Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff
Economics Section

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Photograph captures a moulting mountain goat, courtesy of Geoffrey Johnson.

Highlights

- The recovery in **Colorado's economy** is among the most vibrant in the nation. Consistent improvement in the labor and real estate markets, growth in consumer spending, a rebound in manufacturing activity, and increasing strength in the business and financial sectors point to a gradually maturing recovery in the private sector. Federal fiscal policy will weigh down economic growth in the short run, but healthier growth should resume later this year. However, the recovery will still require loose monetary policy, and a fragile global economy remains a risk to the outlook.

- In **FY 2012-13**, the General Fund is expected to end the year with a surplus of $848.0 million.

- In **FY 2013-14, the State Education Fund** will receive a one-time transfer from the General Fund pursuant to House Bill 12-1338 equal to the FY 2012-13 General Fund surplus of $848.0 million. This transfer is in addition to the ongoing transfer to the State Education Fund required by Amendment 23.

- The General Assembly will have $924.3 million 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 or other legislative priorities.

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

- Revenue subject to TABOR is expected to be $238.6 million below the **Referendum C** cap in FY 2014-15, the last year of the forecast period. Depending on economic growth and legislative tax and fee policy changes, a **TABOR surplus** could be generated within the next two to four years.

EXECUTIVE SUMMARY

This report presents the budget outlook based on the March 2013 economic, General Fund revenue, and cash fund revenue forecasts. This outlook is based on **current Colorado law**. As this forecast goes to print, Congress is close to authorizing spending authority for the second half of federal fiscal year 2012-13, retaining the magnitude of the sequestration spending cuts, but allowing for slightly more flexibility in their implementation. This forecast diverges from current federal law in that it assumes this will happen before the end of March and that Congress will raise the federal debt ceiling by an amount sufficient to postpone the threat of default for at least another year.

General Fund Overview

Table 1 on page 4 presents the General Fund overview based on current law. The outlook incorporates the following legislation passed by the General Assembly during the 2013 legislative session:

- the FY 2012-13 supplemental budget package, which increases General Fund operating appropriations by $17.8 million;
- Senate Bill 13-133, which diverts gaming revenue from the General Fund to economic development programs; and
- House Bill 13-1024, which provides an income tax deduction for grants to the Military Family Relief Fund.

The American Taxpayer Relief Act, passed by Congress on January 1, 2013, has also been incorporated into this outlook.

FY 2012-13. The FY 2012-13 budget is in balance. Revenue is expected to be $848.0 million higher than the amount budgeted to be spent or retained in the reserve. Pursuant to House Bill 12-1388, the $848.0 million surplus will be transferred to the State Education Fund at the end of the fiscal year *(see line 12 of Table 1)*.

House Bill 12-1388 authorized both the $848 million transfer to the State Education Fund at the end of FY 2012-13 and a $59 million transfer in FY 2011-12. These transfers are displayed as expenditures from the General Fund in Table 1, even though the money was not appropriated nor spent at the time of the transfer. Excluding these transfer in both years, total General Fund expenditures increased 8.0 percent in FY 2012-13. General Fund operating appropriations, a subset of General Fund expenditures, are budgeted to increase 6.1 percent.

FY 2013-14. Revenue will be $924.3 million higher in FY 2013-14 than the amount needed to fund General Fund operating appropriations and the statutorily required reserve at the same level as is budgeted for FY 2012-13 *(see line 22 of Table 1)*. This amount is equal to 11.9 percent of total expenditures in FY 2012-13, excluding the House Bill 12-1388 transfer to the State Education Fund. In total, the General Fund will provide $1.77 billion in additional revenue for the state budget during FY 2013-14 ($924.3 million plus the $848.0 million transfer to the State Education Fund).

Table 1
March 2013 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	$298.2	$1,222.5
2	General Fund Nonexempt Revenue	6,262.6	6,758.9	6,890.8	7,158.5
3	General Fund Exempt Revenue (Referendum C)	1,473.4	1,343.7	1,779.1	2,100.5
4	Transfers to Other Funds	(5.0)	(4.6)	(1.6)	(1.6)
5	Transfers from Other Funds	142.1	2.1	2.2	2.2
6	**Total Funds Available**	**$8,029.8**	**$8,896.0**	**$8,968.7**	**$10,482.2**
7	Percent Change	8.8%	10.8%	0.8%	16.9%
EXPENDITURES		**Actual**	**Budgeted**	**Estimate /A**	**Estimate /A**
8	General Fund Appropriations /A	7,027.9	7,455.9	7,455.9	7,455.9
9	Rebates and Expenditures *(Line 28 of Table 5)*	133.0	133.3	143.5	140.5
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	40.5	44.5
12	Transfers to the State Education Fund and State Public School Fund /B	59.0	848.0	0.0	0.0
13	Accounting Adjustments	(37.0)	NE	NE	NE
14	**Total Expenditures**	**$7,233.9**	**$8,597.7**	**$7,746.2**	**$7,754.2**
15	Percent Change	0.1%	18.9%	-9.9%	0.10%

BUDGET SUMMARY		**Actual**	**Estimate**	**Estimate /A**	**Estimate /A**
16	**Amount Available for Expenditure** *(Line 6 minus Line 21)*	**7,748.7**	**8,597.7**	**8,670.5**	**10,183.9**
17	Dollar Change	523.9	849.1	72.7	1,513.4
18	Percent Change	7.3%	11.0%	0.8%	17.5%

RESERVE		**Actual**	**Budgeted**	**Estimate /A**	**Estimate /A**
19	Year-End General Fund Reserve	795.8	298.2	1,222.5	2,728.0
20	Year-End Reserve As A Percent of Appropriations	11.3%	4.0%	16.4%	36.6%
21	Statutorily-Required Reserve	281.1	298.2	298.2	298.2
22	Reserve in Excess or (Deficit) of Statutory Reserve /A	$514.7	$0.0	$924.3	$2,429.7
23	*Percent Change in General Fund Appropriations*	*3.0%*	*6.1%*	*NE*	*NE*
24	Addendum: TABOR Reserve Requirement	308.2	318.6	340.8	361.1
25	Addendum: 5% of Colorado Personal Income Appropriations Limit	10,231.2	10,627.3	11,270.5	11,766.4
26	Addendum: Amount Directed to State Education Fund Per Amendment 23	407.5	431.6	465.6	493.2

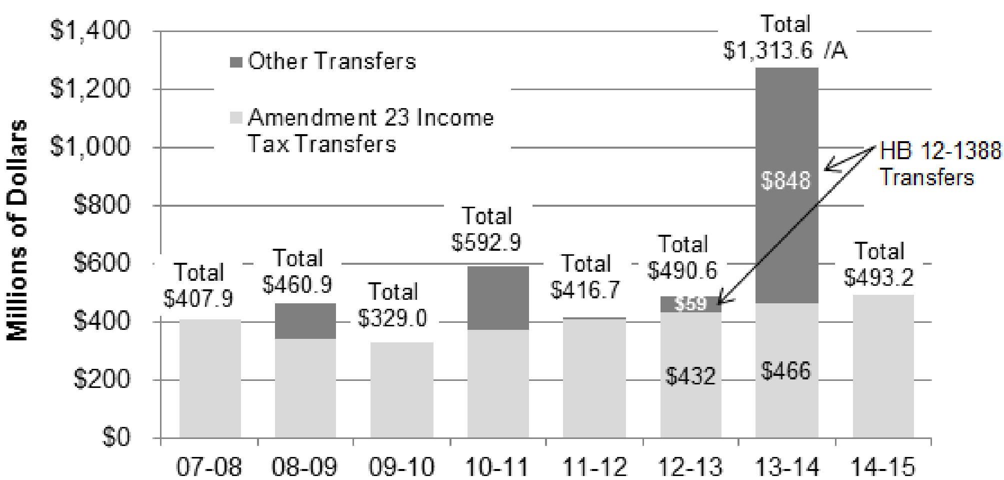
Totals may not sum due to rounding. NE = Not Estimated.

/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) will occur 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 HB 12-1338.

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 $2.4 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. This figure does not include the $848.0 million transfer to the State Education Fund made at the end of FY 2012-13 pursuant to House Bill 12-1388. 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 those amounts is spent, there would be $1.0 billion available in excess of the statutorily required reserve in FY 2014-15.

Figure 1
Revenue to the State Education Fund
(Dollars in Millions)



Source: Colorado Legislative Council Staff.
/A In FY 2013-14, the "other transfer" is the House Bill 12-1388 transfer of excess General Fund revenue at the end of FY 2012-13. Currently estimated at $848.0 million, any legislation that alters General Fund appropriations or revenue in FY 2012-13 will likewise alter this amount.

State Education Fund. The State Constitution, pursuant to Amendment 23, requires the State Education Fund to receive one-third of one percent of taxable income from state income tax returns *(see Table 1, line 26).* In addition, the General Assembly has authorized the transfer of additional moneys from the General Fund to the State Education Fund in FY 2011-12 and FY 2012-13 *(see Table 1, line 12).* Money in the State Education Fund is required to be used to fund Kindergarten through twelfth grade public education. However, additional revenue in the State Education Fund provides flexibility to the entire General Fund budget, not just the education budget. Figure 1 shows a history and forecast for these sources of revenue to the State Education Fund through the end of the forecast period.

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 $254.0 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. As shown in Table 2, all of these tax policies are currently available. 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	Ta 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 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.	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.	Available beginning January 2013.

Revenue Forecast

The forecast for total revenue subject to TABOR increased by $69.3 million for FY 2012-13 and $268.9 million for FY 2013-14 relative to the December forecast. For FY 2012-13, the forecast for General Fund revenue subject to TABOR increased $84.2 million, while the cash fund forecast decreased $14.8 million. For FY 2013-14, the forecasts for General Fund and cash fund revenue subject to TABOR increased by $200.8 million and $68.1 million, respectively. Because Senate Bill

13-133 reduced the transfer of gaming revenue to the General Fund, the change in the forecast for General Fund revenue subject to TABOR differs from the change in the forecast for total General Fund revenue.

- After increasing 9.2 percent in FY 2011-12, **General Fund revenue** is expected to increase 4.7 percent in FY 2012-13 and 7.0 percent in FY 2013-14. These forecasts were both revised up to incorporate the impact of the American Taxpayer Relief Act of 2012 and continued strength in the economic recovery. The General Fund revenue forecast was increased by a total of $271.0 million over the two-year period of FY 2012-13 and FY 2013-14. Table 4 on page 14 presents the forecast for General Fund revenue.

- **Cash fund revenue** subject to TABOR is expected to fall 1.0 percent in FY 2012-13 to $2.54 billion, after increasing 9.0 percent in FY 2011-12. Decreases in severance tax collections and transportation-related revenue are expected to be partially offset by gains in hospital provider fee revenue and gaming revenue. This source of revenue is expected to increase 6.9 percent in FY 2013-14, as severance tax revenue is expected to rebound due to increasing natural gas prices. Table 5 on page 16 presents the forecast for cash fund revenue subject to TABOR.

- 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 positive balance sufficient to trigger a new premium rate table enacted by House Bill 11-1288, and to turn off the solvency surcharge in January 2013. Table 9 on page 24 presents the forecast for the Unemployment Insurance Trust Fund.

TABOR and Referendum C

Table 3 on page 10 shows the TABOR and Referendum C situation through FY 2014-15, which extends five years beyond the Referendum C timeout period. Figure 2 on page 9 shows a history and forecast for revenue subject to TABOR, the TABOR limit base, and the Referendum C cap, while Figure 3 focuses on the amount of money retained as a result of Referendum C.

TABOR Limit/Referendum C Cap. The TABOR limit includes voter-approved revenue changes. Because revenue retained as a result of Referendum C is a voter-approved revenue change, the Referendum C cap is also the TABOR limit. The Referendum C cap will equal $11.5 billion in FY 2012-13, and revenue subject to TABOR is expected to be $839.9 million below the cap. By FY 2014-15, revenue is estimated to be $238.6 million below the cap *(see line 10 of Table 3)*.

TABOR Refunds. Revenue will not be sufficient to produce a TABOR refund through at least FY 2014-15, the end of the forecast period. Although a forecast has not been produced for FY 2015-16 or FY 2016-17, there is a strong likelihood that revenue will be sufficient to produce a TABOR refund at that time, assuming the economy continues on its current path of expansion and does not again fall into recession. In addition, legislative changes at either the state or federal level that increase tax and fee revenue could result in a TABOR surplus during the forecast period.

Revenue Retained by Referendum C. The state has retained a total of $5.84 billion since the passage of Referendum C during FY 2005-06 through 2011-12. The state is expected to retain $1.3 billion in FY 2012-13, $1.8 billion in FY 2013-14, and $2.1 billion in FY 2014-15.

Population Adjustment. 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. The population growth rate used to calculate the FY 2011-12 limit includes the change in population between the July 1, 2009 and the Census date of April 1, 2010. Therefore, the population growth rate used to calculate the FY 2012-13 limit reflects the change in population between April 1, 2010, and July 1, 2011.

National Economy

The nation's private-sector economy continues to improve and looks poised to grow at healthier rates once the drag created by the public sector fiscal policy stalemate is resolved. Private sector gross domestic product, employment, and manufacturing activity are expanding. Corporate profits are rapidly increasing, and banks look better situated to increase lending. Consumers continue to simultaneously repair their household balance sheets and spend, and the nation's housing market has begun to show meaningful improvement. This recovery in the private sector economy is dependent on continued loose monetary policy, and this forecast assumes the Federal Reserve will continue its expansionary monetary policy, keeping interest rates extremely low through the remainder of the forecast period.

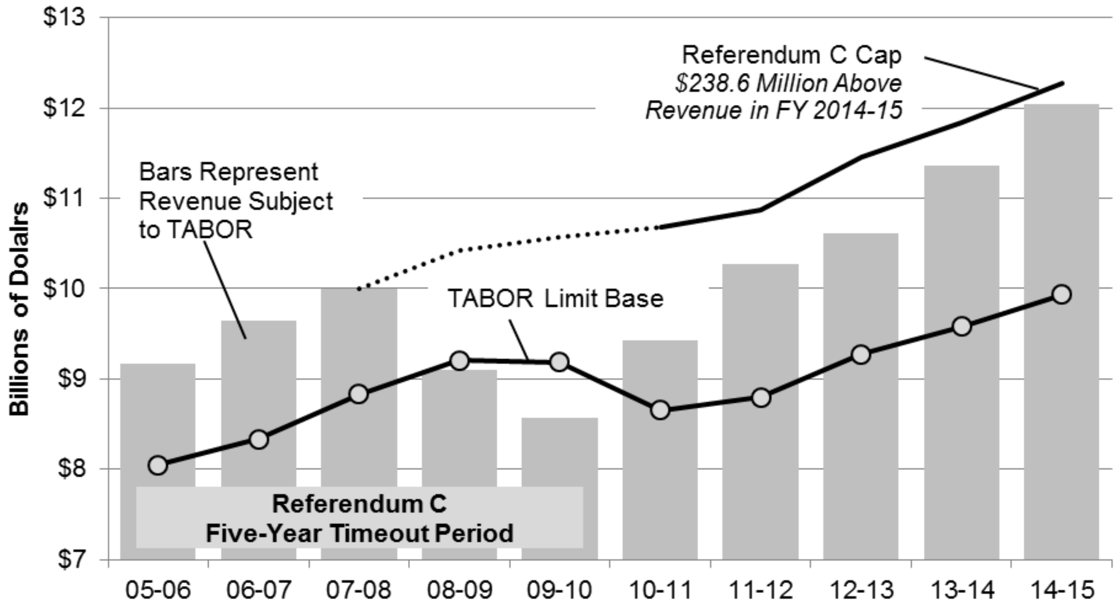
Growth will remain subdued in 2013, however, as slow growth in the global economy and public-sector fiscal contraction in the United States will weigh down the recovery's momentum. This forecast assumes that federal spending authority will be extended through the end of federal fiscal year 2012-13 and the debt ceiling will be raised. In addition, this forecast assumes the European Union remains intact and that European nations continue to access financing through the European Central Bank and International Monetary Fund.

Colorado Economy

The recovery in Colorado's economy is among the most vibrant in the nation. The labor market is showing steady improvement and retail sales are growing as consumers buy durable goods, especially automobiles. Housing prices are increasing at rates faster than the rest of the nation; this is increasing Colorado homeowners' equity and helping to support new residential construction. Colorado exports continue to grow despite a weak global economy. Underlying strength in the Colorado economy will buy employment growth through the first half of 2013 even with higher federal taxes and less federal spending. The effects of federal spending cuts will be concentrated in regions of the state with more federal employees and that rely on federal government services.

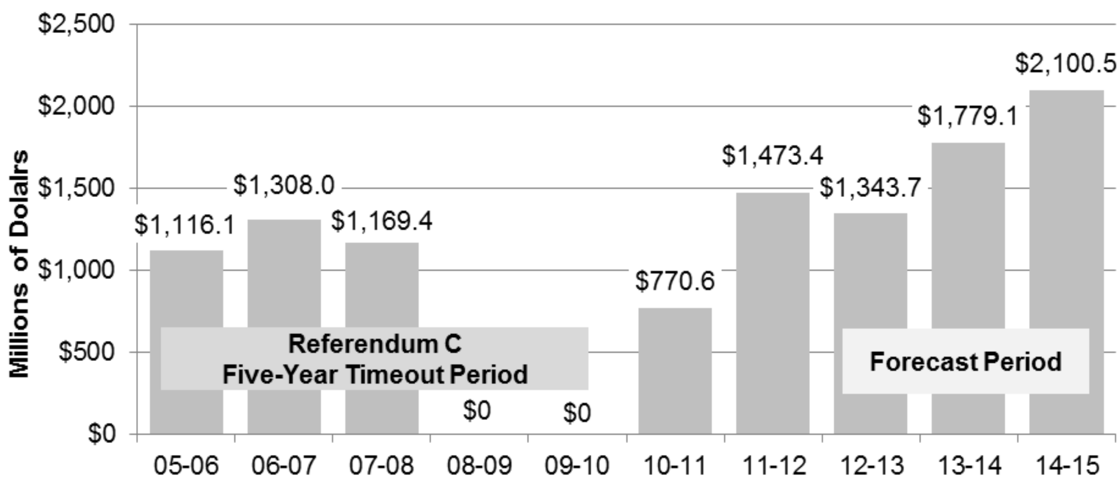
While the state as a whole is growing at a moderate pace, the growth is concentrated in the Denver metro area and the northern regions, while economic growth in other regions of the state is slow or stagnant. Once consumers and businesses adjust to tighter fiscal policy, economic growth in Colorado will accelerate in the second half of 2013 and into 2014.

Figure 2
TABOR Revenue, the TABOR Limit Base, and the Referendum C Cap
(Dollars in billions)



Source: Colorado State Controllers Office and Legislative Council Staff.

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



Source: Colorado State Controllers Office and Legislative Council Staff.

Table 3
March 2013 TABOR Revenue Limit and Retained Revenue

(Dollars in Millions)

		Actual FY 2011-12	Estimate FY 2012-13	Estimate FY 2013-14	Estimate FY 2014-15
	TABOR Revenue:				
1	General Fund /A	$7,709.6	$8,081.0	$8,647.2	$9,235.3
2	Cash Funds	$2,563.6	$2,537.6	$2,712.9	$2,800.7
3	**Total TABOR Revenue**	**$10,273.2**	**$10,618.6**	**$11,360.1**	**$12,036.0**
	Revenue Limit				
4	Allowable TABOR Growth Rate	2.0%	5.4%	3.3%	3.7%
5	Inflation (from prior calendar year)	1.9%	3.7%	1.9%	2.2%
6	Population Growth (from prior calendar year) /B	0.1%	1.7%	1.4%	1.5%
7	TABOR Limit Base	$8,799.8	$9,274.9	$9,581.0	$9,935.5
8	Voter Approved Revenue Change (Referendum C)	$1,473.4	$1,343.7	$1,779.1	$2,100.5
9	Total TABOR Limit / Referendum C Cap	$10,871.4	$11,458.5	$11,836.6	$12,274.6
10	TABOR Revenue Above (Below) Referendum C Cap	($598.2)	($839.9)	($476.5)	($238.6)
	Retained/Refunded Revenue				
11	Revenue Retained under Referendum C /C	$1,473.4	$1,343.7	$1,779.1	$2,100.5
12	**Total Available Revenue**	**$10,273.2**	**$10,618.6**	**$11,360.1**	**$12,036.0**
13	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 revenue reported in other tables because they net out revenue that is already in the cash funds to avoid double counting and include transfers of revenue from TABOR enterprises into TABOR district boundaries.

/B The population growth rate used to calculate the FY 2011-12 limit reflects a downward adjustment of about 1.3 percentage points for an overcount of population during the decade between 2000 and 2010, and includes the change in population between July 1, 2009 and April 1, 2010. The population growth rate used to calculate the FY 2012-13 limit reflects the change in population between the census date of April 1, 2010 and July 1, 2011.

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

GENERAL FUND REVENUE

This section presents the forecast for General Fund Revenue. Table 4 on page 14 illustrates revenue collections for FY 2011-12 and projections for FY 2012-13 through FY 2014-15. The forecast for General Fund revenue includes the impact of the American Taxpayer Relief Act of 2012 and legislation passed by the General Assembly during the 2013 legislative session.

The state's main source for General Fund operating appropriations increased for the second consecutive year in FY 2011-12. In the current period, FY 2012-13, General Fund revenue will increase 4.7 percent to $8.1 billion, exceeding prerecession levels, before growing 7.0 percent and 6.8 percent in FY 2013-14 and FY 2014-15, respectively.

Expectations for General Fund revenue were revised upward throughout the forecast period compared with the December forecast. The upward revisions come from an improving economy, revenue collections coming in slightly above what had been expected in December and January, and changes related to federal tax policy. In FY 2012-13, the forecast was increased by $76.7 million, or 1.0 percent. The forecast for General Fund revenue in FY 2013-14 also increased over the December forecast by $194.3 million, or 2.3 percent.

Most of the increase in expectations for revenue over the full forecast period is the direct result of the American Taxpayer Relief Act of 2012, which will increase Colorado's corporate, individual, and sales tax collections by an estimated $27.0 million in FY 2012-13, $160.3 million in FY 2013-14, and $214.1 million in FY 2014-15. It is important to note that over half of these amounts are attributable to the expiration of a single federal corporate income tax provision, which allows corporations to accelerate the rate at which they expense and depreciate certain investments. This corporate tax provision has been regularly extended, and often extended near the end of the tax year. If this provision is extended beyond 2013, current expectations for corporate income taxes will be reduced by an estimated $105.7 million in FY 2013-14 and $157.1 million in FY 2014-15.

Sales taxes. General Fund revenue from sales taxes increased 2.4 percent in FY 2011-12 and is expected to increase 6.2 percent in FY 2012-13. This is based on healthy year-to-date collections, although some slowing is expected during the next few months due to the expiration of the payroll tax cut and other federal individual income tax changes. Disposable income spiked in December as taxpayers moved income out of 2013 and into 2012 to avoid higher federal taxes, and the increase in federal payroll taxes decreased disposable income starting in January 2013. Lower disposable income is expected to result in slower growth in in sales tax collections during the spring months of FY 2012-13. Sales tax collections will increase 5.2 percent in FY 2013-14.

The forecast for sales tax collections was lowered by $4.0 million for FY 2012-13 and increased by $19.8 million for FY 2013-14 relative to the December forecast. Overall, expectations for retail sales and sales tax revenue are similar to those in the December forecast.

The sales tax forecast was adjusted upward by $1.3 million in FY 2012-13 and $0.6 million in FY 2013-14 as a result of the American Taxpayer Relief Act of 2012, which extended emergency employment benefits in 2013. The continuation of these benefits will increase personal income and sales taxes. The expiration of the payroll tax cut had already been incorporated into expectations for the December forecast.

Use taxes. After growing 5.6 percent in FY 2011-12, use tax revenue is expected to increase 14.4 percent in FY 2012-13. In FY 2013-14, use tax revenue is expected to increase 5.6 percent. The forecast for use tax revenue was increased by $4.4 million for FY 2012-13 and $4.8 million for FY 2013-14 above expectations in December.

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 general purpose revenue has been growing at an average rate of 10.8 percent over the last two years. Revenue from individual income taxes will increase 4.0 percent in FY 2012-13, 6.3 percent in FY 2013-14, and 7.7 percent in FY 2014-15.

Compared to the December forecast, expectations for individual income tax revenue were increased by $88.2 million, or 1.7 percent, in FY 2012-13 and $84.6 million, or 1.6 percent, in FY 2013-14. Of these increases, $23.5 million in FY 2012-13 and $49.9 million in FY 2013-14 was the result of the American Taxpayer Relief Act of 2012. The Act reduced the value of itemized deductions for high-income taxpayers, increasing federal taxable income. Because Colorado taxable income is coupled to federal taxable income, Colorado revenue from individual income taxes will also increase. The upward revisions also reflect an improving economy and revenue collections coming in slightly above what had been expected for December and January.

Strong growth in estimated payments and withholding collections received to date during FY 2012-13 would seem to imply higher expectations for revenue than those contained within this forecast. Much of this growth, however, was the result of taxpayers pulling income forward from calendar year 2013 into 2012 in anticipation of changes in federal tax policy. Businesses paid dividends and bonuses earlier, and many taxpayers cashed out capital gains in advance of a then-anticipated increase in the capital gains tax rate on January 1, 2013.

Corporate income taxes. Corporate profits continued to show strength into 2013. After cutting costs during the recession, corporations have fared well through the recovery as they have been able to access credit markets and consumers around the globe. Some have invested in new equipment, making them more efficient, which may reduce their need for labor, further reducing their operating costs.

Colorado corporate income tax collections totaled $486.5 million in FY 2011-12. Corporate income tax revenue is expected to increase another 6.6 percent in FY 2012-13 and 24.6 percent in FY 2013-14. Revenue growth will be dampened 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 and begin claiming them in tax year 2014, subject to available tax liability.

The American Taxpayer Relief Act of 2012 will increase Colorado corporate income taxes by an estimated $2.2 million in FY 2012-13, $109.8 million in FY 2013-14, and $160.6 million in FY 2014-15. The majority of these increases are due to the expiration of accelerated expensing and bonus depreciation in tax year 2014, although a few minor corporate income tax provisions which impact the treatment of donations of books and computers to schools, the depreciation of race horses, the depletion of oil and gas wells, the dispensation of electricity transmission equipment, and the expensing of brownfield remediation, will begin to increase revenue in tax year 2013. This forecast has been adjusted upward to reflect the expiration of these tax cut provisions. However, it is possible that much of this increase will not occur. The provision that allows corporations to accelerate the expensing and depreciation of certain investments has been extended each year for several years, if Congress again extends this provision beyond 2013, the new revenue from the provision will not be collected. In this event, expectations for corporate income tax revenue would be reduced by $105.7 million in FY 2013-14 and $157.1 million in FY 2014-15.

Table 4
March 2013 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	$2,222.6	6.2	$2,339.0	5.2	$2,426.0	3.7
2	Use	200.6	5.6	229.6	14.4	242.3	5.6	260.3	7.4
3	Cigarette	39.5	0.5	37.7	-4.5	36.2	-4.0	34.7	-4.1
4	Tobacco Products	16.0	16.1	15.8	-1.2	16.4	3.2	16.8	2.6
5	Liquor	38.4	5.3	39.1	1.8	40.2	2.8	42.2	4.9
6	TOTAL EXCISE	$2,387.7	2.8	$2,544.8	6.6	$2,674.1	5.1	$2,780.0	4.0
7	Net Individual Income	$5,011.6	11.5	$5,213.9	4.0	$5,540.2	6.3	$5,965.4	7.7
8	Net Corporate Income	486.5	23.5	518.4	6.6	646.0	24.6	717.9	11.1
9	TOTAL INCOME TAXES	$5,498.1	12.4	$5,732.3	4.3	$6,186.2	7.9	$6,683.4	8.0
10	Less: Portion diverted to the SEF	-407.5	10.0	-431.6	5.9	-465.6	7.9	-493.2	5.9
11	INCOME TAXES TO GENERAL FUND	$5,090.6	12.6	$5,300.8	4.1	$5,720.6	7.9	$6,190.2	8.2
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	16.3	20.6	17.5	7.3	18.4	5.1
16	Court Receipts	2.6	-27.6	2.2	-16.0	2.0	-10.0	1.8	-10.0
17	Gaming	20.3	-0.5	12.9	-0.4	13.9	8.2	15.0	0.1
18	Other Income	23.1	8.5	19.0	-17.8	19.6	3.1	20.6	5.2
19	TOTAL OTHER	$257.6	5.9	$257.1	-0.2	$275.1	7.0	$288.9	5.0
	GROSS GENERAL FUND	**$7,736.0**	**9.2**	**$8,102.6**	**4.7**	**$8,669.9**	**7.0**	**$9,259.0**	**6.8**
	REBATES & EXPENDITURES:								
20	Cigarette Rebate	$11.2	1.9	$11.0	-1.7	$10.6	-4.0	$10.2	-4.1
21	Old-Age Pension Fund	92.5	1.2	89.8	-2.9	85.3	-5.0	82.7	-3.0
22	Aged Property Tax & Heating Credit	7.2	5.2	7.2	-0.3	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	-7.0	1.7	171.4	1.8	5.1
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	2.5	0.9	-4.5	0.8	-3.1
28	TOTAL REBATES & EXPENDITURES	$133.0	5.5	$133.3	0.2	$143.5	7.7	$140.5	-2.1

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

CASH FUNDS

Table 5 summarizes the forecast for cash fund revenue 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 drop slightly from FY 2011-12 to $2.54 billion in FY 2012-13. Decreases in severance tax collections, transportation-related funds, and capital construction-related funds are 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 exhibit modest growth. Total cash fund revenue subject to TABOR will increase 6.9 percent to $2.71 billion in FY 2013-14, as severance tax revenue is projected to rebound due to increasing natural gas prices.

In FY 2012-13, revenue subject to TABOR to ***transportation-related*** cash funds is expected to be $1,105 million, which represents a decline of 0.7 percent over the previous year. The decline is due to decreases in motor fuels and local grant revenue to the State Highway Fund. Revenue is expected to grow slowly over the reminder of the forecast period. Forecasts for transportation-related cash funds are shown in Table 6 on page 17.

Total revenue to the *Highway Users Tax Fund* (HUTF) is expected to reach $946.5 million in FY 2012-13, an increase of 0.6 percent over the previous year. Revenue is forecast to grow 1.2 percent to $958.1 million in FY 2013-14 and 1.2 percent to $969.5 million in FY 2014-15. The largest source of revenue to the HUTF is the excise tax on motor fuels and special fuels. In FY 2012-13, fuels revenue is expected to be $555.3 million. This is a slight increase over the December 2012 forecast. Total registrations, which includes motor vehicle registration fees, the road safety surcharge, and late registration fees, is projected to total $335.0 million in FY 2012-13. Larger than expected gains in registrations, the road safety surcharge, and late registration fees resulted in an increase in the forecast.

Other revenue to the HUTF is expected to decline 1.6 percent to $56.2 million in FY 2012-13. **House Bill 12-1216,** which extends a diversion originally authorized by House Bill 10-1387 and Senate Bill 09-274, will reduce HUTF receipts by $22.7 million in FY 2012-13. The diversion moves money collected through various HUTF drivers' license and permit fees to the Licensing Services Cash Fund, which is included in the "other transportation funds" category in Table 6.

The *State Highway Fund (SHF)* is expected to bring in $44.9 million in FY 2012-13, down 20.0 percent from FY 2011-12 levels. SHF revenue can be volatile because the majority is derived from funds paid by local governments for transportation projects and interest paid on the funds balance. So far this year, low interest rates have caused the fund balance to fall. Revenue to the SHF is expected to grow 2.0 percent to $45.8 million in FY 2013-14 and 3.0 percent to $47.1 million in FY 2014-15.

Table 5
March 2013 Estimates for Cash Fund Revenue Subject to TABOR
(Dollars in Millions)

	Estimate 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**	**$1,104.8**	**$1,120.4**	**$1,136.5**	
% Change	2.7%	-0.7%	1.4%	0.0%	**0.7%**
Hospital Provider Fee	**$586.5**	**$659.1**	**$717.7**	**$733.3**	
% Change	37.2%	12.4%	8.9%	2.2%	**7.7%**
Severance Tax	**$207.7**	**$121.6**	**$198.1**	**$229.8**	
% Change	39.0%	-41.4%	62.9%	16.0%	**3.4%**
Gaming Revenue /A	**$95.6**	**$101.3**	**$104.8**	**$108.0**	
% Change	-2.4%	5.9%	3.5%	3.0%	**4.1%**
Insurance-Related	**$22.6**	**$24.0**	**$25.2**	**$26.4**	
% Change	-14.5%	5.9%	4.9%	5.0%	**5.3%**
Regulatory Agencies	**$64.9**	**$66.1**	**$67.1**	**$68.2**	
% Change	-6.6%	1.8%	1.6%	1.6%	**1.7%**
Capital Construction Related - Interest /B	**$1.1**	**$0.7**	**$0.3**	**$0.1**	
% Change	-62.5%	-36.3%	-52.9%	-61.1%	**-51.1%**
Other Cash Funds	**$472.9**	**$460.0**	**$479.2**	**$498.3**	
% Change	-4.3%	-2.7%	4.2%	4.0%	**1.8%**
Total Cash Fund Revenue	**$2,563.6**	**$2,537.6**	**$2,712.9**	**$2,800.7**	
Subject to the TABOR Limit	9.0%	-1.0%	6.9%	3.2%	**3.0%**

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 6
Transportation Funds Revenue Forecast by Source, March 2013
(Dollars in Millions)

	Estimate 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	$555.3	$562.5	$569.3	0.7%
% Change	0.0%	-0.3%	1.3%	1.2%	
Total Registrations	$326.7	$335.0	$339.2	$343.4	1.7%
% Change	1.4%	2.5%	1.2%	1.3%	
Registrations	*$193.2*	*$200.9*	*$204.4*	*$207.5*	
Road Safety Surcharge	*$115.7*	*$117.3*	*$118.5*	*$119.7*	
Late Registration Fees	*$17.8*	*$16.8*	*$16.3*	*$16.3*	
Other HUTF Receipts /A	$57.1	$56.2	$56.4	$56.8	-0.2%
% Change	-0.9%	-1.6%	0.4%	0.8%	
Total HUTF	**$941.1**	**$946.5**	**$958.1**	**$969.5**	1.0%
% Change	0.4%	0.6%	1.2%	1.2%	
State Highway Fund	$56.1	$44.9	$45.8	$47.1	-5.6%
% Change	31.6%	-20.0%	2.0%	3.0%	
Other Transportation Funds	$114.6	$113.5	$116.6	$119.8	1.5%
% Change	11.0%	-0.9%	2.7%	2.8%	
Aviation Fund /B	*$41.0*	*$39.3*	*$41.4*	*$43.1*	
Law-Enforcement-Related /C	*$10.9*	*$11.0*	*$11.2*	*$11.4*	
Registration-Related /D	*$62.6*	*$63.1*	*$64.1*	*$65.3*	
Total Transportation Funds	**$1,112.2**	**$1,104.8**	**$1,120.4**	**$1,136.5**	0.7%
% Change	2.7%	-0.7%	1.4%	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

	Estimate FY 11-12	Estimate FY 12-13	Estimate FY 13-14	Estimate FY 14-15	
Bridge Safety Surcharge	$101.5	$102.9	$104.0	$105.0	$96.1
% Change	42.4%	1.4%	1.0%	1.0%	

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

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

Revenue to *other transportation funds* is expected to be $113.5 million in FY 2012-13. This revenue is expected to decline 0.9 percent and includes the $22.7 million diversion authorized by **House Bill 12-1216** from the HUTF to the Licensing Services Cash Fund in FY 2012-13.

The Bridge Safety Surcharge grew an additional 33 percent to the full fee level in FY 2011-12. Revenue from the fee is TABOR exempt (see Addendum to Table 6).

The **Hospital Provider Fee (HPF)** is expected to generate $659.1 million in FY 2012-13. This revenue is expected to rise to $717.7 million in FY 2013-14 and $733.3 million in FY 2014-15. The forecast for the fee was reduced $2.8 million for FY 2012-13 and increased $74.9 million for FY 2013-14 and $130.5 million for FY 2014-15 relative to the December forecast. The forecast also includes a $25 million transfer for FY 2012-13 authorized by **Senate Bill 11-212**.

The Federal Patient Protection and Affordable Care Act will be effective in January 2014. This law provides additional federal dollars to states that expand Medicaid coverage to certain lower income and special needs populations. The General Assembly has not yet enacted coverage to these populations, and the above hospital provider fee forecast is based on current law. Should the General Assembly choose to expand Medicaid coverage, the state's share of Medicaid will decrease and the federal share will increase. In that event, revenue from the HPF is expected to total $638.4 million in FY 2013-14 and $569.8 million in FY 2014-15. This pattern of declining revenue is similar to the December forecast.

Total **severance tax** revenue, including interest earnings, is projected to be $121.6 million in FY 2012-13, a downward revision of 0.7 percent from the December forecast. The revision is primarily due to a slight reduction in natural gas price expectations. Projected oil and natural gas collections for FY 2012-13 decreased $1.6 million from the December forecast, based both on year-to-date collections through February and revised price expectations. Projected coal receipts increased slightly, while projected molybdenum and metallic mineral receipts were essentially unchanged. Total collections are projected to rise to $198.1 million and $229.8 million in FY 2013-14 and FY 2014-15, representing increases of 9.8 and 6.9 percent, respectively, from the December forecast. Increases in the later years of the forecast period are due to modest increases in natural gas price expectations.

The price of natural gas is the largest determinant of state severance tax collections. While prices rose steadily through the latter half of 2012, prices have stalled this winter. Prices are approaching $3.70 per Mcf (thousand cubic feet) in March, the same level as early December. 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 have fluctuated around $90 per barrel since October. Oil prices are 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 2.8 million barrels in 2012. 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 December forecast, March's projected coal severance tax for FY 2012-13 increased modestly due to slightly higher than anticipated collections in the third quarter. In FY 2013-14 and FY 2014-15, collections are expected to total $11.4 million annually, essentially unchanged from the December forecast.

Severance tax from metallic minerals, including gold, represents a tiny fraction of total collections. It is expected to total $2.9 million in FY 2012-13, before increasing to $3.0 million in FY 2013-14, and $3.1 million FY 2014-15. These totals are essentially unchanged from the December forecast.

Finally, projected interest earnings for FY 2012-13 have been revised slightly upward from the December forecast to $10.2 million. These revisions are primarily due to higher than anticipated, year-to-date interest income in the operational account. Over the remainder of the forecast period, interest earnings are expected to dip to $9.2 million in FY 2013-14, before rising to $9.9 million in FY 2014-15.

Gaming tax revenue includes limited gaming taxes, fees, and interest earnings collected in the Limited Gaming Fund and the Historical Society Fund. Table 7 on page 20 summarizes the forecast for and distribution of gaming revenue, both subject to and exempt from TABOR. As the economic recovery continues to pick up speed, gaming establishments are adding capacity and new game technology. Total gaming revenue is expected to increase 5.9 percent to $111.0 million in FY 2012-13. Of this amount, gaming revenue subject to TABOR is expected to total $101.3 million in FY 2012-13. Both these totals are projected to grow roughly 3.0 percent 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.

In Colorado, gaming tax revenue advanced nearly 5.5 percent through the first six months of FY 2012-13. Casinos saw moderate revenue growth in 2012 and will see consumer spending at casinos and lodging facilities increase in 2013. The forecast for modest increases in tax revenue growth in FY 2012-13 is attributable to both the tax rate change and an industry that is slowly expanding as the economic recovery takes hold.

As Table 7 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 $6.6 million in FY 2012-13, and $7.0 million in FY 2013-14.

Gaming revenue distributed prior to expanded gaming is often referred to as

Table 7
March 2013 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	98.1	101.6	104.6
Amendment 50 Revenue *(TABOR Exempt)*	9.2	9.7	10.1	10.4
Total Gaming Taxes	**$101.9**	**$107.9**	**$111.6**	**$115.0**
Fees and Interest Earnings *(Subject to TABOR)*				
To Limited Gaming Fund	1.6	1.7	1.7	1.8
To State Historical Fund	1.4	1.4	1.5	1.5
Total Gaming Revenue	**$104.80**	**$111.0**	**$114.9**	**$118.3**
% change	**-2.6%**	**5.9%**	**3.5%**	**3.0%**
Total Gaming Revenue Subject to TABOR	$95.6	$101.3	$104.8	$108.0
Distributions of Gaming Tax Revenue /A				
Amendment 50 Distributions				
Community Colleges	6.7	6.6	7.0	7.3
Gaming Counties and Cities	1.9	1.9	2.0	2.0
Amendment 50 Administrative Expenses	0.6	0.6	0.7	0.7
Total Amendment 50 Distributions	**$9.2**	**$9.1**	**$9.7**	**$10.1**
Pre-Amendment 50 Distributions				
State Historical Fund	22.4	24.0	24.6	25.2
Gaming Counties	9.6	10.3	10.6	10.8
Gaming Cities	8.0	8.6	8.8	9.0
General Fund /C	20.2	12.9	13.9	15.0
Economic Development Programs /C	19.7	30.0	30.0	30.0
Pre-Amendment 50 Administrative Expenses	11.9	13.0	14.1	15.0
Total Amendment 50 Distributions	**$91.8**	**$98.7**	**$102.0**	**$104.9**
Total Gaming Distributions /B	**$101.0**	**$107.9**	**$111.7**	**$115.0**

/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.

/C Beginning FY 2012-13, transfers to the General Fund and economic development programs are adjusted pursuant to SB 13-133, signed into law on March 8, 2013.

"*Pre-Amendment 50*" revenue. This money is distributed to the State Historical Society, gaming cities and counties, the General Fund, and various economic development programs. These distributions incorporate Senate Bill 13-133, which increases distributions to economic development, tourism promotion, and other local government programs by $7.5 million and reduced the distribution to the General Fund by a corresponding amount in FY 2013-14. Total *Pre-Amendment 50* distributions will be $98.7 million in FY 2012-13, up from $91.8 million in the prior year. Distributions will increase to $102.0 million in FY 2013-14.

In May 2012, the Colorado Limited Gaming Control Commission voted 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. Figure 4 shows the change in annual rates effective July 1, 2012.

All ***other cash fund revenue*** subject to TABOR is expected to increase 4.2 percent in FY 2013-14. This category includes revenue to a large number of sources credited to various other cash funds, such as revenue from court fines and fees, regulatory licensure fees, and fees paid for services provided by the Secretary of State's Office. For FY 2013-14, this total has been increased to reflect the passage of House Bill 13-1228, which is expected to provide $2.5 million in new revenue from instant criminal background checks.

Table 8 presents the March 2013 forecast for **federal mineral leasing (FML)** revenue in comparison with the December forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of energy production. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment, the forecast is presented separately from other sources of state revenue.

The forecast for FML revenue was decreased slightly compared with the December forecast, due to lower distributions year-to-date in FY 2012-13. FML revenue is anticipated to total $136.7 million in FY 2012-13, representing a 3.8 percent decline from the December forecast. The reduction in distributions in the current fiscal

Figure 4
Gaming Tax Rates

Casinos with Adjusted Gross Proceeds* (in millions)	FY 2011-12	FY 2012-13 (new rates)
Up to $2.0	.2375	025
$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 8
Federal Mining Leasing Revenue Distributions
(Dollars in Millions)

Fiscal Year	March 2013 Forecast	Percent Change	December 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	$136.7	-17.1%	$142.1	-3.8%
FY 2013-14	$160.2	17.2%	$156.4	2.4%
FY 2014-15	$179.8	12.2%	$173.4	3.7%

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

year is primarily due to the reduced royalty rates that two Colorado coal mines have negotiated with the U.S. Department of the Interior. The reduced royalty rates are retroactive back to 2009, and are expected to result in a $3.3 million reduction in FML revenue in FY 2012-13. This impact will be restricted to the current fiscal year, however, as revenue is then expected to increase to $160.2 million in FY 2013-14 and $179.8 million in FY 2014-15. This slight upward revision in later years of the forecast period is due to modest increases in expectations for natural gas prices.

Forecasts for **Unemployment Insurance (UI) Trust Fund** revenue, benefit payments, and the UI balance are shown in Table 9 on page 24. Revenue to the UI Trust Fund has not been subject to TABOR since FY 2009-10 and is therefore excluded from Table 4 on page 14.

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 (described further below). **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 are 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 is not being 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 2013 March 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 9 is estimated to be collected during the last half of 2012.

Total revenue to the UI fund is expected to decline 62.8 percent in FY 2012-13. If you exclude the bond proceeds in FY 2011-12, total revenue to the UI Fund is expected to decline 33.6 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 are expected to grow 9.2 percent in FY 2012-13. Total revenues are expected to again decline in FY 2013-14 as the employment market improves and the higher year-end fund balance reduces the premium rates paid by employers.

The amount of UI benefits paid is expected to decline 8.7 percent in FY 2012-13 as the number of UI claims continue to fall. UI benefits paid are expected to fall 14.0 percent in FY 2013-14 and 16.0 percent in FY 2013-14 as unemployment declines.

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 was 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 restore the UI fund balance to a desired level of solvency and repay outstanding federal loans, the Colorado Housing and Finance Authority issued $640 million in bonds on behalf of the Colorado Unemployment Insurance Trust Fund. The proceeds were used to pay back all outstanding federal loans with the remaining balance deposited into the UI trust fund. On June 28, 2012 the UI fund had paid all remaining federal debt. The terms of finance are five years at 1.4 percent total annual 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 principal repayments of approximately $125 million each due May 15 every year through 2017. The principal will be repaid through a bond principal surcharge assessed against employers and incorporated into their base UI premium rate beginning in 2013.

Table 9
Unemployment Insurance Trust Fund Forecast, March 2013
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	$489.9	$500.3	
Plus Income Received					
UI Premium & Premium Surcharge /A	$398.8	$435.5	$479.2	$600.9	14.6%
Solvency Surcharge	$414.3	$97.9	$0.0	$0.0	
Interest	$0.4	$6.7	$15.6	$19.8	
Plus Special Revenue Bonds	$640.0				
Total Revenues	**$1,453.5**	**$540.2**	**$494.7**	**$620.7**	-24.7%
% Change	85.6%	-62.8%	-8.4%	25.5%	
Less Benefits Paid	($616.6)	($563.2)	($484.3)	($406.8)	-12.9%
Net Federal Loans	*$302.4*				
Accounting Adjustment	($323.1)	$0.0	$0.0	$0.0	
Ending Balance	**$512.9**	**$489.9**	**$500.3**	**$714.2**	
Solvency Ratio/B					
Fund Balance as a Percent of Total Annual Private Wages	0.60%	0.54%	0.54%	0.73%	

Totals may not sum due to rounding.

NA = Not Applicable.

**CAAGR: Compound Average Annual Growth Rate.*
/A This includes the regular UI premium, 30 percent of the premium surcharge, penalty receipts, and the accrual adjustment on premiums.
/B When the solvency ratio exceeds 0.5 percent of total annual private wages, the solvency surcharge is triggered off.
Note: The Unemployment Insurance Trust Fund is exempt from TABOR.

NATIONAL ECONOMY

The United States economy continues to grow at a modest pace. Although weighed-down by changes in federal fiscal policy and continuing uncertainty, the nation's private sector continues to heal from the financial crisis and appears ready to gain momentum. Private sector gross domestic product and employment is expanding, while consumers continue to simultaneously spend and reduce debt. The expansion in the nation's manufacturing sector has regained its footing, the nation's banks have rebuilt their balance sheets, and corporate profits continue to grow. Although still several years away from a full recovery, the nation's housing market has begun to emerge as an economic bright spot with fewer distressed markets, increasingly stronger sales of existing homes, and moderate levels of new construction. In addition, the nation's equity markets have experienced strong growth thus far in 2013.

Growth will remain subdued through 2013, as slow growth in the global economy and public-sector fiscal contraction in the United States weigh down the recovery's momentum. The European recession, concerns about unsustainable real estate speculation in China, and the uncertainty generated by geopolitical conditions in South Korea, Iran, and Syria are weighing on business confidence.

However, federal fiscal contraction in the United States is the chief impediment to faster growth in the short term. The American Taxpayer Relief Act of 2012 resolved some, but not all, of the uncertainty related to federal fiscal policy. The combination of continued uncertainty, higher taxes, and lower spending is estimated to reduce growth in gross domestic product by approximately 1 percentage point in 2013. The economic drag of federal fiscal policy should mitigate significantly by 2014. As this forecast goes to press, Congress is close to authorizing spending authority for the second half of federal fiscal year 2012-13, retaining the magnitude of the sequestration spending cuts, but allowing for slightly more flexibility in their implementation. This forecast also assumes that this will occur in time to avoid a government shut down and that Congress will raise the federal debt ceiling this summer by an amount sufficient to postpone the threat of default for at least another year.

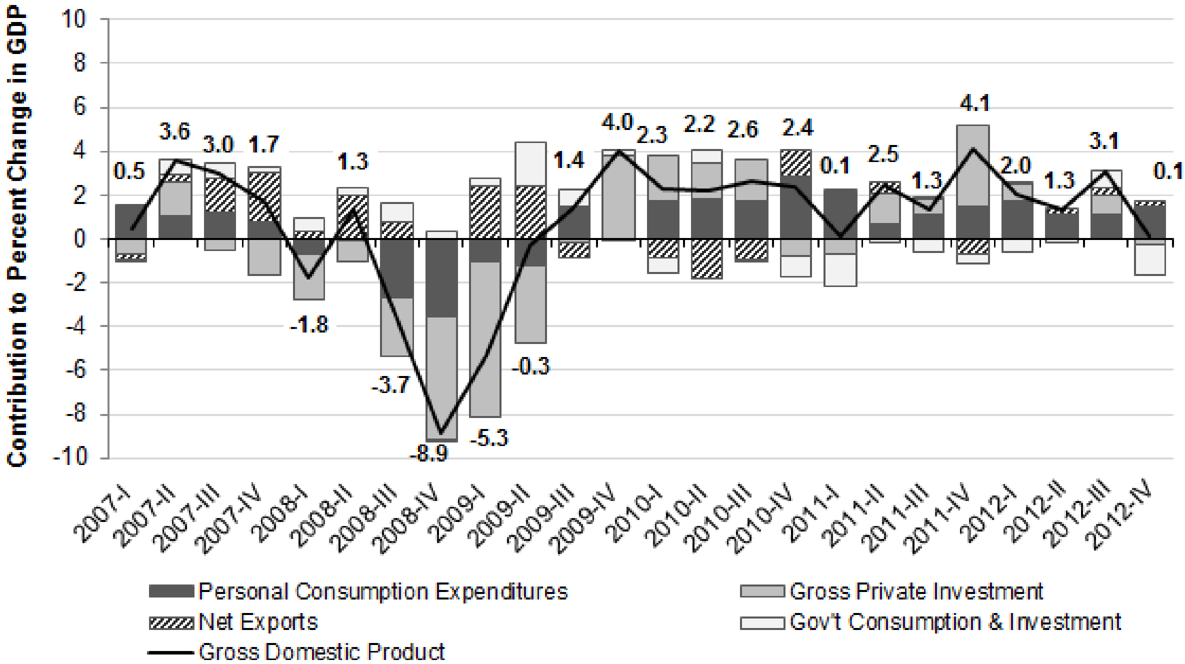
Economic growth is expected to accelerate to healthier rates in 2014 and 2015, as the recovery in the private sector matures and the drag from the uncertainty in the public sector moderates. Recovery in the private sector is still dependent on continued loose monetary policy, and this forecast assumes the Federal Reserve will continue its expansionary monetary policy, keeping interest rates extremely low through the forecast period. In addition, the European Union is assumed to remain intact, with European nations continuing to access financing through the European Central Bank and International Monetary Fund. In addition, the rest of the world, including China, is assumed to continue to experience slow economic growth.

A summary of the forecast for selected national indicators is available in Table 10 on page 38.

M*omentum in the US Economy Remains Modest*

The nation's **gross domestic product (GDP),** the broadest measure of total economic activity, grew at an annual rate of 2.2 percent despite the nation's economy

Figure 5
Contributions to Real Gross Domestic Product
Quarter-Over-Quarter Growth at Seasonally Adjusted Annual Rates



Source: Bureau of Economic Analysis.

barely growing in the fourth quarter of 2012. The 2012 GDP increase was an improvement from the 1.8 percent increase in 2011. Growth was driven from a deceleration in imports and increased residential investment. Consumer spending on durable goods increased 7.8 percent, which helped buoy overall household spending to a 1.9 percent improvement for 2012.

In the fourth quarter of 2012, GDP expanded at a 0.1 percent annual rate, the slowest since the first quarter of 2011. Figure 5 shows contributions to real GDP between 2007 and the fourth quarter of 2012. The slowdown in the nation's economy for the fourth quarter resulted from a drop in private inventories and federal spending, specifically in national defense, which decreased 22 percent. However, residential investment continued to be robust and construction spending increased 15.3 percent in the fourth quarter. In addition, consumer spending on durable goods increased 13.9 percent.

Federal Fiscal Policy Remains in Flux

Enacted on January 1, 2013, the American Taxpayer Relief Act of 2012 extended most of the Bush-era individual and corporate tax cuts, while raising taxes for those in upper income brackets. In addition, the Act delayed the onset of the mandatory spending cuts known as sequestration by two months to March 1 and extended federal emergency unemployment insurance benefits through 2013. The Act did not extend the two percent federal payroll tax cut, allowing the payroll tax rate levied on employees to increase from 4.2 percent to 6.2 percent. In separate legislation, Congress postponed the debate over the federal debt ceiling to

May 19, although the U.S. Treasury is expected to be able manage the debt until August.

The Budget Control Act of 2011, passed following the debate over the federal debt limit that occurred during the summer of 2011, triggered the automatic spending cuts known as sequestration if a "supercommittee" created by the Act failed to agree to a $1.2 million deficit reduction package by the end of 2011. In addition, the Budget Control Act of 2011 enacted caps on discretionary spending levels that, on top of the sequestration cuts, were estimated by the Congressional Budget Office to reduce spending by $900 billion over a ten-year period below their baseline projections, which assumed annual spending growth equal to inflation.

The supercommittee did not reach agreement, and the automatic sequestration spending cuts became effective on March 1, 2013. The sequestration cuts will reduce spending authority by an additional $1.1 trillion over ten years; including $85 billion in 2013 and $110 billion each year thereafter. These cuts represent a reduction from a baseline level of spending. After annual federal spending has been reset at a level $110 billion lower than would have otherwise occurred, it will continue to grow from that level each year thereafter.

Most of the sequestration cuts will be divided evenly between defense and domestic discretionary spending. As initially enacted, the cuts would be disruptive to the federal budget because they are required to be implemented as across-the-board percentage rate cuts among all budgetary accounts within each program, leaving no flexibility for program managers to mitigate the impact on services. Cuts will also occur in the Medicare program, which will reduce provider reimbursements for most services by 2 percent beginning in April. In addition, emergency unemployment benefits are expected to be reduced by 11 percent beginning in April.

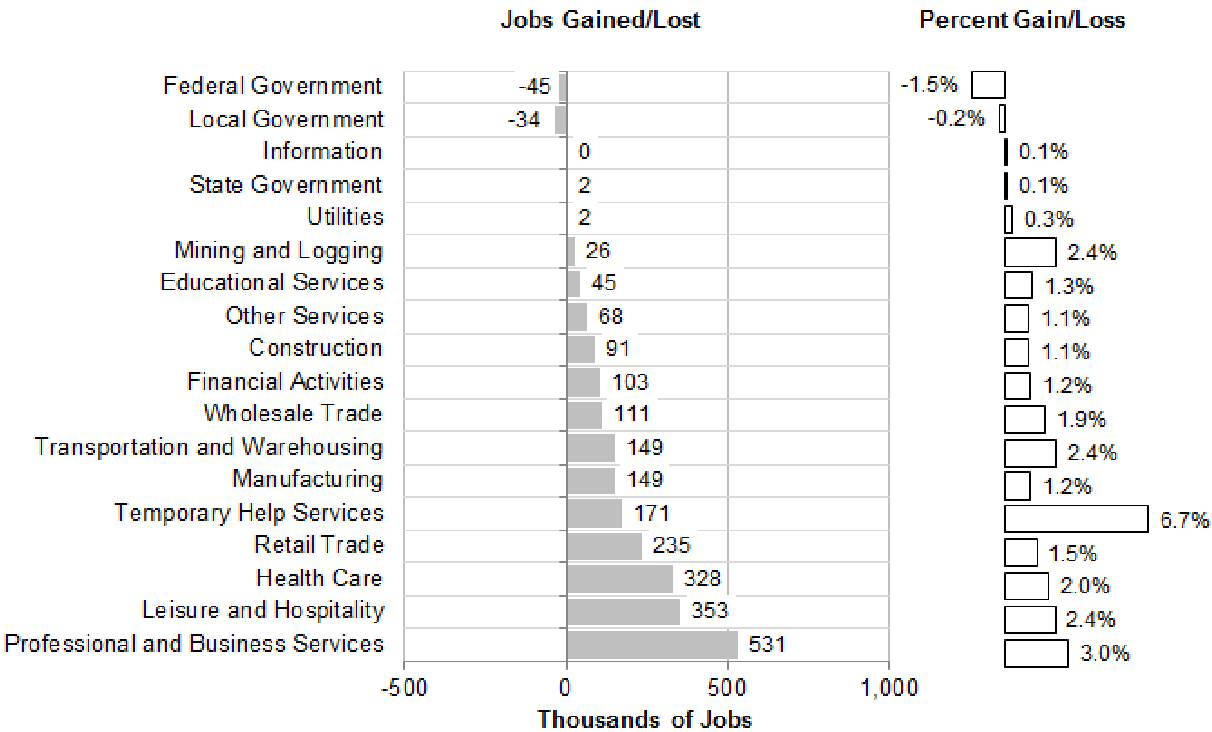
The federal government has begun to implement the sequestration spending cuts, although it is expected to take through federal fiscal year 2013-14 for the cuts to be fully phased-in. In addition, spending authority for nondiscretionary spending in the federal budget expires on March 27. As this forecast goes to press, the U.S. House of Representatives has passed a continuing resolution to extend the budget for the second half of the federal fiscal year, and the Senate is expected to soon follow suit. Although, the resolution does not alter the amount of the sequestration cuts, the final version is expected to provide some, though not full, additional flexibility in the implementation of the cuts.

Although these developments have reduced the amount of economic uncertainty generated by federal fiscal policy since December, uncertainty remains. Congress and the President are expected to continue to debate the sequestration cuts, long-term spending, and tax policy as part of the debate over the budget for federal fiscal year 2013-14. The first proposals for the federal fiscal year 2013-14 budget were released in mid-March.

Global Conditions Still Fragile

The world economy improved in 2012, but the global recovery remains fragile. For many businesses and consumers, the recent resiliency of the United States economy has begun to mask concerns about the European recession and debt crisis. However, this crisis remains a significant risk to the global economy. In 2012, the economy of the Euro Area, the 17-country area that shares the euro currency, declined 0.4 percent from the previous year. Only Germany and France reported positive economic growth. European leaders have continued to offer monetary support to member nations struggling with high interest rates, which will ease short-term constraints. In addition, the results of Italy's

Figure 6
U.S. Nonfarm Employment Gains/Losses in 2012
December 2012 over December 2011 Levels



Source: Bureau of Labor Statistics.

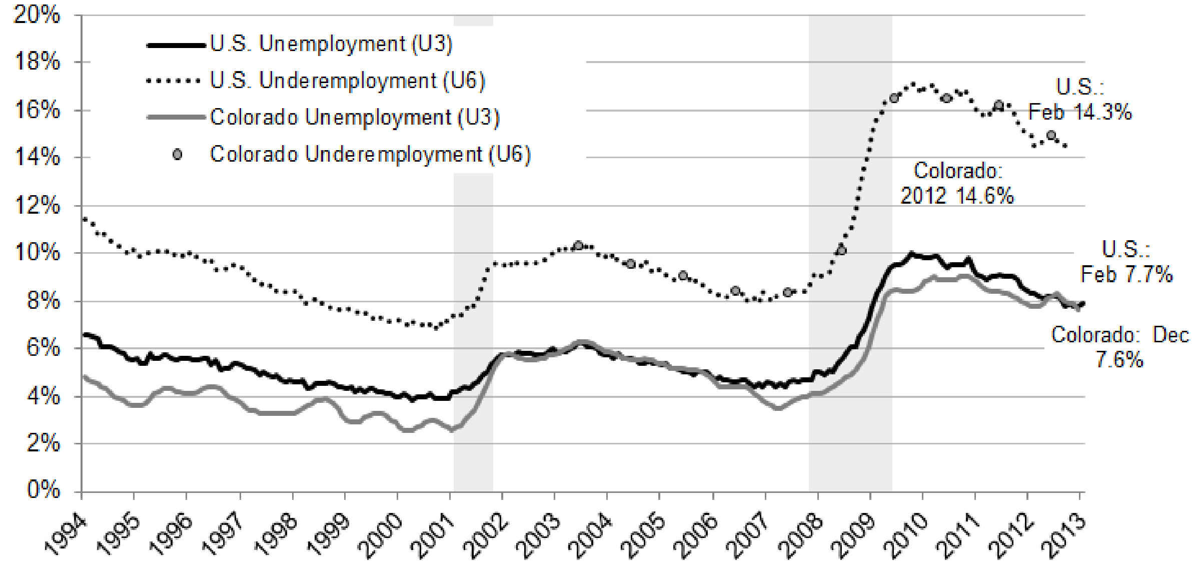
election in January 2013 has renewed concerns about the financial stability of the European region. Many are concerned that political gridlock may impede the implementation of austerity measures agreed upon by Italy last year. Finally, Moody's downgraded the United Kingdom's credit rating in February, citing mounting debt and slow growth.

The economies of developing nations continued to grow in 2012, though at a slower rate than in 2011. The Organization for Economic Development and Cooperation (OECD) estimates that China's economy grew 7.8 percent in 2012, the slowest growth in over a decade. China's economy also poses risk to the global economy. There is mounting evidence of unsustainable real estate speculation and construction in China, which does not bode well for the country's financial stability in the coming years. In India, inflationary pressures held down economic growth to 4.5 percent in 2012, 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 Steadily Improve

The nation's labor market is improving. In 2012, the nation added 2.2 million jobs, a 3.1 percent increase from the previous year. This marked the third consecutive year of job growth for the country. As shown in Figure 6, employment increased in most sectors. The professional and business services sector grew the most, adding 531,000 jobs between December 2012 and December 2011. This sector, which accounts for more than 16 percent of all

Figure 7
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 February, 2013. Colorado data through December 2012.

private sector jobs, includes highly paid skilled-jobs in areas such as engineering, legal, accounting, and computer systems design. The leisure and hospitality and health care sectors added the next highest number of jobs with 353,000 and 328,000 respectfully. In contrast, local and federal agencies continued to shed jobs, 34,000 and 45,000 jobs, respectfully.

The unemployment rate declined to 7.7 percent in February, the lowest level since January 2008. The percentage of the total labor force that is unemployed but actively seeking employment and willing to work has been gradually declining over the last two years. In addition, the underemployment rate, a measure that includes unemployed workers, part-time workers looking for full-time work, and discouraged workers who have dropped out of the labor force, has also fallen. In February, this measure was at 14.3 percent. Figure 7 shows trends in the unemployment and underemployment rates for Colorado and the nation.

Uncertainty from the federal fiscal policy stalemate may produce some short-term deterioration in the labor market. Spending cuts from the sequestration will directly impact firms that receive government funding. However, the labor market will continue to gain strength again late in 2013 and through the remainder of the forecast period.

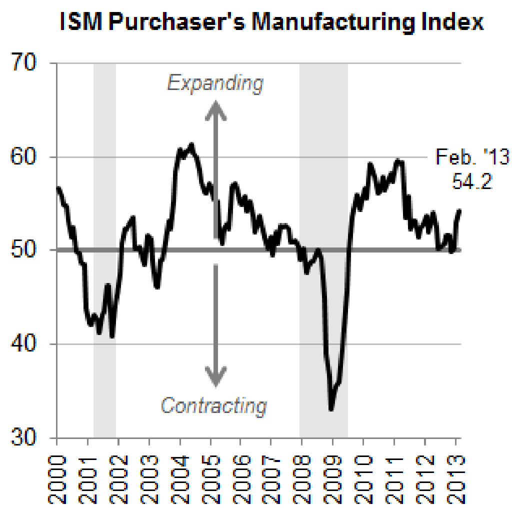
- Non-farm employment is expected to grow 1.4 percent in 2013, as national budget issues dampen employment growth considerably in second and third quarters of the year before again gaining strength. In 2014, employment growth is expected to increase 1.7 percent.

- The unemployment rate will average 7.6 percent in 2013 and 7.2 percent in 2014.

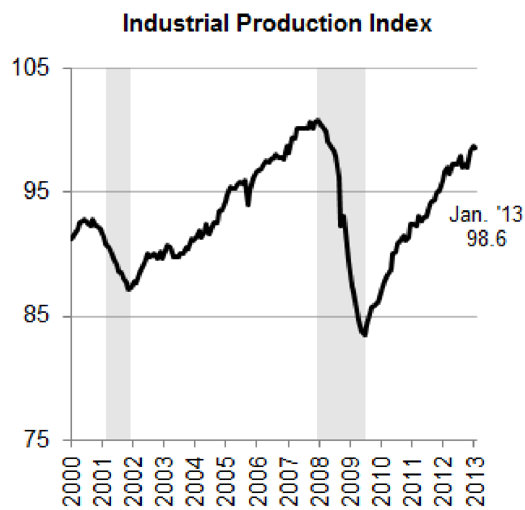
Manufacturing Activity Rebounds

Manufacturing activity expanded in February for the third consecutive month.

Figure 8
Manufacturing and Industrial Production
Seasonally Adjusted Data



Source: Institute for Supply Management.



Source: Federal Reserve.

Figure 8 shows two measures of manufacturing activity, the Institute for Supply (ISM) Purchaser's Manufacturing Index and the Federal Reserve's industrial production index. A level of 50 or higher for the ISM manufacturing index represents expansion in the manufacturing sector. In February, the index was at 54.2 percent, an increase of 1.1 percent from January, indicating a rebound in manufacturing activity. All five major indicators in the index, new orders, inventory levels, production, supplier deliveries and the employment environment, reported a positive increase. The February reading was the highest since June 2011. Industrial production, a measure of output in the manufacturing sector, also shows expansion in the sector.

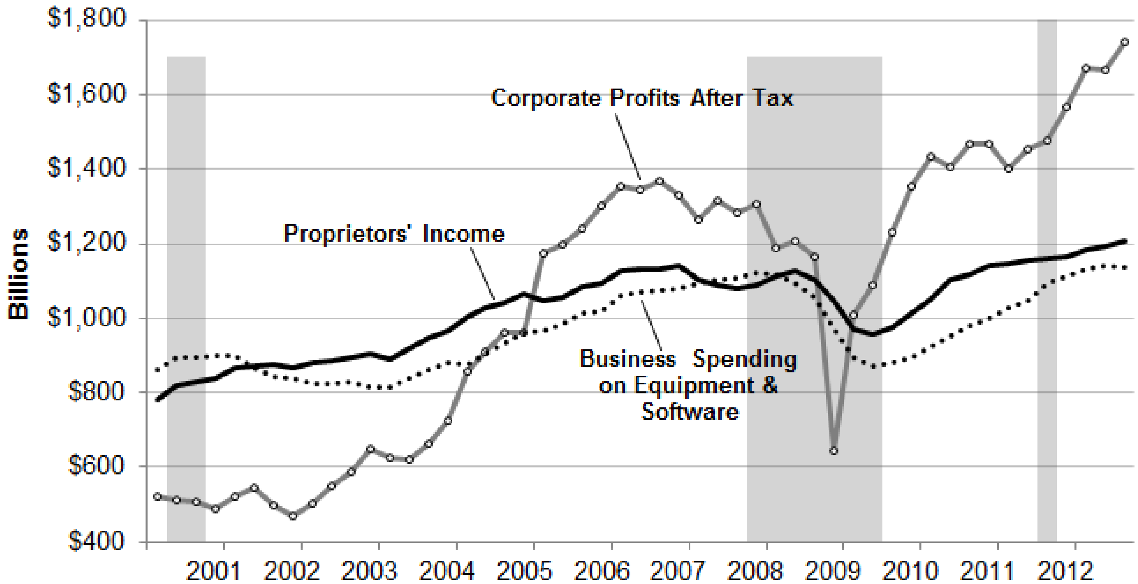
Corporate Profits Soar Above Prerecession Levels

Corporate profits after tax continued to soar in the third quarter of 2012. In addition, proprietors' income and business investments are now above prerecession levels. Figure 9 shows 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. Corporations have enjoyed rising profits since the recession both because they have cut costs, but also because they have been able to access global markets and credit financing throughout the recovery.

Household Income On the Rise and Affected by Federal Tax Policy

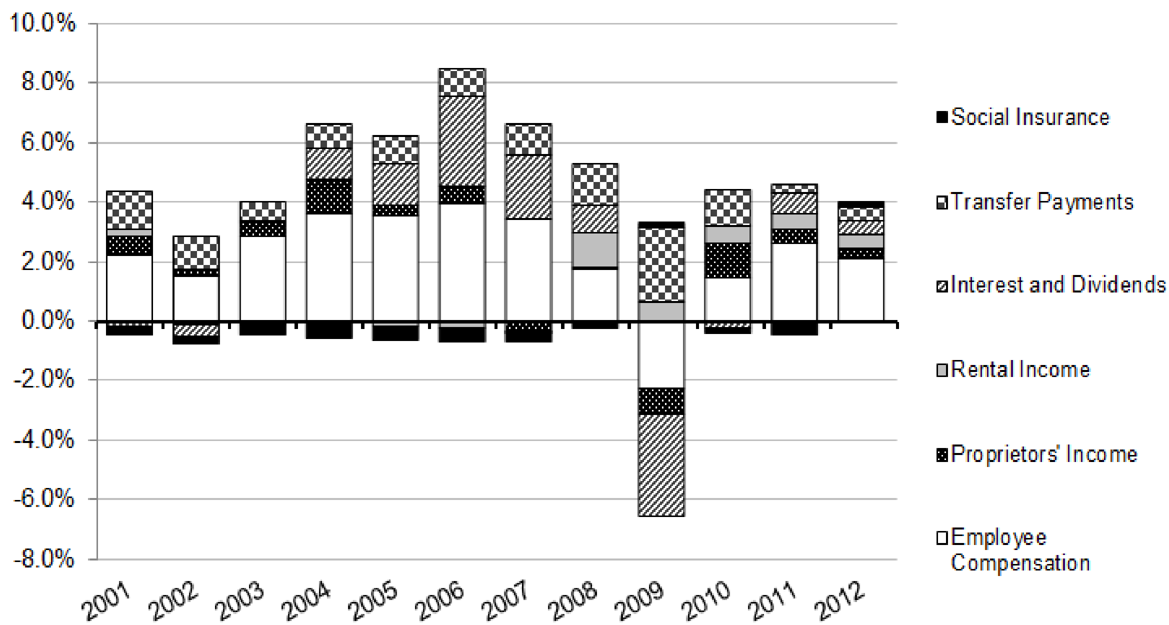
Household income from wages, investment interest, and other sources continued to grow in 2012, although at a slower rate than in 2011. In 2012, personal income increased 3.5 percent, down from 5.1 percent in 2011. Figure 10 shows the contributions to personal income growth from 2001 to 2012. Higher rents from a healthy home rental market and personal dividend

Figure 9
Business Income and Spending
Seasonally Adjusted Data



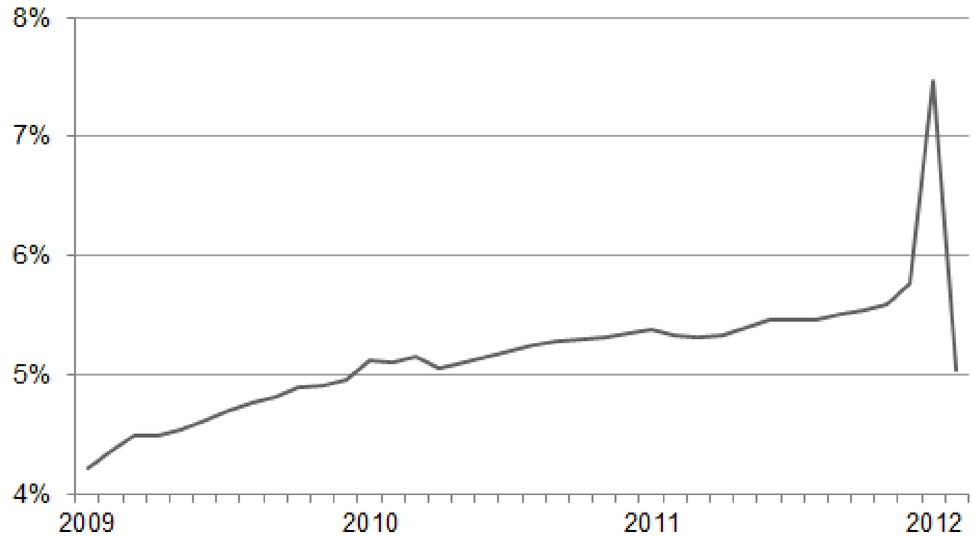
Source: Bureau of Economic Analysis, National Income Product Accounts and Personal Income Statistics. Data through the third quarter 2012.

Figure 10
Contributions to Personal Income Growth
2001-2012



Source: Bureau of Economic Analysis.

Figure 11
Dividend Income as a Share of Personal Income



Source: Bureau of Economic Analysis. Data through January 2012.

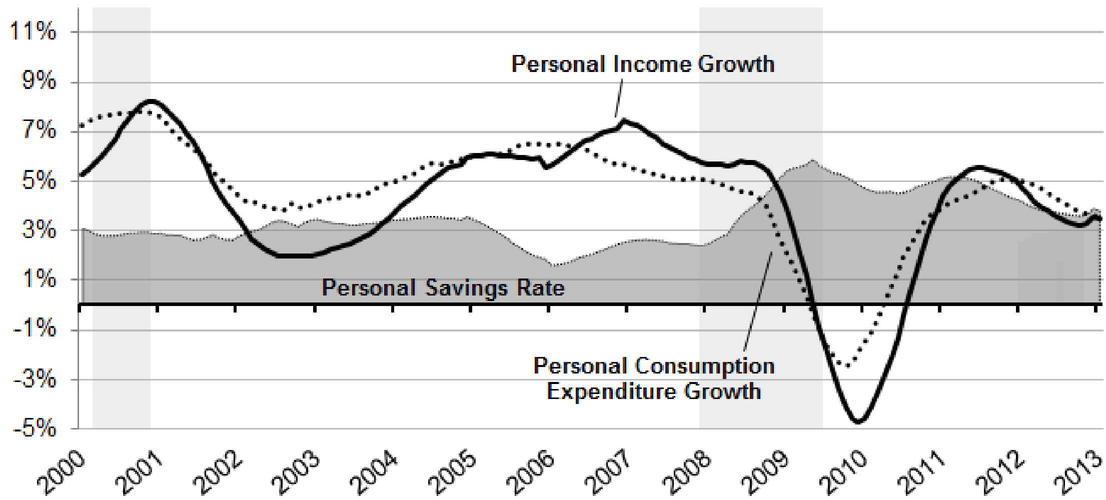
growth helped drive strong personal income growth in 2012. Rental income increased 13.0 percent and personal dividends grew 11.8 percent.

Wages and salaries, the largest component of personal income, was the main driver for overall growth in personal income during 2012. This measure increased 3.3 percent in 2012, after increasing 4.0 percent in 2011. Wages and salaries were boosted in 2011 by the federal payroll tax cut for employees from 6.2 percent to 4.2 percent of wages. This tax expired in 2013, and therefore wages and salaries will grow at a relatively slower rate in 2013 than would have otherwise have occurred.

In addition, some of the 2012 growth was the result of many taxpayers pulling income forward from calendar year 2013 into 2012 in anticipation of changes in federal tax policy. Businesses paid dividends and bonuses earlier and many people cashed out capital gains earlier than they otherwise would have. The Bureau of Economic Analysis does not include income from capital gains in personal income statistics, but they do include income from dividends and bonus payments. Figure 11 shows that dividend income as a percent of total personal income spiked late in 2012 before falling lower than the overall trend in January 2013. Personal income growth was therefore particularly strong in the fourth quarter of 2012, and the personal savings rate spiked to 6.5 percent in December. Growth in personal income during 2013 will therefore be lower than otherwise would have occurred.

- Personal income will increase 1.9 percent in 2013. Stronger economic growth will allow personal income growth to accelerate to 5.1 in 2014 and 5.4 percent in 2015. Wage and salary income will grow 3.1 percent in 2013 and 5.1 percent in 2014.

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



Source: Bureau of Economic Analysis, data through January 2013.

Household Consumption Continues to Improve

Consumer spending increased 3.6 percent in 2012. Expenditures on big ticket items such as cars, refrigerators, and mobile phones were notably strong, as spending on durable goods increased 6.3 percent from the previous year. Figure 12 shows the trends in personal income, personal outlays, and the savings rate.

Retail trade, another measure of consumption, increased 5.0 percent in 2012. As shown in Figure 13, nonstore "home shopping" retailers experienced the largest increase at 11.4 percent. The furniture and home-furnishing sector reported the second largest increase, at 7.7 percent. Demand for this sector is primarily driven by consumer income. During the same period, general merchandise and health and personal care stores reported the slowest growth. In February 2013, total retail sales rose 4.6 percent compared to a year earlier. However, the increase is only 1.6 percent if sales from gasoline stations are excluded.

Inflation Remains Subdued

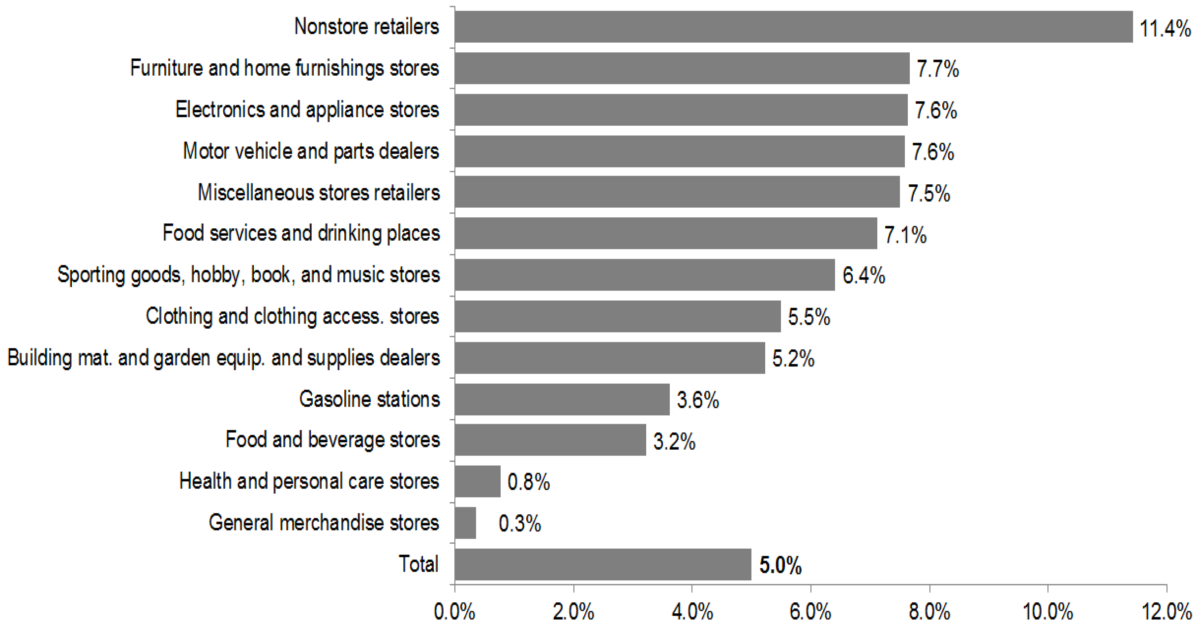
The nation's inflation rate remained low in 2012 at 2.1 percent. Figure 14 shows changes in components in the Consumer Price Index in 2012. As the figure illustrates, healthcare was the fastest growing component, followed by apparel. The price of energy stabilized over the summer, and core inflation grew at the same rate as overall inflation.

- Prices will rise 1.8 percent in 2013 and 2.5 percent in 2014. Even with extremely loose monetary policy, inflation will remain in check until the economy recovers more fully.

The Nation's Housing Market Recovery Enters Second Year

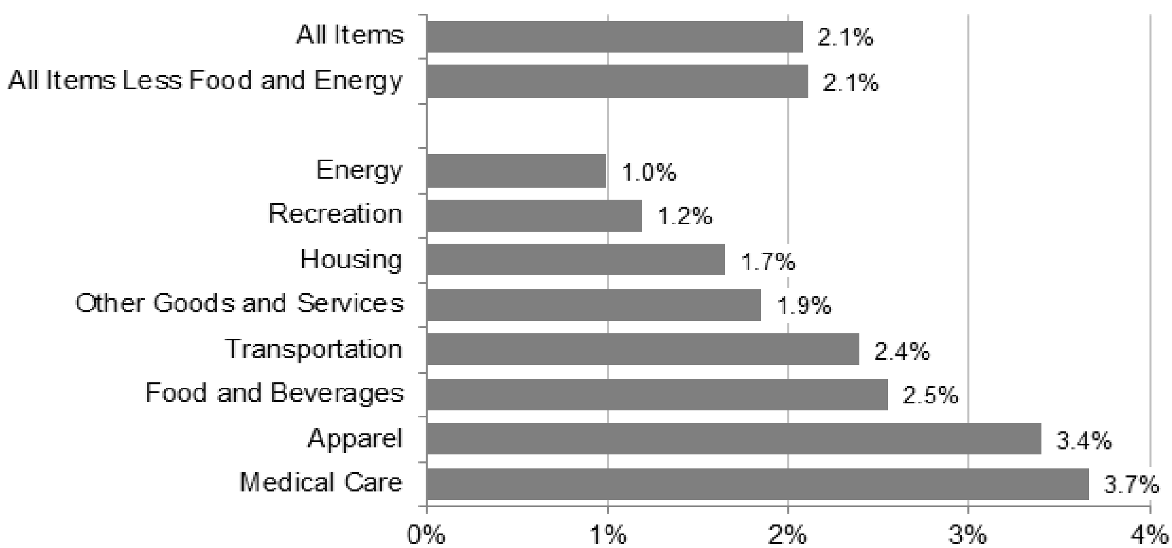
The nation's housing market began to recover in 2012 and is entering it's second year of stronger housing activity. The improving economy is releasing pent up demand for

Figure 13
U.S. Retail Trade Growth by Sector, 2012



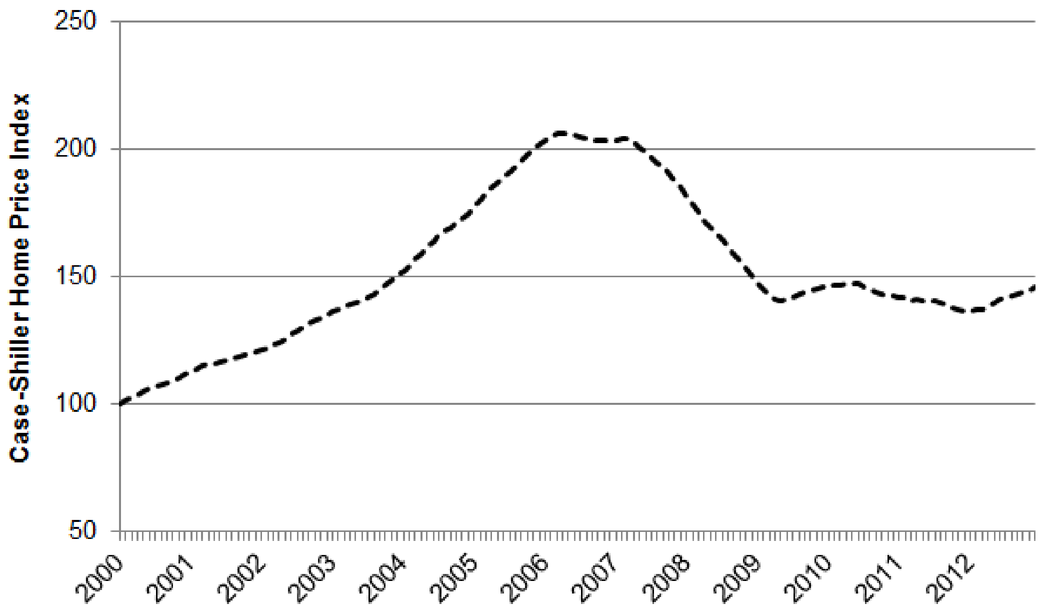
Source: U.S. Census Bureau, data through December 2012. Seasonally adjusted data.

Figure 14
Change in the Consumer Price Index, 2012



Source: Bureau of Labor Statistics.

Figure 15
Case-Shiller Home Price Index
20 City Composite Index, Dallas, and Denver Home Prices, Seasonally Adjusted Data



Source: Standard and Poors, data through November 2012.

housing that was built up since the end of the recession. Seasonally adjusted housing prices in 20 large metropolitan areas were 5.6 percent higher in December 2012 than December 2011, and prices have increased for thirteen straight months. Figure 15 shows the change in home prices for a composite of 20 large metropolitan areas. Note that index levels in Nov 2012 are nearly 30 percent below the peak which occurred in April 2006.

The housing market in 2012 exhibited improving home sales and declining inventory over 2011 levels. Total sales in 2012 were the highest in five years, and growth in housing prices was the highest since 2005.

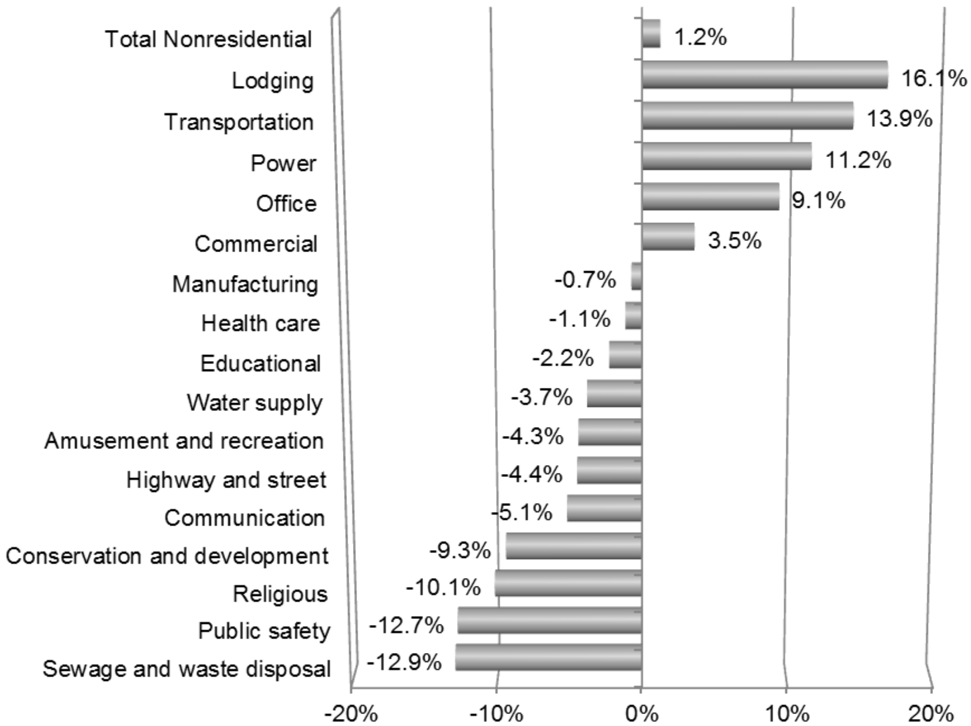
Total housing inventory at the end of December fell 8.5 percent to 1.82 million existing homes available for sale, which represents a 4.4-month supply at the current sales pace, down from 4.8 months in November, and is the lowest housing supply since May of 2005, which was near the peak of the housing boom. The nation's housing inventory is 21.6 percent below a year ago, when there was a 6.4-month supply. Raw unsold inventory is at the lowest level since January 2001.

The national median existing-home price for all housing types was $180,800 in December, 11.5 percent above prices in December 2011. This is the tenth consecutive month of year-over-year price gains.

Home Financing Still Tight

Consumer's household balance sheets have improved, and consumer credit on credit cards and auto loans have again begun to increase. According to data from the Federal Reserve Board, however, mortgage lending continued to fall through the end of 2012. Based on information in the monthly Realtors

Figure 16
Change in Value of U.S. Nonresidential Construction by Category
Percent Change from 2011 to 2012



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

Confidence Index (RCI) Survey, many realtors have indicated that lending by banks and other financial institutions continues to be tight.

Nonresidential Construction

As shown in Figure 16, the total value of nonresidential construction by category increased 1.2 percent in 2012. Growth was led by construction in the lodging, transportation, power, and office sectors. The outlook for nonresidential construction is clouded by increasing prices for construction materials. The cost of construction materials, which had shot back up during the fall, inched down in December. However, the Associated General Contractors of America officials noted that 90 percent of contractors surveyed for the group's 2013 Construction Hiring and Business Outlook predict material prices will increase in 2013. They added that an increasing number of contractors will try to pass on some of those price increases to customers this year, noting that 29 percent report they will try to raise bid prices this year, compared to only 15 percent that raised prices in 2012.

Summary

The nation's private-sector economy continues to improve and looks poised to grow at healthier rates once the drag created by the public sector fiscal policy stalemate is fully played-out. Private sector GDP, employment, and manufacturing activity are expanding. Corporate profits are rapidly increasing, and banks look better situated to increase lending. Consumers continue to simultaneously repair their household balance sheets and spend, and the nation's housing market has begun to show meaningful improvement. This recovery in the private sector economy is dependent on continued loose monetary policy, and this forecast assumes the Federal Reserve will continue its expansionary monetary policy, keeping interest rates extremely low through the of the forecast period.

Growth will remain subdued in 2013, however, as slow growth in the global economy and public-sector fiscal contraction in the United States weigh down the recovery's momentum. This forecast assumes that Congress will extend spending authority for the remainder of federal fiscal year 2012-13 in time to avoid a federal government shutdown, and that the sequestration cuts will occur as scheduled, although with more flexibility in their implementation in the defense and some discretionary domestic budgets. In addition, this forecast assumes the European Union remains intact and that European nations continue to access financing through the European Central Bank and International Monetary Fund.

Risks to the Forecast

Upside risks. If federal lawmakers reach a more graceful compromise on debt, long-run spending, and tax policy than currently expected, the economic foundation in the economy that has been built over the last few years could produce a more robust recovery in 2013. This may also lead to faster economic growth in other parts of the world.

Downside risks. The economy will grow slower than expected if the federal debt ceiling is not raised by August. This would likely cause the federal government to default on its obligations. Consumers, investors, and businesses will react by demanding higher interest rates from the federal government and debt reduction will become even more urgent.

The Federal Reserve is currently providing significant liquidity to the economy via very loose monetary policy and low interest rates. Although the Federal Reserve has been proactive about providing certainty about monetary policy, the exit from loose monetary policy could insert additional risk to the recovery. Not tightening the money supply quickly enough could contribute to inflationary pressure and further asset bubbles. However, tightening too quickly could slow the recovery.

The European Central Bank and the International Monetary Fund continue to provide the necessary resources to keep Eurozone member nations from defaulting on their obligations. If this was to stop, and the European Union was to break apart, it is likely that investors and international corporations would become significantly more cautious about making economic decisions, causing further disruptions to the financial markets. 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. China's real estate bubble also has the potential to hurt global financial markets more than currently expected. 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 10
National Economic Indicators, March 2013 Forecast
(Calendar Years, Dollar Amounts in Billions)

	2008	2009	2010	2011	2012	Forecast 2013	Forecast 2014	Forecast 2015
Inflation-adjusted GDP	$13,161.9	$12,757.9	$ 13,063.0	$13,299.1	$13,591.1	$13,835.7	$14,264.6	$14,763.9
percent change	-0.3%	-3.1%	2.4%	1.8%	2.2%	1.8%	3.1%	3.5%
Nonagricultural Employment (millions)	136.8	130.9	129.9	131.5	133.7	135.6	137.9	140.9
percent change	-0.6%	-4.4%	-0.7%	1.2%	1.7%	1.4%	1.7%	2.2%
Unemployment Rate	5.8%	9.3%	9.6%	8.9%	8.1%	7.6%	7.2%	7.0%
Personal Income	$12,460.2	$11,867.0	$12,321.9	$12,947.3	$13,405.9	$13,660.6	$14,357.3	$15,132.6
percent change	4.6%	-4.8%	3.8%	5.1%	3.5%	1.9%	5.1%	5.4%
Wage and Salary Income	$6,550.9	$6,270.3	$6,404.6	$6,661.3	$6,880.6	$7,093.9	$7,455.7	$7,850.8
percent change	2.0%	-4.3%	2.1%	4.0%	3.3%	3.1%	5.1%	5.3%
Inflation (Consumer Price Index)	3.8%	-0.3%	1.6%	3.1%	2.1%	1.8%	2.5%	2.5%

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

COLORADO ECONOMY

Colorado's economy continues to improve at a faster pace than the nation as a whole. Employment growth is helping to lower the unemployment rate and support growth in retail sales. Price appreciation in the Colorado housing market is among the strongest in the nation, which has caused the housing market to go from being a drag on the Colorado economy to helping boost it. Federal housing policies aimed at a national housing market still struggling from the recent recession are helping Colorado homeowners build equity in their homes. The agricultural sector suffered through a drought, which reduced production but also helped lift prices. Colorado exports continue to grow despite a weak global economy.

The underlying strength of the Colorado economy will be enough to keep employment growth positive in the first half of 2013 even as tax increases, automatic spending cuts, and continued uncertainty from federal fiscal policy slows growth. The effects of the sequester will be felt more in regions of the state with a high concentration of federal employees and in regions that rely on federal government services, such as those with national parks. Table 11 on page 51 shows the Colorado economic forecast.

While the state economy is growing at a moderate pace, there is significant variation in economic growth across regions of the state. The economies of the Denver Metro area and the northern front range are growing faster than the state economy. Employment in those regions is growing steadily and retail sales are increasing at healthy rates. A tight housing supply and low interest rates are causing housing prices to appreciate. Oil extraction in northern Colorado continues to boost job and income growth.

Economic growth in the Colorado Springs and Pueblo regions is mixed. The number of jobs in these regions declined in 2012, but retail sales and construction increased. Of all the regions in the state, federal budget cuts will likely dampen growth the most in the Colorado Springs region. Growth in the western region of the state continues to lag growth in the front range economies. Oil drilling activity in the northern part of the state and in other parts of the nation has displaced much of the natural gas production in the western slope.

The continued drought is also impacting regions that rely on agriculture and tourism. High agricultural prices nationally are not enough to offset declining production in the Eastern Plains and San Louis Valley. The economies of the Southwest Mountain and Mountain regions have struggled through two winters with below average snowpack, which has hurt tourism.

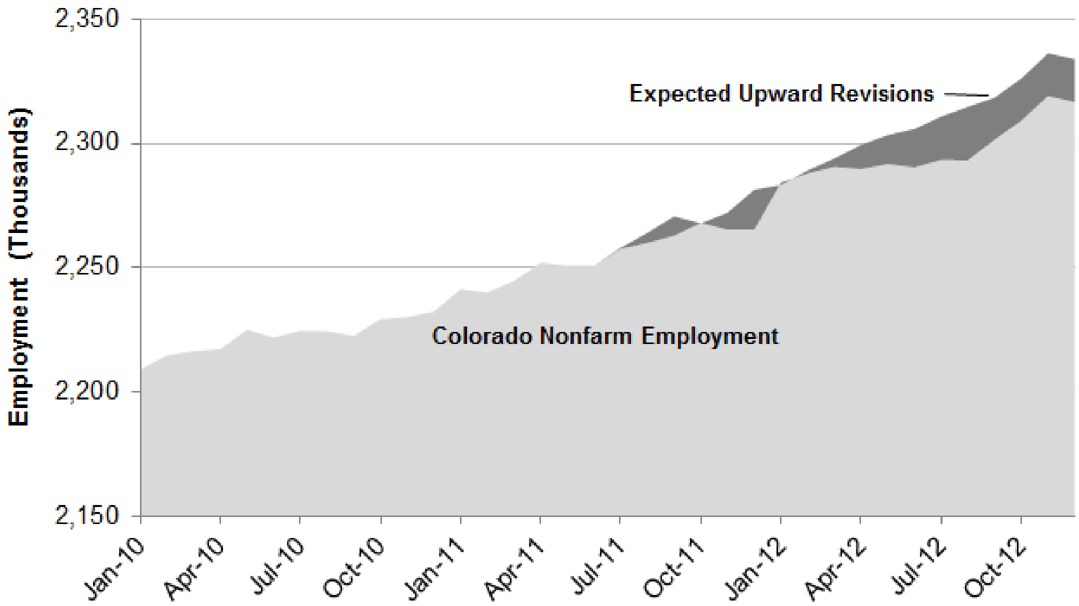
More detail on each region in the state can be found starting on page 53.

Colorado's Labor Market is Slowly Improving

Colorado added jobs at a faster rate than the nation as a whole in 2012. There was job growth in the majority of employment sectors. The unemployment rate continued to decline as more people found work than entered the labor market.

Each spring the U.S. Bureau of Labor Statistics revises its employment data to incorporate information from unemployment

Figure 17
Nonfarm Employment Expected Upward Revisions
Seasonally Adjusted Data



Source: Published data is from the U.S. Bureau of Labor Statistics, Current Employment Statistics. 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.

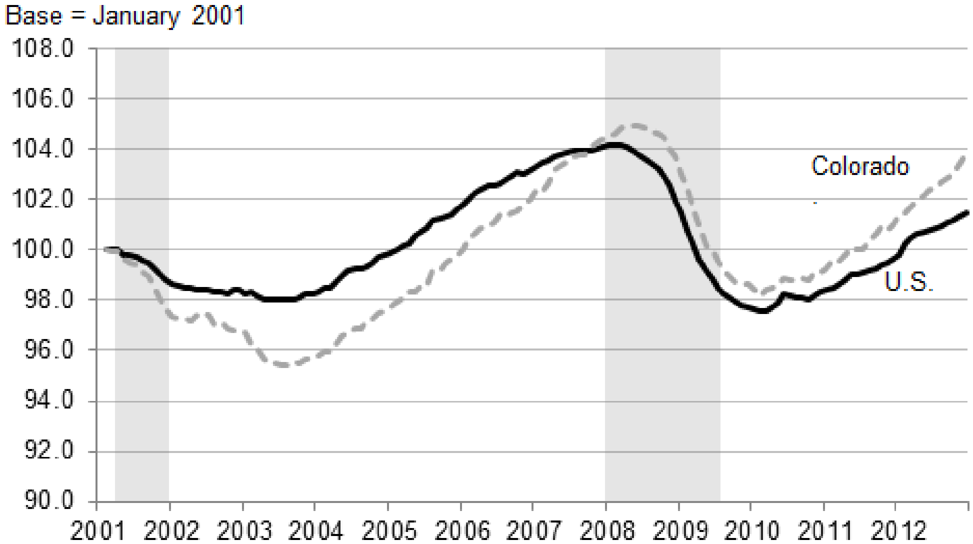
insurance premium forms. In the spring of 2012, they used unemployment insurance data through the second quarter of 2011 to revise Colorado employment upward to 2010 and 2011. Prior to this revision, the published growth rate was 0.8 percent; after the revision the growth rate was 1.5 percent.

This spring, the U.S. Bureau of Labor Statistics will revise both 2011 and 2012 employment estimates. The Colorado Department of Labor and Employment reports that this upward revision is expected to increase published **non-farm employment** growth from 1.5 percent to 1.6 percent in 2011 and from 1.9 percent to 2.3 percent for 2012. After revisions, they expect there to have been 51,700 jobs created in Colorado in 2012. An analysis by Legislative Council Staff is consistent with the Department of Labor and Employment's findings and produces monthly estimates for rebenchmarked nonfarm employment, as shown in Figure 17.

By comparison, in 2012 National employment grew 1.7 percent. This continues the trend of Colorado employment growth outpacing national employment growth during the recovery. Figure 18 graphically compares Colorado and National employment trends.

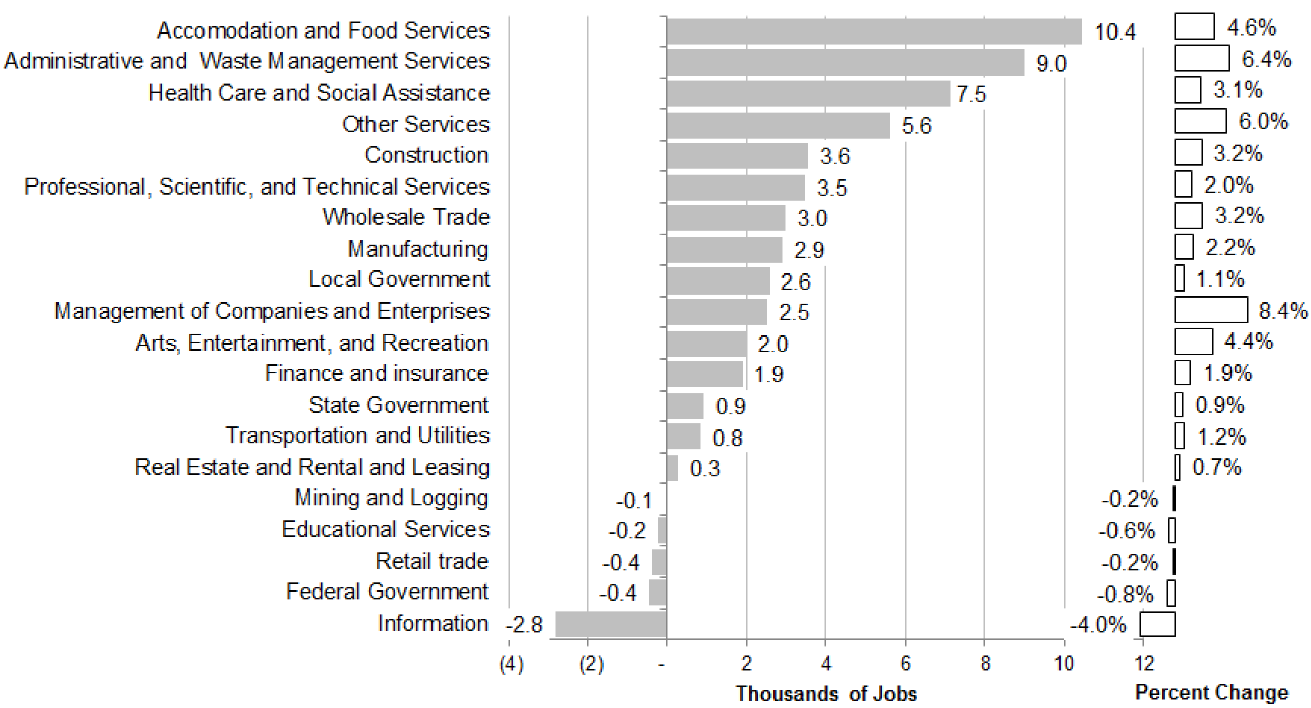
In 2012, employment grew in 17 of 21 sectors in Colorado. The accommodation and food services sector grew the most, adding 10,400 new jobs, and the administrative and support services sector grew second fastest, adding 9,000 jobs. The information sector continued its contraction in 2012, losing 2,800 jobs. Within the information sector, gains in software publishing and film were offset by declines in book and newspaper publishing. The retail trade and federal government sectors in Colorado each lost 400 jobs. Figure 19 shows the nonfarm employment levels and the percentage change, by sector, between December 2011 and December 2012.

Figure 18
Colorado and National Employment Trends
Seasonally Adjusted Data



Source: U.S. Bureau of Labor Statistics, incorporates revisions expected by Legislative Council Staff. Seasonally adjusted data through December 2012.

Figure 19
Change in Nonfarm Employment by Sector
Rebenchmarked Data, December 2011 to December 2012



Source: Published data is from the U.S. Bureau of Labor Statistics, Current Employment Statistics. 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.

The state's **unemployment rate** also improved through the second half of 2012. Between July and December 2012, the unemployment rate decreased from 8.3 percent to 7.6 percent as employment grew faster than the number of people entering the labor force.

The sequester will slow employment growth in the first half of 2013 as firms wait to see the impact of federal budget cuts. Federal spending authority expires on March 27th, but federal legislation has passed the House of Representatives that would extend the spending authority through federal fiscal year 2012-13 and is likely to pass the Senate. The extension does not reduce the magnitude of cuts but instead provides increased flexibility in the implementation of the cuts. The labor market will resume stronger growth later in 2013 and into 2014.

- Nonfarm employment in Colorado is expected to grow 1.5 percent in 2013 and 1.8 percent in 2014.

- As firms add jobs, the unemployment rate will decrease to 7.4 percent in 2013 and 7.0 percent in 2014.

Personal Income

On a seasonally adjusted basis, personal income and wages grew 3.6 percent and 3.8 percent, respectively, through the first three quarters of 2012 compared with the same period in 2011. Figure 20 compares annual growth in personal income and wage growth in Colorado since 2007. Farm income declined 3.4 percent in the first three quarters of 2012 from historic highs in 2011. Dividends, interest, and rent income increased 4.9 percent in the first three quarters of 2012, after growing 8.6 percent in 2011.

Growth in personal income is expected to have increased in the fourth quarter of 2012 as taxpayers moved money from 2012 into 2013 to avoid paying higher federal income taxes. However, this shift will slow income growth in 2013. In addition, disposable income will decline because the employee's share of the social security payroll tax increased from 4.2 percent to 6.2 percent starting in January 2013. Early indications are that the automatic budget cuts will result in furloughs for federal government employees, further dampening wage growth. These factors suggest personal income growth will slow in 2013, even as there is moderate growth in the economy.

- Personal income will grow 4.4 percent in 2012 and 2.2 percent in 2013. This slowing is in part due to taxpayers trying to avoid higher federal income taxes.

- Wage and salary income will grow 4.7 percent in 2012 and 3.4 percent in 2013. This growth rate reflects a slowly improving economy and is consistent with moderate employment growth.

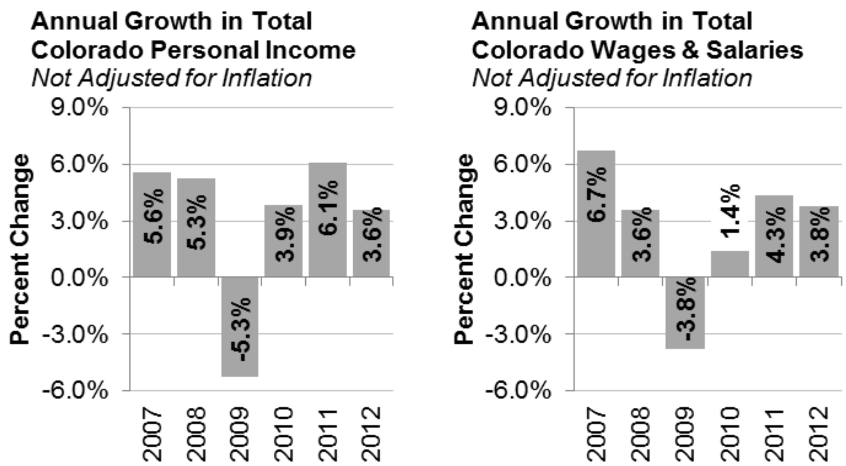
Retail Sales

Colorado retail trade continues to grow faster than personal income. Retail sales grew 6.0 percent in 2012. One reason that retail sales are growing faster than personal income is that homeowners have taken advantage of historically low interest rates to lower monthly mortgage payments.

Figure 21 shows growth in Colorado sales by retail sector. The two sectors exhibiting the fastest growth were furniture and home furnishings and automobile dealers, where sales increased 13.8 percent and 10.4 percent, respectively, in 2012 compared to 2011. Electronics and appliance stores were the only retail sector with fewer sales in 2012 than in 2011.

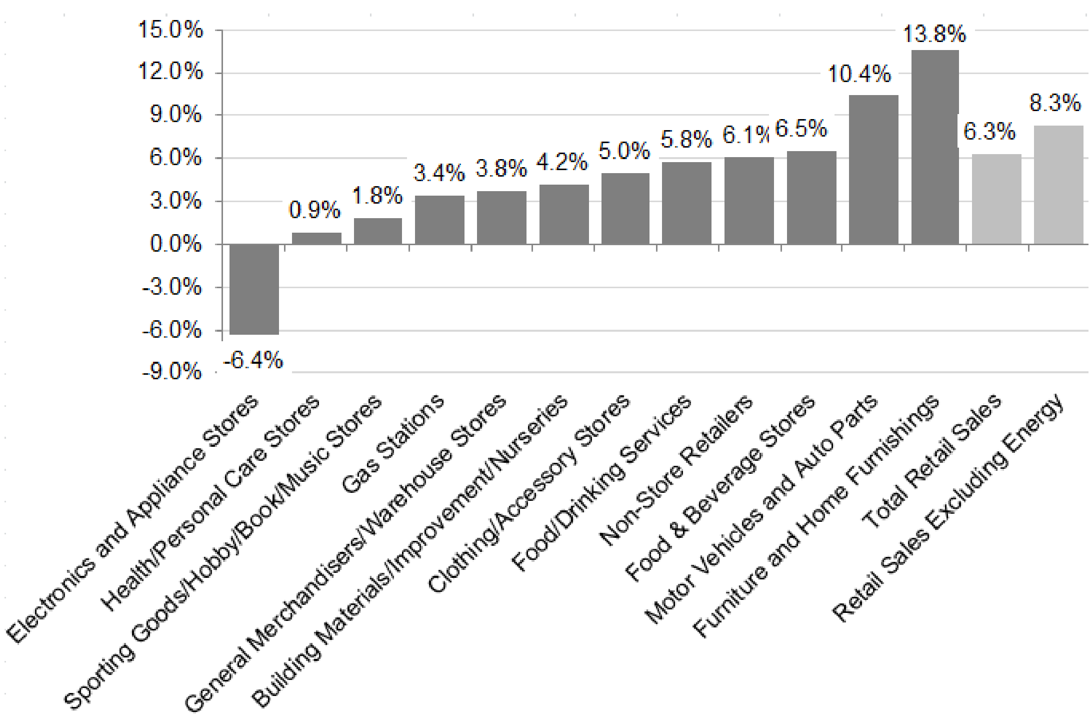
- After increasing 6.0 percent in 2012, Colorado retail sales are expected to grow

Figure 20
Personal Income Growth in Colorado
Seasonally Adjusted Data



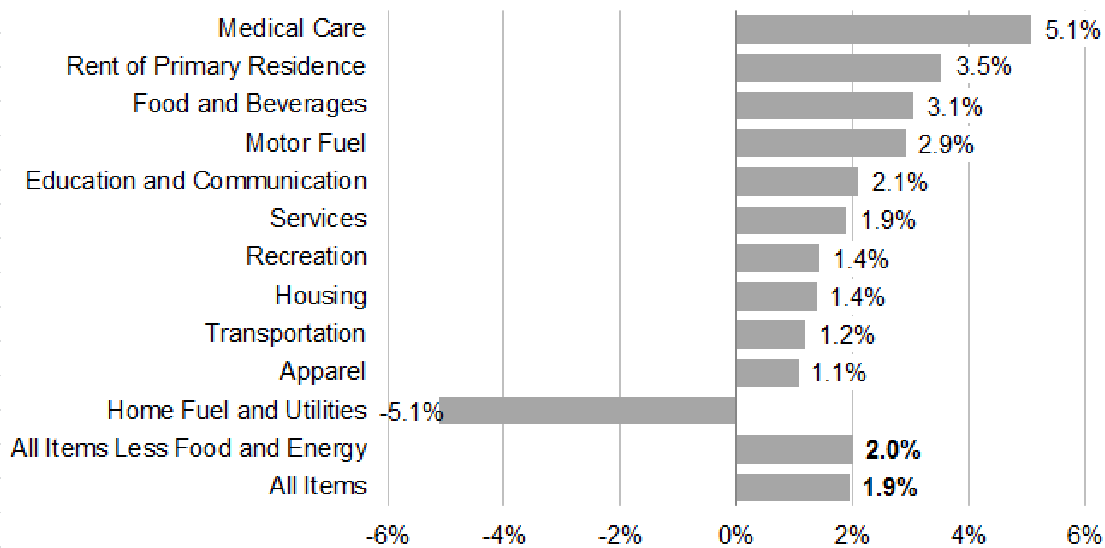
Source: U.S. Bureau of Economic Analysis, data through third quarter of 2012.

Figure 21
Growth in Sales by Retail Sector
2012 over 2011



Source: Colorado Department of Revenue, data through November 2012.

Figure 22
Components of Inflation for Boulder-Denver-Greeley CPI
Change between 2012 and 2011



Source: Bureau of Labor Statistics.

4.9 percent in 2013. The slowing growth is partially due to the expiration of the payroll tax cut, which will reduce consumer's disposable income. In 2014, retail sales are expected to grow 5.7 percent.

Inflation

Prices for goods and services in Colorado increased 1.9 percent between 2011 and 2012. Figure 22 shows the components of inflation in Colorado. Core inflation, which excludes food and energy, increased 2.0 percent. Prices for medical care grew the fastest, at 5.1 percent, and rent grew the second fastest, at 3.5 percent. Increasing housing prices will continue to contribute to inflation in the Boulder-Denver-Greely CPI through the forecast period.

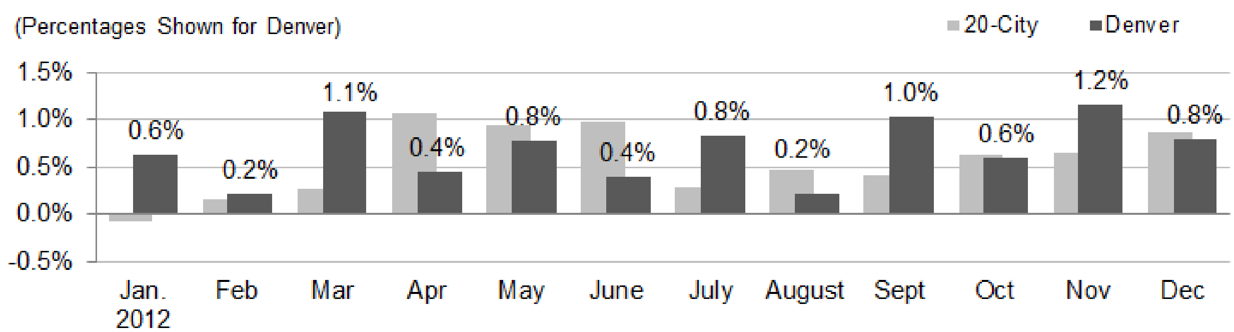
- Prices in Colorado will increase 2.2 percent in 2013 and 2.3 percent 2014. There will be little inflationary pressure as long as there is an elevated unemployment rate. In addition, the Federal Reserve is maintaining low interest rates, which can be raised if inflationary pressure returns.

Real Estate Market and Construction

The Colorado housing market is among the strongest in the nation. According to Standard and Poor's, the **value of single family homes** in Denver has increased for 15 straight months. Figure 23 compares the monthly growth in Colorado housing prices to growth in a 20-city composite index on a seasonally adjusted basis.

While home prices are rising, the housing market is not yet in a self-sustaining recovery. Price appreciation can be largely attributed to a low supply of houses for sale and historically low interest rates. Mortgage rates are extremely low because of federal fiscal and monetary policies designed to support the national housing market. If mortgage interest rates increase, then housing prices could decline. In addition, if more

Figure 23
Monthly Growth in Home Prices, Denver and a 20-City Composite Index
Seasonally Adjusted Data



Source: Standard and Poor's, data through December 2012.

houses become available, there will be less upward pressure on home prices. There is a shadow inventory of foreclosed homes and homeowners that would like to sell but have not. If these properties are put on the market, then some of the appreciation in the real estate market could slow. Traditionally, housing prices have increased because of demand side pressures like income growth and population increases, rather than a limited inventory and extremely low mortgage interest rates.

The increase in home prices is increasing homeowner's equity in their homes. The more equity a homeowner has, the easier it is for the homeowner to put their home on the market, which will increase the supply of homes available. Figure 24 shows the value of homes in Denver and a 20-city composite relative to the peak of the housing market in the spring of 2006. Homes in Denver are worth 96.9 percent of what they were at their peak, significantly above home values nationally. Housing policies at the federal level aimed at the national housing market are helping boost the Colorado real estate market.

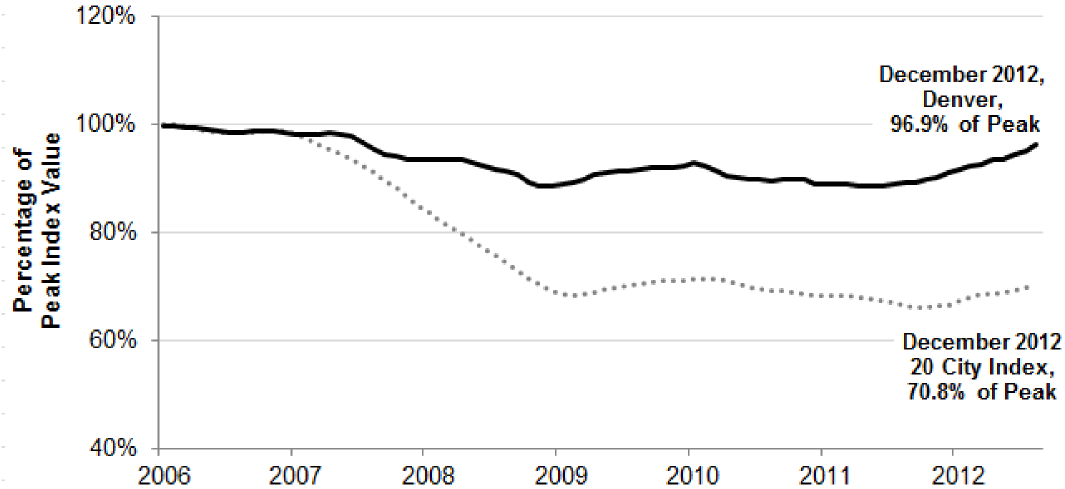
As home prices improve and more people look to buy homes, the number of **permits for residential construction** is growing. The number of single family permits in Colorado grew 42.7 percent in 2012. Helped by low vacancy rates, multifamily permits increased 93.5 percent in 2012. Figure 25 shows the number of housing permits issued in Colorado since January 2000. While housing permits are growing, they have not reached pre-recessionary levels.

Strength in the real estate and construction markets is helping boost other sectors of the economy. Construction employment has increased by 3,600 jobs, or 3.2 percent, between December 2011 and December 2012. Through the first eleven months of 2012, furniture and home furnishings sales and home improvement and building material sales increased by 14.0 percent and 4.1 percent, respectively, compared with the same period in 2011.

Nonresidential Construction

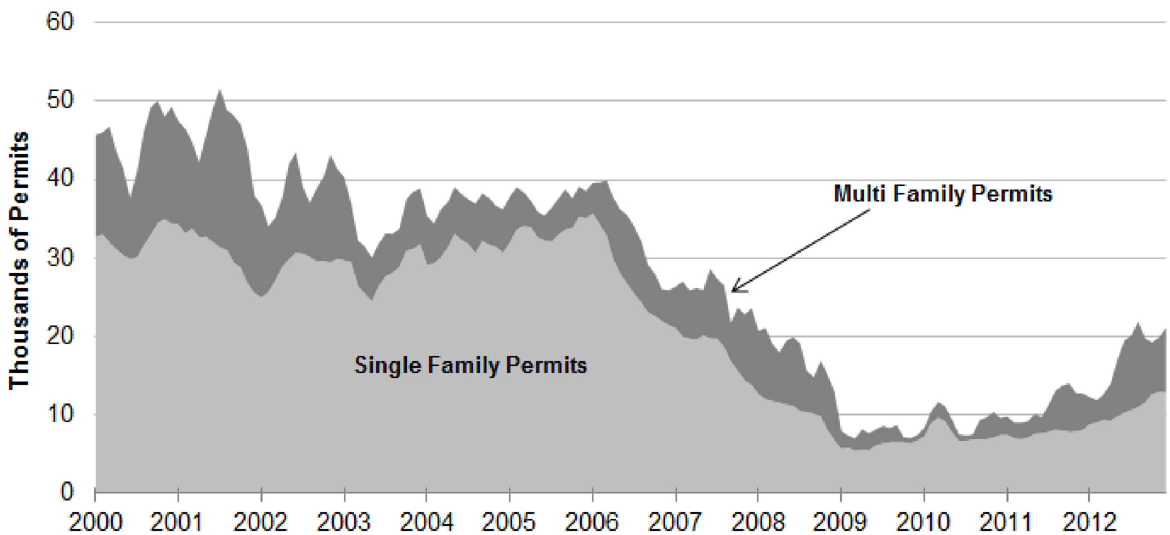
Figure 26 shows the value of nonresidential construction between 1994 and 2012. The value of nonresidential construction permits has increased since the recession, although it declined 6.5 percent in 2012. Several large health care projects were

Figure 24
Value of Single Family Homes Relative to Peak
Seasonally Adjusted Data for Denver and a 20-City Composite



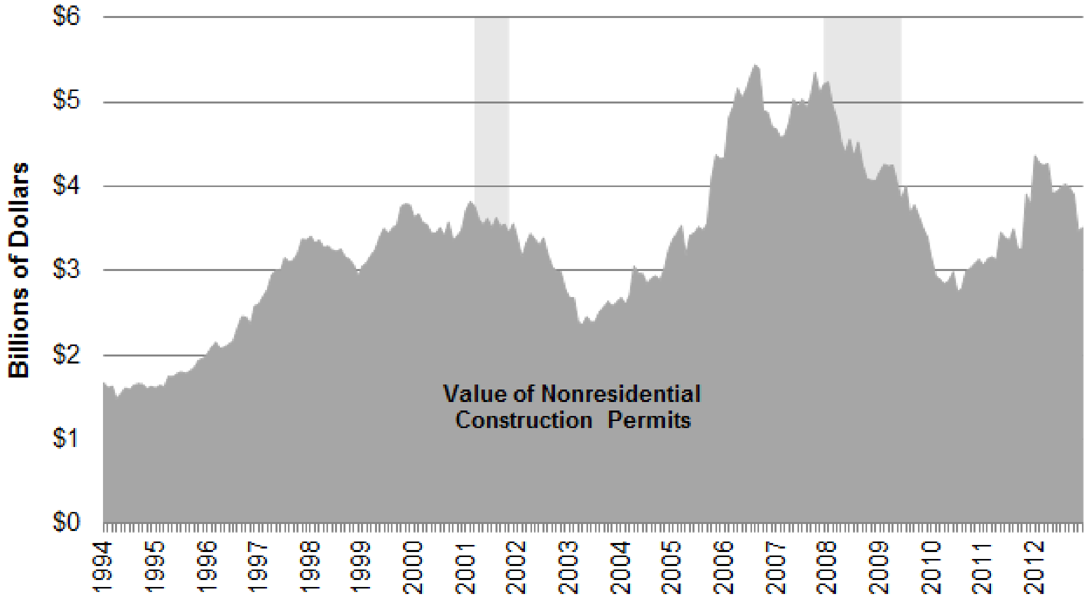
Source: Standard and Poor's, data through December 2012.

Figure 25
Single Family and Multi Family Residential Permits
3-Month Moving Average, Seasonally Adjusted Data



Sources: U.S. Census Bureau, Seasonally Adjusted by Legislative Council Staff, data through December 2012.

Figure 26
Value of Nonresidential Construction in Colorado
Seasonally Adjusted, Annualized Data



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

completed in the middle of 2012, which explains the decline in value in the second half of the year.

- The supply of houses for sale will remain low, putting upward pressure on home prices and residential construction. In 2013, the number of residential permits will increase 32.9 percent. In 2014, growth in multifamily permits will slow, slowing growth in total residential permits to 22.7 percent.

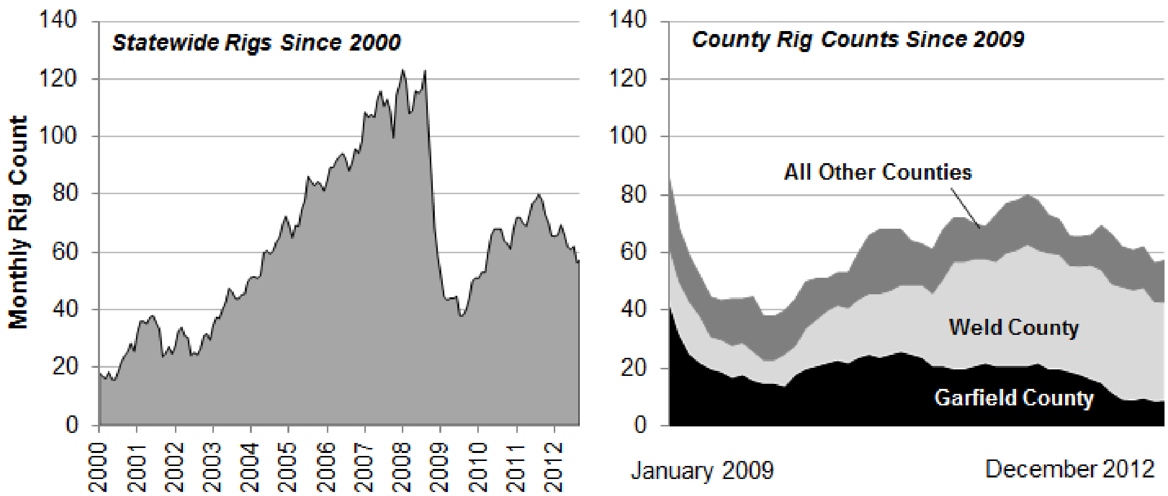
- Nonresidential construction will decline slightly by 0.8 percent in 2013 as firms wait to see the impact of federal fiscal policies on the broader economy before making capital investments. In 2014, nonresidential construction will increase 24.8 percent as the economy gains momentum.

Oil and Gas Production

The oil and natural gas industry is an important regional economic driver in several parts of the state. Figure 27 shows the number of oil and natural gas rigs operating in Colorado since 2000 and the oil and natural gas rigs that are operating in Garfield, Weld, and other counties in the state. Garfield and Mesa counties face competition from other natural gas fields around the country. Although natural gas prices have increased somewhat since the fall of 2012, few new wells have been completed on the Western Slope. Meanwhile, oil activity has increased in Weld County. The total number of oil and natural gas rigs declined from 73 rigs in January 2012 to 53 rigs in December 2012.

Oil drilling technology has advanced to the point that they can drill horizontally under the ground, so a single well has access to a larger area. Thus, a decline in the number of oil wells does not equate to a proportionate decline in production. According to Baker Hughes, there were an average of 14 horizontal wells in Weld County in December 2011 and 24 horizontal wells in December of 2012.

Figure 27
Oil and Natural Gas Rigs in Colorado



Sources: Baker Hughes. Data through December 2012.

Agricultural Products

Colorado's agricultural sector has felt the effects of the nationwide drought, but the declines in production have not been as steep as in other states. Many of Colorado's farms are irrigated, allowing them to water crops even when there is little rainfall. The number of cattle and calves on feed for the slaughter was 5 percent lower on January 1, 2013 compared with a year earlier. Sheep and goat herds also declined during this period. The total value of crops declined from $3.0 billion in 2011 to $2.9 billion in 2012. The value of corn and wheat in Colorado declined by $200 million and $63 million, respectively, between 2011 and 2012.

Drought conditions have continued into 2013, and without enough water and dry soil, crop yields will likely be below historical averages. Even with irrigation, there may not be enough water to meet all the residential and agricultural water needs in the state. Ranchers had to reduce the size of their herds in 2012, which will impact the rate at which herds can rebuild once the drought is over.

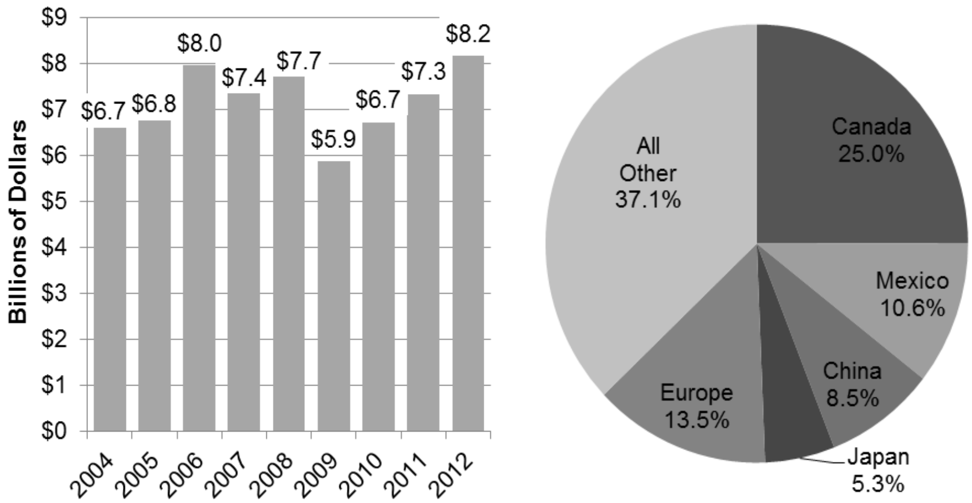
Colorado Exports

Despite a weak global economy, Colorado exports to other nations increased 11.3 percent in 2012. Our largest trading partners, Canada and Mexico, outperformed the global economy, which helped boost Colorado exports. Exports to Canada increased 27.3 percent in 2012, while exports to Mexico increased 12.6 percent. Figure 28 shows Colorado exports between 2004 and 2012.

Colorado Leading Indicators

Several economic indicators suggest future employment growth in Colorado. This information is helpful when predicting what will happen with employment in the medium term. A Legislative Council Staff analysis has shown that the three-month change in seven indicators are particularly helpful in predicting the direction of employment in the next six months.

Figure 28
Total Colorado Exports and Trade Partners
Seasonally Adjusted Annualized Data



Sources: Wiser Trade, data through December 2012.

Figure 29 shows the percentage change in these seven leading indicators over the past three months. The Colorado trade weighted value of the dollar and initial unemployment claims are inversely related to employment growth, so these indicators are inverted. Six of the seven indicators show improvement over the past three months, suggesting employment growth over the next six months.

Leading indicators are predictive of the direction, but not necessarily the magnitude of employment changes. In general, the more leading indicators that show improvement the more employment is expected to improve.

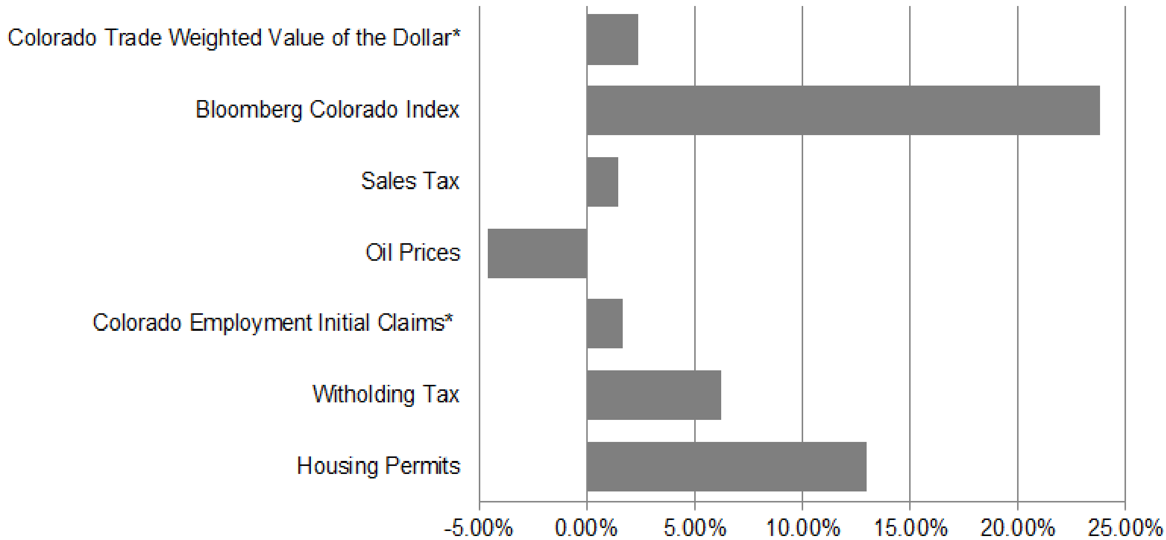
Summary

Colorado's economy is growing and its underlying strength appears greater than that of the national economy. Employment continues to grow and the unemployment rate is falling as more people find work than enter the labor market. Growth in retail trade is strong, especially in durable goods, suggesting that consumers are confident about spending money. The ability of homeowners to take advantage of historically low interest rates is boosting disposable income and helping home prices appreciate. Further, the low supply of homes for sale is putting upward pressure on home prices and building permits. Exports from Colorado are growing and leading indicators suggest that there will be job growth over the next six months.

The overall economy continues to improve, but several regions of the state are lagging behind. Drought conditions are hurting the ski industry and agricultural area of the state. Natural gas development in the western part of the state has slowed because of an over-supply natural gas nationally.

Certain areas of the state will feel the effects of the sequester more than others. Regions with a higher concentration of federal workers, like Colorado Springs, will be impacted as employees are furloughed or pay is reduced. Areas with national parks will see less tourism activity as federal government services are reduced. These effects will build over time and eventually ripple to all areas of

Figure 29
Colorado Leading Indicators
Percent Change Over Last 3 Months of Available Data



**These variables are inversely related to Colorado employment growth, so they are displayed as inverted values.*

the state. Underlying economic growth in the state will keep the state's economy from shrinking, but tax increases and spending cuts will slow growth over the next six to nine months. Once consumers and business adjust to these changes, the underlying strength will build through the forecast period.

Risks to the Forecast

Upside risks to the forecast. This forecast assumes that federal tax increases and spending cuts will weigh on consumers and businesses, resulting in slow growth in the spring and summer of 2013. If the private sector economy is able to shrug off the tightening in federal fiscal policy, the economy may grow faster than forecast. Additionally, homeowners' equity could grow enough that there are more homes available for sale, with job and income growth sufficient to support the increase in home prices. A well-functioning housing market that is not dependent on continued federal housing policies will help support growth in the other areas of the economy.

Downside risks to the forecast. Spending authority for the federal government expires on March 27th, and legislation to fund government operations through federal fiscal year 2012-13 is expected to be enacted by Congress by that date. If this does not occur and there is a prolonged government shutdown, the Colorado economy would suffer. The federal debt ceiling will be in effect again starting May 19th, and will need to be raised by mid-summer to prevent the federal government from defaulting on its obligations. If the federal debt ceiling is not raised, a potential credit downgrade and investor reaction could increase interest rates and slow growth considerably. Additionally, federal monetary policy is extremely loose right now, and is expected to remain this way through the forecast period. If inflationary pressures force the Federal Reserve to raise interest rates, the housing market could lose momentum and employment growth will slow. Of secondary concern, rising oil prices and a return of economic volatility in the Eurozone may slow the national economy with secondary effects felt in Colorado.

Table 11
Colorado Economic Indicators, March 2013 Forecast
(Calendar Years)

	2008	2009	2010	2011	2012	Forecast 2013	Forecast 2014	Forecast 2015
Population (thousands, July 1)	4,889.7	4,972.2	5,047.7	5,116.8	5,187.6	5,265.4	5,349.6	5,435.2
percent change	1.8%	1.7%	1.5%	1.4%	1.4%	1.5%	1.6%	1.6%
Nonagricultural Employment (thousands)	2,350.4	2,245.2	2,221.9	2,258.2	2,309.6	2,344.2	2,386.4	2,443.7
percent change	0.8%	-4.5%	-1.0%	1.6%	2.3%	1.5%	1.8%	2.4%
Unemployment Rate	4.8	8.1	9.0	8.6	8.0	7.4	7.0	6.8
Personal Income* (millions)	$216,030	$204,625	$212,545	$225,410	$235,329	$240,506	$253,974	$268,959
percent change	5.3%	-5.3%	3.9%	6.1%	4.4%	2.2%	5.6%	5.9%
Wage and Salary Income* (millions)	$116,999	$112,588	$114,191	$119,148	$124,748	$128,989	$135,955	$143,704
percent change	3.6%	-3.8%	1.4%	4.3%	4.7%	3.4%	5.4%	5.7%
Retail Trade Sales (millions)	$74,760	$66,345	$70,738	$75,548	$80,073	$83,996	$88,784	$94,555.1
percent change	-0.8%	-11.3%	6.6%	6.8%	6.0%	4.9%	5.7%	6.5%
Home Permits (thousands)	19.0	9.4	11.6	13.5	23.4	31.1	38.1	41.3
percent change	-35.5%	-50.8%	23.9%	16.5%	73.1%	32.9%	22.7%	8.3%
Nonresidential Building (millions)	$4,114	$3,354	$3,147	$3,926	$3,634	$3,605	$4,499	$4,741.8
percent change	-21.8%	-18.5%	-6.2%	24.7%	-7.4%	-0.8%	24.8%	5.4%
Denver-Boulder Inflation Rate	3.9%	-0.6%	1.9%	3.7%	1.9%	2.2%	2.3%	2.4%

Sources: U.S. Census Bureau, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, F.W. Dodge, and Legislative Council Staff.
2011 and 2012 nonfarm employment figures are rebenchmarked figures based on Legislative Council Staff analysis.

** 2012 values are forecast because full year data is not yet available.*

Colorado Economic Regions

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

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

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

Metro Denver Region

The economy in metro Denver improved in 2012 compared with 2011. The region's job market, which represents over half of the state's labor market, showed moderate employment gains overall through 2012. Spending growth accelerated at a rate almost twice the rate seen in 2011. The real estate market is stronger, showing such improvement that pre-recessionary levels are in view. Nonresidential construction continues to grow, but at a slow rate. Table 12 shows economic indicators for the region.

Job market. Metro Denver area employment continues to show moderate improvement. After a short stall in the summer, job growth picked up again in the third quarter, ending the year with fourth quarter job gains of 4,200 jobs. Figure 30 shows employment in the metro Denver area since January 2006. The unemployment rate, shown in Figure 31, was 7.3 percent in December 2012, falling 0.4 percentage points from the same time last year. The labor force increased 1.2 percent in December 2012 compared with the same time in 2011, signaling an increase in people's confidence in the availability of work.

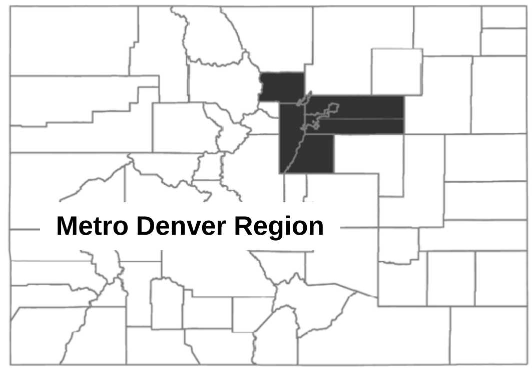


Table 12
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	1.0%	-4.3%	-0.5%	1.5%	1.8%
Unemployment Rate /2 (2012 Figure is December Only)	4.8%	8.2%	8.8%	7.7%	7.3%
Housing Permit Growth /3					
Single-Family (Denver-Aurora)	-50.1%	-31.8%	35.5%	-0.4%	58.5%
Single-Family (Boulder)	-53.5%	-27.6%	101.0%	-5.2%	29.0%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-10.9%	-21.1%	7.9%	24.0%	-2.4%
Square Footage of Projects	-26.6%	-47.7%	-5.8%	26.0%	17.5%
Level (1,000s)	15,798	8,256	7,780	9,802	11,517
Number of Projects	2.1%	-15.3%	-37.6%	-0.7%	1.9%
Level	1,107	938	585	580	591
Retail Trade Sales Growth /5	-0.8%	-11.4%	6.8%	4.3%	8.1%

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 December 2012.

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

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

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

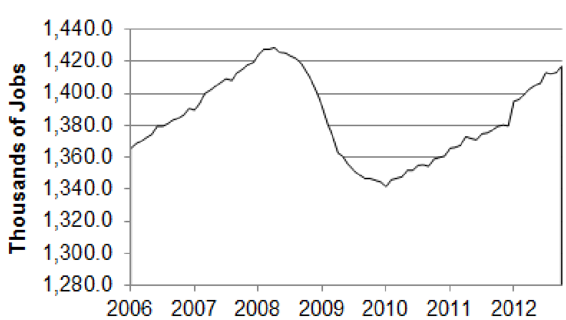
5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2012.

Consumer spending. Despite uncertainty with the fiscal cliff in 2012, consumer confidence continues to be up, which has been reflected in the growth in retail sales. Retail trade sales increased 8.1 percent in 2012, almost doubling the growth seen 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 32 compares retail sales in metro Denver with the state and the nation.

Housing market. The housing market continues to be one of the strongest markets for the metro Denver area. With interest rates at all-time lows and home values on the rise, home-buying attractiveness is increasing. Denver home prices increased for the 14th consecutive month in November, advancing 7.8 percent over the prior year while single-family permits for the Denver-Aurora-Broomfield area increased 58 percent in 2012. Figure 33 shows residential permits between 2005 and 2012.

Nonresidential construction market. After a spike in activity at the beginning of the year from warm winter weather conditions, nonresidential activity has slowed, ending the year down 2.4 percent compared with 2011. Fluctuations in building material costs and business uncertainty continue to stifle nonresidential growth. Due to the decline in building growth, commercial vacancy rates have fallen, which is a good indicator for healthier building activity in the future. Although the value of nonresidential building projects decreased in 2012, the square footage and number of projects increased 17.5 percent and 1.9 percent, respectively. Figure 34 shows nonresidential building permits in square feet from 2008 through 2012.

Figure 30
Metro Denver Employment Continues to Improve
Seasonally Adjusted

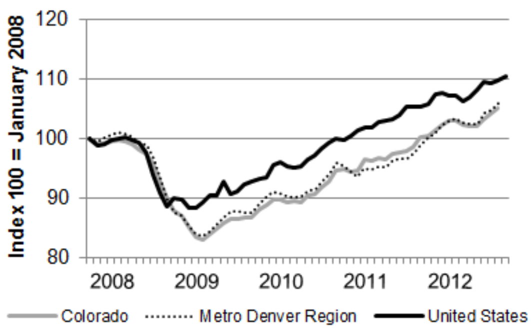


Source: U.S. Bureau of Labor Statistics; CES. Data through December 2012.

Figure 31
Metro Denver Labor Force and Unemployment Rate
Seasonally Adjusted

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

Figure 32
Retail Trade Trends Since January 2008
Index 100= January 2008
Three-Month Moving Average;
Seasonally Adjusted Annualized Nominal Data

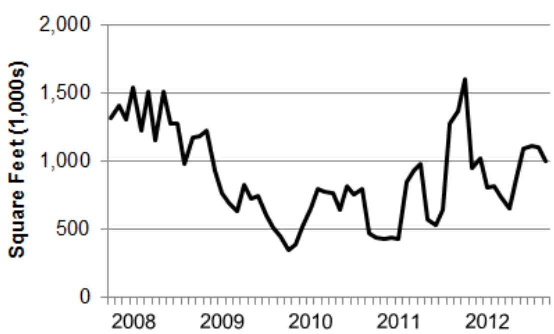


Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through November 2012; U.S. data through December.

Figure 33
Metro Denver Residential Building Permits Continues to Improve
Three-Month Moving Average;
Seasonally Adjusted Annualized Data

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

Figure 34
Metro Denver Total Nonresidential Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



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

Northern Region

The northern region's economic recovery is one of the strongest in the state. Employment is showing moderate gains and consumers are spending money in the region as retail sales are strong amidst a relative strong housing market. The region's housing industry is performing well. Similar to the other regions in state, new nonresidential construction remains low. Table 13 shows economic indicators for the region.

Figure 35 shows total employment for both major metro areas in the region between January 2006 and December 2012. The Bureau of Labor Statistics reported that

Table 13
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%	2.6%
Greeley MSA	1.4%	-4.9%	-0.6%	3.0%	1.7%
Unemployment Rate /2 (2012 Figure is December Only)					
Fort Collins-Loveland MSA	4.2%	7.0%	7.4%	6.3%	6.0%
Greeley MSA	5.2%	9.1%	10.2%	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%	59.3%
Fort Collins-Loveland MSA Single-Family	-36.4%	-49.2%	32.1%	45.7%	63.3%
Greeley MSA Total	-46.8%	-20.6%	10.4%	-3.1%	54.6%
Greeley MSA Single-Family	-45.1%	-13.7%	2.7%	-2.6%	58.8%
Growth in Value of Nonresidential Construction/ 5					
Value of Projects	-13.0%	12.1%	-56.4%	5.7%	6.6%
Square Footage of Projects	-27.8%	-34.0%	-28.3%	-11.7%	45.5%
Level (1,000s)	3,230	2,132	1,528	1,349	1,963
Number of Projects	23.9%	-35.8%	-14.7%	-7.4%	14.9%
Level	252	161	138	127	146
Retail Trade Sales Growth /6					
Larimer County	-0.7%	-9.0%	7.7%	7.9%	5.8%
Weld County	2.0%	-15.1%	9.9%	26.3%	6.8%

MSA = Metropolitan statistical area. NA = Not Available.

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

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

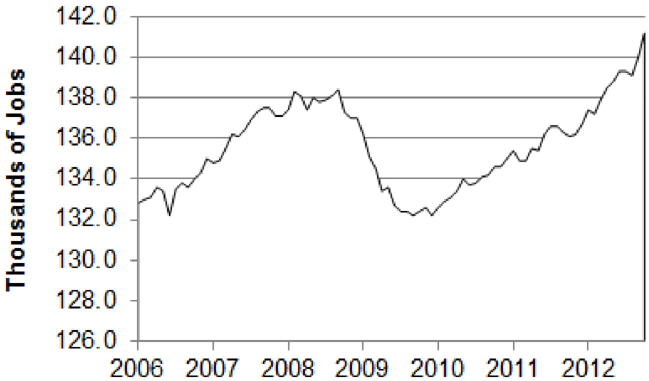
3/ National Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares November 2012 over prior year period in 2011.

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

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

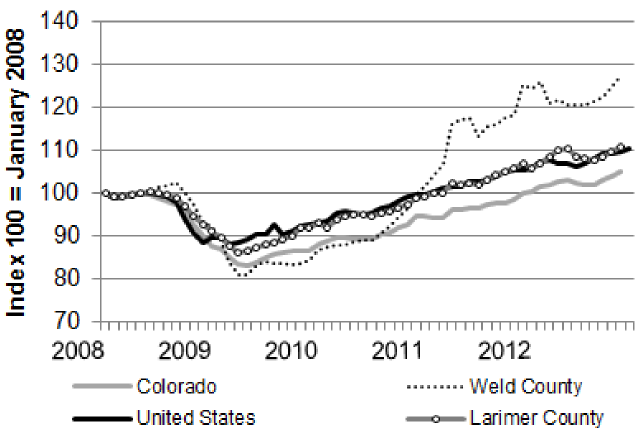
6/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2012.

Figure 35
Fort Collins-Loveland and Greeley MSA
Nonfarm Employment
Seasonally Adjusted



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

Figure 36
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 November 2012; U.S. data through December.

the Fort Collins-Loveland and Greeley areas added 7,500 new jobs in 2012. Nonfarm employment grew 2.6 percent in the Fort Collins-Loveland area and 1.7 percent in Greeley during 2012. In December 2012, the Fort Collins-Loveland area unemployment rate was 6.0 percent, the second-lowest of all regions and considerably lower than the 7.8 percent statewide rate. The Greeley MSA's unemployment rate was 8.5 percent in December.

With over 4,000 farms in the region, agriculture is a key component of the northern region's economy. Livestock production was up 6.4 percent in December 2012 over the prior-year period. As of December 1, the number of cattle and calves on feed for the slaughter was estimated at 1,160,000, up from 1,090,000 in December 2011.

The northern region's real estate market is moderately strong and mirrors housing activity along the Denver-metro front range. The region's housing market, robust relative to many areas of the nation, is fueled by low inventory levels and record-low interest rates that continue to drive prices upward. The distressed housing market in Larimer and Weld counties made up a smaller portion of total real estate sales in 2011 than in prior years. Foreclosure sales made up about 2,050 of nearly 18,000 new listings in 2011 (11.5 percent). In the prior year, about 2,600, or 13 percent, of total new listings in the region were distressed homes. New construction permits will see growth in 2013 as the demand for new homes increases.

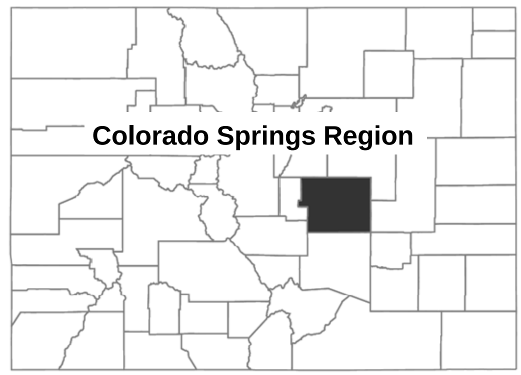
The region's home prices last reached their peak in 2006 before declining through 2009. Since 2009, median home prices in the northern region have recovered and are at peak 2006 levels or higher. For example, in Fort Collins the median home price was $246,000 in 2012, compared with peak prices in 2007 when the median price was $235,000. In Greeley, the median home price in 2012 was $192,450, slightly below the median price level in 2006 when it peaked at $195,000. At the close of 2012, there was a four-month supply of homes in Larimer County that took, on average, 117 days to sell. In Weld County, median home prices in the fourth quarter were $200,000, a 17.7 gain over prior-year prices. Inventory is lower than in Larimer County, as Weld County has a 3.7 month supply of homes that, on average, took 91 days to sell.

New residential construction permits were strong in 2012 in both metropolitan areas. Total single family permits in the region were up 55.4 percent in 2012. Likewise, single family permits were up 63.2 percent in the Fort Collins and Greeley area.

The value of nonresidential projects in the region grew 6.6 percent in 2012. These projects will add about 45.5 percent more square feet to the region's nonresidential inventory. Retail sales continue to be strong in both Larimer and Weld County. As Figure 36 shows, consumer spending in both counties has outperformed the state.

Colorado Springs Region

The healing period for the economy in the Colorado Springs region continued through the end of 2012. After showing modest growth in 2011, the area's job market finished out the 2012 year down in employment and unchanged in the unemployment rate. The housing market continues to grow, but nonresidential construction struggles to show signs of improvement. Consumer spending, as measured by retail trade sales, finished out the year on a positive note. Table 14 shows economic indicators for the region.



After showing signs of improvement, the region's job growth was down 0.5 percent at the end of 2012. Although there were job gains during the summer and late fall, it was not enough to show overall improvement at the end of the year. The unemployment rate averaged 9.0 percent for the second consecutive year. Figure 37 shows the Colorado Springs MSA unemployment rate and labor force through December 2012.

Despite the lack-luster labor market, consumer spending, as measured by retail trade sales, was up for the region. Retail trade sales grew 5.1 percent overall in 2012. The area saw a large portion of their sales in the parts, food and beverage, and general merchandise sectors. Figure 38 compares changes in the region's consumer spending to changes for the nation and state.

Table 14
Colorado Springs Region Economic Indicators
El Paso County

	2008	2009	2010	2011	YTD 2012
Employment Growth /1					
Colorado Springs MSA	-0.9%	-3.9%	-0.9%	1.1%	-0.5%
Unemployment Rate /2 (2012 Figure is December Only)	5.6%	8.8%	9.8%	9.0%	9.0%
Housing Permit Growth /3					
Total	-36.1%	-33.4%	27.9%	29.1%	33.0%
Single-Family	-42.2%	-16.7%	23.2%	-3.8%	50.1%
Growth in Value of Nonresidential Const. /4					
Value of Projects	-44.6%	2.0%	-20.3%	20.3%	-3.2%
Square Footage of Projects	-53.6%	-18.1%	-33.2%	29.2%	-14.2%
Level (1,000s)	2,768	2,267	1,514	1,955	1,677
Number of Projects	0.2%	-8.6%	23.6%	11.2%	-11.6%
Level	323	295	365	406	359
Retail Trade Sales Growth /5	-2.7%	-6.1%	7.8%	8.3%	5.1%

MSA = Metropolitan statistical area. NA = Not Available.

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

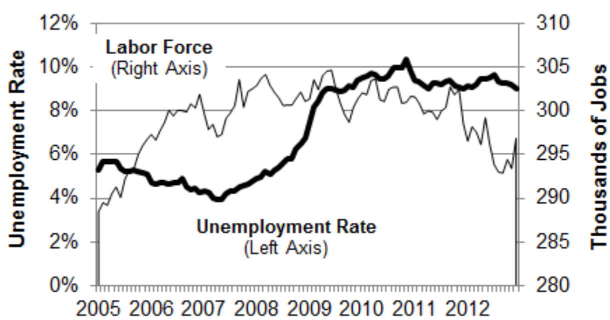
4/ F.W. Dodge. Data through December 2012.

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

Single family permits in the region increased 33.0 percent in 2012. Low interest rates and increasing home values continue to help spark activity in this market. Figure 39 shows the number of total and single family permits for the region from January 2004 to December 2012.

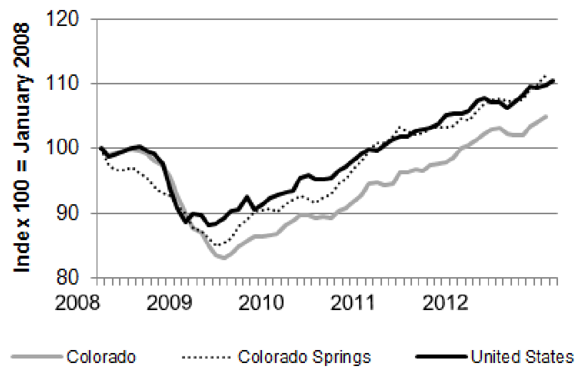
Although residential activity is up, nonresidential construction has yet to follow in the same path. Permits for nonresidential construction fell in 2012 after signs of strong improvement in 2011. Even with a decline in commercial vacancy rate, the value of construction permits was down 3.2 percent. The stagnant growth was also seen in the square footage and number of permitted projects, which both decreased 14.2 percent and 11.6 percent, respectively, in 2012. Figure 40 shows nonresidential building permits in square feet from 2008 through December 2012.

Figure 37
Colorado Springs MSA
Unemployment Rate and Labor Force
Seasonally Adjusted



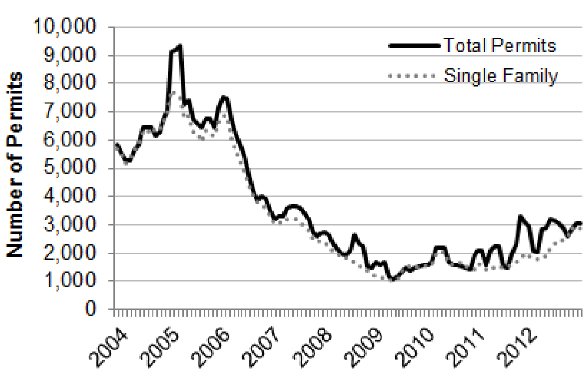
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2012.

Figure 38
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted
Nominal Data



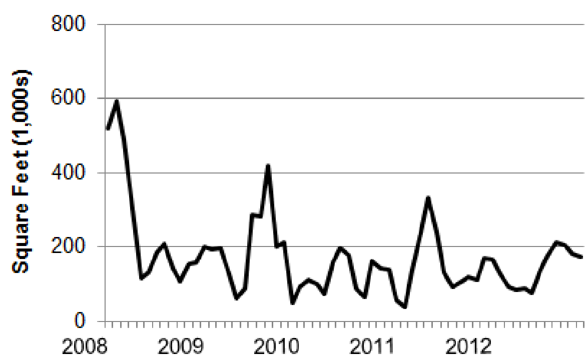
Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through November 2012; U.S. data through December 2012.

Figure 39
Colorado Springs MSA Residential Building Permits:
Square Feet
Three-Month Moving Average;
Seasonally Adjusted Data



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

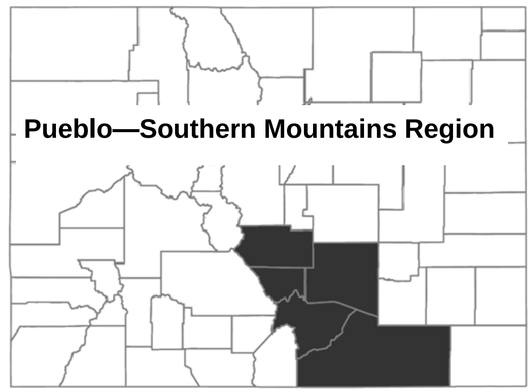
Figure 40
Colorado Springs Nonresidential Building Permits:
Square Feet
Three-Month Moving Average;
Seasonally Adjusted Data



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

Pueblo — Southern Mountains Region

The Pueblo region continues to see sluggish growth. Employment growth began to deteriorate in 2012 and the region's unemployment rate remains higher than the statewide average. Consumer spending, although still seeing an upward trend, has significantly slowed through the end of 2012. Nonresidential construction continues to struggle, but single family residential permits are up compared with the same period last year. Table 15 shows economic indicators for the region.



Although Pueblo was named the 35th best small city for job growth by New Geography in the summer of 2012, the region ended the year with a weakening employment growth and an unemployment rate higher than the statewide average. The region's employment decreased 1.3 percent in 2012 and unemployment came in at 10.7 percent during December 2012. With the drop in job openings, the area's bright spot is the ramp up of the Vestas Wind System at the end of March 2013, which the company stated could create more than 100 jobs. Figure 41 shows employment in the Pueblo area since January 2006.

Consumer spending, as measured by retail sales, continues to grow at a modest rate in the Pueblo region. After seeing sales that outpaced the nation's, the end of 2012 saw a disappointing

Table 15
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%	-1.3%
Pueblo MSA /2	0.5%	-2.3%	0.2%	1.7%	0.5%
Unemployment Rate /1	6.0%	9.2%	10.4%	9.8%	10.7%
(2012 Figure is December Only)					
Housing Permit Growth /3					
Pueblo MSA Total	-38.6%	-9.4%	-37.9%	-49.6%	125.4%
Pueblo MSA Single-Family	-42.8%	-51.5%	13.6%	-45.5%	50.9%
Growth in Value of Nonresidential Construction /4					
Value of Projects	8.9%	-65.4%	-68.9%	58.4%	241.8%
Square Footage of Projects	-4.8%	-75.5%	-70.1%	-11.7%	1517.0%
Level (1,000s)	1,391	341	102	90	1,456
Number of Projects	48.8%	-49.6%	-31.4%	26.0%	-45.5%
Level	101	51	35	44	24
Retail Trade Sales Growth /5	-1.7%	-4.7%	6.8%	9.5%	2.9%

MSA = Metropolitan statistical area. NA = Not Available.

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

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

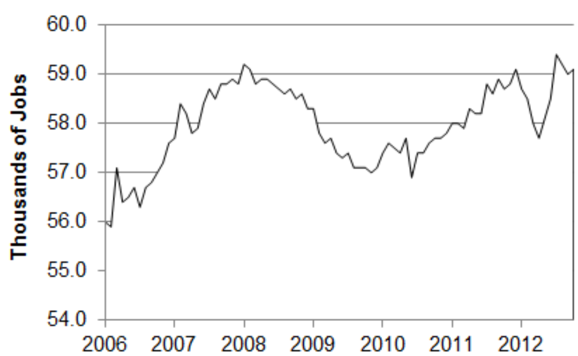
5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2012.

Christmas season for sales, as reported by the Pueblo city manager. Despite that, retail sales were up 2.9 percent in 2012, making it the third consecutive year of positive growth. Figure 42 compares the Pueblo region's consumer spending, as measured by retail trade sales, to that of the state and the nation.

The Pueblo region's housing market saw a positive change after five years of declines. Total housing permits were up 125.4 percent in 2012, indicating an increase in demand. Figure 43 shows recent trends in the number of permits filed for home building in the Pueblo MSA.

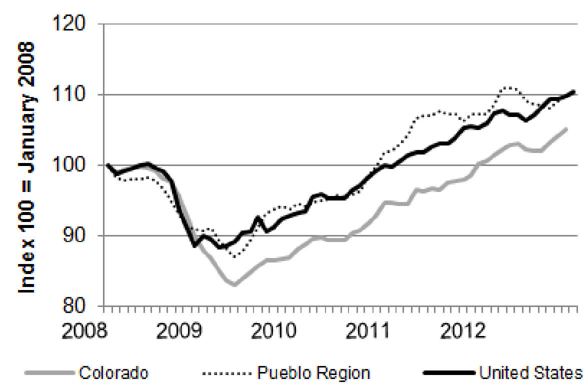
Figure 44 shows the number of new nonresidential projects by square feet for the Pueblo region. The value and square footage of nonresidential construction shot up 241.8 percent and 1,517 percent, respectively, in 2012. A large portion of this was due to one large project at the beginning of 2012, which is evident by the 45.5 percent decline in the number of projects during the year. Nonresidential construction is expected to continue on a slow recovery path through 2013.

Figure 41
Pueblo Region Nonfarm Employment
Seasonally Adjusted



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

Figure 42
Trends in Retail Trade Sales Since January 2008
Three-Month Moving Average; Seasonally Adjusted Nominal Data

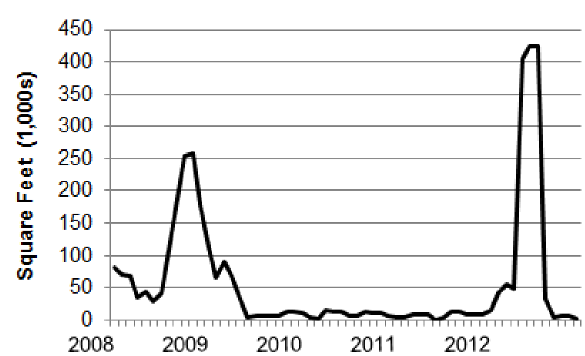


Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through November 2012. U.S. data through December 2012.

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

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

Figure 44
Pueblo Nonresidential Building Permits: Square Feet
Three-Month Moving Average; Non-Seasonally Adjusted Data



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

San Luis Valley Region

The San Luis Valley region's economy is reliant on its agricultural industry and availability of water to sustain its regional economic health. The 2012 drought will continue to affect crop production in the region in 2013 as new water sources and conservation efforts become more important to the economic well-being of agriculture producers in the six-county region. The region's economy grew very slowly in 2012 as employment, consumer spending, and housing construction posted minimal gains for the year. Table 16 shows economic indicators for the region.

Nonfarm employment in the region grew at a mere 0.7 percent in 2012 following decreases in 2011 and 2010. As shown in Figure 45, the region's unemployment rate rose to 9.6 percent in December 2012, a full percentage point higher than in the prior year and the highest rate for all regions in Colorado. 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 significantly revised. In addition, due to the reliance on agriculture-based industries, the region experiences different economic trends than more urban areas of the state.

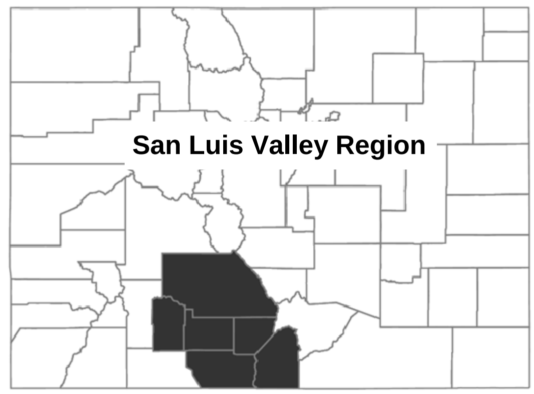


Table 16
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	2.8%	4.7%	-2.0%	-0.8%	0.7%
Unemployment Rate /1	6.0%	7.6%	8.7%	8.6%	9.6%
(2012 Figure is December Only)					
Statewide Crop Price Changes /2					
Barley (U.S. average for all)	49.6%	-15.5%	19.5%	40.9%	19.5%
Alfalfa Hay (baled)	18.0%	-20.7%	0.0%	84.6%	0.0%
Potatoes	21.0%	-46.6%	-38.8%	-16.9%	-38.8%
SLV Potato (Inventory CWT) /2	4.4%	5.0%	-1.3%	4.0%	-1.3%
Housing Permit Growth /3	-17.0%	-33.6%	28.1%	-8.5%	38.5%
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	46
Number of Projects	14.3%	0.0%	62.5%	-23.1%	41232.3%
Level	8	8	13	10	10
Retail Trade Sales Growth /4	3.4%	-1.6%	3.7%	5.8%	3.4%

NA = Not Available.

1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 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 December 2012. Prior forecasts only used data for Alamosa County.

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

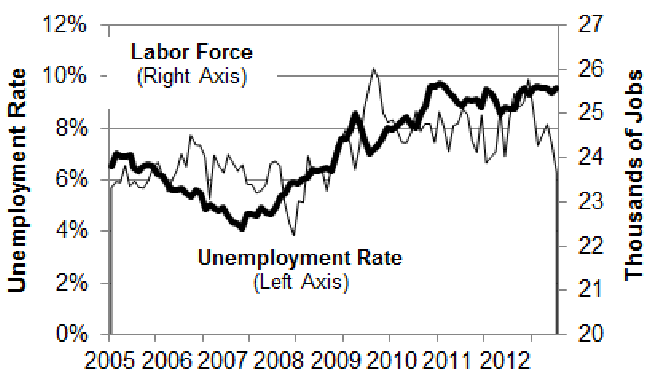
Consumer spending in the region has slowed in 2012. Figure 46 shows changes in the region's consumer spending and compares them to changes in the nation and the state. Consumer spending in the San Luis Valley region grew 3.4 percent through November 2012, after increasing 5.8 percent in 2011.

The value of nonresidential construction fell as several public and private commercial education projects were completed. New building permits for residential housing are rising, but from very low levels of building activity. 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 a significant decline in 2012 because of the completion of a few educational facilities in the area. Meanwhile, the residential housing industry has begun to improve from very low levels as the number of permits filed for new homes increased 38.5 percent in 2012.

The region's agricultural industry was impacted by the drought in the arid region. According to a recent article in the Denver Post, water in the six-county region is scarce and farmers continue to overuse water from aquifers that may result in 80,000 less acres of agricultural production in 2013. The pumping has depleted aquifers by more than 1 million acre-feet since 1976 and now is affecting surface streams. Agriculture groups estimate that producers will be required to pay fees up to $75 per acre-foot of water, up from the current price of $45. That raises costs by as much as $20,000 for an irrigated crop circle. The increased costs of water and irrigation may reduce employment, as increased fees are anticipated to result in some farm labor market reductions.

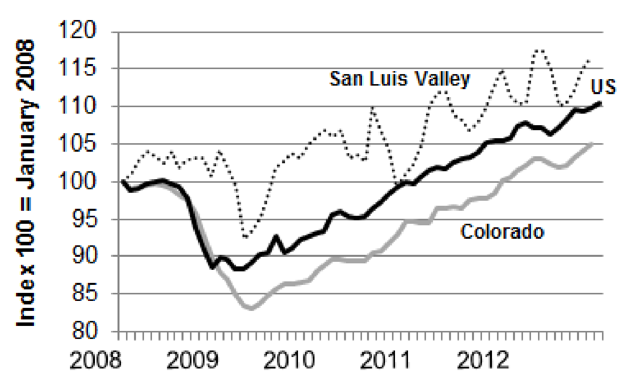
The agriculture industry has benefited from high crop prices. In November, barley prices rose 19.5 percent over November 2011 prices, while wheat prices rose a hefty 33.7 percent to $8.26 per bushel. Corn prices reached $6.98 per bushel, a 19.3 percent gain over the prior year. Alfalfa Hay prices were flat in November 2012 over the prior year. Fall potato growers in the San Luis Valley produced 21.0 million hundredweight of potatoes in 2012, down slightly from 2011 levels.

Figure 45
San Luis Valley Region
Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 46
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted

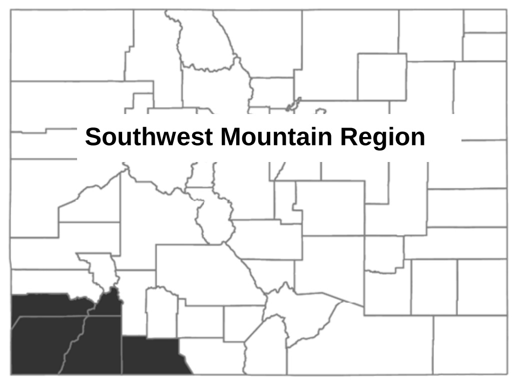


Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through November 2012. U.S. data through December 2012.

Southwest Mountain Region

The economy in the southwest mountain region has shown limited positive signs in 2012. While consumer spending and nonresidential construction permits have continued to grow, employment and residential construction have fallen. Table 17 shows economic indicators for the region.

Overall, the labor market in the southwest mountain region is losing momentum. As shown in Figure 47, nonfarm employment fell 0.9 percent in 2012. The decline in employment has been accompanied by a decline in the labor force, shown in Figure 48. Individuals may leave the labor force because they are discouraged by their chances of finding a job, and give up looking. These interactions have caused the unemployment rate to rise from an average of 7.1 percent in 2011 to 7.3 percent in December 2012. Inaccurate seasonal adjustments by the Bureau of Labor Statistics has created significant volatility in these employment numbers. Revisions are expected in the future, although it is unclear what effect they will have on employment.



Another drag on the region's economy is residential housing, which was largely flat in 2012, decreasing 0.3 percent. Residential permits continue to be at very low levels historically, as shown in Figure 49, signaling the housing market still has a long way to go before it is fully recovered.

Table 17

Southwest Mountain Region Economic Indicators

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

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-1.1%	-2.9%	-3.2%	0.2%	-0.9%
Unemployment Rate /1 (2012 Figure is December Only)	4.3%	7.1%	8.2%	7.1%	7.3%
Housing Permit Growth /2	-46.5%	-21.9%	39.3%	-30.0%	-0.3%
Growth in Value of Nonresidential Construction /2					
Value of Projects	-81.1%	-22.7%	18.8%	-67.5%	65.2%
Square Footage of Projects	-73.4%	11.3%	-69.5%	545.2%	45.7%
Level (1,000s)	261	290	89	572	833
Number of Projects	-5.1%	-8.7%	-6.2%	-36.7%	-14.6%
Level	26	24	22	14	12
Retail Trade Sales Growth /3	-0.7%	-13.9%	1.6%	9.1%	6.2%

NA = Not Available.

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

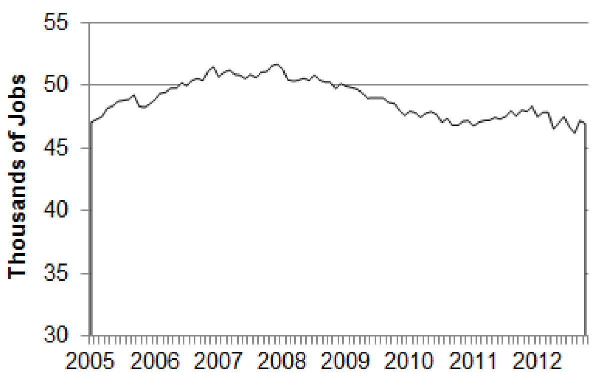
2/ F.W. Dodge. Data through December 2012. Prior forecasts had data for La Plata County only.

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

The region's consumers, however, continued to spend through 2012. Figure 50 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 November of 2012 retail trade increased 6.2 percent, which is just slightly below statewide levels.

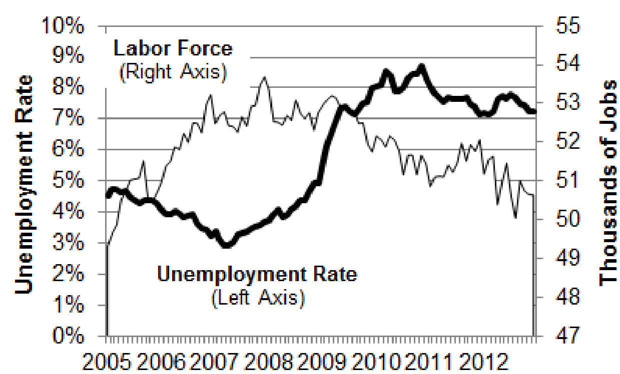
Nonresidential construction is also showing signs of stabilizing, as the value of permits grew 65.2 percent in 2012. The square footage has also risen substantially, while the number of projects has fallen, indicating that larger projects are under way in the area.

Figure 47
Southwest Mountain Region Nonfarm Employment
Seasonally Adjusted



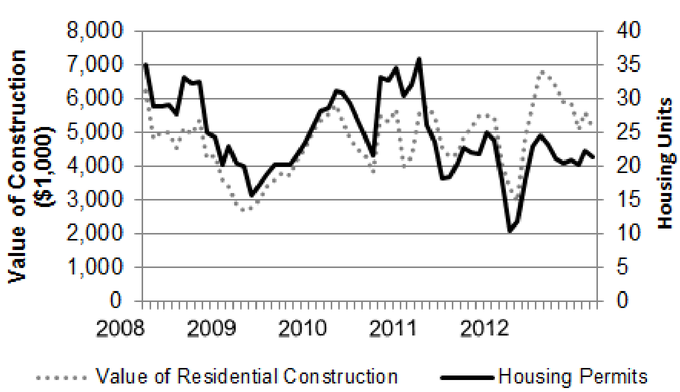
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2012.

Figure 48
Southwest Mountain Region
Unemployment Rate and Labor Force
Seasonally Adjusted



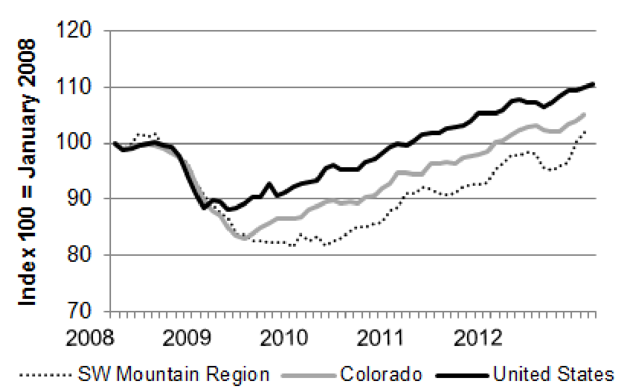
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2012.

Figure 49
Southwest Mountain Residential
Building Permits at Historically Low Rates
Three-Month Moving Average; Non Seasonally Adjusted



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

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



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

Western Region

The economic recovery in the western region has begun to stall. Employment rebounded in the first half of 2012, but declined in the second half of the year. Consumer spending continues to grow, although at a slower rate than last year. Both residential and nonresidential construction have shown gains in 2012. Table 18 shows economic indicators for the region.

The region's job market has shown some growth in 2012, after seeing no growth in 2011. As shown in Figure 51, employment in the Grand Junction metropolitan area grew 3.5 percent in 2012, while the region as a whole increased 1.0 percent. While this may seem positive, employment actually peaked in the third quarter and declined through the end of the year. The labor force in the western region also declined in 2012, which has caused the unemployment rate to rise to 8.5 percent in December 2012. Figure 52 shows the relationship between the labor force and the unemployment rate in the western region. Inaccurate seasonal adjustments by the Bureau of Labor Statistics has created significant volatility in these employment numbers. LCS expects revisions in the future, although it is unclear what effect they will have on employment.

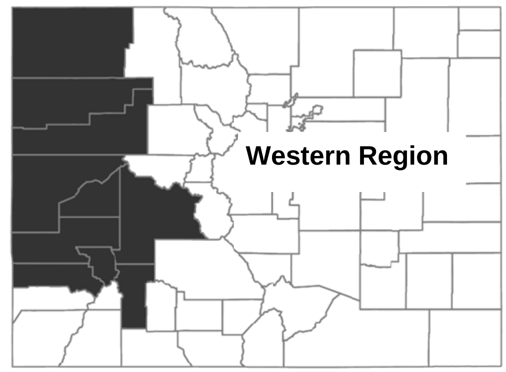


Table 18
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth					
Western Region /1	2.1%	-5.6%	-5.4%	0.0%	1.0%
Grand Junction MSA /2	4.8%	-6.6%	-4.5%	1.0%	3.5%
Unemployment Rate /1	3.8%	8.4%	10.0%	8.4%	8.5%
(2012 Figure is December Only)					
Housing Permit Growth /3	-37.4%	-49.8%	-0.5%	-20.5%	22.0%
Growth in Value of Nonresidential Construction /3					
Value Projects	-24.3%	4.3%	7.8%	-64.8%	17.1%
Square Footage of Projects	-11.2%	-42.5%	8.7%	-70.1%	145.7%
Level (1,000s)	2,159	1,243	1,351	405	994
Number of Projects	22.7%	-6.6%	-31.8%	-31.8%	10.0%
Level	151	141	96	66	72
Retail Trade Sales Growth /4	1.2%	-19.1%	1.8%	8.8%	2.1%

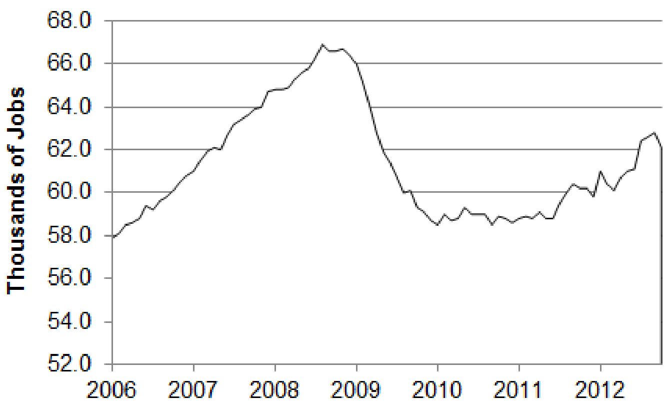
MSA = Metropolitan statistical area. NA = Not Available.
1/ U.S. Bureau of Labor Statistics. LAUS (household) survey. Seasonally adjusted. Data through December 2012.
2/ U.S. Bureau of Labor Statistics. CES (establishment) survey. Seasonally adjusted. Data through October 2012.
4/ F.W. Dodge. Data through December 2012. Prior forecasts had data for Mesa and Montrose Counties only.
5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2012.

Figure 53 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. However, in 2012 sales growth has been very limited. Sales increased 2.1 percent through November compared with the same period last year, well behind the state average.

The region's residential housing market is seeing some building activity, as housing permits rose 22.0 percent in 2012. It should be noted that permit growth declined in the fourth quarter. Nonresidential construction has improved, as the value of permits rose 17.1 percent, square footage rose 145.7 percent, and the number of projects increased 10.0 percent in 2012.

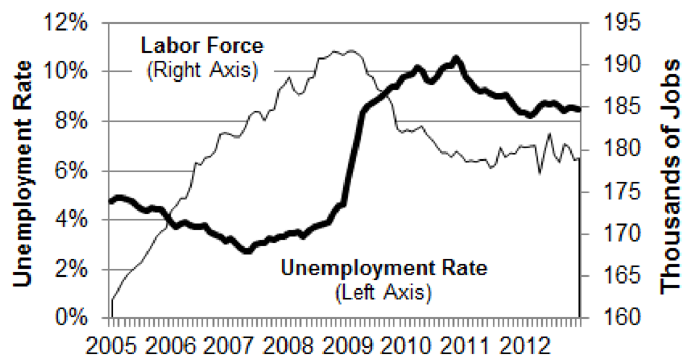
Figure 54 shows the Western region's operating rig count. Lower natural gas prices have continued to keep rig counts down across the region. In 2012, the number of rigs operating in the region declined to 12 rigs from a high of 35 rigs in March 2011.

Figure 51
Grand Junction Nonfarm Employment
Seasonally Adjusted



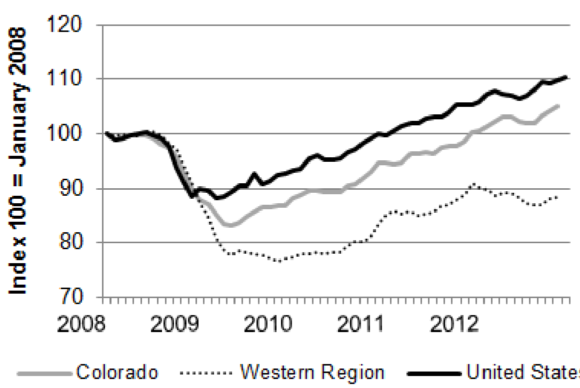
Source: U.S. Bureau of Labor Statistics; CES.
Data through December 2012.

Figure 52
Western Region Unemployment Rate and Labor Force
Seasonally Adjusted



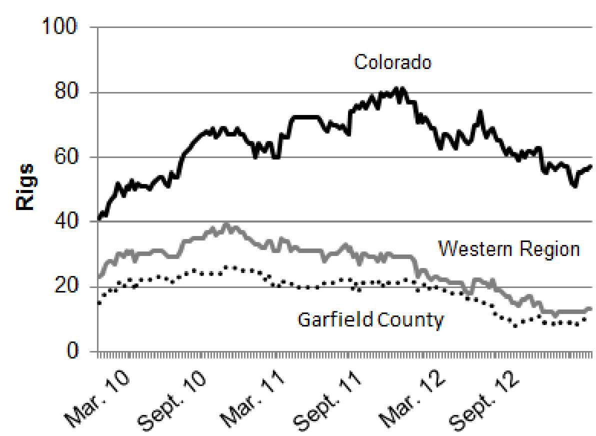
Source: U.S. Bureau of Labor Statistics; LAUS.
Data through December 2012.

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



Source: Colorado Department of Revenue and U.S. Census Bureau.
Colorado data through November 2012 and U.S. data through December.

Figure 54
Colorado and Western Region Operating Rig Count

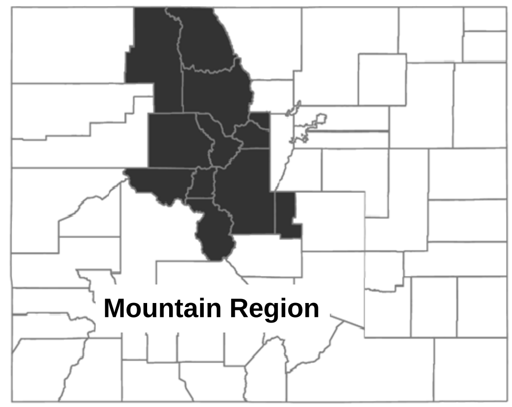


Source: Baker Hughes. Data through February 22, 2013.

Mountain Region

Economic recovery in the mountain region appeared to stall in 2012. Employment was flat, consumer spending lagged behind the rest of the state, and nonresidential construction steadily declined. The one bright spot is the growth in residential construction, which picked up in the last several months of 2012. Table 19 shows economic indicators for the region.

Figure 55 shows that employment was volatile in 2012. Published data shows that regional employment fell sharply in the second and third quarter before rebounding in the fourth quarter of 2012. Overall, employment growth is flat through 2012 compared with the same time period last year. The labor force has followed a similar pattern as employment, with the net result being the unemployment rate declined slightly to 7.3 percent in December 2012. 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 November, growing 1.2 percent over the same period last year. Figure 56 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 19
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%	0.3%
Unemployment Rate /1 (2012 Figure is December Only)	4.0%	7.5%	9.0%	7.4%	7.3%
Housing Permit Growth /2	-20.3%	-50.2%	-16.7%	4.3%	6.7%
Growth in Value of Nonresidential Construction /2					
Value of Projects	40.0%	-83.7%	6.4%	79.2%	-34.0%
Square Footage of Projects	-11.8%	-88.1%	10.7%	102.3%	-21.7%
Level (1,000s)	1,892	225	249	503	394
Number of Projects	-31.9%	-23.8%	-14.5%	-13.1%	1.6%
Level	70	53	46	40	40
Retail Trade Sales Growth /3	-1.5%	-16.3%	4.9%	7.5%	1.2%

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

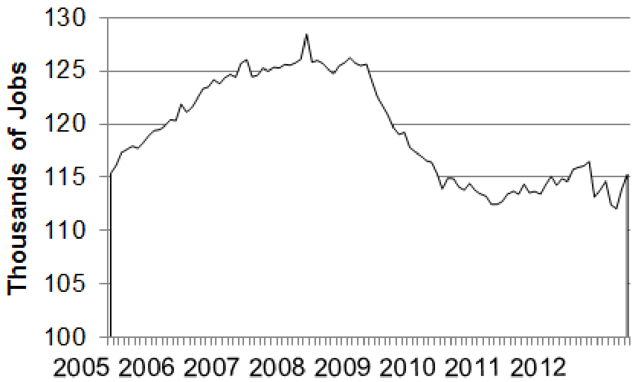
2/ F.W. Dodge. Data through December 2012. Prior forecasts reported Eagle, Pitkin & Summit Counties and Routt County separately.

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

The value of permits filed for nonresidential construction fell in 2012. These large declines are partially due to high levels in the previous year. Nonresidential construction was largely flat in 2012.

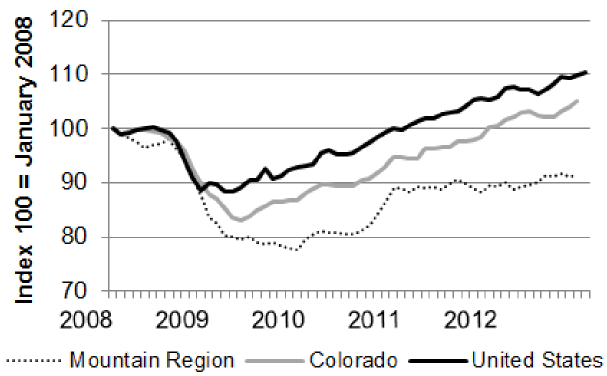
The bright spot for this region is the residential construction market, which is still showing signs of strength. As shown in Figure 57, the residential construction market continues to grow, posting a growth rate of 6.7 percent in residential building permits for 2012. Anecdotal evidence, however, suggests that some of the growth is happening because prices for existing homes are still higher than the cost of building a new home. This could change as the cost to build a home is rising in some parts of the region, particularly Summit county, which could push some home buyers into existing homes rather than new homes in the future.

Figure 55
Mountain Region Nonfarm Employment
Seasonally Adjusted



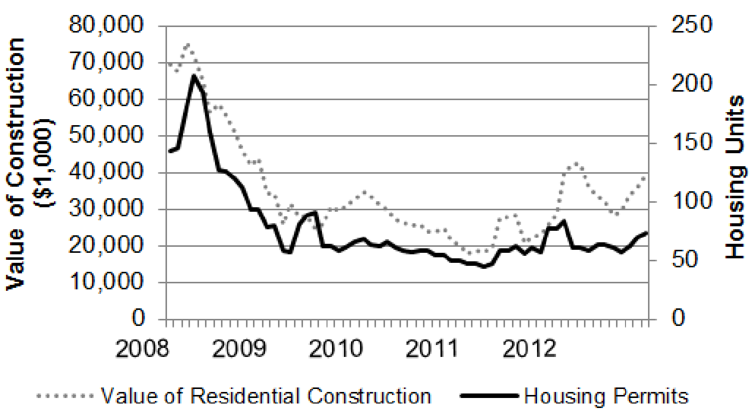
Source: U.S. Bureau of Labor Statistics; LAUS. Data through December 2012.

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



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

Figure 57
Mountain Region Residential Building Permits
Three-Month Moving Average; Non Seasonally Adjusted Data



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

Eastern Region

The 2012 drought continues to affect the nation's agricultural states and the agricultural industry in the Eastern region. Crop and livestock prices rose throughout 2012, fueling the agricultural industry, and it is likely prices will continue to edge up in 2013. Nonfarm employment growth in the region is weak, although the region's unemployment rate is lower than the statewide average. Meanwhile, consumers spending slowed in 2012. Table 20 shows economic indicators for the region.

Nonfarm employment in the eastern region grew slowly, at 1.0 percent in 2012, after growing 2.6 percent in 2011. The slower growth may be partially attributable to the 2012 drought. As shown in Figure 58, the region's unemployment rate was 6.5 percent in December, lower than the statewide rate of 7.8 percent. It is important to note that labor market data does not include agricultural workers and employment data for rural areas can contain meaningful error and are frequently significantly revised.

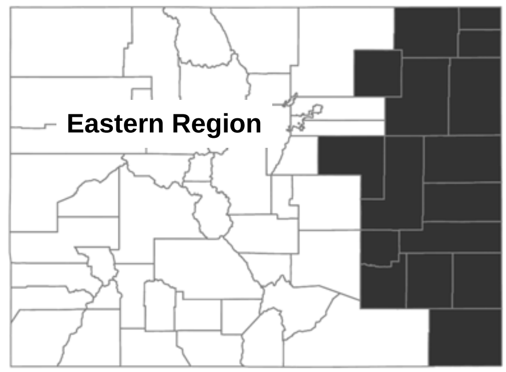


Table 20
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca Counties

	2008	2009	2010	2011	YTD 2012
Employment Growth /1	-3.6%	5.3%	-3.6%	2.6%	1.0%
Unemployment Rate /1 (2012 Figure is December Only)	4.3%	6.0%	6.7%	5.8%	6.5%
Crop Price Changes /2					
Wheat	10.1%	-32.5%	33.7%	-1.3%	33.7%
Corn	4.5%	-10.9%	19.3%	25.8%	19.3%
Alfalfa Hay (Baled)	18.0%	-20.7%	0.0%	84.6%	0.0%
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%	4.5%

NA = Not Available.

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

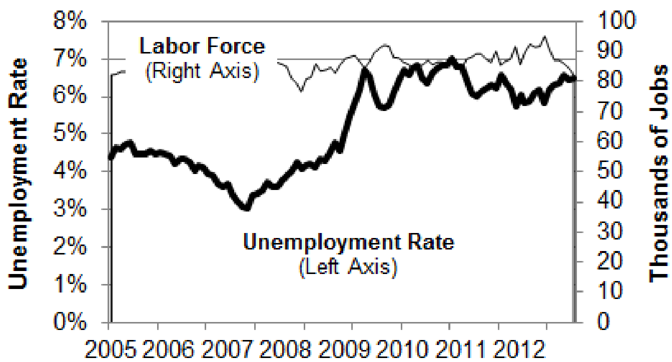
2/ National Agricultural Statistics Service. Price changes reflect November 2012 over prior year.

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.

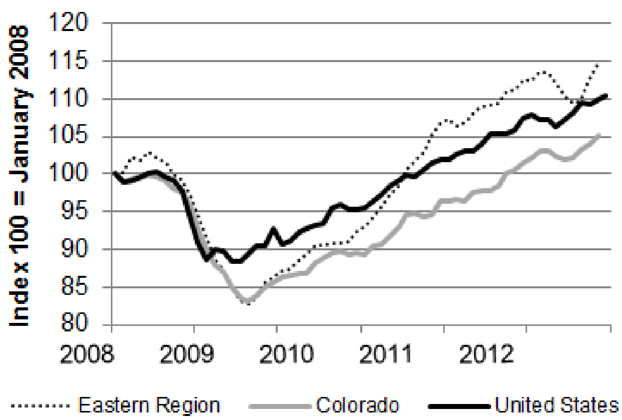
5/ Colorado Department of Revenue. Seasonally adjusted. Data through November 2012.

Figure 58
Eastern Region
Unemployment Rate and Labor Force
Seasonally Adjusted



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

Figure 59
Retail Trade Trends Since January 2008
Index 100 = January 2008
Three-Month Moving Average; Seasonally Adjusted



Source: Colorado Department of Revenue and U.S. Census Bureau. Colorado data through November 2012. U.S. data through December 2012.

The drought continued to drive crop prices upward in 2012. Commodity prices in November continued to rise to record-high levels. Wheat rose to $8.26 per bushel in November 2012, up 33.7 percent over the prior-year period. Corn prices in November advanced to $6.98 per bushel, up 19.3 percent. Alfalfa Hay prices remained flat at $235 per ton in November. The thinning of cattle herds resulted in cattle inventory falling 9.6 percent in November, 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 continued to grow through 2012, but at the slower rate of 4.5 percent through November. 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.

Appendix A
Historical Data

National Economic Indicators

(Dollar Amounts in Billions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Gross Domestic Product	$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	$15,681.5
percent change	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%	4.0%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$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	$13,591.1
percent change	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%	2.2%
Unemployment Rate	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%	8.9%	8.1%
Inflation (Consumer Price Index)	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%	2.1%
10-Year Treasury Note	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%	1.9%
Personal Income	$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	$13,405.9
percent change	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%	3.5%
Wage and Salary Income	$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	$6,880.6
percent change	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%	3.3%
Nonfarm Employment (millions)	126.0	129.1	131.9	131.9	130.4	130.1	131.5	133.7	136.1	137.6	136.8	130.9	129.9	131.5	133.7
percent change	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%	1.7%

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

Colorado Economic Indicators

(Dollar Amounts in Millions)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Nonagricultural Employment (thous.)	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	2,309.6
percent change	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%	2.3%
Unemployment Rate (%)	3.6	3.1	2.8	3.8	5.6	6.1	5.6	5.1	4.3	3.8	4.8	8.1	9.0	8.6	8.0
Personal Income	$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	NA
percent change	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	$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	NA
percent change	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	$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	NA
percent change	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	$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	$80,073
percent change	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%	6.0%
Housing Permits	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	23,377
percent change	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%	73.1%
Nonresidential Construction	$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	$3,926	$3,634
percent change	-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%	24.7%	-7.4%
Denver-Boulder Inflation Rate	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%	1.9%
Population (thousands, July 1)	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	5,187.6
percent change	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%	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.