Focus Colorado: Economic And Revenue Forecast

Colorado Legislative Council Staff Economics Section

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Highlights

- Although Colorado's economy continues to recover from recession, growth is lagging the nation and is expected to decelerate in the second half of 2010. Growth will continue at modest rates over the next few years. Once the expansion gains solid footing and banking and real estate problems are resolved, Colorado's economy is expected to again outperform the nation.

- The FY 2009-10 General Fund budget is in balance. However, only $80.9 million, or 1.2 percent of General Fund appropriations, will be left in the reserve at the close of the year.

- In FY 2010-11, General Fund revenue will be sufficient to fund the amount budgeted to be spent and about one third of the reserve required by law. Revenue will fall short of the required reserve by $175.7 million.

- The Referendum C Cap will equal $10.7 billion in FY 2010-11, and revenue subject to TABOR will be $1.4 billion below the cap.

- After decreasing 84.8 percent in FY 2009-10 to $51.3 million due to lower energy prices and sizable tax credits, severance tax revenue will increase to $188.5 million 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 June 2010 economic, General Fund revenue, and cash fund revenue forecasts.

General Fund Budget Situation

Table 1 on page 4 presents the General Fund Overview based on current law. Table 2 on page 5 and 6 lists legislation from the 2008 through 2010 legislative sessions and other budgetary measures affecting the General Fund Overview.

FY 2009-10. The FY 2009-10 General Fund budget is in balance. Revenue available for spending in the General Fund is $80.9 million above the amount budgeted for expenditure in FY 2009-10 *(see line 22 of Table 1)*. However, there will only be enough money to fill a reserve equal to 1.2 percent of appropriations, or $51.7 million less than the two percent reserve currently required by the budget *(see line 21 of Table 1)*. Under current law, this $51.7 million deficit will be absorbed by the reserve.

FY 2010-11. Absorbing the FY 2009-10 deficit into the reserve, however, means that the General Fund will begin FY 2010-11 with less money than previously expected. Partially as a result of this, there will only be enough money to fund a reserve equal to 1.5 percent of appropriations in FY 2010-11. In other words, revenue is $175.7 million short of fully funding both the amount budgeted for expenditure and the statutorily-required four percent reserve. Under current law, the Governor must craft a plan to address a shortfall equal to whatever amount is needed to fill the reserve up to at least half of that required by law, or two percent of General Fund appropriations. In order to reach two percent of appropriations, the Governor would need to address at least $36.9 million.

These figures assume that the federal government will extend a full year of increased federal Medicaid assistance percentage (FMAP) in FY 2010-11. Under current federal law, that increase is only scheduled for the first half of FY 2010-11. If Congress does not extend it for the full year, an additional shortfall of $245.0 million would occur.

FY 2011-12. The FY 2011-12 General Fund budget is out of balance. Table 1 shows that revenue will be $61.4 million short of what is required to fully fund the four percent reserve required for that year. Because no budget has yet been enacted for FY 2011-12, operating appropriations were assumed to remain constant at the amount currently budgeted for FY 2010-11. In other words, there will be enough revenue to fully fund appropriations at the same level budgeted for in FY 2010-11, including other General Fund obligations as estimated in FY 2011-12, and about two-thirds of the reserve required for that year.

The FY 2011-12 shortfall incorporates previous years' shortfalls. Because the FY 2009-10 and FY 2010-11 shortfalls *(line 21 of Table 1)* are assumed to be absorbed into the reserve each year and carried forward into future years, the $61.4 million shortfall in FY 2011-12 is a three-year cumulative shortfall.

The FY 2011-12 shortfall is higher than reported in Table 1 by up to $1 billion. The $61.4 million estimate for the FY 2011-12 shortfall is artificially low for two reasons. *First*, budgetary pressures resulting from inflation and caseload growth are not incorporated into the shortfall estimate. Depending on decisions made by the state legislature, these budgetary pressures could be minimal or could exceed $300 million. *Second*, the $61.4 million shortfall does not consider that up to $617 million of one-time sources of money available for spending in FY 2010-11 may not be available in FY 2011-12. These one-time sources of money include $427 million of federal stimulus dollars used for Medicaid, $96 million of Amendment 35 tobacco tax revenue used for Medicaid, $89.2 million in federal stimulus dollars used for higher education, and $3.9 million of federal stimulus dollars used for child welfare in FY 2010-11. The extent to which these programs are fully backfilled for the loss of one-time moneys is at the discretion of the state legislature.

If you incorporate the losses of all of the one-time sources of money listed above into the shortfall for FY 2011-12, the FY 2011-12 shortfall increases from $61.4 million to $678 million. If you also assume that the state legislature chooses to fund $300 million in budgetary pressures from inflation and caseload growth, the shortfall increases to just under $1 billion.

Revenue Forecast

The FY 2009-10 forecast for total revenue subject to TABOR was decreased $342.2 million, or 3.9 percent, since the March forecast. The General Fund revenue forecast was decreased $302.1 million, while the cash fund forecast was decreased $43.4 million. The sum of the changes in General Fund and cash fund revenue do not equal the change in TABOR revenue because of changes in the distribution of revenue between the General Fund and cash funds.

- Much of the decrease in the **General Fund revenue** forecast resulted from decreased expectations in individual income taxes. Although the forecast for General Fund revenue decreased by more than $300 million, on a cash-accounting bases the forecast for General Fund revenue decreased by only $120 million. Large negative accounting adjustments are expected in both corporate income taxes and sales taxes. These accruals represent tax liability owed to the state that is not expected to be collected within the next twelve months either because the taxpayer cannot make the payment or the payment is tied up in the Department of Revenue's tax resolution process.

- **Cash fund revenue** subject to TABOR is expected to drop 11.7 percent in FY 2009-10 to $2.1 billion. Unemployment insurance revenue became exempt from TABOR this fiscal year, which eliminated a large source of cash fund TABOR revenue. Also, severance tax revenue dropped at an unprecedented rate due to the substantial drop in natural gas prices. However, the addition of TABOR cash fund revenue from FASTER and the Hospital Provider Fee this fiscal year are partially offsetting the revenue declines. TABOR cash fund revenue will increase in FY 2010-11 by 7.3 percent to $2.2 billion due to growth in most revenue sources.

Table 1
June 2010 General Fund Overview
(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	$80.9	$101.9
2	General Fund Nonexempt Revenue	6,742.7	6,411.7	6,355.3	6,503.6
3	General Fund Exempt Revenue (Referendum C)	0.0	0.0	748.4	752.5
4	Transfers to Other Funds	(4.4)	(458.1)	0.0	0.0
5	Transfers from Other Funds	815.2	428.3	48.1	2.8
6	Sales Taxes to Older Coloradans Fund and OASMCF	(8.8)	(10.9)	(10.9)	(10.9)
7	**Total Funds Available**	**$7,871.7**	**$6,814.3**	**$7,221.8**	**$7,349.9**
8	Percent Change	-1.8%	-13.4%	6.0%	1.8%
	EXPENDITURES	**Budgeted**	**Budgeted**	**Budgeted**	**Estimate/ B**
9	General Fund Appropriations	7,410.7	6,631.6	6,940.3	6,940.3
10	Adjustments to Appropriations	(237.9)	(38.0)	38.0	0.0
11	Rebates and Expenditures *(Lines 21-26 of Table 5)*	130.3	139.4	133.6	167.8
12	Reimbursement for Senior and Disabled Veterans Property Tax Cut	85.6	1.3	1.7	2.0
13	Funds in Prior Year Excess Reserve to HUTF	29.0	NA	NA	NA
14	Capital Construction Transfers	39.4	0.2	6.3	23.6
15	Accounting Adjustments	(28.6)	(1.0)	NE	NE
16	**Total Expenditures**	**$7,428.4**	**$6,733.4**	**$7,119.9**	**$7,133.7**
17	Percent Change	-3.4%	-9.4%	5.7%	0.2%
	BUDGET SUMMARY	**Actual**	**Estimate**	**Estimate**	**Estimate/ B**
18	**Amount Available for Expenditure** *(Line 7 minus Line 24)*	**7,724.0**	**6,682.5**	**6,942.7**	**7,072.3**
19	Dollar Change	(8.0)	(1,041.5)	260.2	129.6
20	Percent Change	-0.10%	-13.5%	3.9%	1.9%
21	***Revenue Will Restrict Expenditures and/or the Reserve by:***	***0.0***	***($51.7) /A***	***($175.7)***	***($61.4) /B***
	RESERVE	**Actual**	**Budgeted**	**Budgeted**	**Estimate/ B**
22	Year-End General Fund Reserve	443.3	80.9	101.9	216.2
23	Year-End Reserve As A Percent of Appropriations	6.0%	1.2%	1.5%	3.1%
24	Statutorily-Required Reserve	147.7	132.6	277.6	277.6
25	Reserve in Excess or (Deficit) of Statutory Reserve	$295.6	($51.7)	($175.7)	($61.4)
26	*Percent Change in General Fund Appropriations*	*0.7%*	*-8.1%*	*5.8%*	*NE*
27	Addendum: TABOR Reserve Requirement	273.1	254.5	279.2	287.8
28	Addendum: Arveschoug-Bird Appropriations Limit	7,546.8	10,277.4	10,616.0	10,387.1
29	Addendum: Amount Directed to State Education Fund	339.9	329.0	360.1	367.2

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

/A Under current law, the $51.7 million deficit in FY 2009-10 will be absorbed by the reserve.

/B Because the budget for FY 2011-12 has not yet been enacted, the budget summary (lines 18-21) for FY 2011-12 shows revenue available for expenditure in FY 2011-12 relative to General Fund appropriations for FY 2010-11 (line 9). In addition, because the FY 2009-10 and FY 2010-11 shortfalls (line 21) are assumed to be absorbed by the reserve each year and thus carried forward into future years, the shortfall in FY 2011-12 is a three-year cumulative figure. The FY 2011-12 shortfall of $61.4 million is artificially low because it does not consider inflation and caseload growth or that up to $617 million of one-time sources of money available in FY 2010-11 are not expected to be available in FY 2011-12. See page 3 of the executive summary for more information.

Table 2
Budgetary Measures Affecting the General Fund Overview /A
(Millions of Dollars)

Cash Fund Transfers

		2008-09	2009-10	2010-11	2011-12
HB 08-1078	Veterans Trust Fund	($2.9)	-	-	-
SB 09-208	Cash Fund Transfers	$221.6	-	-	-
SB 09-210	Tobacco Master Settlement Transfers	$1.2	$2.4	-	-
SB 09-264	Maximize ARRA FMAP Increase	-	$7.8	$3.1	-
SB 09-269	Cash Fund Transfers	($1.5)	-	-	-
SB 09-269	Tobacco Master Settlement Transfers	$13.9	$65.0	-	-
SB 09-270	Amendment 35 Tobacco Transfers—Interest	$6.3	$3.9	$2.6	$2.6
SB 09-279	Cash Fund Transfers	$114.1	$207.7	-	-
SB 09-279	Temporary Cash Fund Transfers	$458.1	($458.1)	-	-
HB 09-1223	Tobacco Master Settlement Transfers	-	$0.2	-	-
HB 09-1105	Colorado Innovation Investment Transfer	-	$0.4	$0.4	-
HB 10-1323	Tobacco Master Settlement Transfers	-	$2.3	$4.0	-
HB 10-1325	Natural Resource Damage Recovery Fund	-	$0.2	$0.2	$0.2
HB 10-1327	Cash Fund Transfers	-	$84.9	-	-
HB 10-1383	CollegeInvest Transfer	-	$29.8	-	-
HB 10-1388	Cash Fund Transfers	-	-	$26.6	-
HB 10-1389	Capital Construction Transfers	-	$19.1	$10.4	-
Transfer from Sales and Use Tax Holding Fund		-	3.8	-	-
DPA Procurement Bonus		-	$0.8	$0.8	-
Transfers to the General Fund		**$813.7**	**$428.3**	**$48.1**	**$2.8**
Transfers from the General Fund		**($4.4)**	**($458.1)**	**$0.0**	**$0.0**

General Fund Expenditure Impacts /A

		2008-09	2009-10	2010-11	2011-12
SB 09-227	Postpone Fire and Police Pension Payments	($25.3)	($25.3)	($25.3)	-
SB 09-259	Reduce Volunteer Firefighter Pensions	($0.1)	-	-	-
SB 09-276	Suspend Senior Property Tax Exemption	-	($91.5)	-	-
SB 10-190	Suspend Senior Property Tax Exemption	-	-	($91.7)	($96.4)
HB 10-1389	Reduce CERF Capital Construction Transfers	-	($1.8)	-	-
Medicaid Payment Delay		-	($38.0)	$38.0	-
Total Expenditure Measures		**($25.4)**	**($156.6)**	**($79.0)**	**($96.4)**

Statutory Reserve Impacts

		2008-09	2009-10	2010-11	2011-12
SB 09-219	FY 08-09 Statutory Reserve Reduction	($148.2)	-	-	-
SB 09-277	FY 09-10 Statutory Reserve Reduction /B	-	($0.9)	-	-
Total Reserve Impact		**($148.2)**	**($0.9)**	**$0.0**	**$0.0**

(Table 2 continues on next page)

Table 2 *(continued)*
Budgetary Measures Affecting the General Fund Overview /A
(Millions of Dollars)

General Fund Revenue Impacts

		2008-09	2009-10	2010-11	2011-12
Sales Taxes					
SB 09-121	Taxation of Restaurant Employee Meals	-	($0.4)	($0.4)	($0.4)
SB 09-212	Temporarily Repeal Vendor Fee—Part 1	$12.4	$26.2	$28.0	-
SB 09-275	Temporarily Repeal Vendor Fee—Part 2	-	38.6	41.2	-
HB 09-1035	Clean Technology/Medical Device Refund /B	-	-	-	-
HB 09-1126	Exemption for Solar Thermal Installation	-	($0.3)	($0.3)	($0.3)
HB 09-1342	Temporarily Repeal Cigarette Exemption	-	$29.5	$29.1	-
HB 10-1189	Repeal Exemption for Direct Mail	-	$0.2	$0.8	$0.8
HB 10-1190	Temporarily Repeal Exemption for Industrial Energy	-	$7.2	$37.6	$40.2
HB 10-1191	Repeal Exemption for Candy and Soda	-	$1.4	$18.0	$18.0
HB 10-1192	Repeal Software Regulation	-	$4.6	$23.7	$24.1
HB 10-1193	Sales Taxes and Out-of-State Retailers	-	-	$3.9	$4.9
HB 10-1194	Repeal Exemption for Food Containers	-	$0.4	$2.0	$2.0
HB 10-1195	Temporarily Repeal Exemption for Agricultural Products	-	$0.9	$4.6	$4.6
Total Sales Taxes		$12.4	$108.3	$188.2	$93.9
Income Taxes					
HB 09-1001	Tax Credit for Job Growth	-	($2.9)	($8.6)	($13.8)
HB 09-1067	In-Stream Flow Tax Credit /B	-	-	-	-
HB 09-1105	Colorado Innovation Investment Tax Credit /C	-	-	-	-
HB 09-1331	Tax Incentives for Fuel Efficient Vehicles	-	$1.8	$5.2	$1.9
HB 09-1366	Colorado Capital Gains Subtraction	-	$7.1	$15.8	$15.9
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	Penalty Fees—Increase in Income Taxes	-	-	$1.5	$3.0
HB 10-1196	Modify Tax Incentives for Fuel Efficient Vehicles	-	-	$2.7	$2.7
HB 10-1197	Limit Conservation Easement Credits	-	-	$18.5	$37.0
HB 10-1199	Modify Deduction for Net Operating Loss	-	-	$8.2	$16.5
HB 10-1200	Limit Enterprise Zone Investment Tax Credit	-	-	$4.0	$8.0
Total Income Taxes		*$0.0*	*$5.0*	*$44.0*	*$69.9*
Pari-mutuel Taxes					
SB 09-174	Horse and Greyhound Racing Regulation	-	$0.2	$0.2	$0.2
Insurance Premium Taxes					
SB 09-259	Cash Fund the Division of Insurance	-	$2.5	$2.5	$2.5
Total Measures Reserve		**$12.4**	**$116.0**	**$235.0**	**$166.5**

Total Budgetary Measures Affecting the General Fund Overview /A

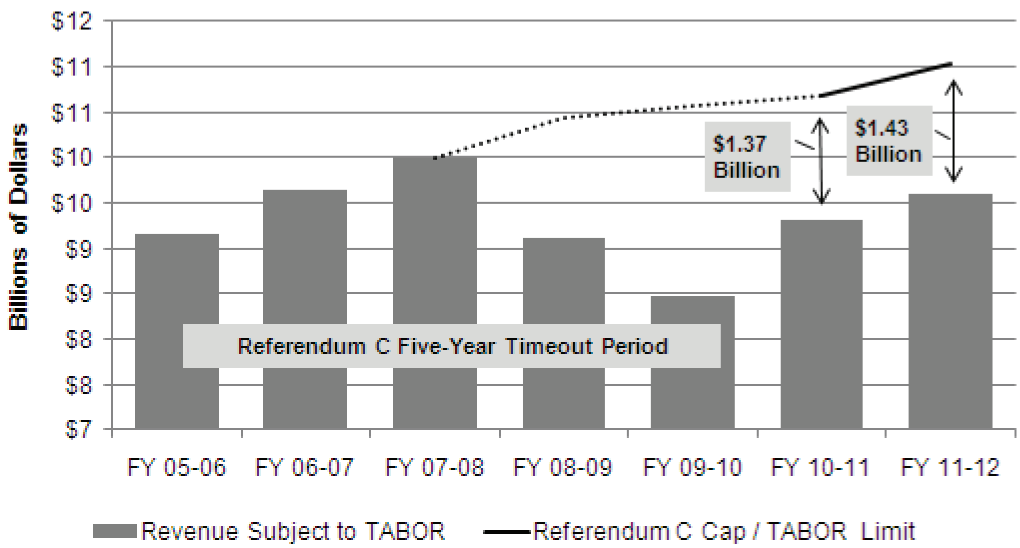
	2008-09	2009-10	2010-11	2011-12
Total	**$995.3**	**$243.7**	**$362.0**	**$265.7**

/A Excludes budgetary measures affecting General Fund operating appropriations.

/B These bills are effective only during years in which General Fund revenue is sufficient to allow General Fund appropriations to increase 6 percent. This is not expected to occur during the forecast period.

/C HB 09-1105 has a net impact of $0 to the General Fund.

Figure 1
TABOR Revenue and the Referendum C Cap



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

- Figure 1 shows TABOR revenue and the Referendum C Cap through the end of the forecast period, which extends two years beyond the Referendum C five-year time-out period. 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 $1.4 billion below the cap. Revenue will not be sufficient to produce a **TABOR refund** in FY 2010-11 or FY 2011-12. Table 4 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 3
History and Projections of Revenue
Retained by Referendum C

Actual	
2005-06	$1,116.1
2006-07	$1,308.0
2007-08	$1,169.4
2008-09	$0.0
Projections	
2009-10	$0.0
2010-11	$748.4
2011-12	$752.5

National Economy

Economic growth will be slow in 2010 and 2011, as the national economy struggles to maintain momentum. High unemployment, cautious optimism in investment and business spending, and high levels of household debt are dragging down economic growth. The job market is improving, but at a painfully slow pace as businesses remain hesitant to hire despite an improved business climate. While most sectors of the economy are expanding, construction, real estate, and financial sectors have yet to see light at the end of the tunnel.

A number of risks threaten the nation in recovery, including the possibility of the European debt crisis spreading to the United States, state and local government budget cuts, and the unraveling of unprecedented monetary and fiscal policy. How these events unfold through the end of 2010 and beyond will play a significant role in the health of the economy and the sustainability of growth.

Colorado Economy

The Colorado economy continues to recover amid significant headwinds. Growth is lagging the nation, and is expected to decelerate in the second half of 2010. Colorado banks are in worse shape than in most states, and lending from Colorado-based institutions continues to shrink. Heavy debt burdens are weighing down the real estate sector. In the first quarter of 2010, twenty-eight percent of mortgage holders were at or near negative equity, meaning that they owe more on their mortgage than the value of the home. There continues to be more properties flowing into foreclosure than out.

There are weak signs of economic recovery, but job growth in Colorado remains elusive. The labor market continues to bleed jobs, and the unemployment rate will increase before it declines. The state has challenges to overcome in this recovery. Once the expansion regains solid footing and banking and real estate problems are resolved, Colorado is expected to once again grow faster than the nation.

Table 4
June 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	$6,386.8	$7,058.3	$7,247.4
2	Cash Funds	2,373.3	2,095.0	2,248.0	2,345.4
3	**Total TABOR Revenue**	**$9,102.4**	**$8,481.8**	**$9,306.3**	**$9,592.8**
	Revenue Limit				
4	Allowable TABOR Growth Rate	4.1%	5.8%	1.1%	3.3%
5	Inflation (from prior calendar year)	2.2%	3.9%	-0.6%	1.6%
6	Population Growth (from prior calendar year)	1.9%	1.9%	1.7%	1.7%
7	Allowable TABOR Limit Base /B	$9,203.8	$9,172.4	$8,557.9	$8,840.3
8	Voter Approved Revenue Change (Referendum C)	$0.0	$0.0	$748.4	$752.5
9	Total TABOR Limit / Referendum C Cap	NA	NA	$10,672.6	$11,024.8
	Retained/Refunded Revenue				
10	Retained Revenue (General Fund Exempt)	$0.0	$0.0	$748.4	$752.5
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 forecast for General Fund revenue. Table 5 on page 11 illustrates revenue collections for FY 2008-09 and projections for FY 2009-10 through FY 2011-12. General Fund revenue decreased $1.0 billion in FY 2008-09, or 12.9 percent, from the prior year. In FY 2009-10, revenue will decrease another $331.0 million, or 4.9 percent.

The General Fund forecast for FY 2009-10 was decreased by $302.1 million relative to the March forecast. Much of this decrease occurred because estimated individual income taxes from small- to medium-sized businesses and wealthier individuals failed to materialize as had been expected in March. On a cash-accounting basis, revenue from corporate income taxes, sales taxes, and other sources of individual income taxes have been coming in at levels at or above those expected in the March forecast.

Most of the rest of the decrease in the forecast is the result of an expected negative accounting adjustment estimated at $118.5 million. This adjustment represents tax liability owed to the state that is not expected to be collected within the next twelve months, either because the taxpayer cannot make the payment, or the payment is tied up in the Department of Revenue's tax resolution process. About $63 million is from corporate income taxpayers, about $17 million is from individual income taxpayers, and about $40 million is from businesses that collect and remit sales taxes to the state.

The General Fund revenue forecast for FY 2010-11 was nearly unchanged from the March revenue forecast, decreasing by only $15.3 million, or 0.2 percent. General Fund revenue will increase 10.8 percent in FY 2010-11 to $7.1 billion.

After falling 12.9 percent in FY 2008-09, **individual income** tax revenue will drop another 5.3 percent, or $228.7 million, in FY 2009-10 due to the severe and persistent economic downturn's impact on the income of Coloradans. Individual income tax revenue will increase in FY 2010-11 as the economy slowly improves.

The FY 2009-10 individual income forecast was lowered by $231.3 million, or 5.3 percent, from the March forecast as revenue collections, mostly from estimated income tax payments, failed to materialize as projected. Most of the money that failed to materialize comes from small- to medium-sized business owners and from wealthier taxpayers who have higher amounts of investments.

Wealthier taxpayers generally make estimated payments for the amount of income tax they expect to owe each year on capital gains and interest and dividend income. The March forecast assumed that estimated payments would pick up due to the surge in the stock market. However, it appears that many taxpayers have continued to carry forward investment losses from the plunge in asset values that accompanied the real estate collapse and financial crisis. Therefore, many taxpayers thus far have experienced little or no income from investments. Contributing to the weakness in estimated payments is the continued struggles of small businesses in the state.

Partially offsetting the weakness in estimated payments is stronger-than-expected revenue from income taxes withheld from

Table 5
June 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
1	Sales	$1,931.1	-9.2	$1,831.7	-5.1	$2,089.0	14.0	$2,173.0	4.0
2	Use	176.7	-7.6	148.0	-16.3	173.0	16.9	182.1	5.2
3	Cigarette	43.5	-3.9	40.7	-6.4	39.2	-3.7	37.0	-5.6
4	Tobacco Products	13.2	5.9	13.3	1.0	15.0	12.9	15.5	3.6
5	Liquor	35.0	-2.0	34.6	-1.1	36.1	4.3	36.3	0.7
6	TOTAL EXCISE	$2,199.4	-8.8	$2,068.2	-6.0	$2,352.3	13.7	$2,444.0	3.9
7	Net Individual Income	$4,333.3	-12.9	$4,104.6	-5.3	$4,445.0	8.3	$4,534.1	2.0
8	Net Corporate Income	292.5	-42.4	308.5	5.5	397.2	28.8	401.4	1.0
9	TOTAL INCOME TAXES	$4,625.8	-15.6	$4,413.1	-4.6	$4,842.3	9.7	$4,935.4	1.9
10	Less: Portion diverted to the SEF*	-339.9	-16.7	-329.0	-3.2	-360.1	9.5	-367.2	1.9
11	INCOME TAXES TO GENERAL FUND	$4,285.9	-15.5	$4,084.1	-4.7	$4,482.1	9.7	$4,568.3	1.9
12	Insurance	192.4	2.2	187.0	-2.8	193.5	3.5	202.5	4.6
13	Pari-Mutuel	0.5	-83.1	0.5	3.3	0.4	-15.6	0.4	-3.5
14	Investment Income	9.4	-47.8	10.3	9.6	10.4	1.5	11.8	13.0
15	Court Receipts	24.1	-18.6	18.0	-25.4	0.3	-98.5	0.3	4.7
16	Gaming	2.8	NA	16.2	NA	36.7	NA		NA
17	Other Income	28.3	45.0	27.4	-3.0	28.0	1.9	29.0	3.5
18	TOTAL OTHER	$257.4	-0.2	$259.4	0.8	$269.3	3.8	$243.9	-9.4
19	**GROSS GENERAL FUND**	**$6,742.7**	**-12.9**	**$6,411.7**	**-4.9**	**$7,103.7**	**10.8**	**$7,256.1**	**2.1**
20	REBATES & EXPENDITURES:								
21	Cigarette Rebate	$12.1	-4.7	$11.9	-1.7	$11.5	-3.7	$10.8	-5.6
22	Old-Age Pension Fund	102.4	9.8	108.0	5.6	102.6	-5.1	111.2	8.4
23	Aged Property Tax & Heating Credit	5.3	-49.0	8.3	55.7	8.2	-1.0	8.1	-1.0
24	Interest Payments for School Loans	5.5	-53.6	6.0	9.6	6.1	1.5	6.9	13.0
25	Fire/Police Pensions	4.0	-89.6	4.2	5.3	4.4	2.6	29.8	583.8
26	Amendment 35 GF Expenditures	1.0	-0.9	0.9	-4.9	0.9	0.1	0.9	-0.9
27	TOTAL REBATES & EXPENDITURES	$130.3	-22.5	$139.4	7.0	$133.6	-4.2	$167.8	25.6

Totals may not sum due to rounding.
**SEF = State Education Fund.*

paychecks—which is by far the largest source of individual income tax revenue, averaging around 80 percent of the total. The relatively stable level of withholding payments, though still decreasing from last year, has been surprising given the state's high unemployment levels and weak wage growth.

After a 17.5 percent two-year cumulative decline in individual income tax collections— resulting in a loss of $870 million to the state—revenue will finally rebound in FY 2010-11 with an 8.3 percent increase. Although income taxes from wage withholdings will increase only slightly amidst the sluggish jobs recovery, revenue from estimated payments will post growth after being cut by more than half since FY 2007-08. Less tax refunds will also bolster income tax revenue growth in FY 2010-11.

Although the stock market has become more volatile recently, the S&P 500 is still 50 percent higher than its March 2009 level. As a result of the increase in stock market values, investors will begin to realize capital gains. Further, the increase in federal tax rates on capital gains scheduled for 2011 will likely cause some investors to sell some assets before the increases take effect to lower the tax liability on the assets. This is expected to result in a modest acceleration of some gains from 2011 into 2010. A recovering economy over the fiscal year will also help more smaller businesses experience improved sales and income. These factors will help pull up estimated income tax payments.

Finally, the General Assembly's deferral of certain income tax credits and deductions available to individual income taxpayers will increase tax collections to the state. The largest of these changes include the temporary reduction in the conservation easement tax credit, the narrowing of the credit for fuel efficient vehicles, and changes to the Colorado source capital gains subtraction. A full list of these income tax changes can be found in Table 2 on page 6.

After decreasing 42.4 percent in FY 2008-09, **corporate income taxes** will increase a modest 5.5 percent in FY 2009-10. Even though job recovery has been slow, firms cut costs during the recession and corporate profits have returned as consumer spending has begun to recover. On a cash-accounting basis, expectations for corporate income taxes were increased by $37.9 million for FY 2009-10. However, it is expected that about $63 million in tax liability attributable to FY 2009-10 will not be collected within the next twelve months because these payments are tied up in the department's tax resolution and auditing process. Because of this, the forecast for corporate income taxes decreased $20.6 million compared with the March revenue forecast on an accrual-accounting basis.

Corporate profits are expected to continue recovering over the remainder of the forecast period and much of the tax receipts currently tied up in the tax resolution process are expected to eventually be collected. Thus, corporate income taxes are expected to increase 28.8 percent in FY 2010-11. Expectations for corporate income taxes were increased by $4.0 million in FY 2010-11 and $8.0 million in FY 2011-12 as a result of **House Bill 10-1200**, which limits the enterprise zone investment tax credit to $500,000.

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 $329.0 million in FY 2009-10, a decrease of 3.2 percent, and $360.1 million in FY 2010-11.

Sales tax revenue continues to rebound and is coming in very closely to the March forecast on a cash basis. While overall economic growth remains weak, consumer and business confidence is up from a year ago, boosting sales tax collections. Federal stimulus programs and an increase in income tax refunds temporarily lifted disposable income and spending in the first half of 2010. Growth in spending and tax collections is expected to moderate in the second half of the year.

On a cash basis, sales tax revenue dipped 4.7 percent to $1.9 billion in FY 2009-10. However, this does not incorporate a large negative accrual adjustment due to unexpected tax refunds of about $40 million that are currently going through the tax resolution process at the Department of Revenue. Adjusting for these refunds lowers the FY 2009-10 estimate to $1.8 billion, a 5.1 percent decline over FY 2008-09.

In FY 2010-11, sales tax revenue is expected to increase 10.0 percent on a cash basis. This increase is partly due to a stronger economy than a year ago. However, a large portion of the increase is the result of several measures enacted by the state legislature to boost tax revenue. In the 2009 session, the sales tax exemption on purchases of cigarettes was temporarily eliminated, along with the vendor fee that retailers retain to offset their costs of sales tax collection. These measures added roughly $100 million to state collections. In 2010, several House Bills broadened the sales tax base. Most of this expansion is permanent. A list of these bills is included in Table 2 on page 6. On an accrual basis, sales tax revenue will increase an estimated 14.0 percent, because the large refunds posted in FY 2009-10 are not expected to occur again in FY 2010-11.

Growth in consumer spending is expected to increase with the strengthening economy. However, the expiration of temporary tax measures will restrain growth in state sales tax revenue. In FY 2011-12, sales tax revenue will increase 4.0 percent.

Use tax revenue will drop 16.3 percent in FY 2009-10 but is expected to rebound strongly in FY 2010-11, rising 16.9 percent. The increase is primarily due to a stronger economy than a year ago.

CASH FUNDS

Table 6 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 that was created in 2009. 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 11.7 percent from FY 2008-09. Cash fund revenue will increase 7.3 percent to $2.2 billion in FY 2010-11. These estimates are similar to what was expected in the March forecast.

There are two main reasons for the drop off in cash fund TABOR revenue in FY 2009-10. First, unemployment insurance revenue became exempt from TABOR, eliminating a large source of revenue. The other main contributor is the dramatic decline in severance tax revenue. This decline stems from the combination of the fall in natural gas prices during the recession and the structure of the severance tax which exacerbates revenue fluctuations when energy prices swing substantially from year-to-year.

A portion of the decline 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 new revenue generated from the Hospital Provider Fee. TABOR cash fund revenue will increase in FY 2010-11 as most revenue sources grow—with a notable rebound in severance tax revenue. The increases will offset the decrease in insurance-related revenue attributable to 2009 legislation that reduces workers compensation-related premiums.

In the current fiscal year, revenue to the ***transportation-related*** cash funds will see an overall increase of 13.7 percent, or $126.7 million. The increase is largely attributable to **Senate Bill 09-108 (FASTER)**. Forecasts for transportation-related cash funds are shown in Table 7 on page 16.

Overall revenue to the *Highway Users Tax Fund (HUTF)* will grow 17.0 percent in FY 2009-10 and at a modest pace in the years that follow. The slow pace of economic growth and the trend toward lighter and more fuel efficient vehicles will keep revenue growth slow for both *registration fees* (which are tied to vehicle weight) and *motor fuel excise taxes*. The forecast for motor fuel excise tax revenue was lowered slightly from the March 2010 forecast due to lower-than-expected revenue from special fuels. The impact of the recession on commerce and trucking was more severe than previously expected.

FASTER revenue is coming in about $5 million lower than the original fiscal note projection at $145.2 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 coming in approximately $10 million lower than originally projected in FY 2009-10 (see Addendum to Table 7). **Senate Bill 10-198**, which reduces the late registration fee for non-motorized vehicles, is expected to reduce FASTER

Table 6
Cash Fund Revenue Subject to TABOR Estimates, June 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**	**$1,048.8**	**$1,060.4**	**$1,074.9**	
% Change	0.2%	13.7%	1.1%	1.4%	**5.2%**
Unemployment Insurance	**$388.2**	**NA**	**NA**	**NA**	
% Change	-9.0%				
Hospital Provider Fee	**NA**	**$340.9**	**$360.3**	**$422.6**	
% Change			5.7%	17.3%	
Severance Tax	**$336.9**	**$51.3**	**$188.5**	**$187.2**	
% Change	98.1%	-84.8%	267.7%	-0.7%	**-17.8%**
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**	**$45.0**	**$18.5**	**$19.5**	
% Change	-20.5%	-12.6%	-58.9%	5.4%	**-27.6%**
Regulatory Agencies	**$78.1**	**$61.4**	**$61.5**	**$62.7**	
% Change	37.6%	-21.4%	0.2%	1.8%	**-7.1%**
Capital Construction - Interest /A	**$10.1**	**$2.9**	**$1.4**	**$1.0**	
% Change	-47.8%	-70.9%	-50.9%	-32.2%	**-54.0%**
Other Cash Funds /B	**$487.6**	**$442.0**	**$451.5**	**$468.6**	
% Change	13.1%	-11.1%	3.7%	3.9%	**-1.3%**
Total Cash Fund Revenue	**$2,373.3**	**$2,095.0**	**$2,248.0**	**$2,345.4**	
Subject to the TABOR Limit	**7.5%**	**-11.7%**	**7.3%**	**4.3%**	**-0.4%**

Totals may not sum due to rounding.

**CAAGR: Compound Average Annual Growth Rate.*

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

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

Table 7
Transportation Funds Revenue Forecast by Source, June 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	$538.7	$549.1	$558.5	1.1%
% Change	-6.5%	-0.2%	1.9%	1.7%	
Registrations	$182.0	$184.3	$186.6	$188.8	1.2%
% Change	-1.8%	1.3%	1.2%	1.2%	
FASTER Revenue /A		$145.2	$137.9	$134.7	
% Change			-5.0%	-2.4%	
Other Receipts /B	$52.9	$38.4	$51.8	$52.6	-0.2%
% Change	27.8%	-27.4%	35.0%	1.5%	
Total HUTF	**$774.7**	**$906.6**	**$925.4**	**$934.6**	6.5%
% Change	-3.6%	17.0%	2.1%	1.0%	
State Highway Fund	$69.3	$56.2	$59.8	$62.9	-3.2%
% Change	-21.7%	-18.9%	6.4%	5.2%	
Other Transportation Funds /C	$78.1	$86.0	$75.2	$77.4	-0.3%
% Change	-3.1%	10.2%	-12.6%	2.9%	
Aviation Fund /C	$32.3	$25.5	$26.1	$27.0	
Law-Enforcement-Related /D	$10.9	$11.7	$12.5	$12.7	
Registration-Related /E	$34.8	$48.8	$36.6	$37.7	
Total Transportation Funds	**$922.1**	**$1,048.8**	**$1,060.4**	**$1,074.9**	5.2%
% Change	-5.2%	13.7%	1.1%	1.4%	

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		$41.1	$62.4	$83.2

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.

revenue by about a half a million dollars annually starting in FY 2010-11.

The dip in revenue from *other HUTF receipts* in FY 2009-10 corresponds with an increase in *other transportation revenue*, and reflects the one-year $12.9 million diversion of drivers license fee revenue from the HUTF to the Licensing Services Cash Fund to finance operations at the Division of Motor Vehicles pursuant to **Senate Bill 09-274.**

State Highway Fund revenue will fall 18.9 percent in FY 2009-10 due almost entirely to depressed interest earnings, which are expected to grow very modestly through the forecast period. While federal transportation funding legislation has been extended through the end of the calendar year, a multi-year federal transportation funding program has yet to be determined.

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 and revenue from licensing fees, emissions inspections, and other non-HUTF vehicle registration fees.

In April, the ***Hospital Provider Fee*** program (created by **House Bill 09-1293,** the Health Care Affordability Act) received federal approval, allowing the state to charge a fee to hospitals to draw down matching federal dollars to expand medical assistance programs. In FY 2009-10, the fee will generate $340.9 million in revenue. This amount will grow in the next several fiscal years with further expansions of federal and state medical assistance programs.

The American Recovery and Reinvestment Act of 2009 (ARRA) provided enhanced federal financial participation, commonly referred to as Federal Medicaid Assistance Percentages (FMAP). **Senate Bill 10-169** allows excess hospital provider fee revenue resulting from ARRA FMAP to be transferred either to the Health Care Expansion Fund or to the General Fund. As a result of the bill, in FY 2009-10, $4.9 million in hospital provider fee revenue is anticipated to be transferred to the General Fund and $41.2 million will be transferred to the Health Care Expansion Fund. In FY 2010-11, a total of $46.3 million was anticipated to be transferred to the General Fund. However, as of the release of this forecast, Congress has not yet approved extending the ARRA enhanced FMAP for the second half of FY 2010-11. If Congress does not approve the extension, the FY 2010-11 General Fund offset of $46.3 million will be reduced to $23.2 million.

FY 2009-10 total **severance tax revenue**, including interest earnings, is projected to come in at $51.3 million, a decrease of 84.8 percent from FY 2008-09. The FY 2009-10 amount represents a marked reduction from the March forecast. The reduction is mostly due to larger-than-expected refunds and smaller-than-expected tax paid when oil and gas severance taxpayers began to file their returns for the 2009 tax year. Severance tax refunds were $20 million higher in the March-to-May period this year than in 2009, while taxes paid were $42 million less in the same period. This can be attributed mostly to the claiming of large tax credits on the returns that were based on the high value of natural gas and oil produced in 2008.

Another reason for the drop in the FY 2009-10 forecast is a relatively large negative accrual adjustment that is expected to occur. An accrual is an accounting adjustment that moves revenue to the time period in which the economic activity that generated the revenue occurred. The expected negative adjustment is a result of the combination of a large accrual adjustment in FY 2008-09 and the large drop in severance tax collections this fiscal year compared with last.

Severance taxes will rebound to a projected $188.5 million in FY 2010-11 due to higher natural gas prices and the claiming of smaller tax credits compared with FY 2009-10. The forecast for FY 2010-11 is essentially the same as was projected in March.

Although natural gas prices rebounded nicely at the end of 2009 from their depressed levels due to the nation's cold winter and as the economic recovery began, more mild weather in the spring and strong gas production has subsequently brought prices down. Despite the lower prices, the number of drilling rigs operating in the state has remained stable after increasing from their low levels during the recession.

Natural gas spot prices averaged $3.50 per Mcf (thousand cubic feet) in 2009 for Colorado producers. In 2010, natural gas prices are expected to average $4.55 per Mcf in 2010 with the recovering economy. An expected decrease in natural gas drilling activity nationwide due to the recent decline in natural gas prices should reduce supply and help strengthen prices in 2011. Further, Colorado prices will be bolstered next year by the new "Ruby" natural gas pipeline that is expected to open in the spring of 2011. This pipeline will allow Colorado producers to export more gas to west coast markets. Natural gas spot prices are expected to average $4.96 per Mcf in 2011.

It is important to note that these prices are still below the levels experienced during the 2004 through 2008 period that produced the state's natural gas boom. The constrained prices can mostly be attributed to the country's large natural gas supply and by the continued development of large reserves of natural gas closer to the major east coast markets. Energy production in these other areas appears to be more attractive to energy companies than in Colorado.

Contributing to the large drop in revenue in FY 2009-10 is an expected 41.4 percent decrease in revenue from coal production, which represents the second-largest source of severance taxes in Colorado after oil and natural gas. Exports of Colorado coal were down about 28 percent in 2009 due to the weak economy and as more electrical power plants switched from Colorado coal to other coal or natural gas. These trends are expected to continue and will suppress coal severance tax collections over the forecast period.

The current coal tax rate is about $0.78 per ton (with the first 300,000 tons produced every quarter exempt). Based on state law, the rate changes with the producers' price index. However, a court decision in February 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.

An improving economy and Amendment 50, which expanded gaming limits, are creating more revenue for casinos, and thus, more **gaming tax revenue**. In 2009, voters in each of the gaming towns authorized the expansion of limited gaming. Bet limits were raised from $5 up to $100, casinos are now open 24 hours per day, and craps and roulette were added to the current mix of games. Gaming tax revenue, which includes new taxes resulting from Amendment 50, is estimated to grow to $108.7 million in FY 2009-10 and $115.2 million in FY 2010-11. This comes after revenue hit an eight-year low of $94.9 million in FY 2008-09 that resulted mainly from the recession and record-high gas prices. After administrative expenses, total distributions of gaming tax revenue to recipients will total $102.9 million in FY 2009-10 and $110.0 million in FY 2010-11.

Gaming Revenue Distributions. Table 8 shows distributions of gaming revenue for FY 2009-10 and FY 2010-11. Money attributed to Amendment 50 will equal a projected $9.4 million in FY 2009-10 and $13.0 million in FY 2010-11. As required by **House Bill 09-1272**, community colleges are expected to receive $7.4 million of this money in FY 2009-10 and $10.2 million in FY 2010-11. Pre-Amendment 50 monies will be distributed as required by the State Constitution and state statute to the State Historical Society, gaming cities and counties, the General Fund, and various economic development programs.

Table 8
Gaming Revenue Distributions
(Millions of Dollars)

Distribution	FY 2009-10	FY 2010-11
New Amendment 50 Distributions		
Community Colleges	7.4	10.2
Gaming Counties and Cities	2.0	2.8
Total New Amendment 50 Distributions	**$9.4**	**$13.0**
Pre-Amendment 50 Distributions		
State Historical Fund	26.2	27.2
Gaming Counties	11.2	11.6
Gaming Cities	9.4	9.7
General Fund and Economic Development Programs	46.8	48.5
Total Pre-Amendment 50 Distributions	**$93.5**	**$97.0**
Total Distributions	**$102.9**	**$110.0**

Gaming revenue and the budget. When any March forecast indicates that General Fund revenue will be insufficient to fully fund budgeted appropriations for that particular year, current law requires that gaming money transferred to certain economic development programs revert to the General Fund unless the state legislature runs a bill to adjust the distribution of this money between these programs and the General Fund. During the 2010 session, the General Assembly adopted **House Bill 10-1339** to adjust these appropriations, allocating $16.2 million of gaming revenue to the General Fund. Because this forecast expects that General Fund revenue will be insufficient to fully fund the amount currently budgeted in FY 2010-11, it is expected that this money will revert to the General Fund in FY 2010-11.

All **other cash fund revenue** subject to TABOR is expected to decrease 11.1 percent in FY 2009-10. This category includes interest earnings in the Capital Development Fund, workers compensation surcharge revenue, and revenue from a large number of various other cash funds. The category also includes revenue from state higher education institutions that do not have enterprise status, causing their revenue, mostly from tuition and student fees, to be subject to TABOR.

A large part of the decrease in other cash fund revenue for FY 2009-10 is a result of Adams State and Mesa State colleges regaining enterprise status, which excludes their revenue from TABOR cash fund revenue. For FY 2009-10, Fort Lewis College is the only school that does not have enterprise status; it also lost enterprise status in FY 2008-09. The school is expected to generate about $17.0 million in TABOR revenue in FY 2009-10.

Federal Mineral Leasing Revenue

Table 9 presents the June 2010 forecast for federal mineral leasing (FML) revenue in comparison with the March forecast. FML revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of energy production. 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 9, the FY 2009-10 forecast for FML revenue was raised compared with the March forecast as collections have exceeded expectations. FML revenue is projected to amount to $120.4 million in FY 2009-10. The forecast for FY 2010-11 was essentially unchanged from March.

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

Year	Jun-10	% Chg.	Mar-10	% 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*	$120.4	-47.0%	$111.4	8.1%
FY 2010-11*	$128.3	6.5%	$128.9	-0.5%
FY 2011-12*	$146.7	14.4%	$156.0	-5.9%

Source: State Treasurer's Office.

** Forecast.*

Unemployment Insurance Revenue

Forecasts for unemployment insurance revenue (UI) revenue, benefits payments, and the UI Trust Fund balance are shown in Table 10 on page 22. 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 6. However, due to the significance of employment issues during economic fluctuations, 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 6.

In the current fiscal year, the UI Trust Fund will see a negative balance of approximately $300 million. Although this was anticipated in previous forecasts, estimates have been adjusted down as more layoffs are expected to continue through the forecast period. Estimates of the UI Trust Fund balance do not include amounts borrowed from the federal government.

While the economy recovers, job creation will be slow and net gains in employment will be small. Mass layoff statistics, which increased substantially in 2009, are down modestly over the first four months of 2010 compared with the same time last year but are still contributing to a large number of individuals filing for UI benefits.

The payment of UI benefits is supported by the collection of employer premiums. 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 solvency surcharge is collected when the fund balance falls below 0.9

percent of total private wages paid in the state during the previous year. The solvency surcharge has been collected since 2004.

After several years of decreasing employer premium revenue due to job cuts and lower premium rates, total revenue to the fund is expected to begin increasing due to higher premium rates. With the UI Trust Fund balance depleted, the solvency surcharge will remain in effect and is expected to increase through the forecast period 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, premium rates will increase as the employer 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 beginning to edge down for individuals seeking initial claims as well as for those receiving extended benefits. However, the decline in extended benefits is mostly due to those individuals exhausting their benefit claims. 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 fell into recession. Consequently, the draw down of the UI Trust Fund, which still remained positive last year, was insufficient to accomodate the increase in benefit payments in the current fiscal year. Even with a federal payment of $128 million, the fund will end with a negative balance. Benefit payments are expected to continue to increase even as the economy improves since job seekers will continue to out-number the jobs available. 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. By year-end 2009, 24 states had begun borrowing from the federal government and by May 2010, 34 states, including Colorado, were borrowing. As of the beginning of June, net borrowing was approximately $126.9 million and expected to be around $200 million by the end of FY 2009-10. Loans for UI benefit payments are interest-free through 2010. Although Colorado's first repayment is not due until fall of 2011, the state has already repaid $160 million. Borrowing from the Federal UI Trust Fund is expected to continue over the next few years while unemployment remains at high levels.

Table 10
Legislative Council Staff
Unemployment Insurance Trust Fund Forecast, June 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	($299.9)	($565.1)	-6.9%
Plus Income Received					
Regular Taxes /A	$159.1	$197.0	$725.5	$810.0	72.0%
Solvency Taxes	$205.3	$255.1	$335.2	$410.8	
Interest	$27.8	$5.7	($5.6)	($17.3)	-14.6%
Plus Federal Payment		*$128.0*			
Total Revenues	**$392.1**	**$457.8**	**$1,055.0**	**$1,203.5**	41.3%
% Change	-8.1%	49.4%	80.1%	14.1%	
Less Benefits Paid	($741.8)	($1,199.9)	($1,300.3)	($1,108.6)	14.3%
% Change	125.5%	61.8%	8.4%	-14.7%	
Federal Reed Act Transfer	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	($10.2)	($25.8)	($19.9)	($20.2)	NA
Ending Balance	**$339.9**	**($299.9)**	**($565.1)**	**($490.4)**	13.0%
Solvency Ratio:					
Fund Balance as a Percent of Total Annual Private Wages	0.39%	-0.35%	-0.66%	-0.56%	12.6%

Totals may not sum due to rounding.

NA = Not Applicable.

**CAAGR: Compound Average Annual Growth Rate.*

/A This includes the regular premium, 30% of the 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.

NATIONAL ECONOMY

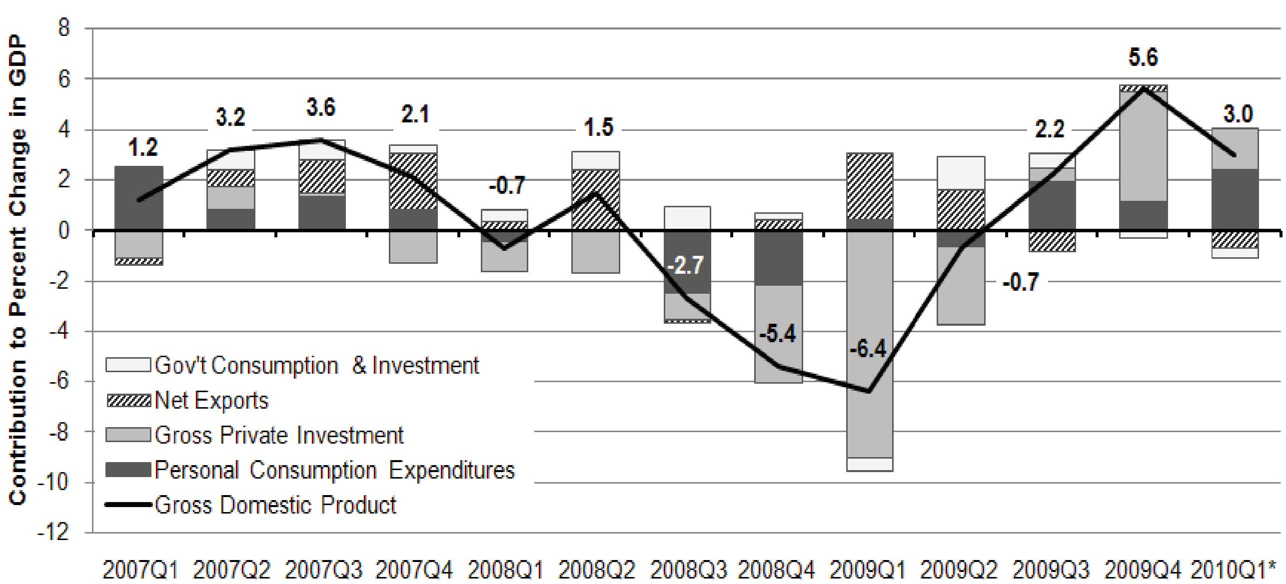
The recovery of the nation's economy remains in a delicate balance. Employment, personal income, and consumer and investor confidence gained momentum in the first several months of 2010. However, growth is slow and tenuous, pulled down by high levels of unemployment and a hesitant business environment. The health of many key industries, including real estate, construction, and finance, remains poor. Additionally, a number of risks remain to the economy, including the unwinding of unprecedented fiscal and monetary policy.

In 2010 and well into 2011, recovery will remain slow and will be marked by ups and downs in growth as the national economy struggles to maintain momentum amid strong headwinds. Table 11 on page 34 summarizes the forecast for the national economy.

Gross Domestic Product

Preliminary estimates show that gross domestic product (GDP) in the first quarter of 2010 grew 3.0 percent after growing a hefty 5.6 percent in the fourth quarter of 2009 at seasonally adjusted annual rates. With three consecutive quarters of GDP growth, the nation has emerged from the recession. The recent growth reflects increased levels of business investment and consumer spending,

Figure 2
Contributions to Gross Domestic Product Growth, 2007Q1 to 2010Q1
Seasonally Adjusted Annual Rates



Source: Bureau of Economic Analysis.
*Preliminary estimate.

signs that businesses and consumers alike are gaining confidence in the direction of the U.S. economy. Figure 2 summarizes the contributions to growth in GDP since the start of 2007.

Personal consumption expenditures, or consumer spending, contributed most to first quarter growth. Gross private investment, or business spending, is also on the rise, reflecting strong gains in business investment in equipment and software. The first quarter showed decreases in investment in nonresidential structures and for private residences, indicative of continued struggles in the housing and commercial real estate markets.

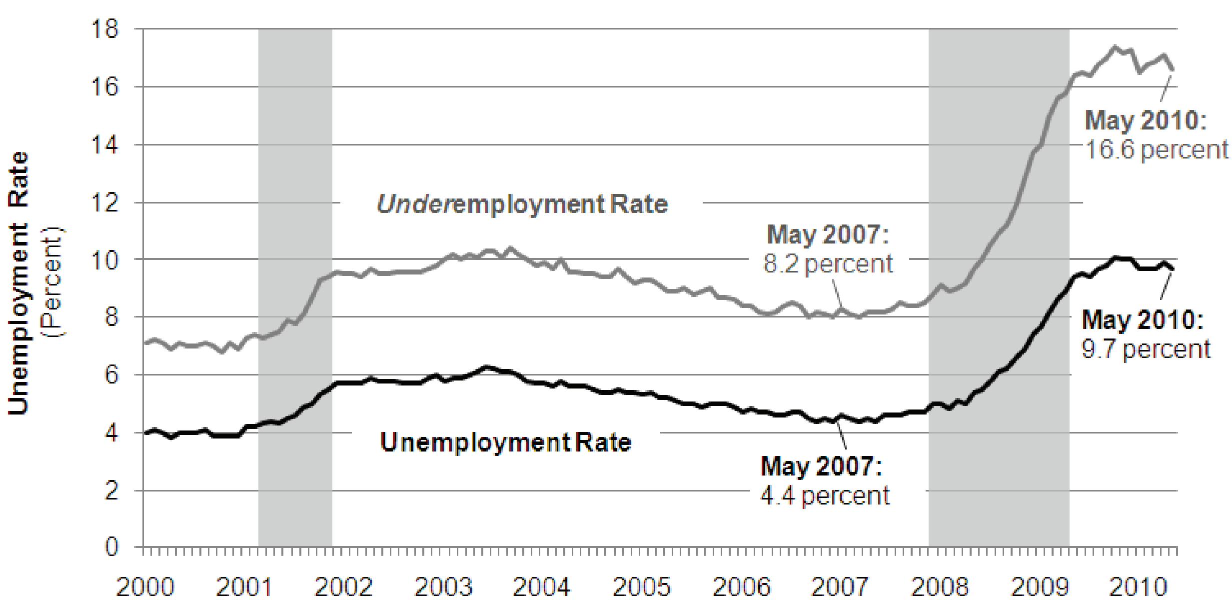
Government spending decreased for the second consecutive quarter. While federal government spending increased, state and local government spending decreased due to budgetary constraints. Net exports also dampened GDP growth. However, both exports and imports grew in the first quarter with the strengthening of the global economy.

- Considering the severity of the economic downturn, GDP will grow at a fairly modest pace of 3.1 percent in 2010. High unemployment, decreases in government spending, and hesitancy in business investment will temper growth. Additionally, consumer spending is likely to level off, tempered by high unemployment and high levels of customer debt. In 2011, GDP will grow 3.3 percent as the recovery strengthens.

Labor Market

Giving further evidence of a nation in recovery, the economy gained nearly half a million private sector jobs in the first five months of 2010, a welcome change to the steep

Figure 3
Unemployment and Underemployment



Source: Bureau of Labor Statistics.
Note: April and May estimates are preliminary.

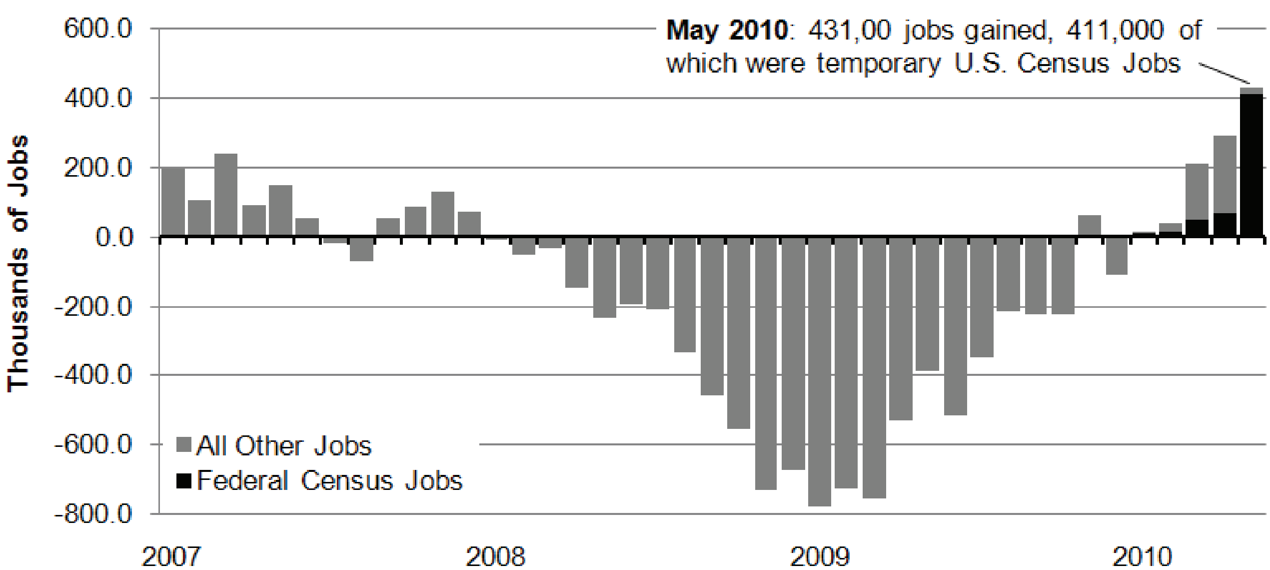
losses experienced throughout the recession. Yet despite recent job growth, the unemployment rate remains high, hovering just under 10 percent as of April of this year. The *under*employment rate also remains elevated, reaching 16.6 percent as of May. In addition to the unemployed, this rate also reflects workers who have dropped out of the labor force or are working fewer hours than desired. Figure 3 and 4 summarize employment trends over the last several years.

Employment growth is a lagging economic indicator. Meaning, as the economy begins to expand after a recession, employment growth is slow to follow. This is because businesses remain cautious and often wait to hire until the business climate is favorable and hiring is absolutely necessary. Additionally, even as job opportunities grow in an expanding economy, the unemployment rate often remains high. This counter-intuitive trend is attributable to the re-entrance of workers to the labor force at a rate faster than the labor market is able to absorb with new jobs. These workers include those who stopped looking for work or returned to school for training during a recession.

Temporary federal Census jobs have dominated job gains so far in 2010 as shown in Figure 4. These positions will fall off starting in June, reversing the trend in job gains for at least one month. While federal government jobs showed increases, state and local government budget cuts are resulting in job losses. Figure 5 shows job gains and losses by sector for the first five months of 2010.

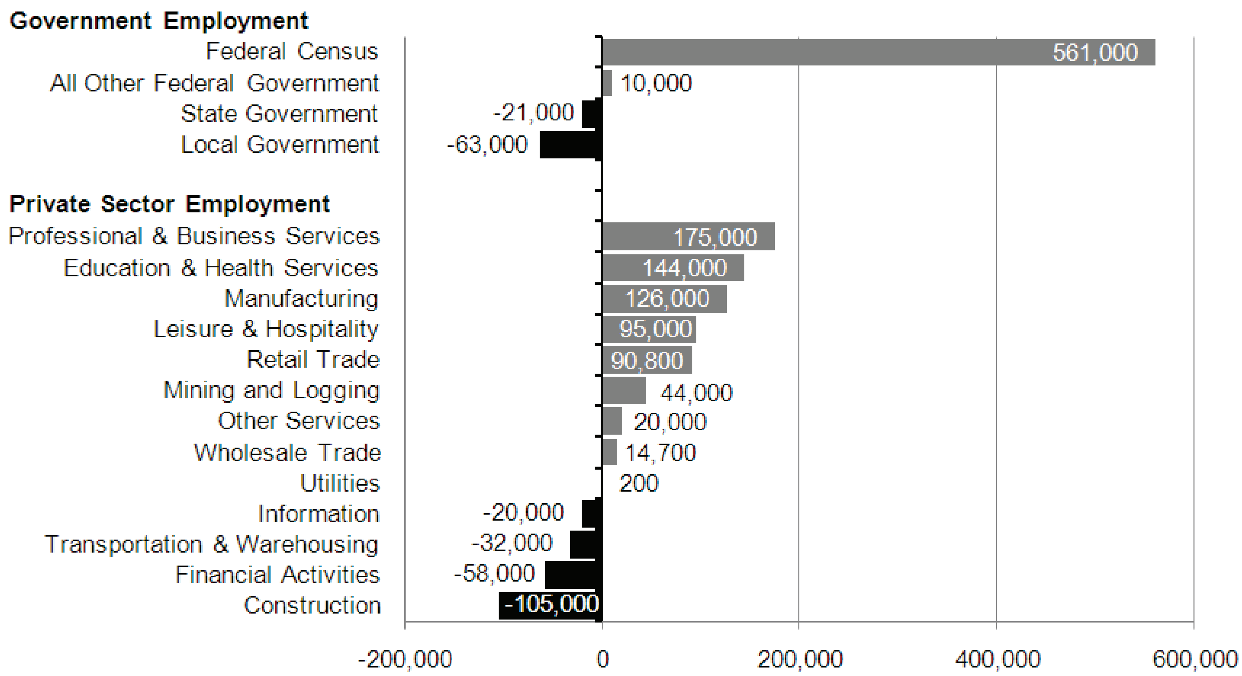
Jobs in most private sector industries are now on the rise. Professional and business services and health and education services showed the largest gains. The manufacturing sector also showed growth, reflecting increased demand for durable and nondurable goods. Additionally, employment growth in retail trade and leisure and hospitality industries indicate increased tourism and spending on

Figure 4
Monthly Job Gains/Losses



Source: Bureau of Labor Statistics.
Note: April and May estimates are preliminary.

Figure 5
Total Net Employment Gains/Losses by Industry
Net Gains Over the First Five Months of the Year Over December 2009 Levels



Source: Bureau of Labor Statistics.
Note: April and May estimates are preliminary.

leisure items. Construction and financial activities industries continue to lose jobs due to the ongoing weakness in housing and financial markets.

- In 2010, the unemployment rate will remain high at 9.9 percent. In 2011 and beyond, the rate will fall slowly as businesses will be slow to hire and more workers reenter the labor force as job opportunities improve.

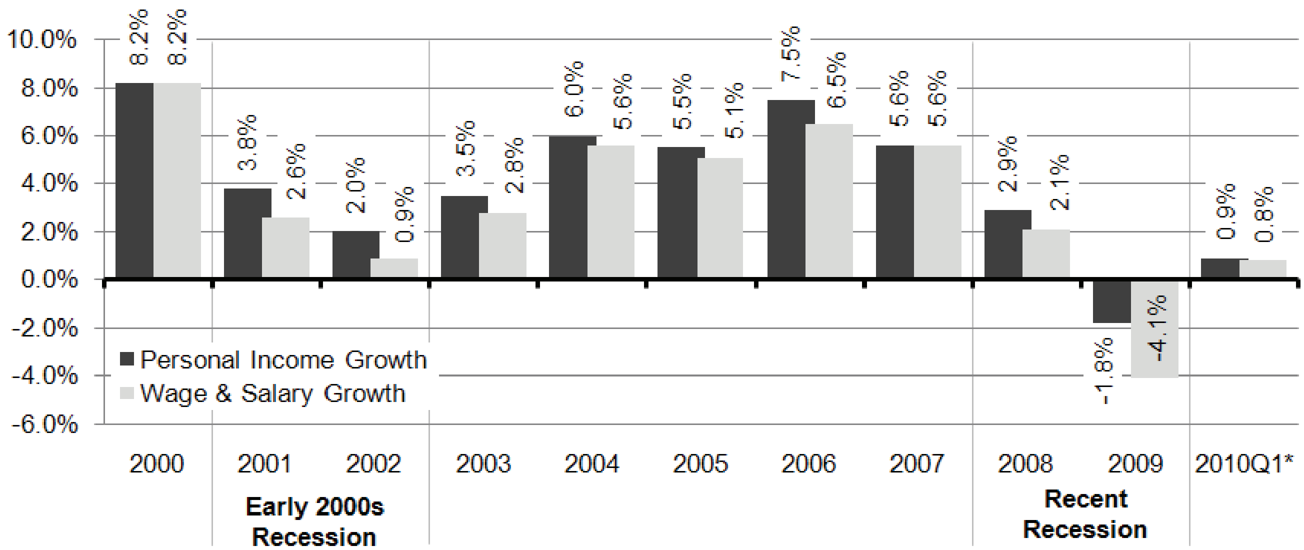
- Nonfarm employment will decrease 0.6 percent in 2010 despite job gains in many sectors throughout the year. Employment growth will turn upward in 2011, growing at a modest pace of 1.1 percent. Many sectors will see both gains and losses with a rocky road to recovery in 2010. Other sectors, including the financial activities and construction sectors will continue to experience job losses through much of 2010.

Personal Income

Due to high levels of unemployment and slow economic growth, personal income is growing only modestly. Personal income grew 0.9 percent in the first quarter of 2010 at a seasonally adjusted annual rate. Nearly all sources of income showed some growth, including slight growth in wages and salaries, which represents over half of personal income. Figure 6 shows a ten-year history of growth in personal income and wages and salaries, and the annualized rate for the first quarter of 2010.

The severity of the recent recession on the nation's personal income is evident when compared to the recession of the early 2000s. While income grew during the early 2000s recession, in 2009 the nation saw a decrease in personal income of 1.8 percent and a decrease in wages and salaries of 4.1 percent. Wage

Figure 6
Growth in Personal Income and Wages and Salaries



Source: Bureau of Economic Analysis.
**Seasonally adjusted annual rate.*

freezes, cuts to salaries and benefits, and decreases in rental income, dividends, and interest resulted in the declines.

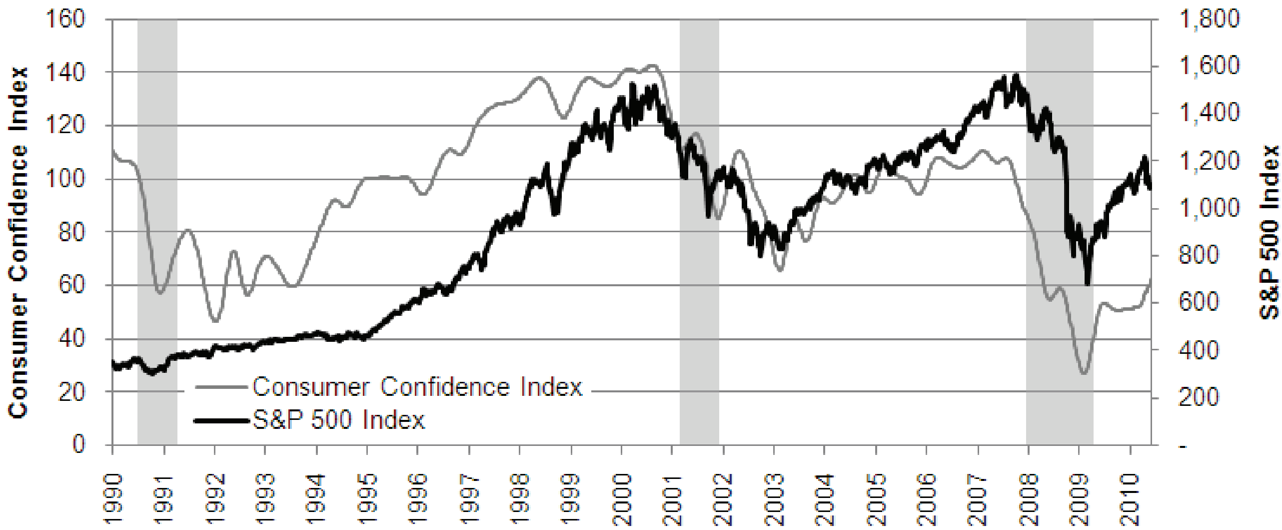
- Personal income will rise 2.3 percent in 2010. Elevated numbers of unemployed and underemployed and timid economic growth will suppress wage and salary growth in 2010 and 2011. With a high level of competition for a scarce number of jobs, employers will be able to hire at lower wages. Additionally, the slow pace of recovery and low interest rates will mute growth in interest and dividends, and the struggling housing market will keep income from rental payments low. Further, as federal stimulus programs are retired, their contributions to income growth will fall off. In 2011, personal income will grow at a stronger rate of 3.0 percent.

Consumer & Investor Confidence

Hesitancy remains with the nation's consumers and investors. Ups and downs in confidence are to be expected, with one in ten unemployed and nearly on in five underemployed, slow growth in personal income, and continued risks in construction, real estate, and financial industries. Additionally, many households still have high levels of debt, which will constrain spending. Consumers and investors are returning to the market with fits and starts, but overall are contributing to an upward trend in consumption and investment activity.

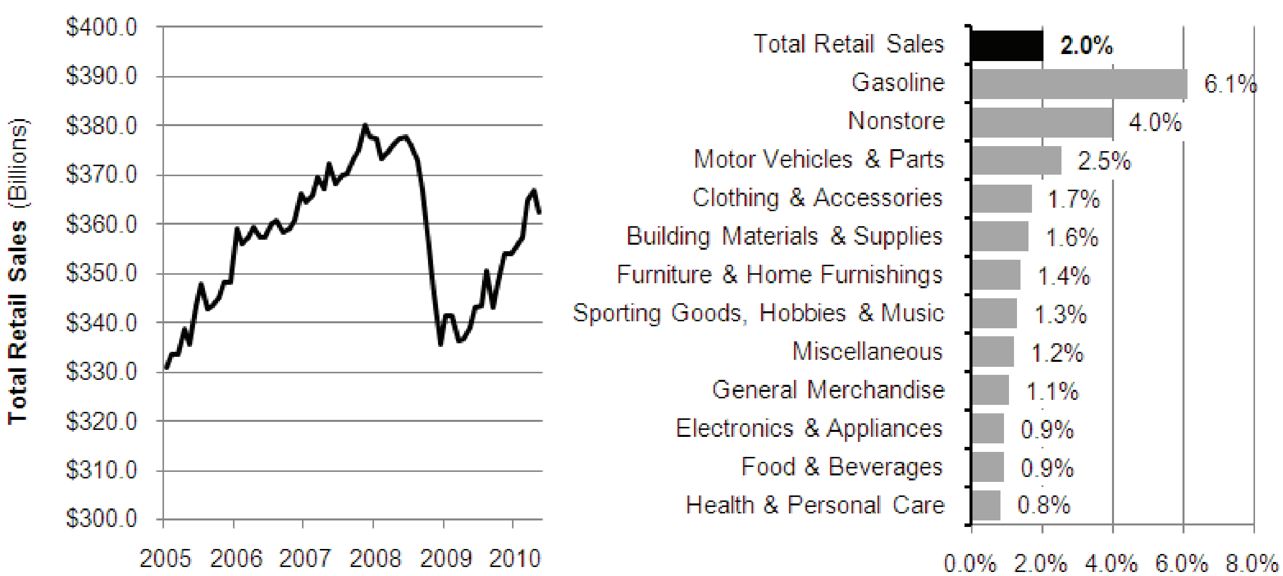
Despite many negative headlines in early 2010, the stock market is up from 2009 levels and consumer confidence is also on the rise as illustrated by Figure 7. While daily trading has been volatile, stock market values are rising. Similarly, retail sales and consumer confidence are also on the rise as consumers begin to return to more normal spending patterns. Following the seven month free-fall that occurred during the recession, retail sales have been trending upward since the start of 2009 as shown in Figure 8. All types of retail

Figure 7
Consumer Confidence Index and S&P 500 Stock Price Index



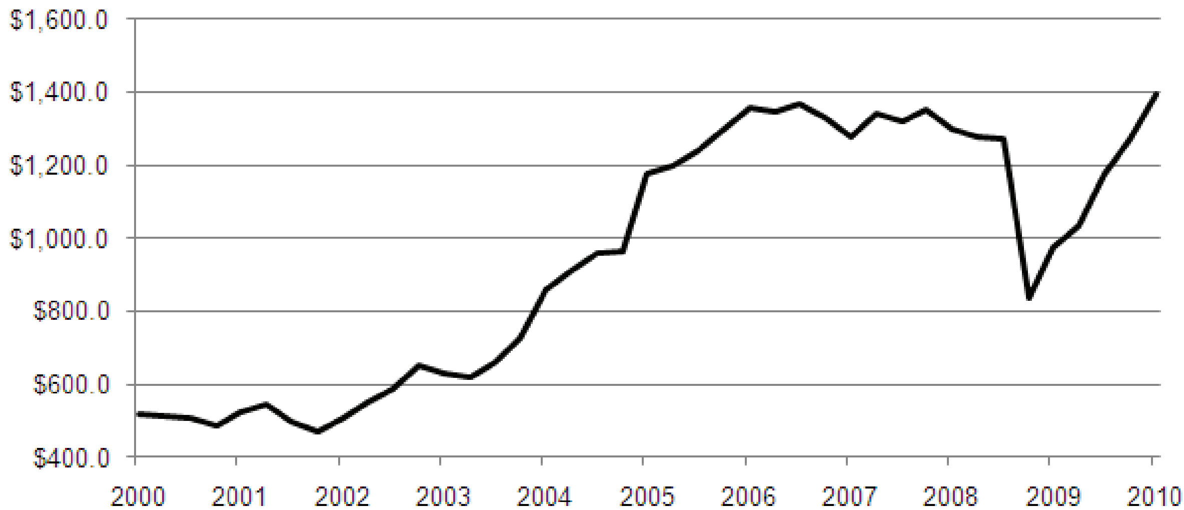
Source: Yahoo Finance, Moody's Economy.com, and the Consumer Conference Board.
Note: The Consumer Confidence Index is shown as a moving average.

Figure 8
Monthly Total Retail Sales and Retail Sales Growth in 2010*



Source: U.S. Department of Labor.
Note: April and May estimates are preliminary and subject to revision.
** Growth rates are seasonally adjusted annual averages for January through May over the 2009 average.*

Figure 9
Real Corporate Profits After Taxes
Seasonally Adjusted and Adjusted for Inflation



Source: Bureau of Economic Analysis.
Note: Adjusted for inflation using the Gross Domestic Product deflator (2005 chained prices).

stores showed growth in retail sales the first five months of 2010 over 2009 levels.

- The upward trends in consumer and investment activity will level off some in the remaining months of 2010. After recovering from the plunge in activity during the recession, the slow pace of economic growth and continued uncertainties over the health of key industries will constrain optimism.

Business Environment

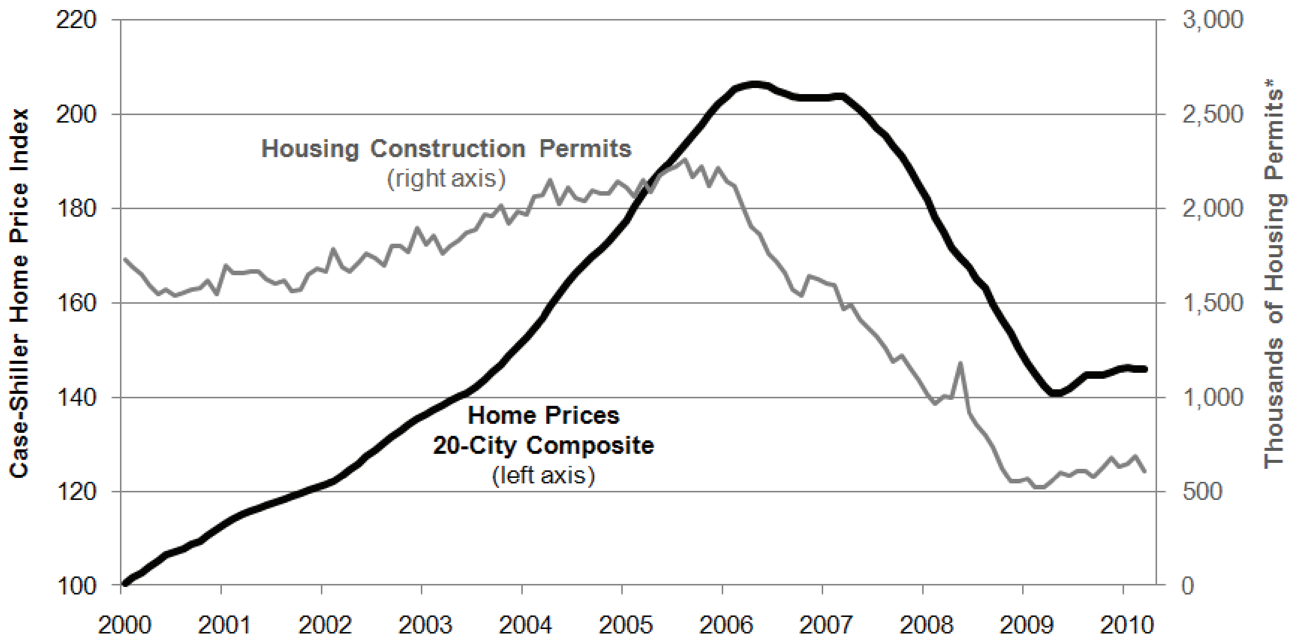
The business climate for most industries has been improving for quite some time. While many businesses shuttered their doors or downsized during the recession, businesses are benefitting from higher productivity — a result of cutting costs, and in many cases the number of employees during the recession. Fewer employees are producing more, thereby providing businesses higher profit margins. Corporate profits have been on the rise since the start of 2009 as shown in Figure 9.

Despite higher profitability, businesses are expected to remain cautious in 2010 due to the slow economy and heightened risk adversity. This will mute economic growth as companies wait to hire new employees and make very careful investments.

Construction and Real Estate

Residential. The nation's housing market remains stagnant with a glut of homes on the market, low home prices, and high vacancy rates. Mortgage delinquencies continue to rise as one in ten struggle with joblessness. Home prices stabilized at the end of 2009 with the help of the federal homebuyer tax credits. However, prices and sales are expected to fall over the next few months now that these incentives have expired.

Figure 10
Home Prices and Residential Construction



Source: Standard & Poor's Financials LLC and U.S. Census Bureau.
**New privately owned housing units authorized by building permits at seasonally adjusted annual rates.*

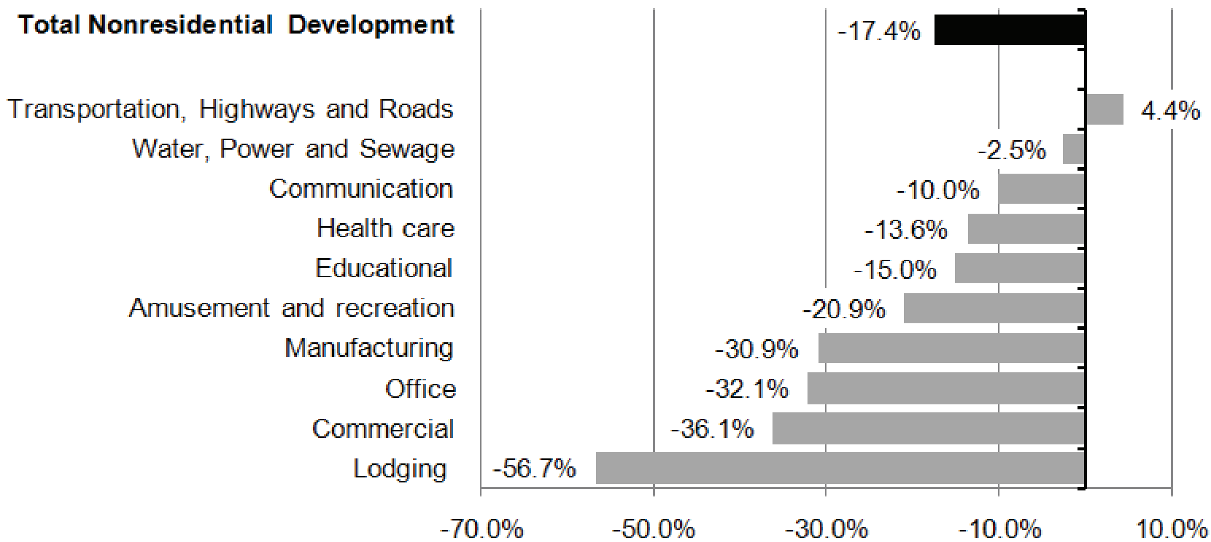
The oversupply of homes is leaving little demand for residential home construction. That said, the free-fall in construction activity appears to have subsided and building now remains at levels experienced in the early 1990s. Figure 10 shows trends in home prices and residential construction from 2000 to 2010.

- While residential construction will see very modest growth in 2010, home prices will fall slightly due to the expiration of stimulus programs, oversupply of homes, and additional foreclosures. Home prices will recover in 2011 but at a very slow pace. Similarly, levels of residential construction will also be slightly higher in 2011 than in 2010.

Commercial construction and real estate. Similar to the dramatic pullback in the residential construction industry, nonresidential construction is now drawing to a near standstill. The recession led to the shuttering of business doors, downsizing, and default—all of which has impacted demand for commercial development. The value of commercial construction decreased 17.4 percent in the first four months of 2010 over the same period last year. Construction activity decreased across all types of building except transportation, highways, and roads. Figure 11 summarizes these trends.

- Commercial construction and real estate will remain weak throughout 2010 and 2011. Until the national economy supports more widespread business expansions, demand for new structures will be weak.

Figure 11
Change in Nonresidential Construction Spending
January through April of 2010 Over the Same Period Last Year



Source: U.S. Census Bureau.

Banking & Finance

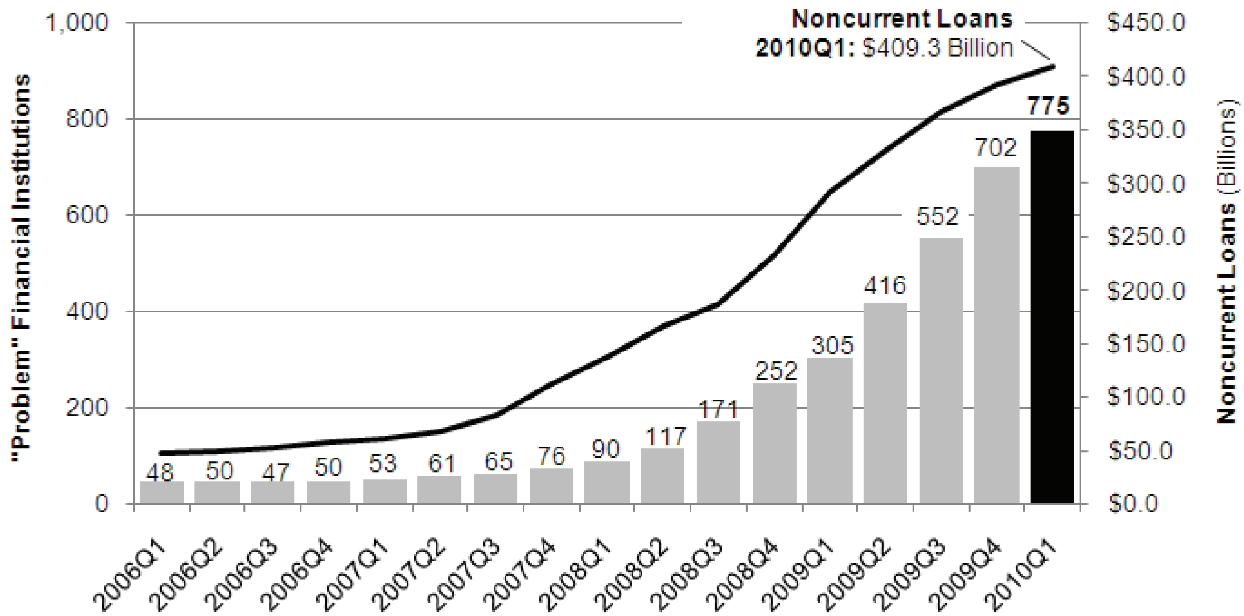
Troubled loans continue to mount on both commercial and residential real estate, adding to the problems of the struggling financial sector. As shown in Figure 12, the value of noncurrent loans has quadrupled over the past three years and continues to grow. Similarly, the number of problem financial institutions on the Federal Deposit Insurance Corporation's (FDIC's) watch list is rising. The FDIC has actively restructured the banking industry since the start of the financial crisis in 2007, consolidating the industry to limit the number of failed banks. These efforts continue and have kept the financial sector from buckling. That said, additional bank mergers and failures will occur in 2010.

Inflation

Inflationary pressures remain weak. As illustrated by Figure 13, the consumer price index has hovered close to zero for the past year. Prices showed mild deflation in April, the most recent month of data. Energy prices have been fairly volatile in 2010, decreasing 1.4 percent in April on a seasonally adjusted basis due to a drop in both oil and natural gas prices. Food prices increased slightly in the first several months of 2010. Upward pressure on food prices were offset by decreases in the cost of housing due to the glut of homes on the market. Prices on clothing and household furnishings remain the weakest of all commodities, reflecting the ongoing practice by retailers to discount prices to lure buyers.

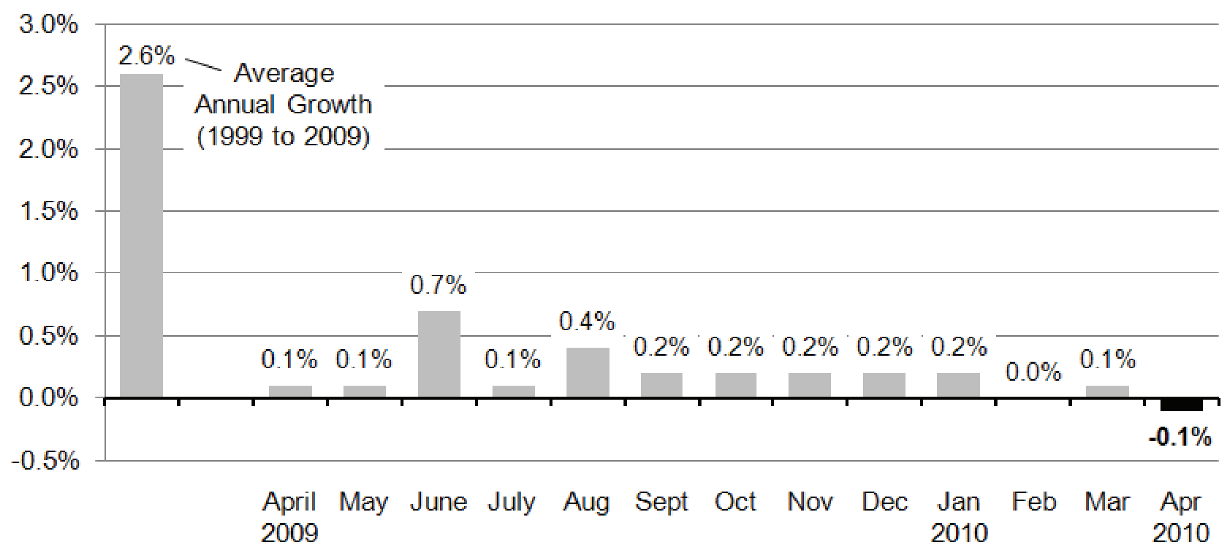
Monetary and fiscal policy. The United State pursued massive expansionary monetary and fiscal policy in 2009. To stave off further financial crisis, the Federal Reserve Bank participated in quantitative easing in 2009, a policy measure of pushing liquidity into the constricting financial sector to keep banks operating. To offset the drop-off of consumer and business spending and

Figure 12
Problem Financial Institutions and Noncurrent Loans



Source: Federal Deposit Insurance Corporation (FDIC).

Figure 13
Consumer Price Index for All Urban Consumers, April 2009 to April 2010
Seasonally Adjusted



Source: Bureau of Labor Statistics.

investment, the Obama Administration also increased government spending through the American Recovery and Reinvestment Act and other stimulus programs. Many speculate that these policies will lead to significant inflationary pressures. However, for the time being, the mix of slow economic growth and actions by the Federal Reserve Bank are keeping inflation at bay.

- Inflation will remain weak until recovery builds greater demand for goods and services or energy prices rise. Even in recovery, high unemployment will temper income growth, suppressing retailers ability to raise prices. Additionally, the soft housing market will dampen upward price pressures for the cost of housing. In 2010, the nation will experience slight inflation as the CPI increases 2.0 percent. Inflation is expected to be 2.2 percent in 2011.

Summary

The national economy has exited recession and is now embarking on a slow and delicate recovery. While most sectors are expanding, construction, real estate, and financial sectors will continue to struggle throughout 2010 and well into 2011. High unemployment, cautious optimism, and high levels of household debt remain the largest obstacles to growth. Sustained levels of high unemployment will contribute to delinquent mortgage payments and more foreclosures. Additionally, noncurrent loan payments and defaults in the commercial real estate market will further compound issues for the financial sector. In 2010 and 2011, both residential and commercial construction industries will see very low levels of activity. Additionally, state and local governments will suffer budget cuts in 2010 and 2011 as tax revenue will be slow to rebound.

Risks to the Forecast

A number of downside risks remain to the forecast. Due to the delicacy of the recovery, a number of risks could slow growth more than expected or could even tip the economy back into recession. These risks include the unraveling of unprecedented fiscal and monetary policy and the potential effects of the European debt crisis. Careful actions by the European governments and central banks, the International Monetary Fund, and the Federal Reserve Bank appear to be keeping these risks at bay for the time being. There is also upside risk to the forecast, where stronger than expected business growth and heightened consumer confidence could lead to a stronger than expected recovery.

Table 11
National Economic Indicators, June 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	$12,987.4	$13,390.0	$13,831.9	$14,316.0
percent change	2.7%	2.1%	0.4%	-2.4%	3.1%	3.3%	3.5%
Nonagricultural Employment (millions)	136.1	137.6	136.8	130.9	130.1	131.6	133.4
percent change	1.8%	1.1%	-0.6%	-4.3%	-0.6%	1.1%	1.4%
Unemployment Rate	4.6%	4.6%	5.8%	9.3%	9.9%	9.4%	8.7%
Personal Income	$11,268.1	$11,894.1	$12,238.8	$12,019.0	$12,295.4	$12,664.3	$13,082.2
percent change	7.5%	5.6%	2.9%	-1.8%	2.3%	3.0%	3.3%
Wage and Salary Income	$6,068.9	$6,408.9	$6,545.9	$6,276.5	$6,364,4	$6,459.8	$6,647.2
percent change	6.5%	5.6%	2.1%	-4.1%	1.4%	1.5%	2.9%
Inflation (Consumer Price Index)	3.2%	2.9%	3.8%	-0.3%	2.0%	2.2%	2.5%

Sources: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, and Legislative Council Staff.

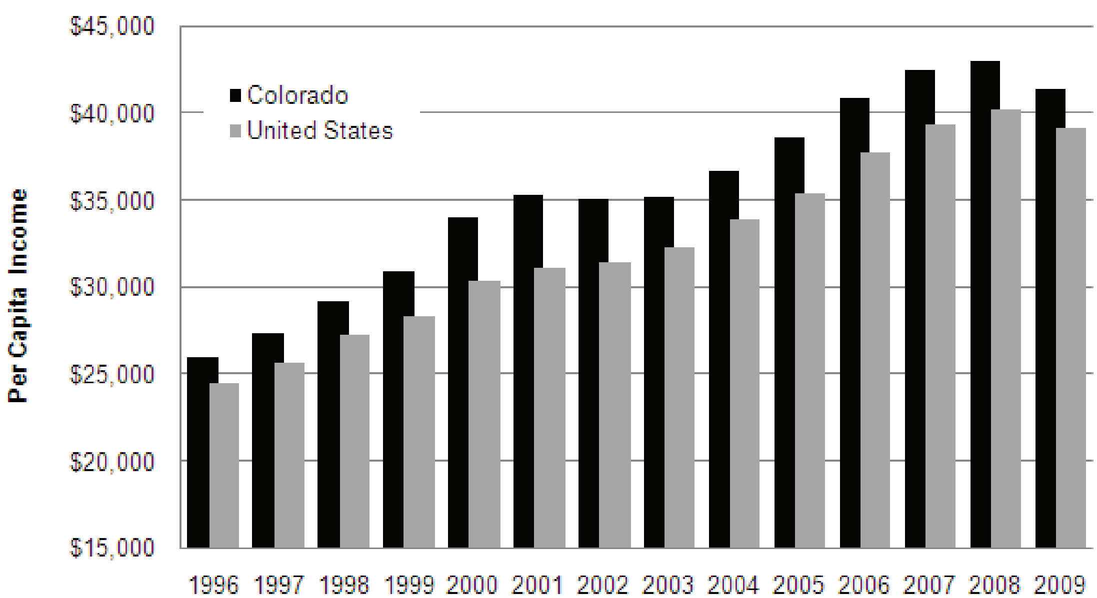
COLORADO ECONOMY

The Colorado economy continues to recover from recession. As expected in the March forecast, the expansion has been slow and appears to be lagging the nation. While state personal income growth resumed in the third quarter of 2009, marking the end of recession, job growth remains elusive. The coming months will be sluggish, as the state's economy continues to struggle through debt problems to solid expansion. Table 12 on page 44 summarizes the forecast for the Colorado economy.

Federal stimulus programs have encouraged consumer spending and confidence. Temporary income tax credits have softened the downturn in the housing market and encouraged consumers to pay down debt levels. Colorado, however, has a larger share of industries that are doing poorly in this recovery, such as financial services and real estate. With stimulus programs subsiding, activity is expected to soften before growth strengthens.

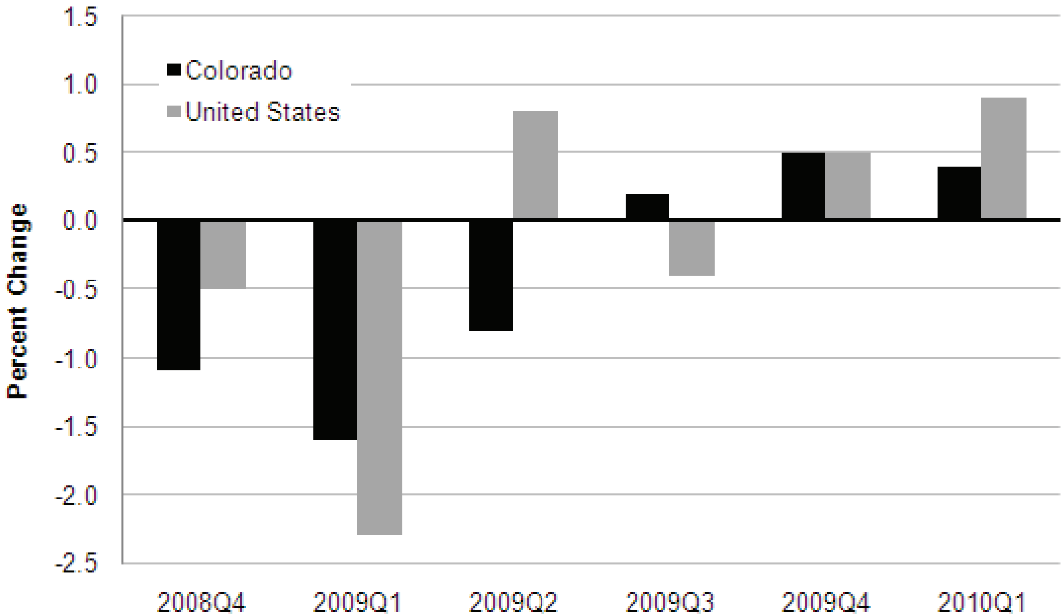
Colorado real estate and banking sectors have more problems than most states, and these sectors continue to be a drag on the recovery. The energy industry, which often helps Colorado grow faster than other states, is expanding but slowly. The state's recovery will depend on the innovation and perseverance of the many small businesses who make up the foundation of Colorado's economy, and these firms are constrained by a banking sector that appears to be reluctant to lend.

Figure 14
Per Capita Personal Income Declines in 2009



Source: Bureau of Economic Analysis.

Figure 15
Colorado Personal Income
Increasing but Slower than Nation



Source: Bureau of Economic Analysis.

Personal Income Improving Slowly

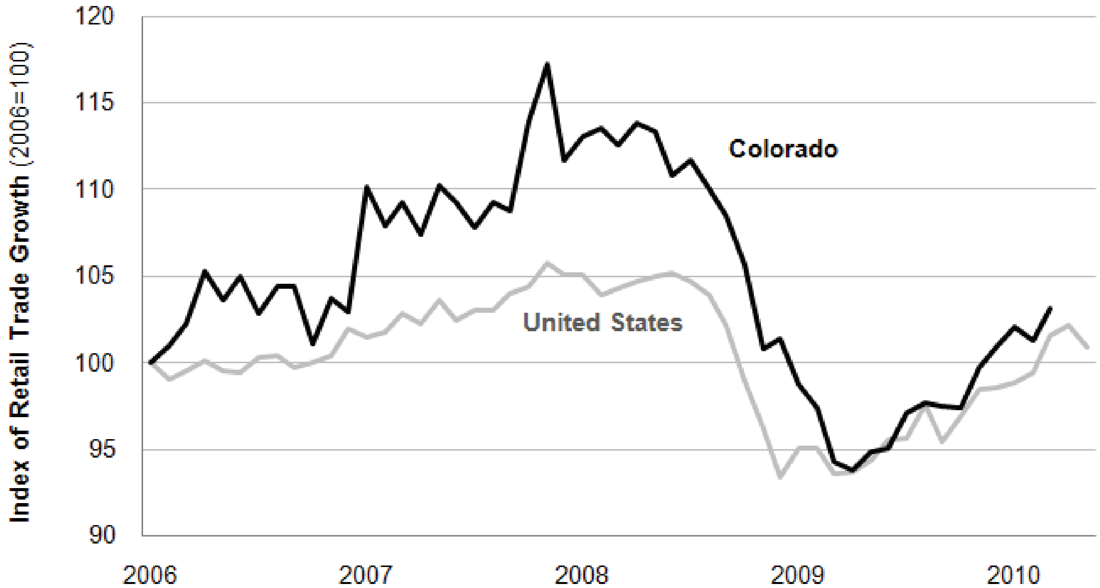
The downturn has been more severe in Colorado than in much of the rest of the country. State per capita personal income fell 3.9 percent between 2008 and 2009, as shown in Figure 14. This was the first decline since 2002, when per capita personal income dipped 0.8 percent. The drop in Colorado was larger than in the nation, where per capita personal income declined 2.6 percent in 2009. Nationwide the 2009 decline in state personal income was the largest in 60 years.

The decline in 2009 personal income was concentrated in the first half, as shown in Figure 15. Colorado personal income has risen for three consecutive quarters, but growth has been uneven and fueled by government assistance. Government payments, such as unemployment insurance and medicaid, tend to increase during economic downturns. In the first quarter of 2010, state personal income rose 0.43 percent. Without transfer receipts, Colorado personal income increased 0.02 percent.

There is evidence of expansion in the private sector in the first quarter of 2010. Decreased earnings occurred in accommodation and food services, arts, entertainment and recreation, professional and technical services, administrative and waste services, and health care and social assistance industries. There was a sizable decline in earnings from management of companies and enterprises.

- Personal income will increase 2.5 percent in 2010, and wages and salaries will increase 1.0 percent. Continued job losses and high unemployment will restrain wage increases. Personal income is expected to rise 3.1 percent in 2011, along with a 1.4 percent increase in wage and salaries.

Figure 16
U.S. and Colorado Retail Trade Rebound



Source: U.S. Census Bureau and Colorado Department of Revenue.

Consumer Spending Continues to Rebound

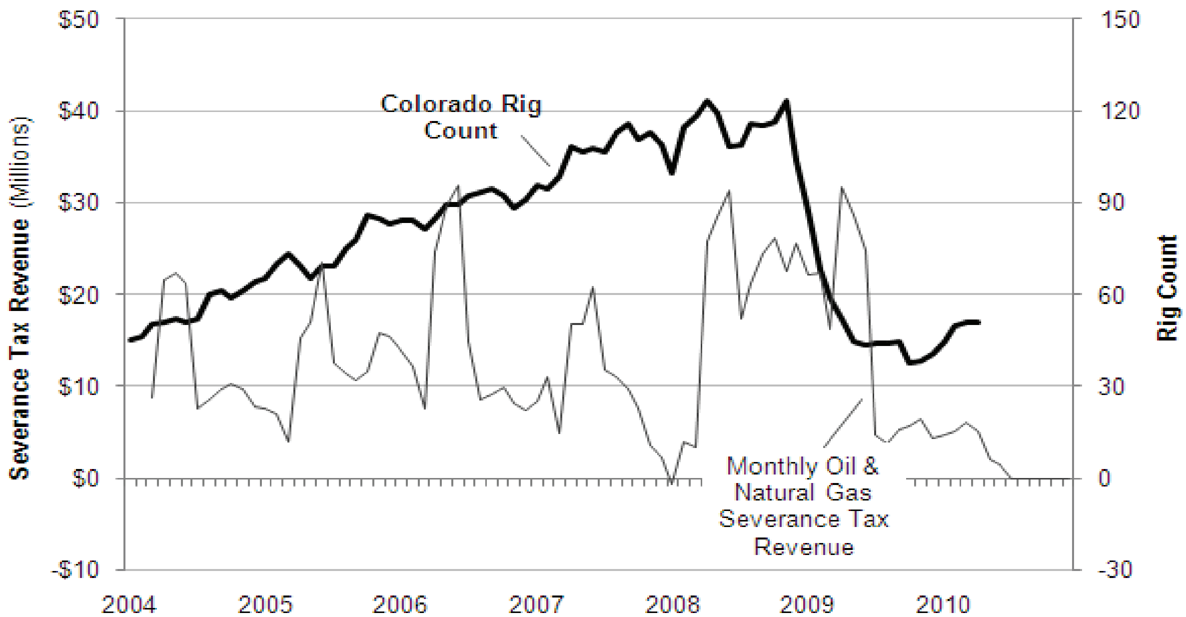
Consumer spending continues to rebound modestly in Colorado, but the growth of sales will likely remain muted over the coming year. Colorado retail trade rose 2.3 percent between December 2009 and March 2010, boosted by improved consumer confidence and federal stimulus programs. Growth has been on par with U.S. consumer spending and will likely follow a similar pattern to national sales for the time being.

Typically, Colorado consumer spending grows faster than in the nation, as shown in Figure 16. However, over the past year and a half, Colorado has followed a pattern that is more similar to the nation. This moderation in sales growth is due in part to heavy debt burdens restraining wealth and disposable income in the state.

A high level of mortgage debt is contributing to the financial strain that is dampening consumer spending. In the first quarter of 2010, twenty-eight percent of mortgage holders in Colorado were at or near negative equity, meaning that they own more on their mortgage than the value of the home, according to CoreLogic. There are only eight states with a higher negative equity share: Nevada, Arizona, Florida, Michigan, California, Georgia, Virginia, and Idaho. In the Denver-Aurora-Broomfield area, the only region for which data are available, thirty-two percent of mortgages are at or near negative equity. These figures were effectively unchanged compared to the fourth quarter of 2009.

While there has been a recent rebound in retail sales growth, spending is likely to moderate over the next few months. Spending has been boosted by stimulus programs, such as the cash for clunkers, energy credit, and income tax credits. These stimulus programs have subsided, and most economists expect the rate of recovery in spending to ease. Still, interest rates remain low, and improving consumer confidence should keep the eager consumer ready to spend.

Figure 17
Total Oil and Natural Gas Severance Tax Revenue



Source: Colorado Department of Revenue and Baker Hughes.

- After declining 11.5 percent in 2009, retail trade sales will increase 5.1 percent in 2010. Consumer spending is expected to improve compared to a year ago, with spending in the first half boosted by federal income tax rebates.

Energy Industry Growing Slowly

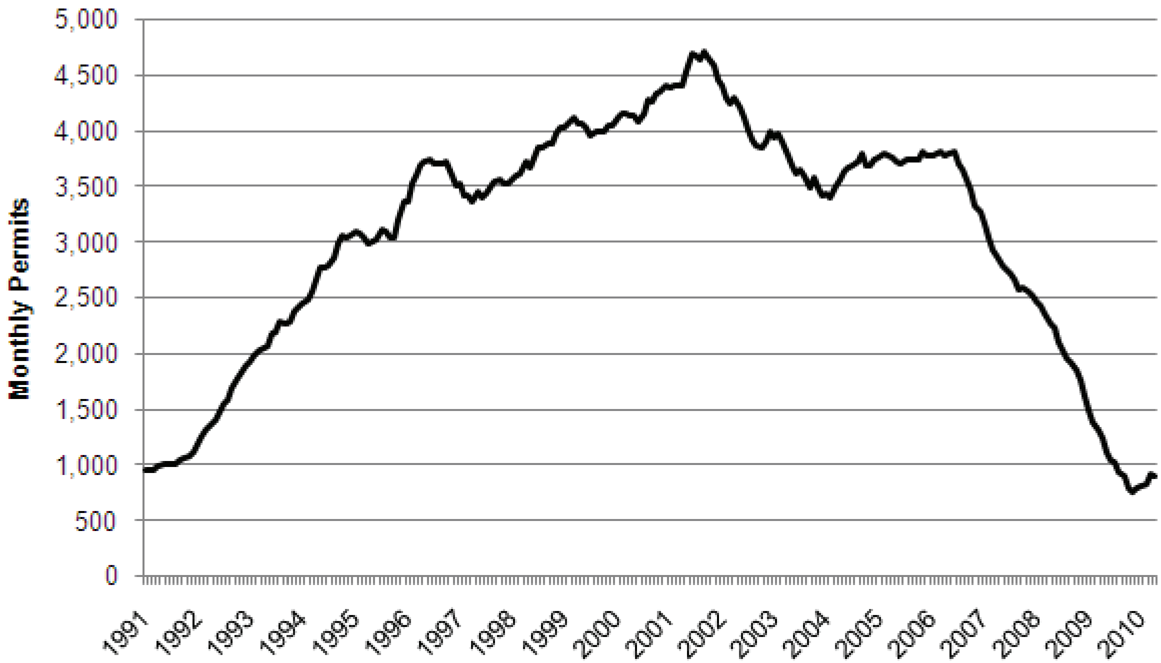
The energy sector typically provides Colorado with a boost that helps growth in the state exceed the national average. However, at this time, the best that can be said of the sector is that it is not a drag on economic activity. There are signs that the industry is increasing modestly. As seen in Figure 17, the Colorado rig count has risen to 53 active rigs as of Mid-May from the low of 38 rigs in November 2009. However, the rise in rigs has not yet been accompanied by increases in production or severance tax revenue. There are also reports of increased activity in other forms of energy in the state. For example, the Vestas wind turbine plant recently restarted production in Colorado.

Real Estate Working Through Problems

Problems in the real estate sector continue to weigh on the economy. Heavy debt burdens in both residential and nonresidential markets are forcing some sales. Owners can no longer afford payments or financing that was dependent on continued increases in property values. Distressed sales and weak demand—because of tighter credit conditions and fears of price declines—are depressing markets.

Colorado is the 10th-highest state for the number of properties with foreclosure filings in the first quarter of 2010, according to RealtyTrac, Inc. The state had 16,023 foreclosure filings, a 9.0 percent increase from the previous quarter and 27.1 percent higher than a year ago.

Figure 18
Colorado Housing Permits
Seasonally Adjusted



Source: U.S. Census Bureau.

The federal homebuyer tax credit boosted sales and values over the past several months, but with the end of the tax credit sales and values are expected to soften. Interest rates remain low, however, and may encourage sales over the coming months. Mortgage rates have fallen near 50-year lows in recent weeks.

Inventories have increased, perhaps as a result of banks taking possession of some homes that were in default and putting them up for sale or because potential sellers sense firmer demand. The increase in inventories will be an additional drag on the market. As shown in Figure 18, housing construction remains at very low levels.

As the economy continues to digest problems in residential real estate, issues with nonresidential real estate are still on the horizon. Vacancies have begun to increase, and there is downward pressure on rents. While lower rents are a boost for renters, they increase the likelihood that property owners will not be able to cash-flow their loan.

Most developers purchase properties such as office buildings, hotels, and shopping centers with loans that need to be refinanced in three to ten years. Demand for real estate property has declined along with the economy, and it is likely that developers may have trouble obtaining additional financing when the loan comes due. Banks have also increased their lending standards.

Nationally, the largest commercial real estate loan losses are projected for 2011 and later. Colorado banks have a higher than average concentration of commercial loans and are likely bolstering their balance sheets in anticipation of losses.

- The value of nonresidential construction projects will continue to drop in 2010, falling from $3 billion to $1.7 billion, a 43.6 percent decline.

Banking Burdened By Debt

The state's banking sector remains burdened by troubled mortgages, and lending from Colorado-based institutions continues to shrink. At the end of December, Colorado institutions had loans and leases valued at just under $32 billion. By the end of March, that figure had declined to just under $31 billion. A year ago, Colorado-based institutions had loans and leases valued at over $116 billion. Data are unavailable for lending by non-Colorado-based institutions lending in the state. It appears that economic growth is being constrained by tightened lending standards on the part of local lenders as they strive to restore the health of their balance sheets, as well as by the uncreditworthiness of potential borrowers. In addition, lending remains particularly constrained to small businesses nationwide, an important source of growth for economic recovery in Colorado.

Recent FDIC data suggest that the condition of Colorado banks has improved over the past three months, but they remain in worse shape than in the nation. Twenty-three percent of Colorado FDIC-insured institutions were unprofitable at the end of March, up slightly from a year ago but down significantly from the thirty-five percent of institutions that were unprofitable at the end of 2009.

According to data from the New York Federal Reserve, there has been little change in the condition of Colorado borrowers between February and March 2010. There continues to be more Colorado mortgages flowing into foreclosure than out, although there was a very slight improvement in the percentage of borrowers who were past due on their mortgages between February and March 2010.

Job Market Remains Difficult

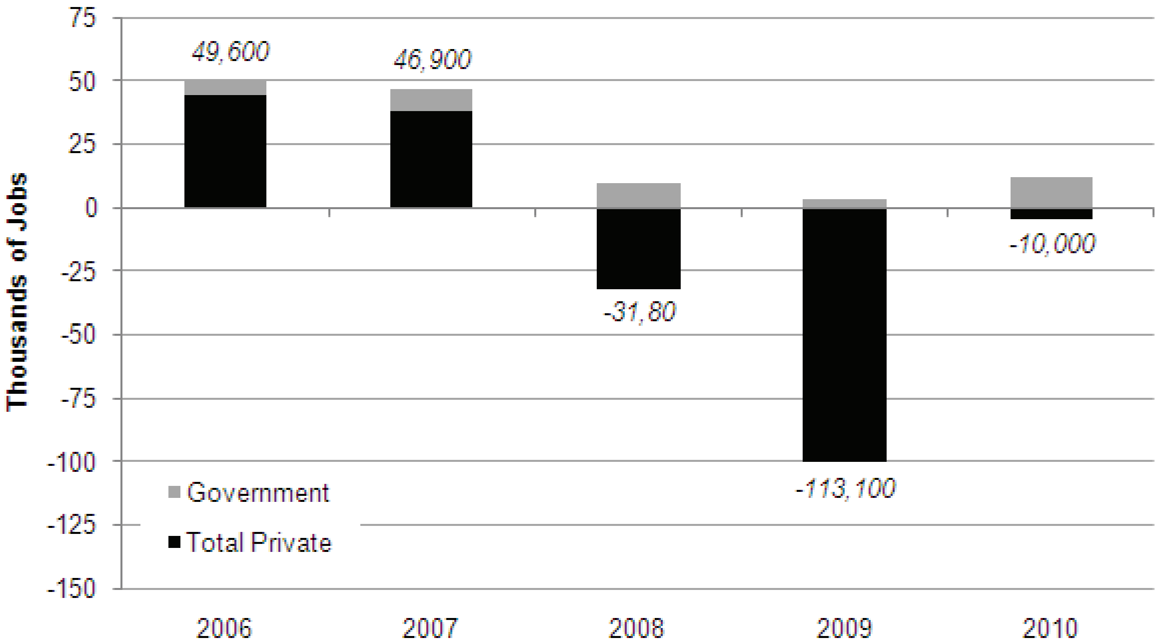
While there are weak signs of economic recovery, job growth in Colorado remains elusive. The labor market continues to bleed jobs. As shown in Figure 19, private sector employment declined by 13,400 positions in the past four months, after shedding 157,500 positions in 2008 and 2009. Job losses are waning compared to last year, when the private sector shrank by 6.0 percent. So far this year, the private sector has contracted an annualized 1.3 percent. The region's job market is not adding workers like the nation, where the private sector expanded by an annualized 1.1 percent between December and May.

Throughout the downturn, employment has declined more in Colorado than in the nation, as shown in Figure 20. Employment in many industries has underperformed similar industries in other parts of the country. Real estate, construction, and mining have had the largest job losses, and all these sectors have a larger presence in the state than in the nation.

The manufacturing sector has been hit hard in this downturn, but Colorado has a smaller share of manufacturing than the national average. Employment in nondurable manufacturing has increased an annualized 0.6 percent in the state so far this year, but employment in durable manufacturing continues to contract, declining by an annualized 4.9 percent. There have also been sizable job losses in construction, transportation and utilities, information, mining and logging, and arts, entertainment, and recreation.

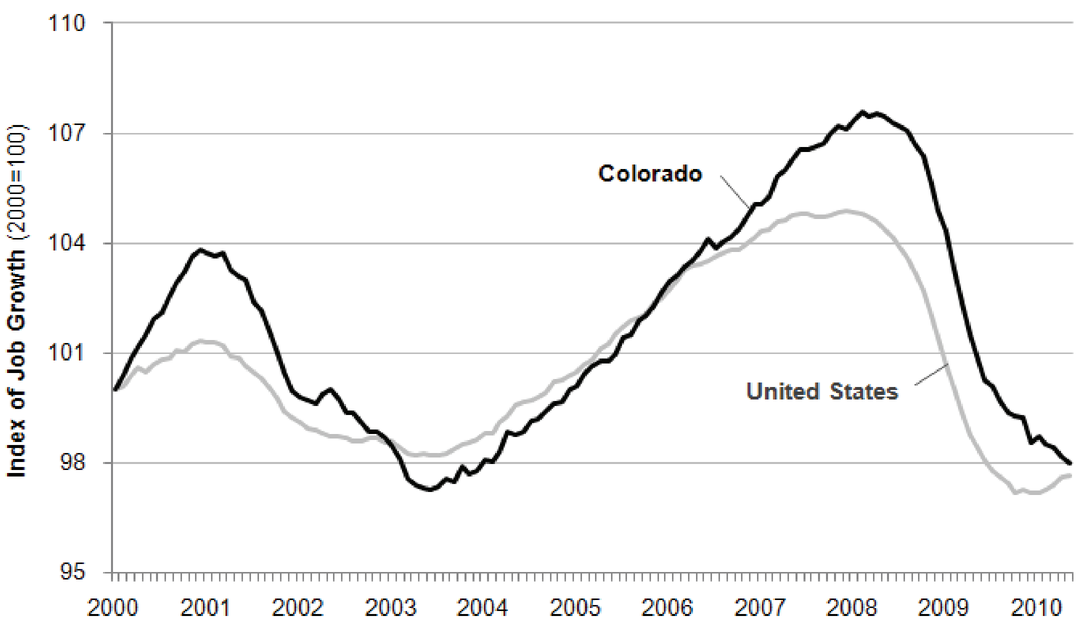
Colorado's unemployment rate continues to rise and is expected to increase further before declining. While still lower than the national unemployment rate of 9.9 percent, the state's unemployment rate was 8 percent in

Figure 19
Private Sector Job Losses Slow
Net Change in Private and Government Jobs



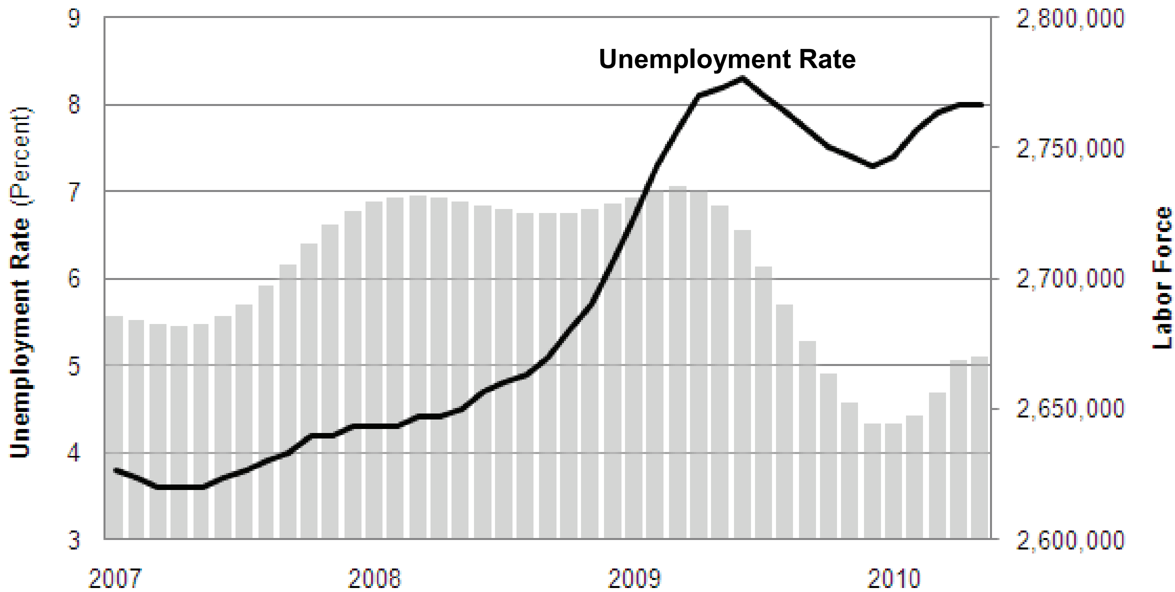
Source: Bureau of Labor Statistics.

Figure 20
Colorado Employment Recovery Lagging the Nation



Source: Bureau of Labor Statistics.

Figure 21
Colorado Unemployment Rate Reaches 8 Percent as Labor Force Increases



Source: Bureau of Labor Statistics.

April and May, as shown in Figure 21. So far this year, the number of unemployed has risen more rapidly than those obtaining employment.

The unemployment rate is now just slightly below the 8.2 percent unemployment rate reported in May of last year, but the household survey reports that 46,563 fewer Coloradans are employed. There are also 57,811 fewer potential workers in the labor force than a year ago. Still, there are signs of recent improvement. Just over 4,000 workers have obtained employment since December, and workers are returning to the labor force, perhaps because of increased optimism about job prospects. Employment growth in the household survey can be an early indicator of job growth through the establishment survey, because workers who are self employed will be counted in the household survey but not the establishment survey. Since December of 2009, nearly 26,050 workers have been added to the labor force, helping push up the number of unemployed by 21,913.

- The state's employment base is expected to decline by 31,400 workers in 2010, a 1.4 percent drop from 2009. Job growth should resume in 2011, and the forecast projects an increase of 24,300 positions, or 1.1 percent. The unemployment rate will continue to increase from 7.7 percent in 2009 to 8.6 percent in 2010, as the improving job market encourages workers to return to the labor force. The unemployment rate will likely push to 9.2 percent in 2011 before declining slightly in 2012.

Conclusion

The Colorado economy continues to recover amid significant headwinds. The state has benefitted from federal stimulus programs over the past several months, but those programs are now winding down. The economy is expected to continue expanding, but the growth rate in the second half of 2010 will be weaker than in the first half. The state has challenges to overcome in this recovery. Once the expansion regains solid footing, Colorado is expected to once again grow faster than the nation.

Data that tends to signal economic expansion are pointing to growth. Over the past three months, compared to three months ago, the Colorado rig count, retail sales, building permits, weekly hours worked, and U.S. leading index all signal expansion. There are other signs of recovery as well. Personal income growth has resumed, and retail trade is picking up.

Still, the labor market remains painfully weak. Colorado's labor force is growing faster than the economy can provide jobs. Employers are hesitant to hire amid continued concerns about the slow recovery, and some are investing in labor-saving equipment. The unemployment rate is high and rising, providing a challenging environment for those seeking work, some of whom have been unemployed for many months now.

After the pain of the past recession, typically the economy would bounce back with vigor, but that will not be the case with this downturn. Credit problems are weighing down the recovery, slowing spending and investment. Colorado banks will need to digest bad loans before lending growth can resume. Many real estate owners—both residential and nonresidential—will need to work through debt problems, a process that may push down real estate prices.

Every economic downturn plants seeds of recovery. Low real estate prices are attractive to firms looking for a location to start up or expand. The unemployed become a magnet for companies seeking an area with available talent. Colorado's economy typically roars back from recession and thrives. It will again, once credit and real estate problems are resolved.

Table 12
Colorado Economic Indicators, June 2010 Forecast

(Calendar Years)

	2006	2007	2008	2009	Forecast 2010	Forecast 2011	Forecast 2012
Population (thousands), July 1	4,807.2	4,895.4	4,987.3	5,074.1	5,162.0	5,244.7	5,327.8
percent change	2.0%	1.8%	1.9%	1.7%	1.7%	1.6%	1.6%
Nonagricultural Employment (thousands)	2,279.0	2,331.1	2,350.3	2,244.2	2,212.8	2,237.1	2,281.9
percent change	2.4%	2.3%	0.8%	-4.5%	-1.4%	1.1%	2.0%
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	$207,742	$212,935	$219,536	$226,781
percent change	8.2%	5.7%	3.3%	-2.2%	2.5%	3.1%	3.3%
Wage and Salary Income (millions)	$105,833	$112,604	$116,645	$112,561	$113,687	$115,278	$118,622
percent change	7.0%	6.4%	3.6%	-3.5%	1.0%	1.4%	2.9%
Retail Trade Sales (millions)	$70,437	$75,329	$74,760	$66,345	$69,729	$72,169	$75,850
percent change	7.5%	6.9%	-0.8%	-11.3%	5.1%	3.5%	5.1%
Home Permits (thousands)	38.3	29.5	19.0	9.4	11.5	12.3	16.7
percent change	-16.4%	-23.2%	-35.5%	-50.8%	23.4%	6.8%	34.8%
Nonresidential Building (millions)	$4,415	$5,251	$4,191	$3,049	$1,720	$1,716	$1,898
percent change	4.6%	18.9%	-20.2%	-27.2%	-43.6%	-0.2%	10.6%
Denver-Boulder Inflation Rate	3.6%	2.2%	3.9%	-0.6%	1.6%	2.1%	2.3%

** Forecast*

Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, U.S. Bureau of Economic Analysis, Colorado Department of Revenue, F.W. Dodge, and Legislative Council Staff.

Colorado Economic Regions

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

Metro Denver Region

The metro Denver regional economy continues to show signs of improvement, though it is still facing several headwinds. Consumer spending has rebounded and the job market has stabilized. Also, the housing market began to stir in 2010. Some of this activity can likely be attributed to government and Federal Reserve stimulus programs. However, it remains to be seen how strong and sustainable positive trends will be as these programs unwind, especially given the region's high unemployment, weakened banks, debt-laden consumers, and risk-averse businesses. Unless business activity picks up and generates more jobs and income growth, the region's economy will continue to run in low gear.

A bright spot is the continued expansion of the health care industry in the region. However, tighter credit is holding back the expansion of other industries, such as biotechnology, which would improve the region's economic performance. Table 13 shows economic indicators for the region from 2008 through April of 2010.

Table 13
Metro Denver Region Economic Indicators
Broomfield, Boulder, Denver, Adams, Arapahoe, Douglas, & Jefferson counties

	2008	2009	YTD April 2010
Employment Growth /1	1.0%	-4.4%	-3.2%
Unemployment Rate /2 (2010 Figure is April Only)	4.9%	7.8%	7.7%
Housing Permit Growth /3			
Single-Family (Denver-Aurora) /3	-50.1%	-31.4%	82.3%
Single-Family (Boulder) /3	-53.5%	-27.6%	43.9%
Growth in Value of Nonresidential Const. /4	33.7%	-13.8%	-22.7%
Retail Trade Sales Growth /5 (2010 Figure is YTD through February)	-0.8%	-11.4%	5.1%

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey for Denver-Aurora-Broomfield and Boulder MSAs.

2/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household)

3/ U.S. Census. Growth in the number of housing units authorized for construction.

4/ F.W. Dodge.

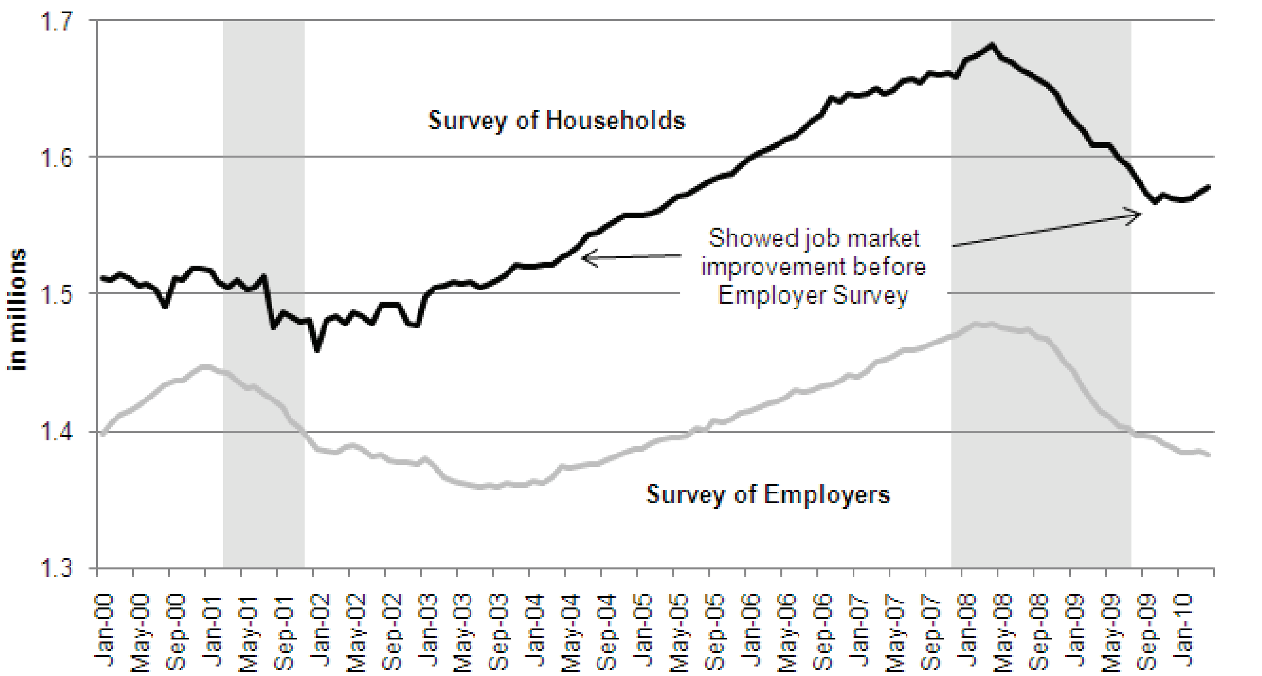
5/ Colorado Department of Revenue. Seasonally adjusted.

Job market. The region's job market has begun to show signs of life. For example, unemployment insurance claims in the region have declined for five consecutive months through April. Also, a recent survey of the Denver Metro area's employers by Manpower, an employment services firm, indicated that roughly one in nine companies plan to add workers in the third quarter of this year.

Figure 22 shows employment levels as reported by the two separate labor market surveys of households and employers. Though the survey of employers—which estimates the number of jobs in an area—shows continued job loss for the region through April, the survey of households—which estimates the number of people living in an area who are working—is showing a positive trend.

The household survey may provide a more accurate measure of current employment trends because it reflects self-employed workers and those working for small businesses better than the survey of employers. Because of this, the household survey tends to outperform the employer survey in the early part of recoveries. As shown in Figure 22, during the recovery from the early 2000s recession the household survey showed an uptrend several months before the survey of employers.

Figure 22
Household and Employer Surveys of the Metro Denver Region's Job Market, 2000 through April 2010



Source: U.S. Bureau of Labor Statistics.
The survey of households estimates the number of employed individuals while the survey of employers estimates the number of jobs. Shading indicates recessionaryperiods for the nation, which may not correspond with the recession periods for the state. Although the recession that started in December of 2007 has not yet been given an official end date, many economists believe it ended in the summer of 2009.

Though the region's job market appears to have stabilized, it has a long way to go to return to its pre-recession job levels. The recent recession caused the loss of one out of every 15 jobs, and the number of jobs now remains at 2004 levels. This is despite population growth of close to a quarter million people since that time.

Job growth will be slow in 2010 and the next couple years. Businesses experienced substantial productivity gains from existing workers over the past year, in part as a result of the region's innovative firms, which will reduce the need to add more staff as the economy improves. Also, structural factors, such as a change in the mix of industries that will need workers in the future and the large number of long-term unemployed who are losing job skills, will act as barriers to both employment and hiring.

In April, the region's seasonally adjusted unemployment rate of 7.7 percent stood below the statewide rate of 8.0 percent. The rate will remain elevated as people return to the labor force amid sluggish job growth.

Consumer spending. The region's retailers continue to see increased business. Consumer spending picked up rather briskly in the summer of 2009 and continued into the first part of 2010. Some of the increase in spending is likely the result of pent-up demand as consumers held back their purchases during the recession. Retailers' sales were $350 million higher in March than their low during the recession in April of last year. However, despite the increase, March's sales were still 11.2 percent below their peak level at the end of 2007.

Housing market. It appears the region's housing market has benefitted from the federal homebuyer's tax credit. Both home sales and construction have posted recent increases. However, the expiration of the tax credit will result in a softening of the market over the rest of the year.

The number of homes sold in April were almost 24 percent higher than in April of 2009. Because some of these sales were likely pulled from the future as buyers rushed to take advantage of the tax credit before its scheduled expiration, sales will be weaker over the rest of the year.

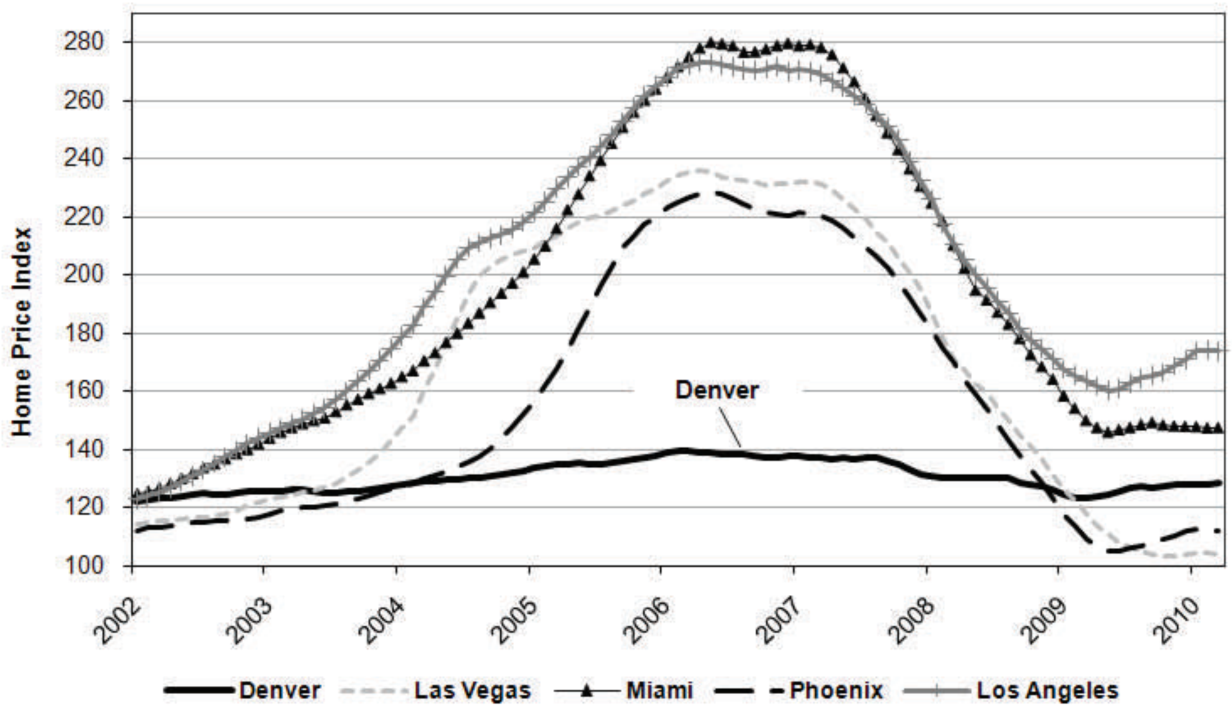
Also, as shown in Figure 23, home building in the region finally turned positive after persistent decreases since the middle of 2006. Some of the pick up in activity is a result of the homebuyer's credit and thus the strong upward trend will likely prove temporary. The home building sector is expected to remain soft for some time due to the high level of foreclosures that will continue to add to the supply of existing homes on the market.

Given the persistently high level of foreclosures and weak economy, the region's home values have held up remarkably well when compared with many other metro areas. This is illustrated in Figure 24. The early 2000 recession hit Denver harder than other metro areas. This hit likely took the steam out of the Denver housing market and may explain why Denver home values did not rise or fall as far during the housing bubble and burst experienced in many other areas. Figure 24 also shows that Denver home values were essentially flat in the first quarter of 2010.

Figure 23
Number of Housing Units Authorized for Construction in Metro Denver Region
Seasonally Adjusted, Three-Month Moving Average

Source: U.S. Census Bureau.

Figure 24
S&P/Case-Shiller Home Price Indices for Selected Metro Areas, 2002 through March of 2010



Source: Standard and Poor's and Fiserv.

The expiration of the homebuyer's tax credit, continued foreclosures, and an underperforming economy should constrain home price appreciation over the near term, and could cause price declines. In fact, another index of home values published by the Federal Housing Finance Agency, which uses a different methodology than Case-Shiller, reports some recent weakening in Denver home values. Home value declines, coupled with continued weakness in the stock market, would likely weaken the economy by impacting consumer spending.

Nonresidential construction. Nonresidential construction is one of the weakest components of the region's economy. The value of nonresidential construction contracts was down almost $400 million this year through April from the same time period in 2007. This represents a drop of 45.7 percent. The largest drop was in commercial projects, such as offices and retail stores, due to the weak economy. The number of commercial construction projects is down 75.7 percent since 2007.

One major construction project worth noting is the expansion and redevelopment of Denver Union Station. The project will create a new transportation hub for the region as part of the FasTracks program. The project is valued at $310 million and will be completed by the summer of 2014 if construction goes as planned. Also, there are several health-related facility construction projects either planned or ongoing. The largest is the expansion of the University of Colorado Hospital on the Anschutz Medical Campus in Aurora.

Recent Economic News

- The expansion of the University of Colorado Hospital on the Anschutz Medical Campus is expected to result in 1,000 new jobs. The hospital indicated that expansion is needed to accommodate the increased demand for its services as it serves more patients from the Rocky Mountain region. The expansion is on top of several other new health care-related facilities that are being developed on the campus as well as other non-health care-related development taking place near the campus.

- OrthoColorado, the first medical facility at the new St. Anthony Medical Campus in Lakewood has opened. The orthopedic hospital will employ about 200 workers. St. Anthony Central Hospital will open at the campus in 2011 and generate an additional 1,000 jobs.

- Kaiser Permanente Colorado, the state's fourth-largest health plan is expecting to open four new medical facilities in the next five years in the Denver area to meet its increasing membership and growth in demand for medical services. The largest of the new facilities is a 120,000-square-foot, five-building specialty medical center near Interstate 25 and Lincoln Avenue, which is expected to open in 2013.

- A new operating facility, recovery room, and a pre-surgery area opened at Exempla Lutheran Medical Center in Wheat Ridge. The $225 million project is part of a five-year expansion that will add 295,000 square feet at the medical center.

- Exempla Health Care laid off 100 workers, mostly at St. Joseph Hospital in Denver. The company cited declining Medicare and Medicaid reimbursement rates and fewer patients due to the high number of unemployed lacking insurance coverage.

- Catholic Health Initiatives, a Denver-based health care nonprofit that operates St. Anthony hospitals in metro Denver, is hiring over 200 staff to help expand and administer its health care system's clinical information technology project. The $1.5 billion project expands the use of electronic medical administration, such as implementing system-wide use of electronic health records. Most of the new staff will be based in Denver.

- Denver based Western Union Co., a money-transfer company that operates worldwide, is laying off 175 management staff and consolidating operations as part of an effort to save $50 million a year. It is unknown how many of the layoffs will affect Denver-area staff, but many of the company's top executives are located at its Meridian Office Park headquarters near Centennial Airport.

- After several delays, groundbreaking on a new Westin hotel at Denver International Airport is scheduled for the beginning of 2011, according to DIA officials. The hotel, expected to be completed by late 2013, will sit on top of the future FasTracks train station on the south end of DIA's terminal. The project is being financed with general-aviation revenue bonds and federal stimulus money.

- Telecommunications firm and Colorado's sixth largest employer, Qwest Communications, was acquired by CenturyTel Inc. Although CenturyTel will maintain business operations in Denver, the loss of the Qwest headquarters will result in layoffs of many executive-level and other Qwest jobs in Denver.

- Aerospace and defense company Raytheon is expanding at its Aurora location, mostly as a result of a Air Force contract for modernizing ground-control support for the country's global positioning satellites. The contract will create about 100 jobs this year and 200 more in 2011. Raytheon is Aurora's largest private employer and focuses on software development, intelligence support, and information missions for governmental agencies and private companies.

- Aluwind, a Denmark-based manufacturer and supplier for the wind turbine industry, is expanding operations in Castle Rock. Aluwind expects to have 30 employees in Castle Rock this year, while longer-term plans include adding 50 to 75 more workers.

- Oxford Global Resources, a technology and engineering consulting firm based in Massachusetts, has opened an office in Westminster. The company cited the metro region's reputation as a major technology hub as one reason for the expansion in the area.

- A new diesel engine remanufacturing plant operated by Cummins Rocky Mountain will be opening Commerce City. The engines will be used mostly for mining. The plant will hire about 70 employees and may add up to 70 more over the next five years. The plant chose Commerce City over locations in other states.

Colorado Springs Region

The recovery pattern in the Colorado Springs region appears to be tracking with the pattern of the state as a whole. While the job recovery continues to lag, there are positive signs in both the region's housing market and consumer spending. Nonfarm employment levels continue to fall, and the region's unemployment rate experienced an uptick in the first four months of 2010. In contrast, the region's construction industry appears to be recovering, and regional consumer spending is continuing the upward trend that it has followed for the past year. Table 14 shows economic indicators for the region through April 2010.

Table 14

Colorado Springs Region Economic Indicators
El Paso County

	2008	2009	YTD April 2010
Employment Growth /1			
Colorado Springs MSA	-0.9%	-4.0%	-3.1%
Unemployment Rate /2 (2010 Figure is April Only)	5.7%	8.4%	8.6%
Housing Permit Growth /3			
Total	-36.1%	-33.4%	79.1%
Single-Family	-42.2%	-16.7%	82.5%
Growth in Value of Nonresidential Const. /4	-44.6%	-3.4%	-8.9%
Retail Trade Sales Growth /5 (2010 Figure is YTD through February)	-2.7%	-6.2%	7.1%

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey.

2/ U.S. Bureau of Labor Statistics. Seasonally adjusted. LAUS (household) survey.

3/ U.S. Census. Growth in the number of housing units authorized for construction.

4/ F.W. Dodge.

5/ Colorado Department of Revenue. Seasonally adjusted.

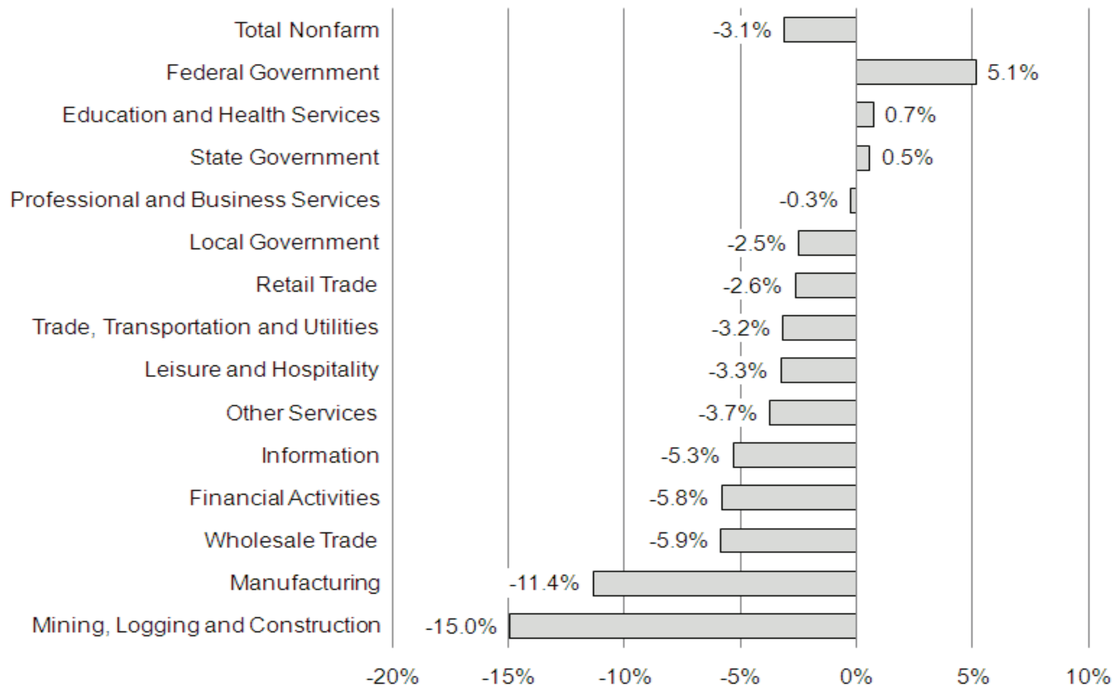
Concerning news for the region is the slow-to-recover job market. Through the first four months of 2010, jobs in the Colorado Springs metropolitan area were down 3.1 percent compared to the first four months of 2009. This contraction comes on the heals of overall job losses experienced during the two previous years.

As shown in Figure 25, job losses have occurred in most sectors. However, the heaviest losses came in mining, logging and construction, manufacturing, wholesale trade and financial sectors. Employment dropped 15 percent in mining and logging and 11.4 percent in the manufacturing sector. Jobs in the wholesale trade and financial activities sectors fell by 5.9 percent and 5.8 percent, respectively. The federal and state government sectors grew by 5.1 percent and 0.5 percent, respectively through April, while local government jobs fell by 2.5 percent. The educational and health services sector grew by 0.7 percent. Figure 25 shows area employment trends for 2009 and the first four months of 2010.

Further evidence of the region's employment woes is found in the unemployment rate. The regional rate was 8.6 percent in April, up slightly from the 8.4 percent average for 2009. This uptick is the result of an increased number of workers rejoining the labor force and attempting to find jobs. The region's rate is slightly higher than the statewide rate of 8.0 percent.

The region's construction industry, however, is showing encouraging signs. Following four consecutive years of declines in both total and single-family housing permits, both measures are up through the first four months of 2010. Total housing permits grew by 79.1 percent from last year's levels, while single-family permits were up 82.5 percent. It should be noted, however, that the number of permits remains low

Figure 25
Colorado Springs Metropolitan Statistical Area Employment Trends
Non-Seasonally Adjusted Data



Source: Bureau of Labor Statistics.

relative to historical levels. In addition, it is unclear how much of the uptick is the result of the temporary housing tax credit in the federal stimulus package.

Further good news for the region's housing market came in a slight decline in mortgage foreclosures. In April, El Paso County foreclosure filings were down 11.5 percent from the record levels a year earlier. Year-to-date, filings were down 7.8 percent from the first four months of 2009, and 0.5 percent for a similar period in 2008. This drop compares favorably to the 3.2 percent decline in year-to-date foreclosure filings statewide compared with 2009.

The value of nonresidential construction decreased 8.9 percent through April 2010 relative to the same period in 2009. Most of the decline comes from a decrease in commercial and educational facility permits.

A rebound in consumer confidence is evident in the increase in retail spending in the region. Through February, retail sales were up 7.1 percent compared to a similar period in 2009. This marks a sharp rebound from the 6.2 percent drop that occurred in 2009. It also compares favorably to the 3.6 percent increase that was seen statewide. Providing further evidence, sales and use tax collections through April were up 6.3 percent from a year earlier. The increase in April marked the sixth consecutive month that collections increased.

Recent Economic News

- San Antonio-based USAA has opened a financial center as part of the planned 200 person expansion of its Colorado Springs regional office. The financial center will allow it's 100,000 local members to do banking, insurance, and investment business face-to-face or through a video conference booth in the center.

- The California State Automobile Association will close a small part of it's Colorado Springs call center and lay off 63 temporary employees that had been staffing the operation. The center will continue to employ 370 permanent workers to handle policy underwriting and claims.

- The Colorado Springs area apartment vacancy rate fell to 6.9 percent in the first quarter of 2010 — the lowest level for any quarter in nearly nine years.

- Construction resumed in May on the 300-room Renaissance Hotel, planned for opening late this year or early 2011 on the far north side of Colorado Springs.

- Airport traffic to the Colorado Springs area fell 7.2 percent in March compared with a year ago. Gains reported by Frontier and United were not enough to offset the loss of US Airways and declines by six other carriers. The drop in March marked the fourth consecutive month passenger traffic has fallen in the region.

Pueblo — Southern Mountains Region

Pueblo's five-county regional economy remained sluggish in 2010. Unemployment remained high, construction activity was low, yet retail sales picked up. Some indicators in the area suggest a favorable economic recovery in 2010, but any recovery will be slow until job growth resumes. Table 15 shows economic indicators for the region.

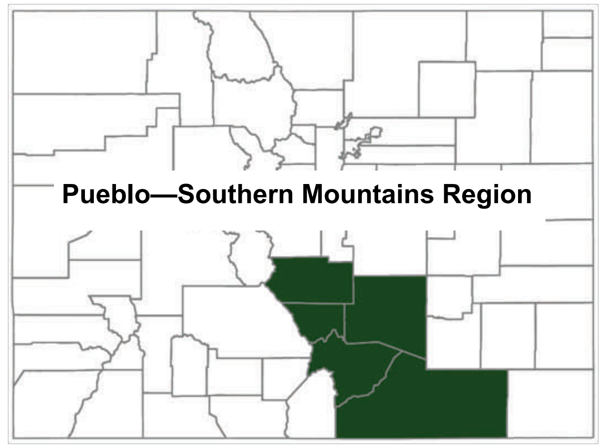


Table 15

Pueblo Region Economic Indicators

Pueblo, Fremont, Custer, Huerfano, and Las Animas counties

	2008	2009	YTD April 2010
Employment Growth			
Pueblo Region /1	-0.6%	-2.5%	-1.6%
Pueblo MSA /2	0.5%	-2.4%	-1.7%
Unemployment Rate /1 (2010 Figure is April Only)	6.0%	8.8%	9.2%
Housing Permit Growth /3			
Pueblo MSA Total	-38.6%	-9.4%	86.2%
Pueblo MSA Single-Family	-42.8%	-51.5%	61.1%
Growth in Value of Nonresidential Const. /4			
Pueblo County	75.1%	-44.4%	-96.6%
Retail Trade Sales Growth /5 (2010 Figure is YTD through February)	-1.7%	-4.7%	3.7%

1/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey.

3/ U.S. Census. Growth in the number of housing units authorized for construction.

4/ F.W. Dodge.

5/ Colorado Department of Revenue. Seasonally adjusted.

While hiring conditions have improved in 2010, employment levels are still far below the levels achieved prior to the recession. Employment has fallen in most industry sectors thus far in 2010, with the biggest drops in the construction and professional business services sectors. Many industry sectors that managed to retain jobs in 2008 succumbed in 2009, shedding hundreds of jobs. While this trend has continued into 2010, the pace of job loss is slowing and a hint of hiring is taking place. With discouraged workers rejoining the labor force attempting to find jobs, the unemployment rate for the region continued to edge up to 9.2 percent by April 2010.

Consumer spending turned for the better, with retail trade sales growth at 3.7 percent through February compared with the first two months of 2009. Pueblo County began 2010 with declining sales in building material stores, auto dealers, restaurants, and lodging, hurt by job cuts and a drop-off in tourism.

Residential housing permits increased with a rush in building. Eleven single-family home permits were issued in Pueblo County in April 2010, following 39 permits in March, 26 permits in February, and 11 in January according to Dodge reports. Pre-recession permits typically total 100 to 150 home starts in the early months, however, the recent spike in permits were mostly due to contractors trying to beat more costly building code rules that took effect in April. Regional growth in the value of nonresidential construction improved in 2010, yet only a few projects were under contract by April, including a hospital and two small stores.

Recent Economic News

- The Huerfano County Correctional Center closed, ending 188 jobs in the area, with the economic effects trickling through other sectors of the region. The city of Walsenburg will lose over $250,000 in utility sales to the prison, concessions, and sales taxes. Duckwall's Hometown Variety Store closed ending six part-time jobs.

- Pueblo opened its first Jack-in-the-Box restaurant, hiring 51 full-time employees.

- Hollywood Video will close its remaining U.S. stores, including its last two in Pueblo.

San Luis Valley Region

Economic growth in the San Luis Valley remains sluggish, although some gains in economic activity are beginning to take place. Employment conditions worsened and crop prices continued to drop thus far in 2010. However, construction activity has improved and growth in retail trade sales is picking up. Table 16 shows the economic indicators for the region through April 2010.

Table 16
San Luis Valley Region Economic Indicators

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

	2008	2009	YTD April 2010
Employment Growth /1	-3.4%	2.4%	-7.4%
Unemployment Rate /1 (2010 Figure is April Only)	6.1%	7.5%	8.0%
Statewide Crop Price Changes /2			
Barley (U.S. average for all)	48.1%	-24.4%	-25.0%
Alfalfa Hay (baled)	18.0%	-23.5%	-24.2%
Potatoes	47.7%	-54.9%	-42.9%
SLV Potato (Inventory CWT) /2	11.6%	5.0%	-10.0%
Housing Permit Growth /3			
Alamosa County	139.1%	-47.3%	266.7%
Growth in Value of Nonresidential Const. /3			
Alamosa County	-88.0%	987.1%	15.8%
Retail Trade Sales Growth /4 (2010 Figure is YTD through February)	3.4%	-1.6%	4.0%

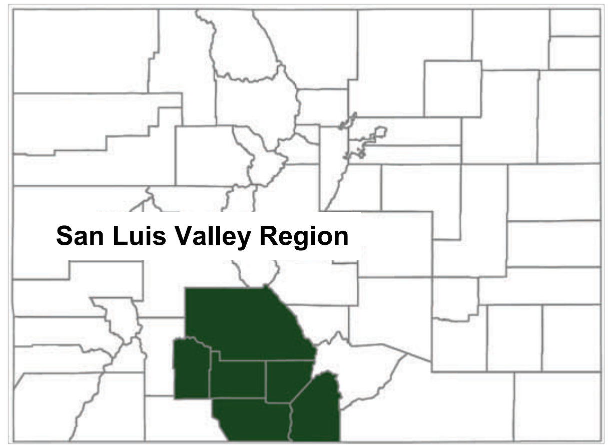
1/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.

2/ Colorado Agricultural Statistics Service. 2010 estimates for potato inventory compares April 2010 to April 2009.

3/ F.W. Dodge.

4/ Colorado Department of Revenue. Seasonally adjusted.

After gaining ground in 2009, regional employment decreased 7.4 percent year-to-date in 2010 compared with the same period last year. The unemployment rate for the region's six counties combined edged up to 8.0 percent in April 2010. Consumer spending, as measured by retail trade, turned for the better with the growth in retail trade sales at 4.0 percent. Local lodging is up, due in part to large construction projects.



Potato production was up in the San Luis Valley. However, stocks on hand fell in April 2010 compared to April 2009. Colorado growers and commercial storage facilities in this region had 8.1 million hundredweight of potatoes on hand, down 10 percent from April 2009. This was not due to recessionary pressures. Rather, storage issues became a concern so aggressive marketing was used to push potatoes out of the storage facilities. While Colorado grows over 100 potato varieties, the majority are russets, reds, yellows, and specialties such as All-Blue, Fingerlings, and Purple Majesty. The San Luis Valley is the second largest potato supplier in the U.S.

Residential housing permits increased compared to last year in Alamosa County. From January through April of 2010, only seven building permits were under contract for single-family homes. Although the value of nonresidential construction was up, only two projects were under contract: a manufacturing plant (renewable energy) and an office building.

Recent Economic News

- Court staff has been reduced by six permanent positions in the San Luis Valley. The necessary cuts were made through attrition rather than layoffs, and consequently, remaining court staff did not have to take a scheduled furlough day.

- The city of La Jara opened a 60-bed nursing home facility northwest of the Conejos County Hospital which will provide 60 full-time jobs.

- Splashland Hot Springs, located just north of Alamosa on Highway 17, is scheduled to re-open this summer under new ownership. The pool was purchased by local owners of San Luis Valley Builders and is undergoing extensive repairs.

Southwest Mountain Region

After a deep recession, the southwest mountain region's economy is slowly beginning to stabilize. Employment and consumer spending are at levels still significantly lower than in the spring of 2009. Likewise, the region's unemployment rate increased. Both the lack of employment growth and increasing unemployment are contributing to declining retail trade sales. Signs of improving conditions can be found in construction, the region showing gains once again in both total and single-family housing permits. Table 17 shows the economic indicators for this region.

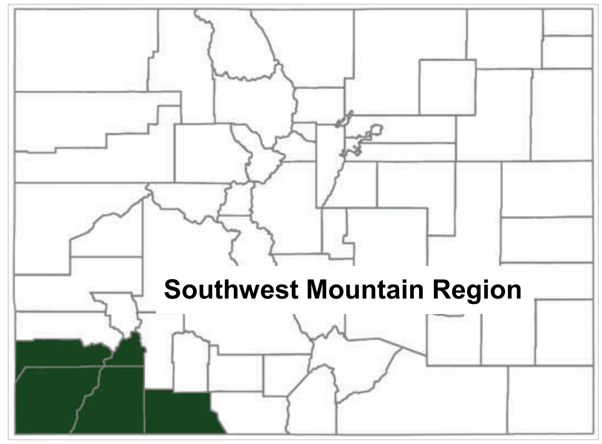


Table 17
Southwest Mountain Region Economic Indicators
Archuleta, Dolores, La Plata, Montezuma, and San Juan counties

	2008	2009	YTD April 2010
Employment Growth /1	-1.7%	-3.7%	-4.0%
Unemployment Rate /1 (2010 Figure is April Only)	4.3%	6.7%	7.4%
Housing Permit Growth /2			
La Plata County Total	-57.4%	-15.8%	61.0%
La Plata County Single-Family	-40.3%	-15.2%	61.0%
Growth in Value of Nonresidential Const. /2			
La Plata County	-84.6%	101.4%	-96.4%
Retail Trade Sales Growth /3 (2010 Figure is YTD through February)	-0.7%	-13.9%	-6.6%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.
2/ F.W. Dodge.
3/ Colorado Department of Revenue. Seasonally adjusted.

Seasonally adjusted nonfarm employment decreased 4.0 percent through April compared to the first four months of last year. In addition, more individuals are jumping back into the labor market looking for work, pushing the region's seasonally adjusted unemployment rate up to 7.4 percent from an average of 6.7 percent for 2009.

The bright spot in the region is seen in residential building contracts during the early months of this year. Contracts for new single-family homes have increased every month in 2010, with 66 projects under contract by April 2010, up from 41 projects over the same period last year. The first-time homebuyer tax credit provided enough incentive for those in the market to take advantage of foreclosures and new homes. The region has yet to see a rebound in nonresidential construction. Construction activity thus far is attributed only to a 2 million square foot store under contract.

Consumer spending remains anemic. At the onset of 2010, lodging tax revenue in Cortez was down more than 50 percent compared to the same time in 2009. Many of the hotels had hosted oil and gas workers who are no longer in the region. In addition, a cold, wet spring has kept many locals indoors, not out shopping. Durango showed similar results for the first two months of 2010, with overall sales tax revenue down over 10 percent.

Recent Economic News

- After making nonpersonnel budget cuts, a Fort Lewis College budget proposal calls for laying off seven employees, including faculty and staff.
- Home sales in Cortez doubled by February 2010, compared to the same time last year. This has been attributed to the first-time homebuyer tax credit.

- A Texas firm announced plans to put the old Steamworks Brewing Company operation back to work in Bayfield, adding an undetermined number of workers to the city. The new brewery will feature an on-site tap room with a limited menu.

Western Region

The western region's economy remains bleak despite the gradual recovery being seen in other areas of Colorado. Data for the region offers few signs of an economic turn-around in the near future. The region continued to shed jobs through the first four months of 2010. Employment in counties such as Garfield and Mesa that have relied on the natural gas industry are not yet responding to the gradual increases in natural gas prices. The regional unemployment rate, which more than doubled over the past year, was higher than the statewide average and among the highest in the state. Consumer spending fell sharply in 2009 and continues to struggle in 2010. The region also saw a substantial increase in home foreclosures. First quarter filings in 2010 more than doubled when compared to the same period in the prior year. Table 18 summarizes regional economic indicators.

Table 18

Western Region Economic Indicators

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

	2008	2009	YTD April 2010
Employment Growth			
Western Region /1	1.6%	-5.9%	-6.3%
Grand Junction MSA /2	4.8%	-6.4%	-7.2%
Unemployment Rate /1	3.9%	8.0%	8.8%
(2010 Figure is April Only)			
Housing Permit Growth /3			
Mesa County Total Permits	-37.0%	-56.3%	4.4%
Montrose County Total Permits	-45.7%	-56.9%	-8.3%
Growth in Value of Nonresidential Const. /3			
Mesa County	-53.9%	-11.1%	-15.7%
Montrose County	-59.8%	-87.4%	185.7%
Retail Trade Sales Growth /4	1.2%	-19.1%	-7.0%
(2010 Figure is YTD through February)			

1/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.

2/ U.S. Bureau of Labor Statistics. CES (establishment) survey.

3/ F.W. Dodge.

4/ Colorado Department of Revenue. Seasonally adjusted.

Through the first four months of 2010, regional employment levels posted a modest gain although the number of jobs were lower than the prior year. Nonfarm employment decreased in the Western region by 6.3 percent, compared with the first four months of 2009 after decreasing 5.9 percent in 2009. In Mesa County, the largest county in the region, employment fell 7.2 percent in the first four months of 2010.

In April, unemployment in the region rose to 8.8 percent, higher than the 8.0 rate at the close of 2009 and more than double the rate experienced in 2008. Hinsdale reported the lowest unemployment rate at 4.1 percent, while Mesa and Montrose counties reported the highest unemployment rates in the region at 9.4 percent and 9.3 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 rebounding due to the rising price of natural gas. Colorado had 53 active rigs as of mid-May, up from 45 in the prior year but well below the record pace of 122 in May 2008. The low-water mark was 38 active rigs in November of 2009.

Consumer spending, as measured by seasonally-adjusted retail trade sales, fell 7.0 percent through April, compared to the first four months of 2010, an improvement from the 19.1 percent decline in 2009. Many towns in the region may begin to see some modest growth in retail trade sales as the summer season takes hold. Tourism spending may drive retail sales upward as many towns in the region transition from the spring mud season to the summer travel season.

Housing construction has leveled off some in 2010. After seeing four consecutive years of declines in single-family permits in both Mesa and Montrose counties, Mesa County's permits grew 4.4 percent through the first four months of the year. Over the same time period, Montrose County's single-family permits fell 8.3 percent. In 2009, single-family permits declined about 56 percent in each of these counties.

The increasing number of foreclosure filings provides further evidence that the housing market's recovery may be a slow, gradual process. According to the first quarter foreclosure report by the Colorado Department of Local Affairs, regional foreclosure filings more than doubled in Mesa County in the first quarter of 2010. There were 397 foreclosure filings in the first quarter of 2010 compared with 175 filings in the same period in the prior year. In Mesa County, there was one completed foreclosure per 221 households.

Nonresidential construction continues to be one of the weakest components of the region's economy. In Mesa County, after yearly declines in value during 2008 and 2009, nonresidential construction values fell 15.7 percent through the first four months of the year. On a positive note, after three years of declines in Montrose County, nonresidential construction values grew by $1.3 million over the same time period. The construction of commercial projects fueled the slight increase.

Recent Economic News

- Cabela's new outdoor equipment store in Grand Junction at the Mesa Mall opened last month. Company officials interviewed a pool of 1,200 people for the new store's 218 open positions. Starting pay is $9 per hour and health care insurance is offered.

- Randy's Southside Diner recently opened in Grand Junction. The owner received 450 applications for 12 job positions over a 35-day period.

- Einstein Bros. Bagels will open a new store in Grand Junction. The company has not yet determined the number of new jobs that will be offered.

- Press-One, a Fort Collins-based company, will open a call center in Grand Junction. The company announced that it will hire between 75 to 100 workers earning $10 to $12 per hour with an annual payroll of $4 million.

- Intermountain Resources LLC suspended operations at its lumber mill in Montrose as the company tries to raise capital and restructure its operations. The company has 100 employees, but does not plan to close permanently.

- EnerCrest Construction closed its five offices in Rifle. Twenty employees were laid off.

Mountain Region

The mountain region's economy continues to see job losses and slow retail sales. However, the region's economy appears to be stabilizing, supported by ski-related tourism and a boost in construction activity. Table 19 shows major economic indicators for the region.

Table 19
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller counties

	2008	2009	YTD April 2010
Employment Growth /1	-0.8%	-6.0%	-4.0%
Unemployment Rate /1 (2010 Figure is April Only)	4.0%	7.1%	7.9%
Housing Permit Growth /2			
Eagle, Pitkin, & Summit counties Total	-43.1%	-58.5%	85.7%
Routt County Total	43.5%	-80.0%	-76.3%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	-0.9%	-79.0%	608.8%
Routt County	-54.9%	-88.5%	-100.0%
Retail Trade Sales Growth /3 (2010 Figure is YTD through February)	-1.5%	-16.3%	-0.9%

1/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.

2/ F.W. Dodge.

3/ Colorado Department of Revenue. Seasonally adjusted.

After significant job losses in 2009, employment in the region has begun leveling off somewhat in 2010. It will likely take several years for employment levels to return to pre-recession levels. Since August 2008, the region has lost close to 9,600 jobs on a seasonally-adjusted basis.

The region's unemployment rate rose to 7.9 percent in April, up from the average of 7.1 percent for all of last year. The highest unemployment rate in the region was Lake County at 10.6 percent, while the lowest was in Summit county at 6.1 percent. In addition to those who lost their jobs, workers who dropped out of the labor force are reentering as job opportunities improve. This is pushing up the unemployment rate.

Construction activity began to recover in the ski counties of Eagle, Pitkin, and Summit. Growth in residential housing increased in these three counties by 85.7 percent. The significant boost in nonresidential construction in the three ski counties is primarily due to construction projects in the hotel industry.

However, construction fell sharply in Routt County, posting a decrease of 76.3 percent. This is primarily due to a fall in commercial construction contracts.

Regional consumer spending, as measured by seasonally-adjusted retail trade sales, is still decreasing. However, the 0.9 percent drop is small when compared to last year's average drop of over 16 percent. Consumer spending in the region has been struggling ever since it decreased dramatically at the end of 2008. The ski counties of Eagle, Pitkin, Routt, and Summit, posted a total increase of 3.1 percent over last year due to a fairly strong season of tourism and skiing.

Recent Economic News

- Whole Foods Market announced its decision to build a 25,000 square-foot grocery store and hire 120 people in Basalt.

- United Airlines will offer a nonstop flight from Chicago to Aspen for the first time one day a week this summer.

- After 50 years of business, the Steak Pit in Aspen closed its doors in April and laid off 35 people.

- Bus drivers employed with the Summit Stage bus service were laid off in May of this year, resulting in 14 drivers losing their positions.

- Outback Steakhouse in Avon closed in May, leaving 40 workers without employment.

Northern Region

There are preliminary signs of economic recovery in the northern region, especially in the Fort Collins area. While employment is still sluggish, the regional housing market is improving. Housing prices have rebounded and foreclosures are down. Additionally, consumer spending is up after falling the last couple of years. Although signs aren't quite as positive in the Greeley area, there appears to be reason for cautious optimism. The decline in housing prices has slowed, construction permits are up, and consumer spending is holding steady. Table 20 presents information on economic indicators for the northern region.

Table 20
Northern Region Economic Indicators
Weld and Larimer counties

	2008	2009	YTD April 2010
Employment Growth /1			
Fort Collins-Loveland MSA	1.0%	-3.2%	-1.8%
Greeley MSA	1.4%	-5.0%	-4.7%
Unemployment Rate /2 (2010 Figure is April Only)			
Fort Collins-Loveland MSA	4.3%	6.6%	6.4%
Greeley MSA	5.3%	8.7%	9.0%
State Cattle and Calf Inventory Growth /3	1.9%	5.0%	-10.6%
Housing Permit Growth /4			
Fort Collins-Loveland MSA Total	-1.0%	-66.0%	367.6%
Fort Collins-Loveland MSA Single -family	-36.4%	-49.2%	87.4%
Greeley MSA Total	-46.8%	-20.6%	83.4%
Greeley MSA Single-family	-45.1%	-13.7%	95.7%
Growth in Value of Nonresidential Const. /5			
Larimer County	-9.9%	-54.0%	-74.9%
Weld County	25.3%	73.9%	-92.3%
Retail Trade Sales Growth /6			
Larimer County	-0.7%	-8.9%	4.9%
Weld County	2.0%	-15.1%	0.1%
(2010 Figure is YTD through February)			

1/ U.S. Bureau of Labor Statistics. CES (establishment) survey.

2/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.

3/ Colorado Agricultural Statistics Service. 2010 data compares year-to-date April 2010 to April 2009.

4/ U.S. Census. Growth in the number of housing units authorized for construction.

4/ F.W. Dodge.

5/ Colorado Department of Revenue. Seasonally adjusted.

Through the first four months of 2010, regional employment levels continued to drop, although the rate of decline slowed. Employment in the Fort Collins-Loveland area fell by 1.8 percent, compared with a 3.2 percent drop in 2009. Similarly, employment in the Greeley area declined by 4.7 percent, slightly less than the 2009 drop of 5.0 percent. In Fort Collins, the sharpest declines came in mining and logging, and manufacturing sectors where employment dropped by 14.8 percent and 8.6 percent respectively. Most other sectors posted job losses in the range of 1 to 4 percent, with only the education and health services sector, the leisure and hospitality sector, and the local government sector posting gains. In the Greeley area, a similar pattern emerged. The mining and logging and manufacturing sectors posted the highest job losses, with losses in other sectors ranging from 1 to 8 percent. Only the state and federal government sectors posted gains.

Through the first four months of 2010, unemployment rates in both Fort Collins and Greeley were relatively stable. While the rate in Fort Collins fell to 6.4 percent compared to the 6.6 average for 2009, the rate in Greeley rose to 9.0 percent compared to the 2009 average rate of 8.7 percent.

Livestock production is especially important to the region's agricultural sector—both Weld and Larimer counties are leading producers of cattle, poultry and dairy in the state. The state's cattle and calf inventory was down by 10.6 percent in the first quarter of 2010, after growing by 5.0 percent in 2009.

The regional housing market is improving, although it is unclear how much of the upturn may be due to the temporary housing tax credit in the federal stimulus package. The housing market in the Fort Collins area, especially, has shown improvement over the past several months. Since November 2009, the average home price rose by $13,000, or about 6.4 percent. Over that last year housing values in the area rose 4.7 percent, and 1.4 percent in Larimer County as a whole. In Greeley, housing values have fallen 1.6 percent over the past year, although the rate of decline has slowed somewhat recently. In the last month, housing values in Greeley and Weld County dropped 0.2 percent and 0.5 percent respectively. Foreclosure rates within the region have also dropped. In Larimer County, April foreclosures dropped 9.6 percent, and year-to-date foreclosures have declined by 14.5 percent. In Weld County, foreclosures were down 16.4 percent in April, and 3.1 percent year-to-date.

There are also encouraging signs for the regional construction industry. After four years of declining permit totals in both the Fort Collins and Greeley areas, the construction sector has rebounded in the first four months of 2010. Total permits and single-family permits in Fort Collins are up 368 percent and 87 percent relative to a similar period in 2009. Likewise, similar measures for the Greeley area increased by 83 percent and 96 percent respectively. The value of non-residential construction has not yet rebounded as the residential sector has.

Consumer spending, as measured by retail trade is also exhibiting signs for cautious optimism. In the first four months of 2010, spending increased in Larimer County by 4.9 percent and was nearly flat in Weld County. This was a welcome change on the heels of declines in 2009 of 8.9 percent for Larimer County and 15.1 percent for Weld County that the region experienced in 2009. In April, Loveland sales and use tax revenues increased for the second month in a row after 20 straight months of declines.

Recent Economic News

- Fort Collins-based Integware plans to move and expand its rapidly growing company to a new Fort Collins facility. The company has grown from nine employees to more than 120, with an unknown number of additional jobs on the way at its new facility.

- Hewlett-Packard could receive more than $1.5 million in use tax and personal property tax rebates form the City of Fort Collins for the planned expansion of its facility. The facility expansion, which could create more than 100 jobs with salaries around $90,000, will occur in two phases, and total an estimated $64.4 million in construction and equipment.

- Wirsol Colorado Inc. will expand its American operations by building a new headquarters in Fort Collins. The facility will be completed in about two years, and is expected to eventually hold 100 employees.

- Mad Greens opened its second Fort Collins location, making the new restaurant its ninth in Colorado. The newly renovated 2,100 square-foot building has room for 90 customers and 16 employees.

- Construction began on a $45 million luxury apartment complex in Centara. The project is expected to employ over 200 people.

- Vitamin Cottage and Sprouts Farmers Market have opened natural food grocery stores in Greeley. The Vitamin Cottage store employs 15 people while the Sprouts Farmers Market includes 70 employees.

Eastern Region

The economy in the Eastern region has begun to stabilize after a deep recession. Employment in the region has begun to level off in 2010 and the unemployment rate continues to increase. Crop prices fell again in the first quarter of 2010 after posting decreases throughout 2009, while agricultural production increased for a few important crops. Table 21 shows major economic indicators for the region through April 2010.

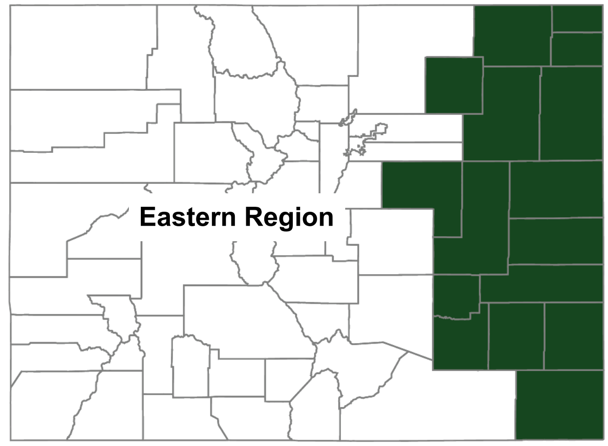


Table 21
Eastern Region Economic Indicators

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

	2008	2009	YTD April 2010
Employment Growth /1	-4.1%	4.6%	-4.0%
Unemployment Rate /1 (2010 Figure is April Only)	4.2%	5.3%	8.7%
Crop Price Changes /2			
Wheat	8.2%	-31.4%	-30.4%
Corn	-0.3%	-14.0%	-15.2%
Alfalfa Hay (Baled)	18.0%	-23.5%	-24.2%
Dry Beans	21.5%	-15.8%	-1.6%
State Crop Production Growth /3			
Sorghum production	-18.9%	-26.7%	11.1%
Corn	-0.3%	-6.9%	22.7%
Winter Wheat	-37.8%	71.9%	-5.5%
Sugar Beets	-90.0%	28.0%	-15.1%
State Cattle and Calf Inventory Growth /4	1.9%	5.0%	-10.6%
Retail Trade Sales Growth /5 (2010 Figure is YTD through February)	6.2%	-12.5%	5.0%

1/ U.S. Bureau of Labor Statistics. Seasonally adjusted; LAUS (household) survey.

2/ Colorado Agricultural Statistics Service.

3/ Colorado Agricultural Statistics Service. Estimates for state crop production are year over year for annual figures. 2010 estimate is for acres planted rather than production quota and compares acres planted in April 2010 to April 2009.

4/ Colorado Agricultural Statistics Service. Cattle and calves on feed for the slaughter market with feedlot capacity of 1,000 head or larger compares April 2010 to April 2009.

5/ Colorado Department of Revenue. Seasonally adjusted.

While employment in the region has begun to stabilize during the first four months of this year, it is substantially lower than in early 2009 because of the steep decrease in jobs last year. Employment was 4.0 percent lower in the region through April, compared with the first four months of 2009. The region's unemployment rate rose to 8.7 percent. Crowley and Otero counties experienced the highest unemployment rates in the region at 10 percent, while Cheyenne county had the lowest rate at 3.4 percent.

The agriculture sector is grappling with low prices. Wheat prices decreased 30.4 percent through April compared with April 2009. Corn prices fell 15.2 percent, while alfalfa hay and dry beans also both fell 24.2 and 1.6 percent, respectively. While prices were dropping, agricultural production in both sorghum and corn increased by 11 percent and 22.7 percent, respectively. However, crop production for winter wheat and sugar beets both fell. Likewise, cattle inventory decreased by about 10.6 percent through April.

The housing market in the region is expected to take several years to recover from the recession. Foreclosure filings in the eastern plains were up 5.9 percent overall in the first quarter of 2010, compared with the same period in the prior year.

Consumer spending, as measured by seasonally-adjusted retail trade, increased 5 percent. Retail trade has been gradually increasing since the summer of 2009 and continued to grow slowly through the first few months of 2010.

Recent Economic News

- Xcel Energy announced in March that it will purchase 252 megawatts of power from RES Americas, a Broomfield-based company. The proposed wind farm, Cedar Point Wind, will be located in Lincoln and Elbert counties. The wind farm is scheduled to begin operating in 2011 and construction is expected to generate 100 to 200 temporary jobs.

- Logan County Commissioners reached a final agreement with Star Clean Oil, LLC, which is beginning plans for an industrial park of about 50 acres. The company recycles used oils through a refining process.

- Sykes Enterprises Inc, a global outsourcing firm, announced that it was cutting about 100 jobs in Sterling.

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	$14,256.3
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	$12,987.4
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%	2.9%	3.8%	-0.3%
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	$6,200.9	$6,591.6	$7,000.7	$7,525.4	$7,910.8	$8,559.4	$8,883.3	$9,060.1	$9,378.1	$9,937.2	$10,485.9	$11,268.1	$11,894.1	$12,238.8	$12,019.0
percent change	5.6%	6.3%	6.2%	7.5%	5.1%	8.2%	3.8%	2.0%	3.5%	6.0%	5.5%	7.5%	5.6%	2.9%	-1.8%
Wage and Salary Income	$3,418.0	$3,616.3	$3,876.6	$4,181.6	$4,460.0	$4,827.7	$4,952.2	$4,997.3	$5,139.6	$5,425.7	$5,701.0	$6,068.9	$6,408.9	$6,545.9	$6,276.5
percent change	5.8%	5.8%	7.2%	7.9%	6.7%	8.2%	2.6%	0.9%	2.8%	5.6%	5.1%	6.5%	5.6%	2.1%	-4.1%
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	136.8	130.9
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%	-0.6%	-4.3%

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

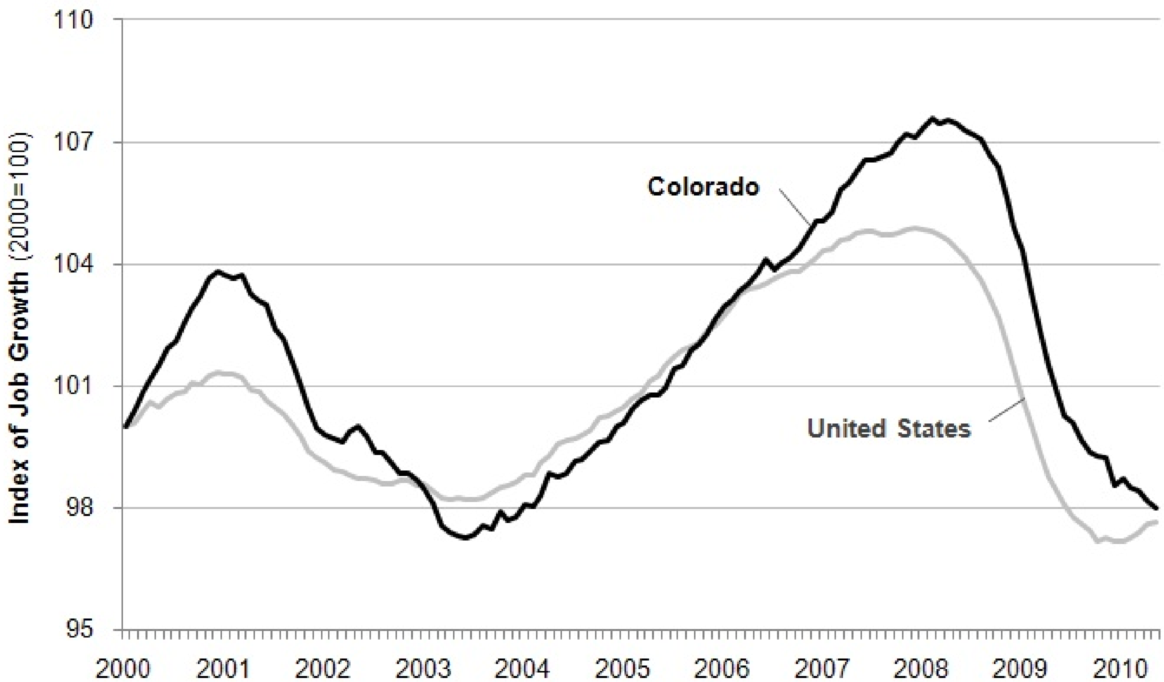
(Dollar Amounts in Millions)

	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	2,132.5	2,213.7	2,226.9	2,184.2	2,152.8	2,179.7	2,226.0	2,279.0	2,331.1	2,350.3	2,244.2
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	3.6	3.1	2.8	3.8	5.6	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	207,742
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%	-2.2%
Per Capita Income	$24,575	$25,964	$27,402	$29,174	$30,919	$33,977	$35,296	$35,023	$35,156	$36,652	$38,555	$40,899	42,449	43,021	41,344
percent change	5.8%	5.7%	5.5%	6.5%	6.0%	9.9%	3.9%	-0.8%	0.4%	4.3%	5.2%	6.1%	3.8%	1.3%	-3.9%
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	112,561
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%	-3.5%
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	18,998	9,355
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%	-35.5%	-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	4,339.0	4,455.9	4,525.8	4,585.8	4,649.3	4,713.2	4,807.2	4,895.4	4,987.3	5,074.1
percent change	2.3%	2.0%	2.1%	2.0%	2.2%	7.0%	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.

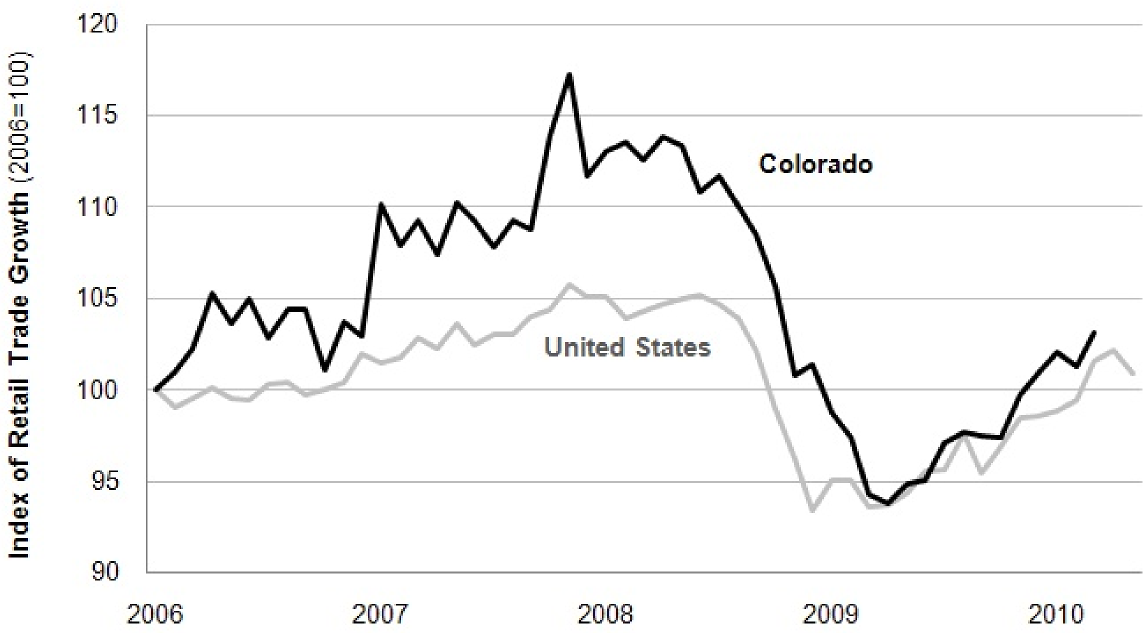
Overview of the Colorado and National Economy
June 2010

Figure A. Colorado Employment Recovery Is Lagging the Nation
Index of Job Growth



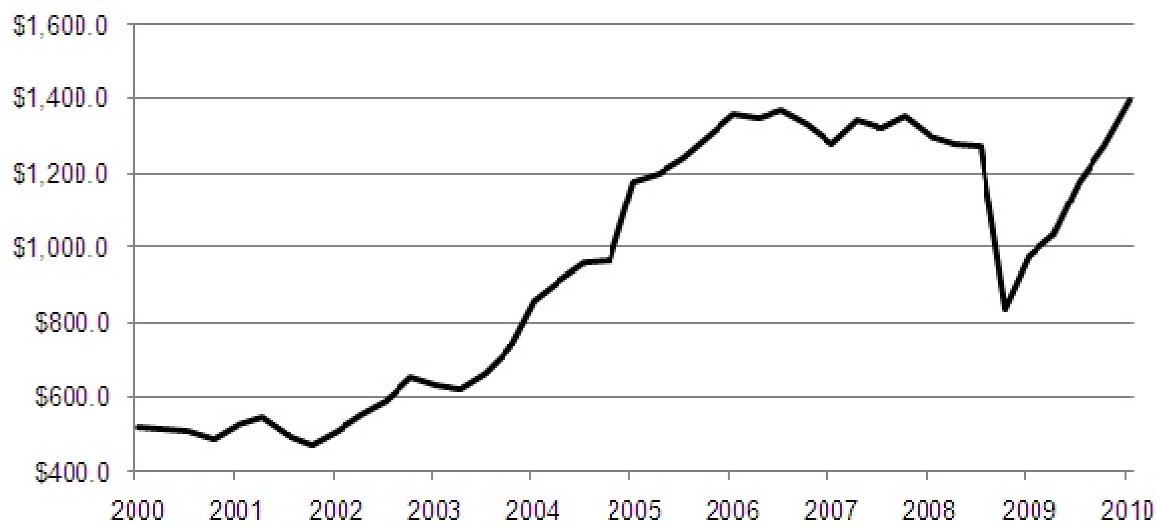
Source: Bureau of Labor Statistics.

Figure B. U.S. and Colorado Retail Trade Rebound
Index of Retail Trade Growth



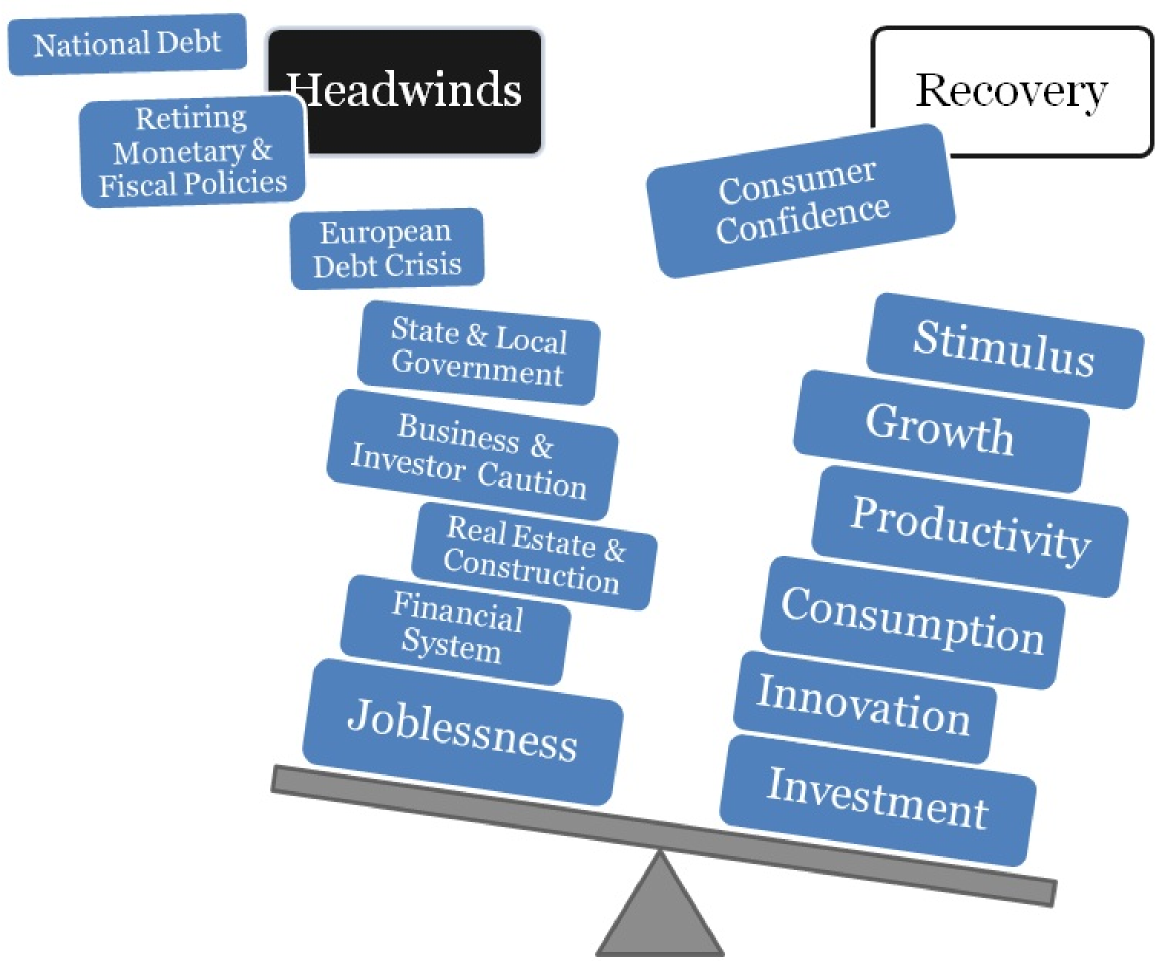
Source: U.S. Census Bureau and Colorado Department of Revenue.

Figure C. U.S. Corporate Profits After Taxes
Seasonally Adjusted and Adjusted for Inflation



Source: Bureau of Economic Analysis.
Note: Adjusted for inflation using the Gross Domestic Product deflator (2005 chained prices).

Figure D. Delicate Balance in Recovery



Prepared by Legislative Council Staff