**NEW ISSUE – BOOK-ENTRY ONLY**

**RATINGS:**
**Moody's "MIG 1"**
**S&P "SP-1+"**
**(See "RATINGS" herein)**

*In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2016B Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax; and interest on the Series 2016B Notes is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws as described herein. See "TAX MATTERS."*

# $375,000,000
# STATE OF COLORADO
# EDUCATION LOAN PROGRAM
# TAX AND REVENUE ANTICIPATION NOTES
# SERIES 2016B

**Dated: Date of Delivery** **Maturity Date: June 29, 2017**

The proceeds of the Series 2016B Notes will be used as more fully described herein to (i) make interest-free loans to certain Colorado school districts identified herein in order to alleviate temporary general fund cash flow deficits expected to be experienced by such school districts during the fiscal year ending June 30, 2017, and (ii) pay the costs of issuing the Series 2016B Notes.

The Series 2016B Notes will be issued in fully registered form and registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, the securities depository for the Series 2016B Notes. Beneficial Ownership Interests in the Series 2016B Notes, in non-certificated book-entry only form, may be purchased in integral multiples of $5,000 by or through participants in the DTC system. Beneficial Ownership Interests will be governed as to receipt of payments, notices and other communications, transfers and various other matters with respect to the Series 2016B Notes by the rules and operating procedures applicable to the DTC book-entry system as described herein.

The principal of and interest on the Series 2016B Notes, at the rates per annum specified below, are payable on the maturity date of the Series 2016B Notes specified above. The Series 2016B Notes are _not_ subject to redemption prior to maturity.

| Principal Amount | Interest Rate | Price | Reoffering Yield | CUSIP No.[1] |
|---|---|---|---|---|
| $ 25,000,000 | 3.00% | 100.993% | 0.85% | 19672M BV9 |
| 50,000,000 | 3.00 | 100.984 | 0.87 | 19672M BV9 |
| 250,000,000 | 4.00 | 101.446 | 0.87 | 19672M BW7 |
| 50,000,0000 | 5.00 | 101.912 | 0.86 | 19672M BU1 |

The Series 2016B Notes are special, limited obligations of the State payable solely from and secured by a pledge of the Pledged Revenues described herein. Interest on the Series 2016B Notes will be payable from amounts deposited by the State Treasurer upon issuance of the Series 2016B Notes in the Series 2016-17 Notes Repayment Account; and the principal of the Series 2016B Notes will be payable from amounts received by the State Treasurer from the Participating Districts on or before June 25, 2017, as payment of their Program Loans and, if necessary, from certain State funds, all as described herein. The Series 2016B Notes are secured on parity with the previously issued State of Colorado Education Loan Program Tax and Revenue Anticipation Notes, Series 2016A, which are currently outstanding in the aggregate principal amount of $275,000,000. The Series 2016B Notes do not constitute a debt, an indebtedness or a multiple fiscal year financial obligation of the State or the Participating Districts within the meaning of any applicable provision of the constitution or statutes of the State, and the registered owners and Beneficial Owners of the Series 2016B Notes may not look to any source other than the Pledged Revenues for payment of the Series 2016B Notes.

**An investment in the Series 2016B Notes involves risk. Prospective investors are urged to read this Official Statement in its entirety, giving particular attention to the matters discussed in "INVESTMENT CONSIDERATIONS," in order to obtain information essential to the making of an informed investment decision.**

The Series 2016B Notes are offered when, as and if issued by the State, subject to the approving opinion of Kutak Rock LLP, Denver, Colorado, as Bond Counsel. Certain legal matters will be passed upon for the State by the Attorney General of the State, and by Kline Alvarado Veio, P.C., Denver, Colorado, as special counsel to the State. The Series 2016B Notes are expected to be delivered through the facilities of DTC on or about January 12, 2017.

Dated: January 5, 2017

[1] CUSIP is a registered trademark of the American Bankers Association. The CUSIP data included herein has been provided by CUSIP Global Services operated by the CUSIP Service Bureau, which is managed on behalf of the American Bankers Association by Standard & Poor's, a business unit of McGraw-Hill Financial, and is provided solely for the convenience of the purchasers of the Series 2016B Notes and only as of the issuance of the Series 2016B Notes. The State takes no responsibility for the accuracy of such data now or at any time in the future.

## NOTICES

This Official Statement does not constitute an offer to sell the Series 2016B Notes in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, salesman or other person has been authorized by the State, the State Treasurer or the Financial Advisor to give any information or to make any representation other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by the State or any other person.

The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described in this Official Statement since the date hereof.

The information in this Official Statement has been obtained from officers, employees and records of the State, the Participating Districts and other sources believed to be reliable, but this Official Statement is not to be construed as the promise or guarantee of the State, the State Treasurer or the Financial Advisor.

The order and placement of materials in this Official Statement, including the appendices, are not to be deemed a determination of relevance, materiality or importance, and this Official Statement, including the appendices, must be considered in its entirety. The captions and headings in this Official Statement are for convenience only and in no way define, limit or describe the scope or intent, or affect the meaning or construction, of any provisions or sections of this Official Statement. The offering of the Series 2016B Notes is made only by means of this entire Official Statement.

This Official Statement is submitted in connection with the initial offering and sale of the Series 2016B Notes and may not be reproduced or used, in whole or in part, for any other purpose.

The Series 2016B Notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have neither confirmed the accuracy nor determined the adequacy of this Official Statement. Any representation to the contrary is unlawful.

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CAUTIONARY STATEMENTS REGARDING
PROJECTIONS, ESTIMATES AND OTHER FORWARD
LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

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This Official Statement, including, but not limited to, the material set forth in "SOURCE OF PAYMENT OF PROGRAM LOANS – State Equalization Funding of School Districts – Summary Financial Information Regarding the Participating Districts," "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS," "DEBT AND CERTAIN OTHER FINANCIAL OBLIGATIONS," "APPENDIX A – THE STATE GENERAL FUND," "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST" and "APPENDIX E – STATE PENSION SYSTEM," contains statements relating to future results that are "forward looking statements." When used in this Official Statement, the words "estimate," "anticipate," "forecast," "project," "intend," "propose," "plan," "expect" and similar expressions identify forward looking statements. The achievement of certain results or other expectations contained in forward looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. The State Treasurer does not plan to issue any updates or revisions to those forward looking statements if or when its expectations or events, conditions or circumstances on which these statements are based occur.

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**OFFICIAL STATEMENT**

**Relating to**

# $375,000,000
# STATE OF COLORADO
# EDUCATION LOAN PROGRAM TAX AND REVENUE ANTICIPATION NOTES
# SERIES 2016B

## INTRODUCTION

This Official Statement, which includes the cover page, inside cover, prefatory information and the appendices, furnishes information in connection with the issuance and sale by the State of Colorado (the "State") of its $375,000,000 State of Colorado Education Loan Program Tax and Revenue Anticipation Notes, Series 2016B (the "Series 2016B Notes").

*This introduction is not a summary of this Official Statement. It is only a summary description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 2016B Notes to potential investors is made only by means of the entire Official Statement.*

*This Official Statement contains information that was either not available or differs from that contained in the Preliminary Official Statement dated December 22, 2016,including, without limitation, the interest rates, prices, reoffering yields, CUSIP numbers, original purchasers of and the aggregate purchase price paid by the original purchasers for the Series 2016B Notes. Accordingly, prospective investors should read this Official Statement in its entirety.*

### Purpose

Sections 29-15-112 and 22-54-110, Colorado Revised Statutes, as amended ("C.R.S."), referred to herein collectively as the "Loan Program Statutes," establish a program (the "Loan Program") for making interest-free loans ("Program Loans") to participating Colorado school districts (the "Participating Districts") in order to alleviate Participating Districts' temporary general fund cash flow deficits. The Series 2016B Notes are being issued for the purpose of funding the Loan Program for the State's fiscal year ending June 30, 2017 ("Fiscal Year 2016-17"), and paying the costs of issuing the Series 2016B Notes. The first installment of the Loan Program was funded on July 21, 2016, by the issuance of the State's Education Loan Program Tax and Revenue Anticipation Notes, Series 2016A (the "Series 2016A Notes"), in the aggregate principal amount of $275,000,000, the net proceeds of which have been borrowed by 19 Participating Districts. See "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS."

The net proceeds of the sale of the Series 2016B Notes will be deposited in the Series 2016B Education Loan Program Tax and Revenue Anticipation Notes Proceeds Account (the "Series 2016B Notes Proceeds Account") of the State's General Fund (the "General Fund") and used to make Program Loans to approximately 18 Participating Districts in order to alleviate actual temporary general fund cash flow deficits currently forecast by each Participating District during Fiscal Year 2016-17. See "SOURCE OF PAYMENT OF PROGRAM LOANS – Summary Financial Information Regarding the Participating Districts." Prior to receiving a Program Loan, each Participating District is required to adopt a resolution (each a "District Resolution" and collectively the "District Resolutions") pledging to the repayment of its Program Loan those ad valorem property tax revenues received by the Participating District during the period of March through June of 2017 that are required to be deposited in the Participating District's general fund ("Taxes"), and is required to execute a promissory note payable to the State Treasurer (each a "District Note" and collectively the "District Notes") to evidence its repayment obligation. See "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS – Program Loans – The Participating Districts," "DISTRICT RESOLUTIONS AND DISTRICT NOTES" and "SOURCE OF PAYMENT OF PROGRAM LOANS."

**The Series 2016B Notes**

***Authorization.*** The Series 2016B Notes are issued pursuant to the Loan Program Statutes; Part 2 of Article 57 of Title 11, C.R.S. (the "Supplemental Public Securities Act"); and a resolution (the "State Resolution") adopted by the State Treasurer (the "State Treasurer") and approved and countersigned by the Controller of the State (the "State Controller"). See "THE SERIES 2016B NOTES – Authorization."

***General Provisions.*** The Series 2016B Notes will be dated the date of issuance and delivery to the original purchasers thereof (the "Closing Date") and will mature on June 29, 2017 (the "Series 2016B Notes Maturity Date"). The Series 2016B Notes are not subject to redemption prior to the Series 2016B Notes Maturity Date. Interest on the Series 2016B Notes, at the rates per annum set forth on the cover page hereof (computed on the basis of a 360-day year of twelve 30-day months), will accrue from the Closing Date and will be payable on the Series 2016B Notes Maturity Date. See "THE SERIES 2016B NOTES – General Provisions."

***Book-Entry Only System.*** The Series 2016B Notes will be issued in fully registered form (*i.e.*, registered as to payment of both principal and interest) and registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will serve as securities depository for the Series 2016B Notes. Ownership interests in the Series 2016B Notes ("Beneficial Ownership Interests"), in non-certificated book-entry only form, may be purchased in integral multiples of $5,000 by or through participants in the DTC system ("DTC Participants"). Beneficial Ownership Interests will be recorded in the name of the purchasers thereof ("Beneficial Owners") on the books of the DTC Participants from whom they are acquired, and will be governed as to the receipt of payments, notices and other communications, transfers and various other matters with respect to the Series 2016B Notes by the rules and operating procedures applicable to the DTC book-entry system as described in "THE SERIES 2016B NOTES – General Provisions" and "APPENDIX F – DTC BOOK-ENTRY SYSTEM." References in this Official Statement to the registered owners or the owners of the Series 2016B Notes mean Cede & Co. or such other nominee as may be designated by DTC, and not the Beneficial Owners.

***Security and Sources of Payment.*** The Series 2016B Notes are special, limited obligations of the State payable solely from and secured by a pledge of the following (the "Pledged Revenues"), which the State Treasurer believes will be sufficient for the repayment of the Series 2016B Notes:

- amounts received by the State Treasurer from the Participating Districts on or before June 25, 2017, as repayment of their Program Loans;
- amounts deposited to the "Series 2016-17 Education Loan Program Tax and Revenue Anticipation Notes Repayment Account" of the General Fund (the "Series 2016-17 Notes Repayment Account") as discussed in "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account*"; and
- any unexpended proceeds of the Series 2016A Notes, the Series 2016B Notes and of any additional tax and revenue anticipation notes authorized and issued pursuant to the Loan Program Statutes and the Supplemental Public Securities Act and payable from and secured by a pledge of all or any portion of the Pledged Revenues on a parity with the

pledge thereof in favor of the registered owners (the "Owners") of the Series 2016B Notes ("Parity Lien Notes") that have not been loaned to the Participating Districts, together with the interest earnings thereon in excess of the amount deposited by the State Treasurer in the Series 2016B Notes Proceeds Account on the Closing Date. See "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS – The Series 2016B Notes Proceeds Account."

Interest on the Series 2016B Notes will be payable from a deposit to be made by the State Treasurer on the Closing Date to the Interest Subaccount of the Series 2016-17 Notes Repayment Account in an amount equal to the interest to accrue on the Series 2016B Notes from the Closing Date to the Series 2016B Notes Maturity Date. This deposit is to be made from "Current General Fund Revenues," consisting of any cash income or other cash receipt credited to the General Fund for Fiscal Year 2016-17 that is (i) subject to appropriation for Fiscal Year 2016-17 and (ii) not yet credited to the General Fund as of the Closing Date, but not including the proceeds of the Series 2016A Notes, the Series 2016B Notes, any Parity Lien Notes or of any other borrowing of the State.

Principal of the Series 2016B Notes will be payable from amounts received by the State Treasurer from the Participating Districts on or before June 25, 2017, as repayment of their Program Loans, supplemented if necessary by, among other things, any funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes, including Current General Fund Revenues and any amounts in the State Funds from which the State Treasurer is authorized to borrow under State law ("Borrowable Resources").

*The ability of the State Treasurer to use Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State of Colorado General Fund Tax and Revenue Anticipation Notes, Series 2016A (the "State Series 2016A General Fund Notes"), issued by the State Treasurer on July 19, 2016, in the principal amount of $600 million in order to fund anticipated cash flow shortfalls in the State's General Fund in Fiscal Year 2016-17.*

The Series 2016-17 Notes Repayment Account and the Pledged Revenues are irrevocably pledged to the payment when due of the principal of and interest on the Series 2016A Notes, the Series 2016B Notes and any Parity Lien Notes. The Owners of the Series 2016A Notes, the Series 2016B Notes and any Parity Lien Notes will be equally and ratably secured by a first lien on the Series 2016-17 Notes Repayment Account and the moneys credited thereto.

The Series 2016B Notes do not constitute a debt, an indebtedness or a multiple fiscal year financial obligation of the State or the Participating Districts within the meaning of any applicable provision of the Constitution of the State of Colorado (the "State Constitution") or State statutes, and the Owners and Beneficial Owners of the Series 2016B Notes may not look to any source other than the Pledged Revenues for payment of the Series 2016B Notes.

See generally "THE SERIES 2016B NOTES – Security and Sources of Payment – Parity Lien Notes," "DISTRICT RESOLUTIONS AND DISTRICT NOTES," "SOURCE OF PAYMENT OF PROGRAM LOANS," "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS," "APPENDIX A – THE STATE GENERAL FUND" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

**Legal and Tax Matters**

Kutak Rock LLP, Denver, Colorado, is serving as bond counsel ("Bond Counsel") in connection with the issuance of the Series 2016B Notes and will deliver its opinion substantially in the form included in this Official Statement as "APPENDIX G – FORM OF OPINION OF BOND COUNSEL." Certain legal matters will be passed upon for the State by the Attorney General of the State and by Kline Alvarado Veio, P.C., Denver, Colorado, as special counsel to the State.

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Series 2016B Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax; and interest on the Series 2016B Notes is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws as described herein. See also "LEGAL MATTERS" and "TAX MATTERS" and "APPENDIX G – FORM OF OPINION OF BOND COUNSEL."

**Continuing Disclosure**

In accordance with the exemption set forth in paragraph (d)(3) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), no undertaking to report annual financial information or operating data as set forth in the final Official Statement, or audited financial statements, will be provided by the State in connection with the Series 2016B Notes because the Series 2016B Notes have a stated maturity of less than 18 months. However, the State Treasurer does undertake in the State Resolution to provide notice of certain enumerated events if they occur, as described in "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account* – Covenants of the State" and "CONTINUING DISCLOSURE."

For a discussion of the recent compliance by the State and certain State departments and agencies that utilize the State's credit with the various continuing disclosure undertakings of such entities, see "CONTINUING DISCLOSURE – Compliance With Other Continuing Disclosure Undertakings – MCDC Settlement Order with the Securities and Exchange Commission."

**State Economic and Demographic Information**

This Official Statement contains economic and demographic information about the State prepared by Development Research Partners, Inc. for use by the State. See "APPENDIX D – CERTAIN STATE ECONOMIC AND DEMOGRAPHIC INFORMATION." Development Research Partners, Inc. has consented to the inclusion of such information in this Official Statement. The State does not assume responsibility for the accuracy, completeness or fairness of such information. The information in such Appendix has been included in the Official Statement in reliance upon the authority of Development Research Partners, Inc. as experts in the preparation of economic and demographic analyses. Potential investors should read such Appendix in its entirety for information with respect to the economic and demographic status of the State.

**Additional Information**

Brief descriptions of the Series 2016B Notes, the State Resolution, the Loan Program Statutes, the District Resolutions, the District Notes, the Participating Districts, the State and certain other statutes, reports, documents and instruments are included in this Official Statement. Such descriptions do not purport to be comprehensive or definitive and are qualified in their entirety by reference to each such document, statute, report or other instrument. During the offering period, copies of the State Resolution and certain other documents referred to herein may be obtained from RBC Capital Markets, LLC (the "Financial Advisor"), 1801 California Street, Suite 3850, Denver, Colorado 80202, Attention: Dan O'Connell, telephone number (303) 595-1222.

**Investment Considerations**

An investment in the Series 2016B Notes involves risk. Prospective investors are urged to read this Official Statement in its entirety, giving particular attention to the matters discussed in "INVESTMENT CONSIDERATIONS," in order to obtain information essential to the making of an informed investment decision.

**Forward Looking Statements**

See the inside cover of this Official Statement regarding forward-looking statements.

**Miscellaneous**

The cover page, inside cover, prefatory information and appendices to this Official Statement are integral parts hereof and must be read together with all other parts of this Official Statement.

Information contained in this Official Statement has been obtained from officers, employees and records of the State, the Participating Districts and from other sources believed to be reliable, but this Official Statement is not to be construed as the promise or guarantee of the State, the State Treasurer or the Financial Advisor. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described in this Official Statement since the date hereof. So far as any statements made in this Official Statement involve matters of opinion, forecasts, projections or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

This Official Statement shall not be construed as a contract or agreement between the State and the registered owners or Beneficial Owners of the Series 2016B Notes.

## THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS

**The Loan Program**

Timing differences between revenue collections and disbursements cause many Colorado school districts to incur annual cash flow deficits. The salaries of some school district employees are paid over a 12-month period, and some school district expenses occur on a relatively consistent monthly basis, although most salaries and expenses of school districts are incurred during the traditional school year of September through May. The primary sources of revenue to school districts to meet these expenditures include (i) funding from the State pursuant to the Public School Finance Act of 1994, as amended (the "Public School Finance Act"), which is received in approximately equal monthly amounts throughout the July 1-June 30 fiscal year of the school districts and the State (the "Fiscal Year"), and (ii) property taxes levied by the school districts, most of which are received in March through June when property taxes are paid by taxpayers. See "SOURCE OF PAYMENT OF PROGRAM LOANS." As a result, school districts often experience cash flow shortages during the fall and winter months before such tax revenues are received. School districts may address this cash flow shortage in a variety of ways, including: (i) borrowing funds from the State; (ii) transferring funds to the school district's general fund from other school district funds on a short-term basis; (iii) borrowing funds on a short-term basis through the issuance by the school district of tax anticipation notes; or (iv) borrowing funds on a short-term basis from a bank or other lender.

Under the Loan Program Statutes, upon approval by the State Treasurer of an application submitted by a school district, the State Treasurer is to make available to such school district in any month of the budget year in which a cash flow deficit occurs an interest-free or low-interest loan from the State's General Fund or from the proceeds of tax and revenue anticipation notes. There are certain limits on the receipt of such loans. For instance, a Program Loan may not be made to provide assistance for matters eligible for payment from the school district's contingency reserve or to cover a foreseeable level of uncollectible property taxes, nor may a Program Loan be used by a school district for the simultaneous purchase and sale of the same security or an equivalent security in order to profit from price disparity. All loans to a school district are to be made from the proceeds of tax and revenue anticipation notes issued by the State Treasurer as discussed below; provided, however, that if the amount of the tax and revenue anticipation notes, if any, issued on behalf of a school district as determined by the State Treasurer is not sufficient to cover the school district's cash deficit, the State Treasurer may, in his or her discretion, make available to such school district an emergency low-interest loan from the State's General Fund. Such loan is to have the same rate of interest as that paid by the State Treasurer on the general fund tax and revenue anticipation notes issued by the State Treasurer pursuant to Part 9 of Article 75 of Title 24, C.R.S. See "INVESTMENT CONSIDERATIONS – Liquidity Sources in the Event of a Default in the Repayment of Program Loans; Subordination of Certain State Funds."

The Loan Program Statutes authorize the State Treasurer to issue tax and revenue anticipation notes for the purpose of alleviating temporary cash flow deficits by making interest-free loans available to eligible school districts. The Series 2016B Notes are being issued pursuant to this authorization. See also "THE SERIES 2016B NOTES – Authorization."

**Application of Series 2016B Notes Proceeds**

The proceeds of the Series 2016B Notes, net of amounts used to pay costs and expenses relating to the issuance and sale of the Series 2016B Notes, will be deposited in the Series 2016B Notes Proceeds Account and disbursed from time to time by the State Treasurer upon request of the Participating Districts in order to alleviate temporary general fund cash flow deficits expected to be experienced by such Participating Districts during Fiscal Year 2016-17, subject to the conditions stated in the State Resolution and the District Resolutions. See "Program Loans" and "The Participating Districts" below, "DISTRICT RESOLUTIONS AND DISTRICT NOTES" and "SOURCE OF PAYMENT OF PROGRAM LOANS."

**The Series 2016B Notes Proceeds Account**

The State Resolution directs the State Controller to establish within the State's General Fund the Series 2016B Notes Proceeds Account, which is to be segregated from all other accounts in the General Fund. Moneys deposited in the Series 2016B Notes Proceeds Account are to be applied in accordance with the Loan Program Statutes, including the payment of the costs and expenses related to the issuance and sale of the Series 2016B Notes. The original purchasers of the Series 2016B Notes will not be responsible for the application or disposition by the State or its officers of any of the funds derived from the sale of the Series 2016B Notes.

Moneys held in the Series 2016B Notes Proceeds Account may be commingled for investment purposes with other moneys in the General Fund but are not available for the payment of other General Fund expenditures or interfund transfers. Investment earnings on moneys credited to the Series 2016B Notes Proceeds Account up to the amount deposited by the State Treasurer to the Interest Subaccount on the Closing Date are to be credited to the State General Fund and will not be credited to the Series 2016B Notes Proceeds Account; and investment earnings on moneys credited to the Series 2016B Notes Proceeds Account in excess of the amount deposited by the State Treasurer to the Interest Subaccount on the Closing Date are to be retained therein until June 25, 2017, on which date any remaining moneys credited to such Account are to be transferred to the Interest Subaccount of the Series 2016-17 Notes Repayment Account, after which the Series 2016B Notes Proceeds Account is to be closed. See "APPENDIX A – THE STATE GENERAL FUND – Investment of the State Pool."

**Program Loans**

In order to participate in the Loan Program, each Participating District's governing board (the "Board of Education") must adopt a resolution approving the amount of the Program Loan (the "Maximum Principal Amount") and submit any actual or projected financial or budgetary statements required by the State Treasurer, as well as certain other financial information required by the State Treasurer. Based on such information, the State Treasurer has approved the Maximum Principal Amount of the Program Loan for each such Participating District.

An aggregate amount of not more than the Maximum Principal Amount may be drawn upon in the manner provided in the District Resolution and expended by the Participating District from time to time to fund its general fund cash flow deficit occurring during Fiscal Year 2016-17. See also "DISTRICT RESOLUTIONS AND DISTRICT NOTES" and "SOURCE OF PAYMENT OF PROGRAM LOANS."

**The Participating Districts**

As of the date hereof, the Participating Districts that have requested the State Treasurer to issue the Series 2016B Notes on their behalf are set forth in "SOURCE OF PAYMENT OF PROGRAM LOANS – Summary Financial Information Regarding the Participating Districts." Denver School District No. 1 and Boulder Valley School District RE-2 are expected to borrow the largest percentages of available proceeds of the Series 2016A Notes and the Series 2016B Notes. See "SOURCE OF PAYMENT OF PROGRAM LOANS – Summary Financial Information Regarding the Participating Districts."

## THE SERIES 2016B NOTES

The following is a summary of certain provisions of the Series 2016B Notes during such time as the Series 2016B Notes are subject to the DTC book-entry system. Reference is hereby made to the State Resolution in its entirety for the detailed provisions pertaining to the Series 2016B Notes, including provisions applicable upon discontinuance of participation in the DTC book-entry system.

**Authorization**

The Series 2016B Notes are being issued pursuant to the Loan Program Statutes, the Supplemental Public Securities Act and the State Resolution. The Loan Program Statutes authorize the State Treasurer to issue tax and revenue anticipation notes from time to time to accomplish the purposes of the Loan Program Statutes. See "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS." The State Treasurer may, but does not foresee the need to, issue additional Parity Lien Notes in Fiscal Year 2016-17. See "Parity Lien Notes" under this caption.

**General Provisions**

The Series 2016B Notes will be issued in fully registered form (*i.e.*, registered as to payment of both principal and interest) and registered initially in the name of Cede & Co., as nominee of DTC, which will serve as securities depository for the Series 2016B Notes. Beneficial Ownership Interests in the Series 2016B Notes, in non-certificated book-entry only form, may be purchased in integral multiples of $5,000 by or through DTC Participants. Such Beneficial Ownership Interests will be recorded in the name of the Beneficial Owners on the books of the DTC Participants from whom they are acquired, and will be governed as to payment of principal and interest and the receipt of notices and other communications, transfers and various other matters with respect to the Series 2016B Notes by the rules and operating procedures applicable to the DTC book-entry system as described in "APPENDIX F – DTC BOOK-ENTRY SYSTEM." References in this Official Statement to the registered owners or the owners of the Series 2016B Notes mean Cede & Co. or such other nominee as may be designated by DTC, and not the Beneficial Owners.

The Series 2016B Notes will be dated as of the Closing Date, mature on the Series 2016B Notes Maturity Date and bear interest at the rates per annum (computed on the basis of a 360-day year consisting of twelve 30-day months) set forth on the cover page of this Official Statement. Interest on the Series 2016B Notes will accrue from the Closing Date and will be payable on the Series 2016B Notes Maturity Date. The principal of and interest on the Series 2016B Notes will be payable by the State Treasurer, as paying agent for the Series 2016B Notes (the "Paying Agent"), to Cede & Co., as the Owner of the Series 2016B Notes, for subsequent credit to the accounts of the Beneficial Owners. See "APPENDIX F – DTC BOOK-ENTRY SYSTEM." Interest on the Series 2016B Notes will cease to accrue on the Series 2016B Notes Maturity Date.

The Deputy State Treasurer or the Chief Financial Officer of the Department of the Treasury will serve as the registrar for the Series 2016B Notes (the "Registrar"), subject to the provisions of the DTC book-entry system.

*Neither the State, the State Treasurer, the Deputy State Treasurer, the Chief Financial Officer of the Department of the Treasury, the State Controller nor the Financial Advisor has any responsibility or obligation to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant, (ii) the distribution by DTC or any DTC Participant of any notice that is permitted or required to be given to the Owners of the Series 2016B Notes under the State Resolution, (iii) the payment by DTC or any DTC Participant of any amounts received under the State Resolution with respect to the Series 2016B Notes, (iv) any consent given or other action taken by DTC or its nominee as the Owner of Series 2016B Notes or (v) any other related matter.*

**No Redemption Prior to Maturity**

The Series 2016B Notes are not subject to redemption prior to the Series 2016B Notes Maturity Date.

**Security and Sources of Payment**

*The Series 2016B Notes are special, limited obligations of the State payable solely from the Pledged Revenues, on parity with the Series 2016A Notes and any additional Parity Lien Notes. The Series 2016B Notes do not constitute a debt, an indebtedness or a multiple fiscal year financial obligation of the State or the Participating Districts within the meaning of any applicable provision of the State Constitution or State statutes, and the Owners and Beneficial Owners of the Series 2016B Notes may not look to any source other than the Pledged Revenues for payment of the Series 2016B Notes.*

***The Pledged Revenues.*** The Pledged Revenues consist of: (i) amounts received by the State Treasurer from the Participating Districts on or before June 25, 2017, in repayment of their Program Loans; (ii) amounts deposited to the Series 2016-17 Notes Repayment Account as provided below; and (iii) any unexpended proceeds of the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes that have not been loaned to Participating Districts, together with the interest earnings thereon in excess of the amount deposited by the State Treasurer in the Series 2016B Notes Proceeds Account on the Closing Date. See "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS – The Series 2016B Notes Proceeds Account."

***The Series 2016-17 Notes Repayment Account.*** The State Resolution directs the State Controller to establish within the General Fund the Series 2016-17 Notes Repayment Account, including therein the Interest Subaccount and the Principal Subaccount, all of which are to be segregated from all other accounts in the General Fund. The Series 2016-17 Notes Repayment Account and the Pledged Revenues are irrevocably pledged to the payment when due of the principal of and interest on the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes. The Owners of the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes will be equally and ratably secured by a first lien on the Series 2016-17 Notes Repayment Account and the moneys credited thereto.

On the Closing Date, the State Treasurer is required to deposit to the Interest Subaccount of the Series 2016-17 Notes Repayment Account, from Current General Fund Revenues then available, an amount equal to the interest to accrue on the Series 2016B Notes from the Closing Date to the Series 2016B Notes Maturity Date.

The State Resolution also requires the State Treasurer to credit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account all amounts received from the Participating Districts on or before June 25, 2017, in repayment of their Program Loans. However, if on June 26, 2017, the amount credited to the Principal Subaccount is less than the principal amount of the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes, the State Treasurer is to deposit to the Principal Subaccount the amount of the deficiency from any funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes. The State Resolution further provides that the State Treasurer is to first utilize all other funds that are eligible for investment in the District Notes prior to the application of Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes.

*The ability of the State Treasurer to use Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State Series 2016A General Fund Notes. In addition, the covenant of the State Treasurer to first use all other funds that are eligible for investment in the District Notes in order to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account does not constitute a pledge of or lien on such other funds for that purpose, and there is no limit on the availability or use of such other funds for any other purpose permitted or required by law. If it becomes necessary to make a deposit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account in order to fund a deficiency therein, the State Resolution requires the State Treasurer to take such actions as may be necessary to identify and designate the District Notes as an investment of the Funds used to make such deposit, and the Owners of the Series 2016B Notes will have no right or claim to any amounts received by the State under the District Notes after June 25, 2017. The making of such investment by the State Treasurer, and the determination of the Fund or Funds, if any, to be used therefor, is in all cases subject to the application of the investment policies for the various State Funds established by statute and the State Treasurer and the exercise of the discretion and fiduciary obligation of the State Treasurer in the investment of State funds.* See "INVESTMENT CONSIDERATIONS – Liquidity Sources in the Event of a Default in the Repayment of Program Loans; Subordination of Certain State Funds," "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds," "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS" and "APPENDIX A – THE STATE GENERAL FUND."

Moneys held in the Series 2016-17 Notes Repayment Account may be commingled for investment purposes with other moneys in the General Fund but are not available for the payment of other General Fund expenditures or interfund transfers. Interest income from the investment or reinvestment of moneys credited to the Interest Subaccount and the Principal Subaccount up to and including June 25, 2017, is to be credited to the General Fund and not credited to the Interest Subaccount or the Principal Subaccount. See "APPENDIX A – THE STATE GENERAL FUND – Investment of the State Pool."

***Limitations on the Obligations of the State***. The State Resolution provides that no provision thereof or of the Series 2016B Notes is to be construed or interpreted: (i) to directly or indirectly obligate the State to make any payment in any Fiscal Year in excess of amounts appropriated for such Fiscal Year; (ii) as creating a debt or an indebtedness of the State within the meaning of any applicable provision of the State Constitution or State statutes; (iii) as creating a multiple fiscal year direct or indirect debt or other financial obligation whatsoever of the State within the meaning of Article X, Section 20 of the State Constitution (the "Taxpayer's Bill of Rights" or "TABOR") for which adequate cash reserves have not been pledged irrevocably and held for payment in all future fiscal years; (iv) as a delegation of governmental powers by the State; (v) as a loan or pledge of the credit or faith of the State or as creating any responsibility by the State for any debt or liability of any person, company or corporation within the meaning of Article XI, Section 1 of the State Constitution; or (vi) as a donation or grant by the State to, or in aid of, any person, company or corporation within the meaning of Article XI, Section 2 of the State Constitution. See "STATE FINANCIAL INFORMATION – Taxpayer's Bill of Rights."

**Parity Lien Notes**

The State Resolution authorizes the State Treasurer from time to time during Fiscal Year 2016-17 to issue additional tax and revenue anticipation notes pursuant to the Loan Program Statutes that are payable from and secured by a pledge of all or any portion of the Pledged Revenues on a parity with (but not superior to) the pledge in favor of the Owners of the Series 2016B Notes. Such Parity Lien Notes may have such details as the State Treasurer may determine; provided, however, that the Parity Lien Notes are required to be (i) non-redeemable prior to their Maturity Date, (ii) due and payable as to both principal and interest on the Maturity Date and (iii) payable from the Series 2016-17 Notes Repayment Account.

The State Treasurer currently does not foresee the need to issue additional Parity Lien Notes payable from and secured by a pledge of all or a portion of the Pledged Revenues on parity with the pledge in favor of the Series 2016A Notes and the Series 2016B Notes; however, the State Treasurer reserves the right to issue additional Parity Lien Notes if additional funds are requested by eligible school districts. The State Resolution does not limit the principal amount of Parity Lien Notes.

**Covenants of the State**

The State Treasurer covenants in the State Resolution for the benefit of the original purchasers (the "Purchasers") and the Owners of the Series 2016B Notes to: (i) keep proper books of record and accounts showing complete and correct entries of all transactions relating to the Funds and Accounts referred to therein and in such manner that the amount of Program Loans made to each Participating District and the amount of repayment of such Program Loans by each Participating District may at all times be readily and accurately determined; and (ii) take any and all actions that may be reasonably required to ensure timely collection of the amounts due by Participating Districts under their respective District Notes.

**Defaults and Remedies**

Each of the following constitutes an "Event of Default" under the State Resolution:

- payment of the principal of or interest on any of the Series 2016B Notes is not made on the Series 2016B Notes Maturity Date; or

- the State fails to perform or observe any of the covenants, agreements or conditions contained in the State Resolution or in the Series 2016B Notes and such failure continues for 15 days after receipt of written notice thereof by the State Treasurer from any Owner of any of the Series 2016B Notes.

Upon the occurrence of any Event of Default, any Owner of the Series 2016B Notes may: (i) bring any suit, action or proceeding, at law or in equity, to collect sums due and owing on the Series 2016B Notes or to enforce and protect such Owner's rights under the State Resolution and the Series 2016B Notes; (ii) compel, to the extent permitted by law, by mandamus or otherwise, the performance by the State of any covenant in the State Resolution or the Series 2016B Notes; or (iii) examine the books and records of the State and require the State Treasurer to account for all moneys and investments constituting Pledged Revenues as if the State Treasurer were the trustee of an express trust. Neither principal of nor interest on the Series 2016B Notes may be accelerated as a consequence of any Event of Default.

If on the Maturity Date the moneys in the Series 2016-17 Notes Repayment Account are insufficient to pay the principal of and interest on the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes, the State Treasurer is to ratably apply the moneys in the Series 2016-17 Notes Repayment Account to the payment of the principal and interest then due and unpaid upon the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes, without preference or priority of principal over interest or of interest over principal, or of any Series 2016A Note, Series 2016B Note or additional Parity Lien Note over any other Series 2016A Note, Series 2016B Note or additional Parity Lien Note, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or preference.

### Tax Covenant

The State Treasurer covenants in the State Resolution for the benefit of the Purchasers and the Owners of the Series 2016B Notes that, subject to further investment limitations established pursuant to the terms of the State Resolution, moneys in the Series 2016B Notes Proceeds Account and the Series 2016-17 Notes Repayment Account not immediately needed will be invested only in investments authorized by the Loan Program Statutes; Article 36 of Title 24, C.R.S.; or, to the extent applicable, Part 6 of Article 75 of Title 24, C.R.S.

The State Treasurer further covenants that the State Treasurer will not take any action or omit to take any action with respect to the Series 2016B Notes, the proceeds thereof or other funds of the State if such action or omission: (i) would cause the interest on the Series 2016B Notes to lose its exclusion from gross income for federal income tax purposes under the Internal Revenue Code of 1986, as amended, and the United States Treasury Regulations thereunder (the "Tax Code"); (ii) would cause interest on the Series 2016B Notes to lose its exclusion from alternative minimum taxable income as defined in Section 55(b)(2) of the Tax Code except to the extent such interest is required to be included in the adjusted current earnings adjustment applicable to corporations under Section 56 of the Tax Code in calculating corporate alternative minimum taxable income; or (iii) would cause interest on the Series 2016B Notes to lose its exclusion from State taxable income or State alternative minimum taxable income under present State law. This covenant will remain in full force and effect notwithstanding the payment in full of the Series 2016B Notes until the date on which all obligations of the State Treasurer in fulfilling such covenant under the Tax Code and State law have been met. See also "TAX MATTERS."

## INVESTMENT CONSIDERATIONS

An investment in the Series 2016B Notes involves certain investment risks that are discussed throughout this Official Statement. Each prospective investor should make an independent evaluation of all information presented in this Official Statement in order to make an informed investment decision. Particular attention should be given to the factors described below that, among others, could affect the payment of the principal of and interest on the Series 2016B Notes.

**Limited Obligations**

The Series 2016B Notes are special, limited obligations of the State payable solely from and secured by a pledge of the Pledged Revenues. The State has not pledged its General Fund, taxing power or revenues, other than the Pledged Revenues, to the payment of the Series 2016B Notes. The Series 2016B Notes do not constitute a debt, indebtedness or multiple fiscal year financial obligation of the State or any political subdivision thereof within the meaning of any applicable provision of the State Constitution or State laws; do not constitute general obligations of the State, the Participating Districts or any other political subdivision of the State; and no governmental entity has pledged its faith and credit for the payment of the Series 2016B Notes. If an Event of Default under the State Resolution should occur, there may not be sufficient Pledged Revenues available to pay the principal of and/or the interest on the Series 2016B Notes. See "THE SERIES 2016B NOTES – Security and Sources of Payment – Defaults and Remedies."

**Repayment of Program Loans**

The primary source of Pledged Revenues pledged to pay the principal of the Series 2016B Notes is amounts received by the State Treasurer from the Participating Districts on or before June 25, 2017, as repayment of their Program Loans, which in turn are payable solely from the Taxes of the respective Participating Districts received during the period of March through June of 2017. Property taxes received by a Participating District either prior or subsequent to such period will not be available for repayment of its Program Loan. There is no assurance that a Participating District will collect sufficient Taxes from March through June of 2017 to repay its Program Loan in full. In such event, the State Treasurer is required by the State Resolution to fund the amount of the deficiency, and pay the principal amount of the Series 2016B Notes, from any funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes, but is first to utilize all other funds that are eligible for investment in the District Notes prior to the application of Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes. The State Treasurer is entitled and intends to recover those moneys from such Participating District under the default provisions of the Loan Program Statutes and the District Resolution. See generally "DISTRICT RESOLUTIONS AND DISTRICT NOTES" and "SOURCE OF PAYMENT OF PROGRAM LOANS – Taxes – Ad Valorem Property Tax Procedure – Summary Financial Information Regarding the Participating Districts."

The obligation of a Participating District to make payments in respect of its Program Loan does not constitute a joint obligation with any other Participating District and is strictly limited to the principal amount of the District Note and, under the circumstances described in "DISTRICT RESOLUTIONS AND DISTRICT NOTES – Participation in the Loan Program," default interest thereon (the "Payment Obligation") under its District Resolution.

**Liquidity Sources in the Event of a Default in the Repayment of Program Loans; Subordination of Certain State Funds**

As discussed in "Repayment of Program Loans" under this caption and in "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account*" and "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS," in the event of a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account resulting from a default in the repayment of Program Loans, the State Resolution requires the State Treasurer to deposit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account the amount of the deficiency from any funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes. The State Resolution further provides that the State Treasurer is to utilize all other funds that are eligible for investment for such purpose prior to the application of Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes.

*The ability of the State Treasurer to use Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State Series 2016A General Fund Notes issued by the State Treasurer on July 19, 2016. In addition, the covenant of the State Treasurer to first use all other funds that are eligible for investment in the District Notes in order to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account does not constitute a pledge of or lien on such funds for that purpose, and there is no limit on the availability or use of such funds for any other purpose permitted or required by law. If it becomes necessary to make a deposit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account in order to fund a deficiency therein, the State Resolution requires the State Treasurer to take such actions as may be necessary to identify and designate the District Notes as an investment of the Funds used to make such deposit, and the Owners of the Series 2016B Notes will have no right or claim to any amounts received by the State under the District Notes after June 25, 2017. The making of such investment by the State Treasurer, and the determination of the Fund or Funds, if any, to be used therefor, is in all cases subject to the application of the investment policies for the various State Funds established by statute and the State Treasurer and the exercise of the discretion and fiduciary obligation of the State Treasurer in the investment of State funds.* See "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds."

**Budgets and Revenue Forecasts**

The State Constitution requires that expenditures for any Fiscal Year not exceed revenues for such Fiscal Year. In addition, Section 24-75-201.1(1)(d), C.R.S., provides that for each Fiscal Year, a portion of the unrestricted General Fund year-end balance is to be retained as a reserve (the "Unappropriated Reserve"), and Section 24-75-201.1, C.R.S., provides that General Fund appropriations for each Fiscal Year, with certain exceptions, may not exceed specified amounts, as discussed in "STATE FINANCIAL INFORMATION – Budget Process and Other Considerations – *Revenues and Unappropriated Amounts – Expenditures; The Balanced Budget and Statutory Spending Limitation*."

The State relies on revenue estimation as the basis for budgeting and establishing aggregate funds available for expenditure for its appropriation process. By statute, the Governor's Office of State Planning and Budgeting ("OSPB") is responsible for developing the General Fund revenue estimate. The most recent OSPB revenue forecast was issued on December 20, 2016 (the "OSPB December 2016 Revenue Forecast"), and is included in its entirety in this Official Statement. See "STATE FINANCIAL INFORMATION," "APPENDIX A – THE STATE GENERAL FUND – Revenue Estimation; OSPB Revenue and Economic Forecasts" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST." The Colorado Legislative Council also prepares quarterly revenue forecasts which are released on the same dates as the OSPB revenue forecasts.

The State's Fiscal Year budgets are not prepared on a cash basis, but rather are prepared using the modified accrual method of accounting in accordance with the standards promulgated by the Governmental Accounting Standards Board ("GASB"), with certain statutory exceptions. The State could experience temporary and cumulative cash shortfalls as the result of differences in the timing of the actual receipt of revenues and payment of expenditures by the State compared to the inclusion of such revenues and expenditures in the State's Fiscal Year budgets on a modified accrual basis, which is not solely based on when such amounts are received or paid. If an unanticipated cash shortfall were to occur in late Fiscal Year 2016-17, it may adversely affect the State's ability to fund, if necessary, any deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account on June 26, 2017. See "STATE FINANCIAL INFORMATION – Budget Process and Other Considerations," "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF DEFAULT IN THE REPAYMENT OF PROGRAM LOANS," "APPENDIX A – THE STATE GENERAL FUND –

Revenue Estimation; OSPB Revenue and Economic Forecasts" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

The OSPB December 2016 Revenue Forecast projects that General Fund revenues in Fiscal Year 2016-17 will increase by $435.8 million, or 4.4%, over Fiscal Year 2015-16, and that General Fund revenues in Fiscal Year 2017-18 will increase by $530.1 million, or 5.1%, over Fiscal Year 2016-17. The OSPB December 2016 Revenue Forecast indicates that the State ended Fiscal Year 2015-16 with reserves of $49.7 million in excess of the Unappropriated Reserve requirement and that, based upon the current budget for Fiscal Year 2016-17 and the Governor's November 2016 budget request, the State will end Fiscal Year 2016-17 with reserves of $118.7 million below the Unappropriated Reserve requirement and will end Fiscal Year 2017-18 with reserves of $52.4 million below the Unappropriated Reserve requirement[1]. These figures are based on revenue and budget information available when the OSPB December 2016 Revenue Forecast was completed and are subject to change in subsequent OSPB revenue forecasts based on new information on revenue and expenditures. Amendments to the Governor's budget request are expected to be submitted to the General Assembly in January 2017.

The next OSPB revenue forecast will be released in March 2017. General Fund revenue projections in this and subsequent OSPB revenue forecasts may be materially different from the OSPB December 2016 Revenue Forecast. If a revenue shortfall is projected for Fiscal Year 2016-17 and subsequent forecasted years, budget cuts and/or actions to increase the amount of money in the General Fund will be necessary to ensure a balanced budget. A revenue shortfall in Fiscal Year 2016-17 may adversely affect the State's ability to fund, if necessary, any deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account on June 26, 2017. See "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF DEFAULT IN THE REPAYMENT OF PROGRAM LOANS," "APPENDIX A – THE STATE GENERAL FUND – Revenue Estimation; OSPB Revenue and Economic Forecasts – *Revenue Shortfalls*" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

Prospective investors are cautioned that any forecast is subject to uncertainties, and inevitably some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasted and actual results, and such differences may be material. No representation or guaranty is made herein as to the accuracy of the forecasts. See the inside cover of this Official Statement regarding forward-looking statements.

**Parity Lien Notes**

The State Resolution permits the State to issue additional Parity Lien Notes upon satisfaction of certain conditions provided therein and in the Loan Program Statutes. If issued, such Parity Lien Notes would be payable from and secured by a pledge of the Pledged Revenues on parity with the pledge securing the Series 2016A Notes and the Series 2016B Notes. Therefore, the issuance of additional Parity Lien Notes could materially diminish the level of repayment coverage provided by the Taxes and other funds as security for the Series 2016B Notes. The State Treasurer currently does not foresee the need to issue additional Parity Lien Notes payable from and secured by a pledge of all or a portion of the Pledged Revenues on a parity with the pledge in favor of the Series 2016A Notes and the Series 2016B Notes; however, the State Treasurer reserves the right to issue such additional Parity Lien Notes if additional funds are requested by eligible school districts. The State Resolution does not limit the principal amount of Parity Lien Notes. See "THE SERIES 2016B NOTES – Authorization – Parity Lien Notes."

[1] For comparison purposes, the OSPB December 2016 Revenue Forecast includes a General Fund Overview under current law, without the Governor's November 2016 budget request.

**Loss of Tax Exemption**

As discussed in "TAX MATTERS," the interest on the Series 2016B Notes could become includable in gross income for federal income tax purposes and/or become includable in Colorado taxable income or Colorado alternative minimum taxable income as a result of a failure of the State to comply with certain covenants contained in the State Resolution.

**Future Changes in Laws**

Various State laws and State Constitutional provisions apply to the operations of the Participating Districts and the imposition, collection and expenditure of ad valorem property taxes and other funds by the Participating Districts, including the Taxes and other funds pledged to the repayment of the Program Loans, as well as to the operations of and availability and appropriation of funds by the State. There is no assurance that there will not be any changes in, interpretation of or addition to such laws that would have a material adverse effect, directly or indirectly, on the operations of the Participating Districts, the imposition, collection or expenditure of ad valorem property taxes and other funds by the Participating Districts or the ability of the Participating Districts to repay the Program Loans, or on the affairs of the State, the availability of and appropriation of funds by the State or the ability of the State to repay the Series 2016B Notes.

## DISTRICT RESOLUTIONS AND DISTRICT NOTES

The Board of Education of each Participating District that has requested the State Treasurer to issue the Series 2016B Notes on its behalf has, or prior to the Closing Date is required to have, adopted a District Resolution that authorizes the Participating District to borrow funds from the State Treasurer pursuant to the Loan Program, and has, or prior to the Closing Date is required to have, executed and delivered a District Note to the State Treasurer to evidence the Participating District's obligation to repay its Program Loan. The obligation of a Participating District to make payments in respect of its District Note is not a joint obligation with any other Participating District and is strictly limited to the Payment Obligations of such Participating District under its District Resolution.

Set forth below is a summary of the District Resolutions and District Notes. The District Resolutions and District Notes are substantially the same except as to Maximum Principal Amount and the cash flow projections. The references in this summary to a single District Resolution, District Note or Participating District are, except where otherwise indicated, equally applicable to all of the District Resolutions, District Notes, and Participating Districts. The following summary does not purport to be complete, and is qualified by express reference to the provisions of the District Resolutions and District Notes, copies of which are available as provided in "INTRODUCTION – Additional Information" and "MISCELLANEOUS." A District Resolution may be amended only with the written consent of the State Treasurer. See also "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS – Program Loans – The Participating Districts."

**Participation in the Loan Program**

The District Resolution authorizes the Participating District to participate in the Loan Program for Fiscal Year 2016-17, and to issue and deliver the District Note to the State Treasurer in the Maximum Principal Amount to evidence the Participating District's Payment Obligation, for the purpose of paying the Participating District's projected budgeted expenditures during Fiscal Year 2016-17. The District Note matures on June 25, 2017 (the "District Note Maturity Date"), and is interest-free through such date; provided, however, that if the District Note is not paid in full on the District Note Maturity Date, it will become a defaulted note (a "Defaulted Note") and the unpaid portion thereof will bear interest thereafter until paid at a default rate equal to the interest rate, or the weighted average interest rate, paid by the State Treasurer on the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes. The District Note may be prepaid in whole or in part at any time prior to the District Note Maturity Date.

The Participating District may obtain advances on its Program Loan in the manner discussed in "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS – Program Loans."

The State Treasurer is authorized pursuant to the District Resolution to maintain records on behalf of the Participating District that reflect the outstanding principal amount due under the District Note, the date and amount of the Program Loan and repayment of the Program Loan by the Participating District to the State Treasurer.

**Security for and Payment of the District Note**

The District Note is payable from and secured by a lien in the amount of the Participating District's Payment Obligations on all of the Participating District's ad valorem taxes on real and personal property received by the Participating District during the period of March through June of 2017 that are required to be credited to the Participating District's general fund. Such lien has priority over all other expenditures from such Taxes until the Participating District's Payment Obligations are paid in full. All Taxes received by the Participating District are to be paid to the State Treasurer within one Business Day of receipt until the Payment Obligations are paid in full. The District Resolution authorizes the State Treasurer to pledge and assign the District Note and all or any part of the Participating District's obligations thereunder, including, without limitation, the Participating District's Payment Obligations, to secure the payment of the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes. See "SOURCE OF PAYMENT OF PROGRAM LOANS."

**Defaults and Remedies**

The occurrence of any of the following constitutes a "District Event of Default" with respect to the District Resolution and District Note:

(i) failure by the Participating District to pay in full the principal amount of the District Note when due or before the District Note Maturity Date;

(ii) default by the Participating District in the performance or observance of any other covenant, agreement or obligation of the Participating District under its District Note or District Resolution (other than as described in the previous paragraph) and failure to cure such default within ten days after the earlier of the date that the Participating District furnishes notice of a default or the Participating District receives written notice of default from the State Treasurer;

(iii) with certain exceptions, any warranty, representation or other statement by or on behalf of the Participating District contained in its District Resolution or in any certificate, requisition, report or any other instrument furnished in compliance with or in reference to its District Resolution or its District Note is false or misleading in any material respect; or

(iv) the Participating District applies for or consents to the appointment of a receiver, trustee, liquidator, custodian or the like either of itself or of its property; admits in writing its inability to pay its debts generally as they become due; makes a general assignment for the benefit of creditors; or is adjudicated as bankrupt or insolvent.

Upon the occurrence of a District Event of Default as described in clause (i) above, the statutory remedy of the State Treasurer is to notify the treasurer of each county in which the Participating District levies Taxes that the Participating District is in default on its obligation to pay its Payment Obligation and the amount of the Payment Obligation. Pursuant to the Loan Program Statutes, the county treasurer is thereupon required to withhold any "Default Taxes" (being ad valorem taxes on real and personal property received or to be received by the Participating District after the District Note Maturity Date that are required to be credited to the Participating District's general fund and are available for payment of the Defaulted Note pursuant to Section 22-54-110(2)(c), C.R.S.) to be received by the District and in the possession of the county treasurer in the amount of such unpaid Payment Obligation. If the amount of Default Taxes to be received by the District and in the possession of the county treasurer at the time such notice is given is less than the amount of the Payment Obligation, the county treasurer is to withhold additional Default Taxes to be received by the District and in the possession of the County Treasurer until such time as the Payment Obligation has been paid to the State Treasurer in full. *Default Taxes are available solely to repay a Participating District's Payment Obligation to the State Treasurer following a District Event of Default and are not pledged to the payment of the Series 2016B Notes.*

The State Treasurer also may, with the agreement of the Participating District, acquire from the Participating District real property having a fair market value at least equal to the outstanding balance of the District Note and lease back such property to the Participating District pursuant to a lease-purchase agreement that is subject to annual appropriation. If a Participating District defaults in the payment of rent required by the lease-purchase agreement and fails to cure such default, the State Treasurer may take possession of the property and, upon entry of a judgment in favor of the State Treasurer and the issuance of a writ of restitution, the State Treasurer is to liquidate the property to the best advantage of the State.

Upon the occurrence of any District Event of Default, the State Treasurer may take any other action at law or in equity to enforce the performance or observance of any other obligation, agreement or covenant of the Participating District, and to enforce the levy, liens, pledges and security interests granted or created under the District Resolution. The several remedies available to the State Treasurer upon a District Event of Default are cumulative. No delay or omission to exercise any right or power occurring upon any default is to impair any such right or power or be construed to be a waiver thereof, and all such rights and powers may be exercised as often as may be deemed expedient.

A District Event of Default does not constitute an Event of Default under the State Resolution. See "THE SERIES 2016B NOTES – Defaults and Remedies."

**Other Covenants and Representations**

The Participating District also makes the following covenants and agreements in the District Resolution:

- The Participating District will provide to the State Treasurer demographic and financial information concerning the Participating District relevant to the Participating District's obligations under the District Resolution, which the State Treasurer is authorized to provide, on behalf of the Participating District, to such other parties as the State Treasurer deems necessary and in the best interests of the Participating District in order to consummate the transactions contemplated by the District Resolution and under the Loan Program. The Participating District further covenants that, with respect to the Participating District's operations or description as of the Closing Date and as of the date provided, whether prior to or following the Closing Date, the information so provided will not contain any untrue statement of a material fact, and will not omit any material fact necessary to prevent such statements or information so provided, in light of the circumstances under which they are made, from being misleading.

- The Participating District will not issue notes or other obligations for cash flow purposes that are payable from the Taxes or Defaulted Taxes or are secured by a lien on the Taxes or Defaulted Taxes that is superior to or on a parity with the lien of the District Note.

- The Participating District will furnish to the State Treasurer as soon as possible (and in any event within two Business Days) after the discovery by the Participating District of any District Event of Default, or of any event, act or occurrence that with notice or lapse of time, or both, would become a District Event of Default (a "District Default"), a certificate of an Authorized Officer (as defined in the District Resolution) setting forth the details of such District Event of Default or District Default and the action proposed to be taken by the Participating District with respect thereto.

- The Participating District will deliver to the State Treasurer such financial data as the State Treasurer may reasonably request (including, without limitation, any information relating to Taxes, expenses, available funds, tax rolls, financial statements, budget and cash flow) and, if requested, copies of the Participating District's audited year-end financial statements, budgets, official statements and similar information issued by it to the public.

The Participating District also represents to the State Treasurer that unless, prior to the Closing Date, one of the Authorized Officers of the District notifies the State Treasurer in writing to the contrary, among other things: (i) it has had an ad valorem property tax collection rate of not less than 90% of the aggregate amount of ad valorem property taxes levied within the Participating District in each of the most recent three Fiscal Years; (ii) as of the date of adoption of the District Resolution and on the date of issuance of the District Note the Participating District reasonably expects to collect at least 90% of such amount for Fiscal Year 2016-17; (iii) the Participating District has not defaulted within the past five years, and is not currently in default, on any debt obligation; and (iv) any documents setting forth, among other matters, financial information regarding the District and information relating to the District Resolution and the District's obligations thereunder, other disclosures by the District pursuant to the District Resolution and cash flow projections and ongoing reports pursuant to the District Resolution have been and will be prepared consistent with generally accepted accounting principles; and (v) the District's budget and financial accounting policies and procedures are in compliance with State law.

### Parties in Interest

Nothing in the District Resolution, expressed or implied, is intended to or is to be construed to confer upon or to give to any person or party other than the State Treasurer, acting on behalf of the State, as the sole owner of the District Note, any rights, remedies or claims under or by reason of the District Resolution or any covenant, condition or stipulation thereof, and all covenants, stipulations, promises and agreements in the District Resolution are for the sole and exclusive benefit of the State Treasurer, acting on behalf of the State, as a third party beneficiary.

## SOURCE OF PAYMENT OF PROGRAM LOANS

### Taxes

The Program Loans are payable solely from the Taxes of the Participating Districts, and do not constitute general obligations of the Participating Districts. See "DISTRICT RESOLUTIONS AND DISTRICT NOTES – Security for and Payment of the District Note."

Taxes are limited to ad valorem taxes on real and personal property received by the Participating District during the period of March through June of 2017 that are required to be credited to the Participating District's general fund. These in turn are comprised of the ad valorem property taxes that the Participating District is authorized to impose in accordance with the Public School Finance Act, plus certain permitted "override revenues," both of which are discussed in this section.

In addition to the Taxes, the Participating Districts are also authorized to impose ad valorem property taxes for certain other purposes, such as for bond redemption and capital improvements, and receive various other local, State and federal revenues. However, none of these other revenues constitute Taxes pledged to the payment of the District Loans.

**State Equalization Funding of School Districts**

The discussion under this caption provides an overview of the funding of the Colorado school districts under existing State statutes. *The State portion of the school districts' funding is not pledged to pay the Program Loans*.

***Public School Finance Act of 1994***. Colorado school districts are funded primarily from revenues that are determined in accordance with the Public School Finance Act, which was adopted in furtherance of the duty of the State legislature, known as the General Assembly, under Article IX, Section 2 of the State Constitution to provide for a thorough and uniform system of public schools throughout the State. The Public School Finance Act has applied to school districts for budget years beginning on and after July 1, 1994, and its provisions are to be used to calculate for each school district an amount that represents the financial base of support for public education in that district (the "Total Program"), which is then funded in part by the school district and in part by the State.

The constitutionality of the existing public school finance system has been subject to legal challenges from time to time. With certain exceptions these challenges have been resolved in favor of the State. See also "INVESTMENT CONSIDERATIONS – Future Changes in Laws"

During the 2013 legislative session the General Assembly passed Senate Bill ("SB") 13-213, which creates a new public school finance act that substantially changes the current public school finance system. However, implementation of the new funding program is conditional upon passage by no later than November 2017 of a citizen-initiated Statewide ballot measure to increase State revenues for funding public education. Such an initiative was submitted to the State's voters at the State's general election held on November 5, 2013, but was defeated. Should a subsequent funding initiative be successful, various administrative provisions of the new program would take effect during the first budget year commencing after the election and the new funding formula and the distribution of State moneys under the provisions of the new program would take effect in the second budget year commencing after the election. The new funding program, if eventually implemented, will have no impact on the State's ability to pay the Series 2016B Notes.

***Total Program Funding Formula***. Funding to school districts is based on a per-pupil formula that calculates the Total Program. For each pupil funded in the October 1 pupil count, the formula provides a base per pupil amount of money, increased each year to account for inflation $6,367.90 for Fiscal Year 2016-17), plus additional money to recognize variances among school districts in cost of living, personnel costs and size. The Total Program amount also includes additional funding for at-risk pupils. As these components vary among school districts, so does the amount of Total Program funding provided.

A new factor was introduced in the school finance formula starting in Fiscal Year 2010-11 due to the budget balancing challenges facing the State. This new factor, originally called the "State Budget Stabilization Factor," and pursuant to SB 11-230 renamed the "Negative Factor" beginning with Fiscal

Year 2011-12, reduces in an equitable manner the amount of funding that school districts would have received prior to the application of this factor. In general, the Negative Factor is calculated by first determining the Total Program funding amount for all school districts in the State (the "Statewide Total Program") prior to application of the Negative Factor. The Negative Factor then reduces this Statewide Total Program to an amount set by the General Assembly, which amount reflects reductions to stabilize the State's budget for each Fiscal Year, as applicable. The difference between the Statewide Total Program amount prior to application of the Negative Factor and the established floor amount for the Statewide Total Program after the application of the Negative Factor is utilized to calculate a percentage reduction that is then applied to decrease each school district's Total Program funding amount for a given Fiscal Year.

SB 11-230 extends the Negative Factor to each subsequent budget year without specifying the amount of Total Program funding for any budget year after Fiscal Year 2011-12. The Negative Factor percentage fluctuates depending on the amount of revenues received by the State in a particular Fiscal Year and action taken by the General Assembly.

The general rule for calculating Total Program funding for Fiscal Year 2011-12 and thereafter is as follows:

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Program | = | Funded Pupil Count (October 1) | x | Total Per Pupil Funding | + | At-Risk Funding | + | On-Line Funding and ASCENT | - | Negative Factor |

| | | |
|---|---|---|
| Funded Pupil Count | = | The sum of (i) the greater of the number of pupils enrolled in the school district for the current budget year or the average enrollment for the current and up to four prior budget years (less the Colorado Preschool Program Pupil Counts), plus (ii) the school district's On-line Pupil Count plus (iii) the school district's Colorado Preschool Program Pupil Count. |
| Per Pupil Funding | = | A formula which takes into consideration a Statewide base level plus adjustments for variances in district size, cost of living, personnel costs and non-personnel cost factors specified in the Public School Finance Act. |
| At-Risk Funding | = | Formulaic funding amounts which are based upon the number of district pupils, pupils Statewide eligible for the federal free lunch program and English language learner pupils. |
| On-Line Funding and ASCENT | = | Funding amounts for pupils receiving an education predominantly through an on-line program and residing in the State or participating in the "Accelerating Students Through Concurrent Enrollment" ("ASCENT") program administered by the Colorado Department of Education pursuant to Section 22-35-108, C.R.S. The goals of the ASCENT program are to, among other things, increase the percentage of students who participate in postsecondary education, especially among low-income and traditionally underserved populations. |
| Negative Factor | = | An amount equal to (i) the Negative Factor percentage reduction for a given year multiplied by (ii) a district's Total Program funding amount before application of the Negative Factor. |

The Statewide Total Program funding amount is established in the Public School Finance Act initially based upon projections of various factors. Once actual figures are known, a mid-year revision may be made to this amount.

The Public School Finance Act provides for a minimum level of Total Program funding for Fiscal Year 2016-17 of $7,961.20 per traditional pupil plus 7,679.00 per on-line pupil ($7,041.80 and $6,792.19, respectively, before application of the Negative Factor), although a school district's ability to accept the full amount of Total Program funding may be limited by the constraints on the school district's annual revenue and spending growth discussed in "Taxpayer's Bill of Rights" below.

***Amendment 23***. In November of 2000, the State's voters approved an amendment to the State Constitution relating to funding for public schools, commonly referred to as "Amendment 23." Amendment 23 requires that the base per-pupil funding amount and the funding for categorical programs (such as transportation, language proficiency, expelled and at-risk students, special education, gifted and talented education, vocational education, small attendance centers and comprehensive health education): (i) increase by the rate of inflation plus one percentage point for Fiscal Year 2001-02 through Fiscal Year 2010-11, and (ii) increase by at least the rate of inflation each year thereafter. Amendment 23 also creates the State Education Fund, and (i) mandates that there be deposited therein an amount equal to all State revenues collected from a tax of one-third of one percent on federal taxable income, as modified by law, of every individual, estate, trust and corporation, as defined by law, and (ii) exempts such revenues from the revenue limitations of TABOR. See "Taxpayer's Bill of Rights" below. The General Assembly may appropriate moneys from the State Education Fund only to increase funding in preschool through 12th grade education or for purposes specifically provided in Amendment 23, including accountable education reform, accountable programs to meet State academic standards, reducing class size, expanding technology education, improving public safety, accountability reporting, performance incentives for teachers and public school building capital construction. The Amendment 23 funds may not be used to reduce the current level of general fund appropriations for Total Program funding and categorical programs. Amendment 23 further requires the State to increase its General Fund appropriation for the Public School Finance Act by at least 5% in each year from Fiscal Year 2001-02 through Fiscal Year 2010-11, except in any Fiscal Year in which State personal income grows less than 4.5% between the previous two Fiscal Years, as was the case for Fiscal Years 2008-09 and 2009-10. The State was not required to increase by at least 5% its General Fund appropriation for the Total Program in Fiscal Year 2010-11. See also "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS – Certain Funds Eligible for Investment in the District Notes – *The State Education Fund*" for a discussion of the State Education Fund established by Amendment 23.

***Sources of Funding of Total Program***. Under the Public School Finance Act, a school district's Total Program is funded in part by the school district (the "local share"), with the State funding the balance (the "State share"). The local share is the amount raised by the school district's ad valorem property tax levy (assuming 100% collection) plus the amount of specific ownership tax revenue paid to the school district in the prior Fiscal Year that is attributable to the school district's general fund, excluding override revenues.

Pursuant to the Public School Finance Act, a school district's property tax levy to fund the local share of its Total Program is to be the lowest of the following: (i) the number of mills (one mill equals $0.001) levied by the school district for the immediately preceding property tax year; (ii) the number of mills that will generate property tax revenue in an amount equal to the school district's Total Program for the applicable budget year minus the minimum State aid and the amount of specific ownership tax revenue paid to the school district; (iii) for school districts that have not obtained voter approval to retain and spend revenues in excess of the property tax revenue limitation imposed on such school districts by TABOR (such voter approval commonly referred to as being "De-Bruced"), the number of mills that may be levied by such school districts in accordance with the property tax revenue limitation imposed by TABOR; or (iv) 27.000 mills. See "Taxpayer's Bill of Rights" below and "INVESTMENT CONSIDERATIONS – Repayment of Program Loans."

Specific ownership tax revenue is the portion of the revenues of the specific ownership tax on certain motor vehicles and other personal property imposed by the State pursuant to Article 3 of Title 42, C.R.S., allocable to the school district. Specific ownership taxes are collected on property within each county by the county treasurer, and the total amount of specific ownership taxes collected by the county treasurer is apportioned among all taxing entities within the county on the basis of the amount of ad valorem property taxes levied by such entities within the county during the preceding calendar year.

The difference between the Total Program and the amount generated from the school district's mill levy is required to be paid by the State. The State Legislature is required to make annual appropriations to fund the State's share of the Total Program of all school districts. The availability of State funds to the school district may be affected by actions of the legislature and by the cash position of the State itself. In the event the State's appropriation for its share of the Total Program of all school districts is not sufficient to fund fully the State's share, the Department of Education is required to submit a request for a supplemental appropriation in an amount which will fund fully the State's share during the Fiscal Year in which such insufficiency occurs. If a supplemental appropriation is not made, a percentage reduction in State aid to all school districts receiving State aid is to be made in funding categories not mandated by the State Constitution. Such reductions, or "rescissions," occurred in Fiscal Years 2001-02, 2002-03, 2008-09 and 2009-10. For Fiscal Year 2010-11, the reduction in State aid was effected through the application of the Negative Factor. It is expected that the Negative Factor may occur in future years as a result of State budgetary constraints. See also "Amendment 23" above.

**Override Revenues**

The other source of Taxes pledged to the repayment of Program Loans is "override revenues" received by the Participating District. If a school district or its electorate desires to spend property tax revenues in excess of the amount authorized to fund its share of the Total Program, the school district may, or upon receipt of a valid initiative petition is required to, seek voter approval to raise and spend additional, or "override," property tax revenues. Override revenues currently are permitted for excess transportation costs, special building and technology fund, excess costs related to a full-day kindergarten program and, for school districts that obtained voter approval for override revenues in 2009 or thereafter, capital construction projects. Override revenues are also permitted for a school district whose Fiscal Year 1994-95 actual Total Program exceeded its funding formula calculation for that Fiscal Year (a "hold harmless" district).

The Public School Finance Act currently provides that a school district's override revenues are to be limited to the sum of: (a) the greater of (i) 20% (25% in the case of a school district that obtained voter approval for override revenues in 2009 or thereafter, and 30% for "small rural districts") of the school district's Total Program, or (ii) $200,000; plus (b) an amount equal to the maximum dollar amount of property tax revenue that the school district could have generated for Fiscal Year 2001-02 in a cost of living adjustment election pursuant to Section 22-54-107.5, C.R.S. Override revenues are generated solely from increased property taxes and do not affect the amount of State funding that the school district is otherwise eligible to receive under the Public School Finance Act.

**Ad Valorem Property Taxation Procedure**

***Property Subject to Taxation***. Subject to the limitations discussed in "Taxpayer's Bill of Rights" below, the Board of Education of each school district has the power to certify to each county in which the school district is located a levy for collection of ad valorem taxes against all taxable property within the school district.

Property taxes are uniformly levied against the assessed valuation of all taxable property within the boundaries of the school district. Both real and personal property are subject to taxation unless exempt. Exempt property includes, without limitation: property of the United States of America; property of the State and its political subdivisions; public libraries; public school property; charitable property; religious property; nonprofit cemeteries; irrigation ditches, canals, and flumes used exclusively to irrigate the owner's land; household furnishings and personal effects not used to produce income; intangible personal property; and inventories of merchandise and materials and supplies that are held for consumption by a business or are held primarily for sale; livestock; agricultural and livestock products; and works of art, literary materials and artifacts on loan to a political subdivision, gallery or museum operated by a charitable organization. The State Board of Equalization supervises the administration of all laws concerning the valuation and assessment of taxable property and the levying of property taxes.

***Determination of Actual Value***. Each County Assessor in the State annually conducts appraisals in order to determine, on the basis of statutorily specified approaches, the statutory "actual" value of all taxable property within the county as of January 1st. The statutory actual value of a property is not intended to represent current market value, but, with certain exceptions, is determined by the County Assessor utilizing a "level of value" ascertained for each two-year reassessment cycle from manuals and associated data published by the State Property Tax Administrator for the statutorily-defined period preceding the assessment date. The statutory actual value is based on the "level of value" for the period one and one-half years immediately prior to the July 1st preceding the beginning of the two-year reassessment cycle (adjusted to the final day of the data-gathering period). The one and one-half year period used to determine the level of value advances two years with the start of each reassessment cycle.

The following table sets forth the State property appraisal system for property tax levy years 2011 through 2016:

| Levy Years | Collection Years | Value Calculated as of July 1 | Based on the Market Period |
|---|---|---|---|
| 2011 and 2012 | 2012 and 2013 | 2010 | Jan. 1, 2009 to June 30, 2010 |
| 2013 and 2014 | 2014 and 2015 | 2012 | Jan. 1, 2011 to June 30, 2012 |
| 2015 and 2016 | 2016 and 2017 | 2014 | Jan. 1, 2013 to June 30, 2014 |

Oil and gas leaseholds and lands, producing mines and other lands producing nonmetallic minerals are valued based on production levels rather than by the base year method. Public utilities are valued by the State property tax administrator based upon the value of the utility's tangible property and intangibles (subject to certain statutory adjustments), gross and net operating revenues and the average market value of its outstanding securities during the prior calendar year.

***Determination of Assessed Value***. Assessed valuation, which represents the value upon which ad valorem property taxes are levied, is calculated by the County Assessor as a percentage of statutory actual value. To avoid extraordinary increases in residential real property taxes when the base year level of value is changed, the State Constitution requires the General Assembly to adjust the ratio of valuation for assessment of residential property for each year in which a change in the base year level of value occurs based on an estimated target percentage. This adjustment is mandated in order to maintain the same percentage of the aggregate statewide valuation for assessment attributable to residential property that existed in the previous year. The State Constitution also prohibits any valuation for assessment ratio increase for a property class without prior voter approval. See "Taxpayer's Bill of Rights" below. The ratio of valuation for assessment of residential property has been 7.96% since the 2003 levy year.

All other taxable property, with certain exceptions, is assessed at 29% of statutory actual value. Vacant land (other than agricultural land), which includes land upon which no buildings, structures or fixtures are located, but may include land with site improvements, is also assessed at 29% of statutory actual value. Producing oil and gas property is generally assessed at 87.5% of statutory actual value.

***Protests, Appeals, Abatements and Refunds***. Property owners are notified of the valuation of their land or improvements, or taxable personal property and certain other information related to the amount of property taxes levied, in accordance with certain statutory deadlines. Property owners are given the opportunity to object to increases in the actual value of such property, and may petition for a hearing thereon before the county's board of equalization. Upon the conclusion of such hearings, the County Assessor is required to complete the assessment roll of all taxable property and, no later than August 25th each year, prepare an abstract of assessment therefrom. The abstract of assessment and certain other required information is reviewed by the State Property Tax Administrator prior to October 15th of each year and, if necessary, the State Board of Equalization may order the County Assessor to correct assessments. The valuation of property is subject to further review during various stages of the assessment process at the request of the property owner, by the State Board of Assessment Appeals, the State courts or by arbitrators appointed by the applicable Board of County Commissioners. On the report of an erroneous assessment, an abatement or refund must be authorized by the Board of County Commissioners; however, in no case will an abatement or refund of taxes be made unless a petition for abatement or refund is filed within two years after January 1st of the year in which the taxes were levied. Refunds or abatements of taxes are prorated among all taxing entities that levied a tax against the property.

***Statewide Review***. The General Assembly is required to cause a valuation for assessment study to be conducted each year in order to ascertain whether or not County Assessors statewide have complied with constitutional and statutory provisions in determining statutory actual values and assessed valuations for that year. The final study, including findings and conclusions, must be submitted to the General Assembly and the State Board of Equalization by September 15th of the year in which the study is conducted. Subsequently, the State Board of Equalization may order a county to conduct reappraisals and revaluations during the following property tax levy year. A school district's assessed valuation may be subject to modification following any such annual assessment study.

***Homestead Exemption***. The State Constitution provides to qualified senior citizens and qualified disabled veterans a property tax exemption equal to 50% of the first $200,000 of the actual value of owner-occupied residential real property. In order to qualify for the senior citizen exemption, the owner or his or her spouse must be at least 65 years of age and have occupied the residence for at least ten years, and in order to qualify for the disabled veteran exemption, the veteran must be rated 100% permanently disabled by the federal government. The State is required to reimburse all local governments for the reduction in property tax revenue resulting from this exemption, and therefore the exemption does not result in a loss of revenue to school districts. The homestead exemption for qualified senior citizens was suspended by the General Assembly for property tax collection years 2011 and 2012 as part of a State budget balancing package, which means that senior citizens were required to pay property taxes to local governments for 2011 and 2012 and the State is not required to reimburse such amounts to the local governments. The exemption was restored beginning with property tax bills payable in 2013.

***Taxation Procedure***. The County Assessor is required to certify to the school district the assessed valuation of property within the school district no later than August 25th of each year, which amount is subject to adjustment until December 10th of such year. Subject to the limitations of the State Constitution, based upon the valuation certified by the County Assessor, the school district's Board of Education computes a rate of levy that, when levied upon every dollar of the valuation for assessment of taxable property within the school district, and together with other legally available school district revenues, will raise the amount required by the school district in its upcoming Fiscal Year. The school district subsequently certifies to the applicable county or counties the rate of levy sufficient to produce the needed funds. Such certification must be made no later than December 15th of the property tax levy year for collection of taxes in the ensuing year.

The Board of County Commissioners is required to certify to the County Assessor the levy for all taxing entities within the county by December 22nd of each year. If such certification is not made, it is the duty of the County Assessor to extend the levies of the previous year. Further revisions to the assessed valuation of property may occur prior to the final step in the taxing procedure, which is the delivery by the County Assessor of the tax list and warrant to the County Treasurer.

***Property Tax Collections***. Property taxes levied in one year are collected in the succeeding year. Thus, taxes levied in 2016 will be collected in 2017. Taxes are due on January 1st in the year of collection; however, they may be paid in either a single payment (not later than the last day of April) or in two equal installments (not later than the last day of February and June 15th) without interest or penalty. Interest accrues on unpaid first installments at the rate of 1% per month from March 1st until the date of payment unless the whole amount is paid by April 30th. If the second installment is not paid by June 15th, the unpaid installment will bear interest at the rate of 1% per month from June 16th until the date of payment. Notwithstanding the foregoing, if the full amount of taxes is to be paid in a single payment after the last day of April and is not so paid, the unpaid taxes will bear penalty interest at the rate of 1% per month accruing from the first day of May until the date of payment. The County Treasurer collects current and delinquent property taxes, as well as any interest or penalty, and after deducting a statutory fee for such collection, remits the balance to the school district on a monthly basis, with an additional mid-month payment in March, May and June.

All taxes levied on property, together with interest thereon and penalties for default, and other costs of collection with respect to such taxes as have become delinquent, constitute a perpetual lien on and against the property taxed from January 1st of the property tax levy year until paid. Once a tax lien attaches, it has priority over all other liens, even those created prior in time (except for certain federal liens) such as a deed of trust or mortgage on the property. Thus, while a foreclosure will extinguish liens junior to the lien being foreclosed, it will not extinguish an existing tax lien. The lien would have to be paid as part of the foreclosure process in order to obtain clear title to the property. It is the County Treasurer's duty to enforce the collection of delinquent real property taxes by tax sale of the tax lien on such realty, but no lien can be filed or other collection procedures begun more than six years after the date the taxes become due. Delinquent personal property taxes are enforceable by court action, employment of a collection agency or distraint, seizure and sale of the property. Tax sales of tax liens on realty are held on or before the second Monday in December of the collection year, preceded by a notice of delinquency to the taxpayer and a minimum of four weeks of public notice of the impending public sale. The County Treasurer will issue a certificate of purchase to the successful bidder at the sale, but a deed on the property cannot be issued until at least three years after the sale. Sales of personal property may be held at any time after October 1st of the collection year following notice of delinquency and public notice of sale.

Tax liens may not be sold for less than the aggregate amount of all due taxes, delinquent interest and fees. If no bid to settle the full value of the tax lien is offered, the County Treasurer removes the property from the tax rolls and strikes off the tax lien to the county until the county sells the lien or it is redeemed by the original tax debtor. When any real property has been stricken off to the county and there has been no subsequent purchase, the taxes on such property may be determined to be uncollectible after a period of six years from the date of becoming delinquent and they may be canceled by the county after that time. Therefore, to the extent that a tax lien is not successfully sold at an auction or the county cancels the uncollectible taxes, the proceeds of tax liens sold may not necessarily be sufficient to produce the amount required with respect to property taxes levied by the school district and property taxes levied by overlapping taxing authorities, as well as any interest or costs due thereon.

**Taxpayer's Bill of Rights**

Article X, Section 20 of the State Constitution limits the ability of the State and its local governments, such as school districts, to increase revenues, debt and spending and restricts property, income and other taxes. Generally, TABOR limits most percentage increases in spending and property tax revenues to the prior year's amounts, adjusted for inflation, local growth and voter approved changes. Local growth for school districts is defined as the percentage change in student enrollment. Any revenue received during a Fiscal Year in excess of the limitations provided for in TABOR must be refunded to the taxpayers during the next Fiscal Year unless voters approve a revenue change as an offset. TABOR also requires that school districts obtain voter approval for certain tax or tax rate increases and to create any "multiple fiscal year direct or indirect ... debt or other financial obligation," except for refinancing debt at a lower interest rate or adding new employees to existing pension plans. Voter approval under TABOR is not required for the issuance of the District Notes as they are both issued and payable within the same Fiscal Year and as such do not constitute a "multiple fiscal year direct or indirect ... debt or other financial obligation" within the meaning of TABOR. TABOR also requires school districts to establish and maintain an emergency reserve equal to 3% of fiscal year spending (as defined in TABOR) excluding bonded debt service.

Many of the provisions of TABOR are ambiguous. Several lawsuits have been filed regarding TABOR, and some of its provisions have been judicially interpreted. Future litigation regarding TABOR could raise questions that bear upon the operations and financial condition of school districts. See also "STATE FINANCIAL INFORMATION – Taxpayer's Bill of Rights."

**Budgets**

School districts are required by State law to annually formulate a budget and to hold a public hearing thereon prior to the determination of the amounts to be financed in whole or in part by ad valorem property taxes, funds on hand or estimated revenues from other sources.

No later than 30 days prior to the beginning of each Fiscal Year, the administrators of the school district are required to present the proposed budget to the Board of Education. After conducting a public hearing on the budget proposals, at which time any person paying school taxes in the school district has an opportunity to be heard, the Board of Education is required to adopt a final budget for the succeeding Fiscal Year by resolution specifying the amount of money appropriated to each fund. Beginning in 2009, the Board of Education is required to file the adopted budget with the Department of Education on or before January 31 of each year. By December 15th the Board of Education is to certify to the applicable board of county commissioners the amounts necessary to be raised from levies against the assessed valuation of all taxable property located within the school district to defray expenditures therefrom during the next ensuing Fiscal Year. The Board of Education may not expend moneys in excess of the amount appropriated by resolution for a particular fund.

The annual budget for all expenditures and estimated revenues prepared by the Board of Education becomes the financial operating plan for the school district after adoption by the Board of Education. The budget may be revised from time to time after following steps required by Board of Education policy and State law.

**Financial Statements**

An annual audit of the school district's financial affairs is required by State law to be submitted to the Board of Education within five months after the close of the Fiscal Year and filed with the State Auditor and the State Commissioner of Education within 30 days after receipt thereof by the school district. Failure to file an audit report may result in the withholding of moneys of the school district by the applicable county treasurers until the audit report is filed with the State Auditor.

Due to the number of Participating Districts, the audited financial statements of the Participating Districts are not presented in this Official Statement; however, such financial statements are available upon request as provided in "INTRODUCTION – Additional Information" and "MISCELLANEOUS."

**Summary Financial Information Regarding the Participating Districts**

The following table sets forth certain financial information concerning the Participating Districts. The Participating Districts expected to borrow the largest percentages of available proceeds of the Series 2016A Notes and the Series 2016B Notes are Denver School District No. 1 and Boulder Valley School District RE-2. See "Largest Borrowers" following the table.

## Participating District Financial Information

(Totals may not add due to rounding)

| | Amount of Program Loans[1] | | | | | | Fiscal Year 2016-17 Tax Information | | | | Fiscal Year 2015-16 Loan Program Information[5] | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Participating District** | **Series 2016A Notes** | **% of Total** | **Series 2016B Notes** | **% of Total** | **Total Amount Borrowed** | **% of Total** | **2016 Assessed Valuation (000's)[2]** | **Estimated 2017 Tax Collections[3]** | **Ratio of Amount Borrowed to Estimated 2017 Tax Collections** | **3 Year Average[4]** | **Amount Borrowed** | **Repayment Date (2016)** |
| Aurora | $ -- | -- % | $ 26,307,817 | 10.5% | $ 26,307,817 | 4.7% | $ 2,174,589 | $ 95,587,841 | 27.5% | 98.7% | N/A | N/A |
| Boulder Valley | 46,756,338 | 15.4 | 65,834,396 | 26.2 | 112,590,734 | 20.3 | 5,849,778 | 216,018,899 | 52.1 | 99.4 | $121,373,640 | May 12 |
| Cherry Creek (Arapahoe 5) | 30,538,085 | 10.1 | 23,074,210 | 9.2 | 53,612,295 | 9.7 | 5,259,445 | 214,812,194 | 25.0 | 98.8 | 65,626,212 | May 12 |
| Commerce City (Adams 14)[6] | 2,017,134 | 0.7 | -- | -- | 2,017,134 | 0.4 | 658,223 | 17,633,051 | 11.4 | 97.5 | N/A | N/A |
| Custer County C-1 | 217,794 | 0.1 | 171,619 | 0.1 | 389,413 | 0.1 | 99,495 | 1,806,278 | 24.5 | 100.3 | 269,086 | March 11 |
| Denver R-1 | 174,076,535 | 57.4 | 80,910,684 | 32.2 | 254,987,219 | 46.0 | 13,460,853 | 457,695,439 | 55.7 | 99.3 | 197,000,000 | May 12 |
| Dolores (Montezuma RE-4A) | -- | -- | 740,142 | 0.3 | 740,142 | 0.1 | 149,564 | 2,457,544 | 18.9 | 96.5 | N/A | N/A |
| Douglas County RE-1 | 18,433,823 | 6.1 | 29,053,212 | 11.6 | 47,487,035 | 8.6 | 5,719,149 | 166,602,536 | 28.5 | 97.3 | 21,000,000 | March 11 |
| Durango (La Plata 9R) | 4,266,605 | 1.4 | 48,200 | 0.0 | 4,314,805 | 0.8 | 1,326,637 | 17,140,536 | 25.2 | 98.2 | 4,561,848 | March 25 |
| Eagle County RE-50 | 11,219,691 | 3.7 | 10,422,748 | 4.1 | 21,642,439 | 3.9 | 2,739,829 | 41,983,521 | 51.5 | 98.8 | 19,642,154 | May 12 |
| Estes Park (Larimer R-3) | 978,976 | 0.3 | 1,991,239 | 0.8 | 2,970,215 | 0.5 | 364,154 | 8,245,122 | 36.0 | 99.6 | 2,130,450 | May 12 |
| Gilcrest (Weld RE-1) | 399,510 | 0.1 | 2,001,268 | 0.8 | 2,400,778 | 0.4 | 920,507 | 9,473,386 | 25.3 | 99.3 | 8,748,574 | May 27 |
| Hayden (Routt RE-1) | 909,411 | 0.3 | 904,347 | 0.4 | 1,813,758 | 0.3 | 111,483 | 2,999,904 | 60.5 | 97.4 | 1,799,202 | May 27 |
| Keenesburg (Weld RE-3J) | 2,408,962 | 0.8 | 2,603,243 | 1.0 | 5,012,205 | 0.9 | 976,149 | 14,641,575 | 34.2 | 99.9 | 7,120,445 | May 27 |
| Leadville (Lake County R-1) | 1,576,028 | 0.5 | 633,288 | 0.3 | 2,209,316 | 0.4 | 210,960 | 5,156,181 | 42.8 | 97.0 | 2,801,705 | May 12 |
| Mapleton (Adams 1)[6] | 1,118,532 | 0.4 | -- | -- | 1,118,532 | 0.2 | 569,244 | 16,915,635 | 6.6 | 98.3 | N/A | N/A |
| Montezuma - Cortez RE-1[6] | 1,870,562 | 0.6 | -- | -- | 1,870,562 | 0.3 | 540,448 | 7,095,372 | 26.4 | 99.8 | 2,111,284 | May 12 |
| Platte Valley (Weld RE-7) | 385,306 | 0.1 | 141,366 | 0.16 | 526,672 | 0.1 | 990,223 | 5,962,120 | 8.8 | 99.9 | 3,667,959 | May 12 |
| Pueblo 70[6] | 504,166 | 0.2 | -- | -- | 504,166 | 0.1 | 671,538 | 16,247,048 | 3.1 | 98.5 | 2,813,981 | March 11 |
| Sierra Grande (Costilla R-30) | -- | -- | 237,660 | 0.1 | 237,660 | 0.0 | 62,934 | 1,636,014 | 14.5 | 97.3 | 635,544 | April 14 |
| Summit County RE-1 | 5,822,102 | 1.9 | 2,771,413 | 1.1 | 8,593,515 | 1.6 | 1,736,382 | 23,689,606 | 36.3 | 99.8 | 1,062,774 | March 11 |
| Wiggins (Morgan RE-50J)[6] | 12,795 | 0.0 | -- | -- | 12,795 | 0.0 | 181,139 | 2,690,005 | 0.5 | 97.7 | 300,000 | March 11 |
| Windsor (Weld RE-4) | -- | -- | 3,312,701 | 1.3 | 3,312,701 | 0.6 | 680,195 | 20,876,778 | 15.9 | 100.0 | 3,470,870 | May 12 |
| | $303,512,355 | 100.0% | $251,159,556 | 100.0% | $554,671,911 | 100.0% | | | | | | |

[1] These are estimates based upon information furnished by the Participating Districts regarding the amounts that they will borrow from the proceeds of the Series 2016A Notes and the Series 2016B Notes. Such amounts do not necessarily represent the actual Maximum Principal Amount that will be borrowed from the Loan Program by such Participating Districts. See "THE LOAN PROGRAM; APPLICATION OF SERIES 2016B NOTES PROCEEDS." The Owners of the Series 2016B Notes will have a lien upon the Taxes of these Participating Districts, as well as on the Taxes of any Participating Districts that have not yet expressed the intent to participate in the Series 2016B Notes program (and thus are not included in the table) but eventually do participate in the program. Such lien also will be on parity with the lien thereon of the Owners of any Additional Parity Lien Notes. See "THE SERIES 2016B NOTES – Parity Lien Notes."

[2] See "Ad Valorem Property Tax Procedure – *Taxation Procedure*" above.

[3] This amount was calculated for each Participating District by multiplying the 2016 assessed value of the Participating District by the Participating District's 2016 general fund mill levy; and assumes collections of 100% of Taxes collected by all Participating Districts normally during the months of March through June of 2017. See also "State Equalization Funding of School Districts – Allocation of Total Program Funding" above and "INVESTMENT CONSIDERATIONS – Repayment of Program Loans."

[4] Based on each Participating District's actual collection data for Fiscal Years 2013-14, 2014-15 and 2015-16.

[5] Participating District's actual borrowing amounts and repayment dates for Fiscal Year 2015-16. These amounts were funded with the proceeds of the State's Education Loan Program Tax and Revenue Anticipation Notes, Series 2015A and Series 2015B.

[6] These Districts were originally scheduled to borrow from the proceeds of the Series 2016A Notes and/or the Series 2016B Notes, but will not be borrowing from the proceeds of the Series 2016A Notes or the Series 2016B Notes due to improved cash flow positions.

Sources: The Participating Districts, the Colorado Department of Education and the State Treasurer's Office

**Largest Borrowers**

***Denver School District No. 1.*** School District No. 1, commonly known as Denver Public Schools ("DPS"), is expected to be the largest borrower of proceeds of the Series 2016A Notes and the Series 2016B Notes. DPS expects to borrow approximately 57.4% of the net proceeds of the Series 2016A Notes and approximately 32.2% of the net proceeds of the Series 2016B Notes, or approximately 46.0% of the combined amount of the Series 2016A Notes and the Series 2016B Notes.

DPS is the only school district serving the City and County of Denver, the boundaries of which are coterminous with those of the City, encompassing approximately 155 square miles with an estimated population of approximately 635,000. For the 2016-17 school year, the district's full time equivalent pupil count (October 1 pupil count), including charter schools but excluding on-line and ASCENT pupils, is 85,849.5. The equivalent October 1 pupil counts for the 2015-16, 2014-15 and 2013-14 school years were 85,584.6, 83,221.0 and 79,714.5, respectively. See "State Equalization Funding of School Districts – *Total Program Funding Formula*" above in this section.

The 2015 certified assessed valuation of DPS (for ad valorem property tax collections in 2016), net of the assessed valuation attributable to tax increment financing districts from which the district derives no property tax revenue, is approximately $13.22 billion. The district's total tax levy for the 2015 levy year (2016 tax collection year) is 47.397 mills, of which 25.541 mills is for the district's local share of Total Program funding pursuant to the Public School Finance Act, 10.976 mills is for voter-approved override revenues, 10.250 mills is for debt service on general obligation bonds and 0.630 mills is to recover lost revenue due to prior year tax abatements and credits.

The 2016 certified assessed valuation of DPS (for ad valorem property tax collections in 2017), net of the assessed valuation attributable to tax increment financing districts from which the district derives no property tax revenue, is approximately $13.46 billion. The district's total tax levy for the 2016 levy year (2017 tax collection year) is 50.396 mills, of which 25.541 mills is for the district's local share of Total Program funding pursuant to the Public School Finance Act, 14.948 mills is for voter-approved override revenues, 9.383 mills is for debt service on general obligation bonds and 0.524 mills is to recover lost revenue due to prior year tax abatements and credits.

***Boulder Valley School District RE-2.*** Boulder Valley School District RE-2 ("BVSD") is expected to be the second largest borrower of proceeds of the Series 2016A Notes and the Series 2016B Notes. BVSD expects to borrow approximately 15.4% of the net proceeds of the Series 2016A Notes and approximately 26.2% of the net proceeds of the Series 2016B Notes, or approximately 20.3% of the combined amount of the Series 2016A Notes and the Series 2016B Notes.

BVSD encompasses approximately 500 square miles in Boulder and Gilpin Counties and the City and County of Broomfield approximately 20 miles northwest of Denver, including the cities of Boulder, Lafayette, Louisville and Superior, a large portion of the City and County of Broomfield, the towns of Gold Hill, Jamestown, Nederland and Ward, a portion of the town of Erie and certain unincorporated areas within the counties. The district serves an estimated population of 211,000. For the 2016-17 school year, the district's full time equivalent pupil count (October 1 pupil count), including charter schools but excluding on-line and ASCENT pupils, is 80,876.1. The equivalent October 1 pupil counts for the 2015-16, 2014-15 and 2013-14 school years were 29,702.3, 28,556.5 and 28,674.0, respectively. See "State Equalization Funding of School Districts – *Total Program Funding Formula*" above in this section.

The 2015 certified assessed valuation of BVSD (for ad valorem property tax collections in 2016), net of the assessed valuation attributable to tax increment financing districts from which the district derives no property tax revenue, is approximately $5.85 billion. The district's total tax levy for the 2015 levy year (2016 tax collection year) is 45.814 mills, of which 25.023 mills is for the district's local share of Total Program funding pursuant to the Public School Finance Act, 11.348 mills is for voter-approved override revenues, 1.247 mills is to fund excess transportation costs, 7.885 mills is for debt service on general obligation bonds and 0.311 mills is to recover lost revenue due to prior year tax abatements and credits.

The 2016 certified assessed valuation of BVSD (for ad valorem property tax collections in 2017), net of the assessed valuation attributable to tax increment financing districts from which the district derives no property tax revenue, is approximately $5.85 billion. The district's total tax levy for the 2016 levy year (2017 tax collection year) is 48.961 mills, of which 25.023 mills is for the district's local share of Total Program funding pursuant to the Public School Finance Act, 11.473 mills is for voter-approved override revenues, 1.248 mills is to fund excess transportation costs, 8.995 mills is for debt service on general obligation bonds, 1.709 mills is for charter schools and 0.513 mills is to recover lost revenue due to prior year tax abatements and credits.

**Major Taxpayers**

Taxes consist of only those revenues that are received by the Participating Districts during the period of March through June of 2017. Typically, taxing entities do not collect 100% of the taxes levied each year; however, the property tax collection rate among the Participating Districts historically has been very high as shown in the previous table.

Receipt of Taxes by the Participating Districts requires timely payment of ad valorem property taxes by property owners. Participating Districts having one or more large taxpayers are particularly dependent upon the timely payment of property taxes by such taxpayers. Taxpayers owning more than 10% of the property comprising the certified assessed valuation of a Participating District typically are public or private companies involved in the mining or drilling industries or in the production of power. Property tax payments by such taxpayers could be impacted not only by each taxpayer's individual financial condition but also by events that negatively impact the energy production industry as a whole. It is not possible to predict whether any such events will occur that will have a material impact upon the repayment of the Program Loans.

## THE STATE

**General Profile**

Colorado became the 38th state of the United States of America when it was admitted to the union in 1876. Its borders encompass 103,718 square miles of the high plains and the Rocky Mountains, with elevations ranging from 3,315 to 14,433 feet above sea level. The current population of the State is approximately five million. The State's major economic sectors include agriculture, professional and business services, manufacturing, technology, tourism, energy production and mining. Considerable economic activity is generated in support of these sectors by government, wholesale and retail trade, transportation, communications, public utilities, finance, insurance, real estate and other services. See also "APPENDIX C – STATE OF COLORADO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2015" and "APPENDIX D – CERTAIN STATE ECONOMIC AND DEMOGRAPHIC INFORMATION" for additional information about the State.

**Organization**

The State maintains a separation of powers utilizing three branches of government: executive, legislative and judicial. The executive branch comprises four major elected officials: the Governor, State Treasurer, Attorney General and Secretary of State. The chief executive power is allocated to the Governor, who has responsibility for administering the budget and managing the executive branch. The State Constitution empowers the General Assembly to establish up to 20 principal departments in the executive branch. Most departments of the State report directly to the Governor; however, the Departments of Treasury, Law and State report to their respective elected officials, and the Department of Education reports to the elected State Board of Education. The elected officials serve four year terms.

The current term of such officials commenced in January of 2015 (following the general election held in November of 2014) and will expire on the second Tuesday in January of 2019. No elected executive official may serve more than two consecutive terms in the same office.

The General Assembly is bicameral, consisting of the 35-member Senate and 65-member House of Representatives. Senators serve a term of four years and representatives serve a term of two years. No senator may serve more than two consecutive terms, and no representative may serve more than four consecutive terms. The State Constitution allocates to the General Assembly legislative responsibility for, among other things, appropriating State moneys to pay the expenses of State government. The General Assembly meets annually in regular session beginning no later than the second Wednesday of January of each year. Regular sessions may not exceed 120 calendar days. Special sessions may be convened by proclamation of the Governor or by written request of two-thirds of the members of each house to consider only those subjects for which the special session is requested.

## STATE FINANCIAL INFORMATION

The information in this section, "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS," "APPENDIX A – THE STATE GENERAL FUND" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST" describes general State finances and particularly funds that are eligible for investment in the District Notes. On the Closing Date, the State Treasurer is required to deposit to the Interest Subaccount of the Series 2016-17 Notes Repayment Account, from Current General Fund Revenues then available, an amount equal to the interest to accrue on the Series 2016B Notes from the Closing Date to the Series 2016B Notes Maturity Date. The State Resolution also requires the State Treasurer to credit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account all amounts received from the Participating Districts on or before June 25, 2017, in repayment of their Program Loans. Prospective investors are advised that in the event the amounts received by the State Treasurer from Participating Districts as repayment of their Program Loans on or before June 25, 2017, together with investment earnings thereon, is insufficient to pay the principal of the Series 2016B Notes when due, the principal of the Series 2016B Notes will be payable solely from funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes. The Series 2016B Notes are not general obligations of the State. See also "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account*" and "INVESTMENT CONSIDERATIONS – Repayment of Program Loans – Liquidity Sources in the Event of a Default in the Repayment of Program Loans; Subordination of Certain State Funds."

### The State Treasurer

The State Constitution provides that the State Treasurer is to be the custodian of public funds in the State Treasurer's care, subject to legislative direction concerning safekeeping and management of such funds. The State Treasurer is the head of the statutorily created Department of the Treasury (the "State Treasury"), which receives all State moneys collected by or otherwise coming into the hands of any officer, department, institution or agency of the State (except certain institutions of higher education). The State Treasurer deposits and disburses those moneys in the manner prescribed by law. Every officer, department, institution and agency of the State (except for certain institutions of higher education) charged with the responsibility of collecting taxes, licenses, fees and permits imposed by law and of collecting or accepting tuition, rentals, receipts from the sale of property and other moneys accruing to the State from any source is required to transmit those moneys to the State Treasury under procedures prescribed by law or by fiscal rules promulgated by the Office of the State Controller. The State Treasurer and the State Controller may authorize any department, institution or agency collecting or receiving State moneys to deposit such moneys to a depository to the State Treasurer's credit in lieu of transmitting such moneys to the State Treasury.

The State Treasurer has discretion to invest in a broad range of interest bearing securities described by statute. See "Investment and Deposit of State Funds" under this caption and "APPENDIX A – THE STATE GENERAL FUND – Investment of the State Pool." All interest derived from the deposit and investment of State moneys must be credited to the General Fund unless otherwise expressly provided by law.

**Taxpayer's Bill of Rights**

***General***. As discussed in "SOURCE OF PAYMENT OF PROGRAM LOANS – Taxpayer's Bill of Rights," Article X, Section 20 of the State Constitution, entitled the Taxpayer's Bill of Rights and commonly known as "TABOR," imposes various fiscal limits and requirements on the State and its local governments, excluding "enterprises," which are defined in TABOR as government-owned businesses authorized to issue their own revenue bonds and receiving less than 10% of their annual revenues in grants from all State and local governments combined. Certain limitations contained in TABOR may be exceeded with prior voter approval.

TABOR provides a limitation on the amount of revenue that may be kept by the State in any particular Fiscal Year, regardless of whether that revenue is actually spent during the Fiscal Year. This revenue limitation is effected through a limitation on "fiscal year spending" as discussed hereafter. Any revenue received during a Fiscal Year in excess of the limitations provided for in TABOR must be refunded to the taxpayers during the next Fiscal Year unless voters approve a revenue change.

TABOR also requires prior voter approval for the following, with certain exceptions: (i) any new State tax, State tax rate increase, extension of an expiring State tax or State tax policy change directly causing a net revenue gain to the State; or (ii) the creation of any State "multiple fiscal year direct or indirect ... debt or other financial obligation."

Thirdly, TABOR requires the State to maintain an emergency reserve equal to 3% of its fiscal year spending (the "TABOR Reserve"), which may be expended only upon: (i) the declaration of a State emergency by passage of a joint resolution approved by a two-thirds majority of the members of both houses of the General Assembly and subsequently approved by the Governor; or (ii) the declaration of a disaster emergency by the Governor. The annual Long Appropriation Bill (the "Long Bill") designates the resources that constitute the TABOR Reserve, which historically have consisted of portions of various State funds plus certain State real property. The amounts of the TABOR Reserve for Fiscal Years 2016-17 and 2017-18 have been estimated in the OSPB December 2016 Revenue Forecast to be $394.0 million and $416.1 million, respectively.

***Fiscal Year Revenue and Spending Limits; Referendum C***. As noted above, unless otherwise approved by the voters, TABOR limits annual increases in State revenues and fiscal year spending, with any excess revenues required to be refunded to taxpayers. Fiscal year spending is defined as all expenditures and reserve increases except those for refunds made in the current or next Fiscal Year or those from gifts, federal funds, collections for another government, pension contributions by employees and pension fund earnings, reserve transfers or expenditures, damage awards or property tax sales.

The maximum annual percentage change in State fiscal year spending is limited by TABOR to inflation (determined as the percentage change in U.S. Bureau of Labor Statistics Consumer Price Index for Denver, Boulder and Greeley, all items, all urban consumers, or its successor index) plus the percentage change in State population in the prior calendar year, adjusted for revenue changes approved by voters after 1991, being the base year for calculating fiscal year spending. TABOR provides for an automatic decrease in the State fiscal year spending limit when State TABOR revenues decline without a corresponding automatic increase in State fiscal year spending limit when State TABOR revenues increase. This can result in what is commonly referred to as the "ratchet down effect" whenever there is a decline in TABOR revenues. The ratchet down effect occurs because each year's TABOR limit is calculated based on the lesser of the prior year's TABOR revenues or the prior year's TABOR limit. In a year in which the State's TABOR revenues are below the existing TABOR limit, the lesser amount is required to be used to calculate the following year's TABOR limit. Unlike this automatic reduction, the only means of increasing the TABOR limit is with the approval of State voters. The State experienced the ratchet down effect when TABOR revenues declined by 13.1% between Fiscal Years 2000-01 and 2002-03, followed by an increase of 8.0% in Fiscal Year 2003-04.

Several measures were passed by the General Assembly during the 2005 legislative session in an effort to relieve State budget challenges, including statutory changes designed to mitigate the ratchet down effect of TABOR on the State's finances. One of two measures that were referred by the General Assembly to a statewide vote in November of 2005, designated "Referendum C," was approved by State voters and thereafter codified as Sections 24-77-103.6 and 106.5, C.R.S. The immediate impact of Referendum C was to preclude any ratchet down effect on the State beginning in Fiscal Years 2005-06. It also authorized the State to retain and spend any amount in excess of the TABOR limit in Fiscal Years 2005-06 through 2009-10. For Fiscal Years 2010-11 and thereafter, Referendum C created an Excess State Revenues Cap, or "ESRC," as a voter-approved revenue change under TABOR that now serves as the limit on the State's fiscal year revenue retention. The base for the ESRC was established as the highest annual State TABOR revenues received in Fiscal Years 2005-06 through 2009-10. This amount, being the revenues received in Fiscal Year 2007-08, is then adjusted for each subsequent Fiscal Year for inflation, the percentage change in State population, the qualification or disqualification of enterprises and debt service changes, each having their respective meanings under TABOR and other applicable State law.

As a result of Referendum C, the State was able to retain the following amounts in excess of the previously applicable TABOR limit: $1.116 billion in Fiscal Year 2005-06, $1.308 billion in Fiscal Year 2006-07 and $1.169 billion in Fiscal Year 2007-08. TABOR revenues did not exceed the TABOR limit in either of Fiscal Years 2008-09 or 2009-10. TABOR revenues exceeded the TABOR limit in Fiscal Years 2010-11, 2011-12 and 2012-13 by $0.771 billion, $1.473 billion and $1.860 billion, respectively, although no refunds were required because such revenues were below the applicable ESRC.

The OSPB December 2016 Revenue Forecast states that TABOR revenues in Fiscal Years 2014-15 through 2017-18 exceeded, or are forecast to exceed, the TABOR limit by $2.384 billion, $2.470 billion, $2.446 billion and $2.713 billion, respectively, resulting in the State being $169.7 million above the actual ESRC in Fiscal Year 2014-15, $49.9 million below the projected ESRC in Fiscal Year 2015-16, $152.2 million below the projected ESRC in Fiscal Year 2016-17 and $224.7 million above the projected ESRC in Fiscal Year 2017-18.

A refund of $153.7 million[1] of the Fiscal Year 2014-15 excess was scheduled to be made to taxpayers via their 2015 tax returns. The other $19.6 million of the excess resulted from a reclassification of revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund as being subject to TABOR. This money helps fund dental services for adults under the Medicaid program. Previously, the money was not counted as TABOR revenue. However, the legal analysis and audit review on this occurred after refund amounts were established for State income tax forms. Such adjustments and audit findings have occurred in the past and the process calls for the money to be refunded in the next year a refund is due, which, according to the OSPB December 2016 Revenue Forecast, will be Fiscal Year 2017-18. In addition to the $19.6 million adjustment, a net $14.1 million in revenue was recently identified as being exempt from TABOR in Fiscal Year 2014-15 that was previously counted as nonexempt. Most of this amount is from revenue received by the Department of Public Safety. This change will offset a portion of the $19.6 million increase to refunds from the Fiscal Year 2014-15 transfer

[1] This amount includes $150.1 million in revenue above the ESRC for Fiscal Year 2014-15, as well as $3.6 million in pending amounts owed related to refunds from prior years as the result of either (a) adjustments that were made to State accounting records for years in which TABOR refunds occurred that resulted in additional required refunds to taxpayers, or (b) the refund mechanisms used in previous years resulting in refunds of less than the amount required. Such refunds are held by the State until a future year in which a TABOR refund occurs, when they are added to the total refund amount and distributed to taxpayers. See "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST – Taxpayer's Bill of Rights: Revenue Limit."

to the Adult Dental Fund in the next year a refund is due. For Fiscal Year 2017-18, the TABOR refund amount is expected to be $247.7 million, which includes the projected $224.7 million above the ESRC plus the adjustments noted above and an estimated remaining $17.5 million that was under-refunded for Fiscal Year 2014-15. See "APPENDIX A – THE STATE GENERAL FUND – General Fund Overview" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST – Taxpayer's Bill of Rights: Revenue Limit."

Referendum C also creates the "General Fund Exempt Account" within the General Fund, to which there is to be credited moneys equal to the amount of TABOR revenues in excess of the TABOR limit that the State retains for a given Fiscal Year pursuant to Referendum C. Such moneys may be appropriated or transferred by the General Assembly for the purposes of: (i) health care; (ii) public elementary, high school and higher education, including any related capital construction; (iii) retirement plans for firefighters and police officers if the General Assembly determines such funding to be necessary; and (iv) strategic transportation projects in the Colorado Department of Transportation Strategic Transportation Project Investment Program.

***Voter Approval to Retain and Spend Certain Marijuana Taxes Associated with Proposition AA***. At the general election held on November 3, 2015, the State's voters authorized the State to retain and spend $66.1 million in sales and excise taxes on the sale of marijuana and marijuana products ("Marijuana Taxes") authorized by Proposition AA approved by the State's voters in November of 2013 that would otherwise have been subject to a required refund to taxpayers in Fiscal Year 2015-16 pursuant to TABOR. House Bill ("HB") 15-1367, which referred the measure (Proposition BB) to the State's voters, also provides for the allocation of the retained amount for public school capital construction, for various purposes such as law enforcement, youth programs and marijuana education and prevention programs and for use by the General Fund for any purpose. For more information on how these amounts are treated in the General Fund, see the discussion in "General Fund and State Education Fund Budget" in the OSPB December 2016 Revenue Forecast. HB 15-1367 also reduces the 10% special sales tax on retail marijuana sales to 8% starting in Fiscal Year 2017-18, subject, however, to later reinstatement without additional voter approval under the circumstances provided therein.

***Effect of TABOR on the Series 2016B Notes***. Voter approval under TABOR is not required for the issuance of the Series 2016B Notes as they are both issued and payable within the same Fiscal Year and as such do not constitute a "multiple fiscal year direct or indirect ... debt or other financial obligation" within the meaning of TABOR. Further, the revenue and spending limits of TABOR are not expected to affect the ability of the State to collect and spend the Pledged Revenues for the payment of the principal of and interest on the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes.

**State Funds**

The principal operating fund of the State is the General Fund. All revenues and moneys not required by the State Constitution or statutes to be credited and paid into a special fund are required to be credited and paid into the General Fund. The State also maintains a large number of statutorily created special funds for which specific revenues are designated for specific purposes, and, if necessary, are available for paying the principal of the Series 2016B Notes. Some of the Funds are considered Borrowable Resources available to pay the principal of and interest on any outstanding State General Fund Tax and Revenue Anticipation Notes, including, without limitation, the State Series 2016A General Fund Notes. See "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account*," "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS – Certain Funds Eligible for Investment in the District Notes – Borrowable Resources – The State General Fund," "APPENDIX A – THE STATE GENERAL FUND" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

**Budget Process and Other Considerations**

***Phase I (Executive)***. The budget process begins in June of each year when State departments reporting to the Governor prepare both operating and capital budgets for the Fiscal Year beginning 13 months later. In August, these budgets are submitted to the OSPB, a part of the Governor's office, for review and analysis. The OSPB advises the Governor on departmental budget requests and overall budgetary status. Budget decisions are made by the Governor following consultation with affected departments and the OSPB. Such decisions are reflected in the first budget submitted in November for each department to the Joint Budget Committee of the General Assembly (the "JBC"), as described below. In January, the Governor makes additional budget recommendations to the JBC for the budget of all branches of the State government, except that the elected executive officials, the judicial branch and the legislative branch may make recommendations to the JBC for their own budgets.

***Phase II (Legislative)***. The JBC, consisting of three members from each house of the General Assembly, develops the legislative budget proposal embodied in the Long Bill, which is introduced in and approved by the General Assembly. Following receipt of testimony by State departments and agencies, the JBC marks up the Long Bill and directs the manner in which appropriated funds are to be spent. The Long Bill includes: (i) General Fund appropriations, supported by general purpose revenue such as taxes; (ii) General Fund Exempt appropriations primarily funded by TABOR-exempt or excess TABOR revenues retained under Referendum C; (iii) cash fund appropriations supported primarily by grants, transfers and departmental charges for services; (iv) reappropriated amounts funded by transfers and earnings appropriated elsewhere in the Long Bill; and (v) estimates of federal funds to be expended that are not subject to legislative appropriation. The Long Bill usually is reported to the General Assembly in March or April with a narrative text. Under current practice, the Long Bill is reviewed and debated in party caucuses in each house. Amendments may be offered by each house, and the JBC generally is designated as a conference committee to reconcile differences. The Long Bill always has been adopted prior to commencement of the Fiscal Year in July. Specific bills creating new programs or amending tax policy are considered separately from the Long Bill in the legislative process. The General Assembly takes action on these specific bills, some of which include additional appropriations separate from the Long Bill. The Long Bill for Fiscal Year 2016-17 (HB 16-1405) was adopted by the General Assembly in April of 2016.

***Phase III (Executive)***. The Governor may approve or veto the Long Bill or any specific bills. In addition, the Governor may veto line items in the Long Bill or any other bill that contains an appropriation. The Governor's vetoes are subject to override by a two-thirds majority of each house of the General Assembly. The Long Bill for Fiscal Year 2016-17 was approved and signed by the Governor on May 3, 2016.

***Phase IV (Legislative)***. During the Fiscal Year for which appropriations have been made, the General Assembly may increase or decrease appropriations through supplemental appropriations. Any supplemental appropriations are considered amendments to the Long Bill and are subject to the line item veto of the Governor.

***Revenues and Unappropriated Amounts***. For each Fiscal Year, a statutorily defined amount of unrestricted General Fund year-end balances is required to be retained as a reserve (as previously defined, the "Unappropriated Reserve"), which may be used for possible deficiencies in General Fund revenues. Unrestricted General Fund revenues that exceed the required Unappropriated Reserve, based upon revenue estimates, are then available for appropriation, unless they are obligated by statute for another purpose. In response to economic conditions and their effect on estimated General Fund revenues, the General Assembly periodically modifies the required amount of the Unappropriated Reserve. Set forth in the following table are the Unappropriated Reserve requirements for Fiscal Years 2008-09 and thereafter. See also "APPENDIX B – THE STATE GENERAL FUND – General Fund Overview."

**State of Colorado**
**Unappropriated Reserve Requirement**

| Fiscal Years | Unappropriated Reserve Requirement[1] |
|---|---|
| 2008-09 and 2009-10 [1] | 2.0% |
| 2010-11 | 2.3 |
| 2011-12 | 4.0 |
| 2012-13 and 2013-14 | 5.0 |
| 2014-15 [2] | 6.5 |
| 2015-16 [2,3] | 5.6 |
| 2016-17 and thereafter [2,3] | 6.5 |

[1] The Unappropriated Reserve for Fiscal Years 2008-09 and 2009-10 was reduced from previously designated level of 4.0% of the amount appropriated for expenditure from the General Fund in such Fiscal Years.

[2] Per SB 15-251, starting in Fiscal Year 2015-16, General Fund appropriations for lease-purchase agreement payments made in connection with certificates of participation sold to fund certain capital projects were made exempt from the reserve calculation requirement. See "DEBT AND CERTAIN OTHER FINANCIAL OBLIGATIONS – The State, State Departments and Agencies."

[3] Per HB 14-1337, the Unappropriated Reserve for Fiscal Years 2014-15 and thereafter was increased to 6.5% of the amount appropriated for expenditure from the General Fund in such Fiscal Years. However, HB 16-1419 reduced the Unappropriated Reserve for Fiscal Year 2015-16 to 5.6% of General Fund appropriations subject to the appropriations limit (excluding certificates of participation payments), minus the amount of income tax revenue required by SB 16-218 to be diverted to a reserve fund to fund severance tax refunds resulting from the ruling of the Colorado Supreme Court on April 25, 2016, in *BP America Production Company v. Colorado Department of Revenue*. The Unappropriated Reserve requirement reverts to 6.5% of General Fund appropriations subject to the appropriations limit (excluding certificates of participation payments) for Fiscal Years 2016-17 and thereafter. See Notes 9 and 12 to the "General Fund Overview" table in "APPENDIX A – THE STATE GENERAL FUND – General Fund Overview" and the sections of the OSPB December 2016 Revenue Forecast captioned "CASH FUND REVENUE FORECAST – Severance Tax Revenue" and "GENERAL FUND AND STATE EDUCATION FUND BUDGET – General Fund Overview Table – Expenditures."

The OSPB December 2016 Revenue Forecast indicates that the State ended Fiscal Year 2015-16 with reserves of $49.7 million in excess of the Unappropriated Reserve requirement and that, based upon the current budget for Fiscal Year 2016-17 and the Governor's November 2016 budget request, the State will end Fiscal Year 2016-17 with reserves of $118.7 million below the Unappropriated Reserve requirement and will end Fiscal Year 2017-18 with reserves of $52.4 million below the Unappropriated Reserve requirement[1]. These figures are based on revenue and budget information available when the OSPB December 2016 Revenue Forecast was completed and are subject to change in subsequent OSPB revenue forecasts based on new information on revenue and expenditures. Amendments to the Governor's budget request are expected to be submitted to the General Assembly in January 2017.

See also "APPENDIX A – THE STATE GENERAL FUND – General Fund Overview – Revenue Estimation; OSPB Revenue and Economic Forecasts" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

***Expenditures; The Balanced Budget and Statutory Spending Limitation***. The State Constitution requires that expenditures for any Fiscal Year not exceed available resources for such Fiscal Year. Total unrestricted General Fund appropriations for each Fiscal Year are limited as provided in Section 24-75-201.1, C.R.S. For the Fiscal Years discussed in this Official Statement to and including Fiscal Year 2008-09, total General Fund appropriations were limited to: (i) such moneys as are necessary for reappraisals of any class or classes of taxable property for property tax purposes as required by Section 39-1-105.5, C.R.S., plus (ii) the lesser of (a) an amount equal to 5% of Colorado personal income (as reported by the U.S. Bureau of Economic Analysis for the calendar year preceding the calendar year immediately preceding a given Fiscal Year) or (b) an amount equal to 106% of General Fund appropriations for the previous Fiscal Year. Per SB 09-228, for Fiscal Years 2009-10 and thereafter, total General Fund appropriations are limited to the sum of the amount stated in (i) above plus an amount equal to 5% of Colorado personal income.

[1] For comparison purposes, the OSPB December 2016 Revenue Forecast includes a General Fund Overview under current law, without the Governor's November 2016 budget request.

Excluded from this appropriations limit are: (i) any General Fund appropriation that, as a result of any requirement of federal law, is made for any new program or service or for any increase in the level of service for any existing program beyond the existing level of service; (ii) any General Fund appropriation that, as a result of any requirement of a final State or federal court order, is made for any new program or service or for any increase in the level of service for an existing program beyond the existing level of service; or (iii) any General Fund appropriation of any moneys that are derived from any increase in the rate or amount of any tax or fee that is approved by a majority of the registered electors of the State voting at any general election.

The limitation on the level of General Fund appropriations may also be exceeded for a given Fiscal Year upon the declaration of a State fiscal emergency by the General Assembly, which may be declared by the passage of a joint resolution approved by a two-thirds majority vote of the members of both houses of the General Assembly and approved by the Governor.

See "Taxpayer's Bill of Rights" above for a discussion of spending limits imposed on the State by TABOR and changes to these limits as the result of the approval of Referendum C.

***Fiscal Year Spending and Emergency Reserves***. Through TABOR, the State Constitution imposes restrictions on increases in fiscal year spending without voter approval and requires the State to maintain a TABOR Reserve. See "Taxpayer's Bill of Rights" under this caption for a discussion of the effects of the State Constitution on the State's financial operations.

**Fiscal Controls and Financial Reporting**

No moneys may be disbursed to pay any appropriations unless a commitment voucher has been prepared by the agency seeking payment and submitted to the central accounting system, which is managed by the Office of the State Controller, a division of the Department of Personnel & Administration. The State Controller is the head of the Office of the State Controller. The State Controller or his delegate has statutory responsibility for reviewing each commitment voucher submitted to determine whether the proposed expenditure is authorized by appropriation and whether the appropriation contains sufficient funds to pay the expenditure. All payments from the State Treasury are made by warrants or checks signed by the State Controller and countersigned by the State Treasurer, or by electronic funds transfer. The signature of the State Controller on a warrant or check is full authority for the State Treasurer to pay the warrant or check upon presentation.

The State Controller is appointed by the Executive Director of the Department of Personnel & Administration. Except for certain institutions of higher education which have elected to establish their own fiscal rules, the State Controller has statutory responsibility for coordinating all procedures for financial administration and financial control in order to integrate them into an adequate and unified system, conducting all central accounting and issuing warrants or checks for payment of claims against the State. The State Controller prepares a Comprehensive Annual Financial Report, or "CAFR," in accordance with generally accepted accounting principles ("GAAP") applicable to governmental entities, with certain statutory exceptions for budget compliance and reporting. The State's Fiscal Year 2014-15 CAFR is appended to this Official Statement and includes the most current annual financial statements for the State.

The State implemented a new integrated financial system in July 2014 and has been experiencing various issues, including the labor allocation process which continues to utilize the State's legacy payroll system. The longer time period to complete labor allocation, the first time closing in the new system and developing financial statement reports caused delays in closing the books and producing the State's financial statements. This resulted in the inability of the State to release the State's Fiscal Year 2014-15 CAFR until April 2016. The State currently expects that the State's Fiscal Year 2015-16 CAFR will not be released until February 28, 2017. See "CONTINUING DISCLOSURE – Compliance With Other Continuing Disclosure Undertakings."

**Basis of Accounting**

For a detailed description of the State's basis of accounting, see Note 5 to the financial statements in the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement.

**Basis of Presentation of Financial Results and Estimates**

The financial reports and financial schedules contained in this Official Statement are based on principles that may vary based on the requirements of the report or schedule. The fund level financial statements and revenue estimates are primarily prepared on the modified accrual basis of accounting. Revenue estimates are prepared for those revenues that are related primarily to the general taxing powers of the State, and to a lesser degree include intergovernmental transactions, charges for services and receipts from the federal government. The General Fund as defined in the financial statements includes revenues and expenditures for certain special cash receipts that are related to fees, permits and other charges rather than to the general taxing power of the State.

**Financial Audits**

Financial and post-performance audits of all State agencies are performed by the State Auditor (the "Auditor") through the Auditor's staff as assisted by independent accounting firms selected solely by the Auditor. The Auditor is an employee of the legislative branch and is appointed for a term of five years by the General Assembly based on the recommendations of the Legislative Audit Committee of the General Assembly. The present Auditor has been appointed to a term expiring on June 30, 2017. The Legislative Audit Committee is comprised of members of both houses of the General Assembly and has responsibility to direct and review audits conducted by the Auditor.

The State's Fiscal Year 2014-15 CAFR, including the State Auditor's Opinion thereon, and the State's unaudited Basic Financial Statements for Fiscal Year 2015-16 (the "Fiscal Year 2015-16 Unaudited BFS") are appended to this Official Statement. The Office of the State Auditor, being the State's independent auditor, has not been engaged to perform and has not performed since the date of the State Auditor's report included herein, any procedures on the financial statements presented in the Fiscal Year 2014-15 CAFR or in the Fiscal Year 2015-16 Unaudited BFS, nor has the State Auditor performed any procedures relating to this Official Statement.

**Investment and Deposit of State Funds**

The State Treasurer is empowered by Articles 36 and 75 of Title 24, C.R.S., as well as other State statutes, to invest State funds in certain public and non-public fixed income securities. In making such investments, the State Treasurer is to use prudence and care to preserve the principal and to secure the maximum rate of interest consistent with safety and liquidity. The State Treasurer is also required to formulate investment policies regarding the liquidity, maturity and diversification appropriate to each Fund or pool of funds in the State Treasurer's custody available for investment. In accordance with this directive, the State Treasurer has developed standards for each portfolio to establish the asset allocation, the level of liquidity, the credit risk profile, the average maturity/duration and performance monitoring measures appropriate to the public purpose and goals of each Fund.

The State Treasurer is also authorized to deposit State funds in national or state chartered banks and savings and loan associations having a principal office in the State and designated as an eligible public depository by the State Banking Board or the State Commissioner of Financial Services, respectively. To the extent that the deposits exceed applicable federal insurance limits, they are required to be collateralized with eligible collateral (as defined by statute) having a market value at all times equal to at least 100% of the amount of the deposit that exceeds federal insurance (102% for banks).

See also Notes 14 and 15 to the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement and "APPENDIX A – THE STATE GENERAL FUND – Investment of the State Pool."

## SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS

### General

On the Closing Date, the State Treasurer is required to deposit to the Interest Subaccount of the Series 2016-17 Notes Repayment Account, from Current General Fund Revenues then available, an amount equal to the interest to accrue on the Series 2016B Notes from the Closing Date to the Series 2016B Notes Maturity Date. See "The State General Fund" below and "APPENDIX A – THE STATE GENERAL FUND."

The State Resolution also requires the State Treasurer to credit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account all amounts received from the Participating Districts on or before June 25, 2017, in repayment of their Program Loans. However, if on June 26, 2017, the amount credited to the Principal Subaccount of the Series 2016-17 Notes Repayment Account is less than the principal amount of the Series 2016B Notes and any Parity Lien Notes, the State Resolution requires the State Treasurer to deposit the amount of the deficiency to the Principal Subaccount from any funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes. The State Resolution further provides that the State Treasurer is to first utilize all other funds that are eligible for investment in the District Notes prior to the application of Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes. See "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account*."

The ability of the State Treasurer to use Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State Series 2016A General Fund Notes. See "INVESTMENT CONSIDERATIONS – Liquidity Sources in the Event of a Default in the Repayment of Program Loans; Subordination of Certain State Funds" and "APPENDIX A – THE STATE GENERAL FUND."

### Certain Funds Eligible for Investment in the District Notes

A deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account on June 26, 2017, is required to be funded by the State Treasurer first from all other funds that are eligible for investment in the District Notes prior to the application of Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes. However, such covenant does not constitute a pledge of or lien on any such funds for that purpose, and there is no limit on the availability or use of such funds for any other purpose permitted or required by law. Further, the State Treasurer has both a statutory and a fiduciary obligation to use prudence and care in investing State funds. See "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds."

If it becomes necessary to make a deposit to the Principal Subaccount of the Series 2016-17 Notes Repayment Account in order to fund a deficiency therein, the State Resolution requires the State Treasurer to take such actions as may be necessary to identify and designate the District Notes as an investment of the Funds used to make such deposit, and the Owners of the Series 2016B Notes will have no right or claim to any amounts received by the State under the District Notes after June 25, 2017. See also "INVESTMENT CONSIDERATIONS – Liquidity Sources in the Event of a Default in the Repayment of Program Loans; Subordination of Certain State Funds," "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds" and "APPENDIX A – THE STATE GENERAL FUND."

By constitutional or statutory provision and judicial decision, certain State Funds, including, without limitation, the State Education Fund, the Highway Users Tax Fund, the Public School Permanent Fund and the TABOR Emergency Reserve Fund, are not Borrowable Resources although moneys therein may be eligible for investment by the State Treasurer. The two Funds in this category with the largest current balances that are eligible for investment, and thus the Funds that are likely to be considered first by the State Treasurer as an available source of investment in the District Notes in order to provide liquidity in the Principal Subaccount of the Series 2016-17 Notes Repayment Account in the event of a deficiency therein, are the State Education Fund and the State Highway Fund. Prospective investors are cautioned, however, that these Funds are neither required to be utilized by the State Treasurer, nor pledged for such purpose. The making of such investment by the State Treasurer, and the determination of the Fund or Funds, if any, to be used therefor, is in all cases subject to the application of the investment policies for the various State Funds established by statute and the State Treasurer for such Funds and the exercise of the discretion and fiduciary obligation of the State Treasurer in the investment of State funds. Accordingly, no representation or warranty is made herein that the State Treasurer will in fact utilize amounts available in these Funds, if necessary, to provide liquidity to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account. See also "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds."

***The State Education Fund***. The State Education Fund was established by Amendment 23. Amendment 23 also mandates that an amount equal to all State revenues collected from a tax of one-third of one percent on federal taxable income, as modified by law, of every individual, estate, trust and corporation, as defined by law, is to be deposited into this Fund, and that such funds are exempt from the revenue limitations of "TABOR." See "STATE FINANCIAL INFORMATION – Taxpayer's Bill of Rights." The General Assembly may appropriate moneys from the State Education Fund only to increase funding in preschool through 12$^{th}$ grade education or for purposes specifically provided in Amendment 23 as discussed in "SOURCE OF PAYMENT OF PROGRAM LOANS – State Equalization Funding – Amendment 23." The State Education Fund represents a shift of General Fund moneys to a restricted cash fund. Moneys in the State Education Fund may not be transferred to the General Fund, and consequently the State Education Fund is not a Borrowable Resource.

The following information has been provided by the State Treasurer's office to show the actual cash and short term investment balances in the State Education Fund at June 30 of Fiscal Years 2011-12 through 2015-16.

**State of Colorado**
**State Education Fund Actual Cash and Short Term Investment Balances**
(Dollar amounts expressed in millions)

| At June 30 | Cash and Investment Balance |
|---|---|
| 2012 | $ 140.6 |
| 2013 [1] | 192.9 |
| 2014 | 1,012.2 |
| 2015 | 693.8 |
| 2016 | 302.4 |

[1] This amount does not include the $1,073.5 million receivable as a transfer of the Fiscal Year 2012-13 General Fund Surplus per HB 13-1338 (Section 24-75-220(2), C.R.S.). The receivable was converted to cash in December 2013 at the date of publication of the State's Fiscal Year 2012-13 CAFR. See also "APPENDIX – THE STATE GENERAL FUND – General Fund Overview."

Source: State Treasurer's Office

***The State Highway Fund***. The State Highway Fund is established by Section 43-1-219, C.R.S. All receipts from the following sources are to be credited to the State Highway Fund: (i) such appropriations as may, from time to time, be made by law to the Fund from excise tax revenues; (ii) all revenues accruing to the Fund by law, by way of excise taxation from the imposition of any license, registration fee or other charge with respect to the operation of any motor vehicle upon any public highways in the State, and the proceeds from the imposition of any excise tax on gasoline or other liquid motor fuel; and (iii) certain receipts from the Limited Gaming Fund. Moneys in the State Highway Fund are to be expended for, among other things, the construction, reconstruction, repair, improvement, planning, supervision and maintenance of the State highway system and other public highways, including any county and municipal roads and highways, together with the acquisition of rights-of-way and access rights for the same; provided, however, that receipts from the Limited Gaming Fund are to be used solely for public roads and highways leading to and within a 50-mile radius of any limited gaming community (currently Black Hawk, Central City, Cripple Creek and any Indian lands where limited gaming is authorized). Moneys in the State Highway Fund may not be transferred to the General Fund, and consequently the State Highway Fund is not a Borrowable Resource.

The following information has been provided by the State Treasurer's office to show the actual cash balances in the State Highway Fund at June 30 of Fiscal Years 2011-12 through 2015-16.

**State of Colorado**
**State Highway Fund Actual Cash and Short Term Investment Balances**
(Dollar amounts expressed in millions)

| At June 30 | Cash and Investment Balance[1] |
|---|---|
| 2012 | $1,130.9 |
| 2013 | 1,116.2 |
| 2014 | 1,019.2 |
| 2015 | 795.3 |
| 2016 | 706.9 |

[1] Certain amounts deposited to the State Highway Fund are restricted as to use for specific purposes, such as revenues received pursuant to SB 09-108, also known as the "Funding Advancements for Surface Transportation and Economic Recovery Act of 2009," or "FASTER," which established the State's High Performance Transportation Enterprise and Statewide Bridge Enterprise as government-owned businesses within the Colorado Department of Transportation. For example, amounts deposited to the State Highway Fund from the road safety surcharge on vehicle registrations authorized by FASTER may be used only to finance the construction, reconstruction or maintenance of projects to enhance the safety of State, county, municipality and city roads and streets.

Source: State Treasurer's Office

## Borrowable Resources

Borrowable Resources consist of over 600 funds and accounts other than the General Fund. By constitutional or statutory provision and judicial decision, certain State Funds, such as the Public School Permanent Fund, the State Education Fund, the Highway Users Tax Fund and the TABOR Emergency Reserve Fund, are not Borrowable Resources. Borrowable Resources are considered to be moneys in the State pool, and as such are invested as described in "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds" and "APPENDIX A – THE STATE GENERAL FUND – Investment of the State Pool."

The ability of the State Treasurer to utilize Borrowable Resources to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account will depend upon the availability of funds in the State Treasury that are eligible for investment in the District Notes, and is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State Series 2016A General Fund Notes. The availability of Borrowable Resources may also be affected by the State's statutory obligation to assure the timely payment of certain school district bonds and lease obligations pursuant to Section 22-41-110, C.R.S., commonly referred to as the "State Intercept Act."

The following tables set forth the actual and estimated Borrowable Resources for Fiscal Years 2015-16 and 2016-17. The estimates are based on various assumptions made by the State Treasurer's office, which are subject to uncertainties. Inevitably, some assumptions used to develop the forecasted amounts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between the forecasted amounts in the table and the amounts ultimately realized, and such differences may be material. See also the inside cover of this Official Statement regarding forward-looking statements. See also "STATE FINANCIAL INFORMATION – Fiscal Controls and Financial Reporting."

**State of Colorado**
**Actual Borrowable Resources**
**Fiscal Year 2015-16[1,2]**
(Amounts expressed in millions; totals may not add due to rounding)

| | July 2015 | Aug 2015 | Sept 2015 | Oct 2015 | Nov 2015 | Dec 2015 | Jan 2016 | Feb 2016 | Mar 2016 | Apr 2016 | May 2016 | June 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Aviation Fund | $ 18.0 | $ 18.4 | $ 18.7 | $ 17.9 | $ 18.9 | $ 18.8 | $ 18.2 | $ 19.2 | $ 20.0 | $ 19.2 | $ 19.0 | $ 19.4 |
| Capital Construction Fund | 256.0 | 269.8 | 265.0 | 250.8 | 232.9 | 220.9 | 191.9 | 153.3 | 134.0 | 163.7 | 103.7 | 105.4 |
| College Scholarship Fund | 162.0 | 155.0 | 18.7 | 18.7 | 47.2 | 186.5 | 183.8 | 123.8 | 46.7 | 50.2 | 49.2 | 34.0 |
| Colorado Student Obligation Bond Authority – Administration | 31.7 | 32.3 | 39.9 | 38.8 | 37.1 | 30.6 | 32.5 | 31.8 | 32.0 | 31.7 | 32.1 | 41.1 |
| Hazardous Substance Fund | 14.7 | 14.6 | 15.0 | 15.0 | 14.9 | 14.6 | 14.9 | 14.7 | 14.6 | 14.8 | 14.9 | 15.4 |
| Higher Education Funds [3] | 1,211.2 | 1,490.6 | 1,643.8 | 1,592.0 | 1,528.5 | 1,461.1 | 1,624.2 | 1,687.7 | 1,687.8 | 1,618.0 | 1,514.3 | 1,600.2 |
| Hospital Provider Fee | 52.1 | 15.4 | 16.4 | 22.1 | 27.1 | 32.0 | 40.2 | 49.9 | 49.1 | 56.2 | 63.0 | 0.0 |
| Limited Gaming Fund | 48.4 | 3.0 | 4.9 | 8.5 | 12.7 | 16.6 | 20.9 | 25.5 | 29.9 | 35.2 | 40.5 | 46.4 |
| Lottery Fund | 45.0 | 49.7 | 33.9 | 42.7 | 50.2 | 40.8 | 48.2 | 51.4 | 34.2 | 43.4 | 52.8 | 36.6 |
| Mineral Impact Fund | 101.3 | 111.8 | 69.1 | 83.5 | 94.9 | 80.9 | 90.1 | 100.7 | 91.9 | 106.6 | 118.9 | 91.4 |
| School Capital Construction Assistance | 163.0 | 187.6 | 182.8 | 179.9 | 188.2 | 193.8 | 199.0 | 226.7 | 210.9 | 212.1 | 227.3 | 230.0 |
| State and Local Severance Tax Funds | 109.3 | 108.9 | 102.4 | 106.2 | 99.2 | 105.5 | 107.3 | 109.3 | 113.4 | 119.8 | 124.1 | 123.1 |
| State Public School Fund | 388.2 | 206.4 | 476.6 | 262.6 | 54.8 | 271.6 | 88.2 | 10.1 | 331.5 | 163.8 | 104.3 | 33.8 |
| Tobacco Tax Funds | 33.5 | 36.0 | 30.5 | 35.1 | 36.8 | 32.7 | 36.6 | 37.9 | 32.9 | 36.0 | 37.2 | 2.3 |
| Water Conservation Construction Fund | 140.0 | 143.0 | 164.5 | 161.9 | 158.3 | 167.0 | 162.9 | 157.4 | 164.5 | 175.7 | 180.0 | 185.5 |
| Workers' Compensation Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Borrowable Resources | 1,856.3 | 1,845.9 | 2,094.4 | 1,796.2 | 1,977.0 | 2,359.2 | 2,257.3 | 2,265.8 | 2,229.3 | 2,133.8 | 2,358.6 | 1,525.8 |
| Total Borrowable Resources | 4,630.7 | 4,688.2 | 5,176.6 | 4,631.9 | 4,578.8 | 5,232.3 | 5,116.1 | 5,065.2 | 5,222.6 | 4,980.2 | 5,040.0 | 4,090.6 |
| Total General Fund | (60.4) | (179.8) | (602.5) | (282.2) | (93.0) | (1,060.2) | (362.3) | (323.4) | (1,046.1) | (234.4) | 109.7 | 473.4 |
| Less: Notes Issued and Outstanding | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | -- |
| **Net Borrowable Resources** | $3,970.3 | $3,908.5 | $3,974.1 | $3,749.7 | $3,885.8 | $ 3,572.1 | $4,153.8 | $4,141.7 | $ 3,576.5 | $4,145.8 | $4,549.7 | $4,563.9 |

[1] This table shows monthly balances for 16 individual funds plus over 600 other funds and accounts of the State constituting Borrowable Resources. Such funds do not represent State funds with the largest fund balances and are included in this table to be consistent with the Borrowable Resources disclosures provided by the State in the last several years.

[2] The information in this table is presented on a cash basis, and is not directly comparable to similar information included in the State's CAFRs, which is presented on the modified accrual and accrual basis.

[3] The amounts shown for Higher Education primarily represent cash balances in institutions of higher education other than certain institutions that have statutory authority to operate their own Treasury.

Source: State Treasurer's Office

## State of Colorado
## Actual and Estimated Borrowable Resources
## Fiscal Year 2016-17 [1,2,3]

(Amounts expressed in millions; totals may not add due to rounding)

| | Actual | | | Estimated | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **July 2016** | **Aug 2016** | **Sept 2016** | **Oct 2016** | **Nov 2016** | **Dec 2016** | **Jan 2017** | **Feb 2017** | **Mar 2017** | **Apr 2017** | **May 2017** | **June 2017** |
| Aviation Fund | $ 19.8 | $ 20.2 | $ 20.5 | $ 19.7 | $ 20.8 | $ 20.6 | $ 20.0 | $ 21.1 | $ 22.0 | $ 21.1 | $ 20.9 | $ 21.3 |
| Capital Construction Fund | 111.1 | 117.1 | 115.0 | 108.9 | 101.1 | 95.9 | 83.3 | 66.5 | 58.2 | 71.0 | 45.0 | 45.8 |
| College Scholarship Fund | 36.4 | 39.0 | 14.0 | 14.0 | 35.4 | 139.9 | 137.8 | 92.9 | 35.0 | 37.7 | 36.9 | 25.5 |
| Colorado Student Obligation Bond Authority – Administration | 41.8 | 42.6 | 52.6 | 51.1 | 49.0 | 40.4 | 42.9 | 42.0 | 42.2 | 41.8 | 42.4 | 54.3 |
| Hazardous Substance Fund | 15.3 | 15.2 | 15.6 | 15.6 | 15.5 | 15.2 | 15.5 | 15.3 | 15.2 | 15.4 | 15.5 | 16.0 |
| Higher Education Funds [4] | 1,353.7 | 1,665.9 | 1,837.3 | 1,779.3 | 1,708.3 | 1,633.0 | 1,815.3 | 1,886.2 | 1,886.4 | 1,808.4 | 1,692.5 | 1,788.4 |
| Hospital Provider Fee | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Limited Gaming Fund | 2.9 | 0.2 | 0.3 | 0.5 | 0.8 | 1.0 | 1.2 | 1.5 | 1.8 | 2.1 | 2.4 | 2.8 |
| Lottery Fund | 40.4 | 44.6 | 30.4 | 38.3 | 45.0 | 36.6 | 43.3 | 46.2 | 30.8 | 39.0 | 47.4 | 32.9 |
| Mineral Impact Fund | 100.9 | 111.4 | 68.8 | 83.2 | 94.5 | 80.6 | 89.8 | 100.3 | 91.6 | 106.1 | 118.4 | 91.0 |
| School Capital Construction Assistance | 264.7 | 304.6 | 296.8 | 292.1 | 305.6 | 314.7 | 323.2 | 368.1 | 342.5 | 344.5 | 369.2 | 373.6 |
| State and Local Severance Tax Funds | 122.6 | 122.1 | 114.9 | 119.2 | 111.3 | 118.3 | 120.3 | 122.6 | 127.2 | 134.4 | 139.2 | 138.1 |
| State Public School Fund | 18.0 | 9.6 | 22.1 | 12.2 | 2.5 | 12.6 | 4.1 | 0.5 | 15.4 | 7.6 | 4.8 | 1.6 |
| Tobacco Tax Funds | 2.5 | 2.7 | 2.3 | 2.6 | 2.8 | 2.5 | 2.8 | 2.9 | 2.5 | 2.7 | 2.8 | 0.2 |
| Water Conservation Construction Fund | 189.5 | 193.5 | 222.6 | 219.1 | 214.3 | 226.0 | 220.4 | 213.0 | 222.6 | 237.8 | 243.6 | 251.1 |
| Workers' Compensation Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Borrowable Resources | 2,232.9 | 2,220.3 | 2,519.3 | 2,160.6 | 2,378.1 | 2,359.2 | 2,257.3 | 2,265.8 | 2,229.3 | 2,133.8 | 2,358.6 | 1,405.8 |
| **Total Borrowable Resources** | 4,552.5 | 4,908.9 | 5,332.6 | 4,916.5 | 5,085.0 | 5,096.3 | 5,177.2 | 5,244.8 | 5,122.4 | 5,003.4 | 5,139.7 | 4,248.2 |
| Total General Fund | 178.0 | 25.5 | (449.4) | (135.5) | 31.3 | (1,011.3) | (312.3) | (302.3) | (1,093.0) | (274.8) | 56.6 | 408.3 |
| Less: Notes Issued and Outstanding | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | (600.0) | -- |
| **Net Borrowable Resources** | $4,130.5 | $4,334.4 | $4,283.3 | $4,180.9 | $4,516.3 | $ 3,485.0 | $4,264.8 | $4,342.5 | $ 3,429.4 | $4,128.5 | $4,596.3 | $4,656.5 |

[1] This table shows monthly balances for 16 individual funds plus over 600 other funds and accounts of the State constituting Borrowable Resources. Such funds do not represent State funds with the largest fund balances and are included in this table to be consistent with the Borrowable Resources disclosures provided by the State in the last several years.

[2] The information in this table is presented on a cash basis estimate, and is not directly comparable to similar information to be included in the State's CAFR, which will be presented on the modified accrual and accrual basis.

[3] Amounts in this table include estimates made by the State Treasurer's office based on various assumptions and are subject to change. No representation or guaranty is made herein that such estimates will be realized. See also the preliminary notices in this Official Statement regarding forward-looking statements.

[4] The amounts shown for Higher Education primarily represent cash balances in institutions of higher education other than certain institutions that have statutory authority to operate their own Treasury.

Source: State Treasurer's Office

## The State General Fund

The General Fund is the principal operating fund of the State. All revenues and moneys not required by the State Constitution or statutes to be credited and paid into a special fund are required to be credited and paid into the General Fund. As required by recent changes in GAAP, the General Fund reported in the State's Fiscal Year 2010-11 CAFR and subsequent CAFRs includes a large number of statutorily created special funds that do not meet the GAAP requirements to be presented as Special Revenue Funds. To make the distinction between the statutory General Fund and the GAAP General Fund, the CAFR refers to the statutory General Fund as the General Purpose Revenue Fund. The revenues in the General Purpose Revenue Fund are not collected for a specific statutory use but rather are available for appropriation for any purpose by the General Assembly. The following discussion of the General Fund represents the legal and accounting entity referred to in the State's Fiscal Year 2014-15 CAFR as the General Purpose Revenue Fund.

It is presently anticipated that a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account would be funded from Current General Fund Revenues eligible for investment in the District Notes only after all other sources of funding therefor have been utilized. In addition, the right of the State Treasurer to use Current General Fund Revenues for this purpose is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State Series 2016A General Fund Notes. See "APPENDIX A – THE STATE GENERAL FUND" for a discussion of the General Fund.

# DEBT AND CERTAIN OTHER FINANCIAL OBLIGATIONS

## The State, State Departments and Agencies

The State Constitution prohibits the State from incurring debt except for limited purposes, for limited periods of time and in inconsequential amounts. The State courts have defined debt to mean any obligation of the State requiring payment out of future years' general revenues. The State currently has, and upon issuance of the Series 2016B Notes will have, no outstanding general obligation debt.

The State is authorized to and has entered into lease-purchase agreements in connection with various public projects, some of which have been financed by the sale of certificates of participation in the revenues of the related lease-purchase agreements. The obligations of the State to make lease payments under such agreements each Fiscal Year are contingent upon annual appropriations by the General Assembly. See Notes 24 and 25 to the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a discussion of the outstanding lease-purchase agreements entered into by the State as of June 30, 2016, as well as the aggregate minimum lease payments due under such lease-purchase agreements entered into by the State for Fiscal Years 2015-16 and thereafter.

In addition to lease-purchase agreements, the State is authorized to enter into lease or rental agreements for buildings and/or equipment, all of which contain a stipulation that continuation of the lease is subject to funding by the General Assembly. Historically, these agreements have been renewed in the normal course of business and are therefore treated as non-cancelable for financial reporting purposes. In addition, these agreements generally are entered into through private negotiation with lessors, banks or other financial institutions rather than being publicly offered. See Notes 22 and 25 to the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a discussion of the outstanding lease/rental agreements entered into by the State as of June 30, 2016, as well as the aggregate minimum payment obligations under such agreements in Fiscal Years 2015-16 and thereafter.

The Colorado Department of Transportation ("CDOT") has issued Transportation Revenue Anticipation Notes for the purpose of financing qualified federal aid transportation projects in the State. At June 30, 2016, CDOT had outstanding approximately $126.1 million in aggregate principal amount of such notes. The notes are payable solely from certain federal and State funds that are allocated on an annual basis by the State Transportation Commission, in its sole discretion. The allocated funds are expected to be comprised of highway moneys paid directly to CDOT by the U.S. Department of Transportation, and appropriations of revenues from the Highway Users Tax Fund allocated by statute to CDOT.

CDOT has also financed the relocation and consolidation of its main headquarters and District 1 Regional headquarters facilities into a single building by the sale on December 29, 2016, of $70 million in principal amount of certificates of participation in an annually renewable lease-purchase agreement entered into by CDOT in connection with the new facility. CDOT also currently plans for additional certificates of participation to be executed and delivered in calendar year 2017 in the estimated aggregate principal amount of $55 million for the purpose of funding the construction and improvement of CDOT's Aurora Maintenance Facilities and its Pueblo Headquarters Building and reimbursing moneys that CDOT previously expended to construct and improve its Greeley Headquarters Building and Platteville Maintenance Facility.

State departments and agencies, including State institutions of higher education, also issue revenue bonds for business type activities, as well as bonds and/or notes for the purchase of equipment and construction of facilities and infrastructure. With the exception of the University of Colorado, which is governed by an elected Board of Regents, the institutions of higher education are governed by boards whose members are appointed by the Governor with the consent of the State Senate. See Notes 24 and 25 to the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a discussion of such bonds and notes outstanding as of June 30, 2016, and of those issued after June 30, 2016, but before publication of the Fiscal Year 2015-16 BFS. The revenue bonds and certificates of participation listed in such Notes have in most cases been publicly offered, while the notes payable listed in such Notes have generally been private financings directly with banks or other financial institutions. The State has contingent moral obligations to intercept revenue and make certain debt payments on notes and bonds issued by State school districts in the event they fail to make a required payment to the holders of such notes and bonds. See Note 43 to the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement.

See also the Statistical Section of the State's Fiscal Year 2014-15 CAFR appended to this Official Statement for a ten year history of the total outstanding debt and related debt service expenditures of the State.

**State Tax and Revenue Anticipation Notes**

Under State law, the State Treasurer is authorized to issue and sell notes payable from the anticipated revenues of any one or more funds or groups of accounts to meet temporary cash flow shortfalls. Since Fiscal Year 1984-85, the State has issued tax and revenue anticipation notes, such as the State Series 2016A General Fund Notes, in order to fund cash flow shortfalls in the General Fund. For certain Fiscal Years, the State has also funded cash flow shortfalls by use of Borrowable Resources. Since Fiscal Year 2003-04, the State has also issued education loan anticipation notes, such as the Series 2016B Notes, for local school districts in anticipation of local school district revenues to be collected at a later date. All tax and revenue anticipation notes previously issued by the State have been paid in full and on time.

See Notes 23 and 44 to the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a discussion of all currently outstanding revenue anticipation notes.

See also the Statistical Section of the State's Fiscal Year 2014-15 CAFR appended to this Official Statement for a ten year history of the total outstanding debt and related debt service expenditures of the State.

**State Authorities**

A number of State authorities have issued financial obligations to support activities related to the special purposes of such entities. Such obligations do not constitute a debt or liability of the State and the State Treasurer has no responsibility for such issuances. Generally, State authorities are legally separate, independent bodies governed by their own boards, some including ex-officio State officials and/or members appointed by the Governor or ranking members of the General Assembly (in most cases with the consent of the State Senate).

**Pension and Post-Employment Benefits**

***General***. The State provides post-employment benefits to its employees based on their work tenure and earnings history through a defined benefit pension plan (as more particularly defined in "APPENDIX E – STATE PENSION SYSTEM," the "State Division Plan"). State employees hired after 2005 may, in lieu of participating in the State Division Plan, elect to participate in a defined contribution plan (the "State Division DC Plan"), although the majority of State employees participate in the State Division Plan. State employees may also elect to participate in a limited healthcare plan. Each plan is administered by the Public Employees' Retirement Association ("PERA"), which is a statutorily created legal entity that is separate from the State. PERA also administers plans for school districts, local governments and other entities, each of which is considered a separate division of PERA and for which the State has no obligation to make contributions or fund benefits. The State does not participate in the federal Old-Age, Survivors and Disability Insurance (Social Security) program.

For a general description of the State Division Plan and PERA, see "APPENDIX D – STATE PENSION SYSTEM." For a detailed discussion of the State Division Plan, the State Division DC Plan, the limited healthcare plan and PERA, see Notes 18, 19 and 20 to the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement, as well as PERA's Comprehensive Annual Financial Report for calendar year 2015 (the "PERA 2015 CAFR"). The information in the State's Fiscal Year 2014-15 CAFR regarding PERA is derived from PERA's Comprehensive Annual Financial Report for calendar year 2014, while information in the State's Fiscal Year 2015-16 Unaudited BFS and this Official Statement regarding PERA is derived from the PERA 2015 CAFR. See also "*Future Accounting Standards*" hereafter.

***The State Division Plan***. The State Division Plan is funded with contributions made by the State and by each participating State employee at rates that are established by statute. The State has consistently made all statutorily required contributions to the State Division Plan. Nevertheless, at December 31, 2015, the PERA 2015 CAFR reports that the State Division Plan had an unfunded actuarial accrued liability of approximately $10.2 billion and a funded ratio of only 57.6%. This UAAL would amortize over a 44-year period based on contribution rates as of the date of calculation and scheduled future increases in employer contributions, as well as an investment rate of return on Plan assets and discount rate on actuarially accrued liabilities of 7.5%. Effective January 1, 2017, the PERA Board revised the actuarial investment assumption rate from 7.5% to 7.25%, which will increase the State's pension liability in future years.

The actuarial value of assets for the State Division Plan uses an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions.

Accordingly, the full effect of recent fluctuations in the assets of the State Division Plan as a result of economic and market conditions is not reflected in the aforementioned funded ratio. Based on the market value of assets of the State Division Plan, at December 31, 2015, the Plan had an unfunded accrued liability of approximately $10.7 billion and a funded ratio of 55.6%.

The funding status of the State Division Plan summarized above reflect the implementation by PERA in 2014 of GASB Statement No. 67, "Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25" ("GASB 67"), which establishes new standards for financial reporting and note disclosure by defined benefit pension plans administered through qualified trusts, such as the State Division Plan, and note disclosure requirements for defined contribution pension plans administered through qualified trusts, such as the State Division DC Plan.

Because the State's annual contributions with respect to the State Division Plan are set by statute and funded in the State's annual budget, such contributions are not affected in the short term by changes in the actuarial valuation of the Plan assets or the funding ratio of the Plan.

See generally "APPENDIX E – STATE PENSION SYSTEM" for further information regarding the State Division Plan.

***The Health Care Trust Fund***. The State also currently offers other post-employment health and life insurance benefits to its employees. The post-employment health insurance to State employees is provided through PERA's Health Care Trust Fund, in which members from all divisions of PERA are eligible to participate. The Health Care Trust Fund is a cost-sharing, multiple employer plan under which PERA subsidizes a portion of the monthly premium for health insurance coverage for certain State retirees and the remaining amount of the premium is funded by the benefit recipient through an automatic deduction from the monthly retirement benefit. The Health Care Trust Fund is funded by a statutory allocation of moneys consisting of portions of, among other things, the employer statutorily required contributions, the amount paid by members and the amount of any reduction in the employer contribution rates to amortize any overfunding in each Division's trust fund. At December 31, 2015, the Health Care Trust Fund had an unfunded actuarial accrued liability of approximately $1.3 billion, a funded ratio of 18.4% and a 35-year amortization period. Because the Health Care Trust Fund is a cost-sharing, multiple employer plan, PERA's actuary has not determined the portion of the unfunded actuarial accrued liability that applies to each Division participant. The benefit provided by the Health Care Trust Fund is a fixed limited subsidy of the retiree's health care insurance premium payment, and the retiree bears all risk of medical cost inflation. See Notes 9 and 11 to the PERA 2015 CAFR for additional information regarding the Health Care Trust Fund.

***Implementation of Changes in Pension Accounting Standards Applicable to the State – GASB 68***. GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" ("GASB 68"), which is related to GASB 67 but is applicable to the State, is effective for fiscal years beginning after June 15, 2014, and accordingly has been implemented in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement. GASB 68 revises and establishes new financial reporting requirements for most governments, such as the State, that provide their employees with pension benefits. GASB 68 requires cost-sharing employers participating in defined benefit plans to record their proportionate share of the unfunded pension liability. PERA reports that the State Division had an unfunded actuarial accrued liability of approximately $9.7 billion as of December 31, 2013, $9.9 billion as of December 31, 2014, and $10.2 billion as of December 31, 2015. The State reported a liability in the State's Fiscal Year 2015-16 Unaudited BFS of approximately $10.2 billion (approximately $10.1 billion for the State Division and $0.2 billion for the Judicial Division) at June 30, 2016, for its proportionate share of the net pension liability, compared to a reported liability in the State's Fiscal Year 2014-15 CAFR of approximately $9.1 billion (approximately $9.0 billion for the State

Division and $0.1 billion for the Judicial Division) at June 30, 2015, for its proportionate share of the net pension liability. Schedules presenting the State's proportionate share of the net pension liability for its retirement plan as of June 30, 2014 through 2016, and a ten year history of the State's contribution to PERA for the State and Judicial Divisions, are set forth in Note RSI-2 to the Required Supplementary Information in the State's Fiscal Year 2014-15 CAFR. See also "Overall Financial Position and Results of Operations" in the Management's Discussion and Analysis in the State's Fiscal Year 2014-15 CAFR, the introduction to Notes 1-7 and Notes 18-20 to the Financial Statements in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS and "APPENDIX E – STATE PENSION SYSTEM" and particularly the section thereof entitled "Implementation of Changes in Pension Accounting Standards Applicable to the State – GASB 68."

Effective January 1, 2017, the PERA Board of Trustees revised the actuarial investment assumption rate from 7.5% to 7.25%, which will increase the State's pension liability in future years.

***Effect of Pension Liability on the Series 2016B Notes***. The Series 2016B Notes are short-term obligations maturing on June 29, 2017, and are payable from Pledged Revenues which are expected to consist primarily of amounts received by the State Treasurer from the Participating Districts on or before June 25, 2017, as repayment of their Program Loans and a portion of the proceeds of the Series 2016B Notes deposited to the Series 2016-17 Notes Repayment Account as discussed in "THE SERIES 2016B NOTES – Security and Sources of Payment." Therefore, the State's current pension liability is not expected to adversely affect the State's ability to pay the Series 2016B Notes. See also the discussion of the State's pension liability in Management's Discussion and Analysis in the State's Fiscal Year 2014-15 CAFR appended to this Official Statement, and particularly the section thereof captioned "CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS – Pension Plan Contributions."

## LITIGATION, GOVERNMENTAL IMMUNITY AND SELF-INSURANCE

### No Litigation Affecting the Series 2016B Notes

There is no litigation pending, or to the knowledge of the State threatened, either seeking to restrain or enjoin the issuance or delivery of the Series 2016B Notes or questioning or affecting the validity of the Series 2016B Notes or the proceedings or authority under which they are to be issued. There is also no litigation pending, or to the State's knowledge threatened, that in any manner questions the right of the State Treasurer to adopt the State Resolution and to secure the Series 2016B Notes in the manner provided in the State Resolution and the Loan Program Statutes.

### Governmental Immunity

The Colorado Governmental Immunity Act, Article 10 of Title 24, C.R.S. (the "Immunity Act"), provides that public entities and their employees acting within the course and scope of their employment are immune from liability for tort claims under State law based on the principle of sovereign immunity, except for those specifically identified events or occurrences defined in the Immunity Act. Whenever recovery is permitted, the Immunity Act also generally limits the maximum amount that may be recovered. For incidents occurring prior to July 1, 2013, the limits are $150,000 for injury to one person in a single occurrence and an aggregate of $600,000 for injury to two or more persons in a single occurrence, except that no one person may recover in excess of $150,000; and for incidents occurring on and after July 1, 2013, the maximum amounts that may be recovered under the Immunity Act are $350,000 for injury to one person in a single occurrence and an aggregate of $990,000 for injury to two or more persons in a single occurrence, except that no one person may recover in excess of $350,000. These limits are subject to adjustment on January 1, 2018, and every four years thereafter based on the percentage change in the Consumer Price Index. In individual cases the General Assembly may authorize the recovery from the State of amounts in excess of these limits by legislative action initiated either directly by the General Assembly or upon recommendation of the State Claims Board. The Immunity Act does not limit recovery against an employee who is acting outside the course and scope of his/her employment. The Immunity Act specifies the sources from which judgments against public entities may be collected and provides that public entities are not liable for punitive or exemplary damages. The Immunity Act does not prohibit claims in Colorado state court against public entities or their employees based on contract and may not prohibit such claims based on other common law theories. However, the Immunity Act does bar certain federal actions or claims against the State or State employees sued in their official capacities under federal statutes when such actions are brought in state court. The Eleventh Amendment to the U.S. Constitution bars certain federal actions or claims against the State or its employees sued in their official capacities under federal statutes when such actions are brought in federal court.

HB 12-1361 amended the Immunity Act by waiving sovereign immunity of the State in an action for injuries resulting from a prescribed fire started or maintained by the State or any of its employees on or after January 1, 2012. A prescribed fire is defined as the application of fire in accordance with a written prescription for vegetative fuels, but excluding a controlled burn used in farming industry to clear land of existing crop residue, kill weeds and weed seeds or to reduce fuel build-up and decrease the likelihood of a future fire.

### Self-Insurance

In 1985, the General Assembly passed legislation creating a self-insurance fund, the Risk Management Fund, and established a mechanism for claims adjustment, investigation and defense, as well as authorizing the settlement and payment of claims and judgments against the State. The General Assembly also utilizes the self-insurance fund for payment of State workers' compensation liabilities. The State currently maintains self-insurance for claims arising on or after September 15, 1985, under the Immunity Act and claims against the State, its officials or its employees arising under federal law. See Notes 6H, 21 and 44 in the State's Fiscal Year 2014-15 CAFR and Notes 6H, 21 and 43 in the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement, as well as General Fund Components in the Supplementary Information in such document. Judgments awarded against the State for which there is no insurance coverage or that are not payable from the Risk Management Fund ordinarily require a legislative appropriation before they may be paid.

### Current Litigation

For a description of pending material litigation in which the State is a defendant, see Note 43 to the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement. The State believes that it has a reasonable possibility of favorable outcomes in such actions, but the ultimate outcome cannot presently be determined. Except as otherwise noted, no provision for a liability has been made in the financial statements related to the contingencies discussed in such Note.

## RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's, a division of McGraw-Hill Financial, Inc. ("S&P"), have assigned to the Series 2016B Notes the ratings set forth on the cover page of this Official Statement. No other ratings have been applied for.

A rating reflects only the views of the rating agency assigning such rating, and an explanation of the significance of such rating may be obtained from each such rating agency. The State has furnished to the rating agencies certain information and materials relating to the Series 2016B Notes, the State and its financial condition and operations, including certain information and materials which have not been included in this Official Statement. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that any of the ratings will continue for any given period of time or that any of the ratings will not be revised downward, suspended or withdrawn entirely by any such rating agency if, in its judgment, circumstances so warrant. Any such downward revision, suspension or withdrawal of any such rating may have an adverse effect on the market price of the Series 2016B Notes. The State has not undertaken any responsibility to oppose any such revision, suspension or withdrawal.

## CONTINUING DISCLOSURE

### Series 2016B Notes

In accordance with the exemption set forth in paragraph (d)(3) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as amended, which exemption applies to offerings of municipal securities having a stated maturity of 18 months or less, such as the Series 2016B Notes, the State Treasurer will not undertake to provide on an ongoing basis either audited annual financial statements or annual financial information or operating data of the type presented in this Official Statement. However, the State Treasurer will undertake in the State Resolution, for the benefit of the Owners and Beneficial Owners of the Series 2016B Notes, that during such time as any of the Series 2016B Notes are outstanding, the State Treasurer will provide to the Municipal Securities Rulemaking Board (the "MSRB"), via its Electronic Municipal Market Access ("EMMA") system, in a timely manner, not in excess of ten Business Days after the occurrence of the event, notice of the occurrence of any of the events enumerated in Subsection (b)(5)(i)(C) of Rule 15c2-12 with respect to the Series 2016B Notes, including: (i) principal and interest payment delinquencies; (ii) nonpayment related defaults, if material; (iii) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the Series 2016B Notes; (iv) modifications to rights of owners of the Series 2016B Notes, if material; (v) defeasances; and (vi) rating changes; as well as the following events to the extent applicable to the Series 2016B Notes: (a) unscheduled draws on debt service reserves reflecting financial difficulties; (b) unscheduled draws on credit enhancements reflecting financial difficulties; (c) substitution of credit or liquidity providers, or their failure to perform; (d) Series 2016B Note calls, if material, and tender offers; (e) release, substitution or sale of property securing repayment of the Series 2016B Notes, if material; (f) bankruptcy, insolvency, receivership or similar event of the State; (g) the consummation of a merger, consolidation or acquisition involving the State or the sale of all or substantially all of the assets of the State, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (h) appointment of a successor or additional trustee or the change of name of a trustee, if material.

The obligations of the State Treasurer pursuant to the undertaking are for the benefit of the Owners and Beneficial Owners of the Series 2016B Notes, and, if necessary, may be enforced by such Owners and Beneficial Owners by specific performance of such obligations by any judicial proceeding available. However, breach of the State Treasurer's obligations pursuant to the undertaking does not constitute an Event of Default under the State Resolution, and none of the rights and remedies provided in the State Resolution for Events of Default will be available to the Owners or Beneficial Owners of the Series 2016B Notes in the event of a breach of such continuing disclosure undertaking.

### Compliance With Other Continuing Disclosure Undertakings

From January 2011 to May 2011, the State Treasurer failed to file with the MSRB monthly cash flow schedules for the State's General Fund Tax and Revenue Anticipation Notes, Series 2010A, which were issued on December 14, 2010, and paid in full at maturity. Although such filings were not required by Rule 15c2-12, the authorizing resolution for such notes included an affirmative covenant by the State Treasurer to do so.

The State Treasurer has determined that both prior to and during the previous five years the State Treasurer and certain other State departments or agencies have not complied in all material respects with other continuing disclosure undertakings entered into by such entities pursuant to Rule 15c2-12 in connection with municipal securities issued by or for the benefit of such entities by failing to file, or to file on a timely basis, on the EMMA website and its predecessor repositories, certain annual financial information, audited financial statements and/or notices of material events as required by those continuing disclosure undertakings. For example, CDOT failed to file annual financial information and audited financial statements in respect of its outstanding obligations for Fiscal Years 2008-09 through 2012-13. In addition, the State failed to file notices of bond insurer rating downgrades relating to certain outstanding obligations over the last five years, although such bond insurer downgrades did not affect the underlying rating of the State, and failed to file notices of an upgrade in the State's rating by Moody's from "Aa3" to "Aa2" as a result of a global recalibration of ratings by Moody's in May 2010. The State failed to timely file annual financial information and audited financial statements for certain obligations from Fiscal Year 2009-10 through Fiscal Year 2011-12, and failed to file on EMMA notices of such failures. Corrective actions have been taken with regard to these matters as discussed below.

Partially in response to the foregoing, the State Treasurer requested and the General Assembly enacted legislation in 2012 to provide the State Treasurer with statutory authority over debt issuance and post-issuance compliance with continuing disclosure undertakings entered into by the State, the State Treasurer and certain State departments and agencies that utilize the State's credit (collectively, the "Included Entities") in connection with financial obligations issued by or for the benefit of such the Included Entities. Consistent with this authorization, the responsibility for compliance with the continuing disclosure undertakings entered into by the Included Entities has been centralized with the State Treasurer, which is intended to ensure future compliance with such continuing disclosure undertakings.

In early 2013, the State Treasurer retained Digital Assurance Certification, LLC ("DAC Bond"), as its disclosure dissemination agent for the purpose of assisting it with auditing past compliance, making remedial filings and ensuring ongoing compliance with its continuing disclosure filing requirements with the MSRB of all information required in the continuing disclosure undertakings entered into by the Included Entities, and plans to implement other procedures intended to ensure future material compliance with such continuing disclosure undertakings.

In addition, consistent with its statutory authorization and as a result of the circumstances described above, the State Treasurer's office commenced, and is continuing to carry out, a comprehensive review of compliance by the State with the continuing disclosure undertakings entered into by the Included Entities for the purpose of determining whether there are other instances of material noncompliance with such continuing disclosure undertakings. Instances of material noncompliance discovered by the State Treasurer's office to date have been addressed by making appropriate corrective filings or taking other remedial actions, either directly or by DAC Bond, and may include corrective action and participation in the SEC's Municipal Continuing Disclosure Cooperation Initiative.

Due to various issues that were experienced by the State in connection with the implementation of a new integrated financial system as described in "STATE FINANCIAL INFORMATION – Fiscal

Controls and Financial Reporting," the State's unaudited Basic Financial Statements for Fiscal Year 2014-15 and the State's Fiscal Year 2014-15 CAFR were not completed and released until late January 2016 and late April 2016, respectively. Thus, the State was unable to submit its Fiscal Year 2014-15 audited financial statements for posting on EMMA by December 31, 2015, as required by numerous continuing disclosure undertakings entered into by the Included Entities. Notice of such noncompliance was posted on EMMA on January 25, 2016, the State's unaudited Basic Financial Statements for Fiscal Year 2014-15 were subsequently posted on EMMA on February 1, 2016, and the State's Fiscal Year 2014-15 CAFR was posted on EMMA on May 2, 2016. The State recently discovered that the OSPB March 2016 revenue forecast was not timely posted on EMMA in connection with the Higher Education Federal Mineral Lease Certificates of Participation, Series 2014A. Both a Notice of Failure to File and the OSPB March 2016 revenue forecast were posted on EMMA on May 17, 2016.

**MCDC Settlement Order with the Securities and Exchange Commission**

In March of 2014, the SEC announced its Municipal Continuing Disclosure Cooperation Initiative (the "MCDC") pursuant to which underwriters and municipal issuers could self-report instances where official statements of municipal issuers failed to report instances in which the issuer failed to comply in all material respects with its continuing disclosure undertakings. Pursuant to the MCDC, on or about November 26, 2014, the State Treasurer reported certain prior failures to the SEC.

In May of 2016, the State Treasurer, on behalf of CDOT, executed an Offer of Settlement (the "Offer") with the SEC under the MCDC, which Offer was accepted by the SEC on August 24, 2016, and became an order of the SEC (the "Order"). As described in the Order, CDOT participated in one negotiated offering in 2011 in which the final official statement stated in relevant part that during the past five years, CDOT had complied in all material respects with its continuing disclosure undertakings. Notwithstanding such statement, however, CDOT's audited financial statements for 2006, 2007, 2008, 2009 and 2010 were not filed until 2014 when it was discovered that such financial statements had not been filed previously with the Nationally Recognized Municipal Securities Information Repositories or the MSRB through the EMMA system, as applicable.

Pursuant to the Order, the State Treasurer has agreed to (i) within 180 days of the entry of the Order, establish written policies and procedures and undertake periodic training regarding continuing disclosure obligations, including designation of an individual or officer responsible for ensuring compliance with such policies and procedures, (ii) within 180 days of the entry of the Order, comply with existing continuing disclosure undertakings, and, if not currently in compliance, update past delinquent filings, (iii) disclose in clear and conspicuous fashion the terms of the Offer in any official statement for an offering through the State Treasurer within five years of the institution of the proceedings, (iv) cooperate with any subsequent investigation by the SEC regarding false statements and/or material omissions and (v) not later than one year from the date of the institution of the proceedings, certify, in writing, compliance with the foregoing undertakings.

The State Treasurer has updated its continuing disclosure procedures in order to ensure filings are done in accordance with its continuing disclosure agreements.

Additional information concerning the matters discussed in this section may be obtained from the Colorado Attorney General's Office, 1300 Broadway, 6th Floor, Denver, Colorado 80203, Attention: Heidi Dineen, Esq., Senior Assistant Attorney General, telephone number: (720) 508-6179.

## LEGAL MATTERS

All legal matters incident to the validity and enforceability of the Series 2016B Notes, as well as the treatment of interest on the Series 2016B Notes for purposes of federal and State income taxation, are subject to the approving legal opinion of Kutak Rock LLP, Denver, Colorado, as Bond Counsel. The substantially final form of the opinion of Bond Counsel is appended to this Official Statement. Certain legal matters will be passed upon for the State by the Office of the Attorney General of the State and by Kline Alvarado Veio, P.C., Denver, Colorado, as special counsel to the State in connection with the preparation of this Official Statement. Payment of legal fees to Bond Counsel and special counsel are contingent upon the sale and delivery of the Series 2016B Notes.

## TAX MATTERS

### Generally

In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 2016B Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. The opinion described in the preceding sentence assumes the accuracy of certain representations and compliance by the State with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the Series 2016B Notes. Failure to comply with such covenants could cause interest on the Series 2016B Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2016B Notes. The State has covenanted to comply with such requirements. Bond Counsel has expressed no opinion regarding other federal tax consequences arising with respect to the Series 2016B Notes. Notwithstanding Bond Counsel's opinion that interest on the Series 2016B Notes is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses).

Bond Counsel is further of the opinion that interest on the Series 2016B Notes is not included in Colorado taxable income or Colorado alternative minimum taxable income under Colorado income tax laws.

The accrual or receipt of interest on the Series 2016B Notes may otherwise affect the federal income tax liability of the owners of the Series 2016B Notes. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Bond Counsel has expressed no opinion regarding any such consequences. Purchasers of the Series 2016B Notes, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Tax Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Series 2016B Notes.

The amount treated as interest on the Series 2016B Notes and excluded from gross income will depend upon the taxpayer's election under Internal Revenue Service (the "Service") Notice 94-84, 1994-2 C.B. 559. Notice 94-84 states that the Service is studying whether the amount of the payment at maturity on debt obligations such as the Series 2016B Notes that is excluded from gross income for federal income tax purposes is (i) the stated interest payable at maturity or (ii) the difference between the issue price of the Series 2016B Notes and the aggregate amount to be paid at maturity of the Series 2016B Notes (the "original issue discount"). For this purpose, the issue price of the Series 2016B Notes is the first price at which a substantial amount of the Series 2016B Notes is sold to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). Until the Service provides further guidance, taxpayers may treat either the stated interest payable at maturity or the original issue discount as interest that is excluded from gross income for federal income tax purposes. However, taxpayers must treat the amount to be paid at maturity on all tax-exempt debt obligations with a term that is not more than one year from the date of issue in a consistent manner. Taxpayers should consult their own tax advisors with respect to the tax consequences of ownership of Series 2016B Notes if the taxpayer elects original issue discount treatment.

**Tax Treatment of Original Issue Premium**

The following disclosure relates to purchasers of the Series 2016B Notes who, under Notice 94-84 discussed above, treat the stated interest payable at the maturity of the Series 2016B Notes as the amount excluded from gross income for federal income tax purposes. An amount equal to the excess of the issue price of a Series 2016B Note over its stated redemption price at maturity constitutes original issue premium on such Series 2016B Note. An initial purchaser of a Series 2016B Note must amortize any original issue premium in accordance with the provisions of Section 171 of the Tax Code. Purchasers of a Series 2016B Note with original issue premium should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to state and local tax consequences of owning Series 2016B Notes with original issue premium.

**Changes in Federal and State Tax Law**

From time to time, there are legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to above or adversely affect the market value of the Series 2016B Notes. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value of the Series 2016B Notes. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2016B Notes or the market value thereof would be impacted thereby. Purchasers of the Series 2016B Notes should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2016B Notes, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any pending legislation, regulatory initiatives or litigation.

**Backup Withholding**

As a result of the enactment of the Tax Increase Prevention and Reconciliation Act of 2005, interest on tax-exempt obligations such as the Series 2016B Notes is subject to information reporting in a manner similar to interest paid on taxable obligations. Backup withholding may be imposed on payments made to any bondholder who fails to provide certain required information including an accurate taxpayer identification number to any person required to collect such information pursuant to Section 6049 of the Tax Code. This reporting requirement does not in and of itself affect or alter the excludability of interest on the Series 2016B Notes from gross income for federal income tax purposes or any other federal tax consequence of purchasing, holding or selling tax-exempt obligations.

## UNDERWRITING

The Series 2016B Notes will be purchased from the State by BofA Merrill Lynch, Citigroup Global Markets Inc., Morgan Stanley & Co., LLC, and Wells Fargo Bank, National Association, pursuant to a competitive sale conducted by the State, for an aggregate purchase price of $380,297,500, being the principal amount of the Series 2016B Notes plus an aggregate original issue premium of $5,311,250 and less an aggregate underwriting discount of $13,750.

Morgan Stanley, parent company of Morgan Stanley & Co., LLC, an underwriter of the Series 2016B Notes, has entered into a retail distribution arrangement with Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co., LLC, may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co., LLC, may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2016B Notes.

## FINANCIAL ADVISOR

RBC Capital Markets, LLC, Denver, Colorado, is acting as Financial Advisor to the State in connection with the issuance of the Series 2016B Notes, and in such capacity has assisted in the preparation of this Official Statement and other matters relating to the planning, structuring, rating and execution and delivery of the Series 2016B Notes. However, the Financial Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy or completeness of the information contained in this Official Statement. The Financial Advisor will act as an independent advisory firm and will not be engaged in underwriting or distributing the Series 2016B Notes. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2016B Notes is contingent upon the issuance and delivery of the Series 2016B Notes.

## MISCELLANEOUS

The cover page, inside cover, prefatory information and appendices to this Official Statement are integral parts hereof and must be read together with all other parts of this Official Statement. The descriptions of the documents, statutes, reports or other instruments included herein do not purport to be comprehensive or definitive and are qualified in the entirety by reference to each such document, statute, report or other instrument. During the offering period of the Series 2016B Notes, copies of the State Resolution and certain other documents referred to herein may be obtained from the Financial Advisor at RBC Capital Markets, LLC, 1801 California Street, Suite 3850, Denver, Colorado 80202, Attention: Dan O'Connell, telephone number (303) 595-1222. So far as any statements made in this Official Statement involve matters of opinion, forecasts, projections or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact.

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**OFFICIAL STATEMENT CERTIFICATION**

The preparation and distribution of this Official Statement have been authorized by the State Treasurer. This Official Statement is hereby approved by the State Treasurer as of the date set forth on the cover page hereof.

By: /s/ Jonathan Forbes
Deputy Treasurer of the State of Colorado

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## APPENDIX A

## THE STATE GENERAL FUND

The State Resolution requires that if on June 26, 2017, the amount credited to the Principal Subaccount of the Series 2016-17 Notes Repayment Account is less than the principal amount of the Series 2016A Notes, the Series 2016B Notes and any additional Parity Lien Notes, the State Treasurer is to deposit the amount of the deficiency to the Principal Subaccount from any funds on hand or in the custody or possession of the State Treasurer and eligible for investment in the District Notes. The State Treasurer is to first utilize all other funds that are eligible for investment in the District Notes prior to the application of Current General Fund Revenues or Borrowable Resources that are eligible for investment in the District Notes. The ability of the State Treasurer to use Current General Fund Revenues that are eligible for investment in the District Notes to fund a deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account is subordinate to the use of such funds for payment of any general fund tax and revenue anticipation notes of the State issued during Fiscal Year 2016-17, including, without limitation, the State Series 2016A General Fund Notes. See "THE SERIES 2016B NOTES – Security and Sources of Payment – *The Series 2016-17 Notes Repayment Account*" and "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF A DEFAULT IN THE REPAYMENT OF PROGRAM LOANS."

This Appendix contains a discussion of the General Fund, including the estimated cash flows for the General Fund for Fiscal Year 2016-17. See also "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

### The General Fund

The General Fund is the principal operating fund of the State. All revenues and moneys not required by the State Constitution or statutes to be credited and paid into a special fund are required to be credited and paid into the General Fund. As required by recent changes in GAAP, the General Fund reported in the State's Fiscal Year 2010-11 CAFR and subsequent CAFRs includes a large number of statutorily created special funds that do not meet the GAAP requirements to be presented as Special Revenue Funds. To make the distinction between the statutory General Fund and the GAAP General Fund, the CAFR refers to the statutory General Fund as the General Purpose Revenue Fund. The revenues in the General Purpose Revenue Fund are not collected for a specific statutory use but rather are available for appropriation for any purpose by the General Assembly. The following discussion of the General Fund represents the legal and accounting entity referred to in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS as the General Purpose Revenue Fund.

### General Fund Revenue Sources

The major revenue sources to the General Fund are individual and corporate income taxes and sales and use taxes. The State also imposes excise taxes on the sale of cigarettes, tobacco products and liquor, and receives revenues from a diverse group of other sources such as insurance taxes, pari-mutuel taxes, interest income, court receipts and gaming taxes. The following table sets forth the State's receipts from major revenue sources for the past five Fiscal Years, as well as current OSPB estimates for Fiscal Years 2016-17 and 2017-18. See also "Revenue Estimation; OSPB Revenue and Economic Forecasts" in this Appendix and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST," as well as the inside cover of this Official Statement regarding forward-looking statements.

**State of Colorado**
**General Fund Revenue Sources[1]**
(Accrual basis; dollar amounts expressed in millions)

| | Actual | | | | | | | | | | OSPB December 2016 Revenue Forecast | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fiscal Year 2011-12 | | Fiscal Year 2012-13 | | Fiscal Year 2013-14 | | Fiscal Year 2014-15 | | Preliminary Fiscal Year 2015-16 | | Fiscal Year 2016-17 | | Fiscal Year 2017-18 | |
| **Revenue Source** | **Amount** | **% Change** | **Amount** | **% Change** | **Amount** | **% Change** | **Amount** | **% Change** | **Amount** | **% Change** | **Amount** | **% Change** | **Amount** | **% Change** |
| **Excise Taxes:** | | | | | | | | | | | | | | |
| Sales Tax [2] | $2,093.2 | 2.4% | $2,211.7 | 5.7% | $2,425.3 | 9.7% | $2,619.2 | 8.0% | $2,652.6 | 1.3% | $ 2,847.8 | 7.4% | $ 2,964.9 | 4.1% |
| Use Tax | 200.6 | 5.6 | 242.7 | 21.0 | 241.3 | (0.6) | 260.3 | 7.8 | 241.2 | (7.3) | 260.0 | 7.8 | 276.7 | 6.4 |
| | 2,293.8 | 2.7 | 2,454.4 | 7.0 | 2,666.6 | 8.6 | 2,879.5 | 8.0% | 2,893.8 | 0.5 | 3,107.8 | 7.4 | 3,241.6 | 4.3 |
| Cigarette Tax | 39.5 | 0.5 | 38.3 | (3.1) | 36.6 | (4.5) | 37.9 | 3.6 | 37.2 | (1.8) | 37.4 | 0.4 | 35.0 | (6.5) |
| Tobacco Products [3] | 16.0 | 16.1 | 15.6 | (2.9) | 16.9 | 8.5 | 17.8 | 5.3 | 21.1 | 18.5 | 21.7 | 2.9 | 22.0 | 1.2 |
| Liquor Tax | 38.4 | 5.3 | 39.2 | 2.2 | 40.3 | 2.9 | 41.5 | 2.8 | 43.6 | 5.0 | 45.0 | 3.3 | 45.5 | 1.1 |
| | 93.9 | 4.9 | 93.1 | (0.9) | 93.8 | 0.8 | 97.2 | 3.6 | 101.9 | 4.8 | 104.1 | 2.2 | 102.5 | (1.5) |
| Total Excise Taxes | 2,387.7 | 2.8 | 2,547.5 | 6.7 | 2,760.4 | 8.4 | 2,976.7 | 7.8 | 2.995.7 | 0.6 | 3,212.0 | 7.2 | 3,344.1 | 4.1 |
| **Income Taxes:** | | | | | | | | | | | | | | |
| Net Individual Income Tax | 5,011.6 | 11.5 | 5,596.3 | 11.7 | 5,696.1 | 1.8 | 6,350.1 | 11.5 | 6,526.5 | 2.8 | 6,842.0 | 4.8 | 7,202.7 | 5.3 |
| Net Corporate Income Tax | 486.5 | 23.5 | 636.3 | 30.8 | 720.7 | 13.3 | 692.9 | (3.9) | 652.3 | (5.8) | 565.0 | (13.4) | 622.5 | 10.2 |
| Total Income Taxes | 5,498.1 | 12.4 | 6,232.6 | 13.4 | 6,416.8 | 3.0 | 7,043 | 9.8 | 7,178.8 | 1.9 | 7,407.0 | 3.2 | 7,825.2 | 5.6 |
| Less State Education Fund Diversion[2] | (407.5) | 10.0 | (486.3) | 19.3 | (478.8) | (1.6) | (519.8) | 8.6 | (522.6) | 0.5 | (540.7) | 3.5 | (574.4) | 6.2 |
| Total Income Taxes to the General Fund | 5,090.6 | 12.6 | 5,746.2 | 12.9 | 5,938.0 | 3.3 | 6,523.1 | 9.9 | 6,656.2 | 2.0 | 6,866.3 | 3.2 | 7,250.8 | 5.6 |
| **Other Revenues**: | | | | | | | | | | | | | | |
| Estate | 0.3 | -- | (0.1) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Insurance | 197.2 | 4.0 | 210.4 | 6.7 | 239.1 | 13.6 | 256.7 | 7.4 | 277.5 | 8.1 | 291.9 | 5.2 | 303.6 | 4.0 |
| Interest Income | 13.6 | 71.5 | 17.4 | 28.6 | 15.2 | (12.8) | 8.9 | (41.7) | 12.4 | 40.3 | 14.1 | 13.4 | 14.9 | 6.0 |
| Pari-Mutuel | 0.6 | 14.4 | 0.7 | 10.3 | 0.6 | (8.8) | 0.6 | 0.2 | 0.6 | 0.6 | 0.6 | (3.2) | 0.6 | (2.0) |
| Court Receipts | 2.6 | (27.6) | 2.3 | (9.0) | 2.6 | 9.5 | 2.6 | 0.3 | 3.5 | 34.5 | 2.9 | (15.2) | 2.8 | (3.4) |
| Other Income | 23.1 | 8.8 | 18.1 | (21.6) | 21.3 | 17.9 | 34.0 | 59.3 | 22.5 | (33.8) | 16.4 | (27.0) | 17.5 | 6.3 |
| Total Other | 237.3 | 6.5 | 249.0 | 4.9 | 279.2 | 12.1 | 302.7 | 8.4 | 316.5 | 4.5 | 326.0 | 3.0 | 339.4 | 4.1 |
| **Gross General Fund** | **$7,715.7** | **9.2%** | **$8,542.7** | **10.7%** | **$8,977.7** | **5.1%** | **$9,802.6** | **9.2%** | **$9,968.4** | **1.7%** | **$10,404.2** | **4.4%** | **$10,934.3** | **5.1%** |

1 Historically, gaming revenue was reported by OSPB as a source of revenue to the General Fund. The "Other Revenues" in this table for Fiscal Years 2010-11 through 2012-13 have been restated to reflect a change in OSPB's reporting of gaming revenue to the General Fund that began with the OSPB September 2014 Revenue Forecast. Because revenue from gaming is transferred to the General Fund annually from a cash fund, the money is more appropriately reflected in "Transfers to the General Fund" in the General Fund overview table hereafter rather than as a General Fund revenue source in this table. This change does not affect the overall amount of "Total General Fund Revenue Available for Expenditure" in the General Fund overview table.

2 State voters approved Proposition AA in November of 2013, which included the imposition by the State of a sales tax of 10% on sales of retail marijuana and retail marijuana products effective January 2014. HB 15-1367 reduces the 10% special sales tax on retail marijuana sales to 8% starting in Fiscal Year 2017 18. Under current law, the revenue from this sales tax first goes to the General Fund and is then transferred to a cash fund. A portion of this revenue is also distributed to local governments where such sales occur. Proposition AA also approved the imposition by the State of an excise tax of 15% on certain sales of unprocessed retail marijuana effective January 2014 that does not flow through the General Fund but is mostly credited directly to a cash fund for public school capital construction projects. See "STATE FINANCIAL INFORMATION – Taxpayers' Bill of Rights – *Voter Approval to Retain and Spend Certain Marijuana Taxes Associated with Proposition AA.*"

3 All individual and corporate income tax revenues are deposited to the General Fund and then a portion of the amount is diverted by law to the State Education Fund. See Note 13 to the table in "General Fund Overview" hereafter.

Source: Office of State Planning and Budgeting

## General Fund Overview

The following table summarizes the actual revenues, expenditures and changes in fund balances for the General Fund for the past five Fiscal Years, as well as current OSPB estimates for Fiscal Years 2016-17 and 2017-18 from the OSPB December 2016 Revenue Forecast. The overview incorporates the Governor's November 1, 2016, budget request as of the publication of the OSPB December 2016 Revenue Forecast for Fiscal Years 2016-17 and 2017-18[1]. Amendments to the request will be submitted to the General Assembly in January 2017. Any new budget information will be incorporated in subsequent OSPB revenue forecasts. The format of the following table is used by the State in developing its annual budget, as discussed in "STATE FINANCIAL INFORMATION – Budget Process and Other Considerations." See also "Revenue Estimation; OSPB Revenue and Economic Forecasts" in this Appendix and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST," as well as the preliminary notices in this Official Statement regarding forward looking statements.

1 For comparison purposes, the OSPB December 2016 Revenue Forecast includes a General Fund Overview under current law, without the Governor's November 2016 budget request.

# State of Colorado
## General Fund Overview Under the Governor's November 2016 Budget Request
## Fiscal Years 2011-12 through 2017-18

(Dollar amounts expressed in millions; totals may not add due to rounding)

| | Actual (Unaudited)[1] | | | | | OSPB December 2016 Revenue Forecast | |
|---|---|---|---|---|---|---|---|
| | Fiscal Year 2011-12 | Fiscal Year 2012-13 | Fiscal Year 2013-14 | Fiscal Year 2014-15 | Preliminary Fiscal Year 2015-16 | Fiscal Year 2016-17 | Fiscal Year 2017-18 |
| **REVENUE:** | | | | | | | |
| Beginning Reserve | $ 156.6 | $ 795.8 | $ 373.0 | $ 435.9 | $ 689.6 | $ 513.5 | $ 517.7 |
| Gross General Fund Revenue[2] | 7,715.7 | 8,542.7 | 8,977.7 | 9,802.6 | 9,968.4 | 10,404.2 | 10,934.3 |
| Transfers to the General Fund[2] | 162.4 | 12.4 | 14.1 | 64.9 | 24.1 | 45.9 | 18.3 |
| Proposed Policy Changes Affecting Revenue[3] | -- | -- | -- | -- | -- | 31.7 | 34.4 |
| **TOTAL GENERAL FUND REVENUE AVAILABLE FOR EXPENDITURE** | 8,034.7 | 9,351.0 | 9,364.8 | 10,303.4 | 10,682.1 | 10,995.4 | 11,504.8 |
| **EXPENDITURES:** | | | | | | | |
| Appropriation Subject to Limit[4] | 7,027.8 | 7,459.2 | 8,218.7 | 8,869.0 | 9,335.6 | 9,837.3 | 10,278.6 |
| Dollar Change From Prior Year | 216.7 | 431.5 | 759.5 | 650.3 | 466.6 | 501.7 | 441.3 |
| Percent Change From Prior Year | 3.2% | 6.1% | 10.2% | 7.9% | 5.3% | 5.4% | 4.5% |
| Spending Outside Limit: | 189.0 | 452.3 | 545.5 | 785.7 | 895.0 | 640.4 | 613.9 |
| TABOR Refund under Subsection (7)(d)[5] | -- | -- | -- | 153.7 | -- | -- | 52.7 |
| Set Aside for Potential TABOR Refund under Subsection (3)(c)[6] | -- | -- | -- | 58.0 | (58.0) | -- | -- |
| Rebates and Expenditures[7] | 134.8 | 380.9 | 250.2 | 257.4 | 281.2 | 292.9 | 304.5 |
| Transfer to Capital Construction[8] | 49.3 | 61.4 | 186.7 | 248.5 | 271.1 | 84.5 | 89.5 |
| Transfers to Highway Users Tax Fund[8] | N/A | N/A | -- | -- | 199.2 | 79.0 | 79.0 |
| Transfers to State Education Fund per SB 13-234[9] | N/A | N/A | 45.3 | 25.3 | 25.3 | 25.3 | 25.3 |
| Transfers to Other Funds[10] | 5.0 | 4.6 | 30.9 | 42.2 | 176.2 | 158.7 | 85.9 |
| Other Expenditures Exempt from General Fund Appropriations Limit[11] | -- | 5.4 | 32.4 | 0.5 | -- | -- | -- |
| **TOTAL GENERAL FUND OBLIGATIONS** | 7,216.8 | 7,911.5 | 8,764.3 | 9,654.7 | 10,230.6 | 10,477.6 | 10,892.5 |
| Percent Change from Prior Year | 3.7% | 9.6% | 10.8% | 10.2% | 5.7% | 2.4% | 4.0% |
| Reversions and Accounting Adjustments | 36.9 | 7.1 | (50.4) | (60.6) | (62.0) | -- | (23.0) |
| **RESERVES** | | | | | | | |
| Year-End General Fund Balance | 854.8 | 1,446.5 | 650.9 | 709.2 | 513.5 | 517.7 | 612.4 |
| Year-End General Fund as a % of Appropriations | 12.2% | 19.4% | 7.9% | 8.0% | 5.5% | 5.3% | 6.0% |
| General Fund Statutory Reserve Amount[12, 13] | 281.1 | 373.0 | 410.9 | 576.5 | 463.9 | 636.4 | 664.8 |
| Unappropriated Reserve Percentage[12, 13] | 4.0% | 5.0% | 5.0% | 6.5% | 5.6% | 6.5% | 6.5% |
| Amount Above (Below) Statutory Reserve | 573.7 | 1,073.5 | 240.0 | 132.7 | 49.7 | (118.7) | (52.4) |
| Transfer of Excess Reserve to State Education Fund/ Other Funds[14] | (59.0) | (1,073.5) | (215.0) | -- | -- | -- | -- |
| Balance After Any Funds Above Statutory Reserve are Allocated | 795.8 | -- | 435.9 | 132.7 | 49.7 | (118.7) | (52.4) |

1 This table is unaudited, although some of the figures reported in these columns are identified by the OSPB from the State's CAFRs which are audited for the applicable Fiscal Years.

2 Historically, gaming revenue was reported by OSPB as a source of revenue to the General Fund. The amounts in these line items for Fiscal Years 2011-12 and 2012-13 have been restated to reflect a change in OSPB's reporting of gaming revenue to the General Fund that began with the OSPB September 2014 Revenue Forecast. Because revenue from gaming is transferred to the General Fund annually from a cash fund, the money is more appropriately reflected in this table as a transfer to the General Fund rather than as General Fund revenue. This change does not affect the overall amount of Total General Fund Revenue Available for Expenditure.

3 The proposed policy changes shown in this line are from the Governor's November budget request. The Fiscal Year 2016-17 amount is a proposed transfer to the General Fund from the restricted severance taxes established by SB 16-218. The Fiscal Year 2017-18 amount is a proposed net transfer that includes a $12.5 million transfer from the General Fund to the Disaster Emergency Fund for expenses related to the September 2013 floods and a transfer of $46.9 million from the balance of the State Employee Reserve Fund into the General Fund.

4 Per SB 09-228, commencing with Fiscal Year 2009-10 this appropriation limit was revised from: (a) the lesser of (i) 5% of Colorado personal income as reported by the U.S. Bureau of Economic Analysis or (ii) 6% growth applied to appropriations amounts from the General Fund during the prior Fiscal Year; to (b) 5% of Colorado personal income.

5 Current law requires TABOR refunds to be accounted for in the year the excess revenue is collected. The refund amount for Fiscal Year 2014-15 includes $150.1 million in revenue above the ESRC for Fiscal Year 2014-15, as well as $3.6 million in pending amounts owed related to refunds from prior years as the result of either (a) adjustments that were made to State accounting records for years in which TABOR refunds occurred that resulted in additional required refunds to taxpayers, or (b) the refund mechanisms used in previous years resulting in less refunds than the amount required. Such refunds are held by the State until a future year in which a TABOR refund occurs, when they are added to the total refund amount and distributed to taxpayers. The refund amount for Fiscal Year 2017-18 includes $224.7 million in revenue above the projected ESRC for Fiscal Year 2017-18 plus $23 million in outstanding refund obligations from prior years, including $19.6 million that needs to be refunded from Fiscal Year 2014-15 due to a reclassification of revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund, as well as an estimated remaining $17.5 million of the required refund for Fiscal Year 2014-15 that was not

refunded via 2015 tax returns. These adjustments are offset by a reduction in the refund obligation of $14.1 million mostly due to a recent reclassification of Department of Public Safety revenue as exempt from TABOR. The $23.0 million in outstanding refund obligations was already accounted for in prior years. Therefore, the $23.0 million is shown as an accounting adjustment for Fiscal Year 2017-18. The Fiscal Year 2017-18 TABOR refund also incorporates a $195 million reduction in Hospital Provider Fee revenue under the Governor's November budget request. See "STATE FINANCIAL INFORMATION – Taxpayers' Bill of Rights – *Fiscal Year Revenue and Spending Limits; Referendum C*" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST – Taxpayer's Bill of Rights: Revenue Limit."

[6] The amount shown in Fiscal Year 2014-15 reflects the amount set aside by HB 15-1367 in a special account to cover a potential TABOR refund relating to Proposition AA. HB 15-1367 submitted to the State's voters at the general election held on November 3, 2015, the question of authorizing the State to retain and expend such amount. Because voters approved Proposition BB, the State was able to use the money for the uses specified in HB 15-1367. Therefore, a reversal of the $58 million set aside is shown in Fiscal Year 2015-16 which made it available for spending. See "STATE FINANCIAL INFORMATION – Taxpayers' Bill of Rights – *Voter Approval to Retain and Spend Certain Marijuana Taxes Associated with Proposition AA,*" Note 4 above and Note 2 to the table in "General Fund Revenue Sources" above.

[7] This generally includes the Cigarette Rebate, which distributes money from a portion of State cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; the Marijuana Rebate, which distributes 15% of the retail marijuana sales tax to local governments based on the percentage of retail marijuana sales in local areas; the Old Age Pension program, which provides assistance to low-income elderly individuals who meet certain eligibility requirements; the Property Tax, Heat and Rent Credit, which provides property tax, heating bill or rent assistance to qualifying low-income disabled or elderly individuals; and the Homestead Property Tax Exemption, which reduces property-tax liabilities for qualifying seniors and disabled veterans. The homestead exemption for qualified seniors was suspended for Fiscal Years 2009-10 through 2011-12. The homestead exemption for qualified disabled veterans was not affected by this suspension. See "SOURCE OF PAYMENT OF PROGRAM LOANS – Ad Valorem Property Taxation Procedure – *Homestead Exemption*."

[8] SB 09-228 requires transfers to capital construction and the Highway Users Tax Fund when personal income increases by more than 5.0%. Such transfers are to be reduced by half if there is a TABOR refund in an amount between 1% and 3% of total General Fund revenue in the same Fiscal Year, and are to be suspended altogether if there is a TABOR refund in excess of 3% of total General Fund revenue. Personal income growth exceeded this threshold in the 2014 calendar year, which triggers the required transfers starting in Fiscal Year 2015-16 and through Fiscal Year 2019-20. Pursuant to HB 16-1416, the dollar amount of the transfers to the Highway Users Tax Fund and the Capital Construction Fund are at fixed amounts in Fiscal Years 2015-16 and 2016-17 regardless of the level of any TABOR refund. The transfer amounts to the Highway Users Tax Fund are $199.2 million in Fiscal Year 2015-16 and $158.0 million in Fiscal Year 2016-17. The transfer amounts to the Capital Construction Fund are $49.8 million in Fiscal Year 2015-16 and $52.7 million in Fiscal Year 2016-17. The capital construction transfer amounts in Fiscal Years 2015-16 and 2016-17 also include transfers of General Fund money in addition to the SB 09-228 transfers, and therefore the amount shown in this line differ from the amount transferred per SB 09-228.

[9] SB 13-234 requires annual General Fund transfers to the State Education Fund in Fiscal Years 2013-14 through 2018-19.

[10] State law requires transfers of General Fund money to various State cash funds. Starting in Fiscal Year 2013-14, this line item includes transfers of amounts credited to the General Fund from the 10% retail marijuana sales tax (reduced to 8% starting in Fiscal Year 2017-18) to a cash fund. See Note 1 to the table in "General Fund Revenue Sources" above. However, for Fiscal Year 2015-16 only, $40.0 million of the transfer to other funds amount is a transfer to public school capital construction related to the passage of Proposition BB. The Fiscal Years 2015-16 and 2016-17 amounts also include a diversion of income tax revenue out of the General Fund to a separate severance tax fund pursuant to SB 16-218, which was passed in response to the April 2016 Colorado Supreme Court's decision in *BP America Production Company v. Colorado Department of Revenue* that allows for taxpayers to claim additional severance tax deductions. SB 16-218 creates a reserve fund and diverts income tax revenue to the fund to help pay the refunds. However, the legislation does not distinguish between severance tax refunds related to the court decision and severance tax refunds that would have occurred regardless of the decision. For Fiscal Year 2015-16, $56.8 million in income tax revenue was diverted to such reserve fund to pay for severance tax refunds. The OSPB December 2016 Revenue Forecast projects that approximately $54.0 million in income tax revenue will be diverted from the General Fund to the reserve fund to pay severance tax refunds in Fiscal Year 2016-17. This amount may change materially in subsequent forecasts as new information becomes available. See also "STATE FINANCIAL INFORMATION – Budget Process and Other Considerations – *Revenues and Unappropriated Amounts*" and the sections of the OSPB December 2016 Revenue Forecast captioned "CASH FUND REVENUE FORECAST – Severance Tax Revenue" and "GENERAL FUND AND STATE EDUCATION FUND BUDGET – General Fund Overview Table – Expenditures."

[11] Spending by the Medicaid program above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount in this line.

[12] Per SB 15-251, starting in Fiscal Year 2015-16, General Fund appropriations for lease-purchase agreement payments made in connection with certificates of participation sold to fund certain capital projects were made exempt from the reserve calculation requirement. See "DEBT AND CERTAIN OTHER FINANCIAL OBLIGATIONS – The State, State Departments and Agencies." These appropriations amount to $37.8 million in Fiscal Year 2015-16 and $46.0 million in Fiscal Year 2016-17.

[13] Per HB 14-1337, for Fiscal Years 2014-15 and thereafter, the Unappropriated Reserve has been increased to 6.5% of General Fund appropriations subject to the appropriations limit in such Fiscal Years (excluding certificates of participation payments) starting with Fiscal Year 2015-16. However, HB 16-1419 reduced the Unappropriated Reserve for Fiscal Year 2015-16 to 5.6% of General Fund appropriations subject to the appropriations limit (excluding certificates of participation payments), minus any diversions of income tax revenue pursuant to SB 16-218 as discussed in Note 9 above. The Unappropriated Reserve requirement reverts to 6.5% of General Fund appropriations subject to the appropriations limit (excluding certificates of participation payments) for Fiscal Years 2016-17 and thereafter. See also "STATE FINANCIAL INFORMATION – Budget Process and Other Considerations – *Revenues and Unappropriated Amounts.*"

[14] In recent years, all or a portion of the amount in excess of the statutory reserve was required by law to be credited to other State Funds, mostly the State Education Fund. For example, per HB 12-1338, all of the Fiscal Year 2012-13 excess was transferred to the State Education Fund. All of the Fiscal Year 2013-14 excess reserves, except for $25 million that remained in the General Fund, were transferred to various other State Funds in a specified order of priority pursuant to HB 14-1339, HB 14-1342 and SB 14-223. The amount remaining in the General Fund became part of the beginning reserve and funds available in Fiscal Year 2014-15. Under current law, all amounts remaining in the General Fund in excess of the statutory reserve in Fiscal Years 2014-15 through 2016-17 have or will become part of the beginning reserve and funds available in the following Fiscal Year.

Source: Office of State Planning and Budgeting

**Revenue Estimation; OSPB Revenue and Economic Forecasts**

***Revenue Estimating Process.*** The State relies on revenue estimation as the basis for establishing aggregate funds available for expenditure for its appropriation process. By statute, the OSPB is responsible for developing a General Fund revenue estimate. No later than June 20th prior to the beginning of each Fiscal Year, and no later than September 20th, December 20th and March 20th within each Fiscal Year, the Governor, with the assistance of the State Controller and the OSPB, is required to make an estimate of General Fund revenues for the current and certain future years. The revenue estimates are not binding on the General Assembly in determining the amount of General Fund revenues available for appropriation for the ensuing Fiscal Year. The revenue estimates may be subject to more frequent review and adjustment in response to significant changes in economic conditions, policy decisions and actual revenue flow.

The most recent OSPB Revenue Forecast was issued on December 20, 2016, and is included in this Official Statement as "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST." The OSPB December 2016 Revenue Forecast projects revenues for Fiscal Years 2016-17 through 2017-18, which are summarized in "General Fund Revenue Sources" and "General Fund Overview" above in this Appendix.

The OSPB begins estimating revenue by obtaining macroeconomic forecasts for national and State variables. The national forecast for the OSPB December 2016 Revenue Forecast was provided by Moody's Economy.com. The OSPB forecasts the State economy using a model originally developed partly in-house and partly by consultants to the State.

The model of the State economy is updated quarterly. This model is comprised of numerous dynamic regression equations and identities. Moody's Economy.com's forecasts for national variables are inputs to many of the Colorado equations. The model of the State economy generates forecasts of key indicators such as employment, retail sales, inflation and personal income. These forecasts are then used as inputs to revenue forecasts for income tax receipts, corporate collections, sales tax receipts, etc.

The econometric model used to forecast General Fund revenue relies on the economic data estimated using the model of the State economy discussed above. The models used for forecasting General Fund revenues incorporate changes in policy, both State and federal, as well as changes in the economic climate and historical patterns. The General Fund models are comprised of regression equations for many of the revenue categories. There are three main categories of tax revenues: excise tax receipts, income tax receipts and other tax receipts. The General Fund models forecast the majority of the categories of General Fund receipts separately. For example, the model forecasts each type of income tax receipt (withholding, estimated payments, cash with returns and refunds) individually and then aggregates the numbers to arrive at a net individual income tax receipts forecast. However, for corporate income tax receipts and sales tax collections, the model forecasts only the aggregate amount for these revenues. For many of the smaller tax revenue categories, simple trend analyses are generally utilized to derive a forecast.

***Revenue Shortfalls.*** The State's Fiscal Year budgets are prepared and surplus revenues are determined using the modified accrual basis of accounting in accordance with the standards promulgated by GASB, with certain statutory exceptions. As a result, although the Fiscal Year budgets are balanced and, based upon the current forecast, there is anticipated to be an Unappropriated Reserve, the State may experience temporary and cumulative cash shortfalls. This is caused by differences in the timing of the actual receipt of cash revenues and payment of cash expenditures by the State compared to the inclusion of such revenues and expenditures in the State's Fiscal Year budgets on an accrual basis, which does not take into account the timing of when such amounts are received or paid. Also, prior forecasts of General Fund revenue may have overestimated the amount the State would receive for the Fiscal Year.

Whenever the Governor's revenue estimate for the current Fiscal Year indicates that General Fund expenditures for such Fiscal Year, based on appropriations then in effect, will result in the use of one-half or more of the Unappropriated Reserve, the Governor is required to formulate a plan for the

General Fund expenditures so that the Unappropriated Reserve as of the close of the Fiscal Year will be at least one-half of the required amount. The Governor is required by statute to notify the General Assembly of the plan and to promptly implement it by: (i) issuing an executive order to suspend or discontinue, in whole or in part, the functions or services of any department, board, bureau or agency of the State government; (ii) approving the action of other State officials to require that heads of departments set aside reserves out of the total amount appropriated or available (except the cash funds of the Department of Education); or (iii) after a finding of fiscal emergency by a joint resolution of the General Assembly approved by the Governor, taking such actions necessary to be utilized by each principal department and institution of higher education to reduce State personnel expenditures.

The next OSPB revenue forecast will be released in March 2017. General Fund revenue projections in this and subsequent OSPB revenue forecasts may be materially different from the OSPB December 2016 Revenue Forecast if economic conditions change markedly. If a revenue shortfall is projected for Fiscal Year 2016-17 and subsequent forecasted years, which would result in a budgetary shortfall, budget cuts and/or actions to increase the amount of money in the General Fund will be necessary to ensure a balanced budget. A cash shortfall in Fiscal Year 2016-17 may adversely affect the State's ability to fund, if necessary, any deficiency in the Principal Subaccount of the Series 2016-17 Notes Repayment Account on June 26, 2017. See "SELECTED STATE FUNDS ELIGIBLE FOR INVESTMENT IN DISTRICT NOTES IN THE EVENT OF DEFAULT IN THE REPAYMENT OF PROGRAM LOANS" and "INVESTMENT CONSIDERATIONS – Budgets and Revenue Forecasts."

## Investment of the State Pool

***General***. The investment of public funds by the State Treasurer is subject to the general limitations discussed in "STATE FINANCIAL INFORMATION – Investment and Deposit of State Funds." The State Treasurer has adopted investment policies further restricting the investment of State pool moneys, which includes the General Fund. The purpose of these investment policies is to limit investment risk by limiting the amount of the portfolio that may be invested in particular types of obligations, or in obligations of particular issuers or in particular issues, by imposing rating or financial criteria for particular types of investments more restrictive than those required by law, and by limiting the maximum term of certain types of investments. A minimum of 10% of the portfolio is required to be held in U.S. Treasury securities. Any reverse repurchase agreements may be for interest rate arbitrage only, and not for liquidity or leverage purposes. Each reverse repurchase agreement and the total investment it is arbitraged against must be closely matched in both dollar amount and term.

***Fiscal Years 2015-16 and 2016-17 Investments of the State Pool.*** The following tables set forth the investment by category of the moneys in the State Pool as of the end of each month in Fiscal Years 2015-16 and 2016-17 for which information is available.

**State of Colorado**
**State Pool Portfolio Mix**
**Fiscal Year 2015-16**
(Amounts expressed in millions)[1]

| | July 2015 | Aug 2015 | Sept 2015 | Oct 2015 | Nov 2015 | Dec 2015 | Jan 2016 | Feb 2016 | Mar 2016 | Apr 2016 | May 2016 | June 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Agency CMOs | $ 9.3 | $ 8.5 | $ 8.1 | $ 7.7 | $ 7.3 | $ 7.2 | $ 6.6 | $ 6.2 | $ 6.1 | $ 5.5 | $ 5.2 | $ 4.9 |
| Commercial Paper | 786.9 | 789.9 | 694.9 | 959.8 | 980.8 | 670.8 | 1,014.6 | 384.7 | 463.7 | 963.4 | 591.5 | 846.3 |
| U.S. Treasury Notes | 909.2 | 894.4 | 894.4 | 894.4 | 879.8 | 849.9 | 849.9 | 785.2 | 770.3 | 846.3 | 1,205.0 | 1,179.8 |
| Federal Agencies | 2,877.1 | 2,907.1 | 3,065.8 | 2,461.2 | 2,321.4 | 2,351.3 | 2,826.5 | 3,480.9 | 3,454.8 | 3,659.8 | 3,749.7 | 2,425.0 |
| Asset-Backed Securities | 1,382.8 | 1,348.2 | 1,318.8 | 1,289.0 | 1,255.9 | 1,176.0 | 1,168.2 | 1,142.5 | 1,127.0 | 1,086.2 | 1,048.7 | 1,022.0 |
| Money Market | 360.0 | 265.0 | 435.0 | 435.0 | 320.0 | 304.8 | 492.9 | 488.0 | 438.0 | 300.0 | 170.0 | 230.0 |
| Corporates | 1,693.3 | 1,708.1 | 1,708.7 | 1,704.9 | 1,695.5 | 1,697.1 | 1,675.2 | 1,647.2 | 1,632.6 | 1,617.3 | 1,636.2 | 1,646.6 |
| Certificates of Deposit | 5.0 | 6.5 | 0.0 | 6.5 | 6.5 | 6.5 | 4.5 | 2.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Totals | $8,023.6 | $7,927.7 | $8,125.7 | $7,758.5 | $7,467.2 | $7,063.6 | $8,038.4 | $7,937.2 | $7,893.0 | $8,479.0 | $8,406.8 | $7,355.1 |

[1] This table includes all moneys in the State Pool, which includes the General Fund, Borrowable Resources and other moneys that are invested by the State Treasurer.

Source: State Treasurer's Office

**State of Colorado**
**State Pool Portfolio Mix**
**Fiscal Year 2016-17**
(Amounts expressed in millions)[1]

| | July 2016 | Aug 2016 | Sept 2016 | Oct 2016 | Nov 2016 |
|---|---|---|---|---|---|
| Agency CMOs | $ 4.6 | $ 4.4 | $ 4.0 | $ 3.8 | $ 3.5 |
| Commercial Paper | 1,030.2 | 1,135.0 | 1,208.1 | 912.3 | 915.4 |
| U.S. Treasury Notes | 1,179.7 | 1,106.7 | 978.8 | 933.7 | 983.9 |
| Federal Agencies | 2,842.3 | 2,442.4 | 2,240.1 | 2,235.1 | 1,935.2 |
| Asset-Backed Securities | 975.5 | 921.9 | 876.2 | 832.8 | 768.8 |
| Money Market | 251.0 | 381.0 | 450.0 | 455.0 | 410.0 |
| Corporates | 1,658.2 | 1,752.3 | 1,856.7 | 2,018.6 | 1,989.9 |
| Certificates of Deposit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Totals | $7,941.5 | $7,743.7 | $7,613.9 | $7,391.3 | $7,006.7 |

[1] This table includes all moneys in the State Pool, which includes the General Fund, Borrowable Resources and other moneys that are invested by the State Treasurer.

Source: State Treasurer's Office

## General Fund Cash Flow

General Fund cash flow deficits are attributable to several categories of loans and expenditures by the State throughout each Fiscal Year, including public school distributions, medical assistance and grants and contract purchased services. The State Treasurer has certain administrative powers to remedy negative cash balances, including the ability to issue tax and revenue anticipation notes in anticipation of the receipt of revenues in the General Fund and to use Borrowable Resources. The Governor also has authority to impose spending restrictions, and the General Assembly may defer certain payments from one Fiscal Year to the next, if necessary, to ensure that the General Fund will not end any Fiscal Year with a negative fund balance. See "STATE FINANCIAL INFORMATION – The State Treasurer."

The following tables present on a cash basis the actual and estimated cash flows of the General Fund for Fiscal Years 2015-16 and 2016-17 by total categories of receipts and disbursements. The tables are based on revenue and expenditure projections prepared on the modified accrual basis of accounting, with accounting adjustments made by the State Treasurer to arrive at a cash basis presentation, and should be read in conjunction with the information set forth above in this Appendix. See also "STATE FINANCIAL INFORMATION – Fiscal Controls and Financial Reporting."

Monthly cash flow estimates for Fiscal Years 2015-16 and 2016-17 are based upon (i) the General Fund appropriations for Fiscal Years 2015-16 and 2016-17 adopted by the General Assembly, (ii) historical experience as adjusted to reflect economic conditions, (iii) statutory and administrative changes and anticipated payment dates for payrolls and (iv) the OSPB September 2016 Revenue Forecast discussed in "Revenue Estimation; OSPB Revenue and Economic Forecasts" above. Unforeseen events or variations from underlying assumptions may cause an increase or decrease in receipts and/or disbursements from those projected for a given month, which may adversely affect the projections of estimated cash flows. Additionally, the timing of transactions from month to month may vary from the forecasts. Therefore, there are likely to be differences between the forecasted and actual results, and such differences may be material. See the preliminary notices in this Official Statement regarding forward looking statements.

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# State of Colorado
# Actual General Fund Cash Flow
# Fiscal Year 2015-16[1]
# Current Law

(Amounts expressed in millions; totals may not add due to rounding)

| | July 2015 | Aug 2015 | Sept 2015 | Oct 2015 | Nov 2015 | Dec 2015 | Jan 2016 | Feb 2016 | Mar 2016 | Apr 2016 | May 2016 | June 2016 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Beginning Cash and Investments Balance | $ 365.1 | | | | | | | | | | | | $ 365.1 |
| Revenues: | | | | | | | | | | | | | |
| General Fund Revenue: | | | | | | | | | | | | | |
| Sales and Use Tax | 215.7 | $ 250.9 | $ 260.9 | $ 251.6 | $ 236.5 | $ 239.7 | $ 287.4 | $ 217.7 | $ 220.9 | $ 246.7 | $ 238.5 | $ 256.2 | 2,922.6 |
| Individual Income Tax | 372.2 | 418.6 | 586.6 | 535.9 | 477.7 | 507.1 | 677.5 | 186.4 | 260.6 | 745.5 | 515.9 | 683.0 | 5,967.0 |
| Corporate Income Tax | 13.1 | 5.9 | 140.4 | 52.6 | (40.4) | 57.2 | 48.3 | 7.6 | 78.8 | 127.2 | 25.9 | 131.2 | 647.9 |
| Other | 52.0 | 6.1 | (12.3) | (48.2) | (4.4) | (49.4) | 6.9 | 69.0 | 41.4 | 224.5 | (35.6) | 180.8 | 430.8 |
| Total General Fund Revenue | 653.0 | 681.5 | 975.5 | 792.0 | 669.3 | 754.7 | 1,020.1 | 480.7 | 601.7 | 1,343.8 | 744.8 | 1,251.2 | 9,968.3 |
| Federal Revenue | 447.0 | 552.2 | 706.5 | 449.8 | 604.2 | 698.4 | 582.5 | 599.7 | 720.1 | 514.3 | 607.7 | 1,269.0 | 7,751.4 |
| Total Revenues | 1,100.0 | 1,233.7 | 1,682.1 | 1,241.8 | 1,273.5 | 1,453.1 | 1,602.5 | 1,080.4 | 1,321.8 | 1,858.1 | 1,352.5 | 2,520.2 | 17,719.7 |
| Expenditures: | | | | | | | | | | | | | |
| Payroll | 132.0 | 145.8 | 145.8 | 146.7 | 145.5 | 135.9 | 142.5 | 137.6 | 139.4 | 135.0 | 136.8 | 148.2 | 1,691.2 |
| Medical Assistance | 446.0 | 547.7 | 398.1 | 392.8 | 593.9 | 503.0 | 339.6 | 545.1 | 432.1 | 723.1 | 720.3 | 482.1 | 6,123.7 |
| Public School Distribution | 771.0 | (13.8) | 880.2 | 0.2 | 1.9 | 874.8 | 3.2 | 0.3 | 875.2 | 0.3 | 0.2 | 2.3 | 3,395.9 |
| Higher Education Distribution | 3.1 | 45.1 | 2.1 | 4.1 | 4.2 | 42.6 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | (0.8) | 106.3 |
| Grants and Contracts | 42.2 | 271.0 | 321.8 | 215.0 | 248.9 | 307.2 | 262.0 | 251.6 | 285.1 | 248.9 | 255.8 | 288.2 | 2,997.7 |
| Other | 446.1 | 377.8 | 358.1 | 141.3 | 88.2 | 551.9 | 185.0 | 89.5 | 323.4 | (101.2) | (178.0) | 334.3 | 2,616.4 |
| Total Expenditures: | (1,840.4) | (1,373.6) | (2,106.1) | (900.2) | (1,082.5) | (2,415.5) | (932.6) | (1,024.5) | (2,055.5) | (1,006.6) | (935.5) | (1,254.2) | (16,927.2) |
| Total Revenues and Beginning Cash and Investments Minus Total Expenditures | (375.3) | (139.9) | (424.0) | 341.6 | 191.0 | (962.4) | 669.9 | 55.8 | (733.7) | 851.6 | 416.9 | 1,266.0 | 1,157.6 |
| Revenue Accrual Adjustment | 142.8 | (20.1) | 2.1 | 6.5 | (32.1) | 4.5 | 2.0 | (0.3) | (1.9) | 10.2 | (52.5) | (17.6) | 43.6 |
| Expenditure Accrual Adjustment | (156.8) | 40.6 | (0.9) | (27.8) | 30.2 | (9.3) | 26.1 | (16.7) | 13.0 | 67.9 | (20.4) | (282.8) | (336.8) |
| Extraordinary Items Impacting Cash: | | | | | | | | | | | | | |
| TABOR Refund | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Net Transfer In/Out – From/To Cash Funds Per Statute | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Homestead Exemption | -- | -- | -- | -- | -- | -- | -- | -- | -- | (118.0) | -- | -- | (118.0) |
| General Fund Notes – Including Interest | 600.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (602.0) | (2.0) |
| Capital Construction Transfer | (271.1) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (271.1) |
| General Fund Reserve Transfer to Highway Users Tax Fund | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| State Education Fund Transfer | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Actual/Projected Monthly Cash Change | (60.4) | (119.4) | (422.8) | 320.4 | 189.1 | (967.2) | 697.9 | 38.8 | (722.6) | 811.7 | 344.1 | 363.7 | 473.4 |
| **General Fund Cash Balance End of Month** | **$ (60.4)** | **$ (179.8)** | **$ (602.5)** | **$ (282.2)** | **$ (93.0)** | **$(1,060.2)** | **$ (362.3)** | **$ (323.4)** | **$(1,046.1)** | **$ (234.4)** | **$ 109.7** | **$ 473.4** | |

[1] General Fund revenues in this table are derived from the OSPB September 2016 Revenue Forecast. All other amounts are estimates made by the State Treasurer's office based on various assumptions and are subject to change. No representation or guaranty is made herein that such forecasted amounts will be realized. See the preliminary notices in this Official Statement regarding forward-looking statements.

Source: State Treasurer's Office

# State of Colorado
## Estimated General Fund Cash Flow
## Fiscal Year 2016-17[1]
## Current Law

(Amounts expressed in millions; totals may not add due to rounding)

| | July 2016 | Aug 2016 | Sept 2016 | Oct 2016 | Nov 2016 | Dec 2016 | Jan 2017 | Feb 2017 | Mar 2017 | Apr 2017 | May 2017 | June 2017 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Beginning Cash and Investments Balance | $ 473.4 | | | | | | | | | | | | $ 473.4 |
| Revenues: | | | | | | | | | | | | | |
| General Fund Revenue: | | | | | | | | | | | | | |
| Sales and Use Tax | 215.7 | $ 264.2 | $ 274.7 | $ 265.0 | $ 249.1 | $ 252.4 | $ 302.7 | $ 229.2 | $ 232.6 | $ 259.8 | $ 251.2 | $ 269.9 | 3,066.5 |
| Individual Income Tax | 372.2 | 441.8 | 619.1 | 565.7 | 504.2 | 535.3 | 717.3 | 197.9 | 275.1 | 786.8 | 544.6 | 720.9 | 6,280.8 |
| Corporate Income Tax | 13.1 | 5.8 | 137.5 | 51.6 | (39.6) | 56.1 | 47.3 | 7.5 | 77.2 | 124.6 | 25.4 | 128.6 | 634.9 |
| Other | 52.0 | 2.2 | (9.3) | (52.4) | (12.4) | (53.0) | 1.5 | 69.1 | 45.6 | 236.8 | (40.8) | 191.7 | 431.0 |
| Total General Fund Revenue | 653.0 | 714.0 | 1,022.1 | 829.8 | 701.3 | 790.7 | 1,068.8 | 503.7 | 630.5 | 1,408.0 | 780.4 | 1,310.9 | 10,413.2 |
| Federal Revenue | 447.0 | 544.0 | 696.0 | 443.1 | 595.2 | 688.0 | 573.8 | 590.7 | 709.4 | 506.7 | 598.6 | 1,250.1 | 7,642.7 |
| Total Revenues | 1,100.0 | 1,258.1 | 1,718.2 | 1,272.9 | 1,296.5 | 1,478.7 | 1,642.6 | 1,094.4 | 1,339.8 | 1,914.7 | 1,379.0 | 2,561.1 | 18,055.9 |
| Expenditures: | | | | | | | | | | | | | |
| Payroll | 137.3 | 148.8 | 148.7 | 149.6 | 148.3 | 138.3 | 145.3 | 140.2 | 142.1 | 137.7 | 139.5 | 151.2 | 1,726.8 |
| Medical Assistance | 459.4 | 547.7 | 398.1 | 392.8 | 593.9 | 503.0 | 339.6 | 545.1 | 432.1 | 723.1 | 720.3 | 482.1 | 6,137.1 |
| Public School Distribution | 794.1 | (13.0) | 833.9 | 0.2 | 1.8 | 828.8 | 3.0 | 0.3 | 829.1 | 0.3 | 0.2 | 2.2 | 3,280.9 |
| Higher Education Distribution | 3.2 | 45.1 | 2.1 | 4.1 | 4.2 | 42.6 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | (0.8) | 106.4 |
| Grants and Contracts | 43.5 | 271.0 | 321.8 | 215.0 | 248.9 | 307.2 | 262.0 | 251.6 | 285.1 | 248.9 | 255.8 | 288.2 | 2,998.9 |
| Other | 459.5 | 431.5 | 489.7 | 176.1 | 130.8 | 696.6 | 221.4 | 129.7 | 452.8 | (61.7) | (141.5) | 383.8 | 3,368.9 |
| Total Expenditures: | (1,896.9) | (1,431.1) | (2,194.2) | (937.9) | (1,127.8) | (2,516.5) | (971.6) | (1,067.4) | (2,141.5) | (1,048.7) | (974.7) | (1,306.7) | (17,615.0) |
| Total Revenues and Beginning Cash and Investments Minus Total Expenditures | (323.5) | (173.0) | (476.0) | 335.1 | 168.6 | (1,037.8) | 670.9 | 27.0 | (801.7) | 866.0 | 404.3 | 1,254.4 | 914.3 |
| Revenue Accrual Adjustment | 130.6 | (20.1) | 2.1 | 6.5 | (32.1) | 4.5 | 2.0 | (0.3) | (1.9) | 10.2 | (52.5) | (17.6) | 31.4 |
| Expenditure Accrual Adjustment | (144.6) | 40.6 | (0.9) | (27.8) | 30.2 | (9.3) | 26.1 | (16.7) | 13.0 | 67.9 | (20.4) | (282.8) | (324.6) |
| Extraordinary Items Impacting Cash: | | | | | | | | | | | | | |
| TABOR Refund | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Net Transfer In/Out – From/To Cash Funds Per Statute | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Homestead Exemption | -- | -- | -- | -- | -- | -- | -- | -- | -- | (126.0) | -- | -- | (126.0) |
| General Fund Notes – Including Interest | 600.0 | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (602.4) | (2.4) |
| Capital Construction Transfer | (84.5) | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | (84.5) |
| General Fund Reserve Transfer to Highway Users Tax Fund | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| State Education Fund Transfer | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Projected Monthly Cash Change | 178.0 | (152.5) | (474.8) | 313.8 | 166.8 | (1,042.6) | 699.0 | 10.0 | (790.6) | 818.1 | 331.4 | 351.7 | 408.3 |
| **General Fund Cash Balance End of Month** | **$ 178.0** | **$ 25.5** | **$ (449.4)** | **$ (135.5)** | **$ 31.3** | **$(1,011.3)** | **$ (312.3)** | **$ (302.3)** | **$(1,093.0)** | **$ (274.8)** | **$ 56.6** | **$ 408.3** | |

[1] General Fund revenues in this table are derived from the OSPB September 2016 Revenue Forecast. All other amounts are estimates made by the State Treasurer's office based on various assumptions and are subject to change. No representation or guaranty is made herein that such forecasted amounts will be realized. See the preliminary notices in this Official Statement regarding forward-looking statements.

Source: State Treasurer's Office

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## APPENDIX B

## OSPB DECEMBER 2016 REVENUE FORECAST

As discussed in "APPENDIX A – THE STATE GENERAL FUND – Revenue Estimation; OSPB Revenue and Economic Forecasts," the OSPB prepares quarterly revenue estimates and is currently forecasting for Fiscal Years 2016-17 through 2018-19. The forecasts include projections of General Fund revenues available for spending and end-of-year reserves through the forecast period. Budgeted General Fund spending levels are also included. The forecasts are based on historical patterns, with economic and legislative changes explicitly included in the models that forecast revenue growth, and include both State and national economic forecasts.

The most recent OSPB Revenue Forecast was issued on December 20, 2016, and is presented in its entirety in this Appendix. The pagination of this Appendix reflects the original printed document.

Prospective investors are cautioned that any forecast is subject to uncertainties, and inevitably some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasted and actual results, and such differences may be material. No representation or guaranty is made herein as to the accuracy of the forecasts. See also the inside cover of this Official Statement regarding forward looking statements.

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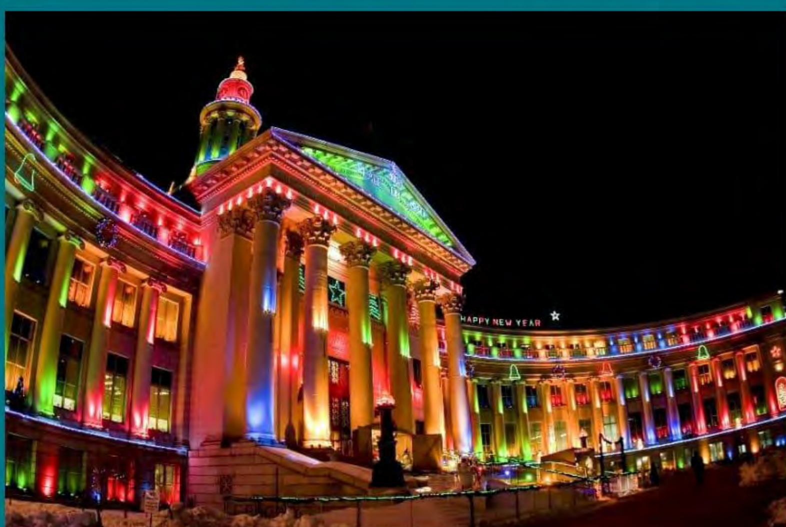
COLORADO
Office of State Planning
& Budgeting

December | 2016




# The Colorado Economic Outlook

## Economic and Fiscal Review

## Table of Contents



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For additional information about the Governor's Office of State Planning and Budgeting, and to access this publication electronically, please visit www.colorado.gov/ospb.

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Front page photos courtesy of Colorado Tourism.

**Summary**

- General Fund revenue is forecast to increase 4.4 percent in FY 2016-17 after increasing just 1.7 percent in FY 2015-16. This forecast is essentially unchanged from September. Colorado's economy has picked up in recent months as expected, and the oil and gas industry's contraction and weak retail sales values are weighing less on tax collections than they did last fiscal year. General Fund revenue growth will pick up further in FY 2017-18 with a projected 5.1 percent increase. Despite these increases, forecasted growth rates remain lower than earlier in the expansion.

- Under the Governor's November 2016 budget request and this forecast, the State's General Fund reserve is projected to be $118.7 million below the current-law required amount of 6.5 percent of appropriations in FY 2016-17, and $52.4 million below the reserve requirement in FY 2017-18. Under this forecast and current law, General Fund appropriations subject to the limit in FY 2017-18 can increase only 1.1 percent ($110.6 million) over the FY 2016-17 level.

- Cash fund revenue in FY 2016-17 is projected to be $154.7 million, or 5.2 percent, lower than FY 2015-16, as a decrease in revenue from the Hospital Provider Fee and miscellaneous cash funds will offset modest growth in revenue from several of the other cash fund sources. Cash fund revenue will increase 15.0 percent in FY 2017-18 as the budget restriction on the Hospital Provider Fee expires and severance tax revenue increases. If the Governor's November budget request is approved, the projected increase in cash fund revenue would be $195 million lower as it includes another restriction on Hospital Provider Fee revenue for FY 2017-18.

- Under current law and this forecast, TABOR revenue is projected to be $152.2 million under the cap in FY 2016-17, but is expected to be above the cap by $224.7 million in FY 2017-18 and $247.9 million in FY 2018-19.

- Overall economic activity has improved in Colorado compared with 2015 and early 2016 and the expansion is expected to continue at a moderate pace. The large drop in spending and income in the state from the downturn in the oil and gas industry is no longer weighing on growth. An increase in new business formation, the source of most net new jobs, is also contributing to Colorado's improved economic growth. Demand for workers among Colorado businesses remains among the highest levels in the country, especially in the urban areas along the Front Range. These tight labor market conditions will constrain economic growth for the state.

- Economic growth for the nation has also improved. Industrial production has regained more solid footing, while U.S. corporations in the third quarter of this year posted their first annual increase in earnings since the end of 2014. Furthermore, financial markets are signaling higher expectations for economic growth, and consumer spending and the labor market remain solid.

- Although the economy has improved and is thus less vulnerable to a recession, overall growth in the U.S. economy remains at relatively low levels compared with previous expansions. Therefore, a large enough adverse shock that causes business, investors, and households to pullback could result in recessionary conditions. With a still relatively modest pace of growth, the stance of monetary policy will be important to monitor in coming months as the Federal Reserve has signaled that continued monetary tightening will occur in the future. Previous monetary tightening was followed by deteriorating financial conditions and a strong rise in the value of the U.S. dollar, which weighed on industrial production and global growth during 2015 and into the beginning of 2016.

# The Economy: Issues, Trends, and Forecast

The following section discusses overall economic conditions in Colorado, nationally, and around the world. The OSPB forecast for economic conditions is largely unchanged from the September 2016 Colorado Economic Outlook as the economy has improved in recent months as expected. This section includes an analysis of:

- Economic, labor market, and housing market conditions in Colorado (page 5)
- Economic, labor market, and housing market conditions for the nation (page 19)
- International economic conditions and trade (page 34)

***Trends and forecasts for key economic indicators*** — A summary of key economic indicators with their recent trends and statistics, as well as forecasts, is provided at the end of this section. The summary of indicators is intended to provide a snapshot of the economy's performance and OSPB's economic projections, which are informed by the following analysis of the economy.

***Summary*** — Colorado's economy has picked up in recent months and the expansion is expected to continue at a moderate pace. The large drop in spending and income in the state from the downturn in the oil and gas industry is no longer weighing on growth. An increase in new business formation, the source of most net new jobs, is also contributing to Colorado's improved economic growth. An index of economic activity shows that Colorado's economic growth is likely to continue this positive momentum, at least in the near term.

Although economic and job growth is picking up, gains will be constrained by the state's tight labor market. Further, the continued growth in housing costs along the northern Front Range may be beginning to slow in migration to the region, which would also act as a constraint on economic growth.

Economic growth for the nation has also improved. Industrial production has regained more solid footing, while U.S. corporations in the third quarter of this year posted their first annual increase in earnings since the end of 2014. Furthermore, financial markets are signaling higher expectations for economic growth, and consumer spending and the labor market remain solid. Business investment has also picked up modestly.

***Economic risks*** — Although the economy has improved in the second half of 2016 and is thus less vulnerable to a recession, overall growth in the U.S. economy remains at relatively low levels compared with previous expansions. Therefore, a large enough adverse shock that causes business, investors, and households to pullback could result in recessionary conditions. The stance of monetary policy will be important to monitor in coming months as the Federal Reserve has signaled that continued monetary tightening will occur in the future. A strong rise in the value of the U.S. dollar, which weighed on industrial production and global growth during 2015 and into the beginning of 2016, surrounded previous monetary tightening, as did deteriorating financial conditions.

## Colorado Economy

**Colorado's economy has picked up in recent months and the expansion is expected to continue at a moderate pace.**

Overall economic activity has continued to pick up in Colorado compared with 2015 and early 2016. Demand for workers among Colorado businesses continues to be at among the highest levels in the country, especially in the urban areas along the Front Range. Although the large drop in spending and income in the state from the oil and gas industry's downturn is over, the industry's activity remains subdued, but the outlook is improving with modest gains in energy prices. An increase in new business formation, the source of most net new jobs, is also contributing to Colorado's improved economic growth. However, economic activity in rural areas continues to be adversely impacted by low commodity prices and reduced incomes.

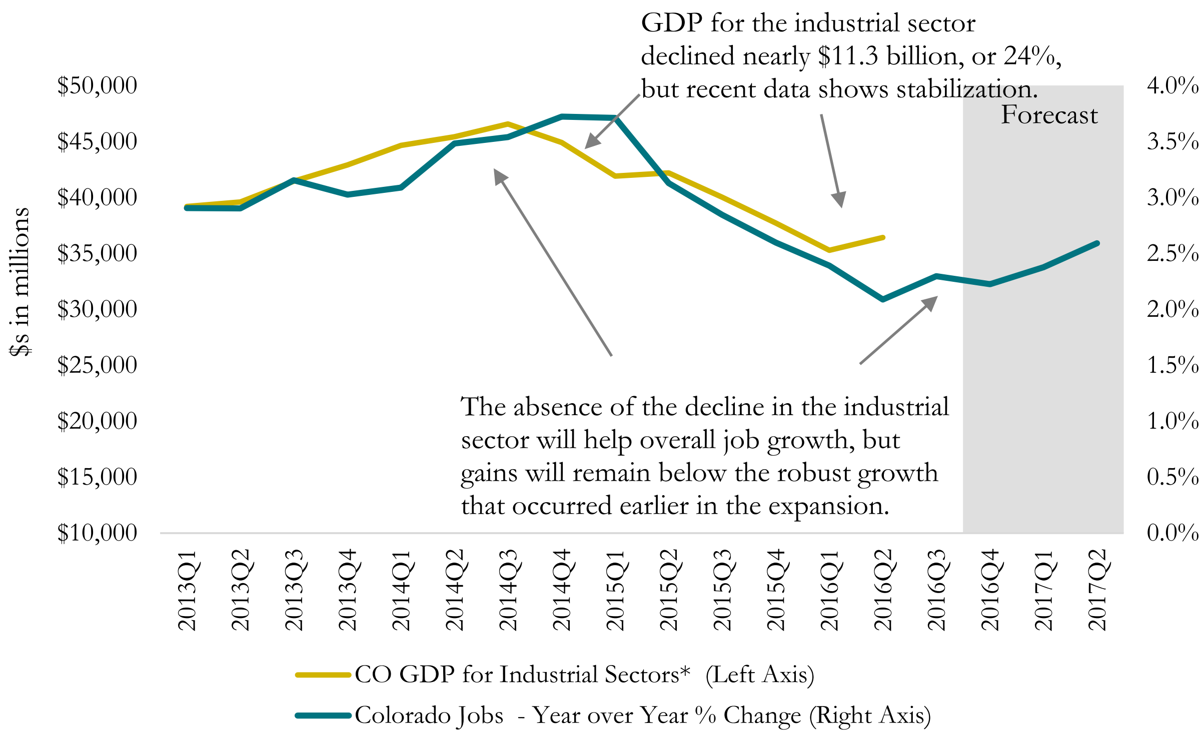
***Stabilization in the oil and gas sector is allowing for overall economic growth to pick up*** — The drop in spending and income in the economy wrought by the downturn in the oil and gas industry slowed growth in Colorado's economy. Although the oil and gas sector has a relatively small employment base, the industry pays high wages, makes large expenditures in the economy, and is interconnected with other industries in the state. Consequently, the industry's sharp contraction slowed the state's expansion. Weaker conditions in the manufacturing and agricultural sectors since the end of 2014 have also contributed to Colorado's slower economic growth.

**The absence of the decline in spending and income from stabilization of the oil and gas sector is now helping improve overall economic and job growth.**

The absence of the decline in spending and income from stabilization of the oil and gas and manufacturing sectors is now helping improve overall economic conditions and job growth. This is illustrated in Figure 1, which shows the trends in the state's gross domestic product (GDP) in its industrial (manufacturing, mining, and utilities) sectors as well as overall job growth for the state. Although job growth is picking up, gains will be constrained as a result of the state's tight labor market making business expansion difficult. Further, the continued growth in housing costs along the northern Front Range is limiting in-migration to the region, which will also act as a constraint on economic growth.

From the third quarter of 2014 through the first quarter of 2016, the GDP for Colorado's industrial sector declined by nearly $11.3 billion, or 24.2 percent; most of this large decline was in the oil and gas industry. Despite the large drop in economic activity, the GDP for the rest of the economy over the same period grew by $19.2 billion, or 7.3 percent. Industries in these other sectors, such as financial activities, professional, scientific, and technical services, retail, construction, and health care, represent a much larger portion of economic activity — about 90 percent of total state GDP.

**Figure 1. GDP of the Industrial Sector and Job Growth in the Colorado Economy**



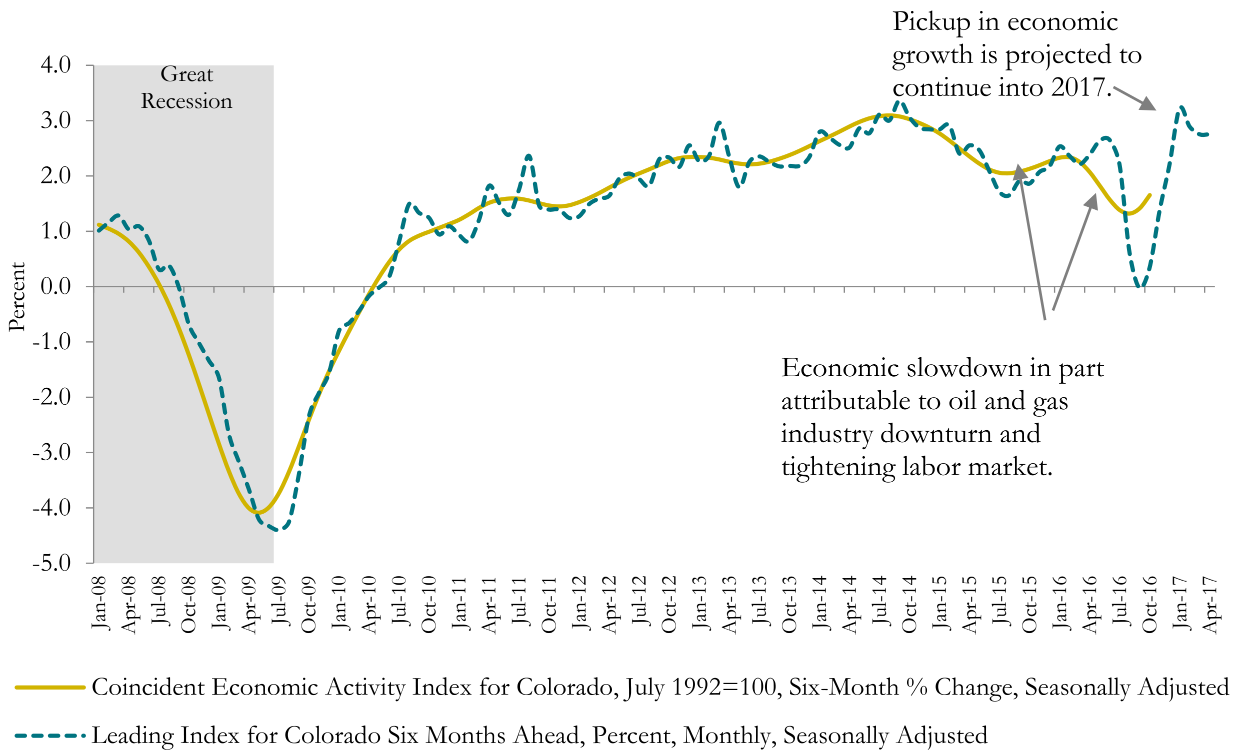

*The industrial sector includes manufacturing, mining, and utilities.
Source: U.S. Bureau of Economic Analysis and OSPB calculations.

***Indices that measure Colorado's overall economy show that conditions are improving –*** As shown in Figure 2, the Federal Reserve Bank of Philadelphia's monthly State Coincident Economic Activity Index has posted a notable uptick in recent months. This coincides with other indicators that have shown improvement, such as State sales tax collections and income tax wage withholdings. The monthly coincident index is one of the most up-to-date broad measures of state economic activity and matches growth in a state's gross domestic product (GDP) over time. It is termed a "coincident" index because it looks at current activity. The index combines four state-level indicators to track current economic conditions – employment, average hours worked in manufacturing, the unemployment rate, and inflation-adjusted wage and salary disbursements.

**Several indicators show that Colorado's economy has improved. This improvement is likely to continue in the coming months based on a leading index of economic activity for the state.**

Another index of economic activity shows that Colorado's economic growth is likely to continue its positive momentum, at least in the near term. The Philadelphia Federal Reserve Branch's Leading Index for Colorado predicts the growth rate of the state's coincident index six months into the future. Among the activities used to create the index are housing permits, initial unemployment insurance claims, and delivery times from vendors to producers. These economic indicators have been found to precede slowing or expansion of the overall economy. Figure 2 shows both Colorado's coincident index and leading index constructed by the Philadelphia Federal Reserve Branch. The leading index is shifted six months ahead to demonstrate the reliability of the leading index in predicting economic activity. The leading index suggests continued economic expansion into 2017.

**Figure 2. Colorado Leading and Coincident Economic Indices since 2008**

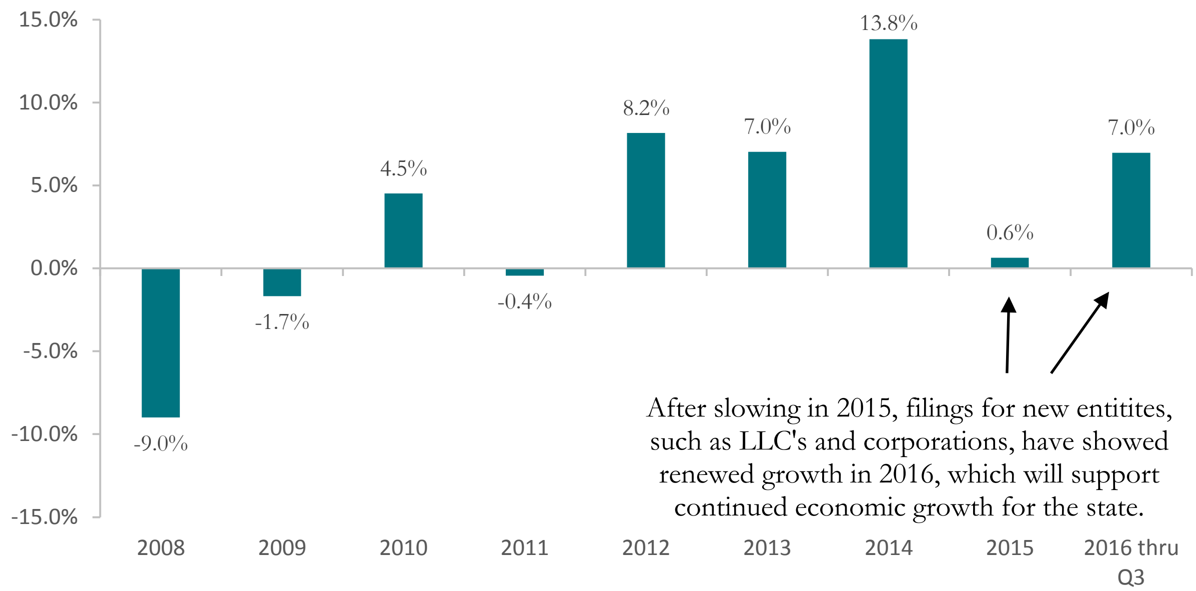



Source: Federal Reserve Bank of Philadelphia

***New business formation picked up in 2016*** **—** Business formation, the source of most net new jobs, slowed in 2015, which contributed to the overall slowdown in Colorado's economy. However, growth has picked up this year. Data from the Colorado Secretary of State showed that filings of new entities formed to do business in the state, which mostly consist of limited liability companies and corporations, were 7.0 percent higher through the third quarter of 2016 compared with the year prior. This increase in activity will help support continued economic growth for the state.

**Renewed growth in new business formation will help support continued economic growth for the state.**

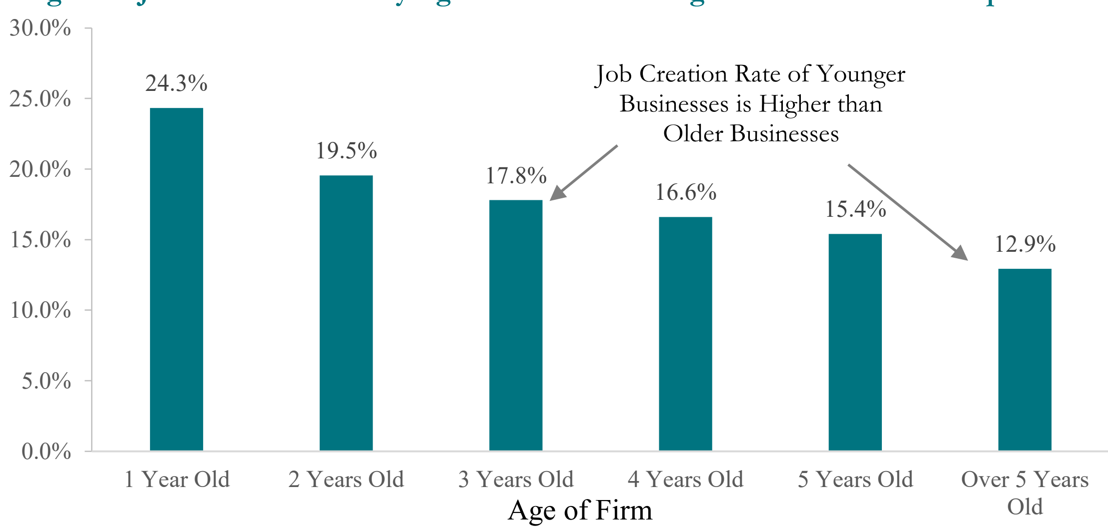
**Figure 3. Year over Year Change in New Entity Filings to do Business in Colorado**




Source: Colorado Secretary of State, OSPB calculations

***New and young businesses grow faster than older, more mature firms*** **—** A constant supply of new businesses is vital for job growth. Without the formation of new businesses, our economy would lose jobs in most years. Though some new businesses do not survive, data indicates that, on average, roughly 45 percent of new businesses still exist after five years. Also, new businesses that survive when they are successful in developing new products and business practices add jobs at a more rapid pace than older businesses. This is illustrated in Figure 4, which shows the job creation rate of businesses by age. However, young businesses exit the marketplace at a higher rate than older businesses and thus also have a higher rate of job loss.

**Figure 4. Job Creation Rates by Age of Business during Current Economic Expansion**




Source: U.S. Census Bureau, Business Dynamic Statistics, OSPB calculations

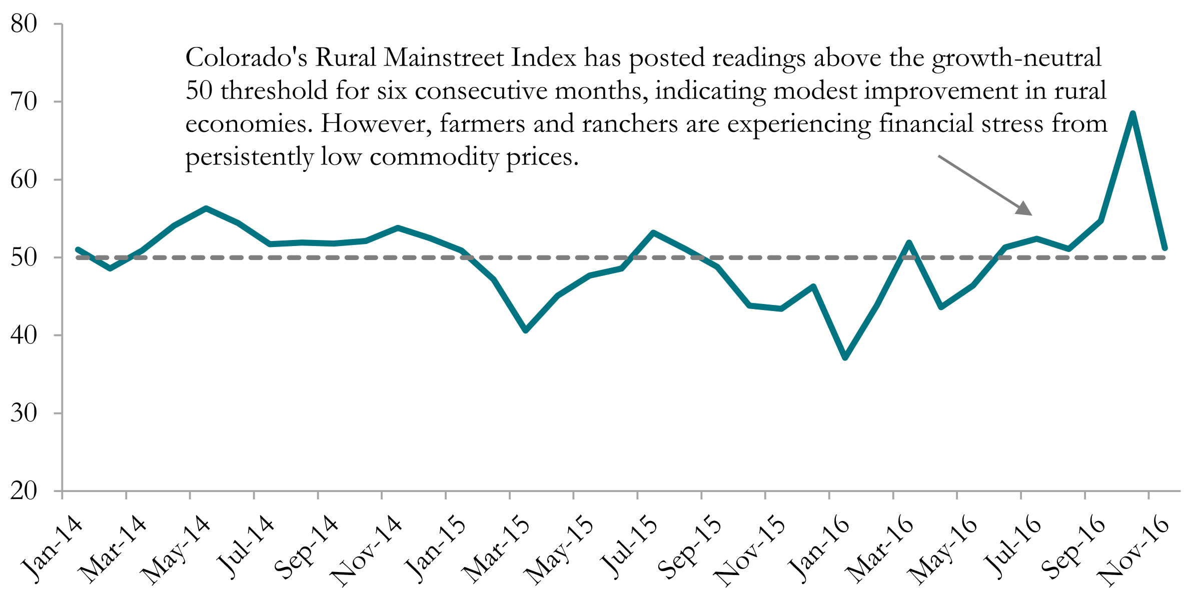
***Economic activity in rural areas continues to be adversely impacted by low commodity prices and reduced incomes*** —Income from agricultural activities continues to be weak from high supply levels that are suppressing agricultural prices, as well as a stronger dollar. A strong dollar makes Colorado's agriculture products more costly to foreign buyers, thus weighing on demand.

Colorado's Rural Mainstreet Index, published by Creighton University, measures economic activity in rural areas by surveying community banks on current economic conditions and their economic outlooks. Index readings above 50 signify growth. The index has posted weak readings since the end of 2014. However, more recently the index has posted readings above 50 for six consecutive months through November, as shown in Figure 5. Lower input prices and operating costs for farmers and ranchers, along with signs of stabilization in some agricultural prices, is contributing to the slight improvement in conditions.

**Credit conditions and farmland values are continuing to deteriorate as a result of prolonged low prices and weaker incomes for farmers and ranchers.**

Despite the modest improvement of late, credit conditions and farmland values are continuing to deteriorate as a result of prolonged low prices and weaker incomes. As a result, many farmers and ranchers are facing financial stress. Due to continued strength in the dollar and high supplies from continued production growth, conditions are not expected to further improve materially in the near term. As incomes remain low, demand for farm loans to help pay operating expenses continued to grow through the third quarter of 2016, based on a survey of bankers from the Federal Reserve Bank 10th district which includes Colorado.

**Figure 5. Colorado's Rural Mainstreet Index**



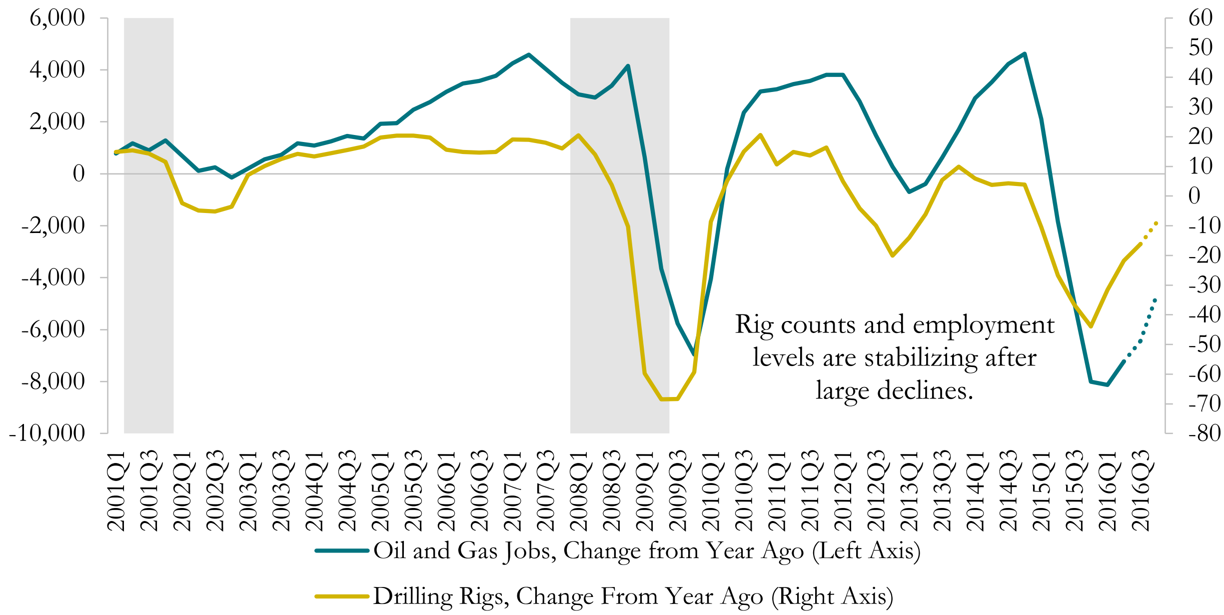

Source: Creighton University

***Oil and gas industry activity remains subdued, but the outlook is improving*** – The oil and gas industry contraction, which slowed Colorado's economic growth since late 2014 appears to be abating. Energy firms reported rising business activity and revenue in the third quarter for the first time in two years, according to the Federal Reserve Bank of Kansas City. While revenue has increased, on average firms need oil to reach $53 per barrel in order to be profitable, which is slightly above recent prices. While the industry has struggled with low prices and excess global oil supply, OPEC's recent decision to cut production could provide some relief to Colorado's oil industry. However, unless global economic growth accelerates and causes demand to increase, gains in oil and gas prices will likely be modest.

**OPEC's recent decision to cut production should help Colorado oil producers, though oil price gains will likely be modest.**

Figure 6 shows the year-over-year change in drilling rigs operating in Colorado against the change in oil and gas sector jobs over time. The industry experienced a sharp drop in both employment and drilling rigs since the end of 2014. The rig count has stabilized near 20 in recent months after falling from a high of nearly 80 rigs in September 2014 to a low of 15 rigs in May of this year. Rigs operating in Colorado increased to 26 during the week ending December 9th. This is an encouraging sign for industry employment as changes in oil and gas jobs are closely correlated with changes in the rig count. Monthly jobs data also indicate that employment in the mining industry is stabilizing.

**Figure 6. Year-over-Year Changes in Rig Count and Oil and Gas Employment in Colorado**



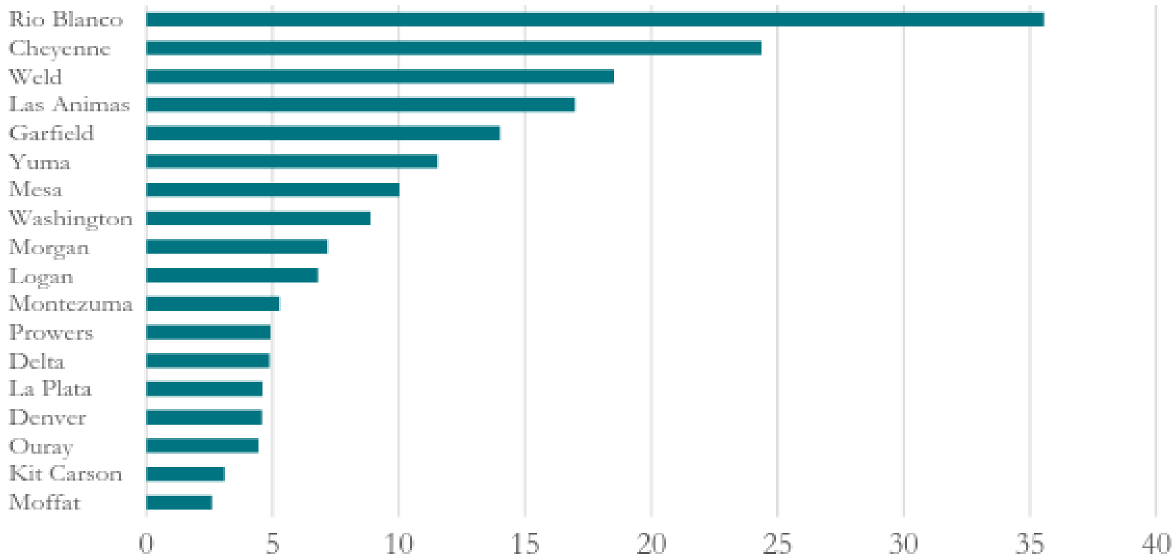

Source: Baker Hughes, Colorado Department of Labor and Employment, OSPB Calculations

***Some Colorado counties are highly dependent on the oil and gas industry* –** Because oil and gas resources are geographically concentrated, industry activity is as well, with some regional economies and tax bases highly dependent on the industry. When the industry declines, these regions experience a weakening economy and a smaller tax base.

Figure 7 shows the location quotients for the Colorado counties with the highest concentrations of oil and gas industry employment. The higher a county's location quotient, the more dependent that county is on the oil and gas industry. For example, Weld County has a location quotient of about 18, which means that the percentage of all employees in Weld County that works in the oil and gas industry is about 18 times the national percentage of employees working in the oil and gas industry.

**Seven Colorado counties have at least 10 times the national average concentration of oil and gas industry employment.**

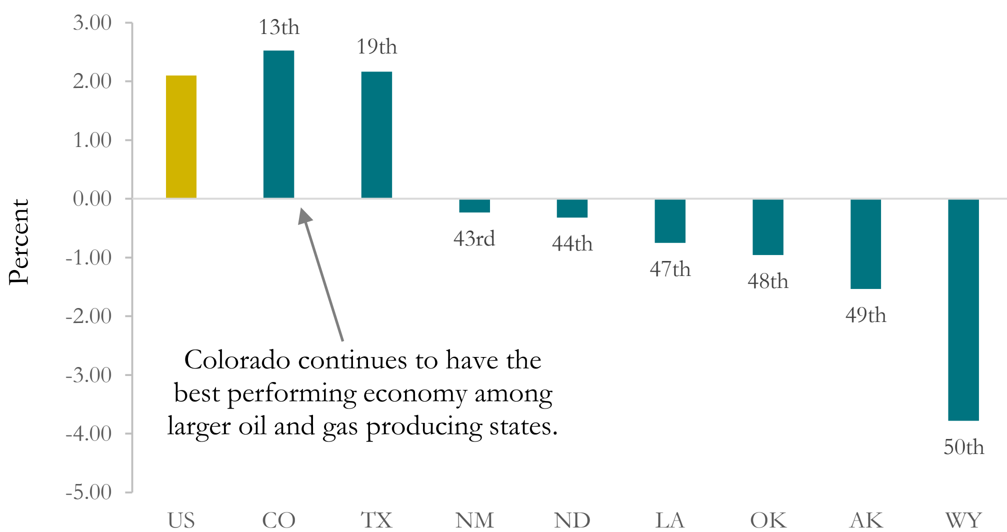
**Figure 7. Oil and Gas Industry County Location Quotients**




Source: Economic Modeling Specialists International, OSPB Calculations

***Colorado weathered the oil and gas industry contraction much better than other oil and gas states –*** Although the loss of wages, investment, and spending from the downturn in the oil and gas industry reduced economic activity in the state, Colorado's mix of diverse industries have helped the state perform much better than the other leading oil and gas producing states.[1] Figure 8 compares the economic performance of each of the leading oil and gas producing states since the beginning of 2016.

**Figure 8. State Coincident Economic Activity Index among Largest Oil and Gas Producing States, % Change January 2016 to October 2016, with Ranking among All States**




Source: Federal Reserve Bank of Philadelphia, OSPB calculations

[1] The selection of largest oil and gas producing states is based on each state's share of total household earnings directly resulting from the oil and gas industry.

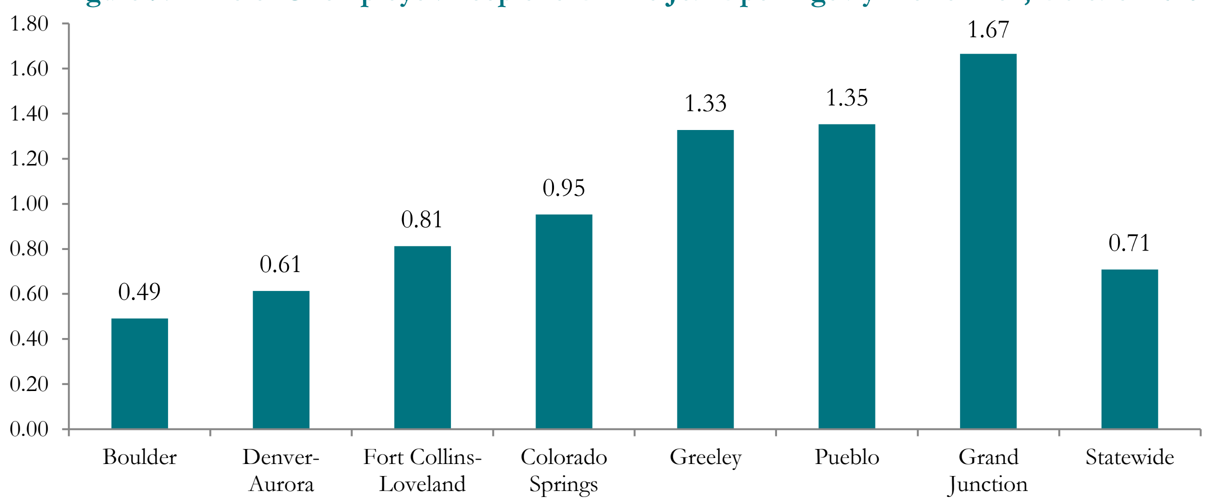
***Colorado's labor market remains tight, constraining economic growth –*** Overall, the state added 10,800 jobs from July to October with the unemployment rate dropping from 3.8 percent to 3.5 percent over that time period. Job growth is strongest in the construction industry, followed by education and health services. Mining sector employment, which has been declining since late 2014, appears to have stabilized over the last three months. In general, the labor market is strongest in the urban areas along the Front Range, which has unemployment rates hovering around 3 percent, while the Grand Junction and Pueblo metro areas both have unemployment rates of about 5 percent.

**Colorado's labor market remains strong, with low unemployment and continuing job growth.**

***Colorado has more job openings posted online than unemployed people –*** An analysis of online job ads shows that across Colorado there are more job openings posted online than there are unemployed people, an indication of a tight labor market. Across the state, there were 0.71 unemployed people for every online job ad in October, a ratio that tied for the third-lowest in the country. The ratio of unemployed people to openings is the tightest along the Front Range, while Grand Junction shows a weaker labor market with a ratio of 1.67 unemployed people to every online job opening.

**Colorado has more help wanted ads posted online than there are unemployed people in the state.**

**Figure 9. Ratio of Unemployed People to Online Job Openings by Metro Area, October 2016**

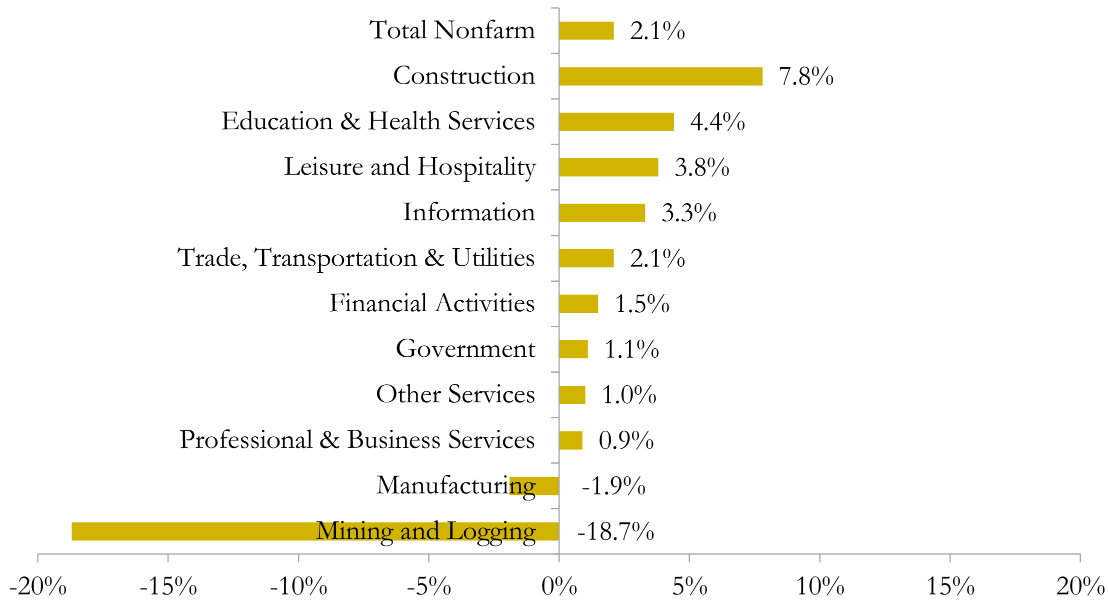



Source: The Conference Board, Bureau of Labor Statistics, OSPB Calculations

***Job growth is continuing in most sectors, and mining is stabilizing –*** Over the last year, Colorado has experienced 2.1 percent overall job growth. As Figure 10 shows, job growth is strongest in the construction industry, which has grown by 7.8 percent, and in education and health services. Only two sectors saw job losses over the last year — the mining industry, which has been struggling with the drop in oil prices since late 2014, and manufacturing, which has slowed due to weak global growth. About 10,000 mining jobs have been lost since the peak employment level in 2014. The mining sector's job losses appear to be ending, however, as employment levels in the industry have stabilized over the last three months, as shown in Figure 11.

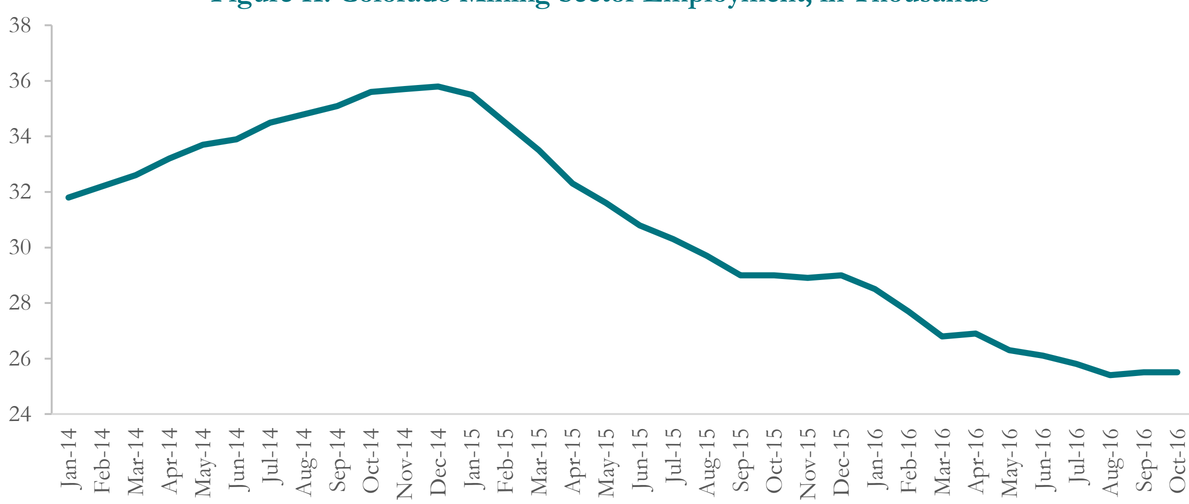
**Over the last year, Colorado has seen 2.1 percent overall job growth.**

**Figure 10. Colorado Year-over-Year Employment Growth by Sector, October 2016**




Source: Colorado Department of Labor and Employment, OSPB Calculations

**Figure 11. Colorado Mining Sector Employment, in Thousands**

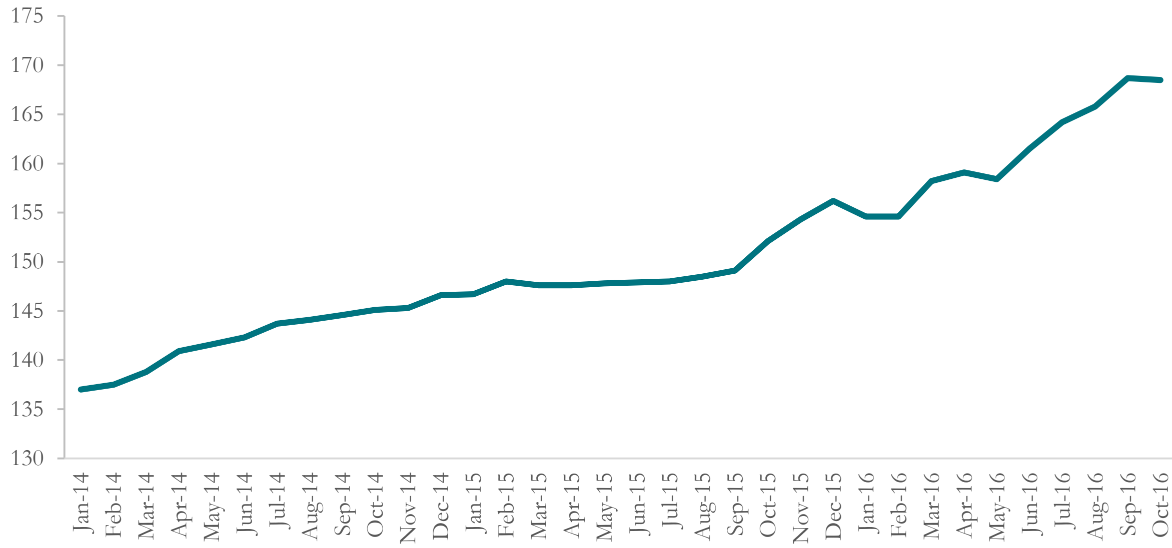



Source: Bureau of Labor Statistics

***Low construction unemployment is slowing construction output and raising costs –*** The Colorado construction industry had the third lowest unemployment rate in October of any state at 3.1 percent, according to Associated Builders and Contractors, an industry trade association. The limited supply of construction labor slows project completion and limits real estate development. As the industry is forced to pay more to attract and retain skilled employees, construction costs rise, contributing to increasing rents and home prices. Despite the limited labor supply, however, construction employment in Colorado has risen by 7.8 percent from last year and five of the Denver Business Journal's ten fastest growing private companies are construction firms.

**Construction industry employment is growing rapidly, but limited labor supply is restricting growth.**

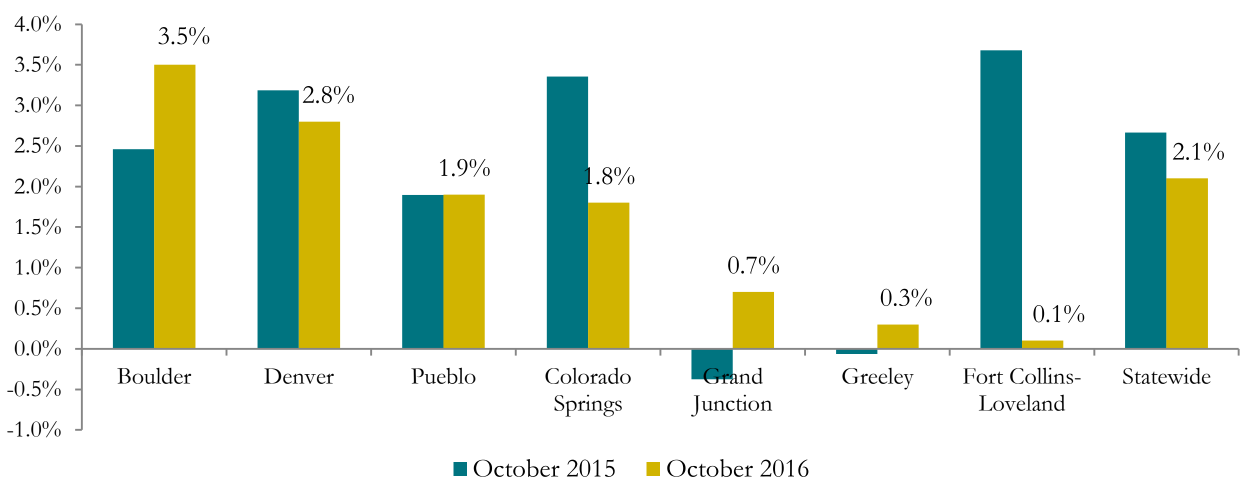
**Figure 12. Colorado Construction Sector Employment, in Thousands**




Source: Bureau of Labor Statistics

***All parts of the state have seen job growth over the last year –*** Every metro area in Colorado saw positive job growth between October 2015 and October 2016, and state job growth averaged 2.1 percent overall. Boulder saw the most job growth, at 3.5 percent, and Fort Collins saw the least job growth, at 0.1 percent. Greeley and Grand Junction both saw job growth turn positive over the last twelve months after being negative in the same period a year prior. Denver and Colorado Springs are both experiencing slowing job growth, while Pueblo's job growth remained steady at 1.9 percent.

**Figure 13. Year-over-Year Employment Growth by Colorado Metro Area**



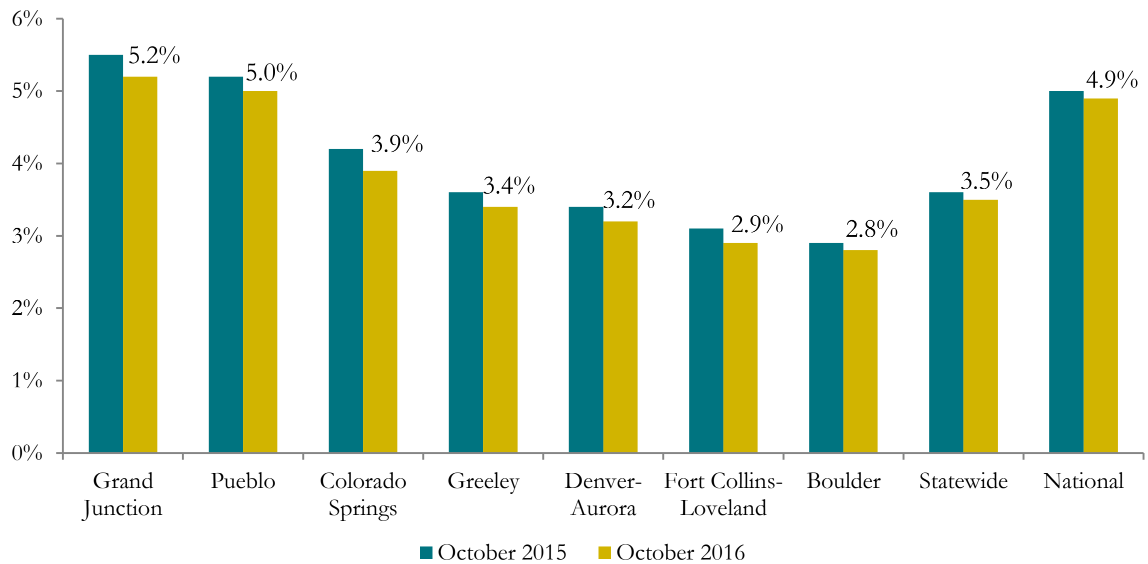

Source: Colorado Department of Labor and Employment, OSPB Calculations

***Unemployment has declined in all Colorado metro areas –*** Every Colorado metro area has experienced a decline in unemployment over the last year, as well as in the last few months. Grand Junction and Pueblo saw the biggest reductions in unemployment over the last quarter, with unemployment falling by 0.7 and 0.4 percent in those areas, respectively. However, these two cities still have the highest unemployment of all Colorado metro areas, and are the only two metros in Colorado with unemployment rates above the national average of 4.9 percent. Boulder and Fort Collins had the 10th and 13th lowest unemployment rates in the nation among all metro areas in October, and Denver had the 2nd lowest unemployment rate in the nation among metro areas with populations of 1 million or more.

**Boulder and Fort Collins had the 10th and 13th lowest unemployment rates in the nation among all metro areas in October, and Denver had the 2nd lowest unemployment rate in the nation among metro areas with populations of 1 million or more.**

The labor force participation rate has been declining nationally, potentially a sign of weakness in the labor market. In Colorado, the prime-age labor force participation rate declined from the Great Recession through 2015, the latest data available. There have been signs of improvement recently, however, as the labor force has grown more than 2.9 percent over the last twelve months, which is the fastest growth rate since 1998.

**Figure 14. Unemployment Rates by Colorado Metro Area**



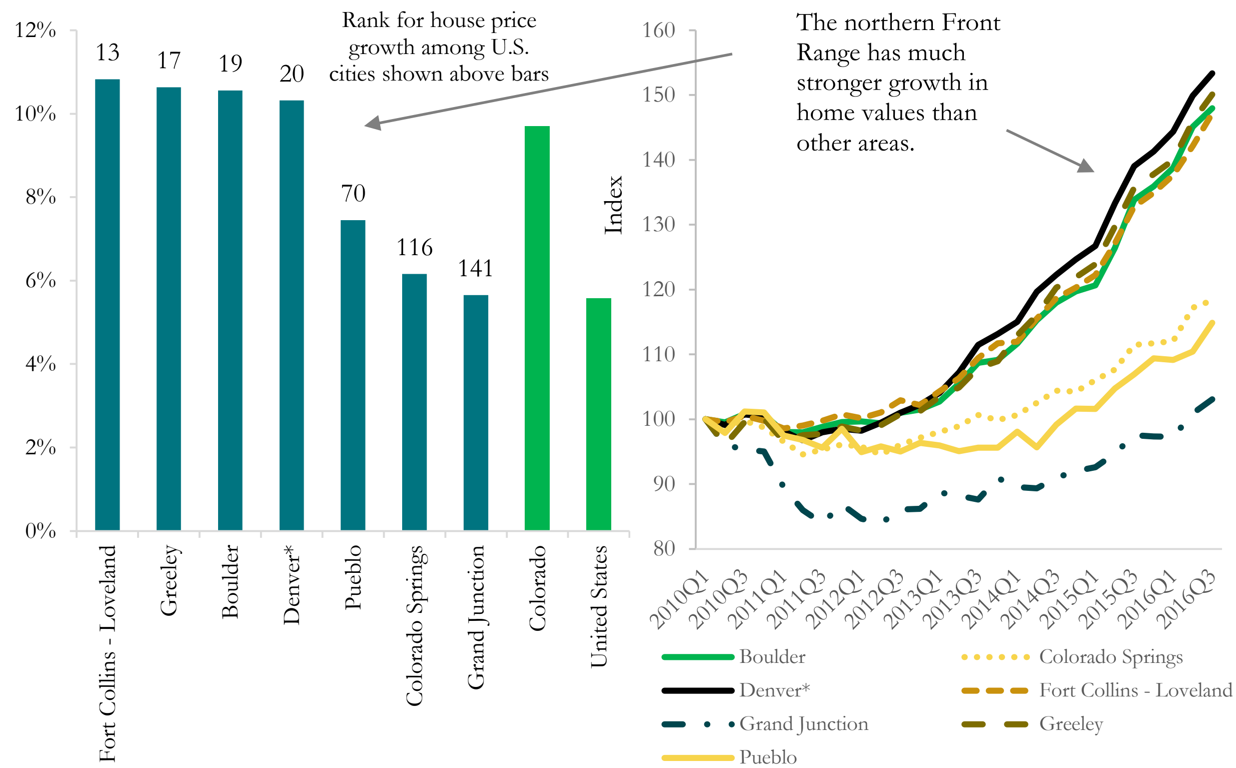

Source: Bureau of Labor Statistics

***Colorado's housing market continues to experience expanding activity —*** All of the state's metro areas are experiencing stronger growth in home values than the nation overall. The state's housing market remains strongest along the northern Front Range, where home values continue to increase at among the highest rates in the country. The recent trends in home values across the state's larger urban areas are shown in Figure 15.

**The state's housing market remains strongest along the northern Front Range due to its economic and population growth.**

**Figure 15. Change in Home Prices in Colorado Metro Areas**

**% Change 3rd qtr. 2015 to 3rd qtr. 2016** **Change in house price indices since 2010****




*Includes Aurora and Lakewood
** FHFA House Price Index, All Transactions Index, Not Seasonally Adjusted, 1st quarter, 2010 = 100
Source: Federal Housing Finance Administration, OSPB Calculations

***The low inventory of homes for sale continues to be an important factor in the state's housing market*** —In October of this year, the state had just a two-and-a-half-month supply of homes for sale. Generally, a six-month supply of homes signifies a housing market with a supply-demand balance. This low level of supply, combined with strong demand from the state's growing population, continues to put upward pressure on home values and reduce home purchase options for buyers. Further, the continued growth in housing costs, especially along the northern Front Range, may be beginning to slow in migration to the region, which would act as a constraint on economic growth.

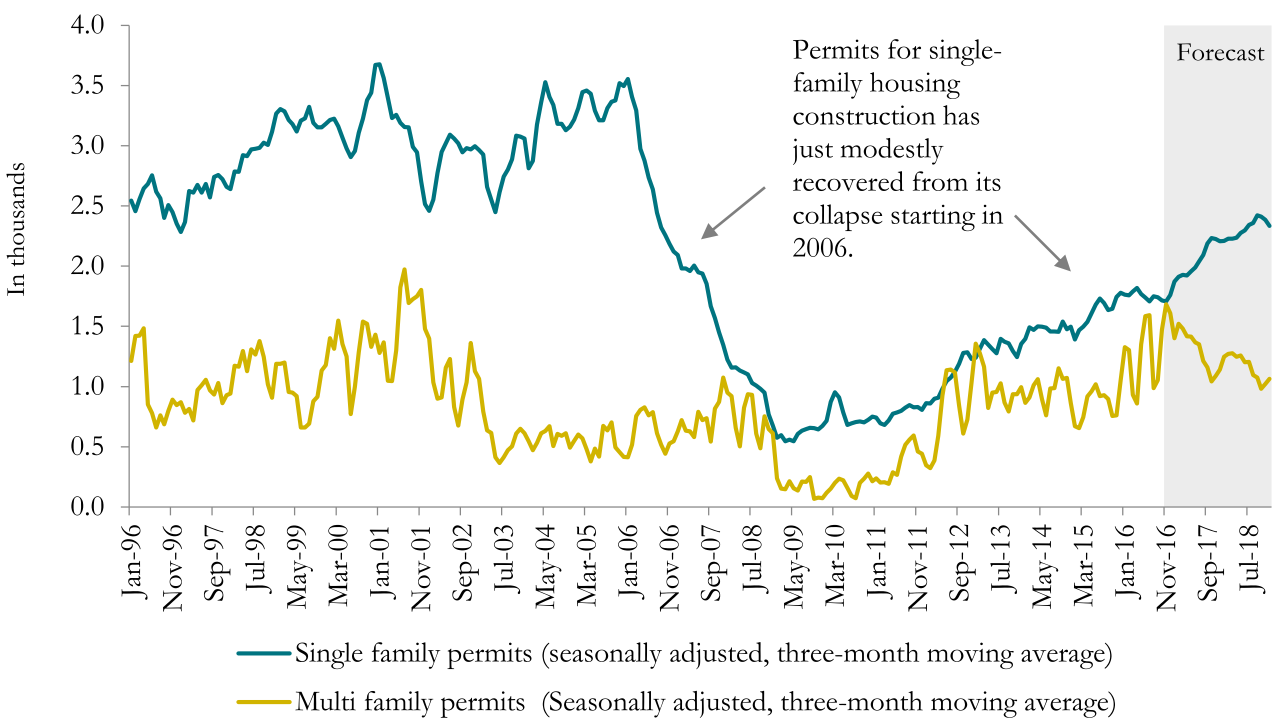
**The low level of inventory of homes for sale continues to place upward pressure on home values and constrain housing market activity.**

The low level of inventory that is constraining the state's housing market is unlikely to improve substantially in the near term. The number of listings of existing homes for sale in October (23,809) was down 28.8 percent from its level a year ago, according to the Colorado Association of Realtors. Further, new housing construction is only gradually increasing and remains well below long term averages, especially for single family homes. Figure 16 shows the trends in single family housing permits and multi-family housing permits issued statewide. Single-family permits were up only 6.8 percent this year through October over the same period last year despite strong demand from the state's growing population, while multi-family permits grew 53.8 percent.

New housing construction has only modestly rebounded from its collapse that started over a decade ago. The home building industry has a diminished capacity in the aftermath of its contraction that began in 2006. The industry continues to report labor shortages and faces other barriers, such as higher building costs, tighter financing for housing development, and restrictive land use in some areas.

**New housing construction has only modestly recovered from its collapse that started over a decade ago.**

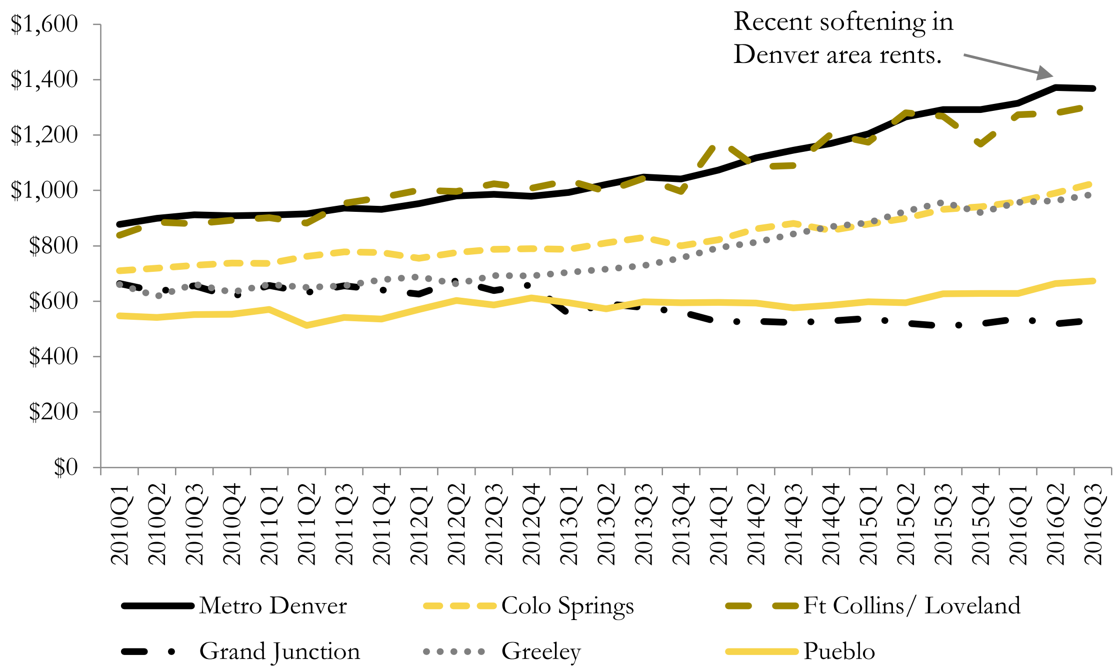
**Figure 16. Monthly Single-Family and Multi-Family Housing Permits in Colorado**




Source: U.S. Census Bureau, OSPB Calculations and Forecast

***Rental rates also continue to increase, though at a slower rate*** — In the third quarter of 2016, average rental rates for apartment units continued to rise across most of the state's larger metro areas, with the exception of the Denver metro area. The slowdown in the strong rent growth in the Denver metro area is mainly due to the recent influx of available rental units from new apartment construction. However, despite the recent softening, rents are expected to continue to increase, albeit more moderately, due to the area's growing population. The Grand Junction and Pueblo areas continue to see soft rental rates resulting from lower growth in population and a slower pace of economic expansion.

**Figure 17. Trends in Average Rents for Colorado Metro Areas**




Source: Colorado Division of Housing

## U.S. Economy

After slowing over the course of 2015 and into the first half of 2016, the U.S. economy continues to show modest improvement. Industrial production has regained more solid footing, while U.S. corporations in the third quarter posted their first annual increase in earnings since the end of 2014, and their strongest year-over-year growth since the fourth quarter of 2012. Business investment has also picked up modestly. Furthermore, financial markets are signaling higher expectations for economic growth, and consumer spending and the labor market remain solid.

**After slowing over the course of 2015 and into the first half of this year, the U.S. economy has improved over the past several months.**

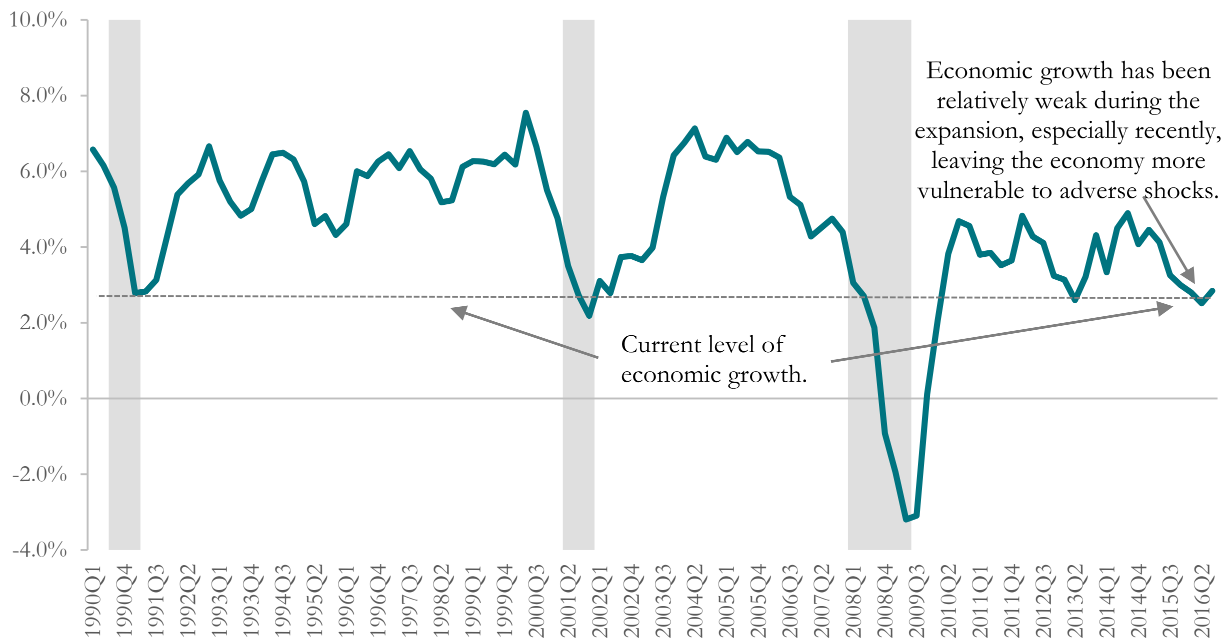
***Business contacts from across the nation report expanding economic activity*** — The most recent Federal Reserve beige book survey of business and other contacts around the nation indicated that economic activity continued to expand from early October through mid-November. Furthermore, the report stated that the outlook was mostly positive. Retail sales and real estate markets reported improving activity, as did business services firms, especially those involved in high-tech and information technology services. Further, bankers reported some improvement in loan demand. However, several contacts stated that tightening labor market conditions were making it difficult for businesses to fill positions. In addition, the strong dollar was cited as a continued constraint on demand for some manufacturing contacts, and the agriculture sector continues to face challenges with low commodity prices.

***Although economic activity has improved of late, overall growth remains slow compared with other economic expansions*** — The trends in the overall U.S. economy are shown in Figure 18., which shows the year-over-year growth rate in the U.S. gross domestic product in nominal, or non-inflation-adjusted terms. This indicator is important to monitor as it represents the current dollar amounts that businesses and households receive from spending in the economy. As shown, overall growth has been at a lower level during the current expansion. Slower growth in productivity and in the labor force are two main reasons for the weaker growth.

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

The slowdown in growth that occurred over the course of 2015 and into this year is worrisome as it leaves the overall economy more vulnerable to adverse shocks that may cause a broad pullback in hiring, spending, and investment. In the past, such slowdowns have sometimes presaged economic recessions. However, growth is expected to continue to improve, albeit only modestly, as the economy is no longer adversely affected by the downturn in industrial production. Additionally, financial conditions have remained positive compared with the end of 2015 and early 2016.

**Figure 18. Year over Year Change in Nominal Gross Domestic Product**




Source: U.S. Bureau of Economic Analysis. Shading indicates recession period.

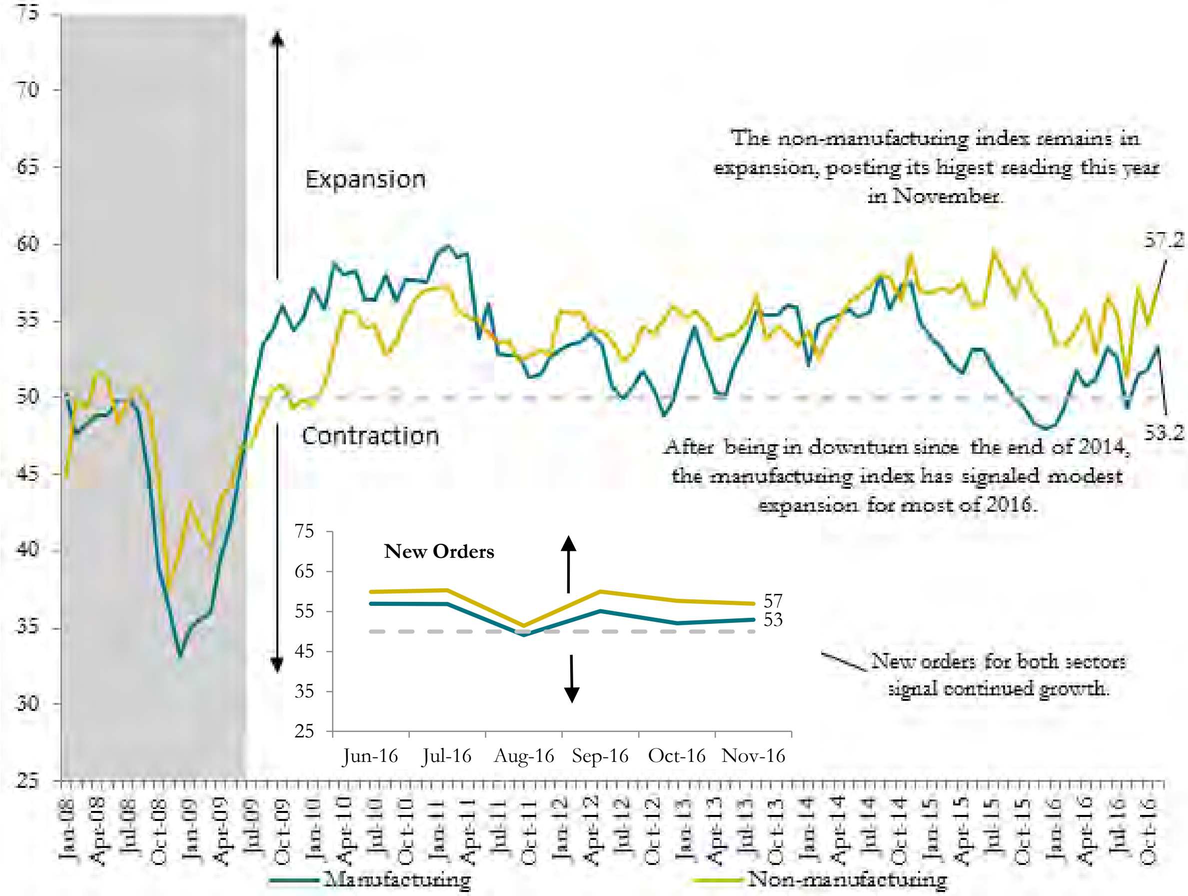
***Other broad measures of economic activity also show modest improvement*** **—** The Manufacturing Composite Index and the Non-manufacturing Composite Index, both published by the Institute for Supply Management (ISM), give indications of how the overall national economy is performing. The most recent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

As shown in Figure 19, the non-manufacturing index, which tracks the largest portion of economic activity in the U.S., covering wide ranging industries such as agriculture, professional, scientific, and technical services, retail, and construction, rose to 57.2 in November from 54.8 in October. The index remains above the 50 threshold for economic expansion, indicating that the nonmanufacturing sector of the economy is expanding. November's reading was at the highest level this year. Further, the employment component of the index was near its highest level of the current expansion. Most of the survey's respondents had positive comments about business conditions and the trajectory of the overall economy.

**The ISM non-manufacturing index, which tracks the largest portion of U.S. economic activity, indicates continued expanding conditions, and was at its highest level this year in November. The manufacturing index also continues to show modest expansion, a welcome trend after the sector's slump in 2015 and the beginning of this year.**

The manufacturing sector has been in modest expansion for most of this year, according to the ISM manufacturing index. Thus, it continues to rebound from its contraction that occurred during the latter part of 2015 and into the beginning of 2016. November's index of 53.2 tied the fastest pace of expansion for the sector in the past year and a half. Further, the new orders component of the index in November improved to 53.0 from 52.1 in October, indicating that U.S. factories will continue to experience improving activity.

**Figure 19. ISM Manufacturing and Non-Manufacturing Indices***




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

***Industrial production continues to recover from its downturn, making the economy less vulnerable to a broad-based economic downturn*** — Total industrial production in the U.S., which includes the output of the mining, manufacturing, and utilities industries, has improved modestly after declining from the end of 2014 through the first quarter of 2016. The contraction in the oil and gas industry, along with weaker exports and the appreciation of the dollar all contributed to the decline in industrial production. The gross output of the industrial sector, a measure of the sector's total economic activity, dropped by $846 billion, or 11.7 percent, from the third quarter of 2014 to the first quarter of 2016, based on data from the U.S. Bureau of Economic Analysis. This period was the first time that an industrial downturn of such duration occurred in the U.S. without a broad-based recession. However, the downturn weighed heavily on company earnings and financial markets, and it slowed job growth in some areas of the country.

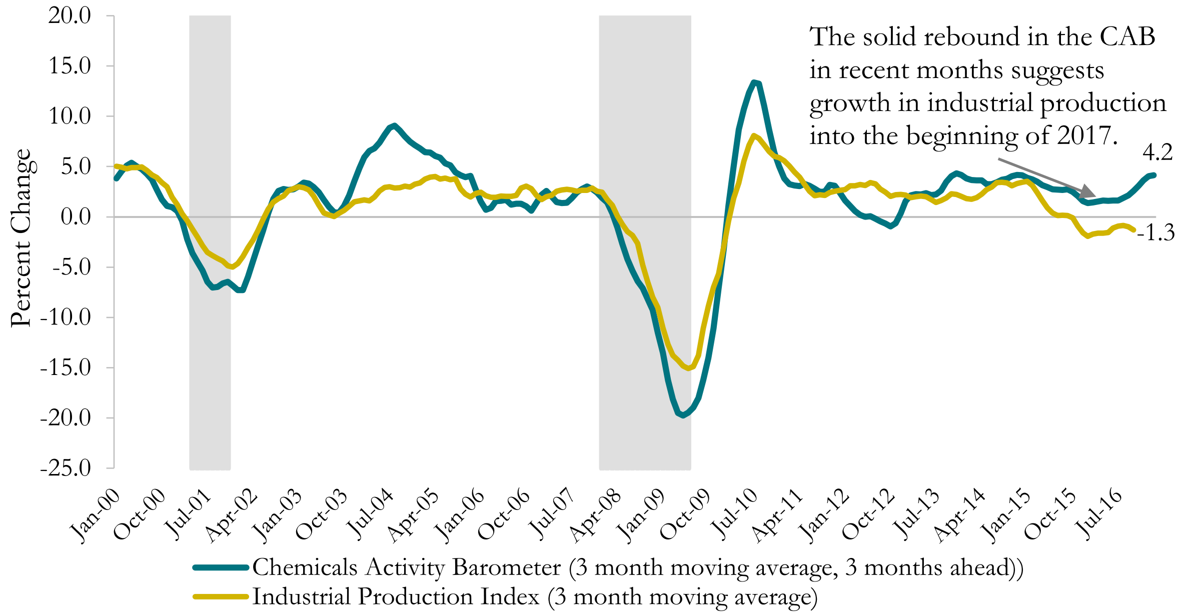
**After a prolonged downturn, U.S. industrial production continues to improve, and a leading indicator of the sector shows stronger momentum into 2017.**

Additionally, a leading index of industrial production indicates that the industrial sector of the economy will continue to show improvement. This index, called the Chemical Activity Barometer (CAB) published by the American Chemistry Council, has been showing stronger positive momentum for most of the last half of 2016.

The CAB was up 4.2 percent in November over its year ago levels – its highest growth since August of 2014. This rebound in industrial production bodes well for an improved economy going forward and reduces the vulnerability of the economy to a larger economic downturn. However, the rebound in industrial production is expected to be modest as a strong dollar will continue to act as a headwind against stronger growth.

Conditions in the chemical industry help anticipate the future trajectory of industrial production. This is due to the use of chemicals as inputs in industrial production processes. Figure 20 shows the recent trends in the CAB, as well as its relationship with industrial production for the U.S. The CAB is derived from a composite of indicators of the chemical industry, including prices, equity values, and business activity. The CAB also contains broader measures of the economy that tend to be leading indicators of overall economic activity, including building permits and new business orders.

**Figure 20. Trends in Industrial Production, Year over Year Percent Change**



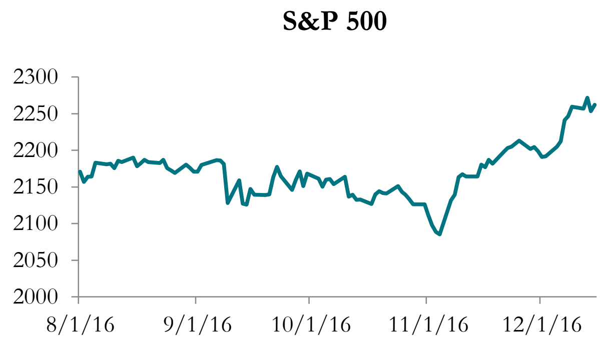

Source: American Chemistry Council, Board of Governors of the Federal Reserve System, and OSPB calculations. Shading indicates recession period.

***Financial markets are signaling expectations for improved economic growth*** **─** US financial conditions improved over most of the course of 2016 after tightening considerably in the second half of 2015 and the first part of this year. Stock markets and several commodities have experienced large gains of late, while bond prices have decreased, pushing up yields. In part, these higher yields reflect expectations for stronger economic growth and inflation.

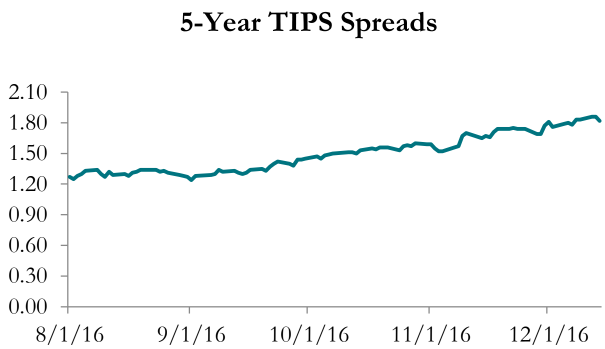
**Financial markets are signaling expectations for improved economic growth ─ an important factor in how the economy will actually perform.**

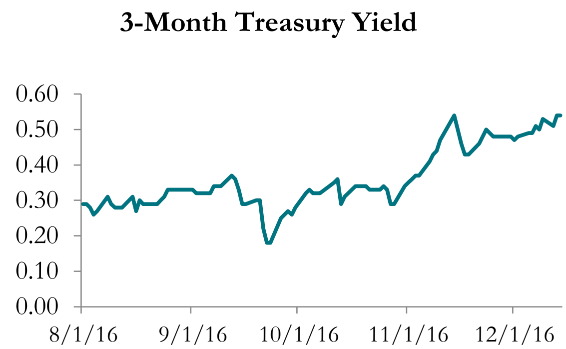
Figure 21 shows trends in key financial indicators that tend to be associated with future economic growth – the S&P 500 stock market index, five-year Treasury inflation-protected securities (TIPS) spreads, copper prices, 3-month Treasury bill yields, two-year Treasury yields, the US dollar index, and oil price futures. The combination of rising equity values, interest rates, and expected inflation currently signal expected growth in the economy, though commodity prices and the dollar are more neutral. However, this signal can change quickly based on new information and updated assessments on the expected path of the economy.

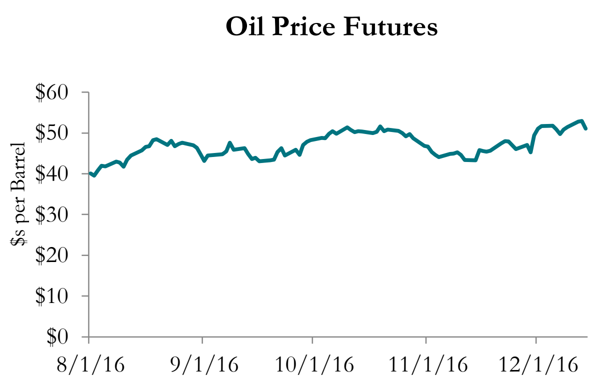
**Figure 21. Key US Financial Market Indicators on Expectations for Economic Growth**

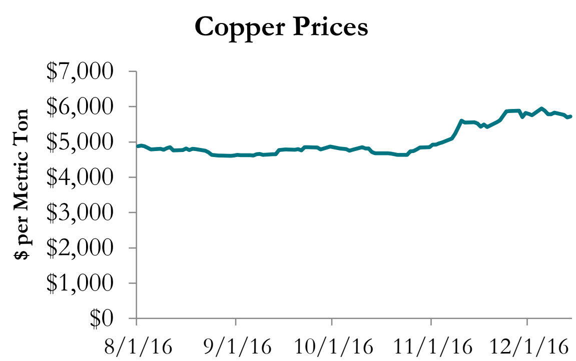


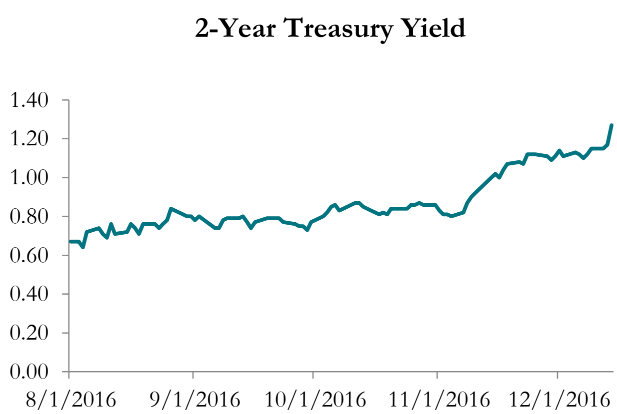

**Rising equity values, interest rates, and expected inflation currently signal expected growth in the economy, though commodity prices and the dollar are more neutral. Combined, these indicators can be reliable predictors of future economic activity.**

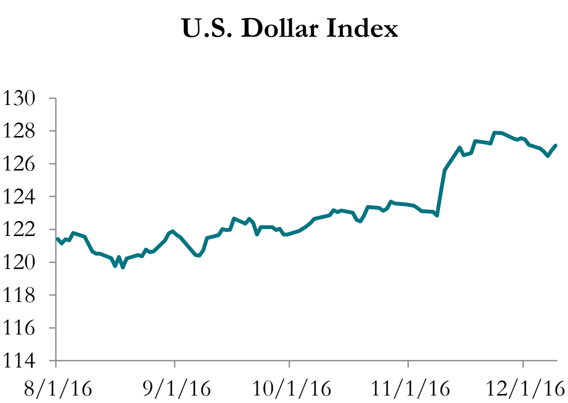



Source: Board of Governors of the Federal Reserve System and Bloomberg

OSPB utilizes financial market information to help inform its forecast. Though not perfect, financial markets generally reflect expectations of the future path of the economy, which is an important factor in how the economy will actually perform. In addition, they reflect the many different perspectives of investors and risk managers who are evaluating a large amount of information. Further, financial market indicators are continually updated based on new information.

***The downturn in corporate earnings has ended—*** Corporate earnings were weak over the course of 2015 and into the first half of this year. The weakness resulted from the downturn in industrial production, the decline in commodity prices, weak exports, and the stronger dollar. However, after-tax corporate profits grew in the third quarter over the year prior by 5.2 percent, according to the U.S. Bureau of Economic Analysis. This was the first annual increase in profits since the last quarter of 2014.

**Corporate earnings experienced their first annual increase in the third quarter of this year since the last quarter of 2014.**

In addition, the earnings of companies within the S&P 500 stock market index posted growth in the third quarter for the first time since the beginning of 2015. According to Factset, a financial data and analysis firm, the blended earnings[2] growth for all companies in the S&P 500 was 3.2 percent in the third quarter over a year ago. Earnings growth was broad-based across most sectors, with real estate, utilities, and financial companies posting the largest gains. However, the energy sector continued to post losses. Investors expect company earnings to post larger gains in 2017. Figure 22 shows the trends in earnings per share for companies in the S&P 500, including investors' expectations for earnings into 2017, along with the overall S&P 500 stock index.

**Figure 22. S&P 500 Index and Earnings per Share**


Source: Bloomberg, S&P Dow Jones Indices LLC

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

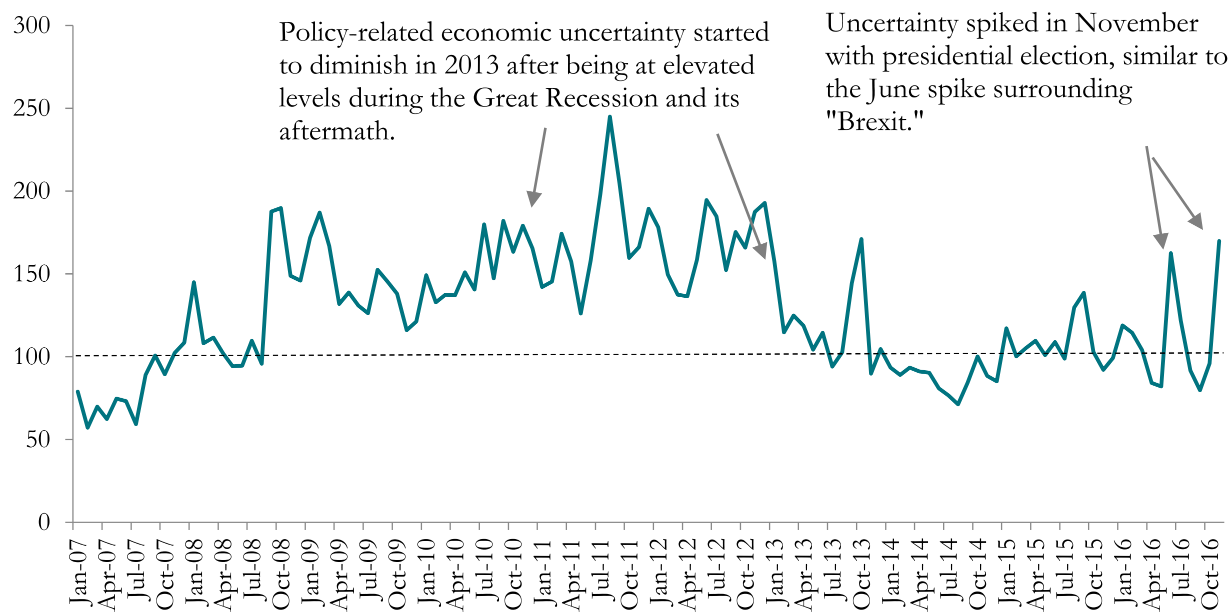
***Uncertainty remains elevated after the U.S. presidential election –*** The Economic Policy Uncertainty (EPU) index, developed by economists from Stanford University and the University of Chicago, posted an upward spike in November, surrounding the U.S. presidential election. Elevated levels of uncertainty, especially if prolonged, can cause businesses and investors to hold off on employment and investment decisions, which can slow the economy. November's increase in uncertainty was similar to the "Brexit" vote in June when Great Britain voted to leave the European Union.

In addition to the election, the increase in the EPU index in November resulted from uncertainty regarding the policies that will be pursued by the incoming presidential administration and Congress. Uncertainty is likely to remain at higher levels in the coming months, which could weigh on growth.

**Economic policy uncertainty posted an upward spike in November, surrounding the U.S. presidential election. Uncertainty is likely to remain elevated in the coming months, which may begin to weigh on economic growth.**

Figure 23 shows trends in the EPU, which is constructed using information about news coverage of policy-related economic uncertainty, federal tax code provision changes, and disagreement among economic forecasters. Before the recent spikes, uncertainty had been at lower levels since the end of 2012, after being at a prolonged elevated level during the Great Recession and its aftermath.

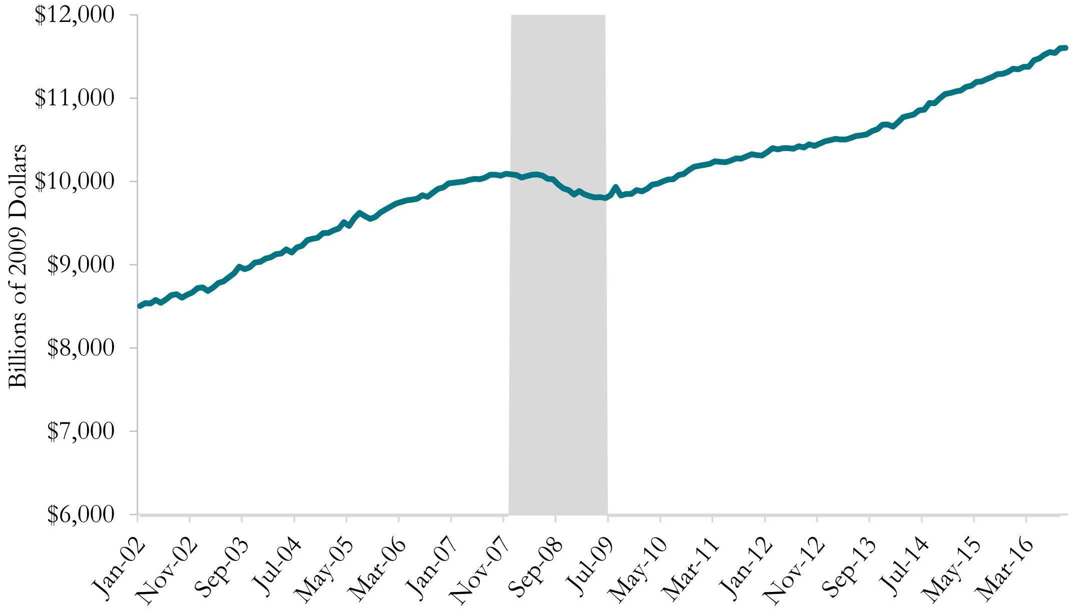
**Figure 23. Economic Policy Uncertainty Index for the United States**




Source: Baker, Scott R., Bloom, Nick and Davis, Stephen J., Economic Policy Uncertainty Index for United States

***Consumer spending is expected to remain solid –*** Consumer spending has been a main contributor to GDP growth in recent quarters, a trend that is expected to continue, but at a more moderate pace. Figure 24 shows the recent trends in total consumer spending nationally. The labor market remains strong as additional employment and higher wages increase disposable incomes. Household debt levels remain relatively low and the savings rate is above 5 percent, suggesting that household finances will continue to support consumption growth.

**Figure 24. US Personal Consumption Spending**




Source: U.S. Bureau of Economic Analysis

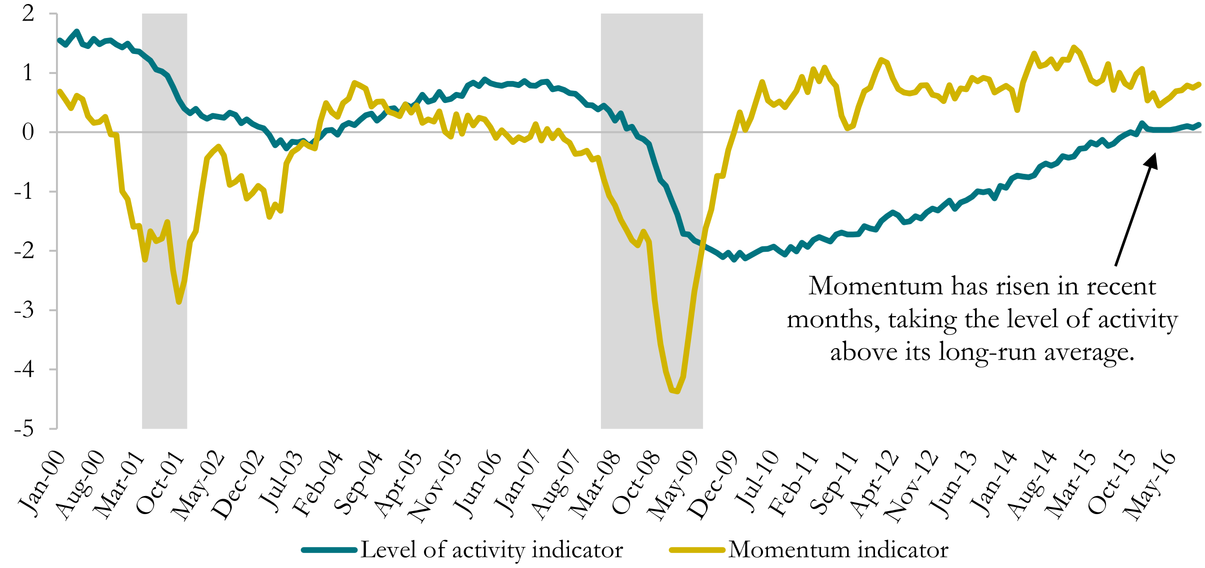
***The U.S. labor market has sustained momentum –*** While job growth has slowed moderately in recent months, wage growth has begun to accelerate, indicating that the labor market may be approaching full employment. Labor force participation is also rising, indicating that an improved economy and rising wages are attracting more people into the labor market.

The nation's unemployment rate was 4.6 percent in November, its lowest level of the expansion. The "U-6" measure of unemployment was 9.3 percent in November. While continuing to improve, this rate remains over a percentage point higher than its level in 2007 before the Great Recession. The U6 rate includes the traditional unemployment rate, but also marginally attached workers currently not employed and part-time workers who would prefer full-time work.

**Accelerating wage growth may indicate that the economy is approaching full employment. Labor force participation is also rising.**

The Federal Reserve Bank of Kansas City tracks labor market conditions using two indicators that aggregate 24 labor market variables to approximate both the momentum and the level of activity in the labor market. The level of activity indicator has been increasing since the Great Recession, while the momentum indicator has been rising since March after falling through much of 2015 and early 2016. For these indicators, levels above zero indicate conditions above their long-run average, while levels below zero indicate conditions below their long-run average.

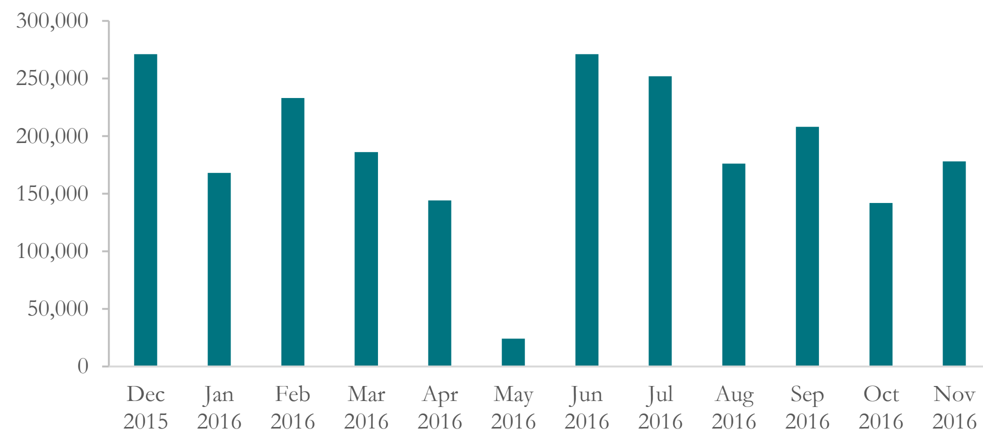
**Figure 25. Kansas City Fed Labor Market Conditions Indicators**




Source: Federal Reserve Bank of Kansas City

***The economy continues to add jobs, but at a slower rate –*** The U.S. economy continues to add jobs, but at a slightly slower rate than last quarter. After averaging 188,000 new jobs per month over the last 12 months, the average number of new jobs per month has declined to 176,000 over the last three months.

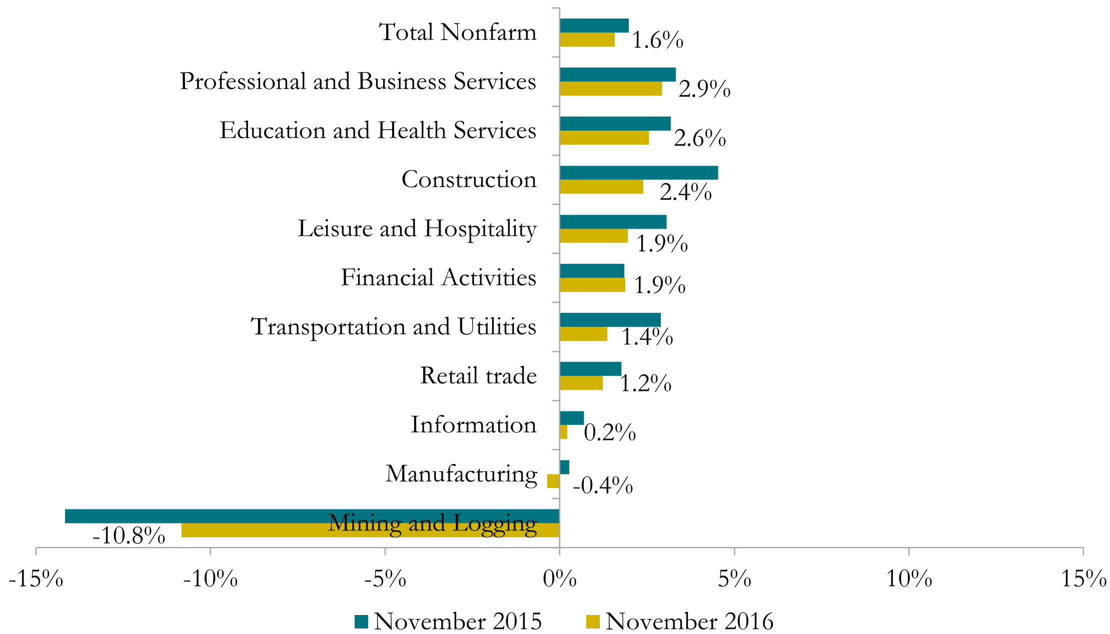
**Figure 26. U.S Monthly Job Growth, Last 12 Months**



Source: Bureau of Labor Statistics

The slowdown in hiring has occurred across almost all industries, the exceptions being financial activities and mining and logging. The slowdown has been most pronounced in construction, which slowed from 4.5 percent growth a year ago to 2.4 percent growth over the last year.

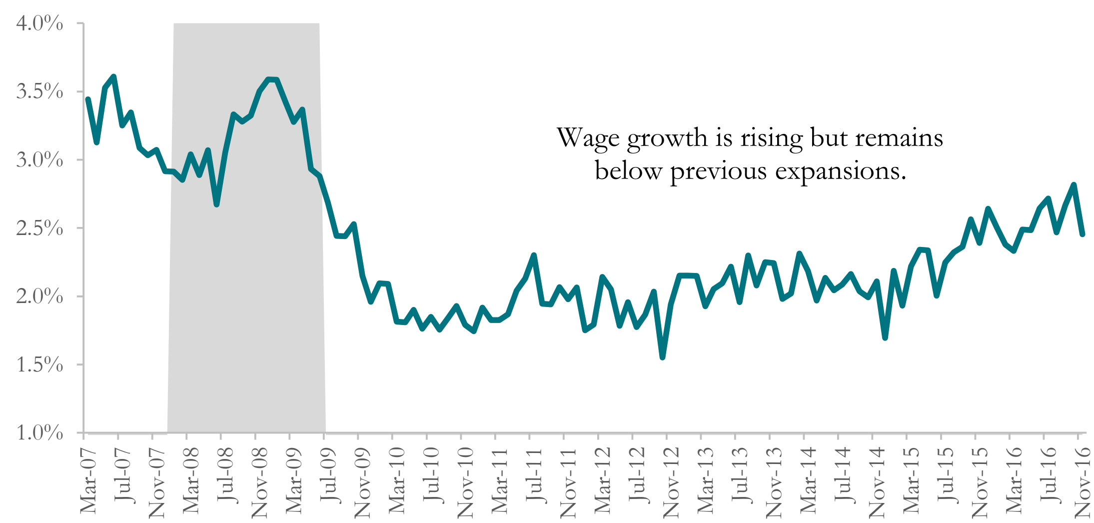
**Figure 27. Year-Over-Year National Job Growth by Sector**




Source: Bureau of Labor Statistics

***Wage growth is beginning to accelerate, suggesting that the labor market may be approaching full employment –*** Average hourly earnings have increased 2.5 percent over the last year. Although below the post-recession high of 2.8 percent in October 2009, this increase is consistent with a labor market approaching full employment, as employers raise wages in order to attract and retain employees. Nonetheless, wage growth remains lower than in previous expansions. Although lower inflation and productivity growth are main factors, the relatively lower wage growth may also be due to some remaining slack in the labor market.

**Figure 28. Year-Over-Year Growth in Average Hourly Earnings, Private Employees**



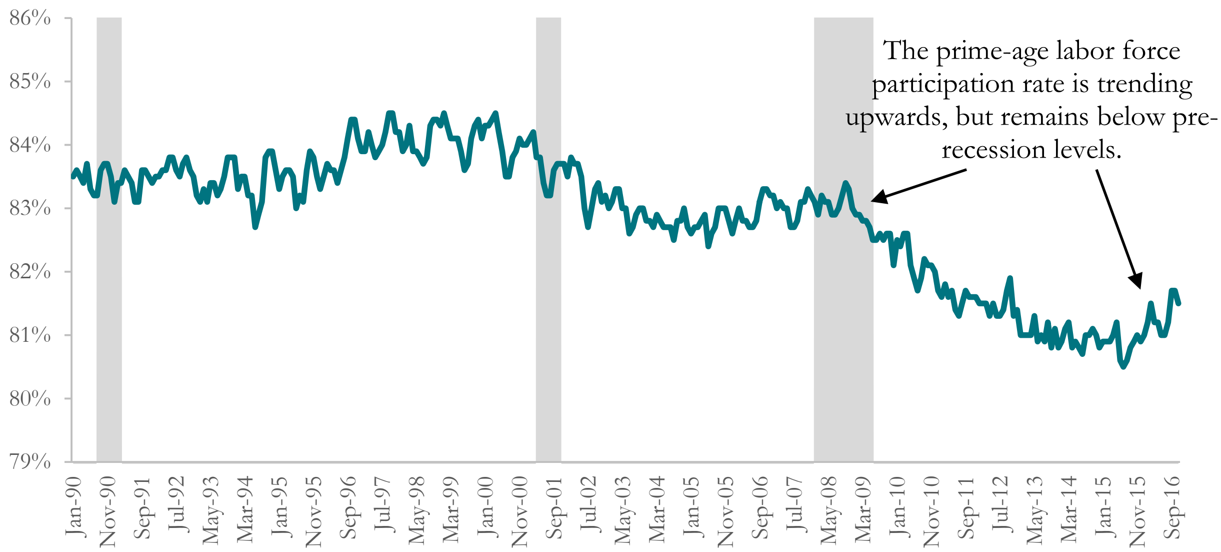

Source: Bureau of Labor Statistics

***Overall labor force participation is rising, but remains relatively low –*** The percentage of the population participating in the workforce has increased slightly over the last year, from 62.5 percent in November 2015 to 62.7 percent in November 2016, still well below the pre-recession high of 66.4 percent in 2007. This difference is due primarily to the Baby Boomer generation reaching retirement age and exiting the workforce. However, it can also be attributed to individuals who have stopped looking for work and are thus not counted in the labor force.

One means of accounting for demographic factors is to measure the prime-age labor force participation rate, which includes only people between the ages of 25 and 54, thus excluding most retirees. As seen in Figure 29, while the current participation rate of 81.5 percent is 1 percentage point above the low set in July 2015, it is still below pre-recession levels, suggesting that the labor market has yet to reach full employment.

**Labor force participation remains lower than in previous expansions, even among prime-age workers.**

**Figure 29. Prime-Age (25-54) Labor Force Participation Rate**

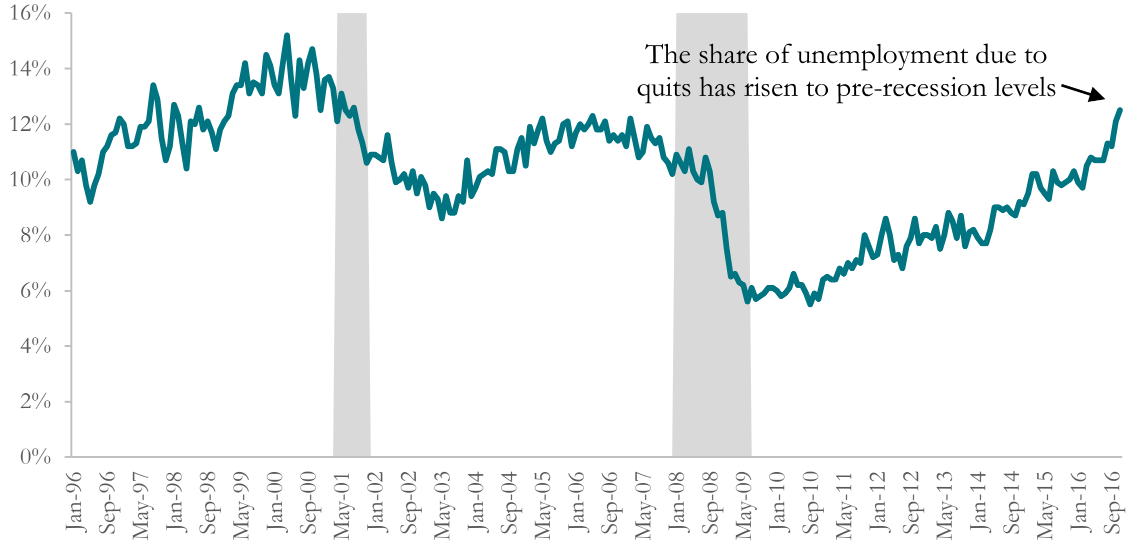



Source: Bureau of Labor Statistics

***Workers are feeling more confident in the labor market –*** One measure of worker confidence in the labor market is the quit rate, or the share of employees who quit their jobs in any month. The quit rate tends to rise when the labor market is strong, as employees who may not be satisfied with their jobs feel confident that they will be able to find another position, and fall when the labor market is weak, as employees cling to the jobs they have for fear of becoming unemployed. The quit rate has gradually risen from its 2009 low of 1.3 percent to 2.1 percent in September. This is slightly lower than the pre-recession high of 2.3 percent, suggesting that employees are becoming more confident in the labor market. This view is also supported by the share of unemployment due to quits, which rose to 12.5 percent in November, which is the highest level of the expansion and comparable to 2007 rates, though below the highs reached in the early 2000s.

**A rising quit rate is another indicator of improved labor market conditions.**

**Figure 30. Share of Unemployment due to Voluntary Quits**



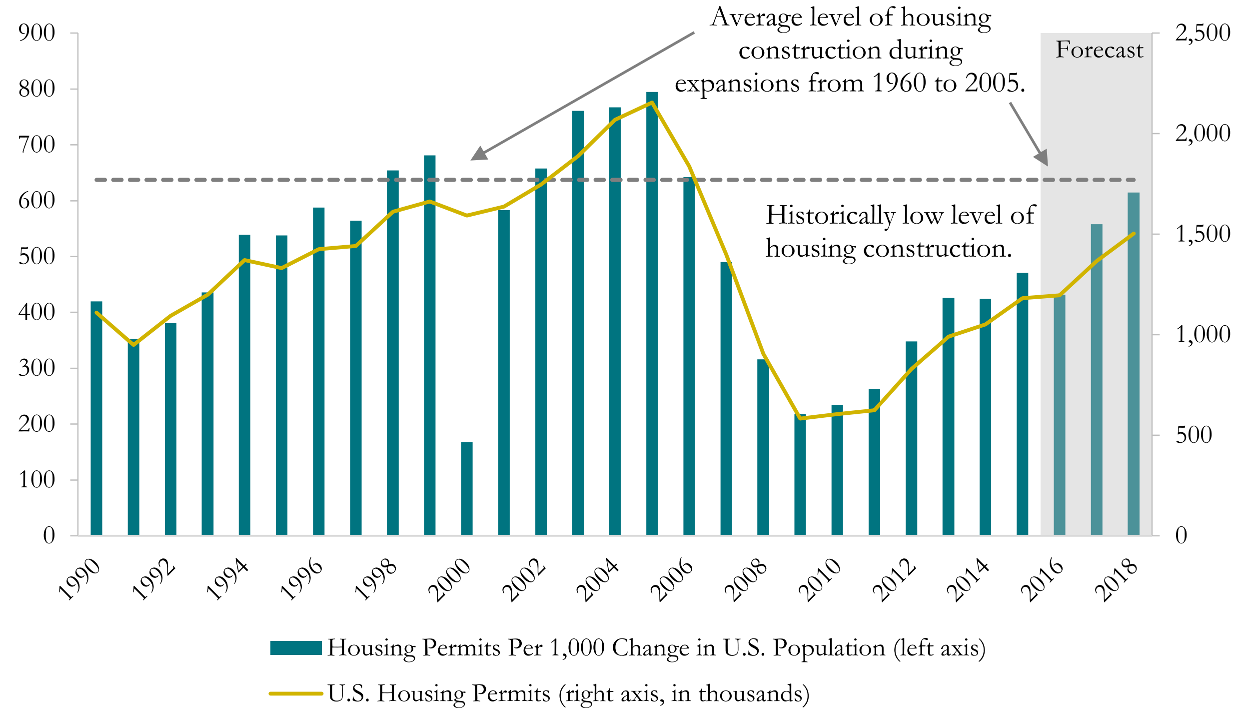

Source: Bureau of Labor Statistics

***The housing market for the U.S. overall has experienced recent momentum in recent months, though activity remains at subdued levels*** **—** The sustained improvement in the nation's labor market is fueling growth in home sales. U.S. new home sales have generally been on an upward trend since last year, while existing homes sales in October were growing at the highest pace since February 2007. The housing market is expected to continue to expand as homebuilders add inventory based on expectations for continued increases in home sales. However, the homeownership rate remains near an all-time low, and the relatively low level of housing inventory and homebuilding will hinder stronger housing market activity. Unsold inventory was at a 4.3-month supply in October, while a six-month supply is considered to be a balanced market.

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

Homebuilding remains far below that of previous economic expansions. The number of housing permits nationwide was up only 1.1 percent through October of this year over the same period in 2015. Labor shortages, higher building costs, tighter financing for housing development since the housing boom in the earlier 2000s, and restrictive land use policies in some areas are constraining home construction. The historically low level of new housing construction **—** both in overall levels and in relation to population growth **—** is illustrated in Figure 31.

**Figure 31. Trends in U.S. Housing Permits**

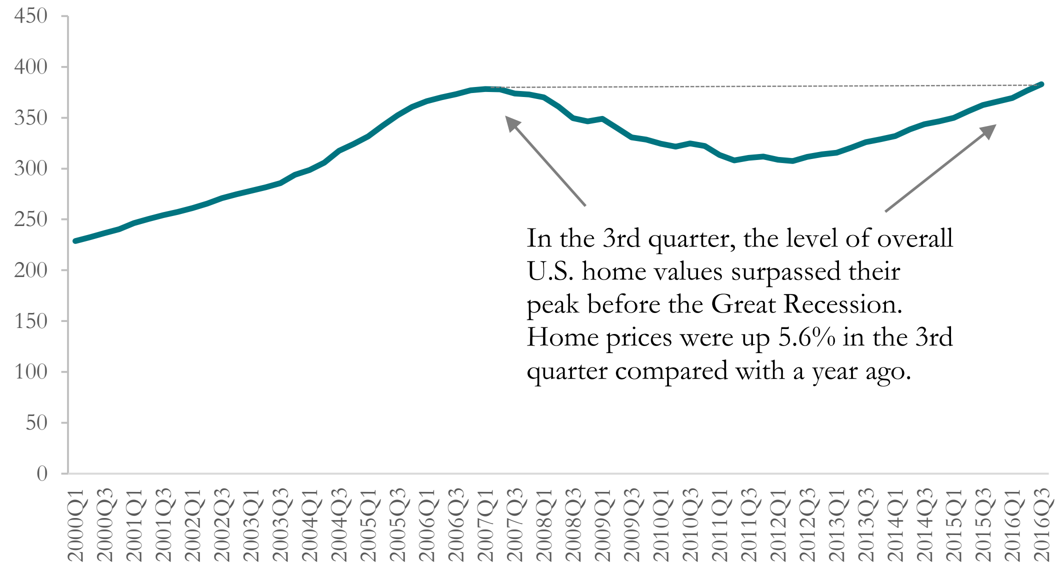



Source: U.S. Census Bureau, OSPB calculations and forecast

***U.S. home prices have surpassed their peak before the Great Recession –*** The low level of inventory combined with increasing demand is contributing to rising home values in many areas. This trend is making homeownership more difficult for some prospective homebuyers. Recent mortgage rate increases will add to these affordability challenges. However, higher interest rates can also have a positive effect on the housing market as they can attract more capital to the sector for lending and housing development.

As shown in Figure 32, the overall level of nationwide home prices increased 5.6 percent in the third quarter of 2016 from a year ago, based on the Federal Housing Finance Agency's House Price Index. In the third quarter, home prices for the U.S. overall surpassed their pre-housing bust peak just prior to the Great Recession in late 2007.

**Figure 32. U.S. Home Prices Index**

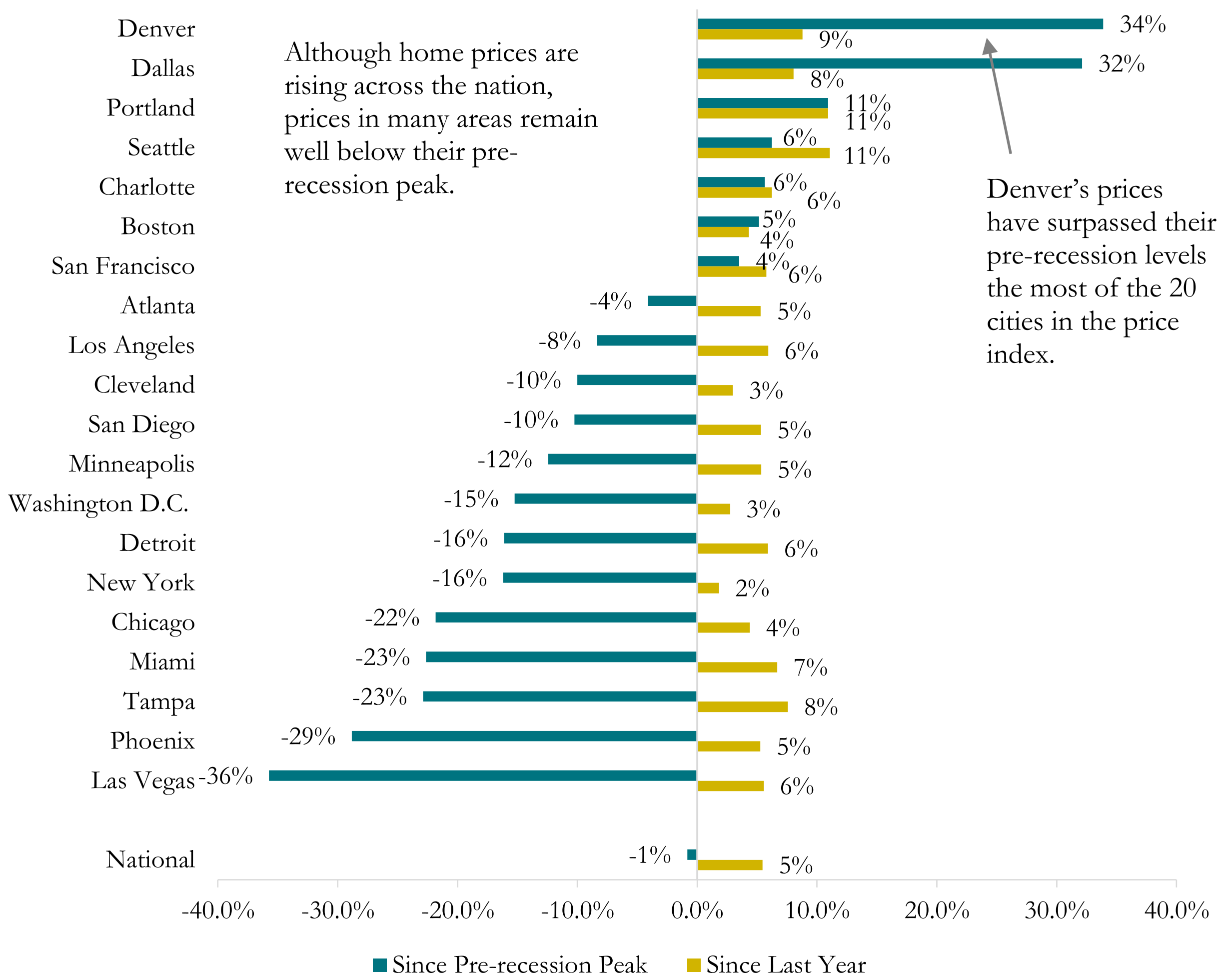



All-Transactions House Price Index for the United States, Index 1980:Q1=100, Quarterly, Not Seasonally Adjusted

Source: Federal Housing Finance Administration

***Home price gains vary widely, with prices in many areas remaining below pre-recession peaks —*** As shown in Figure 33, according to the S&P CoreLogic Case-Shiller Home Price Index, most of the nation's largest cities' home prices remain below prerecession levels. Notably, prices in Las Vegas, Phoenix, Tampa Bay, Miami, and Chicago are still more than 20 percent below their prior peaks. These areas generally had a much larger housing boom and bust than other cities. The areas with the largest gains in home prices are those with the strongest economic growth and in-migration, such as Dallas, Denver, Portland, and Seattle. Denver home prices have surpassed their pre-recession levels by the most out of the 20 largest cities that the home price index tracks.

**Figure 33. Percent Change in Home Prices in September 2016, Since Pre-Recession Peak and Since September 2015**




Source: S&P Dow Jones Indices

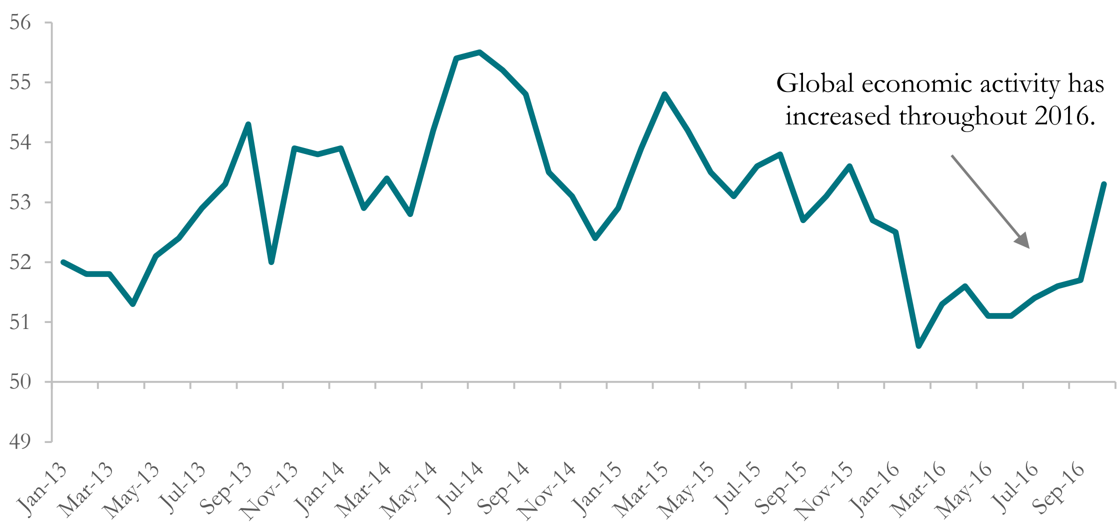
## International Economic Conditions

***The global economic outlook is improving –*** The global economy has grown slowly in 2016, but there are recent indications that growth may be accelerating. Britain's economy has been resilient following their vote to leave the European Union in June, and other large developing economies seem to be stabilizing after recent signs of weakness. The renewed strengthening of the U.S. dollar, however, will make U.S. exports more expensive on the global market.

The Goldman Sachs global manufacturing PMI – an indicator of cyclical economic trends – rose to 51.9 in November, consistent with global real gross domestic product (GDP) growth of 3.8 percent annually. PMIs above 50 indicate economic expansion, while PMIs below 50 indicate economic contraction. The underlying components of the manufacturing PMI also suggest a positive outlook, with new orders and employment both rising, while inventory reduction has slowed. This upturn in activity is also captured in the JP Morgan Global Composite PMI, which reflects economic activity in both manufacturing and services sectors. This PMI, shown in Figure 34, shows a strong rise in economic activity over the past several months.

**Global PMIs indicate accelerating global growth with a positive outlook.**

**Figure 34. JP Morgan Global Composite PMI**



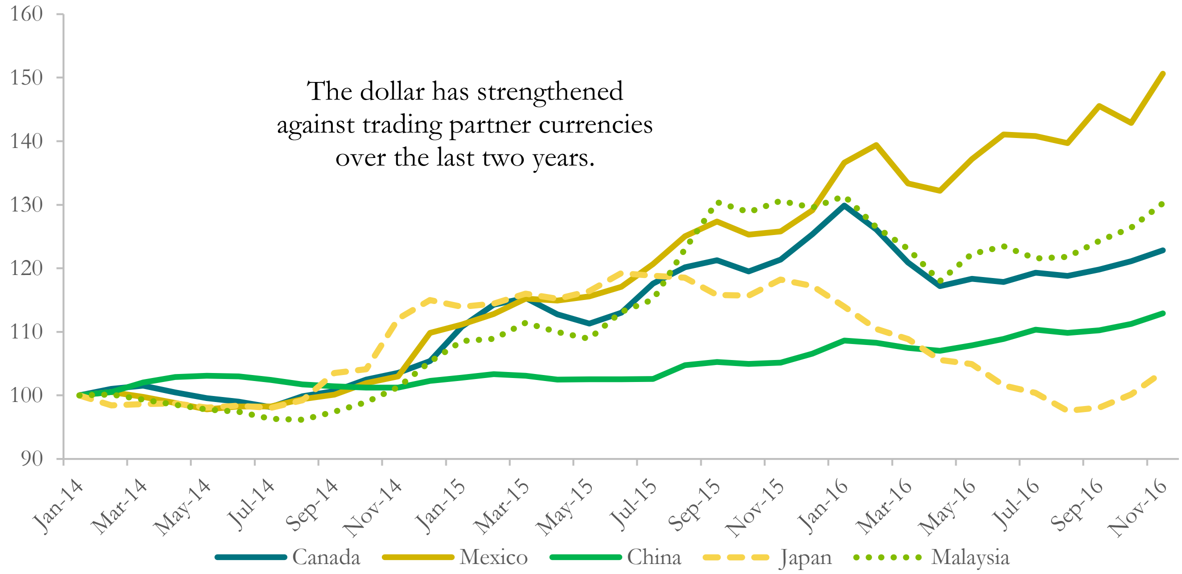

Source: IHS Markit

***Recent strengthening in the dollar will continue to challenge U.S. exporters and could begin to weigh on global growth again –*** After a period of relative stability, the U.S. dollar has resumed its appreciation against other currencies. This movement accelerated after the November U.S. election as some investors expect the Trump administration to increase government spending on infrastructure in order to boost the economy. A strong dollar is generally a negative factor for U.S. exporters, as it makes their products more expensive and less price-competitive internationally. This is especially an issue for Colorado companies that export to Mexico ─ Colorado's second largest trading partner ─ where the peso has fallen more than 10 percent against the dollar since the election. Further, some analysts expect a modest recession in Mexico in 2017.

**The stronger U.S. dollar continues to make U.S.-made products more expensive internationally. It could also weigh on global growth as it did in 2015 and earlier this year.**

Figure 35 shows the change in the exchange rate with Colorado's top five trading partners since 2014. The index is set to 100 in January 2014, so the graph can be read as the percentage change in the strength of the dollar against these other currencies since that date. For example, the exchange rate index for Mexico reached 150 in November 2016, which means the dollar has strengthened 50 percent against the peso since January 2014.

**Figure 35. U.S. Foreign Exchange Rate Indices with Colorado's Top Five Trading Partners (Jan 2014=100)**




Source: WiserTrade, Federal Reserve Bank of St. Louis

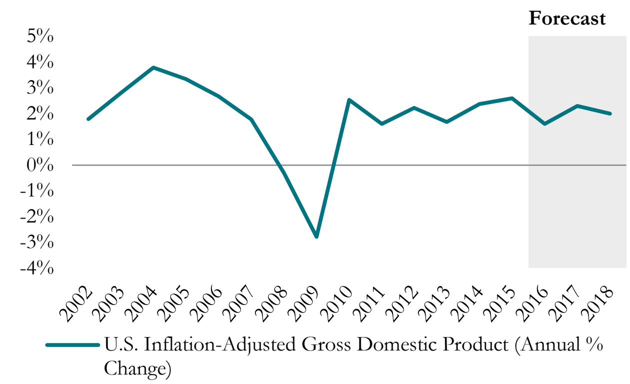
***Further U.S. dollar appreciation could weigh on global growth*** — In addition to the negative effect on U.S. exporters, further appreciation in the dollar could weigh on global growth, as it did during 2015 and earlier this year. Additionally, a large amount of debt globally is denominated in dollars and dollar appreciation makes debt burdens larger. Both of these factors could cause a stronger dollar to slow global economic growth.

***Britain's economy remains resilient despite Brexit uncertainty*** – Despite significant policy uncertainty since the June vote to leave the European Union (EU), Britain's economy has continued to outperform economists' expectations. Retail spending has remained strong, and the weaker pound has given a boost to U.K. exporters. Significant risk remains, however, as an indicator of future investment fell in the third quarter to its lowest level since the Great Recession. Long-run economic consequences from Brexit will be dependent on the outcomes of political decisions and policy negotiations over the next several years and cannot be reliably predicted at this time.

***The Chinese and Russian economies are stabilizing*** – Despite fears of a recession in China after a sudden slowdown in late 2015 and early 2016, China's economy has stabilized with economic growth of 6.7 percent for three consecutive quarters. In addition China's November manufacturing PMI reached its highest level since 2012. While some concerns linger regarding their large number of highly leveraged state-owned enterprises, these risks are unlikely to materialize in the near future. Russia's economy, which has been in recession since early 2015, recently recorded its highest manufacturing PMI since the financial crisis and is expected to return to positive economic growth in the fourth quarter of 2016.

# Summary of Key Economic Indicators
## Actual and Forecast

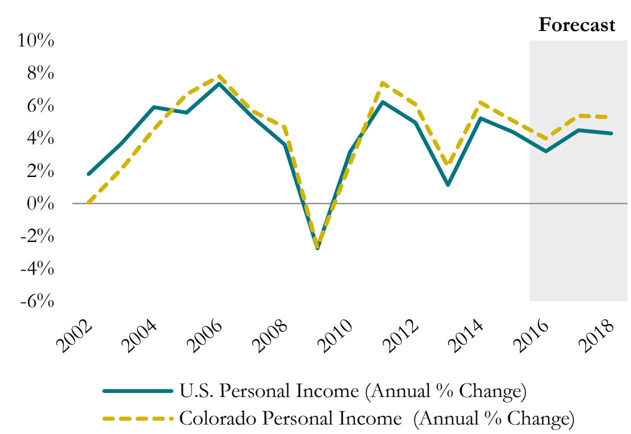
### U.S. Gross Domestic Product (GDP)




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

The U.S. economy posted a moderate expansion of 2.6 percent in 2015 in the face of slow global growth. The pace of growth has moderated further in 2016 to 1.6 percent, but will increase to 2.3 percent in 2017.

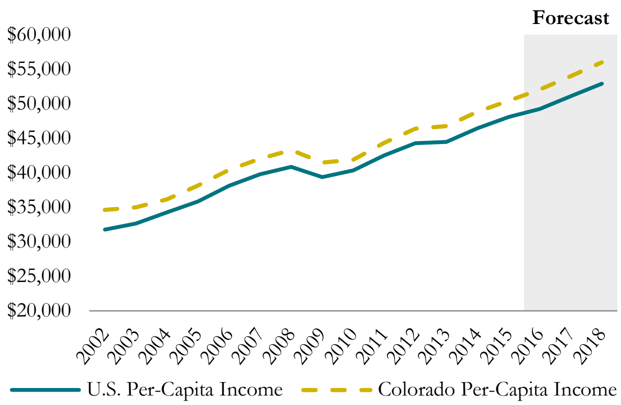
### U.S. and Colorado Personal Income




Personal income growth in Colorado slowed to 4.2 percent in 2015 from a robust 8.1 percent rate in 2014, largely due to slowing employment growth and the oil and gas industry's contraction. Personal income growth is moderating further in 2016 as the energy sector contraction continued to weigh on the economy; statewide income growth will increase to 5.4 percent in 2017.

Nationwide, personal income growth increased 4.4 percent in 2015, and is slowing to 3.2 percent in 2016. A tighter labor market and gradual wage increases will allow personal income growth to pick up through the rest of the forecast period.

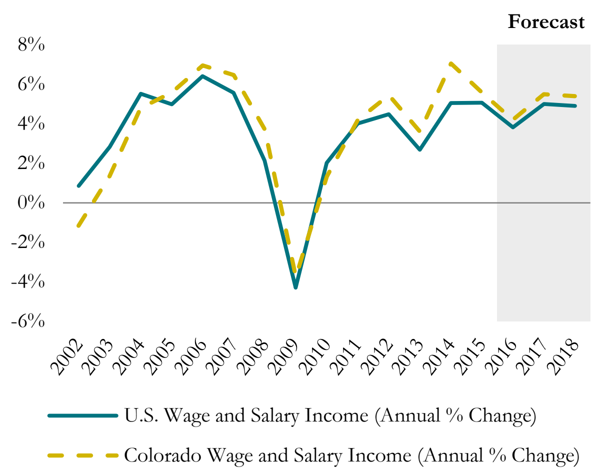
**U.S. and Colorado Per-Capita Income**




Per-capita income in Colorado increased to $50,899 in 2015 and will grow 2.3 percent to $52,060 in 2016.

In the U.S., per-capita income increased to $48,095 in 2015 and will grow 2.4 percent to $49,256 in 2016.

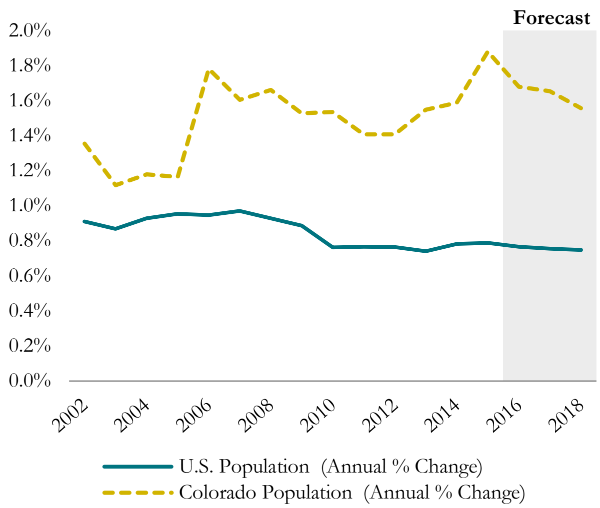
**U.S. and Colorado Wage and Salary Income**




Wage and salary growth in Colorado moderated in 2015 to a 5.7 percent rate from 7.0 percent growth in 2014, largely due to the drop in wages and spending in the economy from the oil and gas industry's contraction. Growth will decrease further in 2016 to a 4.2 percent rate, but will increase 5.5 percent in 2017.

Wage and salary income for the nation increased 5.1 percent in 2015. Moderating employment growth and the slowdown in the industrial sector is resulting in wages and salary growth of 3.8 percent in 2016. Higher growth in wage levels will push total wage and salary income to increase 5.0 percent in 2017.

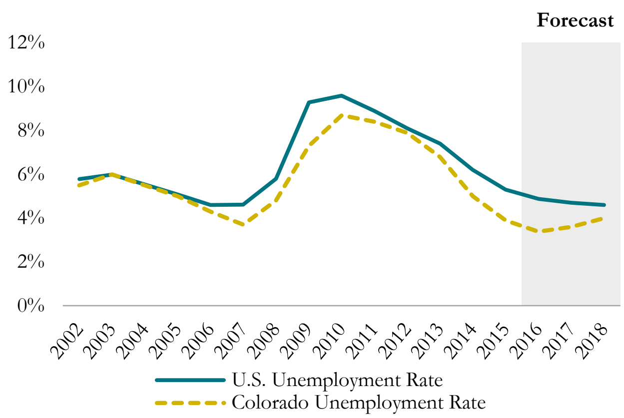
### U.S. and Colorado Population




Relatively high in-migration rates pushed Colorado's population growth rate to 1.9 percent in 2015, over double the national rate. A similar trend will continue in 2016, as the state is expected to have added 61,400 people through net migration alone. The state's total population is expected to reach 5.73 million by 2018.

The nation's population growth rate will remain steady at about 0.8 percent per year, and the population will reach 328.8 million by 2018.

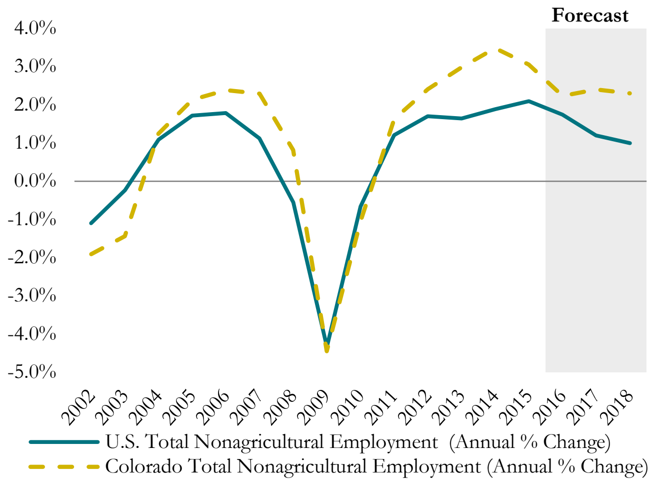
### U.S. and Colorado Unemployment




The unemployment rate in Colorado averaged 3.9 percent in 2015, down over a full percentage point from 2014 despite the oil and gas slowdown. Unemployment is expected to average 3.4 percent in 2016 and 3.6 percent in 2017.

The national unemployment rate followed a similar trend in 2015, but remained more than a percentage point higher than in Colorado, averaging 5.3 percent in 2015. Continued improvements in the labor market will cause the rate to drop to 4.9 percent in 2016 and 4.7 percent in 2017.

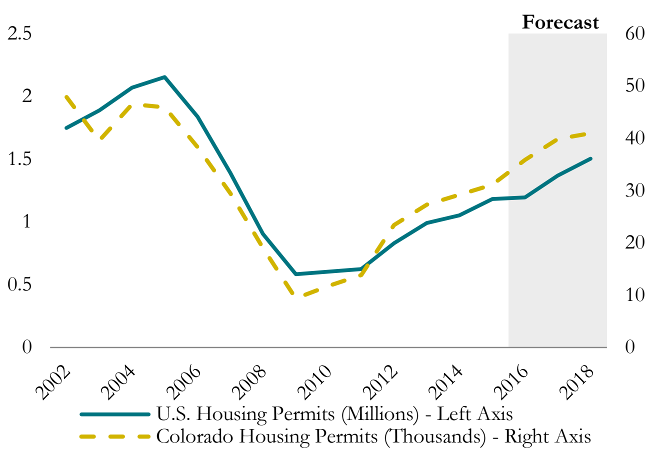
## U.S. and Colorado Total Nonagricultural Employment




Despite slowing job growth throughout the year, average employment in Colorado grew 3.1 percent in 2015, slightly lower than in 2014. Continued weakness in the energy sector and a tighter labor market is resulting in slower growth of 2.2 percent in 2016. Job growth will pick up slightly in 2017 and increase to 2.4 percent.

In contrast to Colorado, U.S. nonfarm payroll jobs in 2015 increased at a faster rate than in 2014 — 2.1 percent versus 1.9 percent. Job growth is slowing nationwide as the labor market reaches full employment, and OSPB forecasts an increase of 1.7 percent in 2016 and 1.2 percent in 2017.

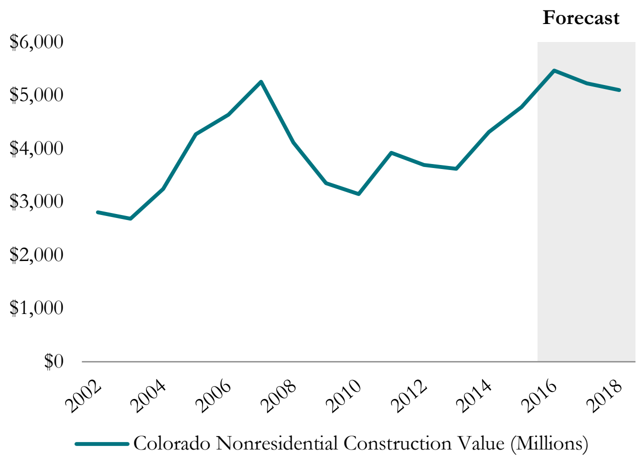
## U.S. and Colorado Housing Permits Issued




In 2016, Colorado permits will increase 12.5 percent, when 35,870 permits will be issued; 39,860 permits are projected for 2017. The increases will be driven by population growth and continued growth in the state's metro housing markets.

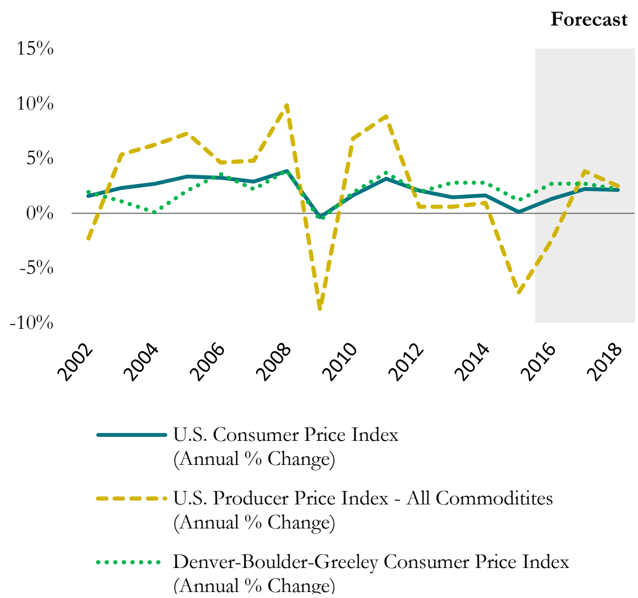
U.S. housing permits growth is slowing to 1.1 percent in 2016. Higher growth is forecast again for 2017 due to ongoing growth in housing demand.

**Colorado Nonresidential Construction Value**




Growth in nonresidential construction value in Colorado slowed to 10.9 percent in 2015 from 19.1 percent in 2014. The value of nonresidential construction will increase to a growth rate of 14.3 percent in 2016 but will then moderate through the forecast period.

**Consumer Price Index and Producer Price Index**

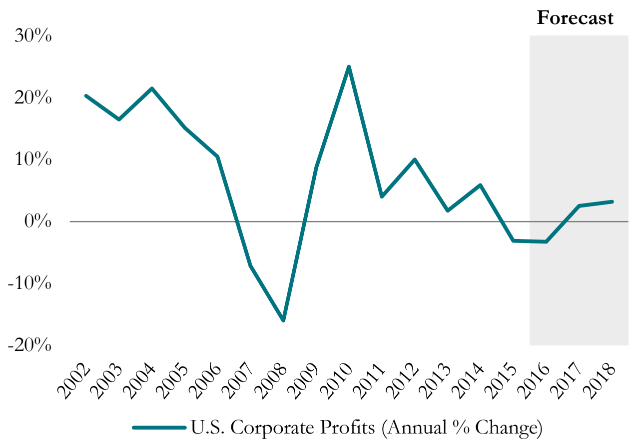



National consumer prices remained essentially flat through 2015, growing only 0.1 percent, largely due to falling gas prices. OSPB expects the U.S. CPI to rise 1.3 percent in 2016, still lower than any year since the Great Recession, and increase to 2.2 percent in 2017.

The national Producer Price Index fell in 2015 and 2016, largely due to low fuel and commodity prices. The index will rise 3.8 percent in 2017.

The Denver-Boulder-Greeley CPI grew just 1.2 percent in 2015, due to the fall in energy prices. The index is rebounding in 2016 to 2.7 percent growth as the impact of lower gas prices is less pronounced and as housing costs place upward pressure on the index. The CPI will maintain the 2.7 percent growth in 2017 with continued growth in housing costs and increases in energy prices.

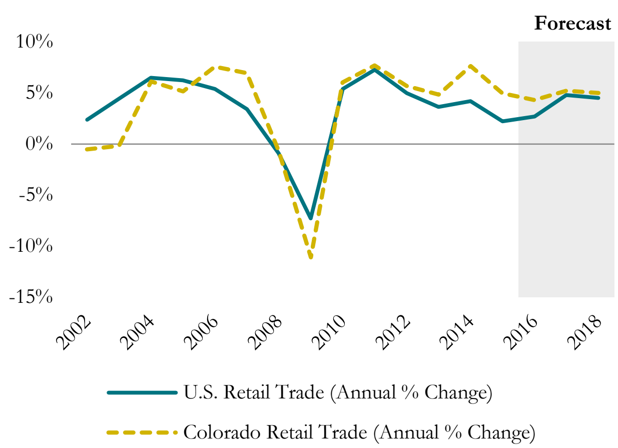
## U.S. Corporate Profits




U.S. corporate profits fell 3.1 percent in 2015 as a weak global economy and a strong dollar impacted earnings.

Profit growth remained constrained in 2016 with another decrease of 3.2 percent as firms continue to face international headwinds and increased downward pressure from rising wages and a strong dollar. These headwinds will alleviate somewhat in 2017 when modest growth of 2.5 percent is forecast.

## Retail Trade




Retail sales in Colorado will grow 4.3 percent in 2016 after 4.9 percent growth in 2015; sales will increase at a 5.2 percent rate in 2017.

Nationwide retail trade increased 2.2 percent in 2015, the lowest rate since the Great Recession. Sales are growing 2.7 percent in 2016 and will increase 4.8 percent in 2017.

The lower growth rates for both the nation and the state in 2015 and 2016 were mostly due to weak retail prices from the strong U.S. dollar and weak energy prices.

# General Fund and State Education Fund Revenue Forecast

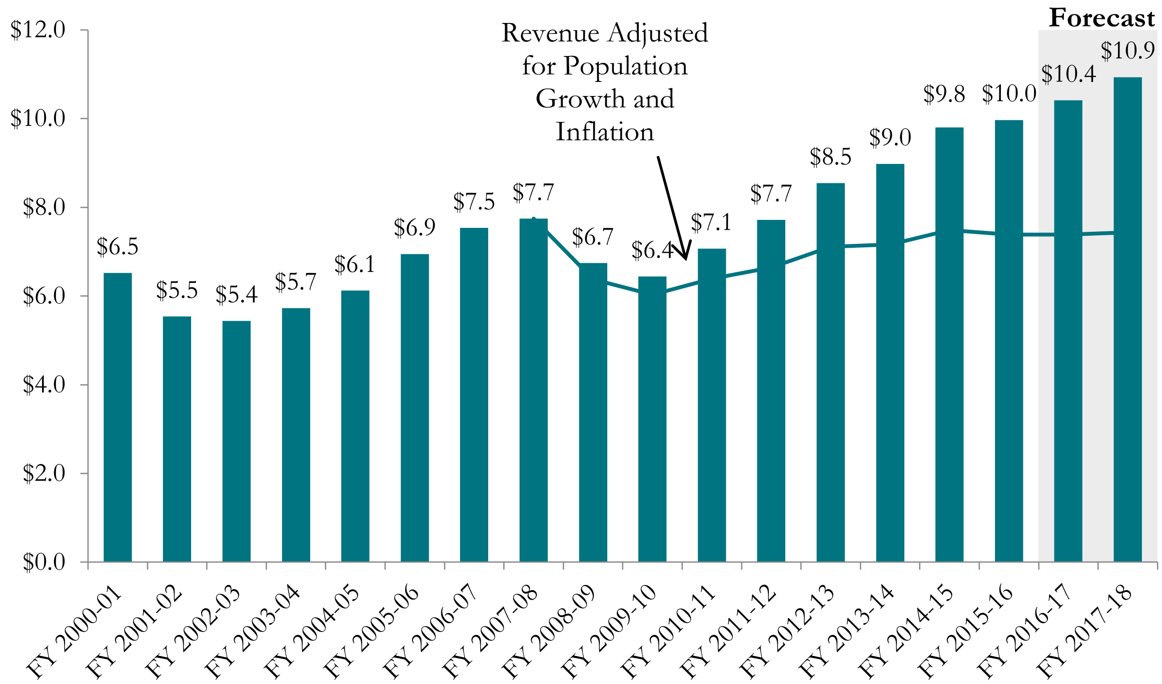
General Fund revenue is forecast to increase 4.4 percent in FY 2016-17 after increasing just 1.7 percent in FY 2015-16. This forecast is essentially unchanged from September. Colorado's economy has picked up in recent months as expected, and the oil and gas industry's contraction and weak retail sales values are weighing less on tax collections. General Fund revenue growth will pick up further in FY 2017-18 with a projected 5.1 percent increase as corporate tax revenue posts its first increase since FY 2013-14 and the economic expansion continues.

Despite these increases, forecasted growth rates remain lower than earlier in the expansion as the state's economic growth is expected to be moderate. For more details on the economy, the main determinant of General Fund revenue, see "The Economy: Issues, Trends, and Forecast" section of this forecast, which starts on page 4.

**General Fund revenue is forecast to increase 4.4 percent in FY 2016-17 after increasing just 1.7 percent in FY 2015-16. Colorado's economy has picked up in recent months as expected, and the oil and gas industry's contraction and weak retail sales values are weighing less on tax collections.**

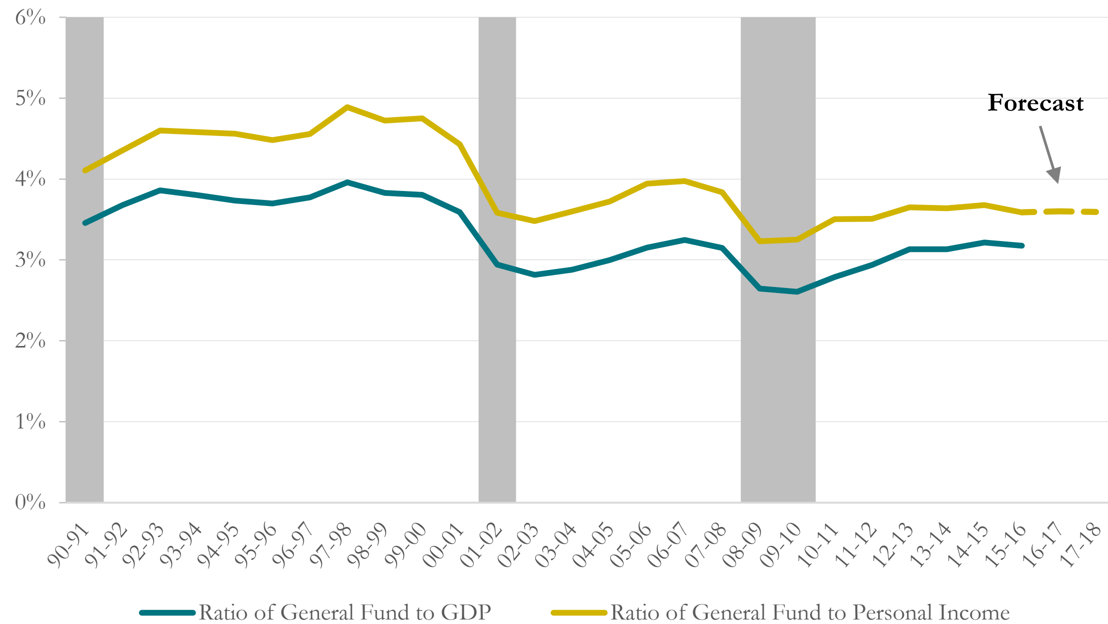
Figure 36 shows actual and projected total General Fund revenue from FY 2000-01 through FY 2017-18. The figure includes a line reflecting revenue adjusted for inflation and population growth since FY 2007-08. In addition, Figure 37 shows the ratio of General Fund revenue to personal income for Coloradans as well as the ratio of General Fund revenue to the state's gross domestic product (GDP) since 1990. A more detailed forecast of General Fund revenue by source is provided in Table 3 in the Appendix.

**Figure 36. General Fund Revenue**




Source: Office of the State Controller and OSPB calculations

**Figure 37. Ratio of General Fund Revenue to Colorado Personal Income and GDP**




Source: U.S. Bureau of Economic Analysis, Office of the State Controller, and OSPB calculations

## Discussion of Forecasts for Major General Fund Revenue Sources

The following section discusses the forecasts for the three major General Fund revenue sources that together make up 95 percent of the total: individual income taxes, corporate income taxes, and sales and use taxes. The remaining 5 percent of General Fund revenue from miscellaneous sources — such as taxes paid by insurers on premiums and excise taxes on tobacco products and liquor — will grow modestly over the forecast period.

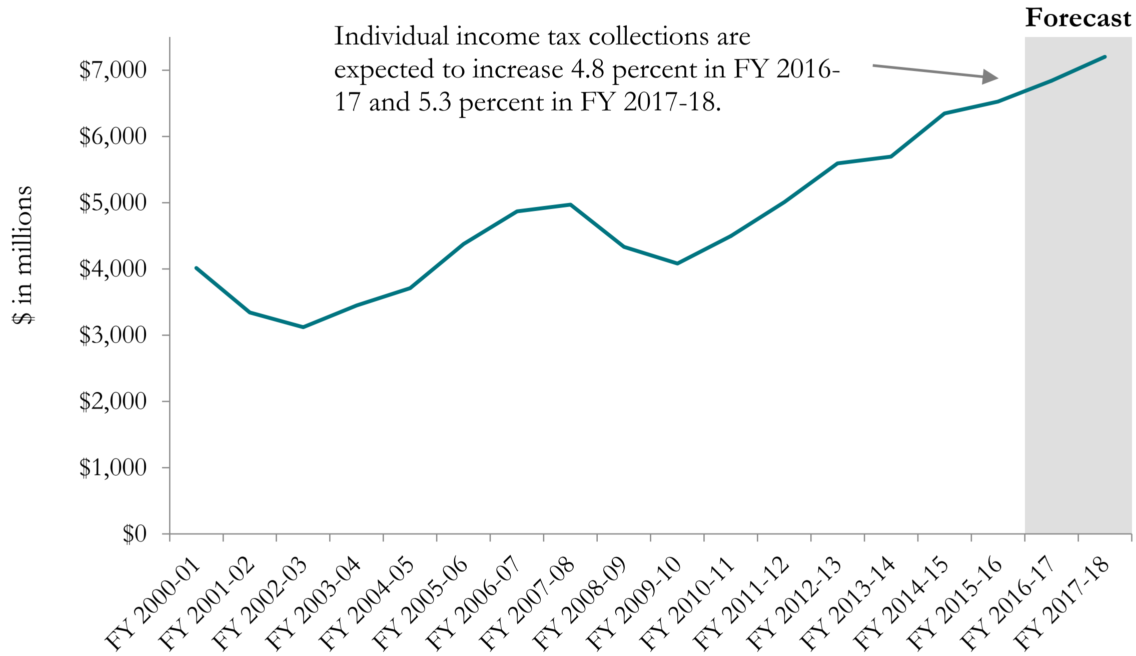
***Individual income tax –*** Individual income tax collections are expected to increase 4.8 percent in FY 2016-17 and 5.3 percent in FY 2017-18, following growth of just 2.8 percent in FY 2015-16. The downturn in the oil and gas industry that slowed income tax collections last fiscal year is largely over. The value of Colorado's mining industry GDP declined 61.1 percent, or $12.4 billion from the second quarter of 2014 to the first quarter of 2016, according to the latest data available from the U.S. Bureau of Economic Analysis. This large drop in spending and income in the state weighed on income tax collections. However, despite the end of the contraction, industry activity remains subdued and commodity prices remain low, thus income from the industry is not expected to bolster tax collections materially going forward.

**Individual income tax collections are expected to increase 4.8 percent in FY 2016-17 and 5.3 percent in FY 2017-18, following growth of just 2.8 percent in FY 2015-16.**

Nonetheless, the absence of this decline, along with greater investment gains and continued job and wage growth will bolster tax collections in FY 2016-17 and FY 2017-18 relative to last fiscal year. Despite the improvement, the forecasted growth rates are modest compared with previous years of the expansion as the economy's growth will be more moderate.

Changes in tax deductions and credits also are impacting revenue collections over the forecast period; the largest of these is the State Earned Income Tax Credit (EITC). After becoming a TABOR refund mechanism in FY 2014-15, the EITC is available as a regular income tax credit on an ongoing basis starting in tax year 2016. This credit will lower FY 2016-17 income tax collections by an estimated $84.0 million. The impact of the credit will grow over the forecast period mostly as a result of increases in the population eligible to claim the credit.

**Figure 38. Individual Income Tax Revenue**



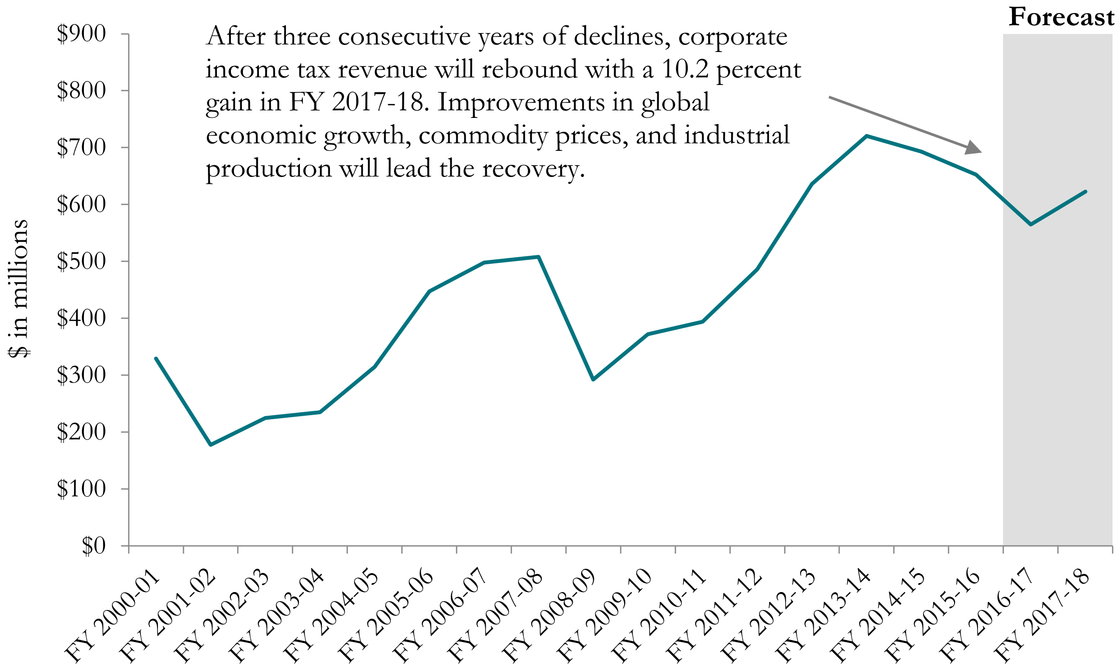

Source: Office of the State Controller and OSPB calculations

***Corporate income tax*** – Corporate income tax collections will decline again in FY 2016-17 — their third consecutive annual decrease. However, revenue will rebound with a 10.2 percent gain in FY 2017-18. Improvements in global economic growth, commodity prices, and industrial production will help lead the recovery in corporate income tax revenue. U.S. corporations in the third quarter of 2016 posted their first annual increase in earnings since the end of 2014. However, corporate tax collections growth will be much less robust than earlier in the expansion as global economic growth will remain modest, a strong dollar will continue to weigh on corporate earnings, and higher business costs, including for labor and debt payments, will reduce profit margins and result in larger tax deductions.

**Corporate income tax collections will decline again in FY 2016-17 — their third annual decrease. However, revenue will rebound with a 10.2 percent gain in FY 2017-18.**

Corporate income tax revenue fluctuates much more than overall General Fund revenue. It is among the most volatile General Fund revenue sources as it is influenced by special economic factors and the structure of the corporate income tax code. Trends in corporate profits are the main determinant of corporate income tax collections. An atypically large negative accrual adjustment expected at the end of the State's fiscal year is contributing to the projected 13.4 percent decrease this fiscal year and relatively strong rebound next year. On a cash basis, corporate tax collections are forecast to decrease 6.7 percent this fiscal year, and increase 6.4 percent in FY 2017-18.

**Figure 39. Corporate Income Tax Revenue, Actual and Forecast**




Source: Office of the State Controller and OSPB calculations

***Sales and use tax –*** Sales tax revenue is forecast to increase 7.4 percent in FY 2016-17, following an increase of just 1.3 percent in FY 2015-16. Sales tax collections will increase another 4.1 percent in FY 2017-18.

Consumer spending has been solid of late. However, growth in sales and use tax revenue slowed in FY 2015-16 due in part to weakening retail prices as well as less spending on taxable goods, mostly from the drop in business spending in the state tied to the oil and gas industry's contraction. Businesses also pay sales taxes on some of their spending, in addition to consumers.

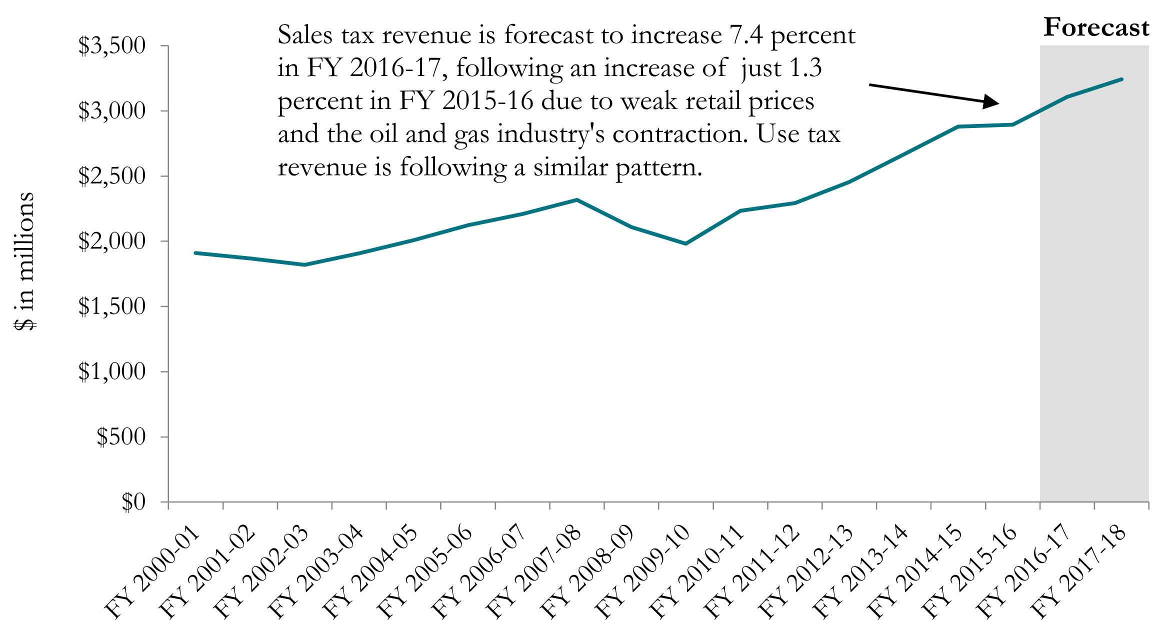
**As a result of the end of the oil and gas industry's contraction and increases in retail prices, sales tax revenue has recently begun to show signs of renewed growth. Sales tax revenue is forecast to increase 7.4 percent in FY 2016-17, following an increase of just 1.3 percent in FY 2015-16.**

With the end of the oil and gas industry's contraction and increases in retail prices, sales tax revenue has recently begun to show signs of renewed growth. Nonetheless, other factors will constrain increases in sales taxes over the forecast period. Sustained growth in housing costs in many urban areas of the state as well as growth in health care costs is reducing disposable income and is weighing on growth in consumer spending on taxable goods. Furthermore, e-commerce purchases are making up a growing share of consumer spending. Much of the sales taxes due on such purchases is uncollected as out-of-state retailers are generally not required to collect and remit sales taxes to states. However, the State may begin to collect more of this revenue in the future due to recent favorable court rulings for the State on its law that require retailers to report annual remote sales over a certain amount to the Department of Revenue and to notify consumers of their obligation to pay the tax due on their purchases.

The 7.4 percent forecasted increase for FY 2016-17 is partially bolstered by a positive accrual accounting adjustment and continued strong growth in collections from the 10 percent sales tax on retail marijuana. The forecast for collections from this tax, along with other revenue from marijuana sales, can be found on page 64. In addition, sales tax revenue is being boosted by sales tax collections by the online retailer Amazon. Beginning February 1, 2016, Amazon started collecting state sales taxes on items purchased directly from the company and shipped to Colorado addresses. These collections from Amazon are expected to increase State sales tax revenue by $22.0 million in FY 2016-17. Without these special factors, sales tax revenue is growing 5.7 percent this fiscal year.

Collections from the use tax, a companion to the sales tax, are also rebounding in FY 2016-17 due to the same factors that are improving sales tax collections. Collections will rebound with 7.8 percent growth in FY 2016-17 without the drag of the contraction in spending from the oil and gas industry and retail price deflation weighing on revenue. Use tax revenue is projected to increase another 6.4 percent in FY 2017-18. The use tax is paid by Colorado residents and businesses on purchases that did not include a Colorado sales tax. Use taxes bring in a much smaller amount of revenue than sales taxes and are often more volatile. Much of the State's use tax revenue comes from Colorado businesses paying the tax on transactions involving out-of-state sellers.

**Figure 40. Sales and Use Tax Revenue**




Source: Office of the State Controller and OSPB calculations

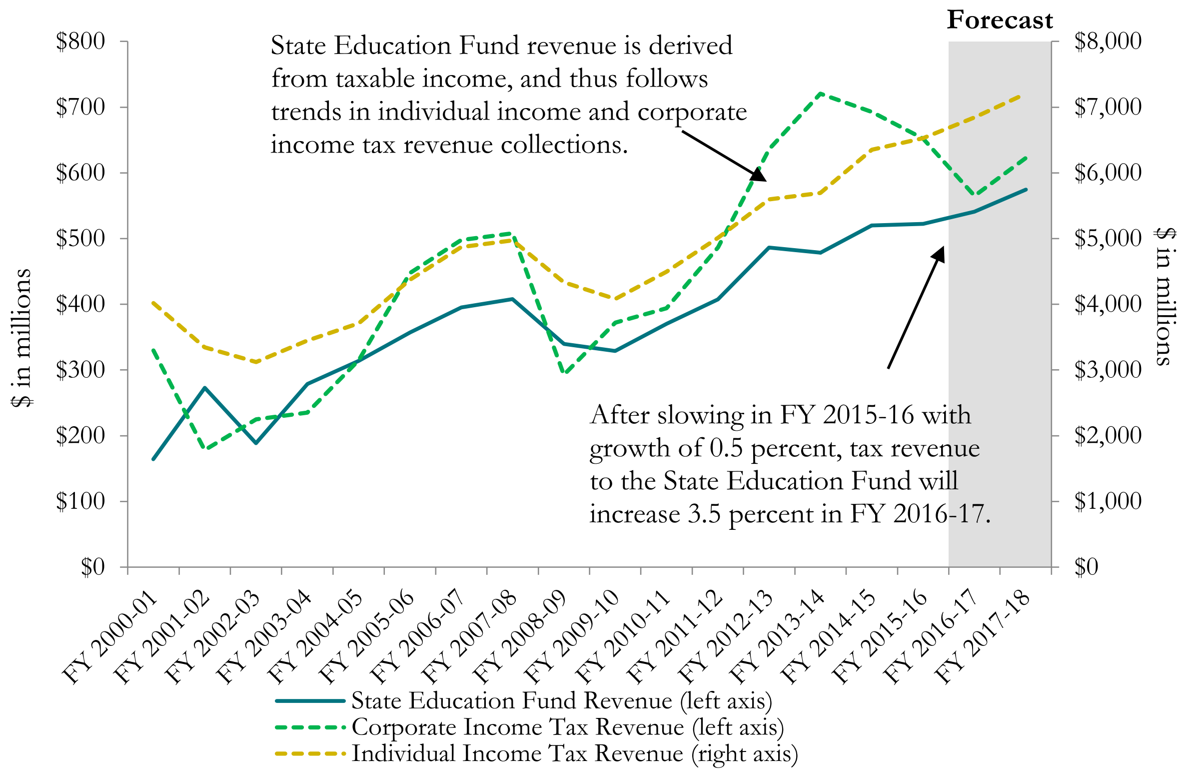
## State Education Fund Revenue Forecast

After slowing in FY 2015-16 with growth of 0.5 percent, tax revenue to the State Education Fund will increase 3.5 percent in FY 2016-17. It will increase at a faster pace of 6.2 percent FY 2017-18 due to renewed growth in corporate income tax collections. Because State Education Fund revenue is derived from taxable income, it follows the trends in individual income and corporate income tax revenue collections discussed above.

**Tax revenue to the State Education Fund will increase 3.5 percent in FY 2016-17 after slowing in FY 2015-16 with growth of 0.5 percent. It will increase at a higher rate of 6.2 percent in FY 2017-18.**

The State constitution requires that one-third of one percent of taxable income from Colorado taxpayers be credited to the State Education Fund. In addition to this revenue, policies enacted over the past several years have transferred other General Fund money to the State Education Fund.

**Figure 41. State Education Fund Revenue from One-Third of One Percent of Taxable Income**

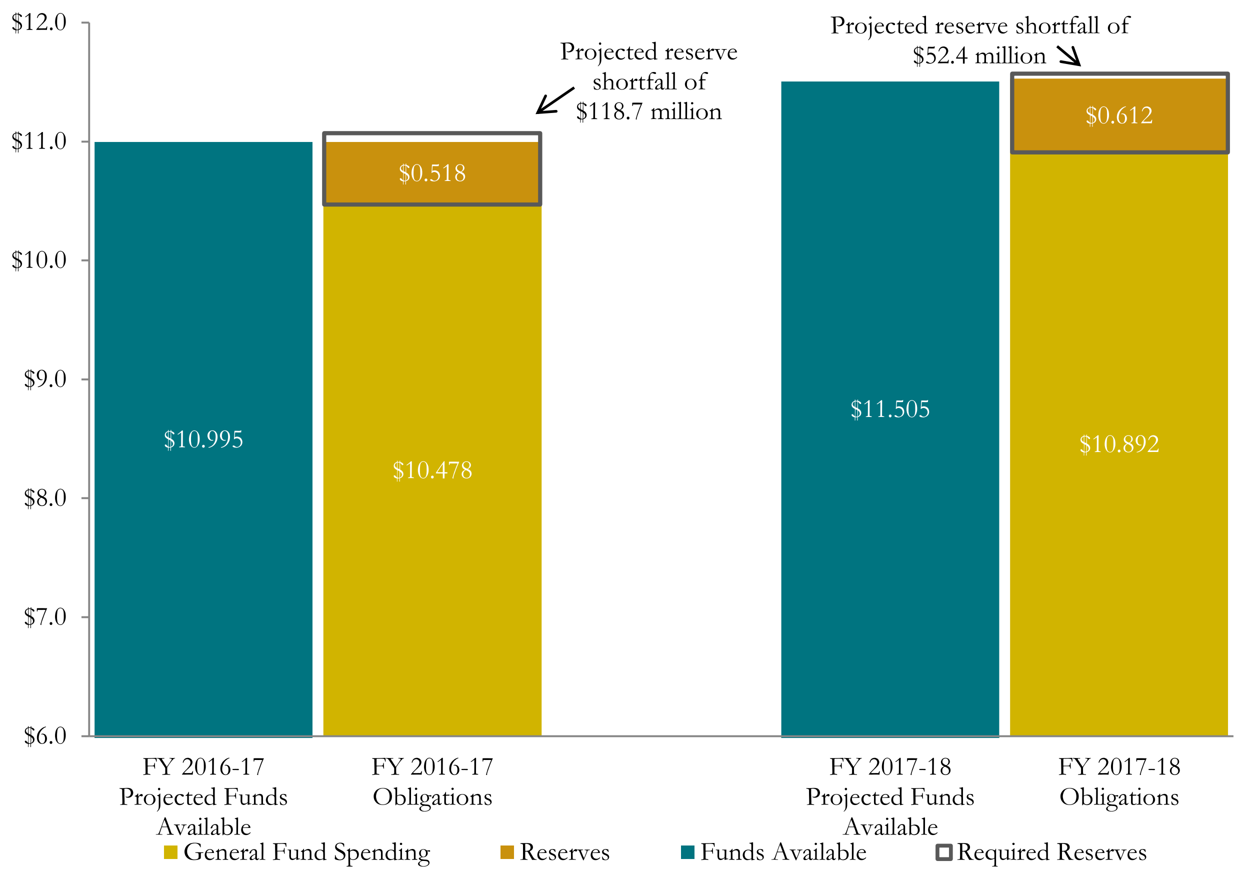



Source: Office of the State Controller and OSPB calculations

# General Fund and State Education Fund Budget

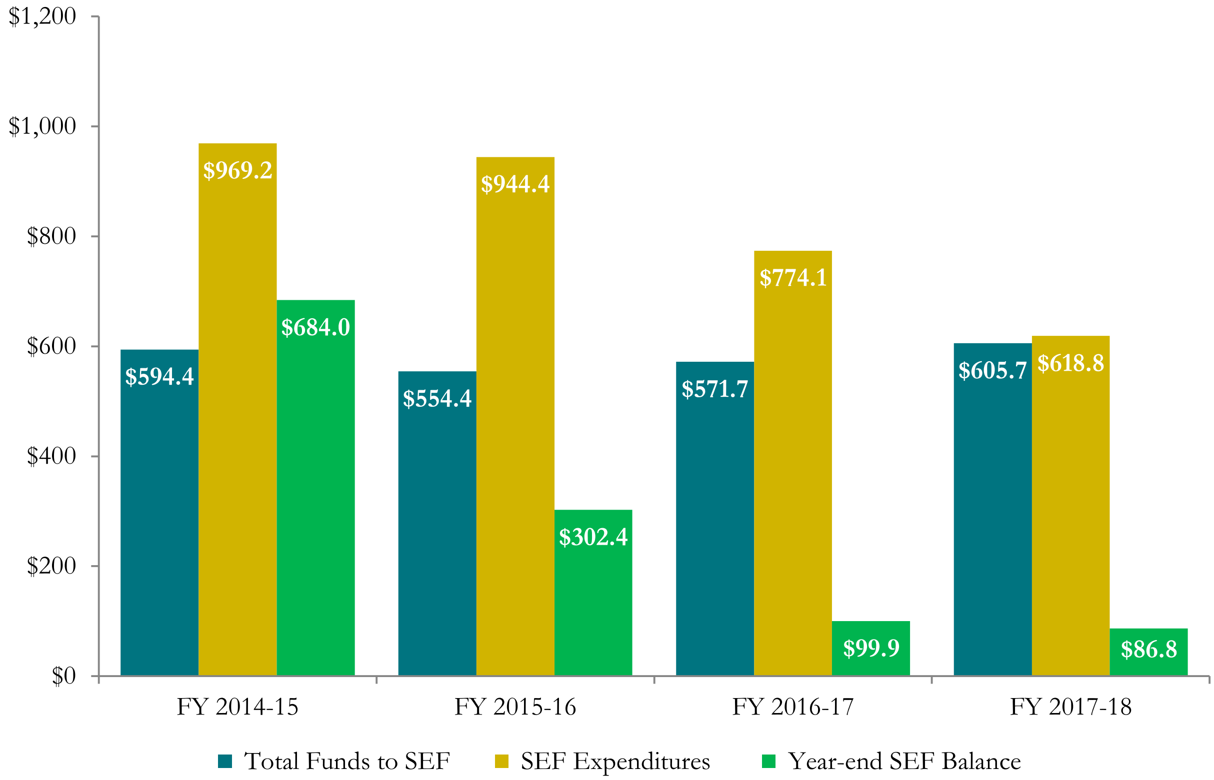
***General Fund*** – As discussed in the "General Fund Revenue Forecast" section starting on page 42, projections for General Fund revenue are essentially unchanged from the September forecast. The State's General Fund reserve ended FY 2015-16 $49.7 million above its required amount, based on preliminary figures. Under the Governor's November 2016 budget request, the State's General Fund reserve is projected to be $118.7 million below the current law required amount of 6.5 percent of appropriations in FY 2016-17, and $52.4 million below the reserve requirement in FY 2017-18. Figure 42 summarizes total General Fund revenue available, total spending, and reserve levels for FY 2016-17 and FY 2017-18 based on this forecast and the Governor's November 1, 2016 budget request. Amendments to the request will be submitted to the General Assembly in January 2017.

**Figure 42. General Fund Money, Spending, and Reserves under the Governor's Budget Request, $ in Billions**




***State Education Fund*** – The State Education Fund is supporting a larger share of education funding than it has historically, which is drawing down the fund balance. Figure 43 summarizes total State Education Fund revenue available, total spending, and balance levels from FY 2015-16 through FY 2017-18. In FY 2015-16, the year-end balance in the Fund dropped 55.8 percent from its level in FY 2014-15, and a larger drop of 66.9 percent is expected in FY 2016-17 when the projected balance will be just under $100 million.

**Figure 43. State Education Fund Money, Spending, and Reserves under the Governor's Budget Request*, $ in Millions**




*FY 2017-18 expenditures represent the Governor's November 2016 budget request. Actual expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections are illustrative only.

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

**Spending by Major Department or Program Area**

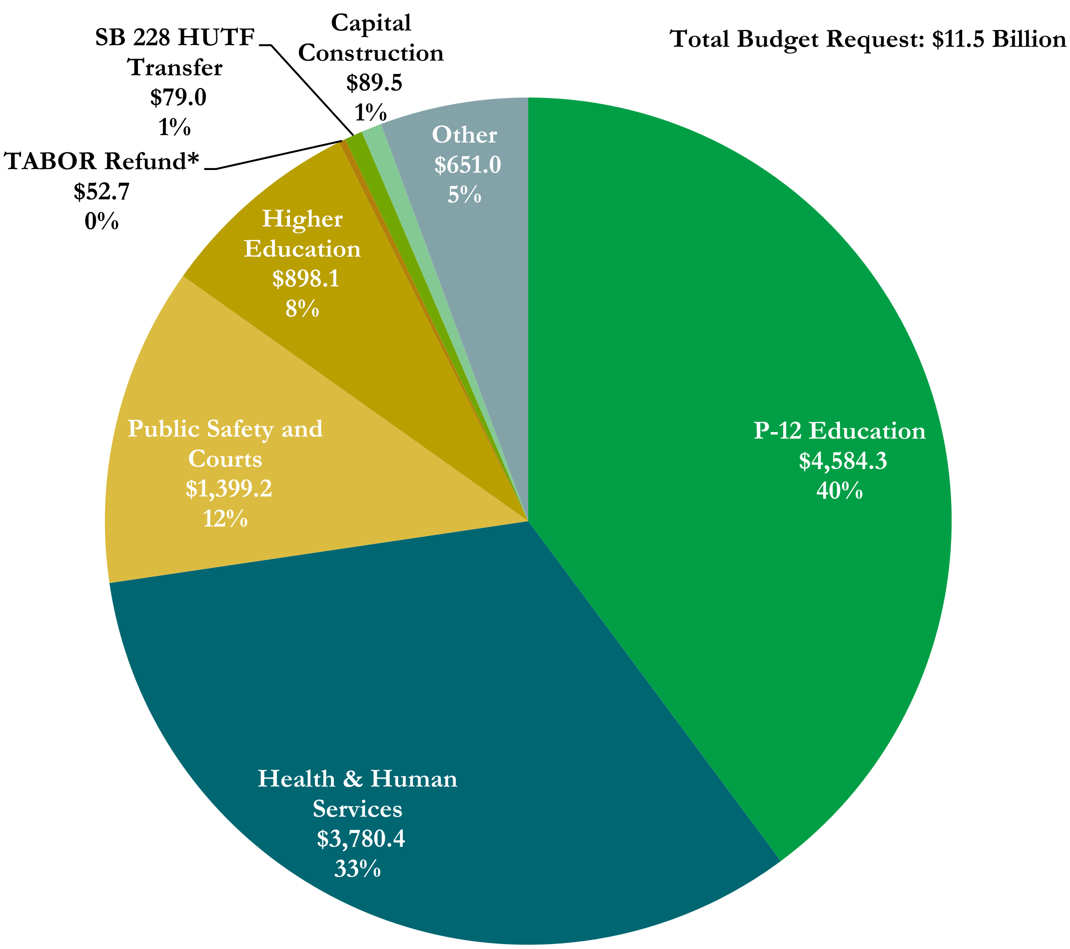
The General Fund provides funding for the State's core programs and services, such as preschool through 12th grade education, higher education, services for low-income populations, including the disabled and elderly, courts, and public safety. It also helps fund capital construction and maintenance needs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

Figure 44 shows the allocation of General Fund and State Education Fund spending for FY 2017-18 by major department or program area under the Governor's November 2016 budget request. As noted above, the current forecast projects reserves to be $52.4 million below the required General Fund reserve amount under the request. Under this forecast and the current law budget for FY 2016-17, meeting the required reserve amount for FY 2017-18 will allow only 1.1 percent growth in FY 2017-18 appropriations.

The November 1, 2016 budget request closed a $500 million dollar gap between available revenue and demands from existing programs. As noted in the General Fund revenue section, though revenue has recovered well in nominal terms, the inflation and per capita adjusted amount of money available in the General Fund is lower than it was in FY 2007-08. As a share of the economy, General Fund revenue is near its lowest value since at least FY 1990-91.

In Figure 44, the major areas of the General Fund and their share of the FY 2017-18 budget request are noted. Some 93 percent of General Fund and State Education Fund spending is found in the following areas: preschool-12th grade education, Medicaid and related costs at the Department of Health Care Policy and Financing, human services, public safety, the correctional system, courts, and higher education.

**Figure 44. Composition of Governor's FY 2017-18 General Fund and State Education Fund November Budget Request**




* $23.0 million of the TABOR refund are adjustments from prior years and are thus not new obligations; the total new refund obligation for FY 2017-18 amounts to $29.7 million.

***Risks to the Outlook and Budget Implications***

This budget outlook is based on OSPB's economic analysis and forecast, discussed in the section titled "The Economy: Issues, Trends, and Forecast," beginning on page 4. Changes in the Colorado economy determine revenue to the General Fund and State Education Fund. In addition to revenue, changes in economic conditions impact the budget outlook through associated changes in the use of many State services, including higher education, Medicaid, and other human services.

Colorado's economy has picked up in recent months and the expansion is expected to continue at a moderate pace. The contraction in the oil and gas industry appears to be over, and while industry activity remains modest, the absence of a decline in oil and gas spending and employment will help state economic growth. Colorado's labor market is among the strongest in the country. Nonetheless, risks to this outlook remain. Overall U.S. economic growth remains at relatively low levels, leaving the economy vulnerable to outside shocks. A large enough adverse shock that causes business, investors, and households to pullback investments could result in recessionary conditions. The Federal Reserve has signaled that they will continue to tighten monetary policy, which often contributes to a stronger U.S. dollar, which can adversely affect industrial production as it did starting in late 2014. Furthermore, deteriorating financial conditions surrounded previous monetary tightening. An economic downturn would cause State revenue to decline and have substantial impacts on the budget outlook. In times of weaker economic conditions State revenue falls and the use of government services increases as incomes decline, unemployment grows, and more people seek education and training to better their job prospects.

Even relatively small changes in the projected revenue growth rate can have important implications for the budget. For example, this forecast assumes that no TABOR refund obligation will occur for FY 2016-17, but revenue is projected to be $152.2 million, or 1.1 percent, below the Referendum C revenue cap. This amount is within typical forecast error. Furthermore, because TABOR refunds are paid out of the General Fund, fluctuations in cash fund revenue (outside of the General Fund) subject to TABOR can have a large impact on General Fund obligations. This forecast projects that revenue will exceed the TABOR cap in FY 2017-18. Cash fund revenue growth could be higher than expected in this forecast, causing a larger TABOR refund obligation than currently expected, which would reduce General Fund available for programs and services.

**General Fund Overview Table**

Table 4 in the Appendix presents the General Fund Overview for the December 2016 OSPB revenue forecast, providing details on forecasts for available General Fund money, expenditures, and end-of-year-reserves under the Governor's November budget request. The following section discusses the information presented in Table 4. To aid understanding, the discussion includes figures showing each section of the detailed overview found in the Appendix. For comparison purposes, the Appendix also includes Table 4a, which is a General Fund Overview under current law, without the Governor's November budget request. However, unless otherwise noted, all of the figures discussed below refer to Table 4.

**Revenue**

The top portion of the overview, shown in Figure 45, indicates the amount of General Fund money available for spending. The forecast for General Fund revenue is discussed in further detail in the "General Fund and State Education Fund Revenue Forecast" section starting on page 42. In addition to General Fund revenue, the General Fund receives money transferred from other State funds each fiscal year, although these transfers generally account for less than 1 percent of total revenue (shown in line 3 below).

The proposed policy changes shown in line 4 are from the Governor's November budget request. The FY 2016-17 $31.7 million amount is a proposed transfer to the General Fund from the restricted severance taxes established by SB 16-218. The proposed net transfer of $34.4 million in FY 2017-18 includes a $12.5 million transfer from the General Fund to the Disaster Emergency Fund for expenses related to the September 2013 floods, and a transfer of $46.9 million from the balance of the State Employee Reserve Fund into the General Fund.

**Figure 45. General Fund Revenue Available under the Governor's Budget Request (from Table 4 in Appendix), $ in Millions**

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|
| *1* | Beginning Balance | $689.6 | $513.5 | $517.7 |
| *2* | General Fund Revenue | $9,968.4 | $10,404.2 | $10,934.3 |
| *3* | Transfers to the General Fund | $24.1 | $45.9 | $18.3 |
| *4* | Proposed Policy Changes Affecting Funds Available | $0.0 | $31.7 | $34.4 |
| *5* | **Total General Funds Available** | **$10,682.1** | **$10,995.4** | **$11,504.8** |
| | *Dollar Change from Prior Year* | $378.8 | $313.2 | $509.4 |
| | *Percent Change from Prior Year* | 3.7% | 2.9% | 4.6% |

**Expenditures**

***Spending subject to the appropriations limit*** – The middle portion of the General Fund overview in Table 4 shows General Fund spending. Each year, the total of most General Fund spending cannot exceed 5 percent of the aggregate level of personal income received by Coloradans. This limit is projected to be $13.3 billion in FY 2016-17. Therefore, the General Fund appropriations shown in Figure 46 are $3.5 billion under the limit for FY 2016-17. The General Fund appropriation amounts for FY 2016-17 and FY 2017-18 reflect the Governor's budget request. These amounts may change based on future budgeting decisions and updates to the revenue forecast. Table 4a in the Appendix shows the General Fund overview under current law for comparison purposes. This table shows that under this forecast and the current law budget for FY 2016-17, meeting the required reserve amount for FY 2017-18 will allow only 1.1 percent growth, or an increase of $110.6 million, in FY 2017-18 appropriations subject to the limit.

**Figure 46. General Fund Spending Subject to the Appropriations Limit under the Governor's Budget Request (from Table 4 in Appendix), $ in Millions**

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|
| *6* | **Appropriations** | **$9,335.6** | **$9,837.3** | **$10,278.6** |
| *7* | Dollar Change from Prior Year | $466.6 | $501.7 | $441.3 |
| *8* | Percent Change from Prior Year | 5.3% | 5.4% | 4.5% |

***Spending not subject to the appropriations limit*** – Figure 47 summarizes General Fund spending that does not count under the General Fund appropriations limit. More information about each line item is presented below the table.

**Figure 47. General Fund Spending Not Subject to the Appropriations Limit under the Governor's Budget Request (from Table 4 in Appendix), $ in Millions**

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|
| 9 | **Total** | **$895.0** | **$640.4** | **$613.9** |
| | *Dollar Change from Prior Year* | $86.5 | -$254.7 | -$26.5 |
| | *Percent Change from Prior Year* | 10.7% | -28.5% | -4.1% |
| 10 | TABOR Refund under Art. X, Section 20, (7) (d) | $0.0 | $0.0 | $52.7 |
| 11 | Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c) | -$58.0 | $0.0 | $0.0 |
| | *Cigarette Rebate to Local Governments* | *$10.5* | *$9.6* | *$9.0* |
| | *Marijuana Rebate to Local Governments* | *$10.1* | *$13.3* | *$12.3* |
| | *Old-Age Pension Fund/Older Coloradans Fund* | *$118.3* | *$112.1* | *$117.5* |
| | *Aged Property Tax & Heating Credit* | *$9.3* | *$7.4* | *$7.3* |
| | *Homestead Exemption* | *$127.1* | *$144.2* | *$152.0* |
| | *Interest Payments for School Loans* | *$1.2* | *$1.2* | *$1.3* |
| | *Fire/Police Pensions* | *$3.7* | *$4.3* | *$4.3* |
| | *Amendment 35 General Fund Expenditure* | *$0.9* | *$0.8* | *$0.8* |
| 12 | **Total Rebates and Expenditures** | **$281.2** | **$292.9** | **$304.5** |
| 13 | Transfers to Capital Construction | $271.1 | $84.5 | $89.5 |
| 14 | Transfers to Highway Users Tax Fund | $199.2 | $79.0 | $79.0 |
| 15 | Transfers to State Education Fund per SB 13-234 | $25.3 | $25.3 | $25.3 |
| 16 | Transfers to Other Funds | $176.2 | $158.7 | $85.9 |
| 17 | Other | $0.0 | $0.0 | $0.0 |
| 20 | Reversions and Accounting Adjustments | -$62.0 | $0.0 | -$23.0 |

**Lines 10 and 11**: Revenue exceeded the Referendum C cap in FY 2014-15 and is projected to exceed the cap again in FY 2017-18. Spending not subject to the limit includes any TABOR refunds funded from the General Fund, which occur when State revenue exceeds its cap as defined in Article X, Section 20 (7) of the Colorado Constitution ("TABOR") and Section 24-77-103.6, C.R.S. ("Referendum C"). The projected TABOR refund shown in line 10 for FY 2017-18 incorporates the $195 million reduction in Hospital Provider Fee revenue under the Governor's November budget request. Without this revenue, a liability of $195 million is removed from the General Fund and this action helps close the $500 million gap described above.

The TABOR refund shown in line 10 for FY 2017-18 (as well as in line 9 in the General Fund overview under current law in Table 4a) is the amount of revenue projected to be refunded to taxpayers, including $23 million in outstanding refund obligations from prior years. These prior year adjustments include $19.6 million that needs to be refunded from FY 2014-15 due to a reclassification of revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund, as well as an estimated remaining $17.5 million of the required refund for FY 2014-15 that was not refunded via 2015 tax returns. In addition, the $23.0 million includes a reduction of $14.1 million in the FY 2014-15 refund obligation mostly due to a recent reclassification of Department of Public Safety revenue as exempt from TABOR. The following table illustrates these adjustments.

**Figure 48. Adjustments to 2017-18 TABOR Refund, $ in Millions**

| Projected FY 2017-18 TABOR Refund with Adjustments under Governor's Budget Request | |
|---|---|
| Revenue Above the Referendum C Cap | $29.7 |
| **Adjustments from Prior Fiscal Years** | |
| *Reclassification of Transfer to Adult Dental Fund* | $19.6 |
| *Reclassification of DPS Revenue* | -$14.1 |
| *Remaining Amount not Refunded from 2015 Tax Returns* | $17.5 |
| **Total Adjustments** | $23.0 |
| **Total Refund** | **$52.7** |

The $23.0 million in adjustments have already been accounted for in prior fiscal years in the General Fund overview — the $14.1 million reduction is included in the accounting adjustments line in the General Fund overview for FY 2015-16 (line 20), while the remaining amount was obligated as a TABOR refund in FY 2014-15. Therefore, because the $23.0 million portion of the FY 2017-18 TABOR refund is not a new obligation, it is shown as an accounting adjustment in line 20 in Table 4 (and line 19 in Table 4a). For more information on the TABOR refund, see the Taxpayer's Bill of Rights: Revenue Limit section in this report.

The -$58.0 million shown in line 11 for FY 2015-16 is a reversal of the $58 million set aside in FY 2014-15 by House Bill 15-1367 in a special account to cover a potential refund relating to the passage of Proposition AA, which created excise and sales taxes on retail marijuana. House Bill 15-1367 submitted Proposition BB to voters in November 2015 to ask if the State can retain and spend the money. Because voters approved Proposition BB, the State was able to use the money for the uses outlined in House Bill 15-1367.

**Line 12**: "Rebates and Expenditures" account for a large portion of General Fund spending not subject to the appropriations limit. The primary programs under rebates and expenditures are: (1) the Cigarette Rebate, which distributes money from a portion of State cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the Marijuana Rebate, which distributes 15 percent of the retail marijuana sales tax to local governments based on the percentage of retail marijuana sales in local areas; (3) the Old-Age Pension program, which provides assistance to low-income elderly individuals who meet certain eligibility requirements; (4) the Aged Property Tax, Heat, and Rent Credit, which provides property tax, heating bill, and rent assistance to qualifying low-income, disabled, or elderly individuals; and (5) the Homestead Property Tax Exemption, which reduces property-tax liabilities for qualifying seniors and disabled veterans.

**Lines 13 and 14**: Transfers to the Capital Construction Fund (CCF) and Highway Users Tax Fund (HUTF) are required if growth in statewide personal income exceeds 5 percent. This 5 percent trigger and the associated transfers are commonly referred to as "228" transfers because they were put into law by Senate Bill 09-228. Based on initial data reported by the U.S. Bureau of Economic Analysis, personal income growth exceeded 5 percent in the 2014 calendar year, which triggered the required transfers starting in FY 2015-16 through FY 2019-20. For Fiscal Years 2017-18 through 2019-20, the transfers are reduced by half if there is a TABOR refund in the same fiscal year in an amount between 1 and 3 percent of total General Fund revenue. The transfers are suspended in full if there is a TABOR refund in excess of 3 percent of total General Fund revenue.

Pursuant to House Bill 16-1416, the dollar amount of the transfers to the HUTF and CCF are at fixed amounts in FY 2015-16 and FY 2016-17 regardless of the level of any TABOR refund. The transfer amounts to the

HUTF are equal to $199.2 million in FY 2015-16 and $158.0 million in FY 2016-17 as shown in line 13 in Table 4a ("General Fund Overview under Current Law"). The transfer amounts to the CCF are $49.8 million in FY 2015-16 and $52.7 million in FY 2016-17.

According to current projections, transfers to the HUTF and CCF will be reduced by half in FY 2017-18 and FY 2018-19 because under current law the TABOR refund is expected to be 2.3 percent and 2.2 percent of total General Fund revenue, respectively. The SB 228 transfers to the HUTF are projected to be $109.3 million in FY 2017-18 and $115.0 million in FY 2018-19, as shown in line 13 in Table 4a "General Fund Overview under Current Law". However, the Governor's November budget request sets the FY 2017-18 HUTF transfer to a fixed amount of $79.0 million.

SB 228 transfers to the CCF are projected to be $54.7 million in FY 2017-18 and $57.5 million in FY 2018-19. However, the capital construction transfer amounts in FY 2015-16 through FY 2017-18 shown in line 12 also include transfers of General Fund money in addition to the SB 228 transfers and therefore the amounts shown in Line 12 differ from the amounts of money transferred related to SB 09-228. These additional transfer amounts are $221.3 million in FY 2015-16, $31.8 million in FY 2016-17, and $34.9 million in FY 2017-18. The FY 2016-17 capital construction transfer in line 12 reflects current law, while the FY 2017-18 transfer reflects the Governor's November budget request.

**Line 15**: Senate Bill 13-234 requires annual General Fund transfers to the State Education Fund from FY 2013-14 through FY 2018-19. The transfers in each fiscal year through FY 2017-18 are $25.3 million and $25.0 million in FY 2018-19.

**Line 16**: State law requires transfers of General Fund money to various other State cash funds. Generally, the largest transfer in this line is money from the 10 percent special sales tax on retail marijuana (reduced to 8 percent starting in FY 2017-18) credited to the General Fund, 85 percent of which is transferred to the Marijuana Tax Cash Fund. For FY 2015-16 only, $40.0 million of the "Transfer to Other Funds" amount is a transfer to public school capital construction related to the passage of Proposition BB.

The FY 2015-16 and FY 2016-17 amounts also include a diversion of income tax revenue out of the General Fund to a separate severance tax fund pursuant to Senate Bill 16-218. This bill was passed in response to the April 2016 Colorado Supreme Court's decision in *BP America v. Colorado Department of Revenue* that allows for taxpayers to claim additional severance tax deductions. Senate Bill 16-218 creates a reserve fund and diverts income tax revenue to the fund to help pay the refunds. However, the legislation does not distinguish between severance tax refunds related to the court decision and severance tax refunds that would have occurred regardless of the decision. For FY 2015-16, $56.8 million in income tax revenue was diverted to the aforementioned reserve fund to pay for severance tax refunds. This forecast projects that about $54.0 million in income tax revenue will be diverted from the General Fund to the reserve fund to pay severance tax refunds in FY 2016-17. More discussion on Senate Bill 16-218 and the impacts of the court decision can be found starting on page 62 in this report's section discussing the cash fund revenue forecast.

**Line 17**: This line includes any expenditures for certain programs that have exceeded their appropriated amount for a fiscal year, called "overexpenditures."

**Line 20:** This line includes any General Fund money that was not expended out of appropriations each fiscal year that was "reverted" back to the General Fund. It also includes various accounting adjustments made by the State Controller's office each year. For example, a portion of the FY 2015-16 adjustment includes the reduction of $14.1 million in the FY 2014-15 refund obligation mostly due to a recent reclassification of Department of Public Safety revenue as exempt from TABOR. For FY 2017-18, the -$23.0 million adjustment accounts for TABOR refund amounts that were already obligated in prior fiscal years as discussed above and in the Taxpayer's Bill of Rights: Revenue Limit section in this report.

**Reserves**

The final section of the overview table in the Appendix ("Reserves") shows the amount of General Fund money remaining at the end of each fiscal year — the "Year-End General Fund Balance." This amount reflects the difference between total funds available and total expenditures. The section shows the statutorily determined reserve requirement and whether the amount of funds is above or below the requirement, titled, "Money Above/Below Statutory Reserve" in the General Fund overview.

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

For FY 2015-16, the State's General Fund reserve ended $49.7 million above the required amount. The FY 2016-17 ending balance is projected by this forecast to be $118.7 million below the required reserve level under the Governor's November budget request. This amount is not sufficiently enough below the required reserve to trigger budget-balancing actions by the Governor. The Governor is required to take such actions when the ending balance is projected to be under half of its required amount. For FY 2016-17, half of the required reserve amounts to $318.2 million, or $199.5 million lower than the currently projected balance. The FY 2017-18 reserve amount in the table represents the reserve level associated with the Governor's November 2016 budget request. As shown, the ending General Fund balance is $52.4 million below the required amount of 6.5 percent of appropriations.

Starting in FY 2015-16, General Fund appropriations for "lease-purchase" payments, called Certificates of Participation, for certain capital projects were made exempt from the reserve calculation requirement by Senate Bill 15-251. These appropriations amount to $37.8 million in FY 2015-16 and $46.0 million in FY 2016-17. Figure 49 provides information on the General Fund ending balance.

**Figure 49. General Fund Reserves under the Governor's Budget Request (from Table 4 in Appendix), $ in Millions**

| Table 4 Line No. | | FY 2015-16 | FY 2016-17 | FY 2017-18 |
|---|---|---|---|---|
| *21* | Year-End General Fund Balance | $513.5 | $517.7 | $612.4 |
| *22* | Balance as a % of Appropriations | 5.5% | 5.3% | 6.0% |
| *23* | **General Fund Statutory Reserve** | **$463.9** | **$636.4** | **$664.8** |
| *24* | Money Above/Below Statutory Reserve | $49.7 | -$118.7 | -$52.4 |

**State Education Fund Overview**

Figure 50 summarizes State Education Fund annual revenue and spending. It also includes projected beginning and ending fund balances. As the figure shows, reduced funding to the State Education Fund as well as higher appropriations have lowered the available balance. By the end of FY 2016-17, the ending balance is projected to be about $100 million, a decrease of more than $200 million from its level a year earlier.

State Education Fund expenditures for FY 2016-17 reflect current law, and the FY 2017-18 amount reflects the Governor's November 2016 budget request.

**Figure 50. State Education Fund Revenue, Spending, and Reserves under the Governor's Budget Request,* $ in Millions**

| State Education Fund ($ in Millions) | | | |
|---|---|---|---|
| | FY 2015-16 | FY 2016-17 | FY 2017-18 |
| *One-third of 1% of State Taxable Income* | *$522.6* | *$540.7* | *$574.4* |
| *Transfers under SB 13-234* | *$25.9* | *$25.3* | *$25.3* |
| *Other* | *$6.0* | *$5.7* | *$6.0* |
| **Total Funds to State Education Fund** | **$554.4** | **$571.7** | **$605.7** |
| **State Education Fund Expenditures** | **$944.4** | **$774.1** | **$618.8** |
| **Year-end Balance** | **$302.4** | **$99.9** | **$86.8** |

*Actual expenditures from the State Education Fund will be adopted in future budget legislation. Therefore, the expenditures and fund balance projections are illustrative only.

The State Education Fund plays an important role in the State's General Fund budget. Under the state constitution, the State Education Fund helps fund preschool through 12th-grade education, the largest General Fund program. Therefore, higher or lower spending from the State Education Fund generally affects General Fund appropriations in order to support the targeted level of school funding. Decisions in one year affect the range of choices in the next year because they impact the available balance in the State Education Fund for future spending and General Fund availability for other programs.

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

# Cash Fund Revenue Forecast

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

Cash fund revenue in FY 2016-17 is projected to be $154.7 million, or 5.2 percent, lower than FY 2015-16, as a projected decrease in revenue from the Hospital Provider Fee and miscellaneous cash funds will offset modest growth in revenue from many of the other major categories of cash funds. However, the forecast for FY 2016-17 is $15.5 million, or 0.6 percent, higher than projections from the September forecast. This adjustment is due in large part to higher-than-projected revenue to miscellaneous cash funds received in the first four months of the fiscal year.

Cash fund revenue will increase 15.0 percent in FY 2017-18 as the budget restriction on the Hospital Provider Fee expires and severance tax revenue increases. If the Governor's November budget request is approved, the projected increase in cash fund revenue would be $195 million lower than indicated here as it includes another restriction on Hospital Provider Fee revenue for FY 2017-18. Growth in other major categories of cash funds also contributes to this increase. The forecast for FY 2017-18 is $33.4 million, or 1.0 percent, higher compared with projections in September, driven primarily by expectations for higher revenue collections for miscellaneous cash funds.

Table 6 shows only the outlook for revenue that is subject to the TABOR provisions in the Colorado Constitution that place a limit on the amount of revenue that can be retained by the state each year. Cash fund revenue that is not subject to TABOR generally includes revenue exempt by Colorado voters, federal money, and revenue received by entities designated as enterprises, such as public universities and colleges, that receive most of their money from sources other than the state. More information on TABOR revenue and the revenue limit can be found on page 68.

Although Unemployment Insurance program revenue is not subject to TABOR, the end of this section contains a discussion of the program's long-term solvency.

***Transportation-related cash funds*** **–** Transportation-related cash fund revenue is forecast to grow 1.6 percent in FY 2016-17 and 2.0 percent in FY 2017-18. This is 0.1 percentage point higher than the September forecast in both years.

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

More than 75 percent of motor fuel tax revenue comes from state gasoline taxes, which have been 22 cents per gallon in Colorado since 1991. Fuel tax revenues to HUTF have averaged 0.1 percent growth per year over the last 10 years, and have averaged about 2 percent in expansion years. As the economy continues to expand, this growth is expected to continue at a slightly slowing rate, as increasingly fuel-efficient vehicles consume fewer gallons of gasoline and reduce fuel tax collections.

Vehicle registration revenue is driven primarily by auto sales, which have been growing steadily since the end of the Great Recession in 2009. As the pent-up demand experienced since the recession decreases, new auto sales are expected to flatten, but remain at a high level. Used vehicle sales may supplant some new sales as the boom in leasing, which began several years ago, results in a large number of previously leased vehicles entering the used vehicle market. As registration fees are based largely on vehicle age and weight, the continuing shift in consumer preference towards heavier SUVs and light trucks should offset any registration revenue lost due to the expected lower growth of new vehicle sales. This trend is also expected to contribute to increased revenue from vehicle fuel taxes. As a result of these trends, HUTF revenue growth is expected to average 1.9 percent over the next three fiscal years.

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

### Figure 51. Transportation Funds Forecast by Source

| Transportation Funds Revenue | Actual FY 15-16 | Forecast FY 16-17 | Forecast FY 17-18 | Forecast FY 18-19 |
|---|---|---|---|---|
| **Highway Users Tax Fund (HUTF)** | | | | |
| Motor and Special Fuel Taxes | **$609.7** | **$626.3** | **$630.0** | **$642.8** |
| Change | 2.1% | 2.7% | 0.6% | 2.0% |
| Total Registrations | **$242.6** | **$250.6** | **$255.4** | **$261.8** |
| Change | 2.6% | 3.3% | 1.9% | 2.5% |
| Other HUTF Receipts | **$177.9** | **$180.8** | **$182.5** | **$186.6** |
| Change | 2.7% | 1.6% | 0.9% | 2.2% |
| | | | | |
| **Total HUTF** | **$1,030.2** | **$1,057.7** | **$1,068.0** | **$1,091.2** |
| Change | 2.3% | 2.7% | 1.0% | 2.2% |
| | | | | |
| **State Highway Fund** | **$52.2** | **$35.8** | **$47.6** | **$49.4** |
| Change | 23.1% | -31.4% | 33.0% | 3.7% |
| | | | | |
| **Other Transportation Funds** | **$98.8** | **$110.9** | **$114.9** | **$116.7** |
| Change | -7.6% | 12.3% | 3.6% | 1.5% |
| | | | | |
| **Total Transportation Funds*** | **$1,184.7** | **$1,203.1** | **$1,226.9** | **$1,249.3** |
| Change | 2.2% | 1.9% | 2.0% | 1.8% |

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

***Limited Gaming*** **—** Limited gaming revenue is forecast to grow by $5.2 million, or 4.4 percent, to $123.3 million in FY 2016-17 after increasing 6.0 percent in FY 2015-16. Revenue from gaming in FY 2017-18 will grow an additional $4.2 million, or 3.4 percent, to $127.4 million.

The Colorado gaming industry has only gradually recovered from the Great Recession, with FY 2016-17 limited gaming revenue finally expected to surpass its pre-recession peak of $122 million in FY 2006-07. Continued economic growth is expected to contribute to continued increases in limited gaming revenue over the forecast period.

Of the total expected limited gaming revenue of $123.3 million in FY 2016-17, $105.9 million will be subject to TABOR, as reflected in Figure 52. Of this amount, $104.0 million is classified as "base limited gaming revenue" as designated by State law after the passage of Amendment 50 in 2008. This revenue is distributed by statutory formula to the State General Fund, the State Historical Society, cities and counties affected by gaming activity, and economic development-related programs.

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

Gaming revenue attributable to Amendment 50, which is not subject to TABOR, is distributed mostly to community colleges, with a smaller portion going to local governments with communities affected by gaming. These distributions will grow along with overall gaming revenue, totaling $14.4 million and $15.2 million in FY 2016-17 and FY 2017-18, respectively. Figure 52 shows the distribution of limited gaming revenues in further detail.

### Figure 52. Distribution of Limited Gaming Revenues

| Distribution of Limited Gaming Revenues | Actual FY 15-16 | Forecast FY 16-17 | Forecast FY 17-18 | Forecast FY 18-19 |
|---|---|---|---|---|
| **A. Total Limited Gaming Revenues** | **$118.0** | **$123.3** | **$127.4** | **$131.8** |
| Annual Percent Change | 6.0% | 4.4% | 3.4% | 3.4% |
| | | | | |
| **B. Base Limited Gaming Revenues (max 3% growth)** | **$101.0** | **$104.0** | **$107.2** | **$110.4** |
| Annual Percent Change | 3.0% | 3.0% | 3.0% | 3.0% |
| | | | | |
| **C. Gaming Revenue Subject to TABOR** | **$102.8** | **$105.9** | **$109.1** | **$112.3** |
| Annual Percent Change | 3.5% | 3.0% | 3.0% | 3.0% |
| | | | | |
| **D. Total Amount to Base Revenue Recipients** | **$91.1** | **$94.5** | **$96.9** | **$100.3** |
| Amount to State Historical Society | $25.5 | $26.5 | $27.1 | $28.1 |
| Amount to Counties | $10.9 | $11.3 | $11.6 | $12.0 |
| Amount to Cities | $9.1 | $9.4 | $9.7 | $10.0 |
| Amount to Distribute to Remaining Programs (State Share) | $45.6 | $47.2 | $48.4 | $50.1 |
| Amount to Local Government Impact Fund | $5.0 | $5.0 | $5.0 | $5.0 |
| Colorado Tourism Promotion Fund | $15.0 | $15.0 | $15.0 | $15.0 |
| Creative Industries Cash Fund | $2.0 | $2.0 | $2.0 | $2.0 |
| Film, Television, and Media Operational Account | $0.5 | $0.5 | $0.5 | $0.5 |
| Advanced Industries Acceleration Fund | $5.5 | $5.5 | $5.5 | $5.5 |
| Innovative Higher Education Research Fund | $2.1 | $2.1 | $2.1 | $2.1 |
| Transfer to the General Fund | $15.5 | $17.1 | $18.3 | $20.0 |
| | | | | |
| **E. Total Amount to Amendment 50 Revenue Recipients** | **$12.5** | **$14.4** | **$15.2** | **$16.2** |
| Community Colleges, Mesa and Adams State (78%) | $9.8 | $11.2 | $11.9 | $12.6 |
| Counties (12%) | $1.5 | $1.7 | $1.8 | $1.9 |
| Cities (10%) | $1.3 | $1.4 | $1.5 | $1.6 |

***Hospital Provider Fee*—** Hospital Provider Fee (HPF) revenue is expected to decrease 18.3 percent, or $147.4 million, to $656.6 million in FY 2016-17. A large portion of this decrease is due to a limit on Hospital Provider Fee revenue adopted for the FY 2016-17 budget under HB 16-1405 that reduced collections by $73.1 million. Under current law, HPF revenue will then increase 31.7 percent, or by $208.1 million, to $864.7 million in FY

2017-18. The forecasts for FY 2016-17 and FY 2017-18 are unchanged compared with projections in September. Please note the Governor's November budget request includes another restriction on Hospital Provider Fee revenue in FY 2017-18 that reduces collections by $195 million. This restriction is not reflected in Table 6 in the Appendix.

The projections for HPF revenue are influenced by federal funding levels associated with the Affordable Care Act as well as changes in the population receiving medical care support under the Medicaid program. The Hospital Provider Fee is paid by Colorado hospitals and is used, together with matching federal funds, to help cover the cost of the Medicaid program. The amount of Hospital Provider Fee collected each year is calculated by a formula that considers the anticipated cost of care for certain Medicaid populations with each hospital's individual fee allocation based on inpatient days and outpatient revenue.

***Severance tax revenue*** **—** Severance tax revenue will increase 101.9 percent, or $19.3 million, to $38.2 million in FY 2016-17. The ad valorem tax credit for State severance taxes is a contributing factor to the low level in revenue collections, as is the relatively low level of oil and natural gas prices. Severance tax collections in FY 2017-18 are expected to rebound with gradually rising oil and gas prices and reduced ad valorem credits. Total severance tax revenue will increase to $174.2 million in FY 2017-18.

The level of oil and natural gas prices are the primary determinant of severance tax collection levels. After falling below $30 a barrel earlier this year, the West Texas Intermediate crude oil price hovered in the mid- to upper- $40's a barrel through the summer and fall of 2016. Prices are likely to rise slowly and reach $60 a barrel by the end of 2017; low natural gas prices are expected to rise slightly faster. The ongoing imbalance between the high levels of supply in relation to weakened demand is expected to take time to unwind. Although, the recent OPEC agreement to limit production is expected to accelerate supply and demand rebalancing, continued modest increases in demand combined with large supply levels are expected to prevent prices from rising at a stronger rate.

**Severance tax revenue will increase to $38.2 million in FY 2016-17. Severance tax collections will rebound to $174.2 million in FY 2017-18 due to continued increases in oil and gas prices and lower ad valorem credits.**

There is a high degree of uncertainty in the trajectory of oil and gas prices as the world energy market is subject to international political developments and other difficult-to-predict factors. Therefore, the actual amount of severance tax revenue could materially differ from this forecast depending on the direction of future energy prices. More discussion of the oil and gas industry is included in "The Economy: Issues, Trends, and Forecast" section of this forecast, which starts on page 4.

In addition to persistent low oil and gas prices, ad valorem tax credits are weighing on State severance tax revenue. Severance taxpayers claim ad valorem tax credits based on the local property taxes they pay on the value of mineral extraction in the prior year. The impact of these credits was especially pronounced in FY 2015-16, when the incomes of taxpayers, and thus their tax liabilities, were greatly reduced due to plummeting energy prices. At the same time, large ad valorem credits were being claimed that were based on a much higher value of oil and gas production from the prior year. In some cases, the difference in the size of the ad valorem credit in relation to gross severance tax liabilities caused net tax liabilities to fall to zero.

For FY 2016-17, gross liabilities will remain low due to persistent soft energy prices and decreased oil and gas production, but ad valorem credits will be smaller than the previous year, causing severance tax revenue to increase modestly. Higher oil and gas prices in 2017, combined with reduced ad valorem credits from the current low oil and gas values will cause severance tax revenue to rebound to a greater extent in FY 2017-18.

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

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

Senate Bill 16-218 also placed a restriction on $77.4 million on severance tax money allocated to the Department of Natural Resources (DNR) and the Department of Local Affairs (DOLA), preventing the money from being expended in case the money is needed to help cover the refunds. The restriction can be lifted in whole or in part upon a majority vote of the members of the Joint Budget Committee. In August, the Joint Budget Committee voted to release $19.9 million of the amount to DOLA. As such, $57.5 million remains restricted pursuant to Senate Bill 16-218. The Governor's November budget request proposes transferring an additional $31.7 million of the restricted funds into the General Fund.

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

Also under Senate Bill 16-218, in FY 2016-17, during any month in which severance tax refunds are larger than 15 percent of gross severance revenue, income tax is diverted to the reserve to pay the portion of the refund amount that exceeds the 15 percent threshold. This forecast assumes that $54.0 million in income taxes will be diverted from the General Fund to the reserve fund to cover severance tax refunds paid out in FY 2016-17. This amount is also included in the "Transfers to Other Funds" line in Table 4 in the Appendix. Therefore, a total of $110.8 million in General Fund is projected to be used to cover severance tax refunds under Senate Bill 16-218 over FY 2015-16 and FY 2016-17. The amount over both years includes refunds resulting from taxpayers claiming additional tax deductions as a result of the court ruling, but also refunds from large ad valorem credits and reduced severance tax liabilities from the low oil and gas price environment. The amount of refunds projected to be covered by the General Fund may change materially in subsequent forecasts as new information becomes available.

The above refund amounts are related to past tax year impacts of the Supreme Court ruling. Taxpayers will also claim more deductions for future tax years, which will reduce severance tax collections on an ongoing basis. This forecast assumes that the additional deductions will reduce annual severance tax collections by roughly 10 percent each year. However, the estimated amount of the reduction to ongoing severance tax revenue in the future may change materially as more information becomes available regarding the revenue impacts of the deductions.

***Federal Mineral Leasing revenue* —** Colorado's share of Federal Mineral Lease (FML) revenue will fall 6.6 percent to $86.7 million in FY 2016-17. FML revenue continues to be weak due to ongoing low energy prices. In addition, the refund of FML "bonus" payments to mineral extraction leaseholders on the Roan Plateau is causing reduced collections. As commodity prices gradually increase, FML revenue is expected to rebound modestly, increasing 16.2 percent to $100.8 million in FY 2017-18. The impact of lower energy prices on FML revenue is much smaller than the impact on severance taxes because the revenue stream is not affected by the ad valorem tax credits that impact severance tax gross liabilities. Note that while FML revenue is exempt from TABOR, it is included here because of its effect on school finance.

FML royalties are derived from a percentage of the value of resources produced on leased federal lands. FML activity includes production of natural gas and oil as well as propane, carbon dioxide, coal, and other mineral resources. The Bureau of Land Management (BLM) sells leases to extract mineral resources from federal lands. Producers then remit royalties and other payments to the federal government that are shared with the state where production occurred.

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

A portion of the reduced levels in FML revenue in FY 2015-16 through FY 2017-18 are a result of refunds to holders of cancelled leases on land for mineral extraction on the Roan Plateau in Colorado. The BLM carried out auctions for leases to produce natural gas on the Roan Plateau in 2008, collecting significant "bonus" payments. The BLM later revisited these leases and determined a need to re-negotiate or cancel several of them. As a result, the Bureau is refunding nearly $50 million of the bonus payments that were originally made.

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

**Figure 53. Federal Mineral Leasing (FML) Payments, $ in Millions**

| Fiscal Year | Bonus Payments | Non-Bonus Payments | Total FML | % Change |
|---|---|---|---|---|
| FY 2015-16 | $6.7 | $86.1 | $92.9 | -36.0% |
| FY 2016-17 | $1.7 | $85.0 | $86.7 | -6.6% |
| FY 2017-18 | $2.0 | $98.8 | $100.8 | 16.2% |
| FY 2018-19 | $2.1 | $114.2 | $116.3 | 15.4% |

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

***Other cash funds* —** Cash fund revenue to the Department of Regulatory Agencies (DORA) will increase 4.2 percent to $71.7 million in FY 2016-17 after increasing 4.8 percent in FY 2015-16. This revenue source will grow another 2.4 percent to $73.4 million in FY 2017-18. DORA oversees businesses and professionals in certain industries through licensing, rulemaking, enforcement, and approval of rates charged to consumers. The Department is responsible for oversight of a wide variety of professions, ranging from psychologists to hunting guides. Revenue from licensing fees and other services fund many of the Department's activities.

Insurance-related cash fund revenue is obtained largely from a surcharge on workers' compensation insurance programs. Revenue from this source will increase 18.2 percent to $13.5 million in FY 2016-17. Insurance-related cash fund revenue decreased by 42.7 percent to $11.4 million in FY 2015-16 as a result of a reduction in the surcharge used to fund the Division of Workers' Compensation (DOWC), as well as the Major Medical Insurance Fund and Subsequent Injury Fund. These funds were created to absorb costs for workers injured prior to 1981. Each year, the DOWC is required to perform a review to determine the funding needed to operate its programs.

The category called Other Miscellaneous Cash Funds in Table 6 includes revenue from over 300 cash funds that generally collect revenue from fines, fees, and interest earnings. However, approximately 75 percent of the revenue comes from the largest 30 funds. These larger funds include the Employment Support Fund, Medicaid Nursing Facility Cash Fund, and the Marijuana Tax Cash Fund.

Total revenue to miscellaneous cash funds is expected to be $725.6 million in FY 2016-17, a decrease of 6.8 percent, after growth of 27.1 percent the prior year. The FY 2016-17 projection is $24.4 million higher than the September forecast, due mostly to higher-than-projected revenue to miscellaneous cash funds received in the first four months of the fiscal year. Revenue to these funds is expected to increase 7.2 percent in FY 2017-18.

The 27.1 percent growth in FY 2015-16 revenue was driven by two main factors. First, Ft. Lewis College and Western State Colorado University were disqualified as enterprises due to receiving more than 10 percent of their funding from the State, making the revenue they received in FY 2015-16, $43.1 million, subject to TABOR. Secondly, the shifting forward of revenue transferred from the Unclaimed Property Fund to the Adult Dental Fund caused the large increase in miscellaneous cash funds. The transfer that was slated to occur in FY 2016-17 was instead transferred in FY 2015-16, as per House Bill 16-1409, increasing FY 2015-16 revenue by $34.8 million and decreasing the revenue estimate in FY 2016-17 by the same amount. The shifting of this transfer from FY 2016-17 will reduce revenue to miscellaneous cash funds in FY 2016-17, as will the assumption that Ft. Lewis College and Western State Colorado University will regain their enterprise status and no longer be subject to TABOR.

Revenue from the 2.9 percent sales tax on retail and medical marijuana, as well as fees related to regulation of the marijuana industry, is reflected in the miscellaneous cash funds category in Table 6. However, the table does not include the proceeds from marijuana taxes authorized by Proposition AA in November 2013 as they are not subject to TABOR. Proposition AA taxes are transferred to the Marijuana Tax Cash Fund, local governments, and school construction. Revenue from these taxes, along with revenue from the 2.9 percent sales tax, are shown in Figure 54.

Revenue from the retail marijuana sales tax in Proposition AA goes first to the General Fund — and is included under sales tax revenue in Table 3 in the Appendix — before it is transferred to the Marijuana Tax Cash Fund and local governments. Proposition AA also included an excise tax of 15 percent on retail marijuana that is credited to public school cash funds, a majority of which goes to a cash fund for public school capital construction projects.

**Figure 54. Tax Revenue from the Marijuana Industry**

| Tax Revenue from the Marijuana Industry | Actual FY 15-16 | Forecast FY 16-17 | Forecast FY 17-18 | Forecast FY 18-19 |
|---|---|---|---|---|
| **Proposition AA Taxes** | | | | |
| Retail Marijuana 10% Special Sales Tax (State and Local) | $67.1 | $89.0 | $81.9 | $88.0 |
| Retail Marijuana 15% Excise Tax | $42.6 | $62.6 | $74.8 | $82.0 |
| **Total Proposition AA Taxes** | **$109.7** | **$151.6** | **$156.6** | **$170.1** |
| | | | | |
| **2.9% Sales Tax (Subject to TABOR)** | | | | |
| Medical Marijuana 2.90% State Sales Tax | $12.2 | $13.2 | $13.7 | $14.0 |
| Retail Marijuana 2.90% State Sales Tax | $19.4 | $25.9 | $29.7 | $31.9 |
| **Total 2.9% Sales Taxes** | **$31.6** | **$39.0** | **$43.4** | **$45.9** |
| | | | | |
| **Total Marijuana Taxes** | **$141.3** | **$190.6** | **$200.1** | **$216.0** |

Source: Colorado Department of Revenue

**Solvency of the Unemployment Insurance Program**

One of the State's largest cash-funded programs is the unemployment insurance (UI) program, which provides temporary income support to individuals who are laid off through no fault of their own. The program is administered by the Colorado Department of Labor and Employment (CDLE). Most of the revenue collected for the program, credited to the UI Trust Fund, is not subject to TABOR pursuant to House Bill 09-1363, which made the program an enterprise. Although UI program revenue is not included under TABOR revenue, this forecast contains an analysis of the program due to concerns over the UI Trust Fund's solvency.

***Background on the program*** **—** UI benefits paid to laid off workers are funded through state UI premiums and surcharges, as well as federal UI taxes, paid by Colorado employers. Premium rates are in part based on the layoff history of an employer. Businesses that have had fewer layoffs have lower rates than those with many layoffs. Premium rates and surcharges also depend on the solvency of the UI trust fund — rates are lower with stronger fund reserves, while they increase when the fund reserves fall, which typically occurs during and after recessions. In addition, a solvency surcharge may trigger on when the fund falls below a certain level which also increases employer costs. Furthermore, employers have to pay additional charges to repay the principal and interest if the fund becomes insolvent and has to borrow.

UI premiums and charges are paid by employers on a portion of wages paid to employees, called the taxable wage base. Currently, the taxable wage base in Colorado is the first $12,200 of an employee's wages. The taxable wage base increases with growth in wages paid in the state each year. When the General Assembly raised the taxable wage base to $10,000 in 1988, the wage base was about 47 percent of average annual wages. Currently, the wage base is about 22 percent of average annual wages. Colorado's wage base ranks among the lower-third of all states.

***The UI Trust Fund's balance is currently below target levels*** **—**The UI Trust Fund's balance is currently below target levels established by both CDLE and the U.S. Department of Labor (USDOL). The UI Trust Fund solvency ratio is the fund's balance on June 30 of each year compared with the preceding calendar year's total wages paid to private sector workers. CDLE currently considers a solvency ratio of 1.4 percent to be the target level to be at when entering recession. The current UI Trust Fund's solvency ratio is only about 0.6 percent, or below half the target. Under current law, even with continued economic expansion through 2021, the fund will fall considerably short of meeting this target. As a result of this current and projected shortfall, CDLE has established a UI Trust Fund Solvency Committee composed of a diverse group of Department stakeholders to discuss what wage base would be required to substantially bolster long-term fund solvency.

***CDLE proposal to improve long term solvency of the fund*** **—** CDLE has developed a proposal to increase the taxable wage base to allow the trust fund to get close to the 1.4 percent solvency ratio and exceed the USDOL's standard by 2021. This is important for two reasons: 1) states that meet the USDOL standard become eligible for short-term interest free borrowing from the U.S. Treasury in the future, and 2) a 1.4 percent solvency ratio is the lowest employer premium rate schedule under Colorado law; a higher fund balance triggers lower rates for employers.

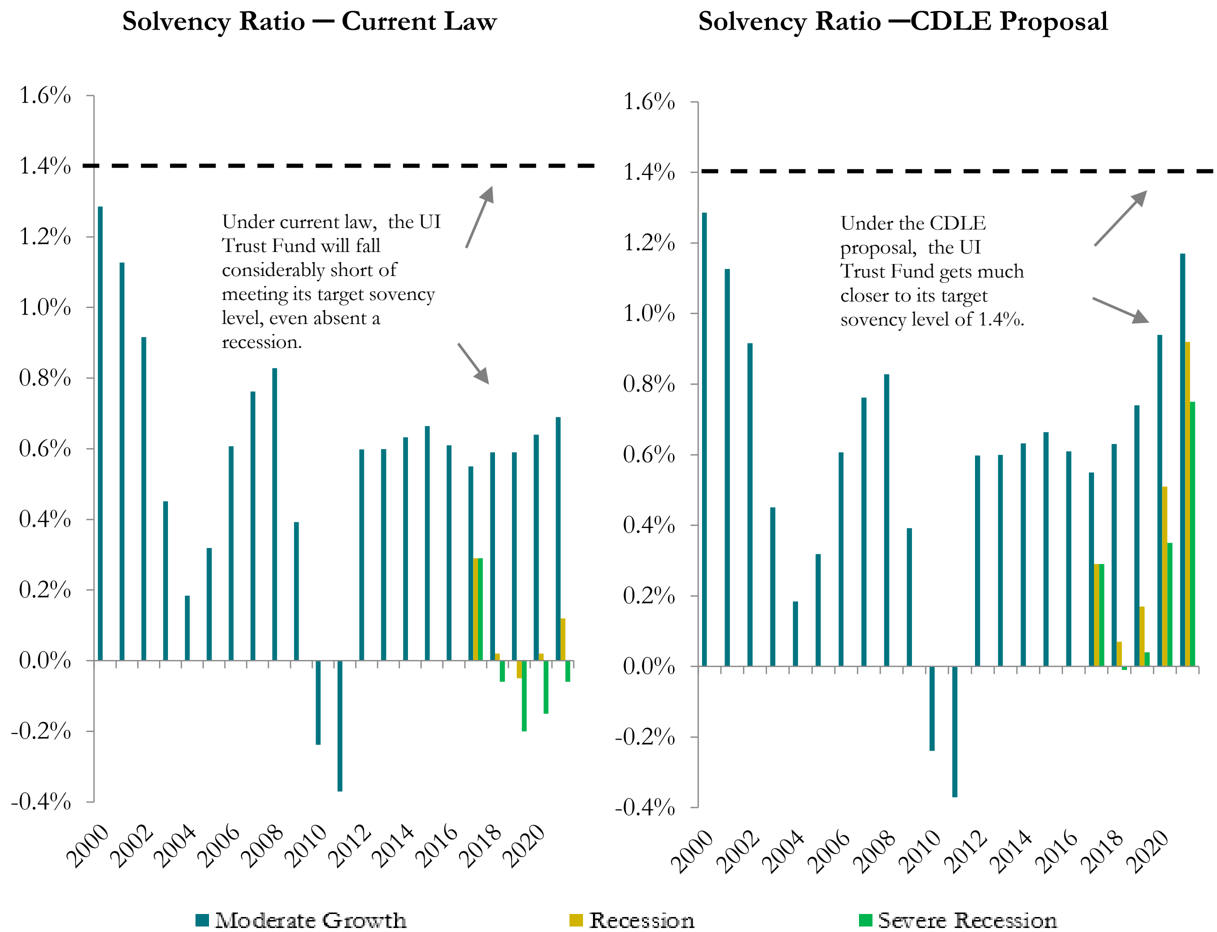
The proposal phases-in an increase in the taxable wage base from $12,500 in 2017 to $16,000 in 2018; $20,000 in 2019; and $24,000 in 2020. The impacts to the fund and employers will be implemented gradually and will not take full effect until after 2020. However, fund solvency begins to improve greatly in the near term under the proposal compared with current law.

***The proposal will also enhance the stability of UI premium rates of employers*** **—** In addition to improving fund solvency, the proposal will enhance the stability of employer premium amounts in the future. This is important to prevent higher rates during and after recessions when employers are often the most vulnerable. By making the fund balance larger, the proposal lets businesses move to lower premium rate schedules, which would offset some of the premium increase resulting from the proposed higher wage base.

The proposal will also keep the fund more solvent and reduce borrowing during and after the next recession. Therefore, it will help employers to avoid the highest premium rate schedules and greatly reduce or eliminate the additional costs associated with borrowing (including interest charges), possible federal tax increases, and bond repayment charges. Finally, the proposal would considerably shorten the length of time the solvency surcharge would remain on during and after the next recession.

Figures 55 and 56 illustrate the UI Trust Fund's solvency ratio and fund balance under current law and under CDLE's proposal assuming continued economic expansion and also a recession. As shown, the proposal greatly improves the fund's solvency and fund balance over time compared with current law.

**Figure 55. Solvency of UI Trust Fund under Current Law and CDLE Proposal**




Source: Colorado Department of Labor and Employment

**Figure 56. UI Trust Fund Balance under Current Law and CDLE Proposal, in Millions $**

| Calendar Period | Current Law under Economic Growth | CDLE Proposal under Economic Growth | Current Law under Recession | CDLE Proposal under Recession |
|---|---|---|---|---|
| 2017 Q1 | $517 | $517 | $371 | $371 |
| 2017 Q2 | $622 | $622 | $327 | $327 |
| 2017 Q3 | $623 | $623 | $197 | $197 |
| 2017 Q4 | $585 | $585 | $30 | $30 |
| 2018 Q1 | $492 | $492 | -$155 | -$155 |
| 2018 Q2 | $688 | $742 | $23 | $81 |
| 2018 Q3 | $673 | $747 | -$46 | $34 |
| 2018 Q4 | $622 | $712 | -$156 | -$60 |
| 2019 Q1 | $516 | $618 | -$284 | -$175 |
| 2019 Q2 | $720 | $903 | -$57 | $188 |
| 2019 Q3 | $704 | $916 | -$84 | $211 |
| 2019 Q4 | $651 | $886 | -$153 | $178 |
| 2020 Q1 | $571 | $823 | -$259 | $102 |
| 2020 Q2 | $814 | $1,201 | $23 | $569 |
| 2020 Q3 | $823 | $1,261 | $27 | $643 |
| 2020 Q4 | $794 | $1,269 | -$16 | $652 |
| 2021 Q1 | $709 | $1,215 | -$121 | $590 |
| 2021 Q2 | $933 | $1,572 | $143 | $1,048 |
| 2021 Q3 | $932 | $1,622 | $137 | $1,117 |
| 2021 Q4 | $894 | $1,623 | $86 | $1,123 |

Source: Colorado Department of Labor and Employment

# Taxpayer's Bill of Rights: Revenue Limit

***Background on TABOR –*** Provisions in the Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limit the growth of a large portion of State revenue to the sum of inflation and population growth. Revenue collected above the TABOR limit must be returned to taxpayers unless voters decide the State can retain the revenue.

In November 2005, voters approved Referendum C, which allowed the State to retain all revenue through FY 2009-10 during a five-year TABOR "time out." Referendum C also set a new cap on revenue starting in FY 2010-11. Starting with FY 2010-11, the amount of revenue that the State may retain under Referendum C (line 9 of Table 7 found in the Appendix) is calculated by multiplying the revenue limit between FY 2005-06 and FY 2009-10 associated with the highest TABOR revenue year (FY 2007-08) by the allowable TABOR growth rates (line 6 of Table 7) for each subsequent year.

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

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

In addition to this $19.6 million adjustment, a net $14.1 million in revenue was recently identified as being exempt from TABOR in FY 2014-15 that was previously counted as nonexempt. Most of this amount is from revenue received by the Department of Public Safety. This change will offset a portion of the $19.6 million increase to refunds from the FY 2014-15 transfer to the Adult Dental Fund in the next year a refund is due.

In FY 2015-16, TABOR revenue came in $49.9 million below the cap and is projected to be $152.2 million under the cap in FY 2016-17. TABOR revenue is expected to be above the cap by $224.7 million in FY 2017-18 and $247.9 million in FY 2018-19.

Colorado law currently specifies three mechanisms by which revenue in excess of the cap is refunded to taxpayers: a sales tax refund to all taxpayers ("six-tier sales tax refund"), the Earned Income Tax Credit (EITC) to qualified taxpayers, and a temporary income tax rate reduction. The refund amount determines which refund mechanisms are used. Figure 57 shows the anticipated refund that will be distributed through each mechanism according to the revenue projections in this forecast and the statutorily defined refund mechanisms.

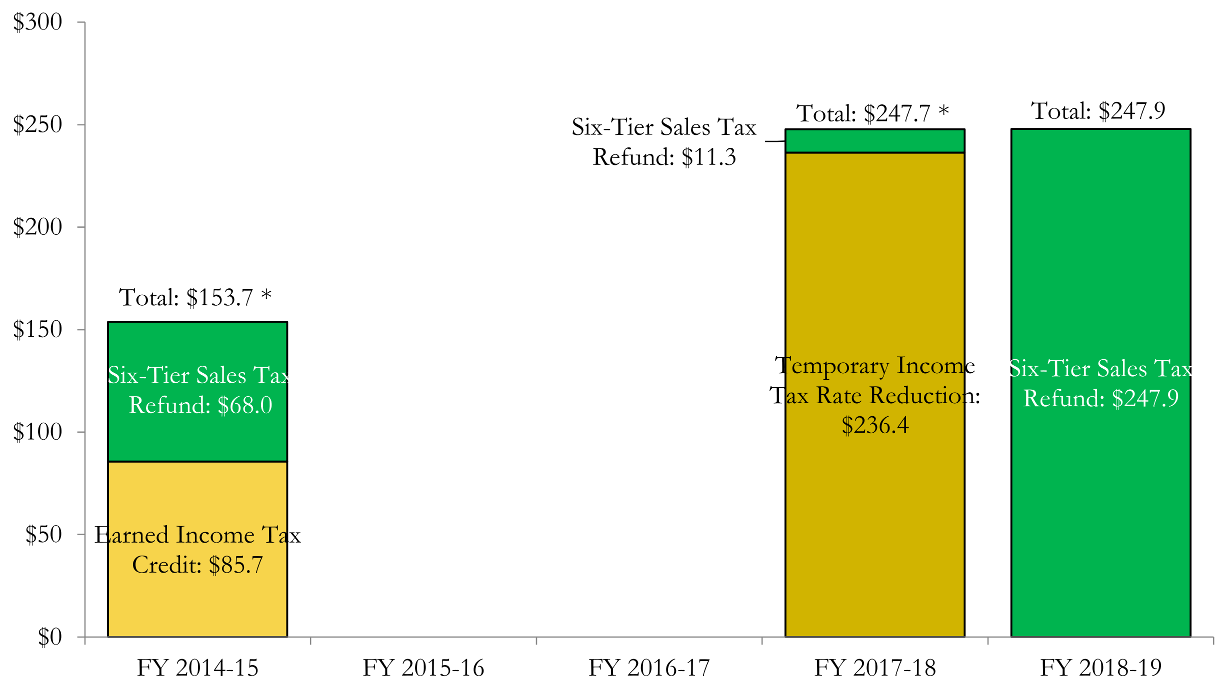
In FY 2014-15, the amount needed to be refunded exceeded the threshold that activates the state EITC, as specified by Section 39-22-123, C.R.S. Colorado taxpayers who qualify for the federal EITC can claim 10 percent of the amount they claim on their federal tax return on their state tax return for the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

The state EITC was only a TABOR refund mechanism for one year. The credit becomes permanent after the year it is used as a refund. After the use of the EITC as a refund mechanism for FY 2014-15, it became available to qualifying taxpayers as a regular income tax credit on an ongoing basis and will reduce revenue to the General Fund through a reduction in income tax liabilities and higher income tax refunds.

The remaining $68.0 million of the amount to be refunded for FY 2014-15 is being distributed through the six-tier sales tax refund, as specified by Section 39-22-2002, C.R.S., when taxpayers file their state tax return for the 2015 tax year. The amount of the refund that can be claimed by each taxpayer is calculated according to a statutory formula that includes six adjusted gross income tiers and the total amount to be refunded. Based on preliminary data on refunds claimed thus far from the Department of Revenue, the total amount of sales tax refunds claimed is likely to be about $61 million, a lower amount than was projected. Any amount not refunded to taxpayers will be added to refunds the next year a refund is due which, according to this forecast, is FY 2017-18.

Based on the preliminary numbers on the total refunds to taxpayers of $136 million for FY 2014-15 ($75 million from EITCs and $61 million from sales tax refunds), a remaining $17.5 million will need to be refunded in the next year of a TABOR refund. This amount will change with new information on the total actual amount refunded for FY 2014-15.

**Figure 57. Distribution of TABOR Refunds, $ in Millions**




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

For FY 2017-18, the TABOR refund amount is expected to be $247.7 million, as shown in Figure 57 and in line 11 in Table 7. This amount includes the projected $224.7 million exceeding the Referendum C cap plus several adjustments.

These adjustments include the $19.6 million that needs to be refunded from FY 2014-15 due to the reclassification of the revenue transferred to the Adult Dental Fund from the Unclaimed Property Fund, as well as the remaining $17.5 million of the amount to be refunded for FY 2014-15 discussed above. In addition, the total refund is reduced by $14.1 million due to the aforementioned reclassification of revenue as exempt from TABOR in FY 2014-15. The following table illustrates these adjustments.

**Figure 58. Adjustments to 2017-18 TABOR Refund, $ in Millions**

| Projected FY 2017-18 TABOR Refund with Adjustments | |
|---|---|
| Revenue Above the Referendum C Cap | $224.7 |
| **Adjustments from Prior Fiscal Years** | |
| *Reclassification of Transfer to Adult Dental Fund* | $19.6 |
| *Reclassification of DPS Revenue* | -$14.1 |
| *Remaining Amount not Refunded from 2015 Tax Returns* | $17.5 |
| **Total Adjustments** | $23.0 |
| **Total Refund** | **$247.7** |

Revenue to be refunded in FY 2017-18 is projected to meet the threshold to activate the temporary income tax rate reduction refund mechanism as specified by Section 39-22-627, C.R.S. This refund mechanism will reduce the state income tax rate from 4.63 to 4.5 percent for tax year 2018. The lower tax rate would reduce the tax year 2018 income tax liability for individual taxpayers by about $55 on average, though the amount will vary greatly based on a taxpayer's taxable income level as shown in Figure 59. The total amount refunded through this mechanism is estimated to be $236.4 million, with the remaining portion, $11.3 million, to be refunded through the six-tier sales tax refund mechanism. When the average six-tier sales tax refund is below $15 per taxpayer, as is projected for FY 2017-18, each taxpayer is refunded the same amount regardless of their income tier. The average sales tax refund is projected to be $3 in FY 2017-18.

In FY 2018-19, the projected TABOR refund amount of $247.9 million would be refunded exclusively through the six-tier sales tax refund mechanism. Figure 59 shows per-taxpayer refund estimates by income tier for the six-tier sales tax refund.

**Figure 59. Projected Distribution of Refunds per Taxpayer by Fiscal Year**

**No TABOR Refund Obligation is projected for FY 2016-17**

| FY 2017-18 TABOR Refund per Taxpayer | | | | | | |
|---|---|---|---|---|---|---|
| | Individual Returns | | | Joint Returns | | |
| | Six-Tier Sales Tax | Income Tax Rate Cut | Total | Six-Tier Sales Tax | Income Tax Rate Cut | Total |
| Adjusted Gross Income Tier | | | | | | |
| Up to $39,000 | $3 | $8 | $11 | $6 | $3 | $9 |
| $39,001 - $83,000 | $3 | $51 | $54 | $6 | $32 | $38 |
| $83,001 - $129,000 | $3 | $113 | $116 | $6 | $83 | $89 |
| $129,001 - $175,000 | $3 | $166 | $169 | $6 | $137 | $143 |
| $175,001 - $219,000 | $3 | $208 | $211 | $6 | $192 | $198 |
| $219,001 and Up | $3 | $634 | $637 | $6 | $587 | $593 |

| FY 2018-19 TABOR Refund per Taxpayer | | | | | | |
|---|---|---|---|---|---|---|
| | Individual Returns | | | Joint Returns | | |
| | Six-Tier Sales Tax | Income Tax Rate Cut | Total | Six-Tier Sales Tax | Income Tax Rate Cut | Total |
| Adjusted Gross Income Tier | | | | | | |
| Up to $40,000 | $47 | $0 | $47 | $94 | $0 | $94 |
| $40,001 - $85,000 | $65 | $0 | $65 | $130 | $0 | $130 |
| $85,001 - $132,000 | $76 | $0 | $76 | $152 | $0 | $152 |
| $132,001 - $179,000 | $84 | $0 | $84 | $168 | $0 | $168 |
| $179,001 - $224,000 | $87 | $0 | $87 | $174 | $0 | $174 |
| $224,001 and Up | $149 | $0 | $149 | $298 | $0 | $298 |

***TABOR refund amounts can affect transfers to transportation and capital construction (SB 09-228 transfers)*** – In addition to activating distributions of refunds to taxpayers, projected revenue in excess of the Referendum C cap can affect the transfers to transportation and capital construction created by Senate Bill 09-228, as specified by Section 24-75-219, C.R.S. Because total personal income in Colorado grew by more than 5 percent in 2014, this statute requires transfers of General Fund revenue to the Highway Users Tax Fund (HUTF) and the Capital Construction Fund (CCF) for five years starting in FY 2015-16.

The original statute stated that for fiscal years 2017-18 through 2019-20, the transfers are reduced by half if there is a TABOR refund in the same fiscal year in an amount between 1 and 3 percent of total General Fund revenue. The transfers are suspended in full if there is a TABOR refund in excess of 3 percent of total General Fund revenue. However, pursuant to House Bill 16-1416, the dollar amount of the transfers to the HUTF and CCF are at fixed amounts in FY 2015-16 and FY 2016-17 regardless of the level of any TABOR refund. The transfer amount to the HUTF was equal to $199.2 million in FY 2015-16 and $158.0 million in FY 2016-17. The Governor's November budget request spreads the $158.0 million HUTF transfer in FY 2016-17 over two fiscal years – $79.0 million in FY 2016-17 and $79.0 million in FY 2017-18. The transfer amounts to the CCF were $49.8 million in FY 2015-16 and $52.7 million in FY 2016-17.

According to current projections, transfers to the HUTF and CCF will be reduced by half in FY 2017-18 and FY 2018-19 because the TABOR refunds are expected to be within the 1 to 3 percent range to trigger the reduction, at 2.3 percent and 2.2 percent of total General Fund revenue, respectively. The SB 228 transfers to the HUTF are projected to be $109.3 million in FY 2017-18 and $115.0 million in FY 2018-19. However, as noted above, the Governor's November budget request sets the FY 2017-18 HUTF transfer to a fixed amount of $79.0 million. SB 228 transfers to the CCF are projected to be $54.7 million in FY 2017-18 and $57.5 million in FY 2018-19.

## Governor's Revenue Estimating Advisory Committee

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

- Alison Felix – Vice President and Denver Branch Executive, Denver Branch – Federal Reserve Bank of Kansas City
- Elizabeth Garner – State Demographer, Colorado Department of Local Affairs
- Alexandra Hall – Labor Market Information Director, Colorado Department of Labor and Employment
- David Kelly – Chief Risk Officer, FirstBank
- Ronald New – Capital Markets Executive
- Jessica Ostermick – Director, Capital Markets, Industrial and Logistics, CBRE
- Paul Rochette – Senior Partner, Summit Economics
- Patricia Silverstein – President, Development Research Partners
- Richard Wobbekind – Associate Dean, Leeds School of Business; University of Colorado, Boulder

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# Appendix – Reference Tables

## Table 1. History and Forecast for Key Colorado Economic Variables
## Calendar Year 2010-2018

| Line No. | | Actual | | | | | | December 2016 Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | **Income** | | | | | | | | | |
| 1 | Personal Income (Billions) /A | $201.6 | $219.9 | $234.0 | $246.6 | $266.5 | $277.7 | $288.8 | $304.4 | $320.6 |
| 2 | Change | 1.8% | 9.1% | 6.4% | 5.4% | 8.1% | 4.2% | 4.0% | 5.4% | 5.3% |
| 3 | Wage and Salary Income (Billions) | $113.8 | $118.6 | $125.0 | $129.6 | $138.7 | $146.6 | $152.7 | $161.1 | $169.8 |
| 4 | Change | 1.3% | 4.2% | 5.4% | 3.7% | 7.0% | 5.7% | 4.2% | 5.5% | 5.4% |
| 5 | Per-Capita Income ($/person) /A | $39,926 | $42,944 | $45,073 | $46,784 | $49,765 | $50,899 | $52,060 | $53,978 | $55,967 |
| 6 | Change | 0.2% | 7.6% | 5.0% | 3.8% | 6.4% | 2.3% | 2.3% | 3.7% | 3.7% |
| | **Population & Employment** | | | | | | | | | |
| 7 | Population (Thousands) | 5,048.6 | 5,119.7 | 5,191.7 | 5,272.1 | 5,355.9 | 5,456.6 | 5,548.2 | 5,640.1 | 5,728.0 |
| 8 | Change | 1.5% | 1.4% | 1.4% | 1.5% | 1.6% | 1.9% | 1.7% | 1.7% | 1.6% |
| 9 | Net Migration (Thousands) | 37.5 | 36.0 | 40.4 | 48.5 | 52.2 | 69.8 | 61.4 | 61.2 | 57.4 |
| 10 | Unemployment Rate | 8.7% | 8.4% | 7.9% | 6.8% | 5.0% | 3.9% | 3.4% | 3.6% | 4.0% |
| 11 | Total Nonagricultural Employment (Thousands) /B | 2,222.3 | 2,258.6 | 2,313.0 | 2,381.9 | 2,464.9 | 2,540.2 | 2,596.9 | 2,659.2 | 2,720.4 |
| 12 | Change | -1.0% | 1.6% | 2.4% | 3.0% | 3.5% | 3.1% | 2.2% | 2.4% | 2.3% |
| | **Construction Variables** | | | | | | | | | |
| 13 | Total Housing Permits Issued (Thousands) | 11.6 | 13.5 | 23.3 | 27.5 | 28.7 | 31.9 | 35.9 | 39.9 | 41.0 |
| 14 | Change | 23.9% | 16.5% | 72.6% | 18.1% | 4.3% | 11.1% | 12.5% | 11.1% | 2.8% |
| 15 | Nonresidential Construction Value (Millions) /C | $3,146.7 | $3,923.2 | $3,695.3 | $3,624.0 | $4,315.4 | $4,784.4 | $5,469.0 | $5,228.1 | $5,102.6 |
| 16 | Change | -6.2% | 24.7% | -5.8% | -1.9% | 19.1% | 10.9% | 14.3% | -4.4% | -2.4% |
| | **Prices & Sales Variables** | | | | | | | | | |
| 17 | Retail Trade (Billions) /D | $70.5 | $75.9 | $80.2 | $84.1 | $90.5 | $95.0 | $99.1 | $104.2 | $109.4 |
| 18 | Change | 6.0% | 7.7% | 5.7% | 4.8% | 7.6% | 4.9% | 4.3% | 5.2% | 5.0% |
| 19 | Denver-Boulder-Greeley Consumer Price Index (1982-84=100) | 212.4 | 220.3 | 224.6 | 230.8 | 237.2 | 240.0 | 246.5 | 253.1 | 258.7 |
| 20 | Change | 1.9% | 3.7% | 1.9% | 2.8% | 2.8% | 1.2% | 2.7% | 2.7% | 2.2% |

**/A** Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

**/B** Includes OSPB estimates of forthcoming revisions to jobs data that are currently not published. The jobs figures will be benchmarked based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in the state than was estimated based on a survey of employers.

**/C** Nonresidential Construction Value is reported by Dodge Analytics (McGraw-Hill Construction) and includes new construction, additions, and major remodeling projects predominately at commercial and manufacturing facilities, educational institutions, medical and government buildings. Nonresidential does not include non-building projects (such as streets, highways, bridges and utilities).

**/D** Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods/books/music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants). E-commerce retail trade and other sales by a retailer that does not have a state sales tax account are not included in these figures.

## Table 2. History and Forecast for Key National Economic Variables
## Calendar Year 2010 – 2018

| Line No. | | Actual | | | | | | December 2016 Forecast | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
| | **Inflation-Adjusted & Current Dollar Income Accounts** | | | | | | | | | |
| 1 | Inflation-Adjusted Gross Domestic Product (Billions) /A | $14,783.8 | $15,020.6 | $15,354.6 | $15,612.2 | $15,982.3 | $16,397.2 | $16,660.6 | $17,043.8 | $17,384.7 |
| 2 | Change | 2.5% | 1.6% | 2.2% | 1.7% | 2.4% | 2.6% | 1.6% | 2.3% | 2.0% |
| 3 | Personal Income (Billions) /B | $12,477.1 | $13,254.5 | $13,915.1 | $14,073.7 | $14,809.7 | $15,458.5 | $15,953.2 | $16,671.1 | $17,387.9 |
| 4 | Change | 3.2% | 6.2% | 5.0% | 1.1% | 5.2% | 4.4% | 3.2% | 4.5% | 4.3% |
| 5 | Per-Capita Income ($/person) | $40,334 | $42,521 | $44,301 | $44,477 | $46,439 | $48,095 | $49,256 | $51,087 | $52,887 |
| 6 | Change | 2.4% | 5.4% | 4.2% | 0.4% | 4.4% | 3.6% | 2.4% | 3.7% | 3.5% |
| 7 | Wage and Salary Income (Billions) /B | $6,378 | $6,633 | $6,930 | $7,116.7 | $7,476.3 | $7,854.8 | $8,154.3 | $8,562.0 | $8,981.6 |
| 8 | Change | 2.0% | 4.0% | 4.5% | 2.7% | 5.1% | 5.1% | 3.8% | 5.0% | 4.9% |
| | **Population & Employment** | | | | | | | | | |
| 9 | Population (Millions) | 309.3 | 311.7 | 314.1 | 316.4 | 318.9 | 321.4 | 323.9 | 326.3 | 328.8 |
| 10 | Change | 0.8% | 0.8% | 0.8% | 0.7% | 0.8% | 0.8% | 0.8% | 0.8% | 0.7% |
| 11 | Unemployment Rate | 9.6% | 8.9% | 8.1% | 7.4% | 6.2% | 5.3% | 4.9% | 4.7% | 4.6% |
| 12 | Total Nonagricultural Employment (Millions) | 130.4 | 131.9 | 134.2 | 136.4 | 139.0 | 141.9 | 144.3 | 146.1 | 147.5 |
| 13 | Change | -0.7% | 1.2% | 1.7% | 1.6% | 1.9% | 2.1% | 1.7% | 1.2% | 1.0% |
| | **Price Variables** | | | | | | | | | |
| 14 | Consumer Price Index (1982-84=100) | 218.1 | 224.9 | 229.6 | 233.0 | 236.7 | 237.0 | 240.1 | 245.4 | 250.6 |
| 15 | Change | 1.6% | 3.2% | 2.1% | 1.5% | 1.6% | 0.1% | 1.3% | 2.2% | 2.1% |
| 16 | Producer Price Index - All Commodities (1982=100) | 184.7 | 201.0 | 202.2 | 203.4 | 205.3 | 190.4 | 185.7 | 192.8 | 197.7 |
| 17 | Change | 6.8% | 8.8% | 0.6% | 0.6% | 0.9% | -7.3% | -2.5% | 3.8% | 2.5% |
| | **Other Key Indicators** | | | | | | | | | |
| 18 | Corporate Profits (Billions) | 1,746.4 | $1,816.6 | $1,998.2 | $2,032.9 | $2,152.1 | $2,088.1 | $2,020.4 | $2,071.0 | $2,137.2 |
| 19 | Change | 25.0% | 4.0% | 10.0% | 1.7% | 5.9% | -3.1% | -3.2% | 2.5% | 3.2% |
| 20 | Housing Permits (Millions) | 0.605 | 0.624 | 0.830 | 0.991 | 1.052 | 1.183 | 1.196 | 1.368 | 1.504 |
| 21 | Change | 3.7% | 3.2% | 32.9% | 19.4% | 6.2% | 12.4% | 1.1% | 14.4% | 10.0% |
| 22 | Retail Trade (Billions) | $4,285.8 | $4,597.6 | $4,826.4 | $5,001.2 | $5,211.5 | $5,327.4 | $5,470.7 | $5,733.3 | $5,991.3 |
| 23 | Change | 5.4% | 7.3% | 5.0% | 3.6% | 4.2% | 2.2% | 2.7% | 4.8% | 4.5% |

**/A** U.S. Bureau of Economic Analysis, National Income and Product Accounts. Inflation-adjusted, in 2009 dollars.

**/B** Personal Income as reported by the U.S. Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

## Table 3. General Fund – Revenue Estimates by Tax Category
## (Accrual Basis, Dollar Amounts in Millions)

| Line No. | Category | Preliminary FY 2015-16 | % Chg | December 2016 Estimate by Fiscal Year FY 2016-17 | % Chg | FY 2017-18 | % Chg | FY 2018-19 | % Chg |
|---|---|---|---|---|---|---|---|---|---|
| | *Excise Taxes:* | | | | | | | | |
| 1 | Sales | $2,652.6 | 1.3% | $2,847.8 | 7.4% | $2,964.9 | 4.1% | $3,083.5 | 4.0% |
| 2 | Use | $241.2 | -7.3% | $260.0 | 7.8% | $276.7 | 6.4% | $285.1 | 3.0% |
| 3 | Cigarette | $37.2 | -1.8% | $37.4 | 0.4% | $35.0 | -6.5% | $33.6 | -3.9% |
| 4 | Tobacco Products | $21.1 | 18.5% | $21.7 | 2.9% | $22.0 | 1.2% | $22.7 | 3.4% |
| 5 | Liquor | $43.6 | 5.0% | $45.0 | 3.3% | $45.5 | 1.1% | $46.8 | 2.7% |
| **6** | **Total Excise** | **$2,995.7** | **0.6%** | **$3,212.0** | **7.2%** | **$3,344.1** | **4.1%** | **$3,471.7** | **3.8%** |
| | *Income Taxes:* | | | | | | | | |
| 7 | Net Individual Income | $6,526.5 | 2.8% | $6,842.0 | 4.8% | $7,202.7 | 5.3% | $7,622.6 | 5.8% |
| 8 | Net Corporate Income | $652.3 | -5.8% | $565.0 | -13.4% | $622.5 | 10.2% | $664.9 | 6.8% |
| **9** | **Total Income** | **$7,178.8** | **1.9%** | **$7,407.0** | **3.2%** | **$7,825.2** | **5.6%** | **$8,287.5** | **5.9%** |
| *10* | *Less: State Education Fund Diversion* | *$522.6* | *0.5%* | *$540.7* | *3.5%* | *$574.4* | *6.2%* | *$611.6* | *6.5%* |
| **11** | **Total Income to General Fund** | **$6,656.2** | **2.0%** | **$6,866.3** | **3.2%** | **$7,250.8** | **5.6%** | **$7,675.9** | **5.9%** |
| | *Other Revenue:* | | | | | | | | |
| 12 | Insurance | $277.5 | 8.1% | $291.9 | 5.2% | $303.6 | 4.0% | $315.9 | 4.1% |
| 13 | Interest Income | $12.4 | 40.3% | $14.1 | 13.4% | $14.9 | 6.0% | $15.7 | 5.4% |
| 14 | Pari-Mutuel | $0.6 | 0.6% | $0.6 | -3.2% | $0.6 | -2.0% | $0.6 | -2.0% |
| 15 | Court Receipts | $3.5 | 34.5% | $2.9 | -15.2% | $2.8 | -3.4% | $2.7 | -3.5% |
| 16 | Other Income | $22.5 | -33.8% | $16.4 | -27.0% | $17.5 | 6.3% | $18.5 | 6.0% |
| **17** | **Total Other** | **$316.5** | **4.5%** | **$326.0** | **3.0%** | **$339.4** | **4.1%** | **$353.4** | **4.1%** |
| **18** | **GROSS GENERAL FUND** | **$9,968.4** | **1.7%** | **$10,404.2** | **4.4%** | **$10,934.3** | **5.1%** | **$11,501.0** | **5.2%** |

## Table 4. General Fund Overview under the Governor's November 2016 Budget Request /A
## (Dollar Amounts in Millions)

| Line No. | | Preliminary FY 2015-16 | December 2016 Estimate by Fiscal Year FY 2016-17 | FY 2017-18 | FY 2018-19 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| 1 | **Beginning Reserve** | **$689.6** | **$513.5** | **$517.7** | **$612.4** |
| 2 | **Gross General Fund Revenue** | **$9,968.4** | **$10,404.2** | **$10,934.3** | **$11,501.0** |
| 3 | *Transfers to the General Fund* | *$24.1* | *$45.9* | *$18.3* | *$20.0* |
| 4 | *Proposed Policy Changes Affecting Funds Available* | *$0.0* | *$31.7* | *$34.4* | *$0.0* |
| 5 | **TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE** | **$10,682.1** | **$10,995.4** | **$11,504.8** | **$12,133.4** |
| **Expenditures** | | | | | |
| 6 | **Appropriation Subject to Limit** | **$9,335.6** | **$9,837.3** | **$10,278.6** | **$10,602.4** |
| 7 | *Dollar Change (from prior year)* | $466.6 | $501.7 | $441.3 | $323.8 |
| 8 | *Percent Change (from prior year)* | 5.3% | 5.4% | 4.5% | 3.2% |
| 9 | **Spending Outside Limit** | **$895.0** | **$640.4** | **$613.9** | **$845.2** |
| 10 | *TABOR Refund under Art. X, Section 20, (7) (d)* | *$0.0* | *$0.0* | *$52.7* | *$247.9* |
| 11 | *Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)* | *-$58.0* | *$0.0* | *$0.0* | *$0.0* |
| 12 | *Rebates and Expenditures* | $281.2 | $292.9 | $304.5 | $317.4 |
| 13 | *Transfers for Capital Construction* | $271.1 | $84.5 | $89.5 | $57.5 |
| 14 | *Transfers to Highway Users Tax Fund* | $199.2 | $79.0 | $79.0 | $115.0 |
| 15 | *Transfers to State Education Fund under SB 13-234* | $25.3 | $25.3 | $25.3 | $25.0 |
| 16 | *Transfers to Other Funds* | $176.2 | $158.7 | $85.9 | $82.3 |
| 17 | *Other Expenditures Exempt from General Fund Appropriations Limit* | $0.0 | $0.0 | $0.0 | $0.0 |
| 18 | **TOTAL GENERAL FUND OBLIGATIONS** | **$10,230.6** | **$10,477.6** | **$10,892.5** | **$11,447.6** |
| 19 | *Percent Change (from prior year)* | 5.7% | 2.4% | 4.0% | 5.1% |
| 20 | Reversions and Accounting Adjustments | -$62.0 | $0.0 | -$23.0 | $0.0 |
| **Reserves** | | | | | |
| 21 | **Year-End General Fund Balance** | **$513.5** | **$517.7** | **$612.4** | **$685.8** |
| 22 | *Year-End General Fund as a % of Appropriations* | 5.5% | 5.3% | 6.0% | 6.5% |
| 23 | *General Fund Statutory Reserve* | $463.9 | $636.4 | $664.8 | $685.8 |
| 24 | *Above/Below Statutory Reserve* | $49.7 | -$118.7 | -$52.4 | $0.0 |

**/A** See the section discussing the General Fund and State Education Fund Budget starting on page 48 for information on the figures in this table.

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

| Line No. | | Preliminary FY 2015-16 | December 2016 Estimate by Fiscal Year FY 2016-17 | FY 2017-18 | FY 2018-19 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| 1 | **Beginning Reserve** | **$689.6** | **$513.5** | **$431.0** | **$641.8** |
| 2 | **Gross General Fund Revenue** | **$9,968.4** | **$10,404.2** | **$10,934.3** | **$11,501.0** |
| 3 | *Transfers to the General Fund* | *$24.1* | *$45.9* | *$18.3* | *$20.0* |
| 4 | **TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE** | **$10,682.1** | **$10,963.7** | **$11,383.7** | **$12,162.8** |
| **Expenditures** | | | | | |
| 5 | **Appropriation Subject to Limit** | **$9,335.6** | **$9,813.3** | **$9,923.9** | **$10,630.0** |
| 6 | *Dollar Change (from prior year)* | $466.6 | $477.7 | $110.6 | $706.1 |
| 7 | *Percent Change (from prior year)* | 5.3% | 5.1% | 1.1% | 7.1% |
| 8 | **Spending Outside Limit** | **$895.0** | **$719.4** | **$818.0** | **$845.2** |
| 9 | *TABOR Refund under Art. X, Section 20, (7) (d)* | *$0.0* | *$0.0* | *$247.7* | *$247.9* |
| 10 | *Set Aside for Potential TABOR Refund under Art. X, Section 20, (3) (c)* | *-$58.0* | *$0.0* | *$0.0* | *$0.0* |
| 11 | *Rebates and Expenditures* | $281.2 | $292.9 | $304.5 | $317.4 |
| 12 | *Transfers for Capital Construction* | $271.1 | $84.5 | $68.3 | $57.5 |
| 13 | *Transfers to Highway Users Tax Fund* | $199.2 | $158.0 | $109.3 | $115.0 |
| 14 | *Transfers to State Education Fund under SB 13-234* | $25.3 | $25.3 | $25.3 | $25.0 |
| 15 | *Transfers to Other Funds* | $176.2 | $158.7 | $85.9 | $82.3 |
| 16 | *Other Expenditures Exempt from General Fund Appropriations Limit* | $0.0 | $0.0 | $0.0 | $0.0 |
| 17 | **TOTAL GENERAL FUND OBLIGATIONS** | **$10,230.6** | **$10,532.7** | **$10,741.9** | **$11,475.2** |
| 18 | *Percent Change (from prior year)* | 5.7% | 3.0% | 2.0% | 6.8% |
| 19 | Reversions and Accounting Adjustments | -$62.0 | $0.0 | -$23.0 | $0.0 |
| **Reserves** | | | | | |
| 20 | **Year-End General Fund Balance** | **$513.5** | **$431.0** | **$641.8** | **$687.6** |
| 21 | *Year-End General Fund as a % of Appropriations* | 5.5% | 4.4% | 6.5% | 6.5% |
| 22 | *General Fund Statutory Reserve* | $463.9 | $634.9 | $641.8 | $687.6 |
| 23 | *Above/Below Statutory Reserve* | $49.7 | -$203.9 | $0.0 | $0.0 |

/A See the section discussing the General Fund and State Education Fund Budget starting on page 48 for information on the figures in this table.

## Table 5. General Fund and State Education Fund Overview under the Governor's November 2016 Budget Request /A
## (Dollar Amounts in Millions)

| Line No. | | Preliminary FY 2015-16 | December 2016 Estimate by Fiscal Year FY 2016-17 | FY 2017-18 | FY 2018-19 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| 1 | **Beginning Reserves** | **$1,373.6** | **$815.9** | **$617.7** | **$699.2** |
| 2 | *State Education Fund* | $684.0 | $302.4 | $99.9 | $86.8 |
| 3 | *General Fund* | $689.6 | $513.5 | $517.7 | $612.4 |
| 4 | **Gross State Education Fund Revenue** | **$554.4** | **$571.7** | **$605.7** | **$643.0** |
| 5 | **Gross General Fund Revenue /B** | **$9,992.5** | **$10,481.8** | **$10,987.1** | **$11,521.0** |
| 6 | **TOTAL FUNDS AVAILABLE FOR EXPENDITURE** | **$11,920.6** | **$11,869.4** | **$12,210.4** | **$12,863.2** |
| **Expenditures** | | | | | |
| 7 | General Fund Expenditures /C | $10,230.6 | $10,477.6 | $10,892.5 | $11,447.6 |
| 8 | State Education Fund Expenditures | *$944.4* | *$774.1* | *$618.8* | *$658.4* |
| 9 | **TOTAL OBLIGATIONS** | **$11,175.0** | **$11,251.7** | **$11,511.3** | **$12,106.0** |
| 10 | *Percent Change (from prior year)* | 5.0% | 0.7% | 2.3% | 5.2% |
| 11 | *Reversions and Accounting Adjustments* | *($70.4)* | *$0.0* | *($23.0)* | *$0.0* |
| **Reserves** | | | | | |
| 12 | **Year-End Balance** | **$815.9** | **$617.7** | **$699.2** | **$757.2** |
| 13 | State Education Fund | $302.4 | $99.9 | $86.8 | $71.4 |
| 14 | General Fund | $513.5 | $517.7 | $612.4 | $685.8 |
| 15 | *General Fund Above/Below Statutory Reserve* | $49.7 | -$118.7 | -$52.4 | $0.0 |

**/A** See the section discussing the General Fund and State Education Fund Budget starting on page 48 for information on the figures in this table.
**/B** This amount includes transfers to the General Fund shown in line 3 in Table 4.
**/C** General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 6 in Table 4 as well as all spending outside the limit shown in line 9 in Table 4.

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

| Category | Preliminary FY 2015-16 | December 2016 Estimate by Fiscal Year FY 2016-17 | FY 2017-18 | FY 2018-19 |
|---|---|---|---|---|
| **Transportation-Related /A** | **$1,184.7** | **$1,203.1** | **$1,226.9** | **$1,249.3** |
| Change | 1.7% | 1.6% | 2.0% | 1.8% |
| **Limited Gaming Fund /B** | **$102.7** | **$105.9** | **$109.1** | **$112.3** |
| Change | 3.4% | 3.1% | 3.0% | 3.0% |
| **Capital Construction - Interest** | **$5.2** | **$4.7** | **$3.6** | **$3.1** |
| Change | -6.6% | -10.6% | -23.8% | -14.0% |
| **Regulatory Agencies** | **$68.8** | **$71.7** | **$73.4** | **$75.0** |
| Change | 4.8% | 4.2% | 2.4% | 2.1% |
| **Insurance-Related** | **$11.4** | **$13.5** | **$13.6** | **$14.3** |
| Change | -42.7% | 18.2% | 1.0% | 4.7% |
| **Severance Tax /C** | **$18.9** | **$38.2** | **$174.2** | **$196.0** |
| Change | -93.3% | 101.9% | 356.1% | 12.5% |
| **Hospital Provider Fees** | **$804.0** | **$656.6** | **$864.7** | **$859.2** |
| Change | 52.0% | -18.3% | 31.7% | -0.6% |
| **Other Miscellaneous Cash Funds** | **$778.2** | **$725.6** | **$778.0** | **$793.6** |
| Change | 27.1% | -6.8% | 7.2% | 2.0% |
| **TOTAL CASH FUND REVENUE** | ***$2,974.0*** | ***$2,819.3*** | ***$3,243.6*** | ***$3,302.8*** |
| Change | 7.1% | -5.2% | 15.0% | 1.8% |

**/A** Includes revenue from Senate Bill 09-108 (FASTER) which began in FY 2009-10. Roughly 40% of FASTER-related revenue is directed to two State Enterprises. Revenue to State Enterprises is exempt from TABOR and is thus not included in the figures reflected by this table.

**/B** Excludes tax revenue from extended gaming as allowed by Amendment 50 to the Colorado Constitution as this revenue is exempt from TABOR. The portion of limited gaming revenue that is exempt is projected based on the formula outlined in House Bill 09-1272.

**/C** Severance tax revenue for FY 2015-16 differs from the amount reported by the State Controller's office, as the figures in Table 6 incorporate the diversion of income tax revenue to pay for severance tax refunds under Senate Bill 16-218.

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

| Line No. | | Preliminary FY 2015-16 | December 2016 Estimate by Fiscal Year FY 2016-17 | FY 2017-18 | FY 2018-19 |
|---|---|---|---|---|---|
| | **TABOR Revenues:** | | | | |
| 1 | General Fund /A | $9,894.2 | $10,315.3 | $10,852.5 | $11,413.0 |
| | *Percent Change from Prior Year* | 1.4% | 4.3% | 5.2% | 5.2% |
| 2 | Cash Funds /A | $2,986.6 | $2,819.3 | $3,243.6 | $3,302.8 |
| | *Percent Change from Prior Year* | 7.5% | -5.6% | 15.0% | 1.8% |
| **3** | **Total TABOR Revenues** | **$12,880.8** | **$13,134.6** | **$14,096.0** | **$14,715.8** |
| | *Percent Change from Prior Year* | 2.8% | 2.0% | 7.3% | 4.4% |
| | **Revenue Limit Calculation:** | | | | |
| 4 | Previous calendar year population growth | 1.6% | 1.9% | 1.7% | 1.7% |
| 5 | Previous calendar year inflation | 2.8% | 1.2% | 2.7% | 2.7% |
| **6** | **Allowable TABOR Growth Rate** | 4.4% | 3.1% | 4.4% | 4.3% |
| 7 | TABOR Limit /B | $10,410.4 | $10,688.2 | $11,158.5 | $11,638.3 |
| **8** | General Fund Exempt Revenue Under Ref. C /C | $2,470.4 | $2,446.3 | $2,712.8 | $3,077.4 |
| **9** | **Revenue Cap Under Ref. C /B, /D** | **$12,930.7** | **$13,286.7** | **$13,871.3** | **$14,467.8** |
| *10* | ***Amount Above/(Below) Cap*** | **-$49.9** | **-$152.2** | **$224.7** | **$247.9** |
| *11* | ***Revenue to be Refunded including Adjustments from Prior Years /E*** | **$0.0** | **$0.0** | **$247.7** | **$247.9** |
| 12 | TABOR Reserve Requirement | $386.4 | $394.0 | $416.1 | $434.0 |

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

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

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

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

**APPENDIX C**

**STATE OF COLORADO COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**and**

**STATE OF COLORADO UNAUDITED BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

(Pagination reflects the original printed documents)

## APPENDIX D

## CERTAIN STATE ECONOMIC AND DEMOGRAPHIC INFORMATION

The following information was prepared and provided by Development Research Partners, Inc. to give prospective investors general information concerning selected economic and demographic conditions existing in Colorado as of the dates indicated. See also "INTRODUCTION – State Economic and Demographic Information." The statistics have been obtained from the referenced sources and represent the most current information available as of June 2016 from the sources indicated; however, since certain information is released with a significant time lag, the information in some cases will not be indicative of existing or future economic and demographic conditions. Further, the reported data has not been adjusted to reflect economic trends, notably inflation. Finally, other economic and demographic information concerning the State not presented herein may be available, and prospective investors may want to review such information prior to making their investment decision. *The following information is not to be relied upon as a representation or guarantee of the State or any officer or employee of or advisor to the State*. See also "APPENDIX A – THE STATE GENERAL FUND – Revenue Estimation; OSPB Revenue and Economic Forecasts" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

### Overview

Colorado, the most populous state in the Rocky Mountain region, has three distinct geographic and economic areas. The eastern half of the State consists of the eastern plains, which are flat, open and largely devoted to agriculture. The Front Range lies along the eastern base of the Rocky Mountains and contains most of the State's metropolitan areas. The western half of the State – which includes the Rocky Mountains and the Western Slope – includes many acres of national park and forest land and significant reserves of minerals, natural gas and other resources.

The State's population and wealth are concentrated in the Front Range, principally in four major metropolitan areas: Denver/Boulder, Colorado Springs, Fort Collins/Greeley and Pueblo. Denver, the State's capital, is the economic center of the State and the Rocky Mountain region. About 56% of the State's population and 62% of its jobs are located in the Denver/Boulder metropolitan area, which is a hub for transportation, communication, financial activities and professional and business services. The aerospace, bioscience and energy industries are also key contributors to economic growth in the Denver/Boulder metropolitan area and the State as a whole.

The State's economic performance depends heavily on economic performance at the national level. See also "APPENDIX A – THE STATE GENERAL FUND – OSPB Revenue and Economic Forecasts" and "APPENDIX B – OSPB DECEMBER 2016 REVENUE FORECAST."

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## Population and Age Distribution

The following table provides population figures for Colorado and the United States for the past 10 years.

**Population Estimates (as of July 1)**

| | Colorado | | United States | |
|---|---|---|---|---|
| | Population (millions) | % Change | Population (millions) | % Change |
| 2005 | 4.7 | 1.2% | 295.5 | 0.9% |
| 2006 | 4.7 | 1.8% | 298.4 | 1.0% |
| 2007 | 4.8 | 1.6% | 301.2 | 1.0% |
| 2008 | 4.9 | 1.7% | 304.1 | 1.0% |
| 2009 | 5.0 | 1.5% | 306.8 | 0.9% |
| 2010 | 5.1 | 1.5% | 309.3 | 0.8% |
| 2011 | 5.1 | 1.4% | 311.7 | 0.8% |
| 2012 | 5.2 | 1.4% | 314.1 | 0.8% |
| 2013 | 5.3 | 1.5% | 316.5 | 0.8% |
| 2014 | 5.4 | 1.6% | 318.9 | 0.7% |
| 2015 | 5.4 | 1.7% | 321.5 | 0.8% |

Note: Figures for 2005 through 2014 are estimates. The U.S. 2015 count is an estimate, and the 2015 count for Colorado is a forecast.
Sources: Colorado Division of Local Government, State Demography Office; U.S. Census Bureau, Population Estimates Program.

The following table provides the age distribution for the most recent year available for the State's population and the population nationwide.

**Age Distribution, July 1**

| | Colorado, 2015 | | United States, 2014 | |
|---|---|---|---|---|
| | Population (millions) | % of total | Population (millions) | % of total |
| Under 18 | 1.28 | 23.5% | 73.58 | 23.1% |
| 18 to 24 | 0.53 | 9.8% | 31.46 | 9.9% |
| 25 to 44 | 1.50 | 27.6% | 84.03 | 26.4% |
| 45 to 64 | 1.42 | 26.0% | 83.54 | 26.2% |
| 65+ | 0.71 | 13.1% | 46.24 | 14.5% |
| Total | 5.44 | 100.0% | 318.86 | 100.0% |
| Median Age | 36.9 | | 37.7 | |

Note: Totals may not add due to rounding. The U.S. 2014 count is an estimate, and the Colorado 2015 count is a forecast.
Sources: Colorado Division of Local Government, State Demography Office; U.S. Census Bureau, Population Estimates Program.

## Income

The following table provides annual per capita personal income figures for Colorado, the Rocky Mountain Region, and the United States.

**Per Capita Personal Income in Current Dollars[1]**

| | Colorado | | Rocky Mountain Region[2] | | United States | |
|---|---|---|---|---|---|---|
| | Income | % Change | Income | % Change | Income | % Change |
| 2011 | $44,349 | | $39,862 | | $42,453 | |
| 2012 | $46,402 | 4.6% | $41,754 | 4.7% | $44,266 | 4.3% |
| 2013 | $46,746 | 0.7% | $42,129 | 0.9% | $44,438 | 0.4% |
| 2014 | $48,869 | 4.5% | $43,787 | 3.9% | $46,049 | 3.6% |
| 2015 | $50,410 | 3.2% | $45,126 | 3.1% | $47,669 | 3.5% |

[1]Per capita personal income is total personal income divided by the July 1 population estimate.
[2]The Rocky Mountain Region includes Colorado, Idaho, Montana, Utah, and Wyoming.
Source: U.S. Bureau of Economic Analysis.

## Employment

The following table provides labor force, total employment, and unemployment statistics for the State.

**Civilian Labor Force, Total Employment, and Unemployment Rates, Not Seasonally Adjusted**

| | Colorado Civilian Labor Force (thousands) | % Change | Colorado Total Employment (thousands)[1] | % Change | Annual Average Unemployment Rate: Colorado | Annual Average Unemployment Rate: United States |
|---|---|---|---|---|---|---|
| 2011 | 2,736.1 | | 2,507.3 | | 8.4% | 8.9% |
| 2012 | 2,759.4 | 0.9% | 2,542.3 | 1.4% | 7.9% | 8.1% |
| 2013 | 2,780.5 | 0.8% | 2,590.7 | 1.9% | 6.8% | 7.4% |
| 2014 | 2,815.2 | 1.2% | 2,674.6 | 3.2% | 5.0% | 6.2% |
| 2015 | 2,828.5 | 0.5% | 2,718.7 | 1.6% | 3.9% | 5.3% |
| Year-to-date averages through March: | | | | | | |
| 2015 | 2,815.9 | | 2,683.6 | | 4.7% | 5.8% |
| 2016 | 2,859.0 | 1.5% | 2,763.2 | 3.0% | 3.4% | 5.2% |

[1]Includes the self-employed, unpaid family workers, and other groups not included in statistics that show employment by industry.
Sources: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics; Labor Force Statistics from the Current Population Survey.

The following table shows Colorado employment by industry for the past five years. Industry designations are based on the North American Industrial Classification System. Employment includes only those workers covered by unemployment insurance; most workers in the state are covered.

**Average Annual Number of Employees by Industry**

| Industry | 2011 | 2012 | 2013 | 2014 | 2015 | Most Recent Quarter: 2014Q4 | Most Recent Quarter: 2015Q4 | Most Recent Quarter: % Change |
|---|---|---|---|---|---|---|---|---|
| Private Sector | | | | | | | | |
| Agriculture, Forestry, Fishing, and Hunting | 14,015 | 14,513 | 14,348 | 14,935 | 15,624 | 14,600 | 15,217 | 4.2% |
| Mining | 27,789 | 30,225 | 30,433 | 33,847 | 30,565 | 35,793 | 27,461 | -23.3% |
| Utilities | 8,138 | 8,037 | 7,832 | 8,140 | 8,202 | 8,177 | 8,272 | 1.2% |
| Construction | 112,232 | 115,753 | 127,597 | 142,140 | 148,638 | 147,387 | 152,118 | 3.2% |
| Manufacturing | 129,165 | 131,978 | 132,691 | 136,216 | 140,831 | 138,528 | 141,837 | 2.4% |
| Wholesale Trade | 92,192 | 94,262 | 96,636 | 99,825 | 103,253 | 101,920 | 104,535 | 2.6% |
| Retail Trade | 239,985 | 243,699 | 249,235 | 254,942 | 263,104 | 262,906 | 271,962 | 3.4% |
| Transportation and Warehousing | 57,863 | 59,850 | 62,398 | 65,180 | 67,287 | 67,077 | 68,495 | 2.1% |
| Information | 71,950 | 69,733 | 69,817 | 70,001 | 70,599 | 69,976 | 70,815 | 1.2% |
| Finance and Insurance | 98,056 | 99,754 | 103,136 | 103,623 | 106,344 | 104,616 | 107,772 | 3.0% |
| Real Estate and Rental and Leasing | 41,194 | 41,895 | 42,849 | 44,497 | 46,944 | 45,573 | 47,935 | 5.2% |
| Professional and Technical Services | 172,096 | 178,313 | 188,984 | 196,684 | 204,586 | 201,097 | 207,453 | 3.2% |
| Management of Companies and Enterprises | 29,914 | 31,761 | 34,591 | 35,406 | 36,488 | 35,752 | 36,747 | 2.8% |
| Administrative and Waste Services | 137,331 | 145,383 | 148,745 | 154,121 | 157,385 | 158,222 | 159,617 | 0.9% |
| Educational Services | 30,145 | 31,494 | 31,997 | 32,965 | 33,847 | 33,352 | 34,922 | 4.7% |
| Health Care and Social Assistance | 239,967 | 246,951 | 250,654 | 261,428 | 275,183 | 267,586 | 280,808 | 4.9% |
| Arts, Entertainment, and Recreation | 45,564 | 46,704 | 47,166 | 48,978 | 50,707 | 46,008 | 48,335 | 5.1% |
| Accommodation and Food Services | 225,702 | 232,875 | 242,100 | 251,052 | 261,704 | 250,578 | 261,047 | 4.2% |
| Other Services | 66,134 | 67,988 | 69,554 | 72,443 | 75,157 | 73,627 | 75,796 | 2.9% |
| Unclassified | 492 | 745 | 1,388 | 2,783 | 1,478 | 1,884 | 1,031 | -45.3% |
| Government | 373,154 | 374,628 | 383,637 | 388,566 | 396,853 | 394,195 | 402,134 | 2.0% |
| **Total*** | **2,213,075** | **2,266,539** | **2,335,786** | **2,417,769** | **2,494,778** | **2,458,854** | **2,524,308** | **2.7%** |

*Industry employment levels may not add to total due to rounding.
Source: Colorado Department of Labor and Employment, Quarterly Census of Employment and Wages.

The following table shows the largest private sector employers in Colorado based on the most current information available as of May 2016. No independent investigation has been made, and no representation is made herein as to the financial condition of the employers listed below or the likelihood that these employers will maintain their status as major employers in the state. Employment counts for these businesses may have changed since this table was compiled, and other large employers may exist in the State that are not included in the table.

**Estimated Largest Private Sector Employers in Colorado**

| Employer | Type of Business | Estimated Employees[1] |
|---|---|---|
| Wal-Mart | General Merchandise | 26,500 |
| The Kroger Co. (King Soopers/City Market) | Supermarkets | 21,000 |
| UCHealth[2] | Healthcare | 16,000 |
| Centura Health | Healthcare | 13,200 |
| HealthONE Corporation | Healthcare | 12,000 |
| SCL Health System | Healthcare | 9,100 |
| Lockheed Martin Corporation | Aerospace & Defense Related Systems | 8,800 |
| Comcast Corporation | Telecommunications | 8,000 |
| Home Depot | Building Materials Retailer | 7,700 |
| Kaiser Permanente | Health Maintenance Organization | 7,000 |
| Target Corporation | General Merchandise | 6,900 |
| Vail Resorts | Leisure & Hospitality | 6,400 |
| Children's Hospital Colorado | Healthcare | 6,100 |
| Wells Fargo | Banking/Financial Services | 6,000 |
| CenturyLink | Telecommunications | 5,800 |
| United Airlines | Airline | 5,700 |
| Safeway Inc. | Supermarkets | 5,000 |
| United Parcel Service | Delivery Services | 4,800 |
| Banner Health | Healthcare | 4,800 |
| JBS Swift & Company | Beef Processing/Corporate Office | 4,600 |
| FedEx Corp. | Transportation, E-commerce | 4,300 |
| Oracle | Software & Network Computer Systems | 4,200 |
| DISH Network | Satellite TV & Equipment | 4,100 |
| Xcel Energy | Utility | 4,000 |
| University of Denver | Private University | 3,800 |

[1]Includes both full- and part-time employees.
[2]Some workers are also included in the employment count for the University of Colorado System (next table).
Source: Compiled by Development Research Partners from various sources, May 2016.

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The following table shows the largest public sector employers in Colorado based on the most current information available as of May 2016.

**Estimated Largest Public Sector Employers in Colorado**

| Employer | Estimated Employees[1] |
|---|---|
| State of Colorado | 49,000 |
| Federal Government (except USPS) | 44,300 |
| University of Colorado System[2] | 19,600 |
| Denver Public Schools | 14,700 |
| City & County of Denver | 11,700 |
| Jefferson County Public Schools | 11,500 |
| U.S. Postal Service | 9,900 |
| Douglas County School District RE-1 | 7,800 |
| Cherry Creek School District No 5 | 7,200 |
| Colorado State University | 7,100 |
| Denver Health | 6,700 |
| Aurora Public Schools | 6,300 |
| Adams 12 Five Star Schools | 4,700 |
| Boulder Valley School District RE-2 | 4,200 |
| Poudre School District R-1 | 4,000 |
| Colorado Springs School District 11 | 3,900 |
| St. Vrain Valley School District RE-1J | 3,800 |
| City of Aurora | 3,600 |
| Academy Schools District No 20 | 3,300 |
| Jefferson County | 2,800 |
| Mesa County Valley School District 51 | 2,800 |
| Regional Transportation District (RTD) | 2,700 |
| El Paso County | 2,400 |
| Greeley 6 School District | 2,400 |
| Metropolitan State University of Denver | 2,300 |

[1]Includes both full- and part-time employees.
[2]Some workers are also included in the employment count for UCHealth (previous table).
Source: Compiled by Development Research Partners from various sources, May 2016.

## Retail Sales

The following table provides recent annual sales figures as reported for state sales tax purposes.

**Colorado Gross and Retail Sales**

| | Gross Sales | | Retail Sales | |
|---|---|---|---|---|
| | Amount (billions) | % Change | Amount (billions) | % Change |
| 2010 | $199.62 | | $144.85 | |
| 2011 | $216.16 | 8.3% | $155.05 | 7.0% |
| 2012 | $225.15 | 4.2% | $164.57 | 6.1% |
| 2013 | $240.36 | 6.8% | $172.78 | 5.0% |
| 2014 | $257.14 | 7.0% | $182.48 | 5.6% |
| Year-to-date totals through November: | | | | |
| 2014 | $210.54 | | $158.99 | |
| 2015 | $210.27 | -0.1% | $160.38 | 0.9% |

Source: Colorado Department of Revenue.

The following table provides retail sales totals by industry for the past five years and year-to-date.

**Colorado Retail Sales by Industry (millions) and Percentage Change from Prior Year**

| | | | | | | | | | | | Year-to-date totals through November | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Industry** | **2010** | **% Change** | **2011** | **% Change** | **2012** | **% Change** | **2013** | **% Change** | **2014** | **% Change** | **2014** | **2015** | **% Change** |
| Agriculture/Forestry/Fishing | 336.3 | 18.6% | 411.7 | 22.4% | 406.2 | -1.3% | 387.0 | -4.7% | 440.0 | 13.7% | 313.0 | 370.9 | 18.5% |
| Mining | 2,531.7 | 13.7% | 3,111.7 | 22.9% | 3,815.6 | 22.6% | 4,611.8 | 20.9% | 5,571.7 | 20.8% | 5,011.8 | 3,456.1 | -31.0% |
| Utilities | 10,370.1 | 54.6% | 7,353.2 | -29.1% | 7,332.9 | -0.3% | 7,635.7 | 4.1% | 7,927.4 | 3.8% | 7,062.9 | 6,839.5 | -3.2% |
| Construction | 2,756.3 | -1.8% | 2,829.3 | 2.6% | 3,396.0 | 20.0% | 3,531.5 | 4.0% | 4,178.9 | 18.3% | 3,624.1 | 4,022.2 | 11.0% |
| Manufacturing | 10,423.9 | 13.1% | 15,909.3 | 52.6% | 18,192.1 | 14.3% | 18,747.5 | 3.1% | 19,655.0 | 4.8% | 16,131.3 | 13,789.4 | -14.5% |
| Wholesale Trade | 12,422.0 | 4.5% | 13,084.9 | 5.3% | 14,012.4 | 7.1% | 15,041.3 | 7.3% | 15,153.6 | 0.7% | 12,361.0 | 11,937.3 | -3.4% |
| | | | | | | | | | | | | | |
| Retail Trade | | | | | | | | | | | | | |
| Motor Vehicle and Auto Parts | 11,293.5 | 10.1% | 12,986.8 | 15.0% | 14,435.4 | 11.2% | 15,667.7 | 8.5% | 17,448.0 | 11.4% | 15,926.2 | 17,372.5 | 9.1% |
| Furniture and Furnishings | 1,900.9 | 0.4% | 2,049.0 | 7.8% | 2,265.5 | 10.6% | 2,461.8 | 8.7% | 2,656.9 | 7.9% | 2,384.4 | 2,600.3 | 9.1% |
| Electronics and Appliances | 2,118.6 | 6.8% | 2,224.2 | 5.0% | 2,077.8 | -6.6% | 1,998.6 | -3.8% | 2,260.2 | 13.1% | 1,935.2 | 2,051.7 | 6.0% |
| Building Materials/Nurseries | 4,388.6 | 4.5% | 4,515.0 | 2.9% | 4,824.6 | 6.9% | 5,298.3 | 9.8% | 5,923.6 | 11.8% | 5,462.3 | 5,896.0 | 7.9% |
| Food/Beverage Stores | 13,363.7 | 6.4% | 14,433.2 | 8.0% | 15,298.5 | 6.0% | 15,729.9 | 2.8% | 15,963.1 | 1.5% | 14,549.5 | 14,577.3 | 0.2% |
| Health and Personal Care | 2,529.7 | 7.6% | 2,712.1 | 7.2% | 2,886.9 | 6.4% | 3,166.1 | 9.7% | 3,724.3 | 17.6% | 3,198.3 | 3,777.8 | 18.1% |
| Gas Stations | 4,693.2 | 17.3% | 5,778.1 | 23.1% | 6,011.1 | 4.0% | 5,869.2 | -2.4% | 5,701.8 | -2.9% | 5,325.2 | 4,563.4 | -14.3% |
| Clothing and Accessories | 3,118.0 | 7.8% | 3,337.4 | 7.0% | 3,510.2 | 5.2% | 3,559.2 | 1.4% | 3,734.6 | 4.9% | 3,212.2 | 3,277.7 | 2.0% |
| Sporting/Hobby/Books/Music | 2,487.1 | 5.0% | 2,680.6 | 7.8% | 2,674.0 | -0.2% | 2,767.7 | 3.5% | 2,919.4 | 5.5% | 2,470.3 | 2,544.6 | 3.0% |
| General Merchandise/Warehous | 11,091.0 | 1.1% | 11,722.3 | 5.7% | 12,185.7 | 4.0% | 12,408.3 | 1.8% | 12,850.1 | 3.6% | 11,397.9 | 11,595.5 | 1.7% |
| Misc Store Retailers | 2,448.6 | 11.1% | 2,938.6 | 20.0% | 3,147.8 | 7.1% | 3,752.3 | 19.2% | 4,629.9 | 23.4% | 3,894.3 | 4,378.8 | 12.4% |
| Non-Store Retailers | 2,337.7 | -16.3% | 1,550.2 | -33.7% | 1,456.0 | -6.1% | 1,584.7 | 8.8% | 1,692.0 | 6.8% | 1,407.5 | 1,359.6 | -3.4% |
| **Total Retail Trade** | **61,770.7** | **5.6%** | **66,927.5** | **8.3%** | **70,773.7** | **5.7%** | **74,263.5** | 4.9% | **79,503.9** | 7.1% | **71,163.2** | **73,995.4** | **4.0%** |
| | | | | | | | | | | | | | |
| Transportation/Warehouse | 528.9 | -9.7% | 593.1 | 12.1% | 710.2 | 19.7% | 828.4 | 16.6% | 980.8 | 18.4% | 816.3 | 768.5 | -5.9% |
| Information | 6,889.0 | -2.2% | 6,321.8 | -8.2% | 6,242.2 | -1.3% | 5,789.3 | -7.3% | 5,447.6 | -5.9% | 4,836.4 | 4,802.1 | -0.7% |
| Finance/Insurance | 3,207.3 | 12.7% | 3,085.9 | -3.8% | 3,130.7 | 1.5% | 2,493.2 | -20.4% | 1,689.9 | -32.2% | 1,393.0 | 2,388.2 | 71.4% |
| Real Estate/Rental/Lease | 2,916.5 | 0.5% | 3,154.3 | 8.2% | 3,240.7 | 2.7% | 3,561.7 | 9.9% | 4,168.7 | 17.0% | 3,750.5 | 3,951.9 | 5.4% |
| Professional/Scientific/Technical | 6,553.9 | 8.2% | 6,768.8 | 3.3% | 6,818.2 | 0.7% | 7,474.7 | 9.6% | 7,049.0 | -5.7% | 5,192.5 | 5,304.8 | 2.2% |
| Admin/Support/Waste/Remediatio | 1,823.3 | 1.6% | 1,882.7 | 3.3% | 1,866.1 | -0.9% | 2,044.5 | 9.6% | 2,070.2 | 1.3% | 1,766.9 | 1,884.7 | 6.7% |
| Education | 480.0 | 13.8% | 487.1 | 1.5% | 490.8 | 0.8% | 478.1 | -2.6% | 481.2 | 0.7% | 407.2 | 401.5 | -1.4% |
| Health Care/Social Assistance | 6,000.4 | 4.5% | 6,222.6 | 3.7% | 6,318.5 | 1.5% | 6,827.2 | 8.1% | 7,226.5 | 5.8% | 6,388.7 | 6,105.9 | -4.4% |
| Arts/Entertainment/Recreation | 955.8 | 5.8% | 987.2 | 3.3% | 1,036.6 | 5.0% | 1,104.4 | 6.5% | 1,169.3 | 5.9% | 1,015.8 | 1,162.8 | 14.5% |
| Accommodation | 2,719.2 | 5.9% | 3,014.9 | 10.9% | 3,199.2 | 6.1% | 3,375.6 | 5.5% | 3,748.1 | 11.0% | 3,430.6 | 3,711.6 | 8.2% |
| Food/Drinking Services | 8,333.8 | 4.5% | 8,876.4 | 6.5% | 9,474.1 | 6.7% | 9,976.8 | 5.3% | 10,855.0 | 8.8% | 9,871.1 | 10,559.5 | 7.0% |
| Other Services | 3,565.9 | 2.7% | 3,763.6 | 5.5% | 3,867.8 | 2.8% | 4,359.0 | 12.7% | 4,907.6 | 12.6% | 4,220.8 | 4,691.7 | 11.2% |
| Government | 262.4 | 8.2% | 268.2 | 2.2% | 244.5 | -8.8% | 252.6 | 3.3% | 254.8 | 0.9% | 228.6 | 237.3 | 3.8% |
| | | | | | | | | | | | | | |
| **Total All Industries** | **144,847.3** | **8.0%** | **155,054.2** | **7.0%** | **164,568.4** | **6.1%** | **172,784.0** | 5.0% | **182,479.4** | 5.6% | **158,985.8** | **160,381.3** | **0.9%** |

Source: Colorado Department of Revenue.

## Tourism

The following table provides visitor counts for the State's national parks and major recreation areas, Denver area convention attendance figures, and visitor counts for Colorado ski areas.

**Colorado Tourism Statistics**

| | National Parks Visits[1] | | Conventions[2] | | | | | | Skier Visits[3] | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Conventions* | | *Delegates* | | *Spending* | | | |
| | **Number (millions)** | **% Change** | **Number** | **% Change** | **Number (thousands)** | **% Change** | **Amount (millions)** | **% Change** | **Number (millions)** | **% Change** |
| 2011 | 5.82 | | 82 | | 283.2 | | $564.2 | | 12.28 | |
| 2012 | 5.81 | -0.1% | 98 | 19.5% | 266.1 | -6.0% | $530.1 | -6.0% | 11.02 | -10.3% |
| 2013 | 5.39 | -7.2% | 84 | -14.3% | 265.7 | -0.2% | $529.3 | -0.2% | 11.45 | 3.9% |
| 2014 | 6.03 | 11.8% | 76 | -9.5% | 289.3 | 8.9% | $576.3 | 8.9% | 12.60 | 10.1% |
| 2015 | 7.08 | 17.3% | 73 | -3.9% | 236.8 | -18.1% | $546.6 | -5.2% | 12.55 | -0.4% |

[1]Count of recreational visitors for all of the State's National Parks Service territories, which include national parks, monuments, historic sites, and recreation areas.
[2]Includes only those conventions booked by VISIT DENVER and held at the Colorado Convention Center.
[3]Count of skier visits for the season ending in the referenced year.
Sources: National Parks Service; VISIT DENVER, The Convention and Visitor's Bureau; Colorado Ski Country USA; Vail Resorts, Inc.

## Residential Housing Starts

The following table provides a five-year history of the State's residential building permit issuance.

**New Privately Owned Housing Units Authorized in Colorado**

| | 1 Unit | 2 Units | 3 & 4 Units | 5+ Units | Total Building Permits | % Change |
|---|---|---|---|---|---|---|
| 2011 | 8,723 | 266 | 127 | 4,386 | 13,502 | |
| 2012 | 12,617 | 304 | 97 | 10,283 | 23,301 | 72.6% |
| 2013 | 15,772 | 408 | 148 | 11,189 | 27,517 | 18.1% |
| 2014 | 17,104 | 532 | 146 | 10,916 | 28,698 | 4.3% |
| 2015 | 20,025 | 334 | 287 | 11,225 | 31,871 | 11.1% |
| Year-to-date totals through March: | | | | | | |
| 2015 | 4,010 | 144 | 55 | 1,894 | 6,103 | |
| 2016 | 4,798 | 38 | 65 | 2,286 | 7,187 | |
| *% change* | *19.7%* | *-73.6%* | *18.2%* | *20.7%* | *17.8%* | |

Source: U.S. Census Bureau.

## Residential Foreclosures

The following table provides a five-year history of foreclosure filings and sales in Colorado. The foreclosure filing is the event that begins the foreclosure process. In general, a borrower who is at least three months delinquent will receive a filing notice from the Public Trustee for the county in which the property is located. At this point, the property is in foreclosure.

Because a foreclosure filing can be cured or withdrawn before the home is sold at auction, not all filings result in foreclosure sales. Foreclosure sales at auction generally proceed between 110 and 125 days after the initial filing. Once a foreclosure sale is completed, the eviction process begins.

**Foreclosure Filings and Sales in Colorado**

| | Foreclosure Filings[1] | % Change | Foreclosure Sales at Auction | % Change |
|---|---|---|---|---|
| 2011 | 31,975 | | 19,617 | |
| 2012 | 28,579 | -10.6% | 15,903 | -18.9% |
| 2013 | 15,333 | -46.3% | 9,318 | -41.4% |
| 2014 | 11,243 | -26.7% | 5,989 | -35.7% |
| 2015 | 8,241 | -26.7% | 4,209 | -29.7% |

[1]Some filings may have been subsequently cured or withdrawn and may not have resulted in sales at auction.
Source: Colorado Division of Housing.

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## APPENDIX E

## STATE PENSION SYSTEM

*The information included in this Appendix is based on information compiled and presented in the Public Employees' Retirement Association ("PERA") Comprehensive Annual Financial Report for the Plan Year ended December 31, 2015 (the "PERA 2015 CAFR"). The PERA 2015 CAFR was prepared by PERA staff employees and the firm of Cavanaugh Macdonald Consulting, LLC, PERA's independent actuary, and audited by CliftonLarsonAllen LLP, PERA's independent public accounting firm. The valuations and other assessments of PERA constitute forward looking information as described in the preliminary notices in this Official Statement because they are based on assumptions about future events. The assumptions underlying the valuations and assessments may prove to be inaccurate and may be changed by PERA and its representatives and consultants to reflect actual results and future projections as additional information becomes available. The State takes no responsibility for the accuracy, validity or completeness of such information, valuations and assessments. The PERA 2015 CAFR is not incorporated in this Official Statement by reference or otherwise, and the State makes no representations regarding the accuracy of the information in the PERA 2015 CAFR.*

The information in the State's Fiscal Year 2014-15 CAFR regarding PERA is derived from PERA's Comprehensive Annual Financial Report for calendar year 2014 (the "PERA 2014 CAFR") and reflects the implementation by PERA in 2014 of GASB Statement No. 67, "Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25" ("GASB 67") as discussed in "Implementation by PERA of GASB 67" below. See also "Implementation of Changes in Pension Accounting Standards Applicable to the State – GASB 68" in this appendix. However, the information in this Appendix and the State's Fiscal Year 2014-15 Unaudited BFS is derived from the PERA 2015 CAFR.

### General Description

***Overview***. The State of Colorado, like most other state and local governments, provides post-employment benefits to its employees based on their work tenure and earnings history. By statute, the State created PERA, which administers cost-sharing, multiple-employer defined benefit plans to provide retirement, death and disability benefits through the State Division Trust Fund (generally for State employees) (the "State Division"), the School Division Trust Fund (for employees of school districts), the Local Government Division Trust Fund (for employees of numerous municipalities and other local governmental entities), the Judicial Division Trust Fund (for judges in the State) and the Denver Public Schools Division (for employees of DPS). The defined benefit plan for the State Division is referred to herein as the "State Division Plan."

As described in more detail under the caption "Funding of the State Division Plan" below, the State Division Plan is funded with payments made by the State and by each employee, the amounts of which are determined and established by statute. Benefits provided through the State Division Plan are paid from the State Division Trust Fund. State employees hired after 2005 may, in lieu of participating in the State Division Plan, elect to participate in a defined contribution plan (the "State Division DC Plan") which is also administered by PERA. However, the majority of State employees participate in the State Division Plan. The State has no obligation to make contributions or fund benefits in Divisions other than the State Division and Judicial Division of PERA. See Notes 1 and 8 to the financial statements in the PERA 2015 CAFR for a discussion of the membership in the State Division Plan and the State Division DC Plan, respectively. See also Management's Discussion and Analysis in the State's Fiscal Year 2014-15 CAFR and Notes 18, 19 and 20 to the financial statements in both such CAFR the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a description of the State Division Plan and the State Division DC Plan.

Because the majority of State employees participate in the State Division Plan and not in the State Division DC Plan, and the number of judges employed by the State that participate in the Judicial Division is relatively small in comparison to the number of other State employees, the disclosure in "DEBT AND CERTAIN OTHER FINANCIAL OBLIGATIONS – Pension and Post-Employment Benefits" in the body of this Official Statement and in this Appendix relates only to the State Division Plan.

The State does not participate in the federal Old-Age, Survivors and Disability Insurance (Social Security) program.

***PERA***. PERA is a legal entity created by statute in 1931 that is separate from the State as further described in Article 51 of Title 24, C.R.S. (the "PERA Act"). Management of PERA is vested in a 16-member Board of Trustees (the "PERA Board"). PERA has fiduciary responsibility for several separate divisions, including the State Division, the School Division, the Local Government Division, the Judicial Division and the Denver Public Schools Division. The State represents the majority, but not all, of the State Division employers and employees. Each Division operates as a separate legal trust. PERA also operates two cost-sharing, multiple-employer post-employment benefit plans through the Health Care Trust Fund and the Denver Public Schools Health Care Trust Fund that provide health care premium subsidies to participating PERA benefit recipients who choose to enroll in one of PERA's health care plans. PERA's financial statements, which include all of its Divisions and trusts, may be obtained by writing to PERA at P.O. Box 5800, Denver, Colorado 80217-5800, by calling the PERA Infoline at 1-800-759-7372 or by visiting http://www.copera.org. *The reference to PERA's website is included herein for informational purposes only, and information available on such website or in PERA's financial statements, or any other information provided by PERA, is not incorporated in this Official Statement by reference or otherwise, nor does the State make any representations regarding the accuracy of any such information.*

**Basic Provisions of the State Division Plan**

Members of the State Division Plan who meet minimum age and service requirements are eligible to receive a monthly retirement benefit based on their employment and earnings history with the State. Calculation of retirement benefits, and eligibility requirements, differ depending on the employee's original hire date. In response to funding challenges, the General Assembly has enacted changes to State Division Plan benefits at various times. Some of such changes have been applied prospectively to newly hired employees. As a result, there are several tiers of employee benefits and related provisions that are based on employee hire dates and other factors. See Notes 18, 19 and 20 to the financial statements in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement, the PERA 2015 CAFR and the PERA Act for a discussion of eligibility requirements and the various tiers of benefits under the State Division Plan. See also the Statistical Section of the PERA 2015 CAFR for various statistics regarding members, retirees, survivors and benefit payments for the State Division Plan.

**Implementation by PERA of GASB 67**

In 2012, GASB issued Statement No. 67, "Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25" ("GASB 67"), which establishes new standards for financial reporting and note disclosure by defined benefit pension plans administered through qualified trusts, and note disclosure requirements for defined contribution pension plans administered through qualified trusts. GASB 67 is effective for accounting periods beginning after June 15, 2013, and, accordingly, PERA implemented GASB 67 beginning with the PERA 2014 CAFR.

The objective of GASB 67 as stated therein is to improve financial reporting by state and local governmental pension plans. The requirements of GASB 67 are intended to improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information. A related statement, GASB Statement No. 68, "Accounting and Financial Reporting for Pensions," applies to governmental employers and was implemented by the State in the State's Fiscal Year 2014-15 CAFR appended to this Official Statement. See "Implementation of Changes in Pension Accounting Standards Applicable to the State – GASB 68" below.

GASB 67 establishes a shift in financial disclosure requirements from a funding-based approach to an accounting-based approach. Implementation of GASB 67 requires the preparation of two actuarial valuations, one for funding purposes and one for accounting and financial disclosure purposes. The purpose of the funding valuation is to guide the PERA Board's actions necessary to ensure the long-term sustainability of PERA's trust funds. The funding valuation aids this action by allowing PERA to assess the sufficiency of the current statutory contribution rates and analyze the sufficiency of future contributions to meet current and future benefit obligations. The actuarial valuation for accounting purposes emphasizes the obligation an employer incurs to employees through the employment-exchange process. The primary purpose of the valuation for accounting purposes is to provide a consistent, standardized methodology that allows comparability of amounts and increased transparency of the pension liability across U.S. pension plans complying with this new reporting standard. To accomplish this, GASB 67 requires a different approach for determining net pension liability as compared to the previously disclosed unfunded actuarial accrued liability[1], or "UAAL." Net pension liability is to be measured as the total pension liability[2] of the plan less the amount of the plan's fiduciary net position[3].

Another major change in the new standard is the rate used to discount projected benefit payments. The new standard states the long-term expected rate of return on the investments of the plan should be applied only to available plan assets that are expected to be invested using a strategy to achieve that return. If there comes a point in the projections when plan fiduciary net position and contributions related to active and inactive employees are no longer projected to be greater than or equal to projected benefit payments related to those employees and administrative expenses (crossover point), then from that point forward the plan will be required to discount the projected benefit payments after the crossover point using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

GASB 67 also enhances the standards for footnote disclosure and required supplementary information for pension plans, including, among other things, disclosing the plan's net pension liability, ratio of fiduciary net position to total pension liability and actuarial methods and assumptions.

**Actuarial Valuations**

Many of the measures used to determine and evaluate the financial condition and funding status of the State Division Plan are based on actuarial valuations. An actuarial valuation is the determination, as of the actuarial valuation date, of the service cost, total pension liability and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by GASB. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The actuarial valuations for each of PERA's defined benefit plans, including the State Division Plan, were prepared by PERA's actuaries as of December 31, 2015, based on a set of actuarial methods and assumptions that by State law are the responsibility of the PERA Board. The valuations for the State Division Plan examine the assets of the Plan compared to actuarial liabilities, compare past and future trends and determine the net pension liability of the Plan. The actuarial valuation for funding purposes

[1] Actuarial accrued liability ("AAL") is the excess of the present value of a pension fund's total of future benefits (payable to the plan participants) and fund administration expenses over the present value of the future normal cost of those benefits. Unfunded actuarial accrued liability is the difference between the AAL and the valuation assets of the fund.

[2] Total pension liability is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of plan member service in conformity with the requirements of GASB 67. For purposes of application to the requirements of GASB 67, AAL is the equivalent of total pension liability.

[3] Fiduciary net position equals assets plus deferred outflows of resources and less liabilities and deferred inflows of resources at the end of the plan's reporting period.

applies an asset valuation method that recognizes a four-year smoothed market value of assets for purposes of determining the UAAL, while the actuarial valuation for accounting and financial reporting purposes applies the fair value of assets (determined in conformity with GASB standards) to determine the net pension liability. See the Actuarial Section of the PERA 2015 CAFR for a discussion of other actuarial methods and assumptions used in the actuarial valuations of the State Division Plan.

The PERA 2015 CAFR states that the PERA Board studies all economic and demographic actuarial assumptions at least every five years and approves changes to those assumptions. The PERA Board last completed an experience study in 2012, and the next planned experience study is in 2016. In addition, the PERA Board reviews the economic assumptions on a more frequent basis. The PERA Board determined that changes to the economic and demographic assumptions were not necessary for the December 31, 2014, accounting actuarial assumptions.

No assurance can be given that any of the assumptions underlying the actuarial valuations of the State Division Plan will reflect the actual results experienced by the Plan. Variances between the assumptions and actual results may cause an increase or decrease in the actuarial value of Plan assets, the net pension liability of the Plan and other valuation and performance measures determined on the basis of such actuarial valuations.

**Funding of the State Division Plan**

***Statutorily Required Contributions.*** The State Division Plan is funded with payments made by the State and by each eligible employee as provided in the PERA Act. The State's contributions to the Plan are based on percentages of employee wages and are set by statute. These contribution percentages are referred to herein as the statutorily required contribution, or "SRC," of the State. The baseline SRC that is made by the State for most State employees is 10.15% of the employee's salary. The State has consistently contributed the full amount of the SRC to the State Division Plan. See Note 18 and the Required Supplementary Information to the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a summary of the SRC percentages payable, and percentage amount of the SRC paid, by the State for the last three Fiscal Years, as well as total PERA plan contributions made by the State for each of the past ten Fiscal Years.

As required by statute, State employees contribute 8.0% (except for State Troopers and Colorado Bureau of Investigation officers, who contribute 10%) of their wages to the State Division Plan, although per SB 10-001, for Fiscal Years 2010-11 and 2011-12 the employee contribution percentage was increased to 10.5% of the employee's wages. The 2.5% increase in contribution percentage by employees offset a 2.5% reduction in the State contribution for those Fiscal Years. The employee contribution rates reverted to pre-Fiscal Year 2010-11 levels effective July 1, 2012, and the State returned to paying the 10.15% SRC.

The General Assembly enacted legislation in 2004, 2006 and 2010 to gradually increase employer contributions to the State Division Plan by authorizing the Amortization Equalization Disbursement, or "AED," and the Supplemental Amortization Equalization Disbursement, or "SAED," in order to shorten the amount of time over which the unfunded liability of the Plan is amortized. Both the AED and the SAED are paid by the State as contributions to the State Division Plan as a percentage of employee wages, but the SAED payment comes from moneys that would otherwise have been used to provide market-based salary increases to employees. The AED applicable to the State Division Plan was effective as of January 1, 2006, and was initially payable at the rate of 0.5% of total covered payroll, with annual increases in the contribution rate through 2017. The AED rate applicable to the State Division Plan was 4.2% in 2015, is 4.6% in 2016 and will increase to 5.0% in 2017. The SAED applicable to the State Division Plan was effective as of January 1, 2008, and was also initially payable at the rate of 0.5% of total covered payroll, with annual increases in the contribution rate through 2017. The SAED rate applicable to the State Division Plan was 4.0% in 2015, is 4.5% in 2016 and will increase to 5.0% in 2017. When and if the scheduled increases in AED and SAED for the State Division Plan are fully implemented as of January 1, 2017, the total SRC applicable to the State Division Plan will be equal to 20.15% of employee wages. See Note 18 to the State's Fiscal Year 2014-15

CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement and Note 4 to the financial statements in the PERA 2015 CAFR for a further discussion of the AED and SAED.

Changes to the statutorily required contributions to the State Division Plan by the State and its employees, or to other provisions of the Plan, could be made by the General Assembly through future legislative action, which changes could impact the SRC, the funding status and/or the financial condition of the Plan as described herein. The State cannot predict if or when any such legislative changes might be enacted or the impact that any such changes, if enacted, might have on the State Division Plan or the State's funding obligations with respect to the Plan.

*Because the State's annual contributions with respect to the State Division Plan are set by statute and funded in the State's annual budget, such contributions are not affected in the short term by changes in the actuarial valuation of Plan assets or the funded ratio of the Plan. Any changes in the SRC would require legislative action by the General Assembly. See also "Funding Status of the State Division Plan" below.*

While PERA has a pension funding policy as discussed in "*Change in PERA Funding Policy*" hereafter, the State does not have a formal or established policy or procedure for managing its pension liability. PERA annually provides a briefing to State officials and members of the General Assembly as to the status of the State Division Plan and occasionally may pursue legislation pertaining to changes in contribution and/or benefit provisions in furtherance of PERA's funding policy. Legislative proposals to modify the contributions, benefits, eligibility and other provisions of the State Division Plan also are introduced in the General Assembly from time to time independent of a request therefor from PERA.

The SRC is paid from the State General Fund as well as from certain federal and cash funds and is typically paid from the same funding source as the employee's salary and other benefits. Although the rate of the SRC is set by statute, payment of the SRC nevertheless is subject to annual appropriation through the State budgeting process as described in "STATE FINANCIAL INFORMATION – Budget Process and Other Considerations" in the body of this Official Statement.

***Actuarially Determined Contribution.*** As a result of the shift in financial disclosure requirements under GASB 67 from a funding-based approach to an accounting-based approach, the historical disclosure and use of the annual required contribution[1], or "ARC," as a funding benchmark by PERA is no longer required. Rather, this philosophical shift necessitates the development and use of a plan-specific actuarially determined contribution ("ADC") benchmark against which to gauge the adequacy of the SRC for the State Division Plan. The ADC represents the amount needed to fund benefits over time, and constitutes a target or recommended employer contribution for the reporting period determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted. An ADC deficiency arises when actual employer contributions are less than the ADC, and interest accrues on the ADC deficiency at the plan's expected long-term rate of return. See "*Historical ADC and State Contributions*" below.

***Change in PERA Funding Policy***. In response to the new GASB 67 standards, the PERA Board adopted a revised pension funding policy in March 2015 with regard to its trust funds to update and replace the prior funding policy dated November 2007. The purpose of the revised funding policy, as stated in the PERA 2015 CAFR, is to: (i) define the overall funding benchmarks of PERA's defined benefit pension trust funds; (ii) assess the adequacy of the contribution rates which are set by the General Assembly by comparing these rates to an ADC rate; and (iii) define the annual actuarial metrics that will assist the PERA Board in assessing the sustainability of the plan. The results of these three items are intended to guide the

[1] Prior to 2014, PERA used the annual required contribution, or ARC, as a funding benchmark against which to gauge the adequacy of the SRC for the State Division Plan. The ARC is the actuarially determined amount that would be required if the State were to fund each year's normal cost (*i.e.*, the present value of the benefits that the State Division Plan projects to become payable in the future that are attributable to a valuation year's payroll) in the State Division Plan plus an annual amortization of the UAAL assuming that the UAAL will be fully funded over a maximum 30-year period. The difference between the ARC and the SRC constitutes either a contribution deficiency or excess contributions. For historical information regarding the ARC, see PERA's Comprehensive Annual Financial Report for calendar year 2013.

PERA Board when considering whether to pursue or support proposed legislation pertaining to changes in plan contribution and/or benefit provisions. See "*Statutorily Required Contributions*" above.

***Historical ADC and State Contributions.*** The following table sets forth for each of the years 2006-2015 (i) the ADC for the State Division Plan, (ii) the annual contribution deficiency and (iii) the actual contribution as a percentage of covered employee payroll. The State annually contributes the full amount of the SRC to the State Division Plan; however, these amounts have been less than the applicable ARC or ADC. During this period the State has not made any contributions to the State Division Plan in excess of the SRC.

The ADC rates, as a percentage of pensionable payroll, used to determine the ADC amounts in Table 1 below are calculated as of December 31 two years prior to the end of the year in which the ADC amounts are reported. The following actuarial methods and assumptions (from the December 31, 2013, actuarial valuation) were used to determine contribution rates reported in the table for the year ended December 31, 2015: (i) the actuarial cost method is based on the entry age of participants; (ii) the Plan's UAAL is amortized as a level percent of payroll, on an open basis, over a 30-year period; (iii) for valuation purposes the actuarial value of assets is based on gains and losses smoothed in over a four-year period as permitted by GASB standards; (iv) price inflation is assumed to be 2.80%; (v) real wage growth is assumed to be 1.10%; (vi) salary increases (including assumed wage inflation of 3.90%) are projected to range from 3.90% to 9.57%; (vii) the long-term investment rate of return (net of pension plan investment expense, including price inflation) is assumed to be 7.5%; and (viii) cost of living adjustments for pre-2007 hires are assumed to be 2.00% per year and cost of living adjustments for post-2006 hires are assumed to be financed by the Annual Increase Reserve described in footnote 2 to the table. Other assumptions include, without limitation, future retiree participation and contribution rates and mortality rates. For further information, see Note 3 to the required supplementary information for the Division trust funds and the Actuarial Section in the PERA 2015 CAFR.

**Table 1**
**Employer Contributions**
**State Division**
(Dollar Amounts in Thousands)

| Calendar Year | ADC Rate[1] | Covered Employee Payroll | Annual Increase Reserve Contribution[2] | ADC Contribution[3] | Contributions in Relation to the ADC | Annual Contribution Deficiency | Actual Contribution as a Percentage of Covered Employee Payroll |
|---|---|---|---|---|---|---|---|
| 2015 | 22.35% | $2,641,867 | $11,400 | $601,857 | $484,005 | $117,852 | 18.32% |
| 2014 | 20.45 | 2,564,670 | 9,984 | 534,459 | 444,372 | 90,087 | 17.33 |
| 2013 | 20.01 | 2,474,965 | -- | 495,241 | 393,218 | 102,023 | 15.89 |
| 2012 | 16.52 | 2,384,934 | -- | 393,991 | 328,055 | 65,936 | 13.76 |
| 2011 | 13.63 | 2,393,791 | -- | 326,274 | 277,122 | 49,152 | 11.58 |
| 2010 | 18.93 | 2,392,080 | -- | 452,821 | 282,640 | 170,181 | 11.82 |
| 2009 | 17.91 | 2,384,137 | -- | 426,999 | 293,234 | 133,765 | 12.30 |
| 2008 | 18.45 | 2,371,639 | -- | 437,567 | 267,533 | 170,034 | 11.28 |
| 2007 | 17.23 | 2,236,518 | -- | 385,352 | 231,909 | 153,443 | 10.37 |
| 2006 | 19.33 | 2,099,325 | -- | 405,800 | 208,795 | 197,005 | 9.95 |

[1] See the discussion preceding this table regarding the actuarial methods and assumptions used in determining the ADC rates.

[2] The Annual Increase Reserve, or "AIR," was established in 2007 and is used to provide post-retirement benefit increases for members hired on or after January 1, 2007. The AIR is financed by an allocation from employer statutory contributions made on behalf of such members equal to 100% of pensionable payroll and through an allocation of purchase of service dollars. For further information see the PERA 2015 CAFR.

[3] The ADC contribution equals the sum of (i) the ADC rate times the covered employee payroll, plus (ii) the AIR.

Source: PERA 2015 CAFR

The Management's Discussion and Analysis in the PERA 2015 CAFR states that, using the GASB standards as a guide and the 2014 actuarial valuation based on a 7.5% investment rate of return and discount rate, the 2016 ADC for the State Division Fund needed to meet the initial, layered, 30-year closed amortization period will be 22.31%, and using the funding policy approved by the PERA Board in March 2015 and the 2015 actuarial valuation based on a 7.5% investment rate of return and discount rate, the 2016 ADC for the State Division Fund needed to meet the layered, 30-year closed amortization period will be 22.71%.

For historical information regarding employer contributions based on the ARC, see PERA's Comprehensive Annual Financial Report for calendar year 2013 and Note 18B to the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement.

Effective January 1, 2017, the PERA Board revised the actuarial investment assumption rate from 7.5% to 7.25%, which will increase the State's pension liability in future years.

**Funding Status of the State Division Plan**

The State Division Plan currently is significantly underfunded. As discussed in "Funding of the State Division Plan – *Statutorily Required Contributions*" above, the AED and SAED were implemented in 2006 and 2008, respectively, and other changes were made to the Plan design by SB 10-001, all in an effort to improve the funding status of the State Division Plan. In addition, investment returns on Plan assets have recently decreased following the negative effects of the global economic downturn that began in 2008, with a net investment return for the Plan of 1.5% in 2015. The actuarial assumptions as to the investment rate of return on Plan assets and the discount rate on actuarially accrued liabilities were lowered by the PERA Board from 8.5% to 8.0% in 2009, and again from 8.0% to 7.5% at the end of 2013, and other economic assumptions, including the amortization period, have been changed over this period as well, to reflect actual results and new estimates about the future. For further information, see Management's Discussion and Analysis in the State's Fiscal Year 2014-15 CAFR appended to this Official Statement, as well as Management's Discussion and Analysis, Note 10 to the financial statements, Note 2 to the required supplementary information for the Division trust funds and the Actuarial Section in the PERA 2015 CAFR.

The PERA 2015 CAFR reports that at December 31, 2015, the actuarial value of assets of the State Division Plan was approximately $13.9 billion and the AAL of the Plan was approximately $24.1 billion, resulting in a UAAL of approximately $10.2 billion and a funded ratio (*i.e.*, the actuarial value of Plan assets divided by the AAL) of only 57.6%. This UAAL would amortize over a 44-year period based on contribution rates as of the date of calculation (*i.e.*, contributions equal to the SRC) and future increases in the AED and SAED, as well as an investment rate of return and discount rate for actuarially accrued liabilities of 7.5%.

The actuarial value of assets of the State Division Plan is determined by using an asset valuation method of smoothing the difference between the market value of assets and the actuarial value of assets over a four-year period to prevent extreme fluctuations that may result from short-term or cyclical economic and market conditions. Accordingly, the full effect of recent fluctuations in assets of the State Division Plan as a result of economic and market conditions is not reflected in the funded ratio. Based on the market value of assets of the State Division Plan, the PERA 2015 CAFR reports that at December 31, 2015, the UAAL of the Plan was approximately $10.7 billion and the funded ratio was 55.6%.

Table 2 below sets forth for each of the years 2006-2015 the UAAL, the funded ratio and related information for the State Division Plan based on the actuarial value of Plan assets, and Table 3 below sets forth such information based on the market value of Plan assets.

The total pension liability for the State Division Plan was determined by actuarial valuations as of December 31, 2014, and accepted actuarial procedures were applied to roll forward the total pension liability to December 31, 2015. When calculating the AAL of the State Division Plan in Tables 2 and 3 below, the following actuarial methods, assumptions and inputs, among others, were used: (i) price inflation is assumed to be 3.90%; (ii) real wage growth is assumed to be 1.10%; (iii) salary increases (including assumed wage inflation of 3.90%) are projected to range from 3.90% to 9.57%; (iv) the long-term investment rate of return (net of pension plan investment expense, including price inflation) and discount rate are assumed to be 7.5%; and (v) cost of living adjustments for pre-2007 hires are assumed to be 2.00% per year compounded annually, and cost of living adjustments for post-2006 hires are assumed to be financed by the AIR. Other assumptions include, without limitation, future retiree participation and contribution rates and mortality rates. For further information, see Note 10 to the financial statements and the Actuarial Section in the PERA 2015 CAFR.

Effective January 1, 2017, the PERA Board revised the actuarial investment assumption rate from 7.5% to 7.25%, which will increase the State's pension liability in future years.

**Table 2**
**Historical Funding Progress of State Division Plan**
**Actuarial Value of Plan Assets**
(Dollar Amounts in Thousands)

| Valuation Date (December 31) | Actuarial Value of Plan Assets[1] | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Employer Payroll | UAAL as Percentage of Employer Payroll |
|---|---|---|---|---|---|---|
| 2015 | $13,882,820 | $24,085,671 | $10,202,851 | 57.6% | $2,641,867 | 386.2% |
| 2014 | 13,523,488 | 23,408,321 | 9,884,833 | 57.8 | 2,564,670 | 385.4 |
| 2013 | 13,129,460 | 22,843,725 | 9,714,265 | 57.5 | 2,474,965 | 392.5 |
| 2012 | 12,538,675 | 21,191,495 | 8,652,820 | 59.2 | 2,384,934 | 362.8 |
| 2011 | 12,010,045 | 20,826,543 | 8,816,498 | 57.7 | 2,393,791 | 368.3 |
| 2010 | 12,791,946 | 20,356,176 | 7,564,230 | 62.8 | 2,392,080 | 316.2 |
| 2009 | 13,382,736 | 19,977,217 | 6,594,481 | 67.0 | 2,384,137 | 276.6 |
| 2008 | 13,914,371 | 20,498,668 | 6,584,297 | 67.9 | 2,371,369 | 277.7 |
| 2007 | 14,220,681 | 19,390,296 | 5,169,615 | 73.3 | 2,236,518 | 231.1 |
| 2006 | 13,327,290 | 18,246,010 | 4,918,720 | 73.0 | 2,099,325 | 234.3 |

[1] The actuarial value of Plan assets is based on gains and losses smoothed in over a four-year period as permitted by GASB standards.

Source: PERA 2015 CAFR

**Table 3**
**Historical Funding Progress of State Division Plan**
**Market Value of Plan Assets**
(Dollar Amounts in Thousands)

| Valuation Date (December 31) | Market Value of Plan Assets[1] | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Employer Payroll | UAAL as Percentage of Employer Payroll |
|---|---|---|---|---|---|---|
| 2015 | $13,391,398 | $24,085,671 | $10,694,273 | 55.6% | $2,641,867 | 404.8% |
| 2014 | 13,956,630 | 23,408,321 | 9,451,691 | 59.6 | 2,564,670 | 368.5 |
| 2013 | 13,935,754 | 22,843,725 | 8,907,971 | 61.0 | 2,474,965 | 359.9 |
| 2012 | 12,766,459 | 21,191,495 | 8,425,036 | 60.2 | 2,384,934 | 353.3 |
| 2011 | 12,001,770 | 20,826,543 | 8,824,773 | 57.6 | 2,393,791 | 368.7 |
| 2010 | 12,487,105 | 20,356,176 | 7,869,071 | 61.3 | 2,392,080 | 329.0 |
| 2009 | 11,611,758 | 19,977,217 | 8,365,459 | 58.1 | 2,384,137 | 350.9 |
| 2008 | 10,508,301 | 20,498,668 | 9,990,367 | 51.3 | 2,371,369 | 421.3 |
| 2007 | 14,852,029 | 19,390,296 | 4,538,267 | 76.6 | 2,236,518 | 202.9 |
| 2006 | 14,041,260 | 18,264,010 | 4,222,750 | 76.9 | 2,099,325 | 201.1 |

[1] The market value of Plan assets is the fair value of the assets determined in conformity with GASB standards. See the Investment Section of the PERA 2015 CAFR.

Source: PERA Comprehensive Annual Financial Reports for calendar years 2006 through 2015

Since contribution rates to the State Division Plan are fixed by statute, unless changes are made to such rates or changes are made to Plan provisions to reduce benefit payments, improvements in the funding status of the State Division Plan are expected to come primarily from increases in investment returns on Plan assets or changes in the actuarial assumptions used to determine the value of Plan assets and the AAL. Changes to contribution rates or other Plan provisions, or the use of alternative Plan funding strategies, would require legislative action by the General Assembly, of which there can be no assurance.

**Fiduciary Net Position of the State Division Plan**

The Statement of Fiduciary Net Position of the State Division Plan as of December 31, 2015, is included in PERA's basic financial statements set forth in the Financial Section of the PERA 2015 CAFR. The following table sets forth for each of the years 2006-2015 the changes in fiduciary net position of the State Division Plan.

**Table 4**
**Changes in Fiduciary Net Position**
**State Division**
(Cash Basis; Dollar Amounts in Thousands)

| | For the Year Ended December 31, | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
| ADDITIONS | | | | | | | | | | |
| Employer contributions | $ 484,005 | $ 444,372 | $ 401,658 | $ 335,073 | $ 283,222 | $ 287,624 | $ 297,240 | $ 270,353 | $ 232,997 | $ 208,795 |
| Member contributions | 217,980 | 211,610 | 202,799 | 227,058 | 258,678 | 223,240 | 194,168 | 191,481 | 179,971 | 169,965 |
| Purchased service | 26,946 | 22,446 | 22,241 | 16,358 | 11,277 | 12,496 | 8,830 | 13,315 | 8,259 | 39,480 |
| Net investment income (loss) | 210,337 | 780,762 | 1,931,658 | 1,511,244 | 232,669 | 1,553,142 | 1,742,571 | (3,745,843) | 1,388,265 | 1,921,863 |
| Other | 5,023 | 3,289 | 4,869 | 150 | 331 | 1 | 3 | 7 | 4 | 1 |
| Total additions | 944,291 | 1,462,479 | 2,563,225 | 2,089,883 | 786,177 | 2,076,503 | 2,242,812 | (3,270,687) | 1,809,496 | 2,340,104 |
| DEDUCTIONS | | | | | | | | | | |
| Benefit payments | 1,417,862 | 1,352,293 | 1,295,780 | 1,231,922 | 1,174,707 | 1,122,435 | 1,071,725 | 999,279 | 925,761 | 849,229 |
| Refunds | 63,567 | 61,152 | 68,735 | 69,221 | 70,090 | 68,844 | 58,416 | 56,716 | 56,578 | 65,911 |
| Disability insurance premiums | 2,088 | 2,309 | 2,229 | 1,570 | 1,685 | 1,661 | 2,004 | 1,794 | 1,833 | 1,772 |
| Administrative expenses | 10,779 | 10,067 | 9,780 | 8,568 | 8,685 | 8,942 | 8,729 | 8,639 | 6,963 | 7,889 |
| Other | 3,406 | 3,171 | 3,593 | 3,911 | (4,546) | (726) | (1,519) | 6,613 | 7,592 | 3,103 |
| Total deductions | 1,497,702 | 1,428,992 | 1,380,117 | 1,315,192 | 1,250,621 | 1,201,156 | 1,139,355 | 1,073,041 | 998,727 | 927,904 |
| Change in fiduciary net position | (553,411) | 33,487 | 1,183,108 | 774,691 | (464,444) | 875,347 | 1,103,457 | (4,343,728) | 810,769 | 1,412,200 |
| Fiduciary net position held at beginning of year | 14,013,947 | 13,980,460 | 12,797,352 | 12,022,661 | 12,487,105 | 11,611,758 | 10,508,301 | 14,852,029 | 14,041,260 | 12,629,060 |
| Fiduciary net position held at end of year | $13,460,536 | $14,013,947 | $13,980,460 | $12,797,352 | $12,022,661 | $12,487,105 | $11,611,758 | $10,508,301 | $14,852,029 | $14,041,260 |

Source: PERA 2015 CAFR

**Net Pension Liability of the State Division Plan**

As noted above, GASB 67 requires a different approach for determining net pension liability as compared to the previously disclosed UAAL, and also requires disclosing the plan's net pension liability and ratio of fiduciary net position to total pension liability. The schedule of net pension liability presents multi-year trend information about whether the fiduciary net position is increasing or decreasing over time relative to total pension liability.

The following table sets forth for the years 2013-2015 (the only years for which information is available) the net pension liability and related information regarding the State Division Plan. The required supplemental information in the PERA 2015 CAFR includes a schedule showing the sources of the changes in net pension liability for 2014 and 2015 (information for 2013 is not available). See also "Implementation of Changes in Pension Accounting Standards Applicable to the State – GASB 68" hereafter.

**Table 5**
**Net Pension Liability**
**State Division[1]**
(Dollar Amounts in Thousands)

| | For the Year Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2014** | **2013** |
| Total pension liability[2] | $23,991,569 | $23,420,461 | $22,888,431 |
| Plan fiduciary net position | 13,460,536 | 14,013,947 | 13,980,460 |
| Net pension liability | $10,531,033 | $ 9,406,514 | $ 8,907,971 |
| Net pension liability as a percentage of total pension liability | 56.11% | 59.84% | 61.08% |
| Covered employee payroll | $ 2,641,867 | $ 2,564,670 | $ 2,474,965 |
| Net pension liability as a percentage of covered employee payroll ` | 398.62% | 366.77% | 359.92% |

1 Information for years prior to 2013 is not available.

2 The total pension liability for the State Division was determined by actuarial valuations as of December 31, 2014, and accepted actuarial procedures were applied to roll-forward the total pension liability to December 31, 2015. The actuarial valuations as of December 31, 2014, used the key actuarial methods, assumptions or other inputs discussed in "Funding Status of the State Division Plan" above, except that the fair value of assets, rather than a four-year smoothed market value of assets, was used to determine the net pension liability.

Source: PERA 2015 CAFR

## Investment of State Division Plan Assets

State law authorizes the investment of PERA's funds by the PERA Board, subject to the following limitations:

- The aggregate amount of investment trust shares, corporate stocks, corporate bonds and convertible debentures cannot exceed 65% of the book value of the fund.

- Neither common nor preferred stock of a single corporation can exceed 5% of the book value of the fund.

- The fund cannot acquire more than 12% of the outstanding stocks or bonds of a single corporation.

See Note 5 to the financial statements and the Investment Section of the PERA 2015 CAFR for additional discussion of PERA's investment responsibilities and investment policies.

## Implementation of Changes in Pension Accounting Standards Applicable to the State – GASB 68

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions" ("GASB 68") is a GASB pronouncement that is related to GASB 67 and applicable to governmental entities, such as the State, that provide their employees with pension benefits. GASB 68 is effective for fiscal years beginning after June 15, 2014, and accordingly has been implemented in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement. GASB 68 revises and establishes new financial reporting requirements for governmental entities, and, among other things, requires cost-sharing employers participating in defined benefit plans to record their proportionate share of the unfunded pension liability. PERA reports that the State Division had a UAAL of approximately $9.7 billion as of December 31, 2013, $9.9 billion as of December 31, 2014, and $10.2 billion as of December 31, 2015.

The State reported a liability in the State's Fiscal Year 2015-16 Unaudited BFS of approximately $10.2 billion (approximately $10.1 billion for the State Division and $0.2 billion for the Judicial Division) at June 30, 2016, for its proportionate share of the net pension liability, compared to a reported liability in the State's Fiscal Year 2014-15 CAFR of approximately $9.1 billion (approximately $9.0 billion for the

State Division and $0.1 billion for the Judicial Division) at June 30, 2015, for its proportionate share of the net pension liability. The amounts presented for each Division were determined as of the calendar year-end that occurred within the Fiscal Year. See also Note 18C to the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement for a description of the methodology utilized to determine these amounts.

There is a difference between the net pension liability for the State reported by PERA and the State in their respective financial statements. The difference results from PERA's inclusion of employers in the State Division and the Judicial Division which are not included in the State's financial statement reporting entity. The PERA Board has statutory authority to assign employers to the State Division and Judicial Division that are not part of the State's financial statement reporting entity as defined by GASB Statement No. 14, as amended by GASB Statements No. 39 and 61. Examples of these employers in the State Division include Pinnacol Insurance, Fire and Police Pension Association and District Attorneys. Denver County Courts is the only Judicial Division employer that is not part of the State's financial statement reporting entity. The State includes in its financial statements a percentage of the net pension liability reported by PERA in its financial statements for each Division to determine the State's proportionate share in accordance with requirements of GASB 68. Additional information concerning the State's reporting entity can found in Note 3 to the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement, and additional information concerning the proportionate share calculation can be found in Note 18C of the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS.

The State's proportionate share of the net pension liability at the end of Fiscal Years 2013-14 through 2015-16 in accordance with requirements of GASB 68 is set forth in the following table.

**Table 6**
**State's (Primary Government's) Proportionate**
**Share of the Net Pension Liability**[1]
(Amounts in Thousands)

| | Fiscal Year 2015-16 | | Fiscal Year 2014-15 | | Fiscal Year 2013-14 | |
|---|---|---|---|---|---|---|
| | State Division | Judicial Division | State Division | Judicial Division | State Division | Judicial Division |
| State's proportion of the net pension liability (asset) | 95.71% | 93.96% | 95.85% | 93.60% | 95.86% | 93.44% |
| State's proportionate Share of Net Pension liability (asset) | $10,079,249 | $172,828 | $9,015,773 | $129,500 | $8,539,181 | $102,756 |
| State's covered-employee payroll | $2,717,027 | $51,896 | $2,530,865 | $50,596 | $2,476,598 | $46,957 |
| State's proportionate share of the net pension liability (assets) as a percentage of its covered-employee payroll | 370.97% | 333.03% | 356.23% | 255.95% | 344.79% | 218.83% |
| Plan fiduciary net position as a percentage of the total pension liability | 127.82% | 150.82% | 148.98% | 201.98% | 156.94% | 252.48% |

[1] The amounts presented for each Fiscal Year were determined as of the calendar year-end that occurred within the Fiscal Year and were calculated as described in Note 18C to the Financial Statements and Note RSI-2 to the Required Supplementary Information in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement.

Sources: State Fiscal Year 2014-15 CAFR and State Fiscal Year 2015-16 Unaudited BFS

A ten year history of the State's contribution to PERA for the State and Judicial Divisions is also included in Note RSI-2 to the Required Supplementary Information in the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement. See also "Overall Financial Position and Results of Operations" in the Management's Discussion and Analysis in the State's Fiscal Year 2014-15 CAFR, as well as the introduction to Notes 1-7 and Notes 18-20 to the Financial Statements in both such CAFR and the State's Fiscal Year 2015-16 Unaudited BFS.

**Effect of Pension Liability on the Series 2016B Notes**

The Series 2016B Notes are short-term obligations maturing on June 29, 2017, and are payable from Pledged Revenues which are expected to consist primarily of amounts received by the

State Treasurer from the Participating Districts on or before June 25, 2017, as repayment of their Program Loans and a portion of the proceeds of the Series 2016B Notes deposited to the Series 2016-17 Notes Repayment Account as discussed in "THE SERIES 2016B NOTES – Security and Sources of Payment." Therefore, the State's current pension liability and the State's current plans to address such liability are not expected to adversely affect the State's ability to pay the Series 2016B Notes. See also Management's Discussion and Analysis in the State's Fiscal Year 2014-15 CAFR and the State's Fiscal Year 2015-16 Unaudited BFS appended to this Official Statement, and particularly the section thereof captioned "CONDITIONS EXPECTED TO AFFECT FUTURE OPERATIONS – Pension Plan Contributions."

* * *

## APPENDIX F

## DTC BOOK-ENTRY SYSTEM

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from DTC and contains statements that are believed to describe accurately DTC, the method of effecting book-entry transfers of securities distributed through DTC and certain related matters, but the State takes no responsibility for the accuracy or completeness of such statements. Beneficial Owners should confirm the following information with DTC or the DTC Participants.

*None of the State, the State Treasurer, the Deputy State Treasurer, the Chief Financial Officer of the Department of the Treasury, the State Controller or the Financial Advisor has any responsibility or obligation to any Beneficial Owner with respect to (i) the accuracy of any records maintained by DTC or any DTC Participant, (ii) the distribution by DTC or any DTC Participant of any notice that is permitted or required to be given to the registered owners of the Series 2016B Notes under the Authorizing Resolution, (iii) the payment by DTC or any DTC Participant of any amounts received under the Authorizing Resolution with respect to the Series 2016B Notes, (iv) any consent given or other action taken by DTC or its nominee as the owner of Series 2016B Notes or (v) any other related matter.*

DTC will act as securities depository for the Series 2016B Notes. The Series 2016B Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2016B Note certificate, in the aggregate principal amount of the Series 2016B Notes, will be issued and deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at http://www.dtcc.com and http://www.dtc.org. The State undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on such websites as described in the preceding sentence, including, but not limited to, updates of such information or links to other internet sites accessed through the aforementioned websites.

Purchases of Series 2016B Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2016B Notes on DTC's records. The ownership interest of each Beneficial Owner is in turn recorded on the records of Direct and Indirect Participants. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016B Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016B Notes except in the event that use of the book-entry system for the Series 2016B Notes is discontinued.

To facilitate subsequent transfers, all Series 2016B Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2016B Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016B Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2016B Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2016B Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2016B Notes, such as redemptions, defaults and proposed amendments to the Authorizing Resolution. For example, Beneficial Owners of Series 2016B Notes may wish to ascertain that the nominee holding the Series 2016B Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2016B Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016B Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments with respect to the Series 2016B Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the State or the State Treasurer on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participants and not of DTC, the paying agent or the State, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments with respect to the Series 2016B Notes to Cede & Co., or to such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the State or the paying agent, disbursement of such payments to Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2016B Notes at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2016B Note certificates are required to be printed and delivered to the appropriate registered owners of the Series 2016B Notes.

The State may at any time decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository) with respect to the Series 2016B Notes. In that event, Series 2016B Note certificates will be printed and delivered to DTC.

## APPENDIX G

## FORM OF OPINION OF BOND COUNSEL

KUTAK ROCK LLP
DENVER, COLORADO

[Closing Date]

The Honorable Walker Stapleton
Treasurer of the State of Colorado

BofA Merrill Lynch
Citigroup Global Markets Inc.
Morgan Stanley & Co., LLC
Wells Fargo Bank, National Association

$375,000,000
State of Colorado
Education Loan Program Tax and Revenue Anticipation Notes
Series 2016B

Ladies and Gentlemen:

We have examined the laws of the State of Colorado (the "State"), the laws of the United States of America relevant to the opinions herein, and a certified transcript of the record of the proceedings taken preliminary to and simultaneously with the issuance by the State Treasurer (the "Treasurer") of the "State of Colorado, Education Loan Program Tax and Revenue Anticipation Notes, Series 2016B," in the aggregate principal amount of $375,000,000 dated as of the date of their issuance (the "Notes").

The Notes mature, bear interest, are transferable and payable, as to principal and interest at the times, in the manner, and subject to the conditions and limitations, provided in the resolution of the State Treasurer, adopted and approved on January 5, 2017, authorizing the issuance of the Notes (the "Resolution"). Proceeds of the Notes will be used to, among other things, fund loans to participating State school districts (the "Participating Districts") pursuant to a loan program administered by the State Treasurer.

As to questions of fact material to our opinion, we have relied upon representations of the State and Participating Districts contained in the certified proceedings and other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon such examination and, for purposes of paragraph 3 below, assuming continuous compliance with the covenants and representations contained in such proceedings and other documents, it is our opinion as Bond Counsel that under existing laws, regulations, rulings and judicial decisions:

1. The State is duly created and validly existing as a body corporate and politic with the corporate power to issue the Notes and perform the agreements on its part contained therein.

2. The Notes have been duly authorized, executed and delivered by the State and are valid and binding obligations of the State, enforceable against the State in accordance with the terms of the Resolution. The "Series 2016-17 Notes Repayment Account", to be established pursuant to the terms of the Resolution, and the Pledged Revenues, as defined in the Resolution, are irrevocably pledged to the payment of the principal of and interest on the Notes when due. The owners of the Notes are equally and

ratably secured by a first lien, but not an exclusive first lien, on the Series 2016-17 Notes Repayment Account and the moneys credited thereto.

3. Interest on the Notes is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. Notwithstanding Bond Counsel's opinion that interest on the Notes is not a specific preference item for purposes of the federal alternative minimum tax, such interest will be included in adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum taxable income 75% of the excess of such corporations' adjusted current earnings over their alternative minimum taxable income (determined without regard to such adjustment and prior to reduction for certain net operating losses). The opinions expressed in the preceding sentences assume the accuracy of certain representations and compliance by the State and Participating Districts with covenants designed to satisfy the requirements of the Internal Revenue Code of 1986, as amended, that must be met subsequent to the issuance of the Notes. Failure to comply with such requirements could cause interest on the Notes to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Notes.

4. Interest on the Notes is not included in Colorado taxable income or Colorado alternative minimum taxable income under present Colorado income tax laws.

It is to be understood that the rights of the owners of the Notes and the enforceability of the Note may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the reasonable exercise by the State and its governmental bodies of the police power inherent in the sovereignty of the State and to the exercise of judicial discretion in appropriate cases in accordance with general principles of equity.

We express no opinion herein as to any matter not specifically set forth above. In particular, but without limitation, we express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Notes.

The scope of our engagement has not extended beyond the examinations and the rendering of the opinions expressed herein. Our engagement as Bond Counsel with respect to the transaction referred to herein terminates upon the date of this letter. We assume no obligation to review or supplement this letter subsequent to its date, whether by reason of a change in the current laws, by legislative or regulatory action, by judicial decision or for any other reason. No one other than the addressees hereof shall be entitled to rely upon this opinion without our prior written consent.

Very truly yours,

* * *