Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff Economics Section

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Photograph captures the Royal Gorge Bridge, courtesy of Simon Maghakyan.

Highlights

- The **economy** in Colorado and the nation is weak. Although many fundamentals in the economy have improved, businesses and households are holding back on spending, hiring, and investment decisions in the face of economic and political uncertainty. Economic growth is expected to lose momentum, slowing to a pace barely above recessionary levels in early 2013, before expanding again at more moderate levels later in the year.

- The General Fund ended **FY 2011-12** with $523.3 million more than the amount budgeted to be spent or retained in the reserve.

- The **FY 2012-13** General Fund budget is in balance. There will be enough revenue to transfer an estimated $678.5 million to the State Education Fund pursuant to House Bill 12-1338 at the end of the year.

- The General Assembly will have $589.8 million, or 7.0 percent, more to spend in **FY 2013-14** than the amount budgeted for FY 2012-13; this amount does not account for expenditure pressures resulting from inflation and caseload growth.

- The reserve increase and transfers authorized by **Senate Bill 09-228** are not expected to occur during the forecast period.

- The **Referendum C Cap** will equal $11.4 billion in FY 2012-13, and revenue subject to TABOR will be $1.0 billion below the cap.

- The **Unemployment Insurance Trust Fund** regained solvency and repaid all federal loans following the issuance of special revenue bonds in June 2012.

EXECUTIVE SUMMARY

This report presents the budget outlook based on the September 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 2012 legislative sessions affecting the General Fund overview. Table 7 on pages 15 and 16 lists legislation affecting General Fund revenue.

FY 2011-12. The FY 2011-12 General Fund budget ended the year with $523.3 million more than the amount budgeted to be spent, transferred, or retained in the reserve. Pursuant to House Bill 12-1338, $59 million will be transferred to the State Education Fund *(see line 13 of Table 1)*.

FY 2012-13. The FY 2012-13 budget is in balance. Assuming the $523.3 million surplus from FY 2011-12 is not spent but carried forward into FY 2012-13, revenue is expected to be $678.5 million higher than the amount budgeted to be spent or retained in the reserve. Pursuant to House Bill 12-1338, the $678.5 million surplus will be transferred to the State Education Fund at the end of the fiscal year. Table 1 displays this transfer as an expenditure from the General Fund, even though the money actually has not been spent or appropriated.

FY 2013-14. Revenue will be $589.8 million higher in FY 2013-14 than what would be needed to fund General Fund operating appropriations and the statutorily required reserve at the same level as was budgeted for in FY 2012-13. This amount is equal to 7.0 percent of total expenditures in FY 2012-13. Because a budget has not yet been enacted for FY 2013-14, Table 1 shows operating appropriations in FY 2013-14 at the same level currently budgeted for FY 2012-13. Therefore, the $589.8 million figure would be lower if adjusted to account for expenditure pressures resulting from inflation and caseload growth.

Senate Bill 09-228 transfers and reserve increase. Senate Bill 09-228 requires a five-year block of increases in the statutory General Fund reserve and transfers to capital construction and transportation as soon as Colorado personal income increases by at least 5 percent during or after calendar year 2012. Colorado personal income is not expected to increase by 5 percent until calendar year 2014. Therefore, this forecast anticipates that the transfers and reserve increase will occur in FY 2015-16, one year beyond the current forecast period. If the obligations were to occur in FY 2013-14, they would total at least $244.7 million.

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 through at least the end of the

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

		FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
	FUNDS AVAILABLE	**Preliminary**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$156.7	$804.4	$297.5	$887.4
2	General Fund Nonexempt Revenue	6,267.8	6,750.5	6,978.3	7,337.1
3	General Fund Exempt Revenue (Referendum C)	1,469.1	1,164.1	1,320.9	1,458.6
4	Transfers to Other Funds	(5.0)	(4.6)	(1.6)	(1.6)
5	Transfers from Other Funds	143.0	2.1	2.2	2.2
6	**Total Funds Available**	**$8,031.6**	**$8,716.5**	**$8,597.3**	**$9,683.7**
7	Percent Change	8.8%	8.5%	-1.4%	12.6%
	EXPENDITURES	**Budgeted**	**Budgeted**	**Estimate /A**	**Estimate /A**
8	General Fund Appropriations	7,027.9	7,438.1	7,438.1	7,438.1
9	Adjustments to Appropriations	0.0	0.0	0.0	0.0
10	Rebates and Expenditures *(Lines 20-28 of Table 5)*	133.2	145.0	144.2	148.7
11	Reimbursement for Senior and Disabled Veterans Property Tax Cut	1.8	96.0	102.6	109.7
12	Capital Construction Transfers	50.0	61.4	25.1	25.1
13	Transfers to the State Education Fund and State Public School Fund /B	59.0	678.5	0.0	0.0
14	Accounting Adjustments	(44.8)	NE	NE	NE
15	**Total Expenditures**	**$7,227.2**	**$8,419.0**	**$7,710.0**	**$7,721.6**
16	Percent Change	0.0%	16.5%	-8.4%	0.2%

	BUDGET SUMMARY	**Preliminary**	**Estimate**	**Estimate /A**	**Estimate /A**
17	**Amount Available for Expenditure** *(Line 6 minus Line 22)*	**7,750.4**	**8,419.0**	**8,299.8**	**9,386.2**
18	Dollar Change	525.7	668.6	(119.2)	1,086.3
19	Percent Change	7.3%	8.6%	-1.4%	13.1%

	RESERVE	**Budgeted**	**Budgeted**	**Estimate /A**	**Estimate /A**
20	Year-End General Fund Reserve	804.4	297.5	887.4	1,962.1
21	Year-End Reserve As A Percent of Appropriations	11.4%	4.0%	11.9%	26.4%
22	Statutorily-Required Reserve /B	281.1	297.5	297.5	297.5
23	Reserve in Excess or (Deficit) of Statutory Reserve	$523.3	$0.0	$589.8	$1,664.6
24	*Percent Change in General Fund Appropriations*	*3.0%*	*5.8%*	*NE*	*NE*
25	Addendum: TABOR Reserve Requirement	308.1	312.4	326.8	343.6
26	Addendum: 5% of Colorado Personal Income Appropriations Limit	10,271.9	10,660.1	11,279.6	11,742.0
27	Addendum: Amount Directed to State Education Fund Per Amendment 23	407.5	420.0	447.5	468.8

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

/A Because the budget for FY 2013-14 and FY 2014-15 have not yet been enacted, this analysis assumes General Fund appropriations as budgeted for FY 2012-13 (line 8) will occur in FY 2013-14 and FY 2014-15. Therefore, line 23 shows the amount of money available for expenditure in FY 2013-14 and FY 2014-15 above the amount budgeted to be spent in FY 2012-13.

/B These transfers are pursuant to House Bill 12-1338.

forecast period in FY 2014-15. Table 2 illustrates the availability of these tax policies. Although revenue was sufficient in FY 2011-12, the following tax policies are not available in 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.

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

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

Revenue Forecast

The FY 2012-13 forecast for total revenue subject to TABOR increased $83.7 million relative to the June forecast. The forecast for General Fund revenue subject to TABOR increased $67.3 million, while the cash fund forecast increased $16.4 million. The FY 2013-14 forecast for revenue subject to TABOR increased $62.1 million, with the General Fund revenue forecast rising $96 million and the cash fund forecast falling $34 million.

- **General Fund revenue** increased 9.2 percent in FY 2011-12. However, General Fund revenue is expected to grow more slowly in FY 2012-13 and FY 2013-14, by 2.3 percent and 4.9 percent, respectively. Those forecasts were both revised up from the June forecast, primarily because revenue came in $125.4 million higher in FY 2011-12 than expected in June.

- C**ash fund revenue** subject to TABOR increased 7.9 percent in FY 2011-12, totaling $2.55 billion. However, this revenue is expected to decrease 1.0 percent to $2.53 billion in FY 2012-13. The decrease is primarily the result of falling severance tax collections stemming from lower natural gas prices.

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	0.5	-
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	0.7	-
HB 10-1389	Capital Construction Transfers	-	19.1	10.4	-	-
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	-	-	-	2.6	-
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	-	-	-	0.6	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	-
SB 12-114	Conditional Transfer of Tobacco Settlement /A	-	-	-	-	-
HB 12-1286	Transfer for Film Incentives	-	-	-	-	(3.0)
HB 12-1315	Clean Renewable Energy Fund	-	-	-	-	(1.6)
HB 12-1343	State Rail Bank Fund	-	-	-	9.3	-
HB 12-1360	Colorado Economic Development Fund	-	-	-	(4.0)	-
Transfers to the General Fund		$815.2	$421.2	$158.1	$143.0	$2.1
Transfers from the General Fund		($4.4)	($458.1)	$0.0	($5.0)	($4.6)

Table 3 continues on next page

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

General Fund Expenditure Impacts /B

		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 11-156	Transfers to the SEF and Public School Fund	-	-	288.9	-	-
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)
HB 12-1326	Conditional Transfer to Older Coloradans Fund	-	-	-	-	4.5
HB 12-1326	Old Age Pension Program Set Aside	-	-	-	-	6.7
HB 12-1338	Transfers to the State Education Fund	-	-	-	59.00	678.5
Total Expenditure Measures		**($25.4)**	**($138.8)**	**$200.1**	**($56.2)**	**$671.5**

Statutory Reserve Impacts

		2008-09	2009-10	2010-11	2011-12	2012-13
SB 09-219	FY 08-09 Statutory Reserve Reduction 2%	($148.2)	$ -	$ -	$ -	$ -
SB 09-277	FY 09-10 Statutory Reserve Reduction 2%	-	(149.1)	-	-	-
SB 11-156	FY 10-11 Reserve Reduction & SEF Transfer 2.3%	-	-	(116.0)	-	-
Total Revenue Impact		**($148.2)**	**($149.1)**	**($116.0)**	**$0.0**	**$0.0**

/A This diversion from the Tobacco Settlement Litigation Fund of up to $12 million in FY 2012-13 is conditional on the receipt

/B Excludes budgetary measures affecting General Fund operating appropriations.

- The **Unemployment Insurance Trust Fund** regained solvency and paid back all federal loans in late June after the issuance of $640 million in special revenue bonds. The fund ended FY 2011-12 with a balance of $512.9 million, or 0.6 percent of covered wages. The new premium rate table enacted by House Bill 11-1288 will become effective beginning in January 2013. The solvency surcharge is expected to remain in effect through 2013, but will no longer be needed starting in January 2014. More information about the bonds can be found on page 28.

- The state has retained a total of $5.83 billion since the beginning of **Referendum C** in FY 2004-05 through FY 2011-12. This year the state is expected to retain $1.16 billion. Table 4 presents the history and forecast for revenue retained by Referendum C.

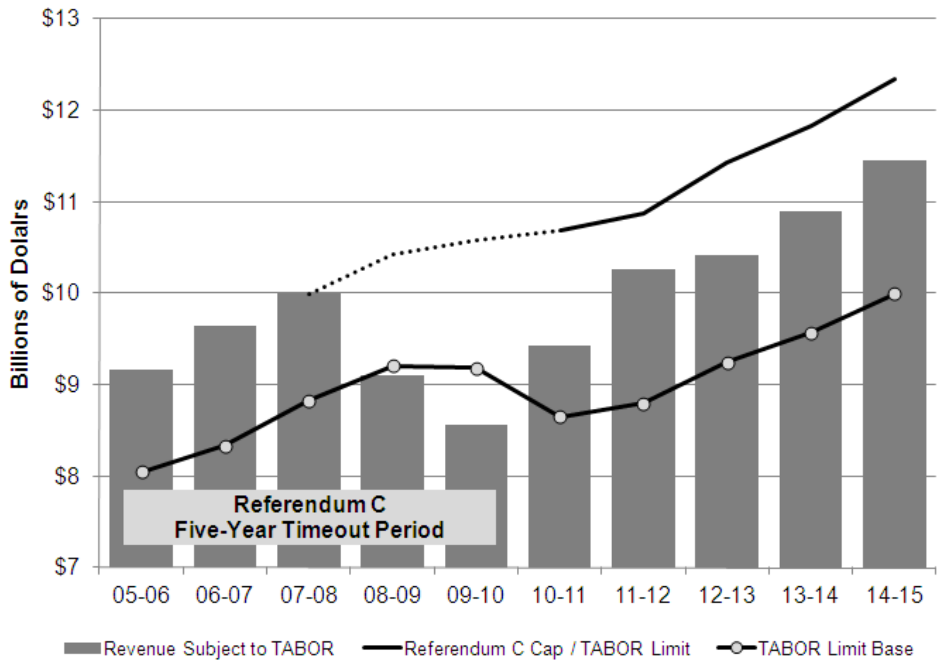
- Figure 1 shows TABOR revenue and the Referendum C cap through the end of the forecast period, which extends five years beyond the Referendum C time-out period. The Referendum C cap will equal $11.4 billion in FY 2011-12, and revenue subject to TABOR is expected to be $1.0 billion below the cap. Revenue will not be sufficient to produce a **TABOR refund** through at least FY 2014-15, 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 accordance with the Census count. Therefore, the population growth rate used to calculate the FY 2011-12 limit 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
FY 2009-10	$0
FY 2010-11	$770.6
Preliminary	
FY 2011-12	$1,469.1
Projections	
FY 2012-13	$1,164.1
FY 2013-14	$1,320.9
FY 2014-15	$1,458.6

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



Source: Colorado State Controllers Office and Legislative Council Staff.

National Economy

Three years into a lackluster recovery, the U.S. economy is again losing momentum. Many indicators that were growing moderately toward the end of 2011 have decelerated through the spring and summer. Employment, consumer spending, and household and business income continue to see some growth, but at a slow rate. Meanwhile, after making significant contributions to growth in 2010 and 2011, manufacturing activity has begun to stall.

Many fundamentals in the economy have improved. The housing market has begun to recover and will drive growth somewhat over the coming year. Banks have rebuilt their balance sheets, businesses have become more efficient and productive, and households have shed debt. However, uncertainty is particularly high, and businesses and households continue to hold back on spending, hiring, and investment decisions as a result.

Much of Europe is in recession. There have been developments from political and monetary leaders in the management of the European debt crisis that were received well by the financial markets. However, the crisis is far from resolved and will remain a significant risk to the economy for the foreseeable future. Other economies are also slowing, including those in China, India, and Brazil. Finally, heightened uncertainty is expected to persist over the next six to nine months as the U.S. Congress debates an increase in the federal debt limit and whether to postpone or repeal automatic tax increases and spending cuts scheduled in 2013.

The economy is expected to continue to lose momentum as a result of heightened uncertainty, slowing to a pace barely above recessionary levels during the first few months of 2013. Economic activity and employment should begin growing again at more moderate levels by the end of 2013. These expectations assume that the Eurozone will remain intact and that at least some of the U.S. fiscal policies set to occur in 2013 will either be postponed or repealed. They also assume that purchases of mortgage securities by the U.S. Federal Reserve will aid in the recovery of the housing and financial sectors. Continued economic growth following 2013 is dependent on political resolution in Washington D.C. and steady improvements in Europe.

Colorado Economy

The recovery in Colorado's economy is losing momentum apace with the national economy. Although Colorado is expected to outperform the nation, employment, income, and wage growth will be restrained and the unemployment rate will rise through the remainder of 2012 and into the first half of 2013. Business and consumer spending will continue to grow, but at slower rates, as households and businesses grapple with uncertainty and a slowing national economy. The housing and residential construction markets will continue to be a source of growth, particularly in Denver and the northern urban corridor. Farm income has pulled back significantly after two strong years, but it appears that the agricultural community will be able to successfully navigate its way through the current year's drought.

Table 5
September 2012 TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

		Preliminary FY 2011-12	Estimate FY 2012-13	Estimate FY 2013-14	Estimate FY 2014-15
	TABOR Revenue:				
1	General Fund /A	$7,716.3	$7,885.5	$8,270.1	$8,766.5
2	Cash Funds	2,552.8	2,527.5	2,623.4	2,685.8
3	**Total TABOR Revenue**	**$10,269.1**	**$10,413.0**	**$10,893.5**	**$11,452.3**
	Revenue Limit				
4	Allowable TABOR Growth Rate	2.0%	5.1%	3.5%	4.4%
5	Inflation (from prior calendar year)	1.9%	3.7%	2.1%	2.8%
6	Population Growth (from prior calendar year) /B	0.1%	1.4%	1.4%	1.6%
7	TABOR Limit Base	$8,800.1	$9,248.9	$9,572.6	$9,993.8
8	Voter Approved Revenue Change (Referendum C)	$1,469.1	$1,164.1	$1,320.9	$1,458.6
9	Total TABOR Limit / Referendum C Cap	$10,871.5	$11,426.0	$11,825.9	$12,346.2
	Retained/Refunded Revenue				
10	Revenue Retained under Referendum C /C	$1,469.1	$1,164.1	$1,320.9	$1,458.6
11	**Total Available Revenue**	**$10,269.1**	**$10,413.0**	**$10,893.5**	**$11,452.3**
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 increased 9.2 percent in FY 2011-12 to approximately $7.7 billion. This marks two consecutive years of revenue growth following the recession for the state's main revenue source for general operating appropriations. All major revenue categories contributed to this growth. Individual income tax receipts increased 11.5 percent, corporate income taxes were higher by 24.0 percent, and sales tax rose 2.4 percent. However, the economy remains fragile, and thus the September forecast expects slow but continued improvement for the General Fund. Revenue is projected to increase 2.3 percent in the current fiscal year and 4.9 percent in FY 2013-14. It is expected that revenue will reach pre-recession levels in FY 2012-13.

General Fund revenue growth was aided by the state's economic recovery and revenue augmenting legislation passed during the 2009 and 2010 legislative sessions. It is estimated that about 35 percent of the increase in FY 2010-11 was the result of this legislation. Table 6 on page 14 illustrates actual revenue collections for FY 2010-11, preliminary estimates for FY 2011-12, and the projections for FY 2012-13 through FY 2014-15. A list of legislation affecting General Fund revenue from the 2009 through 2012 legislative sessions is shown in Table 7 on pages 15 and 16.

In FY 2011-12, General Fund collections came in $125.4 million above the June forecast. The extra revenue was primarily from higher year-to-date collections from both the individual and corporate income tax. In addition, the forecast was increased by $67.3 million in FY 2012-13 and $95.9 million in FY 2013-14.

Revenue from **sales taxes** increased 2.4 percent in FY 2011-12. Sales taxes are projected to increase 2.9 percent in FY 2012-13 and 3.0 percent in FY 2013-14 as the economy continues to slowly expand.

The sales tax base shrinks in FY 2012-13 as a result of the reinstatement of certain sales tax exemptions starting July 1, 2012. Without these changes, sales tax revenue would have grown faster. These exemptions include the sales tax exemption for industrial energy and the exemption for software, which were both suspended to raise General Fund revenue in previous legislative sessions. A more detailed list of legislation impacting sales tax revenue is found on Table 7 on page 15.

Retail trade growth has been strong in several regions of the state through June 2012, the most recent data available. As gas prices fell in the first half of 2012, taxable sales in Colorado rose as consumers switched from buying non-taxable fuel to taxable goods and services. Gas prices have stabilized and begun to rise, and economic growth is expected to slow, so taxable sales will not rise as quickly in the second half of 2012 and 2013.

For FY 2011-12, sales tax collections came in $24.1 higher than the amount forecast in June. For future years, the forecast was increased by $70.5 million in FY 2012-13 and $59.9 million in FY 2013-14.

After strong growth in FY 2010-11, **use tax** revenue grew 5.4 percent in FY 2011-12. It is expected to increase at a moderate pace, by 4.3 percent in FY 2012-13 and 5.5 percent in FY 2013-14. Compared with the June

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

	Category	Preliminary FY 2011-12	Percent Change	Estimate FY 2012-13	Percent Change	Estimate FY 2013-14	Percent Change	Estimate FY 2014-15	Percent Change
1	Sales	$2,093.2	2.4	$2,153.7	2.9	$2,218.1	3.0	$2,298.0	3.6
2	Use	200.3	5.4	208.8	4.3	220.2	5.5	235.0	6.7
3	Cigarette	39.5	0.5	38.3	-2.9	36.8	-4.0	35.3	-4.2
4	Tobacco Products	16.0	16.1	15.7	-1.8	16.3	3.6	16.8	2.8
5	Liquor	38.4	5.3	38.6	0.6	39.9	3.5	42.3	5.8
6	TOTAL EXCISE	$2,387.4	2.8	$2,455.3	2.8	$2,531.3	3.1	$2,627.3	3.8
7	Net Individual Income	$5,011.7	11.5	$5,055.9	0.9	$5,377.8	6.4	$5,753.0	7.0
8	Net Corporate Income	488.3	24.0	515.5	5.6	557.7	8.2	592.0	6.2
9	TOTAL INCOME TAXES	$5,500.0	12.5	$5,571.4	1.3	$5,935.5	6.5	$6,345.0	6.9
10	Less: Portion diverted to the SEF	-407.5	10.0	-420.0	3.1	-447.5	6.6	-468.8	4.8
11	INCOME TAXES TO GENERAL FUND	$5,092.5	12.7	$5,151.4	1.2	$5,488.0	6.5	$5,876.2	7.1
12	Estate	0.3	NA	45.0	NA	94.0	108.9	98.2	4.4
13	Insurance	197.2	4.0	206.2	4.5	221.6	7.5	232.7	5.0
14	Pari-Mutuel	0.6	14.2	0.5	-15.0	0.5	-4.0	0.4	-13.0
15	Investment Income	14.4	82.7	13.8	-4.7	15.0	8.7	16.2	8.0
16	Court Receipts	2.6	-27.6	1.0	-62.4	0.7	-32.0	0.4	-39.4
17	Gaming	20.2	-0.8	20.4	0.0	20.4	0.1	20.4	0.0
18	Other Income	21.6	1.4	21.2	-1.9	21.7	2.7	22.0	1.2
19	TOTAL OTHER	$257.0	5.6	$308.0	19.9	$279.9	-9.1	$292.1	4.4
	GROSS GENERAL FUND	**$7,736.9**	**9.2**	**$7,914.6**	**2.3**	**$8,299.2**	**4.9**	**$8,795.7**	**6.0**
	REBATES & EXPENDITURES:								
20	Cigarette Rebate	$11.2	1.9	$11.2	-0.1	$10.8	-4.0	$10.3	-4.2
21	Old-Age Pension Fund	92.5	1.2	97.5	5.5	86.2	-11.6	91.2	5.7
22	Aged Property Tax & Heating Credit	7.2	5.2	7.2	0.1	7.1	-1.0	7.0	-1.0
23	Older Coloradans Fund	8.0	0.0	12.5	56.1	8.0	-35.9	8.0	0.0
24	Old Age Supplemental Medical Care Fund	2.9	0.0	0.0	-100.0	0.0	0.0	0.0	0.0
25	Interest Payments for School Loans	0.9	17.1	1.2	27.4	1.2	0.0	1.3	8.3
26	Fire and Police Pension Association	9.7	125.4	14.6	50.3	30.0	105.9	30.0	0.0
27	Amendment 35 GF Expenditures	0.9	0.2	0.9	0.9	0.9	-2.2	0.8	-3.2
28	TOTAL REBATES & EXPENDITURES	$133.2	5.7	$145.0	8.9	$144.2	-0.6	$148.7	3.1

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	0.20	0.20	0.20
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
HB 12-1045	Extend and Expand Beetle Kill Sales Tax Exemption	-	-	-	-	(0.0)
HB 12-1037	Classify Agricultural Products As Wholesale Sales	-	-	-	-	(0.1)
H.R. 4853 /D	Payroll Tax Rate Reduction	-	-	14.0	14.0	-
Total Sales Taxes		*$16.1*	*$108.0*	*$190.0*	*$120.7*	*$64.1*

Table 7 Continues on Next Page

forecast, the outlook for use tax revenue is slightly higher in FY 2012-13 and FY 2013-14.

Individual income tax collections increased for the second consecutive year in FY 2011-12. Total receipts were $5,011.7 million, up 11.5 percent from the previous year. The state's largest source of revenue has been growing at an average rate of 10.8 percent over the last two years. Individual income tax collections are expected to continue to improve, but at a slower rate as employment and wage growth decelerates. Revenue from individual income taxes will increase 0.9 percent in FY 2012-13, 6.4 percent in FY 2013-14, and 7.0 percent in FY 2014-15.

Individual income tax revenue came in $53.6 million higher than had been expected in the June forecast for FY 2011-12. The extra revenue was primarily from higher year-to-date collections. The forecast for FY 2012-13 was reduced by $75.2 million relative to the June forecast. This is due to slower expectations for growth in employment and wages compared with the previous forecast.

In FY 2011-12, General Fund revenue from **corporate income** collections totaled $488.3 million, a 24.0 percent increase from the prior year. Corporate income taxes are projected to rise another 5.6 percent in FY 2012-13 and 8.2 percent in FY 2013-14.

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)	(2.00)
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)
HB 12-1273	Add Approved Facility School To Child Care Credit	-	-	-	-	(0.7)
HB 12-1042	Income Tax Credit For Estate Taxes On Ag Land /E	-	-	-	-	-
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)*	*37.6*
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**	**$149.4**

/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 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.

/E This bill is conditional on the enactment of legislation by Congress to delay the sunset of Economic Growth and Tax Relief Reconciliation Act (EGTRRA) to a date beyond December 31, 2012, and that, in so doing, the state tax credit remains in federal law after the sunset of EGTRRA.

Nationally, corporate profits have grown 26.8 percent and 7.3 percent in 2010 and 2011, respectively. However, in the first six months of 2012, corporate profits have grown more slowly at 0.7 percent. The increase in 2010 was attributed to cost cutting implemented by firms, a reduction in the cost of materials and labor, and favorable tax policies following the recession. Corporations across the nation are beginning to see revenue expectations diminish because of a strengthening dollar and a weakening demand for goods and services abroad. Corporate profits in Colorado are similarly expected to grow more slowly.

Corporate income collections came in $49.1 million above the forecast for FY 2011-12. The forecast was increased by $67.1 million for FY 2012-13, reflecting higher year-to-date collections in the current year and economic growth the following year

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 $407.5 million in FY 2011-12, it will receive $420.0 million in FY 2012-13 and $447.5 million in FY 2013-14.

The **tax amnesty program,** enacted by Senate Bill 11-184, will result in the collection of additional income tax and sales tax revenue. Through June, the tax amnesty program has collected a total of $15.2 million from the following revenue sources:

- $11.3 million from state sales, use, and income taxes;
- $2.3 million from state oil and gas severance taxes; and
- $1.6 million from local government sales and use taxes.

Of the $11.3 million collected from state income, sales, and use taxes, $9.6 million was transferred to the State Education Fund. Another $1,750,000 was transferred to the General Fund to help pay for the family medicine residency training program in the Department of Health Care Policy and Financing. The remaining $1.5 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.

The **estate tax** is levied on the taxable estate of a deceased person. In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRRA), which phased out the federal estate tax through 2009. EGTRRA replaced the state tax credit with a deduction beginning in 2005, effectively eliminating Colorado's estate tax. 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 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 if there are no other fiscal changes in 2013.

Therefore, under current law, Colorado will collect an estate tax for deaths occurring on and after January 1, 2013. However, it is possible that Congress may choose to extend the provisions of EGTRRA further into the future, or repeal the federal tax credit for estate taxes paid to states. If Congress does so, this revenue will not be collected.

CASH FUND REVENUE

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 taxes, and gaming taxes. 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 restrictions.

Cash fund revenue subject to TABOR, which grew 7.9 percent to $2.55 billion in FY 2011-12, is expected to decrease 1.0 percent to $2.53 billion in FY 2012-13. The decrease is primarily attributable to the projected $109.1 million decline in severance tax collections stemming from lower natural gas prices. Capital construction-related funds are also projected to decline by $400,000 in FY 2012-13. These declines are somewhat offset by projected gains in hospital provider fee revenue, gaming revenue, and other cash funds. Transportation-related, insurance-related, and regulatory agencies cash funds are expected to remain essentially flat. Total cash fund revenue subject to TABOR will increase 3.8 percent to $2.62 billion in FY 2013-14, as severance tax revenue is projected to rebound along with natural gas prices.

In FY 2011-12, revenue to ***transportation -related*** cash funds grew 2.7 percent to $1,112.2 million. In FY 2012-13, revenue growth will be flat, as motor fuel revenues decline and revenue growth to the State Highway Fund is limited. For the rest of the forecast period, growth is expected to increase, although at a slow rate. Forecasts for transportation related cash funds are shown in Table 9 on page 21.

Total revenue to the *Highway Users Tax Fund (HUTF)* is expected to increase 2.1percent to $960.5 million in FY 2012-13, after increasing 0.4 percent in FY 2011-12. The growth in the HUTF is expected as the provisions of **House Bill 10-1387** expire. 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, originally authorized by Senate Bill 09-274. The end of this diversion will boost revenue by $22.6 million to *other HUTF receipts* and reduce revenue to *other transportation funds* by the same amount in FY 2012-13 and beyond.

In addition, revenue from registrations is growing faster than previously forecast. Total registration revenue is now expected to grow 0.7 percent to $329.0 million in FY 2012-13. This revenue gain will be partially offset by a decline in motor fuel revenue, which is expected to decrease 0.8 percent to $552.8 million in FY 2012-13.

Total *State Highway Fund* revenue rose 31.6 percent to $56.1 million in FY 2011-12 due to increases in local grants, or revenue from local governments for transportation projects that receive federal matching dollars. However, due to slowing economic conditions and low interest rates, the State Highway Fund is expected to grow only 1.5 percent in FY 2012-13. In FY 2013-14 and 2014-15, modest growth is expected as interest earnings should remain limited due to low interest rates. Because local grants are sensitive to economic conditions, a slowdown in Colorado's economy could result in large decreases in revenue.

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

	Preliminary FY 11-12	Estimate FY 12-13	Estimate FY 13-14	Estimate FY 14-15	FY 11-12 to FY 14-15 CAAGR *
Transportation-Related	**$1,112.2**	**$1,112.1**	**$1,126.4**	**$1,140.9**	
% Change	2.7%	0.0%	1.3%	0.0%	**0.9%**
Hospital Provider Fee	**$586.5**	**$643.4**	**$607.7**	**$607.7**	
% Change	32.5%	9.7%	-5.5%	0.0%	**1.2%**
Severance Tax	**$207.7**	**$98.6**	**$187.6**	**$208.3**	
% Change	39.0%	-52.5%	90.3%	11.0%	**0.1%**
Gaming Revenue /A	**$95.6**	**$101.4**	**$103.4**	**$106.0**	
% Change	-2.4%	6.0%	2.0%	2.5%	**3.5%**
Insurance-Related	**$22.6**	**$23.1**	**$24.0**	**$24.5**	
% Change	-14.6%	2.0%	4.0%	0.0%	**2.7%**
Regulatory Agencies	**$64.9**	**$66.0**	**$67.0**	**$67.0**	
% Change	-6.7%	1.6%	1.6%	0.0%	**1.1%**
Capital Construction Related - Interest /B	**$1.1**	**$0.7**	**$0.6**	**$0.3**	
% Change	-62.8%	-33.5%	-23.1%	-42.3%	**-33.4%**
Other Cash Funds	**$462.1**	**$482.4**	**$506.9**	**$531.2**	
% Change	-6.5%	4.4%	5.1%	4.8%	**4.8%**
Total Cash Fund Revenue	**$2,552.8**	**$2,527.6**	**$2,623.5**	**$2,685.9**	
Subject to the TABOR Limit	7.9%	-1.0%	3.8%	2.4%	**1.7%**

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, September 2012
(Dollars in Millions)

	Preliminary FY 11-12	Estimate FY 12-13	Estimate FY 13-14	Estimate FY 14-15	FY 11-12 to FY 14-15 CAAGR *
Highway Users Tax Fund (HUTF)					
Motor Fuel and Special Fuel Taxes	$557.2	$552.8	$560.0	$566.7	0.6%
% Change	0.0%	-0.8%	1.3%	1.2%	
Total Registrations	$326.7	$329.0	$332.4	$335.5	0.9%
% Change	1.4%	0.7%	1.0%	0.9%	
Registrations	*$193.2*	*$194.6*	*$197.0*	*$199.0*	
Road Safety Surcharge	*$115.7*	*$116.9*	*$118.0*	*$119.2*	
Late Registration Fees	*$17.8*	*$17.5*	*$17.3*	*$17.3*	
Other HUTF Receipts /A	$57.1	$78.8	$77.8	$77.6	10.8%
% Change	-0.9%	38.0%	-1.2%	-0.3%	
Total HUTF	**$941.1**	**$960.5**	**$970.2**	**$979.9**	1.4%
% Change	0.4%	2.1%	1.0%	1.0%	
State Highway Fund	$56.1	$56.9	$58.4	$60.4	2.5%
% Change	31.6%	1.5%	2.5%	3.5%	
Other Transportation Funds	$114.6	$94.6	$97.8	$100.7	-4.2%
% Change	11.0%	-17.4%	3.4%	2.9%	
Aviation Fund /B	*$41.0*	*$41.8*	*$44.3*	*$46.1*	
Law-Enforcement-Related /C	*$10.9*	*$11.0*	*$11.1*	*$11.3*	
Registration-Related /D	*$62.6*	*$41.8*	*$42.4*	*$43.3*	
Total Transportation Funds	**$1,112.2**	**$1,112.1**	**$1,126.4**	**$1,140.9**	0.9%
% Change	2.7%	0.0%	1.3%	1.3%	

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 11-12	Estimate FY 12-13	Estimate FY 13-14	Estimate FY 14-15	
Bridge Safety Surcharge	$101.5	$102.5	$103.6	$104.6	$96.1
% change	42.4%	1.0%	1.0%	1.0%	

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.

In June 2012, Congress approved funding for the U.S. Highway Trust Fund, thus keeping highway spending at current levels through 2014. The measure relies on a withdrawal of $20 billion from the U.S. Treasury and there is concern about keeping the fund solvent in the future. Future federal transportation funding will affect the *State Highway Fund,* as the majority of revenue to the fund comes from interest earnings on the fund balance, which is comprised of federal funds and local grants.

The Bridge Safety Surcharge grew an additional 33 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** generated $586.6 million in FY 2011-12. In FY 2012-13 and FY 2013-14, program revenue is expected to be $643.4 and $607.7 million, respectively. The forecast is unchanged since March 2012 because new data have been consistent with previous expectations.

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 up to a capped amount of $10,000. This program will be expanded in future years, although no current timetable has been set. The forecast also includes the $50 million and $25 million transfers for FY 2011-12 and FY 2012-13 authorized by Senate Bill 11-212.

The Patient Protection and Affordable Care Act allows states to opt out of the upcoming Medicaid expansion. Hospital provider fee revenue may be affected, depending on choices made by the General Assembly. For now, this forecast assumes revenue in FY 2014-15 will be unchanged from FY 2013-14.

Total **severance tax** revenue, including interest earnings, is projected to be $98.6 million in FY 2012-13, an upward revision of 18.7 percent from the June forecast. The revision is in part due to stronger-than-expected total collections in FY 2011-12. Severance tax revenue at the end of the fiscal year totaled $207.7 million, up 9.0 percent from the total projected in June. Projected oil and natural gas collections for FY 2012-13 were increased by $16.5 million from the June forecast, based both on year-to-date collections through August and recent upward trends in oil and gas prices. Projected coal receipts were essentially unchanged, while projected molybdenum and metallic mineral receipts were revised slightly upward. Total collections in FY 2013-14 are projected to be $187.6 million, increasing to $208.3 million in FY 2014-15.

The price of natural gas is the largest determinant of state severance tax collections. At the end of 2011, Colorado composite natural gas prices averaged about $3.40 per Mcf (thousand cubic feet). Prices declined sharply through the spring, bottoming out below $2.00 per Mcf in April. Prices climbed gradually during the summer, reaching $3.20 per Mcf in late July before stabilizing just below the $3.00 per Mcf mark through the early part of September. The recent price rise caused an upward revision in average annual prices for 2012, although prices are projected to remain below the $4.00 per Mcf level through 2013. On a year-to-year basis, severance tax collections for FY 2012-13 are expected to decline, both because of the price decline in the first part of 2012 and because of the impact of the ad valorem property tax credit, which producers can use to offset their severance tax liability.

Oil prices, which have risen sharply over the last three months, are expected to continue to increase through the remainder of 2012 and gradually increase over the remainder of the forecast period on an annual average basis. Colorado oil drilling activity has remained strong, especially in Weld County, where monthly production has averaged nearly 2.5 million barrels over the past 12 months. This forecast assumes oil production in the Niobrara formation will continue to increase steadily throughout the forecast period.

Coal production represents the second largest source of severance taxes in Colorado after oil and natural gas. Relative to the June forecast, September's projected coal severance tax collections for FY 2012-13 remained nearly unchanged. In FY 2013-14 and FY 2014-15, collections are expected to increase 3.0 percent and 1.4 percent, respectively. The increase in severance tax revenue from coal is expected to continue, due to both increased production and higher severance tax rates for coal. The tax rate for coal increases is based on the producer price index, which has been rising and is expected to continue to rise, albeit at a slow rate

Severance tax from metallic minerals, including gold, represents a tiny fraction of total collections. This revenue source jumped 31.2 percent to $2.1 million in FY 2011-12. It is expected to grow 5.3 percent to $3.0 million in FY 2012-13, before increasing to $3.1 million in FY 2013-14 and $3.3 million FY 2014-15.

Finally, projected interest earnings for FY 2012-13 were revised downward 16 percent relative to the June forecast. Total severance-related interest earnings are projected to jump 57.4 percent in FY 2013-14 due to a large, one-time interest payment of $4.0 million from the $60 million Republican River Pipeline. Due to the continued structural imbalance in the operational account, interest earnings from this account have been revised downward and are expected to decline further over the three-year forecast period.

Gaming tax revenue includes limited gaming taxes, fees, and interest earnings collected in the Limited Gaming Fund and the Historical Society Fund. Table 10 summarizes the forecast for total gaming revenue, both subject to and exempt from TABOR, and the distribution of gaming tax revenue. Total gaming revenue decreased 2.6 percent to $104.8 million in FY 2011-12 and is estimated to increase 6.0 percent to $111.1 million in FY 2012-13.

Gaming tax revenue was flat through the first seven months of 2012, and casinos are expected to see little revenue growth as the economy slows in the second half of 2012. The forecast for modest increases for tax revenue growth in FY 2012-13 is attributed to both the tax rate increase and continued economic growth.

As Table 10 also shows, money from Amendment 50 is distributed to community colleges and local governments in gaming communities. Amendment 50 distributions totaled $9.8 million in FY 2011-12 and will decrease slightly to $9.1 million in FY 2012-13 before growing to $9.7 million and $9.9 million in the next two fiscal years. Community colleges received $6.7 million in FY 2011-12, and are expected to receive between $6.6 million to $7.2 million, annually, during the forecast period.

Gaming revenue distributed prior to expanded gaming is often referred to as "*Pre-Amendment 50*" revenue. This money is distributed to the State Historical Society, gaming cities and counties, the General Fund, and various economic development programs. These distributions totaled $91.8 million in FY 2011-12. Distributions will increase to $98.8 million in FY 2012-13. The change in the

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

	Preliminary FY 2011-12	Estimate FY 2012-13	Estimate FY 2013-14	Estimate FY 2014-15
Gaming Revenue				
Gaming Taxes				
Pre-Amendment 50 *(Subject to TABOR)*	92.7	98.2	100.2	102.7
Amendment 50 Revenue *(TABOR Exempt)*	9.2	9.7	9.9	10.2
Total Gaming Taxes	**$101.9**	**$108.0**	**$110.1**	**$112.9**
Fees and Interest Earnings *(Subject to TABOR)*				
To Limited Gaming Fund	1.6	1.7	1.7	1.8
To State Historical Fund	1.4	1.4	1.5	1.5
Total Gaming Revenue	**$104.8**	**$111.1**	**$113.3**	**$116.1**
% change	**-2.6%**	**6.0%**	**2.0%**	**2.5%**
Total Gaming Revenue Subject to TABOR	$95.6	$101.4	$103.4	$106.0
Distributions of Gaming Tax Revenue /A				
Amendment 50 Distributions				
Community Colleges	6.7	6.6	7.0	7.2
Gaming Counties and Cities	1.9	1.9	2.0	2.0
Amendment 50 Administrative Expenses	1.2	0.6	0.6	0.7
Total Amendment 50 Distributions	**$9.8**	**$9.1**	**$9.7**	**$9.9**
Pre-Amendment 50 Distributions				
State Historical Fund	22.4	24.0	24.2	24.6
Gaming Counties	9.6	10.3	10.4	10.6
Gaming Cities	8.0	8.6	8.6	8.8
General Fund	20.2	20.4	20.4	20.4
Economic Development Programs	19.7	22.5	22.8	23.5
Pre-Amendment 50 Administrative Expenses	11.9	13.0	14.1	15.0
Total Amendment 50 Distributions	**$91.8**	**$98.8**	**$100.4**	**$103.0**
Total Gaming Distributions /B	**$101.6**	**$107.9**	**$110.1**	**$112.8**

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

/B Administrative expenses were spent in FY 2011-12 above the total amount of revenue collected.

Table 11
Gaming Tax Rates

Casinos with Adjusted Gross Proceeds* (in millions)	FY 2011-12	FY 2012-13 (new rates)
Up to $2.0	.2375	.25
$2.0 to $5.0	1.9	2.0
$5.0 to $8.0	8.55	9.0
$8.0 to $10.0	10.45	11.0
$10.0 to $13.0	15.2	16.0
$13.0 and over	19.0	20.0

**Adjusted Gross Proceeds are the total of all wagers (except with respect to games of poker) made by players on limited gaming less all payments to players.*

Table 12
Federal Mining Leasing Revenue Distributions
(Dollars in Millions)

Fiscal Year	September 2012 Forecast	Percent Change	June 2012 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	168.3	10.4%	160.7	4.7%
FY 2012-13	133.1	-21.0%	127.0	4.7%
FY 2013-14	148.3	11.5%	146.7	1.1%
FY 2014-15	161.4	8.8%	-	

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

tax rate structure and slow growth in the economy will result in an increase in these distributions to $103.0 million by FY 2014-15.

The Colorado Limited Gaming Control Commission voted in May to restore the graduated gaming tax rate structure that was in place in early 2011. The new rate structure restores tax levels 5.0 percent higher than the prior-year's rates, and will result in additional tax revenue in FY 2012-13. Table 11 shows the change in annual rates effective July 1, 2012.

Table 12 presents the September 2012 forecast for ***federal mineral leasing*** (FML) revenue in comparison with the June forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of energy production. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment, the forecast is presented separately from other sources of state revenue.

The forecast for FML revenue was increased slightly compared with the June forecast, due to higher-than-expected distributions in FY 2011-12. Revenue at the end of the fiscal year totaled $168.3 million, up 4.7 percent from the total projected in June. FML revenue is anticipated to decline in FY 2012-13 to $133.1 million before rebounding to $148.3 million in FY 2013-14 and $161.4 million in FY 2014-15. Colorado natural gas prices continued dropping through much of the spring of 2012, bottoming out in mid-April below $2.00 per Mcf. Since that point, they rose gradually through the summer, stabilizing near $3.00 per Mcf in August. Prices are projected to rise gradually through the remainder of the current fiscal year. The uptick in gas prices is responsible for a slight upward revision in projected FML revenue through the remainder of the forecast period.

Forecasts for **Unemployment Insurance (UI) Trust Fund revenue**, benefit payments, and the UI balance are shown in Table 13. 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.

The Unemployment Insurance Trust Fund closed FY 2011-12 with a fund balance of $512.9 million. This marks the first time since FY 2008-09 that the fund is solvent. The significant revenue increase is mainly attributable to the $640 million raised from a recent bond issue. In addition, revenue to the UI Trust Fund continues to rise due to higher premium payments made by employers and increases in the wage base. Revenue from premium and solvency surcharges is expected to increase 7.3 percent in FY 2012-13. However, growth in revenue for FY 2013-14 and FY 2014-15 is expected to slow as the premium rates paid by employers fall amidst a recovering fund balance.

After peaking during FY 2009-10, initial UI claims continue to fall, though layoffs in some industries are expected through 2012. Overall, UI benefits paid are expected to fall 5.8 percent in FY 2012-13 and 9.0 percent in FY 2013-14.

Employer premium rates are based on the fiscal year-end balance and an employer's performance in terms of the amount of UI benefit payments going to employees and the amount of UI premiums paid by the employer. **House Bill 11-1288** states that once the UI Trust Fund is solvent and all federal loans are repaid, a new premium rate table becomes active. The new rate goes into effect at the beginning of the following calendar year. The FY 2011-12 year-end fund balance will trigger this new premium rate schedule for calendar year 2013. However, solvency surcharges will remain. By law, the

Table 13
Unemployment Insurance Trust Fund Forecast, September 2012
Revenue, Benefits Paid, and Fund Balance
(Dollars in Millions)

	Actual FY 09-10	Preliminary FY 10-11	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	FY 11-12 to FY 14-15 CAAGR*
Beginning Balance	$339.9	($193.8)	($303.3)	$512.9	$806.1	
Plus Income Received						
UI Premium & Premium Surcharge /A	$233.9	$371.4	$396.1	$417.0	$470.3	14.9%
Solvency Surcharge	$257.8	$411.3	$417.0	$455.1	$97.2	
Interest	$5.4	$0.3	$0.4	$1.9	$28.0	
Plus Federal UI Modernization Payment	*$128.0*					
Plus Special Revenue Bonds			$640.0			
Total Revenues	**$625.1**	**$783.0**	**$1,453.5**	**$874.0**	**$595.5**	-24.1%
% Change	48.3%	25.3%	85.6%	-39.9%	-31.9%	
Less Benefits Paid	($1,063.3)	($760.8)	($616.6)	($580.8)	($528.6)	-5.0%
Net Federal Loans	*($173.8)*	*($128.6)*	*$302.4*			
Accounting Adjustment	$78.3	($3.2)	($323.1)	$0.0	$0.0	NA
Ending Balance	**($193.8)**	**($303.3)**	**$512.9**	**$806.1**	**$873.0**	
Solvency Ratio/B						
Fund Balance as a Percent of Total Annual Private Wages	-0.23%	-0.37%	0.60%	0.89%	0.91%	

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 0.7 percent of covered wages, the solvency surcharge is triggered off.

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

surcharge will remain in effect until the June 30 fund balance in the UI fund is at least 0.7 percent of covered wages. The surcharge will no longer need to be charged beginning in calendar year 2014.

Federal borrowing and Special Revenue Bonds. Colorado's UI fund has been struggling since the 2001 recession. In 2004, the solvency surcharge was first imposed. The 2007 recession put more pressure on the fund as high unemployment increased demand for UI benefits, while revenue to the fund was declining. By January 2010 the fund was insolvent. Under current law, 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 on loans outstanding in September 2011. A separate assessment is required to pay for interest on federal loans used to fund the UI program. During the summer of 2011, businesses were charged a special interest assessment to pay for the interest payment.

In order to establish a UI fund balance at a desired level of solvency and repay outstanding federal loans, the Colorado Housing and Finance Authority (CHFA) issued $640 million in bonds on behalf of the Colorado Unemployment Insurance Trust Fund in June 2012. The terms of finance are five years with 1.4 percent total interest. There will be two interest payment assessments per year, with the first payment of $4.2 million due November 15, 2012, and the second payment of $4.5 million due May 15, 2012; interest payments will fall over the course of the term as the principal is paid down. There will be five assessments, of approximately $125 million each, for payment of principal. These will be included in the UI premium rate notice and due each May 15, starting in 2013. The bond proceeds were used to pay back all federal outstanding debt, and the remaining balance was deposited into the UI trust fund. On June 28, 2012 the UI fund had paid all remaining federal debt.

NATIONAL ECONOMY

Three years into a lackluster recovery, the U.S. economy is again losing momentum. Many indicators that were growing moderately toward the end of 2011 have decelerated through the spring and summer. Employment, consumer spending, and household and business income continue to see some growth, but at a slow rate. Meanwhile, after making significant contributions to growth in 2010 and 2011, manufacturing activity has begun to stall.

Many fundamentals in the economy have improved. The housing market has begun to recover, and will drive growth somewhat over the coming year. Banks have rebuilt their balance sheets, businesses have become more efficient and productive, and households have shed debt. However, uncertainty is particularly high, and businesses and households have begun to hold back on spending, hiring, and investment decisions as a result.

Much of Europe is in recession. There have been developments from political and monetary leaders in the management of the European debt crisis that have been well-received by financial markets. However, the crisis is far from resolved and will remain a significant risk to the economy for the foreseeable future. Violence continues to erupt in the Middle East and economies worldwide are slowing, including those in China, India, and Brazil. Finally, heightened uncertainty is expected to persist as the U.S. Congress debates an increase in the federal debt limit and whether to postpone or repeal automatic tax increases and spending cuts scheduled to occur in 2013.

The economy is expected to continue to lose momentum as a result of heightened uncertainty, slowing to a pace barely above recessionary levels during the first few months of 2013. Economic activity and employment should begin growing again at more moderate levels by the end of 2013. These expectations assume that the Eurozone will remain intact and that at least some of the U.S. fiscal policies set to occur in 2013 will either be postponed or repealed. They also assume that purchases of mortgage securities by the Federal Reserve will aid in the recovery of the housing and financial sectors. Continued economic growth following 2013 is dependent on political resolution in Washington D.C. and steady improvements in Europe.

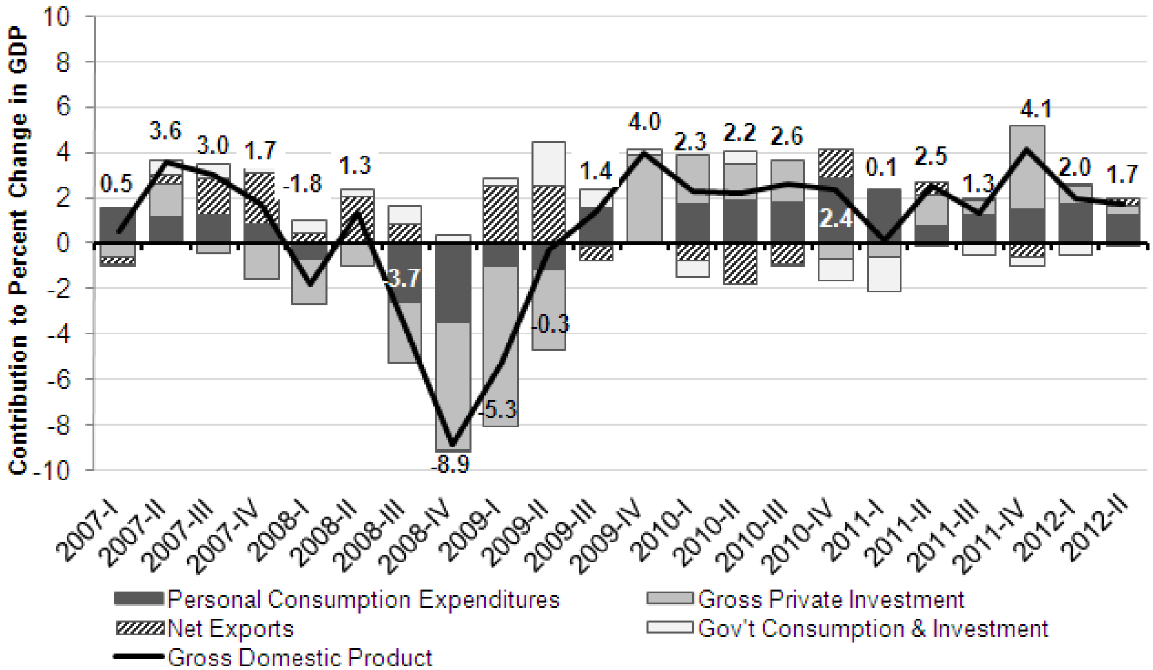
A summary of the forecast for selected national indicators is available in Table 14 on page 43.

National Economic Activity is Slowing

The broadest measure of total economic activity is **gross domestic product** (GDP). GDP measures household, business and government investments, and net exports. GDP continues to grow, although not quickly enough to spur meaningful improvements in the labor market.

Figure 2 shows contributions to real GDP between 2007 and the second quarter of 2012. GDP has shown little momentum since the beginning of the recovery in mid-2009. This year, GDP growth fell from an annualized rate of 4.1 percent in the fourth quarter of 2011 to 1.7 percent in the second quarter of 2012. Spending on durable goods showed no growth in the second quarter of 2012, slowing growth in consumer spending from 1.7 percent in the first quarter of 2012 to 1.2 percent in the

Figure 2
Contributions to Real Gross Domestic Product
Seasonally Adjusted Annual Rates



Source: Bureau of Economic Analysis.

second. Government spending contracted for the eighth-consecutive quarter. Meanwhile, new orders have slowed, which does not bode well for business investment during the third quarter of 2012.

- Businesses and consumers have grown cautious about the economy and will continue in that state for the rest of 2012. Real GDP will increase 2.0 percent in 2012 and 1.4 percent in 2013.

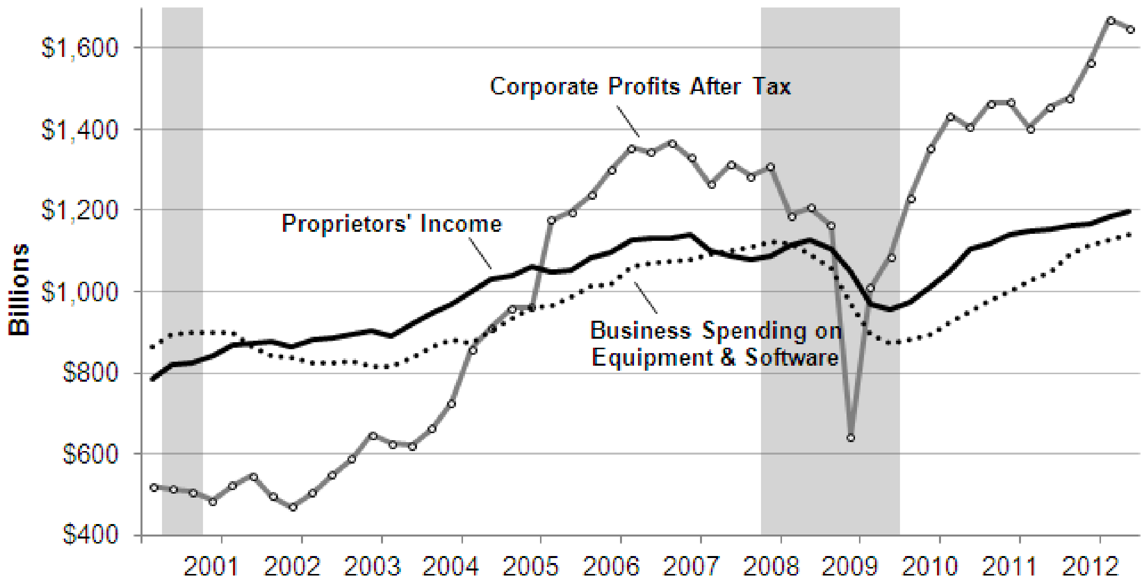
Business Activity and Manufacturing Slow

Business income and spending statistics continue to indicate good, though weakening conditions. As shown in Figure 3, proprietor's income continued to grow modestly through the first half of 2012, indicating continued gains in income for small- and medium-sized businesses. However, corporate profits, after months of showing an upward trend, drifted down in the second quarter of 2012. With the European recession, slower growth in China, and a lack of momentum in the U.S. economy, businesses have not been able to meet their revenue expectations this summer.

Business spending on equipment and software, however, increased 9.2 percent between April 2011 and April 2012. This has helped drive growth in manufacturing, which has been an overall driver of economic growth during most of this recovery. However, the sector began to show strain starting in the Spring of 2012.

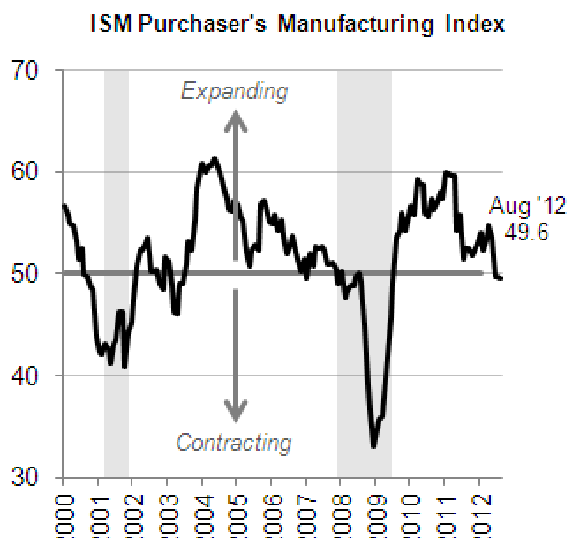
The Institute for Supply Management's (ISM) index, shown in Figure 4, has indicated a contraction in activity for three consecutive months. The index signals expansion in

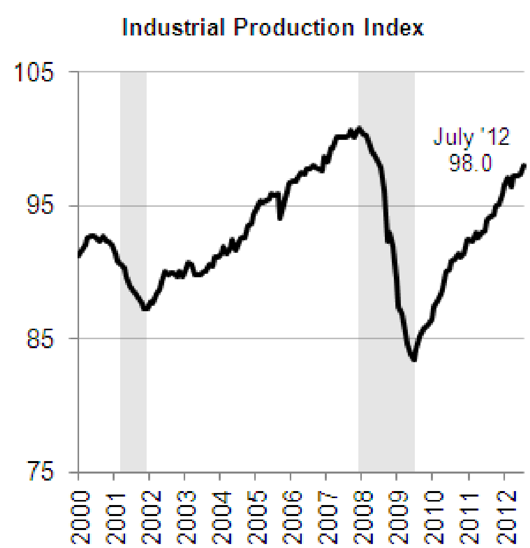
Figure 3
Corporate Profits Down, Spending and Income Grow
Seasonally Adjusted Annualized Data



Source: U.S. Bureau of Economic Analysis, National Income Product Accounts and Personal Income Statistics. Data through 2012 quarter two.

Figure 4
Manufacturing and Industrial Production
Seasonally Adjusted





Source: Institute for Supply Management.

Source: Federal Reserve.

manufacturing when it is above 50 and contraction when it is below 50. The ISM has fallen from 54.1 at the beginning of 2012 to 49.6 in August 2012. This decline comes after an upward trend seen at the beginning of the year and can be partially attributed to the falling value of exports relative to imports, a result of the strengthening of the U.S. dollar. As the value of the dollar increases, prices paid overseas for U.S. goods increase and demand for U.S. products tends to fall, causing a reduction in new orders.

Figure 4 shows the Federal Reserve Board's Industrial Production Index. This index indicates that production continues to slowly tick upward, although it too has lost momentum thus far in 2012 and has yet to reach its pre-recession peak.

An Uncertain and Slowing Global Economy

The European debt crisis continues to pose significant risk to U.S. and global economic growth in 2012 and 2013. Political uncertainty in Greece about whether the country will commit to the austerity plans required to remain in the Euro persists, and €31 billion of new aid for Greece's debt has been postponed as a result. Meanwhile, Spain continues to suffer from a financial crisis stemming from an overheated housing industry. The European debt crisis has reduced demand for exports from the United States, China, and other countries. This has increased the volatility in financial markets worldwide and frozen interbank lending in Europe, contributing to further disruptions in the economy.

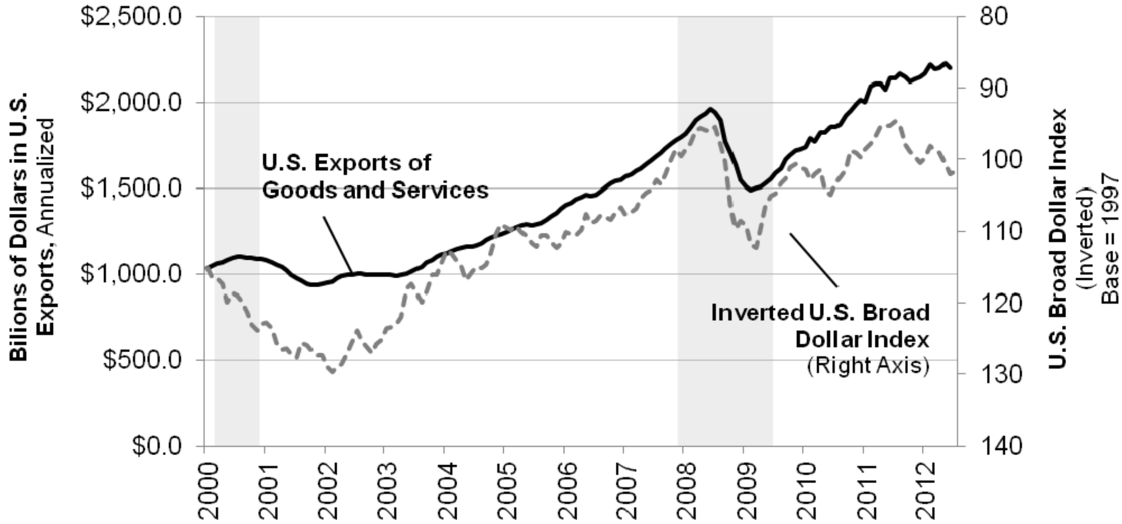
Political leaders from the European Central Bank and the European Commission have proposed a set of interventions and reforms that require struggling southern economies to reform their economy and stabilize fiscal policies in order to receive help. The European Central Bank pledged to purchase bonds from struggling countries that agree to austerity plans and economic reform. The European Commission called for a broad plan for further European integration, termed the new "European Federation" by Jose Manuel Barroso, the President of the European Commission. The plan would provide for more powerful supervision of financial institutions and increased enforcement of austerity and annual deficit limits. The plan would also call for a directly-elected European President in 2014.

The European Stability Mechanism is a fund established and financed by Eurozone member countries to provide loans to struggling countries, as long as they agree to austerity measures and economic reform. This became a viable tool when the German Constitutional Court agreed to allow Germany to participate. However, the Court limited the extent of Germany's participation to €190 billion, unless the Bundesbank agrees to provide more, and prohibited the European Stability Mechanism from borrowing from the European Central Bank.

The health of the global and U.S. economies are at risk if European leaders are not successful at managing the crisis. A troubled global financial system does not bode well for a U.S. financial sector still working through bad loans made prior to the U.S. financial crisis. The European recession began to apply downward pressure on U.S. exports in late 2011.

Since March 2012, U.S. exports have trended slightly downward. Contributing to this loss of momentum has been the increasing value of the U.S. dollar relative to other currencies. The value of the dollar exhibits a strong inverse relationship with exports. In Figure 5, the value of the dollar is inverted to demonstrate this relationship. The U.S. Federal Reserve's decision to purchase $40 billion of mortgage securities each month for the foreseeable future will likely place

Figure 5
U.S. Exports Slowing, Value of the Dollar Up
Seasonally Adjusted Annual Rates



Source: Bureau of Economic Analysis; Federal Reserve Board. Exports data through July 2012. Broad Dollar Index data through August 2012. Shaded areas represent recession.

downward pressure on the value of the dollar, potentially helping U.S export growth.

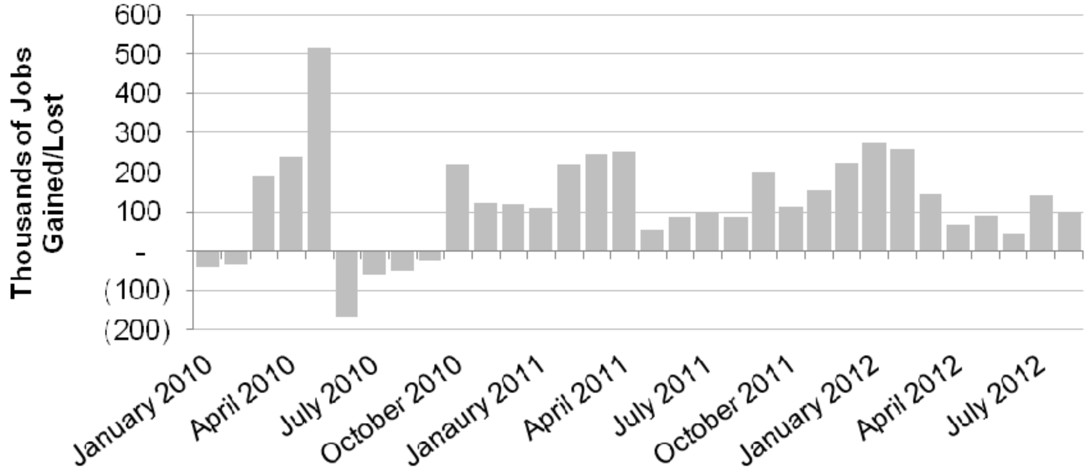
The Labor Market Is Moving Ahead Slowly

Improvements in the labor market continue to inch along slowly. Figure 6 shows seasonally adjusted monthly job gains since January 2010. After picking up speed in late 2011, employment gains have lost momentum in 2012. The nation added jobs at a rate of less than 90,000 jobs per month between March and August. Meanwhile, Figure 7 shows that the unemployment rate began rising this summer, reaching 8.3 percent in July before falling to 8.1 percent in August. The nation's underemployment rate showed a similar trend.

The underemployment rate is a broader measure of the unemployed, including those working part-time or seeking additional work, and discouraged workers who are no longer looking for work and therefore have dropped out of the labor force. The underemployment rate was at 15.0 percent in July, falling to 14.7 percent in August. Movements in unemployment thus far in 2012 have generally been the result of low job growth rather than changes in the labor force. Indeed, the trend in the labor force has been fairly flat. As shown in Figure 8, the number of discouraged workers has trended down since early 2011, although it has flattened over the last few months.

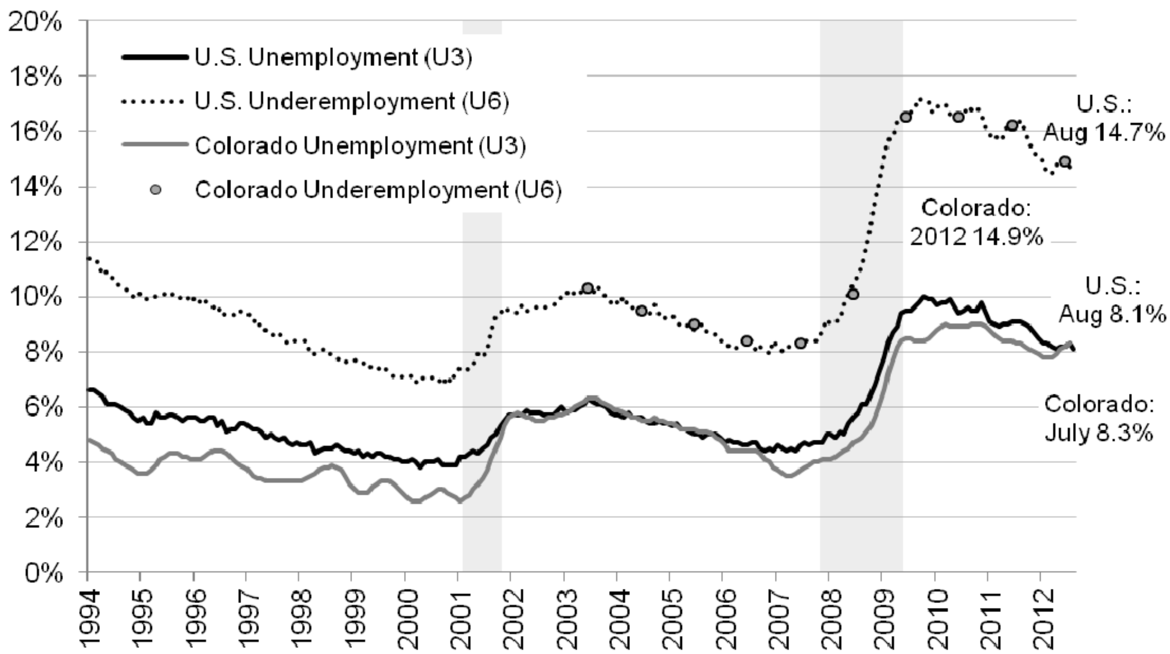
The unemployment rate is influenced not only by employment trends, but also by changes in the working-age population. Figure 9 shows that the labor force participation rate has been falling since before the recession. The labor force participation rate measures the percent of the civilian, non-institutionalized population age 16 and over who are in the labor force. To be in the labor force a person must either be working or actively looking for work. Those not in the labor force may not be participating because of

Figure 6
Monthly Job Gains/Losses
Seasonally Adjusted January 2010 through August 2012



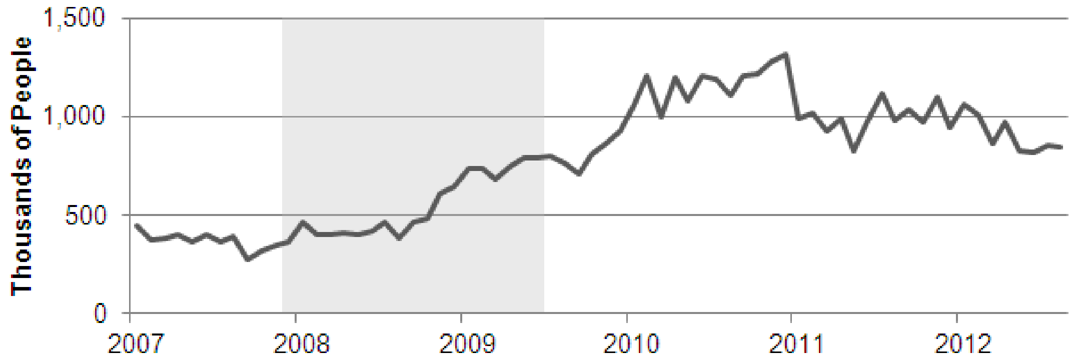
Source: U.S. bureau of Labor Statistics, Current Employment Statistics. Data through August 2012.

Figure 7
U.S. and Colorado Unemployment and Underemployment Rate
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Current Population Survey and local area unemployment statistics. National data through August; Colorado data through July. Shaded area represents recession.

Figure 8
Discouraged Workers in the United States
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Current Population Survey. Not seasonally adjusted. Data through August. Shaded area represents recession.

economic reasons, or they may choose not to participate because of family, educational, or retirement reasons.

After losing 8.8 million jobs as a result of the recession, the nation has added 4.0 million jobs since the trough in employment in February 2010. Of these, 1.1 million were gained thus far in 2012, representing a growth rate of 0.8 percent between December 2011 and August. As shown in Figure 10, employment saw gains in every sector during 2012 except the government, construction, and information sectors. Growth continues to be led by the service sectors, particularly professional and business services, health care services, and leisure and hospitality services. The manufacturing sector also gained jobs during this time period.

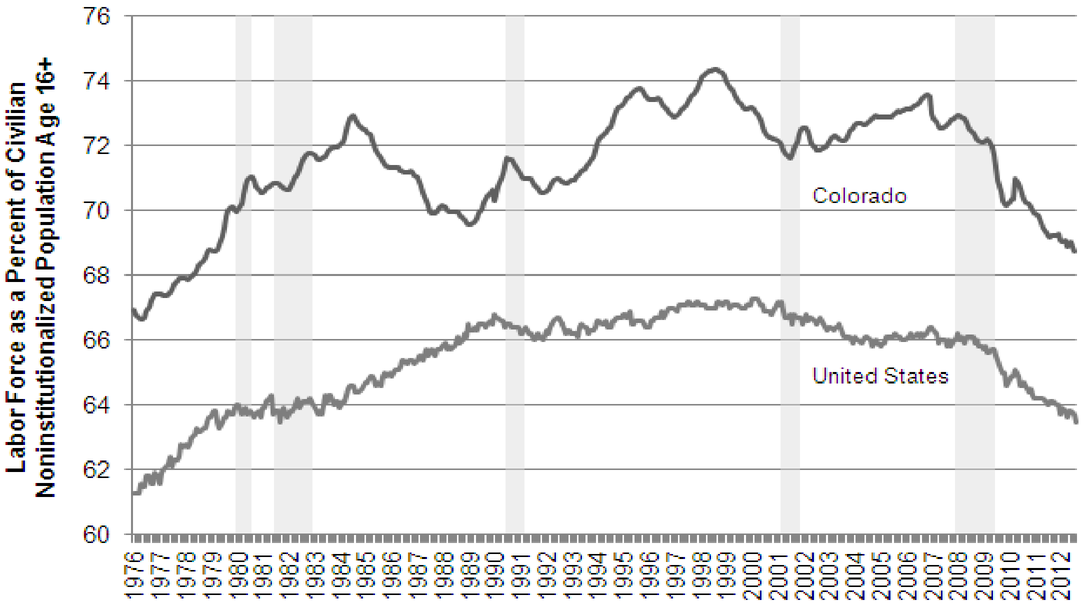
- The labor market will continue to grow at sluggish rates through 2012 and before weakening in the first half of 2013. Employment will increase 1.3 percent in 2012 and the unemployment rate will average 8.3 percent. Job growth in 2013 will slow to 0.6 percent and the unemployment rate will climb to an average of 9.1 percent for the year.

Household Income and Spending Growing Slowly

Personal income and consumption expenditures continue to grow at a slow pace. Personal income, shown in Figure 11, increased 3.2 percent through July 2012 compared with the first seven months of 2011. The largest component of personal income, wages and salaries, increased 3.3 percent over the same period in 2011. Business proprietor's income increased 3.7 percent, while farm proprietor's income increased 0.7 percent, significantly slower than the double-digit growth of the last two years. Income from interest, dividends, and rents increased 2.1 percent. Meanwhile, income from transfer payments, or payments from governments to individuals such as Medicare, social security, and unemployment insurance, had begun to flatten out at high levels by the end of 2011, but because of the slowing economy they have gained momentum this year.

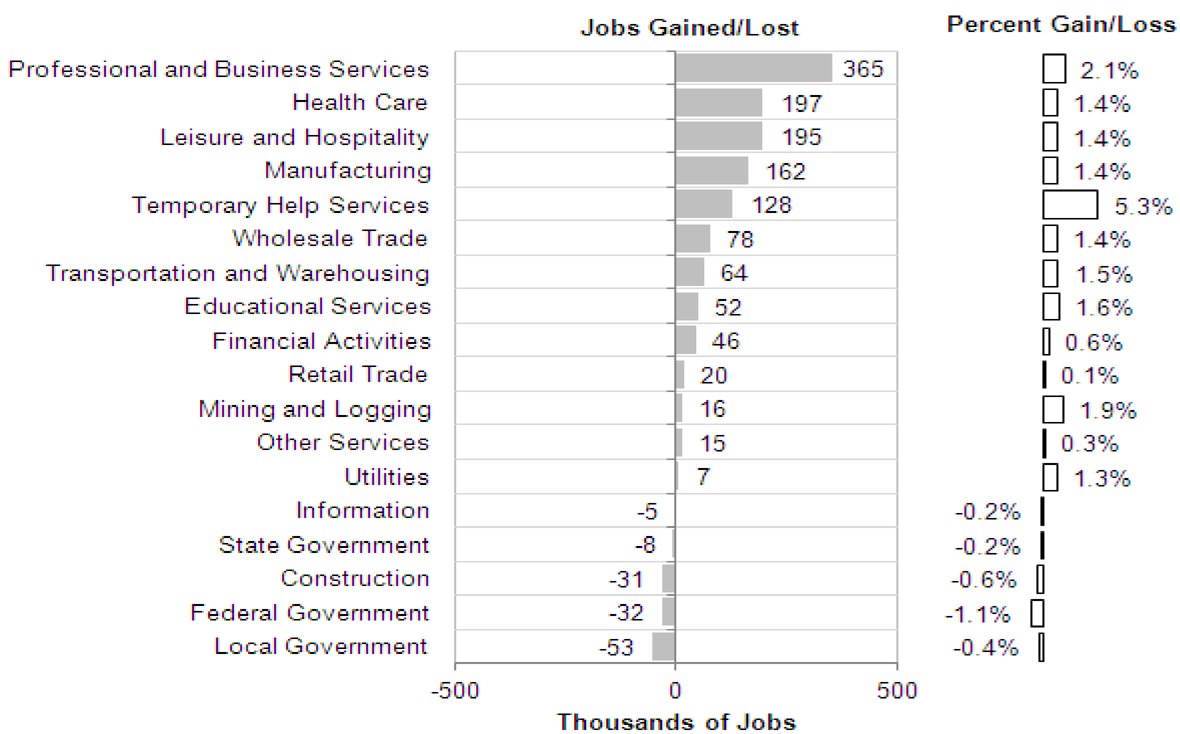
As shown in Figure 12, personal consumption expenditures continue to grow, but have slowed over the last twelve months

Figure 9
Labor Force Participation Rate



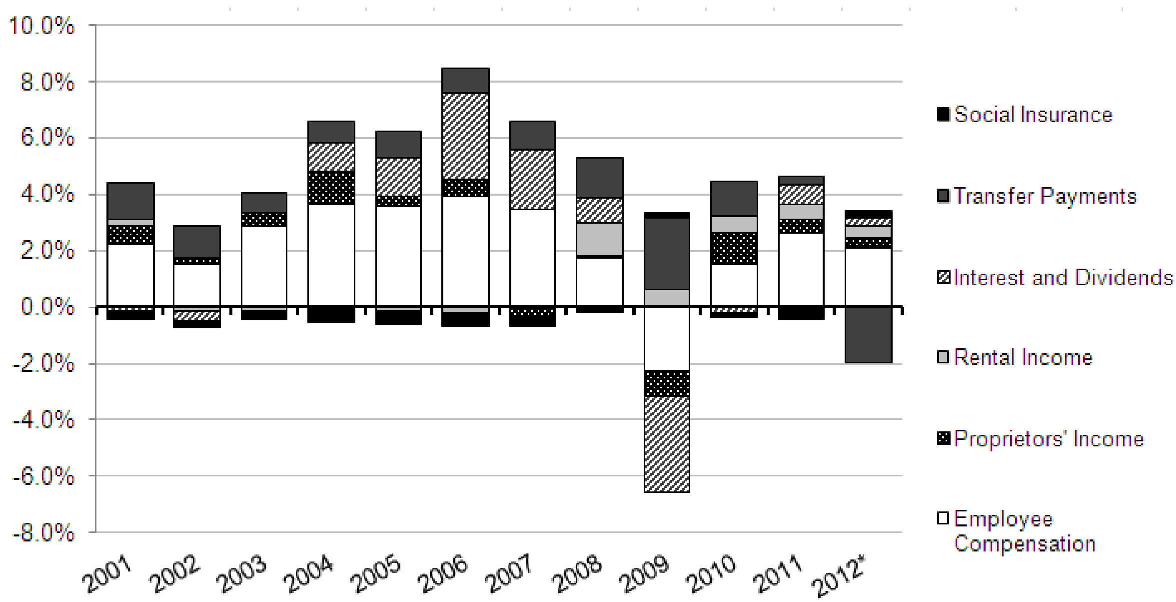
U.S. Source: U.S. Bureau of Labor Statistics, Current Population Statistics. Data through August 2012.
Colorado Source: U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics. Data through July 2012.
Shaded area represents recession.

Figure 10
Total Nonfarm Employment Job Gain/Losses in 2012
December 2011 to August 2012, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics.

Figure 11
Contributions to Personal Income Growth
Year-to-date through July 2012



**2012 is year-to-date through July compared with the first seven months of 2011.*
Source: U.S. Bureau of Labor Statistics, Personal Income Statistics.

along with income. Year-to-date through July, personal consumption expenditures increased 3.8 percent compared with the first seven months of 2011. In addition, personal consumption expenditures began to increase faster than personal income in early 2012, putting downward pressure on the savings rate.

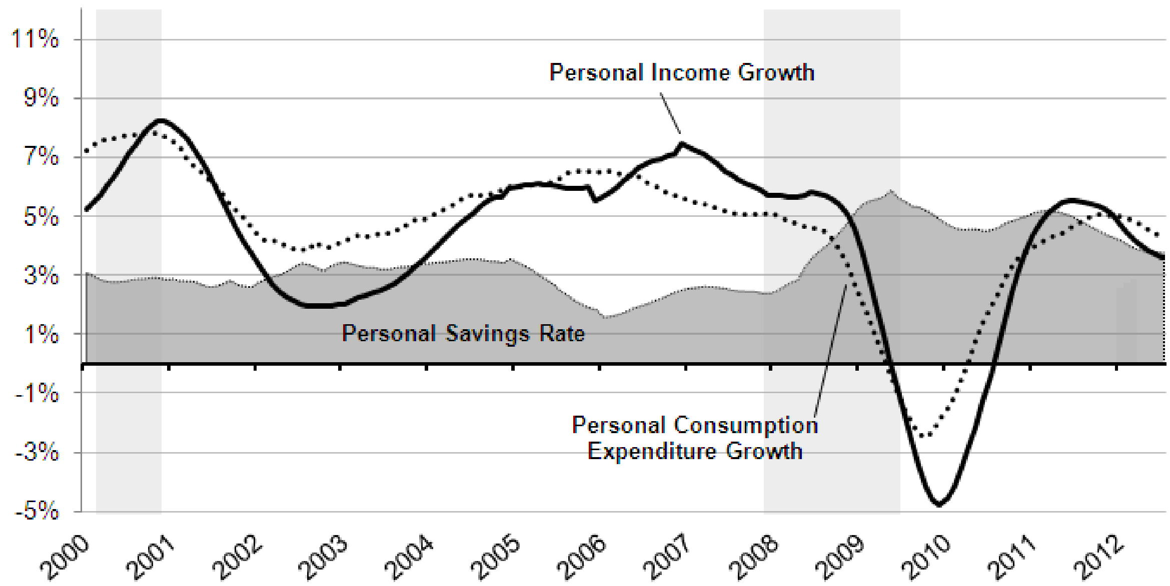
Retail trade, a narrower measure of consumer spending than personal consumption expenditures, increased 5.4 percent year-to-date through July 2012, after growing 6.8 percent in 2011. However, starting in April there were three straight months of declines in retail sales that can be attributed to the falling price of gas. At the national level, consumers used this additional disposable income to save or pay off debts rather than make additional purchases. Figure 13 shows total retail trade and retail trade excluding service stations.

- Personal income will increase 3.0 percent and wages and salaries will increase 3.3 percent in 2012. Wage and salary growth will lose momentum along with employment in 2013, increasing 2.8 percent. Personal income growth will also lose momentum, growing 2.4 percent in 2013. Farm and business income is not expected to drive growth. Transfer payments will remain high, but will not grow as quickly as in years past, and other labor income will fall significantly with the expiration of the payroll tax cut under current law.

Inflation Remains Moderate

Consumer prices increased 2.2 percent through July 2012 compared with the same period in 2011, as shown in Figure 14.

Figure 12
U.S. Personal Income and Outlays
Twelve-Month Moving Averages; Seasonally Adjusted



Source: Bureau of Economic Analysis, monthly personal income and outlays. Data through July 2012. Shaded areas represent recession.

Core inflation (the rate on items other than food and energy) was also at 2.2 percent. Because food and energy prices are volatile, it is unusual to see the core and headline indexes grow at the same rate. Growth in the food and energy sectors slowed in 2012, closing the usual gap between the two rates. However, energy prices began to tick upward in August after decreasing for several months. Oil prices were $94 per barrel, bringing gas prices to an average $3.88 per gallon in September.

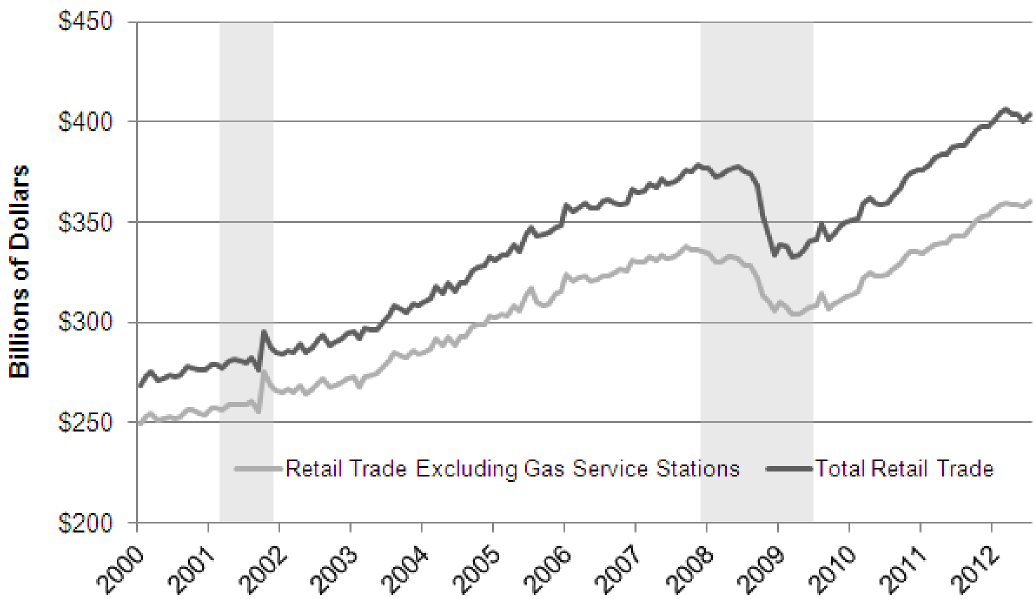
- Price pressure is expected to remain moderate during the second half of 2012. Inflation will average 2.0 percent for the year before slowing to 1.8 percent in 2013. Slower economic growth in 2013 will create additional slack in the labor and consumer markets, some of which will be offset by higher rents and food prices.

The Nation's Housing Market Is Recovering

The U.S. housing market's recovery, which began in the first half of 2012, is slowly gaining traction. Throughout many metropolitan areas of the nation, median single family home prices are rising. One factor driving some of the price increases is the broad-based shortages of housing inventory in certain markets in the nation. The inventory of homes is limited in the lower price ranges, thus constraining buyer choices in many markets around the nation.

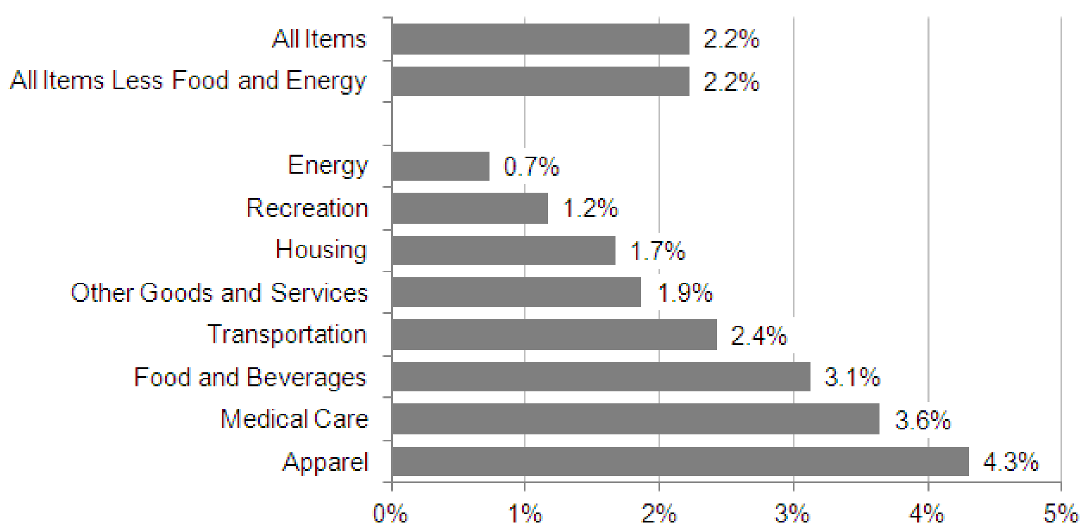
On a seasonally adjusted basis, U.S. home prices rose in 14 of 20 cities in the Case-Shiller Composite index through June 2012 over prices in June 2011, although the overall index grew by only 0.5 percent over this time period. Despite the recent short-term price gains in many metropolitan areas, the nation's housing market has a long way to go to make

Figure 13
Lower Gasoline Prices Reduced Retail Trade Sales Early in 2012
2000 through July 2012



Source: U.S. Census Bureau, Advance Retail Trade Report. Shaded areas represent recession.

Figure 14
Inflation by Sector
Year-to-Date through July, Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics. Year-to-date growth rates represent growth through July 2012 compared with the first seven months of 2011.

up for the price declines that were seen in many of the cities in the index from the last peak in prices that occurred in 2006 and 2007. Las Vegas posted the largest price decline of 60.0 percent from peak prices, followed by Phoenix, which posted a 49.7 percent decline. Figure 15 shows the 20-city index along with prices in Las Vegas.

Improving **home sales** and declining inventory have caused median home prices to rise in 110 of 147 metropolitan statistical areas (MSAs), according to the National Association of Realtors. In August 2012, total home sales rose 7.8 percent from the same period in 2011 to 4.82 million units. The upward trend in home sales is consistent with record-low mortgage interest rates, low home prices, slow job creation, and rising rents.

Some areas are seeing more volatility in home prices as sudden swings in buyer activity are driving home prices upward, although there continues to be downward pressure from foreclosures and distressed sales. At the close of August, there were 2.47 million homes for sale as **inventory**, a 6.1 month supply at the current sales pace. August's inventory was 18.2 percent lower than the prior-year period in 2011, when the inventory represented a 8.2 month supply.

The nation's supply of **foreclosures** and **short sales,** or homes that were sold under duress at steep discounts, accounted for 22 percent of sales in August, down from 24 percent in July 2011. Despite the decline in national foreclosures, they are still a drag on the housing market, especially in areas of the nation that have a large mix in the marketplace, such as Florida.

Confidence among U.S. builders rose to the highest level in five years in September, indicating that the housing market continues to improve. The National Association of Homebuilders' **Builders Confidence Index** rose to 40, its highest level since June 2006. However, the index is far off from its high of 72 reached in June 2005.

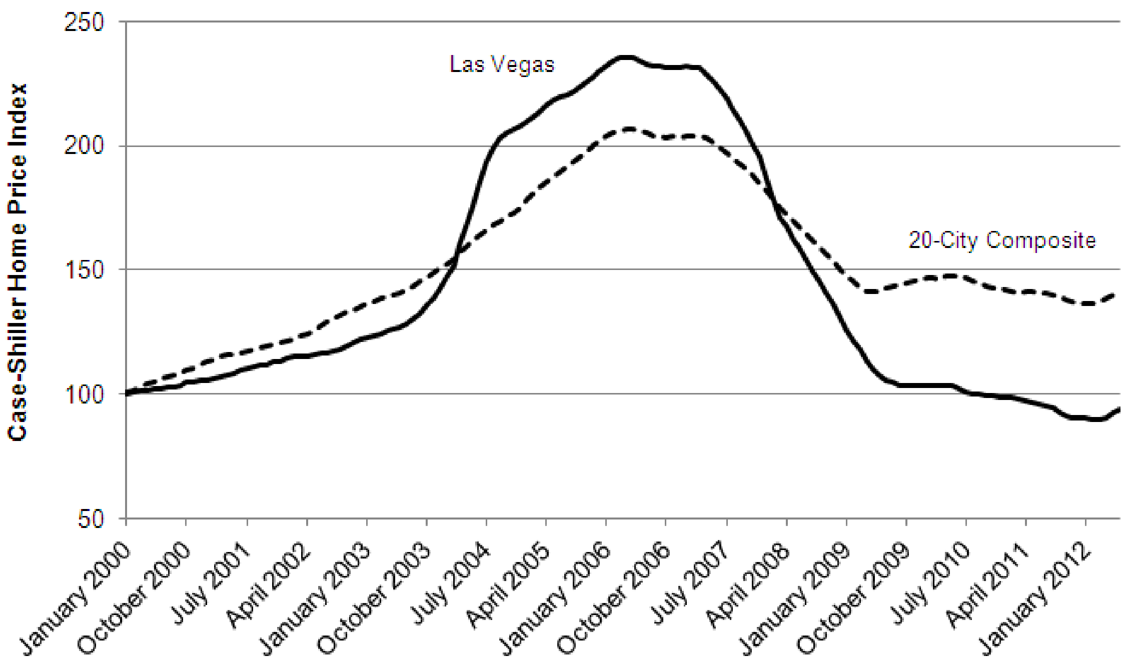
- The nation's housing market is recovering in many metropolitan areas, and the recovery will become more visible in late 2012 and 2013. As home prices slowly increase and the demand for homes continues, the recovery should take hold in 2013. Declining foreclosures should also support higher home prices. This assumes that low interest rates remain in place to boost the housing recovery.

Nonresidential construction spending rose in June as increases in private nonresidential construction more than offset an ongoing downturn in public construction. Private nonresidential spending climbed for the fourth consecutive month and was 14 percent higher than in June 2011, despite a loss of 1,000 jobs in nonresidential construction, according to the Associated General Contractors of America (AGC). The latest Construction Backlog Indicator, which indicates future nonresidential construction activity, rose 4.3 percent in the second quarter of 2012. However, construction firms throughout the nation had 7.7 months worth of work on their books on June 30 — down from 8.1 months' work at the same time last year.

Banks Continue to Grow Financially

Nationally the banking industry is gaining some traction as rising profits and reworked mortgage portfolios are beginning to provide some stability. In the first quarter of 2012, increased profits created sizable gains in return on equity (ROE) and return on assets (ROA) for U.S. banks. As shown in Figure 16, the core capital ratio, a measure of the amount of capital banks hold as a percentage of their

Figure 15
Case-Shiller Home Price Index
Seasonally Adjusted



Source: Standard & Poors and FiServ. Data through June 2012.

assets (or loans), continues to see an upward trend, indicative of improved balance sheets. Net charge-offs fell this quarter, indicating that banks may be pursuing foreclosures instead of charge-offs for some properties. Additionally, net income rose 76 percent in the first quarter compared with the first quarter of 2011, indicating increased stability in the banking sector.

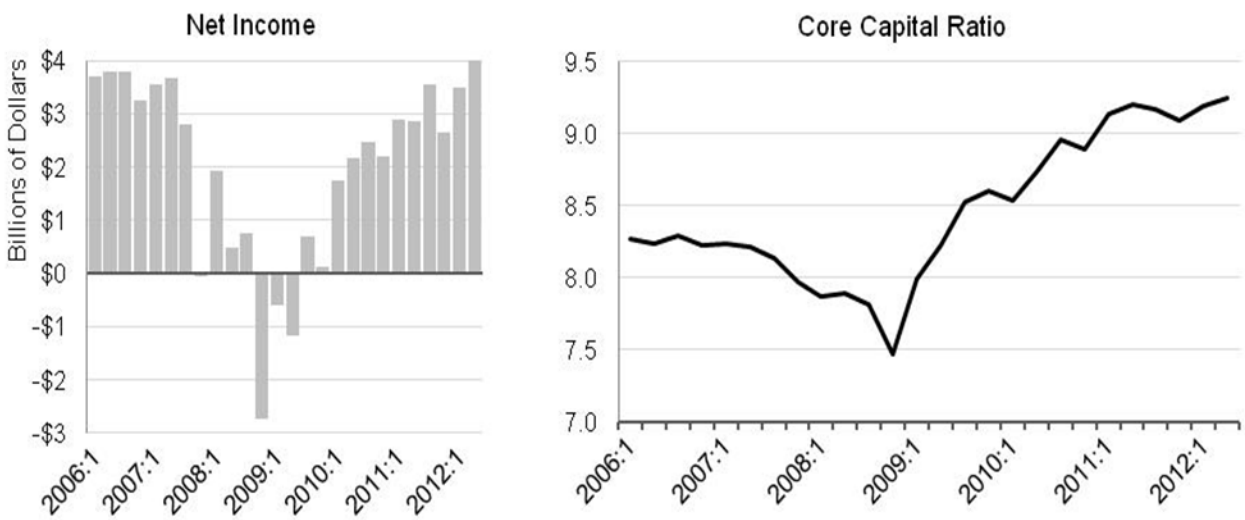
Summary

The U.S. economy continues to lose momentum amid heightened uncertainty. GDP growth has slowed, and improvements in the labor market continue to wane. Consumer spending and business and household income have slowed. Manufacturing, once a driver of the recovery, has lost momentum and has begun to show signs of strain. However, the improving housing market will help drive growth in the coming year.

Economic growth will continue at a sluggish rate through 2012 and the beginning of 2013, before gaining momentum later in 2013. These expectations assume that the Eurozone will remain intact and that at least some of the fiscal policies set to occur in 2013 will either be postponed or repealed. They also assume that purchases of mortgage securities by the Federal Reserve will aid in the recovery of the housing and financial sectors.

Continued economic growth following 2013 is dependent on political resolution in Washington D.C. and steady improvements in Europe. Many fundamentals in the economy are much healthier, and will promote growth

Figure 16
Bank Income and Core Capital Ratio



Source: Federal Deposit Insurance Corporation. 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.

once uncertainty eases. While credit markets remain tight, banks have rebuilt their balance sheets and appear to be successfully working through bad loans. Households have some pent up demand for large purchases and have reduced debt obligations on their balance sheets. Businesses have also repaired their balance sheets and have reorganized themselves to be more efficient. Both investors and business appear ready to take on more risk, once confidence improves.

Risks to the Forecast

The nation's economy is weak and vulnerable to economic disruptions. Although the most pressing matters are the impending financial crisis in the European economy and the outcome of the upcoming fiscal policy debates, conflict in the Middle East and slowing growth worldwide also pose downward risks to the forecast. However, the forecast could be too pessimistic if these issues resolve themselves faster than expected, or if households and consumers are less constrained by uncertainty than this forecast assumes.

Table 14
National Economic Indicators, September 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	$12,757.9	$ 13,063.0	$13,299.1	$13,565.1	$13,755.0	$14,140.1
percent change	1.9%	-0.3%	-3.1%	2.4%	1.8%	2.0%	1.4%	2.8%
Nonagricultural Employment (millions)	137.6	136.8	130.8	129.9	131.4	133.1	133.9	135.5
percent change	1.1%	-0.6%	-4.4%	-0.7%	1.2%	1.3%	0.6%	1.2%
Unemployment Rate	4.6%	5.8%	9.3%	9.6%	9.0%	8.3%	9.1%	8.9%
Personal Income	$11,912.3	$12,460.2	$11,867.0	$12,321.9	$12,947.3	13,335.7	$13,655.8	$14,488.8
percent change	5.7%	4.6%	-4.8%	3.8%	5.1%	3.0%	2.4%	6.1%
Wage and Salary Income	$6,421.7	$6,550.9	$6,270.3	$6,408.2	$6,668.2	$6,888.3	$7,081.1	$7,406.9
percent change	5.8%	2.0%	-4.3%	2.2%	4.1%	3.3%	2.8%	4.6%
Inflation (Consumer Price Index)	2.9%	3.8%	-0.3%	1.6%	3.1%	2.0%	1.8%	2.7%

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

COLORADO ECONOMY

Colorado will outperform the national economy, but will slow following the national and international economies in the second half of 2012 and first half of 2013. The national economy is still growing slowly, with pressure from federal fiscal policies and a weak international economy putting downward pressure on growth. Colorado is better positioned than the rest of the nation for recovery, but it is not insulated from national economic trends. Until the economic issues created by tightening federal fiscal policies and the European debt crisis are resolved, the economy will not grow at its potential.

There are mixed signals in Colorado's labor market with employers reporting slow job growth, while households are reporting job losses and a rising unemployment rate. Colorado personal income and wages and salaries are growing, but slowly. Retail trade indicates that consumers are confident about the economy and consumer spending has grown steadily in the first half of 2012. The housing market is one of the strongest in the nation, buoying growth throughout Colorado's economy. Colorado farmers have weathered the drought better than other parts of the nation and oil and natural gas resources are being developed in the northern part of the state. A healing labor market is essential for these other indicators to continue to grow. Table 16 on page 62 shows the economic forecast for Colorado.

Colorado Labor Market

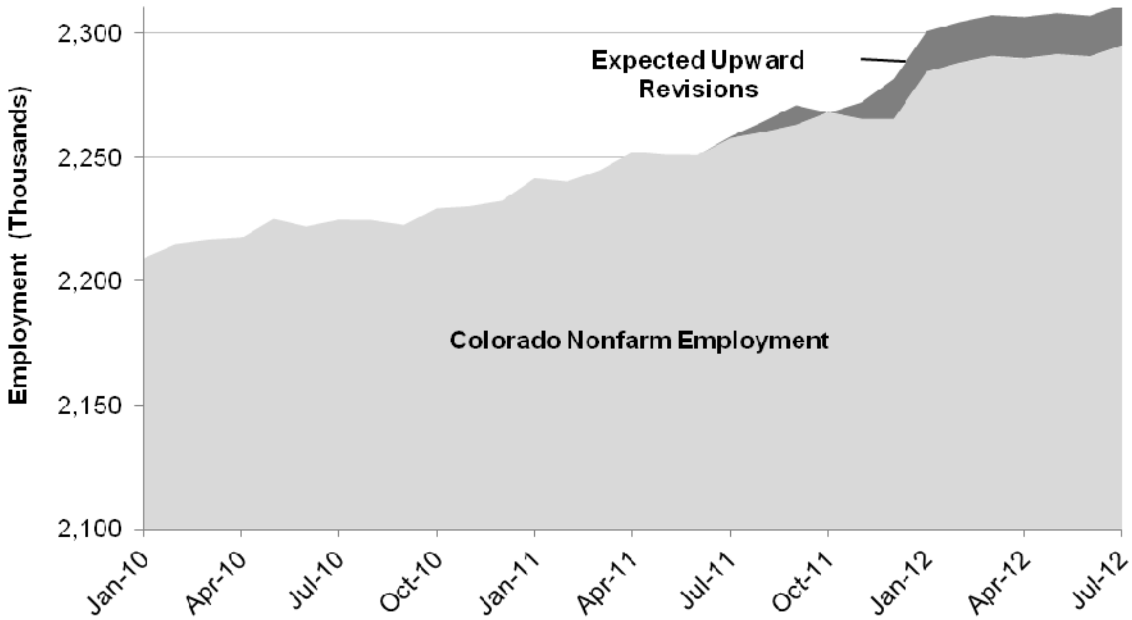
The Colorado labor market picked up steam in late 2010 through 2011, outpacing job gains nationwide. The labor market appears to have stalled in 2012 through the summer, however, with differing signals from two sources of employment statistics. Data collected directly from firms or establishments indicate they continue to hire more workers, though at an anemic pace. Data collected from households indicate that the state is slowly losing jobs. Since the establishment data excludes farm employment and the household data includes them, part of the difference may be due to a decline in farm employment resulting from the drought. The loss of momentum thus far in 2012 is mirroring that in the national labor market.

Even with consistent growth, Colorado employment has not returned to pre-recessionary levels. Colorado lost 151,600 jobs between April 2008 and January 2010, the bottom of the business cycle for employment. Published statistics show that Colorado has gained 85,700 jobs since the trough, of which 44,100 jobs were gained during the twelve months preceding July 2012.

Each spring the U.S. Bureau of Labor Statistics revises its employment data to reflect new information gleaned from unemployment insurance premium forms. This spring they used unemployment insurance data through the second quarter of 2011 to revise their estimates of Colorado employment significantly upward for 2010 and 2011. Prior to this revision, the published growth rate for 2011 was 0.8 percent. The revision increased 2011 growth in Colorado employment to 1.5 percent.

Since that revision was released, unemployment insurance data for the third and

Figure 17
Nonfarm Employment Statistics are Expected To Be Revised Upward
Seasonally Adjusted



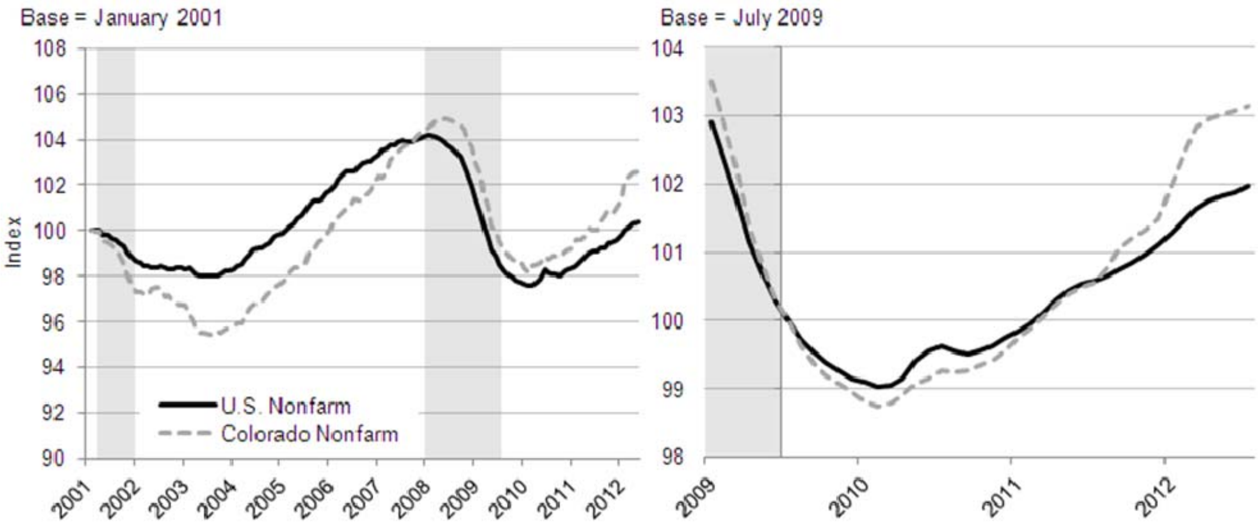
Source: Published data is from the U.S. Bureau of Labor Statistics, Current Employment Statistics (establishment survey). Expected revisions are from a Legislative Council Staff analysis of anticipated revisions to employment based on Quarterly Census of Employment and Wages data from the U.S. Bureau of Labor Statistics.

fourth quarters of 2011 and the first quarter of 2012 have become public. A Legislative Council Staff analysis of these data anticipate that growth in Colorado during this nine month period will also be revised upward, as shown in Figure 17. This analysis anticipates published figures for employment in July 2012 to be revised up by 16,300 jobs. This would bring job growth to 102,000 jobs since the trough and 66,400 jobs over the last twelve months. Once these expected revisions are incorporated, employment statistics should show a growth rate of 1.6 percent in 2011, slightly higher than the published rate of 1.5 percent.

Figure 18 shows an index of nonfarm employment growth for Colorado and the nation from the U.S. Bureau of Labor Statistics survey of firms. At least during the two recessions, Colorado's labor market has been more volatile than the nation as a whole, falling faster during recessions and growing faster during recoveries. The chart on the left shows that Colorado lost relatively more jobs than the nation following the 2001 recession, then gained jobs faster between 2004 and 2008. The chart on the right shows that Colorado experienced a slightly faster pace of job loss than the nation between 2009 and June 2010, but performed better than the nation during the second half of 2010 through January 2012.

Colorado is an energy state, and part of the reason for the labor market volatility is likely the boom-bust nature of the oil and gas industry. The small-business, entrepreneurial nature of Colorado's economy also amplifies the volatility of the business cycle. Small businesses and entrepreneurs struggled more to access credit during the most recent recession

Figure 18
Nonfarm Employment Growth
Colorado vs. the Nation



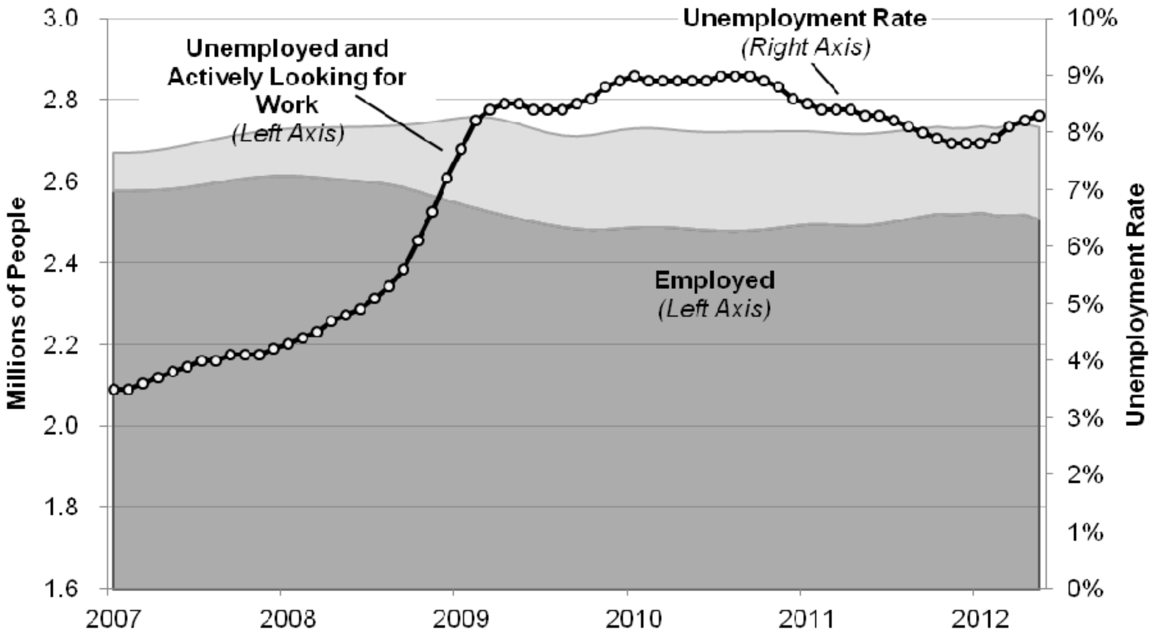
Source: Bureau of Labor Statistics, Current Employment Statistics (establishment survey). Seasonally adjusted, data through July 2012. Colorado data incorporates upward revisions expected by Legislative Council Staff.

than established, larger businesses. During recoveries, small businesses are more likely to take larger risks than more established businesses, potentially leading to faster growth. During downturns, they are less stable and more vulnerable because they have lower access to capital. In addition, anecdotal evidence and strong net migration into the state indicate that Colorado has continued to successfully attract small businesses and entrepreneurs during this recovery, likely helping to buoy job growth above that experienced nationwide.

Colorado's job market has lost momentum in 2012, however. During February through July, Colorado's nonfarm job statistics indicate a gain of only 10,800 jobs, or an average of 1,800 jobs per month. Because of strong employment growth in the second half of 2011 through January, average employment thus far this year through July was 2.6 percent higher than the average during the first seven months of 2011. However, most job gains this year were recorded in January. The pace fell significantly beginning in February, with July employment levels a mere 0.5 percent higher than in January. This pace is very similar to that experienced nationwide.

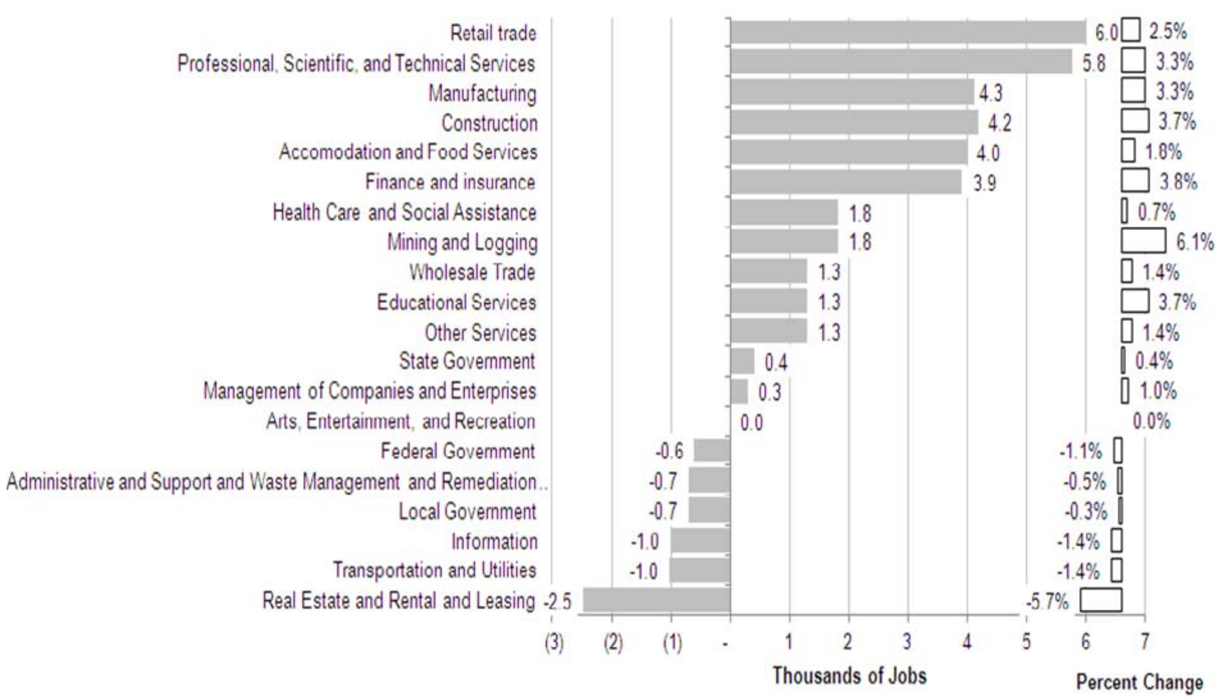
While nonfarm job statistics have indicated job growth, the household survey, used to calculate the unemployment rate, indicated job losses averaging just under 1,900 jobs per month. The **unemployment rate** rose for the fourth consecutive month in July to 8.3 percent, as the number of people in the labor force continued to rise even amidst these job losses. A decline in farm employment may explain the diverging trends in employment data between the two surveys. Entrepreneurial jobs are also not immediately captured in the establishment survey, and part of the job losses could potentially be from a slowdown in entrepreneurial job creation. Figure 19 shows the trends in the unemployment rate and the labor force.

Figure 19
Colorado Unemployment Rate and Labor Force



Source: Bureau of Labor Statistics, Local area Unemployment Statistics (household survey). Seasonally adjusted, data through July 2012.

Figure 20
Nonfarm Employment Growth by Industry
Change in Number of Jobs between December 2011 and July 2012



Source: Rebenchmarked data based on Legislative Council Staff Analysis.

Most sectors in the labor market showed employment growth during the first seven months of 2012. Figure 20 shows the number of jobs added and the percentage change by sector since December 2011. Assuming revisions expected by Legislative Council Staff, total nonfarm employment increased by 29,900 jobs through July 2012, of which 19,000 jobs were added in January. Retail trade added 6,000 jobs, while the professional, scientific and technical services sector added 5,800. Mining and logging jobs grew 6.1 percent, and employment in the finance and insurance sector grew 3.8 percent, since December of 2011. The real estate and rental leasing sector lost the most jobs in number, 2,500, and the largest percentage of jobs, 5.7 percent.

Federal and local government employment declined by 600 and 700 jobs, respectively, and state government added 400 jobs. Government employment has been declining due to budgetary pressure caused by declining tax revenue. Public employment is expected to fall further in 2013.

Under current law, there are large changes in federal fiscal policies that will take effect in January of 2013. These include changes to the tax code, changes to unemployment benefits, and cuts to defense and other federal programs. It is not clear that any of these policy changes will actually take effect as scheduled, but they are in current law. In theory, the spending cuts could have the largest *direct* impact on employment in Colorado, but at this point it is not clear which programs would be affected. The tax changes would impact Colorado through behavioral responses from lower disposable income and confidence, considered an *indirect* impact.

The federal government is set to reduce spending by $65 billion dollars starting in January 2013. These spending cuts were part of the Budget Control Act of 2011 and were directed at popular federal programs as a way to promote compromise on federal spending priorities. The law did not specify which programs would be cut, but roughly half the cuts will be on defense spending and the rest will be on discretionary federal programs. This includes programs that send money to state and local governments. It is impossible to know the precise impacts of the spending cuts, but some programs will likely see larger cuts than others.

One way to measure the exposure to federal spending cuts is to look at regions in the state that have a relatively larger share of federal government employees. Table 15 shows total nonfarm and public sector employment for the state and Colorado's seven largest metropolitan areas. The areas with more government employees are likely to be more impacted by any potential spending cuts. However, it is important to note that many federal discretionary programs provide grants to firms in the private sector and it is impossible to know which firms in what area of the state will be affected.

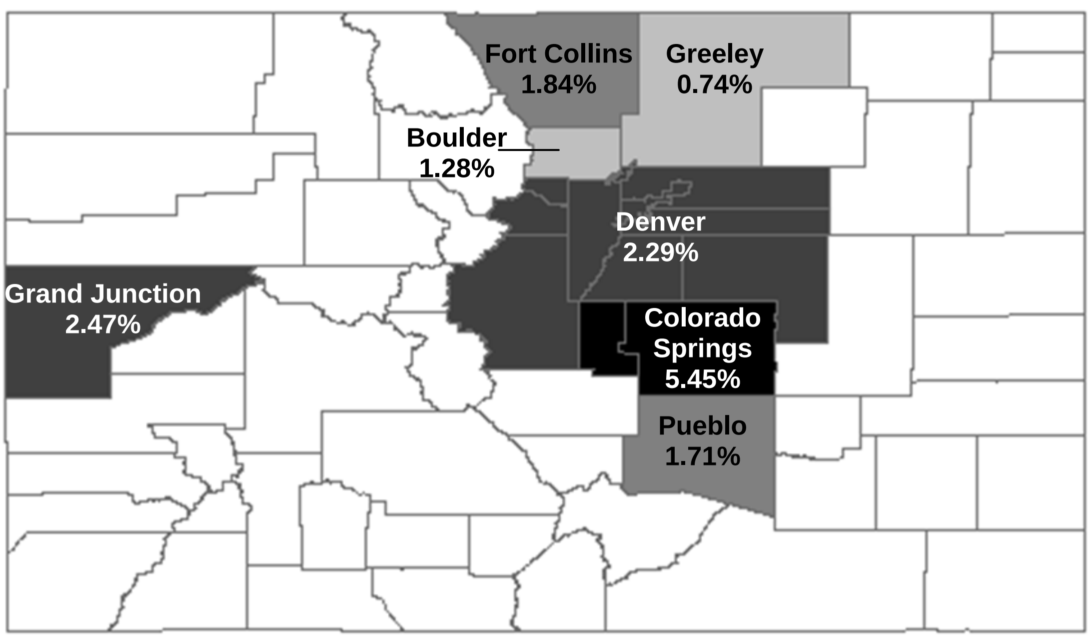
Figure 21 shows the percentage of the labor force employed by the federal government geographically. Colorado Springs has the largest share of its workforce employed by the federal government, at 5.45 percent. This is mainly from the significant presence of the defense industry in the region. Many defense jobs, such as those within the military, are provided directly by the federal government. However, some of them are located within private sector firms, since employment statistics classify a private sector firm's employment as federal government employment if the majority of the firm's revenue comes in the form of federal grants. If the cuts included in the sequester are mainly to programs with federal employees, then Colorado Springs could see a significant impact to the labor force and feel ripple effects

Table15
Total and Public Employment, August 2011 through July 2012
Thousands of Jobs and Percent

	Total Employment	Federal, State and Local Government	Percent	Federal Government	Percent
Boulder	165	32	19.74%	2	1.28%
Colorado Springs	249	49	19.61%	14	5.45%
Denver-Aurora-Broomfield	1,228	176	14.37%	28	2.29%
Fort Collins	137	30	21.58%	3	1.84%
Grand Junction	61	10	16.59%	2	2.47%
Greeley	81	15	18.43%	1	0.74%
Pueblo	59	13	22.12%	1	1.71%
Colorado	**2,279**	**393**	**17.24%**	**54**	**2.39%**

Source: Bureau of Labor Statistics. The metropolitan areas do not sum to the state total because there is government employment in rural areas of the state.

Figure 21
Percent of Total Workforce Employed by Federal Government
June 2011 to July 2012



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics (establishment survey).

through the regional economy. If the spending cuts impact transfers to state and local government employment, then Pueblo has the largest share, as reflected in Table 15.

Other components of federal fiscal policy, such as tax changes and unemployment benefits, are also scheduled to change in January of 2013 and will also have an impact on the Colorado economy.

Colorado's labor market embarked on a moderate recovery during the middle of 2010 that lasted through early 2012. Growth has slowed significantly since January, however, as economic uncertainty has caused businesses and households to pull back. Economic uncertainty resulting from the European debt crisis and federal fiscal policy is expected to slow labor market conditions even further through the end of the year and into the first half of 2013, even if the federal government successfully clarifies its policies during that time period.

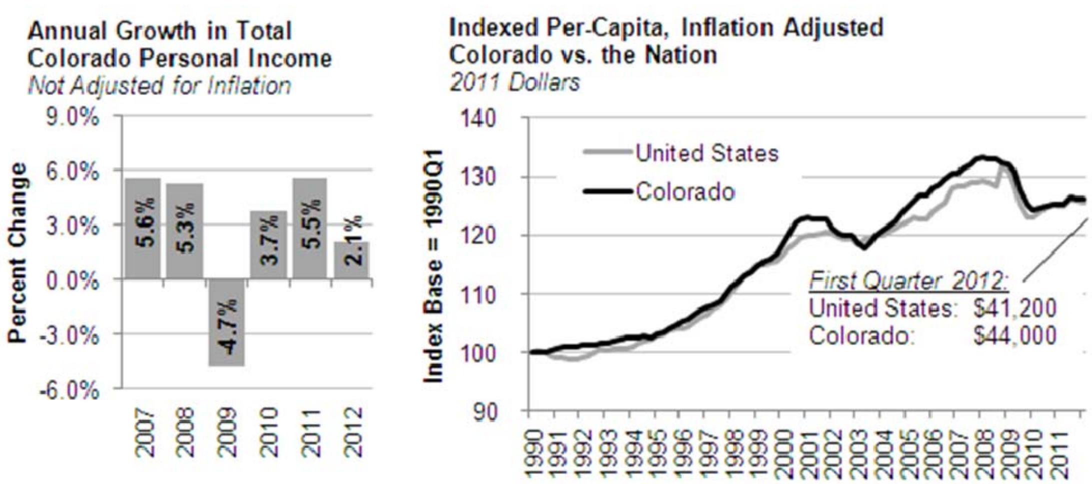
- Colorado is expected to continue to add jobs in the second half of 2012, with nonfarm employment growing 1.7 percent in 2012, on average, compared with 2011. Colorado nonfarm employment will increase 0.7 percent in 2013 due to increasing economic uncertainty.

- The unemployment rate will continue to inch upward in 2012 and average 8.3 percent for the year. Tightening fiscal policy and general economic sluggishness will slow hiring, causing a rise in the unemployment rate in 2013 to an average of 9.4 percent.

Personal Income and Wages Growing Slowly

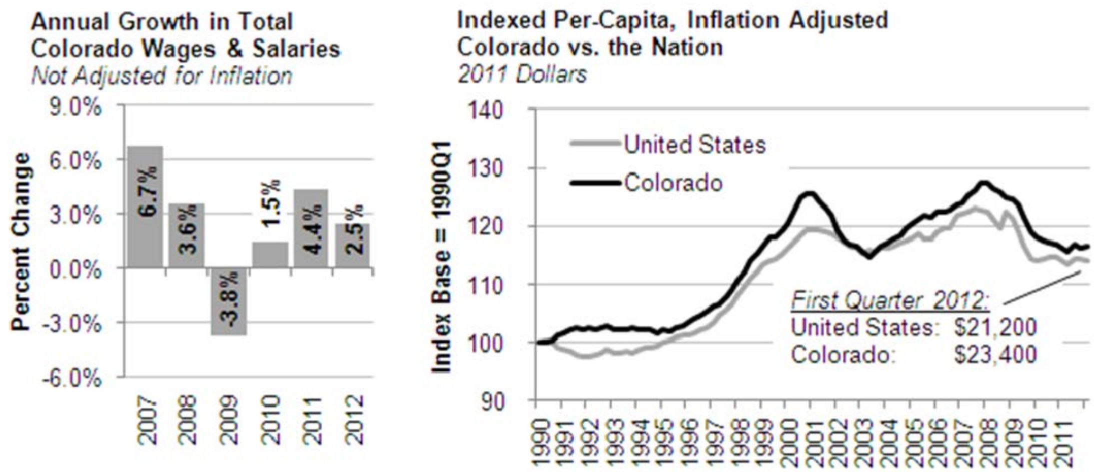
Colorado **personal income** is growing more slowly in 2012 after modest growth in 2011, up 2.1 percent in the first quarter of 2012

Figure 22
Personal Income Growth Since the Recession



Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Legislative Council Staff. Data through first quarter 2012.

Figure 23
Wage and Salary Growth Since the Recession



Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Legislative Council Staff. Data through first quarter 2012.

compared with the first quarter of 2012, as shown in Figure 22. The slower growth is primarily due to fewer transfer payments and moderating farm and business income. Fewer transfer payments are a sign that the economy is improving; for example, as people find work they no longer need unemployment insurance.

Income from wages and salaries is the largest component of personal income. In the previous two years, personal income grew faster than wages and salaries because of growth in transfer payments and more volatile income sources such as business and farm income. After increasing 4.4 percent in 2011, wage and salary income increased 2.5 percent during the first quarter of 2012 compared with the first quarter of 2011, as shown in Figure 23. Although growth in wages and salaries has slowed in 2012 along with the economy, wages and salaries are growing faster than personal income overall.

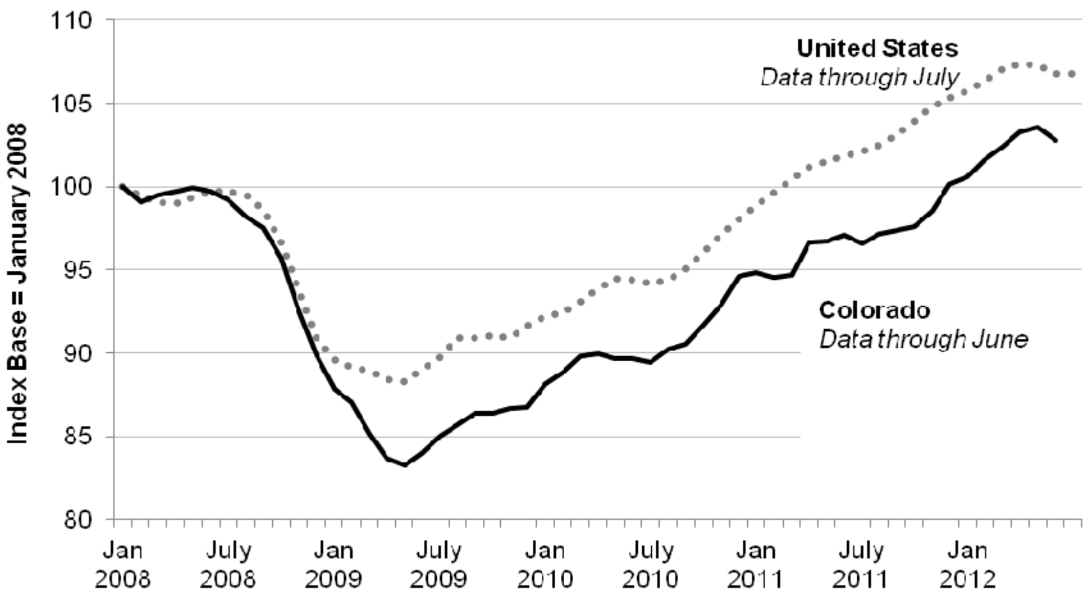
- Personal income will grow 4.1 percent in 2012 and then slow to 3.3 percent in 2013. While transfer payments are expected to remain high, they will not grow as quickly as they have during the last few years. In addition, business and farm income will increase at slower rates in 2012 and 2013.

- Wage and salary income will grow at about the same rate as employment growth. Wages and salary income will grow 4.4 percent in 2012 and 2.8 percent in 2013.

Consumer Spending is Growing Faster than Other Indicators

Retail sales continue to show strong signs of growth in Colorado. Trends regarding where consumers are spending money and how they treated falling gas prices during the first half of the year indicate that consumers in Colorado are more confident in the economic recovery than other parts of the nation.

Figure 24
Retail Trade in Colorado and the Nation
3-month Moving Average Indexed to January 2008 Levels



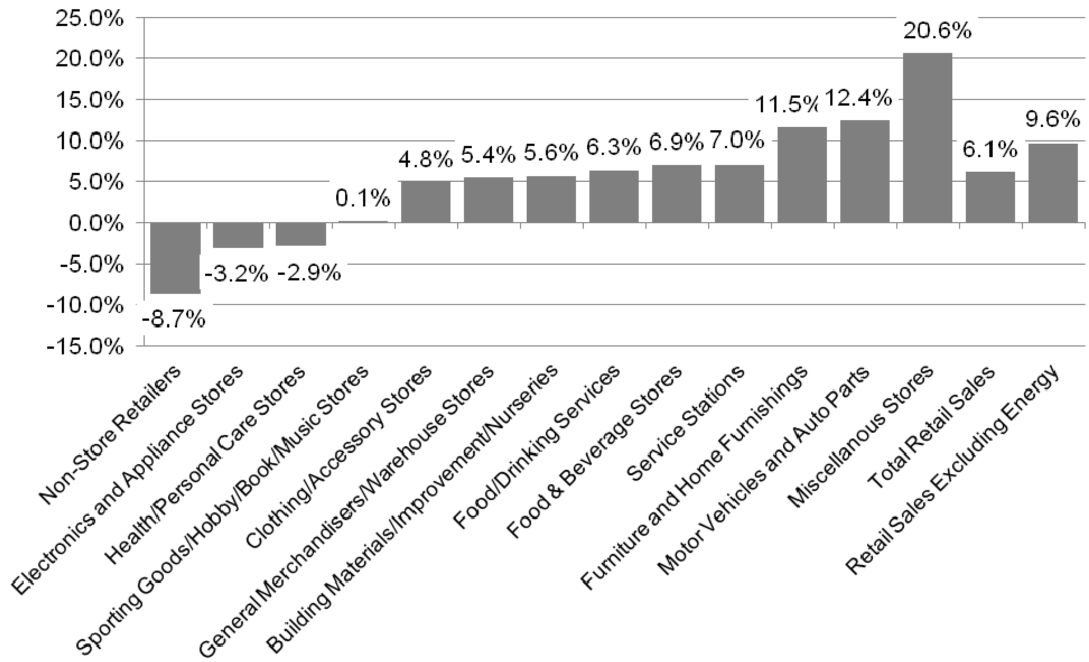
Source: U.S. Census Bureau, Colorado Department of Revenue.

Retail sales increased 7.0 percent between January and June 2012 compared with the same period in 2011. This is especially surprising because of falling gas prices. Gas prices fell in the first part of 2012, and at the national level this led to falling consumer spending. Nationally, households pocketed the savings from falling gas prices rather than use them for other consumption. In Colorado, households used the savings from falling gas prices for other retail purchases. The differing response to gas prices may be indicative of consumer confidence in Colorado and the rest of the nation. Nationally, retail consumption grew 5.5 percent between January and July 2012, compared with the same period in 2011, 1.5 percentage points lower than Colorado. Figure 24 shows retail trade for Colorado and the nation indexed to January 2008 levels.

Another indication that consumers in Colorado are more confident about the economic future than the rest of the nation is where they are spending their money. Consumers tend to put off purchasing large items like cars, trucks, and home furnishings when they are unsure about future economic prospects. Figure 25 shows the growth in sales by retail sector for January to June 2012 over the same period in 2011. Both automobile dealerships and home furnishing stores grew by over 11.5 percent. Some of this may also be driven by a particularly strong housing market relative to much of the rest of the nation in Denver and the northern region of the state. Nationwide, spending at automobile dealerships and home furnishing stores grew 7.5 percent and 8.5 percent, respectively, during the same time period.

Total retail sales in all industries grew by a slower amount than total retail sales excluding energy. This is in response to consumers using the savings on energy to

Figure 25
Growth in Total Sales by Retail Sector
Year-to-Date through June



Sources: Colorado Department of Revenue, Data through June 2012. Year-to-date growth represents growth in the first half of 2012 over the first half of 2011.

purchase other goods. This has implications for the sales tax revenue, because fuel and energy for home consumption are not subject to the sales tax. If consumers use the savings from falling gas prices to purchase other taxable goods and services, then sales tax collections will increase faster than overall retail sales.

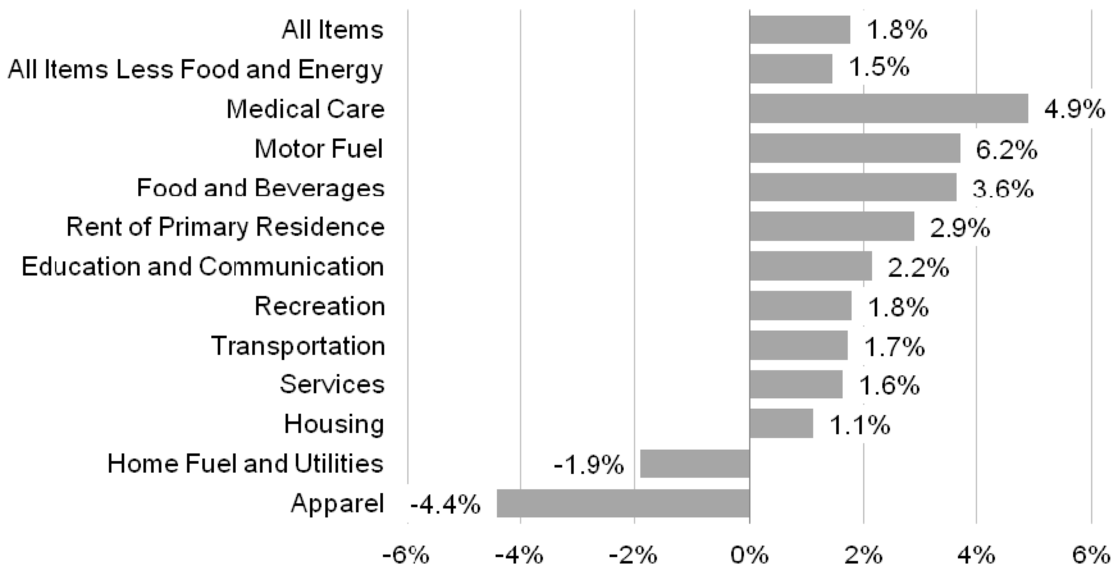
- There are signs that the consumer economy in Colorado is stronger than the nation as a whole. Economic uncertainty, however, will slow consumer spending in the second half of 2012 and in 2013. Retail trade is expected to grow 6.6 percent in 2012 and 3.7 percent in 2013.

Prices in Colorado are Steady

The falling price of fuel in the first half of 2012 eased up on inflationary pressures in Colorado. Prices for goods and services increased 1.8 percent in the first half of 2012 compared with the first half of 2011. The price of medical care increased the fastest, at 4.9 percent. Meanwhile, home fuel and utilities fell 1.9 percent, while apparel prices dropped the fastest, at 4.4 percent. The price of housing increased only modestly at 1.1 percent. Figure 26 shows the components of inflation between the first half of 2011 and the first half of 2012.

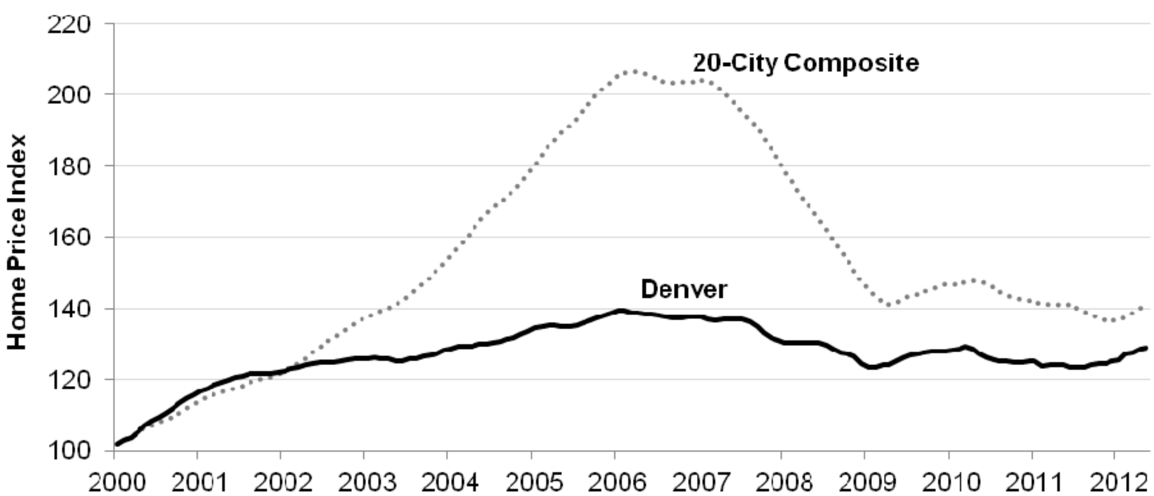
- Prices in Colorado will rise 2.1 percent in 2012 and 2.8 percent in 2013. Gasoline prices have begun to rise, food prices will likely rise due to the drought, and the increase in rents will put upward pressure on the housing component of the consumer price index. However, slack in the labor and consumer markets will apply downward pressure, keeping inflation below 3 percent.

Figure 26
Components of Inflation for Boulder-Denver-Greeley CPI
Change Between First Half 2012 over First Half 2011



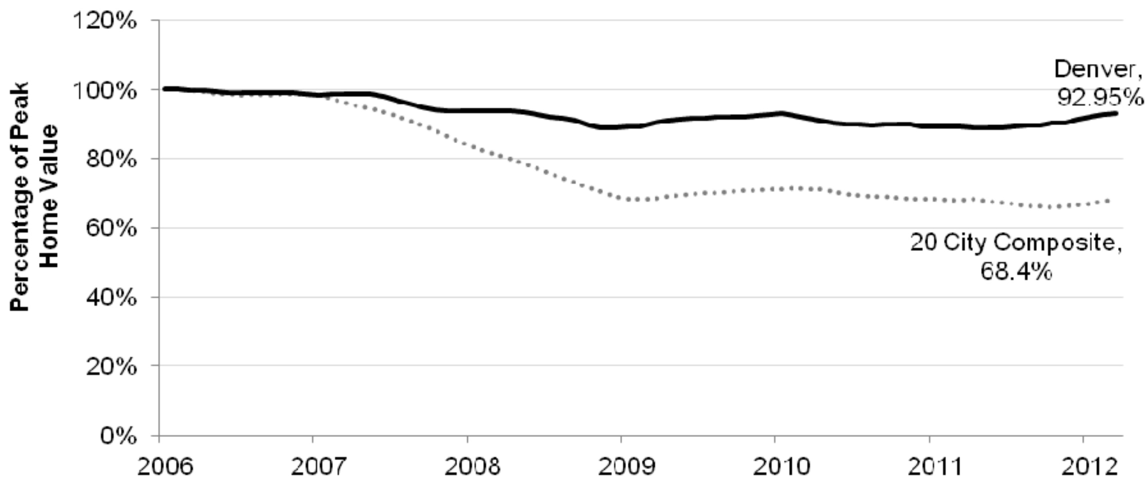
Sources: Bureau of Labor Statistics.

Figure 27
Case-Shiller Home Price Index
Seasonally Adjusted



Sources: Standard and Poor's, Case Shiller Home Price Index, data through June 2012.

Figure 28
Percent of Home Value Relative to Peak
Denver and a 20 City Composite



Sources: Standard and Poor's, Case-Shiller Home Price Index, data through June 2012.

Residential Real Estate Market Contributing to Growth

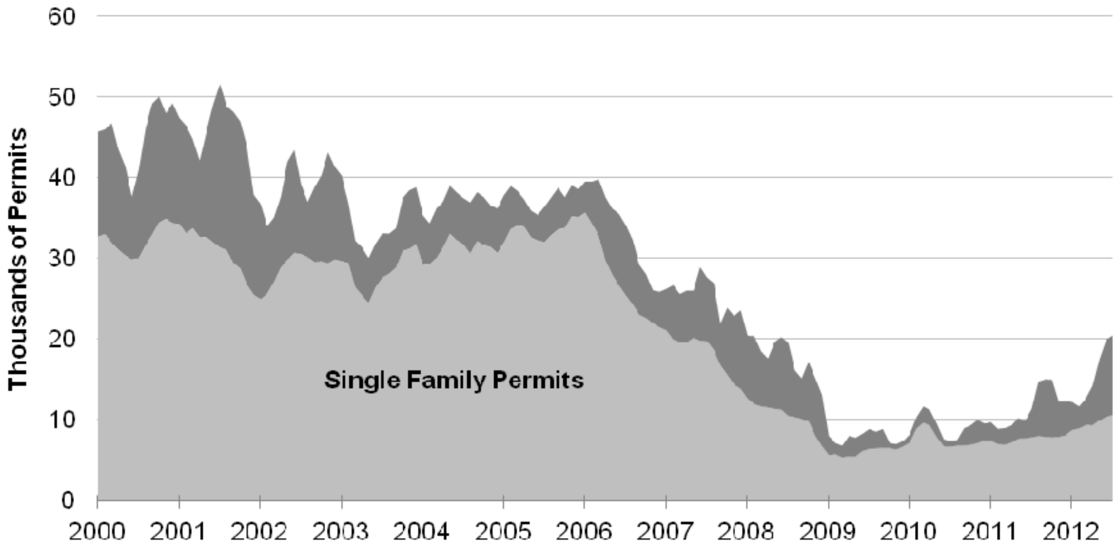
The housing market has shown significant improvement over the last year in many areas of Colorado, especially in Denver and the northern region of the state. Low vacancy rates have helped buoy prices and high equity levels relative to much of the nation have increased homeowner confidence. The number of permits granted for residential construction has also started to rise, although they remain at low levels historically. This has contributed to economic growth in the state.

Home prices in Denver increased for the tenth consecutive month in June, and are up 3.0 percent year-to-date through June compared with the first half of 2011. Figure 27 shows the Case-Shiller Home Price Index for Denver and a 20 city composite index between 2000 and June 2012.

Interest rates are at historically low levels, helping the housing market nationwide. Colorado's housing market, however, is doing better than the nation as a whole. There are at least two contributing factors to the strength in Colorado's real estate market: low vacancy rates and homeowner equity.

The Colorado Department of Local Affairs reports that the single family vacancy rate in Denver was 1.6 percent in the first quarter of 2012. This low vacancy rate is helping the real estate market because homeowners are able to rent out homes that they would otherwise sell, keeping shadow inventory off of the market. If it were more difficult to find renters for homes, then there would be more incentive to sell non-owner occupied homes. This would increase the supply of homes, putting downward pressure on home prices. Low vacancy rates also attract investors to buy single family homes, increasing the demand for homes. Vacancy rates are expected to stay low, which will help stabilize prices in Denver through the forecast period.

Figure 29
Monthly Colorado Residential Construction Permits
Three-Month Moving Average, Seasonally Adjusted Data



Sources: U.S. Census Bureau, seasonally adjusted by Legislative Council Staff.

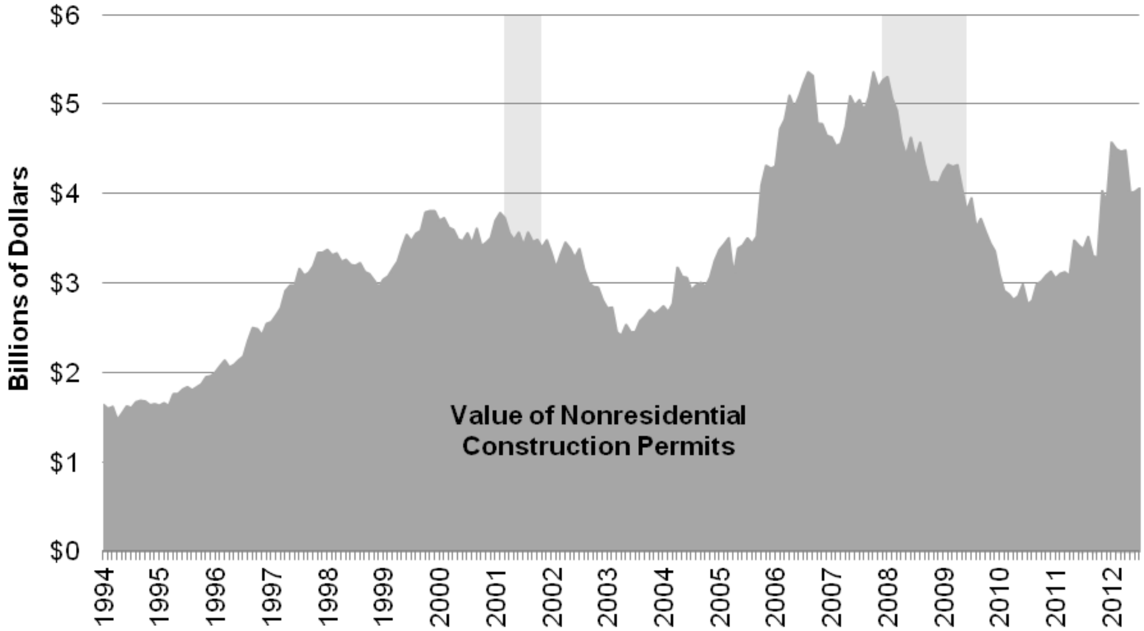
The second encouraging factor in the real estate market is that homeowners have more equity than other parts of the nation. Figure 28 shows the percent of peak home value for Denver and a 20 city composite. In June 2012, homes in Denver were worth 92.9 percent of their peak home value. For the rest of the nation, homes were worth 68.4 percent of their peak value. This means that homeowners in Denver that bought at the peak of the real estate market lost 7.1 percent of the value of their homes, and have had six years to rebuild that equity through savings. Homeowners who feel more confident in the value of their homes are more likely to use other resources on other types of investment and consumption.

In response to low vacancy rates and solidifying home prices, housing permits are starting to increase. Single family residential construction permits in Colorado increased 33.4 percent between January and July 2012 compared with the same period in 2011; at the same time, multi-family permits increased 139.0 percent. Figure 29 shows the number of housing permits issued in Colorado between January 2000 and July 2012.

A low vacancy rate and more homeowner equity than the rest of the country, positions Colorado to rebound more quickly than the nation. In the past, real estate investment has had positive impacts on retail sales and employment. Two retail sectors that have had strong growth are furniture and home furnishing stores and home improvement and garden stores. While Colorado's real estate market is stronger than the rest of the nation, the real estate market will not rebound completely until there is more growth in the broader economy.

- Single family permits will increase 32.2 percent in 2012 before slowing to 7.9 percent in 2013. Multifamily residential construction permits will grow

Figure 30
Value of Nonresidential Construction Activity



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

74.4 percent in 2012 and 25.0 percent in 2013 as investors supply housing units in response to low vacancy rates.

Nonresidential Construction Makes Steady Gains

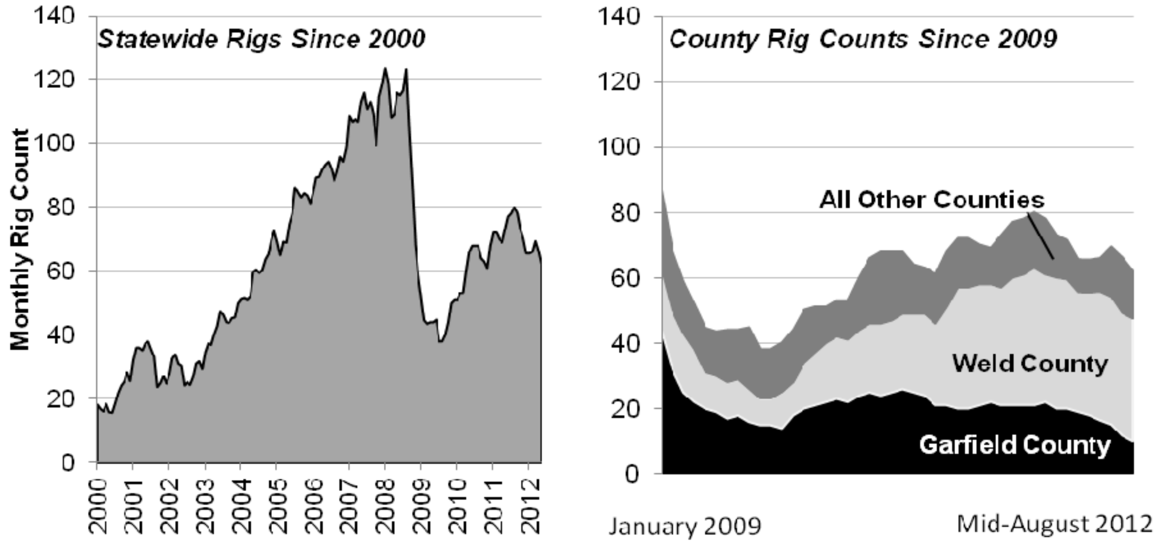
New hospitals and healthcare facilities have been contributing to **non-residential construction** over the past few years. Growth has slowed as those projects have been completed. However, the value of nonresidential construction permits grew 7.1 percent between January and July 2012 compared with the same period in 2011. Trends in the value of non-residential construction are shown in Figure 30.

- Nonresidential construction will decline 1.4 percent in 2012 as many of the large construction projects are completed. In 2013, nonresidential construction will grow 18.0 percent.

Oil and Natural Gas Development

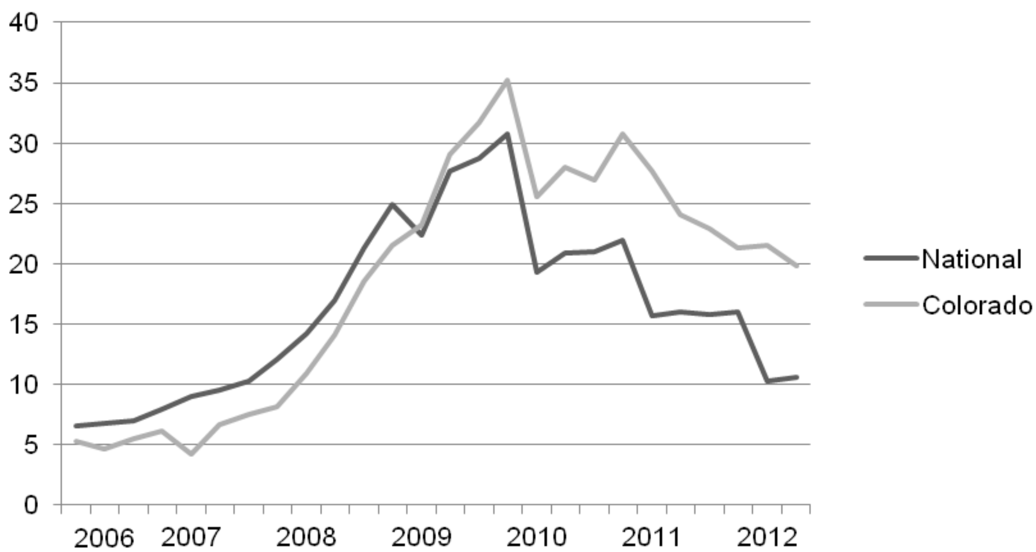
The oil and gas industry is an important economic driver for regional economies in Colorado, especially Garfield and Mesa counties in the northwest, La Plata County in the southwest, and Weld County in the north. Figure 31 shows the number of oil and gas rigs operating in Colorado between January 2000 and August 2012, and how those wells were distributed between Garfield, Weld and all other counties in the state since 2009. The number of rigs in Weld County has been holding steady since August 2011, where the majority of the output produced is oil. The number of rigs in Garfield County, where the majority of the output is natural gas, has been falling.

Figure 31
Oil and Natural Gas Rigs in Colorado



Sources: Baker Hughes. Data through August 2012.

Figure 32
Percentage of Unprofitable Institutions
First Quarter 2006 to Second Quarter 2012



Sources: Federal Deposit Insurance Corporation, data through second quarter 2012.

Banking Industry

Nationally the banking industry is gaining traction as rising profits and reworked mortgage portfolios are beginning to provide stability; however, Colorado's banks are continuing to struggle because they hold a disproportionate share of real estate holdings. In the second quarter of 2012, increased profits created sizable gains in their return on equity (ROE) and return on assets (ROA) for U.S. banks, including Colorado banks. These profits helped lower the percentage of unprofitable institutions in Colorado 1.7 percent compared with last quarter, but remains almost double the national average, as shown in Figure 32. Colorado's banks are holding roughly 25 percent more real estate assets than the national average, which continues to put strain on some banks' balance sheets. Colorado banks also continue to hold about 30 percent more noncurrent loans than national banks. Net charge offs fell this quarter, indicating that banks may be pursuing foreclosures instead of charge-offs for some properties. Net income for Colorado banks were 98.1 percent higher in the second quarter of 2012 than during the second quarter of 2011, indicating improved stability in the banking sector. However, banks both nationally and in Colorado still have much to work through before they can be deemed fully recovered from the financial crisis.

Drought and Colorado's Agriculture Industry

Colorado and the nation are going through one of the worst droughts in 25 years. The drought will affect crop and livestock sectors and eventually affect food prices at the retail level. On a national level, corn production has fallen, resulting in record high prices for corn. High corn prices are also affecting other crop prices, such as soybeans used for animal feed.

Colorado's $40 billion agricultural industry is primarily made up of three sectors: livestock, corn, and wheat. Earlier in the year, ranchers were reducing the size of their herds in response to the drought and the resulting high cost of animal feed. By reducing herd size, more cows and calves are available on the market. This additional supply of beef will likely lower prices at the retail level in 2012. However, in 2013, the diminished herd sizes will result in less beef coming to the market, as it generally takes two to three years to rebuild herds. Thus, beef prices in 2013 will rise when supply is restrained and fewer cattle are processed in the food chain.

In August 2012, the number of cattle and calves in Colorado feedlots was estimated at 940,000 head, down 3 percent from the prior year. Other livestock production in Colorado was up in July 2012. For example, red meat production totaled 190.5 million pounds, up 6 percent from the 180.4 million pounds in the prior-year period. Total red meat production, including cattle kill, hog slaughter, and sheep and lamb slaughter, increased 4 percent during the same time period.

In 2010, Colorado's corn farmers took in a record $604 million, making corn the highest grossing crop in the state. Most of Colorado's corn is sold for livestock feed, although about one-fifth is sold for ethanol production. Some farms in rural counties of Colorado have seen their corn crops damaged by the drought, but about 70 percent of the corn farms in Colorado have irrigation and have survived the drought. Corn production fell to 130.9 million bushels in Colorado, down 24 percent from the prior year. In August 2012, corn prices rose to $7.78 per bushel, up 9.8 percent over the prior-year period. Prices are up considerably from when corn sold between $3.00 and $4.00 per bushel in 2006 and 2009.

In contrast to other states that have that have been impacted by the drought, Colorado wheat farmers have had a good harvest this year as early-season moisture helped crops survive. Wheat production in Colorado rose to 83.3 million bushels in 2012, up 7 percent from prior-year production levels. Like corn, wheat prices are at record highs due to strong demand in the export markets. However, since wheat is a lesser component of food production than corn, high wheat prices are unlikely to fuel food inflation as much as corn. In August 2012, wheat prices rose to $7.68 per bushel, up 7.1 percent over the prior-year period. Like corn, wheat prices are also up considerably from when prices were between $4.00 and $6.00 per bushel in 2006 and 2009.

The drought is not expected to affect Colorado's fruit and vegetable farms because many are irrigated.

Summary

The recovery in Colorado's economy is losing momentum along with the national economy. Although Colorado is expected to outperform the nation, employment, income, and wage growth will be restrained and the unemployment rate will rise through the remainder of 2012 and into the first half of 2013. Business and consumer spending will continue to grow, but at slower rates as households and businesses grapple with uncertainty and a slowing national economy. The housing and residential construction markets will continue to be a source of growth, particularly in Denver and the northern urban corridor. Farm income has pulled back significantly after two strong years, but it appears that the agricultural community will be able to successfully navigate its way through the drought.

Uncertainty is particularly high. Economies worldwide are slowing, including those of China, Brazil, India, and Russia. The entire world waits to see the effects of significant economic and political risk in Europe and conflict in the Middle East. The Congressional Budget Office has estimated that if current law changes to U.S. federal fiscal policies go into effect in 2013 as scheduled, the national economy will shrink in the first half of 2013. This forecast assumes that economic growth will slow because of this heightened uncertainty. However, it also assumes that the Euro will remain intact and that at least some of the fiscal policies set to occur in 2013 will either be postponed or repealed. Continued economic growth assumed in the forecast following 2013 is dependent on political resolutions in Washington D.C. on federal fiscal policy and across the Atlantic on the Eurozone debt crisis.

Risks to the Forecast

The forecast is based on current law, which federal lawmakers can change at any time. If there is a voluntary resolution on federal fiscal policies inspiring confidence in the long term prospects of businesses and consumers, the national economy may grow faster than forecast. Also, certain economic indicators show that people in Colorado are more confident about the economy than the nation as a whole. There may be enough strength in Colorado's economy to maintain the current pace of recovery even with a slowing national economy. If either of these scenarios occur, then the Colorado economy will perform better than forecast.

If federal fiscal policies are not resolved, then the national economy may go into a recession. If the Euorzone area falls apart, the global uncertainty will cause a prolonged recession at the national level. In addition, unrest in the Middle East may impact oil prices, consumer confidence and make it more difficult to find a political resolution to the fiscal problems, causing a recession at the national level. If the national economy goes through a more severe downturn than forecast, then Colorado's economy will follow.

Table 16
Colorado Economic Indicators, September 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	5,047.7	5,116.8	5,188.4	5,271.4	5,366.3
percent change	1.8%	1.8%	1.7%	1.5%	1.4%	1.4%	1.6%	1.8%
Nonagricultural Employment (thousands)*	2,331.0	2,350.4	2,245.2	2,221.9	2,258.2	2,296.6	2,312.7	2,345.0
percent change	2.3%	0.8%	-4.5%	-1.0%	1.6%	1.7%	0.7%	1.4%
Unemployment Rate	3.8	4.8	8.1	8.9	8.3	8.3	9.4	9.1
Personal Income* (millions)	$205,242	$215,952	$205,437	$213,202	$225,591	$234,841	$242,590	$257,874
percent change	5.6%	5.2%	-4.9%	3.8%	5.8%	4.1%	3.3%	6.3%
Wage and Salary Income* (millions)	$112,962	$116,991	$112,633	$114,344	$119,655	$124,920	$128,417	$134,325
percent change	6.7%	3.6%	-3.7%	1.5%	4.6%	4.4%	2.8%	4.6%
Retail Trade Sales* (millions)	$75,329	$74,760	$66,345	$70,738	$75,548	$80,535	$83,514	$88,609
percent change	6.9%	-0.8%	-11.3%	6.6%	6.8%	6.6%	3.7%	6.1%
Home Permits (thousands)	29.5	19.0	9.4	11.6	13.8	20.2	23.2	32.4
percent change	-23.2%	-35.5%	-50.8%	23.9%	19.3%	46.4%	14.8%	39.4%
Nonresidential Building (millions)	$5,259	$4,117	$3,351	$3,102	$3,781	$3,728	$4,399	$4,685
percent change	13.3%	-21.7%	-18.6%	-7.4%	21.9%	-1.4%	18.0%	6.5%
Denver-Boulder Inflation Rate	2.2%	3.9%	-0.6%	1.9%	3.7%	2.1%	2.8%	3.0%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, F.W. Dodge, and Legislative Council Staff.
**Estimated employment growth for 2011 and 2012 incorporate expected revisions to published employment data expected by Legislative Council Staff.*

Colorado Economic Regions

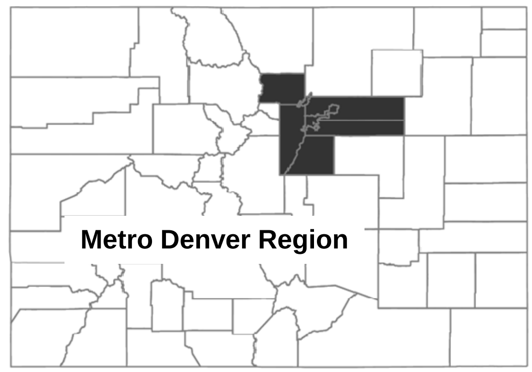
Metro Denver Region
Northern Region
Colorado Springs Region
Pueblo — Southern Mountains Region
San Luis Valley Region
Southwest Mountain Region
Western Region
Mountain Region
Eastern Region

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

The economy in the Denver metro region continues to show signs of improvement. The region's job market, which represents over half of the statewide labor market, continues to see moderate employment gains through July, and people are re-entering the labor market. Consumer spending is growing faster than any time since 2004. The residential real estate market is showing strength in both construction and home price appreciation. Nonresidential construction is still growing, but at slower rates than in 2011. Table 17 shows economic indicators for the region.



Job market. The metro Denver labor market continues to recover. Through the first seven months of 2012, the region added over 36,000 new jobs. Figure 33 shows employment in the Metro Denver area since January 2006. The unemployment rate was 8.0 percent in July, after increasing in the previous four months. Employment is rising, but the unemployment rate is rising because people are returning to the labor market. As the job market improves, the labor force typically grows because job seekers feel more confident

Table 17
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	1.0%	-4.3%	-0.5%	1.5%	1.8%
Unemployment Rate /2 (2012 Figure is July Only)	4.8%	8.2%	8.8%	7.7%	8.0%
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-50.1%	-31.8%	35.5%	-0.4%	50.1%
Single-Family (Boulder)	-53.5%	-27.6%	101.0%	-5.2%	26.2%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-13.1%	-20.5%	7.9%	37.7%	20.9%
Square Footage of Projects	-27.9%	-47.7%	-0.7%	25.0%	20.0%
Level (1,000s)	15,707	8,223	8,162	10,205	6,491
Number of Projects	1.6%	-17.5%	-37.0%	-1.2%	-2.2%
Level	1,114	919	579	572	353
Retail Trade Sales Growth /5	-0.8%	-11.4%	6.8%	4.3%	8.6%

MSA = Metropolitan statistical area. NA = Not available.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey for Denver-Aurora-Broomfield and Boulder MSAs. Seasonally adjusted. Data through July 2012.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

3/ U.S. Census. Growth in the number of housing units authorized for construction. Data through July 2012.

4/ F.W. Dodge. Data through July 2012.

5/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

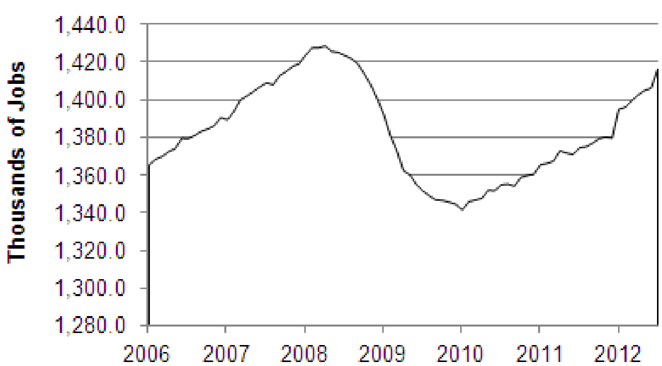
that they can find employment and re-enter the labor force. Trends in the unemployment rate and the labor force are shown in Figure 34.

Consumer spending. Consumer spending in the Denver metro area is growing faster than the other regions in the state, and is growing faster than any year since 2004. Seasonally adjusted retail sales increased 8.6 percent in the Metro Denver region in the first six months of 2012, when compared with the same period of 2011. Figure 35 shows seasonally adjusted retail trade between January 2006 and June 2012. Figure 36 compares retail sales in the metro Denver with the state as a whole and then nation since 2008. Nationally, retail sales returned to 2008 levels in December 2010; the Denver metro area returned to 2008 levels over a year later, in January 2012.

Housing market. The housing market for the metro Denver region has shown signs of improvement in the first part of 2012. According to the June 2012 Case-Schiller Home Price Index, seasonally adjusted house prices are 4.0 percent higher than June 2011, after increasing for the past 10 months. Single-family permits for the Denver-Aurora-Broomfield area increased 50.1 percent between January and July 2012, compared with the same period in 2011. Figure 37 shows residential permits between 2005 and July 2012.

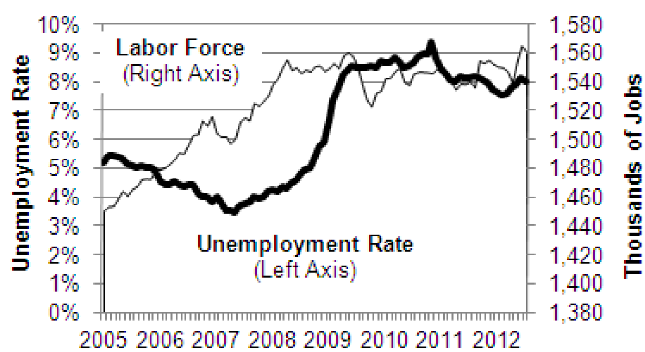
Nonresidential construction market. Investment in nonresidential real estate is slowly improving, as shown in Figure 38. Between January and July 2012, the number of non-residential building projects decreased 2.2 percent, but the value and square footage increased 20.9 percent and 20.0 percent, respectively, compared with the same period in 2011.

Figure 33
Metro Denver Employment
Seasonally Adjusted



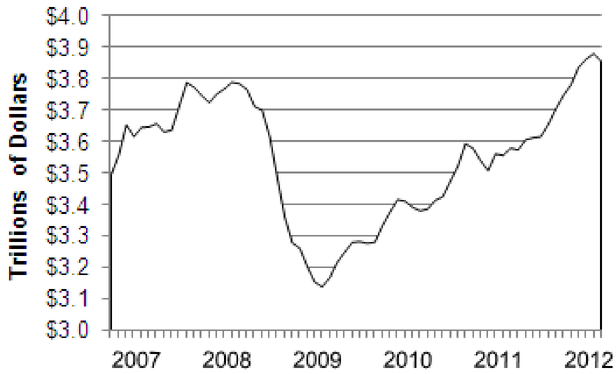
Source: U.S. Bureau of Labor Statistics; CES. Data through July 2012.

Figure 34
Metro Denver's Unemployment Rate Declines
Seasonally Adjusted



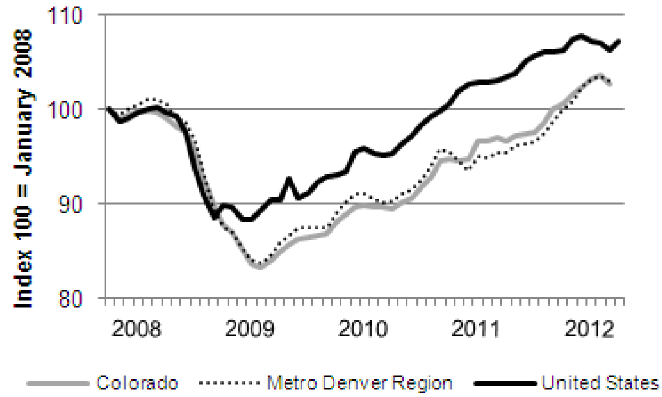
Source: U.S. Bureau of Labor Statistics; LAUS. Data through July 2012.

Figure 35
Metro Denver Retail Trade Sales
Three-Month Moving Average
Seasonally Adjusted Annualized Data



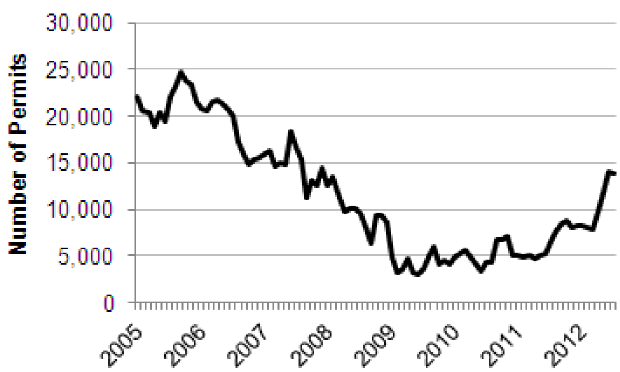
Source: Colorado Department of Revenue. Data through June 2012

Figure 36
Retail Trade Trends Since January 2008
Index 100= January 2008
Three-Month Moving Average;
Seasonally Adjusted Annualized Nominal Data



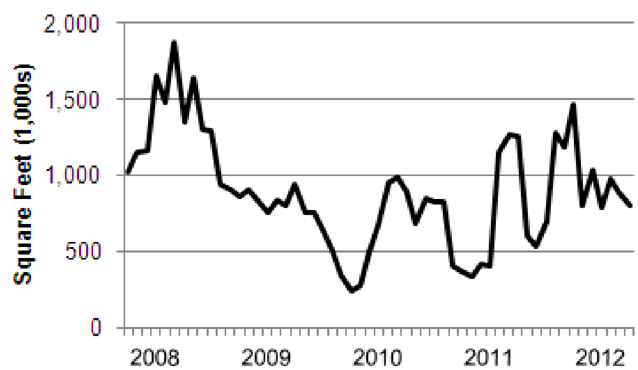
Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through June2012; U.S. data through July.

Figure 37
Metro Denver Residential Permits
Three-Month Moving Average;
Seasonally Adjusted Annualized Data



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

Figure 38
Metro Denver Total Nonresidential
Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



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

Northern Region

The economy of the northern region continues to be one of the strongest in the state. Employment growth increased in both the Fort Collins-Loveland and Greeley areas. Growth in consumer spending remained one of the highest in the state. Low inventories and rising prices are creating stronger demand for new residential construction. However, similar to the other regions in state, new nonresidential construction continues to struggle, while drought conditions are impacting the region's agriculture economy. Table 18 shows economic indicators for the region.

As shown in Figure 39, employment in both major metro areas in the region is improving. The Bureau of Labor statistics reported that the Fort Collins-Loveland and Greeley

Table 18
Northern Region Economic Indicators
Weld and Larimer Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1					
Fort Collins-Loveland MSA	1.0%	-3.2%	0.4%	1.5%	2.0%
Greeley MSA	1.4%	-4.9%	-0.6%	3.0%	1.3%
Unemployment Rate /2 (2012 Figure is July Only)					
Fort Collins-Loveland MSA	4.2%	7.0%	7.4%	6.2%	6.7%
Greeley MSA	5.2%	9.1%	10.2%	8.7%	9.2%
State Cattle and Calf Inventory Growth /3	1.9%	-5.5%	-5.6%	4.0%	-5.6%
Housing Permit Growth /4					
Fort Collins-Loveland MSA Total	-1.0%	-66.0%	154.5%	1.0%	29.3%
Fort Collins-Loveland MSA Single-Family	-36.4%	-49.2%	32.1%	45.7%	49.0%
Greeley MSA Total	-46.8%	-20.6%	10.4%	-3.1%	53.1%
Greeley MSA Single-Family	-45.1%	-13.7%	2.7%	-2.6%	52.0%
Growth in Value of Nonresidential Construction/ 5					
Value of Projects	-8.9%	10.0%	-49.0%	-13.6%	-29.3%
Square Footage of Projects	-18.8%	-40.5%	-11.8%	-36.4%	-32.1%
Level (1,000s)	3,425	2,039	1,799	1,145	642
Number of Projects	26.7%	-34.8%	-17.4%	-3.8%	10.3%
Level	247	161	133	128	96
Retail Trade Sales Growth /6					
Larimer County	-0.7%	-8.9%	7.7%	7.9%	7.3%
Weld County	2.0%	-15.1%	9.9%	26.3%	7.5%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2012.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through June 2012.

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

4/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2012.

5/ F.W. Dodge. Data through July 2012. Prior forecasts reported Weld and Larimer Counties separately.

6/ Colorado Department of Revenue. Seasonally adjusted. Data through July 2012.

areas added 7,000 new jobs between January and July of 2012. Comparing the first seven months of this year with the same period one year ago, employment in the Fort Collins-Loveland area grew 2.0 percent, faster than the statewide average, while Greeley's employment increased 1.3 percent. The Fort-Collins-Loveland area unemployment rate in June 2012 was 6.7 percent, the second-lowest of all regions. The unemployment rate in the Greely area has increased as workers reenter the labor market. The Greeley MSA's unemployment rate was 9.2 percent in June 2012.

With over 4,000 farms in the region, agriculture is a key component of the economy. Farmers in Weld and Larimer counties are dealing with an on ongoing drought that is affecting U.S. and state agriculture prices and production. Livestock production is down year-to-date as rising prices for hay and grain and limited grazing grounds have increased production costs. However, the region's sugar beet harvest could produce record-breaking yields this season.

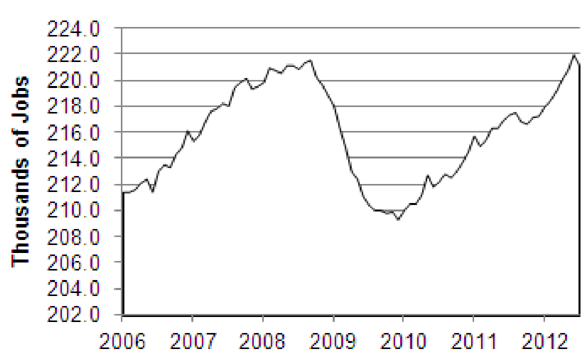
Regional oil and natural gas activity is likely to remain strong through 2012 with continued interest in the Niobrara formation in the Wattenberg field. The pace of drilling continues unabated in the region as operators employ horizontal drilling techniques.

The northern region's real estate market is showing signs of improvement. The distressed market in Larimer and Weld County has steadily decreased. Sales are up over last year, as are prices, and inventory is low but growing. New residential construction permits were strong through July 2012 in both metropolitan areas. Single family permits in the Fort Collins-Loveland area were up 49 percent compared with the first seven months of 2011. Likewise, single family permits were up 52 percent in the Greeley area.

The number of nonresidential projects in the region is higher compared with the same period last year. These projects will add over 600,000 square feet to the region's nonresidential inventory.

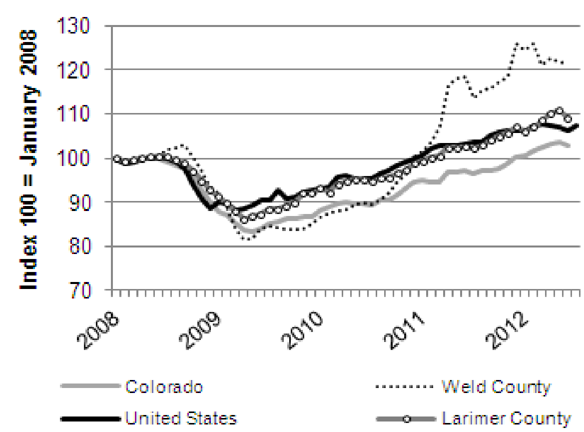
Retail sales continue to be strong in both Larimer and Weld County. As Figure 40 shows, consumer spending in both counties has outperformed the state. Data from the Colorado Department of Revenue shows sales in motor vehicles are the main drivers for this increase.

Figure 39
Fort Collins-Loveland and Greeley MSA Nonfarm Employment
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS. Data through July 2012.

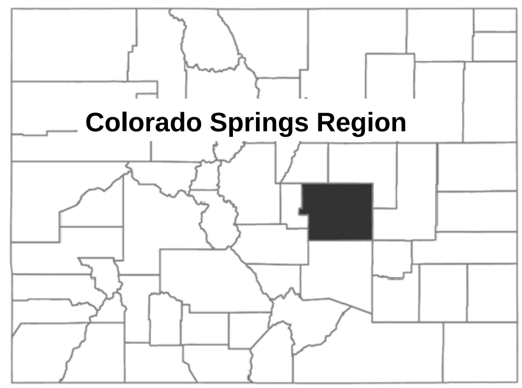
Figure 40
Trends in Retail Trade Sales Since January 2008
Index of Three-Month Moving Average; Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through June 2012.; U.S. data through July.

Colorado Springs Region

The Colorado Springs region continues to struggle. Employment has been declining since April and the unemployment rate is one of highest in the state. Consumer spending, as measured by retail trade sales, slowed during the first half of 2012. Nonresidential construction continues to be weak. The housing market, however, has shown signs of improvement. Table 19 shows economic indicators for the region.



After starting the year with encouraging employment growth, the region's job market has slowed down and has been declining since May, as shown in Figure 41. In July, the area lost 400 jobs from the previous month. However, these figures were the first to include the impact from the Waldo Canyon fire, which impacted the region's tourism industry. In addition, employment statistics for sub-state regions can contain meaningful errors and are frequently revised significantly. The region's unemployment rate of 9.9 percent continues to be one of the highest in state. Figure 42 shows the Colorado Spring MSA unemployment rate and labor force through July 2012.

Despite the areas struggling labor market, the Colorado Springs housing construction industry has seen strong growth in the number of housing permits. As shown in Figure 43, single-family permits are up 41.7 percent compared with the same period one year ago. Low

Table 19
Colorado Springs Region Economic Indicators
El Paso County

	2008	2009	2010	2011	YTD
Employment Growth /1					
Colorado Springs MSA	-0.9%	-3.9%	-0.9%	1.1%	0.1%
Unemployment Rate /2	5.6%	8.8%	9.8%	9.0%	9.9%
(2012 Figure is July Only)					
Housing Permit Growth /3					
Total	-36.1%	-33.4%	27.9%	29.1%	64.7%
Single-Family	-42.2%	-16.7%	23.2%	-3.8%	41.7%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-43.5%	-5.1%	-13.4%	16.6%	-12.9%
Square Footage of Projects	-48.2%	-26.1%	-35.0%	17.5%	-25.9%
Level (1,000s)	3,052	2,255	1,467	1,723	600
Number of Projects	0.6%	-8.6%	23.3%	11.5%	-2.7%
Level	324	296	365	407	219
Retail Trade Sales Growth /5	-2.7%	-6.2%	7.8%	8.3%	5.0%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. Seasonally adjusted. Data through July 2012.

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through June 2012.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through April 2012.

4/ F.W. Dodge. Data through July 2012.

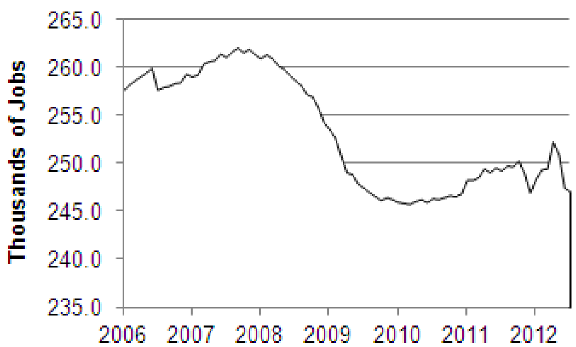
5/ Colorado Department of Revenue. Seasonally adjusted. Data through May 2012.

inventory of vacant residential units, low interest rates, and rising prices are contributing to the investment in new residential homes.

Like the other regions in the state, the Colorado Springs nonresidential market continues to struggle. High commercial vacancy rates and low rents remain a drag on new construction. Turner Commercial Research of Colorado Springs reports that shopping center vacancy rates were 12 percent in the second quarter, a 0.7 percent increase from the previous quarter. Year-to- date, the Colorado Springs area had 219 nonresidential project starts, down 2.7 percent compared with the same period one year ago.

Figure 44 compares changes in the region's consumer spending to changes for the nation and state. The region's consumer spending, as measured by retail trade sales, has continually outperformed the state since 2009 and has grown faster than spending nationwide since April 2012. Consumer spending lost momentum, thus far in 2012, growing 5.0 percent year-to-date through June after growing 8.3 percent in 2011.

Figure 41
Colorado Springs MSA Nonfarm Employment
Seasonally Adjusted

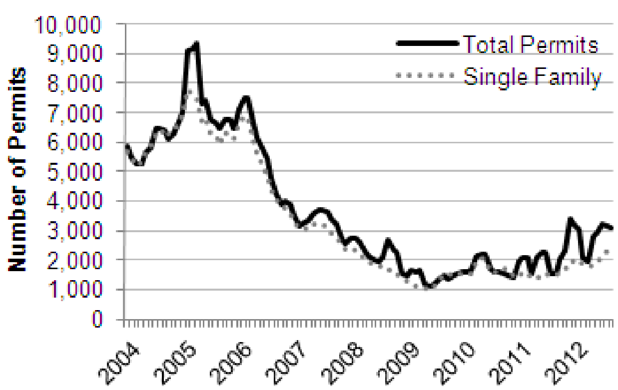


Source: U.S. Bureau of Labor Statistics; CES. Data through July 2012.

Figure 42
Colorado Springs MSA
Unemployment Rate and Labor Force
Seasonally Adjusted

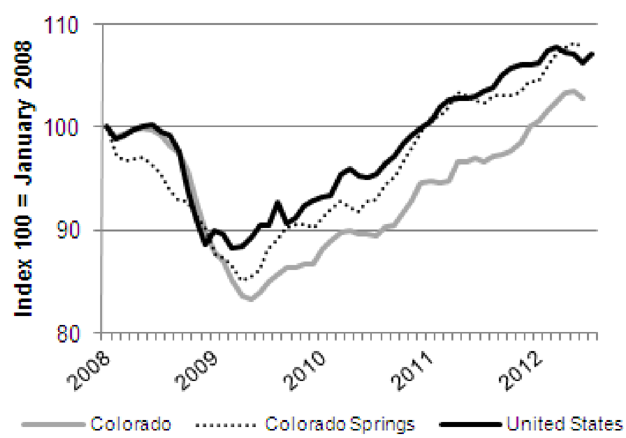
Source: U.S. Bureau of Labor Statistics, LAUS. Data through July 2012.

Figure 43
Colorado Springs MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through June 2012; U.S. data through July.

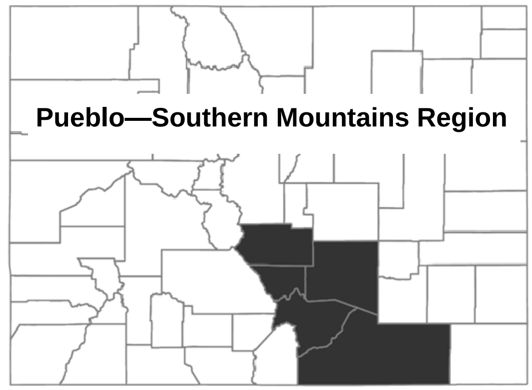
Figure 44
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data



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

Pueblo — Southern Mountains Region

The economy has lost momentum in the Pueblo – Southern Mountains region. The Pueblo region had the highest unemployment rate among all the regions statewide in July 2012 and both employment and consumer spending lost momentum during the first half of 2012. Residential permits are up, but nonresidential construction remains low. Table 20 shows economic indicators for the region.



The Bureau of Labor Statistic's nonfarm employment estimates showed there were 59,600 jobs in Pueblo in July 2012, a 1,100 increase from the previous month, as shown in Figure 45. The region's unemployment rate was 10.8 percent in July 2012, down slightly from the previous month.

Figure 46 compares the Pueblo region's consumer spending, as measured by retail trade sales, to that of the state and the nation. The region's retail sales increased 9.5 percent in 2011. Although the region's consumer spending had been outpacing the state and nation through 2011, it has slowed significantly in 2012.

Table 20
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth					
Pueblo Region /1	0.0%	-1.9%	-1.2%	0.7%	-0.4%
Pueblo MSA /2	0.5%	-2.3%	0.2%	1.7%	0.4%
Unemployment Rate /1	6.0%	9.2%	10.4%	9.8%	10.8%
(2012 Figure is July Only)					
Housing Permit Growth /3					
Pueblo MSA Total	-38.6%	-9.4%	-37.9%	-49.6%	29.3%
Pueblo MSA Single-Family	-42.8%	-51.5%	13.6%	-45.5%	35.9%
Growth in Value of Nonresidential Construction /4					
Value of Projects	52.8%	-67.6%	-71.5%	3.0%	649.1%
Square Footage of Projects	11.0%	-76.5%	-62.2%	-58.1%	545.3%
Level (1,000s)	1,403	330	125	52	235
Number of Projects	44.1%	-50.0%	-20.4%	2.6%	-42.3%
Level	98	49	39	40	15
Retail Trade Sales Growth /5	-1.7%	-4.7%	6.8%	9.5%	4.1%

MSA = Metropolitan statistical area. NA = Not Available.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2012.

3/ U.S. Census Bureau. Growth in the number of housing units authorized for construction. Data through July 2012.

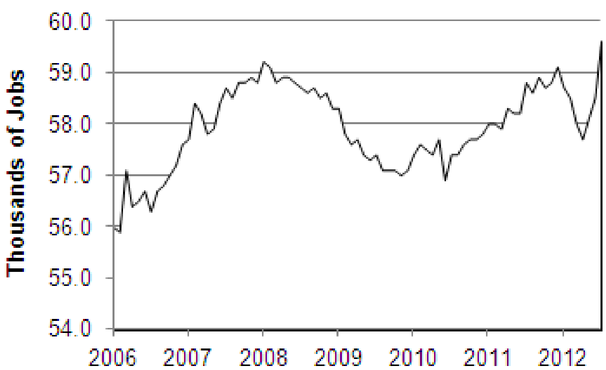
4/ F.W. Dodge. Data through July 2012. Prior Forecast Documents only had nonresidential construction data for Pueblo County.

5/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

The Pueblo residential construction market continues to show signs of improvement. After strong growth in the number of new residential permits in 2010, the number of new single family permits declined by almost half in 2011. Year-to-date through July, the number of single family permits has increased 35.9 percent compared with the first seven months of 2011. Single family units accounted for all of the region's new residential permits thus far in 2012. Although improving, residential construction activity is expected to remain modest for several years. Figure 47 shows recent trends in the number of permits filed for home building in the Pueblo metropolitan area.

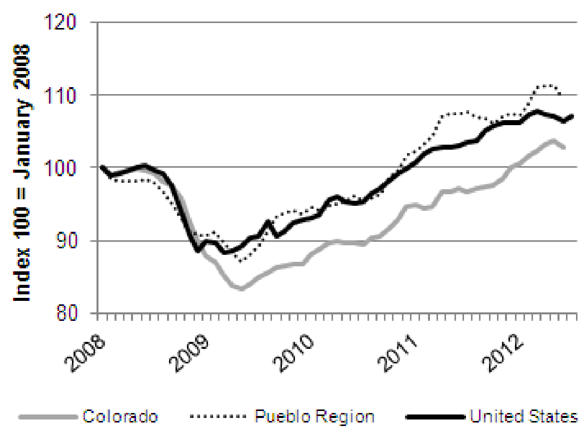
Nonresidential construction in the region remains at low levels, as shown in Figure 48. Pueblo County had a surge of construction beginning at the end of 2008 that peaked in mid-2009. The number of new nonresidential projects is down in the first seven months of 2012 compared with same time period last year. The large increase in the value and square footage is mainly due to the new Pueblo County Judicial Building, which broke ground in February of 2012.

Figure 45
Pueblo Region Nonfarm Employment
Seasonally Adjusted



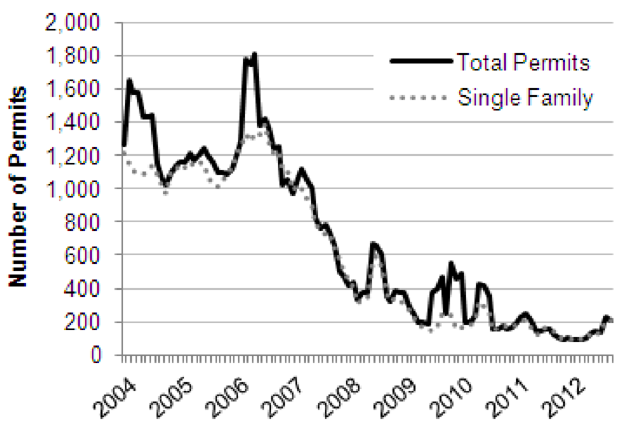
Source: U.S. Bureau of Labor Statistics; CES.
Data through July 2012.

Figure 46
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data



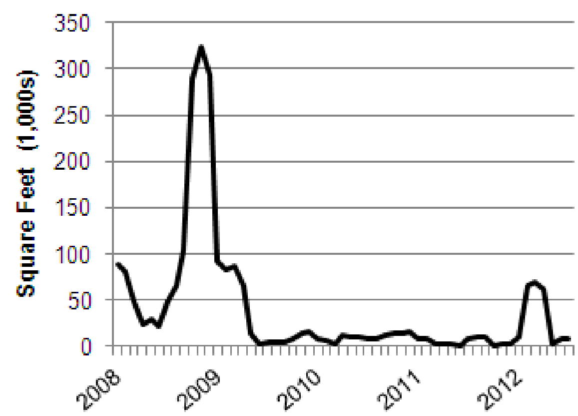
Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through June 2012; U.S. data through July.

Figure 47
Pueblo MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted Data



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

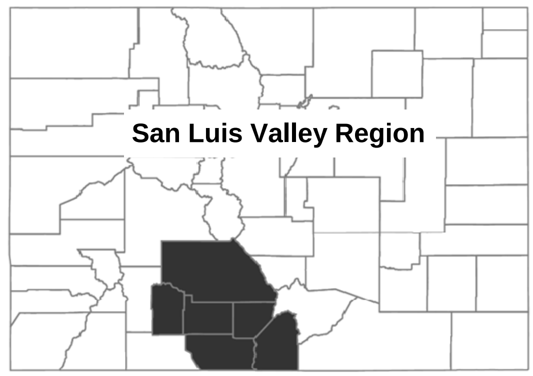
Figure 48
Pueblo Nonresidential Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



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

San Luis Valley Region

The drought in many agricultural states in the nation is also affecting Colorado's agricultural industry and economy in the six-county San Luis Valley region. Recent data by the USDA shows that more than half of the U.S. counties had been designated as disaster areas in 2012, mainly due to the drought. All of the counties in this region are designated as disaster areas, where 65 percent of farms are experiencing drought. The region's economy continued to grow slowly during the first half of 2012, but the drought will impact crop prices, livestock production, and soon affect food prices at the retail level.



Nonfarm employment posted modest growth through the first half of 2012 following decreases in 2011 and 2010. Due to the reliance on agriculture-based industries, the region experiences different economic trends than more urban areas of the state. Consumer spending in the region is showing slow growth. Nonresidential construction grew modestly in 2011 but declined through the first seven months of 2012. Residential housing is posting some gains as new building permits are on the rise. Table 21 shows economic indicators for the region.

Table 21
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-2.8%	4.7%	-2.0%	-0.8%	2.1%
Unemployment Rate /1 (2012 Figure is July Only)	6.0%	7.6%	8.7%	8.6%	10.0%
Statewide Crop Price Changes /2					
Barley (U.S. average for all)	49.6%	-15.5%	26.6%	40.9%	26.6%
Alfalfa Hay (baled)	18.0%	-20.7%	23.7%	84.6%	23.7%
Potatoes	21.0%	-46.6%	-52.6%	-16.9%	-52.6%
SLV Potato (Inventory CWT) /2	4.4%	5.0%	23.7%	4.0%	23.7%
Housing Permit Growth /3	-6.2%	-31.7%	14.0%	-8.5%	38.9%
Growth in Value of Nonresidential Construction /3					
Value of Projects	-62.9%	430.9%	-55.4%	83.1%	-80.8%
Square Footage of Projects	12.4%	-96.3%	10964.7%	-31.1%	55.3%
Level (1,000s)	46	2	189	130	202
Number of Projects	14.3%	0.0%	62.5%	-23.1%	0.0%
Level	8	8	13	10	10
Retail Trade Sales Growth /4	3.4%	-1.6%	3.7%	5.9%	3.2%

NA = Not Available.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

2/ National Agricultural Statistics Service. 2012 crop price changes compares August 1, 2012 to August 1, 2011. SLV Potato (production CWT) for commercial storage facilities in the San Luis Valley as of July 1, 2011.

3/ F.W. Dodge. Data through July 2012. Prior forecasts only used data for Alamosa County.

4/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

The region's employment grew 2.1 percent through July after falling in 2011 and 2010. Along with moderate job growth there were more workers returning to the workforce, driving the ranks of the unemployed higher than in prior years. As shown in Figure 49, the unemployment rate was 10.0 percent in July, higher than the statewide rate of 8.3 percent. It is important to note that labor market data for rural areas can contain meaningful error and are frequently revised significantly.

Figure 50 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. Consumer spending in the San Luis Valley grew 3.2 percent in June. Spending in the region increased 5.9 percent in 2011 and 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 2012, the value of nonresidential construction fell 80.8 percent through the first seven months of 2012. Meanwhile, the residential housing industry has begun to improve from very low levels as the number of permits filed for new homes increased 38.9 percent through July 2012.

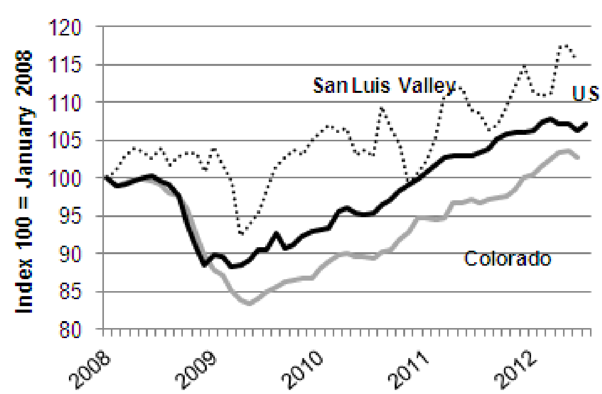
The agricultural industry in the region is showing some gains despite the national and state drought. The average farmland real estate value, a measure of value for all land and buildings on farms, grew to $1,170 per acre in Colorado in 2012, up 6.4 percent from 2011. The average value for cropland was $1,450 per acre, up 8.2 percent over 2011 values. The average value of pasture lands was unchanged in 2012 over 2011, valued at $640 per acre.

High crop prices continue to fuel economic growth in the region, primarily due to ongoing global demand and the drought. In August, wheat prices rose 11.9 percent to $8.02 per bushel while corn prices reached 7.75 per bushel, a 9.8 percent gain over the prior year. Barley and Alfalfa Hay prices rose 11.6 percent and 30.6 percent, respectively, while prices for potatoes were down 48.7 percent.

Figure 49
San Luis Valley Region
Unemployment Rate and Labor Force
Seasonally Adjusted

Source: U.S. Bureau of Labor Statistics; LAUS. Data through July 2012.

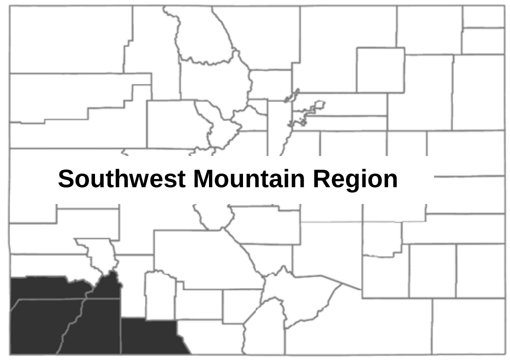
Figure 50
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through June 2012. U.S. data through July 2012.

Southwest Mountain Region

The southwest mountain region continues to show signs of economic growth, despite continued declines in residential housing permits. Employment growth, consumer spending and nonresidential construction permits all improved through the first half of 2012. The residential construction market, however, continues to struggle and is expected to be a drag on this region in the future. Table 22 shows economic indicators for the region.



As shown in Figure 51, nonfarm employment grew 0.7 percent in the first seven months of 2012 despite a dip during in the second quarter. This decline is likely caused by inaccurate seasonal adjustment factors used by the Bureau of Labor Statistics that did not adequately deal with the warmer-than-typical winter. It is highly likely that the pattern for employment growth during the first seven months will be smoothed out when revised figures are released.

Figure 52 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. Through June 2012 retail trade increased 5.9 percent. While this is slightly slower than last year, it still remains one of the highest growth rates in the state.

Table 22

Southwest Mountain Region Economic Indicators

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

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-1.1%	-2.9%	-3.2%	0.2%	0.7%
Unemployment Rate /1	4.3%	7.1%	8.3%	7.2%	7.5%
(2012 Figure is July Only)					
Housing Permit Growth /2	-44.8%	-23.7%	38.0%	-29.5%	-1.3%
Growth in Value of Nonresidential Construction /2					
Value of Projects	-82.8%	83.8%	-46.8%	-52.1%	2.0%
Square Footage of Projects	-71.0%	-11.6%	-60.5%	30.8%	880.9%
Level (1,000s)	217	192	76	99	69
Number of Projects	0.0%	-12.0%	0.0%	-36.4%	0.0%
Level	25	22	22	14	6
Retail Trade Sales Growth /3	-0.7%	-13.9%	1.6%	9.1%	5.9%

NA = Not Available.

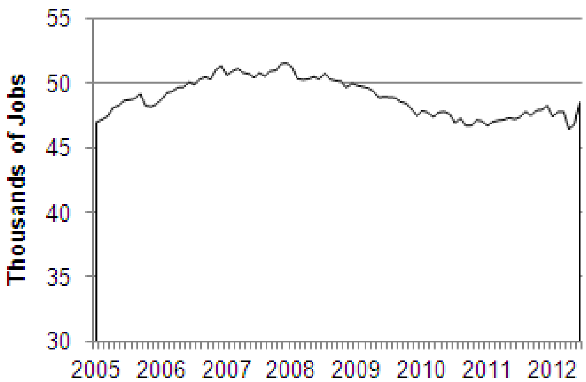
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

2/ F.W. Dodge. Data through July 2012. Prior forecasts only had data for La Plata County only.

3/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

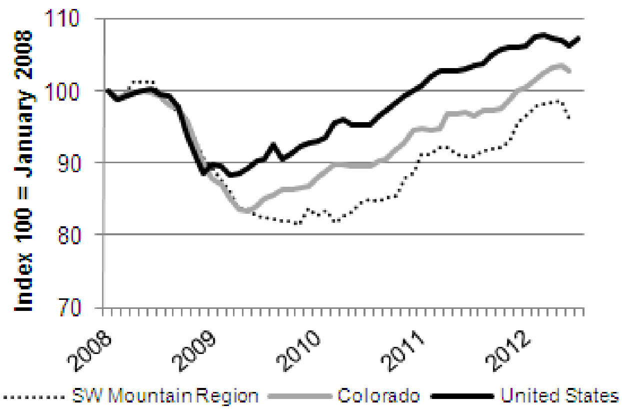
Nonresidential construction is showing signs of stabilizing as the value of permits has grown 2.0 percent year-to-date through July. The square footage has also risen substantially, indicating that larger projects are under way in the area. Figure 53 shows that residential construction is still struggling in the southwest mountain region. Residential housing permits continue to fall, decreasing 1.3 percent through June. This will continue to be a drag on the region going forward.

Figure 51
Southwest Mountain Region Nonfarm Employment
Seasonally Adjusted



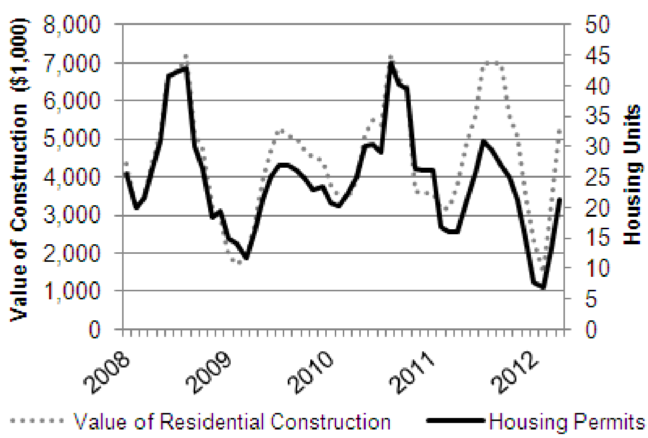
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through July 2012.

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 June 2012.; U.S. data through July.

Figure 53
Southwest Mountain Residential Building Permits
At Historically Low Levels
Three-Month Moving Average; Non Seasonally Adjusted Data



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

Western Region

The western region continued to grow through the first half of 2012, although growth is still slow by historic standards. Employment has rebounded and is steadily climbing after being flat in 2011. Consumer spending continues to grow, although at a slower rate and the value of nonresidential construction have both showed gains. Table 23 shows economic indicators for the region.

The region's job market continues to post new jobs after seeing no growth in 2011. As shown in Figure 54, employment in the Grand Junction metropolitan area is up 3.4 percent year-to-date through July 2012 and the region as a whole is up 2.2 percent. These changes are an improvement compared to the last three years. The unemployment rate however, rose from an average of 8.4 percent in 2011 to 8.6 percent by July 2012. This rise was caused by people returning to the labor force in hopes of finding work and is a positive sign of future growth. Figure 55 shows the relationship between the labor force and the unemployment rate in the Western Region.

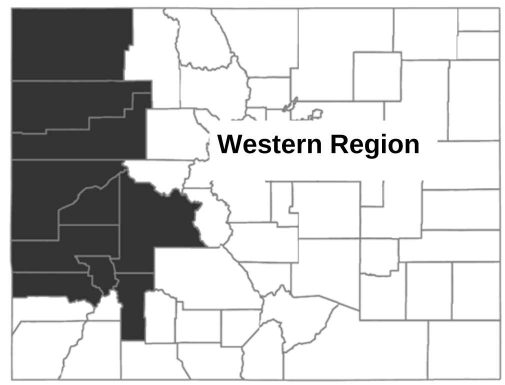


Table 23

Western Region Economic Indicators

Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth					
Western Region /1	2.1%	-5.6%	-5.4%	0.0%	2.2%
Grand Junction MSA /2	4.8%	-6.6%	-4.5%	1.0%	3.4%
Unemployment Rate /1	3.8%	8.4%	10.1%	8.4%	8.6%
(2012 Figure is July Only)					
Housing Permit Growth /3	-36.6%	-51.1%	0.5%	-19.6%	0.7%
Growth in Value of Nonresidential Construction /3					
Value Projects	-27.4%	-17.6%	17.9%	-59.7%	-11.8%
Square Footage of Projects	-9.8%	-38.9%	28.4%	-59.2%	5.1%
Level (1,000s)	1,693	1,035	1,329	542	376
Number of Projects	23.1%	-6.7%	-30.9%	-31.3%	12.1%
Level	149	139	96	66	37
Retail Trade Sales Growth /4	1.2%	-19.1%	1.8%	8.8%	3.9%

MSA = Metropolitan statistical area. NA = Not Available.

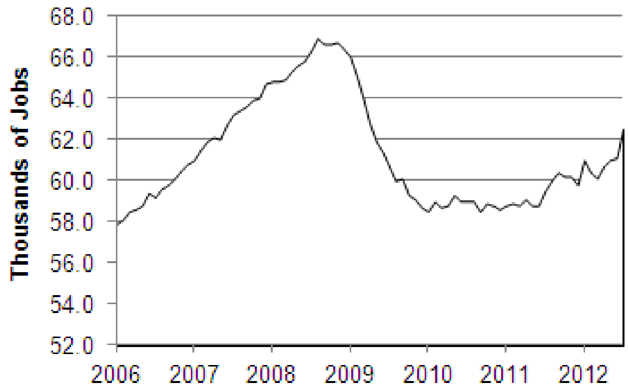
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through July 2012.

4/ F.W. Dodge. Data through July 2012. Prior forecasts had data for Mesa and Montrose Counties only.

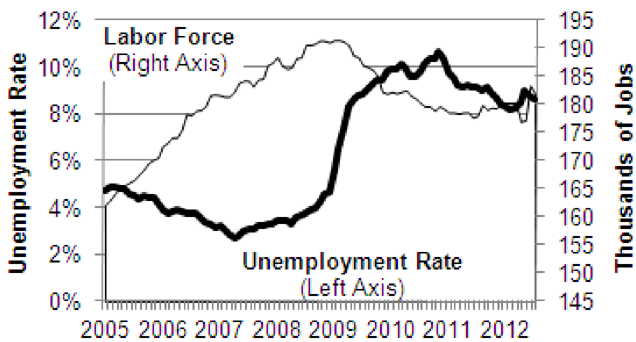
5/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

Figure 54
Grand Junction Nonfarm Employment
Seasonally Adjusted



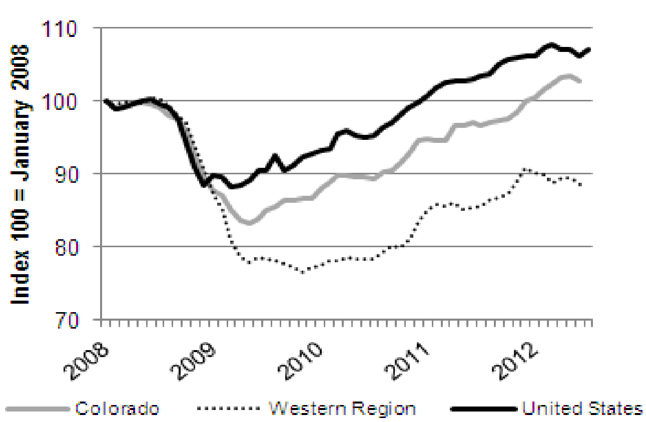
Source: U.S. Bureau of Labor Statistics; CES. Data through July 2012.

Figure 55
Western Region Unemployment Rate and Labor Force
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS. Data through July 2012.

Figure 56
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



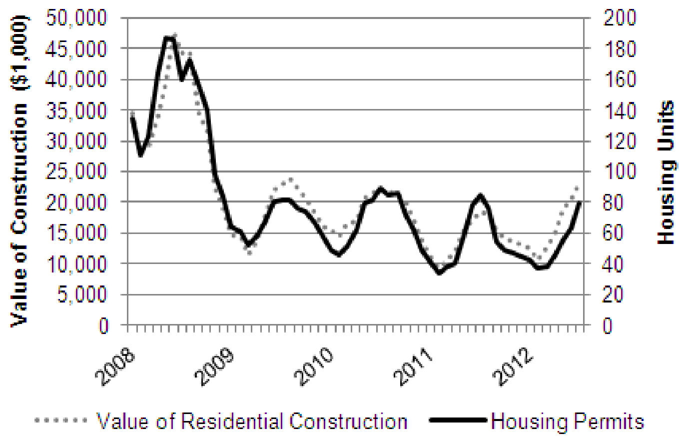
Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through January 2012 and U.S. data through April 2012.

Figure 56 indexes consumer spending, as measured by retail trade, in the region to that in the state and nation. Sales in the western region increased at a robust pace of 8.8 percent in 2011. Sales in 2012 have steadily declined since the beginning of this year but still show positive growth of 3.9 percent compared with the same period last year.

The region's residential housing market is seeing some building activity as housing permits rose 0.7 percent year-to-date through July, compared with the first seven months of 2011. Nonresidential construction has been mixed as the value of permits has fallen 11.8 percent through July compared with the same time period last year. However, square footage has risen 5.1 percent and the number of projects has increased 12.1 percent. Figure 57 shows that nonresidential construction is gaining strength in the western region.

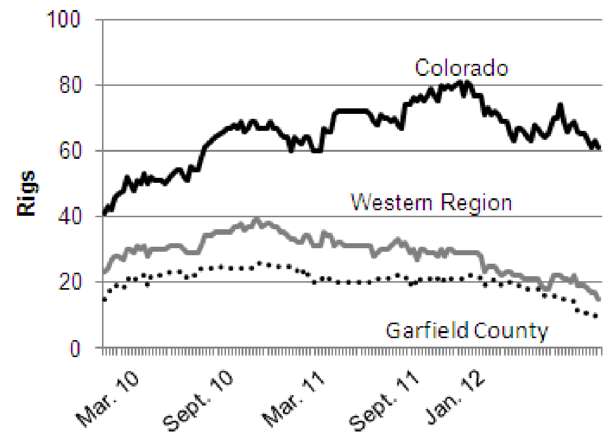
Figure 58 shows the Western regions operating rig count. Lower natural gas prices have continued to keep rig counts down across the region and the state. Through the first 7 months of 2012, the number of rigs operating in the region declined to 18 from a high of 35 in March 2011.

Figure 57
Western Regional Residential Building Permits At Historically Low Levels
Three-Month Moving average; Non Seasonally Adjusted Data



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

Figure 58
Colorado and Western Region Operating Rig Count
Weekly Data



Source: Baker Hughes. Data through August 24, 2012.

Mountain Region

Economic conditions in the mountain region appear to have deteriorated over the last several months. Published data suggests that regional employment fell sharply in the second quarter, resulting in a jump in the unemployment rate. Consumer spending has largely leveled off and is still lagging well below the rest of the state. Growth in residential construction has remained strong amidst a slowing in nonresidential construction. Table 24 shows economic indicators for the region.

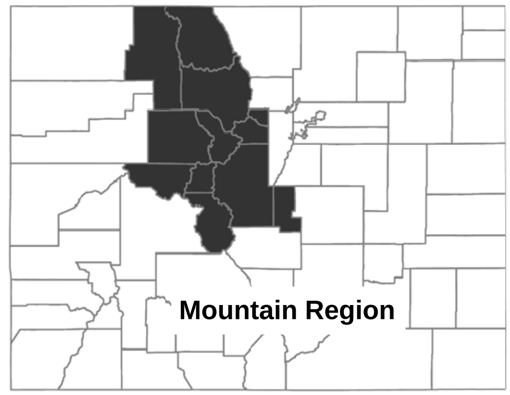


Figure 59 shows a loss of around 8,000 jobs during the second quarter of this year. The mountain region's job market was down compared with last year as the exceptionally warm winter impacted ski season and the wildfires limited summer tourism. These numbers, however, are most likely exaggerated by the seasonal adjustment factors used by the Bureau of Labor Statistics and upward revisions should be expected.

Consumer spending growth, as measured by retail trade sales, has been flat so far in 2012, growing only 0.4 percent over the same period last year. Figure 60 indexes the region's retail sales growth with the state as a whole and the nation; the mountain region has been largely flat over the last two years and continues to fall behind growth in the state and the nation.

Table 24
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-0.3%	-5.8%	-3.6%	0.5%	-0.9%
Unemployment Rate /1 (2012 Figure is July Only)	4.0%	7.5%	9.0%	7.4%	7.8%
Housing Permit Growth /2	-18.4%	-49.2%	-17.6%	2.9%	13.3%
Growth in Value of Nonresidential Construction /2					
Value of Projects	-27.5%	-73.4%	33.0%	196.2%	-66.1%
Square Footage of Projects	-53.7%	-83.1%	76.2%	169.0%	-44.4%
Level (1,000s)	972	164	290	779	232
Number of Projects	-34.3%	-23.1%	0.0%	-12.0%	4.5%
Level	65	50	50	44	23
Retail Trade Sales Growth /3	-1.5%	-16.3%	4.9%	7.5%	0.4%

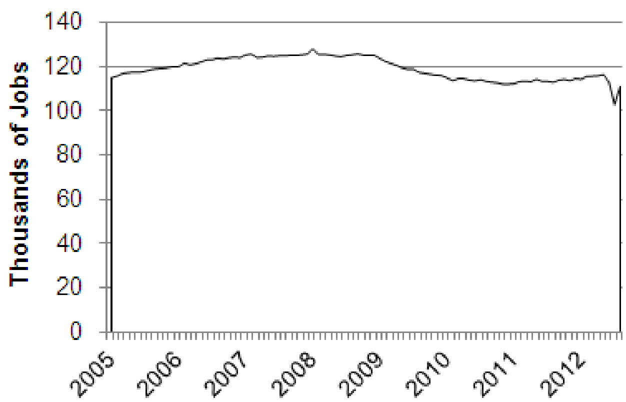
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

2/ F.W. Dodge. Data through July 2012. Prior forecasts reported Eagle, Pitkin & Summit Counties and Routt County separately.

3/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

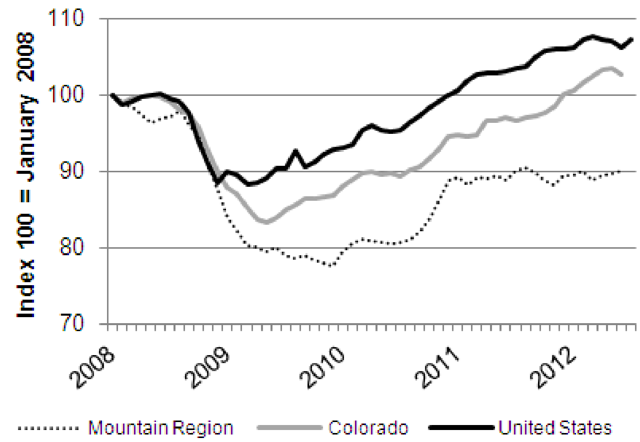
The regions construction market is still showing some signs of strength. As shown in Figure 61, the residential construction market continues to grow, posting a strong growth rate of 13.3 percent this year in residential building permits compared with the same time last year. Anecdotal evidence, however, suggests that the cost to build a home has fallen sufficiently in some parts of the region, particularly Summit county, that many home buyers are choosing to build a new home rather than buy an existing home. Meanwhile, values for existing real estate remain low by historical standards. Figure 62 shows that nonresidential construction growth fell compared with last year; however, this is due to very high levels in the previous year.

Figure 59
Mountain Region Nonfarm Employment
Seasonally Adjusted



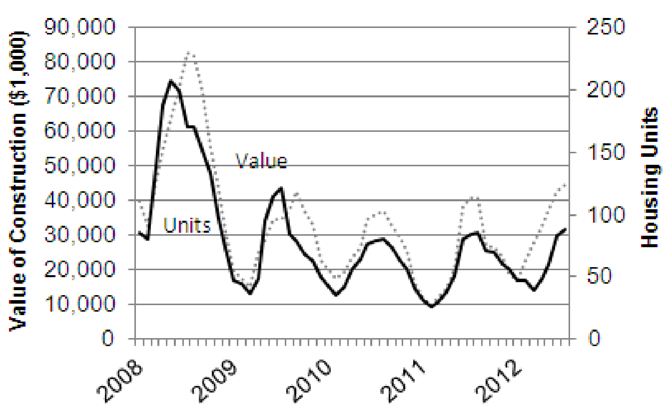
Source: U.S. Bureau of Labor Statistics; LAUS..
Data through July 2012.

Figure 60
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



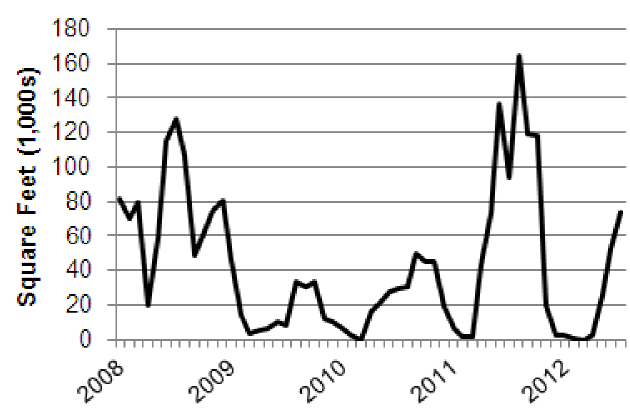
Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through June 2012; U.S. data through July.

Figure 61
Mountain Region Residential Building Permits
Three-Month Moving Average; Non Seasonally Adjusted Data



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

Figure 62
Mountain Region Non Residential
Building Permits: Square Feet
Three-Month Moving Average; Non Seasonally Adjusted Data



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

Eastern Region

The U.S. drought in many agricultural states in the nation is also affecting Colorado's agricultural industry and economy in the Eastern region. All of the counties in the region have been recently designated as disaster areas in 2012, mainly due to the drought. The drought will impact crop prices and livestock production as there are many beef cattle ranches in the region that have had to sell off livestock due to the higher commodity prices for feed and other expenses. Job growth in the region is posting strong gains and the unemployment rate is much lower than the statewide average. Consumer spending is growing at a pace slightly slower than the statewide rate. Table 25 shows economic indicators for the region.

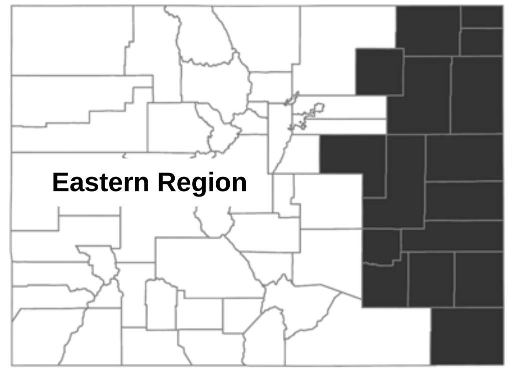


Table 25
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-3.6%	5.3%	-3.6%	2.6%	4.6%
Unemployment Rate /1 (2012 Figure is July Only)	4.3%	6.0%	6.7%	5.8%	6.3%
Crop Price Changes /2					
Wheat	10.1%	-32.5%	7.1%	-1.3%	11.9%
Corn	4.5%	-10.9%	9.8%	25.8%	9.8%
Alfalfa Hay (Baled)	18.0%	-20.7%	23.7%	84.6%	23.7%
Dry Beans	14.7%	-9.5%	70.2%	76.7%	70.2%
State Crop Production Growth /3					
Sorghum production	-18.9%	50.0%	4.5%	-17.0%	4.5%
Corn	-6.8%	9.5%	-5.3%	-11.3%	-5.3%
Winter Wheat	-37.8%	71.9%	3.2%	-26.2%	3.2%
Sugar Beets	-0.9%	27.0%	6.1%	-2.3%	6.1%
State Cattle and Calf Inventory Growth /4	1.9%	-5.5%	-3.1%	4.0%	-3.1%
Retail Trade Sales Growth /5	6.2%	-12.5%	9.9%	13.7%	6.1%

NA = Not Available.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through July 2012.

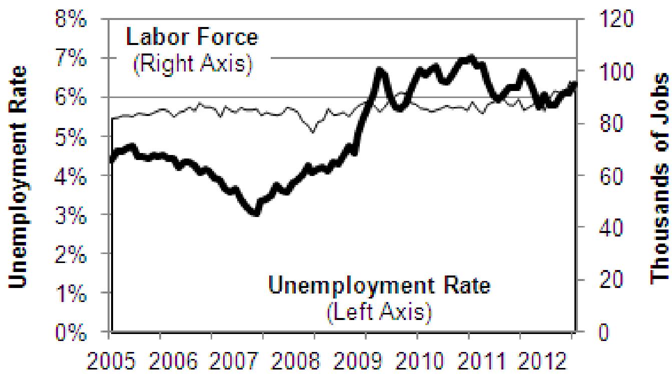
2/ National Agricultural Statistics Service. Price changes reflect August 2012 over prior year. For Dry Beans, price changes reflect April 2012 over prior year, the latest price data available.

3/ National Agricultural Statistics Service. Estimates for state crop production are year over year for annual figures. 2012 estimates are for acres planted rather than production quota and compares acres planted in 2012 to the prior year.

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

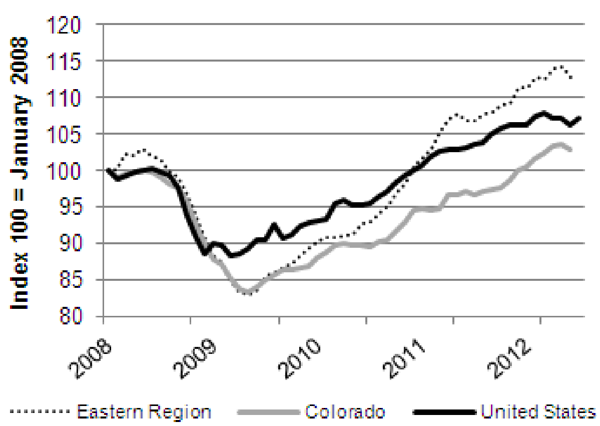
4/ Colorado Department of Revenue. Seasonally adjusted. Data through June 2012.

Figure 63
Eastern Region
Unemployment Rate and Labor Force
Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics; LAUS.
Data through July 2012.

Figure 64
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 June 2012. U.S. data through July 2012.

Employment in the eastern region grew at a robust 4.6 percent through July 2012 after growing 2.6 percent in 2011. Job growth in the eastern region is outpacing most other areas of the state. It is likely that the agricultural industry contributed positively to job growth during the year. As shown in Figure 63, the region's unemployment rate was 6.3 percent in July, lower than the statewide rate of 8.3 percent. It is important to note that labor market data for rural areas can contain meaningful error and are frequently revised significantly.

The ongoing drought in the state is driving crop prices upward. Commodity prices for mid-August averaged higher than the prior-month and prior-year period for both wheat and corn. Wheat rose to $8.02 per bushel, up 4.4 percent from the prior month, and 11.9 percent over the prior-year period. Corn prices in August advanced to $7.75 per bushel, up 9.8 percent over the prior-year period. Alfalfa hay prices were unchanged in August at $235 per ton from the prior month, but up 23.7 percent over August 2011. The drought is also causing some beef cattle ranches to sell off livestock that are too expensive to feed. Cattle inventory fell 3.1 percent in August 2012 from the prior year period.

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 and 2011. Figure 64 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 2012, with a 6.1 percent increase, 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 percent change	$8,332.4 6.3%	$8,793.5 5.5%	$9,353.5 6.4%	$9,951.5 6.4%	$10,286.2 3.4%	$10,642.3 3.5%	$11,142.2 4.7%	$11,853.3 6.4%	$12,623.0 6.5%	$13,377.2 6.0%	$14,028.7 4.9%	$14,291.5 1.9%	$13,973.7 -2.2%	$14,498.9 3.8%	$15,075.7 4.0%
Real Gross Domestic Product (inflation-adjusted, chained to 2005) percent change	$9,845.9 4.5%	$10,274.7 4.4%	$10,770.7 4.8%	$11,216.4 4.1%	$11,337.5 1.1%	$11,543.1 1.8%	$11,836.4 2.5%	$12,246.9 3.5%	$12,623.0 3.1%	$12,958.5 2.7%	$13,206.4 1.9%	$13,161.9 -0.3%	$12,757.9 -3.1%	$13,063.0 2.4%	$13,299.1 1.8%
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 percent change	$7,000.7 6.2%	$7,525.4 7.5%	$7,910.8 5.1%	$8,559.4 8.2%	$8,883.3 3.8%	$9,060.1 2.0%	$9,378.1 3.5%	$9,937.2 6.0%	$10,485.9 5.5%	$11,268.1 7.5%	$11,912.3 5.7%	$12,460.2 4.6%	$11,867.0 -4.8%	$12,321.9 3.8%	$12,947.3 5.1%
Wage and Salary Income percent change	$3,876.6 7.2%	$4,181.6 7.9%	$4,460.0 6.7%	$4,827.7 8.2%	$4,952.2 2.6%	$4,997.3 0.9%	$5,139.6 2.8%	$5,425.7 5.6%	$5,701.0 5.1%	$6,068.9 6.5%	$6,421.7 5.8%	$6,550.9 2.0%	$6,270.3 -4.3%	$6,408.2 2.2%	$6,668.2 4.1%
Nonfarm Employment (millions) percent change	122.8 2.6%	125.9 2.6%	129.0 2.4%	131.8 2.2%	131.8 0.0%	130.3 -1.1%	130.0 -0.3%	131.4 1.1%	133.7 1.7%	136.1 1.8%	137.6 1.1%	136.8 -0.6%	130.8 -4.4%	129.9 -0.7%	131.4 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	2,221.9	2,258.2
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%	1.6%
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	$225,591
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%	5.8%
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	$44,088
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%	4.4%
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	$119,655
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%	4.6%
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	$75,548
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%	6.8%
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	5,047.7	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%	1.4%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and F.W. Dodge. 2010 and 2011 nonfarm employment figures are rebenchmarked figures based on Legislative Council Staff analysis.
NA = Not Available.