Colorado
Legislative
Council
Staff

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MEMORANDUM

December 20, 2006

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2006-2011*

This memorandum presents the current budget outlook based on the December 2006 General Fund and cash fund revenue forecasts. Table 1 presents the General Fund overview based on current law. While the overall forecast has increased for both General Fund and cash fund revenue, the primary impact of the changes will indirectly accrue to the funding for highways and capital construction under current law. Figure 1 illustrates how money coming into the General Fund is distributed.

Executive Summary

Revenue Forecast. The revenue forecast increased by a total of $179.0 million for FY 2006-07. The increase was primarily due to increased expectations for individual income tax revenue to the General Fund.

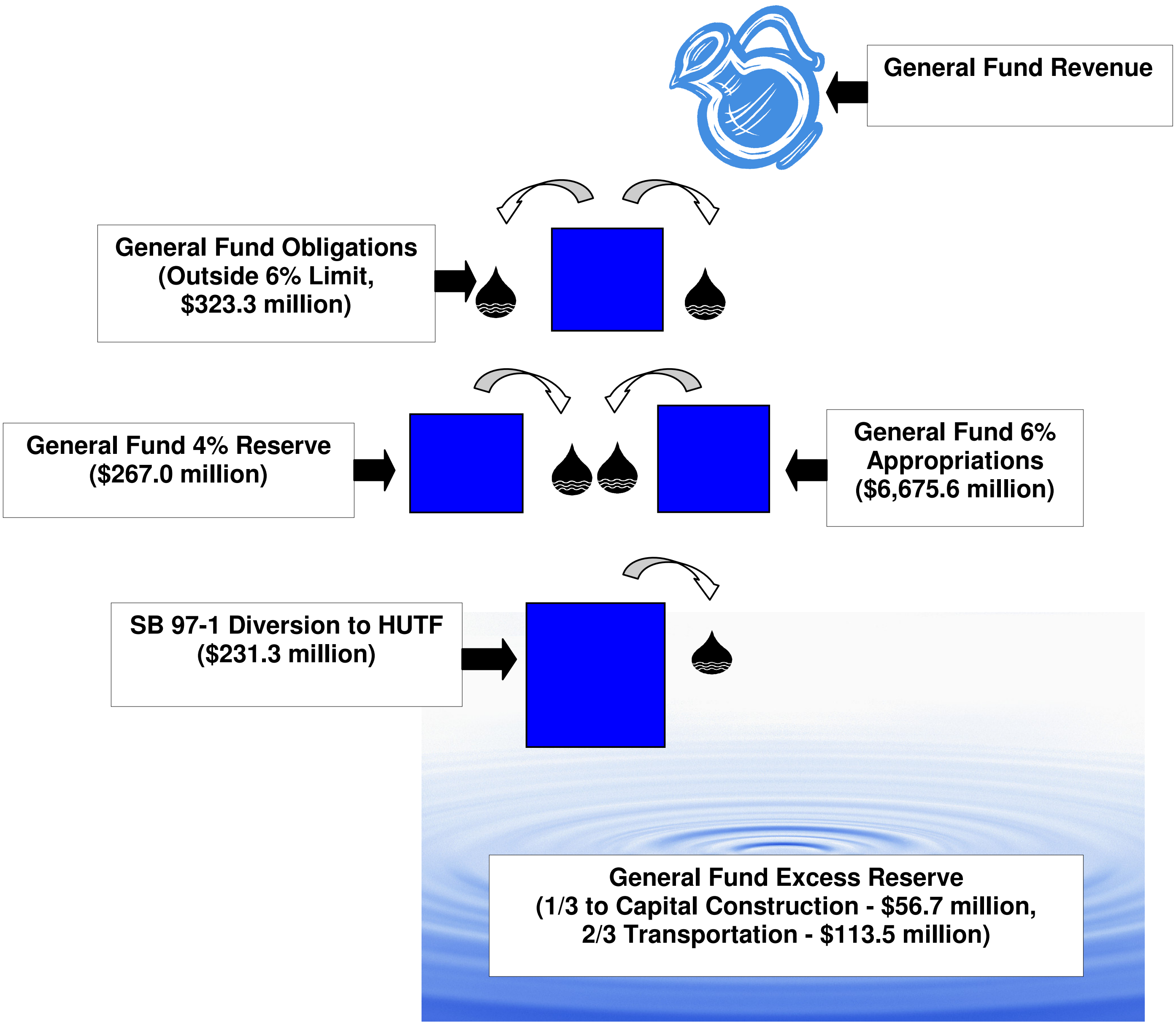
- The five-year forecast for **General Fund revenue** was increased by $1.07 billion. Of the increase, 88.6 percent was due to increases in the projections for individual income taxes. Individual income taxes have been increasing at an astonishing rate. While wage and salary income in Colorado grew by 5.7 percent in 2005 and the state's population increased by 1.4 percent, individual income taxes increased by 17.9 percent. Although major increases in capital gains income account for some of the discrepancy, the continued strong performance of individual income tax revenue in a moderate economic growth period is rare. The other areas where minor increases in the General Fund revenue forecast occurred were corporate income taxes and sales taxes. Higher than expected corporate profits and increases from federal repatriation legislation caused the increase in the corporate income tax forecast. The sales tax forecast was increased slightly as consumers continue to maintain a high level of spending despite a lull in the state's housing market and many risks to the overall state of the economy.

Table 1
December 2006 General Fund Overview
(Dollars in Millions)

		Actual 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	$335.4	$688.5	$436.5	$466.9	$509.4	$509.3
2	General Fund Nonexempt Revenue	5,848.5	6,263.6	6,568.7	6,976.7	7,590.3	8,113.7
3	General Fund Exempt Revenue	1,116.1	1,127.7	1,190.5	1,226.9	1,080.2	1,043.7
4	Senate Bill 97-1 Diversion to the HUTF	-220.4	-231.3	-241.1	-252.4	-265.1	-277.8
5	Paybacks to Other Funds	-67.1	0.0	0.0	0.0	0.0	0.0
6	Transfers from Other Funds	227.8	24.4	34.6	34.0	33.3	32.5
7	Diversion of Sales Taxes to Older Coloradans Fund	-2.0	-3.0	-3.0	-3.0	-3.0	-3.0
8	Sales Taxes to Old Age Supplemental Medical Care Fund	-0.8	-0.8	-0.8	-0.8	-0.8	-0.8
9	TABOR Surplus Liability (refunded in following year)	0.0	0.0	0.0	0.0	0.0	0.0
10	Total Funds Available	$7,237.6	$7,869.2	$7,985.4	$8,448.5	$8,944.4	$9,417.8
	APPROPRIATIONS AND OBLIGATIONS:						
11	**Allowable General Fund Appropriations***	$6,292.7	$6,675.6	$7,082.3	$7,507.2	$7,957.6	$8,435.1
12	Exceptions From the Appropriations Limit	5.0	5.8	0.0	0.0	0.0	0.0
13	Rebates and Expenditures	153.4	165.4	163.2	169.2	175.7	185.8
14	Reimbursement for Senior and Disabled Veterans Property Tax Cut	0.0	68.9	70.9	72.0	71.9	72.6
15	Funds in Prior Year Excess Reserve to HUTF	65.3	291.2	113.0	122.4	139.4	127.4
16	Funds in Prior Year Excess Reserve to Capital Construction	32.7	145.6	56.5	61.2	69.7	63.7
17	Capital Construction Transfer	10.1	80.1	32.8	7.1	20.7	20.8
18	Transfer to the Controlled Maintenance Trust Fund	0.0	0.0	0.0	0.0	0.0	0.0
19	Accounting Adjustments	-10.1	NE	NE	NE	NE	NE
20	Total Obligations	$6,549.1	$7,432.7	$7,518.6	$7,939.0	$8,435.1	$8,905.3
21	**YEAR-END GENERAL FUND RESERVE:**	**$688.6**	**$436.5**	**$466.9**	**$509.4**	**$509.3**	**$512.4**
22	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**251.7**	**267.0**	**283.3**	**300.3**	**318.3**	**337.4**
23	**GENERAL FUND EXCESS RESERVE**	**$436.8**	**$169.5**	**$183.6**	**$209.1**	**$191.0**	**$175.0**
	TABOR RESERVE REQUIREMENT:						
24	General & Cash Fund Emergency Reserve Requirement	$274.8	$283.6	$298.2	$313.2	$323.2	$337.2
25	Appropriations Growth	$361.2	$383.7	$400.9	$424.9	$450.4	$477.5
26	Appropriations Growth Rate	6.08%	6.09%	6.00%	6.00%	6.00%	6.00%
27	Addendum: Amount Directed to State Education Fund	$357.2	$383.3	$403.4	$429.2	$455.6	$482.9

Totals may not sum due to rounding.
* FY 2006-07 Appropriations are currently $6,669.2 million. The GA could still appropriate up to the figure in the table, $6,675.5 million.

Figure 1
Distribution of General Fund Revenue
(FY 2006-07)



- The forecast for **cash fund revenue** increased by a total of $76.0 million over the five-year forecast period. Growth in the estimates for unemployment insurance and motor fuel tax revenue were partially offset by a decrease in the forecast for severance taxes.

- The current five-year forecast period extends one year beyond the time-out period associated with **Referendum C**. The amount of revenue expected to be retained under Referendum C during the time-out period increased by $929.8 million. This increase represents an increase in the projections for TABOR revenue of 1.9 percent during the time-out period.

- The General Fund will have sufficient revenue to fully fund **appropriations** up to the state's 6 percent limit and to fully fund the **Senate Bill 97-1** diversion throughout the forecast period.

- The Highway Users Tax Fund **(HUTF) and capital construction** will share $930.6 million during the next five years under the provisions of House Bill 02-1310, which requires all revenue in excess of the statutory reserve requirement to be transferred two-thirds to the HUTF and one-third to capital construction. The **HUTF** will receive $2.06 billion through the Senate Bill 97-1 and House Bill 02-1310 mechanisms between FY 2006-07 and FY 2010-11. **Capital construction** will receive $396.6 million from the House Bill 02-1310 mechanism during the same period.

Economic Forecast

National Economic Forecast

- Inflation-adjusted gross domestic product (**GDP**) is expected to increase 3.3 percent in 2006. GDP increases will remain moderate in 2007 and 2008 at 3.0 percent and 3.3 percent, respectively. The housing slowdown over the next two years will restrain GDP growth.

- **Employment** growth in 2006 will remain near the 2005 level. Jobs will increase 1.4 percent this year after increasing 1.5 percent in 2005. Weakness in construction and related financial services employment from the housing slowdown will reduce the growth rate to 1.3 percent in 2007.

- The recent moderation of energy prices will help hold the national **inflation** rate to 3.3 percent in 2006. Inflation was 3.4 percent in 2005. Inflation will drop to 2.2 percent in 2007 before rising to just under 3.0 percent for the remainder of the forecast period.

Colorado Economic Forecast

- **Nonfarm employment** will increase 2.2 percent in 2006 and 2.1 percent in 2007, following 2.1 percent growth in 2005. Colorado's **unemployment rate** will average 4.5 percent in 2006, down from 5.0 percent in 2005.

- **Personal income** will increase 6.6 percent in 2006, followed by gains of 6.5 percent and 6.2 percent in the next two years. Personal income increased 6.2 percent in 2005.

- **Consumer spending** on retail goods will increase 6.3 percent in 2006 and 5.2 percent in 2007. Spending will not match income gains during these years. Consumers are faced with stagnant home values, higher energy costs, and higher levels of debt than in the past, which will hinder consumer confidence and spending.

- Lower energy prices will temper the **inflation rate** in the second half of 2006, causing overall prices in the Denver-Boulder-Greeley metro area to increase at a rate of 3.2 percent for the entire year. The inflation rate was 3.8 percent in the first half of the year. Inflation will remain in the 3.2 to 3.5 percent range for the rest of the forecast period.

- The **residential construction sector** is expected to continue a minor correction over the next two years. At this point in the business cycle, the **nonresidential construction sector** is not as overbuilt as during similar economic periods and will continue to grow over the forecast period, albeit at relatively slow rates.

Assessed Values

Statewide **assessed values** will increase 8.5 percent in 2007, a reassessment year. Oil and gas values will decrease slightly after three straight years of dramatic growth. Residential property growth will be moderate in much of the state throughout the forecast period. As a result, the **residential assessment rate** is expected to remain at 7.96 percent through 2010, before falling to 7.72 percent in 2011.

Kindergarten to Twelfth Grade Enrollment

Kindergarten through twelfth-grade public **school enrollment** is expected to increase 1.9 percent in the state, or by 13,805 full-time-equivalent students between the 2006-07 and the 2007-08 school years. Over the next five years, enrollment is projected to increase at an average annual rate of 1.6 percent. The estimated enrollment gain over the five-year period is 62,201 new students. Due to increased troop levels at Fort Carson, approximately 4,300 new students will enroll in Colorado Springs' area school districts during the next three years.

Adult Incarcerated Offender Population

The Department of Corrections **prison population** is expected to increase from 22,012 in June 2006 to 31,368 in June 2012, or about 1,560 inmates per year. This represents an average annual growth rate of 6.1 percent. Over the six-year forecast period, the male population is expected to increase at an average rate of 5.6 percent per year, or about 1,280 inmates per year. The female population is projected to grow at an average annual rate of 9.9 percent, or about 280 inmates per year. Over the entire forecast period, the current projection is slightly higher than the December 2005 projection. The **in-state parole population** is projected to increase from 6,551 in June 2006 to 12,161 in June 2012, growing at an average annual rate of 10.9 percent. The total number of parolees (those supervised in-state and out-of-state) will increase from 8,842 to15,673 during the forecast period, representing 10.0 percent average annual growth. The parole forecast was increased substantially from the December 2005 forecast.

Youth Incarcerated Offender Population

The **juvenile commitment population** will increase at an average annual rate of 1.8 percent through the forecast period, as slower-than-normal growth in the juvenile population and increased diversion program funding will limit future commitment growth. The **juvenile parole population** will increase at an average annual rate of 4.6 percent, as legislatively-mandated reductions in the mandatory parole period have now been fully implemented.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 2 illustrates revenue collections for FY 2005-06 and projections for FY 2006-07 through FY 2010-11. Despite many risks to the economic outlook, consumer spending remains strong, wages and salaries are growing, and the stock market is at record levels, leading to significant growth in state General Fund revenue.

The forecast for General Fund revenue increased $160.7 million in FY 2006-07 and by $1.07 billion over the five-year forecast period. Almost all of the increase resulted from increased estimates for individual income taxes.

Individual income taxes increased 17.9 percent in FY 2005-06. The strong growth was a result of healthy job creation and robust capital gains. Individual income taxes will increase 7.7 percent this year, a rate very similar to expected growth in personal income. Higher interest rates and other inflationary pressures will have a slight dampening effect on job creation during the next few years, and growth in individual income taxes will moderate.

The forecast for individual income taxes increased $129.3 million in FY 2006-07 and by a total of $951.4 million over the five-year forecast period. The increase in the forecast is broad based; income taxes from withholding, cash with returns, and estimated payments are all coming in faster than had been expected in September, while refunds have been paid at rates slower than expected. Wages are showing strong growth statewide and in many sectors of the economy, and the stock market continues to show healthy gains.

Corporate income tax collections are expected to total $443.1 million in FY 2006-07 and $444.7 million in FY 2007-08. This represents a slight reduction in corporate income taxes from FY 2005-06, when corporate income taxes soared to a record $447.4 million. Corporate income taxes were unusually high in FY 2005-06 because of the expiration of some tax breaks that lowered federal taxable income, high earnings by corporations, and one-time federal tax benefits that encouraged companies to repatriate foreign earnings. The latter created an incentive for companies to report additional taxable income in the U.S. Overall, the December 2006 forecast is slightly higher than the September 2006 forecast. The forecast was raised because collections through November were running ahead of the September forecast.

The **State Education Fund** 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 $357.2 million in FY 2005-06, it will receive $383.3 million in FY 2006-07 and $403.4 million in FY 2007-08.

Unexpected increases in wage and salary income prompted a $17 million increase in the FY 2006-07 forecast for **sales taxes**. However, ever-increasing debt loads are likely to temper future growth. As a result, the growth rate in sales tax revenue was reduced slightly for the out-years of the forecast. Sales tax collections will increase 5.1 percent in the current year and 4.5 in FY 2007-08. The end result is an overall increase of $66.5 million over the five-year forecast period. Similarly, the forecast for **use taxes** was increased slightly in the near-term, but growth will be limited in the long-term, as the construction industry goes through a minor correction. Overall, growth will be lower than in the past three fiscal years. Use taxes will increase 3.2 percent in the current year and 2.9 percent during FY 2007-08.

Table 2
December 2006 General Fund Revenue Estimates
(Dollars in Millions)

Category	Actual 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	$1,957.3	5.5	$2,057.2	5.1	$2,149.8	4.5	$2,253.8	4.8	$2,370.4	5.2	$2,486.5	4.9
TABOR Overview	0.0		0.0		0.0		0.0		0.0		0.0	
Use	165.9	8.5	176.7	6.5	178.5	1.0	183.3	2.7	189.4	3.3	196.3	3.6
Cigarette	48.2	-6.3	47.3	-1.9	45.6	-3.5	44.9	-1.6	44.1	-1.8	43.3	-1.7
Tobacco Products	11.2	-20.8	13.6	21.2	14.2	4.2	14.8	4.3	15.4	4.0	16.1	4.4
Liquor	32.8	5.2	34.5	4.9	35.3	2.4	36.3	2.8	37.3	2.8	38.1	2.2
TOTAL EXCISE	$2,215.5	5.3	$2,329.3	5.1	$2,423.4	4.0	$2,533.1	4.5	$2,656.5	4.9	$2,780.3	4.7
Net Individual Income	$4,376.1	17.9	$4,715.1	7.7	$4,984.8	5.7	$5,316.6	6.7	$5,652.6	6.3	$6,004.2	6.2
Net Corporate Income	447.4	42.0	443.1	-1.0	444.7	0.4	462.6	4.0	485.8	5.0	513.1	5.6
TOTAL INCOME TAXES	$4,823.5	19.8	$5,158.1	6.9	$5,429.6	5.3	$5,779.2	6.4	$6,138.4	6.2	$6,517.2	6.2
Less: Portion diverted to the State Education Fund	-357.2	13.8	-383.3	7.3	-403.4	5.3	-429.2	6.4	-455.6	6.2	-482.9	6.0
INCOME TAXES TO GENERAL FUND	$4,466.3	20.3	$4,774.9	6.9	$5,026.2	5.3	$5,350.0	6.4	$5,682.8	6.2	$6,034.3	6.2
Estate	6.8	-73.9	0.8	-88.2	0.4	NA	0.3	NA	0.3	NA	0.0	NA
Insurance	175.1	-7.4	186.4	6.5	193.3	3.7	200.5	3.7	207.8	3.6	215.2	3.6
Pari-Mutuel	3.4	-10.7	3.2	-6.2	3.1	-3.3	3.0	-3.5	2.9	-3.6	2.8	-3.8
Investment Income	33.3	20.1	33.2	-0.3	39.5	18.9	40.4	2.3	41.5	2.8	43.0	3.5
Court Receipts	27.4	4.0	26.4	-3.5	28.1	6.4	28.8	2.6	28.7	-0.5	29.5	2.8
Gaming	17.6	-56.4	17.1	-2.8	24.6	44.0	26.3	6.9	28.0	6.5	29.8	6.6
Other Income	19.3	-33.2	20.0	3.7	20.7	3.2	21.3	3.1	22.0	3.1	22.6	3.1
TOTAL OTHER	$282.9	-17.3	$287.1	1.5	$309.6	7.8	$320.6	3.6	$331.1	3.3	$342.9	3.6
GROSS GENERAL FUND	**$6,964.6**	**13.0**	**$7,391.3**	**6.1**	**$7,759.2**	**5.0**	**$8,203.7**	**5.7**	**$8,670.5**	**5.7**	**$9,157.5**	**5.6**
REBATES & EXPENDITURES:												
Cigarette Rebate	$14.1	-2.3	$13.8	-1.8	$13.4	-3.5	$13.1	-1.6	$12.9	-1.8	$12.7	-1.7
Old-Age Pension Fund	89.1	2.8	89.7	0.6	95.3	6.3	101.3	6.3	107.6	6.2	117.9	9.5
Aged Property Tax & Heating Credit	9.8	67.4	11.8	21.1	11.7	-0.9	11.7	-0.3	11.7	0.2	11.3	-3.4
Interest Payments for School Loans	11.3	NA	11.3	0.0	13.4	18.9	13.7	2.3	14.1	2.8	14.6	3.5
Fire/Police Pensions	29.1	664.6	38.8	33.4	29.3	-24.4	29.3	0.0	29.3	0.0	29.3	0.0
TOTAL REBATES & EXPENDITURES	$153.4	38.5	$165.4	7.9	$163.2	-1.4	$169.2	3.7	$175.7	3.8	$185.8	5.8

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 decrease 5.7 percent in FY 2006-07 after a 12.9 percent increase in FY 2005-06. The decrease in FY 2006-07 is due to declining unemployment insurance and severance taxes. Unemployment insurance tax rates will fall because the Trust Fund has recovered somewhat from the effects of the recession. Severance taxes will fall because of a reduction in oil and natural gas prices in 2006. Revenues will decrease by an annual average rate of 0.7 percent through FY 2010-11.

Relative to the September forecast, expectations for revenue to cash funds subject to TABOR increased $18.3 million in FY 2006-07 and by a total of $76.0 million over the five-year forecast period. While unemployment insurance and motor fuel tax receipts are expected to decline during FY 2006-07, the forecast for both were increased compared with the September 2006 estimates. These increases are being partially offset by a reduction in the forecast for severance taxes on coal and on oil and gas.

Growth in revenue to the ***transportation-related*** cash funds will be minimal over the forecast period, averaging 0.8 percent annually. Following a 3.0 percent increase in FY 2005-06, growth will be 2.4 percent in FY 2006-07. An accounting change to the official gasoline tax collections created an unexpected amount of monthly volatility in the data. Therefore, an adjustment was made to the forecast based on data from many surrounding states. The out-years of the forecast will be relatively flat because gas tax revenue will continue to wane with the increased proliferation of more fuel-efficient vehicles. Also, the result of an adjustment made based on the full implementation of ten-year driver's license renewals from the previous five-year requirement will temper growth. The forecast for the State Highway Fund was increased slightly due to the increase in funds provided from higher-than-expected revenue flowing into the excess General Fund reserve.

The forecast for ***unemployment insurance*** (UI) revenue, benefits, and the UI Trust Fund balance is shown in Table 4. Total UI revenue, which includes UI taxes and interest earnings, will *decrease* 13.4 percent in FY 2006-07 after increasing 10.6 percent in FY 2005-06, 36.1 percent in FY 2004-05, and 58.5 percent in FY 2003-04. UI tax rates increased in 2004 and 2005 because 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 prior to the recession, 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 wages, will be in effect from 2004 through 2009. The solvency tax will generate $1.0 billion between 2004 and 2009. The forecast for UI revenue increased by a total of $176.5 million relative to the September forecast. Tax rates are expected to be higher than previously projected.

After increasing 9.0 percent in FY 2005-06, total UI taxes will *decrease* 16.8 percent in FY 2006-07. UI taxes will then increase in FY 2007-08 and FY 2008-09 before decreasing in FY 2009-10 and FY 2010-11, as the solvency tax ceases to be collected. Meanwhile, benefits decreased to $286.3 million in FY 2005-06, a level consistent with a moderate economic expansion. Benefits will remain at a level consistent with moderate economic growth throughout the remainder of the forecast period.

The ***severance tax*** forecast was reduced substantially from the previous forecast due to lower-than-expected natural gas prices. Tax

Table 3
Cash Fund Revenue Estimates by Category, December 2006
(Dollars in Millions)

	Preliminary FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	Estimate FY 10-11	FY 05-06 to FY 10-11 CAAGR *
Transportation-Related	**$869.6**	**$890.5**	**$896.2**	**$888.8**	**$900.5**	**$914.9**	
% Change	3.1%	2.4%	0.6%	-0.8%	1.3%	1.6%	**0.8%**
Unemployment Insurance	**$515.2**	**$446.0**	**$481.1**	**$566.7**	**$382.9**	**$324.4**	
% Change	10.6%	-13.4%	7.9%	17.8%	-32.4%	-15.3%	**-7.4%**
Employment Support Fund	**$22.4**	**$23.3**	**$24.7**	**$25.6**	**$26.6**	**$27.8**	
% Change	4.1%	3.8%	6.2%	3.7%	4.0%	4.5%	**3.7%**
Severance Tax	**$234.3**	**$124.1**	**$182.4**	**$134.2**	**$130.4**	**$137.4**	
% Change	54.2%	-47.0%	46.9%	-26.4%	-2.9%	5.4%	**-8.5%**
Limited Gaming Fund	**$110.9**	**$121.0**	**$128.8**	**$135.5**	**$142.2**	**$149.2**	
% Change	7.5%	9.2%	6.5%	5.2%	4.9%	4.9%	**5.1%**
Insurance-Related	**$63.9**	**$65.4**	**$68.4**	**$71.9**	**$74.9**	**$78.7**	
% Change	20.1%	2.3%	4.6%	5.0%	4.3%	5.1%	**3.5%**
Regulatory Agencies	**$49.2**	**$48.7**	**$49.7**	**$50.9**	**$51.7**	**$52.9**	
% Change	-4.3%	-0.9%	2.0%	2.4%	1.6%	2.4%	**1.2%**
Capital Construction - Interest	**$3.6**	**$15.4**	**$11.4**	**$6.9**	**$4.1**	**$2.4**	
% Change	53.0%	330.1%	-26.1%	-38.9%	-41.4%	-40.3%	**-6.2%**
Controlled Maintenance Trust Fund - Interest	**$6.7**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	
Other Cash Funds	**$342.9**	**$358.1**	**$376.7**	**$396.3**	**$416.9**	**$438.6**	
% Change	26.0%	4.4%	5.2%	5.2%	5.2%	5.2%	**4.2%**
Total Cash Fund Revenues	**$2,218.6**	**$2,092.4**	**$2,219.4**	**$2,276.8**	**$2,130.1**	**$2,126.4**	
Subject to the TABOR Limit	**12.9%**	**-5.7%**	**6.1%**	**2.6%**	**-6.4%**	**-0.2%**	**-0.7%**

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.

Table 4
Unemployment Insurance Trust Fund Forecast, December 2006
Revenues, Benefits Paid, The UI Fund Balance, and Solvency
(Dollars in Millions)

	Preliminary FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	Estimate FY 10-11	FY 2005-06 to FY 2010-11 CAAGR *
Beginning Balance	$221.0	$445.4	$577.5	$722.9	$954.6	$997.5	28.6%
Plus Income Received							
Regular Taxes /A	$372.4	$262.0	$226.5	$236.1	$251.4	$269.8	-5.2%
Solvency Taxes /B	$128.2	$155.6	$219.4	$285.4	$74.2	$0.0	
Interest	$14.6	$28.4	$35.3	$45.1	$57.3	$54.6	24.5%
Total Revenues	**$515.2**	**$446.0**	**$481.1**	**$566.7**	**$382.9**	**$324.4**	-7.4%
% Change	10.6%	-13.4%	7.9%	17.8%	-32.4%	-15.3%	
Less Benefits Paid	($284.3)	($290.7)	($311.0)	($309.4)	($313.4)	($322.9)	2.1%
% Change	-14.7%	2.3%	7.0%	-0.5%	1.3%	3.0%	
Federal Reed Act Transfer	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	($6.5)	($23.3)	($24.7)	($25.6)	($26.6)	($27.8)	NA
Ending Balance	**$445.4**	**$577.5**	**$722.9**	**$954.6**	**$997.5**	**$971.1**	13.9%
Solvency Ratio:							
Fund Balance as a Percent of Total Annual Private Wages	0.61%	0.72%	0.85%	1.05%	1.04%	0.95%	7.8%

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 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 2009.

collections in 2006-07 are projected to be $124.1 million, which represents a 47 percent reduction from FY 2005-06, when $234.3 million was collected. Record storage levels and mild weather have contributed to a drop in natural gas prices this fall. The prior forecast assumed that natural gas wellhead prices would average $6.83 per thousand cubic feet (mcf) in 2006 and $7.41 per mcf in 2007. The current forecast assumes prices will average $6.21 per mcf in 2006 and $6.73 per mcf in 2007. The lower wellhead price accounts for most of the change in the severance tax forecast.

The drop in the forecast for severance taxes may impact the funding of several bills that passed during the last legislative session. In particular, the following bills transferred money from the Operational Account of the Severance Tax Trust Fund, providing the ending balance of the Operational Account exceeded certain statutory reserve requirements (FY 2006-07 appropriations in parentheses):

- HB06-1200 Low-Income Energy Assistance ($11 million);
- HB06-1322 Clean Energy Development Fund ($2.6 million);
- HB06-1393 Soil and Water Conservation ($450,000);
- SB06-179 Water Projects - Colorado Water Conservation Board ($10 million);
- SB06-183 Colorado Water Resources Research Institute ($500,000); and
- SB06-229 National Deep Underground Science Laboratory ($1 million).

Based on the current severance tax forecast and approved appropriations, the statutory reserve requirement will not be met in FY 2006-07 or any of the subsequent fiscal years. It has not been determined how the funding priorities for these bills should be set if the statutory reserve requirement could be satisfied by funding only some of the bills.

In addition, four other bills were passed that transferred money from the Operational Account of the Severance Tax Trust Fund regardless of the statutory reserve requirement. These bills include:

- HB06-1311 Species Conservation ($8.8 million)
- HB06-1313 Water Litigation ($2.0 million)
- HB06-1400 Interbasin Compact Charter ($931,000)
- SB06-193 Development of Underground Water Storage ($146,000)

Total ***gaming*** revenue, which includes taxes, fees, and interest earnings, will increase 9.2 percent in FY 2006-07 and at an average annual rate of 5.1 percent through FY 2010-11.

All ***other cash fund revenue*** will increase 4.5 percent in FY 2006-07 and at an annual rate of 4.2 percent over the forecast period. The forecast for revenue to these funds did not change materially from the September forecast.

National Economy

This section reviews the recent performance of the U.S. economy and presents the December 2006 national economic forecast. A discussion of the major risks to the forecast follows.

Recent data. The preliminary estimate of growth in inflation-adjusted gross domestic product **(GDP)** for the third quarter of 2006 was revised from 1.6 percent to 2.2 percent, remaining below the growth rates of 5.6 percent and 2.6 percent for the first and second quarters, respectively. The lower second and third quarter figures likely present a clearer picture of recent trends after the slowdown following the hurricanes in 2005 and the rapid growth from rebuilding in the first quarter of 2006. Finally, growth is being bolstered by continued healthy personal consumption, which increased 2.9 percent in the third quarter.

Nonfarm employment increased by 132,000 jobs in November, roughly equaling the average growth seen over the prior six months, but well off the pace set for the year ending in March 2006 (169,000 new jobs per month). About one-third of the growth (41,000 jobs) occurred in the education and health services sector. Other service-producing sectors also fared well, as the sector gained a total of 172,000 in November. Meanwhile, the manufacturing sector lost 15,000 jobs, while the construction sector continued to be hit by the weak housing market, losing 29,000 jobs. The retail trade sector signaled the beginning of the holiday season by gaining 20,000 jobs.

With the exception of October, job creation has been relatively strong over the last several months. The unemployment rate remained low at 4.5 percent in November.

Personal income increased 0.4 percent in October, on par with most of 2006. The increase was mostly due to increased wages. *Consumer spending* increased 0.2 percent in October, the third straight slow month after a strong early summer. *Consumer confidence* is high as we head into the holiday season, though any cause for celebration will be muted by the fact that consumers are much more comfortable with the current situation than they are about expectations for future growth. Overall, consumers appear content to continue to spend in the near term, with the savings rate for the last several months showing between a negative 0.5 and 0.7 percent.

The **manufacturing sector** remained relatively flat through much of the fall. The *Institute for Supply Management's Purchasing Managers Index* decreased to below 50 in November for the first time since April 2003, when the Iraq War caused a temporary slowing. The index indicated that new orders, production, and employment are all slowing, but only slightly. Any value over 50 signifies an expected expansion in manufacturing activity. Analysts believe that the worst is behind us, with an expected return to an index over 50 for December. In particular, the weakening of commodity prices and the auto industry, which helped drive the recent decline, are expected to have hit bottom.

The country's largest economic concern is the slowing **housing market.** Most of the losses that occurred in September, when the median new home sales price fell 9.3 percent over a year before, were recovered in October. Total sales of new single-family homes fell 3.2 percent in October compared with September figures, and fell 16.7 percent below October 2005 figures. Though more stable than the new home market, sales of existing homes are still on a slow and steady decline. Seven of the last eight months saw a decline in existing home sales, while the median price of existing homes sold fell 3.5 percent from October 2005 to October 2006. Factors contributing to the weakening housing market include rising inventories, declining home values, and rising interest rates. The home market may continue to get worse before it gets better, especially if mortgage rates rise. The supply of homes for sale continued to increase in October to 7.4 months, up 34.4 percent over October 2005 figures.

Due largely to decreases in energy costs, **inflation** decreased significantly over the last three months. Following significant jumps throughout the spring and summer, the consumer price index has fallen more than one percent since August. Overall, the index in November was 2.0 percent higher than in November 2005, easing any inflation concerns in the near term. The core index, which excludes the more volatile food and energy prices, rose at a slightly higher rate of 2.6 percent over the past twelve months.

The National Economic Outlook. This section presents the forecast and risks for the national economy. The detailed forecast can be found in Table 5.

- After a strong rebound in the first quarter of 2006, the economy has already shown signs of returning to a more moderate long-term growth rate. The weaker housing market will contribute to the slower growth. GDP will increase 3.3 percent in 2006, a number bolstered by the economy's strong first quarter growth. The slowdown will extend into 2007, when GDP will increase by 3.0 percent. However, because many businesses are seeing solid profits, productivity continues to be robust, and other countries economies are expanding, the United States economy will continue to grow.

- Recent job growth has shown an inconsistent pattern of growth that will likely lead to more moderate overall growth in the near future. As a result, overall growth in **nonfarm employment** is expected to be 1.4 percent in 2006, with uncertainty breeding slower growth in future years. The softening housing market will contribute to a decline in employment in construction and in financial services, which will lead to weakening job growth overall in 2007. Nonfarm employment will increase 1.3 percent in 2007. The unemployment rate will be 4.6 percent in 2006. The rate will continue to tick downward in 2007, but will start to increase slightly during the remainder of the forecast period.

- **Personal income** will increase 6.4 percent in 2006 as a tight labor market will keep upward pressure on wages. Wage and salary income will increase 6.9 percent in 2006, before returning to more moderate rates in the remainder of the forecast period.

- The surge in energy prices has waned, which has allowed inflation to moderate significantly in the last few months. As a result the national consumer **inflation rate** is expected to be near the 2005 level of 3.4 percent. Led by moderate energy and food prices, the inflation rate will fall to 2.2 percent in 2007 and remain below 3 percent throughout the remainder of the forecast period.

- Inflation, increasing interest rates, and a more abrupt decline in the housing market are the primary **forecast risks**. Energy prices have moderated, easing some inflation fears. Meanwhile, relatively low mortgage rates, as well as new mortgage products, have helped avoid a greater weakening in the housing market to this point. Finally, construction employment, which has been a major contributor to overall employment growth, is beginning to show significant weakening, leading to slower economic growth in the future.

Table 5
National Economic Indicators, December 2006 Forecast
(Dollars in Billions)

	2000	2001	2002	2003	2004	2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010
Inflation-adjusted GDP	$9,816.9	$9,890.7	$10,048.8	$10,301.1	$10,703.3	$11,048.6	$11,414.4	$11,756.8	$12,143.3	$12,527.3	$12,897.5
percent change	3.7%	0.8%	1.6%	2.5%	3.9%	3.2%	3.3%	3.0%	3.3%	3.2%	3.0%
Nonagricultural Employment (millions)	131.8	131.8	130.3	130.0	131.4	133.5	135.3	137.0	138.7	140.5	142.2
percent change	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.5%	1.4%	1.3%	1.2%	1.2%	1.2%
Unemployment Rate	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.3%	4.4%	4.5%	4.6%
Personal Income	$8,429.7	$8,724.1	$8,881.9	$9,163.6	$9,731.4	$10,239.2	$10,894.5	$11,570.0	$12,244.5	$12,953.2	$13,373.8
percent change	8.0%	3.5%	1.8%	3.2%	6.2%	5.2%	6.4%	6.2%	5.8%	5.8%	3.2%
Wage and Salary Income	$4,829.2	$4,942.8	$4,980.9	$5,112.7	$5,392.1	$5,664.8	$6,055.7	$6,410.8	$6,780.5	$7,173.0	$7,406.0
percent change	8.1%	2.4%	0.8%	2.6%	5.5%	5.1%	6.9%	5.9%	5.8%	5.8%	3.2%
Inflation (Consumer Price Index)	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.3%	2.2%	2.7%	2.9%	2.8%
10-year Treasury Note	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.9%	5.0%	5.3%	5.5%	5.6%

Colorado Economy

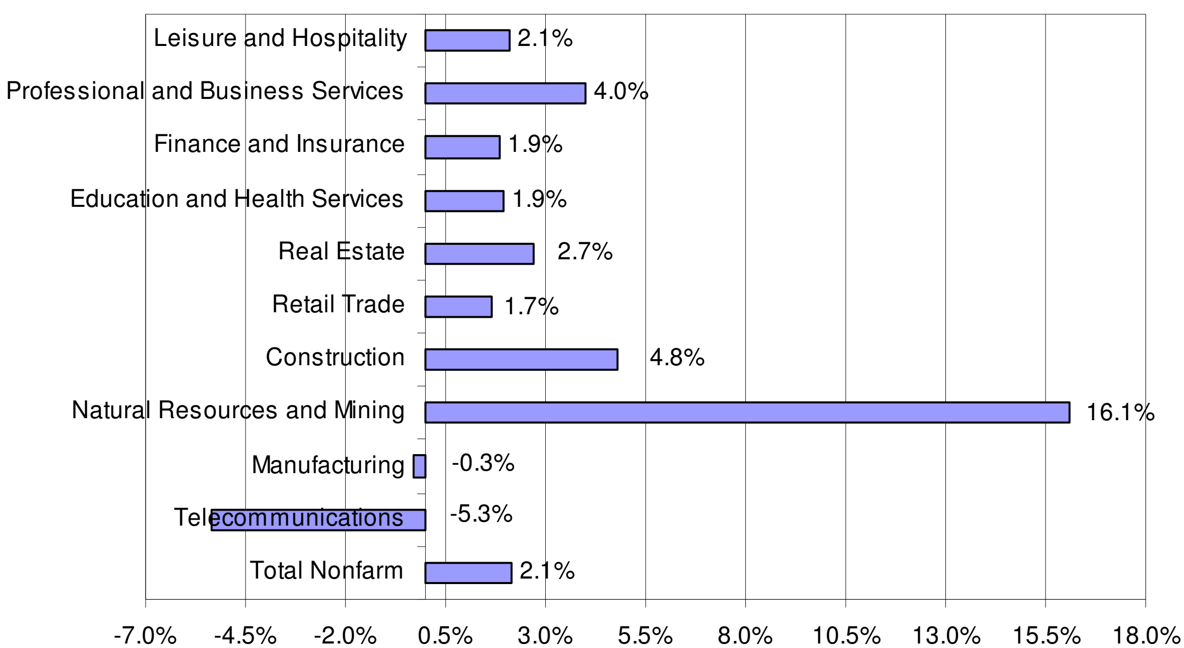
Colorado's economy continues to expand at a healthy, yet moderate, pace. Employment, consumer spending, and nonresidential construction are increasing at rates suggestive of a mature expansion. However, housing is a concern; the number of single-family construction permits issued, existing home sales, and median sales prices of homes are dropping. The detailed Colorado forecast is shown in Table 6.

Nonfarm employment in Colorado is increasing at the same rate as in 2005. It increased 2.1 percent year-to-date through October, a rate higher than employment growth nationally, but below the skyrocketing employment growth experienced by the state in the late 1990s. On a seasonally adjusted basis, the state has added an average of 3,130 jobs per month in 2006. Colorado's unemployment rate fell to 4.1 percent in October.

Figure 2 shows the percent change in employment year-to-date through October in important sectors in Colorado. After strong growth in the first half of the year, the weakening housing market in Colorado is beginning to result in some weakness in the housing-related job market. In particular, specialty trade contractors, building construction, and real estate industries have shed jobs in the past few months on a seasonally adjusted basis. However, these industries are still posting increases year-to-date due to their strong growth in the first part of the year.

Mirroring the national trend, Colorado continues to shed manufacturing jobs. Further, the telecommunications industry still has not rebounded from its contraction that began five years ago and is cutting jobs again this year. In contrast, natural resources and mining continue to add jobs at a very strong pace as the increasing demand for energy and higher energy prices

Figure 2
Employment Percent Change in Selected Colorado Industries
(Year-to-Date through October)



Source: Colorado Department of Labor and Employment, Current Employment Statistics drives increases in exploration and drilling. Further, the professional and business services sector – a sector important to the state due its size and high wage levels – continues to post solid employment growth. This sector's job growth helped lead the state out of the last recession and will be important as the state continues to expand its employment base.

Recent gains in the labor market are expected to continue with on-going benefits from the oil and gas industry's growth, a growing advanced technology sector, and continued federal defense spending. These growing industries will help fuel demand for workers with the expertise and support provided by businesses in the professional and business services sector. These factors, combined with the state's natural amenities and highly-educated workforce, should continue to fuel job growth during the next few years. Further, the Manpower Inc. Employment Outlook Survey shows that, on average, 33 percent of employers in the major employment areas of the state intend to hire workers in the first quarter of 2007, 46 percent intend no hiring changes, and only 15 percent intend to decrease their workforces.

- **Nonfarm employment** will see a 2.2 percent growth rate in 2006 and 2.1 percent in 2007.

- Colorado's **unemployment rate** is expected to average 4.5 percent in 2006, and rise slightly to 4.6 percent in 2007.

After increasing 6.2 percent in 2005, **personal income** in Colorado increased 6.8 percent in the first half of 2006, compared with the first half of 2005. After a 5.7 percent increase in 2005, **wages and salaries** increased 8.4 percent in the first half of 2006. Wages and salaries increased at double-digit rates in several industries through the first half of 2006: 20.8 percent in mining; 20.3 percent in arts, entertainment, and recreation; 13.2 percent in construction; and 11.9 percent in finance and insurance. Government saw the lowest increase, at 3.5 percent.

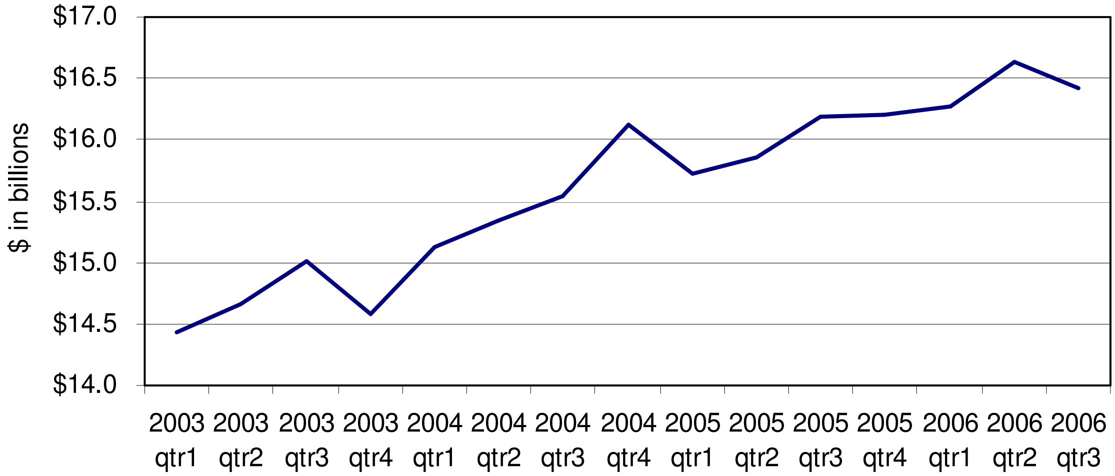
- Personal income and wages are expected to continue to show relatively strong growth over the next few years. **Personal income** will increase 6.6 percent in 2006 and 6.5 percent in 2007, while **wages and salaries** will increase 7.6 percent in 2006 and 6.8 percent in 2007.

Consumer spending is a major driving force of the state's economy. Consumer spending in Colorado is measured by spending at the state's retail stores and restaurants. Although retail sales make up only about one-third of consumer spending (the rest is spending on services), it still presents a useful measure of the health of the economy. Through September, **retail trade sales** increased 6.5 percent compared with the same time period in 2005. Figure 3 shows the trend of increasing retail sales in Colorado since 2003. As can be seen in the regional sections, heady growth has been experienced in 2006 on the western slope, in the mountain region, and in the San Luis Valley and southwestern region.

- Steady employment and wage growth will help buoy sales throughout the remainder of the year. **Retail sales** are expected to increase 6.3 percent in 2006, but will slow somewhat in 2007 to a 5.2 percent growth rate as consumers cut back due to their high debt levels and less optimism about their home values. Consumers felt wealthier in recent years due to increasing home values and had been tapping into their equity to fuel spending. Thus, slower appreciation of home values and a weaker housing market overall should temper spending.

Inflation in the Denver-Boulder-Greeley area was 3.8 percent for the first half of 2006, the highest mark since the second half of 2001. In 2005, inflation was 2.1 percent. The housing component, which is based on the local rental market and makes up over 40 percent of the index, finally turned positive after several years of declines. High energy and transportation prices during the first half of 2006, particularly a 25

Figure 3
Retail Sales in Colorado, 1st Quarter of 2003 to Third Quarter of 2006
(Seasonally Adjusted, in 2003 Dollars)



Source: Colorado Department of Revenue

percent jump in gasoline prices, also contributed to the rise. Finally, prices for apparel jumped 14 percent.

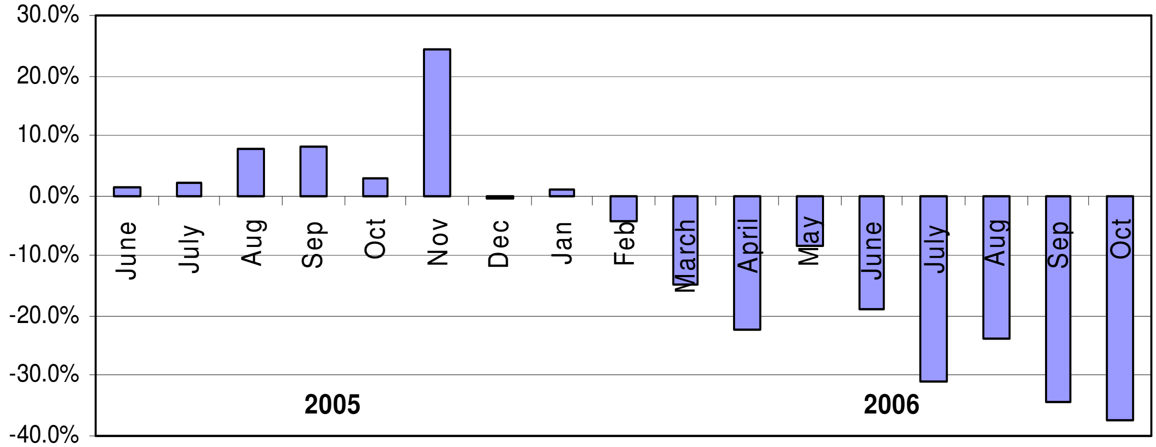
- **Inflation** will temper somewhat due to lower gasoline prices in the second half of the year, resulting in a 3.2 percent rate for all of 2006. Inflation will fluctuate between 3.2 percent and 3.5 percent throughout the forecast period.

As an indicator of the weakening of the housing market in Colorado, the number of **housing permits** issued in the state is continuing a downward trend that began at the beginning of 2006. They are down 12.6 percent through October, driven by a decline in permits for single-family homes of 19.6 percent. Figure 4 shows the monthly decline (year over year) in single-family permits since June 2005. Housing construction has deteriorated throughout the year. This trend is evident in most regions of the state as indicated in the regional sections that follow. Declining permits are especially prevalent in the larger Front Range metro areas from Colorado Springs to Fort Collins. However, the smaller markets of Pueblo and Grand Junction are reporting increases.

For further evidence of the weakening housing market, sales of existing homes in Colorado were down 8.6 percent in the third quarter of 2006 compared to the same period in 2005, according to the National Association of Realtors. However, this decline in sales is not as steep as in some other states, such as Arizona (-36.0 percent), California (-28.6 percent), Florida (-34.2 percent), and Nevada (-38.0 percent). In addition, according to data from the Colorado Association of Realtors, the median price of single-family homes sold in November in Colorado was 18.1 percent lower than in November of 2005, after declining 2.2 percent in October. However, the average monthly median price of single-family homes sold in 2006 is 2.9 percent higher than the prior year. It increased 10.5 percent in 2005.

Adding to the concern surrounding the housing market is the large number of foreclosures in the state. Colorado has posted the nation's highest foreclosure rate for much of the past year. The state had the second highest foreclosure rate in November. A high rate of foreclosures increases the inventory of homes on the market, resulting in further downward pressure on prices.

Figure 4
Monthly Change in Single-Family Home Permits in Colorado, June 2005 to October 2006 (Year-over-Year)



Source: U.S. Census Bureau

In contrast to the single-family housing market, after years of weak market indicators, there is renewed interest in the multi-family housing market. Permits for multi-family homes are showing a 35.0 percent increase through October. A large supply of homes on the market, a high rate of foreclosures, and the high cost of single-family housing in Colorado has resulted in increased demand in the apartment market. This increased demand is causing lower vacancy rates and higher rents.

- Overall, the single-family **housing** market is expected to undergo a correction over the next three years before recovering in 2009, while the number of multi-family permits are expected to grow in the next two years.

The value of **nonresidential construction** activity increased 3.9 percent through October. The value of permits in the commercial sector – the largest nonresidential construction sector – continues to be strong, with a 26.3 percent increase. Growth in this sector is particularly robust in garage and service stations and hotels and motels. Stores and food service facilities and warehouses (excluding manufacturing-owned) are the only weak segments of the commercial building sector, with declines of 18.3 percent and 22.7 percent, respectively, through October. The growth in the value of permits for schools and colleges is robust, posting a 41.9 percent increase through October.

- The value of nonresidential construction activity will increase 5.1 percent in 2006 and be relatively flat in 2007, increasing 0.4 percent. However, the nonresidential sector will grow again in 2008, posting a 4.0 percent increase.

In summary, the state's economy is expected to continue to grow at a moderate pace through 2007, mostly due to growth in Colorado's advanced technology, defense, tourism, and natural resource industries. Concerns related to the housing market remain. In particular, a decline in industries related to the housing market, such as the construction, financial services, and real estate industries, could ripple through other areas of the economy and impact consumer confidence and spending. Further, if the high level of foreclosures persists and contributes to a further decline in home values, it will adversely affect consumer confidence and spending. However, thus far, it appears as though the contraction will mostly stay contained within housing-related industries. Thus, the economy appears to be headed for a soft landing rather than a prolonged, significant downturn.

Table 6
Colorado Economic Indicators, December 2006 Forecast
(Calendar Years)

	2001	2002	2003	2004	2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Population (thousands), July 1	4,427.0	4,498.4	4,548.1	4,601.8	4,665.2	4,753.8	4,839.4	4,926.5	5,025.0	5,120.5	5,217.8
percent change	2.3%	1.6%	1.1%	1.2%	1.4%	1.9%	1.8%	1.8%	2.0%	1.9%	1.9%
Nonagricultural Employment (thousands)	2,226.8	2,184.1	2,152.8	2,179.6	2,225.2	2,273.0	2,319.9	2,371.6	2,422.6	2,478.4	2,537.1
percent change	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.2%	2.1%	2.2%	2.2%	2.3%	2.4%
Unemployment Rate	3.8	5.7	6.1	5.6	5.0	4.5	4.6	4.3	4.3	4.2	4.2
Personal Income (millions)	$152,700	$153,066	$154,887	$164,587	$174,754	$186,280	$198,368	$210,574	$223,350	$236,804	$251,107
percent change	5.8%	0.2%	1.2%	6.3%	6.2%	6.6%	6.5%	6.2%	6.1%	6.0%	6.0%
Wage and Salary Income (millions)	$88,297	$86,938	$88,008	$92,059	$97,263	$104,666	$111,755	$119,046	$126,631	$134,756	$143,357
percent change	2.8%	-1.5%	1.2%	4.6%	5.7%	7.6%	6.8%	6.5%	6.4%	6.4%	6.4%
Retail Trade Sales (millions)	$59,014	$58,850	$58,689	$62,288	$65,447	$69,573	$73,201	$76,892	$80,814	$85,175	$89,598
percent change	1.8%	-0.3%	-0.3%	6.1%	5.1%	6.3%	5.2%	5.0%	5.1%	5.4%	5.2%
Home Permits (thousands)	55.0	47.9	39.6	46.5	45.9	38.6	37.7	37.6	37.8	40.0	42.4
percent change	0.8%	-13.0%	-17.3%	17.5%	-1.3%	-15.9%	-2.4%	-0.1%	0.4%	5.8%	6.1%
Nonresidential Building (millions)	$3,500	$2,787	$2,713	$3,291	$3,676	$3,863	$3,879	$4,033	$4,246	$4,419	$4,623
percent change	0.7%	-20.4%	-2.7%	21.3%	11.7%	5.1%	0.4%	4.0%	5.3%	4.1%	4.6%
Denver-Boulder Inflation Rate	4.7%	1.9%	1.1%	0.1%	2.1%	3.2%	3.5%	3.4%	3.2%	3.2%	3.3%

School Enrollment Projections

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.

- Colorado's kindergarten to twelfth grade enrollment is expected to increase 1.87 percent, or by 13,805 full-time-equivalent (FTE) students, in the 2007-08 school year. The preliminary increase for the 2006-07 school year was 11,135 FTE students. The latter increase was the largest in five years.

- During the five-year forecast period, school enrollment will increase at an average annual rate of 1.63 percent, leading to 62,201 new students in the state. From school years 2000-01 to 2004-05, gains in student enrollment were considerably smaller. Escalating migration to Colorado as the economy remains strong relative to the nation, combined with significantly higher births during the past five years, are responsible for the stronger growth rates during the forecast period.

- The Colorado Springs region will have the strongest rate of growth in the 2007-08 school year and the remainder of the forecast period. The redeployment of troops and their families to Fort Carson and ongoing strong growth in the Falcon school district will lead the region to the state's highest gains. The largest part of the deployment will occur in the 2007-08 school year and push up statewide growth to the highest gain over the five-year forecast period.

Preliminary Statewide Forecast Results. One of the difficult forecasting aspects in recent years has been to estimate the number of students who enroll in online schools. This enrollment has nearly tripled in the past three years to 9,162 students in the current school year. This forecast holds the number of online program students constant for a couple of reasons. First, it is unclear whether sometimes adverse publicity regarding these schools will affect enrollment trends. Second, an audit of these schools by the Colorado Department of Education may deny funding for some online students. When these issues are settled, a final forecast by school district will be conducted. Nonetheless, the total number of students that must be funded would not change significantly although the distribution of funding by school district would vary substantially in some school districts.

Preliminary estimates of the FTE enrollment in the current school year was 737,106 students. This represented an increase of 1.53 percent, or 11,135 students. This increase was the largest in several years.

During the latter part of the 1990s, Colorado's favorable economic conditions translated into strong enrollment growth. However, the state's economic recession that started in 2001 and a modest recovery led to lower migration of families to Colorado, as well as the departure of families seeking better jobs in other states. This translated into much smaller increases in enrollment between 2001 and 2005. Enrollment for the current school year picked up significantly.

The state's modest economic recovery has gained sufficient steam that higher migration levels into Colorado will result in upcoming years. Births have been significantly higher (14.3 percent, or 8,600 births per year) over the past five years, compared with the previous five-year period. The entry of this age cohort into the school system, combined with the increased migration, will boost enrollment during the forecast period. FTE enrollment in the 2007-08 school year is expected to increase 1.87 percent, or by 13,805 students. During the forecast period, enrollment is expected to increase at a compound average annual growth rate of 1.63 percent. The state will need to fund an additional 62,201 students during the next five years. While the five-year growth rates will exceed the average annual growth rate of 1.0 percent during the first half of the decade, it will not match the 2.0 percent average growth during the last half of the 1990s.

Preliminary Regional Forecast Results. Table 7 identifies the anticipated growth in FTE enrollment over the next five years for each of Colorado's regions.

Continued economic growth along portions of the front range will help the Colorado Springs, metro Denver, and northern Colorado regions dominate gains in enrollment over the forecast period. Enrollment in the **Colorado Springs** region will be boosted by the arrival of the 4th Infantry Division at the Fort Carson army base. An estimated 8,000 to 10,000 troops from Fort Hood, Texas, will move to Fort Carson beginning in 2007. An estimated 14,000 spouses and children will accompany the troops. Approximately 4,300 school-age children are expected to enroll in area schools over the next three years. The timing of the arrivals is already later than expected. This forecast assumes that one half of the troops will arrive before the beginning of the 2007-08 school year and that one quarter will arrive over each of the following two years. The initial influx of students into the region will double the expected growth rate to 4.1 percent in 2007-08 for an overall increase of 4,117 students. During the forecast period, the Colorado Springs region is expected to increase at a 3.1 percent annual pace.

Enrollment in the **metro-Denver** region will increase 1.8 percent in 2007-08. The Douglas County and Brighton school districts will dominate enrollment growth in the region and the state. Douglas County is expected to add 14,700 students and account for 23.6 percent of the total

Table 7
Regional Growth in FTE Enrollment

Region	Prelim. 2006-07	Est. 2007-08	Percent Change	Est. 2008-09	Percent Change	Est. 2009-10	Percent Change	Est. 2010-11	Percent Change	Est. 2011-12	Percent Change	Average Growth
Metro-Denver	411,043	418,393	1.8%	425,041	1.6%	432,202	1.7%	439,117	1.6%	446,613	1.7%	1.7%
Colorado Springs	101,372	105,489	4.1%	108,401	2.8%	111,686	3.0%	114,617	2.6%	117,913	2.9%	3.1%
Northern	72,444	73,539	1.5%	74,775	1.7%	75,967	1.6%	77,220	1.7%	78,530	1.7%	1.6%
Western	46,211	47,218	2.2%	47,799	1.2%	48,357	1.2%	48,827	1.0%	49,320	1.0%	1.3%
Pueblo	30,868	31,006	0.4%	31,238	0.7%	31,393	0.5%	31,475	0.3%	31,577	0.3%	0.5%
North Central Mountains	20,163	20,369	1.0%	20,478	0.5%	20,652	0.8%	20,815	0.8%	20,941	0.6%	0.8%
North Central Plains	17,851	17,875	0.1%	17,805	-0.4%	17,726	-0.4%	17,660	-0.4%	17,673	0.1%	-0.2%
Southeast	15,510	15,371	-0.9%	15,243	-0.8%	15,141	-0.7%	14,992	-1.0%	14,850	-1.0%	-0.9%
Southwest	14,005	14,133	0.9%	14,276	1.0%	14,334	0.4%	14,433	0.7%	14,562	0.9%	0.8%
San Luis Valley	7,641	7,523	-1.5%	7,455	-0.9%	7,413	-0.6%	7,344	-0.9%	7,337	-0.1%	-0.8%
Statewide Total	737,106	750,912	1.9%	762,509	1.5%	774,868	1.6%	786,499	1.5%	799,313	1.6%	1.6%

enrollment gains in the state over the next five years. Brighton will add 6,400 students and account for 10.3 percent of statewide growth. The Cherry Creek and Northglenn school districts will add 6,000 and 4,900 students, respectively. The state's two largest school districts, Jefferson County and Denver, will continue to lose students. The two districts have been impacted by aging populations, transfers to private schools, and the loss of students to online education programs in recent years. These factors will still influence upcoming enrollment trends.

The **northern** region includes school districts in Larimer and Weld Counties. The southernmost school districts of the region have been influenced by families seeking more affordable housing than can be found in metro Denver. These trends are expected to continue during the forecast period. The region will increase at an annual pace of 1.6 percent. The Greeley school district enrolled fewer students this fall for the first time in at least 15 years. Enrollment could have been impacted by the area's high foreclosure rate. Weld County had the nation's highest foreclosure rate for several months during 2006. Many families may have left the region after losing their homes in foreclosure proceedings. The extent that the recent crackdown by the Immigration and Naturalization Service at the Swift packing plant in Greeley will influence enrollment is unknown. The estimates of enrollment growth in 2007 for the Greeley School District were conservative.

The **western** region had the state's highest growth rate in 2006 at 3.2 percent. (This statement ignores the 12.6 percent gain in the southeast region that was caused by large gains in online education programs administered by some of the region's school districts.) Employment gains in the mining industry are driving the western region's growth. The rise of natural gas prices has induced increased exploration and drilling. The movement of families attracted to the high wages offered by the mining industry boosted enrollment in 2006. The western region will have above-trend enrollment growth again in 2007 before returning to more normal growth rates.

Enrollment changes in the **southeast** region have been dominated by online education programs in recent years. Absent these programs, the region has experienced a long-term decline in enrollment. However, over the past two years, online enrollment in the state has increased nearly threefold. The Vilas and Branson school districts accounted for nearly 5,200 online students and 57 percent of the total enrollment in such programs in 2006. As mentioned above, the future of these programs and their enrollment trends will perhaps be driven by outside factors.

Other eastern Colorado counties in the **north central plains** region, as well as the **San Luis valley** region, will experience enrollment declines in each year of the forecast period. This matches the trend in recent years as the regions' populations age and families with school-age children leave the regions for better economic opportunities.

The **Pueblo** region, consisting of Pueblo, Fremont, and Custer counties, will see an increase of 0.4 percent in 2007, matching the increase for the current school year. The vast majority of growth in this region will come from the Pueblo Rural School District. The region will have an average growth rate of 0.5 percent during the forecast period.

Finally, the average pace of growth in the **north central mountain** region and the **southwest** region will be 0.8 percent. Tourism and construction of second homes in the ski counties are the key economic drivers in most of the school districts in these regions. These facets of the economy are expected to remain stable over the forecast period.

Risks to the forecast. The relative strength of the Colorado economy is the primary risk to the forecast. As mentioned at the beginning of this report, increased migration to the state will drive growth rates above those witnessed during the first half of the decade. If a national recession affects Colorado to a greater extent than the nation, weaker migration to the state will occur and families will leave Colorado in search of better job opportunities. This forecast has been significantly driven by the deployment of troops to Fort Carson. If the deployment does not occur to this extent, enrollment gains will be lower.

Assessed Value Projections

This section provides preliminary projections of assessed values and the residential assessment rate through 2011. 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 in early January following receipt of additional information from the Division of Property Taxation and selected counties.

The **residential assessment rate** (RAR) will remain at 7.96 percent in through 2010 and decline to 7.72 percent in 2011.

Driven largely by a substantial increase in mountain and western slope property values, **total assessed values** for all property classes are expected to increase 8.5 percent in 2007 to a total value of $81.1 billion. Because 2007 is a reassessment year, the growth incorporates two years of value growth, as well as one year of new construction and changes in the value of extracted resources, such as oil and gas. In non-reassessment years, only new construction and changes in extracted resources are incorporated in changes in assessed values. The continued boom in oil and gas values helped push total assessed values up 5.8 percent in 2006, the largest increase in a non-reassessment year since the current system was created in 1984. By 2011, assessed values are anticipated to total $95.8 billion, which reflects a compound average annual growth rate of 5.1 percent.

Total residential *market* value increased 12.1 percent in the last two-year reassessment cycle ending in 2005. Due to moderate employment and population growth coupled with significant recent increases in mountain communities, as well as those benefiting from the natural resource extraction boom, 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 13.4 percent and 9.3 percent, respectively.

Residential *assessed* values are expected to increase 9.2 percent in 2007. 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. As in 2005, the residential assessment rate will not decline in 2007, as the gains in residential values will coincide with similar gains in nonresidential values, resulting in a continuation of the current 7.96 percent residential assessment rate. Over the five-year forecast period, residential assessed values will increase at a compound average annual rate of 5.8 percent.

Nonresidential assessed values are expected to increase 8.0 percent in 2007 and at a compound average annual rate of 4.5 percent through 2011. Commercial, vacant land, and industrial property will experience solid gains throughout the forecast period. However, growth will be limited in the near term by a slowdown in oil and gas values.

School district assessed values will grow the fastest in tourist areas and those with extensive natural resource-related development. The Front Range will see modest growth, while the Eastern Plains will generally see the slowest growth.

Assessed Values

Remarkable expansion in natural resource extraction industries and widespread strengthening of the economy has allowed for moderate growth in assessed values during the last couple of years. Weak economic growth limited annual growth to 5.9 percent from 2002 to 2005, despite more than 80 percent growth in oil and gas assessed values over the period. Oil and gas values will slide slightly, but remain near historic highs, while overall economic health will lead to modest gains in other property classes. Overall, we expect assessed values to total $81.1 billion in 2007, an 8.5 percent increase, and reach $95.8 billion by 2011.

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 began to see increases in value, while the lagging residential market faltered. This slowdown in the residential market will help keep the RAR constant at 7.96 percent again in 2007 and 2009. However, after the housing market regains its footing, our forecast anticipates the RAR will be 7.72 percent in 2011.

Forecasted residential and nonresidential assessed values are shown in Table 8. Residential assessed values are expected to increase at a compound average annual rate of 5.8 percent, while nonresidential assessed values will increase at an average rate of 4.5 percent per year. At the end of the forecast period, assessed values will total $95.8 billion.

Table 8
Residential and Nonresidential Assessed Values
(millions of dollars)

Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2006	$34,374	3.8%	$40,340	6.9%	$74,715	5.8%
2007	$37,532	9.2%	$43,571	8.0%	$81,103	8.5%
2008	$38,625	2.9%	$44,821	2.9%	$83,446	2.9%
2009	$40,802	5.6%	$47,316	5.6%	$88,118	5.6%
2010	$42,004	2.9%	$47,618	0.6%	$89,622	1.7%
2011	$45,670	8.7%	$50,178	5.4%	$95,849	6.9%

The following sections contain a discussion of our preliminary forecast of nonresidential and residential assessed values, as well as the residential assessment rate.

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 $40.3 billion in 2006, with over half of that in the commercial class. Vacancy rates have come down, even if only slightly, and construction of retail and hospital buildings has helped commercial values return to historic growth patterns. Modest economic growth, led by continued health in corporate profits and business investment, provides evidence for growth in the near future. Meanwhile, oil and gas values, the second largest class in terms of value, will decrease in 2007, but remain at historically high levels and rebound in 2008. Thus, nonresidential assessed values are anticipated to increase at a compound average annual rate of 4.5 percent over the forecast period, increasing to $50.2 billion by 2011.

For the last five years, significant 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. The recession early in the decade dealt a substantial blow to a somewhat overbuilt commercial sector, which accounts for nearly half of all nonresidential property. 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 and warehouse and industrial space is lessening.

In the past three years, the assessed value of oil and gas in Colorado has increased from $2.2 billion in 2003 to $7.3 billion in 2006. This corresponds highly with changes in the price of natural gas, which increased from $2.42 per thousand cubic feet (mcf) to $7.39 per mcf. In addition, production increases stimulated by higher prices have contributed to the increase in oil and gas values in this period of time. However, recent declines in the price of natural gas and oil will cause a drop in the assessed value of oil and gas in 2007. As a result, oil and gas assessed value is expected to decrease 9.4 percent in 2007, totaling $6.6 billion. A rebound in prices the following year is projected to push oil and gas assessed value up 11.4 percent in 2008, to a total of $7.4 billion. Modest declines in the price of natural gas will cause oil and gas assessed values to decrease slightly between 2009 and 2011.

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. Sharp increases in many mountain and west slope communities will drive an increase of 13.4 percent over the cycle that ends in 2007, followed by a 9.3 percent change in the 2009 cycle. Overall, residential market values will increase to an estimated $576.6 billion by 2011.

The substantial residential value growth that has occurred has been 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 will push 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 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 mirror that of nonresidential values, though the out-years of the forecast will likely see residential property value growth out-pace nonresidential values. In the near term, we expect the RAR to remain at 7.96 percent through 2010. This is because the market for most nonresidential property reacts much more quickly to economic conditions than the residential class. In 1999, the nonresidential property 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 somewhat oversupplied with available homes, leading to downward pressure on home values. Housing permit growth has already begun to slow, which will help stabilize the market. The RAR is expected to decline to 7.72 percent in 2011 and 2012. 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 without voter approval. 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 and a variety of new mortgage products have helped lead to strong new home construction. Furthermore, a healthy economy and robust oil and gas development have allowed for increased building in many mountain and west slope areas. As a result, residential assessed values will increase 9.2 percent in 2007. Toward the end of the forecast period, the decline of the RAR will temper the growth of residential assessed values compared with residential market values. Although residential market values are expected to increase 11.9 percent during the two-year period ending in 2011, residential assessed values will only increase 8.7 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 $45.7 billion by 2011, or at an average annual rate of 5.8 percent over the forecast period.

School District Assessed Values

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. Table 9 summarizes where assessed values will experience the greatest growth over the forecast.

For the most part, school districts in the **Denver-metro** area 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 in Douglas County, where significant amounts of commercial construction are occurring to meet the demands of fast growing residential communities.

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. Districts with a large portion of their total value attached to oil and gas production will see only small increases overall, as an overall decline in oil and gas values tempers growth. This includes most of Garfield and Rio Blanco counties. In contrast, large increases in residential value will push total values higher in many communities, particularly Grand Junction and Montrose.

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. Districts with significant natural resource production will see declines, while the growing communities of Windsor and Greeley will enjoy healthy increases. In Larimer County, the Poudre and Thompson school districts will continue to see the greatest demand for residential and commercial construction, pushing assessed values up slightly in 2007.

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, with little demand for residential and commercial development. It is also because it is home to the bulk of Colorado's agricultural industry, whose land is valued more favorably for property tax purposes than that of other property classifications. In past years, reductions in the RAR have outpaced market value gains in the region, which helped temper growth. As in the west, those districts with significant natural resources, particularly in Las Animas and Cheyenne counties, will experience declines, while some communities will experience healthy growth in 2007. The proliferation of natural resource-related development will continue to push values higher over the forecast period, as additional workers increase demand for housing and other goods and services.

Colorado's **mountains** will see the highest concentration of growth in assessed values in the near term. A healthy stock market has undoubtedly helped push up values for many of the highest valued areas of the state. Much of this region saw dramatic gains in the late 1990s as expanding wealth from the booming economy created a tight market for second homes in the resort areas.

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,** particularly Alamosa, will see healthy growth in assessed values in 2007. Reports from county assessors indicate that home values in the valley have jumped by over 25 percent during the past two years. Parts of the valley are gaining some traction as second home opportunities, due to lower costs, increasing demand for residential property. 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 work to limit growth in the region over the forecast period.

Risk Factors

Concerns continue regarding Colorado's housing market. Colorado just recently fell to second in the nation in the foreclosure rate, and consumers continue to find new and creative mortgage products that are, in general, more risky. This is not a problem, as long as property values continue to rise. However, the relatively slow growth in recent years, coupled with the increasing costs those loans will incur as the rates adjust to increasing interest rates could make it difficult for some owners to continue to make their mortgage payments. Though we are not expecting values to decline statewide, there is some potential for that to occur in isolated instances. While dangers of an oversupplied market exist and we expect that the existing supply

Table 9
Assessed Value Growth by Region
(2006-2011, dollars in millions)

Region	Prelim. 2006	Estimate 2007	Percent Change	Estimate 2008	Percent Change	Estimate 2009	Percent change	Estimate 2010	Percent change	Estimate 2011	Percent change	Average Growth
Metro Denver	$37,599	$40,807	8.5%	$41,599	1.9%	$44,300	6.5%	$45,142	1.9%	$47,782	5.8%	4.9%
Colorado Springs	6,091	6,448	5.9%	6,603	2.4%	7,065	7.0%	7,258	2.7%	7,695	6.0%	4.8%
Northern	7,191	7,415	3.1%	7,644	3.1%	7,921	3.6%	8,078	2.0%	8,378	3.7%	3.1%
Western	6,408	7,125	11.2%	7,740	8.6%	8,109	4.8%	8,179	0.9%	8,574	4.8%	6.0%
Pueblo	1,535	1,652	7.6%	1,692	2.5%	1,783	5.4%	1,833	2.8%	1,917	4.6%	4.5%
North Central Mountains	7,958	9,525	19.7%	9,680	1.6%	10,556	9.0%	10,737	1.7%	11,500	7.1%	7.6%
North Central Plains	1,643	1,684	2.4%	1,723	2.4%	1,744	1.2%	1,778	1.9%	1,801	1.3%	1.8%
Southeast	1,175	1,189	1.2%	1,296	8.9%	1,307	0.9%	1,312	0.4%	1,343	2.3%	2.7%
Southwest	4,695	4,797	2.2%	4,997	4.2%	5,041	0.9%	5,009	-0.6%	5,182	3.5%	2.0%
San Luis Valley	420	461	9.9%	472	2.3%	499	5.7%	506	1.5%	523	3.2%	4.5%
Statewide Total	$74,715	$81,103	8.5%	$83,446	2.9%	$88,325	5.8%	$89,834	1.7%	$94,695	5.4%	4.9%

of available homes will limit residential value growth, the number of single-family home permits issued is already declining, signaling at least a partial market correction. 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 price appreciation or perhaps even cause a depreciation of values.

Another component to the forecast that remains a significant driver of assessed values 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 could occur during the forecast period. Coupled with a potential to force the RAR downward, this would put additional pressure on the state to finance schools.

Adult Prison and Parole Population Projections

- The Department of Corrections (DOC) inmate population is projected to increase from 22,012 in June 2006 to 31,368 in June 2012, or by 9,356 inmates. This corresponds to an average annual growth rate of 6.1 percent. In comparison, over the past six years, the total inmate population increased at an average annual rate of 5.5 percent.

- Over the six-year forecast period, the male population is expected to increase at an average rate of 5.6 percent per year, or by 7,670 inmates. The female population is projected to grow at an average annual rate of 9.9 percent, or by 1,686 inmates. In comparison, over the past six years, the inmate population of males and females increased at average annual rates of 5.0 percent and 9.8 percent, respectively.

- Compared with the December 2005 forecast, the inmate projections were reduced slightly in FY 2006-07 and FY 2007-08. This is primarily due to a slowdown in male admissions in the first five months of FY 2006-07. In subsequent years, the inmate population forecast was increased marginally.

- The total in-state parole population is projected to increase from 6,551 in June 2006 to 12,161 in June 2012, growing at an average annual rate of 10.9 percent. The total number of parolees (those supervised in-state and out-of-state) will increase from 8,842 to 15,673 during the forecast period, representing 10.0 percent average annual growth.

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.

Adult Prison Population Trends. From June 1990 to June 2006, the prison population grew at an average annual rate of 6.8 percent. During this sixteen-year period, the male and female prison populations grew at average rates of 6.5 percent and 10.5 percent per year, respectively. In the most recent fiscal year, the number of female inmates increased 7.1 percent, while the number of male inmates grew 6.2 percent. Table 10 shows the historical prison population by gender.

Adult Prison Forecast. Table 10 also illustrates the projected inmate population over the next six years. Between June 2006 and June 2012, the prison population is expected to increase at an average annual rate of 6.1 percent. This growth is slightly faster than the prior six-year period in which the prison population grew at an average rate of 5.5 percent per year. Male and female inmate populations are projected to increase at average annual rates of 5.6 percent and 9.9 percent during the forecast period.

Table 11 illustrates the change in the inmate population forecast from the projection issued in December 2005. The December 2005 forecast underestimated the actual inmate population on June 30, 2006, by 0.4 percent, or 84 inmates. However, in the current fiscal year, the pace of admissions has slowed while the rate of releases has accelerated, resulting in fewer inmates than projected under the December 2005 forecast. Thus, the current forecast was lowered slightly in the next two years to account for these year-to-date population changes. The forecast for 2009-2011 was increased slightly because of expected increases in the average length of stay, the growing number of parolees, and the increasing number of sex offenders subject to lifetime supervision.

Table 10
History and Forecast of Adult Prison Population by Gender
(June 30th Population)

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	19,792	6.2%	2,220	7.1%	22,012	6.3%
2007	20,619	4.2%	2,446	10.2%	23,065	4.8%
2008	21,750	5.5%	2,698	10.3%	24,448	6.0%
2009	23,055	6.0%	2,974	10.2%	26,030	6.5%
2010	24,448	6.0%	3,271	10.0%	27,718	6.5%
2011	25,956	5.9%	3,584	8.8%	29,540	6.6%
2012	27,462	5.8%	3,906	9.0%	31,368	6.2%

Table 11
Adult Inmate Population, Forecast to Forecast Comparison
(June 30th Population)

Year	December 2006 Forecast	December 2005 Forecast	Forecast Difference	% Difference
2006*	22,012	21,928	84	0.4%
2007	23,065	23,159	(94)	-0.4%
2008	24,448	24,529	(81)	-0.3%
2009	26,030	26,014	16	0.1%
2010	27,718	27,592	127	0.5%
2011	29,540	29,314	226	0.8%

* Actual for 2006

Table 12 shows the change in the male and female inmate forecasts compared with the December 2005 projections. The December 2005 forecast underestimated the male population by 0.6 percent, or 116 inmates. The prior forecast overestimated the female population by 1.4 percent, or 32 inmates. For the first five months of the current fiscal year, the December 2005 forecast for male inmates was running high, by about 85 inmates, due to a slowdown in admissions and a higher rate of releases. As a result, the current forecast for male inmates was reduced slightly by 0.4 percent in 2007 and 0.3 percent in 2008. The female inmate forecast for FY 2006 and FY 2007 was also revised downward compared with the previous forecast by 0.6 and 0.2 percent, respectively. This primarily reflects the fact that the December 2005 forecast was running ahead of the actual female population in the first five months of FY 2007.

Table 12
Adult Inmate Population, Forecast to Forecast Comparison
(June 30th Population)

Male Inmate Population

FY	December 2006 Forecast	December 2005 Forecast	Forecast Difference	% Difference
2006*	19,792	19,676	116	0.6%
2007	20,619	20,698	(79)	-0.4%
2008	21,750	21,824	(74)	-0.3%
2009	23,055	23,041	15	0.1%
2010	24,448	24,333	115	0.5%
2011	25,956	25,768	188	0.7%

* Actual for 2006

Female Inmate Population

FY	December 2006 Forecast	December 2005 Forecast	Forecast Difference	% Difference
2006*	2,220	2,252	(32)	-1.4%
2007	2,446	2,461	(15)	-0.6%
2008	2,698	2,705	(7)	-0.2%
2009	2,974	2,973	1	0.0%
2010	3,271	3,259	12	0.4%
2011	3,584	3,546	38	1.1%

* Actual for 2006

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 slow 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 factors in forecasting the prison population, modifications to the Colorado Criminal Code can also have an impact on the inmate population. 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 an impact on 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 as well as the length of stay within prison. Finally, the mix of crimes committed and prosecuted can impact prison population growth. Prosecutors may prioritize the most serious offenses, which usually carry longer prison sentences if a conviction is reached. Consequently, the mix of inmates within prison can shift to more violent offenders who have longer prison sentences. 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 inmate population.

Adult Parole Population Trends and Forecast. From June 1992 until June 2006, the parole population supervised in-state grew at an average annual rate of 9.1 percent. In the most recent fiscal year, the in-state parole population grew 14.6 percent. Table 13 provides a history of the parole population supervised in-state and out-of-state. Table 13 also provides the parole population forecast through June 2012. 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 10.9 percent throughout the forecast period — from 6,551 parolees as of June 2006 to 12,161 parolees as of June 2012. The *total* number of parolees will increase at an average rate of 10.0 percent over the forecast period, from 8,842 parolees as of June 2006 to 15,673 parolees as of June 2012.

Table 13
June 30th Parole Population, In-State and Out-of-State Parolees

Year	In-State Parolees	% 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	6,551	14.6%	2,291	9.3%	8,842	13.2%
2007	7,527	14.9%	2,511	9.6%	10,038	13.5%
2008	8,501	13.0%	2,745	9.3%	11,247	12.0%
2009	9,455	11.2%	2,954	7.6%	12,409	10.3%
2010	10,349	9.5%	3,149	6.6%	13,499	8.8%
2011	11,229	8.5%	3,328	5.7%	14,557	7.8%
2012	12,161	8.3%	3,512	5.5%	15,673	7.7%

Table 14 and Figure 5 show the in-state parole population forecast. As indicated, the December 2005 forecast underestimated the actual in-state parole population on June 30, 2006, by 6.0 percent, or 370 parolees. The December 2005 forecast may have underestimated the parole population because it did not fully account for the increasing proportion of inmates released to mandatory parole. In addition, SB03-252 may have caused some of the increase in the parole population. SB03-252 imposed limits on the length of time a parolee could be revoked to prison for a technical violation.

The current forecast reflects the increase that took place in FY 2005-06 and the expectation that this trend will continue throughout the forecast period. Consequently, the in-state parole forecast was increased to correspond with higher growth in prison releases. The number of in-state parolees is expected to grow 14.9 percent in FY 2006-07, 13.0 percent in FY 2007-08, and 11.2 percent in FY 2008-09.

Table 14
Adult Parole Population, Forecast to Forecast Comparison
(June 30th Population)

Year	December 2006 Forecast	December 2005 Forecast	Forecast Difference	% Difference
2006*	6,551	6,181	370	6.0%
2007	7,527	6,518	1,009	15.5%
2008	8,501	6,822	1,679	24.6%
2009	9,455	7,185	2,270	31.6%
2010	10,349	7,601	2,748	36.2%

* Actual for 2006

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

- ***Prison commitments.*** An increase in prison commitments will have a direct lagged impact on the parole population. 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. Conversely, prison commitments with shorter sentences can accelerate the growth rate of the parole population.

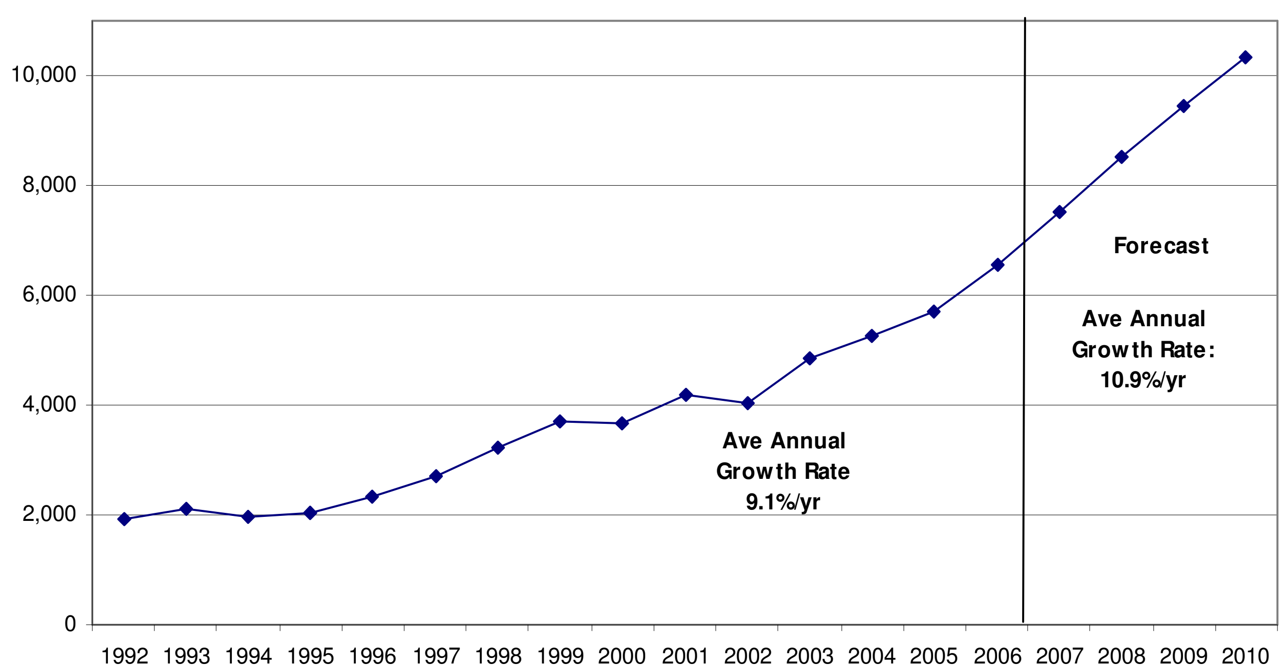
- ***Mandatory parole.*** House Bill 93-1302 created mandatory parole for all inmates released from prison who committed a crime after June 1993. The implementation of mandatory parole drove up the parole population by sending more inmates to parole supervision and by increasing the average length of 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 above). 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. Moreover, the Parole Board directly influences the parole population by determining when parolees are released from parole.

- ***Recent legislation***. As mentioned earlier, legislative changes can have an impact on the number of inmates released to parole. Recent legislation affecting the parole population includes *Senate Bill 03-252*, which 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* appears to be exerting upward pressure on the parole population and increasing the number of releases from prison.

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 decisions 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.

Figure 5
June 30th Parole Population Supervised In-State



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 assumes that current state law will not change.

Youth Corrections Population Projections

- The Division of Youth Corrections (DYC) **commitment population** will increase from an average daily population of 1,452.4 in FY 2005-06 to 1,459.7 in FY 2006-07. By FY 2010-11, the commitment population will grow to 1,586.7, representing average annual growth of 1.8 percent.

- The average daily **parole population** will increase 5.9 percent to 537.1 in FY 2006-07.

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 2006-07 to FY 2010-11. Table 15 presents the juvenile commitment population forecast, while Table 16 provides the juvenile parole forecast.

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 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 forecast 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 2005-06, the average daily commitment population was 1,452.4, representing a 0.1 percent decrease from the prior year. This is the first year with a decline since Legislative Council Staff began tracking figures in FY 1993-94.

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 paragraph discusses the most recent significant legislative measure and its impact on the DYC population.

Continuum of Care Initiative Funding. A footnote in the FY 2005-06 long bill allowed for the Division of Youth Corrections to divert a portion of their funding to develop, implement, and expand a program for the purpose of improving transition, treatment, and other services to youths under their care. The Continuum of Care Initiative uses risk analysis to examine which committed youth would most likely benefit from the program. Preliminary information from DYC shows that those participating in the program have a shorter length of stay than those not in the program. As a result, continued and consistent funding of the initiative is expected to reduce growth in commitments, particularly in the near-term.

DYC Commitment Population Projections

In FY 2006-07, the commitment population will average 1,459.7, representing a 0.5 percent rise over last year. By FY 2010-11, the commitment population will increase to 1,586.7, representing an average annual growth rate of 1.8 percent per year. A decrease in the forecast for the number of 14 to 17 year olds in Colorado, as well as the on-going impact of the Continuum of Care Initiative have served to lower the forecast from a year ago. Table 15 provides the average annual commitment population estimates from FY 2006-07 to FY 2010-11.

Table 15
Commitment Average Daily Population

	Actual				Forecast				
	2002-03	***2003-04***	***2004-05***	***2005-06***	***2006-07***	***2007-08***	***2008-09***	***2009-10***	***2010-11***
Commitment Population									
	1,327.8	1,377.4	1,454.3	1,452.4	1,459.7	1,489.4	1,522.1	1,551.0	1,586.7
Annual Growth		*3.7%*	*5.6%*	*-0.1%*	*0.5%*	*2.0%*	*2.2%*	*1.9%*	*2.3%*
FY 2005-06 to FY 2010-11 Average Annual Growth Rate									*1.8%*

Juvenile Parole Population Projections

Table 16 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.

The recent parole period reductions and lower commitment levels will serve to lessen parole demands below what was previously forecast. In FY 2005-06, the population ended its string of four consecutive years of decrease, as the reductions in the mandatory parole period have been fully implemented. Now that all parolees are subject to the shorter minimum parole period, the parole population will continue to rise, though at slower rates than were previously anticipated. Over the forecast period, the parole population will increase to 635.3 by FY 2010-11, growing at an average annual rate of 4.6 percent per year.

Risks to the forecast

The impact of the Continuum of Care Initiative will continue to be monitored. While DYC believes that it has contributed significantly to the first decrease in Average Daily Commitment Population in at least 12 years, its impact is still being evaluated. Furthermore, the funding for the initiative is somewhat tenuous and any change in the funding could impact the forecast for commitments. Also, commitment sentences are at 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.

Similarly, the Parole Board has a tremendous influence upon the parole population and the number 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 wanes more 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 populations. This forecast assumes that current state law will not be changed in the future.

Table 16
Division of Youth Corrections Parole Population

	Actual				*Forecast*				
	2002-03	***2003-04***	***2004-05***	***2005-06***	***2006-07***	***2007-08***	***2008-09***	***2009-10***	***2010-11***
Parole Population									
	567.3	532.3	487.9	507.4	537.1	554.0	583.6	610.5	635.3
Annual Growth		*-6.2%*	*-8.3%*	*4.0%*	*5.9%*	*3.2%*	*5.3%*	*4.6%*	*4.1%*
FY 2005-06 to FY 2010-11 Average Annual Growth Rate									*4.6%*

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 performance of the metro Denver economy in the first ten months of 2006 was mixed. On the positive side, nonfarm employment increased 1.9 percent, compared with the same period in 2005. The region's unemployment rate dropped to 4.2 percent in October, down from an average of 5.1 percent in 2005. In addition, retail trade sales advanced 4.7 percent through September. On the negative side, housing permits declined considerably and the value of nonresidential construction permits fell as well.

Table 17
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson Counties

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	0.8%	2.0%	1.9%
Unemployment Rate *(Unemployment rate in October)	5.7%	5.1%	4.2%*
Housing Permit Growth /2	23.2%	-4.3%	-12.5%
Growth in Value of Nonresidential Const. /3	19.3%	6.8%	-5.6%
Retail Trade Sales Growth /4	4.6%	3.7%	4.7%

NA = Not Available
1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents non-farm employment.
2/ U.S. Census.
3/ F.W. Dodge; excludes Broomfield County.
4/ Colorado Department of Revenue; data through September 2006.

On the job front, the mining, natural resource, and construction sector grew the fastest in the first ten months of 2006, at 5.1 percent, followed by professional and business services at 3.2 percent. The information sector continued to lose jobs in 2006, with employment down 2.5 percent.

A large supply of homes on the resale market, combined with higher interest rates in 2006, caused housing permits to fall 12.5 percent in the first ten months of 2006. However, permits for multi-family housing units increased 46.6 percent. The multi-family sector has been improving because of a decline in vacancy rates and rising foreclosure rates. The large increase in multi-family building permits was not enough to offset a 23.6 percent decline in permits for single-family homes.

The value of nonresidential construction permits decreased 5.6 percent through October within the region. The decline is entirely attributable to a 78 percent fall in construction permits for hospital facilities. This sector has been highly volatile in recent years. However, other sectors within nonresidential construction, such as commercial, manufacturing, and educational facilities, posted solid gains in 2006.

Table 17 shows the economic indicators for the Metro Denver region.

Recent Economic News:

- Colorado Industrial Construction Services Company of Wheat Ridge is one of three finalists bidding to design and construct a new oil refinery in Iraq. The $750 million contract would create 250 engineering jobs locally. The project would also require 1,500 construction workers in Iraq.

- Denver International Airport (DIA) announced plans to build a 200-room hotel and 60,000 square feet of retail facilities on a 17-acre parcel north of Pena Boulevard. The project called the Landings at DIA is intended to serve as a model for additional development on airport property.

- Frontier Airlines cut 50 revenue accounting jobs in November as part of an effort to reduce costs. Most of the positions were part-time, involving fewer than 10 hours a week working from home. Frontier also announced that it will base its new turboprop subsidiary, Lynx Aviation, in Westminster. The subsidiary will create 300 to 400 new jobs by the end of 2007. Lynx purchased ten 74-seat

Bombardier airplanes, which will fly to 18 destinations in Colorado and the Rocky Mountain region.

- The Denver-Aurora area had the third highest foreclosure rate in the country in the July-September 2006 period. More than 9,800 homes were in some stage of foreclosure, which equates into one out of every 90 households in foreclosure. The region's foreclosure rate is four times the national average.

- City of Aurora officials approved development plans to create a multibillion dollar transportation and cargo hub southeast of DIA. The project, called TransPort, will serve as a hub for companies shipping cargo by air, rail, or road. The development covers more than 5,000 acres in Aurora and Adams County. Construction could begin in early spring, once additional building permits are obtained.

- Carma Colorado began construction of a $550 million residential community along Alameda Parkway near C-470 in Lakewood. The 282-acre site in Rooney Valley includes 1,100 homes priced from $400,000 to $1 million. Subsequent plans call for less expensive patio homes and townhomes, which will be priced around $250,000.

- Lockheed Martin and Boeing's $2 billion rocket-launch venture will bring up to 700 high-paying jobs to Colorado. The joint company will deploy spy, military, and weather satellites for the U.S. government. Most of the new employees may be transferred from Boeing operations in Huntington Beach, California.

- Cornice Inc. announced that it was dismissing 30 percent of its workforce and discontinuing one of its product lines in an attempt to become profitable. The Longmont-based firm makes storage drives for mobile telephones and other electronic goods. Approximately 70 employees are expected to lose their jobs.

- Nellcor Puritan Bennett, a division of Tyco Healthcare, plans to relocate its corporate and some engineering functions from Pleasanton, California to the Gunbarrel area of unincorporated Boulder County. The move will bring about 300 new jobs to the area.

Colorado Springs Region

The Colorado Springs area is experiencing moderate growth. The region's economic welfare closely mirrors that of the statewide economy. Nonfarm employment increased 1.9 percent through October, slightly better than in 2005. The unemployment rate in October was 4.5 percent.

While the manufacturing and information sectors continue to shed jobs with declines of 5.4 percent and 3.4 percent, respectively, the losses are near or at the lowest levels since declines began in these sectors in 2002. Employment in the combined sector of natural resources, mining, and construction increased 5.9 percent in the first ten months. Professional and business services employment increased 3.7 percent. Government employment, led by local and federal agencies, grew 3.4 percent.

Table 18
Colorado Springs Region Economic Indicators
El Paso County

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	1.4%	1.8%	1.9%
Unemployment Rate *(Unemployment rate in October)	5.7%	5.3%	4.5%
Housing Permit Growth /2	28.8%	3.6%	-29.8%
Growth in Value of Nonresidential Const. /3	-5.7%	141.5%	-18.1%
Retail Trade Sales Growth /4	10.3%	5.2%	6.4%

NA = Not available

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

2/ U.S. Census; permits for the Colorado Springs Metropolitan Area.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through September 2006.

The local residential construction sector was not immune from nationwide and statewide trends. New home permits fell nearly 30 percent through October, compared with a year ago. Nonresidential construction dropped 18.1 percent, but comes off a high level in 2005 when a single project accounted for $562 million.

Table 18 shows the economic indicators for the Colorado Springs region.

Recent Economic News:

- Farmers Insurance Group will transfer 96 jobs to Kansas City in January. The transfers from Colorado Springs and two other cities are driven by the creation of a technology service center in Kansas City. Local workers will be offered the opportunity to relocate, take other positions in Colorado Springs, or receive severance packages.

- According to the Pikes Peak Association of Realtors, sales of existing homes fell nearly 20 percent in October compared with the previous year. The median sales price rose 3.8 percent to $213,500. The inventory of homes for sale is nearly one-third higher than a year ago.

- The apartment vacancy rate in the Colorado Springs area rose from 10.3 percent in the second quarter to 11.3 percent in the third quarter of 2006. The increase was attributed to troop movements from Fort Carson. Areas near the army base have vacancy rates that exceed 30 percent. The average rental rate in the third quarter was $695, compared with $684 a year earlier. The effective rental rate is lower, however, because of concessions given by landlords. The vacancy rate and rental rate outlooks will improve in 2007 with the return of 5,000 troops to Fort Carson.

Pueblo Region

Pueblo's five-county regional economic picture is showing healthy growth through October 2006 after exhibiting mixed results in 2005. All indicators were positive with particularly strong growth in the value of nonresidential construction. Table 19 shows annual economic indicators for the region for 2004 and 2005, and year-to-date results through October 2006.

Table 19
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	-0.2%	1.1%	3.6%
Unemployment Rate *(Unemployment rate in October)	7.0%	6.4%	5.0%
Housing Permit Growth /2 Pueblo County Only	-4.8%	-3.4%	17.1%
Growth in Value of Nonresidential Const. /3 Pueblo County Only	-17.5%	-48.0%	53.6%
Retail Trade Sales Growth /4 2006 Retail Trade is YTD through June	6.8%	5.3%	7.7%

1/ Colorado Department of Labor and Employment. 2004 and 2005 data are from the QCEW (ES202) program. 2006 data is from CES and is for the Pueblo MSA only.
2/ U.S. Census.
3/ F.W. Dodge.
4/ Colorado Department of Revenue; data through September 2006.

Employment growth increased 3.6 percent through October, compared with the same time period in 2005. Meanwhile, the unemployment rate continued to drop from an average of 6.4 percent in 2005 to 5.0 percent in October 2006. Pueblo, the largest county in the region, had an unemployment rate of 5.1 percent in October. Although Pueblo's rate remains the highest among the state's major metro areas, it is at its lowest level since the 2001 recession. Las Animas County had the lowest unemployment rate in the five-county region in October at 3.8 percent.

The region experienced retail sales growth of 7.7 percent through September 2006. The region's sales exceeded the statewide pace of 6.5 percent and surpassed the region's growth rate of 5.3 percent in 2005. Growth was strongest in Huerfano County at nearly 20.0 percent. Custer and Fremont counties also had double-digit growth.

Construction activity has been particularly strong after declines in 2004 and 2005. Housing permit growth in Pueblo County continues to show significant increases – especially compared to national trends – growing by 17.1 percent through October. Pueblo West remains the center of most residential construction activity.

Despite the fact that housing permit growth in Pueblo County is strong, Pueblo had 628 homes in foreclosure, or one of every 94 homes. Pueblo's foreclosure rate is more than four times the national average.

In 2005, the nonresidential construction sector was a weaker segment of Pueblo's economy but has picked up significantly in 2006. The growth in value for nonresidential construction increased 53.6 percent through October compared to the same period in 2005.

Recent Economic News:

- Prism Solar Technologies, a New York solar energy company, is negotiating with Pueblo city officials for financial incentives to help build a facility for its headquarters and manufacturing operations. The firm is looking at the construction of a $15 million facility that would make solar modules that produce electricity. The plant is expected to employ up to 300 workers. Rather than using traditional photovoltaic panels, Prism Solar Technologies will use patented holographic technology which requires less silicon and operates more efficiently.

San Luis Valley and Southwest Region

The San Luis Valley and southwest region's economy grew at a moderate rate through the first ten months of 2006 despite a continued decline in residential construction permits in Alamosa and La Plata counties. Employment increased 3.7 percent through October, compared with the same period last year. The region's unemployment rate dropped from an average of 5.1 percent in 2005 to 3.7 percent in October. Meanwhile, the region continues to post one of the highest growth rates in retail sales in the state. Sales increased 11.4 percent through October, outpacing the state's growth rate of 6.5 percent. Table 20 shows key economic indicators for the region.

Table 20

San Luis and Southwest Region Economic Indicators

Alamosa, Archuleta, Conejos, Costilla, Dolores, Hinsdale, La Plata, Mineral, Montezuma, Rio Grande, Saguache, and San Juan Counties

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	2.1%	1.4%	3.7%
Unemployment Rate	5.3%	5.1%	3.7%
*(Unemployment rate in October)			
Statewide Crop Price Changes /2			
Barley (U.S. average for 2006)	8.0%	1.1%	21.7%
Alfalfa Hay	1.2%	18.8%	36.6%
Potatoes	2.1%	78.7%	4.3%
Fall Potato Production (Cwt) /2	-0.7%	-6.4%	-1.0%
Housing Permit Growth /3			
Alamosa County	22.2%	-39.4%	-15.6%
La Plata County	-8.1%	-1.4%	-15.7%
Growth in Value of Nonresidential Const. /3			
Alamosa County	43.6%	-44.1%	-22.4%
La Plata County	-25.2%	-83.2%	322.2%
Retail Trade Sales Growth /4	9.3%	7.3%	11.4%

NA = not Available

1/ Colorado Department of Labor and Employment. 2004 and 2005 data are from the QCEW (ES-202) program. 2006 data are from the Current Population (household) Survey.

2/ Colorado Agricultural Statistics Service. Price data compares November 2006 to November 2005.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through September 2006.

Employment is growing at a healthy rate for the region as a whole. La Plata County – the most populous county in the region – posted employment growth of 3.8 percent through October and a low unemployment rate of 3.0 percent. However, some counties – Costilla, Dolores, San Juan, and Mineral – experienced drops in employment through October.

Mirroring the trend across most of the rest of the state, residential construction is declining in La Plata and Alamosa counties. According to F.W. Dodge, housing permits decreased 15.7 percent in La Plata County and 15.6 percent in Alamosa County through October. However, the value of nonresidential construction in La Plata County continued to skyrocket during the same time period. The growth in nonresidential construction in the county was largely fueled by the construction of stores and food service facilities, office and bank buildings, and libraries and museums. The value of nonresidential construction in Alamosa County declined 22.4 percent through October, driven mostly by a decline in the value of permits for stores and food service facilities.

Recent Economic News:

- A recent analysis by the southwest region's economic development district indicated that Durango serves as a retail trade center for southwest Colorado, drawing shoppers from all over the region. The report and the Fort Lewis College business school indicated that the town's retail strength is likely due to Durango's tourism industry, a lack of large grocery stores in nearby towns, and the diversity of shops in Durango. However, not all retail sectors were found to be strong in Durango. Data from the appliances, electronics, furniture, clothing, and health care retail sectors showed that many consumers were going outside La Plata County to buy these products.

- The Cumbres & Toltec Scenic Railroad carried 39,586 passengers this season – a 22 percent increase compared with last year. The railroad, which operates in the mountains of southern Colorado and northern New Mexico and is owned by both states, celebrated its 125th anniversary this year. The train's general manager credited the train's increased popularity to a strong marketing effort, improvements to the railroad, and special train rides, such as the "Moonlight Train."

Western Region

The western region continues to be the fastest growing region in the state based on employment and retail trade sales growth. Employment increased 7.4 percent through October, compared with growth of 4.9 percent in the prior year. Ongoing exploration, drilling, and production of natural gas were primarily responsible for the strong increase. Similarly, retail trade sales were up 15.8 percent, compared with 10.5 percent in 2005. Table 21 displays economic indicators for the region.

Table 21

Western Region Economic Indicators

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

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	3.3%	4.9%	7.4%
Unemployment Rate *(Unemployment rate in October)	4.9%	4.5%	3.2%
Housing Permit Growth			
Mesa County 2/	-2.4%	-3.0%	11.8%
Montrose County 3/	34.0%	22.4%	0.2%
Growth in Value of Nonresidential Const. /3			
Mesa County	0.1%	287.8%	128.7%
Montrose County	109.4%	-54.9%	97.3%
Retail Trade Sales Growth /4	8.4%	10.5%	15.8%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2004 and 2005 data are from the QCEW (ES-202) program. 2006 data are from the Current Population (household) Survey.

2/ U.S. Census.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through September 2006.

The unemployment rate dropped to 3.2 percent in October 2006, down from an average of 4.5 percent in 2005. Rio Blanco County experienced the fastest job growth at 16.4 percent while Delta's employment growth was the lowest at 4.4 percent through October.

With the exception of housing permit growth in Montrose County, which was nearly flat, construction indicators were mostly positive in the first ten months of 2006. The number of housing permits increased 11.8 percent in Mesa County. Meanwhile, the value of nonresidential construction more than doubled in Mesa County. Montrose County also saw a significant increase in the growth in value of nonresidential construction.

Consumer spending in the region, as measured by retail trade sales, increased 15.8 percent through September. Every county in the region, except San Miguel, experienced double-digit growth. The fastest growth rate recorded was 63.7 percent in Rio Blanco County, indication of the oil and gas boom. San Miguel County had the lowest growth rate at 7.3 percent.

Recent Economic News:

- Williams Production, one of the largest natural gas producers in the country, will build a temporary employee housing camp 55 miles north of Rifle in the Piceance Basin. Six modular houses will be installed and will house 24 workers.

- Home Depot is considering building a store in the Carbondale area. The store's size could be limited to 60,000 square feet and may be located in the Crystal River Marketplace. Size and location are yet to be finalized, however. The average Home Depot store contains about 102,000 square feet of retail space inside the building. In addition, the average store has an outside garden center area.

Mountain Region

The mountain region's economy has enjoyed excellent times in 2006. Employment growth was 4.2 percent through October, double the statewide growth rate. The region's unemployment rate was 3.9 percent in October. Housing construction fell somewhat, mirroring the national and state trend, although home prices continued to escalate. Nonresidential construction in the ski counties boomed. Table 22 shows the major economic indicators for the mountain region.

Table 22
Mountain Region Economic Indicators
Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, and Chaffee Counties

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	1.5%	3.2%	4.2%
Unemployment Rate	4.9%	4.3%	3.9%
*(Unemployment rate in October)			
Housing Permit Growth /2			
Eagle, Pitkin, & Summit Counties 2/	-26.5%	39.1%	-9.3%
Routt County 3/	10.9%	34.0%	-18.7%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	243.4%	11.2%	92.6%
Routt County	154.9%	-10.3%	119.2%
Retail Trade Sales Growth /4	8.6%	8.8%	13.9%

1/ Colorado Department of Labor and Employment. 2004 and 2005 data are from the QCEW (ES-202) program. 2006 data are from the Current Population (household) Survey.
2/ F.W. Dodge.
3/ U.S. Census.
4/ Colorado Department of Revenue; data through September 2006.

Recent Economic News:

- The region's low unemployment rate is causing difficulty for some employers in finding workers for the ski season. Routt County, owner of the Yampa Valley Regional Airport, had a job fair to fill 18 positions at the airport after local advertising efforts failed. The Pitkin County public works department was having trouble hiring snowplow drivers. Both areas are faced with a combination of high living costs, lengthy commute times, and an exodus of potential workers to the booming oil and gas industry.

- According to a report conducted for the Colorado Division of Housing, the vacancy rate for apartments in Aspen was a mere 1.1 percent during the third quarter of 2006, the lowest in the state. The median rent of $1,184 was the highest in the state.

- Because of the lack of available housing, Aspen Skiing Co. purchased a 23-room motel in Carbondale for its workers. Most of the 43 beds will be for entry-level seasonal workers. The motel is ready for immediate occupancy. Improvements will include a community kitchen as many of the units do not have a food preparation area.

- The Clear Creek County planning commission approved development of 300 acres near St. Mary's glacier for a ski area and terrain park.

- The U.S. Forest Service approved the addition of 390 acres to the Arapahoe Basin ski area. The back of Montezuma Bowl will offer intermediate and advanced skiing opportunities. A new lift to the bowl area will open for the 2007-08 ski season. The Forest Service also approved an upgrade to a lift serving the existing ski area and 231 additional parking spaces. The projects will cost nearly $7 million.

- Administrators of the hospital in Vail are planning a 130,000-square-foot expansion to the existing 175,000-square-foot facility. The expansion will accommodate Eagle County's growing population. Additionally, the senior population is expanding, particularly in Vail Valley. The hospital's expansion will cost between $70 and $90 million.

Northern Region

With the exception of the market for single-family homes, economic indicators point to a healthy economy in the northern region. The job market is solid, with strong employment gains in Weld County and a low unemployment rate in Larimer County. Consumer spending, measured by retail sales, also continues to be healthy. Table 23 shows the economic indicators for the Northern region.

Table 23
Northern Region Economic Indicators
Weld and Larimer counties

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1			
Larimer County	2.2%	2.0%	1.7%
Weld County	2.8%	2.7%	3.6%
Unemployment Rate			
Larimer County	4.6%	4.3%	4.0%
Weld County	5.4%	5.0%	5.6%
*(Unemployment rate in October)			
State Cattle and Calf Inventory Growth /2	4.2%	6.0%	8.7%
Housing Permit Growth /3			
Larimer County	7.1%	-14.8%	-25.9%
Weld County	10.4%	-2.2%	-25.5%
Growth in Value of Nonresidential Const. /4			
Larimer County	197.9%	-56.4%	65.7%
Weld County	34.1%	-35.8%	-4.4%
Retail Trade Sales Growth /5			
Larimer County	3.5%	5.7%	6.7%
Weld County	14.3%	8.9%	7.6%

NA = Not available
1/ U.S. Department of Labor, Bureau of Labor Statistics. CES data represents nonfarm employment.
2/ Colorado Agricultural Statistics Service. Cattle on feedlots on October 1, 2006.
3/ U.S. Census.
4/ F.W. Dodge.
5/ Colorado Department of Revenue; data through September 2006.

Employment growth in Weld County was a strong 3.6 percent through October over the same period in 2006. While employment growth was not as strong in Larimer County – 1.7 percent through October – the county's unemployment rate in October was 4.0 percent. However, the low unemployment rate is causing some concerns of a worker shortage in the county. Despite strong employment growth, Weld County's unemployment rate in October was 5.6 percent. The Manpower Inc. Employment Outlook Survey of employers in the northern region indicates that employment growth will continue to be solid into the beginning of next year. The survey found that 43 percent of employers plan to add workers, 37 percent intend no workforce changes, and only 13 percent intend to cut jobs.

The manufacturing sector continues to be a weak spot in the region's job market. Although national forecasts predict an expansion of the manufacturing sector in 2007, manufacturing jobs in the region will remain at risk because of their reliance on a relatively small number of large employers.

While the overall economic health of the northern region is good, the region's housing market is weakening. After new home construction slowed somewhat last year, it is down close to 26 percent in each county through October. The market for mid-priced homes is saturated and the area's extremely high foreclosure rate is placing a large number of homes on the market. Weld County's foreclosure rate continues to lead the nation.

The fall in permits is being driven by declines in single-family permits with decreases of 36.7 percent and 32.6 percent in Larimer County and Weld County, respectively. However, some smaller markets in the region, such as Frederick, Firestone, Dacono, Mead, and Erie, are either reporting that building permit numbers are steady or growing or are expecting increased activity in 2007. It is uncertain whether the contraction in the housing market will impact other areas of the northern region's economy. However, it will likely take some time for the housing market to absorb the excesses in the region.

Demand for apartments is increasing, due in part to the high foreclosure rates in the region. Multi-family permits are up in both counties, with a 115.1 percent increase in Weld County through October. The northern region is also experiencing dropping vacancy rates and higher rents. According to a report completed for the Colorado Division of Housing, the vacancy rate fell to 8.1 percent in the third quarter in the Fort Collins/Loveland market, down from 8.9 percent at the same time last year. Greeley's vacancy rate is 7.3 percent. Average rents in the Fort Collins/ Loveland market increased slightly, from $730 per month last year to $766 on average for apartments overall. Average rents in Greeley are about $634 per month, up from $615 last year.

The nonresidential construction sector of the economy in the northern region is not experiencing the same type of contraction as the residential sector. The value of nonresidential construction in Larimer County was up 65.7 percent through October. However, after strong increases through September, the value of nonresidential construction in Weld County has trended downward; it was down 4.4 percent through October.

Although retail sales make up only about one-third of consumer spending, the strong sales growth in both Weld and Larimer County indicate that consumers continue to maintain spending in the region. Retail sales were up 6.7 percent and 7.6 percent through September in Larimer and Weld counties, respectively.

Recent Economic News:

- The University of Colorado's Leeds School of Business and Compass Bank's Business Economic Outlook forecasts that the northern Colorado region will continue to outpace the state in employment growth in 2007 with accommodations, food services, finance, insurance, health care, social assistance, retail and construction industries driving the area's economy.

- The state housing division is concerned with the increased demand for apartments in the Greeley area due to its high amount of foreclosures and increasing population. The division has been working with home lenders to extend late payments to slow the foreclosure rate. The division expects the area's high foreclosure rates to continue for another eight to twelve months.

- Ground has been broken on a new FedEx distribution center which will anchor a 165-acre development called Iron Horse at the southeast corner of U.S. 34 and Weld County Road 3 near Johnstown. The 63,000 square-foot FedEx distribution center will serve the northern Colorado region and construction should be complete by next summer. The Iron Horse development will be a mix of commercial, retail, office and industrial space.

- In 2007, millions of dollars in capital improvements are planned for the Town of Timnath's core area along its main street, and about 200 building permits are expected to be issued for the new subdivisions that are planned around the town. Timnath has established an urban renewal authority to use the expected growth in the property tax base to pay for necessary improvements to service the growth.

- Loveland's Promenade Shops at Centerra is establishing itself as a shopping hub for northern Colorado, which is hurting retail sales, especially sales of apparel, in Greeley and Fort Collins. The Shops at Centerra have been fueling double digit increases in apparel sales all year for Loveland, while Fort Collins and Greeley have experienced only minimal increases and declines.

Eastern Region

Colorado's eastern plains experienced a banner year through October, as economic indicators are universally positive. Employment growth, consumer spending, and agricultural indicators all displayed significant growth over 2005 figures. Table 24 shows economic indicators for the region for 2004 and 2005 and year-to-date results through October.

Table 24
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca Counties

	2004	2005	Year-to-date Thru October 2006
Employment Growth /1	-1.4%	0.4%	4.5%
Unemployment Rate	4.8%	4.7%	4.0%
***(Unemployment rate in October)**			
Crop Price Changes /2			
Winter Wheat	-9.2%	3.1%	46.5%
Corn for Grain	13.7%	0.9%	53.9%
Alfalfa Hay	1.2%	16.3%	36.6%
Dry Beans	1.7%	-32.9%	14.4%
State Crop Production Growth /2			
Sorghum for grain production	25.6%	-36.9%	-1.5%
Corn for Grain	16.8%	0.1%	-10.4%
Sugar Beets	30.1%	-0.6%	4.8%
State Cattle and Calf Inventory Growth /2	4.2%	6.0%	8.7%
Retail Trade Sales Growth /3	5.4%	5.4%	8.6%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2004 and 2005 data are from the QCEW (ES-202) program. 2006 data are from the Current Population (household) Survey.

2/ Colorado Agricultural Statistics Service. Compares October 2006 to October 2005.

Crop production based on projections for 2006 compared to actual 2005 production.

3/ Colorado Department of Revenue; data through September 2006.

Employment in the region increased 4.5 percent through October 2006 and the unemployment rate was 4.0 percent in October, lower than the average of 4.7 percent in 2005. Cheyenne and Yuma counties reported the lowest unemployment rates in the region at 2.6 percent and 2.7 percent, respectively, while Crowley and Prowers counties had the region's highest unemployment rates of 6.6 percent and 6.5 percent, respectively.

Consumer spending in the region, as measured by retail trade sales, continues to greatly exceed the statewide pace, jumping 8.6 percent through September 2006. Eleven of the sixteen counties in the region saw double-digit increases. Cheyenne County's retail trade sales saw the largest increase at nearly 64 percent while increases in Crowley and Yuma counties were 43.0 percent and 31.6 percent respectively. Despite the region's exuberant retail trade sales, Washington and Kit Carson counties experienced a significant decline in retail sales during the same time period. The region's retail trade sales growth was 5.4 percent in 2005.

Although state crop production for corn and sorghum declined, crop prices for winter wheat, corn, and alfalfa hay soared as prices were at least 36 percent higher in October over prior year prices. Corn prices increased nearly 54 percent as the demand for corn-based products such as ethanol increased. Dry bean prices were 14.4 percent higher in October than a year ago following a nearly 33 percent drop in 2005.

Recent Economic News:

- Construction will begin on a prison facility expansion in Bent County in early 2007. Corrections Corporation of America will nearly double the size of the prison, increasing its capacity from 745 to 1,465 beds. The project is expected to be completed in 2008 and will bring 70 new jobs to the region. The Bent County facility was initially built in 1993 and first expanded in 1997.

- LiquidMaize LLC., of Arlington Va., was granted a special land use permit from Prowers County officials to begin construction on a $24 million ethanol plant. The company may break ground in December if the state ethanol plant construction permits are acquired. LiquidMaize is also looking at a site for a second ethanol plant near Ordway that will employ about 10 people. This project is still in the planning phase. LiquidMaize plans to build and operate 15 ethanol plants in the United States within five years at a value of about $300 million.

Appendix A
Historical Data

National Economic Indicators

(Dollar amounts in billions)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross Domestic Product	$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	$10,469.6	$10,960.8	$11,712.5	$12,455.8
percent change	5.8%	3.3%	5.7%	5.0%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	3.2%	3.4%	4.7%	6.9%	6.3%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$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	$10,048.8	$10,301.1	$10,703.5	$11,048.6
percent change	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%	2.5%	3.9%	3.2%
Unemployment Rate	5.6%	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%
Inflation (Consumer Price Index)	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%	3.4%
10-Year Treasury Note	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%	4.3%
Personal Income	$4,878.6	$5,051.0	$5,362.0	$5,558.5	$5,842.5	$6,152.3	$6,520.6	$6,915.1	$7,423.0	$7,802.4	$8,429.7	$8,724.1	$8,881.9	$9,163.6	$9,731.4	$10,239.2
percent change	6.3%	3.5%	6.2%	3.7%	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	6.2%	5.2%
Wage and Salary Income	$2,754.0	$2,823.0	$2,980.3	$3,082.7	$3,232.1	$3,419.3	$3,619.6	$3,877.6	$4,183.4	$4,466.3	$4,829.2	$4,942.8	$4,980.9	$5,112.7	$5,392.1	$5,664.8
percent change	6.1%	2.5%	5.6%	3.4%	4.8%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.8%	2.6%	5.5%	5.1%
Nonfarm Wage and Salary Employment (millions)	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	131.4	133.5
percent change	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%	-0.2%	1.1%	1.6%

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	2005
Nonagricultural Employment (thous.)	1,482.3	1,520.8	1,544.9	1,596.8	1,670.5	1,755.9	1,834.7	1,900.9	1,980.1	2,057.5	2,132.5	2,213.6	2,226.8	2,184.1	2,152.8	2,179.6	2,225.2
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%	1.2%	2.1%
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%	3.8%	5.7%	6.1%	5.6%	5.0%
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	$153,066	$154,887	$164,587	$174,754
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%	1.2%	6.3%	6.2%
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	$34,493	$34,027	$34,056	$35,766	$37,459
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%	3.4%	-1.4%	0.1%	5.0%	5.1%
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	$86,938	$88,008	$92,059	$97,263
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%	1.2%	4.6%	5.7%
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	$58,689	$62,288	$65,447
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%	6.1%	5.1%
Housing Permits	11,131	11,897	14,071	23,484	29,913	37,229	38,622	41,135	43,053	51,156	49,313	54,596	55,007	47,871	39,569	46,499	45,891
percent change	-13.5%	6.9%	18.3%	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-13.0%	-17.3%	17.5%	-1.3%
Nonresidential Construction	$946	$939	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$2,986	$2,617	$3,544	$3,476	$3,500	$2,787	$2,713	3,291.0	3,676.0
percent change	-2.8%	-0.7%	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	26.2%	-12.4%	35.4%	-1.9%	0.7%	-20.4%	-2.7%	21.3%	11.7%
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%	2.1%
Population (thousands, July 1)	3,275.8	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	4,427.0	4,498.4	4,548.1	4,601.8	4,665.2
percent change	0.4%	1.0%	2.4%	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.0%	2.0%	2.4%	2.3%	1.6%	1.1%	1.2%	1.4%

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.