Colorado
Legislative
Council
Staff

Room 029 State Capitol, Denver, CO 80203-1784
(303) 866-3521 FAX: 866-3855 TDD: 866-3472

MEMORANDUM

June 21, 2005

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2005-2011*

This memorandum presents the current budget outlook based on the June 2005 General Fund and cash fund revenue forecasts. Table 1 presents the General Fund overview based on current law. Table 2 shows the General Fund overview assuming passage of Referenda C and D. Referendum C allows the state to retain all revenue collected during the forecast period. Referendum D allows the state to issue notes to pay for transportation projects, kindergarten through twelfth grade capital construction projects, higher education capital construction projects, and the liability for old-hire fire and police pensions. A statewide vote will take place on Referenda C and D at the November 1, 2005 general election.

Executive Summary

Revenue. The revenue forecast increased significantly over the forecast period for two primary reasons. In the General Fund, the forecast for individual income taxes increased by $362.9 million. Income taxes are being pushed higher than expected by steady increases in hiring and wages. Revenue is also being supported by the end of the stock market's down cycle, which caused many people to offset their taxes with capital losses. On the cash fund side, the forecast for unemployment insurance revenue was increased by $160.4 million during the forecast horizon. This fund is responding to the substantial draw down of its fund balance experienced during and following the recent recession. The state is still 30,000 jobs below its peak level. When the unemployment insurance fund balance falls below certain levels, tax rates on employers automatically adjust upward to restore the fund balance.

Impact on Fiscal Year 2004-05. The changes to the revenue forecast will cause the state to have a $8.0 million budget shortfall during FY 2004-05. Fortunately, this amount is well below the statutory reserve requirement of $237.4 million. The state will be able to use the statutory reserve for its intended purpose of covering end-of-year shortfalls.

Impact on Fiscal Year 2005-06. The state will also face a $55.0 million shortfall compared to the recently passed budget for FY 2005-06. This shortfall also could be covered using the statutory reserve, but that is somewhat riskier since we are at the start of the fis-

Table 1
June 2005 General Fund Overview
(Dollars in Millions)

		Final FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10
1	Beginning Reserve	$225.0	$346.3	$229.4	$244.9	$246.2	$255.5	$270.8
2	Gross General Fund	5,766.5	6,162.5	6,538.6	6,953.9	7,386.5	7,834.0	8,274.7
3	Senate Bill 97-1 Diversion to the HUTF	0.0	0.0	0.0	0.0	0.0	-67.1	0.0
4	Paybacks to Other Funds	-16.2	0.0	0.0	0.0	0.0	0.0	0.0
5	Transfers from Other Funds	12.4	64.4	232.6	35.7	39.5	38.7	38.0
6	Diversion of Sales Taxes to Older Coloradans Fund	-1.5	-1.5	-2.0	-2.0	-2.0	-2.0	-2.0
7	TABOR Surplus Liability (refunded in following year)	0.0	-116.7	-490.5	-618.7	-799.1	-784.3	-881.5
8	Total Funds Available	$5,986.2	$6,455.0	$6,508.0	$6,613.7	$6,871.0	$7,274.8	$7,700.0
	APPROPRIATIONS AND OBLIGATIONS:							
9	Allowable General Fund Appropriations	$5,590.9	$5,935.2	$6,178.3	$6,490.7	$6,523.9	$6,769.6	$7,175.9
10	Additional Appropriations Approved by JBC	$8.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
11	*Available revenue will restrict allowable appropriations by:*	*$0.0*	*0.0*	*-55.0*	*-336.0*	*-137.5*	*0.0*	*-3.8*
12	**Actual Appropriations**	**$5,599.4**	**$5,935.2**	**$6,123.3**	**$6,154.7**	**$6,386.4**	**$6,769.6**	**$7,172.0**
13	**Allowable App. At 6% Growth From 04-05 Budget***	**NA**	**$5,935.2**	**$6,178.3**	**$6,549.0**	**$6,941.9**	**$7,358.5**	**$7,800.0**
14	**Cumulative Difference (Cuts Below 6%)**	**NA**	**$0.0**	**-$55.0**	**-$394.3**	**-$555.4**	**-$588.8**	***-$628.0***
15	Rebates and Expenditures	112.8	113.1	139.7	143.6	148.1	153.5	159.5
16	Reimbursement for Senior Property Tax Cut	0.0	0.0	0.0	61.2	60.4	61.3	62.3
17	Funds in Prior Year Excess Reserve to HUTF	5.6	81.5	0.0	0.0	0.0	0.0	0.0
18	Funds in Prior Year Excess Reserve to Capital Construction	2.8	40.8	0.0	0.0	0.0	0.0	0.0
19	Capital Construction Transfer	9.5	0.0	0.1	8.1	20.5	19.5	19.3
20	Transfer to the Controlled Maintenance Trust Fund	0.0	55.0	0.0	0.0	0.0	0.0	0.0
21	Federal Medicaid Assistance	-68.7	0.0	0.0	0.0	0.0	0.0	0.0
22	Accounting Adjustments	-21.5	NE	NE	NE	NE	NE	NE
23	Total Obligations	$5,639.9	$6,225.6	$6,263.0	$6,367.5	$6,615.5	$7,004.0	$7,413.1
24	**YEAR-END GENERAL FUND RESERVE:**	**$346.3**	**$229.4**	**$244.9**	**$246.2**	**$255.5**	**$270.8**	**$286.9**
25	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**224.0**	**237.4**	**244.9**	**246.2**	**255.5**	**270.8**	**286.9**
26	**GENERAL FUND EXCESS RESERVE**	**$122.3**	**-$8.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
	TABOR RESERVE REQUIREMENT:							
27	General & Cash Fund Emergency Reserve Requirement	$250.1	$248.7	$238.8	$247.6	$258.0	$269.9	$282.3
28	Appropriations Growth	$176.8	$335.8	$188.1	$31.4	$231.8	$383.2	$402.2
29	Appropriations Growth Rate	3.27%	6.00%	3.17%	0.51%	3.77%	6.00%	5.94%
30	Addendum: Amount Directed to State Education Fund	$278.7	$323.6	$325.6	$348.5	$372.2	$396.7	$421.4

Totals may not sum due to rounding.
* Used the budgeted amount for FY 2005-06 rather than 6% growth.

cal year and could see additional adjustments to revenue. These shortfalls exist despite increases in both General Fund and cash fund revenue during the current forecast. Under TABOR, the state must refund any additional revenue collected because we have already hit our spending limit. Additional revenue collected in the General Fund does not help or hurt the General Fund budget because it must be refunded to taxpayers. The extra revenue in the cash funds does cause a problem, however, as it raises the required level of the refund but the extra money must go to its dedicated purpose. To use the Unemployment Insurance Fund as an example, federal law requires that all revenue in the Unemployment Insurance Trust Fund be spent only on unemployment benefits. Therefore, that money must remain in the fund. The state, however, must refund more revenue than was expected to taxpayers due to the additional unemployment insurance revenue, resulting in a larger than anticipated General Fund expenditure.

The Structural Deficit. A structural deficit exists whenever revenue is below the budgeted level of spending on an ongoing basis. A structural deficit does not indicate need or validate the spending that is taking place, it simply states that revenue will not reach the budgeted level. The state's structural deficit is based on the six percent appropriations limit. The state will see an increasing structural deficit during the forecast period. By FY 2009-10, the state will have a structural deficit in its General Fund of $628.0 million. There are two ways to solve the state's deficit problem. The state can either cut $628.0 million from its budget on an ongoing basis, or increase allowable revenue by $628.0 million per year, or a combination of the two. As previously mentioned, the state has a $55.0 million shortfall in FY 2005-06. That shortfall climbs to $336.0 million in FY 2006-07. That will leave the state with an allowable spending increase of $31.4 million that year, which is less than the constitutionally mandated spending increase for kindergarten through twelfth grade education. The forecast for the structural deficit can be seen on line 14 of Table 1. Meanwhile, the state will set aside $490.5 million during FY 2005-06 and $618.7 million during FY 2006-07 to refund to taxpayers in the following year.

Senate Bill 97-1. Under the new forecast, only $67.1 million is anticipated for the Senate Bill 97-1 diversion to the Highway Users Tax Fund (HUTF). This amount is about one-half of what was anticipated in the March forecast. Only when revenue is available to meet the state's obligations, including its six percent appropriations limit, an amount up to 10.355 percent of sales and use tax revenue is transferred to the HUTF. Because the TABOR limit is expected to increase at a much smaller rate than the six percent limit or the rate at which other state spending is expected to increase, little revenue will be available for the Senate Bill 97-1 diversion. This diversion can be seen on line 3 of table 1.

Referenda C and D. Table 2 depicts the General Fund overview with the June forecast assuming Referenda C and D are passed next November. The major areas of the overview that change have been bolded. As was previously mentioned, a structural deficit can be eliminated by either cutting spending or increasing allowable revenue. The General Assembly has reduced the structural deficit significantly through budget cuts during the past several years. Under Referendum C, the General Assembly has attempted to alleviate the remaining structural deficit by asking voters to retain surplus money under TABOR (line 7). If Referendum C passes at the ballot, the state's structural deficit will be eliminated during the forecast period with or without Referendum D. In fact, the state would be able to spend $113.0 million on new or reinstated programs beginning in FY 2005-06 (line 14). If both measures pass, the state will also have $435.1 million available for transportation projects via the Senate Bill 97-1 diversion (line 3) in addition to the ability to borrow up to $1.7 billion for highway construction under Referendum D. The payments on the notes authorized by Referendum D can be seen on line 17. The state would also pay back $67.1 million that was borrowed from a variety of cash funds during FY 2005-06 (line 4).

Table 2
June 2005 General Fund Overview
Assuming Passage of Referenda C and D and 6 Percent Budgeting
(Dollars in Millions)

		Final FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10
1	Beginning Reserve	$225.0	$346.3	$229.4	$270.1	$266.8	$282.7	$299.7
2	Gross General Fund	5,766.5	6,162.5	6,555.3	6,988.1	7,422.9	7,872.7	8,315.9
3	**Senate Bill 97-1 Diversion to the HUTF**	**0.0**	**0.0**	**-217.3**	**-55.3**	**-46.7**	**-65.4**	**-50.3**
4	Paybacks to Other Funds	-16.2	0.0	**-67.1**	0.0	0.0	0.0	0.0
5	Transfers from Other Funds	12.4	64.4	232.6	35.7	39.5	38.7	38.0
6	Diversion of Sales Taxes to Older Coloradans Fund	-1.5	-1.5	-2.0	-2.0	-2.0	-2.0	-2.0
7	**TABOR Surplus Liability (refunded in following year)**	**0.0**	**-116.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
8	Total Funds Available	$5,986.2	$6,455.0	$6,730.8	$7,236.5	$7,680.4	$8,126.8	$8,601.2
	APPROPRIATIONS AND OBLIGATIONS:							
9	Allowable General Fund Appropriations	$5,590.9	$5,935.2	$6,291.3	$6,668.8	$7,068.9	$7,493.1	$7,942.6
10	Additional Appropriations Approved by JBC	$8.5	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
11	*Available revenue will restrict allowable appropriations by:*	*$0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
12	**Actual Appropriations**	**$5,599.4**	**$5,935.2**	**$6,291.3**	**$6,668.8**	**$7,068.9**	**$7,493.1**	**$7,942.6**
13	**Allowable App. At 6% Growth From 04-05 Budget***	**NA**	**$5,935.2**	**$6,178.3**	**$6,549.0**	**$6,941.9**	**$7,358.5**	**$7,800.0**
14	**Cumulative Difference (Cuts Below 6%)**	**NA**	**$0.0**	**$113.0**	**$119.8**	**$127.0**	**$134.6**	**$142.7**
15	Rebates and Expenditures	112.8	113.1	114.4	118.3	122.8	128.2	134.2
16	Reimbursement for Senior Property Tax Cut	0.0	0.0	0.0	61.2	60.4	61.3	62.3
17	**Note Payments**	**0.0**	**0.0**	**55.0**	**95.0**	**125.0**	**125.0**	**125.0**
18	Funds in Prior Year Excess Reserve to HUTF	5.6	81.5	0.0	12.3	0.0	0.0	0.0
19	Funds in Prior Year Excess Reserve to Capital Construction	2.8	40.8	0.0	6.1	0.0	0.0	0.0
20	Capital Construction Transfer	9.5	0.0	0.1	8.1	20.5	19.5	19.3
21	Transfer to the Controlled Maintenance Trust Fund	0.0	55.0	0.0	0.0	0.0	0.0	0.0
22	Federal Medicaid Assistance	-68.7	0.0	0.0	0.0	0.0	0.0	0.0
23	Accounting Adjustments	-21.5	NE	NE	NE	NE	NE	NE
24	Total Obligations	$5,639.9	$6,225.6	$6,460.8	$6,969.7	$7,397.7	$7,827.1	$8,283.5
25	**YEAR-END GENERAL FUND RESERVE:**	**$346.3**	**$229.4**	**$270.1**	**$266.8**	**$282.7**	**$299.7**	**$317.7**
26	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**224.0**	**237.4**	**251.7**	**266.8**	**282.8**	**299.8**	**317.7**
27	**GENERAL FUND EXCESS RESERVE**	**$122.3**	**-$8.0**	**$18.4**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
	TABOR RESERVE REQUIREMENT:							
28	General & Cash Fund Emergency Reserve Requirement	$250.1	$248.7	$254.0	$267.2	$283.1	$294.6	$310.0
29	Appropriations Growth	$176.8	$335.8	$356.1	$377.5	$400.1	$424.1	$449.6
30	Appropriations Growth Rate	3.27%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
31	Addendum: Amount Directed to State Education Fund	$278.7	$323.6	$325.6	$348.5	$372.2	$396.7	$421.4

Totals may not sum due to rounding.
* Used the budgeted amount for FY 2005-06 rather than 6% growth.

General Fund Revenue

This section presents the Legislative Council Staff forecast for General Fund revenue. Table 3 illustrates revenue projections by category for FY 2004-05 through FY 2009-10. The Colorado economy has shown significant growth in jobs and retail activity, causing most revenue sources to increase at or above expectations this year. While employment levels remain below the peak from December of 2000, the state has added back over 74,000 jobs since the middle of 2003, which was the bottom of the employment cycle. Through May, the state added 2.2 percent more jobs. So, while the state remains almost 30,000 jobs below the peak, the growth that is being experienced is driving up revenue. Significant job growth will continue over the next couple of years and move into the higher wage sectors of the economy, providing a positive boost for consumer markets as well.

Two areas of the forecast saw significant changes for the General Fund. First, income tax payments yet to be processed by the Department of Revenue appear to exceed what was expected in the March forecast by over $100 million. Individual income tax receipts have been helped by the growing job market, salary increases, and improving conditions in the stock market with fewer claims of capital losses. While revenue gains from stock market are not approaching levels from the 1990s, the stagnant market has reduced losses, which acts to increase income tax receipts. Second, low mortgage rates are continuing to support the construction industry, causing use tax receipts to exceed expectations.

Sales taxes maintained the robust pace set during the first half of the year through the third quarter. As a result, the sales tax forecast was essentially unchanged for FY 2004-05. However, the forecasts for FYs 2005-06 and 2006-07 were increased largely because of increased personal income projections. Overall, we expect a 4.5 percent increase in sales tax receipts during FY 2004-05, followed by a 4.6 percent gain in FY 2005-06, and a 5.5 percent increase in FY 2006-07. The prolonged health of the construction market led to an increase in the forecast for ***use taxes*** in FY 2004-05. Use taxes will increase 14.6 percent in the current year. We do not expect this robust growth to continue due to over-supply concerns. Therefore, growth in use taxes will moderate to more historic levels throughout the forecast period.

Individual income taxes will increase at a robust 8.7 percent rate during the current fiscal year. This follows a 10.5 percent increase during FY 2003-04. While we expect job gains to continue and the stock market to contribute more to gains over the next two years, we will see a slight moderation in growth, down to 7.4 percent and 7.2 percent during FYs 2005-06 and 2006-07, respectively.

The forecast for individual income taxes was increased by almost $125 million in FY 2004-05. Over the five-year forecast period, individual income tax receipts were revised up by $362.9 million. This change represents more than half of the overall increase in the forecast.

Corporate Income Taxes: Corporate income tax collections are expected to increase 32.1 percent in FY 2004-05, totaling $310.8 million. Compared to the March 2005 forecast, this represents a slight decrease of about $4.0 million. The principal reason for the decrease is that year-to-date collections are running slightly behind the March forecast. The forecast for subsequent fiscal years has not changed much since March. Corporate profits are expected to remain strong, especially in the short term, which accounts for the strong year-over-year growth in corporate income taxes. Tax collections are projected to slow down in the future as labor costs accelerate, productivity gains moderate, and other input prices in-

Table 3
June 2005 General Fund Revenue Estimates
(Dollars in Millions)

Category	Final FY 2003-04	Estimate FY 2004-05	Percent Change	Estimate FY 2005-06	Percent Change	Estimate FY 2006-07	Percent Change	Estimate FY 2007-08	Percent Change	Estimate FY 2008-09	Percent Change	Estimate FY 2009-10	Percent Change
Sales	$1,771.0	$1,850.6	4.5	$1,935.9	4.6	$2,038.1	5.3	$2,141.7	5.1	$2,246.2	4.9	$2,352.2	4.7
Use	137.3	157.4	14.6	162.8	3.5	168.0	3.1	175.3	4.4	183.7	4.8	190.9	3.9
Cigarette	53.8	50.4	-6.2	46.6	-7.6	45.8	-1.6	45.1	-1.6	44.4	-1.6	43.2	-2.6
Tobacco Products	12.0	11.9	-0.5	12.5	5.3	13.2	5.2	13.9	5.1	14.6	5.0	15.3	4.8
Liquor	30.9	30.4	-1.6	31.2	2.6	31.9	2.2	32.5	1.9	33.2	2.3	33.7	1.6
TOTAL EXCISE	$2,005.0	$2,100.7	4.8	$2,189.0	4.2	$2,297.0	4.9	$2,408.4	4.9	$2,522.1	4.7	$2,635.3	4.5
Net Individual Income	$3,449.9	$3,750.9	8.7	$4,027.2	7.4	$4,319.2	7.2	$4,621.5	7.0	$4,935.2	6.8	$5,253.7	6.5
Net Corporate Income	235.2	310.8	32.1	338.1	8.8	356.1	5.3	374.4	5.1	392.9	4.9	409.1	4.1
TOTAL INCOME TAXES	$3,685.1	$4,061.7	10.2	$4,365.4	7.5	$4,675.3	7.1	$4,996.0	6.9	$5,328.1	6.6	$5,662.8	6.3
Less: Portion diverted to the State Education Fund	-278.7	-323.6	16.1	-325.6	0.6	-348.5	7.0	-372.2	6.8	-396.7	6.6	-421.4	6.2
INCOME TAXES TO GENERAL FUND	$3,406.4	$3,738.1	9.7	$4,039.7	8.1	$4,326.8	7.1	$4,623.8	6.9	$4,931.4	6.7	$5,241.4	6.3
Estate	$47.2	$29.6	-37.2	$4.6	-84.6	$0.0	-100.0	$0.0	NA	$0.0	NA	$0.0	NA
Insurance	175.9	181.7	3.3	188.3	3.6	199.0	5.7	210.6	5.9	222.9	5.8	235.9	5.8
Pari-Mutuel	4.4	3.7	-14.7	3.5	-5.2	3.4	-5.2	3.2	-5.2	3.0	-5.2	2.9	-5.2
Investment Income	19.5	15.3	-21.8	27.5	80.0	37.9	37.9	46.6	22.9	56.4	21.1	56.6	0.5
Court Receipts	26.3	24.5	-6.7	25.6	4.6	26.6	3.7	27.6	3.7	28.6	3.8	29.7	3.9
Gaming	40.2	38.6	-3.9	40.8	5.7	43.1	5.6	45.4	5.3	48.0	5.7	50.7	5.6
Other Income	41.5	30.2	-27.3	19.5	-35.5	20.2	3.6	20.9	3.5	21.6	3.3	22.3	3.3
TOTAL OTHER	$355.0	$323.7	-8.8	$309.8	-4.3	$330.1	6.5	$354.2	7.3	$380.5	7.4	$398.1	4.6
GROSS GENERAL FUND	**$5,766.4**	**$6,162.5**	**6.9**	**$6,538.6**	**6.1**	**$6,953.9**	**6.4**	**$7,386.5**	**6.2**	**$7,834.0**	**6.1**	**$8,274.7**	**5.6**
REBATES & EXPENDITURES:													
Cigarette Rebate	$14.9	$13.7	-8.3	$12.2	-10.7	$12.0	-1.6	$11.8	-1.6	$11.6	-1.6	$11.3	-2.6
Old-Age Pension Fund	78.5	82.6	5.1	85.5	3.6	89.4	4.5	94.2	5.4	99.8	6.0	106.1	6.3
Aged Property Tax & Heating Credit	15.7	13.1	-16.8	12.8	-1.6	13.1	1.7	13.0	-0.7	12.9	-0.3	13.0	0.2
Fire/Police Pensions	3.7	3.8	3.9	29.1	665.8	29.1	0.0	29.1	0.0	29.1	0.0	29.1	0.0
TOTAL REBATES & EXPENDITURES	$112.8	$113.1	0.3	$139.7	23.5	$143.6	2.8	$148.1	3.2	$153.5	3.6	$159.5	3.9

Totals may not sum due to rounding.

crease. In FY 2005-06 and FY 2006-07, corporate income taxes are expected to increase 8.8 percent and 5.3 percent respectively.

The ***State Education Fund (SEF)*** receives one-third of one percent of taxable income from state income tax returns. This fund will see a growth pattern of revenue similar to income taxes. Therefore, the increase in the forecast for individual income taxes caused an increase in the projections for SEF receipts. The forecast for the SEF increased by $24.1 million during the forecast period. The SEF will receive $323.6 million during FY 2004-05 and $325.6 million during FY 2005-06.

The rest of the revenue sources for the General Fund were not revised significantly and are available in Table 3. ***Insurance taxes*** and ***investment income*** were both revised down moderately due to slower than expected receipts.

Cash Fund Revenue

Total cash fund revenue subject to the TABOR spending limit will increase 8.2 percent in FY 2004-05 after a 15.2 percent increase in FY 2003-04. Unemployment insurance revenue is driving the overall trend in cash funds. Large growth rates in unemployment insurance taxes are responsible for the large increases in FY 2003-04 and FY 2004-05. Decreasing unemployment insurance taxes will mute growth in cash fund revenues through most of the remainder of the forecast period. Cash fund revenue subject to the TABOR spending limit will increase at an average annual rate of 2.2 percent between FY 2003-04 and the end of the forecast period.

The revenue figures shown in Table 4 exclude revenue to the state's public higher education institutions and the Petroleum Storage Tank Fund. This was done to show the growth rate in cash fund revenue that will affect the size of the TABOR surplus. The University of Colorado system became an enterprise under TABOR this year, and this forecast assumes that the remainder of the state's public higher education institutions will become enterprises beginning in FY 2005-06. In addition, Senate Bill 05-39 granted enterprise status to the Petroleum Storage Tank Fund beginning in FY 2005-06. An enterprise's revenue growth no longer affects the size of the TABOR surplus and the amount of money available for spending in the General Fund. Revenue to these funds that is subject to TABOR is included in Table 7 on page 16.

The forecast for cash fund revenue was increased by $16.0 million in FY 2004-05. This includes a $22.2 million increase in the forecast for higher education and a $13.0 million increase in the forecast for the State Highway Fund. These increases were offset by a $15.0 million decrease in unemployment insurance taxes and a $5.2 million decrease in the forecast for motor fuel taxes. The higher forecast for cash funds will cause the TABOR surplus to increase $16.0 million in FY 2004-05. Over the five-year forecast period, the forecast for cash fund revenue subject to TABOR was increased by a total of $176.5 million. Of this increase, $160.4 million occurred in the forecast for unemployment insurance revenue.

Revenue to the ***Highway Users Tax Fund*** (HUTF) will decrease 0.6 percent in FY 2004-05, as a prolonged slowdown of motor fuel usage has led to lower-than-expected revenue. As gas prices continue to rise, more consumers are combining trips and/or choosing more fuel-efficient vehicles and alternative means of transportation. Also, automakers are responding to this increased demand with more models offering greater fuel efficiency each year. This trend will temper motor fuel tax revenue growth in the future even as the state adds population and employment. HUTF revenues will increase at an average annual rate of 1.6 percent over the forecast period.

State Highway Fund (SHF) revenue, which includes interest earnings on the fund balance and matching funds from local governments, will increase 20.5 percent this year and decrease 8.4 percent next year. The uneven growth pattern is driven by local government matching funds for transportation projects receiving state highway funds. The forecast for local government matching funds was increased by $13.0 million for FY 2004-05.

Revenue to ***other transportation funds*** primarily include specific fees paid in addition to the motor vehicle registration fee. Two bills passed in 2003 substantially increased revenue to these funds in FY 2003-04 and FY 2004-05. Senate Bill 03-103 added a 25-cent fee to most vehicle registrations statewide, beginning in FY 2003-04. Senate Bill 03-272 imposed a new set of motor vehicle license plate fees to cover the costs of issuing license plates.

Table 4
Cash Fund Revenue Estimates by Category, June 2005 /A
(Dollars in Millions)

	Actual FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	FY 03-04 to FY 09-10 CAAGR *
Transportation-Related /B	**$838.7**	**$848.3**	**$860.4**	**$881.4**	**$899.5**	**$917.3**	**$933.2**	
% Change	4.9%	0.0%	0.0%	2.4%	0.0%	2.0%	1.7%	**1.8%**
Unemployment Insurance /C	**$342.1**	**$497.6**	**$457.7**	**$419.3**	**$458.5**	**$335.3**	**$345.5**	
% Change	58.5%	45.5%	-8.0%	-8.4%	9.4%	-26.9%	3.0%	**0.2%**
Employment Support Fund	**$20.1**	**$21.2**	**$22.6**	**$23.7**	**$24.8**	**$25.9**	**$27.1**	
% Change	3.1%	5.3%	6.9%	4.9%	4.6%	4.5%	4.5%	**5.1%**
Severance Tax /D	**$125.1**	**$120.0**	**$108.4**	**$116.8**	**$129.1**	**$140.8**	**$155.9**	
% Change	283.7%	-4.0%	-9.7%	7.7%	10.6%	9.1%	10.7%	**3.7%**
Limited Gaming Fund	**$102.7**	**$102.6**	**$108.4**	**$114.4**	**$120.5**	**$127.3**	**$134.4**	
% Change	2.7%	-0.1%	5.7%	5.5%	5.3%	5.7%	5.5%	**4.6%**
Insurance-Related	**$52.6**	**$61.5**	**$65.9**	**$71.0**	**$76.5**	**$82.3**	**$88.5**	
% Change	-14.2%	16.9%	7.1%	7.7%	7.9%	7.5%	7.5%	**9.0%**
Regulatory Agencies	**$50.2**	**$52.4**	**$53.5**	**$54.9**	**$56.4**	**$57.9**	**$59.6**	
% Change	-6.1%	4.2%	2.2%	2.6%	2.7%	2.7%	2.9%	**2.9%**
Capital Construction - Interest	**$1.7**	**$2.2**	**$2.4**	**$1.7**	**$1.0**	**$0.5**	**$0.3**	
% Change	-59.9%	27.7%	10.1%	-29.1%	-42.9%	-43.4%	-42.9%	**-24.6%**
Controlled Maintenance Trust Fund - Interest	**$2.0**	**$0.0**	**$6.6**	**$0.3**	**$0.3**	**$0.3**	**$0.3**	
Other Cash Funds	**$294.9**	**$274.5**	**$281.8**	**$294.0**	**$307.5**	**$322.3**	**$338.2**	
% Change	-2.2%	-6.9%	2.6%	4.3%	4.6%	4.8%	4.9%	**2.3%**
Total Cash Fund Revenues	**$1,830.1**	**$1,980.4**	**$1,967.7**	**$1,977.4**	**$2,074.1**	**$2,010.0**	**$2,083.0**	
Subject to the TABOR Limit	**15.2%**	**8.2%**	**-0.6%**	**0.5%**	**4.9%**	**-3.1%**	**3.6%**	**2.2%**

Totals may not sum due to rounding.
* CAAGR: Compound Average Annual Growth Rate.
/A Excludes revenue from the Petroleum Storage Tank Fund and revenue from all higher education institutions, which are enterprises for the purposes of TABOR beginning in FY 2005-06.
/B Includes the Highway Users Tax Fund, the State Highway Fund, and other transportation-related funds.
/C Includes the solvency tax that will be in effect during calendar years 2004 through 2008 and calendar year 2010.
/D Includes total severance tax revenue and interest earnings before distribution to the Local Government Severance Tax Fund.

Table 5 shows the forecast for ***unemployment insurance*** (UI) revenue, benefit payments, and the UI Trust Fund balance. Total UI revenue, which includes UI taxes and interest earnings, will increase 45.5 percent in FY 2004-05. UI tax rates are responding to the substantial draw-down of the fund's reserves that resulted from the recent recession. A low fund balance will cause a higher tax rate schedule to be in effect from 2004 through 2006 than had been in effect in previous years. In addition, the solvency tax, which is levied when the fund balance falls below 0.9 percent of total private insured wages, will be in effect from 2004 through 2008 and again in 2010. The solvency tax will generate a total of $690.8 million during FY 2003-04 through FY 2009-10.

After increasing 24.1 percent in FY 2002-03 and 78.0 percent in FY 2003-04, total UI taxes will increase 47.0 percent in FY 2004-05. Tax revenues will decline during the next two years as the fund balance recovers. Growth in UI taxes will show an uneven pattern over the next few years, with the solvency tax taking a year off in 2009. Meanwhile, after three years of paying UI benefits to the tune of around $500 million a year, benefits will decrease this year and next, after which they will remain at levels consistent with a moderate economic expansion.

The forecast for total UI revenue was increased by $160.4 million over the forecast period. It was reduced by $16.1 million in FY 2005-06, $42.3 million in FY 2005-06, and $46.6 million in FY 2006-07, and was increased by a total of $265.3 million over the remaining three years of the forecast period. Much of this pattern was the result of **House Bill 05-1208**, although the bill's total impact of a $29.9 million reduction over the forecast period was relatively small. Without House Bill 05-1208, the forecast would have increased by a total of $190.3 million, $100 million of which would have occurred because the forecast would have called for an additional year of solvency taxes than had been expected in March. Meanwhile, the forecast for interest earnings was increased by a total of $80 million over the forecast period.

The impact of House Bill 05-1208 over the forecast period was relatively small because it did not increase the number of years in which the solvency tax is expected to be collected, but instead merely changed the timing. Without the bill, solvency taxes would have been collected every year during the forecast period except 2008. With the bill, solvency taxes will be collected every year during the forecast period except 2009. Each year the solvency tax is in effect, the tax rate charged to an employer increases by an increment set in statute until, after five or six years, it reaches a maximum level. House Bill 05-1208 gives a credit against UI solvency taxes equal to the value of the incremental increase in the tax rate during calendar year 2006. This will reduce UI solvency taxes by $47.8 million in FY 2005-06 and $67.3 million in FY 2006-07. Because the bill caused the solvency tax to be collected in 2008 when it otherwise would not have been, it caused the forecast to increase by $128.8 million in FY 2007-08 and $11.3 million in FY 2008-09. Finally, because the bill will cause the solvency tax to be collected at first-year tax rates in 2010 rather than second-year rates, it reduced the forecast for FY 2009-10 by $54.9 million.

The size of Colorado's population and economy may be approaching the point where the solvency tax will have to be levied during most years. The UI tax base has remained constant at the first $10,000 of taxable wages earned by each employed person since 1988. In addition, the size of the fund balance that triggers the lowest of twelve tax rate schedules has remained constant at $450 million since July 1, 1991, when the tax rates for CY 1992 were determined. A fund balance of $450 million represents 0.65 percent of taxable wages this year. By the end of the forecast period, this

Table 5
Unemployment Insurance Trust Fund forecast, June 2005
Revenues, Benefits Paid, The UI Fund Balance, and Solvency
(Dollars in Millions)

	Actual FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	Estimate FY 09-10	FY 03-04 to FY 09-10 CAAGR *
Beginning Balance	$298.7	$133.9	$301.4	$472.1	$589.7	$727.5	$717.8	15.7%
Plus Income Received								
Regular Taxes /A	$283.0	$383.3	$320.8	$227.3	$203.3	$213.0	$230.7	-3.3%
Solvency Taxes /B	$49.8	$106.1	$108.4	$142.2	$190.9	$48.5	$45.0	
Interest	$9.3	$8.3	$28.5	$49.7	$64.4	$73.8	$69.8	40.0%
Total Revenues	**$342.1**	**$497.6**	**$457.7**	**$419.3**	**$458.5**	**$335.3**	**$345.5**	0.2%
% Change	58.5%	45.5%	-8.0%	-8.4%	9.4%	-26.9%	3.0%	
Less Benefits Paid	($460.8)	($330.2)	($290.6)	($305.4)	($324.8)	($349.3)	($376.2)	-3.3%
% Change	-13.6%	-28.3%	-12.0%	5.1%	6.3%	7.5%	7.7%	
Federal Reed Act Transfer	($7.1)	($3.9)	$0.0	$0.0	$0.0	$0.0	$0.0	NA
Accounting Adjustment	($39.1)	$4.1	$3.6	$3.7	$4.0	$4.3	$4.6	NA
Ending Balance	**$133.9**	**$301.4**	**$472.1**	**$589.7**	**$727.5**	**$717.8**	**$691.8**	31.5%
Solvency Ratio:								
Fund Balance as a Percent of Total Annual Private Wages	0.20%	0.44%	0.65%	0.77%	0.90%	0.84%	0.76%	24.6%

Totals may not sum due to rounding.
NA = Not Applicable
* CAAGR: Compound Average Annual Growth Rate.
/A This includes regular UI taxes, 50% of the UI surcharge, penalty receipts, and the accrual adjustment on taxes. Surcharge revenue to the UI Fund is excluded during FY 2003-04, per Senate Bill 03-239.
/B The amount of all UI taxes collected via the solvency tax in FY 2003-04 is an estimate. The actual amount is unknown.

ratio will fall to 0.49 percent. TABOR, however, would prohibit the $10,000 wage threshold and/ or fund balance trigger to be increased without voter approval. TABOR would not prohibit such a change if it caused fewer taxes to be collected than would have resulted if the solvency tax were to be continually imposed.

Severance tax collections are projected to be $120.0 million in FY 2004-05 and $108.4 million in FY 2005-06. This represents a slight increase from the March 2005 forecast, which assumed that natural gas prices would fall by about 6 percent per year in the short term. The current forecast assumes that natural gas prices will fall by about 3 percent per year in the next two years. Prices are expected to increase gradually thereafter because of growing demand for natural gas. In general, year-over-year changes in severance taxes reflect the movement of natural gas prices, as well as the ability of companies to claim higher ad valorem property tax credits.

The forecast for ***gaming taxes*** was revised downward slightly compared with the March 2005 forecast. The adjustment was due to a shift in gaming proceeds from Blackhawk to Central City given the opening of the new Central City Parkway in December 2004. In particular, the forecast was reduced because of casino size and marginal tax rate differences in the two cities. Casinos with adjusted gross proceeds over $15 million per year have a marginal tax rate of 20 percent. In contrast, casinos with adjusted gross proceeds of $5 million have a marginal tax rate of only 4 percent. The shift of some gaming business to Central City involved a movement from larger to smaller casinos. However, with the exception of FY 2004-05, gaming taxes are expected to show year-over-year growth of between 5.0 and 6.0 percent.

All ***other cash fund revenue*** will decrease 2.3 percent in FY 2004-05 and increase at an average annual rate of 3.4 percent over the forecast period. Part of the reason for the decrease in FY 2004-05 was due to Senate Bill 04-211, which reclassified an estimated $16 million each year from TABOR to TABOR exempt revenue and transferred the revenue from the Unclaimed Property Trust Fund to the CoverColorado Trust Fund, beginning in FY 2004-05.

The Constitutional Revenue Limit—TABOR

Article X, Section 20 of the state Constitution (**TABOR**) requires that any revenue collected above the TABOR limit be refunded to taxpayers within one year after the fiscal year in which the revenue is collected. TABOR limits the aggregate annual increase in most state revenue to inflation plus the annual percentage change in state population. The limit is applied to either the prior year's limit or to actual TABOR revenue collected in the prior year, whichever is less.

The state first collected **surplus** TABOR revenue in FY 1996-97 and had surpluses for the next four years. Table 6 shows the actual and estimated TABOR surpluses from FY 1996-97 through FY 2009-10. The state experienced a recession in FY 2001-02 and revenue fell $337.1 million below the allowable amount that year. Continuing tough economic times, including stock market declines and significant job losses throughout the economy, caused state revenues to fall $509.6 million below the limit in FY 2002-03. Because the TABOR limit grows from the lower of either the previous year's limit or actual revenue collected in the prior year, the limit "ratchets down" in years that the state does not collect revenue up to the allowable limit. The state's limit was reduced by over $1 billion from where it would have been otherwise. Because the base for the TABOR limit has ratcheted down, growth will again exceed the limit as the state begins to experience a recovery. However, the population adjustment amends the limit so that the state may retain about $469.4 million per year that would have otherwise become part of the surplus. As can be seen in the table, the state will refund $3.7 billion during the next six years under current law.

Table 6
History and Projections of TABOR Surpluses Assuming TABOR Over-Refund Adjustments
(Dollars in Millions)

Actual	
1996-97	$139.0
1997-98	$563.2
1998-99	$679.6
1999-00	$941.1
2000-01	$927.2
2001-02	$0.0
2002-03	$0.0
2003-04	$0.0
Projections	
2004-05	$220.7
2005-06	$490.5
2006-07	$618.7
2007-08	$799.1
2008-09	$784.3
2009-10	$881.5

The **population adjustment** was passed during the 2002 legislative session to adjust the TABOR limit because the U.S. Census Bureau underestimated the state's population during the 1990s. The underestimate caused the state to refund $483 million more than would have been required under TABOR had the correct population estimates been made. To make up for the over-refund of surplus revenue, the legislation provided that the state could carry forward six percentage points of population growth that were available in the TABOR limit for FY 2001-02. The limit for FY 2001-02 was chosen because it incorporated the population growth from the 2000 Census, which included the population that had been undercounted during the 1990s. In FY 2001-02, revenue fell sufficiently below the limit so that none of the population portion of the limit was used. Therefore, the full six percentage points of population growth available in the FY 2001-02 TABOR limit were carried forward for future use.

Because revenue fell below the limit again in FY 2002-03, none of the population adjustment was used that year. However, since the state would have been $301.2 million above its limit during FY 2003-04 without the population adjustment, 3.9 percentage points out of the six percentage points available were used to raise the limit enough to retain the revenue received. The remaining 2.1 percentage points of the population dividend will be used in FY 2004-05. Use of the remaining population adjustment in FY 2004-05 will raise the limit by another $168.2 million plus growth in additional revenue kept under the limit that year. Because the population adjustment permanently increases the TABOR base, an additional $469.4 million plus growth will be retained annually due to the implementation of the population adjustment.

Table 7 on the following page displays our current estimates of TABOR revenue, the use of the population adjustment, the TABOR limit, and the TABOR surplus. As can be seen, the state is expected to have a surplus of $220.7 million during FY 2004-05 and that surplus grows to $881.5 million by FY 2009-10. It should be noted that the current forecast does not anticipate a recession during the forecast period. The economy experiences a recession every five years on average. At the end of this forecast period the economy would be nine years into an upswing. During the 1990s the state experienced a 10-year cycle without a downturn. If the state were to undergo a downturn during this forecast period, refunds would be reduced significantly.

Because the state has already refunded $104.0 million more to taxpayers than is required under TABOR, the state will refund $116.7 million of the $220.7 million surplus from FY 2004-05 to taxpayers during FY 2005-06. The refund will be executed through an earned income tax credit and a sales tax credit. The sales tax credit will be refunded when taxpayers file their 2005 taxes in early 2006 and will appear on their income tax form. The sales tax credit will average $25 dollars per taxpayer. Later refunds will be executed through 18 different mechanisms, with the sales tax refund acting as a "catch-all" to refund any surplus not refunded through the other 17 mechanisms. Table 8 displays the mechanisms that will be used each year and the amount of revenue that will be refunded through each mechanism.

Since the state was already expected to be in a TABOR surplus position during FY 2004-05 and beyond, increases in the General Fund forecast simply added to the amount of surplus revenue to be refunded. They have no impact on the state's budget situation. However, the increases in cash fund revenue, primarily from higher expectations for unemployment insurance tax receipts, will increase the state's structural deficit. Since the General Fund is responsible for the TABOR refund under current law, the General Fund is worse off when a non-General Fund revenue source receives more revenue, thereby increasing the TABOR refund. The General Fund is made worse off because it has the liability for the added amount of refund while the revenue will go to the cash fund, in this case the Unemployment Insurance Fund.

Table 7
June 2005 Forecast for the TABOR Revenue Limit and Emergency Reserve
(Dollars in Millions)

	Final FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09	Estimate FY 2009-10
TABOR Revenues:							
General Fund /A	$5,719.7	$6,098.1	$6,482.8	$6,895.8	$7,326.1	$7,771.0	$8,209.1
Cash Funds	2,616.2	2,413.2	1,967.7	1,977.4	2,074.1	2,010.0	2,083.0
Total TABOR Revenues	$8,335.9	$8,511.4	$8,450.5	$8,873.2	$9,400.3	$9,781.1	$10,292.1
TABOR LIMIT:							
Allowable TABOR Growth Rate	7.5%	4.3%	1.3%	3.7%	4.2%	4.6%	4.6%
Inflation (from prior calendar year)	1.9%	1.1%	0.1%	2.1%	2.5%	2.8%	2.8%
Population Growth (from prior calendar year)	1.7%	1.1%	1.2%	1.6%	1.7%	1.8%	1.8%
Growth Dividend Population Adjustment (6% Carried Forward)	3.9%	2.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Allowable TABOR Limit /B	**$8,335.9**	**$8,290.6**	**$7,960.0**	**$8,254.5**	**$8,601.2**	**$8,996.8**	**$9,410.7**
Revenues Above / (Below) TABOR Limit /C	**$0.0**	**$220.7**	**$490.5**	**$618.7**	**$799.1**	**$784.3**	**$881.5**
EMERGENCY RESERVE:							
TABOR Emergency Reserve	$250.1	$248.7	$238.8	$247.6	$258.0	$269.9	$282.3

Totals may not sum due to rounding.

Note: TABOR broadly defines spending such that expenditures are equal to revenues. The statutory 6 percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable.

/A These figures differ from the General Fund revenues reported in other tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the General Fund gaming revenues are netted out. These figures also exclude General Fund revenue that is exempt from the TABOR limit, including receipts from the cigarette and tobacco tax increase passed by voters in November 2004.

/B The TABOR Limit was adjusted for new TABOR enterprises in FY 2004-05 and FY 2005-06.

/C The state has previously over-refunded $104.0 million of TABOR surplus to taxpayers. Therefore, the $220.7 million surplus during FY 2004-05 will be reduced by $104.0 million to determine the refund amount of $116.7 million.

Table 8
Estimated Refund Amounts for TABOR Refund Methods
(Dollars in millions)

Refund Method	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
HB 99-1383 and HB 00-1049, EIC Refund	**$42.2**	**$41.0**	**$40.4**	**$41.2**	**$42.1**	**$42.9**
HB 00-1053, Exclude Charitable Contributions (Begins FY 2007)	$0.0	**$3.6**	**$3.7**	**$3.8**	**$4.0**	**$4.1**
HB 01-1313, Foster Care Issues	$0.0	**$0.2**	**$0.2**	**$0.2**	**$0.2**	**$0.2**
HB 99-1311, BPP Refund	$0.0	**$117.7**	**$123.6**	**$129.7**	**$136.2**	**$143.0**
HB 99-1237, Capital Gains Refund	$0.0	**$36.8**	**$36.0**	**$35.3**	**$34.6**	**$33.9**
HB 00-1063, Rural Health Providers (ends after FY 2008)	$0.0	**$0.2**	**$0.2**	**NA**	**NA**	**NA**
HB 00-1351, Child Care Credit	$0.0	**$28.6**	**$29.0**	**$29.4**	**$29.8**	**$30.3**
HB 01-1081, Research and Development	$0.0	**$14.5**	**$15.2**	**$15.9**	**$16.5**	**$17.1**
HB 00-1227, Lower Motor Vehicle Fees	$0.0	**$40.1**	**$41.6**	**$43.0**	**$44.5**	**$46.1**
HB 00-1355, High Technology Scholarship Program*	$0.0	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
HB 00-1257, Pollution Control Equipment	$0.0	**$1.0**	**$1.0**	**$1.0**	**$1.0**	**$1.0**
HB 00-1052, Contribution to Telecommunication Education	$0.0	**$0.5**	**$0.5**	**$0.5**	**$0.5**	**$0.5**
HB 00-1259, Trucks at 0.01 Percent Sales Tax Rate	$0.0	**$6.7**	**$7.0**	**$7.3**	**$7.6**	**$8.0**
HB 99-1137 and HB 00-1171, interest, div, and CG exclusion	$0.0	**$49.4**	**$51.7**	**$53.8**	**$56.3**	**$59.1**
HB 01-1086, Ag Coop Tax Credit	$0.0	**$0.5**	**$0.5**	**$0.5**	**$0.5**	**$0.5**
HB 00-1104, Purchase Private Health Benefit Plans	$0.0	$0.0	**$2.7**	**$2.7**	**$2.7**	**$2.7**
HB 00-1209, Colorado Capital Gains 1 to 5 Years	$0.0	$0.0	**$33.0**	**$36.6**	**$40.4**	**$44.1**
HB 99-1001, Sales Tax Refund	**$74.5**	**$149.9**	**$232.3**	**$398.0**	**$367.3**	**$448.0**
Legislative Council Staff Estimate of TABOR Surplus	$116.7	$490.5	$618.7	$799.1	$784.3	$881.5

Only the shaded amounts will be refunded because the projected TABOR refund is larger than the threshold.

The refunds will be in the fiscal year indicated in the table based on the projected TABOR surplus in the previous fiscal year.

* The estimated amount for these refund methods is less than $50,000.

National Economy

This section reviews the recent performance of the U.S. economy and describes the national economic forecast. A discussion of the major risks to the national economic forecast follows.

Recent data. Estimates of economic growth during the first quarter of 2005 were revised upward in May. Inflation-adjusted gross domestic product (**GDP**) increased at a 3.5 percent annual rate, compared with the original estimate of 3.1 percent growth. The revision was explained mostly by a downward revision in imports. Though encouraging, the figure still represents slower growth than the 3.8 percent rate seen in the fourth quarter of 2004.

The most recent **employment** data showed the slowest growth since August 2003. The nation gained a lackluster 78,000 jobs in May, following a robust April. Generally, the year has been characterized by alternating months of healthy and sluggish job gains. The manufacturing, information services, real estate, professional services, and leisure and hospitality sectors all lost jobs in May. Continued health in the housing market helped push the construction and finance sectors higher. *Jobless claims* fell in early June, due in part to a shorter Memorial Day week. Also, auto layoffs were less than the previous several weeks. Generally, these claims have remained steady throughout the year with only minimal fluctuation attributed to energy price increases. Meanwhile, the *unemployment rate* decreased from 5.2 percent in April to 5.1 percent in May, as fewer people entered the workforce than in recent months.

The **housing market** remains remarkably strong with both existing and new home sales hitting record highs in April. Sales of existing homes surged 4.5 percent, the fastest rate in more than a year, even as prices jumped 5.7 percent. New home sales inched forward 0.2 percent to set a record for the second consecutive month. It seems only a matter of time before rising interest rates and the increased housing supply will slow the housing market.

The **manufacturing sector** is generally healthy, although it has weakened throughout the year. The *Institute for Supply Management's manufacturing index* declined for the sixth consecutive month in May. Although the declines have been consistent, the index remains above 50, the demarcation point for expansion versus contraction. At 51.4, the index reached its lowest point in two years. Both the production and new orders components of the index contributed to the decline. The *industrial production index* was down to 54.9 from 56.7 in April. Similarly, the manufacturing component of the index fell two points to 51.7.

Following several months of price increases, **inflation** fell slightly in May. Figures showed a 0.1 percent decrease in prices, pushed lower by energy price decreases. May figures were 2.8 percent higher than May 2004, with most components contributing equally to the increase. Consumer inflation reached 2.7 percent in 2004, the highest level in three years. Despite overall figures being higher than in recent years, the core rate, which excludes food and energy remained essentially flat in May for the second consecutive month, and were up 2.2 percent since May 2004. *Producer prices* fell in May, as decreases in food and energy prices drove down producer prices 0.6 percent. Excluding food and energy, the rate increased 0.1 percent, as many component prices for consumer goods rose.

National economic forecast. This section presents the forecast for the national economy. The detailed forecast can be found in Table 9. Other than a marked upward adjustment to the personal income projection for 2005, there has been little change since March.

- Though recent news has been positive, **inflation-adjusted GDP** will not maintain its 2004 pace when it increased by 4.4 percent. Recent increases in interest rates by the Federal Reserve Board are likely to continue throughout 2005, dampening economic growth. Consumer debt remains a concern, especially when coupled with a likely slower housing market. GDP will increase 3.7 percent in 2005 and 3.6 percent in 2006.

- **Employment** has been mediocre, as the nation has averaged an additional 180,000 jobs per month through May, slightly below the 183,000 per month in 2004. Buoyed largely by the construction and healthcare sectors, the nation still has yet to see consistent, widespread employment growth. Slower productivity gains are continuing the trend for optimism in the labor market. Nonfarm employment will increase 1.8 percent in 2005 and 2.0 percent in 2006. The **unemployment rate** will drop to 5.3 percent in 2005 and 5.1 percent in 2006. The average rate of unemployment was 5.5 percent in 2004.

- **Personal income** surged 5.6 percent in 2004, a marked increase from the previous three years. Income growth will increase again in 2005 by 6.3 percent, then moderate between 4.5 percent and 5.5 percent throughout the rest of the forecast period. **Wage and salary income** will be stronger in 2005, increasing 5.9 percent. Wage and salary income will be slightly weaker in 2006, but will remain above 5 percent.

- **Inflation** is expected to moderate slightly in 2005 to 2.6 percent. This estimate is predicated on an increased labor participation rate tempering wage growth and falling energy prices through the remainder of the year. Inflation will remain low through the rest of the forecast period, with a peak level of 2.7 percent in 2007.

Forecast risks. The primary forecast risks are inflation and higher interest rates. Also, there remains concern regarding most energy prices, especially as this impacts production costs, which may limit job expansion. If these increases are passed on throughout the production cycle and to final consumer products, the Federal Reserve Board may react by stepping up the measured pace of hikes in the federal funds rate.

The dollar has picked up in recent weeks, but remains weak, leading to fear of inflation and higher interest rates. This has helped push trade and budget deficits lower than a year ago, mitigating some concerns. Unstable geopolitical situations remain among the largest reasons for economic uncertainty.

Table 9

National Economic Indicators, June 2005 Forecast

(Dollars in Billions)

	2000	2001	2002	2003	2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009
Inflation-adjusted GDP (billions)	$9,817.0	$9,890.7	$10,074.8	$10,381.3	$10,841.6	$11,238.4	$11,638.0	$11,961.7	$12,345.0	$12,720.3
percent change	3.7%	0.8%	1.9%	3.0%	4.4%	3.7%	3.6%	2.8%	3.2%	3.0%
Nonagricultural Employment (millions)	131.8	131.8	130.3	130.0	131.5	133.8	136.4	137.7	139.1	140.9
percent change	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.8%	2.0%	0.9%	1.1%	1.3%
Unemployment Rate	4.0%	4.8%	5.8%	6.0%	5.5%	5.3%	5.1%	5.2%	5.0%	4.9%
Personal Income (billions)	$8,429.7	$8,724.1	$8,878.9	$9,161.8	$9,671.3	$10,276.6	$10,829.7	$11,329.6	$11,846.8	$12,385.0
percent change	8.0%	3.5%	1.8%	3.2%	5.6%	6.3%	5.4%	4.6%	4.6%	4.5%
Wage and Salary Income (billions)	$4,829.2	$4,942.8	$4,976.3	$5,103.6	$5,356.1	$5,670.3	$6,011.9	$6,319.5	$6,644.7	$6,982.9
percent change	8.1%	2.4%	0.7%	2.6%	4.9%	5.9%	6.0%	5.1%	5.1%	5.1%
Inflation (Consumer Price Index)	3.4%	2.8%	1.6%	2.3%	2.7%	2.6%	2.5%	2.7%	2.4%	2.3%
10-year Treasury Note	6.0%	5.0%	4.6%	4.0%	4.3%	4.7%	5.8%	5.8%	5.6%	5.8%

Colorado Economy

The state's economy continues to expand, with employment, personal income, construction activity, and consumer spending all registering gains. In the forecast period, employment is expected to accelerate because of rising demand for goods and services and diminishing productivity growth. Wages and salaries are also expected to increase due to a tightening labor market. This should fuel further gains in retail sales. Construction is the only sector forecast to decline in the near term because of rising interest rates and high office vacancy rates.

While the state's economy is expected to expand in the coming years, it remains susceptible to several risks, including rising interest rates and declining business confidence. In particular, a drop in business confidence due to falling profit expectations could weaken hiring plans in the future. Table 10 presents historical data for Colorado's principal economic indicators and provides the most recent forecast for those indicators.

Employment

Employment figures through April show a 2.2 percent increase over the first four months of 2004. An estimated 70,400 jobs have been added since employment hit a low in the state in June 2003. Job growth has been widespread over the last twelve months, with the professional services, leisure services, construction, education and health services, and trade, transportation, and utilities sectors, all adding more than 6,000 jobs. Moreover, every sector, with the exception of the information services and manufacturing sectors, showed at least moderate gains. Though the overall trend is positive, employment decreased by roughly 3,600 jobs in April, and remained 33,500 jobs below the peak level recorded in December 2000.

The job market is Colorado is expected to improve in the coming years. In particular:

- *Nonfarm employment* is expected to increase 2.1 percent in 2005 and 2.6 percent in 2006. The somewhat lackluster local and national economic news of late will need to improve over the next several months to alleviate concerns of a possible slowdown on the horizon.

- The *unemployment rate* averaged 5.5 percent in 2004, and is expected to drop to 4.9 percent in 2005. The seasonally adjusted unemployment rate was 5.2 percent for April. An improving job market is expected to pull previously discouraged workers into the labor market, preventing the unemployment rate from falling much further in the future.

Personal Income and Wages

In 2004, personal income in the state increased 5.6 percent, while wages and salaries increased 4.2 percent. This represents a marked improvement from 2003, when personal income increased 2.1 percent and wages and salaries were up 1.1 percent. Compared to the rest of the country, Colorado ranked 32nd in personal income growth for all of 2004. However, the state's personal income growth in the fourth quarter was particularly strong, growing 2.8 percent from the third quarter. This placed Colorado in the top 10 states in personal income growth for the quarter. Personal income is expected to show healthy increases throughout the forecast period, though not at the strong rates seen during much of the 1990s.

- *Personal income* and *wages and salaries* will continue to grow in 2005 and 2006. Pent-up wage pressure will accelerate as employment increases. Consequently, personal income is estimated to increase 5.9

percent in 2005 and 6.1 percent in 2006. Wages and salaries are expected to increase 5.7 percent in 2005 and 6.0 percent in 2006.

Consumer Spending

Consumer spending, as measured by retail trade sales, continued to grow in the first three months of the year. Through March 2005, retail trade is running 6.2 percent above the same period in 2004. For all of 2004, retail trade increased 6.3 percent. Further gains in employment and wages are expected to fuel additional consumer spending in the coming years.

- *Consumer spending* is expected to increase by 5.8 percent to 6.7 percent annually throughout the forecast period, slightly slower than the spending levels experienced during the boom years of the late 1990s.

Business Confidence

The *Business Leaders Confidence Index,* published by the Leeds School of Business at the University of Colorado at Boulder, remained relatively unchanged in the second quarter of 2005, at 61.5. This follows two consecutive declines in the index in the prior two quarters. However, a measure above 50.0 still indicates economic expansion and all components of the index were above 50.0 in the second quarter. While business leaders continue to be upbeat regarding their expectations of the state economy, there is a growing disparity between sales and profit expectations. Sales are anticipated to remain strong, but profits may be constrained due to rising costs for labor, gasoline, and natural gas.

Construction

The building sector enjoyed robust growth in 2004 and even into the beginning of 2005, as builders took advantage of low mortgage rates and growing demand for hospitals and education buildings. However, recent data suggests that similar growth for the rest of 2005 is unlikely. Home foreclosures continue to reach record levels and non-residential construction was bolstered by a likely one-time spike in education and health building construction.

- Because the apartment market remains weak and the available housing stock remains high, we have likely seen the last significant increases in residential construction for the next couple of years. Residential construction is expected to decrease 4.8 percent this year and 8.3 percent in 2006.

- Very little has changed in the local market for office space in the last year. Vacancy rates in office buildings remain high and lease rates have stayed flat. Meanwhile, the industrial market is healthier, though hardly robust. Demographic changes have created accelerating demand for health services, and the expanding economy will raise the overall demand for goods and services. Since hospital construction is expected to slow down in 2005, we estimate that *nonresidential construction* will decrease 10.3 percent in 2005 and increase 2.2 percent in 2006.

Inflation and Population

Inflation in the Denver-Boulder-Greeley area for 2004 was 0.1 percent, the lowest ever. While the overall consumer price index rose 0.9 percent in the second half of 2004 compared with the second half of 2003, the index declined 0.7 percent in the first half of 2004. The first measure of inflation in the metro Denver area for 2005 will not be released until August 2005.

In 2004, the state's population grew 1.2 percent. Compared to the rest of the country, Colorado ranked 14th in population growth, with Nevada growing the fastest at 4.1 percent.

- The inflation rate is expected to increase during the forecast period as the state's economy gains strength. The inflation rate is expected to be 2.1 percent in 2005 and 2.5 percent in 2006.

- Colorado's population will grow at more modest rates compared with average annual increases of 2.7 percent in the 1990s — increasing 1.6 percent in 2005 and 1.7 percent in 2006.

In summary, economic conditions in Colorado continue to improve, with gains being registered in employment, personal income, construction activity, and consumer spending. Employment is expected to pick up as productivity growth diminishes, and a tightening labor market is anticipated to cause wages and salaries to increase. However, the state's economy remains susceptible to several risks, including rising mortgage rates and declining business confidence.

Table 10
Colorado Economic Indicators, June 2005 Forecast
(Calendar Years)

	1999	2000	2001	2002	2003	2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009
Population (thousands), July 1	4,226.0	4,326.9	4,428.8	4,498.1	4,547.6	4,601.4	4,675.0	4,754.5	4,840.1	4,927.2	5,020.8
percent change /A	2.7%	2.4%	2.2%	1.7%	1.1%	1.2%	1.6%	1.7%	1.8%	1.8%	1.9%
Nonagricultural Employment (thousands)	2,131.4	2,212.4	2,225.4	2,182.5	2,150.9	2,178.6	2,224.4	2,282.2	2,339.2	2,402.4	2,472.1
percent change	3.6%	3.8%	0.6%	-1.9%	-1.4%	1.3%	2.1%	2.6%	2.5%	2.7%	2.9%
Unemployment Rate	3.1%	2.7%	3.9%	5.9%	6.2%	5.5%	4.9%	5.0%	4.9%	4.6%	4.5%
Personal Income (millions)	$128,860	$144,394	$152,700	$153,962	$157,171	$165,943	$175,733	$186,453	$197,827	$210,092	$223,748
percent change	8.7%	12.1%	5.8%	0.8%	2.1%	5.6%	5.9%	6.1%	6.1%	6.2%	6.5%
Wage and Salary Income (millions)	$76,283	$85,909	$88,297	$86,807	$87,747	$91,437	$96,649	$102,448	$109,107	$116,526	$125,032
percent change	9.8%	12.6%	2.8%	-1.7%	1.1%	4.2%	5.7%	6.0%	6.5%	6.8%	7.3%
Retail Trade Sales (millions)	$52,609	$57,955	$59,014	$58,864	$58,662	$62,348	$66,214	$70,186	$74,257	$78,935	$84,224
percent change	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.3%	6.2%	6.0%	5.8%	6.3%	6.7%
Home Permits (thousands)	49.5	53.7	54.5	47.9	39.4	45.6	43.4	39.8	39.7	42.4	43.3
percent change	-3.6%	8.6%	1.5%	-12.1%	-17.7%	15.6%	-4.8%	-8.3%	-0.2%	6.8%	2.2%
Nonresidential Building (millions)	$3,544	$3,339	$3,373	$2,660	$2,429	$3,073	$2,756	$2,817	$2,902	$3,044	$3,153
percent change	35.4%	-5.8%	1.0%	-21.1%	-8.7%	26.5%	-10.3%	2.2%	3.0%	4.9%	3.6%
Denver-Boulder Inflation Rate	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	2.1%	2.5%	2.8%	2.8%	2.9%

/A Colorado's population on April 1, 2000, was 4,301,261 according to the U.S. Census Bureau. The changes that are shown in this table for 1999 and 2000 are based on the intercensal estimates by the Census Bureau and do not reflect the original estimates.

Colorado Economic Regions

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

Metro Denver

The Metro-Denver region, consisting of Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas, and Jefferson counties, serves as a barometer for state and regional economic trends. Home to the nation's sixth busiest airport and over half of the state's population, the economic health of the state depends greatly on the area. The region is susceptible to national trends and saw similar modest economic growth in 2004.

Table 11 summarizes major economic indicators for the region. Regional jobs increased slightly in 2004, and the regional employment trend continued upward in the first four months of 2005, with roughly 8,000 new regional jobs created each month since January. Compared with the same period in 2004, average regional employment expanded by 2.2 percent. The unemployment rate climbed from 5.1 percent in 2004 to 5.3 percent in April of 2005.

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

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	-1.1%	0.9%	2.2%
Unemployment Rate	6.2%	5.1%	5.3%
Housing Permit Growth /2	-22.5%	23.2%	6.2%
Growth in Value of Nonresidential Const. /3	-20.8%	12.9%	-26.4%
Retail Trade Sales Growth /4 2005 is YTD through March	0.5%	4.8%	5.1%

NA = Not Available
1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents nonfarm employment.
2/ U.S. Census
3/ F.W. Dodge
4/ Colorado Department of Revenue through March.

The regional construction industry appears to have slowed in the first four months of 2005, especially in the nonresidential sector. While housing permits were up modestly through April, nonresidential construction values were down 26.4 percent. This compares to the 12.9 percent increase that these values experienced during 2004. Finally, retail trade sales, which were up 4.3 in 2004, have expanded further through March 2005, up 5.1 percent.

Recent Economic News

- Cayman Islands-based Seagate Technology Inc., plans to fill 100 new positions during the next year at the company's southwest Longmont campus. Currently, more than 1,200 people are employed by the company at the campus. About 90 of the new employees will be software, electrical and mechanical engineers.

- Sweden-based medical manufacturer Gambro plans to add at least 250 manufacturing jobs by 2009 at its U.S. headquarters in Lakewood, where it currently employs about 1,500. The company also plans to invest $16 million over the next five years to reconfigure facilities at the headquarters.

- Continued job growth, slowing construction and rising interest rates boosted the long-suffering Denver-area apartment market during the first quarter of 2005. A survey showed the vacancy rate has fallen to 9.3 percent, compared with 10.5 percent a year ago and 10 percent in the fourth quarter of 2004. During the quarter, the market "absorbed," or rented, 2,706 more units than it vacated. At the same time, 789 new units were built.

- Denver's office vacancy rate stands at 16.2 percent, down from 16.6 percent in the fourth quarter of 2004. The rate's dip is largely due to companies' growth, as Denver firms have expanded into roughly 1 million square feet of space during the past 12 months. While space demands have grown, construction has waned. Almost 177,000 square feet of office space was completed in the first quarter, down from 237,912 square feet in the fourth quarter of 2004.

- A new 6,000-seat Broomfield Event Center, to be owned by the Broomfield Urban Renewal Authority, is planned for the Arista mixed-use development in Broomfield. When complete, the event center will host numerous events annually, including concerts, trade shows and sporting events.

- New home construction is outpacing population growth in the metro Denver area, causing the residential real estate market to level off thus far in 2005. While net population gains projected for the entire state between July 2004 and July 2005 suggest a statewide need for about 8,200 new housing units, builders in metro Denver secured 5,157 permits for homes, condos and apartments in the first quarter of this year alone. Resales in 2005 have declined slightly relative to the first five months of 2004, and the median price of a single- family home in metro Denver for the first five months of this year was $239,900, up only 3.85 percent from $231,000 over the same period last year.

- Sales of foreclosed homes in the Denver metro area rose dramatically in the first quarter of the year relative to the same quarter of 2004. Lenders sold $140 million in homes in the first quarter, about 50 percent more than the $93.4 million sold a year earlier. The rising foreclosure sales are due to high-risk loans and a refinancing frenzy, coupled with the slower economy. Adams County showed the biggest increase (from 54 to 135) in foreclosure sales.

Colorado Springs Region

Table 12 shows annual economic indicators for the Colorado Springs region for 2003 and 2004, and year-to-date indicators through April 2005. The economy in this region continues to show growth in construction and home sales due to continued low mortgage rates and increased employment.

Table 12
Colorado Springs Region Economic Indicators
El Paso County

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	-1.0%	0.7%	2.4%
Unemployment Rate	6.4%	5.4%	5.6%
Housing Permit Growth /2	-23.2%	28.8%	26.7%
Growth in Value of Nonresidential Const. /3	19.3%	-4.0%	6.4%
Retail Trade Sales Growth /4 (2005 is YTD through March)	0.2%	10.3%	8.7%

NA = Not available
1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents nonfarm employment.
2/ U.S. Census
3/ F.W. Dodge
4/ Colorado Department of Revenue.

Through April, nonfarm jobs in the region increased 2.4 percent from a year ago and the unemployment rate stood at 5.6 percent. This rate is slightly higher than the 2004 average rate of 5.4 percent, reflecting the increased amount of people who have entered the labor market due to the economic expansion. There is still much volatility in the job market, however, as the number of initial claims for unemployment insurance increased from a weekly average of 361 in the first quarter of last year to 445 in the first quarter of 2005, an increase of 23 percent.

Residential construction in Colorado Springs continues the strong pace that began in 2003 after two years of declines in the number of housing permits issued. Residential permits are up 26.7 percent through April of 2005. Further, May's median price for a Colorado Springs-area single-family home rose to a record $202,000, according to the Pikes Peak Association of Realtors. Nonresidential construction has tempered somewhat after experiencing strong growth through the first quarter of 2005. According to F.W. Dodge, the value of nonresidential construction in El Paso County increased 6.4 percent through April of 2005 compared with the same period in 2004.

Recent Economic News

- Colorado Springs will add nearly 5,000 military and civilian jobs over the next several years under the Pentagon's latest round of base closings and realignments that it announced in May. The Colorado Springs Chamber of Commerce estimates that the realignment will generate between $200 million to $300 million to the area. The realignment will spur major construction both on and off the military base, including construction of new multifamily housing. Fort Carson is currently the state's second-largest employer and is estimated to represent 15 to 20 percent of the Colorado Springs economy.

- The surge in home-building activity in 2004 had a significant impact on the local economy. The increase in housing created a total of 2,740 local jobs and produced $112.9 million in new wage and salary income, according to the Colorado Springs Gazette. It also brought in an additional $1.6 million in sales tax revenue to the City of Colorado Springs and $845,000 to El Paso County.

- Entegris Inc., a Minnesota firm that makes packages used to transport computer chips, is expanding its Colorado Springs work force by 40 percent. The company will add 68 people, bringing its local payroll to 238 employees.

Pueblo and Southern Regions

The economy in the five-county Pueblo region remained somewhat sluggish through April of 2005. Although sales tax revenue in Pueblo came in higher than expected during the first quarter of 2005 and the five-county area continues to experience modest job growth, residential construction activity continues to decline and the unemployment rate remains above the state average. Table 13 shows annual economic indicators for the region since 2003 and year-to-date indicators through April 2005.

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

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	-0.9%	1.5%	1.8%
Unemployment Rate	6.9%	6.4%	6.5%
Housing Permit Growth /2 Pueblo County Only	-1.6%	-4.8%	-12.3%
Growth in Value of Nonresidential Const. /3 Pueblo County Only	213.3%	3.3%	-51.4%
Retail Trade Sales Growth /4 2005 is YTD through March	0.7%	6.7%	2.3%

NA = Not Available
1/ Colorado Department of Labor and Employment. 2003 data are from the ES-202 program. 2004 data are from the Current Population (household) Survey.
2/ U.S. Census
3/ F.W. Dodge
4/ Colorado Department of Revenue.

Permits for residential construction in Pueblo decreased for the third straight year in 2004, and fell further through April, decreasing 12.3 percent. In addition, nonresidential construction has declined in Pueblo after showing strong increases over the last few years and into the beginning of 2005. Based on data from F.W. Dodge, nonresidential construction activity in Pueblo County has declined by slightly over 50 percent through April over the same period last year.

Nonfarm employment has continued to tick upward in the Pueblo region with a 1.8 percent increase through April of 2005, after increasing 1.5 percent in 2004. This followed job declines in the previous two years. Though jobs have increased modestly, the unemployment rate has actually increased over the past couple years because many people have entered or re-entered the labor force due to the nationwide economic expansion. The current rate through April for the five-county area is 6.5 percent, with a low of 4.6 percent in Custer County and a high of 7.8 percent in Huerfano County.

Recent Economic News

- Sales tax collections for the city of Pueblo grew 5.8 percent for the first quarter of 2005, higher than expected, according to city officials. However, city officials do not expect the revenue growth to continue throughout the year. Two-thirds of the city's general fund comes from the city's sales and use tax. In 2005 the tax is expected to raise $43.6 million.

- Perhaps reflecting Pueblo's higher unemployment rate, 400 people took part in job fairs in early June for a planned RMS call center that will offer 100 jobs to be filled in the near future. RMS handles electronic billing services through outsourcing, traditional collections, bankruptcy services, and deductions management. Pueblo's other new call center, Express Scripts, announced plans to host a job fair in July. Hiring for this facility will occur in phases over the summer and fall months. They expect to employ 400 people.

- Big D Super Foods, an independent and family-operated grocery business, opened a brand new facility in Florence in early June.

San Luis Valley Regions

Table 14 shows annual economic indicators for the six-county San Luis Valley and six-county Southwest region from 2003 through April 2005. The economy in the region continues to show mixed economic results.

Table 14
San Luis and Southwest Region Economic Indicators
Alamosa, Archuleta, Conejos, Costilla, Dolores, Hinsdale, La Plata, Mineral, Montezuma, Rio Grande, Saguache, and San Juan counties

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	2.7%	4.4%	NA
Unemployment Rate	5.7%	5.1%	5.1%
Statewide Crop Price Changes /2			
Barley	0.3%	8.0%	NA
Alfalfa Hay	-21.1%	1.2%	-4.9%
Potatoes	-24.2%	2.1%	12.5%
Fall Potato Production (Cwt) /2	-15.2%	-2.0%	NA
Housing Permit Growth /3			
Alamosa County	-5.3%	22.2%	25.0%
La Plata County	48.0%	-26.1%	8.0%
Growth in Value of Nonresidential Const. /3			
Alamosa County	-59.4%	43.6%	0.0%
La Plata County	557.4%	-27.9%	-98.2%
Retail Trade Sales Growth /4 2005 is YTD through March	3.2%	9.4%	1.3%

NA = not Available
1/ Colorado Department of Labor and Employment. 2003 data are from the ES-202 program. 2004 data are from the Current Population (household) Survey.
2/ Colorado Agricultural Statistics Service. Crop prices are May prices.
3/ F.W. Dodge
4/ Colorado Department of Revenue.

Employment levels for the region as a whole continue to be relatively positive with some exceptions for less populous rural counties. The unemployment rate for the region through April – hovering at 5.1 percent – continues to average lower than the statewide average. However, unemployment in Costilla, Conejos, Dolores, Saguache, and San Juan counties averaged over 7 percent through April. Costilla and San Juan had the highest unemployment rates, with rates of 10.4 and 11.3 percent, respectively. The lowest unemployment rate in the region continues to be in Mineral County, with an unemployment rate of 3.3 percent.

Retail sales increased an average of 1.3 percent in the entire region through the first quarter of 2005 compared to the same period last year. However, retail activity was mixed throughout the region, with some counties experiencing increases while others saw decreased retail activity. Retail trade sales increased modestly in La Plata County – the region's most populous county, while sales were down 25.6 percent in Saguache County. Dolores County continues to experience strong retail sales with a 29.0 percent increase through the first quarter, after increasing more than 40 percent in 2004. The region experienced 9.4 percent retail sales growth in 2004 due to increased employment.

Construction figures for two of the most populous counties in the region were also mixed. Alamosa County continues to build residential units at a faster pace than were built in 2004 through April. However, there was minimal non-residential construction activity based on data from F.W. Dodge. This was the case during the same period last year as well. La Plata County construction figures were somewhat erratic. Continuing a trend that began in 2004 after substantial increases in 2002 and 2003, nonresidential construction decreased in the county through April over the same period in 2004, declining 98.2 percent. However, residential permits in the county increased slightly by 8 percent.

In the farming sector, May potato prices were 12.5 percent higher than a year ago, while alfalfa hay prices decreased 4.9 percent.

Recent Economic News

- Population growth in southwest Colorado is estimated to outpace the statewide average growth rate during the next 10 and 20 years, according to the State Demographers Office. Currently, Archuleta County is the state's third fastest-growing county. The state demographer estimates that its population could almost double by 2020 to 19,627 people.

- After several years of development, a strip mall anchored by a Wall-Mart store in south Durango on the town's main street is almost complete. Sales tax revenue from the south Durango area has increased steadily as the mall has been developed, according to the Durango Chamber of Commerce.

- Above average moisture received over the winter and spring months have eliminated drought and wildfire concerns. This will likely lead to a strong tourism season in southwest Colorado, according to Durango tourism officials. About 6,500 residents of La Plata County work in tourism-related jobs.

Western Region

The economy of the western region seems to be moderating, based on early results for the beginning of 2005. Table 15 shows annual economic indicators for the region in 2003 and 2004, and year-to-date results through April 2005. The results for construction activity are mixed, retail sales are growing more slowly, and the unemployment rate is up.

Table 15
Western Region Economic Indicators
Moffat, Rio Blanco, Garfield, Mesa, Delta, Montrose, San Miguel, Ouray, and Gunnison counties

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	0.6%	3.3%	0.1%
Unemployment Rate	5.3%	4.5%	4.8%
Housing Permit Growth			
Mesa County 2/	13.4%	9.1%	-24.2%
Montrose County 3/	23.0%	35.3%	36.8%
Growth in Value of Nonresidential Const. /3			
Mesa County	-31.7%	-7.6%	107.3%
Montrose County	-16.7%	109.4%	-88.7%
Retail Trade Sales Growth /4 2005 is YTD through March	2.0%	8.7%	6.1%

NA = Not Available
1/ Colorado Department of Labor and Employment. 2003 data are from the ES-202 program. 2004 data are from the Current Population (household) Survey. 2005 data are for Mesa County only.
2/ U.S. Census
3/ F.W. Dodge
4/ Colorado Department of Revenue.

On the jobs front, the unemployment rate in the western region rose from an annual average of 4.5 percent in 2004 to 4.8 percent in April 2005. However, recent problems with the household employment survey make it difficult to determine if the recent increase in unemployment was due to decreased jobs, a larger labor force, or some combination of both. This follows three consecutive years in which the region experienced job growth. Updated employment estimates for the beginning of 2005 should be available later this summer. Using employment data for Mesa County only, the number of jobs increased 0.1 percent from April 2004 to April 2005.

Construction indicators are mixed for the region. Based on data from F.W. Dodge for the first four months of 2005, the number of housing permits increased 36.8 percent in Montrose County, but dropped 24.2 percent in Mesa County. Similarly, the value of nonresidential construction more than doubled in Mesa County through April 2005, but decreased almost 90 percent in Montrose County.

Consumer spending, as measured by retail trade sales, also slowed in the region. In the first quarter of 2005, retail trade in the region grew 6.1 percent. Double-digit gains were reported in Delta, Ouray, Montrose, and San Miguel counties. In contrast, Moffat and Gunnison counties had negative retail sales growth, and Garfield County was relatively unchanged. For all of 2004, retail sales in the region grew 8.7 percent.

Recent Economic News

- The number of housing permits in Rifle more than doubled in the first three months of 2005. A lack of affordable housing in and around Glenwood Springs appears to be responsible for some of the growth, as well as an increase in natural gas drilling activity.

- Despite the relatively slow employment growth in Mesa County over the past twelve months, jobs have been increasing in the natural resources, construction, and educational and health services industries. This has helped offset job losses in other industries.

Mountain Region

The economy of the mountain region continues to exhibit signs of strong growth. Table 16 shows annual economic indicators for the region for 2003 and 2004, and year-to-date results through April 2005. The most recent data show that the region is experiencing strong growth in terms of construction activity and retail trade.

Table 16
Mountain Region Economic Indicators
Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, and Chaffee counties

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	-2.2%	0.7%	NA
Unemployment Rate	4.7%	4.1%	3.9%
Housing Permit Growth /2			
Eagle, Pitkin, & Summit Counties 2/	25.8%	-30.6%	-1.2%
Routt County 3/	58.7%	21.5%	318.9%
Growth in Value of Nonresidential Const. /2			
Eagle, Pitkin, & Summit counties	-54.6%	226.1%	27.2%
Routt County	-16.8%	125.7%	-100.0%
Retail Trade Sales Growth /4	0.4%	8.7%	10.0%
2005 is YTD through March			

NA = Not available
1/ Colorado Department of Labor and Employment. 2003 data are from the ES-202 program. 2004 data are from the Current Population (household)
2/ F.W. Dodge
3/ U.S. Census
4/ Colorado Department of Revenue.

On the jobs front, the region's unemployment rate dropped from an annual average of 4.1 percent in 2004 to 3.9 percent in April 2005. Following two years of declining employment in the region in 2002 and 2003, the results for 2004 show a turnaround in jobs.

Construction activity also is improving in the region. Based on data from F.W. Dodge, nonresidential construction activity increased considerably in Eagle, Pitkin, and Summit counties. Through April 2005, the value of nonresidential construction was up 27.2 percent in these three counties. In addition, housing permits increased more than fourfold in Routt County. Although housing permit growth was down slightly in Eagle, Pitkin, and Summit counties, the value of those permits did increase 24.5 percent through April.

In the first three months of 2005, retail trade in the region increased 10.0 percent compared to the same period in 2004. The increase in retail trade in the region outpaced the statewide average of 6.2 percent in the first quarter of 2005. The counties with the fastest growth rates in this time period were Eagle, Park, Clear Creek, Grand, and Summit. All recorded double-digit increases in retail trade. Gilpin, Teller, and Jackson counties had declining retail sales in the first quarter of 2005. For all of calendar year 2004, retail trade grew 8.7 percent in the region.

Recent Economic News

- Retail sales in Aspen were up 7.5 percent in the first three months of 2005 compared to the same period in 2004. The increase was mostly due to sales increases in lodging, restaurants/bars, and clothing stores. A strong winter skiing season contributed to the gains. The city is also experiencing solid increases in real estate transfer taxes, which are used to fund the Wheeler Opera House and to subsidize a worker housing program.

- A property tax increase was approved by voters in the Roaring Fork School District to build new schools or renovate existing ones in Basalt, Carbondale, and Glenwood Springs. In particular, a new 80,000-square-foot elementary school is being built in Basalt for an estimated $10.3 million. Much of the growth is due to residents and businesses moving from Aspen.

Northern Region

The economy in the northern region continues to show positive signs, with the exception of the construction sectors. Table 17 shows annual economic indicators for the region for 2003 and 2004, and year-to-date employment and construction activity through April 2005. Retail trade sales data are through March. Also provided are statistics on the state cattle and calf inventory, as ranching is an important sector of Weld County's economy.

Table 17
Northern Region Economic Indicators
Weld and Larimer counties

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1			
Larimer County	-0.1%	2.1%	1.7%
Weld County	1.5%	3.0%	4.7%
Unemployment Rate			
Larimer County	5.2%	4.9%	4.3%
Weld County	6.4%	6.1%	5.1%
State Cattle and Calf Inventory Growth /2	-9.4%	4.2%	5.0%
Housing Permit Growth /3			
Larimer County	-0.2%	7.1%	-11.7%
Weld County	-9.3%	10.4%	-13.9%
Growth in Value of Nonresidential Const. /4			
Larimer County	-35.8%	191.2%	-7.0%
Weld County	33.3%	24.0%	-50.0%
Retail Trade Sales Growth /5			
2005 is YTD through March			
Larimer County	0.2%	3.5%	5.6%
Weld County	5.1%	14.6%	12.9%

NA = Not available
1/ Colorado Department of Labor and Employment. 2003 data are from the ES-202 program. 2004 data are from the Current Population (household) Survey.
2/ Colorado Agricultural Statistics Service.
The percentage change thru March 2005 represents the period from April 1,2004.
3/ U.S. Census
4/ F.W. Dodge
5/ Colorado Department of Revenue.

Employment increased 1.1 percent in Larimer County and 2.5 percent in Weld County during 2004. That trend has continued through April of 2005, with Weld County gaining 4.7 percent and Larimer County growing by 1.7 percent. Growth over the last year has been widespread, with the exception of small declines in the manufacturing and information sectors. The growth has helped push the unemployment rates lower in both counties. For April 2005, the unemployment rates in Larimer and Weld counties were 4.3 percent and 5.1 percent, respectively.

Both counties have retreated off 2004's record highs for residential permit growth. Larimer and Weld counties both saw greater than a 10 percent drop in the number of permits through April compared with figures over the first four months of 2004. A similar story is occurring in the nonresidential markets as well. Weld County has seen half the nonresidential activity through April as was seen a year ago, while Larimer County has seen a more moderate 7 percent decrease.

Recent Economic News

- The Greeley apartment market is lagging the state, according to the Colorado Division of Housing. The vacancy rate in the Greeley area has increased from 11.1 percent last September to 12.1 percent in March. The rate is the second highest on the front range behind Pueblo. The high vacancy rate pushed rental rates down 6.7 percent from September to March.

- Kroll Government Services announced that it will move into a new 30,000-square-foot building in Loveland. The emergency management and protective services company plans to hire more than 100 employees over the next year.

- The first phase of Eastridge, a residential community on the north side of Fort Collins, will bring 150 single-family homes to the area beginning in 2006. When fully built out in roughly eight years, the community will have nearly 1,200 residences. The neighborhood will also have a recreation area and some commercial development.

Eastern Plains

The latest preliminary data from the Colorado Department of Labor and Employment for April 2005 indicted that the regional employment situation is mixed. For example, preliminary unemployment rates for April 2005 ranged from a high of 6.7 percent in Bent and Crowley counties to 2.9 percent in Baca County. The department reported the following unemployment rates for other counties in the Eastern Plains: Logan 4.1 percent; Sedgwick 3.4 percent; Phillips 3.5 percent; Morgan 4.5 percent; Washington 4.0 percent; Yuma 3.5 percent; Elbert 4.6 percent; Lincoln 4.5 percent; Kit Carson 3.8 percent; Cheyenne 3.5 percent; Kiowa 4.4 percent; Otero 6.0 percent; and Prowers 4.8 percent.

May 2005 agriculture prices were generally lower compared with the same month last year. Wheat prices were down 20.9 percent in May 2005 over the previous year and corn was down by 35.6 percent. The price for alfalfa hay also declined 4.9 percent in May 2005 over the previous year. In contrast, May 2005 prices increased for potatoes (12.5 percent) and other hay (1.4 percent) over May 2004.

Year-to-date livestock prices through May 2005 were generally higher. Beef cattle prices increased from $104 to $111 per Cwt (6.7 percent), steers and heifer prices increased from $104 to $112 per Cwt (7.7 percent), cow prices increased from $54.1 to $60.6 per Cwt (12.0 percent), and calve prices increased from $121 to $140 (15.7 percent).

Also, year-to-date statistics for May 2005 show that the state inventory of all cattle and calves in Colorado feedlots with a capacity of 1,000 head or larger was up 3.0 percent from the previous year. Herds are growing in response to the end of a three-year drought period. The U.S. trend for cattle and calve inventory growth was the same, up 3.0 percent over the period.

Retail sales are showing signs of a regional recovery. Year-to-date retail sales for the first three months of the year grew 3.3 percent compared with the first three months of 2004, after increasing 6.5 percent for the entire year during 2004. Table 18 summarizes major economic indicators for the region.

Table 18
Eastern Region Economic Indicators
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties

	2003	2004	Year-to-date Thru April 2005
Employment Growth /1	-0.5%	3.9%	NA
Unemployment Rate	4.2%	3.5%	NA
Crop Price Changes /2			
Winter Wheat	-7.7%	-9.2%	-20.9%
Corn for Grain	0.8%	13.7%	-35.6%
Alfalfa Hay	-21.1%	1.2%	-4.9%
Dry Beans	-1.1%	1.7%	28.1%
2005 is YTD through May			
State Crop Production Growth /2			
Sorghum for grain production	140.0%	25.6%	NA
Corn for Grain	7.0%	16.8%	NA
Sugar Beets	-12.6%	30.1%	NA
State Cattle and Calf Inventory Growth /2	-9.4%	4.2%	3.0%
2005 is YTD through May			
Retail Trade Sales Growth /3	-0.2%	6.5%	3.3%
2005 is YTD through March			

NA = Not Available
1/ Colorado Department of Labor and Employment. 2003 data are from the ES-202 Program. 2004 data are from the Current Population (household) Survey.
2/ Colorado Agricultural Statistics Service.
3/ Colorado Department of Revenue. Includes food services.

Recent Economic News

- The Pierre Auger Collaboration named southeastern Colorado as the site for a cosmic ray observatory and project that will affect portions of Baca, Bent, and Prowers counties. The Governor's Office of Economic Development and International Trade offered a $250,000 grant to build a visitor's center at the Lamar Community College for the Northern Hemisphere Observatory.

- Weather in 2004 was favorable for growing wheat in Northeast Colorado. Production in

June 2005 was 78.4 million bushels, or 70.8 percent higher than production in June 2004 (45.9 million bushels). While the June 2005 winter wheat seedlings acreage (2.45 million acres) is unchanged compared with last month, the acreage harvested represents a 44.0 percent increase over June 2004 (1.7 million acres). Despite limited moisture in May 2005 and some isolated cases of disease and insect infestation, The Colorado Agricultural Statistics Service rates three-fourths of the crop as in good to fair condition.

Appendix A
Historical Data

National Economic Indicators

(Dollar amounts in billions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Gross Domestic Product	$5,484.4	$5,803.1	$5,995.9	$6,337.7	$6,657.4	$7,072.2	$7,397.7	$7,816.9	$8,304.3	$8,747.0	$9,268.4	$9,817.0	$10,128.0	$10,487.0	$11,004.0	$11,733.5
percent change	7.5%	5.8%	3.3%	5.7%	5.0%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	3.2%	3.5%	4.9%	6.6%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$6,981.4	$7,112.5	$7,100.5	$7,336.6	$7,532.7	$7,835.5	$8,031.7	$8,328.9	$8,703.5	$9,066.9	$9,470.3	$9,817.0	$9,890.7	$10,074.8	$10,381.3	$10,841.6
percent change	3.5%	1.9%	-0.2%	3.3%	2.7%	4.0%	2.5%	3.7%	4.5%	4.2%	4.4%	3.7%	0.8%	1.9%	3.0%	4.4%
Unemployment Rate	5.3%	5.6%	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%	5.5%
Inflation (Consumer Price Index)	4.8%	5.4%	4.2%	3.0%	3.0%	2.6%	2.8%	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%
10-Year Treasury Note	8.5%	8.6%	7.9%	7.0%	5.9%	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.3%
Personal Income	$4,587.8	$4,878.5	$5,051.0	$5,362.0	$5,558.6	$5,842.5	$6,152.3	$6,520.6	$6,915.2	$7,423.0	$7,802.4	$8,429.7	$8,724.1	$8,878.9	$9,161.8	$9,671.3
percent change	7.9%	6.3%	3.5%	6.2%	3.7%	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.5%	1.8%	3.2%	5.6%
Wage and Salary Income	$2,596.4	$2,754.0	$2,823.0	$2,980.3	$3,082.7	$3,232.1	$3,419.3	$3,619.6	$3,877.6	$4,183.4	$4,466.3	$4,829.2	$4,942.8	$4,976.3	$5,103.6	$5,356.1
percent change	5.8%	6.1%	2.5%	5.6%	3.4%	4.8%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.7%	2.6%	4.9%
Nonfarm Wage and Salary Employment (millions)	108.0	109.5	108.4	108.7	110.8	114.3	117.3	119.7	122.8	125.9	129.0	131.8	131.8	130.3	130.0	131.5
percent change	2.6%	1.4%	-1.0%	0.3%	1.9%	3.2%	2.6%	2.0%	2.6%	2.5%	2.5%	2.2%	0.0%	-1.1%	-0.3%	1.1%

Sources: U.S. Department of Commerce Bureau of Economic Analysis, U.S. Department of Labor Bureau of Labor Statistics, Federal Reserve Board.

Colorado Economic Indicators

(Dollar amounts in millions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Nonagricultural Employment (thous.)	1,436.1	1,482.3	1,520.8	1,544.9	1,596.9	1,670.7	1,755.9	1,834.3	1,900.3	1,979.5	2,056.6	2,131.4	2,212.4	2,225.4	2,182.5	2,150.9	2,178.6
percent change	1.7%	3.2%	2.6%	1.6%	3.4%	4.6%	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-1.4%	1.3%
Unemployment Rate	6.4%	5.8%	5.0%	5.1%	6.0%	5.3%	4.2%	4.0%	4.2%	3.4%	3.5%	3.1%	2.7%	3.9%	5.9%	6.2%	5.5%
Personal Income	$55,884	$60,652	$64,748	$68,283	$73,794	$79,697	$85,671	$92,704	$100,233	$107,873	$118,493	$128,860	$144,394	$152,700	$153,962	$157,171	$165,943
percent change	5.3%	8.5%	6.8%	5.5%	8.1%	8.0%	7.5%	8.2%	8.1%	7.6%	9.8%	8.7%	12.1%	5.8%	0.8%	2.1%	5.6%
Per Capita Income	$17,130	$18,515	$19,575	$20,160	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,371	$34,482	$34,124	$34,510	N/A
percent change	5.3%	8.1%	5.7%	3.0%	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	3.3%	-1.0%	1.1%	
Wage and Salary Income	$32,872	$34,666	$37,119	$39,548	$42,678	$45,736	$48,912	$52,782	$57,091	$62,364	$69,462	$76,283	$85,909	$88,297	$86,807	$87,747	$91,437
percent change	4.9%	5.5%	7.1%	6.5%	7.9%	7.2%	6.9%	7.9%	8.2%	9.2%	11.4%	9.8%	12.6%	2.8%	-1.7%	1.1%	4.2%
Retail Trade Sales	$24,886	$26,160	$27,544	$28,932	$31,298	$34,178	$38,100	$39,919	$42,629	$45,142	$48,173	$52,609	$57,955	$59,014	$58,852	$58,662	$62,348
percent change	6.1%	5.1%	5.3%	5.0%	8.2%	9.2%	11.5%	4.8%	6.8%	5.9%	6.7%	9.2%	10.2%	1.8%	-0.3%	-0.3%	6.3%
Housing Permits	12,864	11,131	11,897	14,071	23,484	29,913	37,229	38,622	41,135	43,053	51,156	48,874	53,749	54,537	47,911	39,446	45,585
percent change	-28.5%	-13.5%	6.9%	18.3%	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-4.5%	10.0%	1.5%	-12.1%	-17.7%	15.6%
Nonresidential Construction	$973	$946	$939	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$2,986	$2,617	$3,544	$3,339	$3,373	$2,660	$2,429	3,073.0
percent change	2.6%	-2.8%	-0.7%	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	26.2%	-12.4%	35.4%	-5.8%	1.0%	-21.1%	-8.7%	26.5%
Denver-Boulder Inflation Rate	2.6%	1.8%	4.4%	3.9%	3.7%	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%
Population (thousands, July 1)	3,271.4	3,284.5	3,307.6	3,387.1	3,495.9	3,613.7	3,724.2	3,826.7	3,920.0	4,018.3	4,116.6	4,226.0	4,326.9	4,428.8	4,498.1	4,547.6	4,601.4
percent change	0.2%	0.4%	0.7%	2.4%	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.4%	2.7%	2.4%	2.4%	1.6%	1.1%	1.0%

Sources: Colorado Department of Labor and Employment, U.S. Department of Commerce, Colorado Department of Revenue, U.S. Bureau of the Census, U.S. Bureau of Labor Statistics, F.W. Dodge.