



State Taxpayer Accountability Report (STAR)

Fiscal Year 2011-12



Colorado

Department of Personnel & Administration

Office of the State Controller

John W. Hickenlooper
Governor

Kathy Nesbitt
Executive Director

Robert Jaros
State Controller

August 14, 2013

Citizens of Colorado,

It is my privilege to present the State Taxpayer Accountability Report. It summarizes the operations of the State of Colorado for the fiscal year that ended June 30, 2012. This report has been designed to present information about the current fiscal condition of Colorado state government in a clear, understandable, and accessible manner. In this seventh year of the report, we expect that it will advance our goals of greater transparency and accountability in State finances.

The sources of the information included in this report are the State's Comprehensive Annual Financial Report (CAFR), the State Treasurer's Office, the Governor's Office, and other State departments. For more detailed information you may access the sources online at:

CAFR: <http://www.colorado.gov/dpa/dfp/sco/CAFR/cafr.htm>

Treasurer's Office: <http://www.colorado.gov/treasury/>

Governor's Office: <http://www.colorado.gov/governor/>

Additional information on the State's finances, including an online searchable database of State expenditures and revenues (<http://tops.state.co.us/>), and Tax Tracks, an online tool that shows taxpayers how their money is spent, is available on the Treasurer's website (<http://www.colorado.gov/taxtracks/>).

We hope you find this report both informative and beneficial, and we welcome your questions and comments.

Robert Jaros, CPA, MBA, JD
Colorado State Controller

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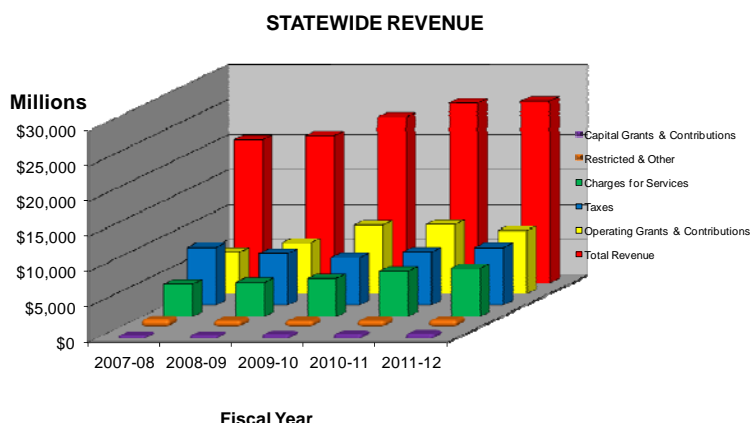
www.colorado.gov/dpa

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WHERE THE MONEY COMES FROM (REVENUE)

The State's major sources of revenue are Taxes, Operating Grants and Contributions, and Charges for Services. Over the five year period, the State's total revenue has increased from \$20.4 billion in Fiscal Year 2007-08 to \$25.9 billion in Fiscal Year 2011-12 (27.0 percent). The amounts shown as Taxes generally are collected without any requirements as to how they will be spent. They are the primary source of money for the Legislature and Governor when they decide where State money will be spent. Operating Grants and Contributions are monies that usually must be spent on the purpose for which the money was received. Most of this money comes from the federal government. Charges for Services is primarily composed of tuition and fee revenue at the State's colleges and universities, revenue in the Unemployment Insurance fund, and revenue from the State Lottery. Restricted revenue includes certain taxes dedicated to education and highways. Capital Grants and Contributions include money that is required to be spent on capital assets such as buildings or equipment. Most of this money comes from the federal government. The graph above shows total statewide revenue including certain internal transactions in actual dollars without adjustment for inflation.

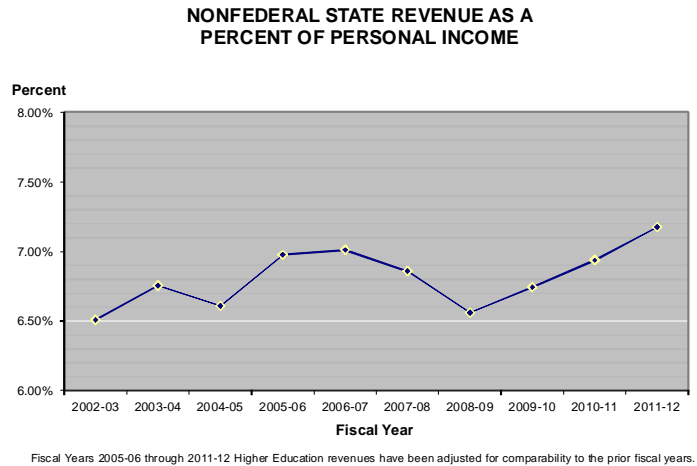


Operating Grants and Contributions are monies that usually must be spent on the purpose for which the money was received. Most of this money comes from the federal government. Charges for Services is primarily composed of tuition and fee revenue at the State's colleges and universities, revenue in the Unemployment Insurance fund, and revenue from the State Lottery. Restricted revenue includes certain taxes dedicated to education and highways. Capital Grants and Contributions include money that is required to be spent on capital assets such as buildings or equipment. Most of this money comes from the federal government. The graph above shows total statewide revenue including certain internal transactions in actual dollars without adjustment for inflation.

The mix in the sources of revenue has changed significantly over the past five years with the recession that began in 2009. In Fiscal Year 2008-09 Taxes began to decline, but were supplanted with increases in Charges for Services and Operating Grants and Contributions, primarily through the federal American Reinvestment and Recovery Act of 2009 (ARRA). Beginning in Fiscal Year 2010-11, Taxes increased due to an improving Colorado economy, with the result that in Fiscal Year 2011-12 tax revenue nearly returned to the pre-recessionary level reached in Fiscal Year 2007-08. Operating grants and contributions decreased by \$858.6 million from Fiscal Year 2010-11, primarily from the phase-out of federal dollars from the American Reinvestment and Recovery Act of 2009 (ARRA). While Taxes compensated for about 70 percent of the decline in federal grants, the remaining needs were funded through increased Charges for Services, which have grown by nearly 50 percent as compared to five years ago.

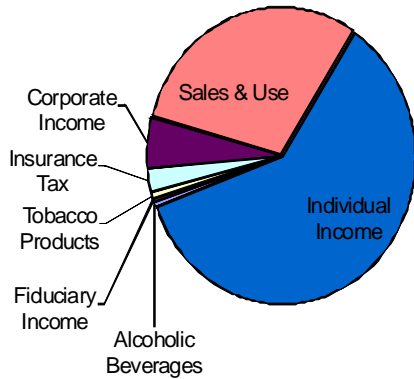
State government revenue has grown in proportion with State taxpayers' personal income. The graph below shows total budgeted nonfederal revenue as a percent of personal income from FY 02-03 to FY 11-12 has fluctuated due to the effects of Referendum C and the economic downturn.

Nonfederal budgeted revenue as a percentage of personal income grew in Fiscal Years 2005-06 and 2006-07 with the retention of additional State revenue under Referendum C (See the TABOR and Referendum C sections starting on page 8). With the beginning of the economic downturn in Fiscal Year 2008-09 nonfederal revenue declined to pre-Referendum C levels. However, increases in fees and other revenue raised the percentage in Fiscal Years 2009-10 through 2011-12.

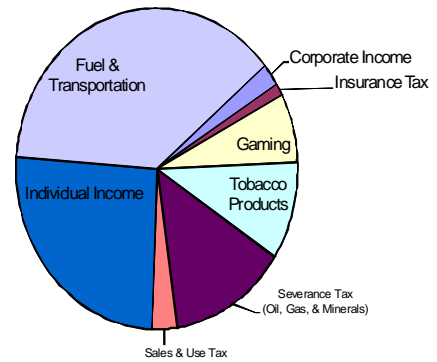


The pie charts on the following page show the relative size of the sources of general-purpose taxes, dedicated taxes, and all other revenue of the State. Sales within the government, transfers, and grants moving within the State, as well as additions to trust funds, have been excluded.

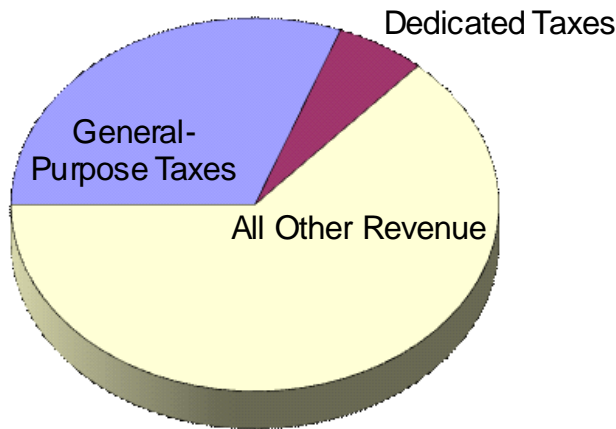
**GENERAL-PURPOSE TAXES
\$7.67 BILLION**



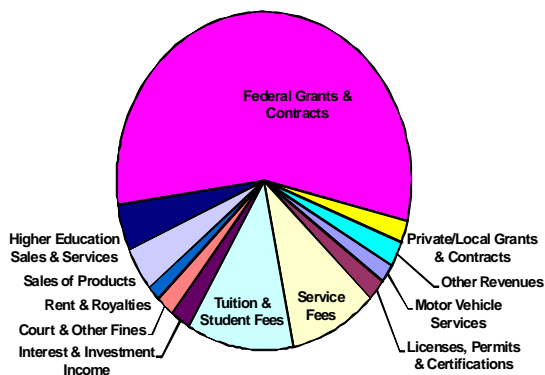
**DEDICATED TAXES
\$1.49 BILLION**



**TOTAL REVENUES
\$25.9 BILLION**



**ALL OTHER REVENUES
\$15.81 BILLION**



**Colorado's Rank
(Among the 50 States)
State and Local Taxes 2009-10**

31st

As a % of Personal Income

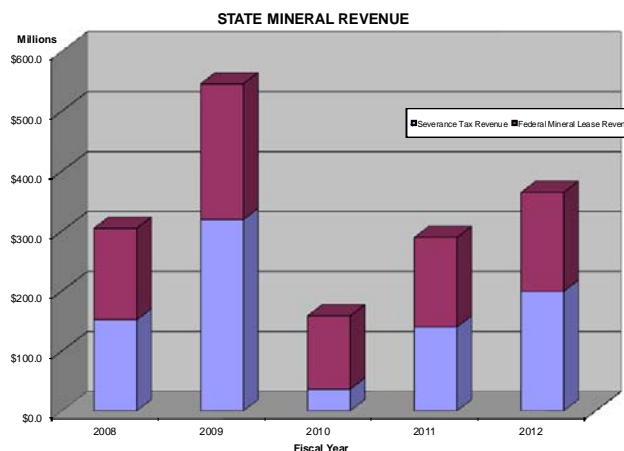
Measured Per Capita (2009-10):
18th

(Source: US Census Bureau; Bureau of
Economic Analysis)

COLORADO'S ENERGY REVENUE

Colorado receives revenue from the production of oil and gas from two main sources—the State's severance tax and from the federal government for oil and gas produced on federal lands in the State. Like other states in the West, Colorado began seeing significant revenue from the production of oil and gas beginning in 2000.

In 2010, Colorado ranked fifth in the nation for proven natural gas reserves and tenth in proven oil reserves. For the 2012 calendar year, the Colorado Geological Survey estimated the total value of oil and gas production at \$8.3 billion, down more than 40 percent from five years ago reflecting lower prices as compared to 2007. Total value and revenue is highly volatile due to fluctuating prices. Although prices have fluctuated, the volume of oil and gas produced in the State has consistently increased each year of the preceding five-year period.



In 1977, the Colorado Legislature created a State severance tax on oil and gas, coal, metallic minerals, molybdenum ore, and oil shale. Colorado's severance tax is intended to recapture a portion of the wealth irretrievably lost when these nonrenewable natural resources are removed from the earth. Severance tax collections in Fiscal Year 2011-12 were \$199.4 million (93.8 percent of which came from oil and gas production in the State) – just over 30 percent more than the receipts in Fiscal Year 2007-08. Some severance tax receipts are used to reduce the impact of mining and drilling operations on local communities, as well as to provide loans to local governments to build water projects.

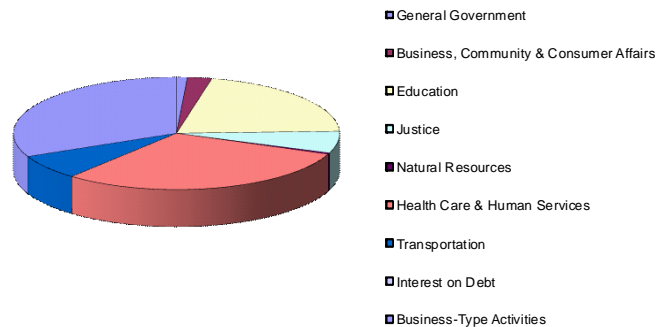
Federal Mineral Lease revenue comes from the leases of federal lands within the State for mineral production. This revenue is shared with local governments, and when it exceeds a set threshold it is used to pay debt service on Higher Education buildings. Roughly 50 percent of the revenue collected on federal leases in Colorado is transferred by the U.S. Government to the Colorado State Treasurer. Federal Mineral Lease Revenue for Fiscal Year 2011-12 was \$164.7 million, or approximately 8 percent, more than receipts in Fiscal Year 2007-08.

WHAT COLORADO CITIZENS BUY (EXPENDITURES)

The State expends the revenue it collects to provide various services to the State's citizens. The State tracks these expenditures in the broad categories shown in the pie chart. Transfers, which are payments that move within and between funds, and most purchases between state agencies have been excluded from the pie chart. Additional information on these categories is presented later in this report.

The table below shows expenditures by department in the budget format with a column removing transfers. Some items (such as, depreciation and certain higher education activities which expanded in Fiscal Year 2011-12 to include expenditures related to informational only tuition and select fee appropriations) are not budgeted, and therefore, total expenditures shown in the pie chart are greater than the amount shown in the table.

**TOTAL STATEWIDE EXPENDITURES
\$24.84 BILLION**



EXPENDITURES BY DEPARTMENT ON THE BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2012 (DOLLARS IN THOUSANDS)

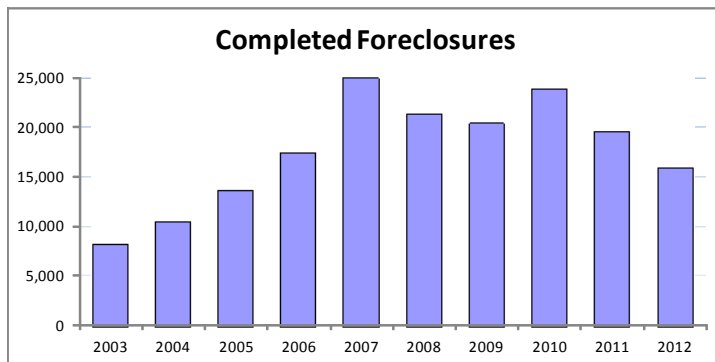
	GENERAL	CASH	FEDERAL	TRANSFERS	TOTAL
Budgeted Expenditures and Transfers:					
Department:					
Agriculture	\$ 5,499	\$ 27,518	\$ 5,159	\$ (1,372)	\$ 36,804
Corrections	668,470	97,861	7,387	(24,176)	749,542
Education	2,833,305	3,781,127	656,101	(2,795,987)	4,474,546
Governor	10,621	175,837	113,770	(12,969)	287,259
Health Care Policy and Financing	1,693,373	1,686,051	2,591,373	(831,395)	5,139,402
Higher Education	634,588	1,510,273	446,478	(186,694)	2,404,645
Human Services	608,913	289,788	1,519,336	(21,382)	2,396,655
Judicial Branch	336,700	332,369	13,426	(97,686)	584,809
Labor and Employment	-	774,412	1,030,874	(54,784)	1,750,502
Law	9,332	42,725	1,878	(4,351)	49,584
Legislative Branch	34,704	2,657	-	(4,050)	33,311
Local Affairs	10,448	229,182	87,614	(81,198)	246,046
Military & Veterans Affairs	8,925	5,571	23,891	(1,696)	36,691
Natural Resources	23,383	421,458	39,641	(182,390)	302,092
Personnel & Administration	8,341	455,528	53	(11,975)	451,947
Public Health & Environment	27,523	185,895	307,853	(62,734)	458,537
Public Safety	82,015	145,402	46,005	(14,385)	259,037
Regulatory Agencies	1,600	71,174	3,084	(9,108)	66,750
Revenue	182,050	799,205	2,114	(293,476)	689,893
State	-	18,418	122	(384)	18,156
Transportation	500	925,780	616,463	(183,508)	1,359,235
Treasury	21,051	1,788,271	178,623	(1,532,889)	455,056
Transfers Not Appropriated by Department	109,424	8,326	-	(117,751)	-
TOTAL	\$ 7,310,765	\$ 13,774,828	\$ 7,691,245	\$ (6,526,338)	\$ 22,250,500

RECOVERING FROM RECESSION: THE STATE'S ECONOMY AND BUDGET ACTIONS

Economy

According to the National Bureau of Economic Research, the nation entered a recession in December 2007 that ended in June 2009. However, like most other states in the nation, the effects of that recession continue to affect Colorado's economy. According to the US Department of Commerce's Bureau of Labor Statistics, the unemployment rate in Colorado declined from its high of 9.0 percent in 2010 to 8.2 percent in June 2012.

Colorado was hit hard by the developments in the real estate sector that led to the recession. Although it continues to suffer the effects of a sluggish housing market, conditions are improving with calendar year 2012 foreclosure filings decreasing by about 38 percent from the peak reached in calendar year 2009. Completed foreclosures also declined by about 18 percent from its peak in calendar year 2010 according to the Colorado Department of Local Affairs Division of Housing.

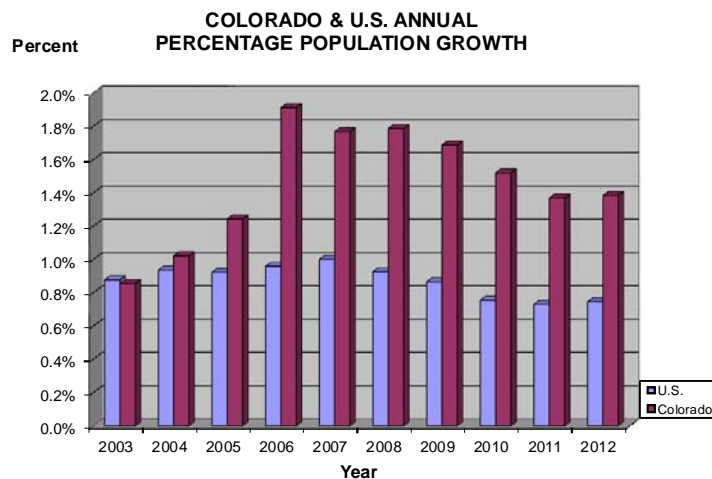


Budget Actions

Although recovering, the State of Colorado continued to deal with the allocation of limited discretionary resources in Fiscal Year 2011-12. In November 2010, in planning for the Fiscal Year 2011-12, the original General Fund budget included \$714.6 million in budget balancing actions, resulting in a General Fund operating budget of \$7.0 billion. By the end of the 2012 legislative session, the Governor's budget plan was amended to add back \$39.8 million in General Fund spending as slight improvements were seen in general-purpose revenue. Additionally, the General Fund statutory reserve for Fiscal Year 2011-12 was restored to 4 percent, from a reduced 2.3 percent level in the prior year.

COLORADO DEMOGRAPHIC INFORMATION

The State's economic condition and outlook are greatly affected by the number of people living in the State. The graph to the right shows that over the past ten years Colorado's population growth generally outpaces that of the nation. Estimates for 2012 predict that Colorado's population growth will follow the recent trend as compared to national growth.



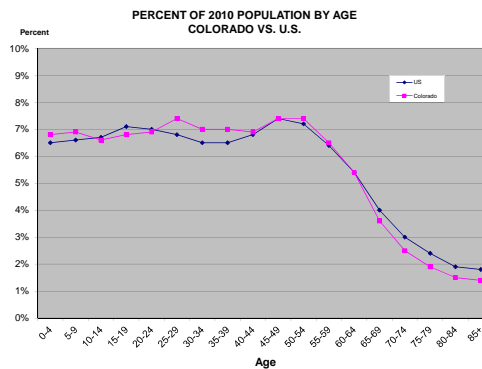
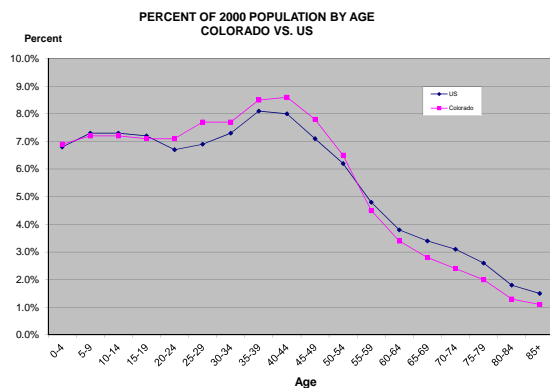
Except for 2009 at the height of the recession, the table below also shows large increases in the average amount of personal income (per capita income). The average individual personal income of Colorado citizens has been above the national average throughout the past ten years.

**COLORADO DEMOGRAPHIC DATA
2003 to 2012**

Year	Population (In Thousands)	Percentage Share of U.S. Population	Total Personal Income (Billions)	Per Capita Personal Income (Dollars)	% of U.S. Per Capita Income	Employment (In Thousands)	Unemploy- ment %
2012 est	5,188	1.63	\$235.1	45,320	106.2	2,524	8.0
2011	5,117	1.66	225.4	44,049	105.8	2,490	8.6
2010	5,048	1.63	212.5	42,096	105.4	2,476	9.0
2009	4,972	1.62	205.4	41,311	107.4	2,511	8.1
2008	4,890	1.61	216.0	44,172	108.0	2,600	4.8
2007	4,804	1.59	205.2	42,714	108.2	2,583	3.8
2006	4,720	1.58	194.4	41,186	109.3	2,542	4.3
2005	4,632	1.57	179.7	38,795	109.5	2,456	5.1
2004	4,575	1.56	168.6	36,852	108.8	2,393	5.6
2003	4,529	1.56	159.9	35,306	109.4	2,340	6.1

Other demographic factors also affect economic performance. For example, younger persons are normally not employed or are employed in jobs paying lower wages. Older citizens are likely to be retired, and therefore, generate less economic activity. The two graphs on the following page show the percentage of the total population that each age group represented in 2000 and 2010 for the State and the nation as a whole. The graphs show that the stage of life of the State's citizens has changed significantly over the ten years between the graphs.

In 2000, as compared to the nation as a whole, the State enjoyed a larger proportion of persons in their prime earning and spending years (37-57) than was the case in 2010 (the most recent data available). As compared to 2000, today Colorado has more 27-37 year olds as compared to the 47-57 age group. Individuals in the 27 – 37 age range are in their early career years or may be enrolled in postsecondary education; as a result, they are likely to require more government services and produce less economic activity than the group they replaced. In addition, these graphs dramatically show the aging of the Baby Boom generation in both Colorado and the nation.



TABOR (TAXPAYERS' BILL OF RIGHTS) and REFERENDUM C

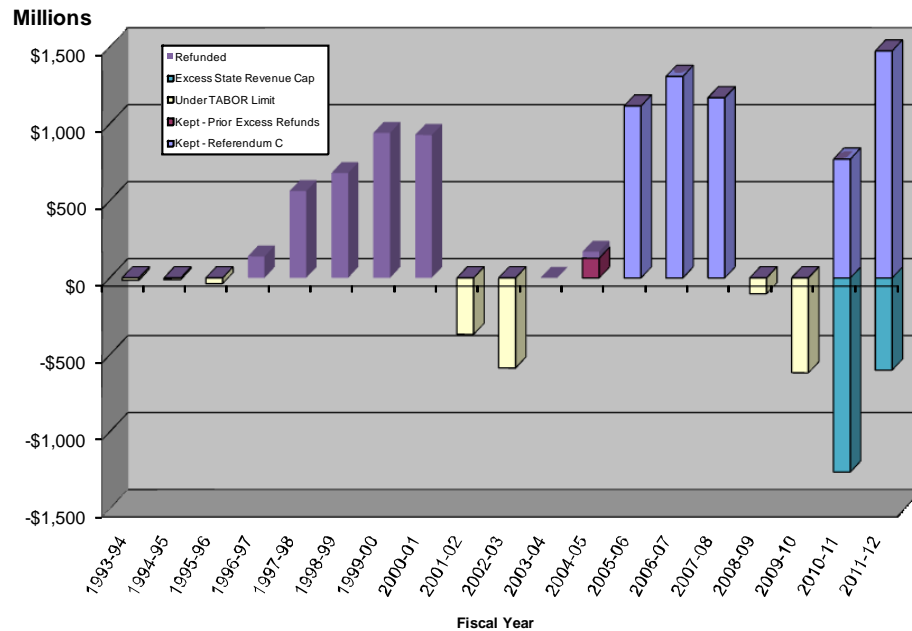
Although TABOR and Referendum C had little effect on the State's finances in Fiscal Year 2011-12, over the long-term they are an important factor affecting the level of services the State can provide to its citizens. TABOR was added to the State Constitution by the voters in 1992 and became effective in Fiscal Year 1993-94. It limits the rate of spending increases and requires the State to pay back to the taxpayers any revenue that the State collects over a limit. The limit is reset each year to reflect increases in population and inflation. TABOR requires a vote of the people to allow the State to keep and use money it collects that is over the limit.

In November 2005, the voters passed Referendum C, which allowed the State to retain and use revenue in excess of the TABOR limit from July 1, 2005, until June 30, 2010. The referendum also created an Excess State Revenue Cap (ESRC) as the trigger point for refunds rather than the TABOR limit. Referendum C resulted in the retention of a total of \$5.8 billion in excess of the TABOR limit, that include:

- The retention of \$3.6 billion in revenue in excess of the TABOR limit in Fiscal Years 2005-06 through Fiscal Year 2007-08, and
- The retention of \$2.2 billion of revenue in excess of the TABOR limit in Fiscal Years 2010-11 and 2011-12. Retention amounts after the initial five-year time-out period that ended in Fiscal Year 2009-10 resulted from the application of the ESRC. The ESRC is based on TABOR revenue from Fiscal Year 2007-08, which was the highest revenue amount occurring in the five-year Referendum C window.

The graph on the following page shows how revenue compared to the TABOR limit, and as applicable the ESRC, from Fiscal Year 1993-94 through 2011-12. It also shows whether the revenue over the limit was required to be refunded. Fiscal Year 1996-97 was the first year that the State collected revenue greater than the TABOR limit.

OVER/UNDER TABOR/ESRC LIMITS



The following tables show the TABOR revenue base, the TABOR limit, and amounts refunded or retained and used by the State since the last year of high economic activity in Fiscal Year 2000-01.

TABOR LIMIT CALCULATION (DOLLARS IN THOUSANDS)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
TABOR Revenue Base	\$7,563,710	\$7,948,550	\$7,752,211	\$7,712,512	\$8,331,991	\$8,314,374
Inflation	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%
Population Change	2.2%	0.0%	2.2%	1.7%	1.1%	1.2%
Percentage Allowable Growth	5.1%	4.0%	6.9%	3.6%	2.2%	1.3%
TABOR Adjusted Revenue Limit	\$7,948,550	\$8,126,189	\$8,296,787	\$8,331,991	\$8,314,374	\$8,045,257
Excess State Revenues Cap (ESRC) ¹						
TABOR Non-Exempt Revenues	\$8,877,105	\$7,752,211	\$7,712,512	\$8,331,991	\$8,482,963	\$9,161,391
Correction of Prior Years' Refunds	(1,354)	8,284			284	
(Over) Under TABOR Limitation	(927,201)	365,694	584,275	0	(168,873)	(1,116,134)
(Over) Under Excess State Revenues Cap ¹						
Kept					127,810	1,116,134
Refunded	(927,201)	0	0	0	(41,063)	0

TABOR LIMIT CALCULATION (DOLLARS IN THOUSANDS)

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
TABOR Revenue Base	\$8,045,257	\$8,333,827	\$8,829,131	\$9,102,354	\$8,567,941	\$8,654,192
Inflation	2.1%	3.6%	2.2%	3.9%	-0.6%	1.9%
Population Change	1.4%	2.0%	1.9%	1.9%	1.8%	0.1%
Percentage Allowable Growth	3.5%	5.5%	4.1%	5.8%	1.2%	2.0%
TABOR Adjusted Revenue Limit	\$8,333,827	\$8,829,131	\$9,203,842	\$9,183,425	\$8,654,192	\$8,799,754
Excess State Revenues Cap (ESRC) ¹					\$10,684,856	\$10,871,425
TABOR Non-Exempt Revenues	\$9,641,867	\$9,998,559	\$9,102,354	\$8,567,941	\$9,424,764	\$10,273,184
Correction of Prior Years' Refunds						
(Over) Under TABOR Limitation	(\$1,308,040)	(\$1,169,428)	\$101,488	\$615,484	(\$770,572)	(\$1,473,430)
(Over) Under Excess State Revenues Cap ¹					\$1,260,092	\$598,241
Kept	\$1,308,040	\$1,169,428			\$770,572	\$1,473,430
Refunded	\$0	\$0	\$0	\$0	\$0	\$0

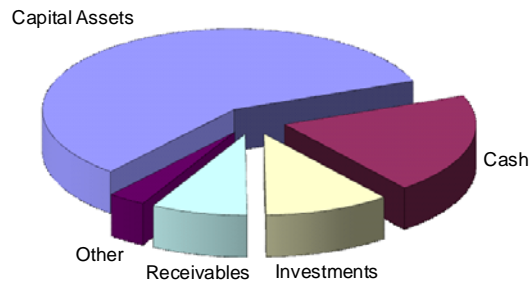
¹ Beginning in Fiscal Year 2010-11, with the expiration of the Referendum C retention period, fiscal year refunds are based on the Excess State Revenue Cap rather than the Fiscal Year Spending Limit.

WHAT COLORADO CITIZENS OWN (ASSETS)

The State's total assets as of June 30, 2012 were \$30.6 billion. The five major types of assets include:

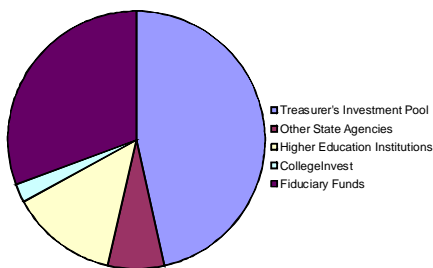
- Cash
- Receivables (cash that the State is owed but has not yet collected);
- Investments, which mostly consists of cash loaned to the federal government (U.S. Treasury notes and bonds), to corporations (bonds and commercial paper), and to individuals through mutual funds for mortgages;
- Capital Assets, which includes land, buildings, equipment, and infrastructure (roads, bridges, dams, etc.); and
- Other Assets, which includes, taxes that will not be collected for at least one year, amounts paid for goods or services not yet received, and various supplies (inventory).

FISCAL YEAR 2011-12 TOTAL ASSETS

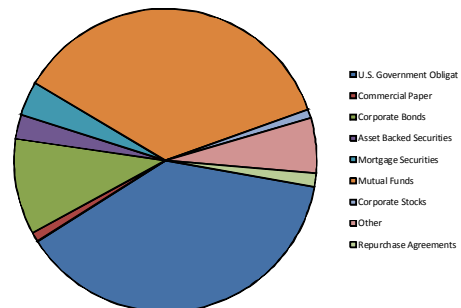


The State had \$6.6 billion of cash at June 30, 2012 – all but \$885.7 million of which was invested by the State Treasurer or the University of Colorado Treasurer. The State also had \$7.6 billion of other investments based on market value at June 30, 2012, including those held for others in Fiduciary Funds. The following charts show where the State's investments are held and the types of securities that have been purchased.

WHERE THE INVESTMENTS ARE HELD \$14.2 BILLION



INVESTMENT TYPES \$14.2 BILLION



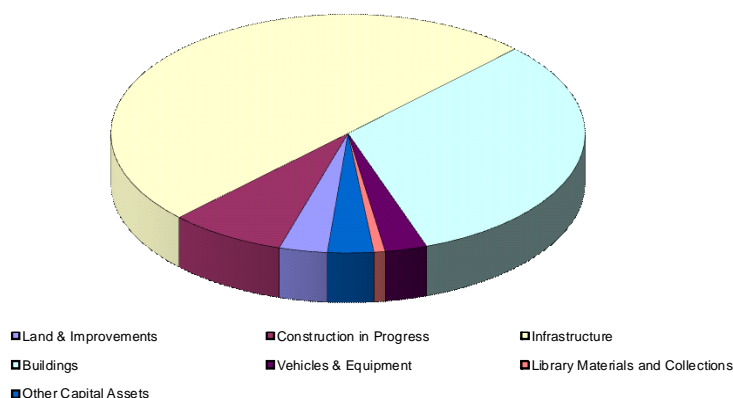
The State Treasurer is responsible for investing most of the State's cash and managing the related investments. For efficiency, and in order to increase investment yields, monies from the General Fund, State agencies, and political subdivisions of the State on deposit with the Treasury are pooled for investment purposes. The Treasury Department invests the monies in accordance with statutorily prescribed objectives and standards. A complete listing of the State Treasurer's investment holdings along with quarterly performance results is available on the Treasurer's website at <http://www.colorado.gov/treasury/> (under Investments Division, State's Portfolio).

The citizens own \$17.8 billion of capital assets of various types as shown in the chart to the right. The amounts shown for these assets are based on the amount that the State originally paid for the asset less depreciation which is the non-cash cost of an asset wearing out over time due to usage. In FY11-12 the capital assets increased by about \$494.2 million from the prior year. The increase was primarily attributable to business-type

activities – \$455.4 million in Institutions of Higher Education and the Transportation Enterprise. In the governmental activities, there was new construction for public schools, the Ralph L. Carr Judicial Complex and the History Colorado Center; however, the depreciation of the State's roads and bridges nearly offset the increases from the new construction.

The following table shows the amounts the State reported for working capital and net assets over the last five years. The table also shows that the State's current ratio, which is current assets divided by current liabilities, remains strong. The ratio has nearly returned to the pre-recessionary 2007-08 level. The table is in actual dollars and has not been adjusted for inflation.

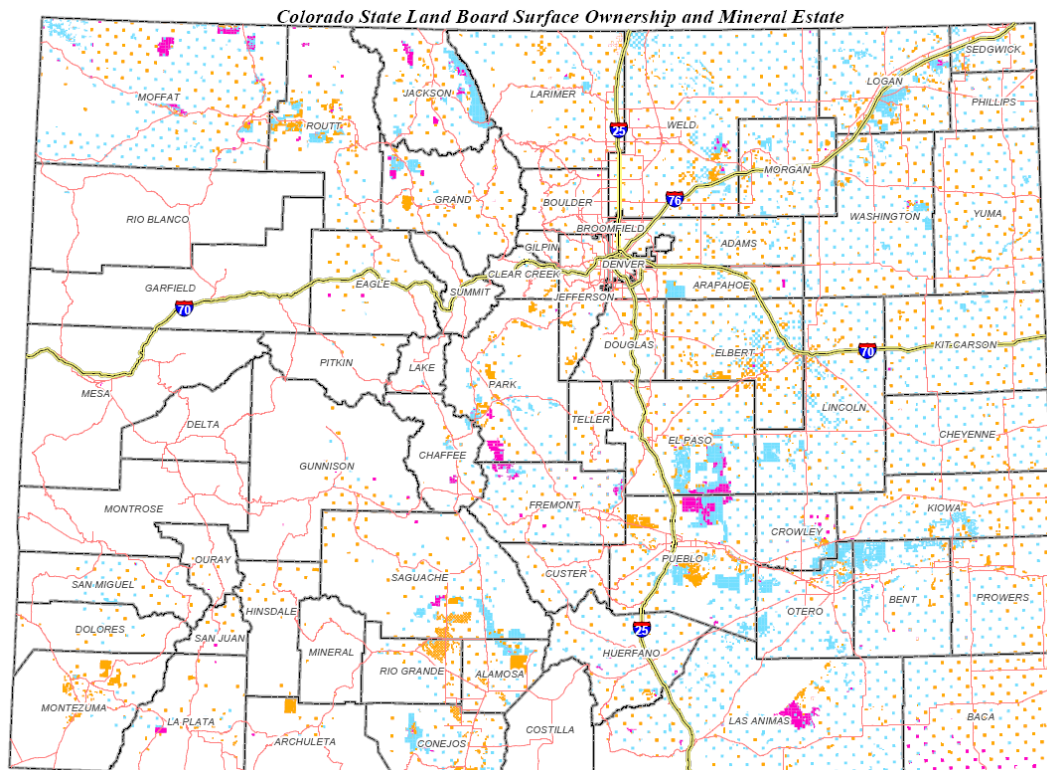
CAPITAL ASSETS



GOVERNMENT-WIDE WORKING CAPITAL AND NET ASSETS
AT JUNE 30, 2012
LAST FIVE FISCAL YEARS
(DOLLARS IN THOUSANDS)

	2007-08	2008-09	2009-10	2010-11	2011-12
Current Assets	\$ 6,516,040	\$ 5,991,706	\$ 5,601,648	\$ 5,463,362	\$ 6,504,860
Less Current Liabilities	(3,315,995)	(3,731,801)	(4,034,160)	(3,328,821)	(3,247,231)
Working Capital	<u>\$ 3,200,045</u>	<u>\$ 2,259,905</u>	<u>\$ 1,567,488</u>	<u>\$ 2,134,541</u>	<u>\$ 3,257,629</u>
Working Capital Per Capita	\$ 654	\$ 455	\$ 311	\$ 417	\$ 628
Current Ratio	1.97	1.61	1.39	1.64	2.00
Working Capital	\$ 3,200,045	\$ 2,259,905	\$ 1,567,488	\$ 2,134,541	\$ 3,257,629
Investments	1,105,125	1,253,716	1,735,730	1,675,912	2,186,583
Capital Assets	16,615,629	17,363,100	16,446,959	16,713,130	17,775,932
Other Restricted and Long-Term Assets	5,853,965	5,901,722	4,052,170	4,323,835	4,126,425
Less Long-Term Liabilities	(5,817,484)	(6,421,126)	(5,608,373)	(6,187,621)	(7,032,512)
Deferred Inflow of Resources			-	(2,006)	-
Deferred Outflow of Resources			7,778	-	5,005
Net Assets	<u>\$ 20,957,280</u>	<u>\$ 20,357,317</u>	<u>\$ 18,201,752</u>	<u>\$ 18,657,791</u>	<u>\$ 20,319,062</u>
Net Assets Per Capita	\$ 4,286	\$ 4,094	\$ 3,606	\$ 3,646	\$ 3,917

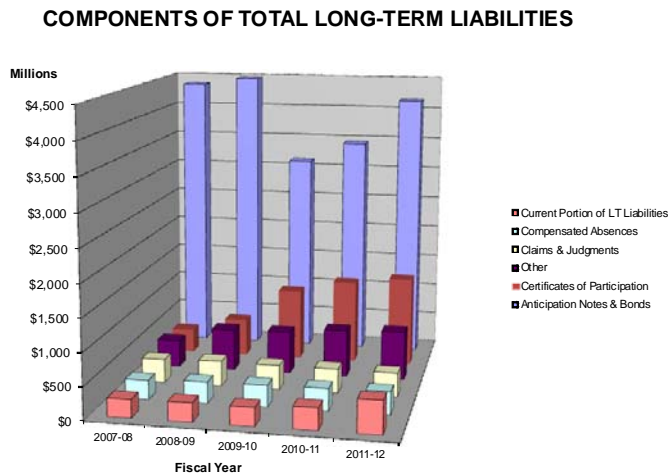
The State owns about three million acres of State trust lands, which were given to Colorado by the federal government in 1876 for specific purposes, such as the support of "common schools." Some of the lands are leased for ranching, farming, mineral and oil and gas production, and other uses. Proceeds are used to support eight trusts, the largest of which benefits preschool through 12th grade education.



WHAT COLORADO CITIZENS OWE (LIABILITIES)

The State is prohibited by its Constitution from borrowing money based on its ability to collect taxes except in extremely limited circumstances; such borrowing is commonly referred to as general obligation debt. Although the State is normally prohibited from issuing general obligation debt, it borrows money under several other financing mechanisms, such as revenue bonds, anticipation notes, and certificates of participation (COPs). These borrowings

are recorded as long-term liabilities along with other types of State obligations. Long-term liabilities totaled \$7.5 billion at the end of Fiscal Year 2011-12, which was about \$1.0 billion more than the prior year. The majority of the increase is due to the issuance of revenue bonds in the Department of Higher Education and the issuance of bonds by the Unemployment Insurance Program.



The State reports several categories of long-term liabilities, the largest of which is the combination of anticipation notes, revenue bonds, and COPs. These notes, bonds, and COPs are most often sold to investors to provide the State with cash to buy or build capital assets such as buildings and roads. It is required to pay the borrowed money back to the investors and pay them interest on the use of the money. The State is required to dedicate a source of revenue to make these payments because of the prohibition against general obligation debt. Some of the anticipation notes, shown below, were issued after a vote of the citizens approved borrowing to improve the State's highways. The total amount of outstanding borrowing and the percentage increase is shown in the following table.

OUTSTANDING BORROWING FOR REVENUE BONDS, COPs, CAPITAL LEASES, NOTES, AND MORTGAGES AND OTHER STATE OBLIGATIONS AT JUNE 30, 2012

	2007-08	2008-09	2009-10 ¹	2010-11	2011-12
Outstanding Borrowing	\$5,544,326	\$5,972,627	\$5,161,229	\$5,119,124	\$6,119,351
Percent Change Over Previous Year	8.5%	7.7%	-13.6%	-0.8%	19.5%
Colorado Population (In Thousands)	4,890	4,972	5,048	5,117	5,188
Per Capita Borrowing (Dollars Per Person)	\$1,134	\$1,201	\$1,022	\$1,000	\$1,180
Per Capita Income (Dollars Per Person)	\$ 44,172	\$ 41,311	\$ 42,096	\$ 44,049	\$ 44,796
Per Capita Borrowing as a Percent of Per Capita Income	2.6%	2.9%	2.4%	2.3%	2.6%
Other State Obligations	\$550,574	\$736,373	\$728,171	\$1,404,476	\$1,416,949

¹ In Fiscal Year 2009-10, due to statutory changes CollegeInvest retired \$1.7 billion in revenue bonds.

At June 30, 2012, the following amounts in the form of anticipation notes, revenue bonds, and certificates of participation were outstanding:

NOTES, BONDS, AND CERTIFICATES OF PARTICIPATION AT JUNE 30, 2012

(Dollars in Thousands)

Borrowed Cash Used For:	Anticipation Notes & Revenue Bonds	Certificates of Participation	Notes Payable
Fleet Vehicles		\$4,696	
Capitol Parking Structure		\$6,462	
Prisons		\$115,366	
State Historical Society - Museum		\$86,916	
Fitzsimons Medical Buildings		\$171,934	
Higher Education Facilities - Federal Mineral Lease Funded		\$214,901	
Higher Education Auxiliary Facilities	\$2,819,601	\$27,654	\$4,504
Highway Projects (Anticipation Notes)	\$737,433		\$21,075
Statewide Bridge Enterprise	\$300,000		
Highway Department Buildings		\$0	
Judicial - Ralph L. Carr Justice Center		\$250,907	
Labor and Unemployment UI Bonds	\$634,016		
Nursing Home Anticipation Notes			\$2,849
K-12 Public School Construction (BEST)		\$560,570	
Total	\$4,491,050	\$1,439,407	\$28,428

Colorado's Rank Among the 50 States

Tax Supported Borrowing
calendar year 2010
(most current data available)

42nd

As a % of Personal Income

Measured Per capita: 40th

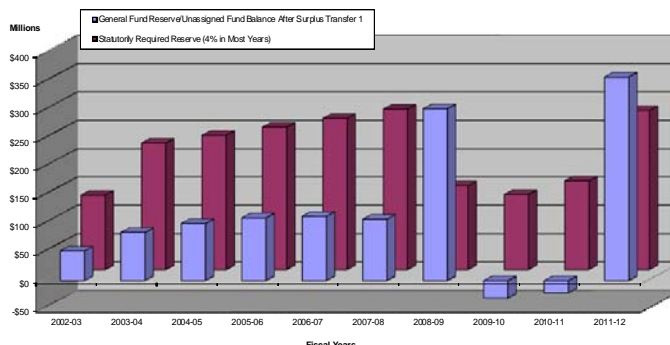
(Source: Moody's Investor Services)

SAVING FOR A DOWNTURN

In most years, State law requires a four percent reserve in the General Fund. However, in response to revenue shortfalls, the State lowered the required reserve to two percent for Fiscal Years 2008-09 and 2009-10, and two and three-tenths percent for Fiscal Year 2010-11. During this period, large transfers from cash funds were also required to meet general-purpose obligations of the state. In Fiscal Year 2011-12, the reserve was restored to 4.0 percent.

On a budgetary basis, the State consistently meets the General Fund required reserve by deferring certain payments into the following year. The deferrals comprised \$144.2 million in certain payroll, Medicaid, and information technology expenditures that will be recorded as Fiscal Year 2012-13 budgeted expenditures. This is the first year since the recession that all current liabilities are recognized as required by Generally Accepted Accounting Principles (GAAP), and absent transfers-in, there was a positive General Fund fund balance.

GENERAL FUND RESERVE - GAAP BASIS



¹ Prior to FY2008-09, the Surplus transfer comprised one-third to the Capital Construction Fund and two-thirds to the Highways Users Tax Fund. In Fiscal Year 2010-11, the surplus transfer comprised \$67.5 million to the Public School Fund with the remainder to the State Education Fund. In Fiscal Year 2011-12, \$59.0 million of the Surplus was transferred to the State Education Fund and \$5.0 million to various cash funds.

The lack of significant reserves in the General Fund leaves the State vulnerable in the event of an ongoing economic downturn. For this reason the legislature passed and the Governor signed a bill in 2011 that will increase the State's reserves by 0.5 percent each year for the period from Fiscal Year 2012-13 to 2016-17 if the State's personal income meets a certain threshold. The desired reserve percentage is 6.5 percent of the General Fund.

PENSION FUNDING

The Public Employees' Retirement Association (PERA) provides retirement and other benefits to the employees of more than 400 government agencies and public entities in the State of Colorado. PERA is a substitute for Social Security for most of these public employees. Benefits are prefunded, which means while a member is working, he or she is required to contribute a fixed percentage of salary to the pension fund. The employer also contributes a percentage of pay to the pension fund. The fund is then invested by PERA under the direction of a board of trustees.

Because of retiree benefit increases, reduced contributions in the early 2000's, and investment losses in last recession, the pension assets have become smaller in relation to the pension liabilities. At December 31, 2012, PERA reported the pension assets of the State Division were 59.2 percent of pension liabilities (up 1.5 percentage points from the prior year). To address the issue of insufficient assets to pay all the benefits promised, in the 2006 session the Legislature increased the amount that the State pays into the pension

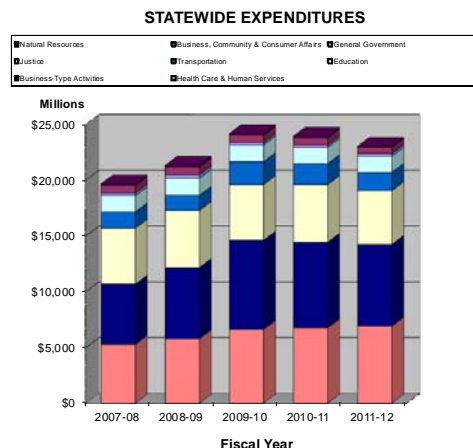
fund by 0.9 percentage points – part of which is taken from wage increases that employees would otherwise have received. The statute required these payments to increase each year through 2013. For 2008 PERA reported a negative 26.0 percent return on investments, and the Legislature took additional action in the 2010 session to modify the benefit and contribution structure to further address the pension funding shortfall. The additional 0.9 percentage point increases were continued through 2017. The total State contribution will reach 20.15 percent at that time, which is considered adequate to fully fund the pension obligations in thirty years. The employee contribution is currently 8 percent (10 percent for State Troopers and CBI agents) and is not expected to change.

MORE ABOUT WHAT COLORADO CITIZENS BUY

The graph shows the total statewide expenditures using inflation-adjusted 2008 dollars broken out by major program.

Total real dollar expenditures increased over the five-year period from \$19.6 billion to \$24.8 billion. The State's major expenditures occur in health care and human services, business-type activities, education, transportation, and justice. Business-type activities include Higher Education, Lottery, Unemployment Insurance, and several smaller programs. There was an overall decrease in spending

from the prior year primarily due to reduced ARRA moneys. The largest increases occurred in Health and Human Services due to increased costs and higher caseloads.

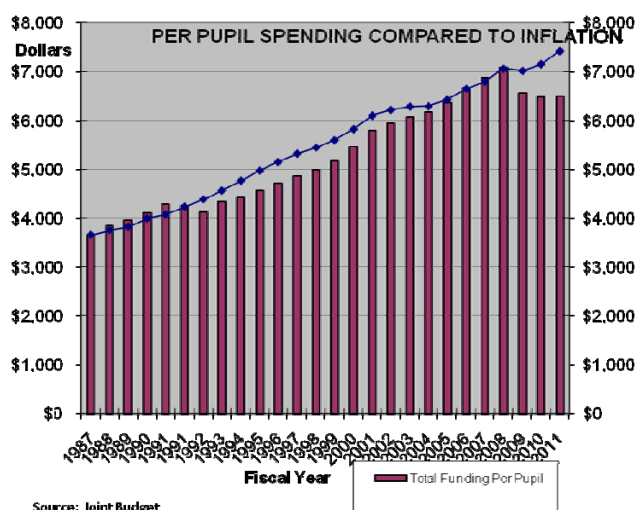


As shown above, most of the State's expenditures are for education (preschool through 12th grade and higher education), health and medical care (primarily Medicaid), transportation, and justice (primarily prisons). Some of these expenditures are made up mainly of payments to vendors (Medicaid) or local governments (P-12 distributions), and others are driven by the cost of employing State workers. The following pages provide additional information about these payments.

Education

In the State of Colorado, primary and secondary education is controlled mostly by local school districts. The Colorado Department of Education sets standards and monitors the quality of education provided by the local school districts. The money to support these schools comes from the local school district (mostly property taxes) and the State. Two constitutional amendments passed by the voters (Gallagher and TABOR) limit the amount of revenue that local governments can collect from property taxes unless a vote of the citizens removes the TABOR limit. Over time, local funding has declined as a percentage of the support for local schools. To address this problem, the State has had to make increasingly larger payments to the local school districts.

Voters approved Amendment 23 in the 2000 general election. The amendment directed a portion of the State income tax into a new State Education Fund, and required the State to increase the amount spent on each pupil by at least the rate of inflation plus one percent through 2011. It also excluded this stream of money from the requirements of TABOR. The intent of the amendment was to restore P-12 spending to inflation adjusted levels and to make sure that spending could be maintained using the money and related investment earnings in the State Education Fund.



However, shortly after the passage of Amendment 23, the State economy entered a recession, and some of the principal of the State Education Fund was used to meet the required increase in school payments. The most recent recession had a similar adverse effect on the Fund,

In 1992, school districts were converted from a calendar year budget to the State's fiscal budget year. 1992 is a six-month period, annualized for comparison purposes. As a result, different inflation rates were applicable for the first and second half of 1991 (shown separately).

and in Fiscal Year 2010-11 the State transferred \$221.4 million from the General Fund Surplus to the State Education Fund. In Fiscal Year 2011-12, \$59.0 million was transferred.

For the 2011-12 school year the student enrollment count was 854,265, and in Fiscal Year 2011-12 the State distributed \$4.20 billion to local school districts from all funding sources, including \$89.8 million in ARRA funding. The enrollment amount represents a 6.4 percent increase in students attending local primary and secondary schools over five years. During about the same period, State payments to local school districts increased by 10.1 percent (1.9 percent when adjusted for inflation). On a per pupil basis, general funding for P-12 education in calendar year 2010 (the basis for the budget in Fiscal Year 2011-12) was 9.4 percent below the amount that would have been required had the inflation requirements in Amendment 23's been applied as envisioned in 2000.

Colorado's Rank (Among the 50 States)

P-12 Spending 2010-11
45th

As a % of Personal Income

Measured Per Pupil
2010-11: 40th

(Source: US Census Bureau)

Building Excellent Schools Today (BEST)

In the 2008 legislative session the Colorado General Assembly passed and the Governor signed the Building Excellent Schools Today (BEST) Act.

The BEST program represents a substantial State commitment to fund the capital construction needs of school districts and charter schools across the State. The program directs a stream of revenue earned from School Trust Lands to fund school building repair, renovation, and replacement.

The program is designed to fund a large portion of the new projects through the issuance of Certificates of Participation. At the time of its passage, the program was estimated to have the potential to invest as much as one billion dollars into Colorado school buildings. BEST grants normally require matching funds which come from local school district and charter school revenue.

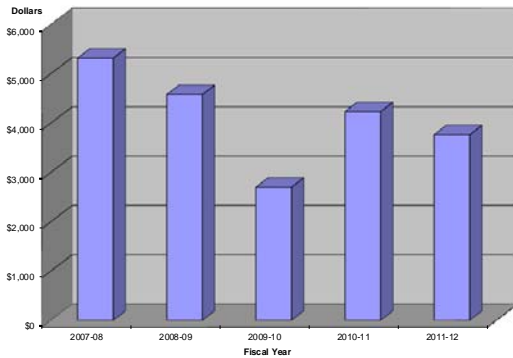
A summary of the projects funded in part by BEST grants appears below:

	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12
State Contributions	\$ 80,478,435	\$ 99,272,091	\$ 169,950,522	\$ 142,745,980
District Contributions	\$ 22,784,265	\$ 52,402,339	\$ 71,501,027	\$ 42,560,485
Total Funding	\$ 103,262,700	\$ 151,674,430	\$ 241,451,549	\$ 185,306,465
New School Projects	5	4	6	5
Repair and Renovation Projects	8	46	39	29

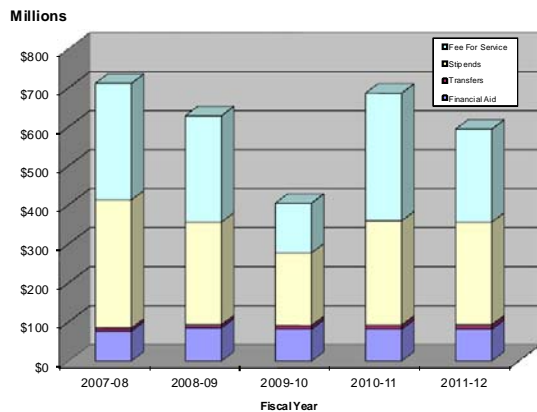
More information on the BEST program can be found on the Colorado Department of Education's web site at: <http://www.cde.state.co.us/cdefinance/CapConstBEST.htm>.

Higher Education

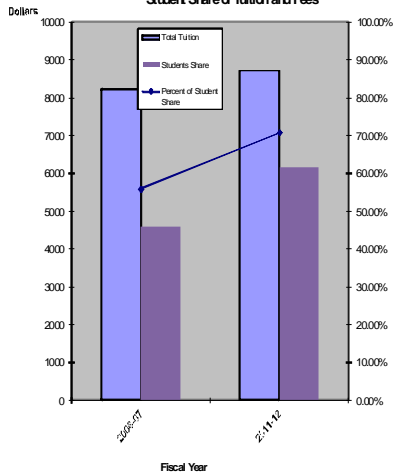
STATE GENERAL FUNDED SPENDING PER IN-STATE STUDENT



GENERAL FUND SPENDING FOR HIGHER EDUCATION

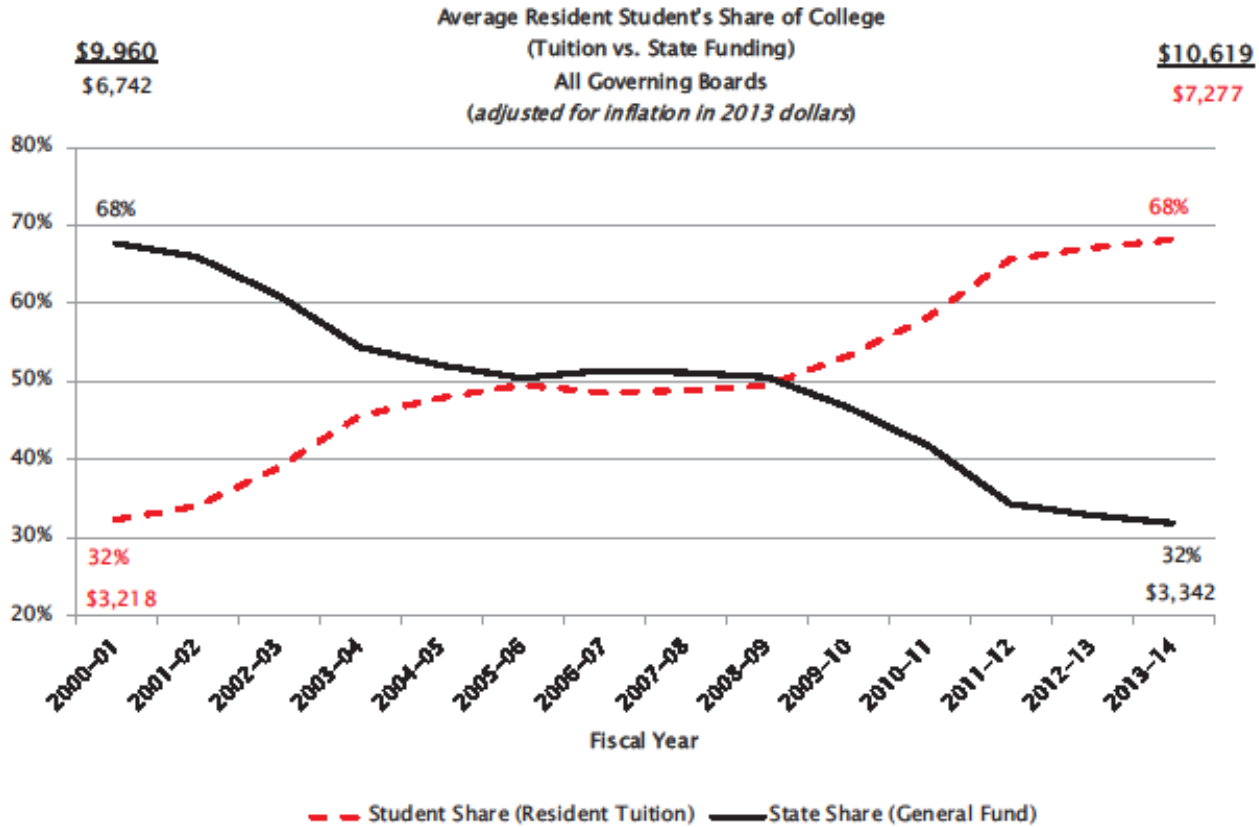


Student Share of Tuition and Fees



The State supports institutions of higher education through stipend payments to students through the College Opportunity Fund, and through contracts with the institutions to purchase higher education services. In actual dollars, general fund spending on Higher Education decreased by 16.5 percent from Fiscal Year 2007-08 to 2011-12, which reflects the expiration of Fiscal Year 2010-11 ARRA requirement that state funding be maintained at Fiscal Year 2005-06 funding levels. In Fiscal Year 2007-08, the State spent 10.2 percent of its total general-funded expenditures on Higher Education. By Fiscal Year 2011-12 that percentage had fallen to 8.7 percent. However, over the five-year period from Fiscal Year 2007-08 to 2011-12, in-state enrollment increased 17.9 percent from 140,644 to 165,791.

Higher Education has other sources of revenue beside appropriations from the State. It receives revenue from federal grants, tuition, and fees, among other sources. The federal grants are mostly related to research programs at the four major universities; grants are not as important a source of revenue for the State's colleges or the Community College System. As a result, much of the burden of covering increasing costs of higher education comes from increasing tuition and fees, as seen in the graph on the next page.



**Colorado's Rank
Among the 50 States**

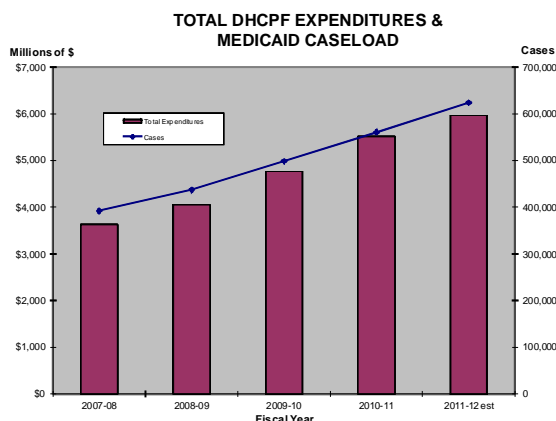
Higher Education Spending 2010-11
(est.)
47th
As a % of Personal Income

Per capita 2010-11 (est.): 48th

(Source: State Higher Education Executive
Officers' Association)

Health Care

Colorado's largest government supported health care program is the federal Medicaid program. Medicaid pays health care and long-term care costs for those who qualify under the Medicaid eligibility rules; eligibility is mostly based on an individual's level of income. Normally, about one-half of all Medicaid expenditures are paid using federal dollars; however, in Fiscal Years 2008-09 through 2010-11, the federal government participated at an enhanced participation rate through ARRA monies.



The State also provides health care access to low-income children through the Child Health Plan Plus (CHP+). CHP+ was created as a federal and state partnership to increase the number of children with access to health care. In Fiscal Year 2011-12 CHP+ provided low cost health insurance to 67,432 children in Colorado who otherwise would have been uninsured. The State receives nearly two-dollars of federal matching funds for every dollar of State funds spent on the program.

In Fiscal Year 2011-12, Colorado, through the Department of Health Care Policy and Financing (DHCPF), spent \$6.0 billion from all sources (general, cash, and federal revenue) on its health care mission, which was a 64.7 percent increase since Fiscal Year 2007-08. During the same five years the Department's share of the General Fund budget increased from 20.0 percent to 23.5 percent. Expenditures on the health care program are growing faster than caseload primarily due to high medical care inflation.

Colorado's Rank (Among the 50 States)

Medicaid Spending 2010-11

35th

Measured Per Capita

(Source: National Association of Budget Officers)

Transportation

Transportation expenditures by the State are a combination of spending on new or replacement construction, maintenance of existing roadways, and debt service. As shown by the graph titled "Transportation Expenditures", the State spent \$1.36 billion on transportation in Fiscal Year 2011-12. This is an increase of 5.4% from the prior year.

Colorado pays for transportation costs from tax and fee revenue as well as federal revenue. The use of federal revenue is limited by Federal Highway Administration requirements and generally excludes maintenance activities. The tax and fee revenue includes highway users taxes, such as, fuel tax, vehicle registrations, and before Fiscal Year 2008-09 included transfers and sales and use taxes diverted from the General Fund. To partially replace these lost sources, in Fiscal Year 2011-12, an additional \$126.0 million of revenue was collected through new fees authorized by the Funding Advancement for Surface Transportation and Economic Recovery (FASTER) statute enacted in 2009.

State fuel tax revenue has been losing purchasing power over time. Since 1991, the last time the Colorado legislature adjusted the State fuel tax, fuel tax revenue has lost 44.4 percent of its purchasing power adjusted for the Denver-Boulder consumer price index (real dollars). During this time, vehicle lane miles, or highway usage, has also increased.

The following table shows the percentage of roadways rated good and fair as compared to those rated poor, as well as bridge deck areas rated as poor. The Department of Transportation closes all bridges that are considered a threat to public safety. Due to lack of adequate funding, the Department began reporting depreciation on its roadways and bridges (in Fiscal Years 2009-10 and 2007-08 respectively) because they could no longer be maintained at target levels.

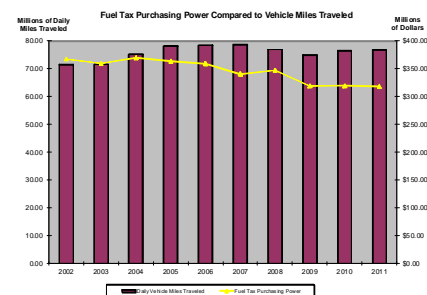
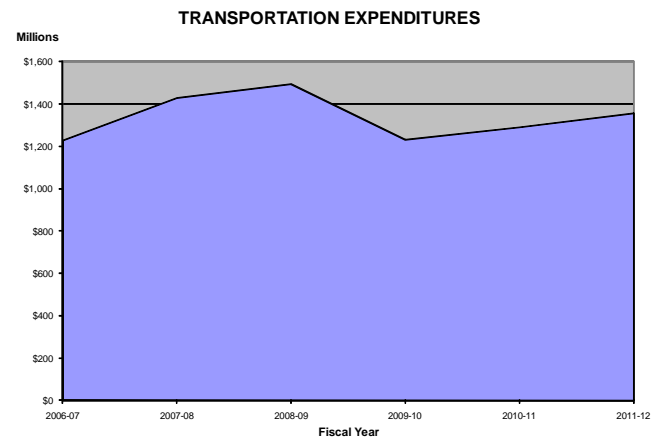
Infrastructure	Condition Assessment	2008	2009	2010	2011	2012
Roadways	Percent Rated Good/Fair	53	50	48	48	47
Roadways	Percent Rated Poor	47	50	52	52	53
Bridges	Percent Rated Poor	6.21	5.62	5.48	5.53	3.60

**Colorado's Rank
(Among the 50 States)**

Transportation Spending 2010-11
44th
As a % of Personal Income

Measured Per Capita
2010-11: 42nd

(Source: US Census Bureau;
Bureau of Economic Analysis)



Justice

The justice function includes the Judicial Branch of government, and the Departments of Law, Public Safety, and Corrections. The Department of Corrections' general-funded expenditures increased from \$626.2 million in Fiscal Year 2007-08 to \$647.3 million in Fiscal Year 2011-12 – a 3.4 percent increase. Over the five-year period, this represents an increase from 8.1 percent of the General Fund budget to 8.9 percent in Fiscal Year 2011-12.

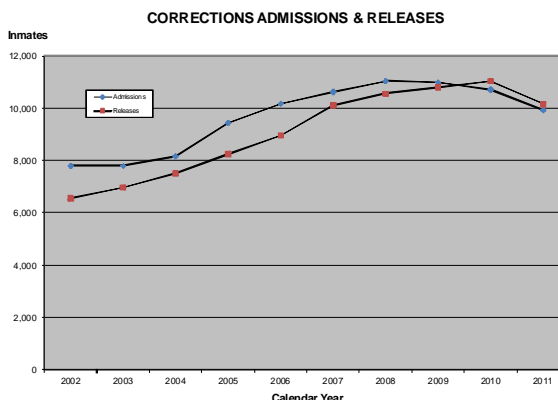
Colorado's Rank (Among the 50 States)

Corrections Spending 2010-11
30th
Measured Per Prisoner

(Source: National Association of Budget Officers; US Department of Justice)

The general-funded expenditure amounts stated above do not include payments made to construct and repair the department's correctional facilities. In Fiscal Year 2005-06, the department issued \$130.6 million of Certificates of Participation (COPs) to pay for construction for the expansion of an existing correctional facility. However, due to operating budget constraints and reduced offender population declines, House Bill 12-1337 was enacted to close and repurpose the facility for alternate State purposes.

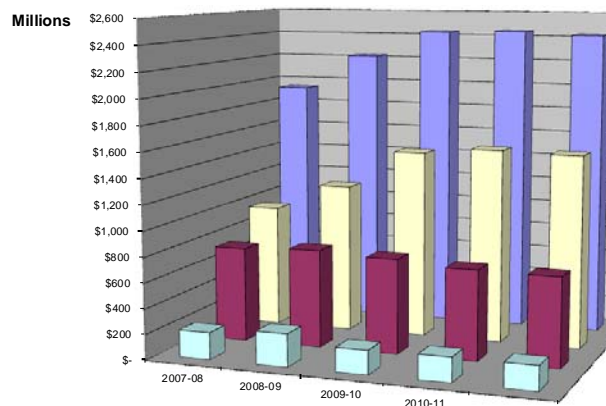
The Department of Corrections measures the demand for prison space and related general-funded operating costs based on the number of persons admitted to and released from the correctional facilities. The graph to the right shows that admissions have consistently exceeded releases until Fiscal Year 2009-10. Although releases exceeded admissions slightly in Fiscal Years 2009-10 and 2010-11, the overall population has significantly increased over time. Unless the growth in releases consistently exceeds the growth in admissions, the prison population will continue to put additional pressure on the State General Fund budget.



Social Assistance (Department of Human Services)

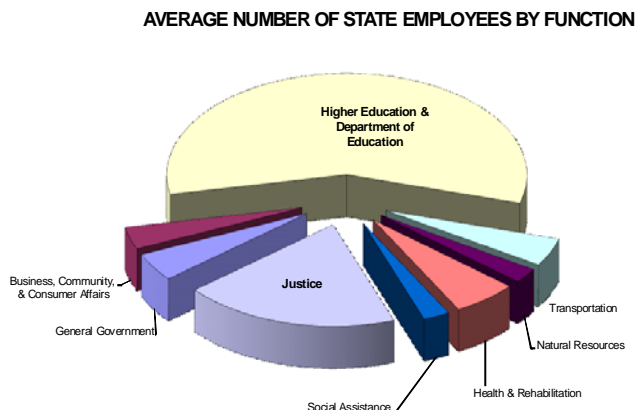
The Department of Human Services operates a wide variety of programs to assist the State's citizens including mental health institutes, residential mental health services, veterans' nursing homes, youth corrections, child and elderly services, and federal poverty programs. The chart shows that historically the federal government has provided most of the increase in social assistance expenditures. The demand for social services is affected by general increases in State population and increases in the portion of the population that is considered in need under program rules.

DEPARTMENT OF HUMAN SERVICES EXPENDITURES



STATE EMPLOYEE WORKFORCE

In Fiscal Year 2011-12, the State of Colorado's average employment totaled 67,871, and total personal service expenditures (wages, salaries, and benefits) were \$5.2 billion. Personal service expenditures have increased by 8.7 percent over the past five years with the effects of inflation removed (14.1 percent in real dollars). The most growth occurred in the general government function as a result of the centralization of information technology personnel previously reported in various functions. This was followed by growth in the Education function, which is primarily Higher Education workers because P-12 workers are employed by local school districts, and Justice.



The chart shows the functions where State workers are employed. The largest employer is the education function, up 13.4 percent over five years, followed by justice, up 5.5 percent (primarily prison guards). Over the five-year period, the total average employment has increased 9.6 percent while the State's population grew 6.1 percent. Excluding education, total average employment is up 4.8%.

AVERAGE NUMBER OF STATE EMPLOYEES BY FUNCTION¹
Last Five Fiscal Years

	2007-08	2008-09	2009-10	2010-11 ²	2011-12
General Government	2,392	2,454	2,399	2,991	3,042
Business, Community, and Consumer Affairs	2,372	2,437	2,564	2,458	2,404
Education	34,469	36,042	37,093	38,038	39,097
Health and Rehabilitation	3,865	3,944	4,019	3,965	3,953
Justice	12,467	13,000	12,848	13,093	13,149
Natural Resources	1,583	1,587	1,607	1,579	1,597
Social Assistance	1,656	1,671	1,704	1,579	1,605
Transportation	3,111	3,400	3,091	2,988	3,024
TOTAL AVERAGE EMPLOYMENT	61,915	64,535	65,325	66,691	67,871

¹ The term average employment in this instance is used to estimate the number of full-time employees that would be needed to provide the same services that are currently provided by a mix of full-time employees and in some instances a large number of part-time or seasonal employees. The estimate is based on each agency's average salaries of full-time employees divided into the total part-time payroll.

² In Fiscal year 2010-11, the general government function increased, and other functions decreased, as a result of the consolidation of information technology personnel into the Governor's Office.

Colorado's Rank (Among the 50 States)

State Government Employees 2010-11

27th

As a % of Personal Income

Measured Per Capita (2010-11): 35th

(Source: US Census Bureau; Bureau of Economic Analysis)

COLORADO STATE FACTS

Some Important Dates:

A.D. 1-1299 Anazazi culture flourishes in the area of Mesa Verde in southwestern Colorado.

- c. 1500 Ute Indians inhabit mountain areas of the southern Rocky Mountains, making these Native Americans the oldest continuous residents of Colorado.
- 1541 Coronado leads an expedition north from Mexico in search of the Seven Cities of Cibola. It is likely Coronado and his party passed through the present-day area of southeastern Colorado.
- 1803 The United States purchases land, including what is now most of eastern Colorado, from France in the Louisiana Purchase.
- 1806 Lt. Zebulon M. Pike and a small party of U.S. soldiers sent to explore the southwestern boundary of the Louisiana Purchase discover the peak that bears his name, but they fail in their effort to climb it. However, they do reach the headwaters of the Arkansas River near Leadville.
- 1851 The founding of the town of San Luis, in the San Luis Valley, the first permanent European settlement in the State.
- 1858 Gold is discovered along Cherry Creek near the present day Denver.
- 1861 Congress establishes the Colorado Territory with the boundaries of the present State and chooses its name from the Spanish word for "colored red." President Lincoln appoints William Gilpin as the first territorial governor. The State Supreme Court is organized. The first assembly meets, creates 17 counties, and selects Colorado City as the territorial capital.
- 1867 Denver established as permanent seat of the territorial government by the legislature meeting in Golden.
- 1870 The Denver Pacific Railroad is completed to Denver.
- 1876 Colorado is admitted to the Union as the 38th state. John L. Routt is elected the first governor.
- 1877 The University of Colorado opens classes at Boulder with two teachers and forty-four students.
- 1894 The State Capitol Building, designed by Elijah E. Meyers, is completed at a cost of \$2.5 million. Colorado becomes the second state, after Wyoming, to extend suffrage to women.
- 1906 The U.S. Mint at Denver issues its first coins.
- 1910 Colorado voters adopt a constitutional amendment allowing citizen initiatives.
- 1973 The Eisenhower Tunnel is built beneath the Continental Divide, sixty miles west of Denver.

Geography:

Capital: Denver

Land Area: 103,718 square miles (source: Census Bureau)

Population: 5,187,582 (source: Census Bureau)

Counties: 64 (source: National Association of Counties)

Highest Elevation: Mt Elbert – 14,433 feet above sea level (Lake County)

(source: U.S. Geological Survey)

Lowest Elevation: Arikaree River at 3,315 feet above sea level (Yuma County)

(source: U.S. Geological Survey)

Colorado has the highest average elevation of all fifty states at 6800 feet above sea level

(source: U.S. Geological Survey)

Geographic Center: Located in Park County approximately 30 miles northwest of Pikes Peak

(source: U.S. Geological Survey)

State Designations:

State Animal – Rocky Mountain Bighorn Sheep
State Bird – Lark Bunting
State Fish – Greenback Cutthroat Trout
State Flower – White and Lavender Columbine
State Folk Dance – Square Dance
State Fossil – Stegosaurus
State Gemstone – Aquamarine
State Grass – Blue Grama Grass
State Insect – Colorado Hairstreak Butterfly
State Mineral – Rhodochrosite
State Motto – Nil Sine Numine - Nothing Without Providence (or Deity)
State Nickname – Centennial State
State Reptile – Western Painted Turtle
State Amphibian – Western Tiger Salamander
State Rock – Yule Marble
State Songs – Where the Columbine Grow and Rocky Mountain High
State Tree – Colorado Blue Spruce