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Legislative
Council
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MEMORANDUM

March 20, 2009

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 March 2009 economic, General Fund revenue, and cash fund revenue forecasts. Table 1 presents the General Fund overview based on current law and supplemental bills approved by the House and the Senate. Table 2 presents the General Fund overview based on the full package of supplemental bills, some of which are still under deliberation by the state legislature.

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Executive Summary

General Fund Overview

Table 1 presents the General Fund overview based on current law and supplemental bills approved by the House and the Senate. Revenue available for spending in the General Fund is $586.4 million below the amount budgeted in FY 2008-09. As shown in Table 2, this shortfall is reduced to $207.5 million once the full package of supplemental bills is incorporated. The current budget increases General Fund appropriations by 4.6 percent. Assuming the full package of supplemental bills, this forecast provides sufficient revenue to allow General Fund appropriations to increase 1.7 percent over the FY 2007-08 budget, absent other actions by the state legislature.

As shown in both tables, revenue will not be sufficient to allow General Fund appropriations to increase at all in FY 2009-10. The exact amount by which the revenue shortfall will restrain spending will depend on legislative actions taken this year. Programmatic cuts and permanent revenue increases will reduce the size of the budget shortfall. The use of one-time monies, such as reserve decreases and cash fund transfers, will push the shortfall into future budget years.

Based on Table 1, there is no money for the **Senate Bill 97-1 diversion** until FY 2011-12, the last year of the forecast period. If the full package of supplemental bills is incorporated, some money would be available beginning in FY 2010-11. No money is available under either scenario for the **House Bill 02-1310** transfer to transportation and capital construction.

Table 1 incorporates Senate Bills 183-204, 206, 207, 209, 211-214, and 217. Of note, Senate Bill 09-212 lowered the vendor fee that retailers can retain before remitting sales taxes to the state. Senate Bill 09-217, which distributes gaming revenue between the General Fund and various economic development programs, resulted in a distribution of $3.4 million in gaming revenue to the General Fund in FY 2008-09.

Table 2 incorporates the following bills still under the deliberation by the state legislature:

- Senate Bill 208: transfers $224.0 million from cash funds to the General Fund in FY 2008-09;
- Senate Bill 210: transfers tobacco Master Settlement Agreement monies to the General Fund in FY 2008-09 and FY 2009-10;
- Senate Bill 215: adjusts school finance appropriations;
- Senate Bill 219: sets the General Fund reserve equal to 2 percent of General Fund appropriations in FY 2008-09; and
- Senate Bill 227: postpones payments to the Fire and Police Pension Association.

Revenue Forecast

The FY 2008-09 forecast for total revenue subject to TABOR was decreased $289.5 million, or 3.0 percent, since the December forecast. The General Fund revenue forecast was decreased by $282.1

Table 1
March 2009 General Fund Overview*
(Dollars in Millions)

		Actual FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
1	Beginning Reserve	$516.3	$327.0	$274.3	$273.9	$286.1
2	General Fund Nonexempt Revenue	6,573.5	6,839.0	6,833.2	6,763.1	6,981.8
3	General Fund Exempt Revenue	1,169.4	92.3	0.0	555.0	1,048.4
4	Senate Bill 97-1 Diversion to the HUTF	-238.1	0.0	0.0	0.0	-83.6
5	Paybacks to Other Funds	0.0	-2.9	0.0	0.0	0.0
6	Transfers from Other Funds	0.1	0.0	0.0	0.0	0.0
7	Sales Taxes to Older Coloradans Fund and OASMCF	-5.8	-8.8	-10.9	-10.9	-10.9
8	Total Funds Available	$8,015.5	$7,246.6	$7,096.6	$7,581.1	$8,221.8
	APPROPRIATIONS AND OBLIGATIONS:					
9	Allowable General Fund Appropriations /A	$7,087.8	$7,519.2	$7,270.3	$7,259.1	$7,582.5
10	Supplemental Appropriations	$0.0	-$74.0	$0.0	$0.0	$0.0
11	*Available revenue will restrict allowable appropriations by:*	*0.0*	*-586.4*	*-422.1*	*-105.8*	*0.0*
12	**Actual Appropriations**	$7,087.8	$6,858.8	$6,848.2	$7,153.3	$7,582.5
13	Exceptions From the Appropriations Limit	31.9	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	168.0	156.6	164.8	175.3	212.4
15	Federal Medicaid Assistance	0.0	-196.6	-302.7	-152.9	0.0
16	Reimbursement for Senior and Disabled Veterans Property Tax Cut	79.8	85.2	91.4	97.6	103.4
17	Funds in Prior Year Excess Reserve to HUTF	166.2	29.0	0.0	0.0	0.0
18	Funds in Prior Year Excess Reserve to Capital Construction	83.1	14.5	0.0	0.0	0.0
19	Capital Construction Transfer	93.7	24.9	21.1	21.8	20.2
20	Accounting Adjustments	-22.0	NE	NE	NE	NE
21	Total Obligations	$7,688.5	$6,972.3	$6,822.7	$7,295.0	$7,918.5
22	**YEAR-END GENERAL FUND RESERVE**	$327.0	$274.3	$273.9	$286.1	$303.3
23	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	283.5	274.4	273.9	286.1	303.3
24	**GENERAL FUND EXCESS RESERVE**	$43.4	$0.0	$0.0	$0.0	$0.0
	TABOR RESERVE REQUIREMENT:					
25	General & Cash Fund Emergency Reserve Requirement	$300.0	$278.8	$275.1	$298.8	$324.5
26	Appropriations Growth	$433.1	-$260.9	-$10.6	$305.1	$429.2
27	Appropriations Growth Rate	6.48%	-3.66%	-0.15%	4.46%	6.00%
28	Addendum: Amount Directed to State Education Fund	$407.9	$355.5	$346.7	$378.1	$424.7

Totals may not sum due to rounding.

** Incorporates all budget-related bills approved by the House and Senate as of March 18, 2009. These include Senate Bills 183-204, 206, 207, 209, 211-214, and 217.*

Table 2
March 2009 General Fund Overview*
Assumes Passage of SB 208, SB 210, SB 215, SB 219, and SB 227
(Dollars in Millions)

		Actual FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
1	Beginning Reserve	$516.3	$327.0	$144.8	$270.0	$286.1
2	General Fund Nonexempt Revenue	6,573.5	6,839.0	6,833.2	6,763.1	6,981.8
3	General Fund Exempt Revenue	1,169.4	92.3	0.0	555.0	1,048.4
4	Senate Bill 97-1 Diversion to the HUTF	-238.1	0.0	0.0	-20.2	-105.4
5	Paybacks to Other Funds	0.0	-2.9	0.0	0.0	0.0
6	Transfers from Other Funds	0.1	224.2	1.5	0.0	0.0
7	Sales Taxes to Older Coloradans Fund and OASMCF	-5.8	-8.8	-10.9	-10.9	-10.9
8	Total Funds Available	$8,015.5	$7,470.9	$6,968.6	$7,556.9	$8,200.0
	APPROPRIATIONS AND OBLIGATIONS:					
9	Allowable General Fund Appropriations /A	$7,087.8	$7,519.2	$7,672.1	$7,154.4	$7,583.7
10	Supplemental Appropriations	$0.0	-$73.9	$0.0	$0.0	$0.0
11	*Available revenue will restrict allowable appropriations by:*	*0.0*	*-207.5*	*-922.7*	*0.0*	*0.0*
12	Actual Appropriations	$7,087.8	$7,237.8	$6,749.4	$7,154.4	$7,583.7
13	Exceptions From the Appropriations Limit	31.9	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	168.0	131.3	139.4	150.0	189.5
15	Federal Medicaid Assistance	0.0	-196.6	-302.7	-152.9	0.0
16	Reimbursement for Senior and Disabled Veterans Property Tax Cut	79.8	85.2	91.4	97.6	103.4
17	Funds in Prior Year Excess Reserve to HUTF	166.2	29.0	0.0	0.0	0.0
18	Funds in Prior Year Excess Reserve to Capital Construction	83.1	14.5	0.0	0.0	0.0
19	Capital Construction Transfer	93.7	24.9	21.1	21.8	20.2
20	Accounting Adjustments	-22.0	NE	NE	NE	NE
21	Total Obligations	$7,688.5	$7,326.1	$6,698.6	$7,270.8	$7,896.8
22	**YEAR-END GENERAL FUND RESERVE**	$327.0	$144.8	$270.0	$286.1	$303.3
23	**STATUTORY RESERVE**	283.5	144.8	270.0	286.2	303.3
24	**GENERAL FUND EXCESS RESERVE**	$43.4	$0.0	$0.0	$0.0	$0.0
	TABOR RESERVE REQUIREMENT:					
25	General & Cash Fund Emergency Reserve Requirement	$300.0	$278.8	$275.1	$298.8	$324.5
26	Appropriations Growth	$433.1	$118.1	-$488.4	$405.0	$429.3
27	Appropriations Growth Rate	6.48%	1.66%	-6.75%	6.00%	6.00%
28	Addendum: Amount Directed to State Education Fund	$407.9	$355.5	$346.7	$378.1	$424.7

Totals may not sum due to rounding.

** In addition to the bills listed above, this analysis incorporates all budget-related bills approved by the House and Senate as of March 18, 2009.*

million, while the cash fund forecast was decreased by $4.0 million. Changes to the General Fund and cash fund forecasts do not sum to the change in the forecast for TABOR revenue because the General Fund will receive an additional $3.4 million in TABOR-exempt revenue.

- Nearly all of the decrease in the **General Fund revenue** forecast resulted from a decrease in expectations for income taxes, primarily individual income taxes. The unprecedented rate at which the economy contracted in response to the events in the financial markets caused reduced expectations for taxes from business profits and individual wages and salaries. The General Fund revenue forecast was reduced 3.9 percent in FY 2008-09 relative to the December forecast. In FY 2008-09, General Fund revenue will fall $812 million, or 10.5 percent, from the prior year. In FY 2009-10, revenue will fall another $98 million, or 1.4 percent.

- **Cash Fund revenue** will increase 5.2 percent in FY 2008-09. The FY 2008-09 forecast was lowered $4.0 million, or 0.2 percent, from December's projection. The forecast for cash fund revenue in FY 2009-10 was increased by $158.3 million, mostly as a result of the enactment of Senate Bill 09-108 (FASTER), which increases vehicle registration fees and places a fee on car rentals. However, even with this increase in revenue, total cash fund revenue is expected to decrease 1.2 percent in FY 2009-10 as a result of the reduction in the forecast for severance taxes due to falling energy prices and lower expectations for fee revenue and interest earnings to a broad range of cash funds. Of note, the balance of the Unemployment Insurance Trust Fund is under considerable strain and is projected to fall to below $50 million by the end of FY 2009-10.

- The current estimate for the amount of revenue that will be retained by the state during the **Referendum C time-out period** is $3.7 billion, down from $4.0 billion in the last forecast. The amount of revenue retained over the 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 expectations for inflation and population affect the TABOR base from which the retained amount is calculated. Also, changes to federal tax policy impact receipts in Colorado. Finally, economic and other changes that affect revenue collections change the retained amount. Table 3 presents the history and forecast for revenue retained by Referendum C.

Table 3
History and Projections of Revenue Retained by Referendum C
(Dollars in Millions)

Actual	
2005-06	$1,116.1
2006-07	$1,308.0
2007-08	$1,169.4
Projections	
2008-09	$92.3
2009-10	$0.0
2010-11	$555.0
2011-12	$1,048.4

- 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 4 shows TABOR revenue, the estimated TABOR limit, the voter-approved revenue retained under Referendum C, and the revenue projected to be refunded to taxpayers during the four-year forecast horizon.

National Economy

The national economy is suffering through a deep contraction due to the confluence of a sharp drop in spending and investment, tight credit, loss of wealth, and uncertainty. The nation's policy makers are taking steps to break the adverse cycle resulting from these conditions. If the financial system begins to recover and confidence improves, economic growth should resume in 2010. However, because the downturn was caused by major disruptions to the foundations of the economy, there are risks that the recession will last longer.

Colorado Economy

The recession has fully taken hold in Colorado, with consumer and business optimism at record-low levels. Unemployment continues to move upward as job losses are further depressing consumer spending. Although many are choosing to save, others who want to make big-ticket purchases are prevented from doing so by tight credit markets, making economic recovery difficult. The Colorado economy will be in recession until some time in 2010. Colorado's relatively-healthy housing market, diverse economy, and skilled workforce and the stimulus efforts of the federal government will moderate the impacts of the recession and contribute to economic recovery. The recovery will unfold with modest growth rates throughout the remainder of the forecast period indicative of credit-constrained markets.

Table 4
March 2009 Forecast for the TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

		Actual 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	$7,738.8	$6,914.0	$6,819.2	$7,304.0	$8,016.2
2	Cash Funds	2,259.8	2,378.3	2,350.7	2,654.6	2,798.9
3	**Total TABOR Revenue**	**$9,998.6**	**$9,292.3**	**$9,169.9**	**$9,958.7**	**$10,815.1**
	Revenue Limit					
4	Allowable TABOR Growth Rate	5.6%	4.2%	5.9%	2.6%	3.9%
5	Inflation (from prior calendar year)	3.6%	2.2%	3.9%	1.0%	2.1%
6	Population Growth (from prior calendar year)	2.0%	2.0%	2.0%	1.6%	1.8%
7	Allowable TABOR Limit /B	$8,829.1	$9,200.0	$9,678.6	$9,403.7	$9,766.7
8	Voter Approved Revenue Change (Referendum C)	$1,169.4	$92.3	$0.0	$555.0	$1,048.4
9	Total Allowable Revenue	NA	NA	NA	$11,313.3	$11,750.0
	Retained/Refunded Revenue					
10	Retained Revenue (General Fund Exempt)	$1,169.4	$92.3	$0.0	$555.0	$1,048.4
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 revenue reported in other tables because they exclude 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 5 illustrates revenue collections for FY 2007-08 and projections for FY 2008-09 through FY 2011-12.

In FY 2008-09, General Fund revenue will fall $812 million, or 10.5 percent, from the prior year. In FY 2009-10, revenue will fall another $98 million. The unprecedented rate at which the national and Colorado economies contracted in response to the events in the financial markets caused reduced expectations for sales and income taxes in FY 2008-09 and FY 2009-10. The forecast for General Fund revenue in FY 2008-09 decreased $282.1 million from the amount expected in the December forecast. Nearly all of the decrease came as a result of lower expectations for income taxes. While the forecast for sales taxes did not change markedly, the forecast for sales taxes would have been reduced if not for Senate Bill 09-212, which lowered the vendor discount that retailers can retain before remitting taxes to the state.

The forecast for General Fund revenue was also reduced for FY 2009-10. Since December, it has become clear that the issues that caused the financial crisis will take several years to be resolved. We expect the economy to continue to contract for a longer period of time than had been anticipated in December. As a result, expectations for General Fund revenue in FY 2009-10 were reduced by $427.6 million relative to the December forecast. Most of the decrease occurred in the forecast for individual income taxes, with a smaller decrease in the forecast for corporate income taxes.

Individual income taxes will decrease $550.0 million in FY 2008-09 from the prior year, or 11.9 percent, and an additional $83.2 million, or 1.9 percent, in FY 2009-10. More than two-thirds of the decrease in FY 2008-09 is attributable to lower revenue from capital gains, royalties, and rents, with the remainder attributable to lower revenue on wages, salaries, and other income. Individual income taxes will recover slowly along with the economy in FY 2010-11, and at a more healthy growth rate in FY 2011-12.

The forecast for individual income taxes was reduced by $260.6 million in FY 2008-09 compared with the December forecast. Expectations for estimated individual income taxes were reduced by $36.6 million on a cash accounting basis. 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. Reduced expectations for taxes from wages, salaries, and other income, reduced the forecast by $110.5 million on a cash accounting basis. While steep declines in stock market values had been anticipated in December, the speed and depth of job losses over the last few months were unexpected. The forecast for individual income taxes was also reduced based on expectations for increased worker furloughs and lower wage growth.

The largest contributor to the $260.6 million decrease in the forecast for FY 2008-09 was a change in the anticipated accrual for individual income taxes of $113.5 million. While cash accounting records revenue during the time period it is collected, accrual accounting records revenue in the time period in which the economic activity that generated the revenue occurred. An accrual is an accounting adjustment required by the Governmental Accounting Standards Board.

The forecast for individual income taxes was also reduced for FY 2009-10 relative to the December forecast. Changes in the timing of the economic recovery and lower expectations for the strength of the recovery reduced the income tax forecast. The projection for individual income taxes was reduced by $424.2 million compared with the December forecast.

The forecast for **corporate income taxes** was reduced to reflect lower-than-expected collections due to the economic downturn and tax breaks provided through the economic stimulus packages of 2008 and 2009. Domestic and international demand for goods and services dropped considerably in the first half of the fiscal year, depressing corporate profits. Tax credits from the Economic Stimulus Act of 2008 further reduced tax revenue. In FY 2008-09, corporate income taxes are expected to total $350.9 million, a 30.9 percent drop from the prior year. In FY 2009-10, corporate income taxes are expected to decline an additional 9.2 percent to $318.7 million. The decline in FY 2009-10 reflects a slow economic recovery and the impact of federal tax credits from the American Recovery and Reinvestment Act.

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 $355.5 million in FY 2008-09 and $346.7 million in FY 2009-10, declines of 12.9 and 2.5 percent, respectively.

Sales tax revenue dropped 5.7 percent through the first eight months of FY 2008-09. This equates to a decline in spending on taxable items of about $3 billion. Rising unemployment, economic uncertainty, and a substantial loss of wealth have caused consumers to curtail their spending and increase savings. In particular, the drop in purchases of automobiles and other durable goods, which typically account for about a quarter of sales tax collections, has depressed tax revenue. Sales of durable goods declined 16 percent in the first half of FY 2008-09 compared to the first half of FY 2007-08. Businesses, which contribute around 40 percent to state sales tax collections, have also reduced spending during the recession.

Figure 1 shows annual state sales tax revenue – which comprises about 28 percent of state General Fund revenue – since FY 1997-98 and includes the forecast through FY 2011-12. Sales tax revenue will decrease 6.2 percent in FY 2008-09. The forecast for sales tax revenue for FY 2008-09 was lowered slightly from the December forecast due to expectations of further deterioration in spending for the rest of the fiscal year. However, the passage of Senate Bill 09-212, which will increase revenue to the state by an estimated $12 million in FY 2008-09 by lowering the vendor discount that retailers can retain for their costs of sales tax collections, caused the forecast to increase by $2.6 million from the December forecast.

Sales tax revenue will increase 1.3 percent in FY 2009-10. The sales tax forecast for FY 2009-10 was essentially unchanged from the December forecast. The abrupt pullback in spending that is now occurring will abate over FY 2009-10 as consumers will have largely cut most discretionary spending by the first part of the new fiscal year. The tax relief from the American Recovery and Reinvestment Act and incentives intended to spur consumption should help prevent spending from falling further. Finally, the increased revenue to the state from the reduction in the vendor discount — estimated at $38 million — will increase sales tax revenue. However, spending will remain anemic as a result of job losses, high debt levels, and less use of credit for consumption.

Use tax revenue began to decline sharply in the last quarter of 2008. Since the tax is mostly paid by businesses, revenue began to fall with the decrease in business profits and subsequent decreases in investment and spending with the increase in economic uncertainty and tightening of credit markets. Nationally, business investment in equipment and software dropped 28.8 percent in the fourth quarter of 2008.

Use tax revenue is expected to decline 7.0 percent in FY 2008-09 and 5.5 percent FY 2009-10. The forecast for FY 2008-09 was lowered by $5.2 million, or 2.9 percent, relative to the December forecast due to the deterioration in the economy, strained credit markets, and a large drop in demand for goods and services that will leave business with less income for spending and investment. Due to these factors, the FY 2009-10 forecast was reduced by $7.1 million, or 4.1 percent.

Figure 1
State Sales Tax Collections, Actual and Forecast from FY 1997-98 to FY 2011-12
(Dollars in Billions)

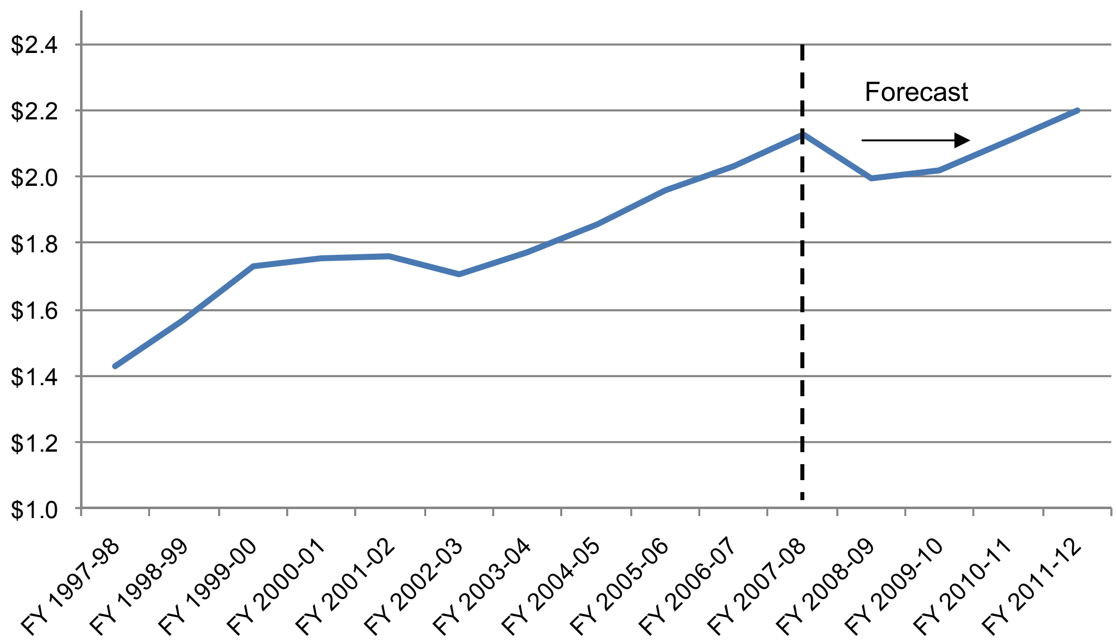


Table 5
March 2009 General Fund Revenue Estimates
(Dollars in Millions)

Category	Actual 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	$2,126.6	4.9	$1,994.0	-6.2	$2,019.6	1.3	$2,108.4	4.4	$2,197.8	4.2
Use	191.3	5.3	177.9	-7.0	168.2	-5.5	172.3	2.5	180.6	4.8
Cigarette	45.2	-4.0	44.3	-2.1	41.9	-5.4	41.4	-1.0	40.9	-1.3
Tobacco Products	12.4	-4.2	13.6	9.5	13.5	-0.4	13.7	1.0	14.1	3.3
Liquor	35.7	5.0	36.1	1.0	37.8	4.7	38.2	1.3	38.9	1.6
TOTAL EXCISE	$2,411.1	4.7	$2,265.8	-6.0	$2,281.0	0.7	$2,374.1	4.1	$2,472.3	4.1
Net Individual Income	$4,973.7	2.1	$4,423.7	-11.1	$4,340.5	-1.9	$4,755.0	9.5	$5,336.0	12.2
Net Corporate Income	507.9	2.0	350.9	-30.9	318.7	-9.2	336.8	5.7	399.5	18.6
TOTAL INCOME TAXES	$5,481.6	2.1	$4,774.6	-12.9	$4,659.3	-2.4	$5,091.8	9.3	$5,735.5	12.6
Less: Portion diverted to the State Education Fund	-407.9	3.2	-355.5	-12.9	-346.7	-2.5	-378.1	9.1	-424.7	12.3
INCOME TAXES TO GENERAL FUND	$5,073.7	2.0	$4,419.1	-12.9	$4,312.6	-2.4	$4,713.6	9.3	$5,310.7	12.7
Insurance	188.3	5.0	182.0	-3.3	182.2	0.1	186.0	2.1	192.0	3.2
Pari-Mutuel	2.7	-8.6	0.6	-78.9	0.4	-33.7	0.4	-3.4	0.4	-3.4
Investment Income	17.9	-36.4	13.5	-24.6	16.4	21.2	20.3	23.8	30.8	51.9
Court Receipts	29.6	3.0	24.5	-17.2	17.7	-27.9	0.2	-98.6	0.3	4.7
Gaming	0.0	-100.0	3.4	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	19.5	17.0	22.4	14.8	23.0	2.7	23.3	1.5	23.7	1.6
TOTAL OTHER	$258.1	-1.7	$246.4	-4.5	$239.6	-2.7	$230.3	-3.9	$247.1	7.3
GROSS GENERAL FUND	**$7,742.9**	**2.7**	**$6,931.3**	**-10.5**	**$6,833.2**	**-1.4**	**$7,318.0**	**7.1**	**$8,030.1**	**9.7**
REBATES & EXPENDITURES:										
Cigarette Rebate	$12.7	-3.9	$12.9	2.0	$12.2	-5.4	$12.1	-1.0	$12.0	-1.3
Old-Age Pension Fund	93.3	3.7	98.6	5.7	106.8	8.3	116.3	9.0	126.9	9.1
Aged Property Tax & Heating Credit	10.4	24.1	9.0	-13.2	8.6	-4.6	8.1	-6.0	7.6	-6.0
Interest Payments for School Loans	11.9	12.2	5.5	-53.6	6.7	21.2	8.3	23.8	12.6	51.9
Fire/Police Pensions	38.8	0.1	29.5	-23.9	29.5	0.0	29.5	0.0	52.5	77.7
Amendment 35 GF Expenditures	1.0	-3.1	1.0	-0.9	0.9	-4.9	0.9	0.1	0.9	-0.9
TOTAL REBATES & EXPENDITURES	$168.0	3.8	$156.6	-6.8	$164.8	5.2	$175.3	6.4	$212.4	21.2

Totals may not sum due to rounding.

Cash Fund Revenue

Table 6 summarizes the forecast for revenue to cash funds subject to the TABOR spending limit. The forecast for cash fund revenue was decreased by $4.0 million in FY 2008-09 compared with the December forecast, or 0.2 percent. Although transportation-related revenue and unemployment insurance revenue is coming in at a higher-than-expected rate in the current fiscal year, the increase in the forecasts for these revenue sources was offset by a decline in the projections for the umbrella group of other cash funds as a result of lower-than-expected fee revenue and interest earnings. Total cash fund TABOR revenue is expected to increase 5.2 percent in FY 2008-09.

The forecast for cash fund revenue in FY 2009-10 was increased by $158.3 million compared with December, mostly as a result of the enactment of Senate Bill 09-108 (FASTER), which increases vehicle registration fees and places a fee on car rentals. Excluding the increase in revenue from FASTER, expectations for cash fund revenue in FY 2009-10 declined $16.0 million from the last forecast. The forecast for unemployment insurance revenue increased, reflecting the steep and rapid job losses the state has experienced. However, a substantial reduction in the forecast for severance taxes due to falling energy prices and lower expectations for fee revenue and interest earnings to a broad range of cash funds caused the forecast to decline. As a result of the decreases in these revenue sources, total cash fund revenue is expected to decline 1.2 percent in FY 2009-10 compared with the prior year, even with the increase in revenue from Senate Bill 09-108.

The forecast for cash fund revenue was increased by a total of $682.1 million over the four-year forecast period, largely as a result of the additional revenue that will be generated by Senate Bill 09-108.

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 2.6 percent in FY 2008-09, after increasing 4.5 percent last year, and will grow at an annual average rate of 4.3 percent over the four-year forecast period. Revenue to these cash funds will increase 24.0 percent in FY 2009-10. The boost in FY 2009-10 is due to an additional $151.1 million expected to be collected as a result of Senate Bill 09-108.

Motor fuel taxes will fall 1.3 percent in FY 2008-09 and an additional 1.4 percent in FY 2009-10. Although fuel prices have recently stabilized, demand for motor fuel is expected to remain weak due to the recession. Motor fuel taxes will remain flat over the forecast period, decreasing at an average annual rate of 0.1 percent through FY 2011-12.

Vehicle registration fees will increase 0.2 percent in FY 2008-09, despite the fact that new car sales have plummeted in recent months. The slightly positive growth rate is due to increases in registration fees resulting from legislation enacted in 2008 and a slight boost from the tax credit for new car sales provided for in the American Recovery and Reinvestment Act. Senate Bill 09-108 will boost registration fee revenue subject to TABOR by an additional $126.9 million in FY 2009-10 and each year thereafter.

Senate Bill 09-108 will also increase revenue to the Highway Users Tax Fund by $24.2 million in FY 2009-10 as a result of a new $2 daily fee on rental vehicles. Revenue from this fee will increase at an average annual rate of 1.0 percent between FY 2009-10 and FY 2011-12.

Forecasts for ***unemployment insurance*** (UI) revenue, benefit payments, and the UI Trust Fund balance are shown in Table 7. The

Table 6
Cash Fund Revenue Estimates by Category, March 2009
(Dollars in Millions)

	Actual 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 /A	**$920.5**	**$896.4**	**$1,111.8**	**$1,130.1**	**$1,158.6**	
% Change	4.5%	-2.6%	24.0%	1.6%	2.5%	**5.9%**
Unemployment Insurance	**$426.6**	**$520.9**	**$546.3**	**$660.3**	**$636.9**	
% Change	0.3%	22.1%	4.9%	20.9%	-3.5%	**10.5%**
Employment Support Fund	**$21.5**	**$21.4**	**$21.2**	**$21.3**	**$22.0**	
% Change	-3.7%	-0.3%	-1.4%	0.9%	3.1%	**0.6%**
Severance Tax	**$170.1**	**$249.0**	**$40.5**	**$173.4**	**$278.1**	
% Change	17.2%	46.4%	-83.7%	327.9%	60.4%	**13.1%**
Limited Gaming Fund /B	**$113.6**	**$94.3**	**$97.7**	**$103.3**	**$110.3**	
% Change	-3.6%	-17.0%	3.6%	5.8%	6.8%	**-0.7%**
Insurance-Related	**$64.7**	**$50.6**	**$47.8**	**$49.7**	**$53.1**	
% Change	-2.1%	-21.8%	-5.5%	4.0%	6.9%	**-4.8%**
Regulatory Agencies	**$56.8**	**$59.8**	**$58.3**	**$58.5**	**$60.2**	
% Change	11.9%	5.2%	-2.5%	0.4%	2.9%	**1.5%**
Capital Construction - Interest /C	**$19.3**	**$7.7**	**$0.8**	**$1.2**	**$1.7**	
% Change	29.2%	-60.1%	-89.4%	50.4%	36.7%	**-45.6%**
Other Cash Funds /D	**$466.7**	**$478.2**	**$426.3**	**$456.6**	**$478.0**	
% Change	20.8%	2.5%	-10.9%	7.1%	4.7%	**0.6%**
Total Cash Fund Revenues	**$2,259.8**	**$2,378.3**	**$2,350.7**	**$2,654.6**	**$2,798.9**	
Subject to the TABOR Limit	**7.1%**	**5.2%**	**-1.2%**	**12.9%**	**5.4%**	**5.5%**

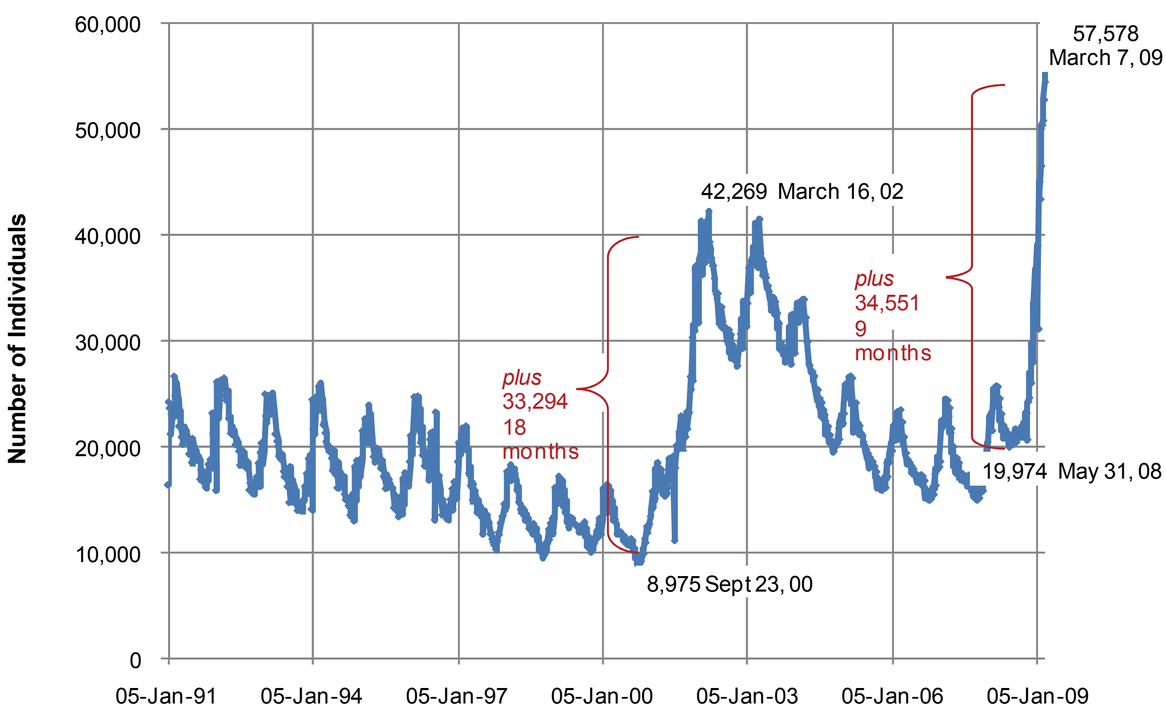
Totals may not sum due to rounding.
**CAAGR: Compound Average Annual Growth Rate.*
/A Incorporates Senate Bill 09-108.
/B Excludes new gaming revenue resulting from extended gaming limits authorized by Amendment 50 because this revenue is exempt from TABOR.
/C Includes interest earnings to the Capital Construction Fund and the Controlled Maintenance Trust Fund.
/D Includes revenue to Mesa and Western State colleges in FY 2007-08 and to Fort Lewis, Mesa, and Adams State colleges in FY 2008-09.

recession is placing considerable strain on the UI Trust Fund. As shown by Figure 2, more people have been added to the unemployment insurance roles in the last 9 months than during the 18-month recessionary period between September, 2000 and March, 2002. As a result, total UI benefit payments are expected to increase from $329.0 million in FY 2007-08 to $834.1 million in FY 2008-09 and remain at that elevated level through FY 2009-10. These benefit payments do not include additional UI benefits given to claimants from the federal government as a result of the American Recovery and Reinvestment Act.

Meanwhile, UI revenue, which includes UI taxes and interest earnings, will increase 22.1 percent in FY 2008-09 and 4.9 percent in FY 2009-10, after only a slight increase in FY 2007-08. The fund balance will fall precariously close to insolvency by the end of FY 2009-10, when it is expected to be $44.7 million. Tax revenues will respond to the recession and benefit payments will begin to decrease in FY 2010-11 and FY 2011-12. The fund balance will recover somewhat by the end of FY 2011-12 to $225.6 million.

It is expected to take several years to rebuild the UI Trust Fund balance after this recession. The UI tax base has remained constant at the first $10,000 in taxable wages earned by each employed person since 1998. In addition, the size of the fund balance that triggers the lowest of twelve tax rate schedules has remained constant at $450 million since July 1, 1991. This year, a fund balance of $450 million represents 0.53 percent of taxable

Figure 2
Individuals Receiving Weekly Unemployment Insurance Benefits
(Excludes Extended Benefits)



Source: Colorado Department of Labor and Employment.

Table 7
Unemployment Insurance Trust Fund Forecast, March 2009
Revenues, Benefits Paid, The UI Fund Balance, and Solvency
(Dollars in Millions)

	Actual 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 *
Beginning Balance	$601.8	$699.8	$365.1	$43.7	$106.9	-35.1%
Plus Income Received						
Regular Taxes /A	$192.3	$262.9	$240.9	$281.4	$270.2	8.9%
Solvency Taxes	$203.1	$235.1	$298.9	$376.1	$358.9	
Interest	$31.2	$22.8	$6.6	$2.8	$7.8	-29.2%
Total Revenues	**$426.6**	**$520.9**	**$546.3**	**$660.3**	**$636.9**	10.5%
% Change	0.3%	22.1%	4.9%	20.9%	-3.5%	
Less Benefits Paid	($329.0)	($834.1)	($846.6)	($575.7)	($496.3)	10.8%
% Change	13.2%	153.5%	1.5%	-32.0%	-13.8%	
Accounting Adjustment	$0.5	($21.4)	($21.2)	($21.3)	($22.0)	NA
Ending Balance	**$699.8**	**$365.1**	**$43.7**	**$106.9**	**$225.6**	-24.6%
Solvency Ratio:						
Fund Balance as a Percent of Total Annual Private Wages	0.83%	0.42%	0.05%	0.12%	0.25%	-25.9%

Totals may not sum due to rounding.
NA: Not Applicable.
**CAAGR: Compound Average Annual Growth Rate.*
/A This includes regular UI taxes, 50% of the UI surcharge, penalty receipts, and the accrual adjustment on taxes.

wages, down from 1.48 percent in 1992. By the end of the forecast period, this ratio will fall to 0.50 percent. Taxable wages as a percent of total wages have decreased from 44.7 percent in 1988 to 35.2 percent in 2007. This percentage will continue to decrease as long as average wages increase. Meanwhile, the average benefit payment increases each year with average wages.

The forecast for ***severance taxes*** in FY 2008-09, including interest earnings, was increased by $10.7 million due to higher-than-expected tax receipts from oil and natural gas production, which makes up over 90 percent of severance taxes in most years. Revenue from oil and gas producers came in strong in the first eight months of the current fiscal year despite the decline in economic activity both nationally and globally. However, it is expected that revenue will slow in the remainder of the fiscal year because of a reduction in energy demand and prices. Revenue in FY 2008-09 is projected to total $249.0 million. The weak economy and low natural gas prices will reduce collections in FY 2009-10.

Natural gas prices averaged about $7.00 per thousand cubic feet (Mcf) in 2008, but are expected to drop to an average of $3.24 per Mcf in 2009 – a steep 54 percent decline – in response to the recession and weak demand. Industrial production – which accounts for around 30 percent of natural gas consumption in the United States – has dropped dramatically in recent months due to the recession. In response to lower prices, credit market problems, and the fall in economic activity, energy producers on the western slope have scaled down their drilling activities. Production in this area is particularly sensitive to price movements because of the expense required to operate there.

The sharp decline in energy prices in conjunction with the claiming of higher severance tax credits for property taxes related to oil and gas production will substantially reduce revenue in FY 2009-10. In FY 2009-10, total severance tax revenue will drop to $40.5 million, a decrease of 83.7 percent. This low level of revenue will cause funding for many of the programs and entities that receive severance tax revenue to be reduced significantly. For example, certain programs funded from the Operational Account of the Severance Tax Trust Fund, such as water- and agriculture-related programs, clean energy development, wildlife conservation, and low-income energy assistance, will have their funding cut in FY 2009-10. This will occur due to a provision in law that requires funding for these programs to be reduced if there is insufficient severance tax revenue to fully fund the programs.

In the last two fiscal years of the forecast period, severance taxes are expected to grow to $173 million and $278 million, respectively, as natural gas prices and consumption rebound with an economic recovery. Also, the likely addition of more pipeline capacity by 2011 will push natural gas prices higher. This will contribute to higher tax revenue as it will allow Colorado producers to sell more of their natural gas on the national market, which will help boost their prices and income.

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. In 2008, high gas prices and the deterioration of the economy caused revenue to drop. In the last quarter of 2008 and the first quarter of 2009, job losses caused fewer people to gamble. In addition, a relatively minimal part of the FY 2008-09 decline can be attributed to a change in the gaming tax rate 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.

The recent passage of Amendment 50, along with local voter-approval of extended limited gaming, will result in the state seeing high growth rates in gaming revenue beginning in FY 2009-10. Although the forecast for new revenue resulting from Amendment 50 is described below, the new revenue is not included in Table 6 because it is exempt from TABOR.

Gaming revenue transfers and the budget. The March General Fund revenue forecast indicates that revenue will be insufficient to increase General Fund appropriations by the 6 percent limit during FY 2008-09. 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 if the forecast indicates that revenue will not be sufficient to allow for 6 percent appropriations growth.

Senate Bill 09-217, which has been adopted by the legislature, reduced these transfers to address this issue. If not for Senate Bill 09-217, the statutes would have required the programs to have up to the entire amount of their portion of gaming revenue transferred to the General Fund. Under Senate Bill 09-217, the Colorado Travel and Tourism Promotion Fund, the State Council on the Arts Cash Fund, the New Jobs Incentives Cash Fund, and the Film Incentives Cash Fund will receive a total of $18.7 million.

The statutes also require that the General Fund receive up to the entire amount of gaming revenue allocated to the Clean Energy Fund, which is administered by the Governor's Energy Office, at the end of the fiscal year if the 6 percent limit cannot be met due to insufficient revenue. As a result of this law and the transfers to the economic development programs designated by Senate Bill 09-217, the General Fund is expected to receive $3.4 million in gaming revenue in FY 2008-09.

Amendment 50, passed by voters in November, will increase gaming revenue during the next few years. Each of the three gaming towns held elections to decide whether bet limits can be raised from $5 up to $100, whether casinos can stay open 24 hours per day, and whether to add craps and roulette to the current mix of games. By late January 2009, voters in all three towns approved the expanded gambling limits. Gaming taxes resulting from Amendment 50 are estimated to grow to $31 million in FY 2009-10, $34 million in FY 2010-11, and $48 million in FY 2011-12.

All ***other cash fund revenue*** subject to TABOR will increase 2.5 percent in FY 2008-09. 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 $60.6 million this fiscal year. However, revenue to these funds will decrease 10.9 percent in FY 2009-10, based on the assumption that the schools will regain enterprise status in FY 2009-10, and as a result of lower fee collections during the recession and reduced interest earnings on the funds due to historically low interest rates.

Federal Mineral Leasing Revenue

Table 8 presents the March 2009 forecast for Federal Mineral Leasing (FML) revenue in comparison with the December 2008 forecast. Since FML revenue is not deposited into the General Fund and is exempt from the TABOR amendment to the state constitution, the forecast is presented separately from other sources of state revenue.

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

As indicated in Table 8, FML revenue has grown from $50 million in FY 2002-03 to $154 million in FY 2007-08. Similar to severance taxes, FML revenue has increased in FY 2008-09 because of strong price increases for natural gas and oil during much 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. However, the recent fall in energy prices has slowed the amount of FML revenue the state has received over the past several months. Thus, the forecast for FML revenue for FY 2008-09 was lowered by $66 million and is expected to total $231 million.

Table 8
Federal Mineral Leasing Revenue Distributions
(Millions of Dollars)

Year	March 2009 Forecast	% Chg.	December 2008 Forecast	% Chg. from last forecast
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	$230.9	50.3%	$296.5	-22.1%
FY 2009-10	$125.3	-45.7%	$219.0	-42.8%
FY 2010-11	$148.5	18.5%	$250.6	-40.8%
FY 2011-12	$192.1	29.4%	$284.4	-32.4%

*Actual revenue distributed.

As with severance taxes, FML revenue will drop substantially in FY 2009-10 due to weak demand for energy and falling energy prices. However, the reduction will not be as pronounced as with severance tax revenue because FML revenue is not affected by the tax credit allowed against severance taxes. It is expected that FML revenue will come in at $125 million in FY 2009-10, and will resume growth in the latter two years of the forecast as the economy recovers and energy prices increase.

It is important to note that statutes allow 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 statutes 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. The current forecast indicates that there is insufficient revenue for the state to increase General Fund appropriations by 6 percent and to maintain the 4 percent reserve in FY 2008-09 and FY 2009-10. SB 09-208, which is currently pending before the General Assembly, transfers $33.7 million from the fund, or the balance of the fund, whichever is less, to the General Fund at the end of FY 2008-09.

National Economy

The national economy is suffering through one of its deepest recessions since the end of World War II. A loss of wealth from declining property values and the stock market, steep and rapid job losses, and the strained financial system have contributed to historically-low confidence levels and uncertainty. The convergence of these conditions is resulting in sharp declines in spending, investment, global trade, and entrepreneurial risk-taking – all activities necessary for economic growth. Moreover, the fall in activity in the broad economy is causing further weakness in the financial sector, resulting in an adverse cycle and making recovery difficult.

The nation's policy makers and the Federal Reserve are taking steps to break the negative cycle dragging down the economy. In February, the federal government enacted the American Recovery and Reinvestment Act to help offset low levels of spending and investment. The $787 billion package includes a combination of spending and tax provisions, such as spending on infrastructure, energy programs, aid to state and local governments, and social safety net programs. The package's tax provisions are intended to boost spending and spur investment. Meanwhile, the Federal Reserve and Treasury Department continue to take unprecedented steps to stabilize the financial system and unclog the nation's credit markets. Table 9 shows the forecast for national economic indicators.

Gross Domestic Product

The drop in economic activity over the past several months has been substantial. Preliminary data for **Gross Domestic Product** (GOP) for the fourth quarter of 2008 shows a contraction of 6.2 percent, the steepest decline since the first quarter of 1982. This follows a drop of 0.5 percent in 2008's third quarter. The fourth quarter's drop in economic output was largely driven by a sharp pullback in spending and investment as consumers and businesses held onto cash and paid down debt. Fixed investment, which consists of purchases of residential and nonresidential structures and equipment and software, dropped 21.3 percent, while personal consumption dropped 4.3 percent, the largest decline since 1980.

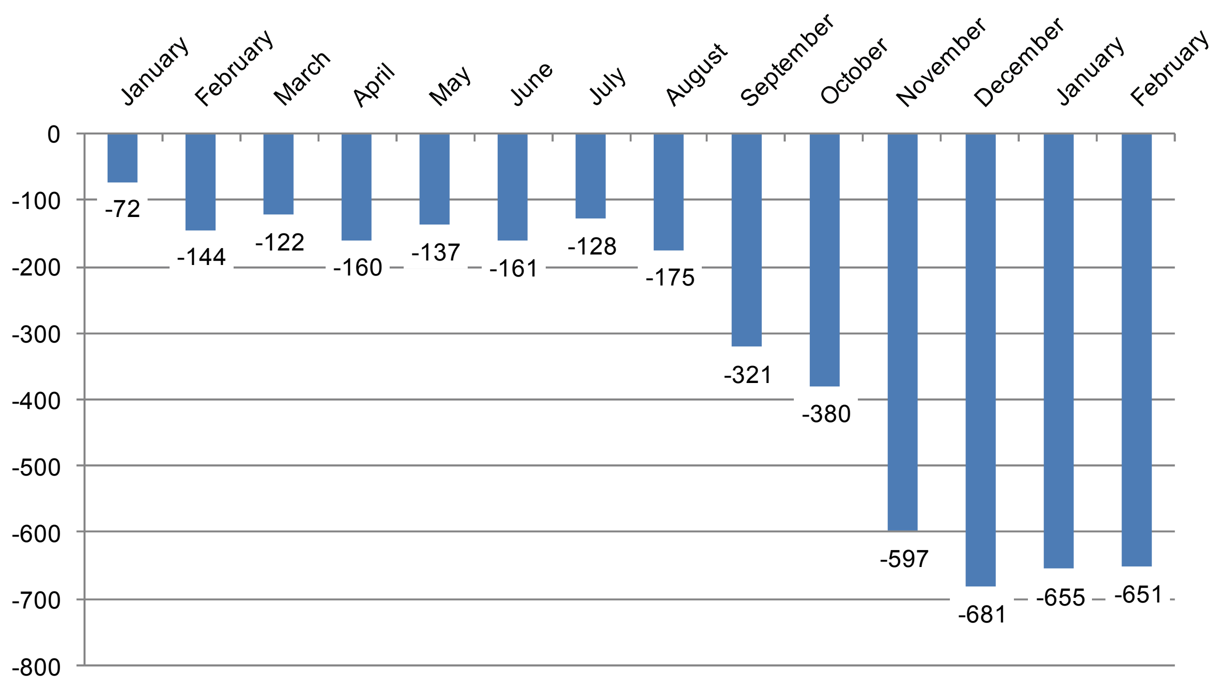
- Another large contraction in GDP is expected in the first quarter of 2009. However, declines in economic output should end toward the last part of the year. GDP for all of 2009 is expected to drop 1.6 percent. Assuming the financial system begins to recover and confidence begins to rebound, economic output in 2010 should begin expanding again.

Job Market

The nation's employers have cut jobs at a high rate in response to declining demand for goods and services and uncertainty over future business prospects. Job losses have been widespread among most of the nation's industries, signifying the broad nature of the downturn. Health and educational services is one notable industry that continues to show job growth.

The economy has shed 4.4 million jobs since the beginning of the recession, with three -quarters of the losses occurring since September when the Federal Reserve and Treasury Department announced the need to inject $700 billion into the financial system. In February, another 651,000 jobs were lost, with the largest cuts occurring in professional and business services, manufacturing, and construction. The 2 million jobs lost over the

Figure 3
U.S. Net Monthly Job Losses Since January 2008
(In Thousands)



Source: U.S. Bureau of Labor Statistics.

December through February period is the largest three-month decline on record. Figure 3 shows monthly job losses since the recession began.

Reflecting substantial job losses, the nation's unemployment rate rose from 4.4 percent in March of 2007 to 8.1 percent in February. The large, rapid spike in the rate highlights the severity of the job market deterioration during the downturn. The number of unemployed people in the country now stands at 12.5 million.

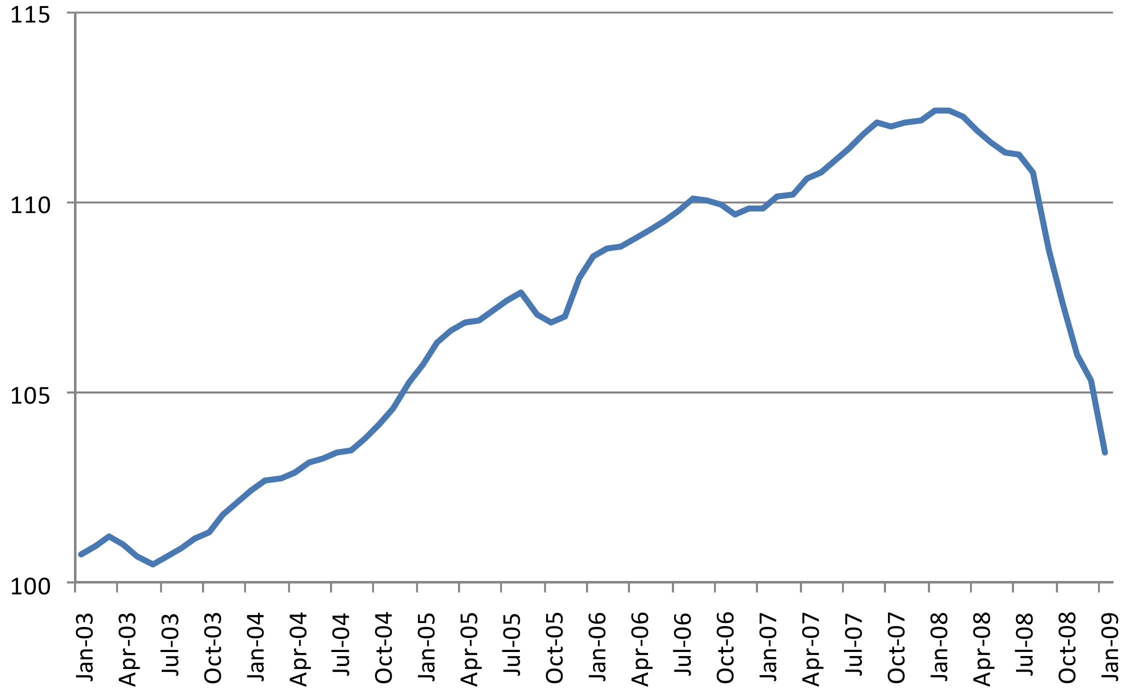
- The nation's economy is expected to lose another 2 million jobs during 2009, bringing the unemployment rate up to 9.5 percent by December. The rate will average 9.0 percent in 2009 and remain an elevated 9.1 percent in 2010.

Personal Income and Wages

Due to the large amount of job losses and drop in asset values, the level of personal income for the nation's households dropped at a 0.2 percent annualized rate in the fourth quarter of 2008; personal income grew only 3.8 percent for the year as a whole, after increasing 7.1 percent and 6.1 percent in the prior two years. Wages and salaries decreased by a similar amount in the same time period, and income from interest and dividend payments declined at a 2.7 percent annualized rate, equating to a decline in income of $56 billion.

- Personal income will decrease 1.5 percent in 2009 due to the poor job market and less income from dividends and interest

Figure 4
Industrial Production Index
(Three-Month Moving Average)



Source: Federal Reserve Board.

earnings. The level of total wages and salaries paid to the nation's workers is expected to decrease 3.5 percent in 2009. However, both of these measures should experience modest growth in 2010 as the economy slowly begins to expand.

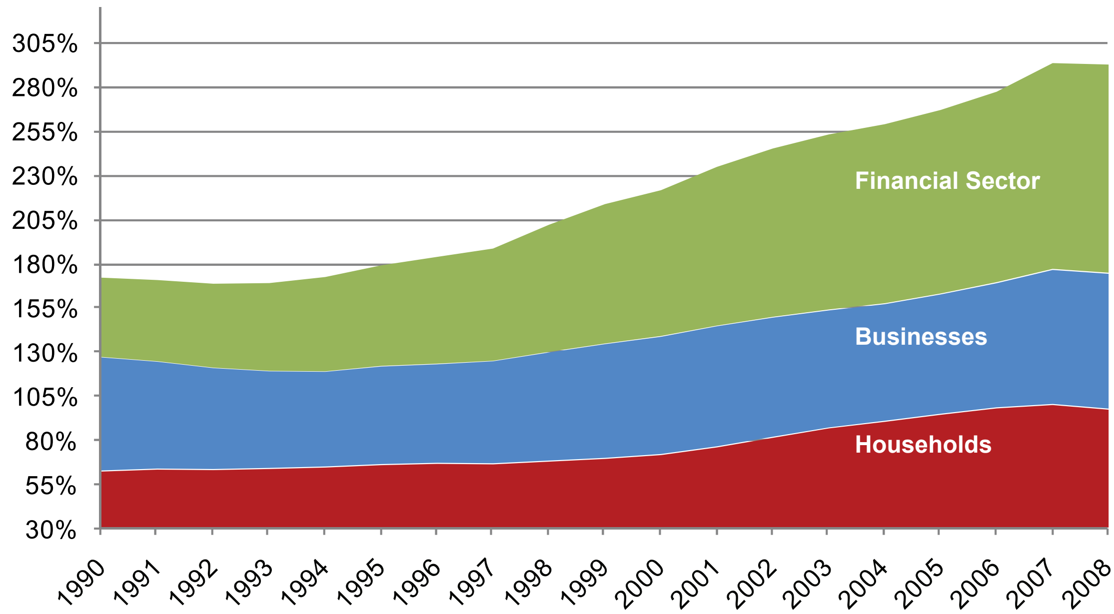
Industrial Production

Another measure illustrating the broad and deep drop in economic activity is the level of industrial production. This indicator measures the production of all physical goods produced in the United States. Industrial production dropped 10 percent in January compared with a year ago, the largest annual drop since the 1974-1975 recession. Figure 4 shows the industrial production index since the beginning of 2003.

High Debt Levels

The recession has been severe and disruptive because its root cause has been a collapse in the foundation that fueled the economy's growth and prosperity over the last several years. Households, businesses, and the financial system took on increasing amounts of debt spurred by easier access to cheap credit. Innovations in the financial system provided credit to more and more households and businesses, contributing to debt spending. The economy based its credit-funded consumption and investment on the assumption that wealth would continue to rise to support the borrowing. Figure 5 shows the rising levels of debt among households, businesses, and the financial sector since 1990. During this period private-sector debt rose from 170 percent of GDP to nearly 300 percent.

Figure 5
U.S. Private-Sector Debt as a Percent of GDP



Source: Federal Reserve Board.

With easy access to credit, home values rose at unprecedented rates, responding to high demand. The excessive usage of credit also fueled a bubble in consumption, which contributed to a substantial rise in the value of other assets, such as stocks. However, high rates of borrowing and the rise in asset values proved unsustainable. With widespread loan defaults and the collapse of the securitization market crippling the financial sector, the inevitable pullback in credit is causing a contraction in the spending and investment needed to grow the economy.

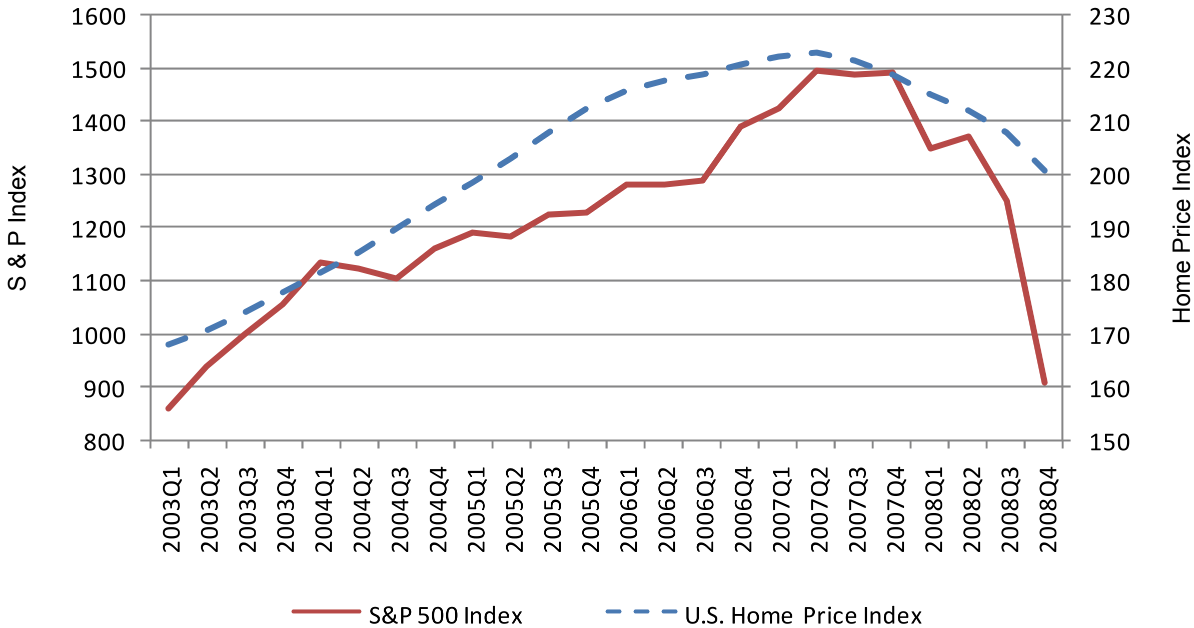
Decline in Wealth

According to the Federal Reserve, the net worth of U.S. households fell $11.2 trillion, or 18 percent, in 2008 as a result of the decline in home and stock values combined with high debt levels. This decline in wealth represents the largest loss since record keeping began after World War II. Figure 6 shows the change in average U.S. home prices based on the Federal Housing Finance Agency's House Price Index and the decline in the stock market based on the S&P 500 since 2003. The S&P 500 has lost about half its value since October of 2007, and the Federal Housing Finance Agency's House Price Index is down 10 percent since its high in 2007. However, home values in some areas of the country, such as in Phoenix, Los Angeles, Las Vegas, and Miami, have declined around 40 percent over the past couple years.

Credit Markets

Conditions in the financial markets remain poor despite continued policy actions to provide additional capital and reduce credit risks. The frozen securitization market and the large amounts of bad assets held by financial institutions – mostly due to excessive lending and investments tied to risky home loans – is

Figure 6
Change in Home and Stock Values since 2003



Source: Office of Federal Housing Enterprise Oversight and Action Economics.

preventing normal flows of credit throughout the economy. According to data from the Federal Reserve, commercial, industrial, real estate, and consumer loans by commercial banks in the United States decreased at an annualized rate of 10 percent in January of 2009.

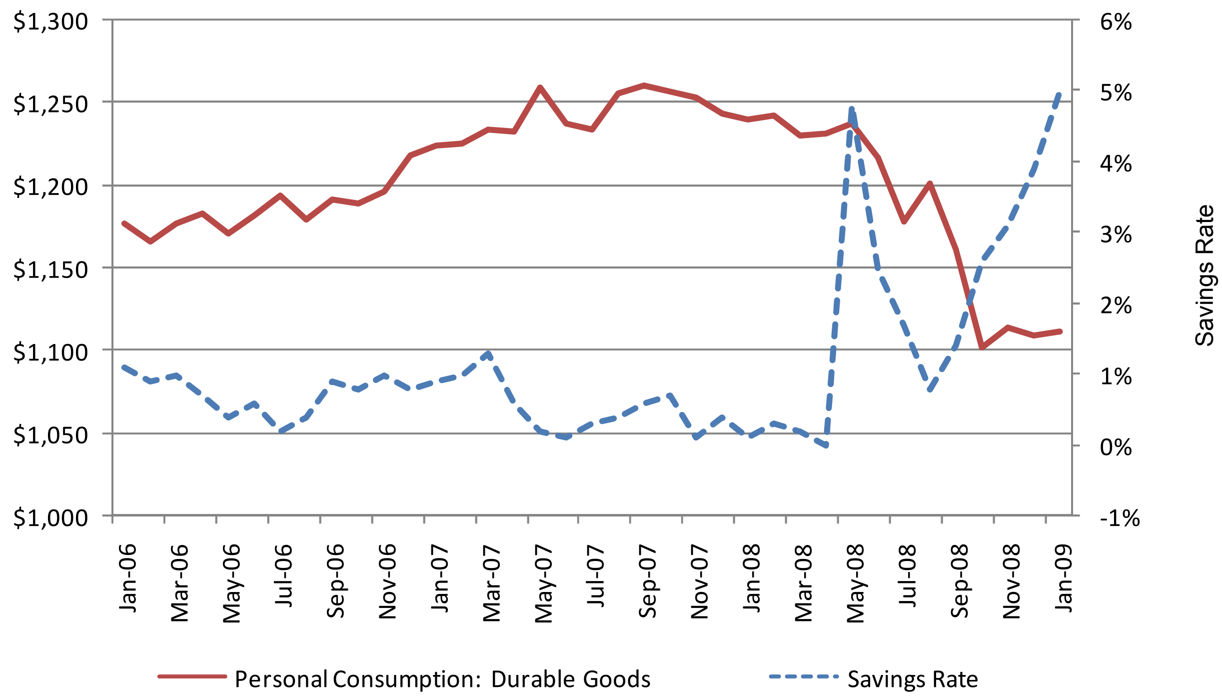
The Federal Reserve, along with the central banks of several other countries, have taken several unprecedented measures to get credit flowing again by lowering interest rates, supplying money to the financial system through various lending programs, and purchasing financial institution debt and mortgage-backed assets. The Federal Reserve recently announced that it will substantially expand such purchases and will also begin to buy long-term U.S. Treasury bonds to drive interest rates lower.

The flow of credit to the nation's consumers and businesses helps keep the economy operating and enables it to expand. Thus, alleviating tension in the financial system is an important factor in the economic recovery. However, credit markets will likely remain strained into 2010 as the system slowly works through its debt and bad assets and rebuilds its capital. Further, the weak economy will put additional pressure on the financial sector by lowering asset values and increasing the number of loan defaults.

Consumer and Business Spending

Declining wealth, low confidence, job losses, and the continued credit crunch have contributed to a sharp decline in consumer spending, which comprises about 70 percent of the nation's economic activity. Inflation-adjusted personal consumption expenditures declined 4.3 percent in the fourth quarter of 2008, after a 3.8 percent drop in the third quarter. These declines represent the largest

Figure 7
Spending on Durable Goods and Savings Rate
(Seasonally-Adjusted, Dollars In Billions)



Source: Federal Reserve Board.

drop in spending in any six-month period since record keeping began in 1947.

Spending on durable goods, or big-ticket items, such as cars, furniture, appliances, and electronic goods, has declined even further than overall spending as consumers pay down debt and increase saving. Inflation-adjusted spending on durable goods declined 22.1 percent in the fourth quarter of 2008 after a 14.8 percent decline in the third quarter. Households have begun saving more in response to low confidence levels and declining assets. Figure 7 shows the amount of spending on durable goods and the savings rate for households since 2006. The spike in the savings rate in May of 2008 is a result of the federal tax rebate checks that were sent to households around that time.

Businesses have also reduced spending in the face of economic uncertainty, limited access to credit, and decreased demand for goods and services. Business investment in equipment and software, such as purchases of new machinery, equipment, furniture, vehicles, and computer software, dropped 28.8 percent in the fourth quarter of 2008, the largest decline since the 1957-58 recession.

Housing Market

The nation's beleaguered housing market shows few signs of rebounding any time soon. Existing homes sales are at their slowest pace in 12 years and home construction is at a record low; housing starts plummeted 16.8 percent to 466,000 units in January.

According to RealtyTrac, there were 3.2 million foreclosure filings nationwide in 2008, a rate of 1 in every 54 homes, representing an increase of 81 percent from 2007. Further, the Mortgage Bankers Association reported that at the end of 2008, 12 percent of homeowners with mortgages were either at least one month late in their payments or in foreclosure. Although mortgage rates are at historically low levels, the tightening of lending standards has prevented many potential consumers from accessing credit to purchase homes or refinance. In an effort to reduce foreclosures, the federal government has created a new $75 billion program to help reduce mortgage payments for homeowners who are struggling to make their mortgage payments and who have little or no home equity.

Due to the poor economy, tight credit conditions, and high foreclosure rates, home values are likely to continue to fall in 2009. Similarly, housing construction and home sales will remain feeble.

Inflation

The drop in spending and production both nationally and worldwide has lessened the inflationary pressures that began to build in 2008. The consumer price index measured on a 12-month basis was essentially zero in both December and January. Core inflation, which excludes food and energy prices, also declined significantly. A slight decline in overall prices is expected during 2009 due to weak demand for goods and services. Though lower prices have helped the purchasing power of consumers, a sustained decline in overall prices, or deflation, would be harmful to the economy as it would reduce business income and worker's wages and raise the nation's "real" debt burden.

- The nation will experience slight deflation in 2009 as the consumer price index drops 0.2 percent. However, overall prices, as measured by the index, will increase 3.0 percent in 2010 as the economy begins to recover and consumer and business spending increases.

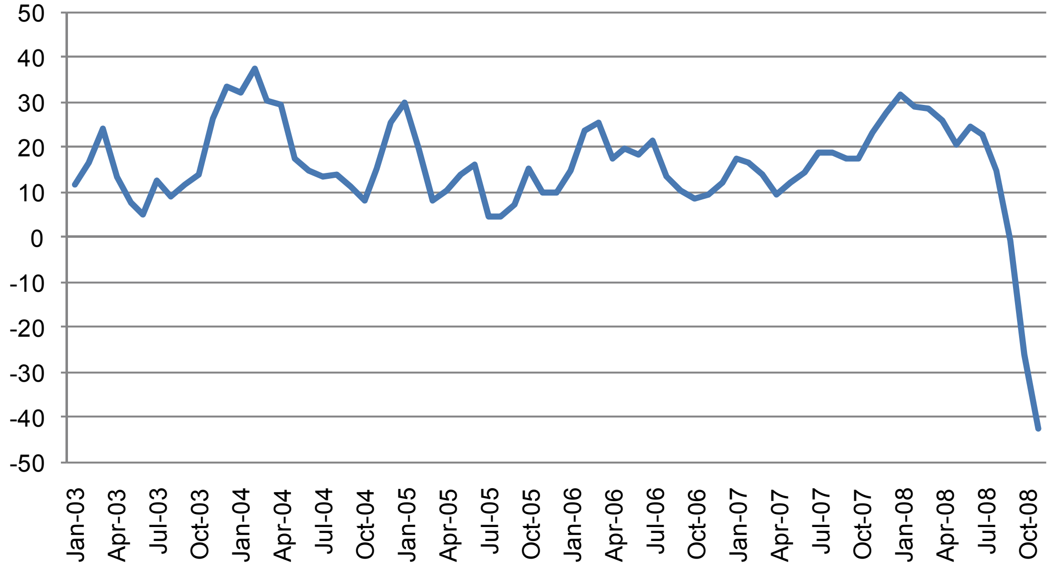
Global Economic Conditions

The drop in global economic activity is contributing to the downturn in the United States and will make recovery more difficult. The International Monetary Fund projects that the output of the world's advanced economies will fall 2 percent in 2009 – the first time the world's advanced economies have contracted together over an annual period since World War II. World trade is down substantially. Figure 8 shows the change in the value of merchandise exports worldwide since 2003. Exports were down 42.6 percent at a three-month annualized rate in November of 2008.

Summary

The national economy is languishing through a deep contraction as a result of the convergence of a sharp drop in spending and investment, tight credit, loss of wealth, and low levels of confidence across the economy. These conditions are feeding on each other and resulting in an adverse cycle that is further pulling down economic activity. Policy makers are attempting to break the negative cycle to get households and businesses to begin spending and investing again. However, the global nature of the downturn and large consumer cutback in spending will prevent the economy from recovering in the near term. Thus, the recession will be the longest and one of the most severe since the Great Depression. The longest recessions since the Great Depression – which lasted 43 months – occurred in 1973-1975 and 1981-1982; both of these downturns lasted 16 months.

Figure 8
World Merchandise Export Value
(Annualized Three-Month Percent Change)



Source: International Monetary Fund.

An important ingredient needed for recovery is a return to more normal lending patterns. Thus, the effectiveness of the Federal Reserve and federal government's actions to alleviate the problems in the credit markets are crucial in helping the economy repair itself. If the financial system begins to recover and confidence by consumers, investors, and businesses improves, economic growth should resume in 2010. More accessible credit, a reduction in debt, and pent-up demand by consumers will gradually spur more demand for goods and services and promote business expansion. However, because the downturn has been caused by major disruptions to the fundamental underpinnings of the economy, there are risks that the recession will last longer.

Table 9
National Economic Indicators, March 2009 Forecast
(Dollars in Billions)

	2003	2004	2005	2006	2007	2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Inflation-adjusted GDP	$10,301.0	$10,675.8	$10,989.5	$11,294.8	$11,523.9	$11,652.7	$11,466.3	$11,787.3	$12,082.0	$12,396.1
percent change	2.5%	3.6%	2.9%	2.8%	2.0%	1.1%	-1.6%	2.8%	2.5%	2.6%
Nonagricultural Employment (millions)	130.0	131.4	133.7	136.1	137.6	137.1	$133.1	$133.9	$135.6	$137.7
percent change	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.4%	-2.9%	0.6%	1.3%	1.5%
Unemployment Rate	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%	9.0%	9.1%	7.7%	7.0%
Personal Income	$9,163.6	$9,727.2	$10,269.8	$10,993.9	$11,663.2	$12,106.9	$11,925.3	$12,151.9	$12,783.8	$13,474.1
percent change	3.2%	6.2%	5.6%	7.1%	6.1%	3.8%	-1.5%	1.9%	5.2%	5.4%
Wage and Salary Income	$5,112.7	$5,394.5	$5,671.7	$6,027.2	$6,362.0	$6,550.8	$6,321.5	$6,549.1	$6,902.7	$7,303.1
percent change	2.6%	5.5%	5.1%	6.3%	5.6%	3.0%	-3.5%	3.6%	5.4%	5.8%
Inflation (Consumer Price Index)	2.3%	2.7%	3.4%	3.2%	2.8%	3.8%	-0.2%	3.0%	3.8%	4.3%

Colorado Economy

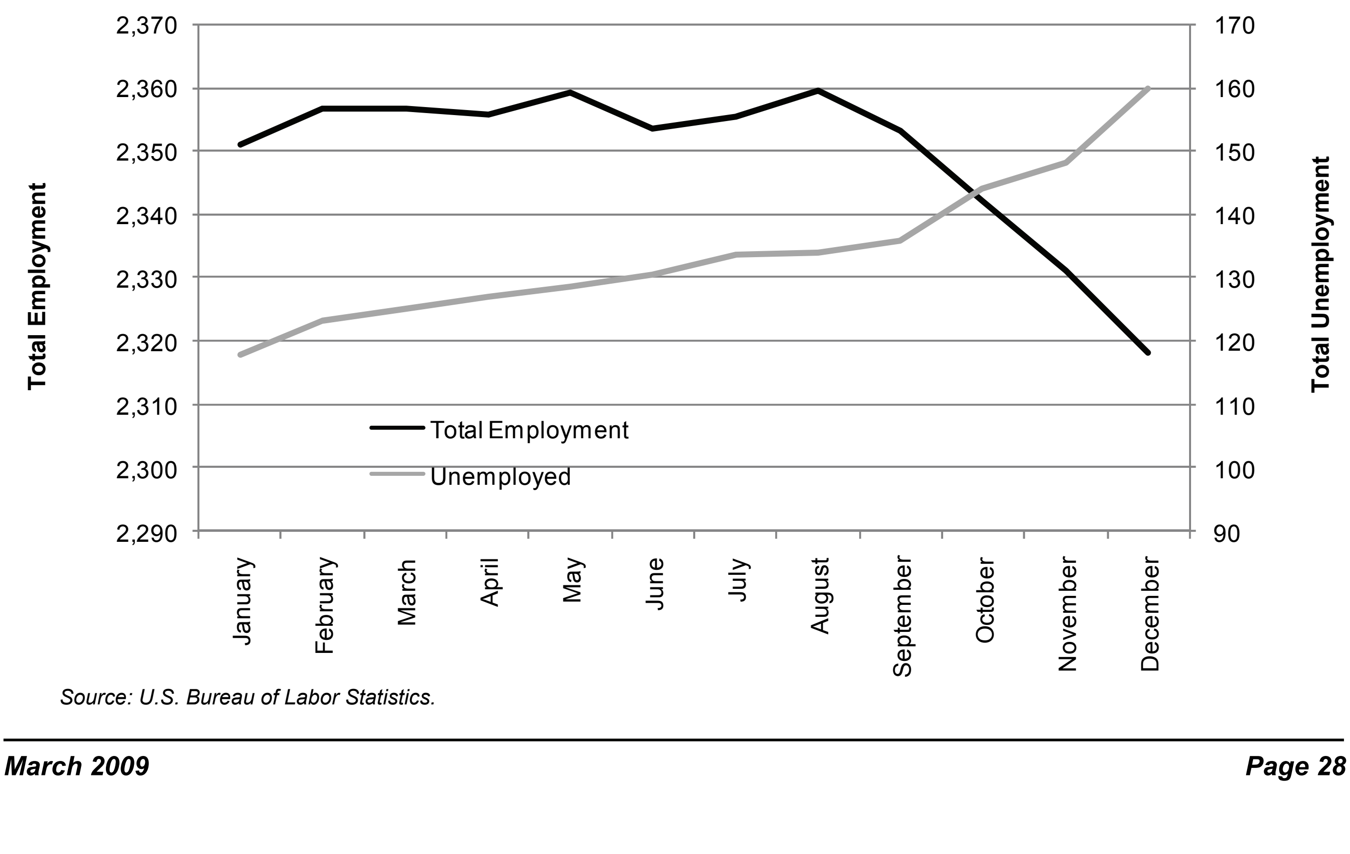
Coloradans are suffering through a deep recession, with consumer and business optimism at record-low levels. Unemployment continues to move upward as job losses are further depressing consumer spending. Although many are choosing to save, others who want to make big-ticket purchases are prevented by the lockup in lending from doing so. The Colorado economy will be in recession until some time in 2010, after which a credit-constrained recovery will follow. Colorado's relatively healthy housing market, diverse economy, and skilled workforce will moderate the impacts of the national recession and contribute to economic recovery. Table 10 shows the history and projections for major economic indicators.

Job Market

In response to economic uncertainties, consumers are spending less and saving more, and businesses are cutting costs under the constraints of a tight credit market. These conditions are adversely affecting the job market as decreased demand for goods and services have companies closing their doors and cutting positions to reduce costs. The state's average job growth of 0.8 percent for the full year in 2008 masks the dramatic change that occurred in the second half of the year. The economy lost 48,000 jobs between August and January, a 2.3 percent drop. Employment also declined as a result of discouraged workers leaving the workforce or returning to school to gain additional skills and wait for economic recovery. Job losses in most sectors resulted in climbing unemployment in 2008. Figure 9 illustrates these trends.

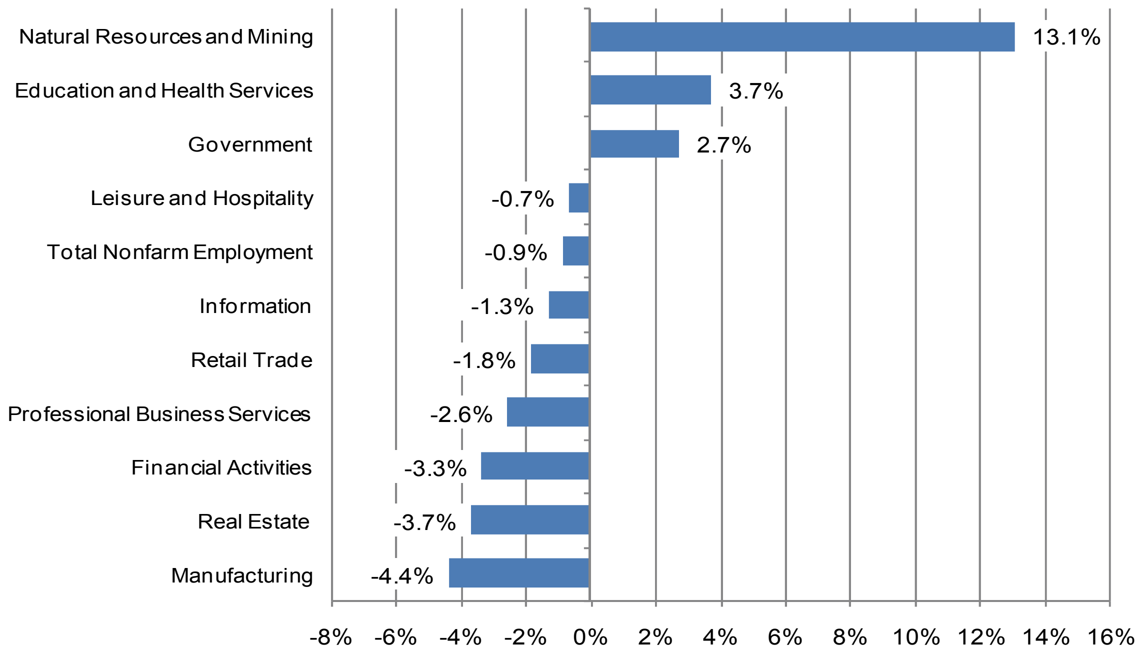
Colorado is experiencing job losses in most major industries, reflecting the broad reach of the recession. Employment declined 0.9 percent in the fourth quarter compared with the same time period in 2007, as illustrated by Figure 10. Manufacturing employment — an

Figure 9
2008 Colorado Employed and Unemployed Workers
(Seasonally Adjusted, in Thousands)



Source: U.S. Bureau of Labor Statistics.

Figure 10
Percent Change in Employment in Select Colorado Industries
Fourth Quarter 2008 over Fourth Quarter 2007



Source: U.S. Bureau of Labor Statistics.

industry that has struggled in Colorado and nationally for the past decade — showed the steepest decline, reflecting reduced demand for manufactured goods. Real estate and financial activities also saw steep declines in employment in response to the struggling housing market and the financial crisis.

Retail and wholesale trade employment declined by 1.8 and 1.5 percent, respectively, during the fourth quarter. Similarly, leisure and hospitality employment declined, reflecting the impact of the recession on the tourism industry. These industries' job losses also reflect decreases in consumer spending, as consumers eat out less and reduce purchases in the face of economic uncertainty.

Only natural resources and mining, health and educational services, and government employment sustained job growth throughout 2008, although growth slowed considerably for these industries in the final quarter of the year. Growth in the natural resource and mining industries was particularly strong due to continued development of the energy sector along the Western Slope. However, uncertainty surrounding energy prices is slowing job growth. Demand for education services is expected to continue to grow as workers return to school to improve their skills. However, the education sector faces budget constraints that may slow growth in employment over the coming year. Health services are also facing budget constraints as patients put off surgeries and medical visits due to declines in income. Budget constraints are likely to limit job growth in these sectors in 2009.

Job losses translated into a rise in the ***unemployment rate*** throughout 2008, which accelerated at the end of the year and into 2009. While the average annual employment rate for

2008 was 4.9 percent, up a full percent from last year, the rate rose to 5.8 percent in December and to 6.6 percent in January 2009.

The American Recovery and Reinvestment Act will mitigate some job losses in 2009 and 2010 and aid in the recovery in 2011. Jobs will be created or prevented from being cut as roads, bridges, water and solar plants, and transit projects are built. Adding to the immediate increase in employment in construction and renewable energy will be a preserved demand for labor in professional and business services, the top employing industry in the state. Jobs will be created in the fields of research and development of renewable energy, building inspection, computer systems design engineering, and other scientific and technical consulting services. Tax credits and other measures supporting the real estate and automobile industries may also save jobs in the financial activities, retail trade, and wholesale trade sectors.

- **Employment** will continue to decline throughout 2009 and into 2010 due to recessionary pressures reaching into nearly every sector of the economy. Employment is expected to decline 2.3 percent in 2009. Though job gains in some industries are expected in 2010, employment overall will decrease 0.4 percent. Employment will rebound once business and consumer expectations become more optimistic.

- As the recession brings continued job losses in 2009, the **unemployment rate** is expected to average 7.2 percent, and could reach above 8 percent at some points during the year. Employment growth typically lags economic downturns as businesses are reluctant to hire until economic recovery appears certain and sustainable. Additionally, as the economy recovers, discouraged workers who left the job market and those who returned to school for additional training are expected to return to the labor force. The migration back to the labor force will result in a slightly higher unemployment rate of 7.3 percent in 2010.

Personal Income and Wages

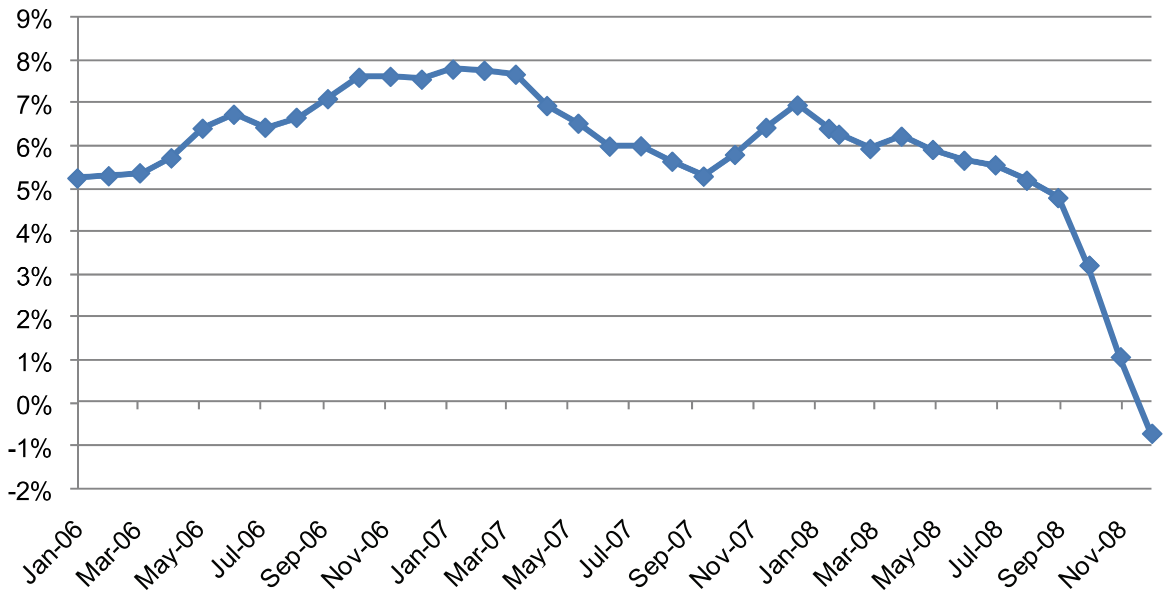
Statewide ***personal income*** grew 5.4 percent through the first three quarters of 2008, down from 6.0 percent in 2007, according to the latest estimate from the U.S. Bureau of Economic Analysis. Wages and salaries increased 5.3 percent during the same time period. Growth in nearly every component of personal income slowed throughout the year. Given that much of Colorado's population is invested in the stock and bond markets, it was not surprising to see growth in income from dividends, interest, and rent slow substantially over the course of the year, from an increase of 6.3 percent in the first quarter to an increase of 3.4 percent in the third quarter.

- Personal income and wage and salary growth will slow to 4.2 percent and 3.8 percent annual rates, respectively, in 2008 as a result of the recent weakening of the job, real estate, and investment markets. Both personal income and wage and salary growth will decrease in 2009 as the state experiences job losses, those that remain employed see limited wage growth or wage cuts, and Coloradans receive less income from dividends and interest earnings during the economic downturn. Personal income and wages and salaries will decrease 1.0 and 3.4 percent, respectively, 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 recent pullback in spending is a significant contributor to the recession. Reduced consumer confidence and layoffs have caused consumers to

Figure 11
Retail Trade Sales Growth, 12-Month Moving Average



Source: Colorado Department of Revenue.

pull back on purchases of luxury goods and focus on necessities. Consumers have become more cautious and are saving rather than spending. Despite the Federal Reserve attempts to put money in the hands of consumers and investors, credit remains scarce and consumers are hesitant to spend.

Figure 11 shows growth in **retail trade sales** since 2006. Retail trade sales were growing at an annual rate of 4.8 percent as late as September, 2008. During the fourth quarter of 2008, however, retail trade sales dropped more than 10 percent compared with sales in the fourth quarter of 2007. For all of 2008, retail trade sales decreased 0.8 percent.

- Job losses and scarce credit will constrain spending through much of 2009, when retail trade sales will decrease an additional 6.4 percent. A credit-constrained recovery will increase spending at moderate rates of 3.1 percent and 4.7 percent in 2010 and 2011, respectively. Tax credits and increased unemployment insurance benefits provided in the American Recovery and Reinvestment Act are expected to prevent a deeper decrease in 2009 and aid in the recovery in 2010 and 2011.

Inflation

The ***inflation rate*** in the Denver-Boulder-Greeley area rose to 3.9 percent in 2008. The majority of the increase was due to higher motor fuel, natural gas, and electricity prices throughout the year. While food and beverage prices increased 4.8 percent, motor fuel and gas and electricity prices increased 13.7 and 16.2 percent, respectively. Housing prices rose 2.4 percent, with the majority of the increase resulting from higher rental prices.

- Inflation will drop to 1.0 percent for 2009, primarily as a result of lower fuel prices and a general decrease in inflationary pressure. Inflation will increase to 2.1 percent in 2010 and will continue to increase at higher rates through the remainder of the forecast period.

Housing Market and Construction

The state's housing market remained fairly weak in 2008. Colorado has not been immune to the affects of the national subprime mortgage crisis or the subsequent financial crisis. The credit crunch spurred by the financial crisis limited access to residential and commercial loans and economic uncertainty has stunted development. Plans to build have been postponed in many cases and construction on some developments even stopped mid-stream in 2008. However, Colorado has maintained a comparatively healthy housing market due in large part to the stability of home prices over time and some indicators show signs of a rebound in the housing market in the near future in some areas of the state.

Residential and commercial developments continue to decline in light of credit constraints and economic uncertainty. In 2008, ***residential construction*** decreased 35.9 percent, continuing double-digit declines since 2006. After flat growth in ***nonresidential construction*** in 2007**,** the slowdown in the economy and difficulty in obtaining credit to finance projects contributed to a decline of 3.0 percent in 2008. Construction declined for most large-scale commercial projects including office and bank buildings, hotels and motels, manufacturing facilities, and hospitals. Sectors experiencing construction growth included stores and food service, and garages and service stations.

Residential home vacancy rates were up slightly in 2008, reflecting the decline in demand for residential housing as home financing options have become limited and with relatively high foreclosure rates in 2007 and 2008. That said, statewide foreclosure filings declined 2 percent in 2008, signaling that home foreclosures may be stabilizing.

Colorado—and the Denver metro region in particular—did not see the housing market bubble experienced by other areas. While Colorado home values did not rapidly appreciate over the past decade, they also did not show steep declines when the housing bubble burst. As a result, stable home prices have bode well for the Colorado economy—Coloradans have generally maintained real estate wealth and financial markets saw fairly stable returns on real estate investments. The Case-Shiller Index provides a comparative measure of home price value over time and across metropolitan areas. Figure 12 shows the Case-Shiller home price index for a number of metropolitan areas including Denver, illustrating how Denver home prices have remained comparatively flat from 2002 to 2008.

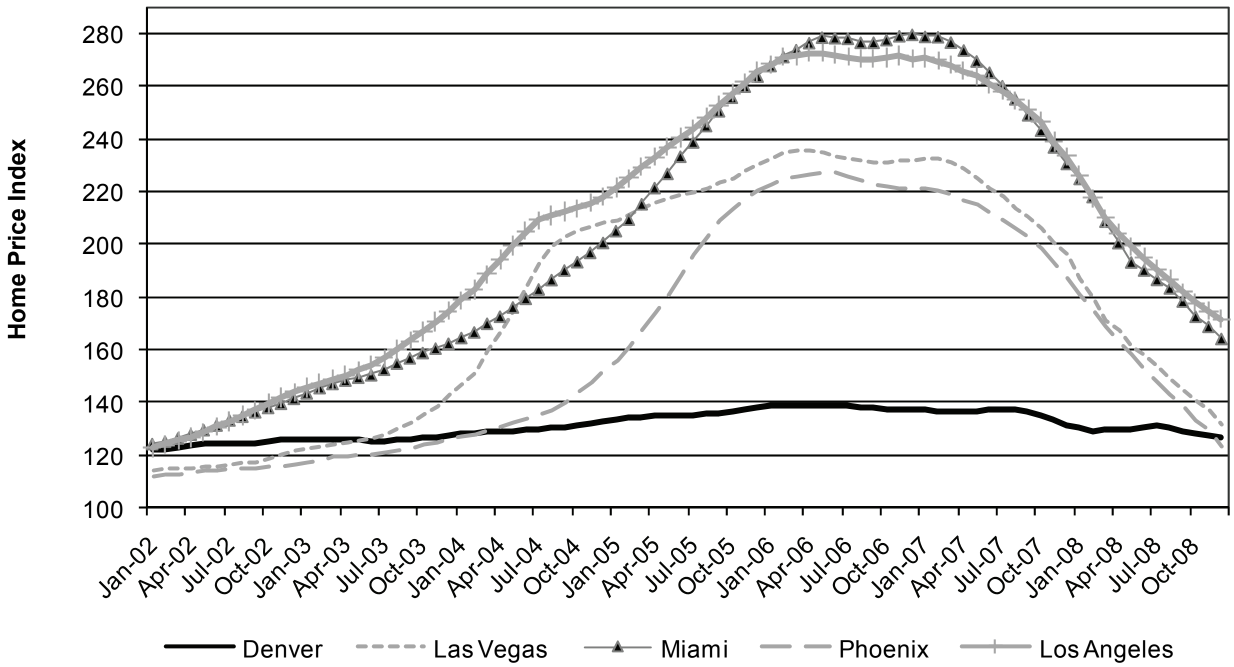
- Residential construction will continue to be slow while the nation remains in recession. Permits for residential construction will decrease another 28.3 percent in 2009. As the economy stabilizes and credit becomes available, the market for single- and multi-family homes may improve and development will resume. Construction is expected to rebound in 2010, as the number of permits is expected to increase 24.0 percent.

- Similarly, nonresidential construction will decline 32.0 percent in 2009 as developers postpone projects until financial and economic stability resumes. Nonresidential construction is expected to rebound in 2010 with growth of 7.1 percent.

Agriculture

Statistics for 2008 Colorado wine production on the Western slope shows an average annual growth of 20 percent since 1992 for the industry. While wheat production in the eastern region declined 36 percent in 2008, agricultural production has shifted to corn, soy, camelina, and other crops that support the renewable energy industry. On a positive note, the beef industry,

Figure 12
S&P/Case-Shiller Home Price Indices for Select Metro Areas
2002 through 2008



Source: Standard and Poor's and Fiserv.

which reports nearly 70 percent of Colorado's agricultural industry, saw exports surge 55 percent in 2008 from 2007 levels. Colorado ranks second in the nation (behind Texas) for total exports of fresh chilled beef. Mexico and Canada are the top importers of U.S. beef products.

Summary

Colorado, along with the nation, is in the midst of a deep recession, with employment, consumer spending, personal income, and construction activity contracting sharply. The steep rate at which the state saw declines in the fourth quarter of 2008 and the first few months of 2009 are indicative of the sheer size of the financial asset bubble that burst in the fall of 2008. With consumer and business confidence at record lows and credit scarce, Colorado's economy will remain weak through at least the first quarter of 2010.

Yet, every economic downturn contains 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, the state will be buoyed by its relatively strong housing market, income levels, economic diversity, and skilled workforce. Many of the state's stronger companies and new companies in emerging industries will sustain growth while confidence improves and economic activity picks up. As households and businesses curtail spending and pay down debt, they put themselves in a better position to spend again. Also, the nation's financial sector will begin the long process of reinventing itself to more responsibly move credit through the economy. These self-correcting mechanisms in the economy, coupled with the stimulus efforts of the federal government, will foster the start of an economic recovery in 2010. The recovery will unfold with modest growth rates, indicative of credit-constrained markets, throughout the forecast period.

Table 10
Colorado Economic Indicators, March 2009 Forecast
(Calendar Years)

	2002	2003	2004	2005	2006	2007	2008*	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Population (thousands), July 1	4,531.5	4,596.5	4,664.1	4,731.8	4,827.4	4,919.9	5,018.3	5,096.1	5,185.8	5,273.9	5,365.2
percent change	1.7%	1.4%	1.5%	1.5%	2.0%	1.9%	2.0%	1.6%	1.8%	1.7%	1.7%
Nonagricultural Employment (thousands)	2,184.1	2,152.9	2,179.6	2,225.6	2,279.1	2,331.6	2,349.5	2,295.8	2,287.1	2,325.4	2,370.5
percent change	-1.9%	-1.4%	1.2%	2.1%	2.4%	2.3%	0.8%	-2.3%	-0.4%	1.7%	1.9%
Unemployment Rate	5.7	6.1	5.6	5.1	4.4	3.9	4.9	7.2	7.3	6.7	6.2
Personal Income (millions)	$153,066	$154,829	$163,736	$175,366	$188,213	$199,415	$207,859	$205,724	$211,245	$222,500	$234,470
percent change	0.2%	1.2%	5.8%	7.1%	7.3%	6.0%	4.2%	-1.0%	2.7%	5.3%	5.4%
Wage and Salary Income (millions)	$86,938	$88,008	$92,095	$97,391	$104,092	$110,865	$115,078	$111,160	$112,480	$118,232	$126,165
percent change	-1.5%	1.2%	4.6%	5.8%	6.9%	6.5%	3.8%	-3.4%	1.2%	5.1%	6.7%
Retail Trade Sales (millions)	$58,850	$58,689	$62,288	$65,492	$70,437	$75,329	$74,760	$69,975	$72,145	$83,882	$75,968
percent change	-0.3%	-0.3%	6.1%	5.1%	7.5%	6.9%	-0.8%	-6.4%	3.1%	4.7%	5.3%
Home Permits (thousands)	47.9	34.1	45.6	46.3	39.3	30.4	19.1	13.7	17.0	25.6	20.3
percent change	-12.1%	-28.9%	33.8%	1.5%	-15.0%	-22.6%	-37.3%	-28.3%	24.0%	54.7%	19.6%
Nonresidential Building (millions)	$2,787	$2,713	$3,291	$4,221	$4,415	$5,251	$4,134	$2,811	$3,011	$3,963	$3,357
percent change	-20.4%	-2.7%	21.3%	28.3%	4.6%	18.9%	-21.3%	-32.0%	7.1%	25.6%	11.5%
Denver-Boulder Inflation Rate	2.0%	1.0%	0.1%	2.1%	3.6%	2.2%	3.9%	1.0%	2.1%	2.6%	3.3%

** The 2008 figures for personal income and wage and salary income are estimates.*

Colorado Economic Regions

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

Metro Denver

Grappling with the recession, businesses in the Metro Denver region began shedding jobs during the second half of 2008. The job cuts have driven the unemployment rate upward and contributed to a pullback in consumer spending. Meanwhile, the region's housing sector remains fairly weak and nonresidential construction has slowed considerably. Table 11 shows economic indicators through December 2008.

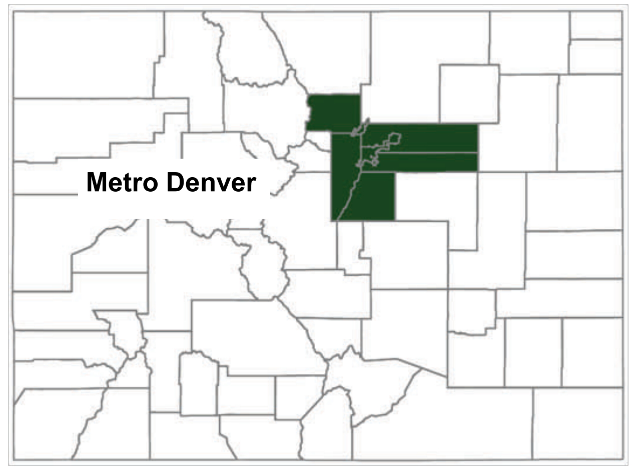


Table 11
Metro-Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2006	2007	2008
Employment Growth /1	2.0%	2.2%	0.9%
Unemployment Rate /1	4.4%	3.8%	4.9%
Housing Permit Growth /2	-14.4%	-21.1%	-38.4%
Single-Family Permit Growth (Denver-Aurora) /2	-25.8%	-40.3%	-49.8%
Single-Family Permit Growth (Boulder) /2	-44.5%	-12.4%	-63.5%
Growth in Value of Nonresidential Const. /3	5.7%	33.2%	-11.4%
Retail Trade Sales Growth /4	4.1%	6.4%	-1.0%

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 are from the LAUS survey 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.

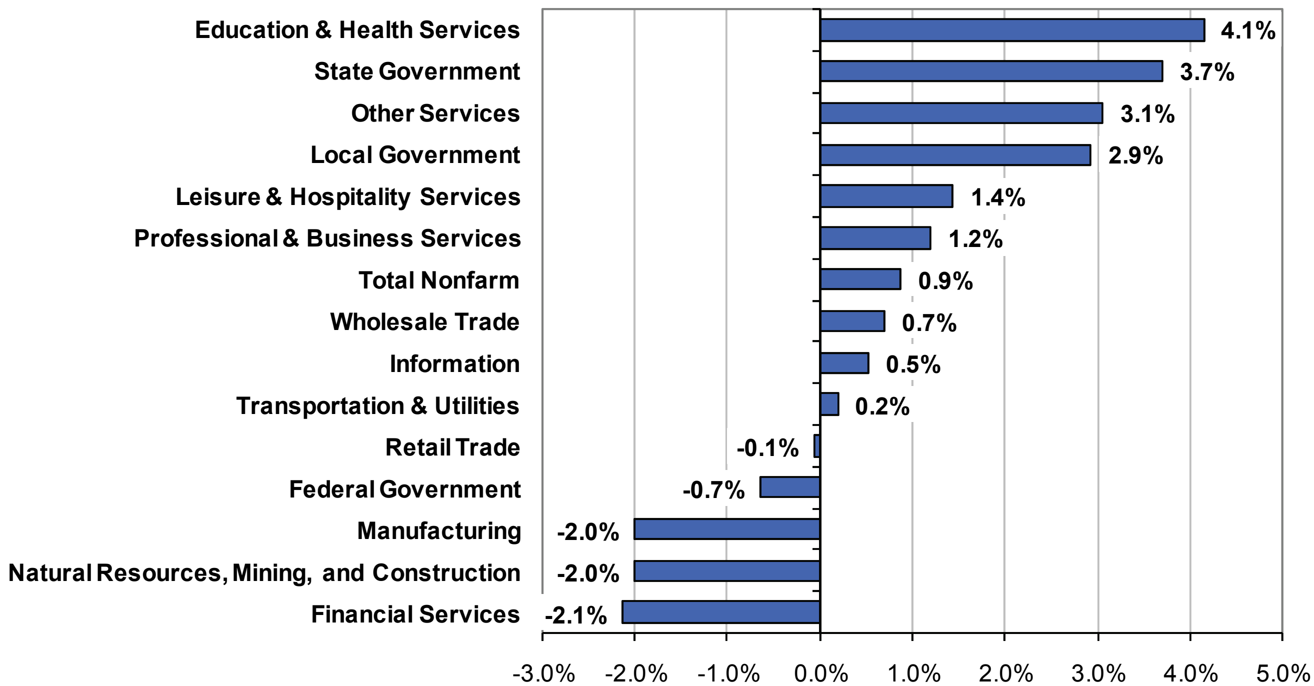
Employment in the region slowed considerably in the second half of 2008. Total nonfarm employment decreased 0.9 percent in 2008 after growing 2.2 percent in 2007. As illustrated in Figure 13, job growth remained strongest in the education and health services, other services, and state and local government sectors. Job losses were strongest in the financial services, manufacturing, retail trade, construction, and federal government sectors.

Metro Denver's unemployment rate increased from an average rate of 3.8 percent in 2007 to 4.9 percent in 2008. Job losses increased towards the end of 2008. The unemployment rate was 6.2 percent in December, an increase of 1.9 percentage points over the 4.3 percent rate experienced in December 2007. Figure 14 shows unemployment rates for the region since January 2000. The unemployment rate hit an eight-year high of 7.0 percent in June 2003 after the economy bottomed out in the 2000-2003 recession.

The region's housing sector continues to deteriorate as more workers lose jobs and the mortgage market struggles to recover. Permit growth for residential housing was down 38.4 percent in 2008. Single-family home permits decreased 49.8 percent in the Denver-Aurora region and 63.5 percent in the Boulder region. In addition, the growth in value for nonresidential construction decreased 11.4 percent in 2008.

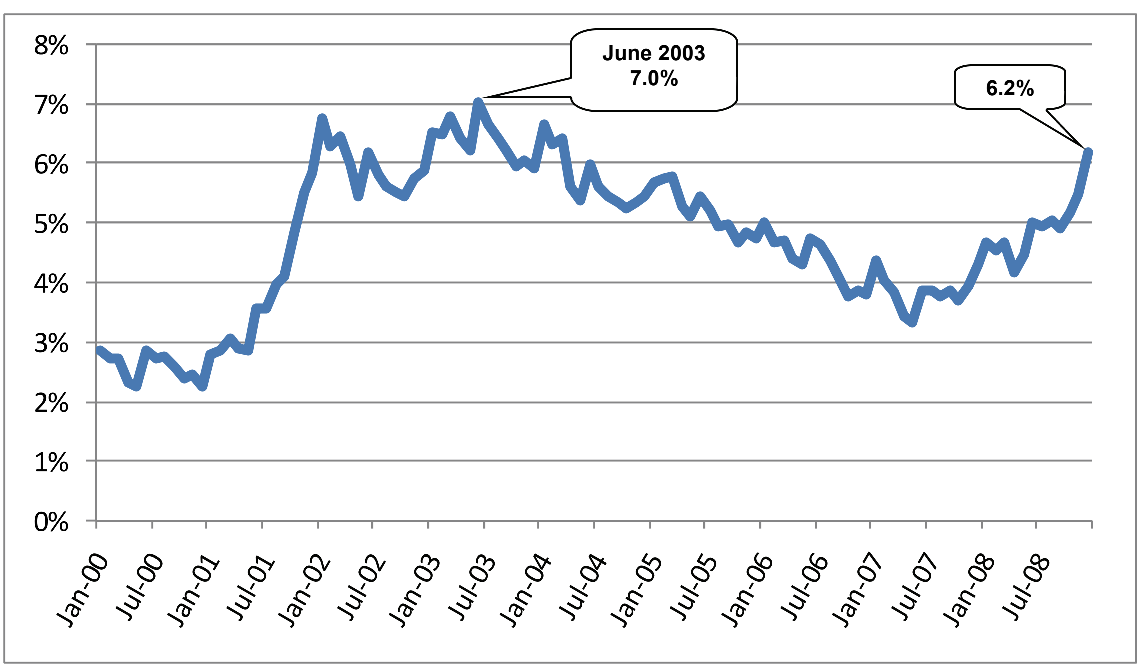
Growth in consumer spending, as measured by retail trade sales, slowed dramatically at the end of the year. Consumer spending in the region had been increasing at a rate of 2.6 percent year-to-date through September, but after a 10.7 percent decrease in the fourth quarter compared with the fourth quarter of 2007, it finished with an overall decrease for the year of 1.0 percent. Every county in the region experienced a decrease in consumer spending in 2008 except Adams and Denver counties.

Figure 13
Percent Change in Selected Denver Metro Industries, 2008



Source: U.S. Bureau of Labor Statistics.

Figure 14
Unemployment Rate in Denver Metro Region
(January 2000 - December 2008)



Source: U.S. Bureau of Labor Statistics.

Recent Economic News:

- Charles Schwab Corporation announced plans to add 500 new jobs in Colorado over a three-year period. With plans to base the company's operations in Douglas County's Inverness Business Park, the company will begin adding jobs by the middle of this year.

- Pulte Mortgage is building its national headquarters at Inverness Business Park in Arapahoe County. About 500 people are expected to work in the building.

- Katie Mullen's Irish Restaurant and Pub opened its doors in downtown Denver in February. The restaurant will employ 140 people.

- Energy-based Devices, a metro-boulder company, opened a new 60,000-square-foot building in December. More than 300 new employees are expected to work in the building.

- Boulder Hospitality LLC is developing "Gunbarrel Gateway," an office park that will feature a 100-room Hampton Inn & Suites hotel and three additional buildings. The buildings may be leased for retail businesses, restaurants, or office suites.

- Coors Tek Armor Solutions, announced that a new armory would be opened in Golden. A 75,000-square-foot building is planned. The company manufactures lightweight composite armor for Humvees, trucks, tanks, and aircraft.

- Sprouts Family Market, a natural food grocery store, plans to open a store in Boulder. The company hopes to open the 23,000 square-foot store in late 2009.

- Lockheed Martin Space Systems Co. will contract to build the next generation of weather satellites. About 50 new engineering jobs will be created by the end of 2009. Lockheed reported that it expects to deliver the first satellite in 2014 for a launch in 2015.

- Digital Globe, a Longmont satellite imagery company, announced plans to increase its staff by about 25 percent.

- Matheson Tri-Gas, a Longmont gas and equipment company, will double its facility by adding 25,000 square feet. Matheson's staff of 50 will grow by between 15 and 20 workers.

- Recreational Equipment Inc. is hiring more than 45 workers for its new retail store, located in the Orchard Town Center in Westminster.

- After nearly 150 years, the Scripps Company closed the *Rocky Mountain News* in late February laying off about 200 people. The company was unable to find a buyer for the newspaper.

- In March, the City of Denver laid off 11 sheriff's deputies in an effort to save $1.2 million a year.

- The U.S. Census Bureau hired 800 people in the metro area to gather addresses for the 2010 Census. Reports indicate that the Bureau may employ as many as 8,000 people in the state when the Census hits its busiest period in 2010. The next hiring round begins in April 2009.

The following businesses either shut down or laid off workers:

- Rocky Mountain News (200 jobs in Denver);
- United Airlines (83 jobs in Denver);
- Level 3 Communications (450 jobs in Broomfield);
- Office Depot (closing stores in Aurora and Broomfield);

- Aerogrow International (35 jobs in Boulder);
- Jackson National Life (60 jobs in Denver);
- Anderson Kia (20 jobs in Boulder);
- Westword (3 jobs in Denver);
- Macy's Inc. (110 jobs in Westminster);
- Tattered Cover (10 jobs in Denver);
- Apartment Investment and Management Co.;
- Array BioPharma (40 jobs in Boulder);
- Bonham Group (14 jobs in Denver);
- Seagate Technology LLC (187 jobs in Longmont);
- ING Group;
- Clear Channel Communications, Inc.;
- Sun Microsystems Inc. (164 jobs in Broomfield and 31 in Louisville);
- National Hirschfeld LLC. (250 jobs in Denver);
- Crocs, Inc. (14 jobs in Niwot);
- Oppenheimer Funds;
- Ace Hardware (in Lafayette);
- Cemex SAB (about 40 jobs in Lyon);
- Crispin Porter + Bogusky (of Boulder);
- Ampco System Parking (35 jobs at Denver International Airport);
- Zale Corporation;
- Schenkein Public Relations (11 jobs in Denver); and
- Carlton Cards (closing stores in Denver and Lakewood).

Colorado Springs Region

The Colorado Springs economy slowed substantially in the second half of 2008. Between April and January, 7,200 jobs were lost in the Colorado Springs MSA. Meanwhile, the unemployment rate increased to 7.0 percent in December, and consumer spending decreased. The region's economy should get a boost in 2009, however, as up to 16,000 troops are expected to relocate to Fort Carson by fall. Table 12 shows economic indicators through December 2008.

Table 12
Colorado Springs Region Economic Indicators
El Paso County

	2006	2007	2008
Employment Growth /1	2.2%	1.0%	-0.7%
Unemployment Rate /1	4.7%	4.4%	5.8%
Housing Permit Growth /2	-34.8%	-30.3%	-35.7%
Single-Family Permit Growth /2	-33.9%	-35.1%	-42.1%
Growth in Value of Nonresidential Const. /3	-18.4%	8.1%	-45.9%
Retail Trade Sales Growth /4	5.1%	5.3%	-2.9%

NA = Not Available

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

Job growth began to slow as early as July 2006 in the Colorado Springs metropolitan statistical area. After increasing 1.0 percent in 2007, the number of jobs in Colorado Springs decreased 0.7 percent in 2008, with 7,200 jobs lost since April. Employment decreased in the following sectors in 2008: natural resources, mining, and construction; manufacturing; wholesale trade; retail trade; transportation, utilities, and warehousing; information; financial activities; professional and business services; and leisure and hospitality services. Struggling with long-term structural changes, the manufacturing and information sectors have both been shedding jobs since 2001. Neither the construction sector nor the financial activities sector, both integral to the maladies at fault for the recession, have seen any job growth since some time in 2006.

Meanwhile, the unemployment rate increased from 5.5 percent in January to 7.0 percent in December. Consumer spending, as measured by retail trade sales, decreased 2.9 percent in El Paso County in 2008. Excluding food and gas purchases, consumer spending decreased 5.6 percent.

New residential construction continues to drop. Since the beginning of the year, the number of single-family home permits issued declined for the third year in a row in 2008. The number of residential permits issued in 2008 was 75.1 percent lower than the number issued in 2005. Meanwhile, the value of permits granted for nonresidential construction decreased 45.9 percent in 2008.

Recent Economic News:

- Construction began on a 103,000-square-foot Lowe's Home Improvement Store at the Citadel Crossing in Colorado Springs. The store, slated to open in 2010, is expected to employ 120 people. Meanwhile, Macy's announced plans to close its Citadel Crossing store, laying off 105 people.

- The El Paso County clerk and recorder let 19 people go in December as a result of reduced sales tax collections.

- The Diocese of Colorado Springs laid off six people at the Catholic Pastoral Center in February because of budget shortfalls.

- Colorado Springs-based nonprofit publisher Cook Communications laid off 29 people in February, an 11 percent decrease in their workforce.

- PepsiCo closed the newly acquired local Lane Affiliated production line in February, eliminating 14 jobs.

- Colorado Springs-based tool manufacturer Western Forge laid off 75 people in February. The company employed 437 people prior to the layoffs.

- Semiconductor manufacturing Atmel Corp. laid off 245 people and closed its Colorado Springs plant for 11 days in December. Meanwhile, Intel Corp. announced plans to lay off the remaining 110 people at their Colorado Springs location by early May.

- LexisNexis laid off 34 editors at its legal publishing operation in Colorado Springs in January.

- Nonprofit Silver Key Senior Services let 12 of its 64 staffers go in January. Silver Key provides several services to seniors in Colorado Springs, including transportation and meals.

- Checks Unlimited announced plans to consolidate its check-printing operations in Utah and Missouri, laying off up to 100 employees in Colorado Springs.

- Fast food chain Jack in the Box opened a restaurant in Colorado Springs in December, hiring between 40 and 50 people.

- Boeing Co. has hired 100 people in Colorado Springs within the last twelve months and expects to hire an additional 50 to 75 people in 2009. The positions were added to work on new programs, including a new satellite system that's being designed to detect and track objects orbiting the earth.

- Insurance carrier and financial services firm USAA announced plans to hire 250 customer service and claims positions in Colorado Springs this year. USAA already employs 988 people in the Colorado Springs area.

- Colorado Springs Utilities announced plans to build a $4.5 million, 863-megawatt hydroelectric plant near Cascade. The project, which will use water from a pipeline from the Crystal Creek Reservoir, will provide enough electricity to power 530 homes.

- Software company CodeBaby announced plans to hire up to 500 people in the next five years in Colorado Springs. The company plans to double its current workforce of 12 people by the end of 2009.

Pueblo — Southern Mountains Region

Pueblo's regional economy weakened substantially in 2008. Job growth slowed, consumers put the brakes on spending, residential construction slowed, and the unemployment rate increased. Nonresidential construction activity would also have fallen, if not for the $100 million Vestas wind tower manufacturing plant near Pueblo. Table 13 shows economic indicators for the region.

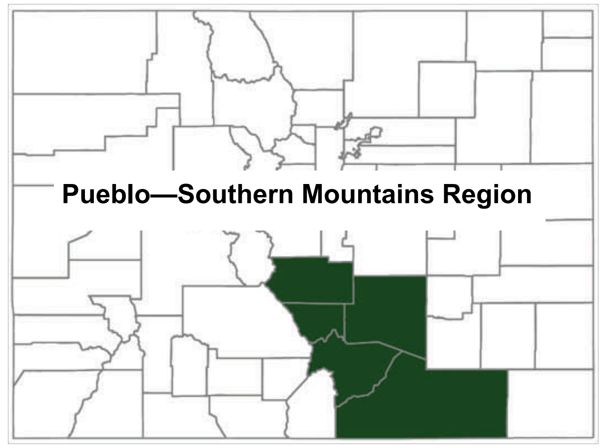


Table 13
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2006	2007	2008
Employment Growth /1	2.2%	3.2%	0.5%
Pueblo MSA			
Unemployment Rate /1	5.5%	4.8%	6.1%
Housing Permit Growth /2			
Pueblo County /2	10.6%	-48.1%	-38.6%
Single-Family Permit Growth for Pueblo County /2	7.4%	-47.3%	-40.1%
Growth in Value of Nonresidential Const. /3			
Pueblo County	620.6%	-60.7%	48.1%
Retail Trade Sales Growth /4	6.0%	6.5%	-1.9%

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

After increasing at a very healthy pace of 3.2 percent in 2007, employment in the Pueblo metropolitan statistical area slowed to 0.5 percent in 2008. The region lost jobs in the construction; manufacturing; retail trade; information; financial activities; professional and business services; and other services sectors. Meanwhile, the unemployment rate for the five-county region averaged 6.1 percent in 2008; the rate increased from 6.0 percent in January to 7.5 percent in December.

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 were down 40.1 percent in 2008 after decreasing 47.3 percent in 2007.

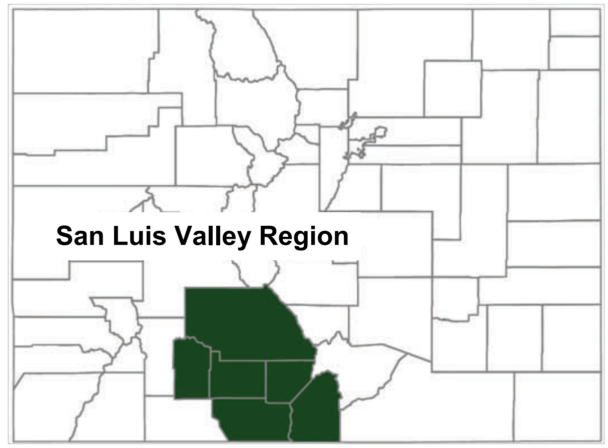
A single contract granted in November to Vestas for a 625-square-foot, $100 million, wind tower manufacturing plant brought growth in the value of nonresidential construction in Pueblo County up 48.1 percent in 2008. If not for this project, the value of nonresidential construction would have decreased 31.1 percent.

The region's consumers and retail trade industry had a tough year in 2008. Retail trade sales in the five-county region decreased 1.9 percent year-to-date through November, compared with the same time period in 2007. Excluding food and gas, spending decreased 4.4 percent in the region, 3.3 percent in Fremont County, 4.5 percent in Pueblo County, 5.5 percent in Las Animas County, and 7.3 percent in Custer County. Consumer spending on items other than food and gas increased 2.2 percent in Huerfano County.

Recent Economic News:

- Between 50 and 55 people were laid off from the Evraz Rocky Mountain Steel Mill in January and February. The mill eliminated one of three shifts in its seamless tube mill due to reduced demand for steel pipe.

San Luis Valley Region



The San Luis Valley region's economy worsened in 2008. Table 14 shows the economic indicators for this region. Employment growth declined and unemployment increased from last year. Non-residential construction declined significantly, and consumer spending, represented by retail trade sales, grew at a slower rate than in 2007. On the bright side, prices for the region's primary agricultural commodities have remained strong. In addition, overall housing permits rebounded, even though single-family permits declined slightly.

Table 14
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache counties

	2006	2007	2008
Employment Growth /1	1.0%	-0.1%	-3.9%
Unemployment Rate /1	5.4%	4.7%	6.2%
(2008 figure is for October)			
Statewide Crop Price Changes /2			
Barley (U.S. average for all)	24.2%	31.4%	48.1%
Alfalfa Hay (baled)	37.3%	0.0%	18.0%
Potatoes	-8.0%	14.1%	47.7%
Potato Production (Cwt) /2	-1.0%	-7.5%	11.6%
Housing Permit Growth /3			
Alamosa County	-2.5%	-38.5%	20.8%
Single-Family Permit Growth	-2.5%	-38.5%	-4.2%
Growth in Value of Nonresidential Const. /4			
Alamosa County	-22.4%	414.1%	-88.0%
Retail Trade Sales Growth /5	10.0%	6.6%	3.3%

NA = Not available.

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

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

3/ Data through 2008 are from the U.S. Census Bureau. 2009 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.

Regional employment fell 3.9 percent in 2008, after dropping 0.1 percent in 2007 and increasing 1.0 percent in 2006. The regional unemployment rate climbed to 6.2 percent in 2008, following 4.7 percent in 2007 and 5.4 percent in 2006.

Potato production in the region was up from 2007, increasing by 11.6 percent. Potato prices were also sharply up, as average annual prices for 2008 were 47.7 percent higher than in 2007. Similarly, the price of barley increased 48.1 percent in 2008 after a 31.4 percent increase in 2007. After holding constant in 2007, alfalfa hay prices were also up 18.0 percent in 2008.

Housing permit data in Alamosa County provided some good news, as overall permits issued in the county were up 20.8 percent. Although the number of single-family contracts issued was slightly off compared to 2007, the decline of 4.2 percent was modest when compared to the 41.0 percent decrease seen in 2007.

Nonresidential construction in the region was off in 2008. Alamosa County reported an 88.0 percent decline in the value of permits for nonresidential construction for 2008. The largest decline came in the educational sector, with construction at schools and colleges declining by 95 percent from 2007, when a $9 million permit for a college building in Alamosa was granted. Other significant declines came in the religious and amusement sectors. The total value of such construction in the region was half of the value in 2005.

The increase in consumer spending, measured by retail trade sales, continued to decline. Sales increased 3.3 percent in 2008, after increasing 6.6 percent in 2007 and 10.0 percent in 2006. Alamosa County, the largest county in the region, experienced growth of 2.5 percent in 2008. In contrast, some of the smaller counties in the region, such as Mineral and Saguache, saw larger gains of 13.0 percent and 18.1 percent, respectively, during this period. These gains were primarily in the food and beverage, general merchandise, and non-store sectors.

Recent Economic News:

- The Army National Guard has begun to move forward with their plans to open an armory in Alamosa. The unit would be comprised of 78 local men and women, each of whom would be eligible for a monthly stipend as well as a signing bonus of up to $20,000. In addition, the guard offers up to 100 percent tuition assistance at state institutions of higher education and student loan repayment assistance.

- A new Family Dollar Store opened in Center in February. The store is one of 65,000 nationwide that operate as neighborhood discount stores.

- Chevron Mining Inc. announced the layoff of 230 employees at its molybdenum mine in Questa, New Mexico, due to the plunging price of molybdenum in the last six months. It is unclear how many of the estimated 50 valley residents that worked at the mine were immediately affected.

- The Alamosa franchise of Blockbuster Video closed in February. The store's six employees have been offered the chance to transfer to another store, located in Albuquerque, New Mexico.

Southwest Mountain Region

The economy of the five-county southwest mountain region continued to slow in 2008 compared with prior years. Table 15 presents the economic indicators for the region. Job growth declined while the regional unemployment rate increased. Both residential and nonresidential construction were markedly down, and consumers pulled back on spending.

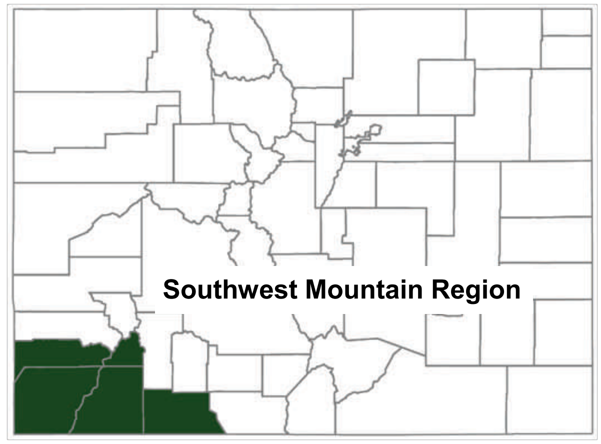


Table 15
Southwest Mountain Region Economic Indicators

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

	2006	2007	2008
Employment Growth /1	4.3%	2.3%	-2.3%
Unemployment Rate /1	3.8%	3.3%	4.3%
Housing Permit Growth /2			
La Plata County	-13.9%	-25.7%	-43.1%
Single-Family Permit Growth	-9.7%	-28.7%	-40.3%
Growth in Value of Nonresidential Const. /3			
La Plata County	74.4%	907.3%	-83.8%
Retail Trade Sales Growth /4	9.3%	5.7%	-1.0%

NA = Not Available.

1/ Colorado Department of Labor and Employment. Employment data through 2007 are from the QCEW program. 2008 employment data are from the LAUS (household) survey. Unemployment data are from the LAUS 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.

4/ F.W. Dodge.

5/ Colorado Department of Revenue.

Regional employment growth fell 2.3 percent in 2008, compared to a 2.3 percent increase in 2007 and a 4.3 percent increase in 2006. Unemployment also climbed to 4.3 percent in 2008, up from 3.3 percent in 2007 and 3.8 percent in 2006.

The region's construction industry continued to slide. The decline in overall permits for residential construction in La Plata County continued to accelerate, falling 43.1 percent in 2008. This compares with declines of 25.7 percent and 13.9 percent in 2007 and 2006, respectively. Permits for single-family houses also fell 40.3 percent during the year, down from the 28.7 percent decline in 2007 and 9.7 percent fall in 2006.

The pace of nonresidential construction fell significantly in 2008. The value of permits granted for nonresidential construction in La Plata County declined 83.8 percent in 2008, after an eight-fold increase during 2007. The most significant losses came in the value of stores and food service structures, office and bank buildings, government buildings and amusement structures.

La Plata County reported 148 foreclosures in 2008, the highest total in more than twenty years. Despite this total, La Plata County had one of the lowest foreclosure rates in the state (one per every 763 homes) through the first three quarters of 2008. This compares to a statewide average of 1 in every 89 homes.

Consumer spending in the region, measured by retail trade sales, fell 1.0 percent in 2008, compared to a 0.8 percent decrease for the state as a whole. Regional spending is down markedly from the increases of 5.7 percent and 9.3 percent seen in 2007 and 2006, respectively. La Plata County, accounting for over 60 percent of the region's sales, was also down 1.0 percent. Sales in the next largest county, Montezuma, rose 0.7 percent. The two smallest counties in the region in terms of sales, Dolores and San Juan, were down 8.9 percent and up 5.7 percent, respectively.

Recent Economic News:

- The Rocky Mountain Chocolate Factory, headquartered in Durango, reported a 15 percent decline in sales for the three-month period ending November 30, 2008, compared to the same period in 2007. Revenue in the final quarter was down from $8.8 million in 2007 to $7.4 million in 2008.

- The slowing economy in La Plata County has resulted in the closure of a second retail outlet in the Durango Mall. Corral West Ranchwear liquidated it's merchandise in December after only five months of operation.

- Durango real estate prices increased one percent in 2008 from the previous year, even as the number of sales fell 23 percent. Total sales fell from 163 in 2007 to 126 in 2008. For in-town condominiums, prices dropped 5.7 percent while sales rose 7.1 percent. In contrast the median price of resort condominiums rose 45 percent, while sales dropped 31.2 percent.

Western Region

The region is beginning to grapple with the same economic headwinds the nation is facing, with nonfarm job growth almost flat in 2008. In the second half of 2008, natural gas prices fell and the region is seeing a shutdown of a number of drilling rigs, triggering significant layoffs. The residential and nonresidential construction sectors are weak as new home building permits have declined and the value of new commercial construction projects has plummeted. Table 16 shows major economic indicators for the western region.

Table 16

Western Region Economic Indicators

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

	2006	2007	2008
Employment Growth /1			
Western Region	5.9%	5.3%	0.7%
Mesa County	4.3%	6.2%	4.5%
Unemployment Rate /1	3.7%	3.1%	3.9%
Housing Permit Growth			
Mesa County /2	4.6%	-13.2%	-42.6%
Single-Family Permit Growth	-3.1%	-8.1%	-47.2%
Montrose County /3	-5.3%	-33.2%	-64.3%
Single-Family Permit Growth	-9.1%	-28.8%	-60.6%
Growth in Value of Nonresidential Const. /3			
Mesa County	-44.8%	213.6%	-54.2%
Montrose County	141.3%	-34.6%	-85.2%
Retail Trade Sales Growth /4	13.6%	11.8%	1.0%

1/ Colorado Department of Labor and Employment. Employment data are from the CES survey for Mesa County. For the region, employment data are from the QCEW program through 2007 and the LAUS survey for 2008. Unemployment data are from the LAUS survey 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 through January 2009.

4/ Colorado Department of Revenue.

Through 2008, the number of jobs in the region increased 0.7 percent, down considerably from the 5.3 percent growth rate in 2007. Despite the region's job losses, employment growth in Mesa County outpaced every region in the state, likely due to the employment opportunities tied to the oil and gas industry. Nonfarm employment grew at 4.5 percent in Mesa County. The following counties suffered job losses in 2008: Delta (-1.3 percent); Montrose (-2.3 percent); Ouray (-2.5 percent); Gunnison (-3.8 percent); San Miguel (-6.2 percent); and Rio Blanco (-8.3 percent). Unemployment in the western region rose to an average of 3.9 percent in 2008, up from 3.1 percent in 2007, but still lower than the statewide rate of 4.9 percent.

Despite the fact that the region continues to reflect some job-growth from the oil and gas industry, depressed energy prices will likely further slow employment growth and drive unemployment upward in 2009. The price of natural gas has dropped from $15 per thousand cubic feet last year to around $2.50, while oil has dropped from record high prices of nearly $150 per barrel to below $50 per barrel. The number of rigs drilling for natural gas and oil in the state fell 46 percent last year. One company, Occidental Petroleum, has temporarily suspended all drilling in western Colorado's Piceance Basin, largely due to falling energy prices. Occidental employed 68 people to run nine rigs in the Parachute and De Beque areas.

When energy prices rebound, the industry may be poised to start up more drilling operations in the region. Statewide, the number of permits to drill new wells is up and there are 35,000 active wells operating, many of which are in the western region. The state issued 8,027 permits in 2008, up 26 percent from 6,368 in 2007.

Mirroring the construction sector contraction that has swept through other parts of the state and nation, construction indicators were down through the close of 2008. In Mesa County, permits for housing units decreased 42.6 percent through December over the prior year, and in Montrose County, permits decreased 64.3 percent. Through 2008, the value of nonresidential construction contracts declined 54.2 percent in Mesa County and 85.2 percent in Montrose County.

Retail trade sales in the region slowed considerably as sales grew only 1.0 percent in 2008. In 2007, retail trade sales grew 11.8 percent.

Recent Economic News:

- Exxon Mobil's latest project in Rio Blanco County (the Piceance Basin), will produce natural gas by the end of March. The first phase of the project will produce 200 million cubic feet of gas per day, about 10 percent of the current total daily production in the basin. Exxon officials say that the project is ultimately expected to produce one billion cubic feet of gas per day, enough to supply 8 percent of U.S. households.

- Leitner-Poma, a cable transport systems manufacturer of ski lifts, gondolas, and aerial tramways, completed its new $15 million manufacturing facility near the Grand Junction Regional Airport. The company employs 75 workers and expects to hire another 100 persons with the opening of the new facility.

- ProBuild, a Denver-based construction materials supplier, is expanding its Grand Junction retail location to 52,000 square feet, which will open in May. Currently, the company employs 13 and expects to hire up to 50 additional employees.

- Lewis Engineering of Grand Junction is expanding its operations into a new 66,000-square- foot building near the Grand Junction Regional Airport. Currently, the company employs 42 people and expects to add 17 new employees over the next two years.

- West Virginia-based Phillips Machine Services, a company that rebuilds mining equipment, opened an 18,000-square-foot facility in Delta and hired 12 people. The international company has operating partners in China and South Africa.

- Vista Auto Group is abandoning plans to build three auto dealerships in West Glenwood Springs.

- West Star Aviation, an Illinois-based company, has put its plans to build its service centers in Grand Junction Regional Airport on hold. The expansion was expected to add 200 to 250 new jobs in the region.

- Lignol Energy and Suncor Energy announced that they will not build an $80 million cellulosic ethanol plant in Grand Junction due to the uncertainty in the capital markets and instability of energy prices.

- The Grand Junction Circuit City store is closing and will lay off 45 workers.

- The Foxworth-Galbraith Lumber Company closed its Grand Junction and Delta stores, laying off 27 employees.

- Denver-based American National Bank laid of 62 employees statewide, of which about 20 were laid off in the Grant Junction area.

- Declining newspaper sales have caused three regional publishers to reduce staff. The Aspen Times is laying off six employees, the Glenwood Springs Post Independent is laying off five people, and the Grand Junction Free Press laid off two reporters and two staffers.

- Advantage Rent-A Car closed its doors at the Grand Junction Regional Airport. Three employees lost their jobs.

- Appliance and electronics retailer REX will shut its doors at its Grand Junction location. Three employees will be laid off.

Mountain Region

The economy in the mountain region continues to slow with job growth and retail sales down considerably in 2008. In addition, construction activity declined at high rates in 2008. Table 17 shows major economic indicators for the region.

Table 17
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller counties

	2006	2007	2008
Employment Growth /1	3.5%	2.4%	-1.5%
Unemployment Rate /1	3.6%	3.6%	4.0%
Housing Permit Growth			
Eagle, Pitkin, & Summit Counties /2	58.3%	-20.5%	-42.0%
Single-Family Permit Growth	-7.2%	-19.4%	-46.4%
Routt County /3	-10.5%	40.0%	-38.0%
Single-Family Permit Growth	-10.8%	-11.4%	-38.0%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	74.3%	24.6%	-15.6%
Routt County	143.9%	83.1%	-58.7%
Retail Trade Sales Growth /4	12.6%	9.6%	-1.4%

1/ Colorado Department of Labor and Employment. Employment data through 2007 are from the QCEW program. 2008 employment data are from the LAUS (household) survey. Unemployment data are from the LAUS survey 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 December 2008.

4/ Colorado Department of Revenue.

Employment decreased 1.5 percent in 2008 after increasing at a strong pace of 2.4 percent in 2007. The job market weakened in several sectors of the mountain economy, including construction, retail, financial services, real estate, and tourism. While employment increased in Chaffee and Eagle counties by 0.1 and 0.6 percent, respectively, every other county in the region experienced job losses in 2008. The unemployment rate in the region was 4.0 percent, up from 3.6 percent in 2007. Unemployment rates increased for all counties in the region.

The region's residential construction sector weakened further in 2008, consistent with statewide trends. Housing permits were down 38 percent in Routt County and down 42 percent in the ski counties of Eagle, Pitkin, and Summit. Similarly, nonresidential construction declined in 2008. The value of permits for nonresidential construction decreased 15.6 percent in Eagle, Pitkin, and Summit counties and 58.7 percent in Routt County.

Consumer spending, as measured by retail trade sales, slowed considerably in the region. In 2008, retail trade sales decreased 1.4 percent, compared to increases of 9.6 and 12.6 percent in 2007 and 2006, respectively. Of the region's four largest counties, which represent over 75 percent of total retail sales, Eagle County saw a decrease in sales of 0.8 percent in 2008, while Summit, Pitkin, and Routt counties showed declines of 2.2, 5.3 and 4.4 percent, respectively.

Recent Economic News:

- Colorado Ski Country U.S.A., Inc. reported that total skier visits were down 7.7 percent at its 22 member resorts during the first part of the 2008-09 ski season (October 15, 2008 through December 31, 2008). Skier visits for the 2007-08 ski season were down 0.2 percent from the prior year's season.

- Land Title Guarantee Company reported a 40 percent decline in the number of real estate transactions in Pitkin County in 2008 over the prior year's level. The decline in transactions was matched with a 46 percent decrease in the dollar volume of transactions.

- Vail Resorts plans to reduce costs and save jobs by reducing employee wages up to 10 percent based on a sliding scale. Additionally, the Bloomfield Company's CEO agreed not to take a salary for one year.

Northern Region

The northern region experienced the strongest job growth in the state in 2008. However, the region mirrored other areas concerning unemployment, consumer spending, and construction activity. Table 18 shows economic indicators for the northern region.

Table 18
Northern Region Economic Indicators
Weld and Larimer counties

	2006	2007	2008
Employment Growth /1			
Larimer County	1.7%	2.1%	1.0%
Weld County	4.2%	2.9%	1.4%
Unemployment Rate /1			
Larimer County	4.0%	3.4%	4.3%
Weld County	4.7%	4.2%	5.3%
State Cattle and Calf Inventory Growth /2	5.0%	-4.0%	1.9%
Housing Permit Growth /3			
Larimer County	-17.5%	-41.3%	-1.0%
Single-Family Permit Growth /3	-36.7%	-22.2%	-36.4%
Weld County	-30.3%	-38.6%	-46.8%
Single-Family Permit Growth /3	-36.6%	-40.5%	-45.1%
Growth in Value of Nonresidential Const. /4			
Larimer County	84.2%	8.8%	-18.2%
Weld County	-14.7%	19.5%	24.3%
Retail Trade Sales Growth /5			
Larimer County	5.2%	6.5%	-0.9%
Weld County	7.0%	7.6%	2.1%

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

2/ Colorado Agricultural Statistics Service. Compares Annual 2008 to 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.

In 2008, the average number of jobs increased 1.0 percent in Larimer County and 1.4 percent in Weld County. Both counties outperformed the statewide average of 0.8 percent job growth. In Larimer County, the largest employment increases occurred in education and health services, while the largest declines came in natural resources and mining, construction, financial activities, and manufacturing. In Weld County, the largest job increases occurred in manufacturing, natural resources and mining, and education and health services, while professional and business services and information experienced the largest percentage declines. While both counties did better than other areas in 2008, both reported job losses in the last few months of the year. The unemployment rate in December stood at 4.4 percent and 5.3 percent, respectively, in Larimer and Weld counties.

Consumer spending as measured by retail sales, was basically flat with a growth rate of 0.3 percent in 2008, a much better showing than the decrease experienced statewide. Within the region, retail sales activity in the two counties differed. Larimer County's sales decreased 0.9 percent, a sharp contrast from the 6.5 percent growth recorded in 2007. Weld County's sales were up 2.1 percent through November.

The housing industry in the northern region continues to languish, especially the construction of single-family units. Through December, Larimer County saw a decrease of 1.0 percent in the total number of housing permits compared with the same period in 2007. The slight decrease occurred despite an almost tripling in the number of permits for multi-family units, as single-family permits fell 36.4 percent through December. Housing permit authorizations in Weld County dropped 46.8 percent in 2008, with single-family permits falling 45.1 percent. Single-family housing permits have fallen in Larimer County since 2005 and in Weld County since 2006.

Meanwhile, nonresidential construction activity in the two counties continued its trend of moving in opposite directions. The value of construction permits fell 18.2 percent in Larimer County, while Weld County saw a 24.3 percent increase in 2008. Construction permit decreases in Larimer County occurred among stores and food service, commercial office, educational, and amusement facilities. In Weld County, permits for the 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 since 2005.

Recent Economic News:

- Sunflower Farmers Market announced a delay in the opening of a new store in Greeley. The store was scheduled to open this summer, but it is now expected to open in 2010, at the earliest. The store is part of a chain of natural foods grocers. This announcement follows the closure of Cranberries Fresh Foods Market at the end of 2008.

- Two restaurants recently closed in Fort Collins. Manno's Grille at the Collindale Golf Course closed in January, idling about 24 full- and part-time workers. Texas Land & Cattle Steak House also closed, with 45 employees losing their jobs.

- Advanced Micro Devices (AMD) announced a third round of job layoffs to its worldwide staff in January. AMD plans to cut another 1,100 jobs, or 9 percent of its staff. AMD currently employs about 140 people at its Fort Collins plant.

- RPM Electronics Inc. announced that it will discontinue operations by the end of April. The company assembles and tests printed circuit boards, and had 250 employees at the peak of its operation in 2003.

- A new Wal-Mart Supercenter and Embassy Suites hotel will open in Timnath and Fort Collins, respectively, this spring. Approximately 650 jobs will be created from the new developments.

- Agilent Technologies is cutting 400 jobs from its worldwide staff. Agilent's Loveland plant employs about 500 workers, with statewide company employment totaling 1,500. It is unknown how many cuts will occur in Colorado.

- Hexcel Corporation announced plans to build a 100,000-square-foot manufacturing facility in Windsor. The company produces composites that are used in the development of wind turbine blades. Its largest customer is Vestas Wind Systems, which is located in the same industrial park.

Eastern Region

Economic indicators were mixed for the eastern region in 2008. Growth in employment slowed and the unemployment rate is edging up, but consumer spending continues to outpace all other regions in the state. While crop prices have remained mostly positive, production levels have decreased. Table 19 shows the major economic indicators for the region.

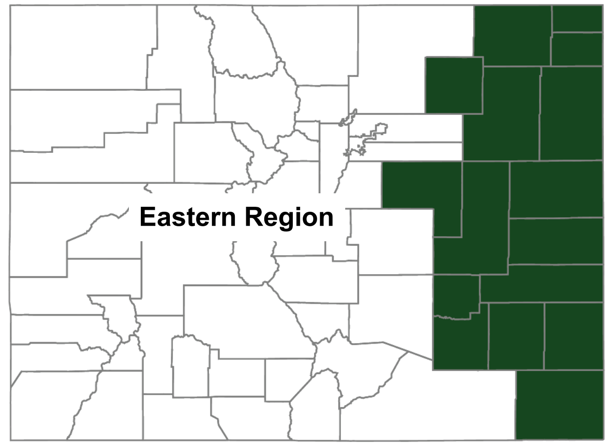


Table 19
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2006	2007	2008
Employment Growth /1	-1.0%	0.5%	-4.8%
Unemployment Rate /1	4.1%	3.5%	4.3%
Crop Price Changes /2			
Wheat	15.1%	110.8%	8.2%
Corn	32.7%	26.9%	-0.3%
Alfalfa Hay (baled)	37.3%	0.0%	18.0%
Dry Beans	32.1%	57.1%	21.5%
State Crop Production Growth /2			
Sorghum production	0.9%	86.4%	-18.9%
Corn	-4.6%	17.4%	-0.3%
Winter Wheat	-24.4%	135.6%	-37.8%
Sugar Beets	NA	-17.0%	-0.9%
State Cattle and Calf Inventory Growth /2	5.0%	-4.0%	1.9%
Retail Trade Sales Growth /3	6.7%	6.0%	6.0%

NA = Not available

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

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

3/ Colorado Department of Revenue.

After increasing at a fairly slow rate of 0.5 percent in 2007, employment decreased 4.8 percent in 2008. Every county except Crowley lost jobs in 2008. Meanwhile, the unemployment rate increased from 3.5 percent in 2007 to 4.5 percent in 2008. Crowley, Bent, and Otero counties continue to post the highest unemployment rates in the region at 7.5, 6.4, and 6.2 percent, respectively, in 2008. Sedgewick County had the lowest unemployment rate at 2.5 percent.

Consumer spending in the region, as measured by retail trade sales, increased 6.0 percent in 2008. Retail trade sales continued to grow faster than any other region in the state, far outpacing the state's 0.8 percent decrease. Retail sales in La Junta were up 3.0 percent by year-end 2008 as residents are shopping locally. Food store purchases were up 19.0 percent, furniture sales were up 2.0 percent, and sales of building materials increased 42.0 percent over 2008. In contrast, restaurant sales declined 7.0 percent and liquor store sales fell 17.0 percent. Other regional municipalities are witnessing the same adjustment in spending patterns.

Although overall production fell, the outlook in the region's agricultural sector looks positive as most grain and crop prices remain high. Prices for wheat, alfalfa hay, and dry beans accelerated at a strong pace over the year, with the exception of the price of corn, which slightly decreased 0.3 percent.

In 2008, statewide wheat production suffered from a dry growing season. Kit Carson County, the top wheat producing county in the state, saw production drop 35.0 percent from 2007. Part of this decline was due to fewer acres planted. Washington, Yuma, Logan, and Weld counties also saw reductions in planted acres and decreased yields. Of the remaining major wheat producing counties in the state, only Saguache and Rio Grande saw increases in wheat production.

On the positive side, after a year of declining growth, the state cattle and calf inventory increased 1.9 percent. In addition, many home owners and small businesses in the region are installing small wind turbines to take advantage of the region's abundant wind resources. This trend is becoming so popular that five rural electrical associations are supporting pilot projects on their grids.

The Department of Agriculture is awarding grants through the Advancing Colorado's Renewable Energy (ACRE) program that allows agricultural businesses to promote renewable energy. Washington, Crowley, and Otero counties have received grants to assess the feasibility of implementing bio-energy facilities that convert manure into biogas. Baca, Bent, Morgan, Philips, Logan, Sedgwick, and Washington counties have received grants to offset the costs of installing farm scale wind turbines for agricultural operations. Blue Sun Biodiesel in Washington County has received a grant to research the potential of camelina as a new, low-cost, high-value energy crop for farmers. Camelina, or 'wildflax' is gaining popularity, not only for its potential as a biofuel, but also for its health benefits and high yields on land not suitable for food crops.

Recent Economic News:

- Construction is nearly complete on a new 39,000 square foot, 62-room Hampton Inn hotel in La Junta located along U.S. 50. The hotel will employ approximately 20 people with pay ranging from $8 to $40 per hour.

- Two local residents opened Peppy Coffee, a new drive-through coffee shop offering quick coffee service in Fort Morgan. It's popularity has the company currently employing eight people.

- Jimmy's Pizza Italian Restaurant opened its doors in Sterling in December. The store employs approximately 50 part-time workers.

- Rocky Mountain Sustainable Enterprises (RMSE) plans to build a local plant in Morgan County that will generate over 4 million gallons of biodiesel per year. The plant is expected to add six to 10 new jobs.

Appendix A
Historical Data

National Economic Indicators
(Dollar amounts in billions)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Domestic Product	$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	$14,264.6
percent change	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%	3.3%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$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	$11,652.7
percent change	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%	1.1%
Unemployment Rate	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.8%
Inflation (Consumer Price Index)	2.6%	2.8%	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	3.8%
10-Year Treasury Note	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%	3.7%
Personal Income	$5,842.5	$6,152.3	$6,520.6	$6,915.1	$7,423.0	$7,802.4	$8,429.7	$8,724.1	$8,881.9	$9,163.6	$9,727.2	$10,269.8	$10,993.9	$11,663.2	$12,106.9
percent change	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	6.2%	5.6%	7.1%	6.1%	3.8%
Wage and Salary Income	$3,232.1	$3,419.3	$3,619.6	$3,877.6	$4,183.4	$4,466.3	$4,829.2	$4,942.8	$4,980.9	$5,112.7	$5,394.5	$5,671.7	$6,027.2	$6,362.0	$6,550.8
percent change	4.8%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.8%	2.6%	5.5%	5.1%	6.3%	5.6%	3.0%
Nonfarm Wage and Salary Employment (millions)	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	137.1
percent change	3.1%	2.6%	2.1%	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-0.4%

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)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nonagricultural Employment (thous.)	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	2,225.6	2,279.1	2,331.6	2,349.5
percent change	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%	2.3%	0.8%
Unemployment Rate (%)	5.3	4.3	4.0	4.2	3.4	3.5	3.0	2.7	3.8	5.7	6.1	5.6	5.1	4.4	3.9	4.9
Personal Income	$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	$188,213	$199,415	NA
percent change	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	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,280	$34,256	$33,778	$33,684	$35,106	$37,061	$38,989	$40,532	NA
percent change	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.1%	2.9%	-1.4%	-0.3%	4.2%	5.6%	5.2%	4.0%	
Wage and Salary Income	$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	NA
percent change	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	$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	$74,760
percent change	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%	-0.8%
Housing Permits	29,913	37,229	38,622	42,221	42,509	49,503	48,874	53,749	54,537	47,911	34,066	45,585	46,262	39,314	30,420	19,086
percent change	27.4%	24.5%	3.7%	9.3%	0.7%	16.5%	-1.3%	10.0%	1.5%	-12.1%	-28.9%	33.8%	1.5%	-15.0%	-22.6%	-37.3%
Nonresidential Construction	$1,578	$1,581	$1,841	$2,367	$3,274	$2,880	$3,783	$3,476	$3,500	$2,787	$2,713	$3,291	$4,221	$4,415	$5,251	$4,134
percent change	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%	18.9%	-21.3%
Denver-Boulder Inflation Rate	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.6%	2.0%	1.0%	0.1%	2.1%	3.6%	2.2%	3.9%
Population (thousands, July 1)	3,613.7	3,724.2	3,826.7	3,920.0	4,018.3	4,116.6	4,226.0	4,338.8	4,457.7	4,531.5	4,596.5	4,664.1	4,731.8	4,827.4	4,919.9	5,018.3
percent change	3.4%	2.7%	2.8%	2.9%	2.5%	2.4%	2.7%	2.7%	2.7%	1.7%	1.4%	1.5%	1.5%	2.0%	1.9%	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