COLORADO BUSINESS REVIEW

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Inside: Forum Keynote Address on this page. Colorado Economic Outlook for 2010 on page 3. Summaries of Forum Breakout Sessions from the 2010 Colorado Business Economic Outlook Forum appear throughout.

Colorado Business Economic Outlook Director and CU Leeds School of Business Associate Dean Richard Wobbekind presents the 45th annual University of Colorado economic forecast in Denver. Panelists Nathaniel Karp, BBVA Compass; Tim Sheesley, Xcel Energy; and Patty Silverstein, Development Research Partners, join in the discussion.

Forum Keynote Address

Global and Financial Outlook Improves Moderately for 2010

Brian Lewandowski

With the worst of the financial crisis and recession behind us, the nation should look forward, with tempered optimism, to a return to lending and growth, according to **Nathaniel Karp**, chief U.S. economist for BBVA Compass. Karp provided compelling support that concerted efforts have reduced risk in financial markets, and that expectations have improved for employment, sales, and GDP growth. The United States will benefit from economic ties with the expanding Asian and Latin American economies, resulting in rising demand for U.S. goods and services. Colorado will benefit from increased demand for technology. However, Karp cautioned that the U.S. debt burden, government intervention, and the unwinding of government stimuli are all areas of concern looking ahead.

Elements of the Crisis

In essence, two components led to the financial crisis—excess liquidity (too easy to lend) and undervaluation of risk (too cheap to lend). Once the asset bubble began to burst, investor malaise about conventional risk perception led to an exodus from securities. Interbank lending ceased, and financing to the private sector dried up. The

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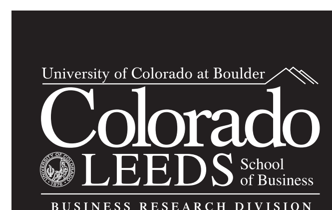


From the Editor

We begin a new year—and a new decade—with a summary of our 45th annual Colorado Business Economic Outlook Forum, which was held on December 7 at the Grand Hyatt Hotel in Denver. The half-day event featured a sector by sector forecast; a Q&A panel session; a keynote address by Nathaniel Karp, chief U.S. economist for BBVA Compass; and three industry discussion sessions. Highlights appear on the following pages. For additional details, visit leeds.colorado.edu/brd or call me at 303-492-1147.

Richard L. Wobbekind

FINANCIAL OUTLOOK IMPROVES, CONTINUED FROM PAGE 1

perpetuating decline led to disruptions in the labor market, and hence incomes, pressuring consumers to reel in spending. Governments around the globe quickly and dramatically took action through stimulus packages that thwarted an even greater recession or depression.

Stimuli

Fiscal stimuli have been widespread, with resolute action taken by the G-20 and beyond. The United States and China have committed the most currency to stimuli, but many countries have contributed significant percentages of GDP. When all measures taken by the U.S. government are tabulated, financial commitments total nearly $10.9 trillion, including TARP ($700 billion), the Fed rescue ($6.4 trillion), fiscal stimulus ($1.2 trillion), the AIG and FDIC assistance ($157 billion), other financial aid ($1.7 trillion), and housing support ($745 billion). Some of this blend of spending, tax credits, guarantees, loans, and investments has already been recouped.

Global Impacts

This financial crisis continues to have pervasive impacts around the globe, but the magnitude was more severe in developed countries than in emerging markets. In fact, equity markets in emerging economies have all but rebounded to July 2007 levels. China is looking at GDP growth in excess of 9% in 2010 (compared to 2% to 3% for the United States), and the rest of Asia is expected to increase 3.9%. Latin America, particularly Brazil, is benefiting from strong commodity prices, while Mexico is strained due to economic links with the United States. However, the region is expected to expand more than 3% in 2010. Eastern European countries walked into the recession with high debt loads and fiscal deficits, leaving little room to stimulate their economies. As a result, the prospect for this area is very weak over the next few years, with 2010 growth estimated at 2.3%. Growth in Western Europe will lag expansions in other markets due to economic ties to Eastern Europe and less aggressive stimulus packages.

Domestic Impacts

The general consensus is that the U.S. economy will continue to improve in 2010, growing between 2% and 3%. Consumption has taken a profound hit, and with so many constraints facing households, from debt (mortgages and credit cards), to wealth (investments and home values), to incomes (unemployment and wages), consumption prospects are weaker compared to periods following prior recessions. This component of the U.S. economy alone comprises in excess of 70% of GDP.

Companies seem to be in a holding pattern, with corporate growth and profits stagnating, and commercial real estate still exhibiting signs of risk for 2010. Banks have shored up their balance sheets with cash reserves and loan write-downs, but they are not lending. Questions remain about the strength of the recovery and the chance of a double-dip recession. In addition, many are watching to see how the government plans to back away from unprecedented intervention in the markets. The Fed alone went from about $900 billion in assets to more than $2.2 trillion seemingly overnight. Efforts to remove liquidity instituted by the Fed must be coordinated with appropriate monetary policy and investment by the private sector. The Fed is caught between keeping rates low to not kill the mortgage markets and offset the positive effects of fiscal spending, and allowing interest rates to rise in order to stabilize the economy.

As the U.S. debt burden grows, the government could print money, which may increase inflation; may increase taxes, which could dampen growth; or could decrease spending, which would stymie the recovery. In addition, how long will investors finance the U.S. government at such low rates of return? During the 1990s, the technology boom allowed for the generation of tax revenues without new taxation, and thus temporarily eliminating fiscal deficits. The question is, are there emerging technologies that will lead to economic growth that resembles the 1990s? Does energy or healthcare provide the nexus for growth?

Positive signals are resonating in the U.S. economy. Interbank lending has recovered to pre-crisis levels, the U.S. equity markets have made significant gains since bottoming in March 2009, home prices are beginning to stabilize, and mortgage rates are at historically low levels. Companies have aggressively cleaned balance sheets, and big banks are repaying bailout funds. And even as the number of failed banks continues to increase, companies still have other avenues to access financing (i.e., equity and bond markets). The trick will be to avoid Japan's example of a lost decade.

Data are from BBVA Economic Research Department.

Brian Lewandowski (Brian.Lewandowski@Colorado.EDU) is a Research Analyst with the BRD.

Outlook for Colorado in 2010: Slow Improvement

The following observations summarize the thoughts of the Colorado Business Economic Outlook committee members for 2010 and beyond:

Of the 50 states and the District of Columbia, only two are projected to show job growth in 2009. Employment growth rates for the states will range from 0.5% to -6.9%. Colorado is projected to finish 2009 in the bottom half, or possibly the bottom quarter.

Significant improvement is expected for 2010, when employment growth rates for states will range from 0.5% to -2.7%. Still, only Texas and Washington DC are expected to show gains. The Colorado Business Economic Outlook Committee is optimistic that Colorado will rank in the upper quartile for change in employment in 2010.

With this backdrop, the outlook committee believes that relative to their projections for 2009, Colorado employment will contract in 2010. Monthly employment will return to more normal patterns, where the lowest levels are in the first quarter. Gradual increases will occur as the year progresses, with a spike during summer months, a decline when school starts in the fall, and an expansion during the final quarter to support holiday activity. Employment levels for Q1 2010 are likely to be far enough below the levels of 2009 to offset job gains in the remainder of the year.

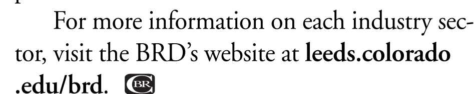
Although most sectors will show significant improvement during 2010, growth is expected to occur only in the Educational and Health Services (EHS); Professional and Business Services (PBS); Trade, Transportation, and Utilities; and Other Services supersectors. Over the past two decades, EHS Supersector employment has been fairly steady and immune to volatility associated with the business cycle. It appears that the PBS Supersector will lead us out of the recession, much as it did in 2003. Monthly employment levels have begun to approach typical employment patterns.

From an employment perspective, the decade ending in 2009 can best be described as the lost decade. Over this period, population increased by about 870,000, to nearly 5.2 million in 2009. At the same time, total state net employment between 2000 and 2009 climbed by only 117,900 employees, with most of those jobs added in 2000. This is well below the 650,000 workers added during the 1990s. See the chart on page 8.

From 2000 to 2009, it is projected that approximately 171,500 service-producing jobs will be added, while about 53,600 goods-producing positions will be lost. It is projected that the leading growth categories will be the EHS and Government supersectors, adding a combined total of 131,300 jobs. On the other hand, the Manufacturing, PBS, and Information supersectors, which encompass the state's advanced technology cluster, will shed a total of 56,700 workers.

In 1990, approximately 16.5% of all employees were in the goods-producing sectors (Natural Resources and Mining, Construction, and Manufacturing). The percentage of workers in the goods-producing sector fell slightly, to 16.3%, by 2000. A structural shift continued throughout the "aughts decade" (2000-2009), with a higher concentration of workers in service-producing jobs and only 12.5% of Colorado workers employed in goods-producing industries by the end of 2009. While benefits are associated with all types of jobs, concerns exist because goods-producing industries typically have higher wages, a larger supply chain, and a greater multiplier effect than service industries.

For more information on each industry sector, visit the BRD's website at **leeds.colorado .edu/brd**.



CHANGES IN COLORADO NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT
2008-2010
(In Thousands)

Sector	2008	2009[a]	2010[b]	2009 New Jobs	Percentage Change	2010 New Jobs	Percentage Change
Natural Resources and Mining	28.4	25.6	25.1	-2.8	-9.9%	-0.5	2.0%
Construction	161.8	137.0	128.0	-24.8	-15.3	-9.0	-6.6
Manufacturing	144.2	132.0	128.2	-12.2	-8.5	-3.8	-2.9
Trade, Transportation, and Utilities	429.3	413.2	415.9	-16.1	-3.8	2.7	0.7
Information	77.0	73.1	72.3	-3.9	-5.1	-0.8	-1.1
Financial Activities	155.6	146.5	143.6	-9.1	-5.8	-2.9	-2.0
Professional and Business Services	351.6	325.0	331.5	-26.6	-7.6	6.5	2.0
Educational and Health Services	250.6	256.9	263.5	6.3	2.5	6.6	2.6
Leisure and Hospitality	273.0	258.0	257.5	-15.0	-5.5	-0.5	-0.2
Other Services	94.9	93.5	94.1	-1.4	-1.5	0.6	0.6
Government	384.1	389.7	387.6	5.6	1.5	-2.1	-0.5
Total[c]	2,350.5	2,250.5	2,247.3	-100.0	-4.3	-3.2	-0.1

[a]Estimated.

[b]Forecast.

[c]Due to rounding, the sum of the individual sectors may not equal the total.

Source: Colorado Department of Labor and Employment and Colorado Business Economic Outlook Committee.

Forum Breakout Session

What Do Capital Markets Have in Store for Real Estate?

Noah Hahn and Brian Lewandowski

Opinions expressed by panelists reflect the most current market information available as of early December.

There are indications that the residential real estate market has bottomed, and prices are trolling recent lows. Tax incentives and interest rates are buoys for the housing market. Commercial real estate is often cited as the next big financial disaster, but that remains to be seen given the dependency on the wellness of the economy (i.e., unemployment, consumer spending, building). For now, commercial properties are plagued by rising vacancies, increasing cap rates, decreasing values, and downward pressures on rents—it is a renters' market. **Tom Thibodeau**, professor of real estate at the Leeds School of Business, moderated and provided a historical platform of real estate markets. The session covered residential, office, industrial, and retail space.

COMMERCIAL REAL ESTATE IS PLAGUED BY A LACK OF FINANCING, COMMERCIAL LOAN DELINQUENCIES, POOR MARKET FUNDAMENTALS, UNEMPLOYMENT, CAP RATES, AND VACANCY.

Residential

In the 1990s, U.S. mortgage debt averaged 43.8% of GDP. The average ballooned to 72.5% of GDP from 2006 to Q2 2009. Consumers became overleveraged, prices fell, and foreclosures rose. And now more than ever, the U.S. Treasury is impacting real estate prices and rates through the purchase of government-sponsored enterprises (GSE) and mortgage-backed securities (MBS).

Jay Peterson, with Hanley Wood Market Intelligence, described residential real estate conditions along the Front Range. The Front Range housing market seemed to be underwater in 2008 and 2009. Total housing permits dropped by more than 50% since a year ago in September, which shows that builders are not flooding the market with new inventory. Sales, which peaked at more than 19,000 in 2004, dwindled to 5,400 in 2008, and were down another 30% YTD in 2009.

Foreclosures are putting downward pressure on home prices, and uncertainty in the market and a lack of financing is resulting in homebuilders canceling or halting projects. Traffic for new homebuyers is down significantly, and some of the top homebuilders have pulled out altogether. According to Hanley Wood, the Q3 median price of new residential units in the Denver MSA was $279,990 versus $220,000 for existing homes—a $60,000 gap! Realty Trac provided another comparison between the average sales price and average foreclosure sales price, which pointed to an $81,000 gap. The number of foreclosures in the market must decline before residential can experience a meaningful rebound.

Positive market signals include historically low interest rates, a reduction in new inventory, and an increase in sale conversions. As foreclosures continue to decrease, selling old or new homes will become more competitive. The new homebuyer tax credit will provide incentives for consumers, and investors are eyeing deals on finished lots. Colorado has an overall strong residential real estate market and promises a good opportunity for acquisition deals. People are aware of the appreciation in the market and still remain optimistic about better market conditions in 2010. The Boulder MSA remains a leader in the state as housing prices continue to be strong despite the poor economy. This suggests that consumer demand for housing in Colorado is still high.

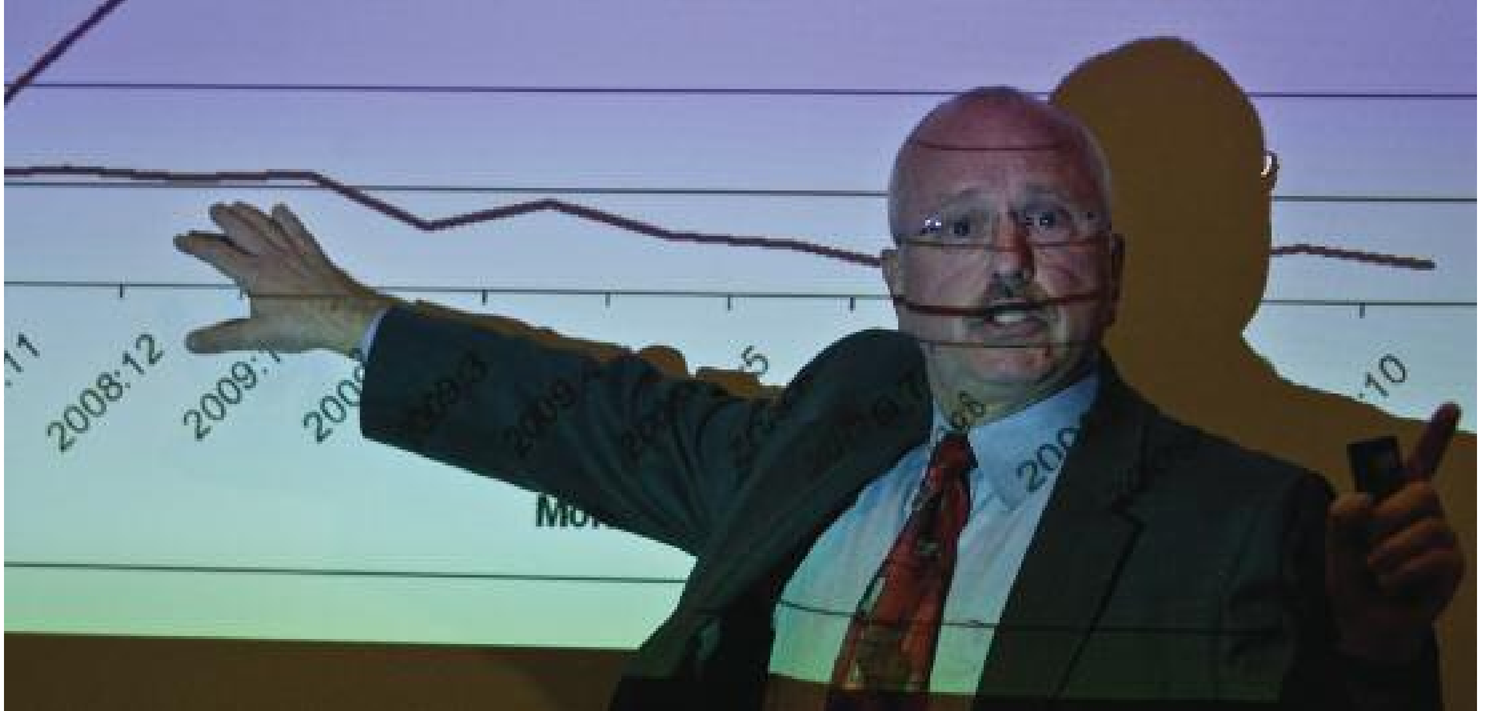
Commercial

Commercial prices are down roughly 20% (varying by property type), according to the MIT Center for Real Estate, which tracks commercial property sales nationally. The common theme for all properties—office, industrial, retail, and apartment—is that transaction volume are down, cap rates are up, and prices are down. A glimpse of data provided by Real Capital Analytics reveals the scope of the transaction volume decline: Denver apartment property transactions went from $1.4 billion in 2007 to $217 million in 2009, November YTD. Similarly, office properties went from $3.3 billion to $176 million, industrial properties from $272 million to $72 million, and retail properties from $1.2 billion to $521 million.

Commercial real estate is plagued by a lack of financing, commercial loan delinquencies, poor market fundamentals, unemployment, cap rates, and vacancy.

Office

Frank Kelley of CB Richard Ellis described the overall office market in the Denver region, surmising that the office market has not hit the bottom. Vacancy rates continue to grow, and average lease rates continue to decline. Limited business growth and unemployment are having direct negative impacts on the market. These negative conditions are causing the



Tom Thibodeau, professor of real estate in the Leeds School of Business, moderated the real estate breakout session at the December 2010 Colorado Business Economic Outlook Forum in Denver.

Denver downtown office market to hesitate in making significant real estate decisions. Landlords are greatly affected as the market remains buried in the recession.

The Denver MSA market is attracting investors to take advantage of the opportunity. Vacancy rates in Class AA buildings are around 5% as Denver is maintaining fairly well due to attractive opportunities. The government, oil and gas, technology, engineering, and healthcare industries are helping to maintain the market, as well. Still, overall downtown office market vacancy rates continue to climb. Tenants are not moving out of downtown to take advantage of suburban economics, but rather are remaining in downtown because of market conditions and opportunities.

The southeast office market reported a third-consecutive quarter of declining average lease rates. However, the low rates are causing more competition as more tenants are able to make beneficial long-term commitments.

In the northwest market, tenants are leveraging the market in an effort to obtain favorable renewal terms from the existing landlords. Sun Microsystems's pending sale to Oracle could have a huge effect on vacancy and availability in this market.

In the short term, predictions for the office real estate market remain relatively flat. In terms of the market cycle, the market is buried in the recession mode, with increasing vacancy and negative rent growth. Lease rates will continue to fall because of limited job growth and subleases shadowing the already-high vacancy rates. However, the long run shows a brighter future. Denver owners are well-capitalized, long-term market fundamentals are strong, the activity of out-of-state investors is healthy, and the growth outlook is positive. After all, Denver is a great place to live.

Industrial

Denver's industrial market is at the center of the Rocky Mountain Region, which is geographically large, but relatively small in population. To provide perspective, only 5% of the U.S. population can be reached within 500 miles of Denver. **Jim Bolt**, with CB Richard Ellis, stated that Denver is doing fairly well, with minimum negative absorption and low vacancy rates.

The Denver Metro vacancy rate is under 8% for industrial properties (compared to market equilibrium of 5%-6%), and the region has experienced flat absorption, compared to negative absorption for many peer cities. Given market uncertainty about the future, corporations are extending short-term contracts. Construction of industrial buildings has stopped completely, but is forecasted to resume after 2010. However, leases have been signed as businesses begin to take advantage of the down market. Companies like O'Reilly Automotive, Subaru, SMA Solar, and General Electric Company all signed leases in 2009. Another notable factor is the renewable energy investments in Colorado, which can potentially create significant manufacturing for the industrial market and solid job growth.

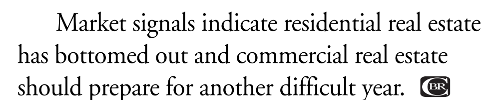
The industrial market is poised for success. The supply of buildings is limited, which is helping to reducing cap rates. Still, there is virtually no equity capital for landowners. With any luck, investors will see returns by 2011.

Retail

Jon Weisiger, with CB Richard Ellis, began his presentation by explaining the difficulty in retail ownership over the past 12 months. Retail real estate may be affected most significantly by the recession as the drivers of retail include consumer confidence, available consumer credit, low interest rates, housing growth, and job growth. Despite this, some retailers are doing well as the demand for necessity goods (e.g., food, clothing, medicine) provides a more stable market. Outlet centers, grocery centers, and community centers are in the expansion phase in terms of the economic cycle. On the other hand, the box segment, lifestyle centers, and regional malls are diving into the recession phase. Needs are beginning to outweigh wants. Consumers are focusing on receiving the highest value for their dollars (e.g., Walmart, Costco, Super Target); and health, specialty grocery stores, and hybrid centers are becoming more popular (e.g., Sunflower Market, Sprouts, Lifetime Fitness). The ability of retailers to adapt to the economy and consumers will directly affect the survival of their businesses.

Looking Ahead

Market signals indicate residential real estate has bottomed out and commercial real estate should prepare for another difficult year.



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Forum Breakout Session

The Future of Uranium, Renewables, and Coal—Impacts on Colorado's Economy

Cassidy Kinnaird and Matt Wolfe

Opinions expressed by panelists reflect the most current market information available as of early December.

The energy breakout session at the 2010 Business Economic Outlook Forum addressed some key concerns that have arisen over the past few years. More people are worrying about energy consumption and the carbon footprint that is left both on the economy and the environment. The energy panel offered an in-depth report on what the future may hold for some of the nation's most important commodities.

PRESENTLY, FUEL SUBSTITUTION IS THE LEADING THREAT TO THE FUTURE OF COLORADO COAL AS POWER PLANTS SWITCH TO NATURAL GAS TO HELP OFFSET THEIR EMISSIONS.

Overview

Vince Matthews of the Colorado Geological Survey opened the presentation by discussing his concerns about the future price and availability of energy and the impact of energy generation globally and in Colorado. His first concern is China and its control of the rare earth minerals market. By harvesting and purchasing a large portion of the currently available rare earth minerals, China is in a prime position to control future trade channels, which could lead to problems for the United States. With China's large presence in this mineral market and the U.S.'s demand for renewable technologies that use such minerals, including lithium in hybrid car batteries and neodymium used in magnets for wind turbines, it may be more difficult in the future for the United States to produce these minerals. Matthews is also concerned about the nation's heavy reliance on fuel imports, despite the ample amount of resources available domestically. Colorado, for instance, has the ability to produce coal, natural gas, and other energy sources with the proper planning and coordination.

Energy Sectors

Colorado Coal

Coal currently generates two-thirds of Colorado's electricity. In comparison, the next biggest contributor—natural gas—powers less than one-third of the state. **Chris Carroll**, with the Colorado Geological Survey, discussed the use of coal in power generation. Since 1864, nearly 1.4 billion tons of coal have been mined in the state. The highest production year was in 2004, with just under 40 million tons. In 2008, the state mined 32.3 million tons, while 30.2 tons are expected to be mined in 2009. Colorado currently ranks ninth in the nation in terms of coal production, and the state's reserves (16 billion tons) are projected to last another 270 years.

U.S. demand for coal has declined by 19% since 2004 due to scrubber and emission controls, and fuel switching at U.S. power plants in the Midwest and Southeast. Presently, fuel substitution is the leading threat to the future of Colorado coal as power plants switch to natural gas to help offset their emissions. Colorado possesses some 16 billion tons in coal reserves, but due to environmental and economic constraints, mining a good portion of these reserves is not yet viable.

Recent projects by Xcel Energy include the Comanche III Power Station in Pueblo, which is near completion. This plant addition boasts state-of-the-art pollution controls, which will increase generation by 750 megawatts. Due to Comanche's substantial addition to the grid and a plan created in 2007 by Xcel to phase out old and inefficient power plants, the Cameo Power Station in Mesa County and the Arapahoe Station in Denver will be closed in 2010.

In economic terms, the value of coal production in Colorado in 2008 was roughly $887 million. Carroll pointed out that although this is a large amount, coal has become "the elephant in the room" that consumers seem to overlook. With promises from renewable and nuclear energy, coal is being ignored by many as a future feasible energy source. Although coal is currently a vital resource for energy consumption, its future depends on legislation, alternative energy sources, and prices. Coal still remains a relatively cheap source of electricity, but in an increasingly emissions-oriented world, its future is uncertain.

Uranium

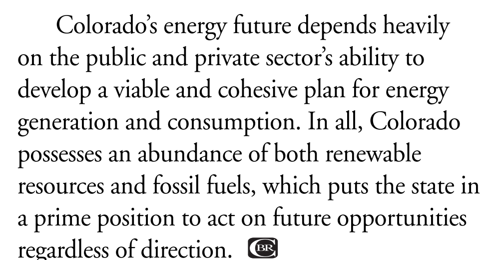
Colorado's uranium history began in 1871 when the first uranium in the Western Hemisphere was discovered in Gilpin County—in the form of high-grade pitchblende. Production has slowed greatly in recent years due to the conventional milling bottleneck: there is plenty of uranium to be processed, but refineries lack the capacity. Additionally, despite the abundance of uranium in Colorado and the United States, and the fact that the United States is a world leader in nuclear energy consumption, it is still imported, primarily from Canada and Australia. **Jim Burnell** of the Colorado Geological Survey noted that once an efficient system is in place, Colorado has the infrastructure and the resources for another two decades of productive uranium mining.

Renewable Energy

Jeff Lyng, with the Governor's Energy Office, discussed the newest component of Colorado's energy sector: renewable energy. He emphasized Colorado's potential for both wind and solar energy, noting that either may provide an alternative solution to the state's energy needs. The state may also possess formidable geothermal potential in select locations, but exploratory drilling is needed to better define the quantity available.

In terms of real-world application, renewables are attractive because of their low carbon footprint and potential for future development. However, this appeal is dampened by the expenses involved for research, development, installation, and relative inefficiencies in some cases. Lyng pointed out that the future of renewables is promising, but before renewable energy can become a feasible option to meet the state's needs, private planning and investment, coupled with governmental policy, must provide the framework for success.

Future Outlook



Colorado's energy future depends heavily on the public and private sector's ability to develop a viable and cohesive plan for energy generation and consumption. In all, Colorado possesses an abundance of both renewable resources and fossil fuels, which puts the state in a prime position to act on future opportunities regardless of direction.

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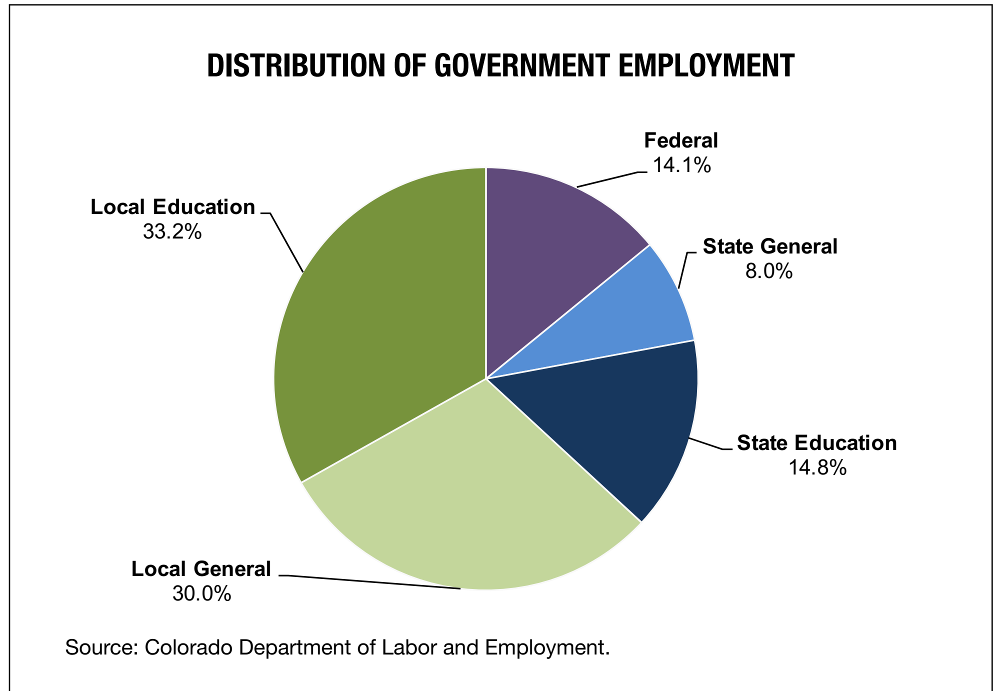
Forum Breakout Session

Heroes Wanted: Fixing the Mess in State and Local Government Budgets

Opinions expressed by panelists reflect the most current market information available as of early December.



Source: Colorado Department of Labor and Employment.

Introduction

Opinions from every part of the political spectrum were well represented among the five panelists who spoke at the 2010 Government and Financial breakout session, aptly titled "Heroes Wanted: Fixing the Mess in State and Local Government Budgets." Each panelist brought a unique perspective to the cause and problems of the massive budget shortfalls that Colorado faces in the current and coming fiscal years. Very few had any concrete solutions. Still, a common thread was echoed by all: as the state moves forward, Coloradans everywhere are going to have to collectively answer the questions: *What role do we honestly expect our government to play? And how much are we willing to pay for it?*

"The State of the State's Finances"

Natalie Mullis, chief economist for Colorado's Legislative Council, acted as the panel moderator and began the session by framing the issues facing state and local governments in the midst of a global recession. In Colorado, she explained, 30 cents of every taxable dollar actually becomes tax revenue. Of this, 21 cents goes to the federal government, while the remaining 9 cents is split almost equally between state and local tax revenue through varying combinations of income, sales, and property taxes. The issue in Colorado is that the general fund has taken a major hit on each of these levels because of layoffs (income taxes), weaker retail sales (sales taxes), and a devalued housing market (property taxes).

For the state, Mullis estimates the FY09-10 budget shortfall will be $1.7 billion. At the time of the outlook (early December), $591 million (or 7% of the operating budget) still remained to be cut from the budget. Because government losses lag economic recessions, the two-year cumulative shortfall is expected to total $1.3 billion (or 15% of the operating budget)—the nominal equivalent of revenue spent on higher education and corrections combined. In light of this, Mullis had one message for the audience: these times call for major policy change—it's time to get involved.

"A Snapshot of the City and County of Denver"

Claude Pumilia, the CFO for the City and County of Denver, offered an inside look at how Colorado's largest municipality has dealt with its most substantial revenue decline (percentage wise) since the 1930s. With a return to four guiding principles—protecting core services, minimizing employee impact, maximizing efficiency, and striving for permanent savings—and the leadership of Mayor Hickenlooper, the city was successful in soliciting employee and constituent opinions and ideas to reduce expenditures by $206 million, or 12% each year for FY2009 and FY2010. Though the city will certainly face hardships in the future, this collective process to balance the budget is quite an impressive feat. Moving forward, Pumilia argued that as economic activity has shifted from goods-producing to service-producing over time, a structural tax shift in tax structure to increase service sales tax rates is necessary to track this trend and mitigate the effects of future recessions to come.

"Startling Numbers of the Crisis"

Carol Hedges is the fiscal policy analyst for the Colorado Fiscal Policy Institute. She detailed the extent of the startling consequences of Colorado's currently proposed budget cuts. For K-12 education, Hedges reported that the current Colorado budget includes a cumulative $590 drop in spending per pupil for the next two years—furthering the state's $1,500 gap below the national average. For Medicaid, she argued that the system is only sustaining itself "on the backs of generous healthcare providers" that are absorbing the $900 drop (or a 12% decline) in spending per client since 2007. To respond to these "unacceptable consequences," Hedges concluded her talk by issuing a challenge to Colorado's legislature to correct and adjust the state's currently "inadequate, unbalanced, and unfair" tax structure.

"A Crisis is a Terrible Thing to Waste"

On a more positive note, **Sam Mamet** of the Colorado Municipal League approached the crisis by looking for potential opportunities for local governments to exploit despite its obvious challenges. Truly, the problems that the state is dealing with are the same as those facing the cities and towns that Mamet spends his time working with "on the ground." Mamet said that these communities have responded remarkably well—they have collaborated to solve local problems regionally and strengthen the sense of partnership among these localities and with the state

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HEROES WANTED, CONTINUED FROM PAGE 7

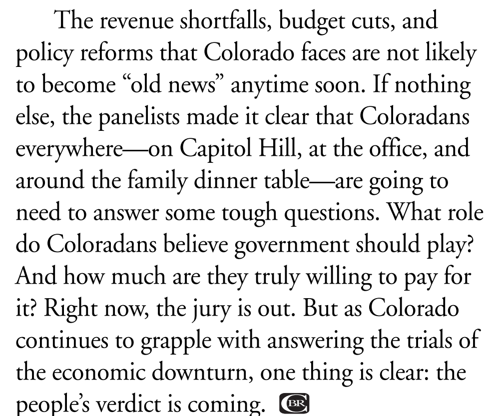
government. "Voters trust their local governments," Mamet said, and they demonstrated willingness to "put their money where their mouth is." Colorado voters authorized nearly $130 million in development-driven debt in the 2008 election cycle for various local projects ranging from new highways on the Western Slope to a statewide effort to improve cities' sewage infrastructure. Overall, Mamet highlighted that this crisis has increased democratic involvement as the cities of Denver, Durango, Boulder, and towns in the San Luis Valley have all reached out to their citizens asking for their input to solve local problems.

Many of the panelists throughout the session echoed the theme of its title—that "heroes are wanted" to solve the state's fiscal financial troubles. Mamet argued that these heroes have already emerged in local government and that they live nearby, even in our own neighborhoods.

"A Call for Focus"

Kelly Brough, the newly elected president of the Denver Metro Chamber of Commerce, concluded the session, calling for focus from policymakers to think long term, not short term, as they lead the state through its economic recovery. Brough stated, "a jobless recovery doesn't feel much like a recovery at all" and asked that short-term responses be designed to bring jobs back and long-term investments be made to ensure they persist through future downturns. She added that while significant legislative obstacles—such as the TABOR budget restrictions—limit the government's flexibility to respond to the crisis, Colorado still remains extremely well positioned to emerge as one of the nation's quickest states to recover. Continuing to reiterate that long term return-on-investment should be the guiding principle for a lasting recovery, Brough also called for attendees to support the Denver Metro Chamber's appeal to the legislature to focus its next session strictly on budget and economic issues.

A Look Ahead



The revenue shortfalls, budget cuts, and policy reforms that Colorado faces are not likely to become "old news" anytime soon. If nothing else, the panelists made it clear that Coloradans everywhere—on Capitol Hill, at the office, and around the family dinner table—are going to need to answer some tough questions. What role do Coloradans believe government should play? And how much are they truly willing to pay for it? Right now, the jury is out. But as Colorado continues to grapple with answering the trials of the economic downturn, one thing is clear: the people's verdict is coming.

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