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Legislative
Council
Staff

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MEMORANDUM

March 20, 2008

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2007-2012*

This memorandum presents the current budget outlook based on the **March 2008 General Fund and cash fund revenue forecasts.** Table 1 presents the General Fund overview based on current law.

Executive Summary

Revenue Forecast

The five-year forecast for total revenue subject to TABOR was decreased by 1.3 percent since the December forecast. The General Fund revenue forecast was decreased by $486.7 million and the cash fund forecast was decreased by $207.1 million for the period between FY 2007-08 and FY 2011-12. Between FY 2008-09 and FY 2010-11, the General Fund revenue decrease eliminates the money available for the **HB 02-1310** transfers to highways and capital construction and causes the **Senate Bill 97-1** diversion to highways to be reduced below the maximum allowable level by a total of $123.4 million. The decline in revenue during the first two years of the forecast was exacerbated by the federal stimulus package passed earlier this year.

- Most of the decrease in **General Fund revenue** resulted from a decrease in the expectations for individual income taxes. The state has begun to see a reversal of the strong growth in estimated payments from the past four years and is also experiencing strong growth in refunds. Increases to the projections for corporate income taxes and use taxes partially offset the losses.

- **Cash fund revenue** subject to TABOR will increase 2.3 percent in FY 2007-08, but the forecast for FY 2007-08 is $81.2 million lower than December's forecast. Expectations decreased for motor fuel, gaming, unemployment insurance, and workers compensation insurance. Most of the reductions were driven by weaker expectations for economic growth. These decreases were partially offset by higher expectations for severance taxes.

Table 1
March 2008 General Fund Overview
(Dollars in Millions)

		Preliminary FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
1	Beginning Reserve	$688.5	$516.3	$331.6	$300.8	$318.8	$338.0
2	General Fund Nonexempt Revenue	6,231.8	6,697.4	6,895.7	7,278.6	7,861.5	8,380.0
3	General Fund Exempt Revenue	1,308.0	1,008.0	1,116.5	1,229.2	1,170.4	1,286.2
4	Senate Bill 97-1 Diversion to the HUTF	-228.6	-243.8	-200.4	-213.9	-247.2	-288.7
5	Sales Taxes to Older Coloradans Fund and OASMCF	-3.8	-5.8	-5.8	-5.8	-5.8	-5.8
6	Total Funds Available	$7,996.0	$7,972.4	$8,137.6	$8,588.9	$9,097.8	$9,709.8
	APPROPRIATIONS AND OBLIGATIONS:						
7	**Allowable General Fund Appropriations**	$6,675.6	$7,087.8	$7,519.6	$7,970.8	$8,449.0	$8,956.0
8	Exceptions From the Appropriations Limit	11.1	6.1	0.0	0.0	0.0	0.0
9	Rebates and Expenditures	160.8	170.6	175.4	188.3	196.7	214.5
10	Reimbursement for Senior and Disabled Veterans Property Tax Cut	74.2	81.0	86.2	90.0	92.6	96.0
11	Funds in Prior Year Excess Reserve to HUTF	291.2	166.2	32.0	0.0	0.0	0.0
12	Funds in Prior Year Excess Reserve to Capital Construction	145.6	83.1	16.0	0.0	0.0	0.0
13	Capital Construction Transfer	145.9	45.9	7.6	20.9	21.5	19.8
14	Accounting Adjustments	-24.7	NE	NE	NE	NE	NE
15	Total Obligations	$7,479.7	$7,640.8	$7,836.8	$8,270.1	$8,759.9	$9,286.3
16	**YEAR-END GENERAL FUND RESERVE**	**$516.3**	**$331.6**	**$300.8**	**$318.8**	**$338.0**	**$423.4**
17	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**267.0**	**283.5**	**300.8**	**318.8**	**338.0**	**358.2**
18	**GENERAL FUND EXCESS RESERVE**	**$249.3**	**$48.1**	**$0.0**	**$0.0**	**$0.0**	**$65.2**
	TABOR RESERVE REQUIREMENT:						
19	General & Cash Fund Emergency Reserve Requirement	$289.3	$295.6	$308.5	$326.5	$339.8	$359.1
20	Appropriations Growth	$389.0	$407.3	$425.6	$451.2	$478.2	$506.9
21	Appropriations Growth Rate	6.18%	6.09%	6.00%	6.00%	6.00%	6.00%
22	Addendum: Amount Directed to State Education Fund	$395.1	$412.2	$431.5	$458.6	$489.7	$528.0

Totals may not sum due to rounding.

- The forecast for **severance taxes** was largely unchanged for FY 2007-08. Collections in the current fiscal year are projected to total $127.1 million. In 2007, the price of natural gas in Colorado is expected to average $5.15 per thousand cubic feet (Mcf) and production is expected to increase by about 4.0 percent. The forecast for subsequent years was increased because of anticipated increases in natural gas prices and production. The opening of the first segment of the Rockies Express pipeline and market conditions will push natural gas prices higher in 2008 to about $6 per Mcf. In FY 2008-09, severance taxes are expected to reach $245.4 million.

- The current estimate for the amount of revenue that will be retained by the state during the **Referendum C time-out period** is $5.8 billion, down from the $6.3 billion estimated in December. The forecast for TABOR revenue was decreased during this period by $638.8 million, or 1.3 percent. The amount of revenue retained over the Referendum C time-out period is impacted by several factors. First, legislative and executive agency increases and decreases to fees change the revenue level. Next, changes to the projections for inflation and population affect the TABOR base from which the retained amount is calculated. Also, changes to federal tax policy impact receipts in Colorado. Finally, economic and other changes that impact revenue collections change the retained amount. Table 2 presents the history and forecast for revenue retained by Referendum C.

Table 2
History and Projections of Revenue Retained by Referendum C
(millions of dollars)

Actual	
2005-06	$1,116.1
2006-07	$1,308.0
Projections	
2007-08	$1,008.0
2008-09	$1,116.5
2009-10	$1,229.2
2010-11	$1,170.4
2011-12	$1,286.2

- The current five-year forecast period extends two years beyond the time-out period associated with Referendum C. We currently are not projecting a **TABOR refund** for the first two years after the end of the Referendum C time-out period. While we expect General Fund revenue to grow at a faster rate than inflation plus population, the current forecast for the volatile Unemployment Insurance Trust Fund includes a significant decline in revenue during those two years. This results from an expectation that the unemployment insurance solvency tax will be in place through the end of the time-out period and then will no longer be necessary, decreasing collections. Because growth in the economy, and therefore state revenue, outpaces inflation plus population over time, we do anticipate that the state will have TABOR refunds in the future.

- The **Highway Users Tax Fund** (HUTF**) and capital construction** will share $48.1 million in FY 2008-09 and $65.2 million in FY 2012-13 under the provisions of **House Bill 02-1310**. Those provisions require all revenue in excess of the statutory reserve requirement from the prior year to be transferred two-thirds to the HUTF and one-third to capital construction. The HUTF will receive $1,269.5 million through the **Senate Bill 97-1** diversion and the House Bill 02-1310 mechanism between FY 2007-08 and FY 2011-12. Capital construction will receive $37.8 million from the House Bill 02-1310 mechanism.

National Economy

The national economy appears to be heading into another recession, if it is not already in one. The Federal Reserve is aggressively lowering interest rates and injecting money into the economy to stave off recession and the federal government passed an economic stimulus package for the same purpose. Despite these attempts, economic growth in the first half of 2008 is expected to be anemic. The second half of 2008 is expected to be better assuming that consumer and business confidence is restored. For all of 2008, the national economy is expected to grow by 1.1 percent. In 2009, the economy is projected to grow by 2.5 percent.

Colorado Economy

The slowdown in the Colorado economy is expected to occur more quickly than previously anticipated due to the deterioration of the national economy. While the housing market shows significant weakness, it is performing much better than other areas of the nation. Consumer spending remains unexpectedly healthy, but will slow over the next year. While a slowdown in the state's economy is anticipated, Colorado will outperform the nation as the state has ongoing benefits from the energy sector, a recovery in the advanced technology sector, international tourism caused by a weaker dollar, and a softer landing in the housing sector.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 3 illustrates revenue collections for FY 2006-07 and projections for FY 2007-08 through FY 2011-12. As the national economy has deteriorated, the state's economy has also shown signs of slowing due to the difficulties in the housing market and financial industries. Thus far, however, the state's economy has managed to remain quite resilient relative to the nation as higher energy prices have created an energy boom in the state, consumers have continued to spend, and tourism has remained strong. Also, corporations have maintained healthy profits through productivity gains and increased exports to an expanding world economy. While Colorado's economic expansion is now quite mature, it seems poised to show slow growth for the next two years while approaching, but not slipping into, a local recession.

The forecast for General Fund revenue decreased by $169.5 million for FY 2007-08 and by $486.7 million over the five-year forecast period. The decrease was primarily attributable to expectations of slower growth in individual income tax revenue. The projections for sales tax revenue were also reduced.

After growing at double-digit rates for the last four years, **individual income taxes** will increase 0.9 percent in FY 2007-08 as job growth slows and investors contend with capital market turmoil. Taxes withheld from employee paychecks continue to show relatively healthy growth through February, but are expected to slow somewhat by the end of 2008. Income taxes from capital gains have slowed considerably since last fall, and are expected to continue to weaken until late this year or early 2009. Recovery from slower growth, stabilized capital markets, and higher oil and gas royalty payments will cause individual income taxes to increase at a slightly more healthy rate of 5.2 percent in FY 2008-09. The forecast for individual income taxes was reduced by $197.5 million in FY 2007-08 and by a total of $431.0 million over the five-year forecast period.

The forecast for **corporate income taxes** was revised upward in response to higher-than-expected collections through February 2008. Expectations for corporate profits nationwide have worsened and corporate income taxes will be reduced this year and next as a result of the federal economic stimulus package. Despite this, the forecast for corporate income taxes was increased by $27.6 million, or 5.8 percent. This is another indicator that the Colorado economy is outperforming the national economy. While companies are facing higher energy and raw material costs, productivity gains and ongoing consumer spending are boosting profit margins.

On a year-over-year basis, the amount of corporate income taxes collected in FY 2007-08 is expected to post a slight increase of 0.7 percent. The marginal gain is 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 effects of a national recession, and the impact of the federal stimulus package, which will cost the state about $25.0 million in corporate income taxes in FY 2007-08 and $28.5 million in FY 2009-10. Corporate income taxes are projected to increase 0.7 percent in FY 2008-09 and 6.4 percent in FY 2009-10, reaching $504.9 million and $537.1 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 in revenue similar to income taxes. After receiving $395.1 million in FY 2006-07, it will receive $412.2 million in FY 2007-08 and $431.5 million in FY 2008-09.

Though consumer spending in Colorado has thus far shown resilience in the face of stagnant or declining home values and negative economic news, **sales tax** revenue should begin to slow during the remainder of FY 2007-08. However, the federal economic stimulus package will provide tax rebate checks to Colorado consumers, which will offset some of this weakening at the end of FY 2007-08 and the beginning of FY 2008-09. The FY 2007-08 forecast for sales tax revenue was revised slightly downward, resulting in a 6.4 percent growth rate for the year. For FY 2008-09, a weaker job market and continuing high food and energy costs will force consumers to buy fewer taxable goods and services. We expect sales tax revenue to slow to 2.9 percent in FY 2008-09.

The forecast for **use tax** revenue in FY 2007-08 was revised upward about $12 million because of strong collections through February. However, after strong gains in the past few fiscal years, we expect use tax revenue to flatten in FY 2008-09 due to a slow economy, tighter credit, and lower consumer and business confidence. Use tax revenue will increase 8.6 percent in FY 2007-08 and 0.2 percent in FY 2008-09.

Table 3
March 2008 General Fund Revenue Estimates
(Dollars in Millions)

Category	Actual 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	Estimate FY 2011-12	Percent Change
Sales	$2,028.0	3.6	$2,156.8	6.4	$2,218.7	2.9	$2,308.6	4.1	$2,435.0	5.5	$2,561.6	5.2
Use	181.6	9.4	197.2	8.6	197.7	0.2	204.8	3.6	214.6	4.8	226.5	5.6
Cigarette	47.1	-2.4	46.0	-2.3	45.4	-1.3	44.6	-1.6	44.0	-1.4	42.9	-2.5
Tobacco Products	13.0	15.5	10.4	-19.7	13.1	26.0	13.5	2.9	13.9	2.7	14.5	4.5
Liquor	34.0	3.5	34.5	1.4	35.1	1.9	35.6	1.3	36.0	1.3	36.7	1.9
TOTAL EXCISE	$2,303.6	4.0	$2,444.9	6.1	$2,510.0	2.7	$2,607.2	3.9	$2,743.4	5.2	$2,882.2	5.1
Net Individual Income	$4,870.9	11.3	$4,913.2	0.9	$5,167.1	5.2	$5,545.7	7.3	$5,947.2	7.2	$6,444.1	8.4
Net Corporate Income	497.9	11.3	501.3	0.7	504.9	0.7	537.1	6.4	561.0	4.5	590.8	5.3
TOTAL INCOME TAXES	$5,368.8	11.3	$5,414.5	0.9	$5,672.0	4.8	$6,082.9	7.2	$6,508.3	7.0	$7,034.9	8.1
Less: Portion diverted to the State Education Fund	-395.1	10.6	-412.2	4.3	-431.5	4.7	-458.6	6.3	-489.7	6.8	-528.0	7.8
INCOME TAXES TO GENERAL FUND	$4,973.7	11.4	$5,002.3	0.6	$5,240.5	4.8	$5,624.2	7.3	$6,018.6	7.0	$6,507.0	8.1
Insurance	179.4	2.4	189.2	5.5	196.2	3.7	202.7	3.3	209.4	3.3	216.1	3.2
Pari-Mutuel	3.0	-12.8	2.7	-8.7	2.5	-6.3	2.5	-3.5	2.4	-3.6	2.3	-3.7
Investment Income	28.2	-15.3	17.6	-37.6	25.0	42.0	37.8	51.1	37.1	-1.8	37.1	0.0
Court Receipts	28.7	5.0	29.2	1.6	17.8	-39.0	12.7	-28.5	0.3	-97.9	0.3	4.7
Gaming	6.5	-62.7	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	16.7	-13.6	19.6	17.3	20.2	3.4	20.8	2.7	20.7	-0.2	21.3	3.0
TOTAL OTHER	$262.5	-7.2	$258.3	-1.6	$261.7	1.3	$276.4	5.6	$269.9	-2.4	$277.1	2.7
GROSS GENERAL FUND	**$7,539.8**	**8.3**	**$7,705.4**	**2.2**	**$8,012.2**	**4.0**	**$8,507.8**	**6.2**	**$9,031.9**	**6.2**	**$9,666.2**	**7.0**
REBATES & EXPENDITURES:												
Cigarette Rebate	$13.2	-6.3	$13.5	1.8	$13.3	-1.3	$13.1	-1.6	$12.9	-1.4	$12.6	-2.5
Old-Age Pension Fund	89.9	3.2	92.5	2.9	98.7	6.7	105.3	6.7	113.7	7.9	122.9	8.1
Aged Property Tax & Heating Credit	8.4	-14.3	14.0	67.1	17.3	23.6	15.2	-12.1	15.8	3.9	16.4	3.8
Interest Payments for School Loans	10.6	-6.2	11.9	11.8	16.8	42.0	25.4	51.1	25.0	-1.8	25.0	0.0
Fire/Police Pensions	38.8	33.3	38.8	0.1	29.3	-24.4	29.3	0.0	29.3	0.0	37.6	28.4
TOTAL REBATES & EXPENDITURES	$160.8	6.3	$170.6	6.1	$175.4	2.8	$188.3	7.4	$196.7	4.4	$214.5	9.1

Totals may not sum due to rounding.

Cash Fund Revenue

Table 4 summarizes the forecast for revenue to cash funds subject to the TABOR spending limit. Total revenue will increase 2.3 percent in FY 2007-08 after a 4.7 percent decrease in FY 2006-07. The relatively low growth rate in FY 2007-08 is due to expectations for decreases in motor fuel and workers compensation insurance premium taxes and slow growth in unemployment insurance and gaming taxes.

The forecast for cash fund revenue was decreased by $25.1 million in FY 2007-08 and a total of $207.1 million over the five-year forecast period. Expectations decreased for motor fuel, gaming, unemployment insurance, and workers compensation taxes. Most of the reductions were the result of weaker expectations for economic growth. These decreases were partially offset by higher expectations for severance taxes.

Revenue to the ***transportation-related*** cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and several smaller cash funds, will drop 1.2 percent in FY 2007-08 after increasing 1.7 percent last year and will grow at an annual average rate of 1.4 percent over the five-year forecast period. Motor fuel taxes will decrease 1.7 percent in FY 2007-08 and increase at rates between 1.3 and 2.1 percent over the remainder of the forecast period. Registration fee revenue will increase at a rate of 3.5 percent in FY 2007-08 and at a modest rate of 2.0 percent in FY 2008-09.

The forecast for revenue to the transportation-related cash funds fell by $14.1 million for FY 2007-08 and $2.0 million for FY 2008-09. Lower expectations for motor fuel taxes are due, in part, to higher fuel prices, and consequently, decreases in the amount purchased of both gasoline and diesel fuels. As the price of gas continues to increase, vehicle owners are switching to smaller cars, trucks, and hybrids. The increasing price of diesel fuel, now higher than the price of gasoline, is cutting into trucking companies' profits.

Total ***unemployment insurance*** (UI) revenue, which includes UI taxes and interest earnings, will increase 3.1 percent in FY 2007-08 after decreasing 17.5 percent in FY 2006-07. 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 2010. The solvency tax will take a break in 2011, but will be in effect again in 2012. After decreasing 19.8 percent in FY 2006-07, UI taxes increased 2.3 percent in FY 2007-08 and are expected to continue to increase until FY 2009-10.

The forecast for UI revenue was decreased by a total of $8.4 million during the five year period between FY 2007-08 and FY 2011-12. The decrease was a result of lower expectations for taxable wages. Meanwhile, benefits increased to $291.0 million in 2006-07 and are expected to continue to increase with the struggling economy, not edging down until FY 2009-10.

Total **gaming revenue**, which includes taxes, fees, and interest earnings, will increase 1.3 percent to $119.4 million in FY 2007-08 and by 1.9 percent in FY 2008-09. In FY 2006-07, total gaming revenue increased 6.3 percent. The slower growth rates in FY 2007-08 and FY 2008-09 are expected due to a slowing economy and less personal income growth. In addition, this forecast assumes that the casino smoking ban that took effect in January of 2008 will have a modest negative impact on revenue in these fiscal years. At least in the short term, other areas in the nation as well as in other countries that have banned smoking in casinos have experienced some reductions in gaming revenue.

Table 4
Cash Fund Revenue Estimates by Category, March 2008
(Dollars in Millions)

	Preliminary FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	Estimate FY10-11	Estimate FY 11-12	FY 06-07 to FY 11-12 CAAGR *
Transportation-Related	**$884.6**	**$874.0**	**$878.4**	**$916.1**	**$929.8**	**$949.1**	
% Change	1.7%	-1.2%	0.5%	4.3%	1.5%	2.1%	**1.4%**
Unemployment Insurance	**$425.2**	**$438.2**	**$465.1**	**$533.8**	**$349.9**	**$335.9**	
% Change	-17.5%	3.1%	6.1%	14.8%	-34.5%	-4.0%	**-4.6%**
Employment Support Fund	**$22.3**	**$23.4**	**$24.2**	**$25.1**	**$26.1**	**$27.1**	
% Change	-0.2%	4.7%	3.6%	3.4%	3.9%	3.9%	**3.9%**
Severance Tax	**$145.1**	**$127.1**	**$245.4**	**$207.4**	**$244.1**	**$245.0**	
% Change	-38.1%	-12.4%	93.0%	-15.5%	17.7%	0.4%	**11.0%**
Limited Gaming Fund	**$117.9**	**$119.4**	**$121.7**	**$128.8**	**$139.2**	**$149.5**	
% Change	6.3%	1.3%	1.9%	5.8%	8.1%	7.4%	**4.9%**
Insurance-Related	**$66.2**	**$58.5**	**$61.1**	**$64.0**	**$67.3**	**$70.8**	
% Change	3.5%	-11.5%	4.4%	4.7%	5.2%	5.1%	**1.4%**
Regulatory Agencies	**$50.8**	**$58.7**	**$57.6**	**$59.0**	**$62.1**	**$62.0**	
% Change	3.3%	15.5%	-1.9%	2.5%	5.3%	-0.2%	**4.1%**
Capital Construction - Interest /A	**$14.9**	**$24.3**	**$9.0**	**$7.3**	**$5.2**	**$3.2**	
% Change	45.7%	62.9%	-63.2%	-18.9%	-28.6%	-38.2%	**-26.5%**
Other Cash Funds /B	**$386.4**	**$438.0**	**$424.1**	**$448.0**	**$485.0**	**$475.7**	
% Change	12.7%	13.4%	-3.2%	5.7%	8.2%	-1.9%	**4.2%**
Total Cash Fund Revenues	**$2,113.4**	**$2,161.7**	**$2,286.6**	**$2,389.5**	**$2,308.7**	**$2,318.3**	
Subject to the TABOR Limit	**-4.7%**	**2.3%**	**5.8%**	**4.5%**	**-3.4%**	**0.4%**	**1.9%**

Totals may not sum due to rounding.
*CAAGR: Compound Average Annual Growth Rate.
/A Includes interest earnings to the Capital Construction Fund and the Controlled Maintenance Trust Fund.
/B Includes revenue to Adams, Mesa, and Western State colleges in FY 2007-08.

The forecast for ***severance taxes***, including interest earnings, was largely unchanged for FY 2007-08. Collections in the current fiscal year are projected to total $127.1 million. In the previous forecast, severance taxes were projected to reach $129.1 million in FY 2007-08. In 2007, the price of natural gas in Colorado is expected to average $5.15 per thousand cubic feet (Mcf) and production is expected to increase by about 4.0 percent.

In FY 2008-09 and subsequent years, the forecast for *oil and gas severance taxes* was increased relative to the December forecast due to anticipated increases in natural gas prices and production. Natural gas prices are projected to average about $6 per thousand cubic feet (Mcf) in 2008 and 2009, which represents a modest 1.5 percent increase from the prior forecast, but a sizable 17.3 percent increase from 2007. In the following years, prices are expected to rise toward $7 per Mcf. The first segment of the Rockies Express pipeline opened in 2008 and is expected to push prices higher. In addition, the effects of $100 per barrel oil should cause some large energy users to switch to natural gas, putting additional pressure on natural gas prices. The opening of the second segment of the Rockies Express pipeline in 2009 or 2010 is expected to cause the price differential that exists between Colorado and the national market to shrink further.

On a year-over-year basis, severance taxes, including interest earnings, are expected to almost double in FY 2008-09, reaching $245.4 million. The value of oil and gas production is expected to increase by 28 percent, plus a reduction in the value of ad valorem tax credits claimed against the severance tax will cause oil and gas severance taxes to more than double. In FY 2009-10, severance taxes are projected to fall to $207.4 million. The aggregate value of oil and gas production is expected to stabilize, but the claiming of more ad valorem tax credits will push oil and gas severance taxes down.

The forecast for *coal severance taxes* was revised down in FY 2007-08 and FY 2008-09 because of production declines at some mines. Compared with the prior forecast, coal severance taxes were lowered by 9.6 percent and 2.6 percent, respectively, in those fiscal years. Coal severance taxes will total $8.9 million in FY 2007-08 and $12.5 million in FY 2008-09. The year-over-year increase is due to a recent opinion by the Colorado Attorney General regarding coal severance tax rates. Before passage of TABOR in 1992, coal severance tax rates were adjusted upward or downward based on the change in the producers' price index. Following passage of TABOR, the Department of Revenue fixed the coal severance tax rate at its November 1992 level of 54 cents per ton. According to the Attorney General's opinion, the coal severance tax rate was erroneously fixed at 54 cents per ton and should have increased in accordance with the producers' price index. The current forecast, therefore, assumes that the coal severance tax rate will increase to approximately 75 cents per ton, beginning in January 2008. By 2012, the coal severance tax rate is expected to reach 83 cents per ton.

In addition, 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 became effective July 1, 2007 and is expected to generate about $450,000 in new interest earnings annually, starting in FY 2007-08. These new interest earnings will be distributed to the Governor's Energy Office for energy efficiency programs and projects in public schools.

All ***other cash fund revenue*** will increase 11.5 percent in FY 2007-08 and at an annual rate of 2.8 percent over the forecast period. Much of the increase in FY 2007-08 is a result of the addition of Adams, Western, and

Mesa State colleges to TABOR revenue due to their temporarily losing enterprise status in FY 2007-08. Legislation passed during the 2007 session also contributed to growth over the forecast period. A total of $96.0 million of revenue to other cash funds 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 revenue is court-related revenue that will be diverted away from the General Fund to the Judicial Stabilization Cash Fund 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. The first FML revenue forecast was prepared in June 2007. Table 5 presents the March 2008 forecast in comparison with December 2007. 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.

When individuals or companies lease federal lands for mineral development, the federal government collects revenue from those leases, which are partially shared with the states in which the production occurred. Three forms of revenue are collected by the federal government. Lease holders competitively bid and initially pay a "bonus" to use the land. Lease holders also pay rent for the right to develop mineral production on these lands. Finally, if minerals are extracted and sold, the federal government receives a royalty (or percentage) from the production. The current forecast for FML revenue includes bonus payments as well as royalties and rents. If and when new data are received indicating a change in the amount of bonus payments, the forecast will account for those developments.

As indicated in Table 5, FML revenue has grown from $50 million in FY 2002-03 to more than $143 million in FY 2005-06. In the most recently completed fiscal year, FML revenue fell by more than 14 percent, to $123 million. A near 20 percent drop in natural gas prices accounted for the reduction.

Table 5
Federal Mineral Leasing Revenue Distributions
(millions of dollars)

Year	Mar-08	% Chg.	Dec-07	% Chg. From Sept
FY 2001-02*	$44.6	-26.5%	$44.6	
FY 2002-03*	$50.0	12.1%	$50.0	
FY 2003-04*	$79.4	58.7%	$79.4	
FY 2004-05*	$101.0	27.2%	$101.0	
FY 2005-06*	$143.4	41.9%	$143,4	
FY 2006-07*	$123.0	-14.3%	$123.0	
FY 2007-08	$134.3	9.2%	$128.9	4.2%
FY 2008-09	$165.2	23.0%	$156.9	5.2%
FY 2009-10	$185.6	12.4%	$179.7	3.3%
FY 2010-11	$212.2	14.3%	$205.2	3.4%
FY 2011-12	$232.2	9.4%	$226.8	2.4%

*Actual revenue distributed.

In December, the forecast for FML revenue was $129.0 million in FY 2007-08, but a strengthening in natural gas prices has caused the current forecast to go up. In FY 2007-08, FML revenue is expected to total $134.3 million. This represents a $5.3 million increase in the forecast. In subsequent fiscal years, FML revenue is expected to grow strongly because of both production and price increases for natural gas. In FY 2008-09 and FY 2009-10, FML revenue is expected to reach $165.2 million and $185.6 million, respectively. The opening of the first segment of the Rockies Express pipeline in

2008 will allow Colorado producers to realize higher prices for natural gas and continuing production gains are expected to cause FML revenue to increase 23.0 percent in FY 2008-09 and 12.4 percent in FY 2009-10.

It should also be noted that these estimates take into account recent legislation passed by Congress and signed by President Bush, which reduces the state's share of FML revenue. Instead of receiving 50 percent of FML revenue, 2 percent of what Colorado would have received in FML revenue will be retained by the federal government. This effectively reduces the state's share from 50 percent to 49 percent. Although the change in allocation was only effective for the 2007-08 federal fiscal year and must be reauthorized annually, the forecast anticipates that this reduced share will apply throughout the forecast period.

National Economy

While the national economy was previously expected to grow sluggishly throughout 2008, it is now teetering on the brink of recession. The Federal Reserve is aggressively lowering interest rates and injecting money into the economy to stave off recession. If consumer and business confidence is restored quickly, a recession could be avoided or short-lived and relatively mild. However, ongoing problems in the housing market, weakness in business investment, and a drop off in consumer spending could prolong a recession and increase its severity. Whether or not the nation goes into a recession, economic growth will be anemic for the next half year before the economy works through the current pandemonium in many sectors and markets.

In the fourth quarter of 2007, the economy grew at an anemic 0.6 percent annual rate, as measured by real **gross domestic product** (GDP). This followed growth in the third quarter of 2007 of 4.9 percent and growth of 3.8 percent in the second quarter.

The slowdown in real GDP growth was mainly attributed to a drop in residential housing investment and private inventory investment, coupled with slower growth in exports, consumer spending, and federal government spending. Residential fixed investment continued to decline, posting a 25.2 percent slide in the fourth quarter compared with a 20.5 percent decline in the third quarter. Personal consumption expenditures increased 1.9 percent in the fourth quarter compared with an increase of 2.8 percent in the third quarter; exports grew 4.8 percent compared with third quarter growth of 19.1 percent; and government spending advanced 2.2 percent compared with growth of 3.8 percent in the prior quarter. The rebuilding of inventories and increased exports brought on by the falling value of the dollar will be the only bright spots in GDP during the first half of 2008.

Residential housing continues to be extremely weak and is an ongoing source of problems for the national economy. On one front, homeowners saddled with higher mortgage payments, declining home values, and shrinking equity from which to borrow are cutting back on spending in an effort to prevent foreclosure. On another front, banks and other lending institutions are tightening credit standards, which is making it difficult for some homeowners to refinance, especially those in the most precarious financial situations. On still another front, lower income homeowners struggling to make mortgage payments are having to cut back on discretionary expenditures because of higher prices for gasoline and home heating fuel.

New home sales have declined significantly from the expansionary peak and the weakness in the housing market will continue through 2008. New residential construction has slowed considerably as privately-owned housing units authorized by building permits in January were down 3.0 percent from December and 33.1 percent below the January 2007 amount. Additionally, sales of new single-family houses in January were down 33.9 percent below the prior year's level. The volume of new single-family homes for sale continues to be at all-time highs as the national unsold inventory represents about an 9.9 month supply at current sales levels.

The Conference Board's **consumer confidence** index has declined in six of the past seven months. A deterioration in labor market conditions and ongoing concerns about the credit crisis caused consumer confidence to decline sharply in February, with the index dropping to 75.0 from 87.3 in January. With the exception of the start of the Iraq war in 2003, the index is at its lowest level since 1993. Consumers were noticeably more pessimistic about future job prospects, overall business conditions, volatility in the financial markets, and high gasoline prices.

Consumer debt continues to remain high, which could constrain economic growth as the subprime housing market is allowing fewer consumers to use the equity in their homes as a spending source. The decline in home-refinancing is forcing consumers to instead place a heavier reliance on credit card use. The Federal Reserve reported that total consumer credit increased 3.3 percent in January after increasing 1.8 percent in December and 8.0 percent in November. Revolving credit, which includes credit card debt, increased at a rate of 7.0 percent in January following gains of 2.8 percent and 12.8 percent in the prior two months, respectively.

In reaction to a slowing economy and intensification of the housing market correction, the **Federal Open Market Committee** cut the target federal funds rate to 2.25 percent, which is the overnight rate that banks charge each other when they lend reserves. Also, in an unprecedented statement released on Sunday, March 16, the Federal Reserve (Fed) announced a new lending tool that will be available to its network of primary securities dealers who are not directly supervised by the Fed. These 20 securities dealers are involved in the Fed's daily money-market lending operations and will now be able to borrow directly from the central bank for at least the next six months. Bear Stearns, which last week indicated that its liquidity had "significantly deteriorated," is one of the Fed's primary securities dealers. This move is an attempt to calm financial markets and provide needed short-term liquidity to firms holding subprime mortgage securities.

The **labor market** saw job reductions for a second consecutive month. In January, the economy lost 22,000 jobs and this trend continued with job losses of 63,000 in February. Private sector employment fell by 101,000 jobs in February. In goods-producing industries, the construction and manufacturing sectors experienced job losses of 39,000 and 52,000, respectively. In service-providing industries, retail trade, business and professional services, and financial activities lost a combined total of 66,100 jobs. On the positive side, health care employment grew by 30,000, leisure and hospitality employment increased by 21,000, and public sector employment advanced by 38,000. The **unemployment rate**, meanwhile, declined from 4.9 percent in January to 4.8 percent in February. The decline was primarily due to a reduction in the number of people in the labor force. The unemployment rate one year ago was 5.0 percent.

Data from the **manufacturing** sector continues to provide mixed signals. New orders for manufactured goods fell 2.5 percent in January after increasing in each of the previous four months. New orders for durable goods declined 5.1 percent in January after rising in December; however, new orders for nondurable goods increased 0.7 percent in January. The manufacturing sector also saw increases in the shipments of both durable and nondurable goods. In addition, the number of unfilled orders for durable goods increased slightly in January.

The rate of **inflation** was largely unchanged in February compared with January. However, in the past twelve months consumer prices were up 4.0 percent. The core rate of consumer inflation, less food and energy prices, increased 2.3 percent in the past twelve months. The transportation and energy components of the index increased at the highest rates, up 9.0 percent and 18.9 percent respectively. The producer price index for finished goods increased 1.0 percent in January, and was up 7.4 percent since January 2007.

The National Economic Outlook. This section presents the forecast and risks for the national economy. The detailed forecast can be found in Table 6.

- The nation's economy, as measured by real **GDP**, grew at a paltry 0.6 percent rate during the fourth quarter of 2007. After dipping to 2.2 percent growth in 2007, GDP is expected to stagnate in the first half of the year and grow slightly in the second half. For all of 2008, GDP growth will average 1.1 percent. In subsequent years, the economy will increase at a faster pace, ranging from 2.5 to 3.4 percent.

- The consumer **inflation rate** will accelerate to 4.5 percent in 2008 and drop back to 3.6 percent in 2009 and 2.9 percent in 2010. Despite the recent lowering of the federal funds rate by the Federal Reserve, the central bank continues to consider inflation a risk and is expected to take appropriate steps once recessionary concerns are addressed in the short term.

- **Personal income** growth will slow as job growth comes to a virtual standstill in the first half of 2008. Personal income is projected to increase 6.2 percent in 2007 and 4.1 percent in 2008. Similarly, wage and salary growth will be 5.8 percent in 2007 and 3.9 percent in 2008.

- The **unemployment rate** is expected to move upward in 2008, reaching 5.5 percent. In subsequent years, the unemployment will hover around 5.0 percent. **Job growth** in the short term is expected to stagnate and could continue to decline for several more months. Employment growth is expected to be 0.5 percent in 2008 after growing 1.1 percent in 2007. In the following years, employment growth will range from 1.2 percent to 1.6 percent.

Risks to the Forecast. The risks to the forecast are now geared to those that could exacerbate the severity of a recession. If home-mortgage delinquencies and foreclosures become more widespread, consumer spending may slow even more or decline. Higher crude oil prices and gasoline prices could have adverse impacts on discretionary forms of consumer spending, which could negatively impact consumer confidence. This will also pinch homeowners who are trying to make mortgage payments. Finally, business confidence could deteriorate if the financial crisis facing some banks and financial institutions becomes more widespread.

The national forecast presumes that the Federal Reserve will take appropriate steps to avert a widespread financial crisis by providing necessary liquidity to the economy. Furthermore, the recently signed federal stimulus package will provide additional funds for consumers to either spend or pay down debt. The stimulus package, which was signed by President Bush on February 13, 2008, provides $152 billion in tax rebates and savings for individuals, families, and businesses. The package also includes provisions to increase the size of mortgages that government-sponsored mortgage companies Fannie Mae and Freddie Mac can purchase and market as securities. These monetary and fiscal policies could work to minimize the severity of a national recession.

Table 6
National Economic Indicators, March 2008 Forecast
(Dollars in Billions)

	2002	2003	2004	2005	2006	2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Inflation-adjusted GDP	$10,047.8	$10,302.4	$10,675.9	$11,004.9	$11,316.2	$11,567.2	$11,694.4	$11,986.8	$12,370.4	$12,790.9	$13,161.9
percent change	1.6%	2.5%	3.6%	3.1%	2.8%	2.2%	1.1%	2.5%	3.2%	3.4%	2.9%
Nonagricultural Employment (millions)	130.3	130.0	131.4	133.7	136.1	137.6	138.3	140.0	142.2	144.3	146.4
percent change	-1.1%	-0.2%	1.1%	1.7%	1.9%	1.1%	0.5%	1.2%	1.6%	1.5%	1.4%
Unemployment Rate	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.5%	5.2%	4.9%	5.0%	4.7%
Personal Income	$8,881.9	$9,163.6	$9,727.2	$10,301.1	$10,983.4	$11,667.3	$12,145.6	$12,813.6	$13,608.1	$14,465.4	$15,333.3
percent change	1.8%	3.2%	6.2%	5.9%	6.6%	6.2%	4.1%	5.5%	6.2%	6.3%	6.0%
Wage and Salary Income	$4,980.9	$5,112.7	$5,394.5	$5,667.9	$6,018.2	$6,367.4	$6,615.8	$6,959.8	$7,370.4	$7,809.7	$8,262.6
percent change	0.8%	2.6%	5.5%	5.1%	6.2%	5.8%	3.9%	5.2%	5.9%	6.0%	5.8%
Inflation (Consumer Price Index)	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	4.5%	3.6%	2.9%	3.1%	2.7%

Colorado Economy

Colorado's economy was mostly positive in 2007 with moderate job and income growth, and healthy consumer spending and nonresidential construction. Further, although the state has experienced job losses in housing and financial-related sectors and some weakening in the overall job market, there are few signs to date that the state's economy is slowing to the same extent as the nation as a whole. Both income and sales tax revenue generally remain healthy, indicating a positive job and business environment and relatively healthy consumer spending. Also, despite a high foreclosure rate, declines in home sales and prices have not been as severe as other areas of the country. Thus, in contrast to the last recession that hit Colorado especially hard, the state's economy will slow in 2008, but it will fare better than the nation during this downturn.

Colorado's **unemployment rate** averaged 3.8 percent in 2007, the lowest annual rate since 2000. However, the rate edged up slightly toward the end the year, and in January stood at 4.2 percent, an indicator that the job market has weakened some. The weakness is likely in part caused by a slowdown in hiring by businesses uncertain about their prospects as the national economy shows signs of recession.

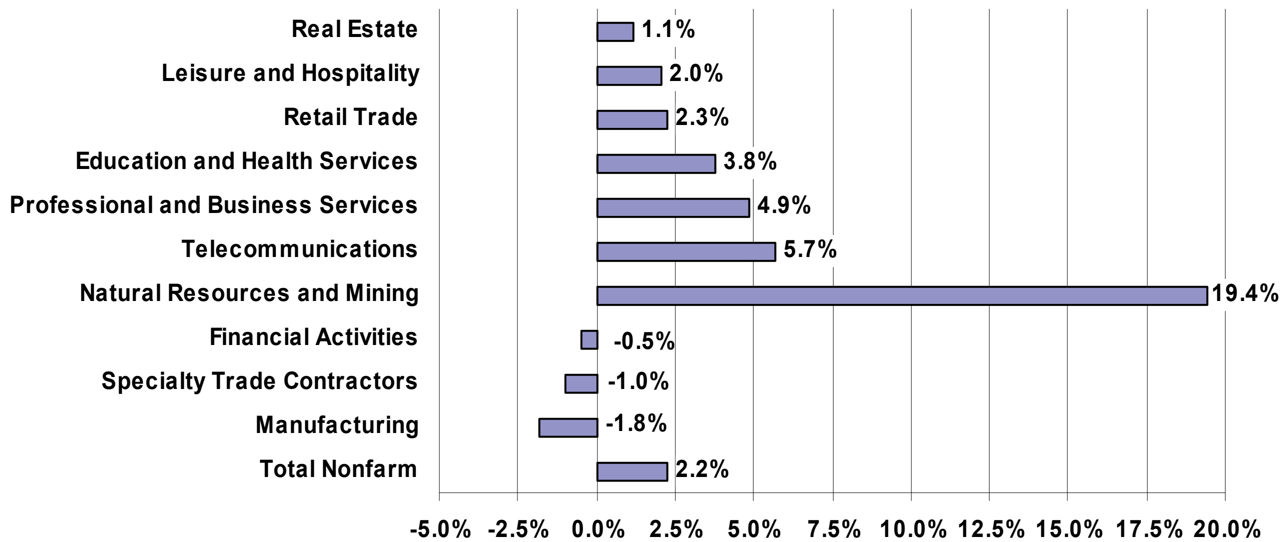
Nonfarm employment increased 2.2 percent in 2007, adding 51,100 jobs. Figure 1 shows the percent change in employment for 2007 in selected industries in Colorado. Continuing the trend from recent years, the state shed manufacturing jobs. Further, the weak housing market and credit problems arising from losses in mortgage financing negatively impacted workers related to these aspects of the economy. The state's construction industry lost jobs, particularly specialty trade contractors, which comprise two-thirds of the industry. This sector includes workers such as carpenters, painters, plumber, and electrical workers. Also, the financial activities industry lost jobs. Notably, employment in the credit intermediation sector, which includes workers involved directly with lending and mortgage financing, experienced a decline of 3.2 percent, with stronger losses beginning in August last year when many of the problems in the financial system began. However, this sector represents only a small proportion (about 2 percent) of the state's workforce.

On the positive side, the information sector, particularly telecommunications, reversed its trend of job losses that started with the recession that began in 2001. The telecommunications industry posted a strong increase of 5.7 percent. Also, natural resources and mining continued to add jobs at a vigorous pace – mostly in support positions – due to higher energy prices driving increases in exploration and drilling. These strong increases are expected to continue in the future as the industry continues to expand, helping bolster the state's overall economy.

In addition, the professional and business services sector – a sector which has been a significant contributor to the state's growth in recent years that includes workers ranging from administrative assistants to research scientists – also had significant growth in 2007 of 4.9 percent. Finally, the leisure and hospitality sector also added jobs at a healthy clip, indicating that the state's tourism and outdoor recreation industries were strong in 2007. The tourism industry should continue to be a positive contributor to the state's economy, despite weakness in the national economy, as a relatively stronger global economy and a weaker dollar will bring foreign tourists to the state.

- The housing and credit market's difficulties will cause continued uncertainty among businesses about the economy's health and hinder business investment during much of 2008. This will slow hiring to a 1.2 percent rate. The economy will continue to be sluggish into 2009, when employment will increase 1.7 percent.

Figure 1. 2007 Employment Percent change in Selected Colorado Industries



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics

- The state's unemployment rate is expected to rise to 4.7 percent in 2008 and 4.8 percent in 2009.

The state's moderate job growth in 2007 contributed to respectable **personal income** and wage gains in the state. Personal income increased 6.0 percent through the first three quarters of 2007, compared with the same time period in 2006, according to estimates released by the U.S. Bureau of Economic Analysis. This compares to 7.3 percent and 7.0 percent increases in 2005 and 2006, respectively. **Wages and salaries** – which comprise about 60 percent of personal income – increased 6.2 percent through the first three quarters of 2007. Industries with the fastest earnings growth were mining, professional and business services, and wholesale trade, while the utilities and manufacturing industries had significant declines in earnings.

- Personal income is projected to weaken to 5.3 percent growth in 2008 given the expected slowdown in hiring. Similarly, wages and salaries growth is expected to slow to 5.2 percent in 2008.

Consumer spending in Colorado, as measured by **retail trade sales**, continues to be resilient, at least through the end of 2007, in the face of stagnant or declining home values and a slowing economy. Retail trade increased 6.9 percent in 2007. Some of the strength can be attributed to weak holiday shopping in December of 2006 that was tempered due to snowstorms. It is also important to note that retail sales includes spending on food and gasoline. Thus, some of the strength in the growth rate is due to higher prices on these items.

Spending on durable goods, such as building materials, electronics and appliances, furniture and furnishings, and automobiles, is often an indicator of consumers' well-being and their views on the prospects for the economy. In a positive economic environment, consumers tend to buy more durable goods than when they view the economy pessimistically. As a potential positive sign for the state, spending on durable goods in Colorado has held up. On an inflation-adjusted basis, durable goods spending increased 3.5 percent in the last half of 2007 over the same time period in 2006.

Inflation in the Denver-Boulder-Greeley area was 2.2 percent in 2007, after a 3.6 percent increase in 2006. The housing component, which has the largest influence on the price index, only increased by 0.9 percent in 2007. However, the food and gas components of the index increased 4.1 percent and 10.3 percent, respectively. Continued higher prices for these goods should force consumers to reduce spending on other items.

- Inflation in 2008 is expected to be higher, posting a 3.3 percent increase, and will generally remain in the low- to mid-3 percent range during the forecast period.

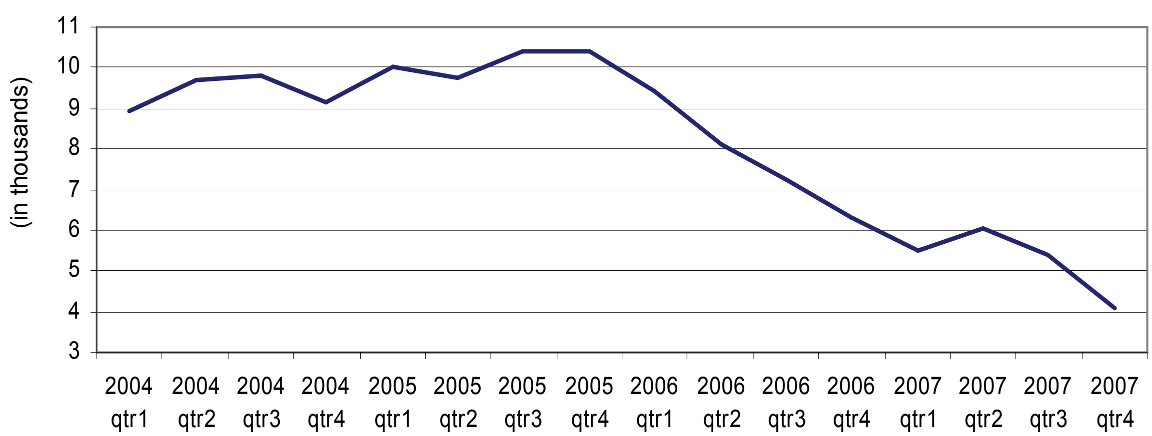
The decline in the number of single-family **housing permits** issued in the state is a telling indicator of the housing market's contraction. Permits were down 32.7 percent in 2007, after declining 22.6 percent in 2006. Figure 2 shows the quarterly number of single-family permits issued in Colorado from 2004 through 2007.

In addition, according to the Colorado Division of Real Estate, there were a record 39,915 foreclosures in the state in 2007, 40 percent more than in 2006. The state had the 5th highest foreclosure rate, according to RealtyTrac, after having the highest rate in 2006. One in every 305 households had a foreclosure filing in February of this year.

The high rate is mostly being driven by declining home values and higher interest rates on adjustable-rate mortgages. Because these loans will continue to reset, requiring higher interest payments from borrowers, the high foreclosure rate will likely continue in 2008. However, the recent lowering of interest rates and the emergence of programs designed to help homeowners facing foreclosure should provide some relief.

A high rate of foreclosures increases the inventory of homes on the market, resulting in further downward pressure on prices. Tighter credit conditions for home loans is also a factor

Figure 2. Quarterly Single-Family Home Permits Issued in Colorado, 2004 through 2007
(seasonally adjusted, in thousands)



Source: U.S. Census Bureau

in the depressed housing market. These issues will make it difficult for the market to improve in the near term.

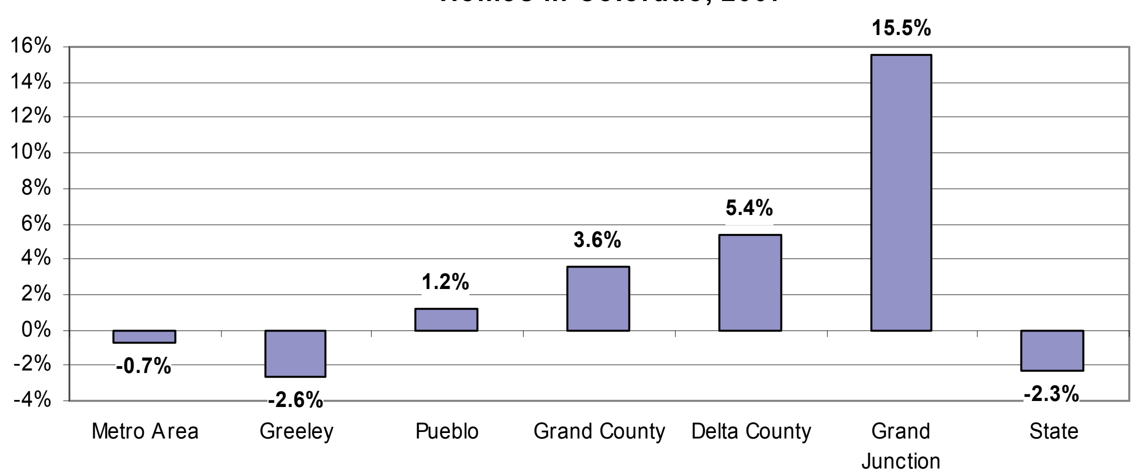
However, while Colorado's housing market is weak, it is performing better than many other states. The weakening in the housing market appears to have occurred earlier in Colorado and has been more gradual than in other areas, allowing the economy's healthy job growth and other positive aspects to absorb the weakness. Although sales of existing homes in Colorado were down 4.4 percent in 2007, according to the National Association of Realtors, many other states posted double digit declines. Nevada (-35.5 percent), Florida (-27.5 percent), Arizona (-26.2 percent), Maryland (-23.7 percent), and California (-22.8 percent) had the worst declines in sales.

The median sales price of single-family homes in Colorado declined by 2.3 percent in 2007 according to data from the Colorado Association of Realtors. However, not all areas of the state are experiencing price declines. Figure 3 shows the percent change in the median single-family home sales price for different areas of the state. The western slope, driven by the booming energy industry, and mountain communities posted healthy home price appreciation in 2007.

In contrast to the single-family market, permits for multi-family units increased 16.8 percent in 2007. This gain followed a strong increase of 38.1 percent in 2006. The growth in the multi-family market is due in part to tighter credit requirements and to the high rate of foreclosures causing an increased demand for apartments.

- The single-family housing market will continue to undergo a correction in 2008 as permits are expected to continue to fall, though not as severely. Permits are projected to drop 3.2 percent in 2008. In 2009, the market should begin to recover as the excess supply of houses on the market lessens and the problems in the mortgage-financing market improve. The number of multi-family permits is expected to continue to grow as foreclosures and tighter credit conditions continue to force more Colorado residents to rent rather than own their homes.

Figure 3. Percent Change in Median Sales Price for Single-Family Homes in Colorado, 2007



Source: Colorado Association of Realtors

In contrast to the residential market, **non-residential construction** activity had a positive year in 2007. The value of construction projects increased 11.3 percent, the fourth year in a row of growth. The increase was fueled by commercial construction activity, with particularly strong growth in office and bank buildings, hotels, and warehouses. Growth in hospital and health treatment facility construction, as well as public buildings, also had a strong year, posting 54.4 percent and 183.6 percent growth rates, respectively. This strong growth offset declines in the construction of manufacturing plants and school and college facilities.

- The value of nonresidential construction activity will continue to grow in 2008, though at a slower rate of 5.4 percent.

In summary, the state's poor housing market and the problems in the nation's credit markets will negatively impact the economy in 2008 and into 2009. Further, high food and energy prices will act as a drag on other types of consumer and business spending. However, the state's housing market is in relatively better condition than states that have experienced steep price and sales declines. Further, not all areas of the state are experiencing weakness. The state's diverse economy and recent job growth in wide-ranging industries should help it weather the negative factors in the economy and avoid a major slowdown.

However, there are risks that the slowdown in the state's economy may become more severe. The job and financial losses relating to the housing market could ripple more deeply through the overall economy causing further reductions in consumer and business confidence. Further, the related problems in the financial system could stifle spending and business investment and result in more widespread job losses. Moreover, a more substantial drop in economic activity at the national level could adversely affect Colorado's economy.

Table 7
Colorado Economic Indicators, March 2008 Forecast
(Calendar Years)

	2001	2002	2003	2004	2005	2006	2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Population (thousands), July 1	4,434.0	4,507.8	4,555.2	4,609.3	4,673.7	4,766.2	4,861.5	4,958.7	5,057.9	5,154.0	5,251.9
percent change	3.1%	1.7%	1.1%	1.2%	1.4%	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%
Nonagricultural Employment (thousands)	2,226.9	2,184.2	2,152.8	2,179.6	2,226.0	2,279.1	2,330.2	2,358.2	2,398.3	2,453.4	2,514.7
percent change	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.4%	2.2%	1.2%	1.7%	2.3%	2.5%
Unemployment Rate	3.8	5.7	6.1	5.6	5.1	4.3	3.8	4.7	4.8	4.3	4.1
Personal Income (millions)	$152,700	$153,066	$154,829	$163,805	$175,815	$188,173	$199,464	$210,035	$222,637	$237,999	$253,231
percent change	5.8%	0.2%	1.2%	5.8%	7.3%	7.0%	6.0%	5.3%	6.0%	6.9%	6.4%
Wage and Salary Income (millions)	$88,297	$86,938	$88,008	$92,090	$97,350	$104,023	$110,472	$116,217	$123,190	$131,567	$140,250
percent change	2.8%	-1.5%	1.2%	4.6%	5.7%	6.9%	6.2%	5.2%	6.0%	6.8%	6.6%
Retail Trade Sales (millions)	$59,014	$58,852	$58,689	$62,288	$65,447	$70,437	$75,319	$78,030	$81,464	$85,700	$90,756
percent change	1.8%	-0.3%	-0.3%	6.1%	5.1%	7.6%	6.9%	3.6%	4.4%	5.2%	5.9%
Home Permits (thousands)	55.0	47.9	39.6	46.5	46.3	39.3	30.4	29.9	33.0	36.6	38.0
percent change	0.8%	-13.0%	-17.3%	17.5%	-0.5%	-15.0%	-22.6%	-1.8%	10.4%	11.1%	3.7%
Nonresidential Building (millions)	$3,500	$2,787	$2,713	$3,291	$4,221	$4,415	$4,916	$5,182	$5,555	$5,861	$6,277
percent change	0.7%	-20.4%	-2.7%	21.3%	28.3%	4.6%	11.3%	5.4%	7.2%	5.5%	7.1%
Denver-Boulder Inflation Rate	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%	2.2%	3.3%	3.2%	3.3%	3.4%

Personal income and wage and salary income for 2007 are estimates. All other data for 2007 are actuals.

Colorado Economic Regions

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

Metro Denver

The Metro Denver region contains 60 percent of the employment and consumer spending in the state. While the region's housing sector suffered through a very tough 2007, nonresidential construction, employment, and consumer spending were strong. Employment and consumer spending both increased at relatively healthy rates of 2.1 percent and 6.4 percent, respectively, in 2007. Economic indicators for the Metro Denver region are shown in Table 8.

Table 8
Metro-Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2005	2006	2007
Employment Growth /1	1.9%	2.1%	2.1%
Unemployment Rate	5.1%	4.4%	3.9%
Housing Permit Growth /2	-4.3%	-14.5%	-20.3%
Growth in Value of Nonresidential Const. /3	6.8%	-13.4%	23.6%
Retail Trade Sales Growth /4	3.7%	4.1%	6.4%

NA = Not Available.
1/ U.S. Department of Labor, Bureau of Labor Statistics. Data are from the CES survey.
2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized
3/ F.W. Dodge; excludes Broomfield County.
4/ Colorado Department of Revenue; data through December 2007.

As shown in Figure 4, job growth in the region was strong in the trade, transportation, services, and local and federal government sectors. The housing slowdown and credit market uncertainty took a toll in the construction and financial activities sectors, which both saw a decrease in employment. The information sector, which includes the telecommunications and publishing sectors, appears to have stabilized in 2007, finally adding jobs again after six years of losses.

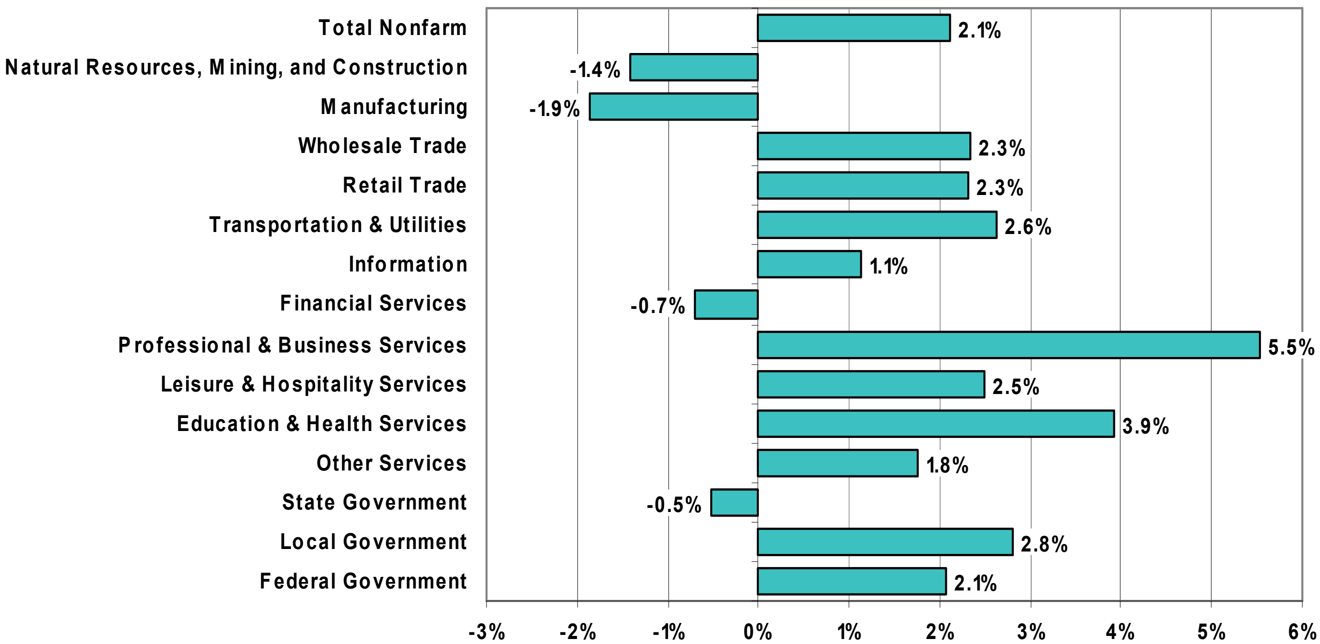
Skilled labor appeared to be relatively scarce in some sectors during much of 2007. The unemployment rate in the region decreased from an 4.4 percent in 2006 to 3.9 percent in 2007. The unemployment rate began to edge up over the last few months of 2007, with the rate increasing to 4.4 percent in January.

The region's housing industry has suffered through two very difficult years in 2006 and 2007. The number of permits for new homes decreased 14.5 percent and 20.3 percent, respectively, in 2006 and 2007. A study released by S&P/Case-Shiller indicated that home prices decreased 4.5 percent in the Denver area in 2007. Houston-based Metrostudy, a national housing tracking company, reported that homebuilders delivered 5,672 residential lots in 2007, down from 10,580 in 2006 and more than 14,000 in 2005. According to a report from the Federal Reserve Bank of Kansas City, about 11 percent of subprime borrowers in Metro Denver have lost their homes as a result of foreclosure, with another 15 percent either in foreclosure or more than 90 days late on their mortgage payments.

Despite this, the industry is holding its own thus far in 2008, and many industry experts believe that the worst is over. An analysis by the Federal Reserve Bank of Kansas City indicates that Colorado's subprime loans tended to originate earlier than much of the nation and Colorado will recover from the effects earlier as well. In addition, Metrolist data compiled by Realtor Gary Bauer indicated that the number of Denver single family homes and condos placed under contract in January and February increased 4.9 percent compared with the first two months of 2007. The number of unsold homes on the market edged up 0.8 percent during the same time period. The majority of sales activity occurred among homes priced lower than $200,000 and higher than $500,000.

Meanwhile, the nonresidential construction sector flourished in 2007, and every indication suggests that it will also be healthy in 2008. According to F.W. Dodge, the value of nonresidential construction increased 23.6 percent in the region during 2007.

Figure 4
2007 Metro Denver Employment Growth



Recent Economic News

- ConocoPhillips purchased the former StorageTek campus in Louisville and plans to redevelop the campus into a renewable energy technology and training center.

- The National Renewable Energy Laboratory in Golden announced plans to hire 100 scientists and support staff after Congress increased its budget by $100 million this year. The lab also plans to build a new $55 million, 130,000-square-foot facility on its campus.

- Photovoltaic film developer Ascent Solar Technologies is moving its headquarters from Littleton to a larger building in Thornton and plans to increase its workforce from 35 to 100 by the end of the year. Ascent develops flexible photovoltaic film, which has been used to develop curtains that generate electricity. The company expects to produce its first commercial product in 2009.

- The U.S. Department of Energy has given Lignol Innovations Inc. a grant of $114 million over four years to build a demonstration plant in Commerce City to turn hard and soft woods into ethanol. The plant, expected to produce 2 million gallons of ethanol each year, will be operational in 2012. Lignol Innovations has used wood killed by pine beetles to produce ethanol at a demonstration plant in British Columbia.

- Aircraft developer Aviation Technology Group laid off 40 of its 50 employees at the Centennial Airport in December as a result of a lack of funding. Also struggling for funding, Arapahoe County-based airplane manufacturer Adam Aircraft suspended operations and laid off 500 people in February.

- Construction began on the redevelopment of Aurora's Buckingham Square Mall in January. The $110 million shopping center is expected to be fully open in early 2009. The redevelopment of the Southglenn Mall is also expected to be complete in 2009. The $310 million mixed-use development will hold 980,000 square feet of retail space, 202 rental apartments, and 140,000 square feet of office space.

- The $75 million Ritz-Carlton Denver hotel opened its doors downtown in January. The hotel, which includes about two dozen luxury condominiums, employs 345 people. Westin announced plans to build a $200 million, 500-room luxury hotel at Denver International Airport's terminal. In addition, Metropolitan State College expects to open a $30 million hotel and learning center with between 150 and 200 guest rooms in the fall of 2010.

- The U.S. Government unveiled new plans for the Denver Federal Center in Lakewood that include 3.6 million square feet of new development and 1,400 new residential units. Federal government agencies located at the center include the U.S. Geological Survey, the Environmental Protection Agency, and the Mine Safety Health Adminminstration.

Colorado Springs Region

The Colorado Springs economy declined substantially in 2007. The slowdown has been fueled by a sharp downturn in the construction and housing markets that has been exacerbated by the absence of many Fort Carson troops deployed overseas. Table 9 shows the major economic indicators for the Colorado Springs region.

Table 9
Colorado Springs Region Economic Indicators
El Paso County

	2005	2006	2007
Employment Growth /1	2.0%	2.2%	1.0%
Unemployment Rate	5.3%	4.6%	4.3%
Housing Permit Growth /2	3.6%	-34.3%	-29.7%
Growth in Value of Nonresidential Const. /3	141.5%	-18.4%	7.8%
Retail Trade Sales Growth /4	5.2%	5.1%	5.3%

NA = Not available

1/ Colorado Department of Labor and Employment. Data is from the CES survey.

2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction in the Colorado Springs metropolitan area.

3/ F.W. Dodge.

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

Nonfarm employment increased at an anemic pace of 1.0 percent in the Colorado Springs metropolitan area in 2007. The 1.0 employment growth rate was substantially slower than that which occurred in every other metropolitan area in Colorado and was below the statewide average of 2.2 percent for 2007. The unemployment rate averaged 4.3 percent in 2007, slightly lower than the 4.6 percent average for 2006. The unemployment rate moved up considerably to 4.8 percent in January 2008.

Similar to national and regional banking trends, the Colorado Springs region is having to contend with tighter lending policies and a protracted slowdown in the housing markets. The absence of many Fort Carson troops has exacerbated the impact of the housing industry slowdown on the Colorado Springs economy. Data from the Pikes Peak Realtors Association indicates that single-family building permits in Colorado Springs and surrounding El Paso County totaled 223 in the first two months of 2008, down 39.7 percent from the same period in 2007. Last year, permits totaled 2,135, the lowest annual total since 1991.

In 2007, the county broke a 19-year record with 3,556 foreclosures. The El Paso County Public Trustee's Office reported that for 2008, foreclosures totaled 457 in February, a single-month record and a 72.5 percent increase over the same month last year. The office is processing about 25 foreclosure notices each day.

Retail trade increased 5.3 percent in 2007, somewhat below the statewide average of 6.9 percent.

Recent Economic News:

- The Army will base a newly formed brigade combat team at Fort Carson. The new brigade will add 4,900 active-duty troops to the base by 2011.

- Two Monument biotechnology companies are expanding, adding to an already fast-growing industry in the area. Code One Inc. is a 50-employee company that helps medical practices collect payments from insurers. The company will lease a 20,000-square-foot office space in Colorado Springs that will accommodate up to 160 additional employees within three years. Another company, Pass Inc., will hire about 10 new employees this year. The company has developed an online access control system for vendors serving hospitals and surgery clinics.

- Penrose Community Hospital will go up for sale and close in August. Centura Health, which operates the hospital, plans to open an urgent care center in the same area of town as

Penrose Community Hospital to accommodate emergencies. Penrose Community's 620 employees will be able to transfer their jobs to either a hospital scheduled to open in August or at the main Penrose hospital campus near downtown Colorado Springs.

- T. Rowe Price opened a $60 million state-of-the-art building on Colorado Spring's north side. The company provides investment guidance and services to individual investors, retirement plan participants, and 401(k) plan administrators. The Fortune 500 company, which first came to Colorado Springs in 1998, now employs about 675 people and expects to grow to nearly 1,400 over the next few years.

Pueblo Region

Pueblo's five-county regional economic picture exhibited mixed results in 2007. Employment growth was stronger than the prior year and the unemployment rate fell in the region. However, housing permit requests decreased and the value of nonresidential construction was down. Table 10 shows annual economic indicators for the region for 2005 through 2007.

Table 10
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2005	2006	2007
Employment Growth /1 Pueblo MSA Only	1.1%	2.3%	3.0%
Unemployment Rate	6.5%	5.5%	4.7%
Housing Permit Growth /2 Pueblo County Only	-3.4%	10.6%	-42.1%
Growth in Value of Nonresidential Const. /3 Pueblo County Only	-46.6%	632.3%	-62.1%
Retail Trade Sales Growth /4	5.3%	6.0%	6.5%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data are from the CES survey.
2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.
3/ F.W. Dodge.
4/ Colorado Department of Revenue; data through December 2007.

In Pueblo, nonfarm employment grew 3.0 percent in 2007, up from 2.3 percent in the prior year. Meanwhile, the unemployment rate in the region dropped from an average of 5.5 percent in 2006 to 4.7 percent in 2007.

Consumer spending, measured by retail trade sales, grew 6.5 percent in the region in 2007, compared with a 6.0 percent increase in 2006. The region's sales lagged the statewide pace of 6.9 percent. Pueblo County led the region in consumer spending with 9.2 percent growth. The counties of Custer, Fremont, and Huerfano saw growth rates of 5.7, 1.8, and 2.0 percent respectively. Meanwhile, consumer spending decreased 6.6 percent in Las Animas County.

Construction activity was negative overall in 2006, mirroring national and state trends. Requests for single family and multi-family housing permits in Pueblo County decreased 42.1 percent in 2007, following a 10.6 percent increase in 2006. On the nonresidential side, 2007 numbers were also down. In Pueblo County, the value of nonresidential construction decreased 62.1 percent. 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 59.6 percent in 2006 and 70.9 percent in 2007.

Recent Economic News:

- Spradley-Barickman Ford Lincoln Mercury Inc., a new car dealership formed by the purchase of Freedom Ford by Spradley Chevrolet, will add 67 employees to the 225 already working at the Spradley dealerships.

- Adam Aircraft Industries filed bankruptcy February 15th and shut down its operations in Pueblo, Englewood, and in Ogden, Utah. 92 people lost their jobs in Pueblo.

- Quest moved 36 directory assistance jobs to Pueblo, adding 6 new positions in March and April in an effort to shift work from operator and information service centers in New Mexico, South Dakota, North Dakota, and Colorado Springs. The company may hire additional workers locally if workers from the other locations choose not to accept the transfer package.

- Due to an inability to reach an agreement with its lenders, Silver State Helicopters closed its operations in Pueblo in addition to closing all 34 locations across the United States. Fifteen Pueblo jobs were lost in February.

- Great Plains Management Inc. started construction this year on a $7 million full-service Holiday Inn and Suites hotel with 89 rooms and a small restaurant. The company will hire 25 to 40 new workers in the summer.

- Bechtel National Inc., a national defense contractor, will begin hiring for 150 positions in March for a major construction project in Pueblo. When construction on the Pueblo Chemical-Agent Destruction Pilot Plant expands in the second half of 2008, the company expects to double in size to 300 employees.

San Luis Valley and Southwest Region

Table 11 shows the economic indicators for the San Luis Valley and southwest region. The region's economic welfare was mixed in 2008. Nonresidential construction was strong, most crop prices were up, and the unemployment rate was low. However, overall job growth slowed, consumer spending was modest and slightly lower than the rest of the state, and the number of residential housing permits decreased.

Table 11

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	2007
Employment Growth /1	1.4%	3.3%	1.3%
Unemployment Rate	5.1%	4.3%	3.7%
Statewide Crop Price Changes /2			
Barley (U.S. average for all)	1.1%	24.2%	31.4%
Alfalfa Hay (baled)	18.8%	37.3%	0.0%
Potatoes	78.7%	-8.0%	14.1%
Fall Potato Production (Cwt) /2	-6.4%	-1.0%	-7.5%
Housing Permit Growth /3			
Alamosa County	-39.4%	-2.5%	-41.0%
La Plata County	-1.4%	-25.5%	-15.5%
Growth in Value of Nonresidential Const. /3			
Alamosa County	-44.1%	-22.4%	414.1%
La Plata County	-82.8%	74.4%	881.5%
Retail Trade Sales Growth /4	7.3%	9.8%	6.0%

NA = Not available.

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the LAUS (household) survey.

2/ Colorado Agricultural Statistics Service. Compares February 2008 to February 2007.

3/ F.W. Dodge. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) contracted for construction.

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

Employment growth was a meager 1.3 percent in 2007, compared with 3.3 percent growth in 2006. On the bright side, the unemployment rate was 3.7 percent in 2007, following 4.3 percent in 2006 and 5.1 percent in 2005.

Potato production in February, which is an important part of the economy of the San Luis Valley, was down 7.5 percent over a year ago. However, the price of potatoes was up, as was the price of barley. The price of barley increased 31.4 percent in 2007, compared with a 24.2 percent increase in 2006. The price of alfalfa hay was flat in 2007, compared to a 37.3 percent increase in 2006.

The pace of nonresidential construction in the area was strong in 2007. Alamosa County reported a 414.1 percent gain in 2007, up from a decrease of 22.4 percent recorded in 2006. Alamosa County saw the most significant gains in the construction of schools and colleges, libraries and museums, hospital and health treatment centers, religious facilities, and amusement structures. La Plata County recorded a noteworthy 881.5 percent growth in the value of nonresidential construction during the same period, a large increase from the 74.4 percent increase in 2006. La Plata County saw the most significant gains in the value of garages and service stations, hotels and motels, schools and colleges, libraries and museums, government buildings, and amusement structures.

Consumer spending in the region, measured by retail trade sales, increased 6.0 percent in 2007, after increasing 9.8 percent in 2006. Spending increased at a rate slightly lower than the 6.9 percent increase for the state as a whole. La Plata County, which makes up nearly half of the region's retail sales, increased 5.3 percent. The two other large counties in the region, Alamosa and Montezuma, saw growth of 9.6 percent and 6.4 percent, respectively. Consumer spending was highest in Hinsdale County at 11.9 percent.

Recent Economic News:

- Black Gold Organic Fertilizer of Lubbock, Texas bought the Biota water bottling plant in Ouray. The company expects to hire eight or nine people for its water bottling operations set to begin this summer.

- The San Luis & Rio Grande Railroad broke ground on a $3.5 million railroad maintenance project in Alamosa in January. The building will service locomotives, freight, and passenger cars. The company also plans to triple the number of trains that will be running, which is expected to result in a doubling of passenger ridership.

Western Region

The western region, driven by the boom in the oil and gas industry, continues to be one of the fastest growing regions in the state based on employment, retail trade sales, and nonresidential construction. Table 12 shows the major economic indicators for the western region.

Table 12

Western Region Economic Indicators

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

	2005	2006	2007
Employment Growth /1			
Western Region	4.9%	5.9%	3.7%
Mesa County 1/	2.9%	5.1%	5.7%
Unemployment Rate	4.4%	3.6%	3.1%
Housing Permit Growth			
Mesa County 2/	-3.0%	4.6%	-13.2%
Montrose County 3/	22.4%	-5.3%	-31.0%
Growth in Value of Nonresidential Const. /3			
Mesa County	287.8%	-44.8%	210.4%
Montrose County	-54.9%	141.3%	-34.6%
Retail Trade Sales Growth /4	10.5%	14.2%	11.8%

NA = Not Available

1/ Colorado Department of Labor and Employment. 2005 and 2006 data are from the QCEW program. 2007 data is from the CES survey for Mesa County and the LAUS survey for the region.

2/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.

3/ F.W. Dodge. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) contracted for construction.

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

Nonfarm employment in the region slowed in 2007 growing at 3.7 percent compared with 5.9 percent in 2006. However, in response to increased drilling activity, nonfarm employment in Mesa County grew at a brisk 5.7 percent in 2007, compared with 5.1 percent growth in 2006. The 5.9 percent nonfarm employment growth in Mesa County was far above the statewide average of 2.2 percent in 2007.

Within the region, Rio Blanco and Garfield counties had the strongest employment growth in the state for 2007, in response to natural gas production. Rio Blanco County had the state's highest employment growth at 9.2 percent followed by 7.3 percent growth in Garfield County. Drilling permit applications in Garfield County hit an all-time high in 2007, as the Colorado Oil and Gas Commission approved 2,550 permits — 700 permits over the number approved in 2006 and 40 percent of the total 6,368 permits approved statewide. The region's unemployment rate averaged a low of 3.1 percent, somewhat below Colorado's average unemployment rate of 3.8 percent in 2007.

Construction indicators were mixed in 2007. In Mesa County, permits for housing units decreased 13.2 percent and in Montrose County permits decreased 31.0 percent. Despite the decline in Mesa County's housing permit growth, Grand Junction's housing market seems to be resilient as it is bucking a depreciation trend that has swept through other parts of the state and nation. Zillow.com, an online real estate services firm, reports that the median value of a house in the Grand Junction metropolitan area increased 9.6 percent to $212,836 in the year ending December 31, 2007. The firm reports that Grand Junction had the third-highest percentage gain of the 125 markets tracked in the Zillow.com survey. Tulsa, Oklahoma ranked first with an increase of 11.4 percent to $115,114 last year.

The value of nonresidential construction permits grew in Mesa County and declined in Montrose County for 2007. In Mesa County, nonresidential construction permits increased from $88.8 million in 2006 to $275.7 million in 2007. The 210 percent increase in nonresidential growth was mainly due to hospital construction, although construction at Mesa State College added to the growth. In Montrose County, nonresidential construction permits were down 34.6 percent.

Despite the weakening economy in other regions of the state, consumer spending in the western region continues to grow strongly, as measured by retail trade sales. Retail sales increased 11.8 percent in 2007, after jumping 14.2 percent in 2006. Rio Blanco saw the largest increase in retail trade sales at 18.9 percent in 2007, while the slowest grow in the region was in Gunnison County at 1.0 percent.

Recent Economic News:

- Netflix, Inc., a DVD distribution company, will open a distribution center in Grand Junction, employing 8 to 12 employees.

- Mervyns closed its department store in Grand Junction in late February. The company indicated that the closure was in response to the chain's financial under-performance and it will focus on its core, high-growth markets in the western and southwestern United States. The closure will mean the loss of 70 jobs.

- Russell Stover Candies in Montrose will lay off about 150 employees around April 1. The Montrose facility currently employs about 480 people, and the layoff will affect maintenance workers, packers, and supervisors. The company is also considering a 50,000-square-foot expansion of its refrigerated distribution center in Montrose. The Montrose facility is one of four Russell Stover plants across the country. The expansion will result in 12 to 15 new jobs that pay between $16 and $20 an hour with benefits.

Mountain Region

The mountain region's economy continues to maintain its healthy economic gains. Despite the continued slowdown in the statewide housing market, Routt County saw an increase in housing permit growth. Although there is a slowing in the job market, the region continues to see low unemployment and healthy growth in nonresidential construction and retail sales. Table 13 shows the major economic indicators for the mountain region.

Table 13
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%	3.5%	1.6%
Unemployment Rate	4.3%	3.6%	3.1%
Housing Permit Growth /2			
Eagle, Pitkin, & Summit counties	20.9%	12.4%	-4.8%
Routt County	34.0%	-10.5%	11.6%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	11.2%	74.3%	6.4%
Routt County	-10.3%	143.9%	80.2%
Retail Trade Sales Growth /3	8.8%	12.6%	9.6%

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the LAUS (household) sur-
2/ F.W. Dodge. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) contracted for construction.
3/ Colorado Department of Revenue; data through December 2007.

Nonfarm employment growth increased 1.6 percent in 2007, slowing from a more robust pace of 3.5 percent in 2006. The moderate employment growth reflects the state's overall weakening job market as fewer people were hired in the financial and housing sectors. Despite the slowing job market, the unemployment rate averaged a low 3.1 percent in 2007, compared with 3.5 percent in 2006. The unemployment rate edged up to 3.2 percent in January 2008.

While the residential construction sector has been weak throughout most of the state, the mountain region saw some mixed activity. Routt County saw an 11.6 percent increase in its housing permits in 2007. Although permit growth for single family housing was down 30 percent, this decline was offset by permit growth for multi-family housing, which was up 33 percent and permit growth for apartment buildings that was up 48 percent. Eagle, Pitkin, & Summit counties mirrored the state's declining housing trend posting a drop of 4.8 percent in housing permit growth for 2007.

Nonresidential construction saw its second year of strong growth with construction values increasing 6.4 percent in Eagle, Pitkin, and Summit counties, and Routt County seeing 80.2 percent growth in value for 2007. Nonresidential construction grew by over 140 percent in value in Routt County in 2006. Stores and restaurants have driven nonresidential construction upward.

Although many regions in Colorado and the nation continue to be affected by the real estate market's subprime and credit woes, Colorado's high-end resort markets in the mountain region, particularly in Eagle County, saw record real estate sales in 2007. Overall residential and commercial sales totaled $2.96 billion in 2007, surpassing the previous record of $2.8 billion (set in 2005). The 2007 record represents a 7 percent increase over 2006.

Consumer spending has also remained strong in the mountain region, pushed by moderate job growth and continuing strength in tourism. Retail trade increased 9.6 percent in 2007, above the statewide average of 6.9 percent.

Recent Economic News:

- Whole Foods Market will open a 44,000-square-foot store in Basalt in early 2010. Company officials estimate that the new store will employ 150 workers. At least 90 percent of the positions at the Basalt store will be full-time.

- Grand Park Development plans to began construction on a $270 million town center in Fraser. The development will include 230 residential units, 208,000 square feet of commercial space, and a 60,000 square-foot recreation center. Construction is expected to take five years to complete.

- More than 220 affordable homes will be built in Gypsum through a partnership between Eagle County and the developer of the Stratton Flats housing complex. Eagle County will invest $4.5 million in the project and restrict 226 of the 339 units to area residents. A one-bedroom restricted condominium is expected to sell for about $165,000, while a 2020-square-foot single family home with an unfinished basement is expected to sell for about $370,000.

- Minturn's Town Council will consider making 4,300 acres of unincorporated Eagle County land part of Minturn. The zoning change is proposed to allow a Florida developer to seek approval for a housing development. The initial proposal indicates that the project may be in the billion-dollar range.

- Pier 1 Imports in Dillon closed its doors after 10 years in Summit County. A company spokesperson cited a number of factors for the closure including shifting market demands.

Northern Region

Economic conditions in the northern region continue to exhibit relatively modest growth as measured by jobs and retail trade sales. Housing permits remain weak, like the rest of the nation, but nonresidential construction is showing signs of strength. Table 14 displays economic indicators for the region.

Table 14
Northern Region Economic Indicators
Weld and Larimer counties

	2005	2006	2007
Employment Growth /1			
Larimer County	2.0%	1.8%	2.4%
Weld County	2.8%	4.2%	3.0%
Unemployment Rate			
Larimer County	4.4%	3.9%	3.4%
Weld County	5.1%	4.6%	4.1%
State Cattle and Calf Inventory Growth /2	6.0%	4.8%	4.8%
Housing Permit Growth /3			
Larimer County	-14.8%	-17.5%	-26.9%
Weld County	-2.2%	-30.3%	-38.6%
Growth in Value of Nonresidential Const. /4			
Larimer County	-56.4%	6.6%	-4.1%
Weld County	-35.8%	33.7%	5.9%
Retail Trade Sales Growth /5			
Larimer County	5.7%	5.2%	6.5%
Weld County	8.9%	7.0%	7.6%

NA = Not available

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data are from the CES survey.

2/ Colorado Agricultural Statistics Service. Compares February 2008 to February 2007.

3/ U.S. Census. Housing permit data represents the total number of housing units (single-family units and units in multi-family structures) authorized for construction.

4/ F.W. Dodge.

5/ Colorado Department of Revenue; data through December 2007.

Nonfarm employment in Larimer and Weld counties expanded by 2.4 percent and 3.0 percent, respectively in 2007. Both rates exceeded the statewide average of 2.2 percent. The unemployment rate dropped to 3.4 percent in Larimer County and 4.1 percent in Weld County in 2007, both of which were lower than comparable rates in 2006.

Residential housing permits dropped considerably in both counties in 2007. Larimer County saw a decline of 26.9 percent and Weld County saw a drop of 38.6 percent. The value of nonresidential construction declined 4.1 percent in Larimer County in 2007, but Weld County experienced a modest increase of 5.9 percent. The nonresidential gains in Weld County were primarily related to manufacturing facilities, health care and hospital facilities, and projects at public schools and the University of Northern Colorado.

Consumer spending in the region closely approximated the statewide average in 2007. Retail trade sales in Larimer County increased 6.5 percent, while Weld County had growth of 7.6 percent. The statewide average was 6.9 percent.

Recent Economic News:

- Vestas Wind Systems, a Denmark-based wind blade manufacturer, began operations in Windsor this March. The plant is expected to hire up to 650 people by 2009 with production employee wages around $30,000 per year. The company also announced the order of 109 wind turbines from E.ON Climate & Renewables. Vestas has installed more than 33,000 wind blades in 63 countries and employs more than 15,000 people worldwide.

- Candlewood Suites, an extended-stay hotel, plans to build an 84-room hotel at the corner of Pavilion Land and JFK Parkway in Fort Collins. Plans are also underway to build a restaurant, fitness center and spa, and other stores nearby that are compatible with an extended-stay hotel.

- Leprino Foods is considering building its 10th U.S. manufacturing plant in Greeley. The company is the largest producer of mozzarella cheese in the country and is the exclusive supplier of cheese to Pizza Hut. The

Greeley city council approved a special taxing district for the plant at the Western Sugar Cooperative site in east Greeley. The factory would employ up to 500 people.

- Ensign Drilling received a development agreement from the City of LaSalle to construct a new building center for hiring oil rig workers. The project will include administrative offices, training, health, and safety areas. The project will be located at Godfrey Bottoms, along the South Platte River.

Eastern Region

Economic indicators were mixed for the eastern region in 2007. Employment growth and consumer spending slowed from 2006. The unemployment rate continued its trend downward through 2007 and prices for wheat, corn, and beans increased significantly. Winter wheat crops are in good condition due to a mild winter and recent snow storms. Warmer weather allowed farmers to plant crops of wheat, barley, and oats by mid-March 2008. Table 15 shows economic indicators for the region for 2005 through 2007.

Table 15
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	2007
Employment Growth /1	0.4%	-1.0%	-3.3%
Unemployment Rate	4.6%	4.2%	3.6%
Crop Price Changes /2			
Wheat	3.1%	15.1%	110.8%
Corn	0.9%	32.7%	26.9%
Alfalfa Hay (baled)	16.3%	37.3%	0.0%
Dry Beans	32.9%	32.1%	57.1%
State Crop Production Growth /2			
Sorghum production	-36.9%	0.9%	86.4%
Corn	0.1%	-4.6%	17.4%
Winter Wheat	NA	-24.4%	135.6%
Sugar Beets	-0.6%	NA	-17.0%
2006 is estimated production for the year.			
State Cattle and Calf Inventory Growth /2	6.0%	0.0%	4.8%
Retail Trade Sales Growth /3	5.4%	6.7%	6.0%

NA = Not available

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 data are from the LAUS (household) survey.

2/ Colorado Agricultural Statistics Service. Compares February 2008 to February 2007.

Crop production based on projections for 2007 compared to actual 2006 production.

3/ Colorado Department of Revenue; data through December 2007.

Employment in the region increased 2.8 percent in 2007, showing gains in employment in almost every month of the year. For January 2008, Crowley County showed the highest unemployment rate of the region at 7.6 percent, while Yuma County showed the lowest at 2.5 percent.

Consumer spending in the region, as measured by retail trade sales, slowed slightly. After exceeding the statewide growth for the previous two years, the eastern region's retail trade sales growth rested at 6.0 percent for 2007, slightly lower than the statewide growth of 6.9 percent. Eleven of the sixteen counties in the region saw increases in consumer spending with Logan, Prowers, and Yuma counties coming in over 9.0 percent. Washington County experienced a significant decline in retail trade sales during the same time period.

The price of corn accelerated at a strong pace in 2007, though the increase was not as dramatic as that in 2006. The rise in price in 2007 is more indicative of an expected increase in demand for corn-based ethanol. Wheat prices increased significantly for the region and for the state. Although statewide corn and hay production have been outranking wheat production, Colorado is still a major exporter of wheat, with all agricultural regions producing various strains of the grain. More than 80 percent of Colorado's wheat is exported.

Recent Economic News:

- Lewis Nut & Bolt Company is scheduled to open in April, occupying the factory of the former Bay Valley Foods — a pickling factory in La Junta that shut its doors in 2006. The new plant will create 20 jobs that specialize in manufacturing rail anchor products. The majority of jobs will be entry-level labor with a few management and logistic positions promoted from within.

- LiquidMaize LLC, of Arlington Virginia, has been granted a permit to begin construction on a $24 million ethanol plant in Prowers County. The plant will be operational by year-end and will be able to produce 15 million gallons of ethanol per year. Dependent on agriculture, renewable energies open more markets for agricultural producers in Prowers County.

- A 6,000-square-foot Bargain Mart store opened in Rocky Ford. The discount retailer offers familiar brands and a limited selection of gourmet items from Chicago markets, Poland, and Czechoslovakia. The store also carries dairy products and will soon include a deli and meat market. Bargain Mart employs five full-time employees.

- Dollar General, a discount retailer with more than 8,000 neighborhood stores, opened a new 8,200-square-foot store in Fort Morgan. The store will employ four workers.

Appendix A
Historical Data

National Economic Indicators

(Dollar amounts in billions)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross Domestic Product	$6,658.9	$7,071.0	$7,398.6	$7,817.2	$8,304.4	$8,746.9	$9,268.3	$9,815.8	$10,129.0	$10,469.8	$10,962.7	$11,686.5	$12,435.4	$13,191.9	$13,843.8
percent change	5.1%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	3.2%	3.4%	4.7%	6.6%	6.4%	6.1%	4.9%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$7,532.7	$7,835.5	$8,031.7	$8,328.9	$8,703.5	$9,066.9	$9,468.9	$9,815.9	$9,892.9	$10,047.8	$10,302.4	$10,675.9	$11,004.9	$11,316.2	$11,567.2
percent change	2.7%	4.0%	2.5%	3.7%	4.5%	4.2%	4.4%	3.7%	0.8%	1.6%	2.5%	3.6%	3.1%	2.8%	2.2%
Unemployment Rate	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%	4.6%
Inflation (Consumer Price Index)	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%	2.8%
10-Year Treasury Note	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%	4.6%
Personal Income	$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	$9,727.2	$10,301.1	$10,983.4	NA
percent change	3.7%	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	6.2%	5.9%	6.6%	
Wage and Salary Income	$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	$5,394.5	$5,667.9	$6,018.2	NA
percent change	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%	6.2%	
Nonfarm Wage and Salary Employment (millions)	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	136.1	137.6
percent change	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%	1.8%	1.1%

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

Colorado Economic Indicators

(Dollar amounts in millions)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Nonagricultural Employment (thous.)	1,596.8	1,670.5	1,755.9	1,834.7	1,900.9	1,980.1	2,057.5	2,132.6	2,213.8	2,226.9	2,184.2	2,152.8	2,179.6	2,226.0	2,279.1	2,330.2
percent change	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%	2.2%
Unemployment Rate	6.0	5.3	4.3	4.0	4.2	3.4	3.5	3.0	2.7	3.8	5.7	6.1	5.6	5.1	4.3	3.8
Personal Income	$73,794	$79,697	$85,671	$92,704	$100,233	$107,873	$118,493	$128,860	$144,394	$152,700	$153,066	$154,829	$163,805	$175,815	$188,173	NA
percent change	8.1%	8.0%	7.5%	8.2%	8.1%	7.6%	9.8%	8.7%	12.1%	5.8%	0.2%	1.2%	5.8%	7.3%	7.0%	
Per Capita Income	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,570	$34,438	$33,956	$33,989	$35,538	$37,618	$39,480	NA
percent change	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	10.1%	2.6%	-1.4%	0.1%	4.6%	5.9%	5.0%	
Wage and Salary Income	$42,678	$45,736	$48,912	$52,782	$57,091	$62,364	$69,462	$76,283	$85,909	$88,297	$86,938	$88,008	$92,090	$97,350	$104,023	NA
percent change	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%	6.9%	
Retail Trade Sales	$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	$70,437	75,319
percent change	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%	7.6%	6.9%
Housing Permits	23,484	29,913	37,229	38,622	41,135	43,053	51,156	49,313	54,596	55,007	47,871	39,569	46,499	46,262	39,314	30,420
percent change	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-13.0%	-17.3%	17.5%	-0.5%	-15.0%	-22.6%
Nonresidential Construction	$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	4,415.4	4,916.5
percent change	-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%	4.6%	11.3%
Denver-Boulder Inflation Rate	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%	2.2%
Population (thousands, July 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	4,301.3	4,434.0	4,507.8	4,555.2	4,609.3	4,673.7	4,766.2	4,861.52
percent change	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.0%	2.0%	1.8%	3.1%	1.7%	1.1%	1.2%	1.4%	2.0%	2.0%

Sources: Colorado Department of Labor and Employment, U.S. Department of Commerce, Colorado Department of Revenue, U.S. Bureau of the Census, U.S. Bureau of Labor Statistics, F.W. Dodge.
NA = Not Available