



# Colorado Legislative Council Staff

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## MEMORANDUM

December 20, 2004

TO: Members of the General Assembly  
FROM: The Economics Staff, (303) 866-3521  
SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2004-2010*

### Executive Summary

This memorandum presents the current budget outlook with the December 2004 General Fund and cash fund revenue forecasts. Table 1 on the following page presents the results of the forecast on the General Fund overview based on current law.

### General Fund Revenue

The forecast for General Fund revenue in FY 2004-05 was reduced by \$19.9 million. Most of the reduction resulted from a \$14.7 million increase in the income tax diversion to the State Education Fund due to increases in past-years income tax liabilities. The small remaining reduction was due to the state's lagging economic recovery. The reduction in General Fund revenue does not impact the state's budget because the TABOR surplus is reduced by an equivalent amount. The additional money in the State Education Fund is exempt from TABOR and does provide additional flexibility for that fund.

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### Cash Fund Revenue

**Total cash fund revenue** subject to the TABOR revenue limit will increase 8.5 percent in FY 2004-05 after increasing 14.3 percent in FY 2003-04. These figures exclude the University of Colorado, which became an enterprise under TABOR this year. The forecast for cash fund revenue was increased \$68.3 million in FY 2004-05. This will cause the TABOR surplus to increase, putting further pressure on the state budget this year.

**Table 1**  
**December 2004 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	\$345.9	\$230.2	\$234.6	\$241.2	\$255.6	\$271.0
2 Gross General Fund	5,766.5	6,009.0	6,427.5	6,853.2	7,300.1	7,793.9	8,237.5
3 Senate Bill 97-1 Diversion to the HUTF	0.0	0.0	0.0	0.0	-65.3	-67.2	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	26.5	31.2	30.5	30.1	34.1	34.1
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	-161.3	-446.3	-639.8	-635.2	-741.4	-882.3
8 Total Funds Available	\$5,986.2	\$6,218.7	\$6,240.5	\$6,476.5	\$6,868.9	\$7,273.0	\$7,658.3
<b>APPROPRIATIONS AND OBLIGATIONS:</b>							
9 Allowable General Fund Appropriations	\$5,590.9	\$5,795.9	\$6,099.0	\$6,216.9	\$6,390.2	\$6,773.6	\$7,180.1
10 Additional Appropriations Approved by JBC	-\$0.7	\$9.8	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
11 Necessary Reductions to Balance Budget	\$0.0	-51.9	-234.0	-188.4	0.0	0.0	-41.6
12 <b>Actual Appropriations</b>	<b>\$5,590.2</b>	<b>\$5,753.8</b>	<b>\$5,865.0</b>	<b>\$6,028.5</b>	<b>\$6,390.2</b>	<b>\$6,773.6</b>	<b>\$7,138.5</b>
13 <b>Allowable App. At 6% Growth From 04-05 Budget*</b>	<b>NA</b>	<b>\$5,805.7</b>	<b>\$6,154.0</b>	<b>\$6,523.3</b>	<b>\$6,914.7</b>	<b>\$7,329.6</b>	<b>\$7,769.3</b>
14 <b>Cumulative Difference (Cuts Below 6%)</b>	<b>NA</b>	<b>-\$1.9</b>	<b>-\$289.1</b>	<b>-\$494.8</b>	<b>-\$524.5</b>	<b>-\$555.9</b>	<b>-\$630.8</b>
15 Rebates and Expenditures	112.8	112.3	140.9	144.6	148.7	153.9	159.8
16 Reimbursement for Senior Property Tax Cut	0.0	0.0	0.0	54.8	54.3	55.1	55.1
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	0.2	0.1	7.4	20.0	19.4	19.3
20 Federal Medicaid Assistance	-68.7	0.0	0.0	0.0	0.0	0.0	0.0
21 Accounting Adjustments	-11.9	NE	NE	NE	NE	NE	NE
22 Total Obligations	\$5,640.3	\$5,988.5	\$6,005.9	\$6,235.3	\$6,613.3	\$7,002.0	\$7,372.7
23 <b>YEAR-END GENERAL FUND RESERVE:</b>	<b>\$345.9</b>	<b>\$230.2</b>	<b>\$234.6</b>	<b>\$241.2</b>	<b>\$255.6</b>	<b>\$271.0</b>	<b>\$285.6</b>
24 <b>STATUTORY RESERVE: 4.0% OF APPROPRIATIONS</b>	<b>223.6</b>	<b>230.2</b>	<b>234.6</b>	<b>241.2</b>	<b>255.6</b>	<b>271.0</b>	<b>285.6</b>
25 <b>GENERAL FUND EXCESS RESERVE</b>	<b>\$122.3</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>
26 <b>RESERVE AS A % OF APPROPRIATIONS</b>	<b>6.3%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>4.0%</b>
<b>TABOR RESERVE REQUIREMENT:</b>							
27 General & Cash Fund Emergency Reserve Requirement	\$250.0	\$246.1	\$250.8	\$259.3	\$269.7	\$281.8	\$295.1
28 Appropriations Growth	\$167.6	\$163.6	\$111.2	\$163.5	\$361.7	\$383.4	\$364.9
29 Appropriations Growth Rate	3.10%	2.96%	1.93%	2.79%	6.00%	6.00%	5.39%
30 Addendum: Amount Directed to State Education Fund	\$278.7	\$311.8	\$316.8	\$340.3	\$365.3	\$393.4	\$420.7

Totals may not sum due to rounding.

\* Used the budgeted amount for FY 2004-05 rather than 6% growth.

Cash funds will increase at a slower rate than the TABOR allowable growth rate of inflation plus population growth during the remainder of the forecast period. This will free up some money in the General Fund that would have otherwise been refunded if cash funds were not subject to the limits of TABOR. The amount of money freed up, however, is smaller in the December forecast than was expected in September. The forecast was increased by a total of \$66.2 million between FY 2005-06 and FY 2009-10.

**Transportation-related** cash funds, which include the Highway Users Tax Fund and the State Highway Fund, will increase 1.5 percent in FY 2004-05 and 1.8 percent in FY 2005-06. The introduction of alternative fuel and electric-hybrid cars and SUVs is expected to temper growth over the forecast period.

Excluding the University of Colorado, **higher education** revenue will increase 5.0 percent in FY 2004-05 and at an average annual rate of 4.1 percent over the forecast period. Tuition revenue will increase 5.9 percent in FY 2004-05 after increasing 10.2 percent in FY 2003-04. As the economy recovers and job growth improves, enrollment and revenue growth will moderate somewhat from the heady pace seen in recent years.

**Unemployment insurance** (UI) revenues from taxes and interest earnings will increase 50.2 percent in FY 2004-05 after a 58.5 percent increase last year. UI tax rates are responding to the substantial draw-down of the fund's reserves. Thus, regular tax rates will be increased to restore the fund balance during 2004 through 2006 and the solvency tax will be levied in 2004 through 2007. UI revenues will be flat in FY 2005-06 and decrease for the following three years as the fund balance recovers.

**Severance taxes** are projected to reach \$105 million in FY 2004-05 and drop to \$91 million in FY 2005-06. Severance taxes from oil and gas production are expected to total \$91 million in FY 2004-05. The forecast assumes that natural gas prices will remain high this year and decline slightly in the next two years due to record natural gas storage levels and stabilizing oil prices.

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## **TABOR and the Budget**

Because the state was already projected to be in a TABOR surplus situation, the changes in revenue simply change the estimated amounts of the surplus. The reduction in General Fund revenue does not impact the budget because the reduction in the TABOR surplus and the reduction in General Fund revenue are equal. Since the TABOR surplus is considered a General Fund liability, the decrease in the liability equals the decrease in revenue and there is no net impact on the General Fund.

The same is not true for the increase in cash fund revenue, however. Since cash fund revenue was increased by \$68.3 million, the TABOR surplus increases by a like amount. Under current law, the \$68.3 million will be retained by the appropriate cash funds. The General Fund will face an increase in its liability for the TABOR surplus, but will not have any of the revenue that caused the increase. Therefore, the General Fund budget situation is worsened by the increase in cash fund revenue.

Our estimate of the state's **structural deficit**, the amount of allowable appropriations under the six percent spending limit less the amount of revenue available for appropriations, was not changed materially in this forecast. Because the short-term increase in cash fund revenue is offset by a decrease in the long-term projection, the overall impact on the structural deficit is only a \$14.8 million increase. What did change is the amount of the deficit that remains to be dealt with in the near term. The state now faces a \$51.9 million General Fund shortfall during the current year, FY 2004-05. If those cuts are made, the state will still need to reduce the General Fund budget or increase annual revenue by \$234.0 million during FY 2005-06 and another \$188.4 million during FY 2006-07. If the FY 2004-05 deficit is filled with one-time money or reserves, then state will face a deficits of \$339.0 million during fiscal year 2005-06 and an additional \$137.4 million during FY 2005-06.

The state used 4.9 percentage points of the 6.0 percentage points available from the **population adjustment** to retain the extra revenue in FY 2003-04. The remaining 1.1 percentage points will be used in FY 2004-05. The combined impact of the adjustment will allow the state to retain \$463.7 million during FY 2004-05 that would have otherwise been refunded.

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## **Assessed Values**

Statewide **assessed values** will increase 7.4% in 2005, a reassessment year. Oil and gas values will continue their meteoric growth, while commercial and industrial markets begin to recover. New construction in 2004 is on the increase, though it remains off highs seen early in the decade.

Because nonresidential value growth matched the growth in residential values, the **residential assessment rate** is expected to remain at 7.96% for 2005 and 2006. Small declines will characterize the rest of the forecast period, as the residential assessment rate will be 7.62% in 2007 and 7.39% in 2009.

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## **Pre-Kindergarten to Twelfth Grade Enrollment**

Following a 0.9 percent increase for the 2004-05 school year, **enrollment** will increase by 1.4 percent, or 9,846.5 FTE students, for the 2005-06 school year. An improving economy is expected to boost statewide enrollment growth.

Enrollment will increase at an average annual rate of 1.5 percent over the forecast period, as a slowly rebounding economy boosts employment and migration to Colorado. This growth compares to annualized growth of 2.0 percent during the late 1990s.

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## **Adult Incarcerated Offender Population**

The **adult prison population** is projected to increase an average of 5.4 percent per year over the next six years, compared with an average growth rate of 6.2 percent a year over the last six years. The projected slower growth rate for the prison population is due to improving economic conditions and slower population growth for people between the ages of 20 and 49.

The **adult parole population** is expected to increase at an average annual rate of 3.6 percent over the next six years. This compares to an average annual growth rate of 7.6 percent over the last six years. Slower growth in prison commitments accounts for the slower growth in the parole population.

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## **Youth Incarcerated Offender Population**

The **juvenile commitment population** will increase at an average annual rate of 3.1% through the forecast period, compared with an average annual growth rate of 4.6% over the last six years.

The **juvenile parole population** will increase at an average annual rate of 3.2%. Due to legislation passed in the 2003 regular session, the average parole population will decrease 8.7% in FY 2004-05, then increase 6.5% in FY 2005-06.

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## General Fund Revenue

This section presents the Legislative Council Staff outlook for General Fund revenues. Table 2 illustrates revenue projections by category for FY 2004-05 through FY 2009-10. The Colorado economy slowed during the summer after showing signs of a jumpstart earlier in the year. The economy did show small signs of renewed life during the third quarter with better employment gains and some strengthening in the rental markets. However, growth continues to struggle to find firm footing. While corporations have relatively strong profits and have accumulated cash at record levels, they have yet to start hiring new workers at a sustained pace. Employment turned positive in February, but remains well below the peak employment level of December 2000. Consumer spending, while slightly underperforming so far this year, should pick up as the job market turns around and consumers regain confidence during the next year. Preliminary indications point towards strong Christmas sales, especially among high-end merchandisers. Meanwhile, inflation remains extremely low, which is a positive sign for consumer spending and the construction markets.

We reduced the General Fund revenue forecast for FY 2004-05 by \$19.9 million. The slightly weaker than expected economic recovery was responsible for \$5.2 million of the reduction. Most of the change, \$14.7 million, resulted from an increase in the diversion to the state education fund. The additional transfer will be made to correct for changes in liability reported by the Department of Revenue for tax years 2001, 2002, and 2003. The forecast for excise taxes increased by \$1.5 million primarily due to new receipts expected from the General Fund's share of increased cigarette taxes. Income taxes were reduced by \$12.1 million because corporate income taxes were running slightly behind the forecast. Corporate income taxes are still expected to increase by 11.3 percent during the fiscal year. The estate tax forecast was increased by \$7 million after a large payment was received earlier in the year. Estate taxes will no longer be a viable revenue source after the current fiscal year, however, due to the elimination of the state credit against federal estate taxes paid.

*Sales taxes* have gotten off to a slow start so far in FY 2004-05. The sales tax forecast was reduced slightly since the September forecast because summer sales were weaker than anticipated. Despite the reduction, we still anticipate a 3.9 percent increase in sales tax receipts during FY 2004-05, followed by 4.2 percent gain in FY 2005-06. Once employers begin hiring, sales tax growth will increase at greater rates. The forecast for **use taxes** was not changed from September. We expect use taxes to increase 8.2 percent in the current year and 3.4 percent during FY 2005-06. The strong growth during the current year is due to an extraordinarily large collection during July 2004.

*Individual income taxes* will increase 5.4 percent in FY 2004-05 after increasing 10.5 percent in FY 2003-04. Much of the difference between the growth rates are due to the accruals, which served to increase FY 2003-04 revenue and decrease FY 2004-05 revenue. Estimated payments are expected to show strong growth in FY 2004-05. Stability in the stock market has led to a return of some capital gains tax revenue and fewer individuals being able to offset earnings with capital losses. Individual income taxes will increase 8.2 percent in FY 2005-06 and 7.7 percent in FY 2006-07 as the employment recovery matures into an expansion.

The forecast for individual income taxes was not changed materially during FY 2004-05 through FY 2006-07. The forecast for the out years, however, was increased by a total of \$266.1 million during the three-year period between FY 2007-08 through FY 2009-10 because of a change in the long term trend for income tax refunds.

**Table 2**  
**December 2004 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 /A	\$1,771.0	\$1,840.6	3.9	\$1,920.6	4.3	\$2,016.9	5.0	\$2,120.7	5.1	\$2,239.6	5.6	\$2,367.3	5.7
TABOR Overfund	0.0	0.0		0.0		0.0		0.0		0.0		0.0	
Use /A	137.3	148.5	8.2	154.2	3.8	161.9	5.0	170.1	5.0	177.8	4.6	186.7	5.0
Cigarette	53.8	52.7	-2.0	51.3	-2.6	50.6	-1.5	49.3	-2.5	48.6	-1.5	47.8	-1.5
Tobacco Products	12.0	12.4	3.9	12.9	4.2	13.6	5.1	14.3	5.0	15.0	4.9	15.7	4.7
Liquor	30.9	31.7	2.4	32.7	3.3	33.6	2.7	34.4	2.5	35.3	2.7	35.9	1.7
TOTAL EXCISE	\$2,005.0	\$2,085.9	4.0	\$2,171.8	4.1	\$2,276.5	4.8	\$2,388.7	4.9	\$2,516.3	5.3	\$2,653.4	5.4
Net Individual Income	\$3,449.9	\$3,636.2	5.4	\$3,934.5	8.2	\$4,236.0	7.7	\$4,551.2	7.4	\$4,897.6	7.6	\$5,249.6	7.2
Net Corporate Income	235.2	261.8	11.3	308.0	17.7	324.8	5.4	349.3	7.6	384.1	10.0	403.2	5.0
TOTAL INCOME TAXES	\$3,685.1	\$3,898.0	5.8	\$4,242.5	8.8	\$4,560.7	7.5	\$4,900.5	7.5	\$5,281.6	7.8	\$5,652.7	7.0
Less: Portion directed to the State Education Fund /B	-278.7	-311.8	11.9	-316.8	1.6	-340.3	7.4	-365.3	7.4	-393.4	7.7	-420.7	6.9
INCOME TAXES TO GENERAL FUND	\$3,406.4	\$3,586.2	5.3	\$3,925.7	9.5	\$4,220.4	7.5	\$4,535.2	7.5	\$4,888.2	7.8	\$5,232.0	7.0
Estate	\$47.2	\$28.7	-39.1	\$4.4	-84.7	\$0.0	-100.0	\$0.0	NA	\$0.0	NA	\$0.0	NA
Insurance	175.9	184.9	5.1	189.9	2.7	200.9	5.8	212.6	5.8	220.7	3.8	233.3	5.7
Pari-Mutuel	4.4	3.8	-12.4	3.6	-5.2	3.4	-5.2	3.3	-5.2	3.1	-5.2	2.9	-5.2
Investment Income	19.5	24.0	22.7	32.1	33.9	47.1	46.8	51.3	8.9	51.8	1.0	55.0	6.3
Court Receipts	26.3	25.3	-3.7	26.1	3.2	26.8	2.7	27.5	2.6	28.3	2.8	29.0	2.6
Gaming /C	40.2	42.4	5.5	45.3	6.8	48.7	7.4	51.3	5.4	54.6	6.5	0.0	-100.0
Other Income	41.5	27.7	-33.2	28.5	2.9	29.4	2.9	30.2	2.8	31.0	2.7	31.9	2.7
TOTAL OTHER	\$355.0	\$336.9	-5.1	\$330.0	-2.0	\$356.3	8.0	\$376.2	5.6	\$389.4	3.5	\$352.1	-9.6
<b>GROSS GENERAL FUND</b>	<b>\$5,766.4</b>	<b>\$6,009.0</b>	<b>4.2</b>	<b>\$6,427.5</b>	<b>7.0</b>	<b>\$6,853.2</b>	<b>6.6</b>	<b>\$7,300.1</b>	<b>6.5</b>	<b>\$7,793.9</b>	<b>6.8</b>	<b>\$8,237.5</b>	<b>5.7</b>
REBATES & EXPENDITURES:													
Cigarette Rebate	\$14.9	\$15.0	0.7	\$15.5	3.4	\$15.3	-1.5	\$14.9	-2.5	\$14.7	-1.5	\$14.5	-1.5
Old-Age Pension Fund	78.5	80.4	2.4	83.3	3.5	87.0	4.4	91.6	5.3	97.0	6.0	103.2	6.3
Aged Property Tax & Heating Credit	15.7	13.2	-15.6	13.0	-2.1	13.2	1.7	13.1	-0.7	13.1	-0.3	13.1	0.2
Fire/Police Pensions	3.7	3.6	-1.6	29.1	708.3	29.1	0.0	29.1	0.0	29.1	0.0	29.1	0.0
TOTAL REBATES & EXPENDITURES	\$112.8	\$112.3	-0.5	\$140.9	25.4	\$144.6	2.6	\$148.7	2.9	\$153.9	3.5	\$159.8	3.9

Totals may not sum due to rounding.

NA: Not Applicable.

/A Sales and use taxes diverted to the Highway Users Tax Fund can be found in the General Fund Overview.

/B In November 2000, Colorado voters approved Amendment 23 that deposits an amount equal to 0.33 percent of Colorado taxable income into the State Education Fund. These revenues are exempt from the TABOR revenue limit.

/C Includes only the amount credited to the General Fund.

**Corporate income tax** collections are expected to increase 11.3 percent in FY 2004-05 and 17.7 percent in FY 2005-06. Compared to the September 2004 forecast, this represents a reduction in the forecast for corporate income taxes. At the national level, the growth of corporate profits has slowed because of sluggish economic conditions and the combined impacts of hurricanes Charley, Frances, Ivan, and Jeanne. In addition, the previous forecast assumed that federal tax breaks providing temporary assistance to companies in the form of accelerated depreciation and higher expensing limits would expire in tax years 2004 and 2005. The expiration of these tax breaks would have increased corporate taxable income and income tax collections in the ensuing fiscal years. However, on October 22, 2004, President Bush signed the *American Jobs Creation Act of 2004*, which extended some of the expensing and accelerated depreciation rules for corporations. Although the impact of the new tax legislation at the federal level was intended to be revenue neutral, provisions that reduce federal taxable income will also reduce state taxable income. Consequently, the growth in corporate income taxes is expected to slow in FY 2006-07 and increase slightly thereafter as these federal tax breaks expire. If the Congress continues to extend these tax breaks and/or makes them permanent, the projected increase in corporate income taxes will not be fully realized.

The **State Education Fund (SEF)** receives one-third of one percent of taxable income from state income tax returns. This fund will generally see a growth pattern of revenue similar to income taxes. The forecast for the SEF diversion was increased by \$14.7 million. The fund will receive an extra \$20.4 million during FY 2004-05 for prior underestimates of the amount that should be transferred to the fund. Each December, we attempt to "true up" the amount that goes to the fund based on tax liability reported on the state's income tax returns. Previously, we were estimating a \$4.6 million extra transfer. Partially offsetting the adjustment, is a slight reduction due to the reduced forecast for income taxes. Including the transfer, the fund will receive \$311.8 million this year, after receiving \$278.7 million last year. While this additional revenue into the State Education Fund reduces revenue to the General Fund, it does not change the state's budget situation because the state is in a TABOR surplus situation. The reduction of General Fund revenue will reduce the surplus, which is refunded out of the General Fund. The increased diversion does provide more revenue to the State Education Fund, however.

Voters approved an increase in **cigarette tax and tobacco tax** rates during the November election. The cigarette tax rate was increased from 20 cents to 84 cents per package of 20 cigarettes, while the tobacco tax rate was doubled from 20 percent to 40 percent of the manufacturer's list price. The additional revenue will be used for a variety of programs. Three percent of the additional revenue will be appropriated to provide revenue for the state's General Fund, Old Age Pension Fund, and county and municipal governments as compensation for tax revenue reductions resulting from lower cigarette and tobacco sales due to the increased tax rate. The additional revenue is exempt from the TABOR revenue limit. The additional revenue is included in Table 1 and Table 2 because it is available for appropriation. It is not, however, included in Table 4 because it is exempt from TABOR.

Our estimates used a five percent reduction in cigarette smoking and a 4.2 percent reduction in use of other tobacco products because of the higher prices. We also assumed that further small reductions in consumption of these harmful products would occur due to cessation programs funded by the tax increase. An analysis of previous tax rate increases for Colorado's cigarette tax, as well as a large increase in cigarette prices that resulted from the Master Settlement Agreement with the tobacco industry in late 1998, showed mixed responses to the tax and price increases. The two previous state tax rate



hikes of five cents yielded negative elasticities of approximately 0.25. In other words, a price increase of ten percent caused a consumption decrease of 2.5 percent. However, cigarette prices increased 77 cents in the first year after the Master Settlement Agreement. A rough calculation of the price elasticity resulting from the price change was only -0.08; i.e., a price increase of ten percent would have yielded a consumption decrease of less than one percent.

The General Fund will receive \$1.3 million in TABOR exempt revenue in the current year and \$3.9 million in FY 2005-06 as a result of the provisions of the tax increase. Since it is exempt revenue, it increases available General Fund dollars.

Table 3 shows how the new revenue raised by the tax will be allocated to the five specified uses.

**Table 3  
Allocation of New Cigarette and Tobacco Revenue**

Percent of New Revenue to Programs:		46%	19%	16%	16%	3%
Program:		Children's Basic Health Plan	Comprehensive Primary Care	Tobacco Education Programs	Cancer, Cardiovascular, and Pulmonary Programs	Compensation of State & Local Governments
Fiscal	New Revenue					
2004-05	\$56.4	\$26.0	\$10.7	\$9.0	\$9.0	\$1.7
2005-06	\$172.3	\$79.3	\$32.7	\$27.6	\$27.6	\$5.2
2006-07	\$170.6	\$78.5	\$32.4	\$27.3	\$27.3	\$5.1
2007-08	\$167.3	\$77.0	\$31.8	\$26.8	\$26.8	\$5.0
2008-09	\$165.7	\$76.2	\$31.5	\$26.5	\$26.5	\$5.0
2009-10	\$164.2	\$75.5	\$31.2	\$26.3	\$26.3	\$4.9

*Estate taxes* continue to be affected by the federal phase-out of the state tax credit allowed on federal returns. Colorado's estate tax is equal to the value of the credit. When the credit disappears, state revenue from this source will end as well. We anticipate that the state will receive no revenue from this source beginning in FY 2006-07. The state saw several large payments en route to receiving \$47.2 million in estate taxes during FY 2003-04. Despite one large payment already received this year, the General Fund will only receive \$28.7 million in FY 2004-05 and \$4.4 million in FY 2005-06.

## 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 4 shows the actual and estimated TABOR surpluses and shortfalls from FY 1996-97 through FY 2009-10. As can be seen in the table, the state collected \$3.25 billion in surplus revenue through FY 2000-01. However, the state experienced a recession in FY 2001-02 and revenue fell \$365.7 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 \$584.3 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 almost \$1 billion from where it would have been without the ratchet down caused by low revenue collections. 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 \$463.7 million per year that would have otherwise become part of the surplus.

**Table 4**  
**History and Projections of**  
**TABOR Surpluses**  
*(Dollars in Millions)*

<b>Actual</b>	
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
<b>Projections</b>	
2004-05	\$161.3
2005-06	\$446.3
2006-07	\$639.8
2007-08	\$635.2
2008-09	\$741.4
2009-10	\$796.0

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 \$374.7 million above its limit during FY 2003-04 without the population adjustment, 4.9 percentage points out of the six percentage points available were used to raise the limit enough to retain the revenue received. The remaining 1.1 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 \$89.0 million for a total of \$463.7 million plus growth in additional revenue kept under the limit that year. Because the population adjustment permanently increases the TABOR base, an additional \$463.7 million plus growth will be retained annually due to the implementation of the population adjustment.

Table 5 on the following page displays our current estimates of TABOR revenue, the use of the population adjustment, the TABOR limit, and the TABOR surplus.

### **Impact of the December Forecast**

Despite the use of the population adjustment during FY 2003-04 and FY 2004-05, revenues will exceed the adjusted limit by \$161.3 million during FY 2004-05. Revenues will continue to grow at a faster pace than the TABOR limit, leading to surplus revenue collections of \$446.3 million in FY 2005-06 and \$639.8 million in FY 2006-07. Table 4 provides an overview of the TABOR refund, limit, and related factors, such as General and cash fund revenue collections subject to TABOR and the constitutionally-mandated emergency reserve. A total of \$3.5 billion will be refunded between FY 2005-06 and FY 2010-11.

Since the state was already expected to be in a TABOR surplus position, the increases in cash fund revenue described in the cash fund section of this report will cause additional pressure to be felt on the General Fund. The increase in cash fund revenue works to increase the TABOR surplus described here. Since the TABOR surplus is refunded solely from the General Fund under current law, any increase in the surplus increases General Fund expenditures. Since the General Fund now has a greater requirement for its expenditure for the TABOR refund, but no new money with which to make the expenditure, available money in the General Fund after the refund obligation is met decreases. The changes described here decreased available General Fund Revenue by \$67 million in FY 2004-05. Therefore, the General Fund budget as passed during the 2004 Legislative Session with supplementals approved since then by the Joint Budget Committee is out of balance by \$52 million.

**Table 5**  
**December 2004 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
<b>TABOR Revenues:</b>							
General Fund /A	\$5,719.1	\$5,951.3	\$6,364.3	\$6,786.7	\$7,231.1	\$7,721.6	\$8,219.8
Cash Funds	2,612.9	2,414.1	2,442.0	2,497.3	2,394.1	2,414.4	2,498.6
<b>Total TABOR Revenues</b>	<b>\$8,332.0</b>	<b>\$8,365.4</b>	<b>\$8,806.3</b>	<b>\$9,284.0</b>	<b>\$9,625.2</b>	<b>\$10,136.0</b>	<b>\$10,718.4</b>
<b>LIMIT:</b>							
Allowable TABOR Growth Rate	8.5%	3.3%	1.9%	3.4%	4.0%	4.5%	4.7%
Inflation (from prior calendar year)	1.9%	1.1%	0.7%	2.0%	2.5%	2.8%	2.9%
Population Growth (from prior calendar year)	1.7%	1.1%	1.2%	1.4%	1.5%	1.7%	1.8%
Population Adjustment for Growth Dividend (6% Carried Forward)	4.9%	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Allowable TABOR Limit /B</b>	<b>\$8,332.0</b>	<b>\$8,204.1</b>	<b>\$8,360.0</b>	<b>\$8,644.2</b>	<b>\$8,990.0</b>	<b>\$9,394.6</b>	<b>\$9,836.1</b>
<b>Revenues Above / (Below) TABOR Limit</b>	<b>0.0</b>	<b>\$161.3</b>	<b>\$446.3</b>	<b>\$639.8</b>	<b>\$635.2</b>	<b>\$741.4</b>	<b>\$882.3</b>
<b>EMERGENCY RESERVE:</b>							
TABOR Emergency Reserve /C	\$250.0	\$246.1	\$250.8	\$259.3	\$269.7	\$281.8	\$295.1

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 include the amount of sales and use tax, after the over-refund of surplus TABOR revenues. Senate Bill 97-1 diverts 10.355% of the gross sales and use tax revenues to the Highway Users Tax Fund under certain conditions.

/B The TABOR Limit was adjusted for the exclusion of the University of Colorado System and the Brand Board in the Department of Agriculture, both of which became enterprises in FY 2004-05. This also includes an adjustment of \$23.4 million in FY 2002-03 for the disqualification of the State Fair. We expect the State Fair to re-qualify for enterprise status in FY 2003-04.

/C In years where the projected revenues exceed the amount allowed by the Constitution, the reserve is calculated based on the limit, rather than on projected receipts. Given that the state will only retain the maximum allowed by the Constitution, it need only reserve three percent.

Any surplus TABOR revenue must be refunded to the taxpayers. Currently, the state has 19 refund methods to execute the necessary refunds. Each of these methods, except for the sales tax refund, has a threshold trigger amount that indicates when they are in effect. There must be enough surplus TABOR revenue to exceed a method's threshold for that method to be used in a particular year. The methods' thresholds are increased by the growth in Colorado's personal income each year. The sales tax refund does not have a trigger because it acts as a "catch-all" refund method and refunds any revenue that is not refunded through the other 18 methods. Only the earned income tax credit refund mechanism will be used in addition to the sales tax refund during FY 2005-06 to refund the \$161.3 million surplus collected during FY 2004-05. Table 6 provides a list of the TABOR refund mechanisms and their thresholds.

**Table 6**  
**Estimated Thresholds for TABOR Refund Mechanisms**  
*(Dollars in Millions)*

	Thresholds for Refund in FY:				
	2005-06	2006-07	2007-08	2008-09	2009-10
HB 99-1383 and HB 00-1049, EIC Refund	\$66.8	\$70.5	\$74.5	\$78.5	\$83.3
HB 01-1313, Foster Care Issues	\$224.9	\$237.5	\$251.1	\$264.6	\$280.8
HB 99-1311, BPP Refund	\$226.9	\$239.6	\$253.3	\$267.0	\$283.3
HB 00-1361, Individual Development Accounts (ends after FY 2006)	\$234.9	NA	NA	NA	NA
HB 99-1237, Capital Gains Refund	\$347.1	\$366.5	\$387.4	\$408.3	\$433.2
HB 00-1063, Rural Health Providers (ends after FY 2008)	\$352.4	\$372.2	\$393.4	NA	NA
HB 00-1351, Child Care Credit	\$358.7	\$378.7	\$400.3	\$421.9	\$447.7
HB 01-1081, Research and Development	\$393.5	\$415.5	\$439.2	\$462.9	\$491.2
HB 00-1227, Lower Motor Vehicle Fees	\$403.2	\$425.8	\$450.0	\$474.3	\$503.3
HB 00-1355, High Technology Scholarship Program	\$408.1	\$431.0	\$455.6	\$480.2	\$509.5
HB 00-1257, Pollution Control Equipment	\$408.1	\$431.0	\$455.6	\$480.2	\$509.5
HB 00-1052, Contribution to Telecommunication Education	\$432.7	\$456.9	\$483.0	\$509.0	\$540.1
HB 00-1053, Exclude Charitable Contributions	\$432.7	\$456.9	\$483.0	\$509.0	\$540.1
HB 00-1259, Trucks at 0.01 Percent Sales Tax Rate	\$432.7	\$456.9	\$483.0	\$509.0	\$540.1
HB 99-1137 and HB 00-1171, interest, div, and CG exclusion	\$432.7	\$456.9	\$483.0	\$509.0	\$540.1
HB 01-1086, Ag Coop Tax Credit	\$449.8	\$475.0	\$502.1	\$529.2	\$561.5
HB 00-1104, Purchase Private Health Benefit Plans	\$494.6	\$522.3	\$552.1	\$581.9	\$617.4
HB 00-1209, Colorado Capital Gains 1 to 5 Years	\$531.8	\$561.5	\$593.6	\$625.6	\$663.8
HB 99-1001, Sales Tax Refund	ND	ND	ND	ND	ND
Legislative Council Staff Estimate of TABOR Surplus	\$161.3	\$446.3	\$639.8	\$635.2	\$741.4

ND: Not dependent on a threshold level.

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.

## Cash Fund Revenue

**Total cash fund revenue** subject to the TABOR spending limit will increase 8.5 percent in FY 2004-05 after a 14.3 percent increase in FY 2003-04. Large growth rates in unemployment insurance taxes resulting from tax rate changes caused by the recent recession is responsible for these large increases. However, unemployment insurance taxes will fall substantially by FY 2009-10, and total cash fund revenue will grow at muted rates through the remainder of the forecast period. Table 7 summarizes the forecasts for cash fund revenue subject to TABOR.

The forecast for cash fund revenue was increased \$68.3 million in FY 2004-05. This includes a \$26.4 million increase in the forecast for unemployment insurance taxes, a \$15.6 million increase in the forecast for severance taxes, and a \$13.6 million increase in the forecast for higher education revenue. The higher forecast for cash funds will cause the TABOR surplus to increase by \$68.3 million, thus reducing the amount of money available for spending in the General Fund by the same amount and putting further pressure on the state budget this year.

The revenue figures shown in Table 7 exclude revenues from the University of Colorado. The University of Colorado system became an enterprise under TABOR this year. Although the University of Colorado collected \$387.1 million of revenue subject to TABOR during FY 2003-04, we did not include that information in Table 7. This was done to show the growth rate in cash fund revenue that will affect the size of the FY 2004-05 TABOR surplus. That growth rate is an important determinant in the size of the TABOR surplus and the amount of money that must be cut from the FY 2004-05 budget. Since the University of Colorado was given enterprise status, its revenue growth no longer affects the size of the TABOR surplus in FY 2004-05 and thereafter.

Over the remainder of the forecast period, cash fund revenue will increase at a rate slower than the allowable TABOR growth rate of inflation plus population. This will free up some money in the General Fund that would have otherwise been refunded if cash funds were not subject to the limits of TABOR. The amount of money freed up, however, is smaller in the December forecast than was expected in September. The forecast for cash fund revenue subject to TABOR was increased by a total of \$66.2 million between FY 2005-06 and FY 2009-10.

The forecast for cash fund revenue over the entire forecast period, including the current year, was increased by a total of \$134.4 million. The forecast for severance taxes, primarily oil and gas taxes, increased \$194.3 million over the forecast period. The forecast for higher education revenues also showed a substantial increase, of \$105.1 million. This increase was almost entirely due to higher enrollment than projected in our previous forecast. Meanwhile, while the forecast for unemployment insurance revenue was raised substantially for FY 2004-05, over the forecast period it was reduced by a total of \$56.6 million. Finally, the forecast for transportation-related revenues was reduced by a total of \$62.0 million. The high price of gasoline and greater availability of hybrid-vehicles will suppress growth in motor fuel taxes.

**Transportation-related** cash funds include the Highway Users Tax Fund, the State Highway Fund (SHF), and several smaller funds. Revenue to the transportation-related cash funds will increase 1.5 percent in FY 2004-05 and at an average annual rate of 1.9 percent over the forecast period (Table 8).

**Table 7**  
**Cash Fund Revenue Estimates by Category, December 2004**  
*(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 *
<b>Transportation-Related /A</b>								
% Change	\$838.7 4.9%	\$851.1 1.5%	\$866.4 1.8%	\$891.8 2.9%	\$914.8 2.6%	\$929.1 1.6%	\$937.9 0.9%	1.9%
<b>Higher Education (Excludes CU System) /B</b>								
% Change	\$370.7 9.2%	\$389.1 5.0%	\$396.6 2.0%	\$413.1 4.1%	\$431.5 4.5%	\$451.5 4.6%	\$471.7 4.5%	4.1%
<b>Unemployment Insurance /C</b>								
% Change	\$342.1 58.5%	\$513.7 50.2%	\$514.9 0.2%	\$492.3 -4.4%	\$317.8 -35.5%	\$268.0 -15.7%	\$279.8 4.4%	-3.3%
<b>Limited Gaming Fund</b>								
% Change	\$102.7 2.7%	\$110.7 7.7%	\$118.5 7.0%	\$127.5 7.6%	\$134.2 5.3%	\$142.9 6.4%	\$152.4 6.7%	6.8%
<b>Capital Construction - Interest</b>								
% Change	\$1.7 -59.9%	\$2.6 50.5%	\$3.0 15.9%	\$2.1 -29.7%	\$1.2 -43.1%	\$0.6 -48.0%	\$0.3 -46.0%	-23.8%
<b>Controlled Maintenance Trust Fund - Interest</b>								
	\$2.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
<b>Insurance-Related</b>								
% Change	\$52.6 -14.2%	\$54.5 3.4%	\$58.1 6.7%	\$62.2 7.1%	\$66.8 7.4%	\$71.6 7.1%	\$76.3 6.6%	6.4%
<b>Regulatory Agencies</b>								
% Change	\$50.2 -6.1%	\$49.5 2.2%	\$50.4 1.9%	\$51.5 3.1%	\$52.7 2.6%	\$53.9 2.3%	\$54.9 2.5%	1.5%
<b>Severance Tax /D</b>								
% Change	\$125.1 283.7%	\$104.9 -16.1%	\$90.7 -13.5%	\$97.8 7.8%	\$110.5 13.0%	\$120.8 9.3%	\$134.9 11.7%	1.3%
<b>Employment Support Fund</b>								
% Change	\$20.1 3.1%	\$21.3 5.8%	\$22.2 4.4%	\$23.1 4.1%	\$24.1 4.3%	\$25.2 4.3%	\$26.1 3.9%	4.5%
<b>Petroleum Storage Tank Fund</b>								
% Change	\$28.3 41.5%	\$28.7 1.6%	\$23.2 -19.1%	\$23.8 2.3%	\$12.1 -49.1%	\$6.2 -49.1%	\$3.1 -49.2%	-30.7%
<b>Other Cash Funds</b>								
% Change	\$291.7 -3.3%	\$288.1 -1.2%	\$297.9 3.4%	\$312.2 4.8%	\$328.3 5.2%	\$344.8 5.0%	\$361.1 4.7%	3.6%
<b>Total Cash Fund Revenues Subject to the TABOR Limit</b>	<b>\$2,225.9 14.3%</b>	<b>\$2,414.1 8.5%</b>	<b>\$2,442.0 1.2%</b>	<b>\$2,497.3 2.3%</b>	<b>\$2,394.1 -4.1%</b>	<b>\$2,414.4 0.8%</b>	<b>\$2,498.6 3.5%</b>	<b>1.9%</b>

Totals may not sum due to rounding.

\* CAAGR: Compound Average Annual Growth Rate.

/A This includes the Highway Users Tax Fund, the State Highway Fund, and other transportation-related funds.

/B Excludes revenue to the University of Colorado (CU) system, which became an enterprise beginning in FY 2004-05. CU received \$387.1 million in revenue subject to TABOR during FY 2003-04.

/C Includes the solvency tax that will be in effect during calendar years 2004 through 2007.

/D This figure includes total severance tax revenue and interest earnings before distribution to the Local Government Severance Tax Fund.

**Table 8**  
**Transportation Funds Revenue Forecast by Source, December 2004**  
*(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 2003-04 to FY 2009-10 CAAGR *
<b>Highway Users Tax Fund</b>								
Motor Fuel and Special Fuel Taxes % change	\$556.3 2.6%	\$563.1 1.2%	\$574.6 2.0%	\$588.0 2.3%	\$598.8 1.8%	\$609.5 1.8%	\$619.0 1.6%	1.8%
Registrations % change	\$156.4 3.5%	\$160.7 2.7%	\$166.8 3.8%	\$173.9 4.2%	\$180.2 3.6%	\$186.6 3.5%	\$192.0 2.9%	3.5%
Other Receipts /A % change	\$40.9 -9.9%	\$40.9 -0.1%	\$42.8 4.6%	\$45.0 5.1%	\$46.5 3.5%	\$43.3 -6.9%	\$40.6 -6.4%	-0.1%
Accrual Adjustment /B	-\$11.5	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	NA
<b>Total Highway Users Tax Fund % change</b>	<b>\$753.6 2.4%</b>	<b>\$764.7 1.5%</b>	<b>\$784.3 2.6%</b>	<b>\$806.9 2.9%</b>	<b>\$825.6 2.3%</b>	<b>\$839.4 1.7%</b>	<b>\$851.7 1.5%</b>	<b>2.1%</b>
State Highway Fund - Interest % change	\$54.9 38.0%	\$53.1 -3.2%	\$48.2 -9.3%	\$54.2 12.4%	\$58.5 7.9%	\$58.4 0.0%	\$54.4 -7.0%	-0.2%
Other Transportation Funds % change	\$30.2 21.8%	\$33.3 10.5%	\$34.0 2.1%	\$30.7 -9.6%	\$30.7 0.1%	\$31.3 1.8%	\$31.9 1.8%	0.9%
<b>TOTAL: All Transportation Funds % change</b>	<b>\$838.7 4.9%</b>	<b>\$851.1 1.5%</b>	<b>\$866.4 1.8%</b>	<b>\$891.8 2.9%</b>	<b>\$914.8 2.6%</b>	<b>\$929.1 1.6%</b>	<b>\$937.9 0.9%</b>	<b>1.9%</b>
Addendum:								
Senate Bill 97-1 Revenue % change	\$0.0	\$0.0	\$0.0	\$0.0	\$65.3	\$67.2	\$0.0	NA
Two-Thirds Excess General Fund Reserve	\$5.6 NA	\$81.5 NA	\$0.0 NA	\$0.0 NA	\$0.0 NA	\$0.0 NA	\$0.0 NA	NA

Totals may not sum due to rounding and do not include Senate Bill 97-1 revenues, which are 10.355 percent of sales and use tax revenues, or the transfer of two-thirds of the excess General Fund reserve. The Senate Bill 97-1 revenues and the transfer of two-thirds of the excess General Fund reserve are displayed in the General Fund and are then transferred to the HUTF.

\* CAAGR: Compound Average Annual Growth Rate.

/A Includes interest receipts, judicial receipts, drivers' license fees, and other miscellaneous receipts in the HUTF. Incorporates the impacts of House Bill 01-1125, which institutes a new surcharge on first-time driver's license applicants, and Senate Bill 01-109, which reduces the motorist identification fee and extends it for two additional years. Assumes multi-year registrations are implemented beginning in January 2005.

/B This is the estimated impact of a lawsuit that reduced the accrual adjustment to the HUTF.



Revenue to the *Highway Users Tax Fund* (HUTF) will increase 1.5 percent in FY 2004-05, with a decrease in interest earnings offsetting modest increases in motor vehicle registration fees and fuel motor taxes. Lower-than-expected revenues through November caused us to decrease the forecast for motor fuel taxes compared with the September forecast. Also, over the next several years, the introduction of alternative fuel and electric-hybrid cars and SUVs is expected to temper growth. HUTF revenues will increase at an average annual rate of 2.1 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 decrease 3.2 percent this year and 9.3 percent next year. The decrease is due to slightly lower interest earnings, while next year the decrease is the result of a slowdown in the construction of projects that have been accelerated with the use of Transportation Revenue Anticipation Notes during the last five years.

*Other transportation funds* include the Air Account Fund, the Emergency Services Fund, the Motorcycle License Fund, the Colorado State Titling and Registration (CSTARS) Fund, the Peace Officer Safety Training (P.O.S.T.) Board Cash Fund, and the License Plate Cash Fund. Most of the revenue to these funds are specific fees paid along with 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. The revenue is deposited in the P.O.S.T. Board Cash Fund. Senate Bill 03-272 created the License Plate Cash Fund and a new set of motor vehicle license plate fees to cover the costs of the Department of Revenue for issuing license plates.

Forecasts for revenue and enrollment in the state's *higher education* system are shown in Tables 9 and 10. Higher education revenue increased 9.2 percent in FY 2003-04, after increasing 7.6 percent in FY 2002-03. This strong growth was due to the recent trend of record student enrollment as Coloradans sought to improve their job skills in light of poor employment prospects. In the last three years, higher education enrollment jumped an average of 4.6 percent, while enrollment grew at a 1.1 percent average annual rate during the economic boom years of the 1990s. Enrollment will increase 4.9 percent in FY 2004-05, after increasing 3.6 percent in FY 2003-04 and 6.3 percent in FY 2002-03. The FY 2002-03 enrollment gain was the largest in 20 years.

As the economy recovers and job growth improves, enrollment and revenue growth will moderate somewhat. Over the six-year forecast period, higher education revenue will grow at a 4.1 percent average annual growth rate. Enrollment will increase at an average annual pace of 3.1 percent through FY 2009-10.

The revenue figures shown in Table 9 exclude the University of Colorado. Senate Bill 04-189 authorized governing boards to grant enterprise status to institutions that receive less than ten percent of total funding from the General Fund. The University of Colorado was granted enterprise status beginning in FY 2004-05. While other governing boards are discussing enterprise status for FY 2005-06, no other institution has been approved as an enterprise. Therefore, this forecast assumes that all revenue collected by other higher education institutions will be counted under TABOR through the remainder of the forecast period.

**Table 9**  
**Higher Education Revenue Forecast by Source, December 2004 /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 2003-04 to FY 2009-10 CAAGR *
<b>Tuition</b>	\$397.2	\$420.7	\$427.6	\$445.9	\$466.1	\$487.8	\$509.8	4.2%
% change	10.2%	5.9%	1.6%	4.3%	4.5%	4.6%	4.5%	
<b>Nontuition</b>	\$84.7	\$86.1	\$88.8	\$92.1	\$95.9	\$100.3	\$104.6	3.6%
% change	-0.7%	1.7%	3.1%	3.7%	4.2%	4.6%	4.3%	
<b>Scholarship Allowance Deductions</b>	(\$111.2)	(\$117.8)	(\$119.7)	(\$124.9)	(\$130.5)	(\$136.6)	(\$142.8)	4.2%
% change	4.6%	5.9%	1.6%	4.3%	4.5%	4.6%	4.5%	
<b>TOTAL Higher Education Revenue</b>	<b>\$370.7</b>	<b>\$389.1</b>	<b>\$396.6</b>	<b>\$413.1</b>	<b>\$431.5</b>	<b>\$451.5</b>	<b>\$471.7</b>	<b>4.1%</b>
% change	9.2%	5.0%	2.0%	4.1%	4.5%	4.6%	4.5%	

\* CAAGR: Compound Average Annual Growth Rate.

Totals may not sum due to rounding.

/A Excludes revenue to the University of Colorado system, which became an enterprise in FY 2004-05.

**Table 10**  
**Higher Education Enrollment Forecast, December 2004 /A**  
*Public Higher Education Full-Time-Equivalent (FTE) Student Enrollment*

	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 2003-04 to FY 2009-10 CAAGR *
<b>Residents</b>	136,489	143,819	149,344	154,212	158,667	162,722	166,493	3.4%
% change	4.4%	5.4%	3.8%	3.3%	2.9%	2.6%	2.3%	
<b>Nonresidents</b>	22,007	22,400	22,643	22,911	23,097	23,309	23,485	1.1%
% change	-1.0%	1.8%	1.1%	1.2%	0.8%	0.9%	0.8%	
<b>TOTAL FTE Student Enrollment</b>	<b>158,496</b>	<b>166,219</b>	<b>171,988</b>	<b>177,123</b>	<b>181,764</b>	<b>186,031</b>	<b>189,978</b>	<b>3.1%</b>
% change	3.6%	4.9%	3.5%	3.0%	2.6%	2.3%	2.1%	

\* CAAGR: Compound Average Annual Growth Rate.

Totals may not sum due to rounding.

/A Enrollment figures include the University of Colorado system, which became an enterprise in FY 2004-05.

Table 11 shows the forecast for *unemployment insurance* (UI) revenue, benefit payments, and the UI Trust Fund balance. After increasing 10.2 percent in FY 2002-03 and 58.5 percent in FY 2003-04, total UI revenue, which includes UI taxes and interest earnings, will increase 50.2 percent in FY 2004-05. UI tax rates are responding to the substantial draw-down of the fund's reserves. A low fund balance will cause a higher tax rate schedule to be in effect from 2004 to 2006 than has been in effect in recent years. In addition, the solvency tax, which is levied when the fund balance falls below 0.9 percent of total private wages, will be in effect during calendar years 2004 through 2007. The solvency tax will generate an estimated \$631.6 million during FY 2003-04 through FY 2007-08.

After increasing 24.1 percent in FY 2002-03 and 78.0 percent in FY 2003-04, total UI taxes will increase 51.5 percent in FY 2004-05. Tax revenues will decline during the next four years as the fund balance recovers. Meanwhile, after three years of paying UI benefits to the tune of around \$500 million a year, benefits will decrease steadily until reaching more normal levels by FY 2006-07.

The size of Colorado's population and economy may be approaching the point where the UI tax rate structure will become insolvent. While the balance of the UI Trust Fund will increase substantially over the forecast period, the fund balance will fall below 0.9 percent of total private wages in FY 2009-10, and will thus cause the solvency tax to be collected again for at least a year beginning in 2011. 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 2002 were determined. A fund balance of \$450 million represents 0.65 percent of taxable wages this year. By the end of the forecast period, that ratio will fall to 0.46 percent. TABOR, however, would prohibit the tax base and/or the fund balance trigger to be increased without a statewide vote. TABOR would not prohibit such a change if it caused less taxes to be collected than would have resulted if the solvency tax were to be continually imposed.

**Severance taxes** are projected to reach \$105 million in FY 2004-05 and drop to \$91 million in FY 2005-06, as indicated in Table 7. Severance taxes from oil and gas production are expected to total \$91 million in FY 2004-05. Coal production will account for another \$9 million. Interest earnings will account for most of the balance.

The forecast assumes that natural gas prices will remain high this year and decline slightly in the next two years due to record natural gas storage levels and stabilizing oil prices. The latter exerts downward pressure on natural gas prices because large industrial users have the capability to switch fuel sources. Natural gas prices are assumed to increase slowly thereafter.

In FY 2003-04, rising natural gas prices and one-time gains of approximately \$25 million accounted for the large increase in severance tax collections. In FY 2004-05, severance taxes are projected to show a modest increase if one-time gains in FY 2003-04 are excluded. High natural gas prices and record production levels will account for the increase in FY 2004-05, which is partially offset by ad valorem property tax credits that owners claim. These property tax credits are based on the prior year's production value. Consequently, when natural gas prices fall, severance tax collections will drop because of the lagged effect of the property tax credit. This is expected to occur in FY 2005-

**Table 11**  
**Unemployment Insurance Trust Fund Forecast, December 2004**  
**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 2003-04 to FY 2009-10 CAAGR *
<b>Beginning Balance</b>	\$298.7	\$133.9	\$330.9	\$578.3	\$808.5	\$854.3	\$833.6	18.7%
<b>Plus Income Received</b>								
Regular Taxes /A	\$283.0	\$386.4	\$311.1	\$221.3	\$207.3	\$216.1	\$229.5	-3.4%
Solvency Taxes /B	\$49.8	\$117.7	\$178.3	\$228.4	\$57.3	\$0.0	\$0.0	
Interest	\$9.3	\$9.6	\$25.5	\$42.6	\$53.2	\$51.9	\$50.3	32.5%
<b>Total Revenues</b>	<b>\$342.1</b>	<b>\$513.7</b>	<b>\$514.9</b>	<b>\$492.3</b>	<b>\$317.8</b>	<b>\$268.0</b>	<b>\$279.8</b>	<b>-3.3%</b>
<b>% change</b>	<b>58.5%</b>	<b>50.2%</b>	<b>0.2%</b>	<b>-4.4%</b>	<b>-35.5%</b>	<b>-15.7%</b>	<b>4.4%</b>	
<b>Less Benefits Paid</b>	<b>(\$460.8)</b>	<b>(\$316.7)</b>	<b>(\$270.8)</b>	<b>(\$265.4)</b>	<b>(\$275.4)</b>	<b>(\$292.3)</b>	<b>(\$311.1)</b>	<b>-6.3%</b>
<b>% change</b>	<b>-13.6%</b>	<b>-31.3%</b>	<b>-14.5%</b>	<b>-2.0%</b>	<b>3.8%</b>	<b>6.1%</b>	<b>6.4%</b>	
<b>Federal Reed Act Transfer</b>	<b>(\$7.1)</b>	<b>(\$3.9)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>NA</b>
<b>Accounting Adjustment /C</b>	<b>(\$39.1)</b>	<b>\$3.9</b>	<b>\$3.3</b>	<b>\$3.3</b>	<b>\$3.4</b>	<b>\$3.6</b>	<b>\$3.8</b>	<b>NA</b>
<b>Ending Balance</b>	<b>\$133.9</b>	<b>\$330.9</b>	<b>\$578.3</b>	<b>\$808.5</b>	<b>\$854.3</b>	<b>\$833.6</b>	<b>\$806.1</b>	<b>34.9%</b>
<b>Solvency Ratio:</b>								
Fund Balance as a Percent of Total Annual Private Wages	0.20%	0.48%	0.77%	1.01%	1.00%	0.91%	0.83%	26.5%

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 and the last quarter of FY 2002-03, 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.

/C This is the accrual adjustment for benefits paid and other accounting adjustments.

06, when severance tax collections drop 13.5 percent. The forecast in subsequent years assumes slowly rising prices, which translates into steadily increasing severance tax collections.

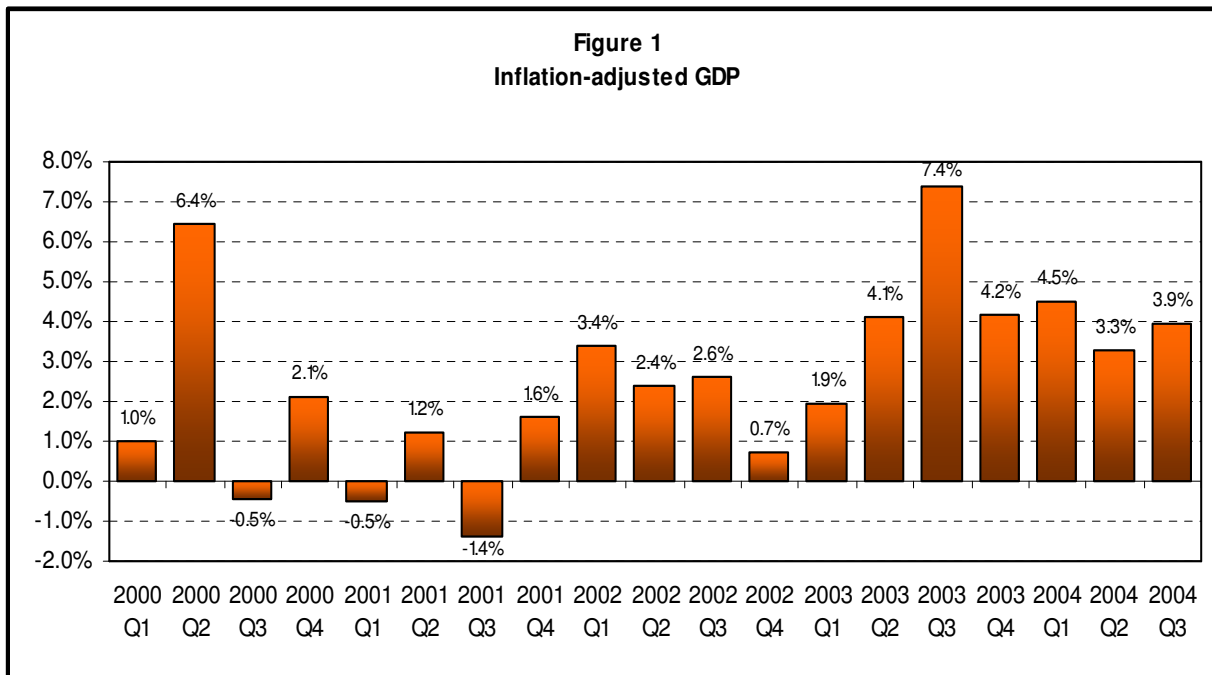
**Limited gaming** revenue, which includes gaming taxes, licenses, and fees, increased 2.3 percent in FY 2003-04 after increasing a scant 0.9 percent in FY 2002-03. Gaming taxes increased 1.1 percent in FY 2003-04, the lowest rate since limited gaming began in 1992. The recession dampened spending at casinos. In FY 2003-04, adjusted gross proceeds from gaming remained unchanged from FY 2002-03. As the state's economy gains steam in the next few years, gaming revenues will recover. Over the six-year forecast period, total gaming revenues will increase at an average annual rate of 6.8 percent.

All **other cash fund revenue** will decrease 0.5 percent in FY 2004-05 and increase at an average annual rate of 2.6 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 transfers the revenue from the Unclaimed Property Trust Fund to the CoverColorado Trust Fund, beginning in FY 2004-05. In addition, cash fund revenue subject to TABOR was reduced by about \$3.4 million in FY 2004-05 and each year thereafter by House Bill 04-1351, which granted enterprise status to the Brand Board in the Department of Agriculture.

## National Economy

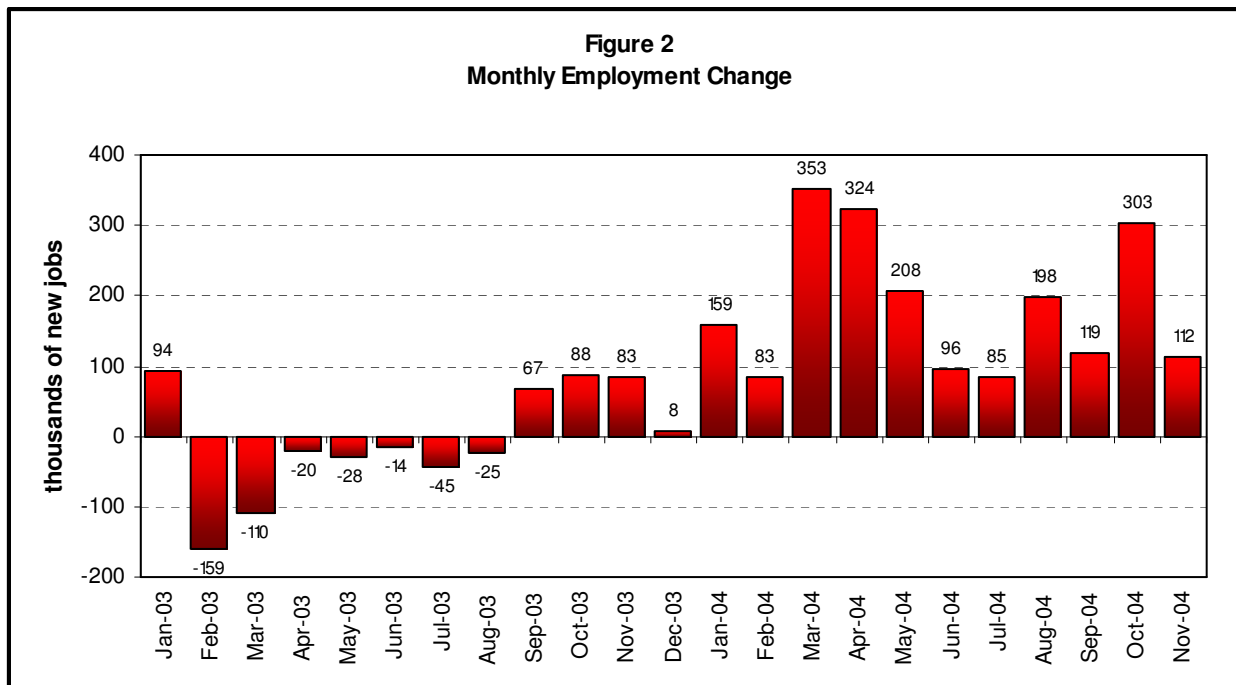
This section reviews the recent performance of the U.S. economy and describes the national economic forecast. A discussion of the major risk to the national economic forecast ensues.

**Recent data.** Inflation-adjusted gross domestic product (GDP) increased 3.9 percent in the third quarter, an improvement from the unexpected weakness in the second quarter. Stronger consumer spending in the third quarter was mostly responsible for the overall improvement in GDP growth. While consumers increased spending at a slight 1.6 percent annual rate in the second quarter, they opened up their pocketbooks and wallets during the summer months to a 5.1 percent annualized gain. Business investment remained on a solid growth path with a 12.9 percent increase. Figure 1 shows the annualized growth in GDP since 2000.



The employment situation, while increasing in 2004, continues to show a mixed pattern as seen in Figure 2. While employment began to recover in late 2003, it has yet to show consistent gains of 150,000 or more. The latter level is considered necessary to keep up with an expanding labor force. Employment gains totaled 112,000 in November, following a 303,000 increase in the previous month. October's strong gain was mostly caused by a large increase in construction hiring following the devastating late summer hurricanes in Florida. November's weak report is believed to be caused by seasonal factors relative to retail hiring for the holidays and a natural falloff in construction hiring after October's gains. Meanwhile, the unemployment rate declined from 5.5% to 5.4% in October.

Inflation has turned up in recent months. Energy and food prices are largely responsible for the increase. The national inflation rate increased at a 7.9 percent annual pace in October. Over the past 12 months, inflation has been 2.4 percent, the highest level in nearly three years. However, there is a



more sanguine picture for inflation when volatile energy and food prices are excluded. The core inflation rate was 1.6 percent over the 12 months ending in October. The core rate is only slightly above the recent cyclical low rate of 1.4 percent observed during the first seven months of 2004.

The Federal Reserve Board does not appear to believe that inflation will worsen significantly in upcoming months. The Fed looks at the core inflation rate as the measuring tool for its actions. Thus, the Fed increased the federal funds rate by 25 basis points, rather than a larger amount, at its December meeting. The increase was the fifth this year. While inflation is not a threat in the Fed's view, the federal funds rate increases are a move away from the accommodative policy set during the economic downturn. The Fed does not believe that the increases will be damaging to the long-term growth path of the economy.

### National Economic Forecast

This section presents the forecast for the national economy. The detailed forecast can be found in Table 12.

- Inflation-adjusted **GDP** is expected to increase 4.5 percent in 2004. The following years will see more modest growth rates. Spending by consumers will slow down as they realize the extent of their debt burdens and their low savings levels. Higher interest rates, though not outrageous, will also act to slow business investment and residential investment in homes. GDP will increase 3.5 percent in 2005 and 3.2 percent in 2006.
- Employment gains finally caught up with the expanding economy in 2004. **Nonfarm employment** will increase 1.0 percent this year, following three years of no growth and declines. During an economic contraction and its aftermath, businesses typically rely on

productivity gains before increasing the number of workers. At this stage of the expansion, productivity gains have typically run their course and businesses turn to increasing the number of employees. This will manifest itself in a 1.8 percent employment gain in 2005, followed by a 1.4 percent increase in 2006. Employment gains will be more modest after 2006. The **unemployment rate** will average 5.5 percent in 2004 and 5.4 percent in 2005.

- **Personal income** will increase at its strongest rate since before the economic downturn started in 2001. In 2004, personal income will increase by 4.9 percent. Growth will be more modest throughout the remainder of the forecast period.
- A surge in energy prices in the second half of the year will boost the consumer **inflation** rate from 2.3 percent in 2003 to 2.7 percent in 2004. Energy prices are already easing as 2004 comes to a close. Thus, inflation will slow to a projected 2.2 percent in 2005 and 2006.

The primary **forecast risk** is the weak dollar. The trade and budget deficits have been largely financed by overseas investors. As the deficits have increased, overseas investors have been less willing to purchase U.S. financial assets. The flight from the dollar would bid up bond yields. Increased interest rates would adversely impact the housing and mortgage sectors. The weak dollar means higher prices for imported goods. If Americans continue to purchase imported goods for which there is little domestic competition, the trade deficit would be even larger, putting further downward pressure on the dollar, exacerbating the impacts. Costs of imported raw materials would increase for American businesses. If businesses are unable to pass on the increased costs as higher prices for the final product, profits would be lower and/or hiring would be cut back. The degree to which foreign investors retreat from the dollar will dictate the degree of harmful effects. An easing of oil prices would lessen the pressure on the dollar as would a serious effort to rein in the budget deficit.

**Table 12**  
**National Economic Indicators, December 2004 Forecast**  
*(Dollars in Billions)*

	1999	2000	2001	2002	2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008
Inflation-adjusted GDP percent change	\$9,470.3 4.1%	\$9,817.0 3.7%	\$9,890.7 0.8%	\$10,074.8 1.9%	\$10,381.3 3.0%	\$10,848.5 4.5%	\$11,228.2 3.5%	\$11,587.5 3.2%	\$11,993.0 3.5%	\$12,412.8 3.5%
Nonagricultural Employment (millions) percent change	129.0 2.4%	131.8 2.2%	131.8 0.0%	130.3 -1.1%	129.9 -0.3%	131.2 1.0%	133.6 1.8%	135.4 1.4%	136.9 1.2%	138.8 1.4%
Unemployment Rate	4.2%	4.0%	4.8%	5.8%	6.0%	5.5%	5.4%	5.3%	5.2%	5.1%
Personal Income percent change	\$7,802.4 5.1%	\$8,429.7 8.0%	\$8,724.1 3.5%	\$8,878.9 1.8%	\$9,161.8 3.2%	\$9,610.7 4.9%	\$10,024.0 4.3%	\$10,465.0 4.4%	\$10,956.9 4.7%	\$11,471.9 4.7%
Wage and Salary Income percent change	\$4,466.3 6.8%	\$4,829.2 8.1%	\$4,942.8 2.4%	\$4,976.3 0.7%	\$5,100.2 2.5%	\$5,329.7 4.5%	\$5,633.5 5.7%	\$5,932.1 5.3%	\$6,240.5 5.2%	\$6,571.3 5.3%
Inflation (Consumer Price Index)	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	2.2%	2.2%	2.4%	2.3%
10-year Treasury Note	5.6%	6.0%	5.0%	4.6%	4.0%	4.3%	5.0%	5.8%	5.7%	5.5%



## Colorado Economy

This section reviews the recent performance of Colorado's economy and provides the economic outlook for the state. The detailed Colorado economic forecast can be found in Table 13. A table with more historical data may be found in the appendix. Non-agricultural employment in Colorado has increased in seven of the last eight months. Low inflation continued to be a large positive for the economy in the first half of 2004, while the construction sector, particularly residential construction, is returning to historically high levels.

### Employment

According to data from the Colorado Department of Labor and Employment, employment has picked up significantly since a down month in July. For the three months ending in October, the state added 17,300 jobs. Following two straight years of declining employment figures Colorado will post moderate gains in 2004. Employment bottomed out in January and February of this year, limiting year-end figures, which measure the average employment level over the year. Nearly three-quarters of new jobs created in the last eight months have occurred in the professional services, leisure services, and trade, transportation, and utilities sectors. Every sector, with the exception of the information services sector, showed at least moderate gains. In the last three months, the construction sector has picked up dramatically, adding 6,500 jobs, a 4.5 percent increase. Despite the encouraging trend, employment remains over 60,000 jobs below the peak level in December 2000.

Colorado is lagging slightly behind the national economy. However, encouraging trends in corporate profits and business confidence will lead to an improving Colorado job market.

- *Nonfarm employment* is expected to increase by 0.7 percent in 2004, resulting in more than 15,000 new jobs. Productivity gains have slowed, signaling that hiring will likely pick up. Employment is expected to increase by 2.3 percent and 2.1 percent, respectively.
- The *unemployment rate* will average 5.3 percent in 2004, following an average level of 6.1 percent in 2003. The unemployment rate will gradually descend to 5.0 percent in 2005 and 4.7 percent in 2006.

### Personal Income and Wages

Personal income increased by 2.2 percent in 2003, as recent downward revisions lowered figures slightly since the September forecast. Wage and salary income grew by 3.6 percent for the year. Personal income figures for the first half of 2004 showed 5.3 percent growth over the first half of 2004. We estimate that personal income will show healthy increases throughout the forecast period, though not at the heady rates seen during much of the 1990s.

- *Personal income and wages and salaries* will continue to rebound in 2004 and 2005. Pent-up wage pressure will accelerate as employment steadily increases. Consequently, we estimate that personal income will increase 5.3 percent in 2004 and 5.6 percent in 2005. Wages and salaries will increase 4.6 percent in 2004 and 6.0 percent in 2005.

## Consumer Spending

Retail trade sales are coming in at a relatively healthy pace, as tourism remains solid and the national economy continues to expand. The pace is lower, however, than would have otherwise been expected following a recession and relative to the income growth that has occurred. Because interest rates remained low throughout the recession, pent-up demand for large purchases has been muted. In addition, many people may be paying off large debt burdens. In the future, growth in employment and wages will fuel consistent growth in consumer spending.

- *Consumer spending* will increase 4.5 percent in 2004, followed by pre-recessionary levels hovering in the 5.8 to 6.1 percent range throughout the forecast period.

## Construction

The building sector is slowly rebounding from the economic slowdown that crippled much of the local market. Speculative over-building, especially in the metro-Denver office market, led to a correction that resulted in consecutive 15 percent decreases in nonresidential construction the last two years. Low mortgage rates helped buoy single-family home construction through the recession, though at the expense of the multi-family sector. Both the single-family and multi-family sectors, however, have enjoyed a healthy year thus far in 2004, compliments of continued low mortgage rates and the burgeoning recovery.

- Residential construction will increase 15.2 percent in 2004. The increase will be broad-based; single-family construction will increase 14.1 percent, while multi-family construction will increase 20.4 percent. These increases are unsustainable given population growth and household formation in Colorado, particularly in the multi-family market. Eventual increases in mortgage rates will reign in the industry during the next few years. Residential construction will decrease 9.8 percent next year and 4.5 percent in 2006.
- The high vacancy rates in office buildings has abated slightly, but will continue to hinder nonresidential construction. However, demographic changes have created accelerating demand for health services and the rebounding economy will raise demand for goods and services. We estimate that *nonresidential construction* will increase 15.9 percent in 2004 and 7.3 percent in 2005.

## **Inflation**

Denver-Boulder-Greeley inflation reversed itself slightly in the first half of 2004, *decreasing* 0.7 percent over the first half of 2003, after growing by a mere 1.1 percent in 2003. Denver's index in the first half of 2004 was the lowest in the western states. The biggest factor was housing, where large concessions in the apartment market overwhelmed increases in energy prices.

- We expect that inflation will rebound slightly in the second half of 2004 and approach more historical norms as the national and state economies expand during the forecast period. Furthermore, high energy prices will help boost figures during the second half of the year. The rate will be 0.7 percent in 2004 and 2.0 percent in 2005, with slightly higher rates during the remainder of the forecast period.

## **Population**

A weak labor market helped lead to lower migration than in much of the last decade during 2003, leading to the lowest population growth since 1990, 1.1 percent. Though we expect population to increase at a greater pace throughout the forecast period, it will not reach levels seen in the late 1990s. As of July 1, 2003, the state's population was 4,550,688.

- Colorado's *population* will grow at more modest rates compared with average annual increases of 2.7 percent in the 1990s — increasing by 1.2 percent in 2004 and 1.4 percent in 2005.

Overall, the Colorado economy slowly plows ahead, while most remain cautiously optimistic about future growth. The state's economy remains susceptible to several risks, including rising mortgage rates and terrorism. Thus far in 2004, increases in employment and spending have brought encouraging news. Meanwhile, diminishing productivity gains are likely to spur on hiring in the near future. Personal income figures have been encouraging with increasing growth rates through the second quarter of 2004.

**Table 13**  
**Colorado Economic Indicators, December 2004 Forecast**  
*(Calendar Years)*

	1999	2000	2001	2002	2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008	Forecast 2009
Population (thousands), July 1 percent change /A	4,226.0 2.7%	4,326.9 2.4%	4,428.8 2.2%	4,501.1 1.7%	4,550.7 1.1%	4,605.3 1.2%	4,669.8 1.4%	4,739.8 1.5%	4,820.4 1.7%	4,907.2 1.8%	5,000.4 1.9%
Nonagricultural Employment (thousands) percent change	2,131.5 3.6%	2,212.9 3.8%	2,225.4 0.6%	2,182.5 -1.9%	2,150.4 -1.5%	2,165.5 0.7%	2,215.3 2.3%	2,261.8 2.1%	2,311.6 2.2%	2,364.7 2.3%	2,414.4 2.1%
Unemployment Rate	2.9%	2.8%	3.7%	5.7%	6.1%	5.3%	5.0%	4.7%	4.5%	4.2%	4.0%
Personal Income (millions) percent change	\$128,860 8.7%	\$144,394 12.1%	\$152,713 5.8%	\$153,593 0.6%	\$157,043 2.2%	\$165,366 5.3%	\$174,627 5.6%	\$184,581 5.7%	\$194,548 5.4%	\$206,415 6.1%	\$219,007 6.1%
Wage and Salary Income (millions) percent change	\$76,283 9.8%	\$85,909 12.6%	\$88,293 2.8%	\$86,800 -1.7%	\$87,837 1.2%	\$91,878 4.6%	\$97,390 6.0%	\$103,623 6.4%	\$110,255 6.4%	\$117,532 6.6%	\$124,936 6.3%
Retail Trade Sales (millions) percent change	\$52,609 9.2%	\$57,955 10.2%	\$59,014 1.8%	\$58,864 -0.3%	\$58,662 -0.3%	\$61,302 4.5%	\$64,857 5.8%	\$68,878 6.2%	\$73,080 6.1%	\$77,684 6.3%	\$82,423 6.1%
Home Permits (thousands) percent change	49.3 -3.6%	55.0 11.1%	54.2 -1.5%	47.7 -12.0%	40.7 -14.7%	46.9 15.2%	42.3 -9.8%	40.4 -4.5%	43.1 6.6%	46.5 7.9%	47.6 2.5%
Nonresidential Building (millions) percent change	\$3,544 35.4%	\$3,339 -5.8%	\$3,373 1.0%	\$2,613 -22.5%	\$2,204 -15.6%	\$2,555 15.9%	\$2,741 7.3%	\$2,889 5.4%	\$3,066 6.1%	\$3,210 4.7%	\$3,335 3.9%
Denver-Boulder Inflation Rate	2.9%	4.0%	4.7%	1.9%	1.1%	0.7%	2.0%	2.5%	2.8%	2.9%	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.

## School Enrollment Projections

- Enrollment across the State of Colorado will increase 1.4 percent, or 9,846.5 full-time-equivalent (FTE) students, in the 2005-06 school year. During the 2005-06 school year, 733,004.5 FTE students are projected to be enrolled in Colorado schools. Though higher than the 0.9 percent growth in the current school year, this growth represents a smaller gain than was experienced over much of the past decade. Lower net migration, due to declining employment opportunities, accounts for the slow growth.
- Our projections indicate that school enrollment over the next five years will increase at a compound average annual growth rate of 1.5 percent, which totals 54,331 additional students. This five-year average growth rate compares with a 2.0 percent average annual growth rate from 1995-2000.
- As in past years, the metro-Denver, Colorado Springs, and northern regions will experience the largest enrollment increases during the 2005-06 school year with growth rates over 1.0 percent. The western, southwest, Pueblo, north central mountains, and north central plains regions will see minimal gains in pupil counts; while the southeast and San Luis Valley regions will experience small enrollment declines.

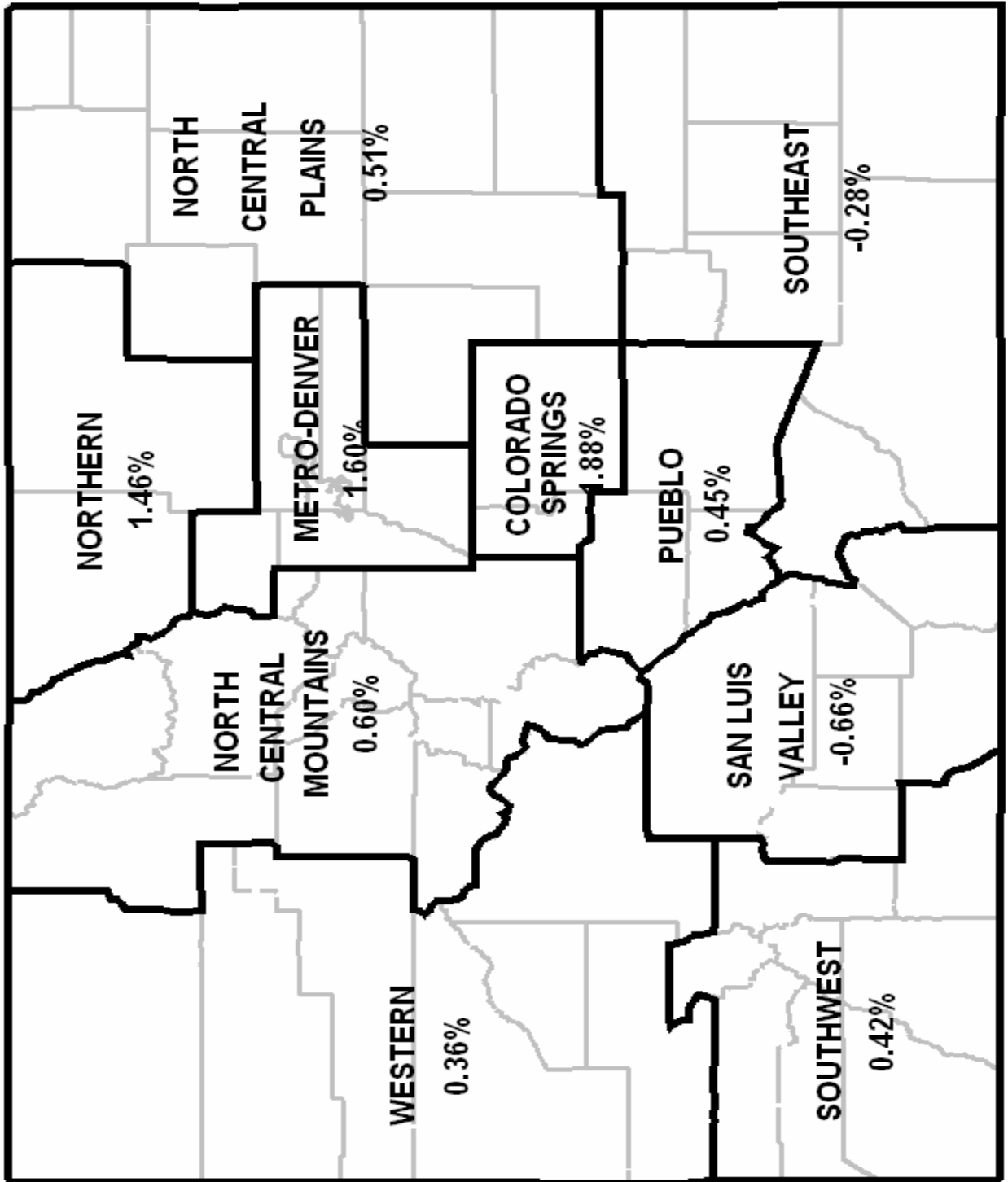
***Preliminary Forecast Results.*** This section presents the Legislative Council Staff preliminary FTE enrollment projections for Colorado's pre-kindergarten through twelfth grade public schools. FTE enrollment is forecast to help determine funding levels for Colorado's 178 school districts. Final projections will be made after receiving school district input on the forecast.

Actual full-time-equivalent pre-kindergarten through twelfth grade enrollment in the 2004-05 school year was 723,158 students. This represented an increase of 0.9 percent, or 6,590 students, over the 2003-04 level.

Over much of the last decade, Colorado enjoyed widespread economic growth that translated into record enrollment growth from 1997 through 2001. However, employment declines over the past three years led to much lower migration into Colorado as well as an exodus of families seeking jobs and better opportunities elsewhere. While employment growth is expected to pick up over the forecast period, it is unlikely to reach rates seen in the late 1990s. As a result, it is anticipated that enrollment growth will be modest throughout the forecast period. FTE enrollment in the 2005-06 school year is expected to increase 1.4 percent, while the compound average annual growth rate over the next five years is expected to be 1.5 percent. These anticipated growth rates compare with rates of 0.9 percent for the current school year and a compound average annual growth rate of 2.0 percent from 1995-2000.

Table 14 identifies the anticipated growth in FTE enrollment over the next five years for each of Colorado's regions. Additionally, Figure 3 shows the makeup of the regions as well as identifies the anticipated increase in FTE enrollment for the 2005-06 school year.

Figure 3  
Estimated FTE Enrollment Growth  
For 2005-06



**Table 14**  
**Colorado FTE Enrollment by Region**

Region	2004-05	2005-06	Percent Change	2006-07	Percent Change	2007-08	Percent Change	2008-09	Percent Change	2009-10	Percent Change	Average Growth
Metro-Denver	402,343.5	408,789.5	1.60%	415,612.5	1.67%	422,421.0	1.64%	429,326.5	1.63%	436,718.5	1.72%	1.65%
Colorado Springs	99,387.5	101,255.0	1.88%	103,388.5	2.11%	105,396.5	1.94%	107,447.5	1.95%	109,693.5	2.09%	1.99%
Northern	71,459.0	72,504.5	1.46%	73,608.0	1.52%	74,784.0	1.60%	76,283.0	2.00%	77,764.0	1.94%	1.71%
Western	44,852.5	45,012.0	0.36%	45,317.0	0.68%	45,728.5	0.91%	46,241.5	1.12%	46,766.0	1.13%	0.84%
Pueblo	31,181.0	31,320.5	0.45%	31,510.5	0.61%	31,783.5	0.87%	31,888.0	0.33%	32,052.5	0.52%	0.55%
North Central Mountains	20,179.5	20,301.5	0.60%	20,430.5	0.64%	20,639.5	1.02%	20,764.0	0.60%	20,957.0	0.93%	0.76%
North Central Plains	18,657.5	18,753.0	0.51%	18,748.5	-0.02%	18,709.0	-0.21%	18,714.5	0.03%	18,770.0	0.30%	0.12%
Southwest	14,181.5	14,241.5	0.42%	14,278.0	0.26%	14,317.0	0.27%	14,367.0	0.35%	14,425.0	0.40%	0.34%
Southeast	12,694.5	12,659.5	-0.28%	12,593.0	-0.53%	12,503.5	-0.71%	12,481.5	-0.18%	12,451.0	-0.24%	-0.39%
San Luis Valley	8,221.5	8,167.5	-0.66%	8,089.0	-0.96%	7,991.5	-1.21%	7,938.0	-0.67%	7,891.0	-0.59%	-0.82%
Statewide Total	723,158.0	733,004.5	1.36%	743,575.5	1.44%	754,274.0	1.44%	765,451.5	1.48%	777,488.5	1.57%	1.46%

Continued residential construction along portions of the front range will help the Colorado Springs, metro-Denver, and northern Colorado regions dominate gains in FTE enrollment over the forecast period. Together, these regions will account for more than 95 percent of enrollment growth over the forecast period, while representing only 79 percent of statewide enrollment. FTE enrollment growth in the northern region will begin to rebound, as many large construction projects were postponed or delayed because of the recession. The region is expected to grow steadily, increasing 1.5 percent for the 2005-06 school year. The large growth that will occur in some districts along the front range will be tempered by several larger, land-locked school districts with aging population bases. Most notably, the state's largest district, Jefferson County, will continue its recent slow decline over the forecast period.

The Colorado Springs region, which consists of El Paso and Teller counties, had an increase of 1.4 percent in FTE enrollment in the 2004-05 school year. This region is particularly reliant on high tech employment for enrollment growth and recent data suggest that the region is starting to rebound. The enrollment forecast for the 2005-06 school year is therefore projecting an FTE increase of 1.9 percent during the 2005-06 school year and a compound average annual growth rate of 2.0 percent for the next five years.

The final two regions along the front range, metro-Denver and Pueblo, will also experience enrollment gains in the next several years, though in differing degrees. Enrollment in the metro-Denver region is predicted to increase by 1.6 percent in the next school year. The most noteworthy gains in this region will come in Douglas County, and the Brighton and Northglenn-Thornton school districts in

Adams County. Additionally, the redevelopment of Stapleton and Lowry will help buoy enrollment in Denver. The Pueblo region, consisting of Pueblo, Fremont, and Custer counties, will see an increase of 0.4 percent in enrollment during the 2005-06 school year, with less-than-average growth expected throughout the forecast period. The vast majority of growth in this region will come from the Pueblo rural school district, consisting largely of those parts of Pueblo County not located within the City of Pueblo.

Because residential development also drives enrollment growth, some areas in suburban Colorado Springs and suburban Denver will continue to experience high student enrollment growth rates. In Adams County, the Brighton school district is expected to have the highest average annual percentage growth over the forecast period. Other districts expected to see significant long-term growth are the Falcon school district in El Paso County, the Douglas County school district, and the Johnstown-Milliken school district in Weld County.

The north central mountain region will experience slow enrollment growth for the 2005-06 school year. High housing costs have kept the region from growing significantly in recent years.

The southeast Colorado region, comprised of Baca, Bent, Crowley, Huerfano, Kiowa, Las Animas, Otero, and Prowers counties, is projected to experience an enrollment decrease of 0.3 percent for the 2005-06 school year. For most of the last decade, the region experienced significant annual enrollment declines. While moderate declines are forecast beyond 2004-05, they are not expected to be as steep as the region experienced in the 2001-02 school year when enrollment fell 1.2 percent. Much of rural Colorado will continue long term trends of enrollment declines over the five-year forecast period. As a result, some districts are offering online education in an attempt to attract students outside their geographic boundaries. Most notable of these is the Branson School District, which has about 93 percent of its total enrollment in its online program. Branson's enrollment swelled from 42 students in 1999-00 to 719 students in 2002-03 after it offered an on-line education opportunity.

***Risks to the forecast.*** There are several other factors that could alter the forecast. As the economy rebounds, employment growth will continue to drive the need for residential construction and boost migration to Colorado. Slower-than-expected employment growth will likely result in slower enrollment growth, especially in tech-heavy areas such as El Paso County. Also of note is the potential for rising mortgage rates. This may impact where enrollment growth occurs. If mortgage rates rise significantly, many home buyers may be pushed to the fringes of front range metropolitan areas in order to find more affordable housing. Again, this could have a significant impact on El Paso County, as nearby Pueblo County has lower housing costs. Moreover, southwest Weld County could see significant growth if housing becomes less affordable in metro Denver.

This school enrollment forecast was prepared utilizing a variety of economic and demographic variables. The most significant explanatory variables included school-age population, employment, migration, and the number of births. These variables provide the best possible explanation of school enrollment in each district. Efforts were also made to identify recent trends that would not be reflected in the economic and demographic variables, such as large employers entering or leaving a district or announcements of new residential developments. Additional discussions will occur between Legislative Council Staff, the Colorado Department of Education, and school district representatives prior to a final forecast being issued in January 2005.



## Assessed Value Projections

The **residential assessment rate** will remain at 7.96 percent in 2005. Nonresidential value increases were slightly larger than residential value increases, leading to the stable RAR. The rate is then projected to decline to 7.62 percent in 2007 and 7.39 percent in 2009.

**Total assessed values** for all property classes are expected to increase by 7.4 percent in 2005 to a total value of \$69.4 billion. Because 2005 is a reassessment year, the growth reflected incorporates two years of value growth, as well as one year of new construction and changes in the value of extracted resources, such as oil and gas. In non-reassessment years, only new construction and changes in extracted resources are incorporated in changes in assessed values. The relatively significant increase of 5.3 percent in 2004 was caused primarily by a boom in oil and gas values brought about by high oil and natural gas prices. By 2010, assessed values are anticipated to total \$83.4 billion, which reflects a compound average annual growth rate of 4.3 percent.

**Total residential market value** increased by 23 percent in the last two-year reassessment cycle ending in 2003. Due to the recent economic downturn and lower migration, market values are expected to increase by smaller rates over the forecast period. The expected increase in residential market values in the 2005 and 2007 reassessment cycles are 11.4 percent and 10.7 percent, respectively.

**Residential assessed values** are expected to increase by 7.9 percent in 2005. Even though residential market values increased 17.5 percent in 2003, the decline in the residential assessment rate from 9.15 percent to 7.96 percent led to only a 2.2 percent increase in residential assessed values 2003. This will not occur in 2005, as the modest gains in residential values will coincide with similar gains in non-residential values, resulting in a continuation of the 7.96 percent residential assessment rate. Over the six-year forecast period, residential assessed values will increase at a compound average annual rate of 4.4 percent.

**Nonresidential assessed values** are expected to increase by 7.0 percent in 2005 and at a compound average annual rate of 4.3 percent through 2010. Though recovering, sustained high vacancy rates have previously led to flat or falling lease rates and a boom in lease incentives in both the commercial and industrial markets. A slow recovery will lead to substantially slower growth than was seen earlier in the decade.

This section provides preliminary projections of assessed values and the residential assessment rate through 2010. The projections for assessed values are a factor in determining local property taxes for Colorado's public schools and the amount of state aid provided to the schools. The following projections will be finalized following receipt of additional information from the Division of Property Taxation in early January.

## Assessed Values

The unprecedented economic growth that led to dramatic increases in assessed value has waned. From 1995 to 2002, assessed values grew by an average of 9.2 percent annually. However, slow growth from weakening commercial and industrial markets helped push the residential assessment

rate down by over 13 percent in 2003. As a result, assessed values grew by only 2.4 percent in 2003, before a return of high natural gas prices helped values rebound in 2004. Overall, we anticipate assessed values to total \$69.4 billion in 2005, a 7.4 percent increase, and reach \$83.4 billion by 2010.

The Gallagher Amendment to the Colorado Constitution requires that residential assessed values must be approximately 45 percent of total assessed values. When the market values of residential property increase faster than the value of nonresidential property, the residential assessment rate (RAR) must decline to hold residential assessed values at 45 percent of total assessed values. While the residential market did not cool down until the past couple of years, commercial markets turned down much earlier. This led to dramatically slower growth in nonresidential assessed values. When this occurs the residential assessment rate must be reduced so that residential assessed values grow by the same rate, factoring out new construction. In contrast, as the economy began to recover, the same nonresidential markets are beginning to see increases in value, while the lagging residential market falters. This slowdown in the residential markets will help keep the RAR constant at 7.96 percent for 2005. However, after the residential market regains its footing, our forecast anticipates the RAR will be 7.62 percent in 2007, and 7.39 percent in 2009.

Forecasted residential and nonresidential assessed values are shown in Table 15. Residential assessed values are expected to increase at a compound average annual rate of 4.4 percent, while nonresidential assessed values will increase at an average of 4.3 percent per year. At the end of the forecast period, assessed values will total \$83.4 billion.

**Table 15**  
**Residential and Nonresidential Assessed Values**  
*(Dollars in Millions)*

Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2004	\$30,470	3.2%	\$34,163	5.3%	\$64,634	4.3%
2005	\$32,889	7.9%	\$36,545	7.0%	\$69,435	7.4%
2006	\$33,780	2.7%	\$36,986	1.2%	\$70,766	1.9%
2007	\$34,846	3.2%	\$39,051	5.6%	\$73,897	4.4%
2008	\$35,900	3.0%	\$39,835	2.0%	\$75,735	2.5%
2009	\$38,309	6.7%	\$42,812	7.5%	\$81,122	7.1%
2010	\$39,445	3.0%	\$43,965	2.7%	\$83,410	2.8%

A discussion of recent trends in assessed values and our forecast of nonresidential and residential assessed values, including the residential assessment rate, follows.

### Recent Trends

Assessed values have grown consistently since 1990, though the largest of these increases came between 1995 and 2001. More recently, growth has stalled, as office and industrial markets faltered

when faced with the recession beginning in 2001. Historically low mortgage rates helped to sustain growth in residential values, while historically high oil and natural gas prices further helped to more than offset any decreases in the other property classes. More recently, the nonresidential market has begun to show signs of life, while the residential market has slowed.

### Nonresidential Assessed Values

Assessed values in the nonresidential property classes totaled \$34.2 billion in 2004, representing a 5.3 percent increase over 2003 values. Vacancy rates have likely stabilized, though at historically high rates, leading to significant lease incentives. Therefore, the healthy increases in nonresidential construction that have characterized the last several years have fallen off substantially. However, corporate profits and business investment are both showing positive signs leading to higher expectations for 2005 values. Prices for natural gas and oil have increased over the last two years, leading to a near-doubling of oil and gas values. These prices, though waning slightly in the near term, are expected to remain at historically high values. Thus, nonresidential assessed values are anticipated to increase at a compound average annual rate of 4.3 percent over the forecast period, increasing to \$44.0 billion by 2010.

The nonresidential sector consists of eight property classes: commercial, state assessed, vacant land, oil and gas, industrial, agriculture, natural resources, and producing mines. Table 16 identifies 2004 assessed values for each of the eight property classes and shows the anticipated increases in each class over the forecast period. The outlook for these property classes is discussed in the following paragraphs.

The **commercial** property class is the largest nonresidential property class, comprising nearly 54 percent of all nonresidential property. Commercial property assessed value totaled \$18.4 billion in 2004, an increase of 1.9 percent over 2003. The value of commercial construction declined for nearly

**Table 16**  
**Nonresidential Assessed Values by Class**  
*(Dollars in Millions)*

Property Class	2004 Assessed Value	Forecast			
		2005 Assessed Value	Percent Change	2010 Assessed Value	2004-2010 Annual Average Growth Rate
Commercial	\$18,425	\$19,447	5.5%	\$24,102	4.6%
State Assessed	\$3,868	\$3,953	2.2%	\$4,578	2.8%
Vacant Land	\$4,125	\$4,540	10.1%	\$5,041	3.4%
Oil & Gas	\$3,906	\$4,640	18.8%	\$5,933	7.2%
Industrial	\$2,696	\$2,768	2.6%	\$3,051	2.1%
Agriculture	\$803	\$810	0.9%	\$827	0.5%
Natural Resources	\$265	\$294	10.8%	\$316	2.9%
Producing Mines	\$74	\$94	26.5%	\$117	7.9%
Total	\$34,163	\$36,546	7.0%	\$43,965	4.3%

four consecutive years. According to F.W. Dodge, the value of commercial construction across Colorado dropped 10.2 percent through November 2004, compared with the same period in 2003. However, the value of all nonresidential construction has increased 12.4 percent through November 2004. Increases in the construction of education and medical building helped to more than offset the decrease in commercial construction. Prolonged high vacancy rates have prompted owners to lower lease rates and offer large lease incentives. While we do not expect an impressive run-up on construction in this class, the market will tighten as the economy improves, leading to higher values for existing commercial buildings, particularly office and medical buildings.

With the state and national economies improving, commercial values have likely already hit bottom. However, market conditions will allow only moderate gains in commercial value during the forecast period. Statewide, commercial assessed values will rise to \$19.4 billion in 2005, an increase of 5.5 percent. By the end of the forecast period in 2009, commercial assessed values are expected to be \$24.1 billion, a compound average annual increase of 4.6 percent from its current levels.

**State assessed** properties totaled nearly \$3.9 billion in assessed value in 2004. The utility, airline, pipeline, and railway sectors make up the vast majority of value in this category. State assessed decreased for the first time since in nearly a decade in 2004. The last two years were particularly weak for properties in this class due to significant declines in the telecom and airline industries. In the future, state assessed property will see more normal modest increases in value. Though, during the forecast period, growth in state assessed values will continue to be limited by the lackluster telecom, cable, and airline industries. Assessed values in this class are expected to total \$4.6 billion by 2010, which reflects a compound average annual growth rate of 2.8 percent.

In 2004, **vacant land** totaled nearly \$4.1 billion, a 4.4 percent decrease. In nonreassessment years, the conversion of vacant land to other classes leads to moderate declines in assessed value. In healthy economic times, demand for vacant land pushes values higher, even as more of it is converted to other uses through new construction. As the construction industry rebounds, demand for vacant land will also increase, pushing values higher. Therefore, the assessed value of vacant land is expected to increase by 10.1 percent in 2005, while increasing over the entire forecast period by 22.2 percent, rising to a total assessed value of \$5.0 billion in 2010.

Assessed values in the **industrial** property class decreased by 3.2 percent in 2004. Due to widespread weakness in the markets served by properties in this class, particularly the manufacturing industry, some previously industrial properties are being converted to commercial and residential space. This is especially the case in urban areas. These weak conditions, though stabilizing, are not expected to improve dramatically over the forecast period. As a result, these values are expected to increase by 2.6 percent in 2005 to \$2.8 billion. By the end of the forecast period, industrial assessed values are expected to rise 13.2 percent to \$3.1 billion, which reflects an average increase of 2.1 percent.

The values in the oil and gas, natural resources, and producing mines classes are based on the income derived from the extraction of the earth's resources. Because these classes are assessed each year based on the prior year's income, the assessed values in these classes tend to be more volatile than other property classes.

Following a near doubling of values from 2000 to 2002, a similar phenomenon has occurred since 2002. Though lower prices caused **oil and gas** assessed values to fall by 21.4 percent in 2003, a spike upward in prices in 2003 caused 2004 oil and gas values to jump 77 percent. The higher prices have made exploration and extraction of these resources more cost effective. Thus, production has also risen significantly. Though prices are expected to moderate, they will likely remain at historically high levels throughout the forecast period. For these reasons, there will be a significant increase of 18.8 percent in oil and gas property values in 2005. Oil and gas assessed values are expected to increase at a compound average annual rate of 7.2 percent through 2010.

Coal production remains a significant component of the **natural resources** property class. Colorado's coal industry has been boosted by higher prices in 2004. As a result, assessed values for the natural resources class are expected to increase by 10.8 percent in 2004. Over the entire forecast period, the coal market is expected to remain healthy, helping assessed values for this class increase to \$316 million by 2010, which amounts to a compound average annual growth rate of 2.9 percent.

**Producing mines** is the smallest property class, totaling just over \$74 million in assessed value in 2004, a decrease of 10.4 percent over 2003 values. Record prices for molybdenum will push values in this class higher in 2005, despite the fact that the Henderson Mine in Clear Creek County has steadily been decreasing production. Also, the Cresson gold mine in Teller County continues to benefit from recent high gold prices. Statewide assessed values for producing mines are expected to increase by 11 percent in 2004. Over the forecast period, values will increase by an average annual rate of 7.9 percent, to \$117 million in 2010.

The final nonresidential property class is **agriculture**. Since the assessed values in this class are based on a ten-year moving average of income, the property class rarely sees significant changes from year to year. Though changes tend to occur based on long-term trends in agriculture, the 2002 drought had a moderate downward effect on values in 2003. The industry recovered slowly in 2004, posting a 1.0 percent gain over 2003 figures. Agricultural properties have continued to prosper in 2004, leading to a projected 0.9 percent increase in 2005. Agricultural assessed values will increase at a compound average annual rate of 0.5 percent over the forecast period.

## **Residential Assessed Values**

In this section, the forecast for residential market values and the determination of the residential assessment rate are discussed. The application of the residential assessment rate to residential market values determines their assessed values.

**Residential Market Values.** Total residential market values increased 23 percent in 2003 from the previous reassessment in 2001. Due to slower demand from weaker migration, we expect that market value increases will slow to 11.4 percent in 2005 over 2003 figures. Consistently low mortgage rates have helped to increase values even through otherwise rough economic times. A 10.7 percent increase is expected over the cycle that ends in 2007, followed by a 13.4 percent change in the 2009 cycle. Overall, residential market values will increase at a compound average annual rate of 5.7 percent from 2004 through 2010, bringing the total market value of all residential property to an estimated \$534 billion by 2010.

The substantial residential value growth that has occurred has been primarily in exurban areas - those regions just beyond the suburbs - and rural mountain areas. The lack of affordable homes in many of Colorado's metropolitan and mountain regions have pushed residents further out, resulting in higher prices in these areas. Home values in other parts of the state, particularly suburban Denver, have effectively leveled off, while the mountain communities can expect increased demand over the forecast period as both the state and national economy improve.

**Residential Assessment Rate.** The adjustment of the residential assessment rate is intended to stabilize residential real property's share of total assessed value at approximately 45 percent. Economic factors driving market values and/or property income in the residential and nonresidential sectors affect the relative balance of these sectors and determine the RAR. Because residential market values have grown at a faster rate than nonresidential values since 1982 (or have declined at a slower pace), the RAR decreased from 21.0 percent in 1982 to 7.96 percent in the current assessment cycle of 2003 and 2004.

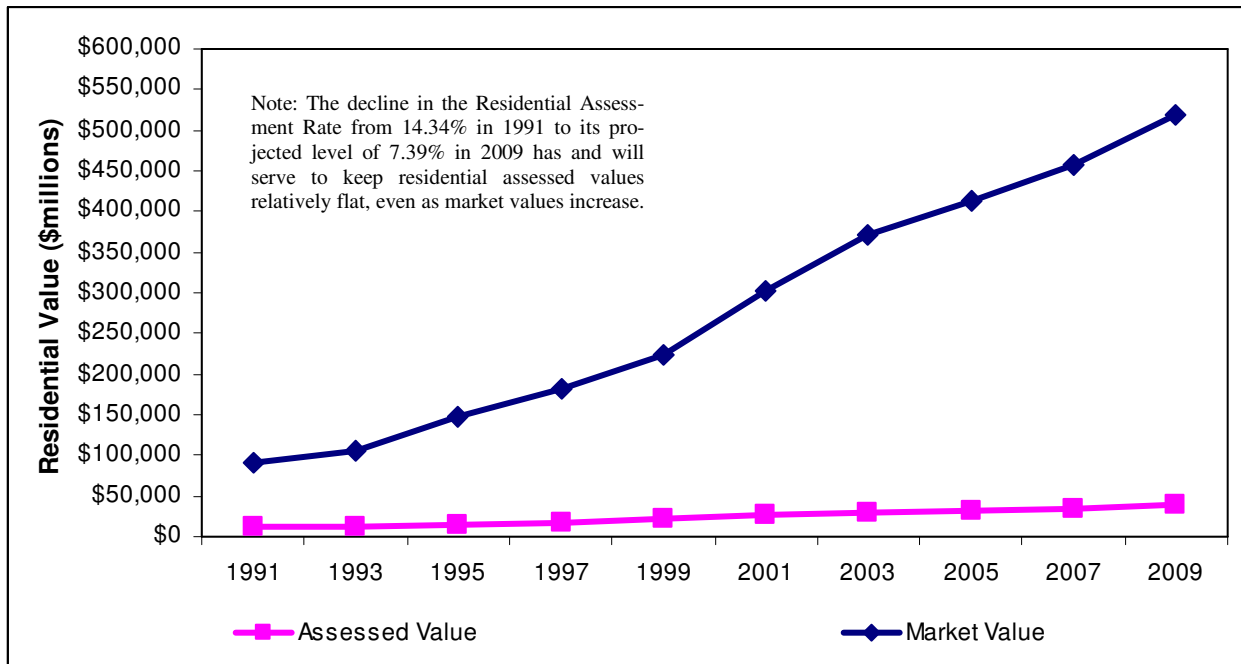
For the rest of the decade, it is anticipated that the growth in residential market values will slightly outpace that of nonresidential values, though this will occur in the out-years of the forecast. In the near-term, we expect the RAR to remain at 7.96 percent for 2005 and 2006. This is because the market for most nonresidential property reacts much more quickly to economic conditions than the residential class. In 1999, the nonresidential property saw a large amount of speculative business ventures and construction. This led to dramatic increases in nonresidential values, resulting in no adjustment to the residential assessment rate that year. The recently improving economy has led to moderate increases in nonresidential values, while the residential market is oversupplied with available homes. The RAR is expected to then decline to 7.62 percent in 2007 and 2008, and 7.39 percent in 2009 and 2010. Table 17 indicates residential market and assessed value, as well as the RAR for 1991 through the forecast period. Meanwhile, figure 4 illustrates the effect the RAR has on assessed value growth relative to market value growth.

**Table 17**  
**Residential Assessment Rate and Values**  
*(Dollars in Millions)*

Year	Residential Market Value	Percent Change	Residential Assessment Rate	Residential Assessed Value	Percent Change
1991	\$89,865	1.8%	14.34%	\$12,887	-2.7%
1993	\$103,989	15.7%	12.86%	\$13,373	3.8%
1995	\$146,285	40.7%	10.36%	\$15,155	13.3%
1997	\$181,454	24.0%	9.74%	\$17,674	16.6%
1999	\$222,505	22.6%	9.74%	\$21,672	22.6%
2001	\$301,563	35.5%	9.15%	\$27,593	27.3%
2003	\$370,888	23.0%	7.96%	\$29,523	7.0%
2005*	\$413,180	11.4%	7.96%	\$32,889	11.4%
2007*	\$457,293	10.7%	7.62%	\$34,846	5.9%
2009*	\$518,392	13.4%	7.39%	\$38,309	9.9%

\*Forecast

**Figure 4  
Residential Value Growth**



**Residential Assessed Values.** Though rebounding somewhat in 2004, levels of new construction and migration remain below their peak levels seen less than a decade ago. As a result, residential assessed values will increase by 7.9 percent in 2005, the lowest growth level in a reassessment year since 1993. Toward the end of the forecast period, the decline of the RAR will continue to temper the growth of residential assessed values as compared to residential market values. Although residential market values are expected to increase by 10.7 percent during the two-year period ending in 2007, residential assessed values will only increase by 5.9 percent. The effect of the RAR is to bring total residential assessed value increases to a comparable growth rate of all nonresidential assessed values. Overall, residential assessed values will increase to \$39.4 billion by 2010, or a compound average annual growth rate of 4.4 percent over the forecast period.

### Risk Factors

There continues to be a significantly larger number of homes on the market for resale compared with just two years ago. This has led to more stable prices and longer time spent on the market in most areas of the state. Despite this, residential construction permits have risen in 2004. If this trend continues, and the state fails to see robust employment and wealth gains, prices may fall in certain areas. Furthermore, some of the price appreciation seen over the last decade was brought about by record low mortgage rates. If those rates rise as expected, buyers may be priced out of certain markets, resulting in downward price pressures.

Oil and gas assessed values could have a dramatic impact on assessed values, especially in certain locales around the state. Because it is such a volatile property class, variations in value similar to that which has occurred over the last several years could play a significant role in determining overall

assessed values. This is especially noteworthy as it pertains to counties in which property values are heavily weighted toward oil and gas, such as Cheyenne, Rio Blanco, and La Plata counties. A large decline in oil and gas assessed values, such as witnessed in 2003, would put additional pressure on the state to finance schools. This occurs because when values rise dramatically, mill levies are forced down to assure that the school district does not collect more money than is allowed under TABOR. However, if values come back down, the school district may only collect property taxes based on the permanently lowered mill levy. The state must then pick up a larger portion of school funding.

Finally, though office and industrial markets appear to have stabilized, high vacancy rates leave them susceptible to slower than expected employment growth. This is especially the case in areas south of Denver, along the US 36 corridor, and in Colorado Springs where the local economies are impacted significantly by telecom and high tech employment. A prolonged stagnant labor market would keep vacancy rates high, further slowing new commercial construction, and forcing landlords to reduce lease rates to attract tenants.



## Adult and Juvenile Prison and Parole Population Projections

- The total Department of Corrections (DOC) population is projected to increase 37.0 percent — from 19,569 inmates in June 2004 to 26,806 inmates in June 2010. This corresponds to an average annual growth rate of 5.4 percent. In comparison, over the past six years, the total inmate population increased at an average annual rate of 6.2 percent.
- Over the six-year forecast period, the male population is expected to increase 32.7 percent (an average annual growth rate of 4.8 percent). The female population is expected to increase 80.6 percent (an average annual growth rate of 10.3 percent). In comparison, over the past six years, the inmate population of males and females increased at average annual rates of 5.9 percent and 9.5 percent, respectively.
- These projections represent an increase from last year's estimates. This is due to a slower-than-expected economic recovery, which caused the male and female inmate populations to increase faster than expected in the current year. In subsequent years, inmate population growth is expected to diminish because of improving economic conditions and slow population growth for people between the ages of 20 and 49.
- The total in-state parole population is projected to increase from 5,244 as of June 2004 to 6,511 in June 2010, growing at an average annual rate of 3.7 percent. The total number of parolees (in-state and out-of-state) will increase from 7,238 in June 2004, to 8,956 in June 2010, representing a 3.6 percent average annual increase.

### Adult Prison and Parole Population Projections

This section of the forecast describes prison population trends and the forecast. It also discusses factors in prison commitments and presents an overview of recent legislation affecting the prison population. The last segment presents the parole population projections and describes some of the primary risks to the forecast.

**Adult Prison Population Trends.** From June 1989 to June 2004, the prison population grew at an average annual rate of 7.1 percent. During this sixteen-year period, the male and female prison populations grew at average rates of 6.9 percent and 10.5 percent per year, respectively. In the most recent fiscal year, the female prison population increased 8.3 percent, while the male population grew 3.4 percent. Table 18 shows the historical prison population by gender.

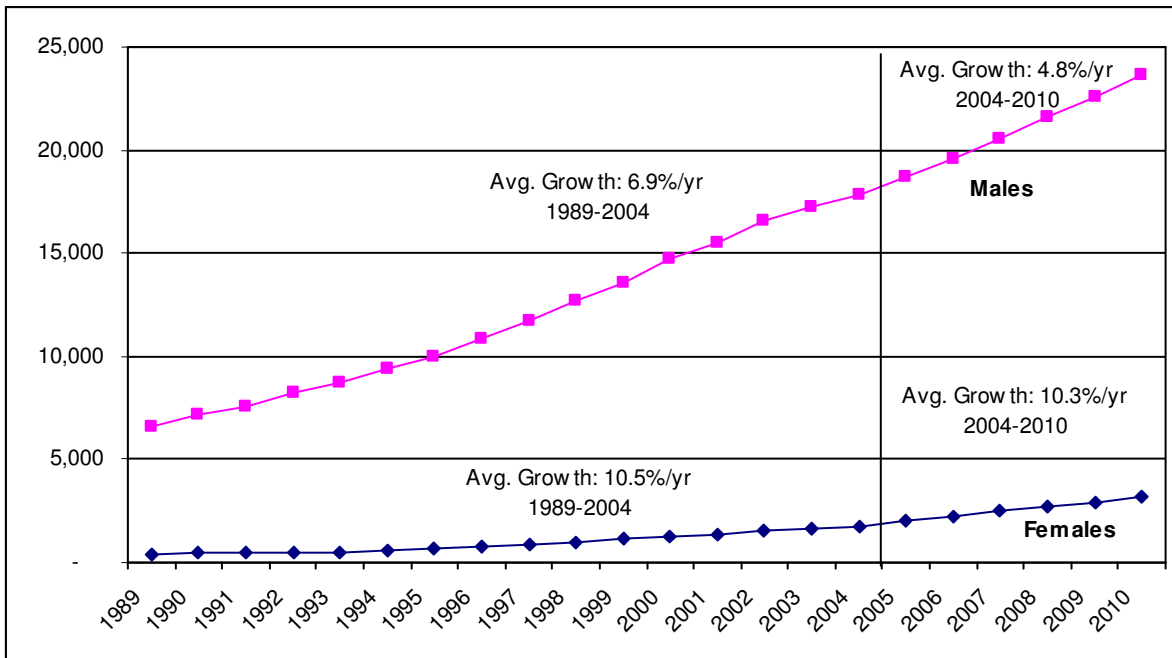
**Adult Prison Forecast.** Table 18 also illustrates the projected inmate population over the next six years. Between June 2004 and June 2010, the prison population is expected to increase at an average annual rate of 5.4 percent, a slower rate of growth relative to the prior six-year period, in which the prison population grew at an average rate of 6.2 percent per year. Male and female inmate populations are projected to increase at average annual rates of 4.8 percent and 10.3 percent during the forecast period. The growth of female prisoners is estimated to increase more than males because of historical growth trends in female prison admissions and population (the female inmate population has grown at an average rate of more than 10 percent per year since 1989). However, through the forecast period,

the growth in the prison population is expected to slow due to lower statewide population growth, especially for the cohort between the ages of 20 and 49. An economic recovery will also reduce the rate of growth for the inmate population. Figure 5 illustrates the anticipated increase in the male and female inmate populations.

**Table 18**  
**Projected Adult Prison Population by Gender**

<b>FY</b>	<b>Female Inmate Population</b>	<b>%Change</b>	<b>Male Inmate Population</b>	<b>% Change</b>	<b>Total Inmate Population</b>	<b>% Change</b>
1989	392		6,579		6,971	
1990	451	15.1%	7,215	9.7%	7,666	10.0%
1991	445	-1.3%	7,598	5.3%	8,043	4.9%
1992	505	13.5%	8,269	8.8%	8,774	9.1%
1993	530	5.0%	8,712	5.4%	9,242	5.3%
1994	623	17.5%	9,382	7.7%	10,005	8.3%
1995	669	7.4%	10,000	6.6%	10,669	6.6%
1996	769	14.9%	10,808	8.1%	11,577	8.5%
1997	909	18.2%	11,681	8.1%	12,590	8.8%
1998	1,016	11.8%	12,647	8.3%	13,663	8.5%
1999	1,179	16.0%	13,547	7.1%	14,726	7.8%
2000	1,266	7.4%	14,733	8.8%	15,999	8.6%
2001	1,340	5.8%	15,493	5.2%	16,833	5.2%
2002	1,506	12.4%	16,539	6.8%	18,045	7.2%
2003	1,620	7.6%	17,226	4.2%	18,846	4.4%
2004	1,755	8.3%	17,814	3.4%	19,569	3.8%
2005	2,066	17.7%	18,678	4.9%	20,744	6.0%
2006	2,266	9.7%	19,584	4.8%	21,850	5.3%
2007	2,480	9.5%	20,583	5.1%	23,063	5.6%
2008	2,694	8.6%	21,583	4.9%	24,276	5.3%
2009	2,924	8.5%	22,605	4.7%	25,529	5.2%
2010	3,169	8.4%	23,637	4.6%	26,806	5.0%

**Figure 5  
Adult Inmate Population Growth of Male and Female**



**Factors in Adult Prison Commitments.** The external factors that drive prison admissions can be classified into three groups: demographic variables, economic variables, and legislative changes. The following paragraphs describe these factors and how they influence prison commitments.

- Population.** All other things being equal, a larger population results in a greater number of criminal offenses, arrests, criminal felony filings, and prison commitments. Colorado's adult population between the ages of 20 and 49 increased at an average annual rate of 2.5 percent between 1990 and 2000. Correspondingly, the 1990s were a decade of strong prison population growth, with an average annual rate of growth of 7.6 percent between June 1990 and June 2000. As Colorado's population is projected to continue to grow, we expect this to contribute to an increase in the total number of new admissions to prison. However, the state's adult population between the ages of 20 and 49 is projected to grow at a much slower pace--0.8 percent--from 2000 to 2010. Slower population growth is one reason for the relatively slower prison population growth during the forecast period.
- Economic factors.** When the economy is strong and job opportunities are available, income and earnings rise. The prospect of a job and increased wages raises the opportunity cost of committing a crime. This means that people will be less likely to resort to crime, particularly nonviolent property crimes, if legitimate economic prospects are available. Several studies suggest that weak earnings and employment growth cause an increase in prison admissions. There is a lag time of a year to over two years for poor economic conditions to translate into increased crime, criminal filings, convictions, and ultimately, prison admissions.

- **Legislation.** While demographic and economic factors are important factors in forecasting the prison population, modifications to the Colorado Criminal Code can also have a significant impact on inmate population growth. Recent legislation affecting the prison population includes *Senate Bill 03-252* and *Senate Bill 03-318*. *Senate Bill 03-252* eliminated the mandatory 12-month revolving supervision period created by *House Bill 98-1160* and limited the time a parolee could be revoked to six months if the revocation was for a technical violation. *Senate Bill 03-252* is expected to lower the prison population and raise the parole population. *Senate Bill 03-318* reduced the penalty for the possession of small amounts (one gram or less) of controlled substances from a class 3, class 4, or class 5 felony to a class 6 felony. This is also expected to reduce the prison population.

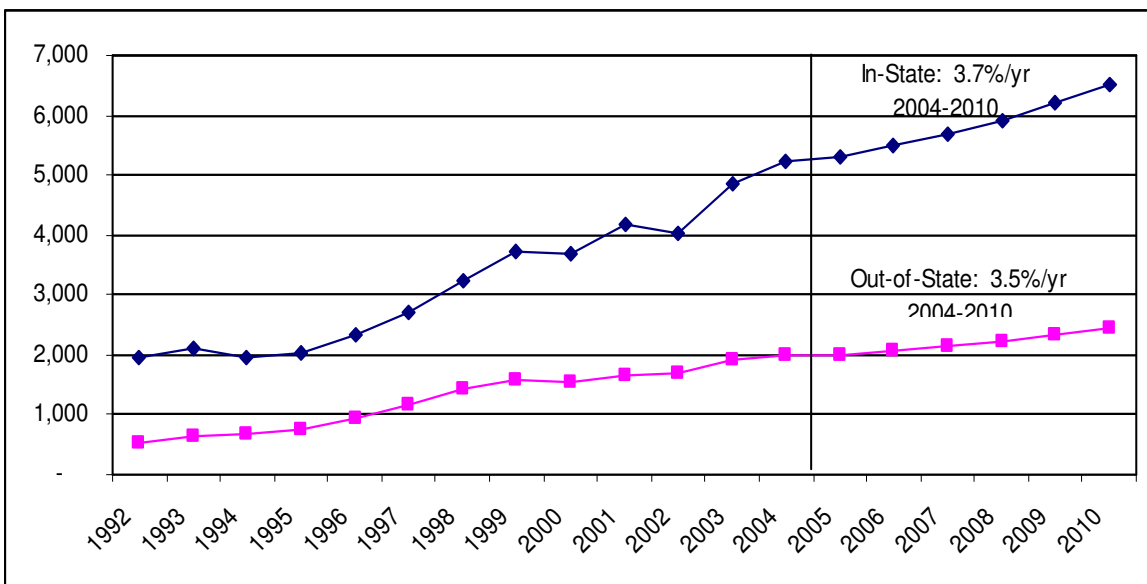
**Other factors impacting inmate population.** Besides the external variables described above, other factors within the criminal justice system affect the inmate population. First, the actions of the Parole Board can have a significant affect upon the prison population. For example, Parole Board policies or guidelines that increase parole revocations and/or reduce prison releases to parole will result in higher inmate population growth, all other things constant. Conversely, Parole Board policies that decrease parole revocations and/or increase prison releases to parole will result in lower inmate population growth. Second, the actions of the judicial system can affect inmate population growth. In particular, the commitment of more offenders than average to prison and the imposition of stricter sentences by judges will increase both admissions to prison as well as the length of stay within prison. Finally, the mix of crimes committed and prosecuted can impact prison population growth. In an age of scarce resources and shrinking budgets, prosecutors may prioritize the most serious offenses, which will usually carry longer prison sentences if a conviction is reached. Consequently, the mix of inmates within prison can shift to more violent offenders who have longer prison sentences. For example, persons convicted of a felony sex offense could be sentenced to a maximum of the offender's lifetime. The population of these offenders has grown significantly in the past few years, which has exerted upward pressure on the overall inmate population growth rate.

**Adult Parole Population Trends and Forecast.** From June 1992 until June 2004, the parole population supervised in-state grew at an average annual rate of 8.6 percent. In the most recent fiscal year, the in-state parole population grew 7.9 percent. Table 19 provides a history of the parole population supervised in-state and out-of-state. Table 19 also provides the parole population forecast through June 2010. The forecast estimates the parole population *supervised in Colorado* as well as the parole population *served out of state* (including parole *absconders* — parolees who have not reported and are considered fugitives). The number of parolees *supervised in Colorado* will increase at an annual rate of 3.7 percent throughout the forecast period — from 5,244 parolees as of June 2004 to 6,511 parolees as of June 2010. The number of *total* parolees will increase at an average rate of 3.6 percent over the forecast period, from 7,238 parolees as of June 2004 to 8,956 parolees as of June 2010. Figure 6 illustrates the parole population from 1992 through the forecast period for in-state and out-of-state parolees.

**Table 19**  
**June 30th Parole Population, In-State and Out-of-State Parolees**

	<b>In-State</b>	<b>% Change</b>	<b>Out-of-State</b>	<b>% Change</b>	<b>Total</b>	<b>% Change</b>
1992	1,943		543		2,486	
1993	2,116	8.9%	657	21.0%	2,773	11.5%
1994	1,958	-7.5%	690	5.0%	2,648	-4.5%
1995	2,026	3.5%	744	7.8%	2,770	4.6%
1996	2,322	14.6%	924	24.2%	3,246	17.2%
1997	2,695	16.1%	1,155	25.0%	3,850	18.6%
1998	3,219	19.4%	1,433	24.1%	4,652	20.8%
1999	3,722	15.6%	1,569	9.5%	5,291	13.7%
2000	3,685	-1.0%	1,537	-2.0%	5,222	-1.3%
2001	4,192	13.8%	1,646	7.1%	5,838	11.8%
2002	4,037	-3.7%	1,680	2.1%	5,717	-2.1%
2003	4,858	20.3%	1,906	13.5%	6,764	18.3%
2004	5,244	7.9%	1,994	4.6%	7,238	7.0%
2005	5,317	1.4%	2,010	0.8%	7,327	1.2%
2006	5,492	3.3%	2,070	3.0%	7,563	3.2%
2007	5,696	3.7%	2,143	3.5%	7,840	3.7%
2008	5,910	3.7%	2,222	3.7%	8,132	3.7%
2009	6,211	5.1%	2,330	4.8%	8,540	5.0%
2010	6,511	4.8%	2,445	4.9%	8,956	4.9%

**Figure 6**  
**June 30th Parole Population Supervised In-State and Out-of-State**



**Factors in adult parole population growth.** The following discusses three factors that affect the parole population: prison commitment trends, the implementation of mandatory parole, and changes in the number of releases to parole.

- **Prison commitments.** An increase in prison commitments will have a direct lagged impact on the parole population. Consequently, when the rate of growth in prison commitments decreases (or increases), growth in the parole population will be expected to eventually decelerate (or accelerate). Moreover, the types of prison commitments can alter the rate of growth of the parole population. Prison commitments with longer sentences can cause parole deferrals to rise, thereby reducing the rate of growth of the parole population. It is likely that increased admissions for statutorily defined crimes of violence (corresponding to longer sentences) have influenced the rise in parole deferrals. For example, the proportion of court commitment admissions involving a violent crime increased from 18.5 percent in FY 1992-93 to 27.1 percent in FY 1999-00, but dipped to 24.1 percent in FY 2002-03. In addition, the percentage of the prison population that committed a violent crime increased from 36.4 percent in FY 1993-94 to between 40% and 45% in the last few years.
- **Mandatory parole.** House Bill 93-1302 created mandatory parole for all inmates released from prison who committed a crime after June 1993. The implementation of mandatory parole drove up the parole population by sending more inmates to parole supervision and by increasing the average length of stay on parole. As a result of more prison releases to parole and longer parole periods, technical parole revocations (such as failing a drug test or not contacting one's parole officer, as opposed to committing a new crime) have increased significantly since FY 1992-93.
- **Parole Board release and revocation decisions.** The Parole Board is a key influence on the growth in the parole population and the prison population (as described above). Parole Board decisions to revoke parole directly reduce the parole population, but increase the prison population. Conversely, discretionary decisions to release inmates to parole increase the parole population, but reduce the prison population. When prison releases to parole grow at a slower pace than prison admissions, the prison population increases. Moreover, the Parole Board directly influences the parole population by determining when parolees are released from parole.

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

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

The economy also has a significant influence on the prison and parole populations. If another recession occurs or the economic recovery continues to be delayed, prison admissions will rise.

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

## Youth Corrections Population Projections

- The Division of Youth Corrections (DYC) **commitment population** will increase from an average daily population of 1,377.4 in FY 2003-04 to 1,446.1 in FY 2004-05. By FY 2009-10, the commitment population will grow to 1,654.8, representing average annual growth of 3.1%.
- Due to legislation passed by Colorado General Assembly, the average daily **parole population** will decrease to 486.0 in FY 2004-05, an 8.6% decrease.

This section of the forecast provides: an overview of juvenile offender sentence placements; recent trends in the juvenile offender population; a discussion of the factors driving the juvenile offender population; and the estimates for the commitment and parole populations from FY 2004-05 to FY 2009-10. Table 20 present the juvenile commitment population forecast, while Table 21 provides the juvenile parole forecast.

## Juvenile Offender Sentencing Options

There are several placements available for juvenile offenders. Juveniles that are not prosecuted as adults are managed through the juvenile courts. If the court determines that the defendant committed a crime, the juvenile is *adjudicated* a delinquent. Upon determination of guilt, the court may sentence a juvenile to any one or a combination of the following:

- **Commitment.** Depending on the juvenile's age and offense history, a juvenile offender may be committed to the DYC custody for one to seven years if the juvenile committed an offense that would be a felony or misdemeanor if committed by an adult.
- **Detention.** The court may sentence a juvenile to a detention facility if he or she is found guilty of an offense that would be a lower class felony or misdemeanor if committed by an adult. A sentence to detention may not exceed 45 days. Detention services are managed by the DYC.
- **County jail or community corrections.** Juveniles between 18 and 21 who have been adjudicated delinquents prior to their 18th birthday may be sentenced to county jail for up to six months or to a community correctional facility or program for up to one year.
- **Probation or alternative legal custody.** The court may order the juvenile to be supervised by the judicial district and must report to a probation officer. Conditions of probation may include participation in public service, behavior programs, restorative justice involving the

victim, or restitution. The court may also place the juvenile in the custody of a county department of social services, a foster care home, a hospital, or a child care center.

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

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

### **Division of Youth Corrections Sentencing Placements and Population Overview**

***Detention.*** Detention facilities house youths who are awaiting trial and youths who receive a short-term sentence of up to 45 days. The DYC manages eight secure detention centers and contracts for additional budgeted detention beds.

In May of 2003, a legislative cap was placed on detention, mandating a population of no more than 479 youths. *Legislative Council Staff continues to track detention population trends but will no longer forecast detention bed need.*

***Commitment.*** The commitment population consists of juveniles who have been adjudicated for a crime and committed to the custody of the Department of Human Services. A juvenile may be sentenced to DYC for a period between one and seven years, depending on the nature of the crime and the juvenile's criminal history.

In FY 2003-04, the average daily commitment population was 1,377.4, representing a 3.7% increase from the prior year. This is a somewhat smaller growth rate than the average annual growth of 5.0% a year from FY 1996-97 to FY 2002-03. However, it is the highest rate of growth since 2000-01.

### **Influences on the Juvenile Offender Population**

The growth in the juvenile offender population are related to a combination of factors. Demographic factors, juvenile delinquency, and policy changes all affect the juvenile offender projections.

***Population growth.*** The growth in the Colorado population of juveniles age 10 to 17 increased 40% between 1990 and 2000. Likewise, the commitment population increased 30% in that ten-year period. However, from 2000 to 2010, this population cohort is expected to increase only 9%. The slower growth of the juvenile population through the forecast period will translate to a slower growth in the commitment population over the decade.

***Juvenile crime.*** Two indicators of juvenile crime, juvenile arrests and delinquency court filings, decreased in recent years. In each year from 1998 to 2002, juvenile arrests decreased. Meanwhile, delinquency filings decreased four out of the last five years. These trends contributed to the slowing growth of the DYC commitment population.



***State and local policy changes.*** Policies that change the capacity of facilities or sentencing alternatives for delinquent juveniles affect the youth corrections population. These include the creation of diversionary programs as alternatives to incarceration, juvenile handgun legislation, mandated caps on sentence placements, and changes to the length of stay on parole.

## **Legislative Impact upon the DYC Population**

Several recent measures have influenced the juvenile offender population. The following paragraphs discuss recent significant legislative measures and their impacts on the DYC population.

***Senate Bill 01-077 — Reducing juvenile parole.*** This bill reduced the minimum parole period from twelve months to nine months for certain nonviolent juveniles. This bill took effect beginning FY 2001-02 and had an impact in decreasing the parole population. In FY 2001-02, the parole population decreased for the first time in five years.

***House Bill 01-1357 — Community Accountability Program.*** This bill created the Community Accountability Program (CAP) to replace the Juvenile Regimented Inmate Training Program that sunset June 30, 2001. The program was originally intended to have a similar capacity as the Boot Camp — 80 beds with a maximum length of stay of 60 days with aftercare programs upon completion. However, the program incorporated principles of restorative justice and provided aftercare services during the youth's transition back to the community. In order to meet budgetary restrictions, the CAP was eliminated in October 2002 after four months of operation.

***Budgetary Cuts for FY 2003-04: Senate Bill 03-284 — Reducing juvenile parole.*** This bill reduced the minimum parole period from nine months to six months. This bill took effect May 2003 and is expected to decrease the parole population in the second half of FY 2003-04 and FY 2004-05.

***Budgetary Cuts for FY 2003-04: Senate Bill 03-286 — Limiting juvenile detention beds.*** This bill placed a cap on the number of available detention beds at 479. This represented a 7.5% decrease of total beds. Because the reduction represented fewer contract placements, contract beds decreased by 56.5%. Judicial districts were directed to develop plans to ensure the cap would not be exceeded.

***General Fund Budgetary Cuts for FY 2003-04: Judicial Appropriation Bills.*** The Judicial Department's FY 2003-04 General Fund budget was cut by \$21.0 million, or 9.2%, from the prior year (cuts were offset by fee increases, resulting in a net budget reduction of \$10.7 million). As a result, the number of probation officers was reduced and probation caseloads increased. Increased caseloads are likely to lead to less effective supervision and more juvenile crime, resulting in more placements to commitment. The increased caseload may translate to increased admissions to DYC because courts may choose to sentence an adjudicated delinquent youth to commitment rather than burden the probation caseload. (However, an increased probation caseload may translate to fewer admissions to DYC because an overloaded probation officer may not be able to effectively detect probation violations, leading to fewer revocations and fewer commitment placements.)

**Budgetary Cuts for FY 2004-05: Reduction of S.B. 91-94 funding.** Funding for the Senate Bill 91-94 grant programs was reduced by \$1 million (11%) for FY 2004-05. These programs are intended to divert juveniles from detention or commitment. To the extent that the lower funding level impacts the effectiveness and scope of these programs, there could be some increase in the commitment population.

### DYC Commitment Population Projections

In FY 2004-05, the commitment population will average 1,446.1, representing a 5.0% rise over last year. By FY 2009-10, the commitment population will increase to 1,654.8, representing an average annual growth rate of 3.1% a year. Increased admissions and longer lengths of stay contribute to the population growth in the forecast period. However, due to the expected slower growth in the juvenile population and crime indicators through the forecast period, commitment population growth will not reach rates witnessed over the past six years. Table 20 provides the average annual commitment population estimates from FY 2004-05 to FY 2009-10.

**Table 20  
Commitment Average Daily Population**

	Actual				Forecast					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Commitment Population</b>										
	1,277.7	1,290.0	1,327.8	1,377.4	1,446.1	1,497.9	1,534.5	1,570.2	1,611.6	1,654.8
Annual Growth		1.0%	2.9%	3.7%	5.0%	3.6%	2.4%	2.3%	2.6%	2.7%
FY 2003-04 to FY 2009-10 Average Annual Growth Rate										3.1%

### Juvenile Parole Population Projections

Table 21 reports the juvenile parole average daily population projections. With the passage of Senate Bill 01-077, the minimum parole period was reduced from twelve months to nine months for nonviolent offenders. In FY 2001-02, the parole population decreased 3.9%, the first decline in five years. In FY 2002-03, nearly all parolees were eligible for a nine-month parole period and the population dropped an additional 18.1%. In order to reduce budgetary costs, the minimum parole period was again lowered from nine months to six months (Senate Bill 03-284). As a result, the parole population dropped once again in FY 2003-04.

As a result of the recent parole period reductions, the juvenile parole population will not grow as significantly over the forecast period as it did prior to FY 2001-02. In FY 2004-05, the population will continue to decline as the six-month parole period applies to everyone in the system. The shorter parole period will not have an effect on the growth in the parole population beyond FY 2004-05 because the figures will have been "re-based" to a six-month parole program. However, because the six-month parole period can be extended by the parole board in a majority (55%) of cases, the impact of shifting parole from nine to six months will not be as significant as the impact from reducing parole from twelve to nine months. Once all parolees are subject to the shorter minimum parole period, the parole population will rise. Over the forecast period, the parole population will increase to 641.6 by FY 2009-10, growing at an average annual rate of 3.2% a year.

**Table 21**  
**Division of Youth Corrections Parole Population**

	Actual				Forecast					
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
<b>Parole Population</b>										
	720.7	692.9	567.2	532.3	486.0	517.5	554.9	593.4	607.0	641.6
Annual Growth		-3.9%	-18.1%	-6.2%	-8.7%	6.5%	7.2%	6.9%	2.3%	5.7%
FY 2003-04 to FY 2009-10 Average Annual Growth Rate										3.2%

**Risks to the forecast**

Commitment sentences depend upon the discretion of the courts. If a new alternative becomes available, judges may shift their sentencing decision process to place more offenders in alternative placements. The youth corrections forecast assumes that no new alternatives will become available and the sentencing decision process will be consistent with present practices.

The Parole Board has a tremendous influence upon the parole population and the population of revocations and re-commitments. The youth corrections forecasts assume that the Parole Board will not change its present tendencies or policies.

Population changes significantly impact the youth corrections population. If the state were to experience a population boom similar to that in the late 1990s, we would expect to see similar increases in the youth corrections population. Also, economic conditions can have a significant impact. If the state economic recovery is delayed or occurs slower than in other states, and new jobs or wage increases are slow to appear, admissions may rise at a faster pace.

Finally, legislation passed by the General Assembly (i.e. penalties, length of parole, funding for alternatives to commitment) can have a significant impact upon the youth corrections populations. This forecast assumes that current state law will not be changed.

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## Colorado Economic Regions

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Metro Denver  
Pueblo — Southern Mountains  
Western Region  
Mountain Region  
Northern Region  
Eastern Plains

## Metro Denver

Economic indicators for the metro-Denver region, including Boulder County, are shown in Table 22. The metro-Denver employment situation has gradually improved since the beginning of 2004, but has lagged the recovery in most of the rest of the state. Employment in October was 0.9 percent, or 11,800 jobs, higher than a year ago. In January, the number of nonfarm jobs was 1.4 percent below the previous year. For the year, employment is down 0.2 percent. Large declines thus far in 2004 occurred in the combined natural resources and construction sectors (down 5.5 percent) and the information sector (down 3.8 percent). The educational and health services sector grew by 2.1 percent, while employment in the professional and business services sector increased a modest 1.0 percent.

	Year-to-date Thru October		
	2002	2003	2004
<b>Employment Growth /1</b>	-2.9%	-2.2%	-0.2%
<b>Unemployment Rate</b> 2004 rate is for October only	5.9%	6.3%	5.2%
<b>Housing Permit Growth /2</b>	-19.7%	-22.5%	23.6%
<b>Growth in Value of Nonresidential Const. /3</b>	-27.8%	-20.8%	-2.1%
<b>Retail Trade Sales Growth /4</b> YTD thru September 2004	-0.5%	1.4%	3.1%

1/ U.S. Department of Labor, Bureau of Labor Statistics. Data represents nonfarm employment.  
2/ U.S. Census Metropolitan Statistical Area Data  
3/ F.W. Dodge  
4/ Colorado Department of Revenue.

After two lackluster years of near 20 percent or higher declines, permits for new housing have taken off in 2004, according to data from the U.S. Census Bureau. The number of permits was 23.6 percent higher through October. Permits for single-family homes increased 21.6 percent, while permits for multi-family housing soared 31.1 percent.

The news for sales of existing homes was also positive. The number of closings increased 11.8 percent through November.

### *Recent Economic News*

- A study by CB Richard Ellis, a real estate brokerage firm, indicated that the Denver-Boulder office vacancy rate was 23.4 percent in the third quarter. The northwest area of the metro-Denver region has a vacancy rate of 40.8 percent, the highest in the region. The Cherry Creek and southwest regions had the lowest vacancy rates at 15.4 percent and 16.1 percent, respectively.
- Ameritrust Mortgage Co. will open a data center in Douglas County, creating 125 jobs. The company will hire network engineers, computer operators, and systems administrators. The data center is expected to open in March 2005.
- Verilink Corp. will relocate its corporate office from Alabama to Centennial in December. The company supplies broadband access equipment. Approximately 25 workers will be at the new location.
- TransFirst, a bank card processor, added 110 workers to its Louisville staff.
- The grand opening of the expanded Colorado Convention Center in downtown Denver took place in early December. The expansion of the center increased the square footage from 900,000 to 2.2 million and cost \$310 million. Increased bookings at the center have already occurred. The 1,000-room Hyatt Denver Convention Center Hotel is under construction across from the center and will open in December 2005. Meanwhile, plans were announced for a 220-room Hilton Garden Inn across from the Hyatt facility.
- According to the Colorado Hotel and Lodging Association, the average occupancy rate for

hotels and motels was 63.5 percent in October, compared with 61.8 percent a year earlier. However, the average room rate is down slightly this year.

- The Software Industry and Information Association ranked the Boulder-Longmont area as the top metro area for software-related employment in 2003. It was the fifth consecutive year that the area received the number one ranking. The metro-Denver area was ranked 13<sup>th</sup>.

## Pueblo—Southern Mountains

Table 23 shows economic indicators for the Pueblo region. All economic indicators are expanding.

<b>Table 23</b>			
<b>Pueblo Region Economic Indicators</b>			
Pueblo, Fremont, Custer, Huerfano, and Las Animas Counties			
	2002	2003	Year-to-date Thru October 2004
<b>Employment Growth /1</b>	-0.9%	-0.9%	1.9%
<b>Unemployment Rate</b> 2004 rate is for October only	6.3%	6.3%	6.2%
<b>Housing Permit Growth /2</b> Pueblo County Only	-6.3%	-1.6%	2.3%
<b>Growth in Value of Nonresidential Const. /3</b> Pueblo County Only	-26.7%	213.3%	54.5%
<b>Retail Trade Sales Growth /4</b> YTD thru September 2004	1.0%	0.8%	6.8%

1/ Colorado Department of Labor and Employment. Annual data are from the ES-202 program. 2004 YTD data is from the Current Population (household) Survey.  
2/ U.S. Census  
3/ F.W. Dodge  
4/ Colorado Department of Revenue.

Employment has increased 1.9 percent through October, following decreases of 0.9 percent in both 2002 and 2003. The unemployment rate remains stubbornly high, however. Following unemployment levels of 6.3 percent in the last two years, it was 6.2 percent in October.

According to F.W. Dodge, the value of nonresidential construction has increased 54.5 percent this year. Construction of hospital and health treatment facilities increased from \$0.5 million to \$20.8 million. This helped to offset a \$6.1 million drop in construction of education and science buildings.

### *Recent Economic News*

- Dun & Bradstreet Receivable Management Services will locate in downtown Pueblo and create 300 new jobs. Dun & Bradstreet will operate in space formerly occupied by

QualMed. The company provides collection services and manages payments between companies and between businesses and consumers. It will start local operations in April 2005.

- Two firms in Pueblo are shutting down or cutting back. Eaton Corporation, a manufacturer of control panels for commercial water chillers, lost its sole customer and will cease operations next spring. Thus, 39 workers will be laid off beginning in April 2005. Meanwhile, 25 employees lost their jobs at Bene-sight, a health plan manager. Ninety-five workers will remain at the company.
- A Home Depot store will open in Cañon City. The city council gave initial approval to rezoning the building site and initial improvements to the land are expected to start in early 2005. The building will be smaller than the typical Home Depot store.

## Western Region

The western region has an economic base based on natural resource extraction, tourism, and increased second home activity. Economic activity is relatively robust in the western region. Retail sales, employment, and construction activity are typically increasing at rates exceeding the statewide average. Table 24 shows economic indicators for the region since 2002.

<b>Table 24</b>			
<b>Western Region Economic Indicators</b>			
Moffat, Rio Blanco, Garfield, Mesa, Delta, Montrose, San Miguel, Ouray, Hinsdale, Archuleta, La Plata, Dolores, San Juan, and Montezuma counties			
	2002	2003	Year-to-date Thru October 2004
<b>Employment Growth /1</b>	1.0%	0.6%	3.5%
<b>Unemployment Rate</b> 2004 rate is for October only	4.9%	5.0%	4.5%
<b>Housing Permit Growth</b>			
Mesa County 2/	11.7%	13.4%	9.1%
Montrose County 3/	-1.4%	23.0%	35.3%
La Plata County 3/	5.7%	27.6%	-24.7%
<b>Growth in Value of Nonresidential Const. /3</b>			
Mesa County	-23.6%	-31.7%	18.2%
Montrose County	201.4%	-16.7%	109.4%
La Plata County	582.5%	457.4%	-27.8%
<b>Retail Trade Sales Growth /4</b> YTD thru September 2004	0.7%	2.6%	7.6%

1/ Colorado Department of Labor and Employment. Annual data are from the ES-202 program. 2004 YTD data is from the Current Population (household) Survey.  
2/ U.S. Census  
3/ F.W. Dodge  
4/ Colorado Department of Revenue.

The western region was one of two regions to avoid employment declines in 2002 and 2003. Employment growth has been stellar this year, posting a gain of 3.5 percent. The growth is fueled by a rebound in tourism and higher natural resource prices.

Tourism was relatively soft in 2002 and 2003. It has rebounded with a better national economy and the easing of drought in the west. Consequently, retail trade sales increased by 7.6

percent through September, compared with the previous year.

### *Recent Economic News*

- The airline industry has been suffering nationwide for several years. The industry's attempts to cut costs will cause the layoffs of 240 workers and the closing of the Hamilton Sundstrand plant in Grand Junction. The local manufacturing plant makes components for aircraft systems such as electric power systems or auxiliary power units. The work will be shifted offshore to Singapore. Reductions in the work force are anticipated to begin in 2005 and the plant will cease operations in 2006.
- The high price of natural gas is responsible for increased drilling activity in Garfield County. Williams Production plans to drill more than 800 new wells during the next three years. The company also plans to expand the capacity of a gas plant by more than 150 percent starting in April. EnCana Oil and Gas expects to match its 2004 level of 250 new wells next year.
- The Office of Federal Housing Enterprise Oversight reported that home price appreciation in Grand Junction outpaced other metro areas in Colorado in the year ended on September 30. The average local home price increased 10.5 percent, compared with the statewide average increase of 4.9 percent.



## Mountain Region

The mountain region includes Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, Chaffee, and Gunnison counties. Table 25 shows economic indicators for the mountain region.

<b>Table 25</b>			
<b>Mountain Region Economic Indicators</b>			
Routt, Jackson, Grand, Eagle, Summit, Pitkin, Lake, Park, Teller, Clear Creek, Gilpin, Chaffee, and Gunnison counties			
	2002	2003	Year-to-date Thru October 2004
<b>Employment Growth /1</b>	-1.4%	-2.2%	0.9%
<b>Unemployment Rate</b> 2004 rate is for October only	4.5%	4.5%	4.1%
<b>Housing Permit Growth /2</b> Eagle, Pitkin, & Summit Counties 2/ Routt County 3/	0.5%	25.8%	-30.6%
	-9.3%	58.7%	21.5%
<b>Growth in Value of Nonresidential Const. /2</b> Eagle, Pitkin, & Summit counties Routt County	-9.0%	-54.6%	232.7%
	-64.8%	-16.8%	159.0%
<b>Retail Trade Sales Growth /4</b> YTD thru September 2004	-2.7%	0.2%	6.7%

1/ Colorado Department of Labor and Employment. Annual data are from the ES-202 program. 2004 YTD data is from the Current Population (household) Survey.  
2/ F.W. Dodge  
3/ U.S. Census  
3/ Colorado Department of Revenue.

Employment in the region increased 0.9 percent through October. A recovering national economy and an easing of the drought helped to boost employment after two years of job losses in the region. Increased tourism is also evidenced by a 6.7 percent increase in retail trade sales.

### Recent Economic News

- A Florida-based company is planning a golf course community in Silverthorne. The community will include 350 condo-hotel units, 350 townhomes, and 100 single-family homes.

- Expansion plans for the Crested Butte ski resort are underway. Skier visits at the resort have declined in recent years. To attract more skiers and other year-round visitors, the expansion will include a 55,000-square-foot ski center, a 20,000-square-foot conference center, 816,000 square feet of residential living space, a 156-room hotel, a community recreation center, and a large underground parking garage.
- A spur road from Interstate-70 to Central City opened in November. The \$38 million highway will trim more than 20 minutes from the time to get to the gaming town. The road is financed by additional local taxes on Central City's casinos. The casinos hope that more gaming patrons will visit their casinos. While five casinos are currently in Central City, it is expected that two more will open in 2005.
- Gaming revenue (adjusted gross proceeds, or AGP) in each of the state's gaming towns increased in October. In advance of the new road to their town, Central City enjoyed an 18.4 percent increase from the previous year. Gaming proceeds in Black Hawk and Cripple Creek increased 9.8 percent and 11.7 percent, respectively. The healthy gains were attributable to October having five full weekends versus only four weekends in October 2003. Travel to the gaming towns peaks on weekends.

## Northern Region

Table 26 shows the economic indicators for the northern region. The employment downturn of 2002 and 2003 was not as severe in Weld and Larimer counties as it was in other major metropolitan regions in Colorado. Employment in Weld County increased in both years, while jobs in Larimer County had a modest retrenchment compared with the entire state. Both counties are registering employment gains in 2004. Employment has increased 1.2 percent in Larimer County and a robust 2.7 percent in Weld County.

	2002	2003	Year-to-date Thru October 2004
<b>Employment Growth /1</b>			
Larimer County	-0.4%	-1.1%	1.2%
Weld County	1.2%	0.3%	2.7%
<b>Unemployment Rate</b> (2004 rate is for October only)			
Larimer County	5.2%	5.2%	4.9%
Weld County	6.0%	6.4%	6.1%
State Cattle and Calf Inventory Growth /2			
	-3.6%	-24.1%	7.4%
<b>Housing Permit Growth /3</b>			
Larimer County	-17.1%	-1.1%	2.5%
Weld County	2.6%	-10.2%	14.5%
<b>Growth in Value of Nonresidential Const. /4</b>			
Larimer County	8.0%	-35.8%	210.3%
Weld County	-33.8%	33.3%	21.8%
<b>Retail Trade Sales Growth /5</b> (YTD thru September 2004)			
Larimer County	1.7%	0.2%	2.8%
Weld County	7.8%	5.1%	13.5%

1/ Colorado Department of Labor and Employment. Annual data are from the ES-202 program. 2004 YTD data is from the Current Population (household) Survey.  
2/ Colorado Agricultural Statistics Service.  
2004 figure represents October 1, 2004 compared with October 1, 2003.  
3/ U.S. Census  
4/ F.W. Dodge  
5/ Colorado Department of Revenue.

Paralleling the robust jobs growth in Weld County, building permits and retail trade sales are also booming. According to the U.S. Census Bureau, building permits in the Greeley area increased 14.5 percent. Permits for multi-family

units surged 91 percent, while permits for single-family housing increased 6.9 percent. Meanwhile, retail trade sales increased 13.5 percent through September, compared with the same period in 2003.

Building permits and retail trade sales in Larimer County have increased modestly thus far in 2004, with increases of 2.5 percent and 2.8 percent, respectively. However, the value of non-residential construction has skyrocketed 210 percent, according to F.W. Dodge. Increases of more than 100 percent have occurred in the commercial, education and science, and hospital and health treatment sectors.

### Recent Economic News

- While employment is increasing in the region, the high-tech downturn continues to plague the area. Celestica, an electronics manufacturer and service provider, laid off 44 workers in mid-November. In the past two months, Celestica, Agilent Technologies, Advanced Energy, and LSI Logic have laid off 400 workers.
- Approximately 800 workers will be laid off on December 20 from the Swift and Co. meat-packing plant in Greeley. Export restrictions on beef and the expiration of a contract with ConAgra were responsible for the layoffs. The 800 workers represent just over one percent of the Greeley employment base. The dismal news will slow the heretofore robust economic growth in Weld County and surrounding areas as 2005 unfolds.
- An ethanol plant will be built in Evans. The \$83 million plant will hire about 50 workers with an average salary of \$40,000. The location has the advantage of being close to a large amount of agricultural production in Weld County and nearby counties, as well as refineries in the north part of the Denver area. The plant is expected to open in late 2005, and produce 56 million gallons of ethanol annually, utilizing 20 million bushels of grain.

Another company is also looking to build an ethanol plant in Weld County.

- Construction started on an 89-room Holiday Inn Express in Fort Collins. The building will be 50,000 square feet on 2.2 acres.
- American Furniture Warehouse will build a 500,000-square-foot store and warehouse in Firestone. The store in southwest Weld County will serve the growing north metro-Denver suburbs as well as Longmont and Larimer and Weld counties. It will employ about 300 workers upon completion.

## Eastern Plains

Table 27 shows the economic indicators for the eastern plains region. Employment in the region increased 4.2 percent through October, compared with a year ago. The unemployment rate was 3.4 percent in October versus 4.0 percent for all of 2003. Retail trade sales increased only 2.9 percent, the weakest growth rate of the state's regions.

<b>Table 27</b>			
<b>Eastern Region Economic Indicators</b>			
Logan, Sedgwick, Phillips, Morgan, Washington, Yuma, Elbert, Lincoln, Kit Carson, Cheyenne, Crowley, Kiowa, Otero, Bent, Prowers, and Baca counties			
	2002	2003	Year-to-date Thru October 2004
<b>Employment Growth /1</b>	-0.1%	-0.5%	4.2%
<b>Unemployment Rate</b>			
2004 rate is for October only	4.0%	4.0%	3.4%
<b>State Crop Production Growth /2</b>			
Sorghum /a	-81.0%	140.0%	62.0%
Corn for Grain /a	-25.0%	7.0%	7.0%
Sugar beets /a	-3.6%	-12.6%	25.0%
<b>State Cattle and Calf Inventory Growth /2</b>	-3.6%	-24.1%	3.8%
<b>Retail Trade Sales Growth /3</b>			
YTD thru September 2004	-4.6%	-0.5%	2.9%

1/ Colorado Department of Labor and Employment. Annual data are from the ES-202 program. 2004 YTD data is from the Current Population (household) Survey.  
 2/ Colorado Agricultural Statistics Service. Year-to-date figures reflect November 1, 2004, over November 1, 2003.  
 a/ 2004 production forecast by the Colorado Agricultural Statistics Service.  
 3/ Colorado Department of Revenue. Includes food services.

The eastern plains region is the hub of the state's agricultural industry. The Business Economic Outlook Forum, a product of the University of Colorado's Business Research Division, estimated that total farm and ranching production will reach a record high of \$4.9 billion in 2005. Net farm income will increase 5.5 percent.

### Recent Economic News

- Neoplan USA Corp. will reduce its Lamar work force by 93 employees. The bus company will consolidate its production to one manufacturing line to attain greater efficiency. Orders in the industry were down 20 percent in 2003. Federal funding for transit and transportation funding is typically committed on a five-year basis. The last federal

funding act expired in September 2003. Several temporary extensions have been granted since that time. Transit providers have been reluctant to place new bus orders pending another five-year extension of funding. Neoplan will hire back some of the laid-off workers when a long-term transit funding act is approved. The company, which has been in Lamar since the early 1980s, moved its corporate headquarters to Denver in July.

- Colorado's corn for grain production will increase 7 percent this year, according to estimates by the Colorado Agricultural Statistics Service. The increase is due to increased acreage harvested. The yield per acre will decrease from year-ago levels. Sugar beet production will increase 25 percent over 2004.