Economic Outlook: It's the *Late Spring* of this Recovery

...and *Summer* is on it's way

- The Private Sector is Rebounding
  - Business is doing well
  - Manufacturing subject to cycles, but holding its own
  - The labor market continues to slowly improve
  - The housing market is in recovery
  - Households and banks are in better financial shape

Biggest Concern: Unwrapping the Money Supply
Gross Domestic Product

Source: U.S. Bureau of Economic Analysis.

Contributions to Gross Domestic Product

Private Sector Strength/Public Sector Weakness

Source: Bureau of Economic Analysis.
Employment: Colorado Outpacing U.S.

Where have the jobs been gained?

Employment Growth Since Jan 2010:
Difference from 8.8% Statewide Total Growth

Colorado and U.S. Retail Trade Growth

Index Base = January 2008

Sources: U.S. Census Bureau and Colorado Department of Revenue. Data through November 2013.

U.S. Household Wealth Moving Up

Source: Federal Reserve Flow of Funds Data, Table B100.
Households Continue To Deleverage

Household Debt Burden As A Percent of Disposable Income

Total Debt Service Ratio
Mortgage Debt Service Ratio

Source: Federal Reserve Board. Data through 2013 quarter three.

Home Prices Gain Statewide

...but some have not reached the pre-recession peak.

Prices Above Pre-Recession Peak & Growing
Prices Below Pre-Recession Peak But Growing

Percent of Pre-recession Peak As of the 4th Quarter of 2013
Annual Average Growth Rate, 2013 over 2012

Source: Federal Housing Finance Authority home price index.
March 2014 LCS Forecast

Economy: From Spring to Summer

- Real US GDP: 3.2%
- CO Job Growth: 2.6%
- CO Jobless Rate: 6.0%
- CO Wages & Salaries: 5.7%
- CO Retail Trade: 5.9%
- Denver Inflation: 2.8%
- CO Pop. Growth: 1.7%
- CO Nonres. Const.: -0.7%
- CO Housing Permits: +14.9%

Source: March 2014 Legislative Council Staff Forecast.

Federal Reserve Assets

- Trillions of Dollars
- 2003 to 2013
- Federal Reserve Assets
  - U.S. Treasury Securities
  - Mortgage-backed Securities
  - Loans
  - Liquidity Swaps with Foreign Central Banks
  - Other Assets

Source: Federal Open Market Committee.
General Fund Revenue Outlook


Revenue to the State Education Fund

FY 2013-14 Year-End Estimated Fund Balance: $1.1 Billion
FY 2013-14 General Fund Budget

FY 2013-14 General Fund Operating Budget
$8.1 billion

Caseload Growth & the General Fund Budget

*FY 2012-13 contains forecasts.
TABOR and Referendum C

Bars Show Revenue Subject to TABOR

Pre-Referendum C TABOR Limit

Referendum C Cap
$308M (2.6%) above FY 14
$146M (1.2%) above FY 15
$179M (1.4%) above FY 16

Timeout Period

*Legislative Council Staff March 2014 forecast.

Source: Colorado State Controllers Office and Legislative Council Staff.

Current TABOR Refund Mechanisms

If, in FY 2014-15, the TABOR surplus is...

...up to $97.7M
Six-Tier Sales Tax Refund
Refund Amount: Up to $97.7M

...$97.7M to $301.1M
Earned Income Tax Credit
Trigger Amount: $97.7M
Refund Amount: $85.8M

...$301.1M or more
Earned Income Tax Credit
Trigger Amount: $97.7M
Refund Amount: $85.8M
Temporary Income Tax Rate Reduction
Trigger Amount: $301.1M
Refund Amount: $203.3M
Six-Tier Sales Tax Refund
Refund Amount: $11.8M or more

Source: Dollar amounts are based on the March 2014 Legislative Council Staff Forecast.

*This figure is for illustrative purposes. Revenue is not expected to exceed the Referendum C cap in FY 2014-15.

If there were to be a TABOR surplus in FY 2014-15, the refund would occur in FY 2015-16 for tax year 2016.
### TABOR’s Election Provisions and Prop. AA

Table 3 shows the revenue expected from the two new taxes for FY 2014-15, the first full fiscal year for which the taxes would be in place; state fiscal year spending without these taxes; and the sum of the two.

**Table 3. Estimated State Fiscal Year Spending and the Proposed New Taxes**

<table>
<thead>
<tr>
<th></th>
<th>FY 2014-15 Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Spending Without the New Taxes</td>
<td>$12.08 billion</td>
</tr>
<tr>
<td>State Revenue from the New Excise and Sales Taxes</td>
<td>$67 million</td>
</tr>
<tr>
<td>State Spending Plus the New Taxes</td>
<td>$12.15 billion</td>
</tr>
</tbody>
</table>

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### March 2014 Expectations:

- **FY Spending:** $12.21 billion + $133 million
- **New Taxes:** $54.7 million
Tax Revenue from the Marijuana Industry

<table>
<thead>
<tr>
<th></th>
<th>FY 2013-14</th>
<th>FY 2014-15</th>
</tr>
</thead>
<tbody>
<tr>
<td>15% Excise Tax</td>
<td>$4.0 million</td>
<td>$181.1 million</td>
</tr>
<tr>
<td>10% Special Sales Tax</td>
<td>$18.7 million</td>
<td>$36.7 million</td>
</tr>
<tr>
<td>Proposition AA Taxes</td>
<td>$22.7 million</td>
<td>$54.7 million</td>
</tr>
<tr>
<td>2.9% Sales Tax, Medical</td>
<td>$11.9 million</td>
<td>$11.9 million</td>
</tr>
<tr>
<td>2.9% Sales Tax, Retail</td>
<td>$5.4 million</td>
<td>$10.6 million</td>
</tr>
<tr>
<td><strong>Total Taxes</strong></td>
<td><strong>$40.0 million</strong></td>
<td><strong>$77.2 million</strong></td>
</tr>
</tbody>
</table>

Statutory Revenue Management Under TABOR

- **During Non-Surplus Years:**
  - Fee Increases
  - Armed with 2009 Supreme Court Decision, Specific Tax Revenue Increases via Repeal of Credits, Deductions, and Exemptions

- **During Surplus Years:**
  - Tax Cuts
  - Restrain Fee Growth

- **In Anticipation of Surplus Years:**
  - Greater Use of Enterprise Status
    - Allows Flexibility to Increase Fees
  - Voter-Approved Revenue Changes