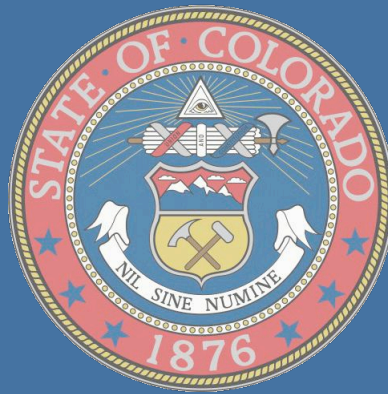


June | 2011

The Colorado Outlook

Economic and Fiscal Review



Governor's Office of State Planning and Budgeting



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Summary

- For the current fiscal year, the June forecast for General Fund revenue increased by \$78.1 million compared with the March forecast, mostly due to sales tax revenue exceeding projections. Consumer spending held up more than expected in the face of rising food and gas prices. Total FY 2010-11 General Fund revenue increased 10.6 percent above the prior year's amount as total wages earned by Coloradans grew, consumers and business began spending again, and capital gains surged from the rebound in the stock market.
- The forecast shows that the FY 2010-11 budget is balanced and revenue will come in \$325.0 million above the required reserve level. Under current law, this money will be credited to funds used for public schools.
- The strong growth in revenue in FY 2010-11 is expected to be one-time in nature. Although there are some positive economic developments, the economy overall continues to be weighed down with negative forces related to the recession. Thus, FY 2011-12 General Fund revenue is expected to be essentially flat. Revenue is forecast to come in \$22.4 million below the level needed to meet the four percent reserve requirement.
- General Fund revenue will post modest growth in FY 2012-13 as stronger economic and job growth is expected to continue to elude the state. Based on forecasted revenue, General Fund appropriations will be able to grow 1.1 percent, or \$78.4 million in FY 2012-13 while maintaining a 4.0 percent reserve. General Fund revenue in FY 2012-13 is expected to be about \$355 million below its FY 2007-08 level.
- Despite recent weakening, which has thus far mostly been seen at the national level, the economy is expected to continue to grow. Recoveries from major financial crises are often marked by ups and down as the economy slowly repairs itself. However, because of the persistent negative forces weighing on the economy and the hazards that high sovereign debt levels pose to the global financial system, heightened risk remains that economic conditions could worsen.
- Cash fund revenue subject to TABOR collected in FY 2010-11 is expected to increase 11.9 percent over FY 2009-10, mostly due to growth in severance taxes and revenue from the Hospital Provider Fee. FY 2011-12 cash fund revenue is projected to increase 8.9 percent, again mostly due to increases in Hospital Provide Fee revenue.



General Fund Budget

GENERAL FUND OVERVIEW – TABLE 1

Table 1 presents the General Fund Overview for the June 2011 OSPB revenue forecast. The top portion of the table summarizes the amount of General Fund revenue available for spending.

Line 5 shows General Fund appropriations that are subject to the limit of five percent of Colorado personal income as specified in Section 24-75-201.1 (1) (a) (II) (A), C.R.S. These appropriations fund the State's largest programs, such as K-12 education, higher education, Medicaid, corrections, and human services. The amounts on line 5 for Fiscal Years 2010-11 and 2011-12 reflect current law. The amount on line 5 for FY 2012-13 is the level of spending that can be supported by forecasted revenue while maintaining a 4.0 reserve.

Lines 8 through 15 summarize spending that is exempted from or is outside of the General Fund appropriations limit. 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 2. The homestead property tax exemption expenditure amount increases substantially in FY 2012-13 to close to \$100 million as the exemption for qualifying seniors is reinstated. From FY 2009-10 through FY 2011-12, the exemption has only been available to qualifying disabled veterans.

The final section of Table 1 ("Reserves") forecasts the amount of General Fund remaining at the end of each fiscal year. The amount of revenue remaining for the General Fund reserve (line 19) must equal the statutorily defined percentage of that year's General Fund appropriations (line 5).

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. However, SB 11-230 specifies that if the June 2011 OSPB forecast for FY2010-11 increases compared with the March 2011 forecast, up to a maximum of \$67.5 million of the increase in the excess reserve will be transferred to the State Public School Fund. The June General Fund revenue forecast increased by \$78.1 million compared with the March forecast, thus the maximum \$67.5 million will be credited to the Public School Fund. The remainder of the excess reserve, estimated at \$257.5 million, will be transferred to the State Education Fund. In FY 2011-12, the required reserve returns to a 4.0 percent level.



For informational purposes, line 21 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, the State Education Fund receives a portion (\$257.5 million) of the General Fund revenue above the 2.3 percent required reserve. In FY 2011-12, the fund will also receive an estimated \$9.7 million from the Tax Amnesty Program created by SB 11-184.

BUDGET IMPLICATIONS OF THE FORECAST

FY 2010-11

Based on current law appropriations, the state will end the fiscal year with a balance equal to 7.1 percent of appropriations, \$325.0 million above the required 2.3 percent reserve level (line 20, Table 1). As discussed in the General Fund Overview section above, SB 11-156 and SB 11-230 require this money to be credited to the State Education Fund (\$257.5 million) and Public School Fund (\$67.5 million). General Fund appropriations subject to the limit increased 2.7 percent over FY 2009-10 to \$6,811.1 million (line 5, Table 1).

FY 2011-12

Based on current law appropriations, the state will end the fiscal year with a reserve equal to 3.7 percent of appropriations, \$22.2 million below the required 4.0 percent reserve level. Relative to FY 2007-08, FY 2011-12 total General Fund spending (line 16, Table 1) reflects a drop of 3.7 percent, which amounts to \$278.3 million. General Fund revenue in FY 2011-12 will be \$605.9 million below the FY 2007-08 level.

FY 2012-13

Under current law and based on this forecast, General Fund appropriations are able to grow 1.1 percent, or \$78.4 million in FY 2012-13 while maintaining a 4.0 percent reserve. Stronger economic and job growth is expected to continue to elude the state which will constrain revenue. The scheduled reinstatement of the senior homestead exemption (\$97.8 million) will add further budgetary pressure to the General Fund and the state's core programs in FY 2012-13.



Risks to the Budget Outlook

The economy has recently weakened due to the persistent negative forces weighing on the economy. It remains to be seen whether this weakness will be only another temporary soft patch or whether the weakness will endure or possibly worsen. However, the economy has proven resilient and already has several sectors that are already weak and/or near recessionary levels. Thus, this forecast assumes that the economy will not experience a larger downturn that would cause General Fund revenue to come in much lower over the forecast period.

If the economy were to perform better than projected, 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. This is not expected to occur over the forecast period due to persistently sluggish job growth. However, if the trigger were met, the transfers and the increase in the reserve would result in less money for other General Fund obligations. For FY 2012-13, the diversions could total around \$200 million while the reserve would increase by around \$35 million. The exact amounts would depend on the level of General Fund revenue if it were to come in higher-than-forecast due to better-than-expected economic performance.

Table 1
General Fund Overview
(Dollar Amounts in Millions)

Line No.		Actual FY 2009-10	June 2011 Estimate by Fiscal Year		
			FY 2010-11	FY 2011-12	FY 2012-13
Revenue					
1	Beginning Reserve	\$443.3	\$137.4	\$156.7	\$256.9
2	Gross General Fund Revenue	\$6,457.7	\$7,140.0	\$7,137.0	\$7,387.5
3	<i>Net Transfers to/(from) the General Fund</i>	(\$47.6)	\$151.3	\$124.7	(\$5.9)
4	TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE	\$6,853.5	\$7,428.8	\$7,418.4	\$7,638.4
Expenditures					
5	Appropriation Subject to Limit /A	\$6,631.6	\$6,811.1	\$6,982.3	\$7,060.7
6	<i>Dollar Change (from prior year)</i>	(\$755.5)	\$179.5	\$171.2	\$78.4
7	<i>Percent Change (from prior year)</i>	-10.2%	2.7%	2.5%	1.1%
8	Spending Outside Limit	\$84.5	\$136.1	\$179.3	\$295.4
9	<i>TABOR Refund</i>	\$0.0	\$0.0	\$0.0	\$0.0
10	<i>Rebates and Expenditures /B</i>	\$141.9	\$123.0	\$128.4	\$134.6
11	<i>Homestead Exemption</i>	\$1.3	\$1.6	\$1.6	\$99.5
12	<i>Transfers to Capital Construction</i>	\$0.2	\$12.0	\$49.3	\$61.2
13	<i>Transfers to Highway Users Tax Fund</i>	N/A	N/A	N/A	\$0.0
14	<i>Reversions and Accounting Adjustments /C</i>	(\$56.2)	\$0.0	\$0.0	\$0.0
15	<i>Enhanced Medicaid Match (reduces GF expenditures)</i>	(\$2.7)	(\$0.5)	N/A	N/A
16	TOTAL GENERAL FUND OBLIGATIONS	\$6,716.0	\$6,947.1	\$7,161.6	\$7,356.0
Reserves					
17	Year-End General Fund Balance	\$137.4	\$481.7	\$256.9	\$282.4
18	<i>Year-End General Fund as a % of Appropriations</i>	2.1%	7.1%	3.7%	4.0%
19	General Fund Statutory Reserve /D	\$132.6	\$156.7	\$279.3	\$282.4
20	Excess Monies Above (Below) Statutory Reserve /E	\$4.8	\$325.0	(\$22.4)	\$0.0
21	<i>Addendum: State Education Fund /F</i>	\$329.0	\$628.2	\$381.3	\$388.4

Totals may not sum due to rounding.

- /A Per SB 09-228, this limit equals 5.0% of Colorado personal income. The appropriations amounts for Fiscal Years 2010-11 and 2011-12 reflect current law. The amount for FY 2012-13 represents the level of spending that can be supported by revenue while maintaining a 4.0% reserve.
- /B 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 2.
- /C 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.
- /D Per SB 09-219 and SB 09-277, the statutory General Fund reserve required per 24-75-201.1, C.R.S. was lowered to 2.0 percent for FY 2009-10. SB 11-156 increases the reserve to 2.3% in FY 2010-11. The required reserve level increases to 4.0% in FY 2011-12.
- /E Per SB 11-230, of the excess amount in FY 2010-11, \$67.5 million will be credited to the Public School Fund; the remainder, or \$257.5 million, will be transferred to the State Education Fund.
- /F The State Education Fund annually receives one-third of 1% of Colorado taxable income. For FY 2010-11 only, it will also receive an estimated \$257.5 million of the Excess Reserve. In FY 2011-12, the fund will also receive an estimated \$9.7 million from the tax amnesty program created by SB 11-184.



General Fund Revenue Forecast

The General Fund revenue forecast for FY 2010-11 increased \$78.1, or 1.1 percent, from the March forecast. Due to a provision in the School Finance Act (SB 11-230), \$67.5 million of this amount will be transferred to the Public School Fund. Most of the increase is due to sales tax revenue exceeding projections in March. Consumer spending held up more than expected despite the increase in food and gas prices that have been straining many households' budgets since the beginning of 2011.

Total General Fund revenue is expected to increase by \$682.3 million in FY 2010-11, a 10.6 percent increase. However, this strong growth is coming from the recessionary trough of FY 2009-10, a year in which revenue was \$1.3 billion, or 16.6 percent below its pre-recessionary peak in FY 2007-08.

The growth in FY 2010-11 is expected to be one-time in nature as economic activity began to rebound from its recessionary trough. Most of the increase came from individual income and sales taxes, which comprise over 90 percent of revenue to the General Fund. These revenue sources are discussed in more detail below.

A sluggish job market and the recent weakening in the stock market and broader economy will temper tax revenue throughout the remainder of the forecast period. General Fund revenue is projected to be essentially flat in FY 2011-12. In FY 2012-13, General Fund revenue will grow modestly and is still expected to be about \$355 million below its FY 2007-08 level. Projections for income, excise, and other General Fund revenue sources can be found in Table 2.

The General Assembly passed and the Governor signed into law several measures from the 2011 legislative session to help close the gap between available revenue and spending. The table at the bottom of this section lists the major measures enacted into law from the 2011 session that increase revenue available in the General Fund.

Individual and Corporate Income Taxes

Individual income tax revenue is expected to increase 13.0 percent this fiscal year. This growth is a result of two factors. First, there was a modest resumption in wage growth after the total amount of wages earned by Coloradans fell by over \$4 billion during the recession. Second, income tax revenue from estimated payments is projected to surge 39.4 percent. The two largest contributors to this revenue source are capital gains and owners of small- to medium-sized businesses. Since the



end of the recession, capital gains jumped markedly as the stock market rebounded and smaller businesses experienced some improvement in income.

Because the stock market has recently weakened and conditions for small businesses have deteriorated somewhat, revenue from estimated payments will be essentially flat in FY 2011-12. However, scheduled federal tax increases on capital gains at the end of 2012 are expected to accelerate the realization of some gains into tax year 2012, which should provide a boost in income tax revenue in FY 2012-13. However, the boost will reduce revenue in FY 2013-14 as tax liabilities are shifted from tax year 2013 to 2012.

After surprising growth in FY 2010-11 amidst a weak job market, income tax from wage withholding, which generally represents about 55 percent of General Fund revenue, will post a much smaller increase in FY 2011-12 due to expectations for sluggish job and wage growth. Overall income tax revenue will post a minimal increase of 0.5 percent in FY 2011-12 and a moderate 4.7 percent growth rate in FY 2012-13.

Colorado's corporate income tax revenue is determined by an apportionment of corporations' profits based on sales in Colorado. Companies were forced to become leaner and more efficient to survive the severe economic downturn. The recovery in the economy and sales subsequently caused a surge in profits, which drove a 27.2 percent jump in corporate income taxes in FY 2009-10. Since then, a sustained rise in input prices have squeezed many businesses' margins and the weakening in the economy has begun to negatively impact corporate income tax revenue. These factors, along with the December 2010 federal tax policy change that increases tax deductions for business equipment purchases, will contribute to flat corporate income tax revenue for FY 2010-11 and cause a projected decline of 4.5 percent in FY 2011-12.

Sales and Other Excise Taxes

Sales and use tax revenue grew robustly in FY 2010-11 as consumers and business resumed their spending when the economy began to grow again. Sales tax revenue is expected to grow by 9.1 percent this fiscal year, while use tax revenue will grow at a robust rate of 29.0 percent. Part of this growth can be attributed to pent-up demand as purchases were postponed during the recession. A record number of out-of-state visitors to Colorado in 2010 also contributed to the increase. The spike in use tax revenue was helped by equipment purchases by businesses. In particular, increased equipment purchases from the expanding oil and gas industry boosted use tax revenue.

Several factors will contribute to a projected 1.3 percent decline in sales tax revenue in FY 2011-12. First, elevated food and gas prices will temper taxable purchases – food at grocery stores and fuel are not subject to the sales tax. We estimate that an 85 cents per gallon increase in gas prices and a 10 percent increase in food prices, if sustained for a year, results in about \$40 million in foregone



sales tax revenue as spending is shifted from taxable items to nontaxable food and gas. Persistent high debt and unemployment levels, coupled with diminishing home values, which dampen consumer confidence, are also expected to affect sales tax revenue negatively in both FY 2011-12 and FY 2012-13.

Legislation from the 2011 session will affect sales tax revenue. The major legislation increasing sales tax revenue along with other General Fund revenue is shown in the table below. Of particular note, the continuation of subjecting cigarettes to sales tax (HB 11-1296) will generate close to \$30 million in FY 2011-12 and FY 2012-13. The resumption of the vendor discount (SB 11-223), which allows a portion of sales taxes collections to be retained by retailers, will increase sales tax revenue in comparison to if the legislation had not passed. This is the case because the bill sets the percentage retained at a lower amount than what was scheduled to occur in FY 2011-12 (2.22 percent compared with 3.33 percent).

Two notable 2011 bills that reinstate sales tax exemptions will reduce sales tax revenue. HB 11-1005 reinstates the sales tax exemption on certain agricultural products two years earlier than scheduled and is estimated to reduce revenue by \$3.7 million annually starting in FY 2011-12. However, this amount was offset by an increase in severance tax revenue transferred to the General Fund. HB 11-1293 reinstates the exemption of certain software purchases and is estimated to decrease sales tax revenue by about \$21.6 million in FY 2012-13.

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

2011 Measures that Increase Revenue to the General Fund (\$ in millions)	FY 2010-11	FY 2011-12	FY 2012-13
SB11-163 Alternative Fuel Rebate Repeal	\$0.3	\$0.4	\$0.4
SB11-164 General Fund Transfer	\$103.0	\$0.0	\$0.0
SB11-210 Phase Out Supplemental OAP Health Fund	\$0.0	\$0.7	\$0.0
SB11-222 Capital Construction Transfer	\$1.1	\$0.0	\$0.0
SB11-223 Vendor Fee Reduction	\$0.0	\$22.4	\$22.5
SB11-224 Nurse Home Visitor Cap/Transfer	\$0.0	\$0.6	\$1.7
SB11-225 Innovative Health Program Grant Fund Transfers	\$0.0	\$1.8	\$0.2
SB11-226 General Fund Transfers	\$5.1	\$127.4	\$0.0
HB11-1296 Continuation of Sales Tax on Cigarettes	\$0.0	\$28.4	\$28.9
HB11-1300 Conservation Easements	\$2.0	\$4.0	(\$2.0)
Total	\$111.5	\$185.7	\$51.7

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

Line No.	Category	Actual		June 2011 Estimate by Fiscal Year					
		FY 2009-10	% Chg	FY 2010-11	% Chg	FY 2011-12	% Chg	FY 2012-13	% Chg
Excise Taxes:									
1	Sales	\$1,825.0	-5.5%	\$1,991.6	9.1%	\$1,966.1	-1.3%	\$1,982.1	0.8%
2	Use	\$155.7	-11.9%	\$200.8	29.0%	\$201.4	0.3%	\$211.8	5.2%
3	Cigarette	\$40.8	-6.0%	\$39.1	-4.3%	\$37.8	-3.3%	\$36.8	-2.5%
4	Tobacco Products	\$16.1	22.4%	\$14.7	-8.8%	\$14.7	0.3%	\$15.1	2.8%
5	Liquor	\$35.4	1.3%	\$36.0	1.7%	\$36.5	1.2%	\$37.1	1.7%
6	Total Excise	\$2,073.1	-5.7%	\$2,282.2	10.1%	\$2,256.4	-1.1%	\$2,282.9	1.2%
Income Taxes:									
7	Net Individual Income	\$4,083.8	-5.8%	\$4,613.0	13.0%	\$4,636.5	0.5%	\$4,855.5	4.7%
8	Net Corporate Income	\$372.1	27.2%	\$375.6	1.0%	\$358.7	-4.5%	\$373.9	4.2%
9	Total Income	\$4,455.9	-3.7%	\$4,988.7	12.0%	\$4,995.2	0.1%	\$5,229.3	4.7%
10	<i>Less: State Education Fund Diversion</i>	<i>\$329.0</i>	<i>-3.2%</i>	<i>\$370.7</i>	<i>12.7%</i>	<i>\$371.6</i>	<i>0.2%</i>	<i>\$388.4</i>	<i>4.5%</i>
11	Total Income to General Fund	\$4,126.9	-3.7%	\$4,618.0	11.9%	\$4,623.7	0.1%	\$4,840.9	4.7%
Other Revenues:									
12	Insurance	\$186.9	-2.9%	\$191.6	2.5%	\$207.3	8.2%	\$210.8	1.7%
13	Interest Income	\$10.1	7.7%	\$6.6	-35.1%	\$9.1	38.8%	\$12.3	35.6%
14	Pari-Mutuel	\$0.5	17.0%	\$0.6	11.4%	\$0.6	-1.8%	\$0.6	-1.2%
15	Court Receipts	\$17.8	-26.1%	\$4.2	-76.4%	\$1.3	-70.3%	\$0.3	-80.0%
16	Gaming	\$16.2	476.3%	\$20.4	25.9%	\$20.5	0.5%	\$20.6	0.5%
17	Other Income	\$26.2	-7.4%	\$16.5	-36.8%	\$18.2	10.1%	\$19.1	5.1%
18	Total Other	\$257.7	0.1%	\$239.9	-6.9%	\$256.9	7.1%	\$263.6	2.6%
19	GROSS GENERAL FUND	\$6,457.7	-4.2%	\$7,140.0	10.6%	\$7,137.0	0.0%	\$7,387.5	3.5%
Rebates & Expenditures:									
20	Cigarette Rebate	\$11.6	-3.9%	\$11.0	-5.2%	\$10.7	-3.3%	\$10.4	-2.5%
21	Old-Age Pension Fund	\$115.4	6.7%	\$99.2	-14.0%	\$98.2	-1.0%	\$100.4	2.3%
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	\$2.2	-59.9%	\$0.6	-72.0%	\$1.4	125.0%	\$1.6	14.3%
24	Fire/Police Pensions	\$4.2	5.3%	\$4.1	-2.4%	\$9.6	131.3%	\$14.3	48.8%
25	Amendment 35 General Fund Expenditure	\$0.8	-14.1%	\$0.8	-7.3%	\$0.7	-6.1%	\$0.7	-4.5%
26	Total Rebates & Expenditures	\$141.9	4.3%	\$123.0	-13.3%	\$128.4	4.4%	\$134.6	4.9%



Cash Fund Revenue Forecast

Cash fund revenue subject to the Taxpayer's Bill of Rights, "TABOR" collected in FY 2010-11 is expected to total \$2.3 billion, which represents an increase of 11.9 percent over FY 2009-10 collections. FY 2011-12 cash fund revenue is projected to increase \$208.2 million, an 8.9 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. Table 3 shows the forecast for major cash fund revenue sources.

Transportation-Related Cash Funds

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 1.5 percent. Vehicle registrations, fuel sales, and license and permit issuances are the main revenue drivers for the transportation category. Vehicle sales picked up speed in the first four months of 2011 due partly to rising consumer confidence, but sales appear to be losing momentum. The recent earthquake and tsunami which struck Japan impacted the global automotive industry and has caused shortages of automotive parts and vehicles. Elevated energy prices also present a downside risk to the transportation-related cash fund revenue forecast as sustained high fuel prices could diminish transportation sector activity, and thus reduce transportation revenue.

Limited Gaming

Total FY 2010-11 gaming revenue is projected to decrease 2.5 percent to total \$105.0 million. Of this total, \$6.3 million is expected to be "extended limited gaming" revenue and be exempt from TABOR per Amendment 50. The remaining \$96.3 million is TABOR revenue and this is shown in Table 3 of this forecast. The FY 2010-11 decline in gaming revenue is likely due to the sluggish economy and this year's fuel price increases, which generally dampen gaming activity. A recent Limited Gaming Control Commission tax rate change will reduce state gaming tax rates by 5.0 percent and decrease gaming tax revenue collections beginning in FY 2011-12. It is estimated that the lost revenue associated with the tax rate change will total \$5.2 million in FY 2011-12. Total limited gaming revenue is expected to decrease 3.9 percent in FY 2011-12 due to the tax rate change approved by the Gaming Division and the weak economy.

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



Distribution of Limited Gaming Revenues	FY09-10	FY10-11	FY11-12	FY 12-13
A. Total Limited Gaming Revenues	\$107.7	\$105.0	\$101.0	\$103.6
Annual Percent Change	8.8%	-2.5%	-3.9%	2.6%
A1. Gaming Revenues Not from Taxes	\$3.6	\$2.5	\$2.5	\$2.5
A2. Gaming Revenues Related to Taxes	\$104.1	\$102.5	\$98.5	\$101.1
B. Base Limited Gaming Revenues (max 3% growth)	\$97.8	\$96.3	\$92.4	\$94.9
Annual Percent Change	3.0%	-1.5%	-4.0%	2.6%
C. Extended Limited Gaming Revenues	\$6.4	\$6.3	\$6.0	\$6.2
Annual Percent Change	N/A	-1.5%	-4.0%	2.6%
D. Total Amount to Base Revenue Recipients	\$88.8	\$86.2	\$82.2	\$85.0
<i>Amount to State Historical Society</i>	<i>\$24.9</i>	<i>\$24.1</i>	<i>\$23.0</i>	<i>\$23.8</i>
<i>Amount to Counties</i>	<i>\$10.7</i>	<i>\$10.3</i>	<i>\$9.9</i>	<i>\$10.2</i>
<i>Amount to Cities</i>	<i>\$8.9</i>	<i>\$8.6</i>	<i>\$8.2</i>	<i>\$8.5</i>
<i>Amount to Distribute to Remaining Programs (State Share)</i>	<i>\$44.4</i>	<i>\$43.1</i>	<i>\$41.1</i>	<i>\$42.5</i>
<i>Amount to Local Government Impact Fund</i>	<i>\$3.8</i>	<i>\$3.6</i>	<i>\$3.3</i>	<i>\$3.5</i>
<i>Colorado Tourism Promotion Fund</i>	<i>\$14.1</i>	<i>\$11.9</i>	<i>\$11.0</i>	<i>\$11.6</i>
<i>New Jobs Incentives Fund</i>	<i>\$1.3</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>
<i>State Council on the Arts Fund</i>	<i>\$1.1</i>	<i>\$1.0</i>	<i>\$0.9</i>	<i>\$0.9</i>
<i>Film Incentives Fund</i>	<i>\$0.4</i>	<i>\$0.2</i>	<i>\$0.2</i>	<i>\$0.2</i>
<i>Bioscience Discovery Evaluation Fund</i>	<i>\$5.5</i>	<i>\$4.3</i>	<i>\$3.9</i>	<i>\$4.2</i>
<i>Innovative Higher Education Research Fund</i>	<i>\$2.0</i>	<i>\$1.7</i>	<i>\$1.5</i>	<i>\$1.6</i>
<i>Colorado Department of Transportation</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>	<i>\$0.0</i>
<i>Transfer to the General Fund</i>	<i>\$16.2</i>	<i>\$20.4</i>	<i>\$20.3</i>	<i>\$20.4</i>
E. Total Amount to Amendment 50 Revenue Recipients	\$4.7	\$4.9	\$4.8	\$4.7
<i>Community Colleges, Mesa and Adams State (78%)</i>	<i>\$3.6</i>	<i>\$3.9</i>	<i>\$3.8</i>	<i>\$3.6</i>
<i>Counties (12%)</i>	<i>\$0.6</i>	<i>\$0.6</i>	<i>\$0.6</i>	<i>\$0.6</i>
<i>Cities (10%)</i>	<i>\$0.5</i>	<i>\$0.5</i>	<i>\$0.5</i>	<i>\$0.5</i>

Hospital Provider Fee

Hospital provider fees, authorized by HB 09-1293, 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. SB 11-212 will increase revenue by increasing fees paid to the Hospital Provider Fee Cash Fund by an estimated \$50 million in FY 2011-12 and \$25 million in FY 2012-13. This revenue will offset state general fund expenditures for the Medicaid program during those fiscal years. Hospital provider fee revenue is expected to increase \$135.2 million in FY 2010-11 and \$173.5 million in FY 2011-12.



Severance Tax and Federal Mineral Lease Revenue

Energy markets are typically characterized by volatility and, with events such as the earthquake and tsunami in Japan and political unrest in North Africa and the Middle East, recent months have been no different. In Colorado, natural gas production is a key determinant of state severance tax revenue collection, and the natural gas sector historically has been subject to the same volatility as the broader energy market. Natural gas prices can swing quickly and dramatically, which significantly impacts revenue collection. Due to this, severance tax revenue is among the state's most volatile revenue sources.

Through the middle of June 2011, the total number of active Colorado rigs has averaged 68, a 23.6 percent increase compared to the same period last year. Most of the state's natural gas production occurs in the Piceance Basin and Garfield County in particular. Preliminary year-to-date production activity in this basin suggests increased production activity above the same period last year. Overall production statewide is forecast to increase throughout the forecast period. There are currently 70 drilling rigs operating in the state, 18 more than in June of 2010. Natural gas prices are forecast to be \$4.30 per Mcf in 2011, the same level as in 2010, and \$4.68 per Mcf in 2012.

Crude oil prices are not projected to fall below \$100 per barrel through the forecast period, which is expected to continue to compel a rise in Colorado oil production activity. Though production activity is generally still in the early phases, we continue to monitor oil exploration in northeastern Colorado on the Niobrara shale formation. Progress in this region is being closely monitored as it could significantly affect the severance tax forecast in the future and the northeastern Colorado economy.

Severance tax revenue is forecast to total \$164.7 million in FY 2010-11 and \$154.8 million in FY 2011-12. The drop in FY 2011-12 is due to the projection for flat natural gas prices in 2011 compared with 2010 and larger severance tax credits for a portion of local ad valorem taxes paid than those that impacted FY 2010-11 collections.

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 natural gas prices slowly rise 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	\$146.66	17.5%
FY 2011-12	\$152.71	5.4%
FY 2012-13	\$166.25	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

The Colorado Department of Regulatory Agencies is primarily cash funded by regulated entities. Regulatory Agencies cash fund revenue is expected to equal \$66.9 million in FY 2010-11 and \$68.9 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 \$25.8 million in FY 2010-11 and \$19.1 million in FY 2011-12.

Other miscellaneous cash fund revenue subject to TABOR is projected to increase \$1.5 million in FY 2010-11 and increase \$25.2 million in FY 2011-12. The scope of cash funds in this category is broad and includes cash fund revenue from licenses, fines, and fees as well as interest earnings on various cash funds. The FY 2011-12 revenue forecast incorporates the enactment of SB 11-184, which allows taxpayers to pay certain overdue taxes, including one-half of any interest due, without being subject to any fine or civil or criminal penalty otherwise provided for by law. This legislative change is estimated to increase cash fund revenue by approximately \$10.9 million in FY 2011-12. Most of this money (\$9.7 million) will be transferred to the State Education Fund.

Unemployment Insurance Reform

HB 09-1363 designates the Unemployment Compensation Section in the Colorado Department of Labor and Employment as an enterprise. Therefore, most unemployment insurance revenue is not subject to TABOR, and is therefore not reflected on Table 3. The unemployment insurance (UI) program provides temporary, partial wage replacement to workers who become unemployed through no fault of their own. The severe impact of the recent recession on the labor market has increased program participation significantly, and, as is the case with many states, federal loans have been needed to maintain the program’s solvency and to fund unemployment insurance programs. HB 11-1288 reforms the financing structure for the state unemployment insurance system in order to ensure timely repayment of federal loans and address long-term program solvency. The legislation is expected to increase cash fund revenue that is not subject to TABOR by \$68.0 million in FY 2011-12 and \$27.1 million in FY 2012-13.

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

Category	Actual FY 2009-10	June 2011 Estimate by Fiscal Year			FY 2009-10 to FY 2012-13 CAAGR*
		FY 2010-11	FY 2011-12	FY 2012-13	
Transportation-Related /A	\$1,059.5	\$1,075.4	\$1,105.1	\$1,120.2	
Change	14.9%	1.5%	2.8%	1.4%	1.9%
Limited Gaming Fund /B	\$101.2	\$98.8	\$94.9	\$97.4	
Change	2.3%	-2.4%	-3.9%	2.6%	-1.3%
Capital Construction - Interest	\$3.3	\$2.9	\$1.2	\$1.3	
Change	-67.4%	-11.6%	-58.5%	7.5%	-26.6%
Regulatory Agencies	\$67.3	\$66.9	\$68.9	\$70.7	
Change	-13.9%	-0.6%	3.0%	2.6%	1.7%
Insurance-Related /C	\$42.9	\$25.8	\$19.1	\$19.9	
Change	-16.7%	-39.8%	-26.2%	4.2%	-22.6%
Severance Tax	\$48.2	\$164.7	\$154.8	\$167.8	
Change	-85.7%	241.4%	-6.0%	8.4%	51.5%
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	\$465.6	\$490.8	\$504.6	
Change	-4.8%	0.3%	5.4%	2.8%	2.8%
TOTAL CASH FUND REVENUE	\$2,089.4	\$2,338.2	\$2,546.4	\$2,701.4	
Change	-12.0%	11.9%	8.9%	6.1%	8.9%

* 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. HB 10-1272 outlines the distribution of gaming revenue following the passage of Amendment 50.

/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.



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).

TABOR requires that the population estimates used to determine the revenue limit be adjusted every decade to match the federal census. The 2010 federal census indicates that Colorado's population was overestimated during the 2000s decade. Thus, in order to account for this overestimate, the percent change in population (line 4 of Table 4) that will affect the FY 2011-12 revenue limit was adjusted lower.



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

Line No.		Actual FY 2009-10	June 2011 Estimate by Fiscal Year		
			FY 2010-11	FY 2011-12	FY 2012-13
TABOR Revenues:					
1	General Fund /A <i>Percent Change from Prior Year</i>	\$6,478.5 -3.7%	\$7,119.6 9.9%	\$7,116.5 0.0%	\$7,366.9 3.5%
2	Cash Funds <i>Percent Change from Prior Year</i>	\$2,089.4 -12.1%	\$2,338.2 11.9%	\$2,546.4 8.9%	\$2,701.4 6.1%
3	Total TABOR Revenue <i>Percent Change from Prior Year</i>	\$8,567.9 -5.9%	\$9,457.9 10.4%	\$9,663.0 2.2%	\$10,068.3 4.2%
Revenue Limit Calculation:					
4	Previous calendar year population growth /B	1.7%	1.6%	0.1%	1.6%
5	Previous calendar year inflation	3.9%	-0.6%	1.9%	3.5%
6	Allowable TABOR Growth Rate	5.6%	0.9%	2.0%	5.1%
7	TABOR Limit	\$9,183.8	\$8,627.9	\$8,800.4	\$9,249.2
8	General Fund Exempt Revenue Under Ref. C /C	\$0.0	\$830.0	\$862.5	\$819.1
9	Revenue Limit Under Ref. C /D	NA	\$10,600.6	\$10,812.6	\$11,364.0
10	<i>Amount Above/(Below) Limit</i>	<i>(\$1,955.1)</i>	<i>(\$1,142.7)</i>	<i>(\$1,149.6)</i>	<i>(\$1,295.7)</i>
11	TABOR Reserve Requirement	\$257.0	\$283.7	\$289.9	\$302.0

/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 gaming revenues), and due to other accounting adjustments.

/B TABOR requires that the population estimates used to determine the revenue limit be adjusted every decade to match the federal census. The 2010 federal census indicates that Colorado's population was overestimated during the 2000s decade. Thus, in order to account for this overestimate, the percent change in population that will affect the FY 2011-12 revenue limit was adjusted lower.

/C 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.

/D 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." FY 2007-08 was the highest revenue year during the Referendum C period.



The Economy: Current Conditions and Forecast

Since the publication of the March 2011 *Colorado Outlook*, the national economy has slowed as it continues to struggle with high debt levels, a weakened financial system, a depressed housing market, and heightened levels of uncertainty. Most notably, manufacturing – one of the key drivers for growth coming out of the recession – and consumer spending have slowed. The job market has subsequently weakened. However, the slowdown nationally does not appear to be occurring to the same extent in Colorado thus far. Colorado’s job market, and manufacturing and exports sectors appear to currently be holding up better than the nation’s. Further, Colorado’s tourism industry is helping bolster the state’s economy.

Nevertheless, because of recent national and global trends, expectations for many economic variables have been revised down since the last report; though, the economy is still expected to maintain sluggish growth. The history and projections for key Colorado economic indicators are shown in Table 5, while the economic indicators for the nation are shown in Table 6. These tables follow this section.

The Job Market

After a relatively positive start in 2011, job creation has slowed nationally. The nation added 54,000 jobs in May, a growth rate of only 0.04 percent. However, Colorado added 4,200 jobs in May, a 0.2 percent increase, following a similar increase of 4,100 in April. In 2011, Colorado has added 13,200 jobs through May.

Unemployment remains painfully high. The unemployment rate in May was 9.1 for the nation and 8.7 percent for the state. On the positive side, the Colorado unemployment rate has fallen after reaching a peak of 9.3 percent in February of 2011. However, counting discouraged workers who would like to work but have not been looking due to poor job prospects and workers who can only find part time work, the unemployment rate is in the mid teens both at the national and state level, which equates to about one out of every six individuals. Colorado ranks about in the middle among other states in this measure.

In the aftermath of the severe financial crisis and economic boom and bust, businesses are still struggling to find growth opportunities that would enable them to hire more workers. Also, businesses are reluctant to bring on new workers as they remain cautious of the economy’s prospects. Structural barriers to employment also exist as the many individuals who lost jobs in industries during the recession that were expanding during the boom are lacking the skills that are needed in industries that are now experiencing growth.



- As these conditions are expected to persist, the state unemployment rate is forecast to be 9.0 percent in 2011 and 8.7 percent in 2012. However, the state economy will add jobs for the first time since 2008, though growth will be an extremely modest 0.5 percent. Job growth will improve somewhat in 2012 but will still be much lower than it needs to be to bring down the unemployment rate significantly.

Job Creation from Colorado's New Businesses

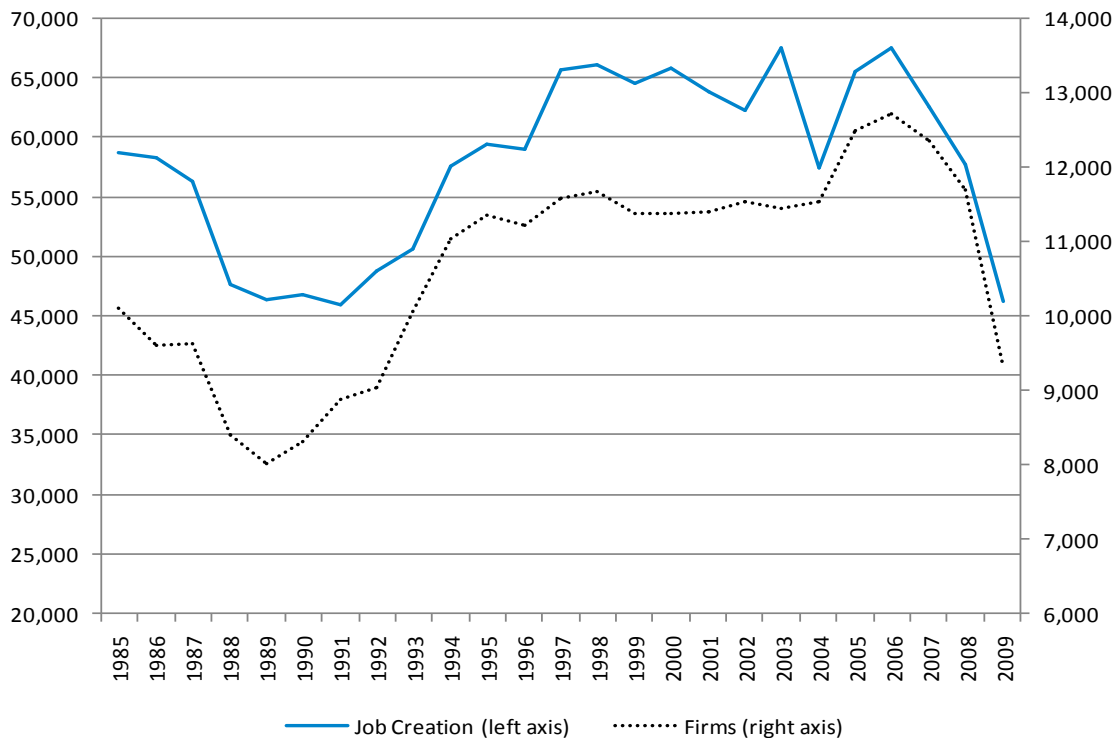
Historically, entrepreneurship, measured by the activity of start-up firms in the state, has been an integral part of employment growth. Since 1980, for most every year except the decade of the 1990s, the state economy added more jobs through start-up activity than from the overall economy. Thus, without start-up activity, in most years Colorado's economy would have lost jobs.

Because of the importance of new businesses, the level of entrepreneurship activity in the state has both immediate and longer term economic impacts. Colorado began to experience modest declines in new businesses and job creation from start-ups in 2007. In 2009, however, both new firms and job creation from these firms fell 20 percent – the largest decline since the state's economic downturn in the late 1980s. The nation as a whole experienced a similar decline. One cause for this decline has been the lack of funding available for entrepreneurship activity.

Figure 1 shows the level of business creation and jobs resulting from the new businesses from 1985 through 2009, the latest data available. The decline in start-up firms during the recession means fewer firms to grow and expand. Thus, the slowdown in business creation is one factor in the state's sluggish job growth that is expected to continue through the forecast period.



Figure 1. Colorado Start-up Firms and Job Creation from Start-up Firms, 1985 to 2009



Source: U. S. Census Bureau, Business Dynamics Statistics

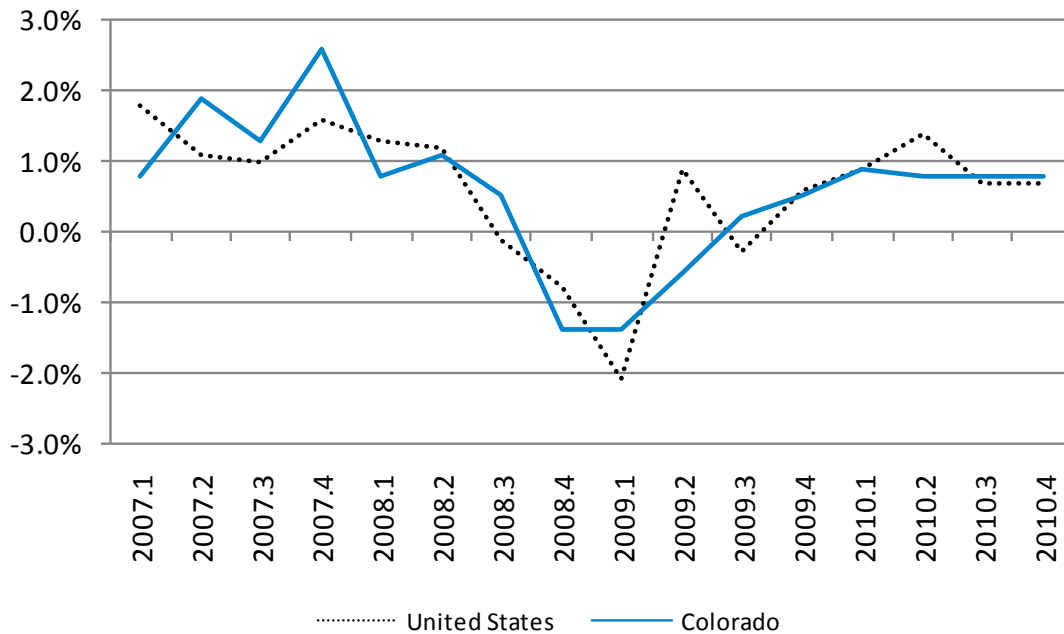
Wages & Income

Nationally, personal income has increased consistently since the third quarter of 2009. In Colorado, the fourth quarter of 2010 was the sixth consecutive quarterly personal income increase since early 2009. These trends are shown in Figure 2. Personal income consists of wage and salary income, proprietors’ (or business) income, government transfer receipts, and interest and dividend income earned on assets. Transfer payments have increasingly comprised a greater share of personal income over the course of the recovery. Heightened unemployment has increased demand for assistance programs such as unemployment insurance.

Personal income is an important variable affecting overall consumer spending and saving, and is greatly affected by employment. The high level of unemployment associated with the recent recession has dramatically impacted total personal income and wage growth as employers have, in addition to hiring fewer workers, reduced wages, hours worked, and bonus compensation for existing employees.



Figure 2. Percentage Change in Personal Income, 2007 through Fourth Quarter 2010



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

Nationally, as well as in Colorado, many sectors have yet to experience sufficient wage growth to exceed pre-recession levels as the size of the unemployed workforce has minimized upward wage pressure. Wage and salary growth in Colorado has increased since the second quarter of 2009.

- Due to slow job growth, Colorado personal income is forecast to increase 2.7 percent in 2011 and 3.0 percent in 2012. Colorado wage and salary growth is forecast to increase 1.8 percent in 2011 and 2.9 percent in 2012.

Consumers and Households

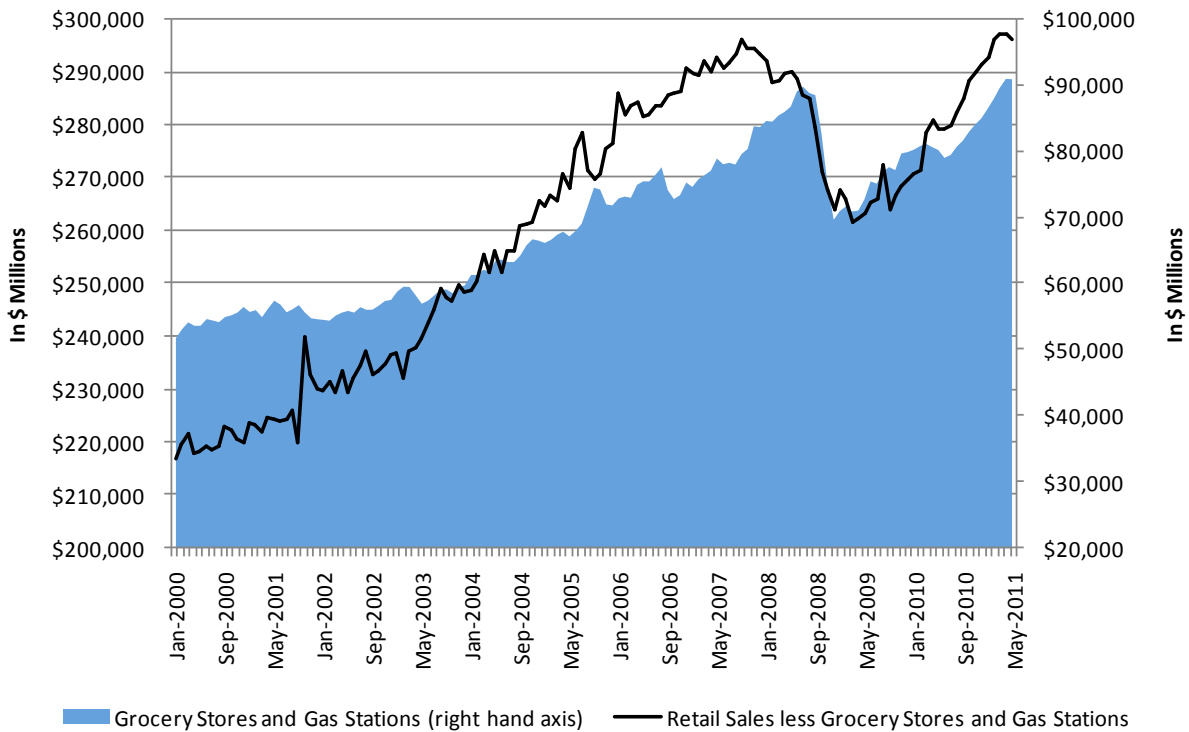
The rebound in consumer spending experienced in 2010 appears to be slowing as consumers, having satisfied some pent up demand, have begun to restrain their spending again. High unemployment, sluggish wage growth, debt, and weakened home values continue to plague households. These factors, and more recently, higher food and fuel prices and declines in the stock market have begun



to take their toll on discretionary spending. Vehicle sales nationally have posted three months of declines. It should be noted, however, that some of this decline can be partially attributed to temporary vehicle-related production shutdowns in Japan in the wake of the earthquake and the tsunami.

Nationally, May retail sales fell 0.2 percent. Excluding grocery stores and gas stations, retail sales dropped 0.3 percent, indicating that higher food and gas prices are causing consumers to reduce spending on other items. Figure 3 shows the level of spending at grocery stores and gas stations and all other retail sales since 2000. The elevated level of spending at food and gas stations from higher prices and the recent downward trend in spending on other items can be seen in the graph. Since the state sales tax base excludes food and gasoline, the downward trend in retail sales net of food and gasoline is likely to negatively affect state sales tax revenue.

Figure 3. U. S. Retail Sales and Spending on Food and Gas

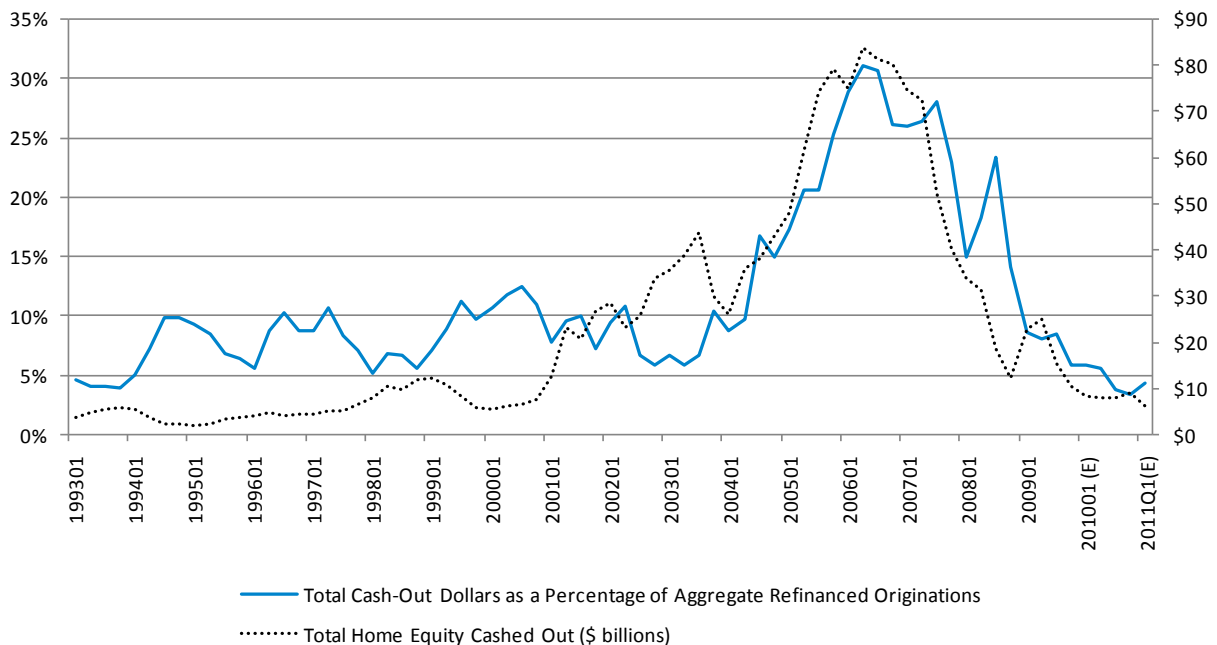




- After posting robust growth of 6.4 percent in 2010, retail trade sales in Colorado are expected to continue to grow, though at a slower pace during the forecast period. In 2011, retail sales will increase 5.2 percent, though some of this growth will be due to elevated food and gas prices. In 2012, retail trade sales for Colorado will also be modest, posting growth of 4.2 percent.

High household debt loads and a significant decline in home equity are stresses that households will face for some time. The burdensome situation is evident in recent home equity loan and refinancing activity as total home equity cashed out by households is estimated to have fallen back to 1993 levels. The disappearance of home equity as a source of financing consumer purchases is one source of the slow-down in consumer activity. It is also likely contributing to weakness in small business creation and expansion. Figure 4 shows trends in refinancing activity since 1993.

Figure 4. Patterns of Refinancing Activity, U.S. 1993 – 2011



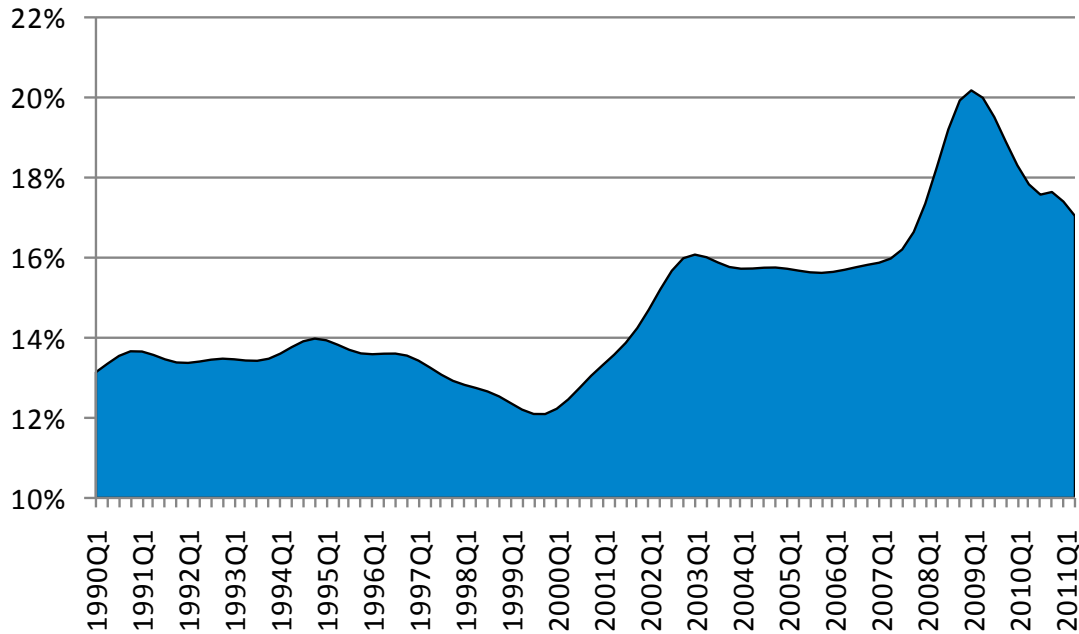
Source: Calculated from Freddie Mac data

Data from the Federal Reserve illustrate the lingering high debt load carried by many households. Combined mortgage and consumer debt as a share of total assets peaked in the first quarter of 2009 at just over 20.2 percent. Some of this debt has been eliminated as shown in Figure 5. However, the debt reduction process will likely persist for much of the decade. One report based on Federal Reserve data recently estimated that the average household would have to cut its debt level by about



\$26,000 to return to 1990's levels. While households continue to pay down debt, less resources are available for spending and investing.

Figure 5. Mortgage and Consumer Debt of Households as a Share of Total Assets



Source: Calculated from Federal Reserve Flow of Funds data (includes non-profit organizations).

Inflation

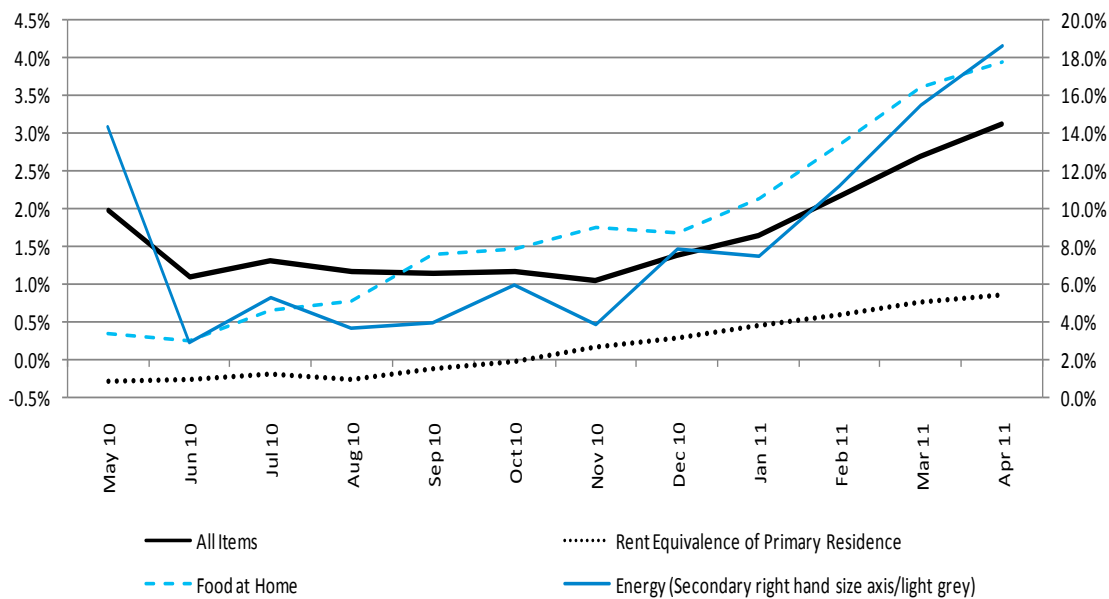
A weaker dollar and the increase in worldwide demand for many goods have contributed to rising price levels. This inflation is a contributing factor to the softening in the economy, although recent data show some indication that the strong upward pressure on prices for many goods and business inputs is abating. Nevertheless, producer prices nationally for finished goods in May was 7.3 percent over year-ago levels, the highest rate since the inflation that occurred in the fall of 2008.

Consumer prices nationally, as measured by the Consumer Price Index (CPI), in May were 3.6 percent higher than in May of 2010. Most of the increase can be attributable to rising food and energy prices. However, although perhaps counterintuitive, the upward pressure on overall inflation is also starting to come from the housing component of the index. As rental markets become tighter and rents rise, the rental equivalent price of owner occupied housing rises as well. This component began its rise in early 2011.



The recent slowdown in national economic growth, however, may provide a counterbalance to the upward pressure on prices, suggesting that while prices will remain at their elevated levels for the remainder of 2011, they will not continue to accelerate at the rates seen early in the year. Figure 6 shows the change in the overall CPI and select components of the index from May 2010 through April 2011.

Figure 6. Change in U.S. Consumer Price Indices, May 2010 through April 2011



Source: U. S. Bureau of Labor Statistics

Colorado’s inflation rate in 2010, the last data available, as measured by the Denver-Boulder-Greeley CPI, was 1.9 percent. However, inflation for the last six months of 2010 was 2.0 percent higher than the same period in 2009, suggesting that inflation was accelerating in the second half of the year. As with the nation, increasing prices at the state level is largely being driven by prices for food and fuel. However, with rental markets tightening in many regions of Colorado, the housing component of the Denver-Boulder-Greeley CPI will also experience increases in 2011, causing the overall CPI in the state to go higher.

- The Denver-Boulder-Greeley CPI is forecast to increase 3.5 percent in 2011 and 2.4 percent in 2012. Upward price pressure will continue to affect household budgets, consumer sentiment, and state tax revenue collections.



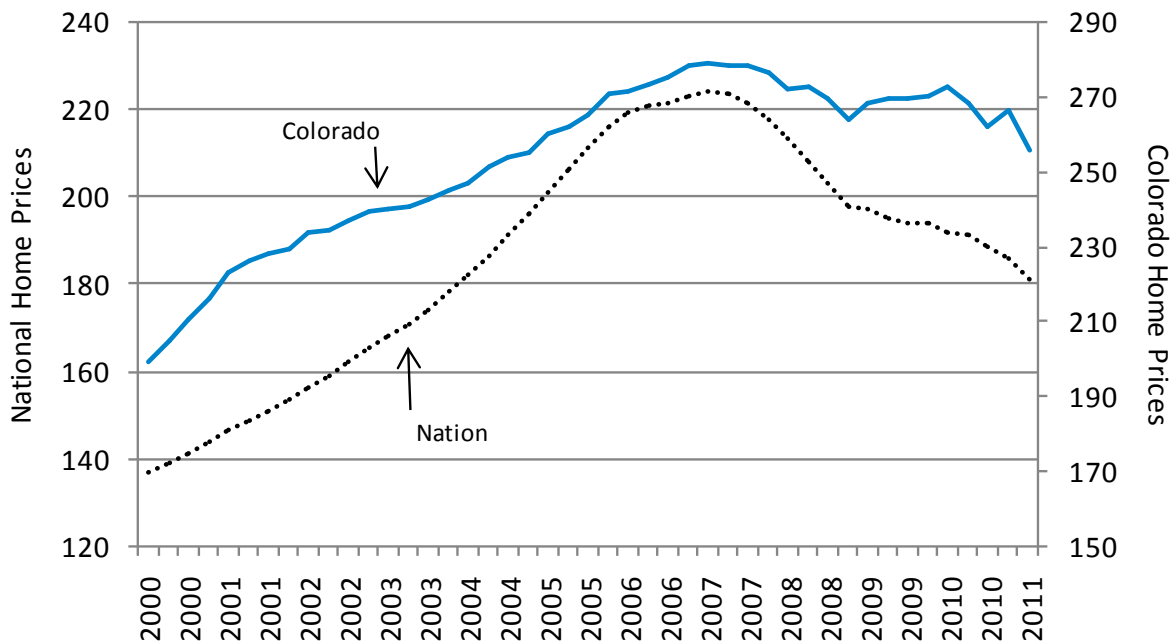
Housing & Construction

Improvement in the housing sector is essential for a more robust recovery in the broader economy. Unfortunately, this remains unlikely in the near term. Nationally, a growing number of foreclosed properties and declines in home prices continue to underscore housing sector difficulties. Home values can have considerable influence on the economy as they affect personal saving rates, general consumer sentiment, and spending.

As shown in Figure 7, the Federal Housing Financing Agency Home Price Index indicates national home prices decreased 6.3 percent between the fourth quarter of 2010 and the first quarter of 2011.

Colorado prices began to dip again in early 2010 and the negative trend has persisted. From the fourth quarter of 2010 to the first quarter of 2011, Colorado single family home prices decreased 3.8 percent. A potential rise in interest rates poses a risk because it would make homes less affordable, which would further weaken the housing market. Due to the large inventory of homes and less home buying, prices are likely to remain flat and possibly fall further.

Figure 7. Percentage Change in Single Family Home Prices, 2000Q1 to 2011Q1



Source: Federal Housing Finance Agency, seasonally adjusted data



One positive sign for the home market in Colorado is that the state continues to see fewer overall foreclosures. According to the Colorado Division of Housing, both foreclosure filings and foreclosure sales at auction in Colorado's metropolitan counties fell during April 2011 compared with the same month last year. April was the fifth consecutive month during which both filings and sales were down compared to year-ago levels. Comparing the first four months of 2010 with the same period this year, foreclosure filings were down 33.2 percent.

- Despite increasing in 2010, housing permits issued in the state remain at very low levels. There were 11,591 single and multi-family permits issued in 2010. The number of housing permits is expected to decrease 8.9 percent in 2011 to 10,600 but increase slightly in 2012.
- The value of nonresidential construction has declined every year since 2008 and is forecast to decline again in 2011 by 5.1 percent. Nonresidential construction is expected to be essentially flat in 2012.

Business Conditions and Spending

The National Federation of Independent Business reported its Small Business Optimism Index fell 0.3 points in May to 90.9, the third monthly drop in a row. The May report indicated almost two-thirds of business owners surveyed view the current period as an inopportune time to expand. One in four businesses indicated weak sales as their top business concern. This illustrates the level of uncertainty in the economy that is contributing to the slow job growth. Rising prices contributed to the lower optimism as well, with one in ten businesses citing it as their most pressing business problem.

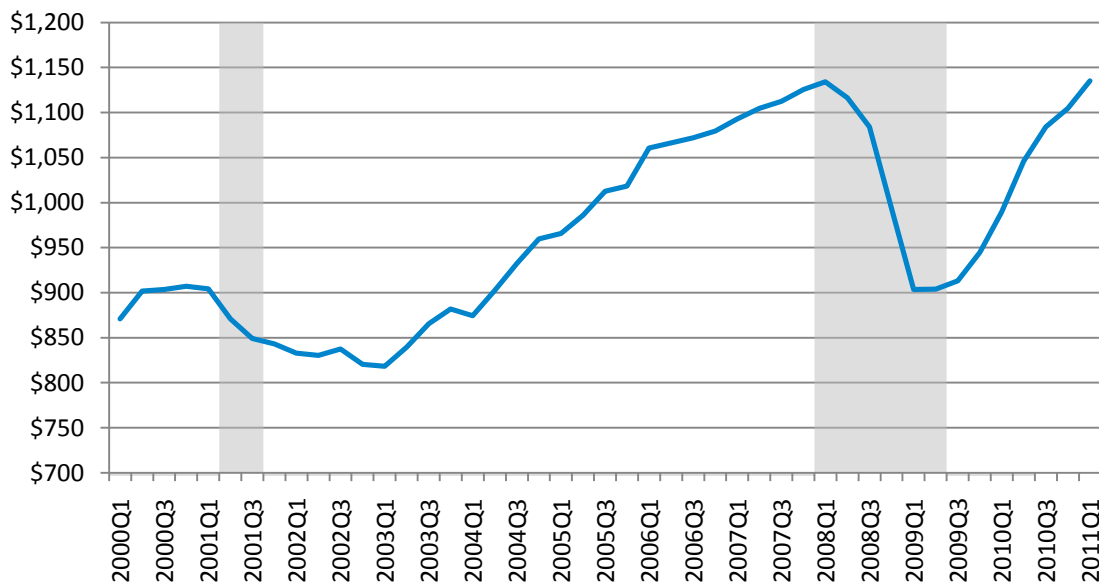
Due to the makeup of the Colorado economy, Colorado conditions do not always mirror national conditions. The Gross Institute for Economic Research's Business Conditions Index for Colorado, based on a survey of supply managers in the state, increased to 62.9 in May from 53.8 in April and 59.6 in March. The index is considered a leading economic indicator and is further evidence that the softening in the national economy has not been felt to the same extent in Colorado.

The index reported that energy commodity prices continue to support growth in the state's energy sector and continual expansion of exports remains an important contributor to Colorado's durable goods manufacturing growth. The total value of Colorado exports were up 16.4 percent in 2011 through April compared with the same period in 2010. This growth is on top of an increase in exports of 13.7 percent in 2010. The report stated that the depressed construction industry remains one of the biggest impediments to overall state growth.



Although many companies are not using their cash to hire additional workers, continued business spending on equipment and software can be considered favorable as it helps businesses become more productive. Businesses are also likely focusing on investing in new equipment in preparation for future production when demand returns. In the meantime, the increased investment in business equipment helps boost activity for the producers of such equipment. As shown in Figure 8, business investment spending at the national level has recovered robustly in recent quarters, returning to pre-recession levels

Figure 8. Business Spending on Equipment and Software Nationally



Source: Bureau of Economic Analysis, billions of chained (2005) dollars, seasonally adjusted at annual rates

Manufacturing

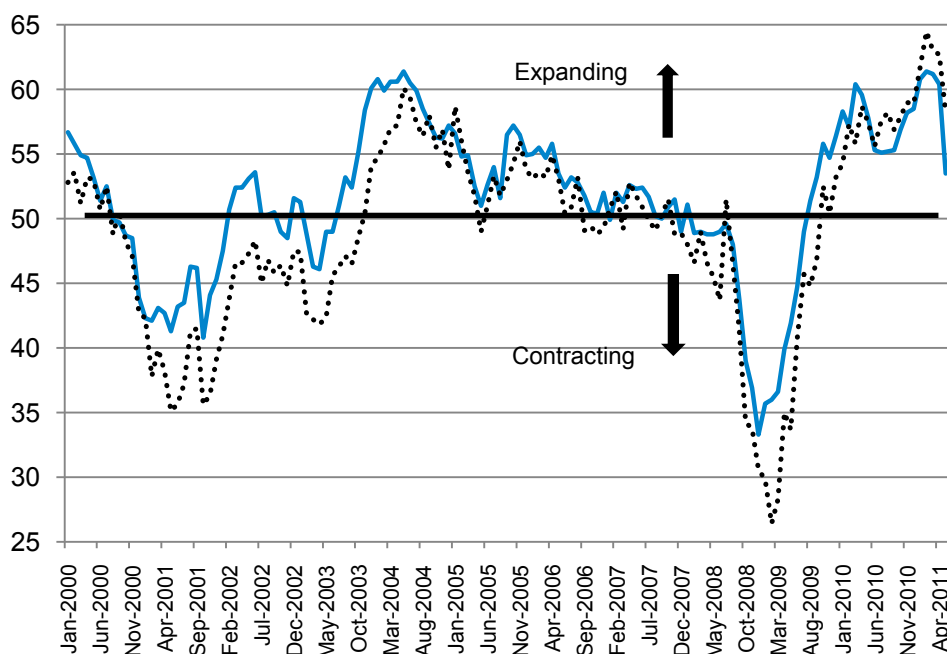
Over the course of the recovery, one of the bright spots in the economy has been growth in manufacturing activity. However, recent data suggest weakening in the manufacturing sector, at least in many parts of the nation, which is consistent with recent global economic cooling. In addition, the two-year trend of sustained rising input prices is likely also beginning to take its toll. 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, and recent weakening in this sector poses a definitive risk to the recovery.



According to the Federal Reserve, in April 2011, manufacturing production fell 0.4 percent after rising for nine consecutive months. Total motor vehicle assemblies dropped from an annual rate of 9.0 million units in March to 7.9 million units in April, mainly because of parts shortages that resulted from the earthquake in Japan. Excluding motor vehicles and parts, factory production rose 0.2 percent in April.

As shown in Figure 9, the Institute for Supply Management's (ISM) factory purchasing managers' index (PMI) for May 2011 suggests the rate of manufacturing growth is slowing. The ISM manufacturing index fell to 53.5 percent last in May, down from 60.4 percent in April, marking the third straight decline and the biggest one-month drop since 1984. It is also the lowest reading in 13 months. Slower growth in new orders and production are the primary contributors to May's lower PMI reading.

Figure 9. ISM Purchasing Managers' Index, 2000 through April 2011



Source: Institute for Supply Management

Colorado's manufacturing sector has fared better more recently than other states, due to the nature and diverse mix of the state's manufacturing base. Colorado added manufacturing jobs in May, and the industry's job base has grown by close to 3,000 jobs, or 2.3 percent so far in 2011.



Risks to the Forecast

The outlook for the economy is particularly murky at this time given the problems in certain fundamental aspects of the economy – namely price levels, business confidence, and the financial system. Overall price levels remain elevated, and if sustained, will likely weaken the economy further. Consumers and businesses will have to spend more on the goods they need, leaving less for investments that would help the economy grow. Further, rising prices add to the uncertainty over the overall economy's prospects.

The financial system may also be subject to increased volatility and higher interest rates during the forecast period due to high sovereign debt levels and the risk of default, most notably in Europe, the United States, and Japan. Also, there remain large amounts of bad assets on institutions' balance sheets from the credit and housing boom and bust that continue to constrain lending for business expansion.

The economy is resilient and has a natural tendency to grow. Thus, this forecast assumes continued modest, and sometimes sluggish, growth in the economy, with periodic setbacks like what is currently occurring. Unfortunately, the persistent burdensome forces weighing on growth will take the economy time to resolve. Another deep downturn is not projected unless the financial system faces a large enough shock to trigger increased credit contraction and higher interest rates. 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 2007 - 2013

Line No.		Actual				Forecast		
		2007	2008	2009	2010	2011	2012	2013
Income								
1	Personal Income (Billions) /A	\$205.2	\$215.0	\$210.5	\$215.3	\$221.1	\$227.8	\$237.8
2	Change	5.6%	4.7%	-2.1%	2.3%	2.7%	3.0%	4.4%
3	Wage and Salary Income (Billions)	\$113.0	\$117.2	\$112.8	\$113.9	\$116.0	\$119.4	\$124.2
4	Change	6.7%	3.7%	-3.7%	1.0%	1.8%	2.9%	4.0%
5	Per-Capita Income (\$/person)	\$42,619.8	\$43,910.9	\$42,338.1	\$42,669.6	\$43,169.7	\$43,754.4	\$44,869.0
6	Change	4.2%	3.0%	-3.6%	0.8%	1.2%	1.4%	2.5%
Population & Employment								
7	Population (Thousands)	4,815.7	4,895.7	4,972.2	5,044.8	5,122.7	5,206.2	5,298.9
8	Change	1.7%	1.7%	1.6%	1.5%	1.6%	1.6%	2.0%
9	Net Migration (Thousands)	37.4	40.3	37.9	36.1	40.3	43.5	50.2
10	Unemployment Rate	3.7%	4.8%	8.3%	8.9%	9.0%	8.7%	8.1%
11	Total Nonagricultural Employment (Thousands)	2,331.5	2,350.6	2,245.0	2,219.9	2,231.0	2,251.9	2,277.9
12	Change	2.3%	0.8%	-4.5%	-1.1%	0.5%	0.9%	1.2%
Construction Variables								
13	Total Housing Permits Issued (Thousands)	29.5	19.0	9.4	11.6	10.6	12.0	16.9
14	Change	-23.2%	-35.5%	-50.8%	23.9%	-8.9%	13.9%	40.6%
15	Nonresidential Construction Value (Millions) /B	4,610.5	3,849.3	3,026.4	\$2,717.6	\$2,579.1	\$2,602.7	\$2,715.6
16	Change	16.8%	-16.5%	-21.4%	-10.2%	-5.1%	0.9%	4.3%
Prices & Sales Variables								
17	Retail Trade (Billions) /C	\$75.4	\$74.8	\$66.3	\$70.6	\$74.3	\$77.4	\$81.0
18	Change	7.0%	-0.8%	-11.3%	6.4%	5.2%	4.2%	4.7%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	219.9	225.1	231.1
20	Change	2.2%	3.9%	-0.6%	1.9%	3.5%	2.4%	2.6%

- /A Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' 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		
		2007	2008	2009	2010	2011	2012	2013
	Inflation-Adjusted & Current Dollar Income Accounts							
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	\$13,228.9	\$13,228.8	\$12,880.6	\$13,248.2	\$13,557.0	\$13,923.1	\$14,340.8
2	Change	1.9%	0.0%	-2.6%	2.9%	2.3%	2.7%	3.0%
3	Personal Income (Billions) /B	\$11,912.3	\$12,391.1	\$12,174.9	\$12,541.0	\$12,993.4	\$13,591.1	\$14,297.8
4	Change	5.7%	4.0%	-1.7%	2.5%	3.6%	4.6%	5.2%
5	Per-Capita Income (\$/person)	\$39,500	\$40,710	\$39,657	\$40,453	\$41,511	\$43,764	\$46,292
6	Change	4.8%	3.1%	-2.6%	1.6%	2.6%	5.4%	5.8%
	Population & Employment							
7	Population (Millions)	301.6	304.4	307.0	310.0	313.0	316.0	319.1
8	Change	1.0%	0.9%	0.9%	1.0%	1.0%	1.0%	1.0%
9	Unemployment Rate	4.6%	5.8%	9.3%	9.6%	9.2%	9.0%	8.5%
10	Total Nonagricultural Employment (Millions)	137.6	136.8	130.8	129.8	130.5	131.6	133.4
11	Change	1.1%	-0.6%	-4.4%	-0.8%	0.5%	0.8%	1.4%
	Price Variables							
12	Consumer Price Index (1982-84=100)	207.3	215.3	214.5	218.1	225.9	231.5	237.8
13	Change	2.8%	3.8%	-0.4%	1.6%	3.6%	2.5%	2.7%
14	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.8	200.0	209.7	217.3
15	Change	4.8%	9.8%	-8.8%	6.9%	8.2%	4.8%	3.6%
	Other Key Indicators							
16	Industrial Production Index (2007=100)/C	100.0	96.7	87.7	92.7	96.9	101.1	103.4
17	Change	2.7%	-3.3%	-9.3%	5.7%	4.5%	4.3%	2.3%
18	Corporate Profits (Billions)	\$1,510.6	\$1,262.8	\$1,258.0	1,624.8	\$1,661.5	\$1,717.4	\$1,790.6
19	Change	-6.1%	-16.4%	-0.4%	29.2%	2.3%	3.4%	4.3%
20	Housing Permits (Millions)	1.398	0.905	0.583	0.605	0.596	0.640	0.714
21	Change	-24.0%	-35.3%	-35.6%	3.7%	-1.5%	7.4%	11.6%
22	Retail Trade (Billions)	4,454.4	4,401.3	4,093.2	4,353.7	\$4,609.1	\$4,798.0	\$4,990.4
23	Change	3.3%	-1.2%	-7.0%	6.4%	5.9%	4.1%	4.0%

/A BEA revised NIPA component

Personal Income as reported by the federal Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors'

/B 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.



Governor's Revenue Estimating Advisory Committee

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