Colorado Legislative Council Staff Forecasts, 2001-2007

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COLORADO LEGISLATIVE COUNCIL STAFF FORECASTS, 2001-2007

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EXECUTIVE SUMMARY

This document is intended to provide information to aid members of the General Assembly with budget deliberations in the upcoming 2002 legislative session. Forecasts for both revenue and expenditure items are provided. Included in this report are Legislative Council Staff's projections for Colorado's TABOR limit, the General Fund reserve, and General and Cash Fund revenues. Many items that drive state expenditures are also projected. The state's adult prison and youthful offender populations are forecast and compared with capacity to ascertain future construction needs for additional prisons. Enrollment, assessed values, and property taxes are projected in order to assess the amount of state aid required for pre-school through twelfth grade school finance. A common forecast of the national and state economies drives the revenue and budget projections provided in this publication. In addition to the summary provided below, more detailed summaries are provided at the start of each section. If you would like further information on these topics, please contact the staff members listed in this summary.

General Fund Revenue

The continued deterioration of the state economy is eroding the General Fund revenue situation. We reduced the General Fund revenue forecast by $238.1 million for FY 2001-02 and by $308.4 million for FY 2002-03. This reduction comes after decreases of $188.2 million and $221.9 million for these years in the September forecast. We reduced the current year forecast for individual income taxes by $148.2 million. The corporate income tax projection was reduced by $52.6 million, while the sales tax estimate was pared by $51.1 million.

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Cash Fund Revenues

We project **total Cash Fund revenue** subject to the TABOR revenue limit to decrease 2.6% in FY 2001-02 and to increase 8.2% in FY 2002-03. The estimates were decreased by $24.9 million for FY 2001-02 and increased by $11.6 million for FY 2002-03 from the September 2001 forecast.

Transportation-related cash funds, which include the Highway Users Tax Fund (HUTF) and the State Highway Fund, will grow 2.2% in FY 2001-02 and 3.2% in FY 2002-03.

Higher education cash funds will increase 5.6% in FY 2001-02, a result of steady growth in enrollment and strong growth in tuition and nontuition revenues. **Unemployment insurance** revenues from taxes and interest earnings will decrease 7.2% in FY 2001-02. Based on weak growth in taxable wages and increasing benefit payments to unemployed workers, we project that the solvency tax for the unemployment insurance fund will be instituted beginning in January 2003 and be in place for two years.

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Constitutional Spending Limit — the TABOR Limit

Following TABOR surpluses of $941.1 million and $927.2 million in the last two fiscal years, the state's TABOR surplus is expected to disappear in FY 2001-02. Revenues will exceed the TABOR limit by $65.1 million in FY 2002-03. From FY 2002-03 through FY 2006-07, the TABOR surplus will average $524.8 million.

All TABOR refund methods will be used only in the last two years of the forecast period. Only the earned income tax credit and the sales tax refund will be used based on the estimated FY 2002-03 TABOR surplus of $65.1 million.

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General Fund Excess Reserve and Appropriations

The poor outlook for General Fund revenues for the rest of FY 2001-02 will necessitate additional budget action. Without such action, the General Fund excess reserve would have a shortfall. The General Fund needs to be shored up by $155.1 million.

The shortfall in the excess reserve occurs despite nearly $400 million of budget cuts enacted at the General Assembly's special session this fall.

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Adult Incarcerated Offender Population

The total Department of Corrections (DOC) **jurisdictional population** is forecasted to increase by 5,518 inmates, to 22,351, during the six-year forecast period. The male population will increase by 5,144 inmates, while the female population will increase by 374 inmates.

Prison capacity will exceed the number of expected inmates through June 2003 because new prisons have come online or are about to open. However, the surplus is only one bed for male inmates in June 2003. By June 2007, a shortfall of 1,019 beds for male prisoners and 87 beds for female prisoners will exist. These figures include facilities that have been planned but have not yet been authorized by the General Assembly.

The total **parole population** under Colorado supervision is forecast to increase from 5,838 on June 30, 2001, to 8,020 at the end of the forecast period.

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Youth Incarcerated Offender Population

The Division of Youth Corrections (DYC) **average daily commitment population** will increase from 1,280.7 in FY 2000-01 to 1,564.6 in FY 2006-07. This represents an increase of 22.2%. There will be a commitment bed surplus of 57.9 beds in FY 2006-07.

The DYC **average daily detention population** will increase by 6.1% during the forecast period. There will be a detention bed surplus of 24.1 in FY 2006-07.

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Pre-Kindergarten to Twelfth Grade Enrollment

Enrollment for the 2002-03 school year is projected to increase by 1.13%, or by 7,943 full-time-equivalent (FTE) students. This follows an increase of 1.94%, or 13,423 FTE students for the 2001-02 school year. A weak economy in Colorado over the next year is expected to reduce typical migration levels to the state and is responsible for the lower enrollment increase.

We project that enrollment will increase by a compound average annual rate of 1.47% for the next five years. This increase amounts to 53,471 students. This growth compares to an annualized growth rate of 1.81%, or 60,349 students, during the last five years.

Staff contact: Josh Harwood, (303) 866-3521.

Assessed Values and Property Taxes

The economic boom increased assessed values by 20.2% in 2001. Reflecting new construction, **assessed value of taxable property** will increase by 3.1% to $60.4 billion in 2002. By 2007, assessed value will total $74.2 billion, reflecting a compound annual average growth rate of 4.0% since 2001. The projected growth is weaker than over the past several years and reflects the softening of the Colorado economy as well as an expected decline in oil and gas values.

It is anticipated that the **residential assessment rate** will decrease from the current level of 9.15% to 8.31% in 2003, and 7.76% in 2005, and 7.23% in 2007. Strong gains in residential market value will outpace nonresidential property gains, leading to the decline in the residential assessment rate during the first two reassessment periods.

Local government property taxes for general operating purposes will increase 3.1% to $1.567 billion in 2003.

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Revenue and Economic Forecast

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REVENUE AND ECONOMIC FORECAST

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General Fund Revenue

- We reduced the General Fund revenue forecast for FY 2001-02 by $238.1 million relative to the September 2001 estimate. This comes on top of a $188.2 million reduction made in the September forecast. Revenue for the upcoming budget year will be $308.4 million less than in the previous forecast.

- The deterioration in the national and state economies leads to the reduced revenue forecast. Colorado employment is barely above one year ago and is expected to show job losses in the first half of 2002. The terrorist attacks have severely curtailed business and vacation travel, thus affecting the state's convention and resort areas. Weak corporate profits at the national level are flowing through to Colorado companies.

- Individual income taxes are the largest source of revenue to the General Fund. Individual income taxes will decline by 1.4% in FY 2001-02, the first decline for this tax source in 22 years. The last decline was attributable to tax reductions, rather than a slowing economy. Weaker wage and job growth, smaller bonuses, and lower capital gains realizations contribute to the decline in income tax revenue. After FY 2001-02, individual income taxes will return to a more typical growth pattern with an annualized growth rate of 8.0%.

- Sales taxes are the second-largest source of revenue to the General Fund. Both consumer and business spending has fallen off in recent months as confidence declined and job losses mounted. Concerns over travel are also contributing to reduced spending in the state. We expect sales tax receipts to fall by 0.1% in FY 2001-02. Although this would be the first decline since the mid-1980s recession, part of the drop is attributable to a full-year impact of the reduced sales tax rate. A strengthening economy will lead to a 5.3% gain in sales taxes in FY 2002-03. However, this growth rate is less than previously expected.

- Corporate income taxes are also expected to decline in the current fiscal year. The decline in corporate profits at the national level is spilling over into Colorado.

This section presents the Legislative Council Staff outlook for General Fund revenues, with a special emphasis on the large revenue sources to the General Fund. Table 1 shows the final accounting of revenue for FY 2000-01 and our forecast of General Fund revenue for FY 2001-02 through FY 2006-07.

General Fund revenue increased 4.0% in FY 2000-01. This was the lowest growth rate since FY 1990-91 when the state was emerging from its mid- to late-1980s economic slowdown and the national economy was in recession. Two factors were partially responsible for last year's low growth rate. First, $164.3 million of income tax revenues were diverted to the State Education Fund. Still, an adjusted growth rate of 6.3% was the lowest since FY 1990-91. Second, the ongoing impacts of tax legislation passed in 2000 reduced the growth rate.

"General Fund revenue will decline by an estimated 5.1% in FY 2001-02."

General Fund revenue will decline by an estimated 5.1% in FY 2001-02. This will be the first decline in revenue since FY 1980-81 when the state reduced taxes in response to a burgeoning surplus. The decline in the forecast is influenced by the ongoing impact of Amendment 23, which will have its first full-year effect in FY 2001-02. We estimate that $317.2 million will be diverted to the State Education Fund this fiscal year, compared with a $164.3 million diversion for FY 2000-01.

We expect that the Colorado economy will start on a slow recovery path in the third quarter of 2002. Accordingly, General Fund revenue growth will resume. We estimate that revenues will increase at a 7.4% annualized pace after FY 2001-02.

Individual income taxes increased 8.1% in FY 2000-01, the first time that the growth rate fell below nine percent since FY 1990-91. While the growth rate was influenced by the ongoing impact of tax reductions, these reductions were the smallest of the past three years. A weaker economy and a lower growth rate for capital gains realizations also influenced income tax receipts last fiscal year.

"Job losses in Colorado are greater than previously anticipated and the employment situation will remain weak through the first half of 2002."

Based on recent and expected economic trends, we estimate that individual income taxes will decrease by 1.4% in FY 2001-02. Our previous forecast estimated a 2.3% gain. Job losses in Colorado are greater than previously anticipated and the employment situation will remain weak through the first half of 2002. In fact, Colorado employment levels are likely to be lower than the first half of 2001. As last year's labor shortage disappeared, workers do not have the bargaining power to demand higher wages. Less job shifting to higher salary levels is occurring. Bonus payments to workers are lower than in the last few years as employers face profit pressures. While some workers were able to take advantage of valuable stock options in recent years, the declining stock market has reduced the value of these options. Finally, capital gains realizations are lower this year because of the weak stock market performance.

The growth in individual income taxes will be robust after FY 2001-02, averaging 8.0% through the remainder of the forecast period. Nonetheless, the federal tax law changes passed by Congress and signed by President Bush last spring will have an impact on state income taxes. The state income tax is based

Table 1
Colorado General Fund, Accrual Basis
December 2001 Revenue Estimates by Tax Category
($ in millions)

Category	Actual FY 2000-01	Percent Change	Estimate FY 2001-02	Percent Change	Estimate FY 2002-03	Percent Change	Estimate FY 2003-04	Percent Change	Estimate FY 2004-05	Percent Change	Estimate FY 2005-06	Percent Change	Estimate FY 2006-07	Percent Change
Sales /A	$1,811.2	3.8	$1,810.0	-0.1	$1,905.6	5.3	$2,040.8	7.1	$2,183.0	7.0	2,329.1	6.7	2,482.6	6.6
TABOR Overrefund	(60.1)		(86.3)		(8.1)		0.0		(3.3)		(6.8)		(6.8)	
Use /A	157.9	10.8	143.8	-8.9	150.3	4.5	160.9	7.0	172.4	7.2	182.9	6.0	193.0	5.6
Cigarette	58.1	0.5	57.9	-0.4	57.5	-0.6	57.2	-0.6	56.8	-0.6	56.5	-0.6	56.2	-0.6
Tobacco Products	9.9	5.3	10.5	6.0	11.0	4.3	11.5	5.5	12.2	5.3	12.8	5.1	13.3	4.1
Liquor	29.3	4.6	30.0	2.3	30.8	2.8	31.5	2.2	32.3	2.6	33.2	2.6	34.0	2.6
TOTAL EXCISE	$2,006.3	2.2	$1,965.8	-2.0	$2,147.2	9.2	$2,301.9	7.2	$2,453.5	6.6	$2,607.6	6.3	$2,772.2	6.3
Net Individual Income	$4,017.8	8.1	$3,960.4	-1.4	$4,225.1	6.7	$4,570.1	8.2	$4,961.8	8.6	$5,422.0	9.3	$5,809.1	7.1
Net Corporate Income	329.7	14.0	258.5	-21.6	294.5	13.9	311.7	5.8	324.2	4.0	342.6	5.7	368.9	7.7
TOTAL INCOME TAXES	$4,347.5	8.5	$4,218.9	-3.0	$4,519.6	7.1	$4,881.7	8.0	$5,286.0	8.3	$5,764.6	9.1	$6,178.1	7.2
Less: Portion directed to the State Education Fund /B	($164.3)		(317.2)	93.0	(339.5)	7.0	(366.3)	7.9	(396.2)	8.2	(431.5)	8.9	(462.2)	7.1
INCOME TAXES TO GENERAL FUND	$4,183.2	4.4	$3,901.7	-6.7	$4,180.1	7.1	$4,515.4	8.0	$4,889.8	8.3	$5,333.0	9.1	$5,715.9	7.2
Estate	$82.6	38.4	$84.2	1.9	$61.8	-26.6	$45.9	-25.7	$24.4	-46.9	$2.9	-88.0	$0.0	-100.0
Insurance	142.0	10.5	145.9	2.7	144.5	-1.0	148.0	2.4	148.8	0.6	154.5	3.9	160.5	3.8
Pari-Mutuel	6.1	-12.9	6.0	-1.6	5.9	-1.7	5.8	-1.7	5.9	1.7	5.9	0.0	5.8	-1.7
Interest Income	45.2	6.9	25.5	-43.5	23.6	-7.4	38.8	64.3	52.4	35.0	64.4	22.9	82.0	27.3
Court Receipts	22.3	-17.7	23.6	5.8	24.4	3.4	25.1	3.0	25.8	2.8	26.6	2.8	27.3	2.7
Gaming /C	31.4	9.0	31.6	0.8	38.8	22.7	46.4	19.6	52.3	12.6	58.1	11.2	64.4	10.8
Medicaid (Intergovt. Transfer)	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	33.4	4.7	32.0	-4.3	32.8	2.6	34.0	3.6	35.3	3.8	36.6	3.8	38.0	3.7
TOTAL OTHER	$363.0	9.2	$348.7	-3.9	$331.8	-4.9	$344.0	3.7	$344.9	0.3	$349.1	1.2	$377.9	8.3
GROSS GENERAL FUND	**$6,552.5**	4.0	**$6,216.3**	-5.1	**$6,659.0**	7.1	**$7,161.3**	7.5	**$7,688.2**	7.4	**$8,289.7**	7.8	**$8,866.0**	7.0
REBATES & EXPENDITURES:														
Cigarette Rebate	$16.4	0.0	$16.3	-0.4	$16.2	-0.6	$16.1	-0.6	$16.0	-0.6	$15.9	-0.6	$15.9	-0.6
Old-Age Pension Fund	63.2	9.5	65.4	3.6	68.9	5.3	72.9	5.9	77.4	6.1	82.4	6.4	86.3	4.8
Aged Property Tax & Heating Credit	16.8	-21.9	18.8	11.8	18.9	0.9	18.9	-0.0	18.8	-1.0	18.5	-1.4	18.6	0.7
Fire/Police Pensions	28.7	0.0	28.9	0.7	28.9	0.0	28.9	0.0	28.9	0.0	28.9	0.0	5.6	-80.6
TOTAL REBATES & EXPENDITURES	$125.1	0.6	$129.5	3.5	$133.0	2.7	$136.9	3.0	$141.1	3.1	$145.7	3.2	$126.3	-13.3

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 Table 12.
/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 spending limit.
/C Includes only the amount credited to the General Fund.

on federal taxable income with certain Colorado modifications. Thus, any federal change that affects the definitions of income, deductions, or exemptions will flow through to Colorado taxable income. The federal changes will reduce state income taxes by $9.3 million in the current fiscal year and escalate to $42.0 million by FY 2006-07.

These estimates do not include proposals currently under consideration by Congress to provide additional economic stimulus via tax cuts. The components of the stimulus package were not finalized and were changing frequently. If federal taxable income for individuals or corporations is changed, Colorado income taxes will be impacted.

"...Colorado corporate income taxes are under pressure in the current year, as evidenced by a 20.3% decline through November."

Corporate income taxes increased 14.0% in FY 2000-01. Part of the large increase is attributable to transfers from corporate income taxes to individual income taxes in FY 1999-00 that should not have occurred and were reversed in FY 2000-01. Still, Colorado's performance is remarkable in light of reported decreases in corporate taxes at the national level. However, Colorado corporate income taxes are under pressure in the current fiscal year, as evidenced by a 20.3% decline through November.

Most of Colorado's corporate income taxes are paid by firms that conduct interstate business. Their federal taxable income is apportioned to Colorado based on a combination of property, payroll, and sales factors. Before-tax corporate profits are estimated to decline 17.0% nationwide during this fiscal year. Accordingly, we estimate that the state's corporate taxes will fall 21.6% in FY 2001-02. A rebounding economy will lead to an average annual gain of 7.4% during the rest of the forecast period.

One-third of one percent of Colorado taxable income is diverted to the ***State Education Fund***. Thus, the reduced forecast for state income taxes has important implications for this fund. We reduced the estimate of the diversion by $112.5 million during the forecast period.

Sales tax receipts began to weaken in FY 2000-01. While the 3.8% gain was partially attributable to a reduction in the sales tax rate from 3.0% to 2.9% on January 1, 2001, the tax rate-adjusted figure of 5.6% was the lowest growth rate since FY 1990-91.

The first full year of the reduced sales tax rate, combined with the slowing economy, will cause a 0.1% decline for sales taxes in FY 2001-02. In addition to the many economic pressures on consumers mentioned earlier, businesses are curtailing their expenditures because of a corporate profits squeeze. Business spending accounts for 35% of sales and use taxes.

Tourism spending accounts for 10% of the state's sales and use taxes. Taxable sales for the state's lodging industry declined 24.1% in September. A sample of sales tax returns for October business indicated a similar decline of nearly 22%. The entire decline cannot be attributed to the reluctance to fly after the terrorist attacks. Lodging taxable sales declined by 9.4% from April to August, compared with last year, suggesting that the national economic slowdown was already seriously impacting vacation and business travel. It appears that the state has thus far lost approximately $1.3 million in sales taxes from the lodging industry that could be attributed to reluctance to travel after the terrorist attacks. An additional revenue loss occurred from the loss

of tourism spending at restaurants and retail shops.

"Lodging taxable sales declined by 9.4% from April to August, compared with last year, suggesting that the national economic slowdown was already seriously impacting vacation and business travel."

Meanwhile, according to preliminary indications, bookings at the state's ski resorts are running well below previous years. Colorado is heavily reliant on tourism in the winter months. The combined impact of the nation's economic slowdown, poor early snowfall levels, and a fear of traveling related to the events of September 11 will negatively impact tourism this ski season. Recent data indicate that resort bookings are down about 20% from last year. As the fear factor dissipates and the snow comes over the next several months, Colorado should see a slight rebound in tourism-related spending and job levels. The national economic problems will still cause weakness in the sector, however. Thus, the outlook for Colorado's tourism industry remains gloomy for the near term.

"Holiday spending will not match the pace of earlier years."

Holiday spending will not match the pace of earlier years. Major shopping centers in the metro-Denver area indicate that spending will likely only match last year's levels. Preliminary indications from a check clearing firm show only minimal sales gains in the early part of the holiday season for Colorado. Nationally, retail sales declined 3.7% in November. While the decline was influenced by a substantial dropoff in new car sales from October's high level, retail sales with auto sales factored out were still negative. This indicated that consumer confidence was still lacking.

A sample of tax returns from auto dealers indicated that the zero percent interest financing terms had a large impact on auto sales. State sales taxes from the increased volume were boosted by perhaps as much as $7.7 million. However, the estimated gain in Colorado sales was more than double the national gain. Thus, the estimated gain may be overstated. Nonetheless, most of the gain comes at the expense of sales tax receipts that would have been realized later. These purchases would have eventually been made, whether on a new car or on other taxable goods. The zero-interest financing deals will eventually help the economy, however, because the lower car payment frees up additional disposable income that may be used on other purchases. This is similar to the impact of mortgage refinancing on disposable income.

"The runup in stock and housing values over the last several years had a tremendous impact on estate taxes."

The runup in stock and housing values over the last several years had a tremendous impact on ***estate taxes***. The average amount of taxes collected over the past four years was two and a half times larger than the average for the previous four-year period. The amount of estate taxes is heavily influenced by the death of particularly wealthy individuals. This was indicated by payments of approximately $13.0 million from only two estates in August and September. Thus, we increased our estimate of estate taxes by $5.0 million from the previous forecast.

After FY 2001-02, estate taxes will be heavily affected by the federal tax reduction package passed earlier this year. Colorado's estate tax, like all other states' estate taxes, is based on a federal estate tax credit for state taxes. The federal government is phasing in a repeal of the estate tax. In order to reduce the cost of

the gradual repeal of the estate tax, the federal government is also phasing out the credit for state taxes. This will flow through to Colorado's estate tax. The Colorado estate tax will no longer be effective for persons who die after 2004. Based on the federal repeal of the credit, we estimate that Colorado estate taxes will be reduced by $14.3 million in FY 2002-03, $35.7 million in FY 2003-04, $53.6 million in FY 2004-05, and $73.7 million in FY 2005-06. After FY 2005-06, the estate tax should be completely eliminated, though the state will likely collect minimal amounts for several years from delinquent filings and reassessments of property values.

The ***insurance premiums tax*** has exhibited strong growth in recent years, increasing 9.0% in FY 1999-00 and 10.5% in 2000-01. Rising health costs and property values and the accompanying rise in their insurance premiums are behind the steep climb in the tax. The insurance premiums tax will exhibit more modest growth of 2.7% in FY 2001-02.

"The insurance companies will receive a tax credit against their state insurance premium tax liability, equal to 100 percent of their investment."

A law change enacted in the 2001 regular session will affect these taxes after FY 2001-02. House Bill 01-1097 provides a credit against the insurance premiums tax owed by insurance companies that make an investment of certified capital in a certified capital company. The capital companies will provide investment funds to companies that create jobs in Colorado, with an incentive for investment in rural and distressed urban areas. The insurance companies will receive a tax credit against their state insurance premium tax liability, equal to 100 percent of their investment. The insurance companies can take up to 10 percent of the tax credit each year. Two pools of $100 million each will be created for which insurance companies can take tax credits. The first pool will be created in 2002 and the second pool will take effect in 2004. Thus, for tax years 2003 and 2004, the aggregate amount of tax credits that can be claimed is $10 million. The amount increases to $20 million for tax years 2005 through 2012, and then falls back to $10 million for the next two tax years. House Bill 01-1097 will reduce General Fund revenues by $4.9 million in FY 2002-03, $9.9 million in FY 2003-04, and $14.9 million in FY 2004-05. The tax credit is slightly offset by additional fees paid by certified capital companies.

Interest earnings for the state's General Fund have been high in recent years as the fund generally had a significant balance throughout the year. However, the slowing economy, combined with the large TABOR refund that must be made, will reduce the General Fund balance this year. Thus, we anticipate that interest earnings for the General Fund will decline from $45.2 million in FY 2000-01 to $25.5 million in FY 2001-02 and $23.6 million in FY 2002-03.

Though ***gaming revenues*** as a whole will show strong growth in FY 2001-02, the amount accruing to the General Fund will rise only slightly. The General Fund receives the remaining revenue after the Division of Gaming and the Gaming Commission's expenses are paid and the constitutional and statutory amounts that go to other funds are satisfied. The state appropriated an additional $3.8 million of gaming revenues to the State Highway Fund for FY 2001-02 relative to the previous year. Other funds also receive gaming taxes equal to a percentage of the total gaming revenues, thus their revenues rise or fall with the direction of gaming revenues.

Cash Fund Revenue Forecasts

- **Total cash fund revenue** will decline 2.6% in FY 2001-02. A stronger economy, combined with higher tax rates for unemployment insurance taxes, will boost total cash fund revenues to an 8.2% increase.

- After growing 2.0% in FY 2000-01, revenue to the **transportation-related** cash funds, which include the Highway Users Tax Fund and the State Highway Fund, will increase 2.2% in FY 2001-02 and 3.2% in FY 2002-03. The low growth rate is more attributable to substantially lower interest earnings in the State Highway Fund than to low growth rates in gasoline taxes and automobile registration revenues. Lower gasoline prices, low interest rate financing, and somewhat increased demand for driving following the September 11 tragedy will help offset the weak economy to allow automobile registration revenues and gasoline taxes to grow at healthier rates than in FY 2000-01.

- Total **higher education** revenue will increase 5.6% in FY 2001-02, accompanied by a 1.2% increase in full-time-equivalent student enrollment. Revenue will grow 5.7% in FY 2002-03, while full-time-equivalent student enrollment will rise 1.1%.

- Total **unemployment insurance** revenue will decrease 7.2% in FY 2001-02. Slow employment and wage growth combined with a low tax rate inherited from the boom of the past five years and a temporary tax credit are responsible for the decline. Meanwhile, benefit payments will accelerate in FY 2001-02 as a result of steadily building layoffs. Lower tax revenues combined with increased benefit payments will put enough downward pressure on the balance of the Unemployment Insurance Trust Fund to trigger the solvency tax in calendar years 2003 and 2004. The fund balance will grow at an average annual rate of 4.2% to $1.0 billion by FY 2006-07.

- **Limited Gaming Cash Fund** revenue will increase 11.0% in FY 2001-02. This is a smaller increase relative to the last few years. Still, the trend toward larger casinos and continued demand for gaming entertainment, despite the economic slowdown, will keep gaming revenue healthy.

- **Wildlife Cash Fund** revenue subject to the TABOR revenue limit declined 0.9% in FY 2000-01, a result of slightly declining license sales. House Bill 01-1012 designated the Division of Wildlife as an enterprise for the purposes of TABOR beginning in FY 2001-02. Thus, Wildlife Cash Fund revenues subject to TABOR will be reduced to zero after FY 2000-01.

- Finally, all **other cash fund** revenue will decrease 10.0% in FY 2001-02. Most of the decline is due to the exemption of $12 million of revenues to the Unclaimed Property Trust Fund. All other cash funds will increase at a compound average annual rate of 2.2% between FY 2000-01 and FY 2006-07.

This section presents the forecast for cash fund revenue subject to the TABOR revenue limit and descriptions for several of the large cash funds. Table 2 presents a summary of all cash fund revenue subject to the TABOR revenue limit.

"...cash fund revenue subject to the TABOR limit will decrease 2.6% in FY 2001-02."

After growing 5.8% in FY 2000-01, cash fund revenue subject to the TABOR limit will decrease 2.6% in FY 2001-02. Growth in these funds will recover in FY 2002-03, increasing 8.2%. The pattern of growth will be varied over the forecast period primarily due to the institution of a solvency tax for the unemployment insurance fund. Cash fund revenue subject to TABOR will increase at an average annual rate of 3.9% between FY 2000-01 and FY 2006-07.

"...unemployment insurance taxes are counter-cyclical — meaning that they rise during bad economic times and fall during good economic times."

Because our current outlook for the economy is substantially weaker, the forecast for cash fund revenues changed relative to September's forecast. We decreased the forecast for FY 2001-02 by $24.9 million. However, we increased the forecast by $86.0 million over the entire forecast period between FY 2001-02 and FY 2006-07. Because the entire increase is attributable to increased unemployment insurance tax revenues, this is also a result of our expectations for a weaker economy. Unlike most government revenue sources, unemployment insurance taxes are counter-cyclical — meaning that they rise during bad economic times and fall during good economic times. Indeed, we increased the forecast for Unemployment Insurance Trust Fund revenues by $175.0 million over the forecast period. If you exclude revenue related to unemployment insurance, the forecast for cash funds subject to the TABOR limit was reduced by $103.4 million during the forecast period.

In addition to the weaker economy, there are five primary reasons for the decline in cash fund revenues in FY 2001-02. First, the Colorado Division of Wildlife became an enterprise. Thus, most of their revenues are no longer counted as part of TABOR revenues. Second, most of the Controlled Maintenance Trust Fund was transferred to the General Fund on July 1, 2001. Interest earnings to the fund will decline by nearly $18 million as a result. Third, a decline in natural gas prices after the sudden price increase last winter will lead to a 25.3% decline in severance tax revenues. Fourth, the per-tanker charge for shipments of motor fuel was reduced by one-third on October 1. Fifth, Senate Bill 00-057 exempted moneys credited to the Unclaimed Property Trust Fund from the TABOR revenue limit.

It should be emphasized that a portion of the decline in cash funds is attributable to revenue not being counted as part of TABOR revenues. Funds treated in this manner include $53.9 million of wildlife revenue and $12.0 million in the other cash fund category. In the absence of the different accounting procedure for these revenues, all cash fund revenue would have been flat in FY 2001-02 relative to FY 2000-01.

Transportation-Related Cash Funds

Transportation-related cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and several smaller funds, increased 2.0% in FY 2000-01. Transportation-related revenue will increase 2.2% in FY 2001-02, and at a modest average annual rate of 3.2% through FY 2006-07 (Table 3).

Table 2
Cash Fund Revenue Estimates by Category, December 2001
Millions of Dollars

	Actual FY 00-01	Estimate FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	FY 00-01 to FY 06-07 CAAGR *
Transportation-Related /A	**$781.0**	**$798.3**	**$823.9**	**$857.3**	**$880.1**	**$908.6**	**$941.2**	**3.2%**
% Change	2.0%	2.2%	3.2%	4.1%	2.7%	3.2%	3.6%	
Higher Education	**$703.6**	**$742.9**	**$784.9**	**$816.3**	**$855.4**	**$895.4**	**$937.3**	**4.9%**
% Change	7.3%	5.6%	5.7%	4.0%	4.8%	4.7%	4.7%	
Unemployment Insurance /B	**$200.8**	**$186.2**	**$259.7**	**$366.9**	**$325.5**	**$340.7**	**$320.8**	**8.1%**
% Change	-11.0%	-7.2%	39.5%	41.3%	-11.3%	4.7%	-5.8%	
Limited Gaming Fund	**$92.0**	**$102.1**	**$113.7**	**$126.4**	**$139.7**	**$153.8**	**$169.0**	**10.7%**
% Change	15.0%	11.0%	11.3%	11.2%	10.6%	10.0%	9.9%	
Wildlife Cash Fund /C	**$58.9**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	N/A
% Change	-0.9%	-100.0%	N/A	N/A	N/A	N/A	N/A	
Capital Construction - Interest	**$34.9**	**$20.5**	**$18.1**	**$18.1**	**$17.7**	**$17.2**	**$11.2**	**-17.2%**
% Change	-6.0%	-41.1%	-11.7%	-0.3%	-2.1%	-2.6%	-35.0%	
Insurance-Related	**$51.4**	**$53.6**	**$56.3**	**$59.5**	**$62.8**	**$66.1**	**$69.7**	**5.2%**
% Change	2.4%	4.3%	5.1%	5.7%	5.4%	5.3%	5.4%	
Regulatory Agencies	**$51.3**	**$52.0**	**$53.3**	**$55.0**	**$56.6**	**$58.1**	**$59.6**	**2.6%**
% Change	8.8%	1.5%	2.4%	3.2%	3.0%	2.7%	2.6%	
Severance Tax /D	**$74.7**	**$55.8**	**$55.0**	**$55.3**	**$56.6**	**$58.4**	**$62.6**	**-2.9%**
% Change	79.2%	-25.3%	-1.6%	0.7%	2.3%	3.2%	7.2%	
Employment Support Fund /B	**$20.9**	**$21.5**	**$24.5**	**$28.3**	**$29.5**	**$30.8**	**$32.0**	**7.4%**
% Change	-2.2%	3.0%	14.2%	15.4%	4.0%	4.5%	4.0%	
Petroleum Storage Tank Fund	**$26.5**	**$19.6**	**$20.3**	**$20.9**	**$10.8**	**$11.2**	**$11.5**	**-12.9%**
% Change	52.5%	-26.1%	3.4%	3.1%	-48.4%	3.5%	3.4%	
Controlled Maintenance Trust Fund - Interest /E**	**$18.4**	**$0.6**	**$19.1**	**$20.5**	**$20.4**	**$20.5**	**$20.5**	**1.9%**
% Change	2.0%	-96.8%	3197.8%	7.0%	-0.1%	0.1%	0.2%	
Other Cash Funds	**$262.0**	**$262.1**	**$276.0**	**$293.2**	**$311.1**	**$329.1**	**$348.3**	**4.9%**
% Change	16.0%	0.0%	5.3%	6.2%	6.1%	5.8%	5.8%	
Total Cash Fund Revenues Subject to the TABOR Limit	**$2,376.3**	**$2,315.2**	**$2,504.8**	**$2,717.7**	**$2,766.2**	**$2,889.9**	**$2,983.8**	**3.9%**
	5.8%	**-2.6%**	**8.2%**	**8.5%**	**1.8%**	**4.5%**	**3.2%**	

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.
N/A = Not Applicable

** These figures reflect only revenue in the funds subject to TABOR, rather than total revenues credited to the funds, much of w hich has already been counted for the purposes of TABOR. For example, the FY 2000-01 $232.4 million General Fund transfer to the Capital Construction Fund has already been counted in General Fund revenues for the purposes of the TABOR limit, and therefore is not included in this table as TABOR revenues.

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

/B 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.

/C HB 01-1012 designates the Division of Wildlife as an enterprises for TABOR purposes beginning in FY 2001 -02.

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

/E House Bill 01-1267 requires that the principal balance of the Controlled Maintenance Trust Fund, or $243.9 million, be trans ferred to the General Fund on July 1, 2001. On July 1, 2002, $276.4 million will be transferred from the General Fund to the Controlled Maintenance Trust Fund.

The Highway Users Tax Fund. The Highway Users Tax Fund (HUTF) was created by the General Assembly as a result of the state constitutional requirement that revenues from highway-related taxes and fees be used only for the construction, maintenance, and administration of public highways. Thus, revenue sources for the HUTF include taxes on the sale of motor fuel (75%), automobile registration fees (21%), and revenues from the sale of driver licenses, court fines, penalties, and interest income (4%). In addition, 10.355% of state sales and use tax revenue is diverted to the HUTF for transportation purposes, as long as there is enough revenue in the General Fund to fund a six percent increase in General Fund appropriations each year. This diversion was capped at $35.2 million in FY 2001-02, regardless of the level of General Fund revenue.

After increasing 0.5% in FY 2000-01, we expect total HUTF revenue subject to TABOR to grow 3.0% in FY 2001-02. Total HUTF revenues will grow at a compound average annual rate of 3.4% through FY 2006-07.

Motor fuel tax revenue increased only 1.1% in FY 2000-01, a result of a cooling economy and high gasoline prices. This will improve somewhat in FY 2001-02, with motor fuel tax revenue increasing 3.1%. Gasoline prices have fallen dramatically and many people have chosen to drive on their vacations rather than fly in the wake of the September 11 tragedy. As the economy slowly recovers in FY 2002-03, motor fuel tax revenue will exhibit steady growth throughout the forecast period, although at a slightly slower rate than experienced during the late 1990s. Revenues will increase at a compound average annual rate of 3.3% between FY 2000-01 and FY 2006-07.

Vehicle **registration revenue**, much of which is paid on larger and newer vehicles, will grow 2.3% in FY 2001-02, after decreasing 0.2% in FY 2000-01. Growth in registration revenues will be boosted in FY 2001-02 as a result of House Bill 01-1017, which allows certain vehicles to register for two-year or five-year periods beginning in FY 2001-02. Prior to the passage of House Bill 01-1017, we expected only slightly more than flat growth in registration revenues in FY 2001-02. Automobile sales have increased during the past few months as a result of attractive financing offers by automobile manufacturers. We believe the boost in auto sales is temporary and will be offset by a similar decline sometime within the next year. Nonetheless, the temporary boost came at a time that was beneficial for the short-term health of the auto industry and the economy. Steady population growth, continued concerns for personal safety, and larger increases in personal income after 2002 will cause demand for large automobiles and trucks to recover throughout the forecast period, although growth in demand will not rival that of recent years. We expect registration revenues to grow at an average annual rate of 3.6% over the forecast period.

"We believe the boost in auto sales is temporary and will be offset by a similar decline sometime within the next year."

The State Highway Fund. Once the taxes and fees generated for the Highway Users Tax Fund (HUTF) are collected, they are disbursed to the state, counties, and cities. The state's share of money (approximately 55%) is credited to the State Highway Fund. In addition, the Senate Bill 97-1 diversion and any special transfers from the General Fund for transportation purposes are deposited into the State Highway Fund. Interest earnings in the fund are subject to the TABOR revenue limit. The State Highway Fund is receiving matching funds from local governments this year for projects accelerated with the use of Transportation Revenue Anticipation Notes. These local matching funds caused State Highway Fund

Table 3
Transportation Funds Revenue Forecast by Source, December 2001
Millions of Dollars

	Actual FY 00-01	Estimate FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	FY 2000-01 to FY 2006-07 CAAGR *
Highway Users Tax Fund								
Motor Fuel and Special Fuel Taxes /A	$526.1	$542.7	$561.3	$578.5	$597.7	$618.8	$639.7	3.3%
% change	1.1%	3.1%	3.4%	3.1%	3.3%	3.5%	3.4%	
Registrations /B	$148.7	$152.1	$157.6	$163.1	$169.0	$176.5	$184.0	3.6%
% change	-0.2%	2.3%	3.6%	3.5%	3.6%	4.4%	4.2%	
Other Receipts /C	$43.5	$44.8	$48.3	$46.4	$48.5	$51.0	$53.8	3.6%
% change	-4.6%	3.0%	7.8%	-4.0%	4.7%	5.1%	5.4%	
Total Highway Users Tax Fund	**$718.4**	**$739.6**	**$767.2**	**$788.0**	**$815.3**	**$846.4**	**$877.5**	**3.4%**
% change	**0.5%**	**3.0%**	**3.7%**	**2.7%**	**3.5%**	**3.8%**	**3.7%**	
State Highway Fund - Interest /D	$42.8	$34.9	$31.1	$42.8	$40.3	$38.0	$39.7	-1.2%
% change	38.9%	-18.4%	-11.1%	37.7%	-5.7%	-5.8%	4.5%	
Other Transportation Funds /E	$19.9	$23.8	$25.6	$26.5	$24.5	$24.3	$24.0	3.2%
% change	-1.6%	19.5%	8.0%	3.4%	-7.7%	-0.7%	-1.2%	
TOTAL: All Transportation Funds	**$781.0**	**$798.3**	**$823.9**	**$857.3**	**$880.1**	**$908.6**	**$941.2**	**3.2%**
% change	**2.0%**	**2.2%**	**3.2%**	**4.1%**	**2.7%**	**3.2%**	**3.6%**	
Addendum: Senate Bill 97-1 Revenue /F	$197.2	$35.2	$0.0	$228.0	$243.9	$260.1	$277.1	5.8%
% change	4.5%	-82.2%	-100.0%	NA	7.0%	6.6%	6.5%	

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. The Senate Bill 97-1 revenues are displayed in the General Fund and are then transferred to the HUTF.

* CAAGR: Compound Average Annual Growth Rate.

NA = Not applicable

/A Net of refunds.

/B Incorporates the impact of House Bill 01-1017, which allows the option for a five-year or two-year registration period for certain vehicles.

/C Includes interest receipts, judicial receipts, drivers' license fees, gross ton mile tax revenues, 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.

/D Includes interest, local transfers, and fees. Does not include the state's portion of the HUTF, which is reported within t otal HUTF revenues.

/E Revenues received by these funds include fees for distributive data processing, emissions, motorcycle safety, and emergency medical services. Incorporates the impact of House Bill 01-1100, which increases motor vehicle title fees to pay for computer upgrades.

/F Senate Bill 97-1 revenue declines in FY 2001-02 and is eliminated in FY 2002-03 to allow General Fund appropriations to grow by the six percent statutory limit.

revenues to increase substantially in FY 2000-01. However, although the State Highway Fund should continue to receive additional local matching funds in FY 2001-02, interest earnings in the fund will fall dramatically, causing State Highway Fund revenues subject to the TABOR limit to decrease 18.4%. Interest earnings to the fund will decline because of a dramatically reduced Senate Bill 97-1 diversion in FY 2001-02 and the lack of an additional transfer from the General Fund. Interest earnings will remain low in FY 2002-03. The Senate Bill 97-1 diversion potentially will not be the full amount in FY 2002-03. Revenues will decrease at a compound average annual rate of 1.2% between FY 2000-01 and FY 2006-07.

"The State Highway Fund is receiving matching funds from local governments this year for projects accelerated with the use of Transportation Revenue Anticipation Notes."

Additional Monies for Transportation. During the 2000 legislative session, the General Assembly specified that $50 million be transferred to the State Highway Fund from the General Fund on July 1, 2000. Senate Bill 97-1 provided for the diversion of 10% of state sales and use tax revenues to the HUTF. The percentage diverted to the HUTF was increased because sales and use tax revenues were reduced by legislative changes to the tax base and tax rate. The current amount diverted is 10.355%. The amount diverted is shown at the bottom of Table 3. A statutory trigger reduces the Senate Bill 97-1 diversion dollar-for-dollar when General Fund revenues fall short of fully funding the six percent growth limit on General Fund appropriations. The amount diverted in FY 2001-02 was capped at $35.2 million and the diversion potentially will not be fully funded in FY 2002-03.

Higher Education

In this section, we present the projections for cash fund revenue growth and full-time equivalent (FTE) student enrollment in the state's higher education system. The estimates are shown in Tables 4 and 5.

Higher Education Cash Fund Revenue Projections. Higher education revenue increased 7.3% in FY 2000-01. Table 4 provides the tuition and nontuition revenue forecasts through FY 2006-07. Between FY 2000-01 and FY 2006-07, we expect total higher education cash fund revenues to grow at an average annual rate of 4.9%.

Higher education *tuition revenue* increased 5.2% in FY 2000-01, the largest growth in six years. Tuition revenue will increase 5.5% in each of the next two years, due in part to a weakening economy that is expected to spur higher education enrollment gains. Over the six-year forecast period, tuition revenue will increase at an average annual rate of 4.4%. This is a slightly smaller growth rate than previously projected. The current projections of the Denver-Boulder-Greeley inflation rate are lower than in the last forecast. Tuition increases are generally pegged to the local inflation rate.

"Tuition revenue will increase 5.5% in each of the next two years…"

Nontuition revenue will increase at an average annual rate of 6.6% during the forecast period. The strong growth rate of 15.2% in FY 2000-01 is somewhat misleading because nontuition revenue saw a significant dip in FY 1999-00 due to an operational reorganization at university hospital clinics.

Higher Education Student Enrollment Projections. FTE student enrollment increased

Table 4
Higher Education Revenue Forecast by Source, December 2001
Millions of Dollars

	Actual FY 00-01	Estimate FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	FY 2000-01 to FY 2006-07 CAAGR *
Tuition	$547.2	$577.0	$608.9	$627.8	$653.7	$679.9	$707.2	4.4%
% change	5.2%	5.5%	5.5%	3.1%	4.1%	4.0%	4.0%	
Nontuition	$156.5	$165.8	$176.0	$188.5	$201.8	$215.5	$230.0	6.6%
% change	15.2%	6.0%	6.1%	7.1%	7.0%	6.8%	6.7%	
TOTAL Higher Education Cash	**$703.6**	**$742.9**	**$784.9**	**$816.3**	**$855.4**	**$895.4**	**$937.3**	4.9%
% change	**7.3%**	**5.6%**	**5.7%**	**4.0%**	**4.8%**	**4.7%**	**4.7%**	

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.

For FY 2000-01, the General Assembly approved maximum tuition increases of 2.9 percent for residents and 4.0 percent for nonresi dents. For FY 2001-02, resident tuition will increase by 4.0 percent and nonresident tuition will increase by 5.0 percent. For subsequent years, we assume maximum tuit ion rate increases for residents and nonres i-dents to be equal to the Denver-Boulder-Greeley inflation rate.

FY 2001-02 estimates and beyond do not take into account a recent accounting change that would eliminate student financial aid f rom reported cash fund revenues.

Table 5
Higher Education Enrollment Forecast, December 2001
Total Public Higher Education FTE Enrollment

	Actual FY 00-01	Estimate FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	FY 2000-01 to FY 2006-07 CAAGR *
Residents	117,235	118,784	120,279	121,446	122,934	124,157	125,433	1.1%
% change	0.5%	1.3%	1.3%	1.0%	1.2%	1.0%	1.0%	
Nonresidents	21,235	21,340	21,444	21,486	21,737	21,902	22,062	0.6%
% change	-0.3%	0.5%	0.5%	0.2%	1.2%	0.8%	0.7%	
TOTAL Full-Time-Equiv Students	**138,470**	**140,124**	**141,723**	**142,932**	**144,671**	**146,059**	**147,495**	1.1%
% change	**0.3%**	**1.2%**	**1.1%**	**0.9%**	**1.2%**	**1.0%**	**1.0%**	

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.

0.3% in FY 2000-01. Table 5 displays the FTE student enrollment projections by residency status. Total FTE student enrollment at Colorado's public higher education institutions will increase at an average annual rate of 1.1% between FY 2000-01 and FY 2006-07. This is a slightly higher rate than projected in the September forecast. The higher rate is due to the weaker economy.

We project that *resident enrollment* will increase at a compound average annual rate of 1.1% between FY 2000-01 and FY 2006-07. Resident enrollment growth will exhibit a relative surge in FY 2001-02 and FY 2002-03 as the economic slowdown sends workers back to school in order to obtain more marketable skills.

Nonresident enrollment will grow at a rate of 0.6% over the forecast period. We expect that nonresident enrollment will not grow as significantly as resident enrollment. The higher cost of nonresident tuition will influence potential out-of-state enrollees to attend a school in their home state. The slower growth is also attributable to an expected slowing trend in migration to the state.

"The higher cost of nonresident tuition will influence potential out-of-state enrollees to attend a school in their home state."

Factors Affecting the Forecast. Population growth among age-groups likely to seek higher education is a significant factor in this forecast. These include: the number of Coloradans completing high school or a high school equivalent program; the level of migration into the state; the number of Coloradans in particular age groups; and population growth in regions close in proximity to colleges and universities.

Economic variables such as the business cycle play a role in higher education enrollment. During an economic slowdown, enrollment tends to increase as employees choose (or are compelled) to improve their marketable skills. We estimate that higher education enrollment will increase as a result of a weaker state economy, employment cuts, and an increasingly competitive job market.

"As the cost of university or private college tuition increases, enrollment may increase at institutions with lower tuition, such as community colleges."

The cost of tuition is also a factor affecting enrollment, particularly between institutions. As the cost of university or private college tuition increases, enrollment may increase at institutions with lower tuition, such as community colleges.

Tuition revenue is driven by enrollment and inflation. Nontuition revenue is driven by student fees, on-campus consumption, housing, and auxiliary operations such as university clinics. Interest income also contributes significantly to nontuition revenue.

The Governmental Accounting Standards Board (GASB) recently issued statements 34 and 35, requiring institutions of public higher education to discontinue reporting scholarship allowances and tuition discounts as revenue. Financial aid for student tuition provided by or funneled through the state shall no longer be reported in financial statements as revenue but rather as transfers. This accounting change becomes effective at the end of FY 2002-03. This does not necessarily mean that revenue will decrease, but rather a proportion of tuition revenue (current estimates range between 35% and 50%) will no longer be considered revenue

for the purposes of TABOR. This change will be accompanied by an adjustment to the TABOR base such that any potential TABOR surplus will not be affected. The revenue impact of this change will be addressed in upcoming forecasts.

General Assembly Legislation Affecting the Forecast. The December forecast reflects two tuition inflation factors approved by the Joint Budget Committee for FY 2001-02. First, the committee authorized a 4.0% increase in resident tuition, based on the 2000 Denver-Boulder-Greeley inflation rate. Second, the committee authorized a 5.0% increase in nonresident tuition. Future per-pupil tuition is assumed to increase at the projected Denver-Boulder-Greeley inflation rate. Estimates for the local inflation rate are found in Table 14, Colorado Economic Indicators.

Senate Bill 01-229 was passed by the General Assembly in the 2001 regular session. This bill authorizes the Colorado School of Mines (CSM) to operate under a performance contract with the Colorado Commission on Higher Education. CSM will have the ability to set resident and nonresident tuition rates. Because the performance contract has not been submitted to the General Assembly for approval, the impact of this bill cannot be estimated at this time.

Unemployment Insurance Trust Fund

Forecasts for unemployment insurance (UI) tax revenue, benefit payments, and the UI Trust Fund balance are shown in Table 6. The UI Trust Fund collects taxes from employers and uses the revenues for unemployment benefits. Growth in UI taxes depends upon employment growth, the rate at which covered employees switch employers, wage growth, and the amount of benefits paid to UI claimants. The amount of benefits paid to UI claimants depends upon the number of unemployed persons and the average wage level. When the amount of benefits paid falls, the average UI tax rate paid by all employers falls, and UI tax revenues fall, all else equal.

For the three years between FY 1996-97 and FY 1998-99, a falling unemployment level produced declines in total benefit payments even though wages were rising. Despite strong employment and wage growth, a consistently declining UI tax rate and a fixed minimum taxable wage base culminated in low UI tax revenue growth during FY 1996-97 and FY 1997-98 and declines in the next two fiscal years. However, the level of UI taxes remained much higher than the level of benefits paid, resulting in robust growth in the UI Fund balance and increased interest earnings. Total UI revenue increased 1.9% in FY 1999-00, a result of a slight decline in tax revenues countered by strong interest earnings.

Layoffs began to take a toll in late 2000 and have accelerated throughout 2001. This caused claims for benefit payments to soar. Increased claims activity is expected to continue well into 2002. This factor, combined with continually rising wages, caused benefit payments to rise 18% in FY 2000-01. Benefit payments will rise even more dramatically in FY 2001-02, increasing 86.5%. While benefit payments are rising, tax revenues will decline 6.5% in FY 2001-02 as a result of an extremely low UI tax rate, a slowing economy, and a temporary tax credit. *Tax rates* will rise in FY 2002-03 and FY 2003-04 as a result of rising benefit payments in FY 2000-01 and FY 2001-02, and then will be more steady during the remainder of the forecast period.

The solvency tax will be triggered for UI taxes in 2003 and 2004. Because benefit payments are soaring while tax revenues are declining in FY 2001-02, the fund balance will decline. Thus the solvency of the UI fund will fall to a

Table 6
Unemployment Insurance Trust Fund Forecast, December 2001
Revenues, Benefits Paid, The UI Fund Balance, and Solvency Ratio
Millions of Dollars

	Actual FY 00-01	Estimate FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	FY 2000-01 to FY 2006-07 CAAGR *
Beginning Balance	$763.7	$794.1	$642.8	$658.6	$793.5	$877.9	$963.8	4.0%
Plus Income Received								
Taxes /A	$149.6	$139.8	$212.0	$315.0	$263.2	$273.5	$246.9	8.7%
Interest	$51.2	$46.4	$47.7	$51.9	$62.2	$67.2	$73.9	6.3%
Total Revenues	**$200.8**	**$186.2**	**$259.7**	**$366.9**	**$325.5**	**$340.7**	**$320.8**	8.1%
% change	-11.0%	-7.2%	39.5%	41.3%	-11.3%	4.7%	-5.8%	
Less Benefits Paid	($183.2)	($341.8)	($247.0)	($234.9)	($244.0)	($257.9)	($270.3)	6.7%
% change	18.0%	86.5%	-27.7%	-4.9%	3.9%	5.7%	4.8%	
Accounting Adjustment /B	$12.9	$4.2	$3.0	$2.9	$3.0	$3.2	$3.3	
Ending Balance	**$794.1**	**$642.8**	**$658.6**	**$793.5**	**$877.9**	**$963.8**	**$1,017.6**	4.2%
Solvency Ratio:								
Fund Balance as a Percent of Total Annual Private Wages /C	1.12%	0.87%	0.84%	0.94%	0.96%	0.99%	0.98%	-2.2%

Totals may not sum due to rounding.

NA: Not Applicable.

* CAAGR: Compound Average Annual Growth Rate.

/A Incorporates a 20 percent tax credit for eligible employers in calendar years 2000 and 2001. The solvency tax is triggered in in calendar years 2003 and 2004. The Colorado Department of Labor and Employment estimates that solvency tax revenues will equal $55 million in 2003. Solvency tax revenues are estimated to be $155.5 million in 2004. This includes taxes from private employers and state and local governments, penalty receipts, 50% of the surcharge, and the accrual adjustment on taxes.

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

/C A ratio at or below 0.9% triggers the solvency tax. This forecast incorporates an estimated $55 million in revenues in calendar year 2003 and an estimated $115.5 million in calendar year 2004 from the solvency tax.

level that will trigger the solvency tax for calendar year 2003. Furthermore, the estimated $55 million in solvency taxes generated during 2003 will not be enough to return solvency to the fund by the end of FY 2002-03, and thus the solvency tax will continue to be levied at an even higher rate in 2004. The Colorado Department of Labor and Employment estimates that $115.5 million will be generated by the solvency tax during 2004. The solvency tax, combined with a higher regular UI tax rate, will cause UI taxes to increase 51.7% in FY 2002-03 and 48.6% in FY 2003-04.

"The solvency tax will be triggered for UI taxes in 2003 and 2004."

The fund will return to solvency by the end of FY 2003-04 with growth in UI tax revenues and benefit payments returning to more normal levels during the remainder of the forecast period. While benefit payments increase at an average annual rate of 6.7%, UI tax revenues will grow at an average annual rate of 8.7% between FY 2000-01 and FY 2006-07. Meanwhile, the UI Trust Fund balance will increase at an average annual rate of 4.2%, growing to $1.0 billion by FY 2006-07.

The Solvency of the UI Trust Fund Balance. A solvency tax is triggered in Colorado when the UI fund balance as a percentage of total annual private wages falls below 0.9%. As shown in Table 6, this ratio will be below 0.9% at the end of FY 2001-02 and FY 2002-03, causing the solvency tax to trigger during calendar years 2003 and 2004. The ratio will recover somewhat during the course of the forecast period

Overview of Additional Cash Funds

This section provides brief descriptions of other large cash funds that are subject to the TABOR revenue limit. In FY 2000-01, these cash funds comprised 29.1% of total cash fund revenue. The forecast for each of these funds is contained in Table 2.

The **Limited Gaming Fund** (sometimes referred to as the Colorado Gaming Fund) receives license fees and taxes levied on the adjusted gross proceeds (AGP) earned from gaming activity in Black Hawk, Central City, and Cripple Creek. Gaming revenue increased 15.0% in FY 2000-01. This healthy growth was a result of strong growth in personal income, larger casinos replacing smaller casinos, and continued demand for gaming entertainment. Larger casinos pay more taxes than smaller casinos because they reach the higher tax rates faster and more often than smaller casinos. The gaming tax currently ranges from 0.25% of the first $2 million of AGP (or the total amount bet less winnings) to 20% of all AGP above $15 million.

"The aftermath of the September 11 tragedy will have a positive effect on Colorado's gaming industry as Coloradans choose to stay closer to home."

We expect overall gaming revenue to increase 11.0% in FY 2001-02, as larger casinos continue to replace smaller casinos, while the economic slowdown moderates the healthy growth rates seen in recent years. The aftermath of the September 11 tragedy will have a positive effect on Colorado's gaming industry as Coloradans choose to stay closer to home. We expect the gaming market in Colorado to mature somewhat by the end of the forecast period, with gaming revenue increasing at an average annual rate of 10.7% between FY 2000-01 and FY 2006-07.

Gaming revenues in this fund are first used to pay for the expenses of running the Gaming Commission and the Division of Gaming. In

FY 2000-01, these expenditures equaled $8.6 million. The remaining amount is distributed to the General Fund, the Colorado Tourism Promotion Fund, local government impact funds, the State Highway Fund, and the State Historical Society. Once all appropriations and distributions were complete in FY 2000-01, the General Fund received 33.4% of gaming revenues. The amount retained in the General Fund is reported as a revenue source for the General Fund in Table 1. All gaming revenues, regardless of where they are distributed, are included within the TABOR limit.

"...most Wildlife Cash Fund revenues will not be subject to the TABOR limit beginning in FY 2001-02..."

Wildlife Cash Fund revenues subject to the TABOR limit declined 0.9% in FY 2000-01. However, most Wildlife Cash Fund revenues will not be subject to the TABOR limit beginning in FY 2001-02 as a result of House Bill 01-1012. House Bill 01-1012 designated the Division of Wildlife (DOW) as an enterprise for purposes of TABOR beginning July 1, 2001.

The **Capital Construction Fund** retains money for construction of future capital projects such as prisons and higher education facilities. Income to this fund is comprised largely of interest earnings on the unspent balance. A total of $274.5 million was transferred to the fund from the General Fund in early FY 2000-01. Due to state budget problems, the scheduled transfer of $302.6 million during FY 2001-02 was reduced to $83.3 million during the second special session of 2002. At least an additional $100 million will be transferred in FY 2002-03 through FY 2005-06. However, the anticipated expenditures from the fund will result in a falling average fund balance throughout the forecast period. Therefore, we expect income to the Capital Construction Fund to decline at a compound average annual rate of 8.4% from FY 2000-01 through FY 2006-07.

The Department of **Regulatory Agencies** (DORA) regulates and enforces Colorado laws regarding various industries in Colorado. The department collects license and other fees from the professions that it regulates. After growing 8.8% in FY 2000-01, fee revenue is expected to grow 1.5% in FY 2001-02. Because most fees are related to employment levels, we expect DORA cash fund revenue to increase modestly during the remainder of the forecast period.

Insurance-related taxes are deposited into three cash funds administered by the Division of Workers Compensation in the Department of Labor and Employment. The revenue collected by the funds comes from taxes on workers compensation insurance premiums. Medical inflation has been increasing for several years and is expected to continue this trend. While the move to health maintenance organizations helped to control costs for several years, any efficiency gains from this move have been exhausted and costs are on the rise. Thus, we expect these revenues to increase at a compound average annual rate of 5.2% between FY 2000-01 and FY 2006-07.

Severance taxes are levied on the value of extracted oil, gas, coal, and minerals. Final oil and gas severance taxes for a given year are reduced by a portion of a company's property taxes paid during the same year, but based on the previous year's income. The difference of timing between the gross severance taxes due and the offsetting property taxes creates a volatile collections pattern. Total severance tax revenues, including interest earnings, increased 52.5% in FY 2000-01, primarily due to a 112.1% increase in oil and gas severance taxes, a result of simultaneous increases in energy prices and oil and gas production. Sever-

ance tax-related revenue reached a record high of $74.7 million last fiscal year. Prices for natural gas have plunged from their high levels earlier this year, while the price for oil had a more modest decline. Thus, we expect that severance taxes from this source will fall in FY 2001-02. All severance taxes and interest income will total $55.8 million in FY 2001-02, a 25.3% decline. Between FY 2000-01 and FY 2006-07, we expect total severance tax revenues to decrease at an average annual rate of 2.9%.

The **Employment Support Fund** (ESF) is designed to help maintain the solvency of the Unemployment Insurance Trust Fund (UI Fund). The ESF receives its revenue from the unemployment insurance surcharge tax. The surcharge tax is levied to cover benefits charged against employers who have gone out of business. After declining 2.2% in FY 2000-01, ESF revenues will increase 3.0% in FY 2001-02, and are expected to grow at an average annual rate of 7.4% over the forecast period.

The **Petroleum Storage Tank Fund** collects fees that are used to clean leaking underground gasoline storage tanks. Most of the fees collected in the fund are levied on tank truckloads of fuel products shipped within the state. The fee level is set in statute to fluctuate with the amount of money in the fund's reserve. The fee was $75 during most of FY 2000-01 because of demand on the fund's resources. Demands for the money in the fund's reserve eased up in early FY 2001-02, and the fee dropped to $50 on October 1, 2001. Thus, after increasing 52.5% in FY 2000-01, revenues to the fund will decline 26.1% in FY 2001-02. As a result of the recent fee change and a statutory reduction of the fee to $25 in FY 2004-05, Petroleum Storage Tank Fund revenues are expected to decline at an average annual rate of 12.9% between FY 2000-01 and FY 2006-07.

The **Controlled Maintenance Trust Fund** (CMTF) is a state trust fund from which the interest earnings may be spent for maintenance of existing state facilities. The principal balance in this fund is typically designated to satisfy the state's constitutional emergency reserve requirement. Interest earnings to the Controlled Maintenance Trust Fund (CMTF) will show a volatile pattern during the next two years as a result of House Bill 01-1267. This bill required the principal balance of the CMTF ($243.9 million) to be transferred to the General Fund on July 1, 2001. On July 1, 2002, $276.4 million will be transferred from the General Fund to the CMTF. Interest income to the CMTF will increase at a compound average annual rate of 1.6% between FY 2000-01 and FY 2006-07.

The **"other cash funds"** component includes approximately 174 smaller cash funds and can be quite volatile. These funds grew 16.0% as a group in FY 2000-01, a heady pace that was likely due to the fact that most funds subject to Senate Bill 98-194 no longer needed to reduce fees in FY 2000-01. This bill required many cash funds to lower fees in order to reduce their reserves. Once their reserves were reduced to a certain level, they were no longer required to reduce their fees and their revenue increased a result. Revenue to this group of cash funds will increase at an average annual rate of 4.9% over the forecast period. Senate Bill 00-057 exempted moneys credited to the Unclaimed Property Trust Fund from the TABOR limit. The exemption was effective July 1, 2001, and will reduce the other cash funds estimate by $12 million. As a result, this fund grouping will show only a slight increase in FY 2001-02.

The Constitutional Revenue Limit

- After exceeding the constitutional revenue limit for the past five years, Colorado will not have surplus TABOR revenues in FY 2001-02. A weak economy, the effects of the 2000 Census results, and the voter-approved Amendment 23 are responsible for the disappearing surplus. However, Colorado will return to a surplus situation after FY 2001-02. The estimated surplus will be $65.1 million in FY 2002-03 and increase to $901.3 million in FY 2006-07. The surplus will average $524.8 million from FY 2002-03 through FY 2006-07.

- The General Assembly enacted 18 ways to return surplus TABOR revenues. Seventeen are based on the amount of the TABOR surplus, while the sales tax refund is used whenever a surplus exists. Based on the low TABOR surplus estimate for FY 2002-03, the earned income tax credit and the sales tax refund will be the only refund methods in effect. In FY 2003-04, only seven refund methods that are dependent on the amount of the surplus will be in effect. All refund methods are projected to be in effect for the last two years of the forecast.

This section presents a brief discussion of the TABOR revenue limit and projected surplus TABOR revenues after incorporating the General Fund and Cash Fund revenue forecasts. In addition, we discuss which refund methods are projected to be used during the forecast period.

The provisions of Article X, Section 20 of the Colorado Constitution (TABOR) require that revenue collected above the TABOR limit be refunded to taxpayers within one year after the fiscal year in which they were collected. TABOR limits annual growth in most state revenue to inflation plus the annual percentage change in state population.

"...the TABOR surplus will disappear for FY 2001-02."

After having a TABOR surplus in each of the past five fiscal years, we expect that the TABOR surplus will disappear for FY 2001-02. The TABOR surplus will be only $65.1 million in FY 2002-03. For the five years of projected surpluses during the forecast period, the surplus will average $524.8 million. This compares with an average surplus of $650.0 million during the past five years. Table 7 displays the projections for future TABOR surpluses based upon current law (e.g., current tax policy) and the Legislative Council December 2001 revenue, inflation, and population forecasts. Table 8 shows a detailed calculation of the TABOR surplus. The forecast incorporates voter approval of Amendment 23 and Referendum A, as well as legislative approval of House Bill 01-1012. This bill exempted most Division of Wildlife revenues from the state revenue limits.

While the $263.4 million reduction of the TABOR revenue forecast eliminates a TABOR surplus for FY 2001-02, it is important to note that the nearly $300 million reduction in FY 2002-03 does not eliminate our previous estimate of a $63.7 million surplus for that year. When revenue drops below the allowable TABOR revenue limit, as we are projecting for FY 2001-02, the new TABOR limit is the lower revenue figure. The limiting factors of inflation and the annual percentage change in state population are then applied to the lower revenue figure. Thus, when the economy picks up and growth in revenue exceeds the limiting inflation and population factors, the state returns to a TABOR surplus situation. Meanwhile, the allowable TABOR limit is permanently ratcheted down.

"...the allowable TABOR limit is permanently ratcheted down."

Review of the FY 2000-01 TABOR Surplus. Revenues subject to the TABOR limit exceeded the allowable limit by $927.2 million in FY 2000-01, a slight decline from the $941.1 million in the previous year. While the General Assembly has enacted 18 refund methods, one method does not begin until the

Table 7
Estimated TABOR Surplus Revenues
(millions of dollars)

Fiscal Year	Amount
2001-02	$0.0
2002-03	$65.1
2003-04	$383.7
2004-05	$519.2
2005-06	$755.0
2006-07	$901.3
Total	**$2,624.2**
Average	**$524.8**

Table 8
December 2001 Forecast for the TABOR Revenue Limit and Emergency Reserve

	Actual FY 2000-01	Estimate FY 2001-02	Estimate FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07
TABOR Revenues:							
General Fund /A	$6,500.8	$6,170.8	$6,606.4	$7,101.1	$7,622.1	$8,217.8	$8,787.8
Cash Funds	2,376.3	2,315.2	2,504.8	2,717.7	2,766.2	2,889.9	2,983.8
Total TABOR Revenues	$8,877.1	$8,486.0	$9,111.2	$9,818.8	$10,388.3	$11,107.7	$11,771.6
LIMIT:							
Allowable TABOR Growth Rate	5.1%	10.0%	6.6%	4.3%	4.6%	4.9%	5.0%
Inflation	2.9%	4.0%	4.5%	2.6%	2.9%	3.0%	3.1%
Population Growth	2.2%	6.0%	2.1%	1.7%	1.7%	1.9%	1.9%
Allowable TABOR Limit /B	**$7,948.6**	**$8,728.2**	**$9,046.1**	**$9,435.1**	**$9,869.1**	**$10,352.7**	**$10,870.3**
Revenues Above / (Below) TABOR Limit /C	**$927.2**	**($242.2)**	**$65.1**	**$383.7**	**$519.2**	**$755.0**	**$901.3**
EMERGENCY RESERVE:							
TABOR Emergency Reserve /D	$238.5	$254.6	$271.4	$283.1	$296.1	$310.6	$326.1
Reserved Amount (CMTF Principal) /E	$243.9	NA	$276.4	$276.4	$276.4	$276.4	$276.4

Totals may not sum due to rounding.

NA = Not applicable.

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 10.355% of the gross sales and use tax revenues to the Highway Users Tax Fund.

/B In November 2000, Colorado voters approved Referendum A allowing the state revenue limit to increase by $44.1 million in FY 2001-02 to reimburse local governments for reduced property taxes paid by seniors. The additional amount is reflected in the allowable TABOR limit. In addition, the revenue limit for FY 2000-01 was adjusted down by $53.9 million to account for House Bill 01-1012 which exempted the wildlife cash fund from the state's revenue limit.

/C The TABOR surplus was adjusted down by $1.3 million in FY 2000-01 to account for an overstatement of previous years' TABOR refund liabilities.

/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. Other state funds are designated in the 2001 Long Bill as the state's emergency reserve for FY 2001-02. For FY 2001-02 only, the principal balance in the CMTF was transferred to the General Fund.

refund of the FY 2002-03 surplus. Table 9 shows the amount estimated to be refunded for each of the 17 refund mechanisms. The sales tax refund is increased by five percent to ensure that all of the TABOR surplus is refunded.

The sales tax refund is distributed to full-year resident taxpayers based on the size of their federal adjusted gross income as modified by Colorado law. These modifications include untaxed social security income, lump-sum distributions from pension and profit-sharing plans, and interest income from state and local bonds. The sales tax refund will range from $144 to $451 per taxpayer. Married couples and surviving spouses receive a refund that is double the amount that individual taxpayers receive. Table 10 shows the refund amounts that taxpayers will receive when they file their state income tax returns beginning in January 2002.

"The sales tax refund will range from $144 to $451 per taxpayer."

Which refund mechanisms will be used when the state has a TABOR surplus? Except for the sales tax refund, a refund mechanism is used if the amount of the TABOR surplus exceeds the threshold amount set for the mechanism. There are 17 refund methods that are dependent on a threshold. The thresholds are increased each year based on Colorado personal income growth in the calendar year prior to the fiscal year in which the refund is made. The research and development sales tax refund will not be effective until FY 2003-04.

Based on our estimates of the TABOR surplus, only the earned income tax credit and the sales tax refund will be used to refund the FY 2002-03 surplus. For the FY 2003-04 surplus, seven refund methods will be used. For the last two years of the forecast, the TABOR surplus will be large enough that all refund methods will be used. Table 11 shows the estimated threshold levels for each refund method. The shaded portion of Table 11 indicates which refund methods will not be used.

Table 9
Refund of the FY 2000-01 Surplus TABOR Revenue
(dollars in millions)

Refund Method	Amount
Earned Income Tax Credit	$30.3
Foster Care Tax Credit	$2.0
Business Personal Property Tax Refund	$100.0
Individual Development Account Tax Credit	$5.0
Capital Gains Deduction before May 1994	$69.3
Rural Health Providers Tax Credit	$0.4
Child Care Credit	$19.4
Reduced Motor Vehicle Registration Fees	$33.6
High Technology Scholarship Tax Credit	$0.5
Charitable Contributions Deduction	$5.1
Interest, Dividends, Capital Gains Deduction	$45.8
Pollution Control Equipment Sales Tax Refund	$1.5
Reduced Sales Tax Rate for Heavy Trucks	$4.3
Ag Value-Added Cooperative Tax Credit	$4.0
Private Health Benefit Plans Tax Credit	$2.7
Capital Gains Deduction for Assets 1 to 5 Years	$41.6
Sales Tax Refund	$589.8
Total Refunded	$955.3

Table 10
Sales Tax Refund Amounts by Income and Tax Filing Status

Modified Federal Adjusted Gross Income	Refund for Single, Head of Household, or Married Separate Taxpayers	Refund for Married or Surviving Spouse Taxpayers
Less than $27,001	$144	$288
$27,001 to $56,000	$187	$374
$56,001 to $83,000	$220	$440
$83,001 to $110,000	$252	$504
$110,001 to $135,000	$283	$566
Greater than $135,000	$451	$902

Table 11
Estimated Thresholds for TABOR Refund Mechanisms
Based on December 2001 Revenue Forecast by Legislative Council Staff
(dollars in millions)

Refund Mechanism:	Thresholds for FY 2002-03	Thresholds for FY 2003-04	Thresholds for FY 2004-05	Thresholds for FY 2005-06	Thresholds for FY 2006-07	Thresholds for FY 2007-08
Earned Income Tax Credit	**$62.6**	**$65.3**	$69.9	$74.9	$80.0	$85.3
Foster Care Tax Credit	***$211.4***	***$220.5***	***$235.9***	*$252.9*	$269.9	$287.9
Business Personal Property Tax Refund	**$213.0**	**$222.2**	**$237.7**	$254.8	$271.9	$290.1
Individual Development Account Tax Credit	**$220.8**	**$230.3**	**$246.5**	$264.2	NA	NA
Capital Gains Deduction before May 1994	**$325.8**	**$339.8**	**$363.5**	$389.7	$415.8	$443.7
Rural Health Providers Tax Credit	**$331.3**	**$345.5**	**$369.7**	**$396.3**	$422.9	$451.2
Child Care Credit	**$337.1**	**$351.6**	**$376.2**	**$403.3**	$430.3	$459.1
Research and Development Sales Tax Refund	***$358.4***	***$395.1***	***$422.8***	***$453.2***	$483.6	$516.0
Reduced Motor Vehicle Registration Fees	**$383.6**	**$400.1**	**$428.1**	**$458.9**	$489.6	$522.4
High Technology Scholarship Tax Credit	**$383.6**	**$400.1**	**$428.1**	**$458.9**	$489.6	$522.4
Charitable Contributions Deduction	**$406.8**	**$424.3**	**$454.0**	**$486.7**	**$519.3**	$554.1
Interest, Dividends, Capital Gains Deduction	**$406.8**	**$424.3**	**$454.0**	**$486.7**	**$519.3**	$554.1
Pollution Control Equipment Sales Tax Refund	**$406.8**	**$424.3**	**$454.0**	**$486.7**	**$519.3**	$554.1
Reduced Sales Tax Rate for Heavy Trucks	**$406.8**	**$424.3**	**$454.0**	**$486.7**	**$519.3**	$554.1
Ag Value-Added Cooperative Tax Credit	***$422.8***	***$441.0***	***$471.8***	***$505.8***	**$539.7**	$575.9
Private Health Benefit Plans Tax Credit	**$464.9**	**$484.9**	**$518.9**	**$556.2**	**$593.5**	$633.2
Capital Gains Deduction for Assets 1 to 5 Years	**$499.8**	**$521.3**	**$557.8**	**$597.9**	**$638.0**	$680.7
HB 99-1001, Sales Tax Refund	ND	ND	ND	ND	ND	ND
Legislative Council Staff Estimate of TABOR Refund	$0.0	$62.8	$383.7	$519.3	$755.0	$901.3

NA: This refund provision expires after FY 2005-06.

ND: Not dependent on a threshold level.

Shaded amounts will not be refunded because the projected TABOR refund is less than the threshold. The estimate of the TABOR refund is based on the prior year's surplus.

General Fund Overview

- The poor outlook for General Fund revenues for the rest of FY 2001-02 will require additional budget action. Without such action, the General Fund excess reserve would have a shortfall. The General Fund needs to be shored up by $155.1 million. The shortfall in the excess reserve occurs despite nearly $400 million of budget cuts enacted at the General Assembly's special session this fall.

- The outcome for future General Fund appropriations, the excess reserve, capital construction, and the diversion of sales and use taxes to the Highway Users Tax Fund depends on the corrective actions taken this year.

This section presents the General Fund overview after incorporating the revenue forecasts, the expected TABOR surpluses, and other expenditures from the General Fund.

"In anticipation of weaker revenue growth in FY 2001-02, the state legislature took action in the second special session this fall to reduce expenditures by $386.4 million."

The General Fund overview is presented in Table 12. The beginning reserve for the General Fund in FY 2000-01 was $786.8 million. Expenditures exceeded revenues during the fiscal year and reduced the reserve to $469.3 million at year end. In anticipation of weaker revenue growth in FY 2001-02, the state legislature took action in the second special session this fall to reduce expenditures by $386.4 million. The Senate Bill 97-1 diversion was capped at $35.2 million, thus saving an estimated $167.1 million. The transfer to the Capital Construction Fund was reduced by $219.3 million. After these budget moves, it was anticipated that the General Fund excess reserve for FY 2001-02 would be $82.3 million.

"...further budget action will have to be taken."

The overview in Table 12 is not presented in the traditional manner. The General Fund excess reserve shows a shortfall of $155.1 million in FY 2001-02. The General Fund overview does not include any savings that the Governor's office has already identified. These savings would be approximately $50 million if realized. Nonetheless, further budget action will have to be taken. Depending on the combination of moves made, the outlook for the excess reserve, General Fund appropriations, and the Senate Bill 97-1 diversion of sales and use taxes to the Highway Users Tax Fund beyond the current fiscal year will be different.

Current law would dictate that appropriations be reduced by the full $155.1 million. Thus, if only General Fund appropriations are reduced to cover the shortfall this year, a full Senate Bill 97-1 diversion can be made in all years of the forecast period after FY 2001-02. This occurs because the General Fund appropriations base is reduced for all future years, compounding the savings. While a deficit in the excess reserve is averted for FY 2001-02, the excess reserve would have a small cushion of only $11.4 million in FY 2002-03 under this scenario.

Another option is to partially cover the shortfall in FY 2001-02 with a one-time transfer into the General Fund. The remainder of the shortfall would be covered with a reduction in General Fund appropriations. Under this situation, only a partial Senate Bill 97-1 diversion could be made in FY 2002-03. The level of appropriations is higher than in the scenario of the previous paragraph. If the one-time transfer into the General Fund must be paid back in FY 2002-03, the diversion to highways would be reduced even further. In either case, the General Fund excess reserve would be zero or show a shortfall in FY 2002-03.

A reduction in the diversion to highways could still be avoided in FY 2002-03. During the 2001 regular session, the General Assembly transferred funds from the Controlled Maintenance Trust Fund (CMTF) to the General Fund with the proviso that the CMTF be paid back in FY 2002-03. The payback could be delayed or phased in over two or more years to create additional funds in the excess reserve in FY 2002-03.

The overview does not include the amount that must be paid to settle the Arkansas River law-

suit. The amount is under negotiation, but will likely exceed $20 million. If the amount is settled and must be paid in FY 2001-02, it would further impact the General Fund this year.

Several other lawsuits could also impact the General Fund overview. Rocky Mountain HMO alleged that the Department of Health Care Policy and Financing breached their contracts by incorrectly calculating managed care rates in the Medicaid program. The court initially ruled for the plaintiff and awarded $18.0 million. The decision is being appealed by the state. Another HMO has also filed suit. In total, it has been estimated that Colorado may be liable for as much as $50 million to $70 million if the state were to lose lawsuits to all of Colorado's HMO's that have managed care contracts with the Medicaid program. One half of the settlement funds would come from the General Fund.

The Mandy case is a class action suit against the state alleging that developmentally disabled clients were denied Medicaid services for which they were eligible by being placed on a waiting list. To serve the approximately 2,700 persons on the waiting list would cost an estimated $185.7 million per year, half of which would be General Fund.

"These cases could place additional pressure on the General Fund."

These cases could place additional pressure on the General Fund. An additional $142 million in General Fund expenditures would remove nearly $1 billion from the General Fund reserve over a six-year period if they are included in the base that is increased by six percent each year. This amount would exceed the projected excess reserve in FY 2006-07 even if the first-year revenue shortfall is taken entirely from appropriations.

Table 12
December 2001 Forecast for the General Fund Overview
($ in millions)

	Actual FY 2000-01	Estimate FY 2001-02	Estimate FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07
Beginning Reserve	$786.8	$469.3	$72.1	$151.8	$357.1	$365.9	$413.0
Gross General Fund	6,552.5	6,216.3	6,659.0	7,161.3	7,688.2	8,289.7	8,866.0
Senate Bill 97-1 Diversion to the HUTF /A	(197.2)	(35.2)	0.0	(228.0)	(243.9)	(260.1)	(277.1)
Diversion of Sales Taxes to Older Americans Fund	(3.0)	(3.0)	0.0	0.0	0.0	0.0	0.0
Transfer from the Controlled Maintenance Trust Fund /E	0.0	243.9	0.0	0.0	0.0	0.0	0.0
Total Funds Available	$7,149.5	$6,891.3	$6,741.4	$7,095.5	$7,811.7	$8,405.9	$9,012.4
EXPENDITURES:							
General Fund Appropriations /B, /D	$5,336.8	$5,669.3	$6,010.1	$6,371.6	$6,755.1	$7,161.6	$7,592.5
Medicaid Overexpenditure	7.8	NE	NE	NE	NE	NE	NE
Rebates and Expenditures	125.1	129.5	133.0	136.9	141.1	145.7	126.3
Reimbursement for Senior Property Tax Cut		0.0	44.1	44.7	45.6	46.4	47.3
Capital and Prison Construction	224.5	83.3	111.1	100.2	100.3	100.0	0.0
Transfer for Highway Construction	50.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund /E	0.0	0.0	276.4	0.0	0.0	0.0	0.0
K-12 Settlement Funding Adds to GF Appropriation Line 7	5.0	10.0	15.0	20.0	20.0	20.0	20.0
TABOR Refund	941.1	927.2	0.0	65.1	383.7	519.2	755.0
Accounting Adjustments	(20.5)	NE	NE	NE	NE	NE	NE
Total Obligations	$6,669.8	$6,819.3	$6,589.6	$6,738.4	$7,445.8	$7,992.9	$8,541.1
YEAR-END GENERAL FUND RESERVE:	**$469.3**	**$72.1**	**$151.8**	**$357.1**	**$365.9**	**$413.0**	**$471.3**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**213.7**	**227.2**	**241.0**	**255.7**	**271.0**	**287.3**	**304.5**
GENERAL FUND EXCESS RESERVE	**$255.6**	**($155.1)**	**($89.2)**	**$101.4**	**$94.9**	**$125.8**	**$166.8**
RESERVE AS A % OF APPROPRIATIONS	**8.8%**	**1.3%**	**2.5%**	**5.6%**	**5.4%**	**5.8%**	**6.2%**
TABOR RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$238.5	$254.6	$271.4	$283.1	$296.1	$310.6	$326.1
Reserved Amount (CMTF Principal) /C	243.9	NA	276.4	276.4	276.4	276.4	276.4
Money in Excess of Emergency Reserve	5.4	NA	5.0	(6.7)	(19.7)	(34.2)	(49.7)
Appropriations Growth /B, D	$314.6	$329.7	$345.8	$366.5	$383.5	$406.5	$430.9
Appropriations Growth Rate /B,D	6.66%	6.08%	6.01%	6.01%	6.02%	6.02%	6.02%
Addendum: Amount Directed to State Education Fund	($164.3)	($317.2)	($339.5)	($366.3)	($396.2)	($431.5)	($462.2)

NE: Not Estimated.

Totals may not sum due to rounding.

/A 10.355% of sales and use taxes are diverted to the Highway Users Tax Fund when the full six percent General Fund appropriat ions limit can be attained. The amount was capped at $35.2 million for FY 2001-02.

/B Includes $2.6 million in appropriations that are exempt from the statutory appropriations limit as a result of final court o rders or federal mandates in FY 2000-01.

/C 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. For FY 2001-02 only, other funds will be designated to sati sfy the reserve requirement.

/D The amounts for the K-12 settlement funding attributable to Senate Bill 00-181 are also appropriations from the General Fund and should be added to the General Fund a p-propriations line to calculate total appropriations.

/E House Bill 01-1267 transferred the principal balance of the CMTF to the General Fund on July 1, 2001, and transfers $276.4 m illion from the General Fund to the CMTF on July 1, 2002.

OVERVIEW OF THE ECONOMY

National Economy

Looking Back

"The nation entered recession in March that ended the record-length expansion at ten years."

The nation entered recession in March that ended the record-length expansion at ten years. Despite being in recession, the country eked out 0.3% growth in inflation-adjusted gross domestic product (GDP) on an annualized basis in the second quarter before seeing a decline in GDP of 1.1% in the third quarter. The primary reasons for the third quarter drop in GDP were a slowdown of personal consumption, less state and local government spending, a large drop in inventories and exports, and declining investment levels. While the economy has entered recession, thus far it has not fallen as significantly as in prior recessionary periods. While we have yet to hit the bottom of the current recession, we anticipate that it will not be as deep of a downturn as is usually felt. The shallower bottom may cause this recession to last slightly longer than otherwise would be the case, however.

In an ongoing attempt to stop the economic malaise, the **Federal Reserve Board** reduced its short-term target for the federal funds rate (the rate banks charge each other for overnight loans) to 1.75% in early December. The reduction marked the 11th cut in the rate this year for a total reduction of 4.75 percentage points. The federal funds rate is now at a 40-year low. Banks responded by cutting the prime lending rate (the rate banks charge their most stable and prominent customers) to 4.75%. This represents the lowest prime rate since November 1965. Lower borrowing rates generally translate into increased consumer spending as the overall cost of making purchases declines. The largest impact is generally felt in the housing market as mortgage rates fall. Low rates also cause mortgage refinancing, which often creates cash or increases in disposable income for consumers to spend throughout the market. Mortgage rates hit a 30-year low in November, before rising slightly. The latest Fed reduction could cause rates to return to their recent low mark. The downside to reduced interest rates is lower earnings on consumer savings, especially for people living on a fixed income who have their purchasing power decrease. Interest rates have reached such a low rate, that we believe the Fed has about run the course for cuts. The Fed will either hold steady or make one more cut before letting the recession run its course and trying to determine when rates need to increase.

"Consumer confidence has also been hit by the rising unemployment levels…"

Consumer demand increased at a snail's pace of just 1.1% in the third quarter, following a slow growth rate of 2.5% in the second quarter. Consumers were primarily responsible for keeping the economy afloat throughout the expansion and a pullback in spending is an insurmountable challenge for economic growth. Consumer spending represents approximately two-thirds of GDP. While the purchases of nondurable goods and services had been relatively weak all year, purchases of durable goods (items expected to last three years or

longer) faltered significantly during the third quarter. A weakening job market and almost no personal income growth led to the drop-off in spending. Consumer confidence has also been hit by the rising unemployment levels, a declining stock market over the last 18 months, and a slowdown in the growth of housing values. When consumers see the value of their less liquid assets fall or stagnate they become more conservative in their spending. Nervousness over the state of the economy has also caused consumers to constrain their borrowing, which further slows the rate of spending. The weakness from the third quarter appears to have continued into the fourth quarter as retail sales fell by a record amount in November. A weak holiday sales season will further diminish corporate profits, delaying a recovery in the job market and lengthening the downturn.

"Spending on equipment has declined for five straight quarters…"

As we stated in our September forecast, a significant decline in **business investment** is one of the prime forces impacting the economy. Spending on equipment has declined for five straight quarters, the first time that has happened since 1982. With consumers now pulling back the reins on spending, business investment is likely to see further problems for the first half of next year. Weakness and oversupply in the communications industry, major realignments in the dot-com industry, and a 16-month decline in the manufacturing sector have led the pinch on business spending.

State and local **government spending** decreased in the third quarter, although some of the decline can be attributable to the September 11 disaster in New York. Federal government expenditures increased during the quarter and may provide additional support to the economy as expenditures increase for homeland security and the war on terrorism. The federal government could also have an impact on the economy if a spending or stimulus package is enacted that encourages economic activity. State and local government spending will remain weak over the next year as many areas are already experiencing significant revenue shortfalls that will not be remedied until after the economy turns around.

"Inventories have already been reduced 10% from their peak…"

Private businesses reduced **inventories** substantially in the third quarter on top of a more modest reduction during the first two quarters of the year. Inventory reduction causes a drag on production, but does present the possibility of increases in production when the economy turns around and consumer demand causes a need for inventories to be replenished. Inventories have already been reduced 10% from their peak, equivalent to the amount of reduction in the mid-1970s and early-1980s recessions. We anticipate that inventories will continue to be reduced during the first half of 2002 as businesses wait for sure signs of a turnaround in consumer spending before investing in additional output. As inventories dwindle and orders begin to rebound in the middle of next year, businesses will need to add to production by hiring workers or at least adding hours for current workers. Additional work creates additional income that causes additional spending. Additional spending results in more production and the process spirals, helping the economy to rebound.

The nation's **trade balance** continued to disintegrate in the third quarter with a 12.9% decline in imports more than outweighed by a 17.7% decline in exports. While the U.S. re-

cession is causing less demand at home for foreign goods, poor economic conditions throughout the world are hurting exports even more. Most European and Latin American economies are showing weakness and Japan recently entered a recession.

Looking Ahead

Most economic indicators are currently very weak and the prospects for growth in the short term are bleak. However, we anticipate that the economy will bottom out in the second quarter of 2002 and things will slowly start to improve thereafter. Details of the forecast for the national economy can be found in Table 13.

- While **GDP** will decline again in the fourth quarter, overall growth for the year will remain positive at 1.0%. Weakness throughout 2002 will drop the growth rate to just 0.5% for 2002, however. GDP will bounce back nicely in 2003, increasing at a 3.9% clip.

- **Nonfarm employment** will be a significant drag on the economy during 2001 and 2002 as major layoff announcements continue to pour in around the nation. After increasing at a 2.2% rate in 2000, employment will increase a mere 0.3% in 2001. While the job market will turn around during the second half of 2002, losses at the beginning of the year will cause a 0.3% decline in jobs for the year. A more positive direction to the economy in 2003 will bring a 1.2% increase in jobs that year. Meanwhile, the **unemployment rate** will continue to trend upward in 2001 and 2002. After reaching an expansion low point of 4.0% in 2000, the unemployment rate will jump to 4.8% in 2001 and 6.2% in 2002.

- **Personal income,** which has stagnated during the past three months, will grow just 4.9% in 2001, primarily based on growth in the beginning of the year. The hollow job market, a lack of investment by companies, and dour corporate profits will continue to hold income gains in check. Income will grow at a meager rate of just 3.0% in 2002 before rebounding at a 5.5% clip in 2003. Because consumers are also unwilling to take on additional credit, **consumer spending** will slow to a 2.7% pace in 2001 and only 1.5% in 2002.

- With a lack of investment on the corporate side and a lack of spending on the consumer side, there are few forces to drive up prices. **Inflation,** which has performed unexpectedly well throughout the expansion period and into the recession, will continue to be a bright spot for the economy. Low prices will allow the Fed to maintain low interest rates as long as necessary to move the economy onto a positive growth path. Also, it is one less factor working against corporations as they attempt to regain profitability and entice consumers back into the market. In fact, we expect producer prices to increase just 2.1% in 2001 and to fall by 0.8% in 2002. Low producer prices and a slow economy will also convert to a low rate of increase in consumer prices. After growing 3.4% in 2000, prices will rise 2.9% in 2001 and just 1.8% in 2002.

- A weak stock market, less available investment capital, and the inability of companies to execute initial public offerings, will slow **investment** into 2002. Nonresidential fixed investment will decline in 2001 and 2002 after increasing 8.2% in 1999 and 9.9% in 2000. While investment will return to positive territory in 2003, it will not exhibit the stellar growth of the past five years during the upcoming half-decade.

Risks to the Forecast

There is a substantial downside risk to this forecast. If the economy fails to rebound in the first half of next year, business conditions will become grave. If consumer confidence continues to disintegrate, then demand would remain low for a longer period than anticipated and even though inventories continue to decline there would be no cause for increased production. Without some factor causing production to pick up, it is unlikely that the job market will turn around or that consumers will begin to see income growth. Trepid consumers would continue to pound the tourism industry and state and local revenue growth would cause decreased government spending to be a drag on the economy.

Table 13
National Economic Indicators, December 2001 Forecast
(Dollar amounts in billions)

	1997	1998	1999	2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005
Gross Domestic Product (GDP)	$8,318.4	$8,781.5	$9,268.6	$9,872.9	$10,198.7	$10,412.9	$11,048.1	$11,722.0	$12,366.7
percent change	6.5%	5.6%	5.5%	6.5%	3.3%	2.1%	6.1%	6.1%	5.5%
Inflation-adjusted GDP	$8,154.4	$8,508.9	$8,856.5	$9,224.0	$9,316.2	$9,362.8	$9,728.0	$10,078.2	$10,380.5
percent change	4.4%	4.3%	4.1%	4.1%	1.0%	0.5%	3.9%	3.6%	3.0%
Nonagricultural Employment (millions)	122.7	125.8	128.9	131.8	132.2	132.1	133.7	135.7	137.7
percent change	2.6%	2.6%	2.4%	2.2%	0.3%	-0.3%	1.2%	1.5%	1.5%
Unemployment Rate	4.9%	4.5%	4.2%	4.0%	4.8%	6.2%	5.7%	5.1%	5.0%
Personal Income	$6,937.0	$7,426.0	$7,777.3	$8,319.2	$8,726.8	$8,988.6	$9,483.0	$10,004.6	$10,524.8
percent change	6.0%	7.0%	4.7%	7.0%	4.9%	3.0%	5.5%	5.5%	5.2%
Inflation (Consumer Price Index)	2.3%	1.6%	2.2%	3.4%	2.9%	1.8%	2.4%	2.7%	2.7%
Prime Rate	8.4%	8.4%	8.0%	9.2%	6.9%	5.5%	7.5%	8.0%	8.0%

For historical data, see Appendix A.

Colorado Economy

In many respects, the Colorado economy will have its worst performance since 1991. Colorado's economy reversed course in 2001 as the nation's economy weakened. Still, Colorado will have one of the top-performing economies in 2001. Using employment growth as a measure, Colorado ranked fourth nationally in 2000 with a growth rate of 3.9%. Though Colorado's employment growth weakened considerably to 2.3% through October, the state still ranks fourth this year. However, in the aftermath of the September 11 terrorist attacks, the state economy has taken a sharp downward turn. Colorado's employment growth ranked 26th when measuring October 2001 versus October 2000. The state's heavy concentration of travel and tourism businesses likely contributed to a drop from a rank of 10th in August and 16th in September.

"In many respects, the Colorado economy will have its worst performance since 1991."

A national economic forecasting firm, Economy.com, recently labeled Colorado as having the third highest chance of entering a recession. However, it should be noted that nearly one-half of the states had employment losses in October *vis-a-vis* the same month last year. Only eight states had employment levels that were at least one percent higher than a year ago. Four of these states have a high concentration of energy resources and employment is still positive in those states partially as a reaction to high oil and gas prices earlier this year. Thus, most of the country, including Colorado, is in or near a recession.

Many of the reasons for Colorado's successful economy during the 1990s were based on national trends. Business investment surged during the 1990s in computer and telecommunications equipment. Colorado, with its high educational levels and highly visible presence of high-tech and telecom companies, capitalized on economic strength in these industries. The stock market surged during the second half of the last decade. Because our per capita income is 10.2% higher than the national average, Colorado households tend to invest more in the stock market. The realized and unrealized gains from the stock market, as well as surging home equity, fueled consumer spending. As employment increased during the early part of the decade, office construction skyrocketed. The building of public facilities, such as Denver International Airport, the Denver Public Library, and three new sports facilities in Denver, fueled construction employment.

These factors have generally run their course and are not pushing the economy forward today. Business investment fell in the face of weak or nonexistent corporate profits, overcapacity, and weak demand. The stock market began to deteriorate in early 2000 and is still seeking direction. In light of the weaker economy, housing demand and prices are softening. The public construction projects are mostly complete, while highway construction is now being emphasized.

"...employment changes in the first two quarters of 2002 are likely to be negative compared with the first two quarters of 2001."

The state's economy will remain weak through at least mid-2002 before a rebound occurs. In fact, employment changes in the first two quarters of 2002 are likely to be negative compared with the first two quarters of 2001. Still, the economy will not return to a level near the typical gains of the 1990s until 2004. The following sections review the recent weakness and outline the Colorado economic forecast.

Table 14 shows the Colorado economic forecast through 2006.

Employment

After the end of a recession, Colorado ***employment*** levels typically rebound quickly. In the previous four national recessions, state employment significantly lagged the national recovery only after the 1981-1982 recession. Additionally, Colorado was part of a regional recession in 1986 and 1987. The nation did not have a recession during that time period. If Colorado follows the typical pattern, employment will begin to show significant gains in the third quarter of 2002.

After increasing only 1.6% in 1991, Colorado employment increased at a compound average annual growth rate of 4.1% through 2000. Annual employment growth never fell below 3.4% after 1991 and reached a high of 5.1% in 1994. In contrast, we estimate that Colorado employment will increase by only 1.9% in 2001 and will weaken further to 0.9% in 2002. The first half of 2002 will see employment losses *vis-a-vis* the first half of 2001 before the recovery begins. Colorado employment will increase 2.4% in 2003 and 3.2% in 2004. In contrast, employment increased at an average pace of 3.7% over the past 50 years.

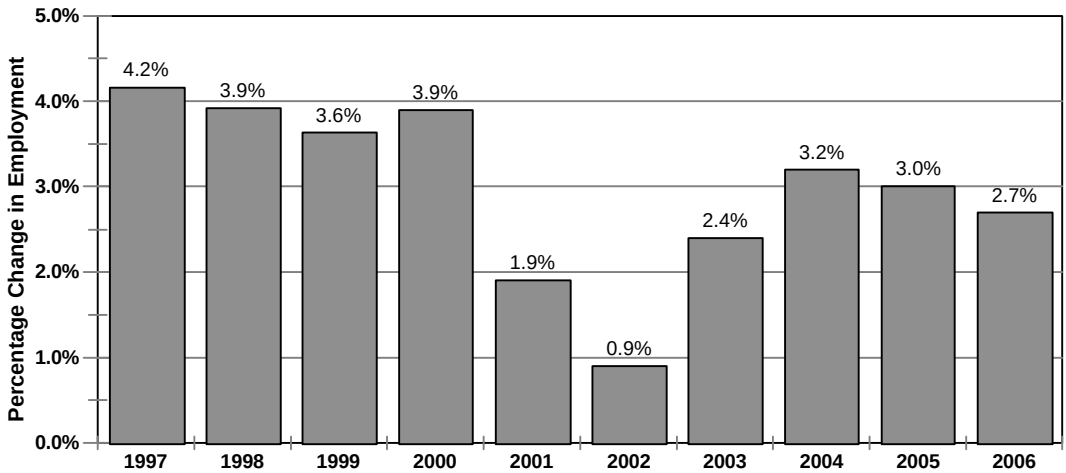
"...we estimate that Colorado employment will increase by only 1.9% in 2001 and will weaken further to 0.9% in 2002."

After averaging a record-low 2.7% in 2000, the ***unemployment rate*** has been on the rise in 2001. The rate jumped from 3.7% in September to 4.2% in October. The unemployment rate will average 3.4% in 2001. The projected weak hiring outlook will lead to a 4.8% unemployment rate in 2002, the highest level since a 5.3% rate in 1993. Unemployment will drop to 4.5% in 2003.

"An increase in oil and gas prices in late 2000 and early 2001 will lead to only the third annual gain in mining employment since 1990."

Mining employment fell from 2.9% of total employment in 1980 to only 0.6% in 2000. Falling energy prices during the early 1980s started the downward trend. A consolidation of energy companies and relocation of companies out of the state in the late 1990s led to a

Figure 1. Colorado Employment



further downturn in mining employment. An increase in oil and gas prices in late 2000 and early 2001 will lead to only the third annual gain in mining employment since 1990. Energy prices have since fallen off and employment in the mining sector will stabilize in 2002 and thereafter.

Construction employment boomed during the 1990s, increasing at a compound average annual growth rate of 9.7%. Net migration was negative from 1986 to 1990 and led to a high vacancy rate for housing at the start of the decade. By 2000, housing permits were 4½ times the level of 1990. Similarly, nonresidential construction was at a low level during the latter half of the 1980s. As Colorado's economy picked up steam and became a factor for people to move to the state, nonresidential construction also had significant gains during the 1990s and remains at a high level thus far in 2001.

"The construction slowdown in 2002 will be very slight compared with the mid- to late-1980s."

Construction employment gains have tailed off significantly in 2001. Employment increased by 1.5% through October and will realize only a 1.0% gain in 2001. The weak economy will lead to a decline in housing permits and nonresidential construction in 2002. Financial institutions are reluctant to commit to new building loans unless the project is solid. Although mortgage rates will be only slightly higher in 2002, the impact of a weak job market for much of the year will depress demand for new homes. The start of the Interstate-25 rebuilding project will partially offset job losses in the building sector of nonresidential construction. We estimate that construction jobs will decline by 6,200, or 3.8%, in 2002.

The construction slowdown in 2002 will be very slight compared with the mid- to late-1980s. The latter period was marked by a significant level of overbuilding in both the residential and nonresidential sectors. This has generally not been the case over the last few years. The earlier period was marked by generous tax laws that rewarded investors for building projects. The current economic slowdown is not projected to be as severe as the mid-1980s slowdown.

Manufacturing employment has followed the national pattern of weak growth. Manufacturing jobs in Colorado increased at a 0.6% annual pace during the 1990s, while they shrank at a 0.3% pace nationally. It should be noted that the manufacturing sector in Colorado was affected by the industry reclassification of two large firms to other sectors. Otherwise, Colorado would have shown a stronger performance in manufacturing.

The manufacturing sector has been affected by two significant factors in the long term. First, a large number of jobs have been shifted offshore so that companies could capitalize on lower labor costs. Second, a productivity boom meant that manufacturers could increase output with the same amount of labor. This factor led to reduced demand for workers.

In the short term, the manufacturing sector was the first to be affected by the current slowdown. It has been in recession for more than a year, losing over a million jobs nationwide. Weak demand and high production eventually led to excess inventories for manufacturers that these businesses are now trying to pare down.

Although not as severely impacted as most of the country, Colorado has witnessed a decline of 2,300 jobs through October 2001, following a gain of only 600 jobs in 2000. Several Colorado manufacturing icons eliminated jobs in 2001. Samsonite eliminated its 350 local manufacturing jobs, although the company re-

tained its corporate headquarters jobs and distribution center in Denver. The Keebler cookie plant closed its Denver facility after 40 years, eliminating 470 jobs. In another consolidation by a food manufacturer, the Hershey Co. is closing the Wheat Ridge-based Jolly Rancher candy maker, which will lead to the loss of 240 jobs by the end of next year. In addition, many high-tech manufacturers announced layoffs during the year. By year end, Colorado will have lost a net of 3,500 manufacturing jobs and will lose an additional 7,100 jobs in 2002. The industry will have only a slight rebound in 2003.

"Several Colorado manufacturing icons eliminated jobs in 2001."

The ***transportation, communication, and public utilities*** sector had stellar gains during the 1990s. The sector capitalized on the construction of Denver International Airport and a boom in the telecommunications sector. However, industry consolidation, a telecom shakeout, and the aftermath of the September 11 terrorist attacks will lead to reduced employment levels in 2001 and 2002. The former Public Service Co. of Colorado went through two mergers during the 1990s and shed jobs after each merger. Qwest acquired US West and has announced work force reductions in Colorado of nearly 6,000 since mid-2000. Companies such as Rhythms NetConnections, Jato Communications, and Level 3 Communications were victims of a competitive market, weak demand, investor unwillingness to commit additional money, and overcapacity relative to current demand levels, and have laid off thousands of employees. The airline industry announced plans to lay off or furlough nearly 2,000 workers due to decreased willingness to fly after the terrorist attacks. However, flights and workers are slowly being added back as travelers return to the air.

"More goods were shipped to Denver for local distribution with the addition of one million residents to the state during the decade."

The ***wholesale trade*** sector benefitted from the economic expansion during the 1990s. The metro-Denver area increased its regional presence with the construction of Denver International Airport. Many warehouses were built as more goods were shipped through Denver. More goods were shipped to Denver for local distribution with the addition of one million residents to the state during the decade. Thus, employment in the wholesale trade sector increased at a 2.9% annual pace during the 1990s.

Unlike most other sectors, wholesale trade has not slowed in 2001 relative to the previous decade. Employment in the sector will increase 4.5% in 2001. However, the weakness in consumer demand, as well as a construction slowdown for industrial/warehousing facilities, will translate into a loss of approximately 600 jobs in 2002, or 0.3% of the employment base. The industry will add an estimated 2,500 jobs in 2003.

Robust income growth in Colorado and a strong tourism industry led the ***retail trade*** sector to a 3.7% annualized gain in employment between 1990 and 2000. Two new regional malls and several smaller strip malls were built in the metro-Denver area during the 1990s. Significant retail construction occurred elsewhere in the state. As the decade closed, the retail industry was characterized by a labor shortage. The state's unemployment rate dropped from a high of 6.0% in 1992 to only 2.7% in 2000.

The national economic slowdown and a shakeout from a highly competitive environment in

the building materials sector slowed the growth rate for retail trade employment in 2001. Montgomery Wards closed all its stores nationwide, leading to the loss of 800 to 900 jobs in Colorado. The closure of J.C. Penney stores in Boulder and Lakewood eliminated 180 jobs. HomeBase closed all of its home improvement stores and laid off 700 employees. Hugh M. Woods, a longtime Colorado fixture in the retail building sector, closed all stores in the state, thus eliminating 30 to 60 jobs at each of its 18 locations. The retail industry was reluctant to increase its holiday season employment by normal standards due to the uncertain direction of consumer spending. Through September, retail trade spending increased only 1.3%, compared with the same period last year. In contrast, retail trade sales increased by a robust 11.1% in 2000.

"Positive factors for retail industry employment include the opening of two new unique malls."

Positive factors for retail industry employment include the opening of two new unique malls. Littleton's Aspen Grove opened in early November and is expected to employ 2,000 workers at 50 stores during the peak holiday season. This specialty retail area will be fully open in 2002. The Colorado Mills shopping area in Lakewood is scheduled to open in late 2002. This project will employ an estimated 3,500 workers at 18 nontraditional anchor stores, 200 specialty retail stores, and a variety of entertainment and restaurant venues. Finally, the retail sector can be more selective about prospective employees. While plagued by a labor shortage in recent years, the rising unemployment rate is now yielding more job candidates.

We expect retail employment to increase 2.2% in 2001. A weak economy in the first half of 2002 will keep consumer spending gains just above inflation next year. This will put additional pressure on retailers to keep costs down. Thus, retail employment will increase by only 1.0% in 2002. As the economy rebounds in late 2002 and 2003, retail jobs will bounce back to a 2.7% gain in 2003.

"Several layoffs in the FIRE sector have been announced this year."

Employment in the ***finance, insurance, and real estate*** sector (FIRE) increased at a 4.2% annualized rate from 1990 through 1999. The strength of Colorado's economy led many national firms to locate or enhance their regional offices in the state. The strong housing market created opportunity for mortgage-related companies. However, recent employment gains in the sector have been weak as jobs increased by 0.8% in 2000 and by 0.3% through October 2001.

Several layoffs in the FIRE sector have been announced this year. Janus Corp. laid off nearly 400 workers in Colorado this year in an attempt to cut costs amid declining investor interest. The firm was able to use enhanced productivity tools with the remaining workers. Charles Schwab Corp., the nation's largest discount brokerage, laid off 512 workers in the company's service operations. Insurance providers Mass Mutual and Safeco each laid off 60 workers in their metro-Denver offices as part of a consolidation of regional offices. Fiserv will lay off 200 Denver-area workers by March 2002 due to a slowdown in its securities processing business. Employment levels will be flat in 2001 before increasing 1.7% in 2002.

The ***services*** sector, which has the greatest number of employees, had the second-highest growth rate (5.5%) during the 1990s. Employment in the business services subsector increased at a 9.5% annualized pace. The demand for data processing and software services increased tremendously as the economy

expanded. Additionally, the tight labor market brought many workers back into the work force as temporary employees.

Business services, which increased 10.1% last year and accounted for 30.6% of services jobs, increased only 5.0% through October. Medical services strengthened slightly, posting a 1.9% gain this year versus a 1.5% increase in 2000.

"The services sector will continue to outperform the rest of the Colorado job market."

Employment in the state's lodging industry surged a surprising 9.9% through October. Hotel jobs increased only 3.5% in 2000 and at a 2.6% annualized pace since 1990. Even more surprising is the degree to which this year's strength held up in September and October after the September 11 terrorist attacks. While hotel occupancy rates were initially at one-half of normal and are still shy of the pre-attack rates, hotel employment was still 7.3% ahead of September and October levels in 2000. It may be that hours worked were reduced for these employees, however.

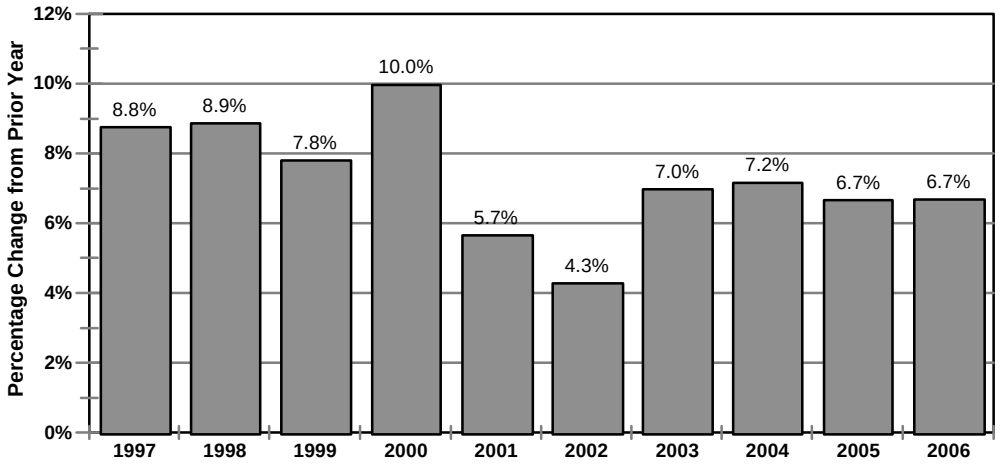
The services sector will continue to outperform the rest of the Colorado job market. Services employment will post a 3.4% gain in 2001 and 3.5% in 2002. Services jobs will increase a more robust 4.2% in 2003.

Government employment will be constrained by slower growth rates for state and local tax revenue and smaller population gains. After posting a 2.7% increase in 2001, jobs in the government sector will increase by only 0.9% in 2002 and 2003. The local government sector will be most affected. Because migration to the state will be substantially lower than in recent years and private school enrollment continues to surge, enrollment gains in public schools will be restrained. As a result, fewer new teachers will need to be hired.

Personal Income and Wages

Personal income increased at a compound average annual growth rate of 8.0% between 1990 and 2000, while wages and salaries increased at an 8.8% pace. The low unemployment rate during the last part of the 1990s meant that employers had to give higher wages and salaries to entice workers to their compa-

Figure 2. Personal Income Increases



nies. Solid corporate profits in many industries allowed employers to give bonuses or stock options to their workers. Moreover, the labor shortage meant that the average work week increased and workers were earning more. The long economic boom led to the strongest growth rate of the decade in 2000 as personal income increased 10.0% and wages and salaries grew 12.6%.

"The positive factors for strong income gains in the last few years are disappearing."

The positive factors for strong income gains in the last few years are disappearing. The unemployment rate is projected to increase from a historic low of 2.7% in 2000 to 4.8% in 2002. Thus, there will not be the same incentive for employers to pay more to attract workers from other jobs. Bonuses and stock options will be smaller for some employees and nonexistent for others. Finally, the national index for hours worked by production or nonsupervisory workers is down 2.2% from its peak in January.

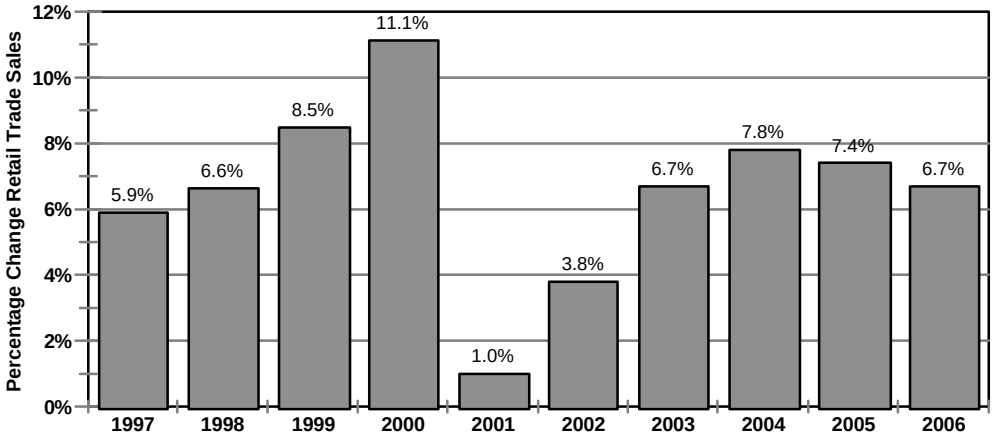
The slowing economy will lead to weaker growth for personal income and wages and salaries. Personal income will increase 5.7% in 2001 and 4.3% in 2002. Income growth will rebound to 7.0% in 2003. Wage and salaries will show a similar pattern. They will increase 6.5% in 2001, 4.5% in 2002, and 6.9% in 2003. The estimate for personal income growth in 2002 is noteworthy for its potential impact on education funding. Amendment 23, passed by voters in 2000, provides for a minimum increase of five percent for General Fund appropriations for the school finance act. The amendment provides for an exception to the minimum increase if personal income grows less than 4.5%. This condition would be met based on our estimate of a 4.3% increase in 2002. Thus, the General Assembly could appropriate less than a five percent increase for education for FY 2003-04. This decision does not have to be made until the 2003 legislative session when the preliminary estimate of personal income growth for 2002 will be known.

"The estimate for personal income growth in 2002 is noteworthy for its potential impact on education funding."

Retail Trade

Consumer spending in Colorado has traditionally been measured by retail trade sales. Ro-

Figure 3. Retail Trade Sales



bust income gains by Colorado residents, a strong national economy that led tourists to the state, and the wealth effect from the rising stock and housing markets led to healthy increases in retail trade spending during the 1990s. Retail trade sales increased by 11.1% in 2000, capping a decade of annualized growth of 7.7%.

"Retail trade sales have slowed dramatically in 2001, particularly since spring."

Retail trade sales have slowed dramatically in 2001, particularly since spring. Sales decreased in four of the five months since April, compared with the same months in 2000. The drops coincide with the beginning of the numerous layoffs in Colorado and the slowing of the state's employment gains this year.

Through September, retail trade sales increased a mere 1.3%. The weakness is across the board, as no single component of retail trade increased at least as much as the inflation rate. Sales at furniture and electronics stores had the largest decline (-7.0%), while department stores had the biggest gain (3.6%).

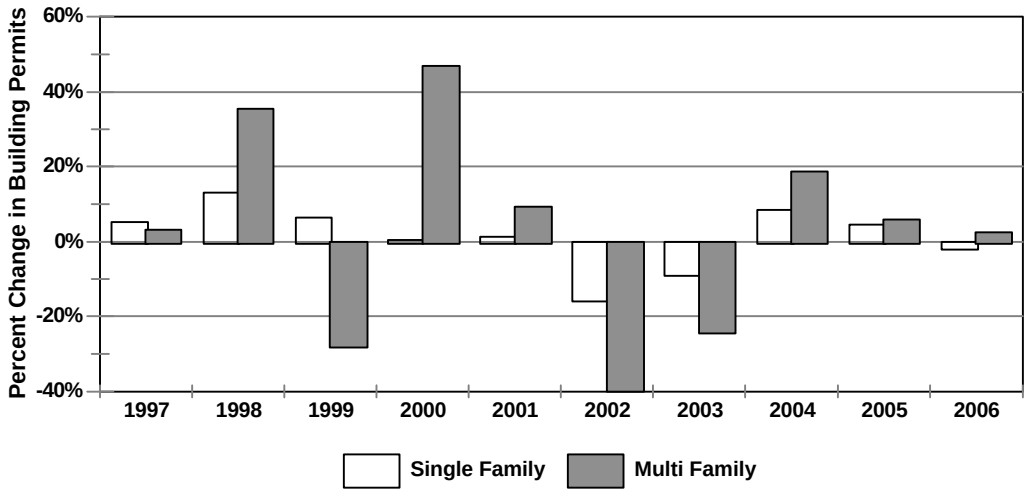
The decline in consumer confidence since September, continued layoffs, and lackluster income gains will lead to a weak sales outlook through the remainder of 2001 and into 2002. Sales will increase by only 1.0% in 2001, the weakest showing since a 0.1% increase in the state recession period of 1987. Retail trade sales will increase by 3.8% in 2002 before bouncing back to a 6.7% gain in 2003.

Construction

"The residential housing market will reverse direction in 2002."

Residential construction has held up very well during this year's economic slowdown. Total building permits issued increased 6.2% through October and are on pace to perhaps the third highest year ever. This strength comes from a 19% increase in multi-family housing units. Single-family building permits increased 0.9% compared with last year. Construction analysts attribute this year's housing market resilience to projects that were on the drawing board prior to the downturn. The

Figure 4. Residential Building Permits



lowest mortgage rates in 40 years have also been propping up the housing market.

The residential housing market will reverse direction in 2002. Concerns over job security, weaker income gains, recent increases in mortgage rates, and lower migration levels will reduce the demand for new homes. Building permits for single-family homes will fall by 15.5%, or 5,900 homes. The highly volatile multi-family housing category will have an even sharper drop in 2002 — 39.3%, or 7,000 units. Overall, housing permits will decline by 23.0% in 2002. The residential market will continue to be soft in 2003 with an additional 12.4% decline. A sharp rebound of 10.7% will occur in 2004 and the number of housing units permitted will remain in the 42,000 to 45,000 range through 2007.

The ***nonresidential construction*** sector has also held up relatively well in 2001, although the outlook for 2002 is negative. According to F.W. Dodge, overall nonresidential construction fell 2.3% through October. Strength in other sectors has been able to offset a 24.8% decline in office building construction. The office vacancy rate is rising in 2001 and will likely climb higher in 2002. The amount of vacant office space in the metro-Denver area increased to 11.1% at the end of September. At the end of 2000, the vacancy rate was 7.4%. The vacancy rate was in excess of 20% in the early 1990s. Combined with falling lease rates, the incentive for significant additional new office construction is disappearing quickly.

"The office vacancy picture is mixed across the metro-Denver area."

The office vacancy picture is mixed across the metro-Denver area. While the northwest corridor between Westminster and Boulder was responsible for the office building boom of the late 1990s, a collapse of the high-tech and telecom sector has led to skyrocketing vacancy rates in that area. The vacancy rate along the U.S. 36 corridor is in excess of 35%. With rates that high, it will take at least two years before the excess can be absorbed and new construction takes place. The southeast Interstate-25 corridor has a vacancy rate of 23%. Thus, there is a similar disincentive to begin significant construction in the southeast suburbs as well. In addition, the massive reconstruction of Interstate-25 means traffic headaches for commuters in that area, and new and relocating businesses will look elsewhere for the next few years.

Although nowhere near the collapse of the late 1980s and the high vacancy rates of the early 1990s, the slump in nonresidential construction will eventually become a plus for Colorado's economy. Lease rates will become more attractive to businesses looking to locate in Colorado. In addition, softening land and building prices will make new construction more affordable and investment returns will become higher once the bottom is reached.

"...nonresidential construction is in for a rough road ahead."

Nonetheless, nonresidential construction is in for a rough road ahead. Construction will fall by 11.8% in 2002, followed by a 1.0% gain in 2003. This may be an optimistic forecast and is dependent on a solid employment recovery beginning in mid-2002. If the high-tech and telecom slowdowns continue beyond 2002 and corporate profits do not turn positive, the outlook for nonresidential construction will be even more negative.

Population and Inflation

The percentage change in the state's population and the inflation rate for the Denver-

Boulder-Greeley area are used to calculate the state's revenue limit under the Taxpayer's Bill of Rights (TABOR). All local tax jurisdictions use inflation as a part of their revenue limit.

Colorado's ***population*** gains will not be as robust as in the 1990s when the average gain was 2.7% per year. The state economy has slowed with the rest of the country and there is less incentive for workers and their families to move to Colorado. Thus, net migration gains will slow to near 40,000 over the next two years. Population will increase by 1.7% in 2002 and 2003, following a 2.1% increase in 2001. As the state's economy reaches full recovery mode in 2004, migration levels will increase, leading to annual population gains of 1.9% through the rest of the forecast period. The ***inflation rate*** in the Denver-Boulder-Greeley area is used as a proxy for statewide inflation. Local inflation surged 5.4% in the first half of 2001, compared with the same period in 2000. Substantially higher energy prices were behind the increase. The fuels and utilities component of housing rose 27.1%, while the motor fuel component of transportation increased 11.4%. These factors have eased greatly during the second half of 2001 and will lead to an average inflation rate of 4.5% for 2001. The economic slowdown will push the inflation rate down to 2.6% in 2002 and 2.9% in 2003.

Figure 5. Denver-Boulder-Greeley Inflation Rate

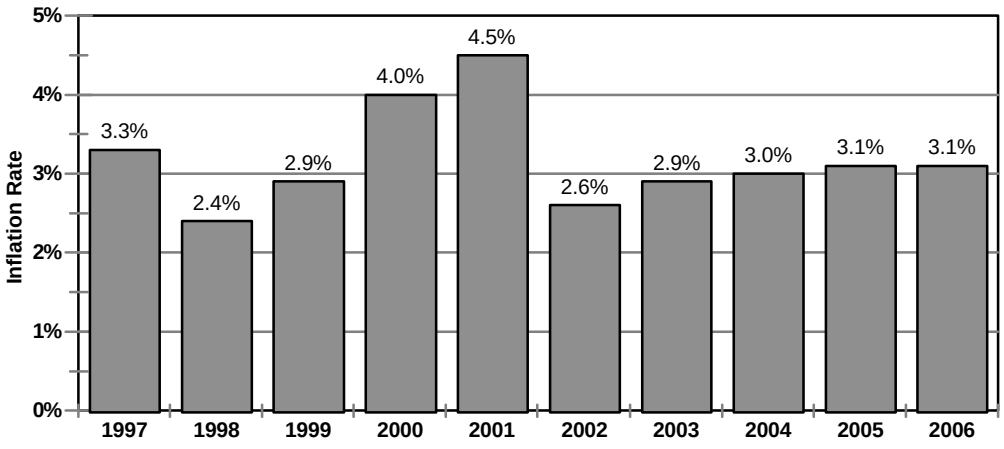


Table 14
Colorado Economic Indicators, December 2001 Forecast
(Calendar Years)

	1996	1997	1998	1999	2000	Forecast 2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Population (thousands), July 1	3,812.7	3,891.3	3,969.0	4,056.1	4,325.0	4,415.8	4,490.9	4,567.2	4,654.0	4,742.4	4,832.5
percent change /A	2.0%	2.1%	2.0%	2.2%	6.0%	2.1%	1.7%	1.7%	1.9%	1.9%	1.9%
Nonagricultural Employment (thousands)	1,900.4	1,979.5	2,057.0	2,131.9	2,214.8	2,256.9	2,277.2	2,331.8	2,406.5	2,478.7	2,545.6
percent change	3.6%	4.2%	3.9%	3.6%	3.9%	1.9%	0.9%	2.4%	3.2%	3.0%	2.7%
Unemployment Rate	4.2%	3.3%	3.8%	2.9%	2.7%	3.4%	4.8%	4.5%	4.4%	4.4%	4.4%
Personal Income (millions)	$100,012	$108,765	$118,407	$127,638	$140,353	$148,353	$154,732	$165,564	$177,484	$189,376	$202,064
percent change	7.6%	8.8%	8.9%	7.8%	10.0%	5.7%	4.3%	7.0%	7.2%	6.7%	6.7%
Wage and Salary Income (millions)	$57,205	$62,524	$69,604	$76,366	$86,011	$91,602	$95,724	$102,329	$110,208	$117,812	$125,588
percent change	8.2%	9.3%	11.3%	9.7%	12.6%	6.5%	4.5%	6.9%	7.7%	6.9%	6.6%
Retail Trade Sales (millions)	$42,631	$45,146	$48,131	$52,209	$58,018	$58,598	$60,825	$64,900	$69,962	$75,140	$80,174
percent change	6.7%	5.9%	6.6%	8.5%	11.1%	1.0%	3.8%	6.7%	7.8%	7.4%	6.7%
Home Permits (thousands)	41.1	43.1	51.2	49.3	54.6	56.7	43.6	38.2	42.3	44.4	44.1
percent change	6.5%	4.7%	18.8%	-3.6%	10.7%	3.8%	-23.0%	-12.4%	10.7%	4.9%	-0.7%
Nonresidential Building (millions)	$2,367	$2,986	$2,617	$3,544	$3,105	$3,015	$2,659	$2,686	$2,925	$3,130	$3,333
percent change	28.6%	26.2%	-12.4%	35.4%	-12.4%	-2.9%	-11.8%	1.0%	8.9%	7.0%	6.5%
Denver-Boulder Inflation Rate	3.5%	3.3%	2.4%	2.9%	4.0%	4.5%	2.6%	2.9%	3.0%	3.1%	3.1%

/A Colorado's population on April 1, 2000, was 4,301,261 according to the U.S. Bureau of the Census. The 6.0% change in the po pulation reflects the change from the July 1999 estimate to April 1, 2000, and is used for calculation of the state's TABOR reve nue limit.

For more historical data, see Appendix A.

Adult Prison Population

Prepared by

Jonathan Lurie, Economist

ADULT PRISON PROJECTIONS

- The total **Department of Corrections (DOC) population** is projected to increase 32.8% — from 16,833 inmates on June 30, 2001, to 22,351 inmates on June 30, 2007. This corresponds to an average annual growth rate of 4.8%. Over this time frame, the **male** population will increase from 15,493 to 20,637 inmates, a 33.2% increase and an average growth rate of 4.9% per year. The **female** population will increase from 1,340 inmates to 1,714 inmates, a 27.9% increase and an average growth rate of 4.2% per year.

- By June 30, 2007, the projected **shortfall** in beds for **male** inmates is 1,019, while 89 beds will be needed for female inmates. These figures incorporate facilities from the DOC Bed Implementation Plan as of October 2001 and an expansion of available private beds. Several projects in the DOC Plan have not yet been funded or approved by the General Assembly.

- The total **parole population** — including out-of-state and absconding parolees — is expected to increase from 5,838 on June 30, 2001, to 8,020 on June 30, 2007.

- The **Youthful Offender System (YOS) population** is projected to increase from 271 youths on June 30, 2001, to 275 on June 30, 2002. For the next two years, the YOS population will remain relatively constant, then decrease during the remainder of the forecast period to 250 inmates on June 30, 2007.

This section of the forecast provides: an overview of legislation affecting the prison population; factors in prison commitments; the prison forecast organized by admission type and gender; forecasted admissions to prison; the estimated length of stay in prison; parole as a factor influencing the prison population; and separate projections for the parole population and the Youthful Offender System.

Legislative Impact upon the Prison Population

Colorado's prison population more than doubled between FY 1984-85 and FY 1989-90. The strong growth during this period is due to House Bill 85-1320, which doubled the maximum of the presumptive sentencing range for all felony classes. This effectively expanded the sentence length of stay for new commitments, from an average of 20 months to almost 60 months. Of all legislation passed by the General Assembly, House Bill 85-1320 had the most significant impact upon the prison population. In the five years after passage of House Bill 85-1320, the DOC population increased at an annual average rate of 16.1%.

In the next few years, modifications made to the criminal code by the General Assembly mitigated the effects of House Bill 85-1320. Senate Bill 88-148 lowered the sentencing range for violent crimes and Senate Bill 89-246 created a new class 6 felony with a presumptive sentencing range of one to two years in prison. As a result, Senate Bill 89-246 changed several class 5 crimes to class 6 crimes and some class 4 felonies to class 5 felonies.

The most dramatic legislation curbing population growth was House Bill 90-1327. This bill doubled the amount of earned time that inmates could accrue while serving their sentence (from five days to ten days per month), reducing their governing sentence as well as the time to their earliest parole eligibility. After the passage of House Bill 90-1327, prison population growth tapered significantly, averaging 6.4% in the next three fiscal years (FY 1990-91 to FY 1992-93).

House Bill 93-1302 restructured the criminal penalty presumptive ranges to shorten the maximum sentence, except for certain crimes that present "an extraordinary risk of harm to society." These crimes include crimes of violence, incest, child abuse, stalking, and certain drug offenses. House Bill 93-1302 also provided for a mandatory period of parole for all inmates sentenced after July 1, 1993.

Factors in Prison Commitments

There are several explanatory variables considered in modeling prison admissions. Most of these factors can be classified into four groups: state population variables, judicial and public safety variables, economic variables, and legislative changes. Although there is some expected correlation between these variable types (e.g., it is likely that economic growth affects population growth and population growth affects public safety spending), the admissions model avoided using strongly correlated variables. The following paragraphs describe some of the factors that influence prison commitments.

Population. All other things being equal, a larger population results in a greater total number of criminal offenses, arrests, criminal felony filings, and prison commitments. Colorado's population increased an average of 2.7% per year between 1990 and 2000, more than twice the average annual growth rate of 1.3% from 1980 to 1990. The 1990s were a decade of strong prison population growth as well, with an average annual growth rate of 7.6% a year. As Colorado's population is pro-

jected to continue to grow, we expect this to contribute to an increase in the total number of new admissions to prison. However, the state population is projected to grow at a slower rate during the forecast period compared with the last ten years. Slower population growth is one reason for the relatively slower prison population growth in the forecast period.

"Slower population growth is one reason for the relatively slower prison population growth in the forecast period."

Reported Crime Rates, Felony Filings, and Felony Convictions. The Colorado Bureau of Investigation's (CBI) crime index, based upon reported incidents, has decreased for several years. Because offenses are correlated to prison commitments, this suggests that prison commitments should be decreasing. However, one should note that the CBI's crime index measures a minority of the crimes committed in the state, primarily violent crimes (murder, rape, robbery, burglary, and auto theft). One of the strongest growth categories for Colorado prison admissions, drug crimes, is excluded from CBI's crime index. Moreover, there is a lag period between crime rates and prison admissions. It may take over three years for an offense to lead to incarceration. For this reason, the forecast focused on variables that were more proximate to admission to prison, such as felony filings and convictions. While per capita felony filings increased at an average rate of 4.1% a year from 1990 to 1995, they increased at a slower rate of 1.6% a year from 1995 to 2000. Felony convictions followed a similar trend. Through the forecast period, per capita felony filings are expected to increase at an average rate of 1.4% per year.

Economic Factors. When the economy is strong and jobs are created, income and earnings increase. Increased wages across all income levels and job availability mean that people are less likely to resort to crime for income, particularly nonviolent property crimes. Several studies suggest that earnings and employment growth lead to a decrease in prison population growth.

"...per capita felony filings are expected to increase at an average rate of 1.4% per year."

Legislative Impact from Mandatory Parole. House Bill 93-1302 created mandatory parole with longer parole terms for all inmates that committed offenses after June 30, 1993. With a larger parole population and increased lengths of stay on parole, there was an increase in the number of admissions for parole violations. Once all inmates become eligible for mandatory parole, we expect the mandatory parole factor to have a diminishing effect. The length of stay for parole revocations has averaged over 11 months for the past few years.

"Once all inmates become eligible for mandatory parole, we expect the mandatory parole factor to have a diminishing effect."

Prison Population Trends and Forecast by Gender

Between June 1991 and June 2001, the prison population grew at an average rate of 7.7% per year. During this ten-year period, the male and female prison populations grew at average rates of 7.4% and 11.7% per year, respectively. Table 15 illustrates the historical prison population by gender as well as incarceration rates by gender. Incarceration rates represent the prison population relative to the state population. The incarceration rate has increased over time, indicating that prison population has grown faster than the state

Table 15
Historical Prison Population by Gender

Fiscal Year Ending	June 1991	June 1992	June 1993	June 1994	June 1995	June 1996	June 1997	June 1998	June 1999	June 2000	June 2001	10- year Average Annual Growth Rate
Prison Population												
Males	7,598	8,269	8,712	9,382	10,000	10,808	11,681	12,647	13,547	14,733	15,493	7.4%
Annual Growth		*8.8%*	*5.4%*	*7.7%*	*6.6%*	*8.1%*	*8.1%*	*8.3%*	*7.1%*	*8.8%*	*5.2%*	
Females	445	505	530	623	669	769	909	1,016	1,179	1,266	1,340	11.7%
Annual Growth		*13.5%*	*5.0%*	*17.5%*	*7.4%*	*14.9%*	*18.2%*	*11.8%*	*16.0%*	*7.4%*	*5.8%*	
Total	8,043	8,774	9,242	10,005	10,669	11,577	12,590	13,663	14,726	15,999	16,833	7.7%
Annual Growth		*9.1%*	*5.3%*	*8.3%*	*6.6%*	*8.5%*	*8.8%*	*8.5%*	*7.8%*	*8.6%*	*5.2%*	
Incarceration Rate												
Males	453.7	478.1	487.3	509.4	528.6	557.8	588.5	620.5	646.3	685.0	706.8	4.5%
Annual Growth		*5.4%*	*1.9%*	*4.5%*	*3.8%*	*5.5%*	*5.5%*	*5.4%*	*4.2%*	*6.0%*	*3.2%*	
Females	26.1	28.7	29.2	33.3	34.9	39.1	45.2	49.2	55.6	58.2	60.5	8.8%
Annual Growth		*10.0%*	*1.7%*	*14.2%*	*4.6%*	*12.3%*	*15.5%*	*8.9%*	*13.0%*	*4.7%*	*3.9%*	
Total	237.9	251.4	256.4	269.5	280.0	296.7	315.1	333.0	349.3	369.9	382.0	4.9%
Annual Growth		*5.7%*	*2.0%*	*5.1%*	*3.9%*	*6.0%*	*6.2%*	*5.7%*	*4.9%*	*5.9%*	*3.3%*	

Note: Incarceration rates based upon 100,000 male or female (or total) Coloradans.

population over the last ten years. The factors behind prison population growth are discussed later.

National Trends of Incarceration. The Colorado prison population increased at a faster rate than the rest of the country from December 1990 to December 2000. The Department of Justice Bureau of Justice Statistics (BJS) reported that male incarceration in all state and federal prisons increased at an average rate of 5.9% per year, while Colorado incarceration increased at an annual average rate of 8.2% over that ten-year period. Colorado ranked 7th in the country in prison population growth. However, this ten-year period witnessed unprecedented statewide population growth in Colorado as the state ranked third in overall population growth. The state incarceration rate, a ratio of prison population to state population, ranked 21st in the country in 2000. Some states in the western United States that saw similar population growth rates in the last decade had much higher incarceration rates last year: Nevada, Arizona, and California ranked 9th, 10th, and 14th, respectively. These rankings were similar for the female incarcerated population. Colorado ranked 10th in average growth rates of female prisoners from 1990 to 2000. However, when accounting for the 2000 state population, it ranked 15th in female incarceration rates.

Table 16 illustrates the projected inmate population and growth. Between FY 2000-01 and FY 2006-07, the prison population will increase by an annual average rate of 4.8%, a slower rate relative to the past six-year period. The male and female inmate populations will increase at average annual rates of 4.9% and 4.2% during the forecast period. Prison population growth is expected to slow due to a lower statewide population growth rate. The economy also affects the forecast. In the short run, there will be an increase in prison admissions due to a weakening economy. Once the economy is projected to improve in 2003, there will be a short lag before admissions and the prison population taper.

Table 16
Projected Prison Population by Gender

Fiscal Year Ending	*Actual*	*Forecast*						
	June 2001	*June 2002*	*June 2003*	*June 2004*	*June 2005*	*June 2006*	*June 2007*	*2001 to 2007 Average Annual Growth Rate*
Prison Population								
Males	15,493	16,182	17,196	18,122	18,893	19,713	20,637	4.9%
Annual Growth		*4.4%*	*6.3%*	*5.4%*	*4.3%*	*4.3%*	*4.7%*	
Females	1,340	1,419	1,485	1,569	1,628	1,670	1,714	4.2%
Annual Growth		*5.9%*	*4.7%*	*5.7%*	*3.8%*	*2.6%*	*2.6%*	
Total	16,833	17,601	18,681	19,691	20,521	21,383	22,351	4.8%
Annual Growth		*4.6%*	*6.1%*	*5.4%*	*4.2%*	*4.2%*	*4.5%*	
Incarceration Rate								
Males	706.8	724.7	756.6	783.5	802.2	822.0	845.3	3.0%
Annual Growth		*2.5%*	*4.4%*	*3.6%*	*2.4%*	*2.5%*	*2.8%*	
Females	60.5	62.9	64.7	67.2	68.5	69.0	69.6	2.3%
Annual Growth		*4.0%*	*2.8%*	*3.9%*	*1.9%*	*0.8%*	*0.8%*	
Total	382.0	392.1	408.9	423.6	433.6	443.7	455.6	3.0%
Annual Growth		*2.6%*	*4.3%*	*3.6%*	*2.3%*	*2.3%*	*2.7%*	

Population Projections by Gender and Admission Type

The population of *court commitments* is projected to increase an average of 3.9% per year from FY 2000-01 to FY 2006-07. The population of *technical supervision violators* is projected to increase an average of 9.6% a year and the population of *supervision violators with new crimes* will increase an average of 4.1% a year over the forecast period.

Court Commitments. Those inmates in prison that were convicted for committing a crime are referred to as 'court commitments.' Over the forecast period, the population of court commitments is expected to grow at an average annual rate of 3.9%. While the FY 2000-01 growth rate was much higher (8.2%) than the average annual rate through the forecast period, the annualized growth rate of court commitments from March 2001 to September 2001 was only 3.4%. This recent trend influenced a forecasted growth rate of 3.7% in FY 2001-02 and 4.7% in FY 2002-03.

"The growth of the age 20 - 49 age group has a direct effect upon the forecasted level of prison admissions from court commitments."

Three factors affect the growth of court commitments throughout the forecast period: population growth, the conviction rate of criminal filings, and economic trends. *First*, the DOC reported in its FY 1999-00 Annual Report that almost 90% of new commitments were between the ages of 20 to 49. The growth of the age 20 - 49 age group has a direct effect upon the forecasted level of prison admissions from court commitments. While this age group grew 24.7% from 1990 to 2000, it is forecasted to increase only 9.7% from 2000 to 2010. *Second*, the slowdown in the rate of population growth will slow the growth of criminal filings. However, recent years in which filings decreased, convictions increased, suggesting that district attorneys may have more time to pursue convictions. A larger conviction rate is likely to increase the rate of growth of prison sentences from court commitments. *Finally*, poor economic conditions can lead to increased crime, particularly non-violent property crime. While recent economic trends would suggest an increase in prison admissions, there is a lag time of a year to perhaps over two years for poor economic conditions to translate to increased crime, criminal filings, convictions, and, ultimately, prison admissions for court commitments. In FY 2002-03 and FY 2003-04, the economic factors are partly responsible for an average annual growth-rate of 4.7% through these years, compared with 3.7% growth in FY 2001-02.

Revocations and Returns to Prison. There are also inmates in prison who are returned to prison for technical violations of their supervision requirements. This may include the failure of a drug screen or failure to contact a probation or parole officer. These inmates are referred to as 'technical supervision returns.' In the case of parole returns, the state Parole Board is responsible for determining whether these should be revoked. Parolees or probationers may have their parole revoked because they committed a new crime during the supervision period. These inmates are referred to as 'new crime supervision returns.'

Through the forecast period, we expect the number of prisoners with technical supervision returns to increase from 2,521 in June 2001 to 4,367 by June 2007, an average increase of 9.6% per year. This is a smaller growth rate relative to the last few years. However, *admissions* for technical supervision returns decreased 6.8% in FY 2000-01 after increasing 22.4%, 28.7%, and 26.6% in the prior three

Table 17
Legislative Council Staff Adult Prison Population
Projections by Admit Type and Gender

Quarter Ending	Court Commitments			Technical Supervision Returns			New Crime Returns			Total DOC Population		
	Males	Females	Total	Males	Females	Total	Males	Females	Total	Males	Females	Total
June 2001	11,594	980	12,574	2,283	238	2,521	1,443	107	1,550	15,493	1,340	16,833
September 2001	11,711	995	12,706	2,211	240	2,451	1,449	105	1,554	15,549	1,354	16,903
Forecast												
December 2001	11,787	1,009	12,796	2,297	251	2,548	1,461	106	1,567	15,720	1,381	17,101
March 2002	11,886	1,016	12,902	2,396	261	2,657	1,479	106	1,585	15,936	1,398	17,334
June 2002	12,012	1,026	13,038	2,498	272	2,770	1,496	106	1,602	16,182	1,419	17,601
September 2002	12,147	1,032	13,179	2,598	284	2,882	1,512	107	1,619	16,433	1,438	17,871
December 2002	12,290	1,036	13,326	2,695	294	2,989	1,528	108	1,636	16,688	1,453	18,141
March 2003	12,443	1,040	13,483	2,783	304	3,087	1,541	110	1,651	16,942	1,468	18,410
June 2003	12,600	1,046	13,646	2,866	314	3,180	1,554	110	1,664	17,196	1,485	18,681
September 2003	12,759	1,057	13,816	2,947	323	3,270	1,569	111	1,680	17,451	1,505	18,956
December 2003	12,914	1,071	13,985	3,015	331	3,346	1,586	111	1,697	17,690	1,529	19,219
March 2004	13,060	1,085	14,145	3,074	339	3,413	1,604	111	1,715	17,912	1,550	19,462
June 2004	13,197	1,097	14,294	3,127	345	3,472	1,623	112	1,735	18,122	1,569	19,691
September 2004	13,324	1,109	14,433	3,177	350	3,527	1,644	111	1,755	18,320	1,585	19,905
December 2004	13,442	1,119	14,561	3,227	355	3,582	1,668	111	1,779	18,512	1,600	20,112
March 2005	13,552	1,130	14,682	3,281	360	3,641	1,693	110	1,803	18,702	1,615	20,317
June 2005	13,662	1,139	14,801	3,339	365	3,704	1,718	109	1,827	18,893	1,628	20,521
September 2005	13,771	1,146	14,917	3,400	370	3,770	1,740	108	1,848	19,087	1,639	20,726
December 2005	13,884	1,152	15,036	3,466	376	3,842	1,761	107	1,868	19,287	1,650	20,937
March 2006	14,002	1,157	15,159	3,538	382	3,920	1,780	106	1,886	19,496	1,660	21,156
June 2006	14,125	1,161	15,286	3,615	389	4,004	1,798	105	1,903	19,713	1,670	21,383
September 2006	14,252	1,164	15,416	3,695	397	4,092	1,816	104	1,920	19,938	1,680	21,618
December 2006	14,382	1,168	15,550	3,778	405	4,183	1,832	103	1,935	20,167	1,691	21,858
March 2007	14,515	1,172	15,687	3,862	413	4,275	1,849	102	1,951	20,400	1,702	22,102
June 2007	14,650	1,176	15,826	3,946	421	4,367	1,866	102	1,968	20,637	1,714	22,351
CAAGR	*4.0%*	*3.1%*	*3.9%*	*9.5%*	*10.0%*	*9.6%*	*4.4%*	*-0.6%*	*4.1%*	*4.9%*	*4.2%*	*4.8%*

Note: Totals do not equal the sum of the categories. Other miscellaneous types are included in the total. CAAGR represents the compound average annual growth rate from June 2001 to June 2007.

years, respectively. Admissions will be discussed later. We forecast a similar growth trend for new crime supervision revocations, though not as significant. The population of supervision returns with new crimes will increase from 1,550 at June 2001 to 1,968 by June 2007, an average annual increase of 4.1% per year. Table 17 provides the population projections by admission type and gender.

Projected Prison Bed Surplus/ (Shortfall) by Gender

Table 18 presents the projected surplus or shortfall in prison beds by gender throughout the forecast period based on the DOC's October 2001 Bed Implementation Plan (FY 2001-02 to FY 2006-07). The plan includes both funded facility expansions and some projects that have been submitted but not approved for funding by the General Assembly. Projected capacity increases include the following funded DOC prison expansions:

- Trinidad Correctional Facility (480 beds in FY 2001-02);
- Denver Women's Correctional Facility (900 beds by FY 2001-02); and
- Fort Lyon Correctional Facility (500 beds by FY 2002-03).
-

The unfunded projects include:

- 768 high security beds planned in FY 2004-05 and FY 2005-06;
- 250 beds at San Carlos Correctional Facility planned in FY 2005-06; and
- 100 beds at Denver Reception and Diagnostic Center planned in FY 2005-06.

This analysis assumes an increased capacity at private prison facilities (assuming the availability of 3,507 beds by FY 2004-05). This bed estimate adjusts population to reflect a percentage of the population as off-grounds or moving between facilities and a 10% share of inmate population in community corrections placements.

"...there will be a male prison bed shortage of 1,019 beds by June 2007."

With the current DOC facility construction plan assumed to be approved, funded, and built, there will be a male prison bed shortage of 1,019 beds by June 2007. This shortage

Table 18
Projected Prison Bed Surplus/(Shortfall) by Gender

Fiscal Year Ending	State Run Facilities		Private Facilities		Total Capacity		Operational Capacity		Forecast		Surplus/ (Shortage)	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
June 2002	14,065	1,571	1,986	0	16,051	1,571	15,826	1,546	15,826	1,375	0	171
June 2003	14,467	1,578	2,591	0	17,058	1,578	16,819	1,553	16,818	1,439	1	114
June 2004	14,559	1,586	3,414	0	17,973	1,586	17,721	1,561	17,723	1,520	(2)	41
June 2005	15,020	1,592	3,507	0	18,527	1,592	18,268	1,567	18,477	1,578	(209)	(11)
June 2006	15,836	1,596	3,507	0	19,343	1,596	19,072	1,570	19,279	1,618	(207)	(48)
June 2007	15,929	1,600	3,507	0	19,436	1,600	19,164	1,574	20,183	1,661	(1,019)	(87)

Note: Capacity and forecast are adjusted for off-grounds population and bed vacancy due to natural movement.

represents 4.9% of the male population at that time. Meanwhile, with the build-out of the Denver Women's Correctional Facility in FY 2001-02, there will be a female prison bed shortfall of 87 by June 2007.

If budget considerations or other factors prevent the authorization of the unfunded projects, then the shortfall in 2007 will be 2,122 beds for men.

Prison Admissions

Table 19 illustrates the projected growth for prison admissions for court commitments, technical supervision returns, and new crime returns. Over the forecast period, court commitments are expected to grow at an average annual rate of 2.3%, while technical supervision returns and new crime returns are projected to increase 6.0% and 6.2% per year, respectively. The total number of admissions (including other miscellaneous types such as dual commitments and interstate compact commitments) will increase 3.7% a year from FY 2000-01 to FY 2006-07.

Court Commitments. The factors in admissions for court commitments were discussed earlier. Due to a slowing growth in population and felony filings, admissions growth will also slow. Due to a weakening economy, however, admissions for court commitments will increase slightly faster in FY 2002-03 and FY 2003-04.

"Due to a weakening economy...admissions for court commitments will increase slightly faster in FY 2002-03 and FY 2003-04."

Revocations and Returns. FY 2000-01 represented a decline in supervision returns. DOC attributed this decrease to a streamlined effort between adult parole services and community corrections in which revocations were avoided by the use of community placements as an alternative penalty to prison returns. However, the number of returns for technical violations and for new crimes will increase in FY 2001-02 as the growth in the parole population will translate to more admissions for violations or new crimes.

Table 19
Admissions by Admission Type

Fiscal Year	Court Commitments		Technical Returns		New Crime Returns		Total Admissions	
	Admissions	Annual Growth	Admissions	Annual Growth	Admissions	Annual Growth	Admissions	Annual Growth
FY 1996-97	4,217		1,075		377		5,685	
FY 1997-98	4,396	4.2%	1,361	26.6%	407	8.0%	6,180	8.7%
FY 1998-99	4,377	-0.4%	1,751	28.7%	475	16.7%	6,625	7.2%
FY 1999-00	4,043	-7.6%	2,144	22.4%	450	-5.3%	6,661	0.5%
FY 2000-01	4,489	11.0%	1,999	-6.8%	438	-2.7%	6,943	4.2%
Forecast								
FY 2001-02	4,612	2.7%	2,250	12.6%	482	10.0%	7,363	6.0%
FY 2002-03	4,849	5.1%	2,486	10.5%	513	6.4%	7,866	6.8%
FY 2003-04	5,010	3.3%	2,531	1.8%	551	7.4%	8,111	3.1%
FY 2004-05	4,968	-0.8%	2,543	0.5%	600	8.9%	8,128	0.2%
FY 2005-06	5,013	0.9%	2,668	4.9%	617	2.8%	8,315	2.3%
FY 2006-07	5,143	2.6%	2,839	6.4%	630	2.1%	8,629	3.8%
CAAGR		2.3%		6.0%		6.2%		3.7%

Note: Totals are not the sum of the categories. Other miscellaneous types are included in the Total.

Estimated Prison Length of Stay

Table 20 illustrates the forecast for the average length of stay for new admissions by felony class and gender. The projected average length of stay is based on three factors: trends in commitment sentences (such as the average sentence length or the proportion of admissions for violent crimes); the impact of mandatory parole and parole board decisions (discussed further in the section on the parole forecast); and the methodology used to estimate length of stay (such as how long inmates serving life sentences are expected to live).

Table 20
Estimated Average Length of Stay in Months for Court Commitments by Class and Gender

Felony Class	*December 2001 Forecast*		
	Male	*Female*	*Both*
Class 1 felony	LIFE	LIFE	LIFE
Class 2 felony	256.1	177.8	247.7
Class 3 felony	69.6	44.3	67.4
Class 4 felony	34.6	28.6	33.9
Class 5 felony	19.6	17.1	19.4
Class 6 felony	9.8	8.8	9.8
All Felonies	**41.3**	**31.5**	**40.4**

The length of stay of releases does not tend to reflect the average length of stay of all commitments. For example, there are several inmates in prison for habitual offenses or serving lifetime sentences for sex offenses. The presence of these offenders significantly increases the estimated length of stay for the average prison admission. Therefore, the estimated prison length of stay is based upon release trends, new commitment trends, and the characteristics of the current stock of prisoners.

ADULT PAROLE POPULATION PROJECTIONS

The parole population projection is presented in Table 21. We include estimates of the parole population *supervised in Colorado*, the estimated parole population *served out-of-state*, and parole *absconders* — parolees who have not reported and are considered fugitives. The forecast estimates that the number of parolees *supervised in Colorado* will increase at an annual rate of 5.2% throughout the forecast period — from 4,192 parolees on June 30, 2001, to 5,691 parolees on June 30, 2007. The

Table 21
Parole Population Projections

Fiscal Year Ending	*Parolees Supervised in Colorado*	*Annual Growth*	*Parolees Supervised out-of-state*	*Parole Absconders*	*Total Parolees*	*Annual Growth*
June 1998	3,219		1,200	233	4,652	
June 1999	3,722	15.6%	1,268	301	5,291	13.7%
June 2000	3,685	-1.0%	1,247	290	5,222	12.3%
June 2001	4,192	13.8%	1,321	325	5,838	11.8%
Forecast						
June 2002	4,322	3.1%	1,343	380	6,045	3.5%
June 2003	4,471	3.4%	1,446	384	6,301	4.2%
June 2004	4,562	2.0%	1,546	384	6,492	3.0%
June 2005	4,891	7.2%	1,658	401	6,950	7.1%
June 2006	5,278	7.9%	1,769	426	7,473	7.5%
June 2007	5,691	7.8%	1,880	449	8,020	7.3%
CAAGR	*5.2%*		*6.1%*	*5.5%*	*5.4%*	

number of *total* parolees will increase at an average rate of 5.4% over the forecast period, from 5,838 parolees on June 30, 2001, to 8,020 parolees on June 30, 2007.

Factors in Parole Population Growth

The following sections discuss four factors that affect the parole population: the implementation of mandatory parole, changes in the parole board's discretionary releases to parole, trends in prison commitments, and the Cooper/ Martin Supreme Court decision.

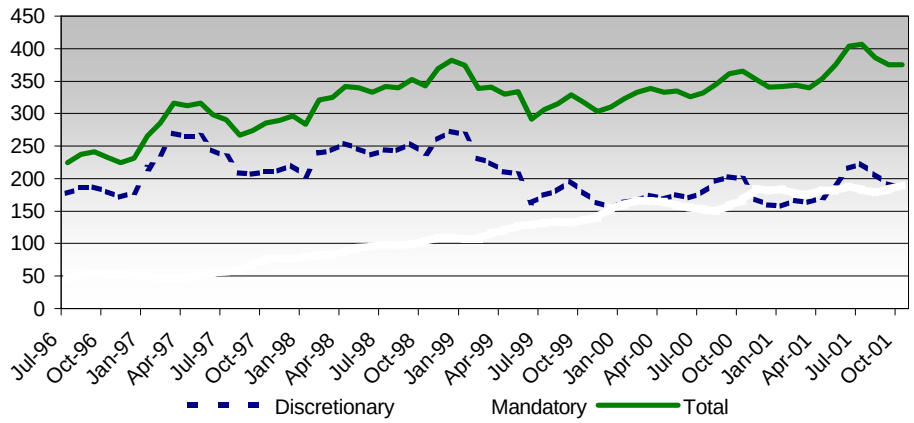
Mandatory Parole. House Bill 93-1302 created mandatory parole for all inmates released from prison who committed a crime after June 30, 1993. Before mandatory parole, parole was granted prior to discharge in order to provide an inmate with supervised placement easing them into the community. Inmates completing their sentence would be discharged to the general public and avoid supervision altogether. With the implementation of mandatory parole, the parole board was provided the option of deferring parole until an inmate completed the sentence (net earned time and time served in jail), at which point the inmate would still serve a parole period. One consequence of the implementation of mandatory parole has been that parole is deferred more often. In other words, the parole board has been able to use mandatory parole as a "safety net" to defer an otherwise early parole. Therefore, another consequence of mandatory parole has been an increased prison length of stay for new commitments.

"...the parole board has been able to use mandatory parole as a "safety net" to defer an otherwise early parole."

Due to the increased number of parolees with mandatory minimum parole periods, the length of stay on parole has also increased, from an estimated 12.2 months in June 1997 to an estimated 14.4 months in June 2001. The mandatory length of stay on parole varies by felony class. For class 6 felons, the sentence length on parole is one year. The parole length is two years for class 5 felons, three years for class 4 felons, and five years for class 2 and 3 felons. With the longer expected parole period, there is more of a chance for parole to be revoked. This will decrease the parole population and the average length of stay on parole, but will increase the prison population and the average length of stay in prison.

Figure 6 shows the monthly releases to parole including discretionary releases (releases to

Figure 6
Trends in Discretionary and Mandatory Parole



parole before the end of an inmate's sentence), mandatory releases (releases to parole after an inmate completes the effective sentence), and total releases to parole. While discretionary releases to parole have remained relatively steady in the last two years, the number of mandatory releases to parole have increased due to the increasing proportion of prison inmates that committed a crime after FY 1992-93. Although fewer inmates are being released by discretionary parole, total releases to parole have increased due to more mandatory releases.

Changes in Parole Board Release and Revocation Trends. As discussed earlier, the implementation of mandatory parole has affected the decisions made by the parole board. First, mandatory parole has created an option to defer early parole yet still ensure a parole period. This has allowed the parole board to increase parole deferrals of inmates committing crimes after FY 1992-93. Second, mandatory parole periods have increased the length of stay on parole, thereby increasing the possibility of parole revocation.

Table 22 displays the trend of parole board release and revocation hearings from FY 1996-97 to FY 2000-01. Over the past four years, the parole board release rate has decreased (from 29.1% in FY 1996-97 to 23.5% in FY 2000-01), while the number of release hearings has remained relatively steady (increasing at an average annual rate of 0.9% in the last four years). Meanwhile, the parole board has also increased its revocation rate faster than the rate of revocation hearings growth. These trends decrease the projected parole population and increase the projected prison population.

Prison Commitment Trends. One of the factors affecting the decision to grant parole is the type of crime committed. If there are more admissions for crimes of violence (corresponding to longer sentences), it is likely that the parole board will defer parole for these inmates. The proportion of court commitment admissions that have committed a crime of violence increased from 13.5% in FY 1992-93 to 27.7% in FY 1999-00 but dipped to 24.2% in FY 2000-01. This factor is magnified with the option of exercising mandatory parole. With mandatory parole, parole board members can defer parole for inmates committing violent crimes until sentence discharge without giving up a supervised placement.

Table 22
Trend of Parole Board Hearings and Decisions, FY 1996-97 to FY 2000-01

	1996-97	Percent of total	1997-98	Percent of total	1998-99	Percent of total	1999-00	Percent of total	2000-01	Percent of total	CAAGR
RELEASE DECISIONS											
Granted	2,659	**29.1%**	2,775	**29.5%**	2,758	**30.9%**	2,053	**23.4%**	2,220	**23.5%**	-4.4%
Deferred	6,467	70.9%	6,623	70.5%	6,165	69.1%	6,708	76.6%	7,222	76.5%	2.8%
Subtotal	9,126	100.0%	9,398	100.0%	8,923	100.0%	8,761	100.0%	9,442	100.0%	0.9%
Annual Growth			3.0%		-5.1%		-1.8%		7.8%		
REVOCATION DECISIONS											
Continued	747	37.6%	869	34.9%	980	32.1%	1,044	29.9%	943	29.4%	6.0%
Revoked	1,239	**62.4%**	1,618	**65.1%**	2,073	**67.9%**	2,447	**70.1%**	2,269	**70.6%**	16.3%
Subtotal	1,986	100.0%	2,487	100.0%	3,053	100.0%	3,491	100.0%	3,212	100.0%	12.8%
Annual Growth			25.2%		22.8%		14.3%		-8.0%		
TOTAL DECISIONS *											
	30,057		32,209		34,317		34,811		36,225		4.8%
Annual Growth			7.2%		6.5%		1.4%		4.1%		

* Includes hearings that were waived by the inmate or ordered waived as well as decisions to issue warrants, table hearings, rescind prior decisions, or to discharge or suspend parolees.
Source: Department of Corrections Planning and Analysis. FY 2000-01 data are preliminary.

Impact of Cooper/Martin Supreme Court Decision. This forecast accounts for the release of sex offenders pursuant to the recent Supreme Court decision regarding Martin v. People (June 25, 2001). This decision ruled that certain sex offenders convicted for committing crimes between July 1, 1993 and June 30, 1998 should not be subjected to mandatory parole. Beginning in FY 2001-02, the DOC began discharging parolees and releasing parole violators from prison. Due to the Cooper/Martin decision, the DOC estimates that as many as 250 parolees may be released from parole and as many as 128 parole violators may be released from prison. However, not all of these inmates and parolees may be released pending further analysis into case histories. Case histories may reveal additional convictions that would preclude DOC from releasing inmates from prison or parolees from parole. Moreover, due to the high recidivism rates typically attributable to sex offenders, we estimate that a significant number of these individuals will return to prison for committing a new crime.

"Due to the Cooper/Martin decision, the DOC estimates that as many as 250 parolees may be released from parole and as many as 128 parole violators may be released from prison."

YOUTHFUL OFFENDER SYSTEM POPULATION PROJECTIONS

The Youthful Offender System (YOS) was created within the DOC during the 1993 special session in response to increased juvenile criminal activity. The program was originally planned to end on June 30, 1999. Senate Bill 99-131 extended the sunset provision to June 30, 2004. The YOS serves youths convicted of:

- Class 2 felonies which are not the result of a plea agreement where a class 1 felony was charged;
- Defined crimes of violence pursuant to Section 16-11-309, C.R.S. including crimes against an at-risk adult or at-risk juvenile, first or second degree assault, kidnapping aggravated robbery, first degree arson, first degree burglary, escape, and criminal extortion;
- Felonies involving the use or possession and threatened use of a deadly weapon; or,
- Vehicular homicide, vehicular assault, or arson.

These juveniles are sentenced as adults to the DOC after which their sentences are suspended while they complete the YOS program. If a youth does not successfully complete the YOS program, the youth may be remanded to adult prison. In FY 2000-01, there were 17 failures resulting in an adult prison placement, compared with 27 failures in FY 1999-00 and 24 failures in FY 1998-99. Admissions revealed a similar downward trend. Table 23 illustrates the trends in admissions, releases, failures (included as releases), and year end population over the past four years. As can be seen by this trend, releases have

Table 23
Trends in YOS Admissions, Releases, Failures, and Population

	Admissions		*Releases*		*Failures to Prison*		*YOS Population*	
FY 1996-97	105		40		14		276	
FY 1997-98	89	-15.2%	69	72.5%	14	0.0%	298	8.0%
FY 1998-99	86	-3.4%	92	33.3%	24	71.4%	292	-2.0%
FY 1999-00	99	15.1%	101	9.8%	27	12.5%	290	-0.7%
FY 2000-01	78	-21.2%	96	-5.0%	17	-37.0%	271	-6.6%

outpaced admissions in the last three years, thereby decreasing YOS population.

The population forecast for YOS is shown in Table 24. We anticipate that the YOS population will increase slightly to 275 by June 2002, as new admissions will slightly outpace releases, then decrease to 250 by June 2007. The slight increase in FY 2001-02 is attributable to the growth of the juvenile population. Over the forecast period, the YOS population will decrease at an average annual rate of 1.3%.

Table 24
Projected YOS Population at Fiscal Year End

Fiscal Year Ending	*Total Population*	*Percent Change*
June 1997	276	
June 1998	298	8.0%
June 1999	292	-2.0%
June 2000	290	-0.7%
June 2001	271	-6.6%
Forecast		
June 2002	275	1.5%
June 2003	275	0.0%
June 2004	275	0.0%
June 2005	269	-2.2%
June 2006	265	-1.5%
June 2007	250	-5.7%
Compound Average Annual Growth Rate		**-1.3%**

Juvenile Corrections Population

Prepared by

Jonathan Lurie, Economist

Juvenile Corrections Population

- The **average daily detention population** in the custody of the Division of Youth Corrections (DYC) will increase from 557.6 in FY 2000-01 to 591.4 in FY 2006-07, growing at an average annual rate of 1.0%.
- The DYC **average daily commitment population** will increase from 1,280.7 in FY 2000-01 to 1,564.6 in FY 2006-07, growing at an average annual rate of 3.4%.
- Based on the FY 2001-02 DYC funded capacity, there will be a **detention bed surplus** of 24.1 beds in FY 2006-07. There will be a projected **commitment bed surplus** of 57.5 in FY 2006-07.
- The average daily **parole population** will increase from 720.6 in FY 2000-01 to 995.7 in FY 2006-07, growing at an average annual rate of 5.5%.

This section presents the December 2001 Legislative Council Staff projections for the youth corrections population. The first part provides an overview of juvenile offender sentence placements and recent trends in the juvenile offender population. The second part discusses the influences that affect the juvenile offender population, followed by projections for the detention, commitment, and parole populations. The incarcerated population projections are also compared with the projected capacity figures.

There are several placements available for juvenile offenders. The major distinction among the options is whether the youth is tried as an adult through the Department of Corrections (DOC) or whether the youth is tried as a juvenile through the Department of Human Services, Division of Youth Corrections (DYC). For juveniles placed in the custody of the DYC, there are two placement alternatives: commitment or detention. Juveniles may also be diverted to community-based alternatives to detention or commitment. These are referred to as Senate Bill 91-94 programs. In order to avoid a detention placement, juveniles may also be sentenced to a regional Community Accountability Program (CAP) which replaced the Regimented Inmate Training Program on July 1, 2001.

The CAP has not yet been implemented as private providers are still being sought through a request-for-proposals process. In the meantime, youths that would have been sentenced to a CAP will likely be sentenced to detention, commitment, or juvenile intensive supervision probation (ISP) operated by each of the 22 judicial districts. The forecast estimates an impact upon detention and commitment as a result of the delayed CAP implementation. This program is discussed further in the section on *Legislative Impact upon the DYC Population*.

Our projections of future DYC populations are based on current law, including the estimated impacts of legislation passed during the General Assembly's 2001 regular session. The projections do not include juveniles serving in community programs established by Senate Bill 91-94, but do take into account the diversionary effect of those programs on the number of incarcerated youths. For those juvenile offenders convicted as adults, please refer to the adult prison forecast in the section on the Youthful Offender System.

Division of Youth Corrections Sentencing Options and Population Overview

The DYC divides the state geographically into five management regions: Southern, Western, Denver, Central, and Northeast. When juveniles are arrested or sentenced to detention, they are generally placed in a facility in the same region in which the offense occurred. However, committed youths are sometimes placed in regions of their residence rather than the region in which the offense occurred because of capacity constraints and visitation issues.

Detention. Detention is the juvenile equivalent to an adult jail placement. The detention population is comprised of juveniles in three legal status categories: preadjudicated, sentenced, and committed. *Preadjudicated* youths are youths who have been arrested and are awaiting a court decision. *Sentenced* youths have received a court-imposed sentence to a state detention facility of up to 45 days. *Committed* youths are those who have been adjudicated and committed to the custody of the DYC by a court and are awaiting placement in a commitment facility or community placement. This also includes youths currently serving a commitment sentence but awaiting court action on a new offense or parole violation. While these so-called "committed-awaiting-placement" youths are housed in detention facilities, they are part of

the commitment population and are included as such in these projections.

In FY 2000-01 the detention population (excluding those awaiting commitment placement) averaged 557.6 youths. The detention population declined 2.4% from FY 1999-00 and represents the first decrease in five years. DYC attributes the decrease to the use of diversionary placements, such as Senate Bill 91-94 community programs, that are designed to reduce detention admissions.

"The detention population declined 2.4% from FY 1999-00 and represents the first decrease in five years."

Length of stay in detention varies significantly by the legal status of the juvenile. Youths in detention awaiting a commitment placement can spend a month waiting for a placement. On the other hand, many preadjudicated juveniles in detention have lengths of stay ranging from several hours to several days. The average length of stay in detention facilities in FY 2000-01 was 14 days, down 0.9% from the prior year. Most stays, however, were shorter than 14 days, as the median length of stay was 5 days. The average length of stay was skewed up by longer lengths of stay served by a relatively small number of detainees.

In order to avoid a detention placement, juveniles may also be sentenced to a regional Community Accountability Program (CAP) which replaced the Regimented Inmate Training Program on July 1, 2001. Although this is a separate program placement from detention, the DYC treats the beds in this program as detention capacity. Therefore, this program population is incorporated into the detention population projections. The implementation of this program is discussed further in the section *Legislative Impact upon the DYC Population*.

Commitment. The commitment population consists of juveniles who have been adjudicated for a crime and committed to the custody of DYC. A juvenile may be sentenced to DYC custody for a period between one and seven years, but generally receives a two-year maximum sentence.

In FY 2000-01, the commitment population (including those in detention awaiting a commitment placement) increased 5.3% to an average daily population of 1,280.7. However, commitment admissions decreased 9.9% from the prior year. The population increase was attributable to an increase in commitment length of stay. The average length of stay of a juvenile released from DYC commitment (including residential but excluding parole time) in FY 2000-01 was 16.3 months, a 5% increase from the prior year. Much of this increase was due to the increase in the proportion of repeat offenders, whose length of stay is typically longer than first-time commitments. While less than 10% of FY 1999-00 commitments were repeat offenders, 13% were re-commitments in FY 2000-01.

Influences on the Juvenile Offender Population

The growth in the juvenile offender population and its recent slowdown are related to a combination of influences. Demographic factors, juvenile delinquency, economic factors, school participation, Senate Bill 91-94 programs, and legislation passed by the General Assembly all affect the juvenile offender projections.

Demographic factors. One important factor that drives the juvenile offender population is the state's juvenile population. Because a youth less than the age of 10 cannot be sentenced to the custody of DYC, the juvenile population used for the forecast is the age

group of 10 to 17 years old. While this population increased 10.5% between 1996 and 2001, it is expected to increase only 6.3% from 2001 to 2006.

Juvenile Delinquency. The incidence of juvenile delinquency influences the juvenile offender population. There are two main proxies for juvenile delinquent activity: juvenile arrests and juvenile delinquency filings. Both of these variables decreased in recent years. Juvenile arrests in 1999 decreased 13.3% from the previous year and FY 1999-00 juvenile delinquency filings decreased 3.4% from the previous year. Both variables declined for the second consecutive year. These variables contributed to the slowing growth of the DYC commitment and detention populations.

"Economic opportunities for youths play a small role in both the detention and commitment population projections."

Economic Variables. Economic opportunities for youths play a small role in both the detention and commitment population projections. Teenage employment may reduce juvenile delinquency, and thus reduce commitment to the DYC. Historically, employment opportunities for youth increased in times of strong economic growth and tight labor markets. As employers find difficulty in hiring adult workers, they tend to hire younger and less experienced workers. There are no data on teenage employment in Colorado. There are, however, national figures for teenage employment, which this forecast uses as a proxy for Colorado teen employment.

School participation. School dropout and graduation rates are also strongly correlated to juvenile delinquency. Colorado dropout rates for grades 7 through 12 have decreased during each of the last four school years (1996-97 through 1999-00). These variables have decreased the population in the custody of DYC.

"Colorado dropout rates for grades 7 through 12 have decreased during each of the last four school years…"

State and local policy changes influence detention and commitment. Policies which change the capacity of detention facilities, the number of police patrolling communities, the type of juvenile that may be held in a detention facility, or create or restrict judges' sentencing alternatives for delinquent juveniles affect the detention population. Several policy changes in the past few years significantly affected the detention population. These include the creation of alternative programs, such as Senate Bill 91-94 and the Regimented Juvenile Training Program, the 1995 federal court-ordered cap on the Denver Gilliam Youth Services Center's population, juvenile handgun legislation, and the funding and construction of new detention beds.

Legislative Impact upon the DYC Population

Several legislative actions have mandated minimum sentences, authorized alternatives to detention and commitment, and established aftercare provisions. The following paragraphs discuss the significant legislation and their impacts on the DYC population.

Senate Bill 91-94: Concerning the allocation of services for juveniles. This bill allowed communities to set up diversionary, alternative, community-based programs to prevent youths from being incarcerated (detained or committed). It also required that local advisory committees develop criteria for the placement of juveniles in incarceration. According

to DYC, this legislation has been significant in reducing detention admissions, but not commitment. We have incorporated the admissions of these programs into the forecast.

House Bill 93S-1005: Regimented Juvenile Training Program. This bill created the Regimented Juvenile Training Program, a military-style intensive physical discipline "boot camp" intended to be a diversion from detention and commitment. The program was to be repealed by July 1, 1997. Senate Bill 97-50 extended the authorization of the program until July 1, 2000, and Senate Bill 00-50 extended the authorization of the program through July 1, 2001, at which time the program ended. At this time, the facility will be demolished to accommodate expansion of the Colorado Mental Health Institute at Pueblo.

"Mandatory parole has not only increased the parole population, it has increased the number of commitment admissions…"

House Bill 96-1005: Concerning juvenile justice. This bill increased the maximum commitment sentence length for aggravated offenses to five years and to seven years for crimes that would constitute an adult class one felony. This bill also established sentence lengths for non-aggravated offenses of up to two years.

Perhaps the most significant impact of this bill was the establishment of mandatory minimum parole period for all juvenile offenders that committed a crime on or after January 1, 1997. Mandatory parole has not only increased the parole population, it has increased the number of commitment admissions as more juveniles on parole has led to more parole revocations back to commitment. Mandatory parole has also increased the length of stay for commitments because of the increase in re-committed offenders. In FY 2000-01, length of stay for re-commitments was 36% greater than for new commitments.

House Bill 97-1318: Juvenile facility contract for Ridge View. This bill authorized the Department of Human Services to contract with a single entity to design, build, and operate a "campus-style" facility that would implement alternative education and vocational training in an academic correctional model. This became the 500-bed Ridge View commitment facility in Watkins that will add 200 beds in the current fiscal year.

House Bill 99-1094: Aggravated juvenile offenders. This bill mandated a minimum sentence of three years for juvenile offenders adjudicated for committing the equivalent of an adult class 1 or class 2 felony. The maximum sentence remained at five years for crimes equivalent of class 2 felonies and seven years for crimes equivalent of class 1 felonies.

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 is estimated to decrease the parole population.

"...it is anticipated that the CAP will be able to take advantage of local support programs"

House Bill 01-1357: Community Accountability Program. This bill created the Community Accountability Program (CAP) to replace the Juvenile Regimented Inmate Training Program ("Boot Camp") that was in place since the 1993 special session. The private contract program will attempt to correct a perceived flaw in the boot camp model and integrate more after-care services to ensure that participating youths will increase their chances of avoiding a future DYC placement. Moreover, it is anticipated that the CAP will be able to take advantage of local support programs

because there will be five regional placement centers in the state, rather than one that was used in the boot camp model.

As of March 2001, the CAP implementation was expected to be delayed six months while proposals were reviewed. At that time, DYC estimated there would be an impact upon detention and commitment populations reflecting the substitution of detention or commitment placements for boot camp sentences. However, in the few months since the Regimented Inmate Training Program expired, there has not been a significant impact upon detention or commitment admissions or population.
At this time, DYC reports that the implementation of the CAP may be further delayed as private contracts may not be finalized in the current fiscal year. Moreover, the CAP implementation may be delayed to meet an executive request to reduce operation costs by 1%. This forecast will be revised as more information becomes available regarding the schedule of the CAP implementation and the impact of a foregone placement option upon detention and commitment populations.

DYC Detention Population Projections Versus Capacity

In FY 2000-01, the detention population (excluding those awaiting commitment placement) averaged 557.6 youths. The detention population declined 2.4% from FY 1999-00. DYC attributes this to a successful implementation of community-based diversion programs authorized by Senate Bill 91-94. We project that the DYC detention population will increase to 591.4 youths in FY 2006-07, representing a 1.0% compound average annual growth rate. However, the detention rate (the ratio of the detention population to the juvenile population eligible for DYC custody, age 10 to 17) is expected to decline an average of 0.3% per year. The projected regional detention populations are presented in Table 25.

Table 25
Detention Population by Region

	1998-99	*1999-00*	*2000-01*	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06*	*2006-07*
		Actual				***Forecast***			
State	550.4	571.1	557.6	574.2	577.2	581.8	586.5	590.1	591.4
Annual Growth		*3.8%*	*-2.4%*	*3.0%*	*0.5%*	*0.8%*	*0.8%*	*0.6%*	*0.2%*
FY 2001-02 to FY 2006-07 Compound Average Annual Growth Rate (CAAGR)									*1.0%*
DETENTION RATE (per 100,000 juveniles age 10-17)									
State	114.6	115.9	110.6	111.7	110.6	110.0	109.8	109.4	108.7
Annual Growth		*1.1%*	*-4.6%*	*1.1%*	*-1.1%*	*-0.5%*	*-0.2%*	*-0.3%*	*-0.6%*
FY 2001-02 to FY 2006-07 Compound Average Annual Growth Rate (CAAGR)									*-0.3%*
REGION									
Southern	145.5	158.3	132.2	135.3	137.4	139.7	141.8	143.4	144.2
Annual Growth		*8.8%*	*-16.5%*	*2.4%*	*1.6%*	*1.7%*	*1.5%*	*1.1%*	*0.6%*
Western	51.9	50.1	54.7	56.0	56.4	56.9	57.5	58.1	58.8
Annual Growth		*-3.5%*	*9.3%*	*2.3%*	*0.7%*	*0.9%*	*1.1%*	*1.0%*	*1.2%*
Denver	101.0	104.5	106.2	109.6	108.5	107.8	106.8	105.9	105.3
Annual Growth		*3.5%*	*1.6%*	*3.2%*	*-1.0%*	*-0.6%*	*-0.9%*	*-0.8%*	*-0.6%*
Central	137.9	139.9	146.5	151.0	151.2	152.5	154.4	155.9	155.8
Annual Growth		*1.5%*	*4.7%*	*3.1%*	*0.1%*	*0.9%*	*1.2%*	*1.0%*	*-0.1%*
Northeast	114.1	118.3	118.0	122.3	123.7	124.9	126.0	126.8	127.3
Annual Growth		*3.7%*	*-0.2%*	*3.6%*	*1.1%*	*1.0%*	*0.9%*	*0.6%*	*0.4%*
Comparison with DYC Long Range Bed Plan									
Capacity *				565.5	595.5	615.5	615.5	615.5	615.5
Surplus/(Shortfall)				***(8.7)***	***18.3***	***33.7***	***29.0***	***25.4***	***24.1***

* Capacity reflects the decrease of 12.4 beds to account for the elimination of the Boot Camp in FY 2001-02 and the three-year phase-in of 80 beds for the Community Accountability Project from FY 2001-02 to FY 2003-04.

Table 25 also presents the estimated detention bed surplus or shortfall through the forecast period. In the past, DYC has used when available, for commitment population in facilities that provide both detention and co mitment services. DYC has also decreased its use of contract bed facilities. Based on the ecember 2001 projections, without conve sion or a contract reduction of beds, the DYC will have a *detention bed surplus* of 24.1 beds in FY 2006-07.

of 24.1 beds in FY 2006-

Projected Admissions and Average Length of Stay. Between FY 1993-94 and FY 2000-01, detention admissions increased in only two years. The reduction to admissions has been partly attributable to the success of the Senate Bill 91-94 programs. Because of an expected slow growth trend in the number of Colorado juveniles and an increasing use of Senate Bill 91-94 diversion programs, the growth in DYC detention admissions will grow at a 0.6% annual rate.

Length of stay in detention did not change significantly in FY 2000-01 and we estimate that length of stay will not change significantly through the forecast period. The forecast of admissions and length of stay is provided in Table 26.

DYC Commitment Population Proje tions Versus Capacity

We project that the population of youths com- n- tion awaiting a commitment placement) will -01 to 1,564.6 -07. This represents a 3.4% co pound average annual rate of growth. Two fa tors account for this increase: juvenile

Table 26
Detention Admissions by Region and Length of Stay

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual			Forecast					
State	14,398	14,873		15,101	14,994		15,105	15,146	
Annual Growth		3.3%	-1.5%	3.0%	-0.7%	0.4%	0.4%	0.3%	0.1%
FY 2001 02 to FY 2006-									0.6%
REGION									
Southern		3,694	3,483		3,655	3,687		3,737	3,748
		3.6%	-5.7%	3.8%		0.9%	0.8%		0.3%
Western		983	912		995	999		1,010	1,017
		3.1%	-7.2%	8.4%		0.4%	0.6%		0.7%
Denver		3,319	3,559		3,576	3,565		3,534	3,525
		-	7.2%	1.9%	1.4%	0.3%	0.4%	0.4%	0.3%
	3,573	3,660		3,522	3,488		3,525	3,543	
Annual Growth		2.4%	4.0%		-	0.4%	0.6%		0.0%
Northeast		3,217	3,189		3,280	3,296		3,322	3,329
		8.2%	-0.9%	5.0%	2.0%		0.5%	0.3%	
LENGTH OF STAY IN DAYS									
State		14.1	14.0		14.1	14.1		14.2	14.2
		2.8%	-0.9%	-0.6%	1.2%		0.4%	0.3%	

population growth (ages 10 to 17) and administrative and legislative changes that contribute to longer lengths of stay.

Table 27 shows the estimated statewide commitment population and commitment per capita (per 100,000 juveniles) to indicate the growth of commitment ADP relative to the growth of the Colorado population, age 10 to 17. Commitment ADP is expected to increase at an average rate of 3.4% per year.

"...the DYC will have a commitment bed surplus of 57.5 beds in FY 2006-07."

Table 27 also presents the estimated commitment bed surplus or shortfall through the forecast period. Available capacity includes funded expansions, such as the private 500-bed Ridge View facility. It does not include requests or unauthorized expansions, such as a 20-bed mental health unit, adjustments to in-state contract facility beds, or conversions to or from detention beds in multi-designation facilities. Based on the December 2001 projections, without an addition, conversion, or a contract reduction of beds, the DYC will have a *commitment bed surplus* of 57.5 beds in FY 2006-07.

Table 28 provides the population projections by management region and by gender. The growth in the first year of the forecast is due primarily to the expected increase of admissions attributable to fewer available programs for alternative placements (the Community Accountability Program). Once the program becomes operational, the growth in admissions and average daily population will taper off.

The male commitment population increased 6.7% in FY 2000-01, while the female population decreased 5.7%. While admissions decreased for both males and females, male length of stay increased 4.2%, due in part to an increase in the number of re-commitments who tend to stay in commitment facilities longer than first-time commitments.

Table 27
Commitment Average Daily Population and Projected Bed Surplus

	1998-99	***1999-00***	***2000-01***	***2001-02***	***2002-03***	***2003-04***	***2004-05***	***2005-06***	***2006-07***
	Actual			***Forecast***					
State	1,165.3	1,216.7	1,280.7	1,354.2	1,411.9	1,431.7	1,469.5	1,515.0	1,564.6
Annual Growth		*4.4%*	*5.3%*	*5.7%*	*4.3%*	*1.4%*	*2.6%*	*3.1%*	*3.3%*
FY 2001-02 to FY 2006-07 Compound Average Annual Growth Rate (CAAGR)									*3.4%*
Incarceration Rate (per 100,000 juveniles age 10-17)									
	242.5	246.9	253.9	263.5	270.3	270.6	275.0	280.9	287.6
Comparison with DYC Long Range Bed Plan									
Capacity				1,395.0	1,489.1	1,569.3	1,622.1	1,622.1	1,622.1
Surplus/(Shortfall)				***40.8***	***77.2***	***137.6***	***152.6***	***107.1***	***57.5***

Table 28
Commitment Average Daily Population by Region and Gender

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual			Forecast					
REGION									
Southern	268.1	266.9	287.9	306.2	320.7	324.6	332.0	340.3	345.7
Annual Growth		*-0.4%*	*7.9%*	*6.4%*	*4.7%*	*1.2%*	*2.3%*	*2.5%*	*1.6%*
Western	128.6	132.6	137.4	144.0	148.9	151.0	154.5	158.8	162.8
Annual Growth		*3.1%*	*3.6%*	*4.8%*	*3.4%*	*1.4%*	*2.3%*	*2.8%*	*2.5%*
Denver	258.7	279.0	253.2	262.4	270.2	268.5	274.1	281.1	295.0
Annual Growth		*7.8%*	*-9.2%*	*3.6%*	*3.0%*	*-0.6%*	*2.1%*	*2.6%*	*4.9%*
Central	268.2	277.7	287.7	303.3	315.6	319.3	324.4	331.5	337.2
Annual Growth		*3.5%*	*3.6%*	*5.4%*	*4.1%*	*1.2%*	*1.6%*	*2.2%*	*1.7%*
Northeast	241.7	260.5	314.4	338.3	356.5	368.3	384.5	403.3	423.9
Annual Growth		*7.8%*	*20.7%*	*7.6%*	*5.4%*	*3.3%*	*4.4%*	*4.9%*	*5.1%*
GENDER									
Males	1,034.8	1,071.2	1,143.4	1211.2	1265.4	1286.1	1322.9	1367.8	1416.7
Annual Growth		*3.5%*	*6.7%*	*5.9%*	*4.5%*	*1.6%*	*2.9%*	*3.4%*	*3.6%*
Females	130.5	145.5	137.2	143.0	146.5	145.6	146.6	147.2	147.9
Annual Growth		*11.5%*	*-5.7%*	*4.2%*	*2.4%*	*-0.6%*	*0.7%*	*0.4%*	*0.5%*

Projected Admissions and Average Length of Stay. Table 29 provides the regional admission projections and the statewide estimated length of stay for commitment placements. After several years of steady increases, commitment admissions dropped 3.4% in FY 1999-00 and 9.9% in FY 2000-01. The slowing rate of growth in the number of Colorado juveniles and the increase in Senate Bill 91-94 diversion programs suggests a slowing in the growth in DYC commitment admissions. However, the increase of re-commitments and more youths on mandatory parole suggests increasing admissions. Moreover, we estimate that the delayed implementation of the Community Accountability Program will lead to an increase in the number of commitment admissions. Over the forecast period, we expect admissions to grow at a 4.9% annual rate.

The average residential length of stay increased from 15.5 months in FY 1999-00 to 16.3 months in FY 2000-01, due in part to the increase in re-commitments. While we do not anticipate a significant increase in the length of stay for all commitments, we do anticipate a slight increase in male length of stay, attributable to an increase in male re-commitments.

Juvenile Parole Population Projections

Table 30 reports the regional juvenile parole population projections. Since a mandatory parole period of 12 months was implemented four years ago (effective for those committing offenses on or after January 1, 1997), both parole length of stay and parole caseload have increased significantly. In FY 1997-98, the

Table 29
Commitment Admissions by Region and Gender and Length of Stay

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual			Forecast					
State	878	848	764	883	933	950	969	994	1,020
Annual Growth		*-3.4%*	*-9.9%*	*15.6%*	*5.7%*	*1.8%*	*2.0%*	*2.6%*	*2.6%*
FY 2001-02 to FY 2006-07 Compound Average Annual Growth Rate (CAAGR)									*4.9%*
REGION									
Southern	202	200	158	201	218	217	217	216	213
Annual Growth		*-1.0%*	*-21.0%*	*27.2%*	*8.5%*	*-0.5%*	*0.0%*	*-0.5%*	*-1.4%*
Western	107	100	94	100	102	102	102	103	103
Annual Growth		*-6.5%*	*-6.0%*	*6.4%*	*2.0%*	*0.0%*	*0.0%*	*1.0%*	*0.0%*
Denver	190	168	127	161	169	170	174	179	188
Annual Growth		*-11.6%*	*-24.4%*	*26.8%*	*5.0%*	*0.6%*	*2.4%*	*2.9%*	*5.0%*
Central	194	172	186	201	211	216	218	222	225
Annual Growth		*-11.3%*	*8.1%*	*8.1%*	*5.0%*	*2.4%*	*0.9%*	*1.8%*	*1.4%*
Northeast	185	208	199	220	233	245	258	274	291
Annual Growth		*12.4%*	*-4.3%*	*10.6%*	*5.9%*	*5.2%*	*5.3%*	*6.2%*	*6.2%*
GENDER									
Males	769	738	675	780	825	836	857	884	912
Annual Growth		*-4.0%*	*-8.5%*	*15.6%*	*5.8%*	*1.3%*	*2.5%*	*3.2%*	*3.2%*
Females	109	110	89	103	108	114	112	110	108
Annual Growth		*0.9%*	*-19.1%*	*15.7%*	*4.9%*	*5.6%*	*-1.8%*	*-1.8%*	*-1.8%*
LENGTH OF STAY ESTIMATES									
Males	16.0	15.9	16.5	16.6	16.4	16.5	16.5	16.6	16.7
Annual Growth		*-0.6%*	*4.2%*	*0.7%*	*-1.2%*	*0.3%*	*0.3%*	*0.2%*	*0.4%*
Females	12.7	13.0	14.3	14.3	14.0	13.2	13.5	13.8	14.1
Annual Growth		*2.0%*	*10.0%*	*0.6%*	*-2.3%*	*-5.8%*	*2.5%*	*2.2%*	*2.3%*
Total	15.6	15.5	16.3	16.4	16.2	16.1	16.2	16.3	16.4
Annual Growth		*-0.9%*	*5.0%*	*0.7%*	*-1.3%*	*-0.4%*	*0.6%*	*0.5%*	*0.6%*

parole length of stay averaged 6.8 months for discharges. In FY 2000-01, parole length of stay averaged 11.3 months.

"We expect the juvenile parole population to grow significantly over the forecast period…"

We expect the juvenile parole population to grow significantly over the forecast period, from an average daily population of 702.6 in FY 2000-01 to 995.7 in FY 2006-07, an average annual growth rate of 5.5%. This growth rate is lower than the 8.8% rate in the December 2000 forecast. While the parole population has grown significantly since FY 1997-98, the growth rate slowed in FY 2000-01. As more and more commitments are eligible for mandatory parole, the growth rates will taper until all commitments are expected to serve mandatory parole. In FY 2000-01, 92.1% (all but seven admissions) of juveniles admitted to DYC custody committed an offense after 1996, making them eligible for mandatory parole. We expect that in FY 2001-02, nearly all committed youth will be eligible for mandatory parole, at which time the parole caseload growth will slow significantly.

Table 30
Division of Youth Corrections Parole Population, Historical and Projected

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
	Actual			Forecast					
State	366.1	601.4	720.6	787.9	845.8	892.4	935.8	969.1	995.7
Annual Growth		*64.3%*	*19.8%*	*9.3%*	*7.3%*	*5.5%*	*4.9%*	*3.6%*	*2.7%*
FY 2001-02 to FY 2006-07 Compound Average Annual Growth Rate (CAAGR)									*5.5%*
REGIONS									
Southern	91.1	154.3	166.8	174.9	182.5	192.2	198.9	203.0	209.5
Annual Growth		*69.4%*	*8.1%*	*4.9%*	*4.3%*	*5.3%*	*3.5%*	*2.1%*	*3.2%*
Western	69.9	93.5	90.8	92.3	94.5	97.8	102.1	104.6	105.1
Annual Growth		*33.8%*	*-2.9%*	*1.7%*	*2.4%*	*3.5%*	*4.4%*	*2.4%*	*0.5%*
Denver	55.7	105.6	161.2	191.1	215.8	236.3	256.9	273.3	284.8
Annual Growth		*89.7%*	*52.6%*	*18.6%*	*12.9%*	*9.5%*	*8.7%*	*6.4%*	*4.2%*
Central	79.0	132.4	160.1	174.5	186.8	196.4	205.3	212.7	217.7
Annual Growth		*67.6%*	*20.9%*	*9.0%*	*7.0%*	*5.1%*	*4.5%*	*3.6%*	*2.4%*
Northeast	70.5	115.7	141.8	155.1	166.2	169.7	172.6	175.5	178.6
Annual Growth		*64.0%*	*22.6%*	*9.4%*	*7.2%*	*2.1%*	*1.7%*	*1.7%*	*1.8%*

Pre-Kindergarten to Twelfth Grade Public School Enrollments

Prepared by

Josh Harwood, Economist

School Enrollment Projections

- Enrollment across the state of Colorado will increase by 1.13%, or 7,943 FTE students, during the 2002-03 school year. Therefore, during the 2002-03 school year, 712,055.5 FTE students will be enrolled in Colorado schools. The projected gain follows a 1.94% increase in the 2001-02 school year. The slower rate of increase is due to expected lower migration as a result of the weaker economy.

- Our projections indicate that school enrollment over the next five years will increase at a compound annual average growth rate of 1.47%, which totals 53,471 additional students. This five-year average growth rate compares with a 1.81% compound average annual growth rate over the previous five years.

- As in past years, the metro-Denver, Colorado Springs, and northern regions will experience the largest enrollment increases during the 2002-03 school year with growth rates over 1.0%. Western Colorado, the north central mountains, and Pueblo will see only minimal growth. The north central plains and San Luis Valley will experience slight declines in enrollment, while the southwest and southeast regions will experience declines of more than 1.0% in enrollment.

This section of the forecast presents Legislative Council Staff's *preliminary* full-time-equivalent (FTE) enrollment projections for Colorado's pre-kindergarten through twelfth grade public schools. FTE enrollment is a variable used to determine funding levels for Colorado's 178 school districts. Final projections will be made after we receive additional input from school districts.

Actual FTE pre-kindergarten through twelfth grade enrollment in the 2001-02 school year was 704,112.5 students. This represented an increase of 1.94%, or 13,423 students, over the 2000-01 level. This enrollment level was 1,336 FTE students, or 0.19%, *higher* than Legislative Council Staff forecasted in December 2000. Factors contributing to the higher-than-expected enrollment included continued high net migration, as well as continued high levels of residential construction, especially in Colorado's major metropolitan areas.

"Migration into Colorado will be significantly lower than in recent years, thus affecting student enrollment gains."

Migration into Colorado will be significantly lower than in recent years, thus affecting student enrollment gains. Furthermore, based on figures from the 2000 Census, high school graduates will outnumber incoming kindergarten and first grade students over the next several years as baby-boomers' children finish their secondary education. For these reasons, it is anticipated that enrollment growth will be slower over the next two years. FTE enrollment in the 2002-03 school year is expected to increase 1.13%, while the compound annual average growth rate over the next five years is expected to be 1.47%. These anticipated growth rates compare to growth rates of 1.94% for the current school year and a compound annual average growth rate of 1.81% over the last five years. Table 3 identifies the anticipated growth in FTE enrollment over the next five years for each of Colorado's regions. Additionally, Figure 7 shows the makeup of the regions and identifies the anticipated increase in FTE enrollment for the 2002-03 school year.

"The faltering high-tech sector has already begun to affect the northern region's enrollment…"

Buoyed by diverse economies relative to much of the rest of Colorado, the major front range regions of Colorado Springs, metro-Denver, and northern Colorado are expected to dominate gains in FTE enrollment over the forecast period. Together, these regions will account for nearly 90% of enrollment growth over the forecast period, while representing only 78.5% of statewide enrollment. FTE enrollment growth in the **northern region** is expected to slow down significantly in the 2002-03 school year. The faltering high-tech sector has already begun to affect the northern region's enrollment, as 2.64% growth in 2000-01 was followed by 1.84% growth in 2001-02. The region is expected to increase by an even smaller 1.09% for the 2002-03 school year, as housing demand in the southern portions of these counties slows with slower employment growth.

The **Colorado Springs region**, which consists of El Paso and Teller counties, had an enrollment increase of 2.45% in the 2001-02 school year, the largest increase in the state. This region has been growing in large measure as a result of the influx of residents created through its various high-tech developments. However, there have been many layoffs in this sector and Intel's massive flash chip plant, expected to be operational by now, is still in its testing phase. Therefore, we are forecasting a 1.61% increase in FTE enrollment for the 2002-03 school year

Table 31
Colorado Public School Full-Time-Equivalent Enrollment Forecasts
Pre-Kindergarten through Twelfth Grade

Region	Preliminary 2001-02	Percent Change	2002-03	Percent Change	2003-04	Percent Change	2004-05	Percent Change	2005-06	Percent Change	2006-07	Percent Change	5-Year Compound Annual Average Growth
Metro-Denver	387,979.0	2.33%	393,738.5	1.48%	398,819.5	1.29%	405,981.0	1.80%	413,488.5	1.85%	420,622.0	1.73%	1.63%
Colorado Springs	95,690.5	2.45%	97,235.5	1.61%	98,817.5	1.63%	100,690.0	1.89%	102,525.0	1.82%	104,268.0	1.70%	1.73%
Northern	69,181.0	1.84%	69,938.0	1.09%	71,053.5	1.59%	72,648.5	2.24%	74,403.0	2.42%	76,064.0	2.23%	1.92%
Western	44,359.5	1.07%	44,509.0	0.34%	44,568.5	0.13%	45,028.0	1.03%	45,571.0	1.21%	46,045.5	1.04%	0.75%
Pueblo	31,006.5	2.13%	31,114.5	0.35%	31,119.0	0.01%	31,382.5	0.85%	31,803.0	1.34%	32,097.0	0.92%	0.69%
North Central Mountain	20,517.0	1.38%	20,617.5	0.49%	20,825.5	1.01%	21,183.5	1.72%	21,593.5	1.94%	21,981.0	1.79%	1.39%
North Central Plains	19,694.5	0.22%	19,689.0	-0.03%	19,808.5	0.61%	20,070.5	1.32%	20,318.5	1.24%	20,603.5	1.40%	0.91%
Southwest	14,386.5	-0.93%	14,138.5	-1.72%	14,070.0	-0.48%	14,219.5	1.06%	14,453.0	1.64%	14,595.0	0.98%	0.29%
Southeast	12,585.0	-1.17%	12,441.5	-1.14%	12,355.0	-0.70%	12,437.0	0.66%	12,517.0	0.64%	12,546.0	0.23%	-0.06%
San Luis Valley	8,713.0	-1.15%	8,633.5	-0.91%	8,593.0	-0.47%	8,650.0	0.66%	8,740.5	1.05%	8,761.5	0.24%	0.11%
Statewide Total	**704,112.5**	**1.94%**	**712,055.5**	**1.13%**	**720,030.0**	**1.12%**	**732,290.5**	**1.70%**	**745,413.0**	**1.79%**	**757,583.5**	**1.63%**	**1.47%**
FTE Increase	**13,423.0**		**7,943.0**		**7,974.5**		**12,260.5**		**13,122.5**		**12,170.5**		

and a compound annual average growth rate of 1.73% 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 degress. Enrollment in the **metro-Denver region** is predicted to increase by 1.48% in the next school year. The most noteworthy gains in this region will come in Douglas County, though some will also come from the Brighton school district in northern Adams County. The **Pueblo region**, consisting of Pueblo, Fremont, and Custer counties, will see an increase of only 0.35% in enrollment for the 2002-03 school year, as less-than-average growth is expected throughout the forecast period. Furthermore, continuing enrollment declines are expected in the region's largest district, the core Pueblo city school district.

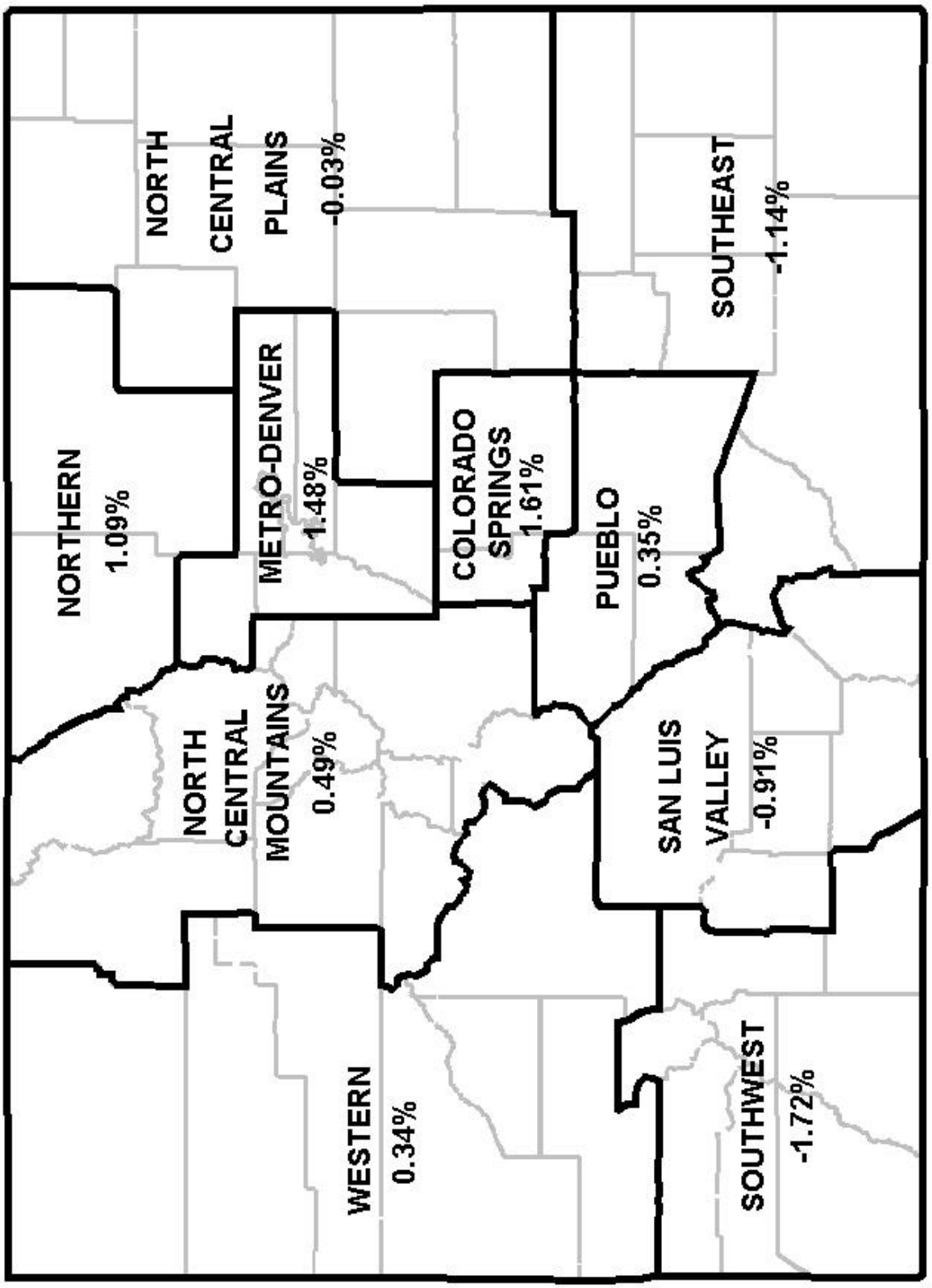
"...continuing enrollment declines are expected in the region's largest district, the core Pueblo city school district."

The **southeast region**, comprised of Baca, Bent, Crowley, Huerfano, Kiowa, Las Animas, Otero, and Prowers counties, is projected to experience an enrollment decline of 1.14% for the 2002-03 school year. While declines are forecasted through the 2003-04 school year, they are not expected to be as steep as the region experienced in the 2001-02 school year when enrollment fell by 1.17%. Only the southeast region is expected to see a decline in school enrollment over the five-year forecast period. This region and the San Luis Valley, which is expecting only modest enrollment gains over the forecast period, have seen three consecutive years of declining enrollment.

Residential development provides the catalyst for enrollment growth. Therefore, areas in suburban Colorado Springs, where there has been long-term growth in new home construction, will continue to see some of the highest growth rates. The Falcon and Hanover school districts are expected to have the highest average annual percentage growth over the forecast period. Among the other districts expected to see significant long-term growth are the Douglas County school district, Windsor school district in Weld County, Brighton school district in Adams County, and the community of Elizabeth in northwest Elbert County.

This school enrollment forecast was prepared utilizing a variety of economic and demographic variables. The most significant variables included school-age population, employment, migration, and number of births. These variables had historical changes that best patterned that of the 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, announcement of new residential developments, etc. 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 2002.

Figure 7
Estimated Enrollment Growth
2002-03 School Year



Assessed Values and Property Tax Projections

Prepared by

Josh Harwood, Economist

Assessed Values and Property Tax Projections

- The **residential assessment rate** will decline steadily from its current 9.15% to 8.31% in 2003, 7.76% in 2005, and 7.23% in 2007.

- **Total assessed values** for all property classes are expected to increase by 3.1% in 2002 to a total value of $60.4 billion. Because 2002 is not a reassessment year, only new construction is reflected in the increased value for several property classes. As a result, this increase is significantly lower than the 20.2% increase in 2001. By 2007, assessed values are anticipated to total $74.2 billion, which reflects a compound average annual growth rate of 4.0%. By contrast, assessed values increased at an annual rate of 10.3% since 1995.

- **Total residential *market* value** increased by 35.5% in the last two-year reassessment cycle ending in 2001. Due to the recent economic downturn, market values are expected to increase by smaller rates over the forecast period, including by 15.6% in 2003 over 2001 figures. The expected increase in residential market values in the 2005 and 2007 reassessment cycles are 18.2% and 18.1%, respectively.

- Reflecting only new construction, **residential assessed values** are expected to increase by 4.1% in 2002. Residential assessed values increased 21.2% in 2001, due largely to reassessment following a robust growth period. The forecasted decrease in the residential assessment rate will temper increases in residential assessed value relative to the anticipated increases in market value. Over the six-year forecast period, residential assessed values will increase at a compound annual average rate of 4.1%.

- **Nonresidential assessed values** are expected to increase by 2.1% in 2002 and at a compound annual average rate of 3.9% through 2007. Higher vacancy rates and flat or falling lease rates in both commercial and industrial markets will lead to substantially slower growth than in recent years.

- **Local government property taxes for general operating purposes** will increase 3.1% to $1.567 billion in 2003. These property taxes will increase at a compound annual average rate of 4.0% from 2002 through 2008.

ASSESSED VALUES

Fueled by unprecedented economic conditions, total assessed values for all property classes increased dramatically over the past decade. Since 1995, assessed values have grown by an average 10.3% annually. However, due to the current economic downturn, we project that values will grow by an average of 4.0% annually throughout the forecast period. Overall, we anticipate assessed values to total $60.4 billion in 2002, a 3.1% increase, and reach $74.2 billion by 2007.

"...price appreciation appears to have stabilized."

The Gallagher Amendment to the Colorado Constitution requires that residential assessed values must be approximately 45% 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 keep the 45%/55% ratio. The residential market has cooled down only very recently. Following the exceptional price appreciation that has occurred in many of Colorado's urban areas over the past several years, price appreciation appears to have stabilized. The slowdown has hit the luxury home market especially hard as there is a reported three-year supply of homes for sale in the over $500,000 category in the Denver-metro area. Nonresidential values are also stabilizing, however. Lease rates for office and industrial space, which have increased substantially in recent years, have flattened or even dropped in certain areas. This will help stunt growth in nonresidential assessed values. Also, assessed values for oil and gas properties will decline in 2003, thus limiting growth in nonresidential values. Thus, the RAR will decline to maintain the 45%/55% balance. This forecast anticipates the RAR will be 8.31% in 2003, 7.76% in 2005, and 7.23% in 2007.

Forecasted residential and nonresidential assessed values are shown in Table 32. Residential *assessed* values are expected to increase at a compound annual average rate of 4.1%, while nonresidential assessed values will increase at an average of 3.9% per year. At the end of the forecast period, assessed values will total $74.2 billion.

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

Table 32
Residential and Nonresidential Assessed Values
(millions of dollars)

Year	Residential Assessed Value	Percent Change	Nonresidential Assessed Value	Percent Change	Total Assessed Value	Percent Change
2001	$27,593	21.2%	$31,054	19.4%	$58,647	20.2%
2002	$28,727	4.1%	$31,718	2.1%	$60,446	3.1%
2003	$28,975	0.9%	$32,797	3.4%	$61,772	2.2%
2004	$30,139	4.0%	$33,443	2.0%	$63,582	2.9%
2005	$31,972	6.1%	$35,589	6.4%	$67,561	6.3%
2006	$33,286	4.1%	$36,241	1.8%	$69,527	2.9%
2007	$35,180	5.7%	$39,042	7.7%	$74,222	6.8%

forecast and analysis comprise the final section of this forecast.

Recent Trends

"Though slowing recently, continued strong demand for office, retail, and industrial space, especially along the front range, led to many new commercial developments…"

Assessed values have consistently grown since 1990, though the largest of these increases has come in the last six years. Following the path led by the booming state and national economies, assessed values grew by an average of 10.5% annually since 1995. Contributing factors to residential assessed value gains include strong employment growth, high net migration, low mortgage rates, a booming stock market, and high consumer confidence through most of this period. Residential market values increased by 29.0% in 2001, which accounts for price appreciation over the two-year assessment cycle and new construction in 2001. Residential assessed values totaled $27.6 billion in 2001, which is 1.4% higher than anticipated at this time last year. Though slowing recently, continued strong demand for office, retail, and industrial space, especially along the front range, led to many new commercial developments as well as a strong increase in market values for these properties. In 2001, nonresidential assessed values increased 19.4% to $31.1 billion, or 0.1% higher than forecasted one year ago.

Nonresidential Assessed Values

Assessed values in the nonresidential property classes totaled $31.1 billion in 2001, representing a 19.4% increase over 2000 values. However, the many layoffs and company closures in 2001 are increasing vacancy rates in office, retail, and, to a lesser extent, industrial buildings. Building owners are cutting lease rates and less construction will take place. Therefore, the healthy increases in nonresidential valuation that have characterized the last several years will wane over the next few years. Market prices for these properties are still expected to continue to increase, though by dramatically slower rates, especially through the next reassessment cycle ending in 2003. Oil and gas values will peak in 2002, then fall significantly in 2003. The oil and gas sector will not attain the peak values of 2002 during the rest of the forecast period. Thus, nonresidential assessed values are anticipated to increase at a compound annual average rate of 3.9% over the forecast period, increasing to $39.0 billion by 2007.

"...the healthy increases in nonresidential valuation that have characterized the last several years will wane over the next few years."

The nonresidential sector consists of eight property classes: commercial, vacant land, state assessed, industrial, oil and gas, natural resources, producing mines, and agriculture. Table 33 identifies 2001 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 over 54% of all nonresidential property. Commercial property assessed value totaled $16.9 billion in 2001, an increase of 16.5% over 2000. Overall, the value of commercial construction across Colorado is down 17.9% through October 2001, compared with the same period in 2000. Rising vacancy rates and falling lease rates have hit the largest subclass of commer-

Table 33
Nonresidential Assessed Values by Class

Property Class	2001 Assessed Value	Forecast			
		2002 Assessed Value	Percent Change	2007 Assessed Value	2001-2007 Annual Avg. Growth Rate
COMMERCIAL	$16,878	$17,378	3.0%	$22,671	5.1%
VACANT LAND	$3,985	$3,823	-4.1%	$4,701	2.8%
STATE ASSESSED	$3,607	$3,709	2.8%	$4,448	3.6%
INDUSTRIAL	$2,779	$2,755	-0.9%	$3,293	2.9%
OIL & GAS	$2,648	$2,867	8.3%	$2,631	-0.1%
AGRICULTURE	$799	$806	0.9%	$878	1.6%
NATURAL RESOURCES	$266	$300	12.7%	$335	3.9%
PRODUCING MINES	$90	$81	-10.3%	$86	-0.7%
TOTAL	$31,054	$31,718	2.1%	$39,042	3.9%

cial property — office and bank buildings — especially hard as construction value has dropped 24.8% over October 2000 levels. The value of all nonresidential construction has declined 2.3% through October 2001. Some over-building during the boom of the last decade, combined with the impacts of a weak employment market, appear to be dramatically affecting Denver's suburban office markets, as substantial increases in vacancy rates have plagued the Highway 36 corridor and south suburban areas.

"Rising vacancy rates and falling lease rates have hit the largest subclass of commercial property…"

Though nearly 3.5 million square feet of office space came online through third quarter 2001, as developers finished projects started in 2000 and early 2001, there is very little new construction in this sector. Douglas County will continue to see the most significant nonresidential construction over the forecast period as developers look to meet demand created by its fast-growing population base.

Large amounts of retail construction are still coming online to meet Colorado's recent boom in population. This has been led by the continued expansion around Broomfield's FlatIron Crossing Mall, which opened in August 2000. Construction on the Main Street development, southwest of the mall is continuing, though at a slower pace than was anticipated last year. Also, Aspen Grove Mall in Littleton opened its doors in November 2001, and is expecting to employ 2,000 in 50 stores over the holiday season. Upon its completion in late 2002, the Colorado Mills shopping area in Lakewood will employ an estimated 3,500 in over 200 stores and restaurants. In general, retail spending has slowed statewide, thus, we anticipate a similar slowdown in retail construction over the next few years.

New construction will boost commercial assessed values to $17.4 billion in 2002, an increase of 3.0%. By the end of the forecast period in 2007, commercial assessed values are expected to be $22.7 billion, an increase of 34.3% from its current levels.

As a result of the 2001 reassessment, **vacant land** moved ahead of state-assessed property as the second largest nonresidential class totaling nearly $4.0 billion, a 30.2% increase. A moderate decrease is common in nonreassess-

ment years, as new construction causes the reclassification of newly developed land, thus decreasing the inventory of vacant land. However, in times of healthy growth, the increased demand for housing, commercial, and industrial property leads to significant increases in value in reassessment years. Therefore, the assessed value of vacant land is expected to decrease by 4.1% in 2002 while increasing over the entire forecast period by 18.0%, rising to a total assessed value of $4.7 billion in 2007.

"...growth in state assessed values will be limited by the effects of decreased airline operations following the September 11th tragedies."

State assessed properties totaled $3.6 billion in assessed value in 2001. Utility, airline, pipeline, and railway companies make up the vast majority of value in this category. The increase of 9.3% represents a record jump for this property class. In the future, state-assessed property will see increases in value resulting from continued expansion in utilities to meet the demands of Colorado's growing population. In the near-term, growth in state assessed values will be limited by the effects of decreased airline operations following the September 11th tragedies. Assessed values in this class are expected to total $4.4 billion by 2007, which reflects a compound annual average growth rate of 3.6%.

Assessed values in the **industrial** property class increased by 10.8% in 2001. This year represents the last year of double-digit growth for the foreseeable future, as this sector has been hit hard by the slowdown in high-technology industries, especially semiconductor manufacturing. As a result, these values are expected to decrease by 0.9% in 2002 to $2.8 billion. By the end of the forecast period, industrial assessed values are expected to rise 18.5% to $3.3 billion, which reflects an average increase of 2.9%. The influence of the new Intel facility in El Paso County on this property class was overstated previously as the economic slowdown has helped contribute to a longer time frame for the development of the new flash chip plant north of downtown Colorado Springs.

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 reassessed each year based on the prior year's income, the assessed values in these classes tend to be more volatile then other property classes.

"Oil and gas assessed values increased by a whopping 78.2% in 2001, due in large part to the spike in energy prices during 2000."

Oil and gas assessed values increased by a whopping 78.2% in 2001, due in large part to the spike in energy prices during 2000. These high prices extended through the beginning of 2001, and though stabilized, will help lead to a modest increase of 8.3% for the oil and gas property class in 2002. Oil and gas assessed values are expected to be generally flat over the forecast period, decreasing at a compound annual average rate of 0.1% through 2007.

"...the coal industry is enjoying one of its best years on record as total production in 2001 is projected to jump by 12.8%."

The **natural resources** property class is dominated by the coal industry. Across Colorado, the coal industry is enjoying one of its best years on record as total production in 2001 is projected to jump by 12.8%. This, coupled with the fact that prices have seen their first significant increase since 1992 will lead to a healthy increase in the assessed value of natu-

ral resource properties. Assessed values for the natural resources class are expected to increase substantially, jumping by 12.7% in 2002. Over the entire forecast period, the coal market is expected remain healthy, helping assessed values for this class increase to $335 million by 2007, which amounts to a compound annual average growth rate of 3.9%.

Producing mines is the smallest property class totaling just under $90 million in assessed value in 2001, falling 9.9% over 2000 values. Over half the value in this class is accounted for by the Henderson Mine in Clear Creek County. Production cutbacks have persisted at the Henderson Mine, down almost 20% in 2001. Assessed values are expected to drop by 10.3% in 2002, and then experience modest gains throughout most of the forecast period, resulting in an overall decline from 2001 values of 4.4%. In positive news, the American Soda mine in Rio Blanco County is now fully operational and the Kelsey Lake diamond mine, the only commercial diamond mine in the United States, in northern Larimer County is planning to expand its production capabilities in 2002.

"Agriculture assessed values will increase at a compound annual average rate of 1.6% over the forecast period."

The final nonresidential property class is **agriculture**. Since agriculture assessed values are based on a ten-year moving average of income, the property class rarely sees significant changes from year to year. As a result, changes tend to reflect the long-term trend in agriculture. Agriculture assessed values totaled $799 million in 2001. Following a 2.1% decrease in 2001, agriculture assessed values are expected to increase by 0.9% in 2002. Agriculture assessed values will increase at a compound annual average rate of 1.6% over the forecast period.

Residential Assessed Values

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

"...the market for second homes in Colorado's mountain communities has slowed considerably."

Residential Market Values. Total residential market values increased 35.5% in 2001 from the previous reassessment in 1999. Due to slower demand from weaker net migration, we expect that market value increases will slow to 15.6% in 2003 over 2001 figures. Residential market values will then begin to show some signs of rebounding and stabilization as the economy regains its footing and net migration reaches more robust levels. An 18.2% increase is expected over the next cycle which ends in 2005 followed by an 18.1% change through 2007. The overall increase in residential market value will total 61.4% from 2001 through 2007, bringing the total market value of all residential property to an estimated $486.6 billion by 2007.

The increase in residential market values is considerably weaker than forecasted at this time last year, as the Colorado economic slowdown lowered expectations for job growth and net migration. Furthermore, with the downturn in the stock market, the market for second homes in Colorado's mountain communities has slowed considerably. In the near term, growth in residential assessed values in Eagle, Pitkin, Routt, San Miguel, and Summit counties will be much slower than has been experienced in the last five years. Coupled with slowing demand in major suburban areas, this will lead to a decrease in the number of new

residential units permitted in 2002 to 43,100 units from 56,000 units in 2001.

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%. This constitutional provision passed in 1982 and is known as the Gallagher Amendment. 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 property since 1982 (or have declined at a slower pace), the RAR decreased from 21.0% in 1982 to 9.15% in the current assessment cycle of 2001 and 2002.

It is anticipated that the future growth in residential market values will continue to be stronger than that of nonresidential property. Thus, the RAR is expected to continue to decline through the 2007 assessment cycle. The forecasted decline is more than was forecasted at this time last year due, in large part, to a relatively dramatic slowdown in forecasted nonresidential property values *vis-a-vis* residential values. The residential assessment rate is estimated to decrease to 8.31% in 2003 and 2004, 7.76% in 2005 and 2006, and 7.23 in 2007 and 2008. Table 34 indicates residential market and assessed value, as well as the RAR for 1991 through the forecast period.

"It is anticipated that the future growth in residential market values will continue to be stronger than that of nonresidential property."

Residential Assessed Values. The decline of the RAR will temper the growth of residential assessed values as compared to residential market values. Although residential market values are expected to increase by 15.6% during the two-year period ending in 2003, residential assessed values will only increase by 5.0%. 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 $35.2 billion by 2007, or a compound average annual growth rate of 4.1% over the forecast period.

County Level Assessed Values

Continuing the trend of the last five years, the counties that will see the largest gains in assessed value are largely front range and resort counties. Douglas County is expected to see the largest percentage gain in assessed value

Table 34
Residential Assessment Rate and Values
(millions of dollars)

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*	$348,681	15.6%	8.31%	$28,975	5.0%
2005*	$412,005	18.2%	7.76%	$31,972	10.3%
2007*	$486,582	18.1%	7.23%	$35,180	10.0%

*Forecast

across the forecast period due to large amounts of residential construction, as well as the nonresidential construction that will flow into the county to meet the needs of its growing population. Neighboring Elbert County has already begun to see residual development from Douglas and Arapahoe counties, and that will continue throughout the forecast period. Adams County will remain among the highest growing counties in assessed value as commercial and industrial developments fill in around the airport. Additionally, significant residential development resulting from the completion of the E-470 beltway in the northeast quadrant of the region will also help growth.

"...the counties that will see the largest gains in assessed value are largely front range and resort counties."

In spite of slower demand for second homes and a short-term decrease in tourism following the September 11th tragedies, many of Colorado's mountain communities will see assessed value growth that is among the highest in the state. In particular, Eagle, Routt, and Summit counties will be among the top counties over the forecast period, due in large measure to demand returning in the last few years of the forecast. Finally, Las Animas County's assessed value growth will also rank among the top in the state as continued expansion is expected for new coal bed methane gas wells.

The parts of the state that will see the smallest increases in assessed value are all rural counties. Most of these counties' economies are based agricultural, mining, or oil and gas production. Baca, Cheyenne, Costilla, Kiowa, Kit Carson, Phillips, Sedgwick, and Washington counties are all located on the eastern plains or in the San Luis Valley, where the booming high-tech and construction sectors of Colorado's economy have had little effect on local economies. Moffat and Rio Blanco counties are in the northwest part of Colorado and rely heavily on coal mining and oil and gas production. Each of these counties will have assessed value growth that ranks in the bottom ten in Colorado. Another contributing factor to the slow growth of assessed values in the rural counties is the residential assessment rate. If the state has large amounts of residential development and significant residential price appreciation relative to nonresidential classes, the RAR will be driven down. For the rural counties, which typically do not have market value increases as strong as the urban and resort counties, a decreasing RAR can keep their assessed value growth below that of the state's metropolitan areas. As a result, more than half of the state's counties will see moderate declines in residential assessed value in 2003. However, due to increases in nonresidential value, only 21 counties will have an overall decline in assessed value in 2003. The impact of the lower RAR is not as severe in later years. Only 3 counties will have a lower assessed value in 2005, while a single county will be impacted similarly in 2007.

"...more than half of the state's counties will see moderate declines in residential assessed value in 2003."

PROPERTY TAX FORECAST

Property taxes are determined by the application of mill levies to assessed values. Since 1992, property taxes are subject to a growth constraint imposed by Article X, Section 20 of the Colorado Constitution (TABOR), which states that growth in district property taxes may not exceed inflation plus a local growth factor. The local growth factor for schools is the percentage change in student enrollment, while for non-school local governments, this factor is the net percentage change in valuation

from construction. If property taxes exceed the growth limit, the local mill levy is reduced to the level that yields the maximum property tax revenue, unless voter approval was given to retain and spend excess property tax revenues.

For the 2001 property tax year, property taxes based on assessed values in 2000 totaled $3.686 billion. The estimated taxes on residential property accounted for 46.6% of the property tax burden, or $1.718 billion. Nonresidential property taxes accounted for $1.968 billion.

"The estimated taxes on residential property accounted for 46.6% of the property tax burden, or $1.718 billion."

Figure 8 shows the proportions of taxes that are collected for school finance, general operations for local governments, and other uses. School finance property taxes accounted for $1.431 billion, or 38.8% of all property tax collections in 2001. The property tax collections of other local governments for their general operating purposes totaled $1.383 billion, or 37.5% of the total. The remaining 23.7%, or $872 million, represents property taxes collected by both schools and other local governments for bonded indebtedness, local tax overrides, and abatement levies. Our forecast of property taxes accounts only for the taxes imposed for the general operating purposes of non-school local governments.

Non-School Property Taxes. Table 35 shows the non-school finance property taxes for general operating purposes. Because of the interaction with the constitutional restriction on property tax growth, property tax revenues will only increase 9.8% in 2002, despite assessed value growth of 21.2% in 2001. Overall, non-school general operating property taxes are estimated to increase at a compound average annual rate of 4.0% from property tax year 2002 through 2008.

Figure 8
2001 Property Tax Collections

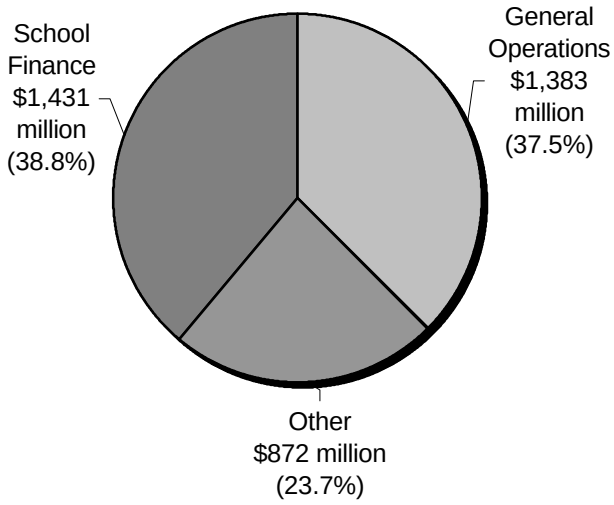


Table 35
Estimated Non-School Finance Property Taxes
($ in millions)

Tax Year	Non-School Finance Property Taxes	Property Taxes Dollar Change	Property Taxes Percent Change	Average Statewide Mill Levy
2001	$1,383.2	$73.5	5.6%	28.354
2002	$1,519.3	$136.1	9.8%	25.906
2003	$1,566.9	$47.6	3.1%	25.922
2004	$1,610.4	$43.5	2.8%	26.070
2005	$1,659.2	$48.8	3.0%	26.095
2006	$1,756.3	$97.1	5.9%	25.995
2007	$1,810.2	$53.9	3.1%	26.035
2008	$1,920.4	$110.2	6.1%	25.873

Historical Data

National Economic Indicators

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross Domestic Product (billions) percent change	$4,452.9 5.7%	$4,742.5 6.5%	$5,108.3 7.7%	$5,489.1 7.5%	$5,803.3 5.7%	$5,986.2 3.2%	$6,319.0 5.6%	$6,642.3 5.1%	$7,054.3 6.2%	$7,400.6 4.9%	$7,813.2 5.6%	$8,318.4 6.5%	$8,781.5 5.6%	$9,268.6 5.5%	$9,872.9 6.5%
Inflation-adjusted Gross Domestic Product (billions of 1996 dollars) percent change	$5,912.4 3.4%	$6,113.3 3.4%	$6,368.3 4.2%	$6,591.8 3.5%	$6,707.9 1.8%	$6,676.4 -0.5%	$6,880.1 3.1%	$7,062.6 2.7%	$7,347.7 4.0%	$7,543.8 2.7%	$7,813.2 3.6%	$8,154.4 4.4%	$8,508.9 4.3%	$8,856.5 4.1%	$9,224.0 4.1%
Unemployment Rate	7.0%	6.2%	5.5%	5.3%	5.6%	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%
Inflation	1.9%	3.6%	4.1%	4.8%	5.4%	4.2%	3.0%	3.0%	2.6%	2.8%	3.0%	2.3%	1.6%	2.2%	3.4%
Prime Rate	8.3%	8.2%	9.3%	10.9%	10.0%	8.5%	6.3%	6.0%	7.1%	8.8%	8.3%	8.4%	8.4%	8.0%	9.2%
Personal Income (billions) percent change	$3,712.5 5.6%	$3,962.5 6.7%	$4,272.1 7.8%	$4,599.8 7.7%	$4,903.2 6.6%	$5,085.4 3.7%	$5,390.4 6.0%	$5,610.0 4.1%	$5,888.1 5.0%	$6,200.9 5.3%	$6,547.4 5.6%	$6,937.0 6.0%	$7,391.0 6.5%	$7,789.6 5.4%	$8,281.0 6.3%
Nonagricultural Wage and Salary Employment (millions) percent change	99.3 2.0%	102.0 2.6%	105.2 3.2%	107.9 2.5%	109.4 1.4%	108.3 -1.1%	108.6 0.3%	110.7 1.9%	114.1 3.1%	117.2 2.7%	119.6 2.1%	122.7 2.6%	125.8 2.6%	128.9 2.4%	131.8 2.2%

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

Colorado Economic Activity
(Dollar amounts in millions)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Nonagricultural Employment (thous.)	1,418.7	1,408.3	1,412.6	1,436.1	1,482.3	1,520.9	1,545.0	1,596.9	1,670.7	1,755.9	1,834.4	1,900.4	1,979.5	2,057.0	2,131.9	2,214.8
percent change	1.2%	-0.7%	0.3%	1.7%	3.2%	2.6%	1.6%	3.4%	4.6%	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.9%
Unemployment Rate	5.9%	7.4%	7.7%	6.4%	5.8%	5.0%	5.1%	6.0%	5.3%	4.2%	4.2%	4.2%	3.3%	3.8%	2.9%	2.7%
Personal Income	$49,467	$51,062	$53,528	$56,387	$60,760	$65,095	$68,992	$74,207	$80,212	$85,860	$92,947	$100,012	$108,765	$118,401	$127,638	$140,353
percent change	5.8%	3.2%	4.8%	5.3%	7.8%	7.1%	6.0%	7.6%	8.1%	7.0%	8.3%	7.6%	8.8%	8.9%	7.8%	10.0%
Per Capita Income	$15,224	$15,571	$16,147	$16,985	$18,110	$19,290	$20,096	$20,998	$22,109	$23,019	$24,304	$25,627	$27,015	$29,831	$31,468	$32,452
percent change	4.3%	2.3%	3.7%	5.2%	6.6%	6.5%	4.2%	4.5%	5.3%	4.1%	5.6%	5.4%	5.4%	10.4%	5.5%	3.1%
Wage and Salary Income	$29,581	$30,442	$31,342	$32,868	$34,674	$37,167	$39,563	$42,714	$45,778	$48,992	$52,874	$57,204	$62,524	$69,604	$76,366	$86,011
percent change	5.7%	2.9%	3.0%	4.9%	5.5%	7.2%	6.4%	8.0%	7.2%	7.0%	7.9%	8.2%	9.3%	11.3%	9.7%	12.6%
Retail Trade Sales	$24,339	$23,452	$23,466	$24,886	$26,160	$27,544	$28,932	$31,298	$34,180	$38,100	$39,955	$42,631	$45,146	$48,131	$52,209	$58,018
percent change	5.5%	NC	0.1%	6.1%	5.1%	5.3%	5.0%	8.2%	9.2%	11.5%	4.9%	6.7%	5.9%	6.6%	8.5%	11.1%
Housing Permits	32,824	30,961	17,988	12,864	11,131	11,897	14,071	23,484	29,913	37,229	38,622	41,135	43,053	51,156	49,313	54,600
percent change	-26.0%	-5.7%	-41.9%	-28.5%	-13.5%	6.9%	18.3%	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%
Nonresidential Construction	$1,726	$1,214	$948	$973	$946	$939	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$2,986	$2,617	$3,544	$3,105
percent change	-2.7%	-29.7%	-21.9%	2.6%	-2.8%	-0.7%	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	26.2%	-12.4%	35.4%	-12.4%
Denver-Boulder Inflation Rate	2.7%	0.7%	2.7%	2.6%	1.8%	4.4%	3.9%	3.7%	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%
Population (thousands, July 1)	3,214.4	3,243.8	3,263.4	3,271.4	3,284.5	3,303.9	3,368.8	3,461.7	3,563.4	3,656.9	3,741.6	3,812.7	3,891.3	3,969.0	4,056.1	4,325.0
percent change	1.2%	0.9%	0.6%	0.2%	0.4%	0.6%	2.0%	2.8%	2.9%	2.7%	2.3%	2.0%	2.0%	2.0%	2.2%	6.6%

NC: The Department of Revenue changed its definition of retail trade starting with 1986 data. Hence, 1985 and 1986 data are not comparable.

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

Employment Growth by Industry

	Compound Average Annual Growth Rate 1970-1980	Compound Average Annual Growth Rate 1980-1990	Compound Average Annual Growth Rate 1990-2000	Annual Growth Rate 1999-2000
NONFARM EMPLOYMENT	5.4%	2.0%	3.8%	3.9%
MINING	10.0	-5.8	-4.3	-1.8
Metal Mining	7.5	-11.5	-7.6	-23.1
Coal Mining	11.6	-7.3	-3.3	-6.6
Oil & Gas Extraction	11.4	-3.7	-5.5	3.6
CONTRACT CONSTRUCTION	6.5	-1.9	9.7	9.7
General Building Contractors	3.5	-4.6	8.6	6.5
Heavy Construction Contractors	7.2	-2.5	5.8	6.2
Special Trade Contractors	8.3	-0.5	11.0	11.3
MANUFACTURING	4.4	0.7	0.6*/**	0.3
Durable Goods	5.3	0.3	0.9*	0.6
Nondurable Goods	2.8	1.4	0.2**	-0.2
Food & Kindred Prod.	1.4	0.7	-0.3	0.8
Printing & Publishing	5.3	4.0	1.8	0.7
TRANSPORTATION & PUBLIC UTILITIES	4.5	1.9	4.1**	3.0
Communications	4.6	2.0	6.8**	3.2
WHOLESALE & RETAIL TRADE	5.8	2.0	3.5	3.5
Wholesale Trade	5.9	1.0	2.9	4.7
Retail Trade	5.8	2.3	3.7	3.2
General Merchandise Stores	-1.2	1.8	3.4	2.8
Food Stores	5.7	2.4	2.0	0.8
Automotive Dealers & Service Stations	3.3	0.8	3.6	3.5
Eating & Drinking Establishments	9.0	3.0	3.8	3.4
FINANCE, INSURANCE, & REAL ESTATE	6.8	2.4	3.9	0.8
SERVICES	6.9	4.7	5.5*	5.2
Hotel & Other Lodging	6.5	3.3	2.6	3.5
Personal Services	2.1	2.4	2.4	2.8
Business Services	7.2	6.2	9.5*	10.0
Amusements & Recreation	7.7	4.4	6.2	4.1
Health Services	5.3	4.3	2.9	1.5
Hospitals	NA	NA	0.3	0.8
GOVERNMENT	3.3	1.3	2.1	3.4
Federal Government	1.6	0.9	-0.4	1.4
State Government	2.9	1.1	2.0	3.0
Education	4.1	0.4	1.9	2.5
Local Government	4.3	1.5	2.9	4.1
Education	3.6	1.2	2.8	4.6

NA: Not Available.
Source: Colorado Department of Labor and Employment.
* In 1991, a large company was reclassified from the durable manufacturing industry to business services. In part, this reclassification accounts for the weakness in durable manufacturing and the strength in services.
** In 1995, a large company was reclassified from the non-durable manufacturing industry to communications, electricity, and gas. In part, this reclassification accounts for the weakness in non-durable manufacturing and the strength in communications, electricity, and gas.

Percent Distribution of Nonagricultural Employment

	1960		1970		1980		1990		2000	
	Colorado	U.S.	Colorado	U.S.	Colorado	U.S.	Colorado	U.S.	Colorado	U.S.
Mining	3.0%	1.3%	1.9%	0.9%	2.9%	1.1%	1.3%	0.6%	0.6%	0.4%
Construction	6.5	5.4	5.5	5.1	6.2	4.8	4.2	4.7	7.3	5.1
Manufacturing	17.0	31.0	15.8	27.3	14.4	22.4	12.7	17.4	9.3*	14.1
Wholesale & Retail Trade	24.0	21.0	23.3	21.2	24.4	22.4	24.4	23.6	23.7	23.0
Finance, Insurance, & Real Estate	4.9	4.9	5.3	5.1	6.1	5.7	6.4	6.1	6.4	5.8
Services	14.8	13.6	17.5	16.3	20.3	19.8	26.5	25.5	30.9*	30.7
Transportation & Public Utilities	8.5	7.4	6.9	6.4	6.3	5.7	6.3	5.3	6.5*	5.3
Government	21.4	15.4	23.6	17.7	19.5	18.0	18.2	16.7	15.3	15.6

Source: Colorado Department of Labor and Employment; U.S. Department of Labor, Bureau of Labor Statistics.

Note: Totals may not sum to 100 percent due to rounding.

* In Colorado, a large company was reclassified from manufacturing to services in 1991, and another was reclassified from manufa cturing to transportation and public utilities in 1995. These transfers account for some of the decline in manufacturing and growth in the other areas in Colorado.

Colorado Nonagricultural Employment by Category

(in thousands)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Mining	25.8	21.3	20.7	19.6	19.9	18.6	16.6	16.1	15.6	14.8	13.7	14.0	14.2	13.0	12.8
percent change	-21.6%	-17.4%	-2.8%	-5.3%	1.5%	-6.5%	-11.0%	-2.9%	-3.0%	-4.8%	-7.8%	2.2%	1.4%	-8.5%	-1.5%
Construction	77.6	67.3	60.4	60.0	63.6	66.5	74.8	86.0	97.1	102.1	111.0	119.0	132.6	147.0	161.3
percent change	-10.1%	-13.3%	-10.3%	-0.7%	6.0%	4.6%	12.4%	15.1%	12.8%	5.2%	8.7%	7.2%	11.4%	10.9%	9.7%
Manufacturing - Durable	118.9	116.8	119.2	121.5	119.7	111.2 *	109.9	110.4	112.0	117.8	122.6	128.4	131.8	129.6	130.4
percent change	-3.9%	-1.8%	2.1%	1.9%	-1.5%	-7.1%	-1.2%	0.5%	1.4%	5.2%	4.0%	4.7%	2.6%	-1.7%	0.6%
Manufacturing - Non-Durable	66.4	67.7	70.4	71.9	73.5	74.4	76.1	77.7	78.9	74.5 **	74.5	75.6	75.6	75.0	74.8
percent change	-3.1%	2.0%	4.0%	2.1%	2.2%	1.2%	2.3%	2.1%	1.5%	-5.5%	-0.1%	1.5%	-0.0%	-0.8%	-0.3%
Transportation, Communications & Public Utilities	87.0	88.3	91.4	93.7	96.1	97.8	99.8	104.3	108.3	117.5 **	121.1	123.8	130.2	139.7	144.0
percent change	-1.7%	1.5%	3.5%	2.5%	2.6%	1.8%	2.0%	4.5%	3.8%	8.5%	3.1%	2.2%	5.1%	7.3%	3.1%
Wholesale Trade	78.3	76.5	78.0	81.4	83.1	83.1	83.6	86.4	91.4	95.3	98.2	102.1	104.1	105.9	110.9
percent change	-3.2%	-2.3%	2.0%	4.4%	2.1%	0.0%	0.6%	3.3%	5.8%	4.2%	3.0%	4.0%	2.0%	1.7%	4.7%
Retail Trade	270.2	271.5	274.9	282.5	288.7	292.4	302.0	317.6	338.1	358.0	367.7	378.0	387.6	401.1	414.0
percent change	-0.3%	0.5%	1.3%	2.8%	2.2%	1.3%	3.3%	5.2%	6.5%	5.9%	2.7%	2.8%	2.5%	3.5%	3.2%
Finance, Insurance & Real Estate	98.7	98.6	95.7	96.8	96.9	96.7	99.9	106.2	111.1	113.4	119.0	127.4	135.7	140.8	142.0
percent change	3.0%	-0.1%	-2.9%	1.1%	0.1%	-0.2%	3.3%	6.3%	4.7%	2.0%	5.0%	7.1%	6.5%	3.7%	0.9%
Services	329.4	342.3	358.8	383.6	402.6	421.1 *	443.4	469.4	504.1	537.2	563.8	595.5	622.8	651.3	685.3
percent change	2.3%	3.9%	4.8%	6.9%	5.0%	4.6%	5.3%	5.9%	7.4%	6.6%	4.9%	5.6%	4.6%	4.6%	5.2%
Government	256.0	262.2	266.7	271.4	276.8	283.3	291.1	296.7	299.3	303.7	308.7	315.6	322.3	328.4	339.4
percent change	2.9%	2.4%	1.7%	1.8%	2.0%	2.3%	2.8%	1.9%	0.9%	1.5%	1.7%	2.2%	2.1%	1.9%	3.3%
TOTAL	1,408.3	1,412.6	1,436.1	1,482.3	1,520.9	1,545.0	1,596.9	1,670.7	1,755.9	1,834.4	1,900.4	1,979.5	2,057.0	2,131.9	2,214.8
percent change	-0.7%	0.3%	1.7%	3.2%	2.6%	1.6%	3.4%	4.6%	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.9%

Note: Totals may not sum due to rounding.
Source: Colorado Department of Labor and Employment.
* In 1991, a large company was reclassified from the durable manufacturing industry to business services. In part, this reclassification accounts for the weakness in durable manufacturing and the strength in services.
** In 1995, a large company was reclassified from the non-durable manufacturing industry to transportation, communications, and public utilities. In part, this reclassification accounts for the weakness in non-durable manufacturing and the strength in transportation, communications, and public utilities.

Comparative Economic Growth
2000

State	Nonfarm Employment Growth 1999-2000		Per Capita Personal Income 2000		Unemployment Rate 2000	
Alabama	0.7	48	$23,471	44	4.6	39
Alaska	2.2	22	$30,064	15	6.6	50
Arizona	3.9	2	$25,578	37	3.9	24
Arkansas	1.7	36	$22,257	47	4.4	37
California	3.8	5	$32,275	8	4.9	41
Colorado	**3.9**	**4**	**$32,949**	**7**	**2.7**	**6**
Connecticut	1.5	40	$40,640	1	2.3	2
Delaware	1.9	31	$31,255	12	4.0	29
Florida	3.7	6	$28,145	23	3.6	18
Georgia	2.8	10	$27,940	24	3.7	21
Hawaii	3.1	8	$28,221	22	4.3	36
Idaho	3.9	3	$24,180	41	4.9	41
Illinois	1.2	45	$32,259	9	4.4	37
Indiana	1.4	43	$27,011	31	3.2	12
Iowa	0.7	49	$26,723	33	2.6	4
Kansas	1.4	42	$27,816	27	3.7	21
Kentucky	1.6	37	$24,294	40	4.1	30
Louisiana	1.9	33	$23,334	45	5.5	47
Maine	3.0	9	$25,623	36	3.5	15
Maryland	2.6	14	$33,872	5	3.9	24
Massachusetts	2.5	16	$37,992	2	2.6	4
Michigan	2.1	25	$29,612	17	3.6	18
Minnesota	2.1	24	$32,101	10	3.3	14
Mississippi	0.3	50	$20,993	50	5.7	49
Missouri	1.1	46	$27,445	28	3.5	15
Montana	2.3	21	$22,569	46	4.9	41
Nebraska	1.9	32	$27,829	26	3.0	9
Nevada	4.7	1	$30,529	14	4.1	30
New Hampshire	2.5	18	$33,332	6	2.8	7
New Jersey	2.4	19	$36,983	3	3.8	23
New Mexico	2.0	29	$22,203	48	4.9	41
New York	2.1	26	$34,547	4	4.6	39
North Carolina	2.0	28	$27,194	30	3.6	18
North Dakota	1.0	47	$25,068	38	3.0	9
Ohio	1.4	41	$28,400	19	4.1	30
Oklahoma	1.6	39	$23,517	43	3.0	9
Oregon	1.8	35	$28,350	20	4.9	41
Pennsylvania	2.0	27	$29,539	18	4.2	34
Rhode Island	2.2	23	$29,685	16	4.1	30
South Carolina	2.5	17	$24,321	39	3.9	24
South Dakota	1.6	38	$26,115	35	2.3	2
Tennessee	1.9	30	$26,239	34	3.9	24
Texas	3.1	7	$27,871	25	4.2	34
Utah	2.7	12	$23,907	42	3.2	12
Vermont	2.4	20	$26,901	32	2.9	8
Virginia	2.8	11	$31,162	13	2.2	1
Washington	2.6	15	$31,528	11	5.2	46
West Virginia	1.3	44	$21,915	49	5.5	47
Wisconsin	1.8	34	$28,232	21	3.5	15
Wyoming	2.7	13	$27,230	29	3.9	24
U.S.	**2.0**	**NA**	**$29,676**	**NA**	**4.0**	**NA**

NA: Not Applicable.
Source: U.S. Department of Commerce, U.S. Bureau of Labor Statistics.

Gross General Fund Revenues
Fiscal Year
(in millions)

	83-84	84-85	85-86	86-87	87-88	88-89	89-90	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01
Sales	$731.9	$673.8	$662.9	$648.3	$669.0	$694.8	$768.1	$779.8	$844.5	$928.9	$1,036.6	$1,131.8	$1,218.7	$1,310.0	$1,426.0	$1,563.7	$1,726.0	$1,751.1
Use	66.8	73.0	76.1	68.6	55.6	54.7	62.5	66.9	69.1	69.1	82.5	91.1	102.8	115.8	120.3	140.2	142.5	157.9
Cigarette	47.4	52.3	50.9	66.1	61.9	59.0	56.3	57.5	57.3	56.6	57.0	59.7	58.2	60.0	59.9	60.0	57.8	58.1
Tobacco Products	0.0	0.0	0.0	2.7	3.1	3.0	3.2	3.9	4.3	4.6	5.5	5.9	7.0	8.2	8.1	8.6	9.4	9.9
Liquor	25.3	25.0	24.4	23.6	22.6	21.5	21.4	19.1	21.2	23.2	22.6	23.3	24.3	24.0	25.1	25.8	28.0	29.3
Other	2.1	1.9	1.9	1.9	2.0	2.0	2.0	3.7	3.2	3.6	3.6	4.1	4.4	3.2	0.0	0.0	0.0	0.0
TOTAL EXCISE	$873.5	$826.0	$816.2	$811.2	$814.2	$835.0	$913.5	$930.9	$999.6	$1,086.0	$1,207.8	$1,315.9	$1,415.4	$1,521.1	$1,639.4	$1,798.3	$1,963.7	$2,006.3
Individual Income	796.4	921.7	973.2	1,081.9	1,195.0	1,311.0	1,380.7	1,462.4	1,608.5	1,759.8	1,919.9	2,106.4	2,318.5	2,572.6	3,051.6	3,326.8	3,718.2	4,017.8
Corporate Income	94.1	78.8	124.4	136.7	112.9	167.0	104.2	115.0	112.2	138.4	146.8	191.1	205.7	237.1	263.1	276.2	289.2	329.7
TOTAL INCOME /A	$890.5	$1,000.5	$1,097.6	$1,218.6	$1,307.9	$1,478.0	$1,484.9	$1,577.4	$1,720.6	$1,898.2	$2,066.7	$2,297.5	$2,524.2	$2,809.7	$3,314.7	$3,603.0	$4,007.4	$4,183.2
Estate	10.7	14.0	13.7	18.4	13.4	15.5	21.7	15.3	34.3	19.7	33.9	27.6	31.8	34.6	109.6	67.1	59.7	82.6
Insurance	56.6	64.7	75.0	84.1	80.7	81.1	82.5	84.7	89.1	92.1	101.9	105.1	110.4	111.8	113.8	117.9	128.5	142.0
Pari-Mutuel	8.6	7.7	8.5	9.0	8.4	8.4	8.3	8.4	8.3	8.5	8.5	8.2	8.1	7.5	7.1	6.2	7.0	6.1
Interest Income	4.4	33.4	21.1	10.8	5.9	15.6	15.9	4.0	5.6	8.3	18.5	28.6	37.2	41.2	52.2	47.5	42.3	45.2
Court Receipts	9.1	12.3	12.9	14.1	19.3	20.5	19.9	11.6	17.5	17.8	19.5	20.1	20.7	23.1	24.9	25.4	27.1	22.3
Severance	0.0	0.0	0.0	0.0	7.1	10.7	7.5	10.5	8.4	12.0	3.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medicaid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	82.4	258.9	205.6	126.7	69.0	80.4	72.6	73.0	7.1	0.0
Gaming	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	4.1	13.4	16.6	17.1	17.5	19.6	21.5	27.3	28.8	31.4
Other	22.1	13.6	17.7	11.7	27.0	20.8	26.4	21.1	25.9	35.2	43.2	49.5	34.4	30.4	45.4	28.3	31.9	33.4
TOTAL OTHER	$111.5	$145.7	$148.9	$148.1	$161.8	$172.6	$182.0	$155.6	$275.6	$465.9	$450.6	$382.9	$329.2	$348.6	$447.1	$392.3	$332.4	$363.0
GROSS GENERAL FUND	$1,875.5	$1,972.2	$2,062.7	$2,177.9	$2,283.9	$2,485.6	$2,580.4	$2,663.9	$2,995.8	$3,450.1	$3,725.1	$3,996.3	$4,268.7	$4,679.4	$5,401.2	$5,794.0	$6,303.5	$6,552.5
Dollar Change	$314.9	$96.7	$90.5	$115.2	$106.0	$201.7	$94.8	$83.5	$331.9	$454.3	$275.0	$271.2	$272.4	$410.7	$721.8	$392.8	$509.5	$249.0
Percent Change	20.2%	5.2%	4.6%	5.6%	4.9%	8.8%	3.8%	3.2%	12.5%	15.2%	8.0%	7.3%	6.8%	9.6%	15.4%	7.3%	8.8%	4.0%

Note: Numbers may not add due to rounding.

Source: Controller's Annual Reports; Accounts and Control.

/A Total income taxes are reported net of a $164.3 million diversion to the State Education Fund.

Selected Cash Fund-Related Historical Data

Unemployment Insurance Trust Fund Balance (In Millions)

Calendar Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Ending Balance	**$90.4**	**$156.8**	**$230.8**	**$291.5**	**$301.6**	**$326.6**	**$377.7**	**$423.6**	**$469.0**	**$497.9**	**$560.9**	**$634.2**	**$703.8**

Source: Division of Labor and Employment.

Higher Education Full-Time-Equivalent Enrollment

Fiscal Year	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
Residents	91,947	94,511	99,240	103,219	105,503	107,803	108,947	108,863	108,580	108,667	109,385	112,077	114,269	116,739
Percent Change	2.2%	2.8%	5.0%	4.0%	2.2%	2.2%	1.1%	-0.1%	-0.3%	0.1%	0.7%	2.5%	2.0%	2.2%
Nonresidents	15,593	16,338	16,965	17,801	19,149	19,463	20,573	20,673	20,472	20,741	20,464	20,940	21,162	21,305
Percent Change	0.4%	4.8%	3.8%	4.9%	7.6%	1.6%	5.7%	0.5%	-1.0%	1.3%	-1.3%	2.3%	1.1%	0.7%
Total	**107,540**	**110,849**	**116,205**	**121,020**	**124,652**	**127,266**	**129,520**	**129,536**	**129,052**	**129,408**	**129,849**	**133,017**	**135,431**	**138,044**
Percent Change	2.0%	3.1%	4.8%	4.1%	3.0%	2.1%	1.8%	0.0%	-0.4%	0.3%	0.3%	2.4%	1.8%	1.9%

Totals may not sum due to rounding.
Source: Colorado Commission on Higher Education.

Wildlife Hunting and Fishing Licenses

Calendar Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Resident	909,157	913,666	912,669	917,678	935,904	886,706	900,697	902,787	902,989	927,371	925,419	926,436	893,056
Percent Change	1.5%	0.5%	-0.1%	0.5%	2.0%	-5.3%	1.6%	0.2%	0.0%	2.7%	-0.2%	0.1%	-3.6%
Nonresident	446,616	471,015	495,282	515,573	532,555	562,835	601,734	626,523	608,206	611,848	624,032	650,928	603,983
Percent Change	6.6%	5.5%	5.2%	4.1%	3.3%	5.7%	6.9%	4.1%	-2.9%	0.6%	2.0%	4.3%	-7.2%
Total	**1,355,773**	**1,384,681**	**1,407,951**	**1,433,251**	**1,468,459**	**1,449,541**	**1,502,431**	**1,529,310**	**1,511,195**	**1,539,219**	**1,549,451**	**1,577,364**	**1,497,039**
Percent Change	3.1%	2.1%	1.7%	1.8%	2.5%	-1.3%	3.6%	1.8%	-1.2%	1.9%	0.7%	1.8%	-5.1%

Source: Division of Wildlife