Focus Colorado: Economic and Revenue Forecast

Colorado Legislative Council Staff
Economics Section

March 19, 2012

Table of Contents — **Page**

The Legislative Council Staff is the nonpartisan research staff of the Colorado General Assembly.

Natalie Mullis, Chief Economist
Marc Carey
Ron Kirk
Ryan Brendle
Larson Silbaugh
Louis Pino
Keshia Duncan
Debbie Grunlien

Legislative Council Staff
029 State Capitol Building
Denver, Colorado 80203
(303) 866-3521
www.colorado.gov/lcs

Photograph captures a mountain goat on Red Mountain in the San Juan Mountains, courtesy of Geoffrey Johnson.

Highlights

- The **economy** continues to gain strength. An improving job market is boosting personal income and consumer spending. The industrial, manufacturing and construction industries are gradually improving, and the real estate market is showing early signs of stabilization. Growth will continue to be moderate, however, as the economy works through damage done by the financial crisis and uncertainty about the global economy.

- The **FY 2011-12** General Fund budget is in balance, with an estimated $256.0 million left in the General Fund at the end of the year above the required reserve. This amount is $108.0 million higher than the amount expected in December.

- The General Assembly will have $602.2 million more to spend in **FY 2012-13** than the amount budgeted for FY 2011-12. This amount does not account for expenditure pressures resulting from inflation and caseload growth and assumes the $256.0 million surplus in FY 2011-12 is carried forward into FY 2012-13.

- Increases in the General Fund reserve and transfers to transportation and capital construction required by **Senate Bill 09-228** are expected to occur in **FY 2013-14**.

- The **Referendum C Cap** will equal $10.9 billion in FY 2011-12, and revenue subject to TABOR will be about $900 million below the cap.

- The **Unemployment Insurance Trust Fund** is expected to regain solvency in FY 2012-13.

EXECUTIVE SUMMARY

This report presents the budget outlook based on the March 2012 economic, General Fund revenue, and cash fund revenue forecasts.

General Fund overview

Table 1 on page 4 presents the General Fund overview based on current law. Table 3 on pages 6 and 7 lists budgetary measures from the 2009 through 2011 legislative sessions affecting the General Fund overview. Table 7 on pages 15 and 16 lists legislation affecting General Fund revenue.

FY 2010-11. The General Fund ended FY 2010-11 with a surplus of $288.9 million. Pursuant to Senate Bill 11-156 and Senate Bill 11-230, $221.4 million was transferred to the State Education Fund *(see line 30 of Table 1)* and $67.5 million was transferred to the State Public School Fund *(see line 31 of Table 1)*.

FY 2011-12. The FY 2011-12 General Fund budget is in balance. Revenue is expected to be $256.0 million higher than the amount budgeted to be spent or retained in the reserve. This incorporates a $64.1 million placeholder for health care expenditures approved in January by the Joint Budget Committee. This surplus is assumed to be carried forward into FY 2012-13.

FY 2012-13. General Fund revenue will be $602.2 million higher in FY 2012-13 than what would be needed to fund General Fund operating appropriations and the statutorily required reserve at the same level as was budgeted for FY 2011-12. This amount is equal to 8.3 percent of total expenditures in FY 2011-12.

Because no budget has yet been enacted for FY 2012-13, Table 1 shows operating appropriations in FY 2012-13 at the same level as that currently budgeted for FY 2011-12. Therefore, the $602.2 million figure would be lower if it were adjusted to account for expenditure pressures resulting from inflation and caseload growth or the backfill of any one-time money used in FY 2011-12 for the operating budget. In addition, this assumes that the FY 2011-12 surplus of $256.0 million is not spent but carried forward into FY 2012-13. If this surplus is spent, the $602.2 million surplus is reduced to $343.6 million, or 4.6 percent of total expenditures in FY 2011-12.

Senate Bill 09-228 transfers and reserve increase. This forecast anticipates that the transfers to transportation and capital construction and the reserve increase required by Senate Bill 09-228 will occur in **FY 2013-14**. The transfers to transportation and capital construction will total $202.1 million and the statutory reserve will increase $35.2 million. If personal income increases by at least 5 percent, starting in 2012 or subsequent years, Senate Bill 09-228 requires these transfers and an increase in the General Fund statutory reserve. In FY 2012-13, the first year affected by these provisions, personal income is expected to increase 4.1 percent. However, personal income is forecast to grow 5.1 percent in 2013, thereby triggering the transfers and reserve increase in FY 2013-14.

Table 1
March 2012 General Fund Overview
(Dollars in Millions)

		FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14
FUNDS AVAILABLE		**Preliminary**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$137.4	$156.7	$537.5	$883.7
2	General Fund Nonexempt Revenue	6,315.2	6,295.9	6,688.5	7,034.4
3	General Fund Exempt Revenue (Referendum C)	770.6	1,182.2	971.8	1,050.7
4	Transfers to Other Funds	0.0	(1.0)	(0.0)	(3.1)
5	Transfers from Other Funds	158.1	134.0	2.1	2.2
6	Sales Taxes to Older Coloradans Fund and OASMCF	(10.9)	(10.9)	(8.0)	(8.0)
7	**Total Funds Available**	**$7,370.5**	**$7,756.8**	**$8,192.0**	**$8,959.9**
8	Percent Change	7.5%	5.2%	5.6%	9.4%
EXPENDITURES		**Budgeted**	**Budgeted**	**Estimate /A**	**Estimate /A**
9	General Fund Appropriations	6,811.1	6,973.1	7,037.2	7,037.2
10	Adjustments to Appropriations /B	12.0	64.1	0.0	0.0
11	Rebates and Expenditures *(Lines 20-25 of Table 6)*	115.2	131.1	143.0	139.9
12	Reimbursement for Senior and Disabled Veterans Property Tax Cut	1.6	1.7	96.1	102.7
13	Transfer for Highway Construction /C	0.0	0.0	0.0	161.7
14	Capital Construction Transfers /C	12.0	49.3	32.0	84.1
15	Accounting Adjustments	(26.6)	NE	NE	NE
16	**Total Expenditures**	**$6,925.0**	**$7,219.3**	**$7,308.3**	**$7,525.6**
17	Percent Change	3.1%	4.2%	1.2%	3.0%

BUDGET SUMMARY		**Preliminary**	**Estimate**	**Estimate /A**	**Estimate /A**
18	**Amount Available for Expenditure** *(Line 7 minus Line 24)*	**7,213.8**	**7,477.9**	**7,910.5**	**8,643.2**
19	Dollar Change	493.2	263.9	432.6	732.7
20	Percent Change	7.3%	3.7%	5.8%	9.3%
21	***Revenue Will Restrict Expenditures and/or the Reserve by:***	***0.0***	***0.0***	***0.0***	***0.0***

RESERVE		**Budgeted**	**Budgeted**	**Estimate /A**	**Estimate /A**
22	Year-End General Fund Reserve	445.5	537.5	883.7	1,434.3
23	Year-End Reserve As A Percent of Appropriations	6.5%	7.6%	12.6%	20.4%
24	Statutorily-Required Reserve	156.7	281.5	281.5	316.7
25	Reserve in Excess or (Deficit) of Statutory Reserve	$288.9	$256.0	$602.2	$1,117.6
26	*Percent Change in General Fund Appropriations*	*2.7%*	*2.4%*	*NE*	*NE*
27	Addendum: TABOR Reserve Requirement	282.7	299.5	306.3	322.0
28	Addendum: 5% of Colorado Personal Income Appropriations Limit	10,797.6	10,271.9	10,660.1	11,225.1
29	Addendum: Amount Directed to State Education Fund Per Amendment 23	370.5	399.2	407.4	431.9
30	Addendum: Amount Directed to State Education Fund Per SB 11-156	221.4	NA	NA	NA
31	Addendum: Amount Directed to State Public School Fund Per SB 11-230	67.5	NA	NA	NA

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

/A Because the budget for FY 2012-13 has not yet been enacted, this analysis assumes General Fund appropriations as budgeted for FY 2011-12 (lines 9 and 10) will occur in FY 2012-13 and FY 2013-14. Therefore, line 25 shows the amount of money available for expenditure in FY 2012-13 and FY 2013-14 above the amount spent in FY 2011-12.

/B The $64.1 million figure in FY 2011-12 is a placeholder approved in January by the Joint Budget Committee for Health Care. Not yet current law, it could change.

/C Includes SB 09-228 transfers of $162.6 million and $40.7 million to Transportation and Capital Construction, respectively, in FY 2013-14. In addition, the statutorily-required reserve increases to 4.5 percent of General Fund appropriations in FY 2013-14.

Tax polices dependent on sufficient General Fund revenue. Several tax policies are only available when the Legislative Council Staff forecast for General Fund revenue is projected to be sufficient to allow General Fund appropriations to grow by at least 6 percent. Based on the current forecast, revenue will be sufficient for 6 percent appropriations growth in each year of the forecast. Table 2 illustrates the availability of these tax policies. Although revenue is expected to be sufficient in FY 2011-12, the following tax policies are not available in tax year 2012 or beginning January 2012 because their availability was determined by the December 2011 forecast:

- child care contribution income tax credit;
- historical property preservation income tax credit; and
- clean technology medical device sales tax refund.

While this forecast expects that the instream tax credit will be available in tax year 2012, its actual availability is determined by the June 2012 forecast. Similarly, this forecast expects that the sales and use tax exemption for clean rooms will be available in FY 2012-13, but its actual availability is set by the June 2012 forecast.

Table 2
Tax Policies Dependent on Sufficient General Fund Revenue to Allow General Fund Appropriations to Increase by at Least 6 Percent

<table>
<tr><th>Tax Policy</th><th>Legislative Council Staff Forecast</th><th>Expected Tax Policy Availability</th></tr>
<tr><td>Child care contribution income tax credit</td><td rowspan="2">December forecast immediately before the tax year when the credit becomes available.</td><td rowspan="2">Available in tax years 2013 and 2014.</td></tr>
<tr><td>Historic property preservation income tax credit</td></tr>
<tr><td>Clean technology medical device sales tax refund</td><td>December forecast immediately before the calendar year when the credit becomes available.</td><td>Available beginning January 2013.</td></tr>
<tr><td>Sales and use tax exemption for clean rooms</td><td>If the June forecast indicates sufficient revenue for the fiscal year that is about to end, the exemption will become available in July.</td><td>Available beginning July 2012.</td></tr>
<tr><td>Instream flow income tax credit</td><td>June forecast during the tax year the credit will become available.</td><td>Available in tax years 2012, 2013, and 2014.</td></tr>
</table>

Based on the current forecast, the following tax credits and exemptions are expected to be available starting in either tax year 2013 or at some time during calendar year 2013:

- child care contribution income tax credit;
- historical property preservation income tax credit; and
- clean technology medical device sales tax refund.

The future availability of these tax credits and exemptions will be set by subsequent Legislative Council Staff forecasts.

Table 3
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	0.01	-	-
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	2.1	2.1	-
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	9.5	-	-
HB 10-1325	Natural Resource Damage Recovery Fund	-	0.2	0.14	0.16	0.16
HB 10-1327	Cash Fund Transfers	-	84.7	-	-	-
HB 10-1383	CollegeInvest Transfer	-	29.8	-	-	-
HB 10-1388	Cash Fund Transfers	-	-	3.8	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	-	-	1.7	-	-
SB 11-164	Cash Fund Transfers	-	-	123.4	-	-
SB 11-210	Supp. Old Age Health and Medical Care Fund	-	-	-	0.7	-
SB 11-219	Health Care Clinics	-	-	-	(1.0)	-
SB 11-222	Federal Mineral Lease Transfer	-	-	1.1	-	-
SB 11-224	Tobacco Litigation Settlement Cash Fund	-	-	-	0.8	1.7
SB 11-225	Innovative Health Program Funds	-	-	-	1.8	0.2
SB 11-226	Transfers to Augment General Fund	-	-	5.5	127.4	-
Transfers to the General Fund		$815.2	$421.2	$158.1	$134.0	$2.1
Transfers from the General Fund		($4.4)	($458.1)	$0.0	($1.01)	($0.02)

Table 3 continues on next page

Table 3 *(continued)*
Budgetary Measures Affecting the General Fund Overview /A
(Dollars in Millions)

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	-	(28.0)	28.0	-	-
SB 11-210	Eliminate Diversion to Supp. Old Age Health Fund	-	-	-	-	(2.85)
SB 11-221	Postpone Fire and Police Pension Payments	-	-	-	(20.0)	(15.3)
Total Expenditure Measures		**($25.3)**	**($138.8)**	**($88.8)**	**($115.2)**	**($18.2)**

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 11-156	FY 10-11 Reserve Reduction & SEF Transfer	-	-	195.9	-	-
Total Revenue Impact		**($148.2)**	**($149.1)**	**$195.9**	**$0.0**	**$0.0**

/A Excludes budgetary measures affecting General Fund operating appropriations.

Revenue Forecast

The FY 2011-12 forecast for total revenue subject to TABOR increased $168.1 million relative to the December forecast. The forecast for General Fund revenue subject to TABOR increased $163.0 million, and the cash fund forecast increased $5.1 million. The FY 2012-13 forecast for revenue subject to TABOR increased $39.1 million, with the General Fund revenue forecast rising $64.5 million and the cash fund revenue forecast decreasing $25.4 million.

- **General Fund revenue** increased 9.7 percent in FY 2010-11. However, General Fund revenue is expected to grow more slowly in FY 2011-12 and FY 2012-13, by 5.5 percent and 2.4 percent, respectively. Those forecasts were both revised up from the December forecast because of slightly higher expectations for income taxes and sales and use taxes.

- The forecast for **cash fund revenue** subject to TABOR increased 12.2 percent in FY 2010-11, totaling more than $2.3 billion. Cash fund revenue is expected to grow 8.1 percent and 1.9 percent in the next two fiscal years, respectively. However, compared with the December forecast, the cash fund projection was increased $5.2 million in FY 2011-12 and lowered $25.4 million in FY 2012-13.

- The **Unemployment Insurance Trust Fund** is expected to regain solvency in FY 2012-13. Unemployment 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. Rates for 2014 and beyond are expected to fall as the fund balance recovers. House Bill 11-1288 will also begin increasing premium revenue in FY 2011-12 by increasing the employee wage base upon which employer unemployment insurance payments are made.

- 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 almost $1.2 billion as a result of Referendum C. Table 4 presents the history and forecast for revenue retained by Referendum C.

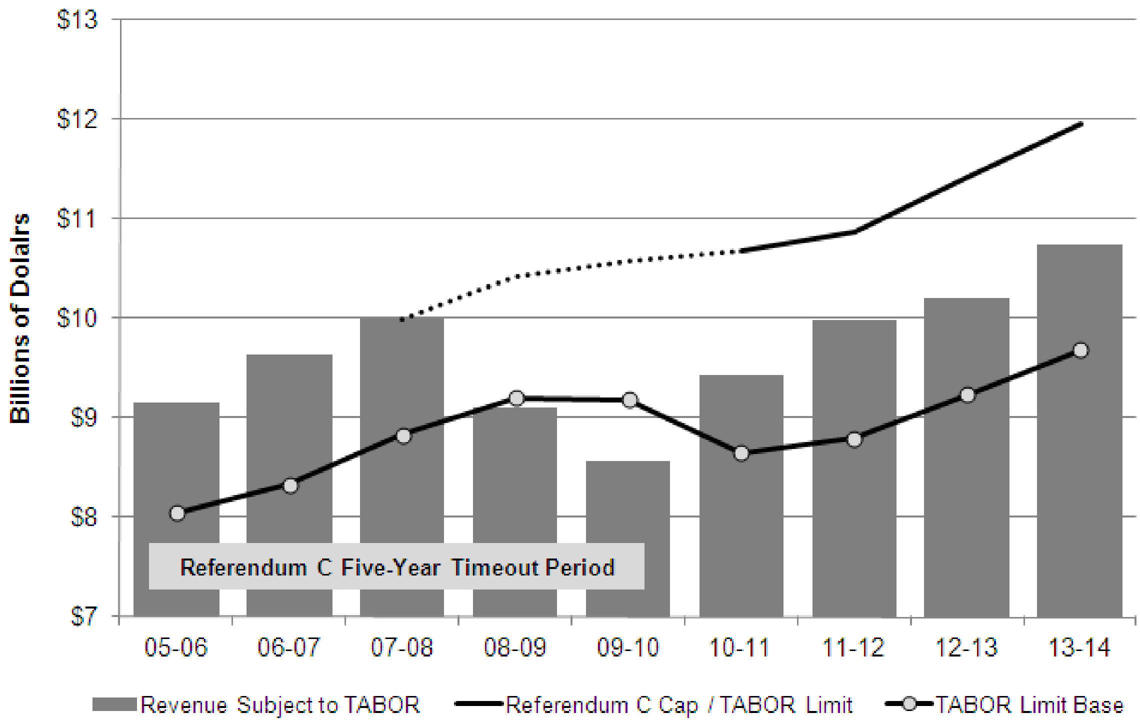
- Figure 1 shows TABOR revenue and the Referendum C cap through the end of the forecast period, which extends fours years beyond the Referendum C five-year time-out period. The Referendum C cap will equal $10.9 billion in FY 2011-12. Revenue subject to TABOR will be about $900 million below the cap. Revenue will not be sufficient to produce a **TABOR refund** through at least FY 2013-14, the end of the forecast period. Table 5 on page 11 shows estimates for TABOR revenue, the TABOR Limit/Referendum C cap, and revenue retained as a result of Referendum C during the forecast horizon.

- During the decade between 2000 and 2010, the federal government overestimated Colorado's population. TABOR requires the limit to be adjusted each decade in according with the Census count. Therefore, the population growth rate used to calculate the FY 2011-12 is only 0.1 percent and reflects a **downward population adjustment** estimated at 1.3 percentage points.

Table 4
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
FY 2010-11	$770.6
Projections	
FY 2011-12	$1,182.2
FY 2012-13	$971.8
FY 2013-14	$1,050.7

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



Source: Colorado State Controllers Office and Legislative Council Staff.

National Economy

After stabilizing in the second half of 2011, the U.S. economy continues to build momentum. Most sectors of the economy are improving, but growth is moderate as the economy works through damage done by the financial crisis and uncertainty about international economic conditions. The job market is improving, which is boosting personal income and consumption. The industrial, manufacturing, and construction industries are gradually improving, and the real estate market is starting to stabilize as the supply of homes for sale is starting to match the demand for homes.

The overall outlook for the national economy is for continued growth, although the recovery is expected to be more constrained than previous recoveries.

Colorado Economy

The recovery in Colorado's economy is strengthening. Recent gains in the labor market signal that the economy, which only six months ago was feared to be nearing recession, has not only stabilized but its recovery has gained a solid foothold and is more resilient than previously thought. However, growth will remain below the long run potential, weighed down by concerns about the global economy, high levels of consumer debt, rising gasoline prices, and continuing imbalances in the real estate and credit markets.

Pockets of the state have enjoyed a strong economic recovery. Employment increased at strong rates in Weld County and the southwest mountain region as a result of increased activity in the oil industry. Increasing agriculture prices have driven growth in ranch and farm income, boosting consumer spending and economic health on the eastern plains, the San Luis Valley, on the western slope, and in the northern region of the state. The Boulder area is enjoying strong growth in software publishing and economic activity in the Metro Denver and Pueblo regions is strengthening gradually. Meanwhile, the economy in the Colorado Springs region is showing only weak signs of recovery. In addition, the economy is struggling in portions of the western region as a result of slowing activity in the natural gas industry.

Table 5
March 2012 TABOR Revenue Limit and Retained Revenue

(Dollars in Millions)

		Actual FY 2010-11	Estimate FY 2011-12	Estimate FY 2012-13	Estimate FY 2013-14
	TABOR Revenue:				
1	General Fund /A	$7,081.1	$7,449.1	$7,631.4	$8,056.1
2	Cash Funds	2,343.7	2,532.8	2,580.2	2,677.8
3	**Total TABOR Revenue**	**$9,424.8**	**$9,981.9**	**$10,211.6**	**$10,733.9**
	Revenue Limit				
4	Allowable TABOR Growth Rate	1.2%	2.0%	5.0%	4.8%
5	Inflation (from prior calendar year)	-0.6%	1.9%	3.7%	3.4%
6	Population Growth (from prior calendar year) /B	1.8%	0.1%	1.3%	1.4%
7	TABOR Limit Base	$8,654.2	$8,799.7	$9,239.7	$9,683.2
8	Voter Approved Revenue Change (Referendum C)	$770.6	$1,182.2	$971.8	$1,050.7
9	Total TABOR Limit / Referendum C Cap	$10,684.9	$10,871.0	$11,414.6	$11,962.5
	Retained/Refunded Revenue				
10	Revenue Retained under Referendum C /C	$770.6	$1,182.2	$971.8	$1,050.7
11	**Total Available Revenue**	**$9,424.8**	**$9,981.9**	**$10,211.6**	**$10,733.9**
12	Revenue to be Refunded to Taxpayers	$0.0	$0.0	$0.0	$0.0

Totals may not sum due to rounding.

/A These figures differ from the General Fund revenues reported in other tables because they net out revenue that is already in the cash funds to avoid double counting and include transfers of revenue from TABOR enterprises into TABOR district boundaries.

/B The population growth rate used to calculate the FY 2011-12 limit reflects a downward adjustment of about 1.3 percentage points for an overcount of population during the decade between 2000 and 2010.

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

GENERAL FUND REVENUE

General Fund revenue decreased by nearly 1.3 billion from FY 2007-08 to FY 2009-10. In FY 2010-11, the state's economy began recovering and General Fund revenue increased by $628 million, or 9.7 percent. This improvement was also supported by revenue-augmenting legislation passed during the 2009 and 2011 legislative sessions. It is estimated that about 35 percent of the increase in FY 2010-11 was the result of this legislation. Table 7 on pages 15 and 16 shows the list of legislation affecting General Fund revenue from the 2009 through 2011 legislative sessions. In FY 2011-12 and FY 2012-13, General fund growth is expected to slow to 5.5 percent and 2.4 percent, respectively. Table 6 on page 14 illustrates revenue collections in FY 2010-11 and projections for FY 2011-12 through FY 2013-14.

Compared with the December forecast, expectations for General Fund revenue are higher by $163 million in FY 2011-12 and $64.5 million in FY 2012-13. Much of the FY 2011-12 increase is attributable to one-time accrual adjustments.

General Fund revenue from **sales taxes** increased 12.0 percent in FY 2010-11 compared with the prior year, although a $67 million accounting adjustment was responsible for a significant portion of that gain. On an accrual accounting basis, sales taxes are projected to decrease 0.2 percent in FY 2011-12, due to moderate economic growth and the loss of this one-time accounting adjustment. On a cash basis, sales tax revenue is projected to increase 3.5 percent in FY 2011-12. In FY 2012-13, sales tax revenue will increase 0.9 percent.

Retail trade growth has shown steady gains through November 2011, the most recent data available. Retail trade includes the sale of gasoline and food, which are both exempt from state sales tax so they are not represented in the sales tax collections data. Retail trade is expected to grow in 2012 and 2013, but at a slower rate than in 2011. Legislation impacting sales and use tax revenue is shown in Table 7 on page 15.

Compared with the December forecast, the sales tax forecast was increased $11.0 million in FY 2011-12 and $5.4 million in FY 2012-13, reflecting moderate economic growth throughout the forecast period.

Use tax revenue rebounded sharply in FY 2010-11 from the recession trough, increasing 22.3 percent. It is expected to increase at a more moderate pace, growing 5.2 percent in FY 2011-12 and 4.1 percent in FY 2012-13. Compared with the December forecast, the outlook for use tax revenue is slightly lower in FY 2011-12 and slightly higher in FY 2012-13. For the two- year period, use tax revenue is expected to be $4.4 million more than the December forecast.

Individual income tax collections increased 10.1 percent in FY 2010-11, rebounding from recessionary levels in the prior two fiscal years. The improvement was supported by modest employment gains in the state, a rebound in the stock market, lower tax refunds, and payments 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, shown in Table 7 on page 16.

Table 6
March 2012 General Fund Revenue Estimates
(Dollars in Millions)

	Category	Preliminary FY 2010-11	Percent Change	Estimate FY 2011-12	Percent Change	Estimate FY 2012-13	Percent Change	Estimate FY 2013-14	Percent Change
1	Sales	$2,043.5	12.0	$2,048.4	0.2	$2,067.8	0.9	$2,127.6	2.9
2	Use	190.1	22.0	199.9	5.2	208.0	4.1	213.6	2.7
3	Cigarette	39.3	-3.8	39.4	0.3	38.4	-2.5	37.4	-2.6
4	Tobacco Products	13.8	-14.2	15.4	11.7	15.9	3.3	12.6	-21.1
5	Liquor	36.4	2.8	38.0	4.2	38.6	1.6	40.4	4.7
6	TOTAL EXCISE	$2,323.1	12.1	$2,341.2	0.8	$2,368.8	1.2	$2,431.7	2.7
7	Net Individual Income	$4,496.1	10.1	$4,866.9	8.2	$4,972.9	2.2	$5,266.7	5.9
8	Net Corporate Income	393.9	5.9	415.4	5.5	423.5	1.9	451.3	6.6
9	TOTAL INCOME TAXES	$4,890.0	9.7	$5,282.3	8.0	$5,396.3	2.2	$5,718.0	6.0
10	Less: Portion diverted to the SEF*	-370.5	12.6	-399.2	7.7	-407.4	2.1	-431.9	6.0
11	INCOME TAXES TO GENERAL FUND	$4,519.5	9.5	$4,883.1	8.0	$4,988.9	2.2	$5,286.1	6.0
12	Estate	-0.1	NA	0.0	NA	45.0	NA	94.0	108.9
13	Insurance	189.6	1.5	196.4	3.5	206.2	5.0	219.8	6.6
14	Pari-Mutuel	0.5	-0.4	0.5	-10.5	0.4	-19.4	0.3	-19.3
15	Investment Income	7.9	-21.6	11.3	43.3	9.8	-13.7	12.2	24.6
16	Court Receipts	3.6	-80.0	2.1	-41.1	0.9	-57.1	0.7	-22.2
17	Gaming	20.4	NA	20.2	NA	20.2	NA	20.3	NA
18	Other Income	21.280	-18.1	23.2	9.1	20.2	-13.0	114.1	464.7
19	TOTAL OTHER	$243.3	-5.6	$253.7	4.3	$302.7	19.3	$367.3	21.4
	GROSS GENERAL FUND	**$7,085.8**	**9.7**	**$7,478.0**	**5.5**	**$7,660.4**	**2.4**	**$8,085.1**	**5.5**
	REBATES & EXPENDITURES:								
20	Cigarette Rebate	$11.0	-5.3	$11.5	4.6	$11.2	-2.5	$11.0	-2.6
21	Old-Age Pension Fund	91.3	-12.6	100.6	10.2	108.2	7.6	89.9	-16.9
22	Aged Property Tax & Heating Credit	6.8	-10.0	7.7	12.5	7.6	-1.0	7.5	-1.0
23	Interest Payments for School Loans	0.8	-64.1	0.6	-23.0	0.5	-13.7	0.7	24.6
24	Fire and Police Pension Association	4.3	1.3	9.8	127.4	14.6	49.0	30.0	105.9
25	Amendment 35 GF Expenditures	0.9	9.2	0.9	1.6	0.9	-1.8	0.9	-1.9
26	TOTAL REBATES & EXPENDITURES	$115.2	-12.1	$131.1	13.8	$143.0	9.1	$139.9	-2.2

Totals may not sum due to rounding. NA = not applicable.

**SEF = State Education Fund.*

Table 7
Legislation Affecting General Fund Revenue
(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 /A	-	-	-	-	-
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	21.9
HB 10-1193	Sales/Use Taxes and Out-of-State Retailers	-	0.02	0.2	0.2	0.2
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	3.4	3.7	3.7
SB 11-223	2.22% Vendor Fee until July 1, 2014	-	-	-	23.6	24.5
SB 11-263	Medical Products Sales Tax Exemption	-	-	-	(0.2)	(0.3)
HB 11-1005	Reinstate Exemption for Agricultural Products	-	-	-	(3.7)	(3.7)
HB 11-1265	Sales and Tax Refund Claims	-	-	-	(19.1)	(6.0)
HB 11-1293	Reinstate Exemption for Software	-	-	-	-	(21.9)
HB 11-1296	Continue State Sales Tax on Cigarettes	-	-	-	27.6	26.3
H.R. 4853 /D	Payroll Tax Rate Reduction	-	-	14.0	14.0	-
Total Sales Taxes		*$16.1*	*$108.0*	*$190.0*	*$120.7*	*$64.2*

Table 7 Continues on Next Page

Individual income taxes are expected to grow 8.2 percent and 2.2 percent, respectively, in FY 2011-12 and FY 2012-13.

The individual income tax estimates increased relative to the December forecast. The forecast was $150.6 million higher for FY 2011-12 and $47.1 million higher for FY 2012-13. This change resulted from a one-time accrual adjustment but also a strong performance in the stock market and higher growth expectations for employment.

Nationally, corporate profits have grown by 37.7 and 15.1 percent in the last two fiscal years. They are expected to grow at a slower rate in FY 2011-12. In FY 2011-12, Colorado **corporate income** tax collections are projected to rise to $415.4, a 5.5 percent increase compared with the prior year. Over the remainder of the forecast period, corporate income tax revenue is expected to rise another 1.9 percent in FY 2012-13 and 6.6 percent in FY 2013-14.

This pattern of projected corporate tax collections over the forecast period is the result, in part, of a federal law that reduces corporate taxable income in FY 2010-11 and FY 2011-12, but increases it in later years. The law accelerates both the depreciation of business equipment for tax purposes and

Table 7 *(continued)*
Legislation Affecting General Fund Revenue
(Dollars in Millions)

Income Taxes		**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
HB 09-1001	Tax Credit for Job Growth	-	($2.9)	($8.6)	($13.8)	($18.1)
HB 09-1067	In-Stream Flow Tax Credit /A	-	-	(1.0)	(2.0)	(2.0)
HB 09-1105	Colorado Innovation Investment Tax Credit /B	-	-	-	-	-
HB 09-1331	Tax Incentives for Fuel Efficient Vehicles	-	1.8	5.2	1.9	(5.4)
HB 09-1366	Capital Gains Deduction	-	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	37.0
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
SB 11-076	PERA - Reduction in Income Taxes	-	-	-	(1.8)	-
HB 11-1014	Child Care Contribution Tax Credit	-	-	-	-	11.7
HB 11-1045	Colorado Innovation Investment Tax Credit /A	-	-	(0.1)	(0.1)	-
HB 11-1081	Propane Vehicles Included in Credit /C	-	-	-	-	-
HB 11-1300	Conservation Easement Tax Credit	-	-	2.0	4.0	(2.0)
H.R. 4853 /D	Accelerated Expensing and Bonus Depreciation	-	-	(70.1)	(98.1)	(25.4)
Total Income Taxes		*0.0*	*5.0*	*(25.2)*	*(28.1)*	*38.3*
Estate Taxes						
H.R. 4853 /D	Reinstates Federal Credit for State Estate Taxes	-	-	-	-	45.0
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 State Revenue Measures		**$16.1**	**$115.7**	**$167.5**	**$95.3**	**$150.2**

/A These bills are effective only during years in which General Fund revenue is sufficient to allow General Fund appropriations to increase 6 percent. The trigger is removed from the Child Care Contribution credit beginning tax year 2013. Please see the executive summary for a list of these incentives that will be available during the forecast period.

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

/C HB 11-1081 begins to impact revenue in FY 2013-14.

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

allows businesses to deduct a larger amount of qualifying equipment investments as an expense in tax year 2012. This also means, however, that businesses will have fewer equipment deductions in future years than they otherwise would have. Thus, corporate income tax revenue will be increased more than it normally would have been in FY 2013-14.

The **State Education Fund** receives one -third of one percent of taxable income from state income tax returns. This fund will see growth in revenue similar to income taxes. After receiving $371 million in FY 2010-11, it will receive $399 million in FY 2011-12 and $407 million in FY 2012-13.

Through February, the **tax amnesty program, enacted by Senate Bill 11-184,** has collected a total of $16.4 million from the following revenue sources:

- $11.0 million from state sales, use, and income taxes;
- $3.8 million from state oil and gas severance taxes; and
- $1.6 million from local government sales and use taxes.

Of the $11.0 million collected from state income, sales, and use taxes, $9.4 million was transferred to the State Education Fund. The remaining $1.6 million was either retained by the Department of Revenue for administrative expenses related to the program and to prepare biennial tax profile and expenditure reports, or reserved for the family medicine residency training program in the Department of Health Care Policy and Finance.

Under current federal law, Colorado will collect an **estate tax** beginning in FY 2012-13 for the first time since 2005. Estate tax revenue is expected to be $45 million in FY 2012-13, which represents a half year of revenue collections. Estate tax revenue will increase to $94 million in FY 2013-14.

The estate tax is levied on the taxable estate of a deceased person. Until 2005, the federal government allowed a credit that reduced estate taxes owed to the federal government by the amount of estate taxes paid to a state. Colorado's tax is equal to the maximum amount allowed for this credit and thus does not change a taxpayer's overall liability.

In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which phased out the federal estate tax through 2009 and repealed it in its entirety in 2010. EGTRRA replaced the state tax credit with a deduction beginning in 2005, effectively eliminating Colorado's estate tax.

In December 2010, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law. This Act extended the EGTRRA provisions for an additional two years through 2012, including the repeal of the federal estate tax. In addition, the Act unset *all* provisions of EGTRRA on January 1, 2013. At that time, the federal estate tax credit structure as it was prior to the enactment of EGTRRA will be reinstated, including the state estate tax credit. Colorado will therefore collect an estate tax for deaths occurring on and after January 1, 2013.

CASH FUNDS

Table 8 on page 20 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, revenue from the hospital provider fee, severance tax revenue, and taxes from gaming activities. The end of this section also presents the forecasts for federal mineral leasing and unemployment insurance revenue. These forecasts are presented separately because they are not subject to TABOR.

Cash fund revenue subject to TABOR will total $2.5 billion in FY 2011-12, representing an increase of 8.1 percent over FY 2010-11. The increase is mostly attributable to the projected increase in revenue from the hospital provider fee and severance tax collections compared with the previous year. Growth in these cash funds will offset the decline in insurance-related revenue attributable to 2009 legislation that reduced workers compensation-related premiums. Cash fund revenue will increase 1.9 percent to $2.6 billion in FY 2012-13, driven primarily by continued increases in hospital provider fee revenue.

Transportation-related cash funds are expected to be $1.1 billion in FY 2011-12, up slightly from the December forecast. Declines in the Highway Users Tax Fund will be offset by growth in the State Highway Fund in FY 2011-12. A trend of slow growth will continue over the next several years. Projected totals for transportation-related cash funds through the forecast period are shown in Table 9 on page 21.

Overall revenue to the *Highway Users Tax Fund (HUTF)* will decrease 0.7 percent in FY 2011-12. These declines are due to decreases in special fuels taxes and late registration fees. Late registration fee revenue is expected to decline 31.0 percent in FY 2011-12. Despite this, the forecast for HUTF revenue was increased from the December forecast to account for higher than expected revenue in other HUTF receipts and the road safety surcharge. Revenue growth from these sources is expected to be modest through the forecast period.

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.

Total revenue to the *State Highway Fund* decreased 19.8 percent to $42.6 million in FY 2010-11, mainly due to heavy losses in local government matching dollars. As the economy has begun to recover, local grants are showing a strong rebound. Consequently, the State Highway Fund is expected to grow 28.4 percent in FY 2011-12. In FY 2012-13 and 2013-14, modest growth is expected as interest payments on the account should remain limited due to extended low interest rates.

Congress has yet to approve a multi-year federal transportation funding program. The current program (SAFETEA-LU) is set to expire March 31, 2012. Future federal transportation funding will have an effect on the *State Highway Fund* because the majority of revenue to the fund derives from interest earnings on the fund balance, which is

Table 8
March 2012 Cash Fund Revenue Subject to TABOR Estimates
(Dollars in Millions)

	Actual FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	FY 10-11 to FY 13-14 CAAGR *
Transportation-Related	**$1,082.7**	**$1,096.5**	**$1,106.7**	**$1,124.9**	
% Change	2.2%	1.3%	0.9%	1.6%	**1.3%**
Hospital Provider Fee	**$442.6**	**$586.6**	**$643.4**	**$607.7**	
% Change	46.1%	32.5%	9.7%	-5.5%	**11.2%**
Severance Tax	**$149.4**	**$177.0**	**$123.7**	**$189.0**	
% Change	209.6%	18.5%	-30.1%	52.8%	**8.2%**
Gaming Revenue /A	**$98.0**	**$92.1**	**$94.9**	**$97.7**	
% Change	-3.2%	-6.0%	3.0%	3.0%	**-0.1%**
Insurance-Related	**$26.5**	**$16.2**	**$16.5**	**$16.8**	
% Change	-38.3%	-38.8%	2.0%	1.8%	**-14.0%**
Regulatory Agencies	**$69.6**	**$69.0**	**$70.0**	**$71.1**	
% Change	3.3%	-0.8%	1.5%	1.5%	**0.7%**
Capital Construction Related - Interest /B	**$3.0**	**$1.3**	**$0.6**	**$0.5**	
% Change	-8.1%	-57.1%	-54.4%	-18.9%	**-45.9%**
Other Cash Funds	**$472.0**	**$494.2**	**$524.4**	**$570.1**	
% Change	1.7%	4.7%	6.1%	8.7%	**6.5%**
Total Cash Fund Revenue	**$2,343.7**	**$2,532.8**	**$2,580.2**	**$2,677.8**	
Subject to the TABOR Limit	12.2%	8.1%	1.9%	3.8%	**4.5%**

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.

Table 9
Transportation Funds Revenue Forecast by Source, March 2012
(Dollars in Millions)

	Preliminary FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	FY 10-11 to FY 13-14 CAAGR *
Highway Users Tax Fund (HUTF)					
Motor Fuel and Special Fuel Taxes	$557.2	$555.5	$560.5	$566.7	0.6%
% Change	2.6%	-0.3%	0.9%	1.1%	
Total Registrations	$322.1	$318.5	$320.2	$323.6	0.1%
% Change	1.4%	-1.1%	0.5%	1.1%	
Registrations	*$185.0*	*$188.9*	*$191.1*	*$193.6*	
Road Safety Surcharge	*$114.5*	*$114.0*	*$114.4*	*$116.0*	
Late Registration Fees	*$22.7*	*$15.6*	*$14.7*	*$13.9*	
Other HUTF Receipts /A	$57.6	$56.4	$79.9	$81.9	12.5%
% Change	-3.0%	-2.2%	41.8%	2.5%	
Total HUTF	**$936.9**	**$930.4**	**$960.6**	**$972.1**	1.5%
% Change	1.8%	-0.7%	3.2%	1.2%	
State Highway Fund	$42.6	$54.7	$55.5	$56.5	9.8%
% Change	-19.8%	28.4%	1.5%	1.7%	
Other Transportation Funds	$103.2	$111.4	$90.6	$96.3	-2.3%
% Change	19.3%	7.9%	-18.7%	6.3%	
Aviation Fund /B	*$36.2*	*$39.2*	*$37.3*	*$41.7*	
Law-Enforcement-Related /C	*$11.0*	*$10.2*	*$10.4*	*$10.7*	
Registration-Related /D	*$56.0*	*$61.9*	*$42.9*	*$43.9*	
Total Transportation Funds	**$1,082.7**	**$1,096.5**	**$1,106.7**	**$1,124.9**	1.5%
% Change	2.2%	1.3%	0.9%	1.6%	

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

/A Includes daily rental fee, oversized overweight vehicle surcharge, interest receipts, judicial receipts, drivers' license fees, and other miscellaneous receipts in the HUTF.

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

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

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

Addendum: TABOR-Exempt FASTER Revenue

	Preliminary FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	
Bridge Safety Surcharge	$72.1	$101.6	$101.9	$102.5	$96.1
% Change	59.4%	40.9%	0.3%	0.6%	

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.

comprised of federal funds, the state's share of HUTF revenue, and revenue from local governments.

The Bridge Safety Surcharge will grow an additional 33.6 percent, to the full fee, in FY 2011-12. Revenue from the fee is TABOR exempt (see Addendum to Table 9).

The **Hospital Provider Fee** program is expected to generate $586.6 million in FY 2011-12. This forecast increased by $20.1 million in FY 2011-12, $42.2 million in FY 2012-13, and $61.2 million in FY 2013-14 from the December forecast. These revisions are primarily due to changes in the hospital fee model to incorporate the latest data.

Beginning January 2014, children receiving Medicaid and childless adults will receive 100 percent matches by the Enhanced Federal Medicaid Assistance program. Assistance to childless adults, however, will not occur immediately due to current restrictions on hospital resources. Instead, in FY 2011-12, childless adults will receive 10 percent assistance with medical expenses with a cap of 10,000 people. This program will be expanded in future years, although no current timetable has been set. The forecast also includes a $50 million transfer for FY 2011-12 and a $25 million transfer for FY 2012-13 authorized by **Senate Bill 11-212.**

Total **severance tax** revenue, including interest earnings, is projected to be $177.0 million in FY 2011-12, a slight upward revision from the December forecast. Projected natural gas collections for FY 2011-12 were increased from the December forecast, largely based on year-to-date collections. Projected coal receipts were also revised upward while projected molybdenum and metallic mineral receipts declined slightly. Oil receipts were also revised upward to reflect the increase in activity in the Wattenberg field.

Collections in FY 2012-13 are projected at sharply lower levels than the December forecast, primarily due to a continued drop in natural gas prices through early March. Projected collections in FY 2013-14 also fell 7.8 percent compared with the December forecast.

The price of natural gas is the largest determinant of state severance tax collections and is difficult to predict. In 2011, natural gas spot market prices averaged $4.10 per Mcf (thousand cubic feet). However, the sharp decline in prices which occurred in the latter half of 2011 has continued in 2012 through early March. Colorado composite gas prices, up around $4.50 per Mcf in mid-June 2011, were at $2.30 in early March 2012. Although the decline is expected to level off, the drop will keep average annual prices lower in the short term. Natural gas prices are projected to remain below $4.00 per Mcf level through 2013 before rising to $4.40 in 2014. The price decline will be compounded by the ad valorem property tax credit, which producers can use to offset their severance tax liability.

Oil prices, which rose sharply through the fall, are expected to continue a gradual increase through 2012 and the remainder of the forecast period. Colorado oil drilling activity has picked up significantly in recent months, especially in Weld County. In particular, this forecast continues to assume a modest bump in oil production over the next three years as a result of the increased exploration in the Niobrarra formation within the Wattenberg field.

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 coal severance tax collections for FY 2011-12 rose just 0.6 percent. This increase was primarily the result of year-to-date receipts.

Table 10
March 2012 Gaming Revenue and Distributions
(Dollars in Millions)

	Preliminary FY 2010-11	Estimate FY 2011-12	Estimate FY 2012-13	Estimate FY 2013-14
Gaming Revenue				
Gaming Taxes				
Pre-Amendment 50 *(Subject to TABOR)*	95.2	89.4	92.1	94.9
Amendment 50 Revenue *(TABOR Exempt)*	9.7	9.1	9.3	9.6
Total Gaming Taxes	**$104.8**	**$98.5**	**$101.5**	**$104.5**
Fees and Interest Earnings *(Subject to TABOR)*				
To Limited Gaming Fund	1.7	1.6	1.7	1.7
To State Historical Fund	1.1	1.0	1.1	1.1
Total Gaming Revenue	**$107.6**	**$101.2**	**$104.2**	**$107.3**
% change	**-3.1%**	**-6.0%**	**3.0%**	**3.0%**
Total Gaming Revenue Subject to TABOR	$98.0	$92.1	$94.9	$97.7
Distributions of Gaming Tax Revenue /A				
Amendment 50 Distributions				
Community Colleges	7.0	6.2	6.3	6.4
Gaming Counties and Cities	2.0	1.7	1.8	1.8
Amendment 50 Administrative Expenses	1.1	1.2	1.3	1.4
Total Amendment 50 Distributions	**$10.0**	**$9.1**	**$9.3**	**$9.6**
Pre-Amendment 50 Distributions				
State Historical Fund	24.2	21.7	22.2	22.6
Gaming Counties	10.4	9.3	9.5	9.7
Gaming Cities	8.6	7.8	7.9	8.1
General Fund	20.4	20.2	20.2	20.3
Economic Development Programs	22.8	18.6	19.4	20.2
Pre-Amendment 50 Administrative Expenses	11.0	11.9	13.0	14.1
Total Amendment 50 Distributions	**$97.4**	**$89.4**	**$92.1**	**$94.9**
Total Gaming Distributions /B	**$107.4**	**$98.5**	**$101.5**	**$104.5**

/A Distributions are made from gaming tax revenue, not total gaming revenue.

/B Administrative expenses were spent in FY 2010-11 above the total amount of revenue collected.

In FY 2012-13 and FY 2013-14, collections are expected to increase 0.8 percent and 3.8 percent, respectively. The increase in severance tax revenue from coal production is expected to continue, in part due to higher severance tax rates for coal. The tax rate for coal is based on the producer price index, which has been rising and is expected to continue to rise.

Severance tax from metallic minerals, including gold, represents a tiny fraction of total collections. This revenue source grew sharply in FY 2010-11 because of the increase in the price of gold. Collections are expected to decline slightly in FY 2011-12 and FY 2012-13 before increasing in the final year of the forecast period.

Finally, projected interest earnings for FY 2011-12 were revised downward relative to the December forecast based on earnings to date. Total severance-related interest earnings are projected to increase 5.2 percent in FY 2012-13, due to increased interest earnings on water project loans made from the perpetual base account of the Severance Tax Trust Fund. Interest earnings in this fund are expected to increase again in FY 2013-14. Interest earnings from the operational account are expected to remain fairly constant throughout the three-year forecast period.

Gaming tax revenue, which includes limited gaming taxes, fees, and interest earnings, is expected to decrease from $107.6 million in FY 2010-11 to $101.2 million in FY 2011-12. Table 10 on page 20 summarizes the forecast for total gaming revenue, both subject to and exempt from TABOR, and the distribution of gaming tax revenue.

Changes in gaming activity, and thus gaming tax revenue, are driven largely by the strength of the economy. As the novelty of expanded gaming waned, high gas prices combined with a weak economy resulted in a 2.7 percent decline in total gaming tax revenue to $104.8 million in FY 2010-11. Revenue is expected to decrease by another 6.0 percent to $98.5 million in FY 2011-12, mainly due to the continued weak economy, but also the result of a change in the gaming tax rate structure. As the economy improves and gaming activity picks up, gaming tax revenue is expected to increase to $101.5 million in FY 2012-13.

In the past six months, casinos in Nevada, South Dakota, and California, are beginning to see gaming expenditure increases, measured in terms of gambling, lodging, and restaurant receipts, which translates to increases in gaming tax revenue for the state. Gaming tax revenue in Nevada advanced modestly at the close of the year, while revenue in South Dakota was up 14 percent in January 2012 over the prior year period. It is likely that Colorado will also see expenditure increases in its gaming establishments as the economy improves, thus increase gaming tax revenue. This type of increased spending will also translate into more money for the lodging and hospitality industries.

As shown in Table 10 on page 23, money from Amendment 50 is distributed to community colleges and local governments in gaming communities. Amendment 50 distributions totaled $10.0 million in FY 2010-11 and will decrease to $9.1 million in FY 2011-12, before growing to $9.3 million in FY 2012-13. Community colleges received $7.0 million in FY 2010-11, and are expected to receive $6.2 million in FY 2011-12 and $6.3 million FY 2012-13.

Gaming revenue 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. These distributions totaled $97.4 million in

Table 11
Federal Mining Leasing Revenue Distributions
(Dollars in Millions)

Fiscal Year	March 2012 Forecast	Percent Change	December 2011 Forecast	Percent Change from Last Forecast
FY 2001-02	$44.6		$44.6	
FY 2002-03	50.0	12.1%	50.0	
FY 2003-04	79.4	58.7%	79.4	
FY 2004-05	101.0	27.2%	101.0	
FY 2005-06	143.4	41.9%	143.4	
FY 2006-07	123.0	-14.3%	123.0	
FY 2007-08	153.6	25.0%	153.6	
FY 2008-09	227.3	47.9%	227.3	
FY 2009-10	122.5	-46.1%	122.5	
FY 2010-11	152.5	24.5%	152.5	
FY 2011-12	160.8	5.4%	161.8	-0.6%
FY 2012-13	164.0	2.0%	165.4	-0.8%
FY 2013-14	172.4	5.1%	174.7	-1.3%

Note: FML distributions are federal funds and therefore not subject to TABOR.

FY 2010-11. Distributions will decline to $89.4 million in FY 2011-12 and increase to $92.1 million in FY 2012-13.

Table 11 presents the March 2012 forecast for **federal mineral leasing** (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.

The forecast for FML revenue was decreased slightly compared with the December forecast, due to a downward revision in expectations for natural gas prices. Revenue is projected to reach $160.8 million in FY 2011-12, a gain of 5.4 percent over the previous year. FML revenue is anticipated to increase modestly over the remainder of the forecast period, reaching $164.0 million in FY 2012-13 and $172.4 million in FY 2013-14. Natural gas prices sharply decreased nationally during the latter half of 2011, and have continued dropping in the first three months of 2012. In Colorado prices dropped from around $5.00 per Mcf in June 2011 to about $2.30 per Mcf in March 2012. This drop was precipitous enough to warrant a downward revision for the current year, causing the forecast for subsequent years to be lowered.

Unemployment Insurance Trust Fund

After three years of deficits, the **Unemployment Insurance (UI) Trust Fund** is expected to reach a positive fund balance of $170.1 million by the close of FY 2012-13. Despite increasing revenue to the fund, high levels of unemployment benefits continue to drain the fund. Forecasts for UI revenue, benefit payments, and the UI Trust Fund balance are shown in Table 12. Revenue to the UI Trust Fund has not been subject to TABOR since FY 2009-10 and is therefore excluded from Table 8 on page 20. Revenue to the Employment Support Fund, which receives a portion of the UI premium surcharge, is still subject to TABOR and is included in the revenue estimates for other cash funds in Table 8.

Since peaking in FY 2009-10, initial UI claims have continued to fall, though layoffs are expected to continue through 2012 in some industries. Overall, UI benefits are expected to fall 5.8 percent between FY 2010-11 and FY 2011-12.

Revenue to the UI Trust Fund continues to rise in FY 2011-12 due to higher benefit payments by employers. Premium payments made by employers make up the revenue to the fund. An employer's premium is statutorily determined based on the fiscal year-end balance of the fund and the amount of benefits paid out to former employees relative to the amount the employer has paid into the fund. Premium rates will remain at the highest schedule of rates in 2012 and 2013 as a result of fund insolvency. Rates for 2014 and beyond are expected to fall as the fund balance recovers. As a result, revenue is expected to begin to fall in FY 2013-14.

House Bill 11-1288 will increase revenue to the UI Trust Fund starting this fiscal year. The bill increases the employee wage base on which employer UI premium payments are made in calendar year 2012. The wage base is expected to increase each year by growth in the average weekly wage starting in 2014.

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 continue funding the UI program. Colorado began borrowing from the Federal Unemployment Account to fund benefit payments in January 2010. After a year of loans offered interest free, the state made its first interest payments of $11.4 million on loans outstanding in September. A similar payment is expected in September of 2012.

By law, a separate assessment is required to pay the interest on federal loans used to fund the UI program. During the summer of 2011, businesses were charged a special interest assessment to pay the interest payment. A similar assessment is expected this summer. The amount an individual business is charged is determined by a formula based on the amount owed to the federal government and a business' total wages as a percent of total wages statewide. A business whose employees have not claimed any or have claimed only a short small amount of UI benefits do not owe a special interest assessment. As of March 1, 2012, the state had $382 million outstanding in federal loans. However, the Colorado Department of Labor and Employment (CDLE) anticipates the outstanding principal on federal loans to shrink to roughly $25 million by June 30, 2012.

Table 12
Unemployment Insurance Trust Fund Forecast, March 2012
Revenue, Benefits Paid, and Fund Balance
(Dollars in Millions)

	Preliminary FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	FY 10-11 to FY 13-14 CAAGR*
Beginning Balance	($193.8)	($301.5)	($65.5)	$170.1	
Plus Income Received					
UI Premium & Premium Surcharge /A	$371.4	$406.5	$399.0	$538.5	13.2%
Solvency Surcharge	$411.3	$466.7	$435.1	$215.6	
Interest	$0.3	$0.0	$1.8	$2.5	
Total Revenues	**$783.0**	**$873.2**	**$835.9**	**$756.7**	-1.1%
% Change	25.3%	11.5%	-4.3%	-9.5%	
Less Benefits Paid	($760.8)	($637.2)	($600.3)	($546.2)	-10.5%
% Change	-28.5%	-16.2%	-5.8%	-9.0%	
Net Federal Loans	*($128.6)*				
Accounting Adjustment	($1.3)	$0.0	$0.0	$0.0	N/A
Ending Balance	**($301.5)**	**($65.5)**	**$170.1**	**$380.5**	
Solvency Ratio/B					
Fund Balance as a Percent of Total Annual Private Wages	-0.37%	-0.08%	0.19%	0.39%	

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 solvency ratio exceeds 0.9 percent of total annual private wages, the solvency surcharge is triggered off.

Note: The Unemployment Insurance Trust Fund is a TABOR enterprise and therefore revenue to it is not subject to TABOR.

NATIONAL ECONOMY

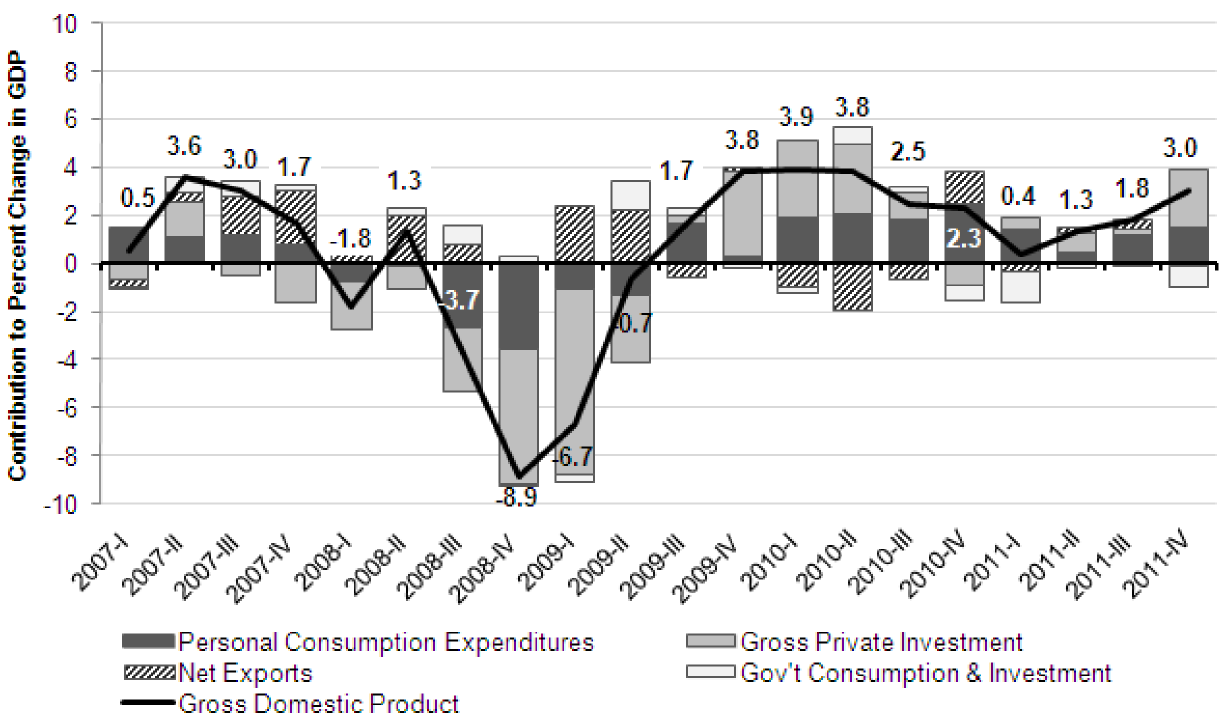
After stabilizing in the second half of 2011, the U.S. economy continues to build momentum. Most sectors of the economy are improving, but growth is moderate as the economy works through damage done by the financial crisis and uncertainty about international economic conditions. The job market is improving, which is boosting personal income and consumption. The industrial, manufacturing and construction industries are gradually improving, and the real estate market is starting to stabilize as the supply of homes for sale is starting to match the demand for homes.

The outlook for the national economy is for continued growth, although the recovery will be more constrained than previous recoveries because of various factors described below. A summary of the forecast for selected national indicators is available in Table 13 on page 43.

Improvements Throughout the U.S. Economy

The broadest measure of total economic activity is **gross domestic product (GDP)**. GDP measures household, business and government investment, and net exports. As shown in Figure 2, GDP growth has accelerated for the past four quarters. Overall, GDP increased 1.7 percent in 2011. Gross

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



Source: Bureau of Economic Analysis.

private investment and personal consumption expenditures added growth in the fourth quarter of 2011. These gains were partially offset by a decline in government spending. Net exports were relatively unchanged between the third and fourth quarters of 2011.

- Annual GDP growth will be 2.4 percent in 2012. Household and business spending is expected to continue to grow. This growth will be offset by falling net exports and reduced government spending. The European debt crisis will reduce exports to Europe and higher oil prices will increase the value of imports, which will dampen GDP growth. Government spending is expected to continue to decline in 2012 and 2013 amid budgetary pressures at all levels of government.

An Uncertain Global Economy

The European debt crisis remains the focal point for uncertainties surrounding global economic growth in 2012. In January, the International Monetary Fund revised 2012 global economic growth expectations down to 3.3 percent from 4.0 percent in September. Europe will experience a recession and social unrest in 2012. However, the European Union is expected to remain intact as Eurozone governments slowly work through the ratification process of strict financial controls agreed to in 2011 and, where needed, implement difficult austerity measures.

Although the debt crisis will continue to pose a significant risk to the global economy for the foreseeable future, uncertainty has eased somewhat about the ability of European leaders to manage it. Negotiations have succeeded in producing a restructuring of Greek debt, while successful bond sales indicate improved confidence from financial markets in the governments of Spain and Italy. The European Central Bank has played an instrumental role by providing liquidity to European banks and purchasing government bonds from overextended European countries.

The European recession has ramifications worldwide. Russia's economy will slow as its financial system manages losses in European investments. China's export-driven economy, already struggling with a housing bubble and imbalances in its financial institutions, has begun to slow as a result of reduced demand from Europe.

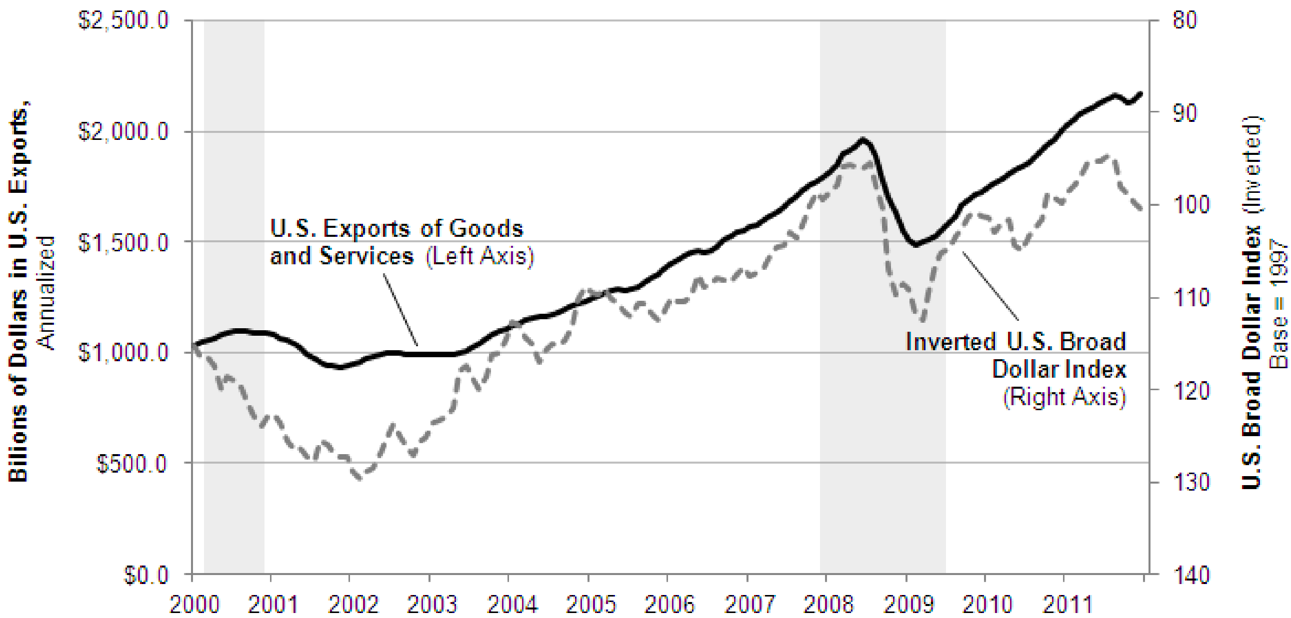
The U.S. is at risk if European lenders are not successful at managing the crisis. A troubled global financial system does not bode well for a U.S. financial sector that is still working through bad loans made prior to the financial crisis. The recession in Europe has already begun to apply downward pressure on U.S. exports. Historically, the Eurozone has made up about 15 percent of total U.S. exports.

Total **U.S. exports** increased through the third quarter of 2011 but lost some momentum through the fourth quarter into January. Contributing to this loss of momentum has been the increasing value of the U.S. dollar relative to other currencies. When the dollar is gaining strength relative to other currencies, the price of U.S. goods is relatively more expensive. Over the past decade, the value of the dollar has exhibited a strong inverse relationship with exports. In Figure 3, the value of the dollar is inverted to demonstrate this relationship.

Continued Improvement in Business Climate

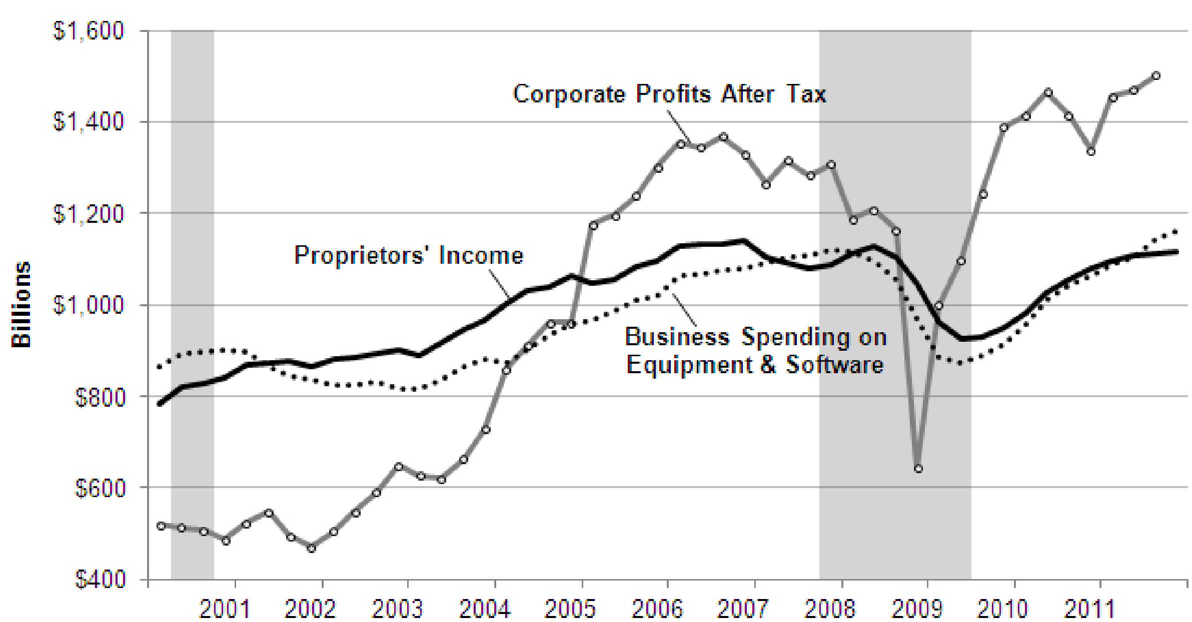
Business income and investment continue to rise. Figure 4 shows **corporate profits, proprietor's income** and **business spending on equipment and software**. Corporate profits are above pre-recessionary

Figure 3
U.S. Exports Lose Momentum, Value of the Dollar Up
Seasonally Adjusted Annual Rates



Source: U.S. Bureau of Economic Analysis and Federal Reserve Board. Data through January

Figure 4
Business Income and Investments
Seasonally Adjusted Annualized Data



Source: U.S. Bureau of Economic Analysis, National Income Product Accounts and Personal Income Statistics.

levels and proprietor's income is nearing that point. Business investment in equipment and software are also rising. In addition, nonfinancial businesses have paid off debt and, on aggregate, are holding a historically high amount of liquid assets relative to outstanding debt.

The nation's manufacturing sector continues to expand, as indicated by the **Institute for Supply Management's Purchaser's Manufacturing Index**, shown in Figure 5. The index has begun to pick up slightly since November 2011, hovering just above 50, the benchmark level for expansion.

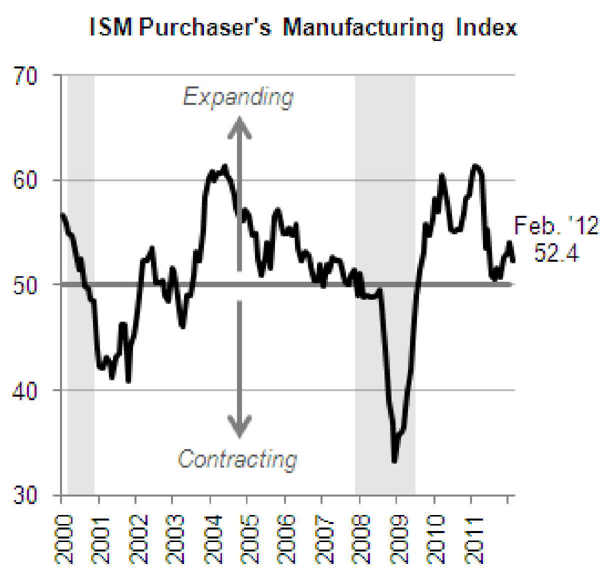
Industrial production, as measured by the **Federal Reserve Board's Industrial Production Index**, also continues to improve. This index measures the volume of U.S. industrial production. While the index has yet to reach pre-recessionary levels, the trend is toward continued expansion, as shown in Figure 5.

Banks Have Recapitalized Amid Tight Credit Markets

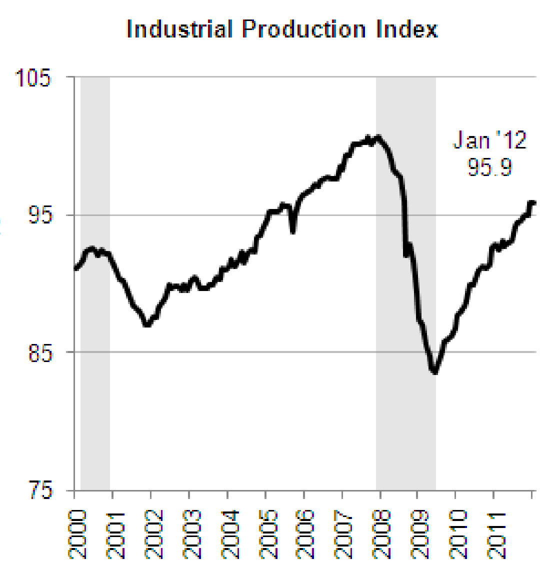
As shown in Figure 6, the solvency of the nation's banks has improved significantly since the financial crisis. In addition to a rebound in **net income**, the **core capital ratio**, a measure of the banking system's financial strength, is at a record high. The core capital ratio measures the amount of capital banks hold as a percentage of their assets (or loans), where the assets have been adjusted for the risk of default. The percent of unprofitable FDIC-insured institutions surged from an average of 7.1 percent in 2006 to a recession peak of 30.8 in the fourth quarter of 2009. It has since fallen to 15.5 percent in the fourth quarter of 2011.

Tight credit markets and high lending standards contributed greatly to the banking system's recapitalization. The nation's credit

Figure 5
Manufacturing and Industrial Production
Seasonally Adjusted

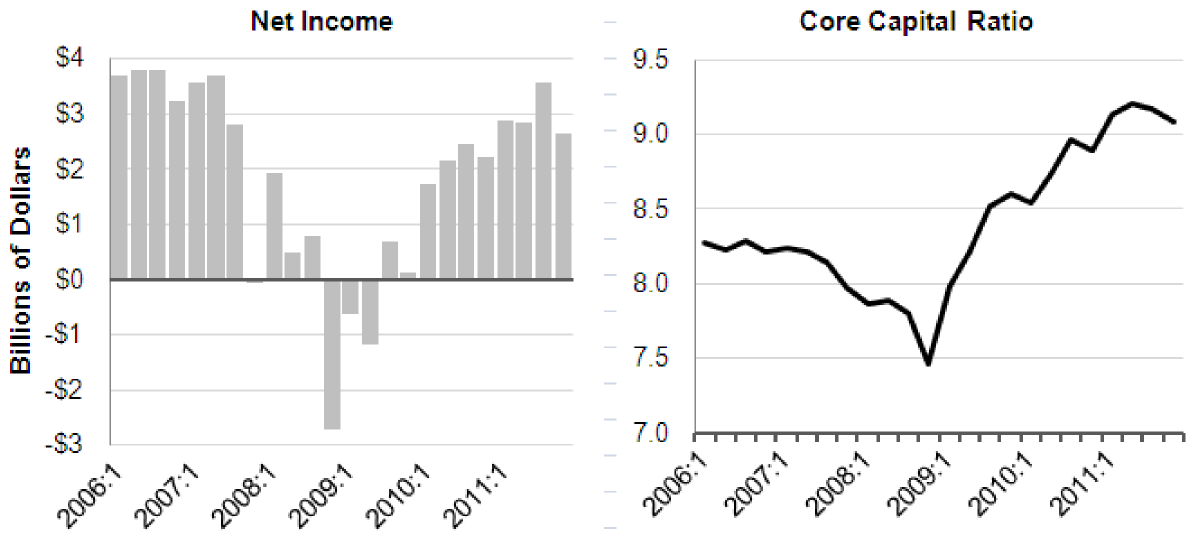


Source: Institute for Supply Management.



Source: Federal Reserve Board.

Figure 6
Net Income and Core Capital Ratio
Rebound at FDIC-Insured Financial Institutions



Source: Federal Deposit Insurance Corporation. Data through fourth quarter 2011. In general, the Core Capital Ratio measures cash on hand as a percent of total assets, where assets (or loans) are adjusted for the risk of default.

markets tightened significantly after the financial crisis, and have only just begun to show movements toward loosening as banks continue to work towards strengthening their balance sheets. Credit markets remain very tight, and until banks are able to address their remaining bad assets and stricter requirements from regulators, they will not loosen sufficiently to allow the overall economy to grow at its potential.

The Federal Reserve's quarterly **senior loan officer survey** indicated no loosening in the already extremely tight credit market for residential mortgages. However, it did indicate a slight amount of easing for consumer credit card and auto loans and domestic commercial and industrial loans. Demand also increased for these loans.

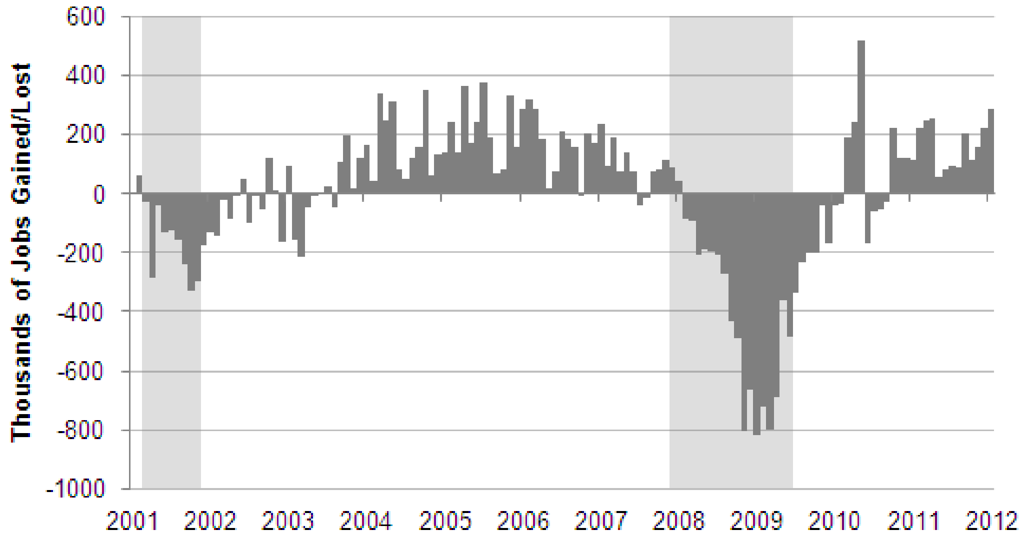
The number of banks reporting increased demand for commercial and industrial loans from small businesses rose to its highest level since 2005. In addition, the National Small Business Association's January 2012 survey of small businesses indicated that the number of small businesses that were able to obtain adequate financing in the fourth quarter of 2011 was at 70 percent, up from a recession-low of 59 percent in July 2009.

Labor Market Gaining Momentum

The national labor market continues to improve, having added jobs in each of the past 16 months. Total **nonfarm employment** grew 1.2 percent in 2011 and the economy has added more than 2.2 million jobs since the start of 2011. Figure 7 shows the monthly number of jobs gained or lost since January of 2011.

While the labor market is improving, the economy has only regained 38.0 percent of the

Figure 7
Monthly Nonfarm Employment Gains/Losses
January 2001 to February 2012, Seasonally Adjusted Data



Source: Bureau of Labor Statistics.

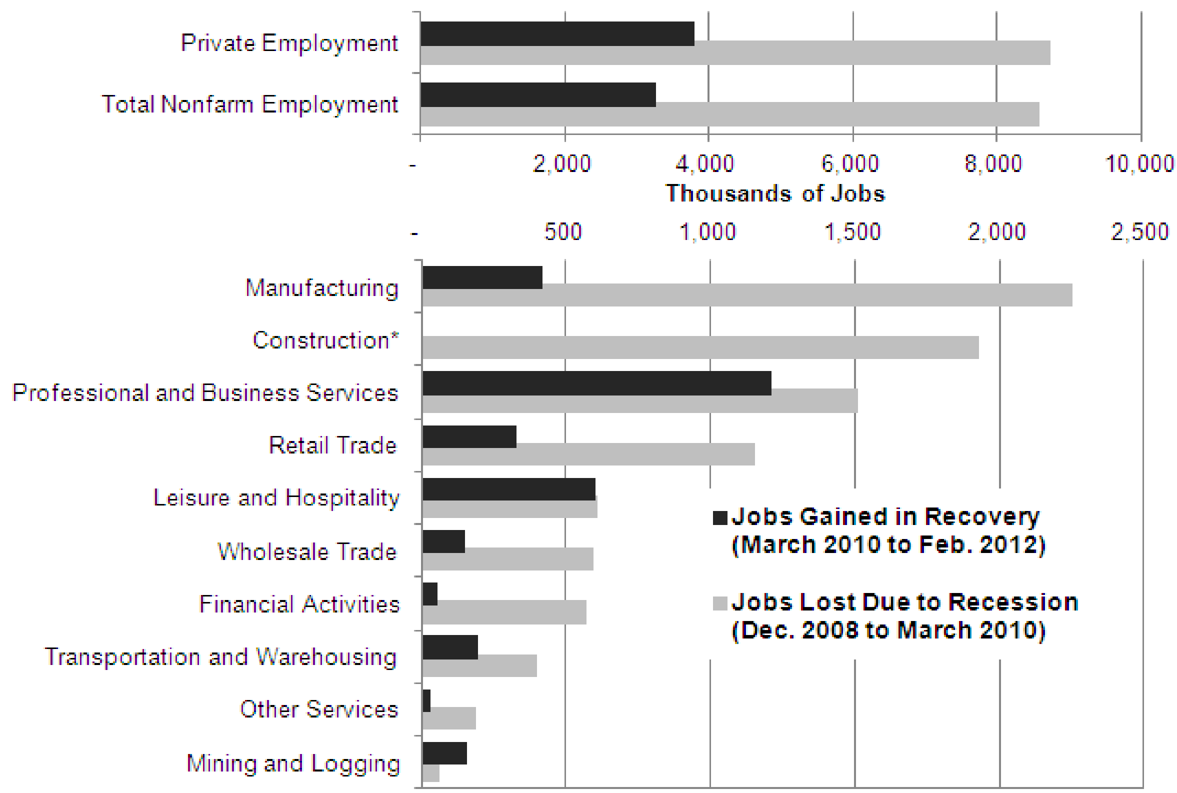
jobs lost during the recession. Figure 8 shows the change in the number of jobs by sector for two different time periods: between the pre-recession peak in December 2008 and the cyclical low in March 2010 and since March 2010. Health services and education gained jobs throughout the recession. Except for the information sector, all private sectors have added some jobs since March of 2010. In contrast, the public sector has lost 533,000 jobs since March 2010. All levels of government face fiscal pressures that will likely led to continued decreases in government employment in 2012 and 2013.

Job growth is widespread throughout the private sector. The service industries were the first to start adding jobs after the recession, and have regained most of the jobs lost. Goods producing industries, like mining and manufacturing, have also added jobs during the recovery. Even construction and financial services, the industries most impacted by the financial crisis and housing bubble, have started to add jobs.

As jobs are added to the economy, the **unemployment rate** has trended downward. As shown in Figure 9 on page 36, the national unemployment rate was 8.3 percent in February of 2012, down from a peak of 10.0 percent in October of 2009. The underemployment rate, a measure of the number of people who are looking for full time work, was at 14.9 percent in February. This rate is an aggregate measure of the unemployed, those working part-time but looking for full-time work, and those wanting to work but who have stopped looking.

While the unemployment rate is falling, the average time spent unemployed has not declined. The duration of unemployment was an average of 40.3 weeks (over nine months) in the fourth quarter of 2011. The average duration of unemployment has more than doubled since the fourth quarter of 2007. Employment data suggest that those unemployed for more than six months are finding it particularly difficult to find work.

Figure 8
The Nation has Gained Back 38 Percent of Jobs Lost During Recession
Jobs Gained During the Recovery vs. Jobs Lost Due to Recession
Changes in Seasonally Adjusted Nonfarm Employment



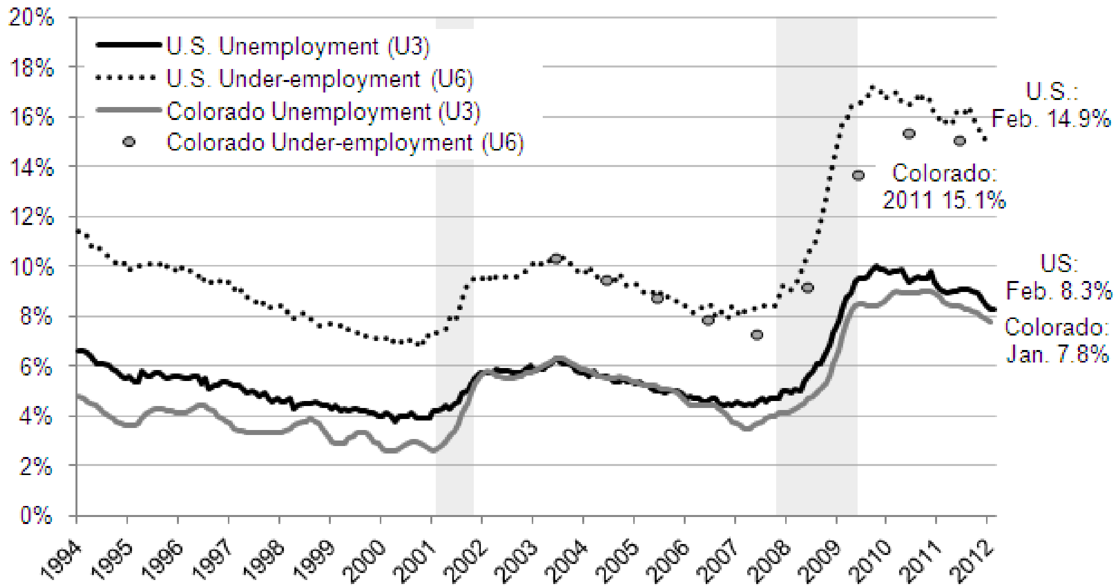
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics. Data through February 2012.
** The construction industry has gained 2,000 jobs since March 2010.*
Industries not included in chart:
Information, which lost jobs throughout the recession and recovery;
Government, which gained jobs in the recession and lost jobs in the recovery; and
Education and Health Services, which gained jobs throughout the recession and recovery.

- The U.S. unemployment rate will average 8.4 percent in 2012 and 8.3 percent in 2013. As the economy continues to improve discouraged workers will return to the labor force, causing the unemployment rate to remain elevated even as new jobs are created. Nonfarm employment is expected to grow at a modest but steady rate of 1.2 percent in 2012 and 1.4 percent in 2013.

Household Income and Spending Continue to Increase

Personal income, a measure of all household income, was up 5.1 percent in 2011 compared with 2010. Wages and salaries, the largest component of personal income, increased 4.3 percent between 2010 and 2011. In 2011, employee compensation increased at the fastest rate since 2007. Income from dividends and rent also grew between 2010 and 2011, increasing 10.4 percent and 15.2 percent, respectively.

Figure 9
U.S. and Colorado Unemployment and Underemployment Rate
Seasonally Adjusted



Source: Bureau of Labor Statistics. Data through February 2012.

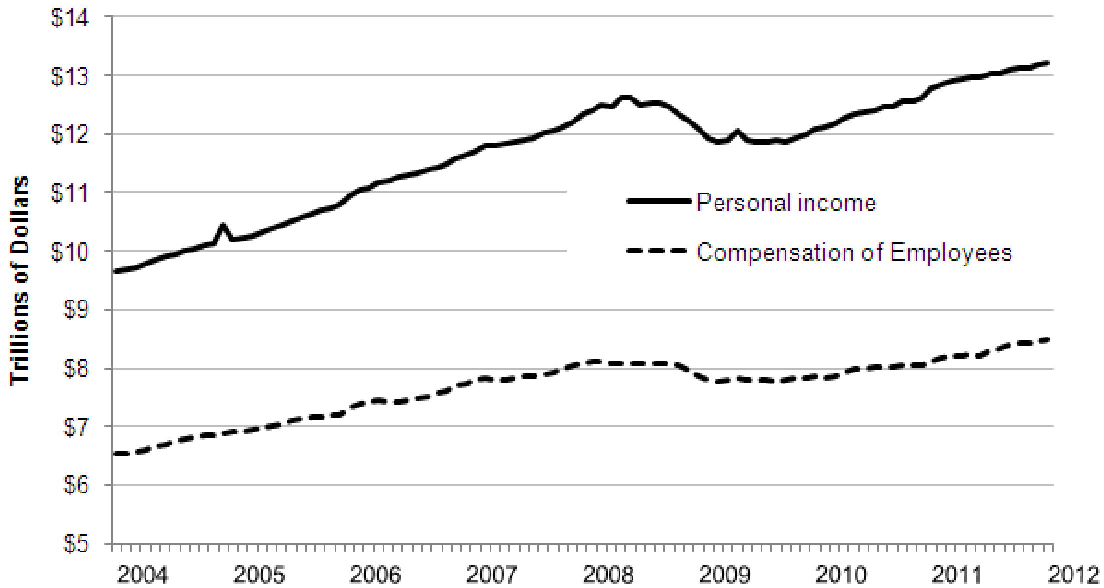
Personal income and employee compensation is now above the peak reached in 2008. Figure 10 shows the increases in total personal income and employee compensation since 2004.

Retail sales continue to climb and are approaching pre-recessionary levels. Figure 11 shows that retail trade sales have steadily increased since September of 2009, and grew 4.4 percent between 2010 and 2011. The increase in retail sales reflects rising incomes, a more secure labor market, and more spending on gasoline as a result of rising oil prices. **Consumer confidence** is improving, but has not rebounded as strongly as retail sales.

The severity of the recession has made consumers more cautious. Households are improving their balance sheets by paying down debt and increasing savings. Figure 12 on page 36 shows the ratio of money needed to service debt and disposable income. The decline in this ratio indicates that consumers are both paying off existing debt and not incurring additional debt to pay for consumption. As households pay down debt and save more, consumer spending is not growing as fast as personal income.

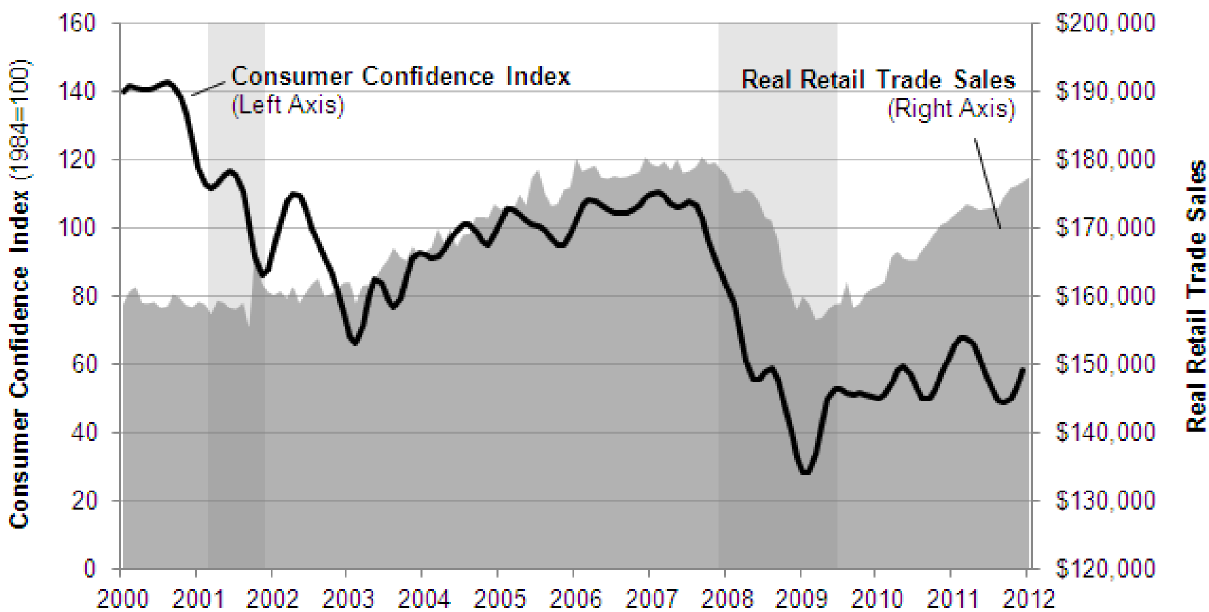
- Personal income growth will increase 4.0 percent in 2012 and wage and salary income will increase 4.5 percent. These growth rates are consistent with a slow economic recovery. Consumer confidence will remain at low levels. Consumers will pay down debt and continue to save, implying that consumer spending will grow more slowly than personal income.

Figure 10
Personal Income and Employee Compensation
Seasonally Adjusted Data



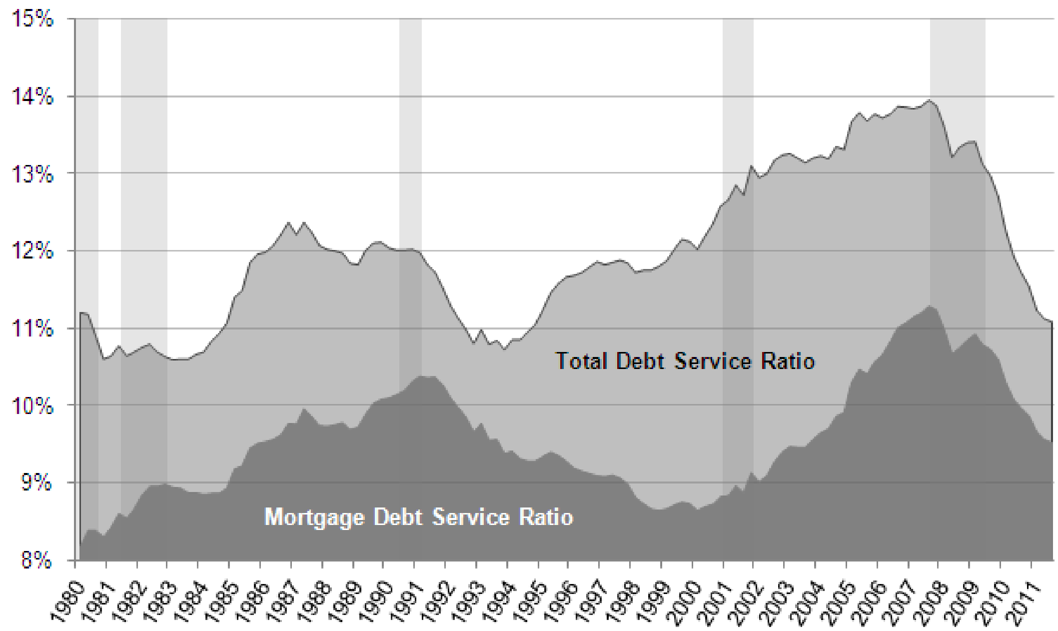
Source: Bureau of Economic Analysis. Data through January 2012.
Compensation of employees includes wages and salaries and nonwage compensation such as pensions and health benefits.

Figure 11
U.S. Retail Sales and Consumer Confidence
Retail Trade Data Seasonally Adjusted



Source: Conference Board via Moody's Analytics and U.S. Census Bureau. Three-month moving averages for consumer confidence. Data through December 2011.

Figure 12
Debt Payments as a Percent of Disposable Income



Source: Federal Reserve Board. Data through the third quarter of 2011.

Construction and the Real Estate Market Improve but Remain at Historical Lows

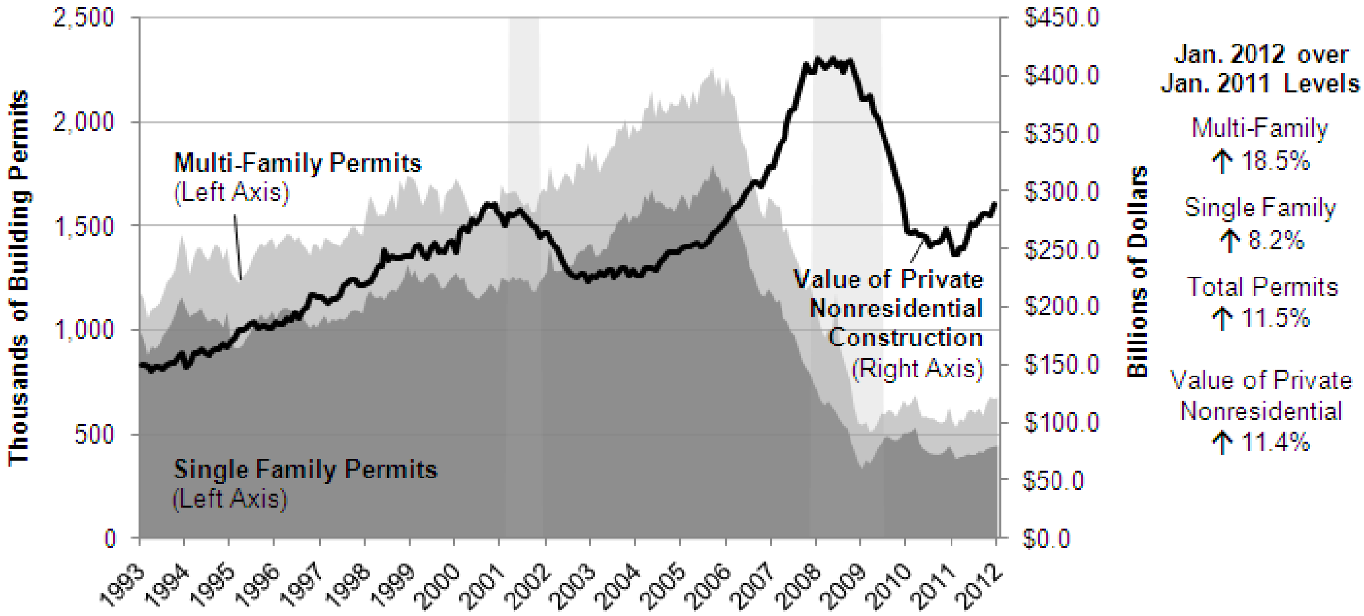
Construction is one of the industries that has traditionally led the nation out of recessions, and the health of the industry has significant implications for the rest of the economy. Figure 13 shows construction activity since 1993. The value of nonresidential construction was growing slowly at the end of 2012. In addition, the number of both single and multifamily permits grew in 2012.

While residential construction is improving compared to 2011 values, it is still at historically low levels. The rise in multifamily building permits is a result of a tight rental market from households choosing to rent rather than buy a home. Multifamily construction will grow faster than single family construction over the next few years.

Demand for new homes remains low, despite an improving labor market. Although still at historical lows, new home sales increased for seven consecutive months through January 2012. The U.S. home supply, as measured by the ratio of homes sold relative to those for sale, remains elevated. Yet, this ratio has fallen considerably, indicating that the housing market is working through excess supply. Figure 14 shows these trends.

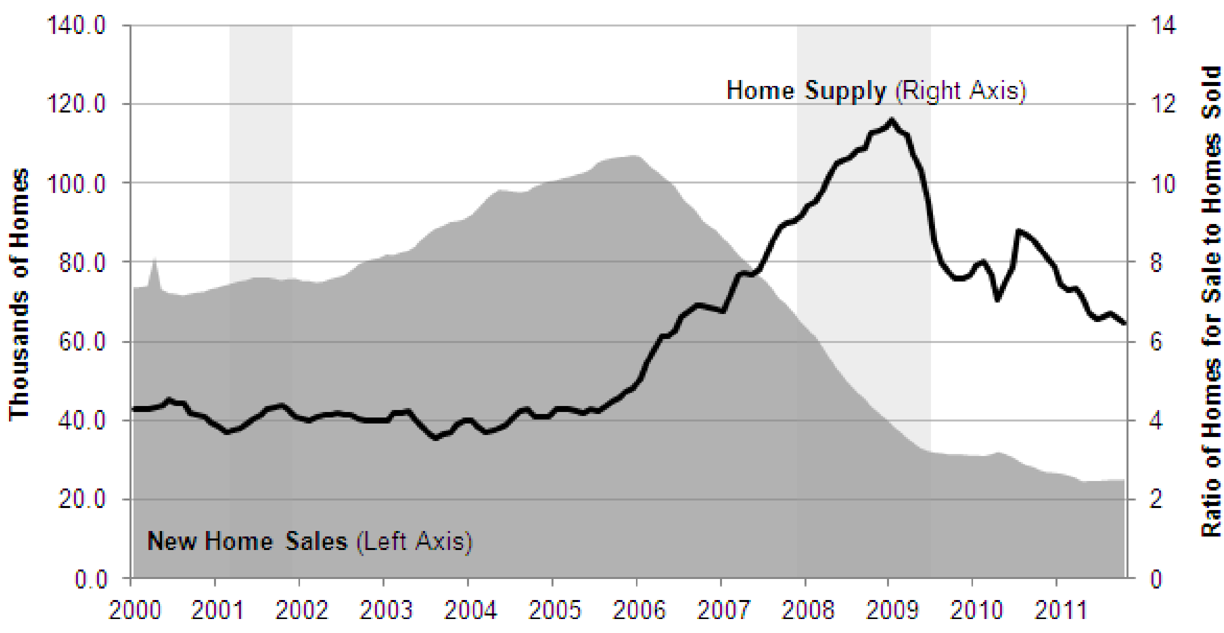
While the housing market continues to work through excess inventory and weak demand, home prices continue to fall. The falling prices are a result of weak demand and banks slowly working through foreclosed homes. Figure 15 on page 40 shows home prices between January 2000 and December of 2011. Home prices in Denver have recently begun to pick up slightly, while prices nationwide continue to trend slightly down.

Figure 13
Residential and Nonresidential Construction
Seasonally Adjusted Annual Data



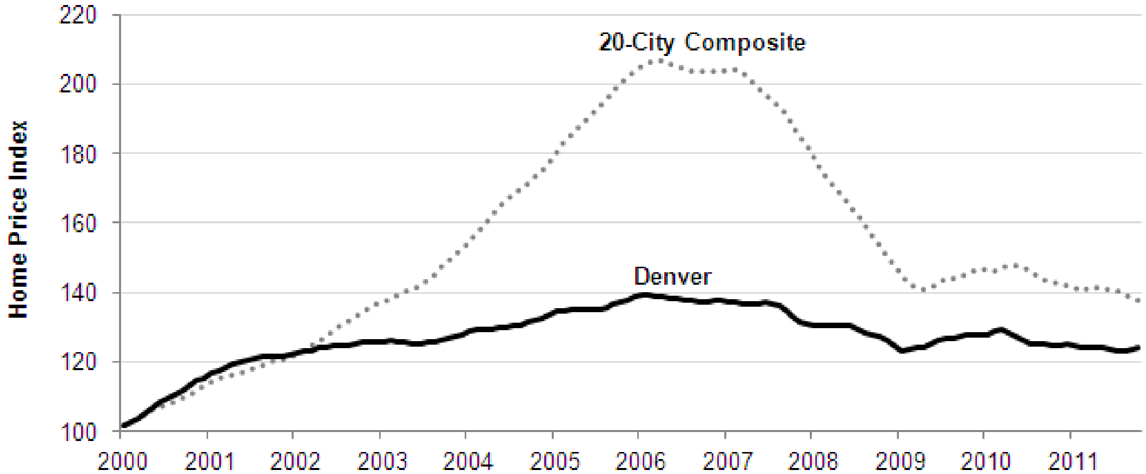
Source: U.S. Census Bureau. Data through January 2012.

Figure 14
Home Demand Down, Supply Steady



Source: U.S. Census Bureau. Home sales are seasonally adjusted three-month averages; housing supply data is not seasonally adjusted and is shown as a twelve-month average. Data through December 2011.

Figure 15
Change in Housing Prices for the Nation and Denver
Seasonally Adjusted Monthly Index



Source: Standards and Poor's Financial Services. Data through December 2011.

Energy Prices and Inflation

High oil prices could also dampen growth. Oil prices have increased fairly steadily since the February of 2009, as shown in Figure 16. Oil prices are up 10.7 percent through December 2011 compared with the same period in 2010. In contrast, natural gas prices have fallen because of increased domestic production and moderate winter weather.

Higher oil prices are driving up the full component of consumer prices. Figure 17 illustrates that the price of all goods and services increased 2.9 percent, while core inflation increased 2.3 percent between January 2011 and January 2012. The difference is primarily due to the rise in energy prices.

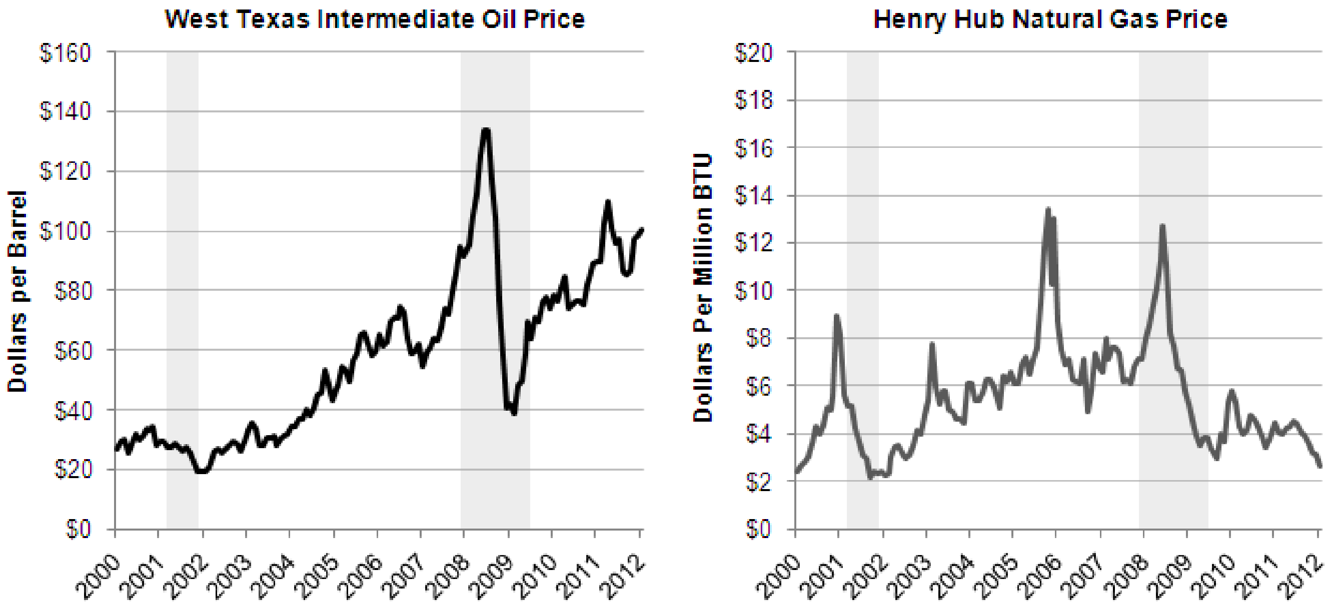
Consumer prices will grow 2.3 percent in 2012 and 2.7 percent in 2013, boosted primarily by fuel and food components. The housing component, which is influenced heavily by the rental market, is also expected to put upward pressure on prices in the coming years.

Summary

The U.S. economy continues to build momentum. The labor market is improving and personal income is rising. Personal consumption is increasing, but is constrained by consumers increasing saving and paying down debts. Businesses are becoming more profitable and increasing investment. The industrial, manufacturing and construction industries are gradually improving and the real estate market is starting to stabilize as the supply of homes for sale is starting to match the demand for homes.

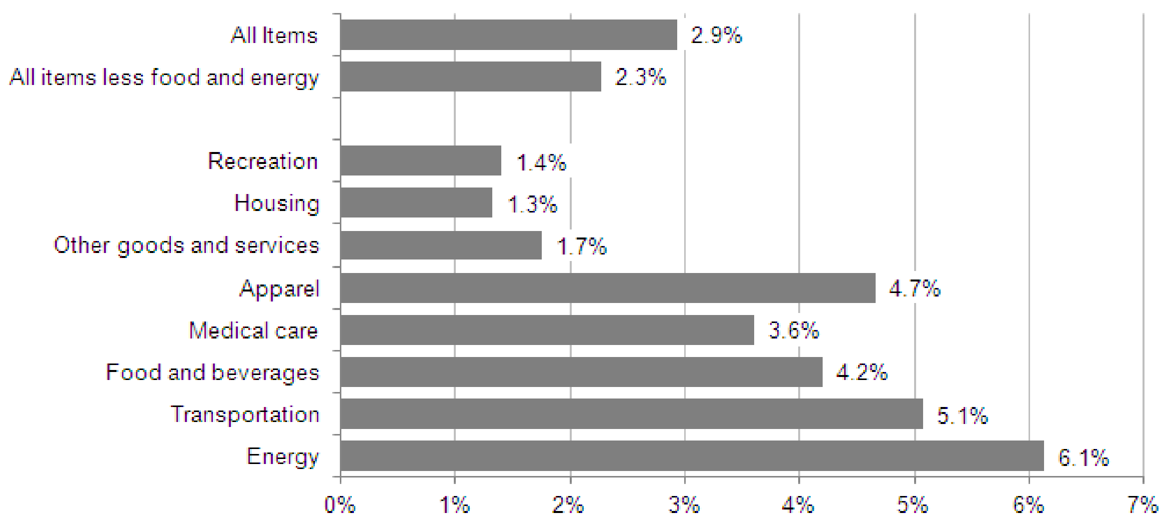
Economic growth is expected to continue at a moderate pace in 2012 and 2013. The labor market is expected to improve with more jobs and gradual declines in the unemployment rate. Personal income and wage income are expected to gradually rise through the forecast period.

Figure 16
Oil and Natural Gas Prices



Source: Dow Jones & Company. Data through January 2012.

Figure 17
Inflation by Type of Good
Percent Change between January 2011 to January 2012



Source: U.S. Census Bureau.

Risk to the Forecast

Downside risk. Although gaining strength, the economic recovery remains fragile and there are lingering effects of the recession on confidence. Thus, an economic shock could halt the recovery's momentum. The most likely shock is further deterioration of the European debt crisis, which could spread from Greece to larger European economies, and eventually the breakup of the currency union. Unrest with Iran could lead to higher oil prices, potentially slowing the economic recovery.

In the medium term, federal fiscal policies set to change on January 1, 2013 could have greater adverse affects on the economy than currently expected. Significant federal sequestration spending cuts, increases in marginal individual income tax rates, and the expiration of the payroll tax cut and extended unemployment insurance benefits are scheduled for 2013. Alternatively, continued economic expansion may diminish the impact of these policies on the recovery.

Upside risk. Economic indicators continue to improve, which reinforces a healing economy. Homeowners and businesses have spent the last three years repairing their balance sheets, constraining short term economic growth. Federal reserve flow of funds data indicate that nonfinancial firms are holding a historically high amount of liquid assets relative to outstanding debt. Recent economic trends could be a sign that firms and consumers are less constrained by debt and uncertainty, and will soon make more investments and purchases. This could accelerate economic growth faster than currently expected.

Table 13
National Economic Indicators, March 2012 Forecast
(Dollars in Billions, Calendar Years)

	2007	2008	2009	2010	2011	Forecast 2012	Forecast 2013	Forecast 2014
Inflation-adjusted GDP	$13,206.4	$13,161.9	$12,703.1	$ 13,088.0	$13,315.3	$13,634.9	$13,934.8	$14,422.6
percent change	1.9%	-0.3%	-3.5%	3.0%	1.7%	2.4%	2.2%	3.5%
Nonagricultural Employment (millions)	137.6	136.8	130.8	129.9	131.4	132.9	134.8	137.4
percent change	1.1%	-0.6%	-4.4%	-0.7%	1.2%	1.2%	1.4%	1.9%
Unemployment Rate	4.6%	5.8%	9.3%	9.6%	9.0%	8.4%	8.3%	7.9%
Personal Income	$11,912.3	$12,460.2	$11,930.2	$12,373.5	$13,004.5	$13,524.7	$14,187.4	$14,981.9
percent change	5.7%	4.6%	-4.3%	3.7%	5.1%	4.0%	4.9%	5.6%
Wage and Salary Income	$6,421.7	$6,550.9	$6,270.3	$6,408.2	$6,683.5	$6,984.3	$7,347.4	$7,795.6
percent change	5.8%	2.0%	-4.3%	2.2%	4.3%	4.5%	5.2%	6.1%
Inflation (Consumer Price Index)	2.9%	3.8%	-0.3%	1.6%	3.1%	2.3%	2.7%	3.0%

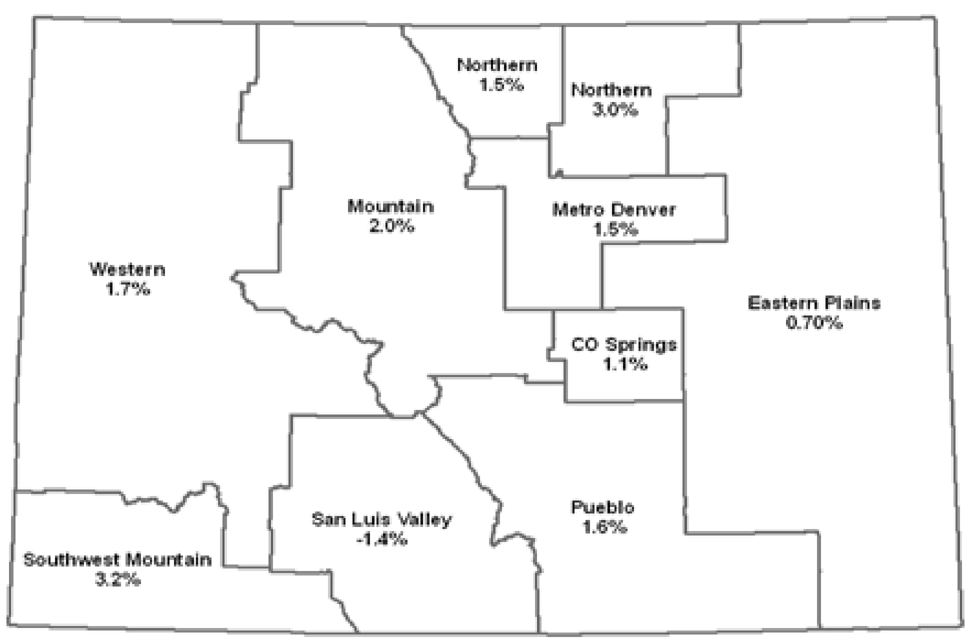
Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Legislative Council Staff.

The recovery in Colorado's economy is strengthening. Recent gains in the labor market signal that the economy, which only six months ago was feared to be nearing recession, has not only stabilized but is gaining a solid foothold and is more resilient than previously thought. As shown in Table 14 on page 60, the economy is expected to continue to grow through 2012. However, growth will remain below the long run potential, weighed down by concerns about the global economy, business and consumer uncertainty, rising gasoline prices, and continuing imbalances in the real estate and credit markets.

Figure 18 shows nonfarm employment growth in 2011 for ten Colorado regions. Although movements in nonfarm employment may not necessarily show it, increasing agriculture prices have driven growth in ranch and farm income, boosting consumer spending and economic health in the eastern plains, San Luis Valley, western slope, and northern regions of the state.

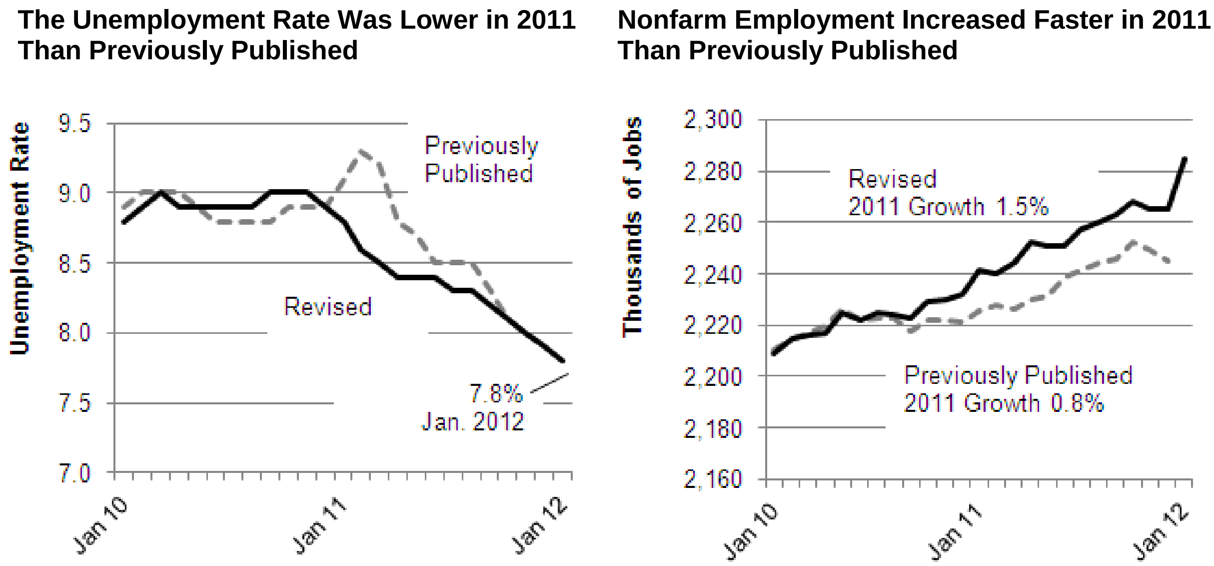
Weld County and the southwest mountain region have enjoyed a stronger economic recovery as a result of increased activity in the oil industry. Meanwhile, the Boulder area is enjoying strong growth in software publishing and related industries and economic activity in the Metro Denver and Pueblo regions is strengthening gradually.

Figure 18
Regional Nonfarm Employment Growth in 2011
Total Colorado Nonfarm Employment Increased 1.5 percent



Source: Bureau of Labor Statistics, Current Employment Statistics and Local area Unemployment Statistics. For more information about regional economies, please see the Colorado Economic Regions, beginning on page 61.

Figure 19
Revisions to Employment Data Signal Faster Labor Market Recovery
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics and Local area Unemployment Statistics. March 13, 2012 release compared with the January 24, 2012 release.

Meanwhile, the economy in the Colorado Springs region is showing only weak signs of recovery. In addition, the economy in the western region is struggling with slowing activity in the natural gas industry as a result of low natural gas prices.

Labor Market Gaining Momentum

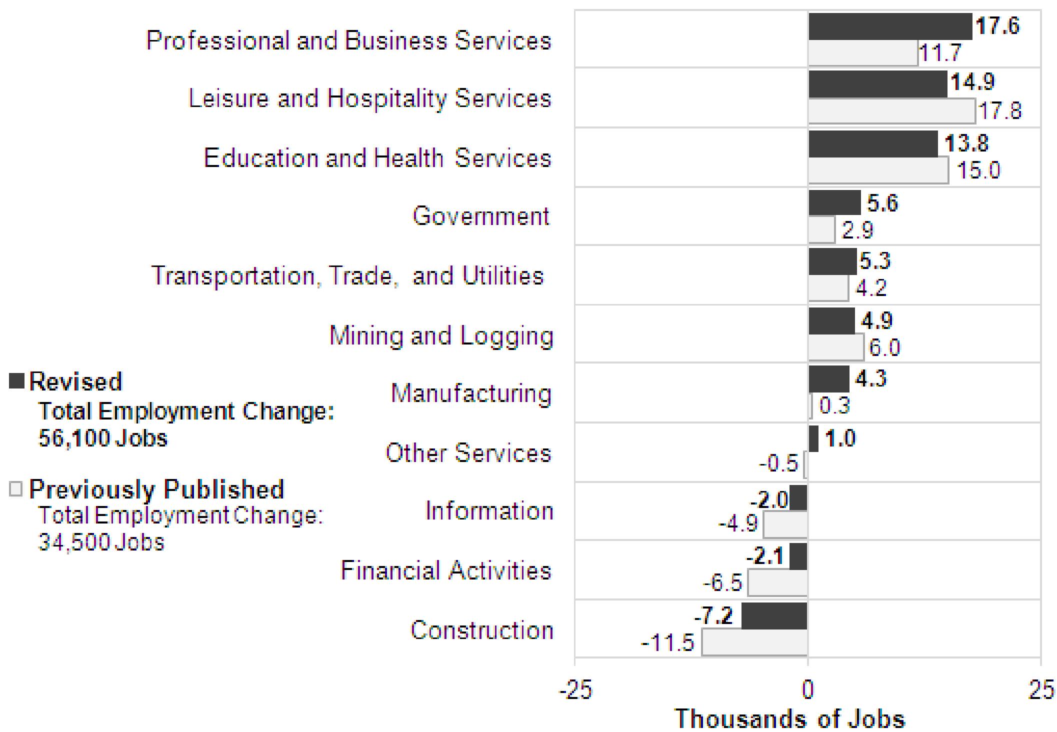
The two-year old recovery in Colorado's labor market is gaining momentum. Colorado lost 151,600 jobs, or 6.4 percent of its job base, between the pre-recession peak in April 2008 and the cyclical low in January 2010. During the two years between then and January 2012, Colorado added 75,600 jobs. Total nonfarm employment increased 1.5 percent in 2011 after increasing 0.8 percent in 2010. The unemployment rate fell from a high of 9.0 percent in November 2010 to 7.8 percent in January 2012.

As shown in Figure 19, recent revisions to labor market statistics indicate the unemployment rate was lower and job growth was faster in 2011 than previously published. Revisions to nonfarm employment added 20,500 jobs, or 0.9 percent, to Colorado's nonfarm employment rolls by the end of 2011.

Figure 20 shows revisions to the change in employment by industry between January 2010 and December 2011. Similar to the nation, Colorado has experienced significant gains in employment within the service industries. Meanwhile, revised data indicate that Colorado's manufacturing sector added 4,300 jobs during the last two years, significantly more than had been previously published.

Colorado's construction, financial activities, and information industries continued to shed jobs even as the rest of the economy

Figure 20
Revisions to Employment Data Signal Faster Labor Market Recovery
Two-Year Change in Employment by Industry: January 2010 through December 2011
Revised vs. Previously Published Data
Seasonally Adjusted

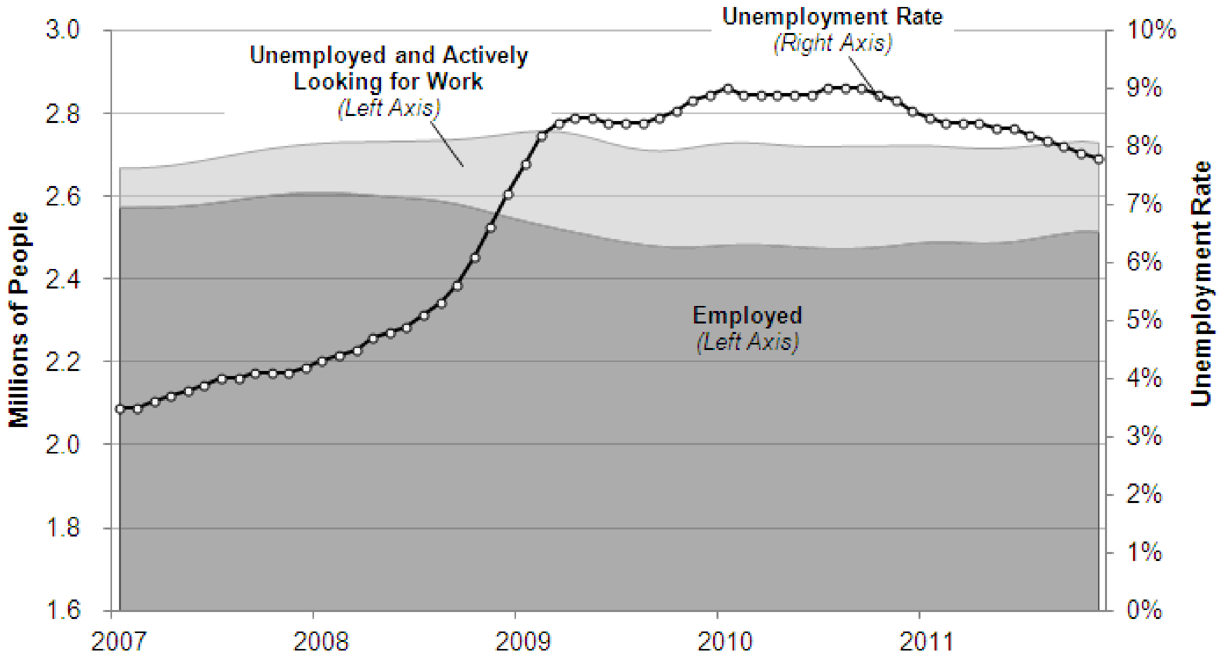


Source: Bureau of Labor Statistics, Current Employment Statistics. March 13, 2012 release compared with the January 24, 2012 release.

recovered over the last two years. However, revised data indicate these losses were smaller than previously thought. The financial activities and construction industries have struggled to recover over the last two years as they continue to work out the imbalances that led to the recession. Employment in Colorado's financial activities sector appears to have bottomed, however, and employment in Colorado's construction industry has begun to increase. Likely in response to increased construction activity in multi-family homes, the construction industry added 6,700 jobs, or 6.0 percent of its job base, during the two months between November 2011 and January 2012. Meanwhile, the information industry continued to shed jobs through January as it struggles to respond to a relentless shift in consumer preferences toward electronic media.

Figure 21 shows the unemployment rate and the number of people in the labor force who are employed and unemployed but actively looking for work. Colorado's unemployment rate fell from a high of 9.0 percent in November 2010 to below 8.0 percent in December and January. Over that time period, the labor force was stable, increasing by just under 7,200 people, or 0.3 percent, while the number of people employed

Figure 21
Colorado Unemployment Rate and Labor Force
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics. Data through January 2012.

increased 1.6 percent. The decrease in the unemployment rate during this time period was almost entirely the result of people finding employment, rather than people dropping out of the labor force because they were discouraged.

- Nonfarm employment will increase 1.5 percent in 2012 and 1.6 percent in 2013. Most sectors of the labor market are improving, but growth will continue to be moderate as the economy works through damage done by the financial crisis and uncertainty about international economic conditions.

- The unemployment rate will remain high, averaging 7.6 percent in both 2012 and 2013. As the labor market continues to improve in 2012 and 2013, the labor force is expected to increase at about the same rate over time as people find employment. Therefore, the unemployment rate is expected to remain high.

Personal Income and Wages

Personal income continues to gain strength in Colorado. As shown in Figure 22, total personal income increased 5.7 percent year-to-date through the first three quarters of 2011 compared with the same time period in 2010, after increasing 3.8 percent in 2010.

Personal income growth was driven by increases in proprietors' income, dividends, interest, and rents. Nonfarm proprietors' income, the best measure available to indicate income growth to small and medium-sized businesses in Colorado, increased 6.9 percent year-to-date through the third quarter of 2011. Buoyed by rising agriculture prices and demand, farm proprietors' income increased 30.4 percent. Meanwhile dividends, interest, and rents increased 6.0 percent.

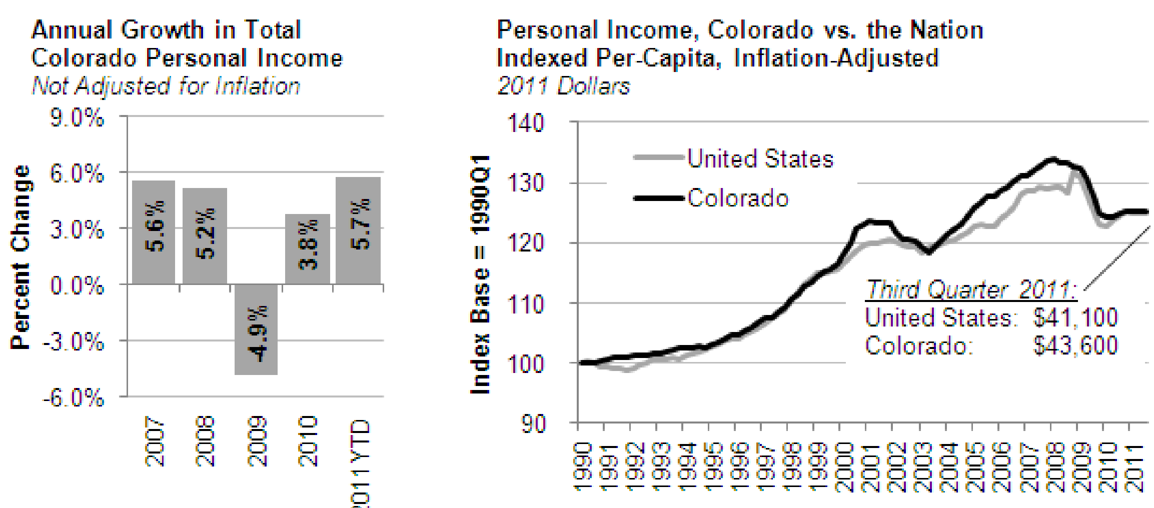
Over half of personal income comes from wages and salaries, which gained momentum in 2011. Wages and salaries increased 3.9 percent year-to-date through the third quarter of 2011, after increasing 1.5 percent in 2010, as shown in Figure 23.

Figures 22 and 23 also show per-capita inflation-adjusted changes in personal income and wages and salaries from 1990 through the third quarter of 2011. Overall, per-capita inflation-adjusted personal income has been flat since 2010 in Colorado and the nation. Real per capita wages and salaries have been falling since 2008. As the economy continues to strengthen and businesses are able to expand, personal income and wages will gain momentum relative to population growth and inflation.

- Personal income will increase 4.1 percent in 2012 and 5.1 percent in 2013. Expectations for growth in 2013 were reduced somewhat because of the expiration of the federal payroll tax cut and extended unemployment benefits.

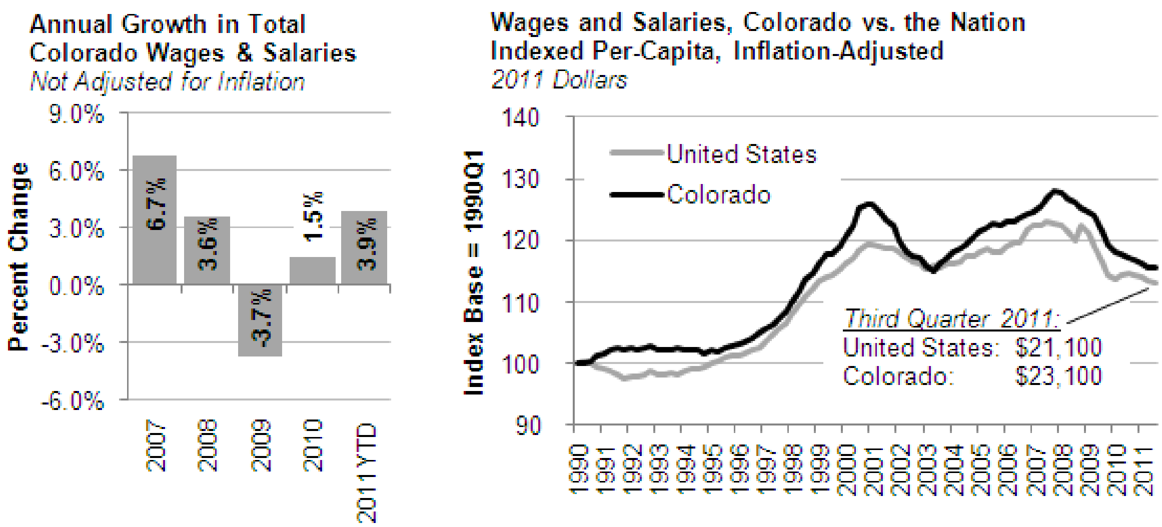
- Wages and salaries are expected to rise 4.6 percent in 2012 and 5.5 percent in 2013 as the economy gains strength.

Figure 22
Personal Income Growing Just Enough to Keep Pace with Population Growth and Inflation



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Legislative Council Staff. Data through the third quarter of 2011.

Figure 23
Wages and Salaries Gaining Overall, but
Real Per Capita Wages and Salaries Trending Down



Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, U.S. Bureau of Labor Statistics, and Legislative Council Staff. Data through the third quarter of 2011.

Consumers Increase Spending but Remain Cautious

Consumers in Colorado continue to increase their spending, but remain cautious. Consumer spending, as measured by retail trade sales, increased 6.7 percent through November 2011 compared with the same time period in 2010. As shown in Figure 24, however, consumer spending gains lost momentum in 2011. Consumers remain cautious as a result of an uncertain global economy, continued high unemployment, decreasing real wages and salaries, and rising food and gasoline prices. Consumer spending in November 2011, which has not been adjusted for inflation, was still 2.3 percent short of its pre-recession peak.

Figure 25 shows year-to-date growth in consumer spending by industry through November 2011. Although a significant driver of the increase in consumer spending was the result of higher gasoline prices, nearly every major industry experienced gains in spending.

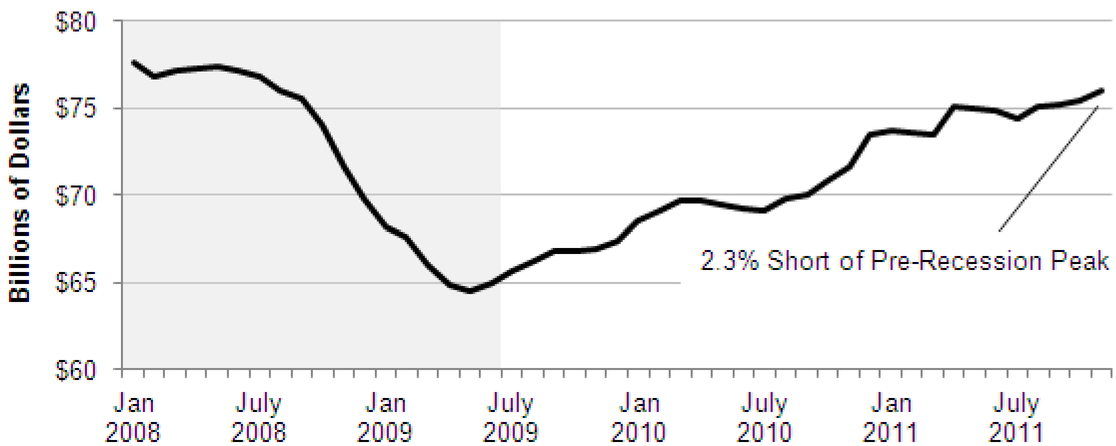
- Retail trade will increase 3.6 percent in 2012 and 4.0 percent in 2013.

Agriculture Industry Booming

The agriculture industry in Colorado is fueling economic growth in rural parts of the state. The number of farms and ranches in Colorado totaled 36,700 in 2011, up 300 over the prior year. Farm income is also vibrant. After increasing 17.9 percent in 2010, Colorado farm income increased 20.7 percent year-to-date through the third quarter of 2011.

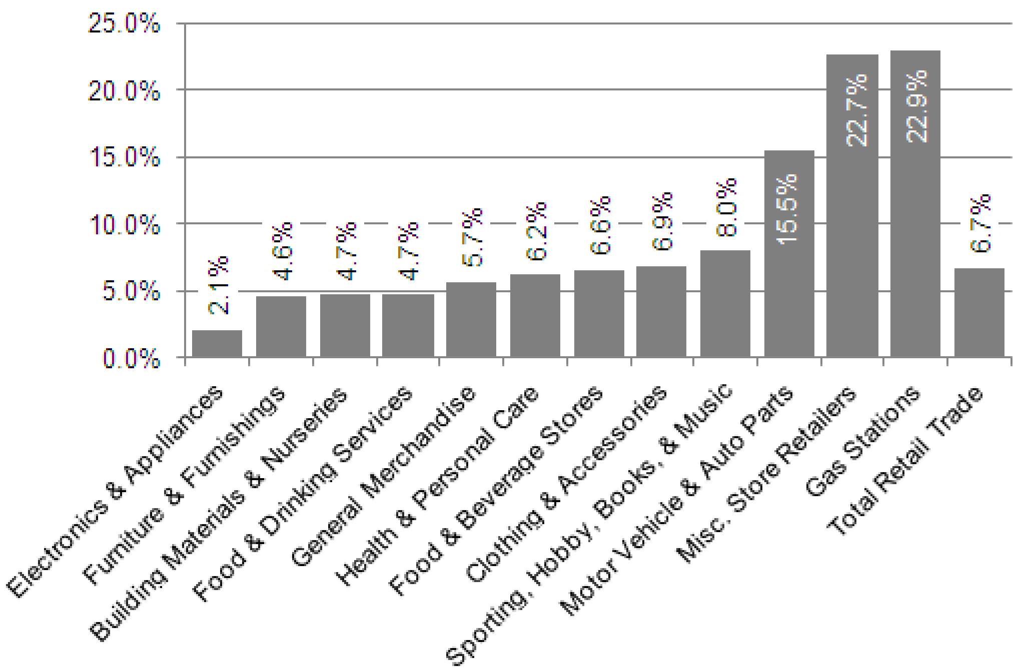
Potato inventory is up in the southern part of the state as prices are expected to remain high. For example, commercial storage facilities in the San Luis Valley had 11.8 million hundredweight of potatoes on hand in February 2012, up 4 percent from the 11.4 million in the prior year. Wool production was also up 4 percent at the close of 2011, totaling 2.6 million pounds.

Figure 24
Colorado Retail Trade
Seasonally Adjusted Annualized Three-Month Moving Average



Source: Colorado Department of Revenue. Data through November 2011.
Shaded area represents recession.

Figure 25
Retail Trade in Select Industries
Year-to-Date Growth through November 2011



Source: Colorado Department of Revenue. Year-to-date growth represents retail trade during the first eleven months of 2011 compared with the first eleven months of 2010.

The agricultural industry in Colorado (and the nation) is seeing robust price increases for livestock and crops. This has provided a boost to rural economies in Colorado and the nation. Consumer spending has also been increasing at robust rates in the rural regions of the state. The boost from Colorado's agriculture industry is not reflected in Colorado's employment statistics because farm employment is very difficult to count and is therefore not included as part of the official published employment statistics.

Colorado's top five agricultural products are cattle and calves, dairy products, corn for grain, greenhouse and nursery products, and hogs. Over sixty percent of the state's agricultural revenue is provided by cattle and calves. Prices in the cattle industry are rising. In January 2012, beef cattle prices nationwide were up to $116 per hundredweight, rising 24.6 percent over January 2011 prices. The dairy industry is also seeing significant price gains. January 2012 "all milk" prices rose 9.7 over January 2012 levels.

Colorado crop prices increased over the last year as the rural economies continue to benefit from ongoing high demand for crops. Corn prices increased 25.8 percent, Alfalfa Hay prices rose 84.6 percent, and dry beans were up 76.7 percent in 2011. It is expected that crop prices and meat production will continue to increase in 2012 as the global demand for food commodities remains strong.

Inflation Driven by Energy Prices

After increasing 1.9 percent in 2010, consumer prices increased 3.7 percent in 2011. As shown in Figure 26, price increases were large driven by motor fuel, transportation, and home fuel and utility costs. Core inflation (excluding energy and food) rose 2.3 percent in 2011.

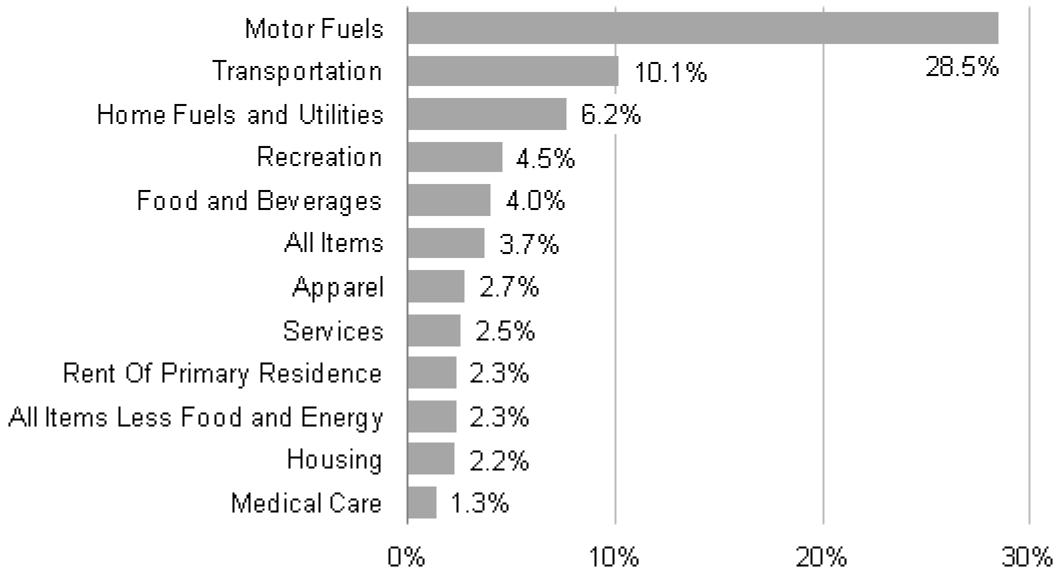
- Consumer prices in Colorado are expected to increase 3.4 percent in 2012 and 2.9 percent in 2012. Energy prices are expected to continue to exert upward pressure on prices. In addition, significant upward pressure is expected to be exerted by the housing portion of the index, which is measured using the rental market as a proxy for home prices. Prices in the rental market have been rising as more households move into rental housing.

Bank Balance Sheets Strengthen but Credit Markets Remain Tight

The health of Colorado’s banks improved significantly in 2011. Despite this, credit markets remain tight and the banking system continues to be a net drag on economic activity. As shown in Figure 27, the rebound in the core capital ratio indicates that Colorado’s banks significantly improved their balance sheets in 2011. The core capital ratio measures the amount of capital banks hold as percentage of their assets (or loans), where assets have been adjusted for the risk of default.

The credit markets, however, remain very tight. Figure 27 also shows that net lending from Colorado-based banks continued to decrease through the fourth quarter of 2011. As a result of the financial crisis, banks have tightened loan requirements, cut jobs, closed locations, and increased fees. Credit standards for residential mortgages are especially tight. The economy will continue to grow at rates below its potential until the banking system fully addresses the damage caused by the financial crisis and the concerns of its regulators.

Figure 26
Energy Prices Driving Inflation
Increase in the Denver-Boulder-Greely CPI-U, 2011 over 2010

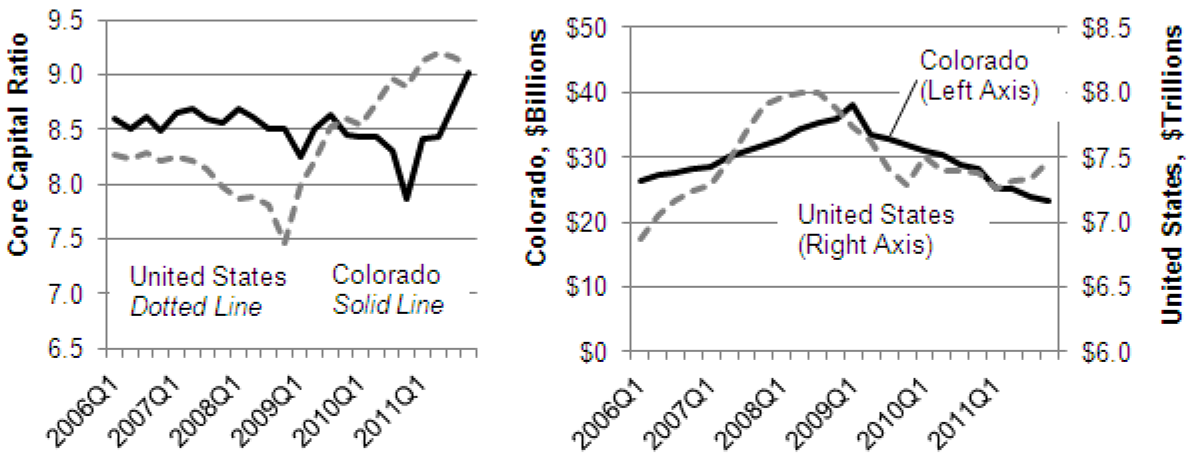


Source: U.S. Bureau of Labor Statistics.

Figure 27
Banks Are Rebuilding Their Balance Sheets, But Credit Markets Remain Tight

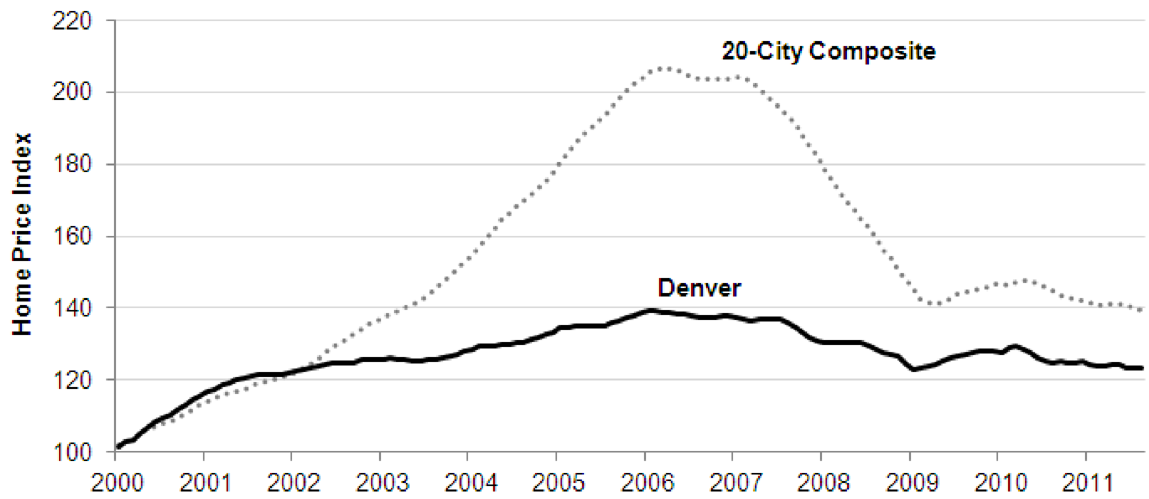
Core Capital Ratio Indicates Improvements in Bank Balance Sheets

Net Lending Still Decreasing in Colorado
Total Loans and Leases



Sources: Federal Deposit Insurance Corporation. Loans and leases data have been adjusted to exclude a large financial institution that moved to Colorado for only one quarter. In general, the core capital ratio measures cash flow on hand as a percent of total assets, where assets (or loans) are adjusted for the risk of default.

Figure 28
S&P/Case-Shiller Home Prices Index
Seasonally Adjusted



Sources: Standard & Poors & FiServ. Data through December 2011.

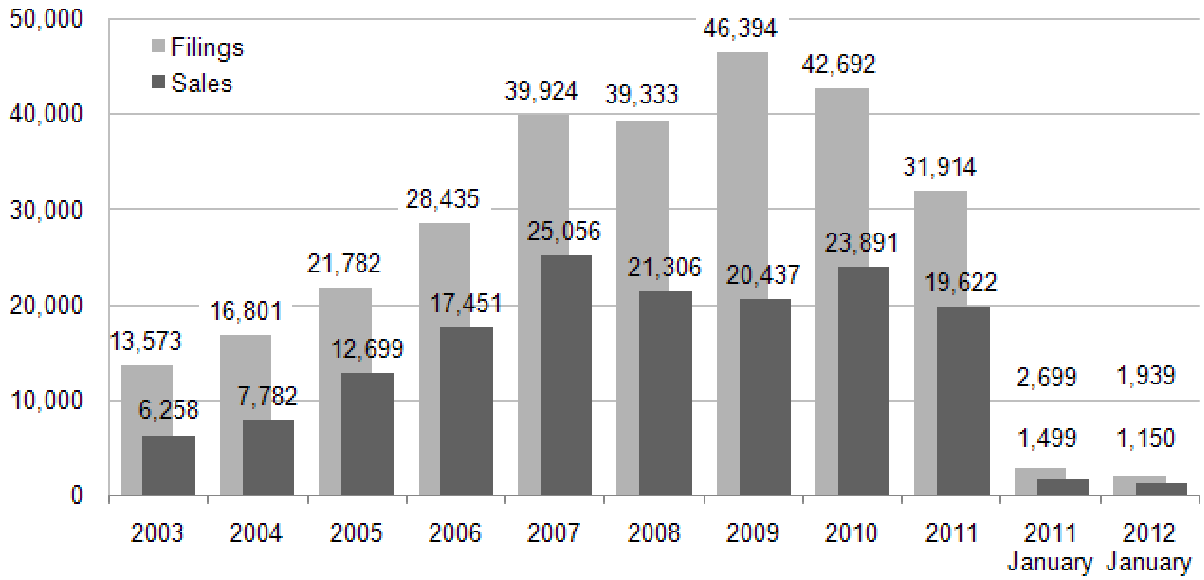
Colorado's Housing Market Slow to Recover

Colorado's housing market continues to slowly recover and is showing signs of stabilizing. Although many homeowners are still unable to sell their homes because home values are lower than their outstanding mortgages, home vacancies and foreclosures continue to place downward pressure on prices, and lending institutions continue to work through the administrative and financial aftermath of the housing crisis. Consumers are having difficulties getting home loans approved because of tight lending standards and uncertainty among banks and appraisers about home values. Although markets have begun to improve in localized areas around the state, recovery in the overall housing market is being stalled by uncertainty in the economy and slow employment growth.

Home prices in the Denver area have held up much better than in other metropolitan areas of the country, as indicated by the S&P/Case-Shiller Home Price Index. Figure 28 shows Denver's home prices and a composite home price index for 20 other metropolitan areas from January 2000 through December 2011. While the overall index decreased 33.9 percent since home prices peaked in April 2006, home prices in the Denver index have fallen only 10.7 percent from its peak. In December, Denver was one of seven cities in the index that saw home prices rise over the prior month, while home prices in the composite index fell 0.5 percent.

As shown in Figure 29, both foreclosure filings and sales at auction in Colorado were down in 2011 compared with 2010. Foreclosure filings are important because they provide a picture of the number of borrowers who have become seriously delinquent on their loans. Foreclosure filings declined 25.2 percent in 2011, the lowest annual total since 2006 when filings totaled nearly 28,854. Foreclosure filings during 2011 were reduced substantially by the lender-initiated slowdown in foreclosure

Figure 29
Colorado Foreclosure Filings and Sales



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

processing as banks struggled to turn over loan applications. This caused a decline in filings below levels that would have been seen otherwise. Despite this event, the continued slowdown in foreclosure filings indicates that many homes in this status are working their way through the system. Foreclosure sales decreased 17.9 percent in 2011, again, the lowest level of sales since 2006.

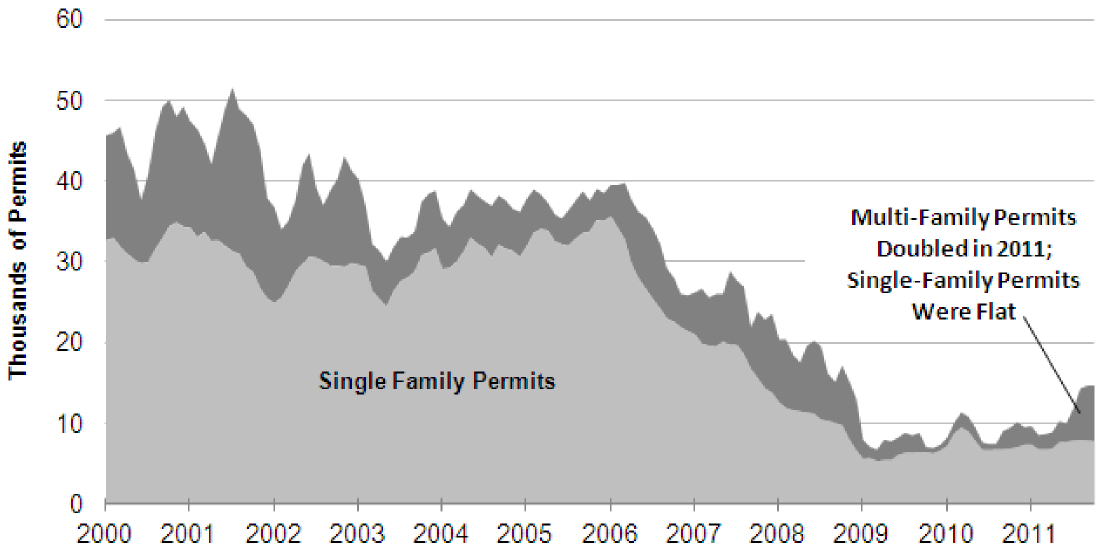
Statewide filings have been falling since their peak in 2009. The sustained decline in filings may suggest that households are participating in lender programs to avoid foreclosure. In addition, many of the more risky loans made between 2005 and 2007 have worked their way through the markets. The continued decline in foreclosure filings will depend on the pace at which banks can process foreclosures. Future job gains will also work to lower the rate of foreclosures through the close of the year.

Residential construction activity has begun to increase from very low levels. Figure 30 shows a three-month moving average for permits issued to build or renovate single-family and multi-family residences. In total, the number of permits issued for residential construction rose 29.0 percent in 2011. The increase was driven by a surge in multi-family permits, as a growing number of people moved from distressed single-family homes to apartments and fewer households were able to qualify for home loans. Multi-family permits doubled, growing from 2,171 permits issued in 2010 to 4,683 permits issued in 2011, an increase of 116.0 percent.

In 2011, permits for the construction of single-family homes were flat over the prior year. Single family permits will remain at historically low levels until employment and population growth pick up and the high inventory of existing homes is absorbed.

- In total, the number of home permits issued for residential construction will increase

Figure 30
Multi-Family Drives Increases in Permits for Residential Construction
Three-Month Moving Average; Seasonally Adjusted Annualized Data



Sources: U.S. Census Bureau. Data through December 2011.

29.0 percent in 2011 and 19.8 percent in 2012. The number of permits issued in 2012, however, will remain relatively low by historical standards. The bulk of the increase will be driven by multi-family home permits.

Nonresidential Construction Activity Subdued

The value of permits filed for nonresidential construction remains at very low levels, as shown in Figure 31. After decreasing for three straight years, the value of nonresidential construction permits increased in 2011 as a result of a spike in activity late in the year in the construction of medical centers.

The vacancy rate for Denver metro office space was 13 percent at the end of 2011. Given the high vacancy rate for office space and continued tight commercial lending standards, growth in the value of nonresidential construction is expected to resume at low levels through the remainder of the forecast period.

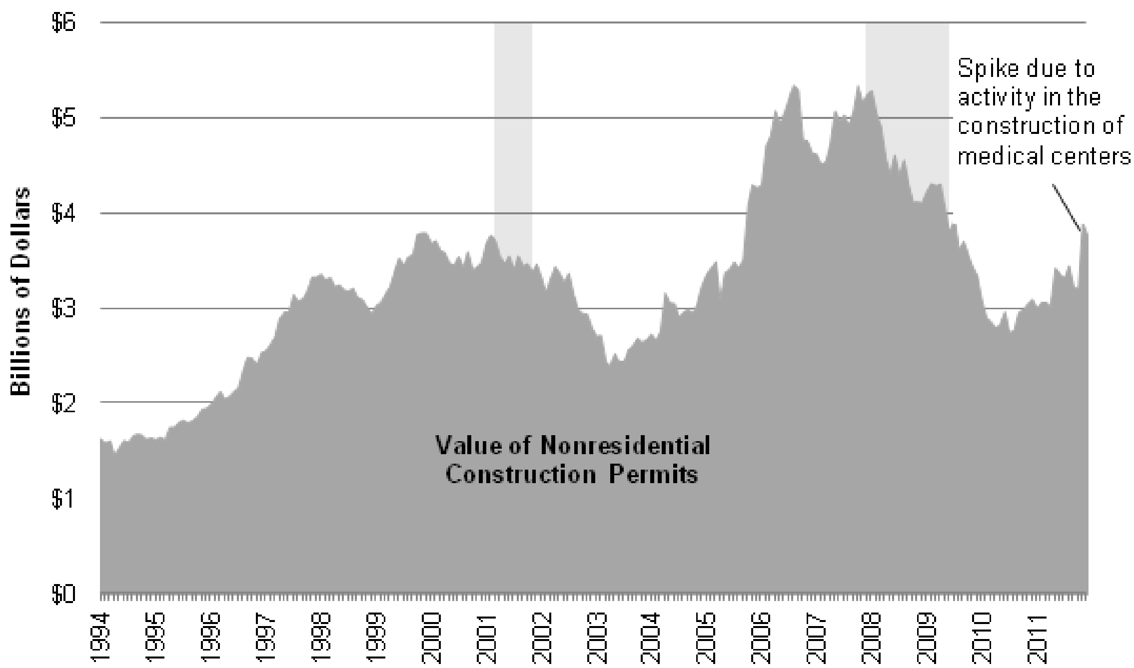
- The value of nonresidential construction contracts will increase 0.4 percent in 2012 and 4.4 percent growth in 2013.

Energy Industry Driving Regional Variations in Growth

The oil and gas industry has been an important economic driver for regional economies in Colorado, especially in Garfield and Mesa counties in the northwest, La Plata County in the Southwest, and Weld County in the north. Figure 32 on page 58 shows the number of drilling rigs operating in Colorado from January 2000 through February 2012 in the first panel and the number operating in Garfield County, Weld County, and all other Colorado counties over the same period.

In the last three months, the number of drilling rigs operating in Colorado has fallen. However, drilling activity has continued to boom in Weld County due to the continued

Figure 31
Value of Nonresidential Construction
Annualized Monthly Data



Sources: F.W. Dodge Data. Data through January 2012.

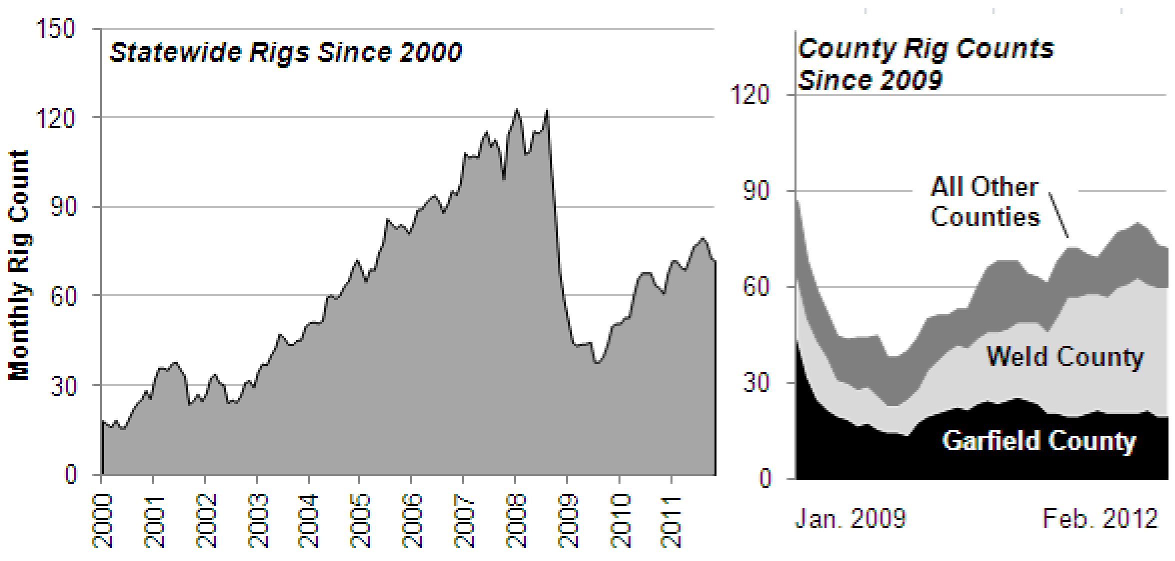
high price of oil and new drilling technologies. Nationally, the price of oil has remained around $100 per barrel since November, climbing to nearly $105 per barrel recently. The activity by Andarko Petroleum within the Niobrara shale formation in the Wattenberg field continues apace. The company plans to be operating seven rigs in this formation by the end of year, and now estimates it will drill 160 horizontal wells in 2012, up from 40 in 2011.

In contrast, energy activity on the western slope remains stagnant as gas prices continue to plummet. The Colorado composite gas price fell below $2.60 per Mcf in mid-February, when it had been about $4.50 in mid-June 2011. Figure 32 suggests that many rigs that had previously operated on the western slope have been shifted to Weld County. The majority of the rigs continuing to operate on the western slope are in Garfield County.

Leading Indicators Signal Employment Gains

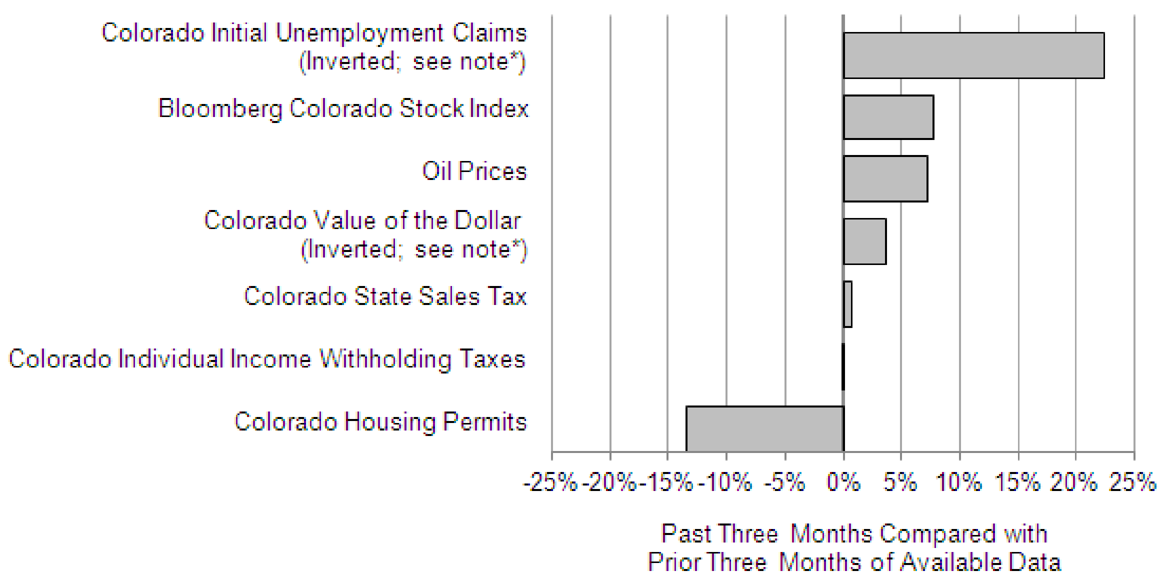
Indicators that lead Colorado employment suggest that employment will continue to grow in the state through the first half of 2012. These indicators have been shown to be helpful in predicting changes in Colorado employment in the short term. On the whole, five out of the seven measures shown in Figure 33 indicate that employment growth will continue. The Bloomberg Stock index, oil prices, and sales taxes have a tendency to be more forward looking than others.

Figure 32
Drilling Rigs Operating in Colorado



Sources: Baker Hughes. Data through mid-February 2012.

Figure 33
Indicators That Tend to Lead Colorado Employment Point to Continued Growth



Sources: Legislative Council Staff, Colorado Department of Revenue, Federal Reserve Bank of Dallas, the Conference Board, U.S. Bureau of the Census, and the U.S. Bureau of Labor Statistics.
**Note: Decreases in the Colorado value of the dollar and unemployment insurance claims point to expansion.*

Summary

Colorado's recovery continues to move forward. Employment growth gained momentum and consumers increased spending. In addition, the agriculture and energy industries are expected to continue the boost in growth through the forecast period. These positive trends will be constrained, however, by the housing market, tight credit conditions, and the financial markets.

Table 14
Colorado Economic Indicators, March 2012 Forecast
(Calendar Years)

	2007	2008	2009	2010	2011	Forecast 2012	Forecast 2013	Forecast 2014
Population (thousands, July 1)	4,803.9	4,889.7	4,972.2	5,049.1	5,116.8	5,188.4	5,271.4	5,366.3
percent change	1.8%	1.8%	1.7%	1.5%	1.3%	1.4%	1.6%	1.8%
Nonagricultural Employment (thousands)	2,331.0	2,350.4	2,245.2	2,222.4	2,254.9	2,288.7	2,325.4	2,369.5
percent change	2.3%	0.8%	-4.5%	-1.0%	1.5%	1.5%	1.6%	1.9%
Unemployment Rate	3.8	4.8	8.1	8.9	8.3	7.6	7.6	7.5
Personal Income* (millions)	$205,242	$215,952	$205,437	$213,202	$224,502	$233,706	$245,625	$260,117
percent change	5.6%	5.2%	-4.9%	3.8%	5.3%	4.1%	5.1%	5.9%
Wage and Salary Income* (millions)	$112,962	$116,991	$112,633	$114,344	$118,804	$124,269	$131,104	$139,363
percent change	6.7%	3.6%	-3.7%	1.5%	3.9%	4.6%	5.5%	6.3%
Retail Trade Sales* (millions)	$75,329	$74,760	$66,345	$70,738	$74,841	$77,535	$80,636	$84,991
percent change	6.9%	-0.8%	-11.3%	6.6%	5.8%	3.6%	4.0%	5.4%
Home Permits (thousands)	29.5	19.0	9.4	11.6	13.8	15.7	17.8	20.4
percent change	-23.2%	-35.5%	-50.8%	23.9%	19.3%	13.6%	13.3%	14.8%
Nonresidential Building (millions)	$5,259	$4,117	$3,351	$3,102	$3,781	$3,796	$3,963	$4,106
percent change	13.3%	-21.7%	-18.6%	-7.4%	21.9%	0.4%	4.4%	3.6%
Denver-Boulder Inflation Rate	2.2%	3.9%	-0.6%	1.9%	3.7%	3.4%	2.9%	2.7%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, F.W. Dodge, and Legislative Council Staff.
** Personal income, wage and salary income, and retail trade figures for 2011 are forecasts.*

Colorado Economic Regions

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

Economic activity in the Metro Denver area expanded at a modest pace in 2011. The region's job market, which represents over half of the statewide labor force, continues to see moderate employment gains, and the region's unemployment rate continued to decrease in 2011. Consumer spending grew in 2011 but at a slower rate than 2010. The metro Denver region followed the national trend of significant growth in multifamily residential permits. Single family permits in 2011 were relatively flat compared with the previous year. Table 15 shows economic indicators for the region.

Job market Employment growth for metro Denver gained momentum in 2011. The Bureau of Labor Statistic's employment estimates show that employers added over 25,000 new jobs, a 1.5 percent increase from the previous year. Figure 34 shows these trends. The Metro Denver's unemployment rate continued to fall in 2011, as shown in Figure 35. The December unemployment rate for the Metro Denver region was 8.1 percent, down from 8.9 percent a year earlier in December 2010. The unemployment rate is falling even as the labor force is growing, indicating that the rate is falling because more people are gaining employment.

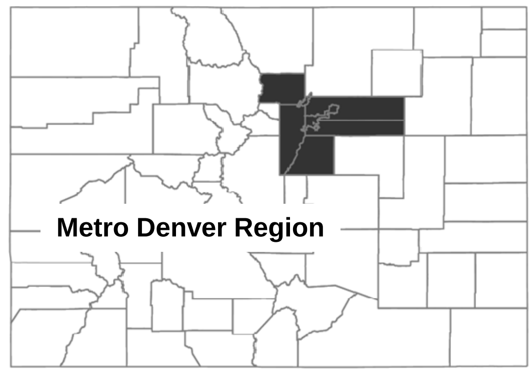


Table 15
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson Counties

	2007	2008	2009	2010	2011
Employment Growth /1	2.1%	1.0%	-4.3%	-0.5%	1.5%
Unemployment Rate /2 (2011 Figure is December Only)	3.7%	4.9%	8.4%	8.8%	8.1%
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-38.7%	-50.1%	-31.8%	35.5%	-0.4%
Single-Family (Boulder)	-20.6%	-53.5%	-27.6%	101.0%	-5.2%
Growth in Value of Nonresidential Const. /4					
Value of Projects	32.3%	-13.0%	-20.6%	7.0%	35.0%
Square Footage of Projects	12.7%	-27.6%	-47.8%	-2.2%	24.2%
Level (1,000s)	21,781	15,761	8,223	8,045	9,988
Number of Projects	7.9%	1.7%	-17.7%	-37.9%	-3.2%
Level	1,096	1,115	918	570	552
Retail Trade Sales Growth /5	6.5%	-0.8%	-11.4%	6.9%	4.5%

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey for Denver-Aurora-Broomfield and Boulder MSAs. Seasonally adjusted. Data through December 2011.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

3/ U.S. Census. Growth in the number of housing units authorized for construction. Data through December 2011.

4/ F.W. Dodge. Data through December 2011.

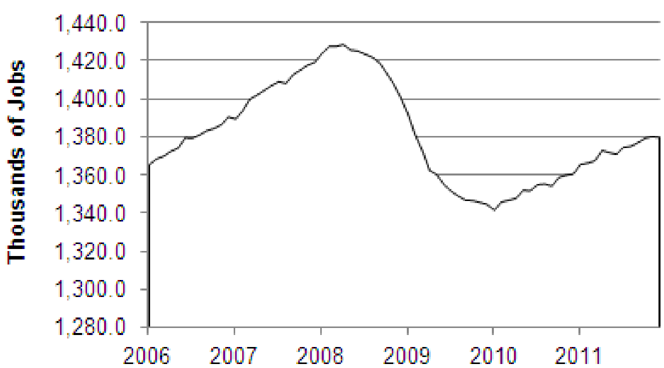
5/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

Consumer Spending Consumer spending, as measured by retail trade sales, increased 4.5 percent year-to-date through October 2011, compared with the same period in 2010. Figure 36 shows this trend. Retail trade grew slower in the Denver region in 2011 compared with the state. As Figure 37 shows, sales in metro Denver continued to decline after the nation's consumer spending picked up in 2009. Consumer spending in the metro Denver region is expected to continue to grow, though at a pace dampened by high levels of consumer debt and unemployment through 2012.

Housing Market The seasonally adjusted Case-Shiller housing price index showed prices in the Denver-Aurora MSA were lower in December 2011 compared with the same period from the previous year. However, the region's 2.1 percent annual decline in 2011 was better than the index's 20-city composite. Total permits for the metro Denver region increased for the second straight year in 2011, as shown in Figure 38. The region followed the national trend for increased interest in new multifamily construction permits. The number of single family permits for the Denver-Aurora area was relatively unchanged compared with 2010.

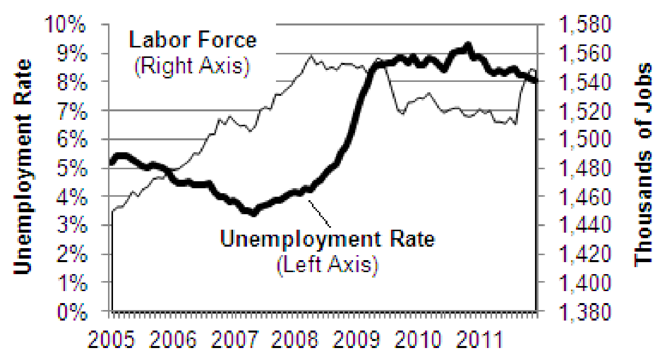
Nonresidential Construction Investment in nonresidential real estate is slowly improving, as shown in Figure 39. The Metro Denver region had over 500 nonresidential project starts in 2011 that will add nearly 10,000 square feet to the region's nonresidential market. Though these levels are still significantly lower than pre-recession, the total number of new nonresidential square feet for the region has increased for the past three years.

Figure 34
Metro Denver Employment
Seasonally Adjusted



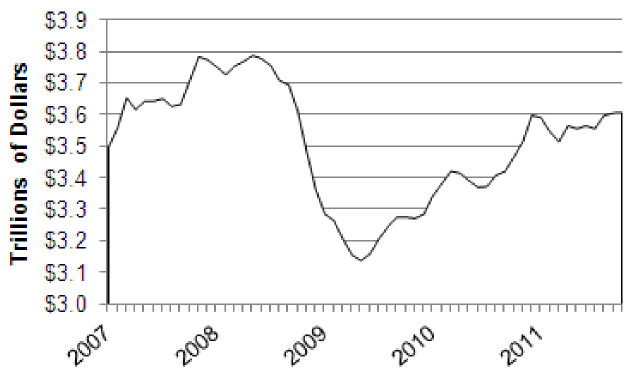
Source: U.S. Bureau of Labor Statistics; CES. Data through December 2011.

Figure 35
Metro Denver's Unemployment Rate Declines
Seasonally Adjusted



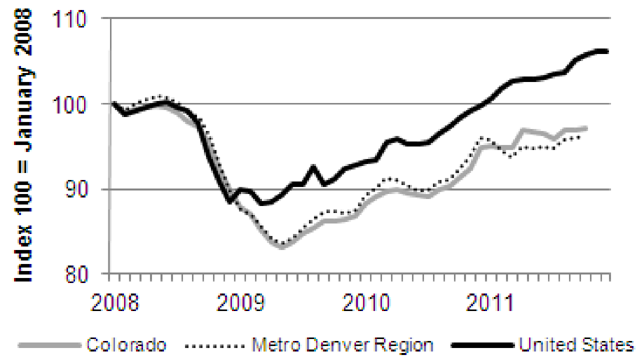
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2011.

Figure 36
Metro Denver Retail Trade Sales
Three-Month Moving Average
Seasonally Adjusted Annualized Data



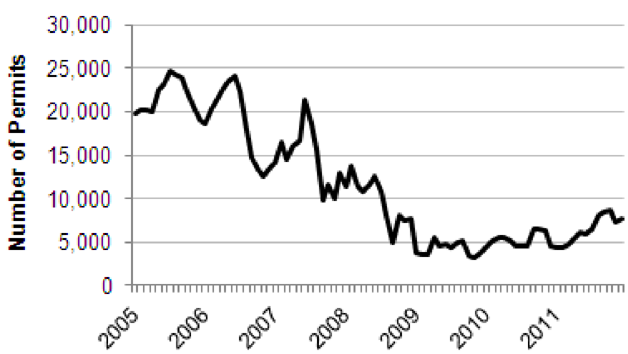
Source: Colorado Department of Revenue. Data through October 2011.

Figure 37
Retail Trade Trends Since January 2008
Index 100= January 2008
Three-Month Moving Average;
Seasonally Adjusted Annualized Nominal Data



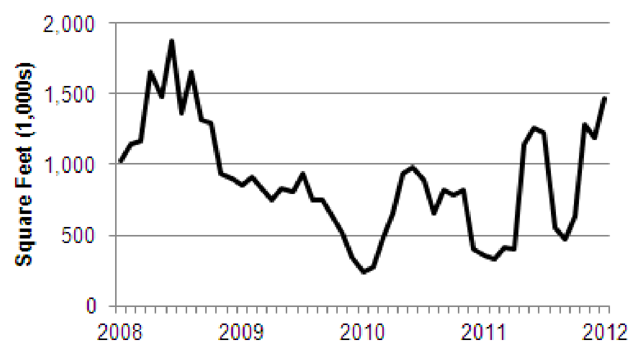
Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through October; U.S. data through December.

Figure 38
Metro Denver Residential Building Permits
Three-Month Moving Average;
Seasonally Adjusted Annualized Data



Source: U.S. Census Bureau. Data through December 2011.

Figure 39
Metro Denver Total Nonresidential
Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



Source: F.W. Dodge. Data through January 2012.

Northern Region

The recovery in the economy of the northern region, which has been among the strongest in the state, maintained its pace through the end of 2011. Employment for 2011was up in both major urban areas within the region and the unemployment rate dropped in the last three months of the year. Regional gains in consumer spending remain above the statewide average, with gains especially strong in Weld County. The residential construction industry remains strong in the Fort Collins-Loveland area and is holding its own in Greeley. Accelerating oil exploration activity in the Wattenberg field, as evidenced by the increased number of drilling rigs operating locally, brings further reason for economic optimism. Table 16 shows regional economic indicators.

Table 16
Northern Region Economic Indicators
Weld and Larimer Counties

	2007	2008	2009	2010	2011
Employment Growth /1					
Fort Collins-Loveland MSA	2.1%	1.0%	-3.2%	0.3%	1.5%
Greeley MSA	2.9%	1.4%	-4.9%	-1.1%	3.0%
Unemployment Rate /2 (2010 Figure is December Only)					
Fort Collins-Loveland MSA	3.4%	4.2%	7.2%	7.4%	6.5%
Greeley MSA	4.1%	5.2%	9.3%	10.2%	9.3%
State Cattle and Calf Inventory Growth /3	1.9%	1.9%	-5.5%	3.8%	4.0%
Housing Permit Growth /4					
Fort Collins-Loveland MSA Total	-41.3%	-1.0%	-66.0%	154.5%	1.0%
Fort Collins-Loveland MSA Single-Family	-22.2%	-36.4%	-49.2%	32.1%	45.7%
Greeley MSA Total	-38.6%	-46.8%	-20.6%	10.4%	-3.1%
Greeley MSA Single-Family	-40.5%	-45.1%	-13.7%	2.7%	-2.6%
Growth in Value of Nonresidential Construction/ 5					
Value of Projects	12.2%	-8.9%	10.2%	-49.2%	-19.9%
Square Footage of Projects	3.7%	-18.8%	-40.2%	-12.6%	-38.0%
Level (1,000s)	4,215	3,425	2,048	1,790	1,110
Number of Projects	-21.1%	26.7%	-34.4%	-19.1%	-8.4%
Level	195	247	162	131	120
Retail Trade Sales Growth /6					
Larimer County	6.5%	-0.7%	-9.0%	7.7%	7.9%
Weld County	7.7%	2.0%	-15.1%	9.9%	26.3%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2011.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

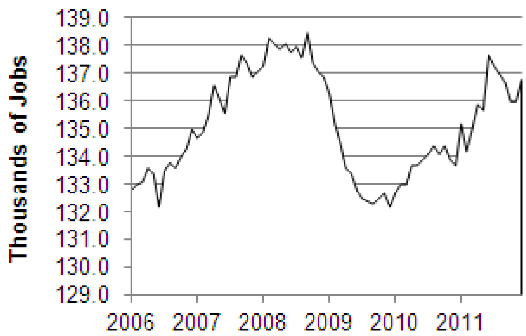
3/ National Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares January 2012 over prior year period in 2011.

4/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2011.

5/ F.W. Dodge. Data through December 2011. Prior forecasts reported Weld and Larimer Counties separately.

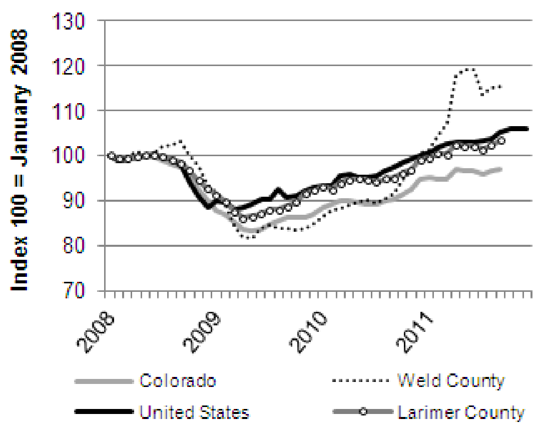
6/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

Figure 40
Fort Collins-Loveland and Greeley MSA Nonfarm Employment
Seasonally Adjusted



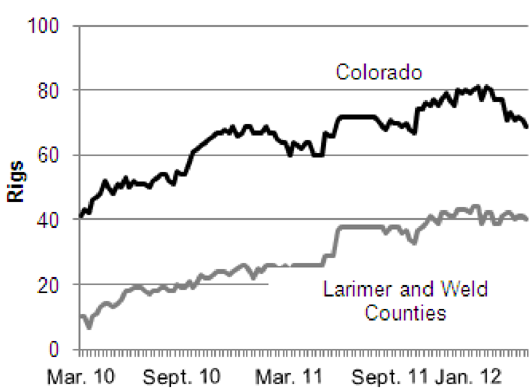
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2011.

Figure 41
Trends in Retail Trade Sales Since January 2008
Index of Three-Month Moving Average; Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through December 2011.

Figure 42
Colorado and Northern Region Operating Rig Count
Weekly Data; Not Seasonally Adjusted



Source: Baker Hughes. Data through February 20, 2012.

The regional labor market, which had shown signs of cooling, has bounced back. As shown in Figure 40, employment in both major urban areas in the region is up, and over the course of 2011, the region added nearly 4,500 jobs on a seasonally adjusted, annual average basis. The unemployment rate in the Fort Collins-Loveland area in December was 6.5 percent, down from September and still the lowest among major urban areas statewide. The Greeley area's unemployment rate also dropped to 9.3 percent, though it remains the third highest among the state's urban areas.

Consumer spending in the region, especially in Weld County, remains strong. Figure 41 indexes changes in retail trade sales for Larimer and Weld counties to retail trade sales statewide. Year-to-date sales through October 2011 increased 7.9 percent and 26.3 percent in Larimer and Weld County, respectively, compared with the first ten months of 2010. While the increase is down slightly from the December forecast, the continued trend is encouraging as the totals include data from the late summer months of 2011 when the national economic recovery weakened.

The northern region is the state's leader for livestock production. State cattle and calf production increased 4.0 percent in January 2012 over January 2011.

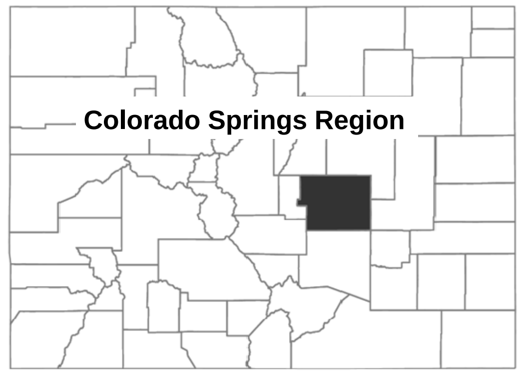
Regional oil and natural gas activity accelerated in 2011 and is likely to continue through 2012. Much of the activity surrounds the Niobrara formation in the Wattenberg field. Andarko Corporation recently announced it plans on accelerating drilling in its Wattenberg program in 2012 and will operate seven rigs by the end of year. The company estimates that it will drill 160 horizontal Niobrara wells in 2012, up from 40 in 2011. Figure 42 shows the rig count for the northern region and

Colorado as a whole. The regional rig count remained constant since the end of 2011, while total rigs operating in Colorado have declined 10.4 percent during that same period.

Regional residential construction activity in 2011 was mixed. While the number of housing permits for single family homes in the Fort Collins-Loveland area was up 45.7 percent compared with 2010, single family permits in the Greeley area fell 2.6 percent. In 2011, the value of regional nonresidential construction fell 19.9 percent after falling 49.2 percent the last prior year. Although highly volatile, nonresidential construction in the region is expected to remain at the current low levels in the near future.

Colorado Springs Region

The Colorado Springs region is still showing only weak signs of recovery. Although, growth in consumer spending is slightly above the statewide average, the labor market shows only modest improvement and remains among the weakest in the state. There has been a slowing in multifamily building permits in the fourth quarter of 2011, while single-family home building remains at historical lows. Nonresidential commercial construction activity, however, picked up somewhat in the later part of 2011. Table 17 shows economic indicators for the region.



Job Market. As shown in Figure 43, the area's employment showed modest improvements in 2011, growing 1.1. percent over 2010. Figure 44 shows the decline in the region's unemployment rate, which peaked at 10.3 percent in November 2010. The unemployment rate has fallen over a percentage point to 9.4 percent by December 2011. However, the unemployment rate is still significantly higher than the 7.9 percent statewide rate for December.

Consumer Spending. Figure 45 compares changes in the regions consumer spending to changes for the nation and state. Although consumer spending in the region slowed considerably in

Table 17
Colorado Springs Region Economic Indicators
El Paso County

	2007	2008	2009	2010	2011
Employment Growth /1					
Colorado Springs MSA	1.0%	-0.9%	-3.9%	-0.9%	1.1%
Unemployment Rate /2 (2011 Figure is December Only)	4.2%	5.7%	9.0%	9.7%	9.4%
Housing Permit Growth /3					
Total	-29.7%	-36.1%	-33.4%	27.9%	29.1%
Single-Family	-34.3%	-42.2%	-16.7%	23.2%	-3.8%
Growth in Value of Nonresidential Const. /4					
Value of Projects	8.7%	-43.5%	-5.1%	-13.6%	7.6%
Square Footage of Projects	1.9%	-48.2%	-26.1%	-35.0%	10.7%
Level (1,000s)	5,888	3,052	2,255	1,467	1,624
Number of Projects	-0.6%	0.6%	-8.6%	23.0%	7.1%
Level	322	324	296	364	390
Retail Trade Sales Growth /5	5.4%	-2.7%	-6.2%	7.8%	9.4%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through October 2011.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through October 2011.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through October 2011.

4/ F.W. Dodge. Data through September 2011.

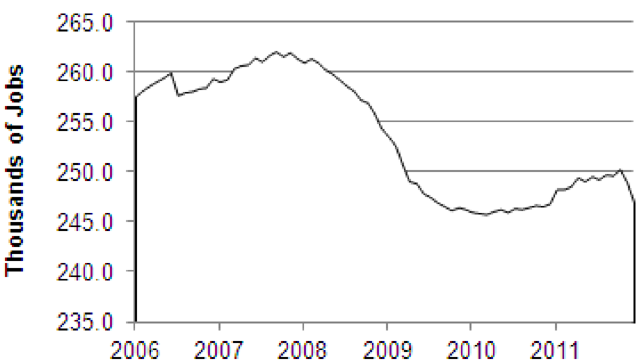
5/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

2011, it remained 9.4 percent higher on average through October compared with the first ten months of 2011 because of strong growth in the second half of 2010.

Construction. With limited growth so far in 2011, home building remains at historically low levels in the region. The area continues to see high levels of foreclosures, which contributes to depressed home prices and a glut of single family homes on the market. However, demand and permits for multifamily housing permits increased in 2011, as shown in Figure 46.

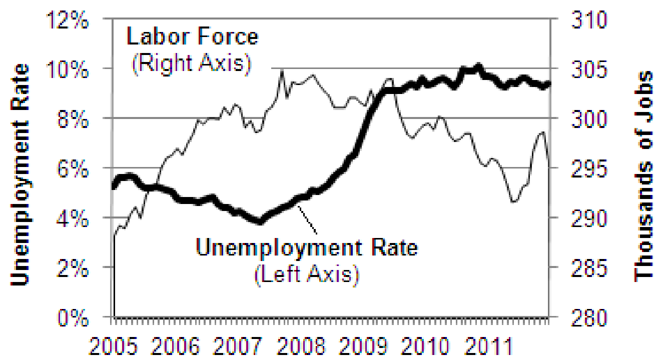
Nonresidential construction activity also increased in the later part of 2011. These gains were mainly due to growth in apartment and government construction. The value of nonresidential construction grew 7.6 percent in El Paso County in 2011, while the number of square feet permitted grew by 10.7 percent.

Figure 43
Colorado Springs MSA Nonfarm Employment
Seasonally Adjusted



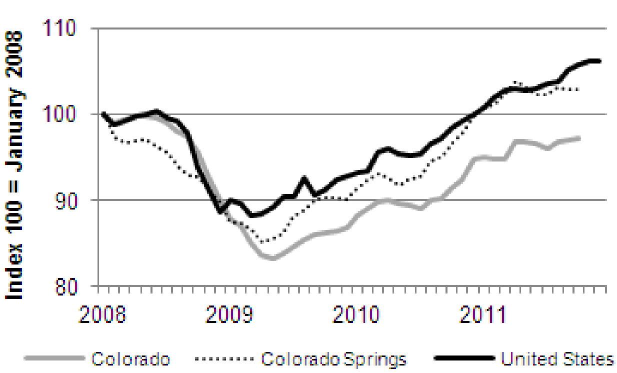
Source: U.S. Bureau of Labor Statistics; CES.
Data through December 2011.

Figure 44
Colorado Springs MSA
Unemployment Rate and Labor Force
Seasonally Adjusted



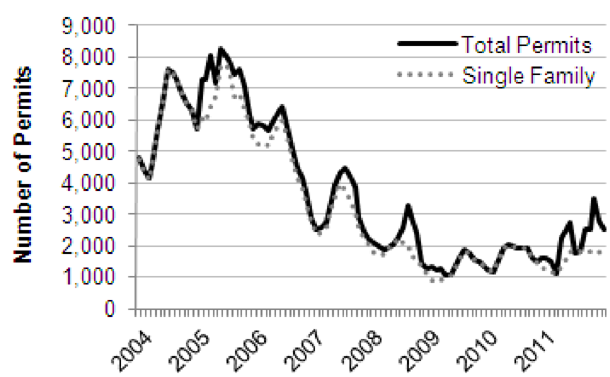
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2011.

Figure 45
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 October; U.S. data through December.

Figure 46
Colorado Springs MSA Residential Building Permits
Three-Month Moving Average;
Seasonally Adjusted



Source: U.S. Census Bureau. Data through December 2011.

Pueblo — Southern Mountains Region

Employment in the Pueblo region gained momentum and outpaced the state in 2011. Consumer spending continued to outpace statewide growth and the opening of Vestas Tower's new manufacturing facility contributed to recovery in the five-county Pueblo region. Although the region's unemployment rate fell throughout 2011, Pueblo still had the highest rate among all regions statewide in December. Meanwhile, the region's residential real estate market continues to struggle. Table 18 illustrates economic indicators for the region.

Employment. In December 2011 there were 59,100 jobs in the Pueblo MSA. After falling in 2010, the region increased 1.7 percent in 2011, adding over 1,000 jobs. The Pueblo MSA has recovered most of the jobs lost during the recession. These trends can be shown in Figure 47. While the region's unemployment rate decreased from a high of 11.1 percent in November 2010 to 9.8 percent in December 2011, the region's unemployment rate is still the highest among all regions throughout the state. The decrease in the unemployment rate occurred even amid an increase in the labor force, indicating that the rate fell because more people found employment.

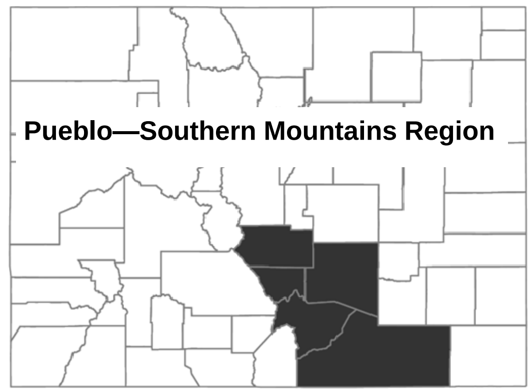


Table 18
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties

	2007	2008	2009	2010	2011
Employment Growth					
Pueblo Region /1	2.7%	-0.4%	-2.6%	-2.3%	1.6%
Pueblo MSA /2	3.2%	0.5%	-2.3%	0.2%	1.7%
Unemployment Rate /1 (2011 Figure is December Only)	4.6%	6.0%	9.4%	10.4%	9.8%
Housing Permit Growth /3					
Pueblo MSA Total	-48.1%	-38.6%	-9.4%	-37.9%	-49.6%
Pueblo MSA Single-Family	-44.8%	-42.8%	-51.5%	13.6%	-45.5%
Growth in Value of Nonresidential Construction /4					
Value of Projects	-53.9%	52.8%	-67.6%	-71.5%	3.0%
Square Footage of Projects	-24.1%	11.0%	-76.5%	-62.2%	-58.1%
Level (1,000s)	1,264	1,403	330	125	52
Number of Projects	9.7%	44.1%	-50.0%	-20.4%	2.6%
Level	68	98	49	39	40
Retail Trade Sales Growth /5	6.4%	-1.7%	-4.7%	6.8%	10.5%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2011.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through December 2011.

4/ F.W. Dodge. Data through December 2011. Prior Forecast Documents only had nonresidential construction data for Pueblo County.

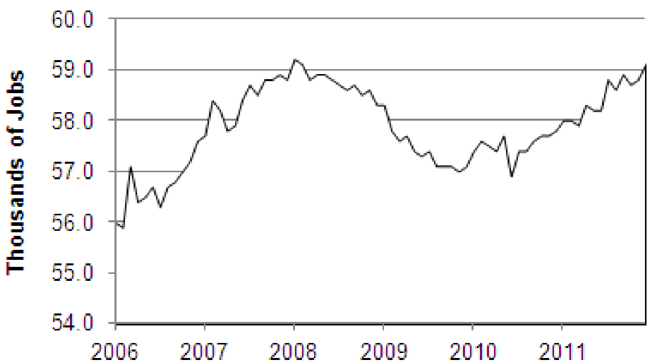
5/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

Consumer Spending. Consumer spending, as measured by retail sales, was 10.5 percent higher year-to-date through October 2011 compared with the same period in 2010. The Pueblo region's retail sales continue to grow faster than both the state and nation. However, seasonally adjusted retail sales for the Pueblo region have been declining since March 2011. Figure 48 indexes changes in the regions consumer spending in the state and the nation.

Housing Permits. Like most regions of the state, the residential construction market continues to struggle due to the collapse of the housing market. The total number of permits issued in the Pueblo MSA decreased 49.6 percent in 2011, or by 166 units. Total permits have been declining in the Pueblo region since 2007. Residential construction activity is expected to remain modest for several years. Figure 49 shows recent trends in the number of permits filed for home building in the Pueblo metropolitan area.

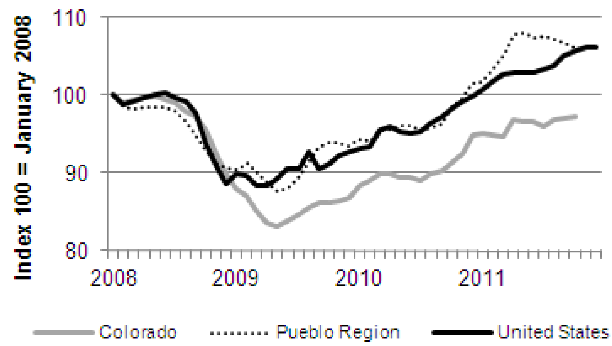
Nonresidential Construction. Nonresidential construction in the region remains at low levels. Pueblo County had a surge of construction beginning at the end of 2008 that peaked in mid-2009. However, as shown by Figure 50, construction has been at a near standstill recently. Until the regional economy can support business expansion, nonresidential construction is expected to remain weak.

Figure 47
Pueblo Region Nonfarm Employment
Seasonally Adjusted



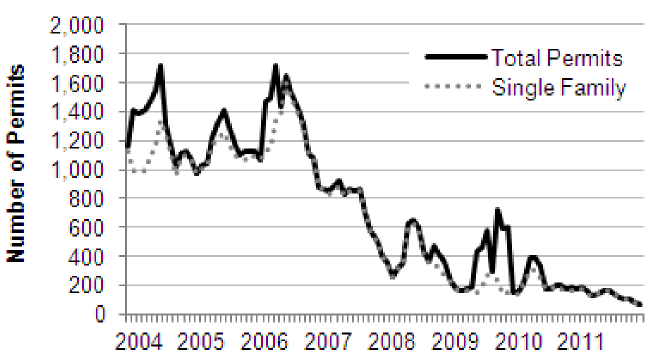
Source: U.S. Bureau of Labor Statistics; CES. Data through December 2011.

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



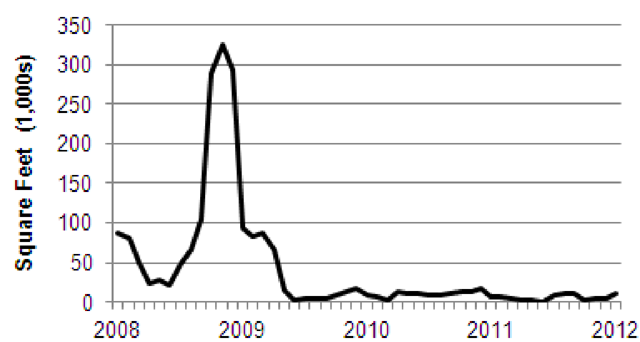
Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through October. U.S. data through December.

Figure 49
Pueblo MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted Data



Source: U.S. Census Bureau. Data through December 2011.

Figure 50
Pueblo Nonresidential Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



Source: F.W. Dodge. Data through January 2012.

San Luis Valley Region

The six-county San Luis Valley region's economy grew slowly in 2010 and is seeing modest growth as high crop prices fueled the recovery in 2011. However, nonfarm employment fell in 2011 and the ranks of the jobless grew. Due to the reliance on agriculture-based industries, the region experiences different economic trends than more urban areas of the state. The region saw growth in consumer spending in 2011, although the gains are modest compared to prior years. Nonresidential construction posted gains, but residential housing construction is down. Table 19 shows economic indicators for the region.

The labor market in the region weakened in 2011 with nonfarm employment falling 1.4 percent. The unemployment rate was 8.7 percent in December, higher than the statewide rate of 8.3 percent. Figure 51 shows changes in the region’s unemployment rate. It is important to note that these job statistics are based on nonfarm employment data that is not affected by the stabilizing influence of the agricultural industries in the region.

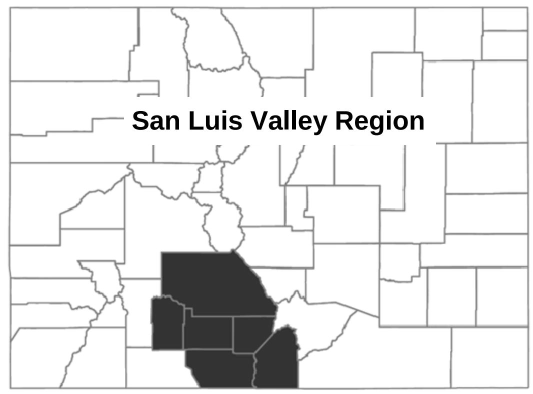


Table 19
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2007	2008	2009	2010	2011
Employment Growth /1	0.4%	-3.3%	4.0%	0.6%	-1.4%
Unemployment Rate /1 (2011 Figure is December Only)	4.5%	6.1%	7.8%	8.5%	8.7%
Statewide Crop Price Changes /2					
Barley (U.S. average for all)	32.0%	49.6%	-15.5%	-12.3%	40.9%
Alfalfa Hay (baled)	5.3%	18.0%	-20.7%	0.0%	84.6%
Potatoes	22.6%	21.0%	-46.6%	87.3%	-16.9%
SLV Potato (Inventory CWT) /2	-7.5%	4.4%	5.0%	-2.5%	4.0%
Housing Permit Growth /3	-32.8%	-6.2%	-31.7%	14.0%	-8.5%
Growth in Value of Nonresidential Construction /3					
Value of Projects	96.4%	-62.9%	1430.9%	-55.4%	82.3%
Square Footage of Projects	5.4%	12.4%	-96.3%	11029.4	-31.1%
Level (1,000s)	41	46	2	189	130
Number of Projects	-12.5%	14.3%	-0.1%	62.5%	-23.1%
Level	7	8	8	13	10
Retail Trade Sales Growth /4	6.9%	3.4%	-1.6%	3.7%	4.3%

NA = Not Available.

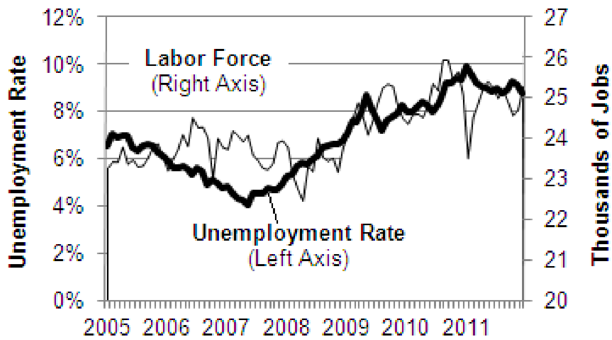
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

2/ National Agricultural Statistics Service. 2011 crop price changes compares January 1, 2012 to the prior year period. SLV Potato (production CWT) for Fall Potato Growers through February 1, 2012.

3/ F.W. Dodge. Data through December 2011. Prior forecasts only used data for Alamosa County.

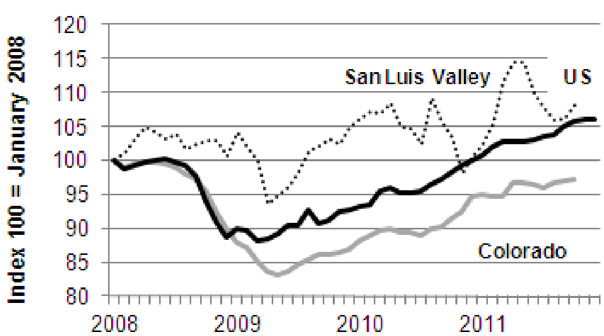
4/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

Figure 51
San Luis Valley Region
Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 52
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



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

Figure 52 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 spending during the recession at a higher level than the rest of the state and the nation. Consumer spending in the region increased 4.3 percent year-to-date through October 2011 after increasing 3.7 percent in 2010.

The San Luis Valley region has the smallest economy of all regions of the state and thus, economic indicators tend to be particularly volatile. As an example, the value of nonresidential construction activity in Alamosa County, the largest county in the region, saw significant growth in 2011 almost entirely because of the construction of new educational facilities in the area. For example, the value of nonresidential construction grew 82.3 percent in 2011 over the prior year. Meanwhile, the residential housing industry has slowed as the number of permits filed for new homes fell 8.5 percent in 2011.

The agricultural industry in the region is fairly healthy despite dry weather conditions. For example, the number of farms and ranches in Colorado in 2011 totaled 36,700, up 300 over the prior year. The potato industry, which is one of the main agricultural industries in the region, posted a higher inventory as commercial storage facilities in the San Luis Valley had 11.8 million hundredweight of potatoes on hand in February 2012, up 4 percent from the 11.4 million in the prior year. Wool production was also up 4 percent at the close of 2011, totaling 2.6 million pounds. Crop prices also saw gains. Barley and Alfalfa Hay prices rose 40.9 percent and 84.6 percent, respectively, while prices for potatoes were down 16.9 percent.

Southwest Mountain Region

The southwest mountain region is showing another quarter of relatively strong overall economic growth. Consumer spending continues to climb, the unemployment rate is down, and job growth is still the highest in the state. The housing and construction sectors, however, continue to struggle. Table 20 shows economic indicators for the region.

As shown in Figure 53, nonfarm employment grew rapidly in 2011. For 2011, the southwest mountain region added about 4,250 jobs, a 3.2 percent growth. The region lies within the San Juan basin, where the oil industry is spurring economic growth. As shown in Figure 54, the unemployment rate has fallen as employment gains have offset the increase in the number of people in the labor force. The unemployment rate fell to 7.2 percent by December 2011, which was one of the lowest rates for all regions in the state.

Figure 55 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. In spite of a brief dip at the start of 2011, consumer spending rebounded in the fall. Through October 2011, retail trade increased 9.4 percent compared with the same period in 2010.

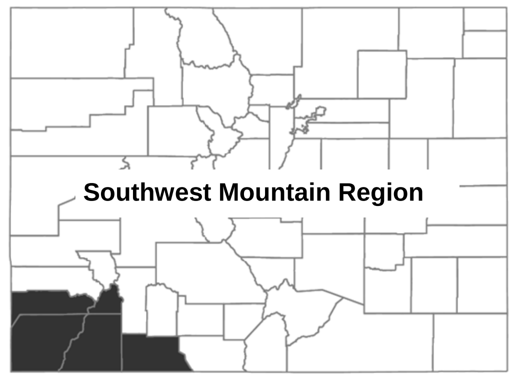


Table 20

Southwest Mountain Region Economic Indicators

Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

	2007	2008	2009	2010	2011
Employment Growth /1	2.4%	-1.5%	-3.6%	-4.2%	3.2%
Unemployment Rate /1 (2011 Figure is December Only)	3.2%	4.3%	7.2%	8.4%	7.2%
Housing Permit Growth /2	-31.3%	-44.8%	-23.7%	38.0%	-27.0%
Growth in Value of Nonresidential Construction /2					
Value of Projects	546.1%	-82.8%	83.8%	-46.8%	-52.3%
Square Footage of Projects	208.9%	-71.0%	-11.6%	-60.5%	29.8%
Level (1,000s)	749	217	192	76	99
Number of Projects	4.2%	0.0%	-12.0%	0.0%	-40.9%
Level	25	25	22	22	13
Retail Trade Sales Growth /3	5.9%	-0.7%	-13.9%	1.6%	9.4%

NA = Not Available.

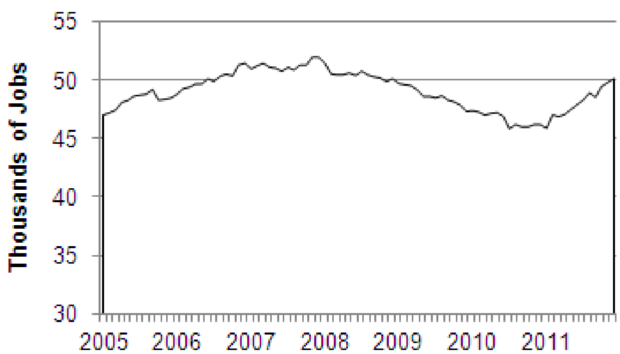
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

2/ F.W. Dodge. Data through December 2011. Prior forecasts only had data for La Plata County only.

3/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

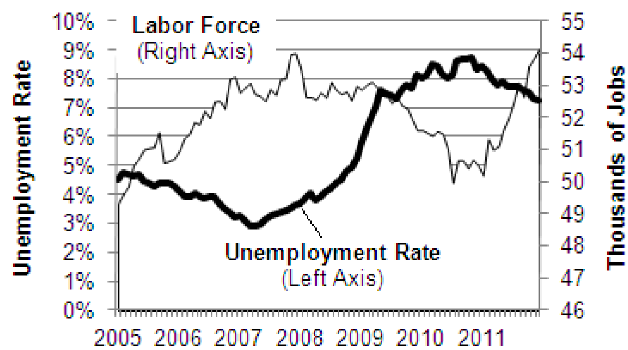
The construction industry continues to be a drag on the southwest region. Residential home construction, as measured by area home permits, increased significantly in 2010 over the prior year but fell in 2011. Meanwhile, nonresidential construction began to decline in the second half of 2011. Figure 56 shows nonresidential construction trends from 2006 through 2011. The value per square foot of permits filed for nonresidential construction has been steadily declining the past six months,

Figure 53
Southwest Mountain Region Nonfarm Employment
Seasonally Adjusted



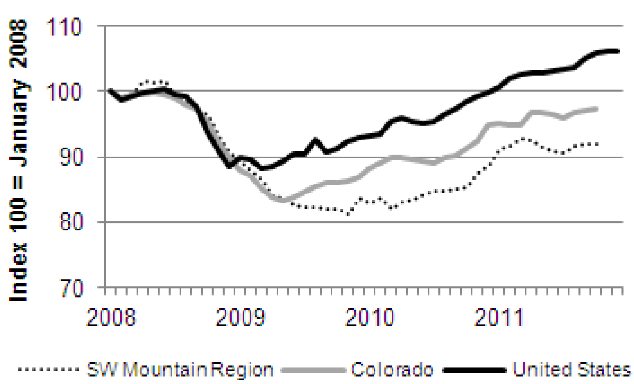
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2011.

Figure 54
Southwest Mountain Region
Unemployment Rate and Labor Force
Seasonally Adjusted



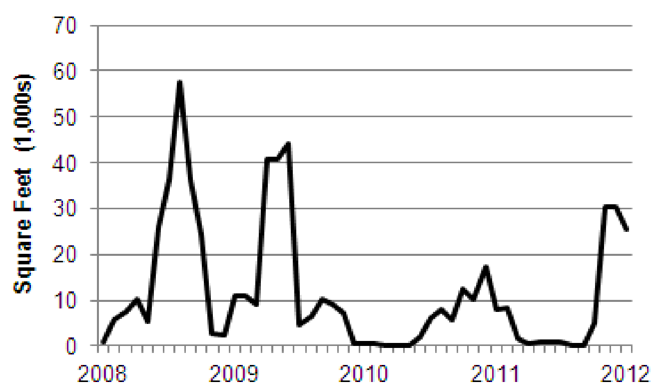
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2011.

Figure 55
Trends in Retail Trade Sales Since January 2008
Index 100 = January 2008
Index of Three-Month Moving Average;
Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S> Census Bureau.
Colorado data through December 2011.

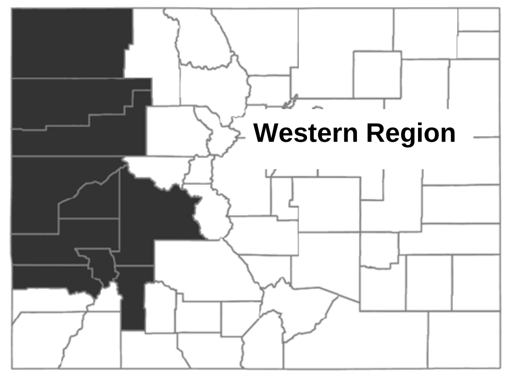
Figure 56
Southwest Mountain Nonresidential Building Permits
Three-Month Moving Average; Seasonally Adjusted
Annualized Data



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

Western Region

The western region's labor market saw slow improvement for the first time in two years in 2011 as jobs were on the rise and the unemployment rate fell from its previously high historic levels. After stabilizing in 2010, consumer spending rebounded in 2011 over the prior year. Despite these gains, the housing and commercial construction markets continued to slow. The number of drilling rigs operating in the region also declined over the year and shows little signs of improvement. Table 21 shows economic indicators for the region.



Expansion of the region's energy production sector, which had been among the most vibrant in the state over the last decade, has slowed as prices for natural gas remain low. The northern region of the state, where most of the output is oil, is now the most active in terms of drilling activity. Figure 57 shows that the western region accounts for less than a third of the total number of rigs operating in the state, with most of activity occurring in Garfield County. Through the first two months of 2012, the number of rigs operating in the region declined to 22 rigs, down from a high of 35 in March 2011.

After two years of job losses, the region's job market is beginning to see slow growth. As shown in Figure 58, employment in the Grand Junction metropolitan area was up 1.0 percent in 2011. The region posted a 1.7 percent gain as 9,425 new jobs were created in 2011 over the prior year. These changes are markedly different than the declines of the last two years, likely indicating the

Table 21
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2007	2008	2009	2010	2011
Employment Growth					
Western Region /1	4.9%	1.7%	-6.2%	-5.9%	1.7%
Grand Junction MSA /2	6.1%	4.8%	-6.6%	-4.5%	1.0%
Unemployment Rate /1	3.0%	3.9%	8.6%	10.0%	8.5%
(2011 Figure is December Only)					
Housing Permit Growth /3	-18.5%	-36.6%	-51.1%	0.5%	-21.6%
Growth in Value of Nonresidential Construction /3					
Value Projects	32.9%	-27.4%	-17.6%	16.7%	-59.4%
Square Footage of Projects	-7.3%	-9.8%	-38.9%	26.9%	-58.8%
Level (1,000s)	1,876	1,693	1,035	1,314	541
Number of Projects	-14.8%	23.1%	-6.7%	-31.7%	-31.6%
Level	121	149	139	95	65
Retail Trade Sales Growth /4	12.0%	1.2%	-19.1%	1.8%	9.1%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through December 2011.

4/ F.W. Dodge. Data through December 2011. Prior forecasts had data for Mesa and Montrose Counties only.

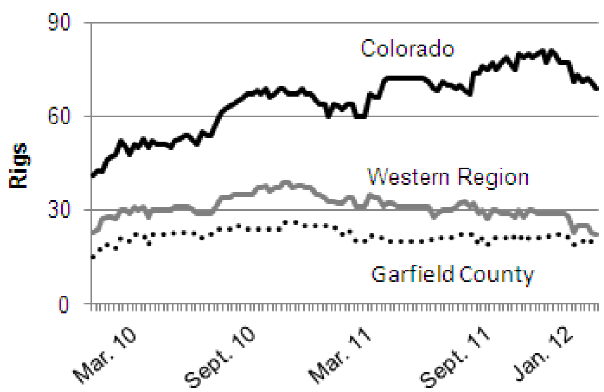
5/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

beginnings of a recovery. The unemployment rate fell to 8.5 percent in December, down from 10.0 percent in 2010, as shown in Figure 59. It is important to note that employment data can be revised significantly in rural parts of the state.

Figure 60 indexes consumer spending changes in the region to changes in consumer spending in the state and nation. Sales in the western region increased at a robust pace in the second half of 2010, but have leveled off in 2011. Because of the strong growth in late 2010, consumer spending through October is 9.1 percent higher than the first ten months of 2010. However, consumer spending was flat between December 2010 and October 2011 on a seasonally adjusted basis.

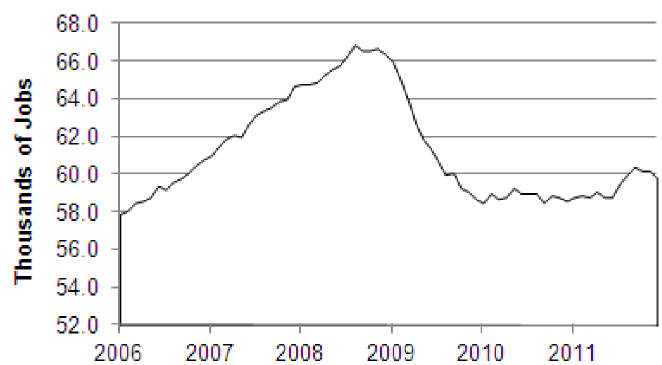
Both the residential housing market and nonresidential construction activity in this region remain sluggish. Residential housing permits fell 21.6 percent in 2011 after decreasing 0.5 percent in 2010. The value of nonresidential construction activity also declined 59.4 percent, as some commercial projects were completed in the prior year.

Figure 57
Drilling Rigs Operating in Colorado and on the Western Slope
Weekly data; Not Seasonally Adjusted



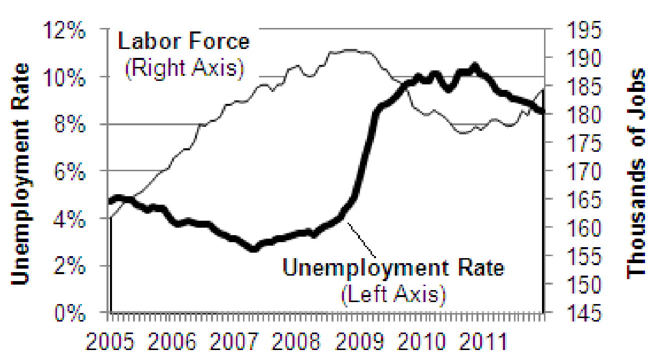
Source: Baker Hughes. Data through February 20, 2012.

Figure 58
Grand Junction MSA Nonfarm Employment
Seasonally Adjusted



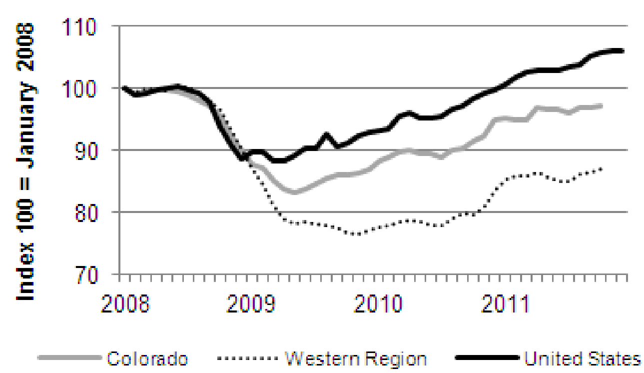
Source: U.S. Bureau of Labor Statistics; CES. Data through December 2011.

Figure 59
Western Region Unemployment Rate and Labor Force
Seasonally Adjusted



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

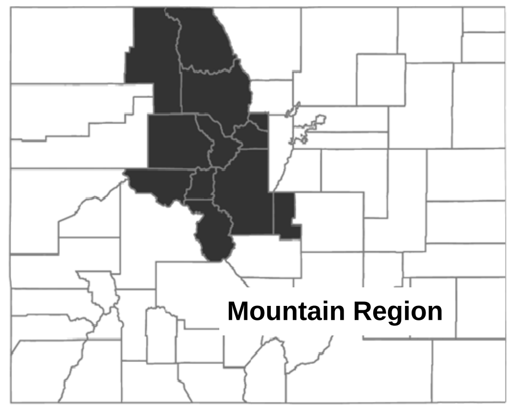
Figure 60
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



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

Mountain Region

The clear signs of recovery exhibited by the mountain region's economy have continued. The region was hit hard during the recession, when a sharp contraction occurred in two of its largest industries: tourism and construction. High unemployment and foreclosure rates combine with low levels of new construction kept the region from recovering quickly. However, regional employment is climbing while unemployment rates are the lowest they've been in several years. Consumer spending has picked up, and growth in residential construction is in the black for the first time in seven years. Table 22 shows economic indicators for the region.



The mountain region's job market continued to evidence improvement, adding nearly 6,000 jobs in 2011. The region's unemployment rate was 7.6 percent in December, the lowest rate since March 2009. Employment levels continued to steadily increase through December, as they have since early 2010. Figure 61 shows recent trends in the area's nonfarm employment and Figure 62 shows recent trends in the unemployment rate and labor force for the region.

Regional retail trade sales were up 8.9 percent though October 2011, compared with the first ten months of 2010. This growth is slightly slower than the level that had been exhibited in June, and the lower-than-usual snowpack levels that have negatively impacted the 2011-12 ski season have

Table 22
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

	2007	2008	2009	2010	2011
Employment Growth /1	2.1%	-0.7%	-6.5%	-4.5%	2.0%
Unemployment Rate /1 (2010 Figure is December Only)	3.0%	4.0%	7.6%	9.0%	7.6%
Housing Permit Growth /2	-15.9%	-18.4%	-49.2%	-17.6%	3.0%
Growth in Value of Nonresidential Construction /2					
Value of Projects	-48.6%	-27.5%	-73.5%	31.8%	198.9%
Square Footage of Projects	-44.3%	-53.7%	-83.1%	27.9%	268.6%
Level (1,000s)	2,098	972	164	210	775
Number of Projects	0.0%	-34.3%	-24.6%	0.0%	-12.2%
Level	99	65	49	49	43
Retail Trade Sales Growth /3	10.0%	-1.5%	-16.3%	4.9%	8.9%

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

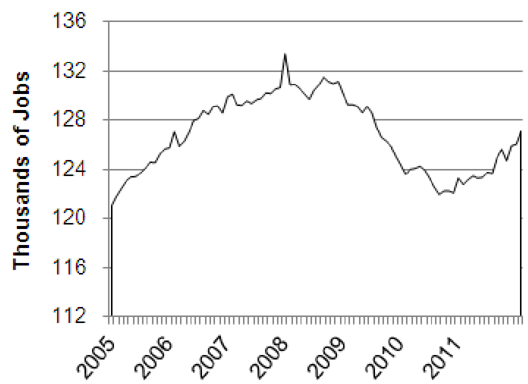
2/ F.W. Dodge. Data through December 2011. Prior forecasts reported Eagle, Pitkin & Summit Counties and Routt County separately.

3/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

likely accelerated this trend in consumer spending totals. Figure 63 indexes changes in the region's retail trade sales to changes in consumer spending in the nation and the state. After falling faster than the nation and the state in 2009 and early 2010, retail trade growth has not returned to pre-2008 levels.

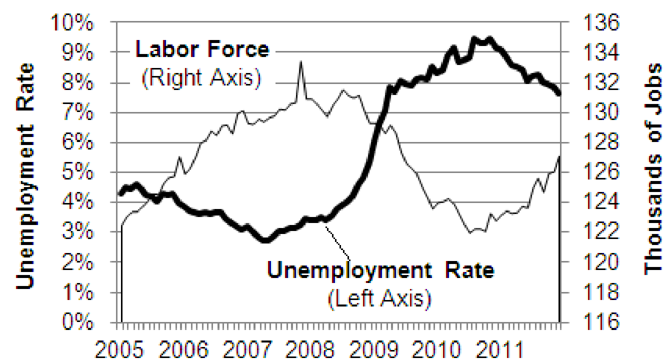
The regional construction market is mixed. The housing market appears to be showing signs of improvement. After seven consecutive years of decline, the number of regional housing permits was up 3.0 percent in 2011. In contrast, nonresidential construction continues to hold steady at historically low levels. Figure 64 shows permits for nonresidential construction, measured in terms of square feet.

Figure 61
Mountain Region Nonfarm Employment
Seasonally Adjusted



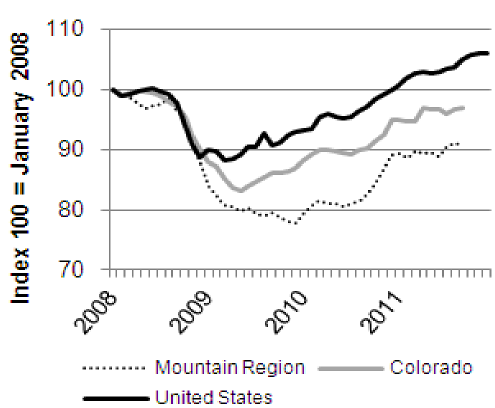
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2011.

Figure 62
Mountain Region Unemployment Rate and Labor Force
Seasonally Adjusted



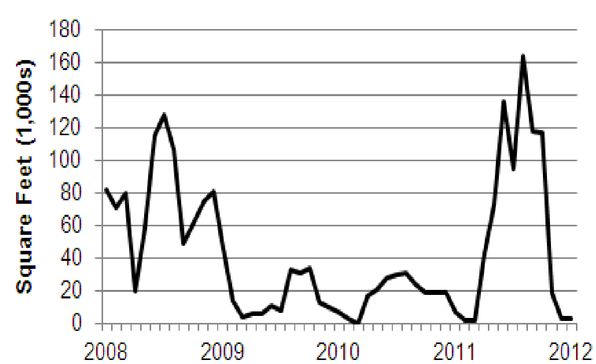
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2011.

Figure 63
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 October 2011; U.S. data through December 2011.

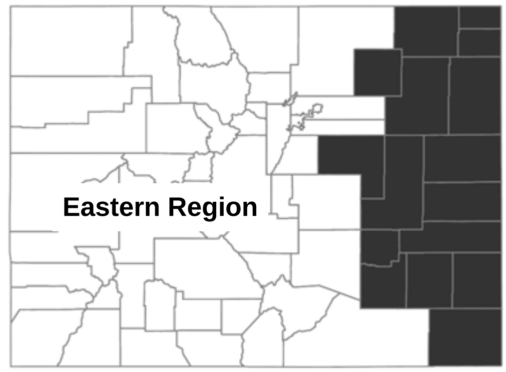
Figure 64
Mountain Region Non Residential Building Permits: Square Feet
Three-Month Moving Average; Non Seasonally Adjusted Data



Source: F.W. Dodge. Data through January 2012.

Eastern Region

The agricultural industry continues to contribute moderate growth to the eastern region's economy. The industry has been aided by record-high crop prices and beef prices that are high at the state and national levels. However, job growth in the region is weak. Table 23 shows regional economic indicators.



Nonfarm employment in the eastern region rose a weak 0.7 percent through December 2011 after decreasing 4.3 percent in 2010. It is important to note that these job growth statistics are based on nonfarm employment data that are not affected by the positive influence of the agricultural industries in the region. Although statistics are not available, it is likely that the agricultural industry contributed positively to job growth during the year. As shown in Figure 65, the region's unemployment rate

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

	2007	2008	2009	2010	2011
Employment Growth /1	0.6%	-4.0%	4.6%	-4.3%	0.7%
Unemployment Rate /1 (2011 Figure is December Only)	3.4%	4.3%	6.1%	6.7%	6.1%
Crop Price Changes /2					
Wheat	32.4%	10.1%	-32.5%	25.1%	-1.3%
Corn	31.1%	4.5%	-10.9%	37.9%	25.8%
Alfalfa Hay (Baled)	5.3%	18.0%	-20.7%	0.0%	84.6%
Dry Beans	38.7%	14.7%	-9.5%	-33.6%	76.7%
State Crop Production Growth /2					
Sorghum production	64.2%	-18.9%	50.0%	11.4%	-17.0%
Corn	10.6%	-6.8%	9.5%	20.6%	-11.3%
Winter Wheat	129.7%	-37.8%	71.9%	7.9%	-26.2%
Sugar Beets	-13.9%	-0.9%	27.0%	-14.5%	-2.3%
State Cattle and Calf Inventory Growth /3	1.9%	1.9%	-5.5%	3.8%	4.0%
Retail Trade Sales Growth /4	5.9%	6.2%	-12.5%	9.9%	14.4%

NA = Not Available.

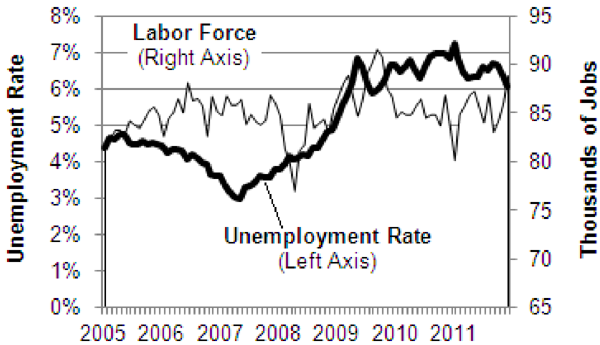
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2011.

2/ National Agricultural Statistics Service. Crop price changes compare January 1, 2012 to the prior year period. Estimates for state crop production are year over year for annual figures.

3/ 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 January 1, 2012 over prior year period in 2011.

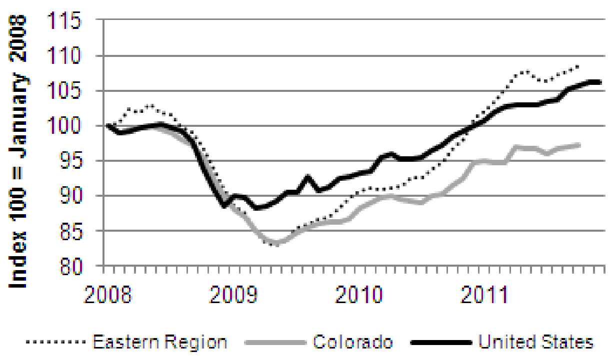
4/ Colorado Department of Revenue. Seasonally adjusted. Data through October 2011.

Figure 65
Eastern Region
Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 66
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



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

was 6.1 percent in December, lower than the statewide rate of 8.3 percent.

The region's agricultural industry is stable and continues to benefit from the ongoing demand for high crop prices. Winter wheat has been the primary driver as prices increased 25.1 percent to record highs in 2010. Although winter wheat prices decreased 1.3 percent in 2011, they remain high. Prices continued to edge up for other crops in 2011. Corn prices increased 25.8 percent, Alfalfa Hay prices rose 84.6 percent, and dry beans were up 76.7 percent in 2011. Cattle inventory increased 4.0 percent in 2011. It is likely that crop prices and meat production will continue to rise in 2012 as the global demand for food commodities remains strong.

The Eastern region experiences different economic trends than the more urban areas of the state because of the heavy influence of agricultural industries. Consumers in the region increased spending at rates faster than both the nation and the state in 2010. Figure 66 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. Spending continued to post strong growth through 2011, with a 14.4 percent increase through October 2011, one of the fastest growth rates in the state.

Appendix A
Historical Data

National Economic Indicators

(Dollar Amounts in Billions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Domestic Product	$8,332.4	$8,793.5	$9,353.5	$9,951.5	$10,286.2	$10,642.3	$11,142.2	$11,853.3	$12,623.0	$13,377.2	$14,028.7	$14,291.5	$13,939.0	$14,526.5	$15,094.4
percent change	6.3%	5.5%	6.4%	6.4%	3.4%	3.5%	4.7%	6.4%	6.5%	6.0%	4.9%	1.9%	-2.5%	4.2%	3.9%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$9,845.9	$10,274.7	$10,770.7	$11,216.4	$11,337.5	$11,543.1	$11,836.4	$12,246.9	$12,623.0	$12,958.5	$13,206.4	$13,161.9	$12,703.1	$13,088.0	$13,315.3
percent change	4.5%	4.4%	4.8%	4.1%	1.1%	1.8%	2.5%	3.5%	3.1%	2.7%	1.9%	-0.3%	-3.5%	3.0%	1.7%
Unemployment Rate	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%	9.0%
Inflation (Consumer Price Index)	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.8%	-0.3%	1.6%	3.1%
10-Year Treasury Note	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%	2.8%
Personal Income	$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	$12,460.2	$11,930.2	$12,373.5	$13,004.5
percent change	6.2%	7.5%	5.1%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.5%	5.7%	4.6%	-4.3%	3.7%	5.1%
Wage and Salary Income	$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	$6,550.9	$6,270.3	$6,408.2	$6,683.5
percent change	7.2%	7.9%	6.7%	8.2%	2.6%	0.9%	2.8%	5.6%	5.1%	6.5%	5.8%	2.0%	-4.3%	2.2%	4.3%
Nonfarm Employment (millions)	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	129.9	131.4
percent change	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%	-0.7%	1.2%

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

Colorado Economic Indicators

(Dollar Amounts in Millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nonagricultural Employment (thous.)	1,979.7	2,056.9	2,132.1	2,214.3	2,227.1	2,184.7	2,152.5	2,179.3	2,225.9	2,279.7	2,331.0	2,350.4	2,245.2	2,222.4	2,254.9
percent change	4.1%	3.9%	3.7%	3.9%	0.6%	-1.9%	-1.5%	1.2%	2.1%	2.4%	2.3%	0.8%	-4.5%	-1.0%	1.5%
Unemployment Rate (%)	3.4	3.6	3.1	2.8	3.8	5.6	6.1	5.6	5.1	4.3	3.8	4.8	8.1	8.9	8.3
Personal Income	$110,110	$120,100	$130,663	$147,056	$156,468	$157,752	$159,918	$168,587	$179,695	$194,390	$205,242	$215,952	$205,437	$213,202	NA
percent change	8.2%	9.1%	8.8%	12.5%	6.4%	0.8%	1.4%	5.4%	6.6%	8.2%	5.6%	5.2%	-4.9%	3.8%	
Per Capita Income	$27,402	$29,174	$30,919	$33,986	$35,355	$35,131	$35,312	$36,849	$38,795	$41,181	$42,724	$44,164	$41,317	$42,226	NA
percent change	5.5%	6.5%	6.0%	9.9%	4.0%	-0.6%	0.5%	4.4%	5.3%	6.2%	3.7%	3.4%	-6.4%	2.2%	
Wage and Salary Income	$62,754	$69,862	$76,643	$86,416	$89,109	$88,106	$89,284	$93,619	$98,902	$105,833	$112,962	$116,991	$112,633	$114,344	NA
percent change	9.2%	11.3%	9.7%	12.8%	3.1%	-1.1%	1.3%	4.9%	5.6%	7.0%	6.7%	3.6%	-3.7%	1.5%	
Retail Trade Sales	$45,142	$48,173	$52,609	$57,955	$59,014	$58,850	$58,689	$62,288	$65,492	$70,437	$75,329	$74,760	$66,345	$70,738	NA
percent change	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%	6.6%	
Housing Permits	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	11,591	13,831
percent change	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%	23.9%	19.3%
Nonresidential Construction	$3,336	$2,952	$3,799	$3,498	$3,476	$2,805	$2,686	$3,245	$4,275	$4,641	$5,259	$4,117	$3,351	$3,102	$3,781
percent change	31.2%	-11.5%	28.7%	-7.9%	-0.6%	-19.3%	-4.2%	20.8%	31.7%	8.6%	13.3%	-21.7%	-18.6%	-7.4%	21.9%
Denver-Boulder Inflation Rate	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%	3.7%
Population (thousands, July 1)	4,018.3	4,116.6	4,226.0	4,326.9	4,425.7	4,490.4	4,528.7	4,575.0	4631.89	4,720.4	4,803.9	4,889.7	4,972.2	5,049.1	5,116.8
percent change	2.5%	2.4%	2.7%	2.4%	2.3%	1.5%	0.9%	1.0%	1.2%	1.9%	1.8%	1.8%	1.7%	1.5%	1.3%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and F.W. Dodge.
NA = Not Available.