Focus Colorado: Economic And Revenue Forecast

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Economics Section

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Highlights

- The **Colorado economy** has begun to show solid signs of a slow recovery. After two years of job losses, the state's private sector began adding workers in June and July. Other indicators point to expansion as well, but the recovery is being weighed down by heavy debt and struggling real estate and banking sectors. Growth will feel anemic until at least the middle of next year. Once the expansion gains solid footing, Colorado's economy is expected to again outperform the nation.

- The **FY 2010-11** General Fund budget is out of balance. Revenue will be sufficient to allow $96.1 million, or 1.4 percent of General Fund appropriations, to remain in the reserve at the close of the year.

- General Fund revenue is $181.5 million short of the amount required to fill the statutory reserve in **FY 2010-11**. At the discretion of the state legislature, an additional shortfall of $67.2 million may need to be addressed to compensate for the receipt of lower federal stimulus funds for Medicaid than expected when the budget was enacted. The resulting $248.7 million shortfall is $189.1 million higher than the sum of budget actions proposed by the Governor on August 23, 2010.

- Assuming appropriations remain constant between this year and **FY 2011-12**, General Fund revenue is expected to be $202.0 million short of fully funding the four percent statutory reserve. However, the loss of several one-time sources of cash and federal funds currently being used to pay for General Fund programs will apply additional pressure on the budget.

- The **Referendum C cap** will equal $10.7 billion in FY 2010-11, and revenue subject to TABOR will be $1.4 billion below the cap.

EXECUTIVE SUMMARY

This report presents the current budget outlook based on the September 2010 economic, General Fund revenue, and cash fund revenue forecasts. The outlook is based on current law and does not incorporate the Governor's budget balancing plan.

General Fund Budget

Table 1 on page 4 presents the General Fund Overview based on current law. Table 2 on pages 5 and 6 lists legislation from the 2008 through 2010 legislative sessions and other budgetary measures affecting the General Fund Overview.

FY 2010-11. The FY 2010-11 General Fund budget is out of balance. General Fund revenue is expected to be $96.1 million *(line 21 of Table 1)* above the amount appropriated for expenditure in FY 2010-11, but $181.5 million below the amount required to fully fund the statutorily-required four percent reserve *(lines 20 and 24 of Table 1).*

How much is needed to fill the reserve halfway? Under current law, the Governor must craft a plan to address a shortfall if there is not expected to be enough money in the General Fund to fill the reserve up to at least half of that required, or two percent of appropriations in FY 2010-11. General Fund revenue is expected to be $42.7 million below the amount required to fill the reserve to the halfway mark in FY 2010-11. Depending on the decisions of the Governor and the state legislature, an additional shortfall of $67.2 million may need to be filled to compensate for the receipt of lower enhanced Federal Medicaid Assistance Percentage (FMAP) funds than had been expected when the FY 2010-11 budget was enacted. Taken together, these shortfalls add to $109.9 million, $50.3 million higher than the sum of budget actions proposed by the Governor in his August 23, 2010 budget balancing plan.[1]

How much is needed to fully fund the reserve? General Fund revenue is expected to be $181.5 million below the amount required to fully fund the four percent reserve. If the state legislature also chooses to address the $67.2 million shortfall in the Medicaid budget, this shortfall increases to $248.7 million, $189.1 million higher than the sum of budget actions proposed by the Governor on August 23.

FY 2011-12. There will be a budget shortfall in FY 2011-12. General Fund revenue is expected to be $75.6 million *(line 21 of Table 1)* above the amount appropriated for expenditure, but $202.0 million below the amount required to fully fund the statutorily-required four percent reserve

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[1] The Governor proposed a total of $136.4 million in initiatives to balance the budget on August 23, 2010. Of these, $76.8 million was associated with the collection of higher revenues than had been expected when the Office of State Planning and Budgeting's June forecast was released. A total of $59.6 million in expenditure reductions and cash fund transfers were also proposed. The Governor addressed the $67.2 million shortfall in enhanced FMAP funds in the proposal.

(lines 20 and 24 of Table 1). Because no budget has yet been enacted for FY 2011-12, operating appropriations were assumed to remain constant at the amount currently budgeted for FY 2010-11.

The FY 2011-12 shortfall incorporates this year's shortfall. Because the FY 2010-11 shortfall *(line 20 of Table 1)* is assumed to be absorbed into the reserve and thus carried forward into FY 2011-12, the $202.0 million shortfall in FY 2011-12 is a two-year cumulative shortfall.

The FY 2011-12 shortfall is higher than reported in Table 1 by up to $900 million. The $202.0 million estimate for the FY 2011-12 shortfall is artificially low for two reasons. *First*, budgetary pressures resulting from inflation and caseload growth are not incorporated into the estimate. Depending on decisions made by the state legislature, these budgetary pressures could be minimal or could exceed $300 million. *Second*, the $202.0 million shortfall does not consider that up to $552.7 million of one-time sources of money available for spending this year may not be available next year.

These one-time sources of money include federal funds and cash funds that are currently paying for programs historically paid for from the General Fund. Because these funding sources are not expected to be available in FY 2011-12, the state legislature will have to eliminate or reallocate General Fund spending on other programs if they choose to continue funding these programs at current levels. They include $363.6 million of federal stimulus dollars used for Medicaid, $96 million of Amendment 35 tobacco tax revenue used for Medicaid, $89.2 million in federal stimulus dollars used for higher education, and $3.9 million of federal stimulus dollars used for child welfare in FY 2010-11. The extent to which these programs are fully backfilled for the loss of one-time moneys is at the discretion of the state legislature.

If the loss of these one-time sources of money is incorporated into the shortfall for FY 2011-12, the shortfall increases from $202.0 million to $754.7 million. If it is also assumed that the state legislature will choose to fund $300 million in budgetary pressures from inflation and caseload growth, the shortfall increases to just over $1.1 billion.

FY 2012-13. The General Fund budget situation in FY 2012-13 will depend on measures taken by the state legislature to address the shortfalls for this year and next year. Because the economy is expected to begin growing at slightly healthier rates in 2012 and 2013, the budget situation should begin to improve somewhat.

FY 2012-13 Senate Bill 09-228 transfers and reserve increase. If personal income increases by at least five percent in 2012, Senate Bill 09-228 requires transfers from the General Fund to transportation and capital construction and a one-half of a percentage point increase in the General Fund statutory reserve in FY 2012-13. If personal income increases by less than five percent, these transfers and the reserve increase are postponed until the first fiscal year in which personal income increases by at least five percent (during the calendar year in which the fiscal year originated). Personal income is expected to increase by 3.0 percent in 2012, and thus this forecast does not anticipate that the transfers and reserve increase will occur in FY 2012-13.

Table 1
September 2010 General Fund Overview
(Dollars in Millions)

		FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
	FUNDS AVAILABLE	**Preliminary**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$443.3	$146.4	$96.1	$75.6
2	General Fund Nonexempt Revenue	6,454.6	6,312.4	6,393.4	6,653.9
3	General Fund Exempt Revenue (Referendum C)	0.0	719.5	727.5	907.5
4	Transfers to Other Funds	(458.1)	0.0	0.0	0.0
5	Transfers from Other Funds	421.2	44.7	2.8	0.2
6	Sales Taxes to Older Coloradans Fund and OASMCF	(10.9)	(10.9)	(10.9)	(10.9)
7	**Total Funds Available**	**$6,850.1**	**$7,212.2**	**$7,208.9**	**$7,626.3**
8	Percent Change	-13.0%	5.3%	0.0%	5.8%
	EXPENDITURES	**Budgeted**	**Budgeted**	**Estimate/A**	**Estimate/A**
9	General Fund Appropriations	6,631.6	6,940.3	6,940.3	6,940.3
10	Adjustments to Appropriations	(28.1)	28.1	0.0	0.0
11	Rebates and Expenditures *(Lines 19-24 of Table 5)*	141.9	134.1	167.8	177.5
12	Reimbursement for Senior and Disabled Veterans Property Tax Cut	1.3	1.6	1.7	105.0
13	Capital Construction Transfers	0.2	12.0	23.4	43.2
14	Accounting Adjustments	(43.1)	NE	NE	NE
15	**Total Expenditures**	**$6,703.7**	**$7,116.1**	**$7,133.3**	**$7,266.0**
16	Percent Change	-9.8%	6.2%	0.2%	1.9%
	BUDGET SUMMARY	**Preliminary**	**Estimate**	**Estimate/A**	**Estimate/A**
17	**Amount Available for Expenditure** *(Line 7 minus Line 23)*	**6,717.5**	**6,934.6**	**6,931.2**	**7,348.7**
18	Dollar Change	(1,006.5)	217.1	(3.3)	417.4
19	Percent Change	-13.0%	3.2%	0.0%	6.0%
20	***Revenue Will Restrict Expenditures and/or the Reserve by:***	***0.0***	***($181.5) /B***	***($202.0) /B***	***0.0***
	RESERVE	**Budgeted**	**Budgeted**	**Estimate/A**	**Estimate/A**
21	Year-End General Fund Reserve	146.4	96.1	75.6	360.3
22	Year-End Reserve As A Percent of Appropriations	2.2%	1.4%	1.1%	4.0%
23	Statutorily-Required Reserve	132.6	277.6	277.6	277.6
24	Reserve in Excess or (Deficit) of Statutory Reserve	$13.7	($181.5)	($202.0)	$82.7
25	*Percent Change in General Fund Appropriations*	*-10.5%*	*4.7%*	*NE*	*NE*
26	Addendum: TABOR Reserve Requirement	255.5	279.4	287.4	302.1
27	Addendum: Arveschoug-Bird Appropriations Limit	10,277.4	10,616.0	10,387.1	10,626.0
28	Addendum: Amount Directed to State Education Fund	329.0	360.1	366.5	393.2

Totals may not sum due to rounding. NE = Not Estimated. NA= Not Applicable.

/A Because the budgets for FY 2011-12 and FY 2012-13 have not yet been enacted, this analysis assumes General Fund appropriations as enacted for FY 2010-11 will occur in FY 2011-12 and FY 2012-13. Therefore, this analysis shows revenue available for expenditure during those years (line 17) relative to General Fund appropriations for FY 2010-11 (line 9) and the statutorily-required reserve for FY 2010-11 (line 23).

/B The FY 2010-11 and FY 2011-12 shortfalls are artificially low. Please see the executive summary for more information. In addition, because each year's shortfall is assumed to be absorbed by the reserve and thus carried forward into future years, the shortfall in FY 2011-12 is a two-year cumulative figure.

Table 2
Budgetary Measures Affecting the General Fund Overview /A
(Millions of Dollars)

Cash Fund Transfers

		2008-09	2009-10	2010-11	2011-12	2012-13
HB 08-1078	Veterans Trust Fund	(2.9)	-	-	-	-
SB 09-208	Cash Fund Transfers	221.6	-	-	-	-
SB 09-210	Tobacco Master Settlement Transfers	1.2	2.4	-	-	-
SB 09-264	Maximize ARRA FMAP Increase	-	2.8	0.5	-	-
SB 09-269	Cash Fund Transfers	(1.5)	-	-	-	-
SB 09-269	Tobacco Master Settlement Transfers	13.9	65.0	-	-	-
SB 09-270	Amendment 35 Tobacco Transfers—Interest	6.3	4.0	2.6	2.6	-
SB 09-279	Cash Fund Transfers	114.1	209.4	-	-	-
SB 09-279	Temporary Cash Fund Transfers	458.1	(458.1)	-	-	-
HB 09-1223	Tobacco Master Settlement Transfers	-	0.2	-	-	-
HB 09-1105	Colorado Innovation Investment Transfer	-	0.4	0.4	-	-
HB 10-1323	Tobacco Master Settlement Transfers	-	3.3	4.0	-	-
HB 10-1325	Natural Resource Damage Recovery Fund	-	0.2	0.2	0.2	0.2
HB 10-1327	Cash Fund Transfers	-	84.7	-	-	-
HB 10-1383	CollegeInvest Transfer	-	29.8	-	-	-
HB 10-1388	Cash Fund Transfers	-	-	26.6	-	-
HB 10-1389	Capital Construction Transfers	-	19.1	10.4	-	-
Transfers to the General Fund		813.7	421.2	44.7	2.8	0.2
Transfers from the General Fund		(4.4)	(458.1)	0.0	0.0	0.0

General Fund Expenditure Impacts /A

		2008-09	2009-10	2010-11	2011-12	2012-13
SB 09-227	Postpone Fire and Police Pension Payments	(25.3)	(25.3)	(25.3)	-	-
SB 09-259	Reduce Volunteer Firefighter Pensions	(0.1)	-	-	-	-
SB 09-276	Suspend Senior Property Tax Exemption	-	(91.5)	-	-	-
SB 10-190	Suspend Senior Property Tax Exemption	-	-	(91.7)	(96.4)	-
HB 10-1389	Reduce CERF Capital Construction Transfers	-	1.8	-	-	-
Medicaid Payment Delay		-	(38.0)	38.0	-	-
Total Expenditure Measures		(25.4)	(153.0)	(79.0)	(96.4)	0.0

Statutory Reserve Impacts

		2008-09	2009-10	2010-11	2011-12	2012-13
SB 09-219	FY 08-09 Statutory Reserve Reduction	(148.2)	-	-	-	-
SB 09-277	FY 09-10 Statutory Reserve Reduction /B	-	(0.9)	-	-	-
Total Reserve Impact		(148.2)	(0.9)	0.0	0.0	0.0

(Table 2 continues on next page)

Table 2 *(continued)*
Budgetary Measures Affecting the General Fund Overview /A
(Millions of Dollars)

General Fund Revenue Impacts

		2008-09	2009-10	2010-11	2011-12	2012-13
Sales Taxes						
SB 09-121	Taxation of Restaurant Employee Meals	-	(0.4)	(0.4)	(0.4)	(0.4)
SB 09-212	Temporarily Repeal Vendor Fee—Part 1	12.9	37.5	23.8	-	-
SB 09-275	Temporarily Repeal Vendor Fee—Part 2	-	25.5	42.8	8.90	-
HB 09-1035	Clean Technology/Medical Device Refund /B	-	-	-	-	-
HB 09-1126	Exemption for Solar Thermal Installation	-	(0.3)	(0.3)	(0.3)	(0.3)
HB 09-1342	Temporarily Repeal Cigarette Exemption	-	31.0	32.0	-	-
HB 10-1189	Repeal Exemption for Direct Mail	-	0.2	0.8	0.8	0.8
HB 10-1190	Temporarily Repeal Exemption for Industrial Energy	-	7.2	37.6	40.2	-
HB 10-1191	Repeal Exemption for Candy and Soda	-	1.4	18.0	18.0	18.0
HB 10-1192	Repeal Software Regulation	-	4.6	23.7	24.1	25.4
HB 10-1193	Sales Taxes and Out-of-State Retailers	-	0.02	0.2	12.5	17.1
HB 10-1194	Repeal Exemption for Food Containers	-	0.4	2.0	2.0	2.0
HB 10-1195	Temporarily Repeal Exemption for Agricultural Products		0.9	4.6	4.6	4.6
Total Sales Taxes		*12.9*	*108.1*	*184.9*	*110.4*	*67.2*
Income Taxes						
HB 09-1001	Tax Credit for Job Growth	-	(2.9)	(8.6)	(13.8)	(18.1)
HB 09-1067	In-Stream Flow Tax Credit /B	-	-	-	-	-
HB 09-1105	Colorado Innovation Investment Tax Credit /C	-	-	-	-	-
HB 09-1331	Tax Incentives for Fuel Efficient Vehicles	-	1.8	5.2	1.9	(5.4)
HB 09-1366	Colorado Capital Gains Subtraction	-	7.1	15.8	15.9	16.0
SB 10-001	PERA-Reduction in Income Taxes	-	(1.0)	(2.1)	(1.3)	(1.3)
SB 10-146	PERA Contribution Rates—Reduction in Income Taxes		-	(1.1)	-	-
HB 10-1055	Penalty Fees—Increase in Income Taxes	-	-	1.5	3.0	3.0
HB 10-1196	Modify Tax Incentives for Fuel Efficient Vehicles	-	-	2.7	2.7	-
HB 10-1197	Limit Conservation Easement Credits	-	-	18.5	37.0	18.5
HB 10-1199	Modify Deduction for Net Operating Loss	-	-	8.2	16.5	16.5
HB 10-1200	Limit Enterprise Zone Investment Tax Credit	-	-	4.0	8.0	8.3
Total Income Taxes		*0.0*	*5.0*	*44.0*	*69.9*	*37.5*
Pari-mutuel Taxes						
SB 09-174	Horse and Greyhound Racing Regulation	-	0.2	0.2	0.2	0.2
Insurance Premium Taxes						
SB 09-259	Cash Fund the Division of Insurance	-	2.5	2.5	2.5	2.5
Total Revenue Measures		**12.9**	**115.8**	**231.6**	**183.0**	**107.4**

Total Budgetary Measures Affecting the General Fund Overview /A

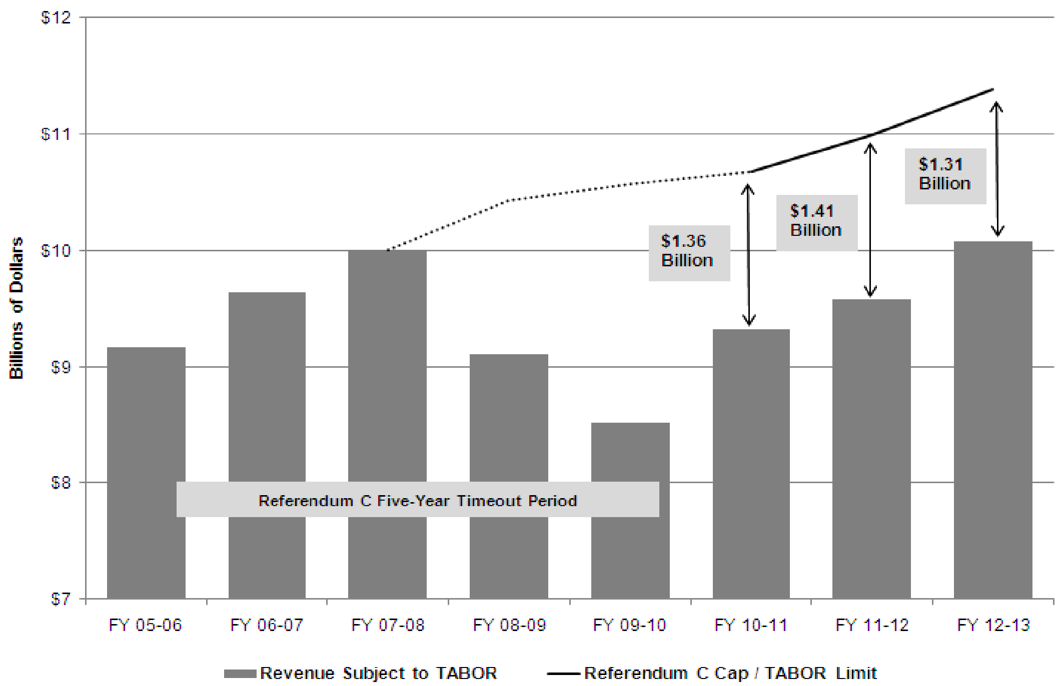
	2008-09	2009-10	2010-11	2011-12	2012-13
Total	**995.8**	**232.8**	**355.3**	**282.2**	**107.6**

/A Excludes budgetary measures affecting General Fund operating appropriations.

/B These bills are effective only during years in which General Fund revenue is sufficient to allow General Fund appropriations to increase 6 percent. This is not expected to occur during the forecast period.

/C HB 09-1105 has a net impact of $0 to the General Fund.

Figure 1
TABOR Revenue and the Referendum C Cap



Revenue Forecast

The FY 2010-11 forecast for total revenue subject to TABOR did not change significantly since June, increasing by $8.0 million, or 0.09 percent. The General Fund revenue forecast decreased by $71.7 million, while the cash fund forecast increased by $79.7 million.

- Most of the decrease in the **General Fund revenue** forecast resulted from decreased expectations in sales taxes, although expectations for individual income taxes decreased as well. The forecast for sales taxes was lowered by $63.8 million as high unemployment, heavy debt burdens, and slow wage growth continue to constrain consumer confidence and disposable income. Expectations for individual income taxes were lowered by $24.2 million, or 0.5 percent, mainly due to lower expectations for estimated income tax payments from capital gains and small business income. Meanwhile, the forecast for corporate income taxes was increased as corporate profits to the nation's largest businesses continue to surprise on the upside.

- **Cash fund revenue** subject to TABOR is projected to increase 11.4 percent in FY 2010-11 to $2.3 billion. The increase is mostly attributable to strong revenue growth from the Hospital Provider Fee and a rebound in severance taxes. Cash fund revenue will increase 6.0 percent to $2.5 billion in FY 2011-12 due to growth in most revenue sources.

- The amount of revenue retained by the state during the **Referendum C time-out period**, which ended in FY 2009-10, was $3.6 billion. This year, the state will retain $719.5 million as a result of Referendum C. Table 3 presents the history and forecast for revenue retained by Referendum C.

- Figure 1 shows TABOR revenue and the Referendum C cap through the end of the forecast period, which extends three years beyond the Referendum C five-year timeout period. After adjustments for changes in the enterprise status of the Unemployment Insurance Program and higher education institutions, the Referendum C Cap will equal $10.7 billion in FY 2010-11. Revenue subject to TABOR will be $1.4 billion below the cap. Revenue will not be sufficient to produce a **TABOR refund** through at least FY 2012-13, the end of the forecast period. Table 4 on page 10 shows estimates for TABOR revenue, the TABOR Limit/Referendum C cap, and revenue retained as a result of Referendum C during the three-year forecast horizon.

Table 3
History and Projections of Revenue Retained by Referendum C
Dollars in Millions

Actual	
FY 2005-06	$1,116.1
FY 2006-07	$1,308.0
FY 2007-08	$1,169.4
FY 2008-09	$0
FY 2009-10	$0
Projections	
FY 2010-11	$719.5
FY 2011-12	$727.5
FY 2012-13	$907.5

National Economy

The national economy has slowed in recent months as it continues through a prolonged, rocky recovery. This is to be expected as the economy goes through the rebuilding process after the housing collapse and financial storm. Despite weaker job and Gross Domestic Product (GDP) data, the economy continues to grow and there are positive trends that should help push the economy forward through its current struggles. These include growth in manufacturing, business profits and spending, early signs of the loosening of credit, and a rebound in exports. Consumer spending also appears to be on a sustained, yet tempered, growth path.

There continue to be downside risks to the forecast. Heightened levels of uncertainty and high unemployment could prove to be a larger drag on the economy than expected. Also, a further tightening of credit and larger drops in home prices could cause a deeper and more prolonged slowdown in economic growth. However, the more likely scenario is that the economy will muddle along until activity picks up in the second half of 2011, when credit flows increase and the consumer and construction markets slowly strengthen.

Colorado Economy

The Colorado economy has begun to show solid signs of recovery, albeit at a slow pace. Colorado's private sector added jobs in June and July, the first employment growth since firms began shedding workers in April 2008. Initial claims for unemployment insurance have drifted lower, and retail spending has been increasing, albeit slowly. In addition, the oil and gas drilling rig count continues to rise.

However, the recovery is being weighted down by heavy debt and struggling real estate and banking sectors. Colorado banks will need to digest more bad loans before lending growth can resume. Many real estate owners—both residential and nonresidential—will need to work through debt problems before spending and investment accelerates. Growth will feel anemic until at least the middle of next year. Once the expansion gains solid footing, Colorado's economy is expected to again outperform the nation.

Special Focus: Venture Capital in Colorado

The September Economic and Revenue Forecast includes a new section featuring an overview of an industry or topic relevant to Colorado's economy. For this forecast, venture capital funding for business startups was selected. Venture capital, like other forms of business investment, can lead to business development and job growth — two areas currently of high interest due to the recent recession.

Consistent with the nation, Colorado will see relatively low levels of venture capital funding in 2010 due to heightened risk aversion during the slow growth recovery. Despite lower levels of investment, Colorado will maintain a spot in or near the top ten states for venture capital funding in 2010 and 2011. Colorado is expected to remain a competitive location for startups in high technology industries over the next several years.

Table 4
September 2010 TABOR Revenue Limit and Retained Revenue

(Dollars in Millions)

		Preliminary FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12	Estimate FY 2012-13
	TABOR Revenue:				
1	General Fund /A	$6,429.6	$6,986.5	$7,112.2	$7,552.7
2	Cash Funds	2,088.6	2,327.7	2,467.9	2,517.2
3	**Total TABOR Revenue**	**$8,518.2**	**$9,314.2**	**$9,580.1**	**$10,069.9**
	Revenue Limit				
4	Allowable TABOR Growth Rate	5.8%	1.1%	3.0%	3.5%
5	Inflation (from prior calendar year)	3.9%	-0.6%	1.3%	1.9%
6	Population Growth (from prior calendar year)	1.9%	1.7%	1.7%	1.6%
7	TABOR Limit Base /B	$9,172.4	$8,594.7	$8,852.6	$9,162.4
8	Voter Approved Revenue Change (Referendum C) /C	$0.0	$719.5	$727.5	$907.5
9	Total TABOR Limit / Referendum C Cap	NA	$10,672.6	$10,992.7	$11,377.5
	Retained/Refunded Revenue				
10	Revenue Retained under Referendum C /C	$0.0	$719.5	$727.5	$907.5
11	**Total Available Revenue**	**$8,518.2**	**$9,314.2**	**$9,580.1**	**$10,069.9**
12	Revenue to be Refunded to Taxpayers	$0.0	$0.0	$0.0	$0.0

Totals may not sum due to rounding.

/A These figures differ from the General Fund revenues reported in other tables because they net out revenue that is already accounted for in cash funds to avoid double counting.

/B The TABOR limit base was adjusted for changes in TABOR enterprise status in FY 2009-10.

/C Revenue retained under Referendum C is referred to as “General Fund Exempt” in the budget and the General Fund Overview (Table 1).

GENERAL FUND REVENUE

This section presents the forecast for General Fund revenue. Table 5 on page 12 illustrates preliminary revenue collections for FY 2009-10 and projections for FY 2010-11 through FY 2012-13. General Fund revenue decreased 16.7 percent over the last two years, first by $1.0 billion in FY 2008-09 and then by an additional $292.7 million in FY 2009-10. General Fund revenue will increase 8.9 percent in FY 2010-11, or by $577.7 million. Of this increase, $244.1 million is expected to be collected as a result of legislation passed during the 2009 and 2010 legislative sessions that augmented General Fund revenue (see Table 2 on page 6).

General Fund revenue for **FY 2009-10** came in $42.8 million, or 0.7 percent, higher than what was projected in the June 2010 forecast. The June forecast had anticipated a large negative accounting adjustment for corporate income taxes. However, a smaller adjustment of $11.9 million occurred. As a result, corporate income taxes came in $63.6 million above expectations. Meanwhile, individual income taxes came in $20.8 million, or 0.5 percent, lower than expected in June.

The General Fund forecast for **FY 2010-11** was decreased $71.7 million relative to the June forecast. The forecast for sales tax collections was reduced $63.8 million and the forecast for individual income taxes was reduced $24.2 million. Expectations for corporate income taxes were increased $23.2 million.

After a two-year cumulative decline of 17.9 percent in **individual income** tax collections — resulting in a loss of $890 million in revenue to the state — individual income tax revenue will increase 8.3 percent in FY 2010-11 as the economy continues to slowly regain its footing. The increase is mostly a result of expected growth in income taxes withheld from paychecks — by far the largest source of individual income tax revenue — and a rebound in estimated income tax payments. Lower tax refunds will also help income tax revenue grow in FY 2010-11.

In addition, revenue is being bolstered by the General Assembly's reduction of certain income tax credits and modifications. The largest of these changes include the temporary reduction in the conservation easement tax credit, the narrowing of the credit for fuel efficient vehicles, and changes to the Colorado source capital gains subtraction. A full list of these income tax changes can be found in Table 2 on page 6.

Income taxes from withholding will increase a modest 1.3 percent in FY 2010-11 as gradual job growth resumes. They will increase modestly again in FY 2011-12 due to expectations for a continued gradual recovery in the labor market.

After falling off by more than half over the past two fiscal years, revenue from estimated income tax payments is expected to rebound in FY 2010-11, though at a lower rate than projected in the June forecast. A large portion of estimated income tax payments comes from small to medium-sized businesses as well as from wealthier taxpayers who have a higher amount of investment earnings. This group of taxpayers generally are required to make estimated payments for the amount of income tax they expect to owe each year on capital gains, interest income, and dividend income.

Table 5
September 2010 General Fund Revenue Estimates
(Dollars in Millions)

	Category	Preliminary FY 2009-10	Percent Change	Estimate FY 2010-11	Percent Change	Estimate FY 2011-12	Percent Change	Estimate FY 2012-13	Percent Change
1	Sales	$1,825.0	-5.5	$2,025.2	11.0	$2,062.9	1.9	$2,139.9	3.7
2	Use	155.7	-11.9	173.6	11.5	176.7	1.8	184.6	4.5
3	Cigarette	40.8	-6.0	38.0	-7.0	35.9	-5.6	34.9	-2.7
4	Tobacco Products	16.1	22.4	15.5	-3.5	16.1	3.6	16.7	3.7
5	Liquor	35.4	1.3	34.7	-2.2	34.9	0.7	35.5	1.6
6	TOTAL EXCISE	$2,073.1	-5.7	$2,286.9	10.3	$2,326.4	1.7	$2,411.6	3.7
7	Net Individual Income	$4,083.8	-5.8	$4,420.9	8.3	$4,479.4	1.3	$4,827.8	7.8
8	Net Corporate Income	372.1	27.2	420.4	13.0	447.6	6.5	467.1	4.4
9	TOTAL INCOME TAXES	$4,455.9	-3.7	$4,841.2	8.6	$4,927.0	1.8	$5,294.9	7.5
10	Less: Portion diverted to the SEF*	-329.0	-3.2	-360.1	9.5	-366.5	1.8	-393.2	7.3
11	INCOME TAXES TO GENERAL FUND	$4,126.9	-3.7	$4,481.2	8.6	$4,560.4	1.8	$4,901.7	7.5
12	Insurance	186.9	-2.9	191.8	2.6	197.6	3.0	210.1	6.3
13	Pari-Mutuel	0.5	17.0	0.4	-25.5	0.4	-3.5	0.4	-3.4
14	Investment Income	10.1	7.7	10.4	3.6	10.7	2.0	11.2	5.4
15	Court Receipts	17.8	-26.1	0.3	-98.5	0.3	4.7	0.3	5.7
16	Gaming	16.2	NA	36.7	NA		NE		NE
17	Other Income	23.0	-18.7	24.3	5.5	25.1	3.6	26.1	4.0
18	TOTAL OTHER	$254.5	-1.1	$263.8	3.7	$234.0	-11.3	$248.1	6.0
	GROSS GENERAL FUND	**$6,454.6**	**-4.3**	**$7,032.0**	**8.9**	**$7,120.9**	**1.3**	**$7,561.4**	**6.2**
	REBATES & EXPENDITURES:								
19	Cigarette Rebate	$11.6	-3.8	$11.1	-4.5	$10.5	-5.6	$10.2	-2.7
20	Old-Age Pension Fund	115.4	12.7	107.7	-6.6	116.8	8.4	126.8	8.6
21	Aged Property Tax & Heating Credit	7.6	43.0	7.7	1.6	7.5	-2.9	7.2	-3.8
22	Interest Payments for School Loans	2.2	-59.4	2.3	3.6	2.4	2.0	2.5	5.4
23	Fire/Police Pensions	4.2	5.2	4.4	2.6	29.8	584.1	29.9	0.4
24	Amendment 35 GF Expenditures	0.8	-17.4	0.9	15.2	0.9	-0.9	0.9	-1.2
25	TOTAL REBATES & EXPENDITURES	$141.9	8.9	$134.1	-5.5	$167.8	25.1	$177.5	5.8

Totals may not sum due to rounding. NA = Not Applicable. NE = Not Estimated.
SEF = State Education Fund.

A recovering economy over the fiscal year will help more businesses experience improved sales and income. Also, although the stock market has weakened recently and is more volatile, overall stock values are still higher than their lows during the fall and winter of 2009. As a result, investors have experienced some capital gains. Further, the scheduled increase in federal tax rates on capital gains beginning on January 1, 2011, will likely cause some investors to sell assets before the tax rate increases. This is expected to result in a modest acceleration of some income gains from capital that are subject to state taxation from 2011 into 2010. This will boost FY 2010-11 revenue, but will cause FY 2011-12 estimated payments to be lower than they otherwise would have been.

The FY 2010-11 individual income forecast was lowered by $24.2 million, or 0.5 percent, from the June forecast mainly due to the reduction in expectations for estimated income tax payments. Projections for this revenue source were lowered due to stock market performance that was weaker than had been expected in June and a slightly lower forecast for business income.

After decreasing 42.4 percent in FY 2008-09, **corporate income tax** revenue rebounded sharply in FY 2009-10, increasing 27.2 percent. While firms are not yet replacing many of the jobs lost in the downturn, corporate profits have recovered to some degree.

Compared with the June forecast, actual corporate income tax collections increased $63.6 million in FY 2009-10. At that time, it was expected that a substantial amount of collections attributable to that fiscal year would be tied up in the Department of Revenue's tax resolution and auditing process, and corporate income taxes collections were adjusted downwards on an accrual accounting basis. However, a smaller positive accrual adjustment of $11.9 million was made for the fiscal year.

Corporate profits are expected to continue to grow over the remainder of the forecast period as the economy continues to recover. Corporate income tax revenue is expected to increase 13.0 percent in FY 2010-11 compared with the prior year. Expectations for corporate income tax revenue were increased by $23.2 million in FY 2010-11 and by $46.2 million in FY 2011-12 relative to the June forecast. Expectations for corporate income taxes includes the impacts of two recent pieces of legislation. **House Bill 10-1199** limits the amount of net operating loss that a corporation may carry forward to reduce its corporate income tax liability to $250,000. In addition, **House Bill 10-1200** limits the enterprise zone investment tax credit to $500,000. The revenue impact of these income tax changes can be found in Table 4 on page 10.

The **State Education Fund** receives one-third of one percent of taxable income from state income tax returns. This fund will see a pattern of growth in revenue similar to income taxes. After receiving $329.0 million in FY 2009-10, it will receive $360.1 million in FY 2010-11 and $366.5 million in FY 2011-12.

Sales tax revenue continues to rebound, but the strength of the recovery has been underwhelming. Estimates for General Fund revenue from sales tax have been lowered from the June forecast for FY 2010-11 and FY 2011-12 by $64 million and $110 million, respectively.

Revenue for FY 2010-11 has been coming in just under the June forecast, as the outlook for consumer spending growth has weakened somewhat. Growth in sales tax collections was expected to moderate in the second half of 2010. Federal stimulus programs temporarily lifted disposable income and spending in the second half of 2009 and the first half of 2010. Consumer spending is expected to continue to rise in FY 2010-11, but prospects for anything but very slow growth have weakened since the last forecast. High unemployment, heavy debt burdens, and slow wage growth continue to restrain consumer confidence and disposable income.

In FY 2010-11, sales tax revenue is expected to increase 6.5 percent on a cash basis. On an accrual basis, sales tax revenue will increase an estimated 11.0 percent, primarily because large refunds posted in FY 2009-10 are not expected to repeat in FY 2010-11. This increase is also a result of strengthening economic conditions. However, a large portion of the increase is the result of several measures enacted by the General Assembly to boost tax revenue. In the 2009 session, the sales tax exemption on purchases of cigarettes was temporarily eliminated, along with the vendor fee that retailers retain to offset their costs of sales tax collection. These measures are expected to add nearly $200 million to state collections over three years. Also adding to collections is revenue being generated from legislation passed in 2010 that broadened the sales tax base. As shown in Table 2 on page 6, these measures are expected to add nearly $300 million over four years. Most of the expansion of the sales tax base from the 2010 legislation is permanent.

Growth in consumer spending is expected to continue increasing with the strengthening economy, however, the expiration of temporary tax measures will restrain growth in state sales tax revenue in FY 2011-12, when sales tax revenue is expected to rise 2.2 percent. When the vendor fee is reinstated on July 1, 2011, vendors will once again retain 3 1/3 percent of sales tax collections to compensate them for expenses related to collecting sales taxes. The cigarette sales tax exemption will also be restored. These measures together were generating nearly $75 million in General Fund revenue each year.

Use tax revenue dropped 11.9 percent in FY 2009-10 but is expected to rebound by 11.5 percent in FY 2010-11. Use tax revenue is expected to rise 1.8 percent in FY 2011-12. These increases are primarily due to higher amounts of business spending.

CASH FUNDS

Table 6 summarizes the forecast for revenue to cash funds subject to TABOR. The largest sources of this revenue are fuel taxes and other transportation-related revenue, severance taxes — which are derived from taxes on the mineral extraction industries — revenue from gaming, and revenue from the Hospital Provider Fee. The end of this section also presents the forecasts for federal mineral leasing revenue and unemployment insurance revenue. These forecasts are provided separately because the revenue sources are not subject to TABOR.

Total cash fund TABOR revenue is projected to amount to $2.3 billion in FY 2010-11, which represents an increase of 11.4 percent over FY 2009-10. The relatively large increase is mostly attributable to a 45.6 percent increase in revenue from the Hospital Provider Fee and a rebound in severance taxes. These increases will offset the decrease in insurance-related revenue that is attributable to 2009 legislation that reduced workers compensation-related premiums. Cash fund revenue will increase 6.0 percent to $2.5 billion in FY 2011-12. The FY 2010-11 projection is 3.5 percent higher than the June forecast as a result of higher expectations for Hospital Provider Fee and transportation-related revenue. The increases in these forecasts are offsetting a lower projection for severance taxes than was forecast in June.

Revenue to the ***transportation-related*** cash funds will see modest growth over the next several fiscal years, consistent with slow economic growth and trends in lighter vehicle weights and increased fuel efficiency. Forecasts for transportation-related cash funds are shown in Table 7 on page 17. Revenue came in about $10 million higher than expected in FY 2009-10, due to a large accrual adjustment for the Road Safety Surcharge, a source of revenue under FASTER (**Senate Bill 09-108**).

Overall revenue to the *Highway Users Tax Fund (HUTF)* will grow 0.8 percent in FY 2010-11 and at a modest pace in the years that follow. The slow pace of economic growth and the trend toward lighter and more fuel efficient vehicles will keep revenue growth slow for both *registration fees* (which are tied to vehicle weight) and *motor fuel excise taxes*, which account for the majority of revenue to the HUTF.

FASTER revenue will total $154.1 million in FY 2010-11. Revenue is expected to decrease slightly over time as more vehicle owners avoid the late registration fee by paying their fees on time. TABOR-exempt revenue from the Bridge Safety Surcharge increased 50 percent starting July 1, 2010, and will grow to the full fee in FY 2011-12. Revenue is expected to grow with the increase in the surcharge (see Addendum to Table 7).

House Bill 10-1387 extended the diversion of revenue from various drivers license and permit fees from the HUTF to the Licensing Services Cash Fund for two additional fiscal years (**Senate Bill 09-274** diverted these funds in FY 2009-10). The diversion will boost revenue to *other transportation revenue* and reduce revenue by the same amount to *other HUTF receipts* in FY 2010-11 and FY 2011-12.

After two fiscal years of steep declines in revenue to the *State Highway Fund*, revenue will grow 6.4 in FY 2010-11. Growth in interest earnings are expected to drive growth over the forecast period. While federal

Table 6
Cash Fund Revenue Subject to TABOR Estimates, September 2010
(Dollars in Millions)

	Preliminary FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13	FY 09-10 to FY 12-13 CAAGR *
Transportation-Related	**$1,059.5**	**$1,074.7**	**$1,092.3**	**$1,107.6**	
% Change	14.9%	1.4%	1.6%	1.4%	**1.5%**
Hospital Provider Fee	**$302.9**	**$441.0**	**$520.0**	**$522.5**	
% Change		45.6%	17.9%	0.5%	**19.9%**
Severance Tax	**$48.2**	**$170.5**	**$193.2**	**$199.1**	
% Change	-85.7%	253.4%	13.3%	3.1%	**60.4%**
Gaming Revenue /A	**$101.2**	**$105.8**	**$109.0**	**$112.4**	
% Change	2.3%	4.5%	3.0%	3.1%	**3.5%**
Insurance-Related	**$42.9**	**$18.9**	**$19.5**	**$20.2**	
% Change	-16.7%	-55.9%	3.2%	3.6%	**-22.2%**
Regulatory Agencies	**$67.3**	**$66.4**	**$67.3**	**$68.7**	
% Change	-13.9%	-1.3%	1.3%	2.0%	**0.7%**
Capital Construction Related - Interest /B	**$3.3**	**$1.2**	**$0.4**	**$0.4**	
% Change	-67.5%	-64.1%	-69.5%	17.5%	**-49.5%**
Other Cash Funds /C	**$463.3**	**$449.3**	**$466.3**	**$486.4**	
% Change	-5.2%	-3.2%	3.9%	0.0%	**1.6%**
Total Cash Fund Revenue	**$2,088.6**	**$2,327.7**	**$2,467.9**	**$2,517.2**	
Subject to the TABOR Limit	**-12.0%**	**11.4%**	**6.0%**	**2.0%**	**6.4%**

Totals may not sum due to rounding.

**CAAGR: Compound Average Annual Growth Rate.*

/A Gaming revenue in this table does not include revenue from Amendment 50, which expanded gaming limits, because it is not subject to TABOR.

/B Includes interest earnings to the Capital Construction Fund and the Controlled Maintenance Trust Fund.

/C Includes revenue to Fort Lewis college in FY 2009-10.

Table 7
Transportation Funds Revenue Forecast by Source, September 2010
(Dollars in Millions)

	Preliminary FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13	FY 09-10 to FY 12-13 CAAGR *
Highway Users Tax Fund (HUTF)					
Motor Fuel and Special Fuel Taxes	$542.9	$547.8	$556.6	$564.3	1.3%
% Change	0.6%	0.9%	1.6%	1.4%	
Registrations	$182.7	$185.6	$188.4	$190.7	1.4%
% Change	0.4%	1.6%	1.5%	1.2%	
FASTER Revenue /A	$155.3	$154.1	$153.6	$153.6	-0.4%
% Change		-0.8%	-0.3%	0.0%	
Other Receipts /B	$39.0	$39.4	$40.1	$62.8	17.3%
% Change	-26.3%	1.2%	1.7%	56.6%	
Total HUTF	**$919.9**	**$927.0**	**$938.7**	**$971.4**	1.8%
% Change	18.7%	0.8%	1.3%	3.5%	
State Highway Fund	$53.1	$56.5	$59.4	$62.5	5.6%
% Change	-23.4%	6.4%	5.2%	5.1%	
Other Transportation Funds /C	$86.5	$91.2	$94.1	$73.7	-5.2%
% Change	10.9%	5.3%	3.2%	-21.6%	
Aviation Fund /C	$25.3	$26.8	$28.4	$29.2	
Law-Enforcement-Related /D	$11.6	$12.4	$12.6	$12.9	
Registration-Related /E	$49.7	$51.9	$53.1	$31.6	
Total Transportation Funds	**$1,059.5**	**$1,074.7**	**$1,092.3**	**$1,107.6**	1.5%
% Change	14.9%	1.4%	1.6%	1.4%	

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

/A Includes revenue from the daily rental fee, road safety surcharge, late registration fee, and oversized overweight vehicle surcharge. Revenue does not include TABOR-exempt bridge safety surcharge revenue.

/B Includes interest receipts, judicial receipts, drivers' license fees, and other miscellaneous receipts in the HUTF.

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

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

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

Addendum: TABOR-Exempt FASTER Revenue

	Preliminary FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13
Bridge Safety Surcharge	$45.2	$68.9	$91.8	$92.9

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

transportation funding legislation has been extended through the end of the calendar year, Congress has yet to approve a multi-year federal transportation funding program. A change in legislation could affect the State Highway Fund after the end of this calendar year.

In the first year of implementation, the ***Hospital Provider Fee*** program (created by **House Bill 09-1293,** the Health Care Affordability Act) generated $302.9 million. This program allows the state to charge a fee to hospitals to draw down matching federal dollars to expand medical assistance programs. In FY 2010-11, the program is expected to generate $441.0 million. Growth in revenue reflects an increase in fees to support Medicaid expansions and caseload growth. Forecast estimates also reflect enhanced federal medicaid assistance percentages (FMAP), which were extended into 2011. The enhanced FMAP allow additional federal matching funds for the state Medicaid program.

Total **severance tax** revenue, including interest earnings, is projected to rebound to $170.5 million in FY 2010-11 after a sharp decline in the prior year when revenue fell to $48.2 million. The FY 2010-11 forecast was reduced from expectations in June mostly because projections for natural gas prices in 2010 fell slightly.

The low collections in FY 2009-10 were a result of the sharp drop in natural gas prices — the largest determinant of severance tax collections — coupled with the large severance tax credits claimed by producers. These large credits were based on the value of oil and gas when energy prices were higher in 2008. Though natural gas prices have not rebounded greatly in 2010, the tax credits available to oil and gas producers that will affect FY 2010-11 revenue are expected to be much lower than those claimed for FY 2009-10. The credit amounts will be smaller due to the large drop in production values that occurred during the recession. The smaller tax credits will result in a larger increase in collections than the relatively modest rebound in prices would suggest.

In 2010, natural gas spot market prices are expected to average $4.40 per Mcf (thousand cubic feet), rising from an average of $3.50 per Mcf in 2009. Natural gas spot market prices are expected to average $4.89 per Mcf in 2011. A strengthening economy and the opening of the new "Ruby" natural gas pipeline in the spring of 2011 will boost prices for Colorado producers in 2011. This new pipeline will allow Colorado producers to export more gas to west coast markets. Prices are not expected to reach the high levels that occurred in 2005 through 2008 in the foreseeable future. This is primarily due to the nation's high natural gas production capacity and new drilling technology that allows for supplies to come onto the market to meet demand at faster rates than in the past.

Drilling rigs operating in the state continue to increase despite the low natural gas price environment. In the second week of September, the number of rigs stood at 68, 23 more than a year ago. The increase in rigs has been concentrated in Weld and Garfield counties. Much of the drilling in Weld County and other parts of northeast Colorado is targeting the Niobrara shale formation. This formation holds promise as a high oil producing area, and oil is currently more attractive to produce due to its higher market price relative to natural gas. However, it will take time to see if Niobrara will be a large producing area over a sustained period of time.

One reason producers may be continuing to increase the extraction of natural gas in the state despite lower prices especially in Garfield County, may be due to their ability to obtain natural gas liquids (NGLs) as a byproduct of processing the gas. NGLs, such as butane, propane, and ethane, are able to command higher prices than dry natural gas. However, this trend may be short lived if the market for NGLs becomes saturated. In addition, some producers may be continuing to operate in the lower price environment to maintain their assets in the state while still earning some income. Others may have contracts with buyers that contain higher prices than current spot market prices.

Coal production represents the second-largest source of severance taxes in Colorado after oil and natural gas. After decreasing 41.5 percent in FY 2009-10, severance tax revenue from coal production is expected to decline another 4.1 percent in FY 2010-11. Production of Colorado coal continues to decline due to several factors. Among these are the continued sluggish economy, increasing use of other fuel sources for power generation, such as natural gas and renewable energy, and the increasing use of non-Colorado coal in Midwestern and Eastern U.S. markets. Because of these trends, coal severance tax collections should remain at relatively low levels over the forecast period.

Gaming tax revenue saw significant growth during the first year after limited-gaming was expanded under Amendment 50. Although revenue came in lower in July and August than in the same period last year, revenue is expected to perform slightly better than last year for the remainder of the year.

In 2009, voters in each of the gaming towns authorized the expansion of limited gaming. Bet limits were raised from $5 up to $100, casinos are now open 24 hours per day, and craps and roulette were added to the current mix of games. Gaming tax revenue, which includes new taxes resulting from Amendment 50, grew to $107.7 million in FY 2009-10, a 13.4 percent increase from $94.9 million in the prior year. The increase in tax revenue was mainly attributed to the novelty of expanded gaming and construction of a few new hotels and casinos.

For FY 2010-11 and subsequent years of the forecast period, the growth in gaming tax revenue will slow considerably. The industry may not see significant growth in revenue until new casinos are built, gaming capacity increases, and the economy improves. It may take several years before revenue growth approaches the increase that was seen in the first year after the passage of Amendment 50. Gaming tax revenue will remain relatively flat in FY 2010-11, growing 1.0 percent to $109.3 million. Revenue is expected to increase 2.0 percent to $112.0 million in FY 2011-12.

Table 8
Gaming Revenue Distributions
(Millions of Dollars)

Distribution	FY 2009-10 (Actual)	FY 2010-11 (Estimated)
New Amendment 50 Distributions		
Community Colleges	6.2	6.0
Gaming Counties and Cities	1.7	1.7
Total New Amendment 50 Distributions	**$7.9**	**$7.7**
Pre-Amendment 50 Distributions		
State Historical Fund	24.9	27.2
Gaming Counties	10.7	11.6
Gaming Cities	8.9	9.7
General Fund	16.2	36.7
Economic Development Programs	28.2	11.8
Total Pre-Amendment 50 Distributions	**$88.8**	**$97.0**
Total Distributions	**$96.7**	**$104.7**

Gaming revenue distributions. Table 8 shows distributions of gaming revenue for FY 2009-10 and FY 2010-11. Money attributed to Amendment 50 was $9.9 million in FY 2009-10 and will fall 13.3 percent to $8.6 million in FY 2010-11. As required by **House Bill 09-1272**, community colleges received $6.2 million in FY 2009-10 and $6.0 million in FY 2010-11.

Gaming revenue that was distributed prior to expanded gaming (effective July 1, 2009), is often referred to as "*Pre-Amendment 50*" revenue.

This money is distributed as required by the state constitution and state statutes to the State Historical Society, gaming cities and counties, the General Fund, and various economic development programs. After administrative expenses, total distributions totaled $88.8 million in FY 2009-10 and is expected to grow to $97.0 million in FY 2011-12.

Gaming revenue and the budget. Distributions of gaming revenue can be affected by the budget whenever any March revenue forecast indicates that General Fund revenue will be insufficient to fully fund budgeted appropriations for that particular year. When this occurs, current law requires that gaming money transferred to certain economic development programs revert to the General Fund unless the state legislature passes a bill to adjust the distribution of this money. During the 2010 session, the General Assembly adopted **House Bill 10-1339** to adjust the distribution, allocating $16.2 million of gaming revenue to the General Fund and $28.2 million to economic development programs. Because this forecast indicates that General Fund revenue will be insufficient to fully fund the amount currently budgeted in FY 2010-11, an estimated $36.7 million of gaming tax money will be credited to the General Fund in FY 2010-11 unless a bill is enacted to adjust the distributions or the budget and revenue situation changes.

All **other cash fund revenue** subject to TABOR is expected to decrease 3.2 percent in FY 2010-11. This category includes revenue to a large number of revenue sources credited to various other cash funds, such as revenue from court fines and fees, the state's park system, and from fees paid for services provided by the Secretary of State's Office. In some years, the category also includes revenue from state higher education institutions that do not have enterprise status, causing their revenue, mostly from tuition and student fees, to be subject to TABOR. All of the state's colleges and universities are expected to qualify as enterprises in FY 2010-11. Fort Lewis College was the only school that did not have enterprise status in FY 2009-10.

Federal Mineral Leasing Revenue

Table 9 presents the September 2010 forecast for federal mineral leasing (FML) revenue in comparison with the June forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of energy production. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment to the state constitution, the forecast is presented separately from other sources of state revenue.

Similar to severance taxes, after a large decline in FY 2009-10, FML revenue is projected to rebound in FY 2010-11 to $136.5

Table 9
Federal Mining Leasing Revenue Distributions
(Millions of Dollars)

Year	Sept-10	% Chg.	Jun-10	% Chg. from Last Forecast
FY 2001-02	$44.6		$44.6	
FY 2002-03	$50.0	12.1%	$50.0	
FY 2003-04	$79.4	58.7%	$79.4	
FY 2004-05	$101.0	27.2%	$101.0	
FY 2005-06	$143.4	41.9%	$143.4	
FY 2006-07	$123.0	-14.3%	$123.0	
FY 2007-08	$153.6	25.0%	$153.6	
FY 2008-09	$227.3	47.9%	$227.3	
FY 2009-10	$122.5	-46.1%	$120.4	
FY 2010-11*	$136.5	11.5%	$128.3	6.4%
FY 2011-12*	$150.8	10.5%	$146.7	2.8%
FY 2012-13*	$158.7	12.2%	NA	NA

Source: State Treasurer's Office.

** Forecast.*

million, an increase of 11.5 percent. The rebound will not be as pronounced as with severance taxes, however, because FML revenue is not affected by the severance tax credit that can exacerbate swings in revenue when energy prices fluctuate. Revenue will increase further in FY 2011-12 due to higher energy prices in a strengthening economy and as the new Ruby pipeline opens up northwest Colorado's natural gas to west coast markets.

Unemployment Insurance Revenue

Forecasts for unemployment insurance (UI) revenue, benefits payments, and the UI Trust Fund balance are shown in Table 10 on page 22. As a result of **House Bill 09-1363**, revenue to the UI Trust Fund is no longer subject to TABOR and is therefore excluded from Table 10. However, due to the significance of employment issues, UI revenue, benefits, and the UI Trust Fund balance will continue to be included in a separate table in the forecast. The Employment Support Fund, derived from half of the UI surcharge, is still subject to TABOR and is included in the umbrella group of other cash funds in Table 10.

The UI Trust Fund will see a negative balance of approximately $498.6 million at the close of FY 2010-11. UI benefits paid will total $1.3 billion this year, far exceeding the revenue generated from employer premiums. Although initial UI claims are beginning to edge down and some workers have begun to exhaust their benefits, payments are expected to continue to increase through this fiscal year as job seekers continue to out-number available jobs. The fund balance is expected to remain negative through the forecast period. Estimates of the UI Trust Fund balance do not include amounts borrowed from the federal government.

When the balance of the UI Trust Fund falls below zero, the federal government requires the state to borrow money from the Federal UI Trust Fund to meet benefit payments. Colorado began borrowing federal funds in 2010 to pay unemployment benefits. As of the beginning of August, Colorado has borrowed $396.3 million. Loans for UI benefit payments are interest free through the end of 2010. Although Colorado's first repayment is not due until September of 2011, the state repaid $160 million in May 2010. Borrowing from the Federal UI Trust Fund is expected to continue for as long as the fund balance remains in negative territory.

The payment of UI benefits is supported by the collection of employer premiums. It is based on the employer's experience in the UI system and the liability associated with the industry within which the company operates. The more benefits claimed by an employer's former employees, the higher the regular premium rate. Premium rates for most employers increase each time the fund balance falls below certain thresholds.

In addition to the regular premium, the solvency surcharge is levied when the UI Trust Fund balance drops below a certain level. By statute, the solvency surcharge is collected when the fund balance falls below 0.9 percent of total private wages paid in the state during the previous year. The solvency surcharge has been collected since 2004.

After several years of decreasing employer premium revenue due to job cuts and lower premium rates, total revenue to the fund began increasing in FY 2009-10 due to higher premium rates. The solvency surcharge will remain in effect and is expected to remain so through the forecast period. Regular premium rates will climb over the same period as the increase in UI benefits are incorporated into employer experience rates. In addition, regular premium rates will also increase as the employer rate schedule shifts to the highest rate schedule due to the negative UI Trust Fund balance. Consequently, total premium revenue will begin to climb and remain high over the forecast period.

Table 10
Unemployment Insurance Trust Fund Forecast, September 2010
Revenues, Benefits Paid, and Fund Balance
(Dollars in Millions)

	Actual FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13	FY 08-09 to FY 11-12 CAAGR *
Beginning Balance	$699.8	$339.9	($223.8)	($498.6)	($457.4)	-10.7%
Plus Income Received						
Regular Taxes /A	$159.1	$210.5	$672.0	$778.0	$754.4	69.7%
Solvency Taxes	$205.3	$282.5	$341.4	$375.8	$362.5	
Interest	$27.8	$1.2	$0.0	$0.0	$0.0	-100.0%
Plus Federal Payment		*$128.0*				
Total Revenues	**$392.1**	**$622.2**	**$1,013.3**	**$1,153.9**	**$1,117.0**	39.3%
% Change	-8.1%	58.7%	62.9%	13.9%	-3.2%	
Less Benefits Paid	($741.8)	($1,159.8)	($1,268.3)	($1,092.7)	($864.7)	13.8%
% Change	125.5%	56.3%	9.4%	-13.8%	-20.9%	
Federal Reed Act Transfer	$0.0	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	($10.2)	($26.2)	($19.8)	($20.0)	($20.5)	NA
Ending Balance	**$339.9**	**($223.8)**	**($498.6)**	**($457.4)**	**($225.7)**	10.4%
Solvency Ratio:						
Fund Balance as a Percent of Total Annual Private Wages	0.39%	-0.26%	-0.59%	-0.53%	-0.25%	10.6%

Totals may not sum due to rounding.

NA = Not Applicable.

**CAAGR: Compound Average Annual Growth Rate.*

/A This includes the regular premium, 30% of the surcharge, penalty receipts, and the accrual adjustment on taxes.

**Note: The Unemployment Insurance Trust Fund is no longer subject to TABOR starting in FY 2009-10.*

NATIONAL ECONOMY

The national economy is continuing through its prolonged, rocky recovery that was expected after the credit and housing boom and bust. Credit remains constrained, home values are flat or falling, construction is at record low levels, and unemployment uncomfortably high. Though the economy has slowed since its initial recovery trajectory as fiscal stimulus and the rebuilding of inventories have waned, it is still growing and businesses continue to add workers, albeit gradually. Further, exports of the nation's products continue to increase, especially to Asia and other areas that are growing robustly, helping the nation's manufacturing sector to expand.

These positive factors, among others, such as sustained increases in consumer spending, relatively high levels of business spending on equipment and software, and early signs of a loosening of credit, will help the economy to continue growing. However, economic and job growth will be restrained by reduced credit availability and major adjustments in the housing and consumer sectors. Higher levels of uncertainty and cautiousness are also contributing to the current sluggish economy. Table 11 on page 33 summarizes the forecast for selected national economic indicators.

Economic Output

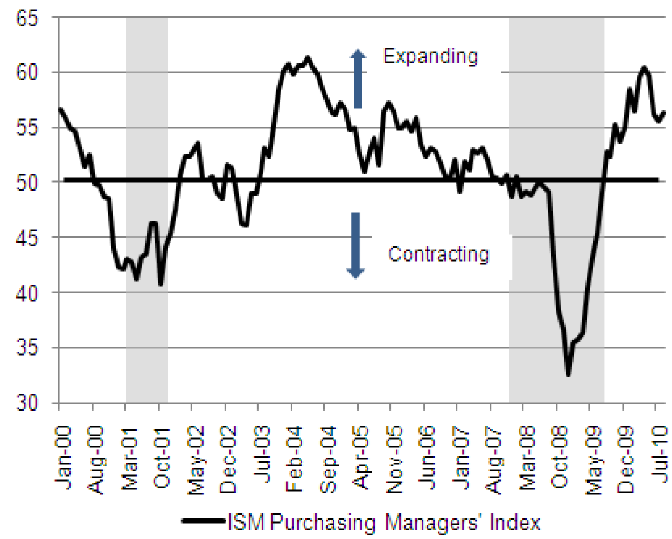
The most recent data on real, or inflation-adjusted, **gross domestic product (GDP)** — which measures the amount of goods and services produced in the U.S. — showed the economy slowed to a 1.6 percent annual rate in the second quarter of 2010. One of the largest contributors to the slowing was the trade deficit. The nation imported goods and services at a higher level than it exported. Although the increase in imports means that demand for products in the U.S. economy continues to grow, it subtracts from the nation's output since the goods are produced elsewhere. A cooling in the rebuilding of business inventories also contributed to less economic output.

- A tepid increase in GDP is expected in the second half of 2010 and in first half of 2011 as spending and growth in business inventories slow and as construction remains feeble. Economic output should pick up in the second half of next year as credit flows increase and the consumer and construction markets become stronger. Real GDP is projected to grow 2.8 percent in 2010 and 3.0 percent in 2011.

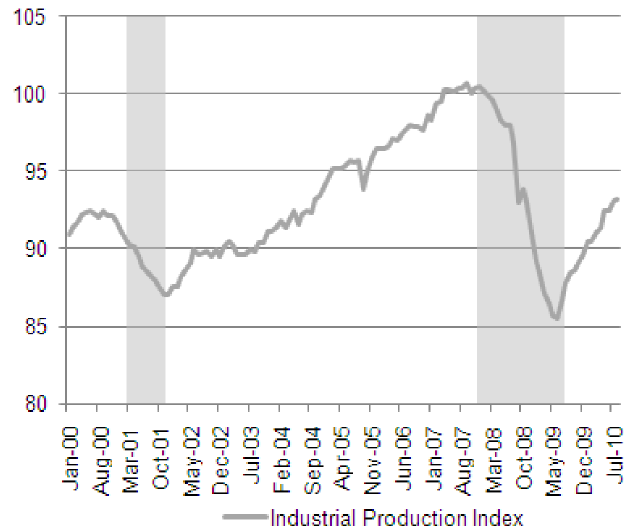
A surprising aspect of the nation's recovery has been the rebound in **manufacturing** activity. Though manufacturing has become a smaller part of the economy since the 1980s, the sector has grown faster than the overall economy during the current recovery. Manufacturing employment has grown by 145,000 jobs in 2010. The increase in global demand for goods produced in the U.S., as discussed in the *Trade* section below, appears to be one major reason for the expansion.

The industrial production index, which measures the production of all goods in the U.S., has shown a strong sustained upward trend over the past year. Also, the Institute for Supply Management's (ISM) factory purchasing managers' index rose to 56.3 in August after declining in prior months, though staying above the 50 mark, which indicates expansion. The index's increase in August is a positive sign that there has been a pick up in

Figure 2
Indices of Manufacturing Activity through August 2010



Source: Institute for Supply Management.



Index 2007=100
Source: Federal Reserve

demand for manufactured products. The ISM's manufacturing employment index in August was 60.4, the highest level since 1983. Figure 2 shows the trends in the both the ISM Purchasing Managers' Index and the Industrial Production Index from 2000 through August of 2010. Since manufacturing is still a large enough part of the economy — representing about 12 to 15 percent of the nation's output — continued manufacturing expansion will help GDP to continue to grow. However, it is possible that manufacturing activity will slow in the months ahead if demand for goods does not increase while business inventories continue to grow.

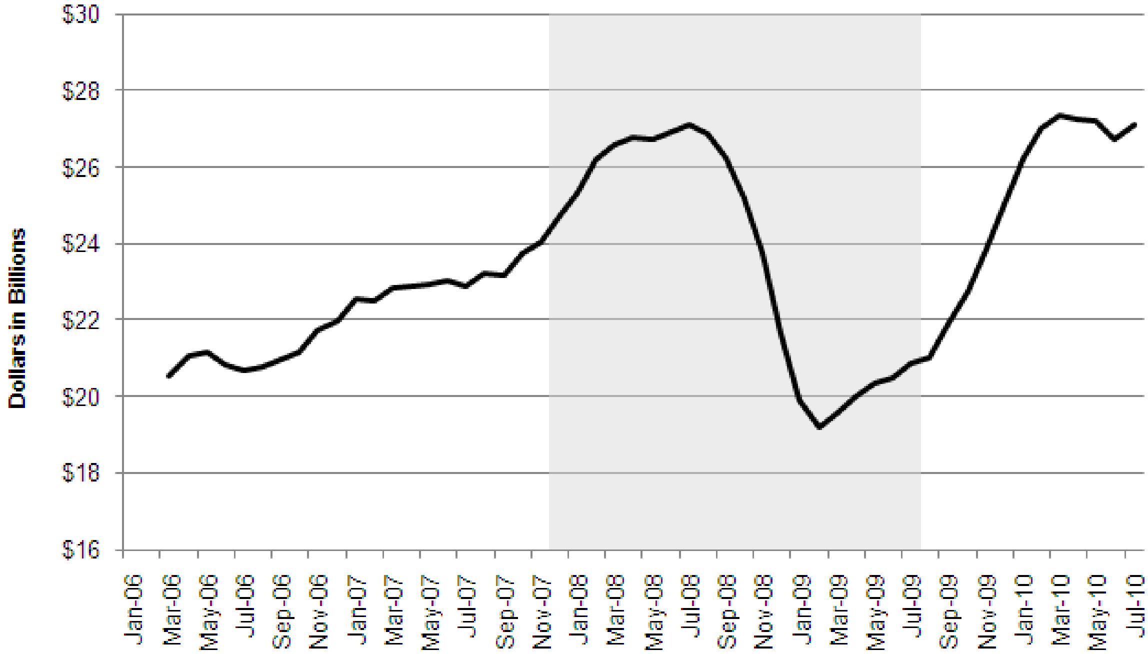
Trade

One of the most positive developments for the nation's economy has been the rebound in world trade. Strong economic growth in other parts of the world, especially Asia, has boosted demand for U.S. made goods. Exports of U.S. goods were up 22.6 percent through July compared with the same period in 2009. The largest growth rates among the nation's top largest markets were in exports to South Korea (51.5 percent), Singapore (40.1 percent), Brazil (39.9 percent) and China (36.2 percent). These countries are expected to post strong growth rates over the next few years, which should continue to support U.S. exports and economic growth. Export growth was driven in large part by increases in computers and electronic product shipments, vehicle shipments, and mineral fuel/oil shipments. Figure 3 shows the value of exports of U.S. goods to Asia, which have already rebounded to their pre-recession peak.

Job Market

According to preliminary estimates from the Bureau of Labor Statistics, the nation added 723,000 **nonfarm jobs** since the beginning of 2010 through August, averaging about 90,000 jobs a month. Though the

Figure 3
Export of U.S. Goods to Asia
2006 through July 2010, Seasonally Adjusted, Three-month Moving Average



Source: U.S. Census Bureau as reported by WiserTrade.

creation of new jobs is a positive development for the economy, job growth has been short of the roughly 130,000 to 150,000 new jobs per month the nation needs to keep unemployment from rising as the population grows. Since economic output is expected to grow only modestly, the pace of job creation will be the same, causing unemployment to be a troublesome issue for the nation over the next several years.

The formation and survival of new businesses are an important source of net job creation in the U.S. However, the current environment of modest consumer demand and constrained credit is making it more difficult for new enterprises to become established, survive, and hire new workers. For larger, established businesses, the lack of a higher sustained trend of increasing sales is inhibiting job growth. Also, firms have experienced large productivity gains from their existing workforces. Thus, there is less need to bring on more workers, especially as firms seek to keep their labor costs down in the current economic environment.

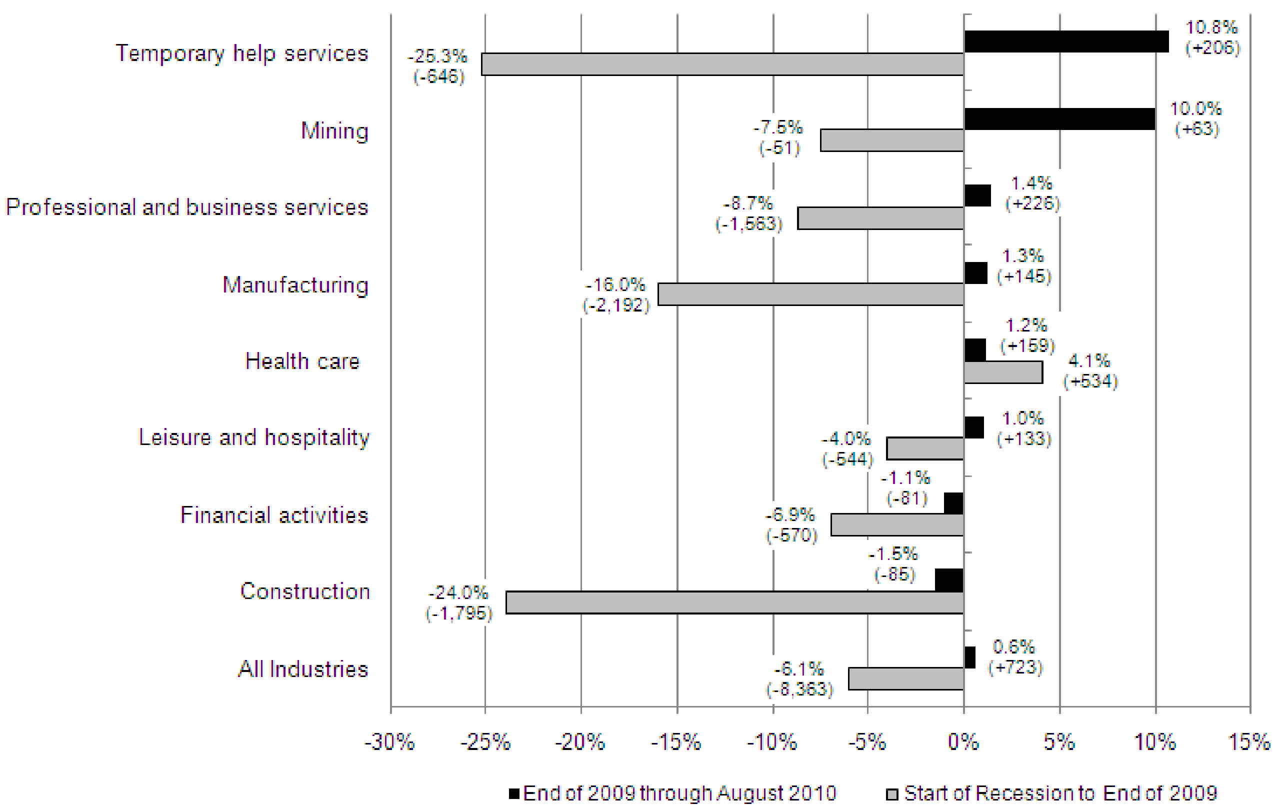
The **unemployment rate** was 9.6 percent in August, meaning that almost 1 out of 10 people in the labor force are looking for work. A broader measure of the labor market includes individuals who would like to work but have not actively searched for a job recently, as well as people who work part-time but cannot find full-time positions due to economic conditions. This measure, often called the "underemployment rate," was 16.7 percent in August, equating to 1 out of 6 people.

The weak labor market is mostly a function of the constrained credit environment and the economy performing below its capacity with weaker demand for products and services. However, a portion of the high unemployment is also likely attributable to barriers that will take more time to dissipate as the economy improves. Many individuals employed during the credit and housing boom in the construction and financial services industries do not have the skills needed to move into industries that are currently growing, such as health care and professional and business services. Also, many unemployed individuals owe more on their homes than they are worth, making it difficult for them to move to areas with better job prospects.

Figure 4 shows the job change, in both the number of jobs and in percentage terms, for selected industries, from the beginning of the recession in December 2007 through the end of 2009. It also shows the job change from the end of 2009 through August 2010. The graph shows that some industries have experienced a slow recovery in 2010, while others, most notably construction and financial activities, continue to shed jobs.

After shedding jobs at a rapid clip during the recession, the temporary help industry continues to add workers. This is a positive sign because growth in temporary workers tends to lead growth in overall employment. The jobs in this industry are temporary positions in wide-ranging professions, such as administrative work, manufacturing, engineering, finance, and information technology.

Figure 4
Job Change in Selected Industries, Start of Recession (December 2007) through the End of 2009 and in 2010 through August
(Job number change in thousands, seasonally adjusted)



Source: U.S. Bureau of Labor Statistics.

- Employment will decline 0.4 percent in 2010. Anemic job creation in 2010 will keep the average level of employment for the year slightly below the average level for 2009. This is the case because the nation had a higher number of jobs in the first part of 2009, despite high job losses during that time, than the current level. The nation will add 1.5 million jobs in 2011, which will result in an employment increase of 1.2 percent above the 2010 level. This pace of job creation will be below what is needed to bring down the unemployment rate in any substantial degree as the labor force grows. The unemployment rate will remain stubbornly elevated, averaging 9.7 percent in 2010 and 9.8 percent in 2011.

Households and Consumers

The total amount of **personal income** of the nation's population has nearly recovered to pre-recessionary levels, according to preliminary estimates from the Bureau of Economic Analysis. Personal income is mostly comprised of wages and salaries, interest and dividend income, business income, rental income and government assistance, such as social security and unemployment benefits. In the second quarter of 2010, the largest growth in personal income was from wages and salaries, nonfarm business income, and governmental assistance. The growth in governmental assistance was largely driven by extended unemployment benefits provided by the federal government. **Wages and salaries** has been growing since the fourth quarter of 2009, when the nation began to see an end to its long trend of job losses.

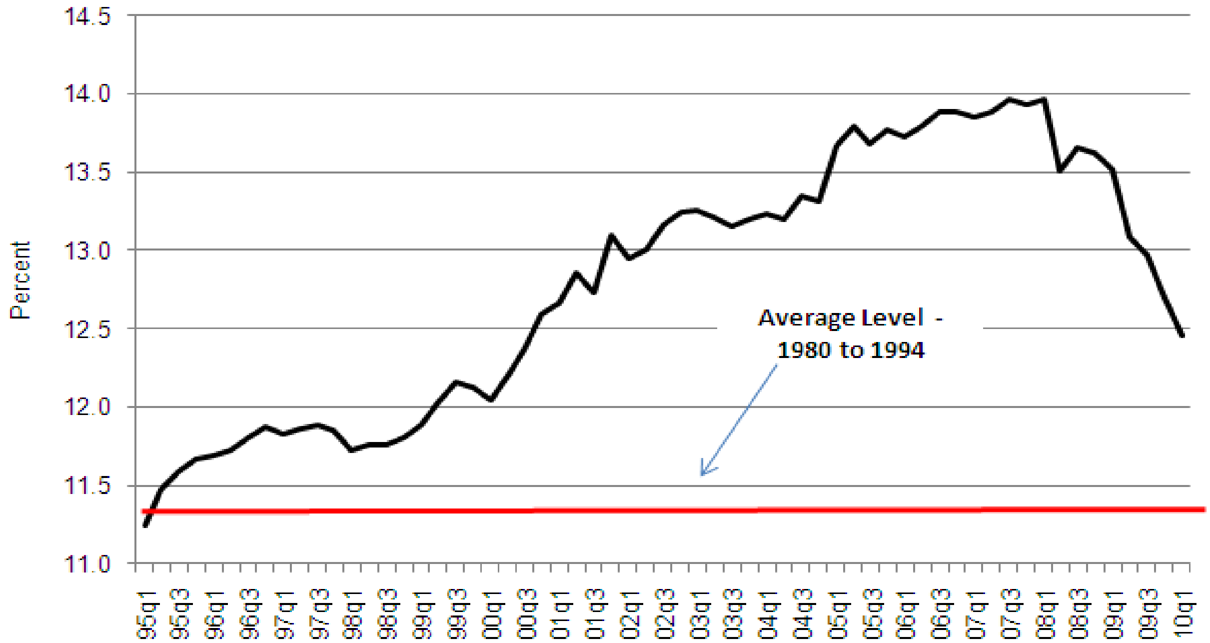
- After falling in 2009, personal income will rise a modest 2.4 percent in 2010, and grow at a higher rate of 3.8 percent rate in 2011. Wages and salaries will increase only slightly in 2010 at a 1.0 percent rate and pick up modestly in 2011, with growth of 4.0 percent. Modest job creation and the high number of unemployed will restrain growth in wages.

After falling precipitously during the height of the financial crisis in the fall and winter of 2008 and 2009, **consumer spending** has grown at a steady, but moderate pace over the past year. The bursting of the housing bubble and the financial crisis caused total household net worth to fall by $17.6 trillion. Though net worth has begun to recover, it is still well below the peak reached in the middle of 2007. Because of the decrease in net worth, consumers continue to rebuild their financial health by using their income to save more and pay down debt, which is tempering consumption.

Consumers built up unsustainable levels of debt to finance consumption before the recession. However, consumer debt has been falling since the recession. Figure 5 shows household debt payments as a ratio of disposable income measured by the Federal Reserve. The figure shows the debt service ratio from 1995, when consumer debt began to climb above its historical levels, through the first quarter of 2010. The figure also shows the average ratio from 1980 to 1994, which remained at a pretty steady level of around 11 to 12 percent. After hitting an all time high of almost 14 percent in the first quarter of 2008, the ratio has been declining, though it remains above historical levels.

- Personal consumption expenditures are expected to increase 3.0 percent in 2010 and 3.4 percent in 2011, which is well below the average annual rate over the past twenty years. Though debt repayment is putting consumers in a better position for higher consumption rates in the future, it will take time for this to occur, especially because homeowners have less home equity and feel less wealthy due to the

Figure 5
Household Debt Service Payments and Financial Obligations as a Percentage of Disposable Personal Income
Seasonally Adjusted



Source: Federal Reserve.

decline in home values. Spending on durable goods, particularly, will remain modest. Much of the growth in spending on these products is driven by purchases of new homes and the amount of home equity, which are expected to remain at relatively low levels over the next few years.

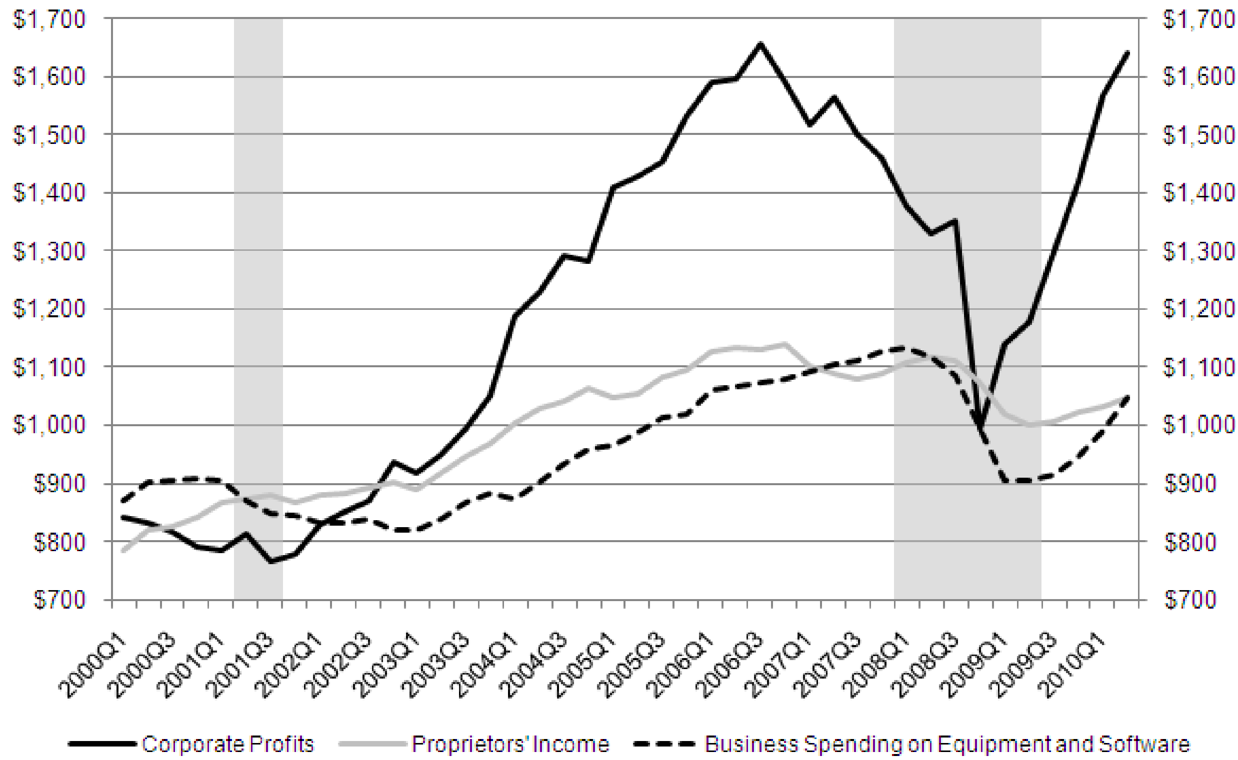
Business Income and Spending

One sign of the continued recovery is the growth in the income of businesses. Figure 6 shows the level of **corporate profits and proprietors' income** from 2000 through the second quarter of 2010. It also shows the level of business investment in equipment and software during the same period. Corporate profits measures the net income of corporations, while proprietors' income is a gauge of the income of smaller- to medium-sized businesses. Corporate profits have increased for six consecutive quarters, making profits almost as high as their peak before the recession.

Though businesses are remaining cautious with their money, some of their income is being used to replace old equipment and to enhance the efficiency of their firms through purchases of new equipment and technology. Also, the increased saving and lower consumption rates of consumers are acting as a signal to businesses to prepare for future consumer spending by investing in equipment for future production.

Business spending on equipment in the second quarter of 2010 was 39.2 percent higher than its level a year earlier. This growth has been a major contributor to the economic recovery. Further, the upgrade in equipment and technology should lead to higher productivity and economic growth in the future.

Figure 6
Business Profits and Income and Spending on Equipment and Software
2000 through Second Quarter of 2010, Dollars in billions, Seasonally Adjusted



Source: U.S. Bureau of Economic Analysis.
Note: Profits and income are with inventory valuation and capital consumption adjustments.

Price Levels and Inflation

Overall **price levels** for consumer goods and services have remained essentially flat in recent months. This is due to low aggregate demand and a high level of slack in the economy. Given that the economy is expected to continue to perform below capacity for at least the next year and because consumer inflationary expectations remain low, a building of inflationary pressures in the near future appears unlikely. Also, given the likely trajectory of continued modest economic growth and spending, there also appears to be a low risk of deflation.

- The consumer price index is expected to increase slightly in both 2010 and 2011, with rates at 1.5 percent and 1.7 percent, respectively.

Housing

Historically, the severity and speed of economic downturns and subsequent recoveries have shown a tendency to follow the performance of the housing market. This was evident with the recent severe downturn that was preceded by a collapse in home building and falling home values. Unfortunately for the current recovery, the housing market, especially new home construction, will not be a positive contributor in the near term. The high level of inventory and foreclosures and modest sales pace will keep home building at low levels and keep downward pressure on prices. At the current pace, it would take twelve and a half months to clear the backlog of unsold homes, according to the National Association of Realtors. This compares with a six-month supply of homes in a more normal market.

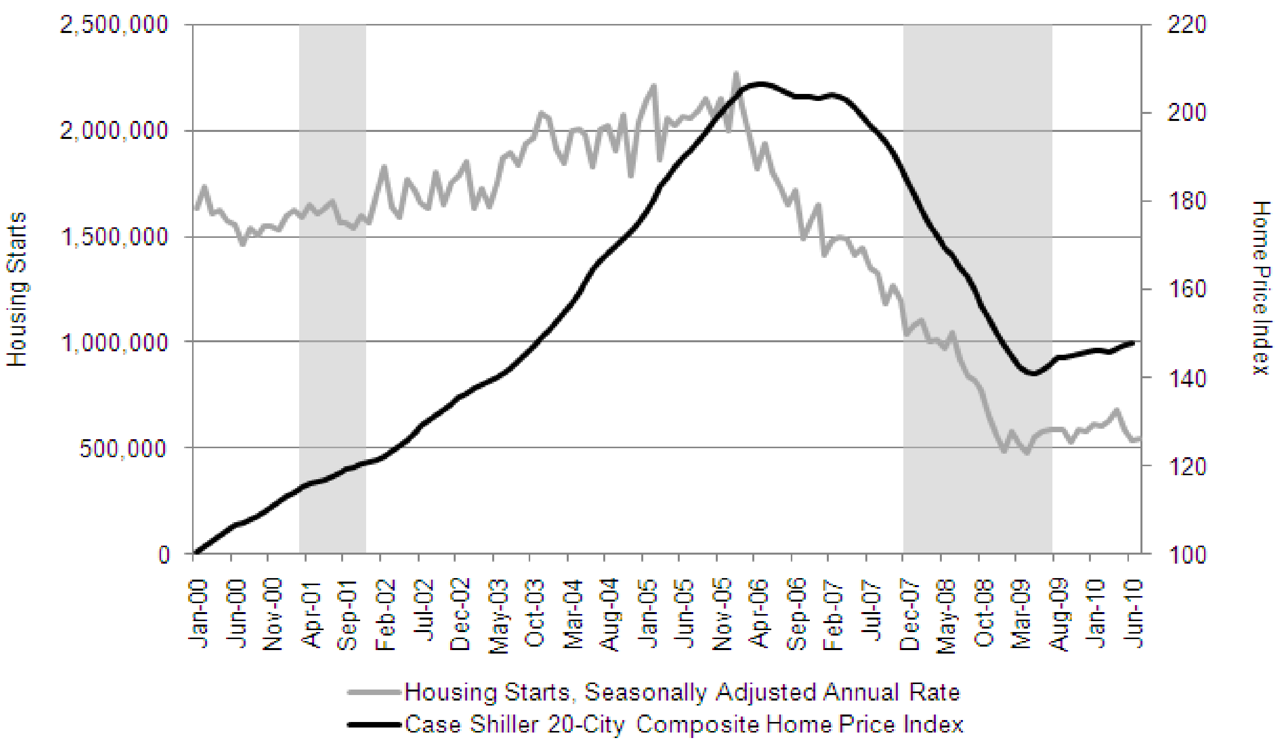
Figure 7 shows new housing starts, which have been at a record low since bottoming at the beginning of 2009, and home prices from 2000 through the first half of 2010. Though the low level of home construction and prices are currently a drag on economic growth, they will help reduce the excess supply of homes that needs to occur for the market to recover. Housing construction will likely begin an upward modest trend starting near the middle of 2011 as low prices and mortgage rates begin to increase the demand for housing.

Credit Conditions

The flow of credit remains constrained as financial institutions continue to repair their balance sheets by reducing debt and building equity capital. Also, banks are lending less than before the financial crisis and maintaining large reserves to buffer themselves from further expected losses in real estate and consumer loans. At the same time, cautious and debt-laden consumers and businesses are more reluctant to borrow. Just as the growth of credit was a main driver of the economic boom, this reduction in debt, or "deleveraging," is currently a large drag on the economy.

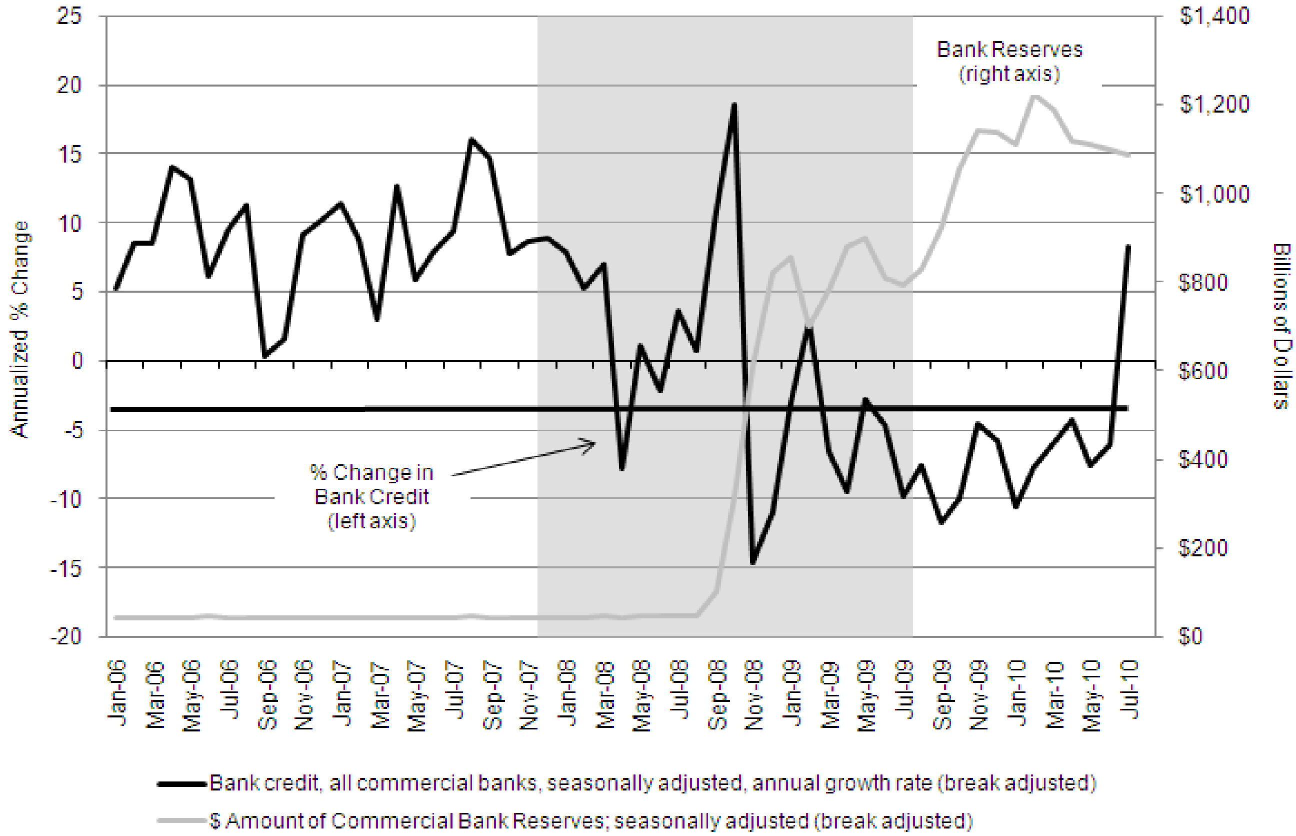
Overall credit provided by commercial banks, including loans to businesses and households and bank investments, declined in

Figure 7
Housing Construction and Home Prices
2000 through the First Half of 2010, Seasonally Adjusted



Source: U.S. Census Bureau and S&P/Case Shiller.

Figure 8
Bank Credit and Reserves
2006 through July 2010



Source: Federal Reserve.

all but two months from October of 2008 through July of 2010. At the same time, the expansionary monetary policy of the Federal Reserve resulted in a massive jump in the reserves of banks. The decline in bank credit essentially indicates that there has been a reduced amount of new money inserted into the economy for businesses and consumers to use. The decline in credit has been one of the main factors that has caused lackluster spending and growth. Figure 8 shows the percent change in overall bank credit and banks' level of excess reserves from 2006 through July of 2010. Bank credit contracted and reserves jumped simultaneously in the fall of 2008 as the financial crisis became acute.

There are some signs that credit has loosened some recently, which may help lead to accelerating economic growth in the future. As shown in Figure 8, overall bank credit increased in July, led by banks' investments in securities and a slight uptick in loans to businesses and consumers. The increase in bank investments may indicate that banks are starting to become more comfortable with their capital positions and are starting to lend and invest at higher rates.

In addition, the most recent *Federal Reserve Survey of Terms of Business Lending* showed that banks eased lending standards and terms to businesses between April and July.

This was the first time the Federal Reserve reported an easing of standards for loans to businesses since late 2006. Banks indicated that increased competition among lenders was the main reason for the increase. If lending terms continue to ease, bank credit should continue to grow and help bolster the economy further in 2011. However, the loosening of credit will take time and the economy will run in a lower gear while the financial system heals.

Summary

In many ways, the economy is going through a rebuilding process after the housing collapse and financial storm caused major disruptions to the economy and the balance sheets of households and firms. Ups and downs during this process are expected. The economy has slowed from its initial recovery trajectory that began in the late summer of 2009, likely, at least in part, as a result of the waning of fiscal stimulus measures and a slowdown in the growth of business inventories. The slowdown has mostly affected GDP and the labor market. However, because jobs, housing, and GDP are among the most prominent economic indicators, the slowdown in these indicators has obscured more positive underlying developments in the economy. These include continued growth in manufacturing, business income and profits, business spending on equipment and software, early signs of the loosening of credit, and a rebound in exports of U.S. goods and services.

These positive trends, along with the natural drive among entrepreneurs and businesses to compete and succeed, should help to keep pushing the economy forward through its current struggles. Further, these positive factors are sowing the seeds for better economic performance in the future. However, growth will be below what it needs to be to jumpstart the labor market through at least the first half of 2011, especially because of a slow recovery in the housing market. As consumers continue to improve their financial situations and the housing market continues to work off its excesses, economic conditions should begin to improve more markedly towards the latter half of 2011.

Risks to the Forecast

Because of the major disruptions to the economy brought on by the deflating of the credit and housing bubble, there continue to be downside risks to the forecast. One of the largest risks is an unexpected shock to the already weakened financial system that would further constrict the flow of credit. Another risk is that further drops in home prices will drag down consumer confidence and spending, which would reverberate throughout the economy. Sustained high unemployment could also have larger-than-expected negative impacts.

There is also upside risk to the forecast. There is the potential that certain conditions could come together that could lead to a stronger recovery. For example, credit could become more accessible and heightened confidence could lead to stronger-than-expected spending and business growth. Stronger economic growth in other countries that would further bolster U.S. exports would also contribute to a faster improving economy.

Table 11
National Economic Indicators, September 2010 Forecast
(Dollars in Billions)

	2006	2007	2008	2009	Forecast 2010	Forecast 2011	Forecast 2012
Inflation-adjusted GDP	$12,976.2	$13,228.9	$13,228.8	$12,880.6	$13,241.3	$13,638.5	$14,102.2
percent change	2.7%	1.9%	0.0%	-2.6%	2.8%	3.0%	3.4%
Nonagricultural Employment (millions)	136.1	137.6	136.8	130.9	130.4	132.0	134.5
percent change	1.8%	1.1%	-0.6%	-4.3%	-0.4%	1.2%	1.9%
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.7%	9.8%	8.6%
Personal Income	$11,268.1	$11,912.3	$12,391.1	$12,174.9	$12,467.1	$12,940.8	$13,587.9
percent change	7.5%	5.7%	4.0%	-1.7%	2.4%	3.8%	5.0%
Wage and Salary Income	$6,068.9	$6,421.7	$6,559.0	$6,274.1	$6,336.8	$6,590.3	$6,913.2
percent change	6.5%	5.8%	2.1%	-4.3%	1.0%	4.0%	4.9%
Inflation (Consumer Price Index)	3.2%	2.8%	3.8%	-0.4%	1.5%	1.7%	2.5%

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

The Colorado economy is showing strong signs of a slow and gradual recovery. Personal income increased in the third quarter of 2009, marking the end of the recession, but there have been few signs of sustained growth in other economic indicators until now. As expected, the expansion remains sluggish. The state's economy continues to struggle through debt problems, but a slow path toward solid expansion appears to be in sight. Table 12 on page 44 summarizes the forecast for the Colorado economy.

Several economic indicators have begun to signal growth. Colorado's private sector added jobs in June and July, the first employment growth since firms began shedding workers in April 2008. Initial claims for unemployment insurance have drifted lower, and retail spending has been increasing, albeit slowly. The rig count continues to rise.

Colorado real estate and banking sectors have more problems than most states, and these sectors continue to be a drag on the recovery. There are signs that consumers and banks are working through these problems, but it is likely to be over a year before the economic expansion kicks into a higher gear.

Personal Income and Wages Rising Slowly

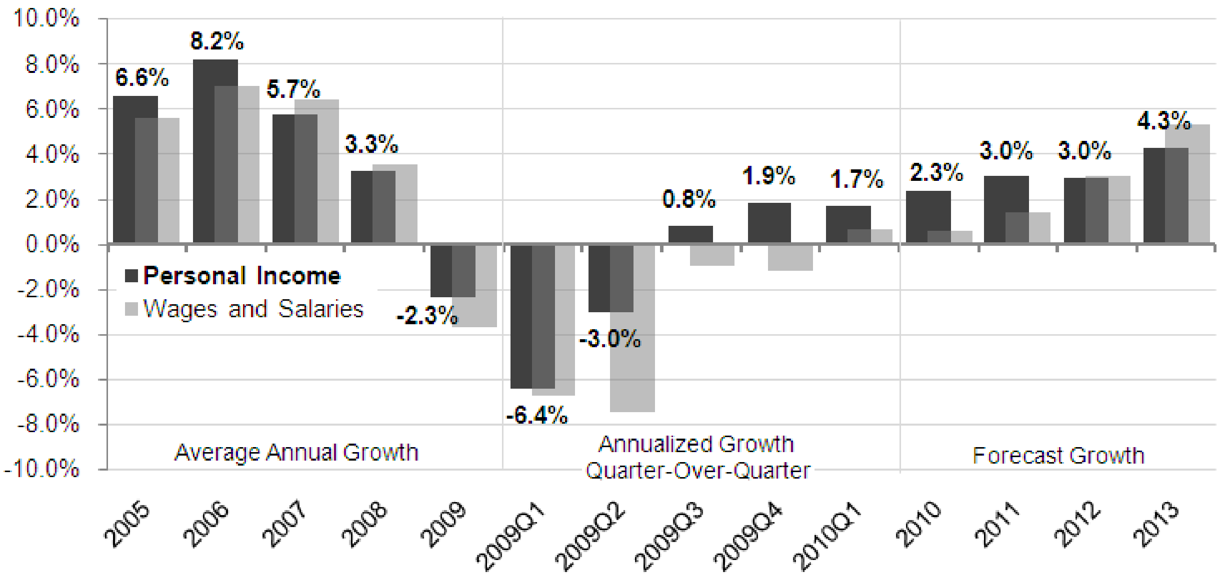
Colorado incomes are on the rise. However, slow business growth and high levels of unemployment in the slow-growth economy will dampen income growth over the next several years. Wages and salaries make up over half of Colorado personal income — a measure of total income received by Colorado households. Personal income also includes other sources of income such as government assistance payments, dividends, and rent.

Figure 9 shows growth in Colorado personal income and wages and salaries over the last several years, quarterly growth over the last several quarters, and forecast growth through 2013. During the recession, many businesses reduced employee wages and salaries and reduced hours, pushing wages and salaries downward. Depreciated home values with the housing market bust and the dip in the stock market also took a toll on incomes. In 2009, for the first time on record, personal income declined in Colorado, dropping 2.3 percent.

Personal income started growing in the second half of 2009 but at very modest rates. After enduring the recession, many businesses continue to struggle to make ends meet and have been slow to increase employees salaries and wages. Additionally, high levels of unemployment mean many workers are competing for the same positions. As a result, many job seekers are willing to be paid less, which is dampening growth in wages and salaries.

- Colorado personal income will grow a modest 2.3 percent in 2010, offsetting the income declines that occurred during the recession. In 2011, personal income will grow at a slightly stronger rate of 3.0 percent. Income growth will strengthen as the economy gains momentum. Due to high levels of unemployment and slow economic growth, wages and salaries will be remain fairly flat over the next two years, growing only 0.6 percent in 2010 and 1.4 percent in 2011. Growth will pick up as the labor market improves.

Figure 9
Colorado Personal Income and Wages and Salaries
Quarterly Data at Seasonally Adjusted Annualized Rates



Source: U.s. Bureau of Economic Analysis, Legislative Council Staff projections.

Consumer Spending Rebounding Slowly

Consumer spending continues to rebound modestly. However, spending will be restrained by heavy debt burdens, high unemployment, and slow wage growth. Colorado retail trade sales increased 6.0 percent through June 2010, as shown in Figure 10. Sales were boosted by improved consumer confidence and federal stimulus programs. These stimulus programs have largely ended and there has been a modest weakening in consumer confidence and spending since their expiration.

A high level of mortgage debt is contributing to the financial strain dampening consumer spending across the country. In the second quarter of 2010, 28 percent of mortgage holders in Colorado owned more on their mortgage than the value of the home, according to CoreLogic. As shown in Table 13, Colorado's rate of negative equity is just under the national average. There are only eight states with a higher negative equity share: Nevada, Arizona, Florida, Michigan, California, Georgia, Virginia, and Idaho. Table 13 also details the distribution of negative equity across Colorado. Of the reported metropolitan areas, Greeley has the highest level of negative equity, with nearly half of all outstanding mortgages exceeding the value of the home. In the Denver-Aurora-Broomfield area, thirty-one percent of mortgages are at or near negative equity.

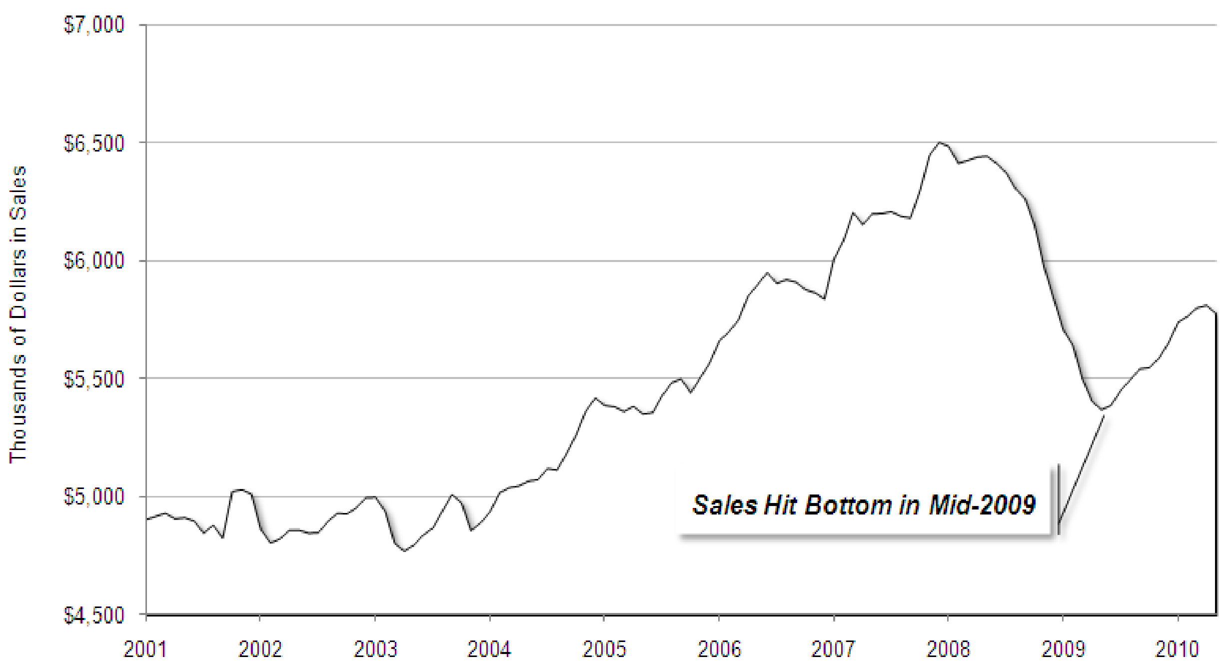
While there has been a recent rebound in retail sales growth, spending is likely to moderate over the next few months. Spending has been boosted by stimulus programs, such as the cash for clunkers, energy, and income tax credits. These stimulus programs have subsided, and most economists expect the rate of recovery in spending to ease. Still, interest rates remain low, and improving consumer confidence should keep the consumer ready to spend.

Table 13
Financial Strain by Area
Percent of Mortgages at or Near Negative Equity

Metropolitan Area	Percent at or Near Negative Equity
Greeley	46.6
Denver-Aurora-Broomfield	31.1
Colorado Springs	29.1
Fort Collins-Loveland	14.7
Boulder	11.6
Colorado	27.8
U.S. Average	27.9

Source: CoreLogic

Figure 10
Colorado Retail Sales Slow After A Modest Rebound
Three-Month Moving Average, Seasonally Adjusted Annualized Data



Source: Colorado Department of Revenue. Data through May 2010..

- Retail trade sales will grow 4.4 percent in 2010. Consumer spending is expected to improve gradually because high unemployment and debt levels will restrain growth.

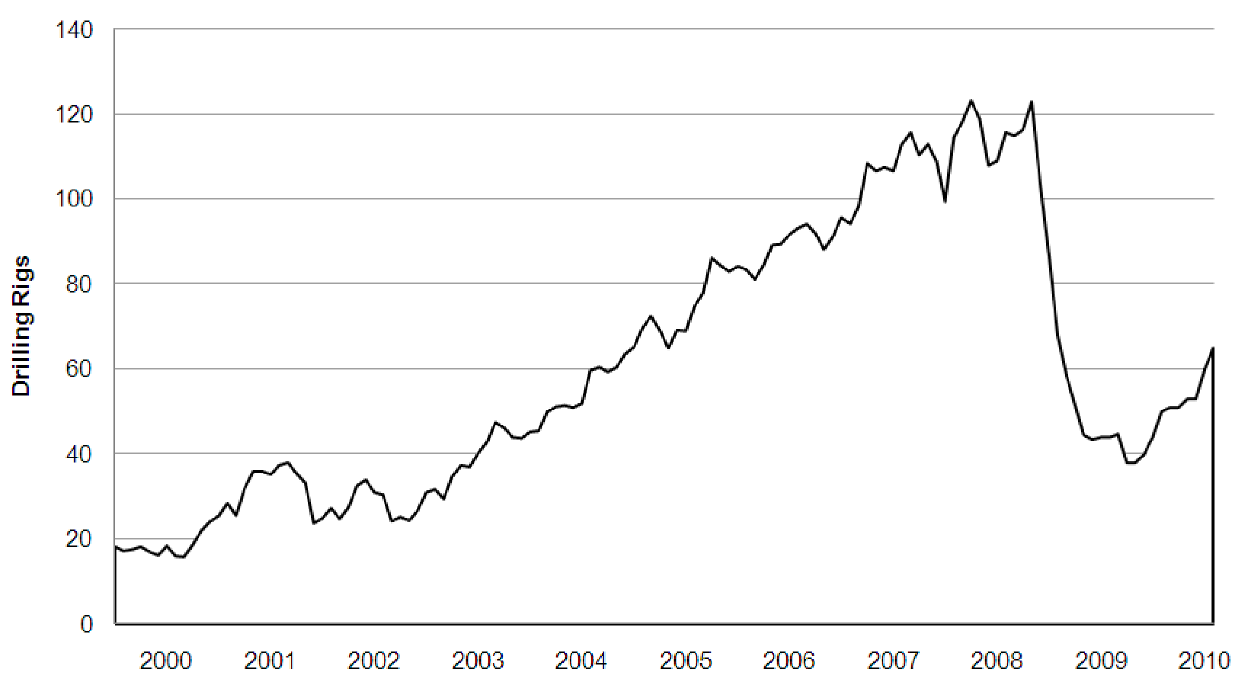
Energy Industry Begins a Comeback

The energy sector has historically made an important contribution to Colorado's economy. Natural gas development, including both conventional and coal-bed methane wells, was particularly vibrant over most of the past decade. Energy investment plummeted along with the rest of the economy in late 2008, but there are clear signs that investment dollars are returning to the sector. Figure 11 displays monthly data on the number of drilling rigs operating throughout Colorado. Following a precipitous drop in 2009, rig counts are beginning to trend upwards. The average of 65 rigs operating in Colorado in August represented a 71 percent increase since the rig count bottomed out in November of 2009. Rig counts rose by an average monthly rate of 6 percent during this period.

Banking Burdened By Debt

The state's banking sector continues to work through a large volume of troubled mortgages, and lending from Colorado-based institutions is still shrinking. At the end of June, Colorado institutions had loans and leases valued at just over $30.5 billion. That figure was $33.5 billion in June 2009, and over $100 billion in March 2009. Economic growth is being restrained by tightened lending standards as local lenders strive to restore their balance sheets.

Figure 11
The Number of Drilling Rigs Operating in Colorado is Rising
January 2000—August 2010



Source: Baker Hughes.

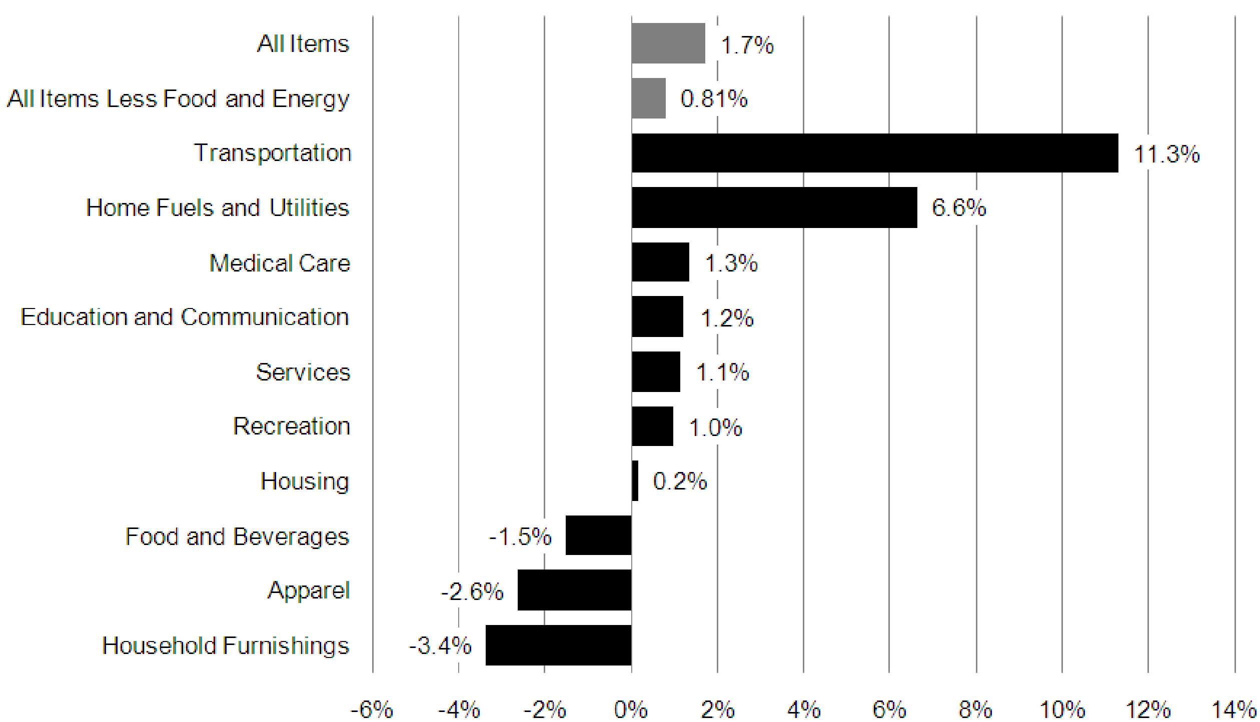
Recent FDIC data suggest that the condition of Colorado banks has improved over the past three months, but they remain in worse shape than the nation. 27 percent of Colorado FDIC-insured institutions were unprofitable at the end of June, down slightly from a year ago. 20 percent of the nation's banks were unprofitable at the end of June.

According to data from the New York Federal Reserve, there has been a slight improvement in the condition of Colorado borrowers in July 2010. There continues to be more Colorado mortgages flowing into foreclosure than out, but the percentage of borrowers past due on their mortgages is slowly falling. In July, 10 percent of Colorado mortgage holders were 90 days or more past due on their mortgage.

Inflation Remains Muted

Inflation in Colorado, as measured by the Denver-Boulder-Greeley consumer price index (CPI), remained low through the first half of 2010. Consumer prices rose 1.7 percent in the first six months of 2010 relative to the first half of 2009, slightly lower than the nationwide inflation rate of 2.1 percent. Figure 12 presents the inflation rate for selected consumer sectors during the first six months of 2010. A majority of sectors exhibited little to no growth in prices, and prices in the food and beverage, apparel, and home furnishings sectors actually declined 1.5 percent, 2.6 percent, and 3.4 percent, respectively. The fuels and utilities and transportation sectors, where prices grew by 6.6 percent and 11.3 percent,

Figure 12
Inflation Driven by Energy Costs
Increase in the Denver-Boulder-Greeley CPI-U
First Six Months of 2010 Over the Same Period in 2009



Source: U.S. Bureau of Labor Statistics respectively, were responsible for most of the growth. The increase in the fuels and utilities sector was primarily driven by consumer electricity costs, which exhibited a 21.4 percent price increase. Likewise, the driving force behind the increase in the transportation sector was the price of gasoline, which increased 30.6 percent.

- Annual inflation in Colorado is projected to remain low throughout the forecast period. Prices are expected to increase 1.3 percent in 2010 and 1.9 percent in 2011 before climbing 2.3 percent in 2012.

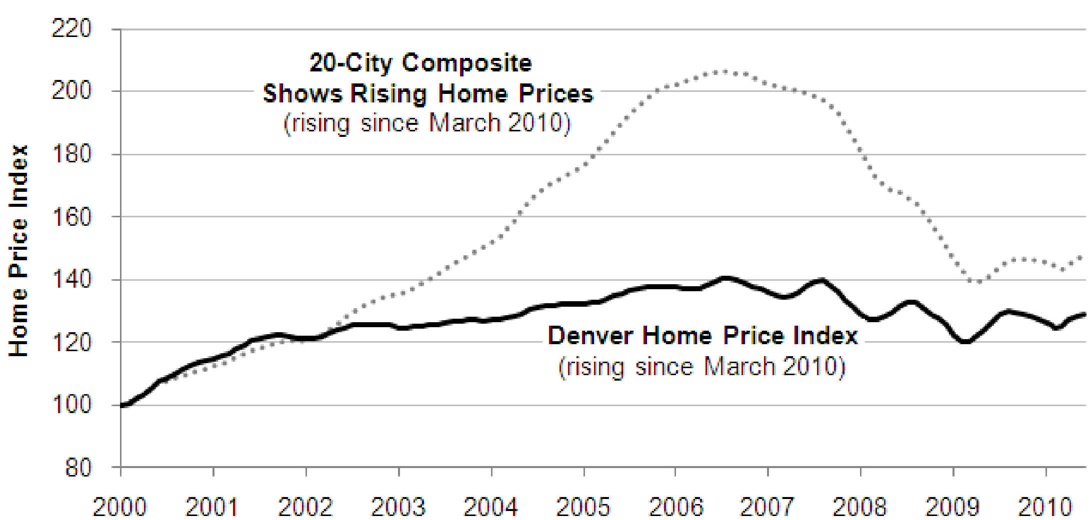
Real Estate Continues to Struggle

Colorado's **housing market** is showing few signs of a sustained recovery. The housing market continues to languish in Colorado as homebuilders are seeing increased hesitancy among potential home buyers. The recovery of the housing market is also being affected by anemic job growth, problems with appraisals, significant numbers of distressed properties competing with new-home sales, and tight consumer lending conditions that result in builders losing potential sales.

Home prices, however, are faring better in many areas of Colorado than other regions in the nation. Denver was one of 17 metropolitan areas that saw price increases in June. Denver's index was up 0.7 percent, the fourth consecutive month of increases. Prices in June were 7.9 percent below the peak in home prices in August 2006 and are about the same as prices experienced in early 2008. In contrast, home prices in Las Vegas were down nearly 57 percent in June from their peak while Detroit's prices were down 43 percent. Figure 13 compares Denver's home prices to a combined index of 20 metropolitan areas using the S&P/Case-Shiller indices.

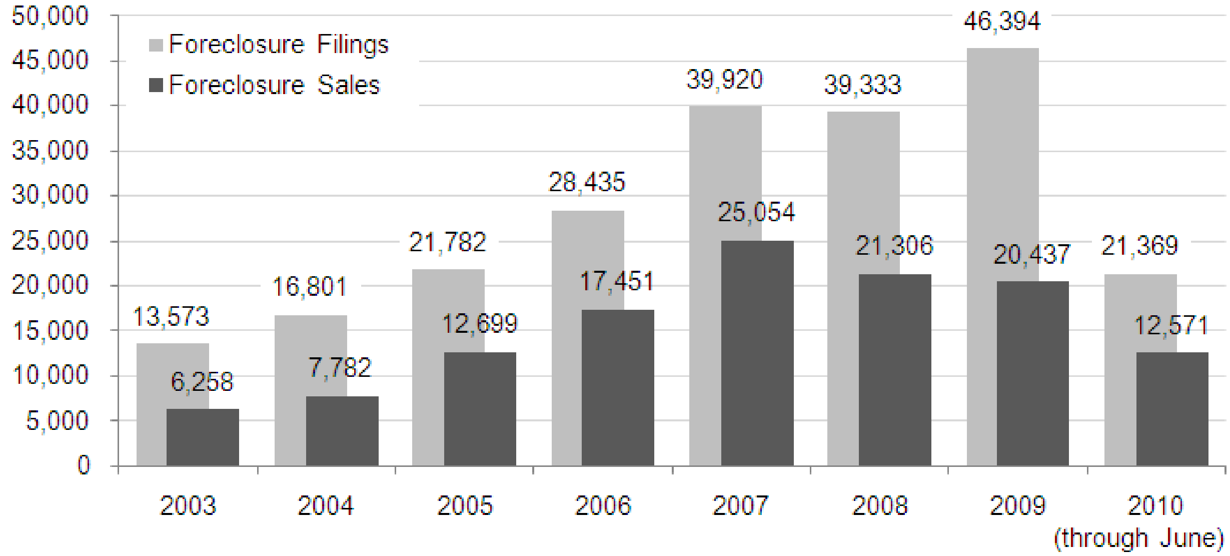
The National Association of Homebuilders **builder sentiment index** for newly built, single-family homes declined to an index level of 13 in August 2010, from 14 in July. The index gauges builder perceptions of cur-

Figure 13
S&P/Case-Shiller Home Price Index



Source: Standard & Poors & FiServ

Figure 14
Colorado Foreclosure Filings and Sales



Source: Colorado Department of Local Affairs, Division of Housing.

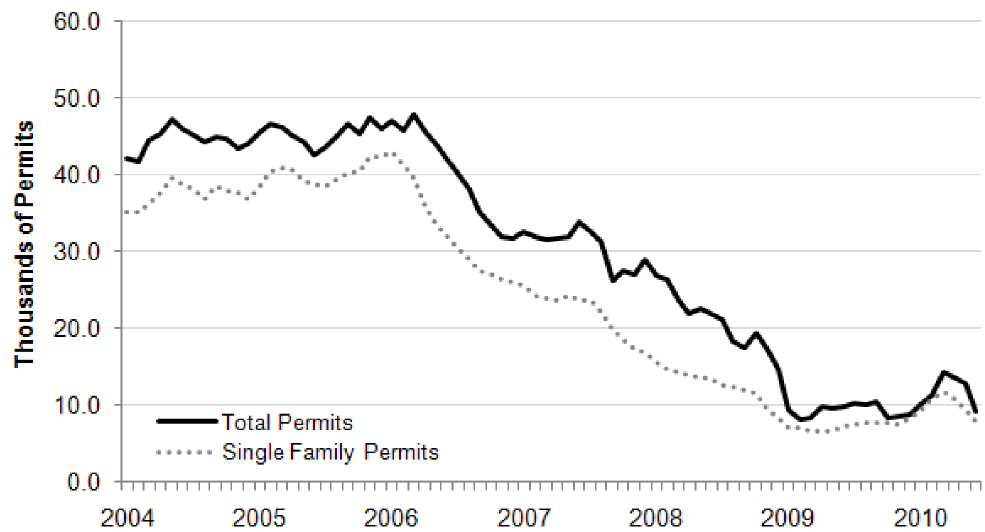
rent single-family home sales and sales expectations and provides evidence that there is an excess supply of homes hanging over the housing market. The index has declined for the third consecutive month to its lowest level since March 2009 as builders have indicated that the job market has been slow to gain traction and concerns about the future of the economy persist among homebuyers.

Foreclosure *filings* in the state fell 15.7 percent while foreclosure *sales* declined 15.1 percent in the second quarter of 2010 over the second quarter of 2009. Foreclosure filings are important because they provide a picture of the number of borrowers who have become seriously delinquent on their loans. The foreclosure sales numbers generally indicate how many borrowers have lost all equity in the property as the result of the property having been sold to another party at auction, including the mortgage company, investor, or others. The sustained declines in filings suggest that households are engaging in lender programs aimed at avoiding home foreclosure. The continued decline in foreclosure filings activity will depend on the strength of the recovery and job gains through the close of the year. Figure 14 shows foreclosure filings and sales in Colorado from 2007 through the second quarter of 2010.

According to Metrolist, **home resales** in the Denver area were down 21 percent in August from the same time period in 2009. The federal homebuyer tax credits that boosted sales early in the year likely accelerated purchases that otherwise would have occurred throughout the summer months.

Statewide, seasonally adjusted residential **building permits** continued to decline through the summer. Home permits will remain at historically low levels until employment and population growth pick up and the high level of home inventory is absorbed. Figure 15 shows a three-month moving average for total and single-family permits.

Figure 15
Resident Construction Permits Are At Historically Low Levels
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: U.s. Census Bureau. Data through June 2010.

The value of **nonresidential construction** continues to decline as a result of anemic construction activity and falling commercial property values. Given the high vacancy rate for office space, nonresidential construction is expected to remain low.

- Although the number of building permits for residential construction will increase somewhat from about 9,400 in 2009 to 11,000 this year, they will remain at very low levels historically.
- The value of nonresidential construction contracts will decrease 29.2 percent in 2010 to $2.2 billion, and remain at that very low level through 2011.

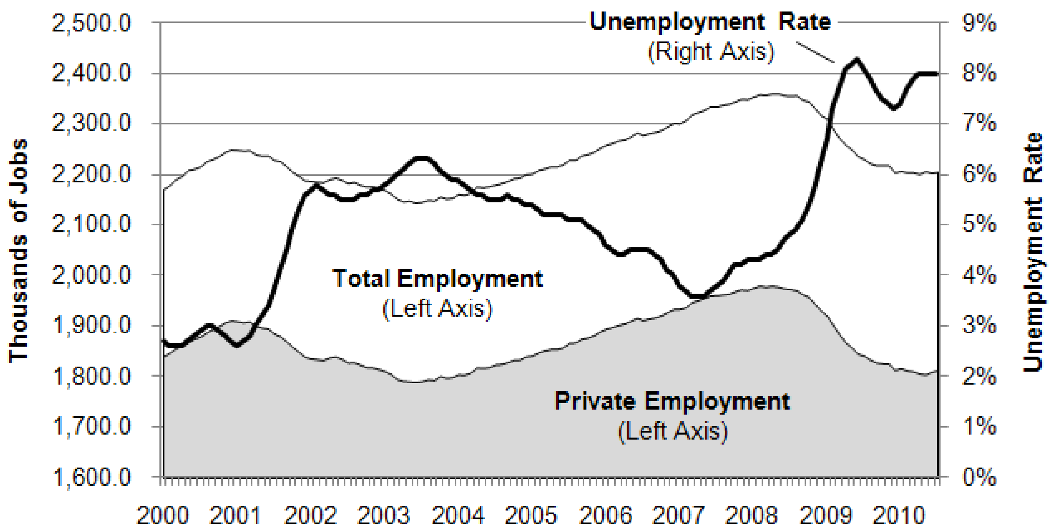
Labor Market Will Require Time to Recover

Although job growth remains very weak in Colorado, there are signs of stabilization and the start of recovery in the labor market. Sustained growth in temporary employment and job gains in the private sector are positive indications that the labor market is improving. The labor market is expected to expand throughout the second half of 2010. However, job growth in 2010 and in the years that follow will be slow and the unemployment rate will remain elevated as job seekers compete to obtain a limited number of available positions amid a hesitant business climate.

During an economic recovery, strong improvements in the business climate and consumer spending typically precede improvements in the labor market. The national and Colorado experience in the current recovery are consistent with this historical trend. Corporate profits and consumer sentiments started trending upward early in 2009, and over the last several months the labor market has been slowly sputtering back to life.

Temporary employment often leads total employment growth during a recovery, as

Figure 16
Colorado Employment and Unemployment Rate
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics.

many firms employ temporary workers before hiring for permanent positions in an uncertain business environment. Temporary employment in Colorado has been on the rise since early in 2009. Further indicating the start of a labor market recovery, overall employment has stabilized and private employment showed growth in June and July.

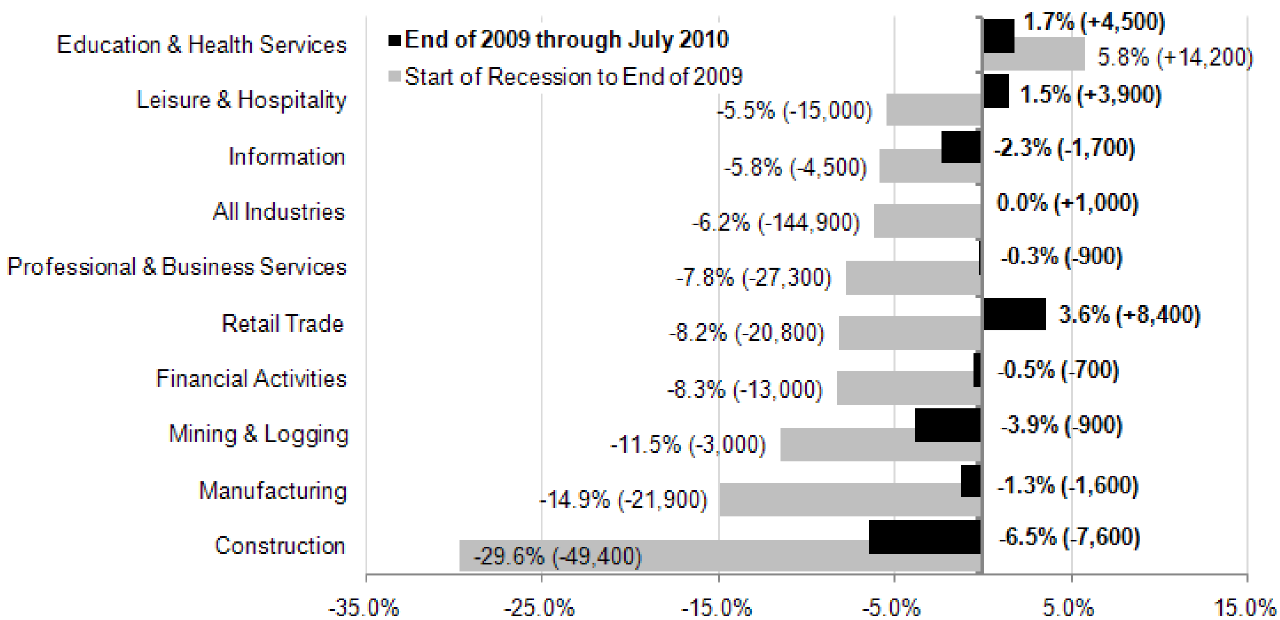
As shown in Figure 16, total Colorado employment has been steady over the last several months, after the steep drop that began in 2008. The stabilization is due largely to private employment reaching a bottom and even showing growth over in last two months of data. The seasonally adjusted unemployment rate remained at 8 percent for the fourth consecutive month in July.

Job growth is uneven across industries. Construction, information, and mining and logging continued to see heavy job losses through July. Meanwhile, other industries are fairing much better. Education and health services, leisure and hospitality, and retail trade all saw strong growth in the first half of the year. Figure 17 shows changes in employment for selected industries from the start of the recession through the end of 2009, and from the end of 2009 through July of this year.

- Growth in the labor market will feel painfully slow over the next several years. Despite job growth in the second half of 2010, nonagricultural employment will decline 1.4 percent in 2010 on an annual average basis. Job growth will push employment up a very modest 1.0 percent in 2011.

- The unemployment rate will average 7.6 percent in 2010 and 2011, and will slowly decline in the years that follow. As job opportunities improve, job seekers who left the labor force during the recession will renter the job market. This will cause the employment rate to rise temporarily until available job openings can absorb those seeking employment.

Figure 17
Colorado Job Changes in Selected Industries
Percent Change and Number of Jobs Added/Lost, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics.

Conclusion

The Colorado economy has begun to show solid signs of recovery, albeit at a slow pace. After two years of job losses, the state's private sector began to add workers in June and July. Other indicators point to expansion as well, but heavy debt continues to weigh on the recovery.

After the pain of the past recession, typically the economy would bounce back with vigor, but that will not be the case with this downturn. Credit problems are weighing down the recovery, slowing spending and investment. Colorado banks will need to digest more bad loans before lending growth can resume. Many real estate owners—both residential and nonresidential—will need to work through debt problems before spending and investment accelerates.

Table
Colorado Economic Indicators, September 2010 Forecast
(Calendar Years)

	2006	2007	2008	2009	Forecast 2010	Forecast 2011	Forecast 2012	Forecast 2013
Population (thousands), July 1 /1	4,808.1	4,895.7	4,987.7	5,074.5	5,160.8	5,243.4	5,327.3	5,423.2
percent change	2.0%	1.8%	1.9%	1.7%	1.7%	1.6%	1.6%	1.8%
Nonagricultural Employment (thousands) /2	2,279.0	2,331.1	2,350.3	2,244.2	2,212.8	2,234.9	2,281.8	2,329.8
percent change	2.4%	2.3%	0.8%	-4.5%	-1.4%	1.0%	2.1%	2.1%
Unemployment Rate /2	4.4	3.9	4.9	7.7	7.6	7.6	7.5	7.0
Personal Income (millions) /3	$194,393	$205,548	$212,320	$207,742	$212,520	$218,895	$225,462	$235,157
percent change	8.2%	5.7%	3.3%	-2.2%	2.3%	3.0%	3.0%	4.3%
Wage and Salary Income (millions) /3	$105,833	$112,604	$116,645	$112,561	$113,237	$114,822	$118,267	$124,535
percent change	7.0%	6.4%	3.6%	-3.5%	0.6%	1.4%	3.0%	5.3%
Retail Trade Sales (millions) /4	$70,437	$75,329	$74,760	$66,345	$69,264	$70,996	$74,972	$238,761
percent change	7.5%	6.9%	-0.8%	-11.3%	4.4%	2.5%	5.6%	3.8%
Home Permits (thousands) /1	38.3	29.5	19.0	9.4	11.0	11.1	14.2	18.0
percent change	-16.4%	-23.2%	-35.5%	-50.8%	17.2%	1.2%	27.4%	26.2%
Nonresidential Building (millions) /5	$4,415	$5,251	$4,191	$3,049	$2,159	$2,165	$2,427	$2,762
percent change	4.6%	18.9%	-20.2%	-27.2%	-29.2%	0.3%	12.1%	13.8%
Denver-Boulder Inflation Rate /1	3.6%	2.2%	3.9%	-0.6%	1.3%	1.9%	2.3%	2.6%

1/ U.S. Census Bureau.
2/ U.S. Bureau of Labor Statistics.
3/ U.S. Bureau of Economic Analysis.
4/ Colorado Department of Revenue.
5/ F.W. Dodge.

Special Focus: Venture Capital in Colorado

The September Economic and Revenue Forecast includes a new section featuring an overview of an industry or topic relevant to Colorado's economy. For this forecast, venture capital funding for business startups was selected. Venture capital, like other forms of business investment, can lead to business development and job growth — two areas currently of high interest due to the recent recession.

Summary of Industry Outlook

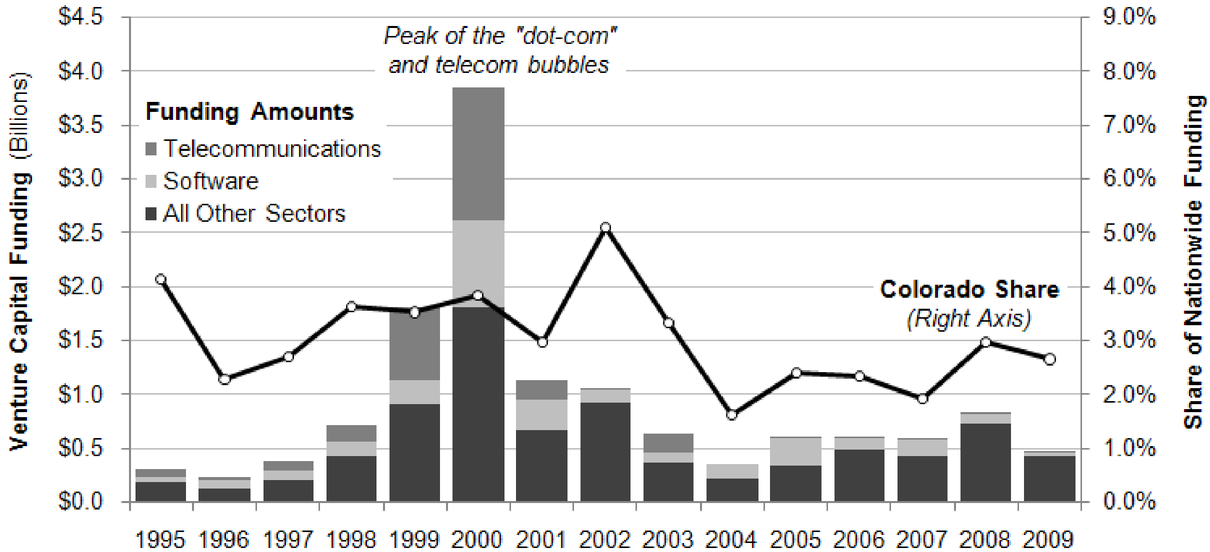
- Consistent with the nation, Colorado will see relatively low levels of venture capital funding in 2010 due to heightened risk aversion during the slow growth recovery.
- Despite lower levels of investment, Colorado will maintain a spot in or near the top ten states for venture capital funding in 2010 and 2011. Colorado is expected to remain a competitive location for startups in high technology industries over the next several years.

What is venture capital funding? Venture capital firms provide funding to certain high-technology businesses in industries that offer new products with the potential for high returns with a significant risk of failure. A "startup" is a new business in the early stages of product development, typically with very few employees. Venture capital firms pool money from multiple investors and use specialized, sector-specific expertise to manage startups with the intent of profiting when the startup is either acquired by another company or launched as a public business through an initial public offering. Venture capital firms tend to play a large role in the early decision-making of a startup company. This can entail occupying one or more seats on the board of directors of the startup and having significant leverage on company management.

Venture capital funding generally entails risky, long-term investments. Most startups fail to deliver a return on investment and most startups take between five and eight years to reach a point in development where they are acquired or "go public." Venture capital funding tends to occur in waves as a startup meets different stages of development and expansion.

Venture capital funding in Colorado. As shown in Figure 18, over the past 15 years, Colorado venture capital funding has ranged between 1.6 percent and 5.1 percent of total annual nationwide funding. Similar to the nation, Colorado experienced a "bubble" in funding that peaked in 2000. While all sectors saw a surge in 1999 and 2000, funding was particularly exuberant in the telecommunications and software industries, contributing to the run up of the "dot-com" and telecom

Figure 18
Colorado Venture Capital Investment



Source: PricewaterhouseCoopers & Thompson Reuters.

Venture capital funding moves with the business cycle, as illustrated by the downturn in funding levels following the early 2000s recession and the relatively low level experienced in 2009. The venture capital industry was hit particularly hard by the recent recession. Many startups could not withstand the downturn and the weak initial public offering market meant low returns for many venture capital firms. In 2010, Colorado is expected to see low levels of venture capital funding compared to recent years, likely below 2009 levels. The slow economic recovery will restrain risk-taking and dampen profitability in 2010 and 2011. Investors who lost on investments during the downturn will remain hesitant to lend until market conditions appear more fruitful.

Colorado recently benefitted from a wave of funding to the energy and biotechnology sectors in 2008 and 2009. Depending on how these investments prosper, Colorado may see additional waves of funding to these sectors to fund later stages of business development and expansion.

How does Colorado compare to other states? Over the last decade, Colorado has consistently maintained a spot in or near the top ten states for venture capital funding levels according to data provided by Thompson Reuters. In 2009, Colorado had the seventh highest level of venture capital investment of all states, as shown in Table 14. Similar to other states, nearly all funding in Colorado goes to a specific geographic location or "hub" within the state. These hubs are typically near one or more research-based universities or laboratories. The vast majority of Colorado startups are located in the greater Denver metro and Boulder area and the vast majority of venture capital funding flows to these areas of the state.

Table 14
Top Ten States for Venture Capital Funding in 2009

Rank	State	Venture Capital Hub(s)	Investment (Millions)	Percent of Total
1	California	Silicon Valley, Los Angeles, San Diego	$8,853.8	50.0%
2	Massachusetts	Boston	$2,032.6	11.5%
3	New York	New York city, Rochester, buffalo	$855.5	4.8%
4	Texas	Austin, San Antonio, Dallas, Houston	$644.6	3.6%
5	Washington	Seattle	$574.2	3.2%
6	New Jersey	Surrounding metro areas	$556.6	3.1%
7	Colorado	Denver-boulder area	$468.2	2.6%
8	Pennsylvania	Philadelphia	$407.0	2.3%
9	Georgia	Atlanta	$302.0	1.7%
10	Florida	Orlando, Miami, Tampa, West Palm Beach	$295.1	1.7%
Total for All States			**$17,690.7**	**100%**

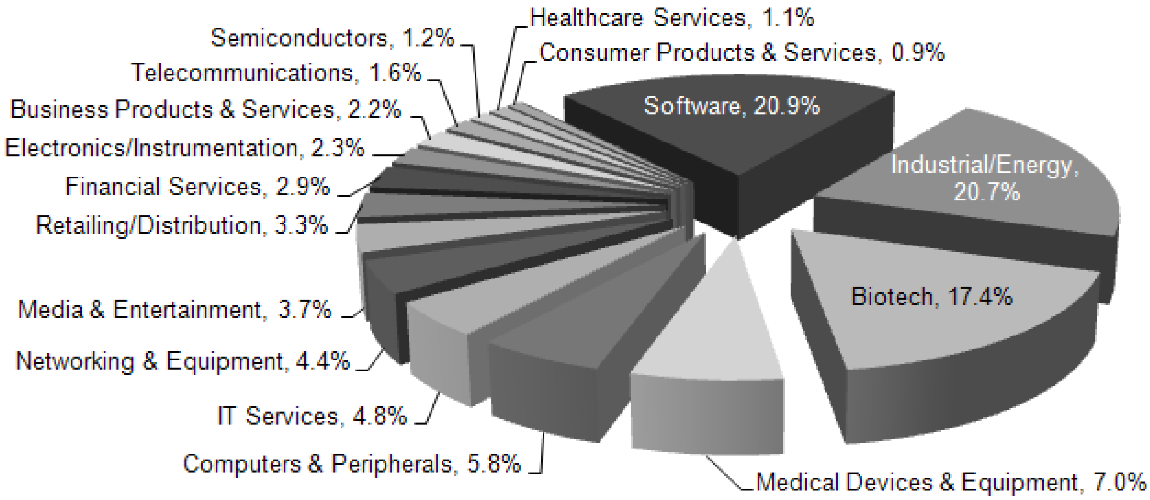
Source: PricewaterhouseCoopers & Thompson Reuters.

What sectors receive the most funding? According to data provided by the Colorado Office of Economic Development and International Trade, the majority of startups founded in Colorado over the past five years fall into the following sectors:

- software;
- business and consumer products and services;
- communications and networks;
- biopharmaceuticals;
- medical devices and equipment;
- energy (including renewable and clean energy); and
- electronics and computers.

As shown in Figure 19, more than half of the venture capital funding in Colorado over the past five years has gone to just three sectors: industrial/energy, software, and biotechnology. This distribution has changed over time. For example, in the late 1990s, telecommunications and consumer products and services received a much larger share of investment. Shifts in funding are generally attributable to expectations of expansion and profitability in any given sector.

Figure 19
Colorado Venture Capital Investment
*Distribution of $3.2 Billion Invested Over the Past Five Years**



Source: PricewaterhouseCoopers & Thompson Reuters.
*The distribution reflects data from 2005 through the second quarter of 2010.

Colorado Economic Regions

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

The Colorado economic regions are summarized in a new format for the September Economic and Revenue Forecast. In addition to a table of economic indicators, the forecast now includes figures showing recent trends in employment, consumer spending, and construction activity.

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

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

Metro Denver Region

The metro Denver region, which represents over half of the statewide labor force, continues along a rocky path to recovery. The labor market is showing signs of life, but job growth is slow. Consumer spending had a strong rebound in 2009. However, spending stalled in the spring. Like most of the state, residential construction continues to struggle as the region picks up the pieces from the bust that followed the housing market boom. High levels of unemployment are compounding housing market woes. Commercial construction activity continues to deteriorate as the area endures low demand for new construction with an oversupply of existing and empty business fronts, offices, and warehouses due to the effects of the recession. Table 15 shows the economic indicators for the region.

Job market. The metro Denver job market has stabilized but is slow to add jobs. Growth has been marked by ups and downs so far in 2010 but overall is on the rise, as shown in Figure 20. The year-to-date employment declines reported in Table 15 are somewhat misleading because the region has actually seen job gains since the start of 2010. Heavy job losses throughout 2009 meant that employment fell from higher levels in the first half of 2009 than the region experienced in the first half of 2010.

The labor force includes both the employed and unemployed. During a recession, unemployed workers often drop out of the labor force when they move, work less, give up searching for employment all together, or enroll as a student to improve employment-related skills. At the early

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

	2006	2007	2008	2009	YTD 2010
Employment Growth /1	2.0%	2.2%	1.0%	-4.4%	-2.6%
Unemployment Rate /2 (2010 Figure is August Only)	4.4%	3.9%	4.9%	7.8%	8.1%
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-26.6%	-38.7%	-50.1%	-31.4%	83.0%
Single-Family (Boulder)	-41.8%	-20.6%	-53.5%	-27.6%	46.3%
Growth in Value of Nonresidential Const. /4	-5.0%	34.5%	-14.3%	-38.7%	-34.1%
Retail Trade Sales Growth /5	7.6%	6.5%	-0.8%	-11.4%	6.8%

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey for Denver-Aurora-Broomfield and Boulder MSAs. Seasonally adjusted. Data through July 2010

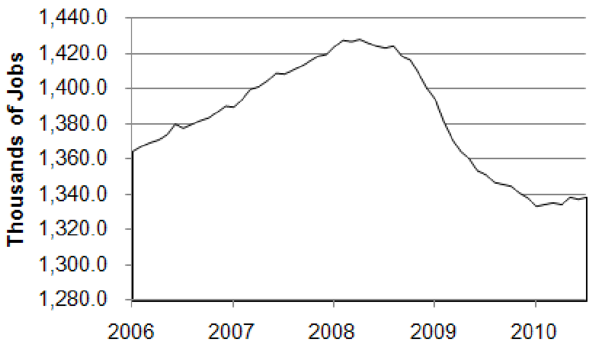
2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

3/ U.S. Census. Growth in the number of housing units authorized for construction. Data through July 2010.

4/ F.W. Dodge. Data through July 2010.

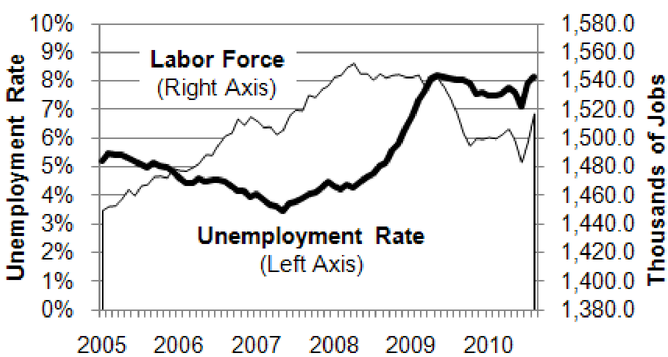
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 20
Metro Denver Employment is Bouncing Along the Bottom but Rising
Seasonally Adjusted



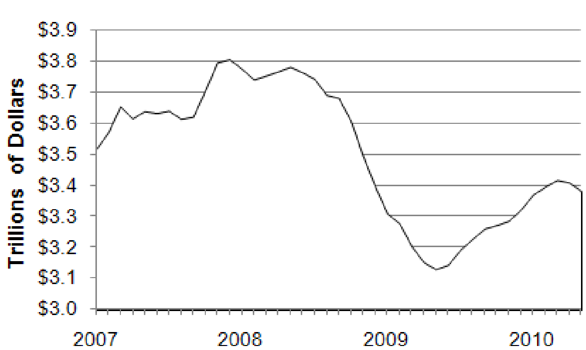
Source: U.S. Bureau of Labor Statistics; CES. Data through July 2010.

Figure 21
Movements in the Labor Force Drove up the Metro Denver Unemployment Rate this Summer
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 22
After a Strong Rebound, Retail Trade Sales in the Region Weakened in the Spring
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

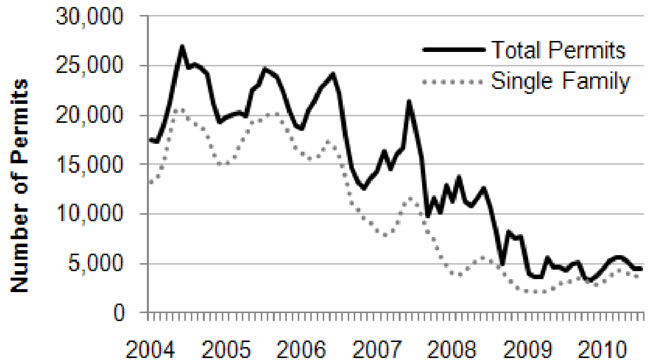
stages of recovery, the unemployment rate may rise as these unemployed workers return to the labor force lured by growing job opportunities. The metro Denver region labor force, like many other regions of the state, appears to be showing this trend. As shown in Figure 21, the unemployment rate rose to 8.1 percent in August, pushed up by the growing area labor force. The region's unemployment rate experienced a 20-year high of 8.2 in May 2009 and since has been trending downward. The resurgence of unemployed workers re-joining the labor force pushed the rate back up again in July and August.

Consumer spending. Consumer spending, as measured by county retail trade sales, showed strong growth through most of 2009 and the early part of this year. However, sales weakened in the spring, reflecting consumer hesitancy in the slow-growth recovery. Figure 22 shows this trend. Year-to-date retail sales are up 6.8 percent through May over the same period last year.

Housing market. In the metro area, as well as statewide, the housing market continues to struggle. The effects of the housing bust, which preceded the recession, have been compounded by heavy job losses as the unemployed struggle to make home payments. Additionally, the federal homebuyer tax credits have expired, leaving the market without the assistance of federal stimulus. The expiration of these credits has led to a softening in the housing market. Consistent with the state, metro area home building is expected to remain soft through at least 2012. As shown in Figure 23, home building activity, as measured by residential construction permits, is at historical lows.

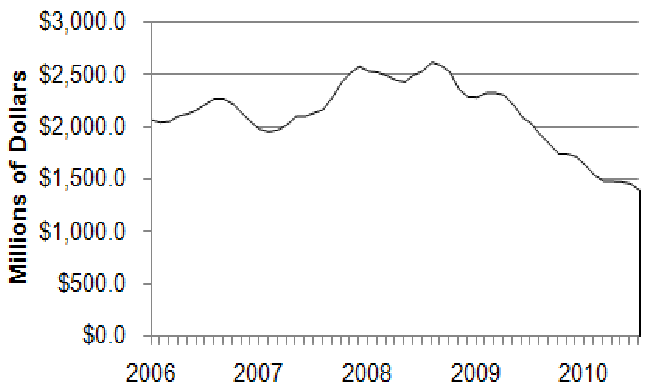
The number of foreclosures in the region remain at historically high levels but are tapering downward. During the years leading up to the financial crisis, foreclosures were primarily the result of the failure of sub-prime loans. In 2010, most foreclosures have resulted primarily from the weak economy.

Figure 23
Metro Denver Home Building Permits Are at Historically Lows
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: U.S. Census Bureau. Data through July 2010.

Figure 24
Nonresidential Construction Values in Metro Denver Will Remain at Historically Low Levels
Three-Month Moving Average; Seasonally Adjusted



Source: F.W. Dodge. Data through July 2010.

Nonresidential construction. As shown in Figure 24, nonresidential construction in the region sustained a downward trend through July. The recession had a profound effect on businesses, leading many to downsize or close their doors. As a result, vacancy rates are up on office and other commercial spaces, leaving little demand for new commercial building in the metro area.

Colorado Springs Region

The Colorado Springs region's economy is showing trends consistent with the metro Denver region and the statewide economy. The labor market is improving slowly, as indicated by modest job growth and job seekers reentering the labor force. Consumer spending rebounded strongly in 2009. However, spending has dipped over the last few months. Consistent with trends across the state, the home building industry remains at historical lows and commercial construction activity continues to deteriorate. Table 16 shows the economic indicators for the region.

Over the last several months, area employment has stabilized from the freefall in employment and has experienced modest growth. As shown in Figure 25, the labor force of the Colorado Springs region shrunk considerably from the highs at the end of 2007. Thousands of workers left the labor force during the recession, unable to find employment. In July of this year, the number of jobs in the region stood at 243,500 at seasonally adjusted levels, down 18,900 jobs from the November 2007 high.

In August, the unemployment rate rose to 9.3 percent, pushed up by job seekers entering the labor force. Similar to the Denver region, the lure of job opportunities is drawing workers back into the labor force and driving up the unemployment rate.

Consumer spending, as measured by retail trade sales, started to recover in the second half of 2009. However, sales have weakened over the last several months. The pullback is likely indicative of a drop in consumer confidence due to relatively high levels of unemployment

Table 16
Colorado Springs Region Economic Indicators
El Paso County

	2006	2007	2008	2009	YTD 2010
Employment Growth /1					
Colorado Springs MSA	2.2%	1.0%	-0.9%	-4.0%	-2.7%
Unemployment Rate /2 (2010 Figure is August Only)	4.7%	4.4%	5.7%	8.4%	9.3%
Housing Permit Growth /3					
Total	-34.3%	-29.7%	-36.1%	-33.4%	80.0%
Single-Family	-33.4%	-34.3%	-42.2%	-16.7%	83.4%
Growth in Value of Nonresidential Const. /4	-18.3%	6.8%	-44.6%	-3.7%	-44.4%
Retail Trade Sales Growth /5	5.1%	5.4%	-2.7%	-6.2%	7.3%

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2010.

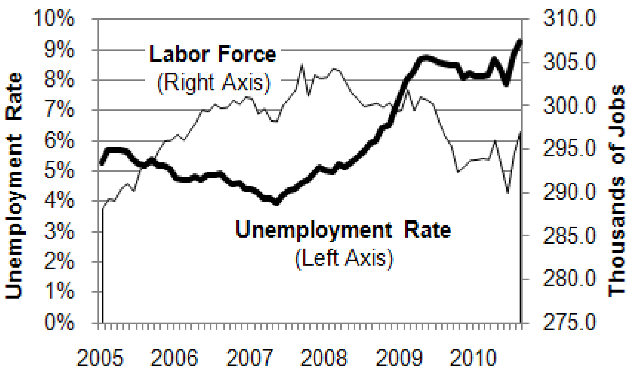
2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.

4/ F.W. Dodge. Data through July 2010.

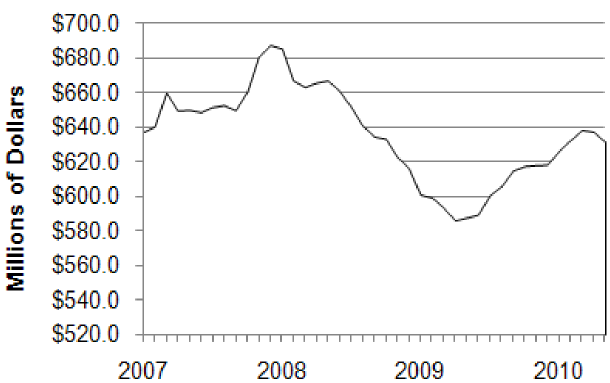
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 25
Colorado Springs MSA Unemployment Rate and Labor Force
Seasonally Adjusted



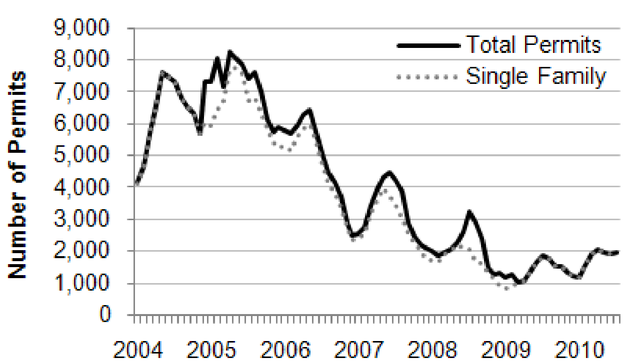
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 26
Colorado Springs Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

Figure 27
Colorado Springs MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: U.S. Census Bureau. Data through July 2010.

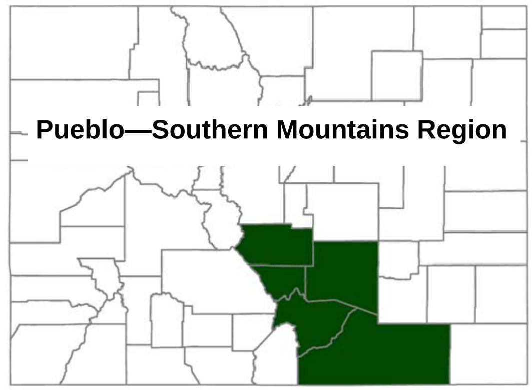
and the slow pace of economic recovery. After the steep declines of 2008 and 2009, sales are up 7.3 percent year-to-date through May. Figure 26 shows these trends.

Home building remains at historically low levels in the region. While total residential housing permits are up 80 percent year-to-date, area building is down considerably from the highs experienced in 2005, as shown in Figure 27. The area continues to see high levels of foreclosures, which are contributing to depressed home prices and a glut of homes on the market.

Nonresidential construction activity is sluggish and at low levels compared to the boom years of the mid-2000s. Year-to-date through July, construction is down 44.4 percent in El Paso County. A surplus of empty commercial spaces continues to dampen demand for new construction.

Pueblo — Southern Mountains Region

The Pueblo region showed moderate economic growth, with job gains and a strong, sustained rebound in consumer spending. Both residential and commercial construction remain weak, as both the region and state continue to work off an oversupply of homes and a glut of empty commercial space. Table 17 shows the economic indicators for the region.



The year-to-date employment declines reported in Table 17 are somewhat misleading because the region has actually seen job gains since the start of 2010. Heavy job losses throughout 2009 meant employment fell from higher levels in the first half of 2009 than the region experienced in the first half of 2010.

Since the start of 2010, the Pueblo region saw a resurgence in the labor force, indicative of workers entering the job market as job opportunities improve. However, job openings to date have been unable to keep up with the number of workers entering the labor force. As a result, the unemployment rate continues to rise. In August, the regional rate reached a high of 10 percent, currently the highest rate of all the regions in the state. Figure 28 shows these trends.

Consumer spending, as measured by retail trade sales, continues the strong upward trend that began in the middle of 2009. Sales are up 7.2 percent year-to-date through May. Figure 29 shows the rise in consumer spending.

Table 17
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2006	2007	2008	2009	YTD 2010
Employment Growth					
Pueblo Region /1	3.1%	2.6%	-0.6%	-2.5%	-1.4%
Pueblo MSA /2	2.2%	3.2%	0.5%	-2.4%	-1.0%
Unemployment Rate /1	5.6%	4.8%	6.1%	8.8%	10.0%
(2010 Figure is August Only)					
Housing Permit Growth /3					
Pueblo MSA Total	10.6%	-48.1%	-38.6%	-9.4%	86.2%
Pueblo MSA Single-Family	7.4%	-44.8%	-42.8%	-51.5%	61.1%
Growth in Value of Nonresidential Construction /4					
Pueblo County	620.6%	-62.4%	75.1%	-74.4%	-84.4%
Retail Trade Sales Growth /5	6.0%	6.4%	-1.7%	-4.7%	7.2%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

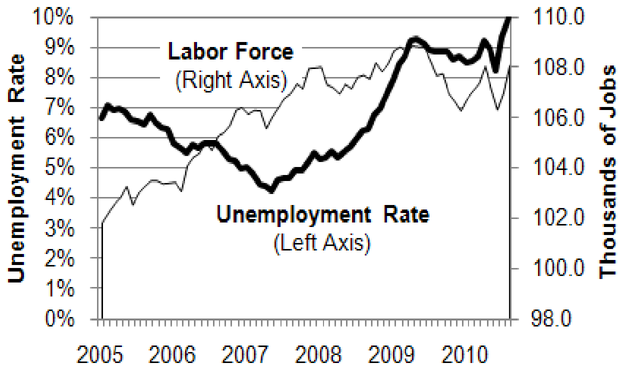
2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2010.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.

4/ F.W. Dodge. Data through July 2010.

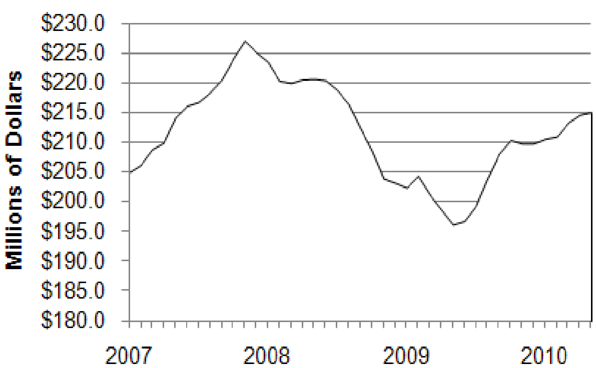
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 28
Pueblo Region Unemployment Rate and Labor Force
Seasonally Adjusted



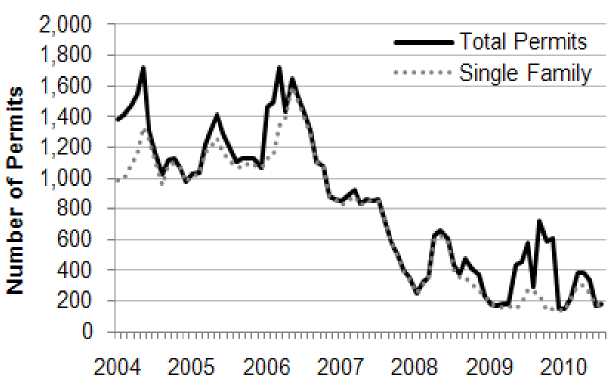
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 29
Pueblo Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

Figure 30
Pueblo MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: U.S. Census Bureau. Data through July 2010.

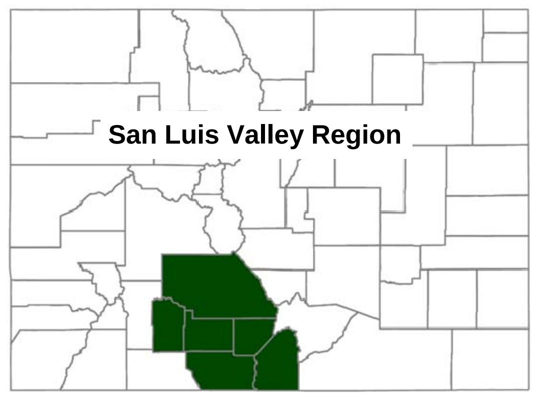
Like all regions in the state, residential construction remains at historically low levels due to the collapse of the housing market. While residential construction permits have shown strong year-to-date growth through July, this growth is reflective of particularly weak construction activity at the start of 2009. Growth is expected to be much more modest through the end of 2010. Figure 30 shows recent trends in home building in the Pueblo region.

With little demand for new business space, nonresidential construction remains at low levels. The Pueblo region had a surge in construction beginning at the end of 2008 that peaked mid-2009. However, construction has been at a near standstill. Until the regional economy can support business expansion, construction is expected to remain weak.

San Luis Valley Region

Like the economy of the Eastern region, the six-county San Luis Valley region's economy is heavily dependent on agriculture. Due to the strong influence of the industry on these rural economies, the region has experienced somewhat different economic trends when compared to other areas of the state. Coming off of employment gains in 2009, the San Luis Valley region is showing a weaker job market in 2010. Despite the downturn in employment, consumer spending and construction have been particularly strong. Table 18 shows the economic indicators for the region.

The regional job market in 2010 has been fairly weak. Job losses in the area resulted in a 6.8 percent decline in employment year-to-date through August over the same period last year. As shown in Figure 31, since mid-2007, the region has seen a fairly stable labor force despite a rising unemployment rate, that may reflect an increase in the unemployed. The unemployment rate stood at 8.4 percent in August, slightly above the statewide average of 8.0 percent.



Despite weakness in the employment market, consumer spending has eclipsed pre-recessionary levels, as shown in Figure 32. So far in 2010, retail trade sales showed the strongest growth of all regions in the state. Sales grew 8.2 percent year-to-date through May at a seasonally adjusted rate.

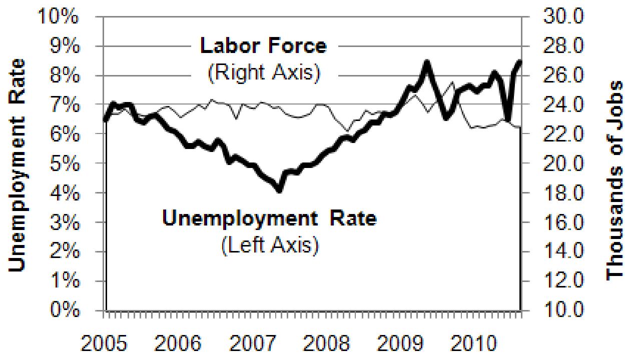
The San Luis Valley region has the smallest economy of all regions in the state. As a result, economic indicators tend to be particularly volatile. For example, in

Table 18
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache counties

	2006	2007	2008	2009	YTD 2010
Employment Growth /1	2.6%	0.3%	-3.4%	2.4%	-6.8%
Unemployment Rate /1 (2010 Figure is August Only)	5.5%	4.7%	6.1%	7.5%	8.4%
Statewide Crop Price Changes /2					
Barley (U.S. average)	11.9%	32.0%	49.6%	-13.2%	-31.1%
Alfalfa Hay (baled)	30.7%	5.3%	18.0%	-17.1%	-7.4%
Potatoes	-8.1%	22.6%	21.0%	-45.8%	-1.9%
SLV Potato (Inventory CWT) /2	-1.0%	-7.5%	4.4%	5.0%	-12.0%
Housing Permit Growth /3					
Alamosa County	-2.5%	-41.0%	139.1%	-47.3%	266.7%
Growth in Value of Nonresidential Construction /4					
Alamosa County	-22.4%	414.1%	-88.0%	1128.7%	432.9%
Retail Trade Sales Growth /5	10.1%	6.9%	3.4%	-1.6%	8.2%

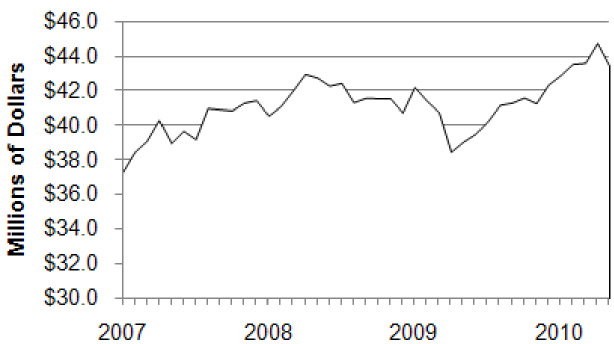
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2010.
2/ National Agricultural Statistics Service. 2010 crop price changes compares August 2010 to August 2009.
3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.
4/ F.W. Dodge. Data through July 2010.
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 31
San Luis Valley Region Unemployment Rate and Labor Force
Seasonally Adjusted



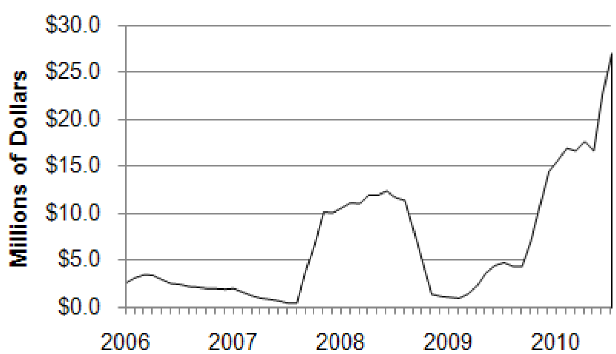
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 32
San Luis Valley Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

Figure 33
Alamosa County Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Data



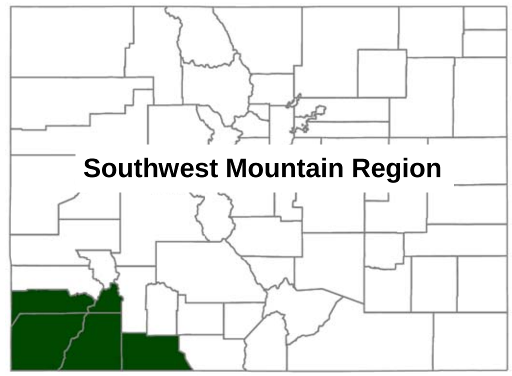
Source: F.W. Dodge. Data through July 2010.

Alamosa County, the largest county in the region, nonresidential construction activity this year is up due almost entirely to an energy project in the area. Figure 33 shows this large increase in commercial construction in 2010. Home building is also up in the region, likely due to a mid-sized residential development project.

Crop prices fell in August, affecting the agricultural economy in southwest Colorado. Barley prices (U.S. average) were down 31.1 percent; Alfalfa hay and potato prices also declined. Fall potato growers in the San Luis Valley planted 55,000 acres in 2010, down 1 percent over the prior year — although the area harvest is expected to total 55,200 acres, unchanged from 2009. Summer potato production for the region in 2010 is up 5 percent over the prior year. Growers expect to harvest 4,000 acres in 2010, up 3 percent from the prior year.

Southwest Mountain Region

The economy of the southwest mountain region has stabilized, but growth remains weaker than other regions of the state. In the relatively small, rural five-county region, consumer spending has stabilized but failed to see the rebound experienced in other areas of the state. Additionally, the labor market continues to struggle and construction activity remains at low levels. Table 19 shows the economic indicators for the region.



After two years of weak employment the region continued to shed jobs through August. Year-to date, employment is down 3.9 percent through August. The regional unemployment rate climbed to 7.8 percent in August, slightly below the statewide average. The labor force has been shrinking since its highs at the end of 2007 as workers continue to leave the job market due to a lack of employment opportunity. Figure 34 shows these trends.

As shown in Figure 35, consumer spending, as measured by retail trade sales, has stabilized. However, unlike most areas of the state, the region has yet to see growth. Sales are down 3 percent through May, compared to the same period last year.

Residential construction activity, as measured by area home permits, has increased significantly year-to-date through July over the same period last year. However, permit levels are only a third of the levels seen in the early 2000s. As shown in Table 19, residential permits in La Plata County have declined over the last several years.

Table 19
Southwest Mountain Region Economic Indicators
Archuleta, Dolores, La Plata, Montezuma, and San Juan counties

	2006	2007	2008	2009	YTD 2010
Employment Growth /1	3.7%	2.3%	-1.7%	-3.7%	-3.9%
Unemployment Rate /1 (2010 Figure is August Only)	3.9%	3.4%	4.3%	6.7%	7.8%
Housing Permit Growth /2					
La Plata County Total	-17.8%	-16.9%	-57.4%	-15.8%	61.0%
La Plata County Single-Family	-9.0%	-29.3%	-40.3%	-15.2%	61.0%
Growth in Value of Nonresidential Construction /3					
La Plata County	74.4%	907.3%	-84.6%	103.0%	-95.6%
Retail Trade Sales Growth /4	9.4%	5.9%	-0.7%	-13.9%	-3.0%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

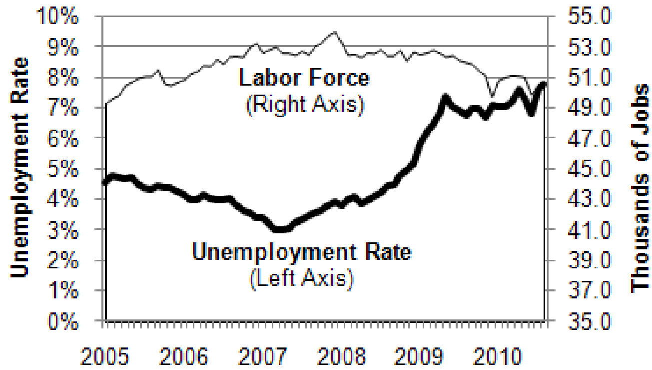
2/ IU.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.

3/ F.W. Dodge. Data through July 2010.

4/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

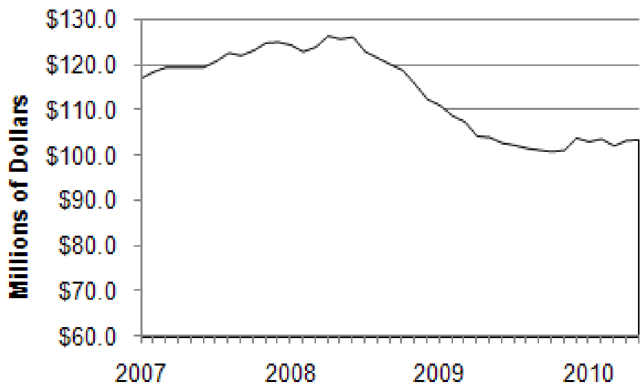
Nonresidential construction in La Plata County, the county with the most construction activity in the region, is down year-to-date through July over the same period last year, as shown in Figure 36. Slow growth in the regional economy is expected to dampen demand for commercial construction through the end of 2010.

Figure 34
Southwest Mountain Region Unemployment Rate and Labor Force
Seasonally Adjusted



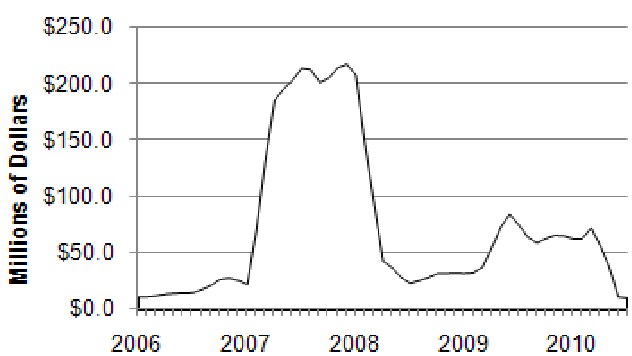
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 35
Southwest Mountain Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

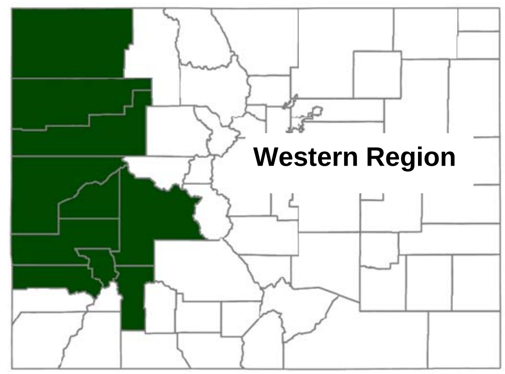
Figure 36
La Plata County Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: F.W. Dodge. Data through July 2010.

Western Region

The western region continues to feel the effects of the energy industry bust. While drilling activity along the Western Slope has picked up this year, it is not spurring growth in the labor market, which remains one of the weakest in the state. Consumer spending and construction are up slightly so far this year, indicating stabilization in the region. Table 20 shows the economic indicators for the region.



Energy activity was one of the drivers of economic growth in the region in the early part of the decade. However, the collapse of energy prices at the end of 2008 heavily impacted employment. Energy activity is picking up in 2010. However, the rise in activity is from low levels compared to the boom years and is therefore not expected to drive employment growth in the near term. According to data from Baker Hughes, Garfield County had the second highest growth in drilling activity in the state, up 9 percent in September over the same period last year. Garfield County made up over a third of total statewide drilling activity through September.

The job market in the region continues to deteriorate. As shown in Figure 37, the unemployment rate rose to 9.2 percent in August. The area continues to lose jobs and the labor force continues to decline in the region, indicating that those unable to find work continue to exit the job market.

Table 20
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel counties

	2006	2007	2008	2009	YTD 2010
Employment Growth					
Western Region /1	7.3%	4.8%	1.6%	-5.9%	-5.4%
Grand Junction MSA /2	5.1%	6.1%	4.8%	-6.4%	-6.4%
Unemployment Rate /1 (2010 Figure is August Only)	3.7%	3.2%	3.9%	8.0%	9.2%
Housing Permit Growth /3					
Mesa County Total Permits	-16.5%	-10.7%	-37.0%	-56.3%	4.4%
Montrose County Total Permits	-5.3%	-31.0%	-45.7%	-56.9%	-8.3%
Growth in Value of Nonresidential Construction/4					
Mesa County	-46.3%	222.6%	-53.9%	-22.2%	86.7%
Montrose County	130.7%	-36.2%	-59.8%	-87.4%	314.3%
Retail Trade Sales Growth /5	13.7%	12.0%	1.2%	-19.1%	-2.6%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

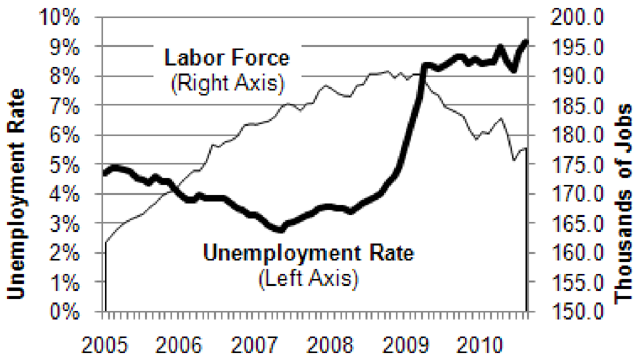
2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2010.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.

4/ F.W. Dodge. Data through July 2010.

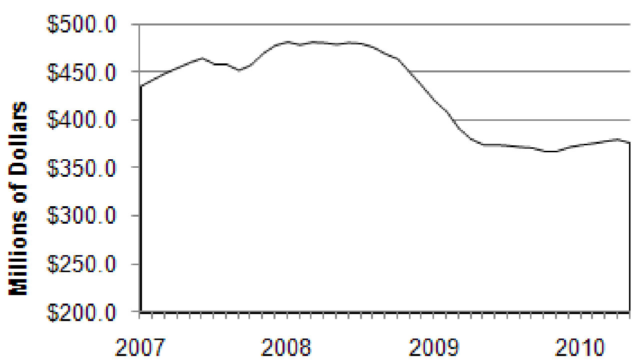
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 37
Western Region Unemployment Rate and Labor Force
Seasonally Adjusted



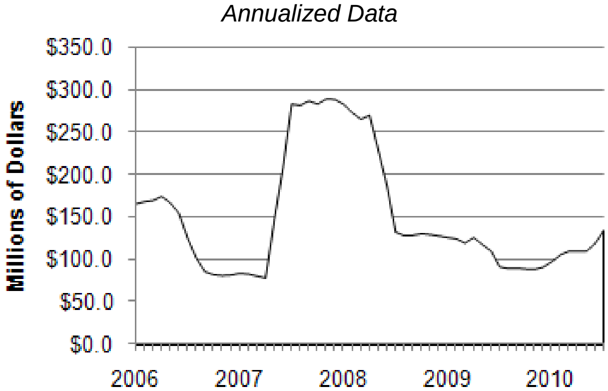
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 38
Western Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

Figure 39
Mesa County Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: F.W. Dodge. Data through July 2010.

As shown in Figure 38, consumer spending has stabilized. The region posted the largest drop in sales in 2009 of all areas in the state. And unlike other areas of Colorado, the region has yet to experience a strong rebound in sales.

The residential housing market is also showing signs of stabilization, though at low levels when compared to the boom years. Residential housing permits are up 4.4 percent in Mesa County, and down 8.3 percent in Montrose County year-to-date through July over the same period last year.

Similarly, nonresidential construction is showing signs of life. Construction is trending upward in both Mesa and Montrose counties. Figure 39 shows nonresidential construction activity in Mesa County, which has the highest level of construction activity in the region.

Mountain Region

While the mountain region's economy has stabilized, growth in the area is slower than most regions of the state. The unemployment rate remains elevated and job growth is elusive. Additionally, consumer spending and construction activity has been weak compared to historical levels. Table 21 shows the economic indicators for the region.

The mountain region labor market remains weak. Employment is down 4.3 percent at seasonally adjusted rates and the unemployment rate rose to 8.5 percent in August. The labor force continues to shrink, indicating that workers are leaving the labor market due to a lack of job opportunities in the area. Figure 40 shows recent trends in the unemployment rate and labor force for the region.

The mountain region's economy is heavily dependant on the tourism industry, which has struggled to come back to life after the recession. Amid a slow growth economy, many tourists continue to go on discount vacations — opting for day trips instead of overnight stays, dining out less, and spending less on consumer goods. As a result, retail trade sales in the region remain at low levels compared to those experienced in 2007 and 2008. The region has not seen the strong recovery in retail trade experienced by most regions in the state. Figure 41 shows recent trends in retail trade sales.

The construction market has stabilized at low levels in the region. Year-to-date through July, residential housing permits and nonresidential construction were up in the ski counties of Eagle, Pitkin, and Summit, as shown in Figure 42. Routt County saw continued declines in nonresidential construction activity year-to-date through July.

Table 21
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller counties

	2006	2007	2008	2009	YTD 2010
Employment Growth /1	3.7%	1.9%	-0.8%	-6.0%	-4.3%
Unemployment Rate /1 (2010 Figure is August Only)	3.6%	3.2%	4.0%	7.1%	8.5%
Housing Permit Growth /2					
Eagle, Pitkin, & Summit counties Total	6.1%	-0.6%	-43.1%	-58.5%	85.7%
Routt County Total	24.9%	11.6%	43.5%	-80.0%	-76.3%
Growth in Value of Nonresidential Construction /3					
Eagle, Pitkin, & Summit counties	65.4%	13.1%	-0.9%	-79.9%	772.7%
Routt County	143.9%	80.2%	-54.9%	-84.7%	-100.0%
Retail Trade Sales Growth /4	11.8%	10.0%	-1.5%	-16.3%	0.4%

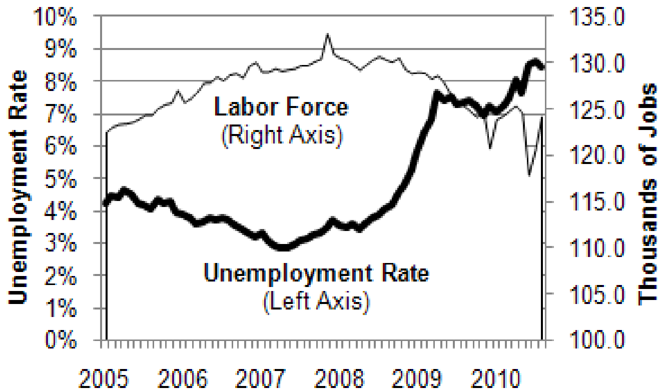
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

2/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.

3/ F.W. Dodge. Data through July 2010.

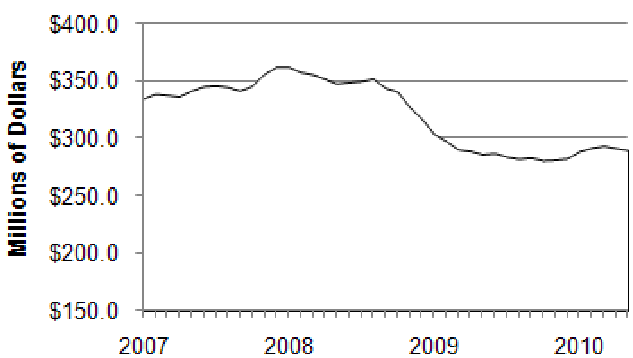
4/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 40
Mountain Region Unemployment Rate and Labor Force
Seasonally Adjusted



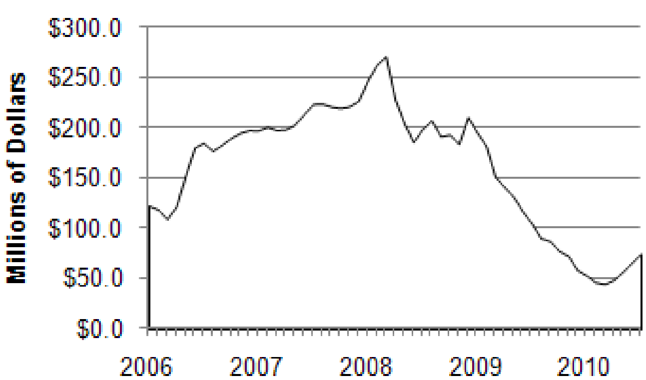
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 41
Mountain Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

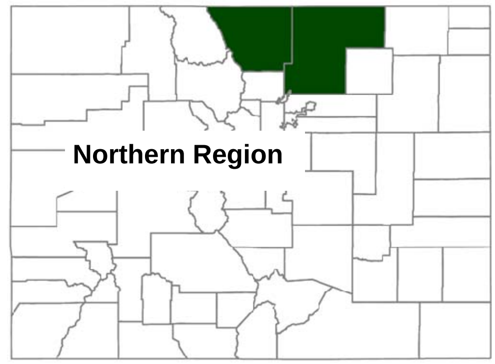
Figure 42
Eagle, Pitkin, and Summit Counties Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: F.W. Dodge. Data through July 2010.

Northern Region

While growth in the northern region's labor market is trailing the state, the region is showing comparatively stronger growth in other economic indicators. Consumer spending continues a strong rebound. Home building activity has increased but remains at low levels. Consistent with statewide trends, the commercial construction industry continues to deteriorate. Table 22 shows the economic indicators for the region.



The labor market in the region is stabilizing. Employment is down 1.6 percent at seasonally adjusted rates through July in the Fort Collins-Loveland area, and down 3.7 percent in the Greeley area. While these indicators show declines over 2009 levels, employment has been flat in both areas since the start of 2010.

The unemployment rate continues to tick upward in the region. The Fort-Collins Loveland area is reporting an unemployment rate of 7 percent as of August, a full percent-

Table 22
Northern Region Economic Indicators
Weld and Larimer counties

	2006	2007	2008	2009	YTD 2010
Employment Growth /1					
Fort Collins-Loveland MSA	1.8%	2.1%	1.0%	-3.2%	-1.6%
Greeley MSA	4.2%	2.9%	1.4%	-5.0%	-3.7%
Unemployment Rate /2 (2010 Figure is August Only)					
Fort Collins-Loveland MSA	4.0%	3.5%	4.3%	6.6%	7.0%
Greeley MSA	4.8%	4.2%	5.3%	8.7%	9.7%
State Cattle and Calf Inventory /3 Growth /3	6.0%	1.9%	1.9%	-5.5%	5.0%
Housing Permit Growth /4					
Fort Collins-Loveland MSA Total	-17.5%	-41.3%	-1.0%	-66.0%	364.9%
Fort Collins-Loveland MSA Single-family	-36.7%	-22.2%	-36.4%	-49.2%	88.5%
Greeley MSA Total	-30.3%	-38.6%	-46.8%	-20.6%	84.8%
Greeley MSA Single-family	-36.6%	-40.5%	-45.1%	-13.7%	97.3%
Growth in Value of Nonresidential Construction/ 5					
Larimer County	183.0%	-34.5%	-9.9%	-50.3%	-52.2%
Weld County	-14.3%	19.4%	25.3%	73.9%	-80.8%
Retail Trade Sales Growth /6					
Larimer County	5.2%	6.5%	-0.7%	-8.9%	7.8%
Weld County	7.2%	7.7%	2.0%	-15.1%	6.1%

MSA = Metropolitan statistical area.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2010.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

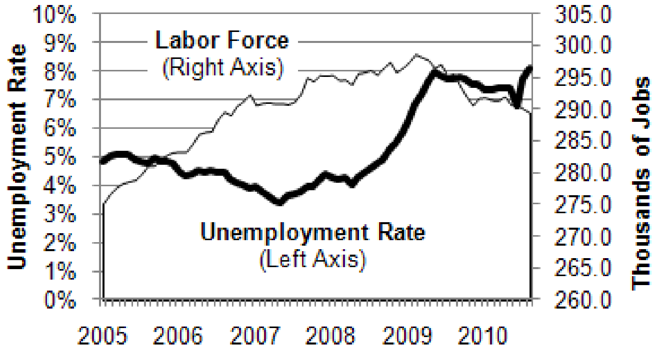
3/ National Agricultural Statistics Service. 2010 data compares year-to-date August 2010 to August 2009.

4/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2010.

5/ F.W. Dodge. Data through July 2010.

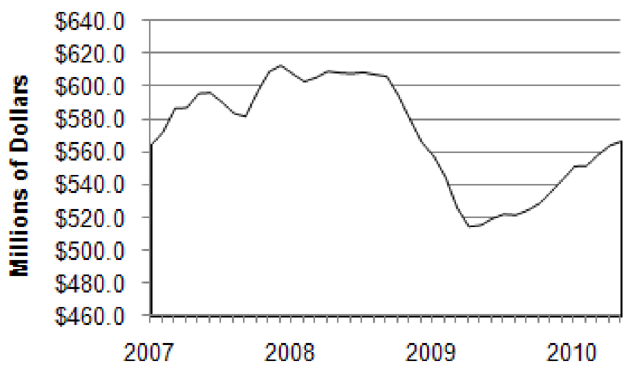
6/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 43
Fort Collins-Loveland and Greeley MSA Unemployment Rate and Labor Force
Seasonally Adjusted



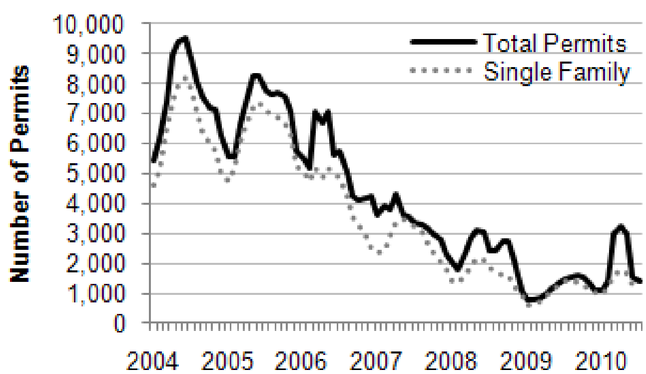
Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 44
Larimer and Weld County Retail Trade
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

Figure 45
Fort Collins-Loveland and Greeley MSA Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: F.W. Dodge. Data through July 2010.

age point lower than the statewide rate. The Greeley area unemployment rate rose to 9.7 percent in August. Figure 43 shows unemployment rate and labor force trends for the two areas combined. The labor force continues to drop off, indicating that many workers are exiting the job market, likely due to limited job opportunities in the region.

Consumer spending is up in the region. Regional retail sales continue to rise, as shown in Figure 44. Sales are up 7.8 percent in Larimer County and up 6.1 percent in Weld County.

Both Larimer and Weld counties are leading producers of cattle, poultry, and dairy farming organizations in the state. Livestock is a particularly important part of the region's agricultural sector. State cattle and calf production is up 5 percent year-to-date through August over the same period last year.

Construction activity in the region remains at low levels. The residential housing market saw an increase in activity through July. However, building remains at historically low levels. Figure 45 shows these trends for the Fort-Collins-Loveland and Greeley metropolitan statistical areas combined. Nonresidential construction has fallen off sharply since the start of 2010. Construction is expected to remain at low levels until the regional economy begins to expand, fill vacancies in existing commercial spaces, and spur demand for new commercial space.

Eastern Region

The eastern region's economy is fairing well compared to most other regions in the state. While the labor market has struggled this year, the unemployment rate remains the lowest of in the state. Consumer spending showed a strong rebound throughout 2009 but has since leveled off. While some crop prices fell, the region is benefitting from record high wheat production and favorable wheat prices. Table 23 shows the economic indicators for the region.

Unlike all other regions of the state, the eastern and San Luis Valley regions — both rural and largely agriculture -based economies — saw employment gains in 2009. However, in 2010, employment in these regions is slipping while other regions are seeing job gains. Employment in the eastern region is down 4.6 percent through August. As shown in Figure 46, the unemployment rate rose to 6.6 percent in August, far below the statewide average of 8.0 percent. This rate is the lowest in the state.

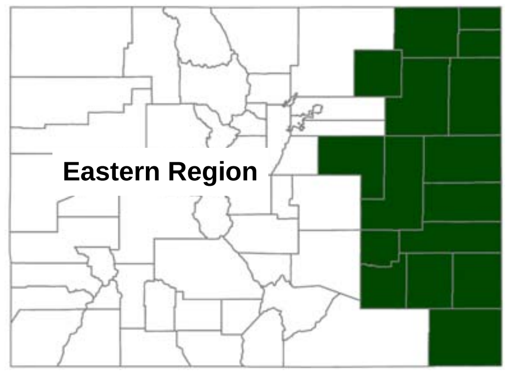


Table 23
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2006	2007	2008	2009	YTD 2010
Employment Growth /1	2.3%	0.5%	-4.1%	4.6%	-4.6%
Unemployment Rate /1 (2010 Figure is August Only)	4.2%	3.5%	4.3%	5.7%	6.6%
Crop Price Changes /2					
Wheat	32.4%	32.4%	10.1%	-31.0%	17.0%
Corn	35.4%	31.1%	4.5%	-7.0%	0.3%
Alfalfa Hay (Baled)	30.7%	5.3%	18.0%	-17.1%	-7.4%
Dry Beans	20.3%	38.7%	14.7%	-13.4%	-21.7%
State Crop Production Growth /3					
Sorghum production	-0.9%	64.2%	-18.9%	50.0%	-23.3%
Corn	-4.6%	10.6%	-6.8%	9.5%	11.8%
Winter Wheat	-24.4%	129.7%	-37.8%	71.9%	5.6%
Sugar Beets	6.7%	-13.9%	-0.9%	27.0%	-19.2%
State Cattle and Calf Inventory Growth /4	6.0%	1.9%	1.9%	-5.5%	5.0%
Retail Trade Sales Growth /5	5.7%	5.9%	6.2%	-12.5%	8.0%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through August 2010.

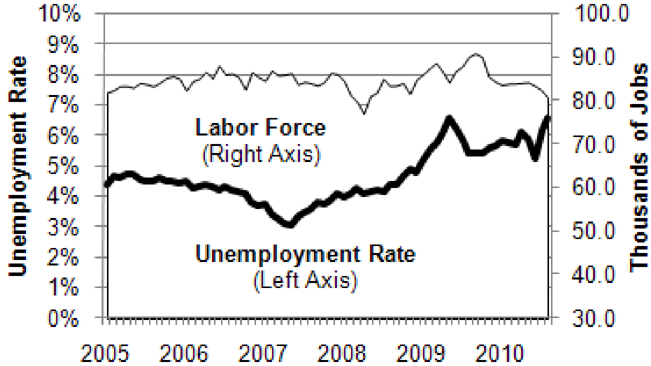
2/ National Agricultural Statistics Service.

3/ National Agricultural Statistics Service. 2010 crop price changes compares August 2010 to August 2009. Estimates for state crop production are year over year for annual figures. 2010 estimate is for acres planted rather than production quota and compares acres planted August 1, 2010 to the prior year.

4/ National Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares August 2010 to August 2009.

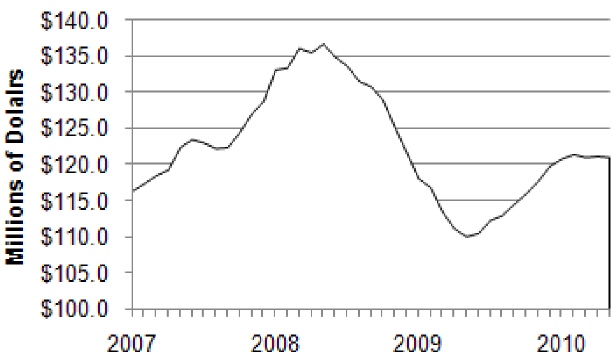
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2010.

Figure 46
Eastern Region Unemployment Rate and Labor Force
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS. Data through August 2010.

Figure 47
Eastern Region Retail Trade
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: Colorado Department of Revenue. Data through May 2010.

The agriculture sector is experiencing a boost from global wheat shortages that partially stem from Russia's drought and ban on wheat exports. U.S. Department of Agriculture sources indicate that Colorado is seeing record-high wheat production in 2010 posting an average yield of 45 bushels per acre. This is the highest yield per acre for Colorado in years raising total production in 2010 to 103.5 million bushels. Winter wheat last saw production levels this high in 1985 when 134.5 million bushels were harvested. Wheat prices in the state posted a 17 percent gain in August 2010 prices over the prior year.

Corn prices in August were flat over the prior year period while Alfalfa hay prices were down 7.4 percent and dry bean prices retreated 21.7 percent. Aside from hay and bean-price declines, Colorado commodity prices for mid-August were higher than the prior month but mixed for year-over-year price-changes.

Consumer spending in the region has followed statewide trends. As shown in Figure 47, sales fell sharply in 2008, followed by a strong rebound in the second half of 2009. In 2010, sales have leveled off. Retail trade sales are up 8 percent year-to-date through May over the same period last year.

Appendix A
Historical Data

National Economic Indicators

(Dollar Amounts in Billions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Domestic Product	$7,414.7	$7,838.5	$8,332.4	$8,793.5	$9,353.5	$9,951.5	$10,286.2	$10,642.3	$11,142.1	$11,867.8	$12,638.4	$13,398.9	$14,061.8	$14,369.1	$14,119.0
percent change	4.7%	5.7%	6.3%	5.5%	6.4%	6.4%	3.4%	3.5%	4.7%	6.5%	6.5%	6.0%	4.9%	2.2%	-1.7%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$9,093.7	$9,433.9	$9,854.3	$10,283.5	$10,779.8	$11,226.0	$11,347.2	$11,553.0	$11,840.7	$12,263.8	$12,638.4	$12,976.2	$13,228.9	$13,228.8	$12,880.6
percent change	2.5%	3.7%	4.5%	4.4%	4.8%	4.1%	1.1%	1.8%	2.5%	3.6%	3.1%	2.7%	1.9%	0.0%	-2.6%
Unemployment Rate	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.3%
Inflation (Consumer Price Index)	2.8%	2.9%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	3.8%	-0.4%
10-Year Treasury Note	6.6%	6.4%	6.4%	5.3%	5.7%	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%	4.6%	3.7%	3.3%
Personal Income	$6,200.9	$6,591.6	$7,000.7	$7,525.4	$7,910.8	$8,559.4	$8,883.3	$9,060.1	$9,378.1	$9,937.2	$10,485.9	$11,268.1	$11,912.3	$12,391.1	$12,174.9
percent change	5.6%	6.3%	6.2%	7.5%	5.1%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.5%	5.7%	4.0%	-1.7%
Wage and Salary Income	$3,418.0	$3,616.3	$3,876.6	$4,181.6	$4,460.0	$4,827.7	$4,952.2	$4,997.3	$5,139.6	$5,425.7	$5,701.0	$6,068.9	$6,421.7	$6,559.0	$6,274.1
percent change	5.8%	5.8%	7.2%	7.9%	6.7%	8.2%	2.6%	0.9%	2.8%	5.6%	5.1%	6.5%	5.8%	2.1%	-4.3%
Nonfarm Employment (millions)	117.3	119.7	122.8	125.9	129.0	131.8	131.8	130.3	130.0	131.4	133.7	136.1	137.6	136.8	130.9
percent change	2.6%	2.1%	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.6%	-4.3%

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

Colorado Economic Indicators

(Dollar Amounts in Millions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nonagricultural Employment (thous.)	1,834.7	1,900.9	1,980.2	2,057.6	2,132.5	2,213.7	2,226.9	2,184.2	2,152.8	2,179.7	2,226.0	2,279.0	2,331.1	2,350.3	2,244.2
percent change	4.5%	3.6%	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.4%	2.3%	0.8%	-4.5%
Unemployment Rate (%)	4.0	4.2	3.4	3.6	3.1	2.8	3.8	5.6	6.1	5.6	5.1	4.4	3.9	4.9	7.7
Personal Income	$94,039	$101,777	$110,110	$120,100	$130,663	$147,056	$156,469	$157,753	$159,919	$168,588	$179,698	$194,393	$205,548	$212,320	$207,742
percent change	8.7%	8.2%	8.2%	9.1%	8.8%	12.5%	6.4%	0.8%	1.4%	5.4%	6.6%	8.2%	5.7%	3.3%	-2.2%
Per Capita Income	$24,575	$25,964	$27,402	$29,174	$30,919	$33,977	$35,296	$35,023	$35,156	$36,652	$38,555	$40,899	$42,449	$43,021	$41,344
percent change	5.8%	5.7%	5.5%	6.5%	6.0%	9.9%	3.9%	-0.8%	0.4%	4.3%	5.2%	6.1%	3.8%	1.3%	-3.9%
Wage and Salary Income	$53,162	$57,442	$62,754	$69,862	$76,643	$86,416	$89,109	$88,106	$89,284	$93,619	$98,902	$105,833	$112,604	$116,645	$112,561
percent change	7.9%	8.1%	9.2%	11.3%	9.7%	12.8%	3.1%	-1.1%	1.3%	4.9%	5.6%	7.0%	6.4%	3.6%	-3.5%
Retail Trade Sales	$39,919	$42,629	$45,142	$48,173	$52,609	$57,955	$59,014	$58,850	$58,689	$62,288	$65,492	$70,437	$75,329	$74,760	$66,345
percent change	4.8%	6.8%	5.9%	6.7%	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.1%	5.1%	7.5%	6.9%	-0.8%	-11.3%
Housing Permits	38,622	41,135	43,053	51,156	49,313	54,596	55,007	47,871	39,569	46,499	45,891	38,343	29,454	18,998	9,355
percent change	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-13.0%	-17.3%	17.5%	-1.3%	-16.4%	-23.2%	-35.5%	-50.8%
Nonresidential Construction	$1,957	$2,544	$3,274	$2,880	$3,783	$3,476	$3,500	$2,809	$2,708	$3,291	$4,221	$4,415	$5,251	$4,191	$3,049
percent change	18.5%	30.0%	28.7%	-12.0%	31.4%	-8.1%	0.7%	-19.7%	-3.6%	21.5%	28.3%	4.6%	18.9%	-20.2%	-27.2%
Denver-Boulder Inflation Rate	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.6%	2.0%	1.0%	0.1%	2.1%	3.6%	2.2%	3.9%	-0.6%
Population (thousands, July 1)	3,738.1	3,812.7	3,891.3	3,969.0	4,056.1	4,339.0	4,456.3	4,526.0	4,586.2	4,650.1	4,714.4	4,808.1	4,895.7	4,987.7	5,074.5
percent change	2.3%	2.0%	2.1%	2.0%	2.2%	7.0%	2.7%	1.6%	1.3%	1.4%	1.4%	2.0%	1.8%	1.9%	1.7%

Sources: Colorado Department of Labor and Employment, U.S. Department of Commerce, Colorado Department of Revenue, U.S. Bureau of the Census, U.S. Bureau of Labor Statistics, F.W. Dodge.