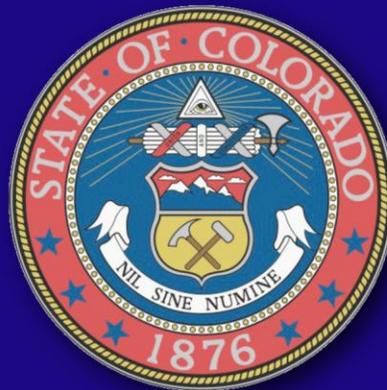


September | 2011

The Colorado Outlook

Economic and Fiscal Review



Governor's Office of State Planning and Budgeting



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Summary

- The preliminary total for FY 2010-11 General Fund revenue is \$7.085 billion, \$55 million, or 0.8 percent, lower than what was projected in June. The lower-than-expected collections were a result of less revenue from tax returns at the end of the year than anticipated as many more returns were processed in March and April than in previous years. Accrual accounting changes after the fiscal year also contributed to the lower collections. The preliminary amount of the excess reserve for FY 2010-11 amounts to \$294.4 million. This money is transferred to funds that help pay for K-12 education.
- The forecast for General Fund revenue in the current fiscal year is essentially unchanged from the June forecast. Revenue in FY 2011-12 is still expected to remain essentially flat as the anticipated weakening in several sectors of the economy has occurred. Thus, as was projected in June, this forecast indicates that the reserve will fall just short of the 4.0 percent target; this variance is not sufficient to trigger any budget actions under the statutes that govern the reserve.
- Unfortunately, due mostly to expectations for a continued sluggish economy as it continues the difficult rebuilding process from the financial crisis, revenue growth in FY 2012-13 is not expected to improve much, posting a projected 3.0 percent growth rate. Under this forecast, General Fund appropriations will be able to grow 0.8 percent, or \$53.4 million in the next budget year while maintaining a 4.0 percent reserve.
- Despite some positive trends in the economy, the economy's rocky recovery and rebuilding process from the Great Recession has shown some precarious signs of stalling. Continued high debt levels, the slumped housing market, and financial market volatility are a difficult combination of conditions for the economy to contend with. Further, higher levels of uncertainty have caused both hiring and business investment – an integral ingredient for economic growth – to be weak. Because of these conditions, there is a growing risk that the economy may contract, especially if the European sovereign debt and banking situation deteriorates and creates increased stress in the financial system. Colorado appears to be weathering these negative factors better than the nation overall however. Nevertheless, if conditions deteriorate, revenue collections will come in below forecast for the current budget year and likely also in FY 2012-13.
- Cash fund revenue subject to TABOR collected in FY 2011-12 is forecast to total \$2.5 billion, an increase of \$198.2 million, or 8.5 percent, from FY 2010-11. Two-thirds of this revenue will come from transportation-related revenue, mostly fuel taxes, and the hospital provider fee. In FY 2012-13 cash fund revenue is forecast to increase by a similar rate of 8.3 percent. Revenue growth in the hospital provider fee and transportation categories accounts for much of the expected increases.



General Fund Budget

GENERAL FUND OVERVIEW

Table 1 presents the General Fund Overview for the September 2011 OSPB revenue forecast. The top portion of the table summarizes the amount of General Fund revenue available for spending. The forecast for this revenue is discussed in further detail in the *General Fund Revenue Forecast* section starting on page 8.

Line 5 shows General Fund appropriations that are subject to the limit of five percent of Colorado personal income as specified in Section 24-75-201.1 (1) (a) (II) (A), C.R.S. These appropriations fund the State's largest programs that affect the most number of people in the state, such as K-12 education, higher education, Medicaid, corrections, and human services. General Fund appropriations for FY 2011-12 reflect current law. The appropriations amount for Fiscal Years 2012-13 and 2013-14 reflects the level of spending that can be supported by forecasted revenue while maintaining a 4.0 percent reserve.

Lines 8 through 16 summarize spending that is exempt from or is outside of the General Fund appropriations limit. The largest portion of this spending is "Rebates and Expenditures," which includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions as outlined at the bottom of Table 2. Line 8 shows spending that is exempt from the appropriations limit. Spending from the General Fund by the Medicaid program that is above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount in this line. Overexpenditures generally occur because of higher-than-expected caseloads and utilization during the fiscal year. In FY 2010-11, Medicaid Overexpenditures are estimated to amount to \$9.9 million. The homestead property tax exemption expenditure amount (Line 12) increases substantially in FY 2012-13 to close to \$100 million as the exemption for qualifying seniors returns under current law. From FY 2009-10 through FY 2011-12, the exemption was available only to qualifying disabled veterans.

The final section of Table 1 ("Reserves") shows the amount of General Fund remaining at the end of each fiscal year. Line 18, the "Year-End General Fund Balance," reflects the difference between total funds available (Line 4) and total outlays (Line 17). Line 20 shows the statutorily determined reserve requirement and Line 21 indicates any variance from the target. For FY 11-12, this forecast indicates that the reserve will fall just short of the 4.0 percent target; this variance is not sufficient to trigger any budget actions under the statutes that govern the reserve.

For FY 2010-11, SB 11-156 set the statutory reserve at 2.3 percent, with any revenue that comes in above that level credited to the State Education Fund. However, SB 11-230 specified that if the June 2011 OSPB forecast for FY 2010-11 increased compared with the March 2011 forecast, up to a maximum of \$67.5 million of the increase in the excess reserve would be transferred to the State Public School Fund. The June General Fund revenue forecast increased by \$78.1 million compared with the March forecast, thus the maximum \$67.5 million is credited to the Public School Fund. The remainder of the excess reserve, which is preliminarily estimated to be \$226.9 million, is transferred to the State Education Fund. In FY 2011-12, the required reserve returns to a 4.0 percent level.

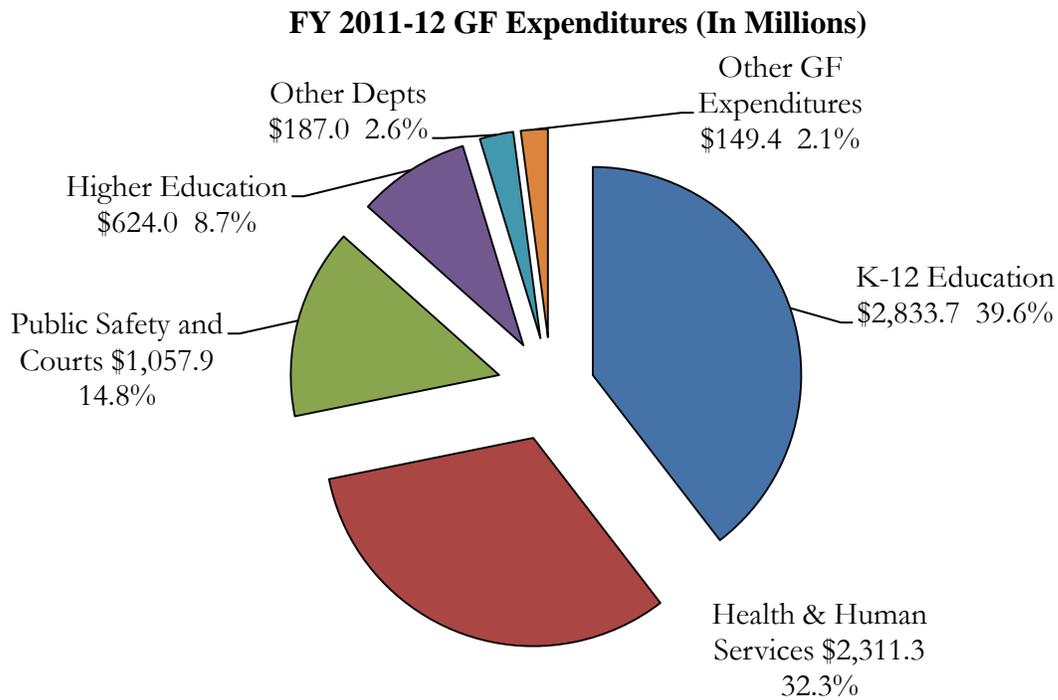
For informational purposes, line 22 shows the amount of money credited to the State Education Fund. Under the state constitutional provisions of Amendment 23, the state credits an amount equal to one-third of one percent of State taxable income to the State Education Fund. And, as noted above, for FY 2010-11 only,



the State Education Fund receives a portion (\$226.9 million) of the General Fund revenue above the 2.3 percent required reserve. In FY 2011-12, the fund will also receive an estimated \$9.7 million from the Tax Amnesty Program created by SB 11-184.

OVERVIEW OF COLORADO’S GENERAL FUND BUDGET AND STRUCTURAL GAP

Over 95 percent of the State General Fund budget is currently appropriated for the areas of K-12 education, higher education, health and human services, and public safety. K-12 alone represents almost 40 cents out of every General Fund dollar. The Department of Health Care Policy and Financing, which consists mostly of the Medicaid program, represents the second largest General Fund expenditure, at 23 percent (32 percent if combined with the Department of Human Services). The rest of state government receives the remainder of the General Fund available. Many of these programs also receive funding from other sources besides the General Fund. For example, the Medicaid program receives federal matching money, some programs are partially or fully funded by fees and user charges (e.g. tuition, court fees), and K-12 is also funded with local property tax revenue. The following chart summarizes FY 2011-12 General Fund expenditures by category.



An historic recession that began in 2008 combined with higher demands on state services has laid bare a difficult and persistent structural gap in the General Fund budget. In other words, there exists a mismatch between state General Fund revenue and the level of spending needed to support programs as they are currently structured. The state’s tax structure and conflicting constitutional fiscal policies have also contributed to the structural gap.



As shown in the table below, General Fund revenue decreased by over \$600 million from FY 2007-08 to FY 2011-12. However, state obligations for education, health care, and public safety – much of which can be considered essential or mandated spending – did not commensurately decrease due to spending pressures from rising costs and a growing population seeking services.

General Fund (In Millions)	FY 2007-08	FY 2011-12
<i>Annual Revenue</i> <1>	\$7,737.9	\$7,134.8
Change		(603.1)
% Change		-7.8%
<i>Expenditures</i> <2>	\$7,544.6	\$7,163.2
Change		(381.4)
% Change		-5.1%

<1> Excludes beginning fund balance and cash fund transfers to the General Fund; includes transfers from the General Fund for the Older Coloradans Act.

<2> Reflects department appropriations and GF rebates and expenditures.

For example, over this time period enrollment in Medicaid increased by over 220,000 people (56.4 percent), CHP+ caseload grew by 18,000 or 31 percent, K-12 saw increases of over 45,000 pupils, higher education enrollment increased by nearly 30,000 (18.8 percent), and attendance at Colorado State Parks increased by about 500,000 visits. This demand on state government services was accommodated within decreasing state General Fund outlays in several different ways, such as using reserves, temporarily increased federal support, refinancing programs with non-General Fund sources, increasing user fees for services, and cutting funding in certain program areas. The table below shows the change in General Fund and for state programs from FY 2007-08 to FY 2011-12.

State General Fund Appropriations	FY 07-08	FY 11-12	Change	% Change
K-12 Education	3,023,327,981	2,833,701,556	(189,626,425)	-6.3%
Health & Human Services	2,155,134,145	2,311,293,346	156,159,201	7.2%
Corrections, Public Safety, Judicial	997,521,508	1,057,854,098	60,332,590	6.0%
Higher Education	747,717,300	623,962,700	(123,754,600)	-16.6%
Other Department Spending	<u>342,247,760</u>	<u>186,972,993</u>	<u>(155,274,767)</u>	-45.4%
Subtotal Department budgets	7,265,948,694	7,013,784,693	(252,164,001)	-3.5%
Other GF Expenditures/Obligations	278,700,000	149,390,202	(129,309,798)	-46.4%
Total	7,544,648,694	7,163,174,895	(381,473,799)	-5.1%



The structural gap developed over many years and will take time to resolve. Based on this forecast, General Fund appropriations in FY 12-13 are expected to only be able to grow by \$53.4 million, or 0.8 percent. Spending pressures from increasing costs, expiring temporary financing, the returning Senior Homestead Exemption, and rising program caseloads will greatly exceed this amount; thus a substantial gap remains for FY 2012-13 despite the many permanent budget actions taken in FY 2011-12. Because the state must maintain a balanced budget, this means many State programs will see another round of budget reductions.

BUDGET IMPLICATIONS OF THE FORECAST

FY 2011-12

Based on current law appropriations, the state will end the fiscal year with a reserve equal to 3.7 percent of appropriations, \$18.3 million below the required 4.0 percent reserve level. This is essentially the same amount that was projected in the June 2011 *Colorado Outlook*.

FY 2012-13

Under current law and based on this forecast, General Fund appropriations are able to grow 0.8 percent, or \$53.4 million in FY 2012-13 while maintaining a 4.0 percent reserve. Continued sluggishness in the economy as it continues to struggle to rebuild from the financial crisis and the bust following the housing and credit boom will constrain revenue growth. Further, tax policy and accounting changes, as discussed in the *General Fund Revenue Forecast* section starting on page 8, will combine to constrain revenue growth. The scheduled reinstatement of the Senior Homestead Exemption (\$96.8 million) will add further budgetary pressure to the General Fund and the state's core programs in FY 2012-13.

FY 2013-14

Pressure on the General Fund budget will finally begin to dissipate in FY 2013-14 based on this forecast. General Fund appropriations may be able to grow by a larger amount, although it is not reasonable to expect many recent budget reductions to be reversed. The amount of available budget growth will depend on the policies enacted to balance the FY 2012-13 budget.

Risks to the Budget Outlook

Persistent weakening across several sectors of the economy combined with the potential for increased stress on the financial system stemming from European sovereign debt problems has left the economy in a somewhat precarious position. Thus, if recent economic trends worsen, or if the European debt and banking problems deteriorate, economic activity and tax revenue will likely be lower than projected by this forecast. In this scenario, budget pressure will increase.

If the economy were to perform better than projected, SB 09-228 could be triggered during the forecast period resulting in General Fund diversions to transportation, capital construction and a one-half of a percentage point increase in the General Fund Reserve. This trigger occurs when personal income increases by at least five percent. This is not expected to affect any fiscal year over the forecast period. However, if the trigger were met, the transfers and the increase in the reserve would result in less money for other General Fund obligations. For FY 2012-13, the diversions could total around \$200 million while the reserve would increase by around \$35 million. The exact amounts would depend on the level of General Fund revenue if it were to come in higher-than-forecast due to better-than-expected economic performance.

Table 1
General Fund Overview

(Dollar Amounts in Millions)

Line No.		Preliminary FY 2010-11	September 2011 Estimate by Fiscal Year		
			FY 2011-12	FY 2012-13	FY 2013-14
Revenue					
1	Beginning Reserve	\$137.4	\$156.7	\$261.0	\$281.4
2	Gross General Fund Revenue	\$7,085.0	\$7,142.8	\$7,355.5	\$7,646.6
3	Net Transfers to/(from) the General Fund	\$150.1	\$124.8	(\$5.9)	(\$5.8)
4	TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE	\$7,372.5	\$7,424.2	\$7,610.6	\$7,922.2
Expenditures					
5	Appropriation Subject to Limit /A	\$6,811.1	\$6,982.3	\$7,035.6	\$7,317.9
6	Dollar Change (from prior year)	\$179.5	\$171.2	\$53.4	\$282.3
7	Percent Change (from prior year)	2.7%	2.5%	0.8%	4.0%
8	Exemptions to Limit /B	\$9.9	\$0.0	\$0.0	\$0.0
9	Spending Outside Limit	\$139.0	\$180.9	\$293.5	\$311.6
10	TABOR Refund	\$0.0	\$0.0	\$0.0	\$0.0
11	Rebates and Expenditures /C	\$126.0	\$130.0	\$136.9	\$155.6
12	Homestead Exemption	\$1.6	\$1.6	\$98.5	\$103.6
13	Transfers to Capital Construction	\$12.0	\$49.3	\$58.1	\$52.4
14	Transfers to Highway Users Tax Fund	N/A	N/A	\$0.0	\$0.0
15	Reversions and Accounting Adjustments	(\$38.6)	\$0.0	\$0.0	\$0.0
16	Enhanced Medicaid Match (reduces GF expenditures)	(\$0.5)	N/A	N/A	N/A
17	TOTAL GENERAL FUND OBLIGATIONS	\$6,921.4	\$7,163.2	\$7,329.2	\$7,629.5
Reserves					
18	Year-End General Fund Balance	\$451.1	\$261.0	\$281.4	\$292.7
19	Year-End General Fund as a % of Appropriations	6.6%	3.7%	4.0%	4.0%
20	General Fund Statutory Reserve /D	\$156.7	\$279.3	\$281.4	\$292.7
21	Excess Monies Above (Below) Statutory Reserve /E	\$294.4	(\$18.3)	\$0.0	\$0.0
22	Addendum: State Education Fund /F	\$597.4	\$383.5	\$384.4	\$394.3

Totals may not sum due to rounding.

- /A Per SB 09-228, this limit equals 5.0% of Colorado personal income. The appropriations amount for Fiscal Year 2011-12 reflects current law. The amounts for FY 2012-13 and FY 2013-14 represent the level of spending that can be supported by revenue while maintaining a 4.0% reserve.
- /B Spending by the Medicaid program that is above the appropriated amount, called "Medicaid Overexpenditures," is usually the largest amount for this line. In FY 2010-11, Medicaid Overexpenditures are estimated to amount to \$9.9 million.
- /C Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions as outlined at the bottom of Table 2.
- /D Per SB 11-156, the statutory General Fund reserve required per 24-75-201.1, C.R.S. was set at 2.3% for FY 2010-11. The required reserve level increased to 4.0% in FY 2011-12.
- /E Per SB 11-230, of the excess amount in FY 2010-11, \$67.5 million is credited to the Public School Fund; the remainder, or \$226.9 million, is transferred to the State Education Fund.
- /F The State Education Fund annually receives one-third of 1% of Colorado taxable income. For FY 2010-11 only, it also received an estimated \$226.9 million of the Excess Reserve. In FY 2011-12, the fund will also receive an estimated \$9.7 million from the tax amnesty program created by SB 11-184.



General Fund Revenue Forecast

The General Fund revenue forecast for the current budget year (FY 2011-12) is essentially unchanged from the June forecast. The weakening in the economy that was expected in prior forecasts has occurred and will mute tax revenue to the state. Revenue in FY 2011-12 compared with FY 2010-11 is forecast to be essentially flat.

Unfortunately, due to expectations for a continued sluggish economy, revenue growth in FY 2012-13 will not improve much, posting a projected 3.0 percent growth rate. Thus, in FY 2012-13, General Fund revenue is expected to still be about \$387.4 million, or 5.0 percent, below its pre-recession level in FY 2007-08. Projections for income, excise, and other General Fund revenue sources can be found in Table 2.

In addition to expectations for a continued lackluster economy, a few recent tax policy changes, which are discussed below in the sections on income tax and sales tax revenue, will, on net, lower tax revenue. We also expect accrual accounting changes will slow revenue growth in FY 2012-13. Accrual adjustments are required so revenue collected is accounted for in the fiscal year in which the economic activity that generated the revenue occurs.

There are have been worrisome trends in business and household economic activity. Weak investment and hiring, as well as a heightened risk of deterioration of the European financial situation, create downside risks to the future performance of the economy and thus tax collections. However, at this time there is not enough evidence that the economy will perform below current expectations. Thus, a decline in tax revenue is not anticipated in this forecast. Nonetheless, if recent trends continue and/or worsen, revenue collections will come in below forecast for the current budget year and likely also in FY 2012-13. Developments in the economy and tax revenue will therefore be monitored closely for any signs of further weakening.

The preliminary total for FY 2010-11 General Fund revenue was \$7.085 billion, \$55 million, or 0.8 percent, lower than projected in June. Tax collections from income tax filing at the end of the fiscal year were lower than anticipated as tax returns were processed at a much faster pace than in previous years; thus less revenue was collected in May and June than expected. Also, the accrual accounting changes completed after the fiscal year caused revenue to be lower than anticipated.

Individual and Corporate Income Taxes

After increasing at a robust 10.1 percent rate in FY 2010-11 from its recessionary low, individual income tax revenue is expected to post growth of only 2.7 percent in FY 2011-12. However, much of this growth is not because of economic reasons but an accounting adjustment for income tax withheld from employees' paychecks.

Due to the timing of the payroll period at the end of this prior June, businesses remitted less than the usual amount of payments at the end of the fiscal year and thus less money was accounted for in FY 2010-11. However, this will increase the amount of income tax withholding payments accounted for in the current fiscal year. Still, income tax from wage withholding is anticipated to post a small increase in both this year and in FY 2012-13 – 1.8 percent and 1.9 percent, respectively – resulting from expected sluggish job and wage growth. Income tax withholding generally represents about 55 percent of total General Fund revenue.



Income tax revenue from estimated tax payments surged 38.2 percent in FY 2010-11 to \$785.8 million, making it the third largest General Fund tax revenue source behind income tax withholding and sales taxes.

The two largest contributors to this revenue source are capital gains and owners of small- to medium-sized businesses. Last year, estimated income tax liabilities increased as capital gains jumped from the surge in the stock market and as conditions for smaller businesses improved. However, the stock market has been volatile and is currently down slightly for the year. Further, it appears that conditions for small businesses have become more difficult due to increased uncertainty and a slowdown in economic activity. Thus, revenue from estimated payments are expected to decline, though minimally, in FY 2011-12. However, the recent stock market volatility may have generated increased capital gains as investors sold off stocks. This may cause income tax revenue to come in somewhat higher than expected, although the current forecast does not include this possible revenue.

Scheduled federal tax increases on capital gains at the end of 2012 are expected to accelerate the realization of some gains into tax year 2012, which should provide a boost in state income tax revenue in FY 2012-13. However, the boost will reduce revenue in FY 2013-14 as tax liabilities are shifted from tax year 2013 to 2012.

Colorado's corporate income tax revenue is determined by an apportionment of corporations' profits based on sales in Colorado. Profits, and subsequently corporate income tax, surged in FY 2009-10 as earnings rebounded and corporations dramatically cut overhead costs to survive the recession. Since then, corporate income tax revenue has been much less robust as sales have slowed and the rise in input prices has squeezed margins. These factors, along with the December 2010 federal tax policy change that increases tax deductions for business equipment purchases, will cause tax revenue to decline a projected 10.4 percent in FY 2011-12.

Sales and Other Excise Taxes

Sales and use tax revenue generally represent a little over 30 percent of total General Fund revenue. Sales tax revenue grew by 12.0 percent in FY 2010-11, while use tax revenue grew at an even more robust rate of 22.3 percent. Growth in these revenue sources occurred as both consumers and business resumed their spending when the economy showed more positive trends. A record number of out-of-state visitors to Colorado in 2010 and a strong ski season also contributed to the increase. Use tax revenue was bolstered by businesses replacing outdated and obsolete equipment after postponing such purchases during the recession and by spending in the expanding oil and gas industry.

Both sales and use tax revenue will decline slightly in the current fiscal year and remain muted in FY 2012-13 as a result of several factors. First, consumers feel less wealthy due to a decline in their assets from the weakened equity and housing markets. Second, continued elevated food and gas prices will temper taxable purchases – food at grocery stores and fuel are not subject to the sales tax. We estimate that an 85-cents-per-gallon increase in gas prices and a 10 percent increase in food prices, if sustained for a year, result in about \$40 million in foregone sales tax revenue as spending is shifted from taxable items to nontaxable food and gas. Gas prices are at record highs for this time of the year.



These trends are already starting to be seen at the national level, which has the most up to date data on consumer spending. Further, consumer confidence is low, which is causing consumers to postpone purchases. More detail on these trends can be found in the consumer spending section of the *Economic Conditions and Forecast* section on page 19 of this publication.

Certain tax policy changes will also, on net, reduce sales tax revenue to the state over the forecast period. Of particular note, the partial resumption of the vendor discount this fiscal year, which allows a portion of sales taxes collections to be retained by retailers, will serve to reduce sales tax revenue collections in FY 2011-12 by about \$45 million. In addition, HB 11-1293 reinstates the exemption of certain software purchases and is estimated to decrease sales tax revenue by about \$22 million in FY 2012-13. The scheduled reinstatement of the sales tax exemption on energy used for manufacturing and industrial purposes will also decrease sales tax revenue starting in FY 2012-13 by about \$40 million. Other legislation from the 2011 session will serve to bolster sales tax revenue. Of particular note, the continuation of subjecting cigarettes to sales tax (HB 11-1296) will generate close to \$30 million in FY 2011-12 and FY 2012-13.

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

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

Line No.	Category	Preliminary		September 2011 Estimate by Fiscal Year					
		FY 2010-11	% Chg	FY 2011-12	% Chg	FY 2012-13	% Chg	FY 2013-14	% Chg
Excise Taxes:									
1	Sales	\$2,044.2	12.0%	\$2,018.3	-1.3%	\$2,059.3	2.0%	\$2,152.5	4.5%
2	Use	\$190.4	22.3%	\$181.6	-4.6%	\$192.6	6.0%	\$204.0	5.9%
3	Cigarette	\$39.3	-3.8%	\$37.8	-3.9%	\$36.8	-2.5%	\$36.2	-1.9%
4	Tobacco Products	\$13.8	-14.2%	\$18.0	30.6%	\$17.6	-2.2%	\$18.3	3.5%
5	Liquor	\$36.4	2.8%	\$34.4	-5.7%	\$35.8	4.3%	\$36.8	2.8%
6	Total Excise	\$2,324.2	12.1%	\$2,290.1	-1.5%	\$2,342.2	2.3%	\$2,447.8	4.5%
Income Taxes:									
7	Net Individual Income	\$4,496.1	10.1%	\$4,618.3	2.7%	\$4,703.8	1.9%	\$4,837.8	2.8%
8	Net Corporate Income	\$393.9	5.9%	\$353.0	-10.4%	\$387.0	9.6%	\$389.9	0.8%
9	Total Income	\$4,890.0	9.7%	\$4,971.3	1.7%	\$5,090.8	2.4%	\$5,227.7	2.7%
10	<i>Less: State Education Fund Diversion</i>	\$370.5	12.6%	\$373.8	0.9%	\$384.4	2.8%	\$394.3	2.6%
11	Total Income to General Fund	\$4,519.5	9.5%	\$4,597.4	1.7%	\$4,706.3	2.4%	\$4,833.4	2.7%
Other Revenues:									
12	Estate	(\$0.1)	N/A	\$0.0	N/A	\$45.0	N/A	\$94.0	108.9%
13	Insurance	\$189.7	1.5%	\$206.2	8.8%	\$209.7	1.7%	\$214.8	2.4%
14	Interest Income	\$7.9	-21.6%	\$8.1	2.2%	\$11.6	43.5%	\$15.2	31.4%
15	Pari-Mutuel	\$0.5	-0.6%	\$0.5	-15.4%	\$0.4	-6.1%	\$0.4	-6.2%
16	Court Receipts	\$3.6	-80.0%	\$1.3	-64.9%	\$0.3	-80.0%	\$0.3	0.0%
17	Gaming	\$20.4	25.9%	\$20.3	-0.5%	\$20.4	0.5%	\$20.4	0.0%
18	Other Income	\$19.4	-25.9%	\$18.9	-2.5%	\$19.6	4.0%	\$20.4	3.7%
19	Total Other	\$241.38	-6.3%	\$255.2	5.7%	\$307.0	20.3%	\$365.5	19.0%
20	GROSS GENERAL FUND	\$7,085.0	9.7%	\$7,142.8	0.8%	\$7,355.5	3.0%	\$7,646.6	4.0%
Rebates & Expenditures:									
21	Cigarette Rebate	\$11.0	-5.3%	\$10.7	-3.1%	\$10.4	-2.5%	\$10.2	-1.9%
22	Old-Age Pension Fund	\$102.2	-11.4%	\$100.0	-2.1%	\$102.3	2.3%	\$105.8	3.4%
23	Aged Property Tax & Heating Credit	\$6.8	-10.0%	\$7.4	9.2%	\$7.4	-1.3%	\$7.4	1.0%
24	Interest Payments for School Loans	\$0.8	-63.7%	\$1.4	74.1%	\$1.6	14.3%	\$1.6	0.0%
25	Fire/Police Pensions	\$4.3	1.3%	\$9.6	123.5%	\$14.4	49.3%	\$29.7	106.7%
26	Amendment 35 General Fund Expenditure	\$0.9	-1.9%	\$0.9	-2.1%	\$0.8	-1.4%	\$0.8	-1.0%
27	Total Rebates & Expenditures	\$126.0	-11.2%	\$130.0	3.2%	\$136.9	5.3%	\$155.6	13.6%



Cash Fund Revenue Forecast

Cash fund revenue subject to TABOR collected in FY 2010-11 totaled \$2.3 billion, and FY 2011-12 cash fund revenue is forecast to increase \$197.7 million, an 8.4 percent increase. In FY 2012-13 cash fund revenue is forecast to increase \$211.8 million, an 8.3 percent increase. Revenue growth in the hospital provider fee and transportation categories accounts for much of the expected increases.

Transportation-Related Cash Funds

The bulk of revenue for the transportation category is from vehicle registrations, fuel sales, and license and permit issuances. Both car and light truck sales increased at the beginning of 2011 partly due to rising consumer confidence, but sales slowed mid-year. In recent months, light truck sales have increased while car sales remain below 2010 levels. Vehicle sales are an important factor affecting transportation revenue because sales lead to increased registrations and license and permit revenue. Although the industry has begun to recover, the recent earthquake and tsunami in Japan impacted the global automotive industry and caused shortages of automotive parts and vehicles. This forecast assumes upward pressure on oil prices will be minimized by the recent global economic slowdown.

Driver's license revenue is expected to increase through the forecast period because of changes to the license renewal cycle. In 2005, the passage of SB 05-047 changed the driver's license renewal cycle from a ten-year to a five-year cycle. The overlap of the conclusion of the ten-year cycle and the five-year cycle has increased the number of licenses issued and thus license revenue.

In FY 2011-12, total transportation-related cash fund revenue, which includes revenue to the Highway Users Tax Fund, the State Highway Fund, and other miscellaneous cash funds, is expected to total \$1.10 billion, an annual increase of 1.2 percent. FY 2012-13 collections are forecast to total 1.12 billion, an annual increase of 2.2 percent.

Limited Gaming

Gaming revenue activity is expected to remain sluggish through the forecast period. Total FY 2011-12 gaming revenue is projected to decrease 10.3 percent and total \$96.8 million. Of this total, \$6.7 million is expected to be "extended limited gaming" revenue and be exempt from TABOR per Amendment 50. The remaining \$90.1 million is TABOR revenue and this is shown in Table 3 of this forecast. The projected FY 2011-12 decline in gaming revenue reflects diminished economic growth overall, including weak employment growth, lower consumer confidence, and elevated gas prices. Additionally, a recent Gaming Commission tax rate change will reduce state gaming tax rates by 5.0 percent and decrease gaming tax revenue collection beginning in FY 2011-12 by an estimated \$5.2 million. FY 2012-13 gaming revenue is forecast to total \$98.7 million, of which \$6.7 million is expected to be extended limited gaming revenue. The table below outlines the forecast for total gaming revenue and its allocation under current law.



Distribution of Limited Gaming Revenues	Preliminary FY10-11	Forecast FY11-12	Forecast FY 12-13	Forecast FY 13-14
A. Total Limited Gaming Revenues	\$108.0	\$96.8	\$98.7	\$102.9
Annual Percent Change	0.3%	-10.3%	2.0%	4.2%
B. Base Limited Gaming Revenues	\$97.7	\$87.6	\$89.4	\$92.1
C. Total Amount to Base Revenue Recipients	\$86.4	\$76.0	\$79.6	\$82.3
<i>Amount to State Historical Society</i>	\$24.2	\$21.3	\$22.3	\$23.0
<i>Amount to Counties</i>	\$10.4	\$9.1	\$9.5	\$9.9
<i>Amount to Cities</i>	\$8.6	\$7.6	\$8.0	\$8.2
<i>Amount to Distribute to Remaining Programs (State Share)</i>	\$43.2	\$38.0	\$39.8	\$41.2
<i>Amount to Local Government Impact Fund</i>	\$3.6	\$2.8	\$3.1	\$3.3
<i>Colorado Tourism Promotion Fund</i>	\$12.0	\$9.4	\$10.3	\$11.0
<i>Film Incentives Fund</i>	\$0.2	\$0.2	\$0.2	\$0.2
<i>Creative Industries Cash Fund</i>	\$1.0	\$0.8	\$0.8	\$0.9
<i>Bioscience Discovery Evaluation Fund</i>	\$4.3	\$3.4	\$3.7	\$4.0
<i>Innovative Higher Education Research Fund</i>	\$1.7	\$1.3	\$1.4	\$1.5
<i>Colorado Department of Transportation</i>	\$0.0	\$0.0	\$0.0	\$0.0
<i>Transfer to the General Fund</i>	\$20.4	\$20.3	\$20.4	\$20.4
D. Total Amount to Amendment 50 Revenue Recipients	\$8.9	\$6.7	\$6.7	\$7.8
<i>Community Colleges, Mesa and Adams State (78%)</i>	\$7.0	\$5.2	\$5.2	\$6.0
<i>Counties (12%)</i>	\$1.1	\$0.8	\$0.8	\$0.9
<i>Cities (10%)</i>	\$0.9	\$0.7	\$0.7	\$0.8

The amounts to recipients do not equal the total gaming revenue because a portion is used for state gaming-related expenses.

Hospital Provider Fee

Hospital provider fee revenue totaled \$442.6 million in FY 2010-11 and is expected to increase \$162.0 million in FY 2011-12 and \$177.7 million in FY 2012-13. This revenue results from the payment of hospital provider fees, authorized by HB 09-1293, and increases Medicaid reimbursements to hospitals paying the fee. Most hospitals in the state pay the fees, which are equivalent to a per-day payment for inpatient hospital services and a percentage of charges for outpatient hospital services.

Provider fee revenue is forecast to increase as expansion populations are phased in and supplemental payments increase. Legislation passed during the 2011 legislative session, SB 11-212, will increase revenue by increasing fees paid to the Hospital Provider Fee Cash Fund by an estimated \$50 million in FY 2011-12 and \$25 million in FY 2012-13. This revenue will offset state general fund expenditures for the Medicaid program during those fiscal years. The Office of State Planning and Budgeting would like to recognize the Department of Health Care Policy and Financing for its assistance in forecasting provider fee revenue.

Severance Tax and Federal Mineral Lease Revenue

Severance tax revenue is expected to total \$178.5 million in FY 2011-12 and \$167.3 million in FY 2012-13. It is anticipated that some tax revenue that had been expected in FY 2010-11 will instead be collected in FY 2011-12 due to a lag between when oil and gas activity occurred and when the severance tax liability associated with that activity is collected.



Natural gas prices and production levels are the primary factors that affect severance tax revenue. Natural gas prices can shift significantly, and thus severance tax revenue is among the state’s most volatile revenue sources. The volatility is usually exacerbated by the state’s severance tax structure that includes a tax credit for property taxes paid on the value of natural gas sold. Natural gas prices are forecast to average \$4.30 per MMcf in 2011 and \$4.23 per MMcf in 2012. Prices are expected to be constrained by abundant supply and slow growth in demand due to the sluggish economy.

Much of the state’s natural gas production occurs in the Piceance Basin in northwest Colorado, and preliminary year-to-date production activity in this basin suggests increased production activity above the same period last year. Oil and gas production statewide is projected to increase through the forecast period because of expected increases in new wells. In Colorado, as of mid-September, the number of active drilling rigs is 77, up from 68 during the same period last year.

The 682-mile Ruby pipeline has opened since the publication of the last forecast. This major pipeline now sends natural gas from the Rocky Mountains to the large natural gas markets on the West Coast. This development is expected to bolster the natural gas industry in Colorado by allowing producers to receive higher prices and sell greater amounts of natural gas.

When federal lands are leased for mineral extraction, the federal government and the state of Colorado realize a share of the revenue from the production activity. The table below outlines the forecast of Federal Mineral Lease (FML) revenue. Modest growth in production and the opening of the Ruby pipeline should bolster FML revenue. Much of the gas that will flow through the Ruby pipeline is produced on federal lands in northwest Colorado. The Ruby pipeline will promote the sale of that gas in the west coast market. FML revenue and other transfers from the federal government are exempt from TABOR, and thus the amounts below are not reflected in the cash fund revenue forecast shown in Table 3.

Federal Mineral Lease (FML) Payments		
Fiscal Year	Total FML	% Change
FY 2009-10	\$122.50	-46.1%
FY 2010-11	\$149.48	22.0%
FY 2011-12	\$158.23	5.9%
FY 2012-13	\$171.63	8.5%
FY 2013-14	\$187.20	9.1%

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

Other Cash Funds

Insurance-related cash fund revenue involves all insurance premiums collected for major medical insurance, subsequent injury, and worker’s compensation. Insurance-related cash funds are expected to total \$16.2 million in FY 2011-12 and \$16.7 million in FY 2012-13.

The Colorado Department of Regulatory Agencies is primarily cash funded by regulated entities, and its cash fund revenue is expected to total \$71.6 million in FY 2011-12 and \$73.4 million in FY 2012-13.

Other miscellaneous cash fund revenue subject to TABOR is projected to increase \$14.2 million in FY 2011-12. This category is broad and includes numerous cash fund revenue sources, mainly from licenses, fines, and fees as well as interest earnings on various cash funds. Additionally, the FY 2011-12 revenue forecast



incorporates the enactment of SB 11-184, which allows taxpayers to pay certain overdue taxes, including one-half of any interest due, without being subject to any fine or civil or criminal penalty otherwise provided for by law. This legislative change is estimated to increase cash fund revenue by approximately \$10.9 million in FY 2011-12.

Table 3
Cash Fund Revenue Forecasts by Major Category

(Dollar amount in millions)

Category	Preliminary	September 2011 Estimate by Fiscal Year			FY 2010-11 to FY 2013-14 CAAGR*
	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	
Transportation-Related /A	\$1,082.7	\$1,095.6	\$1,120.2	\$1,127.7	
Change	2.2%	1.2%	2.2%	0.7%	1.4%
Limited Gaming Fund /B	\$100.6	\$90.1	\$91.9	\$94.6	
Change	-3.2%	-10.4%	2.0%	2.9%	-2.0%
Capital Construction - Interest	\$3.0	\$1.1	\$0.8	\$0.9	
Change	-7.8%	-3.6%	-58.6%	8.3%	-33.9%
Regulatory Agencies	\$69.6	\$71.6	\$73.4	\$75.3	
Change	3.3%	3.0%	2.5%	2.5%	2.7%
Insurance-Related /C	\$26.5	\$16.2	\$16.7	\$17.0	
Change	-38.3%	-39.0%	3.2%	2.0%	-13.7%
Severance Tax	\$149.4	\$178.5	\$167.3	\$199.3	
Change	209.6%	19.5%	-6.3%	19.1%	10.1%
Medicaid Hospital Provider Fees	\$442.6	\$604.6	\$782.3	\$883.3	
Change	46.1%	36.6%	29.4%	12.9%	25.9%
Other Miscellaneous Cash Funds	\$472.0	\$486.2	\$503.2	\$512.5	
Change	1.7%	3.0%	3.5%	1.8%	2.8%
TOTAL CASH FUND REVENUE	\$2,346.3	\$2,544.0	\$2,755.7	\$2,910.5	
Change	12.3%	8.4%	8.3%	5.6%	7.4%

* CAAGR: Compound Annual Average Growth Rate.

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

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

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



The Taxpayer's Bill of Rights: Revenue Limit

The Taxpayer's Bill of Rights (TABOR) – Article X, Section 20 of the Colorado Constitution – limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. Under the provisions of TABOR, revenue collected above the TABOR limit must be returned to taxpayers, unless voters decide the State can retain the revenue. In November 2005, voters approved Referendum C, which allows the State to retain all revenue through FY 2009-10, during a five-year TABOR "time out." Referendum C also set a new cap on revenue starting in FY 2010-11. Table 4 summarizes the forecasts of TABOR revenue, the TABOR revenue limit, and the revenue cap under Referendum C.

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

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



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

Line No.		Preliminary FY 2010-11	September 2011 Estimate by Fiscal Year		
			FY 2011-12	FY 2012-13	FY 2013-14
TABOR Revenues:					
1	General Fund /A <i>Percent Change from Prior Year</i>	\$7,057.7 8.9%	\$7,122.5 0.9%	\$7,335.1 3.0%	\$7,626.2 4.0%
2	Cash Funds <i>Percent Change from Prior Year</i>	\$2,366.9 13.3%	\$2,544.0 7.5%	\$2,755.7 8.3%	\$2,910.5 5.6%
3	Total TABOR Revenues <i>Percent Change from Prior Year</i>	\$9,424.6 10.0%	\$9,666.5 2.6%	\$10,090.9 4.4%	\$10,536.7 4.4%
Revenue Limit Calculation:					
4	Previous calendar year population growth	1.8%	0.1%	1.6%	1.6%
5	Previous calendar year inflation	-0.6%	1.9%	3.5%	2.6%
6	Allowable TABOR Growth Rate	1.2%	2.0%	5.1%	4.2%
7	TABOR Limit	\$8,654.4	\$8,827.5	\$9,277.7	\$9,667.3
8	General Fund Exempt Revenue Under Ref. C /B	\$770.3	\$839.0	\$813.2	\$869.3
9	Revenue Cap Under Ref. C /C	\$10,684.9	\$10,898.6	\$11,454.4	\$11,935.5
10	<i>Amount Above/(Below) Limit</i>	<i>(\$1,260.2)</i>	<i>(\$1,232.1)</i>	<i>(\$1,363.5)</i>	<i>(\$1,398.8)</i>
11	TABOR Reserve Requirement	\$282.7	\$290.0	\$302.7	\$316.1

- /A** FY 2008-09 through FY 2010-11 amounts differ from the General Fund revenues reported in Table 3 (General Fund Revenues) as some double counting exists when cash funds are transferred to the General Fund (for instance, limited gaming revenues), and due to other accounting adjustments.
- /B** Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of money collected in excess of the TABOR limit in accordance with voter-approval of Referendum C.
- /C** The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "Revenue Cap Under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit is based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate." FY 2007-08 was the highest revenue year during the Referendum C period.



The Economy: Current Conditions and Forecast

As was expected in the June 2011 *Colorado Outlook*, several sectors of the economy have continued to weaken due to the persistence of a combination of negative factors affecting households, businesses, investors, and governments. The economy continues to deal with high debt levels, elevated food and gas prices, a slumped housing market, and the stock market volatility resulting from sovereign debt problems. Private investment – an important ingredient for economic growth – has mostly languished in this environment and unfortunately signals that a stronger pickup in growth is unlikely in the near term. However, there are positive trends in the economy. The services industries continue to expand, exports remain strong, and bank loans to businesses are increasing.

Colorado appears to be weathering the negative factors weighing on the economy better than the nation overall. This likely stems from the favorable attributes of the state's economy, most notably its entrepreneurial culture, educated and versatile workforce, and its foothold in emerging and growing industries such as clean technology, aerospace, professional services, advanced manufacturing, and bioscience. Further, Colorado's tourism and oil and gas industries are helping bolster the state's economy.

Nonetheless, there is heightened downside risk that the economy could weaken further. Recent slowing in certain sectors of the economy, most notably in manufacturing, business investment, and the job market, combined with increased volatility in the financial markets warrant vigilance. At this time, however, the economy is not expected to contract.

The economy continues to go through an arduous rebuilding process from the financial crisis and the bust of the unsustainable housing and credit boom. Firms and investors are now trying to discover the best, most productive ways to utilize the economy's resources to supply households' and businesses' wants and needs. This process will take time, especially with the negative forces weighing on the economy.

The history and projections for key Colorado economic indicators are shown in Table 5, while the economic indicators for the nation are shown in Table 6. These tables follow this section.

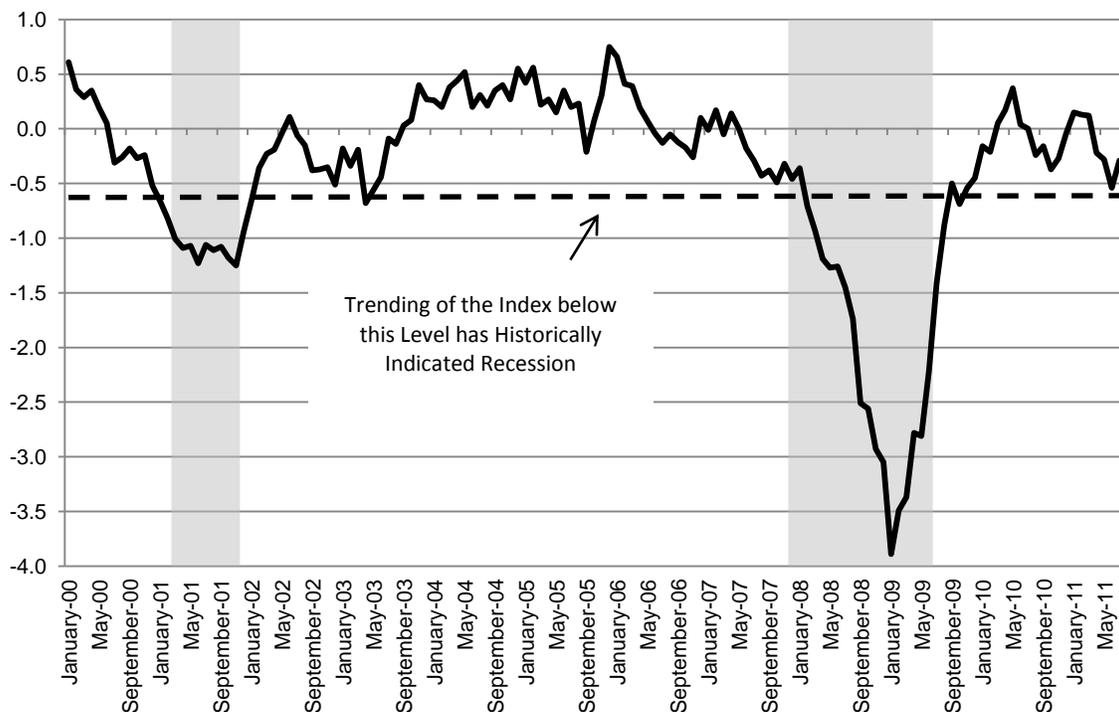
Overall Economic Conditions

One timely assessment of overall economic activity for the nation is the National Economic Activity Index published by the Chicago Federal Reserve. The index uses 85 monthly economic indicators to measure the economy's performance. Research has found that this index provides a useful gauge on current and future economic activity. Figure 1 shows the index from 2000 through July of this year.

A zero value for the index indicates that the national economy is expanding at its historical trend rate of growth, negative values indicate below-average growth, and positive values indicate above-average growth. The index has been showing below trend growth since April of this year. In July the index was -0.29 , up from -0.54 in June. However, it is likely that the index will show a fall in August due to the numerous reports of economic weakness that were released. An index level that trends below -0.7 has historically coincided with economic contractions.



Figure 1. Chicago Fed National Activity Index: 3 Month Moving Average, 2000 through July 2011



Source: Federal Reserve Bank of Chicago

Concern and caution following recent economic developments have impacted confidence and weighed on most sectors of the economy. Uncertainty is consistently and commonly cited in various surveys of businesses as the foremost concern. In addition, a struggling labor market, continued elevated food and gas prices, and slower economic growth have prompted consumers to limit purchases of non-essential goods and services.

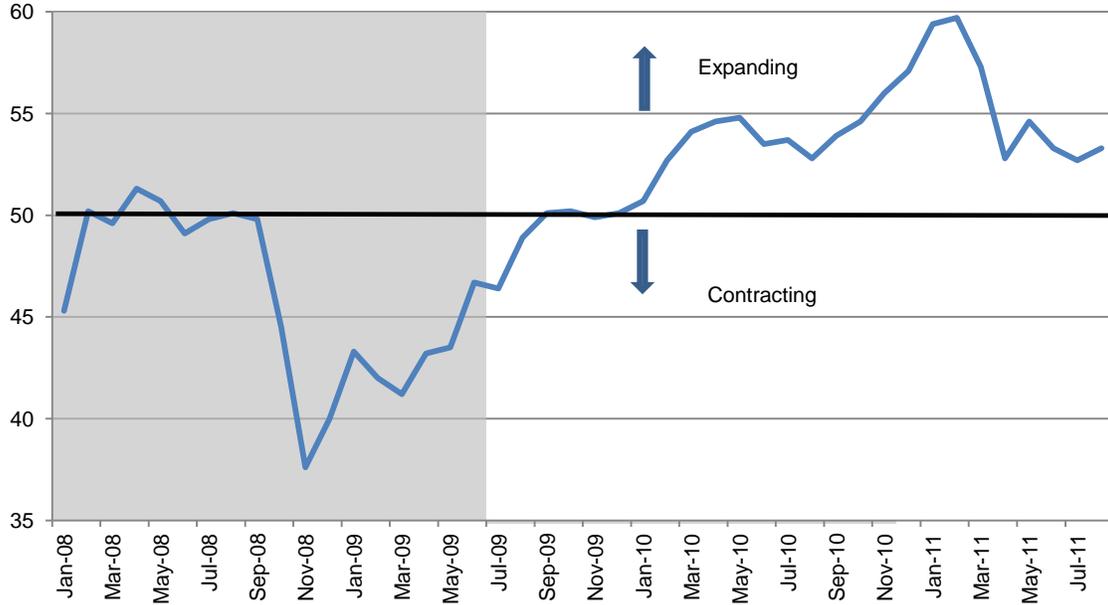
On a positive note, service industries – the largest part of the U.S. economy – expanded in August. The Institute for Supply Management’s (ISM) index of non-manufacturing businesses, which includes services, increased to 53.3 from 52.7 in July, the twenty-first consecutive month of expansion for this sector.

In contrast, the Institute for Supply Management’s purchasing managers’ index for manufacturing businesses has continued a downward trend. The Index was 50.6 percent in August, a decrease of 0.3 percentage point from July, though this still represents expansion in the sector for the 25th consecutive month. A dip below 50.0 percent indicates contraction, and both the manufacturing and non-manufacturing indexes remain precariously near that threshold.

However, in a recent positive sign that the economy continues to grow, the Federal Reserve’s manufacturing production index rose 0.5 percent in August, after increasing 0.6 percent in July, as factories bounced back from Japanese supply-chain disruptions. Figures 2 and 3 show recent trends in the ISM’s nonmanufacturing and manufacturing composite indices. While the nonmanufacturing index has ticked up, the manufacturing index has declined and is near contraction.

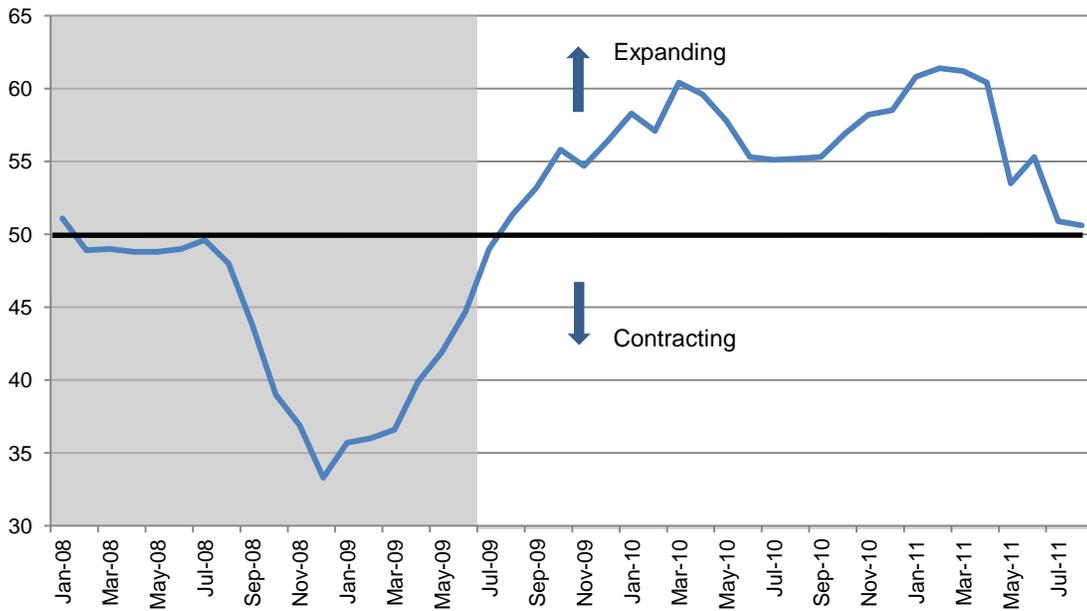


Figure 2. Change in ISI Nonmanufacturing Composite Index



Source: ISM Nonmanufacturing: NMI, Composite Index, NMFCI, Institute for Supply Management, Non-manufacturing ISM Report on Business, Seasonally Adjusted, Monthly, Index

Figure 3. Change in ISI Manufacturing Composite Index



Source: ISM Manufacturing, PMI Composite Index, NAPM, Institute for Supply Management, Manufacturing ISM Report on Business, Seasonally Adjusted, Monthly, Index



The output and performance of both the goods-producing and services sectors of the economy affect income, hiring, investment, and spending. Thus, trends in these industries will be important to monitor in coming months as indicators of how the economy is responding to the recent heightened uncertainty and stock market volatility.

The National Federation of Independent Businesses Small Business Optimism Index declined 1.8 points in August, settling at a low 88.1. The Index has been in decline for six months. Sales continue to be the major challenge faced by most small firms.

The Goss Business Conditions Index for Colorado, which is based on a survey of Colorado supply managers, was 53.8 in August 2011, a small decline from July. A value greater than 50 indicates expansion over the course of the next three to six months. The index uses the same methodology as the Institute for Supply Management to determine business conditions.

According to the Goss report on Colorado business conditions, durable goods manufacturers and energy extraction companies in the state continue to expand their production and add jobs. Durable goods manufacturers are benefiting from the export of their goods to other countries. However, in a potentially ominous sign for future economic performance, the Goss Institute's confidence index has moved to levels similar to those in the last recession. Survey participants consistently cite policy and regulatory uncertainty as a major factor influencing business decisions.

In addition to Colorado, the export of goods has been a bright spot for the nation's economy as well. In July 2011, U.S. exports set a monthly record of \$178 billion. Compared to a year ago, exports of industrial supplies were up 29.3 percent, capital goods were up 8.8 percent, and automotive vehicles were up 29.1 percent. Each of these manufacturing categories set new monthly records in July 2011. This is an indication that both the U.S. and global economies are still expanding despite the sustained headwinds.

The Job Market

The nation's job market has weakened over the course of 2011. It has steadily added fewer jobs each month, and no jobs were added in August. Further, initial claims for unemployment insurance remain elevated. However, Colorado's job market has generally performed better than the nation's. Colorado has added 18,700 jobs so far in 2011, though preliminary data from the U.S. Bureau of Labor Statistics indicate that Colorado lost 1,800 jobs in August. The state's better performance is likely due to its educated and versatile workforce, an attribute increasingly needed in the technologically advanced and dynamic global economy.

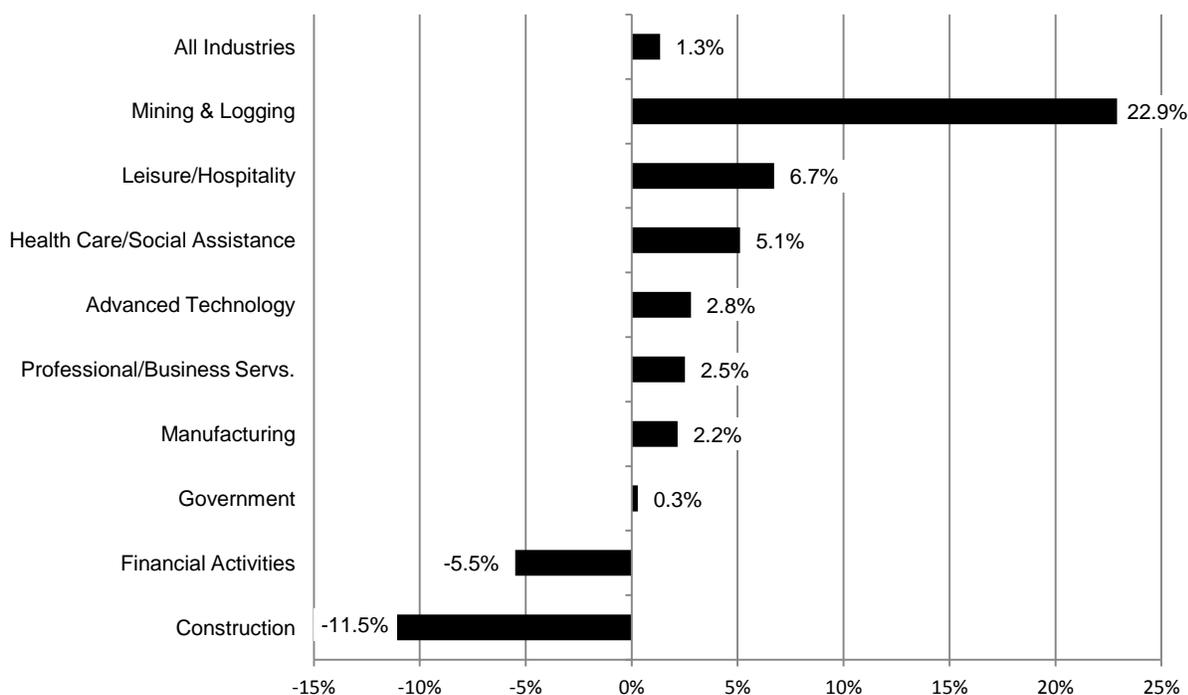
Colorado has also added jobs in economically important industries. These industries include mining and advanced technology sectors, such as certain high-tech manufacturing, computer systems design, architectural and engineering services, software publishing, and consulting services. These industries are important because they generally pay high salaries and/or they produce high-value-added goods and services. The growth in leisure and hospitality is also positive, indicating that an increased number of visitors are spending money in the state. At the same time, the state continues to shed jobs in industries that expanded during the housing boom, most notably in construction and financial services.

Figure 4 shows the change in jobs in select industries in Colorado since the beginning of 2010 when the state's job market began to improve. These trends reflect the needed restructuring the state economy is undergoing as it rebuilds from the deep recession. However, as shown by overall job growth in the graph,



this process is a slow one. Of the 151,000 jobs lost as result of the economic contraction, the state has gained just 30,000 back since the beginning of 2010, a 1.3 percent increase. The mining sector has been the best performing industry due to the increase in oil and gas exploration activity. The industry has gained back all the jobs lost during the recession.

Figure 4. Change in Jobs in Select Colorado Industries, January 2010 through August 2011



Source: U.S. Bureau of Labor Statistics

After losing jobs in both 2009 and 2010, Colorado is expected to post job growth at a rate of 0.8 percent in 2011. However, due to the recent trends showing weakening in the national and global economy, job growth is projected to slow to a 0.4 percent growth rate in 2012. Colorado's job market is forecast to slightly outpace the nation's due to expectations that the state economy will better weather the economic slowdown.

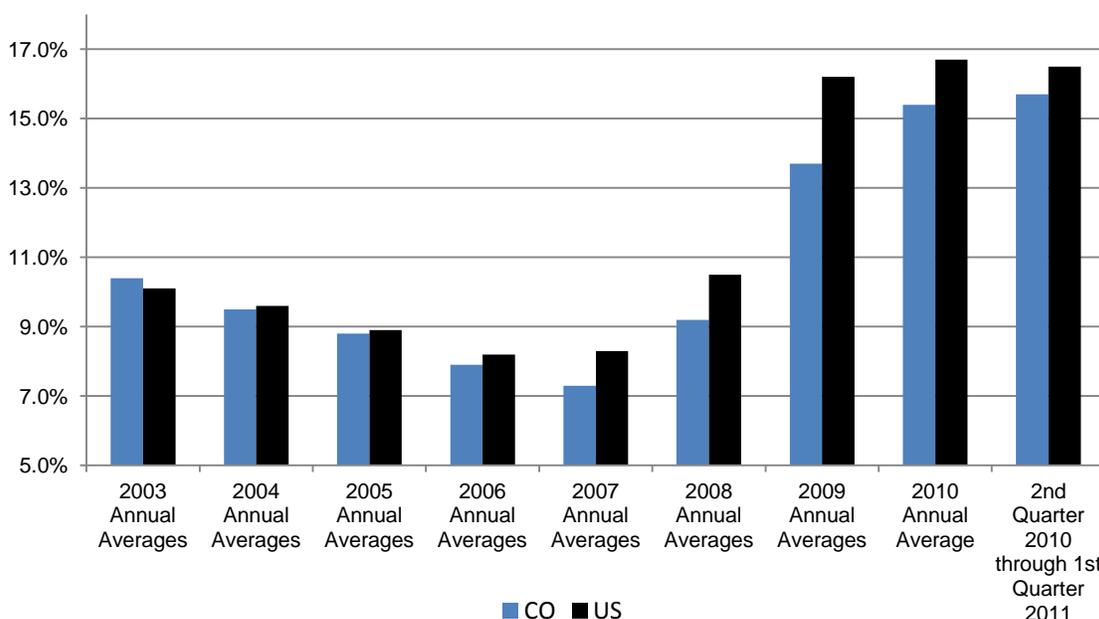
Despite some relatively positive trends in jobs for the state, stubbornly high unemployment continues, though the state's unemployment rate remains slightly lower than the nation's. Although the unemployment rate has retreated slightly from its peak, the national rate remains above 9.0 percent and the state's unemployment rate has been hovering around 8.5 percent.



A closer look at the Colorado unemployment numbers, however, reveals that the official unemployment number understates unemployment in the state. To be counted as unemployed, a worker must be looking for work. As workers give up searching, they are no longer in the labor force and thus no longer counted as unemployed. Both Colorado and the nation have experienced a declining labor force, which has muted the official unemployment rate.

The Bureau of Labor Statistics publishes an alternative measure of unemployment that captures those who are underemployed (working less than full time when full time is preferred) and discouraged individuals who would like to work but have temporarily stopped their job search. This measure is commonly called the “underemployment rate.” This rate in Colorado was 15.7 percent for the period between the 2nd quarter of 2010 and the 1st quarter of 2011 (the last period for which data are available). This equates to almost one out of every six individuals who are unemployed or underemployed. The nation’s rate is currently slightly above 16.0 percent. Figure 5 shows the trends in the underemployment rate for the nation and state since 2003.

Figure 5. “Underemployment” Rate, Colorado and U.S.



Source: US Bureau of Labor Statistics

As one encouraging sign for the labor market, job openings have been increasing. However, positions are not being filled at the same rate as in the past. This is likely in part due to a mismatch between the skills needed by firms and the skills available in the labor force. Further, the labor force may be less mobile due to the housing market’s woes. These factors are causing some of the unemployment problem to be “structural” in nature.

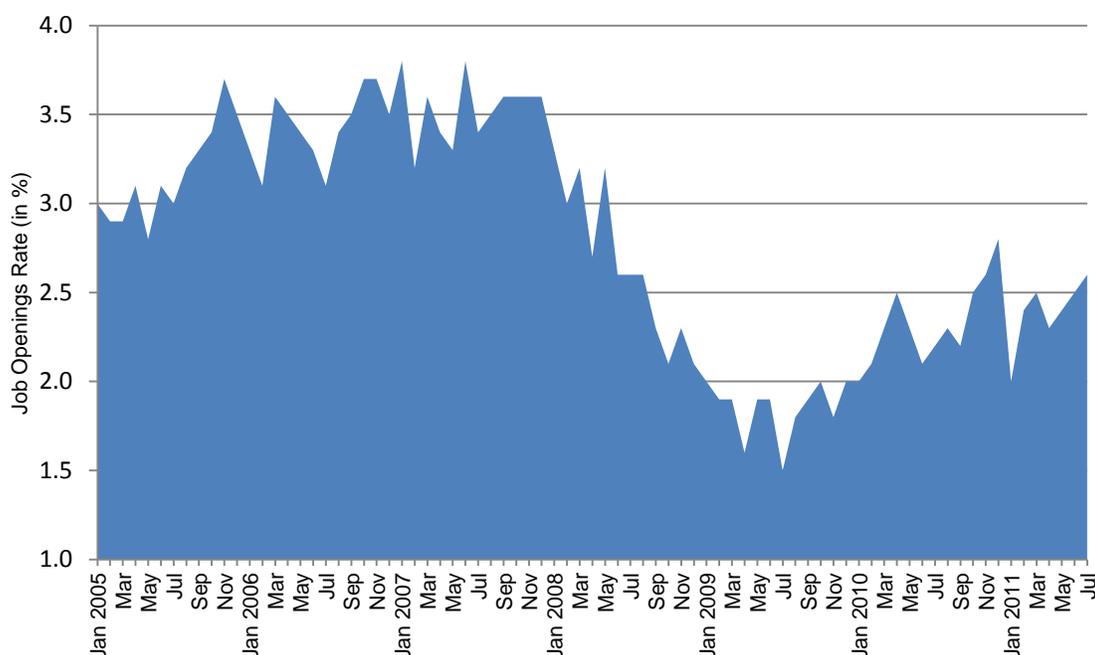
During periods of structural change, workers with skills no longer in demand exit the labor force and the levels of unfilled positions increase. When unemployment is partially a structural problem, it takes longer for labor markets to recover as many individuals search for ways for which the economy can utilize their skills. In many cases, this will require workforce training or increased educational attainment.



In the western states, the rate of job openings in July was the same as it was in July of 2008; Colorado’s unemployment rate then was 4.8 percent. However, with the same rate of job openings now, the current number of unemployed remains much higher. This provides evidence that some of the unemployment problem is structural. Further evidence comes from the most recent National Federation of Independent Business survey that indicated that 33.0 percent of small businesses reported having few or no qualified applicants for job openings despite the high number of unemployed.

Figure 6 shows the job openings rate (defined as the number of job openings divided by employment plus job openings) in the Western states over time.

Figure 6. Trend in Job Openings in the Western U.S., 2005 through July 2011



Source: US Bureau of Labor Statistics

Due to continued stubbornly slow job growth and the structural issues in the labor market, Colorado’s unemployment rate will unfortunately remain elevated. Colorado’s unemployment rate will average 8.8 percent in 2011.

Personal Income and Wages

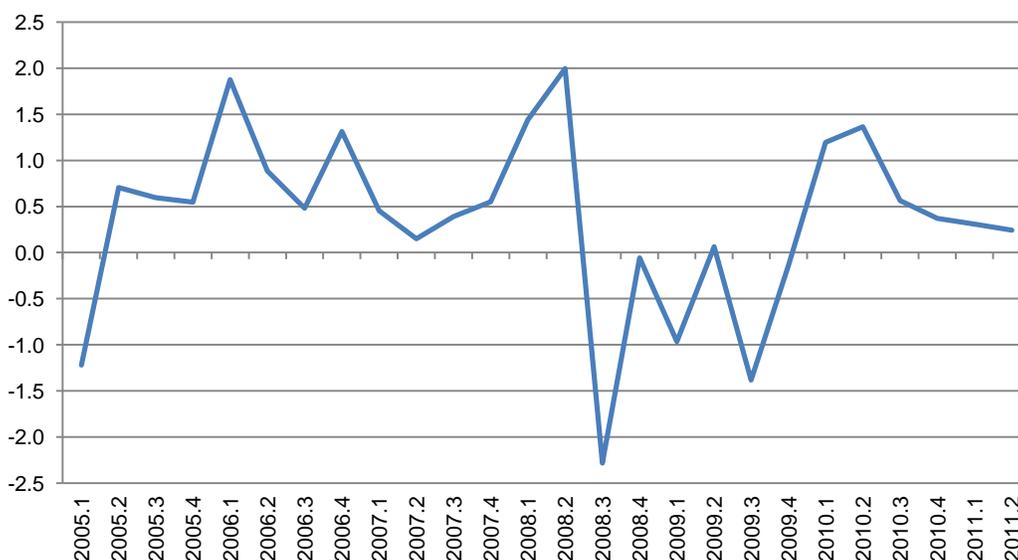
U.S. personal income rose 0.3 percent in July after increasing 0.2 percent in June. Personal income consists of wage and salary income, proprietors’ (or business) income, government transfer receipts, and interest and dividend income earned on assets.



Through the first quarter of 2011 personal income has expanded both nationally and in Colorado since the third quarter of 2009. Over this period, Colorado personal income has increased 6.5 percent and national personal income has increased 6.2 percent. Continued improvement in personal income is needed to contribute to an economic recovery as it will support further spending, savings and investment, and debt reduction.

U.S. disposable personal income also rose 0.3 percent in July. However, the rate of growth of real, or inflation-adjusted, disposable personal income has slowed since the second quarter of 2010, as shown in Figure 7. Disposable personal income is the total after-tax income received by individuals, and it is the income available for spending or saving.

Figure 7. Quarterly Percentage Change in Real U.S. Disposable Personal Income

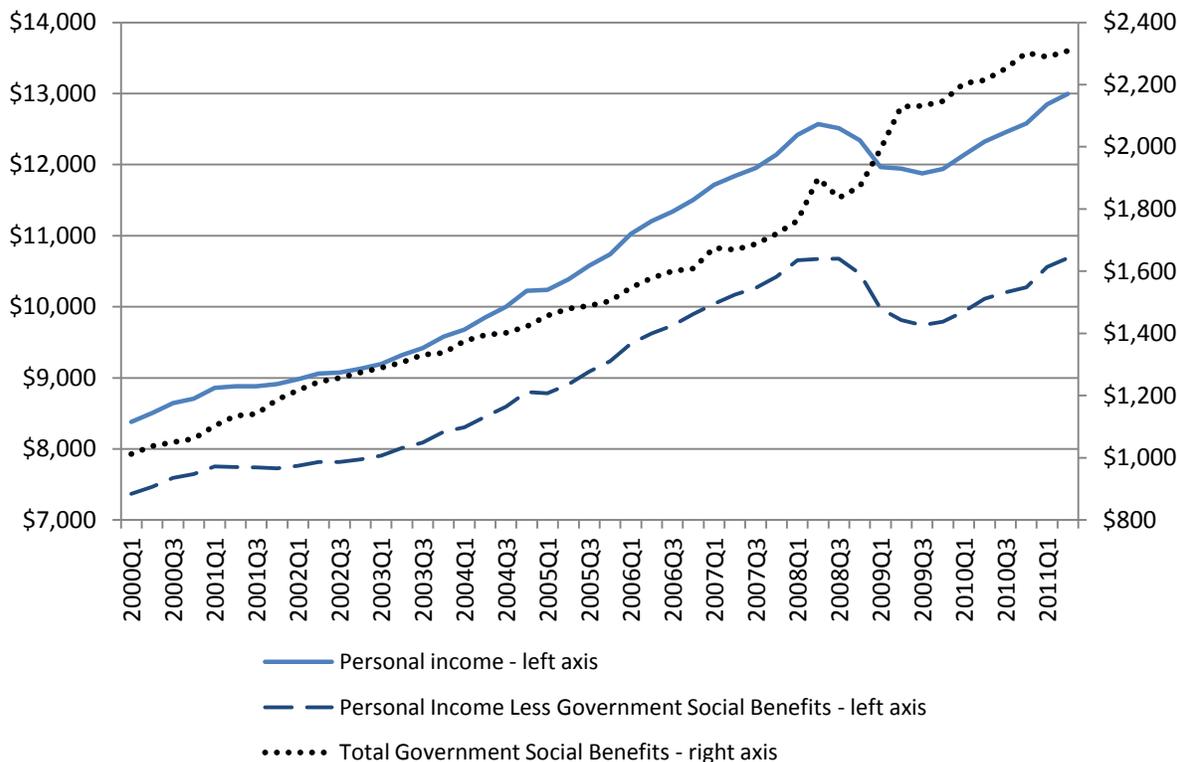


Source: Federal Reserve Bank of St. Louis, Real Disposable Personal Income (DPIC96), Percent Change, Quarterly, Seasonally Adjusted Annual Rate

Transfer payments, or governmental assistance in the form of unemployment, Social Security, and other benefits, have increasingly made up a greater share of personal income in the aftermath of the 2008-09 downturn. Figure 8 shows personal income growth compared with growth in government social insurance.



Figure 8. Personal Income and Personal Income Less Government Benefits



Source: Bureau of Economic Analysis, billions of dollars, seasonally adjusted at annual rates

Since the second quarter of 2009 through the first quarter of 2011, Colorado wage and salary growth has increased in each quarter. From the fourth quarter of 2010 to the first quarter of 2011, Colorado wage and salary growth increased 0.7 percent.

Colorado personal income is forecast to increase 5.0 percent in 2011 and slow to a 2.7 percent growth pace in 2012 as heightened uncertainty and financial market volatility take their toll on economic activity. Colorado wage and salary growth is forecast to increase 3.5 percent in 2011 and 2.1 percent in 2012. As with the job market, projections for income and wage growth are slightly higher for the state compared with the nation.



Price Levels

Elevated price levels continue to be another negative factor weighing on the economy. Measured nationally, inflation on producer prices for finished goods – essentially wholesale prices – were 6.5 percent higher in August compared with a year ago. To respond to these price increases, businesses have to pass them on to consumers and/or keep fewer resources to invest into expanding operations. Figure 9 shows the year-over-year percent change in producer prices for finished goods.

Figure 9. Year over Year Change in Producer Prices for Finished Goods, August 2010 through August 2011



Source: US Bureau of Labor Statistics

With household earnings stagnating, continued high food and gasoline prices are stressing household budgets and squeezing out other consumer purchases that would enable businesses to increase production and expand. In addition, the housing component of the consumer price index (CPI) for the nation continues to experience a steady increase. This is a reflection of tightening rental markets and thus higher rents. In August, the CPI for the nation was 3.8 percent above the level in August of 2010.

Consumer price changes in Colorado generally closely track national trends. For the first half of 2011 (the last data available), the Denver-Boulder-Greeley CPI surged 3.8 percent over the first half of 2010.

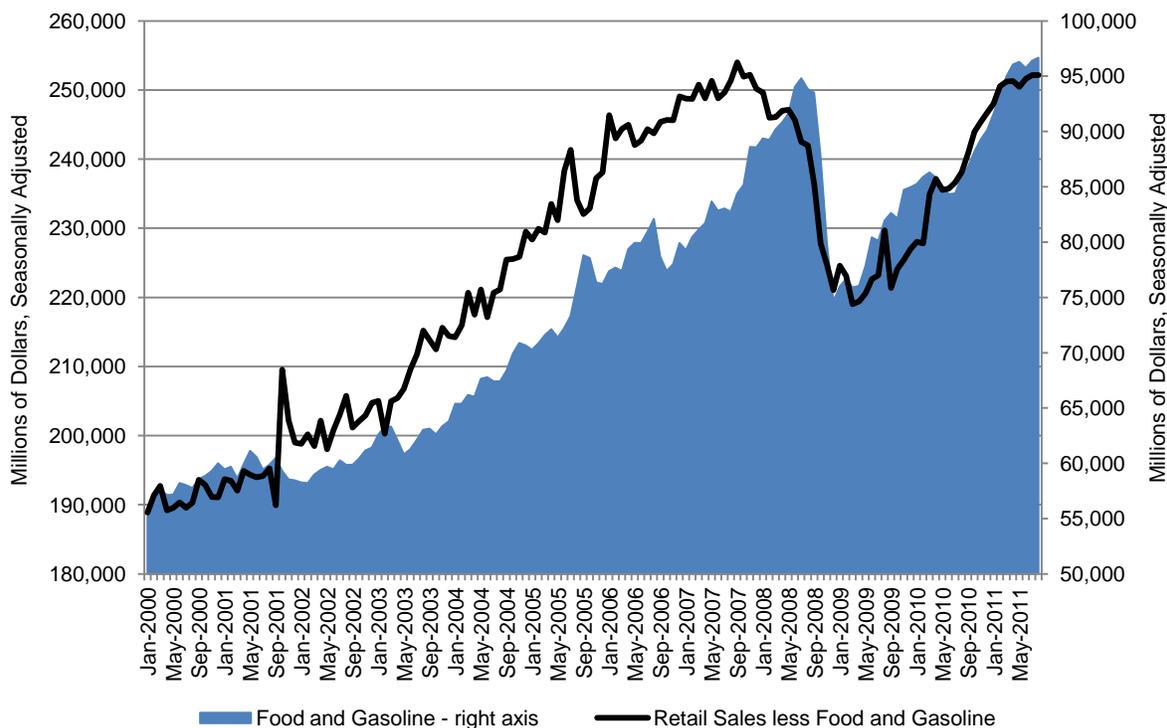
The Denver-Boulder-Greeley CPI will increase 3.5 percent in 2011 overall and 2.6 percent in 2012, similar to projections for national consumer price changes.



Consumer Spending

Growth in consumer spending, as measured by total US retail sales, slowed in the summer. Retail sales excluding food and gasoline were flat in August as higher prices for these necessities appear to be crowding out spending on other items. This can be seen in Figure 10 which shows monthly spending on food and gas nationwide as well as spending on all other items from 2000 through August. The latter category of spending has trended lower over the past few months, while spending on food and gas continues to climb.

Figure 10. US Retail Sales, Food and Gasoline through August 2011



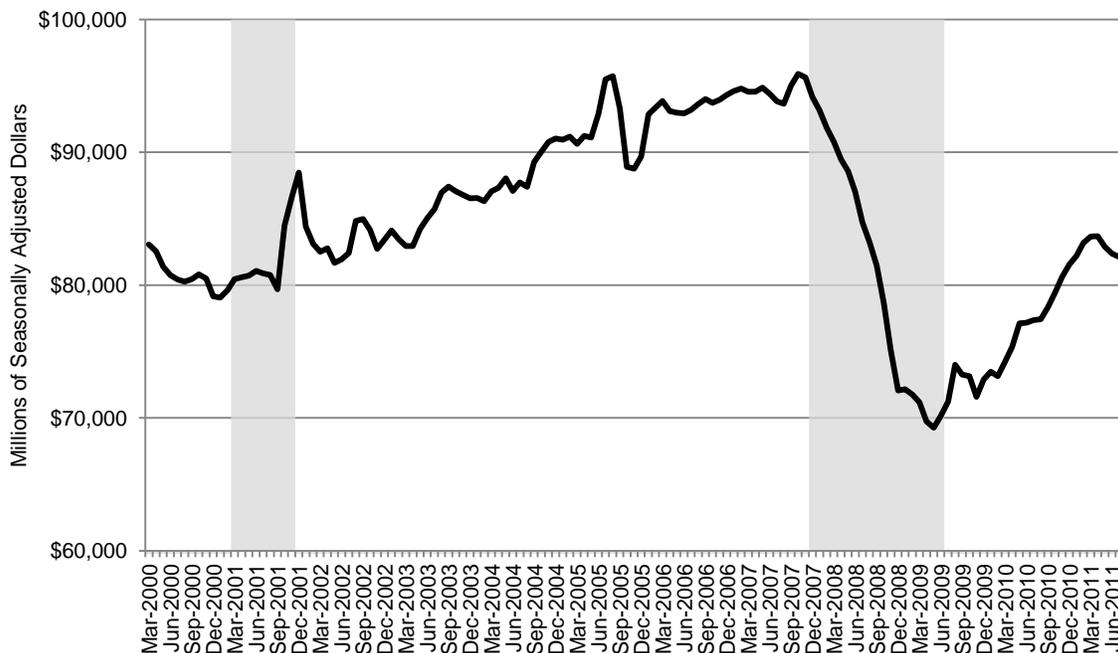
Source: US Census Bureau

The continued dampened performance of retail sales partially reflects poor consumer sentiment levels. While confidence turned improved at the end of 2010, in the second quarter of 2011 confidence began trending downward again. Households continue to struggle with a weak labor market and continued high debt liabilities combined with lower assets. Household wealth in the U.S. dropped in the second quarter for the first time in a year due to falling share prices and declining home values.

Lower consumer confidence is further reflected in the pattern of household consumption. As can be seen in Figure 11, spending on durable goods – such as vehicles, appliances, and electronics – has weakened since the beginning of the year. Spending in August on durable goods was 2.4 percent lower than February’s level. Overall, consumers are postponing large purchases and focusing more spending on necessities. Spending on durable goods remains below its peak level before the recession.



Figure 11. U.S. Consumer Spending on Durable Goods through August 2011



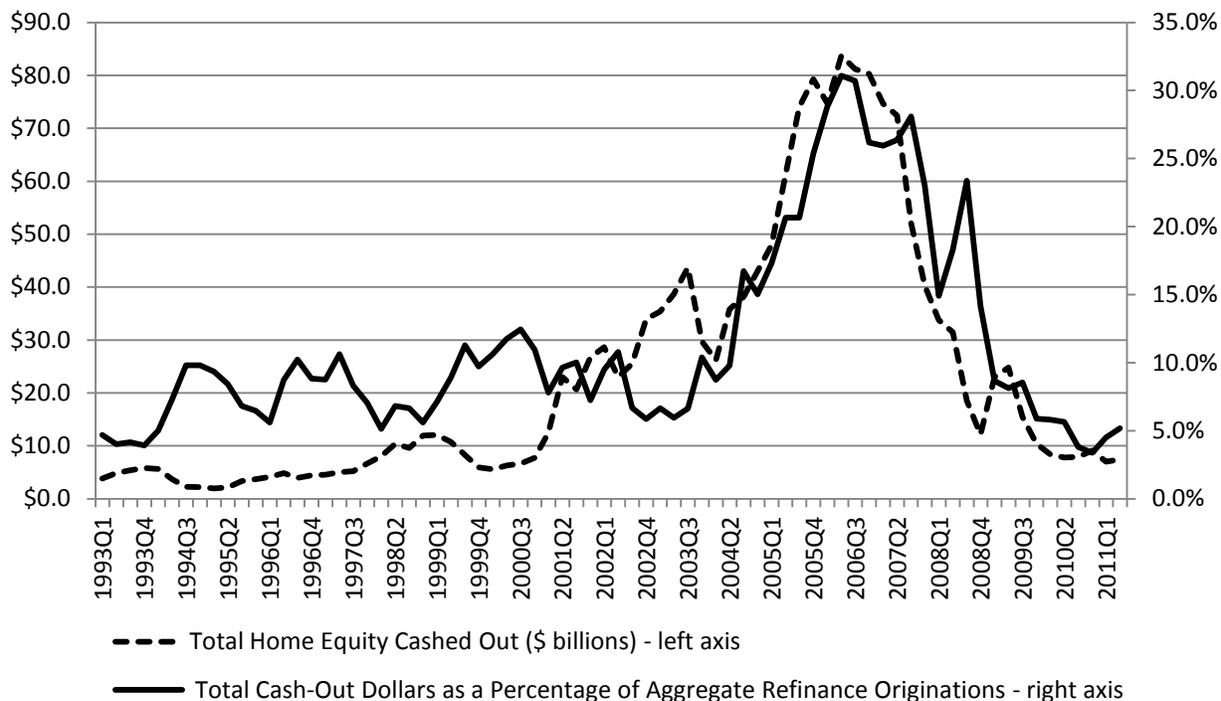
Source: US Census Bureau

Recent sales tax data from the Colorado Department of Revenue indicate that consumer spending has also slowed over the summer months. Consumer spending on durable goods typically makes up a little over a quarter of total state sales tax revenue.

Underlying the continued weakness in consumer spending, households continue to access home equity at low levels not seen since the early 1990s, as shown in Figure 12. While home equity cash-outs increased slightly in the second quarter of 2011, they are far below the unsustainable levels in the mid 2000s when home equity was a large source of funds for consumer purchases. The return to more sustainable levels will serve to continue to dampen consumer spending relative to the consumption boom before the recession.



Figure 12. Patterns of Refinancing Activity; U. S. 1993 through the 2nd Quarter of 2011



Source: Calculated from Freddie Mac Cash-Out Refinance Report

After growing 6.3 percent in 2010, Colorado retail trade sales are expected to increase 5.3 percent to \$74.5 billion in 2011 but slow to a 3.0 percent growth rate in 2012.

Business Spending and Investment

Private investment is an integral component for economic growth since much of the investment is used for the production of goods and services. Thus, one of the main drags on the economy comes from continued weakness in investment activity. Figure 13 shows the share of private investment of Gross Domestic Product (GDP) from 2000 through the first half of 2011.

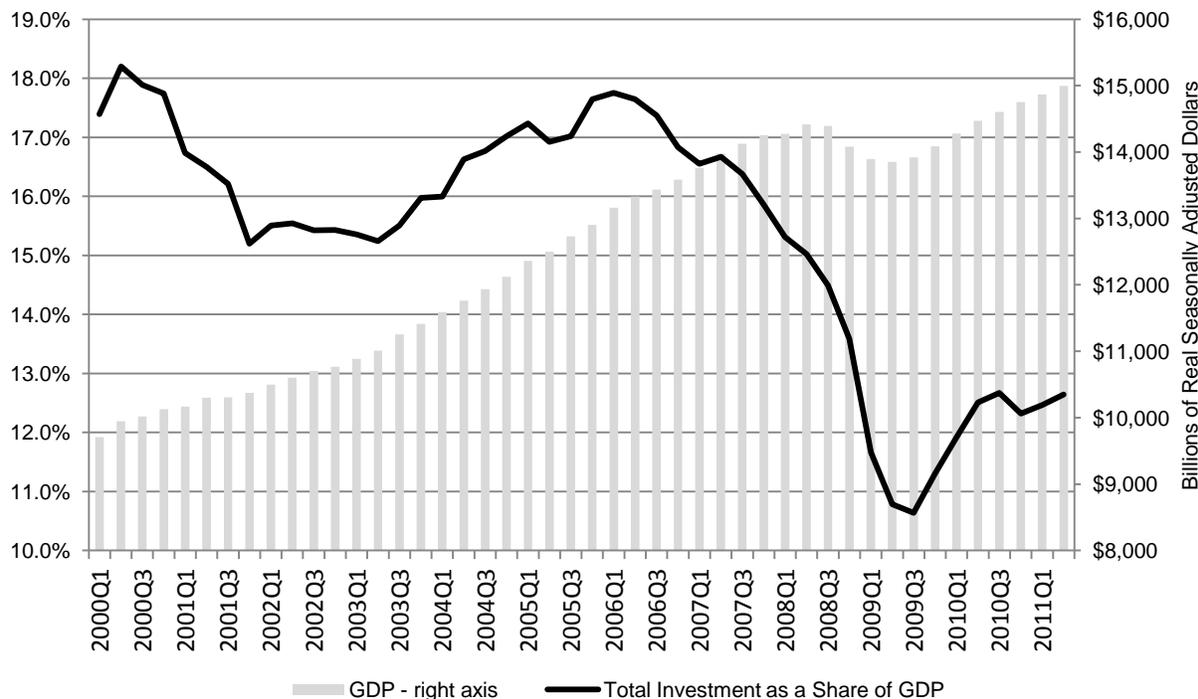
It is common for investment as a share of GDP to fall in a recession as business cuts back. Further, as Figure 13 shows, declines in investment can often precede declines in overall economic output. Conversely, during the early 2000s, the increase in investment preceded more robust economic activity.

In the current recovery, investment as a share of GDP has yet to fully recover. The failure of the economy to generate private investment is indicative of the sluggish economy and that private industry remains



apprehensive about the future. It should be noted that the continued slump in residential construction is the main reason for the weakness in private investment. Spending on business equipment and software has been relatively robust.

Figure 13. Total Private Investment Share of Gross Domestic Product



Source: US Bureau of Economic Analysis

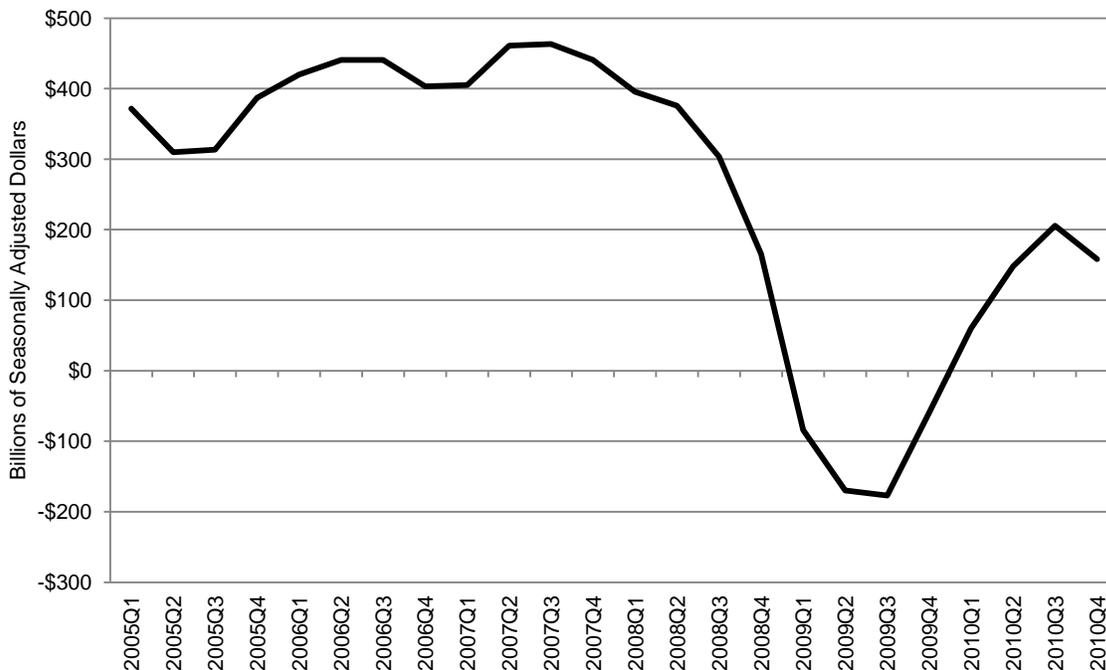
While it appears that investment has recovered somewhat as a share of GDP, it is important to differentiate between investment that *grows* the stock of capital and investment that simply *replaces* depleted or obsolete equipment.

To grow the economy, not only must the depreciated capital stock be replaced, but new capital must be added. A closer look at *net* capital investment, or capital expenditures above and beyond that needed to simply maintain the current level of capital stock, shows that private investment remains in a slump. Further, during the depths of the recession, current levels of capital investment were not maintained. Thus, the bulk of investment now taking place is to simply replenish the existing capital stock, not add to the nation’s productive capacity.

Figure 14 shows the level of spending on increasing the level of capital stock, or private net investment. In 2010, net investment recovered somewhat and was trending upward through the third quarter when it again began to decline. At the end of 2010 private domestic business net investment was at just 34 percent of its pre-recession peak. Thus, continued sluggish economic activity is likely to continue until capital investment that can help the economy produce more increases to a more robust level.



Figure 14. Private Domestic Business Net Investment



Source: US Bureau of Economic Analysis

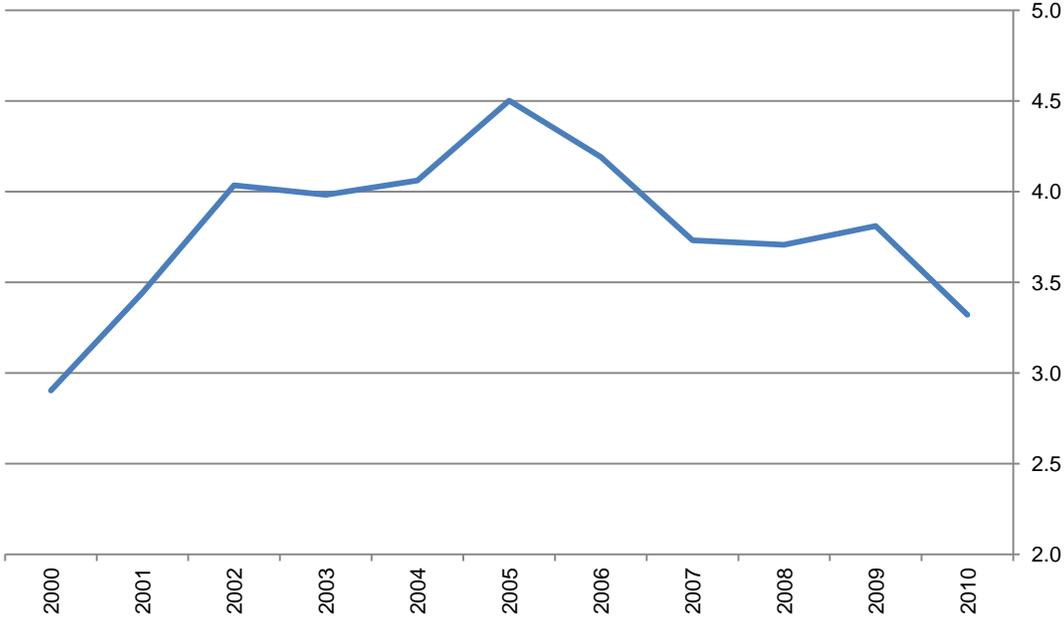
The Housing Market

The housing sector continues to struggle and could decline further before improving. A robust recovery in the housing market is dependent largely on improvement in the labor market and a decline in the high level of excess inventory of homes.

Figure 15 compares Colorado median home prices and median household income ratio from 2000 through 2011. This ratio, determined by dividing median home price by median household income, is a measure of housing affordability – a lower ratio indicates that homes are more affordable. The rapid rise in home prices prior to the recent recession caused the ratio to increase sharply. It has declined following the real estate bust, a trend that is expected to continue as Colorado home prices stagnate or fall.



Figure 15. Colorado Median Single Family Home Price/Median Household Ratio

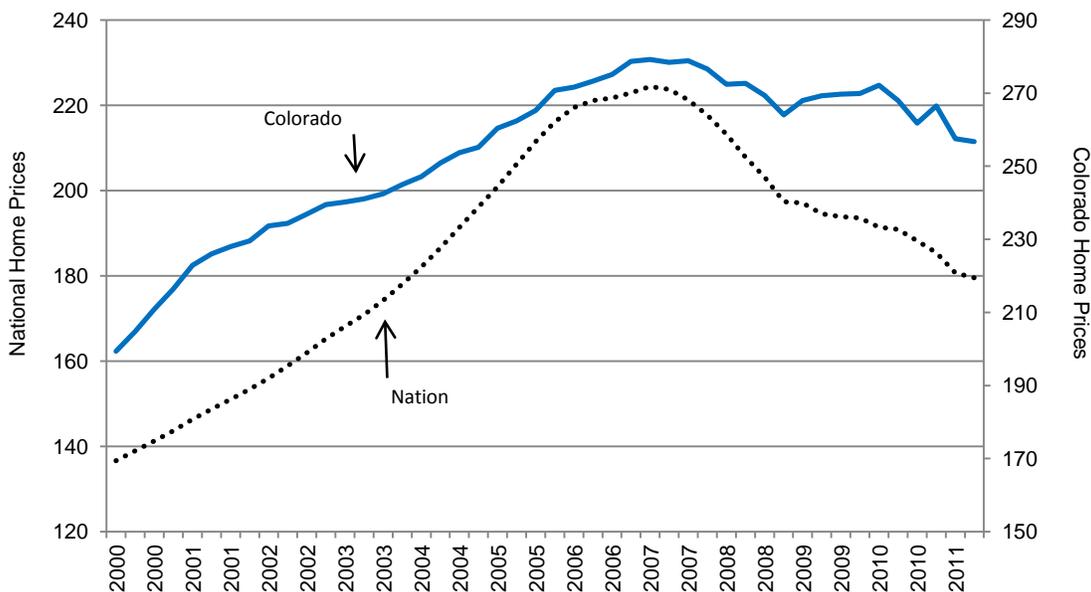


Source: U.S. Census Bureau; Colorado Association of Realtors

The Colorado real estate market remains weakened, but home prices continue to fare better than those of the nation. Figure 16 compares the change in the Federal Housing Authority’s home price indexes for Colorado and the nation. From the first quarter of 2011 to the second, national home prices decreased 0.6 percent while Colorado prices declined 0.3 percent.



Figure 16. Change in Colorado and National Single Family Home Price Indices, 2000Q1 to 2011Q2



Source: Federal Housing Finance Agency

Construction

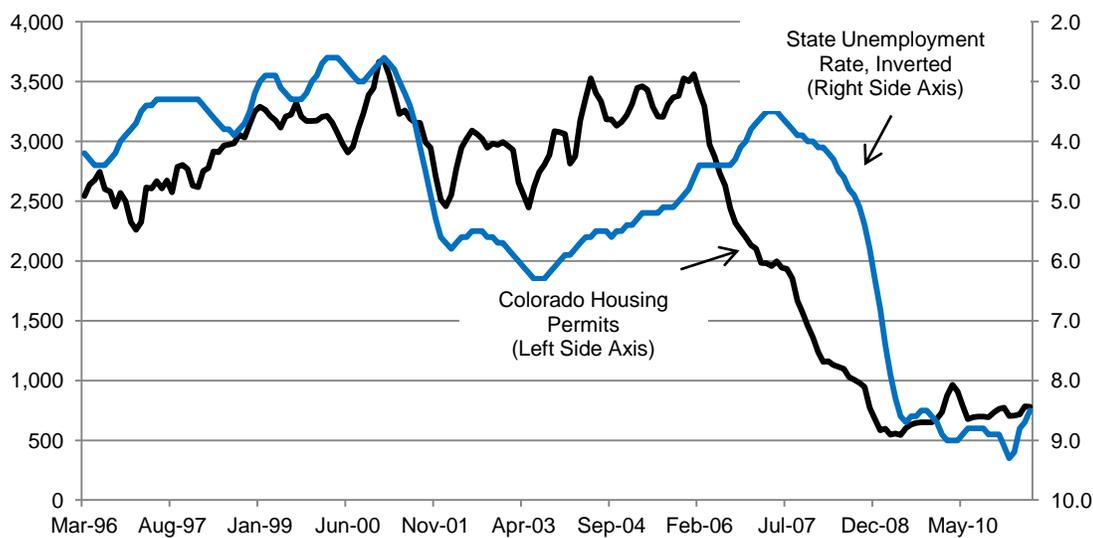
Construction activity remains subdued across the state due to an excess supply in residential and nonresidential markets. Activity in the multifamily sector has picked up, but remains below historical levels. According to housing permit data released by the Census Bureau, almost all of new multifamily permitting activity this year has occurred in just three Colorado counties – Denver, El Paso, and Larimer.

Figure 17 shows the historical importance of housing construction to the overall performance of the economy. Though there are many other important factors that affect unemployment, housing has traditionally been a key sector as there are many industries that benefit from housing construction, such as goods-producing industries, the financial industry, and retail. When housing construction leads to overall job creation, it causes increases in household formation, creating a positive cycle of even more jobs and housing demand.

Figure 17 shows how the sharp drop in housing construction after the boom coincided with the large increase in the unemployment rate. (The pattern did not hold as strongly during the early 2000s recession since it was mostly due to the bursting of the technology bubble and a decline in business investment.) Since housing construction has been flat over the past couple of years and is likely to remain sluggish, the economy and the job market will likely continue to follow the same trend.



Figure 17. Permits for Single-Family Home Construction in Colorado and the State Unemployment Rate, 1996 through June of 2011 (seasonally adjusted)



Source: U.S. Census Bureau and Bureau of Labor Statistics

Housing permits issued in Colorado are forecast to total 11,200 in 2011 and 11,800 in 2012. The value of Colorado nonresidential construction projects is forecast to increase 3.1 percent in 2011 and 1.9 percent in 2012.

Risks to the Economy and Summary

The economy’s rocky recovery and rebuilding process from the Great Recession has shown some precarious signs of stalling. Continued high debt levels, the slumped housing market, and financial market volatility are proving to be a difficult combination of conditions for the economy to contend with. Further, higher levels of uncertainty have caused both hiring and business investment to be weak. Because the weakening in the economy has been across several sectors and has been persistent over several months, there is a growing risk that the economy may contract, though some sectors of the economy, most notably the housing and labor markets, are already near recessionary levels.

However, economic conditions, at least in some sectors, are not as dour as some economic headlines suggest. Services-related industries, the largest producing sector of the economy, showed signs of growth in August and the production of physical goods continues to expand, though at lower growth rates. Exports also continue to increase. Further, business loans from commercial banks are continuing to increase, which may lead to increased growth in the future. Nevertheless, the European sovereign debt and banking problems are precarious and pose a risk to the already sluggish economy. If the situation deteriorates and creates increased stress in the financial system, there would likely be negative reverberations in the national and Colorado economies that could cause them to slip into recession.

Table 5
History And Forecast For Key Colorado Economic Variables
Calendar Year 2007 - 2014

Line No.		Actual				Forecast			
		2007	2008	2009	2010	2011	2012	2013	2014
Income									
1	Personal Income (Billions) /A	\$205.2	\$215.0	\$210.5	\$215.8	\$226.6	\$232.7	\$244.1	\$257.3
2	Change	5.6%	4.7%	-2.1%	2.5%	5.0%	2.7%	4.9%	5.4%
3	Wage and Salary Income (Billions)	\$113.0	\$117.2	\$112.8	\$114.4	\$118.4	\$120.9	\$125.4	\$131.7
4	Change	6.7%	3.7%	-3.7%	1.4%	3.5%	2.1%	3.7%	5.0%
5	Per-Capita Income (\$/person)	\$42,565.6	\$43,855.5	\$42,298.4	\$42,765.8	\$44,180.4	\$44,638.8	\$45,986.4	\$47,575.4
6	Change	4.1%	3.0%	-3.6%	1.1%	3.3%	10%	3.0%	3.5%
Population & Employment									
7	Population (Thousands)	4,821.8	4,901.9	4,976.9	5,046.6	5,129.3	5,213.7	5,308.9	5,407.3
8	Change	1.6%	1.7%	1.5%	1.4%	1.6%	1.6%	1.8%	1.9%
9	Net Migration (Thousands)	35.0	40.5	36.3	33.8	40.8	40.0	50.8	54.1
10	Unemployment Rate	3.7%	4.8%	8.3%	8.9%	8.8%	8.7%	8.1%	7.2%
11	Total Nonagricultural Employment (Thousands)	2,331.3	2,350.3	2,245.6	2,220.1	2,237.8	2,247.7	2,268.5	2,312.8
12	Change	2.3%	0.8%	-4.5%	-1.1%	0.8%	0.4%	0.9%	2.0%
Construction Variables									
13	Total Housing Permits Issued (Thousands)	30.4	19.0	9.4	11.8	11.2	11.8	14.9	16.9
14	Change	-20.7%	-37.5%	-50.8%	18470.0%	-5.4%	6.0%	26.1%	13.4%
15	Nonresidential Construction Value (Millions) /B	5,081.6	4,193.1	3,165.0	\$2,963.2	\$3,054.9	\$3,113.3	\$3,341.8	\$3,754.2
16	Change	16.8%	-17.5%	-24.5%	-6.4%	3.1%	1.9%	7.3%	12.3%
Prices & Sales Variables									
17	Retail Trade (Billions) /C	\$75.3	\$74.8	\$66.5	\$70.7	\$74.5	\$76.7	\$81.0	\$85.7
18	Change	6.9%	-0.7%	-11.1%	6.3%	5.3%	3.0%	5.6%	5.8%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	202.0	209.9	208.5	212.4	\$219.9	225.6	232.4	240.4
20	Change	2.2%	3.9%	-0.6%	1.9%	3.5%	2.6%	3.0%	3.4%

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

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

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

Table 6
History And Forecast For Key National Economic Variables
Calendar Year 2007 - 2014

Line No.		Actual				Forecast			
		2007	2008	2009	2010	2011	2012	2013	2014
Inflation- Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	\$ 13,206.4	\$ 13,161.9	\$ 12,703.1	\$ 13,088.0	\$ 13,249.1	\$ 13,500.9	\$ 13,838.4	\$ 14,239.7
2	Change	19%	-0.3%	-3.5%	3.0%	12%	19%	2.5%	2.9%
3	Personal Income (Billions) /B	\$ 11,912.3	\$ 12,460.2	\$ 11,930.2	\$ 12,373.5	\$ 12,968.3	\$ 13,279.6	\$ 13,943.6	\$ 14,668.6
4	Change	5.7%	4.6%	-4.3%	2.5%	4.8%	2.4%	5.0%	5.2%
5	Per-Capita Income (\$/person)	\$39,524	\$40,964	\$38,904	\$40,037	\$41,560	\$42,149	\$43,832	\$45,669
6	Change	4.9%	3.6%	-5.0%	1.6%	3.8%	14%	4.0%	4.2%
Population & Employment									
7	Population (Millions)	301.4	304.2	306.7	309.1	312.0	315.1	318.1	321.2
8	Change	1.0%	0.9%	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%
9	Unemployment Rate	4.6%	5.8%	9.3%	9.6%	9.4%	9.5%	8.8%	8.5%
10	Total Nonagricultural Employment (Millions)	137.6	136.8	130.8	129.8	130.8	131.2	132.5	134.3
11	Change	1.1%	-0.6%	-4.4%	-0.8%	0.7%	0.3%	1.0%	1.4%
Price Variables									
12	Consumer Price Index (1982-84=100)	207.3	215.3	214.5	218.1	225.5	231.5	238.0	245.9
13	Change	2.8%	3.8%	-0.4%	1.6%	3.4%	2.7%	2.8%	3.3%
14	Producer Price Index - All Commodities (1982=100)	172.6	189.6	172.9	184.7	202.9	210.2	222.1	235.6
15	Change	4.8%	9.8%	-8.8%	6.8%	9.8%	3.6%	5.6%	6.1%
Other Key Indicators									
18	Corporate Profits (Billions)	\$ 1,510.2	\$ 1,248.4	\$ 1,361.9	1,800.1	\$ 1,847.9	\$ 1,864.7	\$ 2,044.9	\$ 2,336.5
19	Change	-6.1%	-17.3%	9.1%	32.2%	2.7%	0.9%	9.7%	14.3%
20	Housing Permits (Millions)	1,398	0,905	0,583	0,605	0,607	0,612	0,714	0,826
21	Change	-24.0%	-35.3%	-35.6%	3.7%	0.5%	0.8%	16.6%	15.6%
22	Retail Trade (Billions)	4,451.7	4,409.5	4,091.7	4,355.4	\$ 4,619.6	\$ 4,748.9	\$ 4,982.0	\$ 5,231.6
23	Change	3.2%	-0.9%	-7.2%	6.4%	6.1%	2.8%	4.9%	5.0%

/A BEA revised NIPA component

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



Governor's Revenue Estimating Advisory Committee

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