Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff Economics Section

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Photograph captures Navajo Peak
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Highlights

- The FY 2009-10 General Fund shortfall is $600.6 million, $39.9 million higher than anticipated in September.
- Revenue available for spending in the General Fund will be $1.5 billion lower in FY 2010-11 than the amount currently budgeted to be spent in FY 2009-10.
- The TABOR limit will equal $10.7 billion in FY 2010-11, and revenue subject to TABOR will be $1.6 billion below the limit.
- While the recession appears to be over in Colorado, the recovery will be long and rocky. The economy is undergoing fundamental changes and will be fueled less by debt, consumption, and construction than in the past. Thus, many of the jobs lost during the recession will take several years to return.
- School districts statewide will experience a 5.4 percent decrease in property tax assessed values and a 1.4 percent increase in FTE enrollment during the 2010-11 school year.
- The adult incarcerated prison population will decrease by 1,406 inmates and the parole population will increase by 1,186 parolees between 2009 and 2012.

Executive Summary

This report presents the current budget outlook based on the December 2009 economic, General Fund revenue, and cash fund revenue forecasts. In addition, three forecasts related to the budget are presented. Forecasts for property assessed values and K-12 enrollment are presented to inform the budget for school finance. Forecasts for the adult prison and parole population and the Division of Youth Corrections population are presented to inform the budgets for the Department of Corrections, capital construction need, and the Division of Youth Corrections in the Department of Human Services.

General Fund Overview

Table 1 on page 3 presents the General Fund overview based on current law. Revenue available for spending in the General Fund is $600.6 million below the amount budgeted for expenditure in **FY 2009-10**. This amount is $39.9 million higher than the $560.7 million shortfall projected in September. This figure has not been adjusted for increases in spending resulting from higher-than-expected caseload or costs, nor does it incorporate any of the measures in the Governor's budget balancing plan. Table 2 on page 4 summarizes current law budgetary measures enacted by the legislature to address the General Fund shortfall.

Although General Fund revenue is expected to *increase* 4.4 percent in **FY 2010-11**, revenue available for spending in the General Fund will *decrease* 6.3 percent because several sources of revenue, many of which are displayed in Table 2, will either be reduced or will no longer be available. Thus, revenue available for spending in the General Fund will be $1.5 billion lower in FY 2010-11 than the amount currently budgeted to be spent in FY 2009-10.

The $1.5 billion shortfall in FY 2010-11 is a two-year cumulative shortfall. It assumes the entire FY 2009-10 shortfall is filled with one-time sources of money and thus carried forward into FY 2010-11. It includes the $600.6 million shortfall for FY 2009-10 and an additional $897.4 million shortfall for FY 2010-11. These figures are not adjusted for the Governor's budget balancing plan and do not include any increases in spending that will result from rising caseloads, inflation, or constitutional requirements.

Revenue Forecast

The FY 2009-10 forecast for total revenue subject to TABOR was decreased $59.5 million, or 0.7 percent, since the September forecast. The forecast for General Fund revenue subject to TABOR was decreased $37.3 million, while the forecast for cash fund revenue subject to TABOR was decreased $22.2 million.

- While there are indications that the recession has subsided and a snail-paced recovery has begun, it appears the recession was deeper than previously understood during the first half of 2009. The decrease in the **General Fund revenue** forecast is the result of lower expectations for sales and corporate income taxes, which were partially offset by increases in expectations for individual income taxes.

Table 1
December 2009 General Fund Overview
(Dollars in Millions)

		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
FUNDS AVAILABLE		**Preliminary**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$327.0	$437.7	-$451.5	-$1,199.8
2	General Fund Nonexempt Revenue	6,737.8	6,500.0	6,425.3	6,425.8
3	General Fund Exempt Revenue (Referendum C)	0.0	0.0	358.3	635.9
4	Paybacks to Other Funds	-2.9	-458.1	0.0	0.0
5	Transfers from Other Funds	815.3	280.8	2.6	1.5
6	Sales Taxes to Older Coloradans Fund and OASMCF	-8.8	-10.9	-10.9	-10.9
7	**Total Funds Available**	**$7,868.3**	**$6,749.6**	**$6,323.8**	**$5,852.6**
8	Percent Change	-1.8%	-14.2%	-6.3%	-7.5%
EXPENDITURES		**Budgeted**	**Budgeted**	**Estimate /B**	**Estimate/ B**
9	Operating Appropriations	$7,410.7	$7,456.5	$7,456.5	$7,456.5
10	Over and (Under) Appropriations /A	-11.2	-45.4	NA	NA
11	Federal Medicaid Assistance	-214.1	-351.2	-192.2	0.0
12	Rebates and Expenditures	135.3	137.8	147.5	184.3
13	Reimbursement for Senior and Disabled Vet. Property Tax Cut	85.5	1.4	96.4	102.4
14	Funds in Prior Year Excess Reserve to HUTF	29.0	NA	NA	NA
15	Funds in Prior Year Excess Reserve to Capital Construction	14.5	NA	NA	NA
16	Capital Construction Transfer	24.9	2.0	15.6	23.9
17	Accounting Adjustments	-43.9	NE	NE	NE
18	**Total Expenditures**	**$7,430.6**	**$7,201.1**	**$7,523.7**	**$7,767.1**
19	Percent Change	-3.4%	-3.1%	4.5%	3.2%
BUDGET SUMMARY		**Preliminary**	**Estimate**	**Estimate /B**	**Estimate/ B**
20	**Amount Available for Expenditure**	**$7,720.1**	**$6,600.5**	**$6,025.6**	**$5,554.3**
21	Dollar Change	-$11.9	-$1,119.7	-$574.9	-$471.3
22	Percent Change	-0.2%	-14.5%	-8.7%	-7.8%
23	***Available Revenue will Restrict Expenditures By :***	***$0.0***	***-$600.6***	***-$1,498.1***	***-$2,212.8***
RESERVE		**Preliminary**	**Budgeted**	**Estimate /B**	**Estimate /B**
24	Year-End General Fund Reserve	$437.7	-$451.5	-$1,199.8	-$1,914.5
25	Year-End Reserve as a Percent of Appropriations	5.9%	-6.1%	4.0%	4.0%
26	Statutory Reserve	148.2	149.1	298.3	298.3
27	General Fund Excess Reserve	$289.5	-$600.6	-$1,498.1	-$2,212.8
28	Addendum: TABOR Reserve Requirement	$273.3	$259.5	$272.0	$286.1
29	Addendum: Arveschoug-Bird Appropriations Limit	$7,546.8	$10,277.4	$10,616.0	$10,456.8
30	Addendum: Amount Directed to State Education Fund	$339.9	$335.6	$354.5	$378.0

Totals may not sum due to rounding. NE = Not Estimated. NA= Not Applicable.

/A In addition to $12.0 million in FY 2008-09 Medicaid overexpenditures, this includes 1331 and other emergency supplementals that, while having been approved by the Joint Budget Committee, have not yet been approved by the State Legislature.

/B Figures in FY 2010-11 and FY 2011-12 illustrate how much revenue is available relative to FY 2009-10 budgeted operating expenditures plus current-year estimates for other obligations. To show the cumulative shortfall, each year's shortfall is assumed to be filled with one-time money and carried forward to the following fiscal year.

Table 2
2009 Current Law Budgetary Measures Incorporated in the General Fund Overview
Excludes the Governor's Budget Balancing Plans for FYs 2009-10 and 2010-11
(Dollars in Millions)

		FY 2008-09	FY 2009-10	FY 2010-11
Cash Fund Transfers				
SB 09-208	Cash Fund Transfers	221.6	0.0	0.0
SB 09-279	Permanent Cash Fund Transfers	114.1	209.4	0.0
SB 09-279	Temporary Cash Fund Transfers	458.1	-458.1	0.0
SB 09-210	Tobacco Master Settlement Transfers	1.2	2.4	0.0
SB 09-269	Tobacco Master Settlement Transfers	13.9	65.0	0.0
SB 09-270	Amendment 35 Tobacco Transfers - Interest	6.3	3.9	2.6
Total Cash Fund Transfers		815.2	-177.3	2.6
Revenue Changes				
Total Revenue Change /A		12.4	108.4	117.7
Reduced Expenditures				
SB 09-227	Fire and Police Pension Assn. Postponement	-25.3	-25.3	-25.3
SB 09-228	Eliminate SB-1 Diversions & HB-1310 Transfers		*Not Estimated*	
SB 09-259	Reduce Volunteer Firefighter Pensions	-0.1	0.0	0.0
SB 09-276	Suspend Senior Property Tax Exemption	0.0	-90.5	0.0
SB 09-278	Suspend SB-1 Diversion & HB-1310 Transfers	0.0	0.0	0.0
Total Expenditure Reductions		-25.4	-115.8	-25.3
Reduced Statutory Reserves				
SB 09-219	FY 08-09 Statutory Reserve Reduction	-148.2	0.0	0.0
SB 09-277	FY 09-10 Statutory Reserve Reduction /B	0.0	-0.9	0.0
Total Statutory Reserve Reductions		-148.2	-0.9	0.0
Federal Funds Increases				
ARRA*	Total FMAP Increases	214.1	351.2	192.2
ARRA* & SB 09-264	Stabilization Funds for Higher Education	150.0	150 /C	/C
ARRA*	Governor's Discretionary ARRA Funds	25.6	45.4	0.0
Total Increases from Federal Funds		389.7	546.6	192.2
Total Impact of All Actions		**$1,391.0**	**$594.4**	**$337.8**

/A The revenue change is the net impact of the temporary sales tax on cigarettes, temporarily suspending the sales tax vendor fee, new sales tax exemptions, modifying the income tax deduction for capital gains, altering the tax credit for fuel efficient vehicles, and new income tax credits.

/B The impact shown for SB 09-277 represents the net change between FY 2008-09 and FY 2009-10.

/C This assumes amounts that were incorporated into the FY 2009-10 long appropriations bill. The Governor has proposed

** ARRA = The American Recovery and Reinvestment Act.*

- **Cash fund revenue** subject to TABOR amounted to $2.4 billion in FY 2008-09, a 6.0 percent increase from the prior year. In FY 2009-10, cash fund revenue will decrease 9.9 percent, primarily due to of a sharp decline in severance tax revenue from lower natural gas prices. The TABOR -exempt status of unemployment insurance revenue starting in FY 2009-10 also eliminated a large source of cash fund TABOR revenue. However, this will be offset by increases in transportation-related revenue from higher registration fees and new revenue from the hospital provider fee. TABOR cash fund revenue will resume growth in the last two years of the forecast period.

- The current estimate for the amount of revenue that will be retained by the state during the **Referendum C time-out period** is $3.6 billion. Table 3 presents the history and forecast for revenue retained by Referendum C.

Table 3
History and Projections of Revenue
Retained by Referendum C

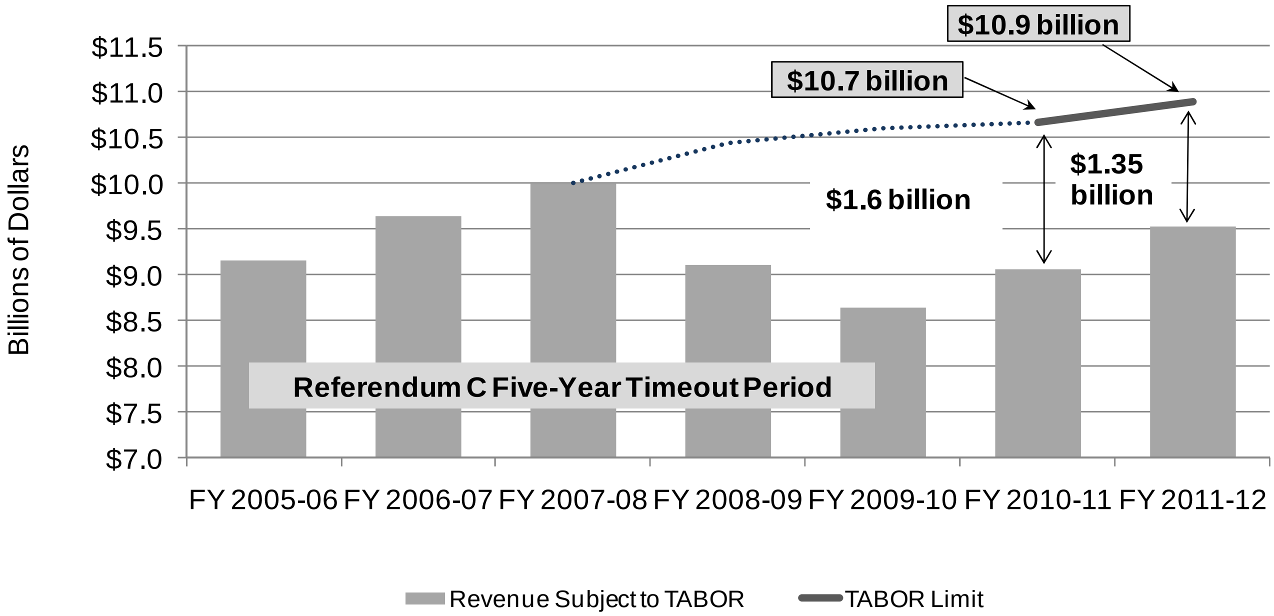
Actual	
2005-06	$1,116.1
2006-07	$1,308.0
2007-08	$1,169.4
2008-09	$0.0
Projections	
2009-10	$0.0
2010-11	$358.3
2011-12	$635.9

- Figure 1 on page 6 shows TABOR revenue and the TABOR limit through the end of the forecast period, which extends two years beyond the five-year time-out period associated with Referendum C. After adjustments for changes in enterprise status in the Unemployment Insurance Program (House Bill 09-1363) and higher education institutions, it is expected that the TABOR limit will equal $10.7 billion in FY 2010-11, and revenue subject to TABOR will be $1.6 billion below the limit. Revenue will not be sufficient to produce a **TABOR refund** in FY 2010-11 or FY 2011-12. Table 4 on page 7 shows TABOR revenue, the estimated TABOR limit, and the voter-approved revenue retained under Referendum C during the three-year forecast horizon.

National Economy

The national economy appears to have finally turned the corner and started to recover. Restrained consumer spending in response to tight credit, high unemployment, lost wealth, and weak wage growth will slow the pace of recovery to a crawl through much of 2010. The instability that remains in banking and real estate — the two sectors that led the economy into financial crisis and recession — will also dampen growth.

Figure 1
TABOR Revenue and the Referendum C Cap



The nation will face a new set of obstacles when the economy builds steam. The ballooning national deficit and inflationary pressures resulting from expansionary monetary and fiscal policy pose potential threats to the health of the economy in the future.

Colorado Economy

Colorado's recession appears to be over. Employment, while still on a slightly negative trend, has shown signs of rebounding and the rapid decrease in consumer spending has halted in most areas of the state. Activities that will ultimately heal the economy in the long run are also occurring. Consumers and businesses are paying off debt, banks are shoring up their balance sheets, and the construction of homes and buildings has ground nearly to a halt to adjust for excess supply.

Credit conditions for consumers and most of Colorado's small businesses will remain constrained for several years to come. As a result, the road ahead for Colorado, even in recovery, will feel rocky with continued job losses and slow wage growth well into 2010. As the recovery takes hold, the geographic diversity of Colorado's industries will lend to different rates of growth throughout the state. Some regions of the state will bounce back at modest to moderate rates, while others will rise and fall with oil, natural gas, and agricultural prices.

Posing a potential risk or reward, Colorado's economy in many ways rests in the hands of monetary and fiscal policy. The long-term impacts of these policies may hasten Colorado's recovery. They could also, however, contribute to economic burdens for the state as the national deficit looms and inflationary pressures emerge with economic growth.

Table 4
December 2009 TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

		Preliminary FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
	TABOR Revenue:				
1	General Fund /A	$6,714.4	$6,490.2	$6,772.6	$7,049.5
2	Cash Funds	2,395.1	2,159.2	2,294.1	2,486.4
3	**Total TABOR Revenue**	**$9,109.5**	**$8,649.4**	**$9,066.7**	**$9,535.9**
	Revenue Limit				
4	Allowable TABOR Growth Rate	4.2%	5.9%	0.9%	2.2%
5	Inflation (from prior calendar year)	2.2%	3.9%	-0.9%	0.6%
6	Population Growth (from prior calendar year)	2.0%	2.0%	1.8%	1.6%
7	Allowable TABOR Limit Base /B	$9,207.5	$9,190.4	$8,708.4	$8,900.0
8	Voter Approved Revenue Change (Referendum C)	$0.0	$0.0	$358.3	$635.9
9	Total TABOR Limit	NA	NA	$10,672.0	$10,887.7
	Retained/Refunded Revenue				
10	Retained Revenue (General Fund Exempt)	$0.0	$0.0	$358.3	$635.9
11	Revenue to be Refunded to Taxpayers	$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 net out revenue that is already in the Cash Funds to avoid double counting.

/B The TABOR Limit Base was adjusted for changes in TABOR enterprise status in FY 2008-09 and FY 2009-10.

Assessed Values

The projections for assessed values are used to determine local property taxes for Colorado's public schools and the amount of state aid provided to schools. After increasing 11.7 percent in 2009 to $97.8 billion, mostly as a result of the spike in oil and gas values in 2008, statewide **assessed values** are expected to decline 5.4 percent in 2010. Assessed values will be affected in 2010 by falling energy prices and slow construction activity. Values will fall an additional 2.5 percent in 2011 as a result of declining residential and commercial property values, for a total decrease of 7.7 percent over the two-year reassessment cycle. The **residential assessment rate** is expected to remain at 7.96 percent throughout the forecast period.

Kindergarten to Twelfth Grade Enrollment

Kindergarten through twelfth-grade public **school enrollment** will increase 1.4 percent in the state, or by 11,131 full-time equivalent (FTE) students between the current 2009-10 school year and the 2010-11 school year. Enrollment will increase an additional 10,060 FTEs between the 2010-11 and 2011-12 school years at a slightly more modest growth rate of 1.3 percent. The Colorado Springs and metro Denver regions will experience the fastest growth due to sustained population growth and residential development in these areas. The pueblo, southwest mountain, and western regions will see enrollment declines consistent with the wains of the natural gas industry. The eastern plains and San Luis Valley regions will also see modest declines due to demographic changes in Colorado's rural areas.

Juvenile and Adult Prison and Parole Populations

The **adult incarcerated prison population** is expected to decrease from 23,186 in June 2009 to 21,780 in June 2012, or by 1,406 inmates. This represents an average annual rate of decline of 2.1 percent, or about 469 inmates per year. The **in-state parole population** is projected to increase from 9,016 in June 2009 to 9,898 in June 2012, growing at an average annual rate of 2.3 percent. The total number of parolees (those supervised in-state and out-of-state) is expected to increase from 11,750 to 12,936 during the three-year forecast period.

The **juvenile commitment population** is expected to increase from an average daily population of 1,228 in FY 2008-09 to 1,232 in FY 2009-10. By FY 2011-12, the commitment population will fall to 1,222 juveniles, representing an average annual decline of 0.2 percent.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 5 on page 10 illustrates revenue collections for FY 2008-09 and projections for FY 2009-10 through FY 2011-12. General Fund revenue decreased $1.0 billion in FY 2008-09, or 13.0 percent, from the prior year. In FY 2009-10, revenue will decrease an additional $237.8 million, or 3.5 percent.

While there are indications that the recession has subsided and a snail-paced recovery has begun, it appears the recession was deeper than previously understood during the first half of 2009. The General Fund revenue forecast for FY 2009-10 was reduced by $36.9 million, or 0.6 percent, compared with the September forecast. The decrease is the result of lower expectations for sales and corporate income taxes, which were partially offset by increases in expectations for individual income taxes.

The General Fund revenue forecast for FY 2010-11 was reduced by $173.9, or 2.5 percent, compared with the September forecast. While the economy appears to be out of recession, expectations for the strength of the recovery have weakened relative to the September forecast. The recovery will encounter significant drag from imbalances in the real estate and banking sectors, high debt, and high unemployment.

Individual income taxes make up close to two-thirds of General Fund revenue. Thus, fluctuations in income tax revenue due to changes in the economy have a large impact on the budget. In FY 2008-09, individual income tax revenue fell 12.9 percent, amounting to a reduction of $640 million. Revenue will drop again in FY 2009-10, though not as severely. Individual income taxes are expected to decline 2.5 percent. Most of this year's decline is a result of the state's high unemployment level and weak wage growth. Tax revenue will grow again with a recovering economy in FY 2010-11.

Though individual income tax revenue is still expected to increase in FY 2010-11 and FY 2011-12, the forecast was reduced relative to the September forecast. The economic recovery is likely to be gradual with some bumps in the road, especially for the job market. The economy is undergoing fundamental changes. It will be fueled less by debt, consumption, and construction than in the past. Many of the jobs lost during the recession will likely not come back in the near future. As a result, unemployment will remain relatively high and wages will stagnate as the economy searches for new industries and sources of growth. The projection for individual income taxes was reduced by $60.7 million for FY 2010-11 and $222.1 million for FY 2011-12 relative to the September forecast.

Compared with the September forecast, expectations for **corporate income taxes** were reduced $33.1 million for FY 2009-10 and $31.5 million for FY 2010-11 to reflect persistent poor economic conditions and the effects of federal corporate tax incentives enacted to stimulate the economy. The lack of consumer spending will contribute to lower corporate profits and reduced corporate income tax revenue. In FY 2008-09, corporate income taxes totaled $292.5 million, a 42.4 percent drop from the prior year. In FY 2009-10, corporate income tax revenue is expected to drop further to $281.5 million, and again the following year to $248.6, an additional 15 percent over the next two years. Taxable income is expected to remain low. Consequently, corporate income taxes are not expected to rebound until FY 2011-12.

The **State Education Fund** receives one-third of one percent of taxable income from state income tax returns. This fund will

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

Category	Preliminary FY 2008-09	Percent Change	Estimate FY 2009-10	Percent Change	Estimate FY 2010-11	Percent Change	Estimate FY 2011-12	Percent Change
Sales	$1,931.1	-9.2	$1,855.3	-3.9	$1,901.5	2.5	$1,859.0	-2.2
Use	176.7	-7.6	145.3	-17.8	151.5	4.3	162.8	7.5
Cigarette	43.5	-3.8	39.7	-8.6	38.6	-2.8	38.2	-1.0
Tobacco Products	13.2	6.2	14.1	6.6	16.1	14.1	16.5	3.0
Liquor	35.0	-1.9	34.4	-1.8	35.3	2.8	36.0	1.8
TOTAL EXCISE	$2,199.5	-8.8	$2,088.8	-5.0	$2,143.1	2.6	$2,112.6	-1.4
Net Individual Income	$4,333.3	-12.9	$4,224.1	-2.5	$4,514.6	6.9	$4,818.9	6.7
Net Corporate Income	292.5	-42.4	281.5	-3.8	248.6	-11.7	267.6	7.6
TOTAL INCOME TAXES	$4,625.8	-15.6	$4,505.6	-2.6	$4,763.2	5.7	$5,086.5	6.8
Less: Portion diverted to the SEF*	-339.9	-16.7	-335.6	-1.3	-354.5	5.6	-378.0	6.6
INCOME TAXES TO GENERAL FUND	$4,285.9	-15.5	$4,170.0	-2.7	$4,408.8	5.7	$4,708.4	6.8
Insurance	192.4	2.2	192.9	0.2	197.3	2.3	203.2	3.0
Pari-Mutuel	0.5	-81.6	0.4	-17.2	0.4	-3.4	0.4	-3.5
Investment Income	9.2	-48.7	7.2	-21.7	9.8	35.4	11.9	21.5
Court Receipts	24.1	-18.6	18.3	-24.0	0.3	-98.6	0.3	4.7
Gaming	2.8	NA	1.0	NA	2.3	NA	3.5	NA
Other Income	23.4	20.0	21.4	-8.4	21.7	1.5	21.5	-1.1
TOTAL OTHER	$252.4	-2.2	$241.3	-4.4	$231.7	-3.9	$240.7	3.9
GROSS GENERAL FUND	**$6,737.8**	**-13.0**	**$6,500.0**	**-3.5**	**$6,783.6**	**4.4**	**$7,061.7**	**4.1**
REBATES & EXPENDITURES:	7,077.70		6,835.61		7,138.06		7,439.76	
Cigarette Rebate	$12.1	-4.7	$11.6	-3.9	$11.3	-2.8	$11.2	-1.0
Old-Age Pension Fund	107.4	15.1	107.9	0.5	116.3	7.7	127.0	9.3
Aged Property Tax & Heating Credit	5.3	-49.0	8.9	67.9	8.6	-3.4	8.1	-6.0
Interest Payments for School Loans	5.5	-53.6	4.3	-21.7	5.9	35.4	7.1	21.5
Fire/Police Pensions	4.0	-89.6	4.1	2.4	4.5	9.6	29.9	561.3
Amendment 35 GF Expenditures	1.0	-0.9	0.9	-4.9	0.9	0.1	0.9	-0.9
TOTAL REBATES & EXPENDITURES	$135.3	-19.5	$137.8	1.9	$147.5	7.0	$184.3	25.0

Totals may not sum due to rounding.

** SEF = state Education fund.*

see a growth pattern in revenue similar to income taxes. After receiving $339.9 million in FY 2008-09, it will receive $335.6 million in FY 2009-10, a decrease of 1.3 percent, and $354.5 million in FY 2010-11.

Last year's precipitous decline in **sales tax** revenue began to subside in the first part of FY 2009-10. This can be attributed, in part, to improved confidence and federal stimulus programs. Consumer and business spending will remain restrained and receipts are expected to remain weak throughout FY 2009-10.

The forecast has been adjusted down by $45.1 million for FY 2009-10 due to continued larger-than-expected drops in revenue during the first months of the fiscal year. Sales tax receipts are projected to decline 3.9 percent in FY 2009-10. Revenue will increase modestly in FY 2010-11, at a 2.5 percent rate. Spending and sales tax receipts are being curbed by reduced availability of credit and increased austerity as businesses and consumers reduce debt levels. High unemployment and weak wage growth will restrain confidence, spending, and sales tax revenue in FY 2009-10 and FY 2010-11.

Sales tax collections have fallen for most industries. Transportation, warehouse, construction, mining, wholesale trade, manufacturing, finance and insurance posted sizeable drops in taxable sales and receipts between January and September 2009 compared to a year ago. Sales of durable goods, such as cars, furniture, electronics, and appliances posted double-digit declines in the same period.

Legislation enacted in the 2009 session continues to buffer the weakness in tax collections. This legislation temporarily eliminated both the vendor discount fee that retailers can retain to offset their costs of sales tax collections and the sales tax exemption on purchases of cigarettes. These measures are estimated to increase sales tax revenue to the state by about $100 million in both FY 2009-10 and FY 2010-11. The expiration of these temporary measures, combined with modest economic growth, is expected to result in a 2.2 percent decline in sales tax revenue in FY 2011-12.

Use tax revenue, which is mostly paid by businesses in the state, deteriorated rapidly over the past year with the increase in economic uncertainty, further tightening in the credit markets, and the drop in demand. Many businesses have restrained spending to survive difficult business conditions. Anecdotal reports suggest that credit availability is also limiting spending, especially for smaller and midsize businesses. Use tax revenue is projected to drop an unprecedented 17.8 percent to $145.3 million in FY 2009-10. Revenue will rebound from this low level in FY 2010-11 with 4.3 percent growth.

Cash Fund Revenue

Table 6 on page 13 summarizes the forecast for revenue to cash funds subject to TABOR. Total cash fund TABOR revenue amounted to $2.4 billion in FY 2008-09, a 6.0 percent increase from the prior year. The largest sources of this revenue are transportation-related revenue, mostly from fuel taxes, unemployment insurance premiums, severance taxes, which are derived from taxes on the mineral extraction industries in the state, and gaming revenue. This section also presents the forecast for federal mineral leasing revenue, which is not subject to TABOR.

In FY 2009-10, cash fund revenue is projected to decline 9.9 percent, primarily as a result of a sharp decline in severance tax revenue due to depressed natural gas prices. TABOR-exempt status of unemployment insurance revenue starting in FY 2009-10 also eliminates a large source of cash fund TABOR revenue. However, this will be offset by increases in transportation-related revenue from **Senate Bill 09-108** (commonly referred to as FASTER) and the new revenue generated from the Hospital Provider Fee created by **House Bill 09-1293** (Health Care Affordability Act).

The forecast for TABOR cash fund revenue was reduced by $22.2 million for FY 2009-10 and a total of $177.6 million over the three-year forecast period. The decrease, both in FY 2009-10 and over the forecast period, is attributable to reduced expectations for revenue from the Hospital Provider Fee and transportation-related revenue. Expectations for revenue generated by the Hospital Provider Fee were reduced because the state will draw additional money down from the federal government as a result of the enhanced federal match in the American Recovery and Reinvestment Act.

In the current fiscal year, revenue to the ***transportation-related*** cash funds will see an overall increase of 14.7 percent, or $128.4 million. The increase is largely attributable to FASTER. However, FASTER revenue is expected to come in lower than was previously projected. Forecasts for transportation-related cash funds are shown in Table 7 on page 14.

Overall revenue to the *Highway Users Tax Fund (HUTF)* will grow 16.9 percent in FY 2009-10 and at a modest pace in the years that follow. The largest revenue source to the HUTF, *motor fuel revenue*, will maintain modest growth throughout the forecast period. In FY 2009-10, growth in gasoline revenue will offset declines in special fuel revenue which are down due to recessionary levels of commercial-related transit. As the economy recovers, gas prices are expected to rise, dampening revenue growth through the end of the forecast period. The shift toward lighter and more fuel efficient vehicles is also dampening growth for both motor fuel and registration revenue.

Despite the boost from the "Cash for Clunkers" program in October, *registration fees* are being impacted by consumers driving lighter weight cars. This drags down registration revenue because registration fees are tied to vehicle weight. Vehicle purchases have also been down and are expected to remain low until economic recovery builds strength. As a result of these trends, registration revenue will show modest growth through the forecast period.

Based on the first several months of data for this fiscal year, *FASTER revenue* is projected to come in $13.6 million lower that expected. The daily rental fee is bringing in less revenue than expected due to recessionary levels of business and leisure travel. The road safety surcharge, which places a fee on registered vehicles based on weight, is also expected to bring in less revenue than expected due to lower vehicle weights than were originally assumed. Partially offsetting lower revenue from these two sources, revenue from the late registration fee is coming in much

Table 6
Cash Fund Revenue Subject to TABOR, December 2009
(Dollars in Millions)

	Preliminary FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12	FY 08-09 to FY 11-12 CAAGR *
Transportation-Related	**$875.3**	**$1,003.7**	**$1,022.4**	**$1,037.5**	
% Change	-4.9%	14.7%	1.9%	1.5%	**5.8%**
Unemployment Insurance	**$391.2**	**NA**	**NA**	**NA**	
% Change	-8.3%				
Hospital Provider Fee	**NA**	**$294.7**	**$327.5**	**$422.6**	
% Change			11.1%	29.0%	
Severance Tax	**$336.9**	**$85.4**	**$167.4**	**$214.5**	
% Change	98.1%	-74.6%	95.9%	28.2%	**-14.0%**
Limited Gaming Fund	**$98.9**	**$103.5**	**$107.5**	**$111.9**	
% Change	-12.9%	4.6%	3.9%	4.1%	**4.2%**
Insurance-Related	**$51.5**	**$39.0**	**$18.0**	**$18.1**	
% Change	-20.5%	-24.2%	-53.8%	0.6%	**-29.4%**
Regulatory Agencies	**$78.1**	**$62.7**	**$63.4**	**$64.8**	
% Change	37.6%	-19.7%	1.1%	2.1%	**-6.1%**
Capital Construction - Interest /A	**$10.1**	**$3.0**	**$1.8**	**$1.1**	
% Change	-47.8%	-70.2%	-40.8%	-35.5%	**-51.5%**
Other Cash Funds /B	**$553.2**	**$567.1**	**$586.1**	**$615.8**	
% Change	14.4%	2.0%	3.7%	5.2%	**3.6%**
Total Cash Fund Revenue	**$2,395.1**	**$2,159.2**	**$2,294.1**	**$2,486.4**	
Subject to the TABOR Limit	**6.0%**	**-9.9%**	**6.2%**	**8.4%**	**1.3%**

Totals may not sum due to rounding.

**CAAGR: Compound Average Annual Growth Rate.*

/A Includes interest earnings to the Capital Construction Fund and the Controlled Maintenance Trust Fund.

/B Includes revenue to the Employment Support Fund and to Fort Lewis, Mesa, and Adams State colleges in FY 2008-09 and Fort Lewis College in FY 2009-10.

Table 7
Transportation Funds Revenue Forecast by Source, December 2009
(Dollars in Millions)

	Preliminary FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12	FY 08-09 to FY 11-12 CAAGR *
Highway Users Tax Fund (HUTF)					
Motor Fuel and Special Fuel Taxes	$539.9	$545.0	$555.5	$563.2	
% Change	-6.5%	1.0%	1.9%	1.4%	1.4%
Registrations	$182.0	$182.0	$184.9	$187.1	
% Change	-1.8%	0.5%	1.1%	1.2%	0.9%
FASTER Revenue /A		$137.0	$126.9	$126.6	
% Change					
Other Receipts /B	$52.9	$40.6	$51.9	$52.5	
% Change	27.8%	-23.3%	27.9%	1.1%	-0.3%
Total HUTF	$774.7	$905.5	$919.2	$929.4	
% Change	-3.6%	16.9%	1.5%	1.1%	6.3%
State Highway Fund	$72.0	$63.8	$67.7	$71.8	
% Change	-21.8%	-11.4%	6.1%	6.2%	-0.1%
Other Transportation Funds /C	$28.6	$34.5	$35.5	$36.3	
% Change	2.1%	20.6%	3.0%	2.2%	8.3%
Total Transportation Funds	$875.3	$1,003.7	$1,022.4	$1,037.5	
% Change	-4.9%	14.7%	1.9%	1.5%	5.8%

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

/A Includes revenue from the daily rental fee, road safety surcharge, late registration fee, and oversized overweight vehicle surcharge. Does not include TABOR exempt bridge safety surcharge revenue.

/B Includes interest receipts, judicial receipts, drivers' license fees, and other miscellaneous receipts in the HUTF.

/C Includes Emergency Medical Services, emissions registration and inspections, motorcycle license, license plate, and P.O.S.T. Board revenues.

stronger than expected. However, this revenue is not expected to continue at the levels seen in the first few months of the fiscal year as more motorists work to avoid the late fees.

The dip in revenue from *other receipts* to the HUTF in FY 2009-10 reflects the one-year diversion under Senate Bill 09-274 of drivers licence revenue from the HUTF to the Division of Motor Vehicles.

State Highway Fund revenue will decline 11.4 percent in FY 2009-10 due almost entirely to depressed interest earnings, which are expected to grow very modestly through the forecast period. Additionally, uncertainty surrounding federal transportation funding legislation continues. A change in federal funding could impact revenue to the State Highway Fund starting as soon as January.

Forecasts for ***unemployment insurance*** (UI) revenue, benefits payments, and the UI Trust Fund balance are shown in Table 8 on page 16. As a result of **House Bill 09-1363**, revenue to the UI Trust Fund will no longer be subject to TABOR beginning in FY 2009-10, and is therefore excluded from Table 6. However, due to the significance of unemployment issues during economic fluctuations and the effects that consequently filter throughout the economy, UI revenue, benefits, and the UI Trust Fund balance will continue to be included separately in the forecast. The Employment Support Fund, derived from half of the UI surcharge, is still subject to TABOR and thus, forecasted, with the results included in Other Cash Funds.

The Employment Support Fund, derived from half of the UI surcharge, is still subject to TABOR. The UI surcharge is equal to 0.22 percent of taxable income. Once deposited into the Employment Support Fund, it is used to cover benefit payments to individuals whose previous employers are no longer in business. Revenue to the Employment Support Fund is included in Table 6 in the umbrella group of Other Cash Funds.

Although preliminary indicators are pointing to an emerging economic recovery, unemployment issues are expected to drag out for at least another year. The lack of jobs, slow wage growth, and increased benefit payments are expected to persist through FY 2009-10. While some companies plan to open their doors or expand in Colorado, others will continue to reduce their demand for labor, leaving taxable wages on a more severe downward trend than was anticipated in the September forecast. Not only are UI benefit payments expected to increase substantially over the next year, the number of weeks the individuals receive benefits is expected to increase accordingly.

Total claims for UI benefits are at a historic high. While both the federal Extended Unemployment Compensation and Extended Benefits programs are paid for with federal dollars, the approval of both programs proves the severity of the current recession and the reason for the increase in state UI benefit payments. This unprecedented demand on the fund's resources will drive the fund balance down to a negative balance both by the end of this fiscal year and next fiscal year. When the balance of the UI Trust Fund falls below zero, the federal government requires the state to borrow money from the Federal UI Trust Fund to meet benefit payments. This forecast does not incorporate the use of any money that may be borrowed from the federal government to pay for benefits.

Contingent upon federal approval, the ***Hospital Provider Fee***, which was created by **House Bill 09-1293** (the Health Care Affordability Act), will fund the expansion of federal and state medical assistance programs starting this fiscal year. The program generates revenue by charging a fee to hospitals. The revenue generated from the fee can then be used

Table 8
Unemployment Insurance Trust Fund Forecast, December 2009
Revenues, Benefits Paid, and Fund Balance
(Dollars in Millions)

	Preliminary FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12	FY 08-09 to FY 11-12 CAAGR *
Beginning Balance	$699.8	$370.2	($93.1)	($150.2)	-40.1%
Plus Income Received					
Regular Taxes /A	$159.1	$241.9	$641.8	$599.9	55.7%
Solvency Taxes /B	$205.3	$308.3	$349.2	$367.5	
Interest	$27.8	$5.1	($5.5)	($3.2)	-51.2%
Plus Federal Payment		*$128.0*			
Total Revenues	**$392.1**	**$555.3**	**$985.5**	**$964.1**	31.2%
% Change	-8.1%	74.2%	44.2%	-2.2%	
Less Benefits Paid	($741.8)	($1,124.1)	($1,021.1)	($723.4)	-0.8%
% Change	125.5%	51.5%	-9.2%	-29.2%	
Federal Reed Act Transfer	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	$20.1	($22.6)	($21.5)	($21.8)	NA
Ending Balance	**$370.2**	**($93.1)**	**($150.2)**	**$68.8**	-42.9%
Solvency Ratio:					
Fund Balance as a Percent of Total Annual Private Wages	0.43%	-0.11%	-0.18%	0.08%	-42.9%

Totals may not sum due to rounding.

NA = Not Applicable.

*CAAGR: Compound Average Annual Growth Rate.

/A This includes regular UI taxes, 30% of the UI surcharge, penalty receipts, and the accrual adjustment on taxes.

Note: The Unemployment Insurance Trust Fund is no longer subject to TABOR starting in FY 2009-10.

to draw down matching federal dollars. Due to the enhanced federal match to state funding under the American Recovery and Reinvestment Act, the forecast for revenue from the fee was lowered from the September estimate by $41.4 million in FY 2009-10 and $20.7 million in FY 2010-11. Fee revenue will be higher starting in FY 2011-12 when the enhanced match is no longer available and the State Medical Services Board increases the fee to expand eligibility for those covered by medical assistance programs.

The FY 2009-10 forecast for total **severance tax** revenue was raised by $30.5 million compared with the September forecast as taxes paid by the oil and natural gas industry have come in higher than expected. Much of the higher-than-expected collections are the result of some severance taxpayers filing tax returns for their 2008 tax liabilities in October. These "extension" filers paid much larger amounts to the state with their returns than in prior years due to their high tax liabilities in 2008 when they received large amounts of income from high energy prices and booming natural gas production. However, despite the increase in the forecast for FY 2009-10, revenue from this source will still be much lower than the record high collections in FY 2008-09.

In FY 2009-10, total severance tax revenue is projected to be $85.4 million, a decrease of 74.6 percent from FY 2008-09. The drop in income for energy producers due to the lower energy prices and diminished energy consumption in 2009, coupled with large severance tax credits based on the higher value of natural gas produced in 2008, is causing this large decrease.

Contributing to the large drop in revenue in FY 2009-10 is a decrease in revenue from coal production, which represents the second-largest source of severance taxes in Colorado after oil and natural gas. Colorado coal production was down 7 percent through the beginning of December compared to a year ago due mainly to the weak economy and as more electrical power plants switched from using coal to lower priced natural gas to generate electricity in 2009. Severance taxes from coal are expected to decrease 20.4 percent in FY 2009-10.

As energy prices and natural gas consumption by businesses and for industrial production begins to rebound in FY 2010-11, severance taxes will rebound. In addition, taxpayers will offset less of their tax liabilities with smaller tax credits than they were able to claim in FY 2009-10 because the credits will be based on much lower production values in 2009. However, it is expected that the nation will continue to have a large supply of natural gas resulting from the rapid expansion of natural gas production over the past several years. Along with a slow economic recovery, this should constrain growth in prices over the next couple years and prevent severance taxes from reaching the high levels seen in FY 2008-09. Spot market prices for natural gas in Colorado are expected to average $3.43 per Mcf (thousand cubic feet) for 2009 and $4.30 per Mcf in 2010. These price levels are much lower than 2008's average of about $7.00 per Mcf.

It should be noted that there are several factors creating added uncertainty during the forecast period regarding the direction of natural gas prices – the largest determinant of severance tax revenue – and energy production in Colorado. The future strength of prices depends to a large extent on whether the nation's large supply of natural gas gets drawn down. This is contingent upon how cold the winter is and the strength of the economic recovery. Also adding to the uncertainty is the development of large reserves of natural gas closer to the major east coast markets that appear to be more attractive to energy companies. If the development of these reserves result in a substantial increase in natural gas supply for the nation, the income of producers in the state will be reduced and severance tax revenue growth will be limited. Alternatively, it is possible that the state's increasing pipeline capacity, the potential increase in the use of natural gas for more of the nation's energy needs, and a stronger economic recovery than expected will put more upward pressure on prices in the region, causing severance tax revenue to come in stronger than projected.

Gaming revenue began to rebound in early FY 2009-10 after seeing its worst decline since Colorado limited gaming began in 1991. From a high of $117.9 million in FY 2006-07, total gaming revenue, which includes taxes, fees, and interest earnings, decreased 16.1 percent to $98.2 million in FY 2008-09. However, as the economy gradually improves and the expanded gaming limits authorized by Amendment 50 create more revenue for casinos, gaming revenue will increase in FY 2009-10 and FY 2010-11. Revenue is expected to grow 4.6 percent in FY 2009-10 to $103.5 million.

Based on the formula in **House Bill 09-1272** that distributes money from the expanded gaming limits authorized by Amendment 50, it is estimated that distributions under the formula will equal $10.8 million in FY 2009-10 and grow to $14.5 million in FY 2010-11. The bulk of the new revenue under Amendment 50 will be distributed to community colleges (78 percent) and the remaining money will be distributed to Gilpin and Teller counties, and each of the three gaming towns (22 percent).

Figure 2
Limited Gaming Revenue Statutory Transfers
(FY 2008-09)

Statutory Transfers
$42.6 million (50%)

↓

Local Government Gaming Impact Fund: $5.5 million (6.5%)
State Highway Fund: $10.1 million (12.0%)
Tourism Promotion Fund: $15.6 million (18.4%)
New Jobs Incentives Fund: $1.4 million (1.7%)
State Council on the Arts Fund: $1.2 million (1.4%)
Film Incentives Fund: $0.2 million (0.2%)
Bioscience Fund: $4.5 million (5.3%)
Clean Energy Fund: $0.0
Innovative Higher Education Research Fund: $1.0 million (1.2%)
Colorado Film Commission: $0.3 million (0.4%)

↓

General Fund
$2.8 million (3.3%)

Gaming revenue transfers and the budget. Limited gaming revenue is split evenly between constitutional and statutory transfers. In FY 2008-09, constitutional transfers distributed 50 percent of total limited gaming revenue or $42.6 million to the State Historical Fund (28 percent), gaming counties (12 percent), and gaming cities (10 percent). The statutory or discretionary transfers distributed the remaining 50 percent as follows:

When the General Fund forecast indicates that revenue will be insufficient to increase General Fund appropriations by six percent, current law provides the Joint Budget Committee authority to run a bill to adjust the transfer of gaming revenue to certain programs as shown in Figure 2 on page 18. This authority was exercised during the 2009 session when the General Assembly adopted legislation that transferred money to economic development programs. Without this legislation, these funds would have reverted to the General Fund at the end of FY 2008-09 because revenue was insufficient for six percent appropriations growth. If legislation is not adopted this year to set the transfers to these funds, $26.3 million is projected to revert to the General Fund at the end of FY 2009-10.

All ***other cash fund revenue*** subject to TABOR, which includes interest earnings in the Capital Development Fund, workers compensation surcharge revenue, and revenue from a large number of various cash funds, increased 10.2 percent in FY 2008-09 and is expected to decrease 3.0 percent in FY 2009-10. Part of the FY 2008-09 revenue to these funds came from the temporary loss of TABOR enterprise status by Adams State, Mesa State, and Fort Lewis colleges, which generated $57.6 million in TABOR revenue. For FY 2009-10, Fort Lewis is currently the only school projected to lose enterprise status. TABOR revenue to this school, including tuition and student fees, will amount to about $18.7 million.

Table 9
Federal Mining Leasing Revenue Distributions
(Millions of Dollars)

Year	Dec-09	% Chg.	Sep-09	% Chg. from last forecast
FY 2001-02*	$44.6		$44.6	
FY 2002-03*	$50.0	12.1%	$50.0	
FY 2003-04*	$79.4	58.7%	$79.4	
FY 2004-05*	$101.0	27.2%	$101.0	
FY 2005-06*	$143.4	41.9%	$143.4	
FY 2006-07*	$123.0	-14.3%	$123.0	
FY 2007-08*	$153.6	25.0%	$153.6	
FY 2008-09*	$227.3	47.9%	$227.3	
FY 2009-10	$106.0	-53.3%	$90.6	17.1%
FY 2010-11	$123.9	16.9%	$111.7	10.9%
FY 2011-12	$149.8	20.9%	$129.5	15.7%

**Actual revenue distributed.*

Federal Mineral Leasing Revenue

Table 9 presents the December 2009 forecast for federal mineral leasing (FML) revenue in comparison with September's forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. 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. FML revenue has grown substantially since the beginning of the decade as a result of increasing energy production on the state's federal lands, mostly in western Colorado.

As indicated in Table 9, similar to severance taxes, the reduced demand for energy and the fall in energy prices has caused FML revenue to decline from the record high levels in FY 2008-09. FML revenue is projected to amount to $106.0 million in FY 2009-10, and then resume growth in the latter two years of the forecast as the economy recovers and energy prices rebound from their 2009 depressed levels. Like with severance taxes, the FML revenue forecast for FY 2009-10 was raised since the September forecast as natural gas prices and revenue collections have exceeded expectations.

National Economy

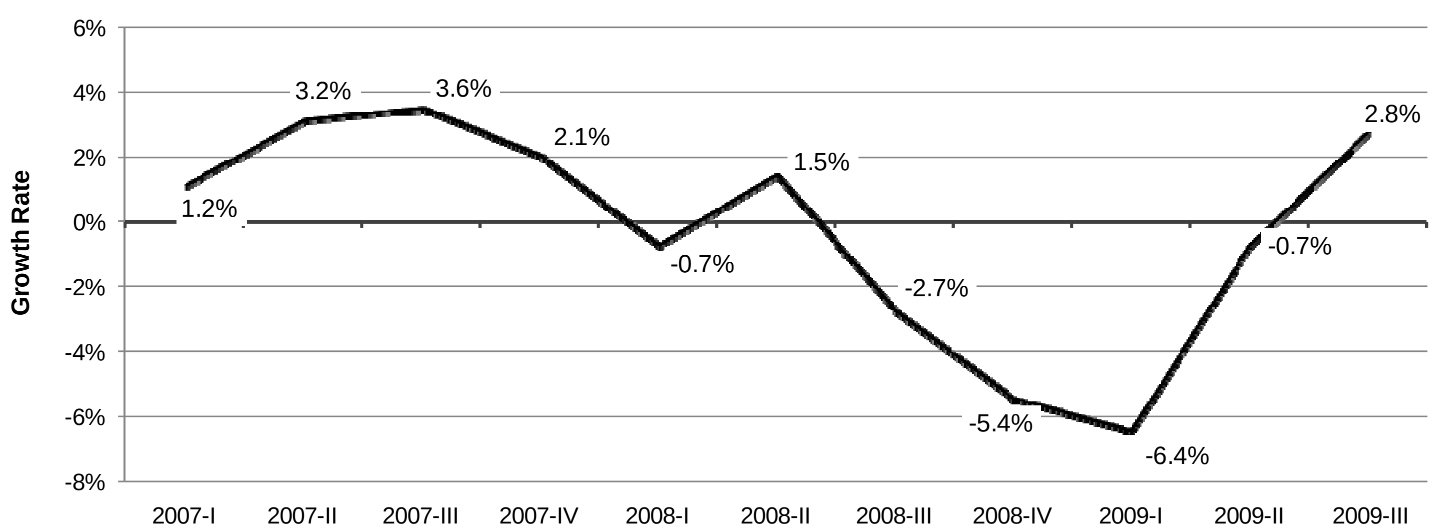
The national economy appears to have finally turned the corner and started to recover. Recently released estimates of economic activity indicate the economy grew at a 2.8 percent annual rate in the third quarter of this year. This follows declines in five of the previous six quarters. Although the third quarter figure was revised downward from earlier estimates, it is nevertheless good news that the national economy is expanding once again.

An uncertain issue troubling economists, however, is whether the recovery is sustainable. Instability in the banking and real estate markets could dampen growth by further restricting credit and contributing to general instability in the financial system. Additionally, the long-run effects of monetary and fiscal policies undertaken in 2008 and 2009 have yet to be seen. While these policies have kept the nation from a deeper plunge in economic activity, fears of rising budget deficits, interest rates, and inflation could weigh heavily on investors, consumers, and businesses. Table 10 shows the forecast for major economic indicators in the nation.

Gross Domestic Product

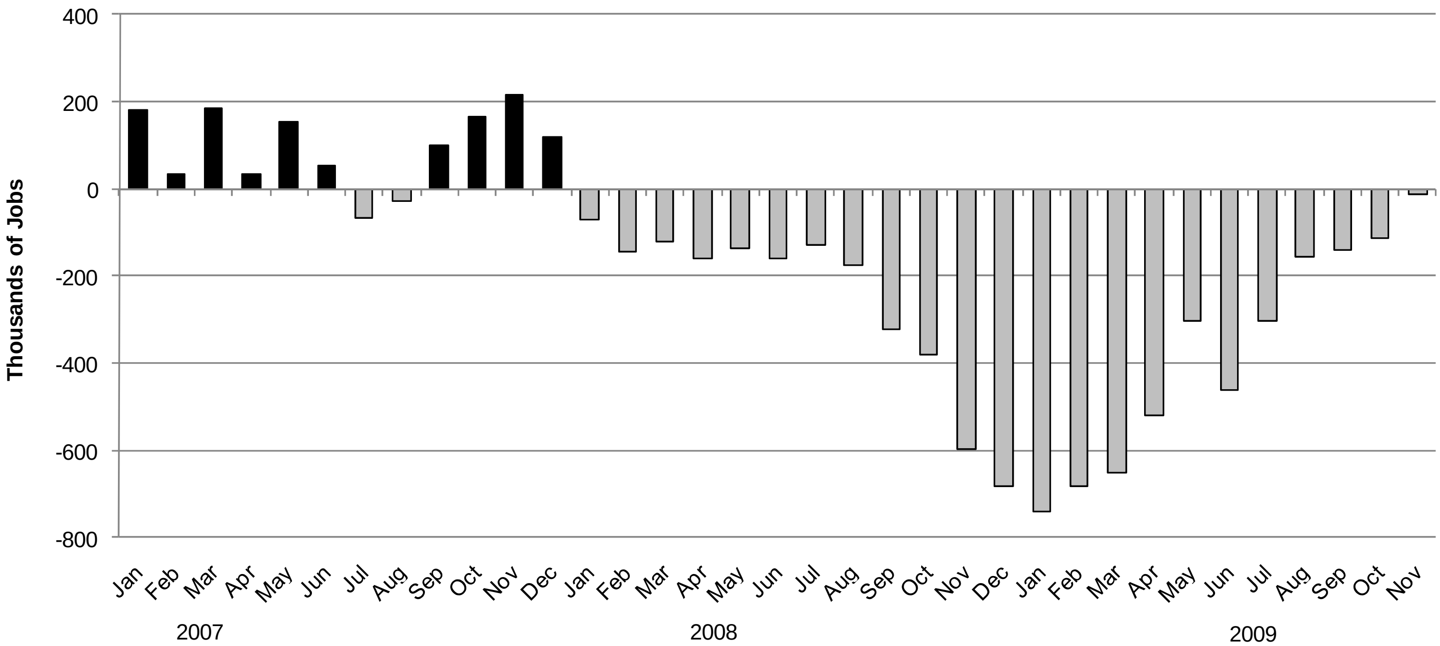
For the first time in more than a year, the national economy experienced an increase in economic activity in the third quarter of 2009, as measured by gross domestic product (GDP). This may be an indication that the recession is nearing an end. The 2.8 percent increase in GDP recorded in the third quarter followed four quarters of declining growth of 0.7 percent, 6.4 percent, 5.4 percent, and 2.7 percent. The rebound in activity was primarily attributed to rising consumer spending on durable goods, inventory and residential investment spending, government spending, and exports. Figure 3 illustrates GDP growth from 2007 through the third quarter of 2009.

Figure 3
Quarterly Growth of Gross Domestic Product



Source: Bureau of Economic Analysis.
Note: Figure shows annualized quarter-over-quarter growth at seasonally adjusted annual rates.

Figure 4
National Employment Gains/Losses



Source: Bureau of Labor Statistics.
Note: October and November estimates are preliminary. All figures are seasonally adjusted.

- Economic growth, as measured by GDP, is expected to increase modestly in the second half of 2009 as a result of the federal stimulus package, improving corporate profits, and a modest recovery in spending by consumers and businesses. However, for all of 2009, GDP will contract 2.6 percent because of the sharp declines registered in the first half of the year. In 2010, the economy is expected to expand 1.8 percent as the economy slowly recovers.

Job Market

Although job losses continue to accumulate, the pace of those losses has decelerated considerably in the past few months. During the period from October 2008 to April 2009, the economy shed an average of 600,000 jobs per month. In the last four months, job losses averaged 100,000 per month. In November, job losses totaled 11,000, bringing the total number of jobs lost during the recession to 7.2 million. Of all sectors in the economy, only education, health services and government have experienced job growth during the recession. However, an emerging source of job growth is temporary help services, which could be indicative of a more sustained turnaround in the labor market. Monthly job losses are illustrated in Figure 4.

The national unemployment rate dropped from 10.2 percent in October to 10.0 percent in November. The number of unemployed people in the country dropped from 15.7 million to 15.4 million, partly accounting for the fall in the unemployment rate. While most of the reduction was due to workers dropping out of the labor force, some is also due to entrepreneurship. The number of people who said they were employed in the household survey has increased recently, indicating that some of the unemployed have started their own businesses. This is indicative of a nascent economic recovery. While the economy may be starting to recover, employment growth will be nonexistent in the short term and unemployment will remain high. Productivity gains will allow businesses to expand production without corresponding increases in workers.

- The nation will lose a total of 5.1 million jobs in 2009 as the economy continues to see losses through the end of the calendar year, translating to an unemployment rate averaging 9.2 percent in 2009. In 2010, job losses will slow to a total of about 500,000. The unemployment rate will average 10.0 percent as discouraged workers who dropped out of the workforce return as the economy recovers at a rate faster than job growth will absorb. The unemployment rate will remain high because firms will not hire at a pace sufficient to absorb the new workers.

Personal Income and Wages

In the first half of 2009, reductions in wages and salaries, job losses, lower dividends, low interest rates, and depreciated asset values contributed to declines in personal income. Wages and salaries, which represent the largest portion of personal income, declined 3.7 percent in the first six months of 2009 compared with the previous six months. However, third quarter personal income increased relative to the prior quarter, growing 0.3 percent on an annual basis, with gains reported in wages and salaries, proprietors' income, and government transfer payments. This rebound occurred with the increases in overall economic activity. Consequently, for the year through October, personal income is down 1.7 percent compared with the same period last year.

- Personal income will decline 1.6 percent in 2009 as the weak results in the first half of the year will counteract modest income growth in the second half. In 2010, personal income will grow 2.6 percent.

Housing Market

Data on housing shows signs that the market is possibly stabilizing. While home sales, construction permits, and home prices remain at low levels, all have shown some upward trends through October. Low interest rates and the $8,000 federal tax credit for first-time home buyers are partially responsible for positive trends in recent months. Despite this, the housing market is expected to continue to struggle throughout 2009 as foreclosures continue to rise, unemployment remains high, and consumers continue to pay down debt. In 2010, the housing market is expected to start a slow recovery with a slight increase in home building and stabilizing home values.

Nonresidential Real Estate

Instability in the banking sector and reduced demand have placed many businesses in financial distress. These strains are being reflected in the commercial real estate market. Delinquency rates on commercial-mortgage-backed securities (CMBS) rose to 3.86 percent in October from rates well under 1.0 percent in the two years prior. Retail, multifamily, lodging, office, and industrial properties have all seen substantial rises in delinquencies. Additionally, the office vacancy rate continues to rise and may soon surpass the spike that occurred during the last economic downturn. Vacancy rates, delinquent mortgage payments, and foreclosures in commercial real estate are all expected to rise in 2010, putting increasing pressure on the financial sector.

Consumer Spending

Since the start of the recession in December 2007, job losses, tighter credit, and increasing uncertainty about the future have generally caused consumers to save or pay down debts instead of spend. However, in the past few months, a modest rebound in consumer confidence coupled with federal tax breaks and incentive programs, such as the "cash for clunkers" program, have stimulated spending. Real personal consumption expenditures have increased in four of the past five months, with the drop in September reflecting the expiration of the federal car buying program. While this is suggestive of economic recovery, consumer spending is expected to remain sluggish through 2010 because of slow wage growth, increased saving, debt repayment, and high unemployment. Since consumer spending represents such a large part of the economy, marginal increases in spending will contribute to a slow and gradual recovery.

Inflation

The nation is experiencing slight deflation, as prices dropped 0.8 percent in the January through October period compared to the same period last year. Declining energy prices were primarily responsible for the decrease. However, energy prices have risen in the last few months and are expected to continue rising as the national and global economies recover, which may put upward pressure on inflation in 2010.

- Until the economy begins to recover at a more moderate pace, prices will remain stagnant or fall slightly. In 2009, the nation will experience slight deflation as the CPI-U drops 0.8 percent. Inflation is anticipated to be 0.9 percent in 2010.

Summary

The nation appears poised to start an economic recovery. Third quarter figures for economic growth, personal income, and consumer spending point to an economic recovery. In addition, employment losses have decelerated in the last few months, which further supports that outlook. For the second half of 2009 and all of 2010, modest economic growth is anticipated.

Risks to the Forecast

One risk to the forecast is whether the modest turnaround in GDP, personal income, and consumer spending in the third quarter is sustainable. Instability in banking, housing, and nonresidential real estate markets could dampen growth by further restricting credit and contributing to reduced consumer and business confidence. Additionally, the long-run effects of monetary and fiscal policies undertaken in 2008 and 2009 have yet to be seen. While these policies have kept the nation from a deeper plunge in economic activity, fears of rising budget deficits, interest rates, and inflation could weigh on investors, consumers, and businesses. This may result in a more anemic economic recovery than expected.

Table 10
National Economic Indicators, December 2009 Forecast
(Dollars in Billions)

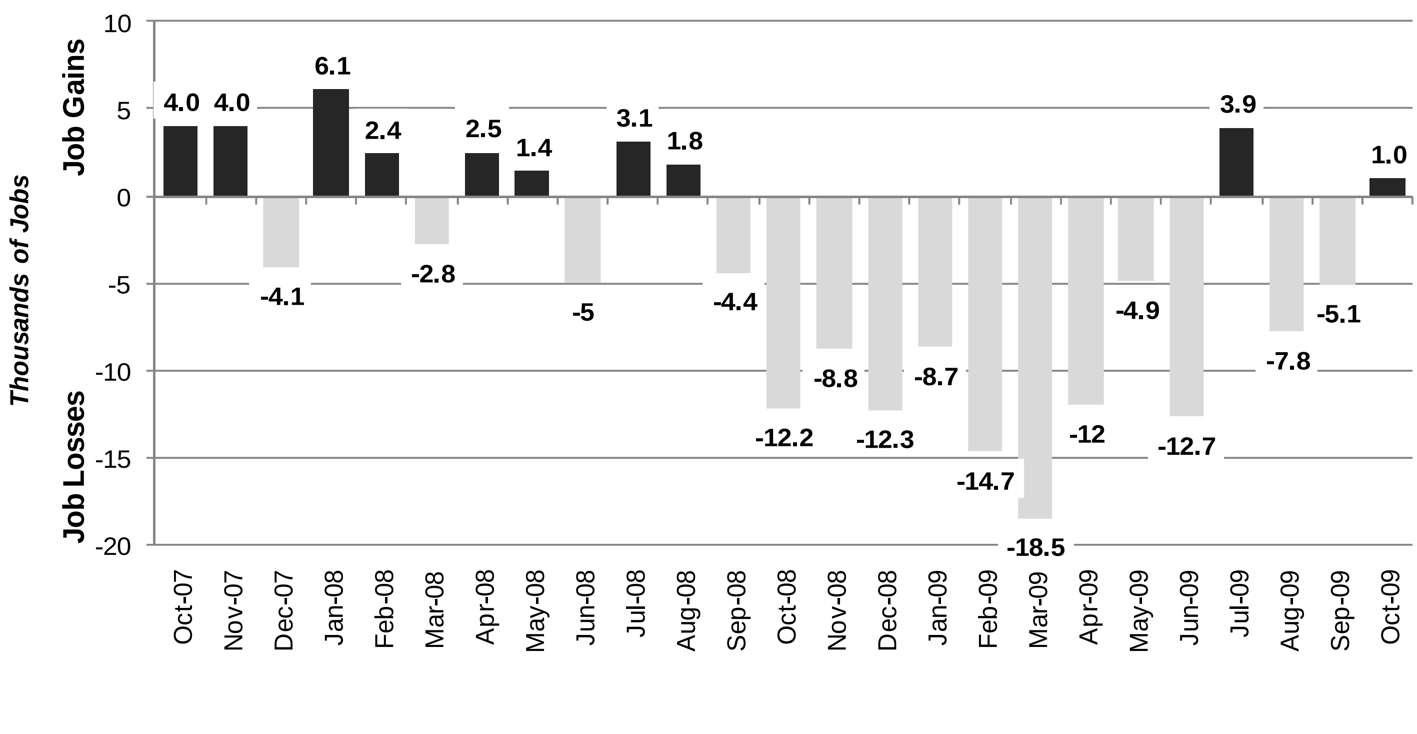
	2006	2007	2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Inflation-adjusted GDP	$12,976.2	$13,254.1	$13,312.2	$12,966.1	$13,199.5	$13,555.9	$13,989.6
percent change	2.7%	2.1%	0.4%	-2.6%	1.8%	2.7%	3.2%
Nonagricultural Employment (millions)	136.1	137.6	137.0	132.0	131.4	132.9	135.3
percent change	1.8%	1.1%	-0.4%	-3.7%	-0.4%	1.1%	1.8%
Unemployment Rate	4.6%	4.6%	5.8%	9.2%	10.0%	9.1%	8.3%
Personal Income	$11,256.5	$11,879.8	$12,225.6	$12,030.0	$12,342.8	$12,861.2	$13,620.0
percent change	7.4%	5.5%	2.9%	-1.6%	2.6%	4.2%	5.9%
Wage and Salary Income	$6,060.3	$6,400.7	$6,538.0	$6,250.3	$6,400.3	$6,579.5	$6,934.8
percent change	6.4%	5.6%	2.1%	-4.4%	2.4%	2.8%	5.4%
Inflation (Consumer Price Index)	3.2%	2.9%	3.8%	-0.8%	0.9%	1.7%	2.1%

Colorado Economy

Colorado's recession appears to be over. Employment, while still on a slightly negative trend, has shown signs of rebounding, with job gains in both July and October. In October, the state added jobs in the broad-based and consumer-driven retail trade, professional and business services, and leisure and hospitality services sectors. Coloradans have timidly begun to spend a little more, not only for food and gasoline, but also for durable goods. Activities that will ultimately heal the economy in the long run also are occurring. Consumers and businesses are paying off debt, banks are shoring up balance sheets, and the construction of buildings has ground nearly to a halt to adjust for past excesses.

The end of the recession, however, does not portend the end of difficult economic times. The state has lost one out of every 20 jobs since May 2008. It took a full five years for the state to recover all of its job losses from the last recession and it will likely take longer to recover the jobs lost during this recession, which was much more broad-based than the previous recession. Many workers will continue to experience cuts in compensation into 2010, and wage growth will be anemic thereafter. The unemployment rate, although decreasing over the last several months because of an exodus from the state's labor force, will remain high for several years to come. The nascent and timid recovery in consumer spending is occurring at a level 13.9 percent lower this year than in 2008. Finally, credit conditions

Figure 5
Colorado Monthly Job Changes
October 2007 through October 2009
(Thousands of Jobs Gained or Lost)



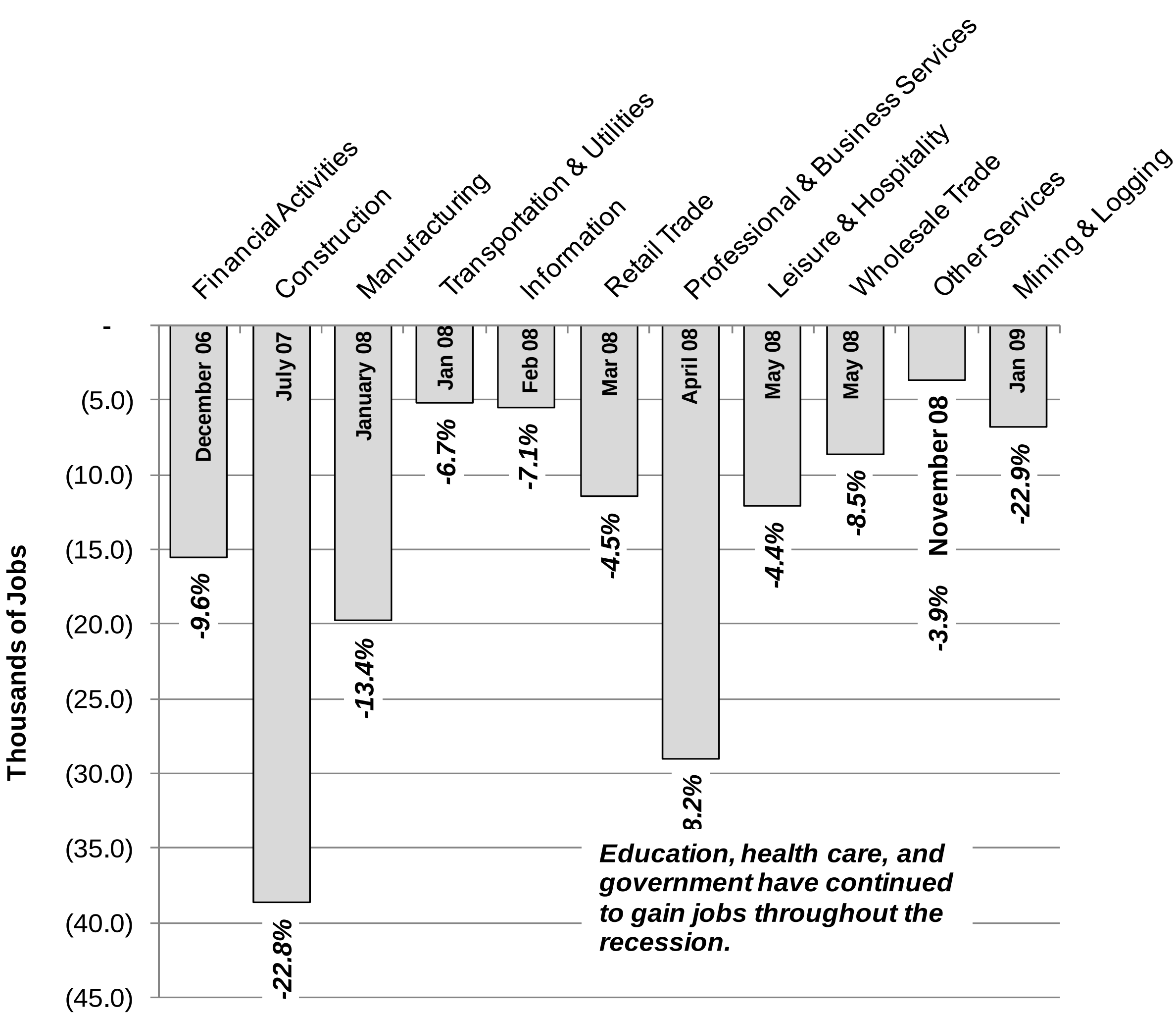
Source: Bureau of Labor Statistics, establishment survey (CES).
Note: Figures are seasonally adjusted. October 2009 figures are preliminary.

for consumers and most of Colorado's small businesses will remain constrained for several years to come. The banking sector has tightened lending practices and must work through problem subprime residential and nonresidential loans while facing the impact of the recession on the commercial real estate market. Table 13 shows the forecast for major economic indicators in the state.

Job Market

Figure 5 shows Colorado's monthly job changes from October 2007 through October 2009. As the nation entered recession, Colorado began to see a significant slowing in employment growth through the first half of 2008. Between May 2008 and October, the state's **nonfarm employment** level dropped 5.0 percent, equating to a loss of 1 in every 20 jobs in the state, or 117,300 jobs.

Figure 6
Total Job Losses by Industry Since Peak Level of Employment through October 2009
Dates Indicate Month of Pre-Recession Peak



Source: Bureau of Labor Statistics, establishment survey. Data is seasonally adjusted.

While job losses have been broad-based over the course of the recession, they did not start out that way. Listed in the order in which each industry began to lose jobs, Figure 6 on page 27 shows the total number (and percent change) of jobs lost in each industry since its peak employment level (indicated by the date in each bar). The first cracks in the armor were felt in financial activities and construction, which began losing jobs in 2007 as a result of the nation's exploding housing bubble. At the core of the cause of the recession, these industries have been among the hardest hit.

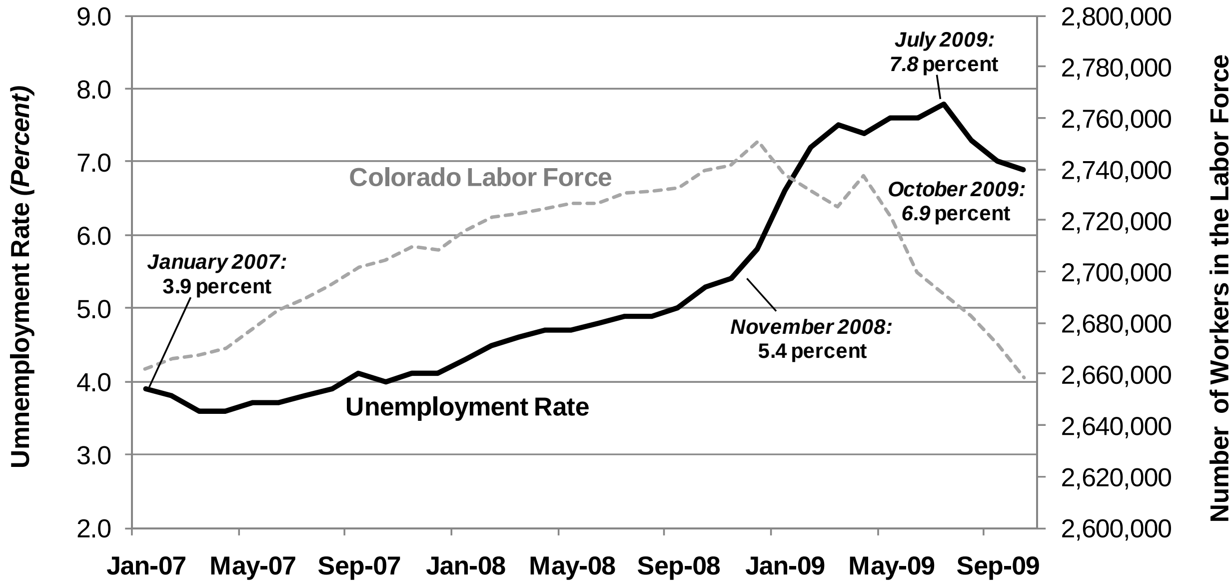
In early 2008, most believed recession was avoidable for the state even as growth in Colorado's economy was slowing. By March, the collapse of Bear Stearns had brought the turmoil in the financial markets to light, but most of the developed world was still blissfully ignorant of the extent to which the global financial system had been compromised. With a weakening dollar and apparently still healthy economies in other parts of the world, international tourists had flocked to Colorado for the 2007-08 ski season. In addition, high natural gas prices were buoying the state's energy sector.

Before the first half of the year was over, however, Colorado's economy was beginning to experience broad-based stress as a result of the emerging national recession. Decreasing demand in other parts of the nation, mounting foreclosures, tightening credit conditions, and rising energy and food prices took their toll. Weakening demand and high energy prices began to drag down employment in the manufacturing and transportation sectors. Consumers and businesses nationwide and in Colorado began to gradually pull back on spending. The trade, professional and business services, and leisure and hospitality industries started to slowly lose jobs. The information sector began losing jobs again after having just begun to recover from the previous recession.

Although total employment in Colorado had reached its pre-recession peak in May. It was not fully apparent that the state was entering recession until after the failure of Lehman Brothers and the rescues of Freddie Mac, Fannie Mae, and insurance firm AIG in September. As shown in Figure 6, it was then that job losses in Colorado began to accelerate. Consumer and business confidence plunged as credit markets froze and the stock market reacted wildly. Meanwhile, fast-eroding worldwide demand for energy resulted in a precipitous fall in energy prices during the fall of 2008 and winter of 2009, which in turn caused a dramatic pullback in activity in the state's natural gas industry. Jobs in the state's mining and logging industry began to drop off quickly in January 2009.

As shown in Figure 7 on page 29, the state's labor force continued to increase through 2008 as the state's population continued to grow. Many of these job seekers, discouraged by the dim prospects of finding a job, began to drop out of the labor force as early as January. Between January and May, an average of one person dropped out of the labor force for every two persons who lost their job. During the next five months from June through October, that relationship reversed itself as workers began to have little success at finding a job, with three people dropping out of the labor force for every two who lost a job. This trend accelerated in September and October, when so many people left the labor force that the unemployment rate began to decrease even as fewer people were counted as employed. Over the past year, just under 81,200 people have dropped out of the labor force. As the economy begins to improve, many of these discouraged workers are expected to reenter the labor force at rates greater than employers will be willing to hire. As a result, the downward trend in the unemployment rate is expected to be short lived. The unemployment rate is expected to begin to grow during the first few

Figure 7
Unemployment Rate and Labor Force in Colorado
(January 2007 through October 2009)



Source: U.S. Bureau of Labor Statistics.

months of 2010 and remain at a higher level than recent history for several years to come.

An alternative measure of the state's job market from the U.S. Bureau of Labor Statistics provides further information on the current level of labor underutilization. The measure, commonly called the "underemployment" rate, includes the unemployed counted in the official unemployment rate, as well as "discouraged" workers who have stopped looking for work and left the labor force (and are thus not counted in the unemployment rate), and workers who are employed part-time who would prefer to work full-time. The underemployment rate for Colorado averaged 12.8 percent during the 12-month period beginning in the fourth quarter of 2008 through the third quarter of 2009, up from an annual average of 11.5 percent from the prior quarter's 12 month period. The rate is likely much higher now since the 12.8 percent represents the average over the full 12-month period. The national underemployment rate was 15.2 percent in November.

While job losses were particularly deep through the first half of 2009, they have slowed substantially, and employment has increased in some months. As shown in Figure 5 on page 26, Colorado added 1,000 jobs in October. This is particularly heartening because gains not only occurred in the government and educational and health sectors, which have continued to grow throughout the recession, but also in the broad-based and consumer-driven sectors of retail trade, professional business services, and leisure and hospitality services. October's timidly optimistic job report is the first evidence that the recession in Colorado may finally be over. Although November employment data for Colorado are unavailable as of this publication, November's promising job report for the nation also portends good news for Colorado.

Nonfarm employment decreased 3.8 percent year-to-date through October. Nonfarm employed is ultimately revised and benchmarked to data from the unemployment insurance program once it becomes available. Based on data available from the unemployment insurance program, job losses over the last year are expected to be revised down to show that they were more severe than those currently shown in Figures 5 and 6.

- The state's economy is expected to lose 98,700 jobs during 2009, a drop of 4.2 percent from 2008, and the unemployment rate will average 7.3 percent. Given the uncertainty in the job market, the state will see employment bouncing around the bottom with some months of gains and some months of losses through the first half of 2010, after which employment will begin to grow slowly as businesses gradually begin to hire workers in response to a slow recovery. Employment in Colorado will stay fairly flat in 2010, losing 9,000 jobs, or 0.4 percent. The state's unemployment rate will go higher in 2010, averaging 8.4 percent, as a mix of traditional and discouraged workers re-enter the workplace.

Personal Income and Wages

Personal income includes wages and salaries, small business income, dividends, interest, rental income, and government assistance payments, such as Social Security and unemployment insurance. Notably, personal income does not include capital gains, which are important contributors to the wealth of many Coloradans. Colorado's 2008 per capita personal income of $42,985 was 12th highest in the nation, excluding the District of Columbia, according to the Bureau of Economic Analysis.

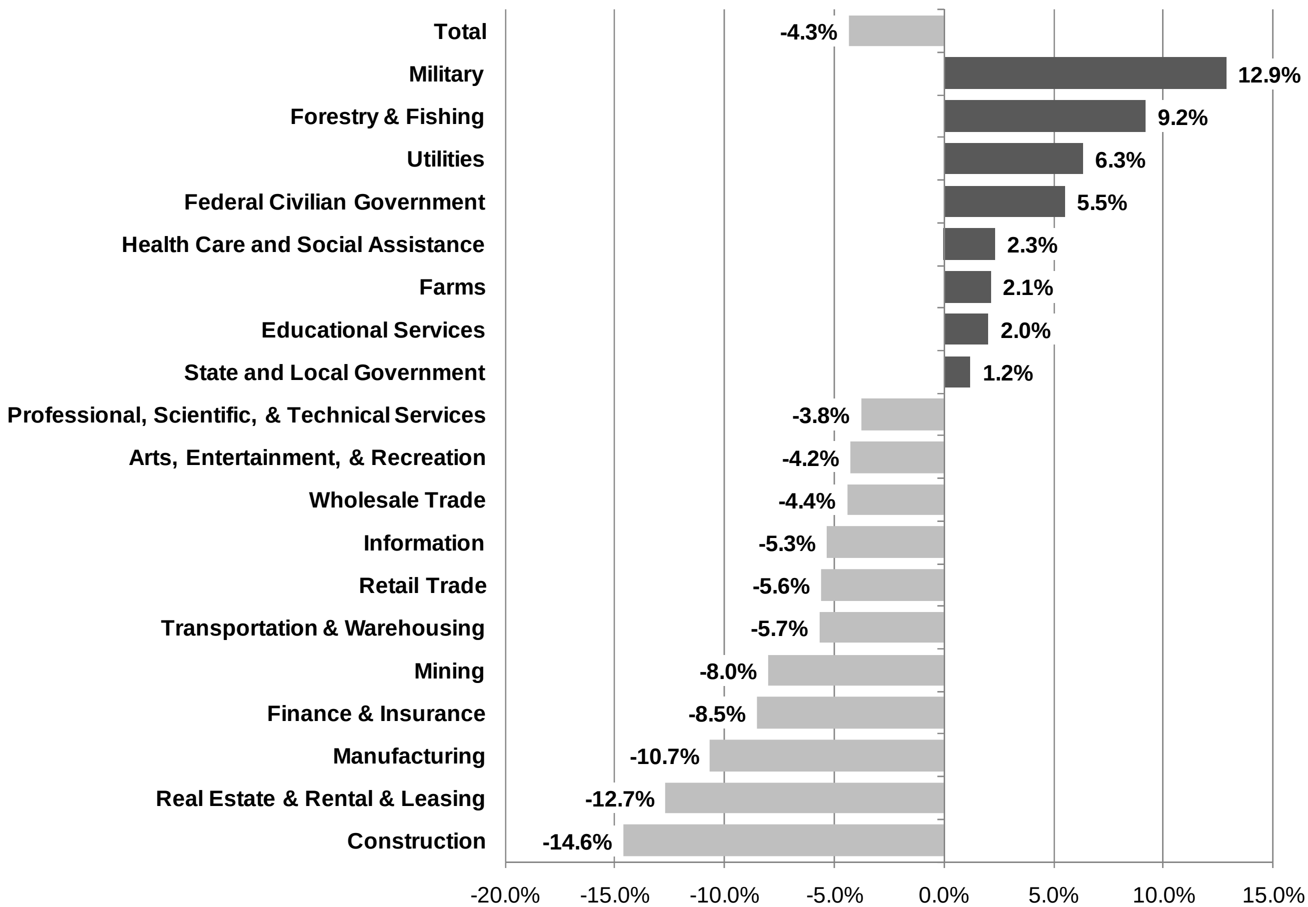
Colorado's personal income grew 3.3 percent in 2008, the 22nd highest growth rate in the nation. Income began to fall off in the fourth quarter of 2008 as the recession hit. Between the third quarter of 2008 and the second quarter of 2009, personal income in the state decreased 3.1 percent. Personal income began to grow again in the third quarter, increasing 0.5 percent over the second quarter — the 11th fastest rate in the nation. In 2010, recent job losses, stagnant wage growth, and low interest and rental rates will be a drag on income growth. An increase in unemployment insurance benefits is expected to temper the fall in personal income.

After rising 3.6 percent in 2008, the amount of ***wages and salaries*** paid to Colorado's workers — which comprises about 60 percent of personal income — also began to fall off in the fourth quarter of last year. As shown in Figure E, total wages and salaries in Colorado decreased 4.3 percent between the third quarter of 2008 and the second quarter of 2009. Figure 8 shows the change over this time period for total wages and salaries in major industries in Colorado. The rapid increase in total wages and salaries paid to military employees in Colorado is due to the movement of thousands of soldiers from Fort Hood, Texas, to Fort Carson in Colorado Springs.

Wages and salaries leveled off in the fall, increasing slightly by 0.3 percent between the second and third quarters. Decreases continued in the mining, construction, wholesale trade, information, and real estate sectors. Increases occurred in the farm, utilities, retail trade, professional services, and military sectors. Wages and salaries decreased in the state and local government sector.

- Personal income will decrease 1.5 percent in 2009 — marking the first annual decline since 1938 — and wages and salaries will fall 3.3 percent as a result of the state's con-

Figure 8
The Recession's Impact on Total Wages in Select Colorado Industries
Percent Change In Wages and Salaries: Third Quarter of 2008 — Second Quarter of 2009



Source: U.S. Bureau of Economic analysis. Seasonally adjusted.

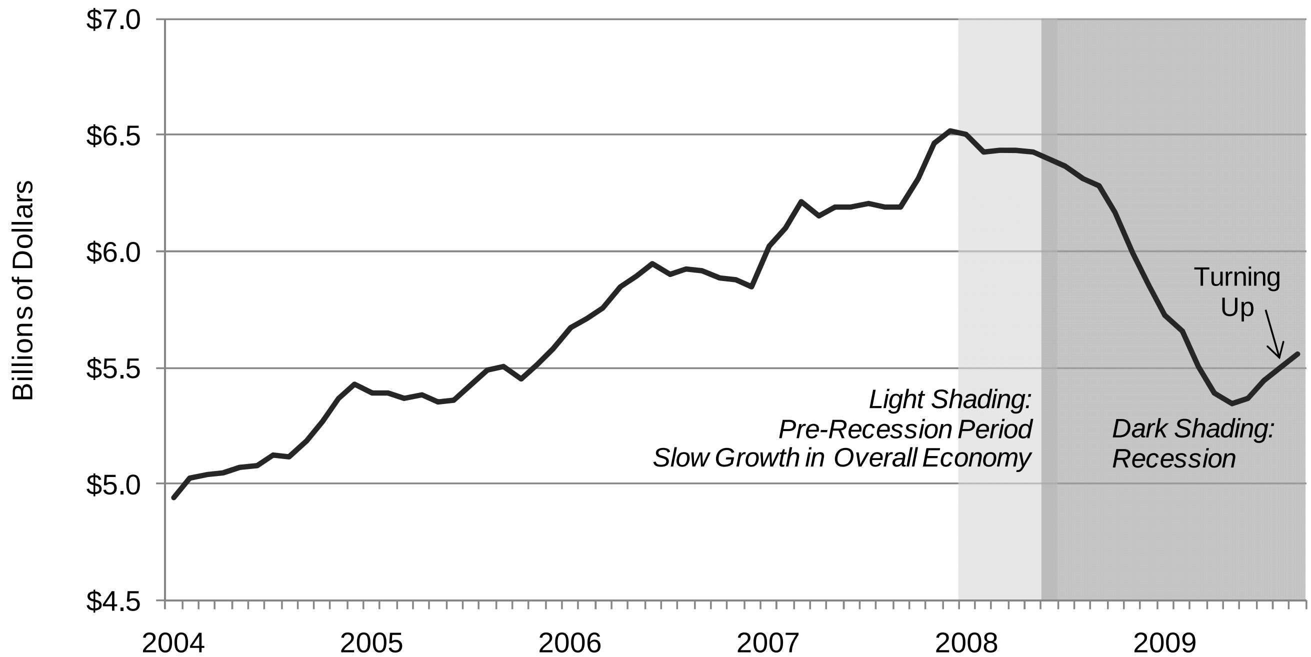
siderable slack in the labor force. However, both of these measures will grow again in 2010 as the economy slowly begins to recover.

Consumer Spending

As one of the deepest recessions in Colorado's history has gripped the state, Colorado's consumers and small businesses have cut spending dramatically. Year-to-date through September, ***retail trade*** sales decreased 13.9 percent compared with the first nine months of last year. As shown in Figure 9 on page 32, seasonally adjusted retail trade sales peaked in December 2007 as the nation was on the cusp of recession. While Colorado did not enter recession for another six months, retail trade sales began to fall off slowly as mounting foreclosures and high energy and food prices cut into the bottom line of households.

Although sales began decreasing somewhat in the summer of 2008, a precipitous decrease did not occur until after the failure of Lehman brothers, the credit market freeze, and the corresponding plunge in consumer confi-

Figure 9
Colorado's Retail Sales
2004 through September 2009
Seasonally Adjusted Three-Month Moving Average



Source: Colorado Department of Revenue.

dence in the fall. Between September 2008 through the spring of 2009, consumers and small business continued to cut spending each month as purchases were limited more and more to necessities rather than discretionary items and consumers traded down to buy less expensive goods and services. Consumers also began to save more and pay down debt. Between the peak in December 2007 and the bottom in April 2009, seasonally adjusted retail trade sales decreased by over $1 billion, or 16.5 percent.

Consumers began to feel a little more confident this summer and fall. Seasonally adjusted retail trade ticked up by $182 million, or 4.7 percent, between April and September. While this nascent recovery in spending could be another encouraging sign that Colorado has emerged from recession it may be a temporary boost from the federal stimulus. A full quarter of this increase is the result of higher spending in food and beverage (grocery) stores. Spending in restaurants is also increasing, indicating that people may be feeling more confident not only to spend a little more dining out but also to purchase more expensive goods at the grocery store. Nearly 10 percent of the increase is from higher spending on gasoline, which has been pushed up by increases in the price of motor fuel. In addition, increased spending on motor vehicles also contributed to this increase. The rate of increase of spending on vehicles is slowing, however, indicating that part of the increase was a temporary boost from the federal government's Cash for Clunkers program.

Meanwhile, spending on furniture, electronics and appliances, clothing and accessories, and general merchandise stores continued on a downward trend through September, although the rate of the decrease is slowing. Spending on building materials has been bouncing along the bottom since early 2009. Overall, retail trade was still 10.1 percent lower in September than a year earlier in September 2008. Although the credit markets have loosened somewhat, lenders have tightened borrowing requirements. It has become increasingly difficult to maintain a relatively healthy credit score and those with poor to moderate credit scores are still finding that credit is scarce. Meanwhile, consumers are saving a larger percentage of their income even during difficult times.

- Retail trade sales will drop 11.1 percent in 2009 as consumers limit purchases, confront tight credit conditions, pay down debt, and rebuild their savings. Sales will post an anemic rebound from 2009's depressed levels in 2010, with a growth rate of 2.3 percent as the hangover from the consumer spending boom of the past years persists.

Inflation

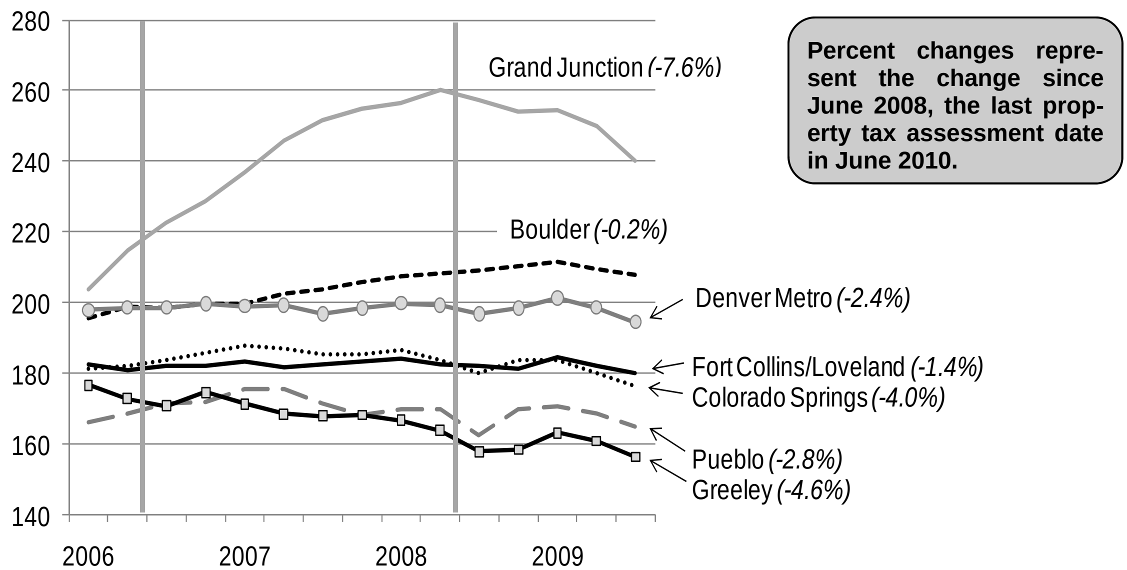
Consumer prices in the state, as measured by the Denver-Boulder-Greeley consumer price index, decreased 0.6 percent in the first half of the year over the first half of 2008. Deflation in fuels, apparel, and household furnishings was partially offset by inflation in shelter, services, food, education, medical care, and recreation.

- Inflation in the Denver-Boulder-Greeley area is expected to decrease 0.9 percent in 2009 compared to 2008 due to weak demand in the housing and retail markets and relatively lower energy prices. Inflation will remain low at 0.6 percent in 2010 due to the slow and protracted economic recovery.

Colorado's Housing Market

The housing market has played a starring role in the business cycle over the last decade.

Figure 10
Federal Housing Finance Authority Home Price Index for Metropolitan Areas
First Quarter of 2006 — Third Quarter of 2009



Source: Federal Housing Finance Authority. Price index for all transactions.

As money flowed into the nation from countries such as China and India between the late 1990s and the middle of this decade, the products created by the financial industry became more and more innovative. Included in these products were new forms of mortgages, including zero-interest and negative amortization loans. These mortgages, which gave very minimal attention to the credit-worthiness of the debtor, were subsequently packaged into securities and other newly-fashioned financial products and sold to investors all over the world. Insurance was purchased not only on mortgages, but on the performance of the financial products created with the mortgages.

Foreclosures began to mount as early as 2006 as many of these subprime and nontraditional mortgages began to unravel. After the rescue of Bear Stearns in March 2008 and the collapse of Lehman Brothers in the fall, it became apparent to the financial industry that the risk associated with these mortgages and their related financial products had been seriously under-priced. Foreclosures have continued to increase through the fall of 2009, although the cause has shifted from nonprime lending to the effects of recession.

Mortgage conditions, as measured by the delinquency rate for all mortgages, has continued to deteriorate over the course of the recession. Table 11 on page 35 shows delinquency rates for counties statewide in the third quarter of 2009. Since the third quarter of 2008, delinquency rates have increased in every county (for which data are available) except Bent, Clear Creek, Prowers, and Rio Grande counties, where rates decreased over the last year.

Table 12 on page 36 shows the condition of subprime and alternative documentation (Alt-A) mortgages in Colorado and the United States. Subprime mortgages are typically made to borrowers with blemished credit histories or who provide only limited documentation of their income or assets. Alt-A mortgages are typically higher-balance loans made to borrowers who might have past credit problems, but their problems were not severe enough to drop them into subprime territory. Alt-A loans also include many nontraditional forms of loans.

Colorado has slightly more Alt-A loans, but fewer subprime loans than the national average. Credit (FICO) scores, however, were lower in Colorado than in the rest of the country, indicating that the financial condition of borrowers were worse in Colorado. Colorado, however, has a smaller share of loans in delinquency and, most encouraging, fewer loans in foreclosure and fewer loans in which the lender has taken control of the property than the national average. In both Colorado and the nation, most subprime loans appear to have already reset to a higher interest rate, which now averages around 7.5 percent in Colorado, about 2.5 percentage points above the traditional 30-year rate. More than one-half of Alt-A loans in Colorado, however, will be resetting over the next two years. Most of these borrowers are current with their payments, and have FICO scores that suggest they may be able to refinance.

As shown in Figure 10, home prices have decreased throughout the state. The percent change shown in Figure 10 on page 33 represents the change in the Federal Housing Finance Authority's (FHFA) home price index since the second quarter of 2008 — when the last assessment for property tax purposes occurred. Outside of Grand Junction, prices have decreased the most in Greeley and Colorado Springs. The movement in home prices in Grand Junction is primarily the result of the boom and bust of the natural gas sector in Colorado over the last several years.

According to the National Association of Realtors, existing home sales finally began to tick up in Colorado during the third quarter of 2009. On a seasonally adjusted basis, existing home sales increased 5.5 percent between the second and third quarters of this year. However,

Table 11
Delinquency Rates — All Mortgages
Third Quarter of 2009

Metro Denver Region	
Adams	5.9%
Arapahoe	4.4%
Boulder	2.0%
Broomfield	2.9%
Denver	5.1%
Douglas	3.1%
Jefferson	2.9%

Eastern Region	
Baca	*No Data*
Bent	5.5%
Cheyenne	*No Data*
Crowley	2.6%
Elbert	4.7%
Kiowa	*No Data*
Kit Carson	2.4%
Lincoln	7.3%
Logan	1.4%
Morgan	4.8%
Otero	3.7%
Phillips	*No Data*
Prowers	2.6%
Sedgwick	*No Data*
Washington	*No Data*
Yuma	2.3%

Northern Region	
Larimer	2.6%
Weld	4.5%

Colorado Springs	
El Paso	3.3%

Pueblo and Southern Mountains	
Custer	*No Data*
Fremont	2.7%
Huerfano	5.5%
Las Animas	6.3%
Pueblo	4.5%

San Luis Valley	
Alamosa	3.1%
Conejos	2.9%
Costilla	*No Data*
Mineral	*No Data*
Rio Grande	1.5%
Saguache	2.9%

Southwest Mountain Region	
Archuleta	6.8%
Dolores	*No Data*
La Plata	2.3%
Montezuma	4.1%

Mountain Region	
Chaffee	1.9%
Clear Creek	2.2%
Eagle	2.6%
Gilpin	*No Data*
Grand	3.3%
Jackson	*No Data*
Lake	2.0%
Park	4.8%
Pitkin	2.2%
Routt	2.4%
Summitt	3.0%
Teller	3.3%

Western Region	
Delta	2.8%
Garfield	3.5%
Gunnison	3.8%
Hinsdale	*No Data*
Mesa	3.7%
Moffat	2.3%
Montrose	3.7%
Ouray	*No Data*
Rio Blanco	1.9%
San Miguel	3.0%

Source: TransUnion, LLC and the Federal Reserve Bank of New York.

Table 12
Nonprime Mortgage Conditions in Colorado and the United States
Third Quarter of 2009

	Colorado	United States	How is Colorado Faring Compared to U.S.?
Loans per 1,000 Housing Units			
Subprime	15.1	16.7	Better
Alt-A	14.5	10.9	Worse
Percent Interest Only			
Subprime	20.1%	10.0%	Worse
Alt-A	35.4%	27.3%	Worse
Percent Negative Amortization			
Subprime	0.03%	0.03%	Same
Alt-A	8.1%	16.8%	Better
Percent Delinquent			
Subprime	42.4%	51.8%	Better
Alt-A	19.3%	33.6%	Better
Percent of ARMs Scheduled to Reset in the Next 2 Years			
Subprime	7.2%	8.3%	Better
Alt-A	51.6%	49.4%	Worse
Percent in Foreclosure			
Subprime	10.1%	13.6%	Better
Alt-A	5.4%	11.4%	Better
Percent That Lender Has Taken Control			
Subprime	2.5%	3.8%	Better
Alt-A	1.8%	3.1%	Better

Source: TransUnion, LLC and the Federal Reserve Bank of New York.

Subprime mortgages are typically made to borrowers with blemished credit history or who provide limited documentation of their income or assets.

Alt-A, or alternative documentation, mortgages are typically higher-balance loans made to borrowers who might have past credit problems but not severe enough to drop them into subprime territory. Alt-A loans also include many interest-only or nontraditional amortization loans.

FICO is a credit bureau risk score. The higher the FICO score, the lower the risk. Loans with FICO scores below 620 and Loan to Value ratios above 90 percent together are commonly considered the riskiest of all loans.

they remained 14.1 percent lower than the number of sales in the third quarter of 2008. In contrast, the nation's existing home sales, responding to the new home buyer credit offered by the federal government, increased 11.4 percent between the second and third quarters of 2009, and was 5.9 percent higher in the third quarter than a year ago in the third quarter of 2008.

After several years of heavy construction, declining home sales and prices are providing builders with little incentive to build. According to the U.S. Census Bureau, single family permits authorized for construction were down 41.7 percent through October compared with the first 10 months of 2008. Total housing permits were down 54.5 percent.

- The housing market in Colorado and nationwide is expected to continue to struggle for several years to come. Single-family permits will drop another 41.9 percent in 2009 to 7,000 units after similar declines in the past two years. This level of permits has not been seen in Colorado since the housing bust in the 1980s. Multi-family permits will fall from around 7,400 in 2008 to 2,100 in 2009. Permits for both single- and multi-family homes will finally stop their decline in 2010, though they will remain at low levels as the state continues to work off an inventory of homes.

Nonresidential Real Estate

Sales and rental prices for commercial, industrial, and retail real estate are shrinking in Colorado and nationwide. Although partially due to generous lending in the first part of the decade, most of the decrease is a result of pressures brought on by the recession. The income potential of many properties has been hard-hit by reduced demand, and vacancies are mounting. Construction activity is decreasing as businesses cancel expansions and downsize. Colorado's economy is driven by small businesses, and most small businesses pay rent on nonresidential properties. Lower rental rates will provide a boost to these businesses in tough times, helping to keep them afloat until demand recovers.

These same small businesses, however, will also face potentially difficult credit conditions over the next few years, as the nation's and Colorado's banking sectors face substantial difficulties from lower nonresidential real estate values. Many nonresidential loans, were made based on pre-recession fundamentals that do not cash-flow with lower rents. These loans will reset within the next several years. Bank losses on nonresidential loans are mounting both nationwide and in Colorado. While residential mortgages are provided primarily by nationwide banks, nonresidential loans are provided to a much greater extent by regional or local commercial banks. The ability of Colorado's banks to absorb losses associated with the resetting of these loans over the next several years will have a significant impact on overall economic growth in the state.

- The value of nonresidential construction projects will decrease 6.8 percent in 2009 and 10.8 percent in 2010.

Summary

Like the nation, Colorado appears to be emerging from recession. Some stabilization in consumer spending and the housing market, and job growth in selected industries provide signs of a newly emerging recovery. However, continued low levels of consumer spending, tight credit conditions, high unemployment, declining wages, and ongoing problems in the baking sector will slow recovery to a snail's pace. The recession's end will likely not be noticeable to the average Colorado citizen for at least another year.

Colorado's economy is geographically diverse in terms of the composition of industry centered in different areas of the state. These differences will translate to regional differences in the pace of recovery. Industries in the urban corridor will likely lead the state's recovery with innovation in key sectors such as renewable energy or information technology. Meanwhile, the recovery of many rural regions will be highly dependent on the health of the oil and gas industry, which is currently pulling back as energy prices remain low and deposits of natural gas have been discovered in other areas of the nation. Similarly, depressed agricultural prices may add to rural economic burdens, drawing out the recession and slowing recovery in these areas of the state.

Risks to the forecast. Similar to the national economy, the unraveling of the unprecedented policies the federal government employed over the last year could contribute to either a stronger or weaker recovery than expected for the state. The anticipated $5 billion in federal American Recovery and Reinvestment Act (ARRA) funds for Colorado appears to have provided a boost to the economy since the summer and may continue to do so in the near term. However, a ballooning national deficit resulting from federal spending could pose longer-term consequences for the nation and state. Similarly, the Federal Reserve's policies of low interest rates and an expanded money supply likely rescued the economy in 2008 and early 2009. However, these policies could lead to inflationary pressures as the national economy recovers. The Federal Reserve’s ability to balance economic growth while staving off inflation will play a critical role in the health of the national and Colorado economies in the years to come.

Table 13
Colorado Economic Indicators, December 2009 Forecast
(Calendar Years)

	2006	2007	2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
Population (thousands), July 1	4,827.3	4,919.8	5,018.2	5,108.5	5,190.3	5,268.1	5,357.7
percent change	2.0%	1.9%	2.0%	1.8%	1.6%	1.5%	1.7%
Nonagricultural Employment (thousands)	2,279.1	2,331.4	2,350.0	2,251.3	2,242.2	2,271.4	2,314.6
percent change	2.4%	2.3%	0.8%	-4.2%	-0.4%	1.3%	1.9%
Unemployment Rate	4.4	3.9	4.9	7.3	8.4	8.0	7.5
Personal Income (millions)	$194,393	$205,548	$212,320	$209,135	$213,945	$221,434	$231,177
percent change	8.2%	5.7%	3.3%	-1.5%	2.3%	3.5%	4.4%
Wage and Salary Income (millions)	$105,833	$112,604	$116,645	$112,795	$113,811	$116,883	$122,961
percent change	7.0%	6.4%	3.6%	-3.3%	0.9%	2.7%	5.2%
Retail Trade Sales (millions)	$70,437	$75,329	$74,760	$66,462	$67,990	$70,370	$74,029
percent change	7.5%	6.9%	-0.8%	-11.1%	2.3%	3.5%	5.2%
Home Permits (thousands)	38.3	29.5	19.0	8.9	13.3	21.4	28.8
percent change	-16.4%	-23.2%	-35.5%	-53.1%	49.8%	60.1%	34.9%
Nonresidential Building (millions)	$3,862	$4,637	$3,717	$3,465	$3,090	$3,155	$3,370
percent change	-4.3%	20.1%	-19.8%	-6.8%	-10.8%	2.1%	6.8%
Denver-Boulder Inflation Rate	3.6%	2.2%	3.9%	-0.9%	0.6%	1.1%	1.7%

School Enrollment Projections

This section of the forecast presents the Legislative Council Staff enrollment projections for kindergarten through twelfth grade in Colorado's public schools. These projections are presented in full-time equivalent (FTE) terms, and are used to determine funding levels for Colorado's 178 school districts. Table 14 summarizes current and forecast enrollment from the current 2009-10 through the 2011-12 school years.

- Colorado's overall kindergarten through twelfth grade enrollment will increase 1.4 percent, or by 11,131 FTE students, in the 2010-11 school year. Enrollment in the following school year (2011-12) will increase 1.3 percent, adding an additional 10,060 FTE students statewide.

- The northern, metro Denver, and Colorado Springs regions will drive statewide enrollment growth. These regions have the largest student enrollment and will have the highest growth rates due to recent residential development and economic growth.

- Net migration will remain slow relative to historical trends through 2010. These trends, combined with a sluggish residential construction market, will temper enrollment growth over the forecast period.

Statewide Forecast Results. The preliminary estimate of enrollment in the current 2009-10 school year is 775,171 FTE students, up 1.6 percent, or 12,520 FTE students, from the 2008-09 school year. Statewide enrollment will grow at slightly slower rates of 1.4 percent in the 2010-11 school year and 1.3 percent in the 2011-12 school year.

Enrollment growth will continue at a steady pace along the 1-25 corridor in the northern, metro Denver, and Colorado Springs regions. In these areas, growth will be highly dependent upon the strength of each regional economy, drawing families from more rural areas of

Table 14
Regional Growth in Enrollment
(Full-Time Equivalent Students)

Region	Actual 2009-10	Percent Change	Estimated 2010-11	Percent Change	Estimated 2011-12	Percent Change	Average Growth (2009-10 through 2011-12)
Colorado Springs	104,414	3.1%	106,801	2.3%	109,021	2.1%	2.5%
Eastern Plains	26,052	0.9%	26,025	-0.1%	25,936	-0.3%	0.2%
Metro Denver	441,457	2.2%	448,804	1.7%	454,867	1.4%	1.7%
Mountain	24,007	0.3%	24,219	0.9%	24,594	1.5%	0.9%
Northern	74,970	0.7%	75,655	0.9%	76,352	0.9%	0.8%
Pueblo	34,236	-1.3%	34,105	-0.4%	34,111	0.0%	-0.6%
San Luis Valley	7,416	-0.2%	7,388	-0.4%	7,356	-0.4%	-0.3%
Southwest Mountain	12,200	-1.7%	12,090	-0.9%	12,165	0.6%	-0.6%
Western	50,420	-0.6%	51,214	1.6%	51,960	1.5%	0.8%
Statewide Total	775,171	1.6%	786,302	1.4%	796,362	1.3%	1.5%

Figure 11
K-12 School Enrollment Growth
School Year 2010-11

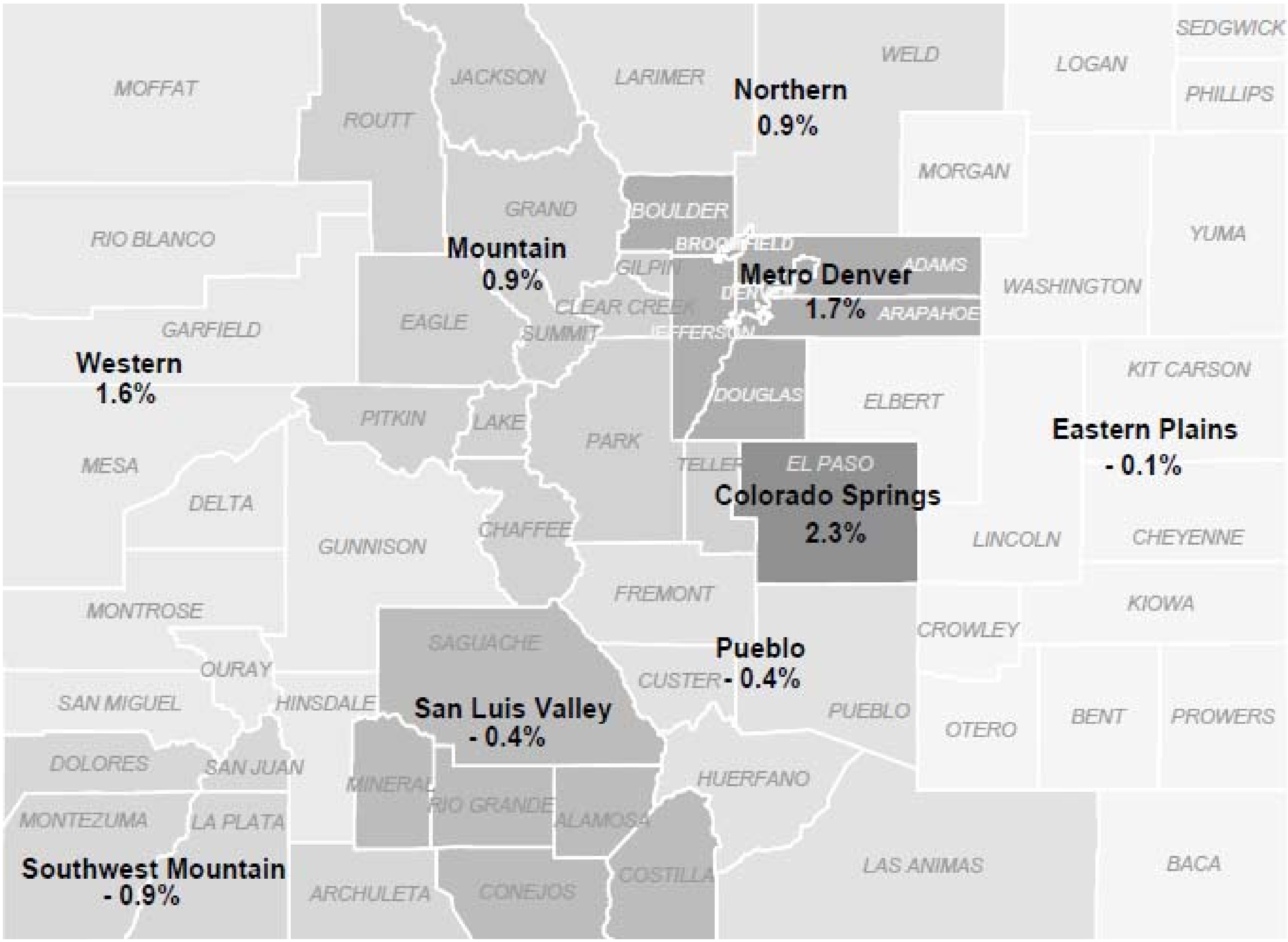
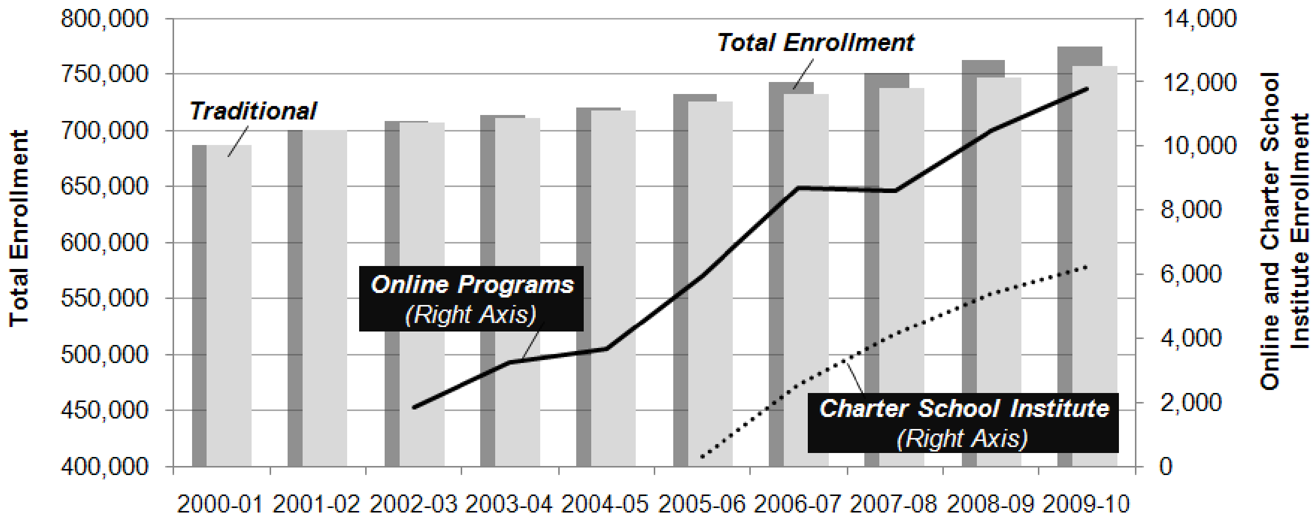


Figure 12
Traditional, Online, and Charter School Institute Enrollment
2000-01 through 2009-10 School Years
(Full-Time Equivalent Students)



Source: Colorado Department of Education.

Colorado and other states as economic opportunities emerge. In addition to regions along the I-25 corridor, the mountain region will see modest growth throughout the forecast period.

Enrollment in the eastern plains and San Luis Valley regions will show modest declines through the forecast period. Declines can be attributed to the regions' aging population and the relocation of many young families to school districts in larger metropolitan areas.

The pullback in natural gas production is affecting enrollment in the southwest mountains, Pueblo, and western regions. Families are leaving these regions for employment opportunities elsewhere. As the industry recovers, modest enrollment growth is expected to resume.

Enrollment growth continues at strong rates in Charter School Institute schools and online programs. These nontraditional programs may be pulling additional students from private and home-based schooling, thus contributing to statewide enrollment growth in public education. Figure 12 shows growth in online and Charter School Institute programs relative to traditional enrollment in Colorado's public schools.

Regional Forecast Results. Table 14 identifies anticipated growth in enrollment for each of Colorado's regions from the current 2009-10 school year through 2011-12. Figure 11 on page 41 also shows regional growth forecast from the current 2009-10 school year to the following 2010-11 school year.

The **metro Denver region** accounts for 57 percent of total statewide enrollment, hence the region plays an important role in determining statewide enrollment trends. While the economic downturn and housing market contraction is expected to dampen growth in net migration to the region, enrollment continues at a strong pace, fueled by nearly a decade of residential growth. Regional enrollment growth reached 2.2 percent in the current school year, with strong growth exhibited in traditional schools, Charter Schools

Institute school enrollment, and enrollment in online programs. The region will experience average annual enrollment growth of 1.7 percent through the 2011-12 school year, adding a total of 13,410 FTE students over the next two years.

The school districts on the edges of the metro area, including Aurora, Brighton 27J, Commerce City, Douglas County, and Westminster, will continue to experience strong growth due to recent residential construction. However, this growth will moderate over the next three years due to the slowdown in development.

Jefferson County school district, the largest district in the state comprising over 80,000 FTE students, reversed a decade-long trend of declining enrollment this year and is expected to see modest growth in enrollment through the forecast period. Residential development and an increase in the number of young families in to the area are driving this growth in the district. Denver, the second largest district in the state with nearly 70,000 FTE students, saw enrollment grow 3.9 percent in the current school year. Residential development and the district's diverse educational programs (online, charter, magnet, Montessori, dual-language, and arts, international, and science-themed schools) are being credited for much of the growth.

Enrollment in the **Colorado Springs region** will continue to gradually increase with the arrival of the 4th Infantry Division at the Fort Carson army base from Fort Hood, Texas. Approximately 6,500 troops are expected and nearly 100 per day have been arriving since May. While family members typically join the troops, the repeated deployments have led to temporary apartment rentals rather than more permanent home purchases. With fewer military families planning for the long term, boosts in enrollment will occur mostly with the families of soldiers returning from their latest tours who are planning to settle into the region. The region appears to be recovering from recession, and with single-family home permits edging up, Colorado Springs enrollment is expected to post the state's highest regional growth rates at 2.3 percent in 2010-11 and 2.1 percent the following year. After an increase of over 3,000 FTE students in the current 2009-10 school year, nearly 2,400 FTE students will be added in the 2010-11 school year, and 2,200 FTE students in the 2011-12 school year.

For the first time in nearly a decade, enrollment in the **eastern plains region** increased in the 2009-10 school year. While enrollment in traditional schools declined, online enrollment boosted growth into positive territory overall. This enrollment increase is expected to be short-lived as this region will return to a declining enrollment trend in the following two years. While the region will experience an average annual increase of 0.2 percent through the forecast period, the actual number of students will decline by a total of 116 FTE students.

The **mountain region** will average 0.9 percent growth between the current school year and 2011-12. Once considered a heavily transient population supportive of the tourism economy, the region is now home to many new developments and family-run businesses. Some districts in Summit, Steamboat, and Eagle counties expected only small increases in the current school year but instead saw significant jumps in enrollment. These districts will continue to see sustained growth through the forecast period. Eagle County, home to several popular tourism towns, is one of the fastest-growing counties in the state. Modest enrollment declines in the Clear Creek, Platte Canyon, and Park school districts will partially offset growth in other districts in the region.

The **northern region**, including Larimer and Weld counties, continues to see enrollment growth despite a regional slowdown in residential development. Poudre R-1, Windsor RE-4, and Johnstown-Milliken RE-5J districts will experience the strongest growth in the region through the forecast period due to recent residential developments in these areas. Many of the more rural districts in the region continue to see declining enrollment consistent with trends in other rural parts of the state. Regional enrollment will increase at an average annual rate of 0.8 percent through the forecast period, adding a total of 1,382 FTE students.

The **Pueblo region**, consisting of Custer, Fremont, Huerfano, Las Animas, and Pueblo counties, will see an enrollment decline of 0.4 percent in the 2010-11 school year. The major drivers behind this decline are the weak economy and the pull out of the natural gas industry in the southern part of the region. After several years of sustained growth, the Pueblo City school district saw slight enrollment declines during 2009-10, and growth in the Pueblo County district slowed markedly. Growth in the district is expected to stabilize over the forecast period as the local economy slowly recovers. Enrollment in Fremont County, where the state prison system is the largest employer, is expected to decline with the closure of the women's prison. Enrollment is projected also to fall throughout Las Animas County, where natural gas production has halted due to the sharp decline in natural gas prices. Overall, regional enrollment is projected to decline at an average rate of 0.6 percent annually over the forecast period.

Enrollment in the **San Luis Valley region**, including districts within Alamosa, Conejos, Costilla, Mineral, Rio Grande and Saguache counties, is projected to remain relatively stable throughout the forecast period. Enrollment has been impacted by an aging population and outward migration of families for nearly a decade. While a few districts will see slight enrollment increases, the majority will likely see mild declines, and the overall rate of decline for the region is expected to remain stable. Over the three-year forecast period, regional enrollment is expected to decline at an average annual rate 0.3 percent.

Enrollment in the **southwest mountain region** is expected to decrease 0.9 percent during the 2010-11 school year. This is down markedly from the 1.7 percent decline that the region experienced in 2009-10. The more rapid drop is mostly due to out-migration of families resulting from the pullback in regional natural gas production and the slowdown in the tourist economy. However, the enrollment decline is expected to resume positive growth starting with the 2011-12 school year as the economy recovers and petroleum production resumes. The region's enrollment is projected to decline over the forecast period at an average rate of 0.6 percent annually.

Enrollment in the **western region** is expected to see stable increases over the forecast period. After a 0.6 percent decline in the current 2009-10 school year, enrollment will grow 1.6 percent in the 2010-11 school year and 1.5 percent in the 2011-12 school year. Decreasing energy production was the main contributor to the decline in enrollment in the current school year, but growth will resume as the industry, and economy, recovers. Over the forecast period, an additional 1,540 FTE students will enroll in the region's schools, resulting in an average annual growth rate of 0.8 percent.

Risks to the forecast. As the economy recovers, enrollment could grow at faster rates than indicated by this forecast if Colorado's economy attracts more families from other states than expected. Additionally, the growing diversity of options for students through online programs, Charter Schools Institute schools, and other unique programs may affect the distribution of students across districts.

Assessed Value Projections

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

Summary

The **residential assessment rate** will remain at 7.96 percent throughout the forecast period. For more information on the residential assessed rate, see pages 46 and 47.

Total assessed values for all property classes increased 11.7 percent in 2009 to $97.8 billion but are expected to decline 5.4 percent in 2010 to a total value of $92.5 billion, mostly as a result of the steep decline in oil and gas values and weak construction. Values are projected to fall another 2.5 percent in 2011 due to a drop in residential and commercial property values when they are reassessed in the 2011 assessment cycle. Though assessed values will recover in 2012, growth will be modest due to the expected slow economic recovery. As a result, 2012 assessed values are expected to be $4.6 billion lower than 2009's values, a 4.7 percent decrease.

Nonresidential assessed values are expected to drop 10.0 percent in 2010 after jumping 17.7 percent in 2009. The large swing in values can be mostly attributed to the rapid rise and fall of oil and natural gas prices. Nonresidential assessed values are projected to decline another 1.4 percent in 2011 as a result of the recession's impact on businesses and commercial property and a weak recovery in the natural gas industry. Nonresidential assessed values are expected to recover in 2012, but will remain lower than the values reached in 2009.

Residential assessed values will remain flat in 2010 at $42.6 billion and fall 3.7 percent in 2011 due to the weak housing market. Though not as bad as other areas of the country, residential properties have declined throughout much of the state. Most notably, properties in some areas of the state were reassessed for 2009 when home values reached their peak and values have been declining since. Thus, much of the state will post declines in the 2011 reassessment year. However, some areas of the state are starting to see home values stabilize, most notably the Denver Metro area, which will mitigate the decrease in assessed values statewide in 2011.

Assessed Values

Total assessed values have doubled since the beginning of the decade, with particularly strong growth since the end of the recession in 2003. Assessed value increased 53.0 percent between 2004 and 2009. Much of the growth can be attributed to a rapid expansion in natural resource extraction industries and a widespread strengthening of the economy. However, the recession's impact on home values and businesses, coupled with the slumping natural gas industry, will result in a drop in assessed values for 2010 and 2011. Overall, assessed values are expected to total $92.5 billion in 2010, $90.2 billion in 2011, and $93.2 billion in 2012. Compared with 2009, assessed values in 2012 will be $4.6 billion lower, a drop of 4.7 percent. Table 15 shows the actual and forecasted residential, nonresidential, and total assessed values.

Nonresidential Assessed Values

The nonresidential sector consists of eight property classes: commercial, state-assessed, vacant land, oil and gas, industrial, agriculture,

Table 15
Residential and Nonresidential Assessed Values, 2007 to 2012
(Dollars in Millions)

Year	Residential Assessed Value	Percent change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2007	$39,333	14.5%	$45,816	14.0%	$85,147	14.2%
2008	$40,410	2.7%	$47,140	2.9%	$87,550	2.8%
2009	$42,302	4.7%	$55,488	17.7%	$97,790	11.7%
2010 (Forecast)	$42,586	0.7%	$49,961	-10.0%	$92,547	-5.4%
2011 (Forecast)	$40,996	-3.7%	$49,249	-1.4%	$90,245	-2.5%
2012 (Forecast)	$41,853	2.1%	$51,365	4.3%	$93,219	3.3%

natural resources, and producing mines. Assessed values in these classes totaled $55.5 billion in 2009.

Just under fifty percent of the total nonresidential assessed values in 2009 was classified as commercial property. Assessed values for these properties increased strongly in the past several years due to high levels of consumer spending and strong corporate profits that fueled additional business investment in the state. However, commercial values are starting to fall in many areas of the state as a result of the economic downturn. This is mostly occurring in urban areas, mountain communities, and the parts of the state impacted by the slumping energy industry. There are an increasing number of vacancies in commercial properties and property owners are renegotiating rental agreements to help keep tenants in business during the down economy. Further, there is much less construction of new properties. The value of commercial construction projects was down 44 percent through November 2009 compared with a year ago. These factors are expected to reduce the assessed value of commercial property in 2011.

Oil and gas is the second largest nonresidential class in terms of value, accounting for 21.4 percent of 2009's nonresidential assessed values. The assessed value for this class of properties rose by a dramatic 54.5 percent in 2009 because of a sharp increase in energy prices. The abrupt fall in energy prices as the recession took hold will cause a similarly dramatic fall in oil and gas assessed values of close to 50 percent in 2010. Oil and gas assessed values are expected to rebound modestly in 2011 as prices recover from recessionary levels.

Because of these factors, nonresidential assessed values are anticipated to decrease 10.0 percent in 2010 and 1.4 percent in 2011. Growth in nonresidential values will resume in 2012, but are still projected to be 7.4 percent lower than 2009 values.

Residential Assessed Values

In this section, the forecast for residential market values and the determination of the residential assessment rate are discussed. The application of the residential assessment rate to residential *market* values determines residential *assessed* values. For example, if a market value of a home is $200,000, the current 7.96 percent residential assessment rate makes its assessed value $15,920 ($200,000 x 7.96 percent = $15,920). The property tax rate, or mill levy, is applied to the assessed value to determine the amount of property tax due on a home.

Residential Market Values. Residential market values increased a relatively modest 7.6 percent during the two-year reassessment cycle ending in 2009, after increasing 18.8 percent in the previous cycle ending in 2007.

The slowdown in the housing market, including a substantial drop in home building and a sustained high level of foreclosures, constrained growth in residential market values in some of the more urban regions of the state for the reassessment cycle ending in 2009. While the mountain and western slope regions, which tend to lag changes in the economy nationally and along the Front Range, experienced strong home value appreciation throughout this period, these regions have begun to see declining homes values which will negatively impact assessed values in 2011. The drop in wealth during the recession, tight credit, and a slumping natural gas industry have substantially weakened these areas' economies.

Other regions of the state are faring better, with some areas even experiencing slight appreciation in values. For the 2011 reassessment year, residential market values are expected to decline 3.1 percent compared with the 2009 reassessment cycle.

In 2010, minimal new residential construction and higher-than-normal property valuation appeals are projected to result in assessed values growing by 0.7 percent. More appeals are occurring because homeowners believe their homes were overvalued during the last assessment period as they have experienced declines in value since then. Some districts in the state could experience minor declines in residential assessed values in 2010 as a result of these appeals and lack of new construction.

Because the residential assessment rate is not expected to change, ***residential assessed values*** will increase at the same rates as residential market values over the forecast period.

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

The residential assessment rate has not been reduced since 2003. As the economy began to recover in 2004 and 2005, the residential sector began to cool while the nonresidential markets began to see increases again. Nonresidential values outpaced growth in residential values. Dramatic increases in the value of oil and gas properties and a stronger economy boosted commercial values.

Under the Gallagher Amendment, this faster growth in nonresidential values over the last few years should have triggered a rise in the residential assessment rate to maintain required proportions of total assessed values. However, because TABOR specifically prohibits assessment rates from increasing without voter approval, the residential assessment rate has remained at 7.96 percent. Based on the Gallagher Amendment calculation, the residential assessment rate would have increased to 9.20 percent for 2009 and 2010 if not for the provisions of TABOR.

Although both residential and nonresidential properties will experience declines in the next reassessment period, residential markets will decline at a slower rate than nonresidential markets, pushing the residential assessment rate downward, though not below its current level of 7.96. It is estimated that the residential assessment rate would be 8.34 percent in 2011 and 2012. However, the rate will not increase because of TABOR's voter approval requirements.

Regional Assessed Values

Assessed values are projected for each school district and are used in forecasting state expenditures for pre-kindergarten through 12th grade public education. The following section highlights trends for each region in the state. Table 16 summarizes how regional assessed values will change through 2012, and Figure 13 on page 52 illustrates the anticipated change in each region's assessed value from 2009 to 2010.

Assessed values in the **Metro Denver** region will decline very slightly over the forecast period. Overall, nonresidential values will dip 3.0 percent over the three-year period. An increase in commercial vacancy rates will push down values in several school districts for the 2011 reassessment year. In some areas, such as Douglas County, landlords have reduced rent to help tenants remain in business. Values in this district are expected to drop 15.0 percent in 2011. Home prices have begun to recover in some areas but weak construction and continued distressed sales will cause residential assessed values to decline for the region overall in 2011 from the reassessment year of 2009. Most districts are expected to experience a rebound in home building by 2012. A 1.0 percent increase in residential values is projected during the forecast period.

The economy in the **Colorado Springs** area has performed relatively poorly over the past few years after losing high-paying computer- and electronic-related manufacturing jobs. Also,

Table 16
Regional Assessed Values and Growth Rates, 2009-2012
(Dollars in Millions)

Region	2009*	2010 Percent Change	2011 Percent Change	2012 Percent Change	3-Year Average Annual Percent Change
Colorado Springs	$6,836	0.2%	-5.2%	2.7%	-0.8%
Eastern Plains	$2,453	-0.4%	-1.1%	1.9%	0.1%
Metro Denver	$44,664	0.3%	-2.8%	2.0%	-0.2%
Mountain	$13,446	0.6%	-8.4%	3.2%	-1.7%
Northern	$9,244	-13.7%	0.2%	2.0%	-4.1%
Pueblo	$2,874	-7.5%	4.7%	4.5%	0.4%
San Luis Valley	$602	0.5%	2.7%	0.4%	1.2%
SW Mountain	$4,613	-26.4%	6.5%	8.1%	-5.4%
Western	$13,059	-21.3%	1.0%	8.8%	-4.7%
TOTAL	**$97,790**	**-5.4%**	**-2.5%**	**3.3%**	**-1.6%**

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

many Fort Carson troops have deployed overseas, and some of their families have relocated outside of the Colorado Springs area.

Though there are signs that the area's economy is beginning to improve, the downturn will negatively impact the assessed value of both residential and nonresidential properties in 2010 and 2011. The area's construction industry was hit particularly hard and will be slow to recover. As a result, assessed values in the area will increase only 0.2 percent in 2010. Assessed values will fall in the following year by 5.2 percent as properties are reassessed. Values will begin to recover in 2012 as the economy and construction industry recovers from the current housing doldrums. It should be noted, however, that some parts of the Colorado Springs area, especially near Fountain, may experience larger-than-expected growth in values, if the increase in troops stationed at Fort Carson results in an increase in home sales and construction and increased consumer spending. However, this depends on future troop deployments, which cannot be predicted.

The **western region** of the state had the largest growth in assessed values in 2009 (35.2 percent) due to the boom in the energy industry that lasted through most of 2008. However, the spike and subsequent fall in natural gas prices is causing a large swing in nonresidential values. Districts with a large portion of their total value attached to oil and gas production are expected to see large decreases in values and thus property tax revenue. Districts in parts of Garfield, Rio Blanco, and Mesa counties will be hardest hit. For example, 97 percent of the nonresidential assessed value for Garfield County School District No. 16 in the Parachute area consisted of the oil and gas class in 2009. This district's nonresidential assessed value is expected to fall 55.6 percent in 2010, resulting in a total loss of $1.1 billion in value. Nonresidential values will only slightly rebound in 2011 and remain low as natural gas prices are projected to be slow to rise.

Residential values have increased sharply in the region since the earlier part of the decade when the energy boom began. Values more than doubled from 2002 to 2009. However, the downturn in the energy industry will also hurt residential values in both 2010 and 2011. The slowdown in the economy has caused a large number of job losses and people to move from the area. Residential values are expected to remain flat in the nonassessment year of 2010, but fall 7.5 percent in 2011.

The **southwest mountain** region will show mixed results with respect to assessed values. Many counties in the region saw significant growth in 2009 due to strong natural gas prices in 2008, which caused non-residential assessed values to increase 21.1 percent. However, the economic downturn and recent fall in natural gas prices will cause districts such as Ignacio and Bayfield that have a large portion of their total value attached to oil and gas production to see significant declines in 2010. Non-residential values are expected to recover during the remainder of the forecast period, due largely to a recovery in natural gas prices. After almost an 11 percent increase in 2009, the economic downturn has caused both new construction and sales of existing homes in the area to slow, resulting in a decline in residential values. Overall, residential assessed values are expected to drop 1.1 percent during the 2011 assessment cycle. Over the forecast period, the region's residential assessed values will remain flat and nonresidential values will experience an average annual decline of 7.2 percent.

In the **northern** region, a decline in economic activity and energy prices are putting downward pressure on property values. Assessed values will dip 4.1 percent during the forecast period, pushed down mostly by lower values for nonresidential property. Nonresidential values are likely to dip over 2010 percent by 2012. However, a continuing high level of foreclosures are expected to result in little or no increase in residential values in several districts as well during the forecast period. Some areas expect modest growth, however. Districts in Larimer County will have between a 3.0 percent and 5.0 percent increase in residential values during the period. Weak demand for commercial space is restraining growth of nonresidential property values in Larimer County, where nonresidential assessed values are expected to remain flat for the 2011 reassessment year. In Weld County, however, lower energy prices have reduced the value of the oil and gas property class, and sizable declines in nonresidential values are expected in nearly all school districts in 2010.

Economic activity remains weak in the **eastern plains**. A slight increase in assessed values is expected during the period. Nonresidential values will be flat or down in most school districts. Lower energy prices will contribute to larger declines in nonresidential values in some areas, such as Cheyenne County. However, the construction of wind turbines for power generation is pushing up values in Logan County. After posting very slow growth or declines in 2009, residential assessed values are showing signs of stability in most school districts. Still, little growth in residential values is expected in most areas for the 2011 reassessment year, and continued declines are expected in Elbert and Morgan counties. Overall residential values will be up 1.0 percent by 2012.

Colorado's **mountain** region experienced the second highest growth in assessed values in 2009 (20.2 percent) due to a booming housing market, expanding wealth, and the construction of second homes. Also, the area experienced strong tourism activity, leading to increased investment in commercial projects. However, 2009's assessed values were based on the peak of home values and a high point for the region's economy. Since then, residential and nonresidential values have been falling. While values are expected to remain essentially flat in the non-assessment year of 2010, values will drop 8.4 percent in the 2011 assessment year, representing the worst decline of the state's regions in the next assessment cycle.

The economy of the **Pueblo** region, encompassing districts located in Pueblo, Fremont, Las Animas, Huerfano, and Custer counties, has slowed considerably. The downturn hit the City of Pueblo and the surrounding county particularly hard. Assessed values for the Pueblo City school district were down in 2009. In addition, with building permits down and foreclosures near record highs, 2009's growth in residential assessed values for the Pueblo County district is unlikely to continue. Residential values in Trinidad and much of the surrounding Las Animas County are also expected to be slightly down in 2011. Residential values in rural areas not affected by the energy industry are expected to experience modest growth. The biggest influence on nonresidential values in the region is the loss of natural gas development in Las Animas County. Districts such as Aguilar, Primero, and Trinidad with large amounts of value from the oil and gas property class saw sizeable gains in 2009, but are anticipated to see significant drops in 2010. The forecast anticipates only very modest growth for the Canon City and Florence districts, which have large commercial and industrial components. Residential assessed values will increase at an average annual rate of 2.1 percent, while nonresidential values are expected to decrease at an average annual rate of 0.5 percent throughout the forecast period.

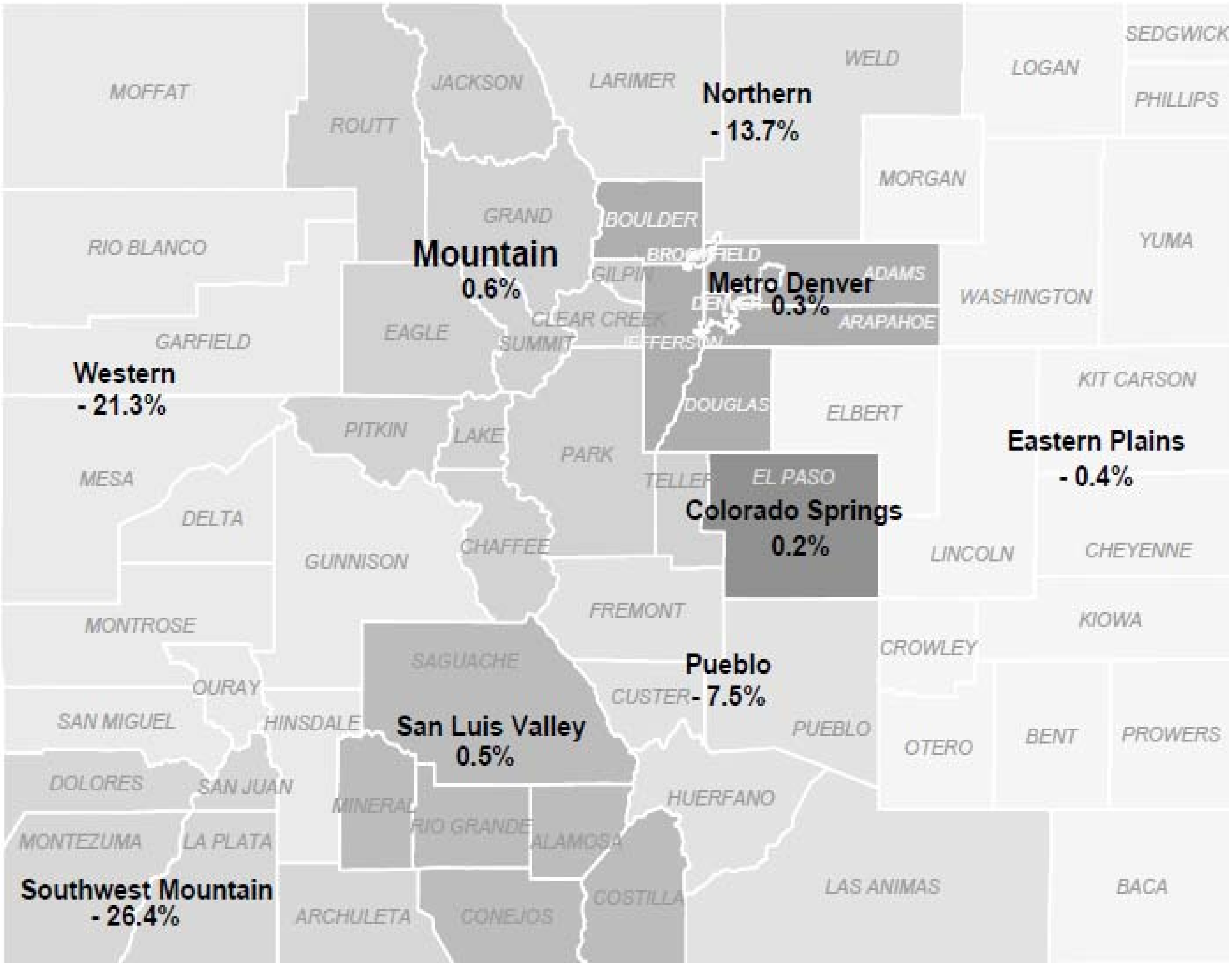
The **San Luis Valley** will see modest growth in assessed value over the forecast period. Despite the economic downturn, residential values appear to be holding steady with a few exceptions. While a slight decline in property values is anticipated for some districts, these will likely be offset by the development of planned new subdivisions. On the nonresidential side, agriculture continues to be an important component of the regional economy and is a major source of land use in the valley. Assessed values on agricultural land are generally expected to increase slightly throughout the forecast period. Likewise, commercial value in the region's municipalities appears to be stable. Overall, residential and nonresidential assessed values in the valley are expected to grow by an average of 1.7 percent and 1.0 percent, respectively, throughout the forecast period.

Risks to the Forecast. The performance of the economy over the next couple of years will influence the strength or weakness in property values. This forecast assumes that the recession is ending and the economy will recover slowly. If the recovery is stronger than anticipated, nonresidential and residential values may perform better than currently expected as more people go back to work, home sales increase, and spending and investment pick up. Conversely, if the economy falls back into recession or remains weak, values will be lower than expected.

In addition, though there are signs of stabilization in residential values in certain areas of the state, high unemployment levels and tight credit conditions will likely result in continued foreclosures which could cause values to decline again. Moreover, commercial properties are ailing due to the economic downturn's impact on businesses and overinvestment. There is the potential that the current problems in the commercial property market could cause a larger decline in nonresidential values than expected.

Finally, the oil and gas class is a significant driver of assessed values. Energy prices are difficult to predict and large variations in prices similar to that which has occurred over the last several years will have a significant impact on assessed values in the future. This especially pertains to counties that have substantial oil and gas development, such as Cheyenne, Rio Blanco, Garfield, Las Animas, Weld, and La Plata.

Figure 13
Regional Assessed Value Growth, Percent Change Between 2009 and 2010
(Budget Year 2010-11)



Adult Prison & Parole Population

The Department of Corrections (DOC) inmate population is projected to decrease from 23,186 in June 2009 to 21,780 in June 2012. This represents an average annual rate of decline of 2.1 percent. In comparison, over the past three years, the total inmate population increased at an average annual rate of 1.7 percent.

- Over the three-year forecast period, the male population is expected to decrease by 1,096 inmates, or about 365 inmates per year. The female population is projected to decrease by 310 inmates, or about 103 inmates per year. Both populations will continue to decline through the forecast period, although the male population will decrease at a lower rate in later years. The rate of decline for females will be more steady.

- Compared with the December 2008 forecast, the inmate projections were reduced throughout the forecast period. A marked decline in admissions and an increase in releases for both males and females through the end of FY 2008-09 and the first half of FY 2009-10 were responsible for most of the change.

- The total in-state parole population is projected to increase from 9,016 in June 2009 to 9,898 in June 2012, growing at an average annual rate of 2.3 percent. The total number of parolees (those supervised in-state and out-of-state) is expected to increase from 11,750 to 12,936 during the forecast period, growing at an average annual rate of 2.4 percent. The parole forecast was decreased compared with the December 2008 forecast due to lower than projected actual caseload in June 2009 and a continued decline during the first five months of the current fiscal year.

The following section describes inmate population trends and the forecast for the prison population. It also discusses factors that affect these trends and presents an overview of recent legislation impacting the prison population. The last segment presents parole population projections and describes the primary risks to the forecast.

Adult Prison Population Trends. From June 1990 to June 2009, the prison population grew at an average annual rate of 5.8 percent. During this nineteen-year period, the male and female prison populations grew at average rates of 5.6 percent and 8.6 percent per year, respectively. In FY 2008-09, the inmate population grew 0.9 percent. This reduced rate of inmate growth was due to a reduction in felony filings and slower admissions into prison. In FY 2008-09, prison admissions increased an estimated 0.5 percent, compared to an increase of 4.0 percent in the previous fiscal year. Table 17 shows the historical prison population by gender.

Adult Prison Forecast. Table 17 on page 54 also presents the projected inmate population over the next three years. Between June 2009 and June 2012, the prison population is expected to decrease at an average annual rate of 2.1 percent. On an annual basis, the male and female populations are expected to decline by an average of 1.8 percent and 4.9 percent, respectively. While the decline in both populations is a departure from historical trends, it is already occurring. Figure 14 on page 55 graphically depicts, on a monthly basis, the male and female populations from June 2006 through November 2009. As the figure shows, the male population peaked in July 2009 and has been declining since. The female population has been trending downward since October 2008. The male inmate population has declined at an average monthly rate of 0.5 percent, while the female population has dropped at an average monthly rate of 1.6 percent, since July.

The interaction between inmate admission and releases is responsible for the net

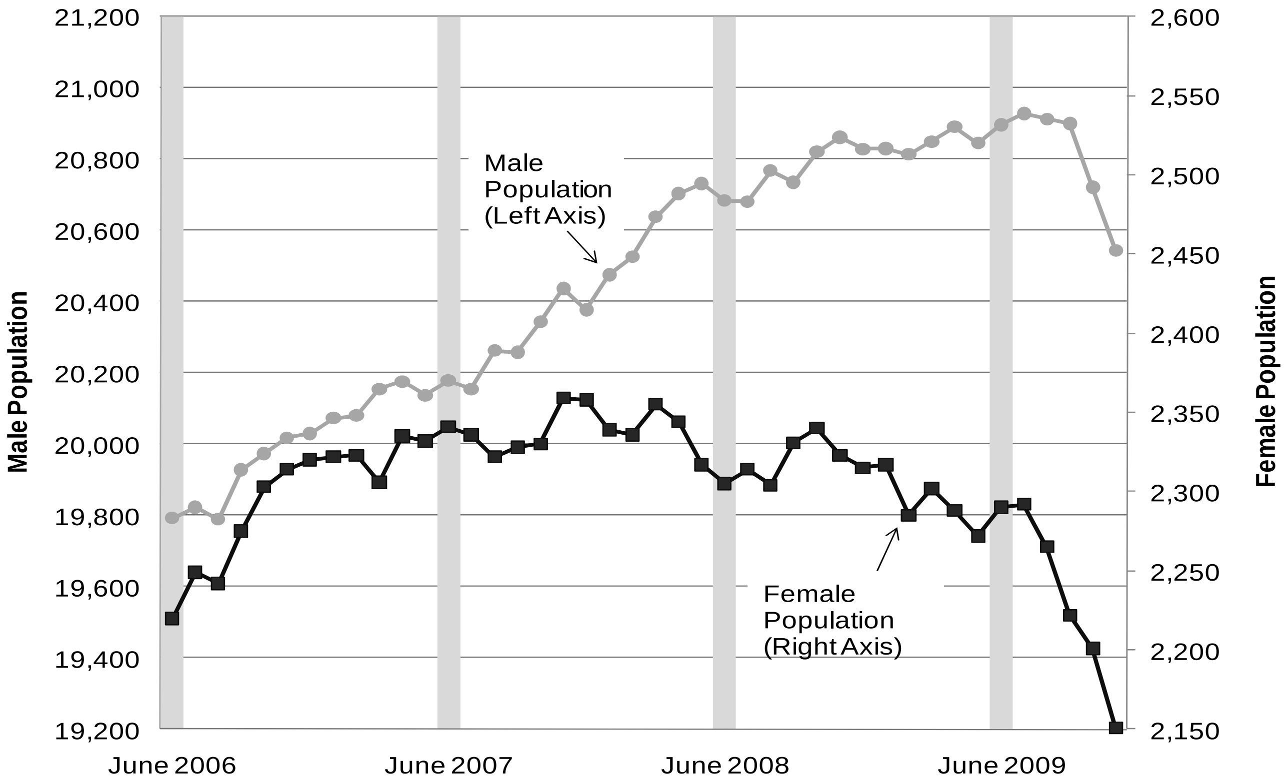
Table 17
History and Forecast of Adult Prison Population by Gender, FY 1990 to 2012

Prison Population Trends						
Fiscal Year	**Males**	**%Change**	**Females**	**%Change**	**Total**	**%Change**
1990	7,215		451		7,666	
1991	7,598	5.3%	445	-1.3%	8,043	4.9%
1992	8,269	8.8%	505	13.5%	8,774	9.1%
1993	8,713	5.4%	529	4.8%	9,242	5.3%
1994	9,382	7.7%	623	17.8%	10,005	8.3%
1995	10,000	6.6%	669	7.4%	10,669	6.6%
1996	10,808	8.1%	769	14.9%	11,577	8.5%
1997	11,681	8.1%	909	18.2%	12,590	8.8%
1998	12,647	8.3%	1,016	11.8%	13,663	8.5%
1999	13,547	7.1%	1,179	16.0%	14,726	7.8%
2000	14,733	8.8%	1,266	7.4%	15,999	8.6%
2001	15,493	5.2%	1,340	5.8%	16,833	5.2%
2002	16,539	6.8%	1,506	12.4%	18,045	7.2%
2003	17,226	4.2%	1,620	7.6%	18,846	4.4%
2004	17,814	3.4%	1,755	8.3%	19,569	3.8%
2005	18,631	4.6%	2,073	18.1%	20,704	5.8%
2006	19,792	6.2%	2,220	7.1%	22,012	6.3%
2007	20,178	2.0%	2,341	5.5%	22,519	2.3%
2008	20,684	2.5%	2,305	-1.5%	22,989	2.1%
2009	20,896	1.0%	2,290	-0.7%	23,186	0.9%
2010	20,440	-2.2%	2,193	-4.2%	22,633	-2.4%
2011	20,061	-1.9%	2,087	-4.9%	22,148	-2.1%
2012	19,800	-1.3%	1,980	-5.1%	21,780	-1.7%

change in the prison population. In FY 2009-10, while admissions are projected to decline 3.8 percent, releases are expected to increase 3.9 percent. In the first five months of this fiscal year, inmate admissions are down 6.9 percent from FY 2008-09 levels on an annual basis, while inmate releases are up 6.5 percent. The combination of these trends is expected to produce a decline in the inmate population for FY 2009-10.

Figure 15 on page 56 graphically depicts the change in this year's inmate population forecast from the projection issued in December 2008. In the current fiscal year, the 2008 forecast expected the inmate population on June 30, 2010 to reach 24,203, representing monthly growth of about 53 inmates. Through the first five months of FY 2009-10, the prison population has declined, losing 41 inmates per month. The

Figure 14
Historical Monthly Prison Population Levels, by Gender
June 2006 through November 2009



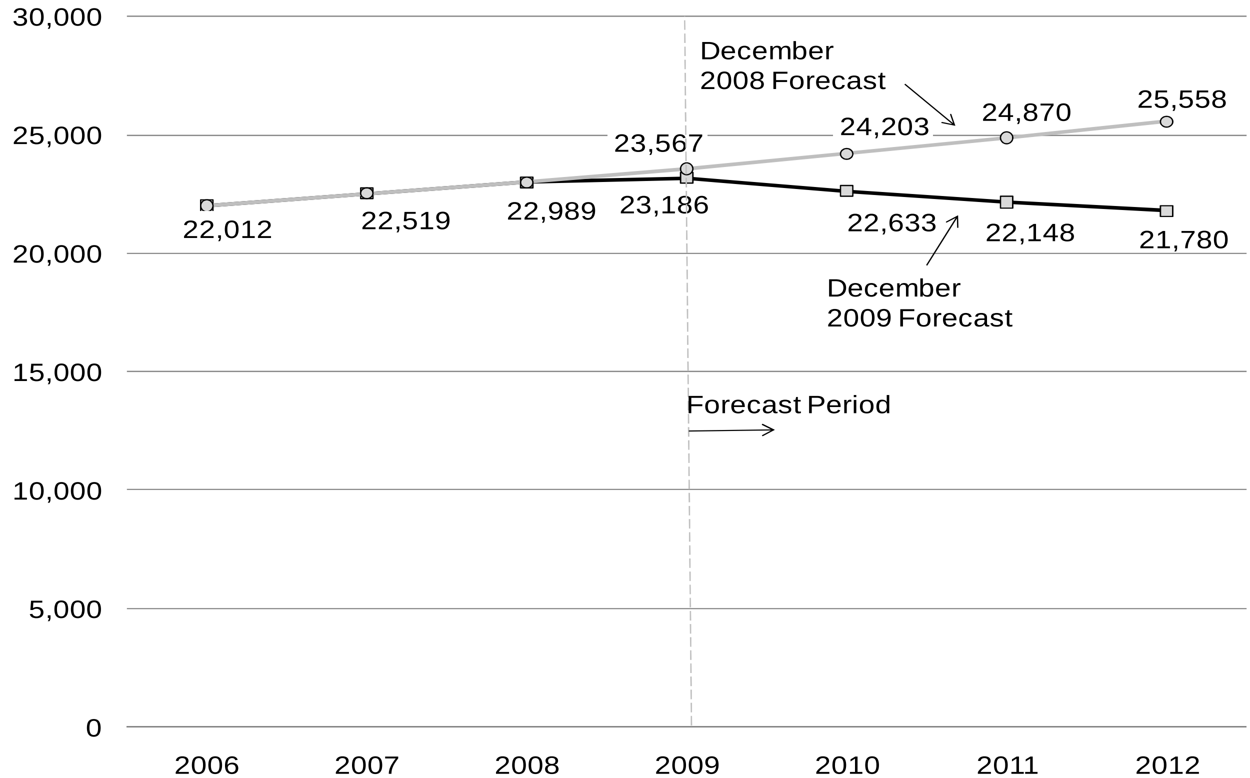
December 2009 forecast was thus revised downward by 6.5 percent, resulting in an expected inmate population of 22,663 by June 2010. This current forecast also projects a declining inmate population for subsequent years in the forecast period, though the decline will occur at a lower rate in later years as male admissions are projected to resume increasing.

Factors Affecting the Adult Prison Population. The following paragraphs describe how both external factors including demographic and economic trends, changes within the criminal justice system, new legislation, and internal factors such as the DOC or Parole Board administrative policies can influence the growth or decline of the inmate population.

- ***Population.*** All other things being equal, a larger population results in a greater number of criminal offenses, arrests, criminal felony filings, and prison commitments. Colorado's adult population between the ages of 20 and 49 increased at an average annual rate of 2.5 percent between 1990 and 2000. Correspondingly, the 1990s were a decade of strong prison population growth, with an average annual rate of growth of 7.4 percent between June 1990 and June 2000. From 2000 through 2009, the growth in this population cohort slowed to an average annual rate of 0.7 percent, and the growth in the prison population slowed to 4.1 percent. As this cohort is projected to grow at an average annual rate of 0.5 percent through the forecast period, we expect this slower growth to result in fewer admissions.

- ***Economic factors.*** When the economy is strong and job opportunities are available,

Figure 15
Adult Inmate Population, Forecast to Forecast Comparison
December 2009 and December 2008



income and earnings rise. The prospect of a job and increased wages raises the opportunity cost of committing a crime. This means that people will be less likely to resort to crime, particularly nonviolent property crimes, if legitimate economic prospects are available. Several studies suggest that weak earnings and slow employment growth cause an increase in prison admissions. There is a lag time of one or more years for poor economic conditions to translate into increased crime, criminal filings, convictions, and ultimately, prison admissions. This forecast assumes that after the initial drop, admissions will increase during the later years of the forecast period as the Colorado economy, especially employment, is projected to be slow to recover.

- ***Criminal Justice System***. The actions of the judicial system also affect inmate population growth. In particular, the commitment of more offenders than average to prison and the imposition of stricter sentences by judges will increase both admissions to prison and the average length of stay for inmates in prison. In addition, the mix of crimes prosecuted also affects the prison population. If prosecutors prioritize more serious offenses with corresponding longer prison sentences, the average length of stay will increase, and so will inmate population growth. For example, the maximum sentence for convicted sex offenders is a lifetime sentence. The population of such offenders has grown recently, which exerts upward pressure on the inmate population.

- ***Legislation.*** Modifications to the Colorado Criminal Code can also have an impact on the inmate population. In the 2009 legislative session, the most significant legislation affecting the prison population was House Bill 09-1351. The bill increased the maximum monthly earned time to 12 days for offenders convicted of a class 4, class 5 or class 6 felony. In addition to the 12 days per month, the bill created "earned release time" for offenders convicted at these felony levels. Eligible felons may earn release from 30 to 60 days prior to their mandatory release date. Through the first five months of FY 2009-10, an average of 50 inmates per month have been released earlier than they would have otherwise been under House Bill 09-1351. This forecast assumes that the growth rate for releases will remain steady throughout the forecast period, in part because of the provisions of this bill.

- ***DOC and Parole Board Administrative Policies***. Besides external factors, DOC and/or Parole Board internal policies also affect prison population levels. Parole Board policies that increase parole revocations or reduce releases to parole will increase inmate population growth, while policies that decrease parole revocations or increase prison releases to parole will reduce inmate population growth. In September of 2009, the DOC and Parole Board began a 2-year pilot program known as the *accelerated transition pilot program*. This program affects offenders that are: 1) within six months of their mandatory parole or sentence discharge date, and 2) not convicted of either a class 1 or class 2 felony or sex offense, potentially making them eligible for an accelerated transition from prison to parole supervision. In the first three months of the program, an average of 55 men and 16 women per month have been released to parole supervision under the provisions of this pilot program.

Adult Parole Population Trends and Forecast. From June 1993 until June 2009, the parole population supervised in-state grew at an average annual rate of 9.1 percent. In FY 2008-09, the in-state parole population grew by 2.7 percent, down from 10.5 percent in the prior year. Table 18 on page 56 provides a history of the parole population supervised in-state and out-of-state, as well as the forecast for these populations through June 2012. The out-of-state population includes parole *absconders* — parolees who have not reported and are considered fugitives. The number of parolees *supervised in-state* is expected to increase at an annual rate of 2.3 percent throughout the forecast period — from 9,016 parolees as of June 2009 to 9,898 parolees as of June 2012. The *total* number of parolees will increase at an average annual rate of 2.4 percent over the forecast period, from 11,750 parolees as of June 2009 to 12,936 parolees as of June 2012.

Figure 16 on page 59 illustrates the change in the December 2009 in-state parole forecast from the corresponding December 2008 projection. The 2009 parole forecast was revised downward relative to the 2008 forecast for two reasons. In June 2009, the actual in-state parole caseload was 9,016, down 103 from the 9,119 projected in December 2008. While the 2008 forecast projected that the in-state parole caseload would rise to 9,539 by June 2010, total in-state parolees had fallen to 8,839 through November 2009. This suggested that a sharp reduction from the December 2008 parole forecast was necessary in the current fiscal year. However, a portion of this decline in the parole population was due to the net impacts of the accelerated release pilot program, as fewer prisoners were released to parole than parolees were transitioned into the community. Because the net change to the parole population from this program is expected to increase, a higher growth rate was assumed for the remainder of this fiscal year and throughout the forecast period.

Table 18
History and Forecast of Parole Population, In-State and Out-of-state Parolees
FY 1993 to FY 2012

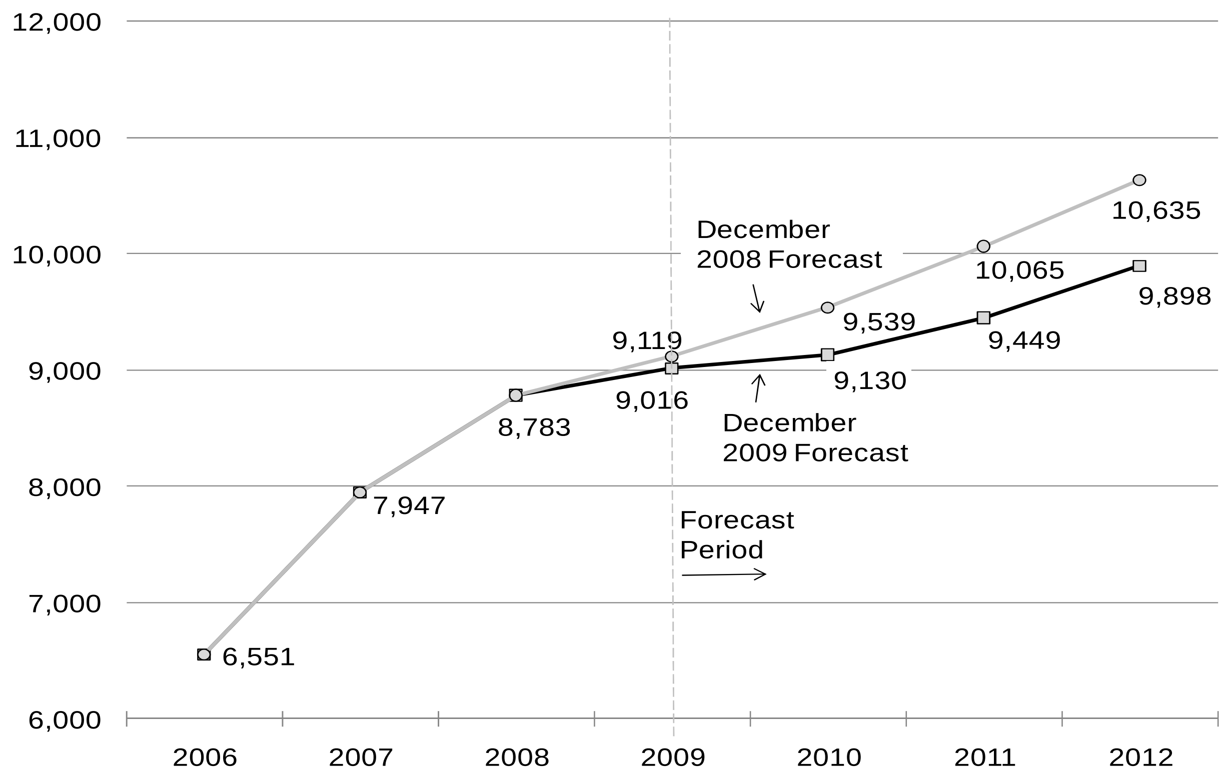
Parole Population Trends						
Fiscal Year	**In State**	**%Change**	**Out of State**	**%Change**	**Total**	**%Change**
1993	2,116	8.9%	657	21.0%	2,773	11.5%
1994	1,958	-7.5%	690	5.0%	2,648	-4.5%
1995	2,026	3.5%	744	7.8%	2,770	4.6%
1996	2,322	14.6%	924	24.2%	3,246	17.2%
1997	2,695	16.1%	1,155	25.0%	3,850	18.6%
1998	3,219	19.4%	1,433	24.1%	4,652	20.8%
1999	3,722	15.6%	1,569	9.5%	5,291	13.7%
2000	3,685	-1.0%	1,537	-2.0%	5,222	-1.3%
2001	4,192	13.8%	1,646	7.1%	5,838	11.8%
2002	4,037	-3.7%	1,680	2.1%	5,717	-2.1%
2003	4,858	20.3%	1,906	13.5%	6,764	18.3%
2004	5,244	7.9%	1,994	4.6%	7,238	7.0%
2005	5,714	9.0%	2,097	5.2%	7,811	7.9%
2006	6,551	14.6%	2,291	9.3%	8,842	13.2%
2007	7,947	21.3%	2,596	13.3%	10,543	19.2%
2008	8,783	10.5%	2,728	5.1%	11,511	9.2%
2009	9,016	2.7%	2,734	0.2%	11,750	2.1%
2010	9,130	1.3%	2,778	1.6%	11,907	1.3%
2011	9,449	3.5%	2,832	2.0%	12,281	3.1%
2012	9,898	4.8%	3,038	7.3%	12,936	5.3%

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

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

- ***Mandatory parole.*** House Bill 93-1302 created mandatory parole for all inmates re-

Figure 16
Adult In-State Parole Population, Forecast to Forecast Comparison



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

- ***Parole Board release and revocation decisions.*** The Parole Board is a key influence on the growth of the prison population (as described above) and the parole population. Board decisions to revoke parole reduce the parole population, but increase the prison population. Discretionary decisions to release inmates to parole increase the parole population and reduce the prison population. The Board also determines when parolees are released from parole into the general population. Under the provisions of the accelerated transition program, prisoners that are convicted of certain crimes and are within 180 days of their mandatory parole date are eligible for release to parole supervision at the discretion of the Board. Likewise, parolees that have served at least half of their parole term and have met certain behavioral benchmarks are eligible for early release from parole supervision into the general community. In the first three months of the program, 281 males and 110 females have earned early release from parole, resulting in a net reduction to the parole population of 177 supervised offenders.

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

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

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

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

Youth Corrections Population

- The Division of Youth Corrections (DYC) **commitment population** will increase slightly from an average daily population of 1,228 in FY 2008-09 to 1,232 in FY 2009-10. By FY 2011-12, the commitment population will fall slightly to 1,222.

- The average daily **parole population** will correspondingly increase from 435 in FY 2008-09 to 437 in FY 2009-10 before falling to 430 in FY 2011-12.

Juvenile Offender Sentencing Options

Juveniles that are not prosecuted as adults are managed through the juvenile courts. If the court determines that a juvenile committed a crime, he or she is adjudicated a delinquent. Upon determination of guilt, the court may sentence a juvenile to any one or a combination of the following:

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

- ***Detention.*** The court may sentence a juvenile to a detention facility if he or she is found guilty of an offense that would constitute a class 3 or lower felony or misdemeanor if committed by an adult. Detention sentences may not exceed 45 days and are managed by the DYC.

- ***County jail or community corrections.*** Juveniles between 18 and 21 who are adjudicated a delinquent prior to turning 18 may be sentenced to county jail for up to six months or to a community correctional facility or program for up to one year.

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

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

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

Division of Youth Corrections Sentencing Placements and Population Overview

Detention. The DYC manages eight secure detention centers and contracts for additional detention beds. In 2003, the detention population was capped at 479 youths. As a result, Legislative Council Staff no longer forecasts detention bed need. Through October 2009, the average daily detention population was 356.

Commitment. The commitment population consists of juveniles who have been adjudicated for a crime and committed to the custody of the Department of Human Services. Commitment may be for a period of one to seven years, depending on the nature of the crime and the juvenile's criminal history. In FY 2008-09, the average daily commitment population was 1,228, representing a 4.6 percent decrease from the prior year. In FY 2007-08, the average daily commitment population declined 9.6 percent.

Influences on the Juvenile Offender

Changes in the juvenile offender population result from a combination of factors. Demographic trends, court sentencing practices, and the ability of DYC to provide custodial services all affect the juvenile offender projections.

Population growth. The growth in the Colorado population of juveniles age 10 to 17 increased by an average of 3.4 percent annually between 1990 and 2000. Likewise, the commitment population grew at an average annual rate of 8.5 percent in that ten-year period. However, from 2000 to 2009, this population cohort increased by an average of only 0.7 percent annually. This population cohort is expected to increase at a rate of 1.4 percent annually through the forecast period, which could put slight upward pressure on the commitment population.

Court Sentencing Practices. Juvenile filings increased at an average annual rate of 4.8 percent from 1990 through 2000. However, since peaking in 1998, filings have declined steadily. Over the last decade, filings have dropped at an average annual rate of 3.0 percent. The decline in filings puts downward pressure on the population committed to DYC supervision.

In addition, policies affecting sentencing alternatives for juveniles affect the youth corrections population. These include the creation of diversionary programs as alternatives to incarceration, mandated caps on sentence placements, and changes to parole terms.

DYC Service Provision. The DYC provides a continuum of services for juveniles committed to its custody. Services may be both residential or non-residential, and include evidence-based risk-assessment, treatment planning and implementation, appropriate intervention, and facilitation of offender transition to the general population. State budget cuts that impede the ability of the DYC to provide a full range of services may tend to put upward pressure on the commitment population.

Continuum of Care Initiative Funding. A footnote in the FY 2007-08 long bill allowed for the DYC to divert up to 20 percent of their funding to develop, implement, and expand a program for the purpose of providing treatment, transition, and wrap-around services to youths under their care. The Continuum of Care Initiative (CCI) uses risk analysis to examine which committed youth would most likely benefit from the program. The DYC feels that the program has contributed to the recent decline in the average daily commitment population. Continued funding of the initiative is expected to reduce the average daily commitment population further, though at a declining rate. Budgetary restrictions that prevent the DYC from expanding the program may place upward pressure on the commitment population.

DYC Commitment Population Projections

In FY 2009-10, the commitment population will average 1,232, representing a 0.3 percent increase over last year. In October 2009, the average daily population stood at 1,233, a slight increase from it's level of 1,229 in June 2009. By FY 2011-12, the commitment population will drop to 1,222, representing an average decline of 0.2 percent per year. Table 19 on page 63 provides the forecast for the average annual commitment population from FY 2009-10 to FY 2011-12, and the forecast from December 2008 for the same period.

As Table 19 shows, there is a growing difference between projected DYC commitments, and projections made in December 2008. At that time, the average daily commitment population was projected to fall steadily at an average annual rate of 3.3 percent through FY 2011-12. In June 2009, the actual average daily population was 1,228, 1.8 percent above projected levels.

Table 19
DYC Commitment Population
Forecast-to-Forecast Comparison
(June 30th Population)

FY	Dec-09 Forecast*	Dec-08 Forecast	Forecast Difference	Difference
2009	1,228	1,206	22	1.8%
2010	1,232	1,175	57	4.9%
2011	1,226	1,128	98	8.7%
2012	1,222	1,091	131	12.0%

Through the forecast period, the impact of the ongoing decline in juvenile filings will be moderated by the slight increase in the juvenile population and the diminishing effects of the CCI, leading to a relatively flat commitment population forecast. Figure 17 graphically compares the current commitment population forecast with the forecast from December 2008.

Figure 17
Comparison of DYC Average Daily Commitment Population Forecasts, December 2009 and December 2008

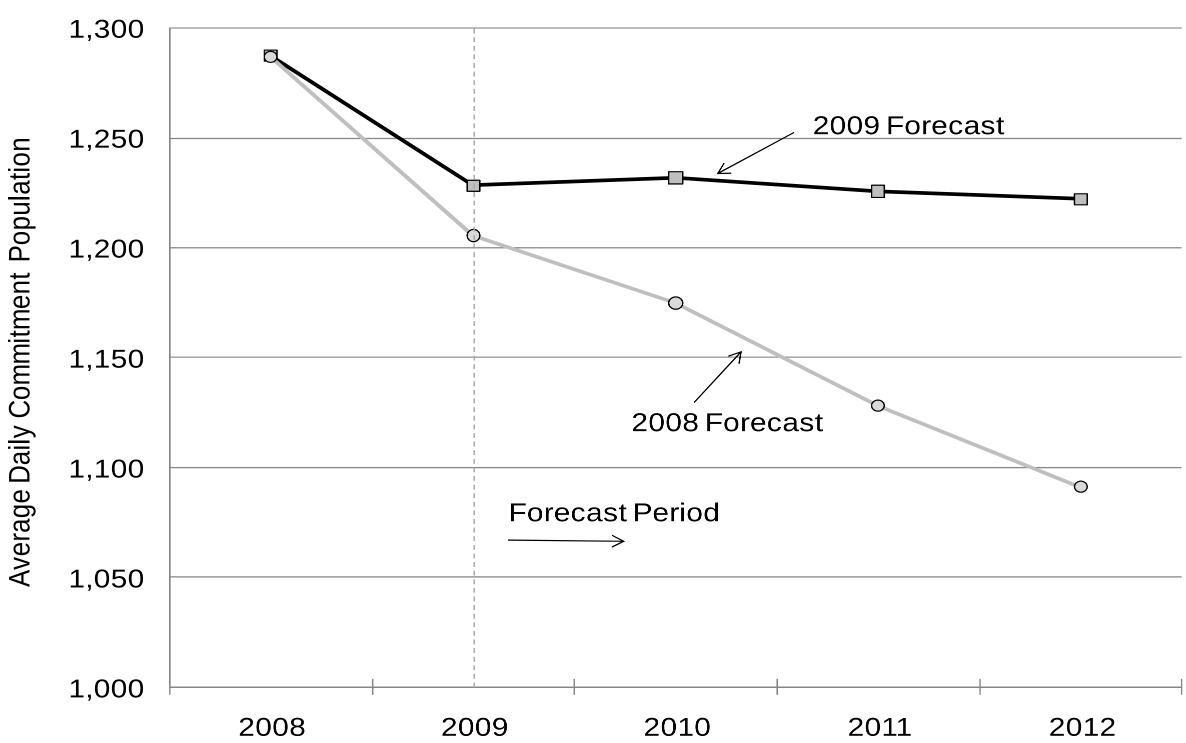


Table 20
DYC Parole Population
Forecast-to-Forecast Comparison
(June 30th Population)

FY	Dec-09 Forecast*	Dec-08 Forecast	Forecast Difference	Difference
2009	435	485	(50)	-10.3%
2010	437	460	(23)	-5.0%
2011	434	443	(9)	-2.0%
2012	430	429	1	0.2%

Juvenile Parole Population Projections

Table 20 compares the projected juvenile parole average daily population with the projections that were made a year ago. In FY 2009-10, the parole population will average 437, representing a 0.5 percent increase over last year. By FY 2011-12, the parole population will drop to 430, representing an average decline of 0.4 percent per year.

The actual parole population levels in June 2009 was at 435, 10.3 percent below the level that was forecast last December. However, the average daily parole population in October was up 5.0 percent from June. Although parole population levels have been trending downward since implementation of the CCI, especially over the last three years, the anticipated flattening in the commitment population over the forecast period is likely to have a stabilizing effect on parole population levels as well. This expectation is reinforced by the stability in the length of stay in the parole population over the last few years.

Risks to the forecast

Although DYC believes that the CCI was a major driver of the decrease in average daily commitment population from FY 2005-06 through FY 2007-08, the population decline slowed markedly in FY 2008-09. Future budget cuts for the DYC, such as Senate Bill 94 funding for example, or reductions in funding for the CCI would likely place upward pressure on future commitment population levels. This forecast assumes no significant changes to program funding during the forecast period.

Also, commitment sentences are at the discretion of the courts. Judges may decide to place more offenders under DYC supervision. The youth corrections forecast assumes that the sentencing decision process and sentencing patterns will remain consistent with current practices throughout the forecast period.

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

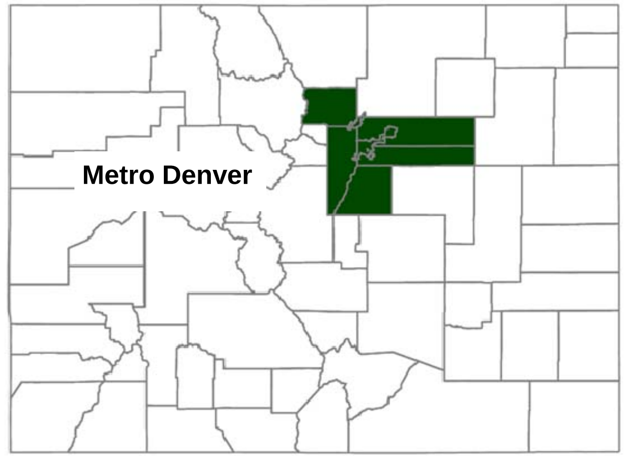
Juvenile population trends significantly impact the youth corrections population. This forecast assumes a modest growth rate for the juvenile cohort throughout the forecast period. Significant changes in this trend would result in a corresponding, though somewhat lagged, change to the youth corrections population. Moreover, economic conditions may also have an impact. Legislative Council Staff is projecting fairly high unemployment levels and only modest employment growth through 2011. These trends will likely place upward pressure on the average daily commitment population.

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

Colorado Economic Regions

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

Metro Denver



The recession is easing its grip on the Metro Denver region as the economic cycle appears to be nearing the bottom. Through the first 10 months of the year, most economic sectors continued to shed jobs and the unemployment rate remained high. However, job losses seem to have leveled off as the region saw some modest gains in September and October. The housing market and commercial construction sectors remain weak as the number of new residential housing permits is down and the value of nonresidential construction projects is falling. Residential foreclosures are also rising and slowing the recovery in the housing sector. In addition, consumer spending has continued to decrease substantially throughout the year. Table 21 shows economic indicators through October 2009.

Table 21

Metro-Denver Region Economic Indicators

Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2007	2008	2009 YTD thru October
Employment Growth /1	2.2%	0.9%	-3.9%
Unemployment Rate /1 (2009 figure is for October. The seasonally adjusted rate for October is 7.2 percent.)	3.8%	4.9%	6.6%
Housing Permit Growth /2	-21.1%	-38.4%	-57.5%
Single-Family Permit (Denver-Aurora) /2	-40.3%	-49.8%	-37.9%
Single-Family Permit (Boulder) /2	-12.4%	-63.5%	-31.7%
Growth in Value of Nonresidential Const. /3	33.2%	-11.4%	-29.9%
Retail Trade Sales Growth /4	6.4%	-1.0%	-14.1%

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. Data through September.

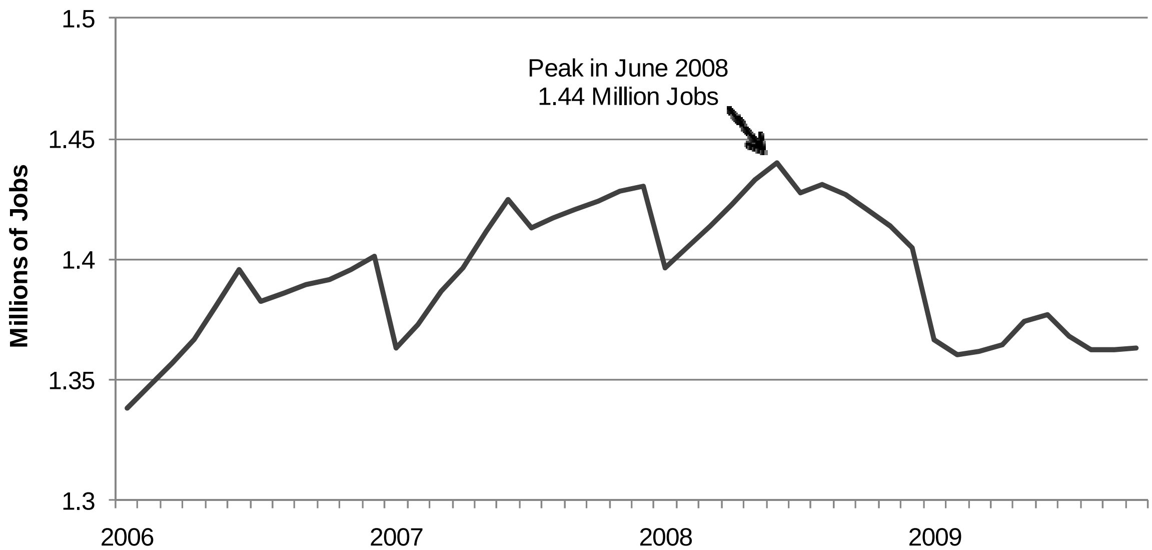
Job Market

Job losses have leveled off in the region. Total nonfarm employment peaked in June 2008 at 1.44 million jobs, declined to 1.36 million in August, and has posted some gains through October 2009. The region's modest gains occurred in the government; education and health services; trade, transportation, and utilities; and leisure and hospitality services sectors. Figure 18 on page 69 shows nonfarm employment from 2006 through October 2009.

Aside from this modest job growth, the longer-term employment trend is still down. After increasing 0.9 percent in 2008, total nonfarm employment fell 3.9 percent through October 2009 compared with the first 10 months of 2008. Employment in the mining, logging, and construction sector saw the largest decline at 14.2 percent with the bulk of the job losses in construction. Jobs also declined 6.6 percent in manufacturing, 6.4 percent in wholesale trade and professional and business services, and 4.9 percent in retail trade. These declines are partly resulting from a struggling real estate market and a weak banking industry.

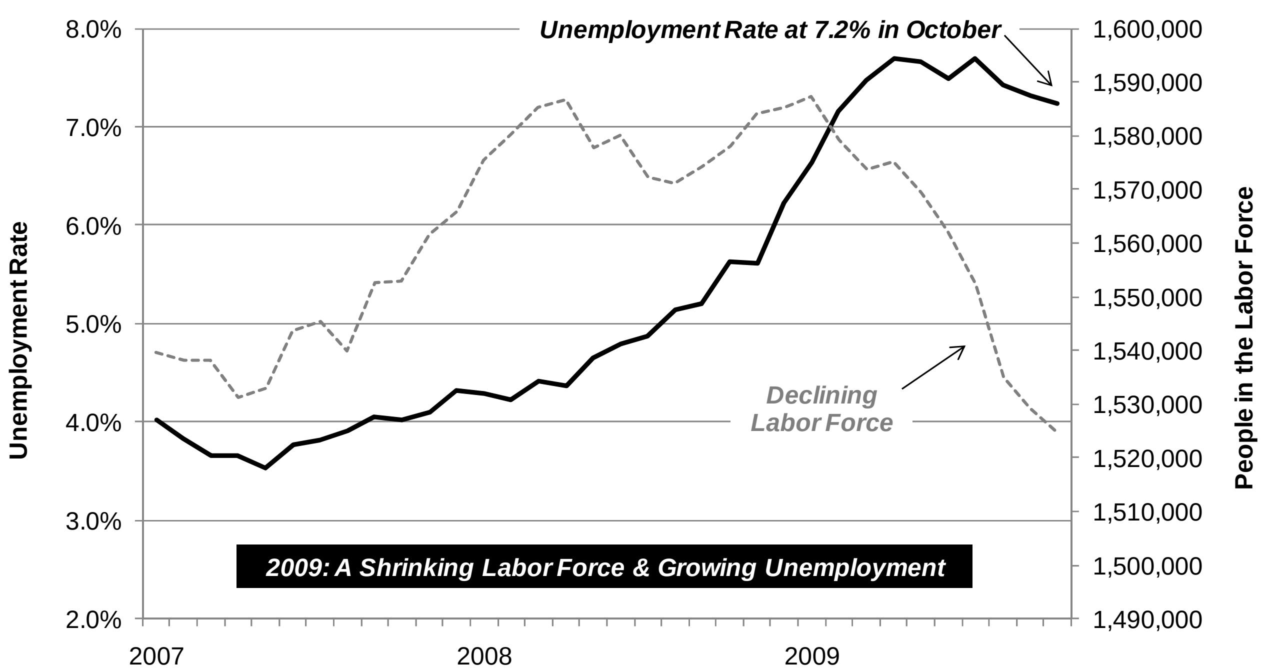
Metro Denver's seasonally adjusted unemployment rate dropped to 7.2 percent in October, slightly higher than the 6.9 percent statewide average. While the region's unemployment rate

Figure 18
Nonfarm Employment in the Metro Denver Region
2006 through October 2009



Source: U.S. Bureau of Labor Statistics.

Figure 19
Unemployment Rate and Labor Force in the Metro Denver Region
(January 2007 through October 2009; Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics.

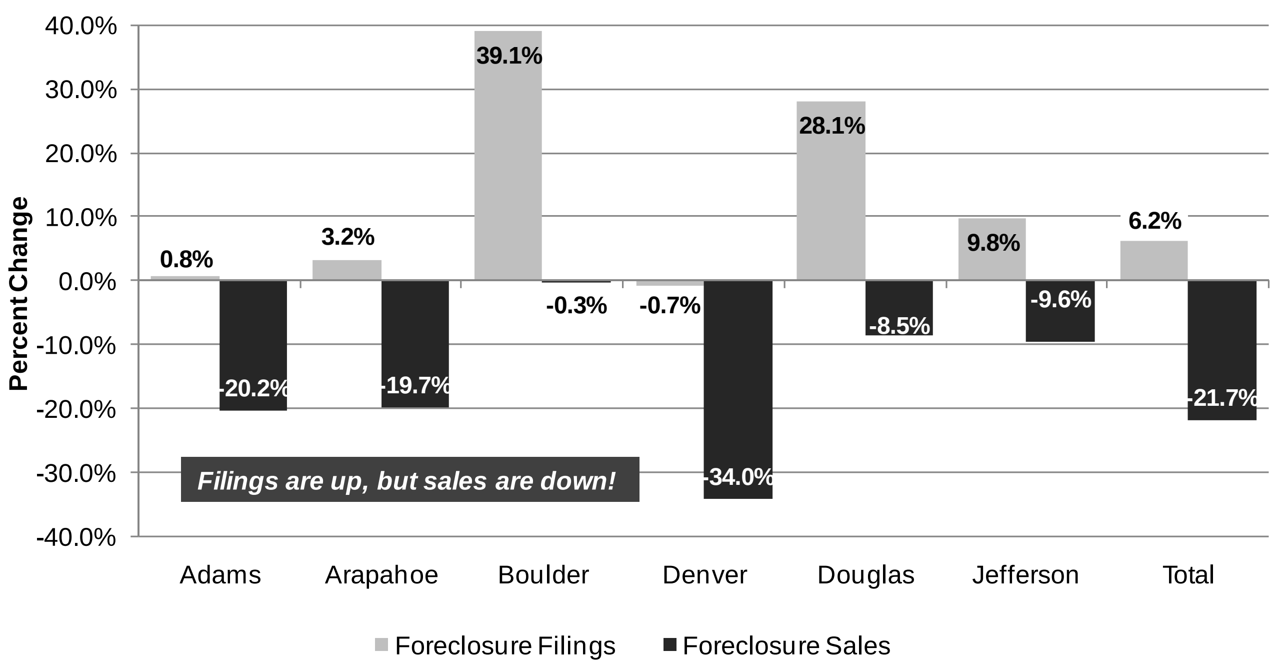
is considerably lower than the 7.7 percent peak reached in July, the rate is slightly above the previous peak of 6.7 percent, reached during the prior recession in July 2003. The regional labor force peaked in April 2008 at 1.59 million, and has fallen since then to its current level of 1.52 million. Much of the decline in the labor force is due to the workers who have dropped out of the labor force after having become discouraged with their job prospects. Figure 19 shows unemployment rates and labor force levels for the region since January 2007.

Construction Sector & Consumer Spending

Denver's housing sector is showing some positive signs, even though the construction sector continues to struggle. According to MetroList data, Metro Denver's housing market showed its first year-over-year improvement in 11 months as November home resales, including single-family homes and condominium/town homes sales, surged 23 percent over the same month in 2008. Part of the increase is attributed to the first-time homebuyer credit that was initially set to expire at the end of November and 40-year low mortgage rates. Congress has recently extended and expanded the $8,000 refundable credit.

MetroList reported that the median price for single-family homes was $218,000 in November, up 11.8 percent from the prior year, but down 1.8 percent from the October 2009 price of $222,000. Sales of more expensive homes were also stronger in November. For the first time in three years, sales in the $1 million-plus home market increased significantly, according to Coldwell Banker Residential Brokerage. This

Figure 20
Percent Change in Foreclosure Filings and Sales
Year-To-Date through the Third Quarter of 2009



Source: Department of Local Affairs, Division of Housing.

change may show that the level of consumer confidence in the region's housing market is showing some gains.

The housing and commercial construction sectors continue to pullback from building new homes and commercial construction projects. Total housing permits were down 57.5 percent year-to-date through October for the Denver Metro Region. Single-family home permits were down 37.9 percent in the Denver-Aurora area and 31.7 percent in Boulder.

Home foreclosure activity in the region increased. Totaling nearly 20,000, regional foreclosure filings were 6.2 percent higher year-to-date through the first three quarters of the year compared with the same time period in 2008. Third quarter filings were 64.8 percent higher than during the third quarter of last year. The number of filings provides a view of how many borrowers have become seriously delinquent on their loans. Boulder and Douglas counties saw the largest growth in foreclosure fillings. Fillings grew 39.1 percent in Boulder and 28.1 percent in Douglas County year-to-date through the first three quarters of the year compared with the same time period in 2008.

Meanwhile, foreclosure *sales* decreased 21.7 percent year-to-date through the third quarter over 2008 levels. Denver saw the largest decline in sales at 34.0 percent during this time period. The foreclosure sale numbers indicate how many borrowers have lost all equity in the property as a result of it being sold to another party (auction, mortgage company, investors, or others). The decline may indicate that investors may be more cautious and concerned about the long-term gradual recovery of the housing markets. Figure 20 provides information on foreclosure filings and sales through the third quarter of 2009.

The commercial construction sector in the region continues to slow. The value of nonresidential construction decreased 29.9 percent through October 2009 compared with the first 10 months of 2008. During this same period, however, Boulder County saw a 35.6 percent increase, which is attributed to school- and education-related contracts. The largest construction contracts in the region included an educational institution in Adams County, a religious facility in Arapahoe County, and a highway and government service facility in Douglas County.

Consumer spending, as measured by retail trade sales, declined through September 2009 as consumers are spending cautiously. Regional consumer sales through September had dropped 14.1 percent, a sharp decline compared with the 1.0 percent drop that occurred in 2008. This drop is slightly higher than the statewide average.

Recent Economic News

- SMA Solar Technology AG, the largest manufacturer of solar inverters, will move its operations to Denver from Germany. Solar inverters convert the direct current created by solar panels into alternating current. SMA expects to hire up to 300 full-time employees when production begins in 2011.

- ConocoPhillips has begun architectural planning and start-up site development of the former StorageTek campus in Louisville. The first phase of the 432-acre campus construction phase will last about 18 months and continue for seven years. About 7,000 workers will work on the campus over the next 20 years.

- Quark Inc., a maker of publishing software, unveiled a free online design and publishing tool that will allow businesses to create marketing material. Quark projects that the release of the publishing software will add as many a 500 jobs in Denver in three to five years.

- Rab, a British mountaineering clothing and outdoor gear company, established its North American headquarters in Louisville. The company expects to employ up to eight people.

- German manufacturer SGB USA announced plans to open its first U.S. manufacturing company in Wheat Ridge. The company manufactures transformers that convert electricity generated from wind turbines into energy that can be loaded onto the power grid. The company will invest $1.4 million into the facility and bring six new jobs to the city.

- Lafuma, a French outdoor clothing and gear company, relocated its U.S. headquarters to Lafayette. The company will employ up to 12 people.

- Sprouts Farmers Market, an Arizona-based natural foods chain, will open its first store in Boulder.

- Latisys, a data center operator based in Colorado, California, and Illinois, will move its corporate headquarters to Englewood. The company currently employs 45 workers in Metro Denver.

- Frontier Airlines announced plans to relocate an estimated 440 people to Indianapolis after its recent consolidation with Republic Airways. Positions that will be relocated include: dispatchers, engineers, flight schedulers, reservation agents, and mechanics.

- The city of Denver announced that about 170 employees will be laid off to offset declining sales tax receipts. The layoffs will include more than 80 workers from the Department of Human Services. Remaining city employees will have five furlough days next year as Denver faces a $160 million budget shortfall.

- Bestop, a manufacturer of accessories for Jeep Wrangler and SUVs, will move its Broomfield operations to Mexico by spring, laying off 140 workers. The change of operations was attributed to difficult economic conditions.

- Sun Microsystems will lay off 3,000 of 32,000 employees world-wide in the next 12 months, including 128 jobs in January at its Broomfield and Louisville locations. The job reductions are being triggered by the recent takeover by the Oracle Corporation.

- Woody's Wood Fired Pizza in Broomfield closed its doors because of declining sales. About 50 employees will be affected.

- Skins, an Australian maker of technical athletic apparel, will move its U.S. headquarters from Boulder. Five full-time employees will be affected.

Colorado Springs Region

Colorado Springs and its regional economy remains sluggish, although there are signs that some gains in economic activity may occur in 2010. The region continues to shed jobs, residential construction is weak, and consumer spending continues to decline. Table 22 shows economic indicators for the region through October 2009.

Table 22
Colorado Springs Region Economic Indicators
El Paso County

	2007	2008	2009 YTD thru October
Employment Growth /1	1.0%	-0.8%	-3.9%
Unemployment Rate /1 (2009 figure is for October)	4.4%	5.8%	7.2%
Housing Permit Growth /2	-30.3%	-35.7%	-35.6%
Single-Family Permit Growth /2	-35.1%	-42.1%	-21.8%
Growth in Value of Nonresidential Const. /3	8.1%	-45.9%	-0.5%
Retail Trade Sales Growth /4	5.3%	-2.9%	-8.0%

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. Data through September.

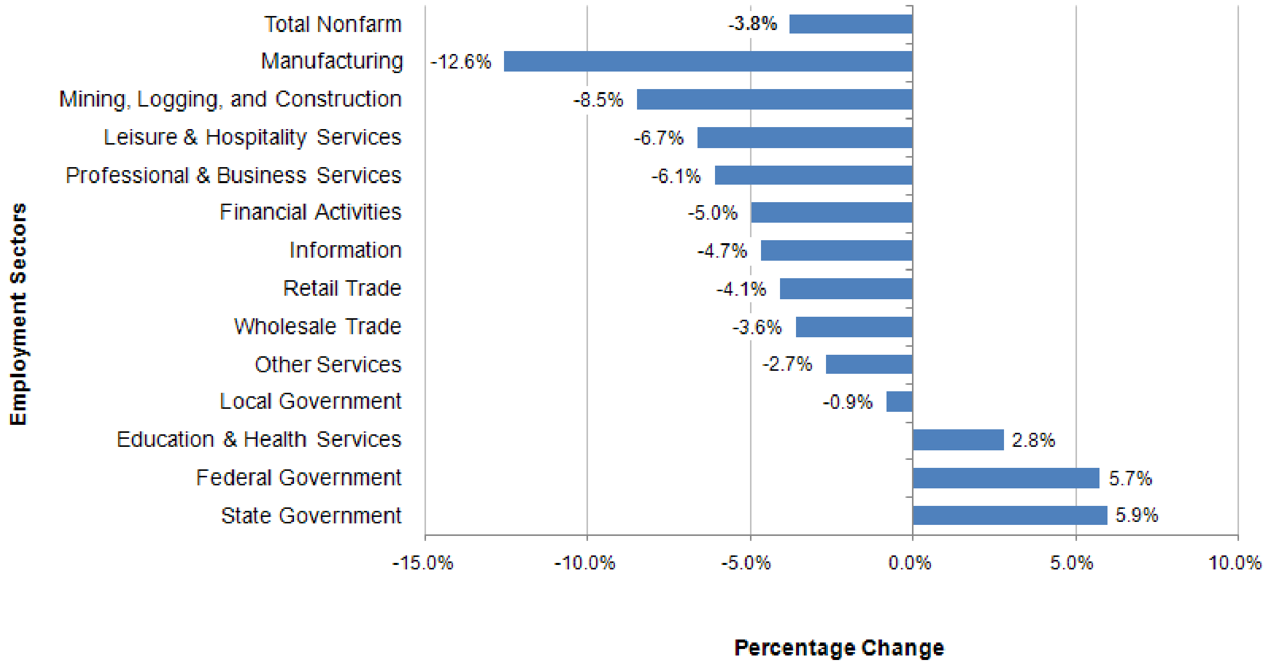
Total nonfarm employment fell 3.9 percent through October, which was the same decline as the statewide average. Since job growth reached its peak in June 2007, Colorado Springs has lost 17,500 jobs (7 percent). The unemployment rate fell in October to 7.2 percent from 7.4 percent in September. The 7.2 percent rate is the lowest this year, as job losses have leveled off in recent months. However, the decline is also attributable to discouraged workers leaving the workforce. The October rate is up from an average of 5.8 percent in 2008 and 4.4 percent in 2007.

With the exception of the federal and state governments and the education and health services sector, all sectors lost jobs. The largest decline was the 12.6 percent drop in the manufacturing sector followed by an 8.5 percent decline in mining, logging, and construction due to weak natural gas prices and sluggish home and commercial construction. The cutback in business and consumer spending contributed to the 6.7 percent decline in the leisure and hospitality sector. Jobs in the professional and business services sector also declined 6.1 percent. Figure 21 provides information on the percentage change in employment by sector through October.

Residential home construction activity continues to decline. Home building permits were down 35.6 percent and single-family permits declined 21.8 percent year-to-date through October compared with the first 10 months of 2008. Home construction is a good barometer of the local economy as the industry employs thousands of people, such as builders, plumbers, and subcontractors. The lack of construction has led to significant job losses in the construction industry. Also, city government has seen sales tax collections plummet due to homebuilders reducing purchases of lumber, drywall, and other building materials.

Despite the declines in home permit activity, builders are seeing an uptic in residential construction activity in October 2009 over the

Figure 21
2009 Colorado Springs Employment Growth through October



Source: U.S. Bureau of Labor Statistics.

same month in the prior year. Builders have credited the federal government's $8,000 tax credit for first-time buyers. The extension and expansion of the federal credit may work to stimulate more home construction activity in 2010.

Weakness in the residential construction market is also being affected by home foreclosures. The El Paso County Public Trustee's Office reported that foreclosures in the region may exceed 5,000 by the close of the year, a record high after 2008 foreclosures totaled 4,602.

The value of nonresidential construction was flat through October, decreasing 0.5 percent. Most new nonresidential construction contracts were for offices, banks, and stores. Also contracted for construction are several manufacturing plants and hospital facilities.

Consumer spending, as measured by retail trade sales, continues to decline. Retail sales were 8.0 percent lower through September compared with the same period last year, faring better than the 13.9 percent statewide drop. Spending on both durable and nondurable goods deteriorated as consumers paid down debt rather than making new purchases. Also, many credit card insurers are lowering credit limits and contributing to fewer credit card purchases on big-ticket items such as refrigerators.

The federal cash for clunkers program did boost sales tax revenue in Colorado Springs for auto dealers as September sales tax collections were up 15.3 percent over prior year September revenue. However, sales tax collections were down 18.3 percent in hotel/motel receipts, 17.3 percent for building materials, and 16.0 percent for auto repair and lease purchases.

Recent Economic News

- PRC LLC, a Florida-based call center operator, is hiring 260 new workers at its center in Colorado Springs to handle a seasonal increase in demand for a satellite television client. Many of the sales jobs pay between $33,000 and $45,000 annually.

- Affiliated Computer Services is hiring up to 100 employees to join its 600-person workforce that takes calls for a wireless carrier.

- Mortgage bank Alliance Financial Partners is relocating its U.S. headquarters to Colorado Springs. The financial firm specializes in residential and commercial lending and will hire 15 employees in the first year and up to 37 in the next four years.

- Costco opened a second store in Colorado Springs. The 160,000 square-foot facility is one of its largest stores in Colorado.

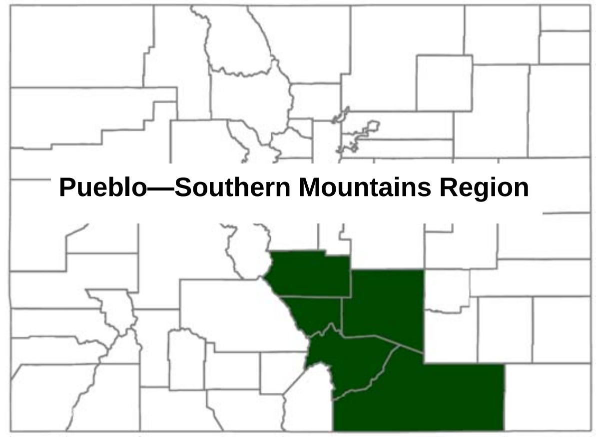
- Deluxe Corporation will close its small business call center and lay off 225 employees in Colorado Springs. The center takes orders for business checks, forms, and other printed products. The company is seeing lower call volume due to declining demand for printed products. Some employees may be transferred to another Colorado Springs location.

- Focus on the Family has announced a reorganization that will eliminate 75 jobs. In 2002, its workforce reached a peak of about 1,400. The recent layoffs and other job reductions since 2008 will reduce the workforce to 860.

- El Paso Corporation, a Houston-based builder of natural gas pipelines, laid off 45 of its 500 employees at its Colorado Springs regional office. The layoffs are aimed at a company reorganization to remain competitive in the pipeline business.

- The Colorado Springs Gazette laid off 11 employees in response to lower advertising revenue, an industry downturn, and deteriorating economic conditions.

Pueblo — Southern Mountains Region



Pueblo's five-county regional economy continues to struggle but it appears that the recession is losing steam and the economy may be bottoming out. The region is still shedding jobs, residential and commercial construction remains low, and consumers are spending less. Table 23 shows economic indicators for the region through October 2009.

Table 23
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2007	2008	2009 YTD thru October
Employment Growth /1			
Pueblo MSA	3.2%	0.5%	-2.3%
Unemployment Rate /1 (2009 figure is for October)	4.8%	6.1%	7.3%
Housing Permit Growth /2			
Pueblo County /2	-48.1%	-38.6%	-8.6%
Single-Family Permit Growth for Pueblo County /2	-47.3%	-40.1%	-54.0%
Growth in Value of Nonresidential Const. /3			
Pueblo County	-60.7%	48.1%	-72.3%
Retail Trade Sales Growth /4	6.5%	-1.9%	-7.1%

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

3/ F.W. Dodge.

4/ Colorado Department of Revenue. Data through September.

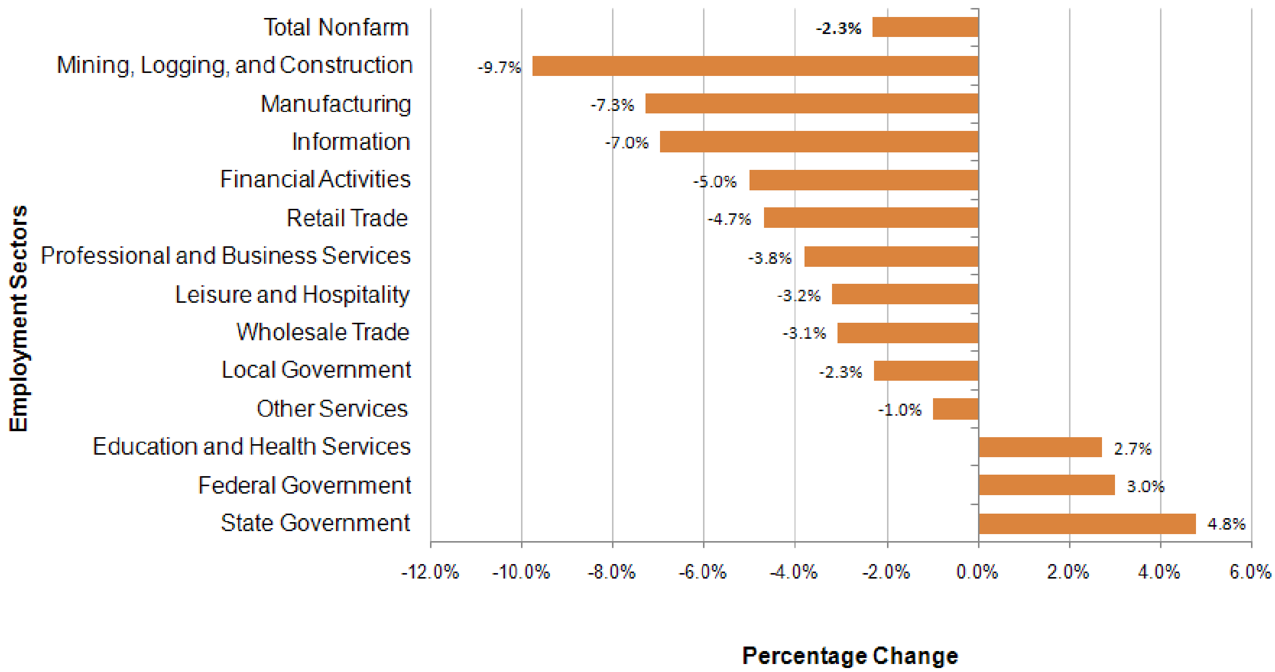
In the Pueblo metro area, nonfarm employment declined 2.3 percent through October compared with the same period last year. Consistent with other regions in the state, employment fell in all industries with the exception of the educational and health services, and government sectors. The mining, logging, and construction, and manufacturing sectors, were hardest hit with decreases of 9.7 percent and 7.3 percent, respectively. Employment in the state government sector grew at 4.8 percent, the largest growth of any sector in the region. Figure 22 shows industry job growth by selected sectors.

Despite the job losses in the manufacturing sector shown in Figure 22, more than 100 workers are training or employed by Vestas Wind Towers in the region. When the plant ramps up to full production next year, the $240 million operation anticipates hiring up to 400 new workers and producing 1,000 wind towers annually.

The unemployment rate for the region was 7.3 percent in October, up from 6.1 percent in 2008, and 4.8 percent in 2007. Given that nonfarm employment grew by 200 jobs in October, the increase in the unemployment rate means that more workers may be entering the workforce. Most of the job growth is the result of new employees hired by the state to staff the new Colorado Mental Health Institute in Pueblo. Fremont County had the highest unemployment rate in the region at 7.8 percent. While the October 2009 unemployment rates for counties in the region are higher than the same month last year, rates edged downward in Pueblo and Las Animas counties, while rates rose slightly in Fremont, Custer, and Huerfano counties over the last month.

Construction activity in the region was bleak. In Pueblo County, residential permits decreased 8.6 percent while single-family permits declined 54.0 percent. The three-year housing-slump resulted in 173 home-starts through October, the lowest annual total since the early 1980s

Figure 22
Change in Jobs in Selected Industries in the Pueblo Region



Source: U.S. Bureau of Labor Statistics.

when Pueblo's jobless rate approached 20 percent due to steel mill layoffs. The residential market peaked with 1,200 home starts in 2006. Nonresidential permits declined 72.3 percent, largely due to the completion of several manufacturing contracts.

In addition to the decline in single-family home permits, Pueblo County's foreclosure rate was third-highest in the state in September, according to the state Division of Housing. The county had one completed foreclosure for every 820 households. Adams County had the highest rate at one per 540 households. A completed foreclosure is a home that the owner can no longer resolve the loan default and loses the property. When looking at foreclosure filings, Pueblo County had 1,241 through August 2009 and is on track to top the record 1,509 filings set in 2007. The third quarter filings of 420 were up 24 percent from the same period in the prior year. Fremont County is also seeing foreclosures skyrocket in the fourth quarter of 2009.

Retail sales declined 7.1 percent in the region through September. Despite the decline, Pueblo reported that sales tax data is showing month-over-month gains due to insurance payouts from the July 29 hailstorm. Pueblo saw monthly sales taxes increase 9 percent in September over the prior month following a 3.8 percent gain in August. Building materials and auto sales were large contributors to the advance, increasing 20 percent in September over the same period in the prior year. For the year, Pueblo's sales taxes were down 4.6 percent through September.

Recent Economic News

- Convergys, a call-center in Pueblo, will add capacity to its operations and add 300 full-and part-time workers. The center employs about 550 workers.

- Black Hills Electric will move ahead next year on a 400-megawatt power plant in Pueblo. Natural gas will fuel the $450 million plant. The construction phase will take a year to complete and employ 100 to 200 workers. A permanent staff of 15 to 20 workers will be needed to run the plant's operations.

- Big R stores, a Lamar farm equipment company, will relocate its warehouse and corporate offices to Pueblo bringing about 40 new jobs to the region. The average salary for the corporate positions is $55,000.

- Quest will close its call center in Pueblo in March 2010, cutting 75 jobs. The closure is resulting from declining call-volume.

- Foxworth-Galbraith, a Dallas-based operator of lumber and building supply stores, will close its lumberyard and supply store in Pueblo. Thirteen employees will be laid off. The closure is being attributed to the weak housing market and slowdown in home construction.

San Luis Valley Region

The San Luis Valley region's economy continues to be affected by the recession impacting the rest of Colorado. Employment in the region is down. While regional employment has not recovered, the unemployment rate decreased slightly from the same period last year. Once a bright spot for the region, prices for the region's primary agricultural commodities have significantly decreased. Construction activity was mixed, with residential building permits declining and the value of nonresidential construction increasing in Alamosa County through October. Table 24 shows the economic indicators for this region.

Table 24
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache counties

	2007	2008	2009 YTD thru October
Employment Growth /1	-0.1%	-3.9%	-1.6%
Unemployment Rate /1 (2009 figure is for October)	4.7%	6.2%	5.3%
Statewide Crop Price Changes /2			
Barley (U.S. average for all)	31.4%	48.1%	-31.2%
Alfalfa Hay (baled)	0.0%	18.0%	-18.2%
Potatoes	14.1%	47.7%	-61.3%
SLV Potato (Inventory CWT) /2	-7.5%	11.6%	NA
Valley Potato Production (Acres Harvested)	-1.0%	-1.6%	-0.5%
Housing Permit Growth /3			
Alamosa County	-38.5%	20.8%	-52.8%
Single-Family Permit Growth	-38.5%	-4.2%	19.0%
Growth in Value of Nonresidential Const. /4			
Alamosa County	414.1%	-88.0%	1127.8%
Retail Trade Sales Growth /5	6.6%	3.3%	-3.3%

NA = Not Available.

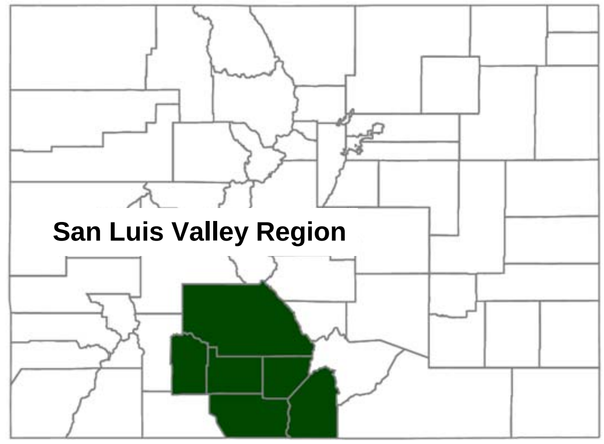
1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 data are from the LAUS (household) survey. Unemployment data is from the LAUS survey for all years reported.

2/ Colorado Agricultural Statistics Service. Data compares October 2009 to October 2008. For potato production, fall potato stock inventory compares June 2009 to the prior year. Estimates for acres harvested are for 2009 production over 2008 and include all of Colorado.

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. Data through September.



Nonfarm employment decreased 1.6 percent through October compared with the first 10 months of 2008. After averaging 6.2 percent in 2008, the unemployment rate averaged 7.3 percent year-to-date through October. As shown in Table 24, the unemployment rate was 5.3 percent in October, down slightly from 5.5 percent in October 2008. The slight increase is primarily due to a decline in the labor force. The San Luis Valley historically has lower unemployment rates in the fall than during the summer months. The highest unemployment rate in the region during this period was Costilla county at 8.7 percent, while the lowest was in Rio Grande county at 4.6 percent.

Agricultural prices sharply declined through the first 10 months of 2009. Preliminary data from the Agricultural Statistics Service indicates that the prices of barley, alfalfa hay, and potatoes, all important crops in the region, posted declines of 31.2, 18.2, and 61.3 percent, respectively.

Housing permits in the region declined 52.8 percent through October compared with the same period last year. This drop is likely attributable to permits for duplexes and multi-family housing, as single-family permits increased 19.0 percent in Alamosa County. Meanwhile, the value of nonresidential construction jumped in the region due to construction projects at Adams State College.

Consumer spending, as measured by retail trade sales, fell 3.3 percent through September 2009 compared with the first nine months of 2008. This is substantially better than what is being experienced in the rest of the state.

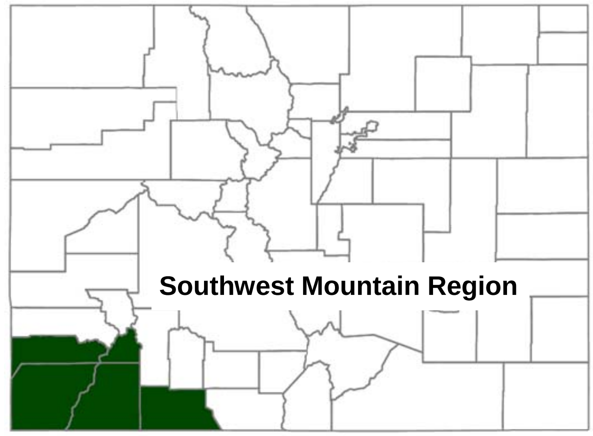
Recent Economic News

- Alamosa County commissioners approved breaking ground on a solar project for SunPower Corporation near Mosca. This project is expected to generate about 17 megawatts, or enough energy to power 6,700 homes. According to the company, the project will also provide about 50 jobs during the construction phase.

- Iberdrola Renewables is planning a solar project in the Mosca area of the region. The 30-megawatt facility would be built in two phases. Construction is anticipated next summer and the company expects to employ about 100 people during this phase.

- The U.S. Mint announced that Colorado's Great Sand Dunes, located near Alamosa, will be featured in a new series of quarters honoring 56 American locations.

Southwest Mountain Region



The economy of the five-county southwest mountain region has slowed considerably in the third quarter of 2009 from the same time last year. While the unemployment rate showed some improvement in LaPlata County, Dolores County had the highest unemployment rate in the state. Overall, employment for the five-county region also declined 4.2 percent through October. In addition, permits for residential construction decreased substantially in the region as did consumer spending as measured by retail trade. In one positive indicator for the region, the value of nonresidential construction increased significantly due to some major construction projects. Table 25 shows the indicators for the region.

The unemployment rate was 5.5 percent in October, up from an average of 4.3 percent in 2008. As the most populated county in the region, La Plata County's job market appears to be doing better than in the rest of the state, as the county's unemployment rate was 4.6 percent through October. However, Dolores county continues to have the highest unemployment rate in Colorado at 13.5 percent. This county has been impacted by a downturn in the mining industry and lower spending on tourism in the region.

Table 25
Southwest Mountain Region Economic Indicators

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

	2007	2008	2009 YTD thru October
Employment Growth /1	2.3%	-2.3%	-4.2%
Unemployment Rate /1 (2009 figure is for October)	3.3%	4.3%	5.5%
Housing Permit Growth /2			
La Plata County	-25.7%	-43.1%	-24.6%
Single-Family Permit Growth	-28.7%	-40.3%	-25.1%
Growth in Value of Nonresidential Const. /3			
La Plata County	907.3%	-83.8%	103.2%
Retail Trade Sales Growth /4	5.7%	-1.0%	-15.9%

NA = Not Available.

1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 employment data are from the LAUS (household) survey. Unemployment data are from the LAUS survey for all years reported.

2/ Data through 2007 are from the U.S. Census Bureau. 2008 and 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.

3/ F.W. Dodge.

4/ Colorado Department of Revenue. Data through September.

Permits for residential construction in La Plata County decreased 24.6 percent through October, while permits for single-family units decreased by 25.1 percent. Home values are also declining. According to the Durango Area Association of Realtors, the median price for homes in La Plata County was down 18 percent from July to September. Homes sold for a median price of about $300,000 during that period, which is a decrease from $367,800 for the same period last year.

In contrast, nonresidential construction in La Plata County posted a robust increase of over 100 percent through October from the same period last year. This increase can be attributed to contracts for education, science, and amusement projects. The primary project causing this increase is construction on the Student Union Building at Fort Lewis College in Durango. This $27 million project includes a 67,000 square-foot renovation and a 48,000 square-foot addition to the building. In addition, a multi-use building is being constructed on the Southern Ute Reservation that is about 19,000 square feet and has a value of between $7 and $8 million.

Consumer spending in the region, as measured by retail trade sales, has fallen as precipitously as in the rest of the state. Retail trade was down 15.9 percent through September compared with the first nine months of 2008. Durango saw sales tax receipts decline 10.2 percent in July and 6.1 percent overall from the beginning of the year. Lodgers-tax receipts, an indicator of hotel stays, also decreased 9.5 percent in Durango through July.

Recent Economic News

- Frontier Airlines announced in September that it is expanding its service to Denver by adding a 6:25 am Durango to Denver flight and 7:30 p.m. Denver to Durango flight.

- Ska Brewing, a Durango-based brewing company, reported a rapid increase in its sales in 2009. Sales year-to-date jumped 267 percent. According to company officials, the demand for canning of beer is growing throughout the country.

- The city of Durango announced that it was eliminating 24 positions, representing 10 percent of the city's workforce. Twelve of the positions were staffed and the remaining 12 were left open after employees voluntarily left their jobs. According to city officials, the cuts are being made in response to months of declining revenue and will save $1.25 million in the 2010 budget.

- Steamworks Brewing Co. is phasing out its Bayfield plant, where about 66 percent of its production takes place. The company has laid off 3 of 8 brewery employees.

Western Region

Portions of the western region are currently among the hardest hit areas of Colorado. The natural gas industry, which buoyed the western region's economy through the turmoil that roiled the rest of the state's economy in the fall of 2008, has since experienced a slump of its own. After falling quickly in late 2008 and 2009, natural gas prices remained low through most of this year and total rig counts in Colorado are down substantially from last year's levels. Job losses have begun to mount — especially in natural gas intensive counties — the unemployment rate has increased, construction activity is down, and consumer spending has decreased throughout the year. Table 26 shows economic indicators for the region.

Table 26

Western Region Economic Indicators

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

	2007	2008	2009 YTD thru October
Employment Growth /1			
Western Region	6.1%	0.7%	-1.9%
Mesa County	6.1%	4.6%	-1.4%
Unemployment Rate /1 (2009 figure is for October)	3.1%	3.9%	6.8%
Housing Permit Growth			
Mesa County /2	-13.2%	-42.6%	-53.9%
Single-Family Permit Growth	-8.1%	-47.2%	-47.7%
Montrose County /3	-33.2%	-58.6%	-61.1%
Single-Family Permit Growth	-28.8%	-61.8%	-39.5%
Growth in Value of Nonresidential Const. /3			
Mesa County	213.6%	-54.2%	-36.3%
Montrose County	-34.6%	-85.2%	-87.4%
Retail Trade Sales Growth /4	11.8%	1.0%	-20.6%

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.

4/ Colorado Department of Revenue. Data through September.

Nonfarm employment growth decreased in the Western region by 1.9 percent through October of this year. The rate of job losses accelerated in Mesa County, as employment declined 1.4 percent from the same period last year after posting a positive increase earlier this year. Employment in the western region decreased the most in San Miguel and Rio Blanco counties over the last 12 months, with decreases of 6.7 and 6.5, respectively.

Unemployment in the region was at 6.8 percent in October, which is nearly double the rate experienced in October 2008. Hinsdale reported the lowest unemployment rate at 2.8 percent, while Mesa and Montrose counties reported the highest unemployment rates in the region at 8.0 and 7.2 percent, respectively.

Mesa and Garfield counties, in particular, have been significantly affected by the decline in the natural gas industry. During the first week of December, a total of 34 rigs were operating in Colorado, down from 109 rigs at the same time last year. In Garfield County, natural gas rig counts decreased to 11 during that period, down 45 from the same time last year. In Mesa County, not a single natural gas rig was operating during that period, down from 9 that were operating at that time last year.

Consumer spending in the region, as measured by retail trade, decreased precipitously, with an overall drop of 20.6 percent through September compared with the first 9 months of 2008. Retail sales fell the furthest in Rio Blanco, Garfield, and Mesa counties, posting a 30.1, 29.0, and 20.0 percent decrease in sales, respectively. These decreases in retail spending are among the most significant declines in the state. Only one county in the region, Moffat, showed an increase in retail trade of 4.2 percent.

Further evidence from news reports also illustrates the deep impact of declining consumer spending on local sales, with many communities experiencing large drops in their sales tax revenue from a year ago. Sales and use tax revenue in Grand Junction plunged nearly 26 percent in July and August. Total combined receipts for these two months totaled $3.5 million, nearly $1.3 million less than the same time last year. As a result, the city has trimmed its budget by about $7.5 million, instituted a hiring freeze, and reduced salaries for the first time in 30 years.

Residential construction is also down significantly. Permits for single-family home construction in Mesa County declined 47.7 percent through October compared with the first 10 months of 2008, while permits in Montrose County declined 39.5 percent.

Further evidence of the deteriorating housing market can also be illustrated in the number of foreclosures in the region. According to the October 2009 foreclosure report by the Colorado Department of Local Affairs, Mesa County reported the largest increase in foreclosures in October 2009 of any county in Colorado. The department reported 165 filings for foreclosure in this county, up from 44 in October 2008.

The value of nonresidential construction fell in both Mesa and Montrose counties, declining 36.3 and 87.4 percent, respectively. The decline in Mesa county is due to the completion of construction on the hospital facility in Grand Junction. Likewise, the decline in Montrose County is due to the completion of construction of amusement and commercial projects in 2008.

Recent Economic News

- Construction of a new $22.8 million wastewater treatment plan began in November in Fruita. The new plant will have the ability to treat 2.33 million gallons of wastewater daily and will employ 20 to 50 people during its construction.

- Governor Ritter has proposed a new Colorado National Guard Armory near the Western Slope Veterans Cemetery in his state budget proposal. The National Guard is already recruiting for 130 jobs expected at the facility.

- The U.S. Census Bureau opened an office in Grand Junction in early December. The agency will hire workers to help with next year's census. About 800 to 1,000 workers from 20 western counties will be needed.

- Cabela's Inc., an outdoor activities store, announced in October it would build a 75,000 square-foot store in Grand Junction. The project is expected to be complete in summer 2010.

- Hooters restaurant opened a new location in Grand Junction in November. The store expects to hire 50 servers.

Mountain Region

The mountain region's economy continues to suffer and may lag other regions in terms of a gradual recovery. The region is still experiencing job losses and unemployment levels remain relatively high, even during months that have traditionally offered seasonal employment opportunities. The construction sector, both residential and commercial, is seeing permits plummet in the four counties where the primary resort communities are located. Commercial development is not fairing any better. Retail sales have dropped substantially, especially in the sectors supporting the tourism and ski industries. Table 27 shows major economic indicators for the region through October 2009.

Table 27
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller counties

	2007	2008	2009 YTD thru October
Employment Growth /1	2.4%	-1.5%	-3.1%
Unemployment Rate /1	3.6%	4.0%	6.4%
(2009 figure is for October)			
Housing Permit Growth			
Eagle, Pitkin, & Summit Counties /2	-20.5%	-42.0%	-60.6%
Single-Family Permit Growth	-19.4%	-46.4%	-55.3%
Routt County /3	40.0%	-38.0%	-75.5%
Single-Family Permit Growth	-11.4%	-38.0%	-58.4%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	24.6%	-15.6%	-79.8%
Routt County	83.1%	-58.7%	-86.1%
Retail Trade Sales Growth /4	9.6%	-1.4%	-18.0%

1/ Colorado Department of Labor and Employment. 2007 employment data are from the QCEW program. 2008 and 2009 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. For 2009, F.W. Dodge data is used.

4/ Colorado Department of Revenue. Data through September.

The region continues to shed jobs despite upcoming hiring for the ski industry and the recent expansion of limited gaming. Nonfarm employment decreased 3.1 percent through October 2009 after falling 1.5 percent in 2008. Only Jackson County experienced slow employment growth at 1.2 percent. All other counties in the region saw job losses. The sharpest employment declines occurred in Summit County (-4.2 percent), Routt County (-3.9 percent), and Clear Creek County (-3.8 percent). Even with expanded limited gaming in the region, employment growth in Teller County declined 3.7 percent.

The regional unemployment rate increased from an average of 4.0 percent in 2008 to 6.4 percent in October. This was up slightly from a rate of 6.0 percent in August and September. Counties with the highest unemployment rates in October include Lake (7.7 percent), Pitkin (7.3 percent), Eagle (6.8 percent), Summit (6.7 percent), and Teller (6.3 percent). In Pitkin County, the Aspen Skiing Company reported that it had 200 fewer seasonal positions to fill and twice the applicants as usual to choose from. The company typically fills 1,000 seasonal positions from chairlift operators to snowmakers and restaurant workers. This year, 800 positions needed to be filled. In contrast, Jackson County's unemployment rate fell well below the regional average at 3.4 percent.

The region's housing sector is seeing a significant slowdown, reflecting the decreased demand for second homes as a result of the recession. Housing permits were down 60.6 percent through October in the ski counties of Eagle, Pitkin, and Summit, while permits fell 75.5 percent in Routt County. The commercial building picture is similar. The value of permits granted for nonresidential construction decreased 79.8 percent in Eagle, Pitkin, and Summit counties and 86.1 percent in Routt County during the same period.

The decline in consumer spending, as measured by retail trade sales, has accelerated. Consumer spending dropped 18.0 percent through September compared with the same period in 2008. The ski counties account for over 78 percent of the region's retail sales. Sales dropped 18.6 percent in Eagle County, 21.7 percent in Pitkin County, 17.4 percent in Routt County, and 16.4 percent in Summit County.

Tourism spending is also down. Many ski towns are experiencing declines in lodging tax revenue as fewer visitors are spending money on overnight stays. Aspen reported that lodging tax collections were down 38 percent in August. Vail Resorts Inc. reported a 52 percent drop in fiscal year 2009 income as the weak economy is taking its toll on one of the region's main economic drivers.

Recent Economic News

A number of ski towns and counties are experiencing declines in sales tax collections due to a weak tourism economy and the dismal real estate and home-building industry. City planners and county commissioners are having to cut dollars from their 2010 general fund budgets that is resulting in layoffs, furloughs, reduced benefits, and program cuts. Ski towns and counties took the following actions:

- Basalt laid off two employees of their 31 member-staff after sales tax collections fell 22.3 percent in September compared to the prior year;

- Carbondale will lay off five employees while instituting furloughs and a wage and hiring freeze for other employees. The town saw a 25 percent decrease in revenue in 2009 along with other towns in the Roaring Fork Valley.

- Snowmass Village laid off six employees to offset revenue losses from weaker tourism dollars and less consumer spending.

- Aspen laid off 12 employees due to declining sales tax revenue through 2009. At the start of the year, there were 280 full-time positions of which to date, 36 were eliminated.

- Pitkin County laid off four employees in response to a weak tourism economy.

- Eagle County may eliminate 30 full-time positions in 2010 and spend less on a number of programs to respond to lower sales tax revenue.

Northern Region

The economy of the Northern region continues to be affected by the recession plaguing the rest of the state. Economic indicators show that retail trade decreased, residential construction is down, and commercial construction is mixed. Table 28 shows major economic indicators for the northern region.

Table 28
Northern Region Economic Indicators
Weld and Larimer counties

	2007	2008	2009 YTD thru October
Employment Growth /1			
Larimer County	2.1%	1.0%	-2.2%
Weld County	2.9%	1.4%	-3.1%
Unemployment Rate /1			
Larimer County	3.4%	4.3%	5.5%
Weld County	4.2%	5.3%	7.4%
(2009 figure is for October)			
State Cattle and Calf Inventory Growth /2	-4.0%	1.9%	10.3%
Housing Permit Growth /3			
Larimer County	-41.3%	-1.0%	-69.6%
Single-Family Permit Growth /3	-22.2%	-36.4%	-53.3%
Weld County	-38.6%	-46.8%	-26.3%
Single-Family Permit Growth /3	-40.5%	-45.1%	-20.7%
Growth in Value of Nonresidential Const. /4			
Larimer County	8.8%	-18.2%	-35.5%
Weld County	19.5%	24.3%	81.2%
Retail Trade Sales Growth /5			
Larimer County	6.5%	-0.9%	-11.6%
Weld County	7.6%	2.1%	-17.0%

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.

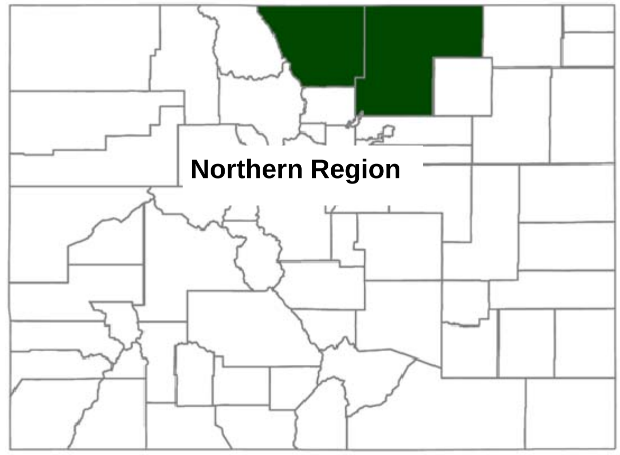
2/ Colorado Agricultural Statistics Service. Compares cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger as of July 1, 2009 to the prior year period.

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

4/ F.W. Dodge.

5/ Colorado Department of Revenue. Data through September.

Nonfarm employment decreased 2.2 percent in Larimer County and 3.1 percent in Weld County in October compared with the same period last year. Employment levels in both counties are faring better than the rest of the state.



The manufacturing and mining, logging, and construction sectors posted the sharpest reductions in employment while the education, health services and government sectors posted slight increases. Unemployment in both counties also increased, with Larimer and Weld counties showing a 5.5 and 7.4 percent unemployment rate, respectively.

Consumer spending, as measured by retail trade, continued to decrease through September. In Larimer County, retail sales dropped 11.6 percent, while Weld County saw a drop of 17.0 percent through September compared with the same period last year. The pullback in consumer spending is also having an impact on revenue to the region's local governments. The city of Fort Collins reported a 4.2 percent, or $2 million, decrease in sales taxes compared with the same period last year.

The agricultural sector has been one bright spot in the region. Cattle and calf inventory increased 10.3 percent statewide through October. Larmier and Weld counties have significant populations of cattle in Colorado.

Residential housing permits decreased dramatically, showing 69.6 and 26.3 percent declines in Larimer and Weld counties, respectively. For both counties, multi-family permits declined more severely than for single-family permits.

Regional growth in the value of nonresidential construction was mixed. The value of nonresidential construction declined 35.5 percent in Larimer County through July of this year, whereas construction in Weld County was up sharply at 81.2 percent due to construction for manufacturing projects in the renewable energy sector.

Recent Economic News

- Construction is underway on a new commercial development known as the Plaza at Pavilion Lane in Fort Collins. The project includes an 84-room Candlewood Suites Hotel and a restaurant. Completion of the $15 million development is expected in late 2010.

- Bach Composite Industry, a Denmark-based company, will open a plant in Fort Lupton to manufacture materials for wind-turbine builders. According to Colorado officials, the company will eventually employ 100 to 150 people and will be located in the former Colorado Railcar Manufacturing plant.

- Center Partners, a Fort Collins company, will have hired 700 new full-time employees between August and the end of the year. Center Partners provides efficiency and management consulting services to businesses.

- Sprouts Family Markets received a permit to transform a former Circuit City building into a natural foods grocery store. Officials expect the store to open in April and employ about 60 people.

- A new Perkins Restaurant & Bakery is expected to be constructed in Loveland by May, bringing with it about 100 jobs to the community.

- Loveland Commercial LLC broke ground on a shopping plaza in Fort Collins. The $40 million marketplace will include a 123,000 square-foot King Soopers store and is expected to provide 300 jobs.

- Three divisions of Agrium Inc., a Canadian-based agriculture company, are moving to Loveland. The first division, Agrium Advanced Technologies, moved some of its corporate functions in August and will move the remaining functions in the spring of 2010. Once the move is complete, the division will staff about 65 people and could grow to 85. The average annual salary, according to the company, is about $80,000.

- Nordy's Bar-B-Que in Loveland will expand to open a restaurant in Fort Collins, creating about 80 full-and part-time jobs.

- A new solar facility in Fort Collins began operations in October. The facility, owned by Advanced Energy Industries Inc., will allow the company to triple its production capacity.

- After a private investment failed to materialize, Colorado vNet in Loveland closed its doors, laying off about 90 employees.

- About 60 employees of Kodak Colorado were laid off from the Windsor-based plant in the fall. The company earlier announced it would lay-off 300 employees in two Windsor divisions by the end of the year.

- The Harvest and Hobnobber Tavern in Greeley closed its doors in November, laying off 70 people.

- The last print edition of the *Berthoud Recorder* was published in November. Four employees were laid off.

- Kendall's Printing Company in Greeley closed, laying off 34 employees.

Eastern Region

The eastern plains economy remains sluggish as it grapples with a recession that appears to have bottomed out. Although employment, retail sales, and agricultural prices are down, there are some signs of economic activity on the horizon. Crop production is mixed, and the state cattle and calf inventory level is growing. Table 29 shows major economic indicators for the region through October 2009.

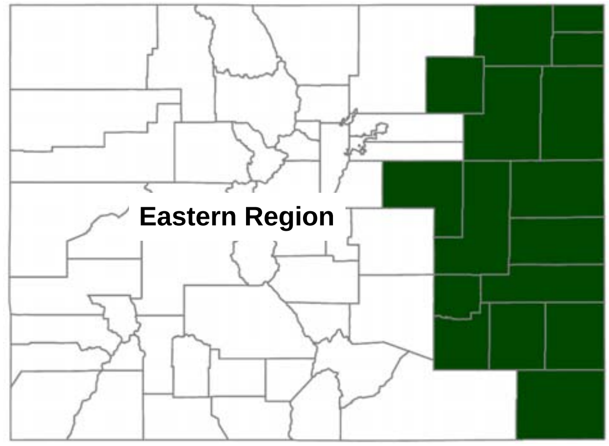


Table 29
Eastern Region Economic Indicators

Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2007	2008	2009 YTD thru October
Employment Growth /1	0.5%	-4.8%	-3.0%
Unemployment Rate /1 (2009 figure is for October)	3.5%	4.3%	4.5%
Crop Price Changes /2			
Wheat	110.8%	8.2%	-28.9%
Corn	26.9%	-0.3%	-12.2%
Alfalfa Hay (baled)	0.0%	18.0%	-18.2%
Dry Beans	57.1%	21.5%	-18.9%
State Crop Production Growth /2			
Sorghum production	86.4%	-18.9%	-26.7%
Corn	17.4%	-0.3%	-6.9%
Winter Wheat	135.6%	-37.8%	71.9%
Sugar Beets	-17.0%	-0.9%	28.0%
State Cattle and Calf Inventory Growth /2	-4.0%	1.9%	10.3%
Retail Trade Sales Growth /3	6.0%	6.0%	-16.3%

NA = Not Available.

1/ Colorado Department of Labor and Employment. 2007 employment data are from the QCEW program. 2008 and 2009 employment data are from the LAUS (household) survey. Unemployment data are from the LAUS survey for all years reported.

2/ Colorado Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares October 1, 2009 to October 1, 2008. State Crop Production is estimated for the 2009 crop over the 2008 production level

3/ Colorado Department of Revenue. Data through September.

In the first 10 months of the year, total employment in the region declined 3.0 percent, which was better than the 3.8 percent statewide average. The region's unemployment rate remained unchanged in October over the prior month at 4.5 percent, leaving the region with the state's lowest unemployment rate. An increase in seasonal agricultural jobs accounted for the low unemployment rate. Of the 16 counties in the region, three posted employment gains. Employment grew 3.6 percent in Kiowa County, 2.1 percent in Bent County, and 0.7 percent in Baca County. For the counties in the region that reported job losses through October, employment declines ranged from 6.2 percent in Sedgwick County to 0.9 percent in Yuma County.

The state's crop production appears to be better than last year's because of the rainy weather that occurred this spring and summer. Winter wheat production is expected to increase 71.9 percent this year. Similarly, sugar beet production will grow 28.0 percent. The market for sugar beets is growing and farmers in the region are experiencing a good fall harvest. Many countries around the world have become importers of sugar from the United States, boosting profits for many regional farmers. According to the Western Sugar Cooperative, about 39,700 acres of sugar beets were harvested this year in Colorado, up 25 percent from last year. The cooperative also reports that Colorado farmers are projected to receive final payouts projected at $3.2 million, up 100 percent from 2008.

Although favorable weather conditions have helped boost crop production in the state, prices for grains and crops have continued to slide with the recession. In October, prices for wheat and corn fell 28.9 percent and 12.2 percent, respectively, compared with the same month last year. Likewise, prices for alfalfa hay and dry beans fell 18.2 and 18.9 percent, respectively. On a positive note, the state cattle and calf inventory increased 10.3 percent, surpassing growth in 2008.

After seeing healthy consumer spending in 2008, consumer spending, as measured by growth in retail trade sales, plummeted 15.8 percent through September. Some of the largest declines were likely triggered by the recession and falling crop prices. As an example, retail trade sales fell 45.5 percent in Kit Carson County, 36.7 percent in Washington County, and 35.3 percent in Lincoln County.

Recent Economic News

- E2Logicx Solar, a San Bernardino, California-based company, will build a new solar power equipment manufacturing plant in Brush. The $20 million plant is expected to be completed by July 2010 and will create about 250 jobs during the construction phase. Over the next five years, the plant will create about 130 new permanent jobs.

- BEM Industries, Inc., an agricultural machinery manufacturer, will build its headquarters in Morgan County. The company will hire 15 workers in the first year with average salaries of $30,000. The company manufacturers agricultural machinery such as manure spreaders and conveyors.

- A new motel called the Fort Morgan Clarion Inn will open in December and have up to 100 new rooms. The motel project's completion was delayed last year when bank financing was delayed and construction was put on hold.

- Wolf Auto Center will re-open in Morgan County after it was shuttered for several months. Local demand for auto sales triggered the reopening.

- The Crown House Hallmark Store in Sterling closed its doors after 31 years of operation.

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	$7,085.2	$7,414.7	$7,838.5	$8,332.4	$8,793.5	$9,353.5	$9,951.5	$10,286.2	$10,642.3	$11,142.1	$11,867.8	$12,638.4	$13,398.9	$14,077.6	$14,441.4
percent change	6.3%	4.7%	5.7%	6.3%	5.5%	6.4%	6.4%	3.4%	3.5%	4.7%	6.5%	6.5%	6.0%	5.1%	2.6%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$8,870.7	$9,093.7	$9,433.9	$9,854.3	$10,283.5	$10,779.8	$11,226.0	$11,347.2	$11,553.0	$11,840.7	$12,263.8	$12,638.4	$12,976.2	$13,254.1	$13,312.2
percent change	4.1%	2.5%	3.7%	4.5%	4.4%	4.8%	4.1%	1.1%	1.8%	2.5%	3.6%	3.1%	2.7%	2.1%	0.4%
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%	2.9%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	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	$5,866.8	$6,194.2	$6,584.4	$6,994.4	$7,519.3	$7,906.1	$8,554.9	$8,878.8	$9,054.8	$9,369.1	$9,928.8	$10,476.7	$11,256.5	$11,879.8	$12,225.6
percent change	5.4%	5.6%	6.3%	6.2%	7.5%	5.1%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.4%	5.5%	2.9%
Wage and Salary Income	$3,225.7	$3,413.8	$3,612.2	$3,872.4	$4,177.5	$4,456.8	$4,823.7	$4,948.4	$4,993.2	$5,133.7	$5,419.6	$5,694.8	$6,060.3	$6,400.7	$6,538.0
percent change	4.8%	5.8%	5.8%	7.2%	7.9%	6.7%	8.2%	2.6%	0.9%	2.8%	5.6%	5.1%	6.4%	5.6%	2.1%
Nonfarm 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	137.0
percent change	3.1%	2.6%	2.0%	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	-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)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nonagricultural Employment (thous.)	$1,755.9	$1,834.7	$1,900.9	$1,980.1	$2,057.5	$2,132.6	$2,213.6	$2,226.9	$2,184.1	$2,152.9	$2,179.7	$2,226.0	$2,279.1	$2,331.4	$2,350.0
percent change	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 (%)	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	$86,537	$94,039	$101,777	$110,110	$120,100	$130,663	$147,056	$156,469	$157,753	$159,919	$168,588	$179,698	$194,393	$205,548	$212,320
percent change	8.1%	8.7%	8.2%	8.2%	9.1%	8.8%	12.5%	6.4%	0.8%	1.4%	5.4%	6.6%	8.2%	5.7%	3.3%
Per Capita Income	$23,237	$24,575	$25,964	$27,402	$29,174	$30,919	$33,979	$35,305	$35,032	$35,160	$36,649	$38,539	$40,912	$42,444	$42,985
percent change	4.9%	5.8%	5.7%	5.5%	6.5%	6.0%	9.9%	3.9%	-0.8%	0.4%	4.2%	5.2%	6.2%	3.7%	1.3%
Wage and Salary Income	$49,272	$53,162	$57,442	$62,754	$69,862	$76,643	$86,416	$89,109	$88,106	$89,284	$93,619	$98,902	$105,833	$112,604	$116,645
percent change	7.2%	7.9%	8.1%	9.2%	11.3%	9.7%	12.8%	3.1%	-1.1%	1.3%	4.9%	5.6%	7.0%	6.4%	3.6%
Retail Trade Sales	$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	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	$37,229	$38,622	$41,135	$43,053	$51,156	$49,313	$54,596	$55,007	$47,871	$39,569	$46,499	$45,891	$38,343	$29,454	$18,998
percent change	24.5%	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-13.0%	-17.3%	17.5%	-1.3%	-16.4%	-23.2%	-35.5%
Nonresidential Construction	$1,581	$1,841	$2,367	$2,990	$2,618	$3,537	$3,308	$3,404	$2,678	$2,399	$3,099	$4,034	$3,862	$4,637	$3,717
percent change	0.2%	16.4%	28.6%	26.3%	-12.4%	35.1%	-6.5%	2.9%	-21.3%	-10.4%	29.2%	30.2%	-4.3%	20.1%	-19.8%
Denver-Boulder Inflation Rate	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)	$3,724.2	$3,826.7	$3,920.0	$4,018.3	$4,116.6	$4,226.0	$4,338.8	$4,457.6	$4,531.5	$4,596.4	$4,664.0	$4,731.7	$4,827.3	$4,919.8	$5,018.2
percent change	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.