March | 2011

The Colorado Outlook

Economic and Fiscal Review

STATE OF COLORADO
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Governor's Office of State Planning and Budgeting

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Summary

- The March forecast for General Fund revenue increased by $161.3 million for the current fiscal year compared with the December forecast as income taxes are rebounding at a faster-than-expected rate. With the final expected budgetary actions of the General Assembly and Governor, the forecast shows that the FY 2010-11 budget is balanced and the General Fund will end the year with enough revenue to meet its reserve requirement.

- The economy continues to struggle with burdensome forces related to the economic downturn. Thus, the relatively strong growth in revenue in FY 2010-11 is expected to mostly be a one-time bounce. The forecast for FY 2011-12 General Fund revenue is only slightly higher than the assumption used in the February 15, 2011 budget amendment request from Governor Hickenlooper. Revenue is forecast to grow at a modest 1.9 percent rate next year.

- Based on this forecast and the Governor's FY 2011-12 budget request, the state will end the fiscal year with a reserve equal to 3.6 percent, slightly below the requested 4.0 reserve level. However, the large diversion to the State Education Fund expected at the end of FY 2010-11 more than offsets this difference.

- Relative to FY 2007-08, proposed FY 2011-12 total General Fund spending reflects a drop of 3.6 percent. Excluding the proposed revenue measures, General Fund revenue in FY 2011-12 will be $625.3 million below the FY 2007-08 level. As such, a structural gap remains in the General Fund, and the Hickenlooper Administration will make proposals to close the remaining gap for budget year FY 2012-13.

- The economy is expected to continue to grow modestly. However, there is heightened risk that more unfavorable economic conditions could develop, especially due to the rise in food and energy prices, the political unrest in the Middle East, and the earthquake in Japan - the world's third largest economy. Because of these risks, economic conditions, and their potential impact on the budget, will continue to be monitored closely.

- Cash fund revenue collected in FY 2010-11 is expected increase 14.2 percent over FY 2009-10, while FY 2011-12 revenue is projected to increase 7.6 percent. Much of the forecast growth is from the hospital provider fee and severance tax revenue categories.

General Fund Budget

GENERAL FUND OVERVIEW – TABLE 1

Table 1 presents the General Fund Overview for the March 2011 OSPB revenue forecast. The overview incorporates the Governor's budget request for FY 2011-12. The top portion of the table summarizes the amount of General Fund revenue available for spending. Lines 4 and 5 show augmentations of General Fund revenue through proposed transfers and tax policy measures. The tables following this section list the proposed transfers and policy measures and their impact to the General Fund.

Lines 7 through 9 summarize the amount of allowable General Fund appropriations based on the limit specified in Section 24-75-201.1 (1) (a) (II), C.R.S. This limit equals five percent of Colorado personal income. The FY 2011-12 figure on line 7 represents the Governor's February 15, 2011, budget request. The amount on line 7 for FY 2012-13 is the level of spending that can be supported by forecasted revenue while maintaining a 4.0 reserve.

Lines 10 through 17 summarize spending that is exempted from or is outside of the General Fund appropriations limit as defined in Section 24-75-201.1 (1) (a) (II), C.R.S. The largest portion of this spending is "Rebates and Expenditures, which includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions as outlined at the bottom of Table 3. As shown in the table following this section, the Governor's budget request includes eliminating expenditures for the Cigarette Rebate and FPPA "Old Hire" programs in FY 2011-12 and FY 2012-13. It also includes eliminating the interest payments associated with the School Loans Program on an ongoing basis starting in FY 2011-12.

The final section of Table 1 (the "Reserves" section) forecasts the amount of General Fund remaining at the end of each fiscal year. The amount of revenue set aside for the General Fund reserve (line 21) must equal the statutorily defined percentage of that year's General Fund appropriations (line 7). For FY 2010-11, SB 11-156 sets the reserve at 2.3 percent, with any revenue that comes in above this level credited to the State Education Fund. In FY 2011-12, the required reserve returns to a 4.0 percent level, as per the Governor's February 15, 2011 budget request.

For informational purposes, line 23 shows the amount of money credited to the State Education Fund. Under the provisions of Amendment 23, the State credits an amount equal to one-third of one percent of State taxable income to the State Education Fund. And, as noted above, for FY 2010-11 only, receives any General Fund revenue above the 2.3 percent required reserve.

Proposed Cash Fund Transfers
(Dollars in Millions)

<table>
<tr><th>Proposed Fund Transfer</th><th>FY 2011-12</th><th>FY 2012-13</th></tr>
<tr><td>Local Government Severance Tax Fund</td><td>$41.0</td><td rowspan="15">NA</td></tr>
<tr><td>High Cost Administration Fund</td><td>$20.0</td></tr>
<tr><td>Perpetual Base Account of the Severance Tax Trust Fund</td><td>$48.1</td></tr>
<tr><td>Local Government Mineral Impact Fund</td><td>$41.0</td></tr>
<tr><td>Medical Marijuana Program Cash Fund</td><td>$8.1</td></tr>
<tr><td>Licensing Services Cash Fund</td><td>$9.8</td></tr>
<tr><td>Debt Collection Fund</td><td>$0.249</td></tr>
<tr><td>Administrative Hearings Fund</td><td>$0.742</td></tr>
<tr><td>Liquor Enforcement Division and State Licensing Authority Cash Fund</td><td>$0.150</td></tr>
<tr><td>Auto Dealers License Fund</td><td>$0.500</td></tr>
<tr><td>Operational Account of the Severance Tax Trust Fund</td><td>$3.3</td></tr>
<tr><td>Read to Achieve Tobacco Funds</td><td>$3.2</td></tr>
<tr><td>First Time Drunk Driver Offender Account</td><td>$2.6</td></tr>
<tr><td>Tobacco Funds to DPHE Programs</td><td>$1.9</td></tr>
<tr><td>Reading Assistance Grant Program</td><td>$0.02</td></tr>
<tr><td>Health Care Expansion Fund</td><td>($38.9)</td><td>($86.9)</td></tr>
<tr><td>Total</td><td>$130.7</td><td>($86.9)</td></tr>
</table>

Revenue Enhancements
(Dollars in Millions)

Proposed Tax Policy Measure	FY 2011-12	FY 2012-13
Continue Suspension of Sales Tax Vendor Fee Allowance	$65.1	$65.7
Continue Suspension of Sales Exemption on Cigarette Sales	$30.0	$30.0
Increase Sales Tax Delinquency Billings	$2.2	$2.7
Total	**$97.4**	**$98.4**

Proposed Changes to General Fund Rebates and Expenditures
(Dollars in Millions)

Proposed Change	FY 2011-12	FY 2012-13
Cigarette Rebate	($11.7)	($11.7)
FPPA "Old Hire"	($25.3)	($25.3)
Interest Payments for School Loans	($1.6)	($1.6)
Total	**($38.6)**	**($38.6)**

Table 1
General Fund Overview - With Budget Balancing Plans
(Dollar Amounts in Millions)

Line No.		Actual FY 2009-10	March 2011 Estimate by Fiscal Year FY 2010-11	FY 2011-12	FY 2012-13
Revenue					
1	**Beginning Reserve**	**$443.3**	**$137.4**	**$156.5**	**$250.8**
2	**Gross General Fund Revenue**	**$6,457.7**	**$6,986.4**	**$7,117.6**	**$7,468.4**
3	*Net Transfers to/(from) the General Fund (Existing Law)*	**($47.6)**	**$143.8**	**($5.2)**	**($7.8)**
4	*Net Transfers to/(from) the General Fund (Proposed) /A*	*N/A*	***$1.1***	**$130.7**	**($86.9)**
5	*Proposed Policy Changes Increasing General Fund Revenue*	*N/A*	*N/A*	**$97.4**	**$98.4**
6	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$6,853.5**	**$7,268.8**	**$7,496.9**	**$7,722.8**
Expenditures					
7	**Appropriation / Request Subject to Limit /B**	**$6,631.6**	**$6,805.3**	**$7,075.8**	**$7,148.8**
8	*Dollar Change (from prior year)*	*($755.5)*	*$173.8*	*$270.5*	*$73.0*
9	*Percent Change (from prior year)*	*-10.2%*	*2.6%*	*4.0%*	*1.0%*
10	**Spending Outside Limit**	**$84.5**	**$134.3**	**$170.2**	**$288.1**
11	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
12	*Rebates and Expenditures /C*	*$141.9*	*$124.0*	*$118.2*	*$118.9*
13	*Homestead Exemption*	*$1.3*	*$1.6*	*$1.7*	*$103.0*
14	*Transfers to Capital Construction*	*$0.2*	*$9.2*	*$50.3*	*$66.2*
15	*Transfers to Highway Users Tax Fund*	*N/A*	*N/A*	*N/A*	*$0.0*
16	*Reversions and Accounting Adjustments /D*	*($56.2)*	*$0.0*	*$0.0*	*$0.0*
17	Enhanced Medicaid Match (reduces GF expenditures)	($2.7)	($0.5)	N/A	N/A
18	**TOTAL GENERAL FUND OBLIGATIONS**	**$6,716.0**	**$6,939.6**	**$7,246.0**	**$7,436.9**
Reserves					
19	**Year-End General Fund Balance**	**$137.4**	**$329.2**	**$250.8**	**$286.0**
20	*Year-End General Fund as a % of Appropriations*	*2.1%*	*4.8%*	*3.6%*	*4.0%*
21	**General Fund Statutory Reserve /E**	**$132.6**	**$156.5**	**$283.0**	**$286.0**
22	**Excess Monies Above (Below) Statutory Reserve (to SEF in FY 2010-11)**	**$4.8**	**$172.6**	**($32.2)**	**$0.0**
23	*Addendum: State Education Fund (one-third of 1% of Colorado taxable income, plus Excess Reserve in FY 2010-11 Only)*	*$329.0*	*$536.5*	*$376.4*	*$401.1*

/A The proposed FY 2010-11 transfer is $1.1 million to the General Fund from the FML Higher Education Maintenance and Reserve Fund. The FY 2011-12 and FY 2012-13 figures are the proposed amounts by the Governor in previously submitted budget requests.

/B Per SB 09-228, this limit equals 5.0% of Colorado personal income. The FY 2010-11 amount includes all supplemental appropriation changes and an additional $77.4 million in additional expenditures that are expected to be needed. Most of this amount is a result of Medicaid costs. The request for FY 2011-12 represents the Governor's February 15, 2011, budget request. The amount for FY2012-13 represents the level of spending that can be supported by revenue w hile maintaining a 4.0% reserve.

/C Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions as outlined at the bottom of Table 3.

/D Part of the FY 2009-10 reversions and accounting adjustments amount includes a reduction of $28.1 million to account for a delay in Medicaid payments. These payments are accounted for in FY 2010-11 expenditures.

/E Per SB 09-219 and SB 09-277, the statutory General Fund reserve required per 24-75-201.1, C.R.S. w as low ered to 2.0 percent for FY 2009-10. SB 11-156 increases the reserve to 2.3% in FY 2010-11. The Governor's February 15, 2011, budget request raises the reserve level to 4.0% in FY 2011-12.

BUDGET IMPLICATIONS OF THE FORECAST

FY 2010-11

Based on the expected final budgetary actions of the General Assembly and Governor, the FY 2010-11 General Fund appropriations subject to limitation under Section 24-75-201.1, C.R.S. equal $6,805.3 million (line 7, Table 1), an increase of 2.6 percent over final FY 2009-10 appropriations of $6,631.6 million. The appropriations subject to the limit fund the state's core programs, such as K-12 education, higher education, Medicaid, corrections, and human services.

Senate Bill 11-156 sets the reserve at 2.3 percent of General Fund appropriations, and credits money above this level to the State Education Fund. Based on this revenue forecast and FY 2010-11 anticipated expenditures, the state will end the fiscal year with $172.6 million above the required reserve.

FY 2011-12

Based on this forecast and the Governor's FY 2011-12 budget package, the state will end the fiscal year with a reserve equal to 3.6 percent of appropriations, $32.2 million below the requested 4.0 percent reserve level. The proposed revenue enhancements and cash fund transfers that are included in the budget package are summarized on page 5 of this document and outlined in the Governor's February 15, 2011 budget proposal, and prior executive proposals.

Relative to FY 2007-08, proposed FY 2011-12 total General Fund spending reflects a drop of 3.6 percent. Excluding the proposed revenue measures, General Fund revenue in FY 2011-12 will be $625.3 million below the FY 2007-08 level. As such a structural gap remains in the General Fund, and the Hickenlooper Administration will make proposals to close the remaining gap for budget year FY 2012-13.

FY 2012-13

Based on this forecast and the Governor's FY 2011-12 recommended budget package, General Fund expenditures can grow 1.0 percent, or by $73.0 million in FY 2012-13 while maintaining a 4.0 percent reserve. Continued expectations of a slow economic recovery and only modest revenue growth, along with the scheduled reinstatement of the senior homestead exemption, will constrain growth in appropriations to the state's core programs. The situation is further negatively impacted by the projected insolvency of the Health Care Expansion Fund, which will require a General Fund transfer of $86.9 million in FY 2012-13. These expenditures are accounted for in Table 1.

Risks to the Budget Outlook

Although not projected by this forecast, SB 09-228 could be triggered during the forecast period resulting in General Fund diversions to transportation, capital construction and a one-half of a percentage point increase in the General Fund Reserve. This trigger occurs when personal income increases by at least five percent. The transfers and in the increase in the reserve would result in less money for other General Fund obligations. For FY 2012-13, the diversions would total $186.7 million while the reserve would increase by $27.7 million.

The sustainability of the economic recovery is uncertain and there are many risks that the economy confronts over the forecast period. Therefore, there is heightened risk that more unfavorable economic conditions could develop and the economy could perform worse than expected, which would lower the amount of General Fund revenue available for expenditure. Nonetheless, the economy is remarkably resilient and is able to continue to grow amidst difficult conditions. Thus, this forecast assumes that growth, though modest, is expected to continue.

General Fund Revenue Forecast

For FY 2010-11, the General Fund is recovering from its recessionary trough at a rate faster than was expected in the December forecast. Growth is occurring after two successive years of declining revenue that resulted in a 16.6 percent reduction, or $1.3 billion, from FY 2007-08 to FY 2009-10. A rebound in individual income and sales taxes, which comprise over 90 percent of revenue to the General Fund, are the largest drivers of the turnaround. Total General Fund revenue is expected to increase by $528.7 million from FY 2009-10, or 8.2 percent, in FY 2010-11.

However, most of this relatively strong growth is expected to be a one-time bounce as expectations for moderate economic growth and higher prices will temper tax revenue throughout the remainder of the forecast period. In FY 2012-13, General Fund revenue is still expected to be below its FY 2006-07 levels. Projections for income, excise, and other General Fund revenue sources can be found in Table 2.

Individual and Corporate Income Taxes

The return of growth in personal income and jobs, coupled with strong gains in the stock market over the past two years, is causing individual income tax to rebound robustly in FY 2010-11. Individual income tax revenue is expected to increase 11.1 percent this fiscal year.

Income tax revenue from estimated payments in particular is posting a significant jump after falling substantially during the recession. Estimated payments are mostly paid by small- to medium-sized businesses, which have finally begun to see better business conditions. A sizeable portion also comes from tax due on capital gains. However, because the stock market has recently become more volatile, the increase in income tax from capital gains is likely to be muted in FY 2011-12. Income tax from withholding will also post a smaller increase in FY 2011-12 due to expectations for sluggish job and wage growth. Overall income tax revenue will post modest growth of 2.9 percent next fiscal year.

Colorado's corporate income tax revenue is determined by an apportionment of corporations' profits based on sales in Colorado. The substantial increase in corporate profits as the economy began to recover drove a 27.2 percent increase in corporate income taxes in FY 2009-10. However, the jump in profits is expected to mostly be a one-time event and profits are expected to moderate, especially due to rising input prices. This moderation in profits, along with a recent federal tax policy change that increases tax deductions for business equipment purchases, will contribute to a decline in corporate income tax revenue for FY 2010-11 of 4.0 percent from the prior fiscal year. The projection of a large positive accrual adjustment in FY 2011-12 will serve to boost corporate income tax revenue however.

Sales and Other Excise Taxes

Sales and use tax revenue is also rebounding in FY 2010-11 as consumers and businesses boosted their spending. Sales tax revenue is expected to grow by 5.9 percent this fiscal year, while use tax revenue grows at a robust rate of 24.4 percent. Some of these increases are from pent up demand as purchases were made that were postponed during the recession.

The recent rise in food and gas prices will temper sales tax revenue – food at grocery stores and fuel are not subject to the sales tax. Continued high debt and unemployment levels, coupled with weak home values, are also expected to constrain sales tax revenue throughout the forecast period.

These conditions, coupled with the scheduled expiration of certain tax policy changes enacted over recent years will result in a 2.3 percent decline in sales tax revenue in FY 2011-12 and flat revenue in FY 2012-13. As shown on page 5 and in the General Fund overview (Table 1), the Governor's budget package proposes extending two of the tax policy changes – the current suspension of the vendor sales tax administrative fee allowance and the suspension of the cigarette sales tax exemption – for three additional years, through FY 2013-14. It also proposes to increase the Department of Revenue's budget to expand the number of billings sent to delinquent sales tax accounts. Combined, these policies are expected to increase sales tax revenue by about $100 million each fiscal year.

Revenue from smaller excise tax sources, including cigarette, tobacco, and liquor taxes, will remain essentially flat over the forecast period.

Table 2
Colorado General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	Actual FY 2009-10	% Chg	March 2011 Estimate by Fiscal Year FY 2010-11	% Chg	FY 2011-12	% Chg	FY 2012-13	% Chg
	Excise Taxes:								
1	Sales	$1,825.0	-5.5%	$1,933.1	5.9%	$1,887.9	-2.3%	$1,904.4	0.9%
2	Use	$155.7	-11.9%	$193.7	24.4%	$205.8	6.2%	$220.2	7.0%
3	Cigarette	$40.8	-6.0%	$39.1	-4.3%	$37.4	-4.3%	$36.3	-2.8%
4	Tobacco Products	$16.1	22.4%	$14.9	-7.5%	$16.7	11.7%	$17.1	3.0%
5	Liquor	$35.4	1.3%	$35.7	0.8%	$36.6	2.3%	$37.1	1.4%
6	**Total Excise**	**$2,073.1**	**-5.7%**	**$2,216.5**	**6.9%**	**$2,184.3**	**-1.5%**	**$2,215.2**	**1.4%**
	Income Taxes:								
7	Net Individual Income	$4,083.8	-5.8%	$4,535.9	11.1%	$4,665.9	2.9%	$4,941.4	5.9%
8	Net Corporate Income	$372.1	27.2%	$357.2	-4.0%	$402.7	12.7%	$463.6	15.1%
9	**Total Income**	**$4,455.9**	**-3.7%**	**$4,893.2**	**9.8%**	**$5,068.7**	**3.6%**	**$5,405.0**	**6.6%**
10	*Less: State Education Fund Diversion*	*$329.0*	*-3.2%*	*$363.8*	*10.6%*	*$376.4*	*3.5%*	*$401.1*	*6.5%*
11	**Total Income to General Fund**	**$4,126.9**	**-3.7%**	**$4,529.4**	**9.8%**	**$4,692.2**	**3.6%**	**$5,004.0**	**6.6%**
	Other Revenues:								
12	Insurance	$186.9	-2.9%	$191.6	2.5%	$187.6	-2.1%	$191.6	2.1%
13	Interest Income	$10.1	7.7%	$6.0	-40.7%	$12.8	113.2%	$16.9	32.3%
14	Pari-Mutuel	$0.5	17.0%	$0.6	12.0%	$0.6	3.8%	$0.7	5.2%
15	Court Receipts	$17.8	-26.1%	$4.2	-76.4%	$1.3	-70.3%	$0.3	-80.0%
16	Gaming /A	$16.2	476.3%	$20.4	25.9%	$20.5	0.5%	$20.6	0.5%
17	Other Income	$26.2	-7.4%	$17.8	-31.9%	$18.3	3.0%	$19.3	5.2%
18	**Total Other**	**$257.7**	**0.1%**	**$240.6**	**-6.6%**	**$241.1**	**0.2%**	**$249.3**	**3.4%**
19	**GROSS GENERAL FUND**	**$6,457.7**	**-4.2%**	**$6,986.4**	**8.2%**	**$7,117.6**	**1.9%**	**$7,468.4**	**4.9%**
	Rebates & Expenditures:								
20	Cigarette Rebate /B	$11.6	-3.9%	$11.0	-5.2%	$0.0	-100.0%	$0.0	N/A
21	Old-Age Pension Fund	$115.4	6.7%	$100.0	-13.3%	$105.4	5.4%	$106.7	1.2%
22	Aged Property Tax & Heating Credit	$7.6	44.0%	$7.3	-4.0%	$7.9	7.9%	$7.3	-7.6%
23	Interest Payments for School Loans /B	$2.2	-59.9%	$0.8	-64.3%	$0.0	-100.0%	$0.0	N/A
24	Fire/Police Pensions /B	$4.2	5.3%	$4.1	-2.4%	$4.3	2.9%	$4.3	0.0%
25	Amendment 35 General Fund Expenditure	$0.8	-14.1%	$0.8	-7.3%	$0.7	-7.9%	$0.7	-5.1%
26	**Total Rebates & Expenditures**	**$141.9**	**4.3%**	**$124.0**	**-12.6%**	**$118.2**	**-4.7%**	**$118.9**	**0.6%**

/A The amount of gaming revenue to the General Fund starting in FY 2010-11 incorporates the new distribution formula of gaming revenue under SB 11-159, which is awaiting the Governor's signature.

/B The Governor's budget request includes eliminating expenditures for the Cigarette Rebate and Fire/Police Pensions Old Hire programs in FY 2011-12 and FY 2012-13. It also includes eliminating the Interest Payments for School Loans program on an ongoing basis starting in FY 2011-12 per the Governor's February 15, 2011 budget request.

The 2001 federal tax relief package phases out the federal estate tax as well as the State credit claimed by Colorado as its share of federal estate taxes. Thus, the State's estate tax collections have been eliminated.

Cash Fund Revenue Forecast

The following describes some of the main considerations underlying the March 2011 TABOR cash funds forecast. Cash fund revenue collected in FY 2010-11 is expected to total $2.4 billion, which represents an increase of 14.2 percent over FY 2009-10 collections. FY 2011-12 cash fund revenue is projected to increase $181.0 million, a 7.6 percent increase over FY 2010-11. Much of the forecast growth in TABOR cash fund revenue collections is concentrated in the hospital provider fee and severance tax revenue categories.

Transportation

In FY 2010-11, total transportation-related cash fund revenue, which includes revenue to the Highway Users Tax Fund, the State Highway Fund, and other miscellaneous cash funds, is expected to total $1.1 billion, an annual increase of 2.7 percent. Vehicle registrations, fuel sales, and license and permit issuances are the main revenue drivers for the transportation category. National auto sales have continued to increase since early 2010, and according to a February 2011 ISI Group survey, easier financing terms have contributed to increased vehicle demand in 2011. According to the Colorado Automobile Dealers Association, sales of cars and trucks in Colorado were 8.5 percent higher in January 2011 compared with January 2010. Recent surges in energy prices present a downside risk to the transportation-related cash fund revenue forecast as sustained high fuel prices would likely diminish transportation sector activity, and thus reduce transportation revenue.

Limited Gaming

The following table outlines anticipated collection and distribution of total gaming revenue. Total gaming revenue in FY 2010-11 is projected to increase 0.7 percent and total $108.5 million. Of this total, $9.8 million is anticipated to be designated as "extended limited gaming" revenue from Amendment 50, which is exempt from TABOR. The remaining $98.7 million is TABOR revenue and this is shown on Table 4 of this forecast. The FY 2010-11 forecast decline in total gaming revenue is based largely on year-to-date collections, which are below FY 2009-10 levels, and fuel price increases, which are likely to dampen gaming activity. Total limited gaming revenue is expected to increase 5.2 percent in FY 2011-12 as the economy recovers and personal income increases.

The table below outlines the forecast for total gaming revenue and incorporates changes to the gaming revenue distribution structure as delineated in SB 11-159.

Distribution of Limited Gaming Revenues	FY10-11	FY11-12	FY 12-13
A. Total Limited Gaming Revenues	**$108.5**	**$114.1**	**$121.6**
Annual Percent Change	0.7%	5.2%	6.6%
A1. Gaming Revenues Not from Taxes	$2.5	$2.5	$2.5
A2. Gaming Revenues Related to Taxes	$106.0	$111.6	$119.1
B. Base Limited Gaming Revenues (max 3% growth)	**$99.5**	**$102.5**	**$105.5**
Annual Percent Change	1.8%	3.0%	3.0%
C. Extended Limited Gaming Revenues	**$6.5**	**$9.1**	**$13.6**
Annual Percent Change	1.8%	41.0%	48.9%
D. Total Amount to Existing Recipients	**$89.6**	**$92.9**	**$96.3**
Amount to State Historical Society	*$25.1*	*$26.0*	*$27.0*
Amount to Counties	*$10.7*	*$11.2*	*$11.6*
Amount to Cities	*$9.0*	*$9.3*	*$9.6*
Amount to Distribute to Remaining Programs (State Share)	*$44.8*	*$46.5*	*$48.1*
Amount to Local Government Impact Fund	*$3.8*	*$4.1*	*$4.3*
Colorado Tourism Promotion Fund	*$12.8*	*$13.6*	*$14.5*
New Jobs Incentives Fund	*$0.1*	*$0.1*	*$0.0*
State Council on the Arts Fund	*$1.0*	*$1.1*	*$1.2*
Film Incentives Fund	*$0.3*	*$0.3*	*$0.3*
Colorado Office of Economic Development	*$0.0*	*$0.0*	*$0.0*
Bioscience Discovery Evaluation Fund	*$4.6*	*$4.9*	*$5.2*
Innovative Higher Education Research Fund	*$1.8*	*$1.9*	*$2.0*
Colorado Department of Transportation	*$0.0*	*$0.0*	*$0.0*
Clean Energy Fund	*$0.0*	*$0.0*	*$0.0*
Transfer to the General Fund	*$20.4*	*$20.5*	*$20.6*
E. Total Amount to New Recipients	**$5.0**	**$7.3**	**$11.5**
Community Colleges, Mesa and Adams State (78%)	*$3.9*	*$5.7*	*$9.0*
Counties (12%)	*$0.6*	*$0.9*	*$1.4*
Cities (10%)	*$0.5*	*$0.7*	*$1.1*

Hospital Provider Fee

Hospital provider fees, authorized by HB 09-1293, are intended to increase Medicaid reimbursements to hospitals paying the fee. Fees are paid by most hospitals in the state and are equivalent to a per-day payment for inpatient hospital services and a percentage of charges for outpatient hospital services. Hospital provider fee revenue is expected to increase $135.2 million in FY 2010-11 and $173.5 million in FY 2011-12. Revenue increases are attributable to revised estimates of upper payment limits and the phasing in of programs outlined in HB 09-1293 which increase revenue collection.

Severance Tax and Federal Mineral Lease Revenue

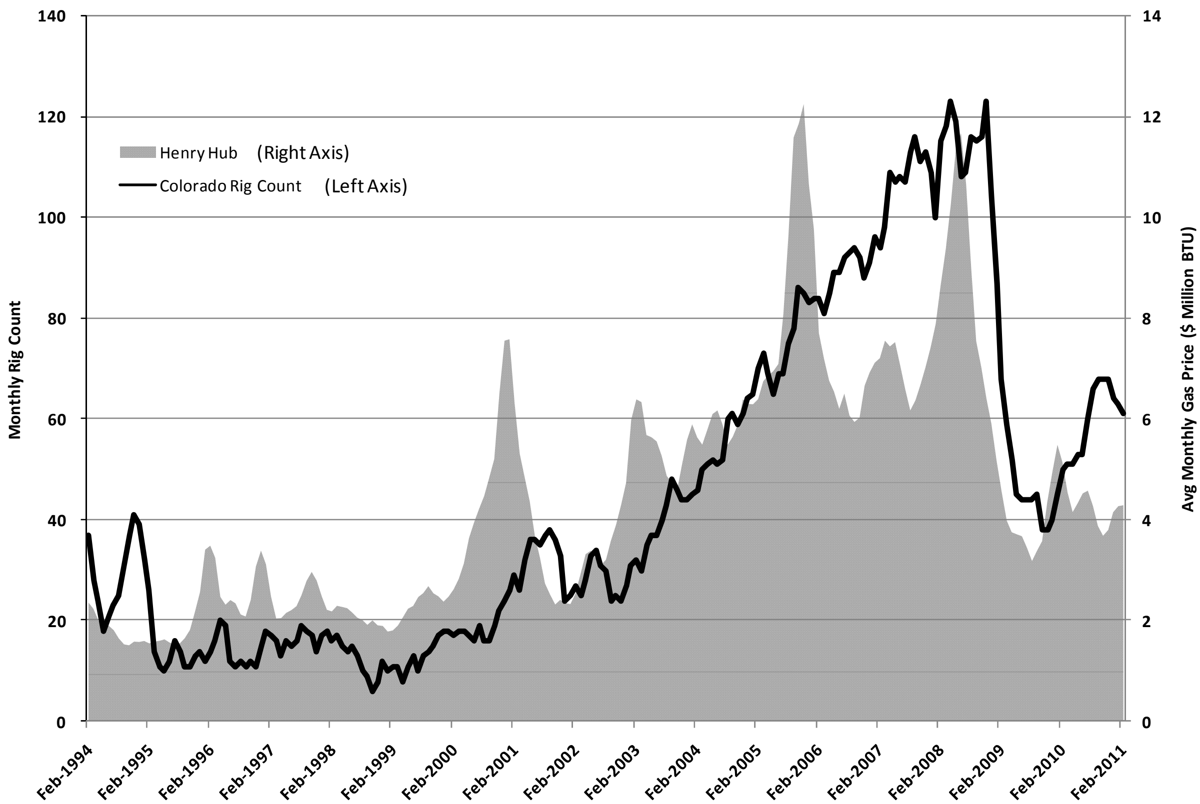
State severance tax revenue collection has varied widely over the past several years due largely to the volatility of natural gas prices. The influence of prices on oil and gas production activity can be seen in Figure 1 below. A host of factors such as the state of the economy, pipeline capacity changes, the discovery of new fields, and storage capacity can influence the natural gas market and cause significant and rapid changes to natural gas prices. Natural gas price assumptions for the March 2011 severance forecast do not exceed $5 per thousand cubic feet (Mcf) because of expectations that a continued large supply of natural gas nationwide will minimize upward price pressure.

Despite the current relatively low price environment for natural gas, production activity has continued to increase in Colorado. In March, the number of active drilling rigs in the state is 67, up from 38 in November of 2008. Production activity is continuing in the relatively low price environment for several reasons. First, efficiency improvements continue to lower costs, thereby making drilling profitable at lower prices. Also, many companies are optimistic about long-term demand prospects for natural gas. Some companies also continue drilling activity in order to maintain current leasing rights.

The price of oil, which has risen significantly in recent weeks, is expected to increase through 2013. These high oil prices are expected to spur a rise in Colorado oil production activity through the forecast period. Drilling rigs targeting the Niobrara formation in northeast Colorado continue to rise. Currently, 18 rigs are actively drilling for oil. In addition, the large energy company Encana has announced they are exploring for oil in the Piceance basin. The company has drilled five wells and plans to drill three more in the first half of 2011.

Severance tax revenue is forecast to total $186.9 million in FY 2010-11 and $172.6 million in FY 2011-12.

Figure 1. Colorado Rig Count vs. Natural Gas Price



Data Sources: Henry Hub Price Average, Federal Reserve Bank of St. Louis. Monthly Colorado Rig Count, Baker Hughes

When federal lands are leased for mineral extraction, the federal government and the state of Colorado realize a share of the revenue from the production activity. The table below outlines the forecast of Federal Mineral Lease (FML) revenue, which is projected to increase as energy prices increase and production activity on federal land expands.

Federal Mineral Lease (FML) Payments		
Fiscal Year	Total FML	% Change
FY 2009-10	$122.50	-46.1%
FY 2010-11	$143.93	17.5%
FY 2011-12	$151.76	5.4%
FY 2012-13	$161.43	6.4%

**FML revenue and other transfers from the federal government are exempt from TABOR, and thus the amounts above are not reflected in the cash fund revenue forecast shown in Table 4.*
***Dollars in millions.*

Other Cash Funds

Other miscellaneous cash fund revenue subject to TABOR is projected to increase $15.9 million in FY 2010-11 and increase $4.6 million in FY 2011-12. This category includes an array of revenue sources, such as revenue from professional licenses and court fines. The Colorado Department of Regulatory Agencies is primarily cash funded by regulated entities. Regulatory Agencies cash fund revenue is expected to equal $65.9 million in FY 2010-11 and $67.9 million in FY 2011-12. Insurance-related cash fund revenue involves all insurance premiums collected for major medical insurance, subsequent injury, and worker's compensation. Insurance-related cash funds are expected to total $23.6 million in FY 2010-11 and $19.1 million in FY 2011-12.

Table 3
Cash Fund Revenue Forecasts by Major Category
(Dollar amount in millions)

Category	Actual FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13	FY 2009-10 to FY 2012-13 CAAGR*
Transportation-Related /A	$1,059.5	$1,087.9	$1,106.9	$1,122.2	
Change	14.9%	2.7%	1.7%	1.4%	1.9%
Limited Gaming Fund /B	$101.2	$102.0	$105.0	$108.0	
Change	2.3%	0.8%	2.9%	2.9%	2.2%
Capital Construction - Interest	$3.3	$2.4	$1.2	$1.3	
Change	-67.4%	-26.6%	-50.0%	8.3%	-26.5%
Regulatory Agencies	$67.3	$65.9	$67.9	$69.9	
Change	-13.9%	-2.1%	3.1%	3.0%	1.3%
Insurance-Related /C	$42.9	$23.6	$19.1	$20.0	
Change	-16.7%	-45.0%	-18.9%	4.3%	-22.5%
Severance Tax /D	$48.2	$186.9	$171.6	$192.0	
Change	-85.7%	287.3%	-8.2%	11.9%	58.5%
Medicaid Hospital Provider Fees	$302.9	$438.1	$611.6	$719.6	
Change	N/A	44.7%	39.6%	17.7%	33.4%
Other Miscellaneous Cash Funds	$464.1	$479.2	$483.8	$497.1	
Change	-4.8%	3.2%	1.0%	2.8%	2.3%
TOTAL CASH FUND REVENUE	***$2,089.4***	***$2,385.9***	***$2,567.0***	***$2,730.1***	
Change	-12.0%	14.2%	7.6%	6.4%	9.3%

* CAAGR: Compound Annual Average Growth Rate.

/A Revenues beginning in FY 2009-10 include the impact of SB 09-108 (FASTER).

/B Revenues exclude any impact from Amendment 50 as these revenues are exempt from TABOR. Exempted revenues are projected based on the formula outlined per HB 09-1272.

/C Pursuant to SB 09-037, beginning in FY 2010-11 the Workers' Compensation surcharge that is applicable for the Major Medical and Subsequent Injury cash fund will no longer be applied until the available balance in said fund falls below the unrestricted cash fund balance plus one year's worth of direct and indirect operating expenses for these programs.

/D The forecast of severance taxes was discussed with Legislative Council Staff per SB 07-253 prior to release of this forecast.

The Taxpayer's Bill of Rights: Revenue Limit

The Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limits the State's revenue growth to the sum of inflation plus population growth in the previous calendar year. Under the provisions of TABOR, revenue collected above the TABOR limit must be returned to taxpayers, unless voters decide the State can retain the revenue. In November 2005, voters approved Referendum C, which allows the State to retain all revenue through FY 2009-10, during a five-year TABOR "time out."

Table 4 summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue limit under Referendum C. Beginning in FY 2010-11, the amount of revenue that the State may retain under Referendum C is computed by multiplying the revenue limit between FY 2005-06 and FY 2009-10 (line 9) associated with the highest TABOR revenue year (FY 2007-08) during that same period (line 3) by the allowable TABOR growth rates (line 6) for each subsequent year. Table 2 summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue limit under Referendum C. OSPB does not project that any refunds will occur during the forecast period (line 10).

Table 4
TABOR Revenue & Referendum C Revenue Limit
(Dollar Amounts in Millions)

Line No.		Actual FY 2009-10	March 2011 Estimate by Fiscal Year FY 2010-11	FY 2011-12	FY 2012-13
	TABOR Revenues:				
1	General Fund /A	$6,478.5	$6,966.0	$7,194.4	$7,546.2
	Percent Change from Prior Year	*-3.7%*	*7.5%*	*3.3%*	*4.9%*
2	Cash Funds	$2,089.4	$2,385.9	$2,567.0	$2,730.1
	Percent Change from Prior Year	*-12.1%*	*14.2%*	*7.6%*	*6.4%*
3	**Total TABOR Revenues**	$8,567.9	**$9,351.9**	**$9,761.4**	**$10,276.2**
	Percent Change from Prior Year	*-5.9%*	*9.2%*	*4.4%*	*5.3%*
	Revenue Limit Calculation:				
4	Previous calendar year population growth	*1.7%*	*1.8%*	*1.7%*	*1.6%*
5	Previous calendar year inflation	*3.9%*	*-0.6%*	*1.9%*	*3.6%*
6	**Allowable TABOR Growth Rate**	***5.6%***	***1.1%***	***3.6%***	***5.2%***
7	TABOR Limit	$9,183.8	$8,645.0	$8,956.2	$9,421.9
8	General Fund Exempt Revenue Under Ref. C /B	$0.0	$707.0	$805.2	$854.3
9	**Revenue Limit Under Ref. C /C**	**NA**	**$10,621.6**	**$11,004.0**	**$11,576.2**
10	*Amount Above/(Below) Limit*	*($1,955.1)*	*($1,269.7)*	*($1,242.5)*	*($1,299.9)*
11	TABOR Reserve Requirement	$257.0	$280.6	$292.8	$308.3

-5.9%

/A FY 2008-09 through FY 2010-11 amounts differ from the General Fund revenues reported in Table 3 (General Fund Revenues) as some double counting exists when cash funds are transferred to the General Fund (for instance, limited

/B Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of monies collected in excess of the TABOR limit in accordance with voter-approval of Referendum C.

/C The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "Revenue Limit Under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit will be based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate." This forecast anticipates that FY 2007-08 is the highest revenue year during the Referendum C period. For purposes of determining the FY 2010-11 revenue limit post Referendum C, the FY 2007-08 revenue limit increased to FY 2008-09 by the Allowable TABOR Growth Rate, then adjusted downward to reflect the impact of HB 09-1363, and then inflated for population plus inflation to FY 2010-11.

The Economy: Current Conditions and Forecast

The economy continues to struggle with burdensome forces related to the recent recession, such as high levels of private and public debt and unemployment, the loss of wealth, tight credit markets, and heightened uncertainty. However, there are economic conditions that continue to be favorable, such as strong manufacturing activity, sustained export growth, and the financial conditions of many businesses, especially larger corporations, are solid overall.

Due to these positive indicators and because of the economy's resiliency, the economy is expected to continue to grow despite these headwinds. Growth for both Colorado and the nation will be constrained over the next few years as the negative factors are likely to persist and weigh on the economy. The history and projections for key Colorado economic indicators are shown in Table 5, on page 38, while the economic indicators for the nation are shown in Table 6, on page 39.

Colorado is well positioned for the future due to its diverse economic base and skilled workforce. Entrepreneurship and innovative activity are strengths of the Colorado economy. These strengths will eventually lead the state to stronger sustained growth. However, in the meantime, the economy will have to navigate its headwinds, as well as heightened risks. These risks include the threat of sustained price increases, increased financial instability, and a rise in interest rates, all of which pose forecast risks to the downside. In addition, the recent earthquake in Japan, the world's third largest economy, will have negative effects on the economy.

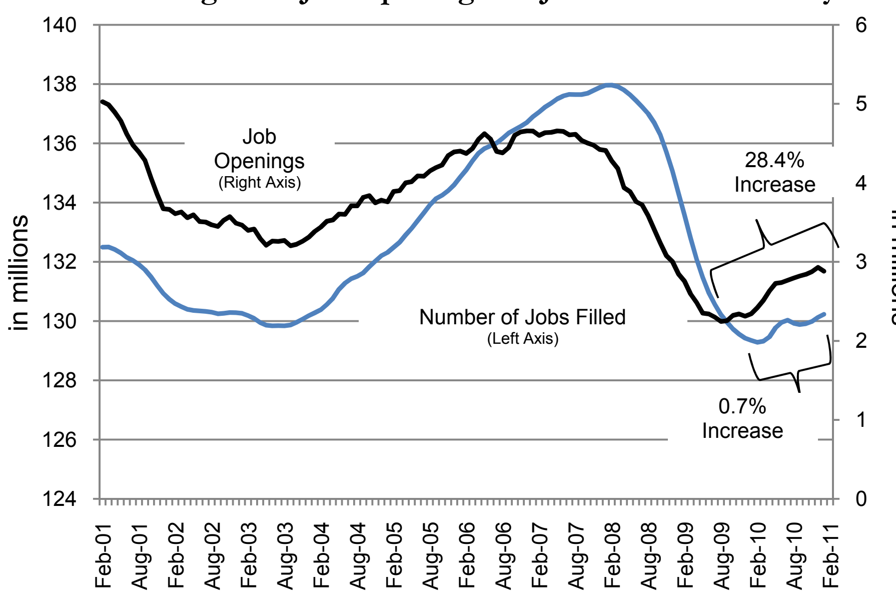
The Job Market

Both the nation and the state added jobs in 2010. This trend has continued in the beginning of 2011 and recent information indicates that job growth will continue. For example, surveys of employers, such as the Institute of Supply Management's Report on Business, point to continued job growth. The surge in corporate profits should also lead to new jobs.

There may also be some structural barriers to employment in the economy. As can be seen in Figure 2, job openings nationally have increased 28.4 percent over the August 2009 through January 2011 period on a three-month moving average basis, a much faster pace than the 0.7 percent increase in the number of new jobs filled. Also, job openings began increasing several months before job growth resumed.

Some individuals who lost their jobs in industries that were growing during the credit and real estate boom are now having difficulty moving into industries that are currently expanding, such as professional and business services and health care. In addition, some unemployed individuals are finding it difficult to relocate to more favorable job markets because they owe more on their homes than they are worth. Figure 2 also illustrates that the economy has a long way to go to regain the jobs lost during the recession.

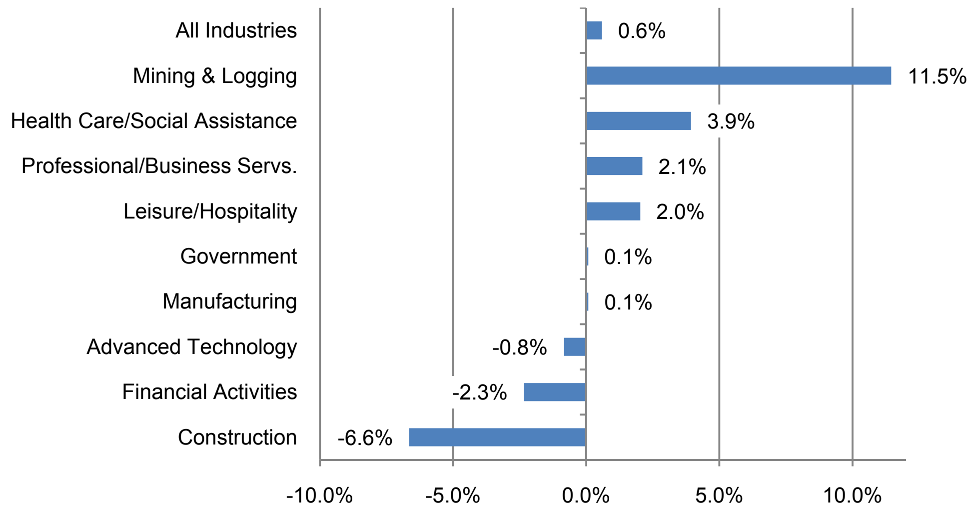
Figure 2. Job Openings vs. Jobs Filled Nationally



Source: U.S. Bureau of Labor Statistics

Figure 3 shows the change in jobs in selected industries in Colorado since the beginning of 2010, when overall job losses halted, through January of 2011. The figure shows that the industries most affected by the boom and bust, most notably construction and financial activities continue to lose jobs, while other industries are finally posting modest growth. The mining and health care sectors have posted notably stronger job gains over the past year. Mining has been driven by a rebound in higher energy prices and increased demand, while health care continues to grow as our population grows and ages, placing greater demands on the industry.

Figure 3. Percentage Change in the Number of Jobs for Selected Colorado Industries, January 2010 to January 2011



Source: U.S. Bureau of Labor Statistics

It is noteworthy that manufacturing has stopped shedding jobs as the industry can be a bellwether of overall economic activity. Manufacturing had one of the worst declines in jobs during the recession and manufacturers have for years been producing more with fewer workers though the introduction of new technological processes. The slight job growth in this sector is a positive indicator of its overall health, which is most likely being driven partly by increased demand for Colorado products in other countries.

Advanced technology is an important industry in Colorado due to its high-paying jobs and ability to create innovative products and business processes that generate economic growth. The state is a national leader in advanced technology, which includes sectors such as computer and electronic product manufacturing, software and computer systems design services, transportation equipment manufacturing, architecture and engineering, and scientific and technical consulting services. Unfortunately, this industry was not immune to the deep and broad economic downturn. Advanced technology lost 8.9 percent of its jobs base since June of 2008. As with most industries, job loss has slowed substantially for the industry, though it has yet to add jobs along with the broader economy.

For growth, Colorado relies largely on the creation and expansion of smaller businesses and a high concentration of self-employed individuals. This is especially important during economic recoveries as entrepreneurs seek new projects for profit opportunities and begin to hire unemployed workers. Thus, until uncertainty about the strength and sustainability of the recovery diminishes and more funding becomes available for startups and business expansions, new job creation in the state will continue to be modest.

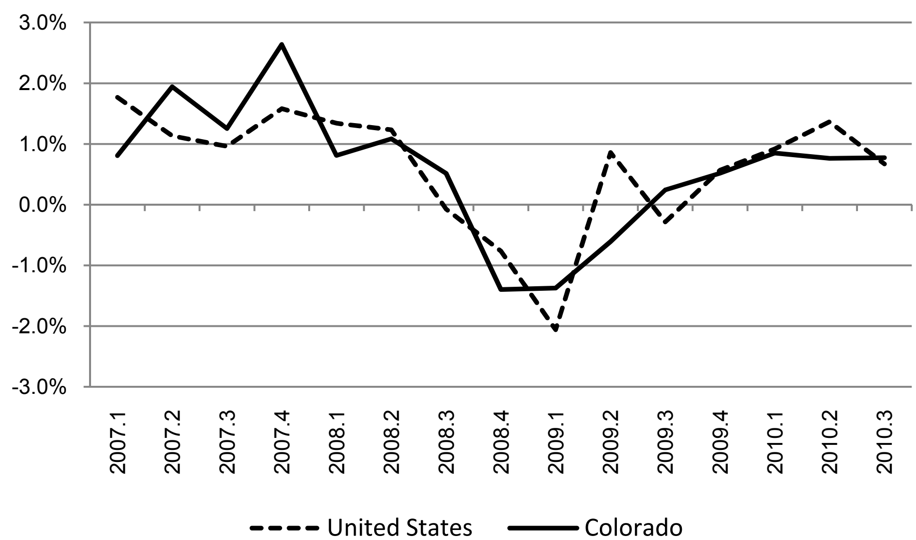
Because of the modest job growth, both the state and the nation's unemployment rates will remain elevated. The unemployment rate for the nation was 8.9 percent in February, while it was 9.1 percent for Colorado in January. However, the "underemployment rate," which, in addition to unemployed individuals counted in the official unemployment rate, includes discouraged workers who would like to work but have not recently searched for a job, as well as people who work part-time but cannot find full-time positions, was 15.9 percent for the nation in February. The rate has been trending down recently. Since the fall of 2009 until a few months ago, the rate had hovered at around 17 percent, or 1 out of 6 workers. Colorado's underemployment rate averaged 15.4 percent in 2010, placing it at about the middle of the country.

- As the economy continues to grow modestly, it is expected that Coloradans will reenter the labor force looking for work, causing the labor force to grow again. This, coupled with projected job growth of only 0.7 percent, will push up the state unemployment rate to average 9.2 percent in 2011. Unfortunately, this dynamic is expected to continue over the next few years, which will keep the unemployment rate elevated.

Wages & Income

Personal income consists of wage and salary income, proprietors' (or business) income, government transfer receipts, and interest and dividend income earned on assets. Nationally, personal income has increased consistently since the third quarter of 2009. In Colorado, the third quarter of 2010 was the fifth consecutive quarterly personal income increase since early 2009. These trends are shown in Figure 4. As Colorado continues to experience consistent job growth, personal income should continue to grow, albeit modestly.

Figure 4. Percentage Change in Personal Income, 2007 through Third Quarter 2010



Source: Bureau of Economic Analysis, U.S. Department of Commerce

Nationally, sectors that have recently experienced notable wage growth include the health care and government sectors. Numerous sectors have yet to experience sufficient wage growth to exceed pre-recession levels, including the manufacturing, retail trade, and real estate sectors.

Wage and salary growth in Colorado has seen modest increases since the second quarter of 2009. Sectors that have recently seen notable wage growth include the mining and health care sectors as a result of their stronger job growth. Wages in the construction, transportation and warehousing, and durable goods manufacturing sectors has yet to exceed pre-recession levels.

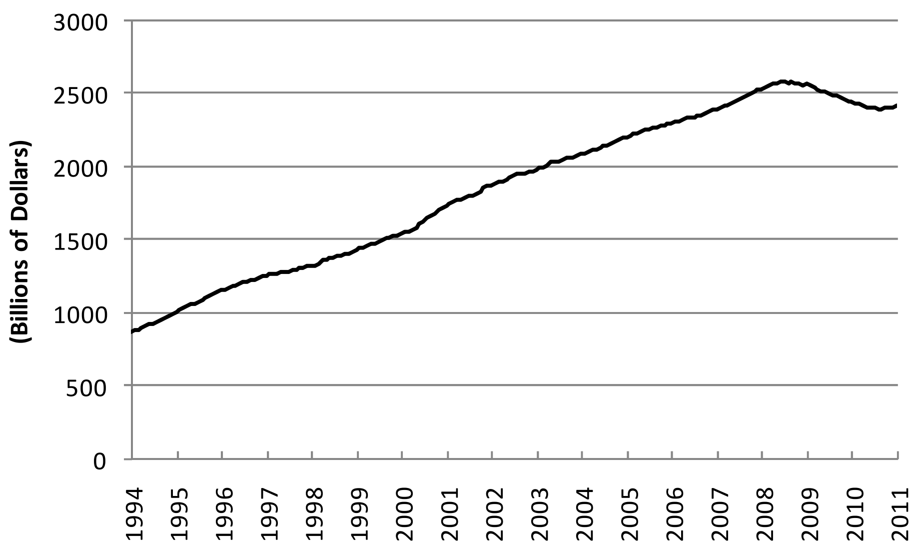
- Due to modest job growth, Colorado personal income is forecast to increase 3.0 percent in 2011 and 3.9 percent in 2012. Colorado wage and salary growth is forecast to increase 2.6 percent in 2011 and 3.5 percent in 2012.

Consumer & Business Spending

Despite high unemployment, sluggish wage growth, housing market difficulties, and low consumer confidence, consumer spending continues to increase. Further, in recent months, vehicle sales have increased. However, rising fuel and food prices are likely to temper consumer spending moving forward as consumers spend a greater share of their income on these items. Due to the recent jump in gas prices, the preliminary March consumer sentiment survey, published by Reuters/University of Michigan, posted its largest monthly decline since the financial crisis hit in October of 2009.

Some of the recent growth in spending has been supported by borrowing. As shown in Figure 5 below, after an unprecedented decline, consumer credit growth has resumed. This borrowing could be viewed as a negative development as consumer debt levels remain high, and may indicate that consumers are struggling in the current economic environment.

Figure 5. Monthly U.S. Total Consumer Credit Outstanding



Source: The Federal Reserve, seasonally adjusted

- Colorado retail trade sales are expected to increase 5.0 percent in 2011. However, some of the growth in sales will only reflect higher prices for fuel and food and will not indicate a higher sales volume.

On the business side, a rebound in corporate profits in 2010 reflected corporations' sharp focus on lowering costs. With the exception of fourth quarter of 2010, gross private domestic investment has increased since the third quarter of 2009. Many companies have invested in technological improvements, which often serve to reduce long-term costs and increase production. This trend may reduce jobs in the short term, but will lead to stronger growth which will eventually create more jobs. Business spending in Colorado varies widely by sector as each was uniquely affected by the downturn. For example, business spending in the mining sector has increased as oil prices have surged recently, while the construction industry remains stagnant.

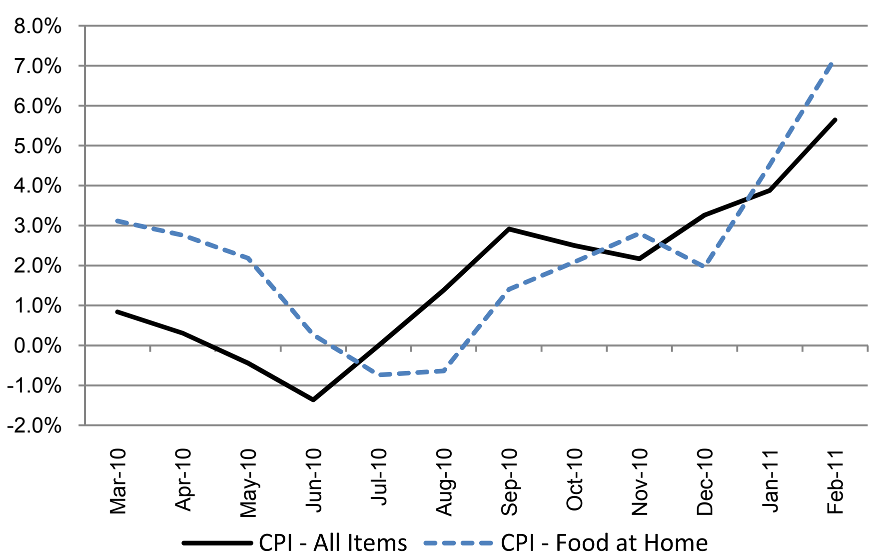
Price Levels & Inflation

One of the main and growing risks to the economy is the rising trend in overall price levels. A sustained rise in prices can be especially harmful as it creates uncertainty and can distort decision making, which affects economic growth. The increased demand for commodities worldwide, coupled with expansionary monetary policy that is injecting liquidity expanding money supply into the global economy and lowering the value of the dollar, are the main drivers behind the trend in price increases. The political unrest in the major oil producing region of North Africa and the Middle East is also adding to price pressures.

Input prices for businesses have been rising substantially since the spring of 2009. The Producer Price Index in February was 5.6 percent higher than a year ago, and the food component of the index grew at its fastest rate since 1974. However, this does not mean consumers will see commensurate price increases. Consumer demand is more fragile in the current economic environment, thus it is harder for businesses to pass on price increases. Regardless, businesses with higher costs will have less money to invest in new projects and/or hire new workers.

There is growing evidence that more price increases are being passed on to the consumer, however. The consumer price index and consumer inflation expectations have been on the rise, mostly due to increased food and fuel costs. The retail price of gas has increased about 60 cents a gallon in Colorado since the end of 2010. Figure 6 shows the three month percent change at annual rates of the national consumer price index (CPI) and the consumer price index for food at home from March of 2010 to February of 2011.

Figure 6. Change in U.S. Consumer Price Indices, March 2010 through February 2011



Source: U.S. Bureau of Labor Statistics

The cost of imported goods is also rising, adding to the building price pressures for consumers and businesses. Colorado and the nation import a large amount of consumer and business goods. The import price index, which measures the price of goods imported into the U.S., has increased 10.0 percent since the fall of 2009. The recent rise has been driven by higher costs for energy, food, and industrial supplies. The trend in the import price index, depicted by the three month percent change at annual rates from March of 2010 to February of 2011, is shown in Figure 7.

Figure 7. Change in U.S. Import Price Index, March 2010 through February 2011

Source: U.S. Bureau of Labor Statistics

The CPI for the Denver-Boulder-Greeley area increased 1.9 percent in 2010, after declining in 2009 by 0.6 percent. The increase was mostly driven by home and transportation fuel price increases from their recessionary lows. Growth in prices for recreational activities also contributed to the gain. Most other consumer costs were flat for 2010.

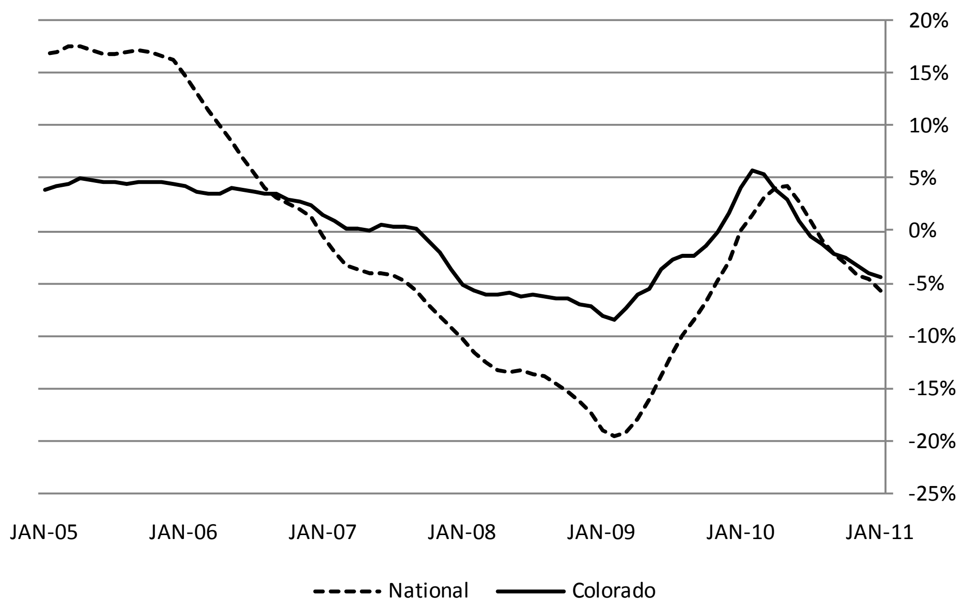
- Rising food, fuel, and clothing prices will contribute to a increase in the Denver-Boulder-Greeley CPI in 2011 of 3.6 percent. Also, a lower rental vacancy rate should push rents higher, which will also contribute to growth in the CPI. Due to expectations for continued expansionary monetary policy, the weaker dollar, and continued worldwide demand for commodities, the CPI should be in the 2.8 to 3.3 percent range through 2013.

Housing & Construction

The housing market impacts the economy substantially and is closely linked with the business cycle. Home construction remains at historically low levels. Home values affect personal saving rates and can influence national saving and investment. They can also affect consumer spending considerably. A stronger recovery in the housing sector is necessary in order for a more robust recovery in the broader economy. Unfortunately, this is unlikely in the near term.

Nationally, a growing number of foreclosed properties continues to depress prices and will likely hamper the housing recovery. The S&P/Case-Shiller index of home values in 20 cities fell 2.4 percent in December 2010 from a year earlier, the biggest twelve-month decrease since December 2009. Similarly, as shown in Figure 8, the CoreLogic Home Price Index has showed a continued slide in home prices for both the nation and Colorado. Colorado prices dipped again in early 2010 and the negative trend has persisted since. Meanwhile, a rise in interest rates poses a risk because it would make homes less affordable, which would negatively affect the housing market recovery.

Figure 8. Percentage Change in Single Family Home Prices, January 2005 to January 2011



Source: CoreLogic Home Price Index as of January 2011, Single Family Combined

According to a recent CoreLogic negative equity report, 19.8 percent of all Colorado residential properties with a mortgage were in negative equity at the end of the fourth quarter of 2010, compared with 23.1 percent nationally. The term negative equity (often referred to as "underwater" or "upside down") means that borrowers owe more on their mortgage than their homes are worth. Negative equity can occur because of a decline in value, an increase in mortgage debt, or a combination of both.

Colorado ranked sixth nationally in the fourth quarter of 2010 in its percent of mortgages underwater, behind such states as Nevada and Arizona (six states were not included in the ranking). A large amount of homes underwater constrains spending and limits small business creation and expansion as individuals are unable to tap into home equity for business funding. However, it is important to note that many of the homeowners in Colorado do not have as much negative equity as homeowners in other states because the drop in Colorado's home values was not as severe.

Colorado continues to see fewer overall foreclosures, which is a positive indicator for the home market. According to the Colorado Division of Housing, both foreclosure filings and sales at auction are down in 2011. Comparing year-over-year (2010 to 2011), foreclosure filings in February decreased 34.7 percent with totals falling from 3,042 to 1,986. The slide in Colorado home prices since early 2010 has not significantly increased total foreclosures as many high risk loans have already been addressed or already resulted in foreclosure.

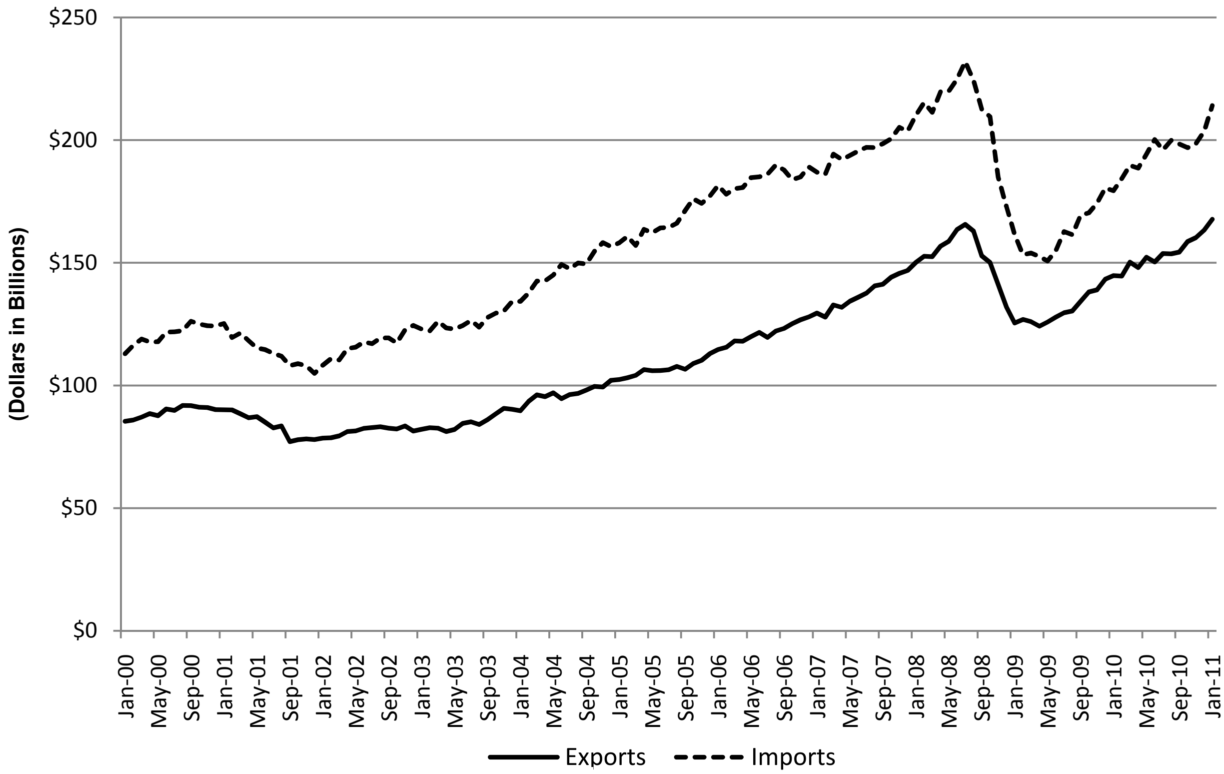
- Despite increasing in 2010, housing permits issued in the state remain at very low levels. There were 11,800 single- and multi-family permits issued last year. The number of housing permits is expected to increase to a still modest 19,400 by 2013, with much of the growth fueled by multi-housing permits. Nonresidential construction in the state is not faring any better. Nonresidential construction value has declined every year since 2008 and is forecast to decrease another 3.3 percent in 2011 before increasing a slight 1.3 percent in 2012.

International Trade

The sustained growth in exports for both Colorado and the nation is a bright spot for the economy that is contributing to its growth. Demand for U.S. made goods and services has been propelled by sustained robust economic growth in other parts of the world, especially the developing economies in Asia, such as China, Taiwan, South Korea, and Singapore. Brazil's growth is also benefitting U.S. exporters. Exports were up 35.1 percent nationally in January of this year compared with the recessionary low in April of 2009.

As with exports, increased demand in the U.S. for products from other countries signals that the economy is growing. Over half of all goods imported into the country are industrial supplies and capital goods used for the production of other goods in the U.S. which in turn generates income for the nation's businesses. Figure 9 shows the value of U.S. international trade in goods and services from 2000 through January of 2011. Exports have surpassed their pre-recession peak.

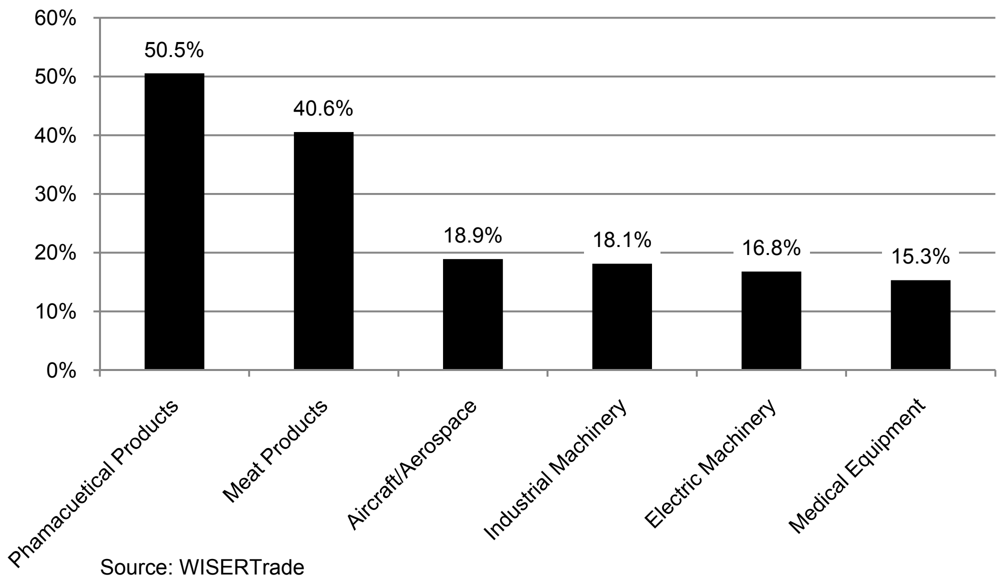
Figure 9. U.S. Exports and Imports, 2000 through January 2011



Source: U.S. Census Bureau, Foreign Trade Division

Colorado's exports and imports rebounded substantially in 2010 from their dramatic drop during the recession, posting growth rates of 13.7 and 31.5 percent, respectively. Exports of Colorado goods to the rapidly growing economies in Asia grew particularly robustly in 2010, posting growth of 25.1 percent. Colorado's comparative advantage in producing more advanced technological products, such as electric and industrial machinery, aerospace-related equipment, and medical equipment and other health-care products drove much of the growth. Exports of meat products, Colorado's biggest agricultural product, also grew robustly. Growth in the value of exports of these goods to Asia in 2010 is shown in Figure 10 Unfortunately, the earthquake in Japan will disrupt trade with the country. Japan is one of the state's and nation's largest trading partners.

Figure 10. Percentage Growth Colorado Exports to Asia by Type of Good in 2010



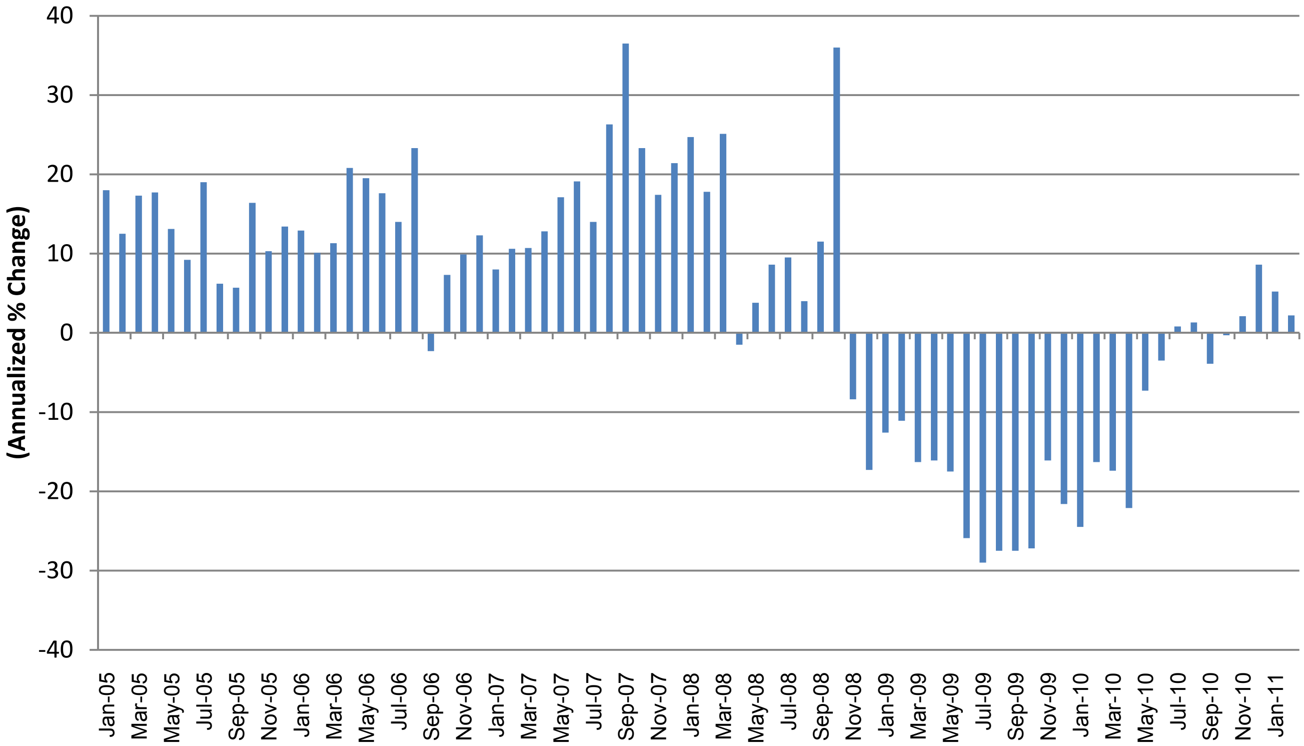
Agriculture

Colorado's farmers, ranchers, and food processors grow, process, and market over $15 billion in products each year. These goods are marketed throughout Colorado, the United States, and to over 115 countries around the world. Continued growth in Colorado's agricultural sector is anticipated in 2011. From 2000 through 2008, Colorado annual net farm income exceeded $1.0 billion six times. Input costs for farmers are increasing in 2011, however, which could constrain net farm income growth somewhat.

Credit Conditions and Business Financing

Credit markets continue to be tight after the massive disruptions from the housing and credit boom and bust. However, as shown in Figure 11, credit has increased to businesses over the past several months after a long period of contraction.

Figure 11. Percentage Change in U.S. Commercial and Industrial Loans, All Commercial Banks, 2007 to February 2011



Source: Federal Reserve

The most recent *Federal Reserve Survey of Terms of Business Lending* showed that an increased number of banks, particularly larger institutions, eased lending standards and terms to businesses, especially larger and medium sized firms, during the last quarter of 2010. If credit growth continues, it should help sustain growth in the economy as businesses are more able to access credit for new projects and expansion. However, as Figure 11 illustrates, credit growth remains modest compared to before the recession. Further, smaller firms continue to have a difficult time accessing funding. These conditions will continue to act as a constraint on faster growth.

In more positive news for business financing, venture capital investments rose substantially in 2010, the first time the annual investment level has increased since 2007. Industries in which Colorado has a comparative advantage continue to be the largest recipients of venture capital. These industries include: software and information technology, biotechnology, clean technology, medical equipment, financial services, energy, telecommunications, and media.

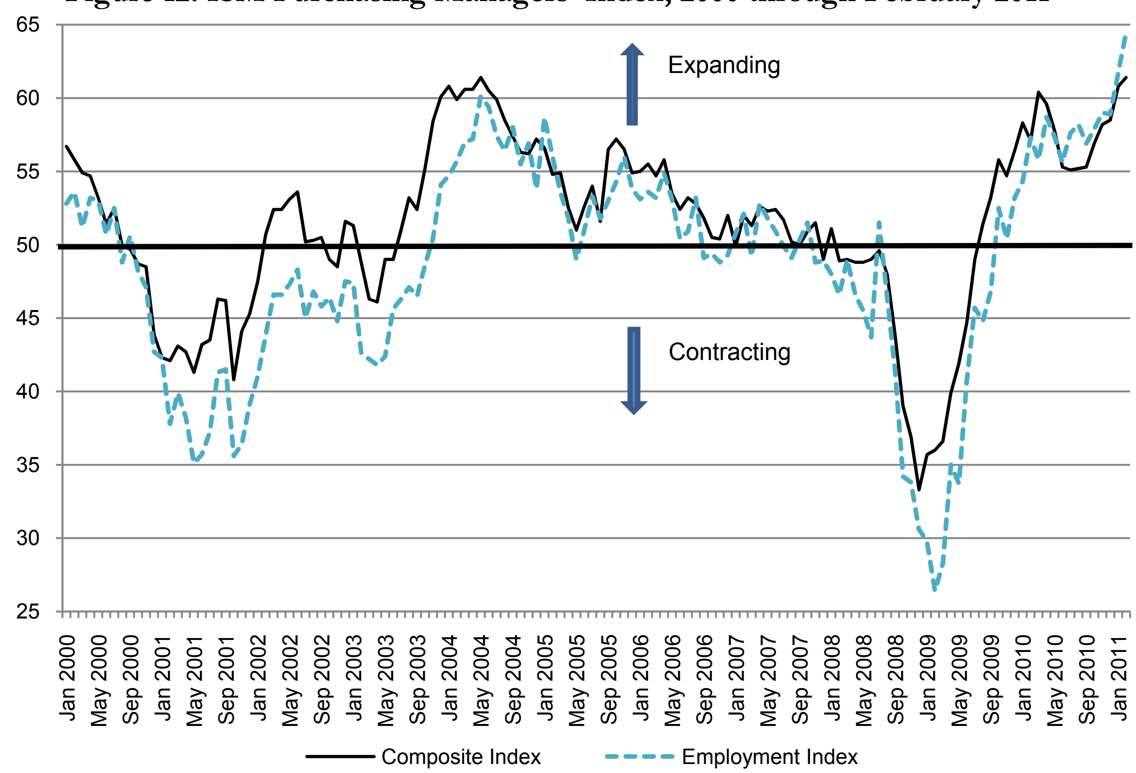
Manufacturing

One of the bright spots in the nation's economy is the continued growth of manufacturing activity. Growth in manufacturing, or more fundamentally, production, is crucial to the nation's current and future economic health. The nation needs to produce more as manufacturing generates income and economic growth.

The Industrial Production Index, a measure of the production of all goods in the U.S., has increased every month since bottoming in the summer of 2009. Further, there is strong evidence that the sector will continue to expand, driven in large part by stronger growth in other parts of the global economy.

As shown in Figure 12, the Institute for Supply Management's (ISM) factory purchasing managers' index for February continues to signal strong activity. February's index was 61.4, the highest level since May of 2004. Any reading above 50 indicates expansion. In addition, the jobs component of the index was above 60 for only the third time since 2000.

Figure 12. ISM Purchasing Managers' Index, 2000 through February 2011



Source: Institute for Supply Management

While the survey shows many positive trends in manufacturing, there was also concern expressed by representatives from the manufacturing industry regarding rising cost increases from higher raw material costs across many commodities. For example, a respondent from the transportation equipment industry indicated that a, "…continued weak dollar is increasing the cost of components purchased overseas. It is going to force us to increase our selling prices to our customers." A representative from the chemical products industry stated that its business, "… continues to see significant inflation across nearly every type of chemical raw material we purchase." If price pressures continue, it will likely dampen the manufacturing industry's recent strength and slow the economy.

Risks to the Forecast

The outlook for the economy is particularly murky at this time given the risks to certain fundamental aspects of the economy – the price system and financial markets. Overall price levels have turned upward recently, and further increases, particularly if sustained, will weaken the economy. Consumers and businesses will have to spend more on the goods they need, leaving less for investments needed to help the economy grow. Further, rising prices create uncertainty, which would further dampen economic activity. The unrest in the large oil-producing region of North Africa and the Middle East and the still to be determined effects of the earthquake in Japan are adding to the uncertainty.

The financial system is also subject to increased volatility and increasing interest rates due to high sovereign debt levels, most notably in Europe and the United States, and large amounts of bad assets that remain on institutions' balance sheets from the credit and housing boom and bust.

This forecast assumes continued modest growth in the economy, though with likely continued setbacks. The economy is resilient and has a strong natural tendency to grow. Thus, it is expected to continue to muddle through the difficult conditions it is facing. However, there is heightened risk that the current troublesome economic forces could converge unfavorably which would slow or halt growth.

Table 5
History And Forecast For Key Colorado Economic Variables
Calendar Year 2006 - 2013

Line No.		Actual					Forecast		
		2006	2007	2008	2009	2010	2011	2012	2013
	Income								
1	Personal Income (Billions)* /A	$194.4	$205.2	$214.7	$210.2	$215.1	$221.6	$230.3	$241.7
2	Change	8.2%	5.5%	4.7%	-2.1%	2.3%	3.0%	3.9%	5.0%
3	Wage and Salary Income (Billions)*	$105.8	$113.0	$117.1	$112.8	$113.9	$116.9	$121.0	$126.7
4	Change	7.0%	6.7%	3.7%	-3.7%	1.0%	2.6%	3.5%	4.7%
5	Per-Capita Income ($/person)*	$40,898.0	$42,367.0	$43,509.0	$41,839.0	$42,622.7	$43,243.2	$44,212.0	$45,588.6
6	Change	6.1%	3.6%	2.7%	-3.8%	1.9%	1.5%	2.2%	3.1%
	Population & Employment								
7	Population (Thousands)	4,741.6	4,818.4	4,899.7	4,975.9	5,047.0	5,125.5	5,208.6	5,302.5
8	Change	1.8%	1.6%	1.7%	1.8%	1.7%	1.6%	1.6%	2.0%
9	Net Migration (Thousands)	43.2	35.7	41.6	37.6	35.1	40.9	43.0	51.0
10	Unemployment Rate	4.3%	3.7%	4.8%	8.3%	8.9%	9.2%	8.9%	8.3%
11	Total Nonagricultural Employment (Thousands)	2,279.1	2,331.3	2,350.3	2,245.6	2,220.1	2,235.6	2,265.6	2,309.8
12	Change	2.4%	2.3%	0.8%	-4.5%	-1.1%	0.7%	1.3%	2.0%
	Construction Variables								
13	Total Housing Permits Issued (Thousands)	38.3	29.5	19.0	9.4	11.8	12.7	14.9	19.4
14	Change	-16.4%	-23.2%	-35.5%	-50.5%	25.3%	7.4%	17.6%	30.2%
15	Nonresidential Construction Value (Millions) /B	3,945.9	4,610.5	3,849.3	3,026.4	$2,717.6	$2,627.9	$2,663.0	$2,751.0
16	Change	-0.8%	16.8%	-16.5%	-21.4%	-10.2%	-3.3%	1.3%	3.3%
	Prices & Sales Variables								
17	Retail Trade (Billions)* /C	$70.4	$75.4	$74.8	$66.3	$70.4	$73.9	$77.5	$81.1
18	Change	7.6%	7.0%	-0.8%	-11.3%	6.1%	5.0%	4.9%	4.6%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	197.7	202.0	209.9	208.5	212.4	220.1	226.2	233.8
20	Change	3.6%	2.2%	3.9%	-0.6%	1.9%	3.6%	2.8%	3.3%

* The 2010 figure is estimated.

/A Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proporietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

/B Nonresidential Construction Value is reported by Dodge Analytics (McGraw-Hill Construction) and includes new construction, additions, and major remodeling projects predominately at commercial (excluding hotels) and manufacturing facilities, educational institutions (excluding dormitories), medical and government buildings. Nonresidential does not include non-building projects (such as streets, highways, bridges and utilities).

/C Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods / books / music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants).

Table 6
History And Forecast For Key National Economic Variables
Calendar Year 2007 - 2013

Line No.		Actual					Forecast		
		2006	2007	2008	2009	2010	2011	2012	2013
	Inflation-Adjusted & Current Dollar Income Accounts								
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$12,976.2	$13,228.9	$13,228.8	$12,880.6	$13,245.6	$13,647.1	$14,056.5	$14,506.3
2	Change	2.7%	1.9%	0.0%	-2.6%	2.7%	3.0%	3.0%	3.2%
3	Personal Income (Billions) /B	$11,268.1	$11,912.3	$12,391.1	$12,174.9	$12,545.3	$12,972.8	$13,517.6	$14,220.5
4	Change	7.5%	5.7%	4.0%	-1.7%	2.5%	3.4%	4.2%	5.2%
5	Per-Capita Income ($/person)	$37,679	$39,441	$40,649	$39,595	$40,455	$41,445	$43,764	$46,292
6	Change	6.4%	4.7%	3.1%	-2.6%	1.6%	2.4%	5.6%	5.8%
	Population & Employment								
7	Population (Millions)	298.6	301.6	304.4	307.0	310.0	313.0	316.0	319.1
8	Change	1.0%	1.0%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
9	Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.6%	9.0%	8.7%	8.4%
10	Total Nonagricultural Employment (Millions)	136.1	137.6	136.8	130.8	129.8	130.9	132.8	135.4
11	Change	1.8%	1.1%	-0.6%	-4.4%	-0.8%	0.8%	1.5%	2.0%
	Price Variables								
12	Consumer Price Index (1982-84=100)	201.6	207.3	215.3	214.5	218.1	225.5	232.0	239.5
13	Change	3.2%	2.8%	3.8%	-0.4%	1.6%	3.4%	2.9%	3.2%
14	Producer Price Index - All Commodities (1982=100)	164.7	172.6	189.6	172.9	184.8	199.5	213.1	225.1
15	Change	4.6%	4.8%	9.8%	-8.8%	6.9%	7.9%	6.8%	5.6%
	Other Key Indicators								
16	Industrial Production Index (2007=100)/C	97.4	100.0	96.7	87.7	92.7	96.9	101.1	103.4
17	Change	2.2%	2.7%	-3.3%	-9.3%	5.7%	4.5%	4.3%	2.3%
18	Corporate Profits (Billions)/A	$1,608.3	$1,510.7	$1,262.8	$1,258.0	$1,623.7	$1,644.1	$1,732.3	$1,840.8
19	Change	10.5%	-6.1%	-16.4%	-0.4%	29.1%	1.3%	5.4%	6.3%
20	Housing Permits (Millions)	1.839	1.398	0.905	0.583	0.598	0.750	0.904	0.990
21	Change	-14.7%	-24.0%	-35.3%	-35.6%	2.6%	25.5%	20.4%	9.6%
22	Retail Trade (Billions)	4,312.7	4,454.3	4,409.4	4,128.9	4,399.9	$4,640.4	$4,886.3	$5,119.3
23	Change	5.4%	3.3%	-1.0%	-6.4%	6.6%	5.5%	5.3%	4.8%

/A BEA revised NIPA component

/B Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proporietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

/C Base year revised by the Federal Reserve (2007=100)

Governor's Revenue Estimating Advisory Committee

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