

June | 2012

The Colorado Outlook

Economic and Fiscal Review



Governor's Office of State Planning and Budgeting



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Summary

- The June 2012 General Fund revenue forecast for the current budget year (FY 2011-12) is 3.2 percent, or \$239.5 million, higher than the March forecast, mostly due to higher-than-expected individual and corporate income tax revenue. Revenue in FY 2011-12 is now estimated to increase 7.8 percent over FY 2010-11. This growth provides evidence that Colorado's economy is performing better than the nation and has had more underlying strength than previously evident.
- General Fund revenue for the next budget year (FY 2012-13) will grow at rate lower than forecasted in March. The lower growth rate is due to the slowing global and national economies, heightened uncertainty and risks from the European crisis, and unresolved federal fiscal issues. Also, several factors contributing to income tax growth in FY 2011-12 will not be present in FY 2012-13. General Fund revenue in FY 2012-13 is expected to increase 1.0 percent, or \$77.1 million. However, with the increase in the FY 2011-12 forecast, General Fund revenue is still projected to be \$95.8 million, or 1.3 percent, higher in FY 2012-13 than projected in March.
- Under currently authorized spending levels, General Fund revenue will be \$442.7 million above the required reserve amount in FY 2011-12 and \$342.5 million above the requirement in FY 2012-13. Under current law, \$59 million of the FY 2011-12 excess reserves and all of the FY 2012-13 excess (\$342.5 million) is transferred to the State Education Fund.
- Cash fund revenue subject to TABOR will increase \$125.7 million and total \$2.5 billion in FY 2011-12, a 5.3 percent increase over FY 2010-11. For FY 2012-13, OSPB forecasts total cash fund revenue growth of only 0.2 percent. Although OSPB forecasts growth for all the main cash fund revenue sources next fiscal year, a 56.1 percent, or close to \$100 million decline in severance tax revenue from the sharp drop in natural gas prices is causing the minimal overall cash fund revenue growth.
- The foundation of Colorado's economy has grown stronger, with improvements in the long-struggling housing market, continued growth in jobs, increased energy production, export growth, and reduced household debt loads. The state also appears to be adapting better than many other regions to the increasingly dynamic, information-driven, and technology-intensive economy. At the national level, however, signs of weakening are becoming more apparent. Global growth has also slowed. Europe's troubles present substantial risks and there is heightened uncertainty over federal fiscal issues. Thus, OSPB is maintaining a cautious forecast for FY 2012-13 as the economy muddles through the heightened uncertainty and weaker global economic conditions. Colorado should continue to outperform the nation. However, if the current headwinds and downside risks abate, or if Colorado proves to be resilient against the national and global slowdown, the economy and thus revenue will perform better than forecast.



General Fund Budget

GENERAL FUND OVERVIEW AND BUDGET IMPLICATIONS OF THE FORECAST

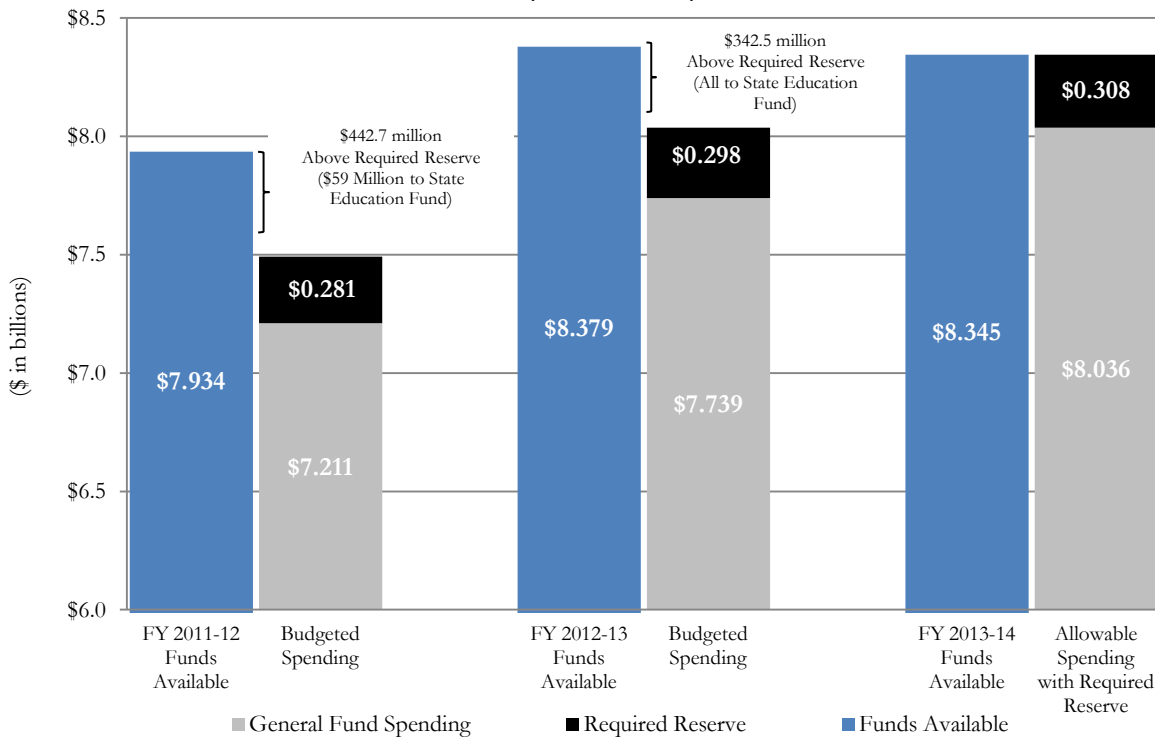
This section discusses General Fund revenue available for spending, current General Fund spending levels, and end-of-year reserves through the forecast period. The General Fund is the State's largest funding source and provides funding for its core programs and services, such as education, assistance to low-income populations, the disabled and elderly, courts, public safety, and the correctional system. It also helps fund the state's capital construction and maintenance needs for state facilities, and in some years, transportation projects. The largest revenue sources for the General Fund are income and sales taxes.

Table 1 following page 8 presents the General Fund Overview under current law based on the June 2012 OSPB revenue forecast. Current law requires annual transfers from the General Fund for transportation and capital construction projects and increases in the required reserve if, starting in 2012, statewide personal income grows more than five percent. If the personal income growth trigger is not met in 2012, the transfers and reserve increases are delayed until after the trigger is first met. Table 1a on the following page shows the General Fund should statewide personal income grow more than five percent in 2012, triggering the transfers and an increase in the required reserve in FY 2013-14. The transfers and the increase in the reserve would result in less money for other General Fund spending. This scenario is currently not forecasted as OSPB projects personal income to grow 4.5 percent in 2012. The amounts in both overviews are subject to change based on updates to the revenue forecast and future budget decisions.

Summary of General Fund Overview – Figure 1 below shows total projected General Fund revenue available, total spending, and reserve levels from FY 2011-12 through FY 2013-14 based on the June forecast and current law. The figure also shows how much General Fund revenue is projected to be above the state's required reserve level. The spending amounts for FY 2011-12 and FY 2012-13 are the budgeted amounts under current law. The FY 2013-14 spending amount is what can be supported with projected funds available while the state maintains its required reserve. The information in the figure is discussed below and is shown in further detail in Table 1 following page 8.



Figure 1. General Fund Money, Spending, and Reserves, FY 2011-12 though FY 2013-14 (\$ in Billions)



After increasing 4.0 percent in FY 2011-12, total General Fund spending grows 7.3 percent, or by \$528.5 million, in FY 2012-13. Based on this forecast and spending under current law, General Fund revenue will be \$442.7 million above the required reserve amount in FY 2011-12 and \$342.5 million above the budget authorized in FY 2012-13. Of the FY 2011-12 excess reserves, \$59 million is earmarked for transfer to the State Education Fund, while all of the FY 2012-13 excess is earmarked for the Fund.

Funds available – The top portions of Tables 1 and 1a show the amount of General Fund money available for spending. The forecast for General Fund revenue is discussed in further detail in the *General Fund Revenue Forecast* section starting on page 11. In addition to General Fund revenue, the amount of funds available includes the beginning fund balance, and any money transferred into or out of the General fund from/to various state cash funds. The table below summarizes the amount of General Fund available by fiscal year. The decline in funds available for FY 2013-14 is attributable to modest revenue growth and a smaller beginning fund balance that year as the end-of-year excess reserves in FY 2012-13 will be transferred to the State Education Fund.



GF Funds Available (\$ in Millions)			
	FY 2011-12	FY 2012-13	FY 2013-14
Beginning Reserve	\$156.7	\$664.8	\$297.5
General Fund Revenue	\$7,639.6	\$7,716.6	\$8,046.8
Net Transfers to/(from) the General Fund	\$138.1	-\$2.5	\$0.6
Total General Funds Available	\$7,934.4	\$8,379.0	\$8,344.9
<i>Dollar Change from Prior Year</i>	\$553.1	\$444.7	-\$34.1
<i>Percent Change from Prior Year</i>	7.5%	5.6%	-0.4%

Spending subject to the appropriations limit – Line 5 in Tables 1 and 1a shows the amount of General Fund appropriations 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. This limit means that the level of General Fund appropriations for certain programs cannot exceed a dollar amount equal to five percent of total statewide personal income. The appropriations subject to the limit help fund the State’s largest core programs, such as K-12 education, Medicaid, human services, corrections, and higher education. The limit is projected to be \$10.7 billion in FY 2012-13. Thus, the General Fund appropriations for these programs are \$3.2 billion under the limit.

The General Fund appropriations for FY 2011-12 and FY 2012-13 reflect current law and are subject to change based on future budget decisions. Appropriations for K-12 education and the Medicaid program comprise the largest amount of the increase in FY 2012-13. The FY 2013-14 amount reflects the level of spending that can be supported by forecasted revenue while maintaining the required reserve level. The FY 2013-14 amount will change based on changes to the revenue forecast and future budget decisions that change FY 2012-13 spending. The appropriation amounts in Table 1, as well as the dollar and percent change per year, are shown below.

GF Spending Subject to the Appropriations Limit (\$ in Millions)			
	FY 2011-12	FY 2012-13	FY 2013-14
Appropriations	\$7,027.8	\$7,438.1	\$7,712.3
<i>Dollar Change from Prior Year</i>	\$216.7	\$410.3	\$274.2
<i>Percent Change from Prior Year</i>	3.2%	5.8%	3.7%

Spending not subject to the appropriations limit – Lines 9 through 16 in Tables 1 and 1a summarize spending that is exempt from or is outside the General Fund appropriations limit. The largest portion of this spending is “Rebates and Expenditures.” The largest programs in this line are: (1) the Cigarette Rebate, which distributes money from a portion of state cigarette tax collections to local governments that do not impose their own taxes or fees on cigarettes; (2) the Old Age Pension program, which provides assistance to eligible low-income elderly individuals who meet certain eligibility requirements; (3) the Property Tax, Heat, and Rent Credit, which provides property tax, rent, or heating bill assistance to qualifying low income disabled or elderly individuals; and (4) contributions to the Fire and Police Pensions Association (FPPA) to help fund the pension plans and other benefits of certain police officers



and firefighters. Projected expenditures for each of these programs are outlined at the bottom of Table 2 following page 16.

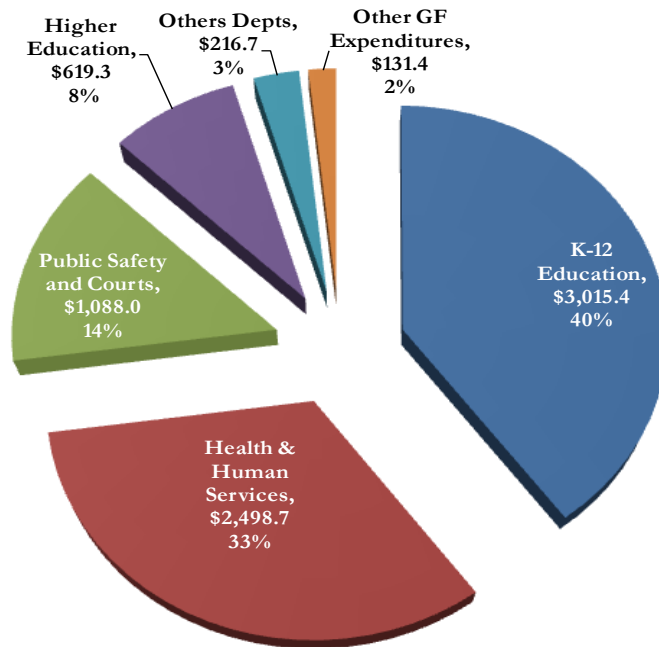
The homestead property tax exemption (Line 12 in Tables 1 and 1a) reduces property tax liabilities for qualifying seniors, starting again in the FY 2012-13, and disabled veterans. The exemption can be reduced or eliminated by law in certain years for budgetary or policy reasons. The homestead exemption expenditure amount increases substantially under current law in FY 2012-13 to just under \$100 million as the exemption for qualifying seniors returns. From FY 2009-10 through FY 2011-12, the exemption was available only to qualifying disabled veterans.

Finally, spending not subject to the limit can include any TABOR refunds, which occur when state revenue exceeds its cap. TABOR refunds are not expected to occur during the forecast period as revenue will be about \$760 million below the cap in FY 2011-12 and over \$1 billion below the cap in FY 2012-13 and FY 2013-14. General Fund money transferred for state capital construction and transportation projects are also not subject to the limit. The transfers can be made at the discretion of the General Assembly and Governor. However, they are required if growth in statewide personal income exceeds five percent. This forecast projects that the trigger will not require transfers through FY 2013-14. In addition to in Table 1, the spending discussed above is summarized in the table below.

GF Spending Not Subject to the Appropriations Limit (\$ in Millions)			
	FY 2011-12	FY 2012-13	FY 2013-14
TABOR Refund	\$0.0	\$0.0	\$0.0
Rebates and Expenditures	\$131.7	\$142.3	\$153.4
Homestead Exemption	\$1.8	\$97.6	\$105.2
Transfers to Capital Construction	\$49.3	\$61.0	\$65.6
Transfers to Highway Users Tax Fund	\$0.0	\$0.0	\$0.0
Total	\$182.7	\$300.9	\$324.2
<i>Dollar Change from Prior Year</i>	\$43.2	\$118.2	\$23.3
<i>Percent Change from Prior Year</i>	30.9%	64.7%	7.7%



Composition of General Fund Budget in FY 2012-13– The following graph shows the composition of the General Fund budget for FY 2012-13 by major department or program area (\$ in millions).



Reserves – The final section of the General Fund Overview tables (“Reserves”) shows General Fund remaining at the end of each fiscal year. The “Year-End General Fund Balance,” in the overview tables reflect the difference between total funds available (Line 4) and total outlays (Line 17). Line 20 shows the statutorily determined reserve requirement and the following line indicates any variance from the target (Money Above (Below) Statutory Reserve). For FY 2011-12, the reserve will be \$442.7 million above the 4.0 percent of appropriations requirement. For FY 2012-13, the reserve is projected to be \$342.5 million above the required amount. Under current law, \$59 million of the FY 2011-12 excess and all of the FY 2012-13 excess is transferred to the State Education Fund.

Starting with calendar year 2012, if annual growth in statewide personal income is over five percent, current law requires a one-half of a percentage point increase in the reserve for five consecutive years until it reaches 6.5 percent of appropriations. This forecast projects that this increase will not be required through FY 2013-14. The dollar amounts for the required reserve and ending fund balance from Table 1 are shown below.



GF Reserves			
	FY 2011-12	FY 2012-13	FY 2013-14
Year-End General Fund Balance	\$723.8	\$640.0	\$308.5
Balance as a % of Appropriations	10.3%	8.6%	4.0%
General Fund Required Reserve	\$281.1	\$297.5	\$308.5
Money Above/Below Req. Reserve	\$442.7	\$342.5	\$0.0
Excess Reserve to State Education Fund	-\$59.0	-\$342.5	N/A

State Education Fund – For informational purposes, the last lines of Table 1 and 1a show the amount of money credited to the State Education Fund both from Amendment 23 and other budgetary actions. Under the state constitutional 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 to help fund preschool through 12th grade education in the state.

In FY 2011-12, the State Education Fund also received a portion (\$221.4 million) of the General Fund revenue above the required reserve from FY 2010-11. In addition, the fund received \$9.6 million from the Tax Amnesty Program created by SB 11-184. Under HB 12-1338, in FY 2012-13, the fund will receive \$59 million of the FY 2011-12 excess reserves, which is in addition to the annual diversion of a portion of taxable income. For FY 2013-14, it will receive all of the FY 2012-13 excess reserves, or a projected \$342.5 million. The amounts to the State Education Fund are shown below.

State Education Fund			
	FY 2011-12	FY 2012-13	FY 2013-14
One-third of 1% of State Taxable Income	\$404.0	\$402.0	\$421.8
Money from Prior Year-end Excess Reserves	\$221.4	\$59.0	\$342.5
Funds from Tax Amnesty Program	\$9.6	N/A	N/A
Total Funds to State Education Fund	\$635.0	\$461.0	\$764.3

Risks to the Budget Outlook

Despite the current relative strength of the Colorado economy, OSPB is maintaining a cautious forecast for FY 2012-13. OSPB projects continued growth, though at a slower rate than the March forecast. However, if the current headwinds and downside risks abate, particularly if the issues in Europe and questions over federal fiscal issues are addressed, or if Colorado sees little adverse impact from these issues, revenue will be greater than forecast.

The economy is in many ways in a historic period as it faces unique challenges and opportunities, which makes forecasting especially difficult. Relative small changes in projected revenue growth rates result in large swings in the amount of money available. For example, if growth were to increase or decrease by just three percentage points in FY 2012-13 from the current projected growth rate, General Fund revenue would be approximately \$230 million higher or lower.

Table 1
General Fund Overview
(Dollar Amounts in Millions)

Line No.		Actual FY 2010-11	June 2012 Estimate by Fiscal Year		
			FY 2011-12	FY 2012-13	FY 2013-14
Revenue					
1	Beginning Reserve	\$137.4	\$156.7	\$664.8	\$297.5
2	Gross General Fund Revenue	\$7,085.8	\$7,639.6	\$7,716.6	\$8,046.8
3	Net Transfers to/(from) the General Fund	\$158.1	\$138.1	(\$2.5)	\$0.6
4	TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE	\$7,381.2	\$7,934.4	\$8,379.0	\$8,344.9
Expenditures					
5	Appropriation Subject to Limit /A	\$6,811.1	\$7,027.8	\$7,438.1	\$7,712.3
6	Dollar Change (from prior year)	\$179.5	\$216.7	\$410.3	\$274.2
7	Percent Change (from prior year)	2.7%	3.2%	5.8%	3.7%
8	Exemptions to Limit and Adjustments to Appropriations /B	\$12.0	\$0.0	\$0.0	\$0.0
9	Spending Outside Limit	\$139.6	\$182.7	\$300.9	\$324.2
10	TABOR Refund	\$0.0	\$0.0	\$0.0	\$0.0
11	Rebates and Expenditures /C	\$126.0	\$131.7	\$142.3	\$153.4
12	Homestead Exemption	\$1.6	\$1.8	\$97.6	\$105.2
13	Transfers to Capital Construction /D	\$12.0	\$49.3	\$61.0	\$65.6
14	Transfers to Highway Users Tax Fund /D	N/A	N/A	N/A	\$0.0
15	Reversions and Accounting Adjustments	(\$26.4)	\$0.0	\$0.0	\$0.0
16	Enhanced Medicaid Match (reduces GF expenditures)	(\$0.5)	N/A	N/A	N/A
17	TOTAL GENERAL FUND OBLIGATIONS	\$6,935.7	\$7,210.5	\$7,739.0	\$8,036.4
Reserves					
18	Year-End General Fund Balance	\$445.5	\$723.8	\$640.0	\$308.5
19	Year-End General Fund as a % of Appropriations	6.5%	10.3%	8.6%	4.0%
20	General Fund Statutory Reserve /E	\$156.7	\$281.1	\$297.5	\$308.5
21	Money Above (Below) Statutory Reserve /F	\$288.9	\$442.7	\$342.5	\$0.0
22	Addendum: State Education Fund /G	\$370.5	\$635.0	\$461.0	\$764.3

Totals may not sum due to rounding.

- /A This limit equals 5.0% of Colorado personal income. The appropriations amounts for Fiscal Year 2011-12 and FY 2012-13 reflect current law. The amount for FY 2013-14 represents the level of spending that can be supported by projected revenue while maintaining the required reserve amount.
- /B Spending by the Medicaid program that is above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount for this line. In FY 2010-11, Medicaid Overexpenditures amounted to \$12.0 million.
- /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 2.
- /D Current law requires transfers to capital construction and the Highway Users Tax Fund when personal income increases by more than 5.0 percent. This is not projected to occur until 2014, which will trigger the transfers in FY 2015-2016.
- /E Per SB 11-156, the statutory General Fund reserve required per 24-75-201.1, C.R.S. was set at 2.3% for FY 2010-11. The required reserve level increased to 4.0% in FY 2011-12. Current law requires the reserve to increase to 4.5 percent when personal income is projected to increase by more than 5 percent. This is not projected to occur until 2014, which will trigger the reserve increase in FY 2015-16. The reserve is further required to increase by 0.5 percentage points each year thereafter until it reaches 6.5 percent of appropriations.
- /F Per SB 11-230, of the excess amount in FY 2010-11, \$67.5 million was credited to the Public School Fund; the remainder, or \$221.4 million, was transferred to the State Education Fund. Per HB 12-1338, \$59.0 million of the FY 2011-12 excess amount and all of the FY 2012-13 excess amount is transferred to the State Education Fund. After the \$59 million transfer, the remaining amount of the FY 2011-12 estimated surplus is carried forward and becomes part of the beginning FY 2012-13 balance.
- /G The State Education Fund annually receives one-third of 1% of Colorado taxable income. For FY 2011-12, it also received an estimated \$221.4 million of the FY 2010-11 Excess Reserve. Also in FY 2011-12, the fund received about \$9.6 million from the tax amnesty program created by SB 11-184. In FY 2012-13, the fund receives \$59 million of the FY 2011-12 excess reserves. For FY 2013-14, it receives all of the FY 2012-13 excess reserves, or a projected \$342.5 million.

Table 1a

General Fund Overview

(With Personal Income Growth Above 5% in 2012 Requiring Transfers and Reserve Increase in FY 2013-14)

(Dollar Amounts in Millions)

Line No.		Actual FY 2010-11	June 2012 Estimate by Fiscal Year		
			FY 2011-12	FY 2012-13	FY 2013-14
Revenue					
1	Beginning Reserve	\$137.4	\$156.7	\$664.8	\$297.5
2	Gross General Fund Revenue	\$7,085.8	\$7,639.6	\$7,716.6	\$8,046.8
3	Net Transfers to/(from) the General Fund	\$158.1	\$138.1	(\$2.5)	\$0.6
4	TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE	\$7,381.2	\$7,934.4	\$8,379.0	\$8,344.9
Expenditures					
5	Appropriation Subject to Limit /A	\$6,811.1	\$7,027.8	\$7,438.1	\$7,521.4
6	Dollar Change (from prior year)	\$179.5	\$216.7	\$410.3	\$83.3
7	Percent Change (from prior year)	2.7%	3.2%	5.8%	1.1%
8	Exemptions to Limit and Adjustments to Appropriations /B	\$12.0	\$0.0	\$0.0	\$0.0
9	Spending Outside Limit	\$139.6	\$182.7	\$300.9	\$485.1
10	TABOR Refund	\$0.0	\$0.0	\$0.0	\$0.0
11	Rebates and Expenditures /C	\$126.0	\$131.7	\$142.3	\$153.4
12	Homestead Exemption	\$1.6	\$1.8	\$97.6	\$105.2
13	Transfers to Capital Construction /D	\$12.0	\$49.3	\$61.0	\$65.6
14	Transfers to Highway Users Tax Fund /D	N/A	N/A	N/A	\$160.9
15	Reversions and Accounting Adjustments	(\$26.4)	\$0.0	\$0.0	\$0.0
16	Enhanced Medicaid Match (reduces GF expenditures)	(\$0.5)	N/A	N/A	N/A
17	TOTAL GENERAL FUND OBLIGATIONS	\$6,935.7	\$7,210.5	\$7,739.0	\$8,006.5
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- /A This limit equals 5.0% of Colorado personal income. The appropriations amounts for Fiscal Year 2011-12 and FY 2012-13 reflect current law. The amount for FY 2013-14 represents the level of spending that can be supported by projected revenue while maintaining the required reserve amount.
- /B Spending by the Medicaid program that is above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount for this line. In FY 2010-11, Medicaid Overexpenditures amounted to \$12.0 million.
- /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 2.
- /D Current law requires transfers to capital construction and the Highway Users Tax Fund when personal income increases by more than 5.0 percent. This is not projected to occur until 2014, which will trigger the transfers in FY 2015-2016 under current law. However, for informational purposes, this General Fund Overview shows the effects to the FY 2013-14 budget if personal income grows by more than 5% in 2012, triggering the transfers in FY 2013-14.
- /E Per SB 11-156, the statutory General Fund reserve required per 24-75-201.1, C.R.S. was set at 2.3% for FY 2010-11. The required reserve level increased to 4.0% in FY 2011-12. Current law requires the reserve to increase to 4.5 percent when personal income is projected to increase by more than 5 percent. This is not projected to occur until 2014, which will trigger the reserve increase in FY 2015-16. The reserve is further required to increase by 0.5 percentage points each year thereafter until it reaches 6.5 percent of appropriations. For informational purposes, this General Fund Overview shows the effects to the FY 2013-14 budget if personal income grows by more than 5% in 2012, triggering the increase in the reserve in FY 2013-14.
- /F Per SB 11-230, of the excess amount in FY 2010-11, \$67.5 million was credited to the Public School Fund; the remainder, or \$221.4 million, was transferred to the State Education Fund. Per HB 12-1338, \$59.0 million of the FY 2011-12 excess amount and all of the FY 2012-13 excess amount is transferred to the State Education Fund. After the \$59 million transfer, the remaining amount of the FY 2011-12 estimated surplus is carried forward and becomes part of the beginning FY 2012-13 balance.
- /G The State Education Fund annually receives one-third of 1% of Colorado taxable income. For FY 2011-12, it also received an estimated \$221.4 million of the FY 2010-11 Excess Reserve. Also in FY 2011-12, the fund received about \$9.6 million from the tax amnesty program created by SB 11-184. In FY 2012-13, the fund receives \$59 million of the FY 2011-12 excess reserves. For FY 2013-14, it receives all of the FY 2012-13 excess reserves, or a projected \$342.5 million.

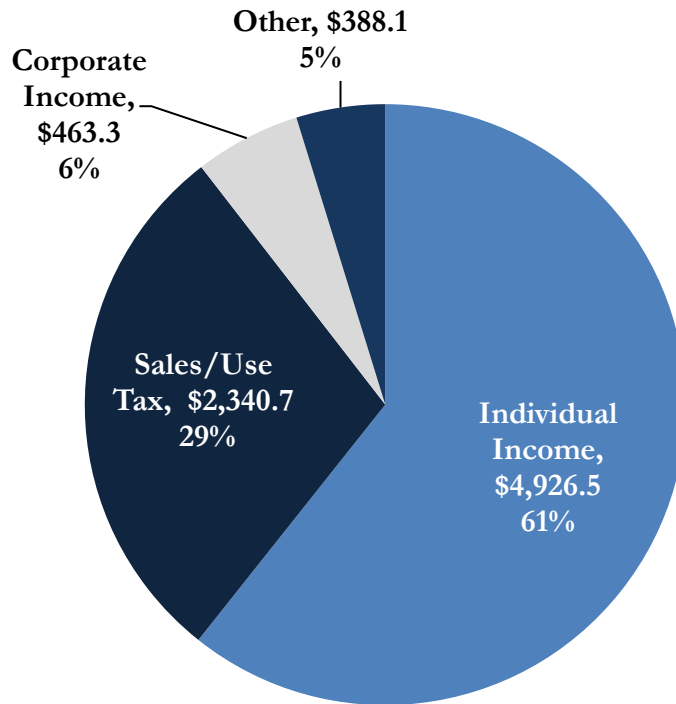


General Fund Revenue Forecast

The June 2012 General Fund revenue forecast for the current budget year (FY 2011-12) is 3.2 percent, or \$239.5 million, higher than the March forecast. Most of the increase is due to higher-than-expected individual income tax revenue, especially from taxes withheld from wages of workers, and lower-than-expected refunds during the income tax filing season. Corporate income tax revenue also continues to exceed expectations. Revenue in FY 2011-12 is now estimated to increase 7.8 percent, or \$553.8 million, over FY 2010-11.

Figure 2 below shows projected revenue in FY 2012-13. The individual and corporate income tax revenue amounts do not reflect the constitutionally required one-third of one percent of taxable income that is diverted from these sources to the State Education Fund. This diversion will total an estimated \$402 million in FY 2012-13.

Figure 2. Composition of General Fund Revenue, FY 2012-13 Forecast, \$ in millions



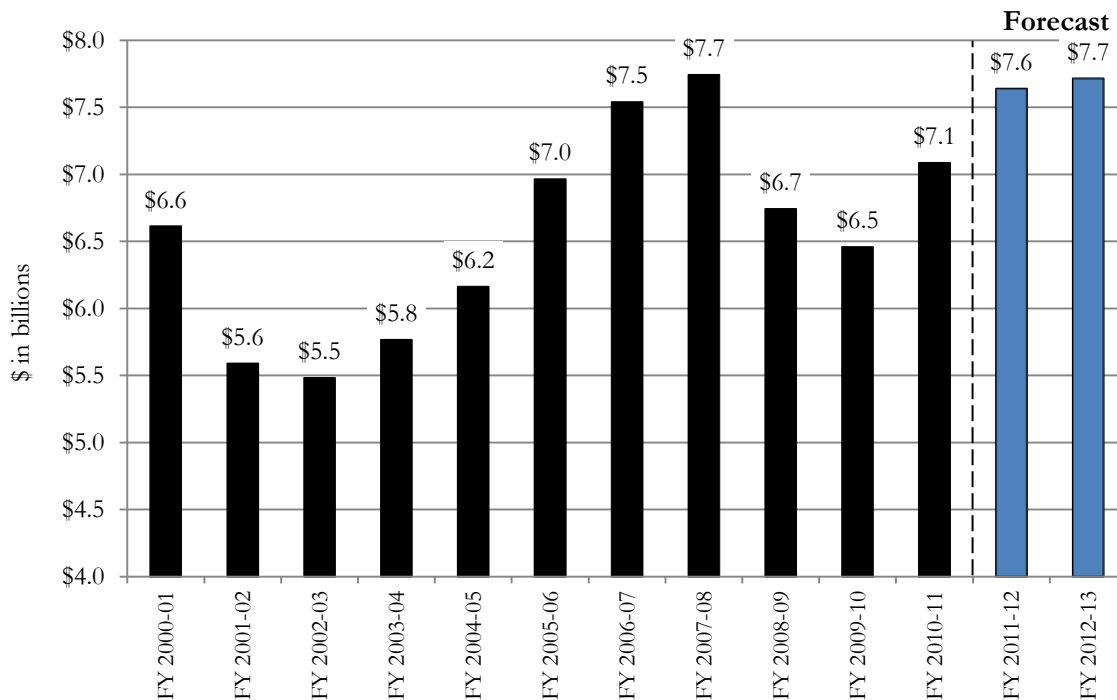


OSPB projects General Fund revenue for the next budget year (FY 2012-13) will grow at a rate lower than forecasted in March (1.0 percent compared with 3.0 percent). The 1.0 percent increase translates to \$77.1 million in revenue growth in FY 2012-13. However, with the upgrade to the FY 2011-12 forecast, General Fund revenue is still projected to be \$95.8 million, or 1.3 percent, higher next year than was forecasted in March. The decrease in growth is due to several reasons. First, as discussed in the forecast for individual income taxes section below, there are several factors bolstering FY 2011-12 income tax revenue that will not occur in FY 2012-13. Also, the increasing headwinds and uncertainty facing the economy is expected to restrain economic activity. Further, the heightened risks across the global economy have made the forecast more cautious. These factors are discussed in more detail in the *Economy: Current Conditions and Forecast* section that starts on page 27.

The FY 2012-13 growth rates for income tax revenue, both from individuals and businesses, have been revised downward since March. Projections for most other revenue sources are similar to the March forecast. More detail on the forecasts from the state’s major General Fund revenue sources is provided below. Also, the projections for income, excise, and all other General Fund revenue sources can be found in Table 2.

Figure 3 below shows actual and projected total General Fund revenue from FY 2000-01 through FY 2012-13. As is shown, projected revenue in FY 2012-13 returns to its FY 2007-08 peak level before the economic downturn.

Figure 3. General Fund Revenue, Actual and Forecast, FY 2000-01 to FY 2012-13





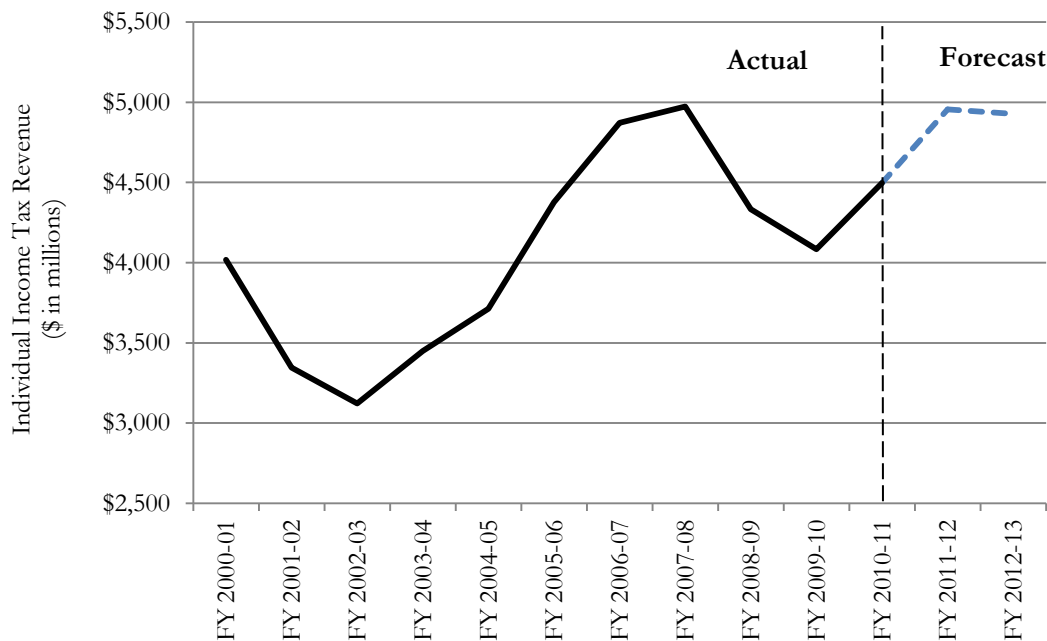
In addition to economic factors, tax policy changes, most notably the reinstatement of certain sales tax exemptions, will impact FY 2012-13 revenue. Further, the nature of this fiscal year’s accrual accounting adjustments will reduce revenue growth in FY 2012-13. Accrual adjustments are required so revenue collected is accounted for in the fiscal year in which the economic activity that generated the revenue occurs. This fiscal year’s revenue is bolstered by accrual adjustments amounting to over \$100 million that will not occur in FY 2012-13. Most of this larger-than-usual adjustment is due to the timing of the June payroll period of many larger businesses that will cause more revenue collected in July to be “accrued” back to June and thus be accounted for in FY 2011-12 and not in FY 2012-13.

Forecast Discussion of Major General Fund Revenue Sources

The following discusses the forecasts for the three major General Fund revenue sources – individual income taxes, corporate income taxes, and sales and use taxes. As shown in Figure 2, these sources represent 95 percent of total General Fund revenue. The section ends with a brief discussion of the General Fund revenue from other sources.

Individual income – Individual income tax revenue comprises around 60 to 65 percent of all General Fund revenue, depending on the year. In FY 2011-12, this revenue source is expected to grow 10.2 percent, closely matching the strong growth in FY 2010-11. However, revenue in FY 2012-13 is expected to decline slightly. Figure 4 below shows actual and forecast individual income tax revenue from FY 2000-01 through FY 2012-13.

Figure 4. Individual Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2012-13





Continued improvement in the job market, higher tax liabilities on capital gains and royalties from income received from increased oil and gas production in the state are the main reasons for the increase in individual income tax revenue in FY 2011-12. Also, reduced tax deductions for home mortgage interest, which has increased taxable income, likely contributed to the increase. Adding to the FY 2011-12 growth is the aforementioned large accrual accounting adjustment due to the timing of the June payroll period of larger businesses.

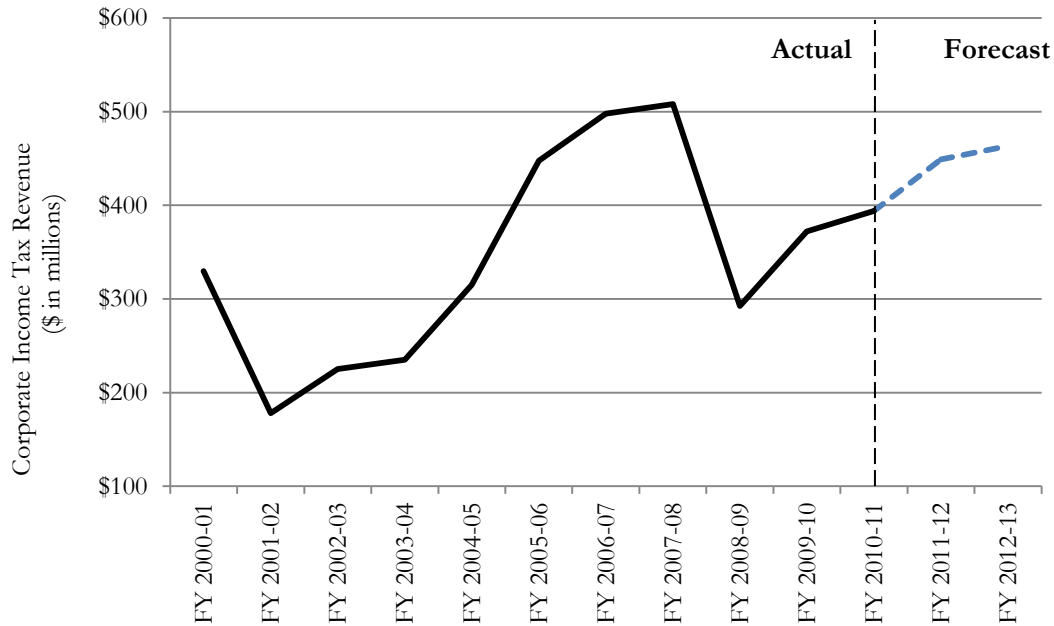
Revenue growth from income tax withholding will be essentially flat in FY 2012-13 due to continued minimal wage increases, a slowdown in job growth, and because the aforementioned large positive accrual adjustment this year will not be repeated. Because income tax withholding represents about 55 percent of total General Fund revenue, the lack of growth in this category is a main reason why overall General Fund growth will be minimal next year.

Also, some of the factors that bolstered FY 2011-12 revenue will be diminished in FY 2012-13. In particular, investors will likely not realize as much capital gains. Many investors have already likely realized their gains before federal tax rates on capital gains are scheduled to increase at the end of this year – evidence indicates that investors often accelerate their gains in the face of tax rate increases. Lower tax liabilities on oil and gas royalties due to a drop in energy prices and production will also contribute to the weaker individual income tax performance in FY 2012-13. Finally, income from smaller-to-medium sized businesses will show less strength compared with this fiscal year due to economic conditions.

Corporate income – Continued stronger growth in Colorado’s economy, combined with business efficiency gains, have generated sustained increases in corporate income tax revenue to the state. In FY 2011-12, corporate income tax revenue is up 53.5 percent, or \$156.4 million above its FY 2008-09 recessionary level. However, profits are expected to moderate with slowing in the economy. Also, companies will likely not continue to benefit from the same productivity gains that have increased margins over the past few years. Corporate income tax revenue is projected to grow 3.2 percent in FY 2012-13, after posting 14.0 percent growth in FY 2011-12. Figure 5 below shows actual and forecast corporate income tax revenue from FY 2000-01 through FY 2012-13.



Figure 5. Corporate Income Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2012-13



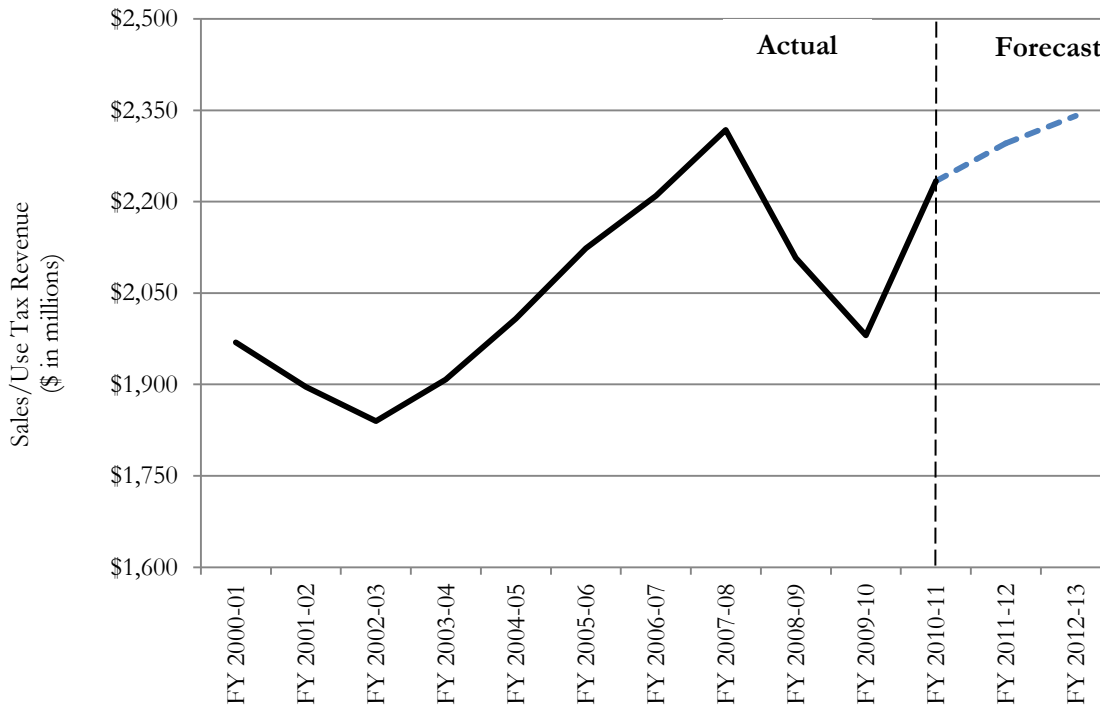
Sales and Use Taxes – Sales and use tax revenue comes from the state’s consumers, visitors, and businesses purchasing taxable items, which consist mostly of goods, not services. These revenue sources are posting modest growth this fiscal year. Sales tax revenue is expected to grow 2.4 percent in FY 2011-12, while use tax revenue, a much smaller revenue source, will grow 6.7 percent. Growth will slow in FY 2012-13 to rates of 2.0 percent and 1.3 percent, respectively. Figure 6 shows actual and forecast sales and use tax revenue from FY 2000-01 through FY 2012-13.

Consumer and business spending continued to increase in FY 2011-12. Consumer spending on durable goods, which comprises around one-quarter of state sales tax collections, showed particular strength. However, the modest growth rate this year is somewhat the result of the partial resumption of the vendor discount which allows a portion of sales taxes collections to be retained by retailers before remitting them to the state. The vendor discount will reduce sales tax revenue collections this year by about \$47 million. Further, continued elevated gas and food prices, which are exempt from the state sales tax, is tempering sales tax revenue as more household income is devoted to buying these necessities rather than other taxable items.

In FY 2012-13, a slowdown in disposable income growth and heightened consumer and business uncertainty is expected to cause a pullback in some spending. This will constrain sales and use tax revenue growth. More details on these trends can be found in the *Economy: Current Conditions and Forecast* section starting on page 27 of this publication. Certain tax policy changes will also lower FY 2012-13’s sales tax collections. The scheduled reinstatement of the sales tax exemptions on energy used for manufacturing and industrial purposes and certain software purchases will decrease sales tax revenue by an estimated \$40 million.



Figure 6. Sales and Use Tax Revenue, Actual and Forecast, FY 2000-01 to FY 2012-13



Other General Fund Revenue – Revenue growth from smaller excise tax sources, including cigarette, tobacco, and liquor taxes, will be flat over the forecast period. Other General Fund revenue includes taxes paid by insurers on premiums, interest income, pari-mutuel taxes, court receipts, and starting in FY 2012-13, estate taxes. The scheduled reinstatement of the federal estate tax in 2013 will bolster this grouping of General Fund revenue sources starting in FY 2012-13. Colorado will see revenue from estate taxes again – \$45 million in FY 2012-13 and \$94 million in FY 2013-14 – because its tax is tied to the federal estate tax. In general, all the other revenue sources will grow modestly over the forecast period.

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

Line No.	Category	Actual		June 2012 Estimate by Fiscal Year					
		FY 2010-11	% Chg	FY 2011-12	% Chg	FY 2012-13	% Chg	FY 2013-14	% Chg
Excise Taxes:									
1	Sales	\$2,043.5	12.0%	\$2,092.6	2.4%	\$2,135.3	2.0%	\$2,198.8	3.0%
2	Use	\$190.1	22.0%	\$202.8	6.7%	\$205.4	1.3%	\$213.5	3.9%
3	Cigarette	\$39.3	-3.8%	\$39.6	0.8%	\$37.9	-4.3%	\$36.4	-3.8%
4	Tobacco Products	\$13.8	-14.2%	\$16.3	18.1%	\$16.6	1.5%	\$17.1	3.0%
5	Liquor	\$36.4	2.8%	\$38.1	4.6%	\$38.6	1.2%	\$39.6	2.6%
6	Total Excise	\$2,323.1	12.1%	\$2,389.4	2.9%	\$2,433.7	1.9%	\$2,505.4	2.9%
Income Taxes:									
7	Net Individual Income	\$4,496.1	10.1%	\$4,955.5	10.2%	\$4,926.5	-0.6%	\$5,110.7	3.7%
8	Net Corporate Income	\$393.9	5.9%	\$448.9	14.0%	\$463.3	3.2%	\$499.4	7.8%
9	Total Income	\$4,890.0	9.7%	\$5,404.4	10.5%	\$5,389.8	-0.3%	\$5,610.1	4.1%
10	<i>Less: State Education Fund Diversion</i>	<i>\$370.5</i>	<i>12.6%</i>	<i>\$404.0</i>	<i>9.0%</i>	<i>\$402.0</i>	<i>-0.5%</i>	<i>\$421.8</i>	<i>4.9%</i>
11	Total Income to General Fund	\$4,519.5	9.5%	\$5,000.4	10.6%	\$4,987.9	-0.3%	\$5,188.3	4.0%
Other Revenues:									
12	Estate	(\$0.1)	N/A	\$0.0	N/A	\$45.0	N/A	\$94.0	108.9%
13	Insurance	\$189.7	1.5%	\$194.0	2.3%	\$197.8	2.0%	\$201.8	2.0%
14	Interest Income	\$7.9	-21.6%	\$11.7	47.7%	\$8.8	-24.2%	\$12.8	44.1%
15	Pari-Mutuel	\$0.5	-0.6%	\$0.6	3.4%	\$0.4	-23.1%	\$0.4	-6.2%
16	Court Receipts	\$3.6	-80.0%	\$1.3	-64.9%	\$0.3	-80.0%	\$0.3	0.0%
17	Gaming	\$20.4	25.9%	\$20.2	-1.0%	\$20.3	0.5%	\$20.4	0.5%
18	Other Income	\$21.2	-18.8%	\$22.1	4.2%	\$22.4	1.3%	\$23.6	5.4%
19	Total Other	\$243.2	-5.6%	\$249.8	2.7%	\$295.0	18.1%	\$353.2	19.7%
20	GROSS GENERAL FUND	\$7,085.8	9.7%	\$7,639.6	7.8%	\$7,716.6	1.0%	\$8,046.8	4.3%
Rebates & Expenditures:									
21	Cigarette Rebate	\$11.0	-5.3%	\$11.2	1.6%	\$10.7	-4.3%	\$10.3	-3.8%
22	Old-Age Pension Fund	\$102.2	-11.4%	\$100.7	-1.4%	\$107.4	6.6%	\$103.4	-3.8%
23	Aged Property Tax & Heating Credit	\$6.8	-10.0%	\$7.8	15.1%	\$7.4	-6.3%	\$7.4	1.0%
24	Interest Payments for School Loans	\$0.8	-63.7%	\$1.4	74.1%	\$1.6	14.3%	\$1.6	0.0%
25	Fire/Police Pensions	\$4.3	1.3%	\$9.6	123.1%	\$14.4	49.8%	\$29.8	107.2%
26	Amendment 35 General Fund Expenditure	\$0.9	-1.9%	\$0.9	0.5%	\$0.9	-2.4%	\$0.8	-2.1%
27	Total Rebates & Expenditures	\$126.0	-11.2%	\$131.7	4.5%	\$142.3	8.1%	\$153.4	7.7%



Cash Fund Revenue Forecast

Cash fund revenue subject to TABOR will grow \$125.7 million and total \$2.5 billion in FY 2011-12, a 5.3 percent increase over FY 2010-11. In FY 2011-12, the majority of this growth is attributable to increases in the hospital provider fee, severance tax, and transportation revenue.

FY 2012-13 cash fund revenue will increase \$5.6 million, or 0.2 percent. OSPB forecasts growth for all the largest cash fund revenue categories except severance tax, which is forecast to decline and offset much of the revenue growth in other cash funds. The forecast decline in severance tax revenue is the result of low natural gas prices and the effect of the ad valorem severance tax credit.

The following discusses the forecast for the state's major cash fund revenue sources and the numerous other state cash funds grouped as miscellaneous cash funds.

Transportation-Related Cash Funds

Total transportation-related cash fund revenue, which includes revenue to the Highway Users Tax Fund and other various smaller transportation cash funds, will total \$1.10 billion in FY 2011-12, an increase of 1.9 percent from FY 2010-11. FY 2012-13 collections will increase 1.2 percent to total 1.12 billion. Most transportation-related cash fund revenue is from motor fuel sales, vehicle registrations, and license and permit issuances.

FY 2011-12 transportation-related revenue growth is attributable largely to increased vehicle sales and registration fees. Vehicle sales are a major driver of transportation revenue collections as they increase revenue from registrations and driver's licenses. Motor vehicle retail sales by Colorado dealerships increased 13.0 in FY 2011-12 through February (the latest data available) compared with the same period in the prior fiscal year. Motor fuel tax revenue, which accounts for over half of Highway Users Tax Fund revenue, will be roughly flat compared with FY 2010-11 as elevated gas prices and rising fuel efficiency have resulted in reduced fuel purchases.

Vehicle sales will grow at a slower rate in FY 2012-13 as the economy slows and pent-up demand, which is partly the cause of current year growth, diminishes. Continued relatively high fuel prices should also temper growth in transportation revenue in FY 2012-13.

HB 10-1387 transferred \$22.1 million from the Highway Users Tax Fund to the Licensing Services cash fund in FY 2011-12 to fund the Division of Motor Vehicles in the Department of Revenue. This transfer does not affect total transportation revenue in FY 2011-12, but it will decrease the amount credited in the Highway Users Tax Fund and there will be a commensurate increase credited in other miscellaneous cash funds. HB 12-1216 continues this transfer through FY 2012-13.



Limited Gaming

Limited gaming revenue will total \$97.6 million in FY 2011-12, a 9.6 percent decline from the prior year. Of this total, \$9.2 million is “extended limited gaming” revenue and is exempt from TABOR per Amendment 50. This amendment to the Colorado Constitution resulted in increased betting limits, more types of gaming, and extended gaming hours. Most of the extended limited gaming money is allocated to the state’s community college system, and the rest is allocated to gaming area communities. The estimated amount subject to TABOR is \$88.3 million and is shown in Table 4 of this forecast.

FY 2011-12 gaming revenue collections have been weak due to a combination of continued financial challenges for many Coloradans, elevated gas prices, and the five percent tax rate reduction adopted by the Colorado Limited Gaming Control Commission in 2011. This tax reduction lowered FY 2011-12 revenue by an estimated \$5.2 million. The Commission has since unanimously overturned the rate cut. Due to this tax change and a modest rebound in gaming activity, FY 2012-13 revenue will grow 8.3 percent and total \$105.7 million. Of this amount, \$91.0 million is subject to TABOR and is shown in Table 4, while \$14.7 million is extended limited gaming revenue.

Figure 7 outlines the forecast for total gaming revenue, both Amendment 50 TABOR exempt revenue and TABOR revenue, and summarizes its allocation under current law. HB 12-1286 increases money for film incentives by an additional \$3.0 million in FY 2012-13.

Figure 7. Distribution of Limited Gaming Revenues

Distribution of Limited Gaming Revenues	Actual FY10-11	Forecast FY11-12	Forecast FY 12-13	Forecast FY 13-14
A. Total Limited Gaming Revenues	\$108.0	\$97.6	\$105.7	\$110.0
Annual Percent Change	0.3%	-9.6%	8.3%	4.1%
B. Base Limited Gaming Revenues (max 3% growth)	\$97.7	\$88.3	\$91.0	\$93.7
Annual Percent Change	1.0%	-9.6%	3.0%	3.0%
C. Total Amount to Base Revenue Recipients	\$90.2	\$77.6	\$81.6	\$84.9
Amount to State Historical Society	\$24.2	\$21.7	\$22.9	\$23.8
Amount to Counties	\$10.4	\$9.3	\$9.8	\$10.2
Amount to Cities	\$8.6	\$7.8	\$8.2	\$8.5
Amount to Distribute to Remaining Programs (State Share)	\$47.0	\$38.8	\$40.8	\$42.4
Amount to Local Government Impact Fund	\$3.6	\$2.9	\$3.2	\$3.5
Colorado Tourism Promotion Fund	\$12.0	\$9.8	\$10.8	\$11.6
Creative Industries Cash Fund	\$1.0	\$0.8	\$0.9	\$0.9
Film, Television, and Media Operational Account	\$0.2	\$0.2	\$0.2	\$0.2
Bioscience Discovery Evaluation Fund	\$4.3	\$3.5	\$3.9	\$4.2
Innovative Higher Education Research Fund	\$1.7	\$1.4	\$1.5	\$1.6
Transfer to the General Fund	\$20.4	\$20.2	\$20.3	\$20.4
D. Total Amount to Amendment 50 Revenue Recipients	\$8.9	\$6.1	\$10.2	\$12.2
Community Colleges, Mesa and Adams State (78%)	\$7.0	\$4.7	\$7.9	\$9.5
Counties (12%)	\$1.1	\$0.7	\$1.2	\$1.5
Cities (10%)	\$0.9	\$0.6	\$1.0	\$1.2



Hospital Provider Fee

Hospital provider fee revenue is the second-largest cash fund revenue category subject to TABOR and will grow more than any other category this fiscal year. Fee revenue will increase \$144.0 million in FY 2011-12 and \$56.8 million in FY 2012-13.

Provider fee revenue increases Medicaid reimbursements to some hospitals paying the fee. Most hospitals in the state pay the fees, which are equivalent to a per-day payment for inpatient hospital services and a percentage of charges for outpatient hospital services. In FY 2011-12 and FY 2012-13, revenue is forecast to increase as the population eligible for the program is expanded, and providers in turn pay more fee revenue. 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.

Revenue will decline in FY 2013-14 as the federal Affordable Care Act makes certain populations eligible for a 100 percent federal fund match that year. Therefore, provider fee revenue will not be collected for these populations. The Office of State Planning and Budgeting would like to recognize the Department of Health Care Policy and Financing for its assistance in forecasting provider fee revenue.

Severance Tax

Severance tax is paid on all types of extracted minerals, including metallic minerals, molybdenum, coal, oil, and natural gas, the most significant source of severance tax revenue is oil and natural gas production. Severance tax revenue will total \$175.3 million in FY 2011-12 but decline to \$98.3 million in FY 2012-13 due to very low natural gas prices. Severance tax revenue is forecast to rebound by \$85.1 million in FY 2013-14 as natural gas prices rise, oil prices remain relatively high, and smaller ad valorem tax credits are available to taxpayers.

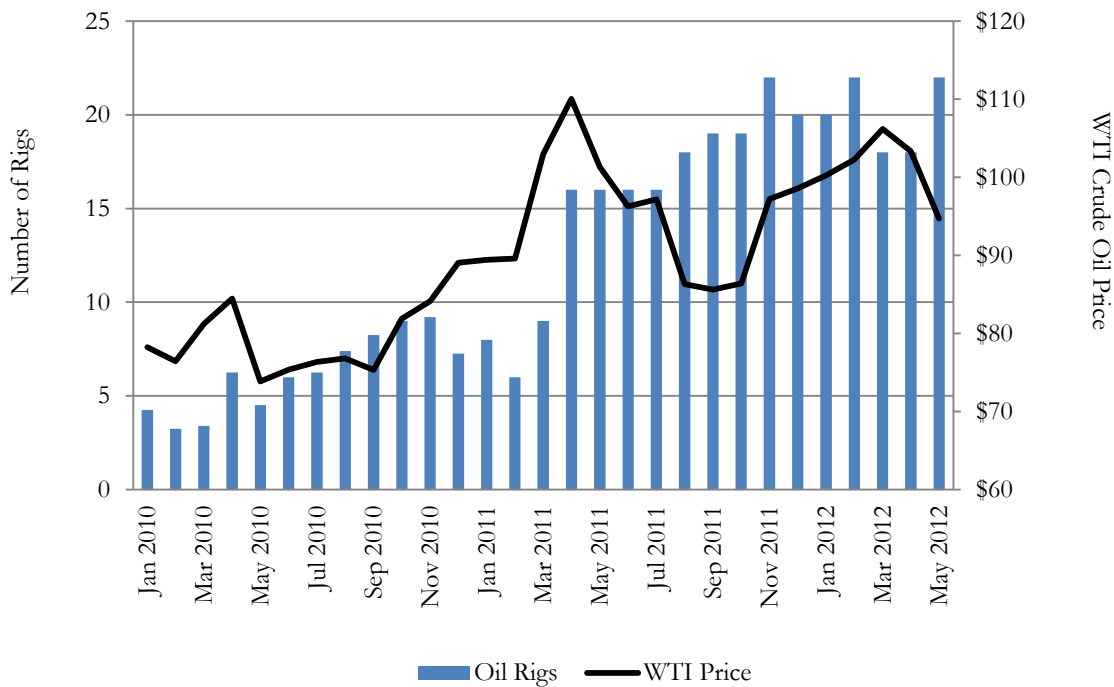
Natural gas prices for Colorado producers, by far the largest determinant of severance tax revenue, are forecast to average \$2.53 per thousand cubic feet (Mcf) in 2012. This is a substantial drop compared with the 2011 natural gas price average of \$4.10 per Mcf. In the March 2012 forecast, OSPB forecast natural gas prices of \$2.95 per Mcf for 2012 and \$3.55 per Mcf for 2013. An abundance of natural gas in storage and large-scale production nationwide has put downward pressure on prices. Subsequently, the number of active natural gas rigs has trended downward in the state since December 2011 as shown in Figure 8 below.

The low natural gas price environment is one main contributor to the projected 53.5 percent drop in FY 2012-13 severance tax revenue. The other main reason for the decline is that taxpayers will apply relatively large tax credits based on a higher value of production in the prior year against their lower FY 2012-13 tax liabilities that will result from the current low prices. Owners of oil and gas production are required to pay local government property tax on the value of the oil and gas produced in a given year; however, taxpayers may deduct 87.5 percent of these property taxes paid as a credit against their severance tax liability. For most of the state's largest severance taxpayers, the amount of the credit is based the value of oil and gas produced in the *prior* year. Therefore, when prices fluctuate substantially from year to year, as is the case with the change from FY 2011-12 to FY 2012-13, the volatility in severance taxes is exacerbated.



The decline in natural gas prices has reduced the profitability of natural gas production. As a result, many companies have emphasized oil production over natural gas production; the number of active oil rigs nationwide currently exceeds the number active natural gas rigs. This is not the case in Colorado where there are currently more active natural gas rigs than oil rigs, an expected result given the state’s larger amount of recoverable natural gas relative to oil. Figure 8 shows both the change in active oil drilling rigs and the change in the West Texas Intermediate crude oil price. Figure 9 shows the change in active natural gas drilling rigs in Colorado and the change in the Henry Hub natural gas price.

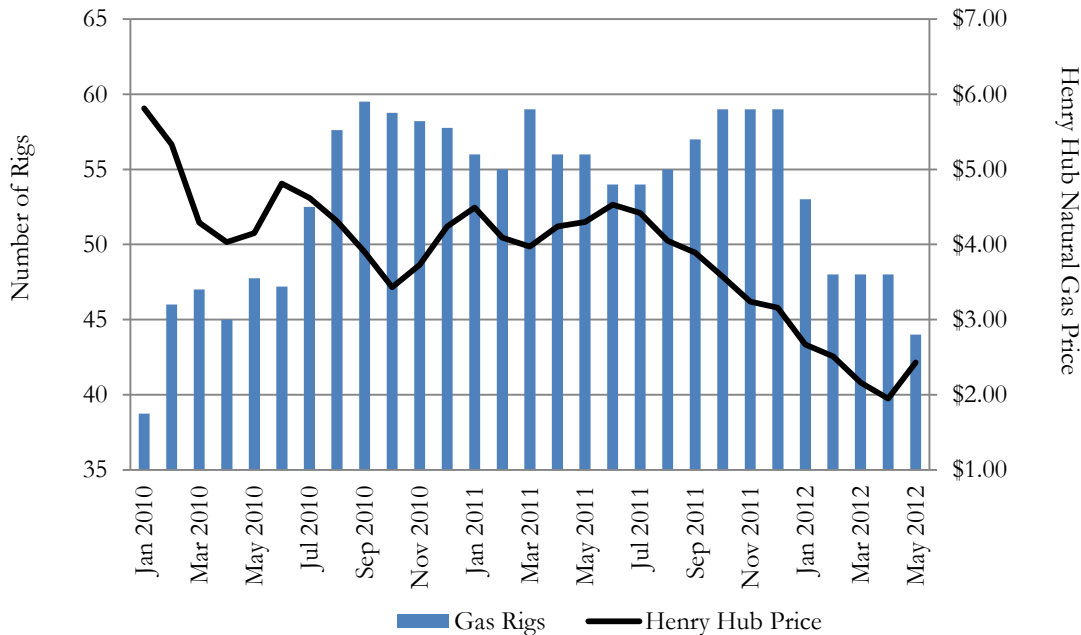
Figure 8. Active Colorado Oil Rigs and WTI Crude Oil Price



Sources: Baker Hughes, St. Louis Federal Reserve



Figure 9. Active Colorado Natural Gas Rigs and Henry Hub Natural Gas Price



Sources: Baker Hughes, St. Louis Federal Reserve

The Niobrara formation, located partly in Weld County is the site of most new oil activity in Colorado. Production activity in Weld County, already a major oil producing county, should increase over time as more wells are drilled. However, the effect of increased Weld County production on revenue collection will be mitigated by the ad valorem tax credit because the county has a higher property tax rate than most other large oil and gas producing counties.

Federal Mineral Leasing Revenue

When federal lands are leased for mineral extraction, the federal government and the state of Colorado realize roughly half of the revenue from the production and leasing activity. This revenue is called Federal Mineral Leasing (FML) revenue. Generally, half of FML revenue comes from natural gas. The other main sources are oil, coal, and carbon dioxide.

Continued production on federal lands will contribute to a 10.6 percent increase in FY 2011-12 FML payments. Because most of FML revenue is based on the value of production, low natural gas prices and a decline in oil prices will reduce FML revenue in FY 2012-13 by 6.4 percent compared with FY 2011-12. Figure 10 shows the actual and forecasts of FML revenue. FML revenue is from the federal government and is thus exempt from TABOR. Therefore, the amounts shown below are not reflected in the cash fund TABOR revenue forecast shown in Table 3.



Figure 10. Federal Mineral Leasing (FML) Payments

Federal Mineral Lease (FML) Payments				
Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	% Change
FY 2009-10	\$5.20	\$117.20	\$122.50	-46.1%
FY 2010-11	\$2.26	\$147.20	\$149.48	22.0%
FY 2011-12	\$2.80	\$162.50	\$165.30	10.6%
FY 2012-13	\$3.09	\$151.63	\$154.72	-6.4%
FY 2013-14	\$3.27	\$160.12	\$163.39	5.6%

Dollars are in millions. FY 2009-10 and 2010-11 figures reflect actual collections, and FY 2011-12 through FY 2013-14 are projections.

Other Cash Funds

The Colorado Department of Regulatory Agencies works to ensure consumer protection and marketplace integrity. The agency is primarily cash funded by both regulated entities, such as insurance companies, and professionals, such as real estate agents, chiropractors, and pharmacists. The Department’s growth in cash fund revenue will be relatively flat over the forecast period, totaling \$67.5 million in FY 2011-12 and \$69.3 million in FY 2012-13.

Insurance-related cash fund revenue includes all insurance premiums collected for major medical insurance, subsequent injury, and worker’s compensation. Insurance-related cash funds will total \$19.1 million in FY 2011-12 and \$22.1 million in FY 2012-13.

The category of “Other Cash Funds” in Table 3 includes numerous cash funds subject to TABOR that are mainly funded from licenses, fines, and fees as well as interest earnings on various cash funds. This category is projected to decrease \$43.8 million in FY 2011-12 over FY 2010-11. The implementation of SB 11-208 in FY 2011-12, which merged the Division of Wildlife and the Division of Parks to form the Division of Parks and Wildlife within the Department of Natural Resources, partly accounts for the decline in revenue. The legislation established the new division as an enterprise under Article X, Section of the Colorado Constitution, making all of its revenue no longer subject to TABOR. As a result of this change, an estimated \$29 million is now exempt revenue in FY 2011-12 that was included in TABOR revenue previously; the TABOR and Referendum C limits on revenue have been adjusted to reflect the change.

Table 3
Cash Fund Revenue Forecasts by Major Category

(Dollar amount in millions)

Category	Actual	June 2012 Estimate by Fiscal Year			FY 2010-11 to FY 2013-14 CAAGR*
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	
Transportation-Related /A	\$1,082.7	\$1,103.7	\$1,116.4	\$1,131.9	
Change	2.2%	1.9%	1.2%	1.4%	1.5%
Limited Gaming Fund /B	\$98.0	\$88.3	\$91.0	\$93.7	
Change	-3.2%	-9.8%	3.0%	3.0%	-1.5%
Capital Construction - Interest	\$3.0	\$0.7	\$0.8	\$0.9	
Change	-7.8%	-76.1%	5.9%	18.4%	-33.1%
Regulatory Agencies	\$69.6	\$67.5	\$69.3	\$71.2	
Change	3.3%	-3.0%	2.7%	2.7%	0.8%
Insurance-Related /C	\$26.5	\$19.1	\$22.1	\$22.5	
Change	-38.3%	-27.8%	15.6%	2.0%	-5.3%
Severance Tax	\$149.4	\$175.3	\$77.0	\$162.1	
Change	209.6%	17.3%	-56.1%	110.5%	2.8%
Medicaid Hospital Provider Fees	\$442.6	\$586.6	\$643.4	\$607.7	
Change	46.1%	32.5%	9.7%	-5.5%	11.2%
Other Miscellaneous Cash Funds	\$495.4	\$451.6	\$478.4	\$496.9	
Change	6.7%	-8.8%	5.9%	3.9%	0.1%
TOTAL CASH FUND REVENUE	\$2,367.1	\$2,492.8	\$2,498.4	\$2,587.0	
Change	13.3%	5.3%	0.2%	3.5%	3.0%

* CAAGR: Compound Annual Average Growth Rate.

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

/B Revenue excludes 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.



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." Referendum C also set a new cap on revenue starting in FY 2010-11. Table 4 summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

Beginning in FY 2010-11, the amount of revenue that the State may retain under Referendum C (line 9) is computed by multiplying the revenue limit between FY 2005-06 and FY 2009-10 associated with the highest TABOR revenue year (FY 2007-08) by the allowable TABOR growth rates (line 6) for each subsequent year. OSPB does not project that any refunds will occur during the forecast period (line 10). Revenue is projected to be about \$760 million below the Referendum C cap in FY 2011-12 and over \$1 billion below the cap in FY 2012-13 and FY 2013-14.

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 lowered.

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

Line No.		Actual FY 2010-11	June 2012 Estimate by Fiscal Year		
			FY 2011-12	FY 2012-13	FY 2013-14
TABOR Revenues:					
1	General Fund /A <i>Percent Change from Prior Year</i>	\$7,057.7 8.9%	\$7,619.4 8.0%	\$7,696.3 1.0%	\$8,026.4 4.3%
2	Cash Funds <i>Percent Change from Prior Year</i>	\$2,367.1 13.3%	\$2,492.8 5.3%	\$2,498.4 0.2%	\$2,587.0 3.5%
3	Total TABOR Revenues <i>Percent Change from Prior Year</i>	\$9,424.8 10.0%	\$10,112.2 7.3%	\$10,194.7 0.8%	\$10,613.4 4.1%
Revenue Limit Calculation:					
4	Previous calendar year population growth	1.8%	0.1%	1.4%	1.5%
5	Previous calendar year inflation	-0.6%	1.9%	3.7%	2.9%
6	Allowable TABOR Growth Rate	1.2%	2.0%	5.1%	4.4%
7	TABOR Limit	\$8,654.2	\$8,799.7	\$9,248.5	\$9,655.5
8	General Fund Exempt Revenue Under Ref. C /B	\$770.6	\$1,312.4	\$946.2	\$957.9
9	Revenue Cap Under Ref. C /C	\$10,684.9	\$10,871.0	\$11,425.4	\$11,928.2
10	<i>Amount Above/(Below) Limit</i>	<i>(\$1,260.1)</i>	<i>(\$758.8)</i>	<i>(\$1,230.7)</i>	<i>(\$1,314.8)</i>
11	TABOR Reserve Requirement	\$282.7	\$303.4	\$305.8	\$318.4

/A 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 Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of money 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 Cap Under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit is 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

The economies of Colorado and the nation are experiencing mixed conditions. There continue to be positives, such as improvements in the long-struggling housing market, continued growth in jobs and exports, increased energy production, and reduced household debt loads. Most notably, the foundation of Colorado's economy has grown stronger; it continues to outperform the nation overall and many other states.

At the national level, signs of weakening are becoming more apparent. Recent data show a slowdown in job growth, manufacturing, and business and consumer spending. Continued low expectations about future economic growth, combined with increasing uncertainty stemming from the European crisis and looming major federal fiscal issues, will slow growth over the coming year. More businesses and households are in a wait-and-see mode before hiring, investing, or purchasing which is holding back economic activity. When multiplied across the economy, these dynamics are causing a slowdown.

Unfortunately, despite Colorado's strong foundation, it is not immune from these issues. The forecast for both the state and national economies is for continued, albeit slower, growth as the economy muddles through an environment of heightened uncertainty and weaker global economic conditions. Colorado should continue to outperform the nation.

Europe's economic and financial troubles present substantial downside risks to this forecast. Though, at present, the crisis may be benefitting the national and state economy to some extent as money and investment flow to the U.S. instead of Europe. It is impossible to project how the events will unfold. A comprehensive solution to the crisis that would help reverse the worsening conditions remains elusive. If left unresolved, Europe's financial problems could cause greater adverse impacts across the globe, including the potential of a credit freeze from contagion in the financial system. Conversely, actions that calm financial markets and reduce uncertainty would help the economy to perform better.

Overall Economic Conditions

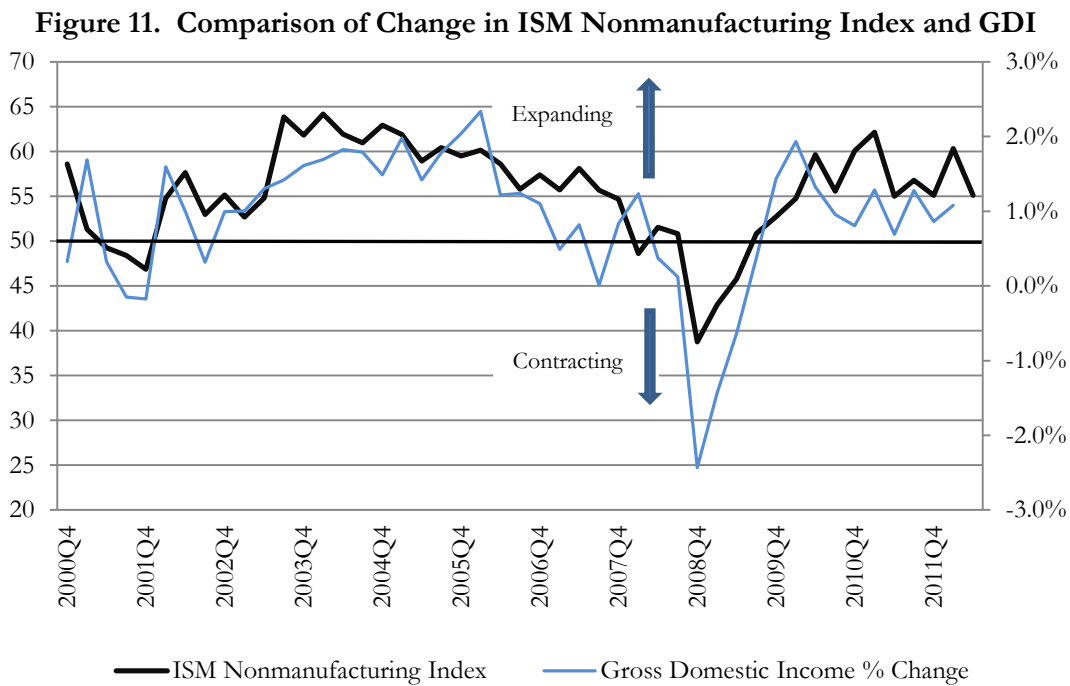
Growth in national nonmanufacturing and manufacturing activity continues, but there are some emerging indications that growth is slowing – In May, the Institute for Supply Management's (ISM) Nonmanufacturing Business Activity Index, based on a survey of businesses in the nonmanufacturing sectors of the economy, was 55.6, slightly higher than April's 54.6 reading. A reading above 50 indicates expansion. Among the industries that reported expansion were information, accommodation and food services, retail trade, professional, scientific and technical services, construction, real estate, and rental and leasing. Industries that reported decreased business activity in May include arts, entertainment and recreation, health care and social assistance, and mining.

The ISM Manufacturing Purchasing Managers Index (PMI), based on a survey of businesses in the production of goods sector, was 53.5 in May, which was a slight decrease from April's reading of 54.8. The May reading above 50 indicates that the production of goods has expanded for 34 consecutive months. Of the 18 industries surveyed, 13 reported growth in May, including the computer and



electronics, furniture, apparel, and machinery industries. A chemical industry respondent noted business has been trending moderately higher since the beginning of the year and anticipated five percent to seven percent growth for the year. A furniture industry representative pointed out that business continues to be up in general. However, a representative from the computer and electronics manufacturing sector indicated that business has been lower than forecast in the second quarter of this year. Further, the most recent reading from the Federal Reserve on the nation’s manufacturing output showed slowing in May.

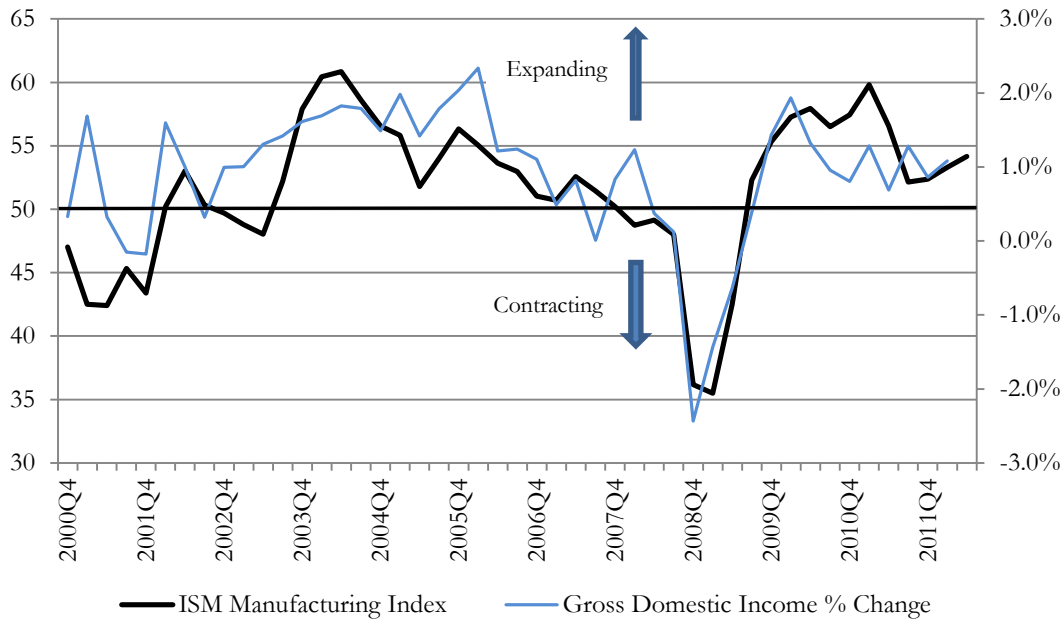
Over time, both the ISM nonmanufacturing and manufacturing indices have been closely correlated with the business cycle. Figure 11 shows the change in the ISM Nonmanufacturing Business Activity Index compared with Gross Domestic Income (GDI). Figure 12 compares the ISM Manufacturing Index with GDI. Closely associated with Gross Domestic Product (GDP), GDI is the sum of all income earned while producing goods and services within the nation's borders. This measure is considered by some to be a more accurate reading of the economy than GDP. The figures show GDI through the first quarter of 2012, the latest data available, while the latest ISM indices are the averages of the April and May readings.



Source: Institute for Supply Management (ISM) Report on Business, ISM Nonmanufacturing Business Activity Index, seasonally adjusted quarterly average of the monthly index; U.S. Bureau of Economic Analysis



Figure 12. Comparison of Change in ISM Manufacturing Composite Index and GDI



Sources: Institute for Supply Management (ISM) Report on Business, ISM Manufacturing PMI Composite Index seasonally adjusted quarterly average of the monthly index; U.S. Bureau of Economic Analysis

Colorado Business Conditions – Conditions for Colorado businesses overall continue to be relatively positive, though recent data show signs of slowing. Similar to the ISM indices, which provide insight on the overall national economy, the Goss Business Conditions Index measures the current and near-term future performance of the Colorado economy. The index declined 3.2 percentage points in May to 55.7. However, a reading above 50 indicates growth, and the index has been above this level since October 2009. Durable goods producers outperformed non-durable goods in Colorado. In conducting the survey used to inform the index, respondents were asked whether Europe’s economic difficulties had impacted their businesses; 26.3 percent of respondents noted Europe’s difficulties had some negative impact.

Employment Conditions and Trends

Colorado job growth is outpacing the nation, though challenges remain – Both Colorado and the nation continue to add jobs, though at a pace not strong enough to lower unemployment substantially. Uneven growth, heightened economic uncertainty, and economic restructuring continue to create a challenging job market.

Figure 13 shows the actual and projected change in individuals employed at businesses from 2000 through 2013 for the state and the nation. The data for Colorado includes OSPB’s estimates of currently unpublished but forthcoming revisions to jobs data. As shown, Colorado’s job growth has been relatively strong and has outpaced the nation.

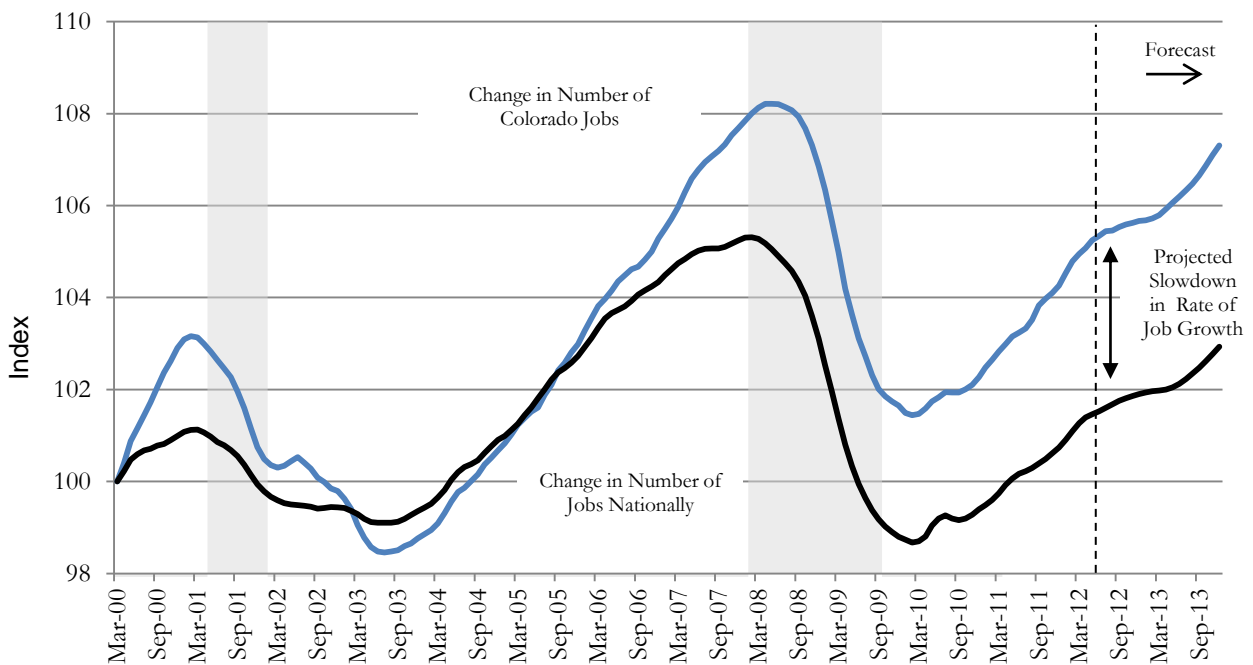
Colorado’s job growth has been more robust due to its larger concentration of high-skilled workers that are in higher demand in today’s information and technologically-based economy. Also, its favorable mix



of industries, such as professional and technical services, energy, manufacturing, and tourism, produce high economic value and generate income to the state. Despite the relatively strong growth, however, job levels remain below their pre-recession peak.

While job growth will continue, a slowdown is expected over the next year – As shown in Figure 13, the rate of job growth will slow both nationally and in Colorado for the remainder of the year and in 2013. This slowdown will occur due to the weakening in the global and national economy, the exacerbation of the problems in Europe, and heightened uncertainty which will hold back investment and hiring.

Figure 13. Actual and Projected Change in Payroll Jobs Nationally and in Colorado, 2000 through 2013



The graph compares the change in the number of jobs nationally and in Colorado since January of 2000 using a three month moving average. Index: March 2000=100

Source: U.S. Bureau of Labor Statistics. Includes OSPB’s estimates of forthcoming revisions to jobs data that are currently not published. The jobs figures will be benchmarked based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in the state than what was estimated based on a survey of employers.

The job market may be performing better than official data suggest because of changes in the economy – Changes in how individuals earn income likely mean that some work and income earning activities are not fully shown in the official jobs data. More individuals are finding alternatives to the traditional job by working as independent contractors on various projects. The most current data on jobs are based on surveys that only sample businesses and households. Thus, the extent of this growing trend is likely not captured in jobs statistics.



Enhanced technology that allows individuals to work at many different locations with access to vast amounts of information and connectivity across the world is a main driver of this phenomenon. The trend is driven by both individuals and businesses preferring more flexibility. Individuals are attracted to the entrepreneurial benefits of being able to work on a variety of projects while business can be more agile and decrease labor costs by not employing full-time workers. These changes and restructuring remain a challenge for many. Colorado's technologically savvy, creative, and entrepreneurial workforce is well-positioned to adapt to this phenomenon.

Colorado nonfarm payroll jobs will increase 1.7 percent in 2012, similar to 2011's growth, but slow to 1.0 percent in 2013; nationally, job growth will be slightly slower.

Unemployment

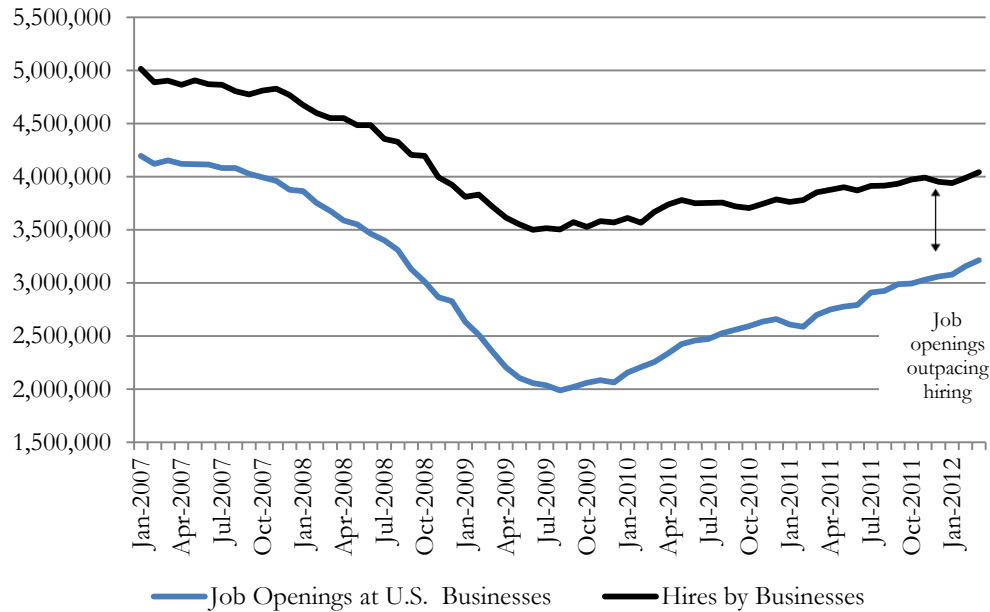
High unemployment has persisted longer in the wake of the Great Recession than in other recoveries. Elevated unemployment is one of the biggest challenges facing the state and nation. As more households struggle to make ends meet and fewer people are in the economy producing, economic growth is reduced. Additionally, the longer people are unemployed, the more difficult it is for them to have the same earnings potential and find employment as they lose skills and connection to the labor market.

Unemployment remains high, despite more job openings – The unemployment rate remains high while job openings have increased. The growth in job openings at businesses is exceeding the pace of hiring, indicating businesses are having difficulty finding individuals with the right skills to fill their needs. This is shown in Figure 14 below. In the first quarter of 2012, the latest data available, the number of job openings was 19.1 percent higher than the prior year, while hiring was only up 4.9 percent. Further, the unemployment rate remains around two to three percentage points higher than the unemployment rates associated with the same job openings rate before the recession.

According to the most recent survey of by the National Federation of Independent Businesses, more small business owners have indicated greater difficulty in finding the qualified workers they need. These challenges are affecting current economic conditions as some businesses looking to expand cannot find workers to help them grow.



Figure 14. Job Openings at Private Businesses Compared with the Number of Hires, January 2007 through March 2012

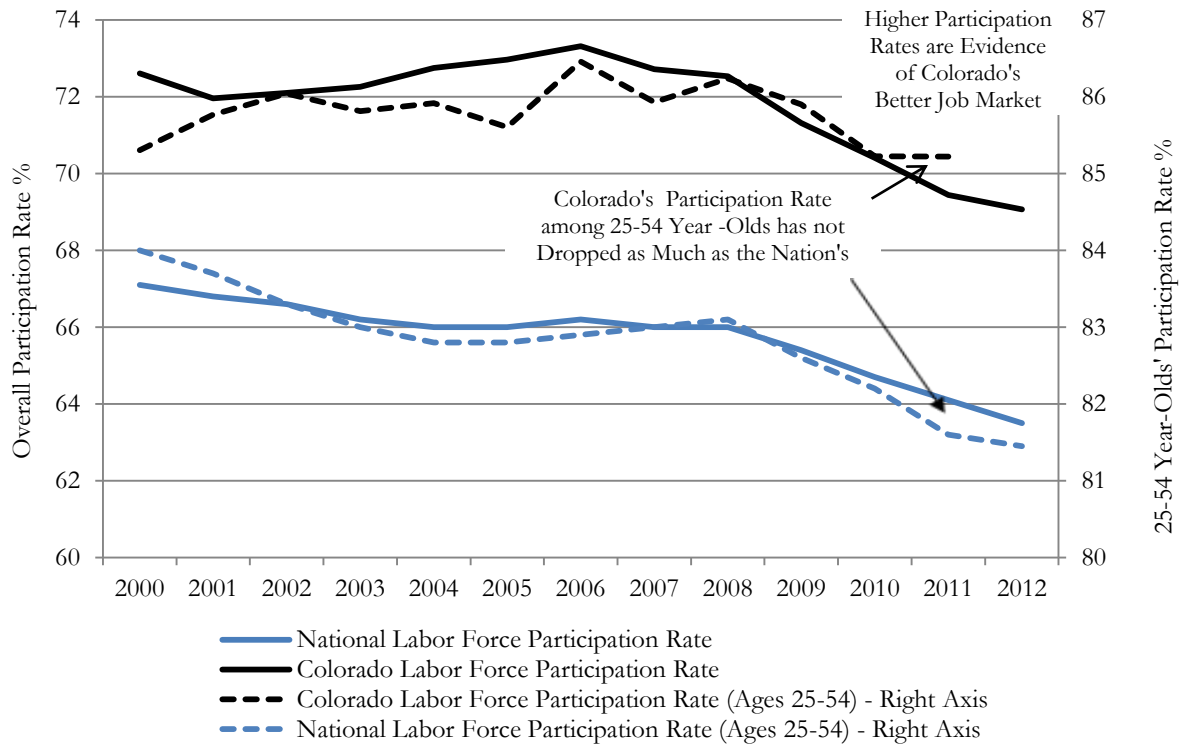


Source: U.S. Bureau of Labor Statistics, data is a three-month moving average and is seasonally adjusted

Colorado’s Labor Force Participation is Higher than the Nation’s and Many other States - Colorado has historically had a larger proportion of its population in the labor force than the nation as a whole. A higher labor force participation rate can help explain why Colorado’s economy has been more vibrant as there are more people working and seeking job opportunities. Colorado has traditionally been a younger state on average than the nation and has had a high degree of in-migration of young professionals. Colorado’s labor force participation rate is currently 9th highest among states. Figure 15 below shows the participation rate for 25 to 54 year-olds, as well as the overall participation rate, for both Colorado and the nation.



Figure 15. Labor Force Participation Rates in Colorado and the Nation



Source: U.S. Bureau of Labor Statistics

Labor force participation is dropping due to both demographic and economic reasons - As shown in Figure 15, the participation rate began to decline for the nation around 2000 mostly due to an aging population, especially baby boomers. However, Colorado’s rate continued to increase through 2006 because the state has a younger population.

In 2008, the participation rates for both the nation and Colorado began a more noticeable decline when the economy began to shed jobs at a rapid rate. Currently, both the nation’s and Colorado’s labor force participation rates – 63.8 percent and 68.9 percent, respectively – are at their lowest level since the late 1970s and early 1980s. Studies differ somewhat on how much of this decline is due to the aging population versus economic reasons, such as a lack of job opportunities, but generally, estimates show that around half of the decline is due to aging workers.

The question of how many individuals will return to the labor force that have left for economic reasons and boost the participation rate matters greatly to the economy’s performance and unemployment rate. If more people reenter the labor force, it will take a higher rate of job creation to absorb the individuals and reduce the unemployment rate.



The unemployment rate will remain high due to the apparent structural issues in the job market. Unemployment rates of 7.9 percent and 7.6 percent are forecast for Colorado in 2012 and 2013, respectively. The national unemployment rate will be 8.4 percent in 2012 and 8.1 percent in 2013.

Household Income

Household net worth continues to recover from the major hit it took during the recession and financial crisis – Though it remains below its peak level, household net worth increased in the first quarter of 2012 to the highest quarterly level since the last quarter of 2007 when the recession started. This was the largest quarterly increase in more than five years. Notably, home equity rose to the highest level since 2008.

According to a recent report from the Federal Reserve, median U.S. household net worth fell 38.8 percent from 2007 to 2010, mostly as a result of the collapse in the housing market. This degradation of household balance sheets had a profound influence on economic decision-making that is still affecting the economy today. For example, households continue to pay down debt to improve their financial positions.

Income and wage growth continues to be anemic for the nation but is relatively strong in Colorado – At the national level, personal income and wage growth has been relatively stagnant, especially when adjusted for price increases. Average hourly earnings were 1.7 percent higher than a year earlier in May for the nation, the smallest twelve month gain since December 2010. However, in Colorado, average hourly earnings were 3.6 percent higher than a year earlier in April, the latest data available.

In recent months, personal income growth for the nation has slowed to just over half its pace in 2011. Real disposable personal income, or income after taxes and adjusted for overall price changes, has been particularly weak recently for the nation. It has essentially been flat since last summer. The low income and wage growth at the national level present a downside risk to the forecast.

Growth in Colorado personal income will slow to 4.5 percent in 2012 and 4.0 percent in 2013 as job growth weakens due to the global slowdown. Colorado wage and salary growth will be 4.6 percent in 2012 and 3.4 percent in 2013. Growth rates for these measures at the national level will be slightly lower.



Consumer Spending

Consumer spending has been surprisingly strong, though there are signs of weakening –

Consumer spending has grown consistently in both Colorado and the nation. This is particularly surprising at the national level given stagnant wages and income. The relatively strong spending growth may provide more evidence that, as discussed in the employment section on page 29, households are finding new ways to earn income that are not easily captured in official employment and income statistics. Nonetheless, unless jobs and income growth pick up more than expected, consumer spending is likely to continue to slow. April and May retail sales declined at the national level due mostly to lower gas prices, not a decline in the volume of goods. Sales excluding gas purchases exhibited continued, albeit modest, growth, though spending on vehicles continued at a relatively strong pace.

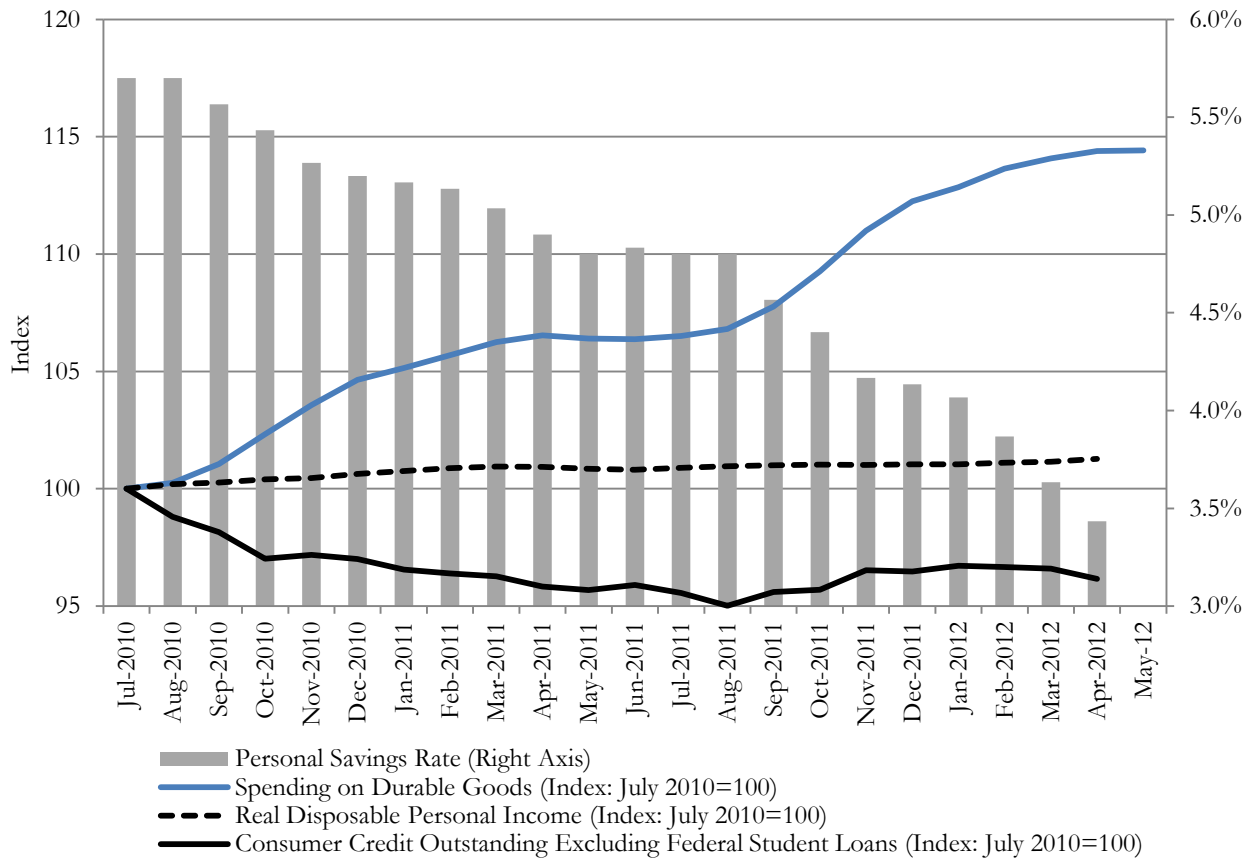
Spending on durable goods, especially vehicles, has shown particularly surprising strength –

Household spending on durable goods, particularly vehicles, has continued to show surprising strength since it picked up at the beginning of 2010. In May, spending on such items nationally was up 8.1 percent compared with a year ago led by continued strong vehicle sales. The available data for Colorado through February of 2012 shows even stronger growth in spending on such goods. Spending on durables, because they are generally bigger ticket items that cost more, can be a bellwether for the near-term performance of the economy.

Figure 16 below shows the trends in spending on durable goods, real disposable personal income, consumer borrowing excluding federal student loans, and the personal savings rate from the summer of 2010 through the spring of this year. The graph depicts the sustained growth in spending despite flat disposable income growth and a decline in consumer credit. Lower household savings is one factor bolstering spending. This is another reason to expect a slowdown in spending in the future.



Figure 16. National Household Income, Borrowing, Saving, and Spending Indicators, Summer of 2010 through the Spring of 2012



Sources: Federal Reserve, U.S. Bureau of Economic Analysis, and U.S. Census Bureau

Colorado retail sales are forecast to grow 5.9 percent in 2012 and 4.1 percent in 2013. Growth for national retail sales will be slightly lower.

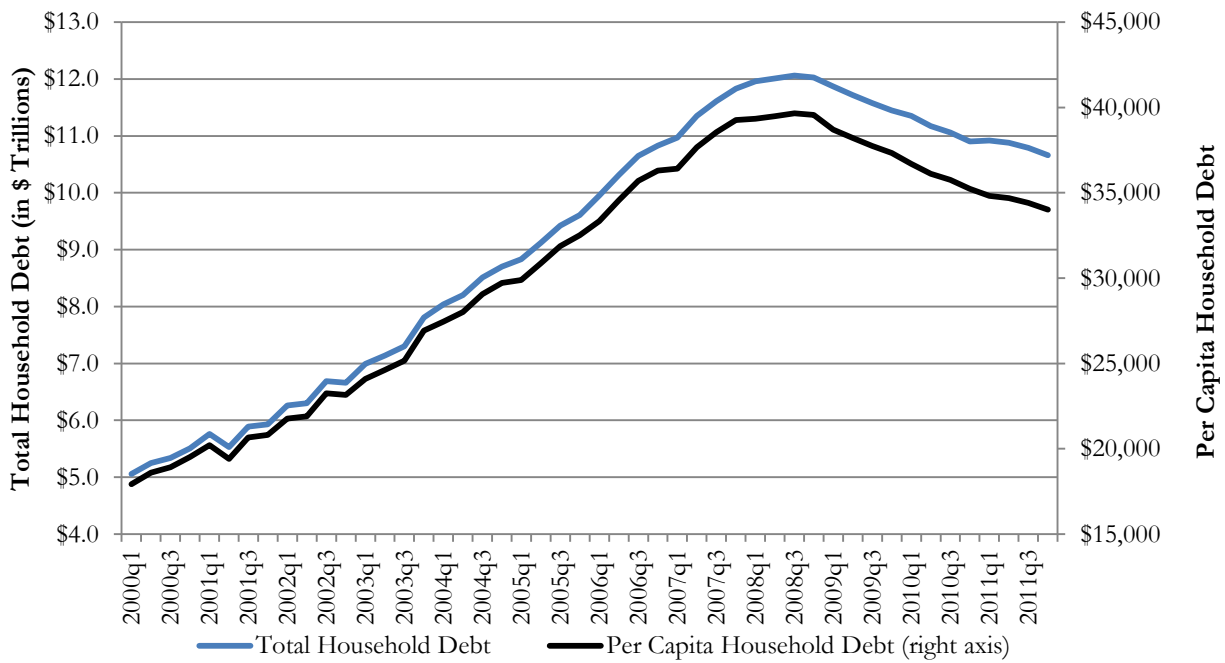
Household Debt: U.S. and Colorado

Except for student loans, households are deleveraging in all areas of debt – mortgages and home equity (HE) loans, auto loans, credit cards, and all other types of borrowing, such as personal loans from banks. Households have reduced debt, or “deleveraged,” since late 2008. As of the end of 2011, household debt stood at \$10.7 trillion, \$1.4 trillion (11.6 percent) off of its third quarter 2008 high. This excludes student loan debt because there is no data for such debt before 2011. On a per capita basis, the debt level of just over \$34,000 per person is down 14.3 percent from its peak. However, as Figure 17 below shows, debt loads still have further to fall. Continued high debt levels and deleveraging continue to act as a weight



on the economy as households have fewer resources available for other investments and spending that contribute to economic growth.

Figure 17. Total and per Capita U.S. Household Debt, 2000 to 2011

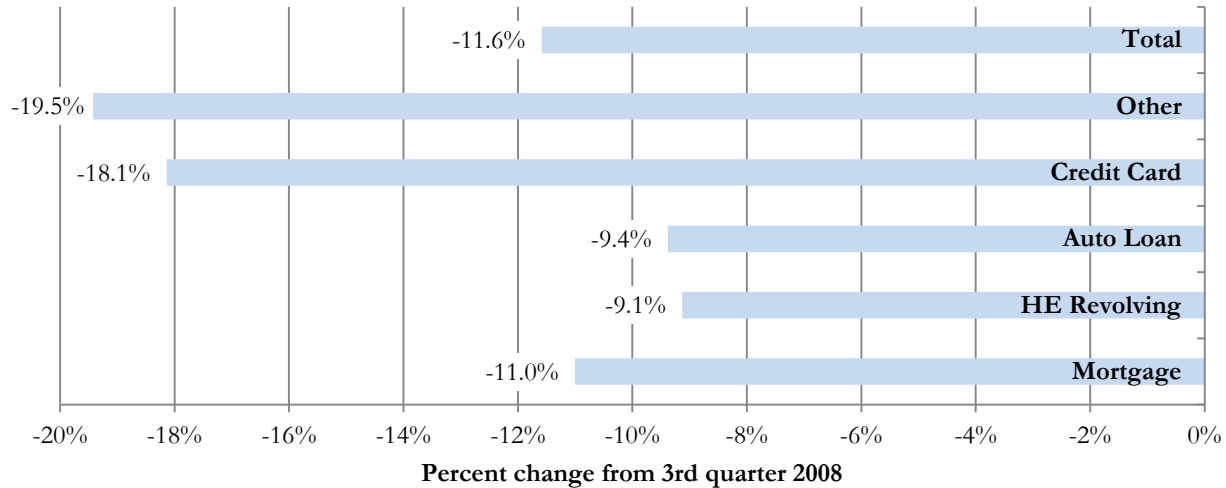


Sources: Federal Reserve Bank of New York Consumer Credit Panel, U.S. Census Bureau

As Figure 18 shows, households have generally reduced their non-housing-related debt at a greater rate than other types in order to manage their still heavy housing debt load.



Figure 18. Rate of Deleveraging of Household Debt, 3rd Quarter 2008 Peak to 2011



Sources: Federal Reserve Bank of New York Consumer Credit Panel

Colorado consumer debt levels are also declining but remain higher than the U.S. average – According to research from the Federal Reserve Bank of Kansas City, average consumer debt for households in Colorado, excluding first mortgages, declined slightly in the last quarter of 2011 and was \$3,000 below its peak. As of the end of 2011, average consumer debt for a household in Colorado exceeded the U.S. average by approximately \$2,000.

Colorado’s student loan debt burdens are higher than the national average – Student loan debt is now the second largest component of household debt after mortgages, and it is rising while other forms of debt are being reduced. This is due to more individuals attending school because of fewer job opportunities, higher tuition costs, and the weakened financial position of many households that make it difficult to pay for school without borrowing. Student loan debt now totals close to \$1 trillion for the nation.

According to the Federal Reserve Bank of Kansas City, in the fourth quarter of 2011 student loan debt in Colorado was \$23,700 per individual carrying such debt. This is above the national average and exceeds any other state in the region. The high level of student debt burdens coupled with the tight job market for recent graduates will likely present an increasing drag on other consumer spending, including home buying.

The Housing Market

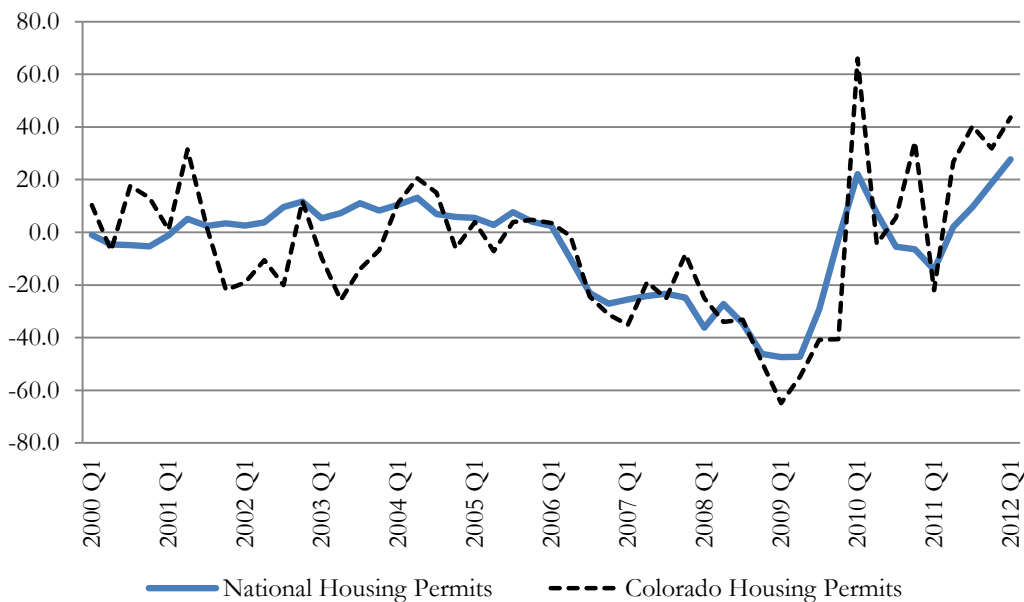
The housing sector is showing more signs of life – Improvement in the overall economy is dependent, at least in part, on housing market conditions. In the wake of past recessions, the housing sector has typically contributed a great deal to recoveries. The current recovery is plainly different as the excess supply of vacant homes, coupled with a drop in prices and a high level of negative equity mortgages, has weighed immensely on the overall economy. As long as the housing recovery remains lackluster, growth in the overall economy will be constrained.



Recent data, however, suggest housing sector stabilization in some areas and improvement in others. Exceptionally low interest rates, along with a stabilization in home prices and rising rental rates, is making home buying more affordable and attractive. Because of these factors and pent up demand, sales have picked up briskly in many areas of the country. Further, low rates are also enabling current homeowners to refinance mortgages and reduce mortgage payments. Notably, Las Vegas, among the hardest hit cities, has shown recent improvement in housing prices.

Housing permit activity is up both nationally and in Colorado – Figure 19 shows year-over-year housing permit growth rates for the nation and Colorado. Housing permit growth in Colorado has outpaced national growth, and increased construction will benefit other areas of the state economy and help employment growth.

Figure 19. Percent Change from Prior Year, New Housing Units Authorized by Building Permits, Colorado & U.S.



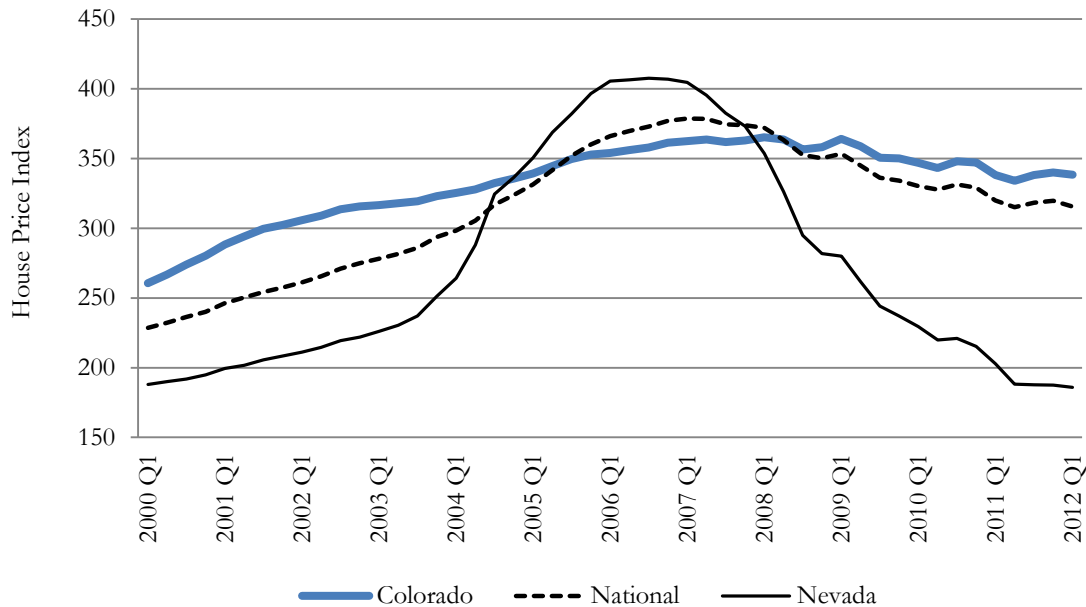
Source: Federal Reserve Bank of St. Louis, New Private Housing Units Authorized by Building Permits, Percent Change from Year Ago, Quarterly, Seasonally Adjusted

Colorado’s housing market is faring better than the nation – Colorado’s housing sector is performing better than many states, particularly with regard to home prices, foreclosures, and excess inventory. This is likely due to a relatively better performing economy and higher population growth. Figure 20 shows the change in national and Colorado home prices. For reference, it also shows the change in Nevada home prices, which also appear to be stabilizing. During the boom, prices in Colorado did not accelerate like those in many other regions; similarly, since the downturn in 2008, prices in Colorado have not declined as dramatically. Home prices in Colorado seem to have stabilized in the first quarter of 2011, which has supported the housing market and partly explains why Colorado has not seen foreclosure filings as high as some of the harder hit states.



Home price stability is integral to economic growth as it bolsters consumer confidence, improves household balance sheets, and contributes to consumer spending. Current price trends may be signaling that the supply and demand of homes is coming more into balance. These conditions would help buyers purchase homes as banks would be more willing to make mortgages. It would also help continue to clear out the overhang of unsold homes and result in a more sustained pickup in building activity.

Figure 20. Home Price Index, Colorado, Nevada, U.S.



Source: Federal Reserve Bank of St. Louis, All-Transactions House Price Index, Index 1980 Q1=100, Quarterly, Not Seasonally Adjusted

Multifamily sector remains a bright spot in Colorado – The multifamily sector, which includes apartments, townhomes, and condominiums, has been strong over the past year in Colorado, particularly in Denver. Many people, hesitant or unable to purchase single-family houses, are opting to rent or are downsizing by purchasing more affordable townhomes or condos. More people are also seeming to prefer the mobility that renting offers. The combined vacancy rate for apartments in Colorado’s seven largest cities decreased to 5.2 percent in the second quarter of 2012—a decline from 5.5 percent in the first quarter. The rate has not been below 5.2 percent since the first quarter of 2001 when it was 4.3 percent.

Low vacancy rates have spurred multifamily construction activity. To meet demand, permits for multifamily housing units were up 160 percent, or by 1,600 units, in 2012 through April compared with the same period a year ago. The completion of projects underway will eventually increase the supply of available multifamily rental units, which should reduce rental rates.

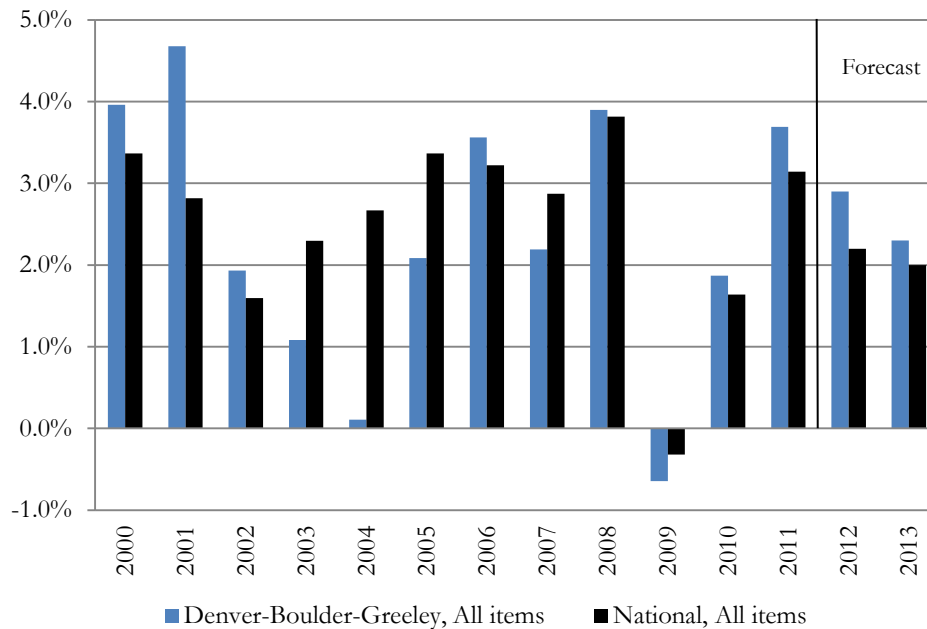


Bolstered by multifamily sector activity, Colorado housing permits will increase 22.3 percent in 2012 and 18.0 percent in 2013. National residential construction activity will grow at a slightly weaker rate.

Overall Price Levels

Overall price levels in Colorado are outpacing the nation – The consumer price index (CPI) measures the change in retail prices for a basket of over two hundred categories of goods and services, each weighted based on consumer spending patterns to determine the index. As shown in Figure 21, which compares the national and Denver-Boulder-Greeley CPI for all items, overall price increases in Colorado have been stronger than the nation’s. The relatively large increase in 2011 was driven by the spike in gas and food prices. Among other categories that have increased recently are shelter, driven by rising rental costs, medical care, and apparel. Consumer prices overall for the nation fell in May by the most in three years as energy prices abated. Lower fuel prices will provide some relief to consumers and may help bolster spending on other items.

Figure 21. CPI for Denver-Boulder-Greeley and Nation, Actual and Forecast, 2000 to 2013



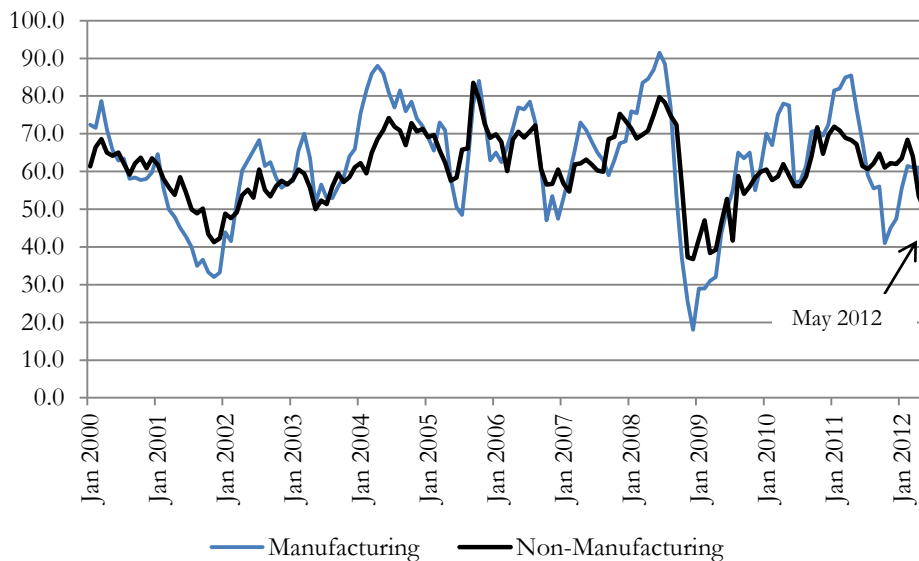
Source: Federal Reserve Bank of St. Louis, Consumer Price Index for All Urban Consumers, All items, Denver-Boulder-Greeley, CO and U.S.



Producer prices are experiencing downward pressure – The global slowdown and a stronger dollar has put downward pressure on producer prices, the prices paid by businesses for production inputs. Because changes in producer prices are often later reflected in retail prices paid by consumers, this trend will likely benefit consumers. A recent survey of small businesses by the National Federation of Independent Businesses indicated that fewer small businesses are raising prices, thus, there is less price pressure on consumers. Further, lower producer prices drive down business costs and can free up resources for other productive uses and help businesses better cope with the slowing economy.

Figure 22 shows the decline in prices paid by both manufacturing and non-manufacturing businesses as reported by the Institute for Supply Management’s (ISM) survey of these businesses. The manufacturing price index declined sharply in May, reflecting the slowdown in major global economies. The wood products, fabricated metal products, electrical equipment, plastics and rubber products industries reported paying less for materials in May. Prices paid by the non-manufacturing sector for purchased materials and services also posted a sharp decrease in May, representing the first monthly decline since July 2009. Among the industries that reported price declines were construction, transportation, and utilities.

Figure 22. Price Indexes, ISM Manufacturing & Non-manufacturing



Source: Federal Reserve Bank of St. Louis, ISM Manufacturing: Prices Index, Index, Monthly, Not Seasonally Adjusted, and ISM Non-manufacturing: Prices Index, Index, Monthly, Seasonally Adjusted

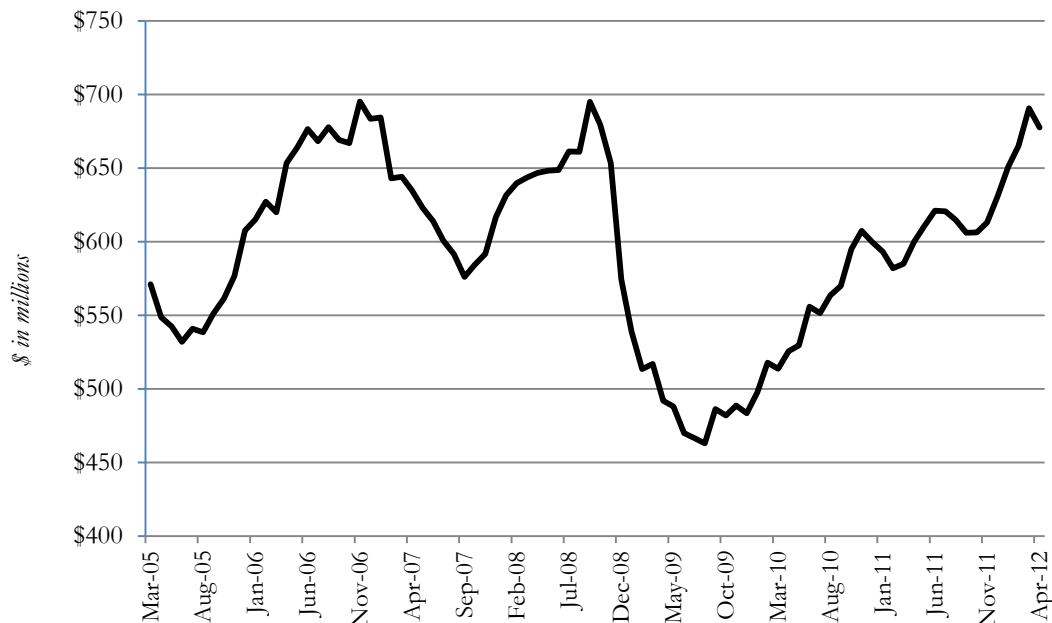
The Denver-Boulder-Greeley Consumer Price Index will increase 2.9 percent in 2012 and 2.3 percent in 2013. Much of the increase this year is being driven by higher rental costs, which comprises the largest component of the index. Nationally, consumer prices will increase 2.2 percent in 2012 and 2.0 percent in 2013. National producer prices will 2.9 percent in 2012 and 2.8 percent in 2013.



International Trade

Export growth continues, though trade will likely cool as the global economy slows – The growth in exports of goods has been a bright spot for both the state and national economies. However, both economies continue to maintain a trade deficit, buying more from other countries than sold abroad. Figure 23 shows the strong and sustained growth in Colorado export of goods since worldwide trade collapsed during the Great Recession. Growth continues despite a drop in exports to Europe and a slowing of Colorado goods to buyers in Asia. Export growth is being bolstered by Colorado sales to NAFTA partners.

Figure 23. Colorado Exports, 2005 through April 2012



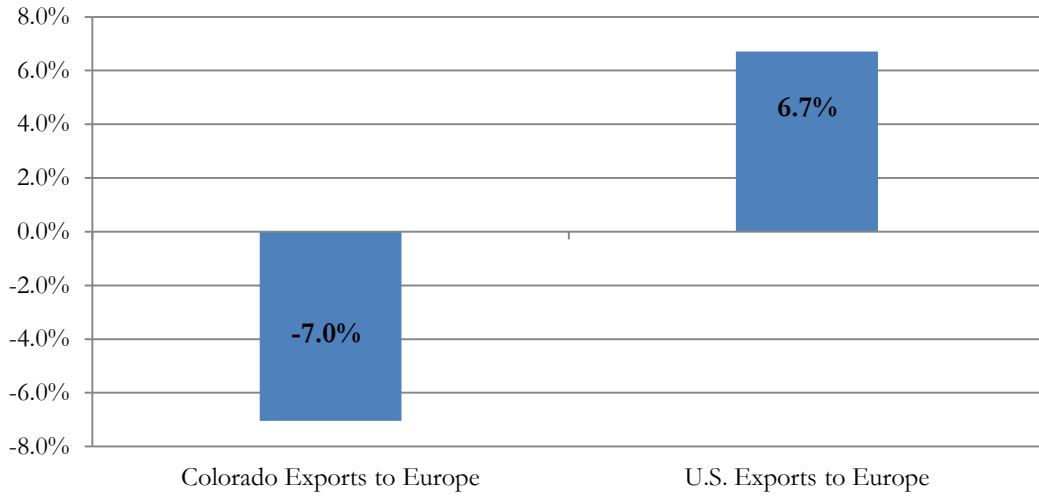
Source: World Institute for Strategic Economic Research (WISERTrade) based on Data from the U.S. Census Bureau; Export data is seasonally adjusted and a three-month moving average

Europe’s struggles are slowing Colorado’s exports to the region – Europe’s economic and financial struggles are having an impact on exports, though it is important to note that exports to Europe represent a relatively small portion of the national and state economies. Figure 24 shows the change in the value of exports to Europe from Colorado and the nation during the period covering the fall of 2011 through the spring of 2012 compared with the same period a year earlier. As shown, Colorado has been more negatively affected than the nation. The value of its exports dropped by seven percent, or by \$10.3 million, while the nation’s export growth merely slowed.

Many of Colorado’s largest exports to Europe have been declining. This includes exports such as medical equipment, pharmaceuticals, molybdenum, aircraft parts, data processing, circuits and other electronic equipment.



Figure 24. U.S. and Colorado Exports to Europe, % Change, Fall of 2011 through April 2012 Compared with Same Period a Year ago



Source: World Institute for Strategic Economic Research (WISERTrade) based on Data from the U.S. Census Bureau

Table 5
History And Forecast For Key Colorado Economic Variables
Calendar Year 2008 - 2014

Line No.						June 2012 Forecast		
		2008	2009	2010	2011	2012	2013	2014
Income								
1	Personal Income (Billions) /A	\$216.0	\$205.8	\$213.5	\$225.6	\$235.7	\$245.2	\$257.4
2	Change	5.3%	-4.7%	3.7%	5.7%	4.5%	4.0%	5.0%
3	Wage and Salary Income (Billions)	\$117.0	\$112.6	\$114.3	\$119.7	\$125.2	\$129.4	\$135.7
4	Change	3.6%	-3.8%	15%	4.7%	4.6%	3.4%	4.8%
5	Per-Capita Income (\$/person)	\$44,059.5	\$41,271.1	\$42,215.3	\$44,062.7	\$45,368.5	\$46,523.0	\$47,987.1
6	Change	3.5%	-6.3%	2.3%	4.4%	3.0%	2.5%	3.1%
Population & Employment								
7	Population (Thousands)	4,901.9	4,976.9	5,050.9	5,119.8	5,196.2	5,269.9	5,364.7
8	Change	1.7%	1.5%	1.5%	1.4%	1.5%	1.4%	1.8%
9	Net Migration (Thousands)	40.5	36.3	38.1	33.5	36.5	40.2	54.5
10	Unemployment Rate	4.8%	8.1%	8.9%	8.3%	7.9%	7.6%	7.1%
11	Total Nonagricultural Employment (Thousands) /B	2,350.3	2,245.6	2,222.3	2,258.2	2,296.7	2,320.3	2,358.0
12	Change	0.8%	-4.5%	-1.0%	1.6%	1.7%	1.0%	1.6%
Construction Variables								
13	Total Housing Permits Issued (Thousands)	19.0	9.4	11.6	13.8	16.9	19.9	25.5
14	Change	-37.5%	-50.8%	23.9%	19.1%	22.3%	18.0%	28.1%
15	Nonresidential Construction Value (Millions) /C	4,117.0	3,351.5	\$3,102.5	\$3,878.4	\$4,011.6	\$4,106.1	\$4,337.5
16	Change	-21.7%	-18.6%	-7.4%	25.0%	3.4%	2.4%	5.6%
Prices & Sales Variables								
17	Retail Trade (Billions) /D	\$74.8	\$66.5	\$70.5	\$75.6	\$80.0	\$83.3	\$87.5
18	Change	-0.7%	-11.1%	6.0%	7.2%	5.9%	4.1%	5.0%
19	Denver- Boulder- Greeley Consumer Price Index (1982- 84=100)	209.9	208.5	212.4	220.3	226.7	232.0	239.1
20	Change	3.9%	-0.6%	1.9%	3.7%	2.9%	2.3%	3.0%

/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 Includes OSPB's estimates of forthcoming revisions to jobs data that are currently not published. The jobs figures will be benchmarked based on Quarterly Census of Employment and Wage data to more accurately reflect the number of jobs in the state than what was estimated based on a survey of employers.

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

/D 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 2008 - 2014

Line No.		Actual				June 2012 Forecast		
		2008	2009	2010	2011	2012	2013	2014
Inflation- Adjusted & Current Dollar Income Accounts								
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	\$ 13,161.9	\$ 12,703.1	\$ 13,088.0	\$ 13,315.1	\$ 13,568.1	\$ 13,809.6	\$ 14,141.0
2	Change	-0.3%	-3.5%	3.0%	1.7%	1.9%	1.8%	2.4%
3	Personal Income (Billions) /B	\$ 12,460.2	\$ 11,930.2	\$ 12,373.6	\$ 12,991.2	\$ 13,510.8	\$ 13,997.2	\$ 14,697.1
4	Change	4.6%	-4.3%	3.7%	5.0%	4.0%	3.6%	5.0%
5	Per-Capita Income (\$/person)	\$40,964	\$38,904	\$40,037	\$41,642	\$42,893	\$44,011	\$45,768
6	Change	3.6%	-5.0%	2.9%	3.9%	1.9%	3.7%	4.5%
Population & Employment								
7	Population (Millions)	304.4	307.1	309.6	312.0	315.0	318.0	321.1
8	Change	0.9%	0.9%	0.8%	0.8%	1.0%	1.0%	1.0%
9	Unemployment Rate	5.8%	9.3%	9.7%	9.0%	8.4%	8.1%	7.4%
10	Total Nonagricultural Employment (Millions)	136.8	130.8	129.9	131.4	132.9	133.9	135.6
11	Change	-0.6%	-4.4%	-0.7%	1.1%	1.2%	0.8%	1.2%
Price Variables								
12	Consumer Price Index (1982-84=100)	215.3	214.6	218.1	224.9	229.9	234.5	241.3
13	Change	3.8%	-0.3%	1.6%	3.1%	2.2%	2.0%	2.9%
14	Producer Price Index - All Commodities (1982=100)	189.6	172.9	184.7	201.2	207.1	212.9	223.8
15	Change	9.8%	-8.8%	6.8%	8.9%	2.9%	2.8%	5.1%
Other Key Indicators								
18	Corporate Profits (Billions)	1,248.4	1,362.0	1,800.1	\$1,942.8	\$2,030.6	\$2,055.3	\$2,249.7
19	Change	-17.4%	9.1%	32.2%	7.9%	4.5%	1.2%	9.5%
20	Housing Permits (Millions)	0.905	0.583	0.605	0.607	0.724	0.837	1.051
21	Change	-35.3%	-35.6%	3.7%	0.3%	19.3%	15.6%	25.6%
22	Retail Trade (Billions)	\$4,409.5	\$4,091.7	\$4,355.4	\$4,690.3	\$4,963.7	\$5,157.7	\$5,390.2
23	Change	-0.9%	-7.2%	6.4%	7.7%	5.8%	3.9%	4.5%

/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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