Focus Colorado: Economic and Revenue Forecast

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Economics Section

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Photograph captures High Dune at the Great Sand Dunes National Park and Preserve, courtesy of Thomas P. Smith.

Highlights

- The **Colorado economy** continues along a path of gradual recovery with private sector job gains and several indicators signaling improvement. However, growth will be restrained by weak construction and restructuring in the banking sector, as well as high unemployment, consumer debt, and energy prices.

- The **FY 2010-11 General Fund budget** is in balance, with an estimated $447.1 million left in the General Fund at the end of the year. Pursuant to Senate Bill 11-156, this money will be transferred to the State Education Fund.

- There is a budget shortfall in **FY 2011-12**. General Fund revenue will fall short of fully funding the required reserve by $601.7 million, assuming General Fund monies are used to backfill the loss of federal and certain other one-time sources of money. If the FY 2010-11 transfer from the State Education Fund pursuant to Senate Bill 11-156 is used to alleviate this shortfall, the shortfall falls to $152.5 million. These estimates do not include spending increases resulting from caseload growth or inflation.

- When the FY 2011-12 shortfall is adjusted to be consistently compared with the $1.0 billion shortfall reported in the December forecast, it falls to roughly $450 million. An increase in revenue expectations reduced the projected shortfall by $215 million. The remainder has been addressed by the FY 2010-11 supplemental budget package.

- The **Referendum C cap** will equal $10.7 billion in FY 2010-11, and revenue subject to TABOR will be $1.1 billion below the cap.

- The **Unemployment Insurance Trust Fund** is expected to regain solvency in FY 2011-12.

EXECUTIVE SUMMARY

This report presents the current budget outlook based on the March 2011 economic, General Fund revenue, and cash fund revenue forecasts. The outlook incorporates the FY 2010-11 supplemental budget package as passed by the state legislature, including those bills not yet signed by the Governor.[1]

General Fund Overview

Table 1 on page 4 presents the General Fund overview, including the FY 2010-11 supplemental budget package as passed by the General Assembly. Except for those supplemental bills not yet signed by the Governor and the assumption regarding backfills of one-time sources of money described below, the outlook is based on current law. Table 2 on pages 5 and 6 lists legislation from the 2009 through 2011 legislative sessions and other budgetary measures affecting the General Fund overview, including the federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

FY 2010-11. The FY 2010-11 General Fund budget is in balance. Revenue is expected to be $447.1 million higher than the amount budgeted to be spent or retained in the reserve. Pursuant to Senate Bill 11-156, this amount will be transferred to the State Education Fund *(see line 12 of Table 1)*.

This amount excludes the impact of an estimated net $78.5 million in expenditure changes for Medicaid and human services in the FY 2010-11 budget. These changes, known as "placeholders", will need to be addressed in the Long Appropriations Bill should the General Assembly choose to fund them. If they are funded, the Senate Bill 11-156 transfer to the State Education Fund is reduced to $386.6 million.

FY 2011-12. There is a budget shortfall in FY 2011-12. Revenue will fall short of fully funding the required 4.0 percent reserve by $601.7 million *(line 22 of Table 1)*. The state legislature may choose to use the Senate Bill 11-156 transfers to the State Education Fund to augment General Fund monies to address the shortfall. If it chooses to do so, the shortfall would be reduced to $154.5 million. These figures are based on the following assumption:

- *General Fund operating appropriations* are assumed to increase in FY 2011-12 by the amount required to backfill a total of $756.2 million in one-time sources of money. These one-time sources of money are funding programs this year that are historically paid for with General Fund revenue *(lines 9 and 11 of Table 1)*. Because these funding sources are not available in FY 2011-12, the state legislature will have to eliminate or

[1] Incorporated legislation includes Senate Bills 11-135 through 11-157, 11-159, 11-160, 11-161, 11-163, and 11-164. As the forecast went to print, all of these bills had been passed by the General Assembly, but the Governor had not yet signed Senate Bills 11-136, 11-137, 11-141, 11-142, 11-144, 11-159, and 11-164.

reallocate General Fund spending on other programs if it chooses to continue funding these programs at current levels. *These backfills are not current law and are dependent on future decisions of the state legislature.* They include:

- $147.0 million of Amendment 35 Health Care Expansion Fund monies used for Medicaid;
- $363.6 million of federal stimulus dollars used for Medicaid;
- $216.4 million of Federal Jobs Act monies used for K-12 education; and
- $29.2 million of federal stimulus dollars used for higher education.

The $601.7 million shortfall does not incorporate budgetary pressures resulting from inflation and caseload growth. In order to compare the $601.7 million shortfall consistently with the $1 billion shortfall included in the December forecast, an estimated $300 million[2] in statutorily-required expenditure increases for caseload growth and inflation should be included and the money transferred at the end of FY 2010-11 from the General Fund to the State Education Fund should be added back to General Fund revenue. The resulting shortfall of about $450 million is roughly $550 million below the figure reported in December. Of the $550 million reduction in the shortfall, $215 million is the result of a higher revenue forecast relative to December. The remaining amount is the result of the FY 2010-11 supplemental budget package.

FY 2012-13. The General Fund budget situation in FY 2012-13 will depend on measures taken by the state legislature to address the shortfall for FY 2011-12. Expectations for stronger growth in the economy in 2012 and 2013 should help improve the budget outlook, as the sunset of temporary budget measures will restrain it.

Senate Bill 09-228 transfers and reserve increases. If personal income increases by at least 5 percent in 2012, Senate Bill 09-228 requires transfers from the General Fund to transportation and capital construction and an increase in the General Fund statutory reserve in FY 2012-13. If personal income increases by less than 5 percent, these transfers and the reserve increase are postponed until the first year in which personal income increases by at least 5 percent. Personal income is expected to increase 4.7 percent in 2012 and 5.3 percent in 2013. Thus, this forecast anticipates that the transfers and reserve increases will begin in FY 2013-14.

Tax policies dependent on sufficient General Fund revenue. Several tax policies are only available when General Fund revenue is forecast to be sufficient to allow General Fund appropriations to grow by at least 6 percent. Based on this forecast, which incorporates the supplemental budget balancing package for FY 2010-11, revenue will be sufficient for 6 percent appropriations growth in FY 2010-11, but not in FY 2011-12 or FY 2012-13. In total, there are seven policies that are triggered when revenue is forecast to be sufficient to allow 6 percent growth in appropriations.

While this forecast expects that revenue will be sufficient to allow 6 percent appropriations growth in FY 2010-11, all of these tax policies except one are triggered based on expectations for revenue in the September or December revenue forecasts, both of which anticipated that revenue

[2] The $300 million estimate for expenditure increases from caseload growth and inflation is highly dependent on the budgetary decisions of the state legislature.

Table 1
March 2011 General Fund Overview
Incorporates the FY 2010-11 Supplemental Package as Passed by the General Assembly*
(Dollars in Millions)

		FY 2009-10 Actual	FY 2010-11 Estimate	FY 2011-12 Estimate	FY 2012-13 Estimate
FUNDS AVAILABLE					
1	Beginning Reserve	$443.3	$137.4	$154.7	($332.5)
2	General Fund Nonexempt Revenue	6,457.7	6,268.1	6,330.7	6,510.8
3	General Fund Exempt Revenue (Referendum C)	0.0	924.9	861.4	1,182.0
4	Transfers to Other Funds	(458.1)	0.0	(0.01)	(0.02)
5	Transfers from Other Funds	421.2	148.0	4.2	0.6
6	Sales Taxes to Older Coloradans Fund and OASMCF	(10.9)	(10.9)	(10.9)	(10.9)
7	**Total Funds Available**	**$6,853.3**	**$7,467.6**	**$7,340.3**	**$7,350.0**
8	Percent Change	-15.5%	9.0%	-1.7%	0.1%
EXPENDITURES					
9	General Fund Appropriations	6,631.6	6,727.9	6,727.9	6,727.9
10	Adjustments to Appropriations	(28.1)	0.0	0.0	0.0
11	Backfill One-Time Federal Stimulus and Health Care Expansion Fund Monies /B	NA	NA	756.2	756.2
12	Senate Bill 11-156 Transfer to the State Education Fund	NA	447.1	0.0	0.0
13	Rebates and Expenditures *(Lines 19-24 of Table 5)*	131.0	124.2	158.8	170.2
14	Reimbursement for Senior and Disabled Veterans Property Tax Cut	1.3	1.6	1.7	103.0
15	Capital Construction Transfers	0.2	12.0	28.2	43.7
16	Accounting Adjustments	(20.1)	NE	NE	NE
17	**Total Expenditures**	**$6,715.9**	**$7,312.8**	**$7,672.8**	**$7,800.9**
18	Percent Change	-12.4%	8.9%	4.9%	1.7%
BUDGET SUMMARY					
19	**Amount Available for Expenditure** *(Line 7 minus Line 23)*	**6,720.7**	**7,312.8**	**7,071.2**	**7,080.8**
20	Dollar Change	(1,241.4)	592.2	(241.7)	9.7
21	Percent Change	-15.6%	8.8%	-3.3%	0.1%
22	***Revenue Will Restrict Expenditures and/or the Reserve by:***	***0.0***	***0.0***	***($601.7)***	***($720.1)***
RESERVE					
23	Year-End General Fund Reserve	137.4	154.7	(332.5)	(450.9)
24	Year-End Reserve As A Percent of Appropriations	2.1%	2.3%	-4.9%	-6.7%
25	Statutorily-Required Reserve	132.6	154.7	269.1	269.1
26	Reserve in Excess or (Deficit) of Statutory Reserve	$4.8	$0.0	($601.7)	($720.1)
27	*Percent Change in General Fund Appropriations*	*-10.5%*	*1.5%*	*NE*	*NE*
28	Addendum: TABOR Reserve Requirement	257.0	286.8	293.5	313.5
29	Addendum: Arveschoug-Bird Appropriations Limit	10,257.7	10,736.3	10,511.4	10,511.4
30	Addendum: Amount Directed to State Education Fund	329.0	374.3	369.7	400.2

Totals may not sum due to rounding. NE = Not estimated. NA= Not applicable.

** Incorporated legislation includes Senate Bills 11-135 through 11-157, 11-159, 11-160, 11-161, 11-163, and 11-164. As the forecast went to print, all of these bills had been passed by the General Assembly, but the Governor had not yet signed Senate Bills 11-136, 11-137, 11-141, 11-142, 11-144, 11-159, and 11-164.*

/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 by the General Assembly 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 (line 23).

/B This represents one-time sources of money that are funding programs in FY 2010-11 historically funded with General Fund revenue. These one-time monies are not expected to be available in FY 2011-12. This backfill is not current law and is dependent on future decisions of the General Assembly. For more information see the executive summary.

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

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	1.1	-
HB 10-1389	Capital Construction Transfers	-	19.1	10.4	-	-
SB 11-161	Diversion to the Laboratory Cash Fund	-	-	-	(0.01)	(0.02)
SB 11-163	Repeal Alternative Fuels Rebate Program	-	-	0.3	0.4	0.4
SB 11-164	Cash Fund Transfers	-	-	103.0	-	-
Transfers to the General Fund		$813.7	$421.2	$148.0	$4.2	$0.6
Transfers from the General Fund		($4.4)	($458.1)	$0.0	($0.01)	($0.02)

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	-	(87.3)	-	-	-
SB 10-190	Suspend Senior Property Tax Exemption	-	-	(91.5)	(95.2)	-
HB 10-1389	Reduce CERF Capital Construction Transfers	-	1.8	-	-	-
Medicaid Payment Delay		-	(38.0)	38.0	-	-
Total Expenditure Measures		($25.4)	($148.8)	($78.8)	($95.2)	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	-	(149.1)	-	-	-
SB 10-156	FY 10-11 Statutory Reserve Reduction	-	-	332.7	-	-
Total Reserve Impact		($148.2)	($149.1)	$332.7	$0.0	$0.0

(Table 2 continues on next page)

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

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	16.1	37.5	19.7	-	-
SB 09-275	Temporarily Repeal Vendor Fee—Part 2	-	25.5	46.6	-	-
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	-	0.1	0.3	0.3	0.3
HB 10-1190	Temporarily Repeal Exemption for Industrial Energy	-	7.2	37.6	36.9	-
HB 10-1191	Repeal Exemption for Candy and Soda	-	1.4	16.0	16.0	17.8
HB 10-1192	Repeal Software Regulation	-	4.6	18.9	20.2	23.6
HB 10-1193	Sales Taxes and Out-of-State Retailers	-	0.02	0.2	11.4	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	3.1	3.4	3.7
H.R. 4853	Payroll Tax Rate Reduction /D	-	-	14.0	14.0	-
Total Sales Taxes		*$16.1*	*$108.0*	*$189.7*	*$103.5*	*$63.8*
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	-	-	(3.0)	(3.0)	-
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
H.R. 4853	Accelerated Expensing and Bonus Depreciation /D	-	-	(70.1)	(98.1)	(25.4)
Total Income Taxes		*$0.0*	*$5.0*	*($29.1)*	*($31.2)*	*$12.1*
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		**$16.1**	**$115.7**	**$163.3**	**$75.0**	**$78.6**

/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 only expected to occur during the forecast period for the in-stream flow tax credit, which will be available in tax year 2011 for credits accrued during tax years 2009 through 2011.

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

/D Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

would *not* be sufficient. Therefore, the following tax credits and exemptions will not be available during the forecast period:

- child care contribution income tax credit;
- historic property preservation income tax credit;
- developmental disabilities income tax credit;
- clean technology medical device sales tax refund; and
- sales and use tax exemption for clean room infrastructure.

In addition, the temporary elimination of the state sales tax vendor fee will extend through the end of FY 2010-11.

The trigger for the instream flow income tax credit for tax year 2011 is based on the outcome of the June 2011 revenue forecast. Assuming that the June forecast is consistent with this forecast, the instream flow income tax credit will be available in tax year 2011, but not in tax years 2012 or 2013. It is anticipated that taxpayers will claim these credits for tax years 2009, 2010, and 2011 on their 2011 tax returns, and the credit will reduce General Fund revenue by $3.0 million in both FY 2010-11 and FY 2011-12.

Revenue Forecast

The FY 2010-11 forecast for total revenue subject to TABOR increased $148.0 million relative to the December forecast. The forecast for General Fund revenue subject to TABOR increased $133.5 million, while the cash fund forecast increased $14.5 million.

- **General Fund revenue** is beginning to recover along with the economy and as a result of revenue augmenting legislation passed during the 2009 and 2010 legislative sessions. The increase is a result of higher expectations for individual income and sales and use taxes, which more than offset reduced expectations for corporate income taxes.

- The increase in the forecast for **cash fund revenue subject to TABOR** is due to higher expectations for Hospital Provider Fee revenue and a higher than expected rebound in severance tax revenue with increased energy industry activity in the state. After increasing 14.7 percent to $2.4 billion in FY 2010-11, cash fund revenue subject to TABOR will increase 9.4 percent in FY 2011-12.

- The **Unemployment Insurance Trust Fund** is expected to regain solvency in FY 2011-12. Unemployment insurance benefits are falling off and the negative fund balance in FY 2009-10 shifted regular unemployment insurance premium rates to the highest schedule, which will increase revenue to the fund starting this fiscal year.

- 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 $924.9 million as a result of Referendum C. Table 3 presents the history and forecast for revenue retained by Referendum C.

- Figure 1 on page 9 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 time-out period. The Referendum C cap will equal $10.7 billion in FY 2010-11. Revenue subject to TABOR will be $1.1 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	$0.0
FY 2009-10	$0.0
Projections	
FY 2010-11	$924.9
FY 2011-12	$861.4
FY 2012-13	$1,182.0

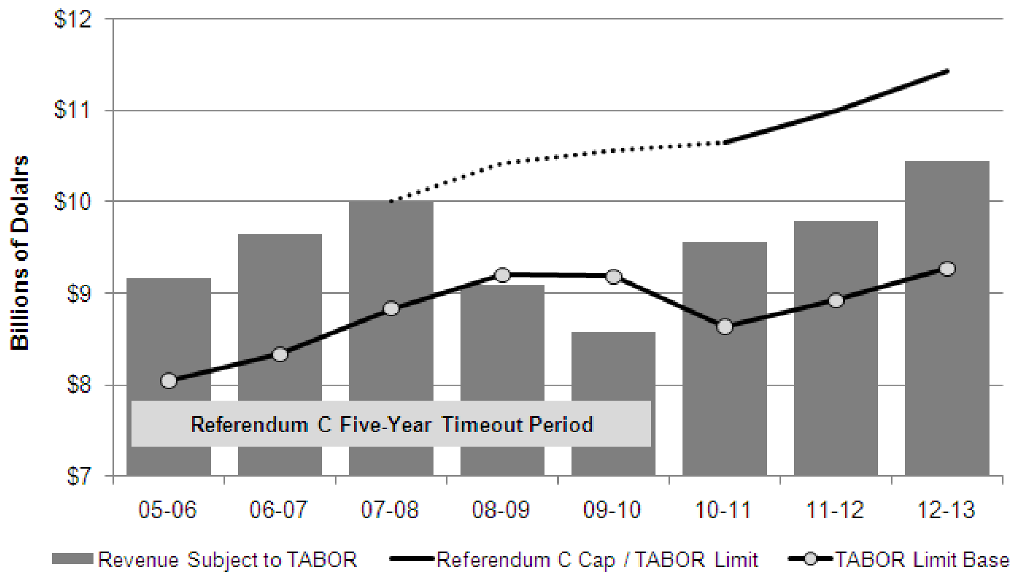
National Economy

The national economy has strengthened and posted solid growth in 2010. Economic output has expanded for seven consecutive quarters, consumer confidence has improved, and manufacturing activity has been brisk. Improvements to the job market have been slower, but there are clear signs of recovery. Private sector job growth is increasing, and the unemployment rate has drifted lower. The Conference Board Leading Economic Index has been signaling expansion for seven consecutive months.

Economic growth continues to be supported by monetary and fiscal stimulus. Problems left by the financial crisis are still working through the economy, with financial institutions restructuring and shedding bad loans. Real estate markets are adjusting to foreclosures and price declines. Spending on construction projects continues to fall.

The economy faces other headwinds as well. Increases in food and energy prices are straining consumer pocketbooks and slowing economic growth. Reduced spending by state and local governments is also slowing the expansion.

Figure 1
TABOR Revenue, the TABOR Limit Base, and the Referendum C Cap



International events are affecting economic conditions. Political turmoil in the Middle East has pushed up fuel prices and raised fears of oil supply disruptions. The earthquake in Japan has devastated the economy of a major U.S. trading partner and caused supply-chain disruptions for some U.S. firms. These events will slow U.S. economic growth in the near term, but the economy is strong enough to withstand these economic shocks.

Colorado Economy

The Colorado economy continues along a path of gradual recovery with several economic indicators signaling growth. Employment in Colorado's private sector has been increasing for a year, personal income has been rising for five quarters, and the housing market is beginning to show some signs of stabilization.

Despite these clear signs that the economy is expanding, there are ongoing challenges that are restraining the recovery. High unemployment will continue as job growth is not outpacing gains in the labor force. Additionally, banks will continue to restructure and high energy prices and consumer debt will slow the recovery.

Table 4
March 2011 TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

		Actual FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12	Estimate FY 2012-13
	TABOR Revenue:				
1	General Fund /A	$6,478.5	$7,165.1	$7,162.2	$7,660.6
2	Cash Funds	2,089.4	2,396.3	2,620.7	2,790.8
3	**Total TABOR Revenue**	**$8,567.9**	**$9,561.4**	**$9,782.9**	**$10,451.4**
	Revenue Limit				
4	Allowable TABOR Growth Rate	5.6%	1.0%	3.3%	3.9%
5	Inflation (from prior calendar year)	3.9%	-0.6%	1.9%	2.3%
6	Population Growth (from prior calendar year)	1.7%	1.6%	1.4%	1.6%
7	TABOR Limit Base /B	$9,183.8	$8,636.5	$8,921.5	$9,269.4
8	Voter Approved Revenue Change (Referendum C) /C	$0.0	$924.9	$861.4	$1,182.0
9	Total TABOR Limit / Referendum C Cap	NA	$10,641.8	$10,993.0	$11,421.8
	Retained/Refunded Revenue				
10	Revenue Retained under Referendum C /C	$0.0	$924.9	$861.4	$1,182.0
11	**Total Available Revenue**	**$8,567.9**	**$9,561.4**	**$9,782.9**	**$10,451.4**
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 in the cash funds to avoid double counting and include transfers of revenue from TABOR enterprises into TABOR district boundaries.

/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.

GENERAL FUND REVENUE

This section presents the forecast for General Fund revenue. After a decrease of close to $1.3 billion over the last two years, General Fund revenue is beginning to recover with the Colorado economy and as a result of revenue-augmenting legislation passed during the 2009 and 2010 legislative sessions. Table 5 on page 12 illustrates actual revenue collections for FY 2009-10 and projections for FY 2010-11 through FY 2012-13.

General Fund revenue will increase 11.4 percent in FY 2010-11 or by $735.3 million compared with the prior fiscal year. Of this increase, it is expected that $232 million will 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).

The General Fund revenue forecast for **FY 2010-11** and **FY 2011-12** increased $116.0 million and $98.8 million, respectively, relative to the December forecast. Higher expectations for individual income and sales and use taxes more than offset reduced expectations for corporate income taxes.

Impacts of federal tax legislation. This forecast incorporates major impacts of the Federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 on state revenue. As shown in Table 2 on page 6, the law will increase state sales and use tax collections by $27.9 million over two years and will decrease state income tax collections by $193.6 million over the next three years. Overall, the new law will reduce General Fund revenue by $56.2 million in FY 2010-11, $84.2 million in FY 2011-12, and $25.4 million in FY 2012-13.

The new law includes a cut in federal social security payroll taxes. It is expected that taxpayers will use some of these tax savings to pay down debt and some to increase spending. The payroll tax rate reduction is estimated to increase Colorado sales and use tax revenue by slightly less than $14.0 million in both FY 2010-11 and FY 2011-12.

Because Colorado's state taxable income is tied to federal taxable income, provisions in the new law that change a taxpayer's federal taxable income will directly affect Colorado income tax collections. The federal tax law contains two major provisions for businesses that extend or expand certain provisions affecting the tax treatment of newly purchased business equipment. These provisions will reduce corporate income tax revenue to the state. In addition, because many businesses are taxed under the individual income tax system, these provisions will also affect individual income tax revenue.

The first income tax provision affects the tax treatment of the *depreciation* of business equipment. Federal law allows businesses to deduct the depreciated cost of business equipment from their federal taxable income, both in the year of purchase and in later years. The new law increases the first-year depreciation deduction to 100 percent of the cost of the equipment in tax year 2011 and 50 percent in tax year 2012.

The second provision affects how business equipment is *expensed*. Under federal law, business equipment investments generally cannot be claimed fully as an expense in the first year but instead must be

Table 5
March 2011 General Fund Revenue Estimates
(Dollars in Millions)

	Category	Actual 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	$2,001.0	9.6	$2,038.0	1.9	$2,111.6	3.6
2	Use	155.7	-11.9	192.2	23.4	200.7	4.4	212.1	5.7
3	Cigarette	40.8	-6.0	39.6	-2.9	39.1	-1.3	38.5	-1.6
4	Tobacco Products	16.1	22.4	14.9	-7.5	15.3	3.0	15.7	2.7
5	Liquor	35.4	1.3	36.0	1.6	36.9	2.4	37.7	2.1
6	TOTAL EXCISE	$2,073.1	-5.7	$2,283.7	10.2	$2,330.1	2.0	$2,415.6	3.7
7	Net Individual Income	$4,083.8	-5.8	$4,702.0	15.1	$4,672.7	-0.6	$5,025.7	7.6
8	Net Corporate Income	372.1	27.2	337.6	-9.3	298.5	-11.6	366.5	22.8
9	TOTAL INCOME TAXES	$4,455.9	-3.7	$5,039.6	13.1	$4,971.2	-1.4	$5,392.2	8.5
10	Less: Portion diverted to the SEF*	-329.0	-3.2	-374.3	13.8	-369.7	-1.2	-400.2	8.2
11	INCOME TAXES TO GENERAL FUND	$4,126.9	-3.7	$4,665.2	13.0	$4,601.5	-1.4	$4,992.0	8.5
12	Insurance	186.9	-2.9	195.5	4.6	206.6	5.7	224.1	8.5
13	Pari-Mutuel	0.5	17.0	1.4	163.3	1.1	-19.8	0.9	-19.8
14	Investment Income	10.1	7.7	9.4	-6.7	10.1	7.3	14.5	43.5
15	Court Receipts	17.8	-26.1	3.8	-78.7	1.0	-73.7	0.7	-30.0
16	Gaming	16.2	NA	19.2	NA	21.2	NA	23.5	NA
17	Other Income	26.2	-7.6	14.7	-43.7	20.5	39.2	21.6	5.5
18	TOTAL OTHER	$257.7	0.1	$244.0	-5.3	$260.6	6.8	$285.3	9.5
	GROSS GENERAL FUND	**$6,457.7**	**-4.2**	**$7,193.0**	**11.4**	**$7,192.2**	**0.0**	**$7,692.8**	**7.0**
	REBATES & EXPENDITURES:								
19	Cigarette Rebate	$11.6	-3.8	$11.6	-0.3	$11.5	-1.3	$11.3	-1.6
20	Old-Age Pension Fund	104.5	2.1	97.2	-7.0	106.6	9.7	117.4	10.1
21	Aged Property Tax & Heating Credit	7.6	43.0	8.0	5.5	7.8	-2.9	7.5	-3.8
22	Interest Payments for School Loans	2.2	-59.4	2.1	-6.7	2.2	7.3	3.2	43.5
23	Fire and Police Pension Association	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	$131.0	0.6	$124.2	-5.2	$158.8	27.9	$170.2	7.2

Totals may not sum due to rounding. NA = Not applicable. NE = Not estimated.
**SEF = State Education Fund.*

spread over the useful lifetime of the equipment. The new law allows businesses to deduct an increased amount of these expenses in tax year 2012.

These income tax provisions are estimated to reduce state individual income tax collections by $28.9 million in FY 2010-11, $43.1 million in FY 2011-12, and $13.1 million in FY 2012-13. State corporate income tax revenue will be reduced $41.2 million in FY 2010-11, $55.1 million in FY 2011-12, and $12.3 million in FY 2012-13. Because the provisions accelerate the amount of business equipment costs that can be deducted from taxable income, businesses will have less to deduct in future years. Thus, the provisions will increase corporate and individual income tax revenue beginning in FY 2013-14.

Individual income tax collections will increase 15.1 percent in FY 2010-11, rebounding from low recessionary levels in the prior two fiscal years. While the new federal tax law will reduce income tax revenue starting this fiscal year, the strong rate of increase in FY 2010-11 is a result of the return of modest job gains in the state, a rebound in the stock market and estimated income tax payments, lower tax refunds, and a large one-time payment of delinquent taxes to the state. In addition, revenue is being bolstered by the General Assembly's reduction of certain income tax credits and modifications. A full list of these income tax changes can be found in Table 2 on page 6.

The forecast for FY 2010-11 was increased relative to the December forecast by $117.5 million, or 2.2 percent. Some of the increase is related to a one-time payment of delinquent taxes estimated at $40 million.

After relatively strong growth in FY 2010-11, growth in individual income tax revenue for FY 2011-12 is expected to be weaker. This is due to the expectations of a sluggish recovery in the job market, the effects of the new federal tax law, and less growth in revenue from estimated payments.

Nationally, corporate profits have risen steadily. However, corporate profits are expected to come under pressure in 2011 and 2012 from rising commodity prices and smaller productivity gains than seen recently. Expectations for **corporate income tax** collections for FY 2010-11 decreased $36.5 million compared with the December forecast, primarily as a result of lower than expected collections through February. With these revised estimates, corporate income taxes will decrease 9.3 percent in FY 2010-11. Over the remainder of the forecast period, corporate income tax revenue is expected to decrease another 11.6 percent in FY 2011-12. Much of the projected decrease in corporate income tax revenue is the result of lower expectations for corporate profits and the new federal tax law.

The **State Education Fund** receives one-third of 1 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, the fund will receive $374.3 million in FY 2010-11 and $369.7 million in FY 2011-12.

Growth in **sales tax** revenue continues to slowly improve. Estimates for General Fund revenue from sales taxes were increased from the December forecast for FY 2010-11 and FY 2011-12 by $51.5 million and $65.0 million, respectively. The increase in the forecast is due to an improvement in consumer confidence, consumer spending, and economic conditions.

Revenue for FY 2010-11 is coming in above the December forecast, with particularly strong sales growth in the month of December.

Job growth has picked up in Colorado, and the reduction in the payroll tax in the new federal tax law should boost disposable income. Still, high unemployment, heavy debt burdens, high energy prices, and slow wage growth will continue to restrain consumer confidence and disposable income. These forces will dampen growth through the forecast period.

Average retail trade growth has been relatively strong in several regions of the state, including the Colorado Springs, northern, and eastern regions. However, growth has been weak in other areas, such as in the southwest mountain, San Luis Valley, and western regions. Retail trade growth in the Denver metro area has been under the statewide average.

In FY 2010-11, sales tax revenue is expected to increase 5.4 percent on a cash basis. On an accrual basis, sales tax revenue will increase an estimated 9.6 percent, because large refunds posted in FY 2009-10 are not expected to be repeated in FY 2010-11. The increase in tax revenue compared to a year ago is partly due to strengthening economic conditions. However, a large portion of the increase is the result of several measures enacted by the General Assembly. During the 2009 session, bills were passed that temporarily eliminate the sales tax exemption for purchases of cigarettes and the vendor fee that retailers retain to offset their costs of sales tax collection. Several 2010 House Bills that eliminated sales tax exemptions are also adding to collections. Combined, these measures are estimated to add nearly $180 million to sales tax revenue in FY 2010-11 and $98 million in FY 2011-12. Most of the expansion of the sales tax base from the 2010 legislation is permanent, but the vendor fee and cigarette sales tax exemption will be restored in FY 2011-12.

In FY 2011-12, sales tax revenue is expected to rise 1.9 percent. 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. Starting July 1, 2011, vendors will once again retain 3 1/3 percent of sales tax collections to compensate them for expenses. The cigarette sales tax exemption will also be restored in FY 2011-12. These measures together are generating nearly $100 million in General Fund revenue.

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 and unemployment insurance revenue. These forecasts are provided separately because the revenue sources are not subject to TABOR.

Cash fund revenue subject to TABOR will total $2.4 billion in FY 2010-11, which represents an increase of 14.7 percent over FY 2009-10. The relatively large increase is mostly attributable to the increase in revenue from the Hospital Provider Fee and a rebound in severance taxes. These increases will offset the decline in insurance-related revenue attributable to 2009 legislation that reduced workers compensation-related premiums. Cash fund revenue will increase 9.4 percent to $2.6 billion in FY 2011-12, driven primarily by expansions of the Hospital Provider Fee program.

Revenue to ***transportation-related*** cash funds will see modest growth over the next several fiscal years, consistent with slow economic growth. Forecasts for transportation-related cash funds are shown in Table 7 on page 17.

Overall revenue to the *Highway Users Tax Fund (HUTF)* will grow 2.0 percent in FY 2010-11 and FY 2011-12. The forecast for HUTF revenue was increased from the December forecast to account for stronger motor fuel and registration revenue expectations associated with the economic recovery. These two sources of revenue account for the majority of revenue to the HUTF. Overall, revenue from these sources is expected to see only modest growth in the future due to trends in higher fuel efficiency, which will dampen motor fuel revenue growth, and lower vehicle weights, which will dampen registration revenue.

FASTER revenue subject to TABOR will total $156.0 million in FY 2010-11 and will remain flat throughout the forecast period. Declines in revenue from the late registration fee are expected to offset growth in other FASTER revenue sources. The Bridge Safety Surcharge increased 50 percent starting July 1, 2010, and will grow an additional 33 percent, to the full fee, in FY 2011-12. Revenue from the fee is TABOR-exempt and is expected to increase 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.

Congress has yet to approve a multi-year federal transportation funding program, but the current program (SAFETEA-LU) has been extended till the end of September. Future federal transportation funding will have an affect on the *State Highway Fund* because a large portion of revenue to the fund is from interest earnings on the fund balance, which is made up of federal funds, as well as revenue from local governments for transportation

Table 6
March 2011 Cash Fund Revenue Subject to TABOR Estimates
(Dollars in Millions)

	Actual FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	FY 09-10 to FY 12-13 CAAGR *
Transportation-Related	**$1,059.5**	**$1,075.5**	**$1,098.4**	**$1,114.0**	**$1,129.0**	
% Change	14.9%	1.5%	2.1%	1.4%	1.3%	**1.7%**
Hospital Provider Fee	**$302.9**	**$431.2**	**$604.3**	**$712.0**	**$812.7**	
% Change		42.4%	40.1%	17.8%		**33.0%**
Severance Tax	**$48.2**	**$170.9**	**$195.5**	**$212.5**	**$0.0**	
% Change	-85.7%	254.3%	14.4%	8.7%		**63.9%**
Gaming Revenue /A	**$101.2**	**$105.8**	**$109.0**	**$112.4**	**$115.5**	
% Change	2.3%	4.5%	3.0%	3.1%		**3.5%**
Insurance-Related	**$42.9**	**$23.1**	**$19.2**	**$20.1**	**$20.6**	
% Change	-16.7%	-46.1%	-16.9%	4.7%		**-22.3%**
Regulatory Agencies	**$67.3**	**$66.7**	**$67.9**	**$69.4**	**$70.8**	
% Change	-13.9%	-1.0%	1.9%	2.1%		**1.0%**
Capital Construction Related - Interest /B	**$3.3**	**$2.5**	**$0.5**	**$0.6**	**$0.6**	
% Change	-67.5%	-24.6%	-78.7%	20.0%		**-42.2%**
Other Cash Funds /C	**$464.1**	**$520.7**	**$525.9**	**$549.8**	**$575.6**	
% Change	-5.0%	11.9%	1.3%	0.0%		**5.8%**
Total Cash Fund Revenue	**$2,089.4**	**$2,396.3**	**$2,620.7**	**$2,790.8**	**$2,724.8**	
Subject to the TABOR Limit	**5.2%**	**14.7%**	**9.4%**	**6.5%**	**0.0%**	**10.1%**

Totals may not sum due to rounding.

**CAAGR: Compound Average Annual Growth Rate.*

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

/B Includes interest earnings to the Capital Construction Fund, the Controlled Maintenance Trust Fund, and transfers from the Canteen Fund into TABOR.

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

Table 7
Transportation Funds Revenue Forecast by Source, March 2011
(Dollars in Millions)

	Actual FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	FY 09-10 to FY 12-13 CAAGR *
Highway Users Tax Fund (HUTF)						
Motor Fuel and Special Fuel Taxes	$542.9	$557.3	$572.9	$581.5	$588.4	2.3%
% Change	0.6%	2.6%	2.8%	1.5%	1.2%	
Registrations	$182.7	$187.1	$189.9	$192.2	$194.7	1.7%
% Change	0.4%	2.4%	1.5%	1.2%	1.3%	
FASTER Revenue /A	$155.3	$156.0	$156.7	$157.4	$158.2	0.4%
% Change		0.4%	0.4%	0.4%	0.5%	
Other Receipts /B	$39.0	$37.4	$38.1	$60.8	$61.6	16.0%
% Change	-26.3%	-3.9%	1.8%	59.5%	1.4%	
Total HUTF	**$919.9**	**$937.8**	**$957.6**	**$991.8**	**$1,002.9**	2.5%
% Change	18.7%	2.0%	2.1%	3.6%	1.1%	
State Highway Fund	$53.1	$43.5	$44.1	$45.6	$47.9	-4.9%
% Change	-23.4%	-18.0%	1.2%	3.5%	5.1%	
Other Transportation Funds /C	$86.5	$94.1	$96.7	$76.6	$78.2	-4.0%
% Change	10.9%	8.7%	2.8%	-20.8%	2.1%	
Aviation Fund	$25.3	$31.7	$33.0	$34.0	$34.9	
Law-Enforcement-Related /D	$11.6	$11.6	$11.9	$12.2	$12.6	
Registration-Related /E	$49.7	$50.7	$51.9	$30.4	$30.8	
Total Transportation Funds	**$1,059.5**	**$1,075.5**	**$1,098.4**	**$1,114.0**	**$1,129.0**	1.7%
% Change	14.9%	1.5%	2.1%	1.4%	1.3%	

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

	Actual FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14
Bridge Safety Surcharge	$45.2	$69.5	$93.8	$94.9	$96.1
% Change		53.7%	34.8%	1.2%	1.3%

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.

projects that often receive federal matching dollars to local funding.

After generating $302.9 million in its first year of implementation, the **Hospital Provider Fee** is expected to generate $431.2 million in FY 2010-11. By charging the fee, the state can obtain additional matching federal dollars to expand medical assistance programs. Growth in fee revenue reflects scheduled increases in fees to support caseload growth and expansions of Medicaid and Children's Basic Health Plan (CHP+) programs. Forecast estimates also reflect enhanced federal medicaid assistance percentages (FMAP), which were extended into 2011.

Total **severance tax** revenue, including interest earnings, is projected to be $170.9 million in FY 2010-11. Overall, the FY 2010-11 forecast was revised slightly downward from the December forecast, reflecting a significant reduction in projected coal receipts, a slight reduction in molybdenum and metallic mineral receipts, and lower interest earnings. Collections over the remainder of the forecast period are expected to increase at a slightly higher rate than was projected in December, primarily due to a slight increase in projected natural gas prices. Moreover, the economy is expected to continue to recover over the forecast period, leading to higher natural gas consumption, especially in the industrial and electric power sectors.

The increase in natural gas prices is expected to be the primary driver of increased severance tax revenue. Additionally, producers are expected to claim less in tax credits than in the past during the forecast period. In 2011, natural gas spot market prices are expected to average $4.71 per Mcf (thousand cubic feet), compared to $4.55 projected in December. A strengthening economy and the opening of the new "Ruby" natural gas pipeline, running from southwest Wyoming to southern Oregon, will contribute to a price increase for Colorado producers. The pipeline, coupled with improved technology that has reduced production costs, will make production more profitable in the area. However, natural gas prices are not expected to rise above $5 per Mcf through the forecast period due to the nation's high natural gas production capacity.

Coal production represents the second -largest source of severance taxes in Colorado, after oil and natural gas. Relative to the December forecast, March's projected severance tax collections related to coal for FY 2010-11 fell by 41.8 percent. The decline was due to a large refund that occurred in November, dramatically reducing second quarter collections for the fiscal year. In FY 2011-12, severance tax revenue from coal production is expected to rebound to FY 2009-10 levels, in part due to higher severance tax rates for coal. The tax rate for coal increases based on the producer price index, which has been rising and is expected to continue to rise. However, the increasing use of other fuels for power generation in Colorado is placing downward pressure on Colorado coal production. With the exception of the marked drop in the current fiscal year, severance tax collections related to coal are projected to remain relatively flat through the forecast period.

Severance tax from metallic minerals, including gold, represents a tiny fraction of total collections. However, this revenue source is projected to grow at historic levels over the remainder of FY 2010-11. Collections are expected to grow over the rest of the forecast period, as the price of gold is expected to remain high enough to support extraction.

Finally, projected interest earnings for FY 2010-11 were revised downward by 19.3 percent relative to the December forecast due to transfers that have occurred from the Local Government Severance Tax Fund and the Perpetual Base Account of the Severance Tax

Trust Fund. Interest earnings are projected to rebound in FY 2011-12 before leveling off in FY 2012-13.

Expanded gaming under Amendment 50 propped up **gaming tax revenue** in FY 2009-10. However, through the first seven months of FY 2010-11, gaming revenue declined 2.8 percent, indicating that the gaming industry is still being affected by slow economic activity. As the slow recovery continues and new casinos are built, visitors to Colorado's casinos will increase. In the short term, gaming revenue will decline in FY 2010-11 and grow slowly through the forecast period as the economy improves.

In 2009, voters in each of the gaming towns authorized the expansion of limited gaming. Bet limits were raised from $5 to $100, casinos are now open 24 hours per day, and craps and roulette games were added. Total gaming tax revenue, including TABOR-exempt revenue from Amendment 50, grew to $107.7 million in FY 2009-10, a 13.5 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 to construction of new hotels and casinos. For FY 2010-11, revenue is expected to decline 1.5 percent to $106.1 million.

Total gaming revenue is expected to grow 1.5 percent to $107.6 million in FY 2011-12 and $112.0 million, or 4.0 percent, in FY 2012-13.

The nations regional casinos, including those in Colorado, fared better during the recession than those in other markets, such as destination gaming resorts in Nevada. For example, nationwide, regional casino revenue was flat in 2009 and is expected to post a gain of 2.7 percent in 2010, while Nevada casinos posted double-digit revenue declines in 2009 and are not expected to see revenue gains until 2011.

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. Revenue will fall 45.9 percent to $5.4 million in FY 2010-11 under the statutory formula that distributes money under Amendment 50. As required by the statutory formula in **House Bill 09-1272**, community colleges received $6.2 million in FY 2009-10. The community college distribution will fall to $3.8 million in FY 2010-11. Community colleges will receive $3.6 million toward the end of the forecast period in FY 2012-13.

Table 8
Gaming Revenue Distributions
(Dollars in Millions)

Distribution	Actual FY 2009-10	Estimated FY 2010-11
New Amendment 50 Distributions		
Community Colleges	$6.2	$3.8
Gaming Counties and Cities	1.7	1.1
Total New Amendment 50 Distributions	**$7.9**	**$4.9**
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	19.2
Economic Development Programs*	28.2	29.3
Total Pre-Amendment 50 Distributions	**$88.8**	**$97.0**
Total Distributions	**$96.7**	**$101.9**

** Distributions for FY 2010-11 based on the Governor signing Senate Bill 11-159 into law.*

Gaming revenue that was distributed prior to expanded gaming (effective July 1, 2010), 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, these distributions totaled $88.8 million in FY 2009-10. Distributions are expected to grow to $97.0 million in FY 2011-12.

All **other cash fund revenue** subject to TABOR is expected to increase 11.9 percent in FY 2010-11. This category includes revenue credited to various other cash funds, such as revenue from court fines and fees, the state's park system, and 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.

Federal Mineral Leasing Revenue

The forecast for federal mineral leasing (FML) revenue was raised slightly from the December forecast, due to slightly higher-than-expected revenue collections this fiscal year. Revenue is projected to increase by 21.8 percent in FY 2010-11, reaching $149.1 million. FML revenue is anticipated to increase modestly over the remainder of the forecast period following a steady rise in production and continued growth in energy prices. The opening of the Ruby pipeline, running from the Opal Hub in southwestern Wyoming to southern Oregon, will contribute to the increase by providing access for natural gas from northwest Colorado to west coast markets. Much of the natural gas extraction in northwest Colorado occurs on federal lands.

Table 9 presents the March 2011 forecast for FML revenue in comparison with the December forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of energy production. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment, the forecast is presented separately from other sources of state revenue.

Unemployment Insurance Revenue

The Unemployment Insurance Trust Fund will see a negative balance of $132.9 million at the close of FY 2010-11. Unemployment Insurance (UI) benefits peaked during FY 2009-10 and state expenditures on benefits are expected to continue to fall over the next several years. However, unprecedented levels of job loss as a result of the recession pushed the UI Trust Fund into insolvency in FY 2009-10, which started the fund with a negative balance in FY 2010-11.

Revenue to the UI Trust Fund is expected to outpace benefits paid in FY 2010-11 but not by enough to bring the fund balance into positive territory until FY 2011-12. Initial UI claims are declining and many workers are exhausting their benefits or finding employment, resulting in a precipitous fall in benefits paid. Additionally,

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

Fiscal Year	March 2011 Forecast	Percent change	December 2010 Forecast	Percent Change from December Forecast
FY 2001-02	$44.6		$44.6	
FY 2002-03	50.0	12.1%	50.0	
FY 2003-04	79.4	58.7%	79.4	
FY 2004-05	101.0	27.2%	101.0	
FY 2005-06	143.4	41.9%	143.4	
FY 2006-07	123.0	-14.3%	123.0	
FY 2007-08	153.6	25.0%	153.6	
FY 2008-09	227.3	47.9%	227.3	
FY 2009-10	122.5	-46.1%	122.5	
FY 2010-11*	149.1	21.8%	143.9	3.6%
FY 2011-12*	163.4	9.6%	153.4	6.5%
FY 2012-13*	171.8	5.2%	164.0	4.8%

Source: State Treasurer's Office.

**Forecast.*

due to the level of the UI Trust Fund balance, regular UI premium rates and solvency surcharge rates shifted to the highest rate schedules this year. This will boost revenue to the fund starting this year.

Forecasts for unemployment insurance (UI) revenue, benefits payments, and the UI Trust Fund balance are shown in Table 10 on page 22. Revenue to the UI Trust Fund has not been subject to TABOR since FY 2009-10 and is therefore excluded from Table 6. Revenue to the Employment Support Fund, which receives half of the UI premium surcharge, is still subject to TABOR and is included in the revenue estimates for other cash funds in Table 6.

The payment of UI benefits is supported by the collection of employer premiums, including the regular UI premium, the flat 0.22 percent premium surcharge, and solvency surcharge. Rates are charged to employers against the first $10,000 of each employee's wages. Regular UI premium and the solvency surcharge rates are based on the level of the UI Trust Fund balance and an employer's "experience" rating, which is based on the number of former employees claiming benefits. The more benefits claimed the higher the employer's regular UI premium rate and solvency surcharge rate.

The solvency surcharge is levied when the UI Trust Fund balance drops below 0.9 percent of total private wages paid in the state during the previous year. The solvency surcharge was triggered on and has remained on since 2004. The surcharge is expected to remain on through the forecast period.

Federal borrowing and a special interest assessment. When the balance of the UI Trust Fund falls below zero, the federal government requires that another revenue source be found to make benefit payments to claimants. Colorado is among 31 states who have borrowed money from the Federal Unemployment Account to fund benefit payments to address UI fund solvency issues. Colorado began borrowing federal funds in January 2010. These federal loans were interest-free through 2010. However, interest on the loans started to accrue in 2011. The state has $534.1 million in federal loans outstanding as of March 11, 2011.

Colorado's first interest payment is due to the federal government on September 30, 2011. The payment is expected to be between $5 million and $10 million, depending on the total amount borrowed and the interest rate charged by the federal government. By law, a separate assessment is required to pay for interest on federal loans used to fund the UI program. Businesses will be charged the interest assessment in May or June in advance of making the interest payment to the federal government in September. The amount individual businesses will be charged is determined by formula, based on the amount owed to the federal government and each businesses' total wages as a percent of total wages statewide. Businesses whose employees have not claimed any or have claimed only a small amount of UI benefits will not owe a special interest assessment.

Table 10
Unemployment Insurance Revenue, Benefits Paid, and Trust Fund Balance
(Dollars in Millions)

	Actual FY 09-10	Estimate FY 10-11	Estimate FY 11-12	Estimate FY 12-13
Beginning Balance	$339.9	($193.8)	($132.9)	$70.8
Plus Income Received				
UI Premium & Premium Surcharge /A	$233.9	$527.7	$559.0	$427.7
Solvency Surcharge	$257.8	$340.2	$324.9	$292.8
Interest	$5.4	$0.0	$0.0	$2.9
Plus Federal UI Modernization Payment	*$128.0*			
Total Revenues	**$625.1**	**$868.0**	**$883.9**	**$723.4**
% Change	48.3%	38.8%	1.8%	-18.2%
Less Benefits Paid	($1,063.3)	($807.1)	($680.2)	($617.6)
% Change	43.3%	-24.1%	-15.7%	-9.2%
Net Federal Loans	*($173.8)*			
Accounting Adjustment	$78.3	$0.0	$0.0	$0.0
Ending Balance	**($193.8)**	**($132.9)**	**$70.8**	**$176.6**
Solvency Ratio /B				
Fund Balance as a Percent of Total Annual Private Wages	-0.23%	-0.17%	0.08%	0.20%

Totals may not sum due to rounding.

NA = Not Applicable.

**CAAGR: Compound Average Annual Growth Rate.*

/A This includes the regular UI premium, 30 percent of the premium surcharge, penalty receipts, and the accrual adjustment on premiums.

/B When the fund balance exceeds 0.9 percent of total annual private wages, the solvency surcharge is triggered off.

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

NATIONAL ECONOMY

The national economy has strengthened. Economic output has expanded for seven consecutive quarters, posting solid growth in 2010. Consumer confidence has improved, and manufacturing activity has been brisk.

While the economy is expanding, improvements in the job market have been much slower. Still there are clear signs of recovery. Private sector job growth is increasing, and the unemployment rate has drifted lower.

Economic growth continues to be supported by monetary and fiscal stimulus, but problems left by the financial crisis are still working through the economy. Financial institutions are restructuring and shedding bad loans; real estate markets are adjusting to foreclosures and price declines; and spending on construction projects continues to fall.

The economy faces other headwinds as well. Increases in food and energy prices are straining consumer pocketbooks and slowing economic growth. Reduced spending by state and local governments is also slowing the expansion.

International events are also affecting economic conditions. Political turmoil in the Middle East has raised fears of oil supply disruptions and pushed up fuel prices. The earthquake in Japan has devastated the economy of a major U.S. trading partner and caused supply-chain disruptions for some U.S. firms. These events will slow U.S. economic growth, but the economy is strong enough to withstand these economic shocks. Table 11 on page 33 summarizes the forecast of the national economy.

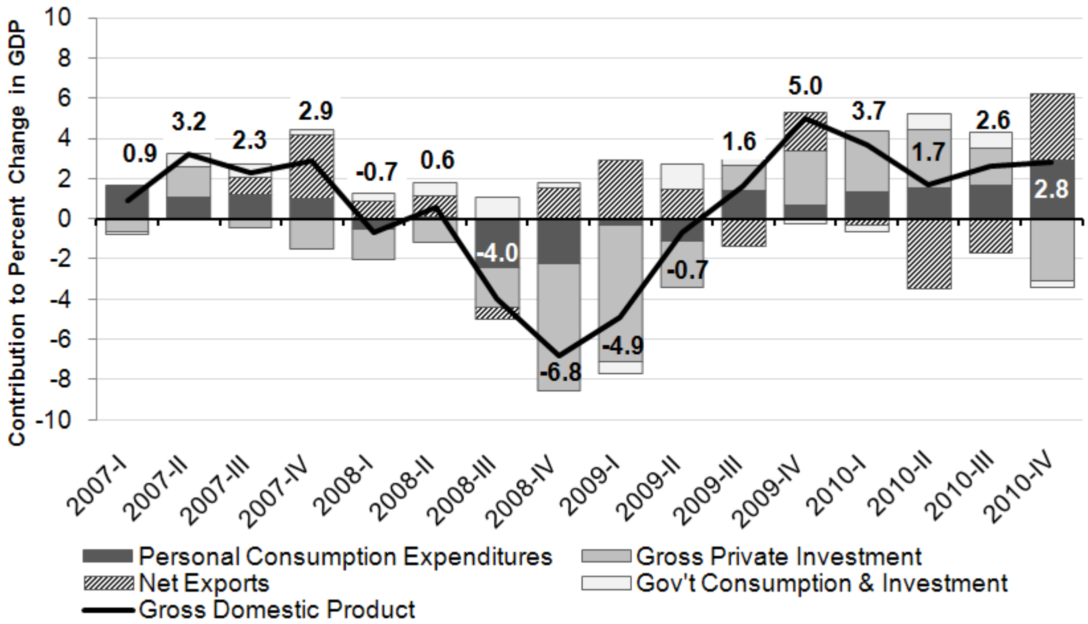
Economic Output

Real **Gross Domestic Product** (GDP) increased 2.8 percent at an annual rate from the third quarter to the fourth quarter of 2010, weaker than previously reported. Fourth quarter growth was primarily due to an acceleration in personal consumption expenditures. In particular, purchases of motor vehicles and parts led the growth in spending. A sharp drop in imports and growth in exports also contributed to the fourth quarter increase. Lower state and local government investment spending pushed down total government spending. Figure 2 shows contributions to GDP since 2007.

Manufacturing activity in February turned in its best performance since May 2004, according to the Institute for Supply Management's index. Growth was driven by new orders and production, with strength in exports in particular. The weak housing market continues to restrain production of construction-related products.

- The economy is expected to continue to expand at a moderately strong rate in 2011. Export demand will boost manufacturing orders, but weakness in the real estate market will continue to burden the construction industry. After increasing 2.8 percent in 2010 (based on preliminary estimates), real GDP is projected to grow 3.2 percent in 2011. Economic activity will be aided by monetary and fiscal stimulus, but high commodity prices will restrain growth.

Figure 2
Contributions to Gross Domestic Product
Quarter-Over-Quarter Growth at Seasonally Adjusted Annual Rates



Source: Bureau of Economic Analysis.

Business Income and Spending

Business profits and spending continue to lead this recovery. Corporate profits increased strongly in the second and third quarters of 2010, pushing profits up above the peak experienced before the recession. Fourth quarter profits will be released on March 25. Rising corporate profits typically lead to an increase in employment.

Nonresidential spending for equipment and software increased sharply in the first half of 2010, as shown in Figure 3. Spending in the fourth quarter rose 5.5 percent, well above the 10-year average quarterly increase of 3.2 percent.

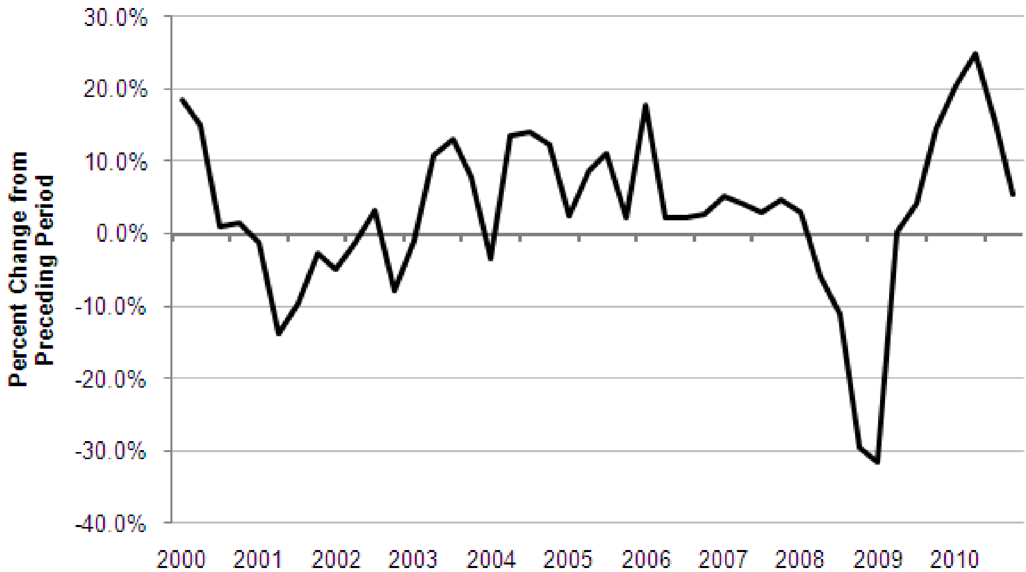
Labor Market Improves

The nation's **labor market** continues to slowly gain jobs, but data revisions show that employment growth has been weaker than previously reported. Total nonfarm employment was revised down by 378,000 workers, or 0.3 percent, from March 2010. Current estimates indicate that total nonfarm employment decreased 0.8 percent in 2010 at average annual rates, as shown in Figure 4.

Most industries added workers in 2010. However, in these gains largely occurred in the second half of the year and were not strong enough to raise average annual employment, as shown in Figure 5. Educational and health care services sustained steady gains through 2010. Job growth in professional and business services is also on the rise. Mining and logging industries showed particularly strong gains toward the end of 2010, supported by the rise in oil and gas prices. Meanwhile, the construction, information, and financial activities sectors continue to struggle.

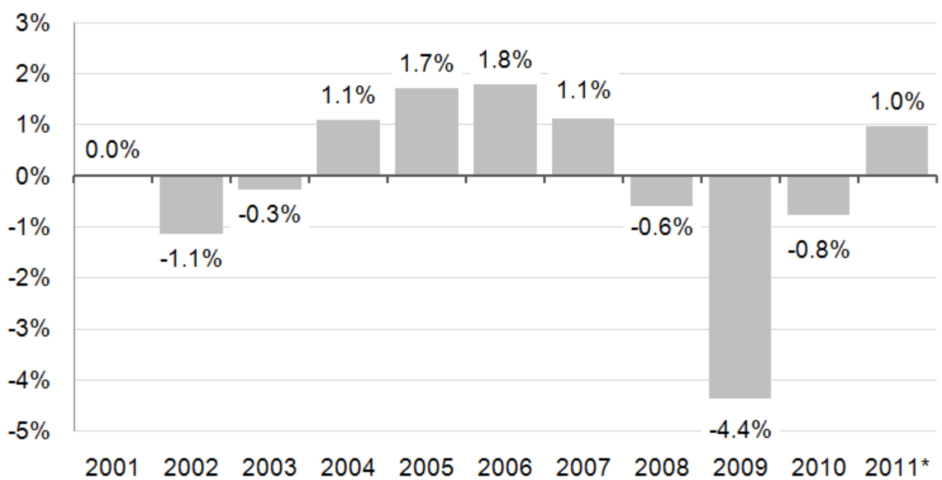
The U.S. **unemployment rate** has fallen nearly a full percentage point, from

Figure 3
Nonresidential Spending for Equipment and Software
Seasonally Adjusted



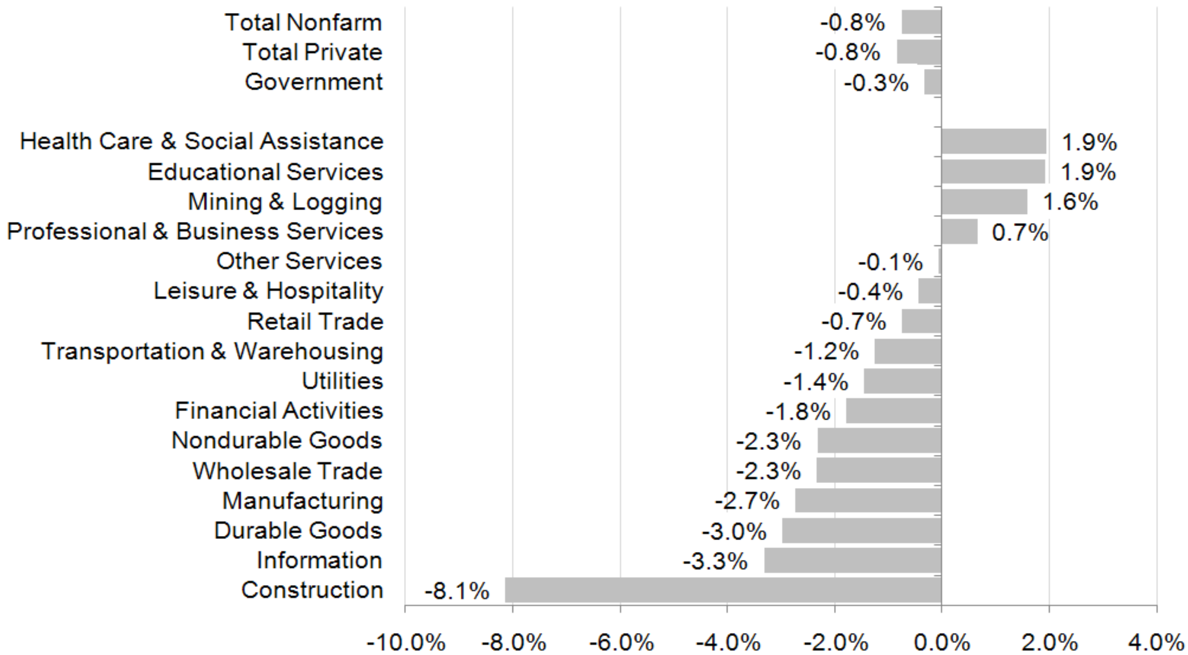
Source: Bureau of Economic Analysis.

Figure 4
U.S. Annual Nonfarm Employment Growth



Source: Bureau of Economic Analysis.
**Growth in employment, February 2011 over February 2010.*

Figure 5
U.S. Annual Employment Growth by Industry, 2010



Source: Bureau of Labor Statistics.

9.8 percent in November 2010 to 8.9 percent in February 2011. The unemployment rate peaked at 10.1 percent in October 2009, the highest level since 1983. While remaining high by historical standards, as shown in Figure 6, the recent drop to below 9 percent is an important milestone for the economy. The unemployment rate had been at or above 9 percent for 21 consecutive months — the longest period since the rate has been tracked. During the early 1980s recession, the unemployment rate was at or above 9 percent for 19 consecutive months.

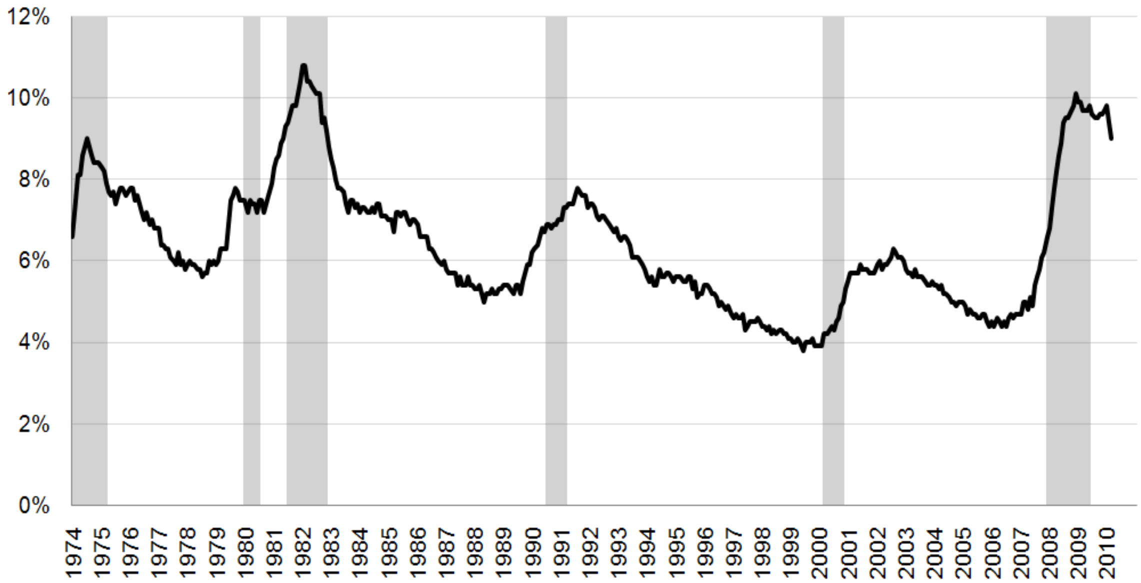
The **duration of those unemployed** has been growing since the start of the recession and now averages over 30 weeks. As Figure 7 shows, the number of those unemployed for more than 26 weeks (the maximum duration of most regular state unemployment benefits) has more than quadrupled from the start of the recession to the fourth quarter of 2010. The average duration of unemployment rose from just under 17 weeks to 34 weeks over this period.

- The labor market continues to improve, but job growth will remain slow in 2011 and 2012. Employment is expected to increase by 600,000 jobs in 2011, or 0.4 percent. 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 elevated, averaging 8.7 percent in 2011.

Households and Consumers

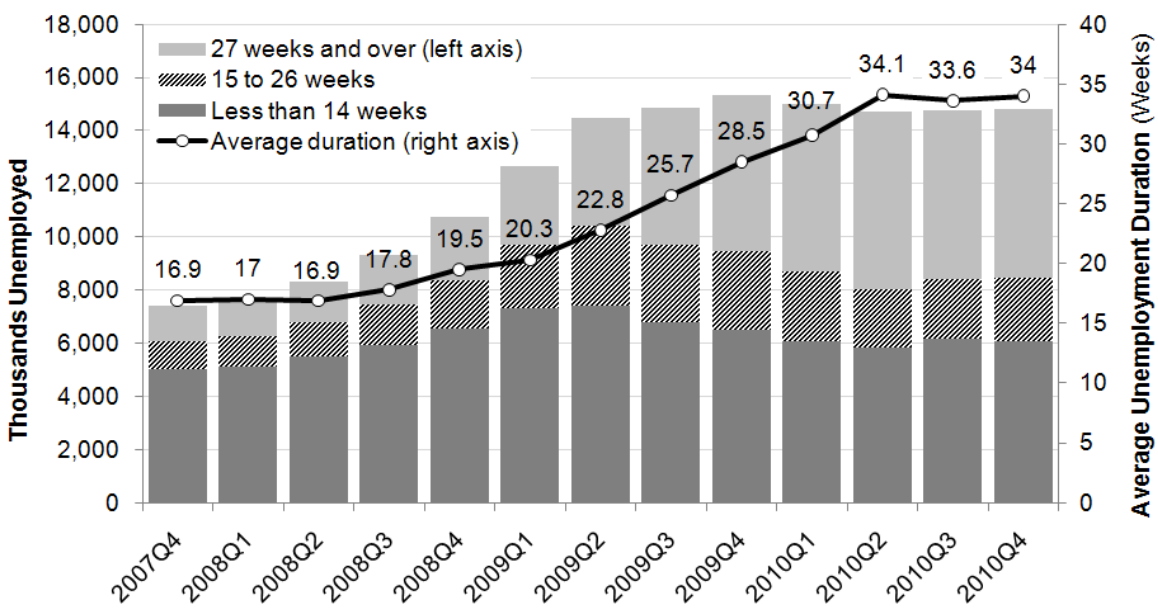
Personal income has increased for four consecutive months, posting a strong increase of 1.0 percent in January, Figure 8 shows the trend in personal income since 2000. Disposable personal income also increased, boosted by a reduction in employee contributions for social security. Adjusted for the change in social security taxes, disposable personal income increased just 0.1 percent in

Figure 6
Unemployment Rate Declines but Remains High



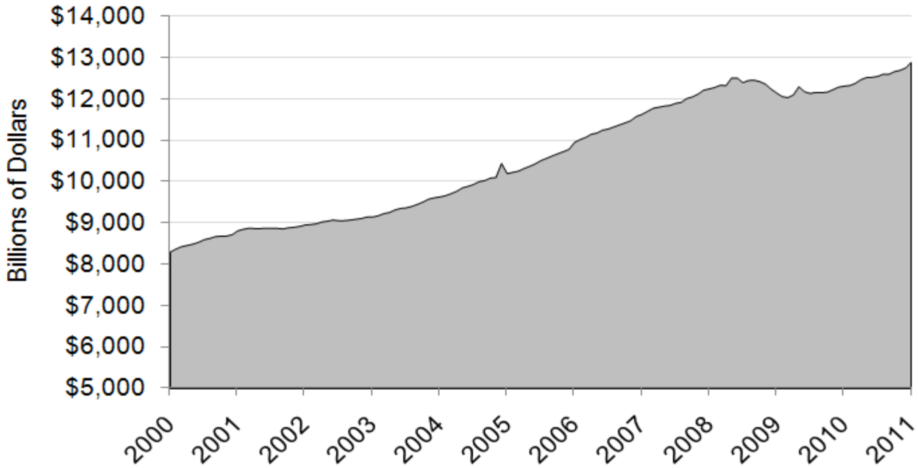
Source: Bureau of Labor Statistics.
Note: Grey bars indicate recessionary periods.

Figure 7
Duration of Unemployment



Source: Bureau of Labor Statistics.

Figure 8
Personal Income Strengthens
Seasonally Adjusted



Source: U.S. Bureau of Economic Analysis.

January. **Wages and salaries**, the largest component of personal income, increased 0.3 percent in January.

- After increasing 3.0 percent in 2010, personal income is expected to rise 3.9 percent in 2011. The amount of wages and salaries grew an average of 2.1 percent in 2010 and will pick up modestly in 2011, growing 3.6 percent. Modest job creation and the high number of unemployed will restrain growth in wages.

Consumer spending has been rising strongly. Retail sales increased 7.6 percent in 2010, the strongest growth since 2004, as shown in Figure 9. Personal consumption expenditures increased 3.9 percent during the same period. Personal consumption expenditures include spending on services.

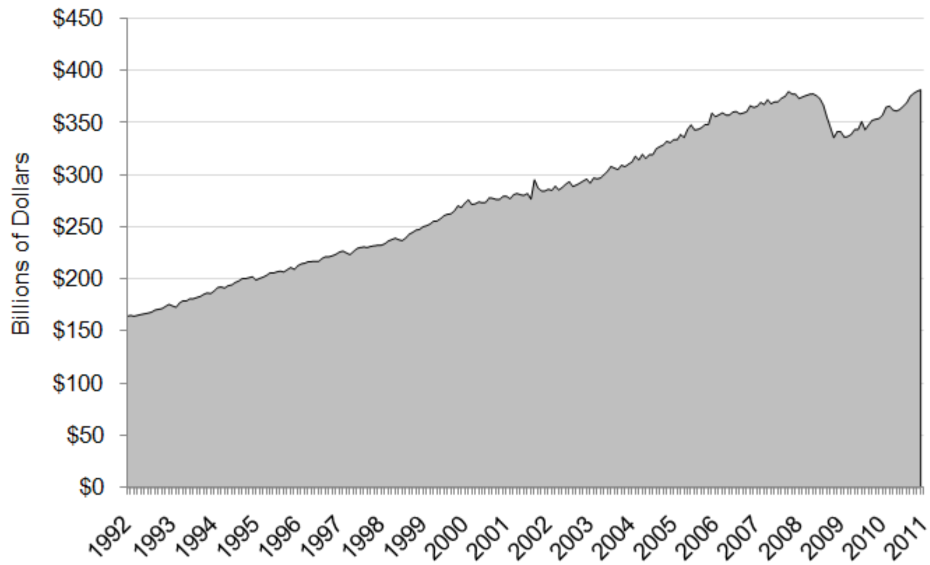
Personal saving has been strong during this recovery. Personal saving as a percentage of disposable personal income was 5.8 percent in January, compared with 5.4 percent in December. Personal saving has averaged nearly 6 percent over the past three years, after dipping below 3 percent during the expansion, as shown in Figure 10.

- Personal consumption expenditures increased 3.5 percent in 2010. Spending was boosted by rising confidence and fiscal stimulus programs, such as the homebuyer tax credit. Monetary policy has also helped stimulate spending by encouraging lower interest rates. Consumer confidence and spending is expected to remain restrained in 2011 because of high debt levels and unemployment. Fiscal and monetary stimulus is also expected to be weaker in 2011 than in 2010. Expenditures are will to rise 3.0 percent in 2011.

Rising Commodity Prices Fuel Inflation Fears

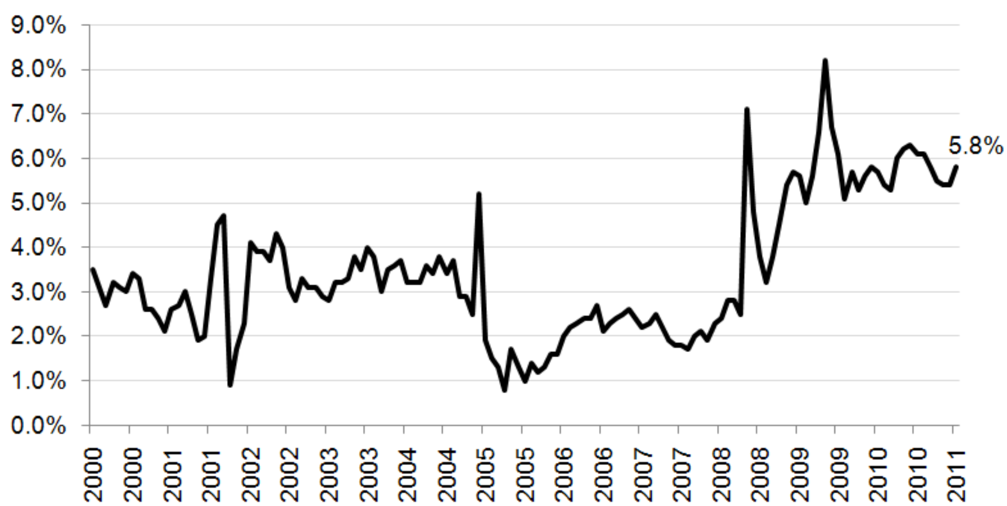
In the past year, concerns about deflation have given way to concerns about inflation. Commodity prices have increased sharply in recent months, due to rising demand

Figure 9
Retail Trade Sales
Seasonally Adjusted



Source: U.S. Census Bureau.

Figure 10
Personal Savings as a Percentage of Disposable
Seasonally Adjusted



Source: Bureau of Economic Analysis.

in emerging markets, inflation fears, and concerns about supply disruptions. Gold prices reached a new high in March, rising to over $1,400 a troy ounce. International political turmoil lifted crude oil prices to the highest levels in more than two years, above $100 per barrel. Gasoline prices pushed above $3.35 per gallon, according to the American Automobile Association. Food prices have also increased sharply.

Recent food and energy price increases are pushing up headline inflation and leading to fears that inflation will increase on a broader level. So far, core inflation, which excludes the volatile food and energy components, has remained tame. Competitive pressures from weak demand have restrained increases in final prices.

The global rise in commodity prices will slow economic growth. High utility and gasoline bills will dampen consumer spending, and high input costs will cut into business profits. The Institute for Supply Management's manufacturing survey reported mounting inflationary pressures for manufacturers. According to the survey, rising input costs from commodities and energy prices are putting a strain on profits, but it is unclear whether the increased costs will be passed on to sales prices.

A larger concern is that high commodity prices will give way to broad-based inflation. This would harm growth and lead the Federal Reserve to raise interest rates, further slowing expansion of the economy.

- The consumer price index increased 1.6 percent in 2010. Headline inflation is expected to be pushed up by high food and energy prices in 2011, rising 2.2 percent. A slack labor market and stiff competition are expected to restrain core inflation.

Construction and Real Estate Markets Remain Subdued

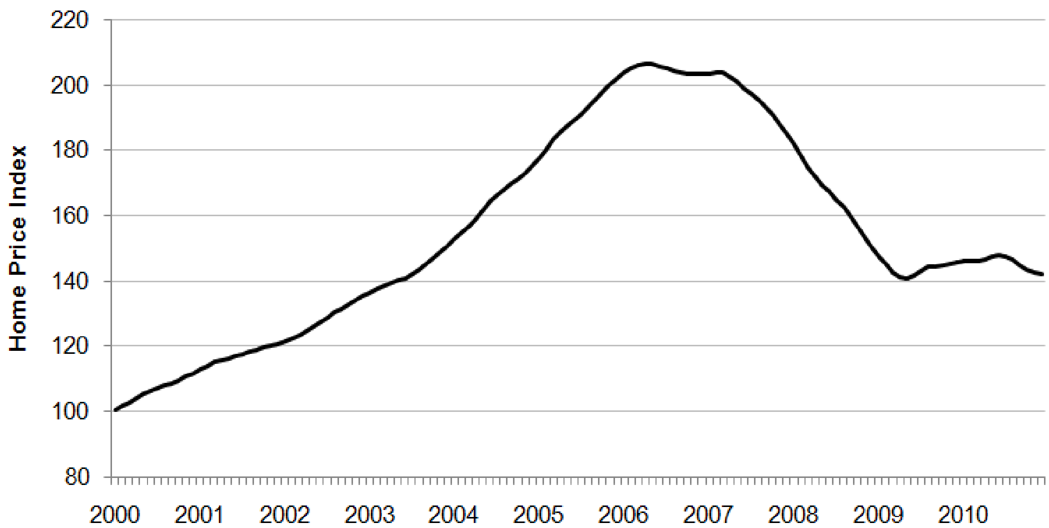
Weakness in real estate markets and the construction industry continue to weigh on the recovery. Home price declines will help mute inflationary pressure from other sources, while the restructuring of bad loans will challenge bank balance sheets and consumer pocketbooks.

The housing market continues to work through a high number of foreclosures and a large inventory of homes. Last year, the federal home buyer tax credit helped support the market. Demand has softened without the credit, and home prices have drifted lower. As shown in Figure 11, home prices as measured by the Case-Shiller 20-city composite home price index have fallen 3.8 percent since June 2010.

Commercial real estate markets are under pressure from a large volume of distressed properties. According to CoreLogic, there are over $277 billion in commercial mortgages that will mature in 2011. These mortgages will need to be refinanced or sold. While the number of distressed commercial properties has been declining, some properties may have difficulty refinancing their loans, with weaker sales and tighter lending standards. Downward pressure on prices in some markets is expected.

Overall construction spending continues to decline, according to the Commerce Department. Seasonally-adjusted construction spending fell 0.7 percent in January from the previous month, down 5.9 percent from a year earlier. The decline was driven by a 6.9 percent drop in private nonresidential construction. Residential construction increased slightly from the previous month, but was down 7.7 percent from a year earlier.

Figure 11
Case-Shiller Home Price Index Resumes Decline
Seasonally Adjusted 20-City Composite



Source: Standards & Poor's.

Banks Work Through Debt

The banking industry is strengthening, but continues to work through problem loans. As shown in Figure 12, institutions insured by the Federal Deposit Insurance Corporation (FDIC) on average posted profits in all four quarters of 2010. However, 21 percent of FDIC-insured institutions were unprofitable at the end of 2010, and the number of problem banks continues to grow. According to the FDIC, nearly 12 percent of U.S. banks were on the problem list at the end of December 2010. There were 157 bank failures in 2010, and 25 banks have failed so far in 2011.

The financial crisis led banks to tighten lending sharply in 2008. While lending standards have eased for well-capitalized borrowers, it remains difficult for some businesses to obtain a loan, particularly small firms. The federal government has appropriated a significant amount of funds and provided new programs to help boost small business lending. These funds should begin to flow in the next few months, easing borrowing conditions for small businesses.

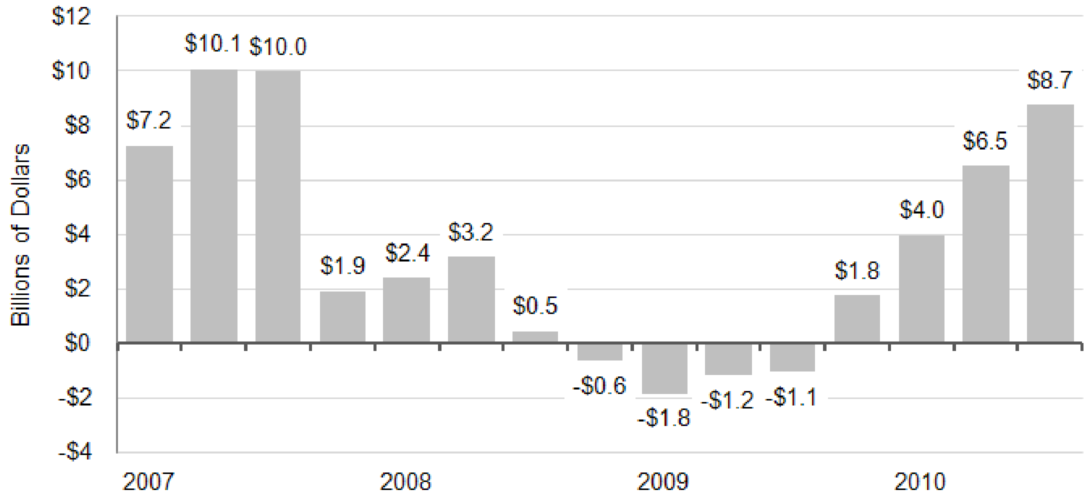
Summary

As the nation's economic expansion gains strength, concerns about deflation and a double dip recession have subsided and given way to concerns about inflation amid a weak labor market.

The Conference Board's Leading Economic Index increased in January, marking the seventh consecutive month that the index has been signaling expansion. However, a number of factors are slowing the expansion, including weak construction and ongoing credit problems. The expansion is still being supported by monetary and fiscal stimulus.

The slow recovery is particularly difficult for the nation's unemployed. While the unemployment rate has ebbed, it remains high, and there are a large number of workers who have been unemployed for a prolonged period of time. Stronger growth should help reduce the number of unemployed, but consumer and business confidence, which was shattered during the financial crisis, will have

Figure 12
Net Income Rebounds at FDIC-Insured Institutions



Source: Federal Deposit Insurance Corporation.

to strengthen further before the economy starts posting strong job growth.

Unrest in the Middle East and the catastrophe in Japan are disrupting markets and adding uncertainty to the economic outlook. Fortunately, the expansion is expected to be strong enough to withstand these external forces.

Risks to the Forecast

There are a number of risks to the outlook for economic activity. Recent increases in food and energy products provide a significant risk to the economy. If prices continue to rise, consumers will reduce the amount of money available to purchase other goods and services, slowing economic growth. Higher input costs will reduce profitability for businesses, leading firms to delay hiring or lay off more workers.

High commodity and energy prices could lead to widespread concerns about inflation that might raise long-term interest rates, particularly if these concerns are accompanied by a loss of faith in the Federal Reserve. Increased cost pressures may lead businesses to try and raise prices.

Some analysts are concerned that a growing number of strained state and local governments might default on their debt obligations, disrupting the financial system and raising costs for governments that are issuing debt. This would provide an additional drag on economic growth.

Table 11
National Economic Indicators, March 2011 Forecast
(Dollars in Billions)

	2006	2007	2008	2009	Estimated 2010	Forecast 2011	Forecast 2012	Forecast 2013
Inflation-adjusted GDP	$12,976.2	$13,228.9	$13,228.8	$12,880.6	$ 13,245.6	$13,669.5	$14,161.6	$14,657.2
percent change	2.7%	1.9%	0.0%	-2.6%	2.8%	3.2%	3.6%	3.5%
Nonagricultural Employment (millions)	136.1	137.6	136.8	130.8	129.8	130.3	131.2	132.8
percent change	1.8%	1.1%	-0.6%	-4.4%	-0.7%	0.4%	0.7%	1.2%
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.6%	8.7%	8.5%	8.3%
Personal Income	$11,268.1	$11,912.3	$12,391.1	$12,174.9	12544.6	$13,033.8	$13,581.3	$14,260.3
percent change	7.5%	5.7%	4.0%	-1.7%	3.0%	3.9%	4.2%	5.0%
Wage and Salary Income	$6,068.9	$6,421.7	$6,559.0	$6,274.1	$6,405.3	$6,635.9	$6,908.0	$7,267.2
percent change	6.5%	5.8%	2.1%	-4.3%	2.1%	3.6%	4.1%	5.2%
Inflation (Consumer Price Index)	3.2%	2.8%	3.8%	-0.4%	1.6%	2.2%	2.5%	2.5%

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

The Colorado economy continues along a path of gradual recovery with several economic indicators signaling growth. Employment in Colorado's private sector has been increasing for a year, personal income has been rising for five quarters, and the housing market is beginning to show some signs of stabilization.

Despite these clear signs that the economy is expanding, there are ongoing challenges that are restraining the recovery. High unemployment will continue as job growth is not outpacing gains in the labor force. Additionally, banks will continue to restructure, and high energy prices and consumer debt will slow the recovery. Table 12 on page 46 summarizes the forecast for the Colorado economy.

The impact of the natural disaster in Japan will dampen the recovery, but the impact is not expected to be severe. While the majority of Colorado exports go to countries in North America, in 2010, Japan was Colorado's sixth-largest export market. In the near term, it is possible that demand for exports from Japan will weaken. However exports are likely to strengthen as Japan rebuilds.

Employment

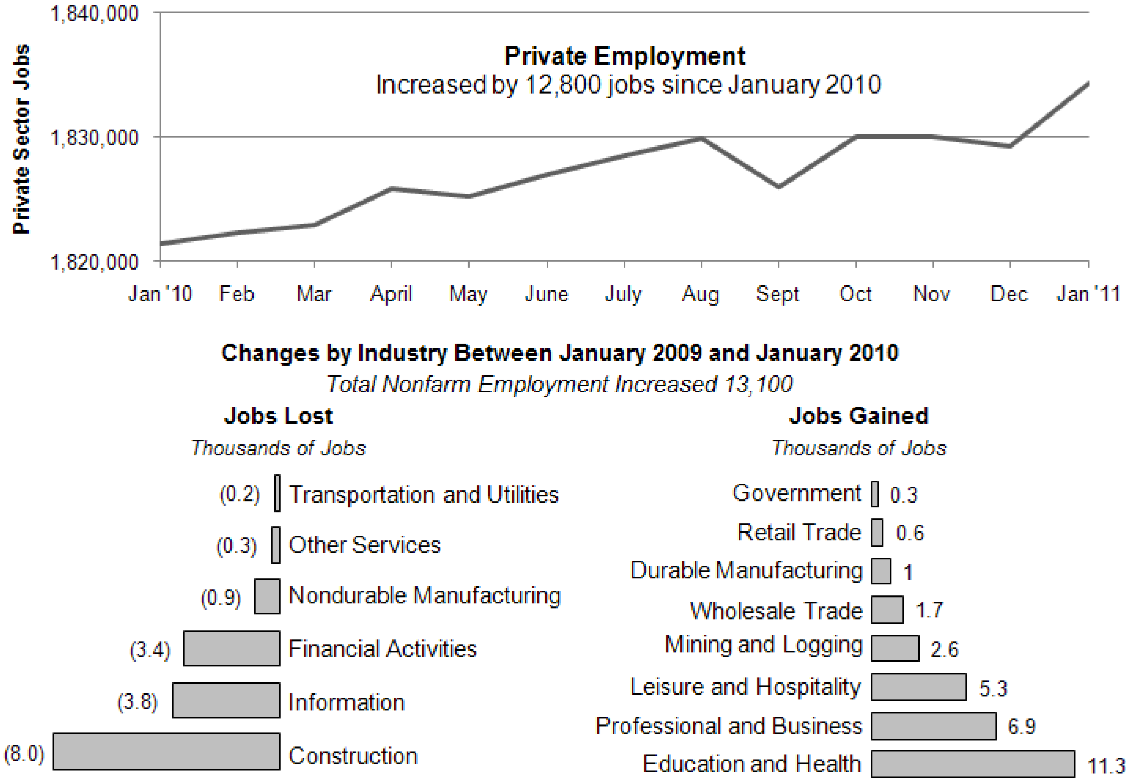
Colorado's labor market is a full year into recovery. During an economic recovery, strong improvements in the business climate and consumer spending typically precede improvements in the labor market. The national and Colorado experience in the current recovery are all consistent with this historical trend. Corporate profits and consumer sentiment started trending upward early in 2009, and despite increases in the unemployment rate, sustained growth in temporary and private sector employment indicate that Colorado's labor market is recovering. While these gains are expected to continue, job growth in 2011 will be slow and the unemployment rate will remain elevated because new jobs will not keep pace with increases in the number of people looking for work.

Although total nonfarm employment decreased 1.1 percent on an annual average basis in 2010 over 2009, the number of jobs in Colorado gradually increased throughout the year. As shown in Figure 13, total nonfarm employment increased by 13,100 jobs between January 2010 and January 2011. Private employment reached a bottom in January 2010 and increased steadily throughout the year.

Also shown in Figure 13, job growth was uneven across industries in 2010. The construction industry lost the most jobs in 2010. However, employment in the industry stabilized and grew over the second half of the year. Employment in the financial activities and information industry continues to decline. After a rebound during the spring, retail trade employment dropped off in the last half of 2010. Leisure and hospitality services saw a strong rebound in jobs in the second half of 2010. There has been steady growth in educational and health services employment throughout the recession.

The Colorado **unemployment rate** continues to rise, reaching 9.1 percent in January 2011 compared to 9.0 percent for the nation. This is the highest rate on record for the state, surpassing the peak rate that followed the 1981-1982 recession. While job growth is

Figure 13
Colorado Employment Gains/ Losses
(January 2010 through January 2011)



Source: Bureau of Labor Statistics.

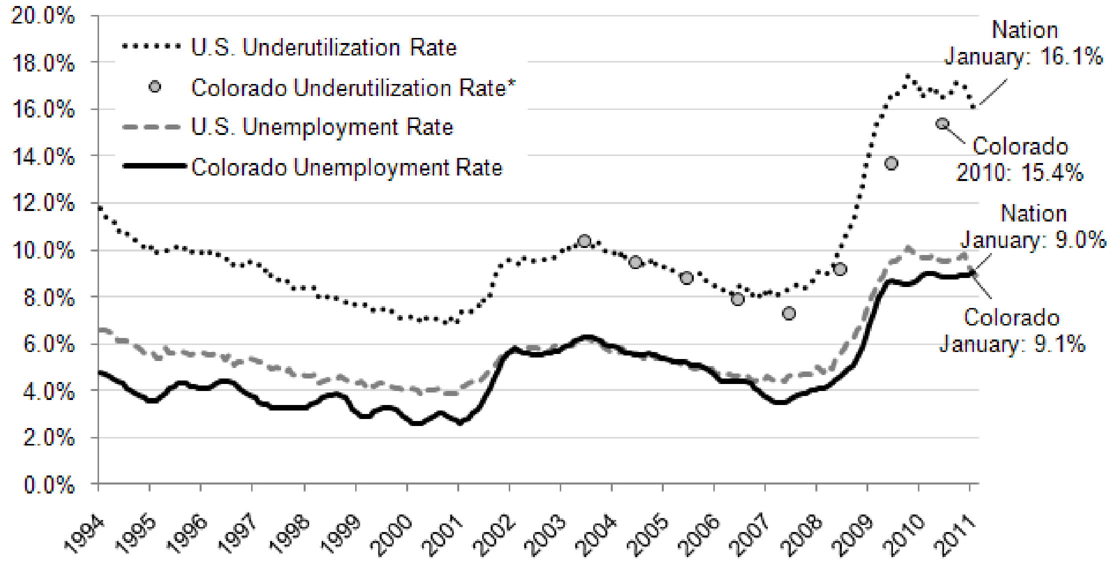
increasing, the rise in employment has not been fast enough to absorb the unemployed people looking for work. Also, workers who dropped out of the labor force during the recession are returning, attracted by increasing job opportunity. As a result, the unemployment rate has been rising.

Figure 14 shows Colorado and U.S. unemployment rates and underutilization rates. As shown, Colorado's unemployment rate has hovered between 8 and 9 percent for much of 2010. Colorado's unemployment rate trended slightly below the national rate until the start of this year. The underutilization rate is a broader measure of the rate of the unemployed, including those working part-time or seeking additional work, and discouraged workers who have dropped out of the labor force. In 2010, the monthly national underutilization rate began to level off and begin a slow downward trend, which suggests the labor market is improving. Colorado's underutilization rate is reported on an annual average basis and should show a similar pattern this year.

- Growth in the labor market will be below average over the next couple of years. Nonfarm employment will increase 0.7 percent in 2011 and 1.6 percent in 2012. Job growth in 2011 will be restrained by continued employment losses in the government, information, manufacturing, and financial sectors.

- The unemployment rate will remain high in 2011, averaging 8.8 percent. While job growth will accelerate, the increase will not

Figure 14
Unemployment and Underutilization Rate



Source: Bureau of Labor Statistics.
**The Colorado underutilization rate is only available on an annual average basis.*

be fast enough to offset growth in the labor force. As job opportunities improve, job seekers who became discouraged and left the labor force during the recession will re-enter the job market. This will cause the unemployment rate to remain high until available job openings can absorb the new job seekers.

Personal Income and Wages Rising Slowly

Personal income grew a modest 2.1 percent in the first three quarters of 2010, as shown in Figure 15. Growth was driven by increases in government payments, including increases in transfer receipts, such as workers compensation, retirement, unemployment insurance, and welfare payments. Government payments grew 10 percent in 2010, after growing 16 percent in 2009.

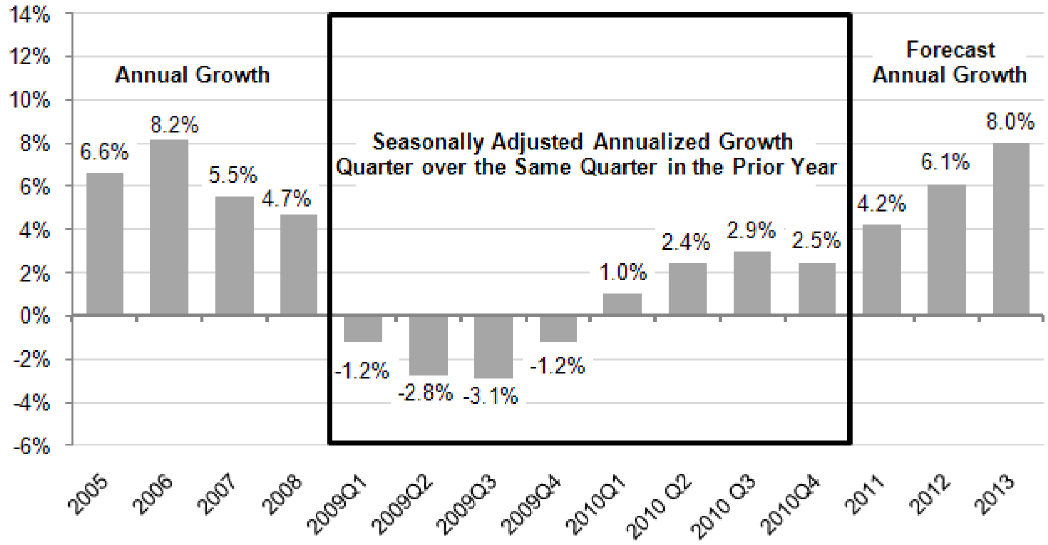
Over half of personal income comes from **wages and salaries**, which increased 0.7 percent year-to-date through the first three quarters of 2010. Growth in wages and salaries will be fairly slow over the next several years. The ongoing high level of unemployment means many workers are competing for the same positions. This competition will restrain wages until the labor market is able to absorb the unemployed and underemployed.

- Personal income will grow 2.4 percent in 2010 and a slightly stronger pace of 3.6 percent in 2011. Wages and salaries are expected to rise 1.6 percent in 2011 after increasing 0.9 percent in 2010. Income growth will strengthen as the economy gains momentum. Growth will be stronger in 2012, averaging 4.7 percent for personal income and 4.2 percent for wages and salaries.

Consumer Spending

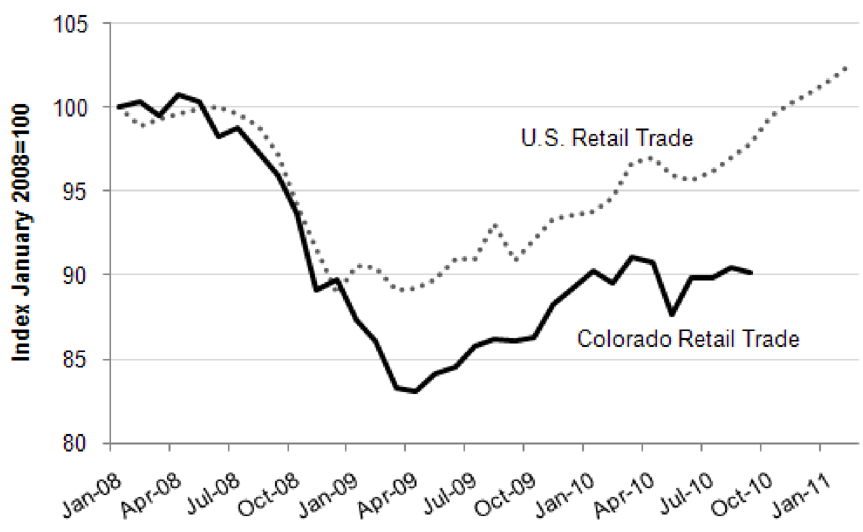
Consumer spending in 2011 will continue to be restrained by heavy debt, high unemployment, and slow wage growth. As

Figure 15
Modest Growth Continues for Colorado Personal Income and Wages



Source: U.S. Bureau of Economic Analysis.

Figure 16
Retail Trade Sales Expected to Rebound



Source: Colorado Department of Revenue and U.S. Bureau of Economic Analysis.

shown in Figure 16, retail sales in Colorado fell faster than in the nation in 2009 and, in recent months, growth has been slower in Colorado when compared to the nation. Retail sales grew 5.1 percent in 2010, helped by increasing consumer confidence. This marks a rebound in retail sales from a decrease of 11.5 percent in 2009.

- Retail sales growth is expected to be restrained by continued high debt levels, high unemployment, and slow wage growth. Sales will climb 4.2 percent in 2011 and 4.0 percent in 2012.

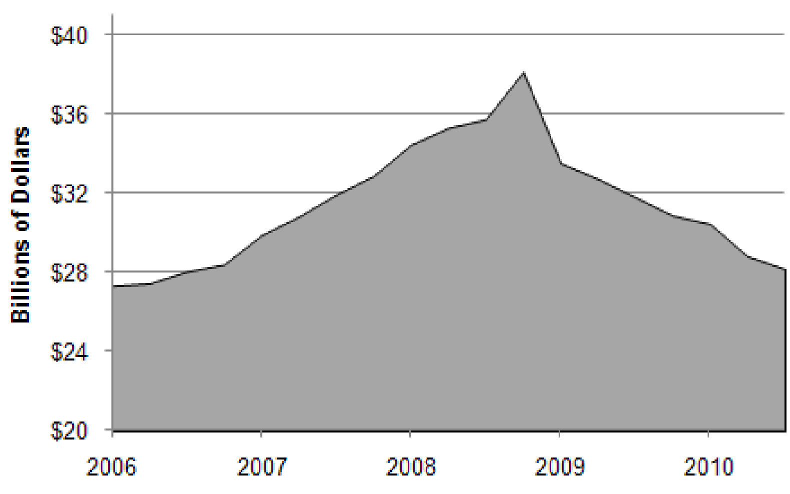
Banking Industry Working through Debt

The state's financial sector continues to work through a large volume of troubled mortgages. Recent Federal Deposit Insurance Corporation (FDIC) data suggests that the condition of Colorado banks has improved over the past three months, but they remain in worse shape than banks in most other states. In 2010, income at insured institutions in Colorado declined by $24 million, 29.6 percent of all Colorado institutions were unprofitable at the end of the year. This compares to 21 percent of insured institutions nationwide that were unprofitable.

Colorado institutions have a larger share of assets held in real estate compared with institutions nationwide — particularly nonresidential real estate. In Colorado, 64 percent of gross assets are in real estate, compared to 43 percent nationwide. Colorado institutions have relatively high exposure to nonresidential real estate assets compared with the rest of the nation. Colorado-based FDIC-insured institutions have slightly lower exposure to residential mortgages than the nation.

Five Colorado-based financial institutions have been closed by the FDIC during this economic downturn. Three banks were closed in 2009, and two banks failed in January 2011. In February, Community Banks of Colorado was notified that it is significantly undercapitalized and will be closed by the

Figure 17
Colorado Lending Continues to Decline



Source: Federal Deposit Insurance Corporation.
Note: Data has been adjusted to exclude a large financial institution that moved to Colorado for only one quarter.

Federal Reserve in 90 days unless it becomes adequately capitalized, is sold, or merges with another bank.

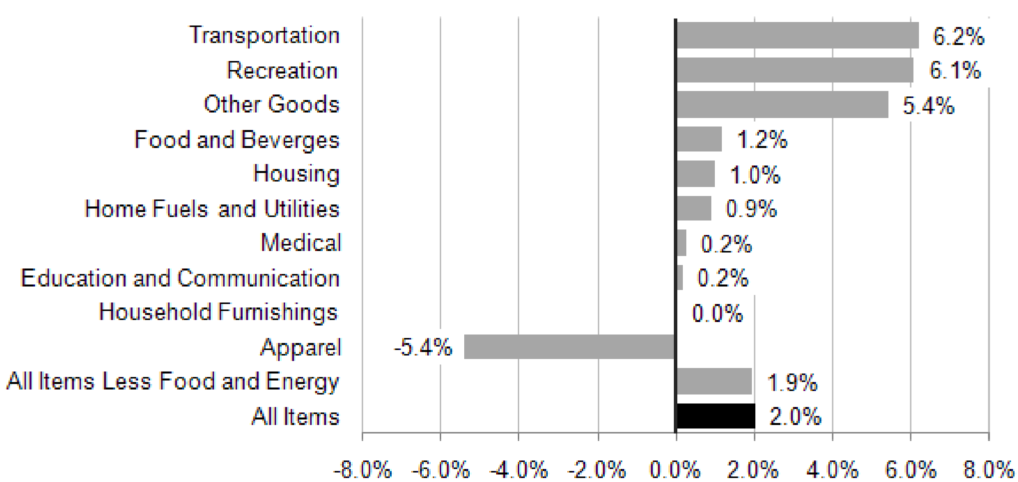
Lending from Colorado-based institutions is still shrinking as shown in Figure 17. At the end of December, Colorado institutions had loans and leases valued at just over $28 billion, down roughly $650 million since September 2010. That figure was nearly $33 billion in June 2009. This excludes lending from Countrywide Financial, which temporarily moved its headquarters to Centennial prior to merging with Bank of America. Lending is being restrained by tightened lending standards, low demand, and the creditworthiness of potential borrowers.

Inflation Increases Modestly

After the nation flirted with deflation in early 2009, concerns about inflation have returned. Still, the pace remains subdued. Inflation in Colorado, as measured by the Denver -Boulder-Greeley consumer price index (CPI) for all urban consumers, was 2.0 percent in the second half of 2010, as shown in Figure 18. Colorado's inflation rate was higher than the U.S. inflation rate of 1.6 percent for the same period. Excluding the volatile food and energy components, core inflation was 1.9 percent in Colorado during the last six months of 2010 compared to the prior year. Nationally, core inflation was 0.8 percent during the same period.

Figure 18 presents the inflation rate for selected consumer sectors during the last six months of 2010. Modest inflation is exhibited in most sectors, including home fuels, housing, and food and beverages. The price level was unchanged for home furnishing and declined 5.4 percent for apparel. Prices increased 6.2 percent for transportation, which includes new vehicles, airline fares, gasoline, and motor vehicle insurance. All components of the transportation category increased strongly; the sharpest increase occurred for gasoline prices, which increased 9.2 percent during the second half of 2010. Recreation costs increased a record 6.1 percent over the year. This category includes televisions, toys, pet products, sports equipment, and admissions to sporting events.

Figure 18
Inflation Pushed Up by Transportation and Recreation
Increases in the Denver-Boulder-Greeley CPI-U
Last Six Months of 2010 Over the Same Period in 2009



Source: U.S. bureau of Labor Statistics.

The Housing Market is Poised for a Slow, Gradual, Recovery

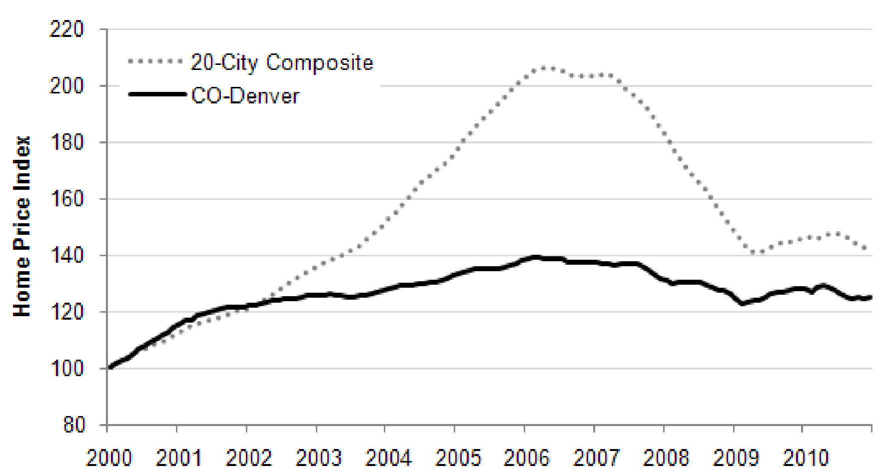
Colorado's **housing market** is showing signs of bottoming out. Building permits have increased, and foreclosure filings have slowed. However, home prices in Colorado continue to decline, with 2010 end-of-year prices at mid-2002 levels. The housing market is poised for a slow, gradual recovery that is being affected by weak job growth, a significant number of distressed properties, and tight consumer lending conditions.

Home prices in many areas of Colorado are faring better than much of the nation. Colorado did not have the same increases and subsequent declines in housing prices as much of the rest of the nation in the years preceding the recession. However, Denver was one of 17 metropolitan areas that saw price decreases in November 2010, with a decrease of 0.4 percent over October. Denver-area home prices have decreased 10.6 percent since their peak in March 2006 according to the Case-Shiller home price index. Comparatively, the 20-city composite index is down 31 percent from April 2006 highs. Figure 19 compares growth in Denver-area home prices to the 20-city composite index.

Foreclosure *filings* and *sales at auction* are showing an overall downward trend in Colorado metropolitan counties. Foreclosure filings are important because they provide a picture of the number of borrowers who have become seriously delinquent on their housing loans. In 2010, foreclosures filings fell 8.0 percent over record-high levels in 2009.

Foreclosure sales generally indicate how many borrowers have lost all equity in the property as the result of the property being repossessed and sold at auction by their mortgage company or other stakeholder. In 2010, foreclosure sales increased 16.9 percent over 2009. However, the rise in foreclosure sales occurred during the early part of 2010 and have generally been trending downward since June 2010. Figure 20 shows foreclosure filings and sales in Colorado from 2007 through 2010.

Figure 19
S&P/ Case-Shiller Home Price Index



Source: Standards & Poors & FiServ.

The National Association of Homebuilders **builder sentiment index** for newly built, single-family homes remained at a very low level in February 2010 for the fourth consecutive month, indicative of an excess supply of homes on the market. Although the association reports growing interest in home purchasing, the lending environment is tight, and the supply of homes is rising from foreclosed properties.

Statewide, seasonally adjusted residential **building permits** increased for the past six consecutive months through the close of 2010. Total permits increased 56 percent from December 2009 to December 2010, advancing from 8,743 permits to nearly 14,000 permits.

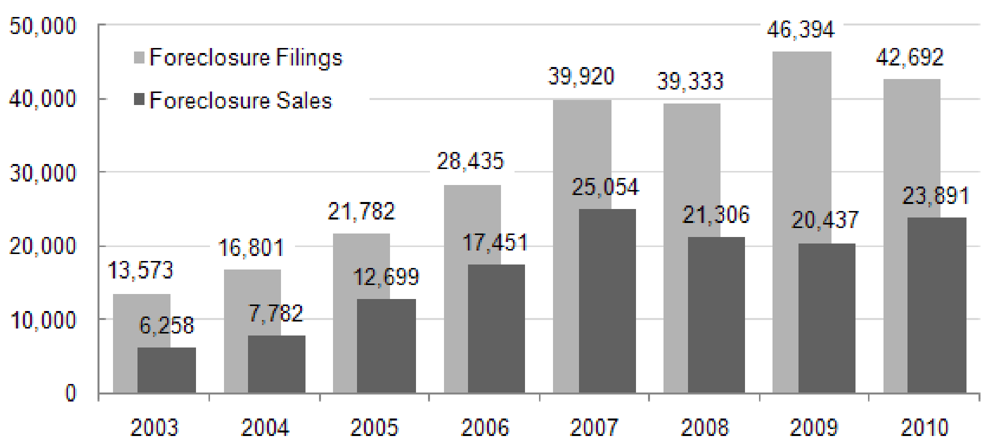
Multi-family permits posted the most significant advances as permits grew from a low of 440 permits in December 2009 to 4,734 permits in December 2010. The advance is attributed to the growing number of people moving from distressed single-family homes to apartments, fewer purchasers being able to qualify for home loans, and fewer potential buyers wanting to purchase a home.

Single family permits grew 24 percent in 2010. Permits will remain at historically low levels until employment and population growth pick up and the high level of home inventory is absorbed. Figure 21 shows a three-month moving average for total and single-family permits.

The value of **nonresidential construction** fell 18 percent in 2010 over the prior year, primarily because of the completion of several large manufacturing and educational facilities. Nonresidential construction will continue to decline as a result of falling commercial property values. Given the high vacancy rate for office space, nonresidential construction is expected to remain low.

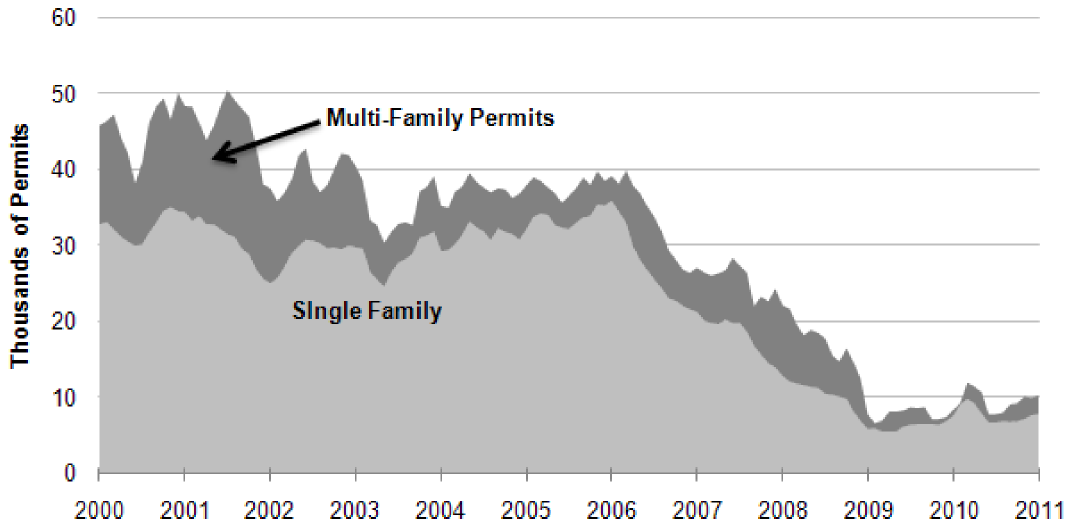
- Total residential construction permits are expected to rise in 2011 with total permits increasing to 15,300 units, or 35.4 percent. Most of these permits will be for multi-family construction, which is expected to increase to 4,500 units from 2,000 units in 2011. Total permits will increase by about 4,500 in 2012.

Figure 20
Colorado Foreclosure Filings and Sales



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

Figure 21
Residential Construction Permits Improve, But Remain At Historically Low Levels
Three-Month Moving Average; Seasonally Adjusted Data



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

- The value of nonresidential construction is expected to decrease 1.4 percent in 2011 to $2.5 billion. Construction should strengthen in 2012, with an increase of 7.5 percent to $2.7 billion.

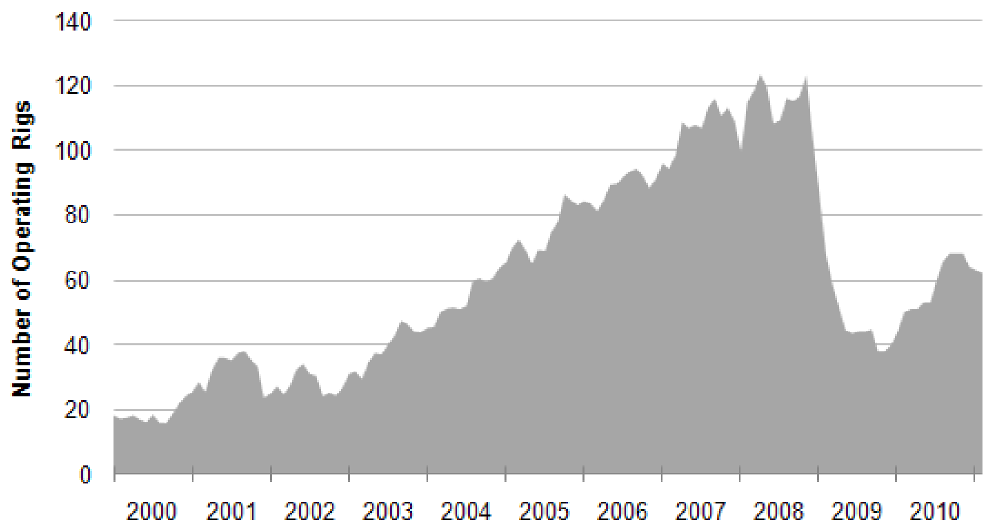
Energy Industry Picks Up

Development of oil and gas is important for the Colorado economy, especially natural gas development, which was particularly vibrant over most of the past decade. After a sharp drop in energy investment in late 2008, there are signs that investment dollars are returning. The number of drilling rigs operating in Colorado is beginning to rebound.

Figure 22 shows the number of drilling rigs operating in Colorado through February 2011. Following the sharp drop in late 2008 and the early part of 2009, drilling rig counts have risen, peaking at 68 in November 2010. Although rig counts declined slightly since November, the 62 rigs that were operating in Colorado in February represents a 60 percent increase in the rig count since the industry bottomed out in the fall of 2009. Rig counts rose by an average monthly rate of 3.3 percent between October 2009 and February 2011. Most of the increase occurred in Garfield and Weld counties.

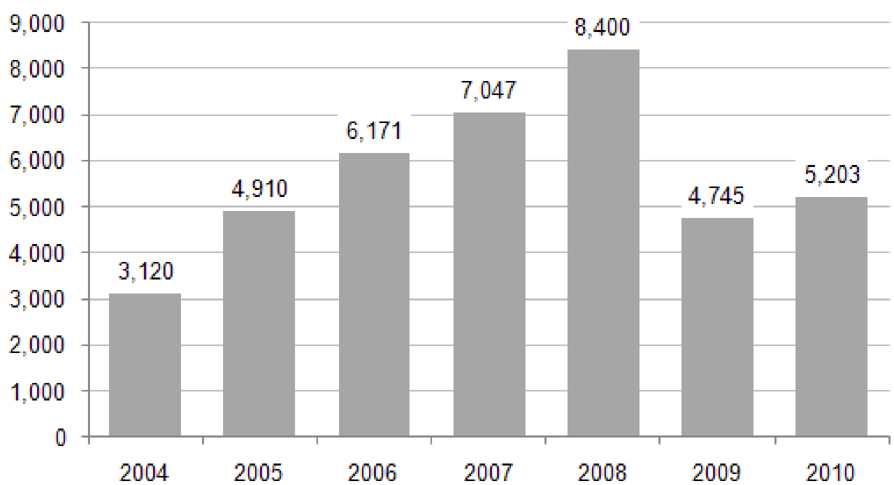
The number of drilling permits issued is also on the rise. Figure 23 shows the number of oil and gas drilling permit applications approved in Colorado from 2005 through 2010. Permit approvals increased steadily through 2008, dropped sharply in 2009, and rose in 2010, nearly to 2007 levels. In 2010, statewide permit approvals increased 16.2 percent. The biggest jumps came in Weld and Rio Blanco counties, which saw increases of 48.6 percent and 26.7 percent, respectively. According to the Colorado Oil and Gas Conservation Commission, well permitting will increase or remain at current levels during the next few years.

Figure 22
Drilling Rigs Operating in Colorado



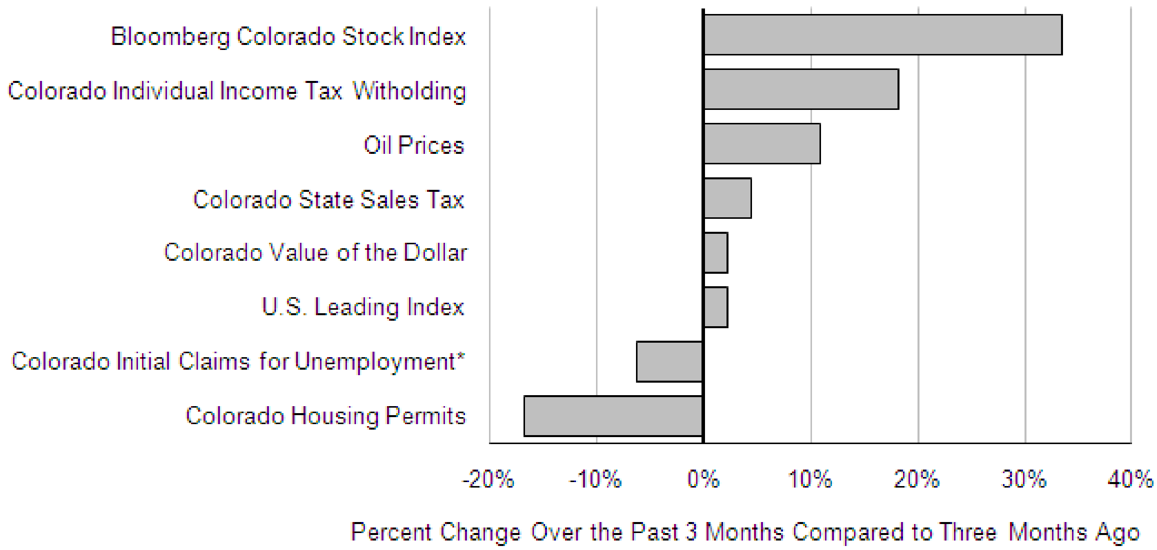
Source: Baker & Hughes.

Figure 23
Oil and Gas Permit Applications Approved



Source: Colorado Oil and Gas Conservation Committee.

Figure 24
Percentage Change in Variables that Lead the Colorado Economy



Sources: Legislative Council Staff, Bloomberg, Colorado Department of Revenue, Federal Reserve Bank of Dallas, The Conference Board, U.S. Bureau of Census, and Bureau of Labor Statistics.
**A decrease in initial unemployment claims indicates employment expansion.*

Leading Indicators

Indicators that tend to lead Colorado employment point to continued expansion, although growth is likely to remain sluggish. As shown in Figure 24, seven of eight indicators identified as leading Colorado employment growth suggest expansion, including initial unemployment claims, oil prices, the U.S. leading index, the Bloomberg Colorado Stock Index, Colorado individual income withholding tax revenue, Colorado state sales tax revenue, and the Dallas Fed Colorado trade-weighted value of the dollar. These indicators have been shown to be helpful in predicting changes in Colorado employment. Only housing permits point to slower growth in Colorado employment. Rising oil prices are considered a positive indicator of expansion as they typically lead energy industry production and employment.

Conclusion

The Colorado economy continues to slowly recover. Private sector employment is picking up, but not quickly enough to significantly lower the unemployment rate in the near term. Other indicators point to expansion as well, but the recovery will be sluggish. The housing market will continue to slow the recovery, and Colorado banks still have more bad loans to work through. Consumers are spending more, but rising food and energy prices will be a drag on disposable income.

Table 12
Colorado Economic Indicators, March 2011 Forecast
(Calendar Years)

	2006	2007	2008	2009	2010	Forecast 2011	Forecast 2012	Forecast 2013
Population (thousands), July 1 /1	4,741.6	4,818.4	4,899.7	4,975.9	5,047.0	5,125.5	5,208.6	5,302.5
percent change	1.8%	1.6%	1.7%	1.6%	1.4%	1.6%	1.6%	1.8%
Nonagricultural Employment (thousands) /2	2,279.1	2,331.3	2,350.3	2,245.6	2,220.1	2,235.8	2,272.6	2,315.0
percent change	2.4%	2.3%	0.8%	-4.5%	-1.1%	0.7%	1.6%	1.9%
Unemployment Rate /2	4.3	3.7	4.8	2.9	8.9	8.8	8.5	7.7
Personal Income (millions) /3	$194,390	$205,153	$214,727	$210,228	$215,369	$223,207	$233,673	$246,116
percent change	8.2%	5.5%	4.7%	-2.1%	2.4%	3.6%	4.7%	5.3%
Wage and Salary Income (millions) /3	$105,833	$112,952	$117,143	$112,764	$113,755	$115,545	$120,436	$126,979
percent change	7.0%	6.7%	3.7%	-3.7%	0.9%	1.6%	4.2%	5.4%
Retail Trade Sales (millions) /4	$70,437	$75,329	$74,760	$66,302	$69,695	$72,626	$75,498	$78,744
percent change	7.5%	6.9%	-0.8%	-11.3%	5.1%	4.2%	4.0%	4.3%
Home Permits (thousands) /1	38.3	29.5	19.0	9.4	11.3	15.3	19.8	20.1
percent change	-16.4%	-23.2%	-35.5%	-50.8%	20.8%	35.4%	29.4%	1.5%
Nonresidential Building (millions) /5	$4,415	$5,251	$4,193	$3,192	$2,967	$2,542	$2,732	$2,879
percent change	4.6%	18.9%	-20.2%	-23.9%	-7.0%	-14.3%	7.5%	5.4%
Denver-Boulder Inflation Rate /2	3.6%	2.2%	3.9%	-0.6%	1.9%	2.3%	2.9%	2.8%

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.

Colorado Economic Regions

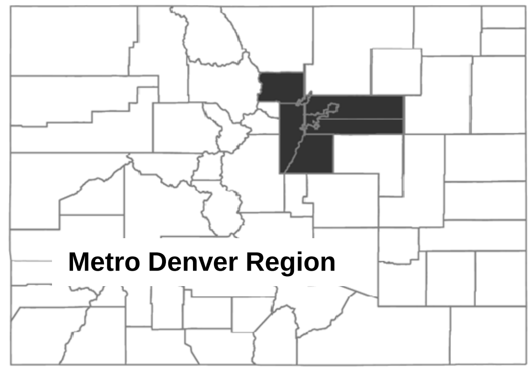
Metro Denver Region
Colorado Springs Region
Pueblo — Southern Mountains Region
San Luis Valley Region
Southwest Mountain Region
Western Region
Mountain Region
Northern Region
Eastern Region

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

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

Metro Denver Region

The metro Denver region is slowly shedding the effects of recession. The region's job market, which represents over half of the statewide labor force, continues to see job gains and, after stalling in the spring of 2010, consumer spending is on the rise. Construction remains at historically low levels, with nonresidential construction falling further and residential construction inching upward. Table 13 shows economic indicators for the region.



Job market. The metro Denver job market continues to slowly add jobs, as shown in Figure 25. However, the pace of job gains is not strong enough to offset the number of workers returning to the labor force in search of employment. As a result, area unemployment continues to rise. Figure 26 shows these trends. As of December, the unemployment rate was 8.9 percent, consistent with the statewide rate in the same month.

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 altogether, or enroll as a student to improve employment-related skills. At the early stages of recovery the unemployment rate may rise as these unemployed workers return to the labor force lured by growing job opportunities.

Consumer spending. Consumer spending, as measured by retail trade sales, showed strong growth through most of 2009 and the early part of 2010. However, sales slowed towards the

Table 13
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson Counties

	2006	2007	2008	2009	2010
Employment Growth /1	2.0%	2.2%	1.0%	-4.3%	-1.1%
Unemployment Rate /2 (2010 Figure is December Only)	4.4%	3.9%	4.9%	7.8%	8.9%
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-26.6%	-38.7%	-50.1%	-31.8%	35.5%
Single-Family (Boulder)	-41.8%	-20.6%	-53.5%	-27.6%	101.0%
Growth in Value of Nonresidential Const. /4	-5.0%	34.5%	-14.3%	-37.5%	6.4%
Retail Trade Sales Growth /5	7.6%	6.5%	-0.8%	-11.4%	5.9%

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

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

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

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

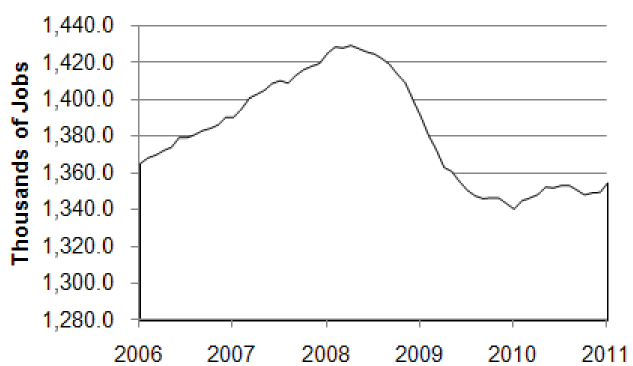
5/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

beginning of summer before resuming their climb again in the fall of 2010. Figure 27 shows this trend. Retail sales are up 5.9 percent year-to-date through September over the same period last year. As Figure 28 shows, this recovery lags behind the nation and only slightly ahead of the rest of Colorado. Consumer spending is expected to continue to grow, though at a pace dampened by high levels of consumer debt and unemployment.

Housing market. The region's housing market continues to struggle. Home prices are expected to fall slightly in the early part the year, and foreclosures in the region are expected to remain at historically high levels throughout 2011 due to the weak labor market. Residential construction remains at historically low levels, though activity inched upward at the end of 2010. Figure 29 shows slow and rocky growth in single- and multi-family residential building permits.

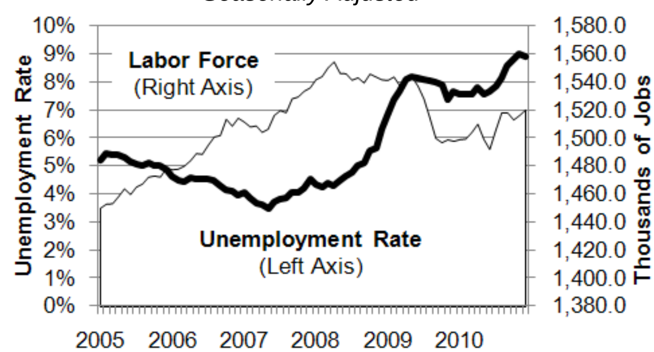
Nonresidential construction. As shown in Figure 30, the region's nonresidential construction activity continues to decline. The recession led many businesses to downsize or close their doors, leaving little demand for new commercial properties in the metro area. Businesses in the area are slowly expanding into vacant office and commercial spaces, which will keep demand for new buildings low in the near term.

Figure 25
Metro Denver Employment is on the Rise
Seasonally Adjusted



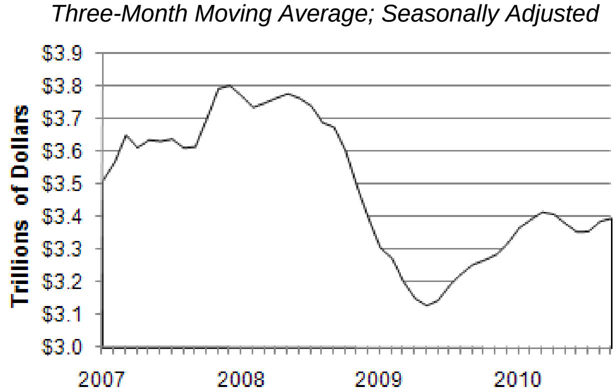
Source: U.S. Bureau of Labor Statistics; CES. Data through January 2011.

Figure 26
Workers are Returning to the Labor Force, Rising Metro Denver's Unemployment Rate
Seasonally Adjusted



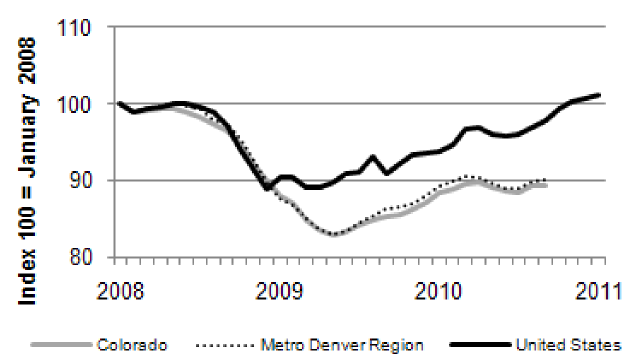
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December2010.

Figure 27
Metro Denver Retail Trade Sales Are on the Rise Again
Three-Month Moving Average; Seasonally Adjusted



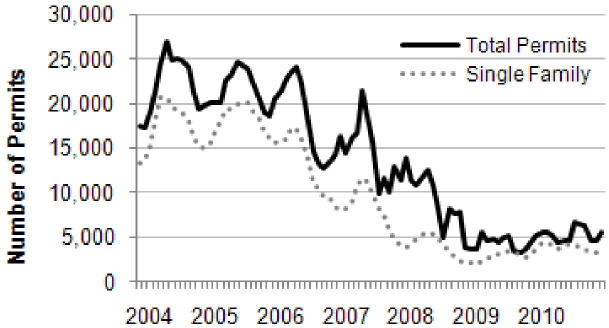
Source: Colorado Department of Revenue. Data through September 2010.

Figure 28
Retail Trade Trends Since January 2008
Index 100= January 2008
Three-Month Moving Average; Seasonally Adjusted
Annualized Nominal Data



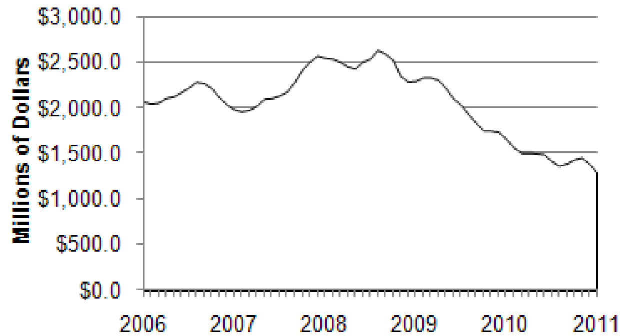
Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September; U.S. data through January.

Figure 29
Metro Denver Residential Building Permits At Record Low Levels
Three-Month Moving Average; Seasonally Adjusted Annualized Data



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

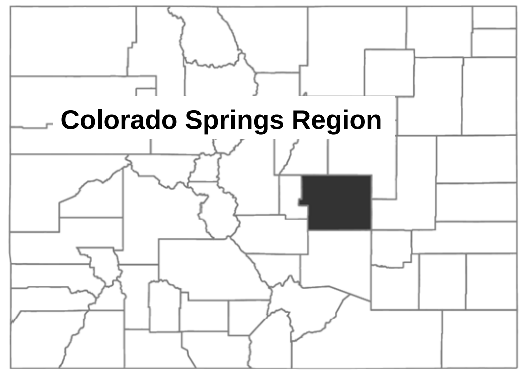
Figure 30
The Value of Nonresidential Construction Contracts in Metro Denver Will Remain at Record Low Levels
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: F.W. Dodge. Data through January 2011.

Colorado Springs Region

The Colorado Springs region is struggling to gain momentum in recovery. The labor market has stabilized, but growth is tentative and the unemployment rate continues to rise. Growth in consumer spending is outpacing the statewide average. However, spending has yet to surpass pre-recessionary levels. Consistent with trends across the state, the home building industry remains at historical lows and commercial construction activity continues to deteriorate. Table 14 shows economic indicators for the region.



Over the last several months, area employment has stabilized but only grown modestly, as shown in Figure 31. Nonfarm employment fell at an average annual rate of 0.9 percent in 2010 over 2009 levels. Figure 32 shows the rise in the region's unemployment rate to 9.7 percent as of December 2010. At the end of the year, the rate was pushed up by job seekers reentering the labor force. Similar to the Denver region, slow employment growth and 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 before weakening during the summer of 2010. After the steep declines of 2008 and 2009, sales are up 6.8 percent year-to-date through September and are nearing pre-recessionary levels of spending. Figure 33 compares the pace of recovery in spending for the region, state, and nation. The region's consumer spending is outpacing the state but trailing the nation.

Table 14
Colorado Springs Region Economic Indicators
El Paso County

	2006	2007	2008	2009	2010
Employment Growth /1					
Colorado Springs MSA	2.2%	1.0%	-0.9%	-3.9%	-0.9%
Unemployment Rate /2 (2010 Figure is December Only)	4.7%	4.4%	5.7%	8.4%	9.7%
Housing Permit Growth /3					
Total	-34.3%	-29.7%	-36.1%	-33.4%	27.9%
Single-Family	-33.4%	-34.3%	-42.2%	-16.7%	23.2%
Growth in Value of Nonresidential Const. /4	-18.3%	6.8%	-44.6%	-2.8%	-22.8%
Retail Trade Sales Growth /5	5.1%	5.4%	-2.7%	-6.2%	6.8%

MSA = Metropolitan statistical area.

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

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

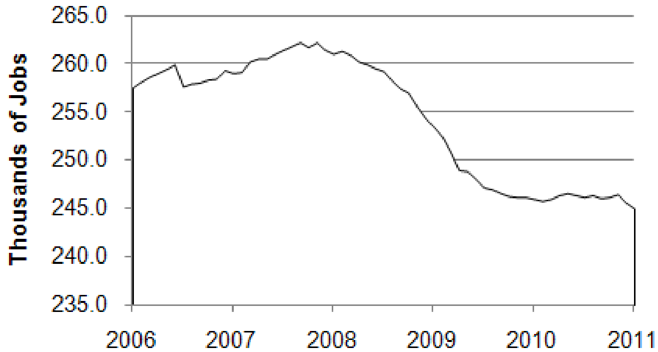
3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2010.

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

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

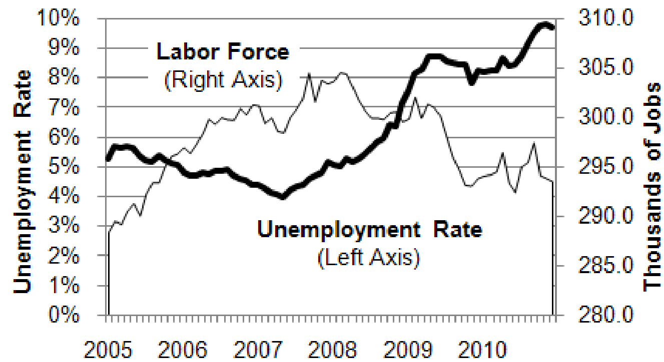
With little growth in 2010, home building remains at record low levels, as shown in Figure 34. The area continues to see high levels of foreclosures and a large inventory of homes on the market that are contributing to lower home prices. Nonresidential construction activity is also sluggish and remains at low levels when compared to the boom years of the mid-2000s. In 2010, nonresidential construction fell 22.8 percent in El Paso County. A surplus of empty commercial spaces continues to dampen demand for new construction.

Figure 31
Colorado Springs MSA Nonfarm Employment
Seasonally Adjusted



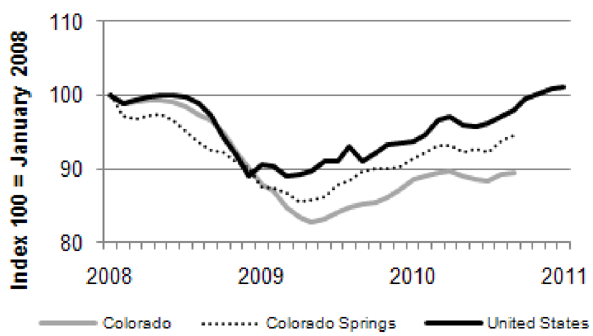
Source: U.S. Bureau of Labor Statistics; CES. Data through January 2011.

Figure 32
Colorado Springs MSA Unemployment Rate and Labor Force
Seasonally Adjusted



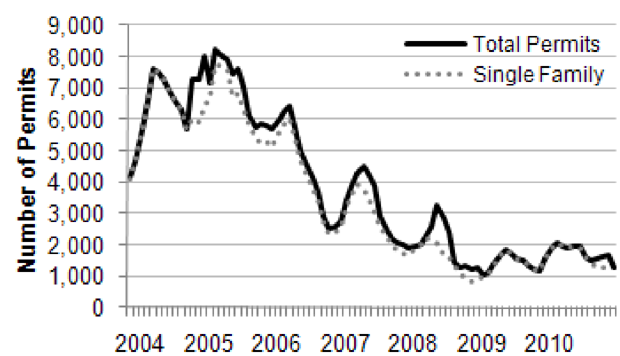
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2010.

Figure 33
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Annualized Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through August; U.S. data through October.

Figure 34
Colorado Springs MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted
Annualized Data

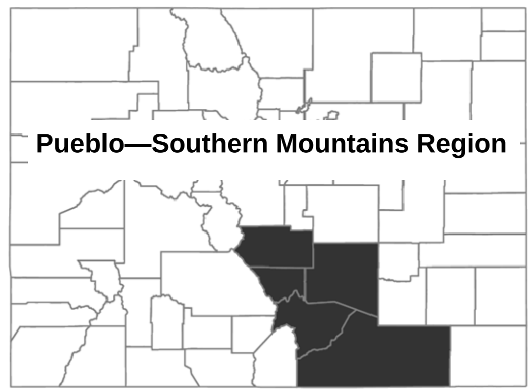


Source: U.S. Census Bureau. Data through December 2010.

Pueblo — Southern Mountains Region

The economic recovery in the five-county Pueblo Region is lagging behind other regions of the state. Although consumer spending in the region recovered at rates stronger than the state as a whole during the first half of 2010, it slowed along with spending in the rest of the state in the fall. Unemployment remains high, and employment in the region continued to fall through the end of 2010. Unlike other areas Colorado, construction activity has yet to show any improvement. Table 15 shows economic indicators for the region.

Employment in the region decreased 1.8 percent on an annual average basis in 2010. As shown in Figure 35, the region saw some job gains in early 2010, but these gains were erased as job losses occurred during the remainder of the year. Many of these job losses occurred outside the Pueblo metropolitan area, where employment decreased at a much lower rate of 0.1 percent in 2010.



The region had the highest unemployment rate among all regions of the state throughout the recession. After reaching a high of 11.2 percent in November, the region's unemployment rate fell to 10.5 percent in December. Unfortunately, most of December's decrease in the unemployment rate occurred because many people stopped looking for work and dropped out of the labor force.

Table 15
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties

	2006	2007	2008	2009	2010
Employment Growth					
Pueblo Region /1	3.1%	2.6%	-0.6%	-2.5%	-1.8%
Pueblo MSA /2	2.2%	3.2%	0.5%	-2.3%	-0.1%
Unemployment Rate /1 (2010 Figure is December Only)	5.6%	4.8%	6.0%	8.8%	10.5%
Housing Permit Growth /3					
Pueblo MSA Total	10.6%	-48.1%	-38.6%	-9.4%	-37.9%
Pueblo MSA Single-Family	7.4%	-44.8%	-42.8%	-51.5%	13.6%
Growth in Value of Nonresidential Construction /4					
Pueblo County	620.6%	-62.4%	75.1%	-65.9%	-78.1%
Retail Trade Sales Growth /5	6.0%	6.4%	-1.7%	-4.7%	6.1%

MSA = Metropolitan statistical area.

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

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

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

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

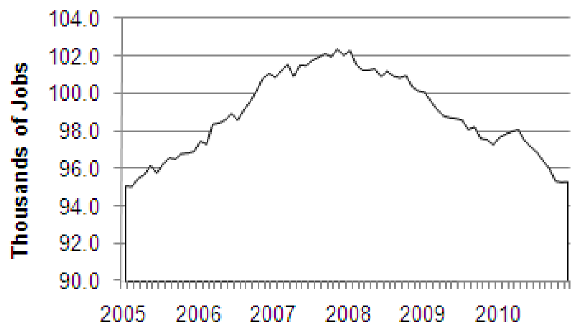
5/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

After showing strong growth through the spring, consumer spending, as measured by retail trade sales, fell back and flattened somewhat during the summer and fall. Compared with levels seen in 2009, however, sales are still up 6.1 percent through September 2010. Figure 36 indexes changes in the region's consumer spending to changes in consumer spending in the state and the nation.

Like all regions of the state, residential construction remains at historically low levels due to the collapse of the housing market. While total permits for residential construction decreased 37.9 percent in 2010, permits for single family residential construction increased 13.6 percent. This indicates a sharp drop in the number of permits for multi-family housing. Residential construction activity is expected to remain modest for several years. Figure 37 shows recent trends in the number of permits filed for home building in the Pueblo Metropolitan Area.

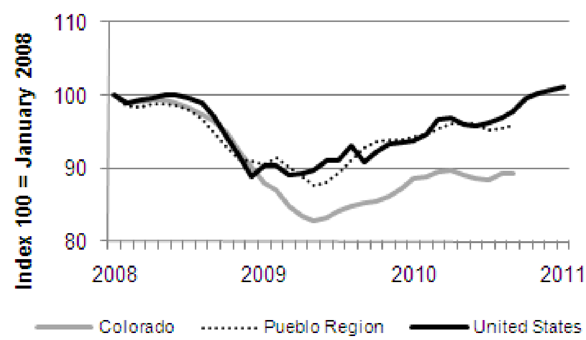
With little demand for new business space, nonresidential construction in the region remains at low levels. The Pueblo region had a surge of construction beginning at the end of 2008 that peaked in mid-2009. However, as shown by Figure 38, construction has been at a near standstill recently. Until the regional economy can support business expansion, nonresidential construction is expected to remain weak.

Figure 35
Pueblo Region Nonfarm Employment
Seasonally Adjusted



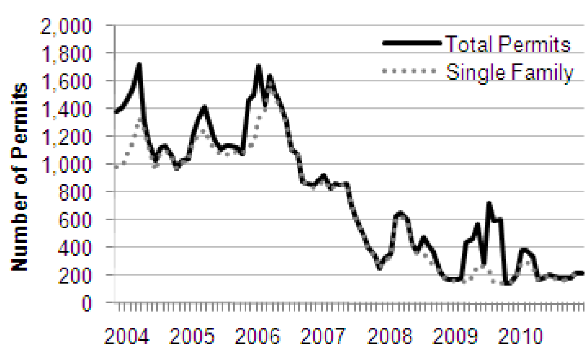
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2010.

Figure 36
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



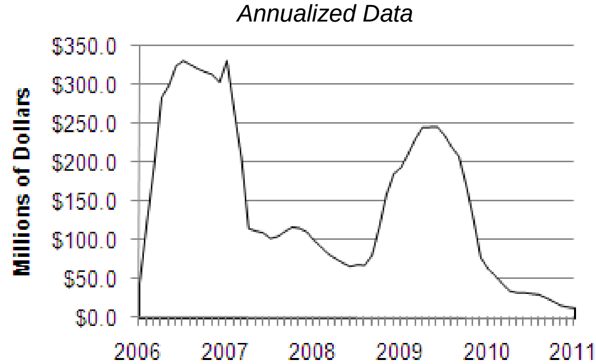
Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September 2010. U.S. data through January 2011.

Figure 37
Pueblo MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



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

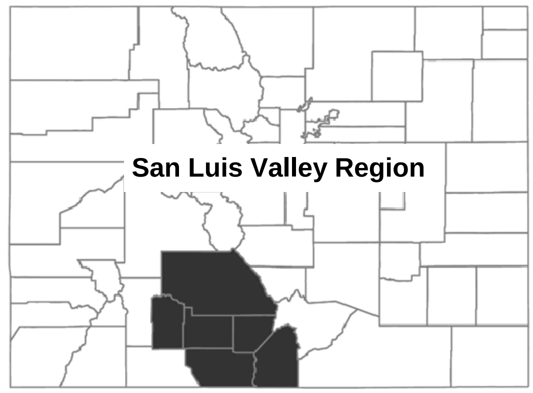
Figure 38
Value of Nonresidential Construction Permits in Pueblo County
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



Source: F.W. Dodge. Data through January 2011.

San Luis Valley Region

The six-county San Luis Valley region's economy is strongly influenced by agricultural-based industries. Because of this, the region experiences different economic trends than more urban areas of the state. The region saw few economic gains in 2010 over the prior year. The labor market is weak, the unemployment rate edged upward, and the value of nonresidential construction projects declined in 2010. Consumer spending posted a gain for 2010 after declining in the prior year. Table 16 shows economic indicators for the region.



The labor market in the region for 2010 was weak as employment in the area declined 5.6 percent in 2010 after increasing 2.4 percent in 2009. It is important to note that job growth is based on nonfarm employment data that is not affected by the stabilizing influence of the agricultural industries in the region. As shown in Figure 39, the labor force has been fairly stable since mid-2007, although the unemployment rate continues to rise in the region. The unemployment rate rose from 7.5 percent in 2009 to 10.3 percent in 2010.

Figure 40 indexes changes in the region's consumer spending, as measured by retail trade sales, to changes in consumer spending in the nation and the state. Consumers in the San Luis Valley were affected by the recession, but fared better than those in the rest of the state and the nation in terms of growth in retail sales. Through September 2010, retail trade sales increased 6.5 percent after decreasing 1.6 percent in 2009.

Table 16
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2006	2007	2008	2009	2010
Employment Growth /1	2.6%	0.3%	-3.4%	2.4%	-5.6%
Unemployment Rate /1	5.5%	4.7%	6.1%	7.5%	10.3%
(2010 Figure is December Only)					
Statewide Crop Price Changes /2					
Barley (U.S. average for all)	11.9%	32.0%	49.6%	-15.5%	-12.3%
Alfalfa Hay (baled)	30.7%	5.3%	18.0%	-20.7%	0.0%
Potatoes	-8.1%	22.6%	21.0%	-46.6%	87.3%
SLV Potato (Inventory CWT) /2	-1.0%	-7.5%	4.4%	5.0%	-2.5%
Housing Permit Growth /3					
Alamosa County	-2.5%	-41.0%	139.1%	-47.3%	0.0%
Growth in Value of Nonresidential Construction /3					
Alamosa County	-22.4%	414.1%	-88.0%	2620.7%	-16.1%
Retail Trade Sales Growth /4	10.1%	6.9%	3.4%	-1.6%	6.5%

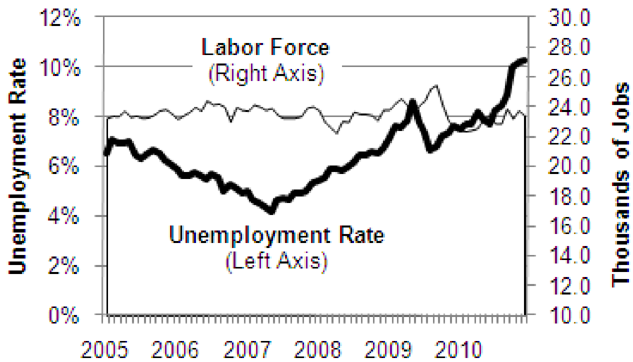
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2010.

2/ National Agricultural Statistics Service. 2010 crop price changes compares December 2010 to December 2009. SLV Potato (production CWT)

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

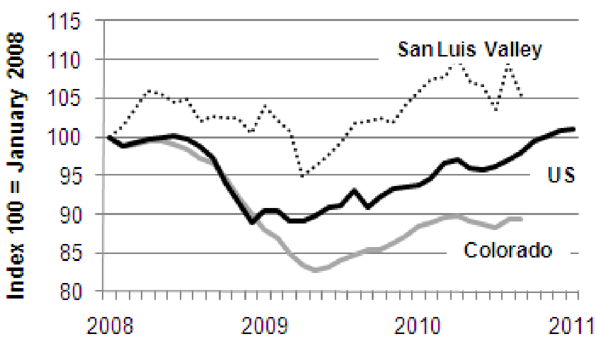
4/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

Figure 39
San Luis Valley Region Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 40
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Annualized Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September 2010; U.S. data through January 2011.

The San Luis Valley region has the smallest economy of all regions of the state. As a result, economic indicators tend to be particularly volatile. As an example, in Alamosa County, the largest county in the region, the value of nonresidential construction activity in 2010 fell 16 percent almost entirely because of the completion of a single energy project in the area. Also, the residential housing industry did not see much economic activity in 2010 as the number of single- and multi-family units under construction was unchanged.

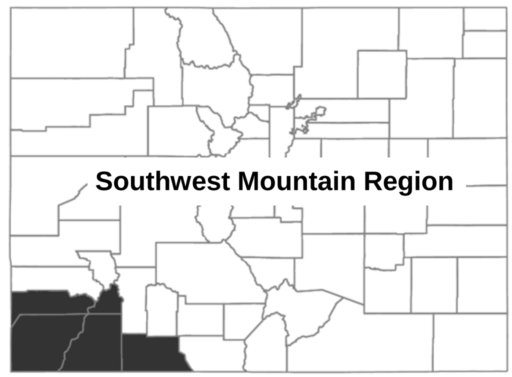
The agricultural industry in the region is fairly healthy when compared to the weak labor market and nonresidential construction industry. For example, the potato industry, which is one of the main agricultural industries in the region, saw potato prices rise to $11.80 per hundredweight in December 2010, up 87.3 percent over the prior year period. Crop prices for corn and wheat were also up, while barley saw price declines. Potato inventory in the region was down as of the most recent estimates, indicating that prices may continue to rise. Growers and commercial storage facilities in the region had 11.4 million hundredweight of potatoes in inventory as of February 2011, down 7 percent from the 12.2 million hundredweight in the prior year.

Despite the mixed economic indicators for the region, employment growth may be slower than other regions in the state as the economy improves. Also, unemployment rates will continue to remain high as more people enter the workforce. The housing and nonresidential construction industries will see a slow gradual recovery. Finally, the influence of the agricultural-based industries in the region will likely maintain a stable economic environment as the region's economy slowly improves.

Southwest Mountain Region

The Southwest Mountain Region's economy has stabilized, although a weak labor market continues to slow the economic recovery in the area. Housing permit growth in the region is one bright economic indicator especially given that housing construction continues to struggle in other mountainous areas of the state. Investment in nonresidential construction was down. Consumer spending in the region remains flat. Table 17 shows economic indicators for the region.

In 2010, the region continued to bleed jobs as nonfarm employment declined for the third consecutive year. Employment in the region was down 4.1 percent in 2010, after declining 1.7 percent in 2008 and 3.7 percent in 2009. When the recession began in December 2007, nearly 60,000 people were employed in the region. At the close of 2010, there were 6,700 fewer jobs, nearly a 13 percent decline. Many of these positions were related to the energy and tourism industries.



Over the last three years the unemployment rate has climbed from a low of 2.3 percent in 2007 to 8.6 percent in 2010, slightly higher than the 8.0 percent statewide rate. Discouraged workers in the region who stop looking for work due to lack of employment opportunities may drive the unemployment rate higher in 2011. The rate will not come down until more businesses begin to hire during the slow recovery. Figure 41 shows recent trends in the area's nonfarm employment and Figure 42 shows recent trends in the unemployment rate and labor force for the region.

Figure 43 compares changes in the region's consumer spending, as measured by retail trade sales, to changes in consumer spending in the nation and the state. Consumer spending has stabilized in the region, as it was somewhat flat for 2010. Slower than in other areas in the state, the region

Table 17
Southwest Mountain Region Economic Indicators
Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

	2006	2007	2008	2009	2010
Employment Growth /1	3.7%	2.3%	-1.7%	-3.7%	-4.1%
Unemployment Rate /1 (2010 Figure is December Only)	3.9%	3.4%	4.3%	6.7%	8.6%
Housing Permit Growth /2					
La Plata County Total	-17.8%	-16.9%	-57.4%	-15.8%	29.8%
La Plata County Single-Family	-9.0%	-29.3%	-40.3%	-15.2%	15.0%
Growth in Value of Nonresidential Construction /3					
La Plata County	74.4%	907.3%	-84.6%	103.7%	-84.0%
Retail Trade Sales Growth /4	9.4%	5.9%	-0.7%	-13.9%	0.2%

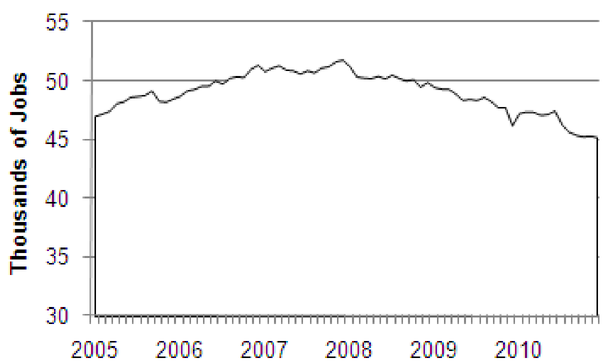
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2010.
2/ IU.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2010.
3/ F.W. Dodge. Data through December 2010.
4/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

posted a modest 0.2 percent gain in retail sales in 2010 through September compared with the first nine months of 2009.

Residential home construction, as measured by area home permits, increased significantly in 2010 over the prior year. Permits totaled 222, up 29.8 percent from the 171 permits seen in the prior year and 203 permits in 2008. When compared with other mountainous regions in Colorado that saw housing permits drop, the Southwest Mountain Region is seeing strong permit growth. Despite the uptick in home permits, home construction activity is still at record low levels. As an example, during the four-year period from 2003 through 2006, home permits averaged 687 permits per year.

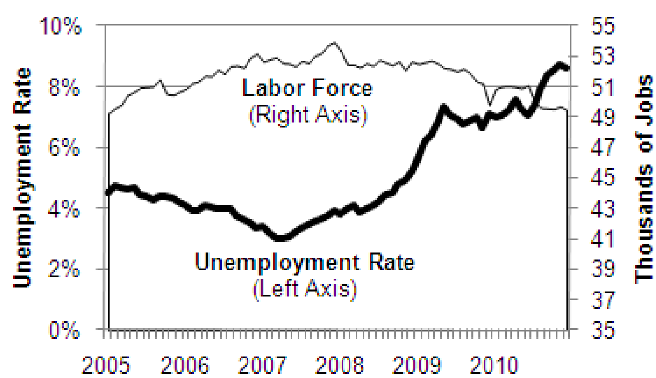
Nonresidential construction in La Plata County, the county with the bulk of the construction activity in the region, was down 84 percent in 2010 over the prior year due to the completion of educational facilities and the conclusion of some ski area development. Slow growth in the regional economy is expected to slow demand for commercial and nonresidential construction in 2011. Figure 44 shows the values of nonresidential construction from 2006 through 2010.

Figure 41
Southwest Mountain Region Nonfarm Employment
Seasonally Adjusted



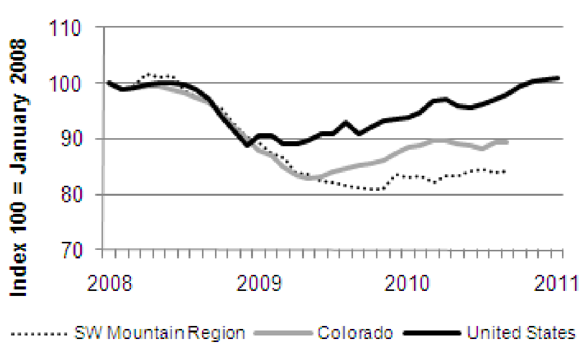
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2010.

Figure 42
Southwest Mountain Region Unemployment Rate and Labor Force
Seasonally Adjusted



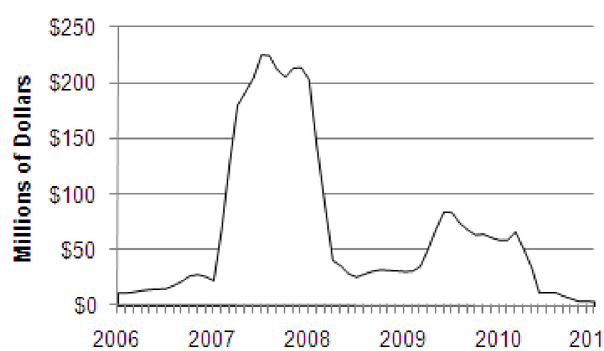
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2010.

Figure 43
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted Annualized Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September 2010; U.S. data through January 2011.

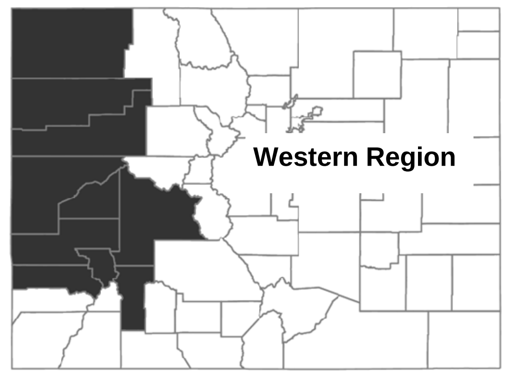
Figure 44
La Plata County Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Source: F.W. Dodge. Data through January 2011.

Western Region

Although energy drilling activity on the western slope picked up in 2010, the 10-county western region remains among the weakest in the state. The labor market continues to struggle with little to no job growth and an increasing unemployment rate. Consumer spending and construction activity began to recover in 2010, but remain at relatively low levels. Table 18 shows economic indicators for the region.



Energy activity was an important driver 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. As shown by Figure 45, energy activity picked up somewhat in 2010, but the rise in activity is from low levels and is therefore not expected to drive employment growth in the near term. According to Baker Hughes, the Western Region accounted for more than half of the number of rigs operating in the state over the last year. While most drilling activity in the region occurs in Garfield County, drilling occurs in every county in the region.

The region's job market continues to deteriorate. As shown in Figure 46, employment in the Grand Junction metropolitan area was flat in 2010 and down 4.3 percent on an average annual basis from 2009. Nonfarm employment for the full ten-county region decreased steadily during most of 2010 after a brief stimulus-driven increase early in the year. The unemployment rate rose to

Table 18
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2006	2007	2008	2009	2010
Employment Growth					
Western Region /1	7.3%	4.8%	1.6%	-5.9%	-5.0%
Grand Junction MSA /2	5.1%	6.1%	4.8%	-6.6%	-4.3%
Unemployment Rate /1	3.7%	3.2%	3.9%	8.0%	10.4%
(2010 Figure is December Only)					
Housing Permit Growth /3					
Mesa County Total Permits	-16.5%	-10.7%	-37.0%	-56.3%	10.6%
Montrose County Total Permits	-5.3%	-31.0%	-45.7%	-56.9%	-28.7%
Growth in Value of Nonresidential Construction /4					
Mesa County	-46.3%	222.6%	-53.9%	-21.0%	17.7%
Montrose County	130.7%	-36.2%	-59.8%	-87.4%	457.1%
Retail Trade Sales Growth /5	13.7%	12.0%	1.2%	-19.1%	-0.4%

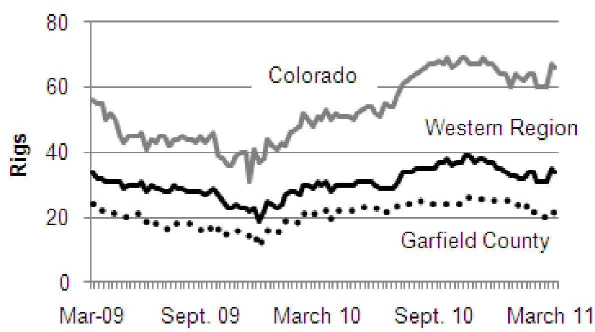
MSA = Metropolitan statistical area.
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2010.
2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2010.
3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2010.
4/ F.W. Dodge. Data through December 2010.
5/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

10.4 percent in December, as shown in Figure 47. The labor force continues to decrease in the region, indicating that those unable to find work continue to exit the job market, with some leaving the region altogether.

Figure 48 indexes consumer spending changes in the region to changes in consumer spending in the state and nation. After posting a 19.1 percent decrease in sales in 2009, the largest drop of all areas of the state, consumer spending stabilized in 2010. However, unlike the nation and many areas of Colorado, the region has yet to experience a strong rebound in sales.

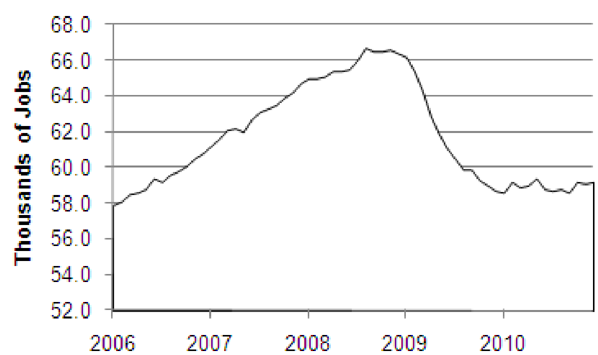
The residential housing market is also showing signs of stabilization in some parts of the region, though at very low levels when compared to the boom years. Residential housing permits increased 10.6 percent in Mesa County during 2010, but decreased significantly in Montrose County. Similarly, nonresidential construction is showing signs of a rebound. While nonresidential construction activity is increasing at strong growth rates in both Mesa and Moffat counties, the level of construction activity remains at very low levels.

Figure 45
Drilling Rigs Operating in Colorado and on the Western Slope
Weekly data; Not Seasonally Adjusted



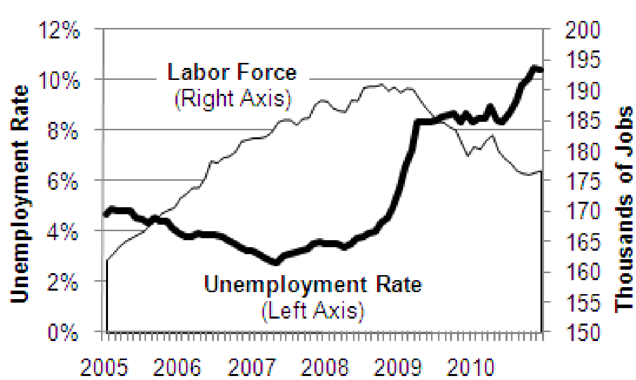
Source: Baker Hughes. Data through mid-March 2011.

Figure 46
Grand Junction MSA Nonfarm Employment
Seasonally Adjusted



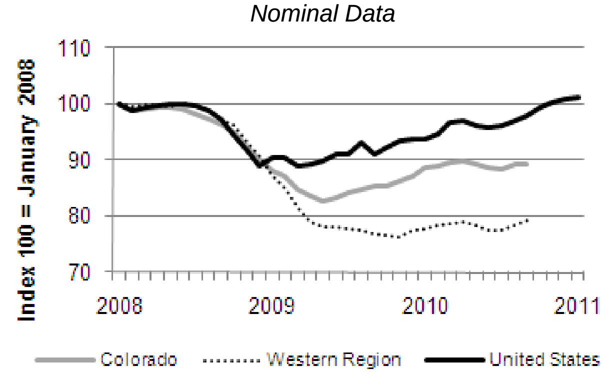
Source: U.S. Bureau of Labor Statistics; CES. Data through January 2011.

Figure 47
Western Region Unemployment Rate and Labor Force
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2011.

Figure 48
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data

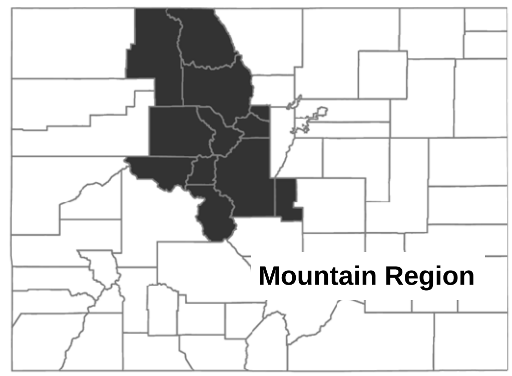


Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September 2010. U.S. data through January 2011.

Mountain Region

The mountain region's economy continues to feel the lasting effects of the recession. The region's economy has historically been reliant on tourism and real estate — two industries hit particularly hard during the recession. Sustained high levels of foreclosures and unemployment, and low levels of construction are keeping the region from recovering quickly. As a result, regional retail trade sales are slow to rise and the labor market continues to struggle. Additionally, residential and nonresidential construction activity remains at historically low levels. Table 19 shows economic indicators for the region.

The mountain region's labor market remains weak but is showing signs of life. Total nonfarm employment decreased 3.4 percent in 2010 and the unemployment rate reached 9.1 percent in December. While the unemployment rate rose, the region actually added jobs in the last several months of the year. Figure 49 shows recent trends in the area's nonfarm employment and Figure 50 shows recent trends in the unemployment rate and labor force for the region. As a result of low demand for employees, the rental vacancy rate for many counties in the region rose in 2010.



The region continues to see recessionary levels of tourism. However, activity picked up some toward the end of 2010, supported by favorable weather for the ski season. Tourism spending appears to be on the rise. Regional retail trade sales resumed growth in the second half of 2010 after stalling in the first half. Retail stores, hotels, and ski resorts continue to offer discount deals in efforts to boost spending. Figure 51 indexes changes in the region's retail trade sales to changes in consumer spending in the nation and the state.

Table 19
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

	2006	2007	2008	2009	2010
Employment Growth /1	3.7%	2.0%	-0.8%	-6.0%	-3.4%
Unemployment Rate /1 (2010 Figure is December Only)	3.6%	3.2%	4.0%	7.1%	9.1%
Housing Permit Growth /2					
Eagle, Pitkin, & Summit counties Total	6.1%	-0.6%	-43.1%	-59.0%	-26.1%
Routt County Total	24.9%	11.6%	-43.5%	-73.5%	-59.8%
Growth in Value of Nonresidential Construction /3					
Eagle, Pitkin, & Summit counties	65.4%	13.1%	-0.9%	-78.7%	146.3%
Routt County	143.9%	80.2%	-54.9%	-70.1%	-16.9%
Retail Trade Sales Growth /4	11.8%	10.0%	-1.5%	-16.3%	1.7%

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

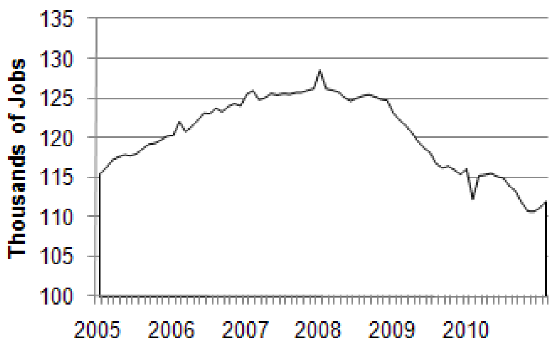
2/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2010.

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

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

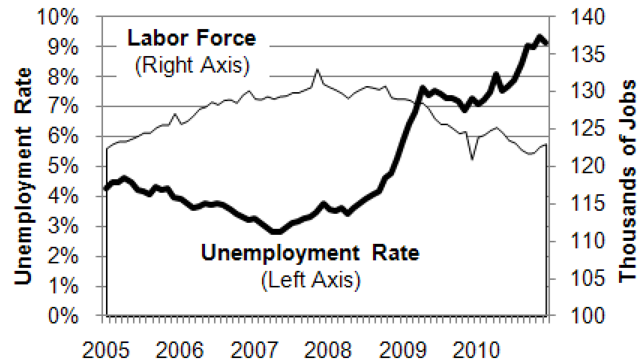
The construction market has stabilized at historically low levels in the region. Residential housing permits and nonresidential construction showed an increase in activity in 2010 over the low levels of 2009. Figure 52 shows nonresidential construction in the ski counties of Eagle, Pitkin, and Summit. Area construction is expected to be slow as the region works off a high level of foreclosure properties and a high rental vacancy rate.

Figure 49
Mountain Region Nonfarm Employment
Seasonally Adjusted



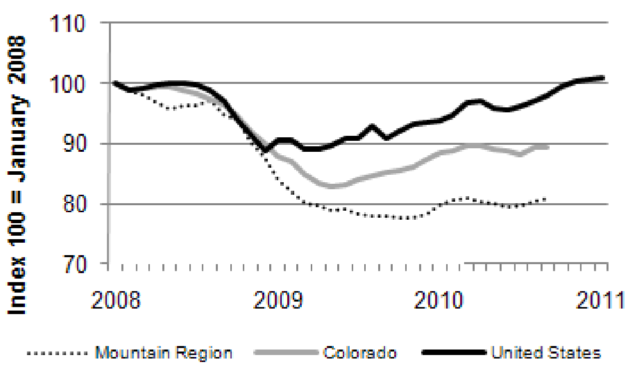
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2010.

Figure 50
Mountain Region Unemployment Rate and Labor Force
Seasonally Adjusted



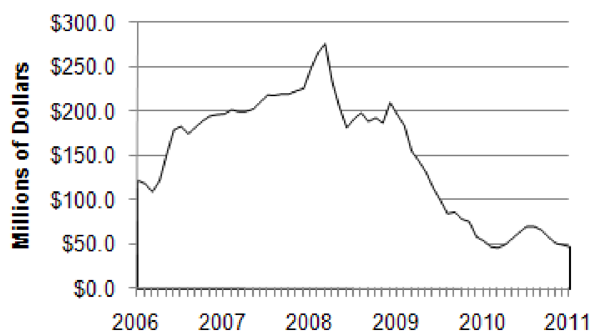
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2010.

Figure 51
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted Annualized Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through September 2010; U.S. data through January 2011.

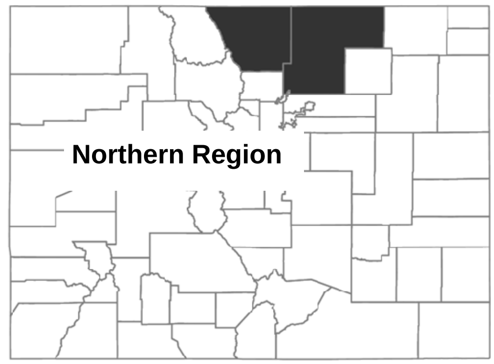
Figure 52
Eagle, Pitkin, and Summit Counties
Nonresidential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Nominal Data



Source: F.W. Dodge. Data through January 2011.

Northern Region

The northern region's economy is a year into recovery. Employment in the region began increasing in January 2010, several months earlier than in the state as a whole, and the region has seen stronger gains in consumer spending than the statewide average. Home building activity has increased but remains at very low levels. Consistent with statewide trends, the nonresidential construction industry continues to deteriorate. Table 20 shows economic indicators for the region.



As shown in Figure 53, the labor market in the northern region has embarked on a slow but steady recovery. Both the Fort Collins-Loveland and Greeley areas experienced their lowest employment level in December 2009. Since then, through January 2011, the Fort Collins-Loveland area has added 2,800 jobs on a seasonally adjusted basis, with 1,300 of them added in January 2011 alone. Although employment decreased 1.1 percent on an average annual basis in 2010, the Greeley area steadily added jobs in 2010, ending the year with 1,000 more jobs than the area had at the end of 2009.

Table 20
Northern Region Economic Indicators
Weld and Larimer Counties

	2006	2007	2008	2009	2010
Employment Growth /1					
Fort Collins-Loveland MSA	1.8%	2.1%	1.0%	-3.2%	0.3%
Greeley MSA	4.2%	2.9%	1.4%	-4.9%	-1.1%
Unemployment Rate /2 (2010 Figure is December Only)					
Fort Collins-Loveland MSA	4.0%	3.5%	4.3%	6.6%	7.6%
Greeley MSA	4.8%	4.2%	5.3%	8.7%	10.3%
State Cattle and Calf Inventory Growth /3	6.0%	1.9%	1.9%	-5.5%	1.9%
Housing Permit Growth /4					
Fort Collins-Loveland MSA Total	-17.5%	-41.3%	-1.0%	-66.0%	154.5%
Fort Collins-Loveland MSA Single-Family	-36.7%	-22.2%	-36.4%	-49.2%	32.1%
Greeley MSA Total	-30.3%	-38.6%	-46.8%	-20.6%	10.4%
Greeley MSA Single-Family	-36.6%	-40.5%	-45.1%	-13.7%	2.7%
Growth in Value of Nonresidential Construction/ 5					
Larimer County	183.0%	-34.5%	-9.9%	-51.7%	-34.8%
Weld County	-14.3%	19.4%	25.3%	77.2%	-80.1%
Retail Trade Sales Growth /6					
Larimer County	5.2%	6.5%	-0.7%	-8.9%	7.7%
Weld County	7.2%	7.7%	2.0%	-15.1%	7.0%

MSA = Metropolitan statistical area.

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

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

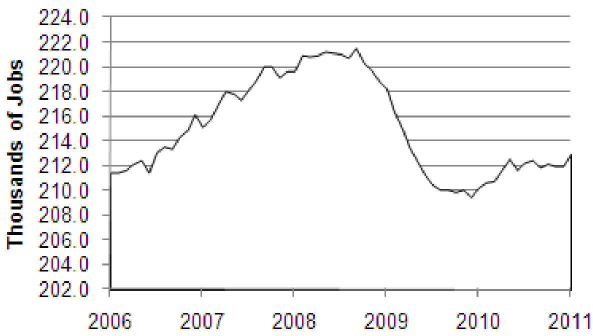
3/ National Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares 2010 over 2009.

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

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

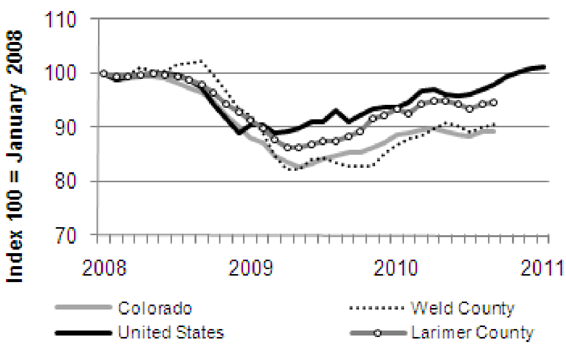
6/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

Figure 53
Fort Collins-Loveland and Greeley MSA
Nonfarm Employment
Seasonally Adjusted



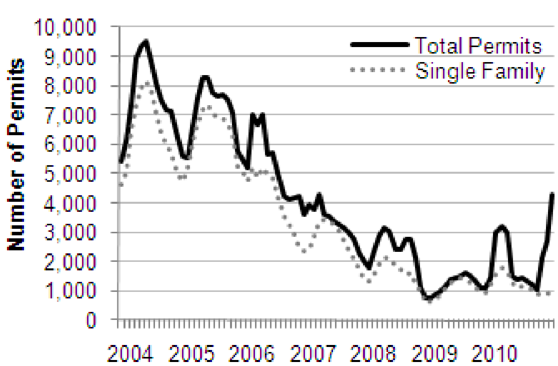
Source: U.S. Bureau of Labor Statistics; LAUS. Data through January 2011.

Figure 54
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September 2010. U.S. data through January 2011.

Figure 55
Fort Collins-Loveland and Greeley MSA
Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



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

The unemployment rate continues to remain high, partially because people are choosing to return to the labor force as the economy strengthens. While the unemployment rate in the Fort Collins-Loveland area ticked up to 7.6 percent in December, it remains one of the lowest urban unemployment rates statewide. The Greeley area's unemployment rate ticked down slightly from 10.6 percent in November to 10.3 percent in December, and is among the highest rates in the state.

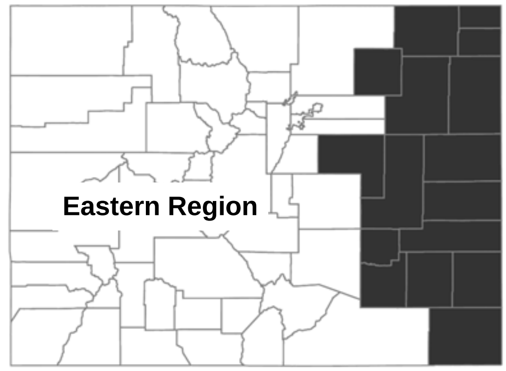
Consumer spending is up in the region. Figure 54 indexes changes in retail trade sales for Larimer County and Weld County to retail trade sales for the nation and the state. Sales increased 7.7 percent and 7.0 percent in Larimer County and Weld County, respectively, year-to-date through September 2010 compared with the same time period in 2009.

Both Larimer and Weld counties are leading producers of cattle, poultry, and dairy in the state. Livestock is a particularly important part of the region's agricultural sector. State cattle and calf production increased 1.9 percent in 2010 over 2009.

Residential and nonresidential construction activity remain at historically low levels. Nonresidential construction fell sharply in 2010 and is expected to remain low until the regional economy expands more rapidly and vacancies in existing commercial spaces are absorbed. Residential construction continues to gradually decrease in the Greeley area. Meanwhile, although the number of single-family permits in the Fort Collins-Loveland area remains at historically low levels, a large number of permits were filed for the construction of multi-family homes in December. Figure 55 shows trends in permits for residential construction in the Fort Collins-Loveland and Greeley areas.

Eastern Region

The agricultural industry has been a stabilizing force in the eastern region's economy over the last year. The region continues to benefit from high crop prices, although the labor market weakened in 2010. Counties in the region continue to post moderate growth in retail sales. Table 21 shows economic indicators for the region.



Unlike other regions of the state, the rural and agricultural eastern and San Luis Valley regions saw employment gains in 2009. Although in 2010, these regions saw employment declines while other areas in the state posted employment gains. Employment in the eastern region was down 5.7 percent in 2010 while posting 4.6 percent growth in the prior year. As shown in Figure 56, the region's unemployment rate increased from 5.7 percent in 2009 to 7.0 percent in 2010.

Table 21
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	2010
Employment Growth /1	2.3%	0.5%	-4.1%	4.6%	-5.7%
Unemployment Rate /1 (2010 Figure is December Only)	4.2%	3.5%	4.3%	5.7%	7.0%
Crop Price Changes /2					
Wheat	32.4%	32.4%	10.1%	-32.5%	25.1%
Corn	35.4%	31.1%	4.5%	-10.9%	37.9%
Alfalfa Hay (Baled)	30.7%	5.3%	18.0%	-20.7%	0.0%
Dry Beans	20.3%	38.7%	14.7%	-9.5%	-33.6%
State Crop Production Growth /3					
Sorghum production	-0.9%	64.2%	-18.9%	50.0%	11.4%
Corn	-4.6%	10.6%	-6.8%	9.5%	20.6%
Winter Wheat	-24.4%	129.7%	-37.8%	71.9%	7.9%
Sugar Beets	6.7%	-13.9%	-0.9%	27.0%	-14.5%
State Cattle and Calf Inventory Growth /4	6.0%	1.9%	1.9%	-5.5%	1.9%
Retail Trade Sales Growth /5	5.7%	5.9%	6.2%	-12.5%	8.8%

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

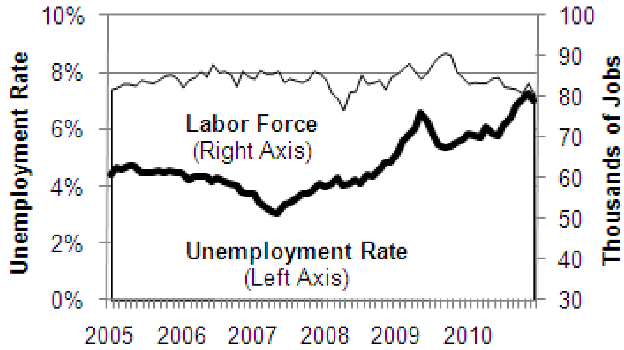
2/ National Agricultural Statistics Service.

3/ National Agricultural Statistics Service. 2010 crop price changes compares November 2010 to November 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 in 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 year-to-date 2010 over 2009.

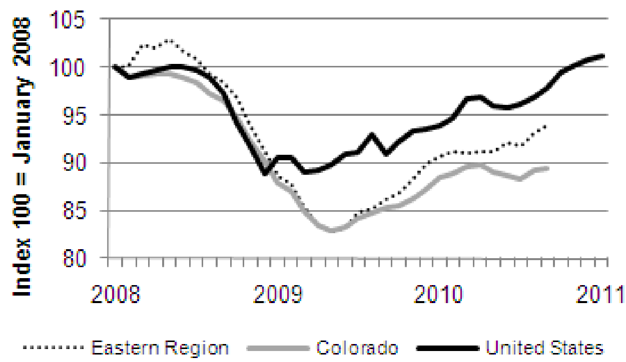
5/ Colorado Department of Revenue. Seasonally adjusted. Data through September 2010.

Figure 56
Eastern Region Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 57
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through September 2010; U.S. data through January 2011.

The agriculture industry in the region is stable and continues to benefit from the ongoing demand for winter wheat and high crop prices. Winter wheat was the primary driver of the agricultural industry gains in 2010 as prices increased more than 25 percent over the prior year. Corn prices also rose significantly in 2010, posting gains of 37.9 percent over 2009. Similarly, both winter wheat and corn posted production gains in 2010 over the prior year.

Cattle inventory at the close of 2010 totaled 2.65 million head, up 1.9 percent over the prior year. In turn, production of red meat in Colorado and the region totaled 184.6 million pounds in December 2010, up 11 percent from the same period in the prior year and 8 percent above the prior month. It is likely that crop prices and meat production will rise in 2011 as food and commodity prices continue to increase.

Figure 57 compares changes in the region's consumer spending, as measured by retail trade sales, to changes in consumer spending in the nation and the state. After a strong rebound in 2009 and a leveling off in early 2010, spending through September continues to post strong growth. After declining 12.5 percent in 2009, retail trade sales advanced 8.8 percent through September 2010, one of the strongest growth rates in the state.

Appendix A
Historical Data

National Economic Indicators
(Dollar Amounts in Billions)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Domestic Product	$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	$14,657.8
percent change	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%	3.8%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$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	$13,245.6
percent change	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%	2.8%
Unemployment Rate	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%	9.6%
Inflation (Consumer Price Index)	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	3.8%	-0.4%	1.6%
10-Year Treasury Note	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%	4.6%	3.7%	3.3%	3.2%
Personal Income	$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	$12,544.6
percent change	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%	3.0%
Wage and Salary Income	$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	$6,405.3
percent change	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%	2.1%
Nonfarm Employment (millions)	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	130.8	129.8
percent change	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%	-4.4%	-0.8%

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	2010
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	2,179.6	2,226.0	2,279.1	2,331.3	2,350.3	2,245.6	2,220.1
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%	-1.1%
Unemployment Rate (%)	4.0	4.2	3.4	3.6	3.1	2.8	3.8	5.7	6.1	5.6	5.1	4.3	3.7	4.8	2.9	8.9
Personal Income	$94,039	$101,777	$110,110	$120,100	$130,662	$147,055	$156,468	$157,752	$159,918	$168,587	$179,695	$194,390	205,153	214,727	210,228	NA
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%	5.5%	4.7%	-2.1%	
Per Capita Income	$24,575	$25,964	$27,402	$29,174	$30,919	$33,977	$35,296	$35,023	$35,156	$36,611	$38,576	$40,997	$42,577	$43,825	$42,249	NA
percent change	5.8%	5.7%	5.5%	6.5%	6.0%	9.9%	3.9%	-0.8%	0.4%	4.1%	5.4%	6.3%	3.9%	2.9%	-3.6%	
Wage and Salary Income	$53,162	$57,442	$62,754	$69,862	$76,643	$86,417	$89,109	$88,107	$89,284	$93,619	$98,902	$105,833	112,952	117,143	112,764	NA
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%	6.7%	3.7%	-3.7%	
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	66,302	69,695
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%	5.1%
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	NA
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	$4,193	$3,192	$2,967
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%	-23.9%	-7.0%
Denver-Boulder Inflation Rate	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%	2.2%	3.9%	-0.6%	1.9%
Population (thousands, July 1)	3,738.1	3,812.7	3,891.3	3,969.0	4,056.1	4,339.0	4,442.9	4,502.1	4,551.7	4,604.9	4658.21	4,741.6	4,818.4	4,899.7	4,975.9	5,047.0
percent change	2.3%	2.0%	2.1%	2.0%	2.2%	7.0%	2.4%	1.3%	1.1%	1.2%	1.2%	1.8%	1.6%	1.7%	1.6%	1.4%

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.
NA = Not Available.