Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff
Economics Section

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Photograph shows a cross-country ski trail near Ashcroft, Colorado (near Aspen), courtesy of Josh Abram, Legislative Council Staff.

Highlights

- Colorado's economy outperformed the national economy in 2012 and appears ready to expand at an even healthier pace in 2013. Employment, income, and consumer spending are expanding steadily and the housing market is improving. However, uncertainty about a weak international economy and federal fiscal policy is preventing a stronger recovery. Economic growth is expected to lose momentum in early 2013, before expanding at a more moderate rate later in the year.
- The General Fund ended **FY 2011-12** with a surplus of $514.7 million.
- In **FY 2012-13**, the General Fund is expected to add an additional $270.1 million to this surplus, ending the year with a surplus of $784.8 million. If budget supplementals spend some of this money, the surplus will be reduced correspondingly. This money will be transferred to the State Education Fund pursuant to House Bill 12-1388.
- The General Assembly will have $766.8 million, or 9.9 percent, more to spend in the General Fund during **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 increases and transfers authorized by **Senate Bill 09-228** are not expected to occur during the forecast period.
- **School districts** statewide will experience a 2.3 percent increase in property tax assessed values and a 1.2 increase in student FTE enrollment during the 2013-14 school year.
- The adult incarcerated **prison** population will decrease by 2,567 inmates and the **parole** population will increase by 251 parolees between 2012 and 2015.

EXECUTIVE SUMMARY

This report presents the budget outlook based on the December 2012 economic, General Fund revenue, and cash fund revenue forecasts. In addition, three forecasts related to the budget are presented. Forecasts for property assessed values and kindergarten through twelfth grade enrollment are presented to inform the budget for school finance. Forecasts for adult prison and parole populations and the Division of Youth Corrections population are presented to inform the budgets for the Department of Corrections and the Division of Youth Corrections in the Department of Human Services.

This outlook is based on **current Colorado law**. However, even as this forecast goes to press, the President and Congress are in the midst of negotiations over how to address a package of federal fiscal policies that, under current law, will take effect on January 1, 2013. This package, colloquially known as the "fiscal cliff," would significantly tighten federal fiscal policy through a combination of tax increases and spending cuts.

The *economic* forecast was prepared assuming there will be a federal deficit reduction deal reached sometime in the first quarter of 2013 and that the U.S. debt ceiling will be raised. However, because it is impossible to determine which tax provisions will expire and which will be extended, the *General Fund revenue* forecast has not been adjusted for changes in current federal tax law. For more information about these assumptions and the risks associated with them, please see pages 13 and 29.

General Fund Overview

Table 1 on page 4 presents the General Fund overview based on current law.

FY 2011-12. The FY 2011-12 General Fund budget ended the year with $514.7 million more than the amount budgeted to be spent, transferred, or retained in the reserve *(see line 22 of Table 1).* Pursuant to House Bill 12-1388, $59 million will be transferred to the State Education Fund (*see line 12 of Table 1*).

FY 2012-13. The FY 2012-13 General Fund budget is in balance. Assuming the $514.7 million surplus from FY 2011-12 is not spent but carried forward into FY 2013-14, revenue is expected to be $784.8 million higher than the amount budgeted to be spent or retained in reserve. Pursuant to House Bill 12-1388, the $784.8 million surplus will be transferred to the State Education Fund at the end of the fiscal year *(see line 12 of Table 1).* If budget supplementals spend some of this money, the transfer will be reduced correspondingly.

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

		FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
FUNDS AVAILABLE		**Actual**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$156.7	$795.8	$297.5	$1,064.3
2	General Fund Nonexempt Revenue	6,261.5	6,724.0	6,918.5	7,232.3
3	General Fund Exempt Revenue (Referendum C)	1,474.5	1,301.9	1,557.1	1,768.8
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**	**$8,030.7**	**$8,819.3**	**$8,773.7**	**$10,066.0**
7	Percent Change	8.8%	9.8%	-0.5%	14.7%
EXPENDITURES		**Actual**	**Budgeted**	**Estimate /A**	**Estimate /A**
8	General Fund Appropriations /A	7,027.9	7,438.1	7,438.1	7,438.1
9	Rebates and Expenditures *(Lines 28 of Table 6)*	133.0	138.2	142.7	147.4
10	Reimbursement for Senior and Disabled Veterans Property Tax Cut	1.8	99.2	106.2	113.3
11	Capital Construction Transfers	49.3	61.4	22.4	7.5
12	Transfers to the State Education Fund and State Public School Fund /B	59.0	784.8	0.0	0.0
13	Accounting Adjustments	(36.1)	NE	NE	NE
14	**Total Expenditures**	**$7,234.8**	**$8,521.8**	**$7,709.4**	**$7,706.2**
15	Percent Change	0.1%	17.8%	-9.5%	-0.04%

BUDGET SUMMARY		**Actual**	**Estimate**	**Estimate /A**	**Estimate /A**
16	**Amount Available for Expenditure** *(Line 6 minus Line 21)*	**7,749.6**	**8,521.8**	**8,476.2**	**9,768.5**
17	Dollar Change	524.8	772.2	(45.6)	1,292.3
18	Percent Change	7.3%	10.0%	-0.5%	15.2%

RESERVE		**Actual**	**Budgeted**	**Estimate /A**	**Estimate /A**
19	Year-End General Fund Reserve	795.8	297.5	1,064.3	2,359.8
20	Year-End Reserve As A Percent of Appropriations	11.3%	4.0%	14.3%	31.7%
21	Statutorily-Required Reserve	281.1	297.5	297.5	297.5
22	Reserve in Excess or (Deficit) of Statutory Reserve	$514.7	$0.0	$766.8	$2,062.3
23	*Percent Change in General Fund Appropriations*	*3.0%*	*5.8%*	*NE*	*NE*
24	Addendum: TABOR Reserve Requirement	308.2	316.5	332.7	349.7
25	Addendum: 5% of Colorado Personal Income Appropriations Limit	10,231.2	10,627.3	11,270.5	11,676.3
26	Addendum: Amount Directed to State Education Fund Per Amendment 23	407.5	425.1	451.9	474.0

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

/A Because the budgets 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) in FY 2013-14 and FY 2014-15. Therefore, line 22 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 Transfers pursuant to House Bill 12-1338.

The $784.8 million transfer to the State Education Fund is displayed as an expenditure from the General Fund in Table 1, even though the money actually has not been appropriated and will not have been spent at the time of transfer. Excluding this transfer in both FY 2011-12 and FY 2012-13, total General Fund expenditures increased 7.8 percent in FY 2012-13. General Fund operating appropriations, a subset of General Fund expenditures, are currently budgeted to increase 5.8 percent.

FY 2013-14. Revenue will be $766.8 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 in FY 2012-13 *(see line 22 of Table 1).* This amount is equal to 9.9 percent of total expenditures (excluding the State Education Fund transfer) 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 in FY 2012-13. Therefore, the $766.8 million figure would be lower if adjusted to account for expenditure pressures resulting from inflation and caseload growth. If General Fund operating appropriations were to increase 6.0 percent between FY 2012-13 and FY 2013-14, there would be $302.7 million available in excess of the statutorily required reserve.

FY 2014-15. Because no budget has yet been enacted for FYs 2013-14 and 2014-15, Table 1 shows operating appropriations in both years at the same level currently budgeted in FY 2012-13. Therefore, the General Fund budget is expected to have a little more than $2.0 billion over the next two years to absorb expenditure pressures from caseload growth and inflation in programs paid for with money from the General Fund, restore budget cuts made during the recession, fund infrastructure projects, provide tax relief, or fund other legislative priorities. If General Fund operating appropriations were to increase 6.0 percent in both FY 2013-14 and FY 2014-15, and none of the money in excess of these amounts is spent, there would be about $660 million available in excess of the statutorily required reserve in FY 2014-15.

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 $249.1 million.

Tax policies dependent on sufficient General Fund revenue. Several tax policies are only available when the Legislative Council Staff forecast indicates that General Fund revenue will be sufficient to allow General Fund appropriations to increase 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 forecast period in FY 2014-15. Table 2 on page 6 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:

- the child care contribution income tax credit;
- the historical property preservation income tax credit; and
- the 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 $136.3 million relative to the September forecast. The forecast for General Fund revenue subject to TABOR increased $111.3 million, while the cash fund forecast increased $25.0 million. The FY 2013-14 forecast for revenue subject to TABOR increased by just under $198 million, with the General Fund revenue forecast rising $176.4 million and the cash fund forecast rising $21.4 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 3.7 percent and 5.6 percent, respectively. These forecasts were both revised up from the September forecast, primarily because of upward revisions in employment and wage statistics and higher than expected revenue collections. The General Fund revenue forecast was not adjusted for tax policy changes in current federal law. For more information about these tax policy changes, please see pages 13 and 30.

- **Cash fund revenue** subject to TABOR increased 7.9 percent in FY 2011-12, totaling $2.55 billion. This revenue is expected to remain essentially flat overall in FY 2012-13; an increase in hospital provider fee and gaming tax revenue will offset a decrease in severance tax collections.

- 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 January 2013, and the solvency surcharge will no longer be levied.

- The state has retained a total of $5.84 billion since the passage of **Referendum C** in FYs 2005-06 through 2011-12. The state is expected to retain $1.3 billion in FY 2012-13. Table 3 presents the history and forecast for revenue retained by Referendum C.

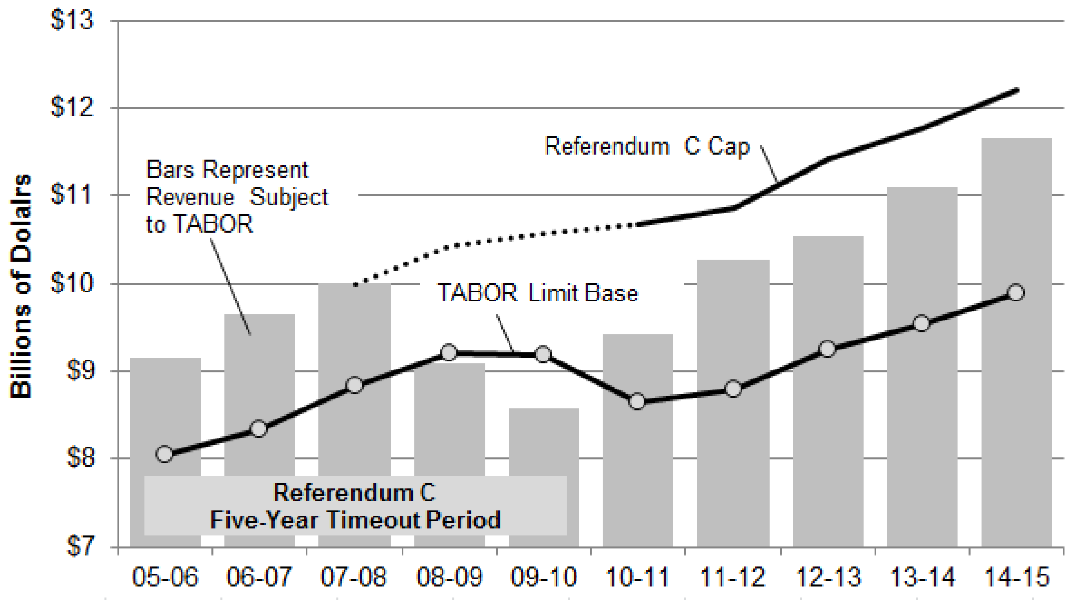
Table 3
History and Projections of Revenue Retained by Referendum C
(Dollars in Millions)

Actual	
FY 2005-06	$1,116.1
FY 2006-07	$1,308.0
FY 2007-08	$1,169.4
FY 2008-09	$0
FY 2009-10	$0
FY 2010-11	$770.6
Preliminary	
FY 2011-12	$1,474.5
Projections	
FY 2012-13	$1,301.9
FY 2013-14	$1,557.1
FY 2014-15	$1,768.8

- Figure 1 on page 8 shows TABOR revenue and the Referendum C cap through the end of the forecast period, which extends five years beyond the Referendum C timeout period. The Referendum C cap will equal $11.4 billion in FY 2012-13, and revenue subject to TABOR is expected to be $876.1 million 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, when revenue subject to TABOR is expected to be $559.8 million below the cap. Table 4 on page 11 shows estimates for TABOR revenue, the TABOR Limit/Referendum C Cap, and revenue retained as a result of Referendum C through FY 2014-15.

- 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.

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



Source: Colorado State Controller's Office and Legislative Council Staff.

National Economy

Many economic indicators were improving through the end of 2012. Gross Domestic Product accelerated between the second and third quarters of 2012, non-farm employment continued to grow, the unemployment rate fell, and the housing market began to rebound. Businesses and households have spent the last few years repairing their balance sheets and appear well-positioned to grow the economy once federal fiscal policy and the European debt crisis have been resolved.

Even with many positive indicators in the economy, there are signs that businesses are starting to preserve cash rather than making investments in software and machinery or hiring new employees. Households, thus far undeterred by these uncertainties, may follow suit if there is no graceful resolution to the country's fiscal policy uncertainties. In addition to domestic fiscal policy, the European Union has its own debt struggles and is in a recession.

The economic forecast for both the nation and Colorado was prepared assuming there will be a federal deficit reduction deal reached sometime in the first quarter of 2013 and that the U.S. debt ceiling will be raised. As long as Congress and the President continue to deliberate about these policies, the economy will grow at rates slower than potential. The nation's economy is expected to continue to grow through the first half of 2013, but at significantly slower rates as households and businesses react to the combined impact of tighter fiscal policy and increased economic uncertainty. Assuming Congress restores certainty to federal fiscal policies during the first quarter of 2013, the economy is expected to gain speed in the second half of the year and throughout 2014.

In addition to the assumptions about federal fiscal policy, this forecast assumes the European Union will remain intact and that European nations will be able to obtain financing from the European Central Bank and International Monetary Fund. The economy in the rest of the world will grow slowly as the European and American economies work through fiscal issues. Finally, the forecast assumes that the Federal Reserve will continue with expansionary monetary policy and interest rates will remain extremely low throughout the forecast period.

Colorado Economy

Colorado's economy outperformed the national economy with steady gains in 2012 and appears ready to expand at an even healthier pace in 2013. Nonfarm employment continues to post steady gains, personal income and wage and salaries are growing, Colorado's housing market is one of the most vibrant in the nation, and consumers are spending as their confidence grows. However, uncertainty from a weak international economy and unresolved federal fiscal policies continue to prevent a stronger recovery. Although consumers appear undeterred by these uncertainties, businesses have begun to scale back on their investments, manufacturing activity has slowed, and a weak international economy is putting downward pressure on investment growth in U.S. markets.

Both urban and rural areas of the state are growing. Colorado has one of the most resilient agricultural industries in the nation, and Colorado's farmers have weathered the drought better than those in many other parts of the nation. In addition, oil and natural gas production continues to bring economic vitality and growth to the economy in the northern part of the state.

Assessed Values

Total assessed values for all property classes increased 1.7 percent in 2012, reaching $89.4 billion. Values are expected to rise another 2.3 percent in the 2013 reassessment year to a total value of $91.4 billion. Recent gains resulting from the recovering economy will partially offset declines in assessed value resulting from the economic downturn. Moderately increasing residential values and growth in values for nonresidential property classes, most notably oil and gas properties in Weld County, will contribute to these gains. Values in 2014 are expected to increase 1.8 percent, reflecting modest amounts of new construction. The residential assessment rate is expected to remain at 7.96 percent through the forecast period.

Kindergarten through Twelfth Grade Enrollment

Enrollment in Colorado's kindergarten through twelfth grade public schools increased 1.2 percent during the current 2012-13 school year, or by 9,062 students. In the 2013-14 school year, K-12 enrollment is expected to increase 1.2 percent, or by 9,547 students. Enrollment in the following school year is expected to increase 1.3 percent, or by 10,389 students. The northern, metro Denver, and Colorado Springs regions will drive statewide enrollment growth through the forecast period. These regions have the largest student populations and growing job opportunities, which will attract families to those areas. Enrollment in other regions of the state is expected to remain flat or decrease throughout the forecast period.

Prison and Parole Populations

The **adult incarcerated prison population** is expected to decrease from 21,037 inmates in June 2012 to 18,470 inmates in June 2015, a decrease of 2,567 people. This represents an average annual rate of decline of 4.6 percent, or about 855 inmates per year. The **in-state parole population** is projected to increase from 8,445 inmates in June 2012 to 8,634 inmates in June 2015, rising at an annual average rate of 0.7 percent. The total number of parolees (those supervised in-state and out-of-state) is expected to increase from 10,511 people to 10,762 people during the three-year forecast period.

The **juvenile commitment population** is expected to decrease from an average daily population of 938 youths in FY 2011-12 to 851 youths in FY 2012-13. By FY 2014-15, the commitment population will fall to an average daily population of 792 juveniles, representing an average annual decrease of 2.5 percent. The **juvenile detention population** is expected decrease from an average daily population of 318 youths in FY 2011-12 to 312 youths in FY 2012-13, before rising to 336 youths two years later in FY 2014-15.

Table 4
December 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	$7,720.4	$7,996.8	$8,446.4	$8,971.8
2	Cash Funds	2,552.8	2,552.5	2,644.8	2,683.8
3	**Total TABOR Revenue**	**$10,273.2**	**$10,549.3**	**$11,091.2**	**$11,655.6**
	Revenue Limit				
4	Allowable TABOR Growth Rate	2.0%	5.1%	3.1%	3.7%
5	Inflation (from prior calendar year)	1.9%	3.7%	1.7%	2.1%
6	Population Growth (from prior calendar year) /B	0.1%	1.4%	1.4%	1.6%
7	TABOR Limit Base	$8,798.7	$9,247.4	$9,534.1	$9,886.8
8	Voter Approved Revenue Change (Referendum C)	$1,474.5	$1,301.9	$1,557.1	$1,768.8
9	Total TABOR Limit / Referendum C Cap	$10,870.9	$11,425.4	$11,779.6	$12,215.4
	Retained/Refunded Revenue				
10	Revenue Retained under Referendum C /C	$1,474.5	$1,301.9	$1,557.1	$1,768.8
11	**Total Available Revenue**	**$10,273.2**	**$10,549.3**	**$11,091.2**	**$11,655.6**
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 an estimated 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

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 6 on page 15 illustrates revenue collections for FY 2011-12 and projections for FY 2012-13 through FY 2014-15. The forecast for General Fund revenue excludes the impact of expiring tax provisions in federal law, which are described separately below.

In FY 2011-12, General Fund revenue increased 9.2 percent to just over $7.7 billion. This marked two consecutive years following the recession of revenue growth for the state's main source for general operating appropriations. General Fund revenue will increase 3.7 percent in FY 2012-13, the current year, to $8.0 billion, and exceed pre-recession levels. General Fund revenue will increase 5.6 percent and 6.2 percent in FY 2013-14 and FY 2014-15, respectively.

The Colorado economy experienced steady growth in 2012. Employment and wage statistics for the summer of 2011 were revised up since the September forecast was released, and revenue collections from the individual income and sales and use taxes continued to show moderate growth slightly above what had been expected in September through November. The forecast for General Fund revenue was increased $111.3 million, or 1.4 percent, for FY 2012-13. All major revenue categories contributed to the increase; the forecast for individual income taxes, sales and use taxes, and corporate income taxes were increased $69.9 million, $72.8 million, and $0.7 million, respectively. The forecast for General Fund revenue in FY 2013-14 was also revised upward from the September forecast by $176.4 million, or 2.1 percent.

Federal fiscal policy. Starting January 1, 2013, federal fiscal policy will tighten significantly due to a combination of tax increases and spending cuts if there is no change to current law. These federal policies include a number of provisions that would have a direct impact on Colorado General Fund revenue. Any policy that increases federal taxable income will also increase taxable income in Colorado, because Colorado taxable income is set equal to federal taxable income in state law (with a few exceptions). For example, the amount of money the federal government allows for itemized deductions and personal exemptions on the federal personal income tax will be reduced under current law for income tax year 2013, which raises federal taxable income. Because federal taxable income will increase, Colorado taxable income will also increase.

Any federal tax increase that reduces a federal tax credit or increases a federal tax rate will not have a *direct* impact on Colorado General Fund revenue. Both tax credits and tax rates are applied after federal taxable income has been determined and transferred to the Colorado income tax return.

Table 5 on page 14 shows Legislative Council Staff estimates of the *direct* revenue impact of federal tax provisions scheduled to expire on January 1, 2013 on Colorado General Fund revenue. The direct impact on General Fund revenue, including income and estate taxes, is estimated at an additional $373.5 million in FY 2012-13 (a half-year impact), $662.7 million in FY 2013-14, and $586.5 million in FY 2014-15. There is no direct impact of expiring

Table 5
Direct Impact of Federal Tax Provisions Scheduled to Expire in Tax Year 2013
On Colorado General Fund Revenue /a
(Millions of Dollars)

Category	FY 2012-13	FY 2013-14	FY 2014-15
Estate Tax (Federal Estate Tax Returns to Pre-2006 Form)	$45.0	$94.0	$98.2
Corporate Income Taxes			
Accelerated Expensing and Bonus Depreciation	55.3	134.6	148.8
All Other Corporate Income Tax Provisions	9.3	21.0	22.7
Subtotal: Corporate Income Taxes	**$64.6**	**$155.6**	**$171.6**
Individual Income Taxes			
Alternative Minimum Tax Not Indexed for Inflation	230.9	325.4	204.1
All Other Individual Income Tax Provisions	33.1	87.7	112.7
Subtotal: Individual Income Taxes	**$264.0**	**$413.1**	**$316.8**
Total	**$373.5**	**$662.7**	**$586.5**

Note: FY 2012-13 is a half-year impact.
Sources: Congressional Budget Office and Legislative Council Staff.

/a Because it is impossible to determine which tax provisions will expire and which will be extended, the December 2012 Legislative Council Staff General Fund revenue forecast has not been adjusted for these federal tax policy changes. These estimates represent the direct impact on General Fund revenue if all federal tax provisions set to expire in tax year 2013 are ultimately allowed to expire. While the direct impact increases General Fund revenue, the indirect impact of these tax increases on the economy will likely result in significantly slower economic growth and therefore lower General Fund revenue overall, even after adjusting for the direct revenue estimates above. The indirect impact of these tax provisions are not incorporated into these estimates.

For more detail about expiring tax provisions, please see page 30. Estimates are subject to change based on the receipt of new information.

federal tax policies on Colorado sales and use taxes. Because it is impossible to determine which tax provisions Congress will allow to expire rather than extend, *this revenue forecast was not adjusted to incorporate the impact of these federal policies on Colorado General Fund revenue*.

While the estimates in Table 5 represent the *direct* revenue impact of federal fiscal policies, they exclude the *indirect* impact of these tax provisions on the economy. Although the direct impact of these fiscal policies will increase Colorado General Fund revenue, the indirect impact would significantly slow the economy, resulting in a significant decrease in General Fund revenue overall. The combined direct and indirect impacts of current law federal fiscal policies have not been estimated. For more information about expiring tax provisions in current federal law, please see pages 29 and 30.

This forecast was prepared assuming that there will be a long term federal deficit reduction deal reached sometime in the first

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

	Category	Actual 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	$2,226.6	6.4	$2,319.8	4.2	**$2,416.0**	**4.1**
2	Use	200.6	5.6	225.2	12.2	237.5	5.5	**253.4**	**6.7**
3	Cigarette	39.5	0.5	39.0	-1.2	37.5	-4.0	**35.9**	**-4.2**
4	Tobacco Products	16.0	16.1	15.6	-3.0	16.1	3.6	**16.6**	**2.9**
5	Liquor	38.4	5.3	39.4	2.6	40.4	2.6	**42.2**	**4.6**
6	TOTAL EXCISE	$2,387.7	2.8	$2,545.7	6.6	$2,651.3	4.1	**$2,764.2**	**4.3**
7	Net Individual Income	$5,011.6	11.5	$5,125.8	2.3	$5,455.6	6.4	**$5,860.2**	**7.4**
8	Net Corporate Income	486.5	23.5	516.2	6.1	540.2	4.6	**557.3**	**3.2**
9	TOTAL INCOME TAXES	$5,498.1	12.4	$5,642.0	2.6	$5,995.7	6.3	**$6,417.5**	**7.0**
10	Less: Portion diverted to the SEF	-407.5	10.0	-425.1	4.3	-451.9	6.3	**-474.0**	**4.9**
11	INCOME TAXES TO GENERAL FUND	$5,090.6	12.6	$5,216.9	2.5	$5,543.9	6.3	**$5,943.4**	**7.2**
12	Estate	0.3	NA	0.0	NA	0.0	NA	**0.0**	**NA**
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	13.6	71.5	15.2	11.9	16.4	7.9	**17.3**	**6.0**
16	Court Receipts	2.6	-27.6	2.2	-15.0	2.0	-10.0	**1.8**	**-10.0**
17	Gaming	20.3	-0.5	20.4	0.0	20.5	0.3	**20.5**	**0.0**
18	Other Income	23.1	8.5	18.9	-18.3	19.5	3.3	**20.7**	**6.0**
19	TOTAL OTHER	$257.6	5.9	$263.3	2.2	$280.4	6.5	**$293.4**	**4.6**
	GROSS GENERAL FUND	**$7,736.0**	**9.2**	**$8,025.9**	**3.7**	**$8,475.6**	**5.6**	**$9,001.0**	**6.2**
	REBATES & EXPENDITURES:								
20	Cigarette Rebate	$11.2	1.9	$11.4	1.7	$11.0	-4.0	**$10.5**	**-4.2**
21	Old-Age Pension Fund	92.5	1.2	94.4	2.1	84.0	-11.0	**89.2**	**6.2**
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	9.2	14.8	8.0	-12.9	**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	0.7	-16.3	0.6	-10.8	1.7	179.9	**1.8**	**6.0**
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	$133.0	5.5	$138.2	4.0	$142.7	3.2	**$147.4**	**3.3**

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

quarter of 2013, and that the U.S. debt ceiling will be raised. If this occurs, most of the affected tax provisions will not alter any actual tax bills because the law will change before a tax return for calendar year 2013 is filed.

However, two fiscal cliff provisions will have an immediate impact on General Fund revenue if they are not reversed before January 1, 2013: the expiration of extended unemployment insurance benefits and the payroll tax cut, which reduced the employee's share of social security payroll taxes from 6.2 percent to 4.2 percent. Neither provision is incorporated into the estimates shown in Table 6. Instead, the expiration of these provisions was incorporated into expectations for growth in Colorado personal income, shown in Table 15 on page 58. The elimination of extended unemployment insurance benefits will dampen growth in transfer payments from the federal government to households, and expiration of the payroll tax cut will dampen growth in wages and salaries. Since expectations for personal income in Colorado were lower because of these provisions, expectations for General Fund revenue dependent on personal income, including individual income, sales, and use taxes, were likewise reduced.

Sales taxes. General Fund revenue from sales taxes increased 2.4 percent in FY 2011-12. On an accrual accounting basis, sales taxes are projected to increase 6.4 percent in FY 2012-13, due to moderate economic growth. In FY 2013-14, sales tax revenue is expected to increase 4.2 percent compared with the prior year.

Sales tax collections accelerated in the first part of FY 2012-13 despite the reinstatement of two exemptions. The exemption for industrial energy and for software, which were both suspended to raise general fund revenue in previous legislative sessions, were reinstated on July 1, 2012.

Retail trade growth has been strong in several regions of the state through August 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. In addition, after years of low interest rates, many homeowners have refinanced their mortgages to reduce their mortgage payments and paid off other debt. This has increased disposable income, which is being used to make retail purchases.

Compared to the September forecast, expected sales tax collections were increased by $72.8 million in FY 2012-13 and $101.8 million in FY 2013-14. This reflects accelerating sales tax collections so far this fiscal year, which are carried throughout the forecast period.

Use taxes. After strong growth in FY 2010-11, use tax revenue grew 5.6 percent in FY 2011-12. It is expected to increase at a moderate pace next year, growing 12.2 percent in FY 2012-13 and 5.5 percent in FY 2013-14. Compared with the September forecast, the outlook for use tax revenue is higher in FY 2012-13 and FY 2013-14, reflecting strong year-to-date use tax collections that are factored into future years.

Individual income taxes. Individual income tax collections increased for the second consecutive year in FY 2011-12. Total receipts were $5,011.6 billion, 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 2.3 percent in FY 2012-13, 6.4 percent in FY 2013-14, and 7.4 percent in FY 2014-15.

Compared to the September forecast, expectations for individual income tax revenue were increased $69.9 million, or 1.4 percent, for FY 2012-13. This is due to upward revisions in employment estimates from the Bureau of Labor Statistics and lower-than-expected refunds. The FY 2013-14 forecast for individual income tax receipts increased by $77.7 million, or 1.4 percent, compared with the September forecast.

Corporate income taxes. Corporate profits and income taxes increased in 2010 and 2011 due to cost cutting implemented by firms, a reduction in the cost of materials and labor, and favorable tax policies following the recession. In FY 2011-12, corporate income tax collections in Colorado continued to grow rapidly, increasing 23.5 percent. However, corporations across the nation are beginning to reduce their revenue expectations as the dollar strengthens and demand for goods and services abroad weakens. Additionally, corporations are scaling back in preparation for possible tax increases from the impending fiscal cliff. Corporate profits in Colorado are similarly expected to grow more slowly.

Colorado corporate income tax collections totaled $486.5 million in FY 2011-12. Corporate income tax revenue is expected to increase another 6.1 percent and 4.6 percent in FY 2012-13 and FY 2013-14, respectively. Revenue growth will be dampened beginning in FY 2013-14 by pent-up demand for two corporate income tax incentives that were capped during tax years 2011, 2012, and 2013: the enterprise zone three percent investment tax credit and the cap on net operating losses. Corporations were allowed to carry forward whatever portion of these incentives they were unable to claim in tax years 2011 through 2013 and begin claiming them in tax year 2014, subject to available tax liability.

State Education Fund. 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 $425.1 million in FY 2012-13 and $451.9.5 million in FY 2013-14.

Tax amnesty program. The tax amnesty program, enacted by Senate Bill 11-184, will result in the collection of additional income tax and sales tax revenue. Through November, 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 $175,000 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.

CASH FUND REVENUE

Table 7 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 is expected to remain essentially unchanged from FY 2011-12 at $2.55 billion in FY 2012-13. Decreases in severance tax collections, transportation-related funds, and capital construction-related funds are almost perfectly offset by projected gains in hospital provider fee revenue, gaming revenue, and other cash funds in FY 2012-13. Insurance-related and regulatory agencies cash funds are expected to remain essentially flat. Total cash fund revenue subject to TABOR will increase 3.6 percent to $2.64 billion in FY 2013-14, as severance tax revenue is projected to rebound due to increasing natural gas prices.

Revenue from ***transportation-related*** cash funds is expected to be $1,106 million in FY2012-13, 0.6 percent lower than the previous year. The decline is due to decreases in special fuels taxes and local grant revenue to the State Highway Fund. Revenue will grow at slow rates through the remainder of the forecast period. Forecasts for transportation-related cash funds are shown in Table 8 on page 21.

Total revenue to the *Highway Users Tax Fund* (HUTF) is expected to reach $960.8 million in FY 2012-13, an increase of 2.1 percent over the previous year, before increasing by 1.1 percent in both FY 2013-14 and FY 2014-15. The largest source of revenue to the HUTF is the excise tax on motor fuels and special fuels. Fuels revenue is expected to be $551.7 million in FY 2012-13. This is a slight decrease compared with the September 2012 forecast, as diesel fuel revenue declined more than was previous forecast. Total registrations, which includes motor vehicle registration fees, road safety surcharge revenue, and late registration fees, is forecast to bring in $330.3 million in FY 2012-13. Larger than expected gains in registrations slightly outpaced larger than expected declines in late registration fees, resulting in a slight increase in the forecast for this revenue. Finally, other HUTF receipts are expected to grow 38.0 percent to $78.8 million in FY 2012-13. This boost in revenue will be caused by the expiration of **House Bill 10-1387**, which extended a diversion of $22.6 million to the Licensing Services Cash Fund, originally authorized by Senate Bill 09-274. This fund is captured in Table 8 in the "registration-related" funds under "other Transportation Funds."

The *State Highway Fund (SHF)* is expected to bring in $50.5 million in FY 2012-13, which constitutes a drop of 10.0 percent compared with the previous year. SHF revenue subject to TABOR can be volatile because the majority is derived from funds paid by local governments for transportation projects and interest paid on the fund's balance. So far this year, low interest rates and sluggish economic conditions have caused the fund balance to fall. Revenue subject to TABOR to the SHF is expected to increase by 2.0 percent in FY 2013-14 and 3.0 percent in FY2014-15.

Table 7
December 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**	**$1,106.0**	**$1,120.7**	**$1,135.8**	
% Change	2.7%	-0.6%	1.3%	0.0%	**0.7%**
Hospital Provider Fee	**$586.5**	**$661.9**	**$642.8**	**$602.8**	
% Change	32.5%	12.8%	-2.9%	-6.2%	**0.9%**
Severance Tax	**$207.7**	**$122.4**	**$180.5**	**$215.0**	
% Change	39.0%	-41.0%	47.4%	19.1%	**1.2%**
Gaming Revenue /A	**$95.6**	**$101.8**	**$105.3**	**$108.5**	
% Change	-2.4%	6.5%	3.5%	3.0%	**4.3%**
Insurance-Related	**$22.6**	**$24.0**	**$25.2**	**$26.4**	
% Change	-14.6%	6.0%	4.9%	5.0%	**5.3%**
Regulatory Agencies	**$64.9**	**$66.1**	**$67.1**	**$68.2**	
% Change	-6.7%	1.8%	1.6%	1.6%	**1.7%**
Capital Construction Related - Interest /B	**$1.1**	**$0.8**	**$0.6**	**$0.3**	
% Change	-62.8%	-28.3%	-24.2%	-42.7%	**-32.2%**
Other Cash Funds	**$462.1**	**$469.5**	**$502.5**	**$526.6**	
% Change	-6.5%	1.6%	7.0%	4.8%	**4.5%**
Total Cash Fund Revenue	**$2,552.8**	**$2,552.5**	**$2,644.8**	**$2,683.8**	
Subject to the TABOR Limit	7.9%	0.0%	3.6%	1.5%	**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 8
Transportation Funds Revenue Forecast by Source, December 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	$551.7	$558.8	$565.5	0.5%
% Change	0.0%	-1.0%	1.3%	1.2%	
Total Registrations	$326.7	$330.3	$334.4	$338.6	1.2%
% Change	1.4%	1.1%	1.2%	1.3%	
Registrations	*$193.2*	*$197.0*	*$200.5*	*$203.5*	
Road Safety Surcharge	*$115.7*	*$116.9*	*$118.0*	*$119.2*	
Late Registration Fees	*$17.8*	*$16.4*	*$15.9*	*$15.9*	
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**	**$960.8**	**$971.1**	**$981.8**	1.4%
% Change	0.4%	2.1%	1.1%	1.1%	
State Highway Fund	$56.1	$50.5	$51.5	$53.0	-1.8%
% Change	31.6%	-10.0%	2.0%	3.0%	
Other Transportation Funds	$114.6	$94.7	$98.1	$101.0	-4.1%
% Change	11.0%	-17.3%	3.5%	3.0%	
Aviation Fund /B	*$41.0*	*$41.9*	*$44.5*	*$46.3*	
Law-Enforcement-Related /C	*$10.9*	*$11.0*	*$11.2*	*$11.4*	
Registration-Related /D	*$62.6*	*$41.8*	*$42.4*	*$43.3*	
Total Transportation Funds	**$1,112.2**	**$1,106.0**	**$1,120.7**	**$1,135.8**	0.7%
% Change	2.7%	-0.6%	1.3%	1.4%	

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, keeping federal highway spending at current levels through 2014. The measure relies on a withdrawal of $20 billion from the U.S. Treasury. There is concern about keeping the U.S. Highway Trust Fund solvent in the future. Future federal transportation funding will affect the *State Highway Fund* as the revenue to the fund comes from interest earnings on the fund balance, which is partially comprised of federal funds.

Revenue from *other transportation revenue* is expected to be $94.7 million in FY 2012-13. This revenue is expected to decline 17.3 percent from the expiration of the diversion authorized by House Bill 10-1387, discussed above.

The Bridge Safety Surcharge grew an additional 33 percent to the full fee level authorized by Senate Bill 09-108 in FY 2011-12. Revenue from the fee is TABOR exempt (see Addendum to Table 8).

The **Hospital Provider Fee** is expected to generate $661.9 million in FY 2012-13 before declining to $642.8 million in FY 2013-14 and $602.8 million in FY 2014-15. This is an increase in expectations compared with the September forecast of $18.4 million for FY 2012-13.

Beginning January 2014, children receiving Medicaid and childless adults will receive 100 percent matches by the Enhanced Federal Medicaid Assistance program. Assistance to childless adults, however, will not occur immediately due to current restrictions on hospital resources. Instead, in FY 2011-12, childless adults will receive 10 percent assistance with medical expenses with a cap of 10,000 people. This program will be expanded in future years, although no current timetable has been set. The forecast also includes a $25 million transfer for FY 2012-13 authorized by SB11-212.

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.

Total **severance tax** revenue, including interest earnings, is projected to be $122.4 million in FY 2012-13, an upward revision of 24.2 percent from the September forecast. The revision is primarily due to stronger than expected collections through November. Projected oil and natural gas collections for FY 2012-13 were increased $22.2 million from the September forecast, based both on year-to-date collections through November and continued upward trends in natural gas prices through the fall. Projected coal receipts dropped slightly, while projected molybdenum and metallic mineral receipts were essentially unchanged. Total collections are projected to rise to $180.5 and $215.0 million in FY 2013-14 and FY 2014-15, respectively.

The price of natural gas is the largest determinant of state severance tax collections. At the end of 2011, Colorado 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. Since that point, prices have risen steadily, approaching $3.70 per Mcf by the beginning of December. This price rise caused a slight upward revision in expectations for average annual prices assumed for 2012, although prices are projected to remain below the $4.00 per Mcf level through 2013. On a year-to-year basis, oil and gas severance tax collections for FY 2012-13 are still expected to decline, both because of the price decline through the spring of 2012 and because of the impact of the ad valorem property tax credit, which producers can use to offset their severance tax liability. In FY 2011-12, oil and gas severance taxes totaled $187.1 million.

Oil prices, which rose sharply over the summer, have moderated somewhat through the fall. These prices are still expected to 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 2.6 million barrels since the beginning of the year. 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 September forecast, December's projected coal severance tax collections for FY 2012-13 decreased modestly due to lower than anticipated collections in the second quarter. In FY 2013-14 and FY 2014-15, collections are expected to total $11.3 and $11.4 million, respectively, essentially unchanged from the September forecast. The increase in severance tax revenue from coal through the forecast period is the result of both increased production and higher severance tax rates for coal. The tax rate for coal increases, which is based on the producer price index 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. It is expected to grow 3.2 percent to $2.9 million in FY 2012-13, before increasing to $3.0 million in FY 2013-14, and $3.1 million FY 2014-15.

Finally, projected interest earnings for FY 2012-13 were revised upward nearly 40 percent relative to the September forecast. The revision is due to a large, one-time interest payment of $3.1 million from the $60 million Republican River pipeline. The payment had been expected in FY 2013-14, but the project is nearly complete, and now the payment is expected to be made in the next few months. Due to the continued structural imbalance in the operational account, interest earnings from this account have again 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 9 on page 24 summarizes the forecast for and distribution of gaming revenue, both subject to and exempt from TABOR. As the economic recovery gains traction, gaming establishments are adding capacity and new game technology. Total gaming revenue is expected to increase 6.5 percent to $111.6 million in FY 2012-13 and grow in the 3.0 percent range in FY 2013-14 and FY 2014-15.

Changes in gaming tax revenue are primarily driven by the economy. The economic recovery in Colorado is resulting in casinos spending more money to expand, remodel, and add amenities to their facilities to attract more customers. Some casinos in Cripple Creek and Central City are adding capacity and facilities to attract corporate customers. Investment in casinos is likely to increase as the economy recovers.

As Table 9 also shows, money from Amendment 50 is distributed to community colleges and local governments in gaming communities. Amendment 50 distributions will total $9.1 million in FY 2012-13, $9.7 million in FY 2013-14, and $10.1 million in FY 2014-15. Community colleges will receive $6.7 million in FY 2012-13 and $7.1 million in FY 2013-14.

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.

Table 9
December 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	98.7	102.2	105.2
Amendment 50 Revenue *(TABOR Exempt)*	9.2	9.8	10.1	10.4
Total Gaming Taxes	**$101.9**	**$108.5**	**$112.3**	**$115.6**
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	1.5	1.5	1.5
Total Gaming Revenue	**$104.8**	**$111.6**	**$115.5**	**$118.99**
% change	**-2.6%**	**6.5%**	**3.5%**	**3.0%**
Total Gaming Revenue Subject to TABOR	$95.6	$101.8	$105.4	$108.6
Distributions of Gaming Tax Revenue /A				
Amendment 50 Distributions				
Community Colleges	6.7	6.7	7.1	7.3
Gaming Counties and Cities	1.9	1.9	2.0	2.1
Amendment 50 Administrative Expenses	1.2	0.6	0.6	0.7
Total Amendment 50 Distributions	**$9.8**	**$9.1**	**$9.7**	**$10.1**
Pre-Amendment 50 Distributions				
State Historical Fund	22.4	24.2	24.8	25.3
Gaming Counties	9.6	10.4	10.6	10.9
Gaming Cities	8.0	6.6	8.8	9.1
General Fund	20.2	20.4	20.5	20.5
Economic Development Programs	19.7	22.8	23.8	24.7
Pre-Amendment 50 Administrative Expenses	11.9	13.0	14.1	15.0
Total Amendment 50 Distributions	**$91.8**	**$97.3**	**$102.5**	**$105.5**
Total Gaming Distributions /B	**$101.6**	**$106.4**	**$112.2**	**$115.6**

/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 10
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 11
Federal Mining Leasing Revenue Distributions
(Dollars in Millions)

Fiscal Year	December 2012 Forecast	Percent Change	September 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	$149.5	22.0%	$149.5	
FY 2011-12	$165.0	10.4%	$165.0	0.0%
FY 2012-13	$142.1	-13.9%	$138.6	2.5%
FY 2013-14	$156.4	10.1%	$154.5	1.2%
FY 2014-15	$173.4	10.8%	$168.2	3.1%

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

These distributions will total $97.3 million in FY 2012-13, up from $91.8 million in the prior year. Distributions will increase to $102.5 million in FY 2013-14.

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 10 shows the change in annual rates effective July 1, 2012.

Table 11 presents the December 2012 forecast for **federal mineral leasing** (FML) revenue in comparison with the September 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 September forecast, due to higher distributions year-to-date in FY 2012-13. FML revenue is anticipated to total $142.1 million in FY 2012-13 before increasing to $156.4 million in FY 2013-14 and $173.4 million in FY 2014-15. Colorado natural gas prices fell through much of the spring of 2012, bottoming out in mid-April below $2.00 per Mcf (thousand cubic feet). Since that point, they have risen through the summer and early fall, approaching $3.70 per Mcf at the beginning of December. Prices are projected to continue to rise gradually through the remainder of the current fiscal year. This 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 12. Revenue to the UI Trust Fund has not been subject to TABOR since FY 2009-10 and is therefore excluded from Table 7 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 7.

The UI Trust Fund closed FY 2011-12 with a fund balance of $512.9 million. The significant revenue increase from the prior year is mainly attributable to the $640 million raised from a recent bond issue. **House Bill 11-1288** states that, once the UI Trust Fund is solvent and all federal loans are repaid, a new premium rate table and triggers for solvency surcharges become effective the next calendar year. Because the net receipts from the bond sale were deposited to the UI trust fund prior to June 30, 2012, the new premium rate schedules from House Bill 11-1288 will be in effect for calendar year 2013. In addition, since on that date the fund balance was greater than 0.5 percent of total wages, the solvency surcharge will not be levied in 2013. By law, if the solvency ratio on any June 30 is less than 0.5 percent, the solvency surcharge will be assessed beginning the next calendar year. The 2012 December forecast has the solvency ratio above this threshold for both FY 2013-14 and FY 2014-15. Therefore, no solvency surcharge is expected for calendar years 2014 and 2015. The solvency surcharge amount shown for FY 2012-13 in Table 12 is estimated to be collected during the last half of 2012.

Total revenue to the UI fund is expected to decline 63.8 percent in FY 2012-13. The significant decrease is because of the elimination of the solvency surcharge. However, because of the higher premium rates and the increase in the maximum chargeable wage base, revenue from UI premium and premium surcharges is

Table 12
Unemployment Insurance Trust Fund Forecast, December 2012
Revenue, Benefits Paid, and Fund Balance
(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*
Beginning Balance	($303.3)	$512.9	$461.8	$497.2	
Plus Income Received					
UI Premium & Premium Surcharge /A	$398.8	$427.4	$535.1	$692.4	20.2%
Solvency Surcharge	$414.3	$98.7	$0.0	$0.0	
Interest	$0.4	$0.0	$14.0	$20.1	
Plus Federal UI Modernization Payment					
Plus Special Revenue Bonds	$640.0				
Total Revenues	**$1,453.5**	**$526.1**	**$549.1**	**$712.5**	-21.2%
% Change	85.6%	-63.8%	4.4%	29.8%	
Less Benefits Paid	($616.6)	($577.1)	($513.6)	($441.7)	-5.9%
Federal Reed Act Transfer	$0.0	$0.0	$0.0	$0.0	
Net Federal Loans	*$302.4*				
Accounting Adjustment	($323.1)	$0.0	$0.0	$0.0	
Ending Balance	**$512.9**	**$461.8**	**$497.2**	**$768.1**	
Solvency Ratio					
Fund Balance as a Percent of Total Annual Private Wages	0.60%	0.51%	0.52%	0.75%	

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.

expected to grow 7.2 percent in FY 2012-13. Total revenue is expected to increase in both FY 2013-14 and FY 2014-15 as the employment market improves.

The amount of UI benefits paid is expected to decline 6.4 percent in FY 2012-13 as the number of UI claims continue to fall. UI benefits paid are expected to fall an additional 11.0 percent in FY 2013-14 and 14.0 percent in FY 2013-14 as the economy continues to expand.

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 economic recession put more pressure on the fund as high unemployment increased demand for UI benefits, while revenue to the fund was declining. In January 2010 the fund was insolvent. By 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 to 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. The terms of finance are five years with 1.4 percent total interest. There will be two interest payment assessments per year, the first payment of $4.2 million was paid on November 15, 2012, and the second payment of $4.5 million is due May 15, 2013. 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 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

Despite federal fiscal policies and troubles in Europe, the economy continues to show slow but steady improvement. Starting on January 1, 2013, federal fiscal policy will tighten significantly due to a combination of tax increases and spending cuts if there is no change to current law. In Europe, the debt crisis has led to a recession. The economy has continued to improve even with these pressures. Gross domestic product is growing, firms are hiring more workers, and the unemployment rate is dropping. Consumers are also spending more and reducing debt. Businesses continue to be profitable and manufacturing has held steady. Nationally, home prices have started to rebound because of record low mortgage rates and a limited supply of houses on the market.

This forecast was prepared assuming that there will be a long term deficit reduction deal reached sometime in the first quarter of 2013, and that the debt ceiling will be raised. As a result, economic growth will deteriorate in the first half of 2013. If a deal is reached earlier, the economy will likely perform better in 2013 than currently forecast. If there is no long term deficit reduction deal and the federal government defaults on some of its obligations the economy will perform worse than forecast.

In addition to the assumptions about federal fiscal policy, this forecast assumes that the European Union remains intact and that European nations are able to get financing through the European Central Bank and International Monetary Fund. The economy in the rest of the world will grow slowly as the European and American economies work through issues. The Federal Reserve will continue to have expansionary monetary policy and keep interest rates extremely low throughout the forecast period.

A summary of the forecast for selected national indicators is available in Table 14 on page 42.

Changes to Federal Fiscal Policy

The economy continues to grow slowly, but tighter fiscal policy beginning in 2013 and the need to raise the deficit ceiling will dampen economic growth in the short term. Federal lawmakers are in the process of negotiating fiscal policy for 2013 and future years but, under current law, taxes will increase and spending will decrease in 2013 compared with 2012 levels. Table 13 on page 30 lists the policies that are scheduled to take effect under current law.

If current law is not changed, taxes will increase and spending will decrease, leading to significantly tighter federal fiscal policies. In addition, outstanding federal government debt will reach the statutory debt ceiling; the last time this happened Standard & Poor's downgraded the government's rating, Moody's put the federal government on negative watch, and the process led to the automatic spending cuts in current law.

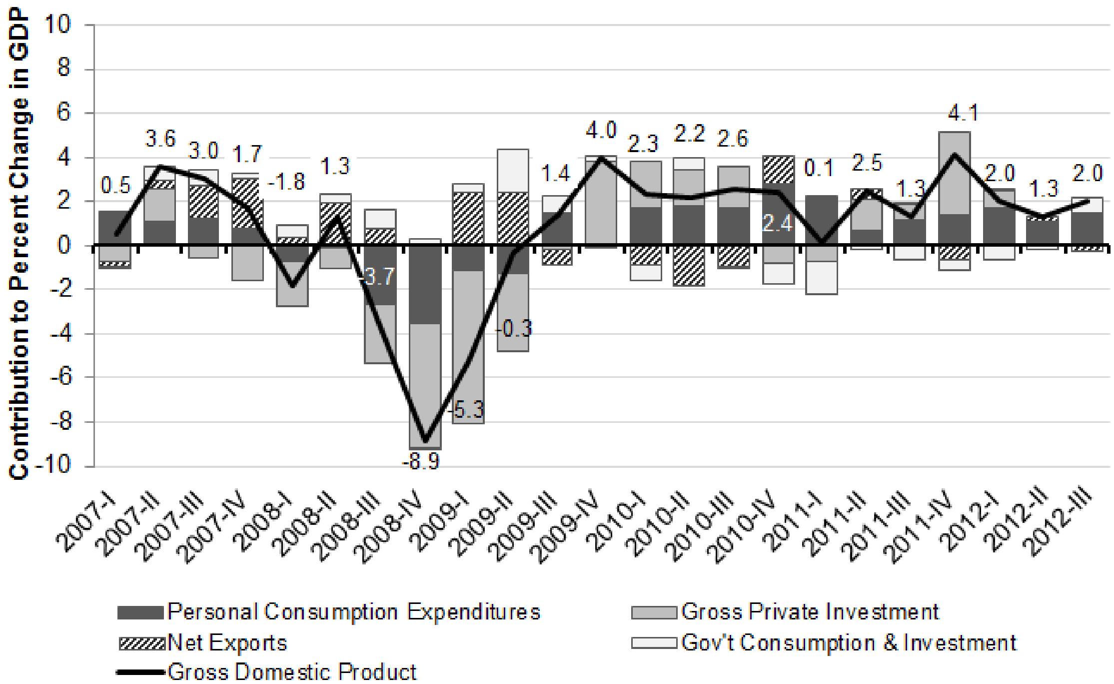
The *direct* impact of these fiscal policies is spread throughout 2013, but the *indirect* impact could have a much larger effect on the economy. Without a clear path to resolving the federal fiscal policies, consumers and businesses will be much more tentative when making long term economic decisions such as hiring workers, purchasing houses, and making investments. This will slow economic growth until confidence in the political process improves. Throughout the forecast, the

Table 13
Changes to Federal Fiscal Policy in Current Law

Tax Increases
Expiration of the 2001 and 2003 tax cuts — If these tax cuts expire, tax rates will increase for all individual income taxpayers. Taxes on investment income will increase and the "marriage penalty" returns.
Expiration of tax credits passed as part of the stimulus package — The refundability of three tax credits will be decreased: the Earned Income Tax Credit, The Child Tax Credit, and the American Opportunity Credit, which will increase income taxes for working families and college students.
Expiration of the payroll tax cut — The employee's portion of the social security payroll tax will increase from 4.2 percent to 6.2 percent.
Alternative minimum tax not indexed for inflation – The alternative minimum tax will apply to taxable income over $45,000 for married couples and $33,750 for other taxpayers, down from $74,450 and $48,450, respectively.
Federal estate tax returns to pre-2006 form – The federal estate tax will apply to estates worth over $1 million dollars rather than estates worth more than $5 million indexed for inflation, and the tax rate will be 55 percent instead of 35 percent.
Tax extenders – There are a number of individual and corporate tax policies that are routinely extended, which are set to expire at the end of 2012.
New taxes passed in the affordable care act – The affordable care act created new taxes on income above $250,000 for families and $200,000 for individuals. These taxes take effect January 1, 2013.
Spending Cuts
Reimbursement to doctors for treating Medicare patients – A formula in current law will reduce payments to doctors for treating Medicare patients. Since 2002, Congress has routinely taken action to keep this from taking effect.
Automatic defense and domestic spending cuts in the sequester – Because the Joint Select Committee on Deficit Reduction was unable to agree to deficit reduction, $1.2 trillion dollars in across the board cuts over 10 years in defense and domestic spending will occur.
Statutory Deficit Ceiling
Debt ceiling – The statutory debt limit is $16.39 trillion. As of December 6, outstanding federal debt was $16.37 trillion. If the debt ceiling is not raised in early 2013, the federal government will not be able to meet all of its obligations.

Note: For more detail on these policies, see "Fiscal Restraint in Current Federal Law", Interested Person's Memo Prepared by Legislative Council Staff, November 20, 2012.

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



Source: Bureau of Economic Analysis.

economic response to federal fiscal policies is in the background, even as many of the fundamentals in the economy have been improving.

Gross Domestic Product is Growing Slowly

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

Figure 2 shows contributions to real GDP between 2007 and the third quarter of 2012. GDP increased at an annual rate of 2.7 percent in the third quarter of 2012, up from 1.3 percent in the second quarter. Each component of GDP grew between the second and third quarters of 2012, with personal consumption expenditures and gross private investments contributing the most. Residential investment continued to provide positive contributions to the increase in real GDP. Federal government spending contributed to growth in the third quarter, after having been a drag on growth for eight consecutive quarters.

- The economy will expand 2.0 percent in 2012 as consumers and businesses maintain their current level of economic activity. Federal fiscal policies will weigh on the economy in the first half of 2013, as consumers and businesses respond to current law spending cuts and tax increases. Once federal fiscal policies are resolved, the economy will accelerate later in 2013. Because of slower growth in the first half, the economy will only grow 1.5 percent for the entire year.

International Economy

The world economy has continued to slowly grow despite weakness in the U.S. and Europe. In Europe, the central bank and International Monetary Fund have guaranteed loans made to member nations while they try to raise revenue and reduce spending to balance their budgets. So far, Greece, Italy, and Spain have been unable to fully reassure investors that they have the ability to repay debt on their own. European leaders have continued to offer monetary support to member nations struggling with high interest rates, which ease the short term constraints without dealing with the structural problem of a monetary union without a fiscal union. The Eurozone is now in recession as the economies of individual countries struggle with paying off debt. The European Central Bank (ECB) expects the recession to continue through 2013.

In late November, the ECB and the International Monetary Fund agreed to a new bailout for Greece that lowered interest rates on loans from other EU members, extended the maturity on the loans and allowed Greece to buy back their own discounted bonds. The new bailout was needed because high unemployment and a recession had made it harder for Greece to meet certain requirements in previous agreements. One of the provisions of the new bailout is that Greece must reduce its debt to GDP ratio, which is difficult as long as the Greek economy keeps shrinking. Spain continues to work through the consequences of its own asset bubble. The EU has approved a bailout of its banking sector, but its public finances remain under pressure and its economy is expected to continue to contract through 2013.

Developing economies continue to grow, but at a decelerating rate. The Organization for Economic Development and Cooperation (OECD) estimates that China's economy grew 7.5 percent through 2012, the slowest growth in over a decade, as a result of government policies to reduce inflationary pressures. In India, inflationary pressures held down economic growth to 4.4 percent, well below recent growth rates. In Brazil, the effects of monetary and fiscal stimulus disappeared in 2012 and its economy has slowed.

The Labor Market Continues to Grow Steadily

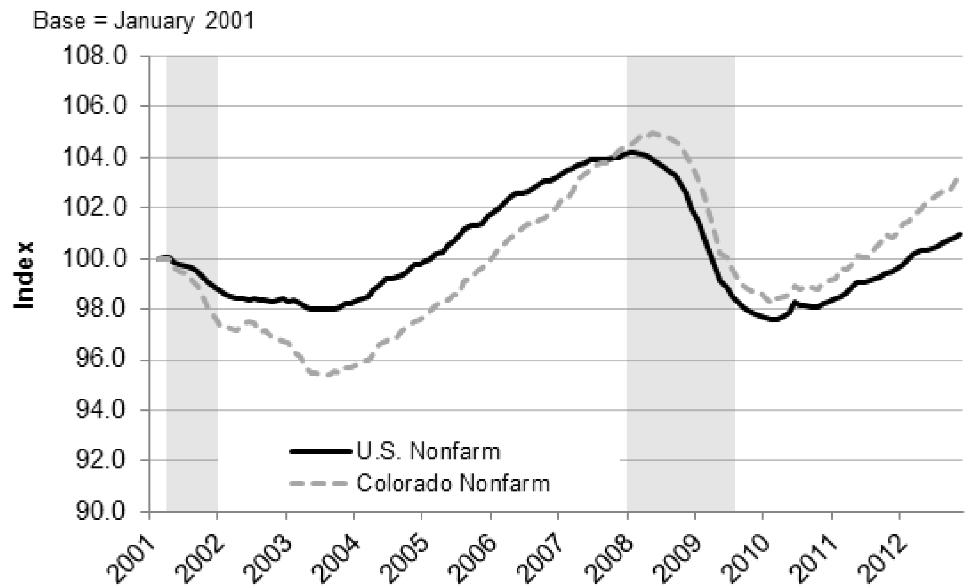
The labor market continues to add jobs. Seasonally adjusted nonfarm employment has grown each month in 2012, increasing by 1.4 percent between December 2011 and November 2012. Figure 3 shows growth in nonfarm employment for the nation and Colorado since January 2001. Since bottoming out in February 2010, seasonally adjusted nonfarm employment has consistently trended upward since October 2010.

Employment has grown in most sectors in the economy. Figure 4 shows that 8.6 million jobs were lost between December 2008 and March 2010, the employment trough. Between March 2010 and November 2012, the economy gained 4.3 million jobs. The nation has added back almost 50 percent of the jobs lost during the recession.

Of the sectors that have added jobs that were lost during the recession, leisure and hospitality and mining and logging are the only ones that have added more jobs than they lost. Mining and logging has grown quickly with the oil and natural gas boom being experienced in many parts of the country. The combination of cheap natural gas, lower shipping costs, and rising wages in developing nations may help domestic manufacturing employment grow more quickly.

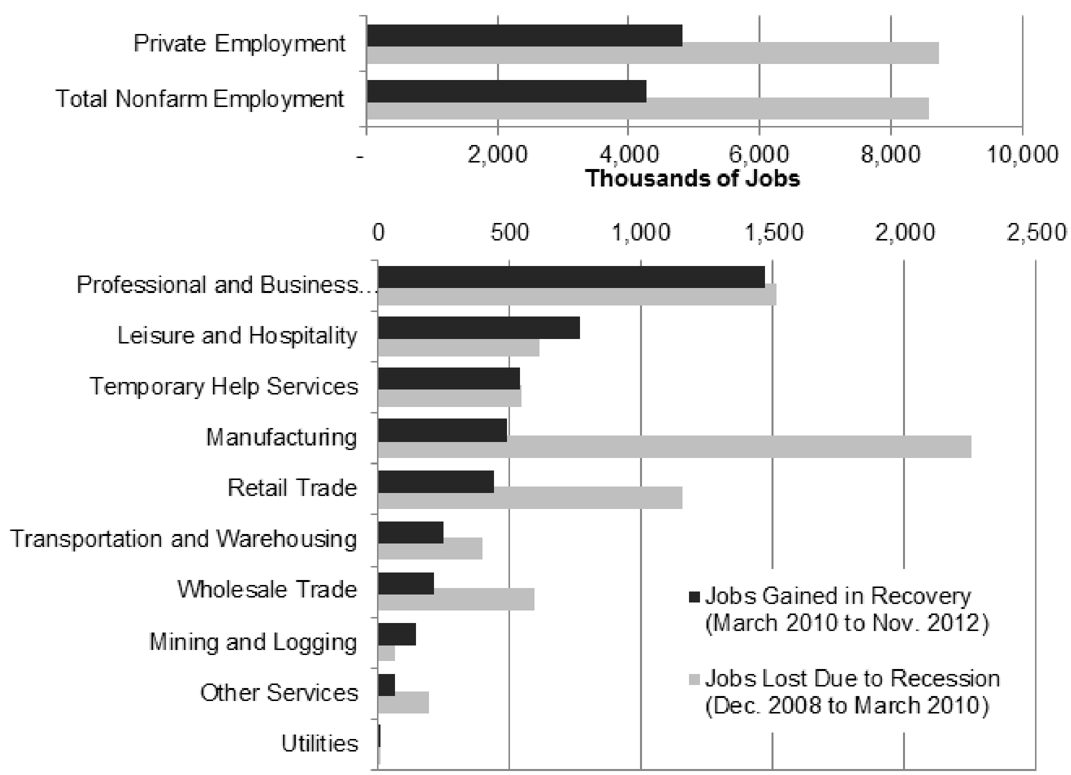
As employers have added jobs, the unemployment rate has declined. In November, the unemployment rate was 7.7 percent, a full percentage point below

Figure 3
Seasonally Adjusted Nonfarm Employment Index, Colorado and the Nation
January 2001 to November 2012



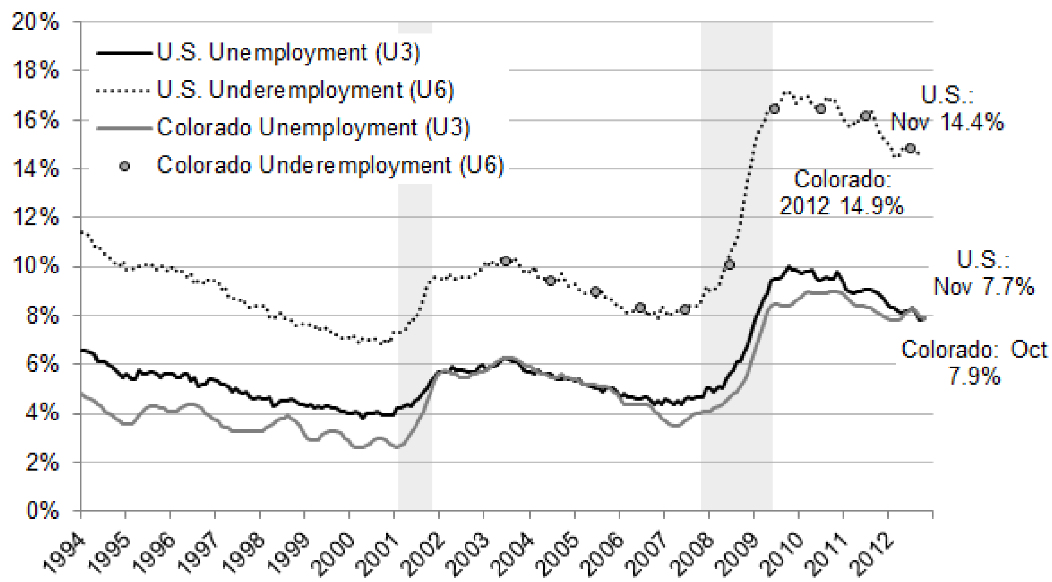
Source: U.S. Bureau of Labor Statistics, Current Employment Statistics. National Data through November 2012. Rebenchmarked Colorado Data through October 2012 using Legislative Council Staff expected data revisions

Figure 4
Jobs Lost Due to the Recession and Gained During the Recovery
Changes in Seasonally Adjusted Nonfarm Employment



Source: Bureau of Labor Statistics, Current Employment Survey. Data through November 2012.

Figure 5
Unemployment and Underemployment Rates in Colorado and the Nation
Seasonally Adjusted Data



Source: U.S. Bureau of Labor Statistics, Current Population Survey and local area unemployment statistics. National data through November 2012. Colorado data through October 2012.

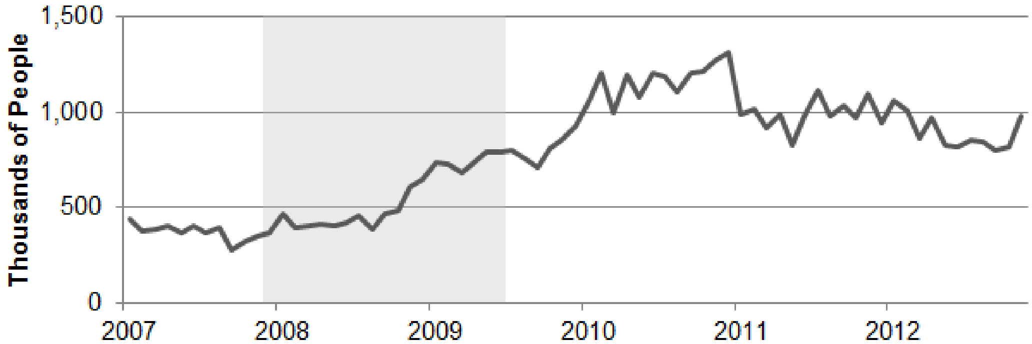
where it was in November 2011. The underemployment rate, a measure that includes unemployed workers and part time workers looking for full-time work, has also declined. In November 2012, this measure was at 14.4 percent. Figure 5 show the trends in the unemployment and underemployment rates for Colorado and the nation.

One of the determinants of the unemployment rate is the labor force. The labor force is a measure of people over 16 years old who are working or would like to work. It does not include students, institutionalized populations, or people who are not looking for work, such as retirees. The combination of households repairing their balance sheets and an aging population could lead to more people leaving the labor force. As the labor force participation rate decreases, the unemployment rate will also decrease.

As the labor market has started to heal, the number of discouraged workers has started to decrease. Discouraged workers are workers that would like to work, but have given up looking for work, so the Bureau of Labor Statistics does not include them in the labor force. As shown in Figure 6, the number of discouraged workers increased in November 2012, but there were 339,000 fewer discouraged workers in November 2012 then in December 2010, when the number of discouraged workers peaked following the recession.

The labor market has continued to improve through 2012. As uncertainty about federal fiscal policy escalates, it is likely that there will be some deterioration in the labor market. Spending cuts will directly impact firms that receive government funding and a tax increase will make businesses and consumers more tentative about spending.

Figure 6
Number of Discouraged Workers, National Data
Not Seasonally Adjusted Data



Source: U.S. Bureau of Labor Statistics, Current Population Survey. Data through November 2012.

- Employment will grow 1.4 percent in 2012, which is consistent with growth seen so far this year. In 2013, employment growth will slow considerably in the first half of the year, before picking up later in the year. On average, employment will grow 1.0 percent in 2013 over 2012 levels.

- The unemployment rate will average 8.1 percent in 2012. In the first half of 2013, slow hiring will increase the unemployment rate. However, the unemployment rate will decline later in the year as labor market conditions improve. The unemployment rate will average 8.0 percent in 2013.

Household Income and Consumption

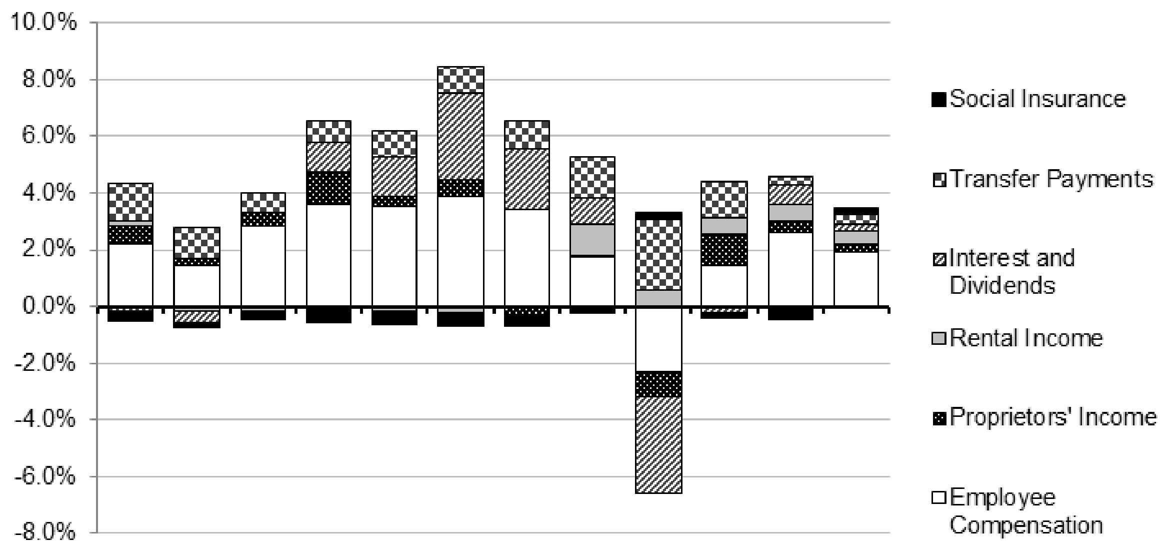
Because of a healing labor market, personal income has risen slowly throughout 2012. Personal income grew 3.1 percent between January and October 2012 compared with the same period in 2011. As seen in Figure 7, on page 36 the largest gains in personal income came from employee compensation. However, each component of personal income has grown so far in 2012.

As personal income has risen, personal consumption has grown at about the same rate. Personal outlays grew 3.6 percent, slightly faster than personal income, between January and October of 2012 compared with the same period in 2011. This has caused the savings rate to decrease, but it is still above where the savings rate was prior to the recession. Figure 8 on page 36 shows the trends in personal income, personal outlays, and the savings rate.

Retail trade, another measure of consumption, has continued to grow through 2012. Seasonally adjusted retail sales grew 5.3 percent between January and September 2012, compared with the prior year. As shown in Figure 9 on page 37, sales were especially strong for automobile and furniture stores, but each retail sector except for electronic stores saw growth.

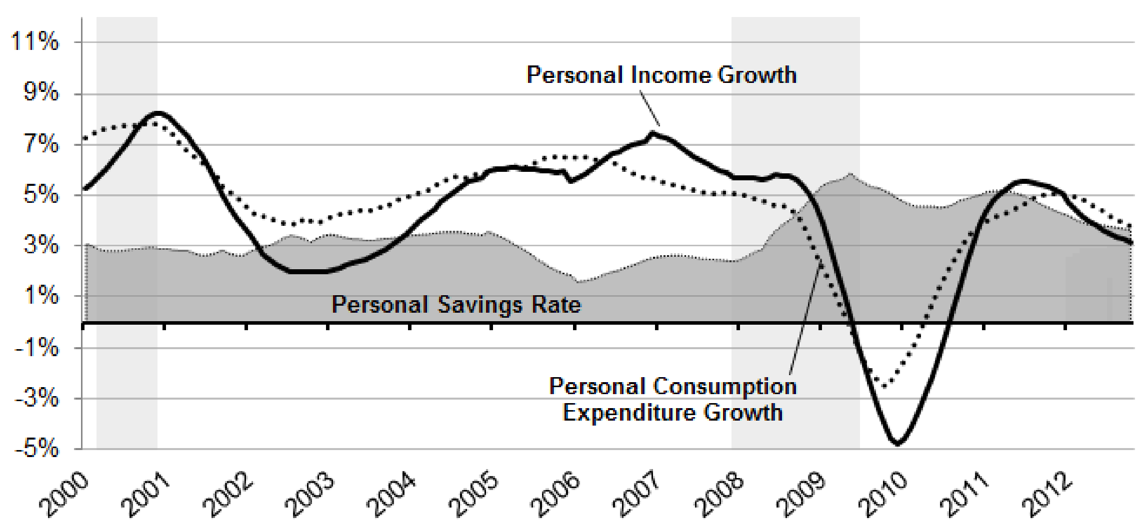
- Personal income will grow 3.1 percent in 2012. In 2013, personal income growth will slow to 2.2 percent, as firms hold off hiring workers in the first half of the year. Wage and salary income will grow 3.0 percent in 2012 and 1.6 percent in 2013.

Figure 7
Contributions to Persona; Income Growth
Year-to-date through October 2012



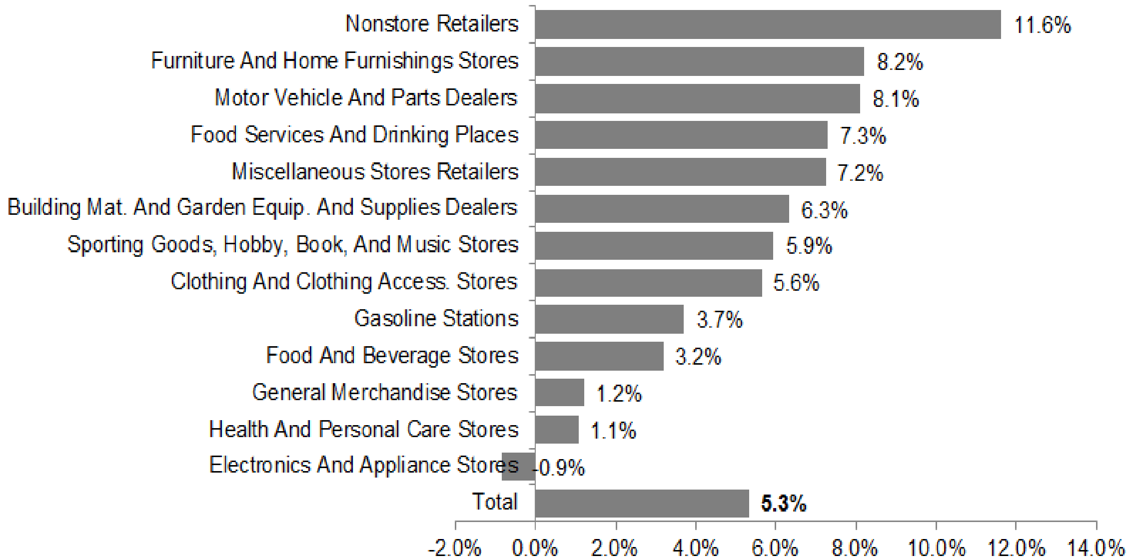
Source: Bureau of Economic Analysis, Personal Income Statistics. Seasonally Adjusted Data through October 2012.

Figure 8
U.S. Personal Income and Outlays
12-Month Moving Averages; Seasonally Adjusted



Source: Bureau of Economic Analysis, Data through October 2012.

Figure 9
U.S. Retail Sales Growth by Sector
Growth between January and September 2012 over Same Period in 2011



Source: U.S. Census Bureau, Data through September 2012. Seasonally Adjusted Data.

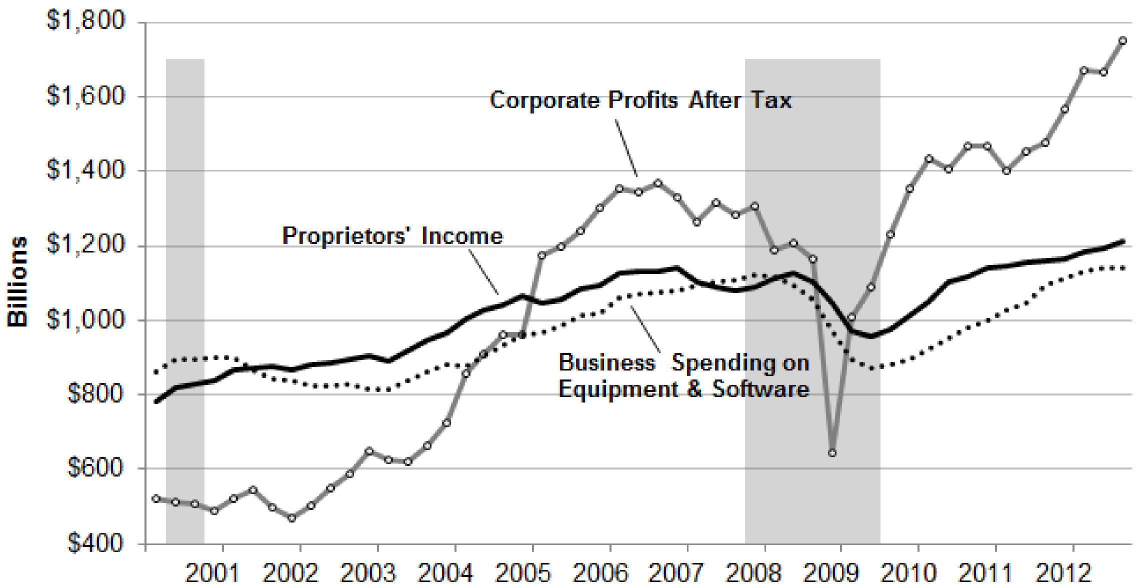
Businesses are Starting to Pull Back

Firms are beginning to react to the current law federal fiscal policies by holding off on making investments. Profits are above pre-recessionary levels, along with proprietors' income and business investments, but the growth rates have slowed in recent months. Figure 10 on page 38 shows the levels of corporate profits after tax, proprietors' income, and business spending on equipment and software. Corporate profits increased 18.6 percent in the first three quarters of 2012, compared with the same time period in 2011, while proprietors' income grew 3.5 percent and business spending on equipment and software grew 6.4 percent.

In addition to the slowing in business investment, manufacturing and industrial production have also had smaller growth rates than earlier in the year. Figure 11 on page 38 shows the Institute for Supply Management's manufacturing index and the Federal Reserve's industrial production index. A reading of 50 or below for the ISM manufacturing index represents contraction in the manufacturing sector. In November, the index was at 49.5, the first time manufacturing decreased since July 2009.

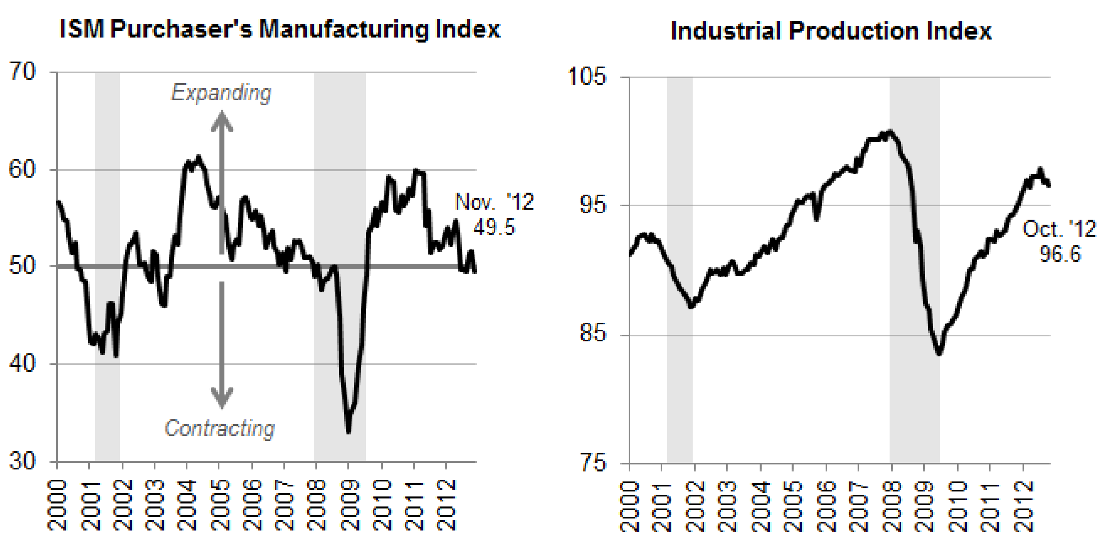
While firms have continued to grow and invest through 2012, they have started to pull back in recent months in preparation for the changes to federal fiscal policy. This can be seen in the slowing growth of business spending on machinery and software and the decrease in manufacturing and industrial production. Firms are significantly better positioned than just a few years ago, so when federal fiscal policy is resolved, investments by firms is expected to rebound quickly.

Figure 10
Business Income and Spending
Seasonally Adjusted Data



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

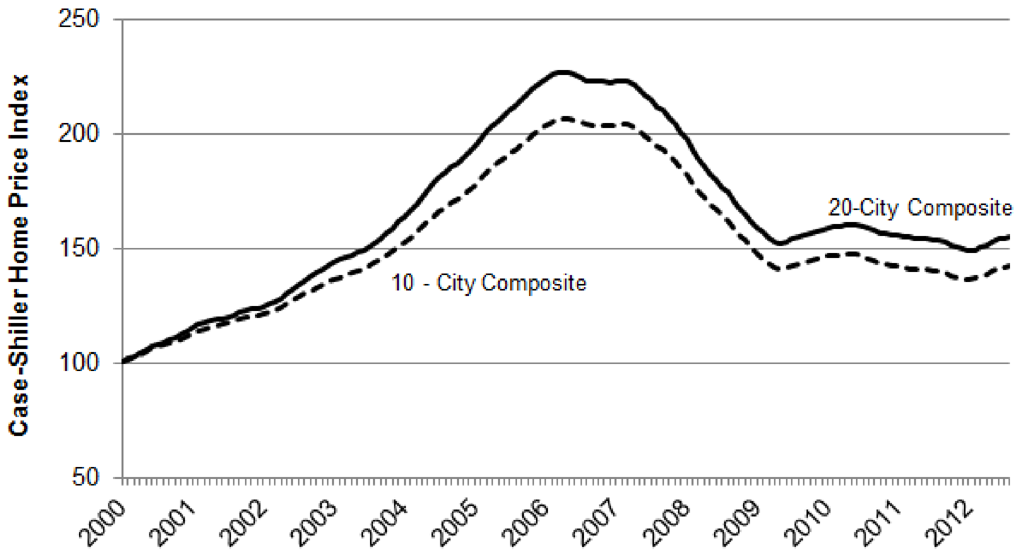
Figure 11
Manufacturing and Industrial Production
Seasonally Adjusted Data



Source: Institute for Supply Management.

Source: Federal Reserve.

Figure 12
Case-Shiller Home Price Index
10 and 20 City Composite Indices, Seasonally Adjusted Data



Source: Standards and Poors, Data through August 2012.

Construction and Real Estate

Nationally, the real estate market has bottomed out and begun to recover. Low interest rates and a slowly improving economy is releasing pent up demand for housing that was built up since the end of the recession. Seasonally adjusted housing prices in 20 large metropolitan areas were 2.0 percent higher in August 2012 than August 2011, and prices have increased for seven straight months. Figure 12 shows the change in home prices for a composite of 20 large metropolitan areas relative to January 2000 levels.

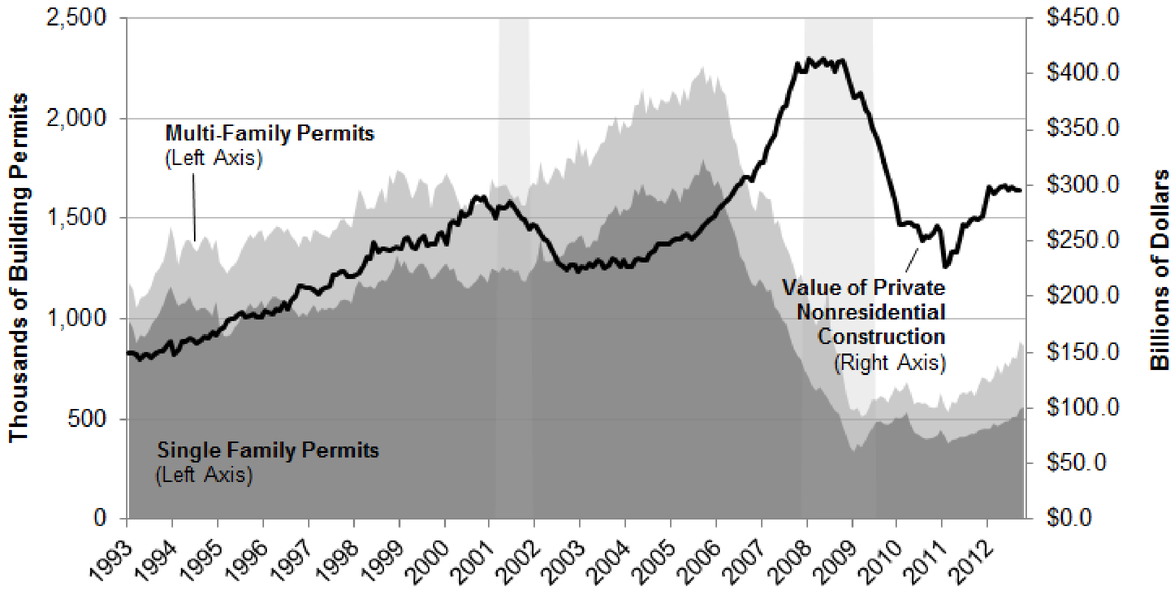
As home prices and the real estate sector improve, the construction industry is also recovering. Figure 13 on page 40 shows the number of residential construction permits and the value of nonresidential construction projects. Both residential and nonresidential construction activity increased through the summer of 2012. Construction of total and single family residential units increased by 24.9 percent and 18.7 percent respectively, between January and October 2012 compared with the same time period in 2011.

Inflation

Consumer prices, as measured by the consumer price index, increased 2.1 percent between January and October 2012 compared with the same period in 2011. As shown in Figure 14 on page 40, healthcare was the fastest growing component, followed by apparel. The price of energy stabilized over the summer, so core inflation grew at the same rate as overall inflation, or 2.1 percent.

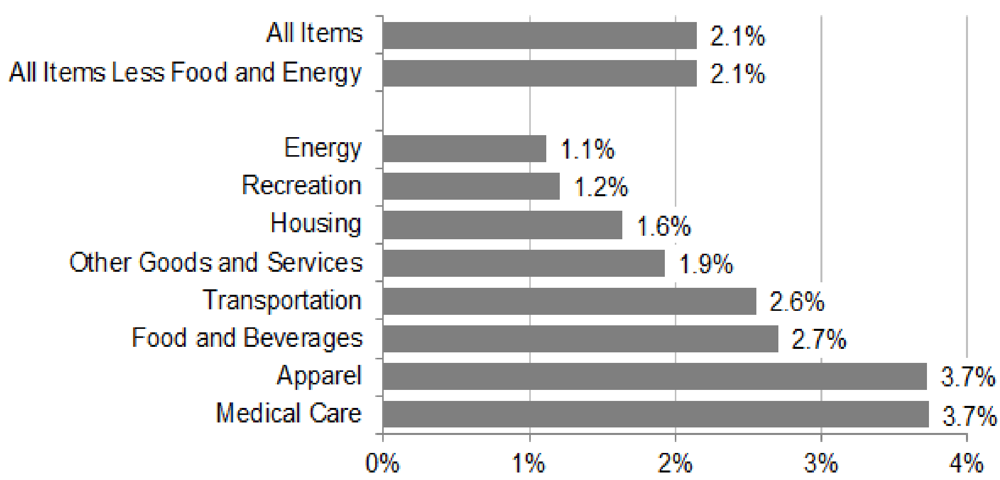
- Prices will rise 2.0 percent in 2012 and 1.6 percent in 2013. Even with extremely loose fiscal policy, inflation will remain in check until the economy recovers more fully.

Figure 13
Residential and NonResidential Construction Activity



Source: U.S. Census Bureau, Residential data through October 2012, Nonresidential data through September 2012.

Figure 14
Consumer Price Index
January to October 2012 compared with Same Period in 2011



Source: Bureau of Labor Statistics.

Summary

The economy continues to improve in spite of the changes to fiscal policy in current law, positioning the economy to grow quickly once the federal fiscal policies are resolved. GDP growth accelerated between the second and third quarters of the year and firms are adding jobs. Personal income is growing and consumers are making purchases while reducing their debt. Firms are profitable and have made investments over the last few years, although that started to slow in preparation of changes to federal fiscal policy in current law. Real estate is starting to improve because of low interest rates and the slow improvement in the economy and inflation is stable. This is the foundation of a strong recovery.

The national economy will struggle to grow if there is not a graceful resolution to the federal fiscal policies that are set to take effect in January 2013. This forecast assumes that a deficit reduction deal will be negotiated sometime next year and the federal debt ceiling is raised. This will slow growth at the end of 2012 and early 2013, but then accelerate once federal fiscal policy is set. In addition to domestic fiscal policy, this forecast assumes the European Union will continue to reassure investors that the Euro currency is safe, but will not resolve the base issues.

Risks to the Forecast

Upside risks. If federal lawmakers reach a compromise faster than expected, the foundation that has been built over the last few years could produce a robust recovery early in 2013. A graceful resolution of domestic fiscal policies will lead to an accelerating U.S. economy which may drive growth in other parts of the world.

Downside risks. If there is no deficit reduction deal and the debt ceiling is not raised in February or March, the economy will contract. This would cause the federal government to default on its obligations and consumers, investors, and businesses will react by demanding higher interest rates from the federal government and debt reduction will become even more urgent. The momentum that the economy has built since the end of the recession will be lost and it is likely that the economy will shrink in 2013.

The European Central Bank and the International Monetary Fund continue to provide the necessary resources to keep member nations from defaulting on their obligations. If this was to stop, and the European Union was to break apart, it is likely that global financial markets and international corporations would become even more cautious about making economic decisions. Such a major change to one of the world's largest economies would put significant downward pressure on economic growth.

The economies in the rest of the world are growing at slower rates than their potential. China and India are dealing with inflationary pressures, which is slowing growth. Unrest in the Middle East may increase oil prices, but domestic production has been growing in recent years which will moderate some of the volatility in oil prices.

Table 14
National Economic Indicators, December 2012 Forecast
(Dollars Amounts in Billions)

	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	$13,768.6	$14,181.6
percent change	1.9%	-0.3%	-3.1%	2.4%	1.8%	2.0%	1.5%	3.0%
Nonagricultural Employment (millions)	137.6	136.8	130.8	129.9	131.4	133.2	134.5	136.4
percent change	1.1%	-0.6%	-4.4%	-0.7%	1.2%	1.4%	1.0%	1.4%
Unemployment Rate	4.6%	5.8%	9.3%	9.6%	9.0%	8.1%	8.0%	7.4%
Personal Income	$11,912.3	$12,460.2	$11,867.0	$12,321.9	$12,947.3	13,348.7	$13,642.3	$14,379.0
percent change	5.7%	4.6%	-4.8%	3.8%	5.1%	3.1%	2.2%	5.4%
Wage and Salary Income	$6,421.7	$6,550.9	$6,270.3	$6,404.6	$6,661.3	$6,861.1	$7,032.7	$7,356.2
percent change	5.8%	2.0%	-4.3%	2.1%	4.0%	3.0%	2.5%	4.6%
Inflation (Consumer Price Index)	2.9%	3.8%	-0.3%	1.6%	3.1%	2.0%	1.6%	2.5%

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

COLORADO ECONOMY

Colorado's economy outperformed the national economy with steady gains in 2012 and appears ready to expand at an even healthier pace in 2013. Nonfarm employment continues to post steady gains, personal income and wage and salaries are slowly growing, Colorado's housing market is one of the most vibrant in the nation, and consumers are spending more money as their confidence in the economy grows. However, uncertainty from a weak international economy and unresolved federal fiscal policies continue to prevent a stronger recovery. Although consumers thus far appear undeterred by these uncertainties, businesses have begun to scale back on their investments, manufacturing activity has slowed, and a weak international economy is putting downward pressure on investment growth in U.S. markets. Table 15 on page 58 shows the economic forecast for Colorado.

This forecast was prepared assuming there will be a federal deficit reduction deal reached sometime in the first quarter of 2013 and that the U.S. debt ceiling will be raised. As long as Congress and the President continue to deliberate about these policies, the economy in Colorado and the nation will grow at rates slower than potential. Colorado's economy is expected to continue to grow through the first half of 2013, but at significantly slower rates as households and businesses react to the combined impact of tighter fiscal policy and increased economic uncertainty. Assuming Congress restores certainty to federal fiscal policies during the first quarter of 2013, Colorado's economy is expected to gain speed in the second half of the year at rates that outperform the national economy. For more information about these assumptions, please see the national economic summary, which begins on page 29.

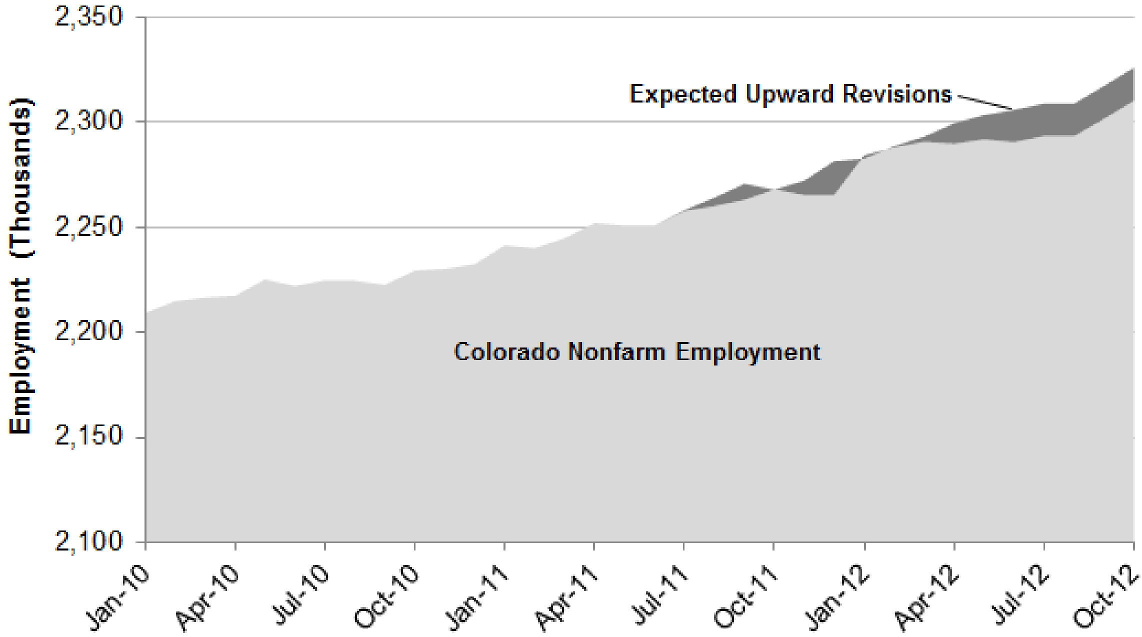
Both urban and rural areas of the state are growing. Colorado has one of the most resilient agricultural industries in the nation, and Colorado's farmers have weathered the drought better than those in many other parts of the nation. In addition, oil and natural gas production continues to bring economic vitality and growth to the economy in the northern part of the state.

Colorado Labor Markets Gaining Steadily

The Colorado labor market added jobs at a moderate pace through October 2012, outpacing employment gains nationwide. After incorporating revisions expected by Legislative Council Staff, the state added an average of 4,400 jobs per month during the first ten months of 2012, representing a growth rate of 2.2 percent compared with the same time period in 2011. The state continues to attract small business; according to the Kauffman Index of Entrepreneurial Activity, Colorado has the fifth-highest rate of entrepreneurial activity in the United States during 2011, with 450 new business owners per 100,000 adults.

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. Through October, published statistics show that Colorado has gained 100,900 jobs since the trough, of which 42,100 jobs were gained during the twelve months preceding October 2012.

Figure 15
Nonfarm Employment Statistics are Expected To Be Revised Upward
Seasonally Adjusted



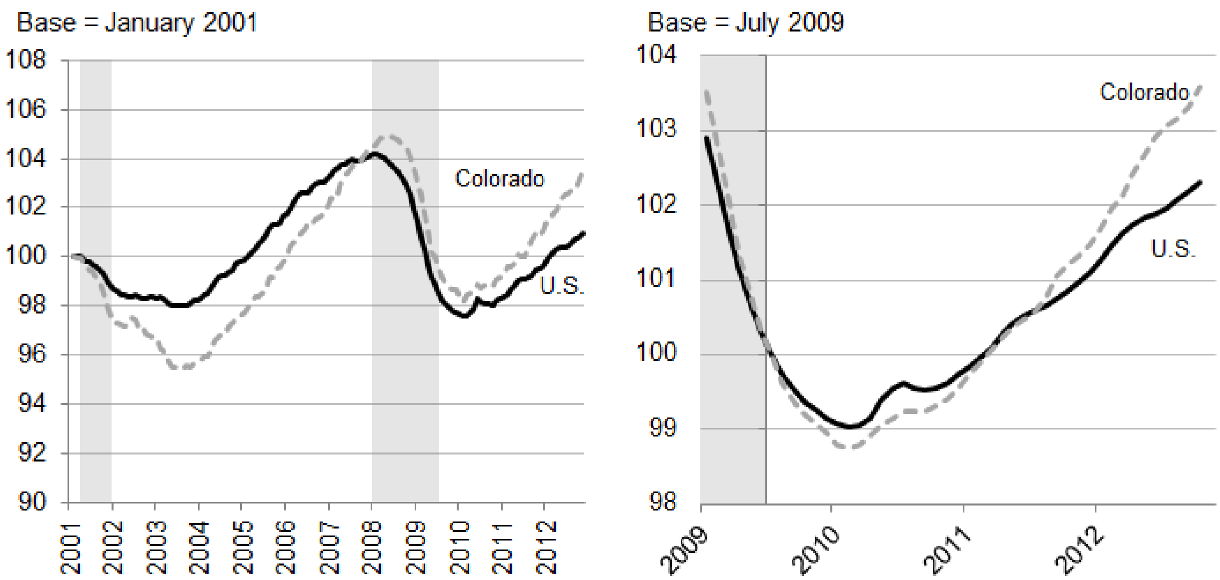
Source: Published data is from the U.S. Bureau of Labor Statistics, Current Employment Statistics (establishment survey). Expected revisions are from a Legislative Council Staff analysis of anticipated revisions to employment based on Quarterly Census of Employment and Wages data from the U.S. Bureau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

Each spring the U.S. Bureau of Labor Statistics revises its employment data to reflect new information gleaned from unemployment insurance premium forms. In Spring 2012, 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 2011 and the first half of 2012 have become public. A Legislative Council Staff analysis of these data anticipate that employment in Colorado will be revised upward further, as shown in Figure 15. Employment is expected to be revised up by nearly 15,700 jobs by October 2012. This would bring job growth to 116,600 jobs since the trough in January 2010 and 57,900 jobs during the twelve months preceding October 2012. The revisions anticipated by Legislative Council Staff reveal an entirely different growth path for the Colorado economy over the last two years than that revealed by the published data. Instead of an economy characterized by extended periods of stagnation interrupted by inexplicable spurts of activity (as indicated by the published data), the revised data reveal a much healthier and steadily expanding economy.

Figure 16 on page 45 shows two indexes of nonfarm employment growth for Colorado and the nation. Since 2001, 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

Figure 16
Nonfarm Employment Growth
Colorado vs. the Nation



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

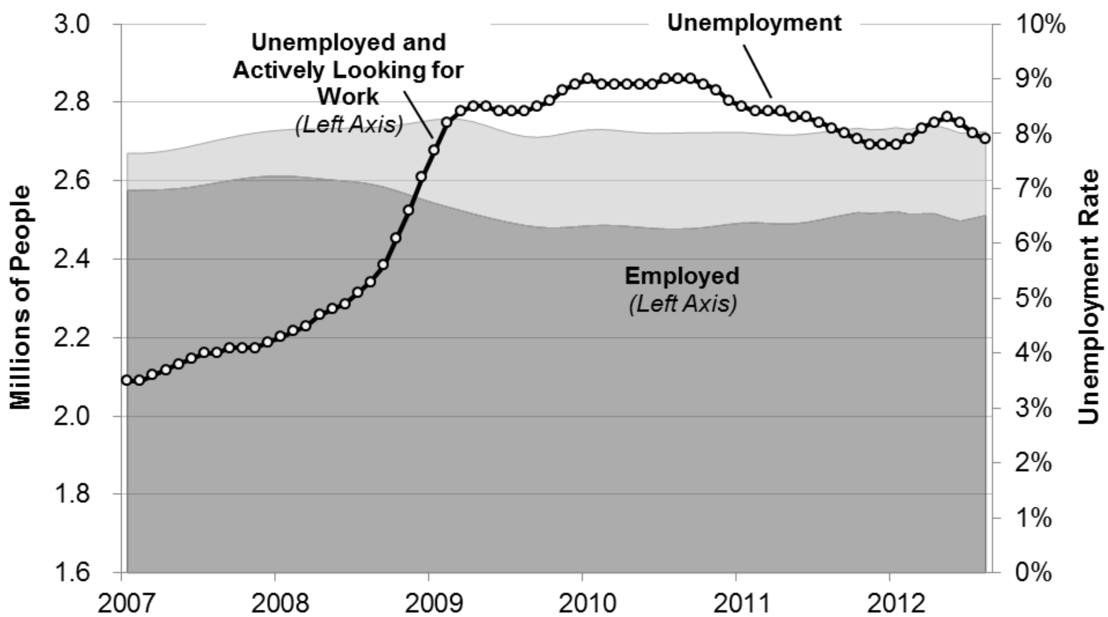
nation following the 2001 recession, then gained jobs faster between 2004 and 2008. The chart on the right, which focuses on the most recent recovery, shows that Colorado is again gaining jobs at a faster rate than the nation. This assumes upward revisions in Colorado employment expected by Legislative Council Staff.

Figure 17 on page 46 shows the trends in the unemployment rate and the labor force. The **unemployment rate** was 7.9 percent in October, down only slightly from a rate of 8.1 percent in October 2011. While nonfarm job statistics have indicated steady job growth through October 2012, the household survey, used to calculate the unemployment rate, shows that the number of persons employed and unemployed is about the same as it was at the close of 2011. Farm employment may explain some of the divergence. Farm employment has likely fallen in 2012, and farm employment is included in the household survey but not in the establishment survey.

Most sectors in the labor market showed employment growth through October 2012. Figure 18 on page 46 shows the number of jobs added and the percentage change by sector since December 2011 on a seasonally adjusted basis. Industries adding the most jobs included the professional, scientific, and technical services sector, with 6,700 new jobs, and the arts, entertainment, and recreation sector, with 5,900 new jobs. The educational services sector employment increased 7.9 percent, while employment in the management of companies and enterprises sector grew 6.3 percent.

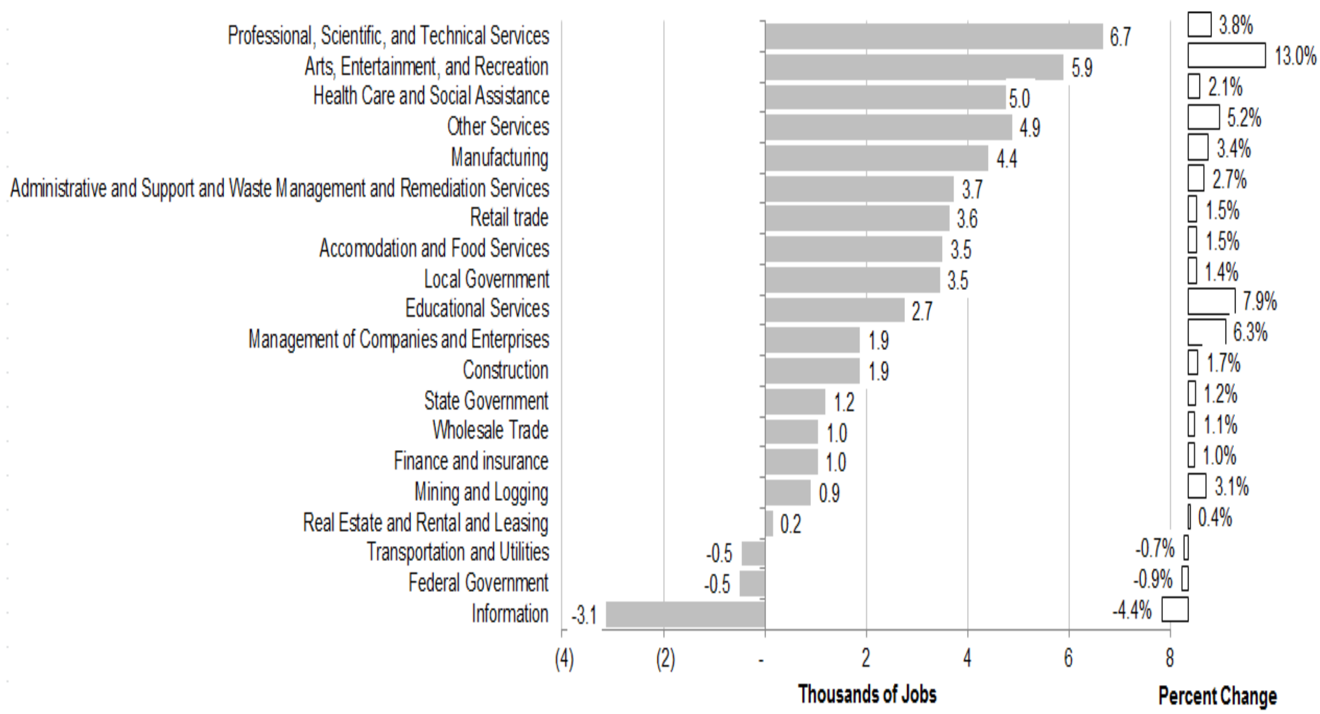
Despite the housing market's turnaround, the real estate and rental leasing sector has not added significantly to its job base, but will likely begin to expand in 2013 as

Figure 17
Colorado Unemployment Rate and Labor Force



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

Figure 18
Nonfarm Employment Growth by Industry
Change in Number of Jobs between December 2011 and October 2012



Source: Rebenchmarked data based on Legislative Council Staff Analysis.

the housing market gains strength. The information sector, made up of telecommunications companies, book, newspaper, and software publishers, data processing and related services, lost over 3,000 jobs over the last 10 months.

Colorado's labor market grew at a moderate rate and saw steady improvement through October 2012. Economic uncertainty resulting from the fiscal cliff and the European debt crisis is expected to slow labor market conditions in the first half of 2013. Job growth should gain momentum in the second half of 2013, assuming some resolution in federal fiscal policies and continued, through nervous, market confidence in European efforts to resolve their crisis.

- Colorado's labor market is expected to continue to improve, with nonfarm employment growing 1.8 percent in 2012 and 1.0 percent in 2013. Employment growth will gain momentum in 2014, increasing 1.6 percent.

- The unemployment rate will remain high, averaging 7.9 percent in 2012 and 7.8 percent in 2013 before falling to 7.2 percent in 2014.

Personal Income and Wages Growing Slowly

Colorado **personal income** grew at an annual average growth rate of 3.6 percent through the third quarter of 2012 compared with the same period in 2011, as shown on the left-hand side of Figure 19 on page 48, after increasing 6.1 percent in 2011. Most components of personal income continued to grow in 2012, but at slower rates than in 2011. The right-hand side of Figure _ shows that wages and salaries increased 3.8 percent through the third quarter of 2012, after increasing 4.3 percent in 2012. Dividends, interest, and rent grew at a rate of 4.9 percent thus far in 2012, down from a rate of 8.6 percent in 2011. Business income (also known as nonfarm proprietor's income) also lost momentum, growing only 1.8 percent through the third quarter after increasing 5.1 percent in 2011. Farm income fell 3.4 percent through the third quarter of 2012 after increasing 30.8 percent in 2011, and will likely lose additional momentum in late 2012 and into 2013 and the effects of the drought begin to be realized at the retail level.

- Personal income will increase 3.6 percent in 2012 and 2.7 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.

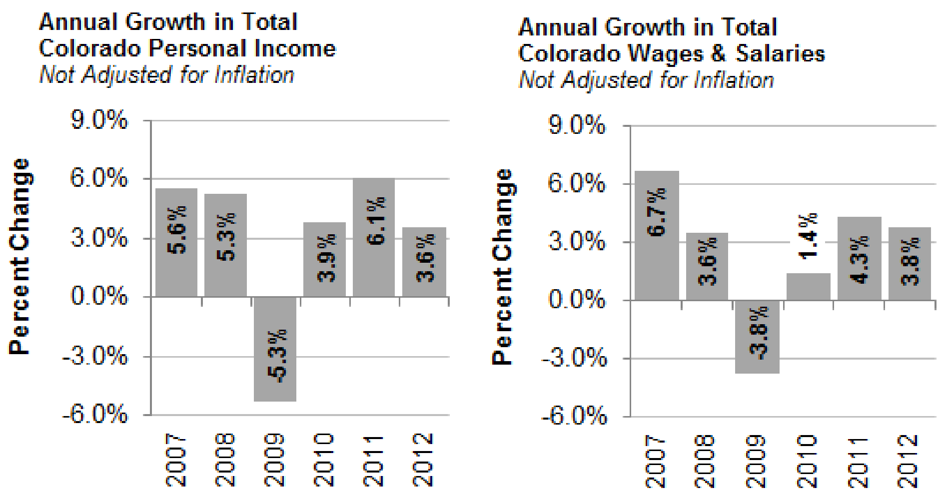
- Income from wages and salaries is the largest component of personal income. In the past two years, personal income grew faster than wages and salaries because of growth in transfer payments and more volatile income sources such as business and farm income. Wage and salary income will slowly increase along with the economy at rates of 3.6 percent in 2012 and 2.8 percent in 2013.

Consumer Spending Remains Strong

Retail sales remained strong thus far in 2012, increasing 6.3 percent year-to-date through August compared with the same period in 2011. The Conference Board's **Consumer Confidence Index** increased to its highest level in November since early 2008, the beginning of the recession. In Colorado, consumer confidence has been buoyed by steady gains in employment and improvements in the housing market.

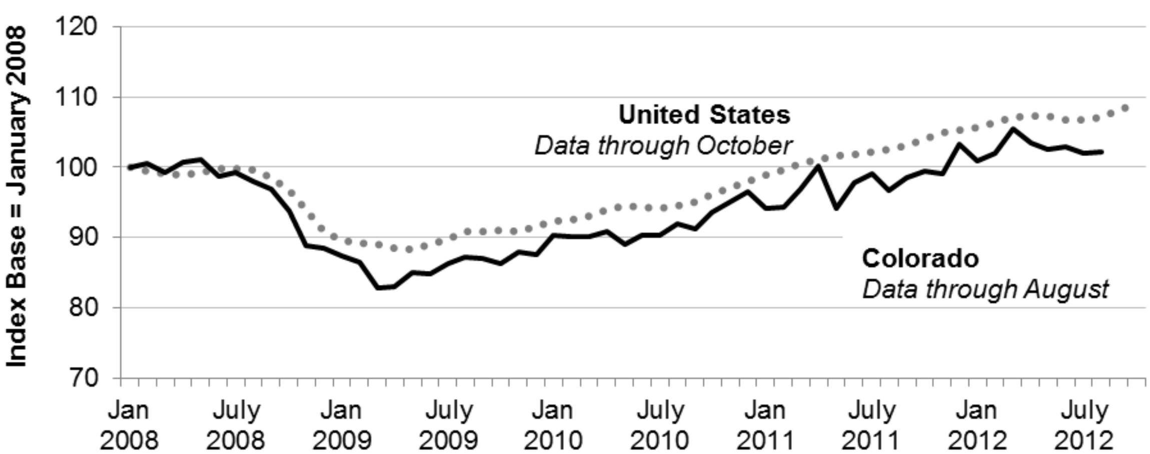
Figure 20 indexes changes in retail trade spending in Colorado and the nation

Figure 19
Growth in Colorado Income



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

Figure 20
Retail Trade in Colorado and the Nation
3-Month Moving Average Indexed to January 2008 Levels



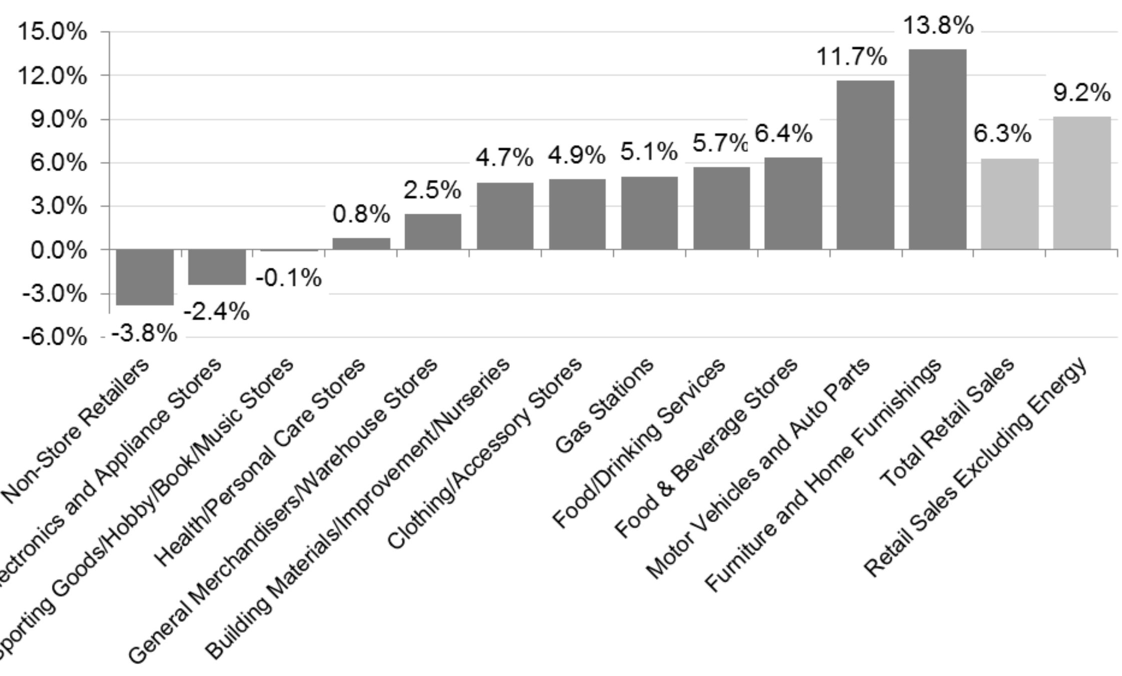
Source: U.S. Census Bureau, Colorado Department of Revenue.

since January 2008. Consumer spending in Colorado and the nation trended downward somewhat during the summer of 2012. However, growth in spending nationwide and Colorado sales tax revenue in the fall point to stronger growth in consumer spending in Colorado through the rest of 2012.

Consumers have more discretionary income; gas prices have fallen, and gains in the stock and housing markets have made consumers and businesses more confident. Figure 21 shows growth in sales by retail sector through August 2012 compared with the first eight months of 2011. Retail sales on all items except energy increased 9.2 percent over this time period, indicating that consumers and businesses are using the savings from lower gasoline prices to purchase other goods. Gains in the housing market have helped drive furniture and home furnishing sales, which increased 13.8 percent over this time period.

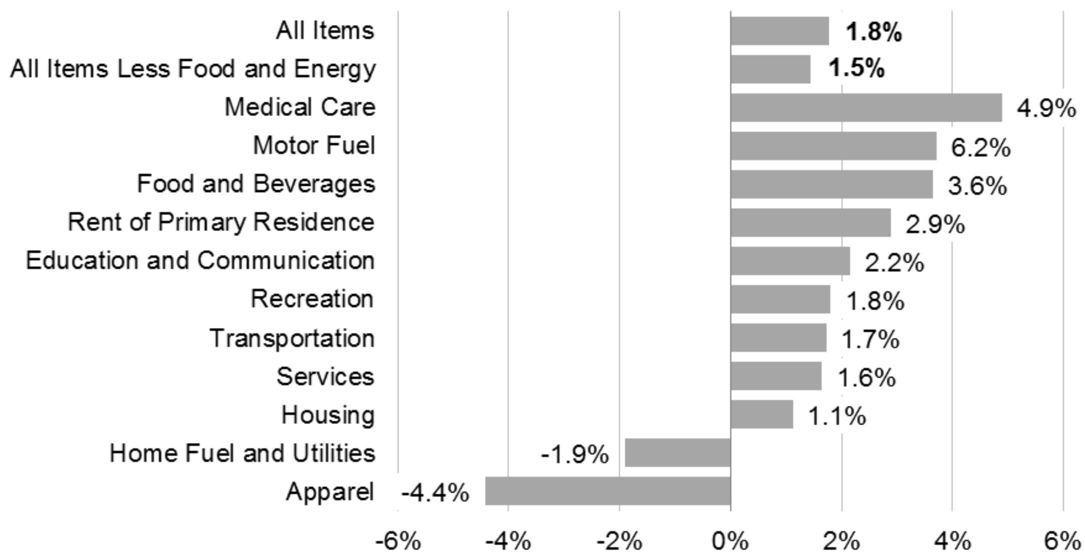
Capital gains from the stock market may also be resulting in the purchase of large ticket items such as cars and trucks; sales for motor vehicles and auto parts advanced 11.7 percent year-to-date through August. In addition, many households have shed debt. According to Federal Reserve flow of funds data, the nation's households shed or refinanced at lower rates more than $1 trillion of debt since the beginning of the recession. Total household debt as a percent of U.S. GDP fell from 76 percent in the first quarter of 2009 to 60 percent of GDP in the third quarter of 2012, a level last seen in 2003. Households' total debt service obligations as a percent of income has fallen nearly 20 percent during this time period, from 13.3 percent in the first quarter of 2009 to 10.7 percent in the second quarter of 2012. Although the debt that remains will continue to restrain spending and investment, the significant decrease in debt has

Figure 21
Growth in Total Sales by Retail Sector
January to August 2012 compared with January to August 2011



Source: Colorado Department of Revenue, Data through August 2012.

Figure 22
Components of Inflation for Boulder-Denver-Greely CPI
Change Between First Half 2012 over First Half 2011



Source: Bureau of Labor Statistics.

increased discretionary income, contributing to strong growth in retail sales.

- Consumers seem undeterred by uncertainty about the European economy and federal fiscal policies. However, growth in spending is expected to slow somewhat through the first few months of 2013. Retail trade will increase 5.2 percent in 2012 and 4.1 percent in 2013.

Prices Are Steady In Colorado

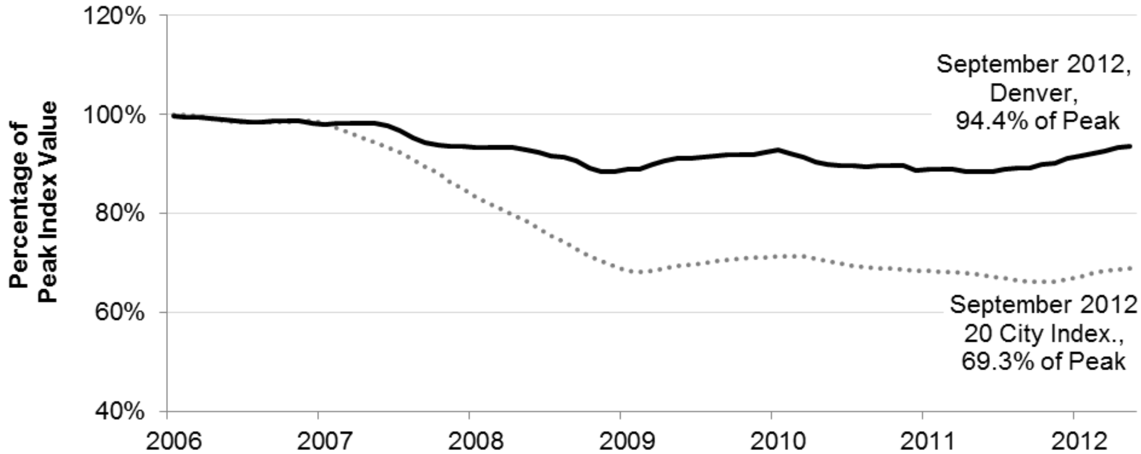
The falling price of fuel in the first half of 2012 has eased up on inflationary pressures in Colorado. As shown in Figure 22, prices for goods and services increased 1.8 percent in the first half of 2012 compared with the first half of 2011. The price of medical care increased the fastest, at 4.9 percent. 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.

- Prices in Colorado will rise 1.7 percent in 2012 and 2.1 percent in 2013. Although price pressure is expected from higher food prices and a strong rental market, which will put upward pressure on the housing component of the consumer price index, lower energy prices and continued slack in the labor and consumer markets will keep inflation low overall.

Colorado's Housing Market Is Contributing to the State's Recovery

Colorado's housing market began an earnest recovery in early 2012 after years of suppressed housing activity. The industry is faring better in the metro-Denver and Front Range cities than most metropolitan areas in the nation and is spilling over to other areas of the economy. For example, part of the recent rise in nonfarm employment growth in Colorado is being attributed to the vibrant housing market, adding jobs to the construction and finance sectors.

Figure 23
Case-Shiller Home Price Index, Distance from Index Peak
Seasonally Adjusted



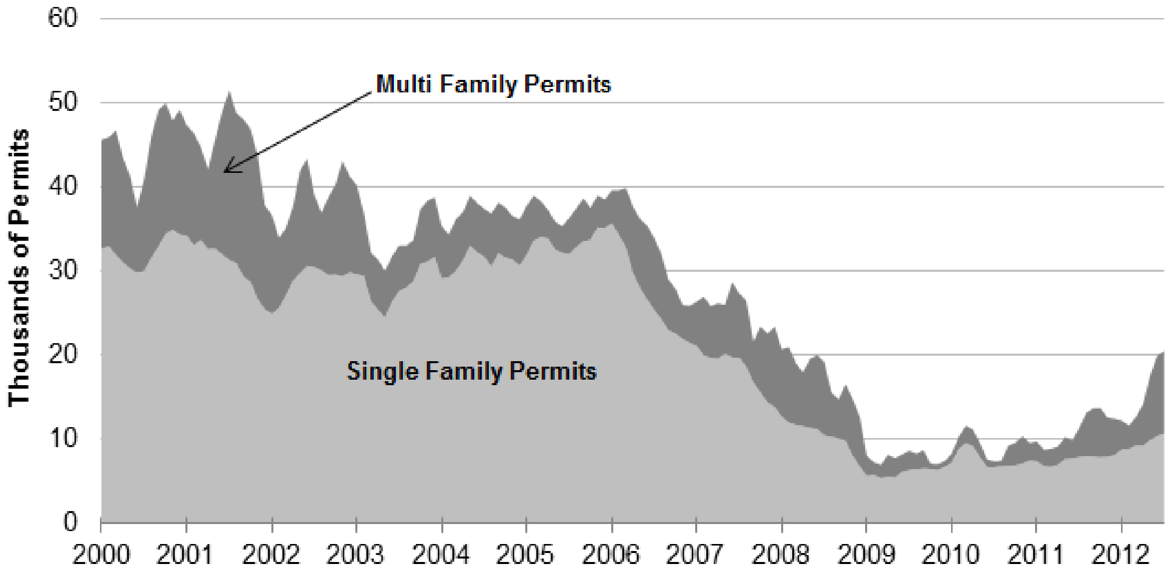
Source: Standard and Poor's, Case-Shiller Home Price Index, Data through September 2012.

Housing prices have posted gains in the Denver metropolitan region for the past 12 months, buoyed by low inventory levels, affordable housing prices, and low interest rates. Low inventory levels are driving higher prices and increasing homeowner confidence. Despite the gains, home sales in Colorado and other states are still being dampened by tight lending restrictions and stringent credit requirements, making it difficult for some potential homebuyers to purchase homes. Given the low inventory levels, the number of permits granted for residential construction rose considerably in 2012 over prior years, although they remain at historically low levels. The homebuilding industry is beginning to gain more confidence in the real estate market and builders are pulling more permits. This activity is contributing to some economic growth in the state, especially in northern Colorado and the Front Range.

According to the Case-Shiller Home Price Index, Denver home prices increased for the eleventh-consecutive month in September, advancing 6.7 percent over September 2011 levels. The 20-city composite index increased 3.0 percent during the same time period. As shown in Figure 23, Denver home prices were 5.6 percent below the peak value in the index in March 2006. Meanwhile, the 20-city composite index was 30.7 percent below its peak value in April 2006. Therefore, price increases in the Denver area are more likely to be building equity into homes than in many other cities nationwide. The price stability is contributing to Colorado's economic recovery; as homeowners feel more confident about their financial position they are more likely to make large purchases and or investments.

Interest rates are at historically low levels, helping the housing market nationwide. According to data from Freddie Mac, **30-year fixed-rate conventional mortgage** financing fell to a record-low in November of **3.34 percent** from the 4.0 percent range a year ago. In September, the Federal Reserve started buying mortgage bonds to encourage more borrowing and spending, and ultimately to keep interest rates on home loans at low rates.

Figure 24
Monthly Colorado Residential Construction Permits
Three-Month Moving Average, Seasonally Adjusted Data



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

The Colorado Department of Local Affairs reports that the **single family vacancy rate** in Denver was 2.0 percent in the second quarter of 2012, up slightly from 1.6 percent in the first quarter. Similarly, the **multi-family vacancy rate** for the Denver area decreased from 5.6 percent in December 2011 to 4.9 percent in June 2012, driving investment in both single-family and multi-family housing. The low multi-family vacancy rates and mortgage rates are beginning to drive a number of qualified homebuyers who would otherwise rent to instead purchase a home.

As shown in Figure 24, permits for residential construction in Colorado increased 61.0 percent between January and September 2012, compared with the same period in 2011. Single family permits increased 39 percent and multi-family permits increased 111 percent.

While Colorado's real estate market is stronger than the rest of the nation, levels of activity remain historically low as the broader economy continues to work through the imbalances wrought by the 2009 recession. The real estate market will not rebound completely until there is more growth in the broader economy.

- Single family permits will increase 40.8 percent in 2012 and 17.8 percent in 2013. Multifamily residential construction permits will nearly double in 2012, growing 98.8 percent before increasing 17.0 percent in 2013.

Nonresidential Construction Slows

Over the past few years, growth in the value of **nonresidential construction** has been primarily driven by new hospital construction and health facility projects. Warm weather in the 2012 winter months drove a boost in construction projects, but the largest gain came from a $583 million dollar hospital project in Denver. However, the value of new nonresidential construction permits slowed through the summer and fall, as shown in Figure 25 on page 54, and has increased a mere 1.2 percent through the first ten months of 2012 over prior-year levels.

Nonresidential construction is expected to see slow growth in 2013 as economic uncertainties slow investment. Some of the factors that may continue to slow the value of non-residential construction are increases in the cost of construction materials and lending and credit restrictions tied to financing construction projects.

- The value of nonresidential construction permits will fall 21.3 percent in 2012, as many large construction projects will be completed. In 2013, nonresidential construction will increase 14.6 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 26 on page 54 shows the number of oil and gas rigs operating in Colorado between January 2000 and November 2012, and how those wells were distributed between Garfield, Weld, and all other counties in the state since 2009. The number of statewide rigs peaked in November 2011, when 80 rigs were operating. At the close of November 2012, the statewide rig count fell to 56 rigs, a 30 percent decline over the year.

Drilling activity continues to slump in Garfield County and is at its lowest level in a decade. At the close of November 2011, there were 21 operating rigs. One year later, there were 8 rigs in operation, a 62 percent decline. The price of natural gas remains at historically-low levels despite recent increases, and opportunities to extract oil are drawing energy companies elsewhere. Prior to 2012, most of the drilling activity in Garfield County was conducted by three companies. However, Bill Barrett Corporation suspended its local drilling operations to invest in oil exploration in other areas.

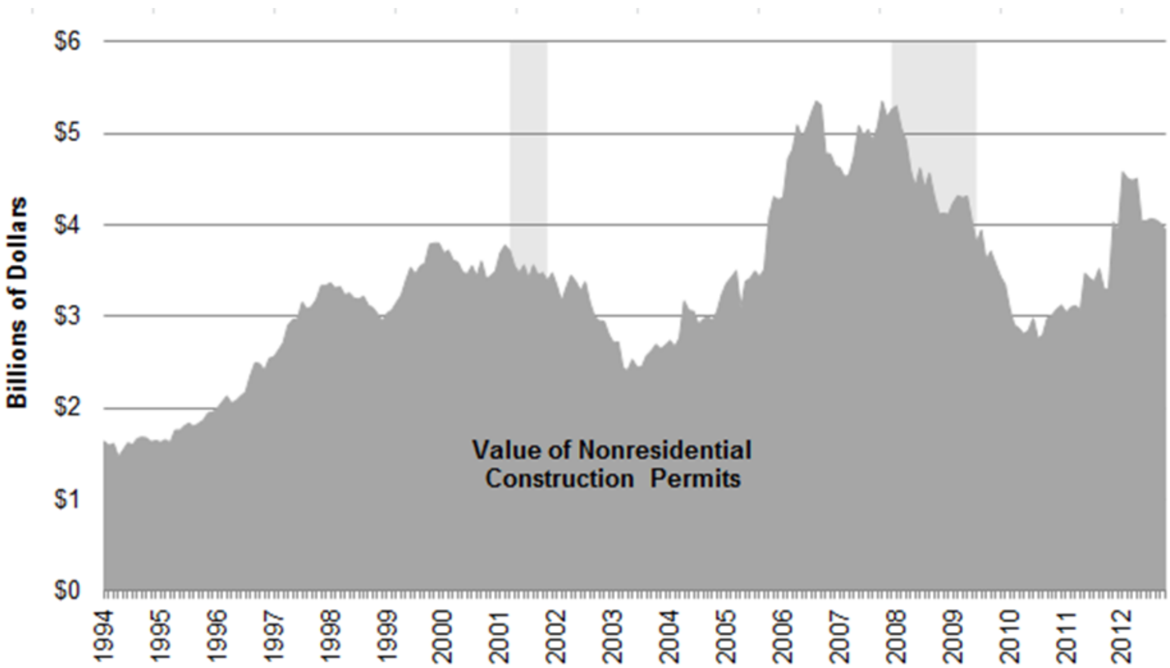
In Weld County, there were 35 drilling rigs operating in November 2012 compared with 42 operating rigs in November 2011, a 17 percent decline. The majority of Weld County's drill rig output is oil. The price of oil has remained favorable for energy companies and new drilling technology has increased the amount of output per rig. Drilling activity in Weld County is expected to remain stable in 2013.

Colorado Oil and Gas Conservation Commission data show that 3,243 permits were issued statewide year-to-date through November 2012, compared with 4,659 for all of 2011, a decrease of 30.4 percent. Well starts were at 1,888 year-to-date through November compared with 3,128 in the first 11 months of 2011, nearly a 40 percent decline. Well permits and starts are expected to show modest gains in 2013.

Colorado's Agriculture Industry

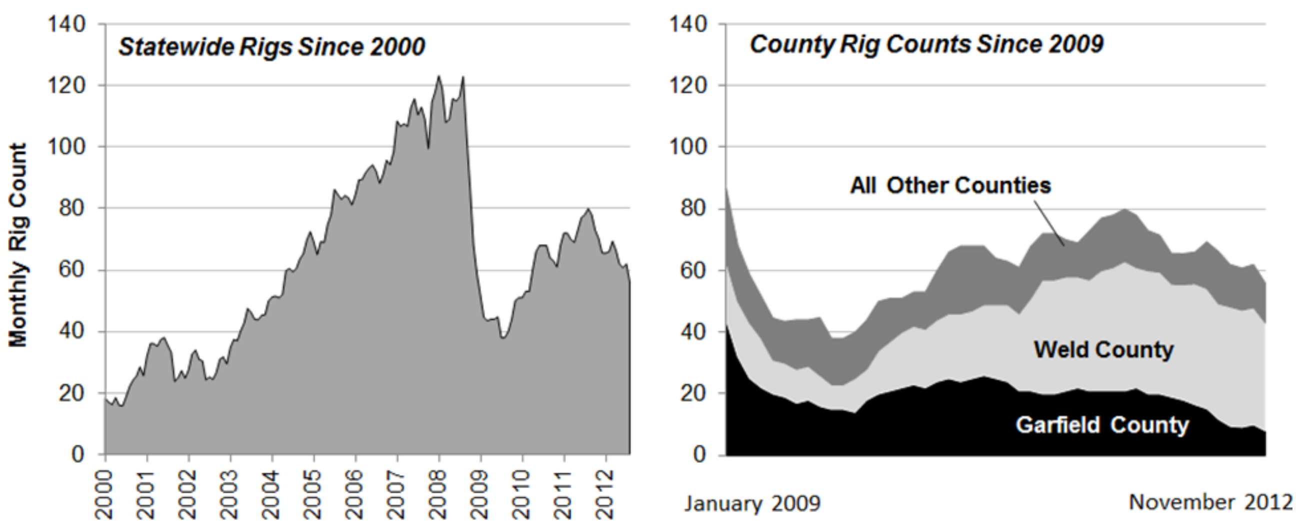
One of the worst in 25 years, the nation's drought has affected crop prices and meat production thus far in 2012. In many parts of the nation, such as the plain states, corn and soybean crops were hit hardest by the combination of excessive heat and drought

Figure 25
Value of Nonresidential Construction Activity



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

Figure 26
Oil and Natural Gas Rigs in Colorado



Sources: Baker Hughes. Data through November 2012.

conditions. These crops are used largely for animal feed, and cattle herds nationwide and in Colorado have been sold off because of the high price of feed. Lower crop production and smaller cattle herds will result in higher crop and meat prices in 2013 at the retail level. Despite the effect of the drought in many states, Colorado's agricultural industry is faring better than farming and ranching operations in many other areas of the nation.

Colorado's agricultural industry is dominated by three products: livestock, corn, and wheat. 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 therefore survived the drought. Corn production for 2012 is estimated at 133.9 million bushels in Colorado, down 23 percent from last year's crop of 172.9 million bushels. In November 2012, corn prices rose to $6.98 per bushel, up 20.8 percent from $5.78 per bushel in the prior-year period. Prices are up considerably from when corn sold between $3.00 and $4.00 per bushel in 2006 and 2009.

According to a recent U.S. Department of Agriculture report, crop conditions for winter wheat in the United States declined for the fourth straight week in November and were the worst since 1985. An estimated 33 percent of the nation's crop was rated good or excellent at the close of November 2012, down from 52 percent a year earlier. In Colorado, 18 percent of the crop was rated as in good condition and 40 percent of the crop was in very poor condition. Colorado's winter wheat production was down 5.4 percent in October 2012 from the prior-year period.

In November 2012, wheat prices rose to $8.26 per bushel, up 41.7 percent from November 2011 when the price was $5.83 per bushel. Alfalfa hay prices rose to $235 per ton in November, up 6.8 percent from $220 per ton in November 2011. The drought is not expected to affect Colorado's fruit and vegetable farms because many of these farms are irrigated.

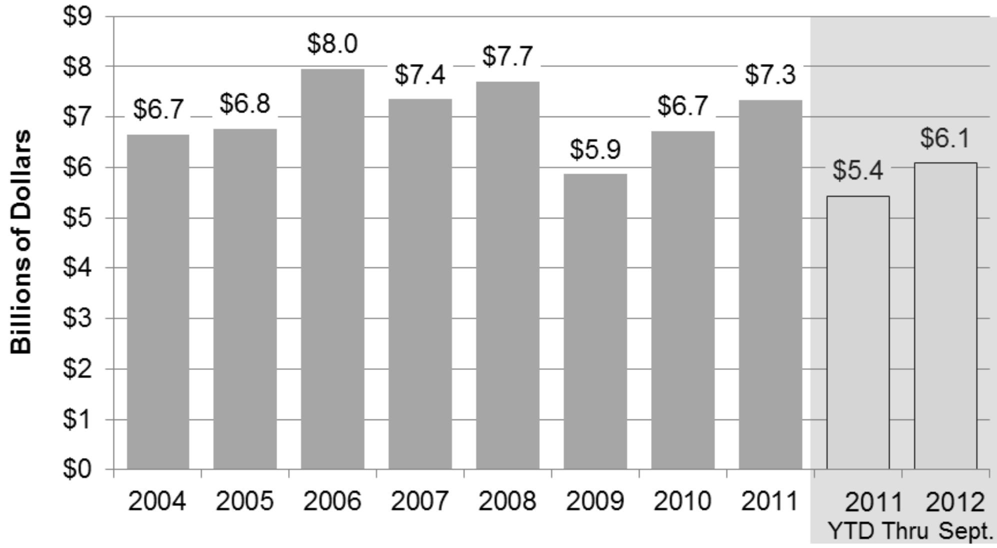
Throughout the year, ranchers were reducing the size of their herds in response to the drought and high cost of animal feed. By reducing herd size, more cows and calves are available on the market. This temporary, short-term supply of beef is lowering prices at the retail level in the short term in 2012. 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.

Cattle and red meat production will likely fall toward the close of the year. In November 2012, the number of cattle and calves in Colorado feedlots was estimated at 1,030,000 head, down 9.6 percent from the prior year. The sell-off of herds has resulted in higher levels of meat production. Red meat production totaled 196.7 million pounds in October 2012, up 10 percent from October 2011; cattle kill production in October was also up 10 percent to 221,900 head.

International Trade

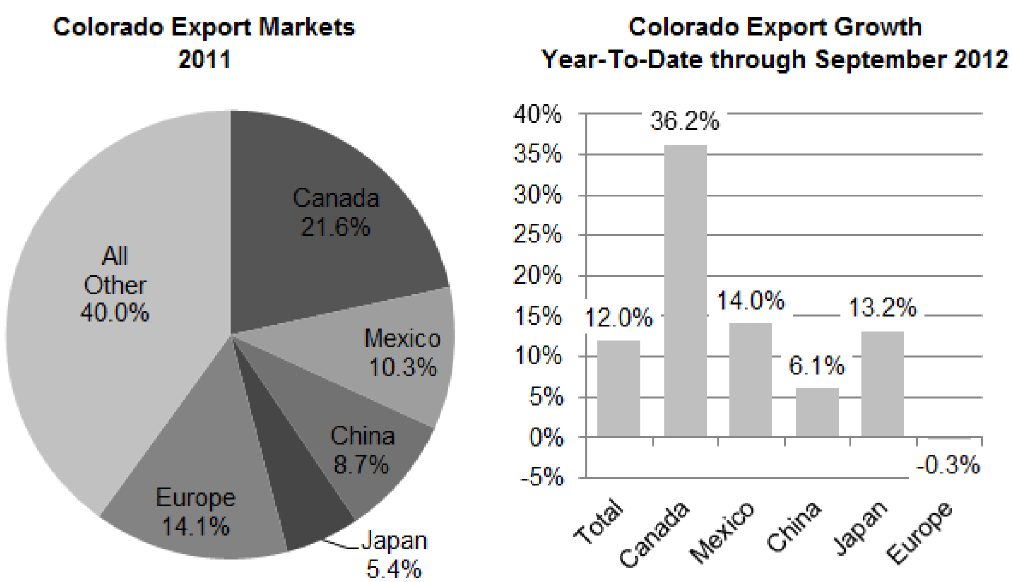
Colorado exports experienced strong growth in 2012. As shown in Figure 27 on page 56, Colorado exports increased 12.0 percent thus far in 2012, from $5.4 billion in the first three quarters of 2011 to $6.1 billion during the first three quarters of 2012. The nation's exports increased at a slower rate of 2.3 percent over this time period.

Figure 27
Total Value of Colorado Exports



Sources: World Institute for Strategic Economic Research (WISERTrade).

Figure 28
Colorado Exports



Sources: World Institute for Strategic Economic Research (WISERTrade).

Figure 28 shows Colorado's export markets in 2011 and export growth in these markets year-to-date through September 2012 compared with the first nine months of 2011. Colorado's overall export market has not been as affected by the European recessions because our export markets are less heavily weighted to the European economy than other parts of the nation, particularly the eastern coast. Canada, Mexico, and China, and Japan are Colorado's largest export markets. Year-to-date through September 2012, exports to Canada increased 36.2 percent compared with the first nine months of 2011, while exports to Mexico increased 14.0 percent and exports to China increased 6.1 percent. Exports to Europe decreased 0.3 percent.

Summary

Colorado's economic recovery is gaining strength and outperforming the national economy. Nonfarm employment is showing consistent growth; personal income and wages show slow, steady growth, consumer spending is strong, and the housing market is recovering. During the first half of 2013, the economy will grow more slowly amidst uncertainties associated with federal fiscal policy. In the second half of 2013, businesses will hire more workers and invest more in new business startups, assuming federal budget issues have been resolved. The housing and residential construction markets will continue to fuel economic growth, particularly in Denver and the northern urban corridor. Despite high agricultural crop prices, farm income will decrease as a result of lower production related to the drought. Oil and gas production in the northern part of the state is expected to continue to expand.

The risks to the forecast for the Colorado economy are identical to those to the forecast for the national economy. For more information about the assumptions used to prepare these forecasts and both the upside and downside risks, please see the summary of the national economic forecast, which begins on page 29.

Table 15
Colorado Economic Indicators, December 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	2,298.8	2,321.8	2,359.0
percent change	2.3%	0.8%	-4.5%	-1.0%	1.6%	1.8%	1.0%	1.6%
Unemployment Rate	3.8	4.8	8.1	8.9	8.3	7.9	7.8	7.2
Personal Income (millions)	$205,242	$216,030	$204,625	$212,545	$225,410	$233,525	$239,830	$253,980
percent change	5.6%	5.3%	-5.3%	3.9%	6.1%	3.6%	2.7%	5.9%
Wage and Salary Income (millions)	$112,962	$116,999	$112,588	$114,191	$119,148	$123,437	$126,893	$133,111
percent change	6.7%	3.6%	-3.8%	1.4%	4.3%	3.6%	2.8%	4.9%
Retail Trade Sales (millions)	$75,329	$74,760	$66,345	$70,738	$75,548	$79,477	$82,735	$87,120
percent change	6.9%	-0.8%	-11.3%	6.6%	6.8%	5.2%	4.1%	5.3%
Home Permits (thousands)	29.5	19.0	9.4	11.6	13.5	21.5	25.3	30.8
percent change	-23.2%	-35.5%	-50.8%	23.9%	16.5%	59.3%	17.5%	21.8%
Nonresidential Building (millions)	$5,259	$4,114	$3,354	$3,147	$3,931	$3,094	$3,546	$3,709
percent change	13.3%	-21.8%	-18.5%	-6.2%	24.9%	-21.3%	14.6%	4.6%
Denver-Boulder Inflation Rate	2.2%	3.9%	-0.6%	1.9%	3.7%	1.7%	2.1%	2.8%

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 revisions to published employment data expected by Legislative Council Staff.*

Assessed Value Projections

This section provides preliminary projections of assessed values for residential and nonresidential properties in Colorado and the residential assessment rate through 2015. Assessed values are an important component in determining local property tax revenue for Colorado's public schools, because the values are the tax base to which property tax rates are applied. Local property tax revenue is the primary, local contribution to public school funding that is complimented by state equalization payments. Assessed values are thus an important determinant of the amount of state aid provided to public schools.

Summary

Total assessed values for all property classes increased 1.7 percent in 2012 to $89.4 billion. Values are expected to rise another 2.3 percent in 2013 to a total value of $91.4 billion. Values will rise further to $93.1 and $96.2 billion in 2014 and 2015, respectively.

Assessed values are projected to grow modestly in 2013, the next reassessment year. These values reflect changes that occurred from January 2011 to June 2012. Recent gains resulting from the recovering economy will offset declines in assessed values of existing real property resulting from the economic downturn. Moderately increasing residential values and growth in values for nonresidential property classes, most notably oil and gas properties in Weld County, will contribute to the growth in assessed values. In 2014, another non-reassessment year, growth is expected to remain modest. In the reassessment year of 2015, however, growth is expected to pick up noticeably, reflecting gains made from January 2013 through June 2014. Table 16 on page 60 shows the actual and forecasted residential, nonresidential, and total assessed values from 2007 through 2015. Figure 29 on page 61 illustrates the actual and forecasted level of property values from 2003 through the forecast period.

- **Nonresidential assessed values** increased 2.5 percent in 2012, primarily due to new construction in the commercial and industrial classes augmented by increases in oil and gas values, especially in Weld County. As evidence of this, nonresidential values in the northern region shot up 17.3 percent. Every other region saw gains in value of up to 3.6 percent, except Colorado Springs and the southwest mountains, where values declined 2.0 and 2.2 percent, respectively. Nonresidential assessed values are projected to increase 3.7 percent statewide in 2013 and post slightly smaller gains in both 2014 and 2015.

- After rising 0.7 percent in the non-reassessment year of 2012**, residential assessed values** are expected to rise just 0.5 percent in 2013. The modest increase in the 2012 value reflected low levels of new residential construction across most of Colorado. Every region of the state except Colorado Springs posted modest gains ranging from 0.7 percent to 1.9 percent in the 2012 non-reassessment year. Values in Colorado Springs declined by less than 0.1 percent. Residential values are expected to grow very modestly in 2013, reflecting real estate market conditions in

Table 16
Residential and Nonresidential Assessed Values
(Dollars in Millions)

Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2007	$39,331	14.5%	$45,816	14.6%	$85,147	14.2%
2008	$40,410	2.7%	$47,140	2.9%	$87,550	2.8%
2009	$42,298	4.7%	$55,487	17.7%	$97,785	11.7%
2010	$42,727	1.0%	$49,917	-10.0%	$92,644	-5.3%
2011	$38,908	-8.9%	$48,986	-1.9%	$87,894	-5.1%
2012	$39,198	0.7%	$50,211	2.5%	$89,409	1.7%
2013*	$39,383	0.5%	$52,050	3.7%	$91,433	2.3%
2014*	$39,635	0.6%	$53,427	2.6%	$93,062	1.8%
2015*	$41,331	4.3%	$54,889	2.7%	$96,220	3.4%

Source: Colorado Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*

2011 and 2012, which will set values for 2013. Gains in values will be modest in the non-reassessment year of 2014, before a marked uptick in 2015, as the housing market gains steam. The increase in residential value will be uneven across the state. While most regions will post slight increases in value, a couple will continue to see property values decline in 2013.

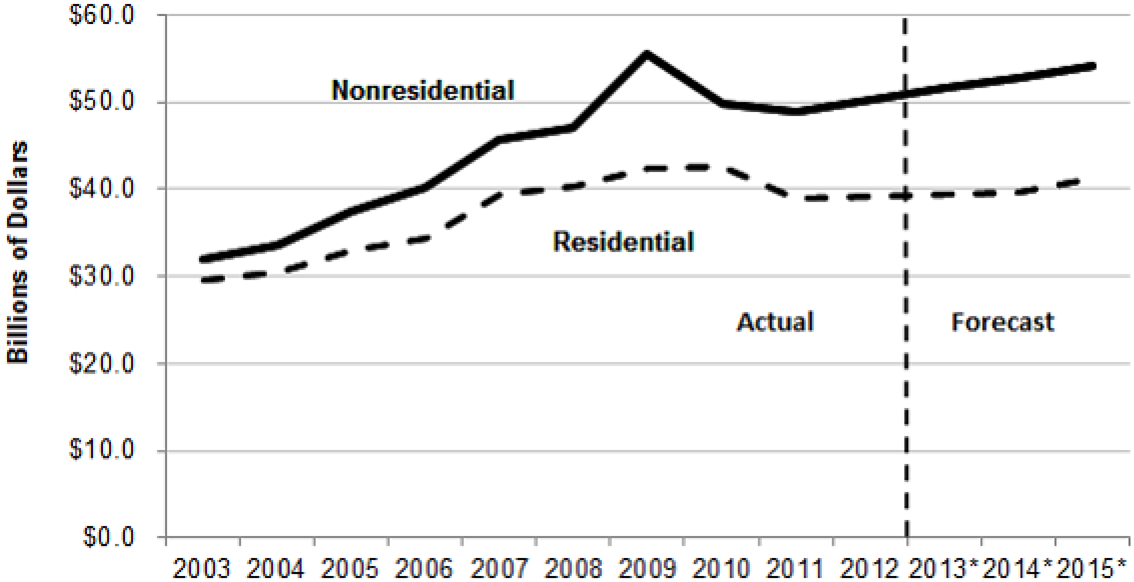
- The **residential assessment rate** will remain at 7.96 percent through the forecast period.

Assessed values increased 52.9 percent between 2004 and 2009 due to a widespread strengthening of the economy and a rapid expansion in the natural resource extraction industries. However, the recession, which was triggered in part by the collapse in the real estate market, significantly impacted real property values and activity in the energy industry. As a result, assessed values dropped 10.1 percent from 2009 through 2011.

Real property, including residential, commercial, industrial, and vacant land properties, is assessed over a two-year cycle. As a result, a lag occurs before changes in market value are reflected in assessed values. The 2011 assessment captured much of the decline in value that occurred during the recession. Any further decline occurring in 2011 through June 2012 will be captured in the next reassessment cycle in 2013, and will be offset by the beginnings of the recovery in the real estate market. Values in most real property classes will increase modestly over the first two years of the forecast period due to the lag between market and assessed values and minimal new construction. In 2015, real property values will increase more markedly.

In contrast to real property, which comprises the vast majority of the state's assessed value, "producing" properties in the agricultural, mining, natural resource, and oil and gas property classes are assessed annually. The value of these properties increased sharply in both 2011 and 2012, especially in the producing mine and oil and gas property classes. Such increases are expected to continue over the forecast period.

Figure 29
Residential and Nonresidential Assessed Values



Source: Colorado Department of Local Affairs, Division of Property Taxation.
**Legislative Council Staff forecast.*
Note: The residential assessment rate has been 7.96 since 2003 and will remain constant through the forecast period.

Nonresidential Assessed Values

Nonresidential property includes eight property classes: commercial, oil and gas, vacant land, industrial, agriculture, natural resources, producing mines, and state-assessed. Assessed values in these classes totaled $50.2 billion in 2012, 2.5 percent higher than in 2011. Nonresidential assessed values are expected to increase 3.7 percent in 2013. While values in real property classes such as commercial and vacant land will increase modestly during this reassessment year, the value of agricultural, mining, and oil and gas properties should continue to rise more markedly during the forecast period. There will be slightly smaller gains in nonresidential values in 2014 and 2015, but overall values will remain below the peak levels registered in 2009.

Commercial property represents about one-half of all nonresidential assessed value. Strong consumer spending and growth in residential developments in the middle of the last decade fueled growth in the value of commercial properties. However, consumer spending dropped markedly during the recession, and commercial property values have fallen accordingly, including a 5.8 percent drop in 2012. The steepest declines are occurring in areas that had the largest real estate boom before the recession. This includes mountain communities and urban areas such as Colorado Springs and metro Denver. As the economy improves, however, commercial values should start to increase, albeit in a lagged fashion. New construction will augment these value increases in the later years of the forecast period.

Oil and gas is the second-largest nonresidential property class, accounting for roughly 20 percent of total nonresidential value. Values in this property class include the production value of oil and natural gas and the value of the equipment used in the extraction and production processes. Assessed values in this class of properties rose 37.3 percent in 2011 due to an increase in energy prices. Due to the continued growth of oil exploration in the northern region, assessed values of oil and gas property rose an additional 14.2 percent in 2012, even with the decline in natural gas prices in the early part of the year. Drilling activity continues to be robust in Weld County, and oil and gas assessed values are expected to increase similarly in 2013 as prices and production of both commodities rise. Values will continue to rise through the remainder of the forecast period.

Vacant land is the third-largest nonresidential property class in the state, accounting for roughly 10 percent of total nonresidential value. The softness of the real estate market caused values in this property class to decrease 4.2 percent in 2012. Values are expected to begin increasing modestly, however, during the 2013 reassessment year.

Residential Assessed Values

The forecast for residential market values and the determination of the residential assessment rate are discussed in this section.

Residential values consist of the land and improvement value of single-family homes, condominiums, and apartments. The application of the residential assessment rate to residential market values determines residential assessed values. For example, if the market value of a home is $200,000, the current 7.96 percent residential assessment rate makes its assessed value $15,920 ($200,000 x 7.96 percent = $15,920). The property tax rate, or mill levy, is applied to the assessed value to determine the amount of property tax due on a home.

Residential market values. Residential market values increased 0.7 percent in 2012, equating to a gain of $3.6 billion in market value. This gain in value was fairly uniform across all regions in the state, and was all due to new construction as 2012 was a non-reassessment year. The largest gains occurred in the northern and western regions and the San Luis Valley, ranging from 1.1 to 1.9 percent. Both the mountain and southwest mountain regions saw gains of 0.9 percent, slightly above the state average. The Denver, Pueblo, and eastern plains regions saw gains in value of 0.7 percent, while values in the Colorado Springs region declined by less than 0.1 percent.

Overall growth in residential market values will again be modest in the 2013 reassessment year. Declines in value that occurred toward the end of the recession will be offset by the gains that are starting to occur as the economy recovers. Gains in value, however, will not be uniform across the state. Growth in residential value will occur all along the front range, including the northern, metro Denver, Colorado Springs, and Pueblo regions. Gains are expected to range from 0.7 to 2.3 percent. In contrast, the housing market in areas such as the mountain, southwest mountain and western regions has not yet hit bottom and will continue to see declines in residential values, ranging from 3.2 to 3.9 percent.

Because the residential assessment rate is not expected to change, **residential assessed values** will increase at the same rates as residential market values over the forecast period.

Gallagher and the residential assessment rate. The Gallagher Amendment to the Colorado Constitution fixes the share of value attributable to residential property statewide at roughly 47 percent of total assessed values, with nonresidential assessed values making up the remaining 53 percent. When the market value of residential property increases at a faster rate than the value of nonresidential property, the Gallagher Amendment requires that the residential assessment rate decline to hold the statewide residential assessed value at its required share of total assessed values. Because residential market values grew at a faster rate than nonresidential values (or declined at a slower pace) from 1983 to 2003, the residential assessment rate decreased from 21.0 percent to 7.96 percent over that period. By comparison, most nonresidential property is assessed at 29 percent of its value.

The residential assessment rate has remained constant since 2003. Residential values in Colorado were negatively impacted by the recession in the early 2000s and did not increase as much as many other areas of the nation. In contrast, nonresidential values grew faster due to growth in the commercial and oil and gas property classes. Under the Gallagher Amendment, the faster growth in nonresidential values should have triggered an increase in the residential assessment rate to maintain the required proportions in total assessed values. However, because the TABOR Amendment specifically prohibits an increase in assessment rates without voter approval, the residential assessment rate has remained at 7.96 percent. Based on the Gallagher Amendment calculation, the residential assessment rate should have increased to 8.71 percent for 2011 and 2012.

Although both residential and nonresidential property values grew modestly in 2012, nonresidential values grew more than residential values, which should have triggered an increase in the residential assessment rate. For the upcoming reassessment period in 2013 and 2014, growth will be stronger in nonresidential values, causing the calculated residential assessment rate to rise to 8.92 percent. The actual rate, however, will remain fixed at 7.96 percent unless voters approve an increase.

Regional Assessed Values

Assessed values are projected for each school district and are used in forecasting state expenditures for pre-kindergarten through twelfth grade public education. The following section highlights trends for each region in the state. Table 17 on page 64 summarizes how regional assessed values will change through 2015. Figures 30 on pages 65 and 66 depict graphically, by region, actual and forecasted residential and nonresidential assessed values from 2008 through the forecast period. Figures 31 and 32 on pages 71 and 72 illustrate geographically the anticipated change from 2012 to 2013 at the regional and school district-level.

The economy in the Front Range is improving, which has positive impacts on the property tax base. Home prices have bottomed out and are beginning to rise. The supply of houses for sale is extremely low, so the market is able to absorb foreclosures without dragging down prices. Prices of commercial properties have been helped by extremely low interest rates. Other classes of nonresidential property along the front range are also benefitting from an improving economy.

The oil and gas industry has a significant impact on the economies and assessed values of several regions of the state. In the northern region, the oil industry drives nonresidential assessed values. In the Western region, natural gas has the largest share of assessed values. Oil exploration in the northern region is increasing while activity related to natural gas in the Western region has declined. Both of these trends are tied to national energy markets and the relative prices of oil and natural gas.

Assessed values in the resort areas of the state have been slow to recover from the recession. Values are heavily influenced by

Table 17
Regional Total Assessed Values and Growth Rates

		Forecast Percent Change			
Region	**Preliminary 2012***	**2013**	**2014**	**2015**	**3-Year Average Annual**
Metro Denver	$42,196	3.9%	1.7%	3.4%	2.9%
Colorado Springs	$6,344	0.7%	1.0%	2.1%	1.3%
Northern	$9,670	8.9%	7.1%	6.7%	7.3%
Western	$10,898	-3.3%	-0.9%	1.3%	-1.0%
Pueblo	$2,806	3.6%	2.6%	2.9%	3.0%
Eastern Plains	$2,354	3.0%	1.8%	2.7%	2.5%
Mountain	$11,134	-2.5%	0.4%	3.6%	0.5%
Southwest Mountain	$3,409	-1.8%	0.5%	1.8%	0.1%
San Luis Valley	$618	1.5%	1.3%	2.5%	1.8%
Statewide Total	$89,430	2.2%	1.8%	3.4%	2.4%

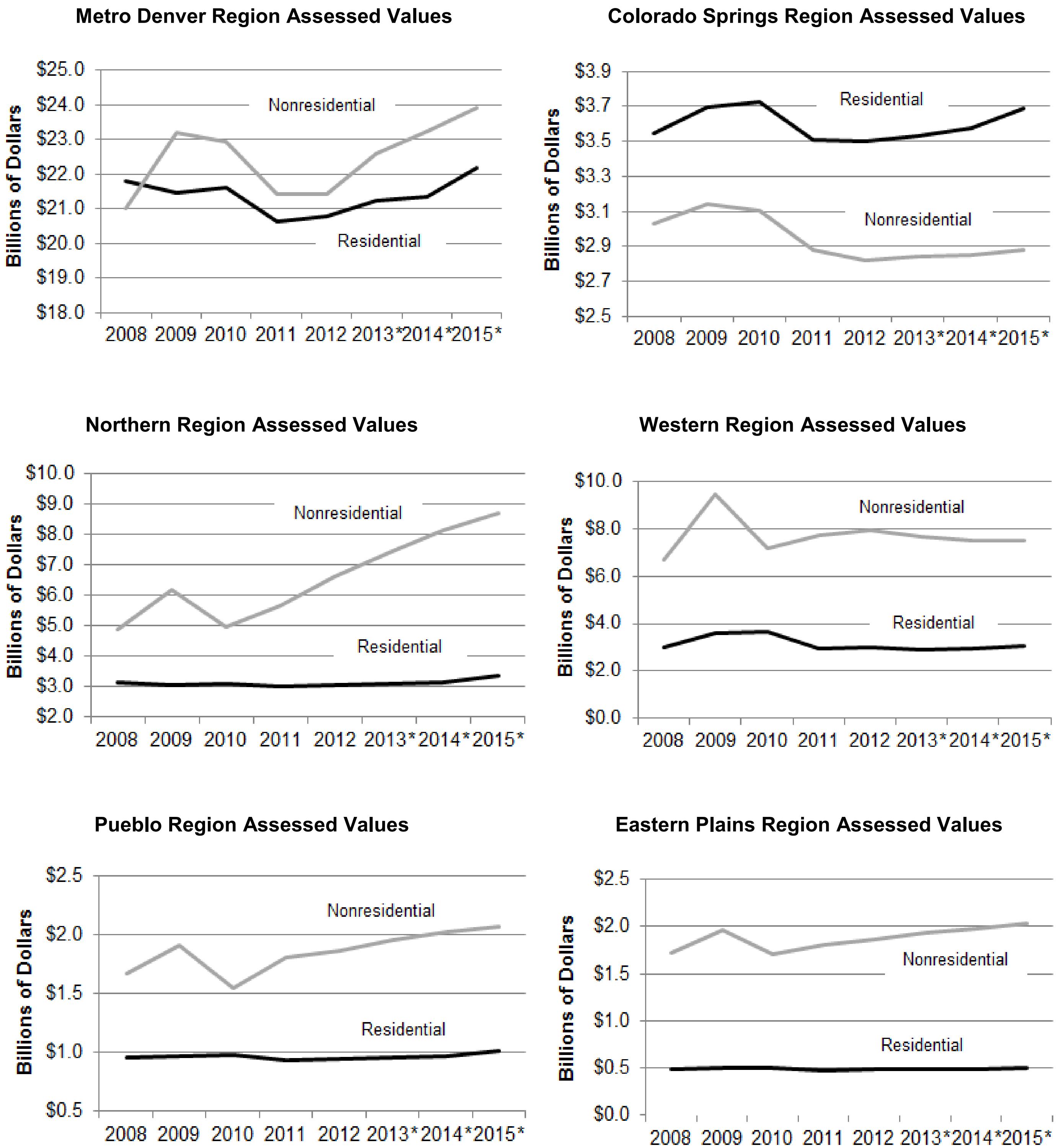
**Preliminary estimate from the Department of Local Affairs, Division of Property Taxation.*

the tourism and construction industries. The value of vacant land is determined by its development potential. Commercial properties, such as restaurants and retail stores, rely on tourism activity. Residential values are determined by the demand for second homes and the ability of workers in the tourism and construction industries ability to afford homes. Construction activity was at extremely low levels over the past year while visitor counts were relatively low because of the dry winter.

Finally, the 2012 drought will place upward pressure on the value of agricultural property. Agriculture commodity prices are up because of the drought, while the offsetting impact of lower productivity is dampened because agricultural land values are based on a measure of the land's 10-year average productivity.

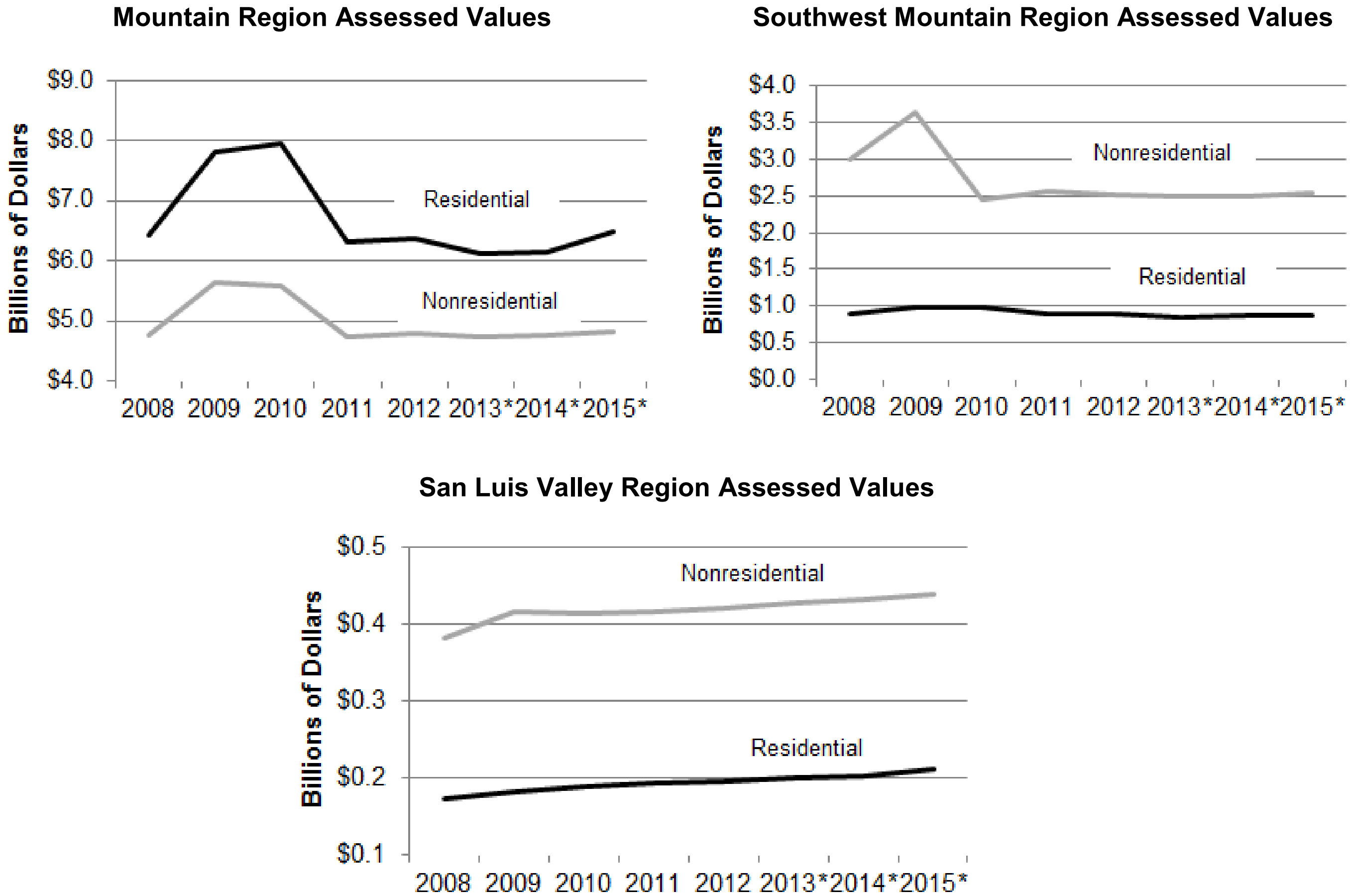
As the **metro Denver** region continues to recover from the economic downturn housing values have bottomed and are beginning to rise, and there has been a small amount of new construction. In 2012, residential assessed values increased 0.7 percent region-wide. This reflects new construction of residential property that occurred in 2011. Residential values increased or were flat in all school districts in 2012, ranging from 0.0 percent growth in Westminster and Englewood to 1.6 percent growth in Brighton. In 2013, a reassessment year, there will be a 2.1 percent increase in residential assessed values in the region, which captures the price changes from a slowly improving housing market in 2011 and 2012. In 2014, residential assessed values will increase another 0.5 percent due to low levels of new construction. Values are expected to increase 3.9 percent in 2015.

Figure 30
Regional Residential and Nonresidential Assessed Values



**LCS Forecast.*
Source: Department of Local Affairs, Division of Property Taxation.

Figure 30 (Continued)
Regional Residential and Nonresidential Assessed Values



**LCS Forecast.*
Source: Department of Local Affairs, Division of Property Taxation.

Changes in nonresidential assessed values in this region have varied by school district depending on the mix of property classes in the tax base. Values for commercial properties in general are increasing due to low interest rates, which are helping sale prices. Other classes of property are also increasing in value as the economy strengthens. Nonresidential property will increase 5.6 percent in 2013, a reappraisal year. In 2014, nonresidential assessed values are anticipated to increase 2.8 percent, as construction and annually assessed property valuations reflect a better economy.

Overall, total assessed values in the metro Denver region will increase at an average annual rate of 2.9 percent over the next three years, with residential assessed values increasing 2.1 percent and nonresidential assessed values increasing 3.7 percent.

Both residential and nonresidential assessed values in the **Colorado Springs** region declined slightly in the 2012 property tax year. Residential values decreased by less than 0.1 percent in 2012. Changes in residential value ranged from a 3.2 percent increase in the Widefield School District to a 2.8 percent decrease in the Lewis Palmer

School District. Residential values have stabilized since the last reappraisal year, and will increase 0.7 percent in 2013, the next reassessment year.

Nonresidential properties declined by 2.0 percent in 2012 due to declines in commercial and vacant land classes resulting from appeals. Nonresidential values in the Colorado Springs and Academy school districts, the two districts with the highest level of assessed values, remained fairly stable, increasing by less than 0.1 percent and decreasing by 2.2 percent, respectively. Nonresidential property will increase 0.7 percent in 2013, a reassessment year.

Overall, total assessed values in the Colorado Springs region will increase at an annual average rate of 1.3 percent over the next three years, with residential assessed values increasing 1.5 percent and nonresidential assessed values increasing 0.7 percent.

Assessed values in the **northern** region, containing school districts in Larimer and Weld counties, posted strong growth in 2012. A 17.3 percent jump in nonresidential value was primarily due to large increases in oil and gas property values in Weld County, which constitutes a significant share of the region's value. These values are projected to jump another 12.0 percent in 2013. Because to the continued petroleum boom and the northern region's high proportion of agricultural and state assessed properties, regional nonresidential values will increase the most rapidly through the forecast period.

Residential values in the northern region have weathered the soft housing market better than other parts of the state, in part because of the growth in the oil industry. Residential assessed values increased 1.1 percent in 2012 due to new construction. Residential values are expected to increase 2.3 percent in 2013, the next reassessment year.

Total assessed values in the northern region are projected to grow the fastest of any region in the state, increasing at an annual average rate of 7.3 percent over the next three years. Residential assessed values will grow 3.1 percent and nonresidential assessed values will increase 9.1 percent annually through the forecast period.

The **western region** is still struggling to recover from the recent recession. Nonresidential assessed values increased 2.6 percent in 2012, but a significant portion of the state's drilling activity has migrated from the natural gas fields of the region's Piceance Basin to the oil fields of Weld County. Few new wells have been drilled, and production flows from the older wells are beginning to slow. Values of nonresidential property will decrease 3.3 percent in 2013 as some small gains in commercial property will be offset by declines in oil and gas property values.

Residential assessed values increased 1.2 percent in 2012 due to new construction. Unlike other areas in the state, home prices continued to fall into 2012, when residential properties were reassessed. Residential values are expected to decrease another 3.2 percent in 2013 before increasing 0.9 percent in 2014 and 4.9 percent in 2015.

Over the next three years, total assessed values in the western region will decrease at an annual average rate of 1.0 percent. Residential assessed values will increase at an annual average rate of 0.8 percent, while nonresidential assessed values will decrease 1.7 percent annually, through the forecast period.

The economy of the **Pueblo** region, encompassing districts located in Pueblo, Fremont, Las Animas, Huerfano, and Custer counties, is starting to recover from the recession, but the recovery is not as strong as either the metro Denver or northern regions. Residential values increased 0.7 percent in 2012, primarily due to new construction. Residential values have stabilized since the last reappraisal and will increase 1.4 percent in 2013, the next reassessment year. In 2014, residential values will grow 0.8 percent before increasing 4.7 percent in 2015.

Nonresidential values in the region increased 3.6 percent in 2012, after increasing 16.9 percent in 2011. Declines in the value of natural gas property in Las Animas County were offset by increases in state assessed property in Pueblo County. Nonresidential property is expected to increase 4.7 percent in 2013, before growing 3.5 percent in 2014 and 2.1 percent in 2015.

Overall, total assessed values in the Pueblo region will increase at an annual average rate of 3.0 percent over the next three years. Residential assessed values will increase 2.3 percent and nonresidential values will increase 3.4 percent per year through the forecast period.

School districts in the **eastern plains** region are typically among the slowest growing in terms of assessed value. This is partially the result of slow population growth and relatively low demand in the region for residential and commercial development. After decreasing 3.8 percent in 2011, residential values in the region returned to their traditional pattern of slow growth, increasing 0.7 percent in 2012. Values are expected to grow 0.6 percent in 2013, the next reassessment year.

The bulk of the region's nonresidential value consists of agricultural property. Nonresidential values increased 3.5 percent in 2012. The drought conditions will slightly increase the assessed value of agricultural land because the value is based on increased commodity prices and a 10-year average productivity measure. The state assessed and natural resources property classes are also important for some school districts in Cheyenne and Yuma counties. Values in each of these property classes are expected to grow through the forecast period.

Total assessed values in the eastern plains region will grow at an average annual rate of 2.5 percent over the next three years. Residential assessed values will increase 1.1 percent and nonresidential assessed values will increase 2.8 percent annually, through the forecast period.

Colorado's **mountain** region experienced large declines in assessed values in the 2011 reassessment year and the real estate market has not yet rebounded. A lack of demand for high-price vacation homes and few opportunities in the tourism and construction industries are contributing to the decrease in value. Residential values in the region increased 0.9 percent in 2012, primarily due to new construction. In 2013, the next reassessment year, values are expected to decrease 3.9 percent. Values will increase 0.4 percent in 2014, before jumping 5.5 percent in 2015 as the tourism economy gains traction.

Regional nonresidential values increased 0.8 percent in 2012. Declines in the values of vacant land and commercial properties were more than offset by increases within the state assessed property class. Nonresidential values will decline 0.8 percent in 2013, before slowly increasing through the remainder of the forecast period.

Total assessed values in the mountain region will increase at an annual average rate of 0.5 percent over the next three years. Residential values will increase 0.6 percent and nonresidential values will increase 0.3 percent, on an average annual basis, through the forecast period.

The **southwest mountain** region showed mixed results for assessed values in 2012. Residential assessed values increased 0.9 percent. The increase in residential property was due to new construction, but home prices continued to decline into 2012. In the reassessment year of 2013, these price declines will be captured and residential values will decrease 3.8 percent.

On the nonresidential side, many counties in the region are more reliant on natural gas production, which declined in this region in 2012. Overall, nonresidential values fell 2.2 percent in 2012, and are expected to decrease another 1.2 percent in 2013. Small declines in commercial and vacant land will contribute to this fall in values. However, values will increase 0.4 percent in 2014 and 1.8 percent in 2015 as the regional production rebounds with increasing energy prices.

Overall, total assessed values in the southwest mountain region will increase at an annual average rate of 0.1 percent over the next three years, with residential assessed values decreasing 0.4 percent and nonresidential assessed values increasing 0.3 percent.

Residential assessed values in the **San Luis Valley** region increased 1.9 percent in 2012, the fastest growth in any region in the state. Housing values are expected to increase by 1.7 percent in 2013 reassessment year. A low level of new construction will increase values by 1.3 percent in 2014.

Nonresidential assessed values increased 1.1 percent in 2012, and are projected to grow between 1.3 and 1.5 percent in each of the next 3 years. Commercial, agricultural, and vacant land property classes are the largest components of the region's nonresidential tax base. Commercial and vacant land values will remain stable through the forecast period and agricultural land value will increase slightly due to projected increases in commodity prices.

Total assessed values in the San Luis Valley region will increase at an annual average rate of 1.8 percent over the next three years. Residential assessed values will increase 2.4 percent and nonresidential assessed values will increase 1.4 percent on an average annual basis through the forecast period.

Risks to the forecast. The performance of the state's economy over the next several years will affect the strength or weakness of property values. There are signs that the Colorado economy is starting to recover, and is doing so more quickly than the nation as a whole. The speed of the recovery will vary by region, but if the recovery gains momentum, projections of assessed values presented in this forecast may be too low. After the 2012 drought, the state needs a healthy snow pack for the tourism industry and more moisture to increase the productivity of agricultural land. If the drought continues, it will be difficult for regions in the state that are reliant on the tourism and agricultural sectors to grow as quickly as forecast.

Finally, oil and gas properties are a significant driver of assessed values, especially in the northern and western regions. Energy prices are highly variable, and assessed values in these areas are particularly susceptible to energy price swings. This forecast assumes that oil prices will remain high enough to support the robust oil development that has been occurring in the northern region. Natural gas prices are also forecast to rise modestly on an annual average basis throughout the forecast period. If oil prices rise faster than projected, values in the northern region may be understated. Conversely, if natural gas prices evidence another decline similar to what occurred in early 2012, values in the western and southwest mountain regions may be overstated.

Figure 31
Forecast Percent Change in Total Assessed Valuation by Economic Region
2013 Assessment Year (Budget Year 2013-14)

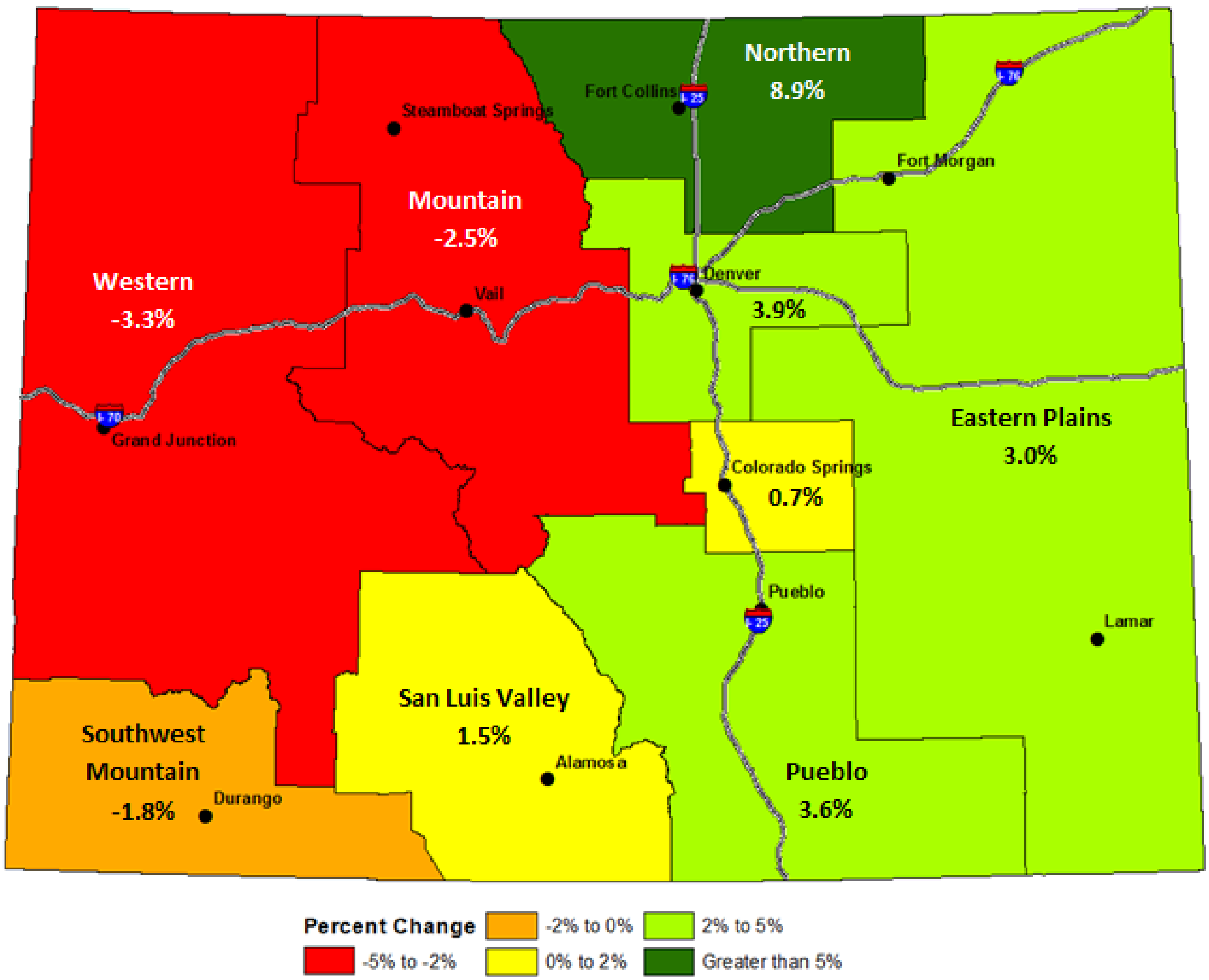
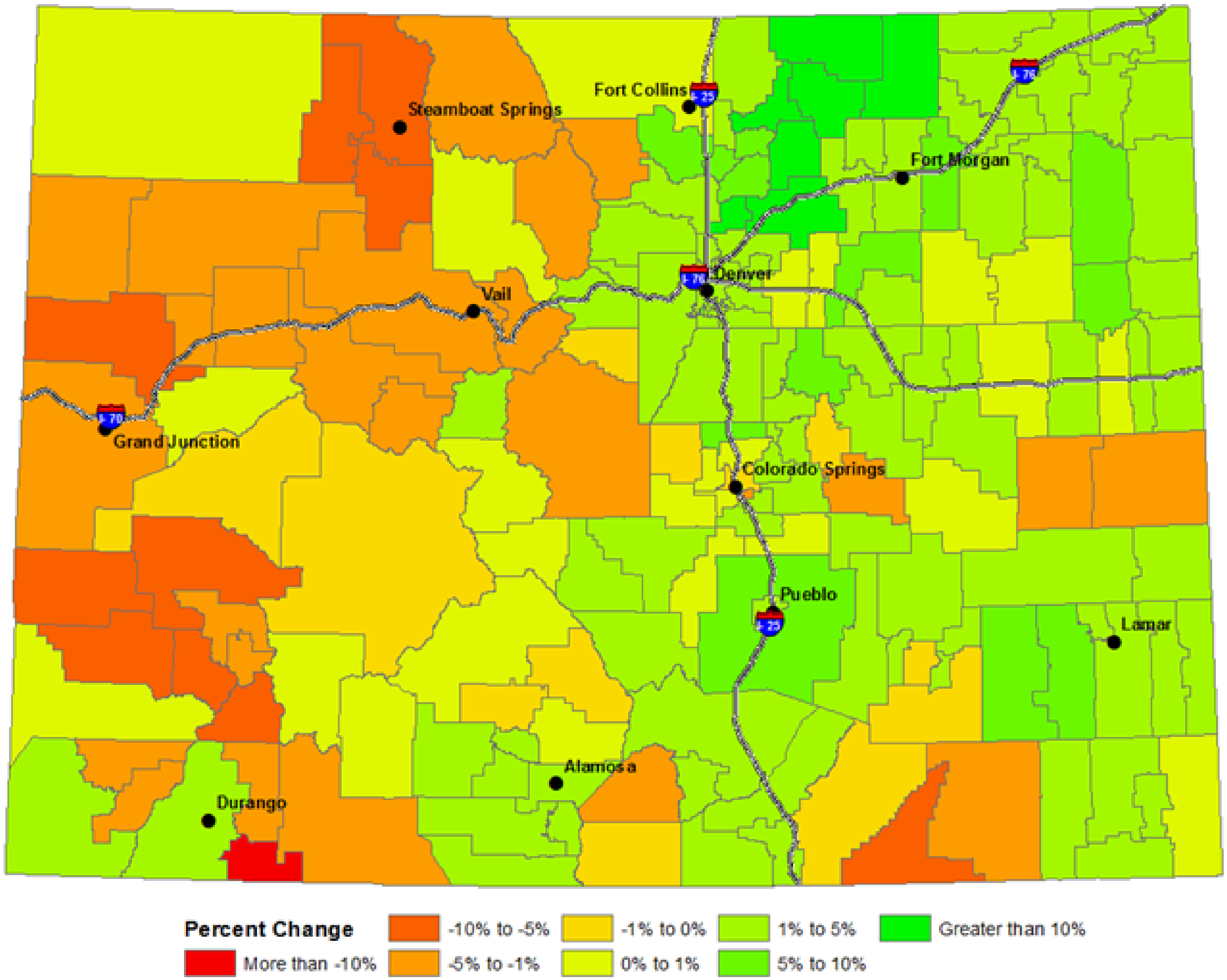


Figure 32
Forecast Percent Change in Total Assessed Valuation by School District
2013 Assessment Year (Budget Year 2013-14)



School Enrollment Projections

This section of the forecast presents the Legislative Council Staff enrollment projections for kindergarten through twelfth grade in Colorado's public schools. These projections are presented in full-time equivalent (FTE) terms, and are used to determine funding levels for Colorado's 178 school districts. Table 18 summarizes current and forecast enrollment from the current 2012-13 school year through the 2014-15 school years. Figures 34 and 35 on pages 77 and 78 show regional and district enrollment growth projections for the state.

- Overall kindergarten through twelfth grade enrollment is projected to increase by 9,547 FTE students, or 1.2 percent, in the 2013-14 school year. Enrollment in the following school year (2014-15) is expected to increase 1.3 percent, or 10,389 FTE students statewide.

- The northern, metro Denver and Colorado Springs regions will continue to drive statewide enrollment growth throughout the forecast period. These regions have the largest student populations and growing job opportunities, which will attract families to those areas.

Statewide forecast results. The 2012 school year count showed 793,703 FTE students in Colorado's public schools, up 1.2 percent, or 9,062 FTE students. Last December, Legislative Council Staff

Table 18
Regional Growth in K-12 Public School Enrollment
*Full-Time Equivalent Students**

Region	Actual 2012-13	Percent Change	Estimated 2013-14	Percent Change	Estimated 2014-15	Percent Change	Average Growth (2012-13 through 2014-15)
Colorado Springs	105,659	0.7%	106,408	0.7%	107,198	0.7%	0.7%
Eastern Plains	24,791	-0.2%	24,743	-0.2%	24,676	-0.3%	-0.2%
Metro Denver	460,148	1.7%	467,307	1.6%	474,708	1.6%	1.6%
Mountain	23,591	0.2%	23,674	0.4%	23,796	0.5%	0.4%
Northern	78,543	1.6%	79,808	1.6%	81,313	1.9%	1.7%
Pueblo	32,934	-1.4%	33,011	0.2%	33,155	0.4%	0.3%
San Luis Valley	7,063	-2.3%	7,042	-0.3%	7,086	0.6%	0.2%
Southwest Mountain	11,762	-0.3%	11,749	-0.1%	11,766	0.1%	0.0%
Western	49,213	-0.2%	49,507	0.6%	49,940	0.9%	0.7%
Statewide Total	793,703	1.2%	803,250	1.2%	813,639	1.3%	1.2%

** Kindergarten students are counted at 0.5 FTE.*

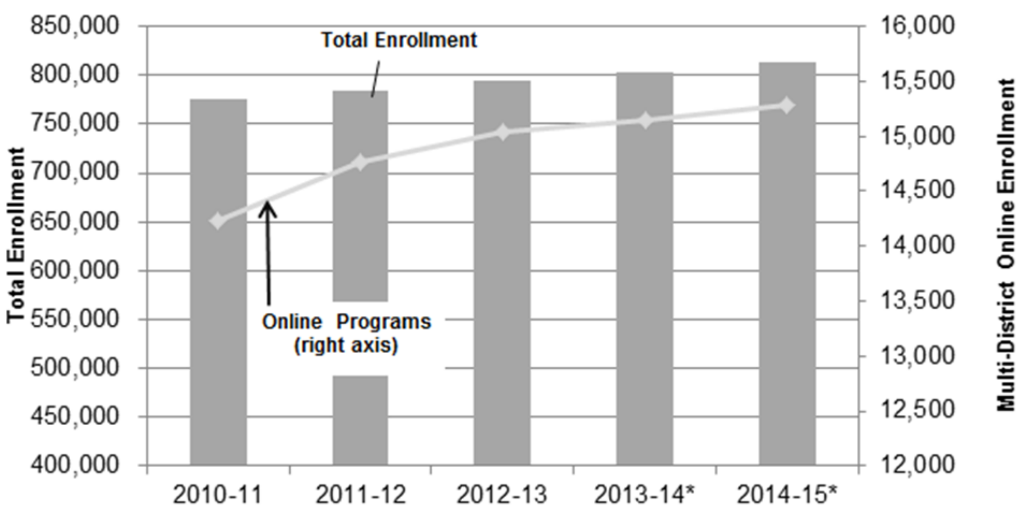
projected student enrollment would reach 794,245 FTE in the 2012-13 school year, an increase of 1.2 percent, or 9,605 FTE from the prior year. Actual enrollment was lower by 543 FTE students, or 0.1 percent, compared to the forecast produced last year. In the current forecast, 2013-14 statewide enrollments are expected to grow at a similar pace as the current school year. A modest rise in enrollment growth is expected in the 2014-15 school year as economic activity in the state continues to improve and net migration to the state increases.

Employment growth and the residential real estate market, which have a considerable impact on school enrollment, are improving in areas throughout the state. The school districts along the I-25 corridor, including the metro Denver, northern, and the Colorado Springs regions, reported a 1.5 percent increase in the current FTE enrollment compared with the previous school year. These regions are located in more metropolitan areas that offer greater and more diverse job opportunities, which is particularly attractive in the current economy. These regions will continue to dominate growth through the forecast period.

However, some regions continue to struggle and many families are leaving these areas in search of work elsewhere. In the 2012-13 school year, the Eastern Plains, Pueblo, San Luis Valley, southwest mountain, and western regions experienced enrollment declines. Many of the school districts in these regions continue to struggle with slow economic activity and an aging population. Enrollment in the eastern, southwest mountain, and San Luis Valley regions will continue to decline in the 2013-14 school year, while the Pueblo and western regions are expected to show a modest increase in enrollment.

Enrollment in online programs continues to grow. The number of FTE students enrolled in multidistrict online program increased 1.8 percent in the 2012-13 school year. Enrollment in online schools is expected to continue growing slightly through the forecast period, as indicated in Figure 33.

Figure 33
Traditional, Online, and Charter School Institute Enrollment
2010-11 through 2014-15 School Years



**Forecast*
Source: Colorado Department of Education and Legislative Council Staff forecast.

Regional forecast results. Table 18 shows anticipated regional enrollment growth over the forecast period and Figure 34 on page 77 shows forecast growth for the 2013-14 school year by region.

The **metro Denver region,** which encompasses Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties accounted for 58 percent of total Colorado enrollment in the 2012-13 school year. The 460,148 FTE students in the region represents an increase of 1.7 percent from the previous year. School districts in the metro Denver region have been increasing for over a decade and are expected to continue through the forecast period, but at a slightly slower pace due to low housing availability for young families and aging communities within the region.

In the 2013-14 school year, enrollment in the metro Denver region is expected to increase 1.6 percent from the previous year. This growth will add 7,159 FTE students throughout the region's nineteen school districts. In the 2014-15 school year, the metro Denver region is projected to add another 7,401 FTE students, a 1.6 percent increase from the previous year.

The Jefferson County school district, the largest district in the state with over 80,000 FTE students, continues to experience small declines in enrollment, a trend that is expected to continue through the forecast period. Enrollment is also expected to decline slightly in the Adams County 50, Sheridan, and Littleton school districts.

Denver Public Schools, the second largest district in the state with about 78,000 FTE students, saw enrollment grow 3.1 percent in the current school year. This growth rate is expected to slow over the next two years, but should remain around 2.3 percent per year, given ongoing economic growth in the region.

The Brighton and Douglas school districts will continue to experience some of the highest student enrollment growth in the region and the state. In the current 2012-13 school year, Brighton's enrollment grew 4.1 percent and Douglas' enrollment grew 2.7 percent. Robust growth in the Brighton school district is expected to continue as growth in residential permits is strong in the area, and because of more affordable housing options.

The **northern region**, including Larimer and Weld counties, continues to see enrollment growth. In the current school year, the region's enrollment increased 1.6 percent. In the upcoming 2013-14 school year, enrollment is projected to increase 1.6 percent, or by 1,265 FTE students. This region was not hit as hard as others by the economic downturn, and continued enrollment growth reflects relatively stable economic conditions and low out-migration in the region. In addition, continuing oil development and production in the region will cause enrollment growth to accelerate modestly.

FTE enrollment in the **Colorado Springs** region will remain flat for both the 2013-14 and 2014-15 school years, after growing 0.7 percent in the current 2012-13 school year. While declining birth rates and a sluggish job market are expected to slow FTE enrollment growth in the region, growth is expected from additional soldiers and their families relocating from other parts of the nation to the Fort Carson army base.

In the current 2012-13 school year, the **eastern plains** region experienced a 0.2 percent decrease in enrollment. Enrollment in the region is projected to decline another 0.2 percent in the 2013-14 school year. Enrollment will continue to decline as this agricultural region is marked by limited job opportunities and as families opt to relocate to more metropolitan areas. In addition, online programs in other regions may be drawing students away from schools in this region.

FTE enrollment in the **mountain region** reported a slight gain of 58 FTE students, a 0.2 percent increase, in the current 2012-13 school year. The region is projected to continue to slowly add FTE students in both the 2013-14 and 2014-15 school years. Over the last two years, many families have left the area, unable to meet cost of living expenses or in search of job opportunities elsewhere as job prospects remain limited and construction activity is minimal.

The **Pueblo region**, consisting of Custer, Fremont, Huerfano, Las Animas, and Pueblo counties, reported a 1.4 percent decline in the current 2012-13 school year. In 2013-14 school year, the region is expected to add 77 FTE students, a 0.2 percent increase from the previous year.

Over the past two years, many families left the **western region** with the loss in jobs in the oil and gas drilling and construction industries. While construction is expected to remain at a standstill in the near term, the oil and gas industry in the region is slowly recovering, which will cause modest enrollment growth in the next two years. Enrollment is projected to increase 0.6 percent, or by 294 students, in the 2013-14 school year.

Enrollment in the **southwest mountain** region, including districts in Archuleta, Dolores, La Plata, Montezuma, and San Juan counties, declined 0.3 percent in the current 2012-13 school year. Enrollment is expected to remain relatively flat in both the 2013-14 and 2014-15 school years, as the outlook for tourism and the natural gas industry improves slightly. In the next 2013-14 school year, enrollment will decrease 0.1 percent.

In the current 2012-13 school year, enrollment within the **San Luis Valley** declined 2.3 percent, or by 164 FTE students. The region, which includes Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache counties, is projected to continue to experience declining enrollment in the 2013-14 school year as out-migration continues from the largely agricultural region. However, enrollment is expected to slightly increase in the 2014-15 school year.

Risks to the forecast. Job opportunity remains the primary driver of enrollment growth in the state. While high unemployment is expected to slowly decline over the next few years, job growth is projected to pick up over the next several years, fueling more in-migration to the state. Job opportunities will, however, be staggered and uneven across the state as businesses hire and expand, attracting families from other areas of the state and nation. To the degree employment exceeds the current outlook, some regions may experience stronger than expected growth. Conversely, if the state's economy performs more poorly than anticipated, some school districts may see enrollment declines greater than projected.

Figure 34
Forecast Percent Change in Enrollment by Economic Region
2013-14 School Year (Budget Year 2013-14)

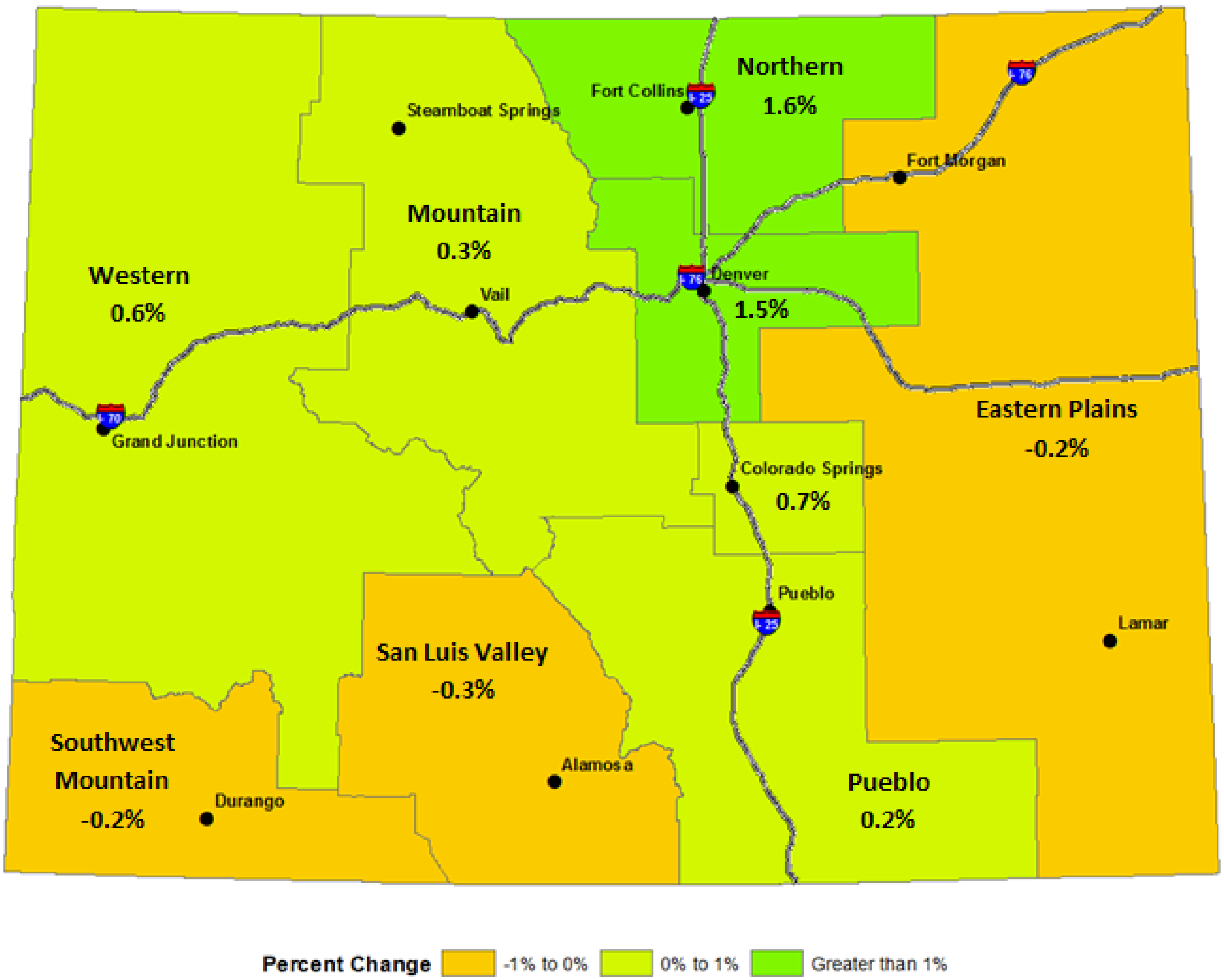
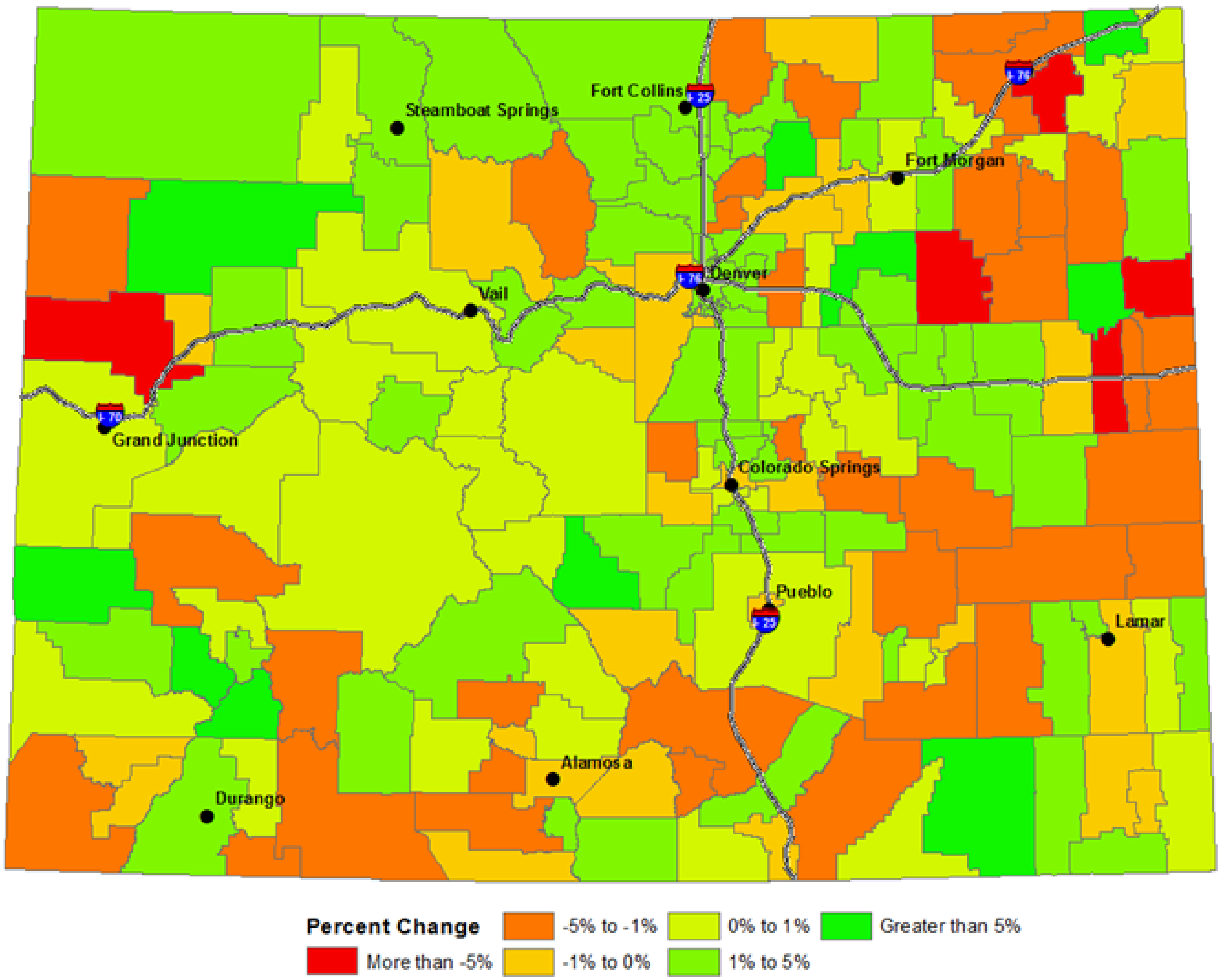


Figure 35
Forecast Percent Change in Enrollment by School District
2013-14 School Year (Budget Year 2013-14)



Adult Prison & Parole Population Projections

The following section describes inmate population trends and the forecast for the prison population. It also discusses factors that affect these trends and presents an overview of recent legislation impacting the prison population. The last segment presents parole population projections and describes the primary risks to the forecast.

- The Department of Corrections (DOC) inmate population is projected to decrease from 21,037 in June 2012 to 18,470 in June 2015. This represents an average annual rate of decline of 4.2 percent. In comparison, over the past two years, the total inmate population decreased at an average annual rate of 4.0 percent. The projected decline through the forecast period is the result of recent trends and legislation.

- Over the three-year forecast period, the male population is expected to decrease by 2,076 inmates, or by 692 inmates per year. The female population is projected to decrease by 490 people, or by 163 inmates per year. Both populations will continue to decline through the forecast period, although the rate of decrease will taper off in later years.

- Compared with the December 2011 forecast, inmate projections were reduced. The change is the result of lower than expected admissions coupled with higher than expected releases over the past year.

- The total in-state parole population is projected to increase from 8,445 people in June 2012 to 8,634 people in June 2015. The total number of parolees (those supervised in-state and out-of-state) is expected to increase from 10,511people to 10,762 people during the forecast period. The parole forecast was increased compared with the December 2011 forecast due to higher then expected inmate releases to parole.

Adult Prison Population Trends. From June 2000 to June 2009, the prison population grew at an average annual rate of 4.2 percent. During this time, male and female inmate populations grew at average annual rates of 4.0 percent and 7.0 percent, respectively. The prison population reached its peak in July 2009 at 23,220 people. In FY 2010-11, the inmate population began to decrease and fell at an annual average rate of 1.2 percent, reaching 22,610 in June of FY 2011. This decline accelerated in FY 2012 falling 7.0 percent, to 21,037 by June. FY 2012 represented a decline of 131 inmates per month. This decline was a combination of low admissions along with higher than usual releases. In FY 2012, overall prison admissions fell 8.2 percent, compared with a decrease of 7.4 percent for the previous year. Releases in FY 2012 increased 5.1 percent after falling 7.8 percent in the previous year. Table 19 on page 80 shows the historical prison population by gender.

Adult Prison Forecast. Table 19 presents the projected inmate population over the next three years. Between June 2012 and June 2015, the prison population is expected to decrease at an average annual rate of 4.2 percent. The male and female populations are expected to decline by average annual rates of 3.7 percent and 9.5 percent, respectively. The decline is a continuation of the trend that began two years ago for men,

Table 19
History and Forecast of Adult Prison Population, by Gender
(On June 30 of Fiscal Year)

Fiscal Year	Population Male	% Change	Population Female	% Change	Totals	% Change
1996	10,808	8.1%	769	14.9%	11,577	8.5%
1997	11,681	8.1%	909	18.2%	12,590	8.8%
1998	12,647	8.3%	1,016	11.8%	13,663	8.5%
1999	13,547	7.1%	1,179	16.0%	14,726	7.8%
2000	14,733	8.8%	1,266	7.4%	15,999	8.6%
2001	15,493	5.2%	1,340	5.8%	16,833	5.2%
2002	16,539	6.8%	1,506	12.4%	18,045	7.2%
2003	17,226	4.2%	1,620	7.6%	18,846	4.4%
2004	17,814	3.4%	1,755	8.3%	19,569	3.8%
2005	18,631	4.6%	2,073	18.1%	20,704	5.8%
2006	19,792	6.2%	2,220	7.1%	22,012	6.3%
2007	20,178	2.0%	2,341	5.5%	22,519	2.3%
2008	20,684	2.5%	2,305	-1.5%	22,989	2.1%
2009	20,896	1.0%	2,290	-0.7%	23,186	0.9%
2010	20,766	-0.6%	2,094	-8.6%	22,860	-1.4%
2011	20,512	-1.2%	2,098	0.2%	22,610	-1.1%
2012	19,152	-6.6%	1,885	-10.2%	21,037	-7.0%
2013*	18,079	-5.6%	1,646	-12.7%	19,725	-6.2%
2014*	17,405	-3.7%	1,488	-9.6%	18,893	-4.2%
2015*	17,076	-1.9%	1,394	-6.3%	18,470	-2.2%

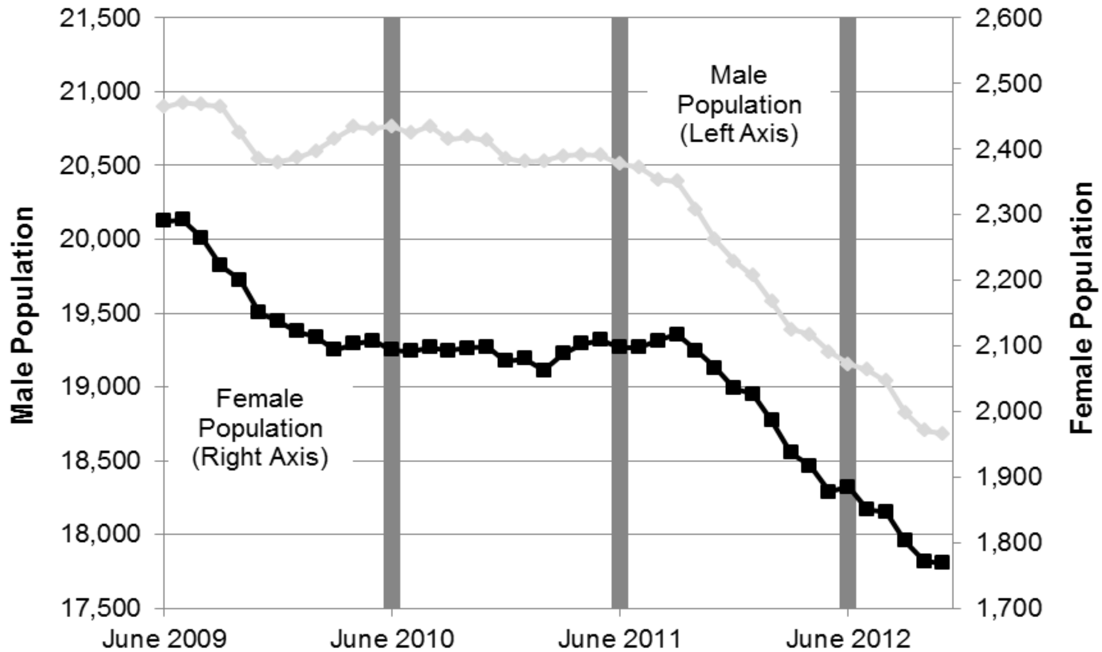
Source: Colorado Department of Corrections.
** Legislative Council Staff Forecast.*

but has been occurring since FY 2007-08 for women. The trend accelerated in FY 2011-12 for both genders and is partially a result of a series of bills passed during the 2010 and 2011 legislative sessions, which put downward pressure on the inmate population.

Since June 2012, the male inmate population has declined by 2.9 percent while the female population has declined 6.1 percent. Total admissions have risen 4.0 percent and releases are down 4.8 percent, respectively, compared with the same period in the prior year. The combination of these trends has produced decreases among males and females, but at a slower rate than the previous year. Through the remainder of the forecast period, the inmate population is expected to continue to decline, but at slower rates as shown in Figure 36.

Figure 37 on page 82 shows the change in this year's inmate population forecast from the projection issued in December 2011. In FY 2011-12, the population was expected to be

Figure 36
Historical Monthly Prison Population Levels, by Gender
June 2009 through November 2012



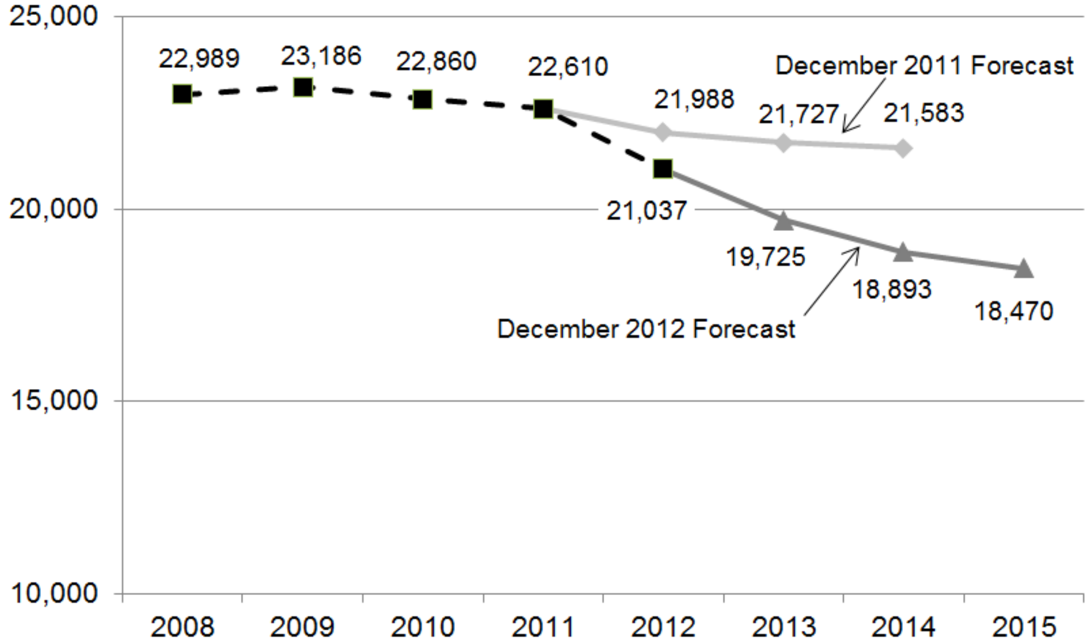
Source: Colorado Department of Corrections.

21,988 inmates, representing a monthly decline of about 52 inmates. The actual FY 2011-12 inmate population was 951 fewer people than had been projected, or about 131 inmates per month. This growth rate is not expected to continue. In the first five months of FY 2013 the decline has slowed to an average of 117 inmates per month. This slowing is expected to continue throughout the year, ending with an average monthly decline of 109 inmates per month. The December 2012 forecast for FY 2012-13 was revised downward as a result to 19,725 to reflect the lower than anticipated population in FY 2012.

The December 2012 forecast also projects a declining inmate population for the remainder of the forecast period. However, this decline will slow as admissions rise and releases slow. The fall in admissions seems to have been caused by several factors. As state and local law enforcement budgets have tightened, fewer resources may have been available to investigate and arrest potential offenders. This may have contributed to a decrease in admissions. According to the Colorado Bureau of Investigation, arrest rates have declined by 12.4 percent between 2009 and 2011. As the economy continues to recover, improvements in local law enforcements budgets could cause admissions to rise, and are expected to put some upward pressure on the prison population. Also, the expansion of drug courts and the use of alternative sentencing by judges seem to have reduced admissions and expanded releases for drug-related offenses. As this crime population shrinks in size, it will have less of an impact on the total inmate population. Finally, recent legislative changes described below will put downward pressure on the population forecast.

Factors Affecting the Adult Prison Population. The following paragraphs describe how both external factors, including

Figure 37
Adult Inmate Population, Forecast to Forecast Comparison
December 2011, December 2012



Source: Colorado Department of Corrections.

demographic and economic trends, changes within the criminal justice system, new legislation, and internal factors such as the DOC or Parole Board administrative policies, can influence the growth or decline of the inmate population.

- ***Population.*** All other things being equal, a larger population results in a greater number of criminal offenses, arrests, criminal felony filings, and prison commitments. Colorado's adult population between the ages of 20 and 49 increased at an average annual rate of 2.5 percent between 1990 and 2000. Correspondingly, the 1990s were a decade of strong prison population growth, with an average annual rate of growth of 7.4 percent between June 1990 and June 2000. From 2000 through 2010, the growth in this population cohort slowed to an average annual rate of 0.7 percent, and the growth in the prison population slowed to 3.6 percent. As this cohort is projected to grow at an average annual rate of 1.8 percent through the forecast period, we expect this trend to put mild upward pressure on the inmate population.

- ***Economic factors.*** When the economy is strong and job opportunities are available, income and earnings rise. Historically, the theory has been that the prospect of a job and increased wages raises the opportunity cost of committing a crime. While several studies suggest that weak earnings and slow employment growth are correlated with increased prison admissions, others find little correlation between these factors. Indeed, despite the recent economic downturn, prison admissions have fallen nationwide, and Colorado is no exception. While this is undoubtedly the result of the interaction of a variety of factors, this forecast assumes little to no correlation between economic growth and prison admissions.

- ***Criminal Justice System***. The actions of the judicial system also affect inmate population growth. In particular, the commitment of more (fewer) offenders to prison will increase (decrease) the inmate population. The mix of crimes prosecuted also affects the prison population. If prosecutors prioritize more serious offenses with corresponding longer prison sentences, the average length of stay will increase, and so will inmate population growth. For example, the maximum sentence for convicted sex offenders is a lifetime sentence. The population of such offenders has grown recently, which exerts upward pressure on the inmate population.

- ***Legislation.*** Although limited legislation was passed in 2012 that could have a large impact on the prison population, several pieces of legislation passed in 2010 and 2011 that are affecting the prison population. In the 2010 legislative session, four bills were passed that were anticipated to reduce the prison population both by reducing admissions and the length of stay for inmates: House Bill 10-1338, House Bill 10-1352, House Bill 10-1360, and House Bill 10-1374. In the 2011 legislative session one bill, House Bill 11-1064, was passed that was expected to make an impact on the parole population.

  House Bill 10-1338 allows individuals with two or more felony convictions to be sentenced to probation under certain circumstances. The bill applies to offenders convicted of a class 2 through class 6 felony, and is anticipated to reduce prison admission up to 176 offenders annually.

  House Bill 10-1352 changes the penalty for certain drug-related crimes from a felony to a misdemeanor and reduces sentences for other crimes. It is anticipated the bill will reduce admissions to DOC by over 100 inmates in the first year of implementation, and by larger amounts in subsequent years.

  House Bill 10-1360 allows certain parolees to be placed in a community return-to-custody facility rather than a state correctional facility. It is anticipated the bill will reduce technical parole violations at correctional facilities by 150 inmates annually.

  House Bill 10-1374 reduces inmate bed-days by allowing inmates up to 12 days of earned time under certain circumstances. At the time of passage, it was anticipated that the impact would be greater than what has been seen thus far. This forecast assumes a lagged impact such that the population reductions from this bill will accelerate in the later years of the forecast period.

  House Bill 11-1064 expanded parole for inmates serving sentences for drug- related offenses.

  House Bill 12-1223 expands the amount of earned time an offender imprisoned on or after July 1, 1993 can accrue. Also, allows prisoners reincarcerated for technical parole violations to accrue earned time. This bill is expected to put downward pressure on the prison population in later years of the forecast.

- ***DOC and Parole Board Administrative Policies***. In July 2011 four new members were appointed to the State Parole Board. Increases in discretionary parole seem to indicate a shift in policy that favors parole to incarceration. Parole Board policies that increase parole revocations or reduce

Table 20
History and Forecast of Parole Population, In-State and Out-of-State Parolees
(On June 30 of the Fiscal Year)

Fiscal Year	Parole In-State	% Change	Parole Out-of-State	% Change	Total	% Change
1996	2,322	14.6%	924	24.2%	3,246	17.2%
1997	2,695	16.1%	1,155	25.0%	3,850	18.6%
1998	3,219	19.4%	1,433	24.1%	4,652	20.8%
1999	3,722	15.4%	1,569	9.5%	5,291	13.7%
2000	3,685	-1.0%	1,537	-2.0%	5,222	-1.3%
2001	4,192	13.8%	1,646	7.1%	5,838	11.8%
2002	4,037	-3.7%	1,680	2.1%	5,717	-2.1%
2003	4,858	20.3%	1,906	13.5%	6,764	18.3%
2004	5,244	7.9%	1,994	4.6%	7,238	7.0%
2005	5,714	9.0%	2,097	5.2%	7,811	7.9%
2006	6,551	14.6%	2,291	9.3%	8,842	13.2%
2007	7,947	21.3%	2,596	13.3%	10,543	19.2%
2008	8,783	10.5%	2,728	5.1%	11,511	9.2%
2009	9,016	2.7%	2,029	-25.6%	11,045	-4.0%
2010	8,535	-5.3%	2,100	3.5%	10,635	-3.7%
2011	8,181	-4.1%	1,922	-8.5%	10,103	-5.0%
2012	8,445	3.2%	2,066	7.5%	10,511	4.0%
2013*	8,835	4.6%	2,178	5.4%	11,013	4.7%
2014*	8,813	-0.2%	2,172	-0.3%	10,986	-0.2%
2015*	8,634	-2.0%	2,128	-2.0%	10,762	-2.0%

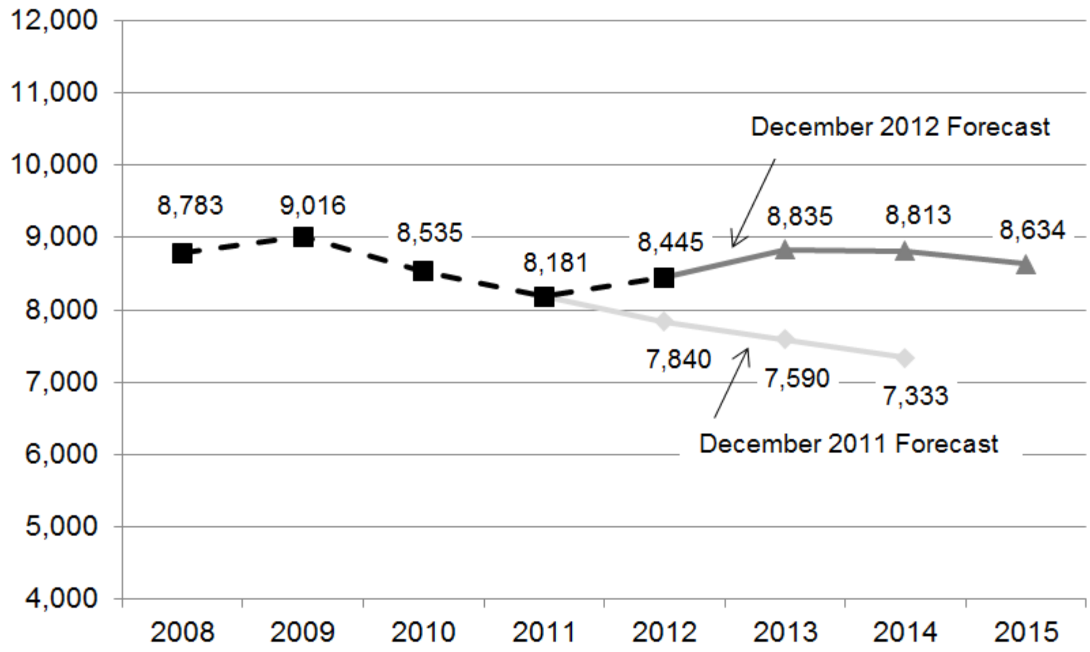
Source: Colorado Department of Corrections.
Note: Total parole population does not include absconders, interstate transfers in Colorado, or Colorado parole absconders apprehended out of state.
** Legislative Council Staff Projections.*

releases to parole will increase inmate population growth, while policies that decrease parole revocations or increase prison releases to parole will reduce inmate population growth.

Adult Parole Population Trends and Forecast. From June 2000 until June 2009, the parole population supervised in-state grew at an average annual rate of 9.5 percent. From FY 2009 to FY 2011, the in-state parole population began to decline, falling at an average annual rate of 4.7 percent. This trend reversed in FY 2012 and in-state parole population grew by 3.2 percent. Table 20 provides a history of the parole population supervised in-state and out-of-state, as well as the forecast for these populations through June 2015.

The number of parolees *supervised in-state* is expected to temporarily increase

Figure 38
Adult In-State Parole Population, Forecast to Forecast Comparison



Source: Colorado Department of Corrections.

4.6 percent in FY 2012-13, after which it will decline modestly in the following two fiscal years.

Figure 38 shows the change in the December 2012 in-state parole forecast from the corresponding December 2011 projection. The change occurred because releases to parole increased at a high enough rate to push up the parole population. This deviation suggested that the population will increase for several years until releases slow enough to bring the parole population down. For the remainder of the forecast period, the impact of the declining inmate population will affect the parole caseload.

Factors in adult parole population growth. The following factors may affect growth in the parole population: prison commitment trends, the implementation of mandatory parole, changes in the number of releases to parole, and recent legislation.

- ***Prison commitments.*** As mentioned above, a decrease in prison commitments will have a direct, lagged impact on the parole population. When the rate of growth in prison commitments decreases (or increases), growth in the parole population will be expected to eventually decelerate (or accelerate). New court commitments have declined recently. However, the types of prison commitments will also alter the growth rate of the parole population. Commitments with longer sentences will cause parole deferrals to rise, thereby reducing the rate of growth of the parole population. Conversely, commitments with shorter sentences, such as the drug-related crimes specified in House Bill 10-1352, could accelerate the growth rate of the parole population. This forecast assumes that the impact of legislation will be overshadowed by limited admissions growth. In the long run, the continued decline in inmate populations will work to reduce or slow the growth in the parole population.

- ***Parole Board release and revocation decisions.*** The Parole Board is a key influence on the growth of the prison population (as described above) and the parole population. Board decisions to revoke parole reduce the parole population, but increase the prison population. Discretionary decisions to release inmates to parole increase the parole population and reduce the prison population. The Board also determines when parolees are released from parole into the general population.

Risks to the forecast. The most important risk to the forecast is the timing of the impact of the legislation passed during the 2010 session. At the time these bills were passed, the cumulative bed impact for DOC was anticipated to be a reduction of roughly 350 inmates in FY 2010-11, 500 inmates in FY 2011-12, and nearly 800 inmates in FY 2012-13. Thus far, the reduction in inmates has been larger than anticipated, and the lag of the impact may be longer than expected. While the inmate and parole forecasts presented here have attempted to incorporate the impact of this legislation, it must be acknowledged that substantial uncertainty exists over the timing of the impacts.

Additionally, prison sentences depend on the discretion of the courts. If a new alternative becomes available, judges may shift their sentencing decisions to place more offenders in alternative placements. The prison forecast assumes that no new significant alternatives will become available and the sentencing decision process will be consistent with current practices throughout the forecast period.

The Parole Board has a tremendous influence on both the parole population and the population of parole revocations to prison. Discretionary releases to parole decrease the inmate population and increase the parole population, while parole revocations do the reverse. Currently, discretionary releases are at very low levels while parole revocations have been trending upward. The parole and prison forecasts assume that the Parole Board will not significantly change its present practices regarding release or revocation decisions.

Historically, it was thought that the state of the economy had a significant influence on prison and parole populations. More recently, several studies have indicated a lack of correlation between economic factors such as employment levels and prison admissions. This forecast presumes no significant correlation, positive or negative, between economic factors and inmate and parole populations.

Finally, as the economy continues to recover an increase (decrease) in law enforcement budgets could increase (decrease) the number of people arrested by having more officers available to combat crime.

Youth Corrections Population Projections

This section presents the forecast for the population of juvenile offenders administered by the Division of Youth Corrections (DYC) in the Department of Human Services. The three major populations administered by the DYC are juveniles committed to custody, juveniles sentenced to a detention facility, and juveniles sentenced to community parole.

- The DYC **commitment population** will decrease from an average daily population of 983 youths in FY 2011-12 to 851 youths in FY 2012-13. By FY 2013-14 the commitment population will decrease to 792 youths before rising to 779 youths in FY 2014-15.

- The DYC **detention population** will decrease from an average daily population of 318 youths in FY 2011-12 to 312 youths in FY 2012-13. The detention population will continue to fall reaching 303 youths in FY 2013-14 and 287 youths in FY 2014-15.

- The average daily **parole population** will correspondingly fall from 358 youths in FY 2011-12 to 342 youths in FY 2012-13. In FY 2013-14 and 2014-15, the parole population will be 330 and 336 youths, respectively.

Juvenile Offender Sentencing Options

Juvenile offenders not prosecuted as adults are managed through the juvenile courts. If the court determines that a juvenile committed a crime, he or she is *adjudicated* a delinquent. Upon determination of guilt, the court may sentence a juvenile to any one or a combination of the following:

Commitment. Depending on age and offense history, a juvenile may be committed to the custody of the DYC for a determinate period of between one and seven years for committing an offense that would be a felony or misdemeanor if committed by an adult.

Detention. The court may sentence a juvenile to a detention facility if he or she is found guilty of an offense that would constitute a class 3 or lower felony or misdemeanor if committed by an adult. Detention sentences may not exceed 45 days and are managed by the DYC.

County jail or community corrections. Juveniles between 18 and 21 who are adjudicated a delinquent prior to turning 18 may be sentenced to county jail for up to six months or to a community correctional facility or program for up to one year.

Probation or alternative legal custody. The court may order that the juvenile be placed under judicial district supervision and report to a probation officer. Conditions of probation may include participation in public service, behavior programs, restorative justice, or restitution. The court may also place the juvenile in the custody of a county department of social services, a foster care home, a hospital, or a child care center.

Influences on the Juvenile Offender Population

Court Sentencing Practices. Juvenile filings increased at an average annual rate of 4.8 percent from 1990 through 2000.

However, since peaking in 1998, filings have declined steadily. Over the last decade, filings have dropped at an average annual rate of 4.2 percent. In 2011 they decreased 1.3 percent compared with the same period last year. This decline in filings is expected to continue and puts downward pressure on the population committed to DYC supervision.

In addition, policies affecting sentencing alternatives for juveniles affect the size of the commitment population. These include the creation of diversionary programs as alternatives to incarceration, mandated caps on sentence placements, and changes to parole terms. During the 2012 legislative session, two bills that will affect the detention, commitment, and parole populations were passed:

- **House Bill 12-1139,** which changed the presumption in current law that juveniles who are charged as adults be detained in an adult facility. Under the bill, juvenile defenders are required to be held in a juvenile facility unless a judge determines differently. This could increase the juvenile population by as much as 50 individuals per year.

- **House Bill 12-1271** raises the age of charging a child as an adult, known as direct filing, from 14 years old to 16 years old. This law went into effect in April 2012, and is expected to increase the number of individuals in the juvenile population.

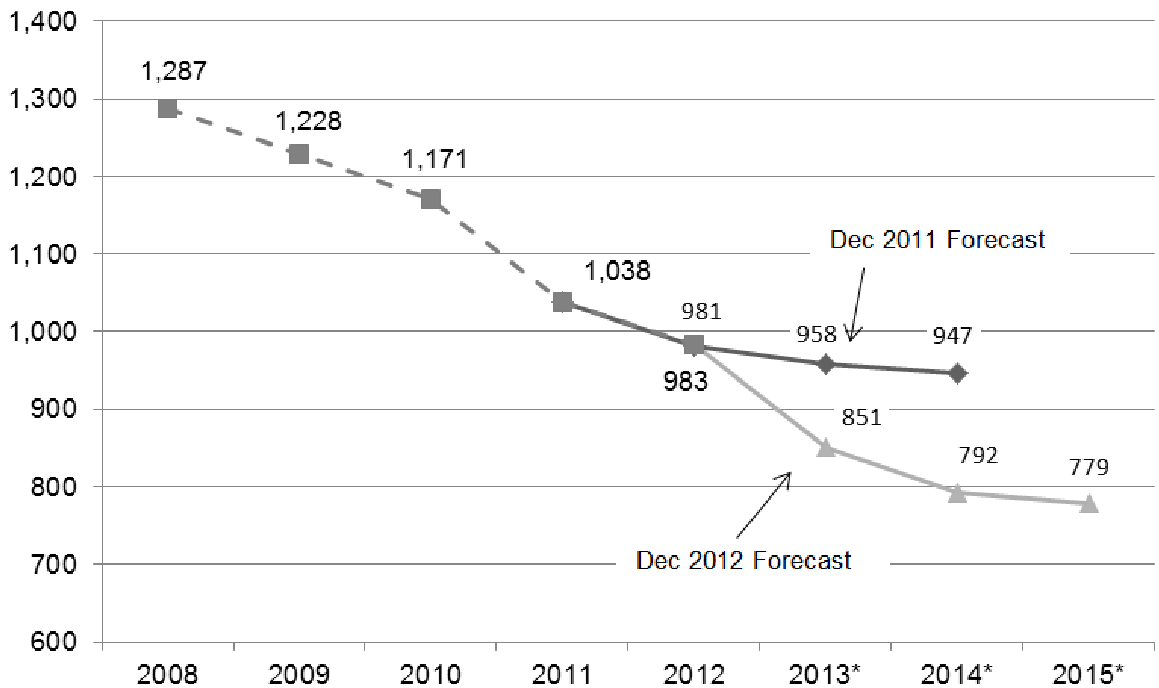
Division of Youth Corrections Sentencing Placements and Population Forecast

Commitment. The commitment population consists of juveniles adjudicated for a crime and committed to DYC custody. In FY 2011-12, the average daily commitment population was 983 youths, representing a 5.8 percent decrease from the prior year. In FY 2012-13, the commitment population will drop further to 851 youths, representing a decrease of 13.4 percent. Figure 39 illustrates the forecast for the average daily commitment population from FY 2012-13 to FY 2014-15.

Projected DYC commitments have been adjusted downward from expectations in December 2011. At that time, the average daily commitment population was projected to fall at an average annual rate of 1.7 percent through FY 2013-14. However, the population of new commitments has fallen more rapidly than expected. In October 2012, the average daily population of commitments was at 884 youths, a 10.0 percent decrease from the 2012 average daily population. Commitments are expected to continue to decline, leading to a projected average daily population of 851 youths in 2013. The impact of the decrease in juvenile filings will lead to a continued decline in commitments through FY 2013-14. However, the decline in juvenile filings is expected to moderate over time, leading to a leveling in the commitment population forecast in FY 2014-15.

Detention. The DYC manages ten secure detention facilities and contracts for additional detention beds. In 2003, the detention population was capped at 422 youths. Table 21 shows the average daily detention population. In FY 2011-12, the detention population averaged 318 youths, representing a 9.7 percent decrease over FY 2010-11. For FY 2012-13 the detention population is expected to fall another 1.9 percent to 312 youths. The population is expected to continue to decline through the remainder of the forecast period.

Figure 39
Comparison of DYC Average Daily Commitment Population Forecasts,
December 2011 and December 2012



Source: Division of Youth Corrections, Colorado Department of Human Services.
**Legislative Council Staff Forecast.*

Table 21
DYC Detention Population

FY	December 2012 Forecast
2010	365
2011	352
2012	318
2013*	312
2014*	303
2015*	287

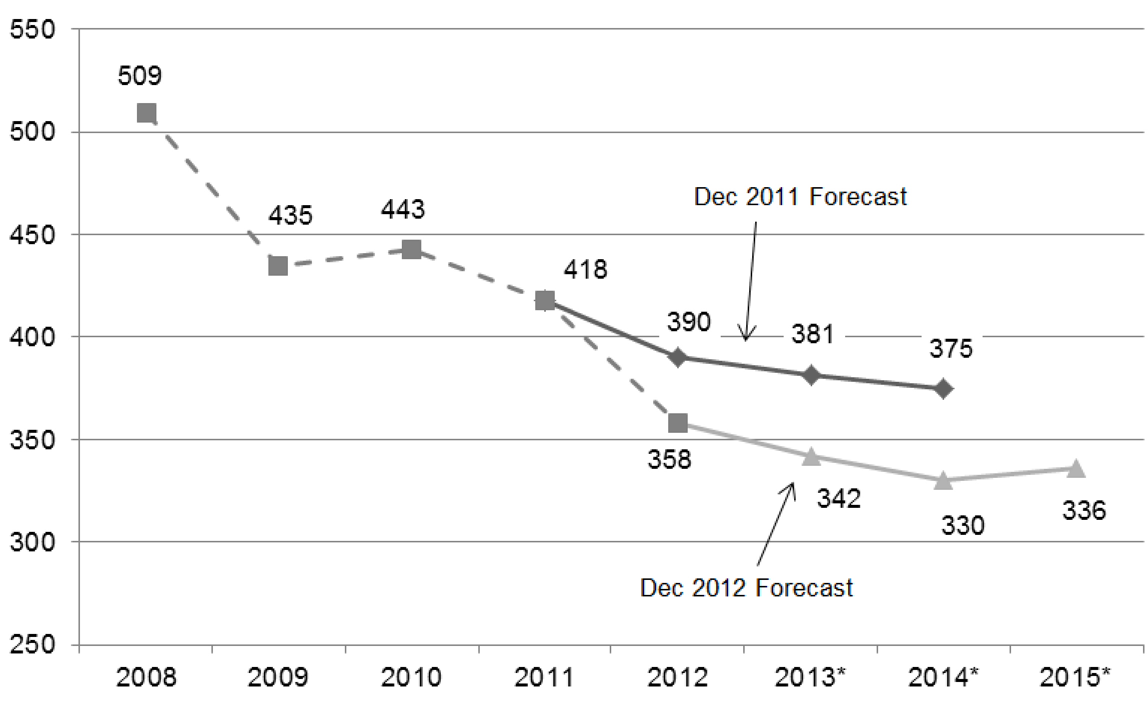
** Legislative Council Staff Projections.*

Through October 2012 the average detention population has remained constant at 318. Similar to the commitment population, declines in the detention population are expected to continue throughout the forecast period due to limited commitments. However, the decline will be slower because of recent legislation that modified the direct file precedence.

Community Parole. Juveniles who have satisfactorily served their commitment sentence and are approved by the Juvenile Parole Board are eligible for community parole. The DYC continues to be closely involved with parolees, preparing the parole plan for the board and supervising and monitoring the youth's progress while on parole. In FY 2011-12, the average daily parole population was 370, representing a 14.1 percent decrease from the prior year. By FY 2012-13, the parole population is projected to drop to 342 youths, representing a further decrease of 4.4 percent. In FY 2013-14, the population is expected to fall to 330 youths, before rising to 336 youths in FY 2014-15.

As Figure 40 shows, projected DYC parolees have been adjusted downward from expectations in December 2011. At that time, the average daily parole population was expected to fall at an average annual rate of 3.5 percent through FY 2013-14. However, the declines in new commitments imply the parole population will likely decrease more rapidly over the forecast period than previously anticipated. By October 2012, the average daily population of parolees had fallen to 373 youths, below the low point of last year's forecast. As the decrease in commitments levels off in the latter part of the forecast period, the decline in parole numbers is expected to slow as well.

Figure 40
Comparison of DYC Average Daily Parole Population Forecasts,
December 2011 and December 2012



Source: Division of Youth Corrections, Colorado Department of Human Services.
**Legislative Council Staff Forecast.*

Risks to the forecast

Commitment and detention sentences are at the discretion of the courts. Judges may decide to place more offenders under DYC supervision. The youth corrections forecast assumes that the sentencing decision process and sentencing patterns will remain consistent with current practices, which have resulted in a steady decline in juvenile filings.

Similarly, the juvenile parole board has a tremendous influence upon the parole population and the population of revocations and re-commitments. Because the board has the discretion to extend parole beyond the six-month mandatory period in a majority of cases, the parole population could fluctuate significantly depending on the inclination of the board.

Juvenile population trends also impact the youth corrections population. This forecast assumes a modest growth rate for the juvenile cohort throughout the forecast period. Significant changes in this trend would result in a corresponding, though somewhat lagged, change to the youth corrections population. Moreover, economic conditions may also have an impact. This forecast anticipates that the unemployment rate will remain high and that employment growth will remain modest through 2013. These trends could place upward pressure on the average daily commitment population.

As the economy continues to recover an increase (decrease) in law enforcement budgets could increase (decrease) the number of youths arrested by having more enforcement available to combat crime.

Finally, any future legislation passed by the General Assembly (i.e. penalties, length of parole, funding for additional alternatives to commitment) could have a significant impact upon the youth corrections populations. This forecast is based on current state law, and does not account for future legislative changes.

Colorado Economic Regions

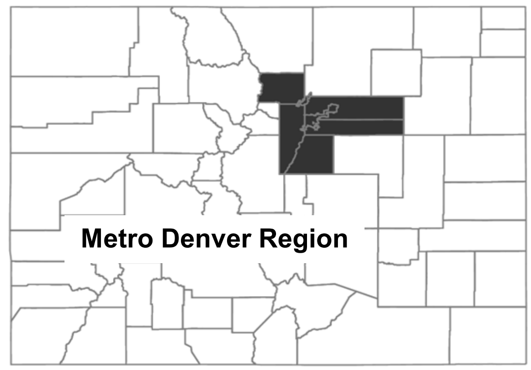
Metro Denver Region
Northern Region
Colorado Springs Region
Pueblo — Southern Mountains Region
San Luis Valley Region
Southwest Mountain Region
Western Region
Mountain Region
Eastern Region

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 are 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 metro Denver region continues to improve. The region's job market, which represents over half of the state's labor market, showed moderate employment gains overall through 2012. With consumer confidence up, spending growth continues to accelerate. The real estate market is stronger, with decreases in foreclosure rates and inventory creating increases in sales and residential building permits. Nonresidential construction is still growing, but at a slow rate. Table 22 shows economic indicators for the region.



Job market. Metro Denver area employment continues to show moderate improvement. After a quick momentum gain in the last quarter of 2011, job gains slowed through the summer, but picked up again in the third quarter of 2012 with a reported gain of 3,700 jobs. Figure 41 shows employment in the metro Denver area since January 2006. Job gains have been offsetting the amount of workers entering the labor force, causing a decline in the unemployment rate. The unemployment rate, shown in figure 42, was 7.5 percent in October 2012, falling 0.5 percentage points from the

Table 22
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%	1.7%
Unemployment Rate /2	4.8%	8.2%	8.8%	7.7%	7.5%
(2012 Figure is October Only)					
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-50.1%	-31.8%	35.5%	-0.4%	53.5%
Single-Family (Boulder)	-53.5%	-27.6%	101.0%	-5.2%	25.8%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-11.7%	-20.5%	7.9%	49.7%	10.4%
Square Footage of Projects	-26.6%	-47.6%	-0.7%	35.1%	29.4%
Level (1,000s)	15,806	8,278	7,699	10,400	8,475
Number of Projects	1.8%	-15.9%	-37.2%	-1.2%	-3.2%
Level	1,103	928	583	576	486
Retail Trade Sales Growth /5	-0.8%	-11.4%	6.8%	4.3%	7.9%

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 October 2012.
2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through September 2012.
3/ U.S. Census. Growth in the number of housing units authorized for construction. Data through October 2012.
4/ F.W. Dodge. Data through October 2012.
5/ Colorado Department of Revenue. Seasonally adjusted. Data through August 2012.

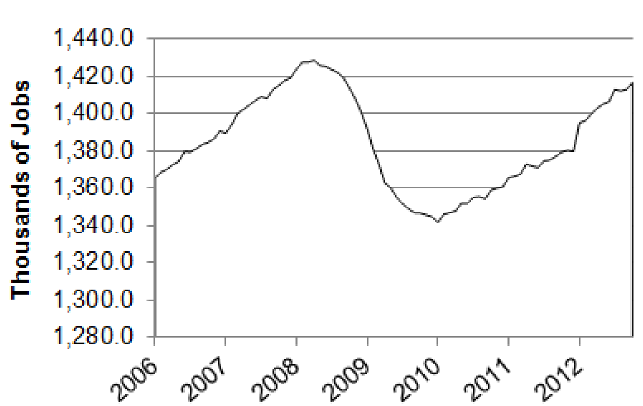
same time last year. As the labor market continues to heal, workers will continue to re-enter the labor force as their confidence improves.

Consumer spending. The consumer confidence index in November 2012, as reported by the Conference Board, is at its highest level in more than four years. This strong confidence is reflected in the fast growth in the metro Denver region's consumer spending in 2012. Although retail trade sales slowed in the summer, overall they increased 7.9 percent from January through August of 2012 compared with the same time period in 2011. Retail trade's three month moving average index for the metro Denver area continues to increase, but at a level below the Nation's. Figure 43 compares retail sales in metro Denver with the state and the nation.

Housing market. The housing market recovery has gained strength for the Denver metro area; vacancy rates and foreclosure filings are down, while building permits and housing prices have increased. According to the state's Division of Housing, foreclosure filings declined 39 percent in September 2012 compared with September 2011. As filings fall, banks are able to work through existing inventory and housing prices rise. The August 2012 Case-Shilling Home Price Index for Denver increased 5.6 percent over the prior year. Single-family permits for the Denver-Aurora-Broomfield area increased 53 percent between January and September 2012, compared with the same period in 2011. Figure 44 shows residential permits between 2005 and September 2012.

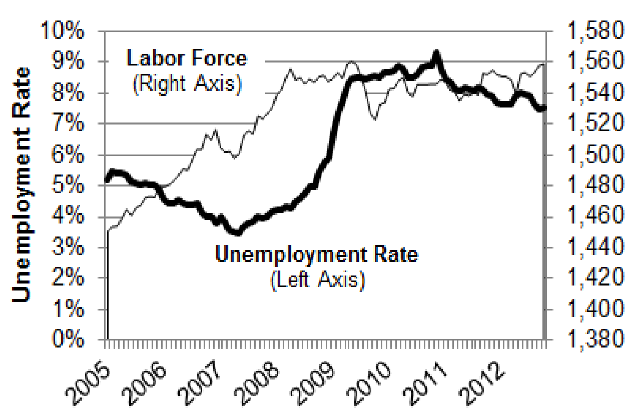
Nonresidential construction market. After a spike in activity at the beginning of the year from warm winter weather conditions, nonresidential activity continues to grow, but at a slow rate. Fluctuations in building material costs and business uncertainty continue to stifle nonresidential growth. Nevertheless, commercial realty vacancy rates have gone down, helping to push activity up. Between January and October 2012, the number of nonresidential building projects decreased 5.1 percent, but the value and square footage increased 45.1 percent and 31.4 percent respectively, compared with the same period in 2011. Figure 45 nonresidential building permits in square feet from 2008 through October 2012.

Figure 41
Metro Denver Employment
Seasonally Adjusted



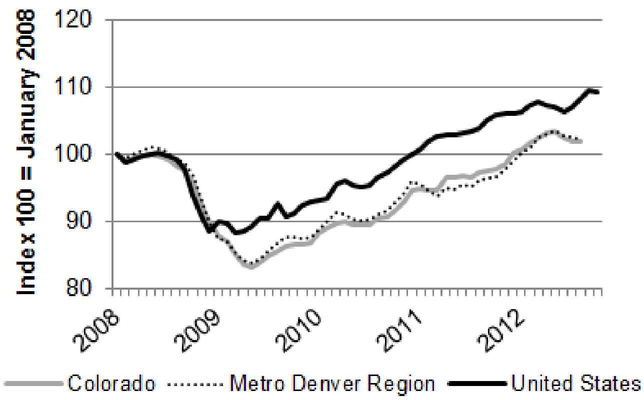
Source: U.S. Bureau of Labor Statistics; CES.
Data through October 2012.

Figure 42
Metro Denver's Unemployment Rate
Seasonally Adjusted



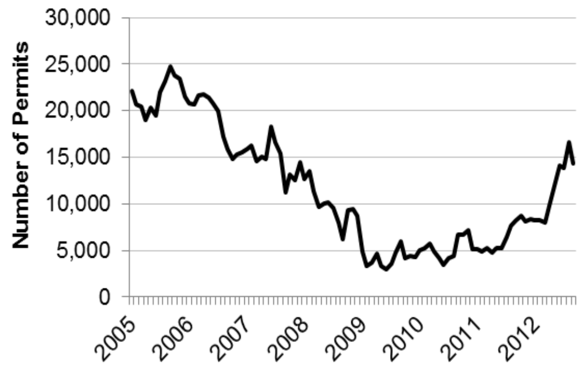
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through September 2012.

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



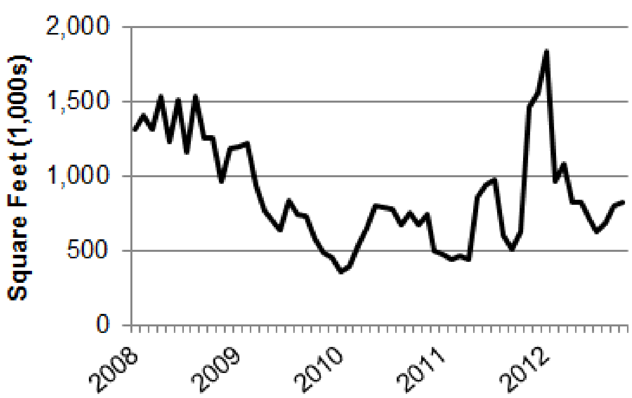
Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through August 2012; U.S. data through October.

Figure 44
Metro Denver Residential Building Permits
Continues to Improve
Three-Month Moving Average;



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

Figure 45
Metro Denver Total Nonresidential
Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



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

Northern Region

The economy of the northern region continues to be one of the strongest in the state. Employment growth in both the Fort Collins-Loveland and Greeley areas remain healthy. Growth in retail sales for the region continues to be one of the highest in state, while low inventories and rising prices are creating stronger demand for new residential construction. However, similar to the other regions in state, new nonresidential construction remains low. Table 23 shows economic indicators for the region.

Figure 46 shows total employment for both major metro areas in the region between January 2006 and October 2012. The Bureau of Labor Statistics reported that the Fort Collins-Loveland and Greeley areas added 7,300

Table 23
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%	2.3%
Greeley MSA	1.4%	-4.9%	-0.6%	3.0%	1.8%
Unemployment Rate /2 (2012 Figure is October Only)					
Fort Collins-Loveland MSA	4.2%	7.0%	7.4%	6.2%	6.2%
Greeley MSA	5.2%	9.1%	10.1%	8.7%	8.5%
State Cattle and Calf Inventory Growth /3	1.9%	-5.5%	-9.6%	4.0%	-9.6%
Housing Permit Growth /4					
Fort Collins-Loveland MSA Total	-1.0%	-66.0%	154.5%	1.0%	27.2%
Fort Collins-Loveland MSA Single-Family	-36.4%	-49.2%	32.1%	45.7%	49.6%
Greeley MSA Total	-46.8%	-20.6%	10.4%	-3.1%	56.8%
Greeley MSA Single-Family	-45.1%	-13.7%	2.7%	-2.6%	57.9%
Growth in Value of Nonresidential Construction/ 5					
Value of Projects	-12.2%	9.4%	-53.3%	-0.5%	-8.4%
Square Footage of Projects	-27.5%	-41.1%	-17.7%	-13.3%	-16.9%
Level (1,000s)	3,252	1,917	1,577	1,367	1,096
Number of Projects	24.0%	-36.2%	-15.0%	-7.4%	7.8%
Level	252	161	137	126	123
Retail Trade Sales Growth /6					
Larimer County	-0.7%	-8.9%	7.7%	7.9%	6.3%
Weld County	2.0%	-15.1%	9.9%	26.3%	6.7%

MSA = Metropolitan statistical area. NA = Not Available.

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

2/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through October 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 November 2012 over prior year period in 2011.

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

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

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

new jobs through from January to October 2012. Comparing the first ten months of this year with the same period one year ago, employment in the Fort Collins-Loveland area grew 2.3 percent, slightly faster than the statewide average, while Greeley's employment increased 1.8 percent. The Fort Collins-Loveland area unemployment rate in October 2012 was 6.2 percent, the second-lowest of all regions, while the Greeley MSA's unemployment rate was 8.5 percent.

With over 4,000 farms in the region, agriculture is a key component of the economy. Ranchers have been reducing the size of their herd in response to the drought and high cost of animal feed. Livestock production was down 9.6 percent in October over year-ago levels and will likely fall more toward the close of the year.

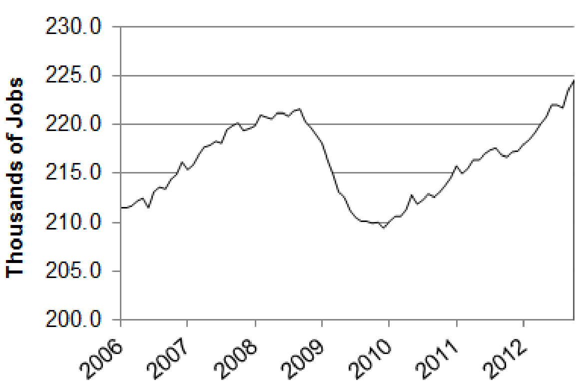
Noble Energy Inc., one of the largest oil and natural-gas producers in Weld County, expects to invest $1.7 billion in the Denver-Julesburg Basin to accelerate its Niobrara drilling program. Noble Energy also expects its sales volumes next year to average between 270,000 and 282,000 barrels of oil-equivalent per day.

The northern region's real estate market continues to improve. 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 September 2012 in both metropolitan areas. Single family permits in the Fort Collins-Loveland area were up 49.6 percent compared with the first nine months of 2011. Likewise, single family permits were up 57.9 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 one million square feet to the region's nonresidential inventory. Construction on the Leprino Foods factory, the world's largest maker of mozzarella cheese, in Greeley continues to drive the city's commercial growth.

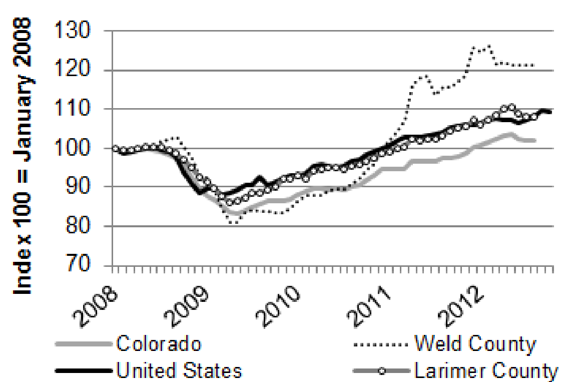
Retail sales continue to be strong in both Larimer and Weld County. As Figure 47 shows, consumer spending in both counties has outperformed the state.

Figure 46
Fort Collins-Loveland and Greeley MSA Nonfarm Employment
Seasonally Adjusted



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

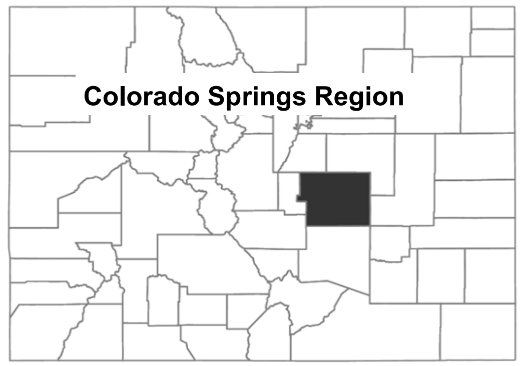
Figure 47
Trends in Retail Trade Sales Since January 2008
Index of Three-Month Moving Average; Seasonally Adjusted Nominal Data



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

Colorado Springs Region

The Colorado Springs region continues to struggle, particularly in job growth. The area's unemployment rate remains one of highest in the state, and the number of new jobs has slightly declined through the year. Consumer spending, as measured by retail trade sales, has slowed in the first half of 2012, and high vacancy rates continue to prolong the recovery for the nonresidential construction industry. However, the housing market for the region continues to show encouraging signs of recovery, specifically in single family permit growth. Table 24 shows economic indicators for the region.



As shown in Figure 48 the job market in the region continues to struggle. After a promising start, employment growth has declined 0.4 percent through the year. In October, the latest data available, there were 24,580 nonfarm jobs in the region, little changed compared with the previous month. The region's unemployment rate remains stubbornly high at 9.2 percent. Figure 49 shows the Colorado Spring MSA unemployment rate and labor force through July 2012.

Despite the struggling labor market, the residential construction industry continues to show encouraging signs of recovery. Through October 2012, single family permits were up 48.9 percent compared with the same period one year ago. Low inventory of vacant residential units, low interest rates, and rising prices are contributing to the investment in new residential homes. Figure 50 shows the number of total and single family permits for the region from January 2004 to September 2012.

Table 24
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%	-0.4%
Unemployment Rate /2	5.6%	8.8%	9.8%	9.0%	9.2%
(2012 Figure is October Only)					
Housing Permit Growth /3					
Total	-36.1%	-33.4%	27.9%	29.1%	47.2%
Single-Family	-42.2%	-16.7%	23.2%	-3.8%	48.9%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-44.8%	2.0%	-20.5%	21.8%	-6.8%
Square Footage of Projects	-54.3%	-16.8%	-33.8%	36.3%	-11.5%
Level (1,000s)	2,738	2,278	1,509	2,057	1,316
Number of Projects	0.1%	-8.5%	23.3%	10.9%	-10.7%
Level	323	296	365	405	308
Retail Trade Sales Growth /5	-2.7%	-6.2%	7.8%	8.3%	4.6%

MSA = Metropolitan statistical area. NA = Not Available.

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

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

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

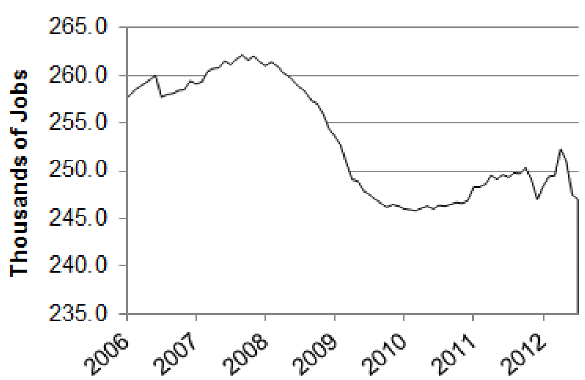
4/ F.W. Dodge. Data through October 2012.

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

The Colorado Springs nonresidential construction market remains at low levels compared with prerecession levels, as vacancy rates for retail, office and commercial markets remain high and delay any robust growth for the industry. The total value of construction starts for the region is down 6.8 percent and the number of new nonresidential projects down 10.7 percent, compared with the same period last year. Through October 2012, new construction project starts are expected to add over 1.3 million square feet to the region's nonresidential inventory. This includes the new VA clinic that is scheduled to open in the spring of 2014. The Department of Veterans Affairs officials broke ground on a new VA facility in Colorado Springs and once completed it will treat 20,000 veterans a year in the 76,731-square-foot building.

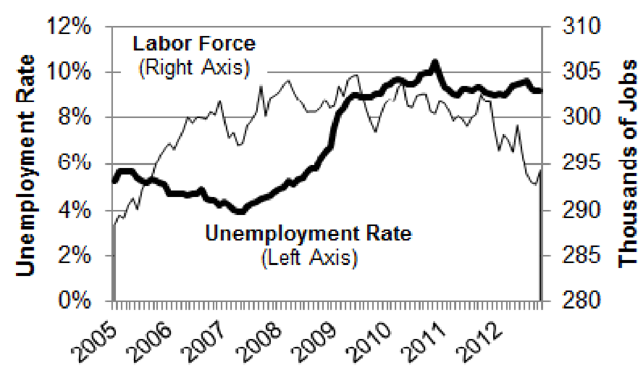
Figure 51 compares changes in the region's consumer spending to changes for the nation and state. The region's consumer spending, as measured by retail trade sales, has continually outperformed the state since 2009 and has grown faster than spending nationwide since April 2012. However, consumer spending lost momentum thus far in 2012, growing 4.6 percent year-to-date through August after growing 8.3 percent in 2011.

Figure 48
Colorado Springs MSA Nonfarm Employment



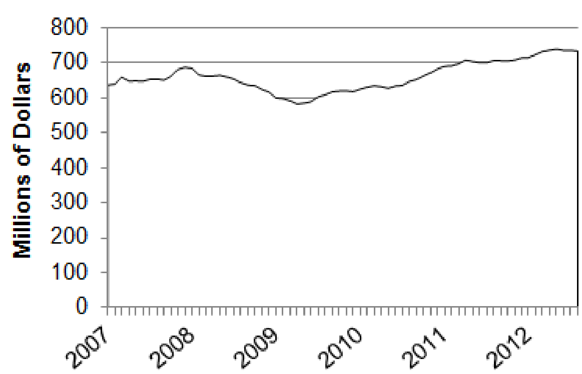
Source: U.S. Bureau of Labor Statistics; CES.
Data through October 2012.

Figure 49
Colorado Springs MSA
Unemployment Rate and Labor Force
Seasonally Adjusted



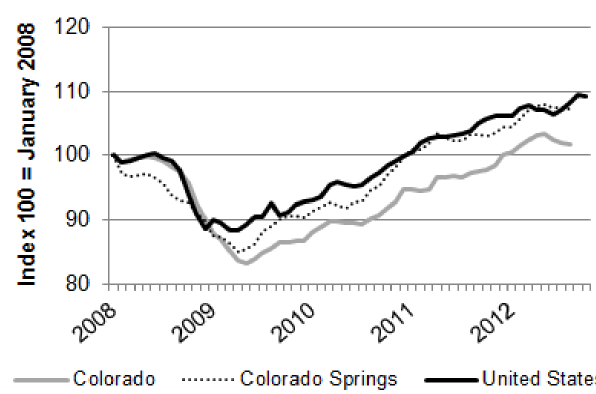
Source: U.S. Bureau of Labor Statistics, LAUS.
Data through October 2012.

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



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

Figure 51
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 August 2012; U.S. data through October.

Pueblo — Southern Mountains Region

The recovery for the Pueblo region continues to be slow. Employment growth through the year has been flat and the region's unemployment rate is still the highest among all the regions statewide. Consumer spending, as measured by retail trade sales, has significantly slowed through the first half of 2012. However, single family residential permits are up compared with the same period last year, and the ground breaking of Pueblo's newest manufacturer, peweg, are encouraging signs for the region. Table 25 shows economic indicators for the region.

Figure 52 shows the Pueblo Region nonfarm employment from January 2006 to October 2012, the latest data available from the Bureau of Labor Statistics. As the figure illustrates, employment growth declined in the first quarter of 2012, but has steadily regained momentum. Compared to the same period last year, job growth has increased slightly, at 0.5 percent. In October 2012, there were 59,700 jobs in the Pueblo region, a 2 percent increase from the previous month. The region's October unemployment rate, the highest among all the regions statewide, increased from 10.6 to 10.7 percent from the previous month.

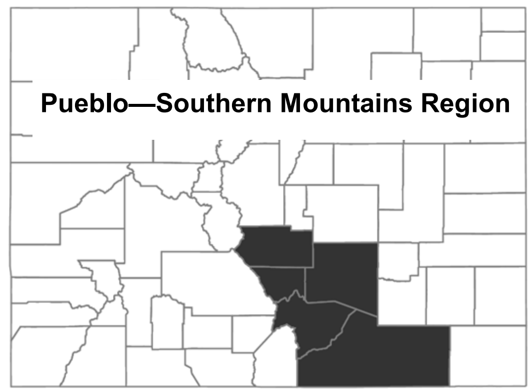


Table 25
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth					
Pueblo Region /1	0.0%	-1.9%	-1.2%	0.7%	-1.0%
Pueblo MSA /2	0.5%	-2.3%	0.2%	1.7%	0.5%
Unemployment Rate /1	6.0%	9.2%	10.3%	9.8%	10.7%
(2012 Figure is October Only)					
Housing Permit Growth /3					
Pueblo MSA Total	-38.6%	-9.4%	-37.9%	-49.6%	33.7%
Pueblo MSA Single-Family	-42.8%	-51.5%	13.6%	-45.5%	37.1%
Growth in Value of Nonresidential Construction /4					
Value of Projects	6.8%	-61.6%	-73.5%	66.9%	161.6%
Square Footage of Projects	4.6%	-72.6%	-73.0%	-25.8%	699.1%
Level (1,000s)	1,414	387	104	78	497
Number of Projects	47.1%	-49.6%	-31.1%	31.8%	-47.1%
Level	99	50	34	45	20
Retail Trade Sales Growth /5	-1.7%	-4.7%	6.8%	9.5%	3.3%

MSA = Metropolitan statistical area. NA = Not Available.

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

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

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

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

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

Figure 53 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, but has only grown 3.3 percent year-to-date. Although the region's consumer spending had been outpacing the state and nation through 2011, it has slowed significantly in 2012.

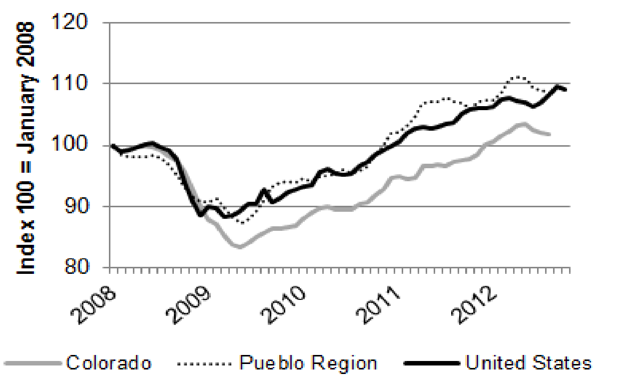
After strong growth in the number of new residential permits in 2010, the number of new single family permits declined by almost half in 2011. Year-to-date through October, the number of single family permits increased 33.7 percent compared with the first ten months of 2011. Although improving, residential construction activity is expected to remain modest for several years. Figure 54 shows recent trends in the number of permits filed for home building in the Pueblo metropolitan area.

Figure 55 shows the number of new nonresidential projects by square feet for the Pueblo region. As the figure illustrates, Pueblo County had a surge of construction beginning at the end of 2008 that peaked in mid-2009. The number of new nonresidential projects remains low for the region, but the value of nonresidential projects and the total square footage of new projects are higher compared to same period one year ago. 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, and the new plant being built for Pueblo's newest manufacturer, pewag.

Figure 52
Pueblo Region Nonfarm Employment

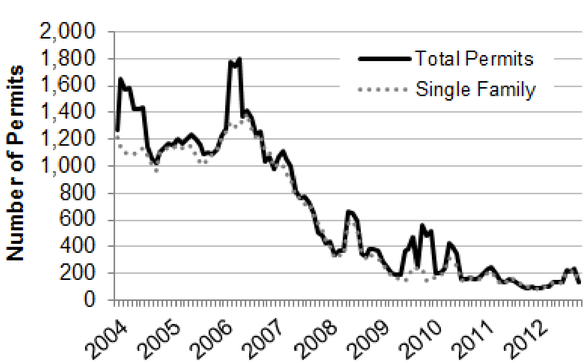
Source: U.S. Bureau of Labor Statistics; CES.
Data through October 2012.

Figure 53
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data



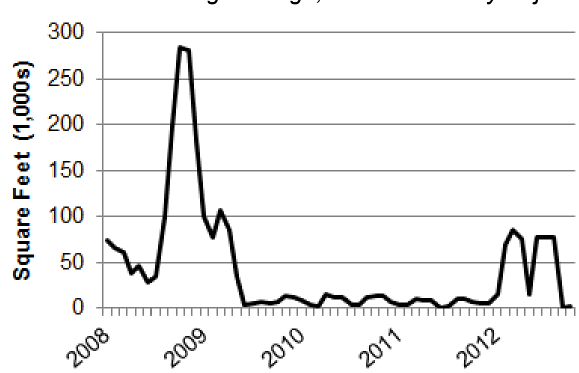
Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through August 2012; U.S. data through October.

Figure 54
Pueblo MSA Residential Building Permits
Three-Month Moving Average; Seasonally Adjusted Data



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

Figure 55
Pueblo Nonresidential Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data

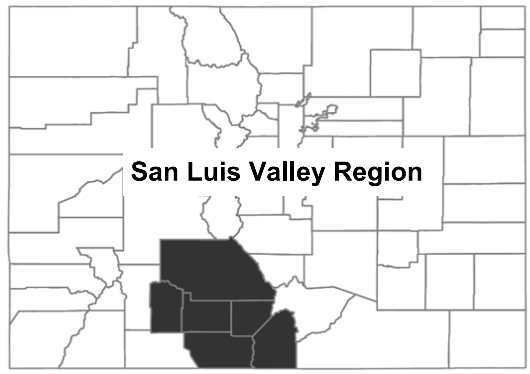


Source: F.W. Dodge. Data through October 2012.

San Luis Valley Region

The drought and prolonged hot weather has affected the agricultural industry in the nation and Colorado's six-county San Luis Valley region. The region's economy continued to grow slowly during 2012, but the drought is impacting crop prices, livestock production, and will soon affect food prices at the retail level.

Nonfarm employment in the region posted weak growth through October 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 has slowed in 2012. The value of nonresidential construction fell as several commercial education projects were completed. New building permits for residential housing are rising but from very low levels of building activity. Table 26 shows economic indicators for the region.



The region's employment grew at a slow rate of 1.3 percent through October 2012 compared with the same period in 2011. As shown in Figure 56, the region's unemployment rate rose to

Table 26
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%	1.3%
Unemployment Rate /1 (2012 Figure is October Only)	6.0%	7.6%	8.7%	8.7%	9.6%
Statewide Crop Price Changes /2					
Barley (U.S. average for all)	49.6%	-15.5%	18.0%	40.9%	18.0%
Alfalfa Hay (baled)	18.0%	-20.7%	6.8%	84.6%	6.8%
Potatoes	21.0%	-46.6%	-38.2%	-16.9%	-38.2%
SLV Potato (Inventory CWT) /2	4.4%	5.0%	23.7%	4.0%	23.7%
Housing Permit Growth /3	-16.9%	-33.9%	28.2%	-8.5%	36.3%
Growth in Value of Nonresidential Construction /3					
Value of Projects	-62.9%	430.9%	-55.4%	83.1%	-100.0%
Square Footage of Projects	12.4%	96.3%	10964.0	-31.1%	-100.0%
Level (1,000s)	46	2	189	130	53
Number of Projects	14.3%	0.0%	62.5%	-23.1%	43784.4%
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 October 2012.

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

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

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

9.6 percent, higher than most regions in Colorado and above the 7.9 percent state rate. As more workers return to the workforce, the ranks of the unemployed are higher than in prior years. It is important to note that labor market data for rural areas can contain meaningful error and are frequently revised.

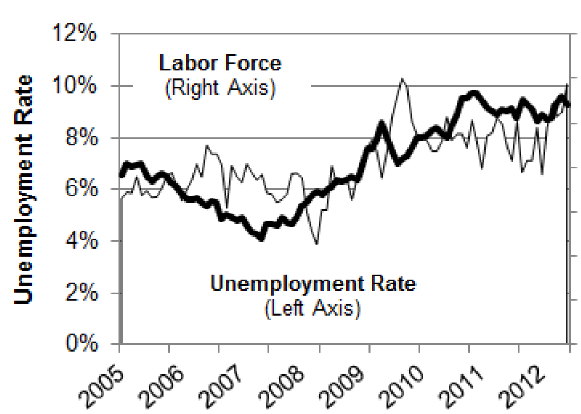
Figure 57 indexes changes in the region's consumer spending, as measured by retail trade sales, to changes in consumer spending in the nation and the state. Consumer spending in the San Luis Valley grew 3.2 percent in August. Spending in the region increased 5.9 percent in 2011 and 3.7 percent in 2010.

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 substantially as no permits were filed through October 2012. Meanwhile, the residential housing industry has begun to improve from very low levels as the number of permits filed for new homes increased 36.3 percent through October 2012 compared with the first 10 months of 2011.

The region's agricultural industry is showing some gains despite the national and state drought, mainly fueled by high crop prices. In November, wheat prices rose a hefty 41.7 percent to $8.26 per bushel, while corn prices reached $6.98 per bushel, a 20.8 percent gain over the prior year. Barley and Alfalfa Hay prices rose 18.0 percent and 6.8 percent, respectively.

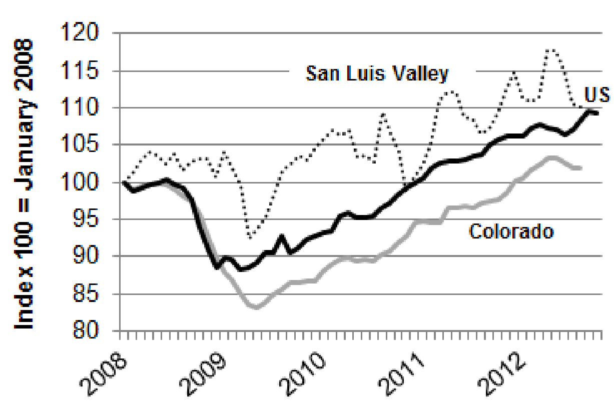
Colorado Department of Agriculture forecasted potato production in the San Luis Valley at 21.0 million hundredweight in 2012, down about 1.1 percent from last year's crop at 21.3 million hundredweight. The harvest is estimated at 54,600 acres, up about 1.0 percent over 2011 harvest levels. Prices for potatoes were down 38.2 percent in October 2012 compared with year-ago levels.

Figure 56
San Luis Valley Region
Unemployment Rate and Labor Force
Seasonally Adjusted



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

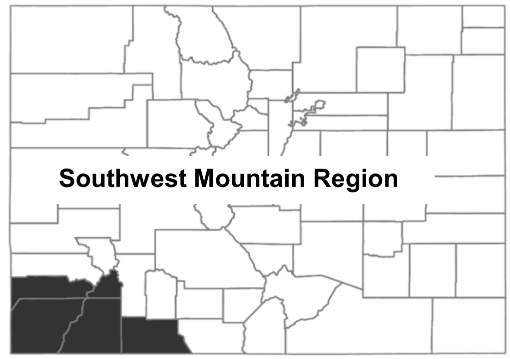
Figure 57
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through August 2012. U.S. data through October 2012.

Southwest Mountain Region

The economy in the southwest mountain region has slowed in 2012. While consumer spending and nonresidential construction permits have continued to grow this year, employment reversed an earlier trend of growth, falling in the third quarter of 2012. The residential construction market continues to struggle and is expected to be a drag on this region in the future. Table 27 shows economic indicators for the region.



As shown in figure 58, nonfarm employment has fallen 0.6 percent in the first ten months of 2012. This has caused the unemployment rate to rise to 7.4 percent, despite a drop in the labor force. These measures are likely being skewed by inaccurate seasonal adjustment factors used by the Bureau of Labor Statistics that do not adequately deal with the warmer-than-typical winter. It is highly likely that the pattern for employment growth during the first ten months will be smoothed out when revised figures are released. At this time it is unclear if this will result in an upward or downward revision in employment.

Figure 59 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 October 2012 retail trade increased 5.6 percent, which has been a boom for the region. However, the growth rate has steadily decelerated over the last 18 months.

Table 27

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%	0.3%	-0.6%
Unemployment Rate /1	4.3%	7.1%	8.2%	7.1%	7.4%
(2012 Figure is October Only)					
Housing Permit Growth /2	-46.5%	-21.7%	40.6%	-30.5%	-11.4%
Growth in Value of Nonresidential Construction /2					
Value of Projects	-81.8%	-17.9%	-16.4%	-2.1%	58.1%
Square Footage of Projects	-74.2%	5.5%	-70.8%	64439.5%	118.2%
Level (1,000s)	243	256	75	48,223	83
Number of Projects	-4.8%	-11.7%	3.3%	-33.6%	-14.9%
Level	26	23	24	16	9
Retail Trade Sales Growth /3	-0.7%	-13.9%	1.6%	9.1%	5.6%

NA = Not Available.

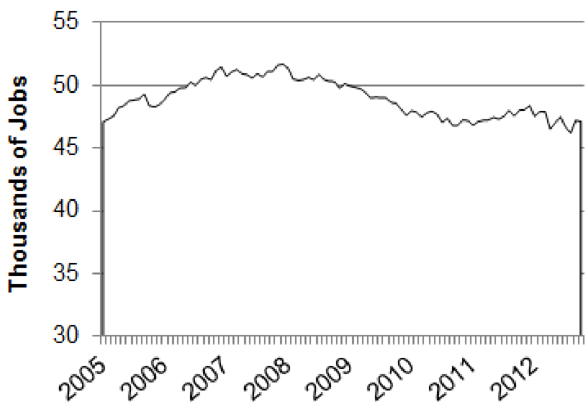
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through October 2012.

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

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

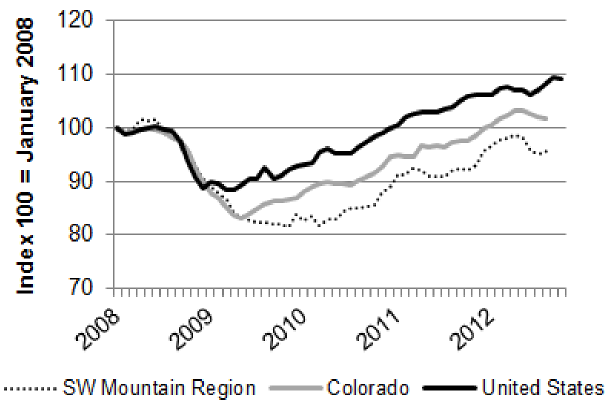
Nonresidential housing is also showing signs of stabilizing, as the value of permits has grown 58.1 percent year-to-date through October. The square footage has risen substantially, indicating that larger projects are under way in the area. Figure 60 shows that residential construction is still struggling in the southwest mountain region. Residential housing permits continue to fall, decreasing 11.4 percent through October, despite a spike early in 2012, compared with the same time period last year. This will continue to be a drag on the region going forward.

Figure 58
Southwest Mountain Region Nonfarm Employment
Seasonally Adjusted



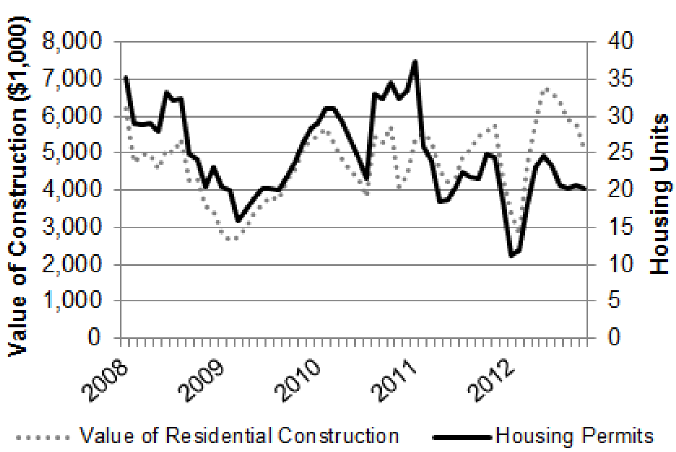
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through October 2012.

Figure 59
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 August 2012.; U.S. data through October.

Figure 60
Southwest Mountain Residential Building Permits
At Historically Low Levels



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

Western Region

The western region continues to be one of the stronger regions in the state, although it lost momentum in the third quarter of 2012. Employment rebounded in the first half of 2012, but has declined in the third quarter, largely because low natural gas prices have limited drilling in the area. Consumer spending continues to grow, although at a slower rate than earlier in the year. Both residential and nonresidential construction, have showed gains in 2012. Table 28 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 61, employment in the Grand Junction metropolitan area is up 3.6 percent year-to-date through October 2012 and the region as a whole is up 1.4 percent. Despite this growth, employment has begun to fall in the third quarter. This has caused the unemployment rate to rise to 8.5 percent in October 2012. Additionally, the rise in the unemployment rate was partially caused by people returning to the labor force in hopes of finding work and is a positive sign of future growth. Figure 62 shows the relationship between the labor force and the unemployment rate in the western region.

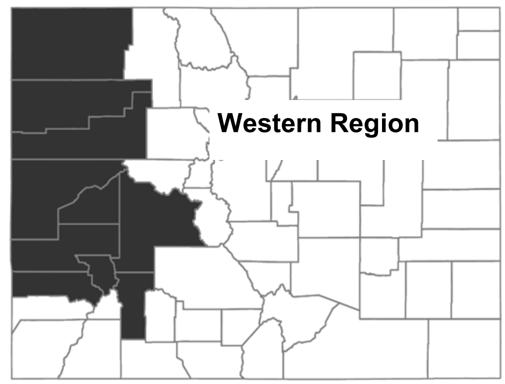


Table 28
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth					
Western Region /1	2.1%	-5.6%	-5.4%	0.0%	1.8%
Grand Junction MSA /2	4.8%	-6.6%	-4.5%	1.0%	3.6%
Unemployment Rate /1	3.8%	8.4%	10.0%	8.4%	8.5%
(2012 Figure is October Only)					
Housing Permit Growth /3	-37.4%	-49.8%	-0.5%	-20.5%	25.5%
Growth in Value of Nonresidential Construction /3					
Value Projects	-24.5%	5.7%	4.7%	-64.4%	-8.5%
Square Footage of Projects	-11.2%	-41.6%	0.4%	-67.1%	76.4%
Level (1,000s)	2,161	1,262	1,268	417	692
Number of Projects	22.3%	-6.5%	-30.9%	-33.1%	21.5%
Level	150	140	97	65	63
Retail Trade Sales Growth /4	1.2%	-19.1%	1.8%	8.8%	2.9%

MSA = Metropolitan statistical area. NA = Not Available.

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

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

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

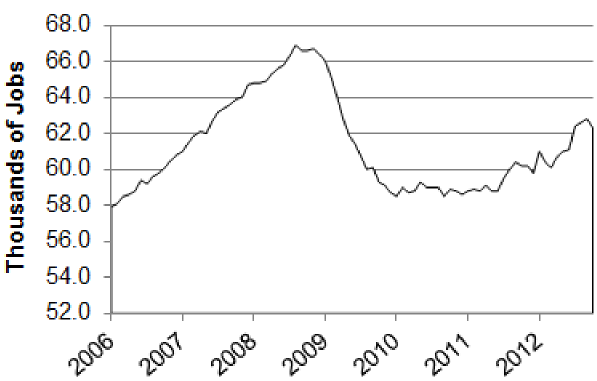
5/ Colorado Department of Revenue. Seasonally adjusted. Data through August 2012.

Figure 63 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 2.9 percent compared with the same period last year.

The region's residential housing market is seeing some building activity as housing permits rose 25.5 percent year-to-date through October, compared with the first ten months of 2011. Nonresidential construction has been mixed, as the value of permits has fallen 8.5 percent through October compared with the same time period last year. However, square footage has risen 76.4 percent and the number of projects has increased 21.5 percent.

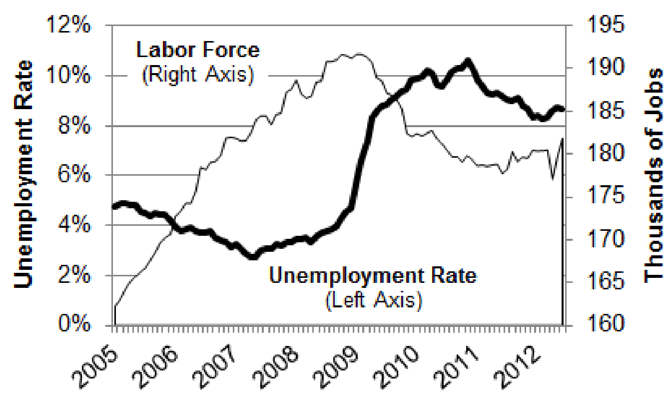
Figure 64 shows the Western region's operating rig count. Lower natural gas prices have continued to keep rig counts down across the region and the state. Through the first 10 months of 2012, the number of rigs operating in the region declined to 15 from a high of 35 in March 2011.

Figure 61
Grand Junction Nonfarm Employment
Seasonally Adjusted



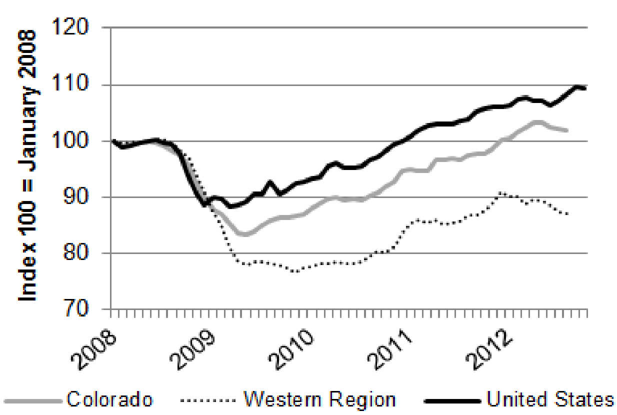
Source: U.S. Bureau of Labor Statistics; CES.
Data through October 2012.

Figure 62
Western Region Unemployment Rate and Labor Force



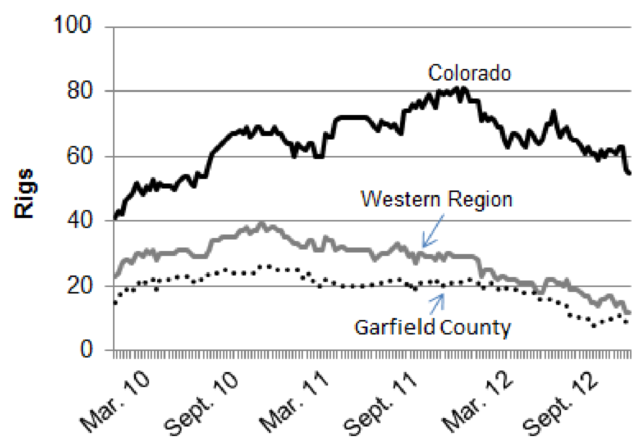
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through October 2012.

Figure 63
Retail Trade Trends Since January 2008
Index 100 = January 2008



Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through August 2012 and U.S. data through October 2012.

Figure 64
Colorado and Western Region Operating Rig Count
Weekly Data

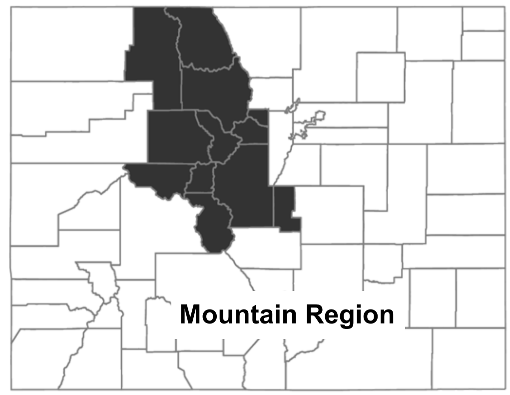


Source: Baker Hughes. Data through November 11, 2012.

Mountain Region

Economic recovery in the mountain region has stalled in 2012. Employment has shown little growth over the full year. Consumer spending has largely leveled off and is still lagging well below the rest of the state. Growth in residential construction has remained largely flat amidst slowing nonresidential construction. Table 29 shows economic indicators for the region.

Figure 65 shows a loss of around 2,400 jobs since employment peaked in February of 2012. Published data shows that regional employment fell sharply in the second quarter before rebounding slightly in the third quarter. Overall, employment growth is flat through the first ten months of 2012 compared with the same time period last year, and the unemployment rate continues to hover around 7.5 percent for most of 2012. The mountain region's job market was hit last year as the exceptionally warm winter impacted the 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 future revisions should be expected.



Consumer spending growth, as measured by retail trade sales, saw a slight uptick year-to-date through August, growing 0.7 percent over the same period last year. Figure 66 indexes the region's retail sales growth with the state as a whole and the nation. Consumer spending in the mountain region has been largely flat over the last two years and has fallen behind recoveries in the state and nation.

Table 29

Mountain Region Economic Indicators

Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

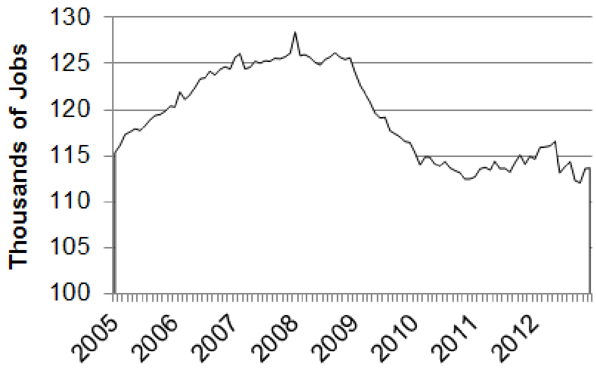
	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-0.3%	-5.8%	-3.6%	0.5%	0.1%
Unemployment Rate /1 (2012 Figure is October Only)	4.0%	7.5%	9.0%	7.5%	7.5%
Housing Permit Growth /2	-20.3%	-50.3%	-16.5%	3.3%	12.8%
Growth in Value of Nonresidential Construction /2					
Value of Projects	35.3%	-84.1%	9.5%	87.0%	-35.9%
Square Footage of Projects	-21.7%	-89.5%	36.2%	101.3%	-19.2%
Level (1,000s)	1,684	176	240	483	369
Number of Projects	-32.0%	-24.4%	-14.2%	-14.5%	9.0%
Level	70	53	45	39	36
Retail Trade Sales Growth /3	-1.5%	-16.3%	4.9%	7.5%	0.7%

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

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

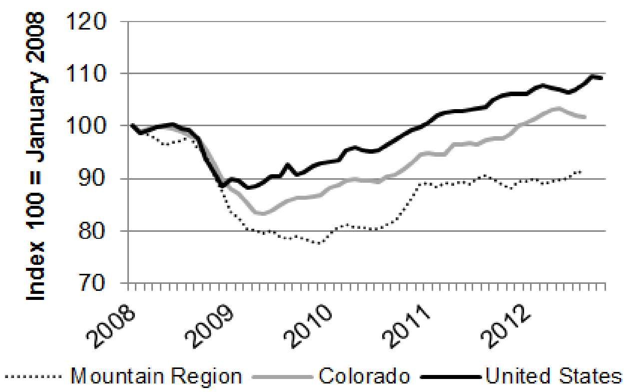
3/ Colorado Department of Revenue. Seasonally adjusted. Data through August 2012.

Figure 65
Mountain Region Nonfarm Employment
Seasonally Adjusted



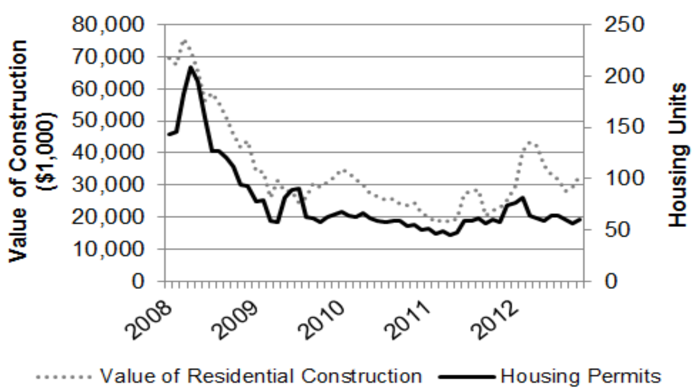
Source: U.S. Bureau of Labor Statistics; LAUS.. Data through October 2012.

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



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

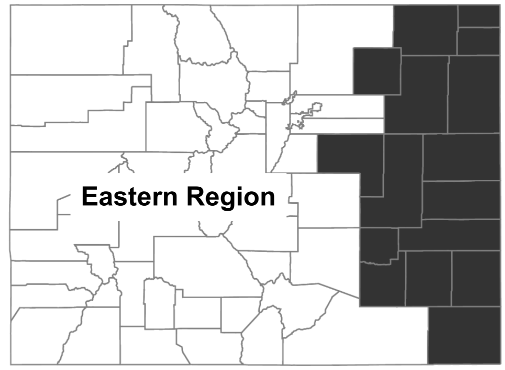
Figure 67
Mountain Region Residential Building Permits
Three-Month Moving Average; Non Seasonally Adjusted Data



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

The regions construction market is still showing some signs of strength. As shown in Figure 67, the residential construction market continues to grow, posting a strong growth rate of 12.8 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. The value of permits filed for nonresidential construction fell year-to-date through October compared with last year; however, this is due to very high levels in the previous year. The number of projects has actually increased 9.0 percent compared with the same time period last year.

Eastern Region



The U.S. drought continues to affect the nation's agricultural states and the agricultural industry in the Eastern region. The drought will impact crop prices and livestock production. Many beef cattle ranches in the region thinned herds by selling off livestock because of the high prices for feed. Job growth in the region is showing moderate growth and the unemployment rate is lower than the statewide average. Consumer spending is growing at a pace slightly slower than the statewide rate. Table 30 shows economic indicators for the region.

Nonfarm employment in the eastern region grew 2.9 percent year-to-date through October 2012 compared with the same period last year after growing 2.6 percent in 2011. Job growth in the eastern region continues to perform better than most other regions in the state. It is

Table 30
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%	2.9%
Unemployment Rate /1	4.3%	6.0%	6.7%	5.8%	6.5%
(2012 Figure is October Only)					
Crop Price Changes /2					
Wheat	10.1%	-32.5%	41.7%	-1.3%	41.7%
Corn	4.5%	-10.9%	20.8%	25.8%	20.8%
Alfalfa Hay (Baled)	18.0%	-20.7%	6.8%	84.6%	6.8%
Dry Beans	14.7%	-9.5%	70.2%	76.7%	-19.4%
State Crop Production Growth /3					
Sorghum production	-18.9%	50.0%	-34.7%	-17.0%	-34.7%
Corn	-6.8%	9.5%	-22.6%	-11.3%	-22.6%
Winter Wheat	-37.8%	71.9%	-5.4%	-26.2%	-5.4%
Sugar Beets	-0.9%	27.0%	18.9%	-2.3%	18.9%
State Cattle and Calf Inventory Growth /4	1.9%	-5.5%	-9.6%	4.0%	-9.6%
Retail Trade Sales Growth /5	6.2%	-12.5%	9.9%	13.7%	4.7%

NA = Not Available.

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

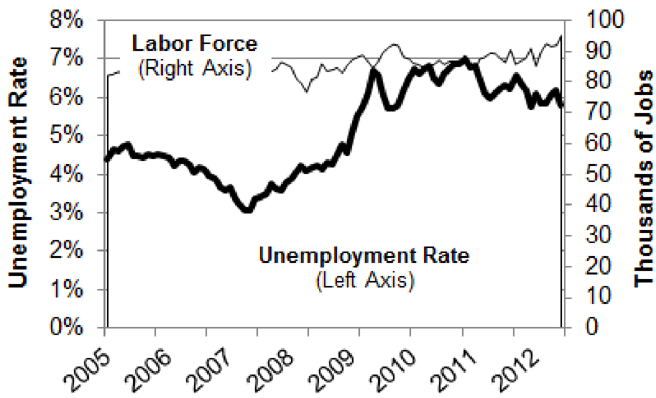
2/ National Agricultural Statistics Service. Price changes reflect November 2012 over prior year.

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 November 2012 over prior year period in 2011.

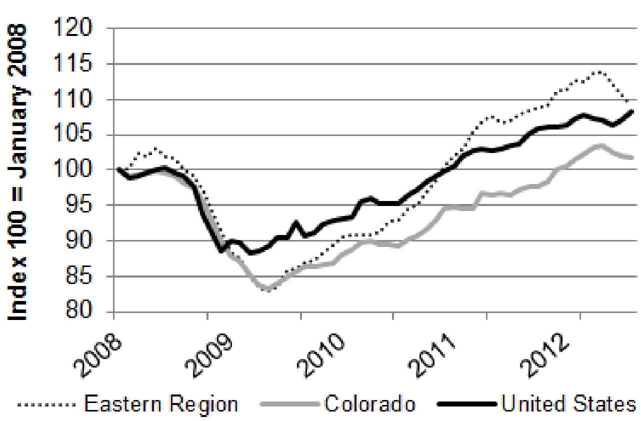
5/ Colorado Department of Revenue. Seasonally adjusted. Data through August 2012.

Figure 68
Eastern Region
Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 69
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 August 2012. U.S. data through October 2012.

likely that the agricultural industry contributed positively to job growth during the year. As shown in Figure 68, the region's unemployment rate was 6.5 percent in October, lower than the statewide rate of 7.9 percent. It is important to note that labor market data does not include agricultural workers. Also, the employment data for rural areas can contain meaningful error and are frequently revised.

The ongoing drought in the state is driving crop prices upward and has damaged a significant amount of wheat crops statewide. Commodity prices in November continue to rise to record-high levels. Wheat rose to $8.26 per bushel, up 41.7 percent over the prior-year period. Corn prices in November advanced to $6.98 per bushel, up 20.8 percent and $1.13 over November 2011 prices. Alfalfa hay prices rose to $235 per ton in November, up 6.8 percent over the same time period. The thinning of cattle herds resulted in cattle inventory falling 6.5 percent in October 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 as the region’s farmers enjoyed profitable years. Spending has reversed course in 2012, falling each month since April. However, strong growth in the early part of the year has contributed to an average year-to-date growth rate of 4.7 percent through August, compared with the first eight months of 2011. Figure 69 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.

Appendix A
Historical Data

National Economic Indicators

(Dollar Amounts in Billions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross Domestic Product	$8,332.4	$8,793.5	$9,353.5	$9,951.5	$10,286.2	$10,642.3	$11,142.2	$11,853.3	$12,623.0	$13,377.2	$14,028.7	$14,291.5	$13,973.7	$14,498.9	$15,075.7
percent change	6.3%	5.5%	6.4%	6.4%	3.4%	3.5%	4.7%	6.4%	6.5%	6.0%	4.9%	1.9%	-2.2%	3.8%	4.0%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$9,845.9	$10,274.7	$10,770.7	$11,216.4	$11,337.5	$11,543.1	$11,836.4	$12,246.9	$12,623.0	$12,958.5	$13,206.4	$13,161.9	$12,757.9	$13,063.0	$13,299.1
percent change	4.5%	4.4%	4.8%	4.1%	1.1%	1.8%	2.5%	3.5%	3.1%	2.7%	1.9%	-0.3%	-3.1%	2.4%	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	$7,000.7	$7,525.4	$7,910.8	$8,559.4	$8,883.3	$9,060.1	$9,378.1	$9,937.2	$10,485.9	$11,268.1	$11,912.3	$12,460.2	$11,867.0	$12,321.9	$12,947.3
percent change	6.2%	7.5%	5.1%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.5%	5.7%	4.6%	-4.8%	3.8%	5.1%
Wage and Salary Income	$3,876.6	$4,181.6	$4,460.0	$4,827.7	$4,952.2	$4,997.3	$5,139.6	$5,425.7	$5,701.0	$6,068.9	$6,421.7	$6,550.9	$6,270.3	$6,404.6	$6,661.3
percent change	7.2%	7.9%	6.7%	8.2%	2.6%	0.9%	2.8%	5.6%	5.1%	6.5%	5.8%	2.0%	-4.3%	2.1%	4.0%
Nonfarm Employment (millions)	122.8	125.9	129.0	131.8	131.8	130.3	130.0	131.4	133.7	136.1	137.6	136.8	130.8	129.9	131.4
percent change	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.6%	-4.4%	-0.7%	1.2%

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

Colorado Economic Indicators
(Dollar Amounts in Millions)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Nonagricultural Employment (thous.)	1,979.7	2,056.9	2,132.1	2,214.3	2,227.1	2,184.7	2,152.5	2,179.3	2,225.9	2,279.7	2,331.0	2,350.4	2,245.2	2,221.9	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	$216,030	$204,625	$212,545	$225,410
percent change	8.2%	9.1%	8.8%	12.5%	6.4%	0.8%	1.4%	5.4%	6.6%	8.2%	5.6%	5.3%	-5.3%	3.9%	6.1%
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	$44,180	$41,154	$42,107	$44,053
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%	-6.8%	2.3%	4.6%
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	$116,999	$112,588	$114,191	$119,148
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%	-3.8%	1.4%	4.3%
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	13,502
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%	16.5%
Nonresidential Construction	$3,336	$2,952	$3,799	$3,498	$3,476	$2,805	$2,686	$3,245	$4,275	$4,641	$5,259	$4,114	$3,354	$3,147	$3,931
percent change	31.2%	-11.5%	28.7%	-7.9%	-0.6%	-19.3%	-4.2%	20.8%	31.7%	8.6%	13.3%	-21.8%	-18.5%	-6.2%	24.9%
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	4631.9	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.