Colorado
Legislative
Council
Staff

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MEMORANDUM

December 19, 2008

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2008-2012*

This memorandum presents the current budget outlook based on the **December 2008 General Fund and cash fund revenue forecasts.** The national and state economic forecasts are also presented along with three budget-related forecasts.

Table of Contents

Executive Summary

General Fund Overview

Table 1 presents the General Fund overview based on current law. Revenue available for spending in the General Fund is $604.2 million below the amount budgeted in the FY 2008-09 Long Appropriations Bill and $632 million below the amount allowed by the Arveschoug-Bird 6 percent limit. Assuming that spending is reduced by $604.2 million in FY 2008-09, revenue is sufficient to allow General Fund appropriations growth of only 0.4 percent in FY 2009-10.

In FY 2008-09 and FY 2009-10, there is no money for either the **Senate Bill 97-1** or **House Bill 02-1310** diversions, and in FY 2010-11 there is no money available for HB 02-1310 and the SB 97-1 diversion is reduced to $107.8 million. The **Highway Users Tax Fund** (HUTF**) and capital construction** will share a total of $139.5 million from the General Fund excess reserve in FY 2011-12 under the provisions of HB 02-1310, which requires all revenue in excess of the statutory reserve requirement to be transferred two-thirds to the HUTF and one-third to capital construction. The HUTF will also receive $353.5 million through the SB 97-1 diversion during the forecast period.

Revenue Forecast

The FY 2008-09 forecast for total revenue subject to TABOR was decreased $627 million, or 6.1 percent, since the September forecast. The General Fund revenue forecast was decreased by $529 million and the cash fund forecast was decreased by $98 million for FY 2008-09.

- Most of the decrease in the **General Fund revenue** forecast resulted from a decrease in expectations for sales taxes, individual income taxes, and corporate income taxes. The General Fund revenue forecast was reduced 6.8 percent in FY 2008-09 since the September forecast. General Fund revenue in FY 2009-10 will see marginal growth at 0.7 percent, or a year-over-year increase of $47 million.

- **Cash Fund revenue** will increase 5.7 percent in FY 2008-09, but the forecast for FY 2008-09 is $98.4 million lower than September's projection. Of this decrease, $75 million is the result of lower-than-expected energy prices and a corresponding reduction in expectations for severance taxes. A slower economy than had been previously anticipated reduced forecasts for motor fuel taxes, vehicle registration fees, and unemployment insurance taxes. These reductions were partially offset by the addition of revenue from Mesa State College, which is now expected to temporarily lose its TABOR enterprise status this year.

- The current estimate for the amount of revenue that will be retained by the state during the **Referendum C time-out period** is $4.0 billion, down from $5.7 billion in the last forecast. 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. Fi-

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

		Preliminary FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
1	Beginning Reserve	$516.3	$325.4	$276.6	$277.8	$294.5
2	General Fund Nonexempt Revenue	6,571.3	6,850.5	7,260.8	7,357.9	7,703.8
3	General Fund Exempt Revenue	1,171.5	363.0	0.0	476.4	845.6
4	Senate Bill 97-1 Diversion to the HUTF	-238.1	0.0	0.0	-107.8	-245.8
5	Paybacks to Other Funds	0.0	-2.9	0.0	0.0	0.0
6	Sales Taxes to Older Coloradans Fund and OASMCF	-5.8	-8.8	-10.9	-10.9	-10.9
7	TABOR Surplus Liability (refunded in following year)	0.0	0.0	0.0	0.0	0.0
8	Total Funds Available	$8,015.4	$7,527.2	$7,526.6	$7,993.5	$8,587.3
	APPROPRIATIONS AND OBLIGATIONS:					
9	Allowable General Fund Appropriations /A	$7,087.8	$7,546.9	$7,329.9	$7,361.1	$7,802.8
10	*Available revenue will restrict allowable appropriations by:*	*0.0*	*-631.9*	*-385.5*	*0.0*	*0.0*
11	**Actual Appropriations**	$7,087.8	$6,915.0	$6,944.4	$7,361.1	$7,802.8
12	Exceptions From the Appropriations Limit	31.9	0.0	0.0	0.0	0.0
13	Rebates and Expenditures	173.8	183.5	191.9	218.6	209.3
14	Reimbursement for Senior and Disabled Veterans Property Tax Cut	79.8	85.2	91.4	97.6	103.4
15	Funds in Prior Year Excess Reserve to HUTF	166.2	27.9	0.0	0.0	0.0
16	Funds in Prior Year Excess Reserve to Capital Construction	83.1	14.0	0.0	0.0	0.0
17	Capital Construction Transfer	93.7	24.9	21.1	21.8	20.2
18	Accounting Adjustments	-26.3	NE	NE	NE	NE
19	Total Obligations	$7,690.0	$7,250.5	$7,248.8	$7,699.0	$8,135.7
20	**YEAR-END GENERAL FUND RESERVE**	$325.4	$276.6	$277.8	$294.5	$451.6
21	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	283.5	276.6	277.8	294.4	312.1
22	**GENERAL FUND EXCESS RESERVE**	$41.9	$0.0	$0.0	$0.0	$139.5
	TABOR RESERVE REQUIREMENT:					
23	General & Cash Fund Emergency Reserve Requirement	$300.0	$287.5	$283.2	$306.8	$331.6
24	Appropriations Growth	$433.1	-$204.7	$29.4	$416.7	$441.7
25	Appropriations Growth Rate	6.48%	-2.88%	0.43%	6.00%	6.00%
26	Addendum: Amount Directed to State Education Fund	$407.9	$379.3	$379.9	$416.1	$462.2

Totals may not sum due to rounding.

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	$1,171.5
2008-09	$363.0
2009-10	$0.0
2010-11	$476.4
2011-12	$845.6

nally, 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.

- The current four-year forecast period extends two years beyond the time-out period associated with Referendum C. We are not currently projecting a **TABOR refund** in FY 2010-11 or FY 2011-12, two years after the end of the Referendum C time-out period. Table 3 shows TABOR revenue, the estimated TABOR limit, the voter-approved revenue retained under Referendum C, and the revenue projected to be refunded to taxpayers in the four-year forecast horizon.

National Economy

The national economy entered a recession in December 2007. As the economy heads toward the close of the year, the recession appears to be gaining momentum. Employers have scaled back hiring and job losses continue to mount, retail spending is down, the housing industry continues to struggle, and the financial sector is reluctant to make credit available to consumers and businesses. Employment has declined in each month of 2008. In the fourth quarter of 2008, the decline in the nation's economy appears to be accelerating. The economy will shrink 1.4 percent in 2009. Once the uncertainties in the credit and financial markets are resolved, the economy will begin to rebound. This is expected to start in the second half of 2009.

Colorado Economy

The state has entered a recession as the financial crisis, housing market contraction, and slowdown in consumer spending have started to impact the state. Recent declines in sales tax collections and widespread job losses in September and October demonstrate that the state has entered a downturn. However, the state's relatively high income levels, economic diversity, and skilled and educated workforce indicate that Colorado may be able to weather the recession better than other areas of the nation. More stability in the financial markets and heightened business and consumer confidence will help the state recover toward the end of 2009 and in 2010. However, the state's downturn could persist into 2010 if the financial crisis and national recession last longer than expected.

Assessed Values

After increasing 20.6 percent during the two-year reassessment cycle ending in 2007, statewide **assessed values** will increase 7.4 percent during the two-year cycle ending in 2009, reaching $91.5 billion. Because of the downturn in the housing market and tightening credit conditions, *residential* assessed values will grow 1.7 percent between 2007 and 2009. *Nonresidential* assessed values will increase 12.4 percent in the two-year cycle ending in 2009, primarily because of increases in oil and natural gas values. The effects of the recession will impede growth in the subsequent two-year period, with assessed values increasing 6.0 percent. As a result of these changes, the **residential assessment rate** is expected to remain at 7.96 percent throughout the forecast period.

Kindergarten to Twelfth Grade Enrollment

Kindergarten through twelfth-grade public **school enrollment** will increase 1.4 percent in the state, or by 10,713 students between the 2008-09 and the 2009-10 school years. Over the next four years, enrollment will increase at an average annual rate of 1.4 percent and the state will gain 44,516 new students. The western, northern, and mountain regions will experience the fastest growth, while the slowest growth will occur in the eastern plains, Pueblo, and the San Luis Valley regions.

Juvenile and Adult Prison and Parole Populations

The **adult incarcerated prison population** is expected to increase from 22,989 in June 2008 to 25,558 in June 2012, or by 2,569 inmates. This represents an average annual growth of 2.7 percent, or about 642 inmates per year. The **in-state parole population** is projected to increase from 8,783 in June 2008 to 10,635 in June 2012, growing at an average annual rate of 4.8 percent. The total number of parolees (those supervised in-state and out-of-state) is expected to increase from 11,511 to 13,777 during the four-year forecast period.

The **juvenile commitment population** is expected to decrease from an average daily population of 1,286 in FY 2007-08 to 1,206 in FY 2008-09. By FY 2011-12, the commitment population will fall to 1,076 juveniles, representing an average annual decline of 4.4 percent.

Table 3
December 2008 Forecast for the TABOR Revenue Limit and Retained Revenue

(Dollars in Millions)

		Preliminary FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
	TABOR Revenue:					
1	General Fund /A	$7,746.0	$7,199.4	$7,246.8	$7,820.4	$8,535.5
2	Cash Funds	2,254.6	2,382.3	2,192.3	2,406.7	2,519.1
3	**Total TABOR Revenue**	**$10,000.6**	**$9,581.7**	**$9,439.2**	**$10,227.1**	**$11,054.6**
	Revenue Limit					
4	Allowable TABOR Growth Rate	5.6%	4.2%	5.0%	3.3%	4.7%
5	Inflation (from prior calendar year)	3.6%	2.2%	3.0%	1.8%	2.8%
6	Population Growth (from prior calendar year)	2.0%	2.0%	2.0%	1.5%	1.9%
7	Allowable TABOR Limit /B	$8,829.1	$9,218.8	$9,619.4	$9,750.7	$10,209.0
8	Voter Approved Revenue Change (Referendum C)	$1,171.5	$363.0	$0.0	$476.4	$845.6
9	Total Allowable Revenue	NA	NA	NA	$11,302.6	$11,833.9
	Retained/Refunded Revenue					
10	Retained Revenue (General Fund Exempt)	$1,171.5	$363.0	$0.0	$476.4	$845.6
11	Revenue to be Refunded to Taxpayers	$0.0	$0.0	$0.0	$0.0	$0.0

Totals may not sum due to rounding.

/A These figures differ from the General Fund revenues reported in other tables because they net out revenue that is already in the cash funds to avoid double counting.

/B The TABOR Limit was adjusted for changes in TABOR enterprise status in FY 2007-08 and FY 2008-09.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 4 illustrates revenue collections for FY 2007-08 and projections for FY 2008-09 through FY 2011-12. The deteriorating national economy will cause the state's economy to contract as a result of ongoing difficulties in the housing and credit markets. The state had managed to remain resilient relative to the nation for much of 2008, but recent declines in jobs and shrinking sales tax revenue indicate that Colorado has entered a recessionary period.

In FY 2008-09, the General Fund revenue forecast is expected to fall $**529.3** million from the prior year. In FY 2009-10, revenue will grow 0.7 percent. Expectations for sales and income taxes were lowered throughout the period, primarily because of projected reductions in jobs in the last quarter of 2008 and most of 2009. A reduction in expectations for personal income throughout the forecast period lowered the revenue projections in the following three years.

After increasing 2.1 percent in FY 2007-08, **individual income taxes** will decrease 5.8 percent in FY 2008-09 and increase 1.7 percent in FY 2009-10. Individual income taxes will recover along with financial markets and the economy in FY 2010-11 and FY 2011-12, growing 9.8 percent and 11.9 percent, respectively.

The forecast for individual income taxes was reduced by $384.5 million in FY 2008-09 and more than $700 million in FY 2009-10 compared with the September forecast. Reduced expectations for taxes withheld from employee paychecks contributed to more than half of the decrease in the forecast. These taxes, which account for more than three quarters of total individual income taxes, will decline for most of 2009 as the economy contends with fewer jobs and weaker pay increases.

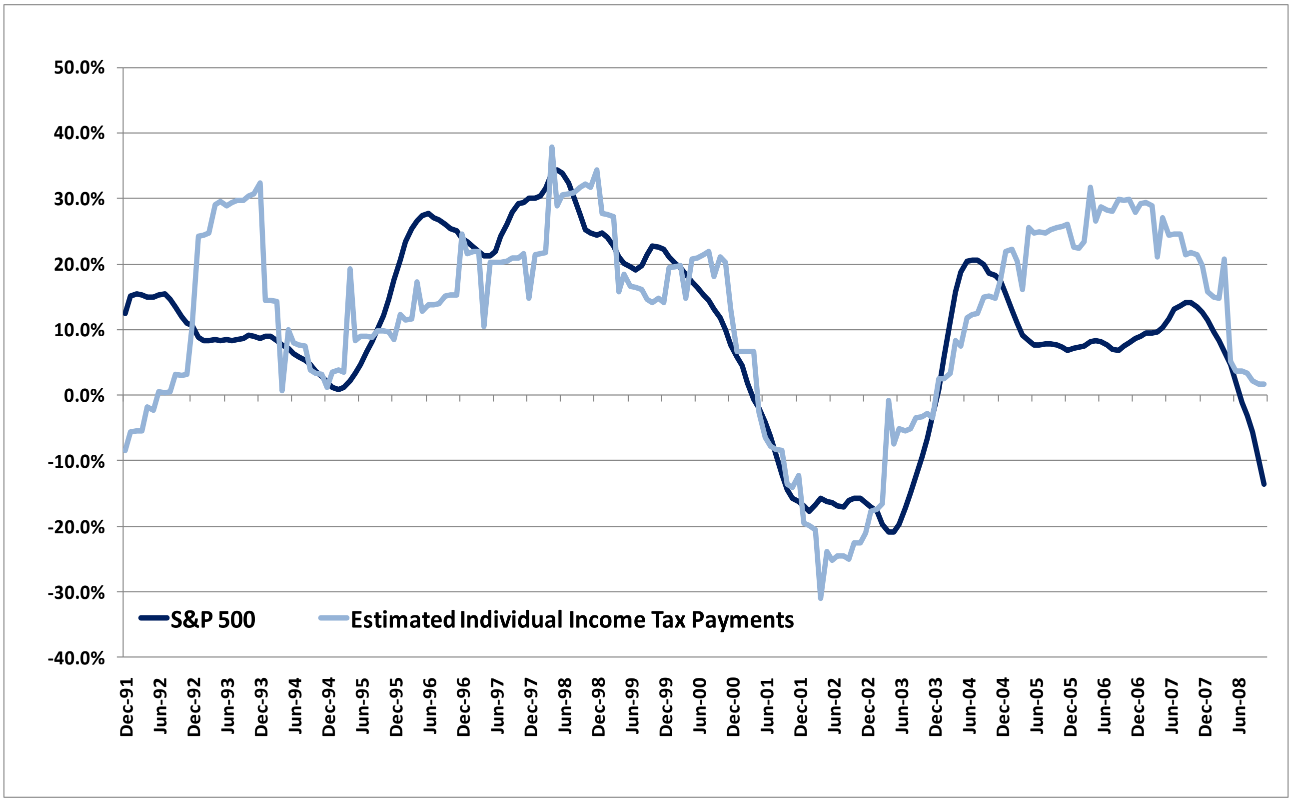
Reduced expectations for estimated individual income taxes contributed to most of the remainder of the reduction in the forecast. Estimated individual income taxes come from a variety of sources, the largest of which are capital gains, taxes from independent contractors and sole proprietorships, and rent and royalty payments. Estimated taxes from small businesses, rents, and royalty payments are expected to decrease in 2009 as the economy and tight credit inhibit small business, the turmoil in the housing market inhibits rents, and lower energy prices inhibit oil and gas royalty payments.

Taxes from capital gains in particular are the most volatile source of individual income taxes. After increasing nearly 250 percent between 1995 and 2000, they decreased 57 percent between 2000 and 2002, then increased again nearly 200 percent between 2002 and 2006. Taxes on capital gains represented 11.3 percent of individual income taxes in both 2000, the year before the last bear market, and 2006. These taxes are expected to fall off substantially in FY 2008-09 as a result of recent decreases in the stock market, but then recover sluggishly in FY 2009-10. Figure 1 compares growth on a 12-month moving average basis between the S&P 500 index and monthly estimated individual income tax payments since 1991.

Two bills passed during the 2008 session also contributed to the decrease in income tax collections. The extension of the child care and historic preservation tax credits reduced projections by a total of $20.3 million a year.

The forecast for **corporate income taxes** was reduced in the current and subsequent fiscal years because of an anticipated drop in corporate profits in the near term. Declining demand for goods and services domestically and internationally will constrain sales growth and squeeze profit margins. In addition, the federal stimulus package passed in the

Figure 1
The Stock Market and Estimated Individual Income Tax Payments
12-Month Moving Average



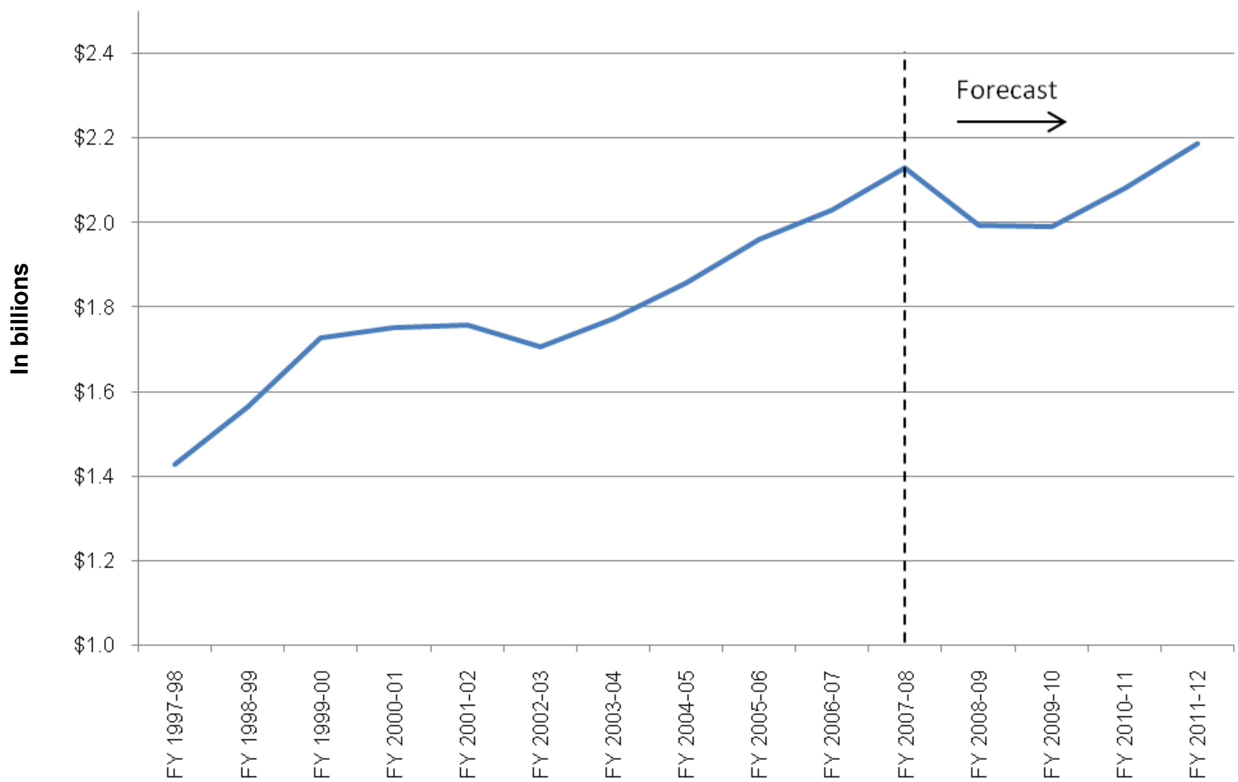
spring of 2008 is expected to cost the state about $28.5 million in corporate income taxes in FY 2008-09. The federal tax package will reduce federal taxable income by providing higher depreciation allowances and expensing limits for corporations that purchase capital equipment in 2008. In FY 2008-09, corporate income taxes are expected to total $392.9 million, down 22.6 percent from the prior year.

In FY 2009-10, corporate income taxes are projected to fall to $356.5 million, a decrease of 9.3 percent from the prior year. Although the expiration of the 2008 federal stimulus package will push corporate income taxes higher, the full impact of the national and state recession will constrain profits and income tax collections.

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 $407.9 million in FY 2007-08, it will receive $379.3 million in FY 2008-09 and $379.9 million in FY 2009-10.

Sales tax revenue growth began to slow at the end of 2007 and has continued to weaken through 2008. Much of the weakness in 2008 can be attributed to the fact that the state sales tax does not apply to food bought at grocery stores and gasoline purchases, which accounted for more of a household's budget during the summer because of higher food and gas prices. Despite the recent decline in gas prices, an overall pullback in all types of

Figure 2
State Sales Tax Collections, Actual and Forecast
From FY 1997-98 to FY 2011-12
(in billions)



spending due to the poor economy will cause sales tax revenue to decline through much of 2009. The drop in automobile purchases and other durable goods, which account for about a quarter of sales tax collections, will particularly depress tax revenue.

The forecast for sales tax revenue for FY 2008-09 was lowered by $108 million, or about 5 percent due to the recent deterioration in the state's economy. The forecast for FY 2009-10 was also lowered due to recent data showing the state has entered a recession. Sales tax revenue will decrease 6.4 percent in FY 2008-09 and then decline slightly again (0.2 percent) in FY 2009-10.

Figure 2 shows the history and forecast for state sales tax revenue, which comprises about 28 percent of state General Fund revenue. Sales tax revenue is expected to decline more significantly than during the prior recession as consumers are unable to rely on home equity loans and other borrowing to sustain spending. The decline in wealth for consumers, higher unemployment, and an increase in consumer savings will reduce state sales tax revenue.

In addition to the retrenchment in consumer spending, weak business spending due to tight credit markets and uncertainty over the economy will negatively impact sales tax revenue as business spending contributes around 40 percent to state sales tax collections. It is likely to be a slow recovery for both consumer and business spending as households and firms pay down debt and credit remains difficult to access.

Use tax revenue is expected to also suffer during the recession. The tax is mostly paid by businesses and revenue will decline with the drop in business investment and spending due to low confidence and tight credit markets. Although use tax revenue has held up relatively well amid the downturn in the economy, the forecast for FY 2008-09 was lowered by $9 million. Use tax revenue is expected to decline by 4.3 percent in both FY 2008-09 and FY 2009-10.

Table 4
December 2008 General Fund Revenue Estimates
(Dollars in Millions)

Category	Preliminary 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	$2,126.9	4.9	$1,991.4	-6.4	$1,988.0	-0.2	$2,079.1	4.6	$2,185.8	5.1
Use	191.3	5.4	183.1	-4.3	175.3	-4.3	179.6	2.4	187.6	4.5
Cigarette	45.2	-4.0	45.8	1.2	45.4	-0.8	44.9	-1.0	44.3	-1.3
Tobacco Products	12.4	-4.4	14.2	14.2	14.3	0.8	14.6	2.1	15.0	3.2
Liquor	35.7	5.0	36.1	1.2	37.9	4.8	38.4	1.3	39.0	1.6
TOTAL EXCISE	$2,411.5	4.7	$2,270.6	-5.8	$2,260.9	-0.4	$2,356.5	4.2	$2,471.7	4.9
Net Individual Income	$4,973.7	2.1	$4,684.3	-5.8	$4,764.8	1.7	$5,230.6	9.8	$5,850.8	11.9
Net Corporate Income	507.9	2.0	392.9	-22.6	356.5	-9.3	389.2	9.2	404.4	3.9
TOTAL INCOME TAXES	$5,481.6	2.1	$5,077.3	-7.4	$5,121.3	0.9	$5,619.8	9.7	$6,255.2	11.3
Less: Portion diverted to the State Education Fund	-407.9	3.2	-379.3	-7.0	-379.9	0.2	-416.1	9.5	-462.2	11.1
INCOME TAXES TO GENERAL FUND	$5,073.7	2.0	$4,698.0	-7.4	$4,741.4	0.9	$5,203.7	9.8	$5,793.1	11.3
Insurance	187.8	4.7	188.0	0.1	194.7	3.5	201.4	3.5	208.2	3.3
Pari-Mutuel	2.7	-9.2	0.6	-77.5	0.4	-32.1	0.4	-3.4	0.4	-3.4
Investment Income	17.9	-36.5	9.1	-49.0	22.8	150.2	49.1	115.2	52.6	7.0
Court Receipts	29.6	3.0	25.1	-15.1	18.1	-27.9	0.3	-98.6	0.3	4.7
Gaming	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	19.5	16.9	22.0	12.6	22.6	2.8	22.9	1.5	23.3	1.5
TOTAL OTHER	$257.6	-1.9	$244.8	-5.0	$258.6	5.6	$274.1	6.0	$284.6	3.8
GROSS GENERAL FUND	**$7,742.8**	**2.7**	**$7,213.4**	**-6.8**	**$7,260.8**	**0.7**	**$7,834.3**	**7.9**	**$8,549.5**	**9.1**
REBATES & EXPENDITURES:										
Cigarette Rebate	$12.7	-3.9	$13.4	5.4	$13.3	-0.8	$13.1	-1.0	$13.0	-1.3
Old-Age Pension Fund	99.0	10.1	113.3	14.4	122.6	8.2	132.6	8.2	143.6	8.3
Aged Property Tax & Heating Credit	10.4	24.1	11.0	6.1	10.5	-4.7	9.9	-6.0	9.3	-6.0
Interest Payments for School Loans	11.9	12.2	6.1	-49.0	15.2	150.2	32.6	115.2	34.9	7.0
Fire/Police Pensions	38.8	0.1	38.8	0.0	29.3	-24.4	29.3	0.0	7.5	-74.3
Amendment 35 GF Expenditures	1.0	-1.3	1.0	-1.0	1.0	-1.2	1.0	0.2	1.0	-1.3
TOTAL REBATES & EXPENDITURES	$173.8	7.4	$183.5	5.6	$191.9	4.5	$218.6	13.9	$209.3	-4.2

Totals may not sum due to rounding.

Cash Fund Revenue

Table 5 summarizes the forecast for revenue to cash funds subject to the TABOR spending limit. Total revenue will increase 5.7 percent in FY 2008-09 after increasing 6.9 percent in FY 2007-08. Part of the increase in FY 2007-08 is a result of the addition of revenue to Western and Mesa State colleges to TABOR revenue because the schools temporarily lost enterprise status in FY 2007-08. Had these two colleges not disqualified for enterprise status, revenue to cash funds subject to TABOR would have increased 5.1 percent in FY 2007-08. Strong growth in oil and gas severance taxes also contributed to cash fund revenue growth in FY 2007-08.

The forecast for cash fund revenue was decreased by $98.4 million in FY 2008-09 compared with the September forecast. Of this decrease, $75 million is the result of a reduced forecast for severance taxes due to lower-than-expected energy prices. A slower economy than had been previously anticipated reduced forecasts for motor fuel taxes, vehicle registration fees, and unemployment insurance taxes. These reductions were partially offset by the addition of revenue from Mesa State College, which is now expected to temporarily lose its TABOR enterprise status this year. Expectations for most major sources of cash fund revenue, including motor fuel taxes, vehicle registration fees, gaming taxes, severance taxes, and unemployment taxes were also reduced for FY 2009-10. The forecast for cash fund revenue was reduced by a total of $218.5 million over the four -year forecast period compared with the prior forecast.

Revenue to the ***transportation-related*** cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and several smaller cash funds, will decrease 4.9 percent in FY 2008-09 after increasing 4.5 percent last year, and will grow at an annual average rate of 0.4 percent over the four-year forecast period. Motor fuel taxes, which are major contributors to the decline, will fall 3.0 percent in FY 2008-09 and will drop an additional 1.9 percent in FY 2009-10 before increasing over the remainder of the forecast period. Registration fee revenue will increase only slightly at 0.6 percent in FY 2008-09, but will continue to rise at modest rates between 1.0 percent and 2.3 percent through FY 2011-12.

Fuel prices have been very volatile over the last two years, plummeting to levels not seen since December 2003 after rising to record levels during the summer of 2008. Although lower prices would normally lead to a higher use of fuel by both individuals and businesses, the slowdown in the national economy has all users reducing demand for automobile use and fuel, resulting in decreasing motor fuel taxes and vehicle registrations. Motor fuel tax and vehicle registration fee revenue will gradually improve as the economy slowly recovers and credit flows are restored.

Total ***unemployment insurance*** (UI) revenue, which includes UI taxes and interest earnings, will increase 14.4 percent in FY 2008-09 and 0.7 percent in FY 2009-10. Slow employment and wage growth are responsible for the marginal increase in FY 2009-10. Meanwhile, benefits payments will accelerate in FY 2008-09 as a result of job layoffs and will continue to increase in FY 2009-10 until the economy stabilizes. Lower revenue combined with increased benefit payments will put enough downward pressure on the balance of the Unemployment Insurance Trust Fund to require the solvency tax to continue to be collected through the remainder of the forecast period. In addition, tax rates are expected to adjust upward in 2010 and 2011 as a result of elevated benefit payments. This and the continued collection of the solvency tax will allow the fund to remain solvent. The fund balance will grow at an average annual rate of 3.4 percent over the forecast period.

Table 5
Cash Fund Revenue Estimates by Category, December 2008
(Dollars in Millions)

	Preliminary FY 07-08	Estimate FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12	FY 07-08 to FY 11-12 CAAGR *
Transportation-Related	**$920.7**	**$875.9**	**$892.9**	**$925.5**	**$937.0**	
% Change	4.5%	-4.9%	1.9%	3.6%	1.2%	**0.4%**
Unemployment Insurance	**$426.6**	**$488.2**	**$491.4**	**$530.0**	**$555.1**	
% Change	0.3%	14.4%	0.7%	7.9%	4.7%	**6.8%**
Employment Support Fund	**$21.5**	**$22.2**	**$23.4**	**$23.8**	**$24.4**	
% Change	-3.7%	3.2%	5.3%	1.8%	2.8%	**3.3%**
Severance Tax	**$170.1**	**$238.3**	**$77.6**	**$171.4**	**$208.3**	
% Change	17.2%	40.1%	-67.4%	120.8%	21.5%	**5.2%**
Limited Gaming Fund	**$113.6**	**$94.3**	**$97.9**	**$102.9**	**$108.3**	
% Change	-3.6%	-17.0%	3.8%	5.1%	5.3%	**-1.2%**
Insurance-Related	**$64.7**	**$53.3**	**$54.3**	**$57.6**	**$61.3**	
% Change	-2.1%	-17.6%	1.7%	6.2%	6.3%	**-1.4%**
Regulatory Agencies	**$57.3**	**$59.4**	**$58.7**	**$59.8**	**$61.3**	
% Change	12.8%	3.6%	-1.1%	1.8%	2.5%	**1.7%**
Capital Construction - Interest /A	**$19.3**	**$8.1**	**$2.8**	**$3.6**	**$3.7**	
% Change	29.2%	-58.1%	-65.4%	29.0%	1.9%	**-33.9%**
Other Cash Funds /B	**$460.8**	**$542.8**	**$493.4**	**$532.1**	**$559.7**	
% Change	19.3%	17.8%	-9.1%	7.8%	5.2%	**5.0%**
Total Cash Fund Revenue	**$2,254.6**	**$2,382.3**	**$2,192.3**	**$2,406.7**	**$2,519.1**	
Subject to the TABOR Limit	**6.9%**	**5.7%**	**-8.0%**	**9.8%**	**4.7%**	**2.8%**

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 Mesa and Western State colleges in FY 2007-08 and to Mesa, Fort Lewis, and Adams State colleges in FY 2008-09.

The forecast for ***severance taxes***, including interest earnings, was reduced by $368.8 million over the four-year forecast period. The decline results from decreased economic activity both nationally and globally that is driving a reduction in energy consumption and prices. Revenue in FY 2008-09 is projected to total $238.3 million, which is $75.3 million lower than the September forecast. This decrease is entirely attributed to the unexpected drop in natural gas prices in the fall. However, the FY 2008-09 amount still represents a 40.1 percent increase from FY 2007-08, mostly due to the high values of natural gas through the summer of 2008.

The price of natural gas increased substantially through the summer because of high oil prices and lower imports of liquified natural gas. In addition, the first segment of the Rockies Express pipeline opened in 2008 and pushed prices higher as Colorado producers were able to sell more of their natural gas on the national market. However, the sharp drop in oil prices and the weakening in the economy since the summer has lowered natural gas prices. Industrial production — which accounts for around 30 of percent natural gas consumption in the U.S. — has dropped dramatically in recent months due to the recession.

Natural gas prices are projected to average about $7.00 per thousand cubic feet (Mcf) in 2008 and drop to $4.33 per Mcf in 2009 — a 38 percent decline — in response to the recession, strong production in 2008, and continued low oil prices. Lower prices, credit market problems, and an overall slowdown in economic activity, are causing energy producers in the western slope area of the state to scale back drilling plans for 2009. Production in this area is particularly sensitive to price movements because it is more expensive to operate there.

The decline in natural gas prices combined with increased tax credits for property taxes related to oil and gas production will significantly reduce revenue in FY 2009-10. In FY 2009-10, severance taxes are projected to drop to $77.6 million, a decrease of 67.4 percent. In the following two fiscal years, severance taxes are expected to grow to $171 million and $208 million as natural gas prices and consumption rebound with an economic recovery. Also, the second segment of the Rockies Express pipeline is expected to open at the end of 2009 which will help bolster prices for Colorado producers.

The deteriorating economy and other factors are causing **gaming revenue** to experience its worst decline since Colorado limited gaming began in 1991. After decreasing 3.6 percent in FY 2007-08, total gaming revenue, which includes taxes, fees, and interest earnings, will decrease another 17.0 percent in FY 2008-09. High gas prices in the second and third quarters of 2008 and the deteriorating economy are the primary drivers of the drop. In addition, the smoking ban that took effect in January may also be adding to the downward trend but this could be offset by increases in visits by nonsmokers. Gaming revenue will stabilize in FY 2009-10 and grow slowly in subsequent years as the economy improves.

A relatively minimal part of the FY 2008-09 decline can be attributed to a change in the gaming tax structure, which will reduce taxes for casinos with $4.0 million to $15.0 million in adjusted gross proceeds. This tax change is mainly impacting medium-sized gaming establishments.

Gaming revenue transfers and the budget. The December General Fund revenue forecast indicates that revenue will be insufficient to increase General Fund appropriations by the 6 percent limit during FY 2008-09 and FY 2009-10. Current law provides the Joint Budget Committee authority to run a bill to reduce the transfer of gaming revenue to certain state economic development programs that occurs at the end of each fiscal year if the March forecast indicates that revenue will not be sufficient to allow for 6 percent appropriations growth. Reducing these transfers of gaming revenue would provide additional revenue to the General Fund. These programs, which include film incentives, new jobs incentives, tourism promotion, and the State Council on the Arts are projected to receive $26.6 million in gaming revenue at the end of FY 2008-09.

Current law also states that if legislation is not run to reduce the transfers to these programs and if the June revenue forecast indicates that the amount of General Fund revenue will be insufficient to allow for 6 percent appropriations growth, the state treasurer *must transfer* to the General Fund either the entire amount allocated to the aforementioned programs or the amount necessary to allow for 6 percent appropriations growth, whichever is less.

In addition to the transfers to economic development-related programs, the annual transfer of gaming revenue to the Clean Energy Fund, which is administered by the Governor's Energy Office to fund energy efficiency and renewable energy projects, is subject to reduction by the state treasurer if the June revenue forecast indicates there is insufficient revenue to allow for 6 percent General Fund appropriations growth. However, it is important to note that the current gaming revenue forecast for FY 2008-09 indicates that there will be insufficient revenue to fund all of the transfers of gaming revenue, as well as the transfers to the State Highway Fund, and the Bioscience Discovery Evaluation Cash Fund. Thus, there may not be any gaming revenue to transfer to the Clean Energy Fund at the end of this fiscal year since this fund receives the remaining amount of gaming revenue after all the other transfers are made. It is currently projected that gaming revenue will be about $4.2 million below the amount needed to fund all the transfers.

Amendment 50, passed by voters in November, will increase gaming revenue during the next few years. The measure authorizes the three gaming towns to hold elections to decide whether bet limits can be raised from $5 to $100, whether casinos can stay open 24 hours per day, and whether to add craps and roulette to the current mix of games. Black Hawk plans a vote on January 13, 2009 and Central City will hold an election on January 20, 2009. Cripple Creek voters approved the changes on December 16. The changes will take effect on July 1, 2009.

All ***other cash fund revenue*** subject to TABOR will increase 10.0 percent in FY 2008-09 and at an annual rate of 3.3 percent over the forecast period. The temporary loss of TABOR enterprise status by Adams State College, Mesa State College, and Fort Lewis College will increase revenue to these funds by a total of $57.5 million in FY 2008-09. Mesa and Western State Colleges lost their enterprise status for FY 2007-08. If you exclude these higher education institutions, revenue to this group of cash funds will increase 7.3 percent in FY 2008-09.

A total of $96.0 million of revenue to other cash funds between FY 2007-08 and FY 2011-12 is the result of 26 bills that either created or increased fees passed during the 2007 legislative session. The 2008 session produced 44 bills that increased revenue collected through fees and fines by a total of $146.3 million between FY 2008-09 through the end of the forecast period. The largest of these bills include **SB 08-206**, which phases in increases in civil and county court filing fees over a three-year period. Fees will increase by $11.8 million in FY 2008-09, $12.7 million in FY 2009-10, and $14.4 million in FY 2010-11 and thereafter. Pending approval by the federal government, **HB 08-1114** will increase revenue by $6.0 million in FY 2007-08, $10.3 million in FY 2009-10, and $13.0 million in FY 2010-11 and thereafter by creating a quality assurance fee for nursing homes. **SB 08-60** creates a mandatory biannual fee from automobile insurance providers of fifty cents for every vehicle they insure, increasing revenue by $4.3 million each year. Also of note, **SB 08-55** increases fees on ozone-depleting appliances and other pollution sources by $1.8 million each year.

Federal Mineral Leasing 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. Table 6 presents the December 2008 forecast in comparison with September 2008. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment to the State Constitution, the forecast is presented separately from other sources of state revenue. The current forecast for FML revenue includes bonus payments as well as royalties and rents.

FML revenue has grown from $50 million in FY 2002-03 to $154 million in FY 2007-08. Similar to the forecast for severance taxes, FML revenue is expected to grow in FY 2008-09 because of strong price increases for natural gas during the first eight months of 2008. In addition, FML revenue in FY 2008-09 is being bolstered by one-time money from the auction of federal land on the Roan Plateau in western Colorado for mineral leasing and production. This generated one-time bonus payments of about $114 million, of which the state received $56 million in November. FML revenue is expected to come in at $297 million in FY 2008-09. The September forecast estimated that the state would receive the $56 million from the Roan Plateau auction in FY 2009-10, not FY 2008-09. This contributes to the disparity between the December and September forecasts in those fiscal years.

Table 6
Federal Mineral Leasing Revenue Distributions
(millions of dollars)

Year	Dec-08	% Chg.	Sept-08	% 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*	$153.6	25.0%	$153.6	
FY 2008-09	$296.6	93.1%	$223.4	32.8%
FY 2009-10	$174.9	-41.0%	$300.9	-41.9%
FY 2010-11	$200.1	14.4%	$265.4	-24.6%
FY 2011-12	$227.1	13.5%	$288.9	-21.4%

**Actual revenue distributed.*

As with severance tax revenue, FML revenue in FY 2009-10 will drop due to the weakness in natural gas prices and consumption during the recession. However, the reduction will not be as pronounced because no corresponding tax credit exists for producers to offset their FML royalty liability. It is expected that FML revenue will come in at $175 million in FY 2009-10. Revenue in this fiscal year is not expected to be bolstered by increased production on federal lands on the Roan Plateau due to the phase-in nature of the production and because of expected cuts in drilling plans by producers in the area. FML revenue is expected to resume growth in the latter two years of the forecast as the economy recovers and energy prices increase.

It should also be noted that the FML projections take into account the federal government's decision to reduce 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. The forecast anticipates that this reduced share will apply throughout the forecast period.

Finally, Senate Bill 08-218 establishes a new distribution mechanism for FML revenue effective July 1, 2008. The bill modifies the allocation of the state's portion of FML revenue in several ways. First, the bill segregates FML bonus revenue and provides for reallocation of these moneys. Second, the bill specifies the reallocation of non-bonus (rent and royalty) FML revenue and it creates a new Higher Education FML Revenues Fund and a new Higher Education Maintenance and Reserve Fund. Bonus payments from the Roan Plateau will be subject to the new distribution mechanism specified in the bill.

It is important to note that a provision in SB 08-218 allows the General Assembly to use the principal in the Higher Education Maintenance and Reserve Fund when there is insufficient General Fund revenue to allow the state to maintain its required 4 percent reserve. Normally, only interest and income earned from the principal of the fund can be used for higher education-related controlled maintenance projects. However, if the trigger in SB 08-218 is met, the fund's principal can be used to offset any reduction in General Fund appropriations for the operating expenditures of the state's institutions of higher education due to the insufficiency of General Fund revenue. This forecast finds that there is insufficient General Fund revenue to allow the state to maintain its required 4 percent reserve.

National Economy

The national economy is mired in a recession that may extend well into 2009 and be worse than the 1981-82 downturn. The National Bureau of Economic Research (NBER) recently determined that the nation's economy slipped into a recession in December 2007. NBER made the determination on the nation's economic health by focusing on changes in industrial production, employment, total sales, and personal income.

As the economy heads toward the close of the year, many sectors in the economy are deteriorating. Employers have scaled back hiring as job losses continue to mount, retail spending is down, the housing industry continues to struggle, and the financial sector is reluctant to make credit available to consumers and businesses. The strategic goal for the nation's policymakers as we approach 2009 will be to use monetary and fiscal policy to buoy consumer confidence and promote jobs.

For the third quarter of 2008, the Bureau of Economic Analysis indicated that the economy declined 0.5 percent after growing 2.8 percent in the second quarter as measured by real **gross domestic product** (GDP). This followed sluggish first quarter growth of 0.9 percent and a decline of 0.2 percent for the fourth quarter of 2007.

The decrease in real GDP in the third quarter was primarily driven by a decline in consumer spending, most notably on durable goods and automobiles, home building, and business spending on equipment and software. The decline was partially offset by government spending, exports, and contributions from private inventory investment and nonresidential construction.

Consumer spending decreased 3.7 percent in the third quarter after growing 1.2 percent in the second quarter. Nonresidential construction decreased 1.5 percent, compared with an increase of 2.5 percent in the prior quarter. Home construction decreased 17.6 percent, compared with a decrease of 13.3 percent in the second quarter.

Residential housing continues to be extremely weak. Home building permits in October were at a seasonally adjusted annual rate of 708,000, which was 12 percent below the prior month's rate (805,000) and 40.1 percent below October 2007 levels. The U.S. Commerce Department reported that builders broke ground on 791,000 housing units in October, down 38 percent from the prior year level. Single-family home construction declined 39.9 percent over this same time period from 884,000 home starts in October 2007 to 531,000 units in October 2008.

Along with housing starts, existing-home sales, including single-family, townhomes and condominiums, declined 3.1 percent in October from the prior month and posted a 1.6 decline below the level in October 2007. Many potential new buyers are withdrawing from the housing market as the stock market has declined significantly and economic conditions continue to deteriorate.

The number of existing homes for sale at the close of October declined 0.9 percent to 4.23 million, which represents a 10.2 month supply at the current selling pace — up from a 10-month supply in September. The national median price for all housing was $183,900, down 11.3 percent from the prior year when the median was $206,700, according to the National Association of Realtors.

On the **employment** front, the national economy lost 533,000 jobs in November — the biggest one-month job decline since December 1974. November's job losses followed declines of 403,000 jobs in September and 320,000 in October. Job losses were spread across many industries. Employment declines continued in manufacturing, professional and business services, and construction. Within the professional and business sectors, 10,000 high-paying jobs were lost in the architectural and engineering services sectors. Since peaking in September 2006, the construction industry has lost 780,000 jobs as a result of the contraction in the housing sector. In November, the specialty trade contractors sector shed 50,000 jobs.

Since the recession officially began in December 2007, total nonfarm jobs have fallen by 1.9 million, with two-thirds of these losses occurring in the last three months. Manufacturing employment has declined by 604,000 jobs since December 2007, while professional and business services jobs are down by 495,000.

Employment in retail trade plunged by 91,000 jobs in November as consumers have sharply curtailed their spending. The automobile industry was particularly hard hit as U.S. auto sales plunged 37 percent in November to their worst level in more than 26 years. Automobile dealerships shed 24,000 jobs in November and the industry has lost 115,000 jobs since December 2007 with much of the decrease occurring in the last two months. The leisure and hospitality industry lost 76,000 jobs in November with most of the job cuts occurring in the accommodations and food service industry.

One industry that has not lost jobs is health care. Health care employment continued to grow in November, adding 34,000 jobs. Over the past 12 months, this industry has added 369,000 jobs to the nation's economy. It is likely that the nation's aging population is driving job growth through increasing health care needs.

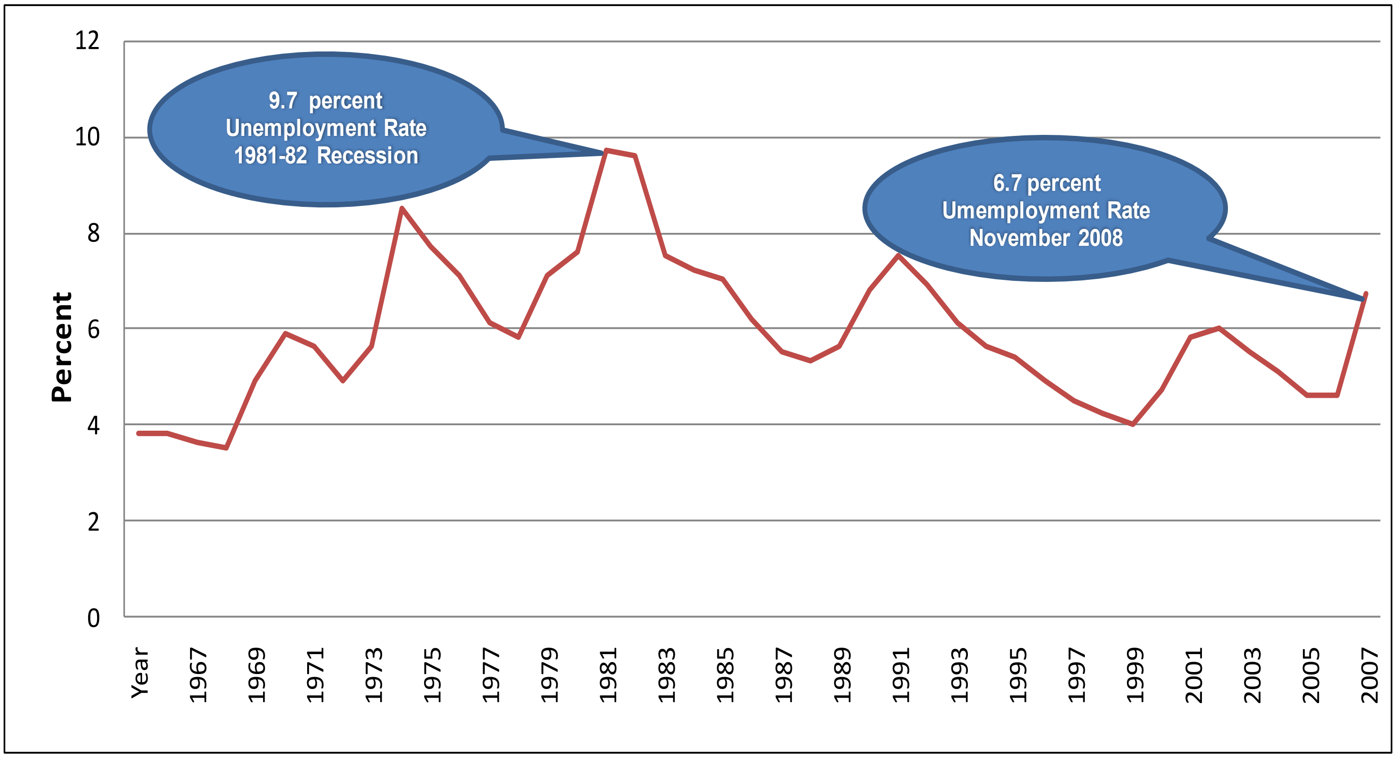
The **unemployment rate** rose from 6.5 percent in October to 6.7 percent in November as the number of unemployed increased to 10.3 million. Since the start of the recession, the number of unemployed has increased by 2.7 million and the unemployment rate has risen by 1.7 percentage points. The number of long-term unemployed (those jobless for 27 weeks or more) was unchanged in November at 2.2 million but was up by 822,000 over the past year.

There are also mounting concerns about the nation's faltering auto industry. The industry has been hard-hit by the recession and General Motors recently indicated that it needs $4 billion in December and a total of $12 billion by March 2009 to keep operating. Bankruptcy of General Motors and other automakers will add to the growing number of unemployed workers. A restructuring of any of the large automakers will affect auto manufacturing workers directly and will have a ripple-effect on workers throughout the auto parts and secondary markets that service the auto industry. If widespread layoffs occur, the unemployment rate could exceed the 9.7 percent high seen during the 1982 recession. Figure 3 shows the history of unemployment rates from 1966 through October 2008.

The nation's **manufacturing** sector continues to contract. New orders for manufactured goods were down for the third consecutive month, with a 5.1 percent decrease in October, which followed a 3.1 percent decrease in September. Shipments were also down for three consecutive months, decreasing 3.2 percent in October. New orders for manufactured durable goods fell 6.9 percent in October. In addition, the number of unfilled orders for manufactured durable goods was down in October for the first time in 26 months, decreasing $5.1 billion, or 0.6 percent.

The Conference Board's **consumer confidence** index moved slightly upward in November to 44.9 after plunging in October to a record low of 38.8. The October low was the lowest level of confidence since the board

Figure 3
History of Unemployment Rates

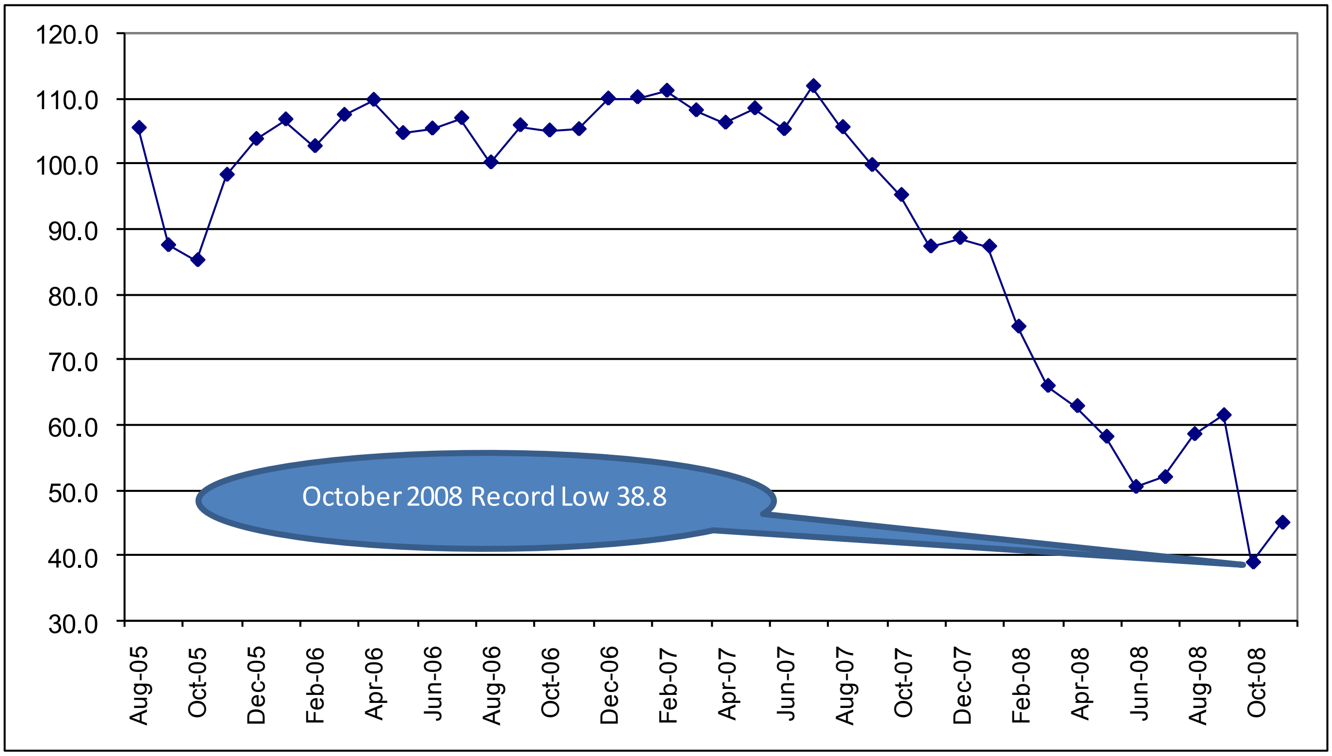


began collecting data in the 1960s. The ongoing low levels of consumer confidence are working to extend and deepen the nation's recession. Figure 4 shows a three-year history of the index. A significant drop in retail gas prices may be partially responsible for the recent upward movement in the index.

Consumer debt decreased slightly in October as the weak economy continued to affect household budgets. The decline in debt may be a reflection of the continuation of tight lending policies imposed upon some consumers by a cautious banking industry. The Federal Reserve indicated that consumer borrowing fell by $3.6 billion in October to $2.58 trillion. The annual rate of consumer borrowing fell 1.6 percent in October while growing 3.1 percent in September. The Federal Reserve reported that revolving credit, which includes credit card debt, declined 0.2 percent while non-revolving borrowing, including student and auto loans, fell $3.4 billion or 2.5 percent on an annual basis.

The rate of **inflation** decreased one percent in October following very little change in August and September. The decline in gas and energy prices is partially driving the decline in inflation and may be one benefit of the recession. The October decline was the largest one month decrease since the Bureau of Labor Statistics (BLS) began publishing seasonally-adjusted data in 1947. The decrease dropped the annual inflation rate to 3.7 percent. The decline was primarily due to declining energy, transportation, and apparel costs; gas is down 14.2 percent. The BLS reported that the energy index declined 8.6 percent in October following a 1.9 percent decline in September.

Figure 4
Conference Board's Consumer Confidence Index



In contrast, the food index increased 0.3 percent in October, a smaller advance than the average monthly increase of 0.7 percent during the June through September period. Compared with a year earlier, the food index was up 6.3 percent. The core rate of consumer inflation, less food and energy prices, decreased 0.1 percent in October to an annual rate of 2.2 percent above October 2007.

The role of the **Federal Reserve** is expanding as it finds news ways to lend to banking institutions to stabilize the nation's financial industries. The institution is pumping more money into the economy in order to help provide credit to businesses and consumers. The additional money is intended to invigorate the economy. Traditionally, as a lender of last resort, one role of the Fed was to prevent panic tied to failing banks. For the first time, however, the Federal Reserve is intervening to save failing investment banks. One bank, Bear Stearns, was helped by the Fed by arranging its merger with JP Morgan Chase. But as the growing credit crisis failed to abate, the Fed also began to acquire an ownership interest in exchange for federal money. More recently, the Fed acquired an 80 percent ownership stake in American International Group (A.I.G.) in exchange for initially lending it $85 billion to prevent it from going into bankruptcy.

As the Federal Reserve urgently looks for ways to fight the deepening recession, it recently cut its benchmark interest rate, the **Federal Funds** rate, to essentially zero percent. The federal funds rate is the rate at which banks lend overnight money to one another. This is the first time in the Fed's 95-year history that it created a target range for its funds rate, from 0.0 to 0.25 percent, down from the previous 1.0 percent rate.

Most of the national economic indicators in this section paint a bleak picture of the nation's economic health. Immediate concerns focus on the uncertainty tied to whether the Treasury and Federal Reserve can stabilize and jump-start a banking sector that is unwilling to lend money to businesses and consumers. The Treasury's capital purchase program known as the Troubled Asset Relief Program (TARP) is aimed at injecting money into the nation's banks, but it has not yet restored investor and consumer confidence. There are also mounting concerns about the nation's recent job losses and the potential for more lost jobs as the nation's auto industry falters.

The national economy is expected to see negative growth in the last half of 2008 and the first half of 2009. An economic recovery will occur only when banks begin to lend money more freely, investor and consumer confidence is restored, and there is a turn-around in the job markets. This is expected to happen in the last half of 2009.

The National Economic Outlook. This section presents the National forecast and the risks for the national economy. The detailed forecast can be found in Table 7.

- The nation's economy, as measured by real **GDP**, declined 0.5 percent during the third quarter of 2008 and is expected to fall 6.5 percent in the 4th quarter. For all of 2008, GDP is expected to increase 1.1 percent. GDP will decrease 1.4 percent in 2009.

- The consumer **inflation rate** will increase to 4.1 percent in 2008 and then drop to 2.1 percent in 2009. The inflation rate is expected to be lower as the effect of high energy prices in 2008 is reduced in 2009.

- **Personal income** growth is slowing as the nation sheds jobs. Personal income is projected to increase 4.3 percent in 2008 and 2.3 percent in 2009. Similarly, wage and salary growth will grow 3.5 percent in 2008 and 2.2 percent in 2009.

- The **unemployment rate** will average 5.7 percent in 2008 and 8.0 percent in 2009. **Employment** is expected to decline slightly in 2008 after growing 1.1 percent in 2007. In 2009, employment will drop 1.4 percent.

Risks to the forecast. The national forecast could be worse than anticipated if the new lending activities by the **Federal Reserve** fall short or fail to stabilize the nation's banking industry and the Treasury's TARP does not work to restore investor and consumer confidence. In addition, the potential bankruptcy of any of the "big three" automakers could result in larger job losses than expected.

Table 7
National Economic Indicators, December 2008 Forecast
(Dollars in Billions)

	2002	2003	2004	2005	2006	2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Inflation-adjusted GDP	$10,048.8	$10,301.0	$10,675.8	$10,989.5	$11,294.8	$11,523.9	$11,650.7	$11,487.6	$11,809.2	$12,163.5	$12,516.2
percent change	1.6%	2.5%	3.6%	2.9%	2.8%	2.0%	1.1%	-1.4%	2.8%	3.0%	2.9%
Nonagricultural Employment (millions)	130.3	130.0	131.4	133.7	136.1	137.6	137.3	$135.4	$136.9	$138.9	$140.6
percent change	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.2%	-1.4%	1.1%	1.4%	1.2%
Unemployment Rate	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.7%	8.0%	7.6%	6.5%	6.2%
Personal Income	$8,872.9	$9,150.3	$9,711.4	$10,252.8	$10,977.3	$11,631.6	$12,131.7	$12,410.8	$13,056.1	$13,792.0	$14,536.8
percent change	1.8%	3.1%	6.1%	5.6%	7.1%	6.0%	4.3%	2.3%	5.2%	5.6%	5.4%
Wage and Salary Income	$4,976.5	$5,107.3	$5,388.7	$5,665.1	$6,020.7	$6,355.3	$6,577.7	$6,722.4	$7,065.3	$7,463.2	$7,866.1
percent change	0.7%	2.6%	5.5%	5.1%	6.3%	5.6%	3.5%	2.2%	5.1%	5.6%	5.4%
Inflation (Consumer Price Index)	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	4.1%	2.1%	3.0%	3.8%	4.5%

Colorado Economy

The state has entered a recession that began for the nation at the end of 2007. Although Colorado's economy has performed better than the nation's through much of 2008, the negative forces stemming from the financial crisis, housing market contraction, and slowdown in consumer spending have begun to impact the state. A reduction in credit availability and consumer and business confidence has stifled spending and investment in recent months. Table 8 shows the history and projections for Colorado's major economic indicators from 2000 through 2012.

Job Market

Larger job losses across several key industries and the weakening of the state's job market are evidence that the state has entered a recession. After adding jobs every month through August, the state began to lose jobs in September. The state lost 10,600 jobs in October, with the losses spread over many of the state's largest and most important industries. Figure 5 shows the change in the number of jobs in selected industries in the September and October period.

The large professional and business services sector, which includes a diverse set of fields, such as accounting, architecture, engineering, scientific research, and company headquarters, shed 5,400 jobs in September and October. These significant losses are worrisome because of the high wages the sector pays and because the losses indicate that weakness is occurring across the economy.

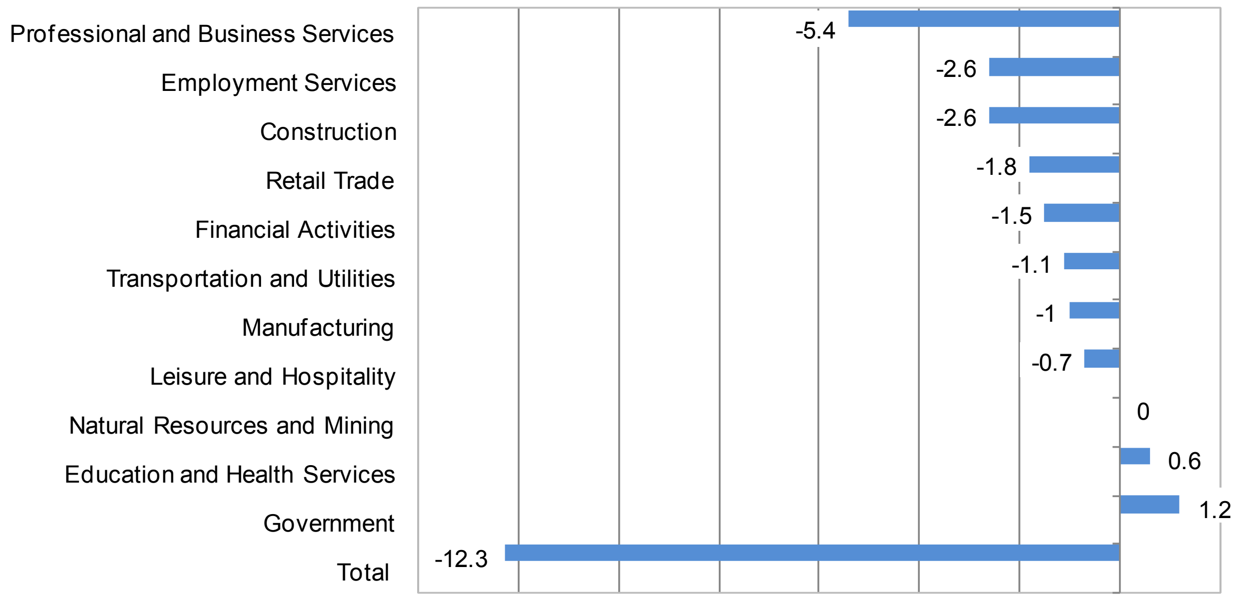
The job losses in the employment services industry, which is part of the professional and business services sector, is noteworthy. Most of the workers in this industry are temporary workers who are engaged in wide-ranging professions, such as administrative work, manufacturing, engineering, finance, and information technology. Job levels in the employment services industry are often a telling indicator of the future condition of the overall job market as companies tend to let temporary workers go before full-time employees if they need to cut costs. This appears to have occurred with the current economic slowdown as the job market for temporary workers weakened significantly beginning in May. Since then, 6,000 temporary jobs have been lost, which is a drop of 10 percent.

Even the natural resources and mining industry has weakened; the industry experienced a reduction of 100 jobs in October. Not surprisingly, given the problems in the housing market and financial system, jobs continue to be lost in the construction and financial activities industries. Also, retail trade jobs have been cut as a result of the pullback in spending. Two of the state's larger industries – education and health services and government – have held up so far. These two industries experienced job growth of 3.8 percent and 2.6 percent, respectively, through October. Changes in job growth in the government sector tend to lag those in the private sector; government jobs are expected to decline in 2009.

Another strong indicator of the weakening of Colorado's economy is the spike in the state's ***unemployment rate***. It was 5.7 percent in October, up from 3.9 percent last October. There were 155,800 unemployed workers in the state in October, up by 48,700 people since October 2007.

- **Employment** will grow 1.2 percent in 2008, down from 2.2 percent in 2007. The weakening of the state's economy due to the decline in economic activity across the nation, low business confidence, continued difficulty for many businesses to access the credit they need for expansion, and weak demand for goods and services will result in a 0.7 percent decline in jobs in 2009.

Figure 5
Job Losses/Gains in Selected Colorado Industries in September and October, 2008
(in thousands)



Source: Bureau of Labor Statistics

Figure 6 shows the projected percent change in jobs for selected industries in 2009. The state's job market should begin to recover toward the end of 2009 as financial markets begin to stabilize and consumer and business confidence improves. However, the rebound will be slow and employment will increase only 1.0 percent in 2010.

- The **unemployment rate** will average 5.2 percent in 2008 and increase to 6.3 percent in 2009. The rate in 2009 is expected to be the highest the state has experienced since the downturn that hit the state at the end of 1985.

Personal Income and Wages

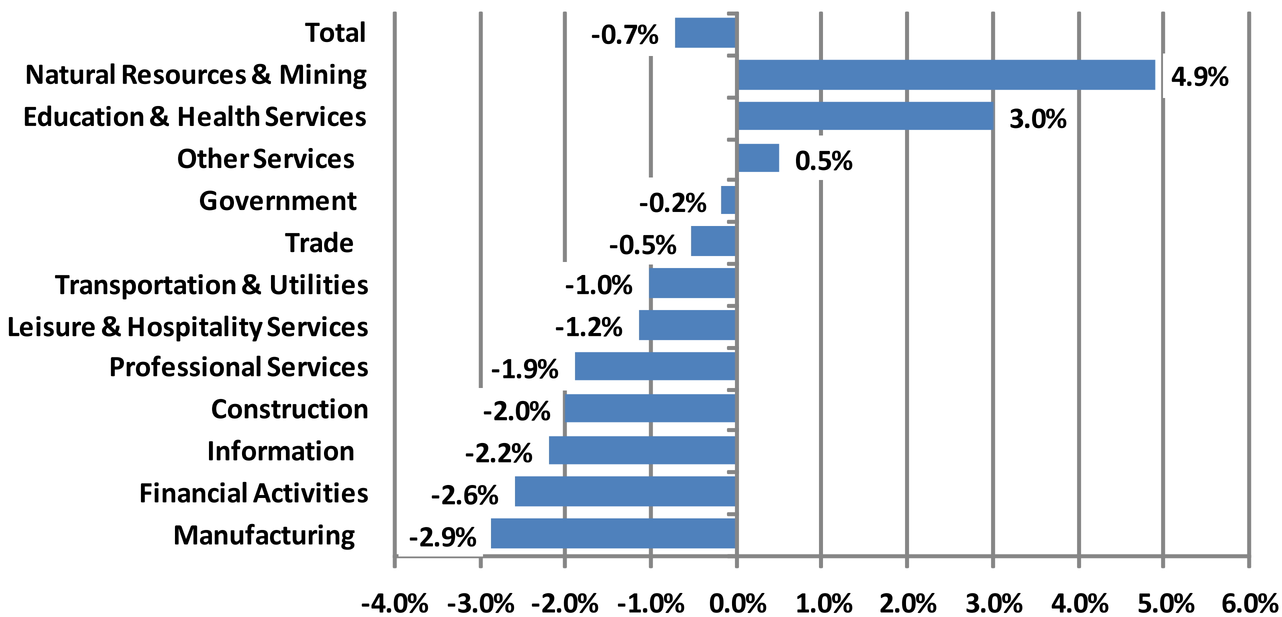
Statewide ***personal income*** grew 5.9 percent through the first half of 2008, down from 6.5 percent in the first quarter, according to the latest estimate from the U.S. Bureau of Economic Analysis. Despite the slowdown in income growth, the 5.9 percent rate was the 7th highest growth rate among states – an indicator of the state's better economic health relative to other areas. ***Wages and salaries*** grew 6.0 percent in the same period, also down from the first quarter.

- Personal income will slow to a 5.1 percent annual rate in 2008 as a result of the recent weakening of the job market. Personal income will increase 2.7 percent in 2009 as the state experiences job losses and Coloradans receive less income from dividends and interest earnings during the economic downturn. Wages and salaries are expected to increase 5.3 percent in 2008 and 1.8 percent in 2009.

Consumer Spending

Much of the economic growth in the state and the nation in recent years was fueled by strong **consumer spending,** which represents about 70 percent of economic activity. The re-

Figure 6
Projected 2009 Employment Change by Industry



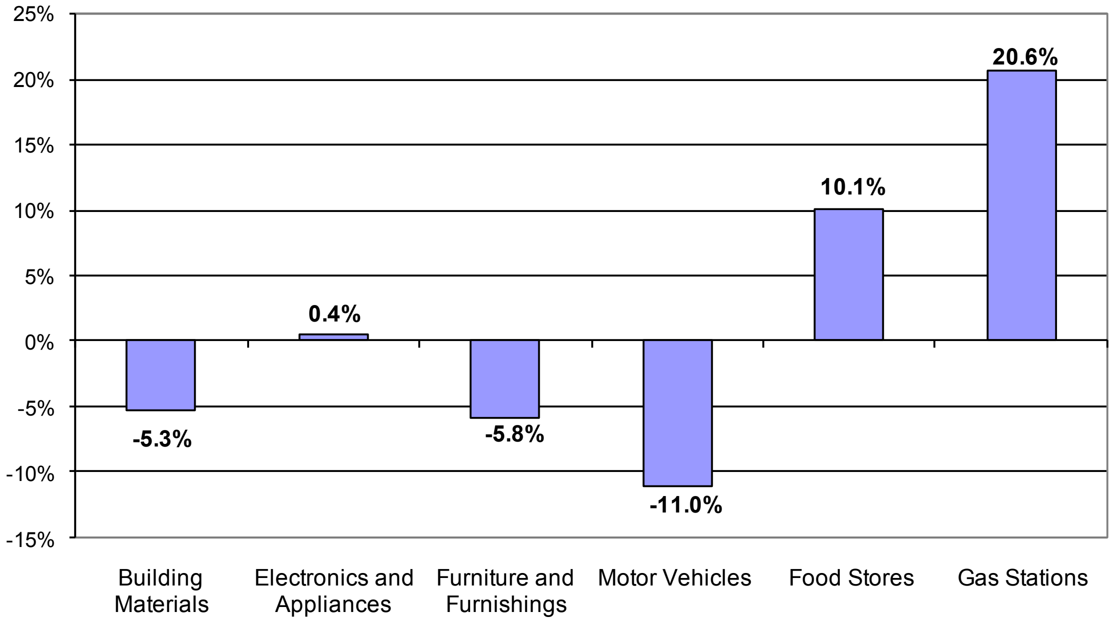
cent pullback in spending is a significant contributor to the current economic downturn. Much of the spending growth in recent years was driven by the use of home equity loans and other borrowing, which has proved unsustainable. Further, stagnant or declining home values, a substantial drop in the stock market, less credit availability, and a weaker job market are all adversely impacting consumer spending. Consumers are also expected to cut back as they pay down their debt and increase savings as they become more concerned about the loss of employment and income during the economic downturn.

The most recent data on **retail trade** sales from the Colorado Department of Revenue provides strong evidence of declining consumer spending. Retail sales grew at a 2.7 percent rate through September, following growth of 7.5 and 6.9 percent in 2006 and 2007, respectively. Most notably, spending on durable goods, or "big ticket" items, such as cars, building materials, and appliances, was down 8.2 percent through September. Sales of durable goods typically comprise about a third of all retail sales and a quarter of state sales tax collections. It is important to note that high food and gas prices impacted spending during this period, as consumers spent more of their dollars on food and gas. Figure 7 shows the change in spending on big ticket items through September, as well as the increases in spending at gas stations and food stores. One benefit of the economic downturn for consumers and businesses has been the sharp drop in gas prices. This drop will free up more money for consumers and help offset the negative factors hurting spending.

Inflation

Inflation in the Denver-Boulder-Greeley area rose 3.7 percent for the first half of 2008, up from 2.2 percent in 2007. The rising rate was primarily driven by higher food and gas prices. The food and gas components of the index — items that make up about one-fifth of consumer expenditures — increased 5.7 and 24.8 percent

Figure 7
Change in Spending on Big Ticket Items and Food and Gas
(through September 2008)



Source: Department of Revenue

respectively. However, the sharp drop in gas prices, which have declined over 60 percent since the summer peak, as well as weak housing values, will lower inflation significantly in the second half of 2008.

- Inflation will come in at 3.0 percent in 2008 as a whole. Low energy prices will reduce inflationary pressures in the overall economy and weak consumer demand for goods and services will serve to lower inflation to 1.8 percent in 2009. Inflation will post rates from the upper-2 percent to mid-3 percent range during the remainder of the forecast period.

Housing Market and Construction

The state's housing market, which has been in contraction since 2006, continues to be weak. Permits for single-family homes are down 43 percent through October after falling 32.7 percent in 2007. Permits are down 74.1 percent from October 2005 levels. The lack of building is contributing to weaknesses in other areas of the economy, such as financial services and the building materials, furniture, electronics, and appliances markets.

Another sign of the weak housing market is stagnant and declining home values across much of the state. For example, according to data from the Colorado Association of Realtors, the median sales price for existing homes in the Metro Denver region was 11.2 percent lower in October than a year ago. Median sale prices were also 11.8 percent lower in Greeley, 3.8 percent lower in Fort Collins, and 8.7 percent lower in the Colorado Springs area.

Despite the large drop in home permits and the high number of foreclosures, the state's housing market appears to be in relatively better shape than many other areas of the nation. This is due to the fact that Colorado did not have as excessive home appreciation in recent years because the previous recession hit Colorado especially hard. Also, Colorado's healthier job growth and net migration have contributed to demand for homes in recent years, preventing home prices from dropping as significantly as other areas.

A widely-monitored gauge of home prices – the S&P/Case-Shiller Price Index – showed that Metro Denver's prices are not declining nearly as severely as other major metro areas included in the index. Figure 8 compares Denver's home price performance as measured by this index with areas that experienced particularly large real estate booms in recent years.

Because Colorado's home appreciation did not increase as much as other areas, home values have not undergone as severe a correction. Thus, Colorado homeowners should not feel the same loss of wealth as homeowners in other markets.

However, home prices will continue to face downward pressure as long as there is an excess inventory of homes for sale. Since home building is down it will help reduce the excess supply of homes on the market and eventually allow the market to recover. Recent data from the Colorado Association of Realtors shows that the number of existing homes for sale in major markets along the Front Range – Metro Denver, Boulder/Longmont, Loveland, Fort Collins, and Greeley – has fallen this year, which should help home values. Figure 9 shows the level of existing homes for sale from the beginning of 2005 through October of 2008. The level of inventory has dropped 9 percent through October of this year compared to the same time period in 2007.

- The number of permits for single-family homes will decrease 41 percent in 2008 overall, but 2009 is expected to mark the end of

Figure 8
S&P/Case-Shiller Home Price Indices for Selected Metro Areas, 2002 through September of 2008

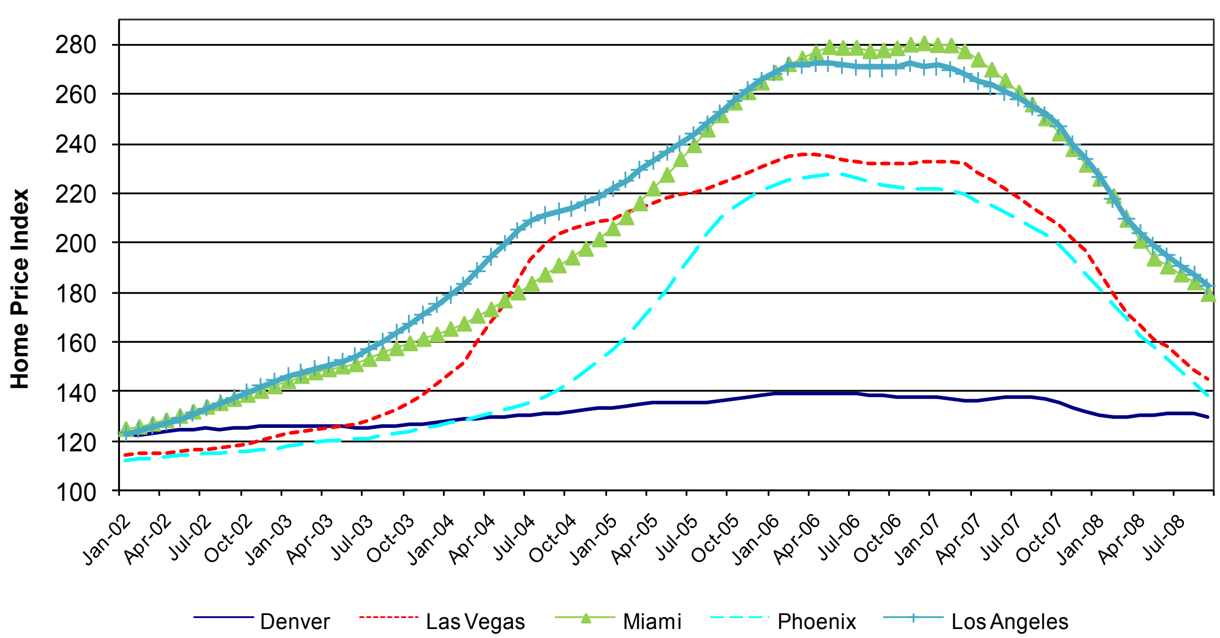
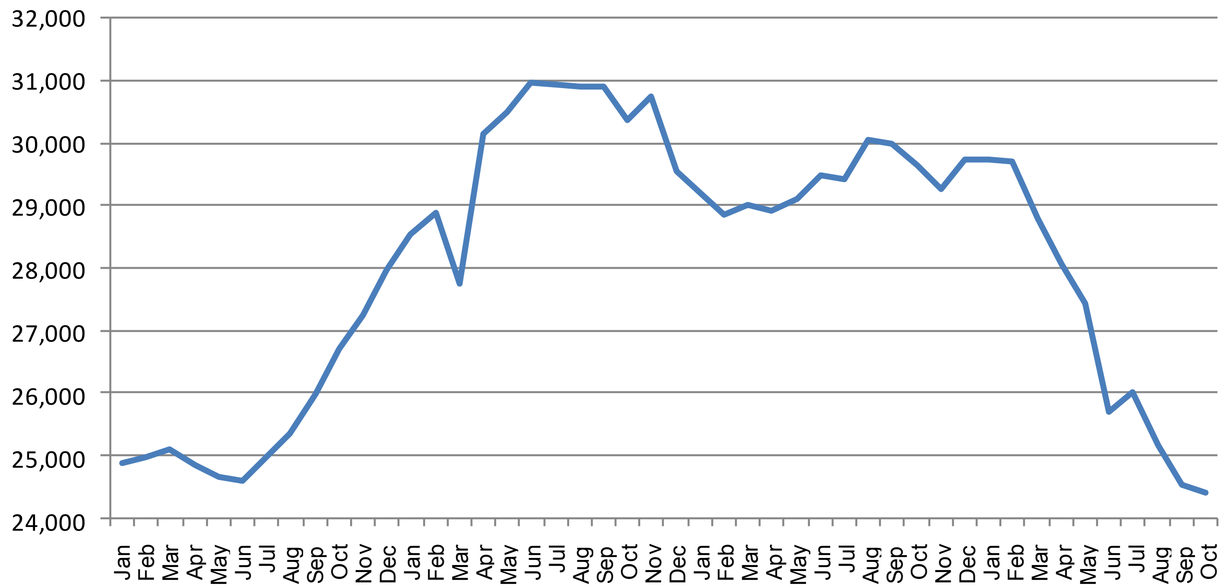


Figure 9
Inventory of Existing Homes for Sale in Selected Major Front Range Markets, 2005 through October of 2008
(seasonally adjusted)



Source: Colorado Association of Realtors

the free fall in permits for construction. Single-family home permits will shrink 1.5 percent in 2009.

After four years of growth, the slowdown in the economy and the difficulty of obtaining credit to finance projects are contributing to a decline in **nonresidential construction**. The value of construction projects decreased 22.1 percent year-to-date through November. Construction is declining for many types of projects, most notably commercial projects such as stores and food services facilities, warehouses, offices, banks, and hotels and motels. The public buildings sector and the hospital and health treatment facilities sector are also experiencing a drop in construction. Notable sectors experiencing growth in 2008 were schools, colleges, and manufacturing. The growth in the value of manufacturing construction can be attributed primarily to the construction of a plant south of Pueblo by Vestas to make steel towers to support turbines for wind farms.

- After a sharp decrease in 2008, the value of nonresidential construction will decrease another 11.3 percent in 2009 due to the economic downturn and ongoing difficulties in the credit markets.

Summary

Colorado's economy has proved resilient through much of 2008 as the nation was in recession. However, several indicators show weakening in the state's economy. Most notably, the drop in consumer and business spending evident in sales tax collections and the widespread job losses in September and October indicate the state's economy is in recession. This recession is likely to last through much of 2009 as the financial system remains weak and confidence stays low. While many will feel the brunt of Colorado's downturn, it will not be as severe as other states. Colorado will be buoyed by its relatively high income levels, economic diversity, and skilled and educated workforce. A less substantial drop in home prices will also help the state.

Yet, with any economic downturn come the seeds of recovery. Though the drop in spending and investment in the state will continue to be painful as businesses fail and jobs are lost, many of the state's stronger companies will fill the hole and begin to expand as confidence improves and economic activity picks up. Also, as households and businesses curtail spending and pay down debt, they put themselves in a better position to spend again. These self-correcting mechanisms in the economy, as well more stability in the financial markets aided by efforts by the Federal Reserve and federal government, should help the state slowly recover toward the end of 2009 and in 2010.

However, there are risks that the national recession will last longer given the high amount of uncertainty regarding the financial markets and the low confidence in the economy. A more prolonged and severe national recession than currently projected will have adverse consequences for Colorado's economy. In addition, if home foreclosures remain high this could cause increased defaults on other types of borrowing. If the financial crisis persists and hinders the flow of credit needed for economic expansion, low confidence among consumers and businesses will negatively affecting spending and job creation and push the recovery further into 2010.

Table 8
Colorado Economic Indicators, December 2008 Forecast
(Calendar Years)

	2000	2001	2002	2003	2004	2005	2006	2007	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
Population (thousands), July 1	4,328.3	4,434.0	4,507.8	4,555.2	4,609.3	4,673.7	4,766.2	4,861.5	4,958.7	5,033.1	5,128.8	5,236.5
percent change	2.4%	2.4%	1.7%	1.1%	1.2%	1.4%	2.0%	2.0%	2.0%	1.5%	1.9%	2.1%
Nonagricultural Employment (thousands)	2,213.6	2,226.9	2,184.1	2,152.9	2,179.6	2,226.0	2,279.1	2,330.4	2,358.3	2,341.8	2,365.2	2,412.5
percent change	3.8%	0.6%	-1.9%	-1.4%	1.2%	2.1%	2.4%	2.2%	1.2%	-0.7%	1.0%	2.0%
Unemployment Rate (%)	2.7	3.8	5.7	6.1	5.6	5.2	4.3	3.8	5.2	6.3	5.7	5.2
Personal Income (millions)	$144,394	$152,700	$153,066	$154,829	$163,736	$175,366	$188,214	$199,414	$209,585	$215,243	$226,221	$239,342
percent change	12.1%	5.8%	0.2%	1.2%	5.8%	7.1%	7.3%	6.0%	5.1%	2.7%	5.1%	5.8%
Wage and Salary Income (millions)	$85,909	$88,297	$86,938	$88,008	$92,095	$97,391	$104,092	$110,865	$116,741	$118,842	$123,952	$132,009
percent change	12.6%	2.8%	-1.5%	1.2%	4.6%	5.8%	6.9%	6.5%	5.3%	1.8%	4.3%	6.5%
Retail Trade Sales (millions)	$57,955	$59,014	$58,850	$58,689	$62,288	$65,492	$70,437	$75,329	$76,836	$76,529	$79,284	$83,882
percent change	10.2%	1.8%	-0.3%	-0.3%	6.1%	5.1%	7.5%	6.9%	2.0%	-0.4%	3.6%	5.8%
Home Permits (thousands)	54.6	55.0	47.9	39.6	46.5	45.9	38.3	29.5	20.5	21.2	22.5	25.6
percent change	10.7%	0.8%	-13.0%	-17.3%	17.5%	-1.3%	-16.4%	-23.2%	-30.3%	3.1%	6.3%	13.9%
Nonresidential Building (millions)	$3,476	$3,500	$2,787	$2,713	$3,291	$4,221	$4,415	$4,916	$3,786	$3,358	$3,593	$3,963
percent change	-8.1%	0.7%	-20.4%	-2.7%	21.3%	28.3%	4.6%	11.3%	-23.0%	-11.3%	7.0%	10.3%
Denver-Boulder Inflation Rate	4.0%	4.7%	1.9%	1.1%	0.1%	2.1%	3.6%	2.2%	3.0%	1.8%	2.8%	3.4%

School Enrollment Projections

This section presents the Legislative Council Staff enrollment projections for Colorado's kindergarten through twelfth grade public schools, which is shown in Table 9. Enrollment is forecast to help determine funding levels for Colorado's 178 school districts.

- Colorado's kindergarten to twelfth grade enrollment will increase 1.4 percent, or by 10,713 students, in the 2009-10 school year. Enrollment in the following school year (2010-11) is expected to increase 1.4 percent, adding 10,547 students statewide. The western and northern regions will experience the fastest growth rates in the 2009-10 school year, with enrollment in the western region increasing 3.6 percent and the northern region 2.0 percent. In the 2010-11 and 2011-12 school years, the growth in enrollment in the mountain region is expected to be relatively strong as well. In absolute terms, the metro Denver and western regions will see the highest increase in students in the 2009-10 school year, at 6,235 and 1,815 respectively. These regions are followed closely by the northern region with an increase in enrollment of 1,483 and in Colorado Springs with 1,262 more students. Figure 10 shows regional enrollment growth in the 2009-10 school year.

- During the four-year forecast period, statewide school enrollment will increase at an annual average rate of 1.4 percent, adding 44,516 new students. Although the western region has been growing at a healthy rate, it is expected to stabilize. Net migration into the state is expected to slow down, which will put downward pressure on enrollment growth. Also, while Colorado's amenities continue to draw the attention of prospective new residents, the deteriorating housing market is making it difficult for families to relocate.

Statewide Forecast Results. The preliminary estimate of enrollment in the current school year is 762,651 students. Statewide enrollment is projected to increase 1.4 percent in both the 2009-10 and 2010-11 school years. Over the next four years, the state's school enrollment will grow by 44,516 students.

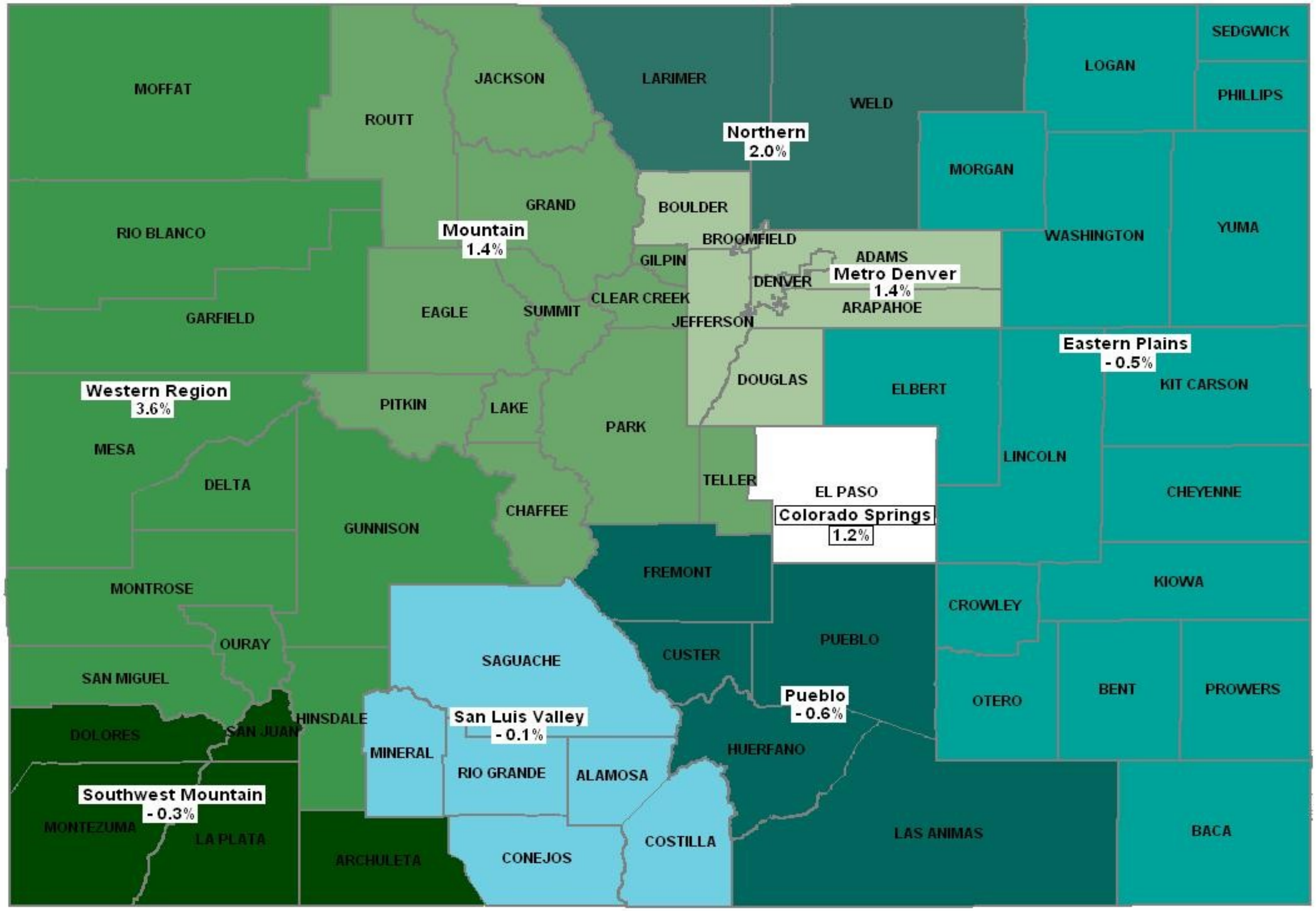
While the Denver and Colorado Springs regions typically show the highest growth rates in school enrollment, the northern, western, and mountain regions will grow the fastest over the next four years. The proximity of the northern area to Denver and its relatively cheaper housing has encouraged people to move into the region. The growth in enrollment in the western and mountain regions is attributed to the energy industry expansion.

Families are relocating from counties on the eastern edge of Colorado to counties closer to the metropolitan areas. Consequently, the eastern plains region will experience slightly negative enrollment levels over the forecast period. The San Luis Valley area is experiencing similar trends with people relocating to other areas looking for better employment opportunities.

Regional Forecast Results. Table 9 identifies the anticipated growth in enrollment over the next four years for each of Colorado's regions.

Enrollment in the **Colorado Springs region** will continue to be boosted by the arrival of the 4th Infantry Division at the Fort Carson army base from Fort Hood, Texas. An estimated 5,100 troops are expected to move to the base beginning in March of 2009. Since these troops are not expected to be deployed immediately upon arrival, it is anticipated family members will join them. The forecast expects approximately 700 children to come into the area and enroll in area schools in the spring of the current school year and in the fall of the 2009-10 school year. This influx of students, coupled with natural growth

Figure 10
K-12 School Enrollment Growth
School Year 2009-10



will generate a 1.2 percent growth rate in 2009-10, for an overall increase of about 1,260 students. During the forecast period, the Colorado Springs region is expected to increase at a 1.4 percent annual pace.

Enrollment in the **metro Denver region** will increase 1.4 percent in the 2009-10 school year, after increasing 2.6 percent in 2008-09. Some of the current year's growth is attributed to the move of the Hope Online Learning Academy to the Douglas County school district from the Vilas RE-5 district. This online program currently has 3,265 students. Subtracting these students, enrollment in the region grew 1.9 percent. In 2009-10, the slower pace of enrollment is mostly due to lower growth in the region's fastest growing districts. Growth in these districts was fueled by the housing boom, but the contraction in the housing industry is expected to reduce growth in the near term. The projected increase of 6,235 students in 2009-10 still represents about 58 percent of the total statewide projected increase in students.

The school districts on the edges of the metro area, where population has grown the fastest, will continue to dominate enrollment growth in the region and the state over the next four years. Douglas County and Brighton, the districts that have added the largest number of students in recent years, are expected to add 6,900 and 3,800 students, respectively, which accounts for 24 percent of the total enrollment gains in the state over the next four years. Growth will slow in the districts over the next couple of years due to the continuing weak housing market. Growth in enrollment for Adams 12 Five Star and St. Vrain Valley will also be slowed by the housing market. However, enrollments rates are expected to increase in these districts near the end of the forecast period as the housing market and economy recovers.

The state's largest school district, Jefferson County, will continue to lose students over the forecast period, though at a declining rate. The district has been impacted by an aging population, transfers to private schools and other districts, and a loss of students to online education programs in recent years. However, there is the potential for student growth in the district in the long run due to planned residential developments along C-470 and future light rail corridors that could attract younger families.

Other metro school districts that will continue to see declining or flat enrollment due to their aging populations are Boulder Valley, Littleton, Westminster, and Englewood. However, unlike Jefferson County, these districts do not have the same capacity for new residential construction to attract younger families that could propel student growth in the long term.

The state's second largest district, Denver, will continue its recent reversal of declining enrollment over the forecast period. In the 2008-09 school year, enrollment increased by the largest amount in seven years and enrollment is projected to increase by around 4,800 students over the next four years. Continued growth is projected due to an increase in the population of school-age children in the district, the school's recent reform efforts, and new educational programs and options that will attract more families to the district. However, growth in the district will also be tempered by the downturn in the housing market, which will slow growth in the Stapleton and Green Valley Ranch areas. These have been the district's largest growth areas in recent years.

It is also important to note that some of the projected growth in student enrollment in the metro area's districts, such as Denver, Douglas County, and Cherry Creek, could be the result of families choosing to move their children back into the public school system as they find it more difficult to afford private schools during the economic downturn.

The **northern region** includes school districts in Larimer and Weld counties. The region

Table 9
Regional Growth in Enrollment

Region	Preliminary 2008-09	Percent Change	Estimated 2009-10	Percent Change	Estimated 2010-11	Percent Change	Estimated 2011-12	Percent Change	Estimated 2012-13	Percent Change	Average Growth (2009-10 thru 2012-13)
Colorado Springs	101,322	1.0%	102,584	1.2%	104,001	1.4%	105,683	1.6%	107,087	1.3%	1.4%
Eastern Plains	25,814	-11.9%	25,673	-0.5%	25,640	-0.1%	25,556	-0.3%	25,547	0.0%	-0.3%
Metro Denver	431,850	2.6%	438,085	1.4%	443,443	1.2%	450,022	1.5%	456,358	1.4%	1.4%
Mountain	23,936	-0.2%	24,261	1.4%	24,793	2.2%	25,307	2.1%	25,791	1.9%	1.9%
Northern	74,478	0.5%	75,961	2.0%	77,453	2.0%	78,929	1.9%	80,667	2.2%	2.0%
Pueblo	34,702	-0.9%	34,483	-0.6%	34,658	0.5%	34,752	0.3%	34,741	0.0%	0.0%
San Luis Valley	7,428	-2.9%	7,419	-0.1%	7,409	-0.1%	7,432	0.3%	7,501	0.9%	0.2%
Southwest Mountain	12,405	-0.2%	12,367	-0.3%	12,491	1.0%	12,659	1.4%	12,918	2.0%	1.0%
Western	50,715	3.2%	52,530	3.6%	54,024	2.8%	55,403	2.6%	56,557	2.1%	2.8%
Statewide Total	762,651	1.3%	773,364	1.4%	783,911	1.4%	795,743	1.5%	807,167	1.4%	1.4%

continues to experience population growth from families seeking more affordable housing than can be found in metro Denver. The area's economy also continues to perform better than the state as a whole, creating opportunities for new families. These trends are expected to continue during the forecast period. The region will increase at an average annual pace of 2.0 percent through the forecast period, adding a total of 6,189 students between school years 2008-09 and 2012-13.

The **western region** is expected to post the state's highest growth rates for the 2009-10 school year, at 3.6 percent. This represents an estimated increase of 1,815 new students and 17 percent of the total projected enrollment growth statewide. Enrollment is expected to increase 2.8 percent in the 2010-11 school year and 2.6 percent in the 2011-12 year. Over the forecast period, an estimated 5,840 students will enroll in the region's schools and enrollment will increase at an average annual rate of 2.8 percent. Employment opportunities driven by the energy industry continue to drive the western region's growth. This trend will ease slightly as the energy industry slows due to the economic downturn. In addition, as the economy continues to struggle and if the housing market continues to deteriorate, relocating to any region, including western Colorado, will prove difficult.

The **San Luis Valley** region will experience mixed gains in enrollment, with some school districts experiencing a decline in enrollment and others seeing increases. Overall, enrollment growth for the region will decrease slightly over the first half of the forecast period and will have small gains over the second half, averaging 0.2 percent growth through the full forecast period. Similarly, the **eastern** region will experience mixed enrollment with growth rates fluctuating around zero at the regional level. The region as a whole will experience an average annual decline of 0.3 percent over the forecast period. The San Luis Valley and eastern regions' declines reflect trends in Colorado's rural areas, where families with school-aged children are relocating to urban or suburban areas for more attractive economic opportunities.

The **mountain** region will experience enrollment growth of 1.4 percent for the 2009-10 school year and will increase at an annual average rate of 1.9 percent through the forecast period. This relatively strong growth is being driven by an increase in the student-age population in the region. About 90 percent of the growth in students will occur in the Summit and Eagle county districts, the region's largest. The population of school-age children in Eagle County is estimated to have increased 36 percent since 2000 and the state demographer expects strong growth to continue. Summit County's school age population has increased an estimated 33 percent since 2000 with continued high growth rates through the forecast period. These population increases are being driven by high birth rates in the counties in the early part of the decade. Also, families continue to relocate to mountain communities that offer outdoor recreation, while at the same time opening opportunities for future retirement. Eagle County also offers living arrangements for workers seeking employment opportunities outside of the county.

The **Pueblo region**, consisting of Pueblo, Fremont, Custer, Huerfano, and Las Animas counties, will see a decline of 0.6 percent in the 2009-10 school year due to the weak economy. Population in the region is typically more affected by economic trends than other areas. Thus, growth is expected to occur in the region in the subsequent school years, 2010-11 and 2011-12, as the economy recovers. Also, some of the new troops relocating to Fort Carson could drive growth in the region as they seek more affordable housing south of the army base. Further, the Pueblo City school district, the region's largest, is expanding its early childhood education program and is opening a new charter school, which should attract more families to the district in these years.

Enrollment in the **southwest mountain** region is expected to decrease a slight 0.3 percent over the 2008-09 school year, about the same amount as a year ago. The decline is mostly driven by weak population growth in the region's school age population in recent years. However, growth is expected to resume for the region's districts starting in the 2010-11 school year with stronger growth in the school-age population. The region’s average annual growth rate over the forecast period is projected to be 1.0 percent.

Risks to the forecast. The national recession is affecting Colorado to a greater extent in recent months, which could constrain families from relocating to Colorado. Stagnant home sales and declining job prospects in the state have curbed overall net migration and could reduce population growth more than projected. Consequently, enrollment growth would be smaller than anticipated.

Assessed Value Projections

This section provides preliminary projections of assessed values and the residential assessment rate through 2012. The projections for assessed values are a factor in determining local property taxes for Colorado's public schools and the amount of state aid provided to schools. The following projections will be finalized in early January following receipt of additional information from the Division of Property Taxation and selected counties.

Summary

The **residential assessment rate** will remain at 7.96 percent throughout the forecast period.

Total assessed values for all property classes increased 2.8 percent in 2008 to $87.6 billion and are expected to increase 4.5 percent in 2009 to a total value of $91.5 billion. Since 2009 is a reassessment year, the growth generally reflects new construction and two years of changes in market values. Compared with prior reassessment years, 2009's growth is anticipated to be more modest because of ongoing problems in the housing market and slower growth in the state's economy. By 2012, total assessed values are anticipated to reach $100.5 billion, reflecting an average annual growth rate of 3.5 percent.

Nonresidential assessed values are expected to increase 9.2 percent in 2009 and drop 4.0 percent in 2010. For the four-year forecast period, nonresidential assessed values are projected to increase at an average annual rate of 3.8 percent through 2012. Growth will be limited because of deteriorating economic conditions in many areas of the state in 2009 and because of a reduction in oil and gas values in 2010.

Residential assessed values will decrease 1.0 percent in 2009 and increase 1.1 percent in 2010. The stagnant near term outlook is because of historically high foreclosure rates, tighter mortgage loan requirements, and a slumping housing market. Residential values will grow at stronger rates in 2011 and 2012. Over the four-year forecast period, residential assessed value will increase at an average annual rate of 3.2 percent.

Assessed Values

Remarkable expansion in natural resource extraction industries and a widespread strengthening of the economy resulted in robust growth in assessed values during the last several years. Assessed values increased 24.0 percent between 2005 and 2008, reaching $87.6 billion. However, a slowdown in the state's economy will produce modest gains in assessed values for 2009, with growth decelerating considerably in the following two years. Oil and gas assessed values will contribute to the malaise by falling abruptly in 2010. Overall, assessed values are expected to total $91.5 billion in 2009, a 7.4 percent increase compared with 2007, which was the last reassessment year. By 2011, assessed values will reach $97.0 billion, a 6.0 percent increase compared with 2009.

Forecasted residential and nonresidential assessed values are shown in Table 10. Residential assessed values are expected to increase at a compound average annual rate of 3.2 percent, while nonresidential assessed values will increase at an average rate of 3.8 percent per year.

Nonresidential Assessed Values

The nonresidential sector consists of eight property classes: commercial, state assessed, vacant land, oil and gas, industrial, agriculture, natural resources, and producing mines. Assessed values in the nonresidential property classes totaled $47.1 billion in 2008, with over

Table 10
Residential and Nonresidential Assessed Values
(millions of dollars)

Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2007	$39,331	14.6%	$45,816	14.0%	$85,147	14.2%
2008	$40,411	2.7%	$47,148	2.9%	$87,559	2.8%
2009	$39,988	-1.0%	$51,490	9.2%	$91,478	4.5%
2010	$40,428	1.1%	$49,425	-4.0%	$89,853	-1.8%
2011	$44,456	10.0%	$52,550	6.3%	$97,006	8.0%
2012	$45,779	3.0%	$54,673	4.0%	$100,453	3.6%

fifty percent in the commercial class. Assessed values for commercial property have increased strongly in the past several years as economic growth and strong corporate profits have fueled additional business investment in the state. However, this is not expected to continue with the state's economic downturn. Oil and gas properties are the second largest class in terms of value and those properties increased modestly in 2008 because of increased natural gas production. Oil and gas values are expected to rise significantly in 2009 because of higher energy prices, but fall in 2010 because of declining gas and oil prices. Thus, nonresidential assessed values are anticipated to increase modestly in 2009, at 9.2 percent, but decline 4.0 percent in 2010. Over the forecast period, nonresidential assessed values are projected to increase at an average annual rate of 3.8 percent, increasing to $54.7 billion in 2012.

Residential Assessed Values

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

Residential Market Values. The market for most residential property reacts with a lag to the economic business cycle. Residential market values increased 22.5 percent during the two-year reassessment cycle ending in 2003, but slowed substantially to a 12.5 percent increase during the 2005 cycle. Residential market values increased 18.8 percent in the last two-year reassessment cycle ending in 2007. The relatively strong growth was a result of improving economic conditions in 2005 and 2006, strong growth in tourism in the mountain communities, and the natural resource extraction boom.

In the upcoming two-year reassessment cycle that ends in 2009, the slowdown in the housing market and tightening credit conditions will cause residential market values to increase 1.7 percent. New residential construction increased market values 2.7 percent in 2008, but falling housing prices, rising foreclosures, and tight credit will cause 2009 values to drop 1.0 percent. A recovery in the housing market and the state's economy will cause residential values to increase 11.2 percent in the two-year reassessment cycle ending in 2011.

Because the residential assessment rate is not expected to change, ***residential assessed val-***

Table 11
Regional Assessed Values and Growth Rates
(millions of dollars)

Region	2008*	2009 Percent Change	2010 Percent Change	2011 Percent Change	2012 Percent Change	4-Year Average Annual Growth
Colorado Springs	$6,578	-1.4%	0.0%	6.1%	1.7%	1.6%
Eastern Plains	$2,223	5.2%	-2.0%	5.4%	3.6%	3.0%
Metro Denver	$42,854	2.3%	1.4%	6.8%	2.5%	3.2%
Mountain	$11,188	7.7%	0.5%	11.3%	3.1%	5.6%
Northern	$7,997	6.2%	-5.2%	6.4%	4.7%	2.9%
Pueblo	$2,621	5.7%	-4.2%	7.5%	5.8%	3.6%
San Luis Valley	$555	2.5%	0.9%	5.3%	2.0%	2.7%
SW Mountain	$3,884	8.5%	-16.9%	11.5%	6.7%	1.7%
Western	$9,658	11.3%	-9.3%	11.4%	7.2%	4.8%
TOTAL	$87,559	4.5%	-1.8%	8.0%	3.5%	3.5%

**Preliminary estimate from the Division of Property Taxation, Department of Local Affairs.*

ues will increase at the same rates as residential market values over the forecast period.

Gallagher and the Residential Assessment Rate. The Gallagher Amendment to the Colorado Constitution requires that residential assessed values must be approximately 45 percent of total assessed values. When the market values of residential property increase faster than the value of nonresidential property, the residential assessment rate must decline to hold residential assessed values at 45 percent of total assessed values. Because residential market values have grown at a faster rate than nonresidential values since 1983 (or have declined at a slower pace), the residential assessment rate decreased from 21.0 percent in 1983 to 7.96 percent in 2003.

The residential assessment rate has not been reduced since 2003, after the recession caused a substantial decrease in the nonresidential markets but had not yet affected residential markets. As the economy began to recover in 2004 and 2005, the residential sector began to cool while the nonresidential markets began to see increases again as it recovered from the recession. Despite a healthy increase in residential values during the last two years, nonresidential values continued to outpace residential values in 2006 and 2007 as a result of large increases in the value of natural resources. Residential markets will continue to increase at a slower rate than nonresidential markets over the next four years. Based on the Gallagher Amendment calculation, the residential assessment rate should have increased to 8.17 percent for 2005 and 2006, 8.44 percent for 2007 and 2008, and 9.35 percent for 2009 and 2010. Because TABOR specifically prohibits assessment rates from increasing without voter approval, the residential assessment rate remained at 7.96 percent in 2005 and will remain at 7.96 percent through the remainder of the forecast period unless voters allow it to rise.

Regional Assessed Values

Assessed values are projected for each school district and are used in forecasting state expenditures for pre-kindergarten through 12th grade public education. The following section highlights trends for various regions in the state. Table 11 summarizes how regional assessed values will change through 2012, and Figure 11 illustrates the anticipated growth in each region's assessed value from 2008 to 2009.

The **Denver-metro** economy posted relatively healthy job gains in the past two years, which has fueled nonresidential construction activity. However, problems in the housing markets have caused residential values to decline or remain flat in many districts. As a result, assessed values in the Denver-metro area will increase by a modest 2.3 percent in 2009. Rural communities and established urban communities especially hard hit by rising foreclosures will see the slowest growth or declining growth; in 2009, the Northglenn, Strasburg, Westminster, and Aurora districts are expected to lose value. The remaining districts are projected to see assessed values increase 0.3 percent to 7.6 percent in 2009. Over the four-year forecast period, assessed values in the Denver-metro region will increase at an average annual rate of 3.2 percent.

The economy in the **Colorado Springs area** has performed relatively poorly in the last two years. Job growth has been stagnant and the region's unemployment rate is the second highest in the state. Much of the slowdown has been fueled by a decline in the construction and housing markets that has been exacerbated by the absence of many Fort Carson troops deployed overseas. As a result, assessed values in the area will fall 1.4 percent in 2009. Assessed values will remain flat in the following year and increase 6.2 percent in 2011 as the economy recovers from the current housing doldrums and troops are relocated to Fort Carson. Assessed values will increase at an average annual rate of 1.6 percent in the region over the four-year forecast period.

The **western and southwestern mountain** regions of Colorado will show mixed results with respect to assessed value growth. The recent rise in natural gas prices will enhance growth in 2009, but the economic downturn and a drop in natural gas prices will cause districts with a large portion of their total value attached to oil and gas production to see decreases in 2010. This includes most of Garfield, Rio Blanco, and La Plata counties. In contrast, increases in residential value will push total values higher in many communities, particularly in Mesa County. Overall, the western and southwestern mountain regions will be the two fastest growing regions in 2009 because of rising energy prices in 2008. However, they will fall by the greatest percentage in 2010 because of the drop in energy prices. Over the forecast period, the western and southwestern mountain regions will see average annual growth of 4.8 percent and 1.7 percent, respectively.

The **northern** region, containing school districts in Larimer and Weld counties, will see varied growth. Weld County has 12 school districts. Similar to El Paso County, the level of growth in each school district will depend greatly on the composition of property within the district. Districts with significant natural resource production will see strong growth in 2009, followed by declining growth in 2010. Residential-based communities will also see slow growth in the near term because of the housing market difficulties. Over the forecast period, assessed values in the region are expected to increase at an average annual rate of 2.9 percent.

School districts in the **Eastern Plains** region are typically among the slowest growing in terms of assessed value. This is not solely because they are home to some of the least populated areas, with little demand for residential and commercial development. It is also because it is home to the bulk of Colorado's agricultural industry, whose land is valued more favorably for property tax purposes than that of other property classifications. In past years, reductions in the residential assessment rate have outpaced market value gains in the region, which helped temper growth. As in the west, those districts with significant natural resources, particularly in Cheyenne and Yuma counties will experience strong swings in assessed value growth. However, continuing natural resource-related development in some areas will push values higher over the forecast period. The eastern plains region will see average annual growth of 3.0 percent.

Colorado's **mountain** region will see some of the highest growth in assessed values in the near term. In 2009, assessed values are projected to increase 7.7 percent, primarily reflecting strong economic growth in last few years. Much of this region saw dramatic gains in the late 1990s as expanding wealth from the booming economy created a tight market for second homes in resort areas and new opportunities for nonresidential projects. The recession will cause assessed values to remain flat in 2010, before rebounding in the out years of the forecast. Average annual growth in the region is expected to be 5.6 percent over the four-year forecast period.

Economic activity in the **Pueblo** region, encompassing districts located in Pueblo, Fremont, Las Animas, Huerfano, and Custer counties, has slowed in the past year. The Pueblo Rural School District and districts in Fremont County saw sizeable increases in value in 2007, which are not expected to continue in the near term, although these areas will benefit from the spillover of residents from El Paso County. In addition, districts in Las Animas County with significant oil and gas properties, such as the Aguilar and Trinidad districts, will see sizable gains in 2009, followed by a marked drop. Assessed values will increase at an average annual rate of 3.6 percent in the Pueblo region over the four-year forecast period.

The **San Luis Valley** will see modest growth in assessed values in 2009. Parts of the valley are gaining some traction as second home opportunities due to lower costs, which have increased demand for residential property. Agriculture is also an important component to the region's economy. As stated earlier with the Eastern Plains, the favorable valuation of agricultural property will work to limit growth in the region over the forecast period. Average annual growth in the region over the four-year forecast period will be 2.7 percent.

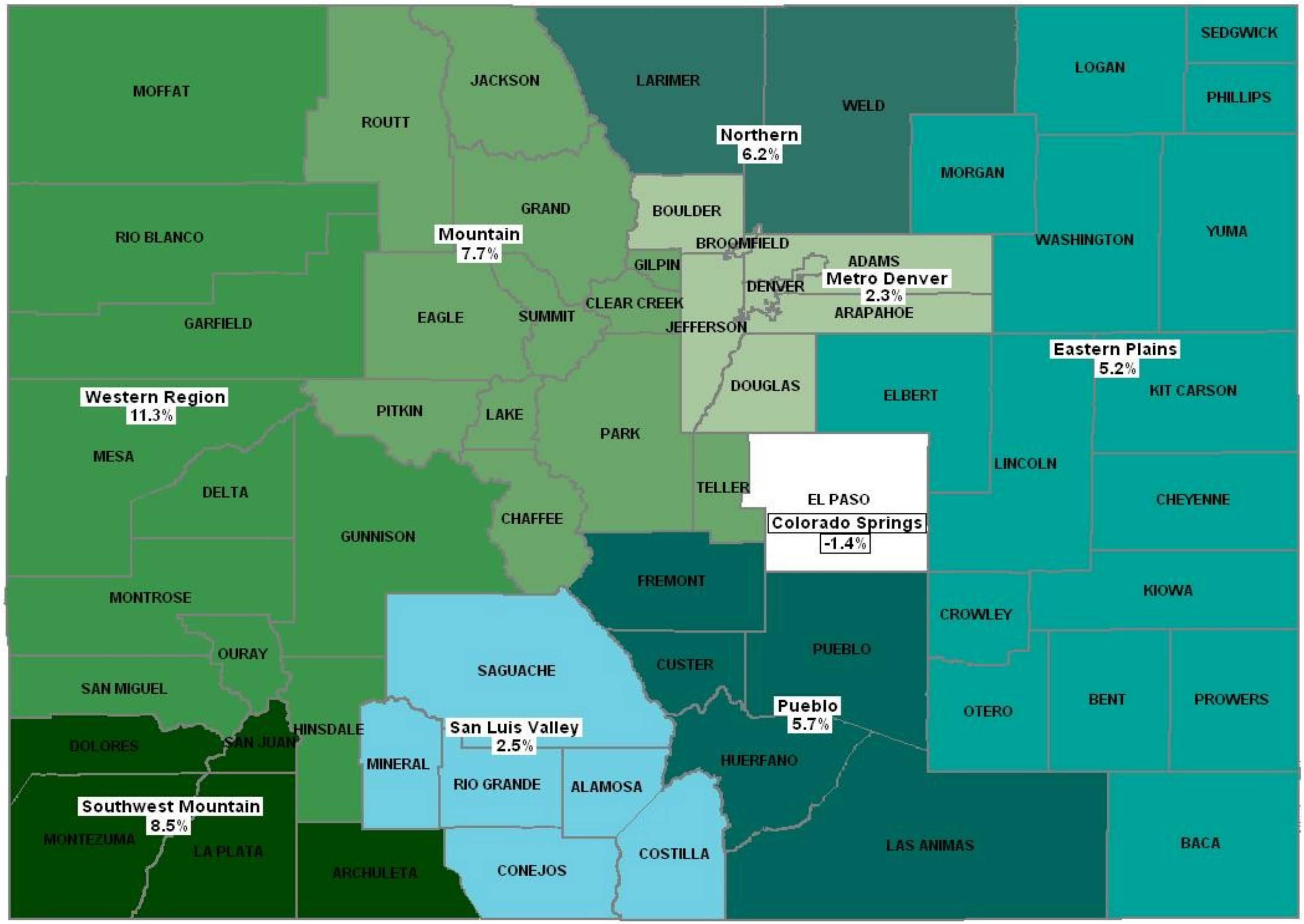
Risk Factors

Colorado's housing market has slowed substantially in 2007 and 2008. Foreclosures have risen to historically high levels as mortgage rates adjust to higher levels, many homeowners have maxed out the equity in their home, and lenders have tightened consumer credit and increased loan requirements. This forecast expects values to decline in many areas of the state. However, the full impact of the foreclosures and tighter loan requirements have not yet been determined and there is a risk that housing values could fall more and for a longer period of time than is anticipated in this forecast.

In addition, this forecast anticipates a national and state recession. The current forecast is predicated on a statewide recession that begins in the latter half of 2008 and continues through much of 2009. If the recession is less severe than anticipated, nonresidential and residential values would increase at faster rates than currently expected. Conversely, if the recession is more severe than predicted, nonresidential and residential values would decrease at faster rates than expected.

Another component to the forecast that remains a significant driver of assessed value is the oil and gas class. Because prices for natural gas are difficult to forecast, variations in value similar to that which has occurred over the last several years could play a significant role in determining overall assessed values. This is especially noteworthy as it pertains to counties in which property values are heavily weighted toward oil and gas, such as Cheyenne, Rio Blanco, Garfield, Las Animas, Weld, and La Plata counties.

Figure 11
Regional Assessed Value Growth, 2009
(Budget Year 2009-10)



Adult Prison and Parole Population Projections

- The Department of Corrections (DOC) inmate population is projected to increase from 22,989 in June 2008 to 25,558 in June 2012. This represents an average annual growth rate of 2.7 percent. In comparison, over the past five years, the total inmate population increased at an average annual rate of 4.0 percent.

- Over the four-year forecast period, the male population is expected to increase by 2,251 inmates, or about 563 inmates per year. The female population is projected to increase by 318 inmates, or about 79 inmates per year.

- Compared with the Interim 2008 forecast, the inmate projections were reduced slightly throughout the forecast period. A slowdown in the growth of the male population in the first quarter of FY 2008-09 accounted for most of the change.

- The total in-state parole population is projected to increase from 8,783 in June 2008 to 10,635 in June 2012, growing at an average annual rate of 4.8 percent. The total number of parolees (those supervised in-state and out-of-state) is expected to increase from 11,511 to 13,777 during the forecast period. The parole forecast was decreased markedly compared with the interim 2008 forecast due to a sharp decline in growth during the first five months of the current fiscal year.

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

Adult Prison Population Trends. From June 1990 to June 2008, the prison population grew at an average annual rate of 6.1 percent. During this eighteen-year period, the male and female prison populations grew at average rates of 5.9 percent and 9.1 percent per year, respectively. In FY 2007-08, the inmate population grew 2.1 percent. This reduced rate of inmate growth was due to a reduction in felony filings, slow growth in admissions into prison, and faster releases from prison. In FY 2007-08, prison admissions increased an estimated 4.0 percent, while prison releases increased 4.5 percent. In FY 2004-05 and FY 2005-06 when the state saw stronger growth in the prison population, admissions grew at an average annual rate of 11.8 percent, while releases grew 9.4 percent. Table 12 shows the historical prison population by gender.

Adult Prison Forecast. Table 12 also illustrates the projected inmate population over the next four years. Between June 2008 and June 2012, the prison population is expected to increase at an average annual rate of 2.7 percent. This growth is slightly slower than the prior four-year period in which the prison population grew at an average rate of 4.0 percent per year, but it is higher than the last two years when the inmate population grew about 2.2 percent annually.

The interaction between inmate admission and releases is responsible for the net change in the prison population. In FY 2008-09, while the growth in admissions is expected to slow somewhat, the growth in releases is expected to drop even more. In the first five months of this fiscal year, inmate admissions are holding steady at FY 2007-08 levels. In contrast, while inmate releases averaged 881 per month in FY 2007-08, releases have slowed to 874 per month to date in this fiscal year. The combination of these trends is expected to produce a slightly higher rate of growth in the inmate population for FY 2008-09 than that witnessed during the last two fiscal years.

Table 13 illustrates the change in the inmate population forecast from the interim projection issued in August 2008. In the current fiscal

Table 12
History and Forecast of Adult Prison Population, by Gender

FY	Males	% Change	Females	% Change	Total	% Change
1990	7,215		451		7,666	
1991	7,598	5.3%	445	-1.3%	8,043	4.9%
1992	8,269	8.8%	505	13.5%	8,774	9.1%
1993	8,713	5.4%	529	4.8%	9,242	5.3%
1994	9,382	7.7%	623	17.8%	10,005	8.3%
1995	10,000	6.6%	669	7.4%	10,669	6.6%
1996	10,808	8.1%	769	14.9%	11,577	8.5%
1997	11,681	8.1%	909	18.2%	12,590	8.8%
1998	12,647	8.3%	1,016	11.8%	13,663	8.5%
1999	13,547	7.1%	1,179	16.0%	14,726	7.8%
2000	14,733	8.8%	1,266	7.4%	15,999	8.6%
2001	15,493	5.2%	1,340	5.8%	16,833	5.2%
2002	16,539	6.8%	1,506	12.4%	18,045	7.2%
2003	17,226	4.2%	1,620	7.6%	18,846	4.4%
2004	17,814	3.4%	1,755	8.3%	19,569	3.8%
2005	18,631	4.6%	2,073	18.1%	20,704	5.8%
2006	19,792	6.2%	2,220	7.1%	22,012	6.3%
2007	20,178	2.0%	2,341	5.5%	22,519	2.3%
2008	20,684	2.5%	2,305	-1.5%	22,989	2.1%
2009	21,203	2.5%	2,365	2.6%	23,567	2.5%
2010	21,763	2.6%	2,441	3.2%	24,203	2.7%
2011	22,348	2.7%	2,523	3.4%	24,870	2.8%
2012	22,935	2.6%	2,623	4.0%	25,558	2.8%

year, the interim forecast expected the inmate population on June 30, 2009 to reach 23,655, representing monthly growth of about 56 inmates. Through the first five months of FY 2008-09, the prison population has advanced at a slower pace, adding 39 inmates per month. This resulted in the modest 0.4 percent reduction in the current forecast, which translates to an expected inmate population of 23,567 by June 2009, for a monthly growth of 48 inmates. The forecast for subsequent years was also reduced slightly because of this change.

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

- ***Population.*** All other things being equal, a larger population results in a greater number of criminal offenses, arrests, criminal felony filings, and prison commitments. Colorado's

Table 13
Adult Inmate Population, Forecast to Forecast Comparison

FY	December 2008 Forecast	Interim 2008 Forecast	Forecast Difference	Percent Difference
2008	22,989	22,989	-	0.0%
2009	23,567	23,655	(87)	-0.4%
2010	24,203	24,309	(106)	-0.4%
2011	24,870	25,051	(181)	-0.7%
2012	25,558	25,951	(394)	-1.5%

**2008 numbers are actual totals.*

adult population between the ages of 20 and 49 increased at an average annual rate of 2.5 percent between 1990 and 2000. Correspondingly, the 1990s were a decade of strong prison population growth, with an average annual rate of growth of 7.6 percent between June 1990 and June 2000. As Colorado's population is projected to continue to grow, we expect this to contribute to an increase in the total number of new admissions to prison.

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

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

Other factors impacting inmate population. Besides the external variables described above, other factors within the criminal justice system affect the inmate population. First, the actions of the Parole Board can have an impact on the prison population. For example, Parole Board policies or guidelines that increase parole revocations and/or reduce prison releases to parole will result in higher inmate population growth, all other things constant. Conversely, Parole Board policies that decrease parole revo-

Table 14
History and Forecast of Parole Population, In-State and Out-of-State Parolees

	In-State Parolees	% Change	Out-of-State Parolees	% Change	Total	% Change
1993	2,116		657		2,773	
1994	1,958	-7.5%	690	5.0%	2,648	-4.5%
1995	2,026	3.5%	744	7.8%	2,770	4.6%
1996	2,322	14.6%	924	24.2%	3,246	17.2%
1997	2,695	16.1%	1,155	25.0%	3,850	18.6%
1998	3,219	19.4%	1,433	24.1%	4,652	20.8%
1999	3,722	15.6%	1,569	9.5%	5,291	13.7%
2000	3,685	-1.0%	1,537	-2.0%	5,222	-1.3%
2001	4,192	13.8%	1,646	7.1%	5,838	11.8%
2002	4,037	-3.7%	1,680	2.1%	5,717	-2.1%
2003	4,858	20.3%	1,906	13.5%	6,764	18.3%
2004	5,244	7.9%	1,994	4.6%	7,238	7.0%
2005	5,714	9.0%	2,097	5.2%	7,811	7.9%
2006	6,551	14.6%	2,291	9.3%	8,842	13.2%
2007	7,947	21.3%	2,596	13.3%	10,543	19.2%
2008	8,783	10.5%	2,728	5.1%	11,511	9.2%
2009	9,119	3.8%	2,805	2.8%	11,924	3.6%
2010	9,539	4.6%	2,902	3.5%	12,441	4.3%
2011	10,065	5.5%	3,015	3.9%	13,081	5.1%
2012	10,635	5.7%	3,142	4.2%	13,777	5.3%

cations and/or increase prison releases to parole will result in lower inmate population growth. Second, the actions of the judicial system can affect inmate population growth. In particular, the commitment of more offenders than average to prison and the imposition of stricter sentences by judges will increase both admissions to prison as well as the length of stay within prison. Finally, the mix of crimes committed and prosecuted can impact prison population growth. Prosecutors may prioritize the most serious offenses, which usually carry longer prison sentences if a conviction is reached. Consequently, the mix of inmates within prison can shift to more violent offenders who have longer prison sentences. For example, persons convicted of a felony sex offense could be sentenced to a maximum of the offender's lifetime. The population of these offenders has grown significantly in the past few years, which will exert upward pressure on the inmate population.

Adult Parole Population Trends and Forecast. From June 1993 until June 2008, the parole population supervised in-state grew at an average annual rate of 9.5 percent. In the most recent fiscal year, the in-state parole population grew 10.5 percent. Much of this increase was due to an acceleration in prison releases, as described above. Table 14 provides a history of the parole population supervised in-state and out-of-state. Table 14 also provides the parole population forecast through June 2012. The forecast estimates the parole population *supervised in Colorado* as well as the parole population *served out of state* (including parole *absconders* — parolees who have not reported and are considered fugitives). The number of parolees *supervised in Colorado* is expected to increase at an annual rate of 4.8 percent throughout the forecast period — from 8,783 parolees as of June 2008 to 10,635 parolees as of June 2012. The *total* number of parolees will increase at an average annual rate of 4.5 percent over the forecast period, from 11,511 parolees as of June 2008 to 13,777 parolees as of June 2012.

Table 15 illustrates the change in the in-state parole forecast from the interim 2008 projection. The parole forecast was revised downward substantially relative to the interim forecast. In the current fiscal year, the interim forecast anticipated in-state parole growth of approximately 68 parolees per month, with the total reaching 9,602 in June 2009. In the first five months of this year, however, the total number of parolees has grown by only about 12 per month, with in-state parolees rising by only about 4 per month. This suggested that a sharp reduction from the interim parole forecast was necessary in the current fiscal year, and the parole forecast was revised downward accordingly. Average growth rates for FY 2007-08 were assumed for the remainder to the current fiscal year.

During the remainder of the forecast period, the parole caseload is expected to increase as a rising proportion of inmates will be subject to both the provisions of SB 03-252 and mandatory parole requirements in the coming years. For these reasons, larger growth rates were assumed for the remainder of the forecast period.

Table 15
Adult In-State Parole Population, Forecast to Forecast Comparison

FY	Dec-08 Forecast	Interim 2008 Forecast	Forecast Difference	Difference
2008*	8,783	8,783	-	0.0%
2009	9,119	9,602	(483)	-5.0%
2010	9,539	10,399	(860)	-8.3%
2011	10,065	11,282	(1,217)	-10.8%
2012	10,635	12,284	(1,650)	-13.4%

**Actual for 2008.*

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

- ***Prison commitments.*** An increase in prison commitments will have a direct lagged impact on the parole population. When the rate of growth in prison commitments decreases (or increases), growth in the parole population will be expected to eventually decelerate (or accelerate). Moreover, the types of prison commitments can alter the rate of growth of the parole population. Prison commitments with longer sentences can cause parole deferrals to rise, thereby reducing the rate of growth of the parole population. Conversely, prison commitments with shorter sentences can accelerate the growth rate of the parole population.

- ***Mandatory parole.*** House Bill 93-1302 created mandatory parole for all inmates released from prison who committed a crime after June 1993. The implementation of mandatory parole drove up the parole population by sending more inmates to parole supervision and by increasing the average length of stay on parole. As a result of more prison releases to parole and longer parole periods, technical parole revocations (such as failing a drug test or not contacting one's parole officer, as opposed to committing a new crime) have increased significantly since FY 1992-93.

- ***Parole Board release and revocation decisions.*** The Parole Board is a key influence on the growth in the parole population and the prison population (as described above). Parole Board decisions to revoke parole directly reduce the parole population, but increase the prison population. Discretionary decisions to release inmates to parole increase the parole population, but reduce the prison population. Moreover, the Parole Board directly influences the parole population by determining when parolees are released from parole.

- ***Recent legislation***. As mentioned earlier, legislative changes can have an impact on the number of inmates released to parole. Recent legislation affecting the parole population includes *Senate Bill 03-252*, which eliminated the mandatory 12-month revolving supervision period created by *House Bill 98-1160* and limited the time a parolee could be revoked to six months if the revocation was for a technical violation. *Senate Bill 03-252* appears to be exerting upward pressure on the parole population and increasing the number of releases from prison.

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

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

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

Finally, legislation passed by the General Assembly (i.e. criminal penalties, mandatory sentences, or funding for prison alternatives) can have a significant impact upon the prison and parole populations. This forecast assumes that current state law will not change.

Youth Corrections Population Projections

This section of the forecast provides an overview of juvenile offender sentence placements, recent trends in the juvenile offender population, a discussion of the factors driving the juvenile offender population, and the estimates for the commitment and parole populations from FY 2008-09 to FY 2011-12. Table 16 presents the juvenile commitment population forecast, while Table 17 provides the juvenile parole forecast.

- The Division of Youth Corrections (DYC) **commitment population** will decrease from an average daily population of 1,286 in FY 2007-08 to 1,206 in FY 2008-09. By FY 2011-12, the commitment population will fall to 1,076, representing an average annual decline of 4.4 percent.

- The average daily **parole population** will correspondingly decrease from 508 in FY 2007-08 to 485 in FY 2008-09 and 429 in FY 2011-12.

Juvenile Offender Sentencing Options

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

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

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

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

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

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

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

Division of Youth Corrections Sentencing Placements and Population Overview

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

In May of 2003, a legislative cap was placed on detention, mandating a population of no more than 479 youths. *As a result, Legislative Council Staff continues to track detention population trends, but no longer forecasts detention bed need.* Through October 2008, the average daily detention population was 397.

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

In FY 2007-08, the average daily commitment population was 1,286, representing a 9.8 percent decrease from the prior year. In the prior fiscal year, the average daily commitment population declined 1.9 percent.

Influences on the Juvenile Offender Population

Changes in the juvenile offender population result from a combination of factors. Demographic factors, juvenile delinquency, and policy changes all affect the juvenile offender projections.

Population growth. The growth in the Colorado population of juveniles age 10 to 17 increased 45 percent between 1990 and 2000. Likewise, the commitment population increased 30 percent in that ten-year period. However, from 2000 to 2010, this population cohort is expected to increase only 9 percent. The slower growth of the juvenile population through the forecast period will translate to a slower growth in the commitment population over the decade.

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

Legislative Impact upon the DYC Population

Several recent measures have influenced the juvenile offender population. The following paragraph discusses the most recent significant legislative measure and its impacts on the DYC population.

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

DYC Commitment Population Projections

In FY 2008-09, the commitment population will average 1,206, representing a 6.2 percent decrease over last year. In October 2008, the average daily population had already dropped to 1,209. By FY 2011-12, the commitment population will drop to 1,076, representing an average decline of 4.4 percent per year. A decrease in the forecast for the number of 14 to 17 year olds in Colorado, the on-going impact of the Continuum of Care Initiative, and a reduction in juvenile delinquency filings have served to lower the forecast from a year ago. Table 16 provides the average annual commitment population estimates from FY 2008-09 to FY 2011-12.

Table 16
Commitment Average Daily Population

	Actual						Forecast			
	2002-03	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*	*2011-12*
Commitment Population										
	1,328	1,386	1,454	1,453	1,425	1,286	1,206	1,175	1,113	1,076
Annual Growth		*4.4%*	*4.9%*	*-0.1%*	*-1.9%*	*-9.8%*	*-6.2%*	*-2.6%*	*-5.3%*	*-3.3%*
FY 2007-08 to FY 2011-12 Average Annual Growth Rate										*-4.4%*

Juvenile Parole Population Projections

Table 17 reports the juvenile parole average daily population projections. With the passage of Senate Bill 01-077, the minimum parole period was reduced from twelve months to nine months for nonviolent offenders. In FY 2001-02, the parole population decreased 3.9 percent, the first decline in five years. In FY 2002-03, nearly all parolees were eligible for a nine-month parole period and the population dropped an additional 18.1 percent. In order to reduce budgetary costs, the minimum parole period was again lowered from nine months to six months (Senate Bill 03-284). As a result, the parole population dropped again in FYs 2003-04 and 2004-05 by just over 13 percent cumulatively.

The recent parole period reductions and lower commitment levels will serve to lessen parole demands below what was previously forecast. In FY 2005-06, the parole population ended its string of four consecutive years of decrease, as the reductions in the mandatory parole period were fully implemented. Given that all parolees are subject to the shorter minimum parole period, the parole population temporarily stabilized. However, anticipated reductions in the commitment population in the forecast period is expected to push parole populations lower. In the next four years, the parole population will decrease to 429 by FY 2011-12, shrinking at an average rate of 4.1 percent per year. This roughly corresponds with the expected decrease in the commitment population.

Table 17
Division of Youth Corrections Parole Population, Historical and Projected

	Actual						Forecast			
	2002-03	*2003-04*	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10*	*2010-11*	*2011-12*
Parole Population										
	567	532	495	500	517	508	485	460	443	429
Annual Growth	*-6.2%*	*-7.0%*	*1.0%*	*3.4%*	*-1.7%*	*-4.5%*	*-5.2%*	*-3.7%*	*-3.2%*	
FY 2006-07 to FY 2011-12 Average Annual Growth Rate										*-4.1%*

Risks to the forecast

The impact of the Continuum of Care Initiative will continue to be monitored. DYC believes that it has contributed significantly to the decrease in average daily commitment population over the last 33 months, but that its impact could begin to slow. Furthermore, any change in the funding of the initiative could impact the forecast for commitments. Also, commitment sentences are at the discretion of the courts. If a new alternative becomes available, judges may decide to place more offenders in alternative placements. The youth corrections forecast assumes that no new alternatives will become available and the sentencing decision process will be consistent with present practices.

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

Population changes significantly impact the youth corrections population. If the state were to experience a population boom similar to that of the late 1990s, we would expect to see corresponding increases in the youth corrections population. Also, economic conditions may potentially have an impact. Given the state's deteriorating economic outlook and falling employment levels, commitments may fall at a slower pace.

Finally, legislation passed by the General Assembly (i.e. penalties, length of parole, funding for alternatives to commitment) can have a significant impact upon the youth corrections populations. This forecast is based on current state law, and does not account for future legislative changes.

Colorado Economic Regions

Metro Denver
Colorado Springs
Pueblo — Southern Mountains
San Luis Valley Region
Southwest Mountain Region
Mountain Region
Western Region
Northern Region
Eastern Plains

Metro Denver

The Metro Denver economy has entered a recession. Through the first ten months of the year, the region's economy has fared better than most of the nation. As the close of the year approaches, however, the region is being affected by the same economic headwinds that are battering the nation. The region's slow job growth that was present through October is unlikely to continue. Large employers in the region are announcing significant reductions in their workforces to save money and respond to the nation's economic meltdown. These job cuts will drive the unemployment rate upward in the final months of the year.

The region's housing sector is also deteriorating further. Nonresidential construction is slowing and retail sales are declining as the holiday season approaches. Table 18 shows economic indicators through October.

Table 18
Metro-Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2006	2007	2008 YTD thru October
Employment Growth /1	2.0%	2.1%	1.3%
Unemployment Rate (2008 figure is for October)	4.4%	3.8%	5.5%
Housing Permit Growth /2	-14.5%	-20.3%	-34.4%
Single-Family Permit Growth (Denver-Aurora) /2	-26.6%	-38.7%	-50.8%
Single-Family Permit Growth (Boulder) /2	-41.8%	-20.6%	-47.7%
Growth in Value of Nonresidential Const. /3	-13.4%	23.6%	-13.9%
Retail Trade Sales Growth /4	4.1%	6.4%	2.6%

NA = Not Available.
1/ U.S. Department of Labor, Bureau of Labor Statistics. Employment data are from the CES survey. Unemployment data is from the QCEW program for all years reported.
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; excludes Broomfield County.
4/ Colorado Department of Revenue; data through September 2008.

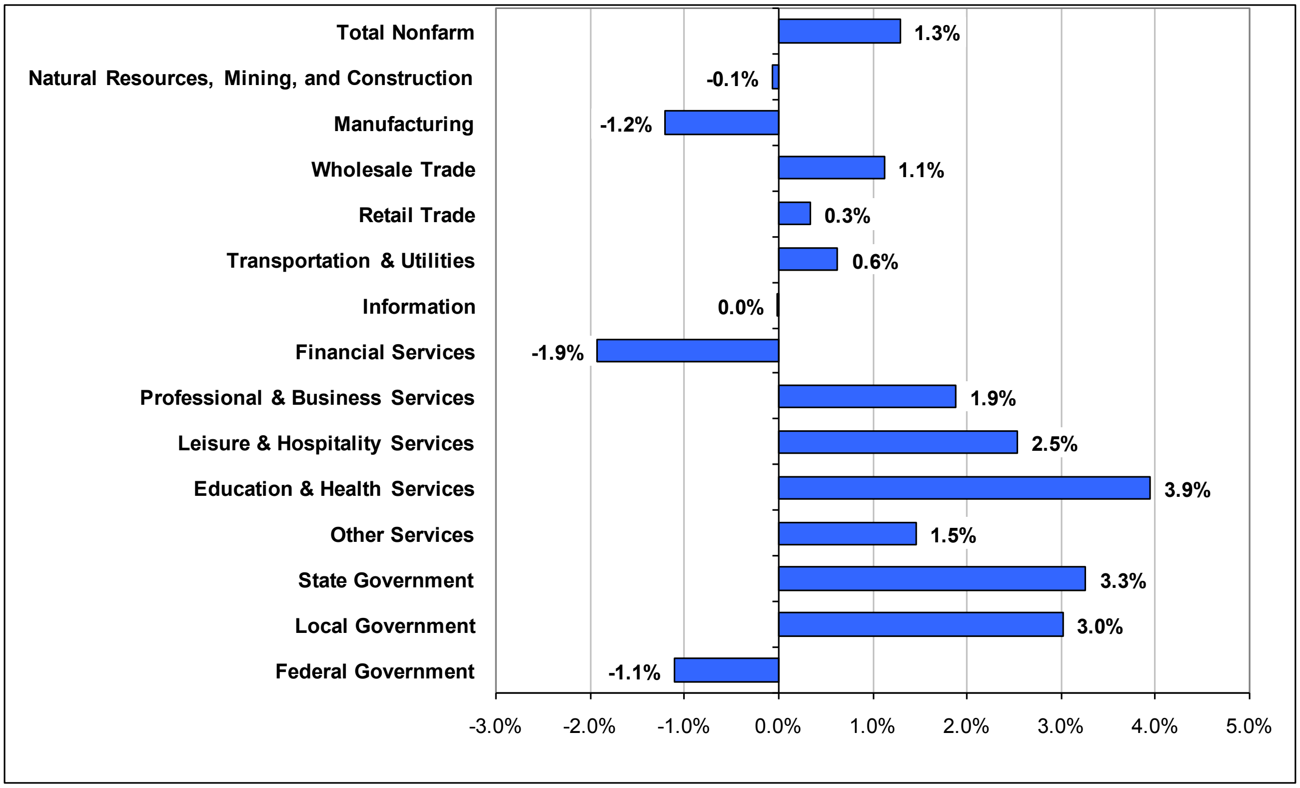
Total nonfarm employment in the region slowed from 2.1 percent in 2007 to 1.3 percent through October 2008. As shown in Figure 12, job growth in the region remains strongest in the education and health services sector, leisure and hospitality sector, and in state government. Growth also continued in professional and business services. On the down side, the housing market contraction and the troubled banking industry are slowing employment growth in financial services. The manufacturing and federal government sectors also saw employment losses.

After declining the last four years, the unemployment rate increased to 5.5 percent in October 2008 from an average rate of 3.8 percent in 2007. The region's unemployment rate will climb toward the close of the year and continue to increase in 2009.

Metro Denver's housing sector continues to struggle as it appears that it has not yet bottomed out. The housing recovery seems to be stalled as more people lose their jobs and mortgages are more difficult to obtain. Housing permit growth was down 34.4 percent, while November's home sales were the worst on record in the 30 years that data have been collected. During November, 9.2 percent fewer homes were under contract than in November 2007, the number of properties sold and closed was down 16.1 percent, and the median price of single-family homes closed was down 15.2 percent over the same time period. The value of homes sold in the region was down 14.9 percent in November over the prior year. In addition, the number of unsold homes on the market fell for the fifth consecutive month, dropping 19.8 percent. It is likely that many sellers are pulling their homes off the market given the price declines and difficulty of selling a home. Table 19 shows housing statistics for the region.

The value of nonresidential construction contracts decreased 13.9 percent in the region and may be resulting from the ongoing difficulty

Figure 12
Percent Change in Selected Denver Metro Industries
Year-To-Date Through October 2008 (BLS)



in obtaining financing given the credit freeze and the deteriorating economy. Retail sales and the vacancy rate for the metro-area office market may also be working to slow growth. Due to the slowdown in retail sales, fewer new projects for retail space have been announced. In addition, the vacancy rate for the metro-area office market went from 14.7 percent in the first quarter to 15.8 percent in the third quarter. These factors may continue to work together to further slow the nonresidential construction sector in 2009.

Growth in consumer spending as seen in retail trade has slowed significantly from 6.4 percent in 2007 to 2.6 percent through September. The 2.6 percent growth is largely attributed to gas and food sales rather than other big-ticket consumer purchases. When gas station and food store sales are excluded, retail sales were flat in the region growing 0.1 percent. For the holiday season, consumers have cut back spending and seem to be focusing on heavily-discounted goods. The post-Thanksgiving holiday spending trends indicate that retail sales may be flat or declining toward the close of the year.

When looking at the regions's deterioration in the housing market, the slowdown in the nonresidential sector, and the significant decline in consumer spending, it is clear that the Metro Denver region is in recession. The following employers have recently announced job reductions and include the following:

- Quest;
- Frontier Airlines;
- Level 3 Communications;
- United Launch Alliance;

Table 19
Metro Denver Housing Market Statistics
(as of November 30, 2008)

Housing Statistic	November 2007	November 2008	Percent Change
Housing permit growth (total units)	12,805	8,406	-34.4%
Homes under contract	4,007	3,637	-9.2%
Homes sold and closed	3,482	2,920	-16.1%
Median price of single-family homes closed	$230,000	$195,000	-15.2%
Value of homes sold (in billions)	$13.19	$11.22	-14.9%
Unsold homes on the market	27,127	21,761	-19.8%

Sources: Independent Broker Gary Bauer and Coldwell Banker Residential.

- MillerCoors;
- AAI Acquisition (Adams Aircraft);
- Sun Microsystems;
- United Airlines;
- Janis Capital;
- Ocean and nine75 restaurants;
- Western Union;
- Wattles Capital Management;
- Key Equipment Finance;
- Boulder Daily Camera;
- 25 KWGN-Channel 2;
- Enstrom Candies;
- McStain Home Builders;
- Ebags;
- General Hardware; and
- Sonny's Diamonds & Jewelry.

Recent Economic News

- The city of Denver is looking at ways to pump money into the region's struggling economy to create jobs. The most recent plan proposes to accelerate about 200 infrastructure projects that were approved by voters last year as part of the "Better Denver" bond issues. The city estimates the plan's economic impact at $200 million a year and is obtaining advice from a number of business leaders to execute a plan that will attempt to complete the projects in three or four years, rather than the initial five-year plan. The $60 million of improvements to Boettcher Concert Hall is the biggest project being looked at for acceleration.

- Energy-based Devices, the medical device business unit of Covidien, has hired 290 workers at its new 60,000 square-foot Boulder County building. Of these jobs, 150 are newly created positions and the company will continue to hire despite the deteriorating U.S. economy. The company employs 1,500 workers in Colorado and is a $9 billion global health-care company active in more than 130 countries.

- NASA has awarded Lockheed Martin Space Systems Co. a contract to build the next generation of weather satellites. The contract will generate about 50 engineering jobs with a total of 125 local positions created by 2011. The project could generate up to $1.09 billion for the company.

- Sunflower Farmers Market, a natural grocery store chain, will open its seventh store in Aurora. The new 25,000 square-foot store will employ 128 workers.

- SolarTAC, or Solar Technology Acceleration Center, will develop a 74-acre site three miles south of Denver International Airport to be home to one of the world's largest solar energy research sites. SolarTAC will be managed by Midwest Research Institute and is supported by the University of Colorado, Colorado State University, the Colorado School of Mines, and the National Renewable Energy Laboratory.

- Longmont Data Storage has leased another 20,000 square feet of building space at its hard drive design center. The company has 105 employees, mostly engineers, and plans on hiring more employees to expand its operations. Longmont Data Storage saw a 43 percent jump in revenue in the past year.

- Travelport, which operates United Airlines' computerized reservations and check-in system, will relocate its Denver data center to Atlanta to consolidate its North American operations. The data center will be converted into a disaster recovery center that will continue to employ the same 400 workers that are employed by the data center.

Colorado Springs

The Colorado Springs economy continued to falter through the third quarter of 2008. The unemployment rate increased, residential and nonresidential construction dropped further, air travel and retail sales have slowed, and consumer sentiment is dismal. Table 20 shows the major economic indicators for the Colorado Springs region.

Table 20
Colorado Springs Region Economic Indicators
El Paso County

	2006	2007	2008 YTD thru October
Employment Growth /1	2.2%	1.0%	0.7%
Unemployment Rate (2008 figure is for October)	4.7%	4.4%	6.3%
Housing Permit Growth /2	-34.3%	-29.7%	-36.2%
Single-Family Permit Growth /2	-33.4%	-34.3%	-41.3%
Growth in Value of Nonresidential Const. /3	-18.4%	7.8%	-50.1%
Retail Trade Sales Growth /4	5.1%	5.3%	0.0%

NA = Not available

1/ Colorado Department of Labor and Employment. Employment data are from the CES survey. Unemployment data is from the QCEW program for all years reported.

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 September 2008.

The total civilian labor force in Colorado Springs for October 2008 includes 296,000 employed and 20,000 unemployed individuals. The largest major industry sector was retail trade followed by health care and social assistance, both with 12 percent of the area's employment. Job growth in the Colorado Springs Metropolitan Statistical Area (MSA) was near stagnant, at just 0.7 percent, and was lower than all other MSAs in Colorado. The Grand Junction MSA had the highest employment growth, at 4.7 percent, while Denver Metro's was at 1.3 percent. Employment gains in health care, services, and government jobs offset declines in manufacturing, construction, retail, information technology, and finance.

The unemployment rate for the Colorado Springs area was up to 6.3 percent in October 2008, a five-year high for the area and the second highest of all other Colorado MSAs. Pueblo's unemployment rate was the highest, at 6.5 percent, while Grand Junction MSA had the lowest unemployment rate of 4.0 percent. According to a new study conducted by Pathfinders, a Dallas-based labor market research firm, it is estimated that nearly 66,000 people living within a 50-mile radius of Colorado Springs are underemployed and would take a better job if one were available. In addition, 5,000 people would come out of retirement for the right job.

New residential construction continues to drop in the region. Since the beginning of the year, the number of single-family home permits issued have declined 36.2 percent through October 2008. Homebuilding is a closely followed component of the region's economy as the construction industry employs thousands of workers and the purchase of building materials generates millions of dollars annually in sales tax revenue for city and county governments. According to the Census Bureau, more Colorado Springs residents are spending a higher percentage of their incomes on mortgage payments and related expenses.

On the positive side, foreclosures for September 2008 were down slightly, and while building permits were also down, single-family home sales rose 5.6 percent compared to September of 2007. It was the first year-over-year gain in monthly home sales in over two years.

The value of nonresidential construction continued to plummet, falling 41.3 percent year-to-date through October. According to the Pikes Peak Regional Building Department forecasts, commercial construction will drop by a third in 2009. The forecast was based on predictions by local economists, contractors, builders, and Colorado Springs utilities. The Colorado Springs utilities rely on the projections to set budget and utility rates. The local projections serve as a gauge of the local economy, which is heavily dependent on the construction trades for jobs and taxes.

Third quarter commercial office vacancy rates increased to 10.6 percent, up from 10.1 percent in the second quarter, according to Turner Commercial Research, a local firm that tracks the commercial real estate market. Many businesses have been downsizing and running operations in less space while others have closed shop permanently. While there are a few nonresidential projects currently under construction, such as the Colorado Crossing project on the northern edge of Colorado Springs, other speculative construction projects will not go forward without a firm tenant list.

Consumer spending, as measured by retail trade sales, plummeted in the Colorado Springs region due to declining income growth, higher unemployment, and the continued poor economic outlook. While growth in retail trade sales increased by at least five percent in 2006 and 2007, it was flat through September.

Another factor contributing to stagnant retail sales in the region is the drop in average earnings. Colorado Springs-area workers' earnings fell 2.5 percent from a year earlier to \$28,392. Although this was less of a decline than in many other areas in the country, it failed to keep up with statewide gains, which increased 1.4 percent. Median earnings for both men and women in the area dropped over the year as did income for families. Single area residents fared better with incomes that increased just less than one percent. Much of the drop in income was due to the loss of many manufacturing and technology jobs.

Recent Economic News

- The Air Force Research Laboratory increased its information technology contract with Colorado Springs-based Intelligent Software Solutions Inc., adding 20 jobs. Most of the new hires will be at the company's Colorado Springs headquarters. The increase includes upgrading the company's flagship data analysis software and installing it on military computer networks.

- A small call center that will help the federal Transportation Security Administration (TSA) with airline passenger security checks will open in Colorado Springs and employ up to 15 people. The company, which provides training, analytical, and operational support for government agencies, is scheduled to open January 1, 2009. It is designed to shift the screening of passengers from airline employees to TSA.

- Braxton Technologies, a Colorado Springs engineering company, was awarded a contract to provide operations support for the NASA Goddard Space Flight Center. Braxton Technologies, which employs 39 people in Colorado Springs, could hire up to 10 additional local engineers.

- A 14-screen Cinemark movie theater complex, a 1,059-space parking garage, and a 100,000-square foot retail and office building will be completed in January as part of Colorado Crossing, a high-profile mixed-use project on Colorado Springs' far north side. The 153-acre complex will include 1.6 million square feet of housing, stores, restaurants, offices, and entertainment venues. The town-square-setting design has residents living in multi-story buildings above ground-floor retail. The project has recently employed 75 to 100 construction workers.

- Passenger traffic at the Colorado Springs Airport fell and Frontier Airlines canceled plans to build a \$55 million maintenance hangar as the slowing economy cut passenger air travel and airlines cut area flights. Enplanements in 2009 are not expected to show an improvement without a rebound in the general economy. The airport is forecasting a 1.6 decline for 2009, putting passenger traffic at a 15-year low.

- Pioneer Manufacturing Co. Inc., a maker of components for medical equipment, shut its doors after 33 years of business, laying off its remaining 23 employees.

- Colorado Springs' City Hall will eliminate 90 jobs; 28 by year end and another 62 in January 2009. The last city layoff was in 2004 when a dozen workers were let go due to a budget crunch. Layoffs occurred in the city attorney, clerk, budget and finance, information technology, land-use review, engineering, transit, traffic engineering, parks, fleet, public communications, and city management offices. There also were layoffs in the municipal court and among civilian police and fire positions.

- El Paso County has cut 14 jobs and will eliminate 20 more by the end of the year after voters rejected a sales tax increase. County officials say none of the first-round cuts will come from the Sheriff's Department, the departments of health or human services, or the offices of the district attorney, treasurer, coroner, county clerk, assessor, or public trustee.

- Plasmon Inc., a company that manufactures optical disk drive libraries, confirmed it was going to experience a significant reduction in its workforce but declined to reveal the number. In May, the company employed 130 but moved to smaller quarters in July and began outsourcing its manufacturing operations.

- Focus on the Family, a Colorado Springs-based Christian nonprofit laid off 149 workers and cut an additional 53 vacant positions. The layoffs came weeks after the company announced it would out source 46 jobs from its distribution department. Due to the weak economy and cash-strapped donors, the layoffs proved to be the deepest cuts in the 32-year history of the organization. While the cuts will take place throughout the company, the most visible change will be the elimination of the print editions of four of its eight magazines.

Pueblo — Southern Mountains

Pueblo's regional economy weakened during the second half of 2008. The number of permits for residential construction is falling for the second year in a row. Nonresidential construction activity would also have been falling, but for the $100 million project for the Vestas wind tower manufacturing plant. Thus far in 2008, the unemployment rate region-wide has increased from 5.0 percent in January to 6.5 percent in October. Meanwhile, growth has slowed in employment and consumer spending. Table 21 shows economic indicators for the region.

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

	2006	2007	2008 YTD thru October
Employment Growth /1 Pueblo MSA	2.3%	3.0%	1.3%
Unemployment Rate (2008 figure is for October)	5.5%	4.8%	6.5%
Housing Permit Growth /2			
Pueblo County /2	10.6%	-42.1%	-39.0%
Single-Family Permit Growth For Pueblo County /2	7.4%	-47.3%	-43.6%
Growth in Value of Nonresidential Const. /3 Pueblo County	632.3%	-62.1%	25.3%
Retail Trade Sales Growth /4	6.0%	6.5%	0.9%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data are from the CES survey. Unemployment data are from the QCEW program for all years reported.
2/ U.S. Census MSA data. 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 September 2008.

After increasing at a very healthy pace of 3.0 percent in 2007, employment in the Pueblo metropolitan statistical district slowed to 1.3 percent through October. Employment was only 0.3 percent higher in October this year compared with October last year. The number of unemployed people in Pueblo County increased 33.0 percent year-to-date through October, pushing the unemployment rate up from 5.9 percent in January to 6.7 percent in October. The Pueblo area accounts for 68 percent of the region's labor force.

The unemployment rate for the five-county region was 6.5 percent in October. Las Animas and Custer counties had the lowest rates in the region at 4.3 percent and 4.5 percent, respectively. Huerfano's unemployment rate was 6.1 percent, while Fremont had the highest rate in the region at 6.9 percent.

The downturn in single-family home construction occurred later in Pueblo County than in other areas of the state. The decline in construction activity in most areas of the state began in 2005, while permits for single-family homes in Pueblo continued to grow into 2006. However, single-family permits are down 43.6 percent through October after decreasing 47.3 percent in 2007.

A single permit granted in November to Vestas for a 625-square-foot, $100 million, wind tower manufacturing plant brought growth in the value of nonresidential construction in Pueblo County up to 25.3 percent through October compared with the first ten months of 2007. If that permit had not been granted, the value of nonresidential construction would have decreased 59.3 percent.

Consumer spending in the region, as measured by retail sales, continued to slow through September due to higher unemployment, lower consumer confidence, and increased prices. Sales posted a 0.9 percent growth rate through September. If you exclude purchases of food and gas, however, consumer spending declined 1.5 percent. This is indicative of a recession in the region. Spending on items other than food and gas decreased in every county of the region except Huerfano County.

Consumer spending decreased 1.4 percent through September in Pueblo County. City officials in Pueblo announced that sales taxes decreased 2.4 percent in September compared with

September last year, 6.1 percent in October, and 8.9 percent in November.

Recent Economic News

- Plans were announced to build the "Colorado Energy Park," a 21,000-acre, $83 million, clean energy-producing industrial park in Pueblo County. The park's planners are discussing the use of nuclear, solar, and wind energy.

- Two hotels recently opened in the City of Pueblo. The Holiday Inn on Dillon Drive, which opened in September, has 89 rooms and employs 45 people. The Cambria Suites Hotel on Sante Fe Avenue, which opened in October, has 105 rooms.

- Heating and air conditioner manufacturer Trane announced plans to relocate 270 of its 755 jobs away from its Pueblo plant to Mexico over the next three years. The company also laid off 5 people in November.

- The Evraz Rocky Mountain Steel Mills in Pueblo will shut down for a few weeks in December because of slowing demand for steel worldwide. Up to 85 workers will be idled during that time.

- Construction began in October on "Cranberry Park," a 49-unit town home complex in Canon City. Each home will be between 1,400 and 2,200 square feet.

San Luis Valley Region

The San Luis Valley region's economy showed mixed results through October. Crop prices increased and are strengthening the regional economy, retail sales are relatively strong, and housing permit growth was moderate. The region's economy also showed an increase in job growth. On the downside, the unemployment rate is up from last year. Table 22 shows the economic indicators for the San Luis Valley.

Table 22

San Luis Valley Region Economic Indicators

Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache counties

	2006	2007	2008 YTD thru October
Employment Growth /1	1.0%	1.0%	0.9%
Unemployment Rate /1	5.4%	4.7%	5.5%
(2008 figure is for October)			
Statewide Crop Price Changes /2			
Barley (U.S. average for all)	24.2%	31.4%	10.7%
Alfalfa Hay (baled)	37.3%	0.0%	21.4%
Potatoes	-8.0%	14.1%	121.9%
Potato Production (Cwt) /2	-1.0%	-7.5%	3.9%
Housing Permit Growth /3			
Alamosa County	-22.7%	11.8%	83.3%
Single-Family Permit Growth	41.7%	3.9%	16.7%
Growth in Value of Nonresidential Const. /4			
Alamosa County	-22.4%	414.1%	-88.0%
Retail Trade Sales Growth /5	10.0%	6.6%	5.1%

NA = Not available.

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 and 2008 data are from the LAUS (household) survey. Unemployment data is from the QCEW program for all years reported.

2/ Colorado Agricultural Statistics Service. Compares November 2008 prices to November 2007. Potato production (all potatoes) reflects Colorado growers and commercial storage facilities in the San Luis Valley.

3/ Data through 2007 are from the U.S. Census Bureau. 2008 data is from 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/ F.W. Dodge.

5/ Colorado Department of Revenue; data through September 2008.

Employment grew a modest 0.9 percent through October compared with the same period last year. The region's unemployment rate stood at 5.5 percent in October, an increase from 4.7 percent in 2007. Costilla County had the highest unemployment rate at 6.8 percent, while Rio Grande had the lowest at 4.9 percent.

The region's agriculture industry has been boosted by strong growth in crop prices. The price of alfalfa hay increased 21.4 percent in November compared with the same period last year. The price of barley also increased 10.7 percent over the same period. Potato prices nearly doubled, increasing 121.9 percent, while potato production was up 3.9 percent. Also, potato growers saw a better yield for their crop this year. Despite recent positive developments for potato growers, the long-term demand for potato products is on the decline, and growers are exploring other options for the future.

Nonresidential construction reported a steep decline throughout the region, primarily as a result of large projects last year. Alamosa County reported an 88.0 percent decline in the value of projects in October following a remarkable 414.1 percent increase in 2007. The previous year's increase resulted mostly from new construction at Adams State College.

Residential construction increased through October as the total number of housing permits increased 83 percent. This large increase in home construction occurred as a result of greater demand for multi-family units. Single family permits grew 16.7 percent.

Consumer spending in the region, as measured by retail trade sales, was moderately strong, increasing 5.1 percent through September after increasing 6.6 percent in 2007. However, the bulk of retail sales growth was attributed to higher prices for gas and food during the period. When fuel and food purchases are excluded from total sales, retail sales declined 2.7 percent.

Recent Economic News

- Over the next four years, Adams State College is planning over $60 million worth of construction. A renovation totaling $12 million is currently underway at the college.

- In late October, Costilla County opened a new biodiesel plant that produces vehicle fuel for large trucks from locally-grown canola, sunflower seeds, and other feed stock. The county will continue adding other major installations to the facility.

- A feasibility study is being planned that will examine the legal and technological questions on forming a power authority that would build a 100-megawatt solar plant in the San Luis Valley. The study may be completed in the summer of 2009.

- C&G Health Care Management, a company that manages nursing homes in Colorado and other states, may build a new long-term care nursing home in Conejos county in 2009. The facility expects to employ between 45 and 55 full-time staff.

- The Centennial School District board in San Luis is laying off two teachers and two staffers in response to the district's budget shortfall.

Southwest Mountain Region

The economy in the five-county southwest mountain region slowed considerably in 2008 compared to prior years. Job growth was flat compared with 2007 while the unemployment rate rose and construction declined. Tourism, a major industry in the region, also showed signs of slowing. Table 23 shows the economic indicators for the southwest mountain region.

Table 23

Southwest Mountain Region Economic Indicators

Archuleta, Dolores, La Plata, Montezuma, and San Juan counties

	2006	2007	2008 YTD thru October
Employment Growth /1	4.3%	2.9%	1.1%
Unemployment Rate (2008 figure is for October)	3.8%	3.3%	4.2%
Housing Permit Growth /2			
La Plata County	-19.8%	0.3%	-54.3%
Single-Family Permit Growth	-23.5%	-13.0%	-38.4%
Growth in Value of Nonresidential Const. /3			
La Plata County	74.4%	881.5%	-83.6%
Retail Trade Sales Growth /4	9.3%	5.7%	2.2%

NA = Not Available

1/ Colorado Department of Labor and Employment. Data through 2006 are from the QCEW program. 2007 and 2008 data are from the LAUS (household) survey. Unemployment data is from the QCEW program for all years reported.

2/ Data through 2007 are from the U.S. Census Bureau. 2008 data is from 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/ F.W. Dodge.

4/ Colorado Department of Revenue; data through September 2008.

Employment growth in the region increased 1.1 percent through October 2008. Despite this growth, the unemployment rate in every county increased over the same period. The county's overall unemployment rate increased to 4.2 percent in October, up from an average of 3.3 percent in 2007.

The construction industry continued a downward trend in the region. The number of permits issued for residential construction in La Plata County decreased 54.3 percent through October. Permits for single-family units also declined 38.4 percent after two prior years of declines.

The value of nonresidential construction contracts also declined. Nonresidential construction contracts decreased 83.6 percent through October in La Plata County, after an increase of nearly 900 percent in 2007. While this decline resulted in part due to the completion of several large commercial construction projects in 2007, the decrease also appears to be part of a downward trend affecting both the commercial and public building sectors in the region.

The foreclosure rate in La Plata County reported a historic high, according to county officials. Ninety-nine foreclosures were filed through October, a 62 percent increase from last year's filings.

Consumer spending, as measured by retail trade sales, slowed to 2.2 percent through September, down from 5.7 percent last year. When fuel and food purchases are excluded from total sales, retail sales declined 1.1 percent.

Recent Economic News

- BP America opened a 75,000-square-foot headquarters in the Durango area. Reports indicate that BP plans to drill 700 wells in La Plata County over the next 13 years as part of a $2.4 billion investment. A significant producer of natural gas, BP America reported that production increased 6.8 percent in the county through August over the same period last year.

- Due to high food prices and significant overhead costs, Hermosa's only grocery store, Mac's Hermosa Market, closed its doors after 30 years.

- The number of riders on the Durango & Silverton Narrow Gauge Railroad declined throughout the summer, with ridership decreasing about 11 percent. The railroad is considered to be a significant driver of summer tourism and higher gas prices likely contributed to the decline.

- In October, the Durango Area Association of Realtors reported that the median sale price for homes in Durango fell 14 percent from the period between July and September 2008. Homes in Durango sold for a median price of $394,000 during the third quarter, compared with $460,000 during the same period last year.

- Solix Biofuels announced that it will build an algae biofuel facility in Durango. The plan is contingent on obtaining a lease for the space. The company has raised $10.5 million and has a $5 million commitment from investors. Solix Biofuels is a technology partner with Colorado State University.

- The Sky Ute Casino Resort, a 300,000-square-foot facility, opened in Ignacio in November. The project employed about 600 construction workers during the construction phase and expects to support 600 to 800 part-time and full-time permanent employees.

Mountain Region

The economy in the mountain region is slowing. Job growth was slightly higher than the statewide average and retail sales advanced at about the same rate as the state. Construction activity also declined in the region similar to many other areas. Table 24 shows major economic indicators for the region.

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

	2006	2007	2008 YTD thru October
Employment Growth /1	3.5%	3.0%	1.7%
Unemployment Rate (2008 figure is for October)	3.6%	3.1%	4.7%
Housing Permit Growth			
Eagle, Pitkin, & Summit counties /2	12.4%	-4.8%	-31.3%
Single-Family Permit Growth	-7.2%	-18.6%	-45.2%
Routt County /3	-10.5%	40.0%	-44.0%
Single-Family Permit Growth	-10.8%	-11.4%	-55.7%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	74.3%	6.4%	-13.6%
Routt County	143.9%	80.2%	-59.6%
Retail Trade Sales Growth /4	12.6%	9.6%	2.7%

1/ Colorado Department of Labor and Employment. Employment data through 2006 are from the QCEW program. 2007 employment data are from the LAUS (household) survey. Unemployment data is from the QCEW program for all years reported.

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/ 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 through July 2008.

4/ Colorado Department of Revenue; data through September 2008.

Employment growth increased 1.7 percent through October, slowing from a stronger pace of 3.0 percent in 2007. This deceleration reflects the national trend and the state's overall weakening job market as fewer people are being hired in sectors key to the mountain region's economy, including construction, retail, financial services, real estate, and tourism. Routt County had the highest job growth at 4.5 percent. All other counties reported minimal growth and only Pitkin County lost jobs, with a decline of 0.8 percent. The unemployment rate in the region was 4.7 percent in October, up from an average of 3.1 percent in 2007.

The residential construction sector has been weak in the mountain region, consistent with statewide trends. Housing permits in Routt County were down 44.0 percent through October, after increasing 40.0 percent in 2007. Housing permits in Eagle, Pitkin, and Summit counties were down 31.3 percent through October, after a slight decline of 4.8 percent in 2007.

Nonresidential construction activity has also fallen. The value of nonresidential construction contracts declined 13.6 percent in Eagle, Pitkin, and Summit counties and 59.6 percent in Routt County through October. Part of the decrease in nonresidential construction in Routt County is explained by recent school and college completions in prior years.

Consumer spending, measured by retail trade sales, grew modestly in the region. In the first nine months of the year, retail trade sales were up 2.7 percent compared to 9.6 percent growth in 2007. Of the four largest counties in the region, Eagle and Summit counties saw retail trade sales gains of 3.6 and 1.7 percent, respectively, while Pitkin and Routt counties showed declines of 1.3 and 1.6 percent, respectively. When fuel and food are excluded from retail sales, region-wide consumer spending showed a decline of 0.3 percent through September. Grand, Routt, Pitkin, and Summit counties showed declines of 8.1 percent, 5.5 percent, 3.3 percent, and 0.9 percent, respectively, when food and fuel are excluded, while all other counties in the region showed gains.

Recent Economic News:

- Ski resorts are bracing for fewer winter tourists due to the economic downturn. Earlier this month, Vail Resorts Inc. announced it will lay off 50 workers and suspend raises and some benefits for many of the people it employs year-round. In November, resort operator Intrawest Corp. also announced companywide layoffs at some of its Colorado ski areas.

- This fall, a number of developments were stopped mid-construction due to the pressures of the financial crisis: in the city of El Jebel, work on Madison Partners LLC's 100-unit luxury-townhome project was stopped, leaving several unfinished homes behind. Unpaid contractors have filed more than $1.25 million in liens. WestPac suspended future phases of construction at its $1 billion project at the base of Snowmass ski area. This fall, the company also laid off a quarter of its Aspen-based workforce and suspended plans for three buildings set for construction. In addition, construction of a Whole Foods grocery store in Basalt stopped in September after financing became affected by the crisis. Construction is expected to resume in the spring of 2009.

Western Region

The western region's economy continues to grow at a rate higher than the state of Colorado, primarily driven by the oil and gas industry. However, employment in the energy sector slowed considerably over the last several months with the fall in oil and natural gas prices. Residential and nonresidential construction continues to slow as the western region grapples with the same pressures responsible for the economic uncertainty surrounding the financial crisis. Table 25 shows major economic indicators for the western region.

Table 25
Western Region Economic Indicators
Moffat, Rio Blanco, Garfield, Hinsdale, Mesa, Delta, Montrose, San Miguel, Quray, and Gunnison counties

	2006	2007	2008 YTD thru October
Employment Growth /1			
Western Region	5.9%	5.5%	3.0%
Mesa County	5.1%	5.7%	4.7%
Unemployment Rate (2008 figure is for October)	3.7%	3.1%	4.0%
Housing Permit Growth			
Mesa County /2	4.6%	-13.2%	-38.9%
Single-Family Permit Growth	-3.1%	-8.1%	-44.1%
Montrose County /3	-5.3%	-31.0%	-55.8%
Single-Family Permit Growth	-9.1%	-28.8%	-60.6%
Growth in Value of Nonresidential Const. /3			
Mesa County	-44.8%	210.4%	-53.4%
Montrose County	141.3%	-34.6%	-90.9%
Retail Trade Sales Growth /4	13.6%	11.8%	4.8%

1/ Colorado Department of Labor and Employment. 2005 and 2006 data are from the QCEW program. 2007 and 2008 data are from the CES survey for Mesa County and the LAUS survey for the region. Unemployment data is from the QCEW program for all years reported.

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 September 2008.

Through October, the number of jobs in the western region increased 3.0 percent, compared to growth rates of 5.5 to 5.9 percent in the prior two years. Nonfarm employment grew at a healthy 3.0 percent through October, a growth rate that outpaced the state's 1.4 percent growth, reflecting the oil and gas industry. Within the region, Mesa, Garfield, San Miguel and Delta counties reported the strongest employment growth of 4.7 percent, 4.1 percent, 3.5 percent, and 3.6 percent, respectively. Hinsdale, Rio Blanco, and Gunnison counties reported negative job growth at 7.3 percent, 4.8 percent, and 0.9 percent, respectively.

Unemployment rose to 4.0 percent in October, a rate lower than the statewide rate of 5.3 percent. Unemployment in the western region is up from a rate of 3.1 percent in 2007. The jump in unemployment is not as high as the increase in the statewide unemployment rate, reflecting sustained employment in the western region.

Mirroring the construction sector contraction that has swept through other parts of the state and nation, construction indicators were down through October. Permits for housing units decreased 38.9 percent and 55.8 percent, respectively, in Mesa and Montrose counties. Through October, the value of nonresidential construction contracts declined 53.4 percent in Mesa County and 90.9 percent in Montrose County.

Retail trade sales in the western region continued to report moderate growth of 4.8 percent through September. However, when fuel and food purchases are excluded, consumer spending declined 1.6 percent. Delta, Montrose, and Garfield counties recorded retail sales growth of 2.6 percent, 0.3 percent, and 1.2 percent respectively, with fuel and food purchases excluded. All other counties showed a decline.

Recent Economic News:

- Oil and gas companies are slashing spending on investment and drilling in the Piceance Basin due to declines in oil and natural gas prices. In November, Chevron Corp. announced that the company will not pursue plans to expand its natural gas drilling and investment in northwest Colorado in response to declining natural gas prices. The company had planned to double its drilling and investment north of DeBeque, but now plans to maintain current spending over the next three years. Williams Production and Berry Petroleum also reported they would cut back on future investment and drilling. In November, industry officials reported that over the next few months the drilling rig count in the Piceance Basin could decrease by 35 percent to 40 percent.

- Glenwood Springs Chrysler Dodge announced that the car dealership would close its doors at the end of November, citing the economic downturn and sharp drops in auto sales. The closure is expected to affect 15 employees. Advantage Rent-A-Car also closed its Western Slope operations in early December. Industry experts cited the economic downturn, high gas prices, and competition with other rental car services as reasons for the closure.

- Gateway Canyons Resort in Grand Junction laid off 30 employees — approximately one-third of its workforce — in November and plans to delay its expansion in response to recent declines in tourism to the area.

- Grand Junction Regional Airport saw record numbers of passengers in September and November, primarily due to oil and gas industry-related travel.

Northern Region

Though slowing, the northern region's economy, as measured by growth in employment and consumer spending, appears to be among the healthiest in the state. However, reports for construction within the region were more mixed. Both Larimer and Weld counties saw employment growth above the overall average for the state, and consumer spending was also slightly above statewide levels. Table 26 shows major economic indicators for the northern region.

Table 26
Northern Region Economic Indicators
Weld and Larimer counties

	2006	2007	2008 YTD thru October
Employment Growth /1			
Larimer County	1.8%	2.4%	1.7%
Weld County	4.2%	3.0%	2.6%
Unemployment Rate (2008 figure is for October)			
Larimer County	4.0%	3.4%	4.4%
Weld County	4.7%	4.2%	5.5%
State Cattle and Calf Inventory Growth /2	5.0%	-4.0%	-6.8%
Housing Permit Growth /3			
Larimer County	-17.5%	-26.9%	9.4%
Single-Family Permit Growth /3	-36.7%	-12.7%	-34.8%
Weld County	-30.3%	-38.6%	-46.2%
Single-Family Permit Growth /3	-36.6%	-40.5%	-43.8%
Growth in Value of Nonresidential Const. /4			
Larimer County	6.6%	-4.1%	-25.2%
Weld County	33.7%	5.9%	22.6%
Retail Trade Sales Growth /5			
Larimer County	5.2%	6.5%	1.6%
Weld County	7.0%	7.6%	5.4%

NA = Not available

1/ U.S. Department of Labor, Bureau of Labor Statistics. Employment data are from the CES survey for all years reported. Unemployment data is from the QCEW program for all years reported.

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

3/ U.S. Census MSA data. 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 September 2008.

While Larimer county reported a sharp increase in the number of multi-family permits for residential construction, single-family permits were markedly down in both counties. Similarly, the value of nonresidential construction continued to fall in Larimer County but rose in Weld County. These changes were an acceleration of the trends experienced in the construction sectors of these counties during 2007.

The number of jobs increased 1.7 percent in Larimer County and 2.6 percent in Weld county through October. Both of these totals are higher than the statewide average of 1.4 percent, but down slightly from the respective 2007 employment growth averages of 2.4 and 3.0 percent. In Larimer County, the largest employment increases over the last twelve months occurred in the information and education sectors, while the largest declines came in the natural resource and leisure and hospitality sectors. In Weld County, the largest number of job increases occurred in the manufacturing and educational sectors, while the professional and business services sector experienced the largest decline. Unemployment in October increased to 4.4 percent and 5.5 percent respectively in Larimer and Weld counties.

Consumer spending through September, as measured by retail sales within the region, grew 3.1 percent. This is slightly above the statewide growth of 2.7 percent. Within the region, retail sales activity in the two counties is moving in different directions. Larimer County sales slowed even further, growing only 1.6 percent. This is down slightly from the 1.9 percent growth reported through June, and down sharply from the 6.5 percent growth which the county experienced in 2007. In contrast, Weld County sales rebounded moderately, growing 5.4 percent. This is up from the 3.3 percent reported through June, but down slightly from the 2007 rate of 7.6 percent.

The housing industry in the northern region continues to struggle, especially for the construction of single-family units. Through October, Larimer County saw an increase of 9.4 percent in the total number of authorized housing permits compared to the same period in 2007. This increase is the result of an almost tripling in the number permits for multi-family units, as single-family permits fell by 34.8 percent through October. In contrast, permit authorizations in Weld County dropped for both single-family and multi-family units by 43.8 percent and 58.8 percent, respectively. Single-family housing permits have fallen in Larimer County since 2005 and in Weld County since 2006.

Meanwhile, nonresidential construction activity in these two counties continued its trend of moving in opposite directions. The value of these construction contracts fell in Larimer County by 25.2 percent, while Weld County saw a 22.6 percent increase. The primary construction decreases for facilities in Larimer County were in the stores and food service, commercial office, educational, and amusement categories. In Weld County, construction of stores and food service facilities, manufacturing plants, hospital facilities, and government buildings were the primary drivers of the increase. Nonresidential construction activity in Larimer County has fallen since 2006, while Weld County has not seen a decrease in annual levels since 2005.

Recent Economic News:

- A new Best Buy opened in Greeley in September. The 30,000-square-foot store is the third to open in northern Colorado. The store will have about 100 employees, including 80 new hires with the rest transferring from other stores.

- Spirit Hospitality plans to open an 84-room, 48,000-square-foot, extended-stay hotel near the Home Depot in west Greeley. The project is appraised at $9.5 million.

- An undisclosed carbon fiber manufacturer plans to open a new production facility in Windsor. The facility would operate 24 hours a day, seven days a week, and bring 70 new jobs to the area.

- Microchip manufacturer AMD laid off 16 of its 158 Fort Collins employees. The move was part of a global reduction of 500 jobs.

- The Colorado National Guard plans to move its armory to Fort Lupton from Boulder by 2011. The move would bring about 10 full-time reservists to Fort Lupton, and an additional 300 members would come to the city once a month to train.

- The Ferrero Chrysler dealership in Loveland closed on November 25. Most of the 50 employees transferred to the family's other dealership in Longmont.

Eastern Plains

The eastern plains region appears to be holding up better than other areas of the state amidst the economic downturn. Growth in employment and retail trade continues to outpace the statewide average, and the unemployment rate is lower than many regions of the state. On another positive note, crop prices and production levels have continued to increase, with the exception of wheat and sugar beet production. Table 27 shows economic indicators for the region.

Table 27
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2006	2007	2008 YTD thru October
Employment Growth /1	-1.0%	1.8%	1.6%
Unemployment Rate/1 (2008 figure is for October)	4.1%	3.5%	4.1%
Crop Price Changes /2			
Wheat	15.1%	110.8%	-18.7%
Corn	32.7%	26.9%	9.4%
Alfalfa Hay (baled)	37.3%	0.0%	21.4%
Dry Beans	32.1%	57.1%	17.8%
State Crop Production Growth /2			
Sorghum production	0.9%	86.4%	3.8%
Corn	-4.6%	17.4%	4.2%
Winter Wheat	-24.4%	135.6%	-38.3%
Sugar Beets	N/A	-17.0%	-3.9%
2006 is estimated production for the year.			
State Cattle and Calf Inventory Growth /2	5.0%	-4.0%	-6.8%
Retail Trade Sales Growth /3	6.7%	6.0%	10.1%

NA = Not Available
1/ Colorado Department of Labor and Employment. Employment data through 2006 are from the QCEW program. 2007 and 2008 employment data are from the LAUS (household) survey. Unemployment data is from the QCEW program for all years reported.
2/ Colorado Agricultural Statistics Service. Compares November 2008 to November 2007.
Crop production based on projections for 2007 compared to actual 2006 production.
3/ Colorado Department of Revenue; data through September 2008.

In the labor market, employment has turned positive and the unemployment rate is below the statewide average. Job growth was 1.6 percent through October after experiencing almost no growth through July. The unemployment rate in October was 4.1 percent as compared to 4.3 percent in July. However, the current rate continues to be above the 3.5 percent average rate for 2007. With the exception of Morgan, Lincoln, Crowley, and Otero counties, the remaining twelve counties in the region experienced job gains through October. Kiowa and Yuma counties grew at the fastest pace, but Elbert and Logan counties added the most jobs at 650 and 460, respectively. Crowley and Otero counties posted the highest unemployment rates in the region at 7.6 percent and 6.0 percent, respectively. Sedgwick and Yuma counties posted the lowest unemployment rates, with each reporting 2.6 percent.

Consumer spending in the region, as measured by retail trade sales, increased 10.1 percent through October after increasing 6.0 percent in 2007. Retail trade sales grew faster than any other region in the state, outpacing the state's 2.7 percent growth. Some officials have noted that the high price of fuel during the spring and summer may have changed consumer behavior in the region. It is possible that more retail trade sales occurred locally because consumers were reluctant to drive out of the region to Pueblo and other Front Range centers to shop.

High retail sales growth may have also been affected by other factors. Changes in the filing of some retailers' sales taxes may be impacting the growth rate. Such changes can have a larger influence on growth in rural areas of the region because of their smaller sales compared with other areas. Also, large one-time sales in energy-producing counties may be another factor affecting sales growth.

Fifteen counties in the region saw consumer spending increase through October, ranging from a high of 37.0 percent in Lincoln County to a low of 0.1 percent in Phillips County. Washington County saw retail trade sales drop 0.4 percent.

The outlook for farmers in the region's agricultural sector looks positive as most grain and crop prices remain high. Crop prices for corn, alfalfa hay, and dry beans accelerated at a strong pace in November. However, wheat prices declined 18.7 percent compared with the prior November. November 2008 wheat prices were $5.34 per bushel, which was $1.23 below the price in November 2007.

Recent Economic News:

- Bonnie Plants announced it was planning to renovate a greenhouse in La Junta into a new regional distribution center. The company grows plants for sale at businesses such as Wal-Mart, Lowe's, and Home Depot. The company plans to hire 15 new employees.

- A new $800 million wind-energy development was announced by a group of northeast farmers and ranchers, who are partnering with National Wind, LLC, based in Minneapolis. The project would become the second largest wind farm in Colorado, and would occur in portions of Sedgwick, Phillips, and Logan counties.

- CBR YouthConnect in La Junta announced that it would lay off about 40 employees due to the economic downturn and budget cuts. The organization provides psychiatric residential services to children and families.

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	$6,657.4	$7,072.2	$7,397.7	$7,816.9	$8,304.3	$8,747.0	$9,268.4	$9,817.0	$10,128.0	$10,469.6	$10,960.8	$11,685.9	$12,421.9	$13,178.4	$13,807.5
percent change	5.0%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	3.2%	3.4%	4.7%	6.6%	6.3%	6.1%	4.8%
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	$9,470.3	$9,817.0	$9,890.7	$10,048.8	$10,301.0	$10,675.8	$10,989.5	$11,294.8	$11,523.9
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%	2.9%	2.8%	2.0%
Unemployment Rate	6.9%	6.1%	5.6%	5.4%	5.0%	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%	2.9%
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	$5,548.1	$5,833.9	$6,144.7	$6,512.5	$6,907.3	$7,415.7	$7,796.1	$8,422.1	$8,717.0	$8,872.9	$9,150.3	$9,711.4	$10,252.8	$10,977.3	$11,631.6
percent change	3.7%	5.2%	5.3%	6.0%	6.1%	7.4%	5.1%	8.0%	3.5%	1.8%	3.1%	6.1%	5.6%	7.1%	6.0%
Wage and Salary Income	$3,076.3	$3,227.5	$3,415.4	$3,615.7	$3,874.0	$4,179.9	$4,463.7	$4,825.9	$4,939.9	$4,976.5	$5,107.3	$5,388.7	$5,665.1	$6,020.7	$6,355.3
percent change	3.5%	4.9%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.7%	2.6%	5.5%	5.1%	6.3%	5.6%
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	2.0%	3.1%	2.6%	2.0%	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	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	2,132.5	2,213.6	2,226.9	2,184.1	2,152.9	2,179.6	2,226.0	2,279.1	2,330.4
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	3.1	2.7	3.8	5.7	6.1	5.6	5.2	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	$163,736	$175,366	$188,214	199,414
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%	7.1%	7.3%	6.0%
Per Capita Income	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,361	$34,438	$33,956	$33,989	$35,523	$37,522	$39,489	41,019
percent change	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	3.2%	-1.4%	0.1%	4.5%	5.6%	5.2%	3.9%
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	$92,095	$97,391	$104,092	110,865
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%	5.8%	6.9%	6.5%
Retail Trade Sales	$31,298	$34,178	$38,100	$39,919	$42,629	$45,142	$48,173	$52,609	$57,955	$59,014	$58,850	$58,689	$62,288	$65,492	$70,437	75,329
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%	7.5%	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	45,891	38,343	29,454
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%	-1.3%	-16.4%	-23.2%
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	4,328.3	4,434.0	4,507.8	4,555.2	4,609.3	4,673.7	4,766.2	4,861.5
percent change	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.0%	2.0%	2.4%	2.4%	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