Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

December 20, 2005

TO: Members of the General Assembly

FROM: The Economics Staff, (303) 866-3521

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2005-2011*

This memorandum presents the current budget outlook based on the December 2005 General Fund and cash fund revenue forecasts. Table 1 presents the General Fund overview based on current law. Table 1 has changed significantly since our September forecast due to the passage of Referendum C, which allows the state to retain all of the revenue collected for the next five years and a capped amount of revenue thereafter. We estimate that the state will retain $4.0 billion during the five-year period. The additional revenue will allow the state to avoid a $144.7 million budget shortfall this year and $632.3 million in cuts during FY 2006-07.

Executive Summary

Revenue Forecast

The revenue forecast increased by a total of $73.9 million for FY 2005-06. The increase was split evenly between the General Fund and cash funds. The forecast for cash funds remained fairly steady during the rest of the forecast period, while the forecast for General Fund revenue increased by a total of $301.6 million between FY 2005-06 and FY 2010-11.

- The forecast for **General Fund revenue** was impacted by two main factors. First, the forecast for individual income tax revenue was increased by $210.9 million over the forecast period because of the elimination of a child tax credit due to passage of Referendum C. Second, individual income taxes were increased further due to higher than anticipated estimated tax payments caused by the recent growth in equities.

- The forecast for **cash fund revenue** increased by $37.3 million for FY 2005-06 and by a total of $62.7 million over the forecast period. Unemployment insurance and severance tax revenue are driving the overall trend in cash funds.

Table 1
December 2005 General Fund Overview
(Dollars in Millions)

		Preliminary FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11
1	Beginning Reserve	$346.3	$333.0	$437.7	$266.8	$282.9	$299.7	$317.8
2	General Fund Nonexempt Revenue	6,146.4	5,960.3	6,242.8	6,663.1	7,008.0	7,351.3	8,000.6
3	General Fund Exempt Revenue	0.0	644.3	760.3	737.1	842.5	976.3	814.3
4	Senate Bill 97-1 Diversion to the HUTF	0.0	-126.8	-125.8	-108.7	-127.7	-148.5	-150.1
5	Paybacks to Other Funds	0.0	-67.1	0.0	0.0	0.0	0.0	0.0
6	Transfers from Other Funds	66.1	232.8	35.4	40.4	39.7	38.9	38.6
7	Diversion of Sales Taxes to Older Coloradans Fund	-1.5	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0
8	TABOR Surplus Liability (refunded in following year)	-43.0	0.0	0.0	0.0	0.0	0.0	0.0
9	Total Funds Available	$6,514.3	$6,974.5	$7,348.4	$7,596.7	$8,043.4	$8,515.8	$9,019.0
	APPROPRIATIONS AND OBLIGATIONS:							
10	Allowable General Fund Appropriations	$5,935.2	$6,292.7	$6,670.3	$7,070.5	$7,494.7	$7,944.4	$8,421.0
11	**Allowable App. At 6% Growth From 05-06 Budget***	**$5,935.2**	**$6,178.3**	**$6,549.0**	**$6,941.9**	**$7,358.5**	**$7,800.0**	**$8,268.0**
12	**Cumulative Difference (Available Above Budget)**	**$0.0**	**$114.4**	**$121.3**	**$128.5**	**$136.2**	**$144.4**	***$153.1***
13	Medicaid Overexpenditure	1.3	0.0	0.0	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	110.7	148.4	152.6	157.6	163.5	170.3	177.2
15	Reimbursement for Senior Property Tax Cut	0.0	0.0	64.6	65.3	65.9	64.1	64.7
16	Funds in Prior Year Excess Reserve to HUTF	81.5	63.8	124.0	0.0	0.0	0.0	0.0
17	Funds in Prior Year Excess Reserve to Capital Construction	40.8	31.9	62.0	0.0	0.0	0.0	0.0
18	Capital Construction Transfer	0.0	0.1	8.1	20.5	19.5	19.3	19.3
19	Transfer to the Controlled Maintenance Trust Fund	55.0	0.0	0.0	0.0	0.0	0.0	0.0
20	Accounting Adjustments	-43.3	NE	NE	NE	NE	NE	NE
21	Total Obligations	$6,181.2	$6,536.8	$7,081.5	$7,313.9	$7,743.6	$8,198.0	$8,682.2
22	**YEAR-END GENERAL FUND RESERVE:**	**$333.0**	**$437.7**	**$266.8**	**$282.8**	**$299.8**	**$317.8**	**$336.8**
23	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**237.4**	**251.7**	**266.8**	**282.8**	**299.8**	**317.8**	**336.8**
24	**GENERAL FUND EXCESS RESERVE**	**$95.6**	**186.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	TABOR RESERVE REQUIREMENT:							
25	General & Cash Fund Emergency Reserve Requirement	$249.3	$240.0	$247.9	$259.0	$271.5	$284.8	$299.6
26	Appropriations Growth	$337.1	$356.2	$377.6	$400.2	$424.2	$449.7	$476.7
27	Appropriations Growth Rate	6.02%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
28	Addendum: Amount Directed to State Education Fund	$313.9	$331.8	$354.9	$376.5	$402.0	$429.5	$456.3

Totals may not sum due to rounding.
* Used the budgeted amount for FY 2005-06 rather than 6% growth.

Impact on the General Fund. The changes described above will cause the state to:

- Increase its budget to the **6 percent** spending limit this year, a difference of $114.4 million and maintain a 6 percent appropriations budget for the remainder of the forecast period.

- Have revenue available above the 6 percent spending limit to fund an additional $911.6 million to **highways** during the forecast period through the SB 97-1 mechanism and the excess reserve split. Highways receive two-thirds of the money in the excess General Fund reserve.

- Provide $62.0 million for additional **capital construction** through the excess reserve split. Capital construction receives one-third of the money in the excess General Fund reserve.

Economic Forecast

National Economic Forecast

- Inflation-adjusted gross domestic product (**GDP**) is expected to increase 3.6 percent in 2005. GDP increases will moderate in 2006 and 2007 to 3.4 percent and 2.9 percent, respectively. Weaker consumer spending and a housing slowdown over the next two years will cause the weaker growth.

- **Employment** growth in 2005 will be the strongest in five years. Jobs will increase 1.6 percent this year and 1.8 percent in 2006. Weakness in construction and related financial services employment from the housing slowdown will reduce the growth rate to 1.2 percent in 2007.

- The second-half surge in energy prices will push the national consumer **inflation** rate to 3.4 percent in 2005. Inflation will be at its highest level since 2000, when the rate was also 3.4 percent. We estimate that inflation will average 2.8 percent in 2006 and 2.7 percent in 2007.

- Increased inflation is the primary **risk** to the national and Colorado economic forecasts. If inflation is higher than expected, the Federal Reserve Board may increase interest rates even further. This would exacerbate the housing slowdown. If higher energy prices are the cause of greater inflation, business and consumer confidence would slow.

Colorado Economic Forecast

- The economic recovery with respect to employment is nearly complete. We expect that jobs in Colorado will reach its previous peak of 2.25 million jobs in early 2006. **Employment** will increase 2.1 percent in 2005, 2.5 percent in 2006, and 2.4 percent in 2007.

- **Personal income** will increase 6.3 percent in 2005, followed by increases of 6.8 percent and 6.6 percent in the next two years.

- **Consumer spending** will increase 5.9 percent in 2005 and 6.0 percent in 2006. Spending will not quite match income gains during these years. Consumers are faced with higher energy costs and rising interest rates that can hinder consumer confidence. They also have high debt levels.

- The **inflation rate** in the Denver-Boulder-Greeley metro area will reach 1.9 percent in 2005, following the historic low rate of 0.1 percent in 2004. As the economic recovery gathers more momentum in 2006 and housing rental rates increase, inflation will increase to 2.8 percent.

Assessed Values

Statewide **assessed values** will increase 5.3 percent in 2006, a non-reassessment year. Nearly two-thirds of the increase will be in oil and gas values, as high prices have led to substantial expansion. The **residential assessment rate** is expected to remain at 7.96 percent through 2008, before falling to 7.49 percent. Concerns regarding oversupply and higher mortgage rates will result is low home price appreciation during the next few years.

Kindergarten to Twelfth Grade Enrollment

Kindergarten through twelfth grade public **school enrollment** is expected to increase 1.2 percent in the state, or by 8,770 full-time-equivalent students between the 2005-06 and the 2006-07 school years. Over the next five years, enrollment is projected to increase at an average annual rate of 1.3 percent.

Adult Incarcerated Offender Population

The **adult prison population** is expected to increase 5.9 percent in the upcoming year, and at an average annual rate of 6.0 percent over the next five years. The **adult parole population** supervised in-state is expected to increase 8.2 percent in the next year, and at an average annual rate of 6.1 percent for the next five years.

Youth Incarcerated Offender Population

The **juvenile commitment population** will increase at an average annual rate of 2.4 percent through the forecast period, compared with an average annual growth rate of 3.7 percent over the last five years. The **juvenile parole population** will increase at an average annual rate of 7.4 percent. This follows four straight years of declines that resulted from legislative reductions in the mandatory parole period.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 2 illustrates revenue projections by category for FY 2004-05 through FY 2010-11. While the Colorado economy has shown significant growth in jobs and retail activity, the recent acceleration of energy prices will mute growth somewhat. Although employment levels remain below the peak from December of 2000, the state has added back 90,400 jobs since the middle of 2003, which was the bottom of the employment cycle. Significant job growth will continue over the next couple of years and move into the higher wage sectors of the economy, providing a positive boost for consumer markets as well. However, consumers will be hampered by higher energy prices accounting for a larger share of their disposable income, and they may face higher prices in other areas as energy prices work through the production system and building materials are squeezed by reconstruction efforts in the south.

The forecast for **General Fund revenue** increased by $36.6 million this year. Approximately $15 million of that increase was due to the passage of Referendum C and the resulting elimination of a child care tax credit. As can be seen in the following paragraphs, the remainder of the increase was caused primarily by gains in estimated income tax payments most likely resulting from recent stock market gains.

Strong growth in **sales taxes** in the beginning of the fiscal year have waned, due in part to high gas prices restricting disposable income. This was expected and discussed in our September forecast. As a result, the sales tax forecast for FY 2005-06 was unchanged. Thus far, reports on the holiday shopping season have been mixed. We still anticipate a 3.7 percent increase in sales tax receipts during FY 2005-06, followed by a 5.1 percent gain in FY 2006-07. The growth rate for FY 2005-06 was reduced by the return of the vendor's discount to its full amount following two years of a reduced rate. Without this change, sales taxes would have increased 4.9 percent this year. The forecast for **use taxes** was also unchanged from September. We expect use taxes to increase 5.8 percent in the current year and 0.9 percent during FY 2006-07. The strong growth during the current year is due to what we expect is the final run up of home construction.

After increasing at a healthy rate of 7.6 percent in FY 2004-05, ***individual income taxes*** will increase 11.1 percent in FY 2005-06. While we expect job gains to continue and the stock market to contribute more to gains this year, we will see a slight moderation in growth beginning next year. Income taxes will increase 7.3 percent in FY 2006-07, and at rates ranging between 6.4 percent and 7.0 percent through the remainder of the forecast period. The forecast was increased $46.0 million in FY 2005-06 and an average of about $95.0 million each year thereafter, relative to the September forecast. The increase was a result of a combination of increased expectations for estimated payments and the loss of a portion of the child care tax credit as a result of the passage of Referendum C.

The Department of Revenue has issued a new table for employers to use when determining how much individual income taxes to withhold from their employees' paychecks beginning on January 1, 2006. The change was made to adjust for larger federal personal exemption and standard deduction amounts. The Department of Revenue estimates that the change will result in a reduction in individual income tax withholding of $107.0 million for tax year 2006. The change will not have a significant impact on total individual income taxes, however, as the reduction in withholding will cause fewer refunds to be made and additional cash to be collected as taxpayers file their returns in 2007.

The forecast for **corporate income** tax collections was revised down from September as result of continuing energy price increases, which are expected to have a negative impact on corporate profits. For FY 2005-06, corporate income taxes are now projected at $327.8 million, rather than $331.0 million, as reported in the September forecast. Compared to FY 2004-05, corporate income taxes are expected to grow 4.1 percent. The forecast for subsequent fiscal years was also revised downward in response to higher oil and gas prices. Corporate income tax collections are projected to slow down in the future as labor costs accelerate, productivity gains moderate, and as other input prices increase. Furthermore, competitive pressures domestically and internationally will prevent companies from passing on cost increases to consumers in the form of higher prices. In FY 2006-07 and FY 2007-08, corporate income taxes are expected to increase 3.4 percent and 2.3 percent, respectively.

The ***State Education Fund (SEF)*** receives one-third of one percent of taxable income from state income tax returns. This fund will see a growth pattern of revenue similar to income taxes. After receiving $313.9 million in FY 2004-05, it will receive $331.8 million this year and $354.9 million next year.

Table 2
December 2005 General Fund Revenue Estimates
(Dollars in Millions)

Category	Preliminary FY 2004-05	Percent Change	Estimate FY 2005-06	Percent Change	Estimate FY 2006-07	Percent Change	Estimate FY 2007-08	Percent Change	Estimate FY 2008-09	Percent Change	Estimate FY 2009-10	Percent Change	Estimate FY 2010-11	Percent Change
Sales	$1,854.6	4.7	$1,923.7	3.7	$2,022.7	5.1	$2,125.5	5.1	$2,229.3	4.9	$2,334.4	4.7	$2,448.8	4.9
Use	152.9	11.3	161.7	5.8	163.2	0.9	169.6	3.9	177.7	4.8	184.6	3.9	191.8	3.9
Cigarette	51.4	-4.4	48.0	-6.6	46.6	-3.0	45.6	-2.0	44.7	-2.0	43.3	-3.1	42.5	-2.0
Tobacco Products	14.2	22.0	8.6	-39.3	11.8	37.1	12.3	4.6	12.9	4.8	13.5	4.7	14.3	5.5
Liquor	31.2	1.4	32.1	3.1	32.9	2.4	33.6	2.1	34.3	2.0	34.9	1.8	35.6	2.0
TOTAL EXCISE	$2,104.3	5.0	$2,174.2	3.3	$2,277.1	4.7	$2,386.6	4.8	$2,498.8	4.7	$2,610.8	4.5	$2,733.0	4.7
Net Individual Income	$3,711.8	7.6	$4,123.0	11.1	$4,425.0	7.3	$4,708.7	6.4	$5,034.5	6.9	$5,389.1	7.0	$5,747.5	6.7
Net Corporate Income	315.0	33.9	327.8	4.1	339.0	3.4	346.9	2.3	366.8	5.7	386.0	5.2	399.9	3.6
TOTAL INCOME TAXES	$4,026.8	9.3	$4,450.8	10.5	$4,764.1	7.0	$5,055.6	6.1	$5,401.3	6.8	$5,775.1	6.9	$6,147.4	6.4
Less: Portion diverted to the State Education Fund	-313.9	12.6	-331.8	5.7	-354.9	7.0	-376.5	6.1	-402.0	6.8	-429.5	6.8	-456.3	6.2
INCOME TAXES TO GENERAL FUND	$3,712.9	9.0	$4,119.0	10.9	$4,409.1	7.0	$4,679.1	6.1	$4,999.3	6.8	$5,345.6	6.9	$5,691.1	6.5
Estate	26.0	-44.9	3.6	-86.0	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Insurance	189.2	7.6	191.2	1.0	201.9	5.6	213.7	5.8	226.0	5.8	239.1	5.8	252.8	5.7
Pari-Mutuel	3.8	-12.7	3.3	-14.1	3.1	-5.0	3.0	-5.0	2.8	-5.0	2.7	-5.0	2.5	-5.0
Investment Income	13.4	-31.3	23.3	73.3	17.4	-25.2	19.1	9.8	20.3	6.3	21.6	6.5	22.6	4.3
Court Receipts	26.3	0.1	27.4	4.4	28.6	4.2	29.7	4.1	30.9	4.0	32.2	3.9	33.5	4.1
Gaming	40.2	0.1	42.1	4.7	44.7	6.2	47.3	5.7	50.0	5.8	52.7	5.4	55.8	5.8
Other Income	30.2	-27.3	20.5	-32.3	21.1	3.0	21.7	3.0	22.3	2.9	23.0	2.8	23.6	2.9
TOTAL OTHER	$329.2	-7.3	$311.4	-5.4	$316.8	1.7	$334.5	5.6	$352.4	5.4	$371.2	5.3	$390.8	5.3
GROSS GENERAL FUND	**$6,146.4**	**6.6**	**$6,604.6**	**7.5**	**$7,003.1**	**6.0**	**$7,400.1**	**5.7**	**$7,850.6**	**6.1**	**$8,327.6**	**6.1**	**$8,814.9**	**5.9**
REBATES & EXPENDITURES:														
Cigarette Rebate	$14.4	-3.2	$14.0	-2.6	$13.6	-3.0	$13.4	-2.0	$13.1	-2.0	$12.7	-3.1	$12.4	-2.0
Old-Age Pension Fund	86.7	10.3	91.5	5.6	95.9	4.8	101.3	5.6	107.5	6.2	114.6	6.6	122.3	6.6
Aged Property Tax & Heating Credit	5.8	-62.8	13.8	135.9	13.9	1.3	13.8	-0.7	13.8	-0.3	13.8	0.2	13.4	-3.0
Fire/Police Pensions	3.8	3.9	29.1	665.6	29.1	0.0	29.1	0.0	29.1	0.0	29.1	0.0	29.1	0.0
TOTAL REBATES & EXPENDITURES	$110.7	-1.8	$148.4	34.0	$152.6	2.8	$157.6	3.3	$163.5	3.8	$170.3	4.1	$177.2	4.1

Totals may not sum due to rounding.

Cash Fund Revenue

Table 3 summarizes the forecast for revenue to cash funds subject to the TABOR spending limit. Total revenue will increase 6.7 percent in FY 2005-06 after a 7.4 percent increase in FY 2004-05. Growth will slow during the rest of the forecast period, however, leading to an annual average increase of 0.7 percent over the entire period. Unemployment insurance and severance tax revenue are driving the overall trend in cash funds.

The revenue figures shown in Table 3 exclude revenue to the state's public higher education institutions and the Petroleum Storage Tank Fund to show the growth rate in cash fund revenue that affects the amount of money retained under Referendum C. The University of Colorado system became an enterprise under TABOR in FY 2004-05, while the remainder of the state's public higher education institutions became enterprises this year. Senate Bill 05-39 granted enterprise status to the Petroleum Storage Tank Fund beginning in FY 2005-06.

The forecast for cash fund revenue subject to TABOR was increased by $37.3 million in FY 2005-06 relative to the September forecast and a total of $62.7 million between FY 2005-06 and FY 2010-11. As a result of Referendum C, changes in the forecast for cash fund revenue between FY 2005-06 and FY 2009-10 will no longer affect the amount of money available for spending in the General Fund, but will instead change the amount of General Fund *exempt* revenue relative to the amount of General Fund *nonexempt* revenue.

Since the passage of TABOR in 1992, the amount of money available for spending in the General Fund had previously been reduced by a dollar for every additional dollar collected by a cash fund during any year in which the state had a TABOR surplus. This is true because the TABOR surplus is refunded out of the General Fund, regardless of which fund actually collected the money that caused the surplus. Partially as a result of this, the General Assembly took steps to reduce the growth rate of cash fund revenue and thus reduce the size of the TABOR surplus during the years following the passage of TABOR. As a result of Referendum C, fee increases will no longer have this effect on the amount of money available for spending in the General Fund for the next five years.

This forecast does not assume increases in any fees other than those set forth explicitly in the statutes. Fee increases will continue to be limited by political and market-based forces. However, because many fees have not been increased in a decade or longer, are administratively set, and no longer reduce the amount of money available for spending in the General Fund, it may now be more likely than in previous forecasts that cash funds will grow at faster rates than projected here.

Revenue to the ***transportation-related*** cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and other transportation-related funds, will increase 0.3 percent in FY 2005-06 and at an annual rate of 1.2 percent over the forecast period. Revenue to the *Highway Users Tax Fund* (HUTF) will decrease 2.3 percent in FY 2005-06. This decrease is entirely the result of a 5.6 percent decrease in motor fuel taxes, as high gasoline prices have driven consumers to alternative means of transportation, more fuel-efficient vehicles, and driving less frequently. Also, automakers continue to unveil and build more hybrid vehicles to respond to growing consumer demand. This trend will help temper motor fuel tax revenue growth in the future even as the state adds population and employment. HUTF revenues will increase at an average annual rate of 1.1 percent over the forecast period.

Table 3
Cash Fund Revenue Estimates by Category, December 2005 /A
(Dollars in Millions)

	Preliminary FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 9-10	Estimate FY 10-11	FY 04-05 to FY 10-11 CAAGR *
Transportation-Related /B	**$844.1**	**$846.8**	**$857.6**	**$864.6**	**$878.6**	**$892.4**	**$904.9**	
% Change	0.0%	0.3%	1.3%	0.8%	1.6%	1.6%	1.4%	**1.2%**
Unemployment Insurance /C	**$465.6**	**$448.8**	**$409.5**	**$410.6**	**$456.0**	**$503.3**	**$321.4**	
% Change	36.1%	-3.6%	-8.8%	0.3%	11.1%	10.4%	-36.1%	**-6.0%**
Employment Support Fund	**$21.5**	**$22.9**	**$24.0**	**$24.9**	**$26.0**	**$27.0**	**$28.2**	
% Change	7.0%	6.4%	4.7%	4.0%	4.2%	4.0%	4.3%	**4.6%**
Severance Tax /D	**$152.0**	**$242.2**	**$230.0**	**$148.3**	**$130.0**	**$127.4**	**$123.5**	
% Change	21.5%	59.4%	-5.1%	-35.5%	-12.3%	-2.1%	-3.0%	**-3.4%**
Limited Gaming Fund	**$103.1**	**$109.4**	**$116.1**	**$122.7**	**$129.8**	**$136.8**	**$144.8**	
% Change	0.4%	6.0%	6.2%	5.7%	5.8%	5.4%	5.8%	**5.8%**
Insurance-Related	**$53.2**	**$62.1**	**$67.1**	**$72.2**	**$77.7**	**$82.9**	**$89.0**	
% Change	1.1%	16.6%	8.1%	7.5%	7.7%	6.7%	7.3%	**8.9%**
Regulatory Agencies	**$51.4**	**$51.6**	**$53.0**	**$54.2**	**$55.7**	**$56.8**	**$58.5**	
% Change	2.3%	0.4%	2.7%	2.3%	2.8%	2.1%	2.9%	**2.2%**
Capital Construction - Interest	**$2.3**	**$4.1**	**$4.8**	**$3.3**	**$1.8**	**$1.1**	**$0.6**	
% Change	37.5%	73.7%	19.3%	-32.3%	-43.6%	-42.9%	-42.9%	**-20.2%**
Controlled Maintenance Trust Fund - Interest	**$0.0**	**$6.7**	**$0.2**	**$0.2**	**$0.2**	**$0.2**	**$0.2**	
Other Cash Funds	**$272.2**	**$302.5**	**$316.3**	**$331.8**	**$349.1**	**$365.8**	**$384.1**	
% Change	-7.7%	11.1%	4.6%	4.9%	5.2%	4.8%	5.0%	**5.9%**
Total Cash Fund Revenues Subject to the TABOR Limit	**$1,965.6**	**$2,097.0**	**$2,078.6**	**$2,032.7**	**$2,104.9**	**$2,193.7**	**$2,055.1**	
	7.4%	**6.7%**	**-0.9%**	**-2.2%**	**3.6%**	**4.2%**	**-6.3%**	**0.7%**

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.

/A Excludes revenue from the Petroleum Storage Tank Fund and revenue from all higher education institutions, which are enterprises for the purposes of TABOR beginning in FY 2005-06.

/B Includes the Highway Users Tax Fund, the State Highway Fund, and other transportation-related funds.

/C Includes the solvency tax in effect during calendar years 2004 through 2010.

/D Includes total severance tax revenue and interest earnings before distribution to the Local Government Severance Tax Fund.

State Highway Fund (SHF) revenue, which includes interest earnings on the fund balance and matching funds from local governments, will increase 39.7 percent this year and decrease 3.8 percent next year. Interest earnings will increase substantially during FY 2005-06 as a result of larger Senate Bill 97-1 diversions and House Bill 02-1310 transfers from the excess General Fund reserve. Decreases in future years are due to lower expectations for local government matching funds for transportation projects receiving state highways funds. Meanwhile, revenue to *other transportation funds*, which primarily includes fees paid in connection with motor vehicle registrations, is expected to increase 6.3 percent in FY 2005-06.

Table 4 shows the forecast for ***unemployment insurance*** (UI) revenue, benefit payments, and the UI Trust Fund balance. Total UI revenue, which includes UI taxes and interest earnings, will *decrease* 3.6 percent in FY 2005-06 after increasing 36.1 percent in FY 2004-05 and 58.5 percent in FY 2003-04. UI tax rates increased in 2004 and 2005 as a result of the substantial draw-down of the fund's reserves during the recession. While a low fund balance will cause a higher tax rate schedule to be in effect from 2004 through 2007 than had been in effect in previous years, tax rates will decrease gradually each year between 2006 and 2008 as the fund balance rebuilds. In addition, the solvency tax, which is levied when the fund balance falls below 0.9 percent of total private insured wages, will be in effect from 2004 through 2010. The solvency tax will generate a total of $1.15 billion over this period.

After increases of 78.0 percent in FY 2003-04 and 38.9 percent in FY 2004-05, total UI taxes will *decrease* 6.1 percent in FY 2005-06 and continue to decline through FY 2007-08 as the fund balance recovers. UI taxes will then increase in FY 2008-09 and FY 2009-10 before decreasing in FY 2010-11 as the solvency tax takes a year off in 2011. Meanwhile, benefits decreased to $333 million in FY 2004-05 after three years at around $500 million. Benefits will continue to decrease this year and remain at levels consistent with a moderate economic expansion thereafter.

The size of Colorado's population and economy is approaching the point where the solvency tax will have to be levied during most years. While the solvency tax will not be levied in 2011, it will be levied again in 2012. The UI tax base has remained constant at the first $10,000 of taxable wages earned by each employed person since 1988. In addition, the size of the fund balance that triggers the lowest of twelve tax rate schedules has remained constant at $450 million since July 1, 1991, when the tax rates for CY 1992 were determined. This year, a fund balance of $450 million represents 0.62 percent of taxable wages, down from 1.48 percent in 1992. By the end of the forecast period, this ratio will fall to 0.46 percent. Meanwhile, taxable wages as a percent of total wages have decreased from 44.7 percent in 1988 to 28.3 percent in 2004. This percentage will continue to decrease as long as average wages increase. Meanwhile, the average benefit payment increases each year with average wages. TABOR would prohibit the $10,000 wage threshold and/or the fund balance trigger to be increased without voter approval.

Severance tax collections, are projected to increase 59.4 percent in FY 2005-06, reaching $242.2 million. The sharp increase in severance taxes is expected because of the recent significant increase in oil and natural gas prices. Severance taxes are projected to fall slightly in the following year as energy prices stabilize. They will fall more rapidly in FY 2007-08 due to declining energy prices and the claiming of additional property tax credits that are based on the prior year's production value. Collections are estimated at $230.0 million in

Table 4
Unemployment Insurance Trust Fund Forecast, December 2005
Revenues, Benefits Paid, The UI Fund Balance, and Solvency
(Dollars in Millions)

	Preliminary FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	Estimate FY 10-11	FY 2004-05 to FY 2010-11 CAAGR *
Beginning Balance	$133.9	$221.0	$368.8	$491.3	$599.4	$737.3	$906.6	37.5%
Plus Income Received								
Regular Taxes /A	$351.3	$316.0	$236.0	$185.1	$179.6	$189.5	$201.5	-8.8%
Solvency Taxes /B	$107.8	$114.9	$143.5	$187.7	$230.3	$256.7	$63.8	
Interest	$6.5	$17.8	$30.0	$37.7	$46.1	$57.1	$56.1	43.1%
Total Revenues	**$465.6**	**$448.8**	**$409.5**	**$410.6**	**$456.0**	**$503.3**	**$321.4**	-6.0%
% Change	36.1%	-3.6%	-8.8%	0.3%	11.1%	10.4%	-36.1%	
Less Benefits Paid	($333.2)	($278.1)	($263.0)	($277.5)	($292.2)	($307.0)	($328.9)	-0.2%
% Change	-27.7%	-16.6%	-5.4%	5.5%	5.3%	5.1%	7.1%	
Federal Reed Act Transfer	($3.9)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	($41.4)	($22.9)	($24.0)	($24.9)	($26.0)	($27.0)	($28.2)	NA
Ending Balance	**$221.0**	**$368.8**	**$491.3**	**$599.4**	**$737.3**	**$906.6**	**$870.9**	25.7%
Solvency Ratio:								
Fund Balance as a Percent of Total Annual Private Wages	0.32%	0.51%	0.63%	0.73%	0.85%	0.98%	0.89%	18.7%

Totals may not sum due to rounding.

NA = Not Applicable

* CAAGR: Compound Average Annual Growth Rate.

/A This includes regular UI taxes, 50% of the UI surcharge, penalty receipts, and the accrual adjustment on taxes.

/B The amount of UI taxes collected via the solvency tax in FY 2004-05 is an estimate. The total amount of taxes is known; the portion of taxes collected as a result of the solvency taxes is estimated. The solvency tax will be collected through calendar year 2010.

FY 2006-07, $148.3 million in FY 2007-08, and $130.0 million in FY 2008-09. After increasing from an average annual rate of $5.95 per Mcf (thousand cubic feet) in 2004 to $8.90 per Mcf in 2005, natural gas prices will rise to an average annual rate of $10.28 per Mcf in 2006 and drop to $7.21 per Mcf by 2009.

Total ***gaming*** revenue, which includes taxes, fees, and interest earnings, will increase 6.0 percent in FY 2005-06 and at an average annual rate of 5.8 percent through FY 2010-11. Gaming taxes will increase 5.6 percent in FY 2005-06 after increasing 0.5 percent in FY 2004-05. The relatively low growth in FY 2004-05 was partially due to a shift in gaming proceeds from Blackhawk to Central City given the opening of the new Central City Parkway in December 2004. Since casinos tend to be smaller in Central City than in Blackhawk, a movement of business from Blackhawk to Central City results in a lower overall effective tax rate due to the graduated tax rate structure of the gaming tax. Casinos with adjusted gross proceeds over $15 million per year have a marginal tax rate of 20 percent. In contrast, casinos with adjusted gross proceeds of less than $5 million have a marginal tax rate ranging from 0.25 percent to 4.0 percent.

All ***other cash fund revenue*** will increase 12.3 percent in FY 2005-06 and at an annual rate of 5.8 percent over the forecast period. The Controlled Maintenance Trust Fund will earn $6.7 million in interest this year as a result of Senate Bill 05-210, which temporarily transferred $185.6 million from the General Fund to the Controlled Maintenance Trust Fund on June 30, 2005. The money is scheduled to be transferred back to the General Fund on June 1, 2006.

The Constitutional Revenue Limit and Referendum C

Article X, Section 20 of the state Constitution (**TABOR**) requires that any revenue collected above the TABOR limit be refunded to taxpayers within one year after the fiscal year in which the revenue is collected unless voters allow the state to retain the revenue. TABOR limits the aggregate annual increase in about 60 percent of state revenue to inflation plus the annual percentage change in state population. The limit is applied to either the prior year's limit or to actual TABOR revenue collected in the prior year, whichever is less.

The state first collected TABOR revenue over the limit in FY 1996-97 and continued to do so for the next four years. Table 5 shows the actual and estimated TABOR surpluses from FY 1996-97 through FY 2010-11. The state experienced a recession in FY 2001-02 and revenue fell $365.7 million below the allowable amount that year. Continuing tough economic times, including stock market declines and significant job losses throughout the economy, caused state revenue to fall $621.8 million below the limit in FY 2002-03. Because the TABOR limit grows from the lower of either the previous year's limit or actual revenue collected in the prior year, the limit "ratchets down" in years that the state does not collect revenue up to the allowable limit. The state's limit was reduced by over $1 billion from where it would have been had it grown each year by inflation plus population growth. Because the base for the TABOR limit has ratcheted down, growth has again exceeded the limit as the state has experienced an economic recovery.

Table 5
History and Projections of TABOR Surpluses
(Dollars in Millions)

Actual	
1996-97	$139.0
1997-98	$563.2
1998-99	$679.6
1999-00	$941.1
2000-01	$927.2
2001-02	$0.0
2002-03	$0.0
2003-04	$0.0
2004-05	$170.8
Projections (State May Retain)	
2005-06	$644.3
2006-07	$760.3
2007-08	$737.1
2008-09	$842.5
2009-10	$976.3
2010-11	$814.3

The state collected $170.8 million over its limit during FY 2004-05. The state has already refunded $127.8 million of the surplus due to over-refunds in prior years and will refund the remaining $43 million through a sales tax refund paid to each taxpayer on their income tax return in the amount of $15 per taxpayer.

Referendum C, passed by the voters in November 2005, allows the state to retain all of the revenue collected above the TABOR limit for the next five years and sets a level of revenue that the state may retain beyond that point. That level increases at the TABOR mandated rate of inflation plus population growth each year thereafter. Therefore, the state will be able to retain all of the revenue projected above the TABOR limit in Table 6.

Table 6 displays our current estimates of TABOR revenue, the TABOR limit, the TABOR surplus, and the amount the state can retain. It should be noted that the current forecast does not anticipate a recession during the forecast period. The economy experiences a recession every five years on average. At the end of this forecast period, the economy would be more than nine years into an upswing. During the 1990s, the state experienced a 10-year cycle without a downturn. If the state were to undergo a downturn during this forecast period, the amount retained would be reduced significantly. Likewise, if the state increases revenue, either through fee changes or economic growth that exceeds the forecast, the amount retained would increase.

Table 6
December 2005 Forecast for the TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

	Preliminary FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11
TABOR Revenues:							
General Fund /A	$6,104.1	$6,548.5	$6,944.4	$7,338.9	$7,786.6	$8,274.9	$8,745.1
Cash Funds	2,376.3	2,097.0	2,078.6	2,032.7	2,104.9	2,193.7	2,055.1
Total TABOR Revenues	$8,480.3	$8,645.5	$9,022.9	$9,317.6	$9,891.5	$10,468.6	$10,800.2
Revenue Limit							
Allowable TABOR Growth Rate	4.6%	1.3%	3.3%	4.5%	4.8%	4.9%	5.2%
Allowable TABOR Limit /B	$8,309.5	$8,001.3	$8,262.7	$8,634.5	$9,048.9	$9,492.3	$9,985.9
Cap on Retained Revenue	NA	NA	NA	NA	NA	NA	$1,027.1
Total Allowable Revenue/C	NA	NA	NA	NA	NA	NA	$11,013.0
Retained/Refunded Revenue							
Retained Revenue	$0.0	$644.3	$760.3	$737.1	$842.5	$976.3	$814.3
Total Available Revenue/C	**$8,437.3**	**$8,645.5**	**$9,022.9**	**$9,371.6**	**$9,891.5**	**$10,468.6**	**$10,800.2**
Revenue To Be Refunded To Taxpayers	$43.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0

Totals may not sum due to rounding.

Note: TABOR broadly defines spending such that expenditures are equal to revenues. The statutory 6 percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable.

/A These figures differ from the General Fund revenues reported in other tables because they net out revenues that are already in the Cash Funds to avoid double counting.

/B The TABOR Limit was adjusted for new TABOR enterprises in FY 2004-05 and FY 2005-06.

/C Total available revenue is greater than total allowable revenue in FY 2004-05 because the state overrefunded previous years' surpluses by $127.8 million.

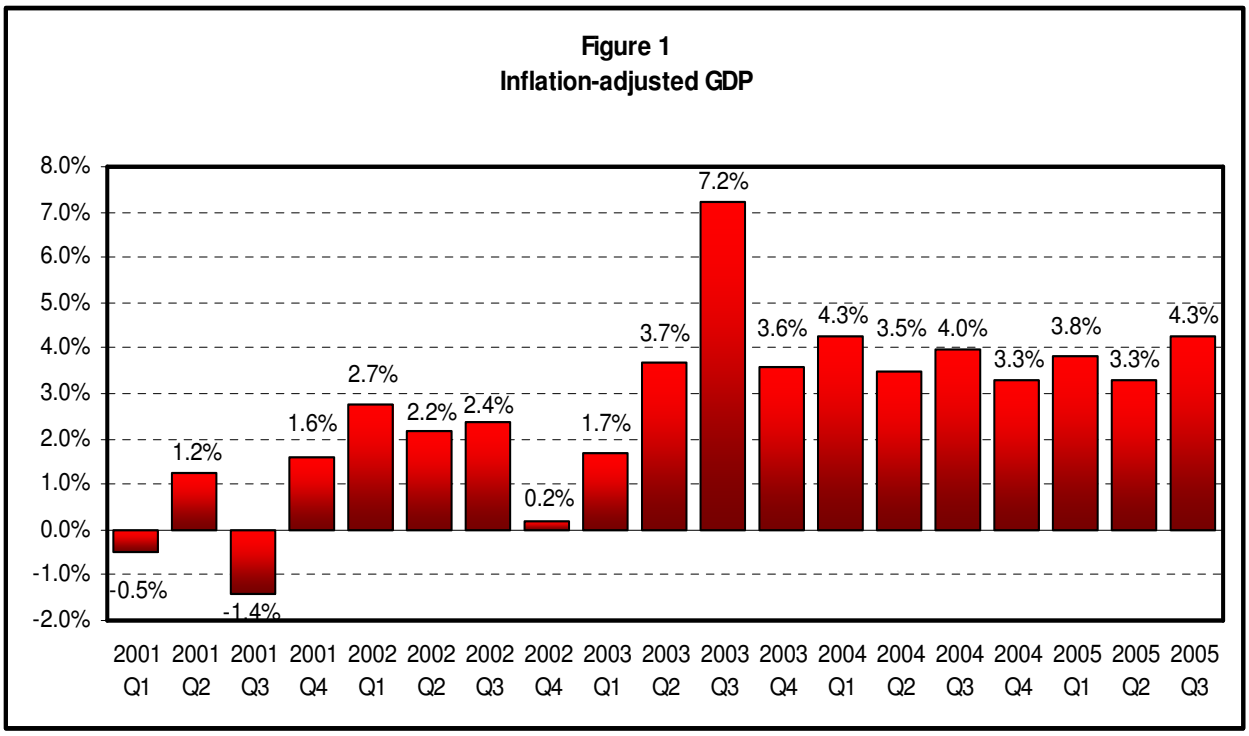
National Economy

This section reviews the recent performance of the U.S. economy and describes the national economic forecast. A discussion of the major risks to the national economic forecast follows.

Recent data. Inflation-adjusted *gross domestic product* (*GDP*) increased 4.3 percent in the third quarter. The growth rate was the strongest since the first quarter of 2004 and a marked increase from the first estimate of 3.8 percent for the third quarter. Most components advanced above the first estimate, including consumer spending, residential housing investment, and business investment. An increase in the estimate for imports subtracted from growth. The economy has been on a solid growth path for the past two-and-a-half years. Figure 1 shows the annualized growth in GDP since 2001.

The *employment* situation rebounded in November, following two months of hurricane and energy price influences on employment. The economy gained 215,000 jobs in November, following gains of 44,000 and 17,000 in the previous two months. November's increase was slightly above the average jobs gain of 196,000 in the first eight months of the year. The above-trend gain in November suggests that the economy has been able to withstand the large jump in energy prices in the previous two months. Receding energy prices in November likely restored business confidence and the economy will continue to move ahead. Job gains were broad-based with notable gains in construction, professional and technical services, health care, and the leisure and hospitality sectors. Manufacturing employment increased for the second consecutive month. The wood-products subsector gained jobs, a likely outcome of the beginning efforts to rebuild along the Gulf Coast after Hurricane Katrina struck the area in late August. Meanwhile, the *unemployment rate* remained steady at 5.0 percent in November.

Figure 1
Inflation-adjusted GDP



Inflation eased over the past two months, with energy price declines leading the way. The consumer price index rose 0.2 percent in October, following a 1.2 percent increase in September. The index then fell 0.6 percent in November. The spikes in energy prices in late summer have not shown up in the core price index. The latter price index has remained stable. The 12-month moving average for the core index is 2.1 percent through November, while the overall consumer price index has risen 3.4 percent over the past year.

With the easing of energy prices and the large increase in jobs in November, consumer confidence recovered most of its post-Katrina drop. According to the Conference Board, the index of *consumer confidence* rose 13.7 points in November. The two-month drop in the index had been 20.3 points.

The latest *housing* indicators yielded mixed signals. New home sales reached an all-time high on an annualized basis, at 1.424 million units. However, the inventory on new homes for sale is increasing, possibly indicating an overbuilding situation. Additionally, price appreciation is slowing and builder incentives are numerous in order to sell homes. The buildup in mortgage rates over the last two months is likely to continue, with a negative influence on the housing market. Meanwhile, sales of existing homes in October were at their lowest level since March.

The *manufacturing sector's* indicators are positive. Although the Institute for Supply Management's Purchasing Managers index declined by one point to 58.1 in November, it is well above 50, the demarcation point between contraction and expansion. In October, industrial production rose 0.9 percent and new orders for manufactured goods increased 2.2 percent, each reversing much of the hurricane-caused drop in September.

National Economic Forecast

This section presents the forecast for the national economy. The detailed forecast can be found in Table 7.

- Inflation-adjusted **GDP** is expected to increase 3.6 percent in 2005. GDP increases will moderate in 2006 and 2007 with growth of 3.4 percent and 2.9 percent, respectively. Consumer spending will slow from 3.4 percent this year to 2.7 percent in 2006. The slowdown in the growth rate emanates from anticipated lower spending for automobiles in 2006. The car price discounts via dealer pricing for everyone boosted consumer spending this year. A housing slowdown over the next two years will also contribute to overall lower growth in GDP.

- **Employment growth** in 2005 will be the strongest in five years. Jobs will increase by 1.6 percent this year and by 1.8 percent in 2006. Weakness in construction and related financial services employment from the housing slowdown will reduce the growth rate in 2007 to 1.2 percent. Meanwhile, the **unemployment rate** will average 5.1 percent this year and 5.0 percent in 2006.

- **Personal income** growth of 5.9 percent in 2005 and 2006 will nearly match the 6.0 percent rate recorded for 2004. The employment slowdown in 2007 will weaken personal income growth to a 4.5 percent growth rate.

- The second-half surge in energy prices will push the national consumer **inflation** rate to 3.4 percent in 2005. Inflation will be at its highest level since 2000, when the rate was also 3.4 percent. We estimate that inflation will average 2.8 percent in 2006 and 2.7 percent in 2007.

Forecast risks. Inflation is the primary risk to the forecast. Energy prices are likely to remain volatile over the next several months. A substantial amount of natural gas production in the Gulf remains shut down and the reduced supply is putting upward pressure on natural gas prices. A harsh winter would put additional pressure on supply and consequently the price of natural gas.

The Federal Reserve Board may continue to raise interest rates beyond the expected two additional increases to fight inflation. If this occurs, the housing market would be affected deeper and earlier than expected. Faced with higher energy prices, business hiring and consumer spending would slow.

Table 7
National Economic Indicators, December 2005 Forecast
(Dollars in Billions)

	2000	2001	2002	2003	2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010
Inflation-adjusted GDP	$9,817.0	$9,890.7	$10,048.9	$10,320.6	$10,755.7	$11,142.9	$11,521.8	$11,855.9	$12,223.4	$12,614.6	$13,056.1
percent change	3.7%	0.8%	1.6%	2.7%	4.2%	3.6%	3.4%	2.9%	3.1%	3.2%	3.5%
Nonagricultural Employment (millions)	131.8	131.8	130.3	130.0	131.5	133.6	136.0	137.6	139.4	141.4	143.5
percent change	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.6%	1.8%	1.2%	1.3%	1.4%	1.5%
Unemployment Rate	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	5.0%	5.1%	5.0%	4.8%	4.8%
Personal Income	$8,422.1	$8,717.0	$8,872.5	$9,156.1	$9,702.5	$10,275.0	$10,881.2	$11,370.9	$11,905.3	$12,488.6	$13,113.1
percent change	5.4%	3.5%	1.8%	3.2%	6.0%	5.9%	5.9%	4.5%	4.7%	4.9%	5.0%
Wage and Salary Income	$4,825.9	$4,939.9	$4,976.6	$5,105.7	$5,383.8	$5,739.1	$6,089.2	$6,387.5	$6,706.9	$7,055.7	$7,408.5
percent change	8.1%	2.4%	0.7%	2.6%	5.4%	6.6%	6.1%	4.9%	5.0%	5.2%	5.0%
Inflation (Consumer Price Index)	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	2.8%	2.7%	2.3%	2.2%	2.3%
10-year Treasury Note	6.0%	5.0%	4.6%	4.0%	4.3%	4.2%	5.3%	5.3%	5.4%	5.6%	5.6%

Colorado Economy

This section reviews the recent performance of Colorado's economy and provides the economic outlook for the state. The detailed Colorado economic forecast can be found in Table 9.

Employment

The economic recovery with respect to employment in Colorado is nearly complete. The peak employment level of 2,247,900 jobs was reached in December 2000. At the bottom of the employment recession in June 2003, the state had lost 103,900 jobs. Through October, we had regained all but 13,500 jobs. We expect that Colorado will surpass its previous job peak in early 2006. Thus, it took 2 1/2 years to reach the bottom and will take slightly more than that amount of time to achieve the previous peak.

Table 8
Change in Job Level Since December 2000

Industry	Change in Jobs (000s)	Percentage Change in Jobs
Mining	4.1	33.6%
Construction	-6.1	-3.6%
Manufacturing	-40.1	-20.8%
Trade, Transportation, Utilities	-13.3	-3.1%
Information	-38.4	-34.0%
Financial	11.9	8.1%
Professional, business services	-7.5	-2.3%
Educational and health services	29.6	15.0%
Leisure and hospitality	7.4	3.0%
Other services	7.7	9.5%
Government	31.2	9.2%
Total	-13.5	-0.6%

Despite the nearly complete recovery with respect to all jobs, a very different picture emerges upon the examination of industry data. Table 8 shows the change in employment levels over the past five years, measuring from the peak in December 2000 to the most recent data in October 2005. The following paragraphs look at the past performance and the projections for employment trends for a few of the employment sectors during the forecast period.

The information sector, which includes the telecommunications industry, grew from an average of 64,500 jobs in 1995 to 108,400 jobs in 2000. The average annual growth rate of 10.9 percent during this time period far out-distanced the growth of most other sectors. However, since the peak in 2000, the information sector has shrunk by 34 percent. Most of the job loss occurred in the telecommunications industry.

The manufacturing sector has also lost a significant portion of its employment base since 2000. Colorado's manufacturing sector closely follows national trends. While manufacturing employment was flat nationally between 1995 and 2000, it grew at a 1.3 percent average annual rate in Colorado. Since 2000, Colorado manufacturers have suffered slightly greater losses than the nation as a whole. The state manufacturing base lost 20.8 percent of its employment, while the nation has lost roughly 17 percent of its manufacturing jobs.

We expect that the information sector will begin a growth trend in 2006, with growth ranging between 2.0 and 2.9 percent during the forecast period. The state's manufacturers will have another year of job losses in 2006. No significant growth or decline will occur for the sector during the rest of the forecast period.

The educational and health services area has been a steady performer. We expect that this will continue. Billions of dollars have been invested in health and hospital facilities in recent

years. Given the aging of the state's population, increased demand for health services will continue. Thus, job growth in the educational and health services sector will exceed four percent per year during most of the forecast period.

Growth in government employment varies widely by type of government. Federal government employment has declined 2.6 percent since 2000. Local government job gains are driving the overall increase, with a 13.2 percent gain over the period. Meanwhile, state government employment increased 3.7 percent since 2000. Growing population in the state will dictate further increases in government employment. Local government employment will have the largest gains, while federal government employment will increase only slightly.

Employment in the trade, transportation, and utilities sector fell 3.1 percent over the past five years. Each part of the sector exhibited weakness during the period. As income grows at stronger levels over the next few years, retail trade employment will see gains between 2 and 3 percent each year. Several new regional malls or lifestyle shopping centers have recently opened or are under construction to meet population growth on the suburban edges of the major metro areas along the Front Range. Transportation and utilities employment growth will range from 0.9 percent to 1.4 percent during the forecast period.

We expect that construction employment will decline 3.5 percent and 2.1 percent in the next two years. Vacancy rates and the supply of existing homes for sale are still somewhat high. We also believe that recent single-family home construction has led to a small overbuilding situation. Thus, the housing market faces a slight correction over the next two years. Homebuilding will rebound in 2008. The availability of additional funding for highways and the start of the light rail and other transit expansion approved by metro-Denver voters in 2004 will also fuel a construction employment rebound in 2008.

- **Nonfarm employment** increased by 1.3 percent in 2004 after two years of declines. Gains in the forecast period will be stronger. We anticipate that employment will increase 2.1 percent in 2005. Future gains will not approach the levels that Colorado typically sees during an expansion — well above three percent. Instead, the gains will be more modest. Employment will increase 2.5 percent in 2006 and 2.4 percent in 2007.

- The **unemployment rate** will average 5.1 percent in 2005 and 5.0 percent in 2006 and 2007.

Personal Income and Wages

A slowdown in personal income and wages accompanied the declines in employment in 2002 and 2003. When employment increased in 2004, income and wages increased in typical fashion. We expect that the rebound in income and wages will continue through the forecast period.

- **Personal income** will increase 6.3 percent in 2005, followed by increases of 6.8 percent and 6.6 percent in the next two years. Gains will be 6.7 percent or 6.8 percent through the remainder of the forecast period.

- **Wage income** growth for Colorado's workers will be 6.8 percent in 2005. Wage gains will range from 6.5 percent to 6.8 percent during the rest of the forecast period.

Consumer Spending

Consumer spending in Colorado is measured by spending at the state's retail trade stores, including automobile dealers. Through September, retail trade sales increased 5.9 percent over the same period in 2004. Sales have been somewhat bolstered by the fact that they include

spending for gasoline. Spending at gas stations in August increased by 33 percent over a year ago due to much higher prices for gasoline. This spending may trim other spending within the retail trade category, but overall spending within the category remains largely unaffected.

- Consumer spending will increase 5.9 percent in 2005. It will increase 6.0 percent in 2006 and 6.4 percent in 2007. High energy prices and a slowdown in automobile purchases will continue to hinder spending increases in 2006. Spending will closely match increases in incomes for Colorado consumers during the remainder of the forecast period.

Construction

- Construction employment increased in 2005, reflecting strong housing permit activity from the previous year. As previously mentioned, we believe a slight degree of overbuilding exists. Combined with a relatively large supply of existing homes for sale and rising interest rates, home permit activity will drop in the next two years. **Home permits** will decline by 7.1 percent in 2006 and by 4.1 percent in 2007. The homebuilding industry will see increases after 2007.

- **Nonresidential construction** would likely be flat this year in the absence of a single large permit taken out for a manufacturing facility in El Paso County. This permit accounts for roughly 16 percent of all nonresidential construction value this year. Thus, we expect that nonresidential construction will decline in 2006 by 9.8 percent. Modest increases will occur through the remainder of the forecast period.

Inflation

Inflation in the Denver-Boulder-Greeley area for the first six months of 2005 was 1.4 percent, compared with the same period in 2004. Inflation last year was 0.1 percent, the lowest rate ever recorded in the state.

- Energy costs for gasoline and natural gas have soared in the second half of the year. A modest rise in rental rates for apartments during the last half of the year should end the slide in the housing shelter component of the consumer price index. Thus, we expect that **inflation** will average 1.9 percent in 2005. A continuation in rising costs for natural gas and housing rents will push inflation to 2.8 percent in 2006.

Risks to the Forecast

The risks to the forecast are generally the same for the state as they are for the nation; i.e., higher-than-expected inflation would damage business and consumer confidence. If the housing bubble in Colorado is larger than anticipated, housing construction could slow even further. Rising interest rates pose a substantial risk to homeowners with zero-interest loans. These homeowners have little or no equity built up in their homes. A collapse of the construction industry in the 1980s was largely due to overbuilding and falling equity values for homeowners and was the primary reason for the mid-1980s recession. This scenario could play out again if all the wrong factors fall into place.

Table 9
Colorado Economic Indicators, December 2005 Forecast
(Calendar Years)

	1999	2000	2001	2002	2003	2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010
Population (thousands), July 1	4,226.0	4,326.9	4,428.8	4,498.1	4,547.6	4,601.4	4,664.3	4,743.6	4,829.0	4,920.7	5,019.1	5,114.5
percent change /A	2.7%	2.4%	2.2%	1.7%	1.1%	1.2%	1.4%	1.7%	1.8%	1.9%	2.0%	1.9%
Nonagricultural Employment (thousands)	2,131.4	2,212.4	2,225.4	2,182.5	2,150.9	2,178.6	2,224.4	2,280.0	2,334.7	2,395.4	2,457.7	2,528.9
percent change	3.6%	3.8%	0.6%	-1.9%	-1.4%	1.3%	2.1%	2.5%	2.4%	2.6%	2.6%	2.9%
Unemployment Rate	3.1%	2.7%	3.9%	5.9%	6.2%	5.2%	5.1%	5.0%	5.0%	4.8%	4.6%	4.6%
Personal Income (millions)	$128,860	$144,394	$152,700	$153,078	$157,083	$166,153	$176,620	$188,630	$201,080	$214,552	$229,142	$244,494
percent change	8.7%	12.1%	5.8%	0.2%	2.6%	5.8%	6.3%	6.8%	6.6%	6.7%	6.8%	6.7%
Wage and Salary Income (millions)	$76,283	$85,909	$88,297	$86,936	$87,832	$91,863	$98,110	$104,782	$111,802	$119,069	$127,047	$135,686
percent change	9.8%	12.6%	2.8%	-1.5%	1.0%	4.6%	6.8%	6.8%	6.7%	6.5%	6.7%	6.8%
Retail Trade Sales (millions)	$52,609	$57,955	$59,014	$58,864	$58,662	$62,348	$66,027	$69,988	$74,467	$79,084	$84,146	$89,531
percent change	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.3%	5.9%	6.0%	6.4%	6.2%	6.4%	6.4%
Home Permits (thousands)	49.5	53.7	54.5	47.9	39.4	45.6	45.7	42.5	40.7	42.2	43.6	44.5
percent change	-3.6%	8.6%	1.5%	-12.1%	-17.7%	15.6%	0.3%	-7.1%	-4.1%	3.5%	3.4%	2.1%
Nonresidential Building (millions)	$3,544	$3,339	$3,373	$2,660	$2,429	$3,073	$3,595	$3,242	$3,485	$3,652	$3,919	$4,127
percent change	35.4%	-5.8%	1.0%	-21.1%	-8.7%	26.5%	17.0%	-9.8%	7.5%	4.8%	7.3%	5.3%
Denver-Boulder Inflation Rate	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	1.9%	2.8%	3.0%	3.0%	3.2%	2.9%

/A Colorado's population on April 1, 2000, was 4,301,261 according to the U.S. Census Bureau. The changes that are shown in this table for 1999 and 2000 are based on the intercensal estimates by the Census Bureau and do not reflect the original estimates.

School Enrollment Projections

- Enrollment across the State of Colorado is expected to increase 1.2 percent, or by 8,770 full-time-equivalent (FTE) students, between the 2005-06 and the 2006-07 school years. During the 2006-07 school year, 734,740 FTE students are projected to be enrolled in Colorado schools. This growth represents a slightly higher gain than was experienced during the past five years, when enrollment growth averaged 1.0 percent per year.

- The projections indicate that school enrollment over the next five years will increase at an average rate of 1.3 percent per year, which totals 50,080 additional students. This five-year average growth rate compares with a 2.0 percent average annual growth rate from 1995-2000, and a 1.0 percent average annual growth rate from 2001-2005.

- Similar to past years, the metro-Denver and Colorado Springs regions are expected to experience the largest enrollment gains, with growth of 1.6 percent and 1.3 percent, respectively, in the 2006-07 school year. However, unlike prior years, the southeast region is expected to have the fastest growth in enrollment during the 2006-07 school year, at 2.1 percent. Substantial increases in the number of on-line students accounts for this growth. The northern, western, Pueblo, and north central mountain regions will see minimal gains in pupil counts; while the southwest, north central plains, and San Luis Valley regions will experience enrollment declines.

Preliminary Forecast Results. This section presents the Legislative Council Staff preliminary FTE enrollment projections for Colorado's kindergarten through twelfth grade public schools. FTE enrollment is forecast to help determine funding levels for Colorado's 178 school districts. Final projections will be made after receiving Colorado Department of Education and school district input on the forecast. In prior years, the projections included pre-kindergarten enrollment; however, the current forecast excludes that population because the number of pre-kindergarten students is largely determined by funding decisions made by the General Assembly.

Actual full-time-equivalent kindergarten through twelfth grade enrollment in the 2005-06 school year was 725,970 students. This represented an increase of 1.4 percent, or 10,270 students, over the 2004-05 level.

Over much of the last ten years, Colorado enjoyed widespread economic growth that translated into strong enrollment growth from 1997 through 2001. However, employment declines in 2002 and 2003 and modest employment growth in the next two years led to much lower migration into Colorado, as well as an exodus of families seeking jobs and better opportunities elsewhere. While employment growth is expected to pick up over the forecast period, it is unlikely to reach rates seen in the late 1990s. In addition, the rate of births in Colorado has slowed since 2000, which will have a moderating effect on enrollment beginning in 2006 and following years. As a result, it is anticipated that enrollment growth will be modest throughout the forecast period. FTE enrollment in the 2006-07 school year is expected to increase 1.2 percent, while the average annual growth rate over the next five years is expected to be 1.3 percent. These anticipated growth rates compare with an average annual growth rate of 1.0 percent during the 2001-2005 school years and an average annual growth rate of 2.0 percent during the 1995-2000 school years.

Table 10 identifies the anticipated growth in FTE enrollment over the next five years for each of Colorado's regions. Additionally, Figure 2 shows the makeup of the regions and identifies the anticipated increase in FTE enrollment for the 2006-07 school year.

Continued residential construction along portions of the front range will help the Colorado Springs, metro-Denver, and northern-Colorado regions dominate gains in FTE enrollment over the forecast period. Together, these regions will account for more than 94 percent of the enrollment growth, while representing only 79 percent of statewide enrollment. FTE enrollment growth in the northern region is projected to rebound, as many large construction projects were postponed or delayed because of the recession. The region is expected to grow steadily, increasing 0.9 percent for the 2006-07 school year and at an average annual rate of 1.4 percent for the next five years. The growth that will occur in some districts along the front range will be tempered by several larger, land-locked school districts with aging population bases. Most notably, the state's largest district, Jefferson County, is expected to continue its slow decline over the forecast period, and the second largest district, Denver Public Schools, is expected to have little growth over the forecast period.

The Colorado Springs region, which consists of El Paso and Teller counties, had an increase of 1.5 percent in FTE enrollment in the 2005-06 school year. This region is particularly reliant on high tech employment for enrollment growth and recent data suggest that the region will continue to expand. Moreover, about 12,000 troops are expected to move to Fort Carson, which will add approximately 40,000 new residents to the area. The enrollment forecast for the 2006-07 school year is projected at 1.3 percent, with average annual growth projected at 1.5 percent for the next five years.

The final two regions along the front range, metro Denver and Pueblo, will also experience enrollment gains in the next several years, though in differing degrees. Enrollment in the metro-Denver region is predicted to increase by 1.6 percent in the next school year. The most noteworthy gains in this region will come in Douglas County and the Brighton and Northglenn-Thornton school districts in Adams County. Additionally, the redevelopment of Stapleton and Lowry will offset declines in enrollment in the rest of the Denver school district. The Pueblo region, consisting of Pueblo, Fremont, and Custer counties, will see an increase of 0.3 percent in enrollment during the 2006-07 school year, with less-than-average growth expected throughout the forecast period. The vast majority of growth in this region will come from the Pueblo Rural school district, consisting largely of those parts of Pueblo County not located within the City of Pueblo.

Because residential development also drives enrollment growth, some areas in suburban Colorado Springs and suburban Denver will continue to experience high student enrollment growth rates. In Adams County, the Brighton school district is expected to have one of the highest growth rates over the forecast period. Other districts expected to see significant long-term growth are the Falcon school district in El Paso County, the Douglas County school district, and the Johnstown-Milliken school district in Weld County.

The north-central mountain region will experience enrollment growth of 0.7 percent for the 2006-07 school year. Although high housing costs have kept the region from growing significantly in recent years, enrollment is expected to increase at an average annual rate of 0.8 percent over the forecast period.

The southeast Colorado region is projected to experience an enrollment increase of 2.1 percent for the 2006-07 school year. For most of the last ten years, the region experienced significant annual enrollment declines. However, the development of on-line school programs in the Branson and Vilas school districts has generated significant increases in enrollment. In the 2005-06 school year, enrollment in the region in-

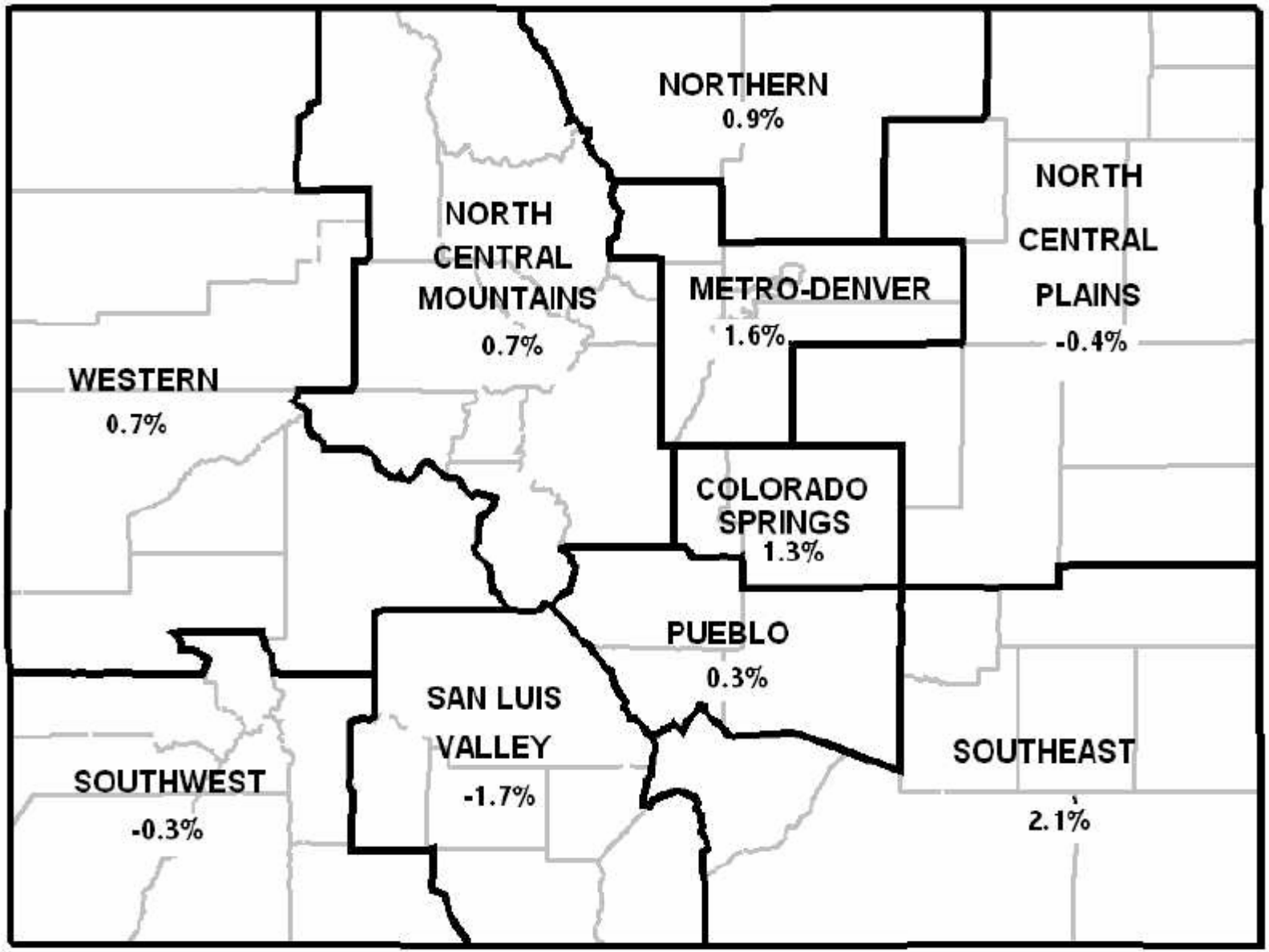
creased 11.4 percent, or by 1,410 FTE. Enrollment in the Branson and Vilas school districts increased by 163 and 1,437 FTE, respectively. This was a 17 percent increase in Branson and an astonishing 346 percent gain in Vilas. The balance of the region experienced an enrollment decline of 190 FTE. The forecast assumes that on-line enrollment in the Vilas and Branson school districts will decelerate, such that the region will once again experience an overall decline in enrollment, beginning in the 2009-10 school year. Over the entire forecast period, the region is expected to experience average annual enrollment growth of 0.6 percent.

Risks to the forecast. There are several other factors that could alter the forecast. As the economy rebounds, employment growth will continue to drive the need for residential construction and boost migration to Colorado. Slower-than-expected employment growth will likely result in slower enrollment growth, especially in tech-heavy areas such as El Paso and Larimer counties. Also of note is the potential for rising mortgage rates. This may impact where enrollment growth occurs. If mortgage rates rise significantly, many home buyers may be pushed to the fringes of front range metropolitan areas in order to find more affordable housing. Again, this could have a significant impact on El Paso County, as nearby Pueblo County has lower housing costs. Moreover, southwest Weld County could continue to see significant enrollment growth if housing becomes less affordable in metro Denver. Finally, the continuing development of on-line school programs could alter the distribution of enrollment within the state. The enrollment forecast assumes that current on-line schools will grow at a decreasing rate and that no new on-line programs will emerge. A change in these assumptions could have a significant impact upon enrollment in specific school districts and regions.

Table 10
Anticipated Growth in FTE Enrollment

Region	2005-06	2006-07	Percent Change	2007-08	Percent Change	2008-09	Percent Change	2009-10	Percent Change	2010-11	Percent Change	Average Growth
Metro-Denver	405,393	411,693	1.6%	418,734	1.7%	425,589	1.6%	432,450	1.6%	439,842	1.7%	1.6%
Colorado Springs	99,961	101,214	1.3%	102,731	1.5%	104,190	1.4%	105,898	1.6%	107,443	1.5%	1.5%
Northern	71,502	72,144	0.9%	73,039	1.2%	74,275	1.7%	75,469	1.6%	76,765	1.7%	1.4%
Western	44,786	45,095	0.7%	45,572	1.1%	46,074	1.1%	46,590	1.1%	47,050	1.0%	1.0%
Pueblo	30,739	30,818	0.3%	30,918	0.3%	30,961	0.1%	31,075	0.4%	31,188	0.4%	0.3%
North Central Mountains	19,878	20,022	0.7%	20,206	0.9%	20,387	0.9%	20,523	0.7%	20,639	0.6%	0.8%
North Central Plains	18,087	18,017	-0.4%	17,866	-0.8%	17,768	-0.5%	17,710	-0.3%	17,710	0.0%	-0.4%
Southwest	14,000	13,954	-0.3%	13,848	-0.8%	13,794	-0.4%	13,819	0.2%	13,800	-0.1%	-0.3%
Southeast	13,778	14,074	2.1%	14,216	1.0%	14,277	0.4%	14,223	-0.4%	14,174	-0.3%	0.6%
San Luis Valley	7,848	7,713	-1.7%	7,611	-1.3%	7,551	-0.8%	7,487	-0.8%	7,440	-0.6%	-1.1%
Statewide Total	725,970	734,740	1.2%	744,739	1.4%	754,865	1.4%	765,241	1.4%	776,050	1.4%	1.3%

Figure 2
Estimated FTE Enrollment Growth 2006-07 School Year
(Statewide Growth = 1.2 Percent)



Assessed Value Projections

This section provides preliminary projections of assessed values and the residential assessment rate through 2010. The projections for assessed values are a factor in determining local property taxes for Colorado's public schools and the amount of state aid provided to the schools. The following projections will be finalized following receipt of additional information from selected counties in early January.

The **residential assessment rate** (RAR) will remain at 7.96 percent in 2007 and decline to 7.49 percent in 2009.

Driven largely by a substantial increase in oil and gas property values, **total assessed values** for all property classes are expected to increase by 5.3 percent in 2006 to a total value of $74.4 billion. Because 2006 is not a reassessment year, the growth incorporates only new construction and changes in the value of extracted resources, such as oil and gas. In reassessment years, value growth over the previous two years is reflected, as well as new construction over the last year. The relatively significant increase of 9.3 percent in 2005 was caused primarily by a boom in oil and gas values brought about by high oil and natural gas prices. By 2010, assessed values are anticipated to total $85.0 billion, which reflects a compound average annual growth rate of 3.8 percent.

Total residential *market* value increased by 12.1 percent in the last two-year reassessment cycle ending in 2005. Due to moderate employment and population growth coupled with a recent boom in new home construction, market values are expected to increase by similar rates over the forecast period. The expected increase in residential market values in the 2007 and 2009 reassessment cycles are 11.8 percent and 10.3 percent, respectively.

Residential *assessed* values are expected to increase by 3.4 percent in 2006, representing new residential construction. Even though residential market values increased 17.5 percent in 2003, the decline in the residential assessment rate from 9.15 percent to 7.96 percent led to only a 2.2 percent increase in residential assessed values in 2003. A decline in the RAR did not occur in 2005, nor will it occur in 2007, as the modest gains in residential values coincided with similar gains in nonresidential values. Over the five-year forecast period, residential assessed values will increase at a compound average annual rate of 3.7 percent.

Nonresidential assessed values are expected to increase by 6.9 percent in 2006 and at a compound average annual rate of 3.8 percent through 2010. Growth in oil and gas assessed values dominate the expansion of this category in the near term, with commercial, vacant land, and industrial property experiencing modest gains throughout the forecast period.

School district assessed values will grow the fastest in areas rich in natural resources, particularly large portions of the western slope and Las Animas County in the south. The Front Range and mountain communities will see modest growth, while the Eastern Plains and San Luis Valley will generally see the slowest growth.

Assessed Values

The unprecedented economic growth that led to dramatic increases in assessed value has waned. From 1995 to 2002, assessed values grew by an average of 9.2 percent annually. However, weak economic growth has limited annual growth to 5.9 percent since 2002, despite more than 80 percent growth in oil and gas assessed values over the period. Oil and gas values will continue to grow substantially in the near term, while overall economic health will lead to modest gains in other property classes. Overall, we expect assessed values to total $74.4 billion in 2006, a 5.3 percent increase, and reach $85.0 billion by 2010.

The Gallagher Amendment to the Colorado Constitution requires that residential assessed values must be approximately 45 percent of total assessed values. When the market values of residential property increase faster than the value of nonresidential property, the residential assessment rate (RAR) must decline to hold residential assessed values at 45 percent of total assessed values. While the residential market did not cool down until 2004, commercial markets turned down much earlier. This led to dramatically slower growth in nonresidential assessed values. When this occurs, the residential assessment rate must be reduced so that residential assessed values grow by the same rate, factoring out new construction. In contrast, as the economy began to recover, the same nonresidential markets have begun to see increases in value, while the lagging residential market falters. This slowdown in the residential markets will help keep the RAR constant at 7.96 percent again in 2007. However, after the residential markets regain their footing, our forecast anticipates the RAR will be 7.49 percent in 2009.

Forecasted residential and nonresidential assessed values are shown in Table 11. Residential assessed values are expected to increase at a compound average annual rate of 3.7 percent, while nonresidential assessed values will increase at an average of 3.8 percent per year. At the end of the forecast period, assessed values will total $85.0 billion.

A discussion of our forecast of nonresidential and residential assessed values, including the residential assessment rate, follows.

Table 11
Residential and Nonresidential Assessed Values
(millions of dollars)

Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2005	$33,111	8.7%	$37,515	12.0%	$70,626	9.3%
2006	$34,234	3.4%	$40,118	6.9%	$74,353	5.3%
2007	$37,016	8.1%	$43,703	8.9%	$80,720	8.6%
2008	$38,188	3.2%	$43,767	0.1%	$81,955	1.5%
2009	$38,411	0.6%	$45,164	3.2%	$83,575	2.0%
2010	$39,720	3.4%	$45,313	0.3%	$85,032	1.7%

Nonresidential Assessed Values

The nonresidential sector consists of eight property classes: commercial, state assessed, vacant land, oil and gas, industrial, agriculture, natural resources, and producing mines. Assessed values in the nonresidential property classes totaled $37.5 billion in 2005, representing a 12 percent increase over 2004 values. Vacancy rates have remained at relatively high levels, though they have clearly stabilized in most of the major markets. Nonresidential construction was buoyed in 2004 by a dramatic increase in hospital construction around the state. Meanwhile, sharp increases in office and manufacturing buildings characterized 2005. Modest economic growth, led by a continued increase in corporate profits and business investment, provides evidence for growth in the near future. Thus, nonresidential assessed values are anticipated to increase at a

compound average annual rate of 3.8 percent over the forecast period, increasing to $45.3 billion by 2010.

For the last five years, growth in nonresidential values has largely been restricted to the oil and gas classification. Growth has been limited in other areas for a variety of reasons. Of course, the recession early in the decade dealt a substantial blow to the commercial sector, which accounts for nearly half of all nonresidential property, that was likely already overbuilt. However, there are also technology and business decisions that are helping temper growth. As more individuals telecommute and more large-scale manufacturing is moved overseas, demand for office, warehouse, and industrial space wanes.

Prices for natural gas and oil have increased over the last three years, pushing oil and gas values higher. Oil and gas values are based on the production value of the wells. As a result, as price increases, so does the assessed value of the oil and gas. Furthermore, as prices rise, it becomes more cost effective for companies to drill new wells. Therefore, the recent price increases have a doubling effect on overall oil and gas assessed values. New pipelines have also opened up Colorado to new markets for natural resources. As a result, oil and gas assessed values will reach more than $7.5 billion in 2006, a level more than three times the value in 2003 and nearly six times the level in 2000. Oil and gas values are expected to decrease slightly by the end of the forecast as prices stabilize and then fall slightly.

Residential Assessed Values

In this section, the forecast for residential market values and the determination of the residential assessment rate are discussed. The application of the residential assessment rate to residential market values determines their assessed values.

Residential Market Values. Total residential market values increased 22.5 percent in 2003 from the previous reassessment in 2001. Due to slower demand from weaker migration and slowly rising interest rates, the increase in market values slowed to 12.1 percent in 2005 over 2003 figures. An 11.8 percent increase is expected over the cycle that ends in 2007, followed by a 10.3 percent change in the 2009 cycle. Overall, residential market values will increase at a compound average annual rate of 5.0 percent from 2005 through 2010, bringing the total market value of all residential property to an estimated $530.3 billion by 2010.

The most substantial residential value growth has occurred primarily in exurban areas — those regions just beyond the suburbs — and rural mountain areas. This will likely continue as the lack of affordable homes in many of Colorado's metropolitan and mountain regions have pushed residents further out. Housing permits statewide have already begun to slow, which will help ease fears of oversupply in the long term.

Residential Assessment Rate. The adjustment of the residential assessment rate is intended to stabilize residential real property's share of total assessed value at approximately 45 percent. Economic factors driving market values and/or property income in the residential and nonresidential sectors affect the relative balance of these sectors and determine the RAR. Because residential market values have grown at a faster rate than nonresidential values since 1982 (or have declined at a slower pace), the RAR decreased from 21.0 percent in 1982 to 7.96 percent in the current assessment cycle of 2005 and 2006.

For the rest of the decade, it is anticipated that the growth in residential market values will slightly outpace that of nonresidential values, though this will occur in the out-years of the forecast. In the near-term, we expect the RAR to remain at 7.96 percent for 2005 through 2008. This is because the market for most nonresiden-

tial property reacts much more quickly to economic conditions than the residential class. In 1999, the nonresidential property classes saw a large amount of speculative business ventures and construction. This led to dramatic increases in nonresidential values, resulting in no adjustment to the residential assessment rate that year. Currently the improving economy has led to moderate increases in nonresidential values, while the residential market is oversupplied with available homes. Housing permit growth has already begun to slow, which will help stabilize the market. The RAR is expected to decline to 7.49 percent in 2009 and 2010. It should be noted that based on the Gallagher Amendment calculation, the RAR should have increased to 8.17 percent for 2005 and 2006. However, it could not be increased because TABOR specifically prohibits assessment rates from increasing. Thus, the rate remained the same.

Residential Assessed Values. Though levels of migration remain below their peak levels seen less than a decade ago, low mortgage rates have lead to strong new home construction. As a result, residential assessed values will increase by 3.4 percent in 2006. Toward the end of the forecast period, the decline of the RAR will continue to temper the growth of residential assessed values as compared to residential market values. Although residential market values are expected to increase by 10.3 percent during the two-year period ending in 2009, residential assessed values will only increase by 3.8 percent. The effect of the RAR is to bring total residential assessed value increases to a comparable growth rate of all nonresidential assessed values. Overall, residential assessed values will increase to $39.7 billion by 2010, or a compound average annual growth rate of 3.7 percent over the forecast period.

School District Assessed Value

The assessed values presented here are used in forecasting state expenditures for pre-kindergarten through 12th grade public education. The following section highlights trends for various regions in the state.

For the most part, school districts in **metro Denver** will see modest growth in assessed values. The exceptions are at the edges of the metro area where expansion is occurring. This is particularly the case in the Brighton school district and those in eastern Adams and Arapahoe counties. Brighton will see the greatest growth at 12.3 percent, while the Jefferson and Sheridan school districts will see their values stay flat.

El Paso and **Teller** counties are home to nearly 10 percent of the state's 178 school districts. Because so many districts are packed into such a small area, the composition of property in these districts varies widely. Bedroom communities in southern El Paso and Teller counties will see the greatest growth. Also, increases will be seen east of Colorado Springs as the demand for more affordable housing increases.

Western Colorado will be a bit of a mixed bag with respect to assessed value growth. Those districts with a large portion of their total value attached to oil and gas production will see some of the largest jumps in the state. This includes most of Garfield and La Plata counties, which will have five of the seven largest jumps in assessed value for 2006, peaking with the Rifle school district's 78.3 percent growth. In contrast, the rural parts of the western slope will see relatively flat growth in assessed values.

The northern region, containing school districts in **Larimer** and **Weld** counties, will see varied growth. Weld County has 12 school districts. Similar to El Paso County, the level of growth in each school district will depend greatly on the composition of property within the district. Those districts with significant natural resource production will experience the greatest growth - Platte Valley and Johnstown will each see assessed values grow by more than 20 per-

cent. In Larimer County, the Poudre and Thompson school districts will see the bulk of new residential and commercial construction, pushing assessed values up slightly in 2006.

School districts on Colorado's **Eastern Plains** are typically among the slowest growing in terms of assessed value. This is not solely because they are home to some of the least populated areas, pushing down demand for property. It is also because it is home to the bulk of Colorado's agricultural industry, whose land is valued more favorably than that of other property classifications. In past years, reductions in the RAR have outpaced market value gains in the region and helped temper growth. As in the west, those districts with significant natural resources, particularly in Las Animas and Cheyenne counties, will experience the greatest growth, while rural areas will see little or no assessed value growth in 2006.

Colorado's **mountain regions** will see only slight growth in assessed values in the near term. Much of this region saw dramatic gains in the late 1990s as expanding wealth from the booming economy created demand for second homes in the resort areas. Though these areas are still popular and we expect the economy to grow, we will not see the same level of property appreciation that characterized the area earlier in the decade and in the 1990s.

The **Pueblo** region, encompassing those districts primarily located in Pueblo, Fremont, and Custer counties, will see growth largely in the Pueblo Rural school district. The Pueblo City school district, the region's largest in terms of assessed value and student enrollment, is effectively landlocked. As the area expands, the Pueblo Rural school district will receive the vast majority of the growth, though the spillover from both Pueblo and El Paso County will reach to eastern Fremont County in the Florence school district as well.

The **San Luis Valley** will see some of the slowest growth during the forecast period. Though parts of the valley are gaining some traction as low-cost second home opportunities, it will not likely contribute greatly to assessed value growth in the near-term. Agriculture is also an important component to the region's economy. As stated earlier with the Eastern Plains, the favorable valuation of agricultural property will also work to limit growth in the region.

Risk Factors

Concerns continue regarding Colorado's housing market. Over half of all new mortgages in 2005 in Colorado were interest-only or negative amortization loans. The relatively slow economic and housing value growth in recent years, coupled with the increasing costs those loans will incur as interest rates increase, could make it difficult for some owners to continue to make their mortgage payments. Though we are not expecting values to decline, there is some potential for that to occur in isolated areas. Furthermore, housing permit growth has outpaced migration and employment for the last few years. Dangers of an oversupplied market exist, and we expect that the existing available supply of homes will limit residential value growth even as the economy expands. Finally, if mortgage rates were to rise sharply, many potential home buyers could be priced out of the market, continuing to put downward pressure on home prices.

Another component to the forecast that could have an important impact on assessed values over the next several years is the oil and gas class. Because prices for oil and natural gas are very difficult to forecast, variations in value similar to that which has occurred over the last several years could play a significant role in determining overall assessed values. This is especially noteworthy as it pertains to counties in

which property values are heavily weighted toward oil and gas, such as Cheyenne, Rio Blanco, and La Plata counties. A large decline in oil and gas assessed values, which is likely to occur during the forecast period, would put additional pressure on the state to finance schools.

Adult Prison and Parole Population Projections

This section of the forecast describes prison population trends and the forecast. It also discusses factors in prison commitments and presents an overview of recent legislation affecting the prison population. The last segment presents the parole population projections and describes some of the primary risks to the forecast.

- The total Department of Corrections (DOC) population is projected to increase 41.6 percent — from 20,704 inmates in June 2005 to 29,314 inmates in June 2011. This corresponds to an average growth rate of 6.0 percent per year. In comparison, over the past six years, the total inmate population increased at an average annual rate of 5.8 percent.

- Over the six-year forecast period, the male population is expected to increase 38.3 percent, or at an average annual rate of 5.6 percent. The female population is expected to increase 71.0 percent, or at an average annual rate of 9.4 percent. In comparison, over the past six years, the inmate population of males and females increased at average annual rates of 5.5 percent and 9.9 percent, respectively.

- These projections represent a slight increase from last year's estimates. This is due to anticipated higher state population growth, a reduction in the forecast for inflation-adjusted wages, and an increase in the year-to-date male inmate population over the prior year's estimate. In subsequent years, the inmate population is expected to grow between 5.6 percent and 6.2 percent per year.

- The total in-state parole population is projected to increase from 5,714 in June 2005 to 8,133 in June 2011, growing at an average annual rate of 6.1 percent. The total number of parolees (those supervised in-state and out-of-state) will increase from 7,811 to 10,761 during the forecast period, representing a 5.5 percent average annual increase.

Adult Prison Population Trends. From June 1989 to June 2005, the prison population grew at an average annual rate of 7.0 percent. During this sixteen-year period, the male and female prison populations grew at average rates of 6.7 percent and 11.0 percent per year, respectively. In the most recent fiscal year, the female prison population increased 18.1 percent, while the male population grew 4.6 percent. The female inmate population accelerated because of a 29 percent increase in female admissions, two-thirds of which involved drug offenses, theft, or assaults. Table 12 shows the historical prison population by gender.

Adult Prison Forecast. Table 12 also illustrates the projected inmate population over the next six years. Between June 2005 and June 2011, the prison population is expected to increase at an average annual rate of 6.0 percent. This growth is roughly comparable to the prior six-year period in which the prison population grew an at average rate of 5.8 percent per year. Male and female inmate populations are projected to increase at average annual rates of 5.6 percent and 9.4 percent during the forecast period. The growth of female prisoners is estimated to increase more than males because of historical growth trends in female prison admissions and population.

Table 13 illustrates the change in the inmate population forecast from the prior forecast, issued in December 2004. As indicated, the December 2004 forecast overestimated the actual inmate population on June 30, 2005, by 0.2 percent, or 40 inmates. The current forecast changed very little for the subsequent two years, with a projected increase of 0.4 percent each year compared to the previous forecast. The forecast for 2008-2010 was increased modestly because of higher anticipated growth for the population

cohort between the ages of 20 and 49, lower inflation-adjusted wages, and higher admission growth rates for males in FY 2004-05 and year-to-date in FY 2005-06.

Table 12
History and Forecast of Adult Prison Population on June 30th, by Gender

Year	Males	% Change	Females	% Change	Total	% Change
1990	7,215		451		7,666	
1991	7,598	5.3%	445	-1.3%	8,043	4.9%
1992	8,269	8.8%	505	13.5%	8,774	9.1%
1993	8,712	5.4%	530	5.0%	9,242	5.3%
1994	9,382	7.7%	623	17.5%	10,005	8.3%
1995	10,000	6.6%	669	7.4%	10,669	6.6%
1996	10,808	8.1%	769	14.9%	11,577	8.5%
1997	11,681	8.1%	909	18.2%	12,590	8.8%
1998	12,647	8.3%	1,016	11.8%	13,663	8.5%
1999	13,547	7.1%	1,179	16.0%	14,726	7.8%
2000	14,733	8.8%	1,266	7.4%	15,999	8.6%
2001	15,493	5.2%	1,340	5.8%	16,833	5.2%
2002	16,539	6.8%	1,506	12.4%	18,045	7.2%
2003	17,226	4.2%	1,620	7.6%	18,846	4.4%
2004	17,814	3.4%	1,755	8.3%	19,569	3.8%
2005	18,631	4.6%	2,073	18.1%	20,704	5.8%
2006	19,676	5.6%	2,252	8.6%	21,928	5.9%
2007	20,698	5.2%	2,461	9.3%	23,159	5.6%
2008	21,824	5.4%	2,705	9.9%	24,529	5.9%
2009	23,041	5.6%	2,973	9.9%	26,014	6.1%
2010	24,333	5.6%	3,259	9.6%	27,592	6.1%
2011	25,768	5.9%	3,546	8.8%	29,314	6.2%

Table 13
Adult Inmate Population on June 30th, Forecast to Forecast Comparison

Year	December 2005 Forecast	December 2004 Forecast	Forecast Difference	% Difference
2005*	20,704	20,744	(40)	-0.2%
2006	21,928	21,850	78	0.4%
2007	23,159	23,063	96	0.4%
2008	24,529	24,276	253	1.0%
2009	26,014	25,529	485	1.9%
2010	27,592	26,806	786	2.9%

* Actual

Tables 14 shows the change in the male and female inmate forecasts from the December 2004 projections. For June 30, 2005, the December 2004 forecast overestimated the male population by 0.3 percent, or 47 inmates. The prior forecast also underestimated the female population by 0.3 percent, or seven inmates. For the first five months of the current fiscal year, the December 2004 forecast for male inmates was running low, by about 40 inmates. As a result, the current forecast for male inmates was raised slightly by 0.5 percent and 0.6 percent for the next two years, and by somewhat higher amounts in the subsequent years. The female inmate forecast for June 30, 2006 and June 30, 2007 was revised down slightly compared to the previous forecast, by 0.6 and 0.8 percent, respectively. This primarily reflects slower admissions growth year-to-date for female inmates and the fact that the December 2004 forecast was running ahead of the actual female population in the first five months of this year. However, for the remainder of the forecast period, the female inmate forecast was increased from 0.4 percent to 2.8 percent per year, reflecting the same economic and demographic factors described above with respect to the overall inmate forecast.

Table 14
Adult Male Inmate Population on June 30th, Forecast to forecast Comparison

Year	December 2005 Forecast	December 2004 Forecast	Forecast Difference	% Difference
2005*	18,631	18,678	(47)	-0.3%
2006	19,676	19,584	92	0.5%
2007	20,698	20,583	115	0.6%
2008	21,824	21,583	242	1.1%
2009	23,041	22,605	436	1.9%
2010	24,333	23,637	696	2.9%

* Actual

Table 14 (continued)
Adult Female Inmate Population on June 30th, Forecast to forecast Comparison

Year	December 2005 Forecast	December 2004 Forecast	Forecast Difference	% Difference
2005*	2,073	2,066	7	0.3%
2006	2,252	2,266	(14)	-0.6%
2007	2,461	2,480	(19)	-0.8%
2008	2,705	2,694	11	0.4%
2009	2,973	2,924	49	1.7%
2010	3,259	3,169	90	2.8%

* Actual

Factors in Adult Prison Commitments. The external factors that drive prison admissions can be classified into three groups: demographic variables, economic variables, and legislative changes. The following paragraphs describe these factors and how they influence prison commitments.

- ***Population.*** All other things being equal, a larger population results in a greater number of criminal offenses, arrests, criminal felony filings, and prison commitments. Colorado's adult population between the ages of 20 and 49 increased an at average annual rate of 2.5 percent between 1990 and 2000. Correspondingly, the 1990s were a decade of strong prison population growth, with an average annual rate of growth of 7.6 percent between June 1990 and June 2000. As Colorado's population is projected to continue to grow, we expect this to contribute to an increase in the total number of new admissions to prison.

- ***Economic factors.*** When the economy is strong and job opportunities are available, income and earnings rise. The prospect of a job and increased wages raises the opportunity cost of committing a crime. This means that people will be less likely to resort to crime, particularly nonviolent property crimes, if legitimate economic prospects are available. Several studies suggest that weak earnings and employment growth cause an increase in prison admissions. There is a lag time of one or more years for poor economic conditions to translate into increased crime, criminal filings, convictions, and ultimately, prison admissions.

- ***Legislation.*** While demographic and economic factors are important in forecasting the prison population, modifications to the Colorado Criminal Code can also have a significant impact on inmate population growth. Recent legislation affecting the prison population includes *Senate Bill 03-252* and *Senate Bill 03-318*. *Senate Bill 03-252* eliminated the mandatory 12-month revolving supervision period created by *House Bill 98-1160* and limited the time a parolee could be revoked to six months if the revocation was for a technical violation. *Senate Bill 03-252* is expected to lower the prison population and raise the parole population. *Senate Bill 03-318* reduced the penalty for the possession of small amounts (one gram or less) of controlled substances from a class 3, class 4, or class 5 felony to a class 6 felony. This is also expected to reduce the prison population.

Other factors impacting inmate population. Besides the external variables described above, other factors within the criminal justice

system affect the inmate population. First, the actions of the Parole Board can have a significant impact upon the prison population. For example, Parole Board policies or guidelines that increase parole revocations and/or reduce prison releases to parole will result in higher inmate population growth, all other things constant. Conversely, Parole Board policies that decrease parole revocations and/or increase prison releases to parole will result in lower inmate population growth. Second, the actions of the judicial system can affect inmate population growth. In particular, the commitment of more offenders than average to prison and the imposition of stricter sentences by judges will increase both admissions to prison and the length of stay in prison. Finally, the mix of crimes committed and prosecuted can impact prison population growth. For example, persons convicted of a felony sex offense could be sentenced to a maximum of the offender's lifetime. The population of these offenders has grown significantly in the past few years, which will exert upward pressure on the overall inmate population growth rate.

Adult Parole Population Trends and Forecast. From June 1992 until June 2005, the parole population supervised in-state grew at an average annual rate of 8.7 percent. In the most recent fiscal year, the in-state parole population grew 9.0 percent. Table 15 provides a history of the parole population supervised in-state and out-of-state. Table 15 also provides the parole population forecast through June 2011. The forecast estimates the parole population *supervised in Colorado,* as well as the parole population *served out of state* (including parole *absconders* — parolees who have not reported and are considered fugitives). The number of parolees *supervised in Colorado* is expected to increase at an annual rate of 6.1 percent throughout the forecast period — from 5,714 parolees as of June 2005 to 8,133 parolees as of June 2011. The number of *total* parolees will increase at an average rate of 5.5 percent over the forecast period, from 7,811 parolees as of June 2005 to 10,761 parolees as of June 2011.

Table 16 and Figure 3 illustrate the change in the in-state parole population forecast from the prior projection, issued in December 2004. As indicated, the December 2004 forecast underestimated the actual parole population on June 30, 2005, by 7.5 percent, or 397 parolees. Most of this reflected an unanticipated increase in ISP parolees (intensive supervision parolees) of 35 percent during FY 2005. The increase in ISP parolees appears to be directly related to the increase in the number of mandatory parolees, who require more intensive supervision than discretionary parolees. For the four years from January 2000 to January 2004, mandatory parolees increased at an average monthly rate of 0.75 percent. In the past 21 months, mandatory parolees have increased at an average monthly rate of 3.1 percent. While mandatory parolees represented about 50 percent of all parolees released in January 2000, they now represent around 75 percent of all parole releases.

The current forecast reflects the increase that took place in FY 2005 and the expectation that this trend will continue throughout the forecast period. Consequently, the forecast was increased 12.5 percent in FY 2006 and 14.4 percent in FY 2007. This corresponds with an increase in the number of in-state parolees of 689 and 822 in those fiscal years compared with the previous forecast.

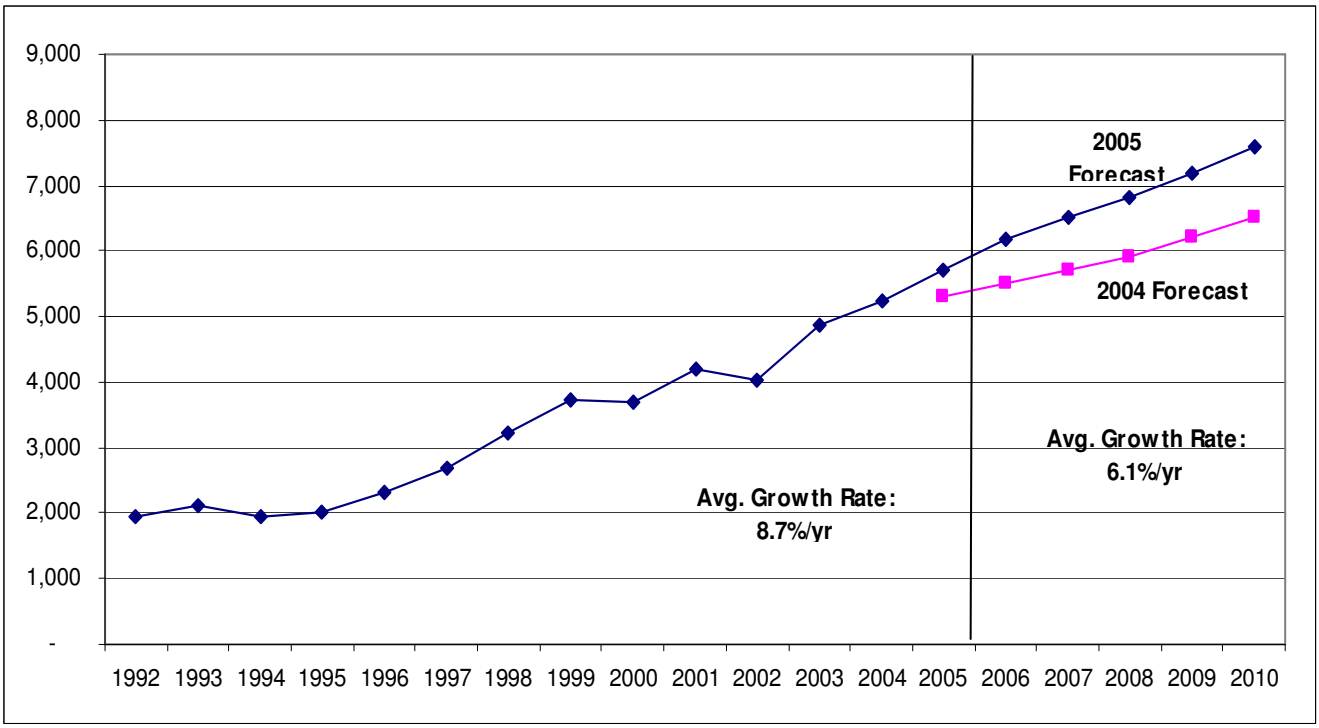
Table 15
Parole Population on June 30th, In-state and Out-of-State Parolees

Year	In-State	% Change	Out-of-State Parolees	% Change	Total	% Change
1993	2,116		657		2,773	
1994	1,958	-7.5%	690	5.0%	2,648	-4.5%
1995	2,026	3.5%	744	7.8%	2,770	4.6%
1996	2,322	14.6%	924	24.2%	3,246	17.2%
1997	2,695	16.1%	1,155	25.0%	3,850	18.6%
1998	3,219	19.4%	1,433	24.1%	4,652	20.8%
1999	3,722	15.6%	1,569	9.5%	5,291	13.7%
2000	3,685	-1.0%	1,537	-2.0%	5,222	-1.3%
2001	4,192	13.8%	1,646	7.1%	5,838	11.8%
2002	4,037	-3.7%	1,680	2.1%	5,717	-2.1%
2003	4,858	20.3%	1,906	13.5%	6,764	18.3%
2004	5,244	7.9%	1,994	4.6%	7,238	7.0%
2005	5,714	9.0%	2,097	5.2%	7,811	7.9%
2006	6,181	8.2%	2,147	2.4%	8,328	6.6%
2007	6,518	5.5%	2,222	3.5%	8,740	5.0%
2008	6,822	4.7%	2,286	2.9%	9,108	4.2%
2009	7,185	5.3%	2,398	4.9%	9,583	5.2%
2010	7,601	5.8%	2,489	3.8%	10,090	5.3%
2011	8,133	7.0%	2,628	5.6%	10,761	6.6%

Table 16
Adult Parole Population on June 30th, Forecast to Forecast Comparison

Year	December 2005 Forecast	December 2004 Forecast	Forecast Difference	% Difference
2005*	5,714	5,317	397	7.5%
2006	6,181	5,492	689	12.5%
2007	6,518	5,696	822	14.4%
2008	6,822	5,910	912	15.4%
2009	7,185	6,211	975	15.7%
2010	7,601	6,511	1,090	16.7%

Figure 3
June 30th Parole Population Supervised In-State



Factors in adult parole population growth. The following discusses three factors that affect the parole population: prison commitment trends, the implementation of mandatory parole, and changes in the number of releases to parole.

- ***Prison commitments.*** An increase in prison commitments will have a direct lagged impact on parole population. Consequently, when the rate of growth in prison commitments decreases (or increases), growth in the parole population will be expected to eventually decelerate (or accelerate). Moreover, the types of prison commitments can alter the rate of growth of the parole population. Prison commitments with longer sentences can cause parole deferrals to rise, thereby reducing the rate of growth of the parole population. It is likely that increased admissions for statutorily defined crimes of violence (corresponding to longer sentences) have influenced the rise in parole deferrals. For example, the proportion of court commitment admissions involving a violent crime increased from 18.5 percent in FY 1992-93 to 27.1 percent in FY 1999-00, but dipped to 24.1 percent in FY 2002-03. In addition, the percentage of the prison population that committed a violent crime increased from 36.4 percent in FY 1993-94 to between 40 percent and 45 percent in the last few years.

- ***Mandatory parole.*** House Bill 93-1302 created mandatory parole for all inmates released from prison who committed a crime after June 1993. The implementation of mandatory parole drove up the parole population

by sending more inmates to parole supervision and by increasing the average length of stay on parole. As a result of more prison releases to parole and longer parole periods, technical parole revocations (such as failing a drug test or not contacting one's parole officer, as opposed to committing a new crime) have increased significantly since FY 1992-93.

- ***Parole Board release and revocation decisions.*** The Parole Board is a key influence on the growth in the parole population and the prison population (as described earlier). Parole Board decisions to revoke parole directly reduce the parole population, but increase the prison population. Discretionary decisions to release inmates to parole increase the parole population, but reduce the prison population. When prison releases to parole grow at a slower pace than prison admissions, the prison population increases. Moreover, the Parole Board directly influences the parole population by determining when parolees are released from parole.

Risks to the forecast. Prison sentences depend upon the discretion of the courts. If a new alternative becomes available (for example, if drug courts are expanded), judges may shift their sentencing decision process to place more offenders in alternative placements. The prison forecast assumes that no new alternatives will become available and the sentencing decision process will be consistent with current practices.

The Parole Board has a tremendous influence upon the parole population and the population of parole revocations in prison. The parole and prison forecasts assume that the Parole Board will not change its present practices regarding release or revocation decisions.

The economy can also have a significant influence on the prison and parole populations. If another recession occurs, prison admissions could rise at a faster rate than anticipated. Conversely, a booming economy could result in a slowdown in the rate of prison admissions.

Finally, legislation passed by the General Assembly (i.e., criminal penalties, mandatory sentences, or funding for prison alternatives) can have a significant impact upon the prison and parole populations. This forecast is done in accordance with current state law.

Youth Corrections Population Projections

This section of the forecast provides an overview of juvenile offender sentence placements, recent trends in the juvenile offender population, a discussion of the factors driving the juvenile offender population, and the estimates for the commitment and parole populations from FY 2005-06 to FY 2009-10. Table 17 presents the juvenile commitment population forecast, while Table 18 provides the juvenile parole forecast.

- The Division of Youth Corrections (DYC) **commitment population** will increase from an average daily population of 1,454 in FY 2004-05 to 1,459 in FY 2005-06. By FY 2009-10, the commitment population will grow to 1,640, representing average annual growth of 2.4 percent.

- The average daily **parole population** will increase to 539 in FY 2005-06, a 10.5 percent jump.

Juvenile Offender Sentencing Options

There are several placements available for juvenile offenders. Juveniles that are not prosecuted as adults are managed through the juvenile courts. If the court determines that the defendant committed a crime, the juvenile is *adjudicated* a delinquent. Upon determination of guilt, the court may sentence a juvenile to any one or a combination of the following:

- ***Commitment.*** Depending on the juvenile's age and offense history, a juvenile offender may be committed to the DYC custody for one to seven years if the juvenile committed an offense that would be a felony or misdemeanor if committed by an adult.

- ***Detention.*** The court may sentence a juvenile to a detention facility if he or she is found guilty of an offense that would be a lower class felony or misdemeanor if committed by an adult. A sentence to detention may not exceed 45 days. Detention services are managed by the DYC.

- ***County jail or community corrections.*** Juveniles between 18 and 21 who have been adjudicated delinquents prior to their 18th birthday may be sentenced to county jail for up to six months or to a community correctional facility or program for up to one year.

- ***Probation or alternative legal custody.*** The court may order the juvenile to be supervised by the judicial district and must report to a probation officer. Conditions of probation may include participation in public service, behavior programs, restorative justice involving the victim, or restitution. The court may also place the juvenile in the custody of a county department of social services, a foster care home, a hospital, or a child care center.

- ***Imposition of a fine or restitution.*** The court may impose a fine of no more than $300 and order the juvenile to pay restitution to the victims for damages caused.

The remainder of this section discusses the juvenile offenders that are sentenced to the custody of the DYC. The three major categories of services provided by the DYC include commitment, detention, and community parole.

Division of Youth Corrections Sentencing Placements and Population Overview

Detention. Detention facilities house youths who are awaiting trial and youths who receive a short-term sentence of up to 45 days. The DYC manages eight secure detention centers and contracts for additional detention beds.

In May of 2003, a legislative cap was placed on detention, mandating a population of no more than 479 youths. *As a result, Legislative*

Council Staff continues to track detention population trends, but no longer forecasts detention bed need.

Commitment. The commitment population consists of juveniles who have been adjudicated for a crime and committed to the custody of the Department of Human Services. A juvenile may be sentenced to DYC for a period between one and seven years, depending on the nature of the crime and the juvenile's criminal history.

In FY 2003-04, the average daily commitment population was 1,454, representing a 5.6 percent increase from the prior year. This is the highest rate of growth since FY 1998-99. However, year-to-date figures for FY 2005-06 show a marked decline in commitment levels from the peak in May 2005.

Influences on the Juvenile Offender Population

The growth in the juvenile offender population is related to a combination of factors. Demographic factors, juvenile delinquency, and policy changes all affect the juvenile offender projections.

Population growth. The growth in the Colorado population of juveniles age 10 to 17 increased 40 percent between 1990 and 2000. Likewise, the commitment population increased 30 percent in that ten-year period. However, from 2000 to 2010, this population cohort is expected to increase only 9 percent. The slower growth of the juvenile population through the forecast period will translate to a slower growth in the commitment population over the decade.

State and local policy changes. Policies that change the capacity of facilities or sentencing alternatives for delinquent juveniles affect the youth corrections population. These include the creation of diversionary programs as alternatives to incarceration, juvenile handgun legislation, mandated caps on sentence placements, and changes to the length of stay on parole.

Legislative Impact upon the DYC Population

Several recent measures have influenced the juvenile offender population. The following paragraphs discuss recent significant legislative measures and their impacts on the DYC population.

Budgetary Cuts for FY 2003-04: Senate Bill 03-284 — Reducing Juvenile Parole. This bill reduced the minimum parole period from nine months to six months. This bill took effect May 2003 and its impact should already be reflected in the figures for FY 2004-05.

Budgetary Cuts for FY 2003-04: Senate Bill 03-286 — Limiting Juvenile Detention Beds. This bill placed a cap on the number of available detention beds at 479. This represented a 7.5 percent decrease of total beds. Because the reduction represented fewer contract placements, contract beds decreased by 56.5 percent. Judicial districts were directed to develop plans to ensure the cap would not be exceeded.

General Fund Budgetary Cuts for FY 2003-04: Judicial Appropriation Bills. The Judicial Department's FY 2003-04 General Fund budget was cut by $21.0 million, or 9.2 percent, from the prior year (cuts were partially offset by fee increases, resulting in a net budget reduction of $10.7 million). As a result, the number of probation officers was reduced and probation caseloads increased. Increased caseloads may lead to less effective supervision and more juvenile crime, resulting in more placements to commitment. The increased caseload may translate to increased admissions to DYC because courts may choose to sentence an adjudicated delinquent youth to commitment rather than burden the probation caseload. (However, an increased

probation caseload may translate to fewer admissions to DYC because an overloaded probation officer may not be able to effectively detect probation violations, leading to fewer revocations and fewer commitment placements.)

DYC Commitment Population Projections

In FY 2005-06, the commitment population will average 1,459, representing a 0.3 percent rise over last year. By FY 2009-10, the commitment population will increase to 1,640, representing an average annual growth rate of 2.4 percent. Increased admissions and longer lengths of stay contribute to the population growth in the forecast period. However, due to the expected slower growth in the juvenile population and crime indicators through the forecast period, commitment population growth will not reach rates witnessed over the past six years. Table 17 provides the average annual commitment population estimates from FY 2005-06 to FY 2009-10.

Table 17
Commitment Average Daily Population

	Actual				*Forecast*				
	2001-02	***2002-03***	***2003-04***	***2004-05***	***2005-06***	***2006-07***	***2007-08***	***2008-09***	***2009-10***
Commitment Population									
	1,290	1,328	1,377	1,454	1,459	1,498	1,549	1,595	1,640
Annual Growth		*2.9%*	*3.7%*	*5.6%*	*0.3%*	*2.7%*	*3.4%*	*3.0%*	*2.8%*
FY 2004-05 to FY 2009-10 Average Annual Growth Rate									*2.4%*

Juvenile Parole Population Projections

Table 18 reports the juvenile parole average daily population projections. With the passage of Senate Bill 01-077, the minimum parole period was reduced from twelve months to nine months for nonviolent offenders. In FY 2001-02, the parole population decreased 3.9 percent, the first decline in five years. In FY 2002-03, nearly all parolees were eligible for a nine-month parole period and the population dropped an additional 18.1 percent. In order to reduce budgetary costs, the minimum parole period was again lowered from nine months to six months (Senate Bill 03-284). As a result, the parole population dropped again in FYs 2003-04 and 2004-05 by a total of 14 percent.

As a result of the recent parole period reductions and lower commitment levels, the juvenile parole population will not grow as significantly over the forecast period as it did prior to FY 2001-02. In FY 2005-06, the population will end its string of four consecutive years of decreases, as the population entering parole is under the same timelines as those currently on parole. In other words, the shorter parole period will not have an effect on the growth in the parole population beyond FY 2004-05 because the figures will have been "re-based" to a six-month parole program. Once all parolees are subject to the shorter minimum parole period, the parole population will rise. Over the forecast period, the parole population will increase to 698 by FY

2009-10, growing at an average annual rate of 7.4 percent.

Risks to the Forecast

Commitment sentences depend upon the discretion of the courts. If a new alternative becomes available, judges may shift their sentencing decision process to place more offenders in alternative placements. The youth corrections forecast assumes that no new alternatives will become available and the sentencing decision process will be consistent with present practices.

The Parole Board has a tremendous influence upon the parole population and the population of revocations and re-commitments. Because the parole board has the discretion to extend parole beyond the six-month mandatory period in a majority (up to 55 percent) of the cases, the parole population could fluctuate significantly depending on the inclination of the board.

Population changes significantly impact the youth corrections population. If the state were to experience a population boom similar to that in the late 1990s, we would expect to see similar increases in the youth corrections population. Also, economic conditions can have a significant impact. If the state economic recovery is delayed or occurs slower than in other states, and new jobs or wage increases are slow to appear, admissions may rise at a faster pace.

Finally, legislation passed by the General Assembly (i.e. penalties, length of parole, funding for alternatives to commitment) can have a significant impact upon the youth corrections population. This forecast assumes that current state law will not be changed in the future.

Table 18
Division of Youth Corrections Parole Population, Historical and Projected

	Actual				*Forecast*				
	2001-02	***2002-03***	***2003-04***	***2004-05***	***2005-06***	***2006-07***	***2007-08***	***2008-09***	***2009-10***
Parole Population									
	693	567	532	488	539	578	618	658	698
Annual Growth		*-18.1%*	*-6.2%*	*-8.3%*	*10.5%*	*7.3%*	*6.9%*	*6.4%*	*6.1%*
FY 2004-05 to FY 2009-10 Average Annual Growth Rate									*7.4%*

Colorado Economic Regions

Metro Denver
Colorado Springs
Pueblo Region
San Luis Valley and Southwest Regions
Western Region
Mountain Region
Northern Region
Eastern Plains

Metro Denver

The metro-Denver region serves as a barometer for state economic trends. Through October, the region slightly trails the statewide average economic indicators in most areas. Table 19 summarizes the major economic indicators for the metro-Denver region. Employment growth increased 2.0 percent through October. The strongest growth (4.0 percent) was in the natural resources, mining, and construction sector. Denver is a major regional hub for natural resources and mining. High energy prices have led to an increase in local area office employment for this category. Meanwhile, the strong growth in housing and nonresidential construction permits a year ago created more construction jobs this year. A lag time exists between the time a permit is taken out and when construction begins.

Table 19
Metro-Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	-1.4%	0.9%	2.0%
Unemployment Rate	6.2%	5.1%	5.2%
Housing Permit Growth /2	-22.5%	23.2%	-4.4%
Growth in Value of Nonresidential Const. /3	-20.8%	12.9%	4.5%
Retail Trade Sales Growth /4	0.5%	4.8%	4.6%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents nonfarm employment.
2/ U.S. Census
3/ F.W. Dodge
4/ Colorado Department of Revenue; data through September 2005.

Two service sectors — professional and business services and educational and health services — have each increased by 3.3 percent thus far in 2005. Jobs in the information sector and the federal government sector decreased by 6.1 percent and 0.8 percent, respectively. While jobs are more plentiful this year, the labor force has increased slightly faster, leading to a higher unemployment rate. Through October, the unemployment rate averaged 5.2 percent, compared with a 5.1 percent rate in 2004.

Recent Economic News:

- Construction of new hospitals and medical facilities has been strong in recent years. The trend will continue as several hospital projects were recently announced. HealthOne HCA will spend more than $250 million to expand three of its metro-area facilities. The company will spend $111 million to create a children's hospital at Presbyterian/St. Luke's hospital in Denver, $84 million to upgrade four floors and provide two new units at the Swedish Medical Center in Englewood, and $60 million at the Medical Center of Aurora for a new 140,000-square-foot tower and several enhancements of existing facilities at the center. Exempla will build a $30 million, 125,000-square-foot outpatient facility in southeast Jefferson County at the intersection of C-470 and Bowles Avenue.

- Golden has several projects underway or on the drawing board. A long-empty building will be razed to make room for in-fill development in downtown Golden. A mixed-use project with 35 residences, 12,000 square feet for office space, and 18,000 square feet for retail will be built on the site. One block away, an architectural firm from downtown Denver will relocate to a 14,000-square-foot building that is now under construction. Meanwhile, KB Home will build 60 homes, ranging from 2,300 to more than 3,700 square feet at the intersection of Highway 93 and Golden Gate Canyon Road. Prices in the new subdivision will start in the high $400,000s.

- Several other residential building projects were announced in the past month. In Lakewood, 307 apartments and 75 condominiums will be built at the south end of the new Belmar development. Pulte Homes will start

construction in the spring on a 2,700-acre development in Broomfield. Upon buildout, the area will be home to 20,000 residents. The Brighton city council approved the 1,760-acre Prairie Center mixed-use project. This development will have 4,500 residences. Ten million square feet of office, retail, and other space is also planned.

- A large mixed-use project is also planned for Parker. The $60 million project, on 46 acres near E-470 and Parker Road, will include 340,000 square feet of retail and commercial space, as well as 150 homes.

- Denver will be the U.S. headquarters for a Canadian natural gas producer. Enerplus Resources Fund will have 23 employees, of whom 20 will be hired locally. The local hires will include geologists, petroleum engineers, land men, and support staff. Medcare, a designer and manufacturer of sleep diagnostic equipment, will establish its world headquarters in Denver. The company currently employs 135 workers in Buffalo, New York, but will start up in Denver with fewer than 100 workers.

- The job news was not all positive. United Airlines will close its Denver reservations center. The aging facility faces significant rehabilitation costs. United is trying to cut costs as it emerges from bankruptcy. The affected 250 workers will be offered jobs in Chicago and Detroit. Workers who choose to stay in Denver will be offered job assistance by the Metro Denver Economic Development Corp. Centrix Financial, a provider of subprime car loans, had a second round of layoffs in November. The latest round of 100 layoffs at the Centennial company followed 150 layoffs in September.

- A long-planned transportation hub in the far eastern reaches of metro Denver took a step closer to fruition recently with the filing of plans in Aurora. The TransPort project will include planes, trains, and trucks in its development. The development near Interstate-25 and the Front Range Airport will encompass 4,500 acres and take 30 to 40 years to develop. The integration of the transportation modes is intended to attract cargo businesses. Up to $10 billion could be invested and 38,000 jobs could be created.

- Housing news in the metro-Denver area was mixed. Sales of existing homes fell 7.1 percent in November from the year-ago level. However, the average sales price rose 5.7 percent to $281,000. Meanwhile, the vacancy rate for apartments in metro Denver declined slightly in the third quarter to 8.39 percent. The rate was 8.55 percent during the second quarter. The average gross rental rate of $843 was $5 higher than the previous quarter and $18 higher than a year ago. Higher rates are a turnaround from the previous two years when falling rental rates contributed to overall low inflation in the metro area.

Colorado Springs Region

The Colorado Springs economy continues to improve. Table 20 shows the economic indicators for the region. Most of the tracking variables indicate growth. The average unemployment rate through October was 5.4 percent, the same level as in 2004. However, the rate in October was 4.9 percent, the lowest in more than four years. Nonfarm employment increased 2.3 percent through October. The mining, natural resources, and construction sectors increased 5.6 percent, the strongest sectoral increase. Housing and nonresidential permits have increased vigorously over the past two years. Employment in the local government educational services sector increased 4.6 percent. The information sector, which includes telecommunications, is in its fourth year of decline, shedding one-third of its jobs during the period.

Table 20
Colorado Springs Region Economic Indicators
El Paso County

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	-1.4%	1.4%	2.3%
Unemployment Rate	6.4%	5.4%	5.4%
Housing Permit Growth /2	-23.2%	28.8%	9.8%
Growth in Value of Nonresidential Const. /3	19.3%	-4.0%	200.2%
Retail Trade Sales Growth /4	0.2%	10.3%	6.4%

NA = Not available

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents nonfarm employment.

2/ U.S. Census

3/ F.W. Dodge

4/ Colorado Department of Revenue; data through September 2005.

Through September, the value of nonresidential construction permits was a comfortable 9.4 percent ahead of a year ago. In October, a single permit for $562 million was filed. The permit is for a manufacturing facility and caused nonresidential construction values to leap ahead by just over 200 percent for 2005.

Recent Economic News:

- Agilent Technologies Inc. announced another round of layoffs in November. The latest round will affect 100 workers in the state, primarily in the Colorado Springs operation. Agilent also employs workers in Fort Collins and Loveland. The affected employees will be laid off through next October. Agilent's work force in Colorado Springs is now down nearly two-thirds from its 2000 peak of 1,900 workers.

- The median sales price for an existing single-family home was $208,000 in November, according to the Pikes Peak Association of Realtors. The median price was 11.9 percent higher than a year ago. Sales of existing homes already exceed last year's record number, and building permits will likely exceed last year's record.

- The vacancy rate for apartments in Colorado Springs remained stubbornly high at 10.3 percent in the third quarter, according to a survey conducted for the Colorado Division of Housing. In the first quarter, the rate was 12.6 percent, while the rate was 10.2 percent in the third quarter of 2004. The vacancy rate data are not seasonally adjusted. The vacancy rate will likely ease as 12,000 soldiers come back or are re-assigned to the Fort Carson army base over the next few years. Thus far in 2005, 408 multi-family permits have been taken out, while none were taken out last year, according to the U.S. Census.

Pueblo Region

Employment in the five-county Pueblo region has increased 1.5 percent this year, following two years of declines. However, the area's unemployment rate was 6.5 percent through October, compared with the statewide average of 5.1 percent. Still, the unemployment rate in Pueblo County reached a three-year low of 6.0 percent in October. Table 21 shows the economic indicators for the region since 2003.

Table 21
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	-0.9%	-0.2%	1.5%
Unemployment Rate	6.3%	6.2%	6.5%
Housing Permit Growth /2 Pueblo County Only	-1.6%	-4.8%	-5.0%
Growth in Value of Nonresidential Const. /3 Pueblo County Only	213.3%	3.3%	-42.5%
Retail Trade Sales Growth /4	0.7%	6.7%	5.3%

NA = Not Available
1/ Colorado Department of Labor and Employment. 2003 and 2004 data are from the QCEW (ES202) program. 2005 data is from the Current Population (household) Survey.
2/ U.S. Census
3/ F.W. Dodge
4/ Colorado Department of Revenue; data through September 2005.

The regional economy will improve over the next few years as several large construction projects could create thousands of jobs, albeit temporary ones. Xcel Energy will build a new electricity generation plant. Construction of the plant will require 1,000 workers and take three years to complete. After completion, 40 permanent jobs will be created at the plant.

Given the worldwide cement shortage, plans are being revived for a new cement plant south of Pueblo. A cement plant near Pueblo has been considered since 1999. The $225 million plant would produce 1 million metric tons of cement each year. If the plant receives final approval, 800 jobs would be necessary for construction over an 18-month period. Approximately 88 workers with average salaries near $50,000 would permanently staff the plant. The Pueblo County Board of Commissioners has approved extensive property tax rebates and infrastructure improvements to entice the Mexican company, Grupo Cementos de Chihuahua S.A. de C.V., to the area.

Holcim (US) Inc. is considering an expansion of production at its cement plant in Fremont County. The plant's current capacity is 1.7 million metric tons per year. An increase of capacity by 300,000 metric tons would be accomplished through process efficiencies and the development of new cement products.

When the federal government begins construction on a weapons destruction plant at the Pueblo Chemical Depot, several hundred construction jobs will be created. Site preparation work for the facility is already underway.

Recent Economic News:

- Last spring, the Cotter Corp. launched a multi-million dollar renovation of its uranium mill near Cañon City. However, the company announced in November that 78 workers would be laid off by the end of 2005. Market and production problems are responsible for the layoffs. The company anticipates rehiring the workers as conditions warrant.

- A new Home Depot store in Cañon City opened in early November. The store is smaller than the typical store serving a larger city. It employs 80 workers. Other large chain stores and restaurants have opened in the past year in Cañon City. Growth in the city is occurring predominantly on the east side of town, but development and redevelop-

ment is also occurring in the central part of town.

- Housing news in Pueblo was mostly positive. The apartment vacancy rate was 6.7 percent during the third quarter, a sharp drop from the 12.9 percent vacancy rate during the first quarter. An influx of construction workers for the scheduled and potential projects could initiate new construction of apartments. Existing home sales increased 16 percent through November, while the average sales price of three- and four-bedroom homes increased 7.6 percent and 7.5 percent, respectively. The only negative housing news was the continuation of a drop in new home permits. They declined by 5.0 percent through October, following declines in 2003 and 2004.

San Luis Valley and Southwest Region

The San Luis Valley and southwest region is diverse. The area has the oldest towns in Colorado. While agriculture and mining were the long time economic mainstays of the region, tourism and second home development increasingly drive the economy, particularly in Archuleta and La Plata counties.

Table 22 shows the economic indicators for the region. Employment growth has slowed in 2005. Through October, it increased by 1.6 percent, compared with strong gains of 4.4 percent and 2.7 percent in the previous two years. Growth in retail trade sales remains strong in 2005, albeit slightly lower than a year ago.

Table 22
San Luis and Southwest Region Economic Indicators
Alamosa, Archuleta, Conejos, Costilla, Dolores, Hinsdale, La Plata, Mineral, Montezuma, Rio Grande, Saguache, and San Juan counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	2.7%	4.4%	1.6%
Unemployment Rate	5.7%	5.1%	5.2%
Statewide Crop Price Changes /2			
Barley	0.3%	8.0%	NA
Alfalfa Hay	-21.1%	1.2%	22.1%
Potatoes	-24.2%	2.1%	-16.3%
Fall Potato Production (Cwt) /2	-15.2%	-2.0%	-6.3%
Housing Permit Growth /3			
Alamosa County	-5.3%	22.2%	66.7%
La Plata County	48.0%	-26.1%	-4.3%
Growth in Value of Nonresidential Const. /3			
Alamosa County	-59.4%	43.6%	-26.0%
La Plata County	557.4%	-27.9%	-93.1%
Retail Trade Sales Growth /4	3.2%	9.4%	7.2%

NA = not Available
1/ Colorado Department of Labor and Employment. 2003 and 2004 data are from the ES-202 2005 data is from the Current Population (household) Survey.
2/ Colorado Agricultural Statistics Service.
3/ F.W. Dodge
4/ Colorado Department of Revenue; data through September 2005.

Recent Economic News:

- The fall potato crop, predominantly from the San Luis Valley, declined 6.3 percent this year. Production was 22.3 million hundredweight (cwt), compared with 23.8 cwt in 2004. The average yield was 385 cwt per acre, an increase of 25 cwt from a year ago and the second highest yield ever. The harvested acreage declined 10 percent from 2004. Meanwhile, Colorado's potato farmers are benefiting from higher prices. The average price per cwt in October was $9.65, compared with $5.40 a year ago.

- Costilla County will start up a small biodiesel plant in 2006. The county will initially use the fuel in its vehicle fleet. The county hopes to expand by eventually selling the fuel to the public. The project is a joint venture with the Costilla County Economic Development Council. The current price for diesel fuel has not dropped to the extent that gasoline prices have and makes the project feasible. Eventually, the county hopes to produce 100,000 gallons of biodiesel annually. The plant will employ four workers when it is fully operational. The county will purchase canola seeds from local area farmers, primarily in Blanca and Moffat, to crush into the oil that will be blended with diesel fuel.

Western Region

The western region continues to generate solid economic results measured by employment growth, retail sales, and certain types of construction activity. Table 23 shows economic indicators for the region. Retail sales are up considerably, employment growth is positive, and nonresidential construction activity in Mesa County is up significantly. Montrose County is experiencing substantial growth in housing permits, while Mesa County saw a decline in the number of housing permits issued.

Table 23

Western Region Economic Indicators

Moffat, Rio Blanco, Garfield, Mesa, Delta, Montrose, San Miguel, Ouray, and Gunnison counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	0.6%	3.3%	2.5%
Unemployment Rate	5.3%	4.5%	4.5%
Housing Permit Growth			
Mesa County 2/	13.4%	9.1%	-16.8%
Montrose County 3/	23.0%	35.3%	24.0%
Growth in Value of Nonresidential Const. /3			
Mesa County	-31.7%	-7.6%	307.7%
Montrose County	-16.7%	109.4%	-58.3%
Retail Trade Sales Growth /4	2.0%	8.7%	9.6%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2003 and 2004 data are from the ES-202 program. 2005 data is from the Current Population (household) Survey.

2/ U.S. Census

3/ F.W. Dodge

4/ Colorado Department of Revenue; data through September 2005.

The unemployment rate in the western region remained unchanged from an annual average of 4.5 percent in 2004 through October 2005. Overall, employment in the region is up 2.5 percent. Employment is up 1.1 percent in Mesa County. Within the region, employment growth is the strongest in Ouray County at 9.3 percent and ranges from 4.3 percent to 4.5 percent in Garfield, Rio Blanco, Delta, and San Miguel counties.

Construction indicators are mixed for the region. Based on data from F.W. Dodge and the Census Bureau, the number of housing permits increased 24.0 percent in Montrose County, but dropped 16.8 percent in Mesa County during the first ten months of 2005. However, the value of nonresidential construction more than doubled in Mesa County, but decreased almost 60 percent in Montrose County. The increase in the value of nonresidential construction in Mesa County was primarily for building related to schools and colleges. Nonresidential activity in Montrose County declined because of a large permit application last year for the construction of health care facilities.

Consumer spending in the region, as measured by retail trade sales, increased 9.6 percent in the first nine months of 2005. Double-digit growth was reported in Delta, Ouray, Garfield, and San Miguel counties. All of the other counties in the region experienced positive sales growth, ranging from 2.2 percent to 9.8 percent. For all of 2004, retail sales in the region grew 8.7 percent.

Recent Economic News:

- The construction industry, ongoing retail development, and the energy boom have resulted in a shortage of workers for the Roaring Fork Valley. A recent estimate for the northwestern region including Garfield, Eagle, and Pitkin counties, indicated that 1,985 job vacancies need to be filled. This estimate is up nearly 95 percent over the 1,020 vacancies reported last year by the Colorado Department of Labor and Employment. The higher-paying energy jobs are resulting in fewer available workers for the retail, restaurant, lodging, and construction industries. A

record number of new drilling permits is adding to worker shortages in the mining sector with a high demand for mechanics and rig workers.

- Affordable housing is becoming an issue in a number of western region counties. Affordable housing condominiums being completed in Parachute and Grand Valley are not enough to fill the demand resulting from the energy boom. In some areas, such as Carbondale, the lack of affordable housing is driven by increasing home values. Carbondale's median home value for the first three quarters of 2005 was $475,000, up 13.4 percent from $419,000 last year. In the Rifle area, many gas field workers live in motels for long-term affordable lodging. Officials expect more hotels and motels to be built throughout the region, especially near Glenwood Springs. In fact, several national motel chains have expressed interest in building in the Glenwood Springs area.

- The Cotter Corporation closed six uranium and vanadium mines in November due to increased fuel costs and limited ore production. Cotter reported that 49 miners were affected by the closures. Despite increasing prices for uranium and vanadium, Cotter was unable to make the mines profitable. The mines were too small and could not produce enough materials to make the mines viable.

- The Glenwood True Value Hardware store on Grand Avenue will close after nearly 20 years of operation. About 25 employees will be affected by the closure.

Mountain Region

The mountain region's emphasis on tourism is paying off this year with most counties in the region enjoying healthy economic growth. Counties along the Interstate 70 corridor are experiencing the most economic growth, while the economy in the northern mountains appears less than rosy. Employment is showing moderate growth and retail trade sales in the region increased at a robust rate of 9.6 percent through September. Meanwhile, the region continues to enjoy significant residential and nonresidential construction activity. Table 24 shows annual economic indicators for the region.

Table 24
Mountain Region Economic Indicators
Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, and Chaffee counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	-2.2%	0.7%	1.7%
Unemployment Rate	4.7%	4.1%	4.4%
Housing Permit Growth /2			
Eagle, Pitkin, & Summit Counties 2/	25.8%	-30.6%	39.5%
Routt County 3/	58.7%	21.5%	36.7%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	-54.6%	226.1%	5.2%
Routt County	-16.8%	125.7%	-10.3%
Retail Trade Sales Growth /4	0.4%	8.7%	9.6%

NA = Not available
1/ Colorado Department of Labor and Employment. 2003 and 2004 data are from the ES-202 program. 2005 data is from the Current Population (household) Survey.
2/ F.W. Dodge
3/ U.S. Census
4/ Colorado Department of Revenue; data through September 2005.

Through October 2005, employment in the region increased 1.7 percent compared with 0.7 percent growth for 2004. The region's tourism-related jobs appear to be continuing to respond to nationwide increases in traveling and spending with employment increases ranging from 4.5 percent in Pitkin County to 0.4 percent in Chaffee County. Employment *decreased* by 3.1 percent in Grand County and 1.3 percent in Jackson County. The northern mountain county of Routt fared better, with a 1.2 percent increase in employment through October. The region's unemployment rate was 4.4 percent through October 2005, up from 4.1 percent in 2004.

As second-homeowners and retirees from around the globe continue to invest in mountain real estate, Colorado's mountain region is expected to experience high levels of construction activity for many years. The improving national economy has resulted in a substantial increase in the construction of homes this year. Permits for residential construction increased 39.5 percent in Eagle, Pitkin, and Summit counties and 36.7 percent in Routt County through October 2005. Meanwhile, the value of nonresidential construction increased 5.2 percent in the ski counties through October, but decreased 10.3 percent in Routt County.

Recent Economic News:

- Clearwater Development Inc. will build a $950 million community called Brightwater Club Village in Gypsum. The project is scheduled to start next year and be completed by 2009. The developer will build 535 homes on 963 acres and offer custom homes starting in the $2 million range. Cabins ranging in size from 2,300 to 2,800 square feet will also be offered at prices ranging from $850,000 to $1 million. The development will feature 27 acres of lakes, trout streams, a fishing retreat, an artisan pavilion, convenience store, putting course, a wellness center and spa, and a clubhouse. Tax revenues from the project will allow the city to fund more services and pay for the construction of a $10 million recreation center, which has just recently broken ground.

- In Winter Park, Intrawest Corporation and Winter Park Resort will build a $70 million resort village called Founders Point and Fraser Crossing. Construction is expected to begin in early 2006 on two lodges that will feature 206 units starting in the mid-$200,000 range.

- Marriott Vacation Club International and Vail Resorts Inc. will construct a new fractional and wholly-owned condominium project in Keystone's River Run base area. The resort project will offer 149 multi-family units, 1,890 square feet of commercial space, and 11,000 square feet of space for skier services.

Northern Region

The economy in Weld County is quite healthy, with strong population growth and gains in employment and retail trade at rates substantially above statewide averages. Larimer County's economy is expanding at a pace more indicative of the rest of the state. Economic indicators for the northern region, which consists of Weld and Larimer counties, are shown in Table 25.

Table 25
Northern Region Economic Indicators
Weld and Larimer counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1			
Larimer County	-0.2%	2.1%	1.8%
Weld County	1.4%	3.2%	4.2%
Unemployment Rate			
Larimer County	5.2%	4.9%	4.4%
Weld County	6.4%	6.1%	5.1%
State Cattle and Calf Inventory Growth /2	-9.4%	4.2%	-12.0%
Housing Permit Growth /3			
Larimer County	-0.2%	7.1%	-10.6%
Weld County	-9.3%	10.4%	-6.5%
Growth in Value of Nonresidential Const. /4			
Larimer County	-35.8%	191.2%	-55.0%
Weld County	33.3%	24.0%	-39.8%
Retail Trade Sales Growth /5			
Larimer County	0.2%	3.5%	6.4%
Weld County	5.1%	14.6%	11.8%

NA = Not available

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents nonfarm employment.
2/ Colorado Agricultural Statistics Service report for October 1. Change is from previous year.
3/ U.S. Census
4/ F.W. Dodge
5/ Colorado Department of Revenue; data through September 2005.

Weld County's economy is in the midst of a strong expansion. According to the State Demographer's Office, Weld County's population increased 3.9 percent in 2004; only three counties experienced stronger population growth. Weld County was home to seven out of the state's ten fastest growing municipalities between 2000 and 2004. Employment is likewise showing strong gains, with 4.2 percent growth year-to-date through October. The unemployment rate is holding steady at the state's average of 5.1 percent. Meanwhile, retail trade sales increased at a robust pace of 11.8 percent year-to-date through September. The strong growth has been aided by heady activity in the state's energy industries; Weld County is home to many of the state's oil and gas reserves.

Though not yet recovered from a wave of high-tech layoffs, Larimer County's economy is exhibiting persistent health despite the layoffs and its reliance on manufacturing. Employment increased at a respectable pace of 1.8 percent year-to-date through October, and the county's unemployment rate, at 4.4 percent, is below the statewide average. Retail trade sales increased by 6.4 percent through September. According to the State Demographer's Office, Larimer County's population increased 1.4 percent in 2004, about the same rate as the state.

Construction indicators in both counties are down after a period of substantial growth. The construction declines could be viewed as a retreat to a more normal period and necessary to prevent overbuilding. They are appropriate given expectations of higher interest rates and slower growth in housing values. There are indications that the rental market is improving in the region, however. According to the Colorado Division of Housing, vacancy rates in the Fort Collins-Loveland area decreased from a high of 16 percent in early 2003 to 9 percent this fall, while the average monthly rent increased about $8 over the last year.

Recent Economic News:

- California-based video security equipment manufacturer Pelco announced plans to build

a plant in Fort Collins. The company plans to hire between 10 and 12 people initially, primarily engineers, and to eventually need 50 people to staff the plant. Pelco currently employs about 2,000 people worldwide.

- Biopharmaceutical manufacturer QLT announced plans to sell its Fort Collins manufacturing division as part of a global restructuring. An estimated 75 percent of the company's 183 employees in Fort Collins, or about 137 people, will lose their jobs. The Fort Collins plant manufactures dental and dermatology pharmaceuticals.

- Plans were announced to build the Fox Run Good Samaritan Village, a $45 million senior housing community in west Greeley. The first phase, a $15 million, 96,000-square-foot, 48-unit complex is expected to be completed in May. Long-run plans for the project include 200 apartments and 42 patio homes.

- Hooters will open a new restaurant in Loveland in a new 5,000-square-foot building and hire 50 people to staff it by May.

Eastern Region

The eastern region continues to lag other areas of the state in terms of job growth and retail sales. Employment is down 2.3 percent through the first ten months of this year. September data indicates that retail sales are up 4.9 percent in the region, although this lags the statewide average of 5.9 percent growth. Table 26 shows economic indicators for the region.

Table 26
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2003	2004	Year-to-date Thru October 2005
Employment Growth /1	-0.5%	3.9%	-2.3%
Unemployment Rate	4.2%	3.5%	4.8%
Crop Price Changes /2			
Winter Wheat	-7.7%	-9.2%	-2.4%
Corn for Grain	0.8%	13.7%	-13.2%
Alfalfa Hay	-21.1%	1.2%	17.4%
Dry Beans	-1.1%	1.7%	-37.3%
2005 is YTD through November			
State Crop Production Growth /2			
Sorghum for grain production	140.0%	25.6%	-40.0%
Corn for Grain	7.0%	16.8%	-14.4%
Sugar Beets	-12.6%	30.1%	-3.9%
2005 is YTD through November			
State Cattle and Calf Inventory Growth /2	-9.4%	4.2%	-6.0%
Retail Trade Sales Growth /3	-0.2%	5.5%	4.9%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2003 and 2004 data are from the ES-202 program. 2005 data is from the Current Population (household) Survey.

2/ Colorado Agricultural Statistics Service.

3/ Colorado Department of Revenue; data through September 2005.

The unemployment rate in the eastern region rose from an annual average of 3.5 percent in 2004 to 4.8 percent through October 2005. This rate will climb further in the first quarter of 2006 with the closure of the bus manufacturing plant in Lamar and the pickle and relish plant in La Junta. Together, these closures will displace over 450 workers. Employment declined in every county in the region with the exception of Elbert and Sedgwick counties, where employment increased 1.5 percent and 0.3 percent, respectively. Employment decreased by the greatest percentage in Baca, Kiowa, Phillips, and Washington counties.

Consumer spending in the region, as measured by retail trade sales, increased 4.9 percent in the first nine months of 2005. Several counties reported double-digit retail sales growth, including Sedwick, Cheyenne, Elbert, Kiowa, Lincoln, Baca, and Bent counties. However, Phillips, Washington, Crowley, Yuma, and Otero counties experienced declines in retail sales. Retail sales in the region grew 5.5 percent in 2004.

November 2005 crop prices and production were generally lower compared with the same month last year. Wheat prices decreased 2.4 percent and corn prices decreased 13.2 percent. Similarly, prices for dry beans decreased 37.3 percent. Alfalfa hay prices increased by 17.4 percent. Sorghum for grain production decreased 40.0 percent through November. Corn for grain production also decreased 14.4 percent and sugar beet production fell 3.9 percent from the previous year.

Meanwhile, the statewide inventory of all cattle and calves in Colorado feedlots with a capacity of 1,000 head or larger in November was down 6.0 percent from the previous year.

Recent Economic News:

- November was a bleak month for the job market in Prowers and Otero counties. Neoplan USA, a bus manufacturer based in Lamar, announced it would close its plant on January 13, 2006. The closure will result in an estimated 305 job losses. As of mid-November, 35 workers were laid off at the Lamar plant and production work will end by mid-December. Plant officials announced that the closure is attributed to a downturn in the bus industry and larger, stronger competitors. The plant is the largest single-employer

in Lamar, a town of 8,800 people. The closure will also affect parts suppliers in the region.

- One day after the Neoplan USA plant closure was announced, Bay Valley Foods announced it will close down its pickle and relish plant in La Junta. The plant closure is expected to occur in February 2006 and will affect 153 employees. Plant officials cited a decline in the "pickle business" and a significant increase in overhead costs. Bay Valley Foods had an annual payroll of $3.0 million. Bay Valley Foods was one of the major employers in La Junta.

- In contrast to the two manufacturing plant closures in the region, Harvest Foods, LLC, specializing in manufacturing "ready-to-eat" food products, will soon open a plant in Rocky Ford. Company spokespersons said Rocky Ford's proximity to agriculture in Otero County played a role in the plant's site selection. Harvest Foods will purchase products such as pinto beans, chili peppers, onions, and garlic from local growers. The company plans to hire 100 workers within 18 months after opening and could expand to 150 workers.

Appendix A
Historical Data

National Economic Indicators

(Dollar amounts in billions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Domestic Product	$5,484.4	$5,803.1	$5,995.9	$6,337.7	$6,657.4	$7,072.2	$7,397.7	$7,816.9	$8,304.3	$8,747.0	$9,268.4	$9,817.0	$10,128.0	$10,487.0	$11,004.0	$11,733.5
percent change	7.5%	5.8%	3.3%	5.7%	5.0%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	3.2%	3.5%	4.9%	6.6%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$6,981.4	$7,112.5	$7,100.5	$7,336.6	$7,532.7	$7,835.5	$8,031.7	$8,328.9	$8,703.5	$9,066.9	$9,470.3	$9,817.0	$9,890.7	$10,048.9	$10,320.6	$10,755.7
percent change	3.5%	1.9%	-0.2%	3.3%	2.7%	4.0%	2.5%	3.7%	4.5%	4.2%	4.4%	3.7%	0.8%	1.6%	2.7%	4.2%
Unemployment Rate	5.3%	5.6%	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%	5.5%
Inflation (Consumer Price Index)	4.8%	5.4%	4.2%	3.0%	3.0%	2.6%	2.8%	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%
10-Year Treasury Note	8.5%	8.6%	7.9%	7.0%	5.9%	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.3%
Personal Income	$4,571.1	$4,861.9	$5,032.2	$5,349.4	$5,548.1	$5,833.9	$6,144.7	$6,512.5	$6,907.3	$7,415.7	$7,796.1	$8,422.1	$8,717.0	$8,872.5	$9,156.1	$9,702.5
percent change	7.9%	6.4%	3.5%	6.3%	3.7%	5.2%	5.3%	6.0%	6.1%	7.4%	5.1%	8.0%	3.5%	1.8%	3.2%	6.0%
Wage and Salary Income	$2,585.7	$2,743.0	$2,811.1	$2,972.3	$3,076.3	$3,227.5	$3,415.4	$3,615.7	$3,874.0	$4,179.9	$4,463.7	$4,825.9	$4,939.9	$4,976.6	$5,105.7	$5,383.8
percent change	5.9%	6.1%	2.5%	5.7%	3.5%	4.9%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.7%	2.6%	5.4%
Nonfarm Wage and Salary Employment (millions)	108.0	109.5	108.4	108.7	110.8	114.3	117.3	119.7	122.8	125.9	129.0	131.8	131.8	130.3	130.0	131.5
percent change	2.6%	1.4%	-1.0%	0.3%	1.9%	3.2%	2.6%	2.0%	2.6%	2.5%	2.5%	2.2%	0.0%	-1.1%	-0.3%	1.1%

Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor Bureau of Labor Statistics, Federal Reserve Board.

Colorado Economic Indicators

(Dollar amounts in millions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Nonagricultural Employment (thous.)	1,482.3	1,520.8	1,544.9	1,596.9	1,670.7	1,755.9	1,834.3	1,900.3	1,979.5	2,056.6	2,131.4	2,212.4	2,225.4	2,182.5	2,150.9	2,178.6
percent change	3.2%	2.6%	1.6%	3.4%	4.6%	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-1.4%	1.3%
Unemployment Rate	5.8%	5.0%	5.1%	6.0%	5.3%	4.2%	4.0%	4.2%	3.4%	3.5%	3.1%	2.7%	3.9%	5.9%	6.2%	5.5%
Personal Income	$60,652	$64,748	$68,283	$73,794	$79,697	$85,671	$92,704	$100,233	$107,873	$118,493	$128,860	$144,394	$152,700	$153,078	$157,083	$166,153
percent change	8.5%	6.8%	5.5%	8.1%	8.0%	7.5%	8.2%	8.1%	7.6%	9.8%	8.7%	12.1%	5.8%	0.2%	2.6%	5.8%
Per Capita Income	$18,515	$19,575	$20,160	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,371	$34,479	$34,228	$34,561	$36,150
percent change	8.1%	5.7%	3.0%	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	3.3%	-0.7%	1.0%	4.6%
Wage and Salary Income	$34,666	$37,119	$39,548	$42,678	$45,736	$48,912	$52,782	$57,091	$62,364	$69,462	$76,283	$85,909	$88,297	$86,936	$87,832	$91,863
percent change	5.5%	7.1%	6.5%	7.9%	7.2%	6.9%	7.9%	8.2%	9.2%	11.4%	9.8%	12.6%	2.8%	-1.5%	1.0%	4.6%
Retail Trade Sales	$26,160	$27,544	$28,932	$31,298	$34,178	$38,100	$39,919	$42,629	$45,142	$48,173	$52,609	$57,955	$59,014	$58,852	$58,662	$62,348
percent change	5.1%	5.3%	5.0%	8.2%	9.2%	11.5%	4.8%	6.8%	5.9%	6.7%	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.3%
Housing Permits	11,131	11,897	14,071	23,484	29,913	37,229	38,622	41,135	43,053	51,156	48,874	53,749	54,537	47,911	39,446	45,585
percent change	-13.5%	6.9%	18.3%	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-4.5%	10.0%	1.5%	-12.1%	-17.7%	15.6%
Nonresidential Construction	$946	$939	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$2,986	$2,617	$3,544	$3,339	$3,373	$2,660	$2,429	3,073.0
percent change	-2.8%	-0.7%	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	26.2%	-12.4%	35.4%	-5.8%	1.0%	-21.1%	-8.7%	26.5%
Denver-Boulder Inflation Rate	1.8%	4.4%	3.9%	3.7%	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%
Population (thousands, July 1)	3,284.5	3,307.6	3,387.1	3,495.9	3,613.7	3,724.2	3,826.7	3,920.0	4,018.3	4,116.6	4,226.0	4,326.9	4,428.8	4,498.1	4,547.6	4,601.4
percent change	0.4%	0.7%	2.4%	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.0%	2.0%	2.4%	2.4%	1.6%	1.1%	1.0%

Sources: Colorado Department of Labor and Employment, U.S. Department of Commerce, Colorado Department of Revenue, U.S. Bureau of the Census, U.S. Bureau of Labor Statistics, F.W. Dodge.