Colorado
Legislative
Council
Staff

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MEMORANDUM

June 20, 2007

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2007-2011*

This memorandum presents the current budget outlook based on the **June 2007 General Fund and cash fund revenue forecasts**. Table 1 presents the General Fund overview based on current law. The forecast for FY 2006-07 increased for both General Fund and cash fund revenue. Under current law, the increases in General Fund revenue will accrue to highways and capital construction. Please note that a forecast for federal mineral leasing revenue has been included in this document for the first time. It appears on page 11.

Executive Summary

Revenue Forecast

The forecast for TABOR revenue was increased by $660.1 million, or 1.3 percent, over the five-year forecast period. The increase was driven by increasing cash fund revenue and individual income taxes.

- The forecast for **General Fund revenue** was increased by $164.3 million during FY 2006-07, but by only $85.0 million over the five-year forecast period. This lower number over the forecast period is due to reduced expectations for future growth and law changes that diverted General Fund revenue to cash funds. It is important to note that the five-year forecast period extends one year beyond the five-year time-out period under Referendum C. Most of the increase for FY 2006-07 was due to an increase in individual income tax receipts. The increase will mean more revenue in the **General Fund excess reserve** that will be distributed two-thirds for highway construction and one-third for capital construction.

- The forecast for **cash fund revenue** was increased by $13.4 million for FY 2006-07 and a total of $461.3 million over the five-year forecast period. The forecast was increased

Table 1
June 2007 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	$688.7	$455.6	$335.6	$380.5	$377.3
2	General Fund Nonexempt Revenue	5,846.6	6,260.7	6,601.3	6,977.9	7,322.0	7,978.7
3	General Fund Exempt Revenue	1,118.1	1,248.1	1,099.5	1,154.8	1,272.2	1,120.9
4	Senate Bill 97-1 Diversion to the HUTF	-220.4	-230.9	-239.7	-250.3	-262.6	-276.5
5	Paybacks to Other Funds	-67.1	0.0	0.0	0.0	0.0	0.0
6	Transfers from Other Funds	227.8	0.0	0.1	0.0	0.0	0.0
7	Sales Taxes to Older Coloradans Fund and OASMCF	-2.8	-3.8	-5.8	-5.8	-5.8	-5.8
8	Total Funds Available	$7,237.7	$7,962.8	$7,911.2	$8,212.3	$8,706.2	$9,194.6
	APPROPRIATIONS AND OBLIGATIONS:						
9	**Allowable General Fund Appropriations***	$6,292.7	$6,675.6	$7,084.0	$7,515.6	$7,966.5	$8,444.5
10	Exceptions From the Appropriations Limit	5.0	7.5	6.1	0.0	0.0	0.0
11	Rebates and Expenditures	153.4	167.1	173.6	178.3	182.7	194.3
12	Reimbursement for Senior and Disabled Veterans Property Tax Cut	0.0	74.2	76.2	77.2	78.5	79.2
13	Funds in Prior Year Excess Reserve to HUTF	65.3	291.3	125.7	34.8	53.3	39.1
14	Funds in Prior Year Excess Reserve to Capital Construction	32.7	145.6	62.9	17.4	26.6	19.5
15	Capital Construction Transfer	10.1	145.9	47.0	8.4	21.3	21.6
16	Accounting Adjustments	-10.1	NE	NE	NE	NE	NE
17	Total Obligations	$6,549.0	$7,507.2	$7,575.5	$7,831.8	$8,328.9	$8,798.2
18	**YEAR-END GENERAL FUND RESERVE**	**$688.7**	**$455.6**	**$335.6**	**$380.5**	**$377.3**	**$396.4**
19	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**251.7**	**267.0**	**283.4**	**300.6**	**318.7**	**337.8**
20	**GENERAL FUND EXCESS RESERVE**	**$436.9**	**$188.6**	**$52.3**	**$79.9**	**$58.6**	**$58.6**
	TABOR RESERVE REQUIREMENT:						
21	General & Cash Fund Emergency Reserve Requirement	$274.8	$287.2	$296.4	$312.0	$330.0	$340.6
22	Appropriations Growth	$361.2	$385.4	$407.1	$425.4	$450.9	$478.0
23	Appropriations Growth Rate	6.08%	6.12%	6.09%	6.00%	6.00%	6.00%
24	Addendum: Amount Directed to State Education Fund	$357.2	$395.1	$403.5	$429.7	$456.6	$485.6

Totals may not sum due to rounding.

$178.4 million over five years as a result of new legislation, of which $56.1 million is court-related revenue diverted away from the General Fund to the Judicial Stabilization Fund pursuant to **HB 07-1054** and **SB 07-55**, and $122.2 million is the result of 28 bills that either increased and/or created new fees. In addition, the severance tax forecast was increased by a total of $113.6 million and the forecast for revenue to the Unemployment Insurance Trust Fund was increased by a total of $78.6 million. Most of the increase in the forecast occurred during the last few years of the forecast period.

- The current five-year forecast period extends one year beyond the time-out period associated with **Referendum C**. The forecast for TABOR revenue was increased during this period by $522.5 million. Almost $90 million of the change was due to new or increased fees. Over $200 million of the change resulted from increased income taxes and the rest resulted from increased expectations for receipts to a variety of cash funds, including severance and unemployment insurance taxes. The current estimate of the amount of revenue that will be retained by the state during the time-out period is $5.9 billion. The estimate for the total amount to be retained under Referendum C during the five-year time-out period has increased by 4.4 percent of total collections since the original estimate in September 2005.

- The General Fund is estimated to 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 $430.8 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 $1,260.1 million through the Senate Bill 97-1 diversion and $292.0 million through the House Bill 02-1310 mechanism between FY 2006-07 and FY 2010-11. Capital construction will receive $146.0 million from the House Bill 02-1310 mechanism during the same period.

National Economy

While growth continues to slow and some sectors of the economy are poised for a decline, the national economy will likely see reduced growth throughout 2007. High energy prices, a depressed national housing market, and high levels of consumer debt continue to slow the national economy. The recent gross domestic product report showed declines in private inventory investment, residential fixed investment, and federal government spending. Although consumers still appear to be healthy as a group, they will have to grapple with rising energy prices, increasing debt levels, and fewer opportunities to capitalize on housing equity over the next few years.

Colorado Economy

Colorado's economy continues to expand in 2007, following a solid year of growth in 2006. Employment increased 2.0 percent in the first four months of 2007, a rate slightly lower than the 2.4

percent growth recorded in 2006. The one dark spot on the economy is the single-family housing market, which continues to be weak. While the housing market is forecast to remain stagnant in the near term, the overall outlook for the state is for ongoing growth, albeit at a slower pace than last year. Business confidence is strong and consumer spending remains buoyant. In 2007, employment is expected to grow 1.8 percent, personal income is projected grow 6.0 percent, and inflation is forecast to be 3.5 percent. In addition, retail trade sales are expected to grow almost in tandem with personal income.

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. The current economic expansion in Colorado is beginning to show signs of maturing. The job market has become very tight. Despite a slowdown in job growth in most parts of the state, the unemployment rate has continued to fall quickly. The strong job market is being impacted by a shortage of qualified labor on the high end. While consumers have supported the economy over the past few years, they are facing an increasingly difficult task. Stagnating home values are reducing available equity for consumers relative to years past. Consumers are also facing higher interest rates, tighter lending standards, and higher prices for food and energy products. In addition, consumer debt levels are very high and payment delinquencies and home foreclosures are impacting spending. Corporate profits remain strong, but business investment is not rising with profits. The economy will not be able to match past growth rates unless businesses begin to play a larger part in driving growth.

The forecast for General Fund revenue increased by $164.3 million for FY 2006-07, almost entirely due to higher-than-expected individual income tax estimated payments. Estimated income tax payments for May 2007 were more than double the highest amount received during any previous May. If payments hold up through June, it is likely that the state will have received a windfall from investors taking profits due to record high stock market levels. Corporate income taxes and sales and use taxes also saw slight increases in the current forecast.

After increasing 17.9 percent in FY 2005-06, **individual income taxes** will increase 10.9 percent in FY 2006-07. The strong growth is a result of healthy job creation and robust capital gains. 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 was increased by $161.5 million in FY 2006-07 because of higher-than-expected revenue from estimated payments and lower-than-expected refunds. Individual income tax estimated payments are increasing at a very strong pace for the second year in a row. Because economic growth is expected to slow somewhat over the next year and a half, the momentum that has built over the last two years will wane somewhat in FY 2007-08. The forecast for individual income taxes was reduced slightly by a total of $45.7 million over the remaining four years of the forecast period, a change of only two tenths of one percent from the March forecast.

The forecast for **corporate income taxes** was revised upward because of stronger-than-expected collections in the current fiscal year and increased projections for corporate profits in the following fiscal years. In FY 2006-07, corporate income taxes are expected to reach $467.2 million. This represents an increase in the forecast of $10 million, or 2.3 percent, over the March forecast. It also appears that higher profits for oil and gas producers are contributing to the run-up in corporate income tax collections. Although the forecast was raised relative to the March forecast, corporate income taxes in FY 2007-08 are expected to decrease marginally compared with the prior fiscal year, reaching $465.9 million. The year-over-year drop is primarily due to the expiration of a federal tax break, which allowed corporations to repatriate foreign-source income at a reduced federal income tax rate. The expiration of this incentive will reduce federal taxable income and the amount apportioned to Colorado by multinational companies. In FY 2008-09 and FY 2009-10, corporate income taxes are projected to total $480.4 million and $493.0 million, respectively.

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 $395.1 million in FY 2006-07 and $403.5 million in FY 2007-08.

Despite higher gas prices and the weak housing market, consumers have thus far remained resilient as sales tax revenue has exceeded expectations. The **sales tax** forecast was raised by $15.2 million in FY 2006-07. A strong job market, coupled with healthy growth in personal income and wages and salaries, appear to be offsetting high consumer debt levels, high energy and food prices, and weaker home values. These negative factors will temper consumer spending somewhat in FY 2007-08. Sales tax collections will increase 4.6 percent in FY 2006-07 and 4.1 percent in FY 2007-08.

The forecast for **use taxes** was revised upward by $2.7 million for FY 2006-07 due to stronger-than-expected use tax receipts in recent months, perhaps due to continued healthy business spending. We expect use taxes to increase 10.0 percent in the current year. The forecast for stagnant use tax revenue in FY 2007-08 was unchanged due to the expectation of continued weak home construction activity and a slower economy.

Three bills enacted in 2007 impact sales and use tax revenue to the General Fund. **HB07-1190** limits the amount of sales or use tax levied by a Regional Transportation Authority that the Department of Revenue may retain for its costs in collecting, administering, and enforcing the tax. It is estimated that sales and use tax revenue to the General Fund will decrease by $167,000 in FY 2007-08, and $335,000 in FY 2008-09.

HB07-1277 exempts from the sales and use tax the purchase of any infrastructure required to create a clean room in a manufacturing facility starting in FY 2007-08. It is estimated that the bill will reduce sales and use tax revenue by an estimated $3.9 million in FY 2007-08 and $3.7 million in FY 2008-09.

In November 2006, the Department of Revenue determined that the sales and use tax exemption for machinery used in certain manufacturing did not apply to machinery used in the production of electricity. **HB 07-1279** specifies that the purchases of machinery or machine tools used in the production of electricity from a renewable energy source or in a facility for which a long-term power purchase agreement was executed between February 5, 2001 and November 7, 2006, is exempt from the state sales and use tax. Sales and use tax revenue to the state would have been about $5 million higher in FY 2006-07 and $10 million higher in FY 2007-08 without the enactment of the bill due to the Department of Revenue's November ruling.

Table 2
June 2007 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	$2,047.6	4.6	$2,132.5	4.1	$2,229.2	4.5	$2,339.3	4.9	$2,463.3	5.3
Use	165.9	8.5	182.5	10.0	182.3	-0.1	188.1	3.2	196.9	4.7	207.1	5.2
Cigarette	48.2	-6.3	46.9	-2.7	45.4	-3.2	44.4	-2.2	43.6	-1.8	42.9	-1.6
Tobacco Products	11.2	-20.8	12.8	14.0	13.3	4.2	13.9	4.3	14.5	4.0	15.3	5.7
Liquor	32.8	5.2	34.1	3.7	34.9	2.4	35.9	2.8	36.9	2.8	37.7	2.3
TOTAL EXCISE	$2,215.5	5.3	$2,323.9	4.9	$2,408.5	3.6	$2,511.5	4.3	$2,631.1	4.8	$2,766.2	5.1
Net Individual Income	$4,376.1	17.9	$4,855.2	10.9	$4,965.1	2.3	$5,305.7	6.9	$5,658.5	6.7	$6,035.6	6.7
Net Corporate Income	447.5	42.1	467.2	4.4	465.9	-0.3	480.4	3.1	493.0	2.6	519.2	5.3
TOTAL INCOME TAXES	$4,823.6	19.8	$5,322.4	10.3	$5,431.0	2.0	$5,786.1	6.5	$6,151.5	6.3	$6,554.7	6.6
Less: Portion diverted to the State Education Fund	-357.2	13.8	-395.1	10.6	-403.5	2.1	-429.7	6.5	-456.6	6.3	-485.6	6.4
INCOME TAXES TO GENERAL FUND	$4,466.4	20.3	$4,927.3	10.3	$5,027.5	2.0	$5,356.4	6.5	$5,694.9	6.3	$6,069.1	6.6
Estate	6.8	-73.9	0.6	-90.7	0.4	NA	0.3	NA	0.3	NA	0.0	NA
Insurance	175.1	-7.4	181.9	3.9	190.1	4.5	197.2	3.7	204.5	3.7	211.8	3.6
Pari-Mutuel	3.4	-10.7	3.0	-12.1	2.9	-3.3	2.8	-3.5	2.7	-3.6	2.6	-3.8
Investment Income	33.3	20.1	24.2	-27.2	29.9	23.6	30.7	2.4	31.4	2.5	32.6	3.9
Court Receipts	27.4	4.0	25.9	-5.3	26.3	1.4	17.8	-32.2	12.7	-28.5	0.3	-97.9
Gaming	17.6	-56.4	6.9	-60.6	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA
Other Income	19.3	-33.2	15.0	-22.2	15.3	2.0	15.9	4.0	16.4	3.0	16.9	3.0
TOTAL OTHER	$282.9	-17.3	$257.6	-8.9	$264.9	2.8	$264.8	0.0	$268.1	1.2	$264.2	-1.4
GROSS GENERAL FUND	**$6,964.7**	**13.0**	**$7,508.9**	**7.8**	**$7,700.8**	**2.6**	**$8,132.7**	**5.6**	**$8,594.1**	**5.7**	**$9,099.6**	**5.9**
REBATES & EXPENDITURES:												
Cigarette Rebate	$14.1	-2.3	$13.7	-2.7	$13.3	-3.2	$13.0	-2.2	$12.7	-1.8	$12.5	-1.6
Old-Age Pension Fund	89.1	2.8	94.3	5.8	100.2	6.3	106.5	6.3	113.2	6.3	124.1	9.6
Aged Property Tax & Heating Credit	9.8	67.4	9.7	-0.4	10.3	6.2	18.3	76.9	16.0	-12.5	16.5	2.9
Interest Payments for School Loans	11.3	NA	10.6	-6.2	11.0	3.3	11.2	2.4	11.5	2.5	11.9	3.9
Fire/Police Pensions	29.1	664.6	38.8	33.4	38.8	0.0	29.3	-24.4	29.3	0.0	29.3	0.0
TOTAL REBATES & EXPENDITURES	$153.4	38.5	$167.1	9.0	$173.6	3.9	$178.3	2.7	$182.7	2.5	$194.3	6.3

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 6.0 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 (UI) tax rates will fall because the UI Trust Fund has begun to recover from the recession. Severance taxes will fall because of lower oil and natural gas prices in 2006. Revenue will increase at an annual average rate of 0.4 percent through FY 2010-11.

The forecast for cash fund revenue subject to TABOR during FY 2006-07 was increased by $13.4 million from the March forecast. A $27.5 million increase in the forecast for severance taxes and a $15.4 million increase in the umbrella group of other cash funds were partially offset by a $25.0 million decrease in the forecast for unemployment insurance taxes.

Over the full five-year forecast period, the forecast for revenue to these funds increased by a total of $461.3 million. The forecast for severance taxes increased by a total of $113.6 million and the forecast for unemployment insurance taxes increased by a total of $78.6 million due to the expectation that the solvency tax will be in effect for an additional year over what had been expected in March. In addition, the five-year forecast was increased by a total of $178.4 million as a result of new legislation. Of this, $56.1 million is court-related revenue that will be diverted away from the General Fund to cash funds pursuant to **HB 07-1054** and **SB 07-55**, and $122.2 million is the result of 28 bills from the 2007 session that either increased and/or created new fees.

Revenue to the ***transportation-related*** cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and several smaller cash funds, will increase 0.4 percent in FY 2006-07 after increasing 3.1 percent last year. This revenue will grow at a fairly modest annual average rate of 1.1 percent over the five-year forecast period. Growth in revenue to the Highway Users Tax Fund is currently being driven by the freight industry rather than personal vehicles. Motor fuel taxes will be flat in FY 2006-07; a healthy increase in special fuel taxes will offset a decrease in gasoline taxes. Registration fee revenue will increase 2.8 percent this year; primarily because of strong growth in registrations from large freight trucks that apportion registration fees between states. Registration fees from personal vehicles have been flat this year. High gasoline prices and increased usage of fuel-efficient vehicles are suppressing growth in gasoline taxes and registration fees. Registration fees, based on the weight and age of the vehicle, are lower for smaller, more fuel efficient vehicles.

The forecast for revenue to the transportation-related cash funds increased by a total of $53.7 million over the five-year forecast period, $25.8 million of which came as a result of **SB 07-241**. Most of the remaining increase occurred in the forecast for special fuel taxes. SB 07-241 adds a $25 fee for the issuance of certain special license plates and increases various driver's license and other fees. Most of the revenue from the fee increases is allocated to a newly-created Licensing Services Cash Fund.

Total ***unemployment insurance*** (UI) revenue, which includes UI taxes and interest earnings, will decrease 19.1 percent in FY 2006-07 after increasing by double-digit rates during the last three years. UI tax rates increased in 2004 and again in 2005 because of a substantial draw-down of the fund's reserves during the recession. Tax rates are gradually decreasing each year as the fund balance rebuilds. The solvency tax, which has been in effect since 2004 and is levied when the fund balance falls below 0.9 percent of total private wages, will continue to be in effect through

Table 3
Cash Fund Revenue Estimates by Category, June 2007
(Dollars in Millions)

	Actual 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**	**$872.9**	**$890.0**	**$887.1**	**$901.7**	**$917.4**	
% Change	3.1%	0.4%	2.0%	-0.3%	1.6%	1.7%	**1.1%**
Unemployment Insurance	**$515.2**	**$416.9**	**$438.1**	**$501.1**	**$569.5**	**$361.0**	
% Change	10.6%	-19.1%	5.1%	14.4%	13.7%	-36.6%	**-6.9%**
Employment Support Fund	**$22.4**	**$22.0**	**$23.1**	**$23.4**	**$24.3**	**$25.3**	
% Change	4.1%	-1.8%	5.1%	1.3%	3.8%	4.0%	**2.4%**
Severance Tax	**$234.3**	**$151.9**	**$169.4**	**$163.2**	**$166.8**	**$171.9**	
% Change	54.2%	-35.2%	11.6%	-3.7%	2.2%	3.1%	**-6.0%**
Limited Gaming Fund	**$110.9**	**$119.8**	**$124.9**	**$130.6**	**$137.1**	**$143.7**	
% Change	7.5%	8.0%	4.3%	4.6%	5.0%	4.8%	**5.3%**
Insurance-Related	**$63.9**	**$63.8**	**$67.0**	**$70.0**	**$73.4**	**$77.2**	
% Change	20.1%	-0.2%	5.1%	4.5%	4.8%	5.2%	**3.8%**
Regulatory Agencies	**$49.2**	**$53.4**	**$57.2**	**$56.4**	**$57.8**	**$61.1**	
% Change	-4.3%	8.7%	7.0%	-1.4%	2.5%	5.8%	**4.5%**
Capital Construction - Interest	**$3.6**	**$15.0**	**$13.4**	**$6.1**	**$5.1**	**$4.3**	
% Change	53.0%	319.6%	-10.4%	-54.3%	-17.1%	-14.6%	**4.0%**
Controlled Maintenance Trust Fund - Interest	**$6.7**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	
Other Cash Funds	**$342.9**	**$370.0**	**$409.7**	**$443.7**	**$468.7**	**$505.4**	
% Change	26.0%	7.9%	10.7%	8.3%	5.6%	7.8%	**8.1%**
Total Cash Fund Revenues Subject to the TABOR Limit	**$2,218.6**	**$2,085.7**	**$2,192.9**	**$2,281.7**	**$2,404.4**	**$2,267.5**	
	12.9%	**-6.0%**	**5.1%**	**4.0%**	**5.4%**	**-5.7%**	**0.4%**

Totals may not sum due to rounding.
* CAAGR: Compound Average Annual Growth Rate.

2010. The solvency tax will generate $1.26 billion over the seven-year period. After increasing 9.0 percent in FY 2005-06, UI tax revenue will decrease 21.8 percent in FY 2006-07 and increase in FY 2007-08 through FY 2009-10 before decreasing in FY 2010-11, when the solvency tax ceases to be collected.

Relative to the March forecast, expectations for UI revenue during the first three years of the forecast period were lowered by a total of $394.1 million because of reduced expectations for the rate of growth in the Colorado economy during the next two years. Slower growth in the economy will reduce growth in taxable wages and increase benefit payments. This resulted in the need for the solvency tax to be in effect for an additional year relative to what had been expected in March. Thus, the forecast for the last two years of the forecast period increased by a total of $226.8 million. Over the five-year forecast period, the forecast for UI revenue was increased by a net amount of $78.6 million.

The forecast for ***severance taxes***, including interest earnings, was revised upward by $27.5 million in FY 2006-07, going from $124.4 to $151.9 million. Collections in April of more than $44 million were stronger than anticipated, which led to the adjustment in the forecast. Compared with FY 2005-06, however, severance taxes are down 35.2 percent, primarily because of lower natural gas prices. In 2005, natural gas prices averaged $7.39 per thousand cubic feet (mcf), while in 2006 natural gas prices averaged $6.13 per mcf. In subsequent fiscal years, the severance tax forecast was revised upward, because of the expectation of greater natural gas production and the higher baseline in FY 2006-07. These changes offset the slightly lower forecast for natural gas prices. In the next three years, natural gas prices are expected to decrease modestly by about 3 percent per year, reaching a level around $5.60 per mcf. The production of natural gas is expected to increase by about 5 percent per year. Consequently, the forecast for severance taxes, including interest earnings, is expected to reach $169.4 million in FY 2007-08.

Included in the severance tax forecast is the impact associated with **HB 07-1309**. This bill changed the collection of oil and gas severance taxes from quarterly to monthly, resulting in additional interest earnings for the state. The bill is effective July 1, 2007 and is expected to generate about $500,000 annually in new interest earnings, starting in FY 2007-08.

Total ***gaming*** revenue, which includes taxes, fees, and interest earnings, will increase 8.0 percent in FY 2006-07 and 4.3 percent in FY 2007-08. The forecast for gaming revenue was decreased by a total of $9.3 million over the forecast period because of slightly reduced expectations for growth in personal income relative to the March forecast.

All ***other cash fund revenue*** will increase 7.3 percent in FY 2006-07 and at an annual rate of 6.6 percent over the forecast period. The forecast for revenue to these funds increased by $13.0 million in FY 2006-07 and a total of $224.7 million over the five-year forecast period. Of this, a total of $96.0 million between FY 2007-08 and FY 2010-11 is the result of 26 bills from the 2007 session that either created or increased fees. Another $56.1 million of this increase is court-related revenue that will be diverted away from the General Fund to cash funds beginning in FY 2008-09 pursuant to **HB 07-1054** and **SB 07-55**.

Federal Mineral Leasing Revenue

SB 07-253, which was signed by the Governor on June 1, 2007, requires the Legislative Council Staff to prepare a quarterly forecast of federal mineral leasing (FML) revenue. Table 4 presents the first such forecast. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment to the State Constitution, the forecast is presented separately from other sources of state revenue. The following provides a brief description of the structure of FML revenue, a history of revenue distributions, and factors driving the forecast.

Table 4
Federal Mineral Leasing Revenue Distributions
(millions of dollars)

Year	Amount	% Change
FY 2002-03*	$50.0	12.1%
FY 2003-04*	$79.4	58.7%
FY 2004-05*	$101.0	27.2%
FY 2005-06*	$143.4	41.9%
FY 2006-07	$126.1	-12.0%
FY 2007-08	$148.5	17.7%
FY 2008-09	$168.2	13.3%
FY 2009-10	$191.1	13.6%
FY 2010-11	$217.5	13.9%

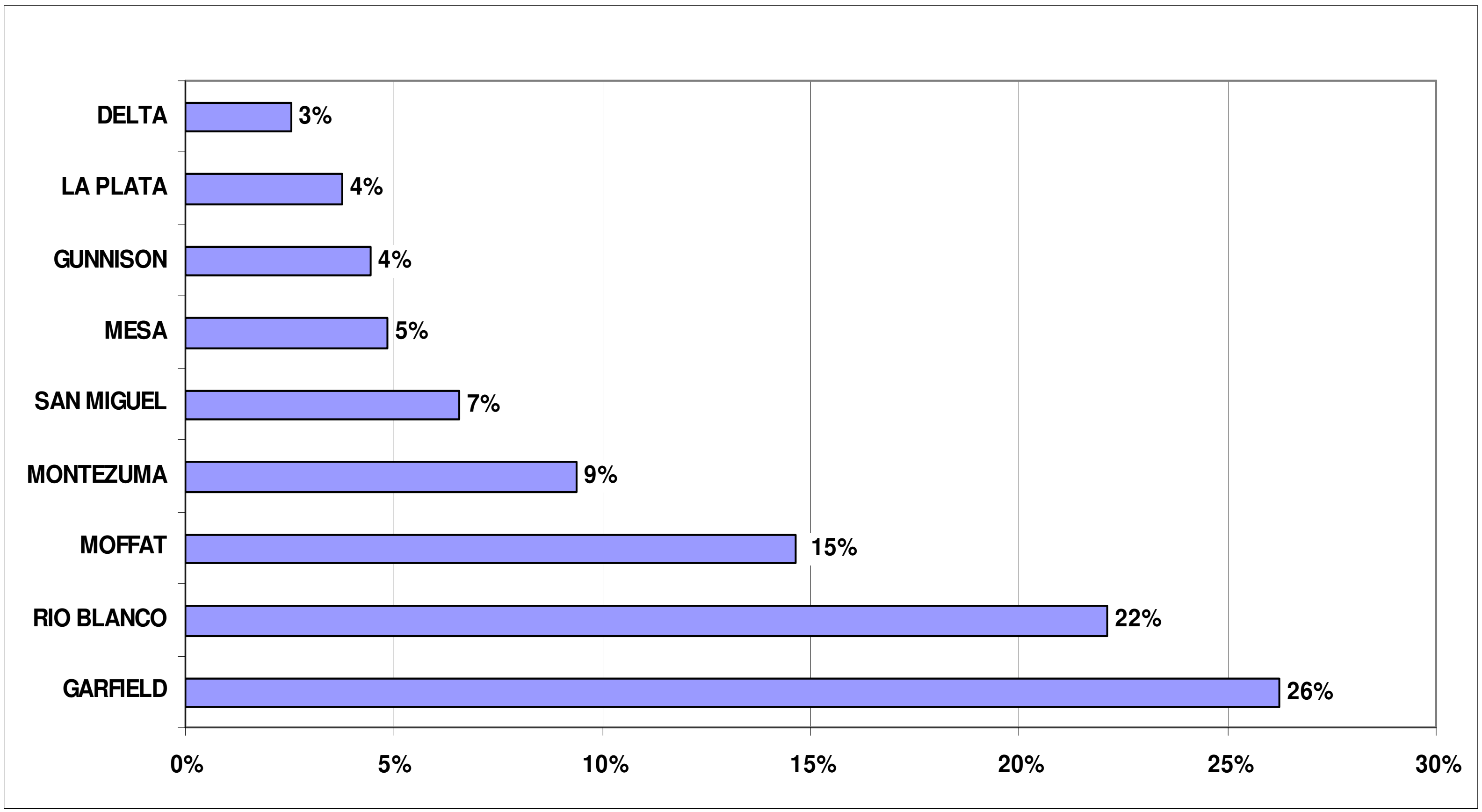
*Actual revenue distributed.

Under current federal law, a company that produces natural gas, oil, coal, or other minerals on land leased from the U.S. Government is required to make royalty and rent payments to the federal government. A company may also make a one-time bonus payment as part of a competitive bid to acquire the lease. Oil and natural gas production is generally subject to a royalty rate of 12.5 percent of the value of production. The value of production is, however, net of any costs associated with transporting and processing the product to a point of sale. Coal production is taxed at either a rate of 12.5 percent or 8.0 percent, depending on the type of coal mine. Underground coal mines pay a lower rate than surface mines. Federal mineral leasing revenue is distributed 50 percent to the state in which the lease is located and 50 percent is retained by the federal government.

As indicated in Table 4, FML revenue has grown from $50 million in FY 2002-03 to more than $143 million in FY 2005-06. In the most recent fiscal year, about 95 percent of all FML revenue was derived from gas (including carbon dioxide) and coal production in nine counties. Chart 1 illustrates the percentage of FML revenue that came from each of those counties. Garfield and Rio Blanco counties accounted for about 48 percent of the state's FML revenue, with Moffat, Montezuma, and San Miguel counties accounting for another 31 percent.

The FML revenue forecast was prepared by incorporating data on statewide and county trends for natural gas, oil, and coal production and prices. The price and production forecasts were based on the same assumptions and estimates as those utilized in the severance tax forecast. Based on these assumptions, the forecast for FML revenue is expected to drop 12.0 percent in FY 2006-07 from $143.4 million to $126.1 million. The principal reason for the reduction is a 17 percent decrease in natural gas prices that occurred in 2006. In subsequent fiscal years, FML revenue is expected to rebound to $148.5 million in FY 2007-08 and $168.2 million in FY 2008-09. While natural gas prices are expected to decline slightly in the forecast period, production gains in natural gas producing counties will offset those declines. The net result is growth in FML revenue of almost 18 percent in FY 2007-08 and 13 percent in FY 2008-09.

Chart 1
Share of FML Revenue by County of Origin, FY 2005-06

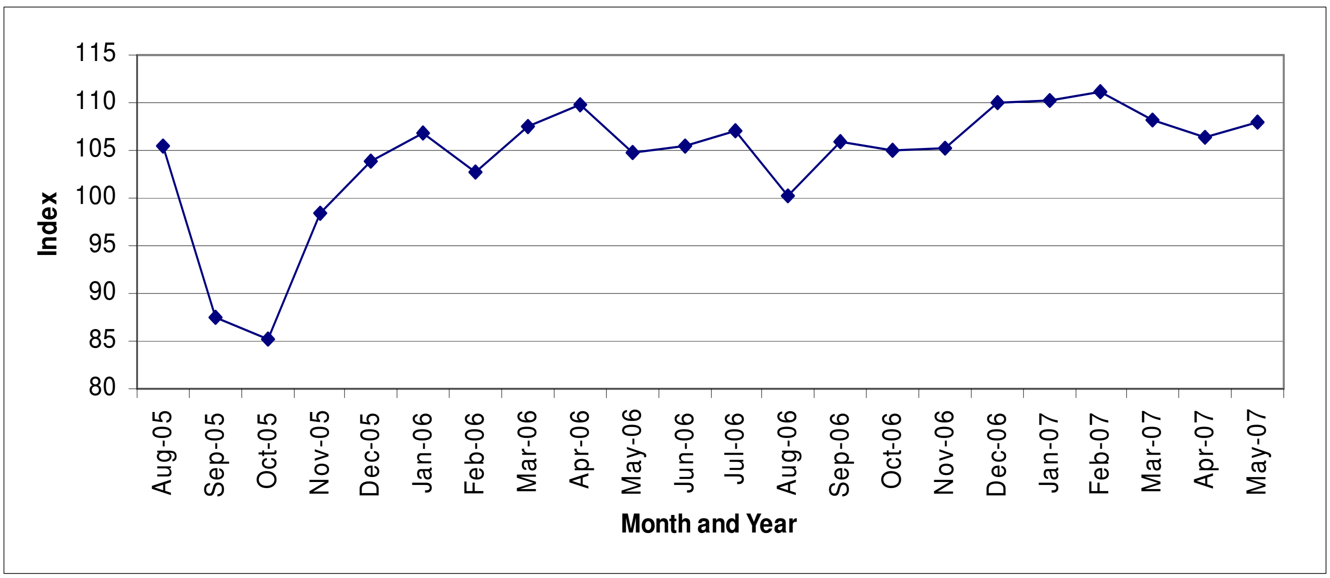


National Economy

Growth in real **gross domestic product** (GDP) for the first quarter of 2007 was revised down from 1.3 percent to 0.6 percent by the Bureau of Economic Analysis. First quarter growth reflected the slowest growth since the first quarter of 2002. Despite the slow first quarter, we expect the U.S. economy to continue to expand at a moderate pace through the rest of the year. Personal consumption expenditures remained strong in the first quarter growing 4.3 percent following a 4.2 percent increase in the fourth quarter. However, the gains were offset by declines in private inventory investment, residential fixed investment, exports and federal government spending.

The Conference Board's **consumer confidence** index showed that consumers are still feeling fairly secure, increasing from 106.3 to 108.0 in May. Consumers did indicate concern about rising gasoline prices and mounting inflationary pressure. Consumer confidence remained high since hitting a low in October, 2005 (Chart 2).

Chart 2
Consumer Confidence Index



While consumer confidence was up in May, a number of factors may affect future spending. Higher inflation, coupled with recent jumps in gas prices, may weigh negatively on consumers' minds. **Consumer debt** remains high, although in April, consumer borrowing by U.S. households posted the smallest increase in six months. Consumer debt rose 1.3 percent in April down from a 7.0 percent increase in March. The slowdown in borrowing was attributed to a decline in the use of credit card debt as consumers were paying off more credit card debt than they incurred, a phenomenon that has not occurred in 13 months. The 1.3 percent increase in consumer credit left total consumer borrowing at a record $2.4 trillion in April.

Consumers may be wary about taking on more debt as the slowing housing market has left consumers with less equity in their homes to borrow against. The slowing in lending came in a month when retail sales growth slowed, increasing just 3.2 percent in April 2007, compared with 4.4 percent growth in the first three months of the year.

The **employment sector** saw a moderate increase in job activity in May as nonfarm employment increased by 157,000 jobs. The health care and food sectors added the most jobs, while the manufacturing sector saw a decline. Other sectors that saw a moderate increase in new jobs were professional, business, education, leisure, and government services. The unemployment rate, meanwhile, remained unchanged at 4.5 percent. The unemployment rate for those with at least a college degree averaged 1.9 percent during the first five months of 2007, similar to where it was in 1999. The tight labor market among these individuals has begun to put upward pressure on wages, which could drive inflation upward.

The **manufacturing** sector is beginning to strengthen after weakness in 2006. New orders for manufactured goods were up 0.3 percent in April and they have increased during five of the last six months. New orders for manufactured durable goods also increased in April. Gains in durable goods were offset by a decline in nondurable manufactured goods. The manufacturing sector also saw increases in shipments, unfilled orders, and inventories for manufactured durable goods.

The **construction** sector continues to be the weakest part of the nation's economy. New and existing home sales have declined significantly from their expansionary peaks and the weakness in the market will remain for some time. New construction has slowed considerably and the volume of existing homes for sale has increased dramatically. Building permits in April for privately-owned housing units were 1.4 million, down 28.1 percent from April 2006. Single-family permits in April 2007 declined 6 percent below March 2007 levels. The impact on prices, however, has remained modest in most markets.

As consumers shy away from the single family home market, some areas have experienced increases in the construction of multi-family units. The nonresidential construction market has weakened, but remains much more stable than the residential market.

Inflation has moved slowly upwards over the past year. The consumer price index increased 2.7 percent in May over the prior year. The core rate of consumer prices, which excludes food and energy prices, increased 2.2 percent over the same time period. This is near the Federal Reserve Bank's preferred level of 2.0 percent and could lead the Central Bank to allow interest rates to remain the same at the next rate-setting meeting. The central bank will likely raise rates later in the year, however. May's lower core inflation rate reflects the absence of higher gasoline prices as refinery shortages and high consumer demand may continue to keep gasoline prices high through the Labor Day holiday, after which demand generally tapers off. The producer price index for finished goods increased 0.7 percent in April. The increase was less than the 1.0 percent rise in March and the 1.3 percent increase in February. The core index remained unchanged for the second consecutive month.

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

- The nation's economy, as measured by real **gross domestic product**, grew 3.3 percent in 2006. However, the rate of growth declined significantly in the first quarter, falling to 0.6 percent, reflecting the slowest growth since the first quarter of 2002. Among other things, a continuing correction in the housing sector will hold growth down to 2.5 percent during 2007, before rebounding to 2.8 percent in 2008.

- The consumer **inflation rate** will likely remain near or below the 3.0 percent mark for the next several years. In 2007, slack demand for durable consumer goods will somewhat offset the effects of rising energy and food prices and wage pressure, and inflation will be 2.8 percent in 2007 after coming in at 3.2 percent in 2006.

- **Personal income** growth will slow from the 6.3 percent growth rate experienced in 2006 to the mid-to-high 5 percent range during the forecast period. Wage and salary growth will be aided by a tight labor market and strong foreign economies, but will slow slightly over the next several years.

- The **unemployment rate** currently at 4.5 percent may decrease as employment continues to grow. But growth will meet some resistance as shortages of potential qualified employees occurs in some sectors. We anticipate that employment will continue to grow a little over 1.0 percent per year during the forecast period, but at slightly reduced rates from 2005 and 2006. The unemployment rate will remain low during 2007 and 2008.

Risks to the Forecast. There are several risks to the national forecast. First quarter record-high **oil prices** that were present earlier this year may signal a significant risk to the economy if gasoline prices remain high. As rising fuel prices ripple into the service sectors, rising prices may further depress consumer spending as the added expense is shifted forward to consumers, thus leaving consumers with less disposable income.

The protracted downturn in the **housing sector** may be stabilizing. Monthly U.S. existing homes sales data indicate that the housing sector may have bottomed out in the third quarter of 2006 as sales inch up in the second quarter of 2007. However, there are still concerns tied to subprime lending in the mortgage industry. Lending instruments such as adjustable-rate and no-interest loans resulted in a significant increase in home foreclosures, thereby adding to the large housing inventory that is depressing the national housing market. If foreclosures continue to escalate and the funds available in the mortgage credit market shrink, the slowing housing market could quickly begin to look like a bursting bubble rather than a correction. A weaker housing market can spill over into many other sectors as residential investment slows and consumer spending is diminished.

Consumer credit growth should maintain a relationship with a person's ability to repay debt based on upon his or her disposable income. The current ratio of consumer credit to disposable personal income is hovering near all-time highs. Given a tightening labor market and inflationary pressures, gradual increases in lending rates could further stress consumers' ability to meet their credit obligations and impact consumer confidence and spending on other goods.

The labor market could tighten more than anticipated toward the end of 2007 putting pressure on businesses and inflation. This could diminish business investment and create a wage pressure situation that would cause the Federal Reserve to take more restrictive steps to fight inflation, slowing economic growth in the short term.

Accelerating demand for corn-based ethanol production has affected domestic food prices and could cause inflationary pressure. As corn prices rise, farmers plant more corn and fewer other crops, leading to higher prices for all crops. This could eventually spill over to the balance of the U.S. agricultural markets.

Actions by other governments in Europe and Asia can have significant impacts on the national economy very quickly. If foreign investors reduce the amount of capital they make available to our domestic markets or make other monetary policy changes, such as devaluing their currencies or changing market regulations, there can be large impacts on the U.S. economy in a short period of time.

Table 5
National Economic Indicators, June 2007 Forecast
(Dollars in Billions)

	2000	2001	2002	2003	2004	2005	2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010
Inflation-adjusted GDP	$9,817.0	$9,890.7	$10,048.8	$10,301.0	$10,703.5	$11,048.6	$11,415.3	$11,700.7	$12,028.3	$12,425.1	$12,811.9
percent change	3.7%	0.8%	1.6%	2.5%	3.9%	3.2%	3.3%	2.5%	2.8%	3.3%	3.1%
Nonagricultural Employment (millions)	131.8	131.8	130.3	130.0	131.4	133.7	136.2	138.1	139.8	141.7	143.6
percent change	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.9%	1.4%	1.3%	1.4%	1.3%
Unemployment Rate	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.4%	4.3%	4.2%	4.2%
Personal Income	$8,429.7	$8,724.1	$8,881.9	$9,163.6	$9,731.4	$10,239.2	$10,883.4	$11,528.3	$12,194.1	$12,881.3	$13,585.6
percent change	8.0%	3.5%	1.8%	3.2%	6.2%	5.2%	6.3%	5.9%	5.8%	5.6%	5.5%
Wage and Salary Income	$4,829.2	$4,942.8	$4,980.9	$5,112.7	$5,392.1	$5,664.8	$6,022.6	$6,370.9	$6,734.7	$7,114.0	$7,503.0
percent change	8.1%	2.4%	0.8%	2.6%	5.5%	5.1%	6.3%	5.8%	5.7%	5.6%	5.5%
Inflation (Consumer Price Index)	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	2.8%	2.7%	2.7%
10-year Treasury Note	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%	5.0%	5.5%	5.7%	5.7%

Colorado Economy

Colorado's economy continued to expand in the first portion of 2007, following a solid year of growth in 2006. Employment increased 2.0 percent in the first five months of 2007, a rate slightly lower than the 2.4 percent growth recorded in 2006. The one dark spot on the economy is the single-family housing market, which continues to be weak and could inhibit growth in the future. Table 6 shows annual economic indicators for the state and it displays the forecast for the next five years.

Nonfarm employment increased 1.9 percent in May of this year compared with the same period in 2006. After dropping to 3.5 percent in April, the unemployment rate held steady at 3.6 percent in May. It has dropped steadily from 4.1 percent in January to its current level. The unemployment rate averaged 4.3 percent in 2006.

Employment gains and losses were spread unevenly across industries in the state in May. On the positive side, the largest job gains were recorded in professional and business services and local government. In addition, the information sector finally appears to have recovered, posting job gains in May and over the past twelve months. On the negative side, jobs related to the housing market continued to fall or post slow growth in May, including construction, finance, and insurance. Moreover, Colorado continued to shed manufacturing jobs in May. The state also saw a reduction in jobs in retail trade, hotel accommodations, and food services. While the tourism sector has been growing, these job losses could be a sign of pending weakness and the impact of high energy costs on the sector.

While the contraction in the housing market is expected to dampen growth in the labor market, job growth is expected to continue in the next two years.

- Nonfarm employment is expected to increase 1.9 percent in 2007 and 1.7 percent in 2008.
- Colorado's unemployment rate is expected to average 3.6 percent in 2007 and 4.0 percent in 2008.

After increasing 6.2 percent in 2005, **personal income** in Colorado increased 6.5 percent in 2006, the 15th fastest growth rate in the nation. Colorado's per capita income was $39,186 in 2006, which ranked 8th among the states. However, Colorado ranked 35th in its growth in per capita income from 2005 to 2006. **Wages and salaries** – which comprise roughly 60 percent of personal income – increased 7.4 percent in 2006. In 2005, wages and salaries increased 5.7 percent. Wages and salaries increased at double-digit rates in several industries: 40.6 percent in utilities; 20.0 percent in mining; 11.3 percent in construction; 11.1 percent in the management of companies and enterprises; 10.5 percent in professional and technical services; and 10.4 percent in transportation and warehousing.

Corresponding with the slowdown in employment growth, personal income is expected to grow at a slower pace in the next two years.

- Personal income is projected to increase 6.0 percent in 2007 and 5.5 percent in 2008. Wages and salaries will increase 5.9 percent in 2007 and 4.8 percent in 2008.

Consumer spending in Colorado, as measured by **retail trade sales,** slowed as 2006 drew to a close, likely due to adverse weather conditions along the Front Range. The year ended with a 5.7 percent increase over 2005 levels. However, sales picked up somewhat in the beginning of 2007, possibly due to pent up demand after the lower spending at the end of 2006**.** Retail sales are up 6.2 percent through March compared with the same time period in 2006.

- Retail sales are expected to slow in 2007 to 5.8 percent and 4.4 percent in 2008, as consumers cut back due to high debt levels, high energy prices, and reduced optimism about home values and other economic conditions.

Inflation in the Denver-Boulder-Greeley area was 3.6 percent for 2006**,** the highest mark since 2001. The core index – which excludes the more volatile food and energy prices – was even higher, posting a 4.0 percent increase in 2006. The housing component, which is based on the local rental market and makes up over 40 percent of the index, increased after experiencing declines since 2003. A sharp 25 percent jump in gasoline prices in the first half of 2006, also contributed to the rise. Finally, prices for apparel jumped 19.3 percent. In 2005, inflation was 2.1 percent.

- Inflation in 2007 is expected to be similar to 2006 due to continuing pressure from high energy prices, the rental equivalent used for housing costs, and wages. Inflation will be 3.5 percent in 2007 and 3.4 percent in 2008.

The number of **housing permits** issued in the state continued a downward trend that started at the beginning of 2006 – a telling indicator of the housing market's contraction in Colorado. Permits were down 29.3 percent in the first four months of 2007 over the same time period in 2006, driven by a 36.6 percent decline in permits for single-family homes. Multi-family housing permits were down marginally in the first four months of 2007.

In addition, sales of existing homes in Colorado were down 12.5 percent in the fourth quarter of 2006 compared with the same period in 2005, according to the National Association of Realtors. However, this decline in sales was not as steep as in some other states, such as Arizona (-26.9 percent), California (-21.3 percent), Florida (-30.8 percent), Nevada (-36.1 percent), and Virginia (-26.2 percent).

Given the weakness in the housing market, the median sales price of single-family homes has declined. According to Coldwell Banker, the median price of a single-family home sold in the first five months of this year was $243,500, down from $247,000 in the same period of 2006. This represents a drop of 1.4 percent. On a positive note, however, the number of homes under contract in the Denver area increased 1.1 percent through May.

Adding to the concern surrounding the housing market is the high foreclosure rate in the state, which is expected to continue in 2007. According to data provided by the Colorado Division of Housing, there were 9,254 foreclosure filings statewide in the first quarter of 2007. In 2006, the state had 28,453 foreclosure filings. Consequently, Colorado is on a pace to exceed 2006 filings by 25 to 30 percent. The high rate is being driven in part by rising interest rates on adjustable-rate mortgages taken over the past few years. There have also been problems in the "sub-prime" housing market, which offers loans with higher interest rates for riskier borrowers. Many sub-prime loans are also structured so that interest rates rise after a period of time. Because many of these loans have yet to require higher interest payments from borrowers, the high foreclosure rate will likely continue. A high rate of foreclosure increases the inventory of homes on the market, resulting in further downward pressure on prices.

- Overall, the single-family housing market is expected to contract this year, while the multi-family market will grow. Single family permits will drop 21.3 percent in 2007, but start to expand in 2008. Multi-family permits will increase 4.7 percent and 4.6 percent in 2007 and 2008, respectively. Builder sentiment is at its lowest level in 16 years.

The value of **nonresidential construction** activity dropped 3.9 percent in the first five months of 2007 after increasing 2.1 percent in 2006 and experiencing more significant growth in the prior two years. The decline was mostly caused by a reduction in the construction of manufacturing plants and schools and colleges. However, the value of permits in the commercial sector – the largest nonresidential construction sector – was positive, posting a 31.2 percent increase. Growth in this sector was driven by strong increases in offices and bank buildings, warehouses, and hotels and motels, which offset a decline in garage and service station construction.

- The value of nonresidential construction activity is expected to fall in 2007, decreasing 7.2 percent. However, the nonresidential sector will grow moderately again in 2008, posting a 7.6 percent increase.

Business confidence, as reported by the Leeds School of Business at the University of Colorado, appears to be heading upward. In the past two quarters, the index has moved from about 50 to 55. A score above 50 indicates an expectation of economic expansion. Business leaders were especially upbeat regarding expectations for business sales and profits, hiring, and capital investment. In contrast, business leaders were more skeptical about the outlook for the national economy.

In summary, the state's economy is expected to continue to grow in 2007 – though at a slower rate than in 2006. Continued growth in Colorado's major employment sectors and growth in wages and salaries should be strong enough to override the contraction in the housing market.

There are risks to this assessment, however. Declines in industries related to the housing market, such as construction, financial services, and real estate could ripple through the overall economy. Consumer confidence and spending could decline more than expected as a result of the weak housing market, especially if additional foreclosures cause home values to stagnate or decline. Moreover, a softening national economy could spillover into Colorado. At this time, however, none of these factors are expected to push the state's economy into recession.

Table 6
Colorado Economic Indicators, June 2007 Forecast

(Calendar Years)

	2000	2001	2002	2003	2004	2005	2006	Forecast 2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Population (thousands), July 1	4,327.4	4,428.6	4,500.1	4,546.0	4,598.5	4,663.3	4,753.4	4,838.9	4,926.0	5,024.6	5,120.0	5,217.3
percent change /A	2.4%	2.3%	1.6%	1.0%	1.2%	1.4%	1.9%	1.8%	1.8%	2.0%	1.9%	1.9%
Nonagricultural Employment (thousands)	2,213.6	2,226.8	2,184.1	2,152.8	2,179.6	2,226.0	2,278.8	2,322.1	2,361.5	2,415.8	2,476.2	2,538.1
percent change	3.8%	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.4%	1.9%	1.7%	2.3%	2.5%	2.5%
Unemployment Rate	2.7	3.8	5.7	6.1	5.6	5.1	4.3	3.6	4.0	4.2	4.0	4.1
Personal Income (millions)	$144,394	$152,700	$153,066	$154,829	$164,673	$174,919	$186,266	$197,368	$208,190	$221,224	$234,924	$250,383
percent change	12.1%	5.8%	0.2%	1.2%	6.4%	6.2%	6.5%	6.0%	5.5%	6.3%	6.2%	6.6%
Wage and Salary Income (millions)	$85,909	$88,297	$86,938	$88,008	$92,060	$97,265	$104,416	$110,587	$115,923	$123,469	$131,842	$140,649
percent change	12.6%	2.8%	-1.5%	1.2%	4.6%	5.7%	7.4%	5.9%	4.8%	6.5%	6.8%	6.7%
Retail Trade Sales (millions)	$57,955	$59,014	$58,852	$58,689	$62,288	$65,447	$69,174	$73,186	$76,434	$80,790	$85,638	$90,605
percent change	10.2%	1.8%	-0.3%	-0.3%	6.1%	5.1%	5.7%	5.8%	4.4%	5.7%	6.0%	5.8%
Home Permits (thousands)	54.6	55.0	47.9	39.6	46.4	46.3	39.3	33.0	34.0	36.9	39.1	40.8
percent change	10.7%	0.8%	-13.0%	-17.3%	17.3%	-0.2%	-15.1%	-15.9%	3.0%	8.4%	6.0%	4.4%
Nonresidential Building (millions)	$3,476	$3,500	$2,787	$2,713	$3,291	$4,221	$4,310	$3,998	$4,303	$4,452	$4,612	$4,774
percent change	-8.1%	0.7%	-20.4%	-2.7%	21.3%	28.3%	2.1%	-7.2%	7.6%	3.5%	3.6%	3.5%
Denver-Boulder Inflation Rate	4.0%	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%	3.5%	3.4%	3.2%	3.2%	3.3%

Personal income and wage and salary income for 2006 are estimates. All other data for 2006 are actuals.

Colorado Economic Regions

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

Metro Denver

The performance of the metro Denver economy during the first four months of 2007 was mixed. As measured by the region's employment situation – an important barometer of economic health – the economy in metro-Denver continues to be strong. Nonfarm employment increased by 2.0 percent through April. It increased 2.1 percent in 2006. Further, the region's unemployment rate continued to fall in April to a low 3.4 percent, one percentage point lower than in 2006. Retail trade sales grew 5.6 percent through March, with growth particularly strong in Douglas (10.1 percent) and Boulder (7.8 percent) counties.

Despite the region's healthy employment situation, the region continues to have a weak housing market. Housing permits continue to decline, falling by 27.2 percent through April. The decline was driven by a 45.3 percent decrease in permits for single-family homes. Further, the value of nonresidential construction permits declined 1.7 percent. Table 7 shows economic indicators for the region.

Table 7
Metro-Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2005	2006	YTD thru April 2007
Employment Growth /1	1.9%	2.1%	2.0%
Unemployment Rate	5.1%	4.4%	3.4%
Housing Permit Growth /2	-4.3%	-14.5%	-27.2%
Growth in Value of Nonresidential Const. /3	6.8%	-13.4%	-1.7%
Retail Trade Sales Growth /4	3.7%	4.1%	5.6%

NA = Not Available.
1/ U.S. Department of Labor, Bureau of Labor Statistics. CES data represents nonfarm employment.
2/ U.S. Census.
3/ F.W. Dodge; excludes Broomfield County.
4/ Colorado Department of Revenue; data through March 2007.

One important driver of the region's healthy job market is growth in the broad professional and business services sector, where employment grew 4.4 percent through April. This sector includes workers ranging from administrative assistants to research scientists. Another important driver was growth in the leisure and hospitality sector. Employment in this sector grew 4.5 percent, indicating that the region's tourism, arts, and recreation industries, as well as business travel to the area remains strong. The number of workers in the government sector also increased 2.2 percent. Combined, these sectors represent about 42 percent of the region's total nonfarm workforce.

On a negative note, metro Denver shed manufacturing jobs, down 1.2 percent, and telecommunications jobs,[1] down 2.9 percent, through April, continuing the trend from recent years. Further, as an indicator of the weak residential construction market, employment in the specialty trade contractors industry declined by 2.0 percent.

A large supply of homes for sale, combined with increasing interest rates and a high foreclosure rate contributed to the continuing weakness in the housing market. There is currently an imbalance between the demand and supply of homes for sale. In addition to weak construction activity, this imbalance is also contributing to weaker home values. The median price of a single-family home through May fell to \$243,500 from \$247,000 in the same period of last year. However, the price of metro Denver's homes did not fall as much as other metro areas, such as Boston, Phoenix, San Diego, San Francisco, Tampa Bay, and Washington, D.C.

On a positive note, housing sales in Denver are improving. At the end of May, there were 29,110 unsold homes, a 4.6 percent drop from the 30,457 in May of last year. Further, there were 27,869 homes placed under contract in the Denver area, a 1.1 percent increase from the same period in 2006.

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[1] Data on telecommunication employment excludes the Boulder-Longmont area.

The slight decline in the value of nonresidential construction through April was mainly attributable to a fall in the construction of schools and colleges and stores and food service facilities. Other sectors within nonresidential construction, such as warehouses and offices and banks, as well as hospital and health treatment facilities, posted robust gains for the first four months in 2007.

Recent Economic News:

- The University of Colorado Hospital moved from its Colorado Boulevard location to the Anschutz Medical Campus at Fitzsimons. The hospital's move is the first of three health facilities to move to Fitzsimons. Children's Hospital is scheduled to move in September and the U.S. Veterans Affairs Hospital will move around 2011. The hospital expects the move to attract patients, physicians, and other health care workers from across the nation.

- According to a study released by the metro visitors bureau, the number of overnight visitors and visitor spending in the Denver area increased 13 percent in 2006. The study reported that there were 11.7 million visitors who spent $2.8 billion. The study also showed the number of business travelers to Denver grew by 7 percent, to 2.6 million. The increase in business travel nationally was 5 percent.

- The satellite television company DirecTV Inc. plans to add up to 1,000 jobs at its new operations center in Centennial. The company's call center management, information technology and data center, retail services support, and other functions will be based at the center. DirecTV has 16 million subscribers nationwide.

- The average vacancy rate for rental condos and single-family homes in metro Denver fell to a five-year low of 4.2 percent in the first quarter – ranging from 2.9 percent for Jefferson County to 10.7 percent for Adams County, according to the Colorado Division of Housing. The continuing decrease is partially due to the area's high foreclosure rate. Despite the declining supply of rental units, rents are still about 5 percent lower than they were in 2003. The average monthly rent in the area for the first quarter of 2007 was $937.18, up from $924.37 in 2006; the average rent was $982.53 in the first quarter of 2003.

- Over 500 downtown Denver jobs will be lost when Fiserv sells most of its investment support services division to TD Ameritrade this year. The division serves as a custodian and provides back-office support for 300,000 investment and retirement accounts worth $46 billion.

- Downtown Denver will have a new grocery store as part of a $130 million development planned by the Nichols Partnership, a Denver development firm. The development will be built on a 3.2 acre site between 19th and 20th and Chestnut and Wewatta. The development also will include residential space and possibly a hotel and small offices. It is expected to be completed by early 2010.

- IBM laid off 145 employees at its Boulder location in May as part of an ongoing overhaul of its operations in its technology services unit. The company has cut 3,720 positions from all its locations so far in 2007 – about 1.0 percent of the company's total workforce. Company officials indicate that the overhaul is needed due to lower-cost competition worldwide. IBM employed 4,000 people in Boulder at the start of the year.

- Downtown Denver parking rates are rising due to higher office-occupancy rates and a loss of space due to new construction. The downtown vacancy rate dropped from around

11.9 percent in 2005 to 9.3 percent in 2006, according to a commercial real estate broker. Further, 13 new buildings have been built downtown since 2000, 6 more are under construction, and 15 are in the planning stage. The monthly parking price for space in many downtown lots has increased by up to $15 in the past few months. Average hourly rates increased 10.6 percent and daily rates increased 5.8 percent in 2006.

- The Revere Group, a business and technology consulting firm, has opened an office in Douglas County to serve as its western headquarters. The firm is owned by Japanese technology firm NTT, which could help Denver in its efforts to get direct flights to Tokyo. A company official indicated that Denver was chosen because of its central location with frequent air service to national destinations, and its large pool of technical employees and mid-sized companies. The headquarters could eventually support 200 jobs.

- The $138 million Platte Valley Medical Center is opening in July in Brighton. The new center will include the latest in health care technology, such as the first MRI machine developed by Toshiba to be used in North America. Toshiba picked the center in Brighton to showcase the machine because of its central location in the United States and proximity to Denver International Airport.

Colorado Springs Region

The Colorado Springs Region's economic growth is slowing. Low unemployment and retail sales growth are being offset by mild employment gains, deceases in new home permits and the value of nonresidential construction. Table 8 shows the economic indicators for the Colorado Springs Region.

Table 8
Colorado Springs Region Economic Indicators
El Paso County

	2005	2006	YTD thru April 2007
Employment Growth /1	2.0%	2.6%	1.4%
Unemployment Rate	5.3%	4.6%	3.8%
Housing Permit Growth /2	3.6%	-34.3%	-39.3%
Growth in Value of Nonresidential Const. /3	141.5%	-78.5%	-20.1%
Retail Trade Sales Growth /4	5.2%	5.1%	6.2%

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 March 2007.

Nonfarm employment growth increased 1.4 percent through April, after increasing 2.6 percent in 2006. Meanwhile, the unemployment rate was a low 3.8 percent in April, down nearly one percentage point from 2006. The small increase in employment growth coupled with a notable decrease in unemployment in Colorado Springs seems contradictory. However, this circumstance shows that employment is growing faster than the labor force, which reflects the national downward trend in labor force participation.

New home permits fell 39.3 percent through April, reflecting the nationwide and statewide housing slump. During that same time period, single family homes saw a 42.0 percent decline through April, compared with a 60.0 percent increase in multi-family home permits. Multifamily home construction is a small proportion of total home construction, however.

In April, foreclosure figures were up 52.7 percent in Colorado Springs, compared with the same month in 2006. If this trend continues as expected, the city could reach the record set in 1988. Today there are far more homes in Colorado Springs, compared with 1988, which means the percentage of foreclosed homes is lower than in 1988.

The growth in the value of nonresidential construction was down 20.1 percent through April, but is not near as severe as the negative 78.5 percent decline in growth posted during 2006. This year's decline is, in large part, attributed to a 78.1 percent decrease in school and college construction in addition to the decreases experienced in religious and amusement projects. Growth in the median home price remained slow, but was stronger than the state and national average.

Retail trade sales posted healthy gains of 6.2 percent through March, showing that consumer spending has not been adversely affected by the record-high gas prices and small gains in the job market.

Recent Economic News:

- California Casualty Group cut 50 jobs in Colorado Springs between February and May. The job cuts are part of a cost-cutting strategy to lower premiums and remain competitive.

- Peterson Air Force Base will expand from its present 1,200 acres to more than 2,000 acres. Peterson is over its capacity and plans to plow under the golf course driving range and an area used for shooting to expand base housing. A new commissary and base exchange is currently near completion.

- Declining housing values sent the cost of living for Colorado Springs to the lowest level in 16 years, weighed against the national average. Moreover, energy costs are the 11th lowest in the country. This makes the cost of living 6.9 percent lower than the national average during the first quarter of 2007. These figures do not take inflation into account, but rather compare costs for goods and services that middle-management executives tend to buy, making it a good indicator for people comparing living costs between cities.

- Fort Carson plans to build a new lifestyle shopping village with the population of the base expected to grow 34 percent through 2011. This will double the retail capacity of the base. The project will cost over $80 million and will consist of a bowling alley, a village green, a movie theater, shops, and restaurants.

Pueblo Region

Economic indicators for the Pueblo region show a mixed picture — positive employment growth and declines in residential and nonresidential construction. Along with the construction sector, retail sales slowed considerably and were far below the statewide average. Table 9 shows economic indicators for the Pueblo region for 2005, 2006, and the first four months of 2007.

Table 9
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2005	2006	YTD thru April 2007
Employment Growth /1	1.1%	2.3%	2.8%
Unemployment Rate (2007 figure is for April)	6.5%	5.5%	4.2%
Housing Permit Growth /2 Pueblo County Only	-3.4%	10.6%	-47.3%
Growth in Value of Nonresidential Const. /3 Pueblo County Only	-46.6%	632.3%	-71.7%
Retail Trade Sales Growth /4	5.3%	6.0%	2.4%

1/ U.S. Department of Labor, Bureau of Labor Statistics. CES data represents nonfarm employment.
2/ U.S. Census.
3/ F.W. Dodge.
4/ Colorado Department of Revenue; data through March 2007.

Nonfarm employment increased 2.8 percent in the first four months of 2007 after increasing 2.3 percent in 2006. Within the region, Huerfano County saw the highest employment growth at 4.1 percent, compared with a decline of 1.4 percent in Custer County. The unemployment rate for the Pueblo region is a healthy 4.2 percent, down from the 2006 average of 5.5 percent.

Housing permit growth was down 47.3 percent in Pueblo County through April 2007, compared with an increase of 10.6 percent in 2006. Permits for single family homes decreased 38.0 percent and multifamily home permits decreased 89.4 percent. Multifamily homes represent a very small percentage of total housing. Nonresidential construction was down 71.7 percent this year through April, compared to an increase of 632.3 percent in 2006. The large increase for 2006 is entirely due to a single, large construction project for a manufacturing facility. If not for this manufacturing facility, the value of nonresidential construction would have increased in 2007.

Pueblo saw a 2.4 percent increase in retail trade sales growth through March, which is significantly less than the statewide average of 6.2 percent. Regionally, Custer County reported a 25.9 percent increase in retail sales, while Las Animas County saw a 22.4 percent decline.

Recent Economic News:

- Median home prices are growing in Pueblo. Median values rose 2.2 percent in May to $142,061from $139,002 in the prior month. Housing values have consistently risen in Pueblo since January, when the median price of a home was $131,342.

- Pueblo County has one of the highest foreclosure rates in the state, according to the Colorado Division of Housing. Pueblo had 1,174 foreclosures in 2006 and 383 in the first four months of 2007. If the trend continues, foreclosures may exceed the level of filings in 2006. In Pueblo, about 65 percent of homes that enter the foreclosure process result in foreclosure and are resold. One out of every 152 homes are in foreclosure in Pueblo — the rate for the entire state was one out of every 385 homes.

San Luis Valley and Southwest Region

The San Luis Valley and southwest region's economy saw healthy economic growth in the first four months of 2007, despite declines in the housing and nonresidential construction markets. Nonfarm employment increased 2.0 percent through April 2007, compared with 5.2 percent growth in 2006. The region's unemployment rate for April was 3.3 percent, down from an average of 4.3 percent in 2006 and 5.1 percent in 2005. The region continues to post strong growth in retail sales. Retail sales growth increased 6.6 percent through March 2007, outpacing the state's growth rate of 6.2 percent. Table 10 displays key economic indicators for the region.

Table 10
San Luis and Southwest Region Economic Indicators
Alamosa, Archuleta, Conejos, Costilla, Dolores, Hinsdale, La Plata, Mineral, Montezuma, Rio Grande, Saguache, and San Juan counties

	2005	2006	YTD thru April 2007
Employment Growth /1	1.4%	5.2%	2.0%
Unemployment Rate	5.1%	4.3%	3.3%
Statewide Crop Price Changes /2			
Barley (U.S. average)	1.1%	24.2%	12.1%
Alfalfa Hay	18.8%	37.3%	37.3%
Potatoes	78.7%	-8.0%	-14.8%
Fall Potato Production (Cwt) /2	-6.4%	-1.0%	NA
Housing Permit Growth /3			
Alamosa County	-39.4%	-2.5%	-11.1%
La Plata County	-1.4%	-25.5%	-27.1%
Growth in Value of Nonresidential Const. /3			
Alamosa County	-44.1%	-22.4%	NA
La Plata County	-82.8%	74.4%	-29.8%
Retail Trade Sales Growth /4	7.3%	9.8%	6.6%

NA = Not available.

1/ Colorado Department of Labor and Employment. 2005 data are from the QCEW (ES-202) program. 2006 and 2007 data are from the Current Population (household) Survey.

2/ Colorado Agricultural Statistics Service. Compares May 2007 to May 2006.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through March 2007.

After seeing increased housing growth in La Plata County during the first quarter, the southwest region's housing trend now mirrors most other parts of the state, that is a declining home construction market. Housing permits declined 11.1 percent in Alamosa County and 27.1 percent in La Plata County. Although housing permits are declining in the southwest region, the housing market may be stabilizing in some municipal areas. For example, the median price of homes in Durango was $388,250 during the first quarter of the year, down 1 percent over the prior year. Over the same time period, the dollar volume for homes sold was up 29 percent while the number of homes sold was up 27 percent. But for La Plata County, the median price of all homes sold dropped 5.5 percent over the same time period from $345,000 to $326,000.

The growth in the value of nonresidential construction declined by 29.8 percent in La Plata County compared with growth rate of 74.4 percent in 2006. Retail sales growth for the region remains healthy at 6.6 percent through March 2007, but has slowed considerably from the 9.8 percent rate in 2006.

Recent Economic News:

- La Plata County Community Development Corporation will begin work this summer on 50 units of affordable housing in Bayfield on a 9.5 acre site. Three nonprofits will build 32 of the 50 units — Housing Solutions for the Southwest will construct 14 units, Colorado Housing Inc. will build 10, and Habitat for Humanity is scheduled to build 8 units.

- Plans are underway in Durango for a project called Cliffside that will include 63 condominiums between 630 and 2,500 square feet and about 22,000 square feet of commercial office space.

- In an effort to promote the Cumbres & Toltec Scenic Railroad, the railroad is making several changes this year to increase ridership. For the first time in seven years, each day of the week trains will depart from both ends of the train route — Chama and Antonito. Railroad officials also announced that the track improvement project begun last year was completed. The railroad will be offering a number of special rides this year including a Moonlight excursion during late summer. The railroad will also offer a Christmas holiday ride during early December.

- Archuleta County is looking at a $2.6 million revenue shortfall through the close of 2007. The county laid off 22 employees in May and instituted a temporary hiring freeze. Routine road maintenance such as graveling and dust mitigation will be cut back. In addition, five road-improvement projects, three senior programs, an airport runway resurfacing project, courthouse repairs, and other services have been either reduced or suspended.

Western Region

The western region continues to be one of the faster growing regions in the state based on employment and retail trade sales growth. Job growth in the region slowed significantly compared with 2006, but retail sales remain strong, more than doubling the statewide average growth rate. Table 11 displays economic indicators for the region.

Table 11

Western Region Economic Indicators

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

	2005	2006	YTD thru April 2007
Employment Growth /1	4.9%	8.4%	4.8%
Unemployment Rate	4.4%	3.6%	2.8%
Housing Permit Growth			
Mesa County 2/	-3.0%	4.6%	-13.1%
Montrose County 3/	22.4%	-5.3%	-37.4%
Growth in Value of Nonresidential Const. /3			
Mesa County	287.8%	-78.5%	-33.9%
Montrose County	-54.9%	-28.0%	29.7%
Retail Trade Sales Growth /4	10.5%	14.2%	13.2%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2005 data are from the QCEW (ES-202) program. 2006 and 2007 data are from the Current Population (household) Survey.

2/ U.S. Census.

3/ F.W. Dodge.

4/ Colorado Department of Revenue; data through March 2007.

Nonfarm employment in the region expanded by 4.8 percent in the first four months of 2007, which was slower than the 8.4 percent growth recorded in 2006, but still a healthy pace that exceeded statewide gains. The region's unemployment rate dropped to 2.8 percent in April, down from 3.6 percent in 2006. Rio Blanco and Garfield counties experienced the fastest employment growth rates at 11.7 percent and 8.3 percent, respectively, while employment growth declined 1.5 percent in Ouray County.

Construction indicators generally declined through the first four months in 2007. In Mesa County, housing permits decreased 13.1 percent. In Montrose County, permits decreased 37.4 percent. The value of nonresidential construction also declined 33.9 percent in Mesa County, while increasing 29.7 percent in Montrose County.

Consumer spending in the region saw robust growth, as measured by retail trade sales, increasing 13.2 percent through March, significantly above the 6.2 percent statewide average growth rate. Every county in the region, except Montrose, Moffat, San Miguel, and Gunnison counties, experienced double-digit growth. Montrose County had the lowest growth rate at 2.8 percent.

Recent Economic News:

- Montrose Regional Airport will add another carrier this summer to serve a new passenger market flying between Montrose and Grand Junction Regional Airport. In addition, American Eagle, a division of American Airlines, will add direct flights from Montrose to Dallas-Fort Worth International Airport beginning in June.

- The Rifle Creekside Estates subdivision in north Rifle will consist of 98 duplexes and 24 single-family homes on a 40-acre property. Rifle is also planning a new wastewater plant for which construction may begin in October.

- The energy boom in the Rifle area continues to impact the regional economy as worker and housing shortages worsen. The average wage for industry workers is about $20 per hour and for many workers, firms are paying gas allowances and travel expenses. The high energy wages continue to make it difficult for other localized businesses and industries to find workers because they gravitate toward the higher-paying energy-related jobs. In response to the worker shortage, Burger King outlets in Grand Junction and Rifle are offering $300 signing bonuses to recruit new workers.

Mountain Region

Economic indicators for the Mountain region point to a healthy economy. Employment in the region expanded and unemployment was low. Although residential housing and nonresidential construction were down in some counties, other counties saw increases. Retail trade sales growth was significant through March, growing 9.4 percent. Table 12 shows economic indicators for the Mountain region for 2005, 2006, and the first four months of 2007.

Table 12
Mountain Region Economic Indicators
Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, and Chaffee counties

	2005	2006	2007
Employment Growth /1	3.2%	5.2%	2.2%
Unemployment Rate	4.3%	3.6%	2.7%
Housing Permit Growth /3			
Eagle, Pitkin, & Summit counties 3/	20.9%	12.4%	-12.2%
Routt County 3/	34.0%	-10.5%	32.9%
Growth in Value of Nonresidential Const. /3			
Eagle, Pitkin, & Summit counties	11.2%	-5.5%	8.8%
Routt County	-10.3%	36.3%	-68.4%
Retail Trade Sales Growth /4	8.8%	12.6%	9.4%

1/ Colorado Department of Labor and Employment. 2005 data are from the QCEW (ES-202) program. 2006 and 2007 data are from the Current Population (household) Survey.
2/ F.W. Dodge.
3/ U.S. Census.
4/ Colorado Department of Revenue; data through March 2007.

Employment growth in the region increased 2.2 percent through April, compared with 5.2 percent in 2006. Growth varied by county in the region — Summit County saw the largest growth at 3.8 percent, while growth declined by 0.6 percent in Routt County. Unemployment declined in April for the region when the rate dipped to 2.7 percent from an average rate of 3.6 percent in 2006.

Construction activity for the region was mixed. Housing permit growth declined 12.2 percent through April in Eagle, Pitkin, and Summit counties while Routt County saw a 32.9 percent increase. Nonresidential construction increased 8.8 percent in Eagle, Pitkin, and Summit counties. Routt County's growth in the value of nonresidential construction decreased 68.4 percent, primarily due to a decline in public sector and other non-residential construction spending.

Retail trade sales in the region increased 9.4 percent through March, far above the 6.2 percent statewide average. Park County saw the largest increase at 22.2 percent while retail sales declined 41.8 percent in Gilpin County. Much of this gain for retail sales is the result of increased tourism and a strong global economy.

Recent Economic News:

- Whole Foods Market, a large natural food retailer based in Austin Texas, plans to open a store in West Basalt by 2010. The company expects to hire local workers.

- 2007 has been a good year for tourism in the mountain region. Since November 2006, Aspen/Snowmass hotels saw $18.4 million in total sales, up 25 percent over the same period in the prior year.

Northern Region

The economy in the northern region, comprised of Larimer and Weld counties, is strong. While employment is growing at a healthy rate, evidence suggests that a tight labor market could be suppressing even faster growth in the job market. Consumer spending, as measured by retail sales, remains solid. Meanwhile, the residential construction market is into its third year of contraction. Table 13 displays annual economic indicators for the region.

Table 13
Northern Region Economic Indicators
Weld and Larimer counties

	2005	2006	YTD thru April 2007
Employment Growth /1			
Larimer County	2.0%	1.7%	2.0%
Weld County	2.8%	4.2%	2.7%
Unemployment Rate (2007 figure is for April)			
Larimer County	4.4%	3.9%	3.0%
Weld County	5.1%	4.6%	3.6%
State Cattle and Calf Inventory Growth /2	6.0%	-3.8%	-3.8%
Housing Permit Growth /3			
Larimer County	-14.8%	-17.5%	-54.7%
Weld County	-2.2%	-30.3%	-26.8%
Growth in Value of Nonresidential Const. /4			
Larimer County	-56.4%	72.7%	0.8%
Weld County	-35.8%	-17.6%	-78.7%
Retail Trade Sales Growth /5			
Larimer County	5.7%	5.2%	5.6%
Weld County	8.9%	7.0%	6.1%

NA = Not available
1/ U.S. Department of Labor, Bureau of Labor Statistics. CES data represents nonfarm employment.
2/ Colorado Agricultural Statistics Service. Compares May 2007 to May 2006.
3/ U.S. Census.
4/ F.W. Dodge.
5/ Colorado Department of Revenue; data through March 2007.

Nonfarm employment increased 2.0 percent in Larimer County and 2.7 percent in Weld County through April, compared with the first four months of 2006. According to the Manpower Inc. Employment Outlook Survey, 43 percent of employers in the northern region plan to add workers in the third quarter of 2007, up from 37 percent a year ago.

Meanwhile, the unemployment rate has decreased sharply in both counties during the first four months of 2007. Much of the decrease was a result of slow growth in the area's labor force, indicating that scarce labor may be suppressing employment growth in the region. While the unemployment rate was 3.0 percent in the Fort Collins/Loveland area during the month of April, it averaged 3.7 percent during the first four months of the year. Similarly, the unemployment rate was 3.6 percent in the Greeley area in April, a level much lower than the average rate of 4.4 percent during the first four months of the year.

The residential construction market is into the third year of a substantial correction in the northern region. According to the U.S. Census Bureau, the number of permits issued for residential construction decreased 54.7 percent in Larimer County and 26.8 percent in Weld County through the first four months of the year. Permits are falling fast in Larimer County for both single- and multi-family homes. The decline in Weld County is entirely due to a decrease in permits for single-family homes; permits for multi-family homes increased.

The market for lower-valued single family homes has been especially affected by the contraction due to a high level of foreclosures. According to the Colorado Division of Housing, one out of every 275 homes in Larimer County and one out of every 124 homes in Weld County were in foreclosure during the first quarter of 2007. The rate for the entire state was one out of every 385 homes.

The value of nonresidential construction in Larimer County increased 0.8 percent through the first four months of 2007, compared with the same time period in 2006. Substantial increases in the value of construction in the commercial sector, particularly in the stores and food services categories, was offset by decreases in the hospital and health treatment and public buildings sectors. Meanwhile, Weld County is experiencing its third consecutive year of decreases in the value of nonresidential construction.

Consumer spending, as measured by retail sales, continues to be healthy. Retail sales were up 5.6 percent in Larimer County and 6.1 percent in Weld County through March, compared with the first quarter of 2006.

Recent Economic News:

- WalMart has been very active recently in the northern region. The company announced that it would close an older store and build a new 200,000-square-foot store in northern Loveland. The company plans to move employees of the old store to the new store and hire an additional 150 people. WalMart also announced plans to build a 190,000-square-foot store in Windsor and a 135,000-square-foot Sam's Club in Evans.

- TechniGraphics announced plans to expand its 87-person Fort Collins workforce by ten percent in 2007 and by a total of 100 people by 2010. The Ohio-based company makes digital maps for the U.S. Department of Defense.

- In June, the Reliant Processing Carbon Dioxide Recovery Plant opened adjacent to an ethanol plant near Windsor. The plant will siphon 300 tons of carbon dioxide from the ethanol plant and process it into products sold to the oil and gas, food processing, and service industries. The plant will employ 16 people.

Eastern Plains

Economic indicators were mixed for the Eastern Plains in the first four months of 2007. The region lost jobs overall, but the unemployment rate continues to be very low. Crop prices were up substantially and good moisture levels are helping farmers and ranchers. Further, the region is continuing to experience benefits from renewable energy projects. However, cattle and calf inventories were down and retail sales were stagnant overall. The severe winter snowstorms in December and January caused many ranchers to lose livestock. Table 14 displays economic indicators for the region in 2005, 2006, and through April of 2007. Crop and cattle inventory data are through May.

Table 14
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2005	2006	YTD thru April 2007
Employment Growth /1	0.4%	3.0%	-1.5%
Unemployment Rate	4.6%	4.2%	3.2%
Crop Price Changes /2			
Winter Wheat	3.1%	15.1%	6.8%
Corn for Grain	0.9%	32.7%	41.0%
Alfalfa Hay	16.3%	37.3%	37.3%
Dry Beans	32.9%	32.1%	38.0%
State Crop Production Growth /2			
Sorghum production	-36.9%	0.9%	NA
Corn	0.1%	-4.6%	NA
Winter Wheat	NA	-24.4%	94.7%
Sugar Beets	-0.6%	NA	NA
2006 is estimated production for the year.			
State Cattle and Calf Inventory Growth /2	6.0%	0.0%	-3.8%
Retail Trade Sales Growth /3	5.4%	6.7%	0.2%

NA = Not Available
1/ Colorado Department of Labor and Employment. 2005 data are from the QCEW (ES-202) program. 2006 and 2007 data are from the Current Population (household) Survey.
2/ Colorado Agricultural Statistics Service. Compares May 2007 to May 2006.
Crop production based on projections for 2007 compared to actual 2006 production.
3/ Colorado Department of Revenue; data through March 2007.

Employment in the region decreased 1.5 percent in the first four months of 2007. However, despite the loss of jobs, the unemployment rate declined to 3.2 percent in April from 4.2 percent in 2006. This contradiction is due to individuals leaving the region's labor force. Yuma County reported the lowest unemployment rate in the region at 2.0 percent, while Crowley County had the region's highest unemployment rate at 6.0 percent.

Consumer spending in the region, as measured by retail trade sales, continues to be the weakest in the state in 2007, increasing a paltry 0.2 percent through April. Nine of the sixteen counties in the region saw retail sales decline. Cheyenne, Crowley and Kiowa counties – all counties with a relatively low level of retail sales – registered the largest percentage decreases at 36.6 percent, 14.0 percent, and 25.0 percent, respectively. Logan – the county with the highest level of retail sales in the region – grew 6.0 percent, while Morgan County's retail sales – the second largest county in terms of retail sales – declined 0.7 percent. In 2006, retail trade sales grew by 6.7 percent in the region.

Most state crop prices increased, with corn prices up 41.0 percent in May of this year compared with prices one year earlier. The increase resulted in part from the surge in demand for corn-based ethanol. As U. S. and state renewable energy goals require that more ethanol plants come online, it is likely that corn prices and crop production will increase to meet these energy goals. Along with corn price increases, winter wheat prices were up 6.8 percent, alfalfa hay prices were up 37.3 percent, and dry bean prices were up 38.0 percent.

Recent economic news:

- A ceremonial ground breaking occurred in May for a 400-megawatt wind farm, called the Peetz Table Wind Energy Center, in northeastern Colorado near the town of Peetz in Logan County. The wind farm is expected to be the nation's second-largest with 267 wind turbines when complete by the end of 2007. It will produce enough electricity for nearly 120,000 homes. A 78-mile-long transmission line – the largest wind power transmission line in the world – is being constructed to connect the wind farm to Xcel's power grid near Brush. Construction of the wind farm is expected to employ up to 350 workers and the wind farm will have about 20 full-time employees when complete.

- Construction of Fort Morgan's new ethanol plant, estimated to cost $230 million and be one of the largest in Colorado, could begin by the end of the summer and open by the beginning of 2009. The plant, being constructed by US BioGen, based in Dallas, will produce 105 million gallons of ethanol per year and employ over 50 people.

- For the first time in years, some crops are getting started this season without the use of reservoir water and irrigation. According to the National Agricultural Statistics Service, in the first week of June, 82 percent of the state's topsoil had either surplus or adequate moisture levels. Further, subsoil moisture was rated as 75 percent surplus or adequate. At the same time last year, 83 percent of the topsoil moisture was rated as short or very short, while subsoil moisture was 85 percent short or very short. Pasture and range conditions were reported as 71 percent excellent or good, in contrast with last year's 9 percent.

Appendix A
Historical Data

National Economic Indicators

(Dollar amounts in billions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Gross Domestic Product	$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	$13,246.6
percent change	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%	6.3%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$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	$10,301.0	$10,703.5	$11,048.6	$11,415.3
percent change	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%	3.3%
Unemployment Rate	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%	4.6%
Inflation (Consumer Price Index)	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%	3.2%
10-Year Treasury Note	7.0%	5.9%	7.1%	6.6%	6.4%	6.4%	5.3%	5.7%	6.0%	5.0%	4.6%	4.0%	4.3%	4.3%	4.8%
Personal Income	$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	$10,884.0
percent change	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%	6.3%
Wage and Salary Income	$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	$6,022.6
percent change	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%	6.3%
Nonfarm Wage and Salary Employment (millions)	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	133.7	136.2
percent change	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%	1.8%	1.9%

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)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Nonagricultural Employment (thous.)	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	2,226.0	2,278.8
percent change	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%	2.4%
Unemployment Rate	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%	5.1%	4.3%
Personal Income	$68,283	$73,794	$79,697	$85,671	$92,704	$100,233	$107,873	$118,493	$128,860	$144,394	$152,700	$153,066	$154,829	$164,673	$174,919	$186,266
percent change	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%	6.4%	6.2%	6.5%
Per Capita Income	$20,160	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,367	$34,481	$34,014	$34,059	$35,810	$37,510	$39,186
percent change	3.0%	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	3.3%	-1.4%	0.1%	5.1%	4.7%	4.5%
Wage and Salary Income	$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	$92,060	$97,265	$104,416
percent change	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%	7.4%
Retail Trade Sales	$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	$69,174
percent change	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%	5.7%
Housing Permits	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	46,360	46,262	39,314
percent change	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%	17.2%	-0.2%	-15.0%
Nonresidential Construction	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$3,274	$2,880	$3,783	$3,476	$3,500	$2,787	$2,713	3,291.0	4,221.0	4,310.0
percent change	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	38.3%	-12.0%	31.4%	-8.1%	0.7%	-20.4%	-2.7%	21.3%	28.3%	2.1%
Denver-Boulder Inflation Rate	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%	3.6%
Population (thousands, July 1)	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	4,327.4	4,428.6	4,500.1	4,546.0	4,598.5	4,663.3	4,753.4
percent change	2.4%	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.0%	2.0%	2.4%	2.3%	1.6%	1.0%	1.2%	1.4%	1.9%

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.
NA = Not Available