Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff Economics Section

March 18, 2014

Table Of Contents | **Page**

The Legislative Council Staff is the nonpartisan research staff of the Colorado General Assembly.

Natalie Mullis, Chief Economist
Marc Carey
Larson Silbaugh
Louis Pino
Greg Sobetski
Alex Schatz
Debbie Grunlien

Legislative Council Staff
029 State Capitol Building
Denver, Colorado 80203
(303) 866-3521
www.colorado.gov/lcs
LCS.Economist@state.co.us

Photograph captures Shadow Mountain Lake, courtesy of Stephanie Smith.

Highlights

- The U.S. and Colorado economies improved steadily in 2013 and are on a healthy footing for stronger expansion in the coming years. Headwinds created by fiscal policy and the global economy have diminished, allowing the private sector to gain momentum. The main concern in 2014 will center on the pace of the Federal Reserve's withdrawal of monetary support.

- The General Fund will end **FY 2013-14** with a $257.5 million surplus. Of this amount, $30 million will be transferred to the Colorado Water Conservation Board Construction Fund and $170.6 million will be transferred to the State Education Fund, leaving $56.9 million in the General Fund.

- The General Assembly will have $1.1 billion, or 13.0 percent, more to spend in **FY 2014-15** than the amount budgeted for FY 2013-14.

- Revenue subject to TABOR is expected to be $308.4 million, $146.4 million, and $179.3 million below the **Referendum C cap** in FYs 2013-14, 2014-15, and 2015-16, respectively.

- Transfers to the Capital Construction and Highway Users Tax Funds authorized by **Senate Bill 09-228** will begin during FY 2015-16.

- All **tax benefits** dependent on the receipt of sufficient General Fund revenue to allow appropriations to increase by six percent are expected to be available through the end of the forecast period.

- Revenue from the excise and special sales taxes on **adult-use marijuana** will total $54.7 million in FY 2014-15.

EXECUTIVE SUMMARY

Executive Summary

This report presents the budget outlook based on current law and the March 2014 General Fund revenue, TABOR situation, and cash fund revenue forecasts. A summary of expectations for the national and Colorado economies and current economic conditions in nine regions around the state are also presented.

General Fund

FY 2013-14. The General Fund will end the year with a surplus of $257.5 million. Of this amount, $30 million will be transferred to the Colorado Water Conservation Board Construction Fund and $170.6 million will be transferred to the State Education Fund, leaving $56.9 million in the General Fund.

More information about the **General Fund budget overview** begins on page 7 and is summarized in Table 2 on page 8.

More information about the **General Fund revenue** forecast begins on page 19 and is summarized in Table 6 on page 21.

This estimate incorporates the impact of the supplemental budget package. Any additional legislation that either saves money in the General Fund, spends money out of the General Fund, or alters General Fund revenue will change the amount transferred to the State Education Fund by 75 cents on the dollar. If the cumulative fiscal impact of this legislation exceeds $227.4 million, the $30 million transfer to the Colorado Water Conservation Board Construction Fund will also be reduced. The forecast for General Fund revenue in FY 2013-14 was reduced by $2.7 million relative to expectations in December.

FY 2014-15. The General Assembly will have $1.1 billion, or 13.0 percent, more to spend in FY 2014-15 than is budgeted to be spent or retained in the reserve in FY 2013-14. If appropriations are increased by the average historical growth rate of 5.96 percent during years of economic expansion over the last 15 years there would be $593.5 million, or 6.8 percent, remaining above the amount required to be retained in the reserve. The forecast for General Fund revenue in FY 2014-15 was increased by $82.0 million relative to expectations in December.

The **State Education Fund** is expected to receive a total of $714.1 million in revenue during FY 2014-15 (see page 10).

The five-year block of transfers to the Capital Construction Fund and Highway Users Tax Fund required by **Senate Bill 09-228** is expected to begin in FY 2015-16 (see page 10).

All **tax benefits** dependent on the collection of enough General Fund revenue to allow General Fund appropriations to increase by at least six percent are expected to be available through the forecast period (see page 11).

TABOR Outlook

Revenue subject to TABOR is expected to be $308.4 million (2.6 percent), $146.4 million (1.2 percent), and $179.3 million (1.4 percent) lower than the **Referendum C** cap in FY's 2013-14, 2014-15, and 2015-16, respectively.

Despite this, a potential exists for a **TABOR refund** within the forecast period. Although revenue is not expected to be collected in excess of the Referendum C cap, this forecast anticipates state fiscal year spending in FY 2014-15 above the estimate published in the Proposition AA Blue Book. According to a legal analysis of the Office of Legislative Legal Services regarding TABOR election provisions, this forecast would anticipate a refund of $54.7 million in FY 2015-16. For more information, please see page 13.

> More information about the state's **TABOR situation** begins on page 13 and is summarized in Figure 2 on page 13 and Table 5 on page 17.

Cash Fund Revenue Subject to TABOR

Cash fund revenue subject to TABOR is expected to increase slightly from $2.55 billion in FY 2012-13 to $2.56 billion in FY 2013-14. Increases in transportation-related cash funds, severance tax collections, regulatory agencies cash funds, other cash funds, and capital construction-related funds were mostly offset by projected decreases in hospital provider fee revenue, gaming revenue, and insurance-related cash funds. Revenue collected via the state's 2.9 percent sales tax on medical and retail marijuana is projected to add another $17.3 million to cash fund revenue subject to TABOR in FY 2013-14. Total cash fund revenue subject to TABOR will increase 3.0 percent to $2.64 billion in FY 2014-15, as severance tax revenue is projected to continue to climb with increased oil and gas activity. For more information about forecasts for cash fund revenue subject to TABOR, please see page 23.

> More information about **cash fund revenue subject to TABOR** begins on page 23 and is summarized in Table 7 on page 24.

TABOR Exempt Cash Fund Revenue

Federal mineral lease revenue will total $153.2 million in FY 2013-14 and $174.2 million in FY 2014-15. The forecast assumes that the federal government will continue to distribute the full amount of FML revenue to states as was agreed in the December congressional budget package. For more information about federal mineral lease revenue, please see page 29.

The ***Unemployment Insurance Trust Fund*** closed FY 2012-13 with a fund balance of $546.8 million, a 6.6 percent increase from the previous fiscal year. The fund balance will continue to increase through the forecast period as unemployment declines and revenue increases. More information about the UI Trust Fund can be found on page 29.

Marijuana revenue. The combined taxes on the adult-use and medical marijuana industry are expected to generate $40.0 million in FY 2013-14 and $77.2 million in FY 2014-15. Of these amounts, $22.7 million in FY 2013-14 and $54.7 million in FY 2014-15 are forecast to be collected as a result of the excise and special sales taxes approved by voters in Proposition AA. Because only one month of tax collections has been reported for adult-use marijuana, this forecast is based on a set of assumptions about the number of marijuana users, the amount and type of marijuana they consume, and wholesale and retail prices. The forecast is only as accurate as the assumptions upon which it is based and will improve as more data becomes available. A more detailed discussion of marijuana taxes begins on page 32.

National Economy

The nation's economy showed real signs of momentum in 2013, putting it on healthier footing for stronger expansion in the coming years. Despite a partial government shutdown, many sectors continued to make significant improvements. Over the past year, household wealth has grown because of increases in home prices and recent gains in the stock market. As a result, consumer spending improved, particularly on big-ticket items like furniture and vehicles. U.S. corporations continue to post strong profits, and the drag from uncertainties in fiscal and monetary policies appear to have waned.

Summaries of the **national and Colorado economic forecasts** begin on pages 35 and 53, respectively.

Summaries of economic conditions in nine **regions** around the state begin on page 65.

Economic activity will grow at a more earnest pace in 2014 and 2015. Headwinds created by fiscal and monetary policy have diminished and the global economy is improving, allowing the private sector to gain momentum. The main concern in 2014 will center on the pace of economic activity relative to the speed of the Federal Reserve's withdrawal of monetary support. Expectations for the national economy are shown in Table 13 on page 52.

Colorado Economy

Private sector growth in 2013 led to an overall improvement in Colorado's economy. The labor market added jobs at the fastest rate in seven years and the unemployment rate continued to drop. Increases in wage and salary income helped consumer spending increase through the first three quarters of 2013. Retail sales grew in each region of the state, and several sectors of retail sales related to the housing market showed strong growth. Low mortgage interest rates and a tight supply helped home prices appreciate, which boosted residential construction. While there were many positive signs in the broader economy, the combination of drought conditions early in the year and floods late in the year depressed agricultural production in 2013.

The prospects for Colorado's economy for 2014 and 2015 are promising. The growth in 2013 occurred despite tighter federal fiscal policies, which will not constrain growth moving forward. The Colorado economy has grown faster than the nation over the past several years, and that trend is expected to continue throughout the forecast period. Expectations for the Colorado economy are shown in Table 14 on page 64.

GENERAL FUND BUDGET OVERVIEW

Table 2 on page 8 presents the General Fund overview based on current law. Tables 1 and 3 provide estimates for General Fund rebates and expenditures (*line 8 of Table 2*) and detail for cash fund transfers from and to the General Fund (*lines 3 and 9 of Table 2*).

FY 2013-14. The forecast for the amount of money available to be spent in the General Fund during FY 2013-14 was reduced by $2.7 million over expectations in December, primarily because of lower expectations for individual income taxes. In addition, the supplemental budget package increased spending out of the General Fund and the amount required to be retained in the reserve by $236.6 million. These changes, combined with changes in expectations for other General Fund expenditures, reduced the General Fund surplus from the $512.0 million estimated in December to $257.5 million. Of this amount, $30 million will be transferred to the Colorado Water Conservation Board Construction Fund and $170.6 million will be transferred to the State Education Fund, leaving $56.9 million in the General Fund.

Any legislation that either saves money in the General Fund, spends money out of the General Fund, or alters General Fund revenue will change the amount transferred to the State Education Fund by 75 cents on the dollar. If the cumulative fiscal impact of this legislation exceeds $227.4 million, the $30 million transfer to the Colorado Water Conservation Board Construction Fund will also be reduced.

Table 1
General Fund Rebates and Expenditures
(Dollars in Millions)

Category	Preliminary FY 2012-13	Estimate FY 2013-14	Estimate FY 2014-15	Estimate FY 2015-16
Senior & Veterans Property Tax Exemptions	$102.7	$111.6	$119.1	$127.0
Percent Change	*5607.1*	*8.6*	*6.7*	*6.7*
Cigarette Rebate	10.7	10.9	10.5	10.0
Percent Change	*-4.4*	*1.7*	*-4.2*	*-4.3*
Old-Age Pension Fund	103.9	103.3	102.6	106.6
Percent Change	*12.4*	*-0.6*	*-0.7*	*3.9*
Aged Property Tax & Heating Credit	6.6	5.5	5.3	5.1
Percent Change	*-9.3*	*-15.8*	*-4.2*	*-4.2*
Older Coloradans Fund	8.0	10.0	10.0	10.0
Percent Change	*0.0*	*25.0*	*0.0*	*0.0*
Interest Payments for School Loans	0.7	0.4	0.5	0.6
Percent Change	*-7.9*	*-40.6*	*19.0*	*24.0*
Fire and Police Pension Association	146.6	4.7	4.7	4.7
Percent Change	*1411.2*	*-96.8*	*0.0*	*0.0*
Amendment 35 Distributions	0.9	0.8	0.9	0.8
Percent Change	*2.5*	*-7.1*	*2.6*	*-3.6*
Marijuana Sales Tax Transfer to Local Govts		*2.8*	*5.5*	*5.3*
Percent Change			*1.0*	*0.0*
TOTAL REBATES & EXPENDITURES	**$380.2**	**$250.1**	**$259.0**	**$270.1**

Totals may not sum due to rounding.

Table 2
March 2014 General Fund Overview
(Dollars in Millions)

		FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16
FUNDS AVAILABLE		**Actual**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve /A	$795.8	$373.0	$466.5	*
2	General Fund Revenue	$8,554.8	$9,004.0	$9,629.8	$10,121.0
3	Transfers from Other Funds *(Table 3)*	0.3	2.4	2.4	2.4
4	**Total Funds Available**	**$9,350.9**	**$9,379.4**	**$10,098.7**	*
5	Percent Change	16.4%	0.3%	7.7%	*
EXPENDITURES		**Actual**	**Budgeted**	**Estimate**	**Estimate**
6	General Fund Appropriations	$7,459.2	$8,192.7	*	*
7	Adjustments to Appropriations	5.4	*	*	*
8	Rebates and Expenditures *(Table 1)*	380.2	250.1	259.0	270.1
9	Transfers to Other Funds /B *(Table 3)*	4.6	66.9	33.1	31.9
10	Transfers to the State Education Fund Pursuant to SB 13-234	0.0	45.3	25.3	25.3
11	Transfer for Highway Construction /C	0.0	0.5	0.0	202.4
12	Transfers to the Capital Construction Fund /C	61.4	186.7	44.0	96.7
13	**Total Expenditures**	**$7,910.9**	**$8,742.3**	*	*
14	Percent Change	9.6%	10.5%		
15	Accounting Adjustments	6.4	*	*	*
RESERVE		**Actual**	**Estimate**		
16	**Year-End General Fund Reserve**	**$1,446.5**	**$637.1**	*	*
17	Year-End Reserve As A Percent of Appropriations	19.4%	7.8%	*	*
18	**Statutorily-Required Reserve**	**373.0**	**409.6**	*	*
19	**Transfers From Reserve to the State Education Fund**	**$1,073.5**	**$170.6**	*	*
20	**Amount in Excess or (Deficit) of Statutory Reserve /A**	**$0.0**	**$56.9**	*	*
21	Excess Reserve as a Percent of FY 2013-14 Expenditures	NA	0.7%	*	*
ALTERNATIVE PERSPECTIVES ON UNBUDGETED YEARS				**Estimate**	**Estimate**
Perspective 1: Money Available in FY 2014-15 in Excess of FY 2013-14 Expenditures /D					
22	Amount in Excess of Statutory Reserve			$1,135.0	*
23	As a Percent of FY 2013-14 Expenditures			13.0%	*
Perspective 2: Assuming Appropriations Increase by the 15-Year Historical Average Annual Rate of 3.58% /E					
24	Amount in Excess of Statutory Reserve			$810.8	$1,469.7
25	As a Percent of FY 2013-14 Expenditures			9.3%	16.9%
Perspective 3: Assuming Appropriations Increase by the Historical Average Rate During Economic Expansions of 5.96% /F					
26	Amount in Excess of Statutory Reserve			$593.5	$806.5
27	As a Percent of FY 2013-14 Expenditures			6.8%	9.3%
ADDENDUM		**Preliminary**	**Estimate**	**Estimate**	**Estimate**
28	*Percent Change in General Fund Appropriations*	*6.1%*	*6.8%*	*	*
29	5% of Colorado Personal Income Appropriations Limit	$10,530.4	$11,301.6	$11,873.1	$12,276.8
30	Transfer to State Education Fund Per Amendment 23	$486.3	$492.1	$518.2	$542.3

Totals may not sum due to rounding.

** Not estimated. NA = Not applicable.*

/A The beginning reserve (line 1) and the excess reserve (line 20) are net of transfers from the reserve to the State Education Fund and a $30 million transfer to the Water Conservation Board Construction Fund (included in line 9 during FY 2013-14).

/B A transfer of $30 million from the General Fund reserve to the Water Conservation Board Construction Fund is included pursuant to SB 13-236. The transfer is shown in FY 2013-14, (line 9) although it will actually occur during the following year when the books for FY 2013-14 are closed.

/C Colorado personal income is expected to increase 5.6 percent in 2014 (see Table 14 on page 64). Thus, transfers from the General Fund to the Highway Users Tax Fund (line 11) and the Capital Construction Fund (line 12) equal to 2.0 percent and 0.5 percent of General Fund revenue, respectively, are included during FY 2015-16 pursuant to SB 09-228.

/D This holds appropriations in FY 2014-15 equal to appropriations in FY 2013-14 to determine the total amount of money available above FY 2013-14 expenditures.

/E The average annual rate of growth in appropriations from FY 1998-99 through FY 2013-14.

/F The average growth rate of appropriations over the last 15 years, only during years when the economy expanded: Fiscal Years 1999-00 and 2000-01, Fiscal Years 2004-05 through 2007-08, and Fiscal Years 2011-12 and 2012-13.

Table 3
Cash Fund Transfers
(Dollars in Millions)

Bill #	Bill Title	2012-13	2013-14	2014-15
Transfers to the General Fund				
HB 10-1325	Natural Resource Damage Recovery Fund	0.08	0.16	0.16
SB 11-225	Tobacco Litigation Settlement Funds	0.2	0.2	0.2
HB 13-1317	Marijuana Cash Fund		2.0	2.0
SB 13-233	Repealed Health-Related Funds		0.01	
Subtotal: Transfer from Other Funds		*0.3*	*2.4*	*2.4*
Transfers from the General Fund				
HB 12-1286	Transfer for Film Incentives	3.0		
HB 12-1315	Clean Renewable Energy Fund	1.6	1.6	1.6
HB 13-1001	Advanced Industries Acceleration Fund		5.0	
HB 13-1193	Advanced Industries Export Acceleration Fund		0.3	0.3
HB 13-1317	Marijuana Cash Fund			
	85% of 10% Special Sales Tax		15.9	31.2
SB 13-235	Colorado State Veterans Trust Fund		3.9	
SB 13-236 /A	Water Conservation Board Construction Fund		30.0 /A	
SB 13-269	Wildfire Risk Reduction Fund		9.8	
SB 13-270	Wildfire Emergency Response Fund		0.5	
Subtotal: Transfers to Other Funds		*4.6*	*66.9*	*33.1*
Net Impact on the General Fund		**($4.3)**	**($64.5)**	**($30.7)**

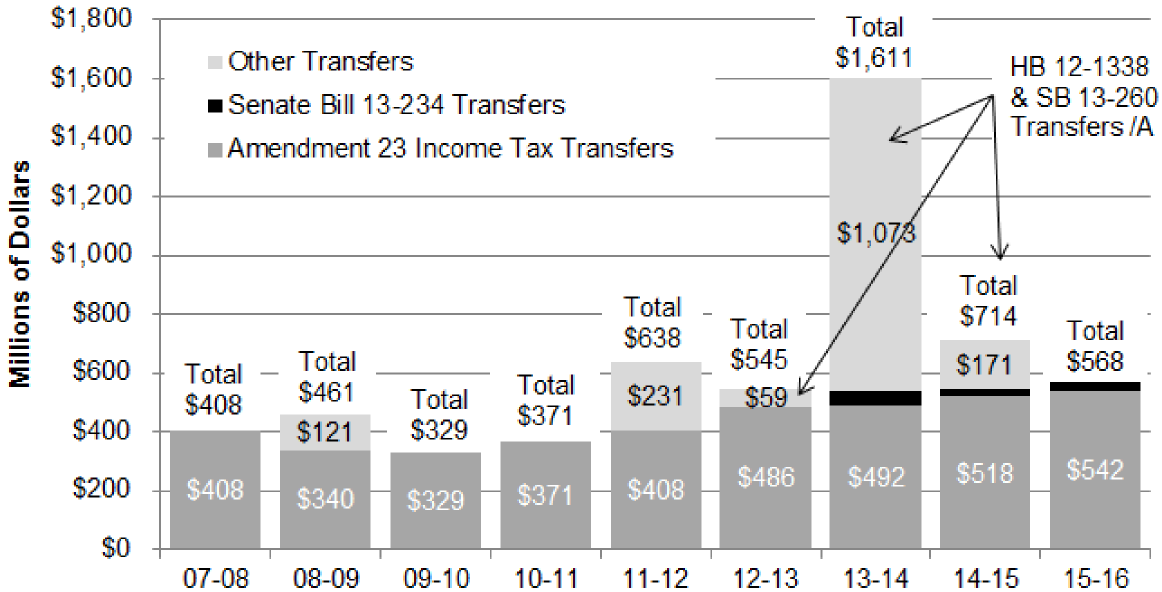
/A This transfer is equal to the first $30 million available in the FY 2013-14 General Fund excess reserve. Although it's shown here in FY 2013-14, the transfer will occur during FY 2014-15 when the books for FY 2013-14 are closed.

Unbudgeted years: FYs 2014-15 and 2015-16. Because a budget has not yet been enacted for FYs 2014-15 and 2015-16, lines 22 through 27 of Table 2 show three alternative perspectives on the General Fund budget situation during those years. The budget situations described for each perspective assume that the $56.9 million surplus from FY 2013-14 is carried forward into FY 2014-15, and that any surplus in excess of the budget and required reserve in FY 2014-15 is carried forward into FY 2015-16.

- Perspective 1, shown in lines 22 and 23 of Table 2, assumes no growth in appropriations between FY 2013-14 and FY 2014-15 to illustrate the amount of money available to the General Assembly above the amount budgeted to be spent and retained in the reserve during FY 2013-14. This amount is expected to be $1.1 billion, or 13.0 percent of budgeted expenditures in FY 2013-14.

- Perspective 2, shown in lines 24 and 25 of Table 2, assume General Fund appropriations increase each year by 3.58 percent. The 3.58 percent growth rate is equal to the average annual growth in General Fund appropriations over the last 15 years, or from FY 1998-99 through FY 2013-14. In this case, there would be 9.6 percent and 16.9 percent more to spend in excess

Figure 1
Revenue to the State Education Fund
(Dollars in Millions)



Source: Colorado State Controller's Office and Legislative Council Staff.
/A House Bill 12-1338 and Senate Bill 13-260 transfers represent a percentage of the excess General Fund reserve and will change should revenue or expenditures differ from those assumed in Table 1.

of the budget and required reserve during FYs 2014-15 and 2015-16, respectively, than is being spent this year in FY 2013-14.

- Perspective 3, shown in lines 26 and 27 of Table 2, assume a historical growth rate for General Fund appropriations over the last 15 years using only those years during which the economy expanded: FYs 1999-00 and 2000-01; FYs 2004-05 through 2007-08, and FYs 2011-12 and 2012-13. This average rate of growth is equal to 5.96 percent. If General Fund appropriations were increased each year by this amount, there would be 6.8 percent and 9.3 percent more to spend in excess of the budget and required reserve during FYs 2014-15 and 2015-16, respectively, than is being spent in FY 2013-14.

State Education Fund. The State Constitution requires the State Education Fund to receive one-third of one percent of taxable income (*see Table 2, line 30*). In addition, the General Assembly has authorized the transfer of additional moneys from the General Fund to the State Education Fund (*see Table 2, lines 10 and 19*). Money in the State Education Fund is required to be used to fund kindergarten through twelfth grade public education. However, additional revenue in the State Education Fund does not diminish the flexibility of the entire General Fund budget. Figure 1 shows a history of and forecast for these revenue sources through the end of the forecast period.

Senate Bill 09-228 transfers. Senate Bill 09-228 requires a five-year block of transfers to capital construction and transportation as soon as Colorado personal income increases by at least 5 percent during or after calendar year 2012. Colorado personal income is expected to increase by 5.6 percent in 2014, triggering the first year of these transfers in FY 2015-16. An estimated $50.6 million, or 0.5 percent of General Fund revenue, is expected to be transferred to the

Capital Construction Fund. The Highway Users Tax Fund will receive an estimated $202.4 million, or 2.0 percent of General Fund revenue.

These transfers will occur for five years unless the TABOR surplus reaches a certain level. If, during any particular year, the state incurs a TABOR surplus between 1 percent ($101.2 million in FY 2015-16) and 3 percent ($303.6 million in FY 2015-16) of General Fund revenue, these transfers will be cut in half. If the TABOR surplus is greater than 3 percent of General Fund revenue, these transfers will be eliminated. Transfers to the Highway Users Tax Fund remain at 2.0 percent of General Fund revenue for the full five years. Transfers to the Capital Construction Fund are equal to 0.5 percent of General Fund revenue for the first two years and 1.0 percent of General Fund revenue for the last three years of the five-year period.

General Fund reserve. Pursuant to Senate Bill 13-237, a General Fund reserve equal to at least five percent of General Fund operating appropriations is required beginning in FY 2012-13. In addition, three annual increases in the required reserve are triggered once Colorado personal income grows by at least 5.0 percent during a calendar year. To maintain consistency with the timing originally prescribed for these increases by Senate Bill 09-228, Senate Bill 13-237 included a three-year lag between this growth in personal income and the first year during which the reserve is required to increase. Colorado personal income is expected to increase by 5.6 percent in 2014; therefore, the reserve is expected to rise to 5.5 percent in FY 2017-18, 6.0 percent in FY 2018-19, and 6.5 percent in FY 2019-20.

Tax benefits dependent on sufficient General Fund revenue. Several tax benefits are only available when the Legislative Council Staff forecast indicates that General Fund revenue will be sufficient to allow General Fund appropriations to increase by at least 6 percent. Based on the current forecast, revenue will be sufficient for 6 percent appropriations growth through at least the end of the forecast period in FY 2015-16. Table 4 illustrates the availability of these tax benefits.

Table 4
Tax Policies Dependent on Sufficient General Fund Revenue to Allow General Fund Appropriations to Increase by at Least 6 Percent

<table>
<tr><th>Tax Policy</th><th>Forecast that Determines Availability</th><th>Tax Policy Availability</th></tr>
<tr><td>Instream flow income tax credit</td><td>June forecast during the tax year the credit will become available.</td><td>Available in tax years 2013. Expected to be available in tax years 2014 and 2015. Repealed in tax year 2016.</td></tr>
<tr><td>Sales and use tax exemption for clean rooms</td><td>If the June forecast indicates sufficient revenue for the fiscal year that is about to end, the exemption will become available in July.</td><td>Currently available through at least June 2014. Expected to continue to be available through at least June 2016.</td></tr>
<tr><td>Child care contribution income tax credit</td><td rowspan="2">December forecast immediately before the tax year when the credit becomes available.</td><td rowspan="2">Available in tax years 2013 and 2014. Expected to be available in tax years 2015 and 2016.</td></tr>
<tr><td>Historic property preservation income tax credit</td></tr>
<tr><td>Clean technology medical device sales tax refund</td><td>December forecast immediately before the calendar year when the credit becomes available.</td><td>Currently available through December 2014. Expected to continue to be available through at least December 2016.</td></tr>
</table>

TABOR OUTLOOK

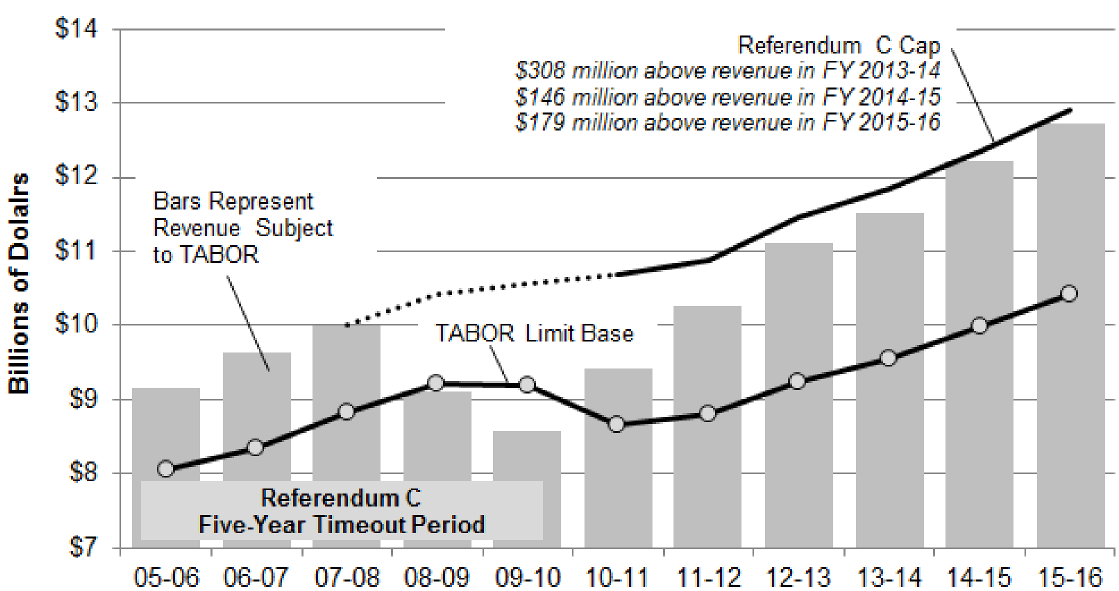
This section presents the outlook for the state's TABOR situation through FY 2015-16. Table 5 on page 17 illustrates the current status of the TABOR limit and Referendum C cap through FY 2015-16, six years after the Referendum C timeout period. Figure 2 shows a history and forecasts for revenue subject to TABOR, the TABOR limit base, and the Referendum C cap.

The **Referendum C cap** will equal $11.8 billion in FY 2013-14 and $12.4 billion in FY 2014-15. Revenue subject to TABOR is expected to be $308.4 million, $146.4 million, and $179.3 million below the cap in FYs 2013-14, 2014-15, and 2015-16, respectively.

Revenue will not be sufficient to produce a **TABOR refund** of money in excess of the Referendum C cap through at least FY 2015-16, the end of the forecast period. However, it is important to note that the amount by which revenue subject to TABOR is below the Referendum C cap is within normal forecasting error. Thus, should the economy and revenue improve faster than currently expected, a surplus could occur as early as this year.

Although revenue subject to TABOR is not expected to exceed the Referendum C cap during the forecast period, a potential exists for a TABOR refund in FY 2015-16. According to a legal analysis of the Office of Legislative Legal Services regarding TABOR election provisions, if the FY 2014-15 revenue from the excise and special sales taxes on adult-use marijuana or fiscal

Figure 2
TABOR Revenue, the TABOR Limit Base, and the Referendum C Cap
(Dollars in Billions)



Source: Colorado State Controllers Office and Legislative Council Staff.

year spending exceed the Proposition AA Blue Book estimates for the same, the combined excess must be refunded to the taxpayers in FY 2015-16. However, the amount of the refund required is capped at the total amount of the taxes actually collected for the fiscal year, and no refund is required if the state receives voter approval to keep the revenue.

State fiscal year spending is expected to exceed the Proposition AA Blue Book estimate for FY 2014-15 by $133 million. Meanwhile, revenue from the excise tax and special sales tax on adult-use marijuana is expected to total $54.7 million in FY 2014-15, an amount lower than the Blue Book estimate of $67 million. Based on these expected amounts, a refund of $54.7 million may be required during FY 2015-16. Although three mechanisms exist to refund money collected in excess of the Referendum C cap, there is no refund mechanism that applies to this situation. It should also be noted that a significant amount of uncertainty is inherent in the forecast for marijuana tax revenue.

Taxpayers Bill of Rights (TABOR) Constitutional Revenue Limit. Article X, Section 20 of the Colorado Constitution (TABOR) limits the amount of state revenue the state may retain and either spend or save. The limit is equal to the previous year's limit or revenue, whichever is lower, adjusted for inflation and population growth, plus any revenue changes approved by voters. Referendum C, approved by voters in 2005, is a voter approved revenue change that raises the limit.

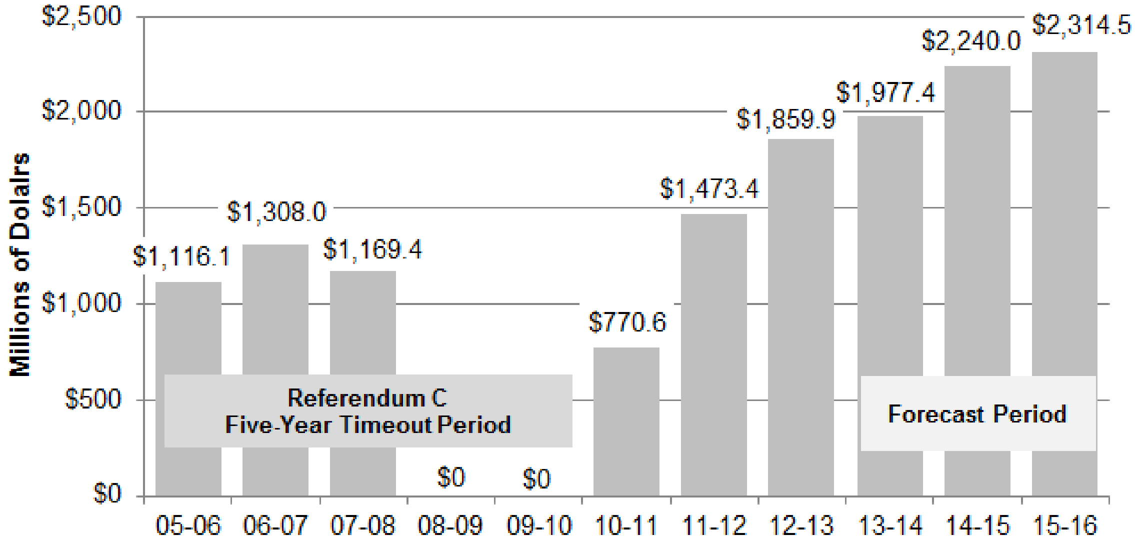
Referendum C allowed the state to spend all revenue collected above the limit during a five-year timeout period between FY 2005-06 through FY 2009-10. Beginning in FY 2010-11, Referendum C allows the state to retain revenue collected above the TABOR limit base up to a capped amount. The cap was set equal to the highest total for state revenue for a fiscal year during the five-year timeout period, grown each year thereafter by inflation plus population growth. Because revenue collections peaked in FY 2007-08, that year became the starting base for the cap. While the cap is adjusted annually for inflation, population growth, and changes in enterprise status exactly as the TABOR limit is adjusted, it is always grown from the prior years' cap, regardless of the level of revenue collected.

Revenue retained by Referendum C. Figure 3 shows the amount of money retained as a result of Referendum C. The state has retained a total of $7.7 billion since the passage of Referendum C during FYs 2005-06 through 2012-13. The state is expected to retain $2.0 billion in FY 2013-14, $2.2 billion in FY 2014-15, and $2.3 billion in FY 2015-16. State law requires this revenue to be spent on public kindergarten through twelfth grade education, higher education, health care, local fire and police pensions, and transportation projects.

TABOR Refund Mechanisms. TABOR requires that any revenue collected above the Referendum C cap be refunded to taxpayers. There are three TABOR refund mechanisms in current law. The size of the TABOR refund determines which refund mechanisms are available each year. Figure 4 on page 16 shows the order and the amounts needed to trigger the three refund mechanisms.

Six-tier sales tax refund. This refund mechanism allows individuals to receive a refund of a portion of the sales taxes they pay to the state. Although this is a refund of sales taxes, taxpayers claim this refund as a rebate against their state income tax liability on their Colorado income tax form. As long as the amount of money available to be returned to taxpayers through the sales tax refund is large enough to support at least $15 to each Colorado taxpayer, the Department of Revenue is charged with dividing up the state's taxpayers into six tiers by modified federal

Figure 3
History and Projections of Revenue Retained by Referendum C
(Dollars in Millions)



Source: Colorado State Controllers Office and Legislative Council Staff.

adjusted gross income. Each tier contains an equal number of taxpayers. Then, the amount of money available to refund is distributed proportionally to each tier based on the amount of income in the tier. The refund amount for each taxpayer is determined by dividing the refund amount for each tier by the number of taxpayers in the tier. When the amount to be refunded would support less than a $15 refund for each taxpayer, then the amount to be refunded is divided by the number of taxpayers and each Colorado taxpayer receives the same amount of sales tax refund.

The six-tier sales tax refund may be the first and only refund mechanism in a given year when there is not a sufficient TABOR refund to trigger the other mechanisms. This refund mechanism is used to refund any TABOR surplus that is not refunded through the other two refund mechanisms. As shown in Figure 4, in FY 2014-15, the sales tax refund would be used to refund a surplus of up to $97.7 million and any remaining surplus that is not refunded through the other two TABOR refund mechanisms if the surplus exceeds $97.7 million.

Earned income tax credit (EITC) refund mechanism. EITC is prioritized first among the three refund mechanisms, as long as the TABOR surplus is large enough to trigger it. The EITC would reduce individual income tax revenue by $85.8 million in tax year 2015. The trigger for the EITC is currently $97.7 million in FY 2014-15. This amount increases each year by the growth in Colorado personal income.

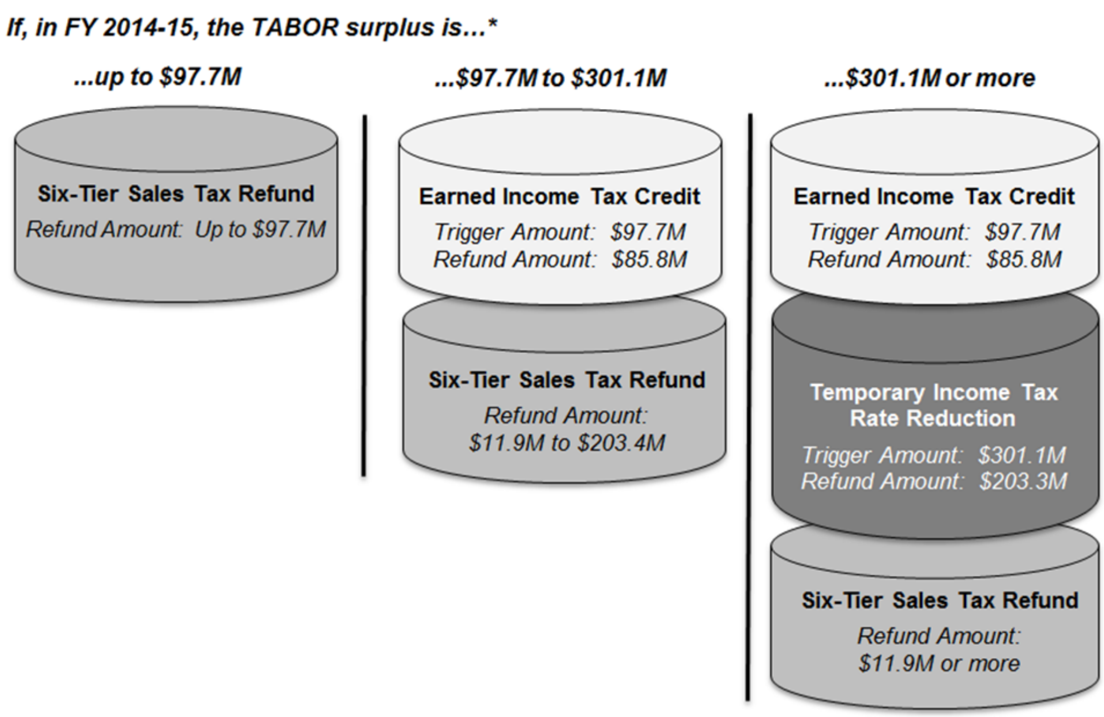
The Colorado EITC is based on the federal EITC, which provides a tax credit to individuals who work but do not earn high incomes. Qualifying Colorado taxpayers may receive up to 10 percent of the federal credit amount in TABOR surplus years. Colorado taxpayers who claim the federal credit may claim the state credit.

Senate Bill 13-001 replaces the EITC TABOR refund mechanism with a permanent EITC the first year after it is used as a TABOR refund mechanism. A permanent EITC will be available each year. Instead of being used to refund the TABOR surplus, it will reduce the amount of revenue collected subject to TABOR. During years when the state has surplus revenue above the TABOR limit, this would serve to reduce the size of the TABOR refund. During years in which revenue is below the TABOR limit, this would reduce revenue available for the General Fund budget.

Temporary income tax rate reduction. Starting in FY 2010-11, if the TABOR refund is large enough to trigger the temporary income tax rate reduction, the state income tax rate will be temporarily reduced from 4.63 percent to 4.50 percent. The rate reduction will occur in the tax year following the fiscal year in which there is a surplus. For example, if there is a surplus in FY 2014-15, the income tax rate would be temporarily reduced for tax year 2015.

The temporary income tax rate reduction is triggered when the state experiences a surplus equal to at least the EITC refund mechanism trigger plus the projected amount of the income tax rate reduction. As Figure 1 shows, this amount is projected to be $301.1 million for FY 2013-14, the $203.3 million temporary income tax rate reduction refund amount plus the $97.7 million EITC refund trigger.

Figure 4
TABOR Refund Scenarios Available Under Current Law



**This figure is for illustrative purposes. Revenue is not expected to exceed the Referendum C cap in FY 2014-15. If there were a TABOR surplus in FY 2014-15, the refund would occur in FY 2015-16 for tax year 2015.*

Table 5
March 2014 TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

		Actual FY 2012-13	Estimate FY 2013-14	Estimate FY 2014-15	Estimate FY 2015-16
	TABOR Revenue:				
1	General Fund /A	$8,561.8	$8,965.5	$9,572.7	$10,065.2
2	Cash Funds	2,545.6	2,564.6	2,640.3	2,671.0
3	**Total TABOR Revenue**	**$11,107.3**	**$11,530.1**	**$12,212.9**	**$12,736.23**
	Revenue Limit				
4	Allowable TABOR Growth Rate	5.4%	3.3%	4.4%	4.5%
5	Inflation (from prior calendar year)	3.7%	1.9%	2.8%	2.8%
6	Population Growth (from prior calendar year)	1.7%	1.4%	1.6%	1.7%
7	TABOR Limit Base	$9,247.5	$9,552.6	$9,972.9	$10,421.7
8	Voter Approved Revenue Change (Referendum C)	$1,859.9	$1,977.4	$2,240.0	$2,314.5
9	Total TABOR Limit / Referendum C Cap	$11,460.2	$11,838.4	$12,359.3	$12,915.5
10	TABOR Revenue Above (Below) Referendum C Cap	**($352.9)**	**($308.4)**	**($146.4)**	**($179.3)**
	Retained/Refunded Revenue				
11	Revenue Retained under Referendum C /B	$1,859.9	$1,977.4	$2,240.0	$2,314.5
12	**Total Available Revenue**	**$11,107.3**	**$11,530.1**	**$12,212.9**	**$12,736.2**
13	Revenue to be Refunded to Taxpayers	$0.0	$0.0	/C	$0.0
14	TABOR Reserve Requirement	$333.2	$345.9	$366.4	$382.1

Totals may not sum due to rounding.

/A These figures differ from the General Fund revenue reported in other tables because they net out revenue that is already in the cash funds to avoid double counting and include transfers of revenue from TABOR enterprises into TABOR district boundaries.

/B Revenue retained under Referendum C is referred to as "General Fund Exempt" in the budget and the General Fund overview.

/C An estimated $54.7 million may need to be refunded in FY 2015-16 from FY 2014-15 revenue under the TABOR election provision. For more information, please see page 13.

GENERAL FUND REVENUE

An improving economy will continue to aid General Fund revenue through the forecast period. In FY 2012-13, General Fund revenue totaled $8.6 billion, a 10.6 percent increase from the previous fiscal year. Improving economic conditions contributed to the strong growth, but the fund also benefited from several federal tax rate increases that became effective in tax year 2013. Many Coloradans cashed out capital gains in tax year 2012 in anticipation of these federal tax changes. General Fund revenue will continue to grow through the forecast period, but at a slower pace because of the one-time income gains in FY 2012-13. General Fund revenue will grow to just over $9 billion in FY 2013-14, a 5.3 percent increase. In FY 2014-15, general fund collections will increase 7.0 percent from the previous year.

Table 6 on page 21 illustrates General Fund revenue collections in FY 2012-13 and projections for FY 2013-14 through FY 2015-16 based on current law.

In FY 2014-15, growth will come from all major revenue categories. Sales taxes will increase 6.3 percent as consumer confidence continues to improve. Employment gains, a rising stock market, and expected increases in wages and salaries will support higher collections from individual income taxes, and revenue from corporate income taxes will remain strong.

Compared with the December forecast, General Fund revenue was relatively unchanged for FY 2013-14. General Fund revenue was revised upward by $82 million in FY 2014-15 and $71 million in FY 2015-16. The revisions are from a continual improvement in expectations for the economy

Sales tax. Despite a decline in national retail sales, state sales tax collections remain strong and will continue to improve through the forecast period. The state's improving economy has made consumers more confident that they can afford large purchases such as automobiles, furniture, and building supplies. After growing 5.7 percent in FY 2012-13, sales tax collections will grow 5.8 percent in FY 2013-14, 6.3 percent in FY 2014-15, and 6.0 percent in FY 2015-16.

Prior to this forecast, the 10 percent special sales tax on marijuana was assumed to be diverted, rather than deposited, into the General Fund. However, this forecast assumes for the first time that this revenue will be deposited into the General Fund before being distributed 15 percent to local governments and 85 percent to the Marijuana Cash Fund. Because the money is subsequently transferred out of the General Fund, this accounting change will not affect the net General Fund budget situation.

Excluding the new revenue from retail marijuana, expectations for sales tax revenue are relatively unchanged compared to the December forecast. In FY 2013-14, sales tax revenue was increased $28.1 million. However, $18.7 million of the increase came from six months of collections from the 10 percent special sales tax on retail marijuana. The forecast was increased $58.2 million in FY 2014-15, which includes the full year fiscal impact of the new marijuana tax.

Use tax. After increasing 21.0 percent in FY 2012-13, use tax collections will decline 4.1 percent to $232.8 million in FY 2013-14. Use tax collections are expected to increase 7.5 percent in FY 2014-15 to $250.3 million as the economy improves and businesses make more investments. Year-to-date use tax collections have been consistent with the December forecast, which was increased by $0.2 million in FY 2013-14 and decreased by $4.9 million in FY 2014-15.

Individual income taxes. Total receipts from the state's largest source of tax revenue totaled $5.6 billion in FY 2012-13, 11.7 percent higher than the previous year. Revenue gains were especially aided by federal tax changes that increased taxable income and caused many taxpayers to shift income from tax year 2013 to tax year 2012. Businesses paid dividends and bonuses earlier, and many taxpayers cashed out capital gains in advance of the capital gains tax increase on January 1, 2013.

Individual income taxes will continue to grow in FY 2013-14, but at a slower pace as one-time income gains in FY 2012-13 will not reoccur. Growth will be supported by slowly improving labor market conditions, a rising stock market, and the continual recovery in the real estate market. Individual income tax revenue will increase 3.7 percent in FY 2013-14 and 6.4 percent in FY 2014-15.

Compared with the December forecast, individual income tax revenue was reduced by $33.2 million for FY 2013-14. The revision is primarily related to slower growth from estimated payments than previously anticipated. Tax collections from earnings in self-employment, interest, dividends, and rents are still expected to grow in FY 2013-14, but at a slower pace.

Corporate profits are expected to continue to grow in 2014 and 2015, although at a slightly faster pace than previously expected. With the labor market is still exhibiting slack conditions, corporations are not facing imminent pressure to raise wages and salaries rapidly, allowing profit margins to rise with productivity gains.

Colorado corporate income tax collections totaled $636.3 million in FY 2012-13. In the next two fiscal years, corporate income tax revenue is expected to rise another 18.1 percent and 14.2 percent, respectively. Revenue growth will be somewhat dampened in FY 2013-14 by pent-up demand for two corporate income tax incentives that were capped during tax years 2011, 2012, and 2013: the enterprise zone investment tax credit and the cap on net operating losses. Corporations were allowed to carry forward whatever portion of these incentives they were unable to claim and begin claiming them in tax year 2014, subject to available tax liability.

Table 6
March 2014 General Fund Revenue Estimates
(Dollars in Millions)

	Category	Actual FY 2012-13	Percent Change	Estimate FY 2013-14	Percent Change	Estimate FY 2014-15	Percent Change	Estimate FY 2015-16	Percent Change
1	Sales	$2,211.7	5.7	$2,339.7	5.8	$2,486.8	6.3	$2,636.4	6.0
2	Use	242.7	21.0	232.8	-4.1	250.3	7.5	267.6	6.9
3	Cigarette	38.3	-3.1	37.3	-2.5	35.8	-4.2	34.2	-4.3
4	Tobacco Products	15.6	-2.9	17.6	13.3	18.1	2.7	18.7	3.1
5	Liquor	39.2	2.2	40.6	3.6	42.0	3.4	43.2	3.0
6	TOTAL EXCISE	$2,547.5	6.7	$2,668.1	4.7	$2,833.1	6.2	$3,000.2	5.9
7	Net Individual Income	$5,596.3	11.7	$5,802.5	3.7	$6,172.7	6.4	$6,523.9	5.7
8	Net Corporate Income	636.3	30.8	751.5	18.1	858.5	14.2	841.7	-2.0
9	TOTAL INCOME TAXES	$6,232.6	13.4	$6,554.0	5.2	$7,031.2	7.3	$7,365.6	4.8
10	Less: Portion diverted to the SEF	-486.3	19.3	-492.1	1.2	-518.2	5.3	-542.3	4.6
11	INCOME TAXES TO GENERAL FUND	$5,746.2	12.9	$6,061.9	5.5	$6,513.0	7.4	$6,823.3	4.8
12	Insurance	210.4	6.7	221.8	5.4	228.3	2.9	237.0	3.8
13	Pari-Mutuel	0.7	10.3	0.5	-28.2	0.4	-9.5	0.4	-7.0
14	Investment Income	17.4	28.6	17.5	0.4	20.8	19.0	25.8	24.0
15	Court Receipts	2.3	-9.0	2.4	3.4	1.8	-24.3	1.6	-12.3
16	Gaming	12.1	-0.4	11.1	-8.2	11.8	6.1	11.8	0.3
17	Other Income	18.1	-21.6	20.6	13.9	20.6	-0.3	20.8	1.3
18	TOTAL OTHER	$261.1	1.3	$274.0	4.9	$283.8	3.6	$297.5	4.8
19	**GROSS GENERAL FUND**	**$8,554.8**	**10.6**	**$9,004.0**	**5.3**	**$9,629.8**	**7.0**	**$10,121.0**	**5.1**

Totals may not sum due to rounding.
SEF = State Education Fund.

CASH FUNDS

Table 7 summarizes the forecast for revenue to cash funds subject to TABOR. The largest sources of this revenue are fuel taxes and other transportation-related revenue, the hospital provider fee, severance taxes, and gaming taxes. The end of this section also presents the forecasts for federal mineral leasing and unemployment insurance revenue. These forecasts are presented separately because they are not subject to TABOR restrictions. A revenue forecast for marijuana tax revenue is also presented, including revenue both exempt from and subject to TABOR.

Cash fund revenue subject to TABOR is expected to increase slightly from $2.55 billion in FY 2012-13 to $2.56 billion in FY 2013-14. Increases in transportation related cash funds, severance tax collections, regulatory agencies cash funds, other cash funds, and capital construction-related funds were mostly offset by projected decreases in hospital provider fee revenue, gaming revenue, and insurance-related cash funds. Revenue collected via the state's 2.9 percent sales tax on medical and retail marijuana is projected to add another $17.3 million to cash fund revenue subject to TABOR in FY 2013-14. Total cash fund revenue subject to TABOR will increase 3.0 percent to $2.64 billion in FY 2014-15, as severance tax revenue is projected to continue to climb with increased oil and gas activity.

Revenue to ***transportation-related*** cash funds continues to grow relative to last year in two key areas: fuel tax revenue and local grants to the State Highway Fund. Total transportation revenue is forecast at $1,124.1 million for FY 2013-14, a 2.3 percent increase over FY 2012-13. This total is essentially unchanged from the December forecast. Growth is expected to slow during the next two years as fuel tax revenue collections decline slightly. The forecast for TABOR revenue to transportation-related cash funds is shown in Table 8 on page 25.

Total revenue to the *Highway Users Tax Fund* (HUTF) is expected to reach $957.9 million in FY 2013-14, an increase of 2.3 percent over the previous year. Revenue is projected at $956.5 million in FY 2014-15 and $966.5 million in FY 2015-16. Growth in HUTF revenue during the current fiscal year is driven by the excise tax on motor fuels and special fuels, which represents the largest share of HUTF revenue collections. Fuel tax collections between July 2013 and January 2014 grew $10.9 million, or 3.3 percent, relative to a similar period in the previous fiscal year. This increase is likely due to an increase in fuel purchases attributable to a strengthening economy and lower gas prices.

Registration fees, comprised of motor vehicle registration fees, the road safety surcharge, and late registration fees, are forecast at $334.2 million in FY 2013-14, an increase of 2.1 percent. The state's expanding population is expected to drive increased revenue from vehicle registrations over the duration of the forecast period.

A relatively small portion of the *State Highway Fund (SHF)* balance comes from revenue subject to TABOR. The largest sources of TABOR revenue to the SHF are local government grants and interest earnings on the fund balance, both of which are difficult to forecast. Over the first seven months of the current fiscal year, local government grants to the SHF increased $10.3 million, or 146.2 percent. Because of the volatile history of local government grants to the SHF, this forecast assumes that grant revenue will not continue to grow at this high rate. Driven by strong growth in the first half of the fiscal year, SHF revenue subject to TABOR is estimated to increase

Table 7
March 2014 Cash Fund Revenue Subject to TABOR Estimates
(Dollars in Millions)

	Preliminary FY 12-13	Estimate FY 13-14	Estimate FY 14-15	Estimate FY 15-16	FY 12-13 to FY 15-16 CAAGR *
Transportation-Related	**$1,098.6**	**$1,124.1**	**$1,128.1**	**$1,142.0**	
% Change	-1.2%	2.3%	0.4%	1.2%	**1.3%**
Hospital Provider Fee	**$652.6**	**$563.0**	**$545.3**	**$527.3**	
% Change	11.3%	-13.7%	-3.1%	-3.3%	**-6.9%**
Severance Tax	**$138.6**	**$208.4**	**$269.1**	**$275.4**	
% Change	-33.3%	50.4%	29.1%	2.4%	**25.7%**
Gaming Revenue /A	**$98.1**	**$96.2**	**$97.9**	**$98.1**	
% Change	2.6%	-2.0%	1.8%	0.3%	**0.0%**
Insurance-Related	**$26.4**	**$20.1**	**$20.6**	**$21.2**	
% Change	16.6%	-23.9%	2.8%	2.7%	**-7.0%**
Regulatory Agencies	**$65.0**	**$73.4**	**$75.6**	**$77.9**	
% Change	0.1%	12.9%	3.0%	3.1%	**6.2%**
Capital Construction Related - Interest /B	**$1.0**	**$1.6**	**$0.9**	**$0.6**	
% Change	-11.1%	56.9%	-42.0%	-37.6%	**-17.2%**
2.9% Sales Tax on Marijuana /C		**$17.3**	**$22.5**	**$22.1**	
% Change			29.9%	-1.9%	**12.9%**
Other Cash Funds	**$465.2**	**$477.9**	**$502.8**	**$528.4**	
% Change	-1.6%	2.7%	5.2%	5.1%	**4.3%**
Total Cash Fund Revenue	**$2,545.6**	**$2,564.6**	**$2,640.3**	**$2,671.0**	
Subject to the TABOR Limit	-0.7%	0.7%	3.0%	1.2%	**1.6%**

Totals may not sum due to rounding.

**CAAGR: Compound Average Annual Growth Rate.*

/A Gaming revenue in this table does not include revenue from Amendment 50, which expanded gaming limits, because it is not subject to TABOR.
/B Includes interest earnings to the Capital Construction Fund, the Controlled Maintenance Trust Fund, and transfers from the Canteen Fund into TABOR.

/C Includes revenue from the 2.9 percent sales tax subject to TABOR on medical and retail marijuana.

Table 8
Transportation Funds Revenue Forecast by Source, March 2014
(Dollars in Millions)

	Final FY 12-13	Estimate FY 13-14	Estimate FY 14-15	Estimate FY 15-16	FY 12-13 to FY 15-16 CAAGR *
Highway Users Tax Fund (HUTF)					
Motor Fuel and Special Fuel Taxes	$552.2	$565.0	$555.9	$558.7	0.4%
% Change	-0.9%	2.3%	-1.6%	0.5%	
Total Registrations	$327.3	$334.2	$340.0	$345.9	1.9%
% Change	0.2%	2.1%	1.7%	1.8%	
Registrations	*$192.9*	*$199.6*	*$203.2*	*$207.3*	
Road Safety Surcharge	*$117.1*	*$118.3*	*$120.4*	*$122.8*	
Late Registration Fees	*$17.3*	*$16.3*	*$16.3*	*$15.8*	
Other HUTF Receipts /A	$56.5	$58.7	$60.6	$61.8	3.0%
% Change	-2.5%	3.8%	3.3%	2.0%	
Total HUTF	**$936.2**	**$957.9**	**$956.5**	**$966.5**	0.5%
% Change	-0.6%	2.3%	-0.1%	1.0%	
State Highway Fund /B	$41.3	$50.5	$53.1	$53.7	9.2%
% Change	-22.3%	22.5%	5.0%	1.3%	
Other Transportation Funds	$121.2	$115.6	$118.5	$121.8	0.2%
% Change	5.8%	-4.6%	2.5%	2.7%	
Aviation Fund /C	*$44.9*	*$39.5*	*$40.7*	*$41.9*	
Law-Enforcement-Related /D	*$11.1*	*$11.1*	*$10.9*	*$10.9*	
Registration-Related /E	*$65.2*	*$65.0*	*$67.0*	*$69.0*	
Total Transportation Funds	**$1,098.6**	**$1,124.1**	**$1,128.1**	**$1,142.0**	1.3%
% Change	-1.0%	2.3%	0.4%	1.2%	

Totals may not sum due to rounding.
**CAAGR: Compound Average Annual Growth Rate.*

/A Includes daily rental fee, oversized overweight vehicle surcharge, interest receipts, judicial receipts, drivers' license fees, and other miscellaneous receipts in the HUTF.

/B Includes only SHF revenue subject to Article X of the Colorado Constitution (TABOR).

/C Includes revenue from aviation fuel excise taxes and the 2.9 percent sales tax on the retail cost of jet fuel.

/D Includes revenue from driving under the influence (DUI) and driving while ability impaired (DWAI) fines.

/E Includes revenue from Emergency Medical Services registration fees, emissions registration and inspection fees, motorcycle and motor vehicle license fees, and P.O.S.T. board registration fees.

Addendum: TABOR-Exempt FASTER Revenue

	Final FY 12-13	Estimate FY 13-14	Estimate FY 14-15	Estimate FY 15-16
Bridge Safety Surcharge	$97.3	$96.1	$97.8	$98.3
% Change	1.5%	-1.3%	1.8%	0.5%

Note: Revenue to the Statewide Bridge Enterprise from the bridge safety surcharge is TABOR-exempt and therefore not included in the table above. It is included as an addendum for informational purposes.

22.5 percent in FY 2013-14. The forecast includes the assumption that 80 percent of the first statutory transfer required by **Senate Bill 09-228** will be deposited in the SHF via the Highway Users Tax Fund on April 15, 2016, increasing the amount of interest earnings to the SHF in the final months of FY 2015-16.

The Colorado Department of Transportation (CDOT) reports that emergency related federal assistance to the SHF will approach $100 million in FY 2013-14. Federal transportation assistance to the state has increased because of infrastructural damage suffered as a result of the fall floods. This revenue is exempt from TABOR and is not included in the forecast.

Other transportation revenue is expected to decline 4.6 percent to $115.6 million in FY 2013-14, the result of the Aviation Fund receiving a large one-time transfer of sales tax revenue in FY 2012-13. Otherwise, revenue in this category is growing at a modest pace. For the remainder of the forecast period, other transportation revenue is expected to increase 2.5 percent in FY 2014-15 and 2.7 percent in 2015-16.

The *Bridge Safety Surcharge* has reached full implementation. Revenues generated under the fee are expected to reach $96.1 million in FY 2013-14, $97.8 million in FY 2014-15, and $98.3 million in FY 2015-16. Revenue from the fee is exempt from TABOR (see Addendum to Table 8).

The ***Hospital Provider Fee (HPF)*** is expected to generate $563.0 million in FY 2013-14, down from $652.6 million in the previous fiscal year. This represents a 6.5 percent decline from the December forecast. The downward trend in fee collections is projected to continue with revenues falling to $545.3 million in FY 2014-15 and $527.3 million in FY 2015-16. Projected HPF revenues continue to decline as a result of **Senate Bill 13-200**, which allows the state to collect additional federal Medicaid funds following the implementation of the Patient Protection and Affordable Care Act. Under the new law, HPF revenues will decline as a portion of Colorado's healthcare burden temporarily shifts from the state government to the federal government.

Total **severance tax** revenue, including interest earnings, is projected to be $208.4 million in FY 2013-14, an upward revision of 14.3 percent from the December forecast. The revision is primarily due to higher than anticipated collections to date, and higher natural gas prices in December 2013. Relative to the December forecast, projected coal receipts for FY 13-14 declined minimally, while projected molybdenum and metallic mineral receipts were also slightly down. In FY 2014-15, total severance tax collections are projected to be $269.1 million, representing a 7.8 percent increase from the December forecast. The increase is the result of increased natural gas price expectations for 2014. Collections are projected to be $275.4 million in FY 2015-16.

The price of natural gas is the largest determinant of state severance tax collections. Prices rose gradually through the fall, then spiked in the first week of December, reaching $7.00 per Mcf (thousand cubic feet). Throughout the winter, regional prices have continued to be extremely volatile, with several spikes in daily prices of over $7.00 per Mcf. As of the first week in March, prices at regional hubs were holding at around $5.00 per Mcf. While this price volatility has significantly increased the projected average price for the first quarter of 2014, this increase in unlikely to be sustained through the remainder of 2014. For FY 2013-14, oil and gas severance tax collections are expected to rise to $190.4 million.

While oil prices rose sharply in the late part of last summer, they declined moderately through the fall. A recent uptick had local prices at around $93 per barrel in February. Oil prices are expected to continue rising through the first quarter of 2014, and gradually increase over the remainder of the forecast period on an annual average basis. Colorado oil drilling activity has remained strong, especially in Weld County, where monthly production averaged over 4.1 million barrels in 2013. This average monthly production represents a 48 percent increase compared with the average monthly production in 2012. This forecast assumes oil production in the Niobrara formation will continue to increase throughout the forecast period.

Coal production represents the second largest source of severance taxes in Colorado after oil and natural gas. Relative to the December forecast, March's projected coal severance tax for FY 2013-14 was slightly decreased. Colorado coal production decreased 16 percent in 2013 compared with 2012, and is down 15 percent in January relative to a year earlier. Of Colorado's top nine producing mines, only three increased production in 2013, and four had production declines of between 10 and 20 percent for the year. The Elk Creek mine in Gunnison County suspended operations until further notice. The market is soft as electric utilities continue to transition from coal to natural gas. In FY 2014-15 and FY 2015-16, collections are expected to total $7.0 million and $6.6 million, respectively, representing a moderate drop from the December forecast.

Severance tax from metallic minerals, including gold, represents a tiny fraction of total collections. This component is expected to total $2.6 million in both FY 2013-14 and FY 2014-15, before increasing to $2.7 million in FY 2015-16.

Finally, projected interest earnings for FY 2013-14 have been revised upward from the December forecast to $8.2 million. Over the remainder of the forecast period, interest earnings are expected to rise to $10.0 million in FY 2014-15 and $10.8 million in FY 2015-16.

Gaming tax revenue includes limited gaming taxes, fees, and interest earnings collected in the Limited Gaming Fund and the State Historical Fund. Table 9 summarizes the forecast for gaming revenue and its distribution, both subject to and exempt from TABOR.

Gaming tax revenues dropped quickly in September and October, due in part to flood damage on roads used to access casinos in Gilpin County. However, gaming tax revenue collections rebounded in the final two months of 2013, with both November and December collections representing increases over the same months in 2012. Despite recent improvements, total gaming tax revenue is projected to fall to $102.9 million in FY 2013-14, a decline of 1.2 percent from the previous fiscal year. This represents a slight upward revision from the December forecast. Gaming tax revenues will grow in FY 2014-15 and FY 2015-16 as casinos build capacity and consumers spend more money.

Table 9 also shows the distribution of tax revenues collected from limited gaming subject to TABOR, as well as from extended limited gaming authorized by Amendment 50. Revenue from extended limited gaming is distributed to community colleges and local governments in the five gaming communities: Gilpin and Teller counties, Black Hawk, Central City, and Cripple Creek. Amendment 50 distributions will total $9.5 million in FY 2013-14 and $9.6 million in FY 2014-15. Community colleges will receive $6.6 million in gaming tax revenue in FY 2013-14 and are expected to receive a similar amount annually through the remainder of the forecast period.

Under legislation passed to implement Amendment 50, a set amount of gaming revenue adjusted from the amount collected in FY 2008-09 is considered "*Pre-Amendment 50*" revenue and is subject to TABOR. Total Pre-Amendment 50 distributions are expected to decline to $93.4 million in FY 2013-14 before rebounding the following year. After administrative expenses are paid, half of the remaining revenue is distributed to the State Historical Fund and local governments in the five gaming communities. The other half is set aside for appropriation at the discretion of the General Assembly, which established the current distribution in **Senate Bill 13-133**. Under this legislation, $30.0 million will be set aside annually to fund various economic development programs, including the Travel and Tourism Promotion Fund, the Advanced Industries Acceleration Fund, and the Creative Industries Cash Fund. Of

Table 9
March 2014 Gaming Revenue and Distributions
(Dollars in Millions)

	Preliminary FY 2012-13	Estimate FY 2013-14	Estimate FY 2014-15	Estimate FY 2015-16
Gaming Revenue				
Gaming Taxes				
Pre-Amendment 50 *(Subject to TABOR)*	94.5	93.4	95.1	95.5
Amendment 50 Revenue *(TABOR Exempt)*	9.6	9.5	9.6	9.7
Total Gaming Taxes	**$104.1**	**$102.9**	**$104.7**	**$105.1**
Fees and Interest Earnings *(Subject to TABOR)*				
To Limited Gaming Fund	1.4	0.6	1.3	1.3
To State Historical Fund	2.2	1.8	1.5	1.4
Total Gaming Revenue	**$107.71**	**$105.24**	**$107.50**	**$107.82**
% change	**2.0%**	**-2.3%**	**2.1%**	**0.3%**
Total Gaming Revenue Subject to TABOR	$98.1	$95.8	$97.9	$98.1
Distributions of Gaming Tax Revenue /A				
Amendment 50 Distributions				
Community Colleges	6.5	6.6	6.7	6.7
Gaming Counties and Cities	1.8	1.9	1.9	1.9
Amendment 50 Administrative Expenses	1.3	1.1	1.1	1.1
Total Amendment 50 Distributions	**$9.6**	**$9.5**	**$9.6**	**$9.7**
Pre-Amendment 50 Distributions				
State Historical Fund	23.6	23.0	23.4	23.4
Gaming Counties	10.1	9.9	10.0	10.0
Gaming Cities	8.4	8.2	8.4	8.4
General Fund /B	12.1	11.1	11.8	11.8
Economic Development Programs /B	30.1	30.0	30.0	30.0
Pre-Amendment 50 Administrative Expenses	10.1	11.2	11.5	11.8
Total Amendment 50 Distributions	**$94.5**	**$93.4**	**$95.1**	**$95.5**
Total Gaming Distributions /B	**$104.1**	**$102.9**	**$104.7**	**$105.1**

/A Distributions are made from gaming tax revenue, not total gaming revenue.

/B Beginning FY 2012-13, table amounts include the adoption of SB 13-133.

this amount, $5.0 million is appropriated to the Local Government Limited Gaming Impact Fund, which provides financial assistance to local governments to offset documented gaming impacts and is used to combat gambling addiction. The remaining portion of the state share is transferred to the General Fund at the end of each fiscal year.

Revenue collected from the state's 2.9 percent sales and use tax on retail and medical ***marijuana*** is subject to TABOR and is expected to generate $17.3 million in FY 2013-14, $22.5 million in FY 2014-15, and $22.1 million in FY 2015-16. This revenue is diverted from the General Fund and deposited directly into the ***Marijuana Cash Fund***.

All ***other cash fund revenue*** subject to TABOR is expected to increase 2.7 percent in FY 2013-14. This category includes revenue to a large number of sources credited to various other cash funds, such as revenue from court fines and fees, regulatory licensure fees, and fees paid for services provided by the Secretary of State's Office. For FY 2014-15, this total is expected to increase by 5.2 percent.

Table 10 presents the March 2014 forecast for ***federal mineral leasing (FML)*** revenue in comparison with the December forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of mineral production. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment, the forecast is presented separately from other sources of state revenue.

For FY 2013-14, FML revenue is anticipated to total $153.2 million in FY 2013-14, representing a 7.2 percent increase from the December forecast. The increase is the result of higher expectations for natural gas prices, offset to some degree by decreased coal production. In the first quarter of 2014, national natural gas prices jumped 38 percent relative to the fourth quarter of 2013 on a quarter-over-quarter basis. Colorado prices have increased even more. At this point, this forecast assumes that this increase is mostly seasonal. In contrast, Colorado coal production continues to decline, and roughly 75 percent of this production occurs on federal lands. Coal production was down 15 percent in 2013 compared with 2012, which will dampen future growth in FML revenue.

FML revenue is expected to increase to $174.2 million in FY 2014-15 and $182.5 million in FY 2015-16. The increase during the later years of the forecast period assumes that the federal government will continue to distribute the full amount of FML revenue to states as was agreed to in the December congressional budget package. These totals will be lower if this turns out not to be the case.

Forecasts for ***Unemployment Insurance (UI) Trust Fund*** revenue, benefit payments, and the UI balance are shown in Table 11. Revenue to the UI Trust Fund has not been subject to TABOR since FY 2009-10 and is therefore excluded from Table 7 on page 24. Revenue to the Employment Support Fund, which receives a portion of the UI premium surcharge, is still subject to TABOR and is included in the revenue estimates for other cash funds in Table 7.

The UI Trust Fund closed FY 2012-13 with a fund balance of $546.8 million, a 6.6 percent increase from the previous fiscal year. The fund balance will continue to increase through the forecast period as unemployment declines and revenue increases. Revenues to the UI trust have been steadily increasing since the fund became solvent on June 30, 2012. **House Bill 11-1288** states that once the UI Trust Fund is solvent a new premium rate table becomes effective the next calendar year. The new premium rate table has been in effect for calendar year 2013 and has supported revenues to the fund.

Total revenue to the UI fund declined 55.3 percent in FY 2012-13. If not for a $640 million bond issuance in FY 2011-12, revenue to the fund would have declined 9.6 percent. In addition, the solvency surcharge was only levied through the first six months of FY 2012-13. Since the fund balance was greater than 0.5 percent of total wages on June 30, 2012, the solvency

Table 10
Federal Mining Leasing Revenue Distributions
(Dollars in Millions)

Fiscal Year	March 2014 Forecast	Percent Change	December 2013 Forecast	Percent Change from Last Forecast
FY 2001-02	$44.6		$44.6	
FY 2002-03	$50.0	12.1%	$50.0	
FY 2003-04	$79.4	58.7%	$79.4	
FY 2004-05	$101.0	27.2%	$101.0	
FY 2005-06	$143.4	41.9%	$143.4	
FY 2006-07	$123.0	-14.3%	$123.0	
FY 2007-08	$153.6	25.0%	$153.6	
FY 2008-09	$227.3	47.9%	$227.3	
FY 2009-10	$122.5	-46.1%	$122.5	
FY 2010-11	$149.5	22.0%	$149.5	
FY 2011-12	$165.0	10.4%	$165.0	
FY 2012-13	$120.8	-26.8%	$120.8	
FY 2013-14	$153.2	26.9%	$143.0	7.2%
FY 2014-15	$174.2	13.7%	$156.8	11.1%
FY 2015-16	$182.5	19.1%	$167.9	8.7%

Note: FML distributions are federal funds and therefore not subject to TABOR.

surcharge was eliminated for tax year 2013. The solvency surcharge will not be levied through the remainder of the forecast period.

The amount of UI benefits paid to claimants is expected to fall 8.0 percent in FY 2013-14 and 7.4 percent in FY 2012-13. UI claims are expected to fall throughout the forecast period as unemployment declines amidst a steadily improving labor market.

Federal borrowing and special revenue bonds. Colorado's UI fund began struggling in the 2001 recession. In 2004, the solvency surcharge was first imposed. The 2008 economic recession put more pressure on the fund as high unemployment increased demand for UI benefits, while revenue to the fund was declining. In January 2010 the fund was insolvent. By law, when the balance of the UI Trust Fund falls below zero, the federal government requires that another revenue source be found. Colorado began borrowing from the Federal Unemployment Account to fund benefit payments in January 2010. After a year of loans offered interest free, the state made its first interest payments on loans outstanding in September 2011. A separate assessment was required to pay for interest on federal loans used to fund the UI program. During the summer of 2011, businesses were charged a special interest assessment to pay for the interest payment.

In order to restore the UI fund balance to a desired level of solvency and repay

Table 11
Legislative Council Staff
Unemployment Insurance Trust Fund Forecast, March 2014
Revenue, Benefits Paid, and Fund Balance
(Dollars in Millions)

	Actual FY 12-13	Estimate FY 13-14	Estimate FY 14-15	Estimate FY 15-16	FY 12-13 to FY 15-16 CAAGR*
Beginning Balance	$512.9	$546.8	$602.0	$675.7	
Plus Income Received					
UI Premium & Premium Surcharge /A	$637.5	$693.2	$683.0	$721.7	4.2%
Solvency Surcharge	$97.5	$0.0	$0.0	$0.0	
Interest	$13.7	$12.1	$15.2	$16.1	
Plus Special Revenue Bonds					
Total Revenues	**$748.6**	**$705.3**	**$698.2**	**$737.8**	-0.5%
% Change	-55.3%	-5.8%	-0.7%	5.5%	
Less Benefits Paid	($570.7)	($525.1)	($499.4)	($434.7)	-8.7%
% Change	-7.4%	-8.0%	-4.9%	-13.0%	
UI Bonds Principal Repayment	($125.0)	($125.0)	($125.0)	($125.0)	
Accounting Adjustment	($19.0)	$0.0	$0.0	$0.0	
Ending Balance	**$546.8**	**$602.0**	**$675.7**	**$853.9**	16.0%
Solvency Ratio:					
Fund Balance as a Percent of Total Annual Private Wages	0.60%	0.62%	0.78%	1.01%	

Totals may not sum due to rounding.

NA = Not Applicable.

**CAAGR: Compound Average Annual Growth Rate.*
/A This includes the regular UI premium, 30 percent of the premium surcharge, penalty receipts, and the accrual adjustment on premiums.
/B When the solvency ratio exceeds 0.5 percent of total annual private wages, the solvency surcharge is triggered off.
Note: The Unemployment Insurance Trust Fund is not subject to TABOR.

outstanding federal loans, the Colorado Housing and Finance Authority issued $640 million in bonds on behalf of the Colorado Unemployment Insurance Trust Fund in 2012. The proceeds were used to pay back all outstanding federal loans with the remaining balance deposited into the UI trust fund. On June 28, 2012 the UI fund had paid all remaining federal debt. The terms of finance are five years at 1.4 percent total annual interest. There will be two interest payment assessments per year; the first payment of $4.2 million was paid on November 15, 2012, and the second payment of $4.5 million was paid on May 15, 2013. There will be five principal repayments of approximately $125 million each due May 15 every year through 2017. The principal will be repaid through a bond principal surcharge assessed against employers and incorporated into their base UI premium rate beginning in 2013.

Table 12 presents tax revenue forecasts for ***medical and adult-use marijuana sales***. Tax revenue from marijuana sales is expected to total $40.0 million in FY 2013-14 and $77.2 million in FY 2014-15. These totals include revenue from the 2.9 percent sales tax on medical and adult-use marijuana that is subject to TABOR and was discussed above. The 10 percent sales tax and 15 percent excise tax on the sale of marijuana was approved by voters and is thus exempt from TABOR. This revenue is expected to total $22.7 million in FY 2013-14 and $54.7 million in FY 2014-15.

To date, only data on January tax collections are available, and collections in that month may not be representative of sales patterns for the entire fiscal year. Because historical sales data do not exist to forecast marijuana tax revenues, the accuracy of the forecast depends on the accuracy of the assumptions which underlie it. January tax collections may be inflated because of pent-up demand for adult-use marijuana, inflated prices, and the novelty of purchasing legalized marijuana. Conversely, January tax collections may be biased downwards because only a limited number of retail stores were open for the entire month, local jurisdictions had not yet licensed adult-use marijuana stores, and the supply of adult-use marijuana was limited because cultivation facilities could not start producing until January.

In preparing this forecast, each of the assumptions used for the ballot information booklet (Blue Book) were revisited so that the

Table 12
Tax Revenue from the Marijuana Industry
Millions of Dollars

	FY 2013-14	FY 2014-15	FY 2015-16
15% Excise Tax	$4.0	$18.1	$18.9
State Share of 10% Special Sales Tax	$15.9	$31.2	$29.9
Local Share of 10% Special Sales Tax	$2.8	$5.5	$5.3
Total 10% Sales Tax	$18.7	$36.7	$35.2
Proposition AA Taxes	**$22.7**	**$54.7**	**$54.2**
2.9% Sales Tax on Medical Marijuana	$11.9	$11.9	$11.9
2.9% Sales Tax on Adult-Use Marijuana*	$5.4	$10.6	$10.2
Total Taxes on Marijuana	**$40.0**	**$77.2**	**$76.2**

forecast reflect the most current understanding of the regulated marijuana market. Relative to the Blue Book:

- the number of people assumed to use taxable marijuana decreased. Current estimates exclude users that grow their own marijuana, and the marijuana usage rate is applied to a smaller population;

- the number of people assumed to use medical marijuana increased. This forecast assumes that a negligible portion of the medical marijuana sales will migrate from the medical market to be adult-use market because the pre-tax price for medical marijuana is lower than adult-use marijuana and the cost of a medical marijuana card has dropped to $15; and

- the prices assumed for wholesale and retail marijuana have been updated, and are based on wholesale price estimates published by the Department of Revenue and published retail prices from statewide marijuana retailers.

For now, the assumptions used to model the marijuana market are based on self-reported usage of a formerly banned substance and price assumptions from a still-developing market. In addition, the uncertainty of the revenue estimate is compounded by limited knowledge regarding the extent to which the unregulated market will be absorbed by the regulated market. This forecast may be overstated, in that it is based on the statutory tax rates and the assumption that the unregulated marijuana market will disappear and all unregulated marijuana users will enter the regulated market. The accuracy of the forecast will undoubtedly improve as more data become available and the regulated adult-use marijuana market matures.

NATIONAL ECONOMY

The nation's economy showed real signs of momentum in 2013, putting it on healthier footing for stronger expansion in the coming years. Despite a partial government shutdown, many sectors continued to make significant improvements. Over the past year, household wealth has grown because of increases in home prices and recent gains in the stock market. As a result, consumer spending improved, particularly on big-ticket items like furniture and vehicles. U.S. corporations continue to post strong profits, and the drag from uncertainties in fiscal and monetary policies appear to have waned. Inflation remains benign and the global economy, especially the Euro zone, appear to have turned a corner. The labor market continued to slowly heal in 2013, however growth has not been robust enough to significantly raise wages.

Economic activity will grow at a more earnest pace in 2014 and 2015. Headwinds created by fiscal and monetary policy have diminished and the global economy is improving, allowing the private sector to gain momentum. Most economic uncertainty in 2014 and 2015 will center on whether the Federal Reserve can achieve a smooth deceleration of its monetary expansion policies. Expectations for the national economy are shown in Table 13 on page 52.

Gross Domestic Product

The nation's **gross domestic product (GDP)**, the broadest measure of total economic activity, improved for the fourth consecutive year in 2013. Despite a reduction in federal spending, the nation's economy continued to improve because of strong consumer and business spending. Figure 5 on page 36 shows the quarterly contributions to GDP growth since 2007.

Economic activity increased 1.9 percent in 2013, compared with an increase of 2.8 percent in 2012. While reductions in federal spending and investment dragged down growth in 2013, business spending was a bright spot as companies invested in equipment and built up inventories. In addition, consumer spending continued to improve.

In the final quarter of 2013, the economy grew at a seasonally adjusted annual rate of 2.4 percent down from 4.1 percent in the previous quarter. However, the deceleration was expected as companies reduced inventories after a significant build up in the third quarter and the federal government shutdown in October weighed heavily on growth. Federal spending and investment declined 12.8 percent from the previous quarter. However, despite the slowdown in the final quarter, growth for the second half of the year was encouraging, averaging 3.2 percent.

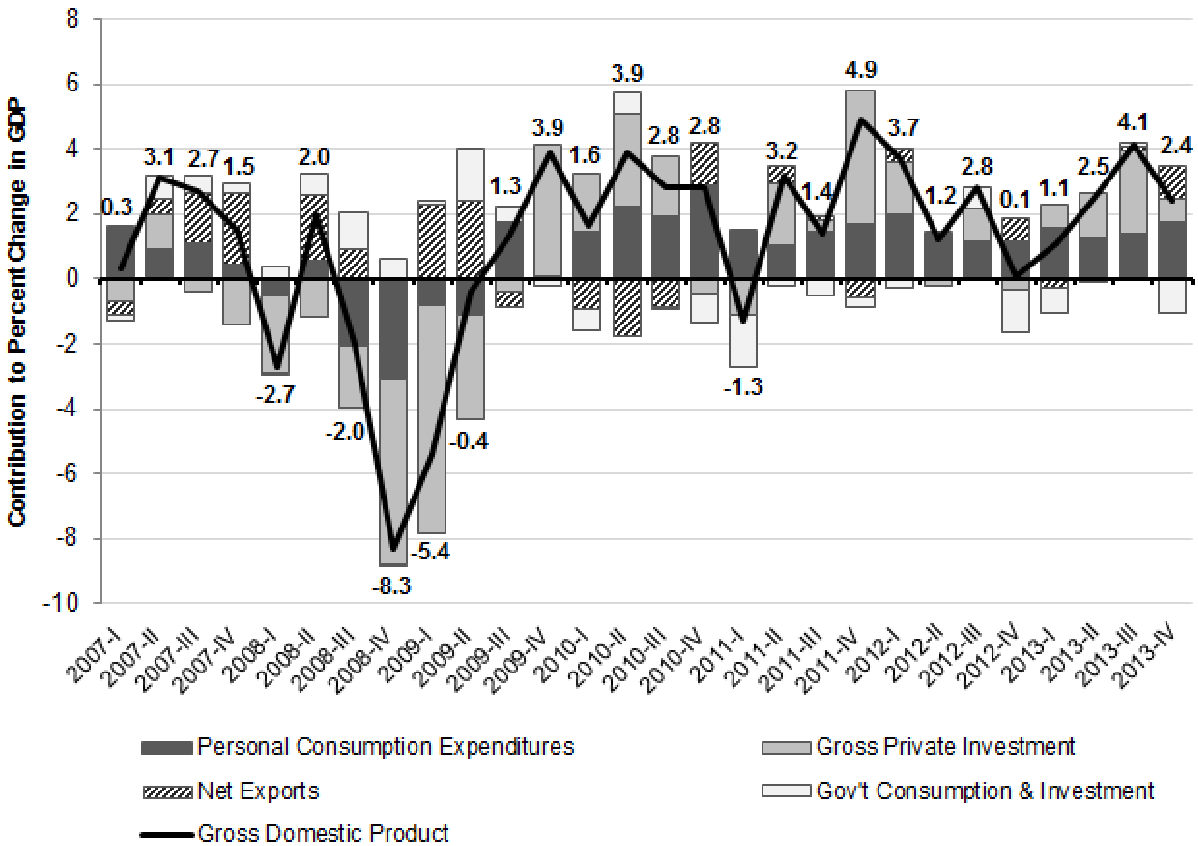
- Economic growth will accelerate in 2014 and 2015, with GDP increasing 3.2 percent and 3.5 percent, respectively. The gains will come from household and business spending. However, growth will continue to be slightly offset by reduced government spending.

Federal Fiscal and Monetary Policy

The two-year federal budget agreement, debt-limit resolution, and the Federal Reserve's steady pace of adjustments in monetary policy have reduced fiscal and monetary uncertainty. In addition, the Federal Reserve continues to keep interest rates low.

In December 2013, Congress approved a spending plan that would fund the

Figure 5
Contributions to Real Gross Domestic Product
Seasonally Adjusted Annual Rates



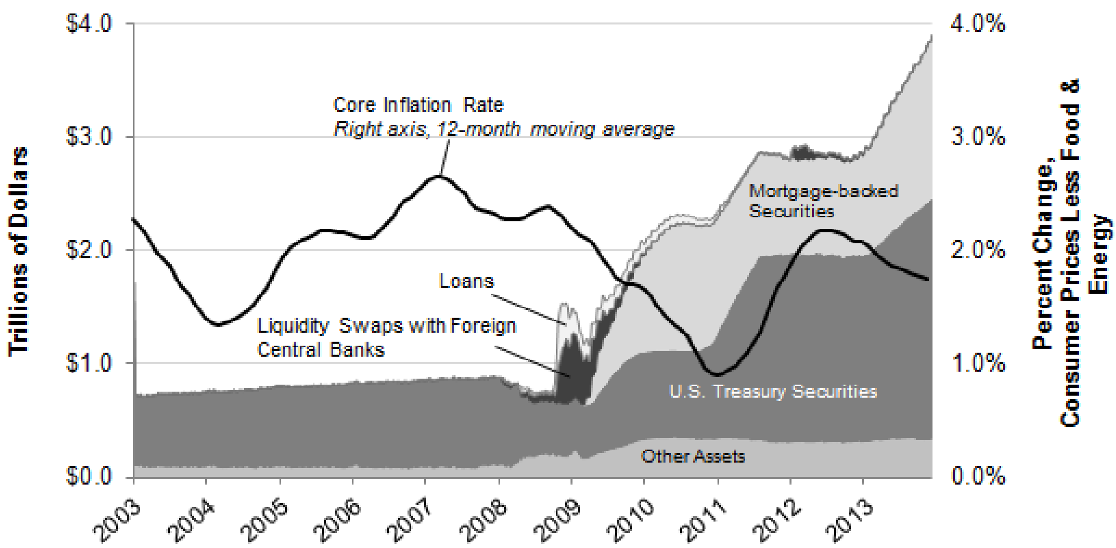
Source: Bureau of Economic Analysis.

federal government for two years. The plan modifies the sequestration cuts by increasing spending $45 billion and $20 billion in Federal FYs 2013-14 and 2014-15, respectively, over current law levels. In addition, Congress approved a suspension of the debt limit through March 15, 2015. When the debt limit suspension ends, the debt limit will automatically increase to reflect the amount of borrowing that occurred since the last debt limit.

The Federal Reserve continues to indicate that further reduction in its stimulus would be appropriate as long as the economy continues to improve. The Federal Reserve has supported the nation's recovery over the last five years with an unprecedented expansion of assets on its balance sheet, which is shown in Figure 6 on page 37. The Federal Reserve has been purchasing $85 billion of U.S. treasury and mortgage backed securities each month since September 2012. In January 2014, the Federal Reserve Open Market Committee (FOMC) began to taper its expansionary monetary policy. The FOMC will decrease the amount of purchases by $10 billion per month. Monthly purchases are expected to be reduced gradually over the course of 2014.

In a fully mature economic expansion, the Federal Reserve's balance sheet should be close to $1 trillion and the federal funds rate should be around 4 percent. Many

Figure 6
Federal Reserve Assets and Core Consumer Inflation



Source: Federal Reserve Assets: Federal Open Market Committee, nominal data through mid-November 2013. Consumer Price Index, all items less food and energy: U.S. Bureau of Labor Statistics, data through October 2013.

analysts do not expect monetary policy to return to these levels until 2017 or 2018. This requires the economy to recover gradually and assumes that long-term interest rates rise steadily and in an orderly fashion.

In addition, the Federal Reserve has held the effective federal funds rate, the rate at which banks lend money to each other overnight, close to zero. Tightening, or a reduction in the money supply, will not occur in earnest until the Federal Reserve begins selling securities in order to increase its target for the federal funds rate. The FOMC has indicated it will not move to tighten until the unemployment rate is 6.5 percent or lower. This forecast assumes that tightening will begin in late 2015.

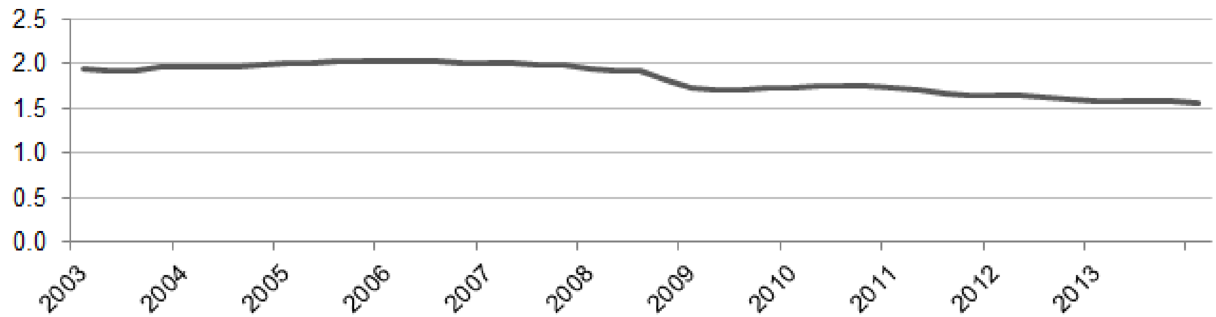
Inflation

There continues to be very little inflationary pressure, giving the Federal Reserve room to maintain monetary policies to allow the nation's economy to strengthen further. In January 2014, prices for all goods and services increased 1.6 percent compared with the same period one year ago. Core inflation, a measure that excludes volatile food and energy prices, was 1.6 percent. Energy prices increased 2.1 percent, while the price index for medical care services increased 2.5 percent.

Figure 6 also shows core consumer inflation. Inflationary pressure has remained muted even as the Federal Reserve has rapidly expanded the money supply. Weak global economic conditions and excess capacity in manufacturing and the labor market have contributed to this situation. However, a significant contributor to the lack of inflationary pressure is the increasingly low rate at which money moves through the economy.

As shown in Figure 7 on page 38, the velocity of money has continued to fall throughout the recovery. Velocity has been restricted relative to before the recession by deleveraging and higher rates of savings by

Figure 7
Velocity of M2 Money Stock
The Rate at Which Money Changes Hands
Seasonally Adjusted



Source: Federal Reserve Bank of St. Louis. Data through the third quarter of 2013.

both households and businesses. Banks are holding more money in their reserves in response to new regulations and financial conditions favorable to reserves. In addition, uncertainty stemming from both fiscal and monetary policy has also been a contributor, as many large firms and institutional investors continue to hold large amounts of cash on hand.

- Little inflation pressure is expected as long as slack remains in the labor market. As the U.S. economy improves, the Federal Reserve will tighten monetary policy, keeping inflation in check throughout the forecast period. Prices will increase 2.0 percent in 2014 and 2.4 percent in 2015.

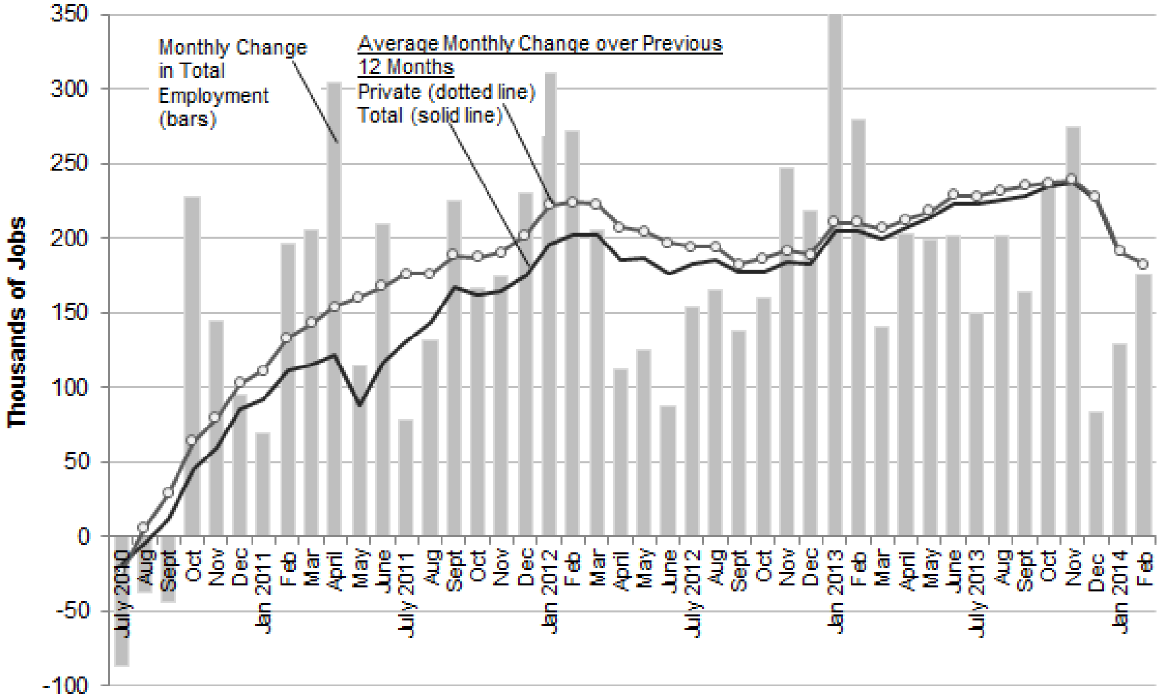
Global Conditions Improve, But Remain Cautiously Optimistic

The world economy continued to show improvement in the second half of 2013. Global conditions are expected to improve further in 2014. The Euro region's financial crisis appears to be stabilizing. The United Kingdom's economy is improving, and its unemployment rate is declining much faster than previously expected. Japan's economy has shown improvements because of recent fiscal policy, and the emerging and developing economies, which include Asia and Latin America, are expected to pick up momentum and experience a more broad-based recovery in 2014. The Organization for Economic Co-operation and Development (OECD) expects world output to grow 3.6 percent in 2014, and 3.9 percent in 2015. Nevertheless, U.S. tapering announcements in recent months have created an atmosphere of cautious optimism as both advanced and emerging economies assess the potential effects.

The Eurozone economy continues to show improvement because of deleveraging measures adopted last year. Growth is projected at 1 percent in 2014 and 1.4 percent in 2015, according to the International Monetary Fund (IMF). The German economy grew 0.4 percent in 2013, as it continued to suffer from slow growth in other Eurozone countries. However, Germany's low unemployment rate and improving domestic consumer demand indicates an acceleration of growth in 2014. In addition, bond yields in Ireland, Portugal, Greece, Spain and Italy have eased in the past year, lessening some of the fears of the ongoing financial crisis.

The recovery in the Japanese economy is expected to continue, aided by loose monetary policy and a fiscal stimulus package. However, the OECD expects

Figure 8
Monthly Change in Nonfarm Employment
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics. Data through February 2014.

growth to soften in 2014 and 2015 because of the winding down of the stimulus and a consumption tax increase.

Economic growth in China rebounded somewhat in the fourth quarter after slowing during the summer months, in part because of a small fiscal stimulus. Growth in China's economy has also been aided by increased global demand and rapidly expanding credit. However, many analysts are concerned that credit has expanded too quickly and should be constrained to maintain a healthy economy in the coming years.

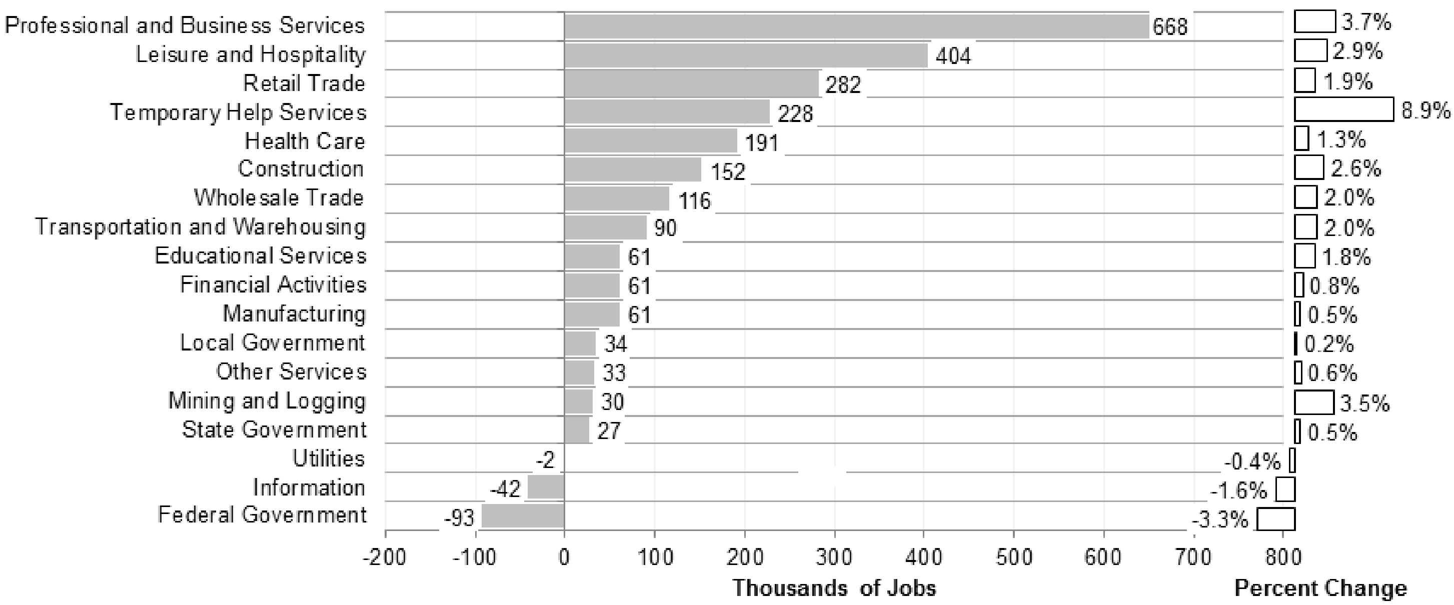
Labor Market

The nation's labor market continues to improve. In 2013, the average monthly change in employment was the best in over a decade, and the unemployment rate continued to decline. However, the number of persons displaced from the labor force and working part-time for economic reasons remains stubbornly high.

Figure 8 shows monthly changes in nonfarm employment since July 2010, shortly before the nation began to add jobs following the recession. The bars represent monthly changes in total nonfarm employment, while the lines represent the average monthly change over the previous 12-month period for private and total nonfarm employment. In 2013, the nation averaged 225,000 jobs per month. Throughout the recovery, government employment has been a drag on total employment. However, that drag has begun to dissipate through 2013 along with improvements in the fiscal condition of state and local governments.

As shown in Figure 9 on page 40, job gains over the year have been

Figure 9
U.S. Nonfarm Employment Gains/Losses in 2014
Year-to-Date through February 2014 Over Year-Ago Levels



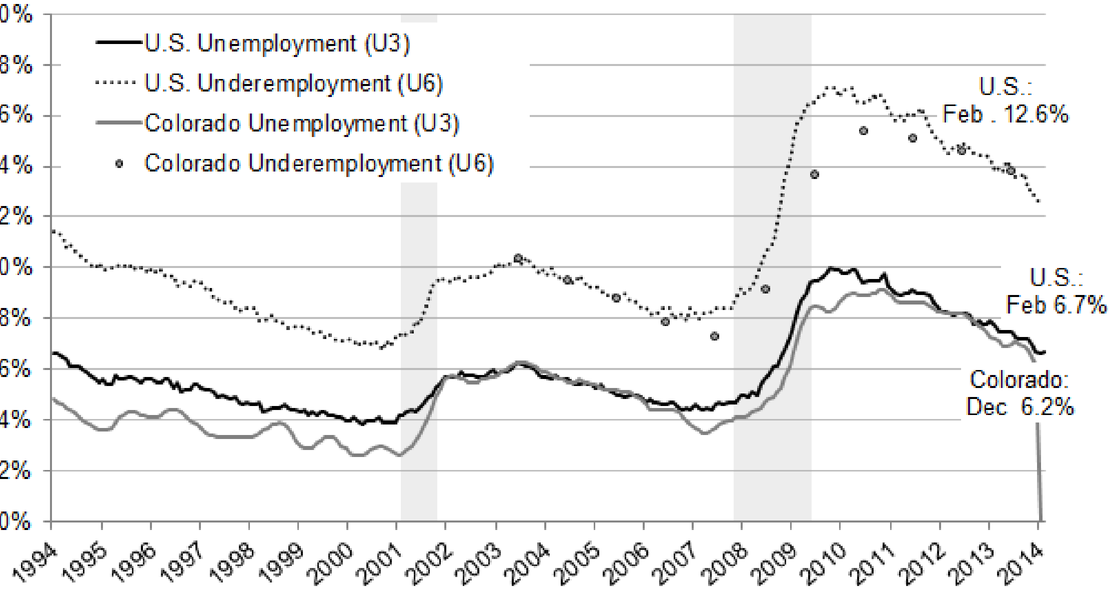
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics. Data through February 2014.

broad-based, with gains in every industry except the federal government, utilities, and information industries. Employment through February 2014 was 1.6 percent, or 2.2 million jobs, higher than during the same period in 2013. The professional and business services sector added the most, with a gain of 668,000 jobs. Temporary help services increased the most in percentage terms, growing 8.9 percent, or by 228,000 jobs.

As shown in Figure 10, the nation's unemployment rate has been steadily declining since 2010. In February 2014, the unemployment rate was 6.7 percent, about one percent lower than the same period one year ago. The underemployment rate, a broader measure of the number of people who are looking for full time work, fell to 12.6 percent in February. The size of the gap between these rates and the pace at which it closes is an excellent indicator of the strength of the recovery in the labor market. During years of full employment, the gap is generally about 4 percent. The gap spiked to over 7 percent during the recession. Throughout the recovery, it has fallen very slowly, averaging 6.4 percent in 2013. The gap was 5.9 percent in February 2014. This indicates slow and consistent improvements in the labor market. However, it also indicates that only a fraction of the damage the recession wreaked on the labor market has fully healed and that considerable slack remains.

Individuals in the gap include discouraged workers, or people who would like to work but have stopped looking because they have become discouraged, and people who work part-time for economic reasons. The number of discouraged workers has fallen only slowly through the recovery, from an average of just under 1.2 million people in 2010 to about 755,000 people on average in 2014 through February. Meanwhile, the number of people

Figure 10
Unemployment and Underemployment Rates in Colorado and the Nation
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Current Population Statistics and Local Area Unemployment Statistics. National data through February 2013. Colorado data through December 2013. Shaded areas represent periods of recession.

employed part-time for economic reasons has fallen at an average annual rate of 3.6 percent between 2010 and 2013.

Much of the drop in both the unemployment and underemployment rates has been a result of consistent decreases in the labor force participation rate, which hit a historical low of 63.0 percent in November. In February 2014, the participation rate was relatively unchanged. People have left the labor force for many reasons, including retirement, education, or to care for a family.

The median duration of unemployment has fallen from a high of 23.2 weeks in the second quarter of 2010 to just over 16 weeks in the third quarter of 2013. As shown in Figure 11 on page 42, many unemployed for more than 27 weeks are finding it particularly difficult to find work. Indeed, the overall improvement in the length of unemployment has mostly occurred among the short-term unemployed, or those unemployed for less than 14 weeks.

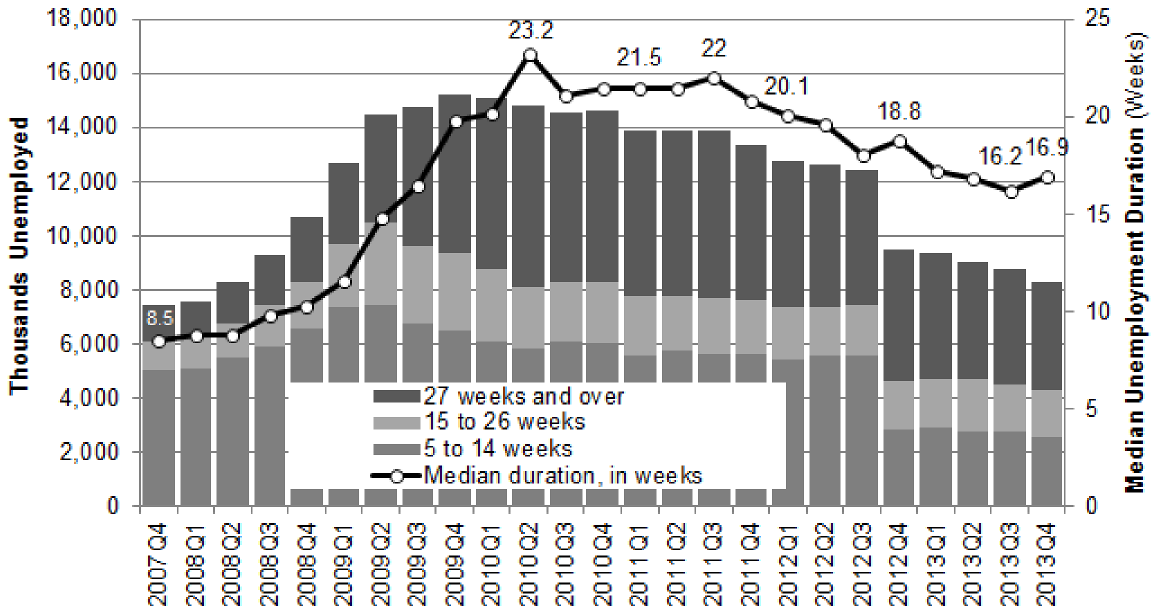
- Nonfarm employment is expected to grow 1.8 percent in 2014 and 2.2 percent in 2015. While private employment is expected to continue to grow at its current pace of around 200,000 jobs per month, government employment is no longer expected to drag down the overall rate.

- The unemployment rate will average 6.4 percent in 2014. The rate will hover around 6.0 percent in 2015 as continued improvement in the labor market will encourage people to return to the labor force.

Business Income and Activity

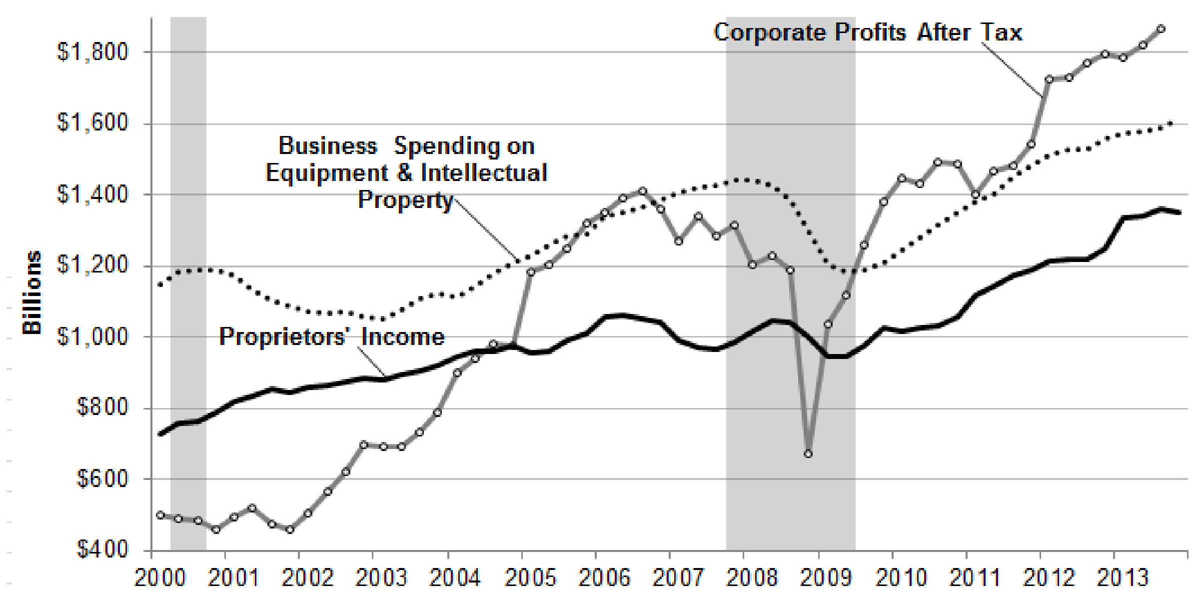
U.S. corporations continue to post strong profits. Since the end of 2008, corporate profits have more than doubled. Increased worker productivity and investment on new equipment and intellectual property have contributed to higher profits. The Bureau

Figure 11
Duration of Unemployment
Seasonally Adjusted



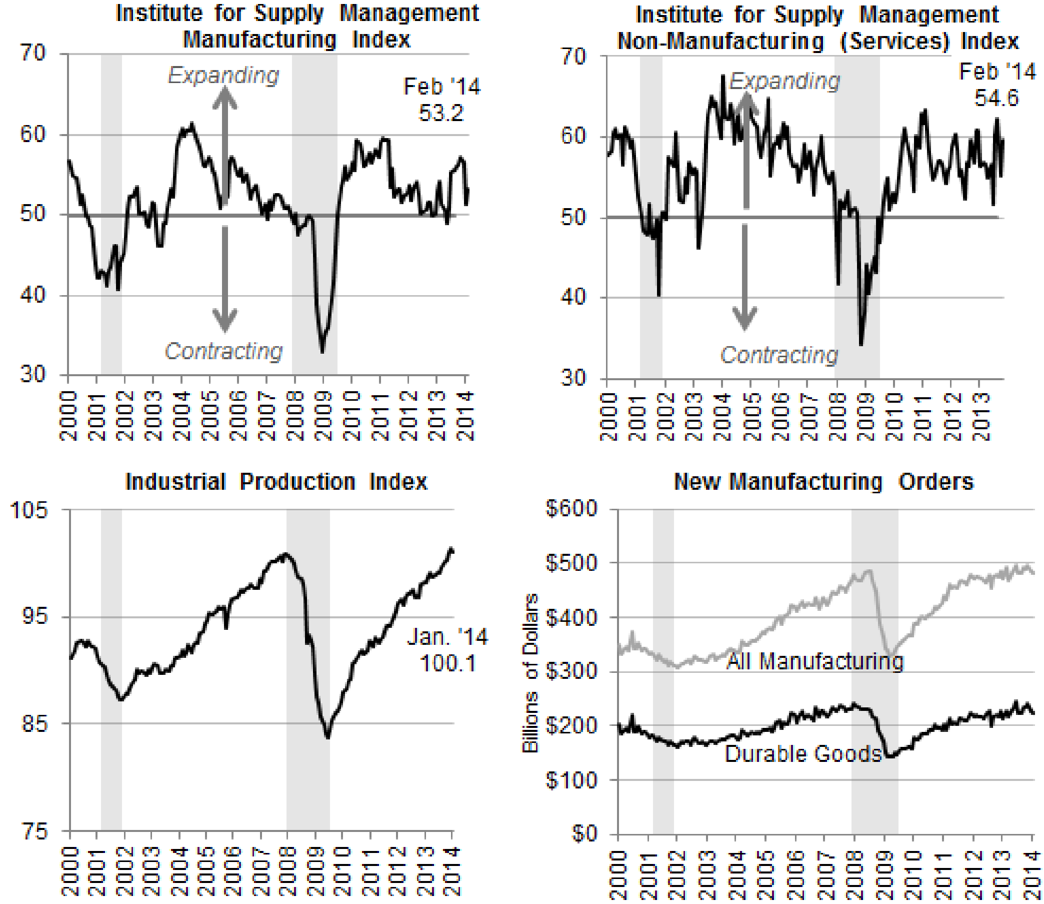
Source: U.S. Bureau of Labor Statistics, Current Population Statistics. Data through the fourth quarter of 2013.

Figure 12
Business Income
Seasonally Adjusted Annualized Data



Source: U.S. Bureau of Economic Analysis, National Income Product Accounts and Personal Income Statistics. Corporate profits data through 2013 quarter three. Proprietor's income and business spending data through 2013 quarter three.

Figure 13
Indicators of Business Activity
Seasonally Adjusted



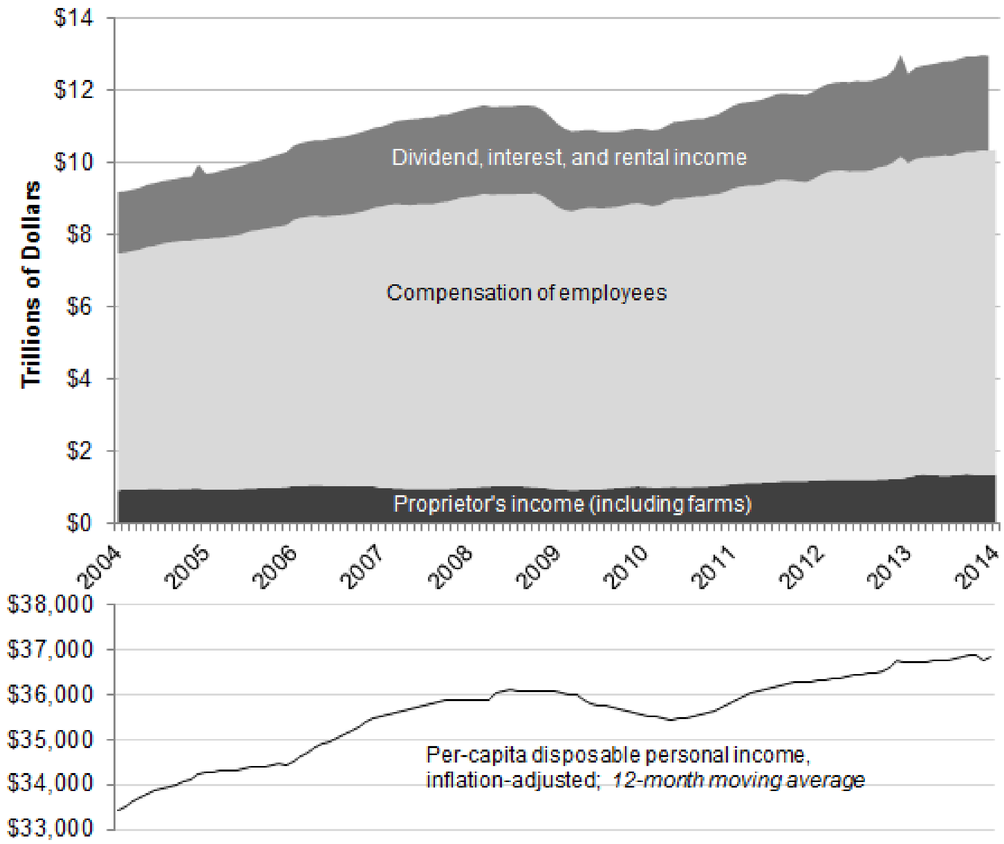
Source: Institute for Supply Management, Federal Reserve (industrial production) and U.S. Census Bureau (new orders). Shaded areas represent periods of recession.

of Labor Statistics shows that average worker productivity has risen by an average annual rate of 0.8 percent since in 2010. In addition, the growing number of foreign sales by U.S corporations continues to support higher corporate profits. Figure 12 shows corporate profits after tax.

Figure 12 also shows that businesses have chosen to invest in new equipment and intellectual property. Many firms have thus been able to make their businesses more efficient and productive, which enhances profitability. Although this will, in some cases, slow the rebound in employment following the recession, it will also leave the nation's businesses more competitive in a global economy and capable of responding to faster growth in the future. Intellectual property, a new category of investment within the national income and product accounts, includes spending on software, research and development, and the creation of entertainment, literary, and artistic originals.

Figure 13 shows four measures of business activity, including the Institute for Supply Management's (ISM) indices for manufacturing and non-manufacturing activity, the Federal Reserve's industrial production index, and new orders from manufacturers. All four measures indicate slowly improving conditions for business activity.

Figure 14
Major Components of U.S. Personal Income
And Real Per-Capita Disposable Personal Income Continue to Grow



Source: Bureau of Economic analysis, data through January 2014.
Compensation of employees includes wages and salaries and supplements to wages and salaries.

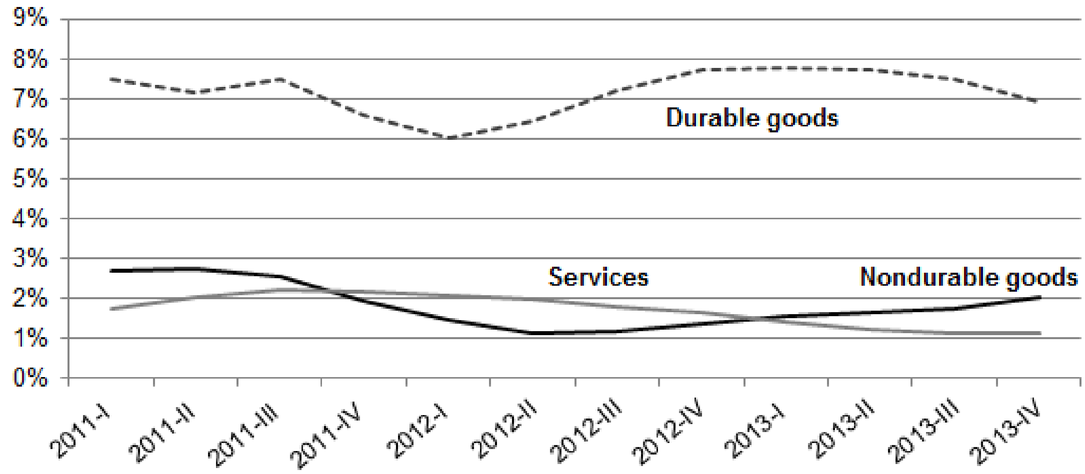
The ISM Purchaser's non-manufacturing index, a proxy for conditions in the services sector, has consistently indicated moderate expansion since the middle of 2011 and is expected to continue to do so throughout the forecast period. A level of 50 or higher for the ISM indices represents expansion, while a value below 50 represents contraction.

The ISM Purchaser's manufacturing index continued to gain throughout the fall, pointing to strengthening activity through the end of the year. However, the ISM survey is better at predicting the direction of activity than the pace of expansion. The industrial production index and new orders from manufacturers also indicate continued gains in manufacturing, but at a slower pace. Growth in new orders has been dominated by durable goods.

Households and Consumers

Households continue to recover from the recession amidst incremental improvements in the labor market and more significant improvements in household balance sheets. Personal income continues to rise, even on a per-capita inflation-adjusted basis, and household debt is falling while consumer spending is rising. Gains in personal income and consumer spending both lost momentum in 2013, likely due to the payroll tax increase in January 2013.

Figure 15
Growth in Consumer Spending on Goods and Services
Inflation Adjusted, 4-quarter Moving Average of Seasonally Adjusted Annualized Data



Source: Bureau of Economic Analysis, National Income Product Accounts.

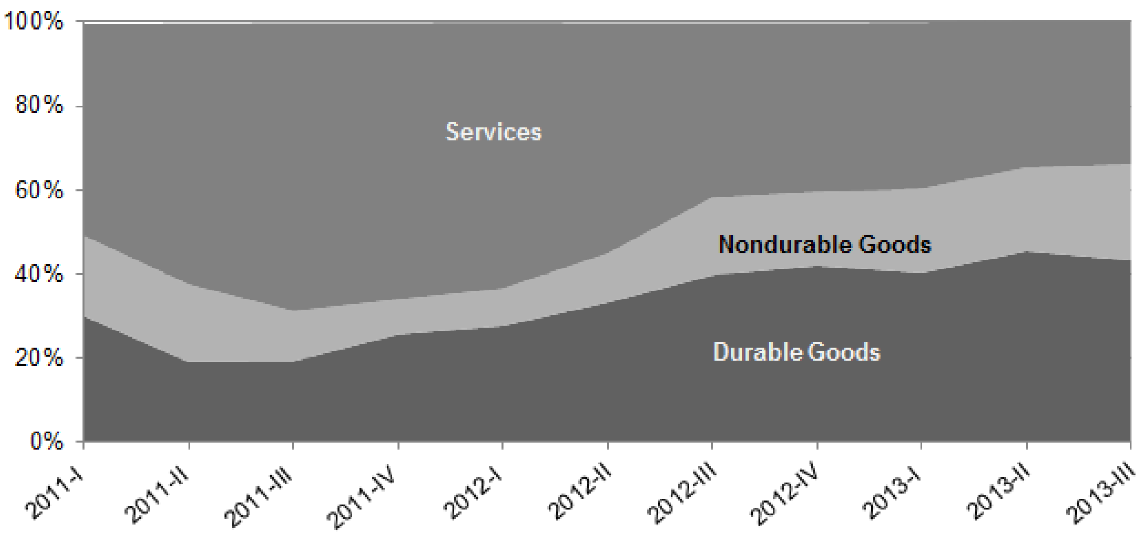
As shown in Figure 14, both personal income and inflation-adjusted per-capita disposable income continued to increase in 2013. Personal income, or household income from wages, investments, and other sources, increased 2.8 percent in 2013 compared with one year ago. Compensation of employees, which includes wages and salaries, increased 2.9 percent, while income from dividends, interest, and rents increased 4.5 percent. Nonfarm proprietors' income increased 6.1 percent. Meanwhile, inflation adjusted per-capita disposable income increased 0.3 percent year-to-date.

Consumer spending, which accounts for more than two-thirds of U.S. economic activity, continued to grow in 2013. In 2013, personal consumption expenditures increased 3.1 percent after increasing 2.2 percent on average in 2012. Retail trade sales, another measure of consumer spending, was 2.6 percent higher in January 2014 compared with the same period one year ago.

Consumers continue to spend on big ticket items such as furniture and automobiles. Figure 15 shows gains in consumer spending, as measured by personal consumption expenditures in the national income products accounts, on services, durable goods, and non-durable goods and the share of spending in each of these sectors. Figure 16 shows the share of spending in each of these sectors. Spending on durable goods is more sensitive to the business cycle than spending on services and non-durable goods. Thus, an increasing share of spending on durable goods is solid evidence of an improving economy.

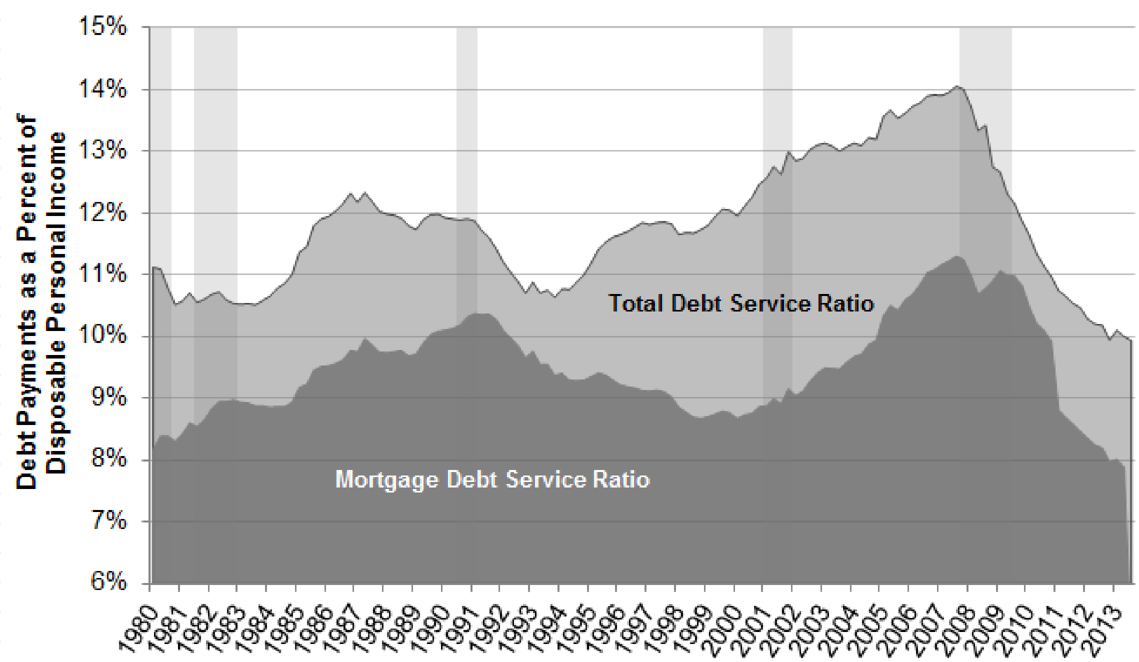
Households continue to spend income gains, rather than boost savings. The personal savings rate averaged 4.5 percent in 2013, down from 5.6 percent in 2012. Despite the lower savings rate, the condition of household balance sheets continues to improve. Household debt is down sharply since the recession and household wealth is growing in the form of stock market gains and higher home values. Figure 17 on page 46 shows that household debt payments as a percent of disposable personal income have fallen sharply since the recession and are at historically low levels. Lower debt payments and the effect of higher wealth has supported consumer spending throughout this recovery.

Figure 16
Share of Consumer Spending on Goods and Services
Inflation Adjusted, 4-quarter Moving Average of Seasonally Adjusted Annualized Data



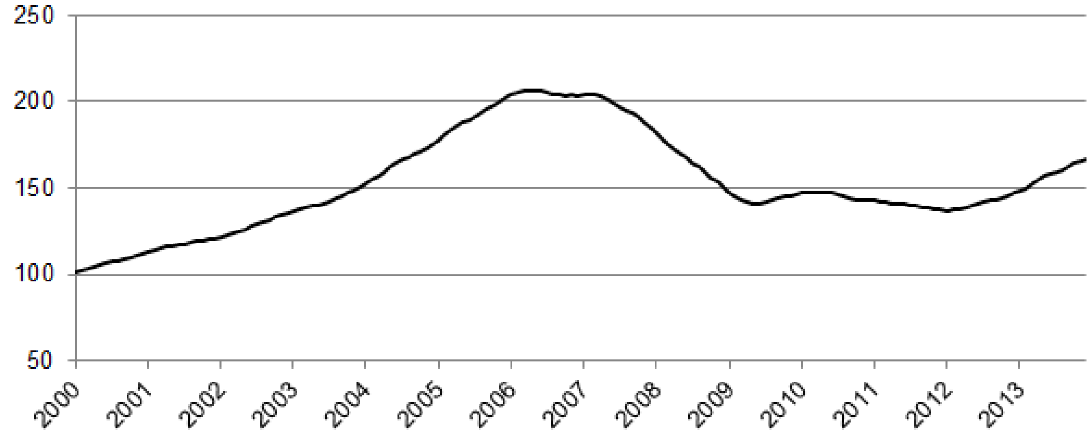
Source: Bureau of Economic Analysis, National Income Product Accounts.

Figure 17
U.S. Households' Debt Burdens
Debt Payments as a Percent of Disposable Personal Income



Source: Federal Reserve Board. Data through the third quarter of 2013.
Shaded areas represent periods of recession.

Figure 18
Case-Shiller 20-City Composite Home Price Index



Source: Standards & Poors. Data through December 2012.

- Personal income will increase 3.4 percent in 2014. In 2015, personal income will gain momentum, increasing 5.1 percent as the economy strengthens and the impact of the payroll tax increase is fully absorbed.
- Incremental improvements in the labor market will help increase wage and salary income, which will grow 3.4 percent in 2014 and 4.8 percent in 2015.

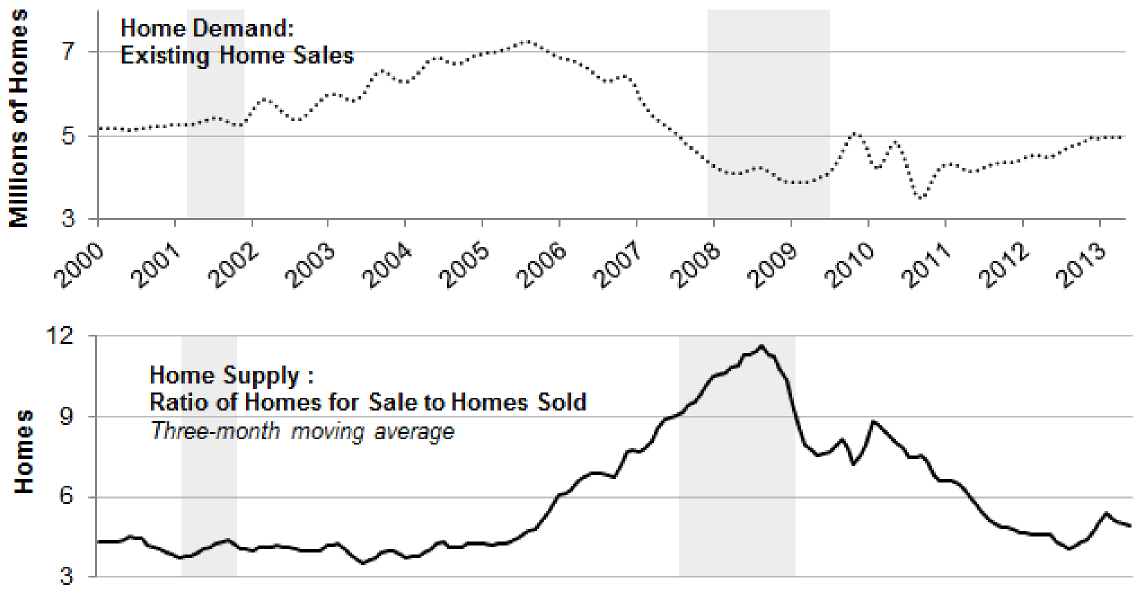
Housing Market and Construction

The improvement in the nation's housing market has been a major contributor to overall economic growth. In January 2014, home prices increased 13.4 percent from one year ago, pushing the median price for existing homes up to $260,100. Sales of new single-family houses were higher by 2.2 percent and residential permits were up 2.4 percent compared with one year ago. However, gains in housing values have slowed or flattened out in recent months amidst steadily increasing mortgage rates.

Figure 18 shows the 20-city composite Case-Schiller index for home prices. Since the peak in 2006, home prices have regained 43.6 percent of its losses. In 2013, the index reported its best gain since 2005, as home prices in the 20 major metro areas increased 13.4 percent compared with one year ago. All 20 cities reported a gain from one year ago with Las Vegas showing the fastest growth at 25.5 percent and San Francisco coming in second with a 22.6 percent gain. A shrinking supply of available homes continues to contribute to higher home prices. However, a steady rise in mortgage rates and higher prices has slowed the month-over-month price appreciation in the last few months.

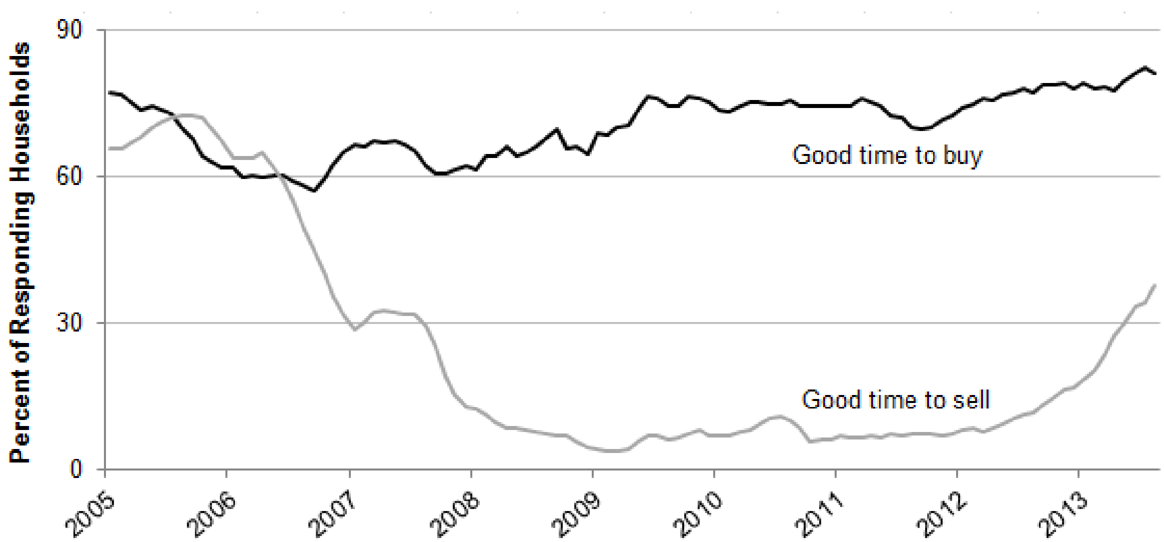
An excess of demand for homes relative to supply has been responsible for much of the upward pressure in home prices. Figure 19 on page 48 shows measures for home demand and supply in the form of existing home sales and the number of homes available for sale for every home sold, respectively. Existing home sales have consistently shown slow but steady growth since late 2010 and have returned to about 5 million homes a year, consistent with levels last seen in the early 2000's.

Figure 19
Housing Inventory and Home Sales
Three-Month Moving Average



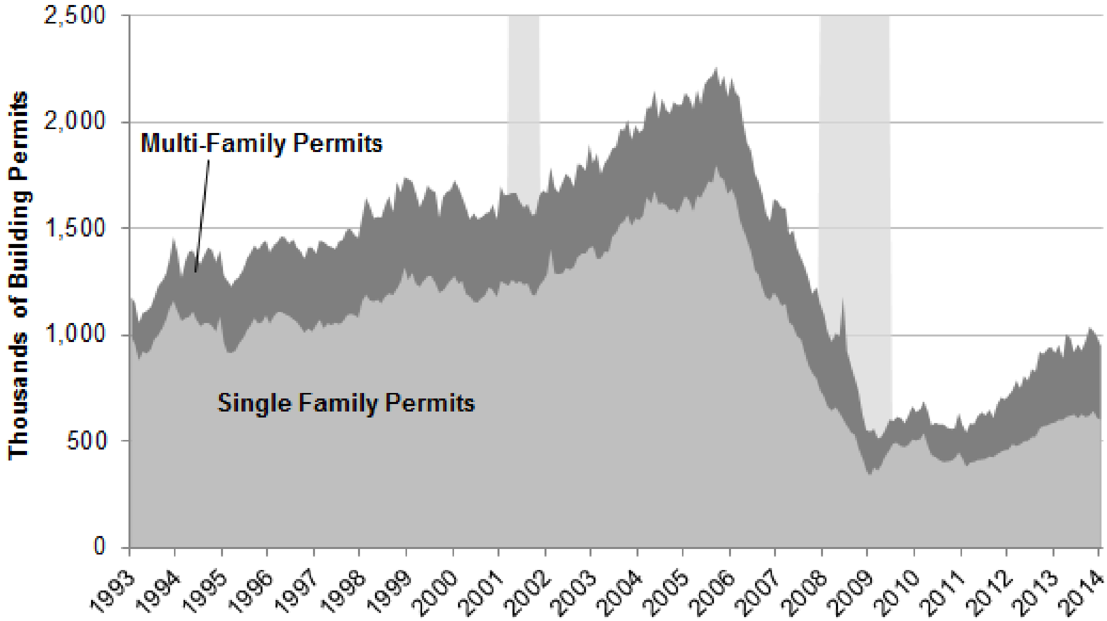
Source: Existing home sales: National Association of Realtors; data through December 2013.
Home supply ratio: U.S. Census Bureau; data through January 2014. Shaded areas represent periods of recession.

Figure 20
University of Michigan Survey on Housing Market Confidence
Share of Respondents Who Believe it is a Good Time to Buy or Sell a House
Three-Month Moving Average



Source: Thomas Reuters/University of Michigan Consumer Surveys. Data through August 2013.

Figure 21
Residential Construction Permits
Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau. Data through January 2014. Shaded areas represent periods of recession.

Home inventories, however, fell off rather steeply during this period.

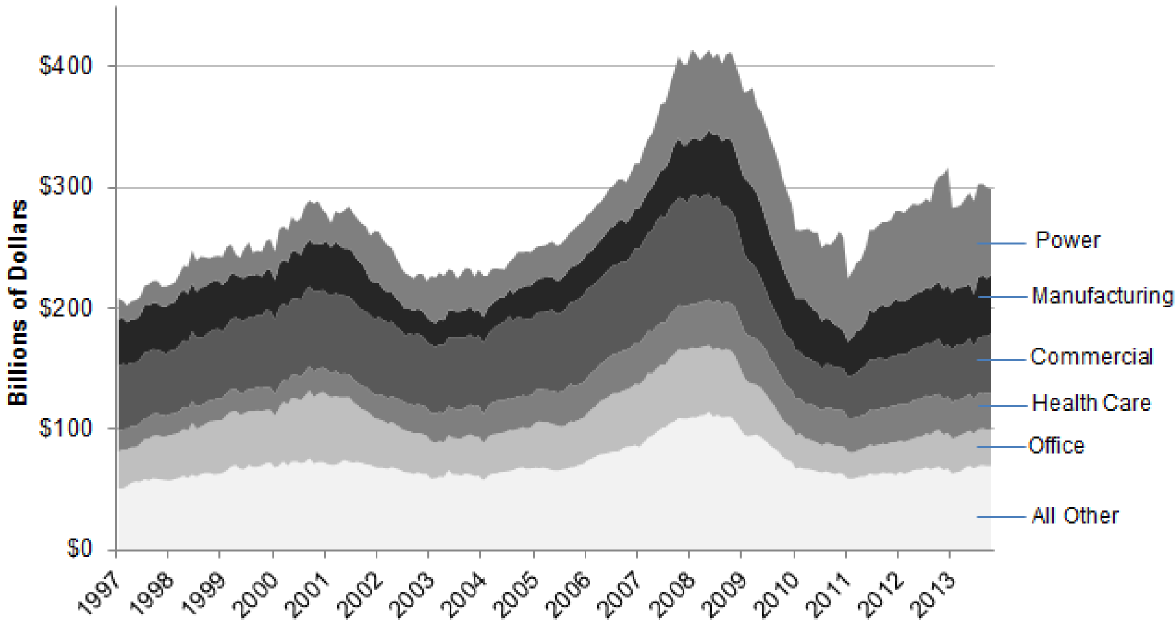
However, this trend has begun to reverse, with the number of homes on the market for every home sold beginning to creep up. Home supply hit a low of 3.9 homes available for every home sold in January 2013. The ratio has begun to move upward at a healthy pace, reaching 5.4 by December 2013. Inventory is moving up for several reasons. Improving home prices are leaving fewer homeowners underwater. The improving labor market is allowing for more job mobility. Finally, as shown in Figure 20, consumer confidence in the housing market is improving, as reflected by the University of Michigan consumer sentiment survey.

Figure 21 shows that the number of permits issued for residential construction continues to grow. Although most of the growth since the end of the recession has occurred in the multi-family sector, the single-family sector is also beginning to show gains. The number of permits issued for single-family and multi-family residential construction increased 28.8 percent and 22.3 percent, respectively, in 2013. However, a survey by the National Association of Home Builders showed builders are still struggling to find workers to keep up with demand. Residential construction will improve further once builders are able to fill more job openings.

Finally, mortgage interest rates began to rise late last year when the Federal Reserve announced its plan to taper its expansionary monetary policy. However, since January, mortgage rates have reversed course and have been steadily declining or have been largely unchanged. Expectations for higher mortgage rates could spur some buyers to purchase earlier than otherwise.

Figure 22 on page 50 shows that value of private nonresidential construction spending by sector. Many of the constraints faced by residential builders are also dampening growth

Figure 22
Private Nonresidential Construction Spending
Seasonally Adjusted Annual Rate



Source: U.S. Census Bureau. Data through December 2013.

in nonresidential construction spending, including shortages of labor and building materials. The value of nonresidential construction increased 6.5 percent in January 2014 compared with the same period one year ago. Construction in the office, manufacturing, and commercial sectors contributed to growth, while activity in the power and health care sectors reduced growth. Most of the growth in commercial and office construction has occurred in the central business districts of major cities, while growth has been more subdued in suburban and rural areas.

Summary

Economic activity will continue to gain momentum in 2014 and 2015. Although growth slowed in 2013 relative to 2012, significant improvements occurred in major sectors of the economy, placing the economy on healthier footing for stronger expansion in the coming years. The labor market continued to incrementally improve, while gains in the housing market and residential construction helped drive growth. Households, businesses, and banks improved their balance sheets and the global economy made slow gains. Federal spending cuts and tax increases and uncertainty over federal fiscal policy provided a headwind to overall economic growth in 2013, which will diminish in 2014, allowing growth in the private sector to accelerate.

The main concern in 2014 will center on the pace of economic activity relative to the speed of the Federal Reserve's withdrawal of monetary support.

Risks to the Forecast

Upside risks. Consumers and businesses may unleash more pent-up demand, causing the economy to grow more quickly than forecast. Household wealth has grown because of increases in home prices and recent gains in the stock market, which could make consumers and businesses even more comfortable making large purchases and taking risks. The global economy could expand faster than expected, buoying exports and the manufacturing sector.

Downside risks. The Federal Open Market Committee will need to continuously balance the pace of monetary adjustment with the pace of the economy. Should the economy recover too slowly relative to the pace of adjustment, credit markets could be adversely affected and the recovery would lose momentum. Should the economy expand too quickly, inflationary pressure and disruptions in bond markets could cause long-term yields to rise too quickly. If this were to occur, housing and stock markets would be affected, causing the recovery to lose momentum. In addition, adverse geopolitical events in the Middle East or an escalation of recent events in Ukraine could slow economic growth.

Table 13
National Economic Indicators, March 2014 Forecast
(Calendar Years, Dollar Amounts in Billions)

	2009	2010	2011	2012	2013	Forecast 2014	Forecast 2015	Forecast 2016
Inflation-adjusted GDP percent change	$14,417.9 -2.8%	$ 14,779.4 2.5%	$15,052.4 1.8%	$15,470.7 2.8%	$15,759.0 1.9%	$16,263.3 3.2%	$16,832.5 3.5%	$17,320.6 2.9%
Nonagricultural Employment (millions) percent change	131.2 -4.3%	130.3 -0.7%	131.8 1.2%	134.1 1.7%	136.4 1.7%	138.8 1.8%	141.9 2.2%	144.9 2.1%
Unemployment Rate	9.3%	9.6%	8.9%	8.1%	7.4%	6.4%	6.0%	5.7%
Personal Income percent change	$12,082.1 -2.8%	$12,435.2 2.9%	$13,191.3 6.1%	$13,743.8 4.2%	$14,135.2 2.8%	$14,615.8 3.4%	$15,361.2 5.1%	$16,160.0 5.2%
Wage and Salary Income percent change	$6,252.2 -4.3%	$6,377.5 2.0%	$6,638.7 4.1%	$6,926.8 4.3%	$7,138.3 3.1%	$7,381.0 3.4%	$7,735.3 4.8%	$8,114.3 4.9%
Inflation (Consumer Price Index)	-0.3%	1.6%	3.1%	2.1%	1.5%	2.0%	2.4%	2.4%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve Board, and Legislative Council Staff.

COLORADO ECONOMY

The Colorado economy continued to improve through 2013 and growth is expected to accelerate into 2014 and 2015. The labor market added jobs throughout the year, with especially strong growth in the private sector. The unemployment rate is falling while wages and salaries are rising. Personal income grew in the first three quarters of 2013, supporting growth in retail sales, which made gains in all regions of the state and in most industries in 2013. The residential real estate market continues to improve, with price increases and more construction activity. Table 14 on page 64 shows the Colorado economic forecast.

Federal fiscal policies slowed growth in 2013, but those obstacles have been removed for 2014. There are still several risks to the forecast, including the tapering of expansionary monetary policy by the Federal Reserve and slow growth in the European Union, but in general the economic outlook for Colorado is positive. A portion of economic activity has been attributable to extremely loose monetary policy by the Federal Reserve, and they announced that they would begin to taper monetary expansion in January 2014. While the markets have confidence in the ability of the Federal Reserve to maintain employment and inflation, there could be some volatility as policy is implemented. The European Union has been growing slowly and recent developments in Ukraine may slow growth in the European economy further. This could result in slower growth in the U.S. economy, which may flow through to the Colorado economy.

Colorado Labor Market

Colorado employment increased throughout 2013 and is expected to continue to grow through 2014 at rates that outperform the national labor market.

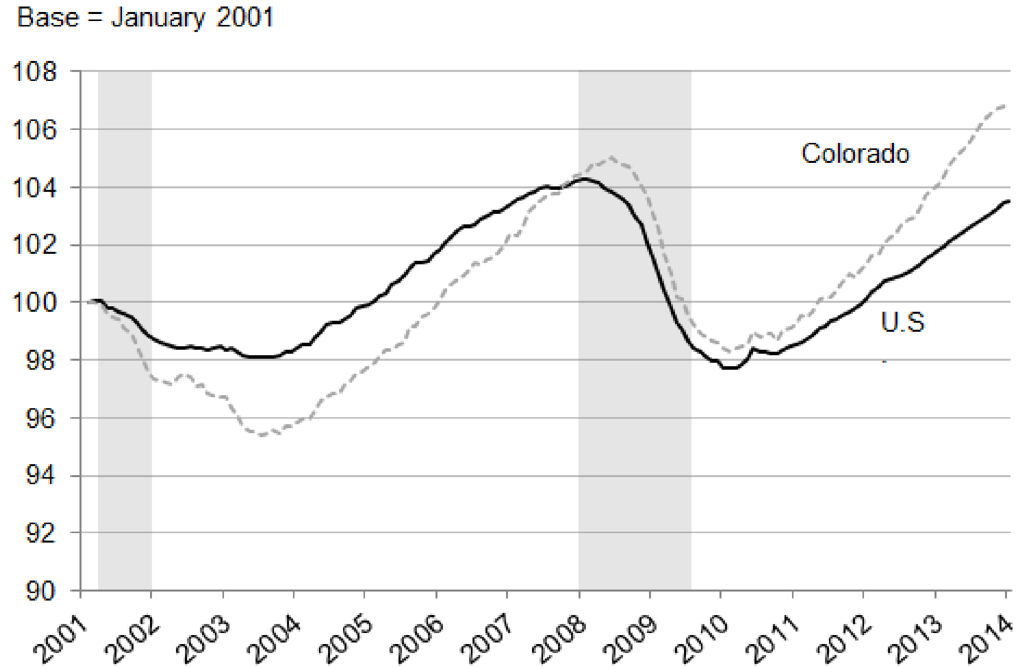
The Bureau of Labor Statistics reported that Colorado added 63,000 jobs between December 2012 and December 2013, an increase of 2.7 percent. These estimates have been rebenchmarked to include information from data from unemployment insurance returns.

Figure 23 shows employment growth in Colorado relative to the nation since 2001. In 2013, seasonally adjusted nonfarm employment increased 1.7 percent nationally. Using rebenchmarked seasonally adjusted data, Colorado employment grew 3.0 percent in 2013. Employment in Colorado has been growing faster than the country as a whole since May 2011.

Figure 24 shows employment growth by sector. Employment growth in 2013 was broad based, growing in 17 of 20 sectors. The accommodation and food services sector added the most jobs, followed by construction, which added 12,000 and 8,300 jobs, respectively. In percentage terms, state government employment grew the fastest at 7.6 percent. The three employment sectors that declined in 2013 were information, federal government, and arts, entertainment and recreation.

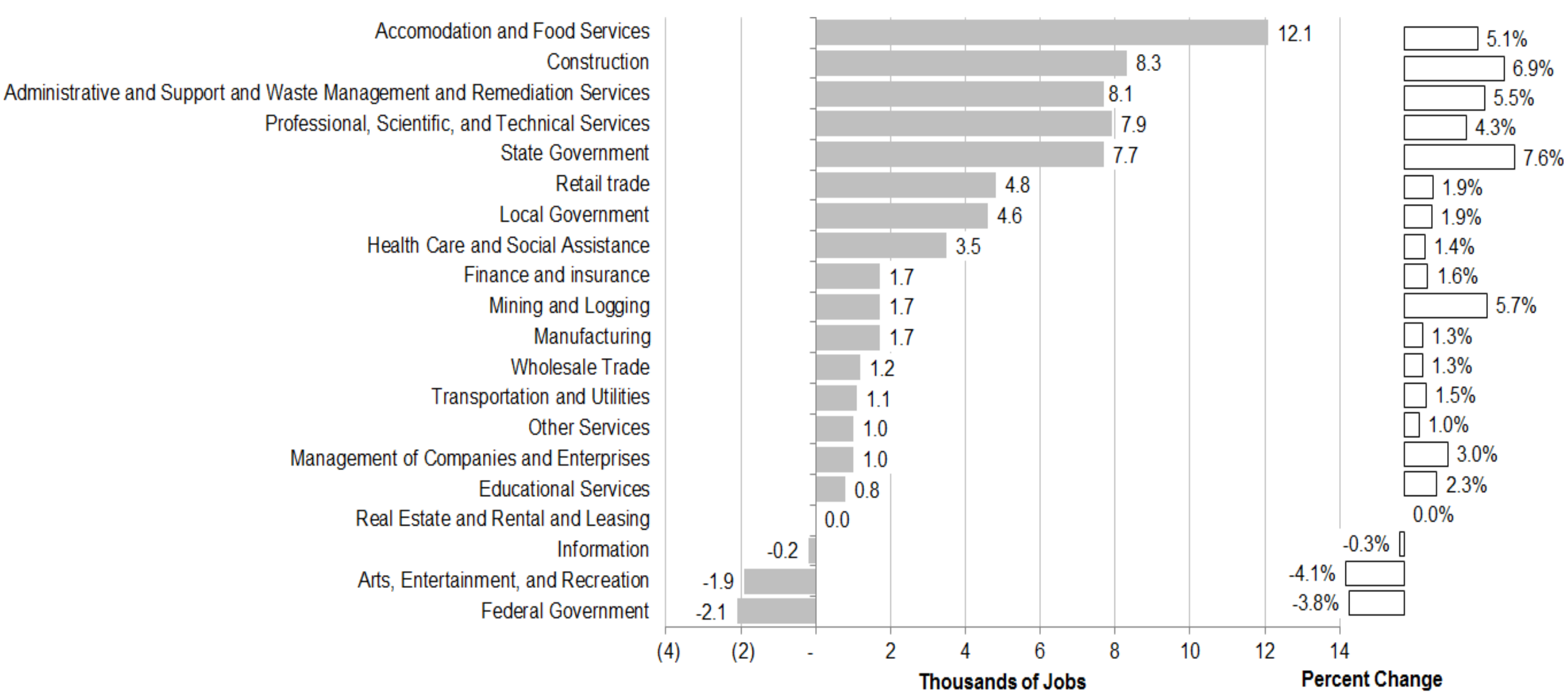
The recession resulted in a structural change in the labor market. Between May 2008 and January 2010, 154,800 jobs were lost in Colorado. Since January 2010, the post-recession employment trough, 193,600 jobs have been added, a gain of 8.8 percent. Figure 25 on page 55 illustrates which sectors have grown the least and the most since the employment trough and their compensation levels relative to the statewide average. In particular, Figure 25 shows how fast each sector has grown relative to total employment since the recovery began and each sector's

Figure 23
Colorado Continues to Outpace National Employment Trends
Seasonally Adjusted Data



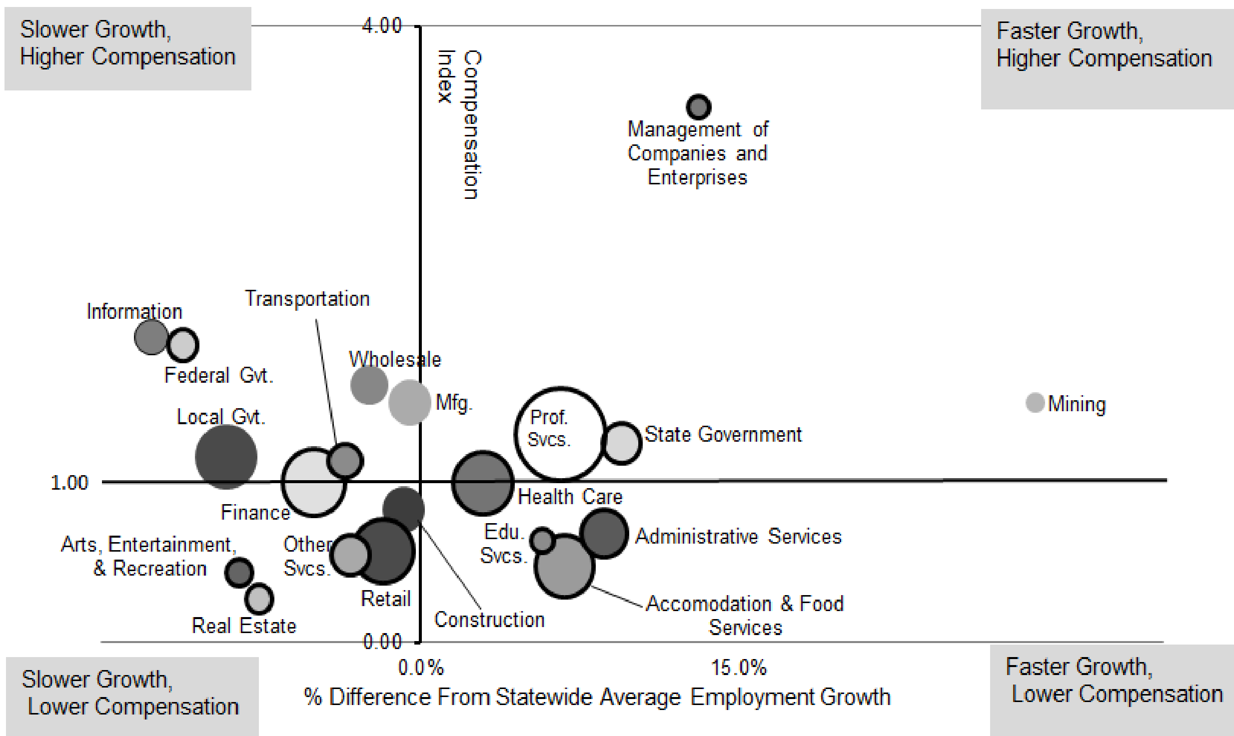
Source: U.S. Bureau of Labor Statistics, incorporates revisions in 2013 expected by Legislative Council Staff. Seasonally adjusted; data through December 2013.

Figure 24
Nonfarm Employment Statistics are Expected to be Revised Upward
Seasonally Adjusted Data



Source: Published data are from the U.S. Bureau of Labor Statistics, Current Employment Statistics. Data through January 2014.

Figure 25
Employment Growth and Average Compensation by Industry



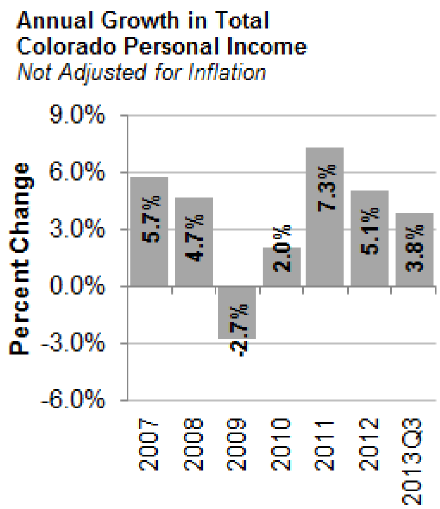
Source: Average 2012 compensation calculated based on Bureau of Economic Analysis data. Employment growth U.S. Bureau of Labor Statistics. Seasonally adjusted; data through January 2014.

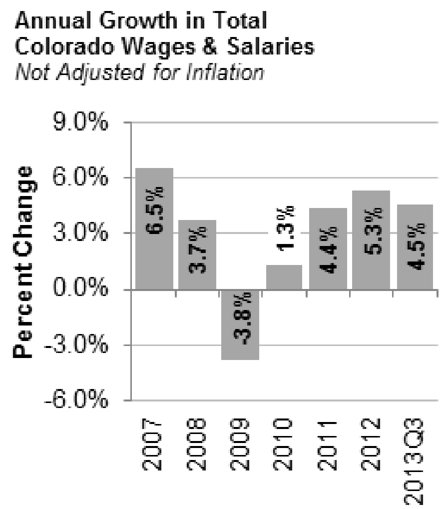
average 2012 compensation relative to average compensation for all jobs in the state. The vertical axis shows each industry's average 2012 compensation indexed to the average compensation for all industries. An industry at 1.00 on the vertical axis had compensation equal to $46,243, the average statewide compensation for all industries in 2012. The horizontal axis shows the employment growth of each industry relative to statewide employment growth since January 2010. An industry at 0 percent on the horizontal axis has grown by exactly the same rate as total statewide employment since January 2010, 8.8 percent. The size of the dot shows the relative number of people employed by each industry.

Industries can be grouped into four broad categories within Figure 25. Industries in the top right have higher total compensation than the state as a whole and their employment has grown faster than average. Industries in the bottom right quadrant have experienced faster job growth than average, but the average compensation in the industry is lower than the statewide average. Employment in industries at the bottom left of the figure have grown slower than average and have lower than average compensation. Industries in the top left have not grown as quickly than total employment, and had higher than average compensation in 2012.

Mining employment had the fastest growth in percentage terms since January 2010, growing 37.7 percent, and the average compensation was $71,945 in 2012. Mining employment has been growing faster than average, but it is still one of the smaller industries in the state, accounting for

Figure 26
Personal Income Growth in Colorado
Seasonally Adjusted Data





Source: U.S. Bureau of Economic analysis, data through third quarter of 2013.

1.0 percent of Colorado's employment. Health care and social assistance employs the largest number of people in Colorado, and it has been growing slightly faster than average employment, but pays slightly less than average. The information industry is one of three employment sectors that had fewer jobs in December 2013 than in January 2010, and compensation in the sector was $91,489 in 2012, nearly twice the statewide average.

- Nonfarm employment in Colorado is expected to grow 2.6 percent in 2014 and 2.8 percent in 2015.

- As the labor market improves, people are expected to return to the labor force, keeping the unemployment rate fairly steady. The unemployment rate will average 6.0 percent in 2014 and 5.4 percent in 2015.

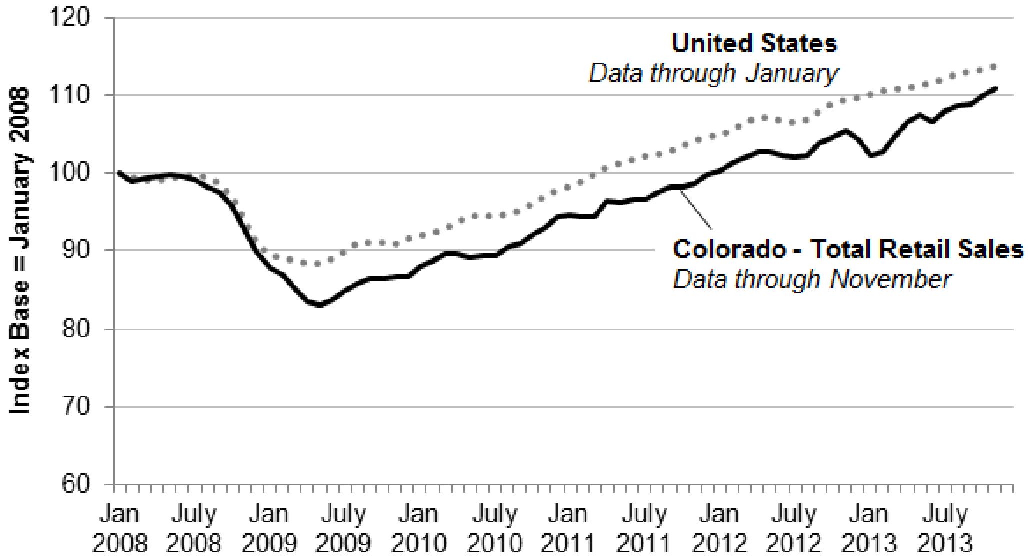
Personal Income

Colorado personal income grew 3.8 percent through the first three quarters of 2013 compared with the same period in 2012. Wages and salaries, the largest component of personal income, grew 4.5 percent. Personal income growth was slowed by the expiration of the payroll tax holiday on January 1, 2013, which contributed to a 17.3 percent increase in the contribution of government social insurance through September 2013. Figure 26 shows the annual growth in Colorado personal income and wages and salaries for each year since 2007.

- Colorado personal income growth is expected to increase 5.6 percent in 2014 and 5.9 percent in 2015, based on a generally improving economy. The change in the payroll tax will have been in place for all of 2013, which will become the baseline when measuring the change in personal income growth in 2014.

- The improving labor market will contribute to an expected 5.7 percent increase in wage and salary income in 2014 and a 5.8 percent increase in 2015.

Figure 27
Colorado and National Retail Trade Growth
Index of Three-Month Moving Average, Seasonally Adjusted



Source: U.S. Census Bureau and Colorado Department of Revenue, data through November 2013.

Retail Sales

After three years of growth above 6.1 percent, seasonally adjusted Colorado retail sales grew 4.5 percent in the first 11 months of 2013 compared with the same period in 2012. The expiration of the payroll tax holiday reduced consumers' disposable income, explaining some of the deceleration in retail sales growth. Figure 27 shows Colorado and national retail sales indexed to show the change in sales since January 2008.

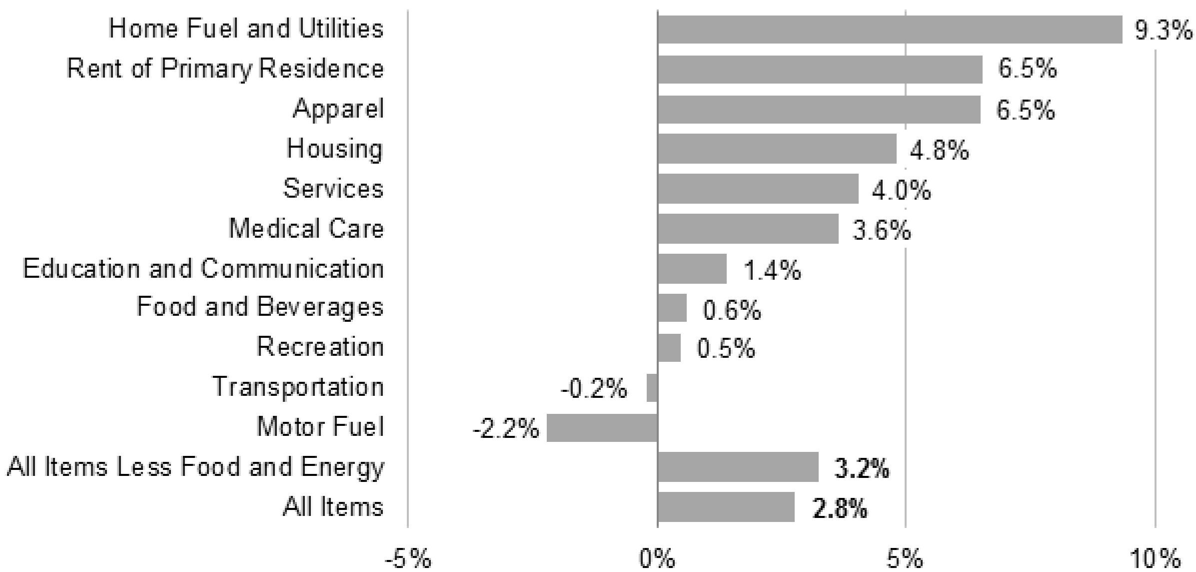
Retail sales grew in most major sectors of the economy during in the first 11 months of 2013, led by growth in building material stores and auto dealerships. The growth in sales of building materials is due to the improvement in the housing market. Retail sales grew in all nine regions of the state. Growth in the northern region and the resort areas of the state grew the fastest, while the Pueblo and San Luis Valley region of the state grew the slowest.

- Retail sales are expected to increase 5.9 percent in 2014 and 6.0 percent in 2015. The growth in retail sales will rebound in 2014 because of a stronger labor market and no change in federal tax policies.

Inflation

Inflation is a measure of the change in the price of a basket of goods consumed by a representative household. In 2013, prices increased 2.8 percent but there were different price increases for different types of goods. Core inflation, or inflation minus the volatile components of food and energy, increased 3.2 percent. The price of motor fuel decreased 2.2 percent, while the price of food and beverages increased only 0.6 percent. Two measures of the price of housing increased faster than prices overall; the rent for a

Figure 28
Components of Inflation for Boulder-Denver-Greeley CPI
2013 over 2012



Sources: Bureau of Labor Statistics. Data through the second half of 2013.

primary residence and the imputed rent for homeowners, both of which suggest demand for housing is outpacing supply. Figure 28 on page 58 shows the change in prices for individual categories of goods in the Boulder-Denver-Greeley area in 2013.

- Inflationary pressures will be moderate as long as the unemployment rate stays elevated. Inflation in Colorado is expected to be 2.8 percent in 2014 and 2.4 percent in 2015.

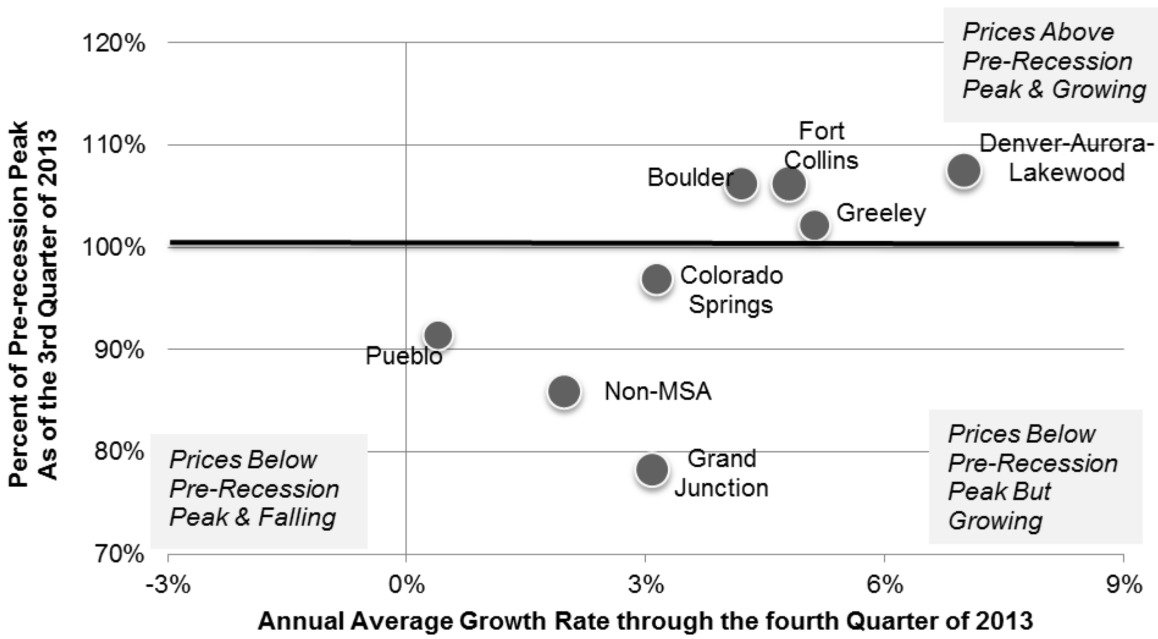
Housing Market

The housing market in Colorado improved in 2013 due to a recovering economy, a low inventory of homes for sale, and low home mortgage interest rates. Figure 29 shows the change in home prices for all seven MSAs in the state, and the rural areas of Colorado. All eight areas of the state had an increase in home prices in 2013 over 2012. Colorado Springs, Grand Junction, Pueblo, and non-urban areas of the state were increasing in value for the year, but had not yet recovered all of the value lost since the peak in home prices.

After increasing from record low levels in June 2013, mortgage interest rates were still extremely low by historical standards in the second half of the year. Figure 30 shows the 30-year fixed rate mortgage interest rate since 1976, highlighting interest rate changes since June 2012.

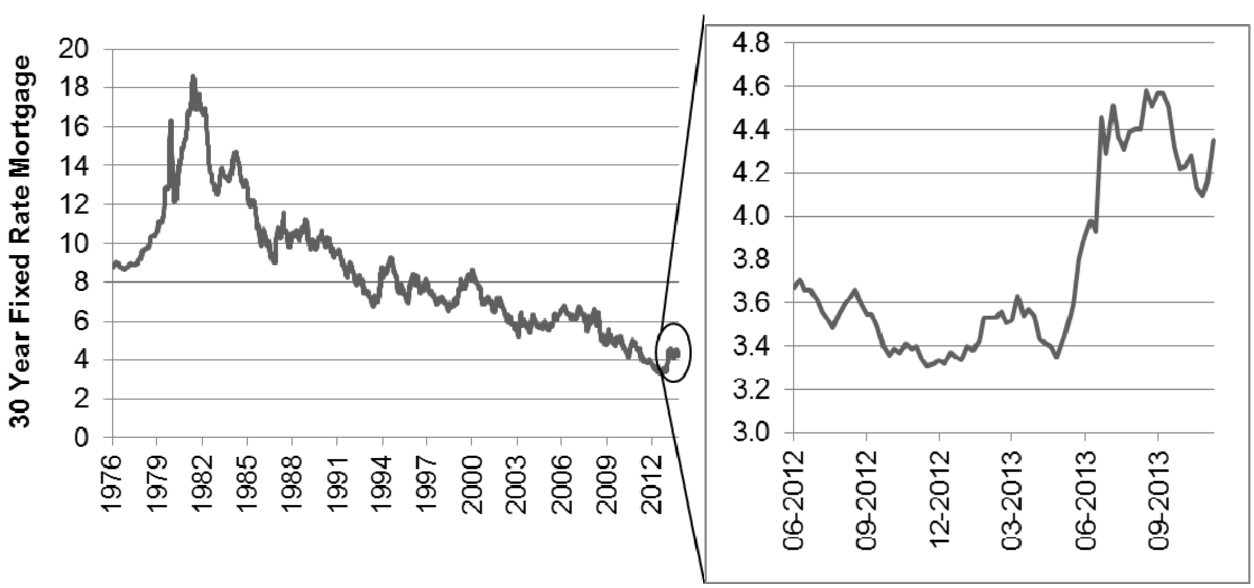
The improvement in the housing market has restored confidence in home builders. Total housing permits in Colorado increased for the fourth year in a row, by 26.8 percent. Most of the increase remained in the multi-family market, as single family permits increased 20.7 percent and multifamily housing permits increased 36.5 percent.

Figure 29
Change in Home Value in 2013 and Percent of Pre-recession Peak Value
Federal Housing Finance Authority Home Price Index—All Transactions



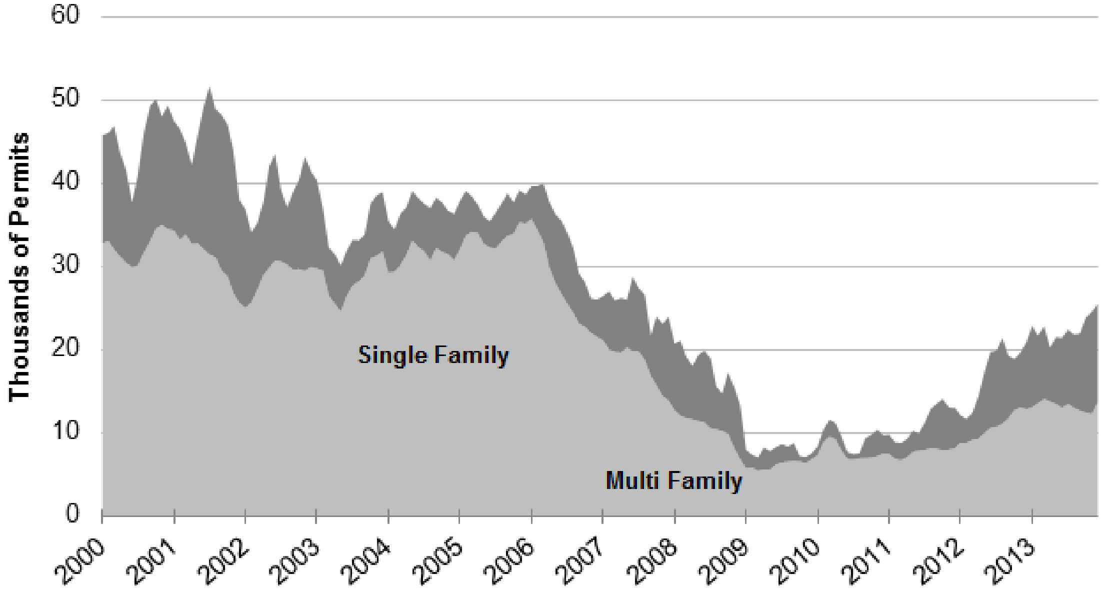
Sources: Federal Housing Finance Authority. Data as of the fourth quarter of 2013.

Figure 30
Average U.S. 30-Year Fixed Rate Mortgage



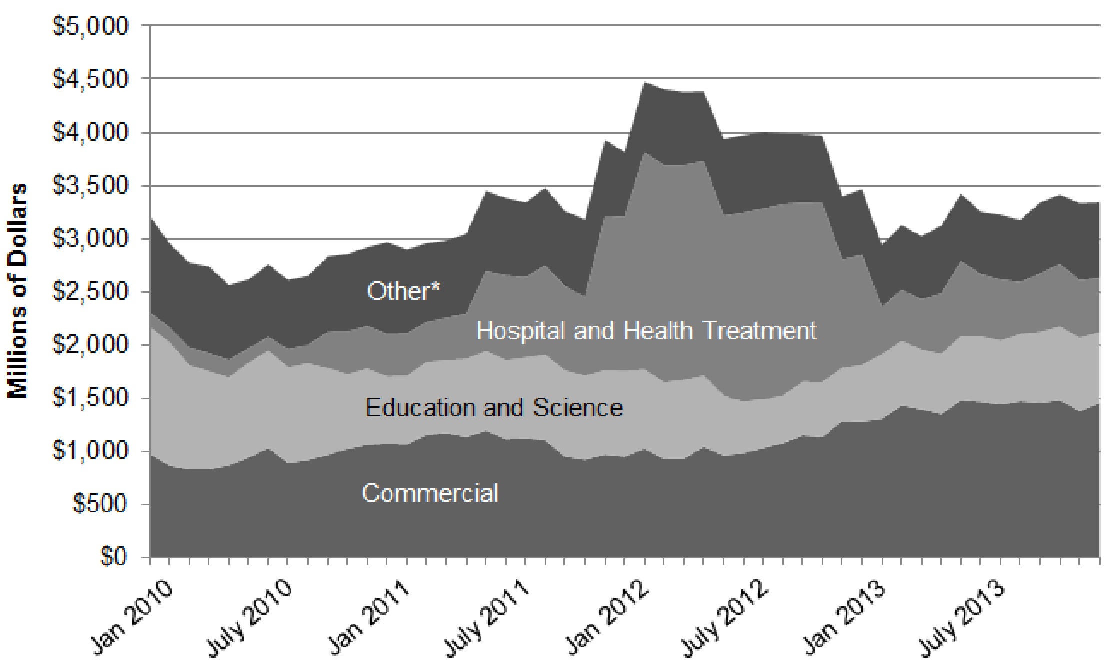
Sources: Freddie Mac, Primary Mortgage Market Survey. Weekly data through February 20, 2014.

Figure 31
Monthly Colorado Residential Construction Permits
Three-Month Moving average, Seasonally Adjusted Data



Sources: U.S. Census Bureau, seasonally adjusted by Legislative Council Staff. Data through December 2013.

Figure 32
The Value of Nonresidential Construction Activity
Annualized Data



Sources: F.W. Dodge. Data through December 2013.

Figure 31 shows single and multifamily residential building permits since 2000.

- After strong growth in the previous four years, residential construction permits are expected to continue to grow, although at more moderate rates of 14.9 percent in 2014 and 14.8 percent in 2015.

Non-residential Construction

The value of nonresidential construction declined 6.9 percent in 2013. The decrease was attributable to the completion of several large hospitals in 2012. Excluding hospitals, the value of nonresidential construction increased 19.3 percent. Figure 32 shows the value of nonresidential construction activity since December 2009 by type of nonresidential construction.

- The value of nonresidential construction activity is expected to remain essentially flat in 2014, declining 0.7 percent, before increasing 5.9 percent in 2015.

Oil and Natural Gas

Oil and natural gas production is an important industry in several regions of the state. The western and southern parts of the state have natural gas basins, while the northern part of the state produces oil. Since November 2009, drilling activity has shifted from the southern and western parts of the state to the oil fields in northern Colorado. There were nine more oil and natural gas rigs operating in Colorado in December 2013 than in December 2012. All of these wells were added in Weld County. Figure 33 shows the number of oil and natural gas wells in the state and how the number of rigs has shifted within the state.

The number of oil and natural gas rigs peaked at 123 in 2008. Since then, low natural gas prices and the use of horizontal drilling has reduced the number of new wells. The fall in natural gas prices has reduced drilling activity for natural gas, and horizontal drilling has reduced the number of wells needed. Horizontal drilling allows a single well to access more oil or natural gas than conventional drilling techniques. Because horizontal drilling is more productive than conventional wells, fewer wells does not equate to a proportionate change in production.

The recent tension between Russia and Ukraine may have an impact on the oil and natural gas industry in Colorado. The European Union imports nearly one half of its natural gas from Russia. If tensions rise and the European natural gas supply is disrupted, this could cause an increase in demand for U.S. natural gas and increase in prices for U.S. natural gas. An increase in natural gas prices would increase the royalties paid to Colorado residents and provide a boost to Colorado employment associated with energy development.

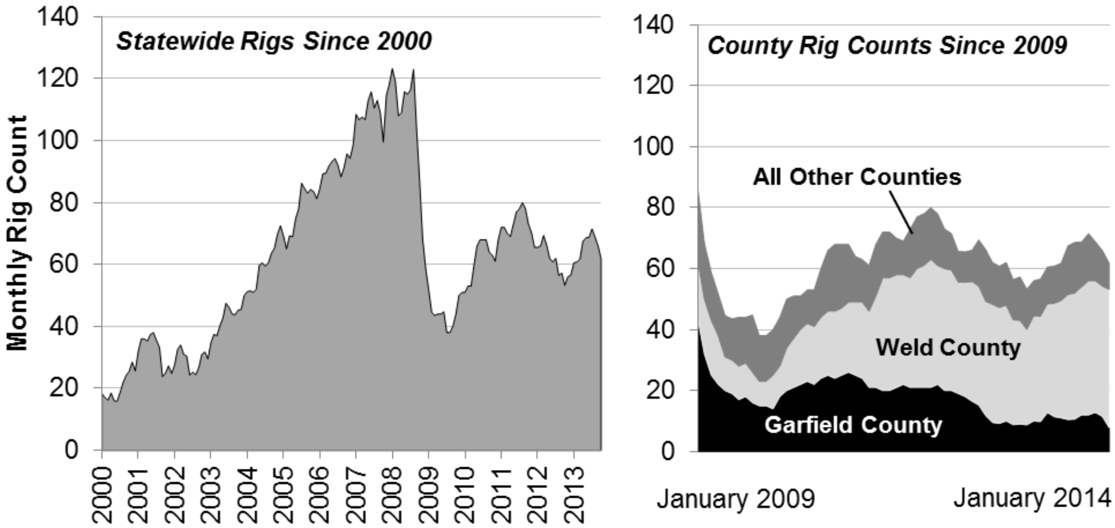
Agricultural Production

Challenging weather conditions have made agricultural production in Colorado volatile over the past few years. Drought conditions have hurt crop production and diminished livestock herds and the September floods in northern and eastern Colorado may have further constrained corn, sugar beets, onion, and hay production in the region.

According to the United States Department of Agriculture, the 2013 Colorado corn crop was 130 million bushels, 3 percent below 2012 corn production. Wheat production in Colorado was 45.0 million bushels, a decrease of 40 percent in 2013 compared with 2012. Colorado potato growers produced 20.3 million hundredweight of potatoes, a 9 percent decline from 2012. The USDA estimates that the value of field crops produced in Colorado was $2.1 billion in 2013, a decline of 24.6 percent from 2012.

Livestock and dairy production are also major components of the Colorado agricultural sector. Cattle on feed averaged 942,500 head

Figure 33
Drilling Rigs Operation in Colorado



Sources: Baker Hughes. Data through January 2014.

in 2013, a decline of 8.7 percent compared with 2012. Drought conditions put pressure on the size of cattle herds in the state, forcing ranchers to reduce the size of their herds. In the second half of 2013, ranchers began to rebuild the size of their herds, but this process will likely take several years. Dairy farms increased milk production 3.4 percent in 2013.

Colorado Exports

Colorado exports to other countries increased 6.4 percent in 2013 compared with 2012. Canada was the state's largest export partner, accounting for 23.7 percent of the state's exports. Exports to all of the state's major trading partners increased in 2013, but China grew the fastest at 14.3 percent. Figure 34 shows the share of 2013 exports with Colorado's five largest trading partners and 2013 growth for each of those countries.

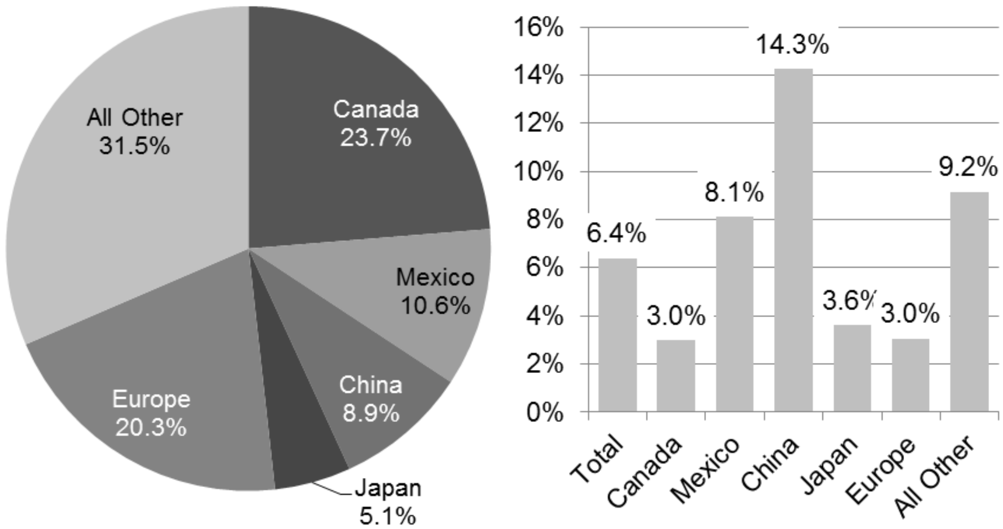
Colorado exports a large amount of scientific and precision instruments to other countries. In 2013, five of the six most valuable categories of goods were optic, medical or surgical instruments, industrial machinery, electronic machinery, and photographic or cinematographic goods, and aircraft or spacecraft. The value of aircraft and spacecraft increased 61.4 percent in 2013, the largest increase of any of the exported goods. Meat is the fourth most valuable international export from Colorado, which grew 2.2 percent in 2013.

Summary

Colorado's economy continued to grow through 2013 as the economy was able to withstand federal tax increases in the beginning of the year and tighter fiscal policy. As these constraints are removed in 2014, the economy will continue to expand throughout the forecast period.

The labor market continued to add jobs in 2013 and the unemployment rate declined.

Figure 34
Colorado Export Markets and Colorado Export Growth, 2013



Sources: U.S. Department of Commerce, International Trade Administration.

These trends will continue into 2014 and 2015. This will help to boost wage and salary income in Colorado, which is a major component of Colorado personal income. Growth in disposable income will help retail sales accelerate and continued strength in the housing market will boost furniture and hardware store sales. Construction activity is expected to continue to grow, but at a slower pace than in 2013.

While many of the obstacles that were present in 2013 have been removed from the economic outlook, there remain areas of concern. The Federal Reserve began tapering expansionary monetary policy in January 2014, which could cause some volatility in the stock markets. In addition, housing prices increased rapidly in 2013 and it is not clear that this rate of price appreciation can continue with higher home mortgage interest rates.

Table 14
Colorado Economic Indicators, March 2014 Forecast
(Calendar Years)

	2009	2010	2011	2012	2013	Forecast 2014	Forecast 2015	Forecast 2016
Population (thousands, July 1)	4,976.9	5,048.2	5,118.4	5,189.5	5,272.5	5,362.4	5,454.8	5,551.2
percent change	1.5%	1.4%	1.4%	1.4%	1.6%	1.7%	1.7%	1.8%
Nonagricultural Employment (thousands)	2,245.3	2,222.3	2,258.6	2,312.8	2,381.2	2,443.1	2,511.6	2,579.4
percent change	-4.5%	-1.0%	1.6%	2.4%	3.0%	2.6%	2.8%	2.7%
Unemployment Rate	8.1	9.0	8.5	7.8	6.8	6.0	5.4	5.1
Personal Income* (millions)	$206,423	$210,608	$226,032	$237,461	$245,535	$259,285	$274,583	$290,509
percent change	-2.7%	2.0%	7.3%	5.1%	3.4%	5.6%	5.9%	5.8%
Wage and Salary Income* (millions)	$112,294	$113,783	$118,740	$125,055	$130,057	$137,470	$145,443	$153,733
percent change	-3.8%	1.3%	4.4%	5.3%	4.0%	5.7%	5.8%	5.7%
Retail Trade Sales* (millions)	$66,345	$70,738	$75,548	$80,073	$83,836	$88,783	$94,109	$99,003
percent change	-11.3%	6.6%	6.8%	6.0%	4.7%	5.9%	6.0%	5.2%
Home Permits (thousands)	9.4	11.6	13.5	23.3	27.3	31.4	36.0	36.3
percent change	-50.8%	23.9%	16.5%	72.6%	17.1%	14.9%	14.8%	0.8%
Nonresidential Building (millions)	$3,354	$3,147	$3,923	$3,675	$3,484	$3,460	$3,664	$3,887
percent change	-18.5%	-6.2%	24.7%	-6.3%	-5.2%	-0.7%	5.9%	6.1%
Denver-Boulder Inflation Rate	-0.6%	1.9%	3.7%	1.9%	2.8%	2.8%	2.4%	2.4%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, F.W. Dodge, Colorado State Demography Office, and Legislative Council Staff.

**2013 figures for personal income, wage and salary income, and retail trade sales are forecasts because actual data are not yet available for the full year.*

Colorado Economic Regions

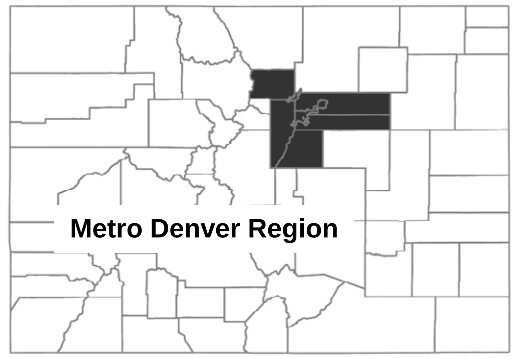
Metro Denver Region
Northern Region
Colorado Springs Region
Pueblo — Southern Mountains Region
San Luis Valley Region
Southwest Mountain Region
Western Region
Mountain Region
Eastern Region

Data revisions. Economic indicators reported in this forecast document are often revised by the publisher of the data and are therefore subject to change. Employment data is based on survey data from a "sample" of individuals representative of the population as a whole. Monthly employment data is based on the surveys received at the time of data publication and this data is revised over time as more surveys are collected to more accurately reflect actual employment conditions. Because of these revisions, the most recent months of employment data may reflect trends that are ultimately revised away. Additionally, employment data undergoes an annual revision, which is published in March of each year. This annual revision may effect one or more years of data values.

Like the employment data, residential housing permits and agriculture data are also based on surveys. This data is revised periodically. Retail trade sales data typically has few revisions because the data reflects actual sales by Colorado retailers. Nonresidential construction data in the current year reflects reported construction activity, which is revised the following year to reflect actual construction activity.

Metro Denver Region

The Denver metropolitan area experienced broad economic growth in 2013, but progress in some areas slowed over the final quarter of the year. Last year brought Denver its fastest growth since the beginning in the recession in two key areas: employment and the number of nonresidential construction projects. Housing permits and retail trade also continued to grow, though at slower rates than in 2012. Table 15 shows economic indicators for the region.



Labor market. Metro Denver added approximately 25,000 jobs in 2013. Most of the new openings were filled between January and August, with job growth slowing at the end of the year. Figure 35 on page 68 shows seasonally adjusted nonfarm employment in the metro Denver area since January 2006. Unemployment in the Denver region fell to 5.7 percent in December 2013, down from 7.3 percent in December 2012. Between January and August, the decline in unemployment was mostly attributable to job growth, as the labor force grew by 29,000 while the unemployed population fell by 6,200. Between August and December, the decline in the unemployment rate was likely due to withdrawal from the labor force. Though the unemployed population fell by 12,900 during these months, the labor force declined by about 31,000 over the same span. The unemployment rate and the size of the labor force are shown in Figure 36 on page 68.

Table 15
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson Counties

	2009	2010	2011	2012	2013
Employment Growth /1	-4.3%	-0.5%	1.8%	2.7%	2.7%
Unemployment Rate /2	8.2%	8.8%	8.4%	7.7%	6.5%
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-31.8%	35.5%	-0.4%	58.3%	18.9%
Single-Family (Boulder)	-27.6%	101.0%	-5.2%	24.6%	22.5%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-20.4%	8.4%	36.5%	-9.2%	-10.5%
Square Footage of Projects	-47.3%	-1.5%	24.7%	12.3%	23.0%
Level (1,000s)	8,283	8,156	10,174	11,426	14,058
Number of Projects	-17.4%	-35.8%	-2.5%	5.6%	19.2%
Level	920	591	576	608	725
Retail Trade Sales Growth /5	-11.4%	6.9%	4.3%	8.0%	4.8%

MSA = Metropolitan statistical area.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey for Denver-Aurora-Broomfield and Boulder MSAs. Seasonally adjusted. Data through December 2013.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

3/ U.S. Census. Growth in the number of housing units authorized for construction. Data through December 2013.

4/ F.W. Dodge. Data through December 2013.

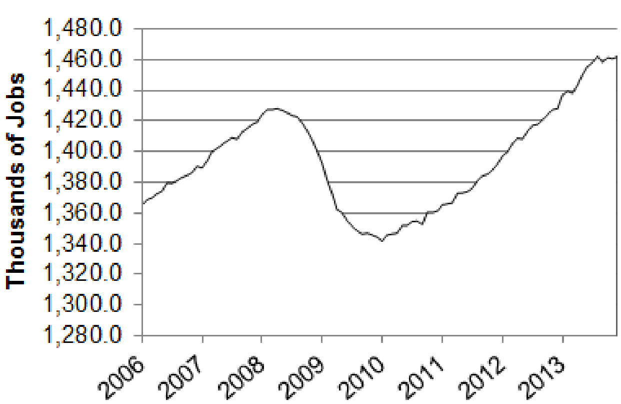
5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

Nonresidential construction market. Metro Denver's nonresidential construction, as measured by both number of projects and square footage, grew in 2013. The value of total nonresidential construction projects, however, fell 10.5 percent compared with 2012. Denver and its suburbs continue to host many of the state's most valuable construction projects, including the Charles Schwab Colorado Campus in Lone Tree and the new Exempla St. Joseph hospital in central Denver. Figure 37 shows the square footage of nonresidential building permits from 2008 through January 2014.

Housing market. Construction of new homes in the Denver region continued to increase rapidly in 2013, as the number of housing permits issued grew 18.9 percent in Denver-Aurora and 22.5 percent in Boulder relative to 2012. Higher home prices and low inventory combined to make the Denver area housing market favorable to sellers at a time when many metropolitan housing markets continue to favor buyers. Demand for housing continues to outpace supply, and prices are expected to continue to rise in 2014, although at slower rates. Figure 38 shows the number of residential housing permits issued in the Denver region since 2008.

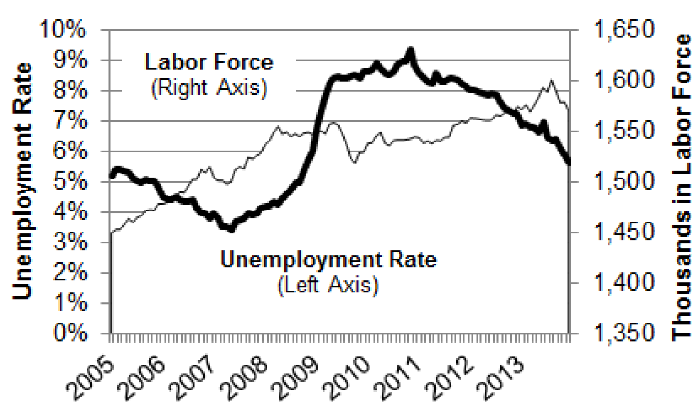
Consumer spending. Retail trade in the metro Denver region grew 4.8 percent through November 2013, down from 8.0 percent growth over the same eleven months in 2012. As Denver's retail trade level continues to increase above its pre-recession peak, retail trade growth rates are expected to come down slightly because they now measure percentage growth from a higher base. The lower growth rate is attributable to slower growth than in 2012 in many of the larger retail sectors, including motor vehicles, furniture and furnishings, and food and beverage stores. Slower growth in retail trade can also be explained in part by slower growth in the prices of some retail products, including food and beverages, and by an increase in the payroll tax rate from 4.2 percent to 6.2 percent in January 2013. Figure 39 shows retail sales in the Denver region, Colorado, and the nation indexed to January 2008.

Figure 35
Metro Denver Employment
Seasonally Adjusted



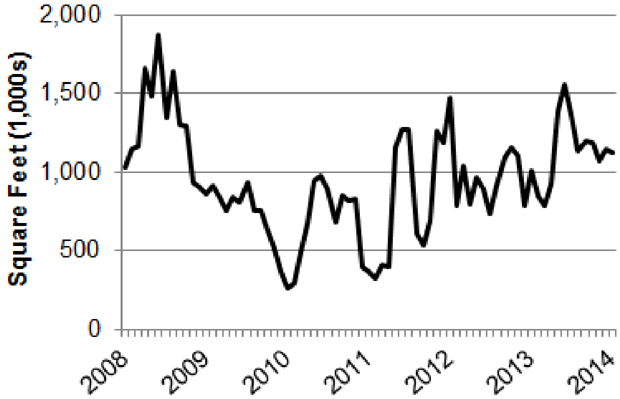
Source: U.S. Bureau of Labor Statistics; CES.
Data through December 2013.

Figure 36
Metro Denver Labor Force and Unemployment Rate
Seasonally Adjusted



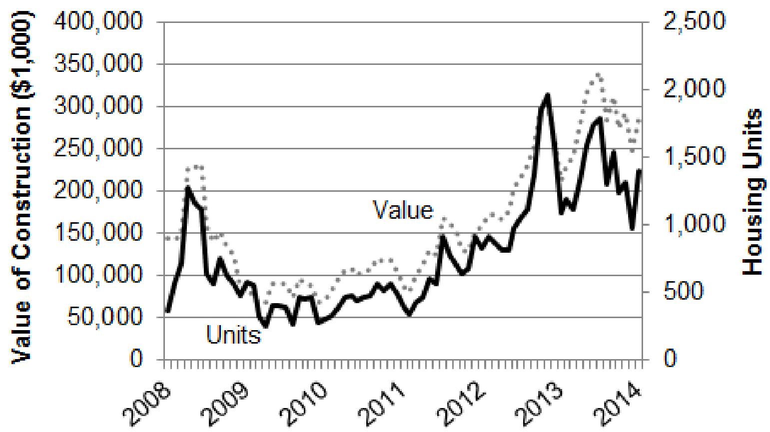
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2013.

Figure 37
Metro Denver Nonresidential Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



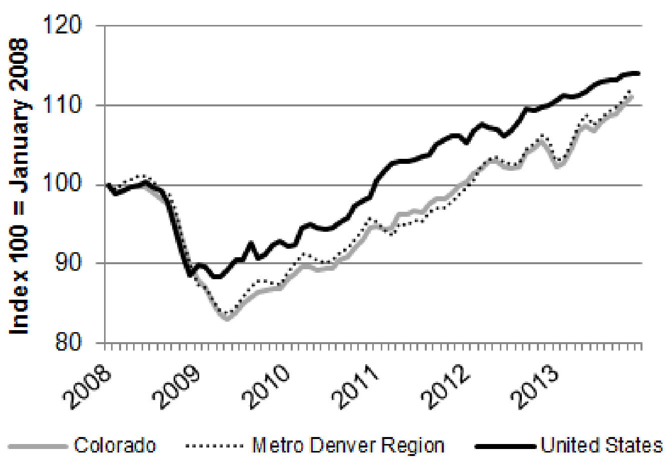
Source: F.W. Dodge. Data through January 2014.

Figure 38
Metro Denver Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted Data



Source: U.S. Census Bureau. Data through January 2014.

Figure 39
Metro Denver MSA Retail Sales Indexed to January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through November 2013; U.S. data through December 2013.

Northern Region

The northern region's economy, which encompasses Weld and Larimer counties, continues to be one of the strongest in the state. The unemployment rate for the Fort Collins-Loveland area is lowest in the state, consumer spending continues to outpace the rest of the state, housing permits continue to grow at a rapid rate, and nonresidential construction has maintained strength through the end of 2013. Oil and gas exploration, as measured by the number of rigs operating in the region, continues to thrive. Table 16 shows economic indicators for the region.

Table 16
Northern Region Economic Indicators
Weld and Larimer Counties

	2009	2010	2011	2012	2013
Employment Growth /1					
Fort Collins-Loveland MSA	-3.2%	0.4%	1.9%	2.6%	1.9%
Greeley MSA	-4.9%	-0.6%	4.0%	3.6%	2.1%
Unemployment Rate /2					
Fort Collins-Loveland MSA	7.0%	7.5%	6.9%	6.4%	5.5%
Greeley MSA	9.1%	10.2%	9.5%	8.7%	7.4%
State Cattle and Calf Inventory Growth /3	4.1%	-1.2%	10.2%	-3.4%	-8.7%
Housing Permit Growth /4					
Fort Collins-Loveland MSA Total	-66.0%	154.5%	1.0%	61.8%	31.3%
Fort Collins-Loveland MSA Single-Family	-49.2%	32.1%	45.7%	65.8%	28.8%
Greeley MSA Total	-20.6%	10.4%	-3.1%	55.3%	37.7%
Greeley MSA Single-Family	-13.7%	2.7%	-2.6%	60.8%	45.6%
Growth in Value of Nonresidential Construction/ 5					
Value of Projects	10.0%	-48.8%	-11.8%	12.0%	51.5%
Square Footage of Projects	-40.5%	-11.6%	-36.4%	42.1%	35.5%
Level (1,000s)	2,039	1,802	1,145	1,627	2,204
Number of Projects	-34.8%	-15.5%	-5.1%	23.3%	-8.8%
Level	161	136	129	159	145
Retail Trade Sales Growth /6					
Larimer County	-8.9%	7.7%	7.9%	5.8%	6.3%
Weld County	-15.1%	9.8%	26.3%	5.6%	8.1%

MSA = Metropolitan statistical area.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2013.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

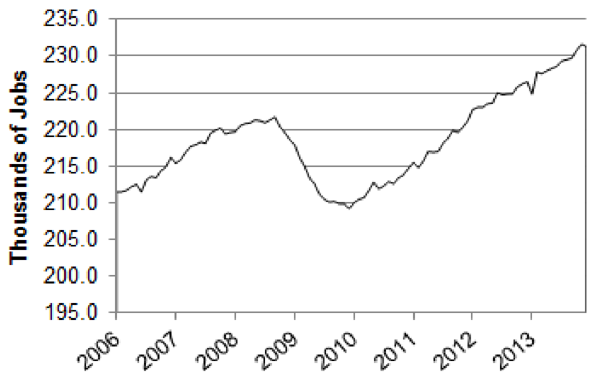
3/ National Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares year-to-date August 1, 2013 over prior year period in 2012.

4/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2013.

5/ F.W. Dodge. Data through December 2013. Prior forecasts reported Weld and Larimer Counties separately.

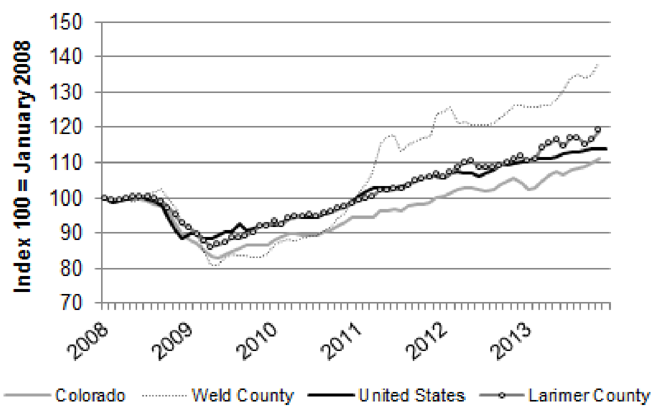
6/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

Figure 40
Fort Collins-Loveland and Greeley MSA Nonfarm Employment
Seasonally Adjusted



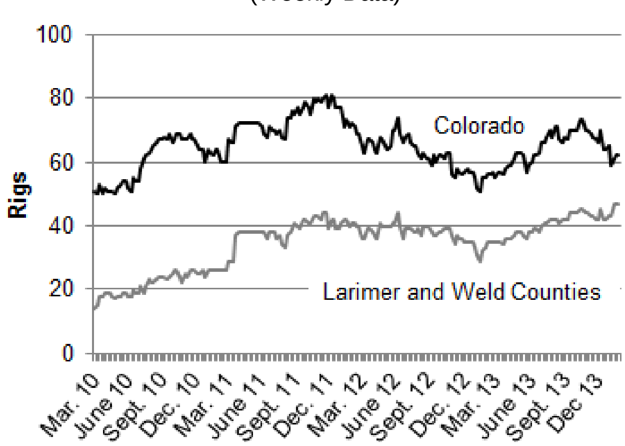
Source: U.S. Bureau of Labor Statistics; CES.
Data through December 2013.

Figure 41
Trends in Retail Trade Sales Since January 2008
Index of Three-Month Moving Average; Seasonally Adjusted



Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through November 2013; U.S. data through December 2013.

Figure 42
Colorado and Northern Region Operating Rig Count, March 2010 to January 2014
(Weekly Data)



Growth in the region's labor market remains steady. Nonfarm employment grew 1.9 percent in the Fort Collins-Loveland area and 2.1 percent in Greeley on a year-over-year basis in 2013. The region has added nearly 5,000 jobs in 2013. On an average annual basis, the 2013 unemployment rate for the Fort Collins-Loveland area was 5.5 percent, the lowest of all the MSAs in the state, while the Greeley area's unemployment rate was slightly higher at 7.4 percent. Figure 40 shows total employment for both major metro areas in the region between January 2006 and December 2013.

The northern region's real estate market continues to be vibrant. New residential construction permits for all properties were up 31.3 percent in the Fort Collins-Loveland area and 37.7 percent in the Greeley area on a year-over-year basis in 2013. While prices are projected to continue to rise in 2014, especially in the Fort Collins area, growth may not be as rapid as in 2013, as increasing interest rates may dampen the market.

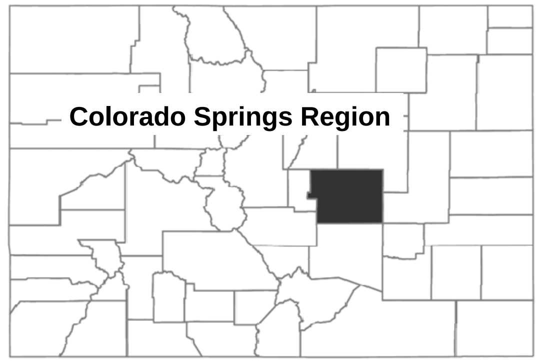
The value of nonresidential projects in the northern region grew 51.5 percent in 2013. This, along with housing growth, has also helped maintain steady growth in construction jobs for the region's labor market. In Larimer County, most of the development through the fall of 2013 occurred in the commercial sector, while in Weld County, the majority of projects were for commercial and education facilities.

Retail sales continue to be strong in both Larimer and Weld County. As Figure 41 shows, consumer spending in both counties has outperformed the state.

Oil and gas development in the northern region continued to thrive. Throughout 2013, rig counts across the region steadily increased, even as the overall number operating in Colorado declined. This increase was the result of relatively high oil prices and the continued success of plays in the Wattenberg field within the Denver-Julesburg Basin. In January 2014, there were 47 rigs operating in the region, accounting for 76 percent of the 62 total rigs in the state. Figure 42 shows the northern region's operating oil and gas rig count, compared to the statewide count.

Colorado Springs Region

The pace of economic recovery in Colorado Springs has been slower than in other urban areas along the Front Range. In 2013, Colorado Springs saw modest employment growth relative to 2012. Growth rates for retail trade sales and housing permits experienced losses in momentum relative to growth in 2012. The region's most promising indicator was nonresidential construction, as 2013 brought increases in both the value and square footage of nonresidential construction projects. Table 17 shows economic indicators for the region.



Nonfarm employment in Colorado Springs grew just 1.3 percent in 2013, up from 0.7 percent the previous year. Last year's growth in employment, while modest, was the fastest rate the region has experienced since 2006. The region's unemployment rate declined steadily throughout the year, falling from 8.4 percent in January to 7.3 percent in December. This decrease is attributable both to new jobs and to a lower workforce participation rate. Figure 43 shows the unemployment rate and the labor force since 2005.

Growth in housing permits occurred at a slower pace than in any of the previous three years since the recession, but still came in at a robust 17.2 percent in 2013. While residential construction in 2013 grew at a lower percentage than in 2012, that growth occurred from a higher base. Figure 44 shows residential building permits in the Colorado Springs region.

Table 17
Colorado Springs Region Economic Indicators
El Paso County

	2009	2010	2011	2012	2013
Employment Growth /1					
Colorado Springs MSA	-3.9%	-0.9%	1.3%	0.7%	1.3%
Unemployment Rate /2	8.8%	9.8%	9.5%	9.3%	8.1%
Housing Permit Growth /3					
Total	-33.4%	27.9%	29.1%	41.6%	17.2%
Single-Family	-16.7%	23.2%	-3.8%	50.2%	19.2%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-5.0%	-12.7%	16.8%	0.5%	6.3%
Square Footage of Projects	-25.9%	-35.2%	17.5%	-1.6%	25.7%
Level (1,000s)	2,262	1,467	1,723	1,696	2,119
Number of Projects	-8.3%	24.6%	10.5%	-11.7%	-3.3%
Level	297	370	409	361	349
Retail Trade Sales Growth /5	-6.1%	7.8%	8.3%	5.5%	4.7%

MSA = Metropolitan statistical area.

1/ U.S. Bureau of Labor Statistics. Seasonally adjusted. Data through December 2013.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2013.

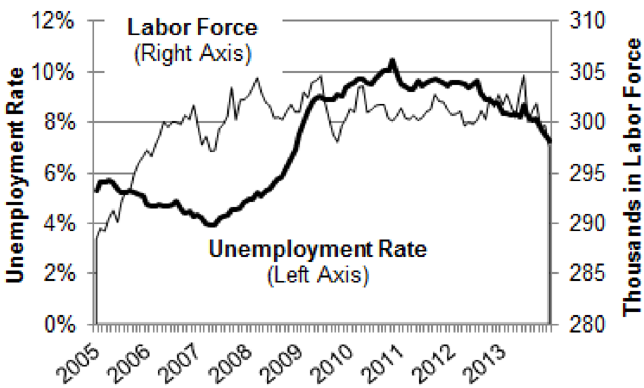
4/ F.W. Dodge. Data through December 2013.

5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

Nonresidential construction in Colorado Springs rebounded in 2013 after a disappointing year in 2012. While the number of nonresidential construction projects fell 3.3 percent in 2013, the value of projects increased and square footage shot up 25.7 percent on a year-over-year basis. Several of the larger Colorado Springs projects remain active construction sites in 2014, including renovation of the Kinder Morgan corporate campus, renovation and build out of St. Francis Medical Center, and construction of a new facility for the Rocky Mountain Classical Academy, which, when complete, will be the largest charter school facility in the state.

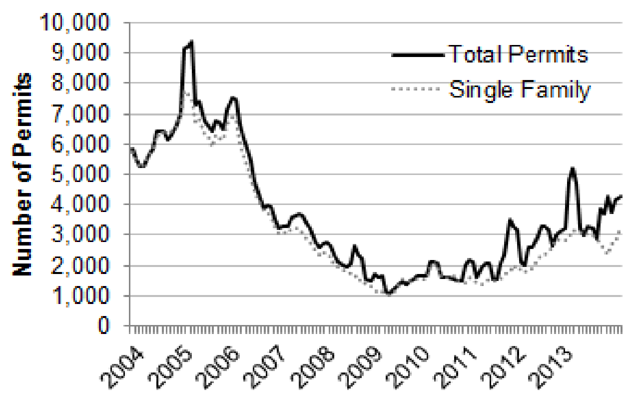
After growing 5.5 percent in 2012, seasonally adjusted retail sales grew 4.7 percent in 2013 year-to-date through November. Figure 45 indexes seasonally adjusted retail sales for Colorado Springs, the state, and the nation. The region's growth above its pre-recession retail trade level continues to outpace recovery in the rest of the state.

Figure 43
Colorado Springs MSA
Unemployment Rate and Labor Force
Seasonally Adjusted Data



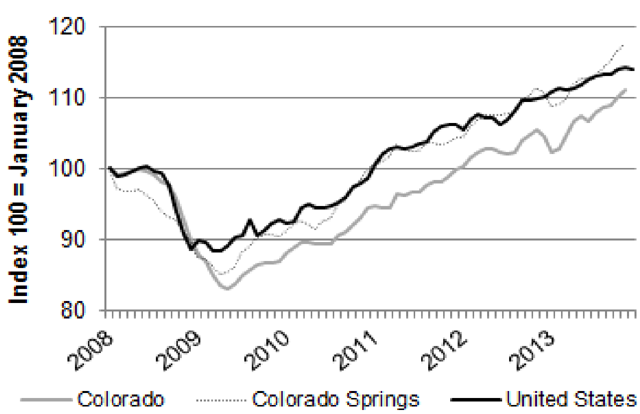
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2013.

Figure 44
Colorado Springs MSA
Residential Building Permits
Seasonally Adjusted Data



Source: U.S. Census Bureau. Data through December 2013.

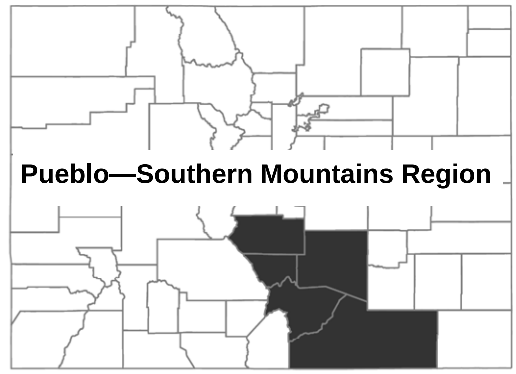
Figure 45
Colorado Springs MSA Retail Sales Indexed to January 2008
Three-Month Moving Average;
Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through November 2013; U.S. data through December 2013.

Pueblo — Southern Mountains Region

In contrast to much of the rest of the state, the Pueblo region is showing few signs of economic recovery. While employment indicators have shown slight improvements, the region's unemployment rate remains the highest in the state. Construction activity is declining and retail sales are basically flat. Table 18 shows economic indicators for the region.



Seasonally adjusted nonfarm employment in the region grew 0.5 percent in 2013, reflecting very slight improvement over the previous year. New jobs were concentrated in Pueblo County, where employment grew 1.3 percent. Unemployment in the region fell by a full percentage point to 9.5 percent, but this decline reflects Pueblo's shrinking labor force as well as new jobs. Approximately 2,750 workers left the region's labor force in 2013. The Pueblo region's seasonally adjusted unemployment rate and labor force are shown in Figure 46.

After beginning to rebound in 2010 and 2011, growth in consumer spending has stalled. Seasonally adjusted nominal retail sales grew just 1.5 percent year-to-date in 2013 through November. As growth in nominal retail trade remains below Colorado's 2.8 percent annual inflation rate, real retail trade sales have actually fallen. Figure 47 indexes retail trade sales for the Pueblo region, the state, and the nation to their January 2008 level.

Table 18
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties

	2009	2010	2011	2012	2013
Employment Growth					
Pueblo Region /1	-2.0%	-1.3%	0.1%	-0.9%	0.5%
Pueblo MSA /2	-2.3%	0.1%	1.6%	-0.1%	1.3%
Unemployment Rate /1	9.1%	10.4%	10.4%	10.5%	9.5%
Housing Permit Growth /3					
Pueblo MSA Total	-9.4%	-37.9%	-49.6%	116.7%	-8.1%
Pueblo MSA Single-Family	-51.5%	13.6%	-45.5%	48.2%	-40.6%
Growth in Value of Nonresidential Construction /4					
Value of Projects	-67.6%	-71.5%	3.9%	386.2%	-71.3%
Square Footage of Projects	-76.5%	-62.2%	-58.1%	717.4%	-75.3%
Level (1,000s)	330	125	52	428	106
Number of Projects	-50.0%	-20.4%	5.1%	-34.1%	11.1%
Level	49	39	41	27	30
Retail Trade Sales Growth /5	-4.7%	6.8%	9.5%	3.0%	1.5%

MSA = Metropolitan statistical area.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2013.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2013.

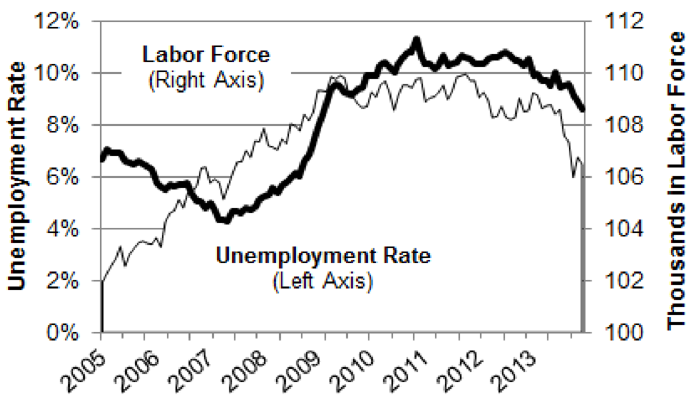
4/ F.W. Dodge. Data through December 2013. Prior Forecast Documents only had nonresidential construction data for Pueblo County.

5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

After doubling in 2012, the total number of housing permits issued in the Pueblo region fell 8.1 percent in 2013. The single family housing market was especially volatile, declining 40.6 percent after experiencing nearly 50 percent growth the previous year. The drop-off in residential construction has returned Pueblo's housing construction to 2011 levels. Pueblo's seasonally adjusted single family and overall residential building permits are shown in Figure 48.

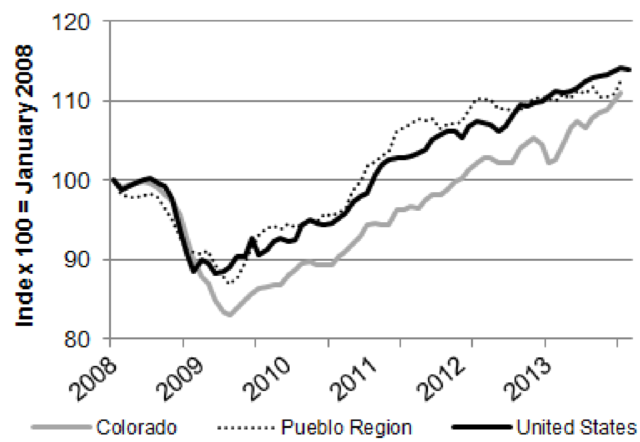
Nonresidential construction output declined considerably after strong performance in 2012. While the Pueblo region began three more nonresidential construction projects in 2013 than in 2012, the value and square footage of these projects declined by more than 70 percent each. Pueblo accounted for just 2.1 percent of total nonresidential construction projects in the state in 2013, down from its prerecession share of 4.8 percent in 2008.

Figure 46
Pueblo Region Unemployment Rate and Labor Force
Seasonally Adjusted



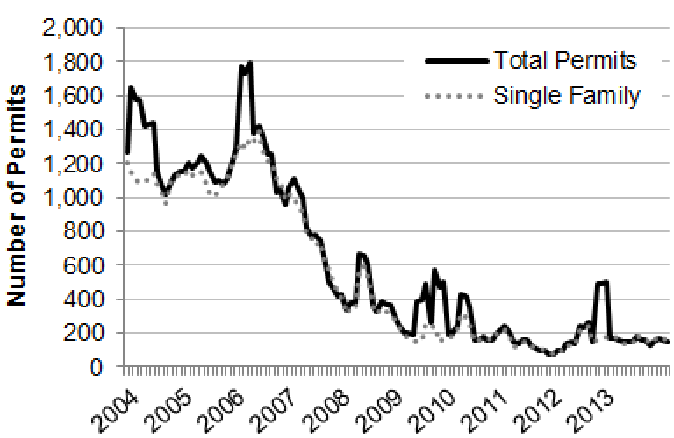
Source: U.S. Bureau of Labor Statistics; CES. Data through December 2013.

Figure 47
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through November 2013; U.S. data through December 2013.

Figure 48
Pueblo Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted Nominal Data

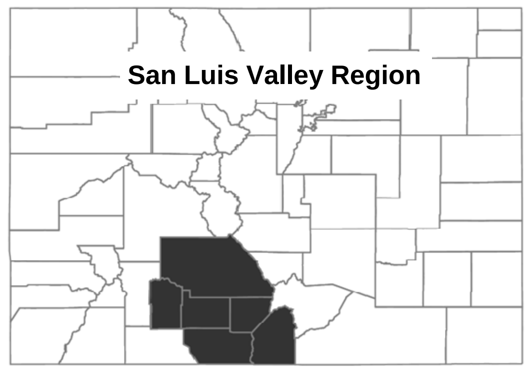


Source: F.W. Dodge. Data through December 2013.

San Luis Valley Region

The economy in the San Luis Valley region is primarily driven by the agriculture and tourism industries. The valley's primary agriculture products include potatoes, wheat, hay, cattle, and corn. The region's economy slowed through the second half of 2013 with continued high unemployment and tepid growth in employment and consumer spending. While housing permit growth picked up somewhat, the value of nonresidential construction fell. Table 19 shows economic indicators for the region.

The region's labor market improved in 2013, but only just barely, with nonfarm employment increasing only 0.2 percent over 2012 levels and the region's unemployment rate falling slowly from an average of 9.6 percent in 2012 to an average of 9.0 percent in 2013. Figure 49 shows the region's unemployment rate and labor force. The unemployment rate has remained high despite a clear downward trend in its labor force. It is important to note that labor market data for rural areas can contain meaningful measurement error and are frequently revised. In addition, due to the reliance on the agriculture industry, the region experiences different economic trends than more urban areas of the state.



Consumer spending, as measured by retail trade sales, increased 0.5 percent year-to-date in 2013 through November. Figure 50 shows changes in the region's consumer spending relative to

Table 19
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2009	2010	2011	2012	2013
Employment Growth /1	4.7%	-2.0%	-1.6%	-0.7%	0.2%
Unemployment Rate /1	7.6%	8.7%	9.4%	9.6%	9.0%
Statewide Crop Price Changes /2					
Wheat	-28.5%	-7.6%	41.7%	4.2%	0.8%
Alfalfa Hay (baled)	-4.4%	-15.9%	40.9%	37.0%	-0.1%
Potatoes	-39.0%	-7.8%	67.4%	-33.5%	13.2%
Dry Beans	-8.3%	-14.5%	28.5%	30.0%	-17.3%
Housing Permit Growth /3	-31.7%	14.0%	-8.5%	41.5%	15.0%
Growth in Value of Nonresidential Construction /3					
Value of Projects	430.9%	-55.4%	83.1%	-45.9%	-27.8%
Square Footage of Projects	96.3%	10964.0%	-31.1%	65.3%	-51.1%
Level (1,000s)	2	189	130	215	105
Number of Projects	0.0%	62.5%	-23.1%	0.0%	-27.2%
Level	8	13	10	10	11
Retail Trade Sales Growth /4	-1.6%	3.7%	5.8%	2.9%	0.5%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

2/ National Agricultural Statistics Service. Prices through December 2013.

3/ F.W. Dodge. Data through December 2013. Prior forecasts only used data for Alamosa County.

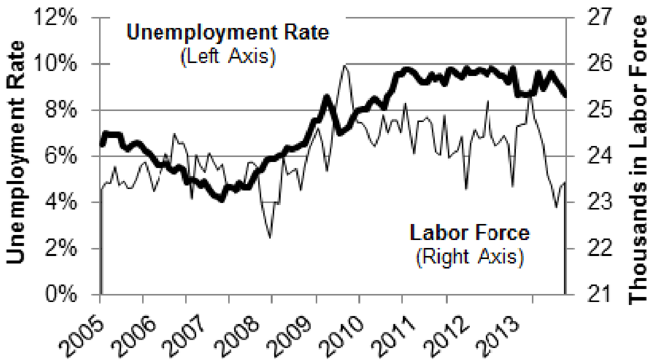
4/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

changes in the nation and the state. Retail trade has slowed significantly in the region relative to growth in the state and nation.

The agriculture industry is integral to the San Luis Valley economy, where most of Colorado's seed potatoes are grown. Figure 51 shows the average price received in Colorado for potatoes for the last five years, while Figure 52 shows potato production in Colorado in terms of dollar value and quantity, measured by hundredweight (Cwt). The quantity of production fell in 2013, partially because weather conditions were dry for much of the growing season and some crops were lost as a result of hail. The dollar value of production, however, increased as a result of higher prices.

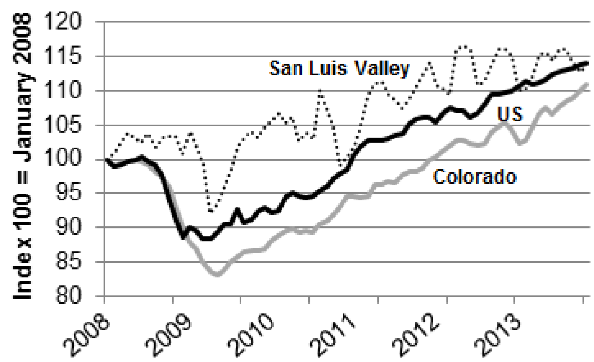
The number of permits for residential construction activity increased 15.0 percent in 2013, while the value of nonresidential construction projects fell 27.8 percent. These changes are not as large as they would appear, since the San Luis Valley is a small economy and thus, economic data related to the region's construction industry tends to be particularly volatile.

Figure 49
San Luis Valley
Unemployment Rate and Labor Force
Seasonally Adjusted



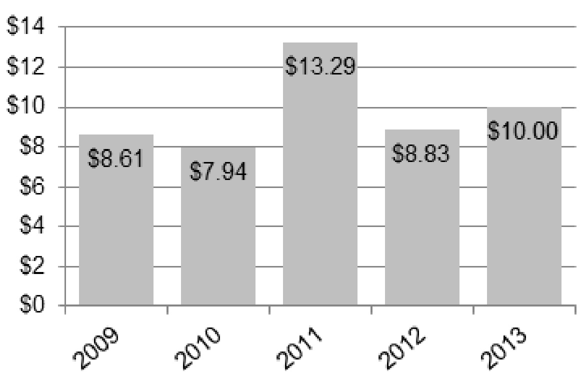
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2013.

Figure 50
San Luis Valley Trends in Retail Trade Sales
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



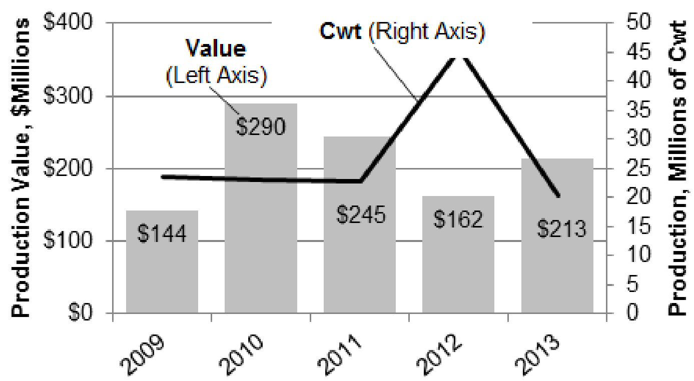
Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through November 2013.
U.S. data through December 2013.

Figure 51
Colorado Potato Price, Annual Average



Source: National Agricultural Statistics Service.

Figure 52
Colorado Potato Production,
By Value and Hundredweight (Cwt)

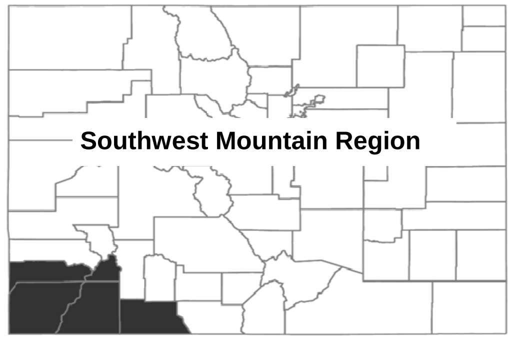


Source: National Agricultural Statistics Service.

Southwest Mountain Region

Like other resort areas of the state, the southwest mountain region's economy is showing strong improvement. The labor market is showing healthy growth, consumer spending is growing faster than the state as a whole, and there is increased construction activity. Table 20 shows economic indicators for the region.

The labor market in the southwest mountain region is healthy and out-performing many regions of the state. The region's nonfarm employment accelerated significantly in 2013, increasing 2.5 percent after growing 0.8 percent in 2012. As shown in Figure 53, the region's unemployment rate dropped quickly in 2013 despite continued losses in the labor force. The rate fell from an average of 7.5 percent in 2012 to an average of 6.3 percent in 2013.



Part of the improvement in the labor market and consumer spending is from increased construction activity. Figure 54 shows residential building permits and the value of those residential permits since 2008. While residential building permits posted a 44.7 percent gain in 2013 over 2012, they were similar to the number of permits filed in 2010. The value of residential construction, however, has shown a consistent upward trend over the last five years. Meanwhile, the value of nonresidential construction activity increased 233.3 percent, while the number of projects increased 26.6 percent. The region's nonresidential construction projects were larger and more expensive in 2013 than in 2012.

Table 20

Southwest Mountain Region Economic Indicators

Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

	2009	2010	2011	2012	2013
Employment Growth /1	-3.0%	-3.3%	-0.9%	0.8%	2.5%
Unemployment Rate /1	7.0%	8.3%	7.9%	7.5%	6.3%
Housing Permit Growth /2	-23.7%	38.0%	-29.5%	2.4%	44.7%
Growth in Value of Nonresidential Construction /2					
Value of Projects	83.8%	-45.7%	-53.0%	38.3%	233.3%
Square Footage of Projects	-11.6%	-60.5%	30.8%	101.3%	143.4%
Level (1,000s)	192	76	99	200	487
Number of Projects	-12.0%	4.5%	-39.1%	7.2%	26.6%
Level	22	23	14	15	19
Retail Trade Sales Growth /3	-13.9%	1.6%	9.1%	6.2%	5.2%

NA = Not Available.

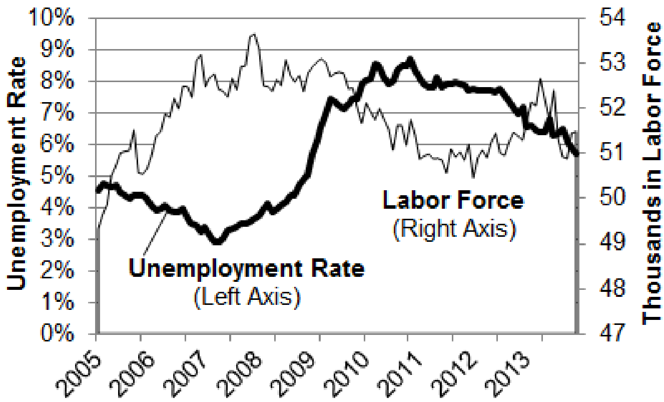
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

2/ F.W. Dodge. Data through December 2013. Prior forecasts had data for La Plata County only.

3/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

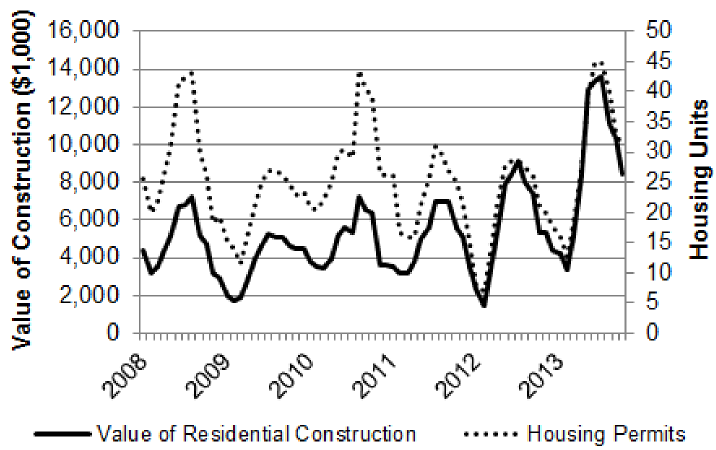
Figure 55 shows consumer spending, as measured by retail trade sales, for the region. The region's retail trade increased 5.2 percent in 2013 year-to-date through November, significantly faster than the statewide growth rate of 4.0 percent. An improving national economy has helped buoy tourism in the state's resort areas. It is important to note that the Southwest Mountain Region's economy is relatively small and therefore economic data for the region will contain more volatility than data for the state.

Figure 53
Southwest Mountain Region Unemployment Rate and Labor Force
Seasonally Adjusted



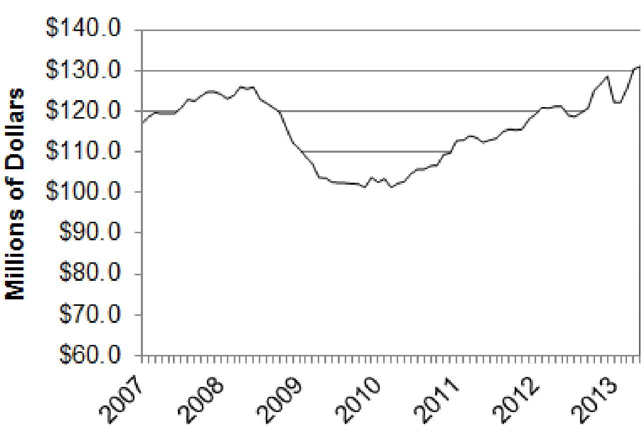
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2013.

Figure 54
Southwest Mountain Region
Value of Residential Construction and Building Permits
Three-Month Moving Average;
Non Seasonally Adjusted Data



Source: F.W. Dodge. Data through January 2014.

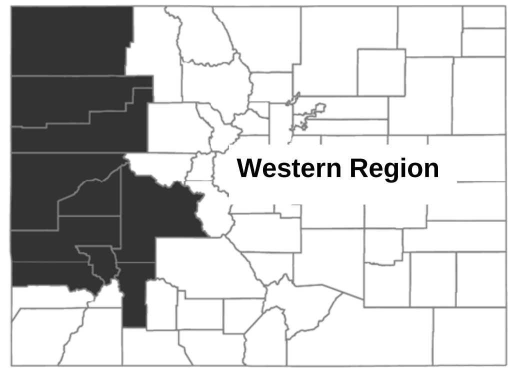
Figure 55
Southwest Mountain Region Retail Trade
Three-Month Moving Average;
Seasonally Adjusted Data



Source: Colorado Department of Revenue.
Data through November 2013.

Western Region

Western Colorado's economy continues to struggle, recovering at a slower pace than other regions of the state. Growth in employment and retail trade remained sluggish in 2013. After some growth in the first half of the year, the housing market stagnated and nonresidential construction activity fell sharply. Oil and gas exploration, once an important support for the region's economy, sputtered throughout 2013 due to relatively low natural gas prices. Table 21 shows economic indicators for the region.



Western Colorado experienced its second consecutive year of modest employment growth in 2013. Overall, regional employment grew just 0.6 percent in 2013 on a year-over-year basis. The regional unemployment rate was down to 6.6 percent. The relationship between the region's labor force and unemployment rate is shown in Figure 56.

In 2013, retail trade sales in the western region reached their highest levels since late 2008, before trailing off in the last quarter. Spending in western Colorado has recovered from the recession less quickly than in other parts of the state. Consumer spending in the western region showed steady but modest improvement throughout 2013, as year-to-date growth in retail sales climbed 3.1 percent through November. Figure 57 shows trends in consumer spending in the western region as represented by retail trade sales since the beginning of 2008.

Table 21

Western Region Economic Indicators

Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2009	2010	2011	2012	2013
Employment Growth					
Western Region /1	-5.6%	-5.5%	-0.6%	0.5%	1.6%
Grand Junction MSA /2	-6.6%	-4.4%	0.6%	1.4%	0.8%
Unemployment Rate /1	8.4%	10.1%	9.4%	8.7%	7.5%
Housing Permit Growth /3	-51.1%	2.0%	-20.8%	22.4%	-1.0%
Growth in Value of Nonresidential Construction /3					
Value Projects	-17.6%	19.0%	-60.1%	13.2%	-28.9%
Square Footage of Projects	-38.9%	28.4%	-59.2%	26.0%	-42.6%
Level (1,000s)	1,035	1,329	542	682	391
Number of Projects	-6.7%	-29.5%	-32.7%	16.7%	-33.8%
Level	139	98	66	77	51
Retail Trade Sales Growth /4	-19.1%	1.8%	8.8%	1.2%	3.1%

MSA = Metropolitan statistical area.

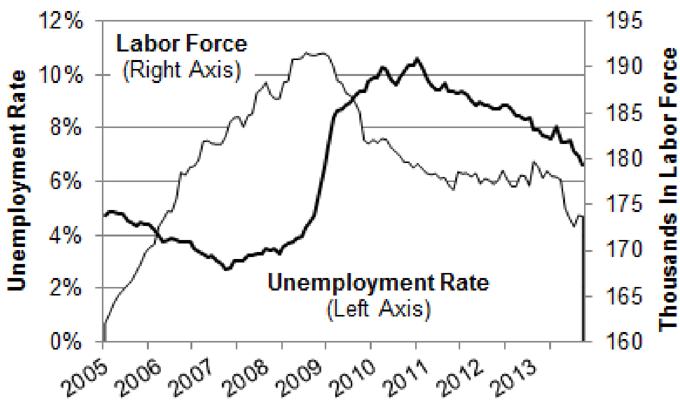
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2013.

3/ F.W. Dodge. Data through December 2013. Prior forecasts had data for Mesa and Montrose counties only.

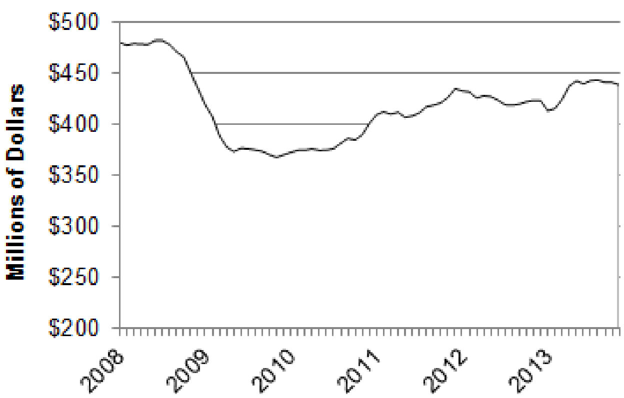
4/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

Figure 56
Western Region Unemployment Rate and Labor Force, 2005 to 2013
Seasonally Adjusted



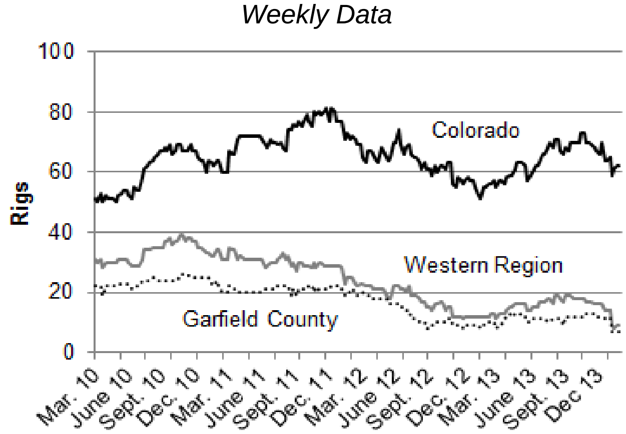
Source: U.S. Bureau of Labor Statistics; CES.

Figure 57
Trends in Retail Trade Sales, January 2008 to November 2013
Three-Month Moving Average; Seasonally Adjusted



Source: Colorado Department of Revenue.
Data through November 2013.

Figure 58
Colorado and Western Region Operating Rig Count, March 2010 to January 2014
Weekly Data



Source: Baker Hughes. Data through January 2014.

While regional building permits overall declined 1.0 percent in 2013 on a year-over-year basis, this was really a composite of two different trends. The quick growth in the region's permits in the first half of the year was entirely offset by declines in the second half. Residential construction permits in 2013 outpaced 2012 by 31.1 percent over the first six months of the year. Between July and December, however, 2013 permit issuance fell by 22.7 percent relative to a similar period in 2012.

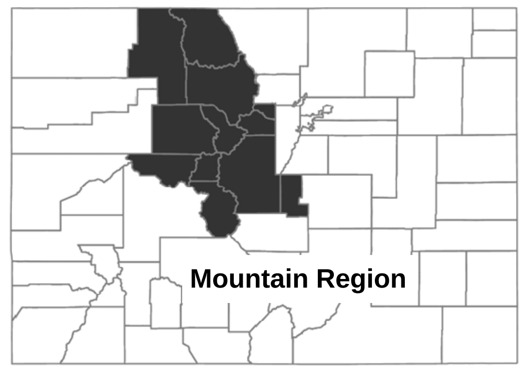
Regional nonresidential construction activity slowed markedly in 2013. On a year-over-year basis, the number of nonresidential construction projects, total square footage, and total project value declined by 33.8 percent, 42.6 percent, and 28.9 percent, respectively, in the western region.

Oil and gas development in the western region continued to struggle. Throughout much of 2013, relatively low natural gas prices continued to keep rig counts down across the region. This could change in 2014 if the recent increase in natural gas prices proves to be not just seasonal in nature. In January 2014, there were nine drilling rigs operating in the region, accounting for only about 15 percent of the 62 total rigs in the state. During its peak in November 2010, Western Colorado had 56 percent of the state's operational rigs. Figure 58 shows the western region's operating oil and gas rig count, compared to both the statewide count, and the count for Garfield County.

Mountain Region

The recovery of the mountain region's economy, heavily dependent on the ski and gaming industries, appears to be accelerating. Leading the recovery is the region's residential real estate market. Home prices and residential permits were significantly higher in 2013 relative to 2012. Job growth continues to improve, and the regional unemployment rate declined steadily throughout 2013. In addition, retail sales for the region through November 2013 grew relative to a similar period in 2012. Finally, the region's ski areas have enjoyed a good snowpack for the early 2013-14 ski season and are reporting strong growth in visitation numbers. Table 22 shows economic indicators for the region.

Improvement in the regional labor market accelerated in 2013. The region added over 3,000 jobs in 2013, a 2.7 percent increase from 2012 on a year-over-year basis. The job increase helped to lower the region's unemployment rate to 6.4 percent on an average annual basis. Figure 59 shows the region's nonfarm employment from January 2005 to December 2013, the most recent data available.



Activity in the mountain region's residential real estate market continues to be strong. Higher prices, increased sales, and low inventory have contributed to the rebound. In 2013, the number of residential permits rose 69.3 percent compared with 2012 on a year-over-year basis. Figure 60 shows the trends of residential building permits and the value of residential construction in the mountain region from January 2008 through December 2013.

Table 22

Mountain Region Economic Indicators

Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

	2009	2010	2011	2012	2013
Employment Growth /1	-5.9%	-3.7%	-0.5%	1.5%	2.7%
Unemployment Rate /1	7.5%	9.1%	8.4%	7.6%	6.4%
Housing Permit Growth /2	-49.2%	-17.6%	2.9%	6.9%	69.3%
Growth in Value of Nonresidential Construction /2					
Value of Projects	-73.4%	33.4%	195.4%	-57.4%	-8.6%
Square Footage of Projects	-83.1%	76.2%	169.0%	-27.7%	-21.6%
Level (1,000s)	164	290	779	563	442
Number of Projects	-23.1%	2.0%	-13.7%	11.4%	2.0%
Level	50	51	44	49	50
Retail Trade Sales Growth /3	-16.2%	4.9%	7.5%	1.3%	5.6%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

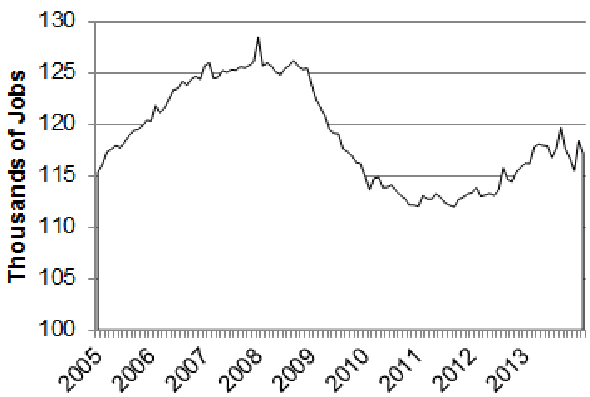
2/ F.W. Dodge. Data through December 2013. Prior forecasts reported Eagle, Pitkin & Summit Counties and Routt County separately.

3/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

In contrast, the mountain region's non-residential development flattened out in 2013 after exhibiting 11.4 percent growth in 2012. The region saw 50 nonresidential construction projects started in 2013, representing only 2 percent growth compared to 2012. On a year-over-year basis, overall project value declined by 8.6 percent.

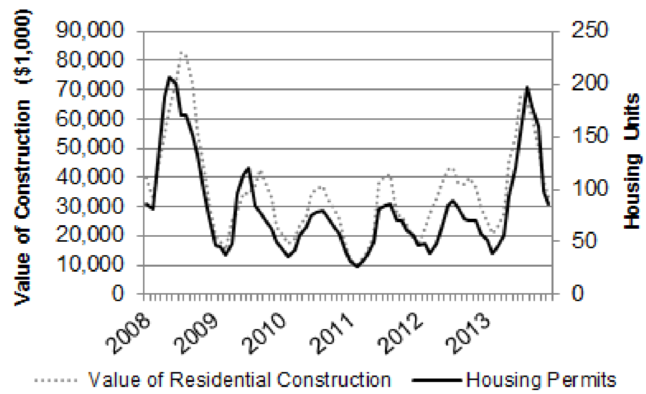
Retail sales increased 5.6 percent from January to November 2013 compared with the same period in 2012. Increased visitation levels to the region and an improving economy have helped boost retail sales. Even with this improvement, however, the growth in regional retail sales continues to lag behind both the state and the nation. Figure 61 indexes the region's retail sales growth to that of the state as a whole and the nation.

Figure 59
Mountain Region Nonfarm Employment
Seasonally Adjusted



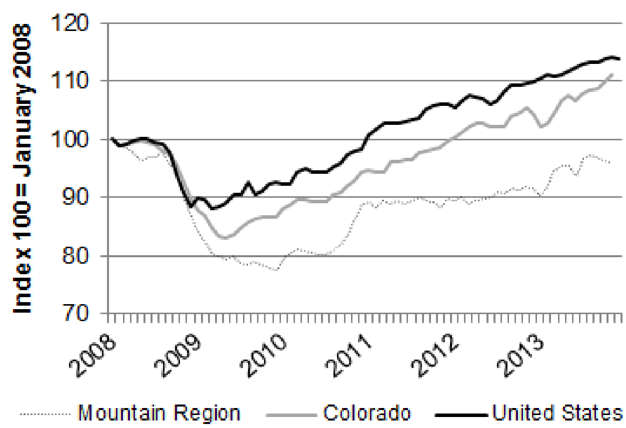
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2013.

Figure 60
Mountain Region Residential Building Permits
Three-Month Moving Average; Non Seasonally Adjusted Data



Source: F.W. Dodge. Data through December 2013.

Figure 61
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data

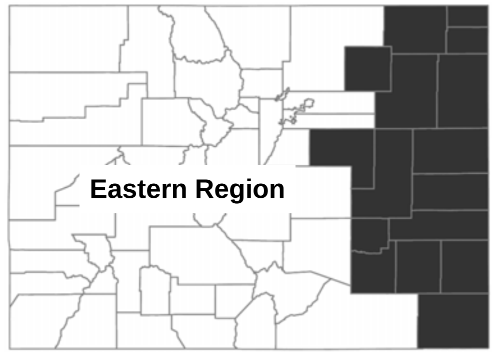


Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through November 2013; U.S. data through December 2013.

Eastern Region

The eastern region's economy is primarily driven by the agriculture industry. The 2012 drought and recent weather conditions in 2013, including the September floods, has had a significant impact on the industry. The dominant agricultural products in the eastern region are wheat, corn, hay, cattle, and dairy. Table 23 shows economic indicators for the region.

As shown in Figure 62, incomes for many Colorado farmers and ranchers were at historically high levels in 2012 despite the drought because of high prices and a cattle selloff. The drought has eased in most of the state, including the region's northern counties. Net income began to turn up again in the second half of 2013 after turning down in late 2012. Data in Figure 62 are available only through the third quarter of 2013 and therefore do not yet reflect the impact of the September floods.



As shown in Figure 63, the value of dollar production for wheat, corn, and alfalfa hay all fell in 2013 over 2012 levels. Although lower in 2013, the production value for corn and alfalfa hay remained at relatively high levels historically. The value of wheat production, however, fell to its lowest levels since 2006. Wheat farmers in southeastern Colorado suffered significant losses in production in 2013 as a result of the drought. Colorado's wheat production fell to just over 45 million bushels in 2013, representing the smallest harvest since 2006 and significantly lower than the average crop of 91 bushels per year harvested in the previous four years. According to the Colorado Wheat Administrative Committee, however,

Table 23
Eastern Region Economic Indicators

Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca Counties

	2009	2010	2011	2012	2013
Employment Growth /1	5.3%	-3.7%	0.9%	-1.8%	-1.8%
Unemployment Rate /1	5.9%	6.7%	6.5%	6.5%	5.9%
Crop Price Changes /2					
Wheat $/bushel	-28.5%	-7.6%	41.7%	4.2%	0.8%
Corn $/bushel	-13.6%	-1.5%	59.3%	9.2%	-2.8%
Alfalfa Hay (Baled) $/ton	-4.4%	-15.9%	40.9%	37.0%	-0.1%
Dry Beans	-8.3%	-14.5%	28.5%	30.0%	-17.3%
Livestock /3					
State Cattle and Calf Inventory Growth	4.1%	-1.2%	10.2%	-3.4%	-8.7%
Milk Production	-3.3%	-0.8%	6.5%	7.1%	3.3%
Retail Trade Sales Growth /4	-12.5%	9.9%	13.7%	4.3%	2.5%

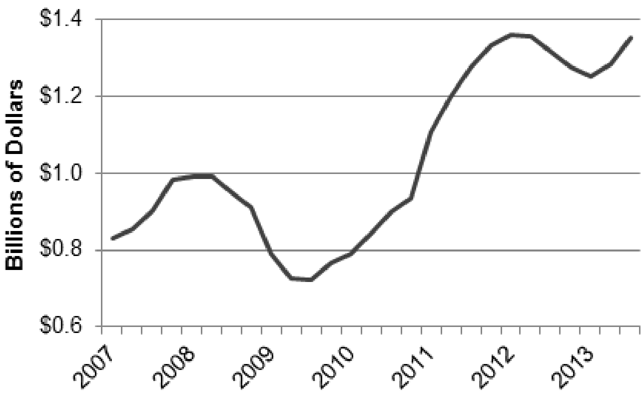
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2013.

2/ National Agricultural Statistics Service. Price data through December 2013.

3/ National Agricultural Statistics Service. Data through December 2013.

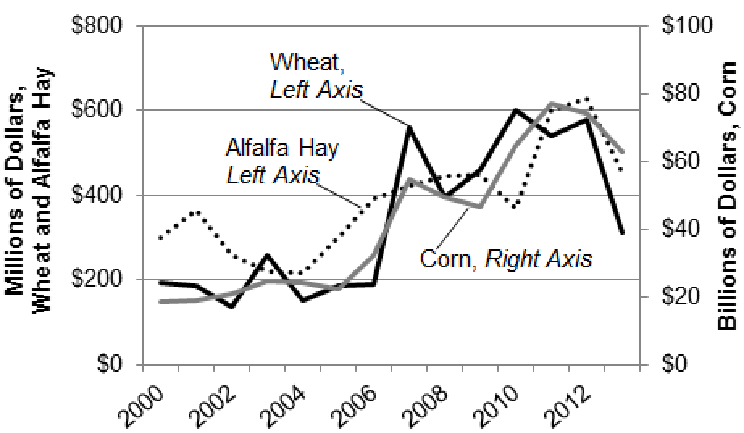
4/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2013.

Figure 62
Colorado Farm Income
Four Quarter Moving Average, Seasonally Adjusted Data



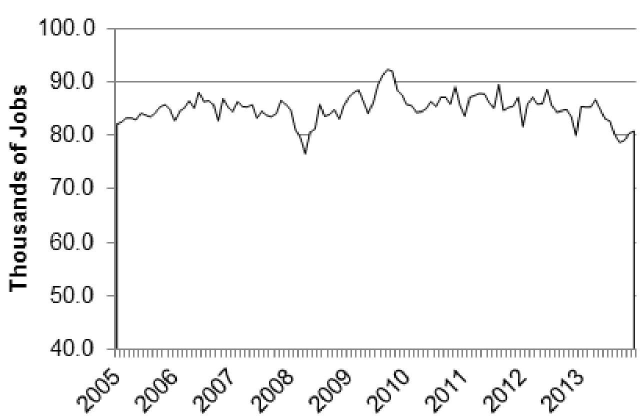
Source: U.S. Bureau of Economic Analysis, personal income statistics. Data through the 3rd quarter of 2013.

Figure 63
Dollar Value of Colorado Crop Production



Source: National Agricultural Statistics Service. Annual data through 2013.

Figure 64
Eastern Region Nonfarm Employment
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2013.

Colorado wheat farmers planted 2.9 million acres of winter wheat in the fall of 2013 for harvest this summer, the highest amount since 1997 and significantly higher than the average over the last ten years of 2.4 million acres.

The price of alfalfa hay, a crop primarily used as feed for cattle, leveled off in 2013, falling only 0.1 percent after having spiked in 2011 and 2012. It is expected to be several years before ranchers are able to rebuild their herds after having been forced to sell cattle for the slaughter because of the high price of feed. The state's cattle and calf inventory fell 3.4 percent in 2012 and 8.7 percent in 2013.

The eastern region experiences different trends in nonfarm employment and consumer spending than the more urban areas of the state. Figure 64 shows that the region's nonfarm employment, which excludes workers in the agriculture industry, has been trending down since 2010. The unemployment rate, which is taken from a survey that includes agricultural workers, averaged 5.9 percent in 2013, down from 6.5 percent in 2012. The region's labor force, which also includes agricultural workers, has been slowly trending down over the last few years. Population in the regional has also been falling.

Consumers in the region increased spending at rates faster than both the nation and the state in 2010 and 2011 as the region's farmers and ranchers enjoyed profitable years. Although consumer spending has continued to grow slowly in both 2012 and 2013, growth has lagged that of the rest of the state. Retail trade sales increased 2.5 percent in the region year-to-date in 2013 through November, while sales increased 4.0 percent statewide in 2013.

Appendix A
Historical Data

National Economic Indicators

(Dollar Amounts in Billions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gross Domestic Product	$9,665.7	$10,289.7	$10,625.3	$10,980.2	$11,512.2	$12,277.0	$13,095.4	$13,857.9	$14,480.3	$14,720.3	$14,417.9	$14,958.3	$15,533.8	$16,244.6	$16,797.5
percent change	6.3%	6.5%	3.3%	3.3%	4.8%	6.6%	6.7%	5.8%	4.5%	1.7%	-2.1%	3.7%	3.8%	4.6%	3.4%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$12,071.4	$12,565.2	$12,684.4	$12,909.7	$13,270.0	$13,774.0	$14,235.6	$14,615.2	$14,876.8	$14,833.6	$14,417.9	$14,779.4	$15,052.4	$15,470.7	$15,759.0
percent change	4.8%	4.1%	0.9%	1.8%	2.8%	3.8%	3.4%	2.7%	1.8%	-0.3%	-2.8%	2.5%	1.8%	2.8%	1.9%
Unemployment Rate	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%	9.6%	8.9%	8.1%	7.4%
Inflation (Consumer Price Index)	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-0.3%	1.6%	3.1%	2.1%	1.5%
10-Year Treasury Note	5.6%	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%	4.6%	3.7%	3.3%	3.2%	2.8%	1.8%	2.4%
Personal Income	$7,983.8	$8,632.8	$8,987.1	$9,149.5	$9,487.6	$10,049.2	$10,610.3	$11,389.8	$11,995.7	$12,430.6	$12,082.1	$12,435.2	$13,191.3	$13,743.8	$14,135.2
percent change	5.2%	8.1%	4.1%	1.8%	3.7%	5.9%	5.6%	7.3%	5.3%	3.6%	-2.8%	2.9%	6.1%	4.2%	2.8%
Wage and Salary Income	$4,458.0	$4,825.9	$4,954.4	$4,996.4	$5,138.8	$5,422.9	$5,692.9	$6,058.2	$6,396.0	$6,532.8	$6,252.2	$6,377.5	$6,638.7	$6,926.8	$7,138.3
percent change	6.6%	8.3%	2.7%	0.8%	2.9%	5.5%	5.0%	6.4%	5.6%	2.1%	-4.3%	2.0%	4.1%	4.3%	3.1%
Nonfarm Employment (millions)	129.2	132.0	132.1	130.6	130.3	131.7	134.0	136.4	137.9	137.2	131.2	130.3	131.8	134.1	136.4
percent change	2.5%	2.2%	0.0%	-1.1%	-0.2%	1.1%	1.7%	1.8%	1.1%	-0.6%	-4.3%	-0.7%	1.2%	1.7%	1.7%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Federal Reserve Board.

Colorado Economic Indicators

(Dollar Amounts in Millions)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Nonagricultural Employment (thous.)	2,132.1	2,214.3	2,227.1	2,184.7	2,152.5	2,179.3	2,225.9	2,279.7	2,331.0	2,350.6	2,245.2	2,222.2	2,258.2	2,309.5	2,364.7
percent change	3.7%	3.9%	0.6%	-1.9%	-1.5%	1.2%	2.1%	2.4%	2.3%	0.8%	-4.5%	-1.0%	1.6%	2.3%	2.4%
Unemployment Rate (%)	3.1	2.8	3.8	5.6	6.1	5.6	5.1	4.3	3.8	4.8	8.1	9.0	8.5	7.8	6.8
Personal Income	$130,663	$147,056	$155,922	$156,089	$159,387	$166,687	$177,899	$191,775	$202,718	$212,243	$206,423	$210,608	$226,032	$237,461	NA
percent change	8.8%	12.5%	6.0%	0.1%	2.1%	4.6%	6.7%	7.8%	5.7%	4.7%	-2.7%	2.0%	7.3%	5.1%	
Per Capita Income	$30,919	$33,986	$35,231	$34,761	$35,195	$36,434	$38,407	$40,627	$42,199	$43,406	$41,515	$41,717	$44,179	$45,775	NA
percent change	6.0%	9.9%	3.7%	-1.3%	1.2%	3.5%	5.4%	5.8%	3.9%	2.9%	-4.4%	0.5%	5.9%	3.6%	
Wage and Salary Income	$76,643	$86,416	$89,130	$88,090	$89,281	$93,570	$98,788	$105,665	$112,510	$116,682	$112,294	$113,783	$118,740	$125,055	NA
percent change	9.7%	12.8%	3.1%	-1.2%	1.4%	4.8%	5.6%	7.0%	6.5%	3.7%	-3.8%	1.3%	4.4%	5.3%	
Retail Trade Sales	$52,609	$57,955	$59,014	$58,850	$58,689	$62,288	$65,492	$70,437	$75,329	$74,760	$66,345	$70,738	$75,548	$80,073	NA
percent change	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.1%	5.1%	7.5%	6.9%	-0.8%	-11.3%	6.6%	6.8%	6.0%	
Housing Permits	49,313	54,596	55,007	47,871	39,569	46,499	45,891	38,343	29,454	18,998	9,355	11,591	13,502	23,301	27,296
percent change	-3.6%	10.7%	0.8%	-13.0%	-17.3%	17.5%	-1.3%	-16.4%	-23.2%	-35.5%	-50.8%	23.9%	16.5%	72.6%	17.1%
Nonresidential Construction	$3,799	$3,498	$3,476	$2,805	$2,686	$3,245	$4,275	$4,641	$5,259	$4,114	$3,354	$3,147	$3,923	$3,675	$3,484
percent change	28.7%	-7.9%	-0.6%	-19.3%	-4.2%	20.8%	31.7%	8.6%	13.3%	-21.8%	-18.5%	-6.2%	24.7%	-6.3%	-5.2%
Denver-Boulder Inflation Rate	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%	2.2%	3.9%	-0.6%	1.9%	3.7%	1.9%	2.8%
Population (thousands, July 1)	4,226.0	4,338.8	4,444.5	4,504.7	4,555.1	4,608.8	4662.5	4,745.7	4,821.8	4,901.9	4,976.9	5,048.2	5,118.4	5,189.5	5,268.4
percent change	2.7%	2.7%	2.4%	1.4%	1.1%	1.2%	1.2%	1.8%	1.6%	1.7%	1.5%	1.4%	1.4%	1.4%	1.5%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and F.W. Dodge.

NA = Not Available.