



## State Revenues Improve but Growth Expected to Slow

June 21, 2013

Chris Stiffler

The good news is that continued economic growth and factors related to federal tax law mean Colorado will have more resources available for much-needed public investment over the next fiscal year. But indications show that revenue growth will begin to slow after that, according to the quarterly revenue estimates recently released by Colorado Legislative Council.

The Colorado economy continues to expand, as strong employment is supporting consumer spending. The estimated expansion means \$1.1 billion more for public investments in the fiscal year that starts July 1 than the amount budgeted for the previous year. The General Fund revenue estimate for FY 2012-13, the fiscal year that ends on June 30, 2013, was revised upward by \$472.9 million from the March estimate and the FY2013-14 estimate was revised upward by \$227.7 million. The state is getting closer to the TABOR rebates than previously anticipated. A large part of the optimistic forecast results from gains in employment, wages, consumer spending, and home construction activity. The economy, however, still faces some head winds from federal spending cuts that will reduce public and private sector employment.

### Key Points from the June 20 Quarterly Revenue Estimates

- Colorado will have \$1.1 billion or 12.2 percent more tax dollars, also known as General Funds, in FY 2014-15 than appropriated in FY 2013-14
- FY 2012-13 General Fund revenue revised upward by \$473 million from the amount expected in March. Much of this increase was one-time money resulting from investors selling assets before the January 1 federal tax increase on capital gains.
- FY 2013-14 General Fund revised upward by \$227.7 million on the enhanced economic expectations.
- Revenue subject to TABOR is expected to be below the Referendum C cap in FY 2014-15 by \$191 million.
- The FY 2012-13 surplus of \$1.1 billion will be transferred to the State Education Fund
- The Colorado economy continues to expand as the unemployment rate in April fell below 7 percent for the first time since January 2009. Real estate markets and consumer spending in Colorado continue to show promising trends.

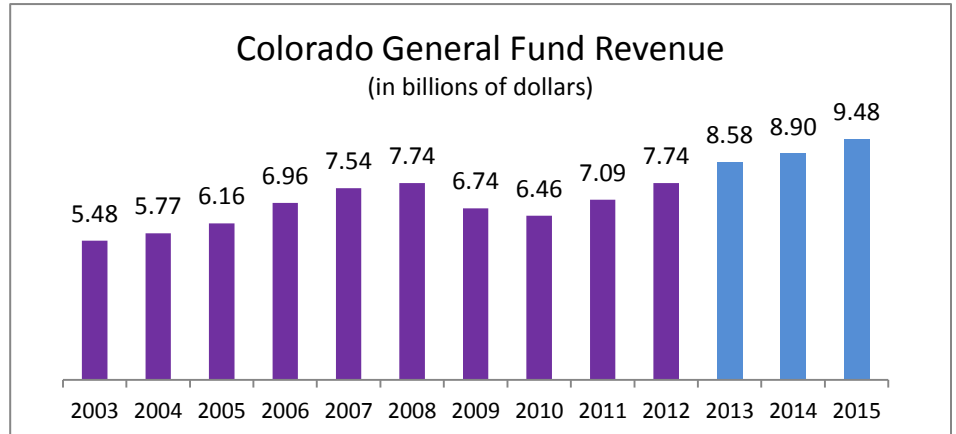
### General Fund Revenues

The General Fund is expected to experience its third consecutive year of growth with that positive trend

	FY 2012-13	Change	FY 2013-14	Change
<b>General Fund</b>	\$8.58 million	10.9%	\$8.9 million	3.8%
<b>Cash Funds</b>	\$2.56 million	-0.1%	\$2.62 million	2.5%

continuing into 2015. The General Fund will end the current period, FY 2012-13, with \$8.6 billion. This represents a 10.9 percent increase from the previous year. The sizable increase is due to increased revenues from an expanding economy that prompted more purchases and higher income, and the changes in federal tax policies that resulted in many taxpayers selling of capital assets to take advantage of lower capital gains rates.

Growth in General Funds for the next two years is not anticipated to be as strong as it was for FY2012-13. Some of the revenue gains for FY2012-13 were one-time money from the sale of assets at the end of 2012. In addition, federal spending cuts will dampen economic activity resulting in less tax revenue. General Fund revenue is on pace to increase 3.8 percent in FY 2013-14 and 6.6 percent in FY 2014-15.



Below is a breakout of the increases by source:

- Individual income tax collections will end the current fiscal year 12.3 percent higher than the previous year and are expected to grow by 1 percent in FY2013-14 and 7.4 percent in FY 2014-15.
- Corporate income tax collections increased 27.8 percent in FY 2012-13 from the previous year. The American Taxpayer Relief Act of 2012, passed January 2013, extended some tax breaks through 2014. Once these expire, corporate income tax is expected to increase 22.4 percent in FY 2013-14 and 9.1 percent in FY 2014-15.
- Sales tax revenue grew by 5.5 percent for FY 2012-13 and is expected to grow another 5.1 percent for FY 2013-14.

### Cash Funds

Cash fund revenue subject to TABOR will decrease slightly to \$2.56 billion in FY 2012-13, and will increase 2.5 percent to \$2.62 billion in FY 2013-14. The gain for FY 2013-14 will come from severance tax revenue which is projected to rebound due to increasing natural gas prices.

### Colorado’s Economy at a Glance

Colorado added jobs in the beginning of 2013 at a faster rate than the national average. The state’s unemployment rate fell to 6.9 percent in April from 7.5 percent in December 2012. This is the lowest unemployment rate the state has seen since January 2009. Wages, salaries, and personal income continue their upward trend as personal income is expected to increase 5 percent in 2013 and 5.7 percent in 2014. The rising trend in employment is expected to slow in the second half of 2013, however, as Colorado adjusts to federal spending cuts and their effect on wages.

The Colorado Fiscal Institute provides credible, independent and accessible information and analysis of fiscal and economic issues facing Colorado. Our aim is to inform policy debates and contribute to sound decisions that improve the well-being of individuals, communities and the state as a whole.