



Colorado Legislative Council Staff

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

MEMORANDUM

March 9, 2000

TO: Members of the General Assembly

FROM: Tom Dunn, Mike Mauer, and Natalie Mullis, Economists, (303) 866-3521

SUBJECT: Focus Colorado: Economic and Revenue Forecast, 2000-2005

In this memorandum, we present the March 2000 General Fund revenue forecast and overview, the cash funds forecast, projections of excess TABOR revenues, and the national and state economic forecast. The forecast document is abbreviated from the usual publication length due to an earlier publication date. The revenue forecast is presented using current law. We include an alternative General Fund Overview with three tax reductions. The three tax reductions are House Bill 00-1103, reducing the income tax rate from 4.75 percent to 4.65 percent, House Bill 00-1259, reducing the state sales tax rate from 3 percent to 2.85 percent, and House Bill 00-1049, increasing the state earned income tax credit and making it a permanent credit. The alternative General Fund Overview also includes House Bill 00-1055, which increases the capital construction transfer to \$100 million from FY 2002-03 through FY 2004-05.

Summary

- We increased the forecast for **General Fund revenues** by \$102.5 million for FY 1999-00 and by \$1,176.9 million for the six-year forecast period through FY 2004-05. Most of the increase is attributable to strength in individual income tax revenues which continues to exceed all expectations.
- We increased the forecast for **cash fund revenues** by \$5.3 million for FY 1999-00 and by \$41.2 million over the six-year forecast period.

- Given that state revenues exceed the constitutional revenue limits of TABOR, the increases in the forecasts will increase the amount of the **TABOR refund** that must be returned to the state's taxpayers. We project that the excess TABOR revenues will be \$833.0 million in FY 1999-00, an increase of \$105.0 million from the December forecast. By FY 2004-05, excess TABOR revenues are projected to be \$1,723.2 million, or \$291.6 million higher than the December forecast. Over the six-year forecast period, the excess TABOR revenues will average \$1,251.5 million per year.
- The **year-end General Fund reserve** for FY 1999-00 is projected to be \$706.5 million, an increase of \$97.4 million from the December forecast. After FY 1999-00, reserves will exceed current law spending in each year of the forecast. Thus, the year-end reserve increases annually, reaching nearly \$1.3 billion in FY 2004-05. Nonetheless, the year-end reserve will be less than the surplus TABOR revenues that must be refunded in the following year. Further, the increase in General Fund revenues creates essentially a one-time increase in the General Fund reserve because this increase, as well as the increase in cash fund revenues, must be refunded in the following year.
- Three tax reduction bills and increases in the capital construction transfers in the last three years of the forecast period will reduce the excess General Fund reserve by a cumulative \$485.6 million over the forecast period. The minimum level of the excess reserve will be \$315.4 million. The excess reserve is available for additional spending by the General Assembly, whether the spending takes the form of further tax cuts, additional transfers for capital construction, or spending on other allowable items.

Constitutional Spending Limit

The provisions of Article X, Section 20 of the Colorado Constitution (the Taxpayer's Bill of Rights, or TABOR) require that revenue collected above the TABOR limit be refunded to taxpayers in the fiscal year following the fiscal year in which they were collected. The state's TABOR revenue limit is defined as the previous year's TABOR limit multiplied by the sum of the percentage change in the state's population and the Denver-Boulder-Greeley inflation rate in the calendar year prior to the start of the fiscal year.

In FY 1999-00, revenues will exceed the TABOR limit by an estimated \$833.0 million. Revenue growth continues to be stronger than expected. We increased the General Fund revenue estimate by \$102.5 million, while we also increased the cash funds estimate by \$5.3 million. Meanwhile, we incorporated an estimate of \$2.4 million for additional

allowable spending for the inclusion of Northwestern Junior College into the state college system. For the six-year forecast period, we project that the excess revenues will average \$1.25 billion per year. Table 1 shows the estimated excess TABOR revenues for the forecast period, while Table 2 shows a detailed calculation of the TABOR surplus.

**Table 1. Estimated Excess TABOR Revenues
(millions of dollars)**

Fiscal Year	Amount
1999-00	\$833.0
2000-01	\$978.2
2001-02	\$1,098.7
2002-03	\$1,324.5
2003-04	\$1,551.6
2004-05	\$1,723.2
Total	\$7,509.1
Average	\$1,251.5

Under current law, these excess revenues will be refunded via five mechanisms. These refund mechanisms were discussed at length in the December 1999 *Focus Colorado*. Increases in the amounts that must be refunded to taxpayers will be accomplished through the six-tier sales tax refund mechanism.

General Fund Revenue

Table 3 shows the forecast of General Fund revenue. We increased the forecast of General Fund revenue for the current fiscal year by \$102.5 million. The largest change was in **individual income taxes** (\$76.4 million). Through February, estimated taxes paid by individuals increased by 25.7 percent over the same period last fiscal year. The gains are attributable to strong stock market gains during 1999. Withholding taxes increased by 7.4 percent, despite two administrative changes that reduced the growth in the tax. We increased the forecast of state **sales taxes** by \$8.5 million in the current year. The estimate of **corporate income taxes** is \$7.9 million higher than the December 1999 forecast.

We also increased the General Fund revenue forecast after FY 1999-00. While we projected a compound average annual growth rate of 6.6 percent in the December forecast, we are now projecting a growth rate of 7.2 percent per year. This is slower than the 9.0 percent growth rate that the state experienced over the previous six years. The higher growth rate translates into a cumulative \$1,176.9 million increase in revenues during the six-year forecast period.

General Fund Overview

The General Fund Overview is presented in Table 4. We assumed that the refund of excess TABOR revenues will be made from the General Fund and assumed the current-law transfers and continuing needs for capital construction. We expect that the year-end reserve for FY 1999-00 will be \$706.5 million, an increase of \$97.4 million from the December forecast. After FY 1999-00, reserves will exceed current-law spending in each year of the forecast, thus the year-end reserve increases annually, reaching nearly \$1.3 billion in FY 2004-05. Nonetheless, the year-end reserve will be less than the amount of surplus TABOR revenues that must be refunded in the following year. Further, the increase in General Fund revenues creates essentially a one-time increase in the General Fund reserve because the additional revenues, as well as the increase in cash fund revenues, must be refunded in the following year.

We increased the estimates of the property tax and heating credit available for senior citizens and the disabled. A law change in 1998 increased the amount of the credit available and expanded the income thresholds for eligibility. The credit claimed thus far is more than we expected, thus we raised the forecast by \$4.0 million for the current fiscal year.

The principal of the Controlled Maintenance Trust Fund (CMTF) may be used as full or partial fulfillment of the constitutional (TABOR) emergency reserve requirement for cash and General Funds. It should be noted that the reserved amount, i.e., the CMTF principal, is less than the emergency reserve requirement beginning in FY 2001-02. By 2004-05, we estimate that the shortfall will reach \$44.6 million.

Alternative General Fund Overview

Table 5 shows an alternative General Fund overview with three tax reduction bills currently under consideration by the General Assembly and additional capital construction transfers. The three bills are representative of an approximate \$230 million tax reduction. Other bills could have been selected to illustrate the effects of tax reductions of this size. House Bill 00-1049 makes the earned income tax credit permanent and increases the credit from 8.5 percent to 10 percent of the federal credit. The earned income tax credit is currently a TABOR refund mechanism. House Bill 00-1103 reduces the state income tax rate from 4.75 percent to 4.65 percent. House Bill 00-1259 reduces the state sales and use tax rate from 3 percent to 2.85 percent and holds the diversion of sales and use tax revenues to the Highway Users Tax Fund harmless by increasing the percentage amount of the diversion. House Bill 00-1055 increases the capital construction transfer to \$100 million from FY 2002-03 to FY 2004-05. The transfers represent a cumulative \$198.2 increase over our baseline forecast.

The tax reduction proposals would reduce state taxes by \$229.5 million in the first full year, FY 2000-01. The cumulative reduction over the six-year forecast period would be \$1,338.5 million. The excess General Fund reserve would be reduced by \$229.5 million in FY 2000-01 and by a cumulative \$485.6 million over the forecast period. The excess

reserve would be at least \$315.4 million. The excess reserve is like a savings account. Additional spending by the General Assembly would come from the reserve, whether the spending results from additional tax cuts, transfers for capital construction, or spending on other allowable items.

Cash Funds Revenue Forecast

Total cash fund revenues subject to the TABOR spending limit will increase 3.4 percent in FY 1999-00, 3.8 percent in FY 2000-01, and at a compound average annual rate of 4.1 percent between FY 1998-99 and FY 2004-05. We increased the forecast of cash fund revenues by \$5.3 million for FY 1999-00 and by a total of \$41.2 million over the six-year forecast period. An increase of cash fund revenues increases the amount of the TABOR refund (given that the state has excess revenues). Because the TABOR refund is recorded as a General Fund liability, the amount of excess General Fund reserves will decrease as a result of a higher forecast for cash fund revenues. The following paragraphs describe our forecast of cash fund revenues, while Table 6 shows the forecast for each cash fund category.

Transportation-related cash funds, which include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and several smaller funds, will increase 5.1 percent in FY 1999-00, a result of strong growth in the demand for gasoline and healthy growth in automobile registrations and interest receipts. The forecasts for motor fuel taxes and automobile registrations were revised upward from the December 1999 forecast due to substantially higher-than-expected demand for gasoline and continued increases in the demand for heavier vehicles despite rising gasoline prices. We expect that higher gas prices will slow driving and heavy vehicle purchases in FY 2000-01, thus reducing the growth rate of transportation-related taxes and fees to 3.3 percent in that year.

Higher education cash fund revenue will increase 5.1 percent in FY 1999-00, the result of a 2.1 percent increase in full-time equivalent student enrollment and consistently strong growth in tuition and non-tuition revenue collections. In FY 2000-01, growth in higher education revenues will remain strong at 4.9 percent, a result of slightly stronger enrollment growth of 2.3 percent, a 2.9 percent increase in resident tuition rates, and a 3.5 percent increase in nonresident tuition rates. In recent forecasts, we assumed that the nonresident tuition increases were equal to the resident tuition increases. However, the Joint Budget Committee has tentatively recommended that nonresident tuition rates increase by 3.5 percent. It should be noted that the executive branch recommended a 5.0 percent increase for nonresident tuition. Meanwhile, increased wages among sectors experiencing substantial shortages in skilled labor will cause a slight surge in enrollment during FY 2000-01 and FY 2001-02, as many people retrain to fill the gap.

Total **unemployment insurance** (UI) revenue will increase 2.1 percent in FY 1999-00, primarily due to strong growth in taxable wages and interest earnings. Tax revenues will remain steady in FY 1999-00, while unemployment rates and benefits remain low, serving to depress UI tax revenues. This, however, will be offset by continued gains

in taxable wages resulting from substantial churning in the workforce as employers compete with each other for a limited supply of labor. This trend will continue during FY 2000-01 and FY 2001-02. However, tax revenues will fall during that time period as a result of **House Bill 00-1310**, which provides for a 20 percent tax credit on UI taxes during calendar years 2001 and 2002. The General Assembly passed this proposal and it is awaiting the Governor's signature. Total UI revenue will grow at a compound average annual rate of 3.9 percent between FY 1998-99 and FY 2004-05. Meanwhile, the UI Fund Balance will grow at a compound average annual rate of 6.6 percent to \$995.5 million in FY 2004-05, and will remain solvent throughout the forecast period.

Limited Gaming Cash Fund revenues, which include gaming tax and license fee revenues, will grow 2.0 percent in FY 1999-00. This growth is a result of a tax rate cut offset by torrid growth in casino proceeds. Meanwhile, healthy growth in tourism and personal income, combined with a trend toward larger casinos, will cause gaming tax revenues to increase 13.9 percent in FY 2000-01, and at a compound average annual rate of 10.5 percent over the forecast period.

Wildlife Cash Fund revenues will fall 13.1 percent in FY 1999-00, a result of a substantially reduced offering of buck deer licenses and a policy change in deer license sales. Wildlife revenues will then remain relatively flat for the remainder of the forecast period.

Finally, all **other cash fund** revenue will grow 1.6 percent in FY 1999-00, and at a compound average annual growth rate of 3.0 percent between FY 1998-99 and FY 2004-05. The **Capital Construction Fund** will decline 32.8 percent in FY 1999-00, a result of the elimination of transfers from the Colorado lottery to the fund. Meanwhile, we increased our forecast for the umbrella group of **other cash funds** by \$10.6 million in FY 1999-00, a result of higher-than-expected revenue growth.

NATIONAL ECONOMY

The nation's economy entered its 107th month of the current expansion in February, surpassing the previous record set from 1961 through 1969. Inflation-adjusted gross domestic product (GDP) increased by 4.1 percent in 1999, slowing only slightly from 4.3 percent in 1998 and 4.5 percent in 1997. Inflation seemed restrained in 1999 despite a large surge in oil prices. However, the Federal Reserve Board does see signs of inflation on the horizon and remains poised to act against inflation. The Fed's actions will slow the economy to a more sustainable pace. The detailed national economic forecast can be found in Table 7. The following highlights summarize our national forecast.

- **Real GDP** growth will slow to 3.6 percent in 2000 after exceeding 4.0 percent for the past three years. The economy will expand at a 2.9 percent pace in 2001.
- The nation's **unemployment rate** averaged 4.2 percent in 1999, the lowest rate since 1969. The low unemployment rate is making it difficult for employers to find

workers. We project that the rate will decline to 4.0 percent for 2000 before leveling out between 4.3 and 4.4 percent during the remainder of the forecast period. Nonagricultural **wage and salary employment** growth will be 2.0 percent in 2000 before falling off to a range of 1.2 percent to 1.4 percent for the rest of the forecast horizon.

- **Inflation** is the lowest in nearly 35 years. The average rate of 2.02 percent over the past three years is the lowest since the 1964 to 1966 period when it was 1.97 percent. The inflation rate will average 2.4 percent in 2000, dip to 2.3 percent in 2001, and increase slightly throughout the rest of the forecast period.
- The Federal Reserve Board is concerned about an overheated economy and will increase **interest rates** at least twice more during the remainder of 2000.
- There are three primary, albeit connected, **risks** to the national forecast. First, rising oil prices will impact the inflation rate. While the prices of products have not been adversely affected by oil prices yet, the recent increases will eventually work into the inflation rate. Expansions typically end with rising inflation. Indeed, the last national recession in 1990 began with higher oil prices brought about by the war against Iraq. Second, consumer spending could be deflated by an erosion of wealth. The current economic boom has been largely fueled by strong gains in the stock market and home values. Third, the Fed could overestimate how much tightening is needed to curb inflation, causing a major retreat in investment, the housing boom, and the stock markets. The fulfillment of any of these risks would pose a problem for the Colorado economy as well.

COLORADO ECONOMY

As the final economic statistics for 1999 are released, it is clear that Colorado's economy has not slowed to a significant degree. Nonagricultural wage and salary employment increased 3.7 percent last year, close to the compound average annual growth rate from 1990 to 1998. The unemployment rate averaged a record low 2.9 percent in 1999. In fact, the low unemployment rate is the only negative aspect of the state's economy as employers report difficulty in hiring workers. Construction is at very high levels without excess capacity. Residential building permits dipped slightly but remain higher than any other year since 1983. Nonresidential construction increased 29.9 percent to a record \$3.4 billion. Meanwhile, Coloradans continue to enjoy strong wage gains. Wages increased by an estimated 9.8 percent, following an 11.5 percent gain in 1998. The inflation rate was 2.9 percent in 1999, following a 2.4 percent rate in 1998. The two-year inflation rate is the lowest since the 1988-89 period when the state was emerging from a recession.

We expect that the state's economy will remain robust in 2000 and upcoming years, albeit slowing. The detailed Colorado economic forecast can be found in Table 8. The following highlights summarize our state forecast.

- **Nonfarm employment** will increase 3.3 percent in 2000, following gains of 3.7 percent in 1999 and 3.9 percent in 2000. Job growth will slow further in 2001 and beyond. The **unemployment rate** will move up slowly to 3.2 percent in 2000, 3.5 percent in 2001, and 3.7 percent in 2002. The services and construction sectors will lead the growth in 2000, while manufacturing and mining will experience slight job losses. The rate of growth in the construction sector will slow after 2000, but the number of construction jobs will remain at high levels.
- **Personal income** will increase 8.0 percent in 2000, following an 8.4 percent gain in 1999. These gains will moderate further after 2000, slowing to 7.4 percent in 2001 and 2002. **Wage and salary income**, which accounts for approximately 60 percent of personal income, will increase by 8.8 percent in 2000, by 8.0 percent in 2001, and by 7.8 percent in 2002.
- **Population growth** and the **inflation rate** for the Denver-Boulder-Greeley area are key economic variables because they determine the allowable growth rate for TABOR revenues. Population growth will increase by 2.0 percent in 2000 and 2001, then fall slightly to 1.9 percent in 2002 and 2003. The inflation rate is estimated at 3.2 percent in 2000 and 2001, followed by rates of 3.3 percent and 3.5 percent in 2002 and 2003. Population growth could be higher in 2000 if the estimates from the decennial census catch up with the suspected underestimates of state population during recent years.
- **Residential construction** will decrease slightly during 2000 and 2001, but will remain at high levels. We believe that higher mortgage rates will impact this sector. Meanwhile, the value of **nonresidential construction** will fall slightly during 2000 and 2001, but will be above the level of every year prior to 1999.

Table 2
TABOR Revenue Limit and Emergency Reserve

	<u>FY 1998-99</u>	<u>3/2000 Estimate FY 1999-00</u>	<u>3/2000 Estimate FY 2000-01</u>	<u>3/2000 Estimate FY 2001-02</u>	<u>3/2000 Estimate FY 2002-03</u>	<u>3/2000 Estimate FY 2003-04</u>	<u>3/2000 Estimate FY 2004-05</u>
TABOR Revenues:							
General Fund	\$ 5,749.6 /A	\$ 6,150.8 /A	\$ 6,588.7 /A	\$ 7,050.4 /A	\$ 7,594.2 /A	\$ 8,163.2 /A	\$ 8,714.7 /A
Cash Funds	2,176.4	2,250.2	2,336.2	2,411.8	2,529.1	2,644.5	2,764.5
Total TABOR Revenues	\$ 7,926.0	\$ 8,401.0	\$ 8,924.9	\$ 9,462.2	\$ 10,123.3	\$ 10,807.7	\$ 11,479.2
LIMIT:							
Allowable TABOR Growth Rate	5.5%	4.4%	5.1%	5.2%	5.2%	5.2%	5.4%
Inflation	3.3%	2.4%	2.9%	3.2%	3.2%	3.3%	3.5%
Population Growth	2.1%	2.0%	2.2%	2.0%	2.0%	1.9%	1.9%
Allowable TABOR Limit Revenues Above / (Below)	\$ 7,243.4	\$ 7,564.5 /B	\$ 7,950.3	\$ 8,363.7	\$ 8,798.6	\$ 9,256.1	\$ 9,756.0
TABOR Limit	\$ 679.6 /C	\$ 836.6	\$ 974.7	\$ 1,098.5	\$ 1,324.7	\$ 1,551.6	\$ 1,723.2
EMERGENCY RESERVE:							
TABOR Emergency Reserve	\$ 217.3	\$ 226.9 /D	\$ 238.5 /D	\$ 250.9 /D	\$ 264.0 /D	\$ 277.7 /D	\$ 292.7 /D
Reserved Amount (CMTF Principal)	248.1 /E	248.1 /E	248.1 /E	248.1 /E	248.1 /E	248.1 /E	248.1 /E

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, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out. These figures also include the **net** amount of sales and use tax, after the over-refund of excess TABOR revenues. Senate Bill 97-1 diverts ten percent of the **gross** sales and use tax revenues to the Highway Users Tax Fund.

/B In FY 1999-00, Northwestern Junior College will be included in the state's revenue base and the TABOR limit will be increased by \$2.4 million.

/C The excess TABOR revenues for FY 1998-99 were \$682.6 million. They are reduced by \$3.0 million for previous years' overstatement of excess TABOR revenues.

/D 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 of such amount.

/E The principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement for Cash and General Funds. Thus, the principal of the CMTF is reported as the reserved amount.

Table 3
Colorado General Fund, Accrual Basis
Revenue Estimates by Tax Category
(\$ in millions)

Category	FY 1998-99	%Change Over Prior Year	3/2000 Estimate	%Change Over Prior Year	3/2000 Estimate	%Change Over Prior Year	3/2000 Estimate	%Change Over Prior Year	3/2000 Estimate	%Change Over Prior Year	3/2000 Estimate	%Change Over Prior Year	3/2000 Estimate	%Change Over Prior Year
Sales	\$1,563.7 /A	9.7	\$1,724.4 /A	10.3	\$1,837.0 /A	6.5	\$1,965.5 /A	7.0	\$2,098.8 /A	6.8	\$2,239.3 /A	6.7	\$2,389.3 /A	6.7
Sales Tax Overrefund from TABOR Use	140.2 /A	16.6	(\$6.5)	4.6	(\$28.6)	4.9	(\$31.5)	4.8	(\$38.0)	5.0	(\$43.7)	4.8	(\$54.5)	5.0
Cigarette	60.0	0.2	57.4	-4.3	57.1	-0.5	56.9	-0.4	56.5	-0.6	56.3	-0.5	56.0	-0.5
Tobacco Products	8.6	6.5	8.9	3.6	9.2	3.1	9.7	5.7	10.1	3.9	10.5	4.0	10.8	2.7
Liquor	25.8	2.7	25.8	0.0	26.2	1.7	26.7	1.8	27.2	1.8	27.7	1.8	28.1	1.7
TOTAL EXCISE	\$1,798.3	9.7	\$1,956.8	8.8	\$2,054.8	5.0	\$2,188.5	6.5	\$2,324.0	6.2	\$2,467.4	6.2	\$2,615.9	6.0
Net Individual Income	\$3,326.8	9.0	\$3,639.7	9.4	\$3,984.4	9.5	\$4,288.8	7.6	\$4,658.5	8.6	\$5,049.9	8.4	\$5,433.2	7.6
Net Corporate Income	276.2	5.0	292.7	6.0	279.1	-4.6	290.4	4.0	314.7	8.4	330.1	4.9	341.6	3.5
TOTAL INCOME	\$3,603.0	8.7	\$3,932.4	9.1	\$4,263.6	8.4	\$4,579.2	7.4	\$4,973.2	8.6	\$5,380.0	8.2	\$5,774.8	7.3
Estate	\$67.1	-38.8	\$59.2	-11.8	\$62.7	5.9	\$67.7	8.0	\$70.5	4.0	\$75.1	6.6	\$71.8	-4.4
Insurance	117.9	3.6	119.6	1.5	124.1	3.7	128.3	3.4	132.3	3.1	136.2	3.0	140.2	2.9
Pari-Mutuel	6.2	-12.3	6.3	2.2	6.2	-2.5	6.0	-2.5	5.9	-2.5	5.7	-2.5	5.6	-2.5
Interest Income	47.5	-9.0	43.2	-9.1	42.3	-2.1	44.1	4.3	50.7	15.0	59.4	17.0	65.3	10.0
Court Receipts	25.4	2.0	26.2	3.3	27.1	3.1	27.7	2.5	28.4	2.4	29.2	2.8	30.0	2.8
Gaming	27.3 /B	26.7	28.5 /B	4.4	33.1 /B	16.1	38.7 /B	16.8	43.7 /B	12.9	48.9 /B	12.1	54.6 /B	11.5
Medicaid (Intergovt. Transfer)	73.0	0.5	7.3	-90.0	7.6	4.1	7.6	0.0	7.6	0.0	7.6	0.0	7.6	0.0
Other Income	28.3	-37.6	21.2	-25.1	22.0	3.7	22.5	2.5	23.2	2.8	24.0	3.6	24.9	3.8
TOTAL OTHER	\$392.7	-12.2	\$311.6	-20.6	\$325.0	4.3	\$342.7	5.4	\$362.1	5.7	\$386.1	6.6	\$399.9	3.6
GROSS GENERAL FUND	\$5,794.0	7.3	\$6,200.8	7.0	\$6,643.3	7.1	\$7,110.5	7.0	\$7,659.3	7.7	\$8,233.6	7.5	\$8,790.7	6.8
REBATES & EXPENDITURES:														
Cigarette Rebate	\$16.7	-0.4	\$16.0	-4.3	\$15.9	-0.5	\$15.8	-0.4	\$15.7	-0.6	\$15.7	-0.5	\$15.6	-0.5
Old-Age Pension Fund	57.4	2.7	58.9	2.6	62.3	5.7	65.9	5.9	70.0	6.2	74.7	6.7	79.8	6.8
Aged Property Tax & Heating Credit	11.8	25.5	21.5 /C	82.2	21.3	-1.1	21.1	-0.7	21.0	-0.5	20.9	-0.4	20.9	-0.3
Fire/Police Pensions	28.5	0.7	28.7	0.7	28.8	0.3	29.2	1.4	29.8	2.1	30.4	2.0	31.0	2.0
TOTAL REBATES & EXPENDITURES	\$114.4	3.7	\$125.1	9.3	\$128.2	2.5	\$132.1	3.0	\$136.6	3.4	\$141.7	3.7	\$147.2	3.9

Totals may not sum due to rounding.

NA: Not Applicable.

/A The sales tax revenues are reported **net** of anticipated over-refunding of excess TABOR revenues. Ten percent of **gross** sales taxes is deducted from available revenues in the General Fund Overview in Table 5.

/B Limited gaming receipts are reported net of revenues that are credited to the Local Government Limited Gaming Impact Fund (LGLGIF). In addition, the receipts are net of transfers to the State Highway Fund and to the Municipal Limited Gaming Impact Fund (MLGIF). In FY 2000-01, the MLGIF will be merged into the LGLGIF.

/C H.B. 98-1112 increased both the amounts of the property tax and heat credits and the income levels at which the credits are phased out. The increased amounts will first be claimed in FY 1999-00, thus a significant increase occurs in FY 1999-00.

Table 4
Baseline General Fund Overview
(\$ in millions)

	<u>FY 1998-99</u>	<u>3/2000 Estimate FY 1999-00</u>	<u>3/2000 Estimate FY 2000-01</u>	<u>3/2000 Estimate FY 2001-02</u>	<u>3/2000 Estimate FY 2002-03</u>	<u>3/2000 Estimate FY 2003-04</u>	<u>3/2000 Estimate FY 2004-05</u>
1 BEGINNING RESERVE	\$ 901.0	\$ 679.4	\$ 710.1	\$ 753.7	\$ 814.9	\$ 1,005.0	\$ 1,168.7
2 GROSS GENERAL FUND	5,794.0	6,200.8	6,643.3	7,110.5	7,659.3	8,233.6	8,790.7
3 SENATE BILL 97-1 DIVERSION TO THE HUTF /A	(170.4) /A	(187.1) /A	(199.1) /A	(212.7) /A	(226.8) /A	(241.7) /A	(257.6) /A
4 TOTAL FUNDS AVAILABLE	\$ 6,524.6	\$ 6,693.1	\$ 7,154.3	\$ 7,651.5	\$ 8,247.4	\$ 8,996.9	\$ 9,701.8
EXPENDITURES:							
5 General Fund Appropriations	\$ 4,703.0 /B	\$ 5,009.3 /C	\$ 5,309.9	\$ 5,628.5	\$ 5,966.2	\$ 6,324.2	\$ 6,703.6
6 Medicaid Overexpenditure	19.2	NA	NA	NA	NA	NA	NA
7 Rebates and Expenditures	114.4	125.1	128.2	132.1	136.6	141.7	147.2
8 Capital and Prison Construction (To Fund Priorities)	368.3	169.0	125.9	101.4	41.1	37.7	23.0
9 Transfer for Highway Construction	100.0	0.0	0.0	0.0	0.0	0.0	0.0
10 TABOR Refund	563.2	679.6	836.6	974.7	1,098.5	1,324.7	1,551.6
11 Accounting Adjustments	(22.9)	NA	NA	NA	NA	NA	NA
12 TOTAL OBLIGATIONS	\$ 5,845.2	\$ 5,983.0	\$ 6,400.6	\$ 6,836.6	\$ 7,242.3	\$ 7,828.2	\$ 8,425.4
13 YEAR-END GENERAL FUND RESERVE:	\$ 679.4	\$ 710.1	\$ 753.7	\$ 814.9	\$ 1,005.0	\$ 1,168.7	\$ 1,276.4
14 STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	188.1	200.4	212.4	225.1	238.6	253.0	268.1
15 MONIES IN EXCESS OF STATUTORY RESERVE	\$ 497.6	\$ 509.7	\$ 541.3	\$ 589.7	\$ 766.4	\$ 915.7	\$ 1,008.3
16 RESERVE AS A % OF APPROPRIATIONS	14.4%	14.2%	14.2%	14.5%	16.8%	18.5%	19.0%
TABOR RESERVE REQUIREMENT:							
17 General & Cash Fund Emergency Reserve Requirement	\$ 217.3	\$ 226.9	\$ 238.5	\$ 250.9	\$ 264.0	\$ 277.7	\$ 292.7
18 Reserved Amount (CMTF Principal)	248.1 /D	248.1 /D	248.1 /D	248.1 /D	248.1 /D	248.1 /D	248.1 /D
19 Money in Excess of Emergency Reserve	30.7	21.1	9.5	(2.9)	(15.9)	(29.6)	(44.6)
20 Appropriations Growth	\$ 287.8 /B	\$ 287.1 /C	\$ 300.6	\$ 318.6	\$ 337.7	\$ 358.0	\$ 379.4
21 Appropriations Growth Rate	6.49% /B	6.08% /C	6.00%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.

Totals may not sum due to rounding.

/A Ten percent of gross sales and use taxes are diverted to the Highway Users Tax Fund (HUTF).

/B Includes \$2.5 million in appropriations that are exempt from the statutory appropriations limit as a result of final court orders or federal mandates. In addition, the \$19.2 million for Medicaid overexpenditures is exempt from the statutory limit, but are included in the base for calculation of the FY 1999-00 limit.

/C Includes \$3.8 million in appropriations that are exempt from the statutory appropriations limit as a result of final court orders or federal mandates.

/D The principal of the CMTF may be used as full or partial satisfaction of the constitutional emergency reserve requirement. Thus, the principal of the CMTF is reported as the reserved amount.

Table 5
Alternative General Fund Overview
With Income Tax Rate of 4.65%, Sales Tax Rate of 2.85%, Permanent and Increased Earned Income Credit,
and \$100 Million in Capital Construction Transfers from FY 2002-03 to FY 2004-05
(\$ in millions)

	<u>FY 1998-99</u>	<u>3/2000 Estimate FY 1999-00</u>	<u>3/2000 Estimate FY 2000-01</u>	<u>3/2000 Estimate FY 2001-02</u>	<u>3/2000 Estimate FY 2002-03</u>	<u>3/2000 Estimate FY 2003-04</u>	<u>3/2000 Estimate FY 2004-05</u>
1 BEGINNING RESERVE	\$ 901.0	\$ 679.4	\$ 647.3	\$ 527.8	\$ 572.9	\$ 694.6	\$ 778.4
2 GROSS GENERAL FUND	5,794.0	6,138.1	6,417.4	6,868.5	7,407.8	7,964.5	8,503.3
3 SENATE BILL 97-1 DIVERSION TO THE HUTF /A	(170.4) /A	(187.1) /A	(199.1) /A	(212.7) /A	(226.8) /A	(241.7) /A	(257.6) /A
4 TOTAL FUNDS AVAILABLE	\$ 6,524.6	\$ 6,630.4	\$ 6,865.7	\$ 7,183.7	\$ 7,753.9	\$ 8,417.5	\$ 9,024.1
EXPENDITURES:							
5 General Fund Appropriations	\$ 4,703.0 /B	\$ 5,009.3 /C	\$ 5,309.9	\$ 5,628.5	\$ 5,966.2	\$ 6,324.2	\$ 6,703.6
6 Medicaid Overexpenditure	19.2	NA	NA	NA	NA	NA	NA
7 Rebates and Expenditures	114.4	125.1	128.2	132.1	136.6	141.7	147.2
8 Capital and Prison Construction (To Fund Priorities)	368.3	169.0	125.9	101.4	100.0	100.0	100.0
9 Transfer for Highway Construction	100.0	0.0	0.0	0.0	0.0	0.0	0.0
10 TABOR Refund	563.2	679.6	773.8	748.8	856.5	1,073.2	1,282.5
11 Accounting Adjustments	(22.9)	NA	NA	NA	NA	NA	NA
12 TOTAL OBLIGATIONS	\$ 5,845.2	\$ 5,983.0	\$ 6,337.8	\$ 6,610.8	\$ 7,059.3	\$ 7,639.0	\$ 8,233.3
13 YEAR-END GENERAL FUND RESERVE:	\$ 679.4	\$ 647.3	\$ 527.8	\$ 572.9	\$ 694.6	\$ 778.4	\$ 790.8
14 STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	188.1	200.4	212.4	225.1	238.6	253.0	268.1
15 MONIES IN EXCESS OF STATUTORY RESERVE	\$ 497.6	\$ 447.0	\$ 315.4	\$ 347.8	\$ 456.0	\$ 525.5	\$ 522.7
16 RESERVE AS A % OF APPROPRIATIONS	14.4%	12.9%	9.9%	10.2%	11.6%	12.3%	11.8%
TABOR RESERVE REQUIREMENT:							
17 General & Cash Fund Emergency Reserve Requirement	\$ 217.3	\$ 226.9	\$ 238.5	\$ 250.9	\$ 264.0	\$ 277.7	\$ 292.7
18 Reserved Amount (CMTF Principal)	248.1 /D	248.1 /D	248.1 /D	248.1 /D	248.1 /D	248.1 /D	248.1 /D
19 Money in Excess of Emergency Reserve	30.7	21.1	9.5	(2.9)	(15.9)	(29.6)	(44.6)
20 Appropriations Growth	\$ 287.8 /B	\$ 287.1 /C	\$ 300.6	\$ 318.6	\$ 337.7	\$ 358.0	\$ 379.4
21 Appropriations Growth Rate	6.49% /B	6.08% /C	6.00%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.

Totals may not sum due to rounding.

Table 6
Cash Fund Revenue Estimates by Category, March 2000
(Millions of Dollars)

	Actual FY 98-99	Estimate FY 99-00	Estimate FY 00-01	Estimate FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	FY 98-99 to FY 04-05 CAAGR *
Transportation-Related /1	\$719.5	\$755.9	\$781.0	\$810.6	\$842.4	\$871.8	\$903.5	3.9%
% Change	4.4%	5.1%	3.3%	3.8%	3.9%	3.5%	3.6%	
Higher Education	\$636.6	\$669.1	\$701.8	\$734.9	\$768.1	\$802.4	\$839.4	4.7%
% Change	4.9%	5.1%	4.9%	4.7%	4.5%	4.5%	4.6%	
Unemployment Insurance /2	\$221.3	\$226.0	\$224.6	\$220.4	\$241.2	\$266.1	\$278.0	3.9%
% Change	-2.6%	2.1%	-0.6%	-1.9%	9.4%	10.3%	4.5%	
Limited Gaming Fund	\$79.1	\$80.7	\$91.9	\$105.3	\$117.5	\$130.4	\$144.1	10.5%
% Change	18.6%	2.0%	13.9%	14.6%	11.6%	11.0%	10.5%	
Wildlife Cash Fund	\$66.2	\$57.5	\$57.6	\$57.7	\$58.0	\$58.4	\$58.7	-2.0%
% Change	4.4%	-13.1%	0.1%	0.1%	0.6%	0.6%	0.7%	
Capital Construction - Interest & Lottery**	\$55.5	\$37.3	\$31.2	\$26.9	\$18.8	\$13.2	\$9.2	-25.8%
% Change	-10.5%	-32.8%	-16.5%	-13.8%	-30.0%	-30.0%	-30.0%	
Regulatory Agencies	\$46.3	\$46.8	\$49.2	\$50.5	\$51.7	\$53.0	\$54.4	2.7%
% Change	6.4%	1.1%	5.1%	2.6%	2.5%	2.4%	2.7%	
Insurance-Related	\$48.6	\$52.1	\$54.3	\$56.7	\$59.3	\$61.9	\$64.4	4.8%
% Change	5.5%	7.2%	4.2%	4.5%	4.6%	4.3%	4.1%	
Severance Tax /3	\$33.5	\$31.4	\$38.0	\$35.3	\$41.1	\$38.5	\$44.1	4.7%
% Change	7.9%	-6.5%	21.3%	-7.2%	16.3%	-6.3%	14.6%	
Petroleum Storage Tank Fund /4	\$16.6	\$19.3	\$18.9	\$9.8	\$10.1	\$10.4	\$10.7	-7.1%
% Change	-16.2%	16.2%	-2.2%	-48.3%	3.2%	3.1%	3.0%	
Employment Support Fund	\$13.2	\$19.5	\$18.9	\$19.6	\$20.3	\$20.9	\$21.5	8.4%
% Change	189.2%	47.6%	-3.4%	3.8%	3.5%	3.0%	3.0%	
Controlled Maintenance Trust Fund - Interest**	\$17.9	\$18.1	\$18.0	\$18.5	\$19.0	\$19.5	\$20.0	1.9%
% Change	-1.1%	1.0%	-0.6%	2.7%	2.7%	2.7%	2.7%	
Other Cash Funds	\$222.0	\$236.4	\$250.9	\$265.7	\$281.7	\$298.2	\$316.3	6.1%
% Change	6.4%	6.5%	6.1%	5.9%	6.0%	5.9%	6.1%	
Total Cash Fund Revenues Subject to the TABOR Limit	\$2,176.4	\$2,250.2	\$2,336.2	\$2,411.8	\$2,529.1	\$2,644.5	\$2,764.5	4.1%
	4.3%	3.4%	3.8%	3.2%	4.9%	4.6%	4.5%	

Totals may not sum due to rounding.

* CAAGR: Compound Annual Average Growth Rate.

** These figures reflect only revenue in the funds subject to TABOR, rather than total revenues credited to the funds, much of which has already been counted for the purposes of TABOR. For example, the FY 1998-99 \$468.3 million General Fund transfer to the Capital Construction Fund has already been counted in General Fund revenues for the purposes of the TABOR limit, therefore is not included in this table as TABOR revenues. The Capital Construction Fund received funds from the lottery only in FY 1998-99.

/1 This includes the Highway Users Tax Fund, the State Highway Fund, and other transportation-related funds.

/2 This incorporates the effects of House Bill 00-1310, which provides a 20 percent tax credit on unemployment insurance taxes during Calendar Years 2001 and 2002.

/3 This figure includes both the state and local shares of severance tax revenue before distribution.

/4 Department of Labor and Employment and Legislative Council Staff forecast.

Table 7
National Economic Indicators, March 2000 Forecast
(Calendar Years)

	1996	1997	1998	1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004
Gross Domestic Product (billions) percent change	\$7,813.2 5.6%	\$8,300.7 6.2%	\$8,760.0 5.5%	\$9,248.5 5.6%	\$9,715.5 5.0%	\$10,159.5 4.6%	\$10,706.5 5.4%	\$11,285.9 5.4%	\$11,876.9 5.2%
Inflation-adjusted Gross Domestic Product (billions of 1996 dollars) percent change	\$7,813.2 3.7%	\$8,165.1 4.5%	\$8,516.3 4.3%	\$8,867.0 4.1%	\$9,186.2 3.6%	\$9,452.6 2.9%	\$9,774.0 3.4%	\$10,086.8 3.2%	\$10,389.4 3.0%
Nonagricultural Wage and Salary Employment (millions) percent change	119.6 2.1%	122.7 2.6%	125.8 2.6%	128.6 2.2%	131.2 2.0%	132.7 1.2%	134.6 1.4%	136.5 1.4%	\$138.2 1.3%
Unemployment Rate	5.4%	4.9%	4.5%	4.2%	4.0%	4.3%	4.4%	4.3%	4.3%
Personal Income (billions) percent change	\$6,547.4 5.6%	\$6,951.1 6.2%	\$7,358.9 5.9%	\$7,793.0 5.9%	\$8,260.6 6.0%	\$8,673.6 5.0%	\$9,116.0 5.1%	\$9,590.0 5.2%	\$10,098.3 5.3%
Inflation (Consumer Price Index)	2.9%	2.3%	1.6%	2.2%	2.4%	2.3%	2.5%	2.6%	2.7%
Prime Rate	8.3%	8.4%	8.4%	8.0%	9.0%	9.2%	8.7%	8.5%	8.5%

Table 8
Colorado Economic Indicators, March 2000 Forecast
(Calendar Years)

	1995	1996	1997	1998	1999	Forecast 2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004
Population (thousands), July 1 percent change	3,738.1 2.3%	3,812.7 2.0%	3,891.3 2.1%	3,969.0 2.0%	4,056.1 2.2%	4,137.3 2.0%	4,220.0 2.0%	4,300.2 1.9%	4,381.9 1.9%	4,460.8 1.8%
Nonagricultural Wage and Salary Employment (thousands) percent change	1,834.4 4.5%	1,900.4 3.6%	1,979.5 4.2%	2,057.0 3.9%	2,133.5 3.7%	2,203.9 3.3%	2,267.8 2.9%	2,326.8 2.6%	2,385.0 2.5%	\$2,442.2 2.4%
Unemployment Rate	4.2%	4.2%	3.3%	3.8%	2.9%	3.2%	3.5%	3.7%	3.9%	3.9%
Personal Income (millions) percent change	\$90,853 8.0%	\$97,735 7.6%	\$105,143 7.6%	\$114,449 8.9%	\$124,100 * 8.4%	\$133,990 8.0%	\$143,920 7.4%	\$154,500 7.4%	\$166,190 7.6%	\$178,950 7.7%
Wage and Salary Income (millions) percent change	\$52,883 8.0%	\$57,178 8.1%	\$62,484 9.3%	\$69,680 11.5%	\$76,500 * 9.8%	\$83,230 8.8%	\$89,900 8.0%	\$96,870 7.8%	\$104,470 7.8%	\$112,630.0 7.8%
Retail Trade Sales (millions) percent change	\$39,955 4.9%	\$42,631 6.7%	\$45,146 5.9%	\$48,131 6.6%	\$51,837 * 7.7%	\$55,777 7.6%	\$59,625 6.9%	\$63,799 7.0%	\$68,137 6.8%	\$72,703 6.7%
Home Permits (thousands) percent change	38.6 3.7%	41.1 6.5%	42.5 3.3%	49.5 16.5%	48.9 -1.3%	47.5 -2.9%	45.7 -3.6%	47.2 3.2%	48.8 3.4%	50.4 3.3%
Nonresidential Building (millions) percent change	\$1,840.6 16.4%	\$2,366.7 28.6%	\$2,985.8 26.2%	\$2,616.8 -12.4%	\$3,399.5 29.9%	\$3,219.3 -5.3%	\$3,109.9 -3.4%	\$3,196.9 2.8%	\$3,315.2 3.7%	\$3,451.2 4.1%
Denver-Boulder Inflation Rate	4.3%	3.5%	3.3%	2.4%	2.9%	3.2%	3.2%	3.3%	3.5%	3.5%

* Estimate