and FY 2016-17 through FY 2018-19 are projections.

Other cash funds — 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 of these funds. These larger funds include the Employment Support Fund, Medicaid Nursing Facility Cash Fund, and the Marijuana Tax Cash Fund in FY 2015-16.

Total revenue to miscellaneous cash funds is expected to total $656.6 million in FY 2016-17, a decrease of 10.2 percent, after growth of 19.4 percent the prior year. The FY 2016-17 projection is $69.0 million lower than the December forecast, due primarily to accounting adjustments to FY 2015-16 that reduced the revenue base on which this fiscal year's forecast is calculated. Revenue to these funds is expected to increase 9.6 percent in FY 2017-18.

The 19.4 percent growth in FY 2015-16 revenue was driven by two main factors. First, Ft. Lewis College and Western State Colorado University were disqualified as enterprises due to receiving more than 10 percent of their funding from the State, making the revenue they received in FY 2015-16 – $59.3 million – subject to TABOR. Secondly, House Bill 16-1409 shifted a $34.8 million revenue transfer from the Unclaimed Property Fund to the Adult Dental Fund forward from FY 2016-17 into FY 2015-16, increasing revenue in FY 2015-16 and reducing revenue in FY 2016-17 by the same amount. The shifting of this transfer from FY 2016-17, along with revenue to Ft. Lewis College and Western State Colorado University assumed to no longer be subject to TABOR due to these institutions regaining their enterprise status are the main contributors to the projected decline in miscellaneous cash funds in FY 2016-17.

Cash fund revenue to the Department of Regulatory Agencies (DORA) will increase 7.7 percent to $74.1 million in FY 2016-17. This revenue source will grow another 2.4 percent to $75.9 million in FY 2017-18. DORA regulates 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 increase 18.2 percent to $13.5 million in FY 2016-17. Insurance-related cash fund revenue decreased by 42.7 percent to $11.4 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 performs a comprehensive review to determine the funding needed to operate its programs.

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 these taxes, along with revenue from the 2.9 percent sales tax, are shown in Figure 47.

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.

Figure 47. Tax Revenue from the Marijuana Industry

Tax Revenue from the Marijuana Industry	Actual FY 15-16	Forecast FY 16-17	Forecast FY 17-18	Forecast FY 18-19
Proposition AA Taxes				
Retail Marijuana 10% Special Sales Tax (State and Local)	$67.3	$101.6	$102.1	$115.3
Retail Marijuana 15% Excise Tax	$42.7	$72.6	$92.1	$103.6
Total Proposition AA Taxes	**$110.0**	**$174.2**	**$194.2**	**$218.9**
2.9% Sales Tax (Subject to TABOR)				
Medical Marijuana 2.90% State Sales Tax	$12.2	$12.4	$12.5	$12.5
Retail Marijuana 2.90% State Sales Tax	$19.4	$28.7	$37.0	$41.8
Total 2.9% Sales Taxes	**$31.6**	**$41.0**	**$49.5**	**$54.3**
Total Marijuana Taxes	**$141.6**	**$215.2**	**$243.7**	**$273.2**

Source: Colorado Department of Revenue

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 and population growth. 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 exempted by Colorado voters; federal money; and revenue received by entities designated as enterprises, such as public universities and colleges. Table 7 found in the Appendix summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

TABOR refunds occurred for FY 2014-15 and are projected again for fiscal years 2017-18 and 2018-19 – TABOR revenue exceeded the Referendum C cap by $169.7 million in FY 2014-15. Of this amount, $153.7 million was scheduled to be refunded to taxpayers via their 2015 tax returns, which includes $3.6 million in pending amounts from prior years. The remaining $19.6 million of the $169.7 million in revenue above the FY 2014-15 cap is from reclassifying the revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund as subject to TABOR. This money helps fund dental services for adults under the Medicaid program. Initially, this money was not counted as TABOR revenue. However, the legal analysis and audit review on classification of this revenue occurred after refund 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 2017-18, as discussed below.

In addition to this $19.6 million adjustment, a net $13.9 million in FY 2014-15 revenue has been reclassified as exempt from TABOR that was previously counted as nonexempt. Most of this adjustment is due to revenue received by the Department of Public Safety. This change will offset a portion of the $19.6 million increase to refunds from the FY 2014-15 transfer to the aforementioned Adult Dental Fund in the next year a refund is due.

In FY 2015-16, TABOR revenue came in $122.1 million below the cap and is projected to be $220.9 million under the cap in FY 2016-17. TABOR revenue is expected to be above the cap by $135.1 million in FY 2017-18 and $145.1 million in FY 2018-19.

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 48 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.

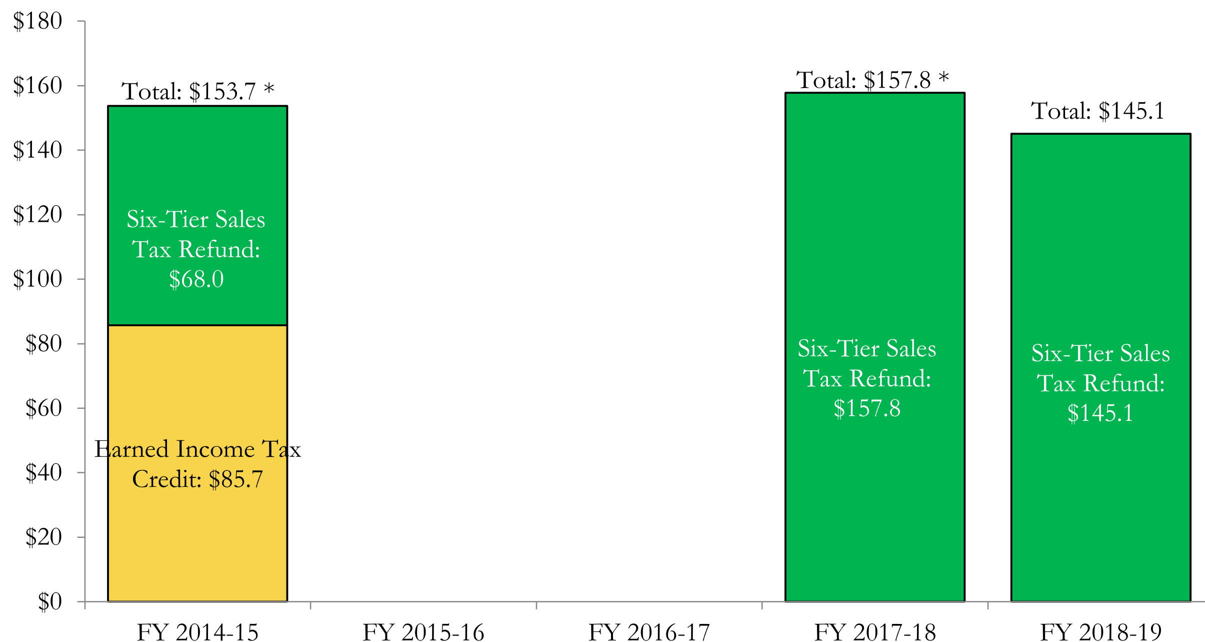
In FY 2014-15, the amount needed to be refunded exceeded the threshold that activates the state EITC, as specified by Section 39-22-123, C.R.S. Colorado taxpayers who qualify for the federal EITC can claim 10 percent of the amount they claim on their federal tax return on their state tax return for the 2015 tax year. The amount refunded through this mechanism was estimated to be $85.7 million. However, based on actual tax returns received thus far, the total amount of EITCs claimed is likely to be about $75 million for the 2015 tax year.

The state EITC was only a TABOR refund mechanism for one year. The credit 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 became available to qualifying taxpayers as a regular income tax credit on an ongoing basis and will reduce revenue to the General Fund through a reduction in income tax liabilities and higher income tax refunds.

The remaining $68.0 million of the amount to be refunded for FY 2014-15 was distributed through the six-tier sales tax refund, as specified by Section 39-22-2002, C.R.S., when taxpayers filed 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. Based on preliminary data on refunds claimed thus far for tax year 2015 from the Department of Revenue, the total amount of sales tax refunds claimed is likely to be about $62 million. Any amount not refunded to taxpayers will be added to refunds the next year a refund is due, which according to this forecast, is FY 2017-18.

Based on the preliminary numbers on the total refunds to taxpayers of $136.8 million for FY 2014-15, a remaining $17.0 million will need to be refunded in the next year of a TABOR refund. This amount will change slightly with new information on the total actual amount refunded for FY 2014-15.

Figure 48. Distribution of TABOR Refunds, $ in Millions



* Amount above Referendum C cap plus adjustments from prior years.

For FY 2017-18, the TABOR refund amount is expected to be $157.8 million, as shown in Figure 49 as well as line 9 in Table 4 and line 11 in Table 7 in the Appendix. This amount includes the projected $135.1 million exceeding the Referendum C cap plus a net $22.7 million outstanding due to several adjustments. These adjustments include the $19.6 million that needs to be refunded from FY 2014-15 due to the reclassification of the revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund, as well as the remaining $17.0 million of the amount to be refunded for FY 2014-15 discussed above. In addition, the total refund is reduced by $13.9 million due to the aforementioned net change in the reclassification of FY 2014-15 revenue from TABOR nonexempt to exempt. The following table illustrates these adjustments.

Figure 49. Adjustments to 2017-18 TABOR Refund, $ in Millions

Projected FY 2017-18 TABOR Refund with Adjustments	
Revenue Above the Referendum C Cap	$135.1
Adjustments from Prior Fiscal Years	
Reclassification of Transfer to Adult Dental Fund	$19.6
Other Reclassifications	-$13.9
Remaining Amount not Refunded from 2015 Tax Returns	$17.0
Total Adjustments	$22.7
Total Refund	**$157.8**

Revenue to be refunded in FY 2017-18 is not projected to meet the threshold to activate the temporary income tax rate reduction refund mechanism as specified by Section 39-22-627, C.R.S. The entire amount to be refunded will therefore be refunded through the six-tier sales tax refund mechanism. When the average six-tier sales tax refund is below $15 per taxpayer each taxpayer is refunded the same amount regardless of their income tier. However, the average sales tax refund is projected to be $45 in FY 2017-18.

In FY 2018-19, the projected TABOR refund amount of $145.1 million would be refunded exclusively through the six-tier sales tax refund mechanism, and average $41 per taxpayer. Figure 50 shows per-taxpayer refund estimates by income tier for the six-tier sales tax refund.

Figure 50. Projected Distribution of Refunds per Taxpayer by Fiscal Year

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	$31	$0	$31	$62	$0	$62
$39,001 - $83,000	$42	$0	$42	$84	$0	$84
$83,001 - $130,000	$49	$0	$49	$98	$0	$98
$130,001 - $176,000	$54	$0	$54	$108	$0	$108
$176,001 - $220,000	$56	$0	$56	$112	$0	$112
$220,001 and Up	$96	$0	$96	$192	$0	$192

FY 2018-19 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 $40,000	$28	$0	$28	$56	$0	$56
$40,001 - $85,000	$38	$0	$38	$76	$0	$76
$85,001 - $133,000	$45	$0	$45	$90	$0	$90
$133,001 - $180,000	$49	$0	$49	$98	$0	$98
$180,001 - $225,000	$51	$0	$51	$102	$0	$102
$225,001 and Up	$87	$0	$87	$174	$0	$174

TABOR refund amounts can 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 can affect 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 (HUTF) and the Capital Construction Fund (CCF) for five years starting in FY 2015-16.

The original statute stated that for fiscal years 2017-18 through 2019-20, the 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. However, pursuant to House Bill 16-1416, the dollar amount of the transfers to the HUTF and CCF are at fixed amounts in FY 2015-16 and FY 2016-17 regardless of the level of any TABOR refund. The transfer amount to the HUTF was equal to $199.2 million in FY 2015-16 and $158.0 million in FY 2016-17. The Governor's November 2016 budget request spreads the $158.0 million HUTF transfer in FY 2016-17 over

two fiscal years ─ $79.0 million in FY 2016-17 and $79.0 million in FY 2017-18. The transfer amounts to the CCF were $49.8 million in FY 2015-16 and $52.7 million in FY 2016-17.

According to current projections, transfers to the HUTF and CCF will be reduced by half in FY 2017-18 and FY 2018-19 because the TABOR refunds are expected to be just above 1 percent of total General Fund revenue in both years. The SB 228 transfers to the HUTF are projected to be $109.1 million in FY 2017-18 and $115.1 million in FY 2018-19. However, as noted above, the Governor's November budget request sets the FY 2017-18 HUTF transfer to a fixed amount of $79.0 million. SB 228 transfers to the CCF are projected to be $54.6 million in FY 2017-18 and $57.5 million in FY 2018-19.

Governor's Revenue Estimating Advisory Committee

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- Ronald New – Capital Markets Executive
- Jessica Ostermick – Director, Capital Markets, Industrial and Logistics, CBRE
- Paul Rochette – Senior Partner, Summit Economics
- 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 2011-2019

Line No.		Actual						March 2017 Forecast		
		2011	2012	2013	2014	2015	2016	2017	2018	2019
	Income									
1	Personal Income (Billions) /A	$219.9	$234.0	$246.6	$266.5	$277.7	$289.1	$305.3	$322.4	$339.8
2	Change	9.1%	6.4%	5.4%	8.1%	4.2%	4.1%	5.6%	5.6%	5.4%
3	Wage and Salary Income (Billions) /A	$118.6	$125.0	$129.6	$138.7	$146.6	$152.7	$161.8	$171.4	$181.4
4	Change	4.2%	5.4%	3.7%	7.0%	5.7%	4.2%	6.0%	5.9%	5.8%
5	Per-Capita Income ($/person) /A	$42,955	$45,089	$46,824	$49,823	$50,971	$52,182	$54,180	$56,293	$58,417
6	Change	7.6%	5.0%	3.8%	6.4%	2.3%	2.4%	3.8%	3.9%	3.8%
	Population & Employment									
7	Population (Thousands)	5,118.4	5,189.9	5,267.6	5,349.6	5,448.8	5,540.5	5,635.1	5,727.3	5,817.3
8	Change	1.4%	1.4%	1.5%	1.6%	1.9%	1.7%	1.7%	1.6%	1.6%
9	Net Migration (Thousands)	36.0	38.2	46.7	49.1	69.6	61.6	64.0	62.0	60.0
10	Unemployment Rate	8.4%	7.9%	6.8%	5.0%	3.9%	3.3%	3.1%	3.4%	3.6%
11	Total Nonagricultural Employment (Thousands)	2,258.6	2,313.0	2,381.9	2,464.9	2,541.9	2,598.3	2,660.7	2,721.9	2,773.8
12	Change	1.6%	2.4%	3.0%	3.5%	3.1%	2.2%	2.4%	2.3%	1.9%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	13.5	23.3	27.5	28.7	31.9	38.4	41.3	41.5	41.8
14	Change	16.5%	72.6%	18.1%	4.3%	11.1%	20.5%	7.6%	0.5%	0.7%
15	Nonresidential Construction Value (Millions) /B	$3,923.2	$3,695.3	$3,624.0	$4,315.9	$4,801.9	$5,585.5	$5,240.1	$5,092.2	$5,155.4
16	Change	24.7%	-5.8%	-1.9%	19.1%	11.3%	16.3%	-6.2%	-2.8%	1.2%
	Prices & Sales Variables									
17	Retail Trade (Billions) /C	$75.9	$80.2	$84.1	$90.5	$95.0	$99.1	$104.2	$109.4	$114.4
18	Change	7.7%	5.7%	4.8%	7.6%	4.9%	4.3%	5.2%	5.0%	4.5%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	220.3	224.6	230.8	237.2	240.0	246.6	253.6	260.0	265.9
20	Change	3.7%	1.9%	2.8%	2.8%	1.2%	2.8%	2.8%	2.5%	2.3%

/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. 2016 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. 2016 data is not final and represents OSPB's estimates.

Table 2. History and Forecast for Key National Economic Variables
Calendar Year 2011 – 2019

Line No.		Actual						March 2017 Forecast		
		2011	2012	2013	2014	2015	2016	2017	2018	2019
	Inflation-Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$15,020.6	$15,354.6	$15,612.2	$15,982.3	$16,397.2	$16,659.8	$17,043.0	$17,435.0	$17,801.1
2	Change	1.6%	2.2%	1.7%	2.4%	2.6%	1.6%	2.3%	2.3%	2.1%
3	Personal Income (Billions) /B	$13,254.5	$13,915.1	$14,073.7	$14,809.7	$15,458.5	$16,011.8	$16,735.0	$17,505.6	$18,294.5
4	Change	6.2%	5.0%	1.1%	5.2%	4.4%	3.6%	4.5%	4.6%	4.5%
5	Per-Capita Income ($/person)	$42,528	$44,316	$44,508	$46,489	$48,173	$49,553	$51,431	$53,425	$55,444
6	Change	5.4%	4.2%	0.4%	4.5%	3.6%	2.9%	3.8%	3.9%	3.8%
7	Wage and Salary Income (Billions) /B	$6,633	$6,930	$7,116.7	$7,476.3	$7,854.8	$8,189.4	$8,614.9	$9,107.3	$9,580.5
8	Change	4.0%	4.5%	2.7%	5.1%	5.1%	4.3%	5.2%	5.7%	5.2%
	Population & Employment									
9	Population (Millions)	311.7	314.0	316.2	318.6	320.9	323.1	325.4	327.7	330.0
10	Change	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
11	Unemployment Rate	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.6%	4.5%	4.6%
12	Total Nonagricultural Employment (Millions)	131.9	134.2	136.4	139.0	141.8	144.3	146.4	147.8	149.0
13	Change	1.2%	1.7%	1.6%	1.9%	2.1%	1.7%	1.4%	1.0%	0.8%
	Price Variables									
14	Consumer Price Index (1982-84=100)	224.9	229.6	233.0	236.7	237.0	240.0	245.8	251.0	256.4
15	Change	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.4%	2.1%	2.2%
16	Producer Price Index - All Commodities (1982=100)	201.0	202.2	203.4	205.3	190.4	185.4	192.0	197.4	202.2
17	Change	8.8%	0.6%	0.6%	0.9%	-7.3%	-2.6%	3.6%	2.8%	2.4%
	Other Key Indicators									
18	Corporate Profits (Billions)	$1,816.6	$1,998.2	$2,032.9	$2,151.9	$2,087.9	$2,079.0	$2,147.7	$2,263.9	$2,372.5
19	Change	4.0%	10.0%	1.7%	5.9%	-3.0%	-0.4%	3.3%	5.4%	4.8%
20	Housing Permits (Millions)	0.624	0.830	0.991	1.052	1.183	1.190	1.283	1.367	1.388
21	Change	3.2%	32.9%	19.4%	6.2%	12.4%	0.6%	7.8%	6.6%	1.5%
22	Retail Trade (Billions)	$4,597.6	$4,826.4	$5,001.2	$5,211.5	$5,327.4	$5,488.5	$5,778.4	$6,021.3	$6,234.7
23	Change	7.3%	5.0%	3.6%	4.2%	2.2%	3.0%	5.3%	4.2%	3.5%

/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)

Line No.	Category	Actual FY 2015-16	% Chg	March 2017 Estimate by Fiscal Year FY 2016-17	% Chg	FY 2017-18	% Chg	FY 2018-19	% Chg
	Excise Taxes:								
1	Sales	$2,652.6	1.3%	$2,832.0	6.8%	$2,959.3	4.5%	$3,109.1	5.1%
2	Use	$241.2	-7.3%	$256.5	6.3%	$272.6	6.3%	$286.7	5.2%
3	Cigarette	$37.2	-1.8%	$36.1	-3.2%	$34.4	-4.7%	$33.3	-3.2%
4	Tobacco Products	$21.1	18.5%	$22.3	5.7%	$22.1	-0.7%	$22.8	3.3%
5	Liquor	$43.6	5.0%	$44.5	2.1%	$45.4	2.1%	$46.7	2.8%
6	**Total Excise**	**$2,995.7**	**0.6%**	**$3,191.3**	**6.5%**	**$3,333.7**	**4.5%**	**$3,498.6**	**4.9%**
	Income Taxes:								
7	Net Individual Income	$6,526.5	2.8%	$6,856.6	5.1%	$7,228.2	5.4%	$7,634.3	5.6%
8	Net Corporate Income	$652.3	-5.8%	$519.4	-20.4%	$580.0	11.7%	$623.2	7.4%
9	**Total Income**	**$7,178.8**	**1.9%**	**$7,376.1**	**2.7%**	**$7,808.2**	**5.9%**	**$8,257.5**	**5.8%**
10	*Less: State Education Fund Diversion*	*$522.6*	*0.5%*	*$539.0*	*3.1%*	*$573.7*	*6.4%*	*$610.0*	*6.3%*
11	**Total Income to General Fund**	**$6,656.2**	**2.0%**	**$6,837.1**	**2.7%**	**$7,234.5**	**5.8%**	**$7,647.5**	**5.7%**
	Other Revenue:								
12	Insurance	$280.3	9.2%	$297.0	5.9%	$310.0	4.4%	$321.7	3.8%
13	Interest Income	$12.4	40.3%	$14.0	12.4%	$14.9	6.4%	$15.7	5.6%
14	Pari-Mutuel	$0.6	0.5%	$0.6	-3.0%	$0.6	-2.0%	$0.6	-2.0%
15	Court Receipts	$3.5	34.5%	$2.9	-15.2%	$2.8	-3.4%	$2.7	-3.5%
16	Other Income	$22.6	-33.7%	$31.3	38.6%	$17.4	-44.3%	$18.5	5.9%
17	**Total Other**	**$319.4**	**5.5%**	**$345.8**	**8.2%**	**$345.7**	**0.0%**	**$359.2**	**3.9%**
18	**GROSS GENERAL FUND**	**$9,971.4**	**1.7%**	**$10,374.2**	**4.0%**	**$10,914.0**	**5.2%**	**$11,505.3**	**5.4%**

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

Line No.		Actual FY 2015-16	March 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
Revenue					
1	**Beginning Reserve**	**$689.6**	**$512.7**	**$375.3**	**$641.5**
2	**Gross General Fund Revenue**	**$9,971.4**	**$10,374.2**	**$10,914.0**	**$11,505.3**
3	*Transfers to the General Fund*	$24.1	$44.9	$17.2	$18.5
4	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$10,685.1**	**$10,931.8**	**$11,306.6**	**$12,165.4**
Expenditures					
5	**Appropriation Subject to Limit**	**$9,335.6**	**$9,827.3**	**$9,919.7**	**$10,706.2**
6	*Dollar Change (from prior year)*	$466.6	$491.7	$92.4	$786.5
7	*Percent Change (from prior year)*	5.3%	5.3%	0.9%	7.9%
8	**Spending Outside Limit**	**$895.1**	**$729.2**	**$745.4**	**$766.7**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$0.0	$0.0	$157.8	$145.1
10	*Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)*	-$58.0	$0.0	$0.0	$0.0
11	*Rebates and Expenditures*	$281.3	$292.0	$304.5	$318.5
12	*Transfers for Capital Construction*	$271.1	$84.5	$68.3	$57.5
13	*Transfers to Highway Users Tax Fund*	$199.2	$158.0	$109.1	$115.1
14	*Transfers to State Education Fund under SB 13-234*	$25.3	$25.3	$25.3	$25.0
15	*Transfers to Other Funds*	$176.2	$169.4	$103.1	$105.5
16	*Other Expenditures Exempt from General Fund Appropriations Limit*	$0.0	$0.0	$0.0	$0.0
17	**TOTAL GENERAL FUND OBLIGATIONS**	**$10,230.7**	**$10,556.5**	**$10,665.1**	**$11,472.8**
18	*Percent Change (from prior year)*	5.7%	3.2%	1.0%	7.6%
19	Reversions and Accounting Adjustments	-$58.3	$0.0	-$22.7	$0.0
Reserves					
20	**Year-End General Fund Balance**	**$512.7**	**$375.3**	**$641.5**	**$692.5**
21	*Year-End General Fund as a % of Appropriations*	5.5%	3.8%	6.5%	6.5%
22	*General Fund Statutory Reserve*	$463.9	$635.8	$641.5	$692.5
23	*Above/Below Statutory Reserve*	$48.8	-$260.4	$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.		Actual FY 2015-16	March 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
Revenue					
1	**Beginning Reserves**	**$1,373.6**	**$815.1**	**$473.5**	**$741.7**
2	*State Education Fund*	$684.0	$302.4	$98.2	$100.2
3	*General Fund*	$689.6	$512.7	$375.3	$641.5
4	**Gross State Education Fund Revenue**	**$554.4**	**$569.9**	**$605.0**	**$641.3**
5	**Gross General Fund Revenue /B**	**$9,995.5**	**$10,419.1**	**$10,931.2**	**$11,523.9**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,923.5**	**$11,804.1**	**$12,009.7**	**$12,906.8**
Expenditures					
7	General Fund Expenditures /C	$10,230.7	$10,556.5	$10,665.1	$11,472.8
8	State Education Fund Expenditures	$944.4	$774.1	$603.0	$641.7
9	**TOTAL OBLIGATIONS**	**$11,175.1**	**$11,330.6**	**$11,268.1**	**$12,114.5**
10	*Percent Change (from prior year)*	5.0%	1.4%	-0.6%	7.5%
11	*Reversions and Accounting Adjustments*	-$66.6	$0.0	-$22.7	$0.0
Reserves					
12	**Year-End Balance**	**$815.1**	**$473.5**	**$741.7**	**$792.3**
13	State Education Fund	$302.4	$98.2	$100.2	$99.8
14	General Fund	$512.7	$375.3	$641.5	$692.5
15	*General Fund Above/Below Statutory Reserve*	$48.8	-$260.4	$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	Actual	March 2017 Estimate by Fiscal Year		
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
Transportation-Related /A	**$1,184.7**	**$1,213.8**	**$1,242.3**	**$1,269.8**
Change	1.7%	2.5%	2.3%	2.2%
Limited Gaming Fund /B	**$102.7**	**$104.8**	**$107.6**	**$110.3**
Change	3.4%	2.0%	2.7%	2.5%
Capital Construction - Interest	**$5.2**	**$4.7**	**$3.6**	**$3.1**
Change	-6.6%	-10.6%	-23.8%	-14.0%
Regulatory Agencies	**$68.8**	**$74.1**	**$75.9**	**$77.5**
Change	4.8%	7.7%	2.4%	2.1%
Insurance-Related	**$11.4**	**$13.5**	**$13.6**	**$14.3**
Change	-42.7%	18.2%	1.0%	4.7%
Severance Tax /C	**$18.9**	**$69.2**	**$180.6**	**$189.2**
Change	-93.3%	265.7%	161.1%	4.7%
Hospital Provider Fees	**$804.0**	**$656.6**	**$864.7**	**$859.2**
Change	52.0%	-18.3%	31.7%	-0.6%
Other Miscellaneous Cash Funds	**$731.3**	**$656.6**	**$719.6**	**$741.2**
Change	19.4%	-10.2%	9.6%	3.0%
TOTAL CASH FUND REVENUE	***$2,927.1***	***$2,793.3***	***$3,207.8***	***$3,264.5***
Change	5.4%	-4.6%	14.8%	1.8%

/A Includes revenue from Senate Bill 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 House Bill 09-1272.

/C Severance tax revenue for FY 2015-16 differs from the amount reported by the State Controller's office, as the figures in Table 6 do not include the diversion of income tax revenue to pay for severance tax refunds under Senate Bill 16-218.

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

Line No.		Actual FY 2015-16	March 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
	TABOR Revenues:				
1	General Fund /A	$9,897.3	$10,272.6	$10,811.9	$11,390.1
	Percent Change from Prior Year	1.5%	3.8%	5.2%	5.3%
2	Cash Funds /A	$2,927.1	$2,793.3	$3,207.8	$3,264.5
	Percent Change from Prior Year	5.4%	-4.6%	14.8%	1.8%
3	**Total TABOR Revenues**	**$12,824.4**	**$13,065.8**	**$14,019.7**	**$14,654.6**
	Percent Change from Prior Year	2.3%	1.9%	7.3%	4.5%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.6%	1.9%	1.7%	1.7%
5	Previous calendar year inflation	2.8%	1.2%	2.8%	2.8%
6	**Allowable TABOR Growth Rate**	4.4%	3.1%	4.5%	4.5%
7	TABOR Limit /B	$10,427.6	$10,689.7	$11,170.8	$11,673.5
8	General Fund Exempt Revenue Under Ref. C /C	$2,396.8	$2,376.1	$2,713.8	$2,981.1
9	**Revenue Cap Under Ref. C /B, /D**	**$12,946.5**	**$13,286.7**	**$13,884.6**	**$14,509.4**
10	***Amount Above/Below Cap***	**-$122.1**	**-$220.9**	**$135.1**	**$145.1**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$0.0**	**$0.0**	**$157.8**	**$145.1**
12	TABOR Reserve Requirement	$384.7	$392.0	$416.5	$435.3

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

/B The TABOR limit and Referendum C cap are adjusted to account for changes in the enterprise status of various state entities.

/C Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of money collected in excess of the TABOR limit in accordance with voter-approval of Referendum C.

/D The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "Revenue Cap under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit is based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate." FY 2007-08 was the highest revenue year during the Referendum C timeout period.

/E These adjustments are the result of: (a) changes that were made to State accounting records for years in which TABOR refunds occurred that resulted in changes in required refunds to taxpayers, and (b) the refund to taxpayers in previous years was different than the actual amount required. Such adjustments are held by the State until a future year in which a TABOR refund occurs when they adjust the total refund amount distributed to taxpayers.