COLORADO
Office of State Planning & Budgeting

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The Colorado Outlook

Economic and Fiscal Review

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Summary

- After an increase of just 1.7 percent in FY 2015-16, General Fund revenue is expected to increase a modest 3.4 percent in FY 2016-17. General Fund revenue is forecast to increase at a stronger rate of 6.7 percent in FY 2017-18. Relative to the March projections, the FY 2016-17 General Fund revenue forecast is lower by $62.1 million, or 0.6 percent. The forecast for FY 2017-18 is essentially unchanged.

- Although sales taxes and individual income taxes are recovering from the oil and gas downturn and weaker economic growth during 2015 and 2016, General Fund revenue growth overall this fiscal year was weighed down by a few factors. Notably, it appears some taxpayers delayed income from investment gains in anticipation of federal tax changes. Also, the continued decline in corporate income tax revenue impacted General Fund revenue growth. However, these factors will not reduce growth in FY 2017-18, which will allow for the stronger rate of increase.

- With this forecast and the budget for FY 2016-17, the State's General Fund reserve is projected to be $142.7 million below the required statutory reserve amount. The State's General Fund reserve for FY 2017-18 is projected to be $285.4 million below the required reserve amount. This is $52.3 million above the level that would trigger budget-balancing actions by the Governor.

- Cash fund revenue in FY 2016-17 is projected to be $153.2 million, or 5.2 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 other major categories of cash funds. Cash fund revenue will decrease 17.3 percent in FY 2017-18 as the Hospital Provider Fee is replaced with the Healthcare Affordability and Sustainability Fee program, which is a TABOR-exempt enterprise in accordance with SB 17-267. The forecast for FY 2017-18 is $913.5 million, or 28.5 percent, lower compared with projections in March mostly as a result of SB 17-267.

- TABOR revenue is projected to be $302.3 million under the Referendum C cap in FY 2016-17. With this forecast and SB 17-267, TABOR revenue is expected to be below the cap by $582.8 million in FY 2017-18 and by $665.2 million in FY 2018-19.

- Economic activity in Colorado overall remains positive, with the lowest unemployment in the nation. However, tight labor and housing market conditions are limiting the state's economic expansion. Colorado's technology-related sectors remain robust, and continue to fuel much of the state's growth. Less populated areas continue to experience lower job and income growth than along the Front Range. Furthermore, regions of the state that are dependent on agriculture continue to struggle with subdued farm income and continued low commodity prices. Economic growth for the nation overall has also improved in 2017, but remains more modest than in Colorado. U.S. financial conditions remain generally supportive of expansion. However, financial markets are signaling less robust expectations for the economy than when the March 2017 Colorado Outlook was published

- Although underlying growth in the economy looks solid and recession risk appears low, events can develop that could result in an economic downturn. For example, uncertainty surrounding the resolution of the federal government's debt ceiling later this year could result in disruptions in financial markets. In addition, further tightening in monetary policy in the current modest economic growth and low inflation environment may result in slowing economic conditions.

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 largely unchanged from the March 2017 Colorado Outlook. The economy has performed as expected in recent months, and there have been no major new developments that would affect the expected future path of the economy. This section includes an analysis of:

- Economic and labor market conditions in Colorado (page 5)
- Economic, financial, and labor market conditions for the nation (page 15)
- Housing market conditions (page 25)
- International economic conditions and trade (page 30)

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 of the economy.

Summary — Colorado's economic growth has accelerated in the first half of 2017, and the expansion is expected to continue at a moderate pace through the forecast period. Colorado's technology-related sectors remain robust, and continue to fuel much of the state's growth. Further, the oil and gas industry is now modestly adding to the expansion rather than weighing on economic activity. There is also renewed vigor in new business formation, which will contribute to continued economic growth.

Although Colorado has the lowest unemployment rate in the nation, tight labor and housing market conditions are constraining the state's economic expansion. Less populated areas continue to experience lower job and income growth than along the Front Range. Furthermore, regions of the state that are dependent on agriculture continue to struggle with subdued farm income and continued low commodity prices.

Economic growth for the nation overall has also improved in 2017, but remains more modest than in Colorado. Business contacts across the country report modest to moderate economic growth, with tightening labor market conditions. Further, leading economic indicators point to continued expansion in the coming months. Importantly, U.S. financial conditions remain generally supportive of expansion. However, financial markets are signaling less robust expectations for the economy — an important factor in its actual future performance — than when the March 2017 Colorado Outlook was published, due mainly to lower expectations for pro-growth policies from the federal government.

Economic risks — Although underlying growth in the economy looks solid and recession risk appears low, events could develop that would change this outlook. For example, the federal government's debt ceiling will be reached later this year, and uncertainty surrounding the resolution of this issue could result in disruptions in financial markets. In addition, there are concerns that equity markets are excessively valued. A large enough market correction could cause investors, businesses, and households to reduce spending in the economy. Further, changes in monetary policy can have a large influence on economic conditions. The Federal Reserve has signaled that monetary tightening will continue, including through a reduction in the assets held on its balance sheet. Further tightening in monetary policy in the current modest economic growth and low inflation environment may result in slowing economic conditions.

Colorado Economy

Economic activity in Colorado overall remains positive, with the lowest unemployment rate in the nation. However, tight labor and housing market conditions are limiting the state's economic expansion. Colorado's technology-related sectors remain robust, and continue to fuel much of the state's growth. Further, the oil and gas industry is now modestly adding to the expansion rather than weighing on economic activity as it did in 2015 and 2016. There is also renewed vigor in new business formation, which will contribute to continued economic growth.

Although unemployment across the state is low, areas outside of Colorado's Front Range have fewer of the elements that are fueling the expansion, and thus have slower job and income growth. Further, regions of the state that are dependent on agriculture continue to struggle with subdued farm income and continued low commodity prices.

Economic activity in Colorado overall remains positive, with the lowest unemployment rate in the nation.

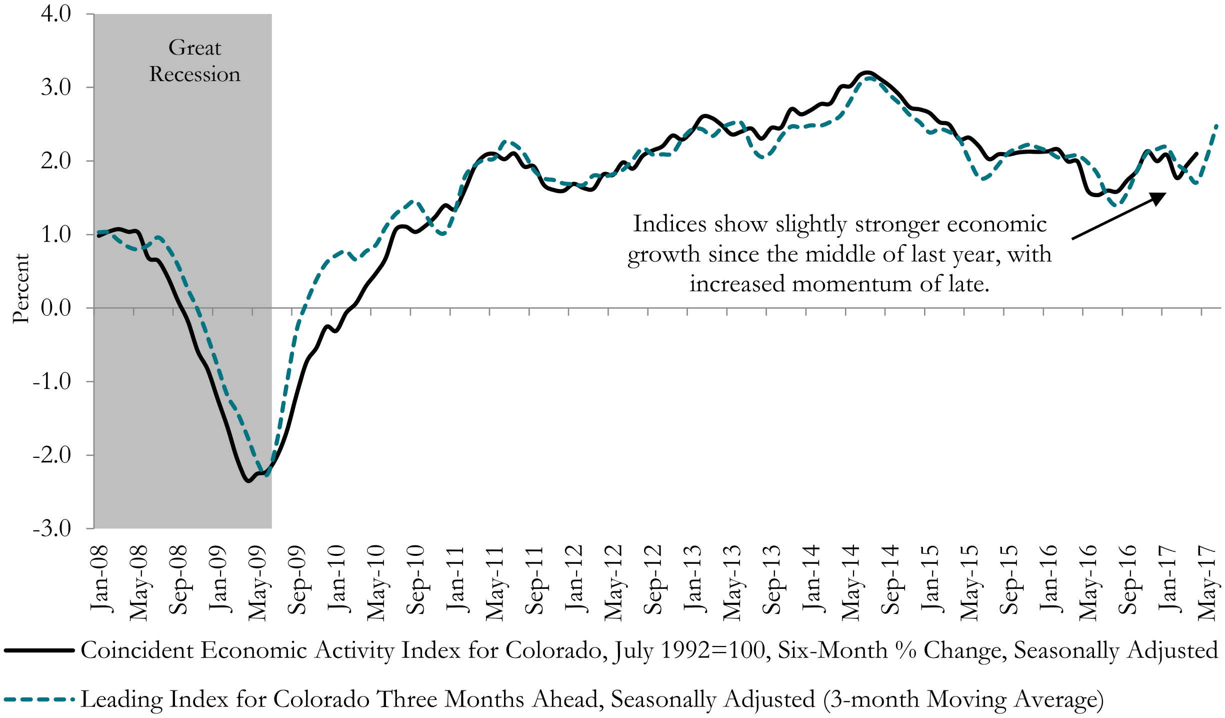
Housing construction is growing, but remains at low levels as the industry continues to struggle with several challenges. The low inventory of homes for sales amidst strong demand from the state's growing population continues to put upward pressure on home values and raises increasing affordability concerns. Nonresidential construction remains robust, though new development is likely to slow in the future as financing for new development has tightened.

Indices that measure Colorado's overall economy show slightly stronger economic growth – As shown in Figure 1, the Federal Reserve Bank of Philadelphia's monthly State Coincident Economic Activity Index is indicating modestly higher growth for Colorado's economy in recent months. The monthly index provides an up-to-date broad measure of state economic activity and matches growth in a state's gross domestic product (GDP) over time. It 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. The coincident index also shows the slowdown in the state's economy over 2015 and 2016 that was due mostly to the contraction in the oil and gas industry and tight labor market conditions.

Economic indices that measure broad economic activity show slightly stronger growth for Colorado, with increased momentum of late.

Another index of broad economic activity for Colorado shows that economic growth is likely to experience increased momentum in the near term. The Philadelphia Federal Reserve Branch's Leading Index for Colorado predicts the growth rate of the state's coincident index. To show this relationship, Figure 1 overlays the leading index, advanced three months, with the coincident index. Among the activities used to create the leading index are housing permits, initial unemployment insurance claims, and delivery times from vendors to producers. These economic indicators have been found to precede changes in momentum in the overall economy.

Figure 1. Colorado Leading and Coincident Economic Indices



Source: Federal Reserve Bank of Philadelphia

Colorado's dynamic economy continues to generate a stronger economic expansion than the U.S. overall **–** Despite the slowdown in growth starting in 2015, Colorado's economy has continued to perform better than the nation overall. Much of this stronger performance is due to the state's economy being more dynamic than that of the nation, with higher rates of new business creation, a greater proportion of young businesses, higher labor force participation, and a more flexible labor market. All of these characteristics enable the state's economy to adapt to changing conditions and move resources to more productive activities, which generate larger gains in income and spending.

Economic Innovation Group, a bipartisan policy and advocacy organization that works to foster economic growth and dynamism, recently released an Index of State Dynamism based on the aforementioned characteristics of dynamic economies. The index ranked Colorado as the fourth most dynamic state in the U.S. Nevada, Utah, and Florida ranked the highest. However, according to the index report, Colorado's economic dynamism has declined over time, as it has for the U.S economy overall.

New business formation is showing renewed vigor **—** Trends in business formation are important for assessing the underlying momentum in the economy. Increased levels of business formation indicate that individuals are seeing more opportunities in the economy, and new businesses, on net, add the most new jobs to an economy over time.

Renewed growth in new business formation is supporting continued economic growth for the state.

As shown in Figure 2, data from the Colorado Secretary of State indicates that filings of new entities formed to do business in the state, which mostly consist of limited liability companies and corporations, increased by 2,750, or 9.5 percent, in the first quarter of 2017 compared with the year prior. This higher level of new business activity will help support continued economic growth for the state. New entity filings slowed in 2015 and the first part of 2016, contributing to the slowdown in the economy.

Figure 2. Year-over-Year Change in New Entity Filings to Do Business in Colorado

Source: Colorado Secretary of State

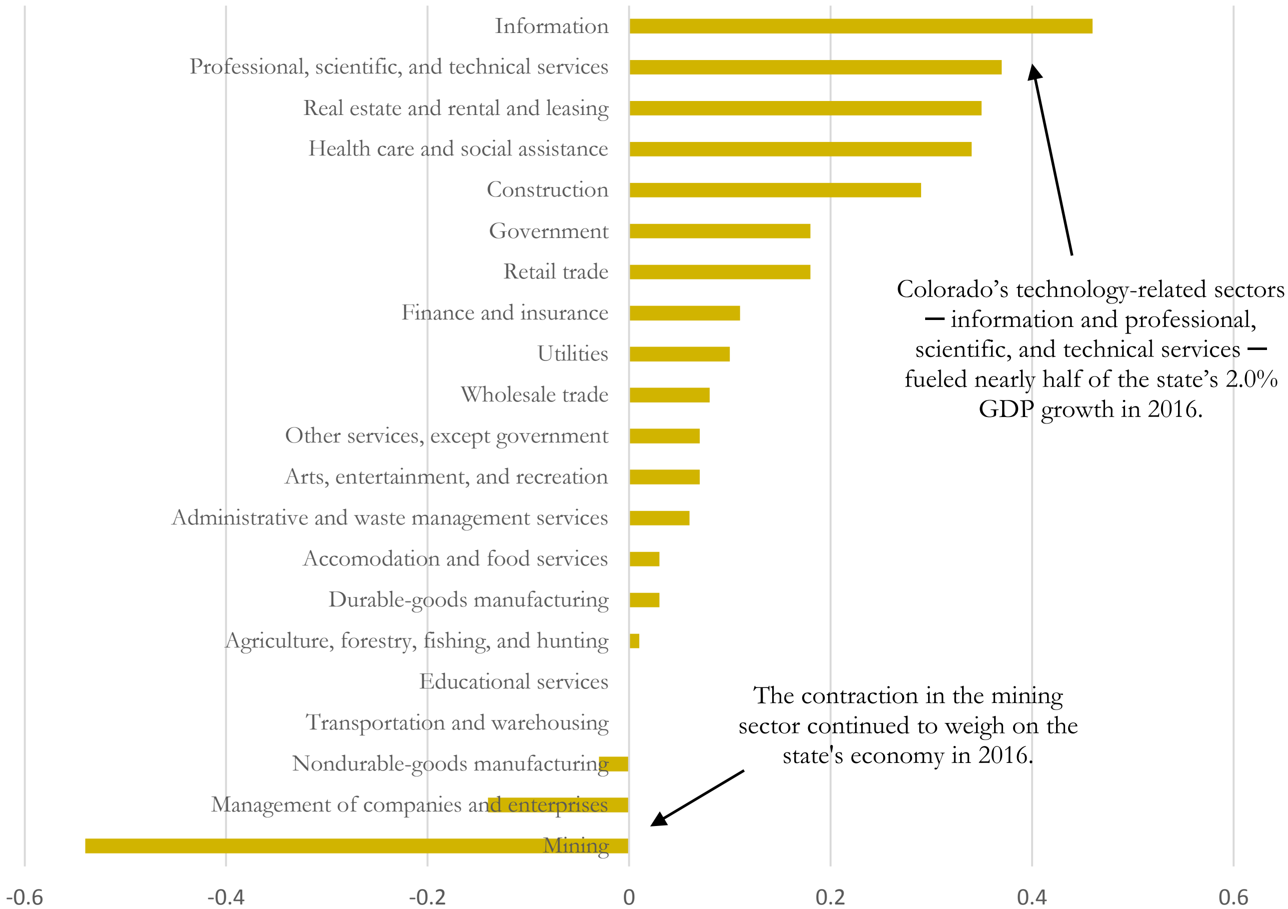
The Kauffman Foundation, a leading organization for entrepreneurship research and advocacy, recently ranked Colorado 5th among the 25 largest states in its 2017 Index of Startup Activity, which measures startup business activity by assessing the percentage of people becoming entrepreneurs, the percentage of new entrepreneurs driven primarily by "opportunity" vs "necessity," and the amount of new employer businesses.

***Colorado's technology-related sectors are fueling much of the state's economic expansion* —** Colorado's technology sectors are a main element in the state's higher level of dynamism than the U.S. overall and continue to fuel much of the economic expansion for the state. Figure 3 shows the percentage point contribution from various sectors to Colorado's growth in real, or inflation-adjusted, gross domestic product in 2016.

Colorado's technology sectors contributed nearly half of the state's 2.0 percent overall GDP growth in 2016.

The information and professional, scientific, and technical services industries – which comprise most technology sectors, such as computing and software development, data processing, communications, architecture, and engineering – contributed nearly half, or 0.8 percentage points, of the 2.0 percent overall GDP growth in 2016. Real estate, health care, and construction were also leading contributors to growth. As shown in Figure 3, the mining sector continued to weigh on the state's economic growth in 2016, when it subtracted 0.5 percentage points from GDP. This means that state GDP growth would have been 0.5 percentage points higher were it not for the mining industry's continued contraction last year. The 2.0 percent overall GDP growth rate was the state's slowest since 2011, with the mining sector's contraction and tight labor and housing market conditions constraining growth.

Figure 3. Percentage Contribution to GDP Growth in Colorado in 2016



Source: Bureau of Economic Analysis

New business formation in technology sectors is an important source of Colorado's growth and dynamism — Colorado's technology sectors continue to be robust, aided by a maturing ecosystem that is fostering the growth of technology businesses, including new business startups. The industry continues to attract capital and high-skilled workers to the region, which is generating growth and income gains in the state.

There were over 2,400 new business formations in Colorado's technology sectors in 2016. This startup activity is a main element in Colorado's economic expansion.

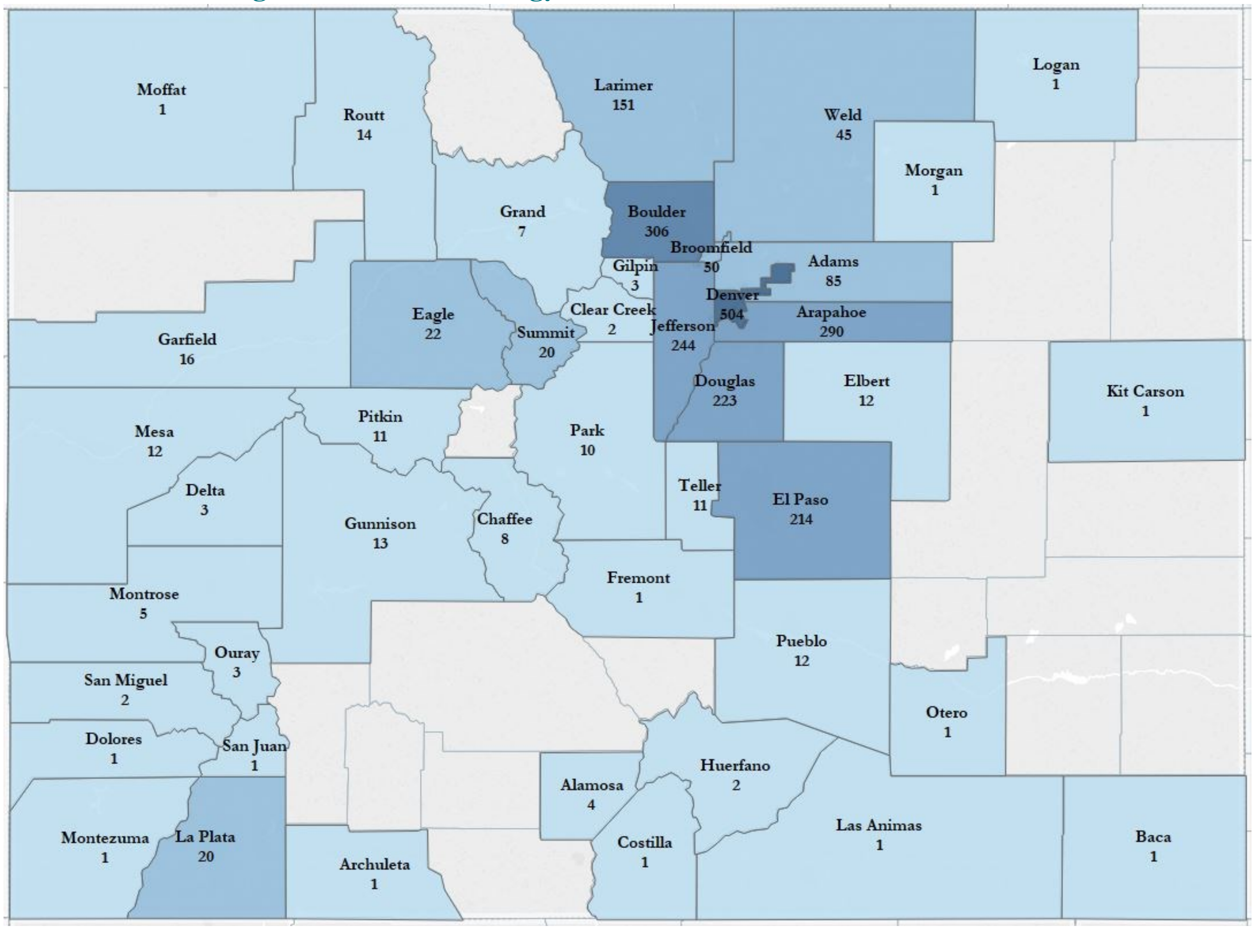
Technology sectors sell much of their products outside the region, generating new income for the state. They are also involved with innovative activities and have high-paying jobs. As a result, growth in technology sectors leads to job growth in other sectors, from doctors and lawyers to services jobs such as restaurants and personal services. Economic research has found that for every technology-related job created, five additional jobs are created over time in other sectors. [1]

New business formation in technology sectors was strong in 2016, helping generate continued economic momentum and job and income gains for the state. New businesses in technology sectors represented approximately 10 percent of all new business formations in 2016.

[1] Moretti, Enrico. The New Geography of Jobs. Boston: Houghton Mifflin Harcourt, 2012.

Figure 4 shows the location of the approximately 2,400 new firms in technology formed in 2016. Large numbers of these businesses are forming in densely populated areas, but as shown, activity in technology sectors is occurring across the state. About 80 percent of the new business formation in the technology-related sectors occurred in the following industries: software publishers, data processing, engineering, computer programming, and computer systems design.

Figure 4. New Technology Businesses Formed in Colorado, 2016



Source: Colorado Department of Labor and Employment and OSPB

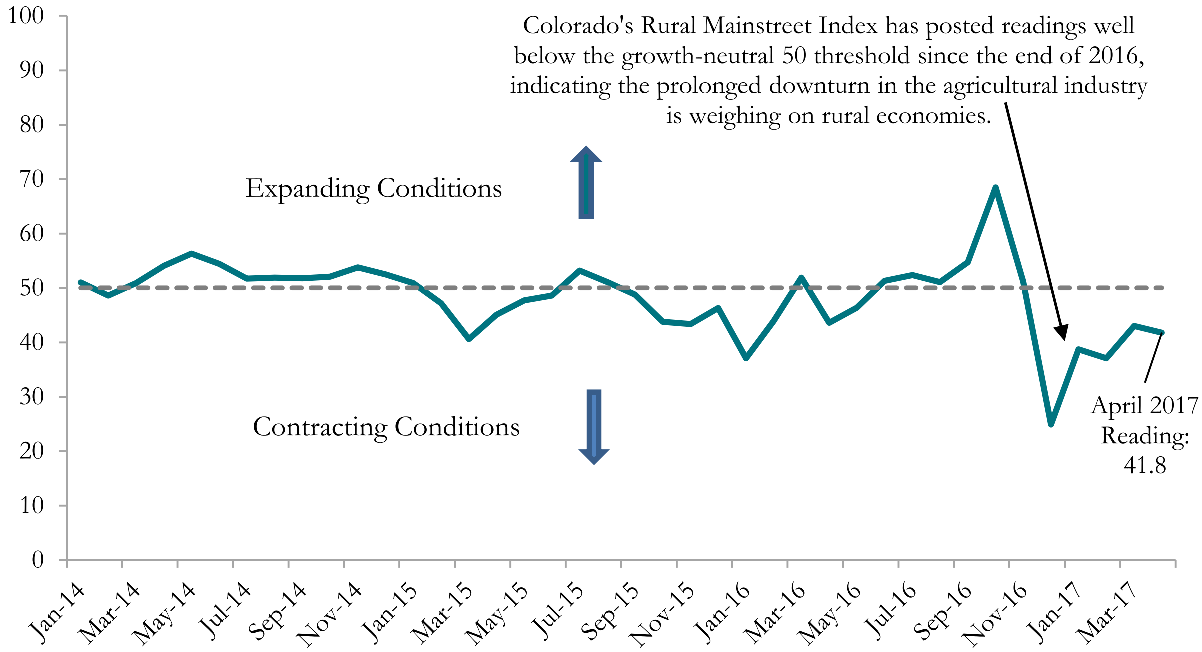
A prolonged downturn in the agricultural industry continues to weigh on economic activity in the state's rural areas — Agricultural conditions remain weak due to subdued farm income and continued low commodity prices. These conditions result in challenging economic conditions in rural economies, especially due to the prolonged downturn in the corn, cattle, and wheat markets. Many farmers and ranchers face financial stress. Farmland values continue to fall and credit conditions continue to worsen, with increased farm loan demand to maintain operations, increasing debt burdens, and weakening loan repayment rates.

Farmland values continue to fall and credit conditions continue to worsen for farmers and ranchers as a result of the prolonged downturn in the agricultural industry.

Colorado's rural economies, as measured by Colorado's Rural Mainstreet Index published by Creighton University, are experiencing contracting economic conditions. The index has mostly posted weak readings since the end of 2014, as shown in Figure 5, though conditions temporarily improved during the last half of

2016. The index measures economic activity in rural areas by surveying community banks on current economic conditions and their economic outlooks. Index readings above 50 signify growth. The index decreased in April to 41.8, due mostly to weakening farming and ranching prices and lower expectations for hiring.

Figure 5. Colorado's Rural Mainstreet Index



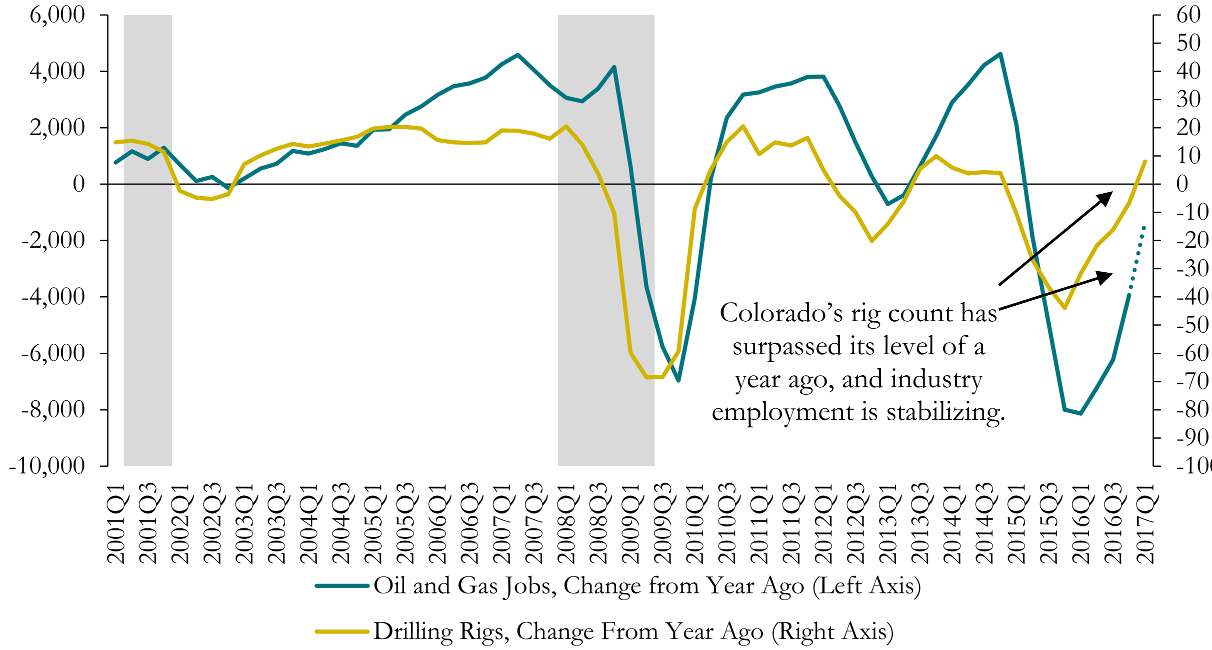
Source: Creighton University

Oil and gas industry activity continues to improve, though it remains at a relatively low level – Regional oil and gas activity expanded in the first quarter of 2017, according to a survey of regional energy producers by the Federal Reserve Bank of Kansas City, recording the second-strongest expansion since the survey began at the beginning of 2014. Oil prices have increased modestly, allowing producers to expand activity and hire more workers. The survey also revealed that revenues, profits, wages, and employment are all expected to increase over the next six months.

Regional oil and gas producers recorded their second-strongest quarter of business activity since measurement began in 2014.

The growth in regional energy activity is credited to increased global demand, along with OPEC's (Organization of the Petroleum Exporting Countries) production cuts. The increased activity is reflected in the higher rig count and employment data for Colorado, shown in Figure 6, as the industry continues to recover from the sharp drop in energy prices and activity that began in late 2014.

Figure 6. Year-over-Year Change in Oil and Gas Industry Employment and Rig Counts*

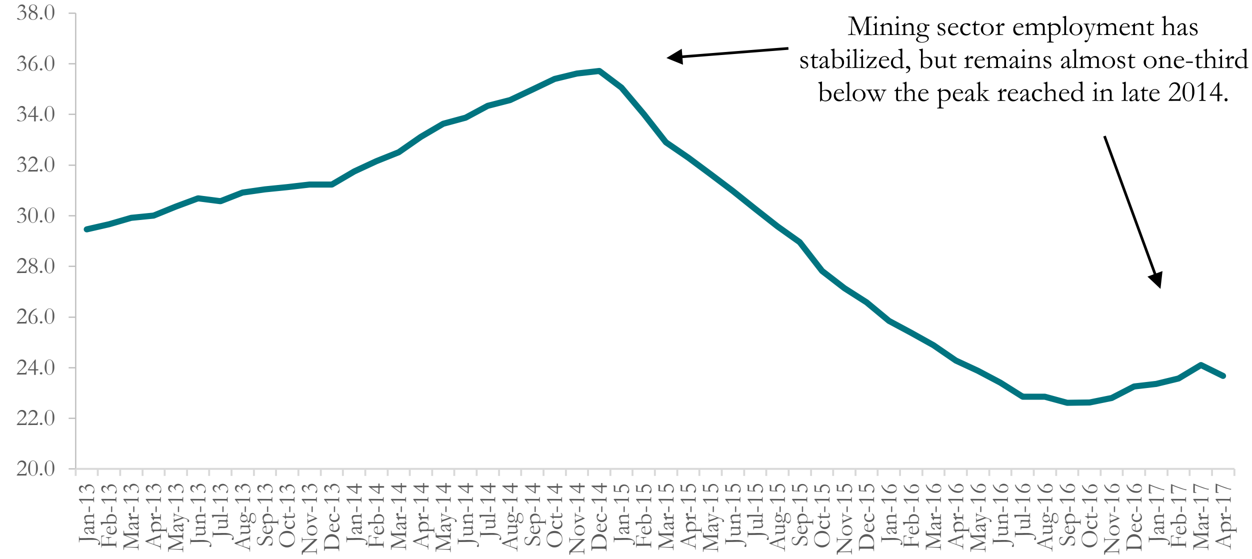


*Dotted portion of line based on preliminary estimates
Source: Baker Hughes, U.S. Bureau of Labor Statistics

Employment in the mining and logging sector seems to be stabilizing. Figure 7 shows statewide employment in the mining and logging sector since early 2013. While still far below the boom-period highs of late 2014, industry employment has been growing since fall 2016. According to the Kansas City Fed's survey of regional energy producers, only 13 percent of regional energy firms expect to employ fewer people in 6 months than they do today, while 29 percent expect to employ more.

Twenty-nine percent of regional energy firms expect to employ more people in 6 months than they do today, while only 13 percent expect to employ less.

Figure 7. Colorado Mining and Logging Industry Employment



Source: U.S. Bureau of Labor Statistics

U.S. oil producers are expanding production in response to OPEC production cuts – In November of 2016, OPEC members agreed to reduce oil production in an attempt to limit oil supply and increase prices. This agreement was extended in May for a further nine months. While participating nations have managed a high rate of compliance with the cuts, the resulting higher prices have induced U.S. oil producers to expand their production, limiting the effectiveness of OPEC's agreement. Global demand for oil has also been weaker than expected, largely due to slowing activity in the Chinese manufacturing sector. Overall, the U.S. Energy Information Administration expects global consumption to slightly exceed production in 2017, leading to minor reductions in oil inventories.

U.S. oil producers are increasing production in response to OPEC's agreement to cut output, limiting the effectiveness of the agreement's ability to boost prices.

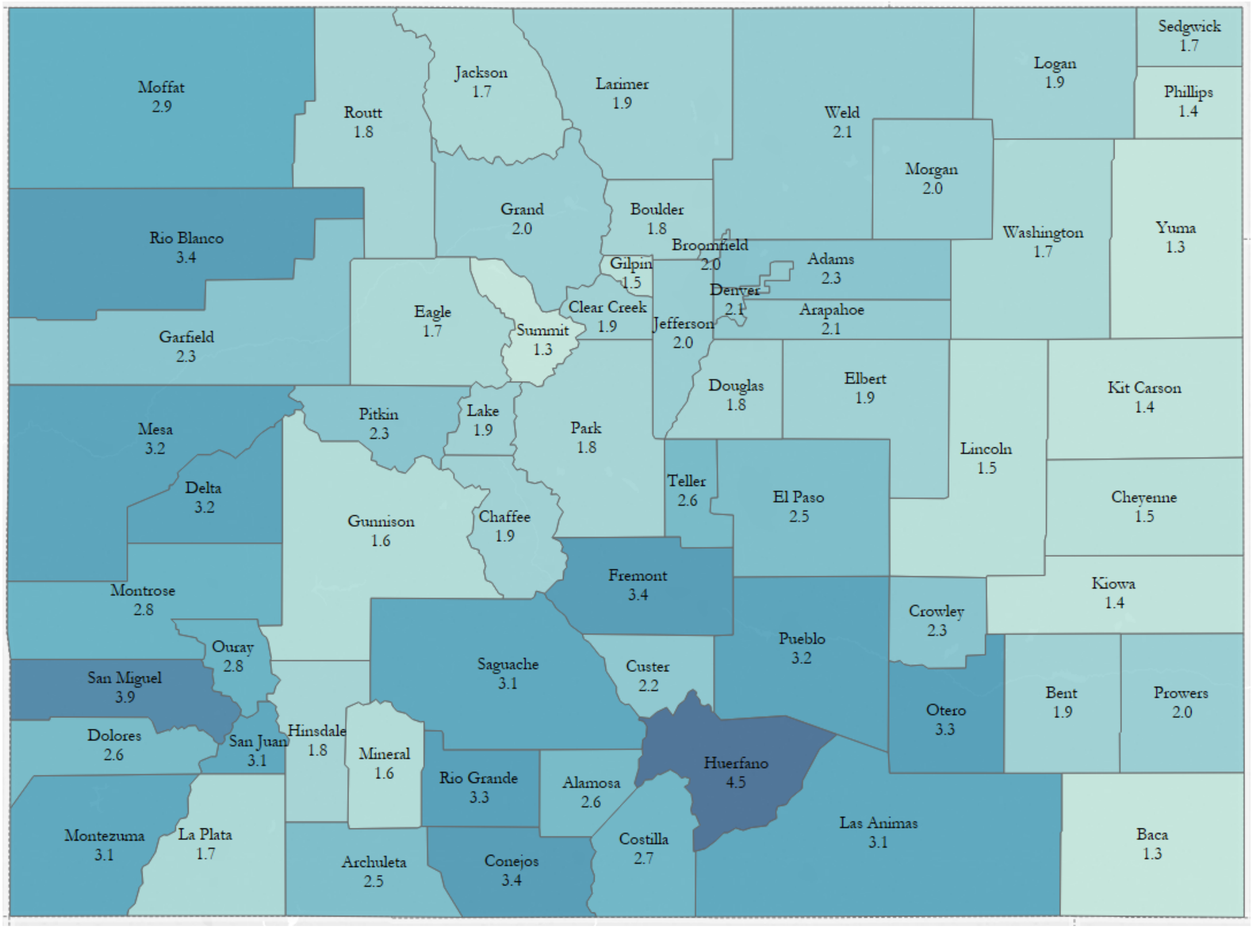
Colorado's unemployment rate remains at historically low levels – The unemployment rate in Colorado hit its lowest level since measurement began in 1976, at 2.4 and 2.3 percent in March and April, respectively. Colorado's statewide unemployment rate was the lowest in the U.S. in both months.

Colorado has the lowest unemployment rate among states, while Denver has the lowest unemployment rate among cities with more than 1 million people.

The broadest measure of unemployment – the "U-6" rate, which also counts individuals who would like to work but have not looked for a job in the prior four weeks, as well as part-time workers who would like full-time employment – was at 6.9 percent in the first quarter of 2017, below the pre-recession low of 7.3 percent in 2007. While this is a positive environment for job seekers, the state's low unemployment is likely acting as a constraint on economic growth by making it difficult for employers to find qualified candidates to fill open positions.

On a county level, the highest unemployment rates are in the counties of south-central Colorado and along the western slope, as shown in Figure 8. Only one of Colorado's 64 counties – Huerfano, at 4.5 percent – had a non-seasonally adjusted unemployment rate above the national average of 4.1 percent in April.

Figure 8. Unemployment Rate by County, April 2017, Non-seasonally Adjusted

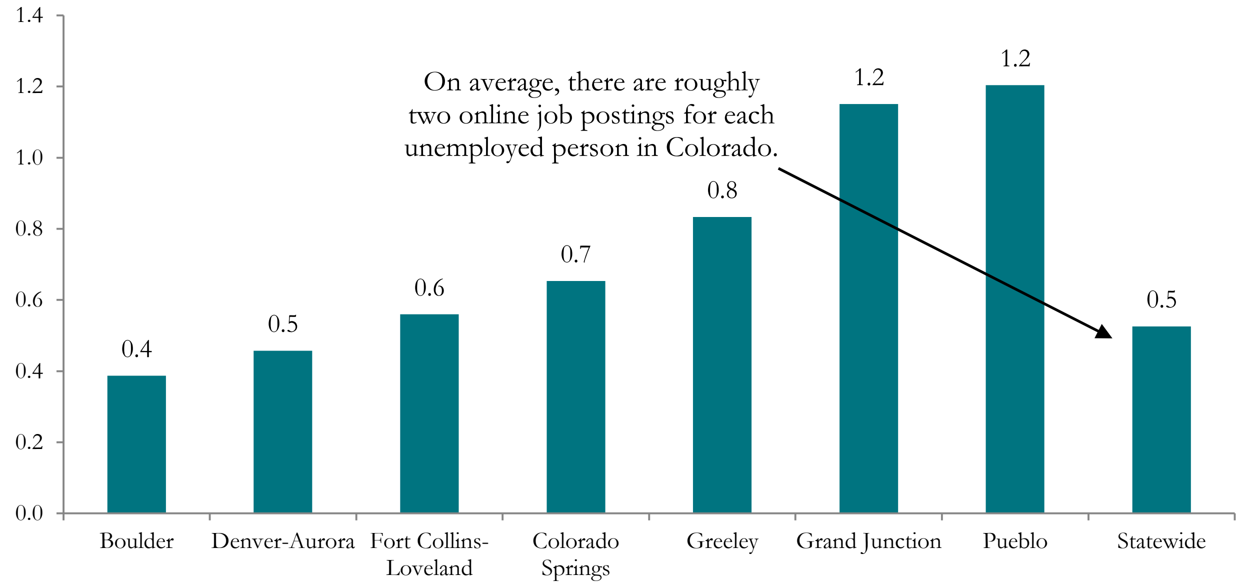


Source: U.S. Bureau of Labor Statistics

Colorado's tight labor market is slowing job growth – Colorado's year-over-year job growth was 1.8 percent in April, down from 2.5 percent a year ago. This slowing is likely at least partially due to the lack of available workers, as the state had only 0.6 unemployed people per online job posting in May according to the Conference Board. This is the lowest ratio in the country and well below the national average of 1.5 unemployed people per online job posting.

The ratio of the number of unemployed to online job postings provides a measure of the tightness of the labor market. Figure 9 shows the ratio of unemployed people to online job openings in April for each metro area in Colorado. Every metro area is below the national average, and only Grand Junction and Pueblo have more than one unemployed person per job opening.

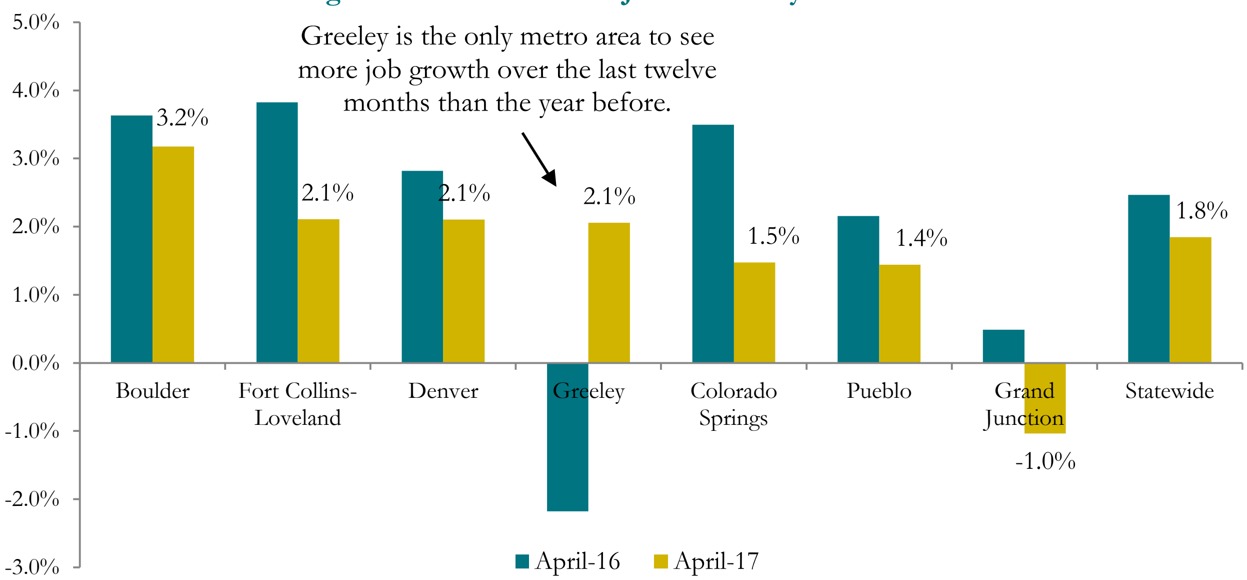
Figure 9. Supply and Demand of Jobs by Metro Area, April 2017



Source: The Conference Board, U.S. Bureau of Labor Statistics

Among metro areas, Boulder has experienced the most job growth over the last twelve months, at 3.2 percent, followed by Fort Collins, Denver, and Greeley, all at 2.1 percent job growth. Grand Junction was the only metro area to lose jobs over the last twelve months, while Greeley was the only metro area to experience faster job growth than the prior year, as shown in Figure 10.

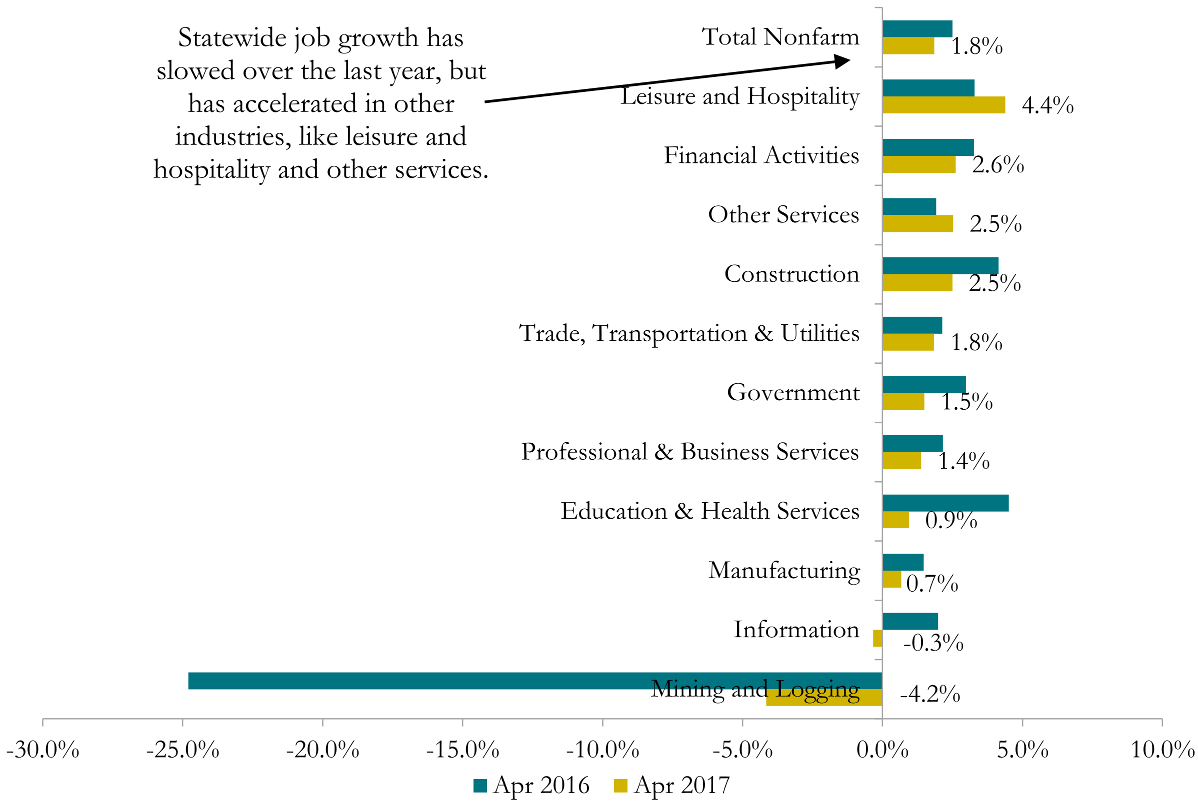
Figure 10. Year-over-Year Job Growth by Metro Area



Source: Colorado Department of Labor and Employment modified estimates

As seen in Figure 11, leisure and hospitality was the industry that posted the largest year-over-year job growth, growing by more than four percent. Information and mining were the only industries to have fewer jobs in April than a year ago.

Figure 11. Colorado Year-over-Year Job Growth by Industry



Source: Colorado Department of Labor and Employment modified estimates

U.S. Economic Conditions

The US economy, now in the eighth year of sustained economic growth, grew at a modest 1.2 percent annualized rate in the first quarter of 2017.

***The U.S economic expansion continues at a modest pace*—**The U.S. economy expanded at an annualized rate of 1.2 percent in the first quarter of 2017. The modest growth was driven primarily by business investment, with a slight increase in consumer spending. The current expansion is now in its 96th month, making it the third longest in U.S. history. Leading economic indicators point to further expansion in the coming months. Business and consumer confidence measures continue to reflect stable to modest growth expectations.

The labor market has recorded 80 straight months of job growth. The headline unemployment rate of 4.3 percent is the lowest in 16 years, although wage growth at an aggregate level continues to increase only gradually.

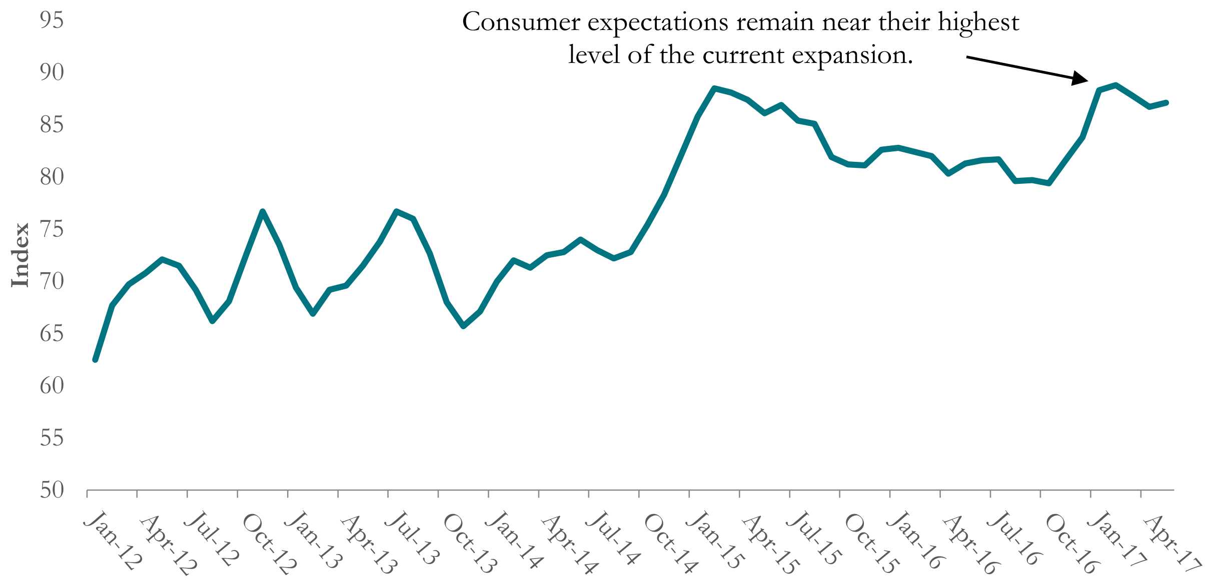
***Business contacts from across the nation report modest growth*—**The Federal Reserve beige book survey of business and other contacts around the nation reported that economic activity continued to expand in April and May with most of the Federal Reserve's 12 districts reporting modest to moderate economic growth. Consumer spending softened across most districts as auto sales continue to slow. Modest growth was reported in the manufacturing and non-financial services sectors while construction activity expanded at modest to moderate rates.

Bank lending continues to match overall economic activity. Although most districts report tightening labor market conditions that are limiting the ability of firms to attract and retain qualified workers, employment and wage growth continued at modest to moderate paces.

Business contacts across the country report modest to moderate economic growth, with tightening labor market conditions.

Consumer confidence remains high, but is leveling off – As shown in Figure 12, the Michigan Index of Consumer Expectations remains near its highest level of the current economic expansion. The recent higher values for the index signal optimism about the economy going forward, especially in the job market.

Figure 12. Index of Consumer Expectations



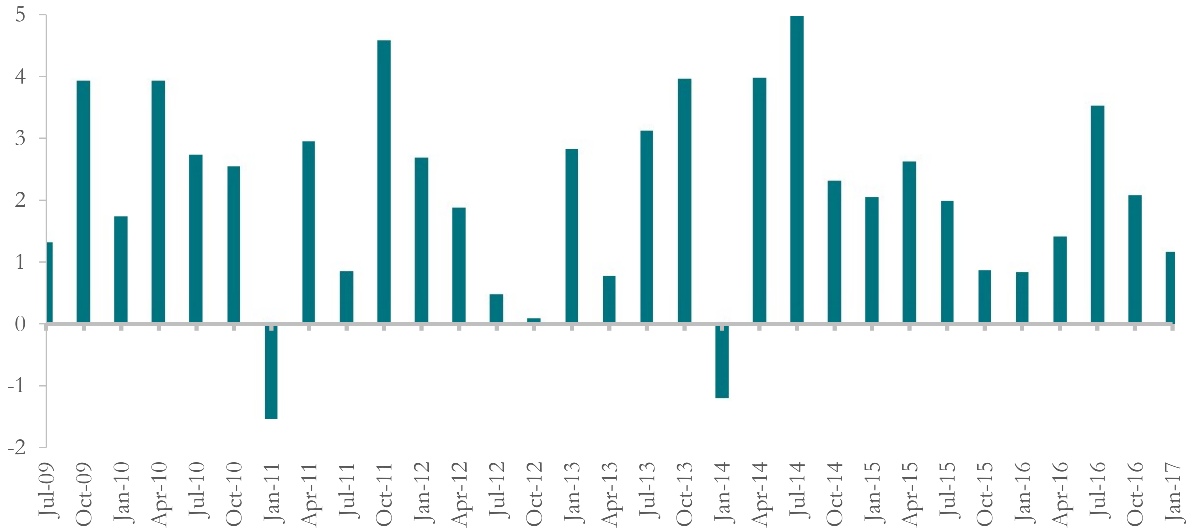
Source: University of Michigan

Gross domestic product growth remains modest — Figure 13 shows the quarter-over-quarter 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 change in the real value of goods and services produced in the economy. The 1.2 percent increase in real GDP in the first quarter of 2017 is attributed to increases in both residential and non-residential investment, consumer spending, and goods exported to other countries.

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

Growth has been more tepid during the current expansion than during previous economic expansions. An aging population and lower productivity gains are two of the main factors in the weak growth. This weak growth leaves the economy more vulnerable to adverse shocks that may cause a broad pullback in hiring, spending, and investment. However, growth is forecast to continue at a modest 2.2 percent for 2017 and 2.3 percent in 2018.

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



Source: Bureau of Economic Analysis

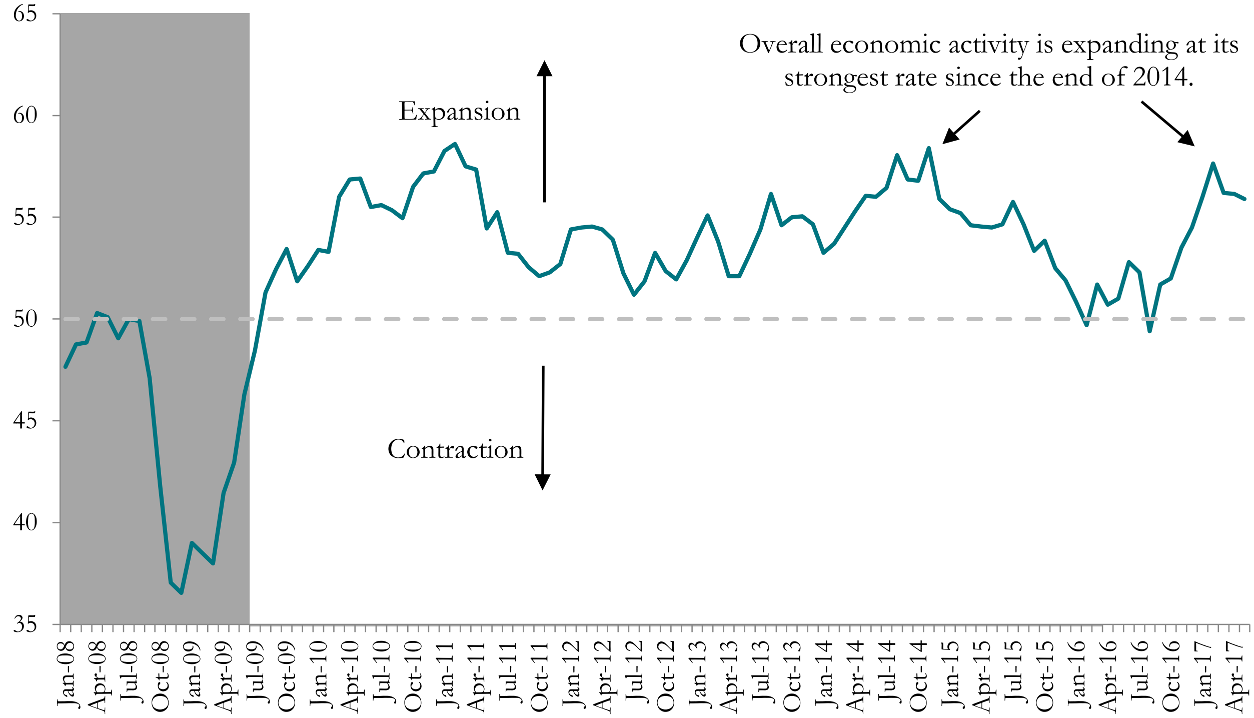
Other measures show economic activity expanding at a higher rate thus far in 2017– The Manufacturing Composite Index and the Non-Manufacturing Composite Index, both published by the Institute for Supply Management (ISM), report the momentum of economic activity as assessed by businesses across the country and in most industries. The May indices show that both the manufacturing and non-manufacturing sectors continue to expand. These 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. An average of the two indices, reported in Figure 14, provides a reliable barometer of overall U.S. economic activity.

The ISM non-manufacturing index, which tracks the largest portion of U.S. economic activity, continues to show modest expansion, driven by strong growth in the employment component of the index.

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, registered 56.9 in May, representing the eighty-ninth month of continued growth. The index remains above the 50 threshold, indicating that the non-manufacturing sector of the economy is continuing to grow at a slightly faster pace thus far in 2017 than last year. Further, the employment component of the index increased 6.4 percentage points with all but one industry reporting employment gains, echoing continued confidence in the economy in 2017.

The ISM manufacturing sector index registered 54.9 in May, a 0.1 percentage point increase over April with fifteen of the eighteen manufacturing industries surveyed reporting higher production activity with only the apparel and textiles industries reporting a slowdown.

Figure 14. Average of ISM Manufacturing and Non-Manufacturing Indices*



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

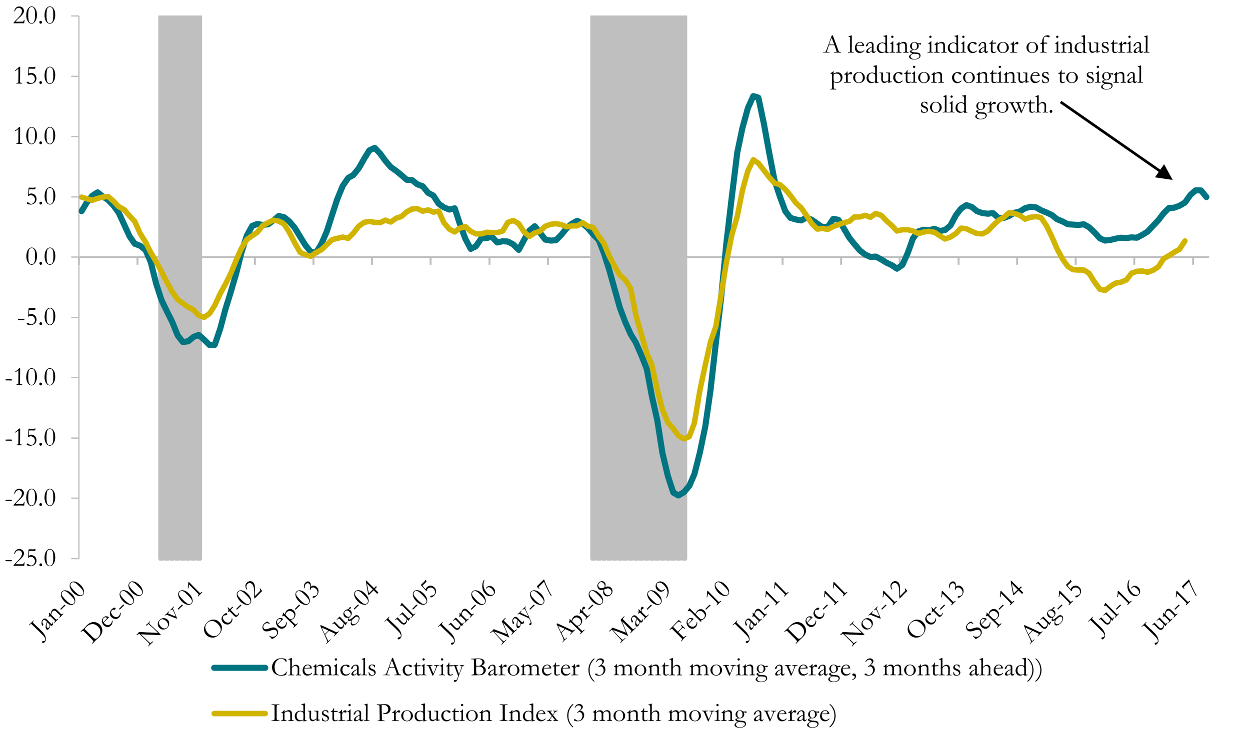
Industrial production continues to recover from its downturn **—** Total industrial production in the U.S., which includes the output of the mining, manufacturing, and utilities industries, has improved modestly over the past year, growing 1.3 percent in April over a year ago.

A leading indicator of industrial production in the U.S., called the Chemical Activity Barometer (CAB) published by the American Chemistry Council, has been indicating stronger growth, though the signal has moderated of late. The CAB was up 5.0 percent in May over a year ago.

A leading indicator of U.S. industrial production signals continued growth in the coming months.

Conditions in the chemical industry help anticipate the future trajectory of industrial production. This is due to the use of chemicals as inputs in industrial production processes. Figure 15 shows the recent trends in the CAB, as well as its relationship with industrial production for the U.S. The CAB is derived from a composite of indicators of the chemical industry, including prices, equity values, and business activity. The CAB also contains broader measures of the economy that tend to be leading indicators of overall economic activity, including building permits and new business orders.

Figure 15. Year-over-Year Percent Change in Chemical Activity Barometer and Industrial Production



Source: American Chemistry Council, Board of Governors of the Federal Reserve System

Corporate earnings show renewed strength —According to Factset, a financial data and analysis firm, the earnings of companies within the S&P 500 stock market index grew at a solid rate in the first quarter of 2017, posting a 12.5 percent increase over the prior year. Further, analysts expect continued growth. The estimated earnings growth rate for companies is 6.6 percent in the second quarter of 2017 compared to a year ago.

Global economic expansion and the recovery in the energy sector are fueling increases in corporate earnings.

This continued growth in corporate earnings is led by the rebounding energy sector with expected growth in earning of 17.5 percent in the second quarter of 2017. Stronger growth internationally, a softening in the value of the U.S. dollar, and the stabilization of oil prices have all boosted corporate earnings.

Financial markets are signaling expectations for stable, yet subdued economic growth — U.S. financial conditions continue to be generally supportive of expansion. A pickup in global economic growth has helped bolster financial markets, especially equities. However, the markets are signaling less robust expectations for the economy than when the March Colorado Outlook was published, due mainly to lower expectations for pro-growth policies from the federal government and the continuation of only modest U.S. economic growth.

Figure 16 shows trends in key financial indicators that tend to be associated with future economic growth – the S&P 500 stock market index, five-year Treasury inflation-protected securities (TIPS) spreads, copper prices, three-month Treasury bill yields, two-year Treasury yields, the U.S. dollar index, and oil price futures.

The combination of mostly stable equity values, interest rates, expected inflation, commodity prices, and the value of the dollar currently signal expectations for steady, yet mostly subdued growth in the economy.

However, this signal can change quickly based on new information and updated assessments on the expected path of the economy.

Financial markets are signaling expectations for continued stable, yet modest economic growth. Expectations are an important factor in how the economy will actually perform.

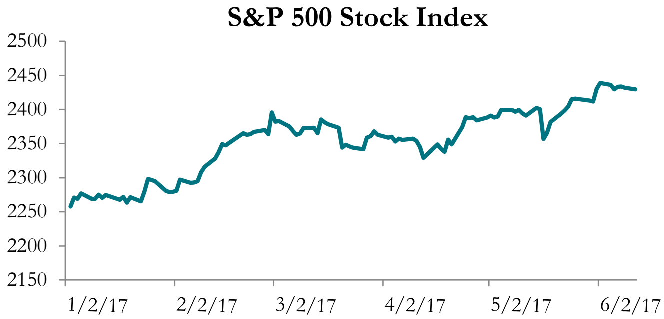
OSPB utilizes financial market information to help inform its forecast. Financial markets are mostly forward looking, reflecting expectations of the future path of the economy — an important factor in how the economy will actually perform. In addition, financial conditions determine the level of businesses' access to funding to meet their needs for operations and expansion. Further, financial markets incorporate sound forecasting principles. They reflect the many different perspectives of investors and risk managers who are evaluating a large amount of information, and as such financial markets are powerful aggregators of information on the condition of the economy. Moreover, financial market indicators are continually updated based on new information, and investors have an incentive to make accurate assessments.

The stance of monetary policy, which can exert a large influence on economic conditions, appears appropriate and supportive of continued expansion — Indications from financial markets can also be used to determine the appropriate stance of monetary policy. Monetary policy can have a large influence on economic conditions by helping ensure a stable flow of money in the economy and through setting expectations for future nominal growth. Monetary policy tightened recently as the U.S. Federal Reserve has raised its target for the federal funds rate in December of last year and twice again this year in March and June. It also signaled further gradual tightening, dependent upon future economic data.

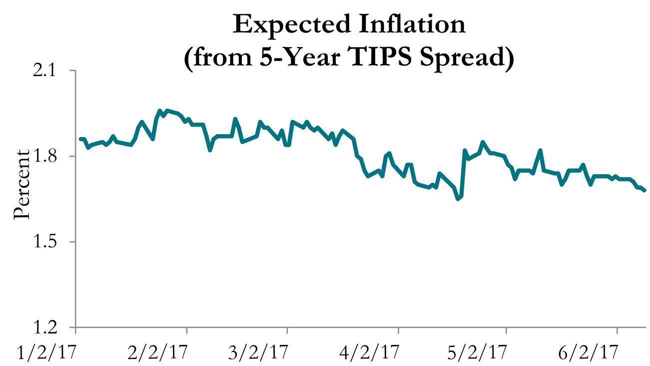
The stance of monetary policy appears generally appropriate and supportive of continued expansion.

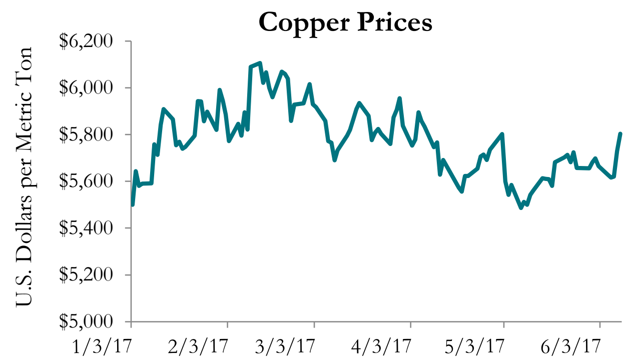
Continued positive financial conditions amidst the recent monetary policy tightening indicates that the stance of policy has generally been appropriate given current and expected economic conditions. Therefore, monetary policy appears to be supportive of continued economic expansion. However, the recent softening in expected inflation shown in Figure 16 suggests that the Federal Reserve should be cautious in further tightening monetary policy.

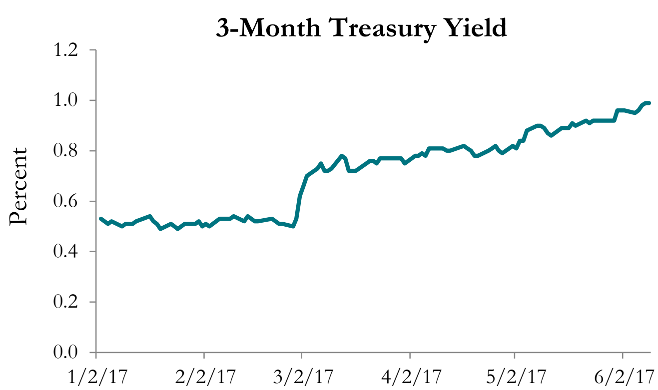
Figure 16. Key Financial Market Indicators on Expectations for Economic Growth, Daily since January 2017

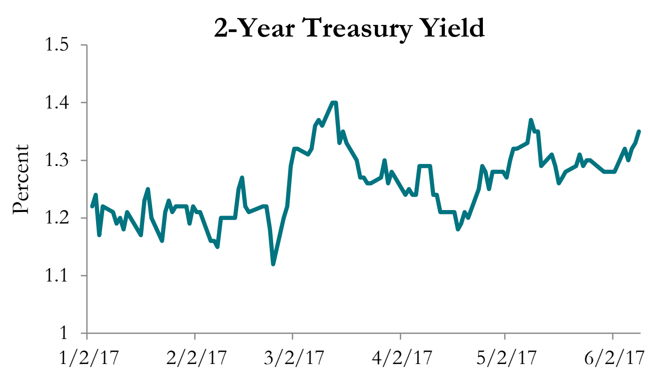


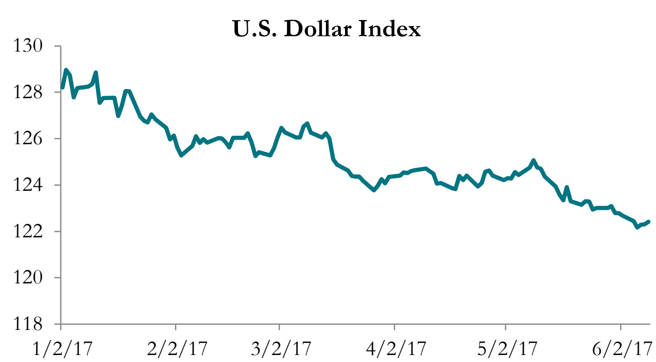
Trends in equity values and interest rates currently signal expectations for stable modest growth in the economy, though expected inflation has softened, as have oil prices, reflecting the continuing oil supply glut. Combined, these indicators can be reliable predictors of future economic activity.

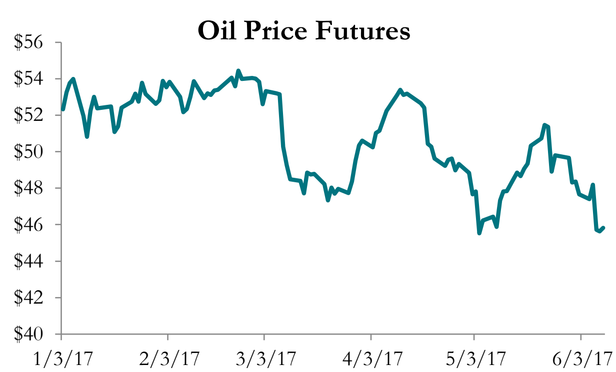








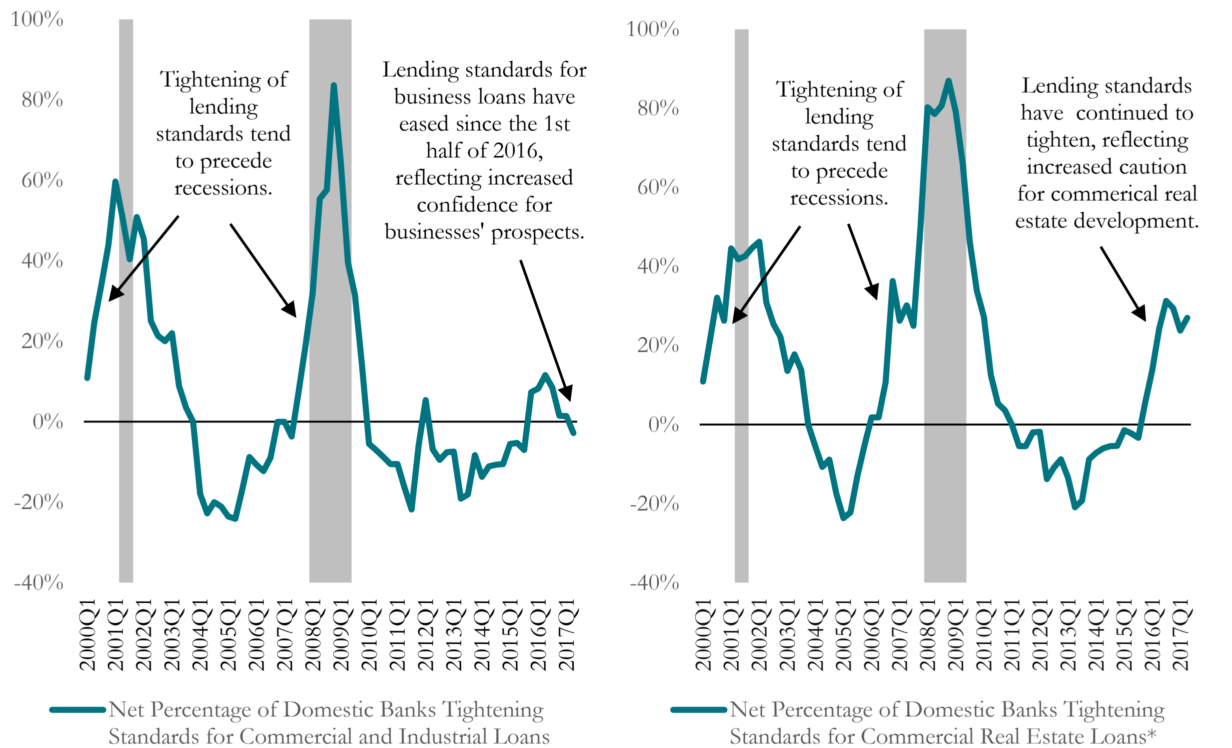




Source: Board of Governors of the Federal Reserve System and Bloomberg

***Lending standards for businesses are mixed, with loosening lending practices for business operations, but tightening standards for commercial real estate* –** Lending standards for business operations overall have continued to loosen since the middle of 2016. This indicates that lenders see more positive growth prospects and less risk for businesses, which will help fuel continued expansion. However, banks are raising lending standards for commercial real estate development. Lending standards are important to monitor to assess economic conditions and the prospects for continued growth. They provide information on the economic expectations of banks and risk assessment managers as well as the availability of funding for businesses. Bank lending standards for commercial real estate loans are shown in Figure 17.

Figure 17. Measures of Commercial Lending Conditions



*Data on lending standards for commercial real estate loans overall was discontinued in 2013, thus the data in the figure starting in the last quarter of 2013 represents an average of bank lending standards for loans with construction and land development purposes, loans secured by nonfarm nonresidential structures, and loans secured by multifamily residential structures.

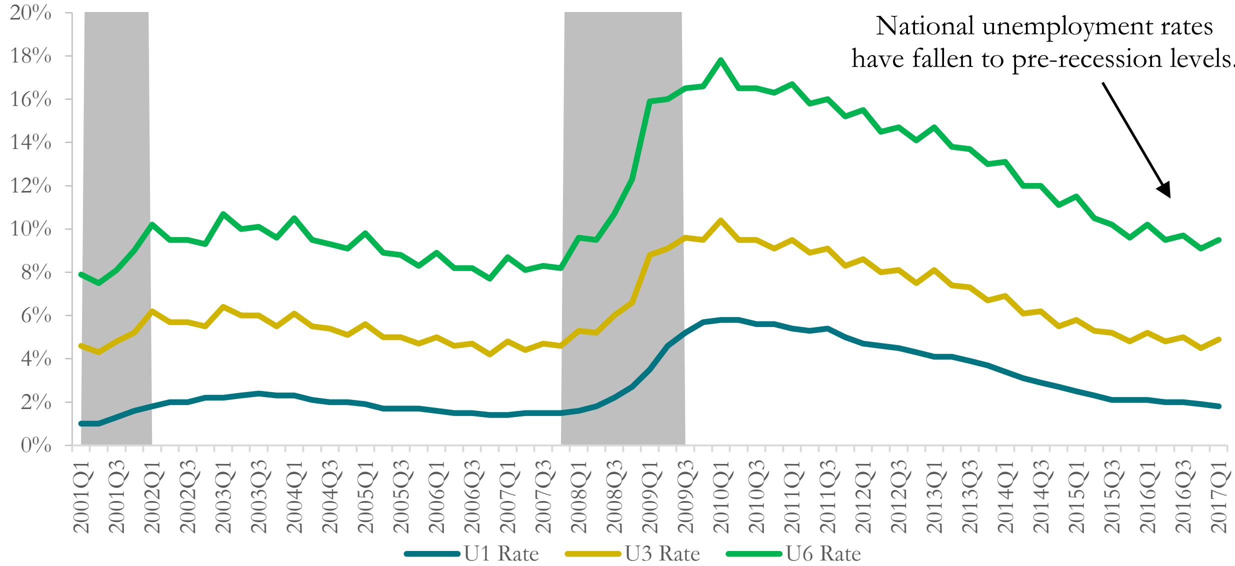
Source: Board of Governors of the Federal Reserve System

***Labor market momentum remains solid as the economy approaches full employment* –** The U.S. labor market remains strong as the official unemployment rate – or the "U-3" rate, at 4.3 percent in May – has reached its lowest level in 16 years. The low unemployment rate indicates the U.S. labor market is close to its full employment level, or the level of employment that can be sustained without causing increased inflation.

Unemployment rates have fallen to pre-recession levels, signaling that the labor market may be near full employment.

A broader measure of unemployment – the "U-6" rate, which also counts individuals who would like to work but have not looked for a job in the prior four weeks, as well as part-time workers who would like full-time employment – was 8.4 percent in May, its lowest level since October 2007. The gap between the two rates continues to narrow as workers return to the work force. The "U-1" rate, which measures people unemployed for longer than 15 weeks, is also at its lowest level since the Great Recession, at 1.8 percent.

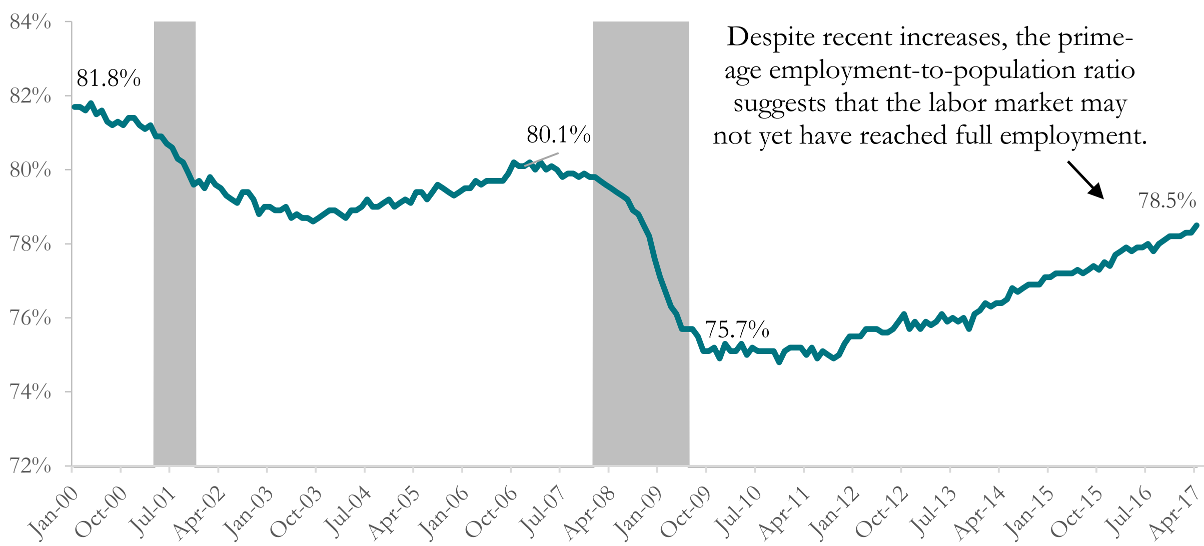
Figure 18. National Unemployment Rates



Source: U.S. Bureau of Labor Statistics

Prime-age employment ratio is recovering but remains lower than the previous expansion – A more direct and perhaps better measure of tightness in the labor market is the employment to population ratio for prime-age (25-54) workers. This ratio has been increasing but remains below its pre-Great Recession peak in 2007. This may indicate that there is still slack in the labor market, and thus helps explain the continued modest growth in wages.

Figure 19. Prime-Age Employment-to-Population Ratio

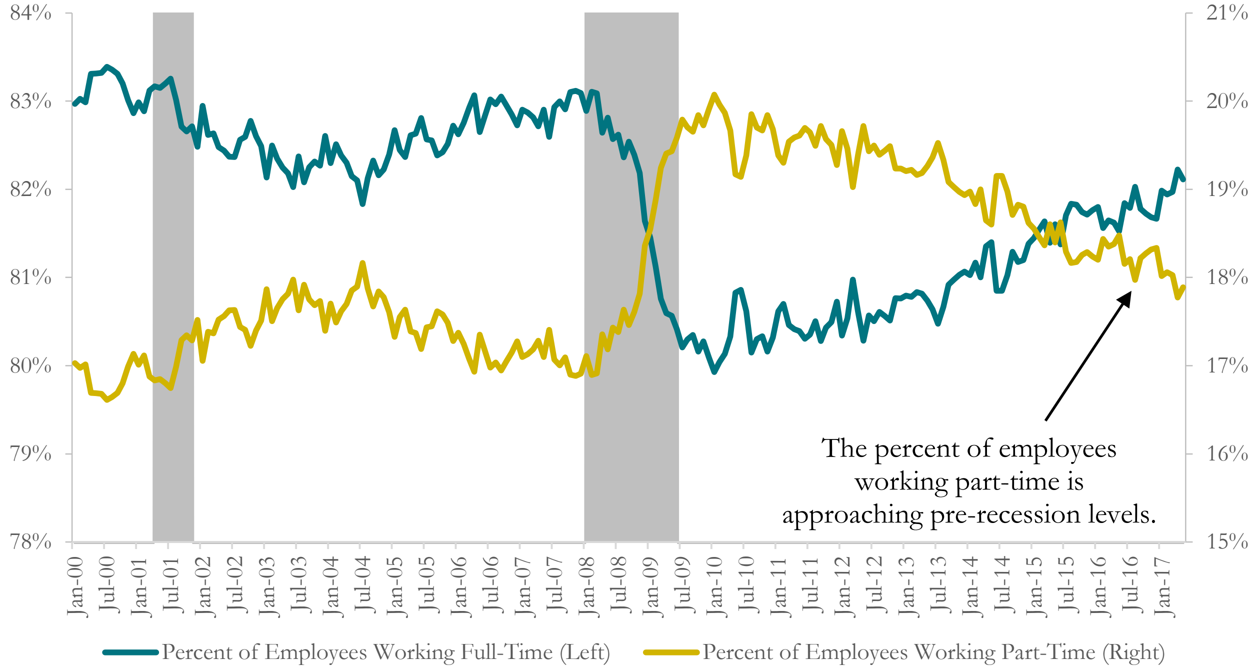


Source: U.S. Bureau of Labor Statistics

While job growth is slowing, the economy is now adding more full-time jobs than part-time jobs.

Job growth continues in 2017 at a slower rate– The U.S. economy added 138,000 jobs in May, which is less than the 181,000 average monthly job gain experienced over the last year. This signals that the labor market may be losing some momentum as it nears full employment. Although job growth has been broad based, the largest gains were in business and professional services with 38,000 new jobs, health care with 24,000 additional jobs, and mining which added 6,000 jobs. As shown in Figure 20, the US economy continues to add more full time jobs (working greater than 35 hours per week) than part time jobs, which is a reversal of the labor market experienced during the Great Recession.

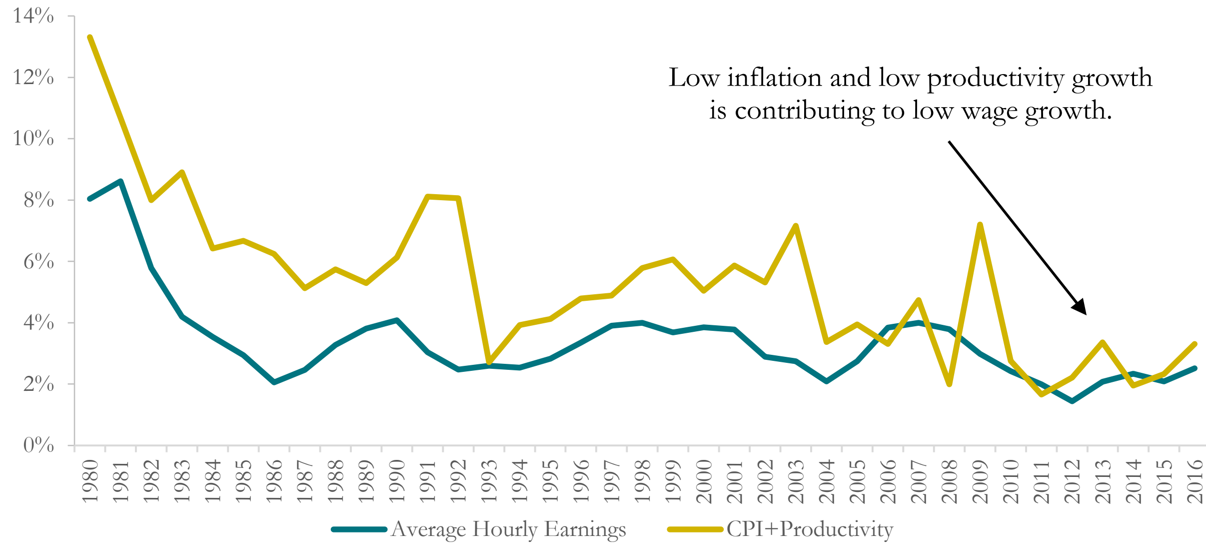
Figure 20. Percent of Employees Working Full- and Part-Time



Source: U.S. Bureau of Labor Statistics

Wage growth shows slight improvement in 2017 but lags inflation and productivity– As labor markets tighten, firms tend to raise wages to attract workers to fill positions. Wage growth has increased as unemployment has fallen in recent years. However, wage growth remains lower than in previous expansions. Two factors influencing wage growth are the low inflation and productivity growth that have occurred in the current expansion. Figure 21 shows the annual growth in average hourly earnings and the measure of core inflation plus productivity.

Figure 21. Wage Growth vs. Inflation and Productivity Growth



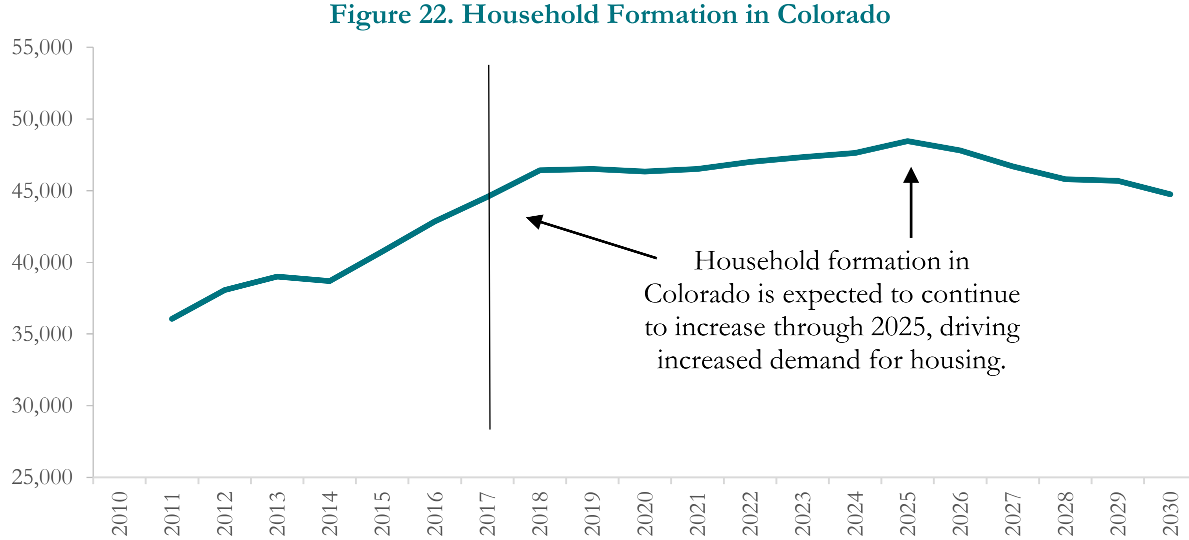
Source: U.S. Bureau of Labor Statistics

Housing Market Conditions

The housing market is an important factor in an economy's performance. Homebuilding, as well as a home buying and selling, generate economic activity in a region. Also, housing costs affect a regional economy's performance and influence its ability to attract individuals and businesses. Furthermore, growth in housing construction has historically tended to be a reliable leading indicator of economic growth.

Strong demand for housing in Colorado is expected to continue for several years due to projected growth in household formation, especially along the Front Range. This will generate continued upward pressure on housing costs, unless the supply of housing units grows at a higher rate. Demographic trends at the national level overall are also expected to fuel growth in housing market activities, including home purchases. Household formation for Colorado is shown in Figure 22.

Figure 22. Household Formation in Colorado



Source: State Demographer's Office

Several supply constraints are weighing on the housing market **—** Despite the strong demand in the housing market, there are several supply constraints that are weighing on the industry that is preventing it from creating more housing supply and from generating larger gains for the economy.

The home building industry continues to have diminished capacity in the aftermath of its contraction that began in 2006, resulting in housing demand greatly outpacing supply.

The home building industry both in Colorado and the U.S. overall continues to have diminished capacity in the aftermath of its contraction that began in 2006. The industry reports labor shortages and faces other barriers, such as high building costs, tighter financing for housing development, shortages of lots for development, and restrictive land use in some areas. Financing for mortgages for home purchasers also remains constrained in the aftermath of the housing contraction.

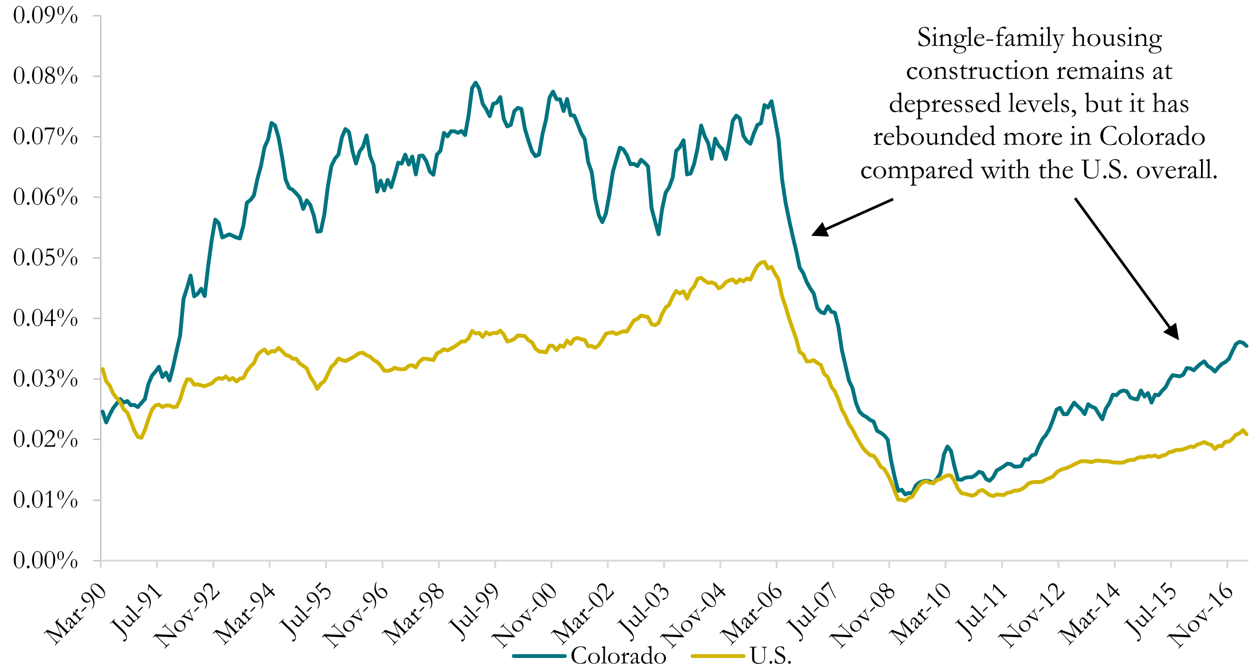
As a result of these challenges, both the Colorado and U.S. housing markets overall remain tight, especially for home purchases. In April of this year, the state had less than a two-month supply of homes for sale, while there was a four-month supply for the U.S. overall. Generally, a six-month supply of homes signifies a housing market with a supply-demand balance.

The state's tight housing market is constraining economic growth as it slows in-migration to the state and reduces home buying and selling activities.

The low supply level indicates that buyers continue to dominate the market, outpacing the number of sellers. The supply-demand imbalance is placing upward pressure on home values and reducing home purchase options for buyers. This dynamic is constraining economic growth as it slows net migration to the state and reduces home buying and selling activities. The constraints that are weighing on new housing construction will take time to unwind. Therefore, the low level of inventory that is constraining the state's housing market is unlikely to improve materially in the near term.

New housing construction, especially for single-family homes, has only gradually increased, and remains at depressed levels. Multi-family construction, especially for apartments, has grown at stronger levels, both in Colorado and in the U.S. overall, however. Figure 23 shows the trends in single family housing permits issued statewide compared with single-family permits for the U.S. overall.

Figure 23. Colorado and U.S. Monthly Single-Family Housing Permits as a Percent of Population



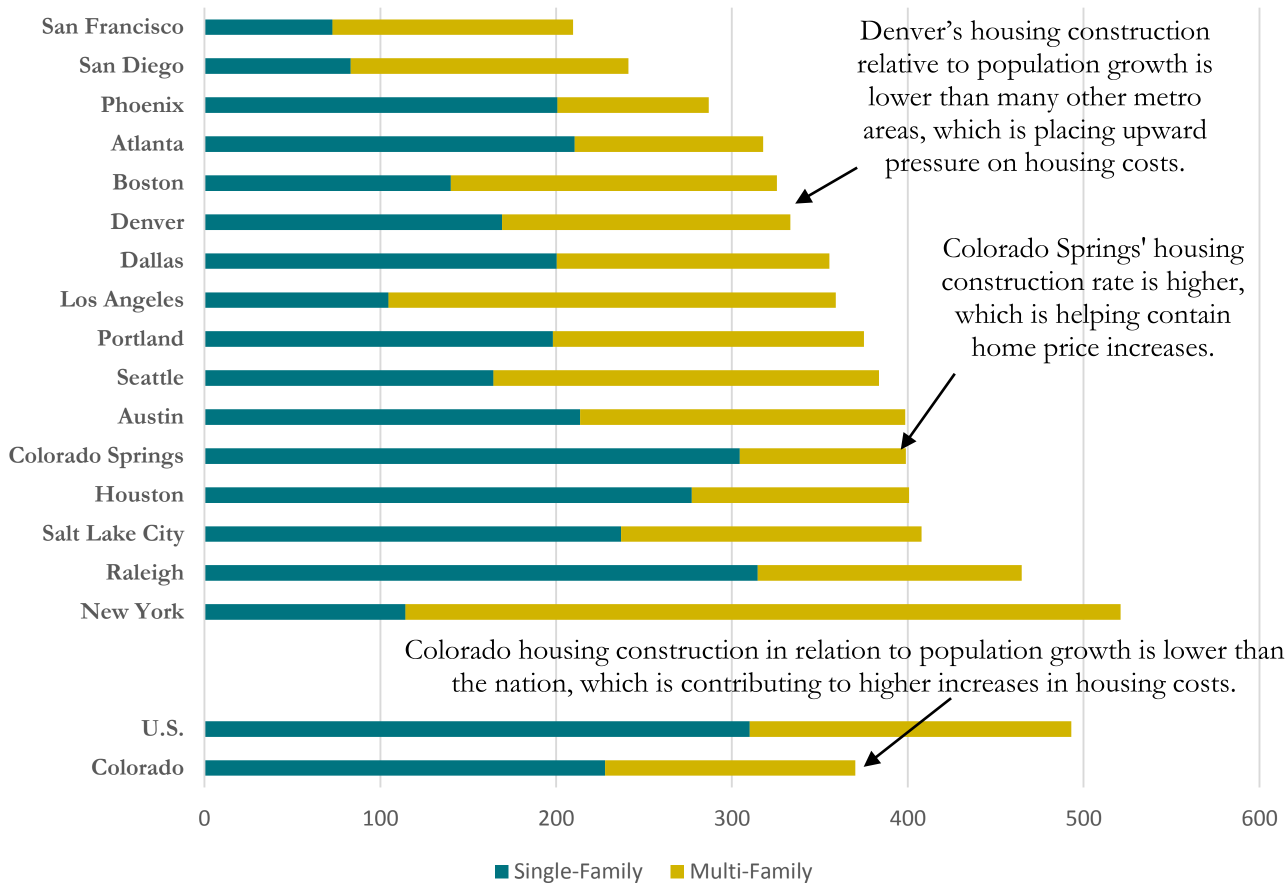
Source: U.S. Census Bureau; State Demographer's Office

> **Colorado has lower housing permits in relation to population growth than the U.S. overall.**

New housing construction is not keeping pace with population growth in many areas — Although Colorado's housing construction has rebounded at a stronger rate than the U.S. overall, it is lower when compared with population growth. Figure 24 shows housing permit rates per 1,000 growth in population for select U.S. and Colorado metro areas, as well as for Colorado and the U.S. overall, during the current economic expansion. The figure breaks out single-family and multi-family permits.

Colorado has lower housing permits in relation to population growth than the U.S. overall. Further, among metro areas, Denver has had lower housing construction than several other major growing metro area economies. However, Colorado Springs has had stronger housing construction, especially for single-family housing.

Figure 24. Housing Permit Rate per 1,000 Population Growth, 2010 to First Quarter 2017

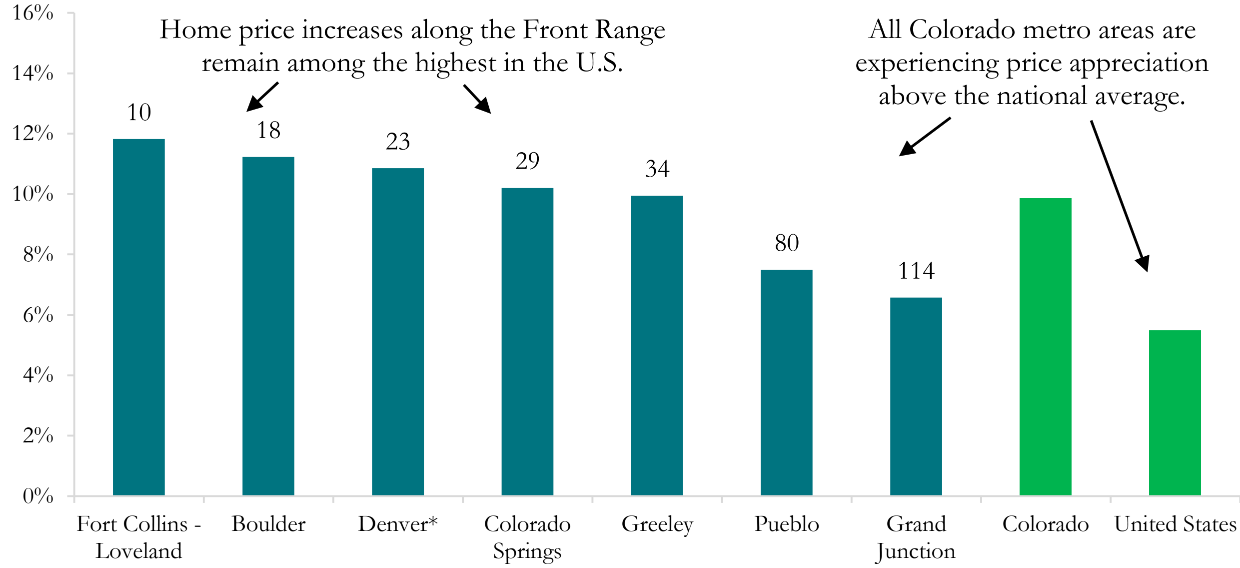


Source: U.S. Census Bureau; State Demographer's Office

Housing costs continue to increase, though rent growth remains more moderate – The constrained supply of homes for sale amidst strong demand has place continued upward pressure on housing costs. The Federal Housing Finance Agency's House Price Index shows that home values in Colorado are growing at among the fastest rates in the nation. Every metro area in Colorado experienced home price appreciation above the national average, and five of Colorado's seven metro areas were in the top 10 percent nationally, as shown in Figure 25. Home prices appreciation remains strongest along the northern Front Range.

The constrained supply of homes for sale amidst strong demand has place continued upward pressure on home prices.

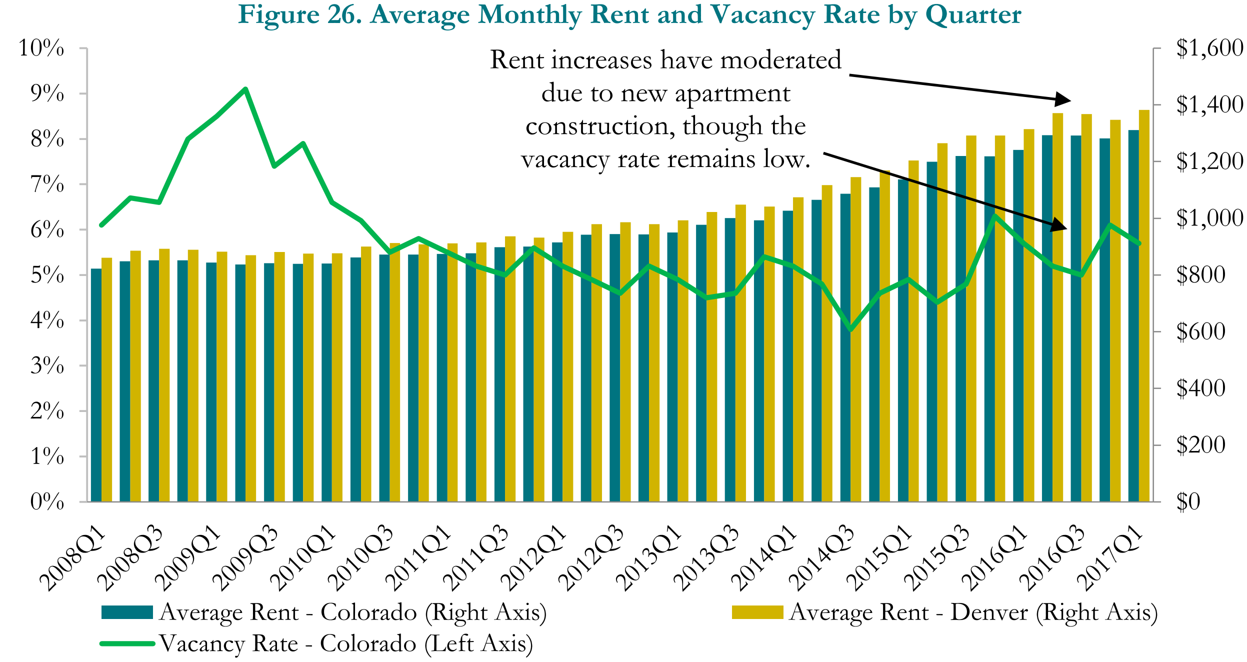
Figure 25. Home Price Appreciation, First Quarter 2016 to First Quarter 2017, Rank among 402 metro areas shown above bars



*Includes Aurora and Lakewood
Source: Federal Housing Finance Agency

Colorado rents continue to increase at a slower rate, due primarily to the large number of new rental units coming online. The Denver area is leading the growth in rental units, with more than 25,000 new units currently under construction. As a result of strong economic and population growth, however, the new units have been quickly absorbed in the market as the increase has not lowered rents or increased vacancy rates, as shown in Figure 26.

Figure 26. Average Monthly Rent and Vacancy Rate by Quarter



Source: Colorado Division of Housing

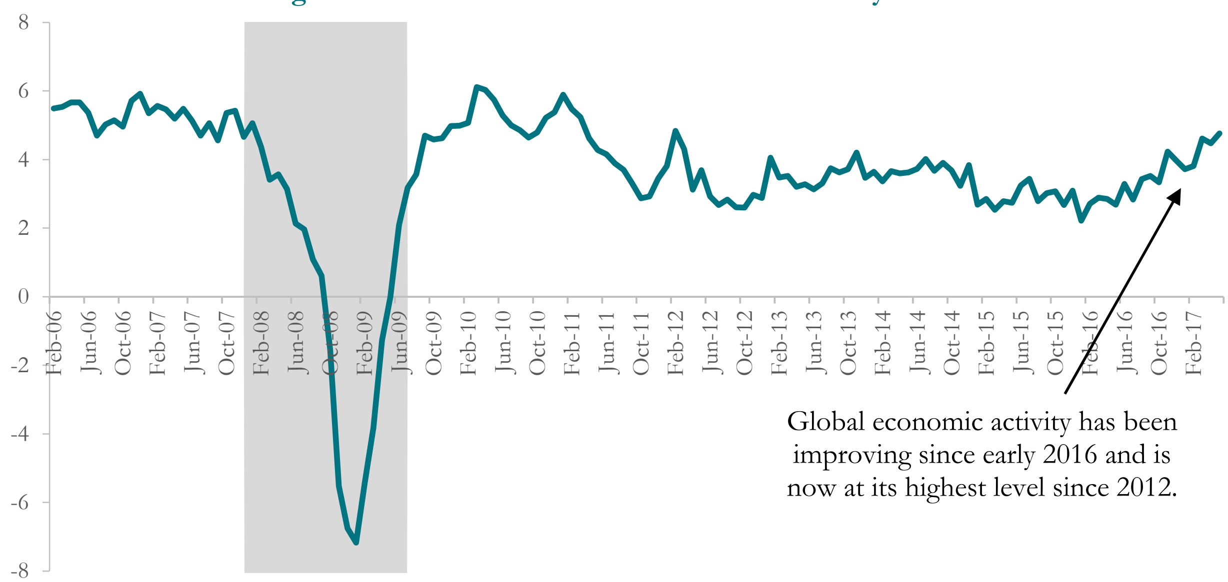
International Economic Conditions

The global economy continues to strengthen – Global economic growth is expected to strengthen from 2.3 percent in 2016 to 2.7 percent and 2.9 percent in 2017 and 2018, respectively, according to the World Bank. This increase will be largely due to faster growth in manufacturing and trade, as well as stabilizing commodity prices. Emerging market economies are expected to grow the most, at 4.1 percent in 2017, while advanced economies are expected to experience only 1.9 percent growth.

Global economic growth is expected to strengthen over the next few years, led by growth in emerging market economies.

While the outlook is improving, risks to the forecast include uncertainty surrounding the future path of trade policy, as well as rising debt levels, especially in China. The improving global economy is captured by the Goldman Sachs Global Current Activity Index, which is a measure of real-time economic activity that indicates that current global economic growth is at its highest level since 2012.

Figure 27. Goldman Sachs Global Current Activity Index

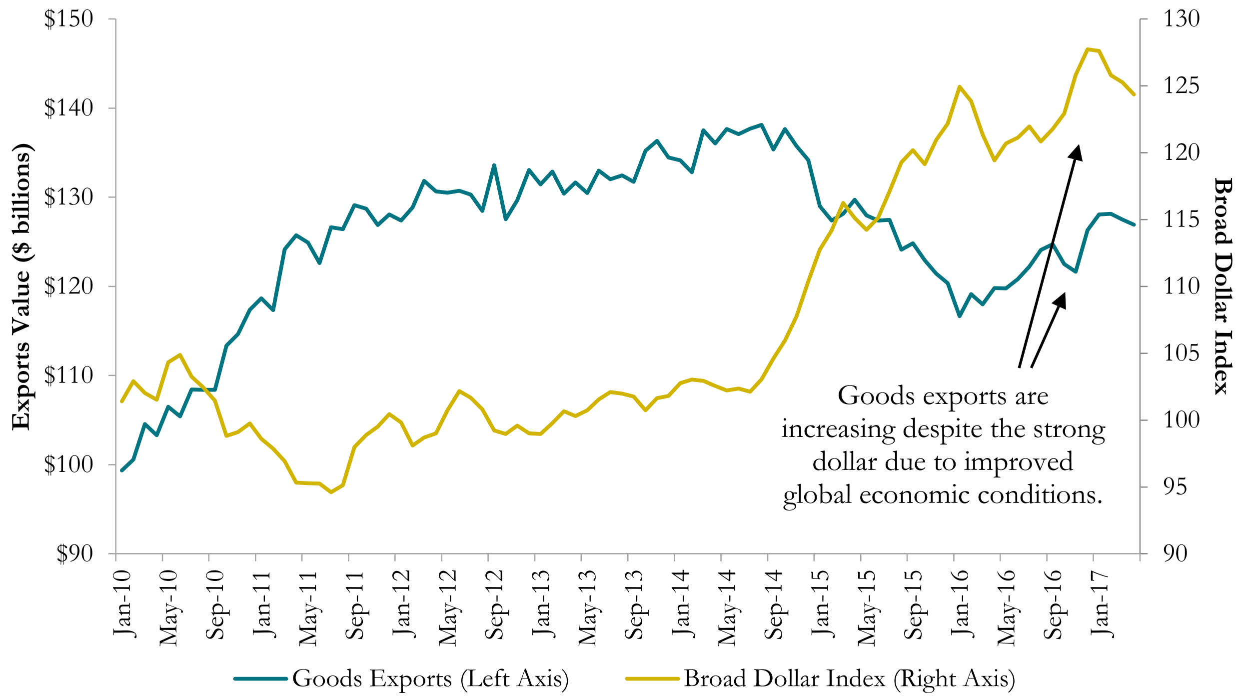


Source: Goldman Sachs

U.S. goods exports are increasing again, but policy uncertainty remains –After declining from late 2014 through early 2016, U.S. goods exports have begun growing again as shown in Figure 28. Services exports declined from mid-2015 to early 2016, but have also returned to growth. This is happening due to stronger global economic growth, especially in China. This export growth is also occurring despite the strong dollar, which remains elevated in relation to other currencies despite some recent weakening. While a strong dollar increases the cost of U.S. exports to foreign buyers, reducing their demand, economic growth in trading partner nations is generally a more important factor in determining export volumes. Therefore trade growth is expected to continue as global economic activity continues to strengthen.

The main risk to trade growth is uncertainty regarding the direction of U.S. trade policy. 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. For example, 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, excess supply will cause U.S. natural gas prices to fall and reduce natural gas-related industry activity in the state.

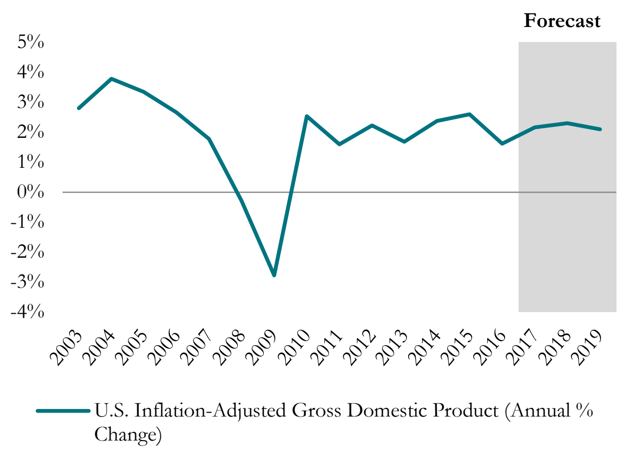
Figure 28. U.S. Goods Exports and Broad Dollar Index



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau

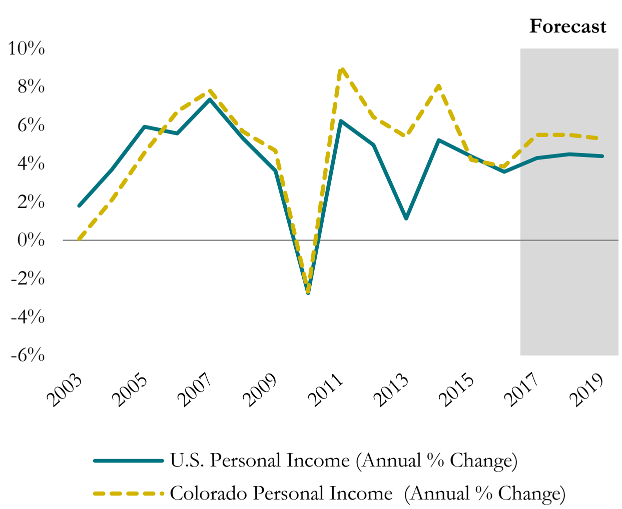
Summary of Key Economic Indicators
Actual and Forecast

U.S. Gross Domestic Product (GDP)



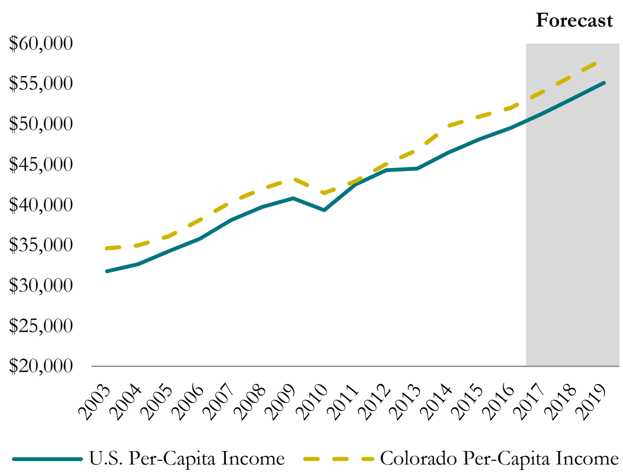
- GDP is a standard barometer for the economy's overall performance and reflects the value of final output produced in the U.S.
- U.S. GDP posted a modest 1.6 percent expansion in 2016. The pace of growth is forecast to reach 2.2 percent in 2017 and 2.3 percent in 2018.

U.S. and Colorado Personal Income



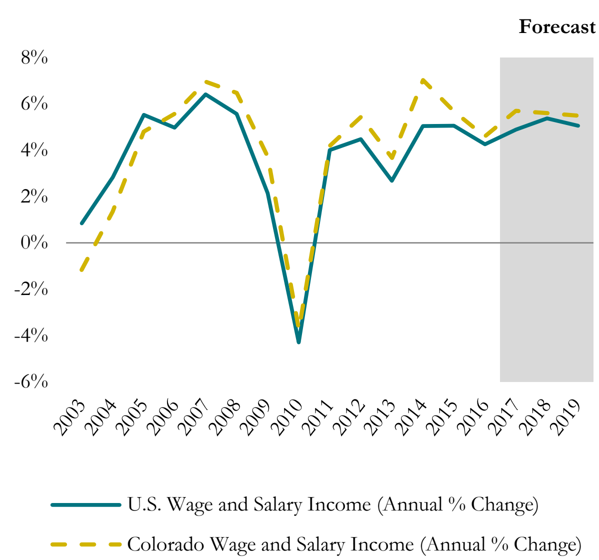
- Personal income growth in Colorado slowed to 3.9 percent in 2016 largely due to slowing employment growth, especially in the oil and gas industry. Personal income growth will expand in 2017 as the energy sector recovers; statewide personal income will increase by 5.5 percent in both 2017 and 2018.
- Nationwide, personal income increased 3.6 percent in 2016, and will grow by 4.3 percent in 2017. A tight labor market and gradual wage increases will allow personal income growth to pick up through 2018.

U.S. and Colorado Per-Capita Income



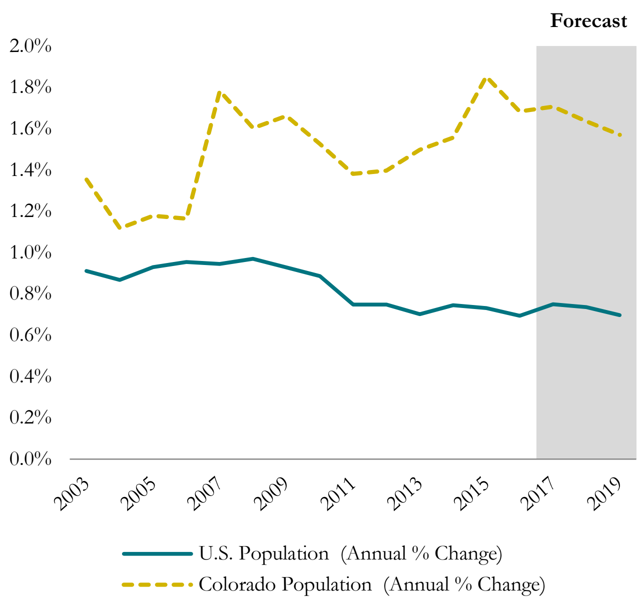
- After growing by 2.1 percent in 2016, per-capita income in Colorado is expected to resume growing faster than the nation overall, increasing by 3.7 percent to $54,000 in 2017.
- In the U.S., per-capita income increased 2.9 percent to $49,552 in 2016 and will grow by 3.5 percent to $51,298 in 2017.

U.S. and Colorado Wage and Salary Income



- Wage and salary growth in Colorado slowed in 2016 with 4.6 percent growth, largely due to the loss of relatively high-paying oil and gas jobs. Growth is expected to recover in 2017 to a 5.7 percent increase and then moderate slightly in 2018 and 2019.
- Wage and salary income for the nation increased 4.3 percent in 2016. Continued employment growth and recovery in the industrial and energy sectors will result in wage and salary growth of 4.9 percent in 2017 expanding to 5.4 percent in 2018.

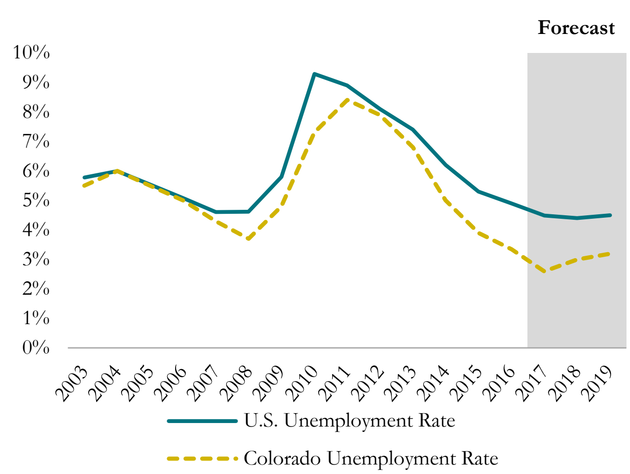
U.S. and Colorado Population



- 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, as the population reaches 330.0 million by 2019.

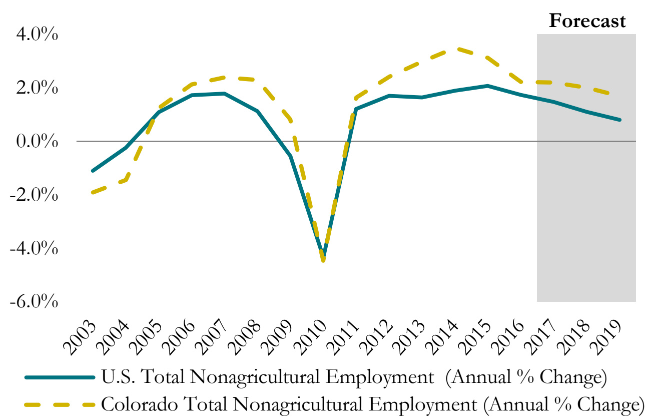
U.S. and Colorado Unemployment



- 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 remain among the lowest in the nation, averaging 2.6 percent in 2017 and increasing slightly to 3.0 percent in 2018.

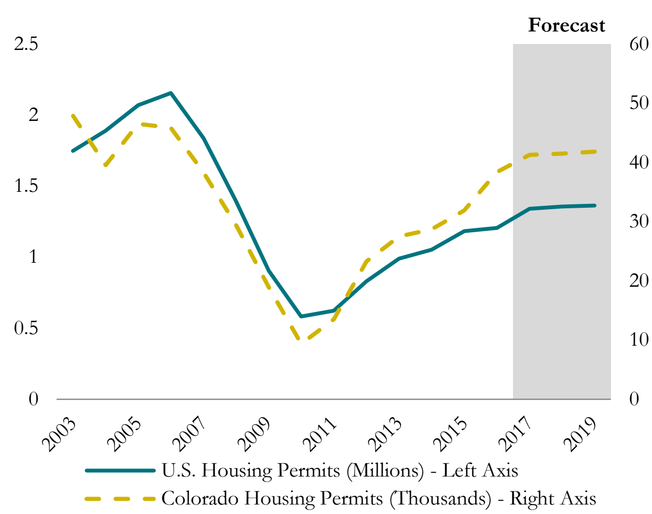
- The national unemployment rate followed a similar trend in 2016, but remained more than a 1.5 percentage points higher than in Colorado, averaging 4.9 percent. Continued improvements in the labor market will cause the rate to drop to 4.5 percent in 2017 and 4.4 percent in 2018.

U.S. and Colorado Total Nonagricultural Employment



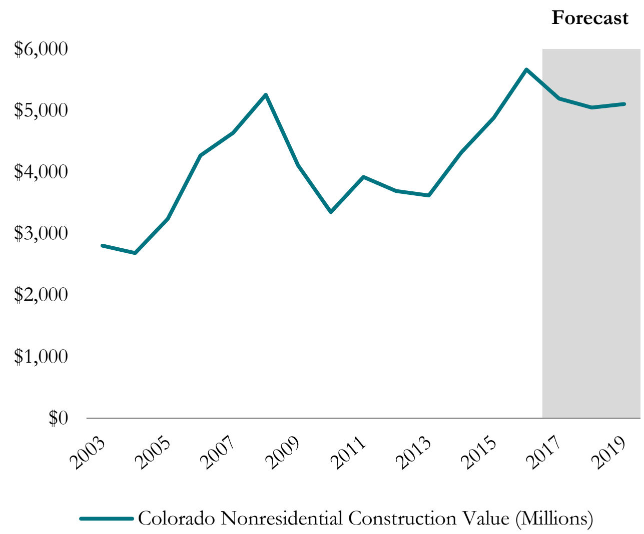
- Employment in Colorado grew 2.2 percent in 2016. Job growth will remain modest in 2017 due to the tight labor market before slowing further in 2018 as a result of slower labor force growth.
- Similar to Colorado, the growth rate of U.S. nonfarm payroll jobs slowed in 2016. Job growth will continue to slow nationwide as the labor market approaches full employment. Employment is forecast to increase 1.5 percent in 2017 and 1.1 percent in 2018.

U.S. and Colorado Housing Permits Issued



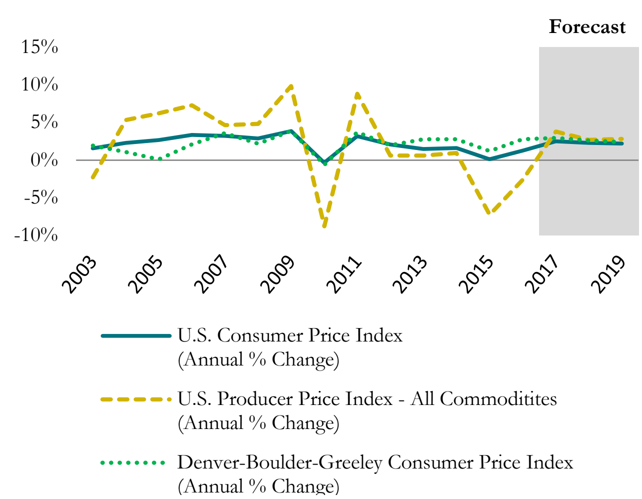
- In 2016, Colorado housing permits increased 20.5 percent with 38,400 permits issued; 41,300 permits are projected for 2017. The increases continue to be driven by population growth and strength in the state's metro housing markets.
- U.S. housing permits posted growth of just 2.0 percent in 2016 compared to the more robust growth rate of 12.4 percent in 2015, but will rebound with 11.0 percent growth in 2017. OSPB forecasts a return to more modest growth in 2018 and 2019.

Colorado Nonresidential Construction Value



- Nonresidential construction value in Colorado increased by 16.1 percent in 2016. The value of nonresidential construction will decline slightly over 2017 and 2018.

Consumer Price Index and Producer Price Index

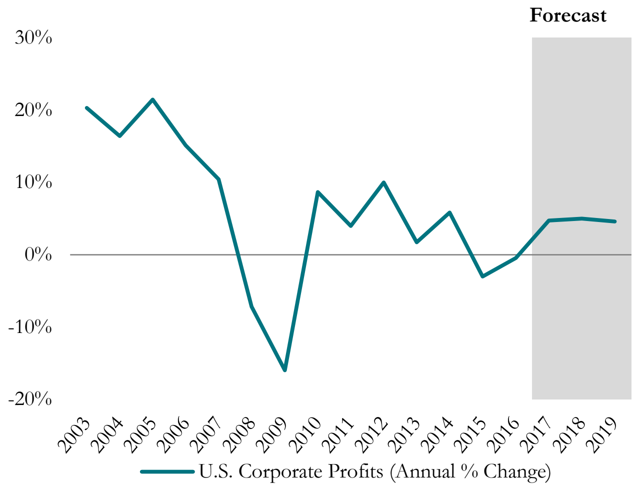


- Consumer prices nationally increased by 1.3 percent in 2016. OSPB expects the U.S. CPI to rise 2.5 percent in 2017, but decrease to 2.3 percent in 2018 and 2.2 percent in 2019.

- Producer prices fell another 2.6 percent in 2016, mostly due to low fuel and commodity prices. This trend will not continue in 2017; the index will rise 3.8 percent before moderating to 2.7 percent growth in 2018.

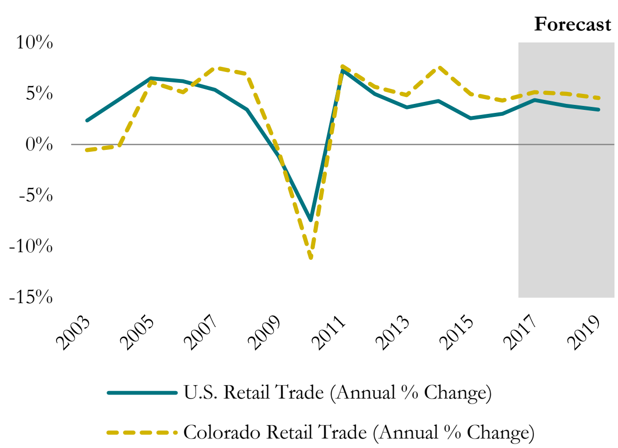
- The Denver-Boulder-Greeley CPI increased by 2.8 percent in 2016, which is more than twice the national average. Price increases will remain above the national average in 2017 before moderating over the forecast period.

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 of 4.8 percent is expected in 2017, followed by 5.0 percent growth in 2018.

Retail Trade



- Retail sales in Colorado will grow 5.1 percent in 2017 after posting 4.3 percent growth in 2016; sales growth will moderate over the remainder of the forecast period with increases of 5.0 percent in 2018 and 4.6 percent in 2019.
- Nationwide retail trade increased a modest 3.0 percent in 2016. Sales are forecast to grow 4.4 percent in 2017 due to the continuing economic expansion but moderate to 3.8 percent growth in 2018.

General Fund and State Education Fund Revenue Forecast

Relative to the March projections, the FY 2016-17 General Fund revenue forecast is lower by $62.1 million, or 0.6 percent. The forecast for FY 2017-18 is essentially unchanged. After an increase of just 1.7 percent in FY 2015-16, General Fund revenue is expected to increase a modest 3.4 percent in FY 2016-17. General Fund revenue is forecast to increase at a stronger rate of 6.7 percent in FY 2017-18.

Although sales taxes and individual income taxes are recovering from the oil and gas downturn and weaker economic growth during 2015 and 2016, General Fund revenue growth overall this fiscal year was weighed down by a few factors. However, these factors will not reduce revenue growth in FY 2017-18, which will allow for the stronger rate of increase.

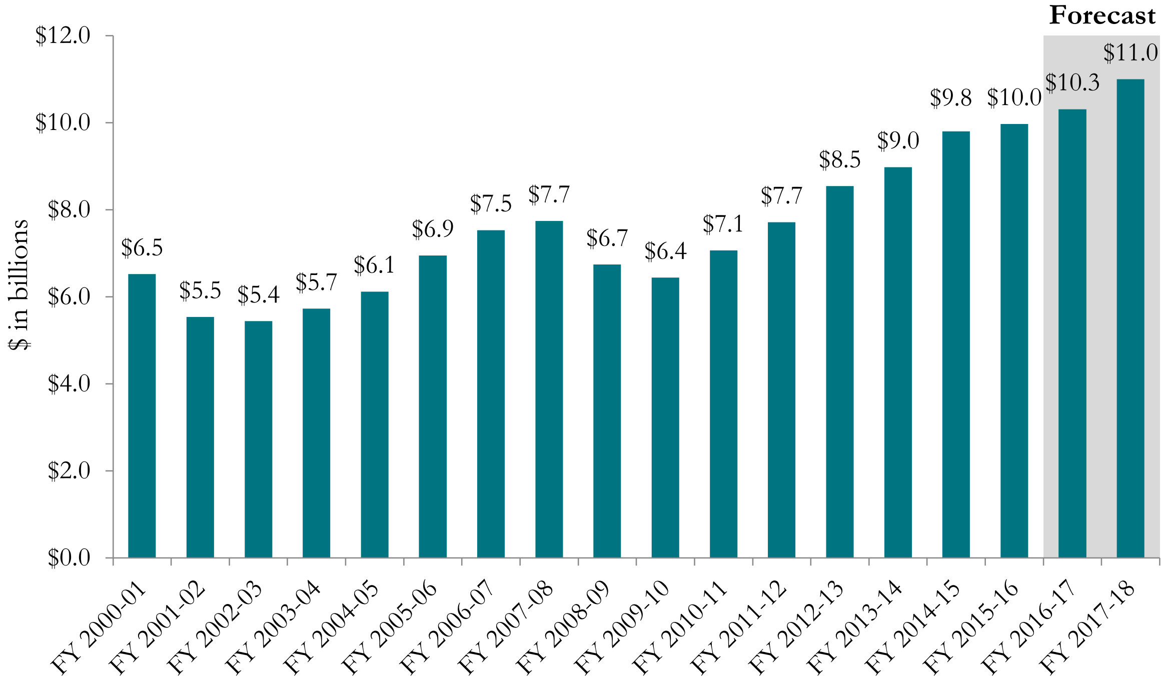
General Fund revenue this fiscal year is growing at a slightly higher rate from its weak growth in FY 2015-16. General Fund revenue is forecast to increase at a stronger rate in FY 2017-18 with continued economic expansion and without the factors that weighed on revenue growth this fiscal year.

As expected in the March forecast, it appears some taxpayers delayed income gains from investments in tax year 2016 in anticipation of a reduction in federal income tax rates. This weighed on income tax collections this fiscal year, but is expected to boost collections in FY 2017-18 as taxpayers realize some of the deferred gains. In addition, a portion of the modest growth in income tax collections this fiscal year was due to eligible taxpayers being able to claim the State Earned Income Tax Credit (EITC) as a regular income tax credit for the first time in tax year 2016.

Corporate income tax revenue is declining for the third consecutive year in FY 2016-17 mostly due to weak earnings experienced through much of last year. However, earnings have rebounded, which will generate an increase in corporate income tax revenue in FY 2017-18.

Figure 29 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2017-18. A more detailed forecast of General Fund revenue by source is provided in Table 3 in the Appendix. 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.

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 fund: 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 slightly over the forecast period.

Individual income tax **–** Individual income tax collections are rebounding modestly in FY 2016-17 with growth of 4.1 percent after an increase of 2.8 percent in FY 2015-16. Collections in FY 2017-18 are forecast to increase at a stronger rate of 6.1 percent.

Individual income tax collections from wage withholdings are growing at a higher rate with the end of the downturn in the oil and gas industry. However, other income tax collections this fiscal year from estimated payments and April tax filings were weak. This weakness was mostly a result of factors that will not reduce revenue growth through the remainder of the forecast period.

Individual income tax collections were weighed down in FY 2016-17 by taxpayers deferring investment income and as eligible taxpayers claimed the State EITC. Individual income tax collections will grow at a stronger rate in FY 2017-18 with a projected increase of 6.1 percent.

Although the stock market began to rebound in 2016, it appears some of the weakness in income tax revenue is a result of investors delaying the realization of gains in anticipation of federal income tax reductions. This forecast assumes that some of the deferred gains will be realized in tax year 2017, which will boost collections for FY 2017-18. Estimated income tax payments are forecast to grow 6.8 percent in FY 2016-17, and increase 14.1 percent in FY 2017-18. Estimated income tax payments are taxes paid on income that is not subject to withholding, such as earnings from self-employment, rents, and investments.

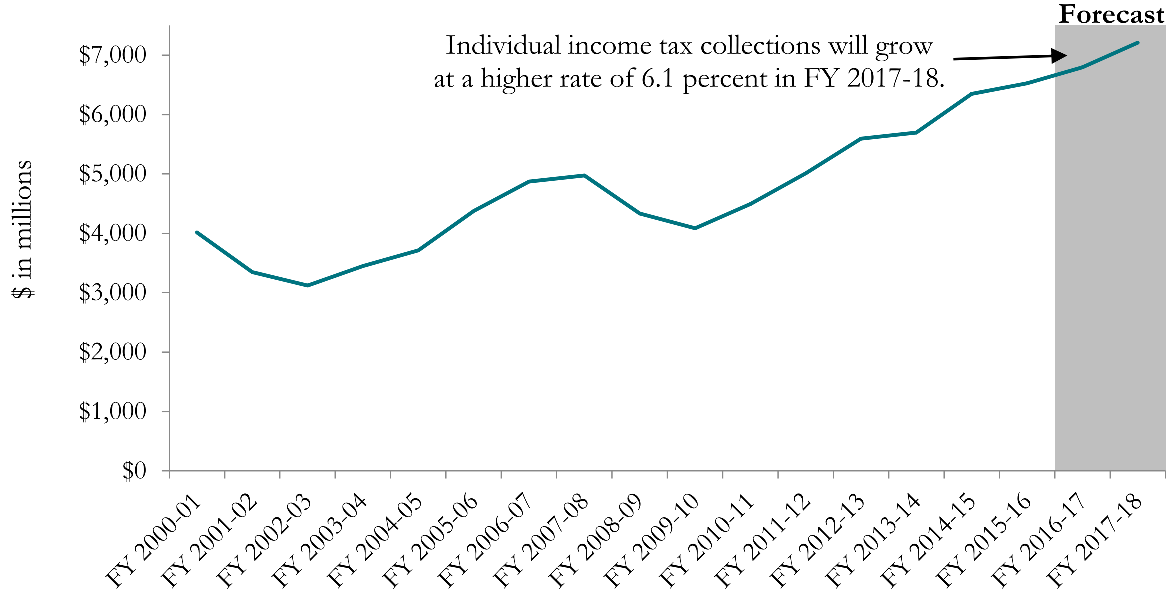
There is a high degree of uncertainty surrounding the forecast on tax collections from investment gains. The amount of investment gains that were delayed and that will be realized in the future is unknown and difficult to predict. Further, the timing of major federal tax legislation which could affect the realization of gains is uncertain. Thus, the forecast for income tax revenue may materially change as new information becomes available.

Eligible taxpayers claiming the State Earned Income Tax Credit (EITC) in tax year 2016 also weighed on income tax growth this fiscal year. In tax year 2015, the credit was used as a TABOR refund mechanism, but it is now a regular income tax credit that is reducing General Fund revenue through reduced tax liabilities and higher tax refunds. This credit is projected to have reduced FY 2016-17 income tax collections by approximately $80 million. The credit will lower collections by a similar amount in FY 2017-18.

Other changes in tax deductions and credits also are impacting revenue collections over the forecast period; notably, the Low-Income Housing Tax Credit, which is available for qualified low-income housing developments, is reducing income tax revenue by roughly $20 million in FY 2016-17 and $30 million in FY 2017-18.

Additionally, 2017 legislation expanded existing tax credits. SB 17-267 extended and expanded the income tax credit for business personal property taxes paid, which is projected to reduce income tax collections by about $10 million in FY 2018-19 and $20 million in FY 2019-20. However, as discussed in the following section on the forecast for sales tax revenue, SB 17-267 also distributes a portion of the special sales tax on retail marijuana sales to the General Fund on an ongoing basis which offsets the revenue reduction from the business personal property tax credit provisions in SB 17-267. In addition, HB 17-1356 allows the Colorado Economic Development Commission to allow for certain economic development-related tax credits to be transferable to other taxpayers, which will reduce income tax revenue by approximately $6 million in FY 2018-19 and $9 million in FY 2019-20.

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 18.5 percent in FY 2016-17. However, some of the large decline this fiscal year is a result of expected end-of-year accrual accounting adjustments. Corporate income tax revenue is forecast to increase 14.8 percent in FY 2017-18, the first increase in corporate income tax collections since FY 2013-14.

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.

Corporate income taxes are projected to rebound with 14.8 percent growth in FY 2017-18, the first increase since FY 2013-14. However, corporate tax collections are expected to remain below their levels from earlier in the economic expansion.

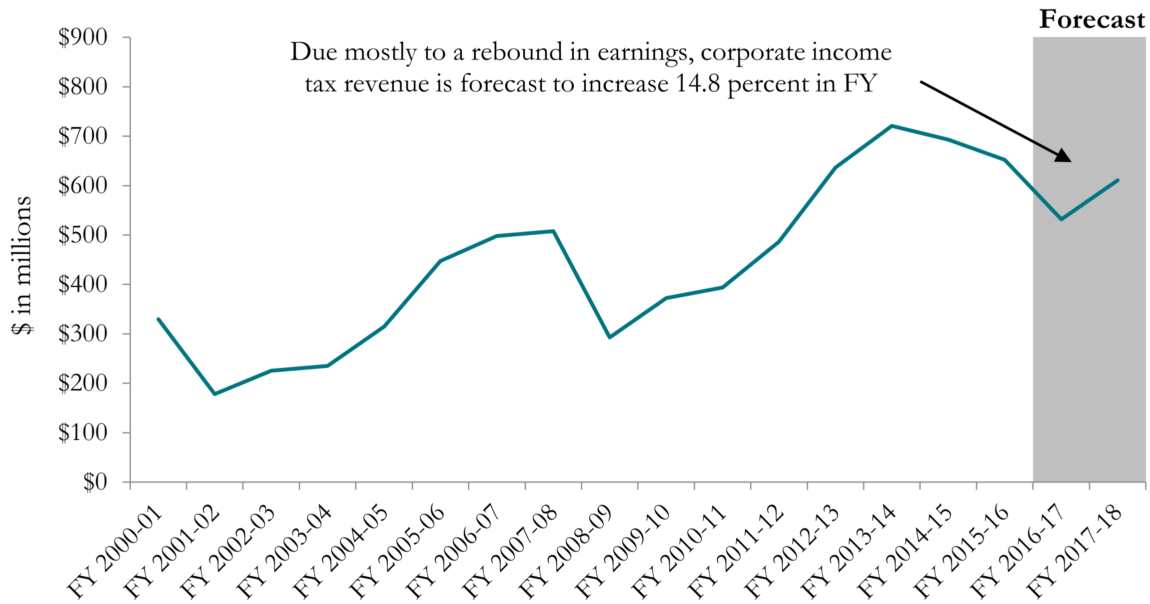
Corporate earnings weakened starting in 2015 after jumping to high levels earlier in the economic expansion. Sluggish global economic conditions, the decline in commodity prices, and the strong appreciation in the dollar weighed on the profits of multinational corporations. However, earnings have improved since the last half of 2016 with stronger growth internationally, a softening in the value of the dollar, and the stabilization of oil prices. Expectations are for continued earnings growth with the ongoing economic expansion.

The structure of the tax code can also have a large influence on tax collections. Notably, state legislation passed in response to the budget challenges in the aftermath of the Great Recession placed a cap on the amount of net operating losses corporations could deduct from taxable income. This temporarily increased revenue collections from FY 2010-11 to FY 2012-13. However, corporations could carryforward their deferred losses to claim them in future tax years. The elimination of the cap on losses, which started with tax year 2014, contributed materially to the weakness in corporate income tax collections over the past few fiscal years.

However, a smaller amount of carryforward losses is expected to place less downward pressure on corporate income tax collections going forward.

Although renewed growth in corporate income tax collections is forecast, the increases are expected to be constrained by higher business costs, especially for labor and debt payments, that will reduce profit margins and result in larger tax deductions and lower tax liabilities.

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 6.5 percent in FY 2016-17 and increase an additional 7.5 percent in FY 2017-18.

Sales tax revenue rebounded 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 partially abated, boosting collections as the state's economic expansion continues to generate job and wage gains and thus taxable spending.

Sales tax revenue is forecast to increase 6.5 percent in FY 2016-17 and 7.5 percent in FY 2017-18. These growth rates are being bolstered by non-economic factors and do not reflect the modest growth in consumer and business spending.

The 6.5 percent increase for FY 2016-17 is being bolstered by an accrual accounting adjustment and the strong growth in collections from the special sales tax on retail marijuana. This fiscal year's growth is also boosted by sales tax collections from the online retailer Amazon. Collections from Amazon are expected to increase State sales tax revenue by $22.0 million in FY 2016-17. Without these factors, sales tax collections are growing about 4.0 percent, consistent with recent data that shows similar modest growth in consumer and business spending.

A portion of FY 2017-18's 7.5 percent projected increase is due to the higher tax rate for the special sales tax on retail marijuana sales pursuant to SB 17-267. This legislation increased the tax rate from 10 percent to 15 percent starting July 1, 2017. However, SB 17-267 also exempted retail marijuana from the state's 2.9 percent sales tax, making the net tax increase 2.1 percentage points. The FY 2017-18 projected increase in sales tax revenue would be a more modest 4.4 percent without including the revenue from the special tax on retail marijuana sales that is bolstered by the tax rate increase.

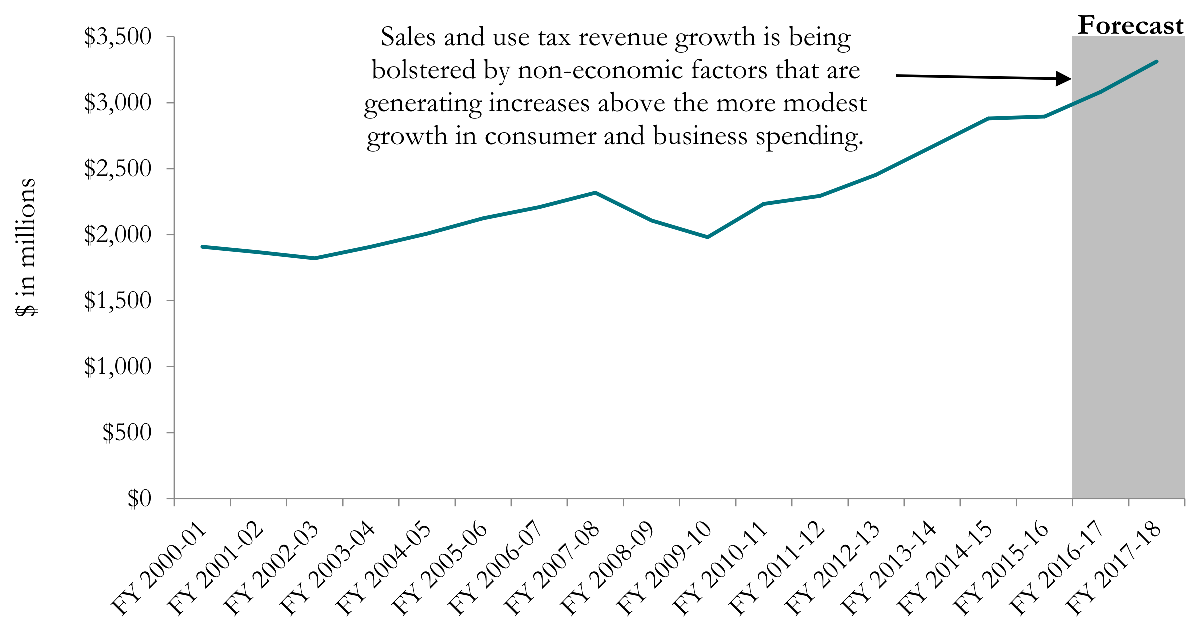
SB 17-267 also modified the distribution of the revenue from the special sales tax on retail marijuana. Starting with FY 2017-18, in addition to being distributed to the Marijuana Tax Cash Fund and local governments, a portion will also go the State Public School Fund and the General Fund. The General Fund is projected to receive $18.5 million in revenue from the special sales tax in FY 2017-18 and $30.3 million in FY 2018-19.

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.

Use tax revenue also rebounded 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 increasing 6.7 percent in FY 2016-17. Use tax revenue is projected to increase another 6.8 percent in FY 2017-18.

A portion of the FY 2017-18 increase in use tax collections is due to the implementation of reporting requirements for online sales, pursuant to House Bill 10-1193. This law requires out-of-state retailers that do not collect Colorado sales tax to notify the purchasers of their tax liability as well as the Colorado Department of Revenue. Implementation of this law was delayed due to litigation that has now been resolved. Implementation will begin in FY 2017-18 when it is estimated to increase use tax collections by approximately $6 million.

Figure 32. Sales and Use Tax Revenue



Source: Office of the State Controller and OSPB forecast

State Education Fund Revenue Forecast

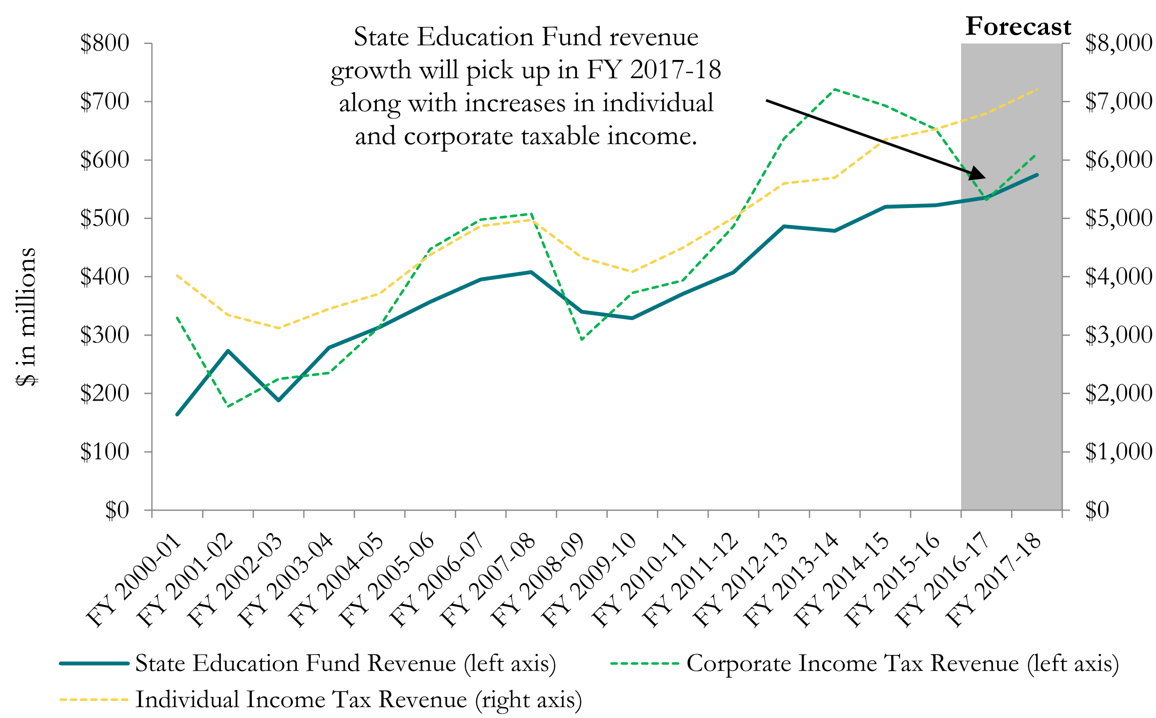
Tax revenue to the State Education Fund will increase 2.5 percent and 7.3 in FY 2016-17 and FY 2017-18, respectively.

Tax revenue to the State Education Fund will increase 2.5 percent and 7.3 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. The modest growth rate this fiscal year is due in part to taxpayers deferring investment income as well as the ongoing weakness in corporate taxable income. However, these factors are not expected to occur in FY 2017-18, and with continued economic expansion will allow for higher State Education Fund revenue growth.

The Colorado 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

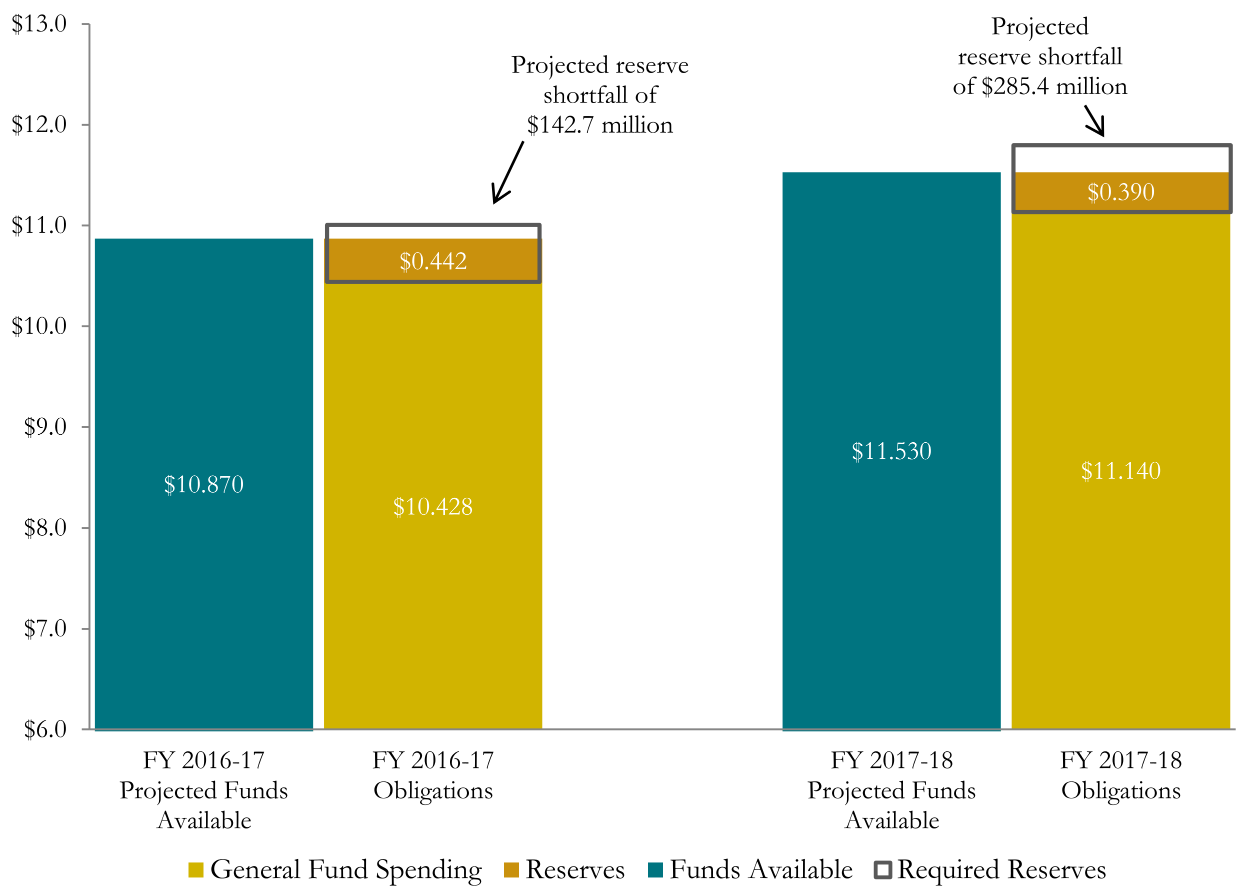
General Fund and State Education Fund Budget

General Fund – As discussed in the "General Fund and State Education Fund Revenue Forecast" section starting on page 38, the General Fund revenue forecast for FY 2016-17 is lower by $62.1 million, or 0.6 percent, compared to the March 2017 forecast. The forecast for FY 2017-18 is essentially unchanged.

With this forecast and the budget for FY 2016-17, the State's General Fund reserve is projected to be $142.7 million below the required statutory reserve amount of 6.0 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. The State's General Fund reserve for FY 2017-18 is projected to be $285.4 million below the 6.5 percent required reserve amount. This is $52.3 million above the level which would trigger budget-balancing actions by the Governor.

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 and FY 2017-18 reflect current law.

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



It should be noted that the General Assembly did not enact a budget for FY 2017-18 with the intention of falling short of the reserve. The budget package was based on the Colorado Legislative Council Staff's March 2017 forecast, which was $324 million higher than OSPB's June forecast for General Fund revenue for FY 2016-17 and FY 2017-18 combined.

Senate Bill 17-267 – The passage of SB 17-267 during the 2017 session changed a number of factors that affect the State budget. The legislation replaced the Hospital Provider Fee with a new TABOR-exempt enterprise fee and lowered the Referendum C cap by $200 million in FY 2017-18. The cap increases by population growth and inflation from the lower amount in subsequent years.

SB 17-267 superseded and eliminated the need for SB 17-256, which restricted Hospital Provider Fee revenue in FY 2017-18 by $264.1 million. SB 17-256 was initially passed as a budget balancing measure to eliminate the General Fund obligation for a projected TABOR refund in FY 2017-18. By restricting Hospital Provider Fee revenue by $264.1 million, SB 17-256 would have also lowered federal matching money to hospitals by the same amount, resulting in a total reduction of $528.2 million.

SB 17-267 also increased the business personal property tax income tax credit, repealed the 2.9 percent sales tax on retail marijuana, which is subject to TABOR, and increased the special sales tax on marijuana, which is exempt from TABOR, from 8 percent to 15 percent in FY 2017-18. In addition, it authorized lease-purchase agreements on State facilities to raise money for transportation and capital construction projects, and repealed scheduled General Fund transfers to the Highway Users Tax Fund. Further, the legislation made the General Fund obligation for the senior and disabled veteran property tax exemption program the first TABOR refund mechanism in years in which a TABOR refund is required.

As a result of its provisions, SB 17-267 generated additional resources and flexibility for the operating budget in the General Fund. Figure 35 compares the level of General Fund appropriations for FY 2018-19 that can be supported by projected revenue while maintaining the General Fund's required reserve under current law with SB 17-267, as well as without the provisions of SB 17-267.

Figure 35. Comparison of Funds Available for FY 2018-19 General Fund Appropriations Subject to Limit under Current Law and without SB 17-267

Current Law	Without SB 17-267	Difference
$10,661.0 million	$10,463.4 million	$197.6 million

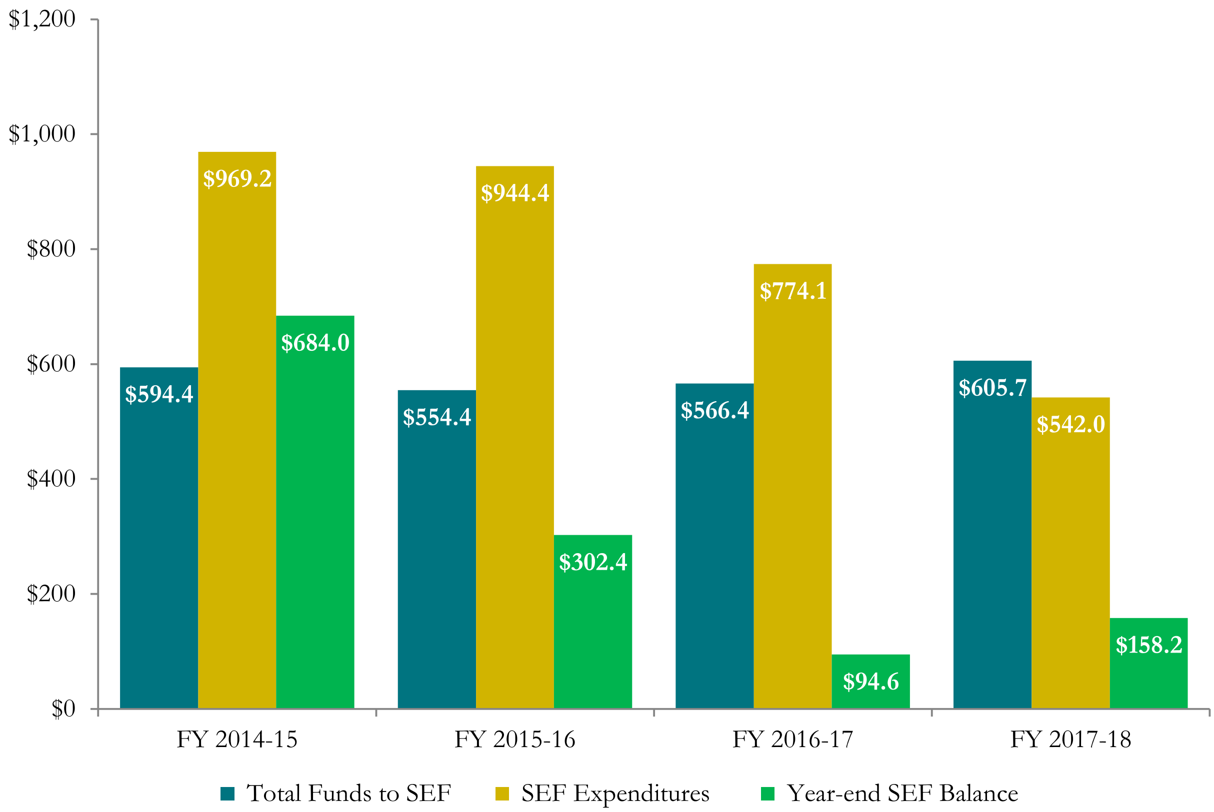
There are a few reasons that a higher level of appropriations can be supported in FY 2018-19 with the enactment of SB 17-267. First, the replacement of the Hospital Provider Fee with a new fee exempt from TABOR, along with the repeal of the 2.9 percent sales tax on retail marijuana, reduces cash fund revenue subject to TABOR under the Referendum C cap. This eliminates TABOR rebates that would have been required to be paid from the General Fund.

In addition, the legislation distributes a portion of the special sales tax on retail marijuana to the General Fund as an offset for the reduction in General Fund revenue from the expansion of the income tax credit for business personal property tax. Furthermore, the legislation repealed the $160 million required General Fund transfer to the Highway Users Tax Fund in FY 2018-19 and FY 2019-20. However, this reduction in General Fund obligations will be partially offset by lease-purchase payments from the General Fund for transportation and capital construction projects.

State Education Fund – The State Education Fund has supported a larger share of education funding in recent years than it has historically, which has drawn down its balance. Figure 36 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 68.7 percent to approximately $95 million from its level in FY 2015-16. However, a lower level of expenditures from the State Education Fund in FY 2017-18 will enable the fund balance to increase to a projected $158 million.

Figure 36. State Education Fund Money, Spending, and Reserves, $ in Millions



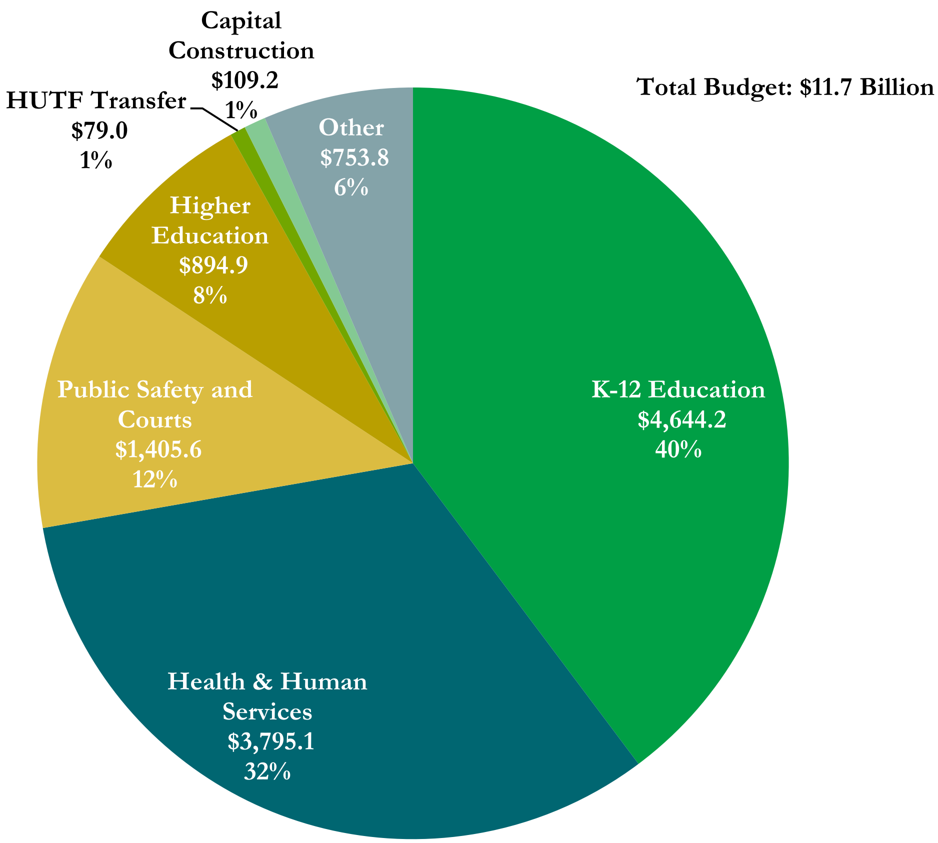
Detailed Overview Tables – A detailed overview of the amount of money available in the General Fund and State Education Fund, expenditures, and end-of-year reserves is provided in the overview tables in the Appendix at the end of this document beginning on page 65.

Spending by Major Department or Program Area

The General Fund provides funding for the State's core programs and services, such as preschool through 12th grade education, higher education, services for low-income populations, including the disabled and elderly, courts, and public safety. It also helps fund capital construction and maintenance needs for State facilities and, in some years, transportation projects. Under the state constitution, the State Education Fund helps fund preschool through 12th grade education and annually receives one-third of one percent of taxable income. In recent years, it has also received supplemental money from the General Fund as authorized by statute.

In Figure 37, the major areas of the General Fund and their share of the FY 2017-18 budget request are noted. Some 92 percent of General Fund and State Education Fund spending is found in the following areas: Preschool-12 education, Medicaid and related costs at the Department of Health Care Policy and Financing, human services, public safety, the correctional system, courts, and higher education.

Figure 37. Composition of FY 2017-18 General Fund and State Education Fund Budget under Current Law



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 previously in this document, Colorado's economic growth has accelerated in the first half of 2017, and the expansion is expected to continue at a moderate pace through the forecast period. Although recession risk appears low at this time, unforeseen events can develop that could result in an economic downturn, which often causes declines in General Fund revenue. At the same time, demand for State services tends to increase during periods of economic weakness and higher unemployment. With the state constitution requiring a balanced budget, the combination of lower revenue and higher demand for services generates very difficult budgeting conditions.

Furthermore, as noted above, the General Fund reserve in FY 2017-18 is projected by this forecast to be near its level that would trigger budget balancing actions by the Governor. This could occur in a future forecast with only minor revisions downward in the projection for General Fund revenue.

General Fund Overview Table

Table 4 in the Appendix presents the General Fund Overview under current law for the June 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 38, 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 38. 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 38. General Fund Revenue Available, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
1	Beginning Balance	$689.6	$512.7	$441.6
2	General Fund Revenue	$9,971.4	$10,312.1	$10,999.0
3	Transfers to the General Fund	$24.1	$45.0	$89.2
4	**Total General Funds Available**	**$10,685.1**	**$10,869.8**	**$11,529.8**
	Dollar Change from Prior Year	$381.7	$184.7	$660.0
	Percent Change from Prior Year	3.7%	1.7%	6.1%

Expenditures

Spending subject to the appropriations limit – The middle portion of the General Fund overview in Table 4 shows General Fund spending. Each year, by statute, 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 and $13.9 billion in FY 2018-19. Therefore, the General Fund appropriations shown in Figure 39 (and on line 5 of Table 4) are about $3.5 billion under the limit for both years. The amounts subject to the limit shown below and in Table 4 for FY 2016-17 and FY 2017-18 reflect current law.

Figure 39. General Fund Spending Subject to the Appropriations Limit, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
5	Appropriations	$9,335.6	$9,784.5	$10,438.1
6	Dollar Change from Prior Year	$466.6	$448.9	$653.6
7	Percent Change from Prior Year	5.3%	4.8%	6.7%

Spending and outlays not subject to the appropriations limit **–** Figure 40 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 40. General Fund Spending Not Subject to the Appropriations Limit, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
8	**Total**	$895.1	$643.7	$701.7
	Dollar Change from Prior Year	$86.6	-$251.4	$58.0
	Percent Change from Prior Year	10.7%	-28.1%	9.0%
9	TABOR Refund under Art. X, Section 20, (7) (d)	$0.0	$0.0	$0.0
10	Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)	-$58.0	$0.0	$0.0
	Cigarette Rebate to Local Governments	*$10.5*	*$9.3*	*$8.7*
	Marijuana Rebate to Local Governments	*$10.1*	*$15.2*	*$19.1*
	Old-Age Pension Fund/Older Coloradans Fund	*$118.3*	*$106.2*	*$105.4*
	Aged Property Tax & Heating Credit	*$9.3*	*$6.9*	*$6.8*
	Homestead Exemption	*$127.1*	*$136.4*	*$144.8*
	Interest Payments for School Loans	*$1.2*	*$3.4*	*$3.5*
	Fire/Police Pensions	*$3.7*	*$4.3*	*$4.3*
	Amendment 35 General Fund Expenditure	*$0.9*	*$0.8*	*$0.8*
11	**Total Rebates and Expenditures**	**$281.3**	**$282.5**	**$293.4**
12	Transfers to Capital Construction	$271.1	$84.5	$109.2
13	Transfers to Highway Users Tax Fund	$199.2	$79.0	$79.0
14	Transfers to State Education Fund per SB 13-234	$25.3	$25.3	$25.3
15	Transfers to Other Funds	$176.2	$172.4	$194.8
16	Other	$0.0	$0.0	$0.0
19	Reversions and Accounting Adjustments	-$58.3	$0.0	$0.0

Lines 9: Revenue exceeded the Referendum C cap in FY 2014-15 but is not projected to exceed the cap again during the forecast period. 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").

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 through FY 2016-17 and 10 percent thereafter 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 transportation (Highway Users Tax Fund) and a portion of the transfers to capital construction (Capital Construction Fund) shown in these lines are commonly referred to as "228" transfers because they were put into law by SB 09-228. The 228 transfers originally amounted to a certain portion of General Fund revenue, but could be reduced or eliminated in a fiscal year based on the size of any TABOR refund. However, legislation passed during the 2016 and 2017 legislative sessions set the transfers at fixed amounts. SB 17-267 eliminated the scheduled transfers to the HUTF starting with FY 2018-19.

In addition to the 228 transfers, the capital construction transfer amounts shown in line 12 also include other transfers of General Fund money. Figure 41 shows the detail of the transfers for capital construction by fiscal year.

Figure 41. Capital Construction Fund Transfers, $ in Millions

Table 4 Line No.		FY 2015-16	FY 2016-17	FY 2017-18
	Fixed "228" Transfers under HB 16-1416 and SB 17-262	$49.8	$52.7	$0.0
	Additional Transfers	$221.3	$31.8	$109.2
12	**Total**	**$271.1**	**$84.5**	**$109.2**

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 is $25.3 million for FY 2017-18 and $25.0 million for 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 special sales tax on retail marijuana that is credited to the General Fund.

SB 17-267 modified the distribution of the revenue from the special sales tax on retail marijuana. Starting with FY 2017-18, in addition to being distributed to the Marijuana Tax Cash Fund and local governments, a portion will go the State Public School Fund and a portion will remain in the General Fund. The General Fund is projected to receive $18.5 million in revenue from the special sales tax in FY 2017-18 and $30.3 million in FY 2018-19. Figure 48 on page 61 in this report provides more detail on the distribution of marijuana tax revenue.

The FY 2015-16 and FY 2016-17 transfers to other funds amounts in line 15 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 58 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.

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 6.0 percent of appropriations (excluding Certificates of Participation payments) for FY 2016-17 pursuant to SB 17-266 and 6.5 percent for subsequent fiscal years.

The FY 2016-17 ending balance is projected by this forecast to be $142.7 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 $292.2 million, or $149.5 million lower than the currently projected balance. In FY 2017-18, the ending balance is projected to be $285.4 million below the required reserve level, $52.3 million above the level that would trigger budget-balancing actions by the Governor.

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, $46.0 million in FY 2016-17, and $48.1 million in FY 2017-18. 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	$441.6	$390.0
21	Balance as a % of Appropriations	5.5%	4.5%	3.7%
22	**General Fund Statutory Reserve**	**$463.9**	**$584.3**	**$675.4**
23	Money Above/Below Statutory Reserve	$48.8	-$142.7	-$285.4

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 $95 million, a decrease of more than $200 million from its level a year earlier. However, a lower level of expenditures from the State Education Fund in FY 2017-18 will enable the fund balance to increase to a projected $158 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*	*$535.4*	*$574.4*
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**	**$566.4**	**$605.7**
State Education Fund Expenditures	**$944.4**	**$774.1**	**$542.0**
Year-end Balance	**$302.4**	**$94.6**	**$158.2**

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 affects General Fund appropriations in order to support the targeted level of school funding. Decisions in one year affect the range of choices in the next year because they impact the available balance in the State Education Fund for future spending and General Fund availability for other programs.

Table 5 in the Appendix incorporates all of the same information from the General Fund overview in Table 4, but also includes spending, revenue, and fund-balance information for the State Education Fund. Given the budget implications of the balance of funding between the State Education Fund and General Fund, a unified and multi-year view provides important insight into the sustainability of budgeting decisions.

Cash Fund Revenue Forecast

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

Cash fund revenue in FY 2016-17 is projected to be $153.2 million, or 5.2 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 other major categories of cash funds. The forecast for FY 2016-17 is $19.4 million, or 0.7 percent, lower than projections in the March forecast. This downward adjustment is mostly the result of lower expectations for severance tax revenue.

Cash fund revenue will decrease 17.3 percent in FY 2017-18 as the Hospital Provider Fee is replaced with the Healthcare Affordability and Sustainability Fee program, which is a TABOR-exempt enterprise in accordance with SB 17-267. The forecast for FY 2017-18 is $913.5 million, or 28.5 percent, lower compared with projections in March. In addition to the change in the Hospital Provider Fee, the exemption of retail marijuana sales from the 2.9 percent state sales tax pursuant to SB 17-267 and lower expectations for severance tax revenue also reduced cash fund revenue projections in relation to the March forecast.

Transportation-related cash funds **—** Transportation-related cash fund revenue is forecast to grow 2.4 percent in FY 2016-17 and 1.7 percent in FY 2017-18. This is the same forecast as in March for FY 2016-17, but the forecast is 0.6 percent, or $7.6 million, lower than in March for FY 2017-18.

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.

Gas tax revenue received per mile driven is falling as vehicles become increasingly fuel-efficient.

More than 75 percent of motor fuel tax revenue comes from state gasoline taxes, which have been 22 cents per gallon in Colorado since 1991. Fuel tax revenue to the HUTF have averaged 2.0 percent growth per year during the current economic expansion. 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 growth is a function of auto sales and in-migration to the state. Sales have been growing steadily since the end of the Great Recession in 2009. As the pent-up demand experienced since the 2008-09 recession decreases, new auto sales are beginning to decline nationally. In Colorado however, vehicle sales remain strong, though sales are expected to slow over the forecast period.

Because registration fees are based largely on vehicle age and weight, the continuing shift in consumer preference towards SUVs and light trucks is expected to partially offset less registration revenue due to the lower growth in 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 2.5 percent over the next three fiscal years.

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**	**$625.6**	**$633.1**	**$645.5**
Change	2.1%	2.6%	1.2%	2.0%
Total Registrations	**$242.6**	**$253.9**	**$258.3**	**$265.0**
Change	2.6%	4.7%	1.7%	2.6%
Other HUTF Receipts	**$177.9**	**$182.1**	**$186.7**	**$193.5**
Change	2.7%	2.4%	2.5%	3.6%
Total HUTF	**$1,030.2**	**$1,061.6**	**$1,078.1**	**$1,103.9**
Change	2.3%	3.0%	1.6%	2.4%
State Highway Fund	**$52.2**	**$36.2**	**$47.2**	**$48.9**
Change	23.1%	-30.6%	30.2%	3.7%
Other Transportation Funds	**$98.8**	**$110.1**	**$114.9**	**$116.7**
Change	-7.6%	11.5%	4.4%	1.5%
Total Transportation Funds*	**$1,184.7**	**$1,213.7**	**$1,234.6**	**$1,260.7**
Change	2.2%	2.4%	1.7%	2.1%

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

Limited gaming revenue **—** The forecast for limited gaming revenue is unchanged from the March forecast. Gaming revenue is forecast to grow by $2.1 million, or 2.0 percent, to $120.4 million in FY 2016-17. 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 experienced mostly modest growth in the aftermath of the Great Recession, with expected FY 2016-17 limited gaming revenue remaining slightly below the pre-recession peak of $122 million in FY 2006-07. Continued economic expansion is expected to contribute to further modest increases in limited gaming revenue over the forecast period.

Limited gaming revenue is expected to surpass its pre-recession peak of $122 million, with projected revenue of $123.6 million in FY 2017-18.

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.

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 will 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 Revenue

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	**$102.7**	**$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 revenue in FY 2016-17 is essentially unchanged from the March forecast. Hospital Provider Fee collections are decreasing 18.3 percent, or $147.2 million, to $656.8 million in FY 2016-17. This decrease is due to the limit on Hospital Provider Fee revenue adopted for the FY 2016-17 budget under HB 16-1405.

Hospital Provider Fee revenue is reduced to zero in FY 2017-18 and FY 2018-19 as the Hospital Provider Fee will be replaced with the Healthcare Affordability and Sustainability Fee. This fee revenue, collected by the Colorado Healthcare Affordability and Sustainability Enterprise within the Department of Health Care Policy and Financing (HCPF), will be exempt from TABOR as the program is designated as an enterprise in accordance with SB 17-267. As with the Hospital Provider Fee, this new fee is paid by Colorado hospitals and is used, together with matching federal funds, to help cover the cost of the Medicaid program and enhance payments to health care providers.

Replacing the Hospital Provider fee with the new fee that is exempt from TABOR under SB 17-267 reduces cash fund revenue subject to TABOR by $865.3 million in FY 2017-18 and $859.8 million in FY 2018-19. This reduction is partially offset by $15.7 million in annual fee revenue that will be used by HCPF for other programs that are not part of the new enterprise that will thus be subject to TABOR. This revenue is included in the miscellaneous cash fund category starting in FY 2017-18.

Severance tax revenue **—** Severance tax revenue will increase to $51.5 million in FY 2016-17, after $18.9 million in revenue was collected in FY 2015-16. There are several factors contributing to the continued low level of collections. The ad valorem tax credit for State severance taxes is a contributing factor, as are 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 due to slightly higher oil and gas prices, reduced ad valorem credits, and a smaller impact from the Supreme Court ruling. Total severance tax revenue will increase to $156.3 million in FY 2017-18.

The level of oil and natural gas prices are a main 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 remain near $50 a barrel through the end of 2017; natural gas prices are also expected to rise only slightly.

Severance tax revenue will increase to $51.5 million in FY 2016-17. Severance tax collections will rebound to $156.3 million in FY 2017-18.

The ongoing imbalance between the high levels of supply in relation to weakened demand is expected to persist. Although the November OPEC agreement to limit production was extended in May, 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 materially.

However, 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. Modestly 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 in 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.

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.

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 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 rise 1.1 percent to $93.9 million in FY 2016-17. FML revenue continues to be weakened 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 9.8 percent to $103.1 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 a portion of the money is used for the State's share of K-12 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 are a result of refunds to holders of cancelled leases on land for mineral extraction on the Roan Plateau in Colorado. The BLM carried out auctions for leases to produce natural gas on the Roan Plateau in 2008, collecting significant "bonus" payments. The BLM later revisited these leases and determined a need to re-negotiate or cancel several of them. As a result, the Bureau 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 payments 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	$0.2	$93.7	$93.9	1.1%
FY 2017-18	$2.1	$101.0	$103.1	9.8%
FY 2018-19	$2.0	$110.2	$112.3	8.9%

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

Other cash funds **—** Cash fund revenue to the Department of Regulatory Agencies (DORA) will increase 10.6 percent to $76.1 million in FY 2016-17. This revenue source will grow another 2.8 percent to $78.2 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 decrease 10.0 percent to $10.3 million in FY 2016-17. Each year, the DOWC performs a comprehensive review to determine the funding needed to operate its programs. Surcharges are increasing in the last half of FY 2017-18. This is contributing to the forecast increase of insurance-related revenue in FY 2017-18, when revenue is projected to increase 53.7percent to $15.8 million.

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 from FY 2015-16. The FY 2016-17 projection is the same as the March forecast. Revenue to these funds is expected to increase 6.3 percent to $698.2 million in FY 2017-18.

The reduction in miscellaneous cash fund revenue in FY 2016-17 is due to two main factors. First, revenue received by Ft. Lewis College and Western State Colorado University is assumed to not be subject to TABOR this fiscal year due to the assumption that these institutions will regain their enterprise status after being disqualified in FY 2015-16. Secondly, the shifting forward of revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund from FY 2016-17 to FY 2015-16 per House Bill 16-1409 contributed to the decrease. The resumption of this transfer in FY 2017-18 is contributing to the 6.3 percent overall increase in miscellaneous cash funds projected for next fiscal year.

Marijuana-related revenue — Revenue from the special taxes on the legal marijuana industry in the state authorized by Proposition AA in November 2013, along with revenue from the 2.9 percent sales tax collected on marijuana sales, are shown in Figure 47.

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%/15% Special Sales Tax	$67.3	$101.6	$191.5	$216.1
Retail Marijuana 15% Excise Tax	$42.7	$72.6	$92.1	$103.6
Total Proposition AA Taxes	**$110.0**	**$174.2**	**$283.6**	**$319.7**
2.9% Sales Tax (Subject to TABOR)				
Medical Marijuana 2.9% State Sales Tax	$12.2	$12.4	$12.5	$12.5
Retail Marijuana 2.9% State Sales Tax	$19.4	$28.7	$0.0	$0.0
Total 2.9% Sales Taxes	**$31.6**	**$41.0**	**$12.5**	**$12.5**
Total Marijuana Taxes	**$141.6**	**$215.2**	**$296.1**	**$332.2**

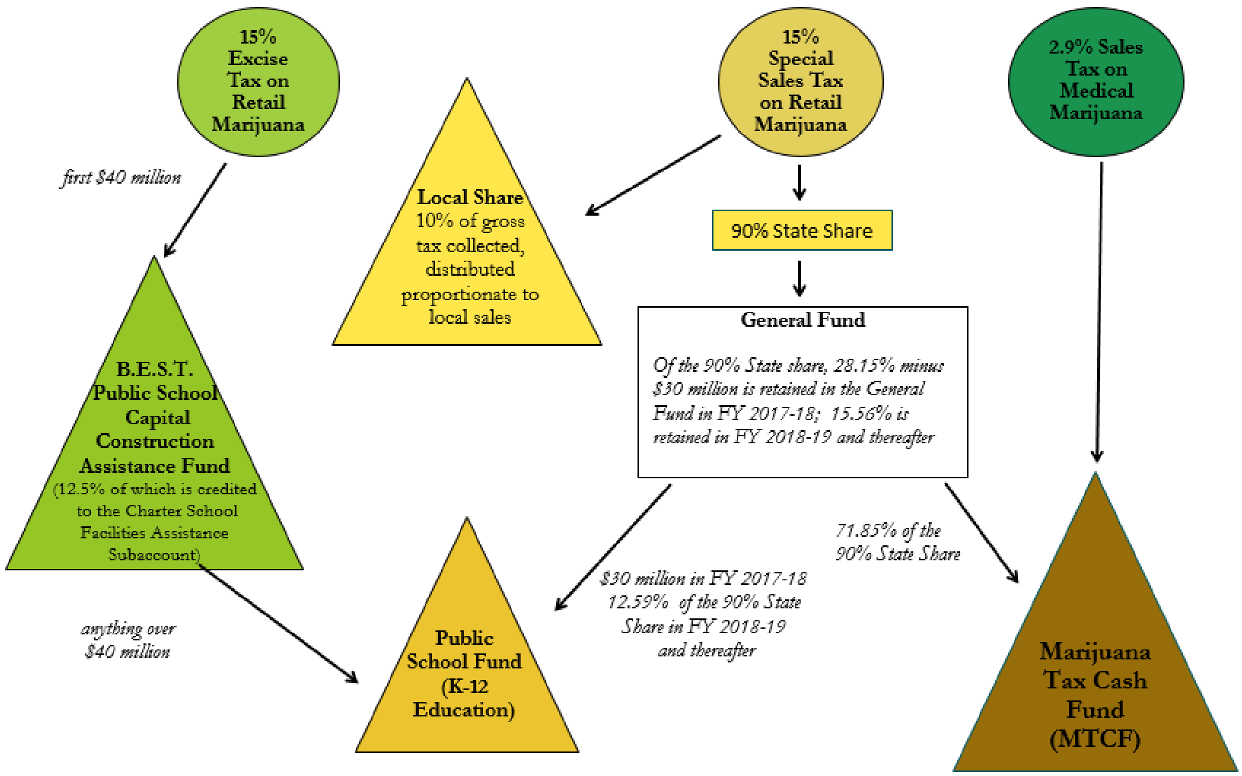
Source: Colorado Department of Revenue

SB 17-267 made changes to marijuana taxation and revenue beginning in FY 2017-18. The bill exempted retail marijuana from the 2.9 percent state sales tax, while increasing the special sales tax on retail marijuana from the scheduled 8 percent rate in FY 2017-18 to 15 percent. The exemption of retail marijuana from the 2.9 percent state sales tax will result in $37.0 million less revenue subject to TABOR in FY 2017-18, while the increase in the special sales tax rate will result in $89.4 million more TABOR-exempt revenue.

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 included in the miscellaneous cash funds category in Table 6. The table does not include the proceeds from marijuana taxes authorized by Proposition AA as they are not subject to TABOR.

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 most of the revenue is transferred to the Marijuana Tax Cash Fund, public school finance, and local governments. The remaining amount after the transfers stays in the General Fund. 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 48 shows the distribution of marijuana tax revenue.

Figure 48. Distribution of Marijuana Tax Revenue Starting in FY 2017-18



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 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.

The passage of SB 17-267 during the 2017 legislative session reduced the Referendum C cap by $200 million in FY 2017-18. The lower cap then grows by inflation and population growth in subsequent years. More information on SB 17-267 can be found below.

Most General Fund revenue and a portion of cash fund revenue is included in calculating the revenue cap under Referendum C. Revenue that is not subject to TABOR includes revenue exempt by Colorado voters; federal money; and revenue received by entities designated as enterprises, such as public universities and colleges. Table 7 found in the Appendix summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

SB 17-267 reduced the amount of revenue subject to TABOR and no TABOR refunds are projected during the forecast period – TABOR revenue came in $122.1 million below the cap in FY 2015-16 and is projected to be $302.3 million under the cap in FY 2016-17. TABOR revenue is expected to be below the cap by $582.8 million in FY 2017-18 and $665.2 million in FY 2018-19. The March 2017 forecast before the passage of SB 17-267 had projected TABOR revenue to be above the cap by $135.1 million in FY 2017-18 and by $145.1 million in FY 2018-19, triggering a General Fund obligation for rebates.

TABOR revenue is expected to be below the Referendum C cap by $582.8 million in FY 2017-18 and $665.2 million in FY 2018-19.

SB 17-267 had several provisions that affect the amount of TABOR revenue under the Referendum C cap. As mentioned above, SB 17-267 reduced the Referendum C cap by $200 million in FY 2017-18. The cap will grow by inflation and population growth from this lower base going forward.

Beginning in FY 2017-18, the Hospital Provider Fee will be replaced with the Healthcare Affordability and Sustainability Fee. This fee will be exempt from TABOR as it will be collected by a new enterprise created by SB 17-267 within the Department of Health Care Policy and Financing. This change will reduce TABOR revenue by $865.3 million in FY 2017-18 and $859.8 million in FY 2018-19. This reduction is partially offset by $15.7 million in annual fee revenue that will be used by the Department of Health Care Policy and Financing for other programs that are not part of the new enterprise and will thus be subject to TABOR.

In addition, SB 17-267 exempted retail marijuana from the 2.9 percent state sales tax, which will result in $37.0 million less revenue subject to TABOR in FY 2017-18, and $41.8 million less in FY 2018-19. Moreover, SB 17-267 extended and expanded the income tax credit for business personal property taxes paid, which is projected to reduce income tax collections by about $10 million in FY 2018-19 and $20 million in FY 2019-20. However, SB 17-267 also distributes a portion of the special sales tax on retail marijuana sales to the General Fund on an ongoing basis which offsets the revenue reduction from the business personal property tax credit.

Under current law, the conservation easement income tax credit becomes refundable during tax years following fiscal years in which a TABOR refund occurs. Because SB 17-267 results in no projected TABOR refunds during the forecast window, the credit is now projected to be nonrefundable in tax years 2018 and 2019, increasing TABOR revenue by $2.5 million in FY 2017-18 and $4.9 million in FY 2018-19.

Finally, SB 17-267 changed TABOR refund mechanisms. The legislation required that reimbursements paid to local governments in support of the senior homestead and disabled veterans property tax exemptions constitute a TABOR refund in years in which a refund is owed. The reimbursements become the first refund mechanism triggered when a TABOR refund is required. The six-tier sales tax refund becomes the second refund mechanism.

Governor's Revenue Estimating Advisory Committee

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

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- David Kelly – Chief Risk Officer, FirstBank
- 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

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Appendix – Reference Tables

Table 1. History and Forecast for Key Colorado Economic Variables
Calendar Year 2011-2019

Line No.		Actual						June 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	$288.4	$304.3	$321.0	$338.0
2	Change	9.1%	6.4%	5.4%	8.1%	4.2%	3.9%	5.5%	5.5%	5.3%
3	Wage and Salary Income (Billions) /A	$118.6	$125.0	$129.6	$138.7	$146.6	$153.3	$162.1	$171.1	$180.5
4	Change	4.2%	5.4%	3.7%	7.0%	5.7%	4.6%	5.7%	5.6%	5.5%
5	Per-Capita Income ($/person) /A	$42,955	$45,089	$46,824	$49,823	$50,971	$52,059	$54,000	$56,053	$58,110
6	Change	7.6%	5.0%	3.8%	6.4%	2.3%	2.1%	3.7%	3.8%	3.7%
	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%	2.6%	3.0%	3.2%
11	Total Nonagricultural Employment (Thousands)	2,258.6	2,313.0	2,381.9	2,464.9	2,541.9	2,598.3	2,655.5	2,708.6	2,754.6
12	Change	1.6%	2.4%	3.0%	3.5%	3.1%	2.2%	2.2%	2.0%	1.7%
	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	$4,320.5	$4,885.8	$5,673.3	$5,197.1	$5,051.6	$5,112.2
16	Change	24.7%	-5.8%	-1.9%	19.2%	13.1%	16.1%	-8.4%	-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%	5.1%	5.0%	4.6%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	220.3	224.6	230.8	237.2	240.0	246.6	253.9	260.5	266.7
20	Change	3.7%	1.9%	2.8%	2.8%	1.2%	2.8%	2.9%	2.6%	2.4%

/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.

/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						June 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	$16,662.1	$17,022.3	$17,413.8	$17,779.5
2	Change	1.6%	2.2%	1.7%	2.4%	2.6%	1.6%	2.2%	2.3%	2.1%
3	Personal Income (Billions) /B	$13,254.5	$13,915.1	$14,073.7	$14,809.7	$15,458.5	$16,011.6	$16,700.1	$17,451.6	$18,219.5
4	Change	6.2%	5.0%	1.1%	5.2%	4.4%	3.6%	4.3%	4.5%	4.4%
5	Per-Capita Income ($/person)	$42,528	$44,316	$44,508	$46,489	$48,173	$49,552	$51,298	$53,215	$55,171
6	Change	5.4%	4.2%	0.4%	4.5%	3.6%	2.9%	3.5%	3.7%	3.7%
7	Wage and Salary Income (Billions) /B	$6,633	$6,930	$7,116.7	$7,476.3	$7,854.8	$8,189.2	$8,590.5	$9,052.8	$9,511.2
8	Change	4.0%	4.5%	2.7%	5.1%	5.1%	4.3%	4.9%	5.4%	5.1%
	Population & Employment									
9	Population (Millions)	311.7	314.0	316.2	318.6	320.9	323.1	325.6	327.9	330.2
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%	4.5%	4.4%	4.5%
12	Total Nonagricultural Employment (Millions)	131.9	134.2	136.4	139.0	141.8	144.3	146.4	148.0	149.2
13	Change	1.2%	1.7%	1.6%	1.9%	2.1%	1.7%	1.5%	1.1%	0.8%
	Price Variables									
14	Consumer Price Index (1982-84=100)	224.9	229.6	233.0	236.7	237.0	240.0	246.0	251.7	257.2
15	Change	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.5%	2.3%	2.2%
16	Producer Price Index - All Commodities (1982=100)	201.0	202.2	203.4	205.3	190.4	185.4	192.4	197.6	203.2
17	Change	8.8%	0.6%	0.6%	0.9%	-7.3%	-2.6%	3.8%	2.7%	2.8%
	Other Key Indicators									
18	Corporate Profits (Billions)	$1,816.6	$1,998.2	$2,032.9	$2,152.1	$2,088.1	$2,079.2	$2,178.1	$2,287.0	$2,392.2
19	Change	4.0%	10.0%	1.7%	5.9%	-3.0%	-0.4%	4.8%	5.0%	4.6%
20	Housing Permits (Millions)	0.624	0.830	0.991	1.052	1.183	1.207	1.340	1.357	1.364
21	Change	3.2%	32.9%	19.4%	6.2%	12.4%	2.0%	11.1%	1.3%	0.5%
22	Retail Trade (Billions)	$4,598.3	$4,826.4	$5,001.8	$5,215.7	$5,350.5	$5,512.3	$5,752.2	$5,970.5	$6,175.1
23	Change	7.3%	5.0%	3.6%	4.3%	2.6%	3.0%	4.4%	3.8%	3.4%

/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	June 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%	$2,824.5	6.5%	$3,037.4	7.5%	$3,190.0	5.0%
2	Use	$241.2	-7.3%	$257.3	6.7%	$274.8	6.8%	$286.8	4.4%
3	Cigarette	$37.2	-1.8%	$36.4	-2.2%	$34.0	-6.6%	$32.7	-3.7%
4	Tobacco Products	$21.1	18.5%	$22.5	6.9%	$22.4	-0.5%	$23.0	2.3%
5	Liquor	$43.6	5.0%	$45.0	3.3%	$45.2	0.5%	$46.0	1.7%
6	**Total Excise**	**$2,995.7**	**0.6%**	**$3,185.7**	**6.3%**	**$3,413.8**	**7.2%**	**$3,578.4**	**4.8%**
	Income Taxes:								
7	Net Individual Income	$6,526.5	2.8%	$6,795.6	4.1%	$7,207.3	6.1%	$7,532.6	4.5%
8	Net Corporate Income	$652.3	-5.8%	$532.0	-18.5%	$610.5	14.8%	$651.4	6.7%
9	**Total Income**	**$7,178.8**	**1.9%**	**$7,327.6**	**2.1%**	**$7,817.8**	**6.7%**	**$8,184.1**	**4.7%**
10	*Less: State Education Fund Diversion*	*$522.6*	*0.5%*	*$535.4*	*2.5%*	*$574.4*	*7.3%*	*$604.6*	*5.3%*
11	**Total Income to General Fund**	**$6,656.2**	**2.0%**	**$6,792.2**	**2.0%**	**$7,243.4**	**6.6%**	**$7,579.5**	**4.6%**
	Other Revenue:								
12	Insurance	$280.3	9.2%	$287.0	2.4%	$301.5	5.1%	$314.0	4.2%
13	Interest Income	$12.4	40.3%	$13.5	8.3%	$15.9	18.3%	$17.8	12.0%
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%	$30.3	34.1%	$20.9	-30.9%	$21.4	2.6%
17	**Total Other**	**$319.4**	**5.5%**	**$334.3**	**4.6%**	**$341.8**	**2.2%**	**$356.6**	**4.3%**
18	**GROSS GENERAL FUND**	**$9,971.4**	**1.7%**	**$10,312.1**	**3.4%**	**$10,999.0**	**6.7%**	**$11,514.6**	**4.7%**

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

Line No.		Actual FY 2015-16	June 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
Revenue					
1	**Beginning Reserve**	**$689.6**	**$512.7**	**$441.6**	**$390.0**
2	**Gross General Fund Revenue**	**$9,971.4**	**$10,312.1**	**$10,999.0**	**$11,514.6**
3	*Transfers to the General Fund*	$24.1	$45.0	$89.2	$18.5
4	**TOTAL GENERAL FUND AVAILABLE**	**$10,685.1**	**$10,869.8**	**$11,529.8**	**$11,923.1**
Expenditures					
5	**Appropriation Subject to Limit**	**$9,335.6**	**$9,784.5**	**$10,438.1**	**$10,661.0**
6	*Dollar Change (from prior year)*	$466.6	$448.9	$653.6	$222.9
7	*Percent Change (from prior year)*	5.3%	4.8%	6.7%	2.1%
8	**Spending Outside Limit**	**$895.1**	**$643.7**	**$701.7**	**$572.5**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$0.0	$0.0	$0.0	$0.0
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	$282.5	$293.4	$313.7
12	*Transfers for Capital Construction*	$271.1	$84.5	$109.2	$60.0
13	*Transfers to Highway Users Tax Fund*	$199.2	$79.0	$79.0	$0.0
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	$172.4	$194.8	$173.7
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**	**$10,428.2**	**$11,139.8**	**$11,233.5**
18	*Percent Change (from prior year)*	5.7%	1.9%	6.8%	0.8%
19	Reversions and Accounting Adjustments	-$58.3	$0.0	$0.0	$0.0
Reserves					
20	**Year-End General Fund Balance**	**$512.7**	**$441.6**	**$390.0**	**$689.6**
21	*Year-End General Fund as a % of Appropriations*	5.5%	4.5%	3.7%	6.5%
22	*General Fund Statutory Reserve*	$463.9	$584.3	$675.4	$689.6
23	*Above/Below Statutory Reserve*	$48.8	-$142.7	-$285.4	$0.0

/A See the section discussing the General Fund and State Education Fund Budget starting on page 45 for information on the figures in this table.

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

Line No.		Actual FY 2015-16	June 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
Revenue					
1	**Beginning Reserves**	**$1,373.6**	**$815.1**	**$536.2**	**$548.2**
2	*State Education Fund*	$684.0	$302.4	$94.6	$158.2
3	*General Fund*	$689.6	$512.7	$441.6	$390.0
4	**Gross State Education Fund Revenue**	**$554.4**	**$566.4**	**$605.7**	**$635.8**
5	**Gross General Fund Revenue /B**	**$9,995.5**	**$10,357.1**	**$11,088.2**	**$11,533.1**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$11,923.5**	**$11,738.5**	**$12,230.1**	**$12,717.2**
Expenditures					
7	General Fund Expenditures /C	$10,230.7	$10,428.2	$11,139.8	$11,233.5
8	State Education Fund Expenditures	$944.4	$774.1	$542.0	$693.3
9	**TOTAL OBLIGATIONS**	**$11,175.1**	**$11,202.3**	**$11,681.9**	**$11,926.8**
10	*Percent Change (from prior year)*	5.0%	0.2%	4.3%	2.1%
11	*Reversions and Accounting Adjustments*	-$66.6	$0.0	$0.0	$0.0
Reserves					
12	**Year-End Balance**	**$815.1**	**$536.2**	**$548.2**	**$790.3**
13	State Education Fund	$302.4	$94.6	$158.2	$100.8
14	General Fund	$512.7	$441.6	$390.0	$689.6
15	*General Fund Above/Below Statutory Reserve*	$48.8	-$142.7	-$285.4	$0.0

/A See the section discussing the General Fund and State Education Fund Budget starting on page 45 for information on the figures in this table.
/B This amount includes transfers to the General Fund shown in line 3 in Table 4.
/C General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 5 in Table 4 as well as all spending outside the limit shown in line 8 in Table 4.

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

Category	Actual FY 2015-16	June 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
Transportation-Related /A	**$1,184.7**	**$1,213.7**	**$1,234.6**	**$1,260.7**
Change	1.7%	2.4%	1.7%	2.1%
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**	**$4.1**	**$3.7**	**$4.6**
Change	-6.6%	-21.9%	-10.0%	24.6%
Regulatory Agencies	**$68.8**	**$76.1**	**$78.2**	**$80.5**
Change	4.8%	10.6%	2.8%	3.0%
Insurance-Related	**$11.4**	**$10.3**	**$15.8**	**$15.4**
Change	-42.7%	-10.0%	53.7%	-2.2%
Severance Tax /C	**$18.9**	**$51.5**	**$156.3**	**$163.8**
Change	-93.3%	172.3%	203.4%	4.8%
Hospital Provider Fees /D	**$804.0**	**$656.8**	N/A	N/A
Change	52.0%	-18.3%	N/A	N/A
Other Miscellaneous Cash Funds	**$731.3**	**$656.6**	**$698.2**	**$715.1**
Change	19.4%	-10.2%	6.3%	2.4%
TOTAL CASH FUND REVENUE	***$2,927.1***	***$2,773.9***	***$2,294.4***	***$2,350.5***
Change	5.4%	-5.2%	-17.3%	2.4%

/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.

/D Hospital Provider Fee revenue is reduced to zero in FY 2017-18 and FY 2018-19 as the Hospital Provider Fee is replaced with the Healthcare Affordability and Sustainability Fee pursuant to SB 17-267.

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

Line No.		Actual FY 2015-16	June 2017 Estimate by Fiscal Year FY 2016-17	FY 2017-18	FY 2018-19
	TABOR Revenues:				
1	General Fund /A	$9,897.3	$10,210.5	$10,807.5	$11,298.5
	Percent Change from Prior Year	1.5%	3.2%	5.8%	4.5%
2	Cash Funds /A	$2,927.1	$2,773.9	$2,294.4	$2,350.5
	Percent Change from Prior Year	5.4%	-5.2%	-17.3%	2.4%
3	**Total TABOR Revenues**	**$12,824.4**	**$12,984.4**	**$13,101.8**	**$13,649.0**
	Percent Change from Prior Year	2.3%	1.2%	0.9%	4.2%
	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%	2.9%
6	**Allowable TABOR Growth Rate**	4.4%	3.1%	4.5%	4.6%
7	TABOR Limit /B	$10,427.6	$10,689.7	$11,170.8	$11,684.6
8	General Fund Exempt Revenue Under Ref. C /C	$2,396.8	$2,294.6	$1,931.0	$1,964.3
9	**Revenue Cap Under Ref. C /B, /D**	**$12,946.5**	**$13,286.7**	**$13,684.6**	**$14,314.1**
10	***Amount Above/Below Cap***	**-$122.1**	**-$302.3**	**-$582.8**	**-$665.2**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$0.0**	**$0.0**	**$0.0**	**$0.0**
12	TABOR Reserve Requirement	$384.7	$389.5	$393.1	$409.5

/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. SB 17-267 reduced the Referendum C cap by $200 million in FY 2017-18. The lower cap then grows by inflation and population growth in subsequent years.

/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.