Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff
Economics Section

March 19, 2010

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Photograph taken in Rocky Mountain National Park, July 2009
Courtesy of Simon Maghakyan, Legislative Council Staff

Highlights

- Colorado's economy is slowly recovering from the "Great Recession." The state's educated workforce and favorable industry mix positions the state to be a leader as business investment recovers. However, weak real estate markets, high debt levels, bank failures, and tight credit conditions will constrain economic growth over the next few years.

- The FY 2009-10 General Fund budget is in balance. The forecast for FY 2009-10 General Fund revenue increased $229.9 million relative to December's forecast.

- Revenue available for spending in the General Fund will be $110.1 million higher in FY 2010-11 than the current FY 2009-10 budget. However, a General Fund shortfall will exist in FY 2010-11. Many of FY 2009-10's budget measures are one-time in nature. In addition, budget estimates in this report do not incorporate cost increases due to rising caseloads and inflation and a drop off in budgetary support from federal stimulus funds.

- A General Fund shortfall will exist in FY 2011-12.

- The Referendum C Cap will equal $10.7 billion in FY 2010-11, and revenue subject to TABOR will be $1.3 billion below the cap.

- After decreasing 71.3 percent to $96.6 million in FY 2009-10 due to lower energy prices and sizable tax credits, severance tax revenue will improve in FY 2010-11.

- The Unemployment Insurance Trust Fund is in deficit and the state is borrowing money from the Federal Trust Fund to meet benefit payments. It will remain in deficit through at least the end of the forecast period.

EXECUTIVE SUMMARY

This report presents the current budget outlook based on the March 2010 economic, General Fund revenue, and cash fund revenue forecasts. Table 1 presents the General Fund overview based on current law. Table 2 presents the General Fund overview based on the full package of budget balancing bills, three of which — House Bills 10-1320, 10-1327, and 10-1339 — are still under deliberation by the state legislature.

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 $35.1 million above the amount budgeted for expenditure in **FY 2009-10**. As shown in Table 2 *(line 15)*, this amount increases to $147.7 million assuming the full package of budget balancing bills is incorporated. Table 3 lists legislation included in the assumptions for Table 1. Table 4 lists legislation included in the assumptions for Table 2.

Under current law, revenue available for spending in the General Fund is $110.1 million higher in **FY 2010-11** than the amount currently budgeted for General Fund appropriations in FY 2009-10. This figure is shown in line 15 of Table 1. As shown in Table 2, this figure increases to $262.2 million after the full package of budget balancing bills is incorporated.

These figures, however, do not accurately portray the budget situation for FY 2010-11 for two reasons. **First,** they assume that all of the negative supplemental appropriations in FY 2009-10 are permanent reductions in General Fund appropriations. Line 14 of each table shows that a General Fund shortfall will exist in FY 2010-11 if all the FY 2009-10 supplemental appropriations are one-time in nature. The shortfall is estimated at $320.6 million assuming current law and $212.2 million assuming the full budget balancing package is adopted. Because most of the budget measures are one-time in nature, the actual budget situation in FY 2010-11 will be somewhere between the surplus and shortfall estimates displayed in the two tables. If, for example, $55 million of this year's supplemental appropriations were permanent in nature, a General Fund shortfall of about $190 million would exist in FY 2010-11, assuming the full package of supplemental bills.

Second, FY 2010-11 figures do not incorporate expenditure pressures resulting from rising caseloads and inflation, constitutional requirements, or reductions in federal stimulus dollars. The General Fund shortfall will increase to the extent these factors increase pressures for additional spending. For example, the expected reduction in federal stimulus funding to the Departments of Corrections and Higher Education will cause a budget cliff of $382 million in FY 2010-11. This cliff is not incorporated into Tables 1 and 2.

A General Fund shortfall exists in **FY 2011-12.** Under current law, the General Fund budget shortfall will range from between $148.7 million and $579.4 million, depending on the extent to which FY 2009-10's supplemental appropriations are permanent or one-time in nature. Similarly,

Table 1
March 2010 General Fund Overview, Current Law
(Dollars in Millions)

		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
FUNDS AVAILABLE		**Actual**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$327.0	$443.3	$176.0	$285.5
2	General Fund Nonexempt Revenue	6,742.7	6,729.7	6,690.3	6,852.7
3	General Fund Exempt Revenue (Referendum C)	0.0	0.0	428.8	336.4
4	Transfers to Other Funds	(4.4)	(458.1)	0.0	0.0
5	Transfers from Other Funds	815.2	286.2	8.2	0.2
6	Sales Taxes to Older Coloradans Fund and OASMCF	(8.8)	(10.9)	(10.9)	(10.9)
7	**Total Funds Available**	**$7,871.7**	**$6,990.3**	**$7,292.3**	**$7,463.9**
8	Percent Change	-1.8%	-11.2%	4.3%	2.4%
OPERATING APPROPRIATIONS		**Budgeted**	**Budgeted**	**Estimate /A**	**Estimate/ A**
9	General Fund Appropriations	7,410.7	7,456.5		
10	Supplemental and Special Bill Appropriations	(23.8)	(430.7)	*Not Estimated*	
11	*Total Operating Appropriations Contained in Current Law*	*7,386.9*	*7,025.8*		
12	**Revenue Available for Expenditures**		**$7,060.9**	**$7,135.9**	**$6,877.1**
13	Percent Change		-4.4%	1.1%	-3.6%
	Revenue Above (Below) the FY 2009-10 Budget:				
14	*Relative to Long Bill Appropriations (line 9)*			*(320.6)*	*(579.4)*
15	*Relative to Appropriations Contained in Current Law (line 11)*		*35.1*	*110.1*	*(148.7)*
OTHER OBLIGATIONS		**Actual**	**Estimate**	**Estimate**	**Estimate**
16	Rebates and Expenditures	130.3	146.2	154.4	189.8
17	Federal Medicaid Assistance	(214.1)	(361.0)	(383.0)	0.0
18	Reimbursement for Senior and Disabled Veterans Property Tax Cut	85.6	1.4	93.4	98.3
19	Funds in Prior Year Excess Reserve to HUTF	29.0	NA	NA	NA
20	Capital Construction Transfers	39.4	2.0	6.1	23.6
21	Accounting Adjustments	(28.6)	NE	NE	NE
22	**Total Expenditures**	**$7,428.4**	**$6,814.3**	**$7,006.9**	**$7,188.8**
23	Percent Change	-3.4%	-8.3%	2.8%	2.6%
RESERVE		**Actual**	**Budgeted**	**Estimate /A**	**Estimate/ A**
24	Year-End General Fund Reserve	443.3	176.0	285.5	275.1
25	Statutory Reserve	147.7	140.5	285.4	275.1
26	General Fund Excess Reserve	$295.6	$35.4	$0.0	$0.0
27	Addendum: TABOR Reserve Requirement	273.1	264.7	279.9	286.5
28	Addendum: Arveschoug-Bird Appropriations Limit	7,546.8	10,277.4	10,616.0	10,413.2
29	Addendum: Amount Directed to State Education Fund	339.9	347.1	367.9	374.7

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

/A For FY 2010-11 and FY 2011-12, operating appropriations are assumed to equal the amount of revenue available for expenditure (line 12) after other obligations and the statutory reserve are funded.

Table 2
March 2010 General Fund Overview
Including HB 10-1320, HB 10-1327, and HB 10-1339
(Dollars in Millions)

		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
FUNDS AVAILABLE		**Actual**	**Estimate**	**Estimate**	**Estimate**
1	Beginning Reserve	$327.0	$443.3	$288.7	$289.8
2	General Fund Nonexempt Revenue	6,742.7	6,713.8	6,690.3	6,852.7
3	General Fund Exempt Revenue (Referendum C)	0.0	0.0	428.8	336.4
4	Transfers to Other Funds	(4.4)	(458.1)	0.0	0.0
5	Transfers from Other Funds	815.2	371.1	8.2	0.2
6	Sales Taxes to Older Coloradans Fund and OASMCF	(8.8)	(10.9)	(10.9)	(10.9)
7	**Total Funds Available**	**$7,871.7**	**$7,059.3**	**$7,405.1**	**$7,468.2**
8	Percent Change	-1.8%	-10.3%	4.9%	0.9%
OPERATING APPROPRIATIONS		**Budgeted**	**Budgeted**	**Estimate /A**	**Estimate/ A**
9	General Fund Appropriations	7,410.7	7,456.5		
10	Supplemental and Special Bill Appropriations	(23.8)	(474.4)	*Not Estimated*	
11	*Total Operating Appropriations Contained in Current Law*	*7,386.9*	*6,982.1*		
12	**Revenue Available for Expenditures**		**$7,129.8**	**$7,244.3**	**$6,881.3**
13	Percent Change		-3.5%	1.6%	-5.0%
	Revenue Above (Below) the FY 2009-10 Budget:				
14	*Relative to Long Bill Appropriations (line 9)*			*(212.2)*	*(575.2)*
15	*Relative to Appropriations Contained in Current Law (line 11)*		*147.7*	*262.2*	*(100.8)*
OTHER OBLIGATIONS		**Actual**	**Estimate**	**Estimate**	**Estimate**
16	Rebates and Expenditures	130.3	146.2	154.4	189.8
17	Federal Medicaid Assistance	(214.1)	(361.0)	(383.0)	0.0
18	Reimbursement for Senior and Disabled Veterans Property Tax Cut	85.6	1.4	93.4	98.3
19	Funds in Prior Year Excess Reserve to HUTF	29.0	NA	NA	NA
20	Capital Construction Transfers	39.4	2.0	6.1	23.6
21	Accounting Adjustments	(28.6)	NE	NE	NE
22	**Total Expenditures**	**$7,428.4**	**$6,770.6**	**$7,115.3**	**$7,192.9**
23	Percent Change	-3.4%	-8.9%	5.1%	1.1%
RESERVE		**Actual**	**Budgeted**	**Estimate /A**	**Estimate/ A**
24	Year-End General Fund Reserve	443.3	288.7	289.8	275.3
25	Statutory Reserve	147.7	139.6	289.8	275.3
26	General Fund Excess Reserve	$295.6	$149.0	$0.0	$0.0
27	Addendum: TABOR Reserve Requirement	273.1	264.7	279.9	286.5
28	Addendum: Arveschoug-Bird Appropriations Limit	7,546.8	10,277.4	10,616.0	10,413.2
29	Addendum: Amount Directed to State Education Fund	339.9	347.1	367.9	374.7

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

/A For FY 2010-11 and FY 2011-12, operating appropriations are assumed to equal the amount of revenue available for expenditure (line 12) after other obligations and the statutory reserve are funded.

Table 3
2010 Legislation Included in Forecast Assumptions
For Current Law General Fund Overview (Table 1)
(Millions of Dollars)

Transferring Money into the General Fund:		**2009-10**	**2010-11**	**2011-12**
HB 10-1323	From Tobacco Settlement Programs	2.6	4.0	-
HB 10-1325	From Natural Resource Damage Recovery Fund	0.2	0.2	0.2
Total Cash Fund Transfers		$2.7	$4.2	$0.2
Affecting General Fund Revenue:		**2009-10**	**2010-11**	**2011-12**
HB 10-1189	Repeal Sales Tax Exemption for Direct Mail	0.2	0.8	0.8
HB 10-1190	Repeal Sales Tax Exemption for Industrial Energy Use	7.2	37.6	40.2
HB 10-1191	Repeal Sales Tax Exemption for Candy and Soda	1.4	18.0	18.0
HB 10-1192	Repeal Sales Tax Software Regulation	4.6	23.7	24.1
HB 10-1193	Sales and Use Taxes and Out-of-State Retailers	*	3.9	4.9
HB 10-1194	Repeal Sales Tax Exemption for Food Containers	0.4	2.0	2.0
HB 10-1195	Repeal Sales Tax Exemption for Agricultural Products	0.9	4.6	4.6
HB 10-1196	Modify Alternative Fuel Income Tax Credit		2.7	2.7
HB 10-1199	Modify Income Tax Deduction for Net Operating Loss		8.2	16.5
SB 10-001	PERA - Reduction in Income Taxes	(1.0)	(2.1)	(1.3)
SB 10-146	PERA Contribution Rates - Reduction in Income Taxes		(1.1)	
HB 10-1055	DOR Penalty Fees - Increase in Income Taxes		1.5	3.0
Total Revenue Measures		$13.7	$99.7	$115.5
Affecting General Fund Appropriations:*		**2009-10**	**2010-11**	**2011-12**
HBs 10-1297 *thru 10-1317*	Supplemental Appropriations	(414.7)		
HB 10-1321	Health Care Services Fund	(11.9)		
HB 10-1322	Telemedicine Repeal	(0.2)		
HB 10-1324	Nursing Facilities	(1.9)		
HB 10-1326	State Parks Refinance	(2.1)		
HB 10-1189	Appropriation Required for Sales Tax Exemption Bills	0.1		
Total Changes to Appropriations		($430.7)		
Total Impact Assumed in Table 1: Current Law General Fund Overview		**$447.1**	**$103.9**	**$115.6**

** Indeterminate revenue increase.*

*** Negative supplemental appropriations have a net positive impact on the General Fund Overview.*

Table 4
2010 Legislation Included in Forecast Assumptions
For Supplemental General Fund Overview (Table 2)
(Millions of Dollars)

Current Law Legislation	**2009-10**	**2010-11**	**2011-12**
Total Impact of Current Law Legislation *(See Table 3)*	447.1	103.9	115.6
Transferring Money into the General Fund:			
HB 10-1327 Cash Fund Transfers	84.9		
Affecting General Fund Revenue:			
HB 10-1339 Gaming Revenue Distribution	(15.9)		
Affecting General Fund Appropriations:*			
HB 10-1320 Tobacco Tax Fiscal Emergency	(43.7)		
Total Impact Assumed in Table 2: Supplemental General Fund Overview	**$559.8**	**$103.9**	**$115.6**

** Negative supplemental appropriations have a net positive impact on the General Fund Overview.*

these figures do not incorporate expenditure pressures resulting from rising caseloads and inflation, constitutional requirements, or budget cliffs caused when federal stimulus dollars expire.

Revenue Forecast

The FY 2009-10 forecast for total revenue subject to TABOR was increased $174.6 million, or 2.0 percent, since the December forecast. The forecast for General Fund revenue increased $229.7 million, of which $34.3 million occurred in a revenue source not subject to TABOR. The forecast for cash fund revenue subject to TABOR decreased $20.7 million.

- After decreasing $1.0 billion in FY 2008-09, **General Fund** revenue will remain fairly flat in FY 2009-10, decreasing by $13.0 million, or 0.2 percent. While the economy continues to recover from recession at a sluggish pace consistent with what had been anticipated in December, income and sales taxes to the **General Fund** are coming in at levels slightly higher than expected. Expectations for individual income taxes, corporate income taxes, and sales and use taxes were increased compared with the December forecast by a total of $195.9 million for FY 2009-10. Of this increase, $13.7 million is the result of new legislation expanding the sales and use tax base.

- **Cash fund** revenue subject to TABOR will decrease 9.9 percent in FY 2009-10 to $2.1 billion. The decrease is primarily due to 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 revenue from the hospital provider fee.

- 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 5 presents the history and forecast for revenue retained by Referendum C.

- Figure 1 on page 8 shows TABOR revenue and the Referendum C Cap 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 the enterprise status of the Unemployment Insurance Program and higher education institutions, it is expected that the Referendum C Cap will equal $10.7 billion in FY 2010-11. Revenue subject to TABOR will be $1.3 billion below the cap. Revenue will not be sufficient to produce a **TABOR refund** in FY 2010-11 or FY 2011-12. Table 6 on page 9 shows estimates for TABOR revenue, the TABOR limit/Referendum C Cap, and revenue retained as a result of Referendum C during the three-year forecast horizon.

Table 5
History and Projections of Revenue
Retained by Referendum C

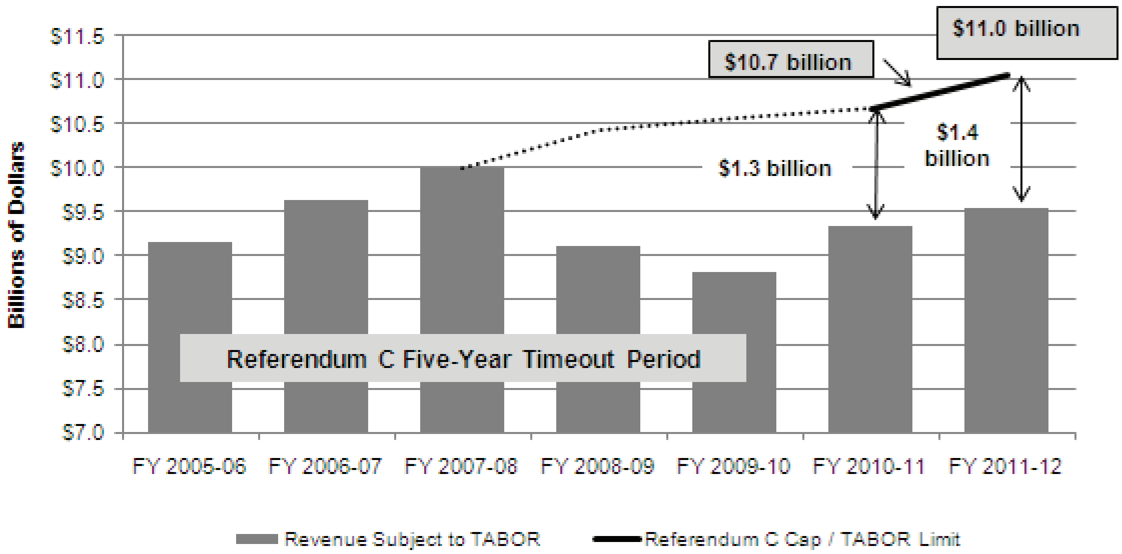
Actual	
2005-06	$1,116.1
2006-07	$1,308.0
2007-08	$1,169.4
2008-09	$0.0
Projections	
2009-10	$0.0
2010-11	$428.8
2011-12	$336.4

National Economy

The national economy continues to expand, but the recovery is fragile. Significant monetary and fiscal stimulus boosted economic activity in the second half of 2009, but the new year brings a mixed picture of growth. The labor market is showing signs of stabilizing after the worst job losses since 1945, but unemployment remains painfully high. The housing market has leveled off from a free fall, but there are sizable hurdles to overcome before the market can be declared in recovery. Still, the economy's natural forces for expansion are emerging. Export growth has been strong, and there are signs of a rebound in business spending on technology.

Recovery from financial crises tends to be slow. It can take many years for individuals and businesses to reduce debt levels, and this process is even more difficult with high unemployment and slow wage growth. Banks have a large volume of problem loans on the books and more than one in four banks were unprofitable at the end of 2009. Not surprisingly, banks are bolstering their balance sheets to help deal with problem loans. Last year, nationwide bank lending experienced the sharpest decline since 1942. Reduced access to credit will slow consumer spending, business investment, and economic growth. For 2010, it will be a year of sluggish growth.

Figure 1
TABOR Revenue and the Referendum C Cap



Colorado Economy

Colorado's economy is slowly recovering from the "Great Recession." Job losses have diminished, and some sectors have begun to add workers, but more employment declines are expected in the coming year. Colorado's economy is poised to be a leader as business investment recovers. The state has a well educated workforce and industries that are likely to lead the nation in this expansion, such as high technology and energy, including oil, natural gas, and newer energy sources. Still, weak real estate markets, high debt levels, and tight credit conditions will constrain investment and hiring. The state has a relatively large share of problem loans and unprofitable banks that will be a drag on the economy, and Colorado may lag the country in this recovery.

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Table 6
March 2010 TABOR Revenue Limit and Retained Revenue
(Dollars in Millions)

		Actual FY 2008-09	Estimate FY 2009-10	Estimate FY 2010-11	Estimate FY 2011-12
	TABOR Revenue:				
1	General Fund /A	$6,729.0	$6,685.6	$7,073.6	$7,141.9
2	Cash Funds	2,373.3	2,138.4	2,257.4	2,408.2
3	**Total TABOR Revenue**	**$9,102.4**	**$8,824.0**	**$9,331.0**	**$9,550.1**
	Revenue Limit				
4	Allowable TABOR Growth Rate	4.1%	5.8%	1.1%	3.5%
5	Inflation (from prior calendar year)	2.2%	3.9%	-0.6%	1.8%
6	Population Growth (from prior calendar year)	1.9%	1.9%	1.7%	1.7%
7	Allowable TABOR Limit Base /B	$9,203.8	$9,174.1	$8,902.2	$9,213.8
8	Voter Approved Revenue Change (Referendum C)	$0.0	$0.0	$428.8	$336.4
9	Total TABOR Limit / Referendum C Cap	NA	NA	$10,672.6	$11,046.1
	Retained/Refunded Revenue				
10	Retained Revenue (General Fund Exempt)	$0.0	$0.0	$428.8	$336.4
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 accounted for in 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.

GENERAL FUND REVENUE

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 7 on page 11 shows 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 12.9 percent, from the prior year. In FY 2009-10, revenue will remain fairly flat, decreasing by $13.0 million, or 0.2 percent.

While the recovery continues to proceed at a sluggish pace, income and sales tax revenue have been materializing at levels slightly higher than was expected in the December forecast. The General Fund revenue forecast for FY 2009-10 was revised up by $229.7 million, or 3.5 percent, compared with the December forecast. Of this increase, $13.7 million is the result of legislation passed during the 2010 legislative session. A list of this legislation can be found in Table 3 on page 5. Most of the increase is a result of increased expectations for corporate and individual income taxes, with a smaller amount the result of increased expectations for sales taxes.

The General Fund revenue forecast for FY 2010-11 was increased $335.4 million, or 4.9 percent, compared with the December revenue forecast. In addition to $99.7 million in revenue attributable to 2010 legislation, expectations for sales, individual income, and corporate income taxes were increased.

As the largest source of General Fund revenue, changes in the amount of **individual income tax** revenue have a considerable impact on the state budget. The sharp economic contraction the state endured was concentrated in the fall of 2008 and winter of 2009. Thus, the brunt of the hit to income tax revenue occurred in FY 2008-09, when revenue fell $640.4 million, or 12.9 percent. However, because the recovery has been weak, individual income tax revenue will remain essentially flat in FY 2009-10 — thus staying at its slumped FY 2008-09 level.

The donations to help the Haiti earthquake relief effort will have an impact on individual income tax revenue in FY 2009-10. Under federal law, individuals are able to deduct donations made between January 12, 2010, and before March 1, 2010, from their 2009 federal taxable income, which will subsequently lower state taxable income. It is estimated that state individual income tax revenue will be reduced by around $650,000 as a result of the tax deductions for donations by Coloradans.

The FY 2009-10 individual income forecast represents an improvement compared with the December forecast, which projected a decline in revenue. The forecast was raised as income taxes withheld from paychecks have exceeded expectations despite high unemployment levels and weak wage growth. Also, the forecast for taxes due when income tax returns are filed was increased.

These increases offset a decrease in expectations in revenue from estimated tax payments. Revenue from estimated payments have not come in as was projected in December despite the stock market's strong rebound since its trough in March of 2009. It is likely that decreased sales from small business owners who make estimated payments is contributing to the weakness. However, revenue from estimated payments is expected to experience relatively strong growth in FY 2010-11 as the

Table 7
March 2010 General Fund Revenue Estimates
(Dollars in Millions)

Category	Actual 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	$1,881.2	-2.6	$2,010.0	6.8	$1,979.2	-1.5
Use	176.7	-7.6	155.8	-11.8	164.4	5.5	170.8	3.9
Cigarette	43.5	-3.9	39.7	-8.5	38.6	-2.8	38.2	-1.0
Tobacco Products	13.2	5.9	13.6	3.1	15.6	15.2	16.1	3.0
Liquor	35.0	-2.0	34.4	-1.7	35.3	2.8	36.0	1.8
TOTAL EXCISE	$2,199.4	-8.8	$2,124.7	-3.4	$2,264.0	6.6	$2,240.3	-1.0
Net Individual Income	$4,333.3	-12.9	$4,335.9	0.1	$4,608.5	6.3	$4,675.8	1.5
Net Corporate Income	292.5	-42.4	329.1	12.5	341.6	3.8	364.7	6.8
TOTAL INCOME TAXES	$4,625.8	-15.6	$4,665.0	0.8	$4,950.1	6.1	$5,040.5	1.8
Less: Portion diverted to the SEF*	-339.9	-16.7	-347.1	2.1	-367.9	6.0	-374.7	1.8
INCOME TAXES TO GENERAL FUND	$4,285.9	-15.5	$4,317.9	0.7	$4,582.2	6.1	$4,665.8	1.8
Insurance	192.4	2.2	193.0	0.3	196.3	1.7	202.3	3.1
Pari-Mutuel	0.5	-83.1	0.4	-9.8	0.4	-3.4	0.4	-3.5
Investment Income	9.4	-47.8	10.5	11.8	10.6	1.5	12.0	12.9
Court Receipts	24.1	-18.6	17.6	-27.1	0.3	-98.5	0.3	4.7
Gaming	2.8	NA	35.4	NA	36.7	NA	38.5	NA
Other Income	28.3	45.0	30.2	6.9	28.6	-5.5	29.6	3.5
TOTAL OTHER	$257.4	-0.2	$287.1	11.5	$272.9	-5.0	$283.0	3.7
GROSS GENERAL FUND	**$6,742.7**	**-12.9**	**$6,729.7**	**-0.2**	**$7,119.0**	**5.8**	**$7,189.1**	**1.0**
REBATES & EXPENDITURES:								
Cigarette Rebate	$12.1	-4.7	$11.6	-3.9	$11.3	-2.8	$11.2	-1.0
Old-Age Pension Fund	102.4	9.8	114.9	12.3	123.4	7.3	132.7	7.5
Aged Property Tax & Heating Credit	5.3	-49.0	8.3	55.7	8.2	-1.0	8.1	-1.0
Interest Payments for School Loans	5.5	-53.6	6.2	11.8	6.3	1.5	7.1	12.9
Fire/Police Pensions	4.0	-89.6	4.3	6.3	4.4	2.7	29.8	577.6
Amendment 35 GF Expenditures	1.0	-0.9	0.9	-4.9	0.9	0.1	0.9	-0.9
TOTAL REBATES & EXPENDITURES	$130.3	-22.5	$146.2	12.2	$154.4	5.6	$189.8	22.9

Totals may not sum due to rounding.
** State Education Fund.*
NA = Not Applicable.

economy continues to recover and investors realize capital gains from the recent rise in stock values. The increase in federal tax rates on capital gains scheduled for 2011 will likely contribute to earlier realization of gains. This is expected to accelerate the realization of some gains from 2011 into 2010.

The increase in estimated tax payments will couple with modest growth from withholding tax revenue as the economy gradually adds jobs again. Individual income tax revenue will increase 6.3 percent in FY 2010-11.

Compared with the December forecast, expectations for **corporate income taxes** were increased $47.6 million for FY 2009-10 and $93.9 million for FY 2010-11. The economy is beginning to show signs of recovery. Larger firms in particular have enjoyed higher profits than were previously expected. In addition, the forecast for corporate income tax revenue was augmented in FY 2010-11 and FY 2011-12 as a result of **House Bill 10-1199**, which modifies the amount of net operating loss businesses can carry forward from previous tax years through 2013.

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 taxes are expected to rebound to $329.1 million, and increase again the following year to $341.6 million, a 16.7 percent increase over the two-year period. Corporate income tax is projected to continue to recover and increase 6.8 percent in FY 2011-12.

The **State Education Fund** receives one-third of one percent of taxable income from state income tax returns. This fund will see a growth pattern in revenue similar to income taxes. After receiving $339.9 million in FY 2008-09, it will receive $347.1 million in FY 2009-10, an increase of 2.1 percent. The fund will increase to $367.9 million in FY 2010-11.

Sales tax revenue rebounded in the second half of 2009, but has been flat in early 2010. Consumer and business confidence drove a pick up in spending in the second half of last year, encouraged by stimulus programs, including government subsidies for car and home purchases. Confidence and spending have moderated in 2010. Although they have rebounded from the low levels seen during the spring of 2009, sales tax receipts in 2010 remain at levels slightly lower than those seen in January and February 2009.

Sales tax collections for FY 2009-10 are tracking roughly in line with the December forecast. Revenue is expected to remain sluggish through the end of this fiscal year because high unemployment, weak personal income and wage growth, and heavy debt levels will continue to restrain confidence and spending. However, revenue will be bolstered by an estimated $14.7 million as a result of the additional tax base provided by **House Bills 10-1189 through 10-1195**. Table 3 on page 5 provides further detail on this legislation.

The forecast for revenue growth in FY 2010-11 was increased slightly compared with December due to mildly stronger estimates for consumer spending and inflation. Also, additional revenue of $86.7 million is expected to be collected in FY 2010-11 from House Bills 10-1189 through 10-1195, pushing up sales tax revenue by a total of 6.8 percent from FY 2008-09.

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 decline in sales tax revenue in FY 2011-12. However, this drop will be mitigated by an additional $89.7 million in collections as a result of House Bills 10-1189 through 10-1195. Sales tax revenue is expected to decrease 1.5 percent in FY 2011-12.

Use tax revenue, which dropped precipitously in the first half of FY 2009-10, has rebounded slightly and collections have been higher than expected. As a consequence, the forecast for FY 2009-10 was increased by $10.6 million. Collections are now expected to drop 11.8 percent from FY 2008-09.

Use tax revenue is expected to increase 5.5 percent in FY 2010-11 and 3.9 percent in FY 2011-12. Improving economic conditions are expected to contribute to modest increases in tax collections. Further, **House Bill 10-1193** is projected to provide $3.9 million in additional use tax revenue in FY 2010-11 and $4.9 million in FY 2011-12.

CASH FUNDS

Table 8 summarizes the forecast for revenue to cash funds subject to TABOR. The largest sources of this revenue are fuel taxes and other transportation-related revenue, unemployment insurance premiums, severance taxes, which are derived from taxes on the mineral extraction industries, gaming revenue, and revenue from the Hospital Provider Fee. This section also presents the forecasts for unemployment insurance and federal mineral leasing revenue, which are not subject to TABOR. Total cash fund TABOR revenue is projected to amount to $2.1 billion in FY 2009-10, which is a drop of 9.9 percent from FY 2008-09. Cash fund revenue will increase 5.6 percent to $2.3 billion in FY 2010-11.

The FY 2009-10 decrease is primarily a result of the sharp decline in severance tax revenue due to the deterioration of natural gas prices when the economy entered its massive downturn in the fall of 2008. TABOR-exempt status of unemployment insurance revenue starting in FY 2009-10 eliminates a large source of cash fund TABOR revenue and is also contributing to the decline. However, some of the decrease in revenue from these sources will be offset by increases in transportation-related revenue from **Senate Bill 09-108** (commonly referred to as FASTER) and the revenue generated from the new Hospital Provider Fee. Cash fund revenue subject to TABOR will increase in FY 2010-11 as growth in most revenue sources will offset the decrease in insurance-related revenue attributable to 2009 legislation that will reduce workers compensation -related premiums.

In the current fiscal year, revenue to the ***transportation-related*** cash funds will see an overall increase of 14.0 percent, or $129.3 million. The increase is largely attributable to Senate Bill 09-108 (FASTER). Forecasts for transportation-related cash funds are shown in Table 9 on page 16.

Overall revenue to the *Highway Users Tax Fund (HUTF)* will grow 17.2 percent in FY 2009-10 and at a modest pace in the years that follow. The trend toward lighter and more fuel efficient vehicles is impacting revenue from both *registration fees* (which are tied to vehicle weight) and *motor fuel excise taxes*. Additionally, the recession and slow pace of recovery has kept vehicle purchases down, dampening registration fee growth. The health of the economy has also limited business and tourism travel and reduced commercial trucking activity, resulting in lower levels of gasoline and special fuel consumption, thereby dampening growth in revenue. The slow economic recovery will contribute to modest revenue growth throughout the forecast period.

Originally projected to bring in revenue in excess of $150 million, *FASTER revenue* to the HUTF will be closer to $138.6 million in FY 2009-10. Lower-than-expected revenue from the daily rental fee and road safety surcharge are being partially offset by higher-than-expected revenue from the late registration fee. TABOR-exempt revenue from the Bridge Safety Surcharge, which will be used to fund the repair and replacement of bridges, is also coming in lower than originally projected (see Addendum to Table 9).

The dip in revenue from *other HUTF receipts* in FY 2009-10 corresponds with an increase in *other transportation revenue*, and

Table 8
Cash Fund Revenue Subject to TABOR Estimates, March 2010
(Dollars in Millions)

	Actual 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	**$922.1**	**$1,051.4**	**$1,061.8**	**$1,072.6**	
% Change	0.2%	14.0%	1.0%	1.0%	**5.2%**
Unemployment Insurance	**$388.2**	**NA**	**NA**	**NA**	
% Change	-9.0%				
Hospital Provider Fee	**NA**	**$295.9**	**$327.5**	**$422.6**	
% Change			10.7%	29.0%	
Severance Tax	**$336.9**	**$96.6**	**$183.0**	**$205.8**	
% Change	98.1%	-71.3%	89.3%	12.5%	**-15.1%**
Limited Gaming Fund	**$98.9**	**$102.7**	**$105.8**	**$109.0**	
% Change	-12.9%	3.9%	3.0%	3.0%	**3.3%**
Insurance-Related	**$51.5**	**$44.0**	**$19.0**	**$19.0**	
% Change	-20.5%	-14.5%	-56.8%	0.0%	**-28.3%**
Regulatory Agencies	**$78.1**	**$65.0**	**$65.1**	**$66.3**	
% Change	37.6%	-16.8%	0.2%	1.8%	**-5.3%**
Capital Construction - Interest /A	**$10.1**	**$2.9**	**$1.5**	**$0.9**	
% Change	-47.8%	-71.1%	-48.6%	-37.2%	**-54.6%**
Other Cash Funds /B	**$487.6**	**$479.8**	**$493.7**	**$512.0**	
% Change	13.1%	-2.4%	3.4%	3.8%	**1.6%**
Total Cash Fund Revenue	**$2,373.3**	**$2,138.4**	**$2,257.4**	**$2,408.2**	
Subject to the TABOR Limit	**7.5%**	**-9.9%**	**5.6%**	**6.7%**	**0.5%**

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 9
Transportation Funds Revenue Forecast by Source, March 2010
(Dollars in Millions)

	Actual 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	$544.8	$553.0	$556.8	1.0%
% Change	-6.5%	0.9%	1.5%	0.7%	
Registrations	$182.0	$184.7	$186.7	$189.0	1.3%
% Change	-1.8%	1.5%	1.1%	1.2%	
FASTER Revenue /A		$138.6	$133.2	$132.6	
% Change			-3.9%	-0.5%	
Other Receipts /B	$52.9	$39.7	$53.0	$53.6	0.4%
% Change	27.8%	-25.0%	33.5%	1.1%	
Total HUTF	**$774.7**	**$907.8**	**$926.0**	**$931.9**	6.4%
% Change	-3.6%	17.2%	2.0%	0.6%	
State Highway Fund	$69.3	$58.2	$61.6	$65.5	-1.9%
% Change	-21.7%	-16.0%	5.8%	6.3%	
Other Transportation Funds /C	$78.1	$85.4	$74.2	$75.2	-1.3%
% Change					
Aviation Fund /C	$32.3	$24.3	$24.8	$25.6	
Law-Enforcement-Related /D	$10.9	$11.6	$12.2	$12.4	
Registration-Related /E	$34.8	$49.5	$37.2	$37.2	
Total Transportation Funds	**$922.1**	**$1,051.4**	**$1,061.8**	**$1,072.6**	5.2%
% Change	-5.2%	14.0%	1.0%	1.0%	

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. Revenue 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 revenue from aviation fuel excise taxes and the 2.9 percent sales tax on the retail cost of jet fuel.

/D Includes revenue from driving under the influence (DUI) and driving while ability impaired (DWAI) fines.

/E Includes revenue from Emergency Medical Services registration fees, emissions registration and inspection fees, motorcycle and motor vehicle license fees, and P.O.S.T. board registration fees.

Addendum: TABOR-Exempt FASTER Revenue

	Actual FY 08-09	Estimate FY 09-10	Estimate FY 10-11	Estimate FY 11-12
Bridge Safety Surcharge		$40.9	$62.0	$82.7

Note: Revenue to the statewide Bridge Enterprise from the bridge safety surcharge is TABOR-exempt and therefore not included in the table above. It is included as an addendum for informational purposes.

reflects the one-year $12.9 million diversion of drivers license fee revenue from the HUTF to the Licensing Services Cash Fund to fund operations at the Division of Motor Vehicles pursuant to **Senate Bill 09-274.**

State Highway Fund revenue will fall 16.0 percent in FY 2009-10 due almost entirely to depressed interest earnings, which are expected to grow very modestly through the forecast period. Earlier this week, Congress passed an extension of the federal transportation funding act, SAFETEA-LU, which will extend federal funding through the end of 2010. Efforts to establish a multi-year transportation funding program continue.

A number of funds that were included in *other cash funds* will be included in *other transportation revenue* beginning with this forecast to better reflect revenue affected by Article X, Section 18 of the Colorado Constitution. Article X, Section 18 requires that all registrations, fees, and fines charged with respect to the operation of a motor vehicle on Colorado's public highways be used for the construction, maintenance, and supervision of the state's highways. Included in other transportation funds are the following: aviation fuel excise tax and aviation fuel sales tax revenue to the *Aviation Fund*; revenue from drunk driving fines (*Law-Enforcement-Related*); and revenue from licensing fees, emissions inspections, and other non-HUTF vehicle registration fees (*Registration -Related*).

Forecasts for ***unemployment insurance*** (UI) revenue, benefits payments, and the UI Trust Fund balance are shown in Table 10. As a result of **House Bill 09-1363**, revenue to the UI Trust Fund is no longer subject to TABOR beginning in FY 2009-10, and is therefore excluded from Table 10. 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 is included in the umbrella group of other cash funds in Table 8.

In the current fiscal year, the UI Trust Fund will see a negative balance of $212.9 million. The increase in UI benefits will far exceed the revenue generated from employer taxes. Forecasts for UI revenue, benefits payments, and the UI Trust Fund balance are shown in Table 10 on page 18.

While the economy is on the rebound, job creation will be slow and gains in employment will occur only gradually. Consequently, unemployment will remain relatively high through the end of the forecast period. Annual average labor data show that employment decreased by 107,700 jobs from 2008 to 2009, leaving 76,100 people unemployed. The remaining 26,600 people left the labor force.

The payment of UI benefits is supported by the collection of premiums from employers. The "regular" premium is established once the employer has registered with the Colorado Department of Labor and Employment UI Operations. It is based on the employer's experience in the UI system and the liability associated with the industry that the company operates. The more benefits claimed by an employer's former employees, the higher the regular premium rate. Premium rates for most employers increase each time the fund balance falls below certain thresholds. In addition to the regular premium, the solvency surcharge is used to generate more revenue if the UI Trust Fund balance drops too low. By statute, the fund balance must be a minimum of 0.9 percent of total private wages paid in the state during the previous year. Falling short of that will trigger the solvency surcharge. The solvency

Table 10
Unemployment Insurance Trust Fund Forecast, March 2010
Revenues, Benefits Paid, and Fund Balance
(Dollars in Millions)

	Actual 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	$339.9	($212.8)	($342.4)	-21.2%
Plus Income Received					
Regular Premiums /A	$159.1	$248.5	$644.3	$619.5	57.3%
Solvency Surcharge /B	$205.3	$320.0	$402.9	$348.2	
Interest	$27.8	$4.4	($8.1)	($11.1)	-26.3%
Plus Federal Payment		*$128.0*			
Total Revenues	**$392.1**	**$572.8**	**$1,039.0**	**$956.5**	30.9%
% Change	-8.1%	78.7%	48.3%	-7.9%	
Less Benefits Paid	($741.8)	($1,230.8)	($1,147.5)	($828.7)	3.8%
% Change	125.5%	65.9%	-6.8%	-27.8%	
Federal Reed Act Transfer	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	($10.2)	($22.8)	($21.1)	($21.4)	NA
Ending Balance	**$339.9**	**($212.9)**	**($342.4)**	**($236.0)**	-11.5%
Solvency Ratio:					
Fund Balance as a Percent of Total Annual Private Wages	0.39%	-0.26%	-0.41%	-0.27%	-11.2%

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.

surcharge has been collected since 2004. The surcharge is a flat 0.22 percent and is not affected by changes in the fund balance or economic activity.

After several years of decreasing employer tax revenue due to job cuts, total premium revenue is expected to increase 56.0 percent this year and an additional 84.2 percent in FY 2010-11. With the UI Trust Fund balance so low, the solvency surcharge will remain on throughout the forecast period with solvency rates increasing through FY 2010-11 before easing back down. Regular premium rates will climb over the same period as the increase in UI benefits are incorporated into employer experience rates. In addition, regular premium rates will increase as the employer tax rate schedule shifts to the highest rate schedule due to the negative UI Trust Fund balance. Consequently, total premium revenue will begin to climb and remain high over the forecast period.

UI claims are still on the rise for individuals seeking initial claims as well as for those receiving extended benefits. Benefit payments began to slowly increase in FY 2006-07 for several years before jumping 125.5 percent in FY 2008-09 when the economy soured. Consequently, the draw down in the UI Trust Fund, which still remained positive last year, was insufficient to accommodate the increase in benefit payments of 65.9 percent in the current fiscal year, and even with a federal payment of $128 million, the fund will end with a negative balance. Benefit payments are expected to continue to increase with the improving economy since job seekers will continue to out-number the jobs created. The fund balance is expected to remain negative through the forecast period.

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. At the time of the December forecast, 24 states had begun borrowing from the federal government but Colorado had not yet reached the negative balance. Due to the negative outlook for the fund balance for the current fiscal year, Colorado has begun to borrow. The borrowing amounts that the state requests open a line of credit from the Federal Unemployment Account and are not always the amounts that are ultimately borrowed. For example, this year Colorado requested $80 million for January, $80 million for February, and $110 million for March. The state actually borrowed $21 million in January, $54.6 million in February, and will borrow close to $110 million for March. During April and May, when approximately half of the year's tax revenue comes in, some of the borrowing will reflect cash-flow loans that will be repaid from the tax revenue collected during those months. Loans for UI benefit payments are interest-free through 2010 and Colorado's first repayment is not due until fall of 2011. Borrowing from the Federal UI Trust Fund is expected to continue on-and-off over the next few years while unemployment remains at high levels.

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 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 is $41.4 million lower in FY 2009-10 and $20.7 million lower in FY 2010-11 than original estimates. If **Senate Bill 10-169** is signed into law, the Hospital Provider Fee may generate additional fee revenue equal to these amounts and this additional revenue would be transferred to the Health Care Expansion Fund to offset General Fund appropriations to Medicaid programs.

In FY 2009-10, total **severance tax revenue** is projected to come in at $96.6 million, a decrease of 71.3 percent from FY 2008-09. This decrease is a result of the drop in energy prices and the claiming of severance tax credits based on the high value of natural gas produced in 2008. The FY 2009-10 forecast for severance tax was raised by $11.2 million compared with the December forecast as taxes paid by the oil and natural gas industry continue to exceed expectations.

One reason for the higher oil and gas severance tax collections is the stronger-than-expected rebound in the price of natural gas — the main determinant of tax revenue. Spot market prices for natural gas in Colorado increased at the end of 2009 because of greater demand for natural gas from a cold winter and as the economic recovery began. The number of drilling rigs operating in the state has increased, according to Baker Hughes, in response to these higher prices. Prices averaged $3.50 per Mcf (thousand cubic feet) in 2009. The price is expected to average $4.65 per Mcf in 2010.

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 10.1 percent in 2009 due mainly to the weak economy and as more electrical power plants switched from using coal to lower-priced natural gas to generate electricity.

The current coal tax rate is about $0.76 per ton (though the first 300,000 tons produced every quarter are exempt), and based on state law, the rate changes with the producers' price index. However, a recent court decision found that the tax rate should not be allowed to increase without voter approval under the provisions of TABOR. Since the state is pursuing an appeal of this decision and has not changed the rate, this forecast assumes that the current coal severance tax rate structure remains in place. However, if the recent court decision holds, the rate would decrease back to $0.54 per ton — the level when TABOR was passed in 1992 — and the state would have to refund the amount collected from the higher tax rate that was implemented starting in 2008.

Severance tax revenue will grow in FY 2010-11 as energy prices and natural gas production increase in a recovering economy. Also, taxpayers will offset less of their tax liabilities with smaller tax credits than they were able to claim in FY 2009-10. However, it is expected that natural gas prices, and thus tax revenue, will remain constrained by the country's large supply of natural gas. Also, revenue growth will be constrained by the development of large reserves of natural gas closer to the major east coast markets that currently appear to be more attractive to energy companies than production in Colorado. According to Baker Hughes, there were 48 more drilling rigs in Pennsylvania during the week of March 12 compared with a year ago, an increase of 184.6 percent. Rigs in Louisiana and Texas have increased 52.6 percent and 29.4 percent, respectively, from a year ago.

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. Total gaming revenue, including Amendment 50 revenue, is expected to increase 16.0 percent in FY 2009-10. Gaming revenue subject to TABOR will grow 3.0 percent in FY 2009-10 to $102.7 million.

Based on the formula in **House Bill 09-1272** that distributes money from the expanded gaming limits authorized by Amendment 50, distributions under the formula will equal $11.6 million in FY 2009-10 and grow to $14.4 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 the three gaming towns (22 percent).

Gaming revenue transfers and the budget. Limited gaming revenue is split evenly between constitutional and statutory transfers. In FY 2009-10, constitutional transfers will distribute 50 percent of total limited gaming revenue, or $47.0 million, to the State Historical Fund (28 percent), gaming counties (12 percent), and gaming cities (10 percent). The statutory transfers will distribute the remaining 50 percent as follows: $35.4 million to the General Fund; $6.1 million to the Local Government Gaming Impact Fund; and $5.5 million to the Bioscience Fund.

When the General Fund forecast indicates that revenue will be insufficient to increase General Fund appropriations by 6 percent, current law provides the Joint Budget Committee authority to run a bill to adjust the transfers of gaming revenue to certain economic development and educational programs. For example, during the current session, the General Assembly is debating **House Bill 10-1339**, which affects these transfers. Without this legislation, these funds will revert to the General Fund at the end of FY 2009-10 because revenue is projected to be insufficient for 6 percent appropriations growth. If legislation is not adopted this year to set the transfers to these funds, $35.4 million is projected to be reverted 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 other cash funds is expected to decrease 2.4 percent in FY 2009-10. Part of this decrease is due to Adams State and Mesa State colleges regaining enterprise status, making their revenue again exempt from TABOR. For FY 2009-10, Fort Lewis College is the only school expecting not to have enterprise status; it lost enterprise status in FY 2008-09. The school is expected to generate about $18.5 million in TABOR revenue, mostly from tuition and student fees, in FY 2009-10.

As mentioned in the transportation-related revenue section, a number of revenue sources that were included in this umbrella group of other cash funds will be included in other transportation revenue beginning with this forecast. These revenue sources include aviation fuel taxes, traffic law-enforcement-related revenue, and vehicle registration-related revenue.

Federal Mineral Leasing Revenue

Table 11 presents the March 2010 forecast for federal mineral leasing (FML) revenue in comparison with December'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.

As indicated in Table 11 the FY 2009-10 forecast for FML revenue was raised compared with the December forecast, similar to severance taxes, as natural gas prices

Table 11
Federal Mining Leasing Revenue Distributions
(Millions of Dollars)

Year	Current Forecast	% Chg.	December 2009 Forecast	% 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*	$111.4	-51.0%	$106.0	5.1%
FY 2010-11*	$128.9	18.0%	$123.0	4.0%
FY 2011-12*	$156.0	21.0%	$149.8	4.1%

** Forecast.*

rebounded to higher-than-expected levels in the winter. Because FML revenue is mostly determined by the value of energy production, this has caused revenue to come in at stronger levels. FML revenue is projected to amount to $111.4 million in FY 2009-10. Revenue in FY 2010-11 will increase 18.0 percent with a stronger economy.

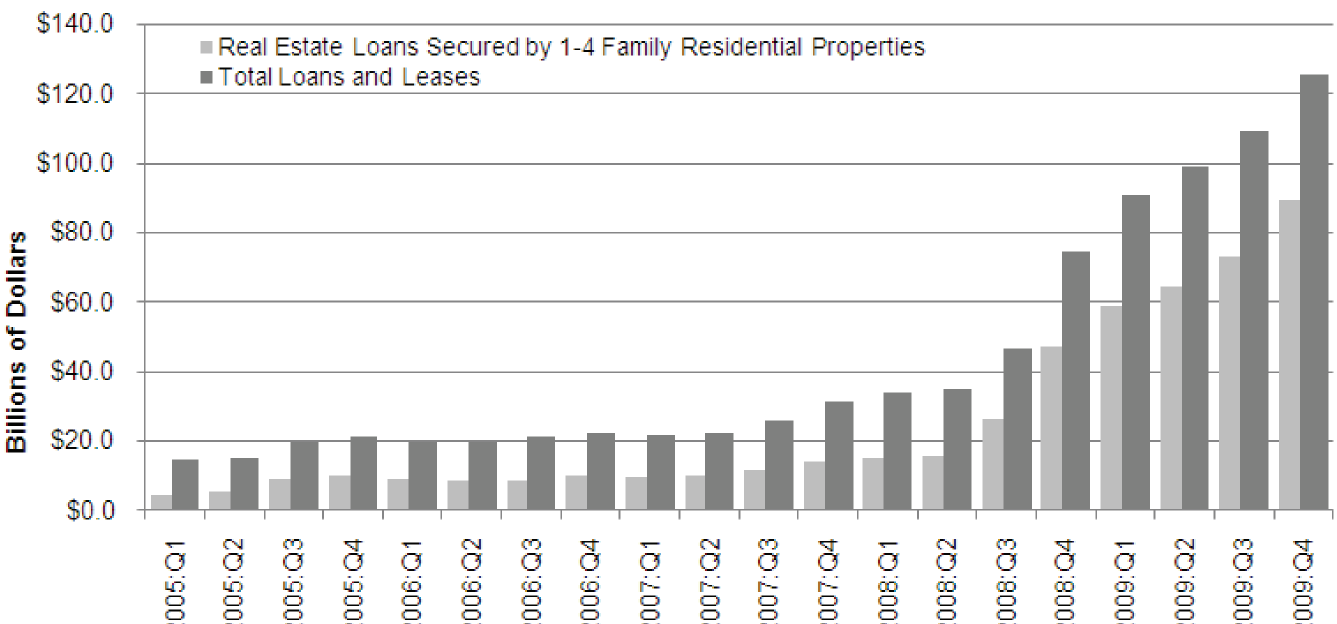
NATIONAL ECONOMY

The national economy continues to expand, but the recovery is fragile. Significant monetary and fiscal stimulus boosted economic activity in the second half of 2009, lifting the economy out of its worst downturn since World War II. But the new year brings a mixed picture of growth. While the economy's natural forces for expansion are emerging, growth is weak and uneven. Debt levels and unemployment remain painfully high. The financial sector has problem loans and unprofitable banks to work through. For 2010, it will be a year of sluggish growth. Table 12 on page 31 shows the forecast of major economic indicators for the nation.

The Conference Board's U.S. leading index has been signaling recovery for several months, and the economy is showing signs of revival. The industrial sector is awakening, with strong export growth, and a fourth quarter rebound in business spending on technology. Home prices are showing signs of stabilizing, but real estate markets have been aided by monetary and fiscal stimulus. These programs are scheduled to end in the spring, and housing markets will likely soften some, putting renewed pressure on homeowners and lenders.

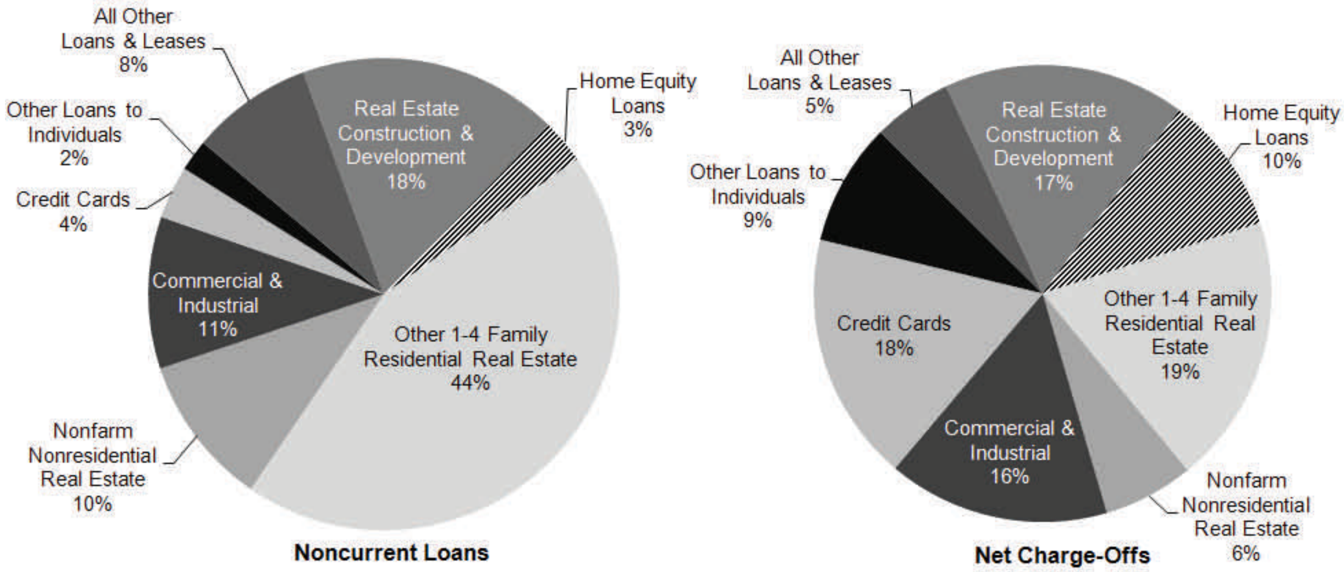
Recovery from financial crises tends to be slow. It can take many years for individuals and businesses to reduce debt levels, and this process is even more difficult with high unemployment and slow wage growth. Not surprisingly, banks are bolstering their balance sheets to help deal with problem loans. Lending standards have tightened. Nationwide

Figure 2
Loans and Leases 90 Days or More Past Due, 2005 through 2009



Source: Federal Deposit Insurance Corporation.

Figure 3
Composition of Noncurrent Loans and Net Charge-Offs, Fourth Quarter 2009



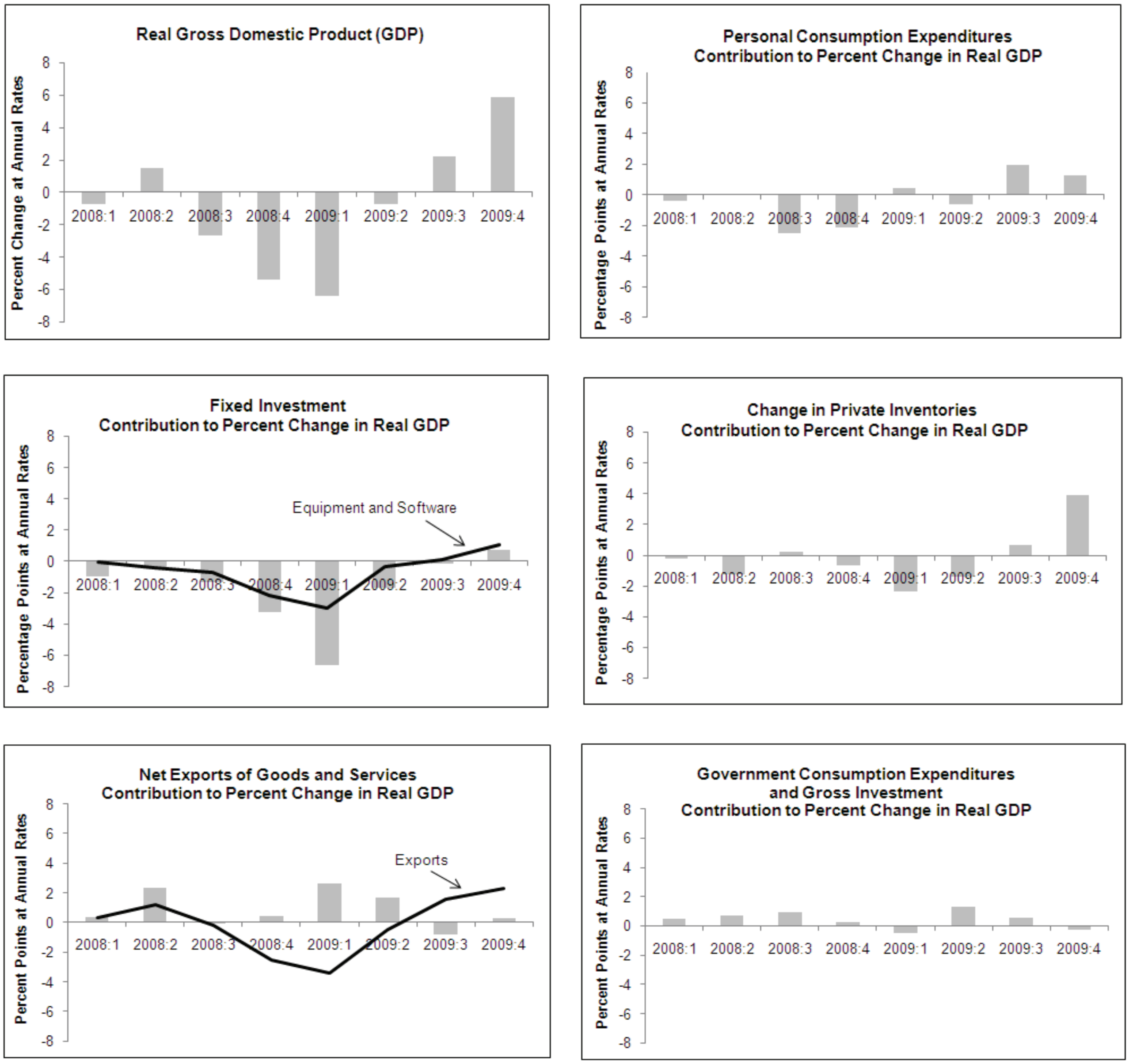
Source: Federal Deposit Insurance Corporation.

bank lending fell 7.4 percent in 2009, the sharpest decline since 1942. Reduced access to credit will slow consumer spending, business investment, and economic growth.

More than one in four banks (29.5 percent) were unprofitable at the end of 2009, according to the Federal Deposit Insurance Corporation (FDIC). This is the highest proportion of unprofitable institutions in any year since at least 1984. Bank asset quality indicators continue to worsen. In the fourth quarter, just over 5 percent of all loans and leases were noncurrent (90 days or more past due), the highest level reported since the FDIC began collecting these data 26 years ago. As shown in Figure 2, the number of loans 90 days or more past due have increased sharply. The increase in noncurrent loans was largely driven by an increase in residential mortgage loans. Figure 3 shows a breakdown of noncurrent loans and net charge-offs by type of loan. Net charge-offs totaled $53.0 billion in the fourth quarter, a 37.2 percent increase over the same period a year ago. Net charge-offs have risen for 12 consecutive quarters, and are at the highest rate for the industry since data collection began 26 years ago. The number of U.S. banks at risk of failing hit a 16-year high at 702. In January, FDIC Chairwoman Sheila Bair said the number of bank failures this year should exceed the 140 failures that occurred in 2009.

As the country struggles to work through debt problems, the economy strains to shake off uncertainty that is bedeviling investment decisions. The financial crisis has disrupted confidence in public institutions and private property rights. Reform efforts designed to stimulate growth and resolve regulatory issues have introduced additional uncertainty as our nation's leaders deliberate on public policy choices. Growth is likely to be hampered until the regulatory framework becomes clear and investor confidence improves.

Figure 4
Change in Real GDP Signals Recovery



Sources: Bureau of Economic Analysis, U.S. Department of Commerce.

Gross Domestic Product

The national economy expanded robustly in the fourth quarter of 2009, posting its strongest quarterly growth in six years, as measured by gross domestic product (GDP). As shown in Figure 4, seasonally-adjusted real (inflation-adjusted) GDP increased at a 5.9 percent annual rate, after rising 2.2 percent in the third quarter. This rebound followed four collective quarters of contraction. While the year ended strongly, the robust finish did not fully compensate for GDP reductions posted in the first half of 2009. On an annual basis, 2009 GDP declined 2.4 percent.

The rebound in GDP growth was expected and aided by federal stimulus programs. Demand for construction-related products, an important driver of growth in past expansions, remains nonexistent. Still, there are signs that the natural forces of economic growth are reviving. Nearly two-thirds of the increase in activity was due to inventory rebuilding, as businesses restocked after paring down inventories during the depths of the financial crisis. There are signs that final demand is picking up as well. Fourth quarter export growth increased strongly. Production of consumer electronics and business equipment also rose. Businesses appear to have begun purchasing high-tech goods that they postponed during the worst of the downturn. Fourth quarter business equipment spending rose at the strongest rate since 2000. Recent increases in GDP growth are a positive sign for the expansion, but the rate of growth is unlikely to be sustainable.

- Economic growth, as measured by GDP, is expected to increase modestly in 2010, rising 2.9 percent. Inventory restocking will wane. Domestic business investment should continue, although limited access to credit will likely dampen growth. Tight credit conditions and heavy debt levels will restrain consumer spending and the recovery. Global demand, particularly from Asia, should continue to boost export growth. In 2011, GDP is expected to increase 3.0 percent.

Job Market

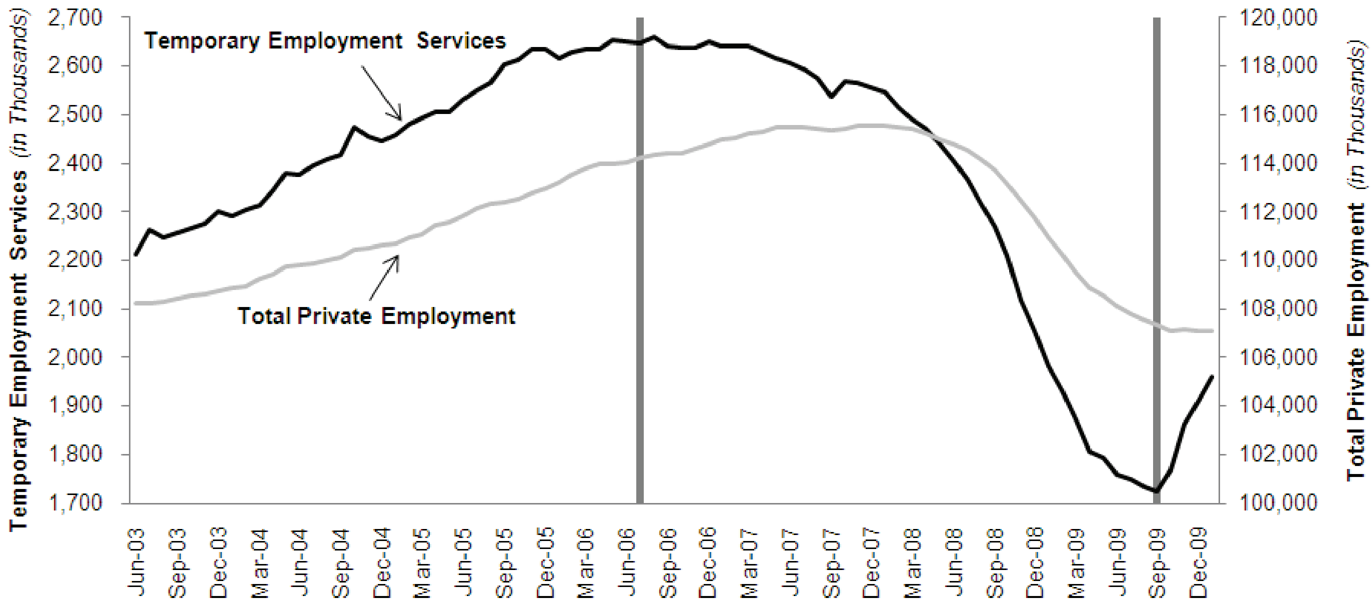
The labor market is showing signs of stabilizing after nearly two years of decline. Over 8 million jobs have been eliminated since early 2008. In percentage terms, employment losses in 2009 were the worst since 1945. The U.S. economy contracted by 4.8 million jobs last year, a 3.6 percent decline. Excluding government, private U.S. employment dipped 4.2 percent, dropping to a level last seen in 1998.

While job losses occurred in most sectors, they were most severe in construction and mining, which decreased 15.0 percent and 11.8 percent, respectively, between December 2008 and December 2009. Manufacturing employment fell 10.0 percent during the same period, a drop of 1.3 million jobs. The only major private industry sector adding jobs in 2009 was education and health services, rising 1.6 percent.

Relatively mild declines in state and local government employment, along with a sizable increase in federal workers, helped mitigate job losses in the private sector. Employment in the federal government, excluding the U.S. Postal Service, rose by 5.4 percent between December 2008 and December 2009. The U.S. Postal Service reduced its workforce by 8.5 percent. State governments, excluding education, shed 1.1 percent of its workforce. State government employment for education was up 0.7 percent. Local governments also reduced workers. Employment was down 1.0 percent excluding education, and down 0.6 percent for education.

While the past year was tough for the labor market, there are signs of improving conditions. Job losses have been subsiding in recent months, and overall employment levels have been flat in 2010. A few sectors have added workers, most notably temporary help services, which reduced employment substantially for over two years. As shown in Figure 5, temporary help services employment has risen for five consecutive quarters, adding 284,000 jobs since last September. Many analysts consider the temporary service industry as a leading indicator for the job market because it tends to lead changes in overall employment. At the start of the economic downturn, employment in temporary services turned negative several months before overall employment started to decline. Increased demand for temporary workers can

Figure 5
Temporary Employment Leads, June 2003 through January 2010



Source: Bureau of Labor Statistics.

be a sign that businesses are preparing to hire permanent workers, although some firms may hire temporary workers until uncertainty subsides.

While uneven, initial claims for unemployment are down significantly from a year ago. Continuing claims have also declined sharply since hitting an all-time high of 6.9 million in late June 2009.

The unemployment rate appears to have stabilized at just under 10 percent. The nation's jobless rate was 9.7 percent in January and February, drifting down from 10 percent in December 2009. In January, 41.2 percent of the nearly 15 million unemployed workers had been jobless for 27 weeks or more, an all-time high. Nearly 9 million individuals are working part-time but would prefer full-time work.

- Employment usually lags an economic expansion, and this recovery may have an even longer lag than usual. Employers remain uncertain about the strength of the recovery and are being very cautious about hiring. The nation is unlikely to see much aggregate job growth in 2010, with new positions cancelled by workforce reductions by other employers. Overall employment will increase 0.1 percent in 2010 compared with 2009. A temporary boost in the jobs numbers is expected in the second quarter due to hiring for the 2010 census. Employment will rise 1.6 percent in 2011.

- The unemployment rate will worsen before it improves because an improving economy will attract discouraged workers back into the labor force. In 2010, the U.S. unemployment rate will average 10 percent. Unemployment is expected to fall particularly slowly in this recovery because many workers have been laid off from industries that are not likely to rebound to previous levels. Often, recessions are temporary downturns in the business cycle. During the recovery, industries regain strength and rehire workers. This recession is different. Industries, such as financial services and construction, are expected to rehire fewer workers. Furthermore, the downturn has accelerated structural changes that were already underway in the manufacturing and information sectors. During this recovery, many workers will need to obtain positions in a different industry, which might require retraining. This process is expected to take longer than the typical recovery, and it will likely be many years until the unemployment rate declines to levels that the economy experienced in the last decade.

Personal Income and Consumer Spending

Personal income has been strengthening, but spending is growing more slowly as consumers struggle to pay down debt. Uncertainty about the economy and high debt levels have led to an increase in the savings rate. Still, retail sales have been increasing modestly, encouraged by low prices, pent up demand, and improved consumer confidence compared to a year ago.

While personal income has risen since August 2009, growth has been uneven, and the level is below that of a year ago. On an annual basis, personal income decreased 1.7 percent in 2009 from 2008. Wage and salary disbursements fell 4.0 percent in 2009, and proprietors' income dropped 5.9 percent. Dividend income fell 19.2 percent in 2009. Transfer receipts from government assistance rose 12.4 percent.

Real (inflation-adjusted) consumer spending has risen for four months, increasing in January to the highest level since May 2008. Consumer spending is an integral component of economy activity, so strengthening spending provides a much needed boost to economic output. Fear of job loss appears to have subsided. A drop in mass layoffs has helped boost consumer confidence. Real disposable personal income posted steady increases in the second half of 2009 but declined in January because of higher tax payments. The personal savings rate fell in January, as consumers tapped into savings to maintain spending.

- Personal income growth is expected to increase steadily but will be subdued until job growth revives. Personal income will rise 3.9 percent in 2010 and 4.2 percent in 2011. The weak labor market leads employees to be hesitant to change positions, limiting wage growth. Consumer spending will be restrained in 2010 by continued high unemployment, heavy debt levels, weak wage growth, and tight credit conditions. Spending will revive as hiring and income growth picks up, credit availability improves, and household debt levels subside.

Housing Market

The housing market appears to have temporarily stabilized from a free fall, but there are sizable hurdles to overcome before the market can be declared in recovery. Stabilization of home markets occurred largely because of significant monetary and fiscal support, and this clouds the true health of the market. Home purchases have been subsidized by a federal tax credit of up to $8,000 that is scheduled to be discontinued this spring. Also ceasing is a Federal Reserve program that pushed mortgage interest rates to a 40-year low in 2009. The Federal Reserve has been purchasing $1.25 trillion of mortgage-back securities, but these purchases are scheduled to finish by the end March. Mortgage rates will likely rise, although there is uncertainty about the effect of discontinuing these purchases.

New and existing home sales dropped in late 2009 and early 2010, and home inventories increased slightly. The national S&P/Case-Shiller home-price index declined 2.5 percent in the fourth quarter of 2009 compared with the same period a year earlier. While home prices continue to decline, the dip is a significant improvement from double-digit declines in the first two quarters of 2009. National home prices are back to their summer 2003 levels, according to the index. Meanwhile, the National Association of Realtors reported that the inventory of unsold existing homes has declined from last year's high of 12 months of sales to just under 8 months.

Residential real estate markets weakened slightly in December and January, which can be attributed to a payback effect following the original expiration date of the home-buyer tax credit. A similar dip in activity is expected following the expiration of the home credit this spring.

Weighing on markets is a substantial number of problem loans and foreclosed properties. Nearly one-quarter of homeowners owe more on their mortgage than their homes are worth. According to First American CoreLogic, more than 11.3 million, or 24 percent, of all residential properties with mortgages were in negative equity at the end of the fourth quarter of 2009. An additional 2.3 million mortgages had less than five percent equity. Negative equity increases the likelihood that homeowners will default.

Banks have been slow to work through foreclosed properties, partly to maintain liquidity and partly to keep from swamping markets and worsening conditions. However, banks are expected to move faster to work through problem loans in 2010. As the banking sector works through foreclosed properties, further declines in real estate values are likely, which would push additional properties into negative equity.

- Home prices are likely to decline in 2010. The removal of stimulus programs will increase the cost of home purchases, and purchasers are burdened by tight credit, high unemployment and debt levels. At the same time, additional supply will enter the market as banks work through foreclosed properties. Further, there may be an increase in defaults, as homeowners with good credit, who typically would not default on a mortgage, choose to walk away from their home because their mortgage is greater than the value of their home. The additional supply of homes for sale will put downward pressure on prices.

Nonresidential Real Estate

Nonresidential real estate markets continue to struggle. Sales of commercial real estate have slowed dramatically and values have fallen, although it appears the market may be at a bottom.

There is less credit available to the industry, and investors are insisting on higher rates of return to move forward on projects. Delinquency rates on commercial-mortgage-backed-securities and other loans have increased sharply over the past two years and are expected to keep rising before they improve.

The high level of delinquencies is putting pressure on bank balance sheets and will limit access to capital for investment. Subprime mortgages were mostly held by larger financial institutions, but commercial real estate debt is held mostly by smaller and regional banks. An increase in bank failures is expected in 2010, and the sale of loans from failed banks are expected to put downward pressure on commercial real estate values. Real estate loans at U.S. banks that are at least

90 days past due or that are expected to default almost doubled over the past year. Noncurrent loans for construction and development of commercial projects rose to 16 percent, nearly twice as high as the level of a year ago.

Inflation

The nation is experiencing very little overall price pressure. After declining 0.4 percent in 2009, the seasonally-adjusted Consumer Price Index (CPI) for all urban consumers rose 0.2 percent in January. The rise in the index was largely due to an increase in energy prices, particularly gasoline. Food prices were also higher. The index for all items less food and energy fell 0.1 percent. Declines in shelter costs helped push down the index. Prices for new vehicles and airline fares also declined. The medical care index posted its largest increase since January 2008. The index for used cars and trucks increased significantly for the sixth month in a row.

The deflation experienced in 2009 means that Social Security recipients received no cost-of-living adjustment in 2010, making this the first year without an increase since Congress mandated adjustments in the 1970s.

- There remains a great deal of slack in the economy, which will continue to restrain price increases. Downward pressure is also expected from weak wage growth and further declines in home prices. In 2010, the nation will experience slight inflation as the CPI increases 2.0 percent. Inflation is expected to be 2.1 percent in 2011.

Summary

The nation's economy has rebounded from the worst downturn since World War II, but growth remains fragile and there are a number of challenges that must be worked through before the recovery can strengthen. High unemployment and debt levels are challenging consumer spending. Improvement in the labor market is slow. Businesses appear to be expanding production to rebuild inventory and have been increasing spending on equipment and software. U.S. exports are also rising, along with a gradual recovery of foreign economies. Problems in the banking industry will restrain credit for businesses and consumers. Real estate markets must adjust to less monetary and fiscal stimulus. Overall economic growth is expected to be moderate. A high level of uncertainty about economic conditions will slow investment and the expansion.

Risks to the Forecast

There continue to be sizable risks to the forecast. While panic has subsided, there is a high level of uncertainty that could discourage hiring and investment below what this forecast estimates. There are signs that business demand is picking up, but output could slow or dip after inventory restocking is completed. Inflationary pressures could gain traction if markets begin to fear the high level of national debt and if the Federal Reserve is slow to raise interest rates. On the other hand, deflationary pressures could return if home prices resume a downward spiral. There is also the possibility that the commercial real estate market could worsen substantially, as the FDIC liquidates assets from failed institutions.

Table 12
National Economic Indicators, March 2010 Forecast
(Dollars in Billions)

	2006	2007	2008	2009	Forecast 2010	Forecast 2011	Forecast 2012
Inflation-adjusted GDP	$12,976.2	$13,254.1	$13,312.2	$12,989.0	$13,365.7	$13,766.7	$14,303.6
percent change	2.7%	2.1%	0.4%	-2.4%	2.9%	3.0%	3.9%
Nonagricultural Employment (millions)	136.1	137.6	134.3	129.5	129.6	131.7	135.7
percent change	1.8%	1.1%	-2.4%	-3.6%	0.1%	1.6%	3.0%
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	10.0%	9.4%	8.0%
Personal Income	$11,256.5	$11,894.1	$12,238.8	$12,067.5*	$12,538.1	$13,064.7	$13,744.1
percent change	7.4%	5.7%	2.9%	-1.4%	3.9%	4.2%	5.2%
Wage and Salary Income	$6,060.3	$6,408.9	$6,545.9	$6,284.4*	$6,460.4	$6,705.9	$7,068.0
percent change	6.4%	5.8%	2.1%	-4.0%	2.8%	3.8%	5.4%
Inflation (Consumer Price Index)	3.2%	2.8%	3.8%	-0.4%	2.0%	2.1%	2.5%

**Forecast*
Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Census Bureau.

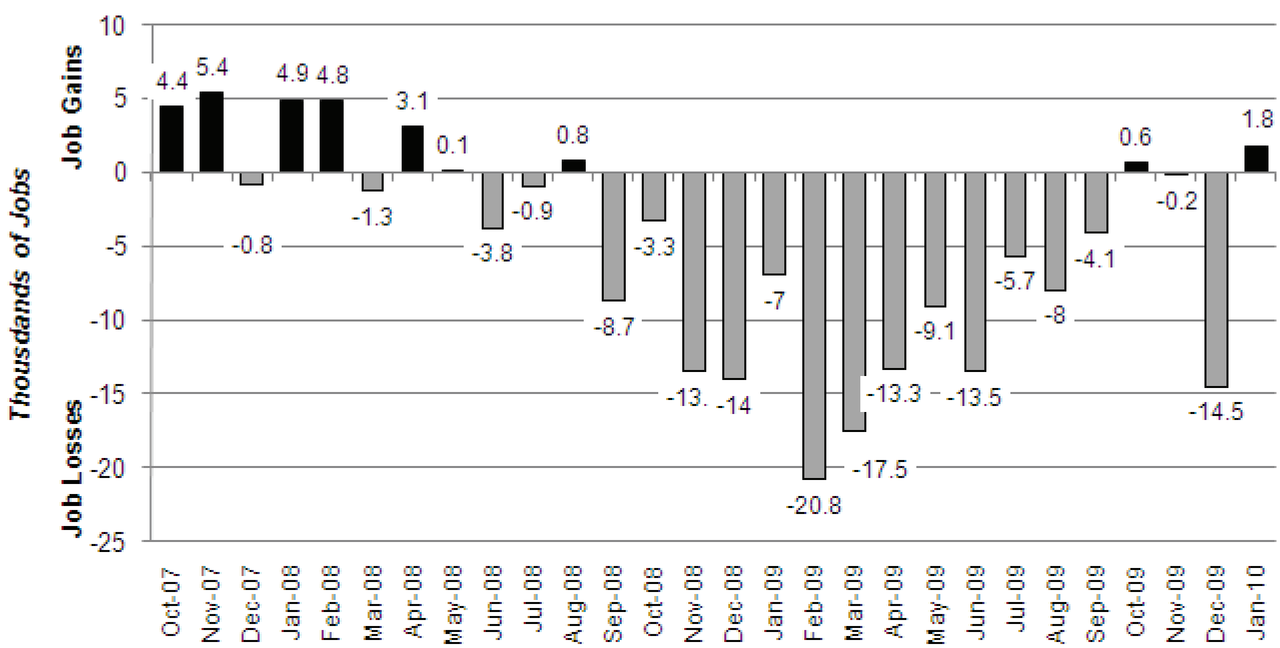
Colorado's economy has begun to slowly recover from the deep recession that had it in its grip for over a year. Lower prices and pent-up demand have increased spending and the drive to rebuild wealth and earn income is spurring increased economic activity. Job losses have diminished and some sectors are beginning to add jobs at a modest pace.

However, there remain challenges to overcome. The recession was a signal that the economy needed to rebalance. Growth was being fueled by the credit boom, an asset bubble, and unsustainable debt and consumption. The ensuing bust left the financial system weakened in its ability to finance growth, and sluggish property values, high debt levels, and a heightened level of uncertainty are suppressing hiring and investment. Because of these factors, growth will be sluggish and there are risks that recent positive trends could regress. Table 13 on page 43 summarizes the forecast for selected economic indicators for Colorado.

Job Market

With the exception of December, job losses have diminished since last winter, and the state has added jobs in two of the past four months for which data are available. This is an indicator that the economy is on a recovery path. Figure 6 shows the monthly change in the number of jobs since October of 2007.

Figure 6
Colorado Monthly Job Changes, October 2007 through January 2010
(Thousands of Jobs Gained or Lost)



Source: U.S. Bureau of Labor Statistics.

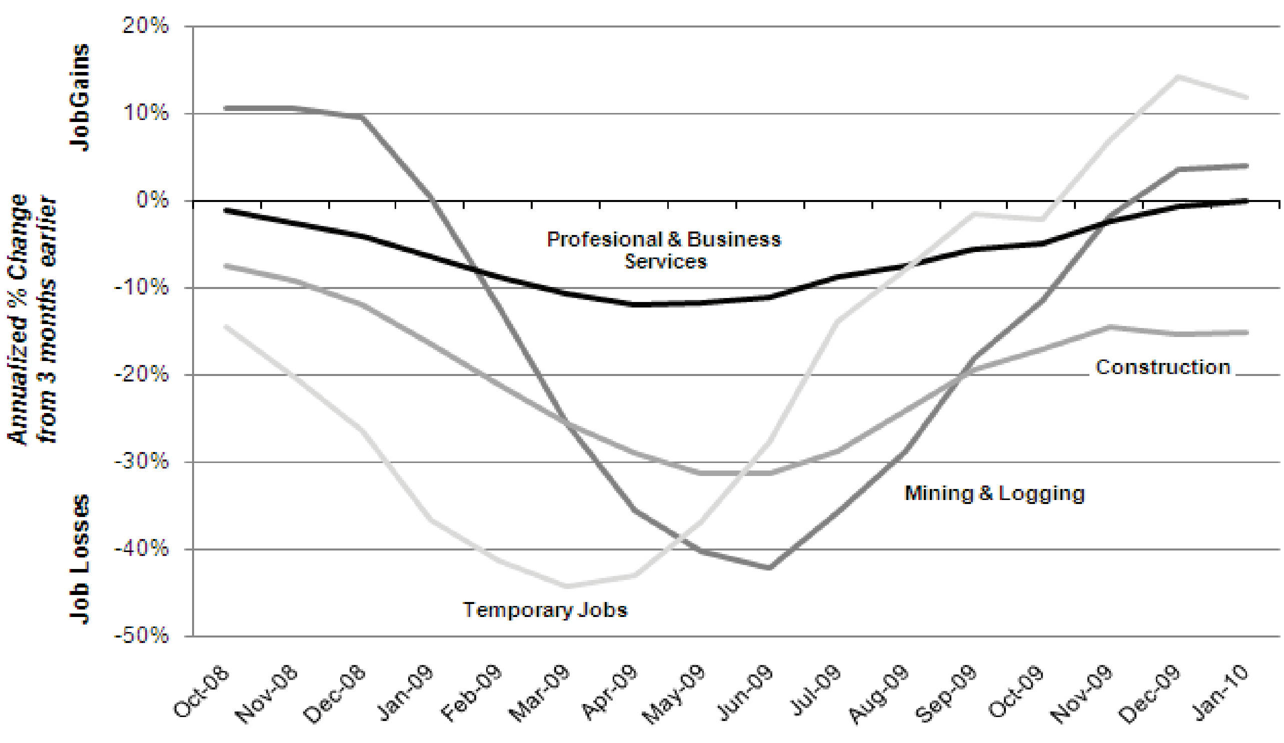
However, it will take several years for the job market to fully recover from the major disruptions that hit the economy. In percentage terms, Colorado experienced larger job losses than the nation. The state's nonfarm job base fell 6.6 percent since May of 2008. This decline amounted to job losses of 156,500, or 1 out of every 15 jobs in the state. Some of these jobs will take many years to return as the state's economy restructures from construction, real estate, and consumption to other industries.

Figure 7 illustrates the intensity of the job losses in some of the state's hardest-hit sectors. More importantly, however, it shows that these industries are beginning to recover. Notably, the precipitous drop of jobs in the mining industry has ended in response to the rebound in energy prices. According to Baker Hughes, an oil and gas services firm, the number of drilling rigs operating in the state has increased this year. In addition, professional and business services — a large and important part of the state's employment base — is showing signs of stabilizing after posting large losses in 2009.

Temporary jobs are also beginning to show signs of growth. This can be an indicator of more widespread job gains in the future as some firms look to hire temporary workers first when demand picks up. However, many firms remain cautious to add permanent staff until they are more certain of a sustainable, more robust recovery. Temporary employees can be engaged in a number of different professions, ranging from clerical and administrative work to engineering.

Colorado's unemployment rate has declined since peaking at 8.3 percent in June, 2009. However, Coloradans left the labor force in large numbers when job prospects be-

Figure 7
Job Change for Selected Industries, October 2008 through January 2010
(Annualized % Change in Jobs from Three Months Earlier)



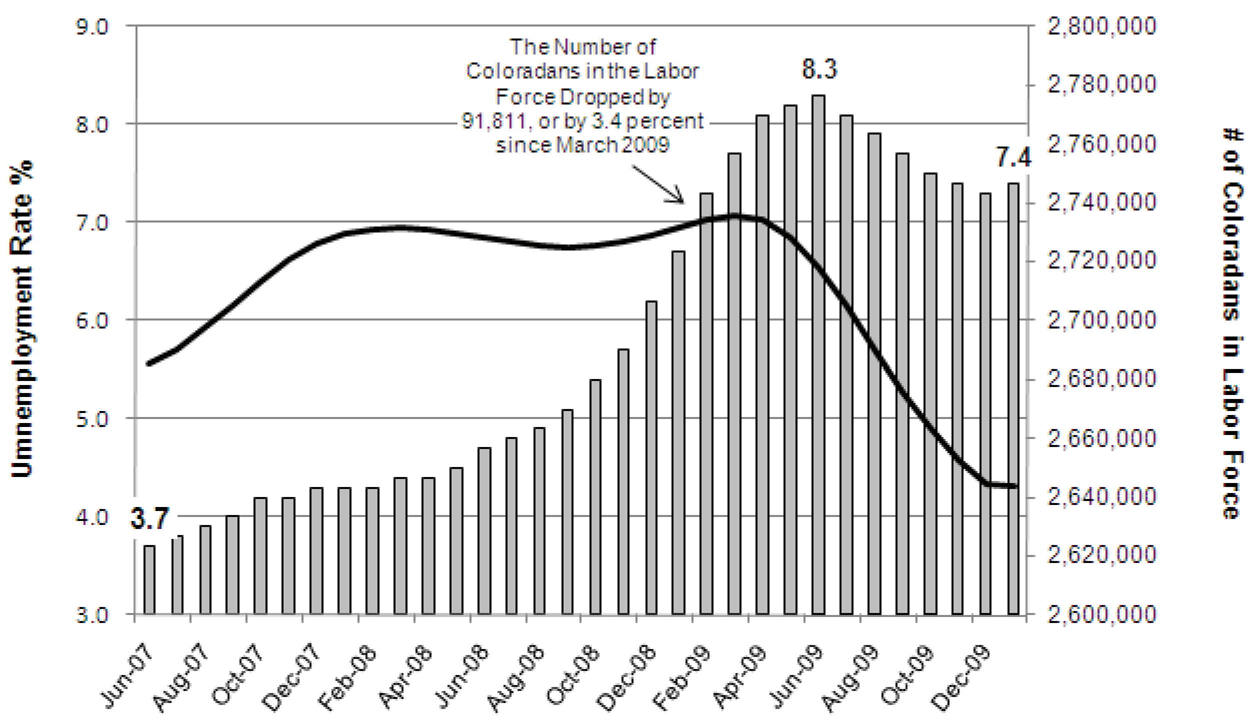
Source: U.S. Bureau of Labor Statistics.

came dim, which held down the state's unemployment rate. The exodus from the state's labor force was much greater than it was nationwide. The high number of unemployed Coloradans will slow the state's recovery as there will be less workers producing and earning income. Also, the longer workers are out of the labor force the more their job skills will diminish, making it more difficult for them to find work in the future. The state's monthly unemployment rate and number of Coloradans in the labor force since June 2007 is shown in Figure 8.

An alternative measure of the state's job market from the U.S. Bureau of Labor Statistics, commonly called the "underemployment" rate, provides further information on the slack in the state's job market. This 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 13.7 percent — or one out of every seven workers — during 2009.

- Although the economy is recovering, the state will experience both modest monthly ups and downs in 2010 as employers maintain lean staffs to stay competitive and in response to modest demand for their products and services The number of jobs in 2010 is expected to be 1.7 percent lower than the average in 2009. Job growth will be tepid throughout the forecast period as it will take time for industries to expand sufficiently to support new jobs and as the large number of dislocated workers retool to enter expanding industries. The state's unemployment rate will increase in 2010

Figure 8
Unemployment Rate and Labor Force in Colorado
(June 2007 through January 2010)



Source: U.S. Bureau of Labor Statistics.

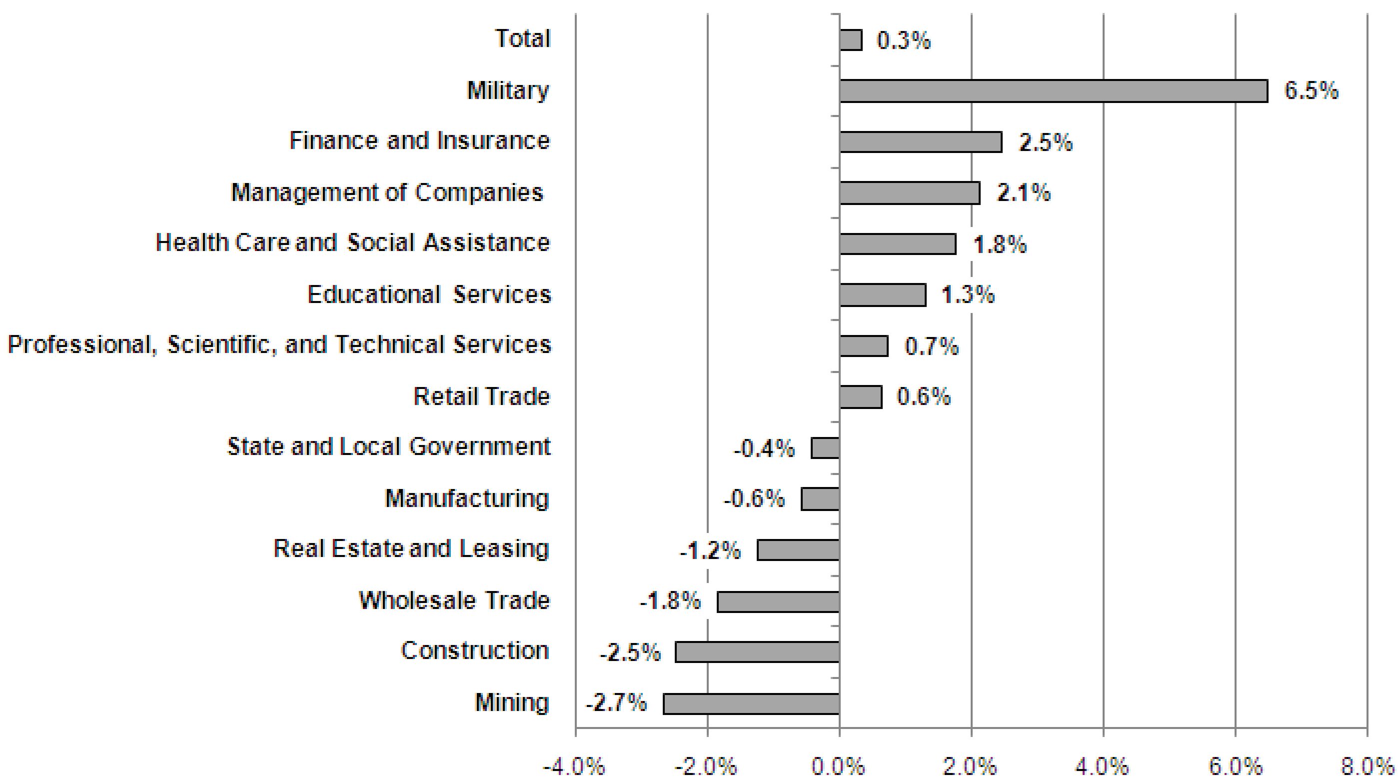
and 2011, averaging 8.6 percent and 9.2 percent, respectively, as slow job growth will couple with an influx of workers re-entering the labor force in response to the improving job market.

Personal Income and Wages

Personal income grew 0.5 percent in the third quarter of 2009 from the second quarter, another sign that the economy's contraction was winding down in the second half of 2009. Personal income includes wages and salaries, small business income, dividends, interest, rental income, and government assistance payments, such as Social Security and unemployment insurance paid to, or earned by, Coloradans. Colorado's third quarter personal income growth represented the tenth-best performance among states and was mostly driven by a rebound in wage and salary levels for some of the state's larger industries. Also, nonfarm small business income increased, most likely due to laid-off workers starting their own businesses. Despite this positive news, the level of personal income was $2.3 billion lower in the third quarter of 2009 than a year earlier, indicating the recession's devastating impact on many Coloradans. The loss was the fourth-worst decline among states.

The amount of **wages and salaries**—which comprises about 60 percent of personal income—began to show signs of rebounding in the third quarter of 2009 as well after the large decline in the first half of the year. The total amount of wages paid to Colorado's workers

Figure 9
Total Wages in Select Colorado Industries
(Percent Change In Wages and Salaries, Second Quarter of 2009 to Third Quarter of 2009)



Source: Bureau of Economic Analysis.

rose 0.3 percent, or by $366.0 million. Higher wage levels will help the economy as it provides money for spending, investing, and paying down debt. Figure 9 shows the change in wage levels for selected industries in the third quarter of 2009 compared with the second quarter.

Wages rose for the health care and social assistance sector due to continued demand for medical workers. Also, educational establishments continued to expand their payrolls in response to the increasing numbers of unemployed individuals seeking to improve their job skills. The management of companies sector, which mostly includes company headquarters or managing offices, posted a rise in wages. This sector benefits Colorado due to its high wages and economic diversity. Firms in this sector include headquarters or managing offices for a wide range of industries in the state, such as mining, aerospace, communications, information technology, renewable energy, biotechnology, restaurants, and retail establishments.

Another positive sign was the growth in wages in the professional, scientific, and technical services sector. The large increase in total wages and salaries paid to military employees in Colorado was due to the arrival of thousands of soldiers from Fort Hood, Texas to Fort Carson in Colorado Springs. On the negative side, the construction and mining sectors continued to post wage drops in the third quarter.

- The level of personal income is expected to decline 1.9 percent in 2009 when the end-of-year data becomes available—marking the first annual decrease for the state since the Depression era in 1938. Wages and salaries are expected to decline 3.3 percent as a result of the state's sharp drop in jobs. Both of these measures will experience modest growth in 2010 and 2011 as the economy recovers. Personal income will grow 3.0 percent in 2010, while wages and salaries will grow 1.0 percent.

Consumer Spending

Colorado consumers appear to have regained some confidence after cutting back dramatically in 2009. Since consumer spending represents around 70 percent of the economy, this is important for the economy's recovery. Data on ***retail trade*** sales from the Colorado Department of Revenue indicates that consumer spending is rebounding after its free-fall. Figure 10 shows seasonally adjusted retail trade sales in Colorado from 2004 through 2009.

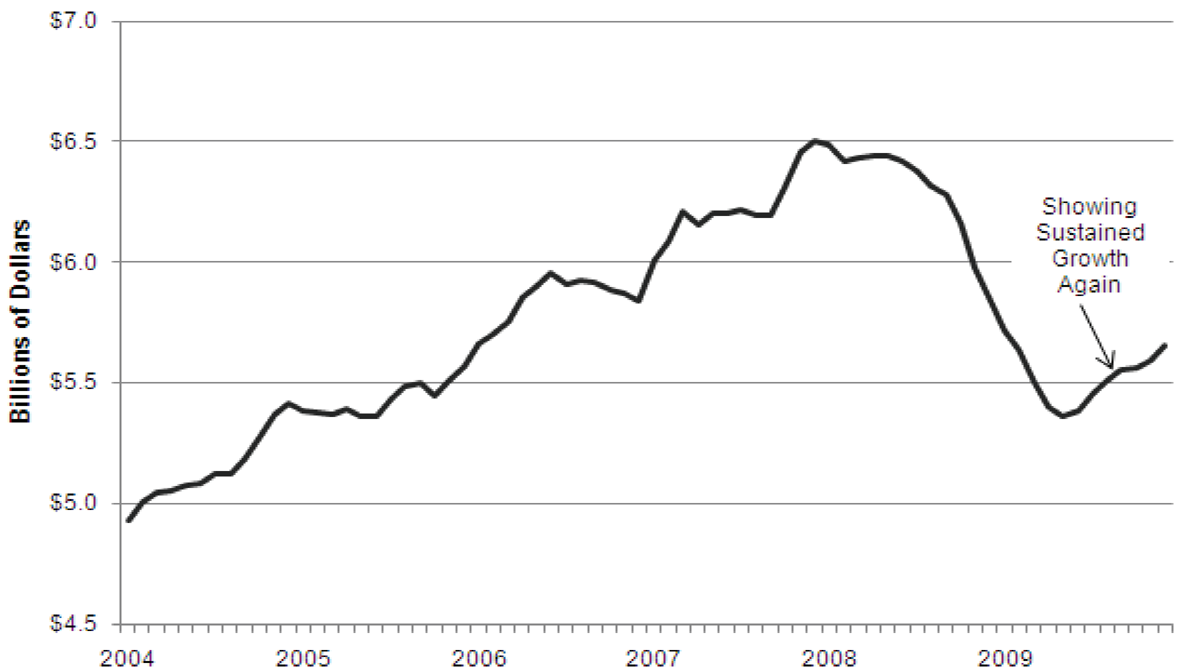
Of particular note, spending on durable goods, or big ticket items, such as cars, furniture, electronics, appliances, and building materials, is making a comeback. Consumers have begun to recover confidence that the recession has abated and the recovery has begun. Sales of these goods suffered during the recession as consumers cut major purchases to save and pay down debt. In March of 2009, spending on durable goods was 31.8 percent lower on a seasonably adjusted basis from its peak level at the beginning of 2007. However, durable good sales increased 12.8 percent through December since the trough in March.

- Retail trade sales will grow a modest 2.5 percent in 2010 as spending will be constrained by high unemployment and the continued paying down of debt and higher savings levels. Although spending growth will improve slightly in 2011, it will remain below that experienced during the years before the recession. The hangover from the consumer spending boom of the past years will likely prove long.

Inflation

The state experienced an overall decrease in consumer prices, or deflation, last year. The Denver-Boulder-Greeley consumer

Figure 10
Colorado's Retail Sales, 2004 through 2009
(Seasonally Adjusted Three-Month Moving Average)



Source: Colorado Department of Revenue.

price index fell 0.6 percent in 2009, after increasing 3.9 percent in 2008. Falling prices for commodities, notably food and energy, were the main reason for the deflation. These items began to experience inflationary pressures in 2008, but such pressures were erased as soon as demand dropped during the recession. The "core" index, which excludes food and energy, increased 1.7 percent in 2009.

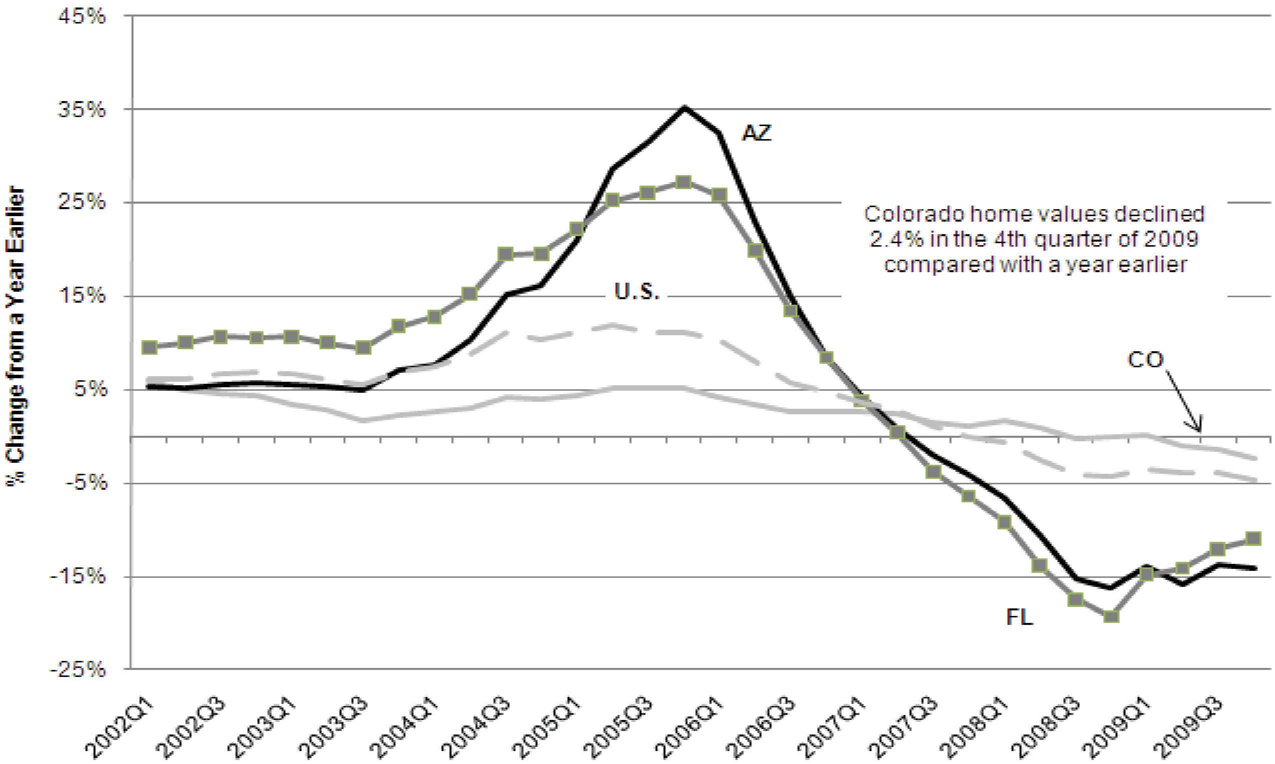
- Consumer prices are expected to remain constrained in 2010, growing 1.8 percent, due to a large amount of slack in the economy and weak demand in the housing and retail markets. Though expectations are for prices to remain constrained during the forecast period, the unprecedented expansionary monetary policy measures undertaken by the Federal Reserve combined with the federal government's large budget deficit could lead to inflationary pressures, especially if the economy recovers at a pace faster than expected.

Housing Market

Colorado's housing market continues to remain in poor shape and will constrain the rate of recovery in the state's economy. Values are weak or falling in many areas of the state. New home construction is scant.

The Federal Housing Finance Agency (FHFA) house price index indicates that Colorado home values weakened through much of 2009, including in the fourth quarter. Figure 11 shows the change in home values for Colorado, other selected states, and the U.S. as a whole since 2002.

Figure 11
Homes Values Nationwide and in Select States, 2002 through 2009



Source: Federal Housing Finance Agency.

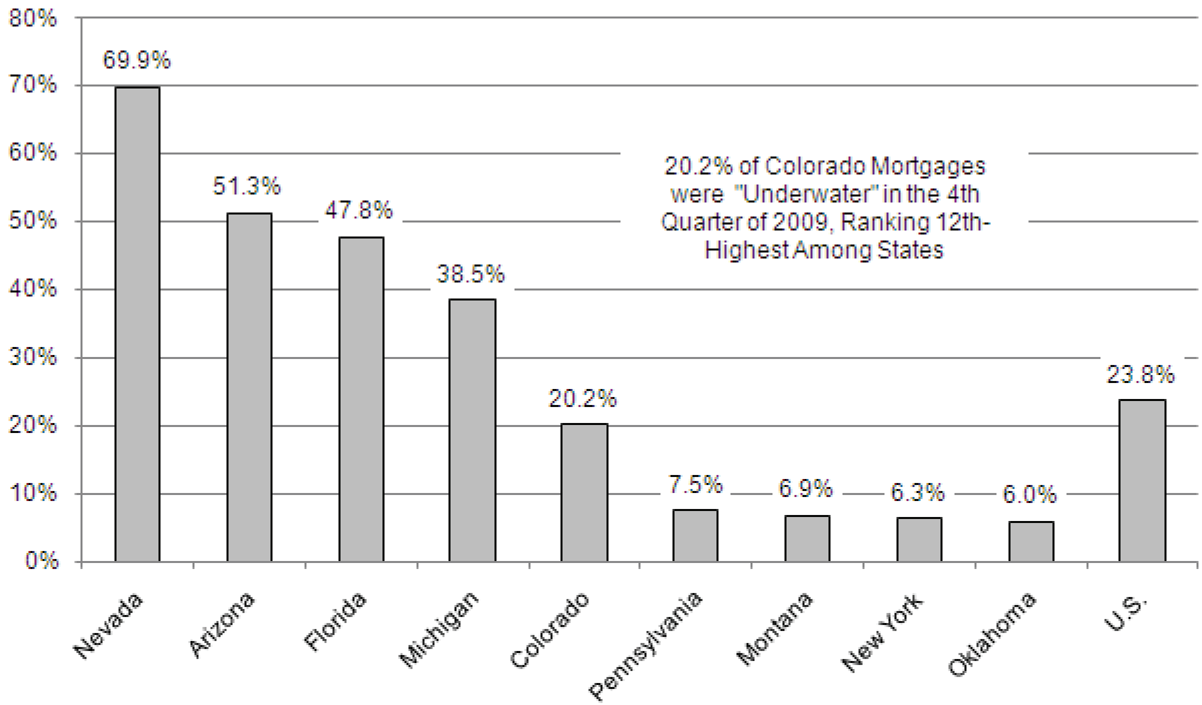
Lower property values not only affect the financial well-being of households, they can act as a constraint on the capacity of individuals to borrow to support, start, or expand a small business. However, lower values will benefit home buyers and help reduce the inventory of homes which is necessary for the market to recover.

According to data from the Colorado Division of Housing, foreclosure filings in the state remain at elevated levels. There were 46,394 foreclosures in 2009, over double the number in 2005, and 18.0 percent higher than in 2008. Much of the recent growth in foreclosures is occurring in western slope and mountain counties and last year's drop in energy production and tourism severely weakened these areas' economies. Mesa County's foreclosure filings increased 279.4 percent in the 4th quarter of 2009 compared with a year earlier.

Home value declines have not been as sizable in Colorado as in other parts of the country. However, there are still a relatively large number of Colorado homeowners who have negative equity in their homes, meaning that they owe more than their homes are worth. According to data from First American Core Logic, 20.2 percent of Colorado mortgages were "underwater" in the fourth quarter of 2009. This could place upward pressure on foreclosures in the state if a large number of these homeowners walk away from their homes, although many may be deterred from taking this action as lenders can pursue recourse against them. Figure 12 shows the percentage of underwater home mortgages in selected states, including Colorado.

The number of underwater mortgages coupled with high unemployment will likely

Figure 12
Percent of Mortgages Underwater in Select States, Fourth Quarter of 2009



Source: First American Core Logic.

cause the number of homeowners falling behind on payments and foreclosures to remain elevated through most of 2010. These foreclosures and a continued weak economy should constrain home price appreciation and will likely cause further price declines in some areas of the state.

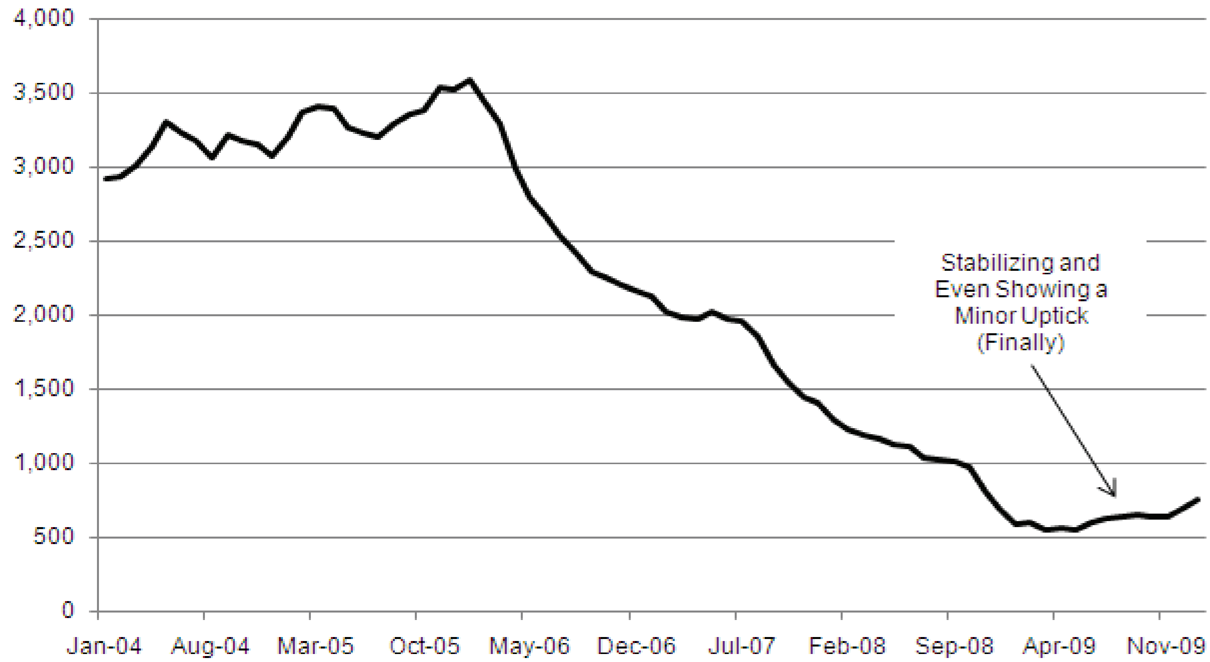
In 2009, there were 33,100 fewer single-family home building permits pulled than in 2005. Though the weak level of construction of new homes is acting as a drag on the economy, it is a natural response as the housing market clears its excess inventory. Figure 13 indicates that the drop in permits has stabilized in recent months on a seasonally-adjusted basis.

- Home building permits are expected to rebound gradually over the forecast period, but remain at a low level. Single-family permits will be essentially flat in 2010 and post slight growth in 2011. Multi-family permits will also rebound slowly due to the high apartment vacancy rate in the state and the difficulties financing such projects. The scheduled expiration of the home buyer's federal tax credit in April and expectations for reduced support from the Federal Reserve to the mortgage market will dampen the housing market in the second half of 2010.

Nonresidential Construction and Real Estate

A combination of overinvestment and the deep recession has caused both the commercial real estate market and construction to deteriorate. For example, according to F.W. Dodge, the number of commercial construction projects dropped 29.0 percent in 2009, while the value of such projects fell 44.5 percent. The value of commercial construction projects in 2009 was $1.6 billion below 2007's level. Further, accord-

Figure 13
Monthly Permits for Single-Family Home Construction in Colorado, 2004 through January of 2010
(Seasonally Adjusted Three-Month Moving Average)



Source: U.S. Census Bureau.

ing to a report by LoopNet, a commercial real estate firm, commercial real estate sales in the Denver Metro area fell 55 percent in 2009.

On the positive side, the faltering market is allowing for lower rental rates that will help small businesses manage their cash flow and help enable new businesses to set up operations. Also, there is likely to be a pick-up in commercial real estate transactions this year as prices for properties fall to market clearing prices.

The value of all nonresidential construction projects fell 27.2 percent in 2009 and the number of projects fell 24.8 percent. However, construction projects for manufacturing plants and education and science buildings was remarkably strong in 2009. Notably, there were a few large-value projects in these categories that will help build the foundation for Colorado's economic future. These projects include a biotechnology laboratory at the University of Colorado, a research and development laboratory in Boulder for the National Institute of Standards and Technology (part of the U.S. Department of Commerce), and the Vestas wind turbine manufacturing facilities near Brighton.

- The value of nonresidential construction projects will drop from $3.0 billion in 2009 to $1.9 billion in 2010. The value of projects will be at a similar level in 2011 due to the slow economic recovery and continued tightened credit conditions for financing such projects.

Colorado Banks

Community and regional banks are one of the main sources of loans to small businesses and for commercial real estate and construction.

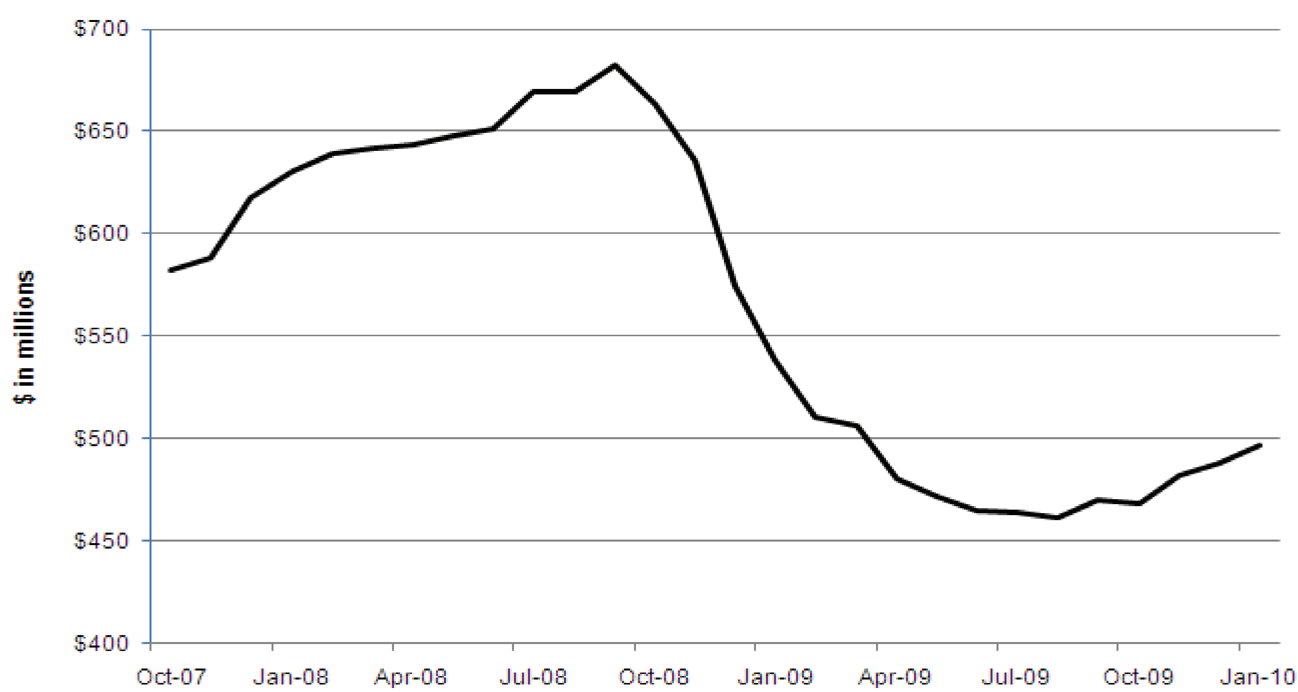
Thus, the condition of the state's banks will be an important factor in the pace of the state's recovery.

The number of unprofitable banks in the state are at near-record levels due to several reasons. Loans—one of the main ways banks make money—are down as banks have become more cautious in their lending and many individuals and businesses are reluctant to borrow due to the economic uncertainty. They are instead increasing savings and paying down debt. In addition, nonperforming loans have increased. In particular, many banks in the state have high exposure to troubled commercial real estate loans. Also, banks are increasing their reserves and building capital in response to regulatory pressure and as a buffer against heightened risks in the weak economy. Once loan demand picks up with a recovering economy, Colorado's banks may not be able to sufficiently meet the financing needed to support growth.

Colorado Exports

Around 4,000 Colorado businesses export goods to other countries, according to the U.S. Commerce Department. Exports of goods generate about the same amount of income as Colorado's tourism industry. (Data on exports of services is not available at the state level.) Exports have begun to rebound in recent months as portions of the global economy emerge from recession. Global trade suffered its steepest drop since World War II in 2009. The value of all goods exported by Colorado businesses fell by $1.9 billion in 2009, a 24.6 percent decrease.

Figure 14
Monthly Value of Colorado Export of Goods, October 2007 through January of 2010
(Seasonally Adjusted Three-Month Moving Average)



Source: WISERTrade.

Exports of industrial and electronic machinery comprised the largest portion of the decline. The value of Colorado exports from October of 2007 through January of 2010 is illustrated in Figure 14. A recovering global economy should help exports increase in 2010. After falling 12.3 percent in 2009, global trade volume is projected to increase 5.8 percent in 2010 and 6.3 percent in 2011, according to the International Monetary Fund.

The export sector could become a growing part of the state's economy in the future, especially if the economy shifts from less domestic demand-led growth. Some of the products the state exports could be in higher demand in countries that are growing in affluence, such as medical equipment, aerospace-related equipment, clean technology products, and beef and other agricultural products.

Conclusion

Recent economic indicators point to a recovery. The state's monthly Business Conditions Index published by the Goss Institute provides further evidence of this positive trend. The index is based on a survey of supply managers in the state and is considered a predictor of economic activity in the near-term future. It has been indicating for five consecutive months that the state's economy will be in expansionary mode.

Colorado is well-positioned in the recovery. It is economically diverse, has an entrepreneurial culture, and maintains a solid foothold in industries likely to be among the strongest growing in the future. Further, the economy will continue to grow more technology-intensive. Many businesses are expected to invest in high tech-related products to help them compete in the global marketplace. As a high-tech center, investment is likely to flow to the area, which will provide a boost to the state. Colorado's energy industries, both conventional and renewable, will also help boost the economy. The clean technology industry is predicted to receive an increase in venture capital investment in 2010 according to the National Venture Capital Association. This will support an increase in the industry's products to the global economy and help the industry expand in the state.

The "Great Recession" shook the state's economy in 2009 when massive amounts of spending and investment vanished, causing major disruptions to the job market and declining incomes to households and businesses. Though the economy is beginning to rebuild in 2010, it will be a protracted process as the economy finds new sources of growth and corrects from the excesses of recent years. Also, weak property values, high debt levels, and tighter credit will constrain business expansion.

Risks to the forecast. The recovery may be halted if the state's high level of unemployment proves to be a larger drag on the economy than expected, if asset values weaken, if the financial system again becomes greatly hindered in its ability to provide credit, or if consumer and business confidence deteriorates. Also, it remains to be seen whether the economic recovery will be self-sustaining once the large monetary and fiscal stimulus measures wind down.

Table 13
Colorado Economic Indicators, March 2010 Forecast
(Calendar Years)

	2006	2007	2008	2009	Forecast 2010	Forecast 2011	Forecast 2012
Population (thousands), July 1	4,795.1	4,883.0	4,974.7	5,061.3	5,149.0	5,231.5	5,314.4
percent change	2.0%	1.8%	1.9%	1.7%	1.7%	1.6%	1.6%
Nonagricultural Employment (thousands)	2,279.1	2,331.3	2,350.3	2,244.0	2,205.9	2,223.5	2,263.5
percent change	2.4%	2.3%	0.8%	-4.5%	-1.7%	0.8%	1.8%
Unemployment Rate	4.4	3.9	4.9	7.7	8.6	9.2	8.8
Personal Income (millions)	$194,393	$205,548	$212,320	$208,264*	$214,598	$222,229	$230,095
percent change	8.2%	5.7%	3.3%	-1.9%	3.0%	3.6%	3.5%
Wage and Salary Income (millions)	$105,833	$112,604	$116,645	$112,779*	$113,907	$117,109	$121,716
percent change	7.0%	6.4%	3.6%	-3.3%	1.0%	2.8%	3.9%
Retail Trade Sales (millions)	$70,437	$75,329	$74,760	$66,345	$68,004	$70,588	$74,117
percent change	7.5%	6.9%	-0.8%	-11.3%	2.5%	3.8%	5.0%
Home Permits (thousands)	38.3	29.5	19.1	9.4	9.1	11.4	16.5
percent change	-16.4%	-23.2%	-35.2%	-50.8%	-3.1%	25.2%	44.3%
Nonresidential Building (millions)	$4,415	$5,251	$4,191	$3,049	$1,851	$1,978	$2,165
percent change	4.6%	18.9%	-20.2%	-27.2%	-39.3%	6.9%	9.4%
Denver-Boulder Inflation Rate	3.6%	2.2%	3.9%	-0.6%	1.8%	2.1%	2.3%

** Forecast*

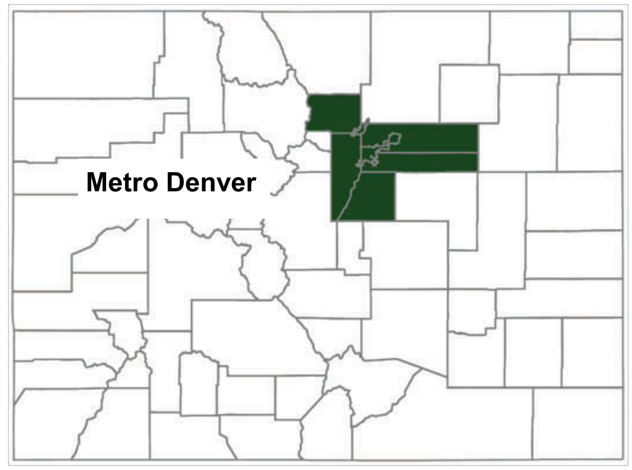
Source: State Demography Office, Bureau of Labor Statistics, Bureau of Economic Analysis.

Department of Revenue, U.S. Census Bureau, and F.W. Dodge.

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 Metro Denver region has embarked on a sluggish recovery. Although consumer spending has begun to slowly improve and job losses have mitigated, challenging credit conditions and a weak housing market will contribute to a slow rate of recovery. Home sales are down. However, those that are selling are doing so at higher prices. While building permits for single-family homes were also down in 2009, conditions are not as bad as they were in 2008. Commercial construction also remains weak. Table 14 shows major economic indicators for the region.

Table 14

Metro Denver Region Economic Indicators

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

	2007	2008	2009
Employment Growth /1	2.1%	1.0%	-4.4%
Unemployment Rate /1	4.0%	4.9%	7.8%
Housing Permit Growth /2	-21.1%	-38.4%	-52.8%
Single-Family Permit (Denver-Aurora) /2	-40.3%	-49.8%	-31.4%
Single-Family Permit (Boulder) /2	-12.4%	-63.5%	-27.6%
Growth in Value of Nonresidential Const. /3	33.2%	-11.4%	-30.3%
Retail Trade Sales Growth /4	6.4%	-1.0%	-11.1%

NA = Not Available.

1/ U.S. Department of Labor, Bureau of Labor Statistics. Employment data are seasonally adjusted and from the CES survey for all years. Unemployment data are not seasonally adjusted and 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.

Job Market

Seasonally adjusted total nonfarm employment decreased 4.4 percent through the end of 2009 after five years of moderate growth. Figure 15 shows the region's non-seasonally adjusted labor force, including the employed and unemployed. The drop in employment in 2009 in Figure 15 represents 59,500 jobs. This includes 23,500 that have left the labor force and 36,000 that became unemployed. While positive gains in employment were recorded in April, May, October, and November, all other months saw substantial employment losses.

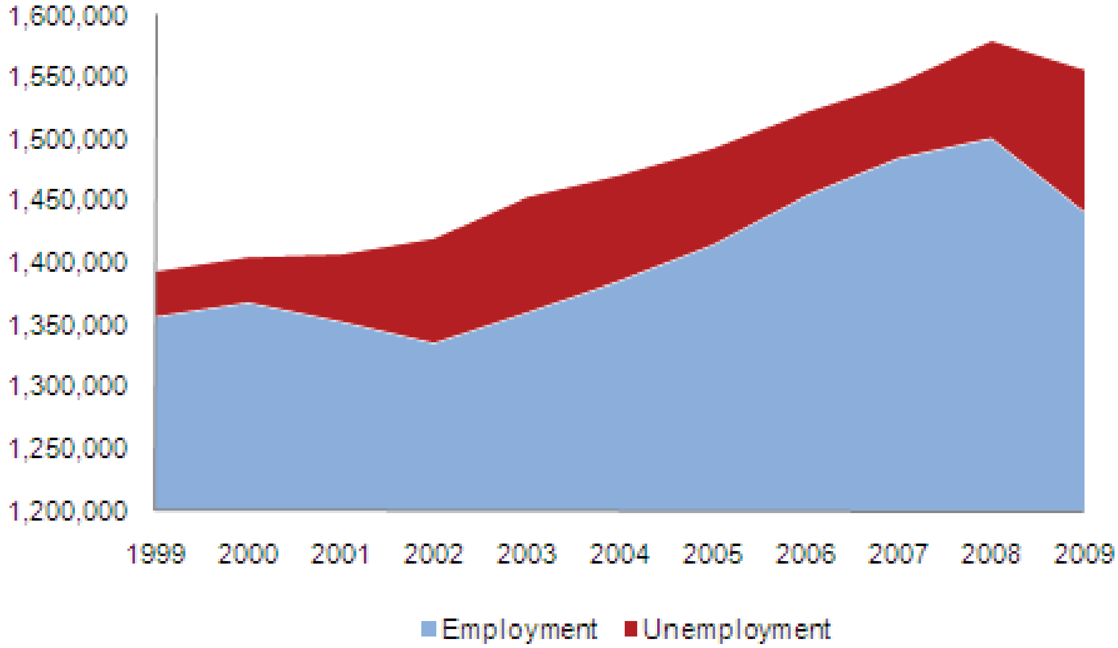
Employment in the mining, logging, and construction sector saw the most dramatic decline (14.2 percent) with the bulk of the job losses in construction. Employment also declined 6.8 percent in manufacturing, 6.7 percent in wholesale trade, and 6.0 percent in professional and business services. The professional and business services sector saw the largest absolute decline (14,800), followed by mining, logging, and construction (13,900), retail trade (7,000), and manufacturing (5,900). Three sectors gained jobs, led by education and heath services (4,500), state government (1,800), and local government (1,200).

Metro Denver's unemployment rate rose to 7.8 percent in December, edging above the 7.7 percent statewide average.

Housing Market

Denver's housing sector appears to be stabilizing, although it is expected to remain weak

Figure 15
Metro Denver Region Labor Force,1999 through 2009



Source: Bureau of Labor Statistics.

through 2010. Although single-family homes and condo sales dropped 15 percent in 2009, prices steadily increased during the year. This trend has continued in the first part of 2010. MetroList reported that the average selling price for single family homes was $251,000 in February, up 4.9 percent from February 2009. Despite these price increases, the Metro Denver housing market remains a buyer's market with a large inventory and low interest rates. In addition, the $8,000 first-time buyer tax credit has been extended through April. These conditions are beginning to show their impact. According to Zillow.com, Metro Denver real estate was the leader in the total dollar gain throughout the nation in 2009. Homes in Indian Hills in Jefferson County; Meridian in Douglas County; and Thornton, Todd Creek, and Westminster in Adams County saw some of the biggest gains in home sales.

Foreclosures continue to remain high in the region. According to the state's Division of Housing, Boulder had the highest increase in foreclosures with the number of foreclosure filings up 39 percent, ranking the second highest of 12 metropolitan counties in the state (Mesa County saw the highest percent increase in foreclosures). Broomfield County ranked fifth. Although Boulder's percent increase in foreclosures ranked high, the county has the lowest foreclosure rates overall.

The construction sector continues to struggle. Total housing permits were down 52.8 percent in the region in 2009. Single-family home permits were down 31.4 percent in the Denver-Aurora area and 27.6 percent in Boulder. Though permits are down, some projects that have been slated for this year are proceeding. Financed with a loan from the U.S. Department of Housing and Development, groundbreaking will begin on a $60 million, four-story apartment complex in north Boulder.

Nonresidential Construction and Real Estate

The commercial construction sector in the region continues to slow. The value of nonresidential construction decreased 30.3 percent in Adams, Arapahoe, Denver, Douglas, and Denver counties. After completing projects in 2009, Boulder County also saw a decrease in nonresidential construction in January. Still, a few projects are under contract, including offices and schools in Boulder County, and stores, schools, and hospital facilities in the remaining counties.

The market for office space in Denver suffered through the fifth consecutive quarter of declining occupancy rates in the fourth quarter of 2009. Table 15 shows more tenants are exiting than entering, resulting in net negative absorption. The continued loss in occupied space is pushing vacancy rates up and putting downward pressure on lease rates. The overall Metro Denver average asking lease rate fell 5.7 percent over the past year. Lack of tenant demand has reduced office construction in the region to just three, all of which will be completed in 2010.

The market for retail space has begun to improve. Half of the metro Denver's markets recorded positive net absorption, and although 2009 construction activity for retail outlets was down from 2008, over one million square feet was under construction. Notable 2008 projects include the Gardens on Havana and the ground breaking on the second phase of Lincoln Commons, with independent and specialty retailers as well as Class A office space.

Table 15
Commercial Office and Retail Space, Fourth Quarter of 2009

<table>
<tr><th colspan="4">Commercial Office</th><th colspan="4">Retail Space</th></tr>
<tr><th>Market</th><th>Vacancy Rate %</th><th>Net Absorption (sq. ft.)</th><th>Under Construction</th><th>Market</th><th>Vacancy Rate %</th><th>Net Absorption (sq. ft.)</th><th>Under Construction</th></tr>
<tr><td>Aurora</td><td>25.4</td><td>6,413</td><td></td><td>Aurora</td><td>14.6</td><td>(104,433)</td><td></td></tr>
<tr><td>Boulder</td><td>12.5</td><td>(1,848)</td><td></td><td>Boulder</td><td>6.8</td><td>(6,886)</td><td></td></tr>
<tr><td>Capitol Hill</td><td>12.7</td><td>(14,209)</td><td></td><td rowspan="2">Central</td><td rowspan="2">9.3</td><td rowspan="2">(19,581)</td><td rowspan="2">75,000</td></tr>
<tr><td>Downtown</td><td>15.1</td><td>(1,895)</td><td>496,359</td></tr>
<tr><td>Colo. Blvd./ Midtown</td><td>19.4</td><td>(45,262)</td><td></td><td rowspan="2">Colo. Blvd./ Cherry Creek</td><td rowspan="2">5.0</td><td rowspan="2">29,562</td><td rowspan="2"></td></tr>
<tr><td>Cherry Creek</td><td>11.2</td><td>28,205</td><td></td></tr>
<tr><td>Longmont</td><td>15.6</td><td>(13,455)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>North</td><td>18.7</td><td>(1,102)</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Northeast</td><td>17.0</td><td>39,252</td><td></td><td>Northeast</td><td>8.3</td><td>(10,326)</td><td></td></tr>
<tr><td>Northwest</td><td>16.6</td><td>5,475</td><td>285,000</td><td>Northwest</td><td>11.0</td><td>710</td><td>700,000</td></tr>
<tr><td>Southeast</td><td>17.6</td><td>(149,229)</td><td></td><td>Southeast</td><td>9.3</td><td>10,070</td><td>87,669</td></tr>
<tr><td>Southwest</td><td>10.2</td><td>(32,373)</td><td></td><td>Southwest</td><td>10.2</td><td>32,661</td><td></td></tr>
<tr><td>West</td><td>14.7</td><td>(32,303)</td><td>28,258</td><td>West</td><td>8.4</td><td>(1,064)</td><td></td></tr>
<tr><td>W. Hamp-Alameda</td><td>20.8</td><td>(38,086)</td><td></td><td>South</td><td>8.1</td><td>79,971</td><td>165,000</td></tr>
<tr><td>Denver Metro</td><td>16.4%</td><td>(250,417)</td><td>809,617</td><td>Denver Metro</td><td>9.5%</td><td>10,684</td><td>1,027,669</td></tr>
</table>

Source: CB Richard Ellis.

Consumer Spending

Consumer spending, as measured by retail trade sales, declined 11.1 percent in 2009 as consumers reacted to job losses and declining incomes. However, seasonally adjusted data show consumer spending increased slightly during the summer months and again through the holiday season. Still, many are not making purchases beyond basic necessities, opting instead to pay down credit card debt. Consumer prices in the region fell 0.6 percent in 2009 as the cost of energy, food, and housing fell.

Recent Economic News

- Longmont's Synkera Technologies, an advanced materials engineering company focusing on such fields as chemical sensing, analytical chemistry, gas/liquid separations, and renewable energy, added five employees, bringing its work force to 17 people.

- Sierra Nevada Corp., a Reno-based aerospace and defense company, is adding 200 jobs at the company's subsidiary aircraft repair and modification facility at Centennial Airport.

- IBM Corp. plans to add 500 customer service-related jobs at its Boulder campus due to tax rebates offered by the city of Boulder.

- Billet Tech, LLC in Longmont was awarded a $19.1 million contract to build special shipping containers for the U.S. Naval Air Systems Command. The company will add about 30 employees to its current workforce of four. New positions will include an engineer, a production manager, a quality supervisor, welders, machinists, and office personnel.

- Raytheon Co. has been awarded a U.S. Air Force Global Positioning System-related contract that will add more than 300 new high-paying jobs in Colorado over a six-year period.

- Smart & Final Stores, a California-based warehouse grocer, plans to open a chain of discount stores along the front range employing about 100 people at each of the five new locations, and will establish a regional corporate office in Metro Denver.

- Sprouts Farmers Market has opened two new stores in Centennial and Castle Rock, adding nearly 200 new jobs including department managers, department clerks, cashiers, and courtesy clerks.

- General Dynamics Corp. has opened a data center in Westminster to support its work for the Department of Homeland Security. The new facility will employ approximately 100 information technology workers, including service desk agents, information technology security specialists, engineers, and administrators.

- Norgen, which currently employs 200 in Littleton, will renovate and expand it's headquarters, allowing the company to add 40 new jobs. Norgen supplies pneumatic motion and fluid control technologies, used in everything such as simple pressing operations to multiaxis robotics.

- Centura Health plans to build an emergency room, imaging center, and medical office building in Castle Rock. The emergency center will include a helipad so patients in need of trauma care can be flown to St. Anthony Central Hospital in Denver. This facility is expected employ 50 physicians, nurses, lab technicians, and other staff.

- Lowe's will be the anchor of the Alameda Square shopping center, currently under redevelopment, and will be hiring up to 120 people.

- United Parcel Service, Inc. (UPS) will cut jobs nationwide, affecting a few positions in Colorado, though the exact number is not known.

- United Airlines will lay off 50 customer service employees based in Denver as part of capacity reductions.

- Sam's Club laid off 125 employees in Louisville. The store closed due to poor financial performance.

- Littleton Public School District is cutting at least 100 full-time employees—more than half are teachers—to make up a $9 million shortfall projected for the 2010-11 school year.

- Time Warner Cable is shutting down two locations in Metro Denver, laying off 350 employees. The company is also closing a call center and its National Systems headquarters.

Colorado Springs Region

Consistent with statewide trends, Colorado Springs and its regional economy are feeling the effects of a slow economic recovery marked by rising unemployment, low levels of consumer spending, and a struggling housing market. While many indicators are pointing toward recovery, economic growth momentum remains constrained and job losses continue. Table 16 shows economic indicators for the region through 2009.

Table 16
Colorado Springs Region Economic Indicators
El Paso County

	2007	2008	2009
Employment Growth /1			
Colorado Springs MSA	1.0%	-0.9%	-3.9%
Unemployment Rate /1	4.3%	5.7%	8.3%
Housing Permit Growth /2	-30.3%	-35.7%	-33.4%
Single-Family Permit Growth /2	-35.1%	-42.1%	-17.3%
Growth in Value of Nonresidential Const. /3	8.1%	-45.9%	-10.2%
Retail Trade Sales Growth /4	5.3%	-2.9%	-5.9%

NA = Not Available

1/ U.S. Department of Labor, Bureau of Labor Statistics. Employment data are seasonally adjusted and from the CES survey for all years. Unemployment data are not seasonally adjusted and 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.

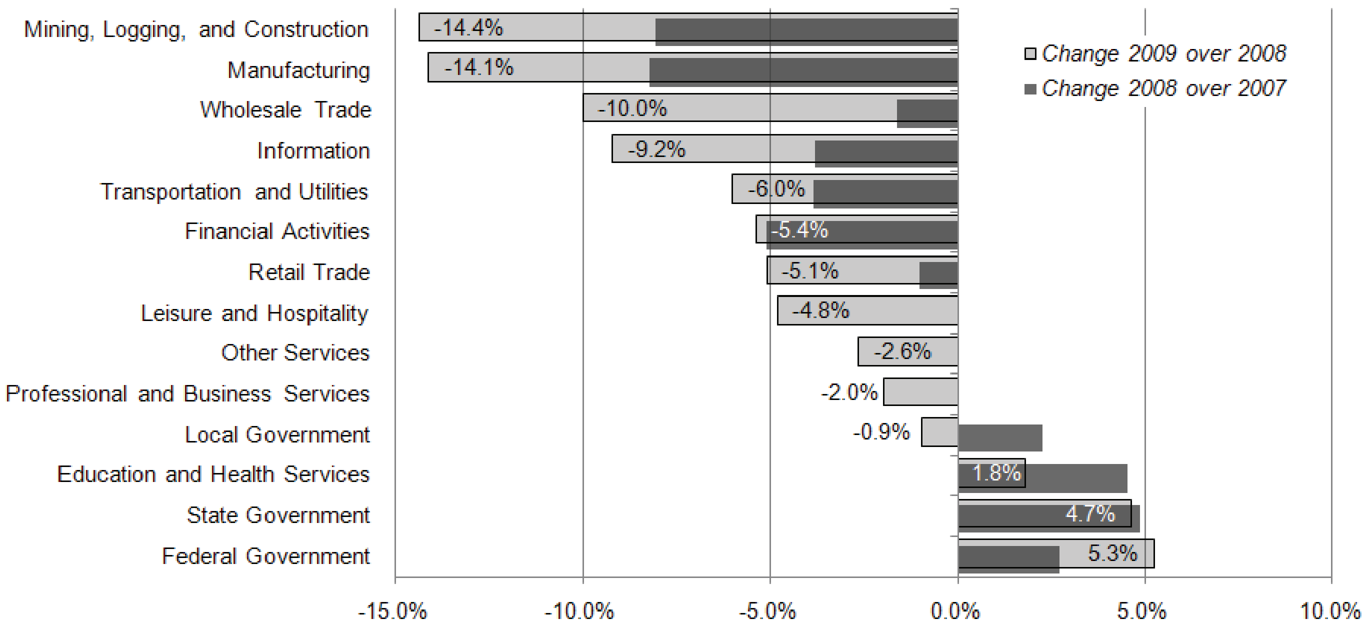
3/ F.W. Dodge.

4/ Colorado Department of Revenue.

2009 marked the second consecutive year of job losses for the region. Total nonfarm job employment decreased 3.9 percent in 2009 on top of the 0.9 percent decline in 2008, pulling the average annual unemployment rate up to 8.3 percent in 2009. With exceptions in federal and state governments and the education and health services sector, all sectors lost jobs in 2009. Mining, logging, and construction showed the steepest job losses, falling 14.4 percent after an 8.0 percent decline in 2008. Over the two-year period, the industry has lost 3,700 jobs. The volatility of gas prices and weaknesses in the home building industry are primarily responsible for declines. Manufacturing showed similar trends, dropping 14.1 percent in 2009 after a 8.2 percent decrease in the prior year. The industry lost 3,600 jobs over the two year period, 2,200 of which occurred in 2009. Low levels of consumer spending and slowed tourism and business travel to the region contributed to the 4.8 percent fall in employment in the leisure and hospitality sector and the 5.1 percent decline in retail trade employment. Jobs in these two sectors represent close to a quarter of the area's employment. Figure 16 shows area employment trends for 2008 and 2009.

The region's construction industry continues to struggle, pulled down by weaknesses in the residential housing and commercial real estate markets. Home building permits were down 33.4 percent and single-family permits dropped 17.3 percent in 2009. Declines moderated some in the final quarter of 2009 but the industry remains weak. Compounding low levels of construction, the market is suffering from a rising number of foreclosures. The Department of Local Affairs, Division of Housing reported that foreclosure filings in the region totaled 5,570 in 2009, up 19 percent from 4,597 filings in 2008. One in 92 households in the region completed foreclosures in 2009. This rate is very close to the statewide rate of one in 94 households.

Figure 16
Colorado Springs Metropolitan Statistical Area Employment Trends
Non-Seasonally Adjusted Data



Source: Bureau of Labor Statistics.

The value of nonresidential construction decreased 10.2 percent in 2009. Fewer permits in 2009 relative to the prior year for the construction of health-related facilities account for much of the decline.

Consumer spending, as measured by retail trade sales, continues to decline. Retail sales were 5.9 percent lower in 2009, faring better than the 11.3 percent statewide drop.

Recent Economic News

- The City of Colorado Springs ranked sixth on Forbes.com's annual "most wired" cities list due to the city's relative abundance of broadband providers and hot-spots.

- In January, call center operator PRC announced plans to hire 200 full-time, permanent employees over the next six months at its northern Colorado Springs center to handle orders for satellite television offered by DirecTV.

- Raytheon Co. was recently awarded a U.S. Air Force contract to modernize ground-control support for U.S. Global Positioning System (GPS) satellites worth approximately $886.5 million. Industry officials report the contract could bring more than 300 new high-paying jobs to Colorado, many likely to be in the Colorado Springs area.

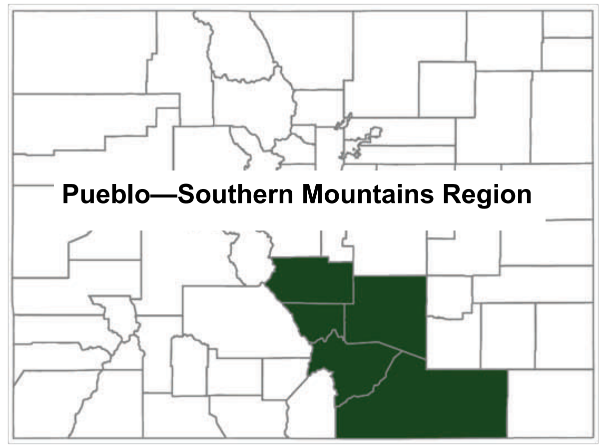
- Airport officials reported airport traffic to the Colorado Springs area fell 6.9 percent in 2009 to its lowest level in 15 years. Officials attributed the fall in traffic to the weak economy, a slowdown in business and tourism-related travel, and reduced airline offerings.

- Colorado Springs hotel occupancy rates also saw record low levels (56.6 percent occupancy) in 2009. The recession and a poor corporate meeting market were cited as reasons for the low occupancy.

- In efforts to cut city expenditures to address a $30 million budget shortfall, the City of Colorado Springs has removed trash cans from public areas, reduced bus services on weekends and evenings, and removed city lights. The city is also auctioning off two police helicopters to raise funds.

- Ford Motor Credit announced plans to eliminate 80 of the 560 jobs at its Colorado Springs customer service center by year's end in response to current and projected business conditions. Severance payments will be provided to laid off workers.

Pueblo — Southern Mountains Region



Similar to the rest of the state, Pueblo's five-county regional economy suffered from the deep recession in 2009. Rising unemployment, a depressed construction industry, and low levels of retail trade sales continued throughout 2009. Table 17 shows economic indicators for the region.

Table 17
Pueblo Region Economic Indicators
Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2007	2008	2009
Employment Growth /1			
Pueblo MSA	3.4%	-0.3%	-2.8%
Unemployment Rate /1	4.9%	6.1%	8.7%
Housing Permit Growth /2			
Pueblo MSA /2	-48.1%	-38.6%	-9.4%
Single-Family Permit Growth for Pueblo MSA /2	-47.3%	-40.1%	-51.5%
Growth in Value of Nonresidential Const. /3			
Pueblo County	-60.7%	48.1%	-75.6%
Retail Trade Sales Growth /4	6.5%	-1.9%	-4.6%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Employment data are seasonally adjusted and from the CES survey for all years. Unemployment data are not seasonally adjusted and 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.

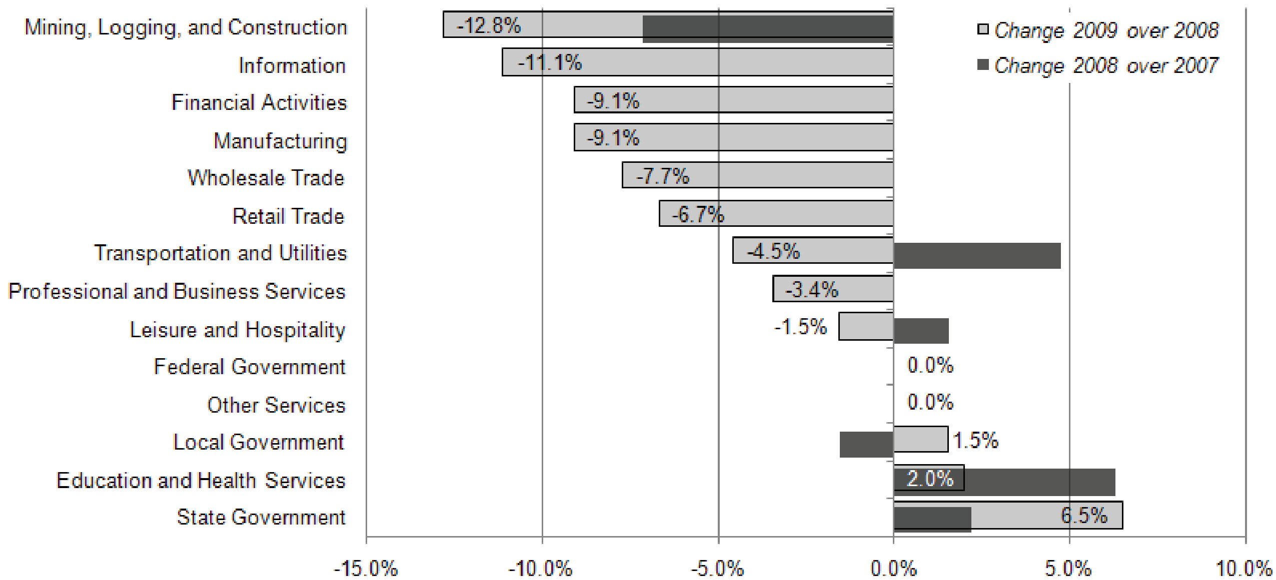
In the Pueblo metro area, nonfarm employment declined 2.8 percent in 2009. Employment was hit hard in all industries with the exception of the educational and health services, and state and local government sectors. Increases in employment to staff the region's K-12 and higher education institutions was largely responsible for increases in state and local government employment. The mining, logging, and construction, and manufacturing sectors were hardest hit with decreases of 12.8 percent and 11.1 percent, respectively. Reflecting struggles in the region's tourism industry, employment in retail trade and leisure and hospitality industries also saw employment fall an average of 6.7 percent and 1.5 percent, respectively. Figure 17 shows employment trends in the region for 2008 and 2009.

The unemployment rate for the region reached an annual average rate of 8.7 percent in 2009, up from 6.1 percent in 2008 and 4.9 percent in 2007. This rate exceeds the statewide rate of 7.7 percent. 2009 estimates show Huerfano County with the region's highest average annual unemployment rate of 8.9 percent. Fremont County showed a rate of 8.8 percent, Pueblo at 8.3 percent, Las Animas at 8.0 percent, and Custer at 6.8 percent.

Similar to most regions in the state, construction activity remains stagnant in the area. The region saw its third consecutive year of decreases in residential construction in 2009. In Pueblo County, residential permits decreased 9.4 percent while single-family permits declined 51.5 percent. Nonresidential permits fell 75.6 percent in 2009, largely due to the completion of several manufacturing contracts.

Retail sales fell 4.6 percent in the region through 2009, faring better than the 11.3 percent statewide decrease in sales.

Figure 17
Pueblo Metropolitan Statistical Area Employment Trends
Non-Seasonally Adjusted Data



Source: Bureau of Labor Statistics.

Recent Economic News

- According to company officials, Corrections Corporation of America (CCA) plans to suspend operations at the Huerfano County Correctional Center in April due to an Arizona proposal to phase out out-of-state beds. The CCA contract will expire and the Walsenburg facility, which employs a staff of 188, will close. Employees working at the facilities may transfer to other Colorado or nationwide CCA facilities.

- Governor Bill Ritter recently announced plans to open a portion of Colorado State Penitentiary II, the new administrative-maximum security prison, in July. The facility will employ over 200 employees, initially watching over 336 high-security inmates.

- Unlike the state and Pueblo County, the City of Pueblo has thus far avoided employee furloughs, layoffs or more drastic budget measures. Instead, the city has left 72 city jobs vacant, cut expenses, and tapped into reserves. However, city officials have indicated that further actions may be necessary to address a likely budget shortfall in 2011 if city tax revenue remains flat.

San Luis Valley Region

The San Luis Valley region's economy has begun to slowly emerge from a recession. In 2009, regional employment grew modestly. However, the unemployment rate increased for the third consecutive year. Once a bright spot, prices for the region's primary agricultural commodities fell sharply. The region's housing market also continues to struggle. In contrast, nonresidential construction showed signs of improvement and retail spending regained positive momentum. Table 18 shows the economic indicators for this region.

Table 18
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache counties

	2007	2008	2009
Employment Growth /1	-0.1%	-3.9%	2.3%
Unemployment Rate /1	4.7%	6.2%	7.4%
Statewide Crop Price Changes /2			
Barley (U.S. average for all)	31.4%	48.1%	-24.4%
Alfalfa Hay (baled)	0.0%	18.0%	-23.5%
Potatoes	14.1%	47.7%	-54.9%
SLV Potato (Inventory CWT) /2	-7.5%	11.6%	5.0%
Valley Potato Production (Acres Harvested)	-1.0%	-1.6%	-0.5%
Housing Permit Growth /3			
Alamosa County	-38.5%	20.8%	-47.3%
Single-Family Permit Growth	-38.5%	-4.2%	26.1%
Growth in Value of Nonresidential Const. /4			
Alamosa County	414.1%	-88.0%	1127.8%
Retail Trade Sales Growth /5	6.6%	3.3%	-1.6%

NA = Not Available.

1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 data are not seasonally adjusted and are from the LAUS (household) survey. Unemployment data is from the LAUS survey for all years reported.

2/ Colorado Agricultural Statistics Service. Data compares December 2009 to December 2008. For potato production, fall potato stock inventory compares January 1, 2010, inventory 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.

Nonfarm employment increased 2.3 percent in 2009 compared with 2008. The unemployment rate averaged 7.4 percent in 2009, up from 6.2 percent in 2008. Costilla and Saguache counties posted the highest unemployment rates in the region during December 2009 at 10.8 and 9.7 percent, respectively, while Alamosa was the lowest at 6.1 percent.

Agricultural prices decreased through the end 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, decreased 24.4, 23.5, and 54.9 percent, respectively. More than 90 percent of potatoes planted in Colorado are from the San Luis Valley region, and harvested acres decreased 0.5 percent through the end of 2009. Because of large amounts of potato stock from last year’s crop in both Colorado and around the nation, according to regional sources, there are a large number of potatoes in the market. In the first part of 2009, potato prices reached an all-time high and farmers in the region experienced a bumper crop for potatoes. Moreover, consumer preferences have changed as such that overall demand for potato products is decreasing. Thus, due to large supplies, prices for potatoes fell at the end of 2009.

Residential housing permits in Alamosa county decreased 52.8 percent in 2009. No permits were granted for multi-family housing during this period, down from 20 permits in 2008. In contrast, single family permits showed an increase of 47.3 percent through 2009. Similarly, the value of nonresidential construction increased in the region, largely due to school and college construction projects that remain ongoing.

Consumer spending, as measured by retail trade, decreased 1.6 percent on average in 2009. After decreasing in the beginning of 2009, retail trade began to slowly pick up in July on a seasonally-adjusted basis and has been increasing since that period. It seems that after curtailing spending in the beginning of 2009, consumers are becoming more confident. This is a good indicator that the region is entering a recovery.

Recent Economic News

- Lincoln Renewable Energy, a Chicago wind power company, submitted an application to Alamosa County to build a solar plant in the city of Alamosa. The company hopes to construct a 40-megawatt plant using photovoltaic technology, and is currently negotiating a power contract with Xcel. Between 75 and 145 workers would be needed to build the plant.

- Sierra Vista Lumber & Steel Company opened in Alamosa on February 1. The company will help property owners develop housing plans and provide building materials. Sierra Vista Lumber currently employs 7 people but hopes to expand by the summer.

- Annual visitation of the Great Sand Dunes National Park increased by 6 percent in 2009, with 290,425 visitors.

- First Solar withdrew its application to develop a power plant on Bureau of Land Management land in the San Luis Valley.

Southwest Mountain Region

The southwest mountain region's economy has begun to stabilize after a deep recession in 2009. The unemployment rate increased in the region and Dolores County had the highest unemployment rate in the state in 2009. In addition, permits for residential construction decreased substantially in the region. In contrast, the value of nonresidential construction increased due to several major construction projects, and the pullback in consumer spending is showing signs of improvement. Table 19 shows the economic indicators for the region.

Table 19
Southwest Mountain Region Economic Indicators

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

	2007	2008	2009
Employment Growth /1	2.3%	-2.3%	-3.7%
Unemployment Rate /1	3.3%	4.3%	6.7%
Housing Permit Growth /2			
La Plata County	-25.7%	-43.1%	-15.8%
Single-Family Permit Growth	-28.7%	-40.3%	-15.2%
Growth in Value of Nonresidential Const. /3			
La Plata County	907.3%	-83.8%	102.4%
Retail Trade Sales Growth /4	5.7%	-1.0%	-13.9%

NA = Not Available.

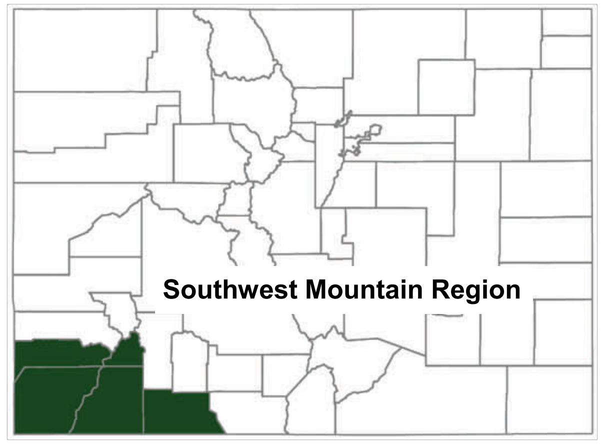
1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 data are not seasonally adjusted and are from the LAUS (household) survey. Unemployment data are not seasonally adjusted and are from the LAUS survey for all years reported.

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.

Nonfarm employment fell at an average annual rate of 3.7 percent in 2009 compared with a decrease of 2.3 percent in 2008. In addition, the unemployment rate was 6.9 percent, up from an average of 4.3 percent in 2008. During December, Dolores County's unemployment rate of 16.3 percent was the highest in the state. With the exception of La Plata, all other counties in the region experienced a higher unemployment rate than the state in December 2009, with Archuleta at 8.3 percent, Montezuma at 8.0 percent, and



San Juan posting 11.0 percent. Job growth in the region is expected to remain stagnant in the near future.

Residential construction permits in La Plata County decreased 15.2 percent in 2009, while permits for single-family units fell 15.8 percent. However, some areas of the region reported gains in the housing market. According to the Four Corners Board of Realtors, the number of homes sold in the City of Cortez, located in Montezuma County, was up to 13 in December, which is an increase of almost thirty percent from 10 sold in Decameter 2009. Overall, Montezuma County reported 21 homes sold in December, an increase from 14 sold over the same period in 2009.

In contrast, nonresidential construction increased substantially in 2009. This can be attributed to contracts for education, science, and amusement projects, including ongoing projects at Fort Lewis College at Durango.

Consumer spending, as measured by retail trade, was down an average of 13.9 percent in 2009 compared with 2008. On a seasonally adjusted basis, however, spending is improving. Although it decreased sharply through the first half of 2009, retail trade began to slowly increase in October and has been consistently rising since that period. It appears the significant pullback in consumer spending has subsided and the region's consumers are slowly regaining confidence.

Western Region

The economy of the western region remains one of the hardest hit in Colorado, and the latest data offer few signs for optimism. After slowing in 2008, regional employment has dropped markedly in 2009—especially in counties such as Garfield and Mesa that have relied on the natural gas industry. Although there are signs that industry activity in the region is rebounding as the price of natural gas rises, an uptick in employment is not yet in evidence. The regional unemployment rate, which more than doubled over the past year, was above the statewide average and among the highest in the state. Consumer spending and residential construction both fell sharply in 2009. Perhaps most alarming was the dramatic rise in regional foreclosures during 2009—both filings and sales nearly tripled from 2008 levels. Table 20 summarizes regional economic indicators.

Table 20
Western Region Economic Indicators

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

	2007	2008	2009
Employment Growth /1			
Western Region	6.1%	0.7%	-5.9%
Mesa County	6.1%	4.6%	-2.5%
Unemployment Rate /1	3.1%	3.9%	7.9%
Housing Permit Growth			
Mesa County /2	-13.2%	-42.6%	-53.4%
Single-Family Permit Growth	-8.1%	-47.2%	-47.5%
Montrose County /3	-33.2%	-58.6%	-56.9%
Single-Family Permit Growth	-28.8%	-61.8%	-34.6%
Growth in Value of Nonresidential Const. /3			
Mesa County	213.6%	-54.2%	-22.2%
Montrose County	-34.6%	-85.2%	-87.4%
Retail Trade Sales Growth /4	11.8%	1.0%	-19.1%

1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 data are not seasonally adjusted and are from the LAUS (household) survey. Unemployment data are not seasonally adjusted and 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.

On an average annual basis, nonfarm employment decreased in the Western region by 5.9 percent, and in Mesa County, the largest county in the region, by 2.5 percent. In December 2009, employment in Mesa County fell 10.2 percent compared with the end of 2008. In percentage terms, regional employment decreases were the highest in Ouray and Garfield counties over the last 12 months, with job losses of 15.0 and 12.8 percent, respectively. In contrast, Moffat and Delta county employment fell 5.3 percent

Unemployment in the region averaged 7.9 percent in 2009, more than double the rate experienced in 2008. Hinsdale reported the lowest unemployment rate at 3.6 percent, while Mesa and Montrose counties reported the highest unemployment rates in the region at 9.0 and 8.8 percent, respectively.

The western region has been significantly affected by a decline in natural gas exploration and production. However, rig counts within the region are showing signs of a rebound due to the rising price of natural gas. During the first week of March, a total of 51 rigs were operating in Colorado, compared to 59 a year ago. In Garfield County, natural gas rig counts had decreased to as low as 11 in November, but were back up to 22 by March. This compares to 28 in March 2008. Natural gas rigs remained constant at eight in Rio Blanco County. Mesa county has been slower to rebound, with only one natural gas rig operating at the beginning of March, compared to nine rigs a year earlier.

Consumer spending, as measured by retail trade sales, fell 19.1 percent in 2009; the largest drop for any Colorado region. Mesa County, accounting for over 46 percent of regional retail sales, fell 18.7 percent. In percentage terms, the largest drops in retail sales occurred in Rio Blanco and Garfield counties, which posted 30.5 and 26.9 percent declines, respectively. During this period, only Moffat County saw an increase in retail trade, with sales up 2.7 percent.

Many regional communities are experiencing sharp declines in sales tax collections, further illustrating the sharp drop in consumer spending within the region. For 2009, Grand Junction sales and use tax revenue fell by $11.7 million in 2009 compared with 2008, a 19.9 percent decrease. Similarly, sales tax revenues in Glenwood springs were down 17 percent for the year, coming in at $13.5 million. In Moffat County, 2009 sales tax collections in Craig fell by $237,383 percent, a 6.4 percent decline in revenue.

Residential construction in the region has continued to fall sharply. Permits for single-family home construction in Mesa County decreased 47.5 percent through December compared with 2008, while permits in Montrose County fell 34.6 percent.

The accelerating number of foreclosure filings and sales provides further evidence of the deteriorating housing market within the region. According to the fourth quarter foreclosure report by the Colorado Department of Local Affairs, regional foreclosure filings increased by over 1,750 in 2009 relative to 2008, with foreclosure sales up by over 600. With an increase of 821 filings, Mesa county accounted for 47 percent of the regional increase. Mesa County also saw the largest increase in foreclosure sales. It's increase of 248 sales accounted for 41 percent of the regional sales increase.

The malaise in the regional construction industry may also be seen through the decline in nonresidential construction. In 2009, the value of nonresidential construction fell in both Mesa and Montrose counties, decreasing by 22.2 and 87.4 percent respectively.

Recent Economic News

- City Market has begun construction and plans to open a new 58,000 foot store in Grand Junction by December. The store will cost $12 to $15 million and will employ between 120 and 150 people.

- The statewide apartment-vacancy rate held steady in the fourth quarter of 2009, while the rate in Grand Junction more than quadrupled, soaring from 3.1 percent in the fourth quarter of 2008 to 13.2 percent in the fourth quarter of 2009.

- Cabela's, a hunting, fishing and outdoor gear retailer, is hiring for positions at its new store in Grand Junction. Cabela's operates 29 other stores nationwide and expected to hire nearly 220 employees for its Grand Junction outlet, which is anticipated to open in May.

- Construction is set to begin this spring on a 100-room SpringHill Suites by Marriot. The $9 to $10 million project is slated to begin in April in the hopes of opening in the spring of 2011.

- Peabody Energy recently terminated 15 full-time positions at its Twentymile coal mine. The mine is located in Routt County, but a majority of employees live in Moffat county. The workforce reduction leaves the mine with 525 employees. The 8 million tons of average annual production is expected to continue for the foreseeable future.

- Two energy service firms in Grand Junction, Calfrac Well Services and BJ Services, are adding staff in anticipation of an uptick in natural gas development in western Colorado. Calfrac plans to increase its workforce by 10 percent, while BJ Services plans to add two to five people to it's 50-person local employee base.

Mountain Region

Pulled down by recessionary levels of tourism and a struggling real estate market, the mountain region's economy continues to see job losses, slow retail sales, and low levels of construction activity. Yet despite heavy declines in 2009, the region's economy appears to be stabilizing, supported by ski-related tourism and statewide and national economic growth slowly taking hold. Table 21 shows major economic indicators for the region.

Table 21
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller counties

	2007	2008	2009
Employment Growth /1	2.4%	-1.5%	-6.0%
Unemployment Rate /1	3.6%	4.0%	7.1%
Housing Permit Growth			
Eagle, Pitkin, & Summit Counties /2	-20.5%	-42.0%	-58.5%
Single-Family Permit Growth	-19.4%	-46.4%	-50.3%
Routt County /3	40.0%	-38.0%	-73.5%
Single-Family Permit Growth	-11.4%	-38.0%	-54.1%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	24.6%	-15.6%	-78.5%
Routt County	83.1%	-58.7%	-84.9%
Retail Trade Sales Growth /4	9.6%	-1.4%	-16.1%

1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 data are not seasonally adjusted and are from the LAUS (household) survey. Unemployment data are not seasonally adjusted and 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.

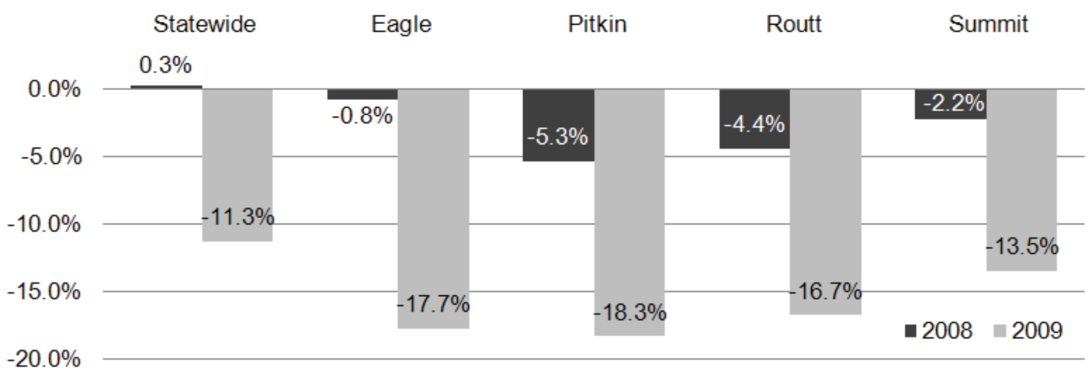
Job losses mounted in 2009, despite the transient nature of tourism-related employment in the region. Total nonfarm employment decreased 6.0 percent in 2009 after falling 1.5 percent in 2008. Job losses in the region outpaced the 4.5 percent fall in statewide employment in 2009. Unemployment in the region grew to an annual average rate of 7.1 percent in 2009, up from 4.0 percent in 2008. Counties with the highest unemployment rates include Lake (8.1 percent), Teller (7.5 percent), Clear Creek (7.0 percent), Eagle (6.8 percent), and Park (6.7 percent). Unemployment rate decreases accelerated at the end of 2009 for most counties in the region.

The region's real estate and construction activity slowed considerably in 2009. Real estate sales in Pitkin County fell 22 percent, according to a report by Land Title Guarantee Co. Housing permits were down 58.5 percent in the ski counties of Eagle, Pitkin, and Summit, while permits fell 73.5 percent in Routt County. 2009 marked the third year of double digit decreases in most construction activity indicators for the area. Nonresidential construction showed similar falls in activity for the ski counties and Routt County at 78.5 percent and 84.9 percent, respectively.

Foreclosure filings are up in all counties in the region. Eagle, Routt, Pitkin, and Chaffee counties more than doubled their filings over 2008 levels, according to a report from the Division of Housing.

Regional consumer spending, as measured by retail trade sales, dropped 16.1 percent in 2009, reflecting a large decline in tourism travel and spending in the ski counties, as illustrated by Figure 18. The ski counties account for nearly 80 percent of the region's retail sales. The region's sales levels currently reside below 2005 spending levels. Tourism to the region has picked up in 2010. However, hotel occupancy remains at low levels and tourists are spending little on nonessential items. Additionally, discounted hotel fairs and lift tickets are pulling down profits and dampening local sales tax revenue, thereby keeping local government budgets tight. Sales tax collections in Snowmass Village were down 15 percent in 2009. Most local governments are reporting similar revenue decreases resulting in General Fund shortfalls, budget cuts, furloughs, and leaving vacant city and county positions empty.

Figure 18
Percent Change in statewide and Ski County Retail Sales, 2008 and 2009



Source: Department of Revenue.

Northern Region

The northern region economy remains sluggish, although there are signs that some gains in economic activity are beginning to occur. Employment conditions are deteriorating and retail sales are still down, yet the agriculture and energy sectors are beginning to strengthen. Residential construction remains weak but developers are coming up with innovative ways to proceed with projects. Table 22 shows major economic indicators for the northern region.

Table 22
Northern Region Economic Indicators
Weld and Larimer counties

	2007	2008	2009
Employment Growth /1			
Fort Collins-Loveland MSA	2.1%	1.0%	-3.1%
Greeley MSA	2.9%	1.4%	-4.9%
Unemployment Rate /1			
Fort Collins-Loveland MSA	3.5%	4.3%	5.7%
Greeley MSA	4.2%	5.2%	8.7%
State Cattle and Calf Inventory Growth /2	-4.0%	1.9%	5.0%
Housing Permit Growth /3			
Fort Collins-Loveland MSA	-41.3%	-1.0%	-66.0%
Single-Family Permit Growth /3	-22.2%	-36.4%	-49.2%
Greeley MSA	-38.6%	-46.8%	-20.6%
Single-Family Permit Growth /3	-40.5%	-45.1%	-13.7%
Growth in Value of Nonresidential Const. /4			
Larimer County	8.8%	-18.2%	-48.6%
Weld County	19.5%	24.3%	80.2%
Retail Trade Sales Growth /5			
Larimer County	6.5%	-0.9%	-8.8%
Weld County	7.6%	2.1%	-15.1%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Employment data are seasonally adjusted and from the CES survey for all years. Unemployment data are not seasonally adjusted and 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 January 1, 2010 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.

Nonfarm employment decreased 3.1 percent in the Fort Collins-Loveland metro area and 4.9 percent in the Greeley metro area, both worsening throughout 2009. Overall, employment in the Northern region fell 3.8 percent. The mining, logging, and construction sector saw the sharpest reductions in employment, posting a 10.4 percent decline — amounting to a loss of 2,300 jobs. Retail trade, professional and business services, and manufacturing also lost a significant number of jobs, posting losses of 1,400, 1,300, and 1,200 respectively. As with other Colorado regions, education, health services and government sectors had slight gains in employment. The other services added 200 jobs.

Unemployment in both counties increased, with the Fort Collins-Loveland metro area's average annual unemployment rate rising to 5.7 percent and the Greeley metro area's jumping to 8.7 percent. On the bright side, a recent survey by Manpower shows Larimer County's employers plan to increase hiring by the second quarter of 2010. Among the survey participants, the Fort Collins-Loveland area employment outlook is the third-best in the nation.

Consumer spending, as measured by retail trade, continued to decrease through the end of the year. In Larimer County, retail trade fell 8.8 percent, while Weld County saw a decrease of 15.1 percent. While many hoped for stronger holiday shopping in December, consumers remained conservative in spending, opting to pay down debt rather than make new purchases.

The agricultural sector is showing some encouraging signs in the region. Weld County, which has over 3,000 farms covering 2.5 million acres, is Colorado's leading producer of beef cattle, grain, sugar beets, and dairy. The state's cattle and calf inventory increased 5.0 percent in 2009. Northeast of Greeley, the Western Sugar Cooperative reported sugar beet farmers in northern Colorado had a banner year. The wet spring and summer and a lack of high winds provided ideal growing conditions. In addition, poor weather conditions in India destroyed sugar cane crops, causing many countries to become importers of U.S. sugar. By December 2009, sugar beet growers in the cooperative, a total of 1,000 farmers in Colorado, Wyoming, and Nebraska, were waiting for the final payout which was expected to reach $3.2 million, up from $1.6 million in 2008.

Residential housing permits continued to plummet in the Fort Collins-Loveland area, while the Greeley area's drop in permits slowed. While deficiencies in the housing market have made home building difficult, two of northern Colorado's biggest developers are combining resources to develop properties in Fort Collins, Loveland, Greeley, Windsor, Timnath, Berthoud, Johnstown, Mead, and Severance. The land is not contiguous but is concentrated in a 10-mile radius. Developments will include commercial properties and over 9,000 residential lots plus a 700-lot golf community. Southwest of Greeley, the first new model home to be built in Milliken in more than a year was open for walk-throughs, with more home construction on the way for single- family homes in the price range around $160,000 to $175,000. Ground-breaking also began in west Greeley to finish a subdivision where 50 houses sold in 2009 and 70 more are expected to sell in 2010.

The value of nonresidential construction remained weak, decreasing 48.6 percent in Larimer County in 2009 compared with 2008, whereas construction in Weld County was up sharply by 80.2 percent, due mostly to the Vestas plant in Windsor. Nonresidential construction was off to a slow start in January, with only a few small projects under contract.

Recent Economic News

- A significant oil discovery in northern Weld County, three miles south of the Wyoming border, is producing high quality sweet crude oil in a record number of barrels. One well in the Niobrara Formation produced 1,770 barrels of oil (compared to the typical 100 to 150 barrels) in a 24-hour time period. The high quality of the oil is not often found in the country, sparking increased exploratory drilling activity in the region.

- In addition to the new Sprouts Farmers Market with an anticipated opening in April, Natural Grocers by Vitamin Cottage will expand to Greeley, opening a store in March. The store will initially employ 14 people, including one nutrition expert. Most stores grow to 50 employees within the first six months of opening.

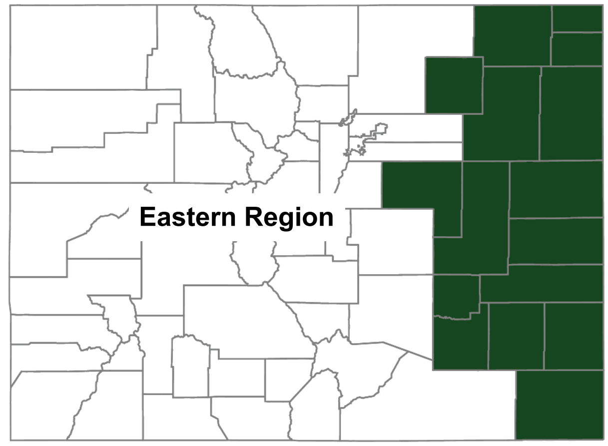
- Nanopartz, Inc. will offer 50 jobs in south Loveland, paying between $50,000 and $75,000 annually over the next five years. The company is the world's only producer of gold components called nanorods, devices that have applications ranging from cancer therapies to improving solar power generation.

- Vestas Wind Systems in Windsor has an order for 33 wind turbines. Vestas had temporarily halted production at its Windsor plant due to the economic slowdown, with employees placed on furlough. The order from the Granite Reliable Power Windpark in New Hampshire is the company's first in more than a year.

- Schlosser Signs, a Loveland-based family-owned custom sign company has expanded its operations into a new facility and anticipates adding 10 people to the existing seven-person team over the next few years.

- Colorado State University is wrapping up building projects and layoffs are anticipated from the facilities management department at the Fort Collins campus. The department is expected to eliminate 25 vacant staff positions and 10 filled positions, including architects, project managers, and engineers.

Eastern Region



The eastern plains economy is seeing a recovery from the recession that gripped this area of the state since late 2008. The region is seeing employment growth and unemployment levels that are faring better than statewide trends. In contrast to the positive gains, agricultural prices were down through 2009 and the housing market mirrors many other regions of the state as foreclosure filings grow. Table 23 shows major economic indicators for the region through 2009.

Table 23
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
Employment Growth /1	0.5%	-4.8%	4.5%
Unemployment Rate /1	3.5%	4.3%	5.7%
Crop Price Changes /2			
Wheat	110.8%	8.2%	-31.4%
Corn	26.9%	-0.3%	-14.0%
Alfalfa Hay (Baled)	0.0%	18.0%	-23.5%
Dry Beans	57.1%	21.5%	-15.8%
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%	5.0%
Retail Trade Sales Growth /3	6.0%	6.0%	-12.4%

NA = Not Available.

1/ Colorado Department of Labor and Employment. 2007 data are from the QCEW program. 2008 and 2009 data are not seasonally adjusted and are from the LAUS (household) survey. Unemployment data are not seasonally adjusted and 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 December 1, 2009 to December 1, 2008. State Crop Production is estimated for the 2009 crop over the 2008 production level

3/ Colorado Department of Revenue.

Through December, total employment in the region grew 4.5 percent, according to the Colorado Department of Labor and Employment. The region’s unemployment rate rose to 5.7 percent in December from 4.3 percent in 2008. Despite the rise in unemployment, the region continues to post the state's lowest unemployment rate, which may be resulting from seasonal agricultural and prison jobs. Of the 16 counties in the region, fifteen posted employment gains that ranged from 14.8 percent in Kiowa County to 3.7 percent in Prowers, Otero, and Crowley counties. Elbert County saw jobs decline 4.3 percent through December 2009.

The region's housing market is weak and continues to see growing foreclosure filings. Foreclosure numbers provide a view of how many borrowers have become seriously delinquent on their loans. The region saw foreclosure filings top 1,000 in 2009, a 32 percent increase over the prior year. Foreclosure sales were also up 13 percent over the same time period. These sales generally indicate how many borrowers have lost all equity in their property as the result of it being sold to another party at auction, including the mortgage company, an investor, or others. Table 24 show foreclosure filings and sales at auction statistics for four counties in the region that made up more than 75 percent of total filings and sales for the region. Bucking the trend, Otero County saw a 33 percent decline in foreclosure sales at auction.

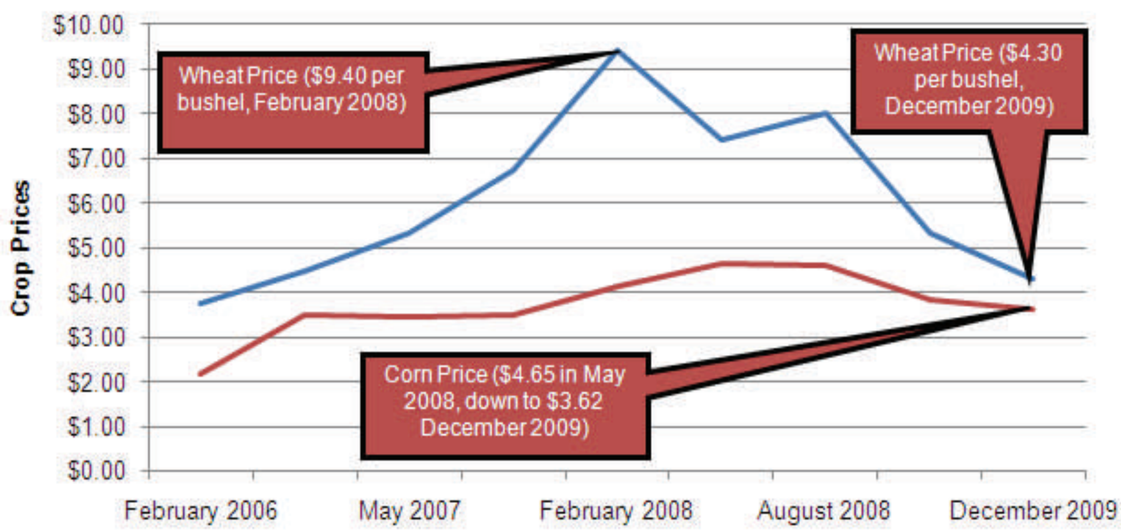
Agriculture remains one of the region's largest industries. Crop prices in the region (and state) were down at the close of the year. Wheat prices peaked in February 2008 at $9.40 per bushel and were down 46 percent at the close of 2009 at $4.30 per bushel. Corn prices settled at $3.62 per bushel at the close of 2009, down from the $4.65 high in May 2008. Alfalfa and dry

Table 24
2009 Foreclosure Filings and Sales at Auction Statistics for Selected Counties

County	2009 Foreclosure Filings	Annual Change (2009 over 2008)	2009 Foreclosure Sales	Annual Change (2009 over 2008)
Elbert	341	30.2%	137	13.2%
Morgan	234	68.4%	103	47.1%
Otero	95	0.0%	42	(33.3%)
Logan	95	53.2%	49	58.1%

Source: Department of Local Affairs, Division of Housing.

Figure 19
State Crop Prices for Wheat and Corn



Source: National Agricultural Statistics Service.

bean prices were also down over this same time period. Figure 19 shows a history of wheat and corn prices through 2009.

Regional spending, as measured by growth in retail trade sales, plummeted 22.5 percent through March 2009, and has seen gradual growth through the close of 2009.

Recent Economic News

- Fort Morgan's newly remodeled Clarion Inn recently opened and will employ up to 50 workers when the hotel is up and fully operational. The $3.7 million remodel is estimated to pay out $12 million in payroll over the next 10 years.

- Sykes Enterprises Inc., a Florida-based global outsourcing firm, will cut 100 customer-service positions in Sterling. Sykes is a publicly traded company with 51,000 workers in 24 countries. With its current workforce of 320 employees, it is Logan County's third-largest private sector employer.

- A new Shell station and convenience store will open next to Fort Morgan's Clarion Inn employing several workers.

- La Junta's Kentucky Fried Chicken restaurant closed. Eight workers were laid off.

Appendix A
Historical Data

National Economic Indicators

(Dollar Amounts in Billions)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross Domestic Product	$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	$14,077.7	$14,441.4	$14,258.7
percent change	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%	-1.3%
Real Gross Domestic Product (inflation-adjusted, chained to 2005)	$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	$12,989.0
percent change	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%	-2.4%
Unemployment Rate	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%	9.3%
Inflation (Consumer Price Index)	2.8%	2.9%	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	3.8%	-0.4%
10-Year Treasury Note	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%	3.3%
Personal Income	$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	$11,894.1	$12,238.8	$12,030.3
percent change	5.6%	6.3%	6.2%	7.5%	5.1%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.4%	5.7%	2.9%	-1.7%
Wage and Salary Income	$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	$6,408.9	$6,545.9	$6,284.4
percent change	5.8%	5.8%	7.2%	7.9%	6.7%	8.2%	2.6%	0.9%	2.8%	5.6%	5.1%	6.4%	5.8%	2.1%	-4.0%
Nonfarm Employment (millions)	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	134.3	129.5
percent change	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%	-2.4%	-3.6%

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)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Nonagricultural Employment (thous.)	1,834.7	1,900.9	1,980.2	2,057.6	2,132.6	2,213.8	2,226.9	2,184.2	2,152.8	2,179.6	2,226.0	2,279.1	2,331.3	2,350.3	2,244.0
percent change	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%	-4.5%
Unemployment Rate (%)	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	7.7
Personal Income	$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	NA
percent change	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%	NA
Per Capita Income	$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	NA
percent change	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%	NA
Wage and Salary Income	$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	NA
percent change	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%	NA
Retail Trade Sales	$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	66,345
percent change	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%	-11.3%
Housing Permits	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	19,086	9,393
percent change	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%	-35.2%	-50.8%
Nonresidential Construction	$1,957	$2,544	$3,274	$2,880	$3,783	$3,476	$3,500	$2,809	$2,708	$3,291	$4,221	$4,415	$5,251	$4,191	$3,049
percent change	18.5%	30.0%	28.7%	-12.0%	31.4%	-8.1%	0.7%	-19.7%	-3.6%	21.5%	28.3%	4.6%	18.9%	-20.2%	-27.2%
Denver-Boulder Inflation Rate	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%	-0.6%
Population (thousands, July 1)	3,738.1	3,812.7	3,891.3	3,969.0	4,056.1	4,328.1	4,444.7	4,514.4	4,574.2	4,637.5	4,701.4	4,795.1	4,883.0	4,974.7	5,061.3
percent change	2.3%	2.0%	2.1%	2.0%	2.2%	6.7%	2.7%	1.6%	1.3%	1.4%	1.4%	2.0%	1.8%	1.9%	1.7%

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