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Legislative
Council
Staff

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MEMORANDUM

June 21, 2004

TO: Members of the General Assembly

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

SUBJECT: *Focus Colorado: Economic and Revenue Forecast, 2004-2009*

This memorandum presents the current budget outlook with the June 2004 General Fund and Cash Fund revenue forecasts. Table 1, presents the results of the forecast on the General Fund overview based on current law.

Executive Summary

General Fund Revenue. We increased the forecast for General Fund revenue in the current year by $106.7 million. Almost all of the increase resulted from higher-than-anticipated individual income tax receipts. Estate taxes also continued to exceed expectations and the excise tax forecast was increased a minimal amount.

The increased General Fund revenue acts as one-time revenue to the General Fund. This happens because the state may use a larger portion of the population dividend this year than previously estimated. However, using more of the dividend in the current year leaves less dividend to be used in the following year, resulting in the one-time nature of the revenue described above. The additional revenue collected during the rest of the forecast period simply adds to the TABOR refund. Therefore, the new revenue alleviates the need for the state to dip into its four percent statutory reserve during FY 2003-04 and leaves a balance of $58.6 million in the excess General Fund reserve at the end of the year. Two-thirds of this excess will be transferred to the Highway Users Tax Fund (HUTF) and the remaining one-third will be transferred to capital construction as provided in House Bill 02-1310 and Senate Bill 02-179. The increase in the forecast also leads to $43.1 million in excess General Fund reserves in FY 2004-05. These funds will be distributed to the HUTF and capital construction if they are not used for another purpose or spent on supplemental appropriations.

Increasing revenue does not decrease the state's ***structural deficit*** because the new revenue is not ongoing. However, as can be seen in the following paragraph, the forecast for the TABOR limit has been also been increased. This allows the state to retain more revenue each year into the future.

Table 1
June 2004 General Fund Overview
(Dollars in millions)

#		Final FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09
1	Beginning Reserve	$138.4	$225.0	$282.2	$274.9	$237.1	$245.1	$259.9
2	Gross General Fund	5,477.0	5,711.8	6,057.1	6,456.7	6,889.6	7,318.3	7,768.9
3	Senate Bill 97-1 Diversion to the HUTF /A	0.0	0.0	0.0	0.0	0.0	-68.5	-43.4
4	Paybacks to Other Funds	-349.6	-16.2	0.0	0.0	0.0	0.0	0.0
5	Transfers from Other Funds	555.8	15.3	38.9	31.2	30.5	30.1	34.1
6	Diversion of Sales Taxes to Older Coloradans Fund	-2.0	-1.5	-1.5	-2.0	-2.0	-2.0	-2.0
7	TABOR Surplus Liability	0.0	0.0	-129.6	-406.0	-567.2	-534.4	-616.2
8	Total Funds Available	$5,819.6	$5,934.4	$6,247.1	$6,354.7	$6,588.0	$6,988.6	$7,401.4
	EXPENDITURES:							
9	Allowable General Fund Appropriations	$5,416.8	$5,590.9	$5,795.9	$6,143.7	$6,283.5	$6,496.3	$6,886.0
10	*Necessary Reductions to Balance Budget*	*$0.0*	*$0.0*	*$0.0*	*-$215.8*	*-$155.0*	*$0.0*	*$0.0*
11	**Actual Appropriations**	**$5,416.8**	**$5,590.9**	**$5,795.9**	**$5,927.8**	**$6,128.5**	**$6,496.3**	**$6,886.0**
12	Medicaid Overexpenditure	5.8	0.0	0.0	0.0	0.0	0.0	0.0
13	Rebates and Expenditures	134.7	114.9	117.6	146.7	152.2	158.1	165.4
14	Reimbursement for Senior Property Tax Cut	62.6	0.0	0.0	0.0	54.8	54.3	55.1
15	Funds in Prior Year Excess Reserve to HUTF	0.0	5.6	39.0	28.7	0.0	0.0	0.0
16	Funds in Prior Year Excess Reserve to Capital Construction	0.0	2.8	19.5	14.4	0.0	0.0	0.0
17	Capital Construction Transfer	10.6	9.5	0.2	0.1	7.4	20.0	19.4
18	Transfer for Highway Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
19	Transfer to the Controlled Maintenance Trust Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	Federal Medicaid Assistance	-15.0	-71.4	0.0	0.0	0.0	0.0	0.0
21	K-12 Settlement Funding Adds to GF Appropriation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
22	Accounting Adjustments	-20.9	NE	NE	NE	NE	NE	NE
23	Total Obligations	$5,594.6	$5,652.3	$5,972.2	$6,117.7	$6,342.9	$6,728.7	$7,126.0
24	**YEAR-END GENERAL FUND RESERVE:**	**$225.0**	**$282.2**	**$274.9**	**$237.1**	**$245.1**	**$259.9**	**$275.4**
25	**STATUTORY RESERVE: 4.0% OF APPROPRIATIONS**	**216.7**	**223.6**	**231.8**	**237.1**	**245.1**	**259.9**	**275.4**
26	**GENERAL FUND EXCESS RESERVE**	**$8.3**	**$58.6**	**$43.1**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
27	**RESERVE AS A % OF APPROPRIATIONS**	**4.1%**	**5.1%**	**4.7%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
	TABOR RESERVE REQUIREMENT:							
28	General & Cash Fund Emergency Reserve Requirement	$231.4	$245.7	$246.6	$254.5	$264.2	$275.5	$287.9
29	Appropriations Growth	-$245.4	$168.3	$205.0	$131.9	$200.7	$367.7	$389.8
30	Appropriations Growth Rate	-4.34%	3.11%	3.71%	2.28%	3.39%	6.00%	6.00%
31	Addendum: Amount Directed to State Education Fund	$188.4	$278.7	$293.6	$318.2	$341.8	$364.3	$388.2

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 appropriations limit can be attained.

Since it acts as a new and ongoing revenue stream, it does reduce the structural deficit as defined by the 6% appropriations limit from $425.9 million to $370.8 million. Unfortunately, when the JBC staff calculates the structural deficit based on need later in the year, the higher inflation will cause an increase in the costs calculated to determine need that will likely offset the increase in allowable revenue.

Inflation. Inflation for 2003 was 1.1 percent. We had previously forecast inflation for 2004 to increase from that level to 1.5 percent. We have raised the forecast for inflation in 2004 to 2.0 percent. We also pushed up inflation during the later years of the forecast. Higher inflation leads to a higher TABOR spending limit. If the state collects the same amount of revenue but has a higher spending limit, then more of that revenue can be spent and less must be refunded. The increases in the inflation forecast will allow the state to retain an additional $32.9 million in FY 2005-06 and over $50 million each year thereafter.

Cash Fund Revenue. The forecast for cash fund revenue subject to TABOR was increased by $37.8 million in FY 2003-04. The increase was entirely due to higher-than-expected oil and gas severance taxes. Cash fund revenue subject to TABOR will be reduced more than $400 million in FY 2004-05 due to Senate Bill 04-189, under which the University of Colorado System will become an enterprise beginning in FY 2003-04. Excluding revenue to the University of Colorado, the forecast for cash fund revenue was increased $5.5 million in FY 2004-05 and by a total of $81.6 million over the five-year period between FY 2004-05 and FY 2008-09. Because we expect the state to have surplus revenue beginning in FY 2004-05, this increases the amount we expect to be refunded out of the General Fund by $81.6 million over the forecast period.

General Fund Revenue

This section presents the Legislative Council Staff outlook for General Fund revenue. Table 2 illustrates revenue projections by category for FY 2003-04 through FY 2008-09. The Colorado economy appears to finally be pulling out of the recession that has gripped the state for three years. Employment recently turned positive, although we remain well below the peak employment level of December 2000. Consumer spending has also begun to show its first signs of life since the start of the recession. While inflation, pushed by higher fuel costs, has recently become a concern, the outlook for the overall economy looks significantly better than it did three months ago.

Accordingly, we increased the forecast for current year General Fund revenue by $106.7 million. That amount grows each year of the forecast for a total increase of $662.9 million over the forecast period. Most of the increase occurred in individual income taxes with a smaller portion coming from one-time estate tax windfalls. The forecasts for excise taxes (sales, use, cigarette, tobacco, and liquor taxes) were increased a combined total of just $6.1 million.

There was little change to our forecast of ***sales taxes***, as revenues have tracked within $2 million of the March forecast. Revenues for FY 2004-05 are expected to grow at a slightly faster pace than in FY 2003-04, as the national economic recovery helps boost tourism and accelerates employment growth in Colorado. Meanwhile, the forecast for ***use taxes*** in FY 2003-04 was revised upward $4 million to reflect faster-than-expected growth in use taxes thus far. The forecasts through FY 2008-09 were increased similarly, as we expect the faltering construction industry to stabilize.

Table 2
June 2004 General Fund Revenue Estimates
(Dollars in millions)

Category	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	Estimate FY 2008-09	Percent Change
Sales /A	$1,703.3	-3.0	$1,771.4	4.0	$1,857.4	4.9	$1,946.2	4.8	$2,057.3	5.7	$2,176.2	5.8	$2,298.3	5.6
TABOR Overrefund	-19.9	-30.4	0.0	-100.0	0.0		0.0		0.0		0.0		0.0	
Use /A	136.5	-3.0	138.9	1.8	146.8	5.7	153.6	4.6	162.1	5.5	170.3	5.0	178.0	4.6
Cigarette	54.3	-1.6	53.7	-1.1	52.1	-3.0	50.3	-3.4	49.6	-1.5	48.8	-1.5	48.1	-1.5
Tobacco Products	10.4	0.4	12.1	16.3	12.4	2.3	12.9	4.1	13.5	4.9	14.2	5.1	14.9	5.0
Liquor	29.7	0.8	30.8	3.7	31.3	1.5	32.0	2.3	32.9	2.6	33.7	2.6	34.5	2.4
TOTAL EXCISE	$1,914.3	-2.5	$2,006.9	4.8	$2,100.0	4.6	$2,195.0	4.5	$2,315.4	5.5	$2,443.3	5.5	$2,573.9	5.3
Net Individual Income	$3,122.3	-6.7	$3,390.2	8.6	$3,638.9	7.3	$3,916.7	7.6	$4,205.5	7.4	$4,479.7	6.5	$4,775.2	6.6
Net Corporate Income	225.1	26.4	227.3	1.0	290.3	27.7	345.8	19.1	376.9	9.0	406.3	7.8	433.9	6.8
TOTAL INCOME TAXES	$3,347.4	-5.0	$3,617.4	8.1	$3,929.2	8.6	$4,262.6	8.5	$4,582.5	7.5	$4,886.0	6.6	$5,209.1	6.6
Less: Portion directed to the State Education Fund /B	-188.4	-31.0	-278.7	47.9	-293.6	5.4	-318.2	8.4	-341.8	7.4	-364.3	6.6	-388.2	6.5
INCOME TAXES TO GENERAL FUND	$3,159.0	-2.8	$3,338.8	5.7	$3,635.6	8.9	$3,944.3	8.5	$4,240.6	7.5	$4,521.7	6.6	$4,821.0	6.6
Estate	$53.4	-26.4	$51.1	-4.3	$22.0	-56.9	$4.4	-79.8	$0.0	-100.0	$0.0	NA	$0.0	NA
Insurance	171.3	10.8	175.4	2.4	188.6	7.5	197.7	4.8	213.8	8.2	228.9	7.0	244.9	7.0
Pari-Mutuel	4.7	-18.9	4.6	-1.3	4.4	-5.0	4.1	-5.0	3.9	-5.0	3.7	-5.0	3.6	-5.0
Investment Income	50.9	101.1	18.9	-62.9	19.0	0.5	19.8	4.0	20.6	4.0	21.4	4.0	22.2	4.0
Court Receipts	23.7	1.7	28.2	19.0	21.3	-24.4	21.9	2.8	22.5	2.8	23.1	2.7	23.7	2.5
Gaming /C	38.4	12.6	37.5	-2.3	36.8	-1.8	39.2	6.5	41.7	6.5	44.3	6.2	47.0	6.0
Medicaid (Intergovt. Transfer)	15.6	39.6	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	45.8	43.5	50.4	10.0	29.4	-41.8	30.2	2.7	31.0	2.8	31.8	2.7	32.7	2.6
TOTAL OTHER	$403.7	12.6	$366.1	-9.3	$321.5	-12.2	$317.3	-1.3	$333.6	5.1	$353.3	5.9	$374.1	5.9
GROSS GENERAL FUND	**$5,477.0**	**-1.7**	**$5,711.8**	**4.3**	**$6,057.1**	**6.0**	**$6,456.7**	**6.6**	**$6,889.6**	**6.7**	**$7,318.3**	**6.2**	**$7,768.9**	**6.2**
REBATES & EXPENDITURES:														
Cigarette Rebate	$15.1	-4.7	$15.0	-1.1	$14.5	-3.0	$14.0	-3.4	$13.8	-1.5	$13.6	-1.5	$13.4	-1.5
Old-Age Pension Fund	76.0	5.5	78.9	3.9	82.7	4.8	87.1	5.3	92.4	6.1	98.8	6.9	106.2	7.5
Aged Property Tax & Heating Credit	14.5	-38.6	17.4	19.9	16.7	-3.7	16.5	-1.6	16.8	2.1	16.6	-1.2	16.6	0.0
Fire/Police Pensions	29.1	0.6	3.7	-87.4	3.6	-1.6	29.1	708.3	29.1	0.0	29.1	0.0	29.1	0.0
TOTAL REBATES & EXPENDITURES	$134.7	-4.1	$114.9	-14.7	$117.6	2.3	$146.7	24.8	$152.2	3.7	$158.1	3.9	$165.4	4.6

Totals may not sum due to rounding.
NA: Not Applicable.

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

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

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

Individual income taxes are projected to increase 8.6 percent in FY 2003-04. The forecast was increased by $75.4 million in FY 2003-04 and by a total of $559.9 million over the forecast period. More than eighty percent of the increase was due to lower-than-expected individual income tax refunds. Withholding is slightly higher than what was expected in March — indicating that moderate wage and income gains have taken hold during the first six months of 2004. Stability in the stock market has led to a return of some capital gains tax revenue and fewer individuals are able to offset earnings with capital losses. Individual income taxes are expected to increase 7.3 percent in FY 2004-05 and 7.6 percent in FY 2005-06 as employment and wages continue to recover from the recession.

The ***State Education Fund (SEF)*** receives one-third of one percent of taxable income from state income tax returns. This fund will see a growth pattern of revenue similar to income taxes. The SEF will receive $278.7 million this year, followed by $293.6 million during FY 2004-05.

Corporate income tax collections are expected to increase 27.7 percent in FY 2004-05 and 19.1 percent in FY 2005-06. Corporate profits are projected to increase dramatically in the coming two years as federal tax breaks expire and the economic recovery gains momentum. The *Job Creation and Worker Assistance Act of 2002* and the *Jobs and Growth Tax Relief Reconciliation Act of 2003* provided temporary assistance to companies in the form of accelerated depreciation allowances and higher expensing limits for qualifying assets. In addition, the recent recession forced corporations to reduce and refinance debt, cut costs, and restructure operations to improve productivity. These factors will help increase corporate profits as economic conditions improve nationally and internationally.

While profits have improved substantially in the current fiscal year, corporate income tax collections have been constrained by the temporary tax breaks. The expiration of these tax breaks in tax years 2004 and 2005 will cause income tax collections to accelerate. However, if Congress makes these corporate tax benefits permanent at some future date, that portion of the projected increase in corporate income taxes will not be realized.

Estate taxes continue to be affected by the federal phase-out of the state tax credit allowed on federal returns. Colorado's estate tax is equal to the value of the credit. When the credit disappears, state revenue from this source will end as well. We anticipate that the state will receive no revenue from this source beginning in FY 2006-07. While the state saw revenue from several large estates this fiscal year, the one-time nature of those events and the phase out of the tax will result in a significant reduction in estate tax revenue in FY 2004-05 and FY 2005-06. The state is expected to receive $51.1 million in estate taxes this year.

Insurance premium tax collections are projected at $175.4 million in FY 2003-04, which is unchanged from the March 2004 forecast. In the subsequent three fiscal years, insurance premium taxes are expected to grow 7.5 percent, 4.8 percent, and 8.2 percent respectively, slightly lower than the 10 percent average annual growth experienced in the past five years.

Beginning in March 2004, insurance carriers will start claiming the first phase of premium tax credits allowed under the Certified Capital Company Act (HB01-1097). Under this bill, insurance carriers are eligible to claim $10 million in tax credits annually from 2003 until 2012. A second phase of tax credits will begin in 2005, with insurance carriers eligible to claim another $10 million in credits annually from 2005 until 2014.

The Constitutional Revenue Limit — TABOR

The provisions of Article X, Section 20 of the state Constitution **(TABOR)** require that any revenue collected above the TABOR limit be refunded to taxpayers within one year after the fiscal year in which the revenue is collected. TABOR limits the aggregate annual increase in most state revenue to inflation plus the annual percentage change in state population. The limit is applied to either the prior year's limit or to actual TABOR revenue collected in the prior year, whichever is less.

The state first collected **surplus** TABOR revenue in FY 1996-97 and had surpluses for the next four years. Table 3 shows the actual and estimated TABOR surpluses and shortfalls from FY 1996-97 through FY 2008-09. As can be seen in the table, the state collected $3.25 billion in surplus revenue through FY 2000-01. However, the state experienced a recession in FY 2001-02 and revenue fell $365.7 million below the allowable amount that year. Continuing tough economic times, including stock market declines and significant job losses throughout the economy, caused state revenues to fall $584.3 million below the limit in FY 2002-03. Because the TABOR limit grows from the lower of either the previous year's limit or actual revenue collected in the prior year, the limit **"ratchets down"** in years that the state does not collect revenue up to the allowable limit. The state's limit was reduced by almost $1 billion from where it would have been without the ratchet down caused by low revenue collections. Because the base for the TABOR limit has ratcheted down, growth will again exceed the limit as the state begins to experience a recovery. However, the population adjustment amends the limit so that the state may retain $470 million per year that would have otherwise become part of the surplus.

Table 3
History and Projections of
TABOR Surpluses
(Dollars in millions)

Actual	
1996-97	$139.0
1997-98	$563.2
1998-99	$679.6
1999-00	$941.1
2000-01	$927.2
2001-02	$0.0
2002-03	$0.0
Projections	
2003-04	$0.0
2004-05	$129.6
2005-06	$406.0
2006-07	$567.2
2007-08	$534.4
2008-09	$616.2

The **population adjustment** is the mechanism passed during the 2002 legislative session to adjust the TABOR limit because the U.S. Census Bureau underestimated the state's population during the 1990s. The underestimate caused the state to refund $483 million more than would have been required under TABOR had the correct population estimates been made. To make up for the over-refund of surplus revenue, the legislation provided that the state could carry forward six percentage points of population growth that were available in the TABOR limit for FY 2001-02. The limit for FY 2001-02 was chosen because it incorporated the population growth from the 2000 Census, which included the population that had been undercounted during the 1990s. In FY 2001-02, revenue fell sufficiently below the limit so that none of the population portion of the limit was used (under the assumption that all of the inflation portion was used first). Therefore, the full six percentage points of population growth available in the FY 2001-02 TABOR limit were carried forward for future use.

Since revenue fell below the limit again in FY 2002-03, none of the population adjustment was used that year. However, since the state would have been $224.8 million above its limit during the current fiscal year without the population adjustment, 2.9 percentage points out of the six percentage points available will be used to raise the limit enough to retain the revenue received. The remaining 3.1 percentage points of the population dividend will be used in FY 2004-05. Use of the remaining population adjustment in FY 2004-05 will raise the limit by another $240.1 million for a total of $470 million in additional revenue kept under the limit that year. Because the population adjustment permanently increases the TABOR base, an additional $470 million plus growth will be retained annually due to the implementation of the population adjustment.

Despite the use of the population adjustment during FY 2003-04 and FY 2004-05, revenues will exceed the adjusted limit by $129.6 million during FY 2004-05. Revenues will continue to grow at a faster pace than the TABOR limit, leading to surplus revenue collections of $406.0 million in FY 2005-06 and $567.2 million in FY 2006-07. Table 4 provides an overview of the TABOR refund, limit, and related factors, such as General and cash fund revenue collections subject to TABOR and the constitutionally-mandated emergency reserve.

Any surplus TABOR revenue must be refunded to the taxpayers. Currently, the state has 19 refund methods to execute the necessary refunds. Each of these methods, except for the sales tax refund, has a threshold trigger amount that indicates when they are in effect. There must be enough surplus TABOR revenue to exceed a method's threshold for that method to be used in a particular year. The methods' thresholds are increased by the growth in Colorado's personal income each year. The sales tax refund does not have a trigger because it acts as a "catch-all" refund method and refunds any revenue that is not refunded through the other 18 methods. Only the earned income tax credit refund mechanism will be used in addition to the sales tax refund during FY 2005-06 to refund the $129.6 million surplus collected during FY 2004-05. Table 4 shows the June 2004 forecast for the TABOR revenue limit and refunds.

Table 4
June 2004 Forecast for the TABOR Revenue Limit and Emergency Reserve
(Dollars in millions)

	Preliminary FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09
TABOR Revenues:							
General Fund /A	$5,420.5	$5,660.4	$6,006.3	$6,403.5	$6,833.9	$7,260.0	$7,708.0
Cash Funds	2,292.1	2,530.4	2,343.2	2,485.5	2,538.6	2,458.3	2,505.4
Total TABOR Revenues	$7,712.5	$8,190.8	$8,349.5	$8,889.0	$9,372.5	$9,718.3	$10,213.4
LIMIT:							
Allowable TABOR Growth Rate	6.9%	6.5%	5.3%	3.2%	3.8%	4.3%	4.5%
Inflation	4.7%	1.9%	1.1%	2.0%	2.4%	2.8%	2.8%
Population Growth	2.2%	1.7%	1.1%	1.2%	1.4%	1.5%	1.7%
Population Adjustment for Growth Dividend (6% Carried Forward)		2.9%	3.1%	0.0%	0.0%	0.0%	0.0%
Allowable TABOR Limit /B	**$8,296.8**	**$8,190.8**	**$8,219.9**	**$8,483.0**	**$8,805.3**	**$9,184.0**	**$9,597.2**
Revenues Above / (Below) TABOR Limit	**-$584.3**	**$0.0**	**$129.6**	**$406.0**	**$567.2**	**$534.4**	**$616.2**
EMERGENCY RESERVE:							
TABOR Emergency Reserve /C	$231.4	$245.7	$246.6	$254.5	$264.2	$275.5	$287.9

Totals may not sum due to rounding.

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

/A These figures differ from the General Fund revenues reported in other tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the General Fund gaming revenues are netted out. These figures also include the amount of sales and use tax, after the over-refund of surplus TABOR revenues. Senate Bill 97-1 diverts 10.355% of the gross sales and use tax revenues to the Highway Users Tax Fund under certain conditions.

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

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

Cash Fund Revenue

Total cash fund revenue subject to the TABOR spending limit will increase 10.4 percent in FY 2003-04 and at an average annual rate of 1.5 percent over the forecast period. Cash fund revenue subject to TABOR will decrease 7.4 percent in FY 2004-05. This decrease is occurring because the University of Colorado System will become an enterprise under TABOR in FY 2004-05 as a result of Senate Bill 04-189. If the University of Colorado had not received enterprise status, cash fund revenue subject to TABOR would have increased 8.7 percent in FY 2004-05. Table 5 summarizes the forecasts for cash fund revenue subject to TABOR.

The forecast for cash fund revenue was raised by $37.8 million for FY 2003-04. The increase was entirely due to higher-than-expected oil and gas severance tax revenue. Excluding revenue to the University of Colorado, the forecast for cash fund revenue was increased by a total of $119 million over the forecast period. More than half of this increase is due to higher expectations for motor fuel and unemployment insurance taxes during FY 2007-08 and FY 2008-09, the last two years of the forecast period.

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and several smaller funds. Revenue to the transportation-related cash funds will increase 0.3 percent in FY 2003-04 and at an average annual rate of 3.7 percent over the forecast period. Revenue to the HUTF will increase 0.7 percent in FY 2003-04, with a large decrease in interest earnings offsetting a modest increase in motor fuel taxes and a relatively healthy increase in vehicle registration fees. A rosier outlook for the state economy caused us to increase the forecasts for motor fuel taxes and vehicle registration fees somewhat compared with the March forecast. HUTF revenues will increase at an average annual rate of 3.4 percent over the forecast period.

SHF revenues, which include interest earnings on the fund balance and matching funds from local governments, will decrease substantially in FY 2003-04. Matching funds from local governments continue to decline because projects were accelerated earlier in the decade with the use of Transportation Revenue Anticipation Notes.

Higher education revenue will increase a record 9.6 percent in FY 2003-04, after increasing 7.9 percent in FY 2002-03. The expected growth in higher education revenue is due to the recent trend of record student enrollment as Coloradans sought to improve their job skills in light of poor employment prospects. In the last two years, higher education enrollment jumped an average of 5.1 percent, while enrollment grew at a 1.1 percent average annual rate during the economic boom years of the 1990s. Enrollment is projected to increase 3.2 percent in FY 2003-04, after jumping 6.3 percent in FY 2002-03. The FY 2002-03 enrollment gain was the largest in 20 years.

Senate Bill 04-189 authorized governing boards to grant enterprise status to institutions that receive less than ten percent of total funding from the General Fund. The University of Colorado was granted enterprise status beginning in FY 2004-05. As a result of the exemption, higher education revenue counted under the TABOR limit will decline by almost half in FY 2004-05. Excluding the University of Colorado system, however, higher education revenue is projected to increase 8.8 percent in FY 2003-04 and 2.8 percent in FY 2004-05.

Table 5
Cash Fund Revenue Estimates by Category, June 2004
(Dollars in Millions)

	Actual FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	FY 02-03 to FY 08-09 CAAGR *
Transportation-Related /A	**$799.7**	**$801.8**	**$838.6**	**$875.1**	**$925.1**	**$960.3**	**$995.0**	
% Change	-1.8%	0.3%	4.6%	4.4%	5.7%	3.8%	3.6%	**3.7%**
Higher Education /B	**$683.5**	**$749.0**	**$379.7**	**$391.3**	**$406.6**	**$423.2**	**$440.4**	
% Change	7.9%	9.6%	-49.3%	3.0%	3.9%	4.1%	4.1%	**-7.1%**
Unemployment Insurance /C	**$215.9**	**$324.3**	**$520.4**	**$576.0**	**$522.6**	**$369.2**	**$336.7**	
% Change	10.1%	50.2%	60.5%	10.7%	-9.3%	-29.3%	-8.8%	**7.7%**
Limited Gaming Fund	**$100.0**	**$99.4**	**$104.7**	**$110.8**	**$117.4**	**$124.1**	**$131.0**	
% Change	0.9%	-0.6%	5.3%	5.9%	5.9%	5.7%	5.6%	**4.6%**
Capital Construction - Interest	**$4.2**	**$1.6**	**$2.5**	**$2.6**	**$2.3**	**$2.6**	**$2.8**	
% Change	-75.8%	-61.6%	54.8%	4.3%	-13.2%	14.5%	6.8%	**-6.7%**
Controlled Maintenance Trust Fund - Interest	**$0.0**	**$2.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	
Insurance-Related	**$61.3**	**$48.7**	**$51.6**	**$54.8**	**$59.1**	**$63.6**	**$68.2**	
% Change	-7.4%	-20.6%	5.9%	6.2%	7.9%	7.5%	7.3%	**1.8%**
Regulatory Agencies	**$53.5**	**$48.9**	**$50.0**	**$51.0**	**$52.6**	**$53.9**	**$55.2**	
% Change	6.1%	-8.5%	2.2%	1.9%	3.1%	2.5%	2.4%	**0.5%**
Severance Tax /D	**$32.6**	**$101.2**	**$47.4**	**$56.9**	**$66.6**	**$69.4**	**$70.6**	
% Change	-43.3%	210.4%	-53.1%	19.9%	17.2%	4.1%	1.8%	**13.8%**
Employment Support Fund	**$19.5**	**$19.8**	**$20.9**	**$22.0**	**$23.2**	**$24.4**	**$25.7**	
% Change	-0.7%	1.3%	6.0%	5.2%	5.4%	5.2%	5.2%	**4.7%**
Petroleum Storage Tank Fund	**$20.0**	**$28.5**	**$25.6**	**$26.6**	**$27.5**	**$14.2**	**$7.4**	
% Change	-6.1%	42.9%	-10.3%	3.8%	3.4%	-48.2%	-48.2%	**-15.3%**
Other Cash Funds	**$301.6**	**$305.1**	**$301.7**	**$318.4**	**$335.6**	**$353.4**	**$372.5**	
% Change	18.5%	1.2%	-1.1%	5.5%	5.4%	5.3%	5.4%	**3.6%**
Total Cash Fund Revenues	**$2,291.9**	**$2,530.4**	**$2,343.2**	**$2,485.5**	**$2,538.6**	**$2,458.3**	**$2,505.4**	
Subject to the TABOR Limit	**2.8%**	**10.4%**	**-7.4%**	**6.1%**	**2.1%**	**-3.2%**	**1.9%**	**1.5%**

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 The University of Colorado will be an enterprise for the purposes of TABOR beginning in FY 2004-05.
/C Reflects the solvency tax that will be in effect during calendar years 2004 through 2007.
/D This figure includes total severance tax revenue and interest earnings before distribution to the Local Government Severance Tax Fund.

As the economy recovers and job growth improves, enrollment and revenue growth will moderate to more typical levels. Over the six-year forecast period through FY 2008-09, higher education revenue excluding revenue to the University of Colorado will grow at a 4.4 percent average annual growth rate. Meanwhile, public higher education enrollment will increase at an average annual pace of 1.5 percent over the forecast period.

While other governing boards are discussing enterprise status, only the University of Colorado has been approved as an enterprise. Therefore, this forecast assumes that all revenue collected by other higher education institutions will be counted under TABOR through the forecast period. However, it is possible that the remainder of Colorado's higher education institutions could receive enterprise status as early as FY 2005-06. If this were to occur, cash fund revenue subject to TABOR would be reduced by an additional $391.3 million in FY 2005-06. The TABOR surplus would increase by approximately $600,000 in FY 2005-06 and a total of $4.9 million through FY 2008-09.

After increasing 10.1 percent in FY 2002-03, total ***unemployment insurance*** (UI) revenue, which include UI taxes and interest earnings, will increase 50.2 percent in FY 2003-04 and 60.5 percent in FY 2004-05. UI tax rates are responding to the substantial draw-down of the fund's reserves. A low fund balance will cause a higher tax rate schedule to be in effect from 2004 to 2006 than has been in effect in recent years. In addition, the solvency tax, which is levied when the fund balance falls to below 0.9 percent of total private wages, will be in effect during calendar years 2004 through 2007. The solvency tax will generate a total of $578.0 million over this four-year period. Total UI taxes will increase 66.8 percent in FY 2003-04, 62.4 percent in FY 2004-05, and 6.9 percent in FY 2005-06. Tax revenues will decline during the last three years of the forecast period as the fund balance recovers.

Limited gaming revenue, which includes gaming taxes and license fees, will decrease 0.6 percent in FY 2003-04 after increasing a scant 0.9 percent in FY 2002-03. Gaming taxes, responsible for most of the gaming revenue, will decline 1.9 percent, matching tax revenue collected two years ago. The recession has had a negative effect on spending at casinos over the past few years. Through April 2004, adjusted gross proceeds from gaming was unchanged from the first ten months of FY 2002-03. As the state economy gains steam in the next few years, gaming revenues will recover. Over the six-year forecast period, total gaming revenues will increase at an average annual rate of 4.6 percent.

Total ***severance tax*** collections are estimated at just over $101 million in FY 2003-04. Severance tax collections from oil and gas production increased $64.5 million in March and April of 2004, substantially exceeding prior estimates. Year-to-date tax collections from oil and gas production now stand at $83.4 million. In FY 2002-03, severance tax collections from oil and gas production amounted to $17.5 million. Part of the increase in revenues is due to economic factors, such as production increases and price increases, both of which raise the severance tax base. However, $20-$25 million of the tax revenue increase is not explained by economic factors. According to preliminary information gathered by the mineral audit staff of the Department of Revenue, recent corporate acquisitions in the oil and gas industry may be responsible for the increase. Under current law, a property tax credit can be claimed against any severance tax liability; however, companies that purchase oil and gas properties acquire a severance tax liability without a corresponding property tax credit in the current year. Depending upon the production characteristics of the property under consideration, this could account for the anomaly. It is also possible that some taxpayers may have overpaid severance taxes, resulting in a refund at some future point in time. The June 2004 forecast assumes that the $20-$25 million increase in tax collections is one-time money, of which 50 percent ($10 million) will be refunded in the subsequent two fiscal years.

All ***other cash fund revenue*** will decrease 1.2 percent in FY 2003-04 and increase at an average annual rate of 2.4 percent over the forecast period. We reduced the forecast for workers compensation *insurance-related* cash funds by $3.9 million in FY 2003-04 and a total of $32.6 million over the forecast period due to lower-than-expected interest earnings resulting from the transfer of various cash fund balances to the General Fund. The forecast for revenue to the umbrella group of *"other cash funds"* was increased $13.7 million in FY 2003-04, but reduced each year thereafter for a total reduction of $21.6 million over the forecast period. The increase in FY 2003-04 was due to higher-than-expected fee revenue. Part of the reduction thereafter was due to Senate Bill 04-211, which reclassifies an estimated $16 million each year from TABOR to TABOR exempt revenue and transfers the revenue from the Unclaimed Property Trust Fund to the CoverColorado Trust Fund, beginning in FY 2004-05. In addition, the forecast for this group of cash funds was reduced by about $3.4 million each by House Bill 04-1351, which granted enterprise status to the Brand Board in the Department of Agriculture. Four fee bills reduced this forecast by $2.1 million in FY 2003-04 and $7.8 million each year thereafter, while Senate Bill 04-256 increased the forecast for interest earnings in the Unclaimed Property Trust Fund by $3.8 million annually.

National Economy

This section provides a review of the recent performance of the U.S. economy and describes the national economic forecast. This section also briefly discusses events that may pose risks to the national economy.

Recent Data. For months, conventional wisdom suggested that the economic recovery was not legitimate until there was a significant increase in employment. After six months of slow, albeit positive, growth in the number of jobs, **employment** figures in March, April, and May revealed healthy employment gains. In the last three months, employment increased an average of over 315,000 jobs a month, compared with sedate monthly growth of less than 82,000 jobs in the prior six months. Through the first five months of 2004, nearly 1.2 million jobs have been created. This represents nearly half of the jobs lost during the recession.

The national **unemployment rate** has held steady near 5.6 percent for six months, down from 6 percent in October 2003. This is good news, especially since labor force participation has increased each of the last two months without a corresponding increase in the percent of unemployed. Positive employment prospects have encouraged people to enter and re-enter the workforce to the tune of 500,000 job seekers over the past three months.

The national economy grew at a 4.4 percent annual rate in the first quarter of 2004, as measured by real (inflation-adjusted) gross domestic product (**GDP**). This compared with 4.1 percent growth in the fourth quarter of 2003. Increases in consumption, investment, and exports pushed the economy forward. Despite a recent downturn in big-ticket sales such as automobiles, particularly sport utility vehicles, consumer spending increased by an annualized 3.9 percent in the first quarter of 2004. Investment grew by 5.1 percent and exports increased by 4.9 percent.

Until recently, consumer spending was supported by increased borrowing against home equity with the help of historically low mortgage rates. However, in the last few months, increased consumer spending has been met with **personal income** growth, mostly from **wages and salaries**. In the first quarter of the year, personal income grew at an annualized rate of 5.9 percent while wage and salary income increased at a rate of 5.4 percent. Both of these figures are twice the size of growth rates seen a year earlier. With mortgage rates rising, household debt levels have declined and the savings rate has increased. Moreover, personal bankruptcies in the first quarter dropped 1.8 percent from a year ago, the largest year-over-year decline since the fourth quarter of 2000.

In the **manufacturing** sector, jobs remained relatively unchanged over the last few months, but the number of hours worked and production levels accelerated. In addition, the Institute for Supply Management (ISM) reported that manufacturing activity grew for the twelfth consecutive month, as its manufacturing index registered 62.8 in May (a score above 50 indicates expansion). Moreover, the manufacturing employment index increased to 61.9 in May, the first index value above 60 and the eighth month of expansion. These indicators suggest that manufacturing activity will continue to grow and that job growth is on the horizon.

Price **inflation** was relatively flat through the last few months of 2003. However, the recent increases in employment and wage growth have driven prices to grow. Through May, the consumer price index increased 2.1 percent over average prices through the first five months of 2003. Some of the price inflation is due to rising oil and dairy costs. While energy prices have seen steep hikes recently, we believe that oil prices are at or near their cyclical peak and will moderate later in the year. Excluding food and energy, average prices through May increased 1.5 percent over the first five months of last year. In step with price inflation, residential fixed mortgage rates have also risen recently from 5.45 percent in March to 6.27 percent in May. The Federal Reserve Board has hinted that interest rates will be raised during upcoming rate-setting meetings. However, the recent trends in price inflation and lending rates suggests that inflation is occurring naturally and should ease concerns regarding an aggressive set of rate hikes by the Federal Reserve Board.

National Economic Forecast. Recent trends suggest an improving economy and a more optimistic forecast. Economic trends and the forecast figures can be found in Table 6.

- Following a 2.2 percent growth rate in 2002 and a 3.1 percent growth rate in 2003, inflation-adjusted **GDP** will increase 4.8 percent in 2004. This corresponds to a slight increase from the March forecast. The economy will grow slower in 2005, with GDP projected to increase 3.5 percent.

- After two years of declines, nonfarm **employment** will recover, growing 1.3 percent in 2004 and 1.8 percent in 2005. These represent increases from earlier forecasts, due in part to recent trends of job growth and labor market participation. The **unemployment rate** is expected to average 5.7 percent in 2004 and 5.6 percent in 2005.

- Employment gains will lead to wage growth, corporate profits, and capital gains. After an average annual growth rate of 2.8 percent per year over the last two years, **personal income** will increase 5.1 percent in 2004, followed by a 4.8 percent gain in 2005. Wage gains will not rise to levels seen in the 1990s because employers will hold down raises due to rising benefit costs. After an average annual growth rate of 1.6 percent per year over the last two years, **wage and salary income** will witness a 4.8 percent gain in 2004 and a 4.6 percent increase in 2005.

- Consumer **price inflation** will rise in response to income gains and supply constraints. After increasing 2.3 percent in 2003, consumer prices will increase by 2.4 percent in 2004 and 2.6 percent in 2005. These figures represent an increase from earlier forecasts, due to the emergence of job growth and wage gains.

Risks to the Forecast. While the economy appears ready to increase at a strong pace in upcoming quarters, several factors may significantly shift economic growth. A surge in inflationary pressures combined with ill-timed interest rate hikes may scare off consumer spending and choke an economic recovery. Job growth may ebb or decline. This would adversely impact wage gains, personal income growth, and consumer confidence. Moreover, unsustainable levels of household debt may constrain consumer spending. Finally, another terrorist attack could stifle consumer and business confidence, jeopardizing economic stability.

Table 6
National Economic Indicators, June 2004 Forecast
(Dollars in billions)

	1999	2000	2001	2002	2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008
Inflation-adjusted GDP	$9,470.3	$9,817.0	$9,866.6	$10,083.0	$10,398.0	$10,894.2	$11,273.6	$11,691.8	$12,136.7	$12,541.5
percent change	4.1%	3.7%	0.5%	2.2%	3.1%	4.8%	3.5%	3.7%	3.8%	3.3%
Nonagricultural Employment (millions)	129.0	131.8	131.8	130.3	129.9	131.6	134.0	136.3	138.2	140.0
percent change	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.3%	1.8%	1.7%	1.4%	1.3%
Unemployment Rate	4.2%	4.0%	4.8%	5.8%	6.0%	5.7%	5.6%	5.5%	5.4%	5.2%
Personal Income	$7,802.4	$8,429.7	$8,713.1	$8,910.3	$9,208.0	$9,681.6	$10,146.3	$10,623.1	$11,122.4	$11,634.1
percent change	5.1%	8.0%	3.4%	2.3%	3.3%	5.1%	4.8%	4.7%	4.7%	4.6%
Wage and Salary Income	$4,466.3	$4,829.2	$4,942.9	$4,974.6	$5,100.2	$5,344.7	$5,590.6	$5,842.2	$6,099.2	$6,361.5
percent change	6.8%	8.1%	2.4%	0.6%	2.5%	4.8%	4.6%	4.5%	4.4%	4.3%
Inflation (Consumer Price Index)	2.2%	3.4%	2.8%	1.6%	2.3%	2.6%	2.8%	2.5%	2.6%	2.5%
10-year Treasury Note	5.6%	6.0%	5.0%	4.6%	4.0%	4.6%	5.1%	5.7%	5.7%	5.6%

Colorado Economy

This section reviews the recent performance of Colorado's economy and provides the economic outlook for the state. The detailed Colorado economic forecast can be found in Table 7. A table with more historical data may be found in the appendix. In 2003, non-agricultural employment in Colorado declined by 1.5 percent, though personal income grew by 2.8 percent. Inflation remained very low at 1.1 percent, while the construction sector continued to slow. Early in 2004, the economy has shown signs of rebounding, as employment and retail sales gains characterized March and April.

Employment

According to data from the Colorado Department of Labor and Employment, employment has picked up significantly since employment levels hit bottom in February. Colorado lost 32,000 jobs in 2003, on top of 43,000 lost jobs in 2002. The losses in 2002 and 2003 were the most severe in any reported period in the past sixty years. The decline continued in January and February, but then turned upward, as the state added 34,400 jobs in March and April. The construction, trade, and business services sectors accounted for nearly all of the growth during these two months. Every other sector remained essentially flat. Employment still remains 123,400 jobs below the peak level in December 2000. The most significant losses since December 2000 occurred in the manufacturing and information sectors, which have both seen employment drop by more than 20 percent.

Colorado is expected to continue its recovery, lagging slightly behind the national economy. As corporate profits and the national economy recover, job prospects in Colorado will improve.

- *Nonfarm employment* is expected to increase by 0.7 percent in 2004, resulting in more than 15,000 new jobs. Employment is expected to continue to increase moderately in 2005 and 2006 as the national economy expands, increasing by 2.0 percent and 2.7 percent, respectively.

- The *unemployment rate* will average 5.1 percent in 2004, following an average level of 6.0 percent in 2003. The unemployment rate will gradually descend after 2004, falling to 4.9 percent in 2005 and 4.5 percent in 2006.

Personal Income and Wages

Personal income increased by 2.8 percent in 2003, as a strong fourth quarter and upward revisions for earlier in the year led to higher than expected growth. Wage and salary income increased similarly, by 2.6 percent for the year. Though figures represent higher income growth than was seen in 2002, the rate of growth remains at historically low levels. We estimate that personal income will increase by more significant levels throughout the forecast period.

- *Personal income* and *wages and salaries* will continue to rebound in 2004. As employment growth accelerates, wage pressure will return, albeit only slightly. Consequently, we estimate that personal income will increase by 4.6 percent while wages and salaries will increase by 5.0 percent.

- A sustained national economic recovery will lead to stronger personal income growth in 2005, as growth in personal income and wages and salaries will rise 5.1 percent and 6.3 percent, respectively. While income growth will be stronger, it will not approach the annualized growth rates of the last decade, when personal income increased at a compound annual average rate of 8.2 percent.

Consumer Spending

Following consecutive years of declines, retail trade sales are showing signs of recovery. Tourism is increasing, in part as a result of Americans traveling domestically due to fears of traveling overseas. With an increase in out-of-town visitors, the ski season suggested a strong year for Colorado's mountain resort communities, and the convention industry in Denver will likely expand with the construction of the new hotel and increased space to service industry.

The housing refinance boom that has characterized the last two years has also supported spending. As a result, homeowners have increased debt levels significantly. Paying down this increased debt will constrain some consumer spending as the economy recovers.

- *Consumer spending* will increase 3.1 percent in 2004, followed by pre-recessionary levels, hovering in the 4.4 to 5.4 percent range throughout the forecast period.

Construction

The building sector is slowly rebounding from the economic slowdown that crippled much of the local market. This was especially apparent in the nonresidential market, as construction values have fallen by more than 15 percent each of the last two years. Low mortgage rates helped to offset the impact of the recession on residential markets slightly, though the number of permits still fell significantly the last two years. This was mostly due to overbuilding in the apartment and condominium market in 2000 and 2001, as the number of multi-family permits fell 53.3 percent in 2003, after a 30.7 percent decline in 2002. Residential construction permits fell 17.6 percent in 2003, after falling 13 percent in 2002.

- The construction industry will see more moderate declines in 2004. The multi-family sector has likely seen the bottom. Possible increases in mortgage rates could prolong the slowdown in the single family market. However, led by employment increases, residential *housing permits* will rebound slightly in 2004 and 2005.

- The high vacancy rates in office buildings has abated slightly, but will continue to hinder nonresidential construction. However, the rebounding economy will raise demand for goods and services. We estimate that *nonresidential construction* will be flat in 2004 and increase by 7.9 percent in 2005.

Inflation

The Denver-Boulder-Greeley inflation rate slowed to a trickle, growing by a mere 1.1 percent in 2003. Prices have been increasing slowly since 2001. More evidence of moderate price increases was seen in the core inflation rate, which excludes food and energy, as it increased only 0.2 percent in 2003.

- We expect that as the national and state economies expand, the local *inflation* rate will be higher, though still at moderate levels. The rate will be 2.0 percent in 2004 and 2.4 percent in 2005, with slightly higher rates during the remainder of the forecast period. Prolonged concerns surrounding the energy sector could help push prices higher, but the Federal Reserve seems intent on holding inflation down nationwide.

Population

Lower migration than in much of the last decade continues to limit Colorado's population growth, as the 1.1 percent population growth in 2003 was the lowest since 1990. Though this is expected to pick up, it will not reach levels seen in the late 1990s. As of July 1, 2003, the state's population was 4,550,688.

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

Overall, the Colorado economy is on the mend, though certainly lagging the national recovery. Modest increases in employment and spending will characterize the near-term, with more robust growth through the end of the forecast period. Mortgage rates could play a large role in the health of the housing market, though fears of a major housing price bubble have moderated in the last year. Energy prices are largely to blame for fears of higher inflation nationally thus far in 2004. Recently, Colorado has experienced lower inflation than the nation, and we expect that to continue in the near term, as the state trails national economic growth.

Table 7
Colorado Economic Indicators, June 2004 Forecast
(Calendar Years)

	1999	2000	2001	2002	2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007	Forecast 2008
Population (thousands), July 1	4,226.0	4,326.9	4,428.8	4,501.1	4,550.7	4,605.3	4,669.8	4,739.8	4,820.4	4,907.2
percent change /A	2.7%	2.4%	2.2%	1.7%	1.1%	1.2%	1.4%	1.5%	1.7%	1.8%
Nonagricultural Employment (thousands)	2,131.5	2,212.9	2,225.4	2,182.5	2,150.4	2,165.5	2,208.8	2,268.4	2,331.9	2,387.9
percent change	3.6%	3.8%	0.6%	-1.9%	-1.5%	0.7%	2.0%	2.7%	2.8%	2.4%
Unemployment Rate	2.9%	2.8%	3.7%	5.7%	6.0%	5.1%	4.9%	4.5%	4.2%	3.9%
Personal Income (millions)	$128,860	$144,394	$150,594	$151,790	$156,010	$163,186	$171,509	$180,256	$190,350	$200,248
percent change	8.7%	12.1%	4.3%	0.8%	2.8%	4.6%	5.1%	5.1%	5.6%	5.2%
Wage and Salary Income (millions)	$76,283	$85,909	$88,307	$86,889	$88,106	$92,511	$98,339	$104,829	$111,853	$118,676
percent change	9.8%	12.6%	2.8%	-1.6%	1.4%	5.0%	6.3%	6.6%	6.7%	6.1%
Retail Trade Sales (millions)	$52,609	$58,018	$59,015	$58,864	$58,662	$60,481	$63,142	$66,046	$69,547	$73,302
percent change	8.5%	10.3%	1.7%	-0.3%	-0.3%	3.1%	4.4%	4.6%	5.3%	5.4%
Home Permits (thousands)	49.3	54.6	55.0	47.9	39.6	41.1	42.1	45.0	48.6	50.7
percent change	-3.6%	10.7%	0.8%	-13.0%	-17.3%	3.8%	2.4%	6.8%	8.1%	4.4%
Nonresidential Building (millions)	$3,544	$3,339	$3,373	$2,613	$2,204	$2,204	$2,378	$2,650	$2,843	$2,997
percent change	35.4%	-5.8%	1.0%	-22.5%	-15.6%	0.0%	7.9%	11.4%	7.3%	5.4%
Denver-Boulder-Greeley Inflation Rate	2.9%	4.0%	4.7%	1.9%	1.1%	2.0%	2.4%	2.8%	2.8%	2.9%

/A Colorado's population on April 1, 2000, was 4,301,261 according to the U.S. Census Bureau. The changes that are shown in this table for 1999 and 2000 are based on the intercensal estimates by the Census Bureau and do not reflect the original estimates.

Appendix
Historical Data

National Economic Indicators

(Dollar amounts in billions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Gross Domestic Product	$5,484.4	$5,803.1	$5,995.9	$6,337.7	$6,657.4	$7,072.2	$7,397.7	$7,816.9	$8,304.3	$8,747.0	$9,268.4	$9,817.0	$10,100.8	$10,480.8	$10,987.9
percent change	7.5%	5.8%	3.3%	5.7%	5.0%	6.2%	4.6%	5.7%	6.2%	5.3%	6.0%	5.9%	2.9%	3.8%	4.8%
Real Gross Domestic Product (inflation-adjusted, chained to 2000)	$6,981.4	$7,112.5	$7,100.5	$7,336.6	$7,532.7	$7,835.5	$8,031.7	$8,328.9	$8,703.5	$9,066.9	$9,470.3	$9,817.0	$9,866.6	$10,083.0	$10,398.0
percent change	3.5%	1.9%	-0.2%	3.3%	2.7%	4.0%	2.5%	3.7%	4.5%	4.2%	4.4%	3.7%	0.5%	2.2%	3.1%
Unemployment Rate	5.3%	5.6%	6.9%	7.5%	6.9%	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	0.6%
Inflation (Consumer Price Index)	4.8%	5.4%	4.2%	3.0%	3.0%	2.6%	2.8%	3.0%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%
10-Year Treasury Note	8.5%	8.6%	7.9%	7.0%	5.9%	7.1%	6.6%	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%
Personal Income	$4,587.8	$4,878.5	$5,051.0	$5,362.0	$5,558.6	$5,842.5	$6,152.3	$6,520.6	$6,915.2	$7,423.0	$7,802.4	$8,429.7	$8,713.1	$8,910.3	$9,208.0
percent change	7.9%	6.3%	3.5%	6.2%	3.7%	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.4%	2.3%	3.3%
Wage and Salary Income	$2,596.4	$2,754.0	$2,823.0	$2,980.3	$3,082.7	$3,232.1	$3,419.3	$3,619.6	$3,877.6	$4,183.4	$4,466.3	$4,829.2	$4,942.9	$4,974.6	$5,100.2
percent change	5.8%	6.1%	2.5%	5.6%	3.4%	4.8%	5.8%	5.9%	7.1%	7.9%	6.8%	8.1%	2.4%	0.6%	2.5%
Nonfarm Wage and Salary Employment (millions)	108.0	109.5	108.4	108.7	110.8	114.3	117.3	119.7	122.8	125.9	129.0	131.8	131.8	130.3	129.9
percent change	2.6%	1.4%	-1.0%	0.3%	1.9%	3.2%	2.6%	2.0%	2.6%	2.5%	2.5%	2.2%	0.0%	-1.1%	-0.3%

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

Colorado Economic Indicators
(Dollar amounts in millions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Nonagricultural Employment (thous.)	1,482.3	1,520.9	1,544.9	1,596.9	1,670.7	1,755.9	1,834.4	1,900.4	1,979.5	2,056.7	2,131.5	2,212.6	2,225.4	2,182.5	2,150.4
percent change	3.2%	2.6%	1.6%	3.4%	4.6%	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-1.5%
Unemployment Rate	5.8%	5.0%	5.1%	6.0%	5.3%	4.2%	4.2%	4.2%	3.3%	3.8%	2.9%	2.7%	3.7%	5.7%	6.0%
Personal Income	$60,652	$64,748	$68,283	$73,794	$79,697	$85,671	$92,704	$100,233	$107,873	$118,493	$128,860	$144,394	$150,594	$151,790	$156,010
percent change	8.5%	6.8%	5.5%	8.1%	8.0%	7.5%	8.2%	8.1%	7.6%	9.8%	8.7%	12.1%	4.3%	0.8%	2.8%
Per Capita Income	$18,515	$19,575	$20,160	$21,109	$22,054	$23,004	$24,226	$25,570	$26,846	$28,784	$30,492	$33,371	$34,003	$33,723	$34,283
percent change	8.1%	5.7%	3.0%	4.7%	4.5%	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	1.9%	-0.8%	1.7%
Wage and Salary Income	$34,666	$37,119	$39,548	$42,678	$45,736	$48,912	$52,782	$57,091	$62,364	$69,462	$76,283	$85,909	$88,307	$86,889	$88,106
percent change	5.5%	7.1%	6.5%	7.9%	7.2%	6.9%	7.9%	8.2%	9.2%	11.4%	9.8%	12.6%	2.8%	-1.6%	1.4%
Retail Trade Sales	$26,160	$27,544	$28,932	$31,298	$34,180	$38,100	$39,955	$42,629	$45,142	$48,131	$52,209	$58,018	$58,947	$58,634	$58,662
percent change	5.1%	5.3%	5.0%	8.2%	9.2%	11.5%	4.9%	6.7%	5.9%	6.6%	8.5%	11.1%	1.6%	-0.5%	-0.3%
Housing Permits	11,131	11,897	14,071	23,484	29,913	37,229	38,622	41,135	43,053	51,156	49,313	54,596	55,007	47,871	39,569
percent change	-13.5%	6.9%	18.3%	66.9%	27.4%	24.5%	3.7%	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-13.0%	-17.3%
Nonresidential Construction	$946	$939	$1,610	$1,539	$1,578	$1,581	$1,841	$2,367	$2,986	$2,617	$3,544	$3,339	$3,373	$2,613	$2,204
percent change	-2.8%	-0.7%	71.4%	-4.4%	2.6%	0.2%	16.4%	28.6%	26.2%	-12.4%	35.4%	-5.8%	1.0%	-22.5%	-15.6%
Denver-Boulder Inflation Rate	1.8%	4.4%	3.9%	3.7%	4.2%	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%
Population (thousands, July 1)	3,284.5	3,307.6	3,387.1	3,495.9	3,613.7	3,724.2	3,826.7	3,920.0	4,018.3	4,116.6	4,226.0	4,326.8	4,431.0	4,506.5	4,550.7
percent change	0.4%	0.7%	2.4%	3.2%	3.4%	2.7%	2.8%	2.0%	2.0%	2.4%	2.7%	2.4%	2.4%	1.7%	1.1%

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.

Comparative Economic Growth 2003

State	Nonfarm Employment Growth 2002-03		Personal Income Growth 2002-03		Unemployment Rate May 2004		State	Nonfarm Employment Growth 2002-03		Personal Income Growth 2002-03		Unemployment Rate May 2004	
	Growth Rate	Rank	Growth Rate	Rank	Growth Rate	Rank		Growth Rate	Rank	Growth Rate	Rank	Growth Rate	Rank
Alabama	-0.4%	33	3.6%	27	5.9	9	Montana	1.0%	7	5.2%	6	4.7	29
Alaska	1.6%	3	3.5%	29	7.3	1	Nebraska	-0.2%	25	6.1%	4	3.7	43
Arizona	1.1%	6	4.4%	9	5.1	21	Nevada	3.4%	1	5.8%	5	4.1	38
Arkansas	-0.2%	27	3.9%	18	5.8	11	New Hampshire	-0.3%	30	3.2%	37	4.0	40
California	-0.3%	31	3.7%	21	6.2	6	New Jersey	-0.1%	21	3.2%	36	4.9	26
Colorado	*-1.5%*	*46*	*2.8%*	*44*	*4.9*	*26*	New Mexico	1.2%	5	4.1%	12	5.5	15
Connecticut	-1.3%	45	2.4%	49	4.6	31	New York	-0.7%	37	2.4%	48	5.8	11
Delaware	-0.2%	26	3.7%	22	3.7	43	North Carolina	-0.9%	41	2.9%	41	5.3	18
Florida	1.5%	4	4.3%	10	4.5	34	North Dakota	0.8%	9	8.7%	2	3.2	49
Georgia	-0.3%	29	3.8%	19	3.9	42	Ohio	-1.0%	43	2.8%	42	5.6	13
Hawaii	1.9%	2	4.9%	7	3.0	50	Oklahoma	-2.4%	50	3.4%	32	4.3	35
Idaho	0.6%	11	3.5%	30	4.6	31	Oregon	-0.7%	38	3.0%	39	6.8	2
Illinois	-1.1%	44	2.5%	46	6.4	4	Pennsylvania	-0.7%	39	3.1%	38	5.1	21
Indiana	-0.1%	24	3.3%	33	5.1	21	Rhode Island	0.9%	8	4.2%	11	5.6	13
Iowa	-0.5%	34	3.7%	24	4.3	35	South Carolina	0.4%	12	3.6%	28	6.3	5
Kansas	-1.7%	48	4.0%	15	4.7	29	South Dakota	0.2%	14	9.0%	1	3.4	47
Kentucky	-0.3%	32	3.7%	25	5.4	17	Tennessee	0.1%	18	4.0%	16	4.8	28
Louisiana	0.4%	13	3.6%	26	6.1	7	Texas	-0.5%	35	2.9%	40	5.9	9
Maine	-0.1%	20	3.7%	23	4.1	38	Utah	0.0%	19	2.8%	43	4.6	31
Maryland	0.2%	15	3.9%	17	4.0	40	Vermont	-0.2%	28	3.7%	20	3.5	46
Massachusetts	-2.0%	49	2.1%	50	5.2	19	Virginia	0.2%	17	4.1%	14	3.4	47
Michigan	-1.5%	47	2.5%	47	6.5	3	Washington	0.2%	16	3.2%	35	6.1	7
Minnesota	-0.1%	22	4.1%	13	4.3	35	West Virginia	-0.9%	42	2.8%	45	5.2	19
Mississippi	-0.6%	36	4.5%	8	5.5	15	Wisconsin	-0.1%	23	3.4%	31	5.1	21
Missouri	-0.7%	40	3.2%	34	5.1	21	Wyoming	0.8%	10	6.3%	3	3.7	43
United States	-0.3%	N/A	3.4%	N/A	5.6	N/A	United States	-0.3%	N/A	3.4%	N/A	5.6	N/A