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Staff

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MEMORANDUM

September 20, 2002

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2002-2008*

In this report, we present the September 2002 General Fund revenue forecast and overview, the cash funds forecast, the projections of surplus TABOR revenues, and the national and state economic forecasts. We include two General Fund overviews: one with current law appropriations and transfers and one with a reduced appropriations level to prevent budget deficits. The forecast document is abbreviated from the usual publication length for budgetary reasons.

Summary

- The forecast of General Fund revenues for FY 2002-03 was reduced by $252.2 million from the June 2002 estimate. There is not much evidence of an economic turnaround in Colorado thus far and the stock market declines are continuing. Additionally, the drought and wildfires are impacting travel and tourism to Colorado.

- Based on current law for appropriations, reserves, and transfers, as well as the Governor's budget restrictions ordered before FY 2002-03 began, an additional $388.3 million will be needed to prevent a deficit and maintain a two percent General Fund reserve in FY 2002-03. This compares with an estimated $133.4 million needed reduction in the June 2002 forecast. The additional money could come from appropriations reductions or cash fund transfers and capital construction reductions similar to last year. If the FY 2002-03 reduction is entirely from General Fund appropriations, an additional $194.5 million will be needed in FY 2003-04 while maintaining a four percent reserve. If a combination of transfers and appropriations reductions are used in FY 2002-03, the needs for FY 2003-04 will be larger than $194.5 million.

- Total cash fund revenue subject to the TABOR revenue limit will increase 5.2% in FY 2002-03. The estimate for the current year was reduced by $60.9 million. The majority of the reduction occurred for tuition fees and taxes on workers compensation insurance premiums and oil and gas production.

- Total revenues will be less than the TABOR revenue limit by $337.4 million in FY 2002-03. The growth dividend will eliminate an expected TABOR surplus in FY 2003-04 and reduce the expected surpluses for at least the following four years. TABOR surpluses will average $261.6 million from FY 2004-05 through FY 2007-08. When TABOR surpluses are expected, they will not be large enough for all refund mechanisms to be utilized.

General Fund Revenue

This section presents a review of revenues in FY 2001-02 and the Legislative Council Staff outlook for General Fund revenues for FY 2002-03 through FY 2007-08.

Review of FY 2001-02. Revenue in the General Fund decreased a record 14.5%, or $952.3 million, in FY 2001-02. A deteriorating economy and a fall in stock values were largely responsible for the decline.

Colorado began to lose jobs in January 2001. While the average amount of the job decline was just over 1,000 during the first six months of 2001, the pace accelerated to a monthly average loss of 3,700 jobs during FY 2001-02. The hardest-hit sectors — manufacturing, data processing, and telecommunications — have earnings that are well above the statewide average. Thus, the type of job losses have had an even larger impact on state revenues.

The dismal performance of the stock markets has impacted tax receipts on capital gains. Capital gains increased at a 25.3% annual pace between 1991 and 2000. Although the state does not have data on capital gains income filed on the 2001 income tax return, the TABOR refund for Colorado capital gains declined 31% through August, compared with the same period last year. If this decline is representative of all capital gains, the income tax reduction in FY 2001-02 that could be attributed to the stock market was nearly $200 million.

The economic recession, the terrorist attacks of September 2001, and a drought combined to severely impact tourism in Colorado. Because Colorado is a tourism leader, the state's revenue was heavily influenced by the tourism downturn.

Colorado is also a leader in the telecommunications and high-tech industries. The national slump in these industries again disproportionately affected Colorado. The loss of thousands of high-paying jobs and substantially lower bonuses greatly affected state income taxes. A significant portion of our use tax revenue comes from the telecom industry and the telecom downturn partially contributed to a 10.9% decline in use tax revenues in FY 2001-02.

Corporate profits nationally declined by nearly 14% during FY 2001-02. Again, the state's mix of industries led to a larger impact on state corporate income tax receipts. Corporate income taxes declined 46.0% during FY 2001-02.

Two non-economic factors also contributed to the decrease in revenue last fiscal year. FY 2001-02 marked the first full year of the diversion of a portion of the state's income taxes to the State Education Fund (SEF) and a lower sales and use tax rate.

The General Fund Forecast. The Colorado economy has likely bottomed and will show gradual signs of improvement in FY 2002-03. However, this will not be reflected in significantly higher General Fund revenues in FY 2002-03. The outlook is for a 1.5% increase in General Fund revenues. After FY 2002-03, we estimate that General Fund revenue will increase at an annualized pace of 7.1% during the remaining five years of the forecast period. This compares with an average growth rate of 6.6% during the five-year period after the previous Colorado recession that ended in 1987.

We reduced the previous General Fund forecast by $252.2 million for FY 2002-03. At the time of the last forecast, the wildfires in Colorado were just beginning. Additionally, the drought situation became worse. These two factors contributed to a lackluster summer tourism season and led to reduced sales tax receipts. The stock market indices have declined more than expected and will likely lead to weaker-than-expected capital gains realizations this year. After showing signs of a turnaround in April and May, the first employment gains since December 2000, the labor market once again shed jobs in June and July. While employment rose again in August, the state economy is slow in entering a solid recovery phase. As evidenced by wage withholding taxes, wage gains have also been less than expected. In fact, overall wage gains may be nonexistent at this point.

Individual income taxes will increase by 2.4% in FY 2002-03, following a 16.7% decline in FY 2001-02. The previously mentioned factors of a lagging recovery for jobs, weak wage gains, and the poor outlook for capital gains realizations are contributing to another poor outcome for this tax source. Other factors that will contribute to the small increase include lower interest and rental earnings. The outlook for individual income taxes is more positive after FY 2002-03 when receipts are estimated to increase at an average annual pace of 8.0%.

Corporate income taxes will increase 23.4% in FY 2002-03. The strength will be largely due to positive accruals. In FY 2001-02, the accrual process reduced cash-basis receipts by $27 million. In FY 2004-05, corporations will begin to pay additional taxes because the time period for the accelerated depreciation provisions of this spring's new federal tax laws will have ended.

Sales taxes have decreased in six of the last seven months, compared with the previous year, dropping 3.7% during that time. The last extended period of sales tax declines was in Colorado's last recession in 1986 and 1987. We estimate that sales tax revenues will increase 0.9% in FY 2002-03. A stronger national economy and a dwindling impact of the terrorist attacks on willingness to travel will boost tourism later this fiscal year. However, if the drought continues into the winter months and the mountain snowpack is below average, sales tax receipts will suffer. After the state's economic recovery is more solidly in place in mid-2003, sales taxes will increase at an average annual pace of 5.9% through FY 2007-08.

In the June forecast, it was not anticipated that there would be an over-refund of the FY 2000-01 TABOR surplus during FY 2002-03. This was based on the trend of the TABOR refund to that

point and what was expected to be refunded during the remainder of 2002. We now estimate that the total refund would be approximately $37 million below the required $927.2 million. However, an administrative decision was made to count $69.6 million of the over-refund of the FY 1999-00 surplus that occurred during FY 2001-02 as satisfying the $927.2 million requirement. Thus, we now estimate that an over-refund of $32.3 million will occur during FY 2002-03.

Another year of a decrease for *use taxes* will occur in FY 2002-03. The tax is highly correlated to activity in the telecom and construction industries. Construction and telecom investment will be down again in the state this fiscal year. More typical growth rates will occur after FY 2002-03.

Estate taxes will be affected by a change in federal tax laws beginning in FY 2002-03. The federal government is phasing out the credit for state estate taxes that can be used on a federal estate tax filing. This will flow through to Colorado's estate tax. The Colorado estate tax will no longer be effective for persons who die after 2004. 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 asset values.

Insurance premium taxes have surged over the past three years. A relatively large increase will occur again in FY 2002-03. We expect that gross taxes will increase by 8.0%. This gain will be partially offset, however, by a tax credit that may be claimed 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.

Gaming taxes that are credited to the General Fund will increase 16.2% in FY 2002-03. A portion of gaming taxes and fees spill over into the General Fund after allocations to the Division of Gaming for their administrative costs, the Tourism Promotion Fund, the State Historical Fund, the gaming counties and cities, and to the State Highway Fund (SHF) for road improvements in gaming areas. The 16.2% increase in FY 2002-03 is attributable to a decrease in the appropriation from gaming revenues to the SHF for use in road projects near the gaming communities. While $4.8 million was appropriated in FY 2001-02, only $1.0 million was appropriated for FY 2002-03. The estimate for FY 2003-04 includes an appropriation amount of $4.2 million to the SHF. If the requested amount of $10.8 million by the Colorado Department of Transportation is granted, the amount of gaming revenue that accrues to the General Fund will be $6.6 million lower than indicated in this forecast.

Cash Funds Revenue Forecast

Total cash fund revenue subject to the TABOR revenue limit will increase 5.2% in FY 2002-03, and increase at an average annual rate of 4.5% over the forecast period. We decreased the forecast of cash fund revenues by $60.9 million in FY 2002-03 and by a total of $200 million between FY 2002-03 and FY 2006-07. The largest decreases occurred in higher education tuition, taxes on workers compensation insurance premiums, and oil and gas severance taxes. The forecast for unemployment insurance taxes contributed to a lower overall forecast in FY 2002-03 through FY 2004-05, but a higher overall cash fund forecast in FY 2005-06 and FY 2006-07. Table 2 presents a summary of all cash fund revenue subject to the TABOR revenue limit.

Total cash fund revenue subject to the TABOR revenue limit decreased 6.1% in FY 2001-02. The decline in revenues is a direct result of an accounting change required by the Governmental Accounting Standards Board (GASB) that reclassifies higher education scholarship allowances from tuition revenue to TABOR-exempt non-tuition revenue starting in FY 2001-02. Without the accounting change, overall cash fund revenue would have remained essentially flat, falling 0.6%.

Transportation-related cash funds, which include the Highway Users Tax Fund, the State Highway Fund, and several smaller funds, will increase 2.4% in FY 2002-03, and at an average annual rate of 2.7% between FY 2001-02 and FY 2007-08. The HUTF will increase 2.5% in FY 2002-03 and at an average annual rate of 3.3% over the forecast period. Motor fuel tax revenue will slow somewhat to a 2.0% increase in FY 2002-03, and grow at an average annual rate of 3.1% through FY 2007-08. Vehicle registration fee revenues will grow at a slow 0.8% in FY 2002-03, and at a healthier average annual rate of 3.5% over the forecast period. Revenue to the State Highway Fund, comprised primarily of interest earnings and matching funds from local governments for projects partially-funded with state dollars, will decrease 1.7% in FY 2002-03 and at an average annual rate of 7.4% over the forecast period. Although we expect State Highway Fund revenues to decrease, they are decreasing from a historically high level due to high levels of matching funds from local governments for projects accelerated with the use of Transportation Revenue Anticipation Notes. Meanwhile, the Senate Bill 97-1 diversion will not be funded. While House Bill 02-1310 and Senate Bill 02-179 allowed for additional funds for the State Highway Fund, there will be no money available in the excess General Fund reserve for transfer to the State Highway Fund for the entirety of the forecast period.

Higher education cash fund revenue decreased 9.7% in FY 2001-02. This was due to an accounting adjustment pursuant to the GASB statements 34 and 35, that required public higher education institutions to report scholarship allowances as transfers rather than revenue. Without this accounting adjustment, revenue to the higher education cash fund would have increased 8.6%. The adjusted growth in the higher education cash fund was due to strong enrollment increases from workers affected by the economic slowdown. Enrollment increased 4.0% in FY 2001-02, the strongest gain in 12 years. The state community college system led all governing boards in enrollment gains in FY 2001-02 with a 5.2% growth rate. Following a national trend of strong enrollment gains in community colleges, this was the strongest growth in Colorado's two-year college system in 10 years.

FY 2002-03 revenue will post a strong gain with an 8.1% growth rate in combined tuition and nontuition revenue (net of scholarship allowances) and a 1.2% growth rate in enrollment. While enrollment gains will be much lower in FY 2002-03, the growth rate for revenue will be comparable to FY 2001-02 because of larger tuition increases. Once the economy recovers in 2003 and job growth improves, enrollment and revenue growth will taper. Over the six-year forecast period through FY 2007-08, higher education revenues will grow at a 5.4% average annual growth rate. Meanwhile, public higher education enrollment, based on the number of resident full-time-equivalent students, will increase at an average annual pace of 1.3% over the forecast period.

While total *unemployment insurance* (UI) revenue will increase at an average annual rate of 6.5% over the forecast period, the pattern of growth will vary. Total UI revenues will increase significantly in the first four years and then decrease substantially during the last two years of the forecast period. The pattern is due to the appreciable increase in UI tax rates and consequent UI tax revenue during the coming years. These result from explosive growth in benefit payments in FY 2001-02. UI tax revenues will increase 21% in FY 2002-03 following 165.7% growth in benefit payments to UI claimants in FY 2001-02. Despite the strong growth in UI taxes, this represents a decrease in the

forecast relative to the June forecast because the solvency tax will not be effective until 2004, one year later than expected in June. The solvency tax will not go into effect as expected in 2003 because of a one-time transfer of $142.7 million from the Federal UI Trust Fund into Colorado's UI Trust Fund. The solvency tax will be effective from 2004 through 2006, generating a total of $555.3 million between FY 2003-04 and FY 2006-07. Meanwhile, the UI fund balance will not be large enough to allow the 20 percent tax credit in 2003 through the remainder of the forecast period.

Limited Gaming Cash Fund revenue, which includes gaming taxes and license fees, will increase 6.8% in FY 2002-03 after increasing 7.7% in FY 2001-02. The recession and a saturation point in the industry will slow growth in gaming taxes from the double-digit pace experienced during the last half of the 1990s. Total gaming revenues will increase at an average annual rate of 7.8% between FY 2001-02 and FY 2007-08.

Total *severance tax* revenue, including interest earnings, will decrease 10.6% in FY 2002-03 following a 23.1% decrease in FY 2001-02. However, the level of severance taxes will remain healthy by historical standards. Oil and gas severance taxes will decline 13.9% in FY 2002-03, after a 31.0% decrease in FY 2001-02 and a 112.1% increase in FY 2000-01. Between FY 2001-02 and FY 2007-08, total severance tax revenues will increase at an average annual rate of 1.5%.

Interest earnings to the *Controlled Maintenance Trust Fund* (CMTF) fell from $18.4 million in FY 2000-01 to $0.5 million in FY 2001-02. Earnings to the fund will be at more normal levels beginning in FY 2004-05 when General Fund repayments to the CMTF are complete. Interest earnings to the *Capital Construction Fund* will also be historically low in FY 2002-03, falling from $17.5 million in FY 2001-02 to $6.9 million in FY 2002-03. Revenue to the *insurance-related cash funds* will fall 2.6% in FY 2002-03 as a result of an expected 10.2% decrease in premiums on workers compensation insurance policies and lost interest earnings due to the transfer of $75 million from the Major Medical Fund to the General Fund. Finally, after falling 9.8% in FY 2001-02, all *other cash fund* revenue will decrease 1.8% in FY 2002-03 and increase at an average annual rate of 4.6% over the forecast period.

The Constitutional Revenue Limit — TABOR

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 are collected. TABOR limits annual growth in most state revenue to inflation plus the annual percentage change in population.

An important change was made by the General Assembly as to how future TABOR surpluses will be determined. During the 1990s, the federal government underestimated Colorado's population. Therefore, the state refunded $483 million to taxpayers under TABOR that would not have been refunded if the proper population estimates had been made. TABOR allows for the limit to be adjusted each decade in accordance with the Census count.

The General Assembly determined that the appropriate way to make that adjustment was to use the official percentage change in the state's population (6% between July 1, 1999, and April 1, 2000) in the TABOR limit for FY 2001-02 and then measure the amount that revenue comes in below that limit.

This effectively incorporates the underestimate from the 1990s. The percentage points of population growth in the limit that are not used in FY 2001-02 can be carried forward into future years and used to increase the limit in those years until such time as all of the population percentage change that was carried forward is used or a new Census is conducted. The carry-forward of the population figure to future TABOR calculations has been commonly referred to as the *growth dividend*.

The change was made because the state did not have a TABOR surplus in FY 2001-02. Revenues were $337.1 million below the adjusted revenue limit. Revenues will be below the TABOR limit and again lead to a lack of a TABOR surplus in FY 2002-03. Revenues will be above the TABOR revenue limit in FY 2003-04. However, use of 4.5 percentage points of the growth dividend will eliminate the expected surplus for that year. The growth dividend will allow the state to retain an additional $353.1 million in FY 2003-04 and $497.3 million in FY 2004-05. The additional revenue will increase each year as long as a TABOR surplus exists. TABOR surpluses will resume in FY 2004-05 and average $261.6 million through FY 2007-08. Table 3 shows a detailed calculation of the TABOR limits and surpluses.

Based on the relatively small amounts of projected TABOR surpluses from FY 2004-05 through FY 2007-08, only a few of the 19 methods to refund TABOR surpluses will be used. When adopting refund methods, the General Assembly considered that surpluses would be relatively low in some years and implemented threshold levels for 18 of the 19 refund methods. For the FY 2004-05 surplus, only the earned income tax credit and sales tax refund will be used. In addition to these refund methods, the foster care refund, the business personal property tax refund, and the individual development account refund will be used in the next three years.

General Fund Overview

This section presents a review of the recently concluded fiscal year and the outlook for the General Fund balance.

Review of FY 2001-02. With the $952.3 million decline in General Fund revenue in FY 2001-02, many budget actions needed to be taken. In the legislative special session in October 2001, capital construction transfers were reduced by $219.3 million and the Senate Bill 97-1 diversions were eliminated for the remainder of the fiscal year for a decrease of $160.2 million. General Fund appropriations were reduced by an estimated $139 million from the original appropriation amount. The General Assembly passed several bills that transferred $482.7 million from 24 cash funds to shore up the General Fund. Table 4 shows the amounts of the transfers.

Other budget actions by the General Assembly included:

- allowing participating public hospitals to pay $11.2 million to the state in a Medicaid refinancing;
- allowing the interest earnings from the Capital Construction Fund to be credited to the General Fund for FY 2001-02;
- delaying the payback of the Controlled Maintenance Trust Fund to future years;

- transferring $53.5 million from the Capital Construction Fund to reflect a reduction in construction projects that were less than 25% complete; and,

- eliminating the General Fund reserve requirement.

A recent decision was made regarding the $69.6 million over-refund of the FY 1999-00 TABOR surplus in FY 2001-02. Because the required FY 2000-01 surplus of $927.2 million would not be fully refunded based on current estimates, the $69.6 million will be counted against the refund shortfall. This bolstered the General Fund reserve by $69.6 million in FY 2001-02. The decision is currently under review by the Office of the State Auditor.

The budget reductions, transfers, and other decisions resulted in a General Fund reserve of $165.3 million for FY 2001-02. This compares with reserves of $786.8 million and $469.3 million in the previous two fiscal years.

The Outlook for the General Fund Overview. Table 5 presents the General Fund overview after incorporating the revenue forecasts, any expected TABOR surpluses, and other expenditures from the General Fund. The overview incorporates the Governor's vetoes of line items in the annual budget bill that reduced General Fund appropriations by approximately $45 million and a reduction of available revenues of $130.6 million that resulted from the paybacks to cash funds. However, the overview in Table 5 does not account for a budget restriction of $139.9 million ordered by the Governor in June 2002 and other savings that will total $30.1 million.

The weak economy and resulting General Fund revenues will place ongoing pressure on the balance of the General Fund. Table 5 indicates deficits for the General Fund reserve balance. The deficits will grow to over $3 billion. However, the Colorado Constitution prohibits a deficit. Thus, further actions will need to be taken for the FY 2002-03 and FY 2003-04 budgets.

While an option to transfer balances from other funds will help the General Fund, the transfers provide only a one-time savings for the General Fund. For example, if only additional cash funds are transferred to the General Fund in combination with the Governor's actions thus far, the budget deficit would still approach $3 billion in FY 2007-08. In order to provide continuing savings, another option is to reduce General Fund appropriations.

Table 6 shows a General Fund overview that incorporates the Governor's restrictions that will save $170 million and indicates the necessary additional reductions in General Fund appropriations to prevent budget deficits. The additional reductions would need to be $388.3 million for FY 2002-03 and $194.5 million for FY 2003-04. These figures assume that a two percent and four percent reserve would be maintained for the two years, respectively, and that all reductions are made from General Fund appropriations.

If the additional reductions are made, they will create the ability to pay back selected cash funds and resume the diversion of sales and use tax revenue to the Highway Users Tax Fund (HUTF) beginning in FY 2004-05. The payback of the cash funds is contingent on available monies and totals $69.6 million in FY 2004-05 and FY 2005-06. Through FY 2005-08, the diversion to the HUTF would total $966.4 million. Additionally, funds would be available for additional transfers to other funds beginning in FY 2005-06. House Bill 02-1015 provided for the transfer of up to $25 million annually to a reserve fund to eventually establish the resumption of accrual accounting procedures for the

TABOR refund. The transfer will occur only when there is money available in the General Fund excess reserve. House Bill 02-1310 and Senate Bill 02-179 provided that when money is still available in the excess reserve, two-thirds will be transferred to the Highway Users Tax Fund and one-third will be transferred to the Capital Construction Fund. The transfers to the TABOR refund reserve, HUTF, and CCF would total $75.0 million, $202.2 million, and $101.1 million, respectively, from FY 2005-06 through FY 2007-08.

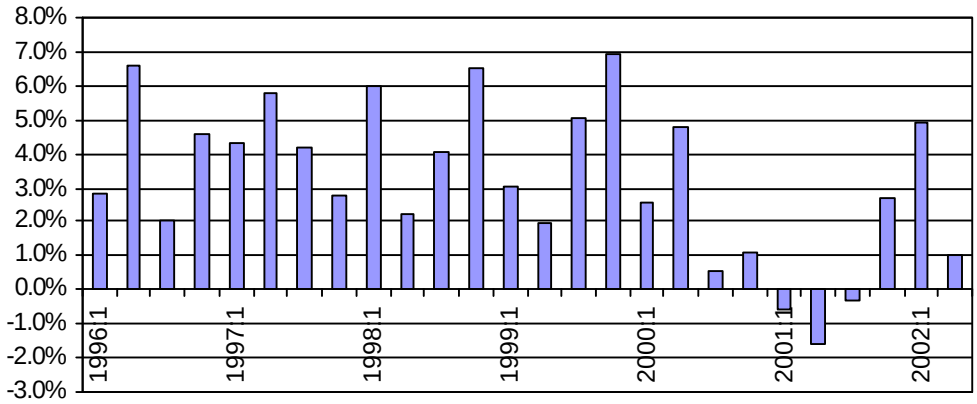
National Economy

This section provides a review of the recent performance of the national economy and the national economic forecast.

Recent Data. The declaration of a recession by the National Bureau of Economic Research was confirmed by the release of revised economic data. Inflation-adjusted gross domestic product (GDP) declined for three consecutive quarters beginning in the first quarter of 2001, thus confirming the standard definition of a recession — two or more consecutive quarters of a decline in GDP. Prior to the revision, the data indicated only one quarter of decline.

The economy rebounded in a solid fashion after the output declines and the shock of the September 11 terrorist attacks. The rebound was attributable to high growth in federal defense spending and consumer spending spurred by zero- or low-interest rate financing. However, worries about the strength of the recovery returned when GDP increased at a 1.1% annual rate in the second quarter of 2002.

Figure 1
GDP, Percentage Change



Consumer spending slowed to a 1.9% annual pace during the second quarter, following gains of 6.0% and 3.1% in the prior two quarters. The slowing was to be expected as much of the earlier strength was "borrowed" from the future because of the low interest rate environment that was specifically targeted to boost consumer demand after September 11. Consumer spending surged in July

and August as auto sales were boosted by the resumption of low interest rate financing. Recent spending trends are somewhat at odds with steep declines in consumer confidence in July and August.

Investment spending has declined for seven consecutive quarters. However, the decline in the past two quarters has not been as severe as the early part of the investment contraction. Business investment in equipment and software advanced 3.1% in the second quarter, showing the first gain in seven quarters. Additional gains in this category will be necessary for a continuation of the economic expansion. High vacancy rates have pulled down nonresidential building investment, leading to annualized double-digit declines for the past three quarters. Credit conditions have deteriorated in recent months as bank loans to commercial and industrial firms have declined and new corporate bond issues became tougher in light of weak or nonexistent corporate profits and accounting scandals.

Government spending grew at a 1.4% annual rate during the second quarter. The increase was much lower than in the previous two quarters when federal defense spending jumped in response to the terrorist attacks of last September. Defense spending is slowing down, while state and local government spending is increasingly strained by the economic slowdown.

The *manufacturing sector* had the initial signs of economic weakness in late 2000 and started to recover in early 2002. The sector, as measured by the Institute for Supply Management index, has turned in a tepid performance for the past two months. The index was at 50.5 in July and August, barely above the 50 level that marks an expanding manufacturing sector. The indices for backlog orders and new orders were below 50 in August, indicating that difficult times are ahead for manufacturing.

The economic recovery has not affected the *jobs market* in a significant positive way as of yet. The number of initial claims for unemployment benefits has been trending up recently, not improving significantly from the early months of last year's recession. The most recent report available at the time of this forecast indicated that jobless claims reached a 4½ month high in early September. Job creation is lagging as only 162,000 jobs have been added in the past four months. This compares with close to 200,000 additional jobs *monthly* during the height of the last expansion. The lagging recovery of the labor market indicates the uncertainty of businesses and their efforts to contain costs. One positive aspect of August's jobs data was the increase in temporary help jobs, a leading indicator for economic expansion.

The *housing market* is one of the bright stars in recent economic performance, buoyed by low interest rates. Sales of both new and existing single-family homes have been at or near record highs in recent quarters. Housing starts were at a 15-year high earlier in 2002. The low interest rates have enabled many homeowners to refinance their mortgages, often taking cash out from equity gains. Refinancing activity may match or exceed last year's record amount. Mortgage rates on a 30-year loan were recently at 6.15%, the lowest rate since reliable records have been kept. This will likely stimulate additional refinancing activity. However, the refinancing activity may not have the impact of last year. A shorter interval between peaks in refinancing means that cash-out amounts are only one-third of year-ago levels. Moreover, the percentage of cash-out equity that is spent is estimated at 40%, compared with 60% last year, according to estimates by Lehman Brothers. Housing indicators will likely suffer in upcoming months when interest rates begin to rise. However, housing should remain healthy overall.

The National Forecast. The following highlights summarize the national forecast. The detailed national economic forecast can be found in Table 7.

- Although the risks for a double-dip recession ebb and flow with each release of monthly economic statistics, the nation will likely avoid another near-term recession. Inflation-adjusted gross domestic product (**GDP**) will increase 2.3% in 2002, following a revised gain of a minuscule 0.3% for last year. The economy will improve even more in 2003 with a 3.1% increase for GDP. Low interest rates and special zero-interest rate financing for cars and light trucks will boost *consumer spending* by 3.1% in 2002, compared with 2.5% in 2001. Spending on durable goods in 2002 will compare favorably with 2001. While increases in durable and nondurable spending will tail off in 2003, a 4.0% increase in services spending will lead overall consumer spending to a 3.2% gain next year. The long slide in *fixed investment* will end in the fourth quarter of 2002 with a small gain. However, 2002 will end up with a 3.5% drop, following a 3.8% decline for fixed investment in 2001. 2003 will see a very welcome 2.4% increase, however, though still far below the rapid pace of the mid- to late-1990s.

- Increases in *nonfarm employment* will lag the general economic recovery. Jobs will decline by 0.8% in 2002, following a meager 0.2% gain last year. The economic recovery will gradually boost business confidence, leading nonfarm employment to a 1.1% gain in 2003. The *unemployment rate* will average 5.9% in 2002 and 2003.

- The weak national economy will hold the *inflation rate* to 1.6% in 2002. The national and world economies will likely have surplus capacity again in 2003. Thus, businesses will have little cause to raise prices, limiting the inflation rate to 2.0% next year.

Risks to the National Economy. *Consumer spending* constitutes two-thirds of the nation's economic output. The resilience of the consumer prevented the recession from being more severe. However, the resilience could come to an end if consumer confidence continues its recent three-month decline. Potential causes of further erosion of consumer confidence include an extension of the recent stock market slide and another terrorist attack. An on-going jobless recovery would further exacerbate the consumer debt load and the recent 30-year high for home foreclosures. A prolonged weakening of spending would raise the risk of a double-dip recession.

Business spending has declined for the past seven quarters. Business investment will continue to lag until corporate profits recover. Additionally, business spending is at risk if investors are troubled by additional accounting scandals.

Oil prices have risen in recent weeks, though remain in an acceptable range at this point. A war in Iraq would remove a significant amount of oil supply from the market and would likely boost oil prices significantly in the short run. Recovering economies could sustain a substantial shock under this scenario, placing further recovery in danger.

Colorado Economy

This section provides a review of the recent performance of the Colorado economy and the economic forecast for the state.

Recent performance. Anticipated improvement in the Colorado economy has yet to materialize. The state is mired in recession after seeing the fastest growing parts of the local economy in the 1990s take the biggest hits during the recession. With all of the major stock markets down again in the current year and unable to find any sustained gains, Colorado's financial sector has been hit hard again this year. The markets' pain has spread through other top sectors in Colorado. The technology-heavy NASDAQ market is down 70% from its peak two and one-half years ago. This has impacted both existing businesses in Colorado and potential startups. Venture capital has dried up in Colorado, falling 90% in this year's second quarter from its peak in the second quarter of 2000. Meanwhile, business investment in all sectors is very weak as businesses take a cautious wait-and-see attitude towards the economy. These factors, combined with tremendous over-capacity and accounting/ regulatory problems in the telecommunications industry, have led to significant layoffs in the state as all of these sectors struggle to regain their footing.

In fact, the state now has the third-weakest job market in the nation. Colorado experienced a 2.0% decline in jobs through July 2002, compared with the same period in 2001. The state's jobless rate, while lower than the highs reached at the beginning of the year, still stood at 5.1% in August. The decline in jobs only tells a part of the picture, however. Not only have the job losses been primarily centered on the state's highest paying markets such as advanced technology, communications, and finance, many workers with jobs have found themselves working for reduced salaries.

Further pain is being inflicted on the state's economy by two sectors that have long been important — tourism and agriculture. The combination of the worst drought since the 1930s and related forest fires have led to a sharp decrease in tourism to the state this summer. We anticipate that winter tourism will also be down significantly unless the state is able to report abundant early snowfall at the ski areas. Tourists typically make up 10% of the state's retail sales base and many of the state's businesses and governments have felt the loss in sales. Meanwhile, the agricultural sector has seen significant impacts from the drought as the state's winter wheat crop was devastated and many other crops felt the pain of a long dry summer.

The Colorado forecast. The following highlights summarize the Colorado economic forecast. The detailed Colorado economic forecast can be found in Table 8.

- As previously mentioned, declines in the state's high technology, communications, and finance industries have combined with a dramatic slowdown in tourism and a weak agricultural sector to cause significant job losses during 2002. While we see the employment situation slowly turning around over the next two years, the state will end 2002 with a 1.8% decline in *employment*. The slow turnaround will lead to just 1.6% more jobs in 2003 followed by a more significant 3.1% increase in 2004. The *unemployment rate* will average 5.3% in 2002, after coming in at a low 3.7% in 2001 and just 2.7% in 2000. The rate will decline slowly over the next several years, falling to 5.0% in 2003, 4.8% in 2004, and 4.6% in 2005.

- The pressures on the job market will lead to a much slower rate of *personal income* growth during the next few years. Income will increase 1.4% in 2002 and 4.4% in 2003. During the latter half of the 1990s, income growth regularly exceeded the 8.0% level before slowing to just 3.8% in 2001. *Wage and salary income*, which makes up approximately 60% of personal income, will decline 1.0% in 2002. This results from the previously mentioned job losses and the number of people underemployed or working for smaller salaries.

- The recession and Colorado's relatively weak economy vis-à-vis the rest of the nation will cause *migration* to slow significantly over the next several years. As a result, *population* growth in the state will slow from a 2.2% pace in 2001 to 1.4% in 2002 and 1.5% in 2003. Falling wages, coupled with slowing population growth, will cause *retail trade sales* to drop 2.5% in 2002. As the economy slowly recovers in 2003, sales will increase 3.2% before strengthening further over the remainder of the forecast period.

- *Inflation* will also remain subdued over the next several years. Falling energy prices compared with last year, a slowdown in housing price appreciation, and slow retail sales growth that constrains retailers from raising prices will combine to keep inflation low in Colorado. The inflation rate will be just 1.9% in 2002 and 2.8% in 2003 after climbing 4.7% in 2001 and 4.0% in 2000. The only significant upward pressure on prices will result from accelerating costs of medical care. Low inflation, combined with the slow growth in population, will cause the state's limit on the *TABOR revenue growth rate* to remain quite low over the forecast horizon.

- *Construction* levels will decline significantly during 2002. The vacancy rates for most types of commercial property and apartments have increased significantly. Accordingly, rental rates have been declining in many markets, removing the incentive for new construction. Home prices have also come under considerable pressure recently as the number of homes on the market has been increasing dramatically. Many builders who could not put the product out fast enough in the 1990s are now finding themselves with inventories of unsold homes. *Nonresidential building* will decline 19.1% in 2002 and continue to decline slightly into 2003. The number of *home permits* will fall 18.7% in 2002.

Risks To the Forecast. We believe the world markets have substantially priced in the possibility of a *war* between the U.S. and Iraq. America=s markets may be less prepared, however, and may take a short term hit if a war occurs. The risk to the forecast from war is twofold. First, if a war turns out to be more difficult or devastating for U.S. armed forces than expected, consumer confidence will fall dramatically and the budding recovery will likely disappear. Colorado would immediately feel a hit in its housing and construction markets that would flow over into retail sales and job growth. The second risk is related to *oil prices*. Other oil-producing nations seem ready to step up production and replace any oil supply that is lost because of a war. Oil prices would then stabilize. However, if this does not occur, we could see a spike in energy prices that would negatively impact the state's economy.

Any *housing price bubble* that bursts or a *significant rise in mortgage rates* would endanger the Colorado economic recovery. Housing prices have increased dramatically in Colorado. Prices have

continued to increase during the recession, albeit at a slower rate. If housing prices have become high relative to the underlying economic conditions, the state could see a drop in housing prices. This would have three deleterious effects: consumer spending would decrease as people would feel less wealthy; cash-out refinancing would be much lower and slow spending in the state; job growth in many industries that rely on home sales would be lower. Similar impacts would be felt from a rise in mortgage rates, especially with inflationary pressures. As other interest rates would be pushed up as well, bankruptcies would increase from already high levels and more homes would fall into default.

The state's tourism industry would take another hit if the *drought* continues and the mountains do not have significant early snowfall to prop up the ski industry. In addition, if the state suffers another dry spring and large *wildfires* again scar the landscape, tourism spending in the state would dry up as well.

Table 1
Colorado General Fund, Accrual Basis
September 2002 Revenue Estimates by Tax Category
(Dollars in millions)

Category	Preliminary 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	Estimate FY 2007-08	Percent Change
Sales /A	$1,755.6	-3.1	$1,772.0	0.9	$1,866.5	5.3	$1,983.5	6.3	2,102.2	6.0	2,224.7	5.8	2,361.1	6.1
TABOR Overrefund	0.0	(100.0)	(32.3)		0.0		0.0		0.0		0.0		0.0	
Use /A	140.6	-10.9	135.9	-3.3	143.9	5.8	153.2	6.4	160.9	5.1	169.1	5.1	178.4	5.5
Cigarette	55.2	-5.0	55.0	-0.4	54.1	-1.5	53.3	-1.5	52.5	-1.5	51.7	-1.5	51.0	-1.5
Tobacco Products	10.3	4.5	10.1	-1.9	10.9	7.0	11.3	3.8	11.7	3.9	12.2	4.1	12.7	4.2
Liquor	29.5	0.7	29.4	-0.4	30.2	2.8	31.0	2.6	31.8	2.6	32.6	2.6	33.4	2.4
TOTAL EXCISE	$1,991.3	-0.7	$1,970.1	-1.1	$2,105.6	6.9	$2,232.3	6.0	$2,359.1	5.7	$2,490.3	5.6	$2,636.5	5.9
Net Individual Income	$3,345.2	-16.7	$3,424.8	2.4	$3,732.3	9.0	$4,053.5	8.6	$4,373.0	7.9	$4,676.6	6.9	$5,031.9	7.6
Net Corporate Income	178.0	-46.0	219.6	23.4	239.9	9.2	297.4	24.0	350.3	17.8	371.1	5.9	389.5	4.9
TOTAL INCOME TAXES	$3,523.2	-19.0	$3,644.5	3.4	$3,972.1	9.0	$4,350.9	9.5	$4,723.3	8.6	$5,047.7	6.9	$5,421.3	7.4
Less: Portion directed to the State Education Fund /B	(272.9)	66.1	(273.4)	0.2	(297.6)	8.8	(325.5)	9.4	(353.0)	8.5	(377.0)	6.8	(404.5)	7.3
INCOME TAXES TO GENERAL FUND	$3,250.3	-22.3	$3,371.0	3.7	$3,674.5	9.0	$4,025.5	9.6	$4,370.3	8.6	$4,670.7	6.9	$5,016.8	7.4
Estate	$72.5	-12.2	$53.3	-26.5	$38.5	-27.8	$20.4	-46.9	$2.1	-89.6	$0.0	-100.0	$0.0	NA
Insurance	154.6	8.9	164.4	6.3	167.8	2.0	169.6	1.1	176.9	4.3	184.5	4.3	191.8	4.0
Pari-Mutuel	5.7	-5.8	5.3	-7.7	5.3	0.0	5.2	-1.9	5.2	0.0	5.1	-1.9	5.1	0.0
Interest Income	25.3	-44.0	20.4	-19.4	25.3	24.0	29.3	15.8	34.8	18.8	40.2	15.5	35.0	-12.9
Court Receipts	23.3	4.4	25.5	9.5	26.3	3.0	27.0	2.8	27.7	2.8	28.5	2.7	29.2	2.5
Gaming /C	34.1	8.5	39.6	16.2	40.0	1.1	44.2	10.5	48.0	8.6	52.2	8.8	56.4	7.9
Medicaid (Intergovt. Transfer)	11.2	NA	10.7	-4.2	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	31.9	-4.4	25.3	-20.7	22.0	-13.2	22.8	3.8	23.7	3.8	24.6	3.7	25.4	3.5
TOTAL OTHER	$358.6	-1.2	$344.5	-3.9	$325.1	-5.6	$318.6	-2.0	$318.5	-0.0	$335.1	5.2	$342.9	2.3
GROSS GENERAL FUND	**$5,600.2**	**-14.5**	**$5,685.6**	**1.5**	**$6,105.2**	**7.4**	**$6,576.3**	**7.7**	**$7,048.0**	**7.2**	**$7,496.1**	**6.4**	**$7,996.2**	**6.7**
REBATES & EXPENDITURES:														
Cigarette Rebate	$15.9	-3.0	$15.8	-0.4	$15.6	-1.5	$15.4	-1.5	$15.1	-1.5	$14.9	-1.5	$14.7	-1.5
Old-Age Pension Fund	72.9	8.5	76.0	4.2	80.2	5.6	85.1	6.2	90.5	6.3	96.4	6.5	103.6	7.4
Aged Property Tax & Heating Credit	23.6	40.5	23.5	-0.6	22.5	-4.0	22.3	-1.0	21.9	-1.7	22.2	1.4	22.0	-0.9
Fire/Police Pensions	28.9	0.7	28.9	0.0	28.9	0.0	28.9	0.0	28.9	0.0	28.9	0.0	28.9	0.0
TOTAL REBATES & EXPENDITURES	$141.3	9.5	$144.2	2.0	$147.2	2.1	$151.7	3.1	$156.5	3.1	$162.5	3.8	$169.2	4.1

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 5.
/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.

Table 2
Cash Fund Revenue Estimates by Category, September 2002
Millions of Dollars

	Actual FY 01-02	Estimate FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	FY 01-02 to FY 07-08 CAAGR *
Transportation-Related /A	**$813.9**	**$833.4**	**$852.9**	**$877.4**	**$900.0**	**$924.8**	**$957.0**	
% Change	4.2%	2.4%	2.3%	2.9%	2.6%	2.8%	3.5%	**2.7%**
Higher Education /B	**$635.4**	**$686.8**	**$708.6**	**$746.9**	**$786.8**	**$827.3**	**$872.8**	
% Change	-9.7%	8.1%	3.2%	5.4%	5.3%	5.2%	5.5%	**5.4%**
Unemployment Insurance /C	**$196.1**	**$242.9**	**$348.7**	**$430.4**	**$492.2**	**$334.7**	**$286.9**	
% Change	-2.4%	23.9%	43.6%	23.4%	14.4%	-32.0%	-14.3%	**6.5%**
Limited Gaming Fund	**$99.1**	**$105.8**	**$114.9**	**$124.5**	**$134.2**	**$144.9**	**$155.4**	
% Change	7.7%	6.8%	8.6%	8.3%	7.8%	8.0%	7.2%	**7.8%**
Capital Construction - Interest	**$17.5**	**$6.9**	**$12.3**	**$14.4**	**$15.4**	**$10.8**	**$7.6**	
% Change	-49.8%	-60.7%	78.3%	17.7%	6.7%	-30.0%	-29.7%	**-13.0%**
Controlled Maintenance Trust Fund - Interest /E**	**$0.5**	**$0.0**	**$8.1**	**$20.4**	**$22.2**	**$22.2**	**$22.2**	
% Change	-97.1%			151.7%	8.7%	-0.0%	-0.2%	**86.5%**
Insurance-Related	**$66.3**	**$64.5**	**$68.0**	**$73.3**	**$79.0**	**$85.3**	**$92.2**	
% Change	29.0%	-2.6%	5.4%	7.8%	7.8%	8.0%	8.0%	**5.7%**
Regulatory Agencies	**$50.4**	**$52.1**	**$53.7**	**$55.2**	**$56.7**	**$58.4**	**$60.2**	
% Change	-1.6%	3.2%	3.1%	2.8%	2.8%	3.0%	3.1%	**3.0%**
Severance Tax /D	**$57.5**	**$51.4**	**$55.8**	**$56.8**	**$55.9**	**$59.0**	**$62.9**	
% Change	-23.1%	-10.6%	8.6%	1.7%	-1.6%	5.6%	6.5%	**1.5%**
Employment Support Fund	**$19.6**	**$19.8**	**$20.5**	**$21.7**	**$22.3**	**$23.3**	**$24.4**	
% Change	-6.0%	0.7%	3.8%	5.7%	2.8%	4.6%	4.6%	**3.7%**
Petroleum Storage Tank Fund	**$21.3**	**$20.3**	**$20.9**	**$10.1**	**$10.4**	**$10.8**	**$11.2**	
% Change	-19.9%	-4.5%	3.0%	-51.5%	2.9%	3.3%	3.4%	**-10.2%**
Other Cash Funds	**$254.8**	**$264.3**	**$281.0**	**$297.9**	**$315.8**	**$335.6**	**$356.7**	
% Change	-2.8%	3.7%	6.3%	6.0%	6.0%	6.3%	6.3%	**5.8%**
Total Cash Fund Revenues Subject to the TABOR Limit	**$2,232.4**	**$2,348.1**	**$2,545.5**	**$2,729.1**	**$2,890.9**	**$2,837.2**	**$2,909.3**	
	-6.1%	**5.2%**	**8.4%**	**7.2%**	**5.9%**	**-1.9%**	**2.5%**	**4.5%**

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.

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

/B Higher Education tuition revenues are net of scholarship allowances.

/C Includes a 20% tax credit on unemployment insurance taxes during calendar years 2001 and 2002. Reflects the solvency tax that will be triggered in calendar years 2004 through 2006.

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

/E The principal balance of the Controlled Maintenance Trust Fund, or $243.9 million, was transferred to the General Fund on July 1, 2001. The CMTF will be repaid in two installments on July 1, 2003 and July 1, 2004.

Table 3
September 2002 Forecast for the TABOR Revenue Limit and Emergency Reserve
(Dollars in millions)

	Preliminary FY 2001-02	Estimate FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08
TABOR Revenues:							
General Fund /A	$5,548.4	$5,632.2	$6,051.3	$6,518.2	$6,986.1	$7,430.1	$7,987.4
Cash Funds	2,232.4	2,348.1	2,545.5	2,729.1	2,890.9	2,837.2	2,909.3
Total TABOR Revenues	$7,780.8	$7,980.3	$8,596.8	$9,247.3	$9,877.0	$10,267.3	$10,896.7
LIMIT:							
Allowable TABOR Growth Rate	10.0%	6.9%	7.8%	5.8%	5.0%	5.1%	5.2%
Inflation	4.0%	4.7%	1.9%	2.8%	3.2%	3.2%	3.2%
Population Growth	6.0%	2.2%	1.4%	1.5%	1.8%	1.9%	2.0%
Population Adjustment for Growth Dividend	6% Carried Forward	0.0%	4.5%	1.5%	0.0%	0.0%	0.0%
Allowable TABOR Limit	**$8,126.2**	**$8,317.7**	**$8,602.8**	**$9,095.4**	**$9,550.2**	**$10,037.3**	**$10,559.2**
Revenues Above / (Below) TABOR Limit /B	**($337.1)**	**($337.4)**	**($6.0)**	**$151.9**	**$326.8**	**$230.0**	**$337.5**
EMERGENCY RESERVE:							
TABOR Emergency Reserve /C	$233.4	$239.4	$257.9	$272.9	$286.5	$301.1	$316.8

Totals may not sum due to rounding.

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

/A These figures differ from the General Fund revenues reported in other tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the General Fund gaming revenues, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out. These figures also include the net amount of sales and use tax, after the over-refund of excess TABOR revenues. Senate Bill 97-1 diverts 10.355% of the gross sales and use tax revenues to the Highway Users Tax Fund.

/B Includes $8.3 million in FY 2002-03 for understated revenue from a prior year.

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

Table 4
Transfers to the General Fund
(dollars in millions)

Fund Name	Amount	Fund Name	Amount
Collection Agency Board	$0.5	Unclaimed Property Trust	$10.0
Uniform Consumer Credit Code	$0.2	Tobacco Settlement	$138.1
Petroleum Storage Tank	$4.0	Waste Tire Recycling	$0.6
Employment Support	$15.0	Regular Capital Construction	$17.5
Major Medical	$211.5	Hazardous Substances Response	$30.0
Trade Name	$0.4	Environmental Leadership	$0.5
Dealer License Board	$1.1	Children's Basic Health Plan	$0.9
Read-to-Achieve	$1.9	Species Conservation	$5.5
Fitzsimmons Trust	$18.4	Disabled Telephone Users	$0.5
Secretary of State Fees	$1.2	Persistent Drunk Driver	$0.5
Tobacco Litigation Settlement	$3.5	Support Registry	$0.4
Severance Tax Trust	$20.2	State Rail Bank	$0.5
		Total	**$482.7**

Table 5
September 2002 General Fund Overview
(Dollars in millions)

	Preliminary FY 2001-02	Estimate FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08
Beginning Reserve	$469.3	$165.3	($450.0)	($1,103.5)	($1,671.0)	($2,183.0)	($2,755.0)
Gross General Fund	5,600.2	5,685.6	6,105.2	6,576.3	7,048.0	7,496.1	7,996.2
Senate Bill 97-1 Diversion to the HUTF /A	****	0.0	0.0	0.0	(0.0)	0.0	0.0
Transfers from/(Paybacks to) Other Funds	536.3	(130.6)	0.0	0.0	0.0	0.0	0.0
Diversion of Sales Taxes to Other Funds /B	****	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Transfer from the Controlled Maintenance Trust Fund /D	253.4	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	$6,859.2	$5,717.4	$5,652.2	$5,469.9	$5,373.9	$5,310.1	$5,238.3
EXPENDITURES:							
General Fund Appropriations /C	$5,643.0	$5,950.4	$6,292.4	$6,671.2	$7,072.6	$7,498.2	$7,949.3
Medicaid Overexpenditure	NE	NE	NE	NE	NE	NE	NE
Rebates and Expenditures	141.3	144.2	147.2	151.7	156.5	162.5	169.2
Reimbursement for Senior Property Tax Cut	0.0	62.3	56.6	58.0	55.5	57.6	57.6
Capital and Prison Construction	****	10.6	101.2	101.8	100.4	0.0	0.0
Transfer for Highway Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund /D	0.0	0.0	138.2	138.2	0.0	0.0	0.0
K-12 Settlement Funding Adds to GF Appropriation /C, E	10.0	0.0	20.0	20.0	20.0	20.0	20.0
TABOR Refund	927.2	0.0	0.0	0.0	151.9	326.8	230.0
Accounting Adjustments	(27.6)	NE	NE	NE	NE	NE	NE
Total Obligations	$6,693.9	$6,167.5	$6,755.6	$7,140.9	$7,557.0	$8,065.1	$8,426.1
YEAR-END GENERAL FUND RESERVE:	**$165.3**	**($450.0)**	**($1,103.5)**	**($1,671.0)**	**($2,183.0)**	**($2,755.0)**	**($3,187.8)**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS /F	**0.0**	**119.0**	**252.5**	**267.6**	**283.7**	**300.7**	**318.8**
GENERAL FUND EXCESS RESERVE	**$165.3**	**($569.1)**	**($1,356.0)**	**($1,938.6)**	**($2,466.7)**	**($3,055.7)**	**($3,506.6)**
Reserved Funds for Resumption of Accrual Accounting for TABOR Refund	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Funds in Excess Reserve to Highway Users Tax Fund	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Funds in Excess Reserve to Capital Construction	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
RESERVE AS A % OF APPROPRIATIONS	**2.9%**	**-7.6%**	**-17.5%**	**-25.0%**	**-30.9%**	**-36.7%**	**-40.1%**
TABOR RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$233.4	$239.4	$257.9	$272.9	$286.5	$301.1	$316.8
Appropriations Growth /C	$303.4	$297.4	$362.0	$378.7	$401.5	$425.6	$451.1
Appropriations Growth Rate /C	5.67%	5.26%	6.08%	6.00%	6.00%	6.00%	6.00%
Addendum: Amount Directed to State Education Fund	($272.9)	($273.4)	($297.6)	($325.5)	($353.0)	($377.0)	($404.5)

NE: Not Estimated.
Totals may not sum due to rounding.
**** The diversion of sales and use tax revenues ($35.2 million) to the HUTF, the diversion ($3.0 million) to the Older Americans Fund, and the transfer ($83.3 million) to the Capital Construction Fund are contained in the General Fund appropriations amount.
/A 10.355% of sales and use taxes are diverted to the Highway Users Tax Fund when the full six percent General Fund appropriations limit can be attained. The amount was capped at $35.2 million for FY 2001-02 and does not occur thereafter due to General Fund revenue shortfalls.
/B Includes $1.0 million to the Supplemental Old Age Pension Health and Medical Care Fund and $2.0 million to the Older Americans Fund for FY 2002-03 and thereafter.
/C 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 appropriations line to calculate total appropriations.
/D House Bill 01-1267 transferred the principal balance of the CMTF to the General Fund on July 1, 2001. HB 02-1446 transfers $138.2 million from the General Fund to the CMTF in FYs 2003-04 and 2004-05.
/E The settlement requires that the General Fund have at least $80 million in excess reserves for funding to take place. Because the General Assembly has funded the settlement in two budget years without reaching the $80 million threshold, it has been included in this overview for all years except FY 2002-03, when it is to be funded from the State Education Fund.
/F The four percent statutory reserve was eliminated for FY 2001-02. Fund transfers have been authorized for FY 2002-03 to prevent the reserve from falling below 2% so we are showing the reserve at that level in that year.

Table 6
September 2002 General Fund Overview with Appropriations Reductions
(Dollars in millions)

	Preliminary FY 2001-02	Estimate FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08
Beginning Reserve	$469.3	$165.3	$108.2	$221.8	$235.1	$249.2	$264.2
Gross General Fund	5,600.2	5,685.6	6,105.2	6,576.3	7,048.0	7,496.1	7,996.2
Senate Bill 97-1 Diversion to the HUTF /A	****	0.0	0.0	(221.3)	(234.3)	(247.9)	(263.0)
Transfers from/(Paybacks to) Other Funds	536.3	(130.6)	0.0	(11.0)	(58.6)	0.0	0.0
Capital Construction Freeze Savings to General Fund		18.1					
Diversion of Sales Taxes to Other Funds /B	****	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Transfer from the Controlled Maintenance Trust Fund /D	253.4	0.0	0.0	0.0	0.0	0.0	0.0
Total Funds Available	$6,859.2	$5,735.5	$6,210.4	$6,562.9	$6,987.1	$7,494.5	$7,994.4
EXPENDITURES:							
General Fund Appropriations /C	$5,643.0	$5,950.4	$5,719.9	$5,858.1	$6,210.8	$6,584.6	$6,980.9
Governor's Budget Restrictions		($151.9)					
Necessary Additional Reductions		**($388.3)**	**($194.5)**				
Medicaid Overexpenditure	NE	NE	NE	NE	NE	NE	NE
Rebates and Expenditures	141.3	144.2	147.2	151.7	156.5	162.5	169.2
Reimbursement for Senior Property Tax Cut	0.0	62.3	56.6	58.0	55.5	57.6	57.6
Capital and Prison Construction	****	10.6	101.2	101.8	100.4	0.0	0.0
Transfer for Highway Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund /D	0.0	0.0	138.2	138.2	0.0	0.0	0.0
K-12 Settlement Funding Adds to GF Appropriation /C, E	10.0	0.0	20.0	20.0	20.0	20.0	20.0
TABOR Refund	927.2	0.0	0.0	0.0	151.9	326.8	230.0
Accounting Adjustments	(27.6)	NE	NE	NE	NE	NE	NE
Total Obligations	$6,693.9	$5,627.3	$5,988.5	$6,327.8	$6,695.1	$7,151.5	$7,457.7
YEAR-END GENERAL FUND RESERVE:	**$165.3**	**$108.2**	**$221.9**	**$235.1**	**$292.0**	**$343.0**	**$536.8**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS /F	**0.0**	**108.2**	**221.8**	**235.1**	**249.2**	**264.2**	**280.0**
GENERAL FUND EXCESS RESERVE	**$165.3**	**($0.0)**	**$0.0**	**($0.0)**	**$42.8**	**$78.8**	**$256.7**
Reserved Funds for Resumption of Accrual Accounting for TABOR Refund	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$25.0**	**$25.0**	**$25.0**
Funds in Excess Reserve to Highway Users Tax Fund	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$11.9**	**$35.9**	**$154.5**
Funds in Excess Reserve to Capital Construction	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$5.9**	**$17.9**	**$77.2**
RESERVE AS A % OF APPROPRIATIONS	**2.9%**	**1.8%**	**3.9%**	**4.0%**	**4.7%**	**5.2%**	**7.7%**
TABOR RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$233.4	$239.4	$257.9	$272.9	$286.5	$301.1	$316.8
Appropriations Growth /C	$303.4	($242.8)	$135.1	$332.7	$352.7	$373.8	$396.3
Appropriations Growth Rate /C	5.67%	-4.29%	2.50%	6.00%	6.00%	6.00%	6.00%
Addendum: Amount Directed to State Education Fund	($272.9)	($273.4)	($297.6)	($325.5)	($353.0)	($377.0)	($404.5)

NE: Not Estimated.
Totals may not sum due to rounding.
**** The diversion of sales and use tax revenues ($35.2 million) to the HUTF, the diversion ($3.0 million) to the Older Americans Fund, and the transfer ($83.3 million) to the Capital Construction Fund are contained in the General Fund appropriations amount.

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

/B Includes $1.0 million to the Supplemental Old Age Pension Health and Medical Care Fund and $2.0 million to the Older Americans Fund for FY 2002-03 and thereafter.

/C 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 appropriations line to calculate total appropriations.

/D House Bill 01-1267 transferred the principal balance of the CMTF to the General Fund on July 1, 2001. HB 02-1446 transfers $138.2 million from the General Fund to the CMTF in FYs 2003-04 and 2004-05.

/E The settlement requires that the General Fund have at least $80 million in excess reserves for funding to take place. Because the General Assembly has funded the settlement in two budget years without reaching the $80 million threshold, it has been included in this overview for all years except FY 2002-03, when it is to be funded from the State Education Fund.

/F The four percent statutory reserve was eliminated for FY 2001-02. Fund transfers have been authorized for FY 2002-03 to prevent the reserve from falling below 2% so we are showing the reserve at that level in that year.

Table 7
National Economic Indicators, September 2002 Forecast
(Dollar amounts in billions)

	1998	1999	2000	2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006
Gross Domestic Product (GDP)	$8,781.5	$9,274.3	$9,824.7	$10,082.1	$10,437.2	$10,959.7	$11,649.5	$12,286.9	$12,971.8
percent change	5.6%	5.6%	5.9%	2.6%	3.5%	5.0%	6.3%	5.5%	5.6%
Inflation-adjusted GDP	$8,508.9	$8,858.9	$9,191.4	$9,214.6	$9,426.5	$9,718.8	$10,088.1	$10,380.6	$10,733.6
percent change	4.3%	4.1%	3.8%	0.3%	2.3%	3.1%	3.8%	2.9%	3.4%
Nonagricultural Employment (millions)	125.9	128.9	131.8	131.9	130.8	132.3	135.3	137.4	139.1
percent change	2.6%	2.4%	2.2%	0.1%	-0.8%	1.1%	2.3%	1.5%	1.3%
Unemployment Rate	4.5%	4.2%	4.0%	4.8%	5.9%	5.9%	5.7%	5.4%	5.2%
Personal Income	$7,426.0	$7,786.5	$8,406.6	$8,685.3	$8,963.0	$9,339.8	$9,813.9	$10,290.7	$10,797.0
percent change	7.0%	4.9%	8.0%	3.3%	3.2%	4.2%	5.1%	4.9%	4.9%
Inflation (Consumer Price Index)	1.6%	2.2%	3.4%	2.8%	1.6%	2.0%	2.3%	2.4%	2.4%
Prime Rate	8.4%	8.0%	9.2%	7.0%	4.8%	5.7%	8.0%	8.3%	8.1%

For historical data, see Appendix A.

Table 8
Colorado Economic Indicators, September 2002 Forecast
(Calendar Years)

	1998	1999	2000	2001	Forecast 2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007
Population (thousands), July 1	3,969.0	4,056.1	4,323.4	4,417.7	4,479.5	4,546.7	4,628.6	4,716.5	4,810.9	4,907.1
percent change /A	2.0%	2.2%	6.0%	2.2%	1.4%	1.5%	1.8%	1.9%	2.0%	2.0%
Nonagricultural Employment (thousands)	2,057.0	2,131.9	2,212.9	2,231.9	2,191.7	2,226.8	2,295.8	2,360.1	2,426.2	2,499.0
percent change	3.9%	3.6%	3.8%	0.9%	-1.8%	1.6%	3.1%	2.8%	2.8%	3.0%
Unemployment Rate	3.8%	2.9%	2.7%	3.7%	5.3%	5.0%	4.8%	4.6%	4.4%	4.3%
Personal Income (millions)	$118,413	$127,653	$140,224	$145,593	$147,631	$154,127	$163,221	$173,177	$183,568	$194,765
percent change	8.9%	7.8%	9.8%	3.8%	1.4%	4.4%	5.9%	6.1%	6.0%	6.1%
Wage and Salary Income (millions)	$69,604	$76,358	$86,002	$89,070	$88,179	$91,266	$97,107	$104,098	$110,969	$118,515
percent change	11.3%	9.7%	12.6%	3.6%	-1.0%	3.5%	6.4%	7.2%	6.6%	6.8%
Retail Trade Sales (millions)	$48,131	$52,209	$58,018	$58,947	$57,473	$59,312	$62,337	$66,202	$70,373	$74,877
percent change	6.6%	8.5%	11.1%	1.6%	-2.5%	3.2%	5.1%	6.2%	6.3%	6.4%
Home Permits (thousands)	49.5	48.9	53.7	54.5	44.3	46.6	50.5	49.1	49.4	49.4
percent change	16.5%	-1.3%	10.0%	1.5%	-18.7%	5.0%	8.5%	-2.7%	0.6%	-0.1%
Nonresidential Building (millions)	$2,617	$3,544	$3,339	$3,325	$2,690	$2,652	$2,785	$2,979	$3,173	$3,360
percent change	-12.4%	35.4%	-5.8%	-0.4%	-19.1%	-1.4%	5.0%	7.0%	6.5%	5.9%
Denver-Boulder Inflation Rate	2.4%	2.9%	4.0%	4.7%	1.9%	2.8%	3.2%	3.2%	3.2%	3.3%

/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 population reflects the change from the July 1999 estimate to April 1, 2000, and is used for calculation of the state's TABOR revenue limit.

For more historical data, see Appendix A.