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The short-term outlook for the Denver region

The Denver Regional Council of Governments (DRCOG) is a nonprofit association of 52 local governments, dedicated to making the nine-county Denver region a great place to live, work and play.

For more than 50 years, DRCOG has championed a regional perspective on key issues facing the metropolitan area, and sought solutions through cooperative local government action. At DRCOG, local governments resolve area-wide problems through dialogue and consensus in ways that respect the unique nature and aspirations of each member government.

The past decade has brought considerable

change to the Denver region. Today, we face new challenges as we attempt to enhance our economic competitiveness while also maintaining our world-renowned quality of life. Effective regional decision-making requires accurate and timely information about where we stand as a region and where we are heading.

The DRCOG State of the Region Report provides such guidance. New for 2007, this report offers a comprehensive snapshot of conditions across the entire metropolitan area, reviewing our current trajectory on key regional metrics: our economy, population and housing, transportation, the environment, and changing

demographics. The report explores a six-year window, from 2004 to 2009. The look back helps us understand the current state of the region, while the forecasts offer strategic insight into how current trends are likely to unfold over the coming years.

I am very pleased to offer this reading of the “pulse” of our region. This document provides important insights into the dynamics of the region, helping decision-makers at all levels and in all sectors understand the current State of our Region.

Inside this issue:

Economy - Continued economic growth expected, especially in service sectors	Page 2
Population and housing - New housing permits decline, while home values remain stable	Page 4
Transportation - Dwindling transportation funds can't pay for increasing needs	Page 6
Environment - Ozone pollution and water quality continuing concerns	Page 8
Aging - Baby boomers reaching retirement age, represent increasing share of the population	Page 10
About DRCOG	Page 12

THE STATE OF THE REGION 2007

Economy: Where are we now?

The Bureau of Economic Analysis' 1995 Survey of Current Business predicted the Rocky Mountain region to be one of the fastest growing regions through 2005, citing above-average job growth "in all major private service type industries and in construction." The BEA credited the "increasing role of the Denver, Colorado, metropolitan area as a regional trade and ser-

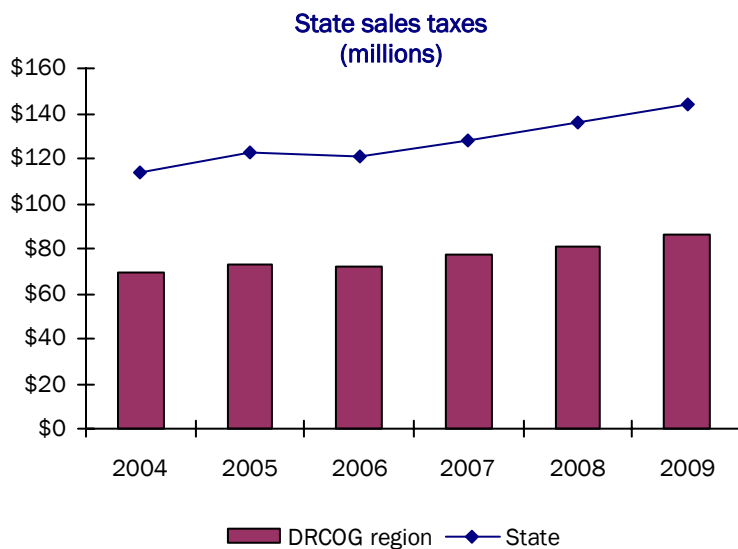
vice center" as the motivator for growth in service industries.

The Bureau's projections proved accurate, as Denver's regional economy held strong in 2006 due to growth in the service sectors. Between 2005 and 2006, approximately 30,000 jobs were added to the region, resulting in 1,335,281 wage and salary jobs within the

nine-county DRCOG region in 2006.

More than half of the job additions in 2006 occurred in the business, professional, and personal services sectors. Growth in the personal services sectors, which include private educational and healthcare and social assistance services, was primarily induced by an increase in the regional population. Growth in the professional and business sectors occurred as a result of local and non-local business expansion providing services, which bring expenditures back into the Denver region.

Many of the wage and salary jobs added in 2006 were within the City and County of Denver. Arapahoe County, which experienced employment growth comparable to other counties in the region, earned a place on the Bureau of Labor Statistic's Top 10 list for large county growth in average weekly wages for the 2nd quarter of 2006.



Forbes Magazine ranks Colorado among top states to do business (August 2006)

Rank	Name	Labor costs	Regulatory environment	Growth prospects	Quality of life
1	Virginia	4	1	10	5
2	Texas	25	6	2	23
3	North Carolina	26	3	4	26
4	Utah	9	18	11	17
5	Colorado	2	8	1	19
6	Idaho	16	34	22	20
7	Nebraska	29	14	30	9
8	Delaware	6	27	25	25
9	Florida	13	16	3	42
10	Georgia	18	4	19	29

Economy: Where are we headed?

Continued growth in the service sectors is expected in the near future. Professional and business service jobs, such as those within the high tech and scientific sectors, are important to the region because of the higher-than-average wages that often accompany these employment opportunities.

Although FasTracks' impact on regional employment growth is yet to be determined, many anticipate that the increased accessibility provided by an expanded transit system will help make the Denver region more attractive to firms interested in potentially locating here.

Large federal government defense, space exploration, and homeland security contracts will contribute to job growth in the engineering sectors. The current five-year hiatus of TABOR will allow the state government to spend tax revenue on infrastructure projects, creating job

growth in architectural and structural engineering positions. Residual employment growth will occur in the legal, accounting, and computer industries through the creation of jobs in other sectors.

Construction efforts in the near future will most likely focus on infill apartment and office space around future light rail lines. Additional growth in the construction industry related to FasTracks will not be realized during the years forecasted within this report.

With manufacturing jobs transferring out of union-dominated areas to overseas locations, growth in the manufacturing sector is expected to slow dramatically as well. State income tax revenue is expected to continue growing, as the region begins attracting higher-paying jobs.

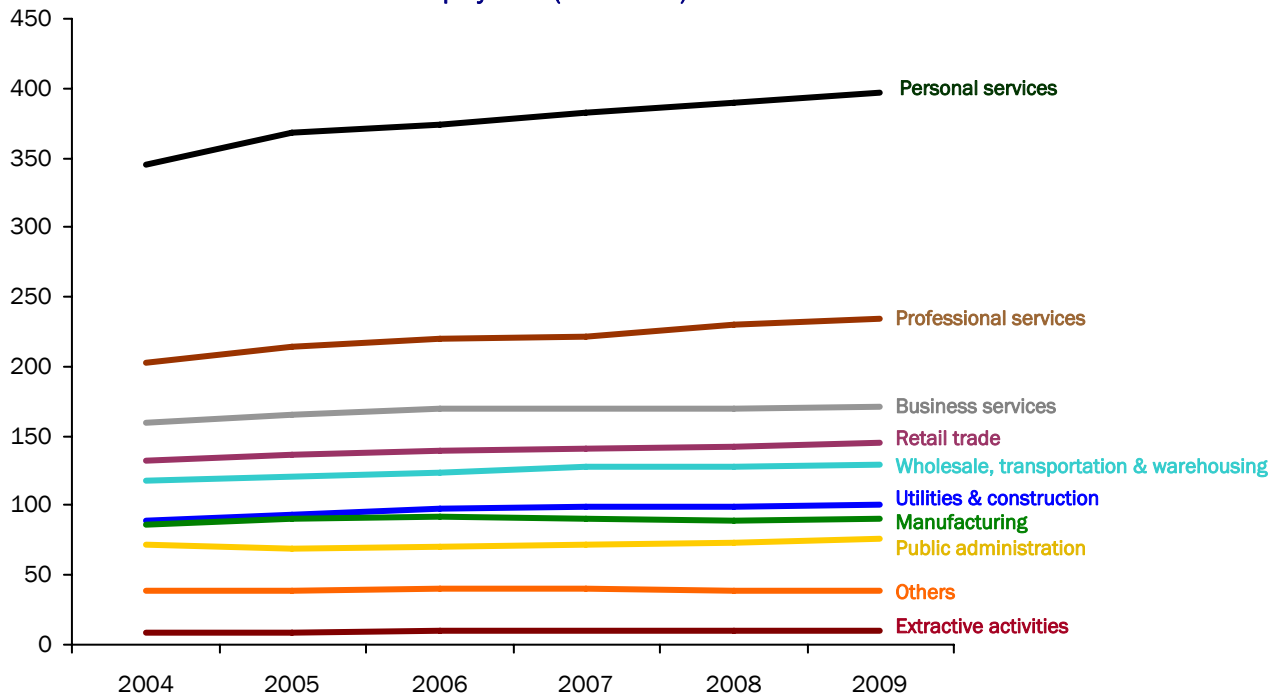
Forbes Magazine ranked Colorado first among all 50 states in growth prospects, as measured by growth



in jobs, income and gross state product. Colorado's labor pool quality, as measured by educational attainment, net migration and projected population growth, ranked second in the nation. Across all the categories examined by Forbes, Colorado ranked 5th overall (see chart on facing page).

These measures tend to be stable over a relatively long period of time, which implies that Colorado's business attractiveness will continue in the near future.

Employment (thousands)



Population and housing: Where are we now?

The residential housing market that aided the DRCOG region's economic recovery from the 2001 recession showed signs of slowing in 2006.

Local papers have been filled with headlines regarding the high number of foreclosed homes in the DRCOG region, which reached record highs by the end of 2006. Foreclosed homes have flooded a resale market in the region that has cooled over the last year. Homes are staying on the market for a longer period of time and sup-

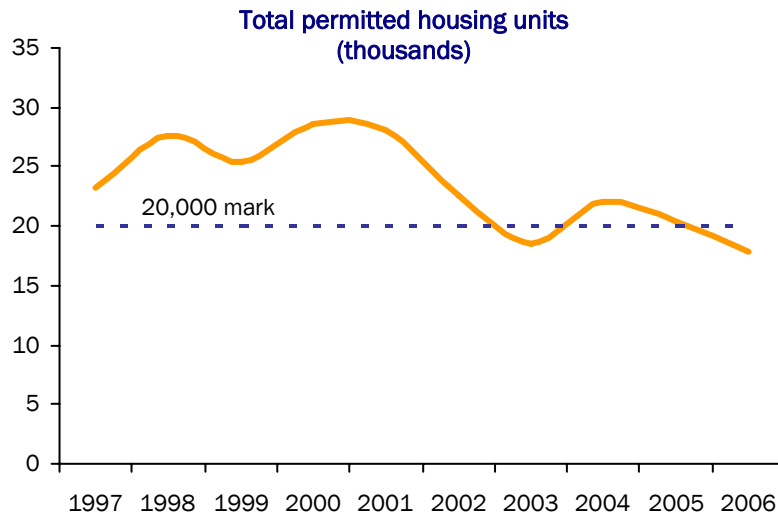
ply continues to outpace the number of sales.

In contrast, apartment vacancy rates fell across the region as foreclosed homeowners turned to the rental market and rising interest rates kept potential buyers from purchasing homes.

As a result of these market trends, the number of annual permitted residential units in the region is expected to drop below 20,000 for only the second time in the last 10 years. Developers in the single-

family market have responded to the high inventories of new unsold homes; in 2006 the number of single-family new construction permits issued in the region decreased by almost 26 percent.

Conversely, multifamily permitting remained strong with an increase of 1,400 units. Some market analysts are concerned that this increasing supply may exceed demand. A large number of these units are intended to be higher-end products in the urban area, estimated to account for 14 percent of the unsold market.



Despite the high number of foreclosures, population in the metro area continued to increase, gaining 53,000 persons during 2005. The total population of the nine-county region was estimated at 2,711,536 in January 2006 (the most current estimate) and the population growth rate throughout the year is expected to slow from 2.0 percent to 1.7 percent.

Modest job growth continued in 2006, extending the region's streak to three straight years. This type of economic expansion must continue to draw new residents to the area to stabilize a housing market that has begun to soften.

Single-family home value percentage increase, 2003 - 2006

Metropolitan area	2003	2004	2005	2006	% increase 2003-2006
Las Vegas-Paradise, NV	\$179,200	\$266,400	\$304,700	\$318,000	77.5%
Phoenix-Mesa-Scottsdale, AZ	\$152,500	\$169,400	\$247,400	\$266,500	74.8%
Salt Lake City, UT	\$148,000	\$158,000	\$173,900	\$216,300	46.1%
Albuquerque, NM	\$138,400	\$145,400	\$169,200	\$191,100	38.1%
Denver-Aurora, CO	\$238,200	\$239,100	\$247,100	\$253,200	6.3%

Source: National Association of Realtors

Population and housing: Where are we headed?

As residential developers continue to correct for a decreasing number of potential homeowners, we expect to see the total number of permitted housing units decrease in 2007.

The slowdown of permitted housing units is no reason to panic. In contrast to many metropolitan areas in the southwestern United States, the Denver region has experienced moderate increases in home values over the last five years. The slower increase in home values

gives the housing market in the Denver metro area a bright future. First-time homebuyers left behind in metro areas experiencing double-digit appreciation have opportunities to own homes in the Denver area. This group of potential homebuyers is an important component for the health of the housing industry.

The stable housing market will aid our continued economic growth



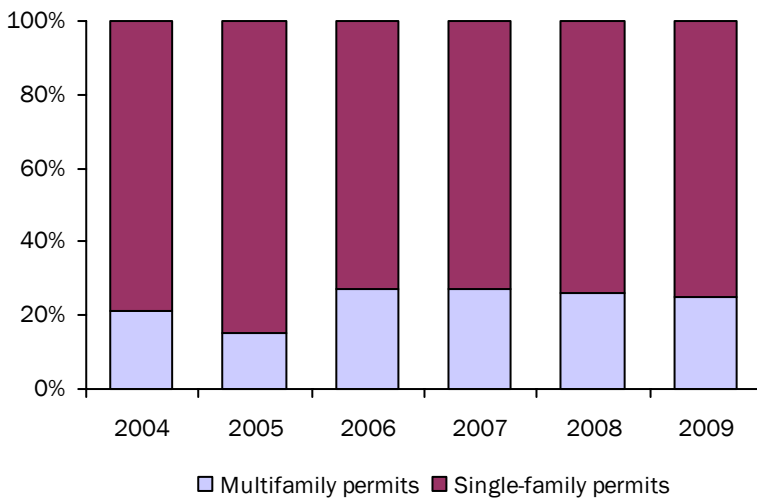
and provide an additional incentive for companies to relocate to the Denver area. Modest job growth in 2007 and 2008 is expected and, as a result, people will continue to move to the area.

To accommodate continued migration, we expect a slight increase in building permit activity in 2008 and 2009. Although many analysts are concerned about over-building multifamily units, this type of product will continue to gain a larger share of the market in response to the housing demands of the baby boomer generation and the opportunities associated with the metro area's growing transit system.

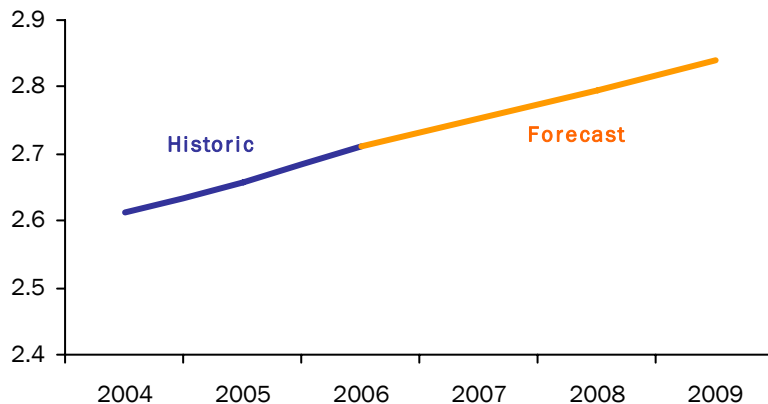
Assuming that the rental market continues to add a very small number of units annually, the vacancy rate will remain low for the next few years. The large increases in interest rates that we have seen in the last year and a half appear to be over and rates are expected to stabilize. These flat interest rates will keep entry-level homebuyers out of the market longer and in rental units across the metro area.

The region will continue to grow at a healthy pace with population increasing at rate of about 1.6 percent annually as our economy continues to improve.

Permitted housing units by type



Population (millions)



Transportation: Where are we now?

An efficient transportation system that provides access to jobs, services, and recreation is crucial to the economic health and overall quality of life in any community.

Denver-region voters recognized this fact in 2004, when they voted to approve FasTracks, a \$4.7 billion, 12-year comprehensive plan to build and operate new rail lines and improve bus service and park-n-Rides throughout the region. FasTracks' approval has already spurred planning for transit-oriented development projects in many of the proposed station areas.

In 2006, the five-year, \$1.67 billion T-REX project was completed, adding 19 miles of light rail and improving 17 miles of highway through the southeast metropolitan area. The project expands transportation options in the south I-25 and I-225 corridors, providing a reliable alternative to the single occupant vehicle.

Congestion remains pervasive throughout the region, however. Currently, the Denver region's congestion is ranked 9th worst in the nation. Each year, the average commuter loses 51 hours to traffic delays, and the number of roadways experiencing severe congestion

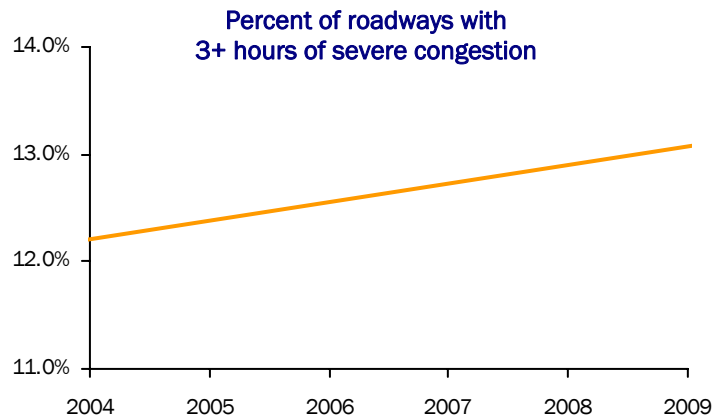
continue to increase over time (see chart below). Congestion and lost time cost money, currently an average of \$850 per person per year.

Unfortunately, current funding sources for transportation improvements are not reliable for the future. The gas tax, which has not increased since the early 1990s, is a flat tax that does not rise with inflation or the cost of fuel. Two decades ago, the 40.4 cents of tax collected on each gallon could buy much more than the same 40.4 cents collected today. Furthermore, declining gas consumption due to fuel-efficient cars and new technology means less collected in gas tax revenues.



Referendum C provided some temporary relief, but the additional revenue was largely offset by increasing construction costs. Steel and concrete prices increased 34 percent between 2004 and 2005 due to increasing demand from developing countries, as well as hurricanes Katrina and Rita.

The bottom line is that the region has less money to pay for increasingly expensive projects.



Major transportation projects completed, 2004 to 2006

Project	Open date
C-470: I-70 to US-6 extension phase II (ramps)	2006
US- 36: McCaslin Boulevard interchange improvement	2005
Southeast Corridor LRT: I-25 from Broadway to Lincoln Avenue and I-225	2006
Southeast Corridor Widening: I-25 from Broadway to Lincoln Avenue; I-225 from I-25 to Parker Road	2006
120th Avenue: US-85 to Quebec Street (new road)	2006

Transportation: Where are we headed?

Environmental studies and preliminary engineering are underway for FasTracks. The first major components of the new system, Union Station and the West Line corridor, are scheduled for completion in 2012. In addition to expanding transportation options throughout the region and increasing transit ridership, FasTracks is expected to focus the type and location of new development for many years to come.

Beyond FasTracks, transportation improvements planned for the next few years are more modest in scope. Increased needs for roadway maintenance coupled with a declining funding source leaves fewer funds for additional new capacity.

Allocation of transportation funds will continue to shift from capacity to system preservation. Between 2004 and 2006, DRCOG's Transportation Improvement Program allocated \$765 million to new system capacity, \$422 million to maintenance of the existing system, and \$90 million to "mobility management," projects that relieve traffic congestion by reducing travel demand, encouraging alternative forms of transportation, and making operational improvements.

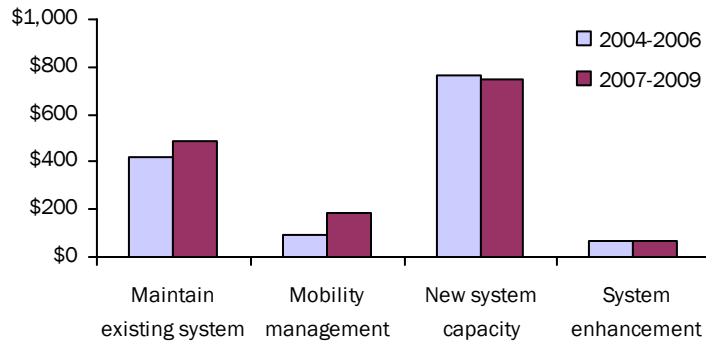
Between 2007 and 2009, the amount allocated to new capacity will decrease to \$746 million, while

the amount allocated to system maintenance and mobility management will increase to \$486 million and \$185 million, respectively. As a result, the number of new lane miles of roads added in the coming years will be considerably fewer

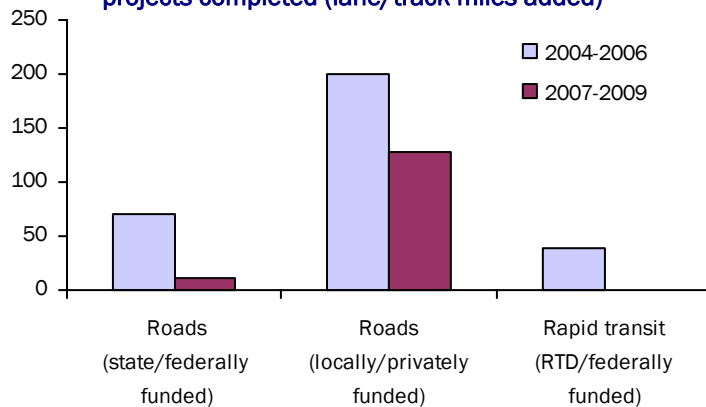
than in the previous few years (see charts above).

Municipal and private transportation funding sources, which pay for many local road improvements, are also expected to decline.

DRCOG Transportation Improvement Program funding allocation (millions)



DRCOG Regional Transportation Plan projects completed (lane/track miles added)



Major transportation projects to be completed, 2007 to 2009

Project	Expected open date
Pecos Street: Grade separation at Union Pacific Railroad	2009
Federal Boulevard: Jewell Avenue to Louisiana Avenue reconstruction	2007
US-285: Willow Springs and Turkey Creek Road bridges	2009

THE STATE OF THE REGION 2007

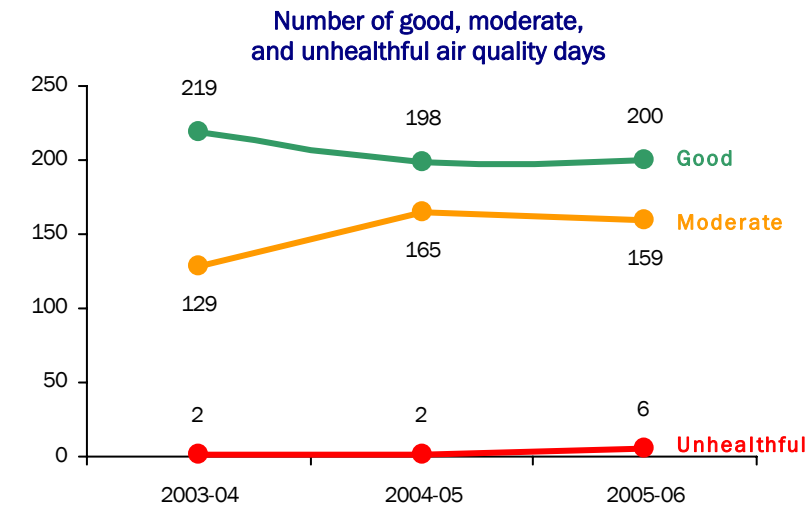
Environment: Where are we now?

The Denver region's environmental setting is one of its greatest assets. The climate, the location at the foot of the Rocky Mountains and the proximity of the South Platte River have attracted human activities for centuries. As the region becomes more populated, however, greater care must be taken to ensure these assets don't disappear. The development of open land and the addition of more people and vehicles threaten air and water quality.

Air quality

In recent years, the number of "good" air quality days have decreased to a total of 200 in 2005-06, while the number of "moderate" and "unhealthy" air quality days have increased to 159 and 6, respectively.

Ozone is the air pollutant of most concern in our region. A cause of breathing problems and respiratory infections, ground-level ozone is formed during hot summer months when nitrogen oxides (NOx) and

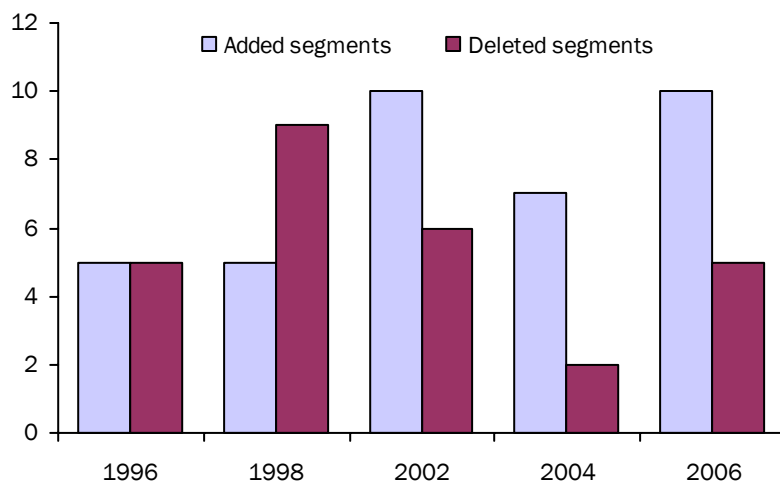


volatile organic compounds (VOC) react chemically in the presence of sunlight. Emissions from industrial facilities and electric utilities, motor vehicle exhaust, gasoline vapors, and chemical solvents are some of the major sources of NOx and VOC.

The good news is that NOx and VOC emissions continue to trend downward, and the Denver region currently complies with federal air

quality standards. Thanks to record-breaking heat, however, the number of ozone alert days increased to 49 in 2006—the most ever recorded. VOC emissions from oil and gas wells have also been increasing due to growth in the industry, causing concern that the overall downward trend in VOC emissions may reverse. The region is therefore at risk of violating federal air quality standards in the coming years.

Additions and deletions to the Denver region's list of impaired stream segments

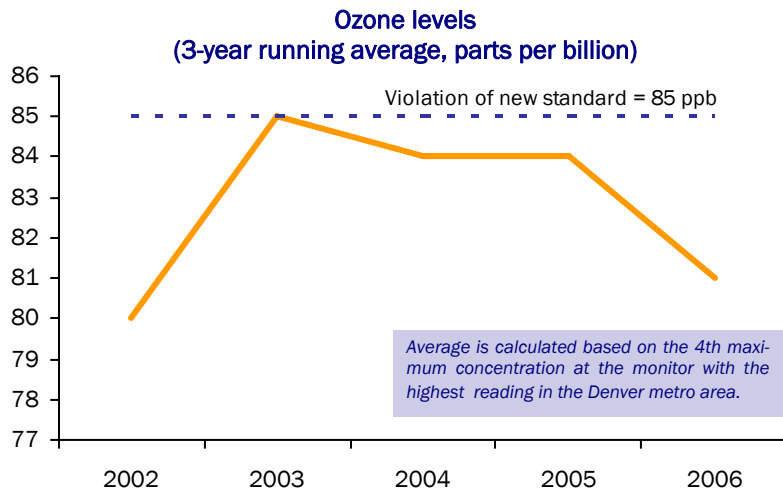


Water quality

Water quality is also a continuing concern for the Denver region. Every two years, the state of Colorado inventories bodies of water impacted by pollutants, such as metals from mining activities and bacterial contamination resulting from inadequate wastewater treatment or from animal activity in the watershed.

The number of streams and lakes in the Denver region on the impaired list increased to 34 in 2006. Although five stream segments were removed from the list last year because restoration plans are in place, 10 new segments were added.

Environment: Where are we headed?



Air quality

Based on recent research showing the negative health effects of extended exposure to ground-level ozone, the federal government has established more stringent air quality regulations. The new standard, which the Denver region must meet by December 2007, limits the allowable level of ozone to 80 parts per billion (ppb) averaged over an eight-hour period. A violation of the standard occurs when the three-year average reaches or exceeds 85 ppb.

Ozone levels in the Denver region have fallen below this threshold, but are dangerously close to exceeding the standard. The next ozone monitoring season—March 1 through Sept. 30—will be critical in determining whether the region complies with the new regulations.

State, regional, and local agencies in the Denver region entered into a voluntary agreement that sets forth a schedule for adopting and implementing control measures necessary to meet and maintain the new standard. Called an “Early Action Compact for Ozone” (EAC), the

agreement includes an aggressive plan to cut emissions from the oil and gas industry. Emissions in 2006 were higher than anticipated, however, and further reductions are needed in this growing industry to achieve the EAC goals.

Water quality

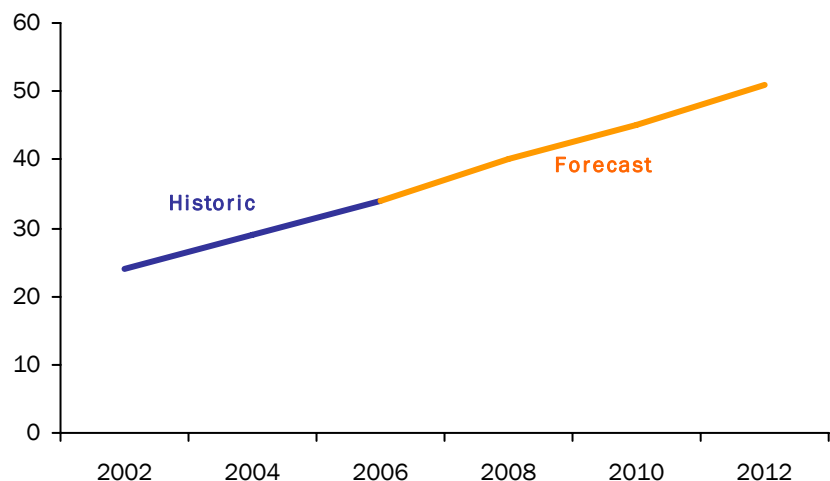
Water quality standards are also becoming more stringent, as increasing population and urbanization place growing demands on water resources. Wastewater

treatment plants are meeting this challenge head on by implementing technologically advanced systems and processes to meet their permit limits. The Environmental Protection Agency (EPA) and the Colorado Department of Public Health and Environment (CDHPE) have strict guidelines and timetables for developing restoration plans for impaired bodies of water.

In addition to upgrading wastewater treatment facilities, local communities are implementing water conservation measures, stormwater mitigation strategies, and development practices aimed at protecting water quality. DRCOG is working with watershed groups, the EPA, state agencies and other stakeholders to maintain, improve, and protect water quality.

The graph below shows that if current trends continue, the number of impaired stream segments in the Denver region will increase to 51 by 2012. It is the goal of DRCOG and its water quality partners to prevent this trend from continuing.

Historic and forecast number of impaired stream segments



Aging: Where are we now?

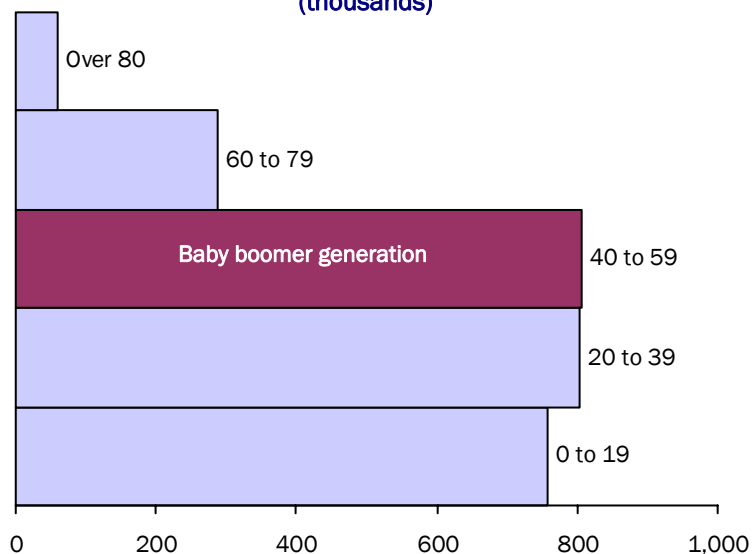
The demographic profile of the United States continues to reflect the “graying” of our population. The first of the baby boomer generation, the large group of people born between 1946 and 1964, turned 60 in 2006. Roughly 27 percent of the nation’s population falls into this age group.

Data from the 2000 Census indicates that Colorado has the sixth largest concentration of baby boomers in the country. Importantly, 45 percent of the state’s workforce also falls within this cohort. As these people move on to retirement over the coming decade, the state faces considerable challenges in finding replacement workers and meeting the demands of this large and politically sophisticated demographic group.

These challenges are magnified in the Denver metro area. The region receives only 47 percent of state and federal Older Americans Act funding spent on aging services across the state, despite having almost 52 percent of the population age 60 and over. Additionally, 52 percent of the state’s low-income and minority seniors live in the metro area. The region is the only part of the state that has waiting lists for such key services as in-home help and home-delivered meals. These waiting lists are only likely to get worse in the coming years.



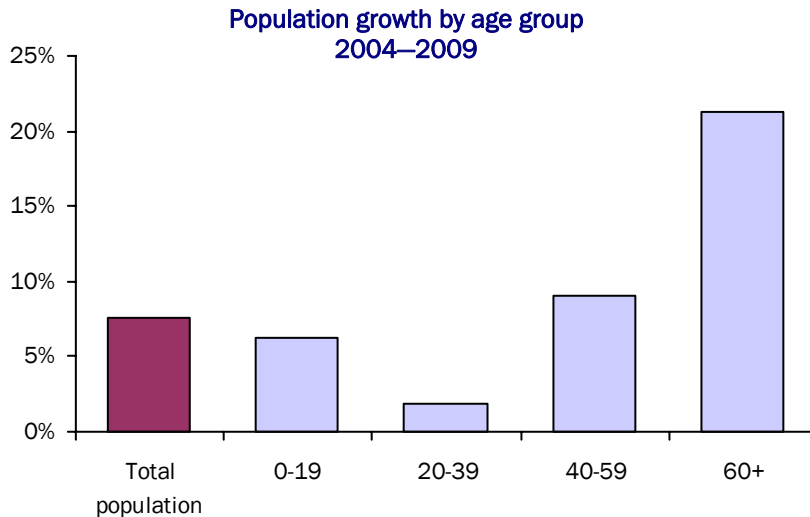
2006 population by age group (thousands)



“We do not know yet whether Colorado will undergo rapid and massive changes or gradual changes due to the retirement of experienced workers of the baby boom generation along with the movement of workers into and out of Colorado. We do know that both have the potential to affect the age distribution of the workforce significantly.”

Nick Carroll and Cynthia Taeuber (2005), *A Profile of Older Workers in Colorado*. U.S. Census Bureau, pp. 2-3

Aging: Where are we headed?



The next three years are really just the start of a major demographic transition. DRCOG estimates that the population age 60 and over in the Denver metro region will increase by approximately 69,000 people or 21 percent between 2004 and 2009. This compares to an overall growth rate of 7.6 percent for the total metro population, and a 13 percent increase in this same cohort nationally.

How this transition will unfold across the state and within the Denver metro region remains uncertain. Assuming the baby boomers follow the retirement patterns of their forebears, and that the local economy is unable to successfully replace these retiring workers (through immigration from other parts of the country, for example), the region faces the prospect of losing 97,000 educated, skilled and experienced workers from the workforce between now and 2009—the equivalent of nearly the entire population of the city of Boulder.

A number of countervailing trends in play suggest that this scenario is

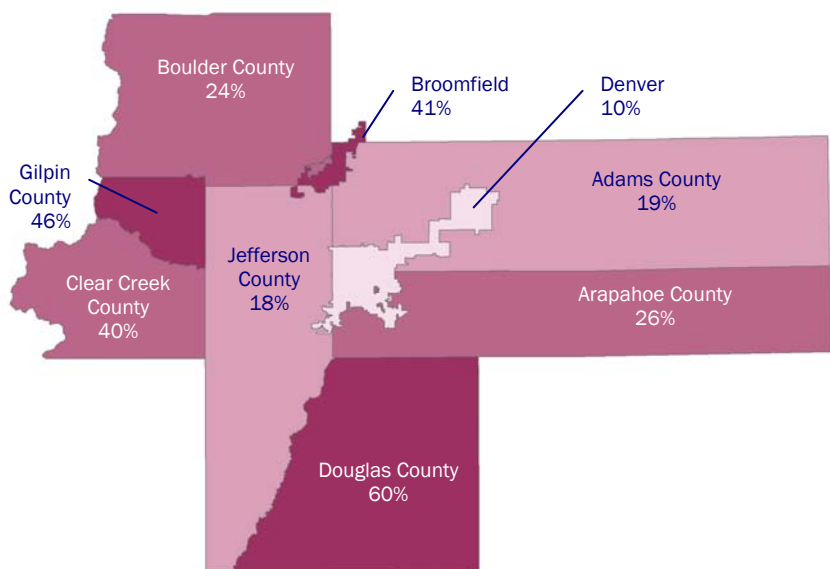
not likely to play itself out this directly. Baby boomers represent the wealthiest, most educated and healthiest cohort of 41 to 62 year-olds in the nation's history. Various projections suggest that baby boomers may stay active in the workforce beyond the traditional retirement age, either in their cur-

rent jobs or in new jobs that provide flexibility for them to pursue other activities (leisure, volunteerism, etc.).

Baby boomers' combined purchasing power remains important to all businesses and will ensure they continue to shape marketing and consumer trends over the coming decades. Likewise, their political sophistication will ensure they remain a vital force in all aspects of political discourse.

Regardless of how this transition will ultimately unfold, the Denver region continues to face the immediate challenge of meeting over \$50 million annually in unmet demand for all types of senior services. As retiree rolls grow, this funding gap will get worse. Current expectations are that Federal funding (through the Older Americans Act) will remain level at best. State funding for senior services is also inconsistent from one year to the next.

**Increase in population age 60 and older
2004-2009**



THE STATE OF THE REGION 2007

About DRCOG

The Denver Regional Council of Governments (DRCOG) is thinking "SMART," by emphasizing Sustainability in the region's vision for growth and development, acting as a Model for regional cooperation, Advocating for the needs of seniors, establishing Regionalism as the best approach to problem solving, and partnering with business and industry to meet Transportation needs.



Participating governments

Counties

Adams County
Arapahoe County
Boulder County
City and County of Broomfield
Clear Creek County
City and County of Denver
Douglas County
Gilpin County
Jefferson County

Municipalities

City of Arvada
City of Aurora
Town of Bennett
City of Black Hawk
City of Boulder
Town of Bow Mar
City of Brighton
Town of Castle Rock
City of Centennial
City of Central City
City of Cherry Hills Village
Town of Columbine Valley
City of Commerce City
Town of Deer Trail

City of Edgewater
Town of Empire
City of Englewood
Town of Erie
City of Federal Heights
Town of Foxfield
Town of Georgetown
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City of Greenwood Village
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City of Lakewood
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