Colorado Economic Perspective

State Revenue and Economic Projections through FY 2007-08

Office of State Planning and Budgeting
December 20, 2002

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Executive Summary

The Governor's Office of State Planning and Budgeting (OSPB) is charged with providing estimates of revenues for the purpose of determining the amount of funds available for appropriation. This issue of the *Colorado Economic Perspective* presents the OSPB December 2002 forecast of General Fund and cash fund revenues. Forecasts for the national and Colorado economies also are provided along with a study of Colorado's defense industry.

The Taxpayer's Bill of Rights

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado State Constitution — limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. The state was below its TABOR limit in FY 2001-02 and our forecast indicates that the state will be below its TABOR limit in FY 2002-03 as well.

- In FY 2002-03, TABOR revenues are estimated to be $445.4 million below our TABOR limit. There will not be a TABOR surplus until FY 2005-06, when state revenues once again exceed the TABOR limit.

- Because there is no TABOR surplus in the current year, $325.3 million for K-12 education and the senior property tax credit as approved by the voters in November 2000 will be incurred by the General Fund instead of the TABOR surplus. These measures were supposed to come from the TABOR surplus, but without any surplus, the General Fund must pay for them.

General Fund Revenue

General Fund revenues declined 13.0 percent in FY 2001-02 and are forecast to decrease 1.6 percent in FY 2002-03.

- The December 20, 2002 revenue forecast shows that in FY 2002-03 the state will need to reduce General Fund expenditures by a total $738 million to maintain the required reserve of two percent of appropriations. The budget-balancing plan proposed by the Governor fixes $700 million — 90 percent — of the budget shortfall. The current revenue forecast shows that an additional $80 million must be cut in order to maintain a two-percent reserve.

- We lowered our December 2002 forecast for General Fund revenues in both current and subsequent fiscal years. The reduction reflects lower revenues received by the state through November 2002 as well as our revised Colorado economic forecast. The December 2002 General Fund revenue forecast is lower than our September 2002 forecast by $275.2 million in FY 2002-03. Over the forecast horizon, the General Fund revenue forecast is reduced by $1,543.2 million.

Cash Fund Revenues

In FY 2002-03, cash fund revenues are forecast to increase 7.0 percent to $2,389.6 million and in FY 2003-04, they will increase an additional 4.9 percent to $2,505.6 million. Above normal growth in vehicle registrations, tuition revenues, and unemployment insurance taxes contributes to the strong increase in FY 2002-03. From FY 2002-03 through FY 2007-08, cash fund revenues will grow at a compound annual average rate of 3.8 percent.

- **Transportation-related revenues**, the largest group of cash funds, are forecast to increase 2.5 percent in FY 2002-03 and 1.0 percent in FY 2003-04. From FY 2002-03 through FY 2007-08, these funds will grow at a compound annual average rate of 3.0 percent.

- **Higher education cash funds**, the next largest group of cash funds, will see a 9.4 percent increase in FY 2002-03 for total tuition and nontuition higher education revenues. The increase in total higher education revenues occurs because both tuition rates and the number of students increased substantially.

- Unemployment Insurance (UI) taxes are the primary revenue source for the **Unemployment Insurance Trust Fund**. Revenues from these taxes are forecast to increase 20.8 percent as UI tax rates continue to rise to compensate for higher UI benefit payments. The increase in UI tax revenues between FY 2001-02 and FY 2002-03 is due to a substantial increase in UI tax rates in 2003 as they automatically adjust for recession conditions in the state. The average UI tax rate in FY 2002-03 is approximately the same as during the 1991-1992 economic recession.

The National Economy

The national economy appears to have recovered from the short economic recession that began in March 2001. Inflation-adjusted gross domestic product increased in the last four quarters, inflation remains low, consumers remain resilient, and unemployment rates are relatively steady. However, the economic recovery is tenuous and the threat of a double-dip recession looms over the national economy.

- Third quarter 2002 **inflation-adjusted gross domestic product (GDP)** increased at a 4.0 percent annual pace, after increasing 5.0 percent in the first quarter and 1.3 percent in the second quarter. We anticipate that inflation-adjusted GDP will increase 2.3 percent in 2002 and 2.5 percent in 2003 before accelerating to a 3.7 percent pace in 2004.

- Third quarter 2002 **consumer spending** increased a robust 4.1 percent. We forecast that consumer spending will increase at a 3.1 percent rate in 2002, a 2.7 percent rate in 2003, and a 3.3 percent rate in 2004.

- **Business inventories** grew $15.5 billion in third quarter 2002, more than three times the $4.9 billion growth in the second quarter. This suggests that businesses are beginning to gain confidence that the economic recovery will last and that there will be future demand for their goods. Consumer confidence at the national level rose slightly in November 2002 after five months of declines, indicating that consumers are feeling more positive about the future economic conditions of our country.

- **Business investment** increased 0.1 percent in third quarter 2002, the first positive quarter of business investment since third quarter 2000. Investment in software and equipment increased 6.6 percent in the third quarter. We forecast that business investment will decrease 3.3 percent in 2002, as much of this decline has already occurred. In 2003, business investment will increase 1.8 percent and in 2004 it will increase 6.0 percent.

- We anticipate that **nonfarm payroll employment** will decrease 0.8 percent in 2002 and then increase at a 0.6 percent rate in 2003. Meanwhile, the **unemployment rate** will average 5.8 percent in 2002 and then average 6.2 percent in 2003.

- **Inflation** remains low nationally, increasing only 1.4 percent through October 2002. Consumer prices are forecast to increase a mere 1.6 percent in 2002 and only 2.0 percent in 2003.

The Colorado Economy

The Colorado economy is showing some encouraging signs. Stable employment over the past four months indicates that the economic decline has halted, although the lack of job creation over this period also shows that the state's economic recovery is tenuous.

- Through October 2002, average **nonfarm employment** is 2.0 percent below year-to-date October 2001. However, employment levels have remained steady for the last four months, providing hope that the employment situation has bottomed out. We forecast that Colorado employment will post a 2.4 percent decline in 2002, followed by a 0.8 percent increase in 2003. By 2004, we anticipate that employment growth will be 2.2 percent and that the pace will rise to 3.3 percent by 2006.

- The average Colorado **unemployment rate** through October 2002 is 5.3 percent. Although this is higher than the record low rates the state enjoyed during most of the 1990s, it is lower than the unemployment rate of any year during the 1980s. The annual average unemployment rate is forecast to be 5.3 percent in 2002. We forecast the state's unemployment rate will average 5.2 percent in 2003 and then decline to 4.6 percent by 2007.

- From 2002 through 2007, we anticipate that Colorado's **population** will grow at an annual average rate of 1.5 percent.

- We anticipate **wage and salary income** will decline 3.0 percent in 2002 and then increase 3.6 percent in 2003. **Personal income** will decline only slightly in 2002 and then accelerate to a 4.0 percent growth rate in 2003.

- Our forecast for **residential construction** calls for a sharp correction in 2002. The total number of home permits issued in 2002 is expected to show a decline of 17.2 percent, followed by a decline of 15.9 percent in 2003 and a decline of 5.0 percent in 2004. In 2005, 2006, and 2007, the number of home permits issued will show slight year-over-year increases.

- We forecast that 2002 **nonresidential construction value** will be 25.6 percent below 2001 levels and will fall by about two percent in 2003 and 2004. Thereafter, it will resume positive growth through 2007.

- We anticipate the Denver-Boulder-Greeley **consumer price index** will drop to 1.8 percent in 2002 and will average 3.0 percent from 2002 through 2007.

- **Retail sales** are anticipated to decline 1.0 percent in 2002. We forecast that retail sales will show modest increases in 2003 and 2004 and that by 2005, consumer spending will grow by more than five percent annually.

Defense Industry's Impact on Colorado

In federal fiscal year (FFY) 2001, the defense industry directly contributed $4.8 billion to the Colorado economy — $2.5 billion in defense payrolls plus $2.3 billion in contracts and grants to Colorado businesses.

- In FFY 2001, the Department of Defense (DoD) had over 60,000 people stationed in Colorado. There were 28,574 active duty military positions, 10,701 civilian hires, and 21,122 Reserve and National Guard troops. This is the 14th largest defense industry employment concentration in the country.

- In 2001, only state government employed more than the DoD in Colorado.

- On average, in 2001 DoD civilian employees received annual wages of $42,848, 12.9 percent higher than Colorado's average wage.

- Total expenditures by the DoD in Colorado were approximately $1,100 for every person in the state in FFY 2001. This is the 12th highest per capita amount in the country.

- Over the past 15 years, Colorado received a relatively constant share of total national defense industry dollars.

- The defense industry accounts for approximately one-third of the Colorado Springs economic base.

TABOR Limit and General Fund Revenue Outlook

Summary

The budget-balancing plan proposed by the Governor fixes $700 million — 90 percent — of the budget shortfall.

- The December 20, 2002 revenue forecast shows that in FY 2002-03 the state will need to reduce General Fund expenditures by a total $738 million to maintain the required reserve of two percent of appropriations. The budget-balancing plan proposed by the Governor fixes $700 million — 90 percent — of the budget shortfall. The current revenue forecast shows that an additional $80 million must be cut in order to maintain a two-percent reserve.
- In FY 2002-03, TABOR revenues are estimated to be $445.4 million below our TABOR limit. There will not be a TABOR surplus until FY 2005-06, when state revenues once again exceed the TABOR limit.
- Because there is no TABOR surplus in the current year, $325.3 million for K-12 education and the senior property tax credit as approved by the voters in November 2000 will be incurred by the General Fund instead of the TABOR surplus. These measures were supposed to come from the TABOR surplus, but without any surplus, the General Fund must pay for them.
- We lowered our December 2002 forecast for General Fund revenues in both current and subsequent fiscal years. The reduction reflects lower revenues received by the state through November 2002 as well as our revised Colorado economic forecast. The December 2002 General Fund revenue forecast is lower than our September 2002 forecast by $275.2 million in FY 2002-03. Over the forecast horizon, the General Fund revenue forecast is reduced by $1,543.2 million.

This section of the forecast provides an overview of the Office of State Planning and Budgeting (OSPB) December 2002 revenue forecast. First, it discusses the limits contained in the Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado State Constitution. Next, it provides a description of the General Fund overview and outlines the Governor's proposed budget-balancing plan. Finally, the section discusses General Fund revenues and compares Colorado's revenue and fiscal situation with that of other states.

THE TABOR SURPLUS

TABOR revenues were lower than the limit by $365.8 million in FY 2001-02 and again will be lower than the TABOR limit by $445.4 million in FY 2002-03.

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado State Constitution — limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. ***Table 1*** provides a detailed calculation of the TABOR surplus for the period from FY 2001-02 through FY 2007-08. It shows that there will not be a TABOR surplus from FY 2001-02 through FY 2004-05. Indeed, TABOR revenues were lower than the limit by $365.8 million in FY 2001-02 and our forecast shows that TABOR revenues again will be lower than the TABOR limit by $445.4 million in FY 2002-03. The TABOR surplus vanishes over the next several years for three reasons.

TABLE 1

TABOR Surplus Revenue
(Dollar Amounts in Millions)

		December 2002 Estimate by Fiscal Year					
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
TABOR Revenues:							
General Fund	$5,519.8 **/B**	$5,450.6 **/B**	$5,815.6 **/B**	$6,135.7 **/B**	$6,567.0 **/B**	$7,049.9 **/B**	$7,538.5 **/B**
Cash Funds	2,232.4 **/F**	2,389.6 **/F**	2,505.6 **/F**	2,648.7 **/F**	2,792.8 **/F**	2,817.7 **/F**	2,879.2 **/F**
Total TABOR Revenues	7,752.2	7,840.2	8,321.2	8,784.3	9,359.8	9,867.6	10,417.7
TABOR Limit:							
Growth Rate	-2.5% **/C**	1.1% **/C**	6.1%	5.6%	6.6%	6.3%	7.1%
Allowable TABOR Growth Rate	4.0%	6.9% **/G**	6.1% **/G**	5.6% **/G**	5.7% **/G**	4.8% **/G**	5.3% **/G**
TABOR LIMIT	**$8,126.2 /D**	**$8,285.6**	**$8,321.2**	**$8,784.3**	**$9,284.9**	**$9,730.6**	**$10,246.3**
REVENUES ABOVE / (BELOW) TABOR LIMIT	**($365.8)**	**($445.4)**	**$0.0**	**$0.0**	**$74.9**	**$136.9**	**$171.4**
EMERGENCY RESERVE:							
TABOR Emergency Reserve	232.6 **/A,E**	235.2 **/A,E**	249.6 **/A**	263.5 **/A**	278.5 **/A**	291.9 **/A**	307.4 **/A**

Totals may not sum due to rounding.

NA: Not Applicable.

Note: Article X, Section 20 of the State Constitution (TABOR) broadly defines spending such that expenditures are equal to revenues. The statutory six-percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable.

/A 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.

/B These figures differ from the General Fund revenues reported in other tables because they net out revenues credited to the State Education Fund per Amendment 23, the Homestead Exemption per Referendum A, and 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 full amount of sales and use tax before diversion to the Highway Users Tax Fund. The state diverts 10.34 percent of the sales and use tax revenues to the Highway Users Tax Fund when revenues are sufficient to cover certain expenditures.

/C These growth rates are from the previous year's TABOR limit, rather than from the previous year's actual revenues.

/D In November 2000, Referendum A: Property Tax Reduction For Seniors, was passed by the citizens of Colorado. This measure increased allowable TABOR revenues by $44 million in FY 2001-02.

/E Legislation (H.B. 02-1394 and H.B. 02-1442) redesignates the TABOR emergency reserve as the Tobacco Litigation Settlement Fund, part of the four-percent statutory reserve requirement, the state Severance Tax Fund, the Employment Support Fund, the Wildlife Cash Fund, the Unclaimed Property Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/F Cash fund revenues are net of scholarship revenue in the Higher Education cash funds.

/G The allowable TABOR limit can be increased by a total of 6.0 percentage points over the next nine years as directed in H.B. 02-1310 and S.B. 02-179. This legislation allows the state to increase the TABOR limit by 6.0 percentage points in population growth that occurred during the 1990s and was not captured by U.S. Bureau of the Census intercensal estimates. Since the state is not in a TABOR surplus position in FY 2001-02, the legislation allows the extra population growth to be used when the state is in a TABOR surplus position.

- First, the record-long national economic expansion ended in March 2001, after an unprecedented 10 years of growth. Although a tentative recovery in the national economy is underway, strong growth will not be evident until the middle of 2003. The **Colorado economy** was negatively affected by the national recession and the events of September 11. In turn, Colorado General Fund revenues decreased 13.0 percent in FY 2001-02, falling well below the TABOR limit. In addition, since there is a 12- to 15-month lag between when an economy begins to expand and when revenue growth accelerates, we do not anticipate that TABOR revenues will exceed the TABOR limit until FY 2005-06.

The Colorado economy was negatively affected by the national recession and the events of September 11. In turn, Colorado General Fund revenues decreased 13.0 percent in FY 2001-02.

- Second, two **measures passed by voters** in the November 2000 election lower TABOR revenues. Amendment 23 provides increased public school funding and Referendum A provides property tax relief for senior citizens. These measures were passed assuming that the state would have TABOR surpluses to cover their costs. However, in FY 2002-03, the state is forecast to be $445.4 million short of the TABOR limit. In years in which there is no TABOR surplus, these measures no longer take funds from citizens' refunds, but rather are actual costs incurred in the General Fund. This causes an extra $325.3 million in General Fund obligations in FY 2002-03.

- Third, both House Bill 02-1310 and Senate Bill 02-179 contain provisions that enable the state to recoup revenues lost because the TABOR limits computed during the 1990s used population estimates that were too low. The percentage change associated with this lost revenue is called the "**growth dividend**" and is discussed in more detail below. The growth dividend raises the TABOR limit in FY 2003-04 through FY 2005-06, thereby eliminating or reducing the TABOR surplus in those years.

Both House Bill 02-1310 and Senate Bill 02-179 contain provisions that enable the state to recoup revenues lost because the TABOR limits computed during the 1990s used population estimates that were too low.

The Growth Dividend

Both House Bill 02-1310 and Senate Bill 02-179 contain provisions that enable the state to recoup revenues lost because the TABOR limits computed during the 1990s used population estimates that were too low. This undercount resulted in lower TABOR limits and higher refunds than would have occurred with more accurate population figures. The percentage change associated with this lost revenue is called the "growth dividend."

The TABOR limit for FY 2001-02 was calculated using the 2000 census measure of Colorado's population compared with an estimate of 1999 population that was not yet revised to reflect the 2000 census. In 2001, the U.S. Bureau of the Census reported that Colorado's population between 1999 and 2000 grew 6.0 percent, an artificially high value because the U.S. Bureau of the Census had underestimated Colorado's population in 1999 and throughout the 1990s.

Since the state was not in a TABOR surplus position in FY 2001-02, the state could not recoup the extra money refunded to taxpayers throughout the 1990s when the U.S. Bureau of the Census undercounted the state's population. Thus, House Bill 02-1310 and Senate Bill 02-179 allow the 6.0-percent growth dividend to be carried forward for up to nine years. The growth dividend is applied to the TABOR limit in an amount that maximizes the TABOR revenue growth rate subject to available

TABOR revenues. In subsequent years, the unused amount of the growth dividend is applied in a similar manner, until either the cumulative amount by which the TABOR limit is increased equals 6.0 percent (the original growth dividend amount) or the nine-year limit is reached.

The entire 6.0-percent growth dividend will be applied to the TABOR limit, which will allow the state to keep approximately $2.3 billion in additional revenues through the forecast period.

The OSPB December 2002 forecast indicates that in FY 2002-03, TABOR revenues will once again be below the TABOR limit. From FY 2003-04 through FY 2005-06, the entire 6.0-percent growth dividend will be applied to the TABOR limit, which will allow the state to keep approximately $2.3 billion in additional revenues through the forecast period. This will eliminate the TABOR surplus in fiscal years 2003-04 and 2004-05.

GENERAL FUND OVERVIEW

The baseline General Fund overview is presented in ***Table 2***, which provides a summary of General Fund revenues, expenditures, and reserves through FY 2007-08. The baseline forecast (Table 2) assumes current law for the General Fund appropriations level and capital construction transfer in FY 2003-04. This scenario is intended to reflect the budget as enacted so that we can examine the amount of cuts that needed to occur. None of the Governor's budget balancing actions or proposals is included in this scenario. Table 3 displays the General Fund overview with the Governor's proposed budget balancing reductions.

In response to declining General Fund revenues resulting from the impacts of the national recession and September 11 on the state's economy, a number of actions were taken to reduce General Fund expenditures and to enhance General Fund revenues in FY 2001-02 and FY 2002-03. In total, FY 2001-02 General Fund revenues declined $872.4 million (13.0 percent) from their FY 2000-01 level and in FY 2002-03 they are forecast to decline another 1.6 percent.

The structural deficit in FY 2002-03 totals $1.1 billion, an amount approximately equal to the amount of one-time revenues used by the General Assembly to balance the FY 2001-02 budget instead of reducing expenditures.

The OSPB December 2002 General Fund forecast indicates that there is not enough revenue to support the appropriated expenditures in FY 2002-03. Furthermore, although the General Fund *revenue* base fell significantly during FY 2001-02, the General Fund *expenditure* base was not similarly reduced. Instead, the General Assembly maintained FY 2001-02 operating expenditures at their original levels, relying on $1.2 billion of one-time money to augment General Fund revenues and finance appropriations. In addition, the enacted FY 2002-03 budget grew 7.3 percent. Because the rate of growth in General Fund appropriations was not lowered, the General Fund now will have a structural deficit (***Figure 1***) in FY 2002-03 and beyond unless action to lower expenditures is taken. This occurs even though the revenue situation improves over the forecast horizon. Indeed, the structural deficit in FY 2002-03 totals $1.1 billion, an amount approximately equal to the amount of one-time revenues used by the General Assembly to balance the FY 2001-02 budget instead of reducing expenditures. In addition, there are two constitutionally required expenditures — Amendment 23 and the Homestead Exemption — that the state must fund, even though there is no TABOR surplus to cover the costs. Therefore, the General Fund is obligated to incur another $325.3 million expenditure.

TABLE 2

General Fund Overview: Current Law Without the Governor's Budget Reduction Package

(Dollar Amounts in Millions)

		December 2002 Estimate by Fiscal Year					
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
BEGINNING RESERVE	$469.3	$137.5	$240.4	$242.4	$259.5	$275.0	$291.5
GROSS GENERAL FUND	5,844.4	5,751.9	6,142.8	6,486.6	6,946.1	7,460.6	7,981.0
TRANSFERS TO GENERAL FUND	536.3 **/E**	219.0 **/E**	0.0				
TRANSFER OF CMTF MONIES (HB 01-1267)	253.4						
SENATE BILL 97-1 TRANSFERS TO THE HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DIVERSION TO OLDER COLORADOANS FUNDS	0.0 **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**
TRANSFER FROM THE STATE EDUCATION FUND		59.2 **/K**					
TRANSFER TO THE STATE EDUCATION FUND	(272.9) **/D**	(262.7) **/D**	(286.1) **/D**	(307.1) **/D**	(331.9) **/D**	(359.7) **/D**	(387.5) **/D**
TOTAL FUNDS AVAILABLE	$6,830.5	$5,902.0	$6,094.1	$6,418.9	$6,870.7	$7,372.9	$7,882.0
EXPENDITURES:							
General Fund Appropriations	$5,643.0 **/B**	$5,950.4	$6,119.2	$6,466.4	$6,855.5	$7,268.1	$7,705.3
Governor's Spending Reductions		0.0	0.0				
Additional Reduction Necessary to Maintain Required Reserve	0.0	(851.8) **/H**	(705.3) **/H**	(766.6) **/H**	(579.6) **/H**	(485.0) **/H**	(493.2) **/H**
K-12 Capital Construction	10.0 **/C**	0.0 **/C**	0.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**
Medicaid Overexpenditure	NA	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	140.4	142.6	140.9	143.1	145.3	147.3	147.8
Capital and Prison Construction	0.0	10.6	101.2	101.8	100.4	0.0	0.0
TABOR Refund	927.2	0.0	0.0	0.0	0.0	74.9	136.9
Homestead Exemption	0.0	62.6	55.1	56.5	54.1	56.1	56.1
Transfer of CMTF Monies (HB 02-1445)			138.2	138.2			
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)	2.5 **/G**	349.6 **/G**					
Reversions	(26.3) **/J**						
Accounting Adjustments	(3.8)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,693.0	$5,664.0	$5,849.3	$6,159.4	$6,595.6	$7,081.3	$7,573.0
YEAR-END GENERAL FUND RESERVE:	**$137.5**	**$240.4**	**$242.4**	**$259.5**	**$275.0**	**$291.5**	**$309.0**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**0.0 /I**	**240.4**	**242.4**	**259.5**	**275.0**	**291.5**	**309.0**
MONIES IN EXCESS OF STATUTORY RESERVE	**137.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Reserved Monies for Resumption of Accrual Accounting		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
RESERVE AS A % OF APPROPRIATIONS	**2.4%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$232.6 **/A**	$235.2 **/A**	$249.6	$263.5	$278.5	$291.9	$307.4
Appropriations Growth	$303.4	$356.7	$109.5	$367.2	$389.2	$412.5	$437.3
Appropriations Growth Rate	5.67%	6.31%	1.82%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.

Totals may not sum due to rounding.

/A Per H.B. 02-1394 and H.B. 02-1442, the TABOR reserve is designated as any money in the four-percent reserve, the Tobacco Litigation Settlement Fund, the State Severance Tax Fund, the Employment Support Fund, the Unclaimed Property Fund, the Wildlife Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/B The FY 2001-02 appropriations figure also includes $3.6 million that is exempt from the statutory six-percent limit. This figure also includes a $35.2 million appropriation to the HUTF, a $78.9 million appropriation to the Capital Construction Fund, and a $3.0 million appropriation to the Older Coloradoans program.

/C S.B. 00-181 transfers money to the K-12 Capital Construction Fund. This money is exempt from the statutory limit, but is used as the base for calculation of the next year's limit. In FY 2002-03, the payment to the K-12 Capital Construction Fund is paid from the State Education Fund ($10.9 million) and funding from powerball ($4.1 million). In FY 2003-04, the Governor's budget request assumes the payment is paid from the State Education Fund and to the extent available, Powerball.

/D Per Amendment 23, one third of one percentage point of federal taxable income is credited to the State Education Fund beginning January 1, 2001.

/E This figure represents the total transfer to the General Fund per H.B. 02-1391, H.B. 02-1392, H.B. 02-1443, H.B. 02-1444, H.B. 02-1445, and H.B. 02-1478.

/F Per H.B. 00-1072 and H.B. 01-1079, $3 million is appropriated to fund the Older Coloradoans Act in FY 2000-01 and FY 2001-02. Per H.B. 02-1209, $2 million is appropriated to fund the Older Coloradoans Act in FY 2002-03 and beyond. Per H.B. 02-1276, $1 million is transferred to the Older Coloradoans Health and Medical Care fund beginning in FY 2002-03.

/G Per H.B. 02-1391, the state is required to pay back some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391. In addition, H.B. 02-1445 and H.B. 02-1478 require the state to repay the Major Medical and Tobacco Settlement funds in the same amount as was transfered to the General Fund in FY 2001-02. H.B. 02-1391 required the state to repay the $2.5 million transfer from the Species Conservation Fund from the General Fund by June 30, 2002. This amount was paid from year-end reversions.

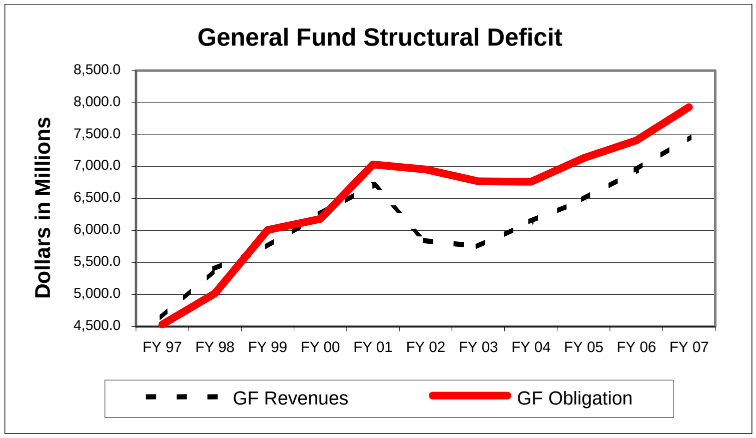
/H This figure represents the amount necessary to reduce either the operating or capital budgets in order to maintain the statutorily required reserve.

/I Per H.B. 02-1478, the four-percent statutory reserve was eliminated in FY 2001-02 only.

/J The Governor ordered an additional 1.5-percent General Fund budget restriction in FY 2001-02 and a hiring freeze for all Executive Branch Departments. The departments reverted this amount as a result of these actions.

/K The state has diverted more than the required amount from the General Fund to the State Education Fund in FY 2001-02. Therefore, the excess diversion must be transferred back to the General Fund per 22-55-103, C.R.S.

Figure 1



Faced with the budget shortfall because expenditures were not lowered commensurate with the revenue decrease, the Governor put in place a number of measures to reduce expenditures by $700 million in the current fiscal year. The following section describes the actions proposed by the Governor to maintain a balanced budget in FY 2002-03 as required by Article X, Section 16 of the Colorado State Constitution and Section 24-75-201.5, C.R.S.

How has the Governor proposed to reduce expenditures in FY 2002-03?

Any effort to reduce General Fund expenditures is constrained by the fact that more than 60 percent of Colorado's General Fund spending is constitutionally or federally required.

As early as March 2002, the OSPB revenue forecast showed that General Fund spending authorized in the General Assembly's FY 2002-03 budget was higher than revenues and the statutory reserve requirement allowed. According to 24-75-201.5, C.R.S., the Governor must implement an expenditure reduction plan when the revenue forecast shows that the state will fall below a two-percent reserve based on the current revenue projection. However, any effort to reduce General Fund expenditures is constrained by the fact that more than 60 percent of Colorado's General Fund spending is constitutionally or federally required. This required spending includes mandated spending for K-12 education, Medicaid, and property tax exemptions for senior citizens. Furthermore, the remaining 40 percent of Colorado's General Fund spending includes important state functions, such as prisons, public safety, human services, higher education, and public health.

Recognizing the importance of reducing the General Fund expenditure base to come in-line with the new revenue base, the Governor's plan focuses on reducing the base operating budgets of most state agencies.

The December 20, 2002 forecast shows that the state will indeed not have enough General Fund revenue to accommodate appropriated expenditures without falling below the two-percent reserve requirement. In response to the budget shortfall and the structural deficit facing the state, the Governor reduced General Fund expenditures in FY 2002-03. Recognizing the importance of reducing the General Fund expenditure base to come in-line with the new revenue base, the Governor's plan focuses on reducing the base operating budgets of most state agencies. In total, the Governor has proposed a $700 million budget-balancing plan. This leaves just $80.2 million in the current fiscal year for the General Assembly to address when the legislative session begins in January 2003.

In recognition that the revenue situation might trigger the need for such a budget-balancing plan, the Governor and the General Assembly agreed to various provisions to partially address the General Fund shortfall in FY 2002-03. First, the General

Assembly, through House Bill 02-1445 and House Bill 02-1478, gave the Governor authority to transfer funds from the Tobacco Litigation Settlement Trust Fund, the Unclaimed Property Trust Fund, the Employment Support Fund, and the Major Medical Insurance Fund if the required reserve did fall below two-percent of appropriations. In total, the Governor transferred approximately $219 million to the General Fund on July 1, 2002 from these funds. Second, House Bill 02-1446 delayed the $276 million repayment of the Controlled Maintenance Trust Fund from July 1, 2002 to July 1, 2003 ($138 million) and July 1, 2004 ($138 million).

House Bill 02-1446 delayed the $276 million repayment of the Controlled Maintenance Trust Fund from July 1, 2002 to July 1, 2003 ($138 million) and July 1, 2004 ($138 million).

In response to the OSPB June 2002 forecast that indicated a large revenue shortfall in FY 2002-03, the Governor implemented a plan to reduce General Fund expenditures by $220 million to maintain a two-percent reserve. The plan included:

- Imposing a four-percent restriction on all Executive Departments (excluding K-12 total program and categoricals, developmental disabilities, and the School for the Deaf and the Blind), which totaled $142 million in base reductions;

- Vetoing approximately $46 million in operating and capital appropriations from the FY 2002-03 long appropriations bill (House Bill 02-1420), thereby permanently reducing the General Fund appropriations base by $45 million;

- Freezing capital construction projects less than 25 percent complete, a $24.2 million savings; and

- Eliminating General Fund increases in provider rates in FY 2002-03, reducing the General Fund appropriations base by an additional $9.5 million.

However, despite these actions, revenues continued to falter and the September 2002 forecast indicated that General Fund expenditures needed to be further reduced in order to maintain a two-percent reserve. Thus, in November, the Governor proposed a second phase to his plan to balance the budget over the next two fiscal years. In total, he proposed additional budget savings of $478 million in FY 2002-03. If adopted, these actions will come very close to balancing the budget in FY 2002-03 and FY 2003-04 by aggressively lowering the General Fund appropriations base in FY 2002-03. Some of these budget proposals will require statutory changes. The second phase of the Governor’s plan includes:

- Requiring all Departments except Corrections and Medicaid to reduce expenditures by an additional six percent in FY 2002-03. Medicaid is required to reduce expenditures by an additional three percent and Corrections will not have any additional budget cuts. As has been the case in previous budget reductions, K-12 total program, K-12 categoricals, developmental disabilities, and the School for the Deaf and the Blind are exempt. The six-percent reduction is in addition to the four-percent restrictions already put in place in phase one of the Governor’s budget-balancing plan. These additional reductions total $134 million and are permanent. The savings amount assumes that the non-executive agencies permanently lower their expenditures by a commensurate amount.

- Maintain the state share of K-12 total program funding at $2.5 billion, as is currently in the budget — a $225 million increase in FY 2002-03 — but change the mix of state funds that are used. The current General Fund appropriation for K-12 includes a 7.5 percent ($155 million) increase. The Governor’s proposal is to maintain the current level of state support for K-12 funding, but shift $51 million of General Fund into the State Education Fund. The General Fund commitment would grow 5.0 percent instead of 7.5 percent, as is currently budgeted.

- Shift the pay date for state government employees by one day, from June 30, 2003 to July 1, 2003. This will save the state considerable General Fund monies. This will also benefit employees because they will have one less month of reported income for the 2003 calendar year, even though the pay date is shifted by only one day. Assuming a 33 percent tax bracket (including federal and state taxes), this saves state employees $88 million in taxes. By implementing this policy, the state will eliminate the need for as many as 2,300 layoffs.

- Reduce by half ($11.5 million) the tobacco cessation and research grants from the tobacco settlement in FY 2002-03 and FY 2003-04 and transfer the $11.5 million of tobacco funds to the General Fund. Funding from the tobacco settlement for the visiting nurses, the Children's Basic Health Plan (CHP+), Prenatal Care through CHP+, Read to Achieve, Prevention Programs, and the Veterans' Trust Fund would remain fully funded.

- Enact cash fund transfers and refinancings totaling $120 million in FY 2002-03 and $14 million in FY 2003-04.

- Implement other measures, including: tax amnesty; elimination of fleet replacements paid with General Fund; delaying by one month the deduction of medical insurance costs; early retirement incentives; and drawing down federal dollars by matching local funds in Human Services.

- Delay the payback of the controlled maintenance trust fund by one year, to $138.2 million on July 1, 2004 and $138.2 million on July 1, 2005.

- Reduce the FY 2003-04 transfer to the capital construction fund to $5.0 million from the currently budgeted $100 million.

The Governor has proposed plans to address $700 million — 90 percent — of the budget deficit to bring the General Fund in line with the statutory requirements.

Table 3 reports the General Fund overview assuming the implementation of the budget balancing plans announced by the Governor in June and November 2002. All told, the Governor has proposed plans to address $700 million — 90 percent — of the budget deficit to bring the General Fund in line with the statutory requirements. Table 3 assumes that the General Assembly approves the budget reduction plan proposed by the Governor and that the majority of the four-percent and six-percent General Fund operating reductions are taken as base reductions in FY 2002-03. Table 3 shows that in FY 2002-03, the state must restrict expenditures by an additional $80.2 million in order to ensure that a two-percent reserve is available.

What happens in FY 2003-04 and beyond?

The amount of the General Fund revenue shortfall in the out years of the forecast is dependent on the action taken by the General Assembly to address the FY 2002-03 deficit. In the scenario shown in Table 3, General Fund obligations exceed revenues by $359.8 million in FY 2003-04, even after implementation of the Governor's balanced-budget plan outlined above and the use of half of the reserve in FY 2002-03. Thus, even with the Governor's plan that incorporates the 10-percent operating restrictions on all state agencies, additional reductions are necessary in FY 2003-04.

TABLE 3

General Fund Overview: the Governor's Announced Plan

(Dollar Amounts in Millions)

		December 2002 Estimate by Fiscal Year					
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
BEGINNING RESERVE	$469.3	$137.5	$113.4	$236.6	$250.8	$265.9	$281.8
GROSS GENERAL FUND	5,844.4	5,751.9	6,142.8	6,486.6	6,946.1	7,460.6	7,981.0
TRANSFERS TO GENERAL FUND	536.3 **/E**	358.3 **/E**	30.6				
TRANSFER OF CMTF MONIES (HB 01-1267)	253.4						
SENATE BILL 97-1 TRANSFERS TO THE HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DIVERSION TO OLDER COLORADOANS FUNDS	0.0 **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**
TRANSFER FROM THE STATE EDUCATION FUND		59.2 **/K**					
TRANSFER TO THE STATE EDUCATION FUND	(272.9) **/D**	(262.7) **/D**	(286.1) **/D**	(307.1) **/D**	(331.9) **/D**	(359.7) **/D**	(387.5) **/D**
TOTAL FUNDS AVAILABLE	$6,830.5	$6,041.3	$5,997.7	$6,413.1	$6,862.1	$7,363.7	$7,872.3
EXPENDITURES:							
General Fund Appropriations	$5,643.0 **/B**	$5,950.4	$6,011.6	$6,251.0	$6,627.2	$7,026.1	$7,448.8
Governor's Spending Reductions		(513.3)	(95.6)				
Additional Reduction Necessary to Maintain Required Reserve	0.0	(80.2) **/H**	(359.8) **/H**	(548.3) **/H**	(489.0) **/H**	(242.5) **/H**	(236.1) **/H**
K-12 Capital Construction	10.0 **/C**	0.0 **/C**	0.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**
Medicaid Overexpenditure	NA	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	140.4	142.6	140.9	143.1	145.3	147.3	147.8
Capital and Prison Construction	0.0	10.6	5.0	101.8	100.4	0.0	0.0
TABOR Refund	927.2	0.0	0.0	0.0	0.0	74.9	136.9
Homestead Exemption	0.0	62.6	55.1	56.5	54.1	56.1	56.1
Transfer of CMTF Monies (HB 02-1445)				138.2	138.2		
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)	2.5 **/G**	349.6 **/G**					
Reversions	(26.3) **/J**						
Accounting Adjustments	(3.8)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,693.0	$5,922.3	$5,757.3	$6,162.3	$6,596.2	$7,081.9	$7,573.6
YEAR-END GENERAL FUND RESERVE:	**$137.5**	**$113.4**	**$236.6**	**$250.8**	**$265.9**	**$281.8**	**$298.8**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**0.0 /I**	**226.9**	**236.6**	**250.8**	**265.9**	**281.8**	**298.8**
MONIES IN EXCESS OF STATUTORY RESERVE	**137.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Reserved Monies for Resumption of Accrual Accounting		**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
RESERVE AS A % OF APPROPRIATIONS	**2.4%**	**2.0%**	**3.9%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$232.6 **/A**	$235.2 **/A**	$249.6	$263.5	$278.5	$291.9	$307.4
Appropriations Growth	$303.4	$18.3	$244.7	$355.0	$376.3	$398.8	$422.8
Appropriations Growth Rate	5.67%	0.32%	4.31%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.

Totals may not sum due to rounding.

/A Per H.B. 02-1394 and H.B. 02-1442, the TABOR reserve is designated as any money in the four-percent reserve, the Tobacco Litigation Settlement Fund, the State Severance Tax Fund, the Employment Support Fund, the Unclaimed Property Fund, the Wildlife Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/B The FY 2001-02 appropriations figure also includes $3.6 million that is exempt from the statutory six-percent limit. This figure also includes a $35.2 million appropriation to the HUTF, a $78.9 million appropriation to the Capital Construction Fund, and a $3.0 million appropriation to the Older Coloradoans program.

/C S.B. 00-181 transfers money to the K-12 Capital Construction Fund. This money is exempt from the statutory limit, but is used as the base for calculation of the next year's limit. In FY 2002-03, the payment to the K-12 Capital Construction Fund is paid from the State Education Fund ($10.9 million) and funding from powerball ($4.1 million). In FY 2003-04, the Governor's budget request assumes the payment is paid from the State Education Fund and to the extent available, Powerball.

/D Per Amendment 23, one third of one percentage point of federal taxable income is credited to the State Education Fund beginning January 1, 2001.

/E This figure represents the total transfer to the General Fund per H.B. 02-1391, H.B. 02-1392, H.B. 02-1443, H.B. 02-1444, H.B. 02-1445, and H.B. 02-1478 as well as an additional $139.3 million from the Governor's announced plan.

/F Per H.B. 00-1072 and H.B. 01-1079, $3 million is appropriated to fund the Older Coloradoans Act in FY 2000-01 and FY 2001-02. Per H.B. 02-1209, $2 million is appropriated to fund the Older Coloradoans Act in FY 2002-03 and beyond. Per H.B. 02-1276, $1 million is transferred to the Older Coloradoans Health and Medical Care fund beginning in FY 2002-03.

/G Per H.B. 02-1391, the state is required to pay back some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391. In addition, H.B. 02-1445 and H.B. 02-1478 require the state to repay the Major Medical and Tobacco Settlement funds in the same amount as was transfered to the General Fund in FY 2001-02. H.B. 02-1391 required the state to repay the $2.5 million transfer from the Species Conservation Fund from the General Fund by June 30, 2002. This amount was paid from year-end reversions.

/H This figure represents the amount necessary to reduce either the operating or capital budgets in order to maintain the statutorily required reserve.

/I Per H.B. 02-1478, the four-percent statutory reserve was eliminated in FY 2001-02 only.

/J The Governor ordered an additional 1.5-percent General Fund budget restriction in FY 2001-02 and a hiring freeze for all Executive Branch Departments. The departments reverted this amount as a result of these actions.

/K The state has diverted more than the required amount from the General Fund to the State Education Fund in FY 2001-02. Therefore, the excess diversion must be transferred back to the General Fund per 22-55-103, C.R.S.

If the General Assembly chooses to address the remaining shortfall in FY 2002-03 through base reductions, there is a much smaller shortfall in FY 2003-04. However, if the proposed base reductions are not approved by the General Assembly or if the entire four percent reserve is used to account for the remaining FY 2002-03 shortfall, the shortfall in FY 2003-04 will grow.

Other Changes to the General Fund Overview

The state diverted $59.2 million more than required by Amendment 23 in FY 2001-02.

One major change in the General Fund overview is the addition of a transfer from the State Education Fund to the General Fund. According to 22-55-103, C.R.S., in the fiscal year after the diversion to the State Education Fund occurs, the state is required to true up the diversion based on actual federal taxable income. It is estimated that the state diverted $59.2 million more than required by Amendment 23 in FY 2001-02. Thus, this amount must be transferred back to the General Fund in the current fiscal year.

GENERAL FUND REVENUES

Our forecast for General Fund revenues is shown in ***Table 4***. The forecast for FY 2002-03 was lowered considerably in the December 2002 forecast compared with the September 2002 forecast. In total, we reduced our General Fund revenue forecast by $275.2 million in FY 2002-03. The changes were mainly in the income tax and sales tax forecasts. The individual and corporate income tax forecasts were lowered by $195.8 million and $17.5 million, respectively. In addition, the sales tax forecast was lowered by almost $72 million. Overall, we expect General Fund revenues to decline 1.6 percent in FY 2002-03 before resuming positive growth of 6.8 percent in FY 2003-04.

The decline in these taxes shows that the current economic downturn continues to reduce our wage base.

All four categories of individual income tax receipts — withholding, estimated payments, cash-with-returns, and refunds — changed substantially between our September 2002 and December 2002 forecasts. Withholding and estimated payment tax receipts for July through November 2002 are lower than for the same period in 2001 by 1.2 percent and 9.5 percent, respectively. The decline in these taxes shows that the current economic downturn continues to reduce our wage base. This is most likely the result of losing many high wage positions in the advanced technology and telecommunications sectors. Moreover, many positions that previously received large bonuses and capital gains income through stock options did not receive bonuses in 2002 and are unlikely to receive stock options and bonuses in 2003. These positions are predominantly in the advanced technology and financial, insurance and real estate sectors that are closely tied to the stock market. In addition, the tourism employment sector was negatively impacted this summer by the lingering stagnation in the national economy, the effects of September 11 on travel, wildfires, and drought. This has also affected our wage base and thus, withholding receipts. We anticipate that withholding and estimated payment receipts will begin to increase in 2003.

Through the first five months of FY 2002-03, both individual refunds and cash-with-returns have been substantially above our September 2002 forecast. Thus, in our December 2002 forecast, we increased our estimate for refunds in FY 2002-03 by $217.0 million and cash-with-returns by $166.6 million. In combination, these two categories lower individual income tax receipts by $100.4 million.

TABLE 4

Colorado General Fund, Accrual Basis
Revenue Estimates by Tax Category

(Dollar Amounts in Millions)

			December 2002 Estimate by Fiscal Year with Percent Change Over Prior Year											
Category	**FY 2001-02**	**%**	**FY 2002-03**	**%**	**FY 2003-04**	**%**	**FY 2004-05**	**%**	**FY 2005-06**	**%**	**FY 2006-07**	**%**	**FY 2007-08**	**%**
Sales	$1,755.7 **/A**	-3.1	$1,711.1 **/A**	-2.5	$1,781.6 **/A**	4.1	$1,855.7 **/A**	4.2	$1,961.9 **/A**	5.7	$2,077.6 **/A**	5.9	$2,198.4 **/A**	5.8
TABOR Overrefund	($28.6) **/D**		($18.7) **/D**		$0.0		$0.0		$0.0		$0.0		$0.0	
Use	140.6 **/A**	-11.0	133.8 **/A**	-4.8	136.4 **/A**	2.0	140.5 **/A**	3.0	145.2 **/A**	3.4	152.3 **/A**	4.9	161.2 **/A**	5.8
Cigarette	55.2	-5.0	56.7	2.6	57.0	0.6	57.9	1.6	57.5	-0.7	57.8	0.5	58.1	0.5
Tobacco Products	10.3	4.3	10.7	4.1	11.5	6.6	11.9	4.1	12.6	5.3	13.1	4.1	13.5	3.1
Liquor	29.5	0.6	31.4	6.6	32.8	4.4	34.4	4.9	36.2	5.1	38.1	5.3	39.9	4.8
TOTAL EXCISE	1,962.7	-2.2	1,925.1	-1.9	2,019.3	4.9	2,100.5	4.0	2,213.4	5.4	2,338.9	5.7	2,471.1	5.7
Net Individual Income	3,345.1 **/C**	-16.7	3,290.3 **/C**	-1.6	3,588.2 **/C**	9.1	3,863.3 **/C**	7.7	4,182.8 **/C**	8.3	4,542.2 **/C**	8.6	4,900.2 **/C**	7.9
Net Corporate Income	178.0 **/C**	-46.0	220.0 **/C**	23.6	229.8 **/C**	4.5	235.4 **/C**	2.4	247.5 **/C**	5.1	259.9 **/C**	5.0	273.0 **/C**	5.1
TOTAL INCOME	3,523.1	-19.0	3,510.3	-0.4	3,818.0	8.8	4,098.7	7.4	4,430.3	8.1	4,802.1	8.4	5,173.3	7.7
Estate	72.5 **/B**	-12.2	46.2 **/B**	-36.3	26.4 **/B**	-42.8	6.3 **/B**	-76.0	1.5 **/B**	-76.3	1.0 **/B**	-33.3	2.5 **/B**	150.0
Insurance	154.6	8.9	150.5	-2.7	157.3	4.5	160.0	1.7	163.4	2.2	172.2	5.4	181.4	5.4
Pari-Mutuel	5.7	-6.6	5.3	-7.1	5.3	0.0	5.3	0.1	5.3	0.1	5.3	0.1	5.3	-0.1
Interest Income	25.3	-44.0	17.5	-30.7	15.4	-12.4	15.6	1.5	21.6	38.2	25.0	16.0	26.3	5.0
Court Receipts	23.3	4.5	26.0	11.6	26.9	3.4	25.5	-5.2	28.9	13.2	29.9	3.6	31.0	3.5
Gaming	34.1	8.5	38.7	13.6	41.1	6.1	43.8	6.7	47.2	7.7	51.0	8.0	55.0	7.9
Medicaid (Intergovt. Transfer)	11.2		10.7	-4.2	10.7	0.0	10.7	0.0	10.7	0.0	10.7	0.0	10.7	0.0
Other Income	31.9	-4.5	21.7	-31.9	22.4	3.3	20.1	-10.3	23.9	18.9	24.5	2.3	24.5	0.0
TOTAL OTHER	358.5	-1.2	316.6	-11.7	305.4	-3.5	287.3	-5.9	302.4	5.3	319.5	5.6	336.6	5.3
GROSS GENERAL FUND	**$5,844.4**	**-13.0**	**$5,751.9**	**-1.6**	**$6,142.8**	**6.8**	**$6,486.6**	**5.6**	**$6,946.1**	**7.1**	**$7,460.6**	**7.4**	**$7,981.0**	**7.0**
REBATES & EXPENDITURES:														
Cigarette Rebate	15.9	-3.0	16.3	2.6	16.4	0.6	16.7	1.6	16.6	-0.7	16.7	0.5	16.7	0.5
Old-Age Pension Fund	72.0	13.9	73.9	2.6	75.3	2.0	76.8	2.0	77.9	1.4	79.0	1.5	79.0	0.0
Aged Property Tax & Heating Credit	23.6	40.5	22.9	-3.0	23.9	4.2	24.3	1.9	25.5	4.9	26.3	3.2	26.7	1.4
Fire/Police Pensions	28.9	0.7	29.5	2.1	25.3	-14.2	25.3	0.0	25.3	0.0	25.3	0.0	25.3	0.0
TOTAL REBATES & EXPENDITURES	140.4	12.2	142.6	1.5	140.9	-1.2	143.1	1.6	145.3	1.5	147.3	1.4	147.8	0.3

Totals may not sum due to rounding.

NA: Not Applicable.

/A S.B. 97-1, H.B. 98-1202, and H.B. 99-1206 diverted 10.0 percent of sales and use taxes to the Highway Users Tax Fund. Beginning January 1, 2001, 10.34 percent of sales and use taxes will be diverted to the Highway Users Tax Fund per H.B. 00-1259, when revenues are available to fund expenditures. The full amount of sales and use taxes are reported here, and the amount transferred is deducted from available revenues in the General Fund Overview in Tables 2, 3, and 4.

/B The Federal tax relief package adopted in 2001 phases out the estate tax. Since the state collects revenues in lieu of sending them to the federal government, the state collections will also be almost entirely phased out and eliminated by FY 2005-06.

/C The impact of the 2002 federal economic stimulus package is included.

/D Per H.B. 99-1001, the state is required to refund 105 percent of the TABOR surplus. The five-percent overrefund essentially lowers the following year's revenue. In the 2002 legislative session, three bills (H.B. 02-1310, S.B. 02-179, and S.B. 02-218) repealed this provision effective with the FY 2002-03 TABOR surplus and the state is now only required to refund 100 percent of the sales tax refund. In FY 2001-02, the $69.9 million TABOR overrefund was counted toward the FY 2001-02 TABOR liability because the full amount of the FY 2001-02 TABOR refund was not liquidated. The FY 2002-03 overrefund is associated with the FY 1999-00 and FY 2000-01 TABOR surplus.

Corporate income tax receipts declined more than 45 percent in FY 2001-02 and from July through November 2002, they are more than 15 percent below the same period in 2001. However, nationally corporate profits have stopped their freefall, primarily because of cost cutting measures that corporations have undertaken rather than increased sales and production. We anticipate that corporate income tax revenues will increase 23.6 percent in FY 2002-03, but remain below their FY 2000-01 level.

For the period from July through November 2002, actual sales tax revenues are below our September 2002 forecast by 4.0 percent. Therefore, we reduced our sales tax receipt forecast by $71.9 million for FY 2002-03. Consumer spending has not increased as quickly as anticipated in earlier forecasts, in part because consumer confidence has been shaken by recent financial and world events. We expect that sales tax revenues will decline 2.5 percent in FY 2002-03 and then resume positive growth in FY 2003-04.

How does Colorado's Revenue Situation Compare with Other States?

It is noteworthy that Colorado's revenue shortfall is comparable with shortfalls occurring in other states across the nation. Indeed, according to the Nelson A. Rockefeller Institute of State Government of the State University of New York, total state tax revenues declined 13.0 percent in the second quarter of 2002, after declining 9.3 percent in the first quarter. This is similar to Colorado's decrease. However, while other states have slashed state services and laid off numerous state employees, this has not happened in Colorado. For example, California laid off 7,000 state employees; Iowa furloughed 50,000 workers; and Massachusetts, Missouri, and Nebraska have eliminated Medicaid coverage for some families. By contrast, Colorado has weathered this budget shortfall with relatively few layoffs or service reductions to citizens. Instead, Governor Owens has proposed a budget-balancing plan that focuses on maintaining state jobs (to date, there have been less than 200 layoffs) and minimizing the impacts to Colorado's citizens.

Colorado has weathered this budget shortfall with relatively few layoffs or service reductions to citizens.

Cash Fund Revenues Forecast

Summary

- **Cash fund revenues** are forecast to increase 7.0 percent in FY 2002-03 to $2,389.6 million and in FY 2003-04 they will increase an additional 4.9 percent to $2,505.6 million. Above normal growth in vehicle registrations, tuition revenues, and unemployment insurance taxes contributes to the strong increase in FY 2002-03.

- **Transportation-related revenues**, the largest group of cash funds, are forecast to increase 2.5 percent in FY 2002-03 and 1.0 percent in FY 2003-04. From FY 2002-03 through FY 2007-08, these funds will grow at a compound annual average rate of 3.0 percent.

- **Higher education cash funds**, the next largest group of cash funds, will see a 9.4 percent increase in FY 2002-03 for total tuition and nontuition higher education revenues. The increase in total higher education revenues occurs because both tuition rates and the number of students increased substantially.

- Unemployment Insurance (UI) taxes are the primary revenue source for the **Unemployment Insurance Trust Fund**. Revenues from these taxes are forecast to increase 52.7 percent as UI tax rates continue to rise to compensate for higher UI benefit payments. The increase in UI tax revenues between FY 2001-02 and FY 2002-03 is due to a substantial increase in UI tax rates in 2003 as they automatically adjust for recession conditions in the state. The average UI tax rate in FY 2002-03 is approximately the same as during the 1991-1992 economic recession.

Above normal growth in vehicle registrations, tuition revenues, and unemployment insurance taxes contributes to the strong increase in FY 2002-03.

The OSPB December 2002 cash fund revenue forecast is summarized in ***Table 5***. These funds are monies collected and earmarked for specific purposes and comprised 28.8 percent of total TABOR revenues in FY 2001-02. In FY 2002-03, cash fund revenues are forecast to increase 7.0 percent to $2,389.6 million and in FY 2003-04, they will increase an additional 4.9 percent to $2,505.6 million. Above normal growth in vehicle registrations, tuition revenues, and unemployment insurance taxes contributes to the strong increase in FY 2002-03. From FY 2002-03 through FY 2007-08, cash fund revenues will grow at a compound annual average rate of 3.8 percent.

TRANSPORTATION-RELATED CASH FUNDS

Transportation-related cash funds revenue grew 4.2 percent in FY 2001-02. Fuel tax revenues contribute the largest share to the transportation cash funds. These revenues, collected on gasoline, gasohol, diesel, and special fuels, rose in part as a result of the September 11 attacks, which gave impetus for people to drive rather than fly to their destinations. In total, the *Highway Users Tax Fund*, which is comprised primarily of fuel tax revenues and registration fees, increased 3.0 percent. *Other transportation funds*, which include the State Highway Fund, rose 18.5 percent in FY 2001-02.

TABLE 5

Cash Fund Revenue Forecasts by Major Category

(Accrual Basis, Dollar Amounts in Millions)

		December 2002 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**CAAGR ***
Transportation-Related	$813.9	$834.2	$842.9	$865.8	$893.4	$935.3	$967.6	
Change	4.2%	2.5%	1.0%	2.7%	3.2%	4.7%	3.5%	3.0%
Higher Education	$635.4 **/A,H**	$695.5 **/H,B**	$723.9 **/H,I**	$751.7 **/H,I**	$787.4 **/H,I**	$824.7 **/H,I**	$865.9 **/H,I**	
Change	8.6% **/J**	9.4%	4.1%	3.9%	4.7%	4.7%	5.0%	4.5%
Unemployment Insurance	$196.1 **/C**	$299.4 **/C**	$361.6 **/D**	$423.6 **/D**	$478.0 **/D**	$387.6 **/D**	$342.7	
Change	-2.4%	52.7%	20.8%	17.2%	12.8%	-18.9%	-11.6%	2.7%
Limited Gaming Fund	$99.1	$103.7	$110.1	$117.2	$125.8	$135.4	$145.6	
Change	7.7%	4.7%	6.2%	6.4%	7.3%	7.7%	7.5%	7.0%
Capital Construction - Interest	$17.5	$5.2	$2.3	$1.5	$3.8	$3.5	$1.9	
Change	-49.8%	-70.2%	-56.8%	-31.7%	149.8%	-8.5%	-46.7%	-18.5%
Regulatory Agencies	$50.4	$55.6	$57.1	$58.3	$59.5	$60.7	$62.0	
Change	-1.6%	10.2%	2.7%	2.2%	2.0%	2.0%	2.1%	2.2%
Insurance-Related	$66.3	$69.5	$74.7	$79.2	$83.8	$88.7	$93.9	
Change	29.0%	4.8%	7.5%	6.0%	5.9%	5.8%	5.8%	6.2%
Severance Tax	$57.5	$45.4	$43.1	$55.5	$50.7	$57.1	$60.8	
Change	-23.1%	-21.0%	-5.1%	28.7%	-8.6%	12.7%	6.4%	6.0%
Petroleum Storage Tank Fund	$21.3	$20.2	$19.7	$9.5	$9.5	$9.5	$9.4	
Change	-19.9%	-4.9%	-2.7%	-51.9%	0.4%	0.2%	-1.1%	-14.2%
Controlled Maintenance Trust Fund Interest	$0.5	$0.0	$0.0 **/E**	$4.1	$8.2	$8.2	$8.1	
Change	-97.1%	NA	NA	NA	98.6%	0.0%	-1.5%	25.0% **/F**
Other Cash Funds	$274.4	$261.0	$270.3	$282.2	$292.5	$306.8	$321.5	
Change	-3.0%	-4.9%	3.6%	4.4%	3.7%	4.9%	4.8%	4.3%
TOTAL CASH FUND REVENUE	**$2,232.4**	**$2,389.6**	**$2,505.6**	**$2,648.7**	**$2,792.8**	**$2,817.7**	**$2,879.2**	
Change	2.0% **/G**	7.0%	4.9%	5.7%	5.4%	0.9%	2.2%	3.8%

* CAAGR: Compound Annual Average Growth Rate.

/A Reflects a 5.0 percent increase in nonresident tuition and a 4.0 percent resident tuition increase.
/B In FY 2002-03, schools increased resident tuition between 4.7 percent and 6.2 percent and nonresident tuition between 7.7 percent and 9.2 percent.
/C Reflects the 20-percent credit against unemployment insurance taxes allowed by House Bill 00-1310 in calendar years 2001 and 2002.
/D Includes revenues from the solvency tax surcharge, which is applicable because the Solvency Ratio on June 30, 2003, June 30, 2004, and June 30, 2005 is less than 0.9 percent.
/E Assumes that the Controlled Maintenance Trust Fund payback will be made in FY 2004-05 and FY 2005-06
/F The Controlled Maintenance Trust Fund interest CAAGR is computed for the period from FY 2004-05 through FY 2007-08.
/G This growth rate is computed using FY 2000-01 total cash fund revenue net of the wildlife cash funds and scholarship allowances.
/H Higher Education revenues are net of scholarship allowances.
/I Higher Education tuition rates are assumed to grow at the Denver-Boulder-Greeley inflation rate.
/J This growth rate is computed using FY 2000-01 tuition revenue net of scholarship allowances.

Table 6 details our forecast for transportation-related cash fund revenues.

- Total transportation-related cash funds are forecast to increase 2.5 percent in FY 2002-03 and 1.0 percent in FY 2003-04. From FY 2002-03 through FY 2007-08, these funds will grow at a compound annual average rate of 3.0 percent.

- In FY 2002-03, registration fees will increase more than six percent. The rise in registration fees occurs because many people took advantage of dealer incentives and traded in their older cars, thereby lowering the average age of vehicles registered in the state. This raises the amount of registration fees collected because vehicles less than seven years old cost $12 to register, while vehicles seven years old but less than 10 years old cost $10 to register, and vehicles 10 years and older cost $7 to register. In FY 2003-04 and FY 2004-05, registration fees are forecast to grow at rates slightly lower than the historical average because the dealer incentives offered in 2002 caused people to purchase a new car earlier than they would have without the incentives. In FY 2005-06 through FY 2007-08, registration fees will increase at rates approaching the historical average.

The rise in registration fees occurs because many people took advantage of dealer incentives and traded in their older cars.

- The other transportation-related cash funds, which grew 18.5 percent in FY 2001-02, will decline 6.9 percent in FY 2002-03 and then decline 15.2 percent in FY 2003-04. The strong growth in FY 2001-02 is due to increased amounts of local matching monies for highway construction that were placed in the State Highway Fund (one of the funds in this collection). In FY 2003-04, matching local monies are expected to decline substantially, causing the overall decline in other transportation-related cash funds revenues. In FY 2004-05 and beyond, the other transportation-related cash funds will grow between 5.0 percent and 6.2 percent per year.

HIGHER EDUCATION CASH FUNDS

The December 2002 forecast for *higher education cash funds* increased compared with our September 2002 forecast. In FY 2002-03 the forecast for higher education cash funds reflects above-inflation increases in tuition and record high enrollment. The forecast for FY 2003-04 and beyond assumes that both resident and nonresident tuition increase by the Denver-Boulder-Greeley inflation rate and that enrollment grows at a more moderate rate.

In FY 2002-03 the forecast for higher education cash funds reflects above-inflation increases in tuition and record high enrollment.

Table 7 shows our forecast for Higher Education enrollments and revenues.

- Total higher education full-time-equivalent (FTE) enrollment rose 5.8 percent in FY 2002-03, the largest increase since the 1989-90 school year. In FY 2002-03, *resident* FTE enrollment rose 6.6 percent compared with FY 2001-02, while *nonresident* FTE rose only 1.0 percent. The smaller increase in nonresidential enrollment is a result of the weak national economy: students are avoiding out-of-state tuition costs in order to make their education dollars go further. The overall rise in enrollment can be attributed to two causes. First, a rising birthrate since the mid-1970s means that more of the population is of student age. Second, the slowing economy means that more people opt to go to school rather than join or stay in the work force. The higher FTE forecast reflects a continuation of these trends, but at a more restrained pace.

TABLE 6

Transportation-Related Cash Funds Revenue Forecast

(Accrual Basis, Dollar Amounts in Millions)

		December 2002 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08 CAAGR *
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	
Highway Users Tax Fund (HUTF)								
Registrations	$151.4	$160.6	$165.3	$169.3	$174.9	$181.5	$188.4	
Change	1.8%	6.1%	2.9%	2.4%	3.3%	3.7%	3.8%	3.2%
Motor and Special Fuels	$544.6 **/A**	$560.2 **/A**	$574.0 **/A**	$589.1 **/A**	$606.9 **/A**	$625.3 **/A**	$644.9 **/A**	
Change	3.5%	2.9%	2.5%	2.6%	3.0%	3.0%	3.1%	2.9%
Other Receipts	$43.7 **/B**	$44.3 **/B**	$45.0 **/B**	$45.9 **/B**	$46.8 **/B**	$59.7 **/B**	$61.2 **/B**	
Change	0.6%	1.3%	1.5%	2.0%	2.0%	27.6%	2.4%	6.7%
TOTAL HUTF	$739.7	$765.1	$784.3	$804.2	$828.6	$866.4	$894.4	
Change	3.0%	3.4%	2.5%	2.5%	3.0%	4.6%	3.2%	3.2%
Other Transportation-Related Cash Funds	$74.2 **/C**	$69.1 **/C**	$58.6 **/C**	$61.5 **/C**	$64.8 **/C**	$68.8 **/C**	$73.1 **/C**	
Change	18.5%	-6.9%	-15.2%	5.0%	5.3%	6.2%	6.2%	1.1%
TOTAL TRANSPORTATION-RELATED	**$813.9**	**$834.2**	**$842.9**	**$865.8**	**$893.4**	**$935.3**	**$967.6**	
Change	4.2%	2.5%	1.0%	2.7%	3.2%	4.7%	3.5%	3.0%

* CAAGR: Compound Annual Average Growth Rate.

/A Net of Refunds.

/B Includes interest earnings, court fines, driver's license fees, and other miscellaneous income.

/C Includes income to the State Highway Fund and fees collected for distributive data processing, emissions, motorcycle safety, and emergency medical services.

TABLE 7

Higher Education Cash Fund Revenue Forecast by Source
(Accrual Basis, Dollar Amounts in Millions)

		December 2002 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	CAAGR *
Tuition	$473.6	$528.3	$548.9	$568.9	$595.4	$623.2	$653.8	
Change	10.1%	11.5%	3.9%	3.6%	4.6%	4.7%	4.9%	4.9%
Non-Tuition	$161.8	$167.2	$174.9	$182.8	$192.0	$201.6	$212.1	
Change	3.3%	3.3%	4.7%	4.5%	5.0%	5.0%	5.2%	5.2%
TOTAL HIGHER EDUCATION	**$635.4**	**$695.5**	**$723.9**	**$751.7**	**$787.4**	**$824.7**	**$865.9**	
Change	8.6%	9.4%	4.1%	3.9%	4.7%	4.7%	5.0%	5.0%
Full-Time-Equivalent Students								
Total	143,972	152,278	157,324	160,318	163,310	166,268	169,380	
Change	4.0%	5.8%	3.3%	1.9%	1.9%	1.8%	1.9%	1.9%
Resident	122,062	130,151	135,117	138,121	140,908	143,682	146,601	
Change	4.1%	6.6%	3.8%	2.2%	2.0%	2.0%	2.0%	2.0%
Nonresident	21,911	22,127	22,207	22,197	22,401	22,586	22,779	
Change	3.2%	1.0%	0.4%	0.0%	0.9%	0.8%	0.9%	0.9%

Totals may not sum due to rounding.

* CAAGR: Compound Annual Average Growth Rate.

Note: For FY 2003-04 and beyond, we assume that both resident and nonresident tuition will increase by the Denver-Boulder inflation rate.

The increase in total higher education revenues occurs because both tuition rates and the number of FTE students increased substantially.

- Higher education revenues increased 8.6 percent in FY 2001-02, reflecting a 4.0 percent increase in resident tuition and a 5.0 percent increase in nonresident tuition. In FY 2002-03, total tuition and nontuition higher education revenues will increase 9.4 percent. The increase in total higher education revenues occurs because both tuition rates and the number of FTE students increased substantially. For the remainder of the forecast period, tuition rates are assumed to increase by the Denver-Boulder-Greeley inflation rate. Higher education revenues will average 5.0 percent annual average growth through the forecast horizon.

- In fiscal years beginning after June 30, 2002, higher education revenues are reported net of scholarships and tuition allowances, a change recommended by the Governmental Accounting Standards Board. This change represents a restatement of the components of higher education revenues for financial statement purposes only, not an actual reduction in revenues. However, the change lowers the amount of higher education revenues reported in Table 7 by more than $100 million in FY 2002-03 and beyond. The tuition revenue reported for FY 2001-02 has also been lowered by the amount of scholarships and tuition allowances to facilitate comparisons with later years of the forecast.

UNEMPLOYMENT INSURANCE TRUST FUND

The interest earned on the Trust Fund declined because higher benefit payments in FY 2001-02 reduced the Trust Fund balance and because interest rates declined.

Unemployment Insurance Trust Fund revenue was $196.1 million in FY 2001-02, down 2.4 percent compared with FY 2000-01. Tax revenues increased 0.7 percent in FY 2001-02, while interest earnings fell 11.4 percent. The interest earned on the Trust Fund declined because higher benefit payments in FY 2001-02 reduced the Trust Fund balance and because interest rates declined.

We lowered our December 2002 Unemployment Insurance (UI) revenue forecast by $62.6 million in FY 2002-03 compared with our September 2002 forecast. This reflects lower UI tax and interest receipts. In FY 2002-03, tax receipts for the Trust Fund are down compared with FY 2001-02 in part because taxable wages have declined. The interest income on the UI Trust Fund falls 24.8 percent, or $11.3 million, because higher benefit payments significantly reduced the UI Trust Fund balance and because interest rates declined.

The average UI tax rate declines when UI benefits payments are less than UI tax revenues. Conversely, the average UI tax rate rises when UI benefit payments exceed UI tax revenues. From FY 1996-97 through FY 2000-01, UI benefit payments were consistently lower than UI tax revenues and consequently, by FY 2000-01 the average UI tax rate in Colorado declined to historic lows. However, in FY 2001-02 the downturn in the state's economy produced a substantial increase in UI benefit payments. This will cause the average UI tax rate to rise until UI benefit payments are again less than UI tax revenues. In the mean time, the increase in benefit payments will reduce the UI Trust Fund balance in FY 2002-03 through 2005-06 to less than 0.9 percent of total wages. This will trigger the solvency surcharge and increase UI tax rates in calendar years 2004 through 2006.

TABLE 8

Unemployment Insurance Trust Fund Forecast (Accrual Basis, Dollar Amounts in Millions)								
		December 2002 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08 CAAGR *
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	
Beginning Fund Balance	$794.1	$626.9	$488.6	$479.6	$573.1	$759.2	$869.7	
Change	4.0%	-21.1%	-22.1%	-1.8%	19.5%	32.5%	14.6%	1.8%
Income	$196.1	$299.4	$361.6	$423.6	$478.0	$387.6	$342.7	
Change	-2.4%	52.7%	20.8%	17.2%	12.8%	-18.9%	-11.6%	11.8%
Taxes	$150.7 **/A**	$265.3 **/A**	$296.7 **/B**	$300.2 **/B**	$284.5 **/B**	$284.4 **/B**	$286.6	
Change	0.7%	76.1%	11.9%	1.1%	-5.2%	0.0%	0.8%	13.7%
Interest	$45.4	$34.1	$26.7	$27.0	$33.7	$47.5	$56.1	
Change	-11.4%	-24.8%	-21.7%	0.9%	25.1%	40.7%	18.1%	4.3%
Solvency Surcharge	$0.0	$0.0	$38.1	$96.5	$159.8	$55.8	$0.0	
Benefits and Accounting Adjustments	($506.0) **/C**	($437.7) **/C**	($370.6) **/C**	($330.1) **/C**	($291.9) **/C**	($277.1) **/C**	($272.6) **/C**	
Change	197.1%	-13.5%	-15.3%	-10.9%	-11.6%	-5.1%	-1.6%	-11.6%
Ending Fund Balance	**$626.9**	**$488.6**	**$479.6**	**$573.1**	**$759.2**	**$869.7**	**$939.7**	
Solvency Ratio	0.9% **/D**	0.7% **/D**	0.7% **/D**	0.8% **/D**	1.0% **/D**	1.0% **/D**	1.0% **/D**	
Total Wages	$69,055 **/E**	$66,717 **/E**	$68,077 **/E**	$72,288 **/E**	$77,127 **/E**	$83,364 **/E**	$89,678 **/E**	
Change	1.8%	-3.4%	2.0%	6.2%	6.7%	8.1%	7.6%	5.4%

Totals may not sum due to rounding.

* CAAGR: Compound Annual Average Growth Rate.

/A Tax revenues reflect 20 percent credit for calendar years 2001 and 2002 as specified by H.B. 00-1310.

/B Includes revenues from the solvency tax surcharge, which is applicable because the Solvency Ratio on June 30, 2003, June 30, 2004, and June 30, 2005, is less than 0.9 percent.

/C These amounts include those necessary to reconcile inflows and outflows to the Unemployment Insurance Trust Fund.

/D The solvency ratio is the ratio of the fund balance to total wages.

/E Total wages are the sum of wages reported by all ratable employers for the calendar year ending in December of the given fiscal year.

The details of our UI forecast are presented in ***Table 8***. Highlights of the forecast follow:

- Colorado received $142.7 million as a result of the federal Reed Act distribution. These funds kept the UI Trust Fund balance high enough to prevent the solvency surcharge from triggering in 2003. However, because UI benefit payments will remain high from FY 2002-03 through FY 2005-06, we project the solvency surcharge tax will be triggered in calendar years 2004, 2005, and 2006. The solvency surcharge will generate an additional $38.1 million in UI revenues in FY 2003-04, $96.5 million in FY 2004-05, $159.8 million in FY 2005-06, and $55.8 million in FY 2006-07. Thereafter, we forecast that the UI Trust Fund balance will again exceed 0.9 percent of total wages and the solvency surcharge will no longer be applied.

The average UI tax rate in FY 2002-03 is approximately the same as during the 1991-1992 economic recession.

- The increase in UI tax revenues between FY 2001-02 and FY 2002-03 is due to a substantial increase in UI tax rates in 2003 as they automatically adjust for recession conditions in the state. The average UI tax rate in FY 2002-03 is approximately the same as during the 1991-1992 economic recession. In FY 2003-04, UI revenues are forecast to increase 20.8 percent as UI tax rates continue to rise to compensate for higher UI benefit payments. Thereafter, UI tax rates and tax revenues will begin to decline as the state’s economy strengthens. However, total UI revenues will continue to increase because of the solvency surcharge.

UI benefits paid to workers increased 184.1 percent in FY 2001-02.

- UI benefits paid to workers increased 165.7 percent, excluding accounting adjustments, in FY 2001-02: more than $480 million was paid in benefits compared with $183 million in FY 2000-01. In FY 2002-03, we forecast UI benefit payments will decline 9.4 percent as the labor market begins to improve. Benefit payments will continue to decline in FY 2003-04 and throughout the forecast horizon as the Colorado economic recovery progresses.

MISCELLANEOUS CASH FUNDS

Total revenues for the miscellaneous cash funds are $35.8 million lower than our September 2002 forecast. The change is a consequence of lower revenues from the *severance tax fund* and a decline in the amounts of *other cash funds*. Highlights from the miscellaneous cash funds follow:

- In FY 2002-03 and FY 2003-04, *severance tax funds* are forecast to decrease 21.0 percent and 5.1 percent, respectively. The decline in revenue is due to low energy prices and rebates received for property taxes paid in previous years. Severance tax revenues will grow at a compound annual average rate of 6.0 percent through the forecast period.

- In FY 2002-03, *other cash funds* revenue will decline 4.9 percent because of the weak economy. The compound annual average growth rate for these funds is 4.3 percent through the forecast horizon.

- House Bill 02-1443 reduced the amount of the transfer from the General Fund to the *capital construction fund* to $10.6 million in FY 2002-03. Because there is little new money in the fund, interest rates are low, and the current balance will be drawn down as projects are completed, the available balance on which interest can be earned is significantly lower than in previous years. Earned interest income for this fund will be $5.2 million in FY 2002-03.

- The *regulatory agencies cash funds* are the repositories of license and other fees collected by the Department of Regulatory Agencies. They are forecast to increase 10.2 percent in FY 2002-03 and to grow at a compound annual average rate of 2.2 percent through the forecast horizon.

- The *insurance-related cash funds* acquire revenues from taxes on workers compensation insurance premiums. They are forecast to increase 4.8 percent in FY 2002-03 and to grow at a compound annual average rate of 6.2 percent through the forecast horizon.

- *Petroleum storage tank fund* revenues are forecast to decline 4.9 percent in FY 2002-03. The fund balance is forecast to remain large enough to keep fees low during most of FY 2002-03.

- House Bill 02-1446 delayed the repayment of the *Controlled Maintenance Trust Fund* (CMTF) balance. The CMTF was to be replenished in two equal payments of $138.2 million in FY 2003-04 and FY 2004-05. However, our forecast assumes equal payments of $138.2 million will be made in FY 2004-05 and in FY 2005-06, as proposed by Governor Owens.

The National Economy

The national economy appears to have recovered from the short economic recession that occurred in 2001. Inflation-adjusted gross domestic product has increased for the last four quarters, inflation remains low, consumers remain resilient, and unemployment rates are relatively steady. However, the economic recovery is tenuous and the threat of a double-dip recession looms over the national economy. If the jobless recovery that has plagued the nation thus far in this economic expansion undermines consumer confidence, then consumers might pull back on purchases. If consumer spending declines, the threat of a double-dip recession exists because consumer spending accounts for almost two-thirds of economic growth. In addition, businesses still appear unwilling to increase their investment spending. With neither business nor consumer support, the economy could fall back into recession.

The national economy appears to have recovered from the short economic recession that occurred in 2001.

Overall, the December 2002 national economic forecast is similar to the September 2002 forecast. The major difference is the slight change in the timing and the strength of the economic recovery. The December 2002 forecast anticipates that the national economy will continue to experience slow growth through 2003 and then return to a pace similar to average long-term growth rates. There are many reasons for anticipating slow growth through 2003. These include the weak financial markets and businesses' reluctance to invest. To date, businesses have been reluctant to spend because of wavering financial markets, low profits, and the ability to meet their needs using the current work force and technology. For the economy to gain strength, the financial markets must gain strength. If the financial markets gain strength, consumers will be more confident and spend more, and businesses will be more likely to once again invest in capital goods. In addition, as long as businesses remain on the sidelines of this economic recovery, they will not increase hiring. A prolonged period of a jobless recovery will possibly undermine consumer confidence and push the economy into a "consumer-led" recession.

The national economy will continue to experience slow growth through 2003 and then return to a pace similar to average long-term growth rates.

AN OVERVIEW OF RECENT NATIONAL ECONOMIC TRENDS

Recent economic indicators show that the national economic recovery is tenuous at best. However, gross domestic product (GDP) has increased since fourth quarter 2001 after declining in the first three quarters of 2001. The following outlines the recent national economic evidence:

- Inflation-adjusted GDP increased at a 4.0 percent annual pace in the third quarter of 2002, after increasing 5.0 percent in the first quarter and 1.3 percent in the second quarter.

    ♦ Consumer spending increased a robust 4.1 percent in third quarter 2002;

    ♦ Inventories grew $15.5 billion in the third quarter, more than three times the $4.9 billion growth in the second quarter. This suggests that businesses are beginning to gain confidence that the economic recovery will last and that there will be future demand for their goods;

- Business investment increased 0.1 percent in the third quarter, the first positive quarter of business investment since the third quarter of 2000. Investment in software and equipment increased 6.6 percent in the third quarter; and

- Government spending increased at a 3.1 percent pace in the third quarter, after increasing 5.6 percent and 1.4 percent during the first and second quarters, respectively.

- Employment at the national level remains sluggish with an overall decline in nonfarm employment in November. This follows increasing employment levels from May through August; employment was relatively constant from August to October.

- In November 2002, the national unemployment rate increased to 6.0 percent from 5.7 percent in October.

Consumer confidence at the national level rose slightly in November 2002 after five months of declines.

- Consumer confidence at the national level rose slightly in November 2002 after five months of declines, indicating that consumers are feeling more positive about the future economic conditions of our country.

- Inflation remains low nationally, increasing only 1.4 percent through October 2002.

THE NATIONAL FORECAST

Consumers added money to their pockets through mortgage refinancing, which has bolstered consumer spending. Households added $100 billion in cash through refinancing.

Over the past few months, instability in the financial markets eroded consumer confidence and, most likely, dampened consumer spending as well. Indeed, consumer confidence has fallen in four of the last five months. The instability of financial markets coupled with low consumer confidence will keep the economy from entering a strong growth period for some time. Over the past year, consumers added money to their pockets through mortgage refinancing, which bolstered consumer spending. Households added $100 billion in cash through refinancing. However, we anticipate that as intererst rates rise, consumers will not refinance their mortgages as readily, and consumer spending will slow. Overall, we anticipate that consumers will become increasingly tentative to make purchases and businesses will remain tentative to invest, spend, or hire until equity prices rise. Therefore, the national economy will remain sluggish for the remainder of 2002 and into 2003. By 2004, we anticipate that the economy will begin to grow near its long-term growth path.

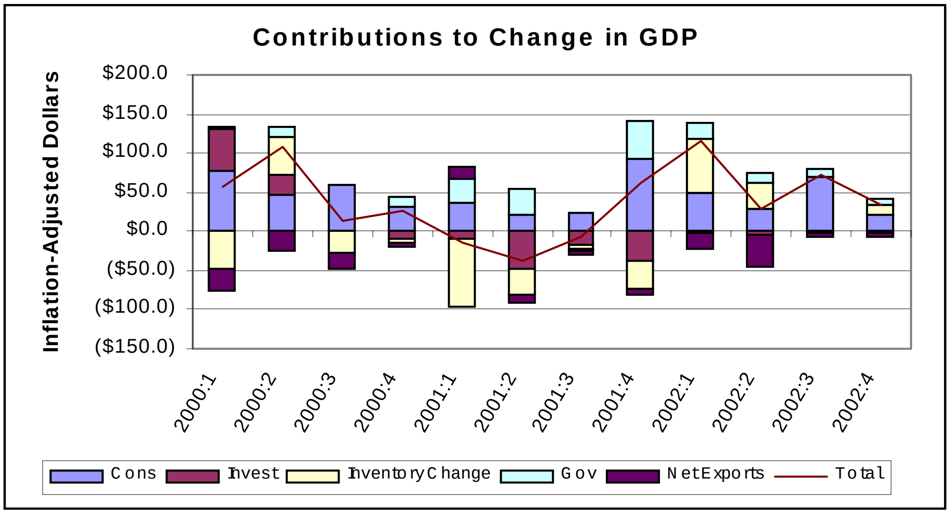
This section outlines the forecast for the national economy. Discussed in this section are the forecasts for GDP, inflation, and employment.

Gross Domestic Product and its Components

Inflation-adjusted GDP increased 4.0 percent in the third quarter of 2002, after increasing 5.0 percent in the first quarter and 1.3 percent in the second quarter. Much of the third quarter growth occurred in the first part of the quarter, with declining auto sales and other economic measures impacting growth in GDP in the second half of the third quarter. We anticipate that inflation-adjusted GDP will increase 1.9 percent in the fourth quarter of 2002 for an annual increase of 2.3 percent. In 2003, inflation-adjusted GDP will increase 2.5 percent before accelerating to a 3.7 percent rate in 2004.

Figure 2 displays the contribution by component of GDP to the overall change in GDP by quarter. Most notably, business investment is no longer the huge drag on GDP that it has been for the past two years. In the second quarter of 2002, business investment remained flat, the first time it has not declined since the third quarter of 2000. Moreover, inventory change has been extremely positive in 2002.

Figure 2



Consumer Spending. Consumer spending accounts for two-thirds of GDP. During the recent economic recession, there were no negative quarters for consumer spending. In fact, the main reason that the recession was fairly short-lived was because consumers did not stop purchasing. Typically, consumers lead the economy into a recession. In other words, when consumers become skittish or uncertain about the future economy, consumer confidence falls and consumer spending declines. Since consumer spending accounts for two-thirds of economic activity in our country, this typically pulls an economy into a recession. This did not occur in the 2001 recession. One reason that consumer spending did not decline during the 2001 economic recession was the ability of consumers to refinance their home mortgages at extremely low rates and have more cash readily available. This led to increased cash in consumers' pockets that translated into increased consumer spending. All told, consumers added approximately $100 billion to their bank accounts through mortgage refinancing. However, we do not anticipate that this will continue as mortgage rates are expected to rise and most consumers that were able to refinance have already done so. In addition, in 2003 we anticipate that consumer spending will slow slightly from 2002's rate because of a slowdown in auto sales. The strong auto sales of the past year helped to prop up consumer spending when the economy was faltering. Most consumers who wanted to buy a new car, though, have by now taken advantage of the incentives offered by dealers. Therefore, we do not anticipate that strong car sales will continue to help support economic growth. Indeed, auto sales in 2003 are likely to be weaker than would otherwise have occurred because dealer incentives have moved purchases planned for 2003 into 2002.

The main reason that the recession was fairly short-lived was because consumers did not stop purchasing.

Auto sales in 2003 are likely to be weaker than would otherwise have occurred because dealer incentives have moved purchases planned for 2003 into 2002.

In 2001, consumer spending increased 2.5 percent, slightly lower than originally reported. We anticipate that consumer spending will increase at a 3.1 percent rate in 2002, a 2.7 percent rate in 2003, and a 3.3 percent rate in 2004.

After two years of declines, business investment posted a small gain in the third quarter of 2002, up 0.1 percent.

Business Investment. After two years of declines, business investment posted a small gain in the third quarter of 2002, up 0.1 percent. Although still not contributing significantly to GDP, business investment is no longer the huge negative drag on GDP growth that it has been in the past two years. There is still much uncertainty for businesses in the market and thus, business investment will continue to be shaky at best. Thus, through 2003, we anticipate that businesses will not be making large capital outlays. Also, with equity prices down, it is more expensive for firms to raise funds for capital purchases and this further constrains business investment.

After declining 3.8 percent in 2001, we anticipate that business investment will decrease another 3.3 percent in 2002. Much of this decline has already occurred. In 2003, business investment will increase slightly, up 1.8 percent. In 2004 business investment will once again be a large contributor to GDP growth, increasing 6.0 percent.

Government Spending. After remaining relatively flat during most of the 1990s, government spending increased 3.7 percent in 2001. Much of the growth is attributed to the fourth quarter of 2001 and was in response to the September 11 terrorist attacks. This increase in government spending also spilled over into 2002. In 2002, we anticipate that government spending will increase 4.1 percent and then slow to 1.6 percent growth in 2003. The increase in expenditures (especially for defense spending) and the decrease in federal tax revenues from the economic recession and federal tax relief package will return the nation into a deficit situation. This will slightly constrain the growth in government spending in 2003.

Inflation

One particularly bright spot in the national economy is the extremely low inflation that has occurred in the past few years.

One particularly bright spot in the national economy is the extremely low inflation that has occurred in the past few years. In 2001, the nation posted a 2.8 percent inflation rate. Consumer prices will increase a mere 1.6 percent in 2002 and only 2.0 percent in 2003. This forecast assumes that there is not a huge spike in oil prices from conflicts in the Middle East. One concern in the marketplace is the possibility of deflation. For deflation to occur, there has to be an overall price decline in both the prices faced by producers as well as those faced by consumers. Thus far, only producers have seen an overall price decrease. Indeed, producer prices are down 3.4 percent through October 2002. We do not anticipate that consumer prices will see a similar decline and thus, do not anticipate that there will be deflation.

Employment

While the national economy has pulled out of a recessionary environment, employment still remains stalled. Until the market stabilizes and businesses feel more confident about the future, businesss will remain reluctant to increase hiring. Businesses will manage to increase productivity by using existing resources in the near term and by demanding more from those employees currently on staff. It is likely that the number of hours worked will increase, thereby helping boost productivity, but the number of employees will not increase. Moreover, businesses are using, and will continue to use, temporary help to alleviate some strains on the existing work force. By using temporary employees, businesses have the flexibility to immediately decrease employment if necessary without the complications of laying off permanent employees. This way, businesses are better able to respond to any changes in the market. Overall, we anticipate that payroll employment will decrease 0.8 percent in 2002 and then increase at a 0.6 percent rate in 2003.

The nation's number of unemployed continues to rise, even as the economic recovery gains strength. Indeed, in November 2002, unemployment reached its highest level in eight years with 6.0 percent of the nation's work force looking for work. Since businesses are reluctant to hire permanent employees and the average duration of unemployment is lengthening, we anticipate that the unemployment rate will rise over the next few months. The unemployment rate will average 5.8 percent in 2002 and then average 6.2 percent in 2003.

In November 2002, unemployment reached its highest level in eight years with 6.0 percent of the nation's work force looking for work.

RISKS TO THE FORECAST

The risks to the forecast have not materially changed since the September forecast. However, there is increasing concern that the nation could face a double-dip recession, with the probability of this occurring near 35 percent. The most likely cause of a double-dip recession occurring would come from the consumer. Consumers have been the strength behind the economy, even during the recent economic recession. We have not seen a decline in consumer spending since 1991, the last time the economy was in recession. If consumer confidence falls (as it has done in eight out of the last 10 months), then consumers would likely pull back consumer spending. As consumer spending is currently the main source of strength in the economy, the economy would most likely fall back into a recession. Moreover, if the economic recovery remains a jobless recovery, consumer confidence will continue to erode.

Another substantial risk to our forecast is the turmoil in the financial markets. Continued turmoil in the financial markets may be enough to finally spook consumers to reign in purchases. Furthermore, businesses will continue to be wary of increased investment and employment because of this turmoil. The third risk is the declining global economy, which will decrease demand for U.S. goods. A fourth risk is an increase in interest rates. A sudden spike in interest rates could dry up households' ability to pay off debt. This could cause many leveraged households to default on their debts or, at least, be more reluctant to spend. Finally, an increase in energy prices from a crisis in the Middle East could drastically change the economic forecast.

TABLE 9

HISTORY FOR KEY NATIONAL ECONOMIC VARIABLES 1997-2007

Calendar Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
INFLATION-ADJUSTED & CURRENT DOLLAR INCOME ACCOUNTS											
Inflation-Adjusted Gross Domestic Product (Billions)	$8,159.4	$8,509.1	$8,859.1	$9,191.4	$9,214.6	$9,430.1	$9,669.5	$10,026.4	$10,333.5	$10,695.1	$11,009.8
Change	4.4%	4.3%	4.1%	3.8%	0.3%	2.3%	2.5%	3.7%	3.1%	3.5%	2.9%
Gross Domestic Product (Billions)	$8,318.4	$8,781.8	$9,274.5	$9,824.6	$10,082.2	$10,438.5	$10,902.6	$11,570.9	$12,206.5	$12,918.6	$13,604.3
Change	6.5%	5.6%	5.6%	5.9%	2.6%	3.5%	4.4%	6.1%	5.5%	5.8%	5.3%
Personal Income (Billions)	$6,937.1	$7,426.1	$7,786.6	$8,406.7	$8,685.4	$8,942.4	$9,245.4	$9,679.4	$10,171.0	$10,679.7	$11,197.3
Change	6.0%	7.0%	4.9%	8.0%	3.3%	3.0%	3.4%	4.7%	5.1%	5.0%	4.8%
Per-Capita Income ($/person)	$25,444	$26,921	$27,906	$29,798	$30,497	$31,120	$31,890	$33,098	$34,483	$35,904	$37,331
Change	4.7%	5.8%	3.7%	6.8%	2.3%	2.0%	2.5%	3.8%	4.2%	4.1%	4.0%
POPULATION AND EMPLOYMENT											
Population (Millions) *	272.6	275.8	279.0	282.1	284.8	287.4	289.9	292.4	295.0	297.5	299.9
Change	1.2%	1.2%	1.2%	1.1%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%	0.8%
Civilian Unemployment Rate	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.2%	5.7%	5.4%	5.2%	5.2%
Total Nonagricultural Employment (Millions)	122.7	125.9	128.9	131.7	131.9	130.8	131.7	134.4	137.0	138.9	140.7
Change	2.6%	2.6%	2.4%	2.2%	0.2%	-0.8%	0.6%	2.1%	1.9%	1.4%	1.3%
FINANCIAL MARKETS											
30-Year T-Bond Rate	6.6%	5.6%	5.9%	5.9%	5.5%	5.4%	5.4%	5.7%	5.9%	6.1%	6.2%
10-Year T-Bond Rate	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.6%	5.5%	5.8%	5.9%	5.8%
Federal Fund Rate	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	1.9%	4.6%	5.3%	5.1%	5.0%
PRICE VARIABLES											
Consumer Price Index (1982-84=100)	160.5	163.0	166.6	172.2	177.1	179.8	183.3	187.3	191.9	196.6	201.2
Change	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.0%	2.1%	2.5%	2.5%	2.3%
Producer Price Index (1982=100)	131.8	130.7	133.0	138.0	140.7	138.7	141.0	144.0	144.4	147.3	150.8
Change	0.4%	-0.9%	1.8%	3.7%	2.0%	-1.5%	1.7%	2.1%	0.3%	2.0%	2.4%
OTHER KEY INDICATORS											
Industrial Production Index (1992=100)	128.0	134.5	139.4	145.7	140.4	139.9	144.5	149.1	152.4	156.7	160.9
Change	7.0%	5.1%	3.7%	4.5%	-3.7%	-0.4%	3.3%	3.2%	2.2%	2.9%	2.7%
Corporate Profits After Tax (Billions)	$555.2	$482.2	$514.4	$522.9	$470.7	$446.6	$486.6	$545.0	$578.8	$615.5	$648.9
Change	10.4%	-13.2%	6.7%	1.7%	-10.0%	-5.1%	9.0%	12.0%	6.2%	6.3%	5.4%
Housing Starts (Millions)	1.475	1.621	1.647	1.573	1.603	1.679	1.553	1.523	1.578	1.612	1.568
Change	0.4%	9.9%	1.6%	-4.5%	1.9%	4.7%	-7.5%	-1.9%	3.6%	2.2%	-2.7%

Sources: Economy.com and U.S. Bureaus of Economic Analysis and the Census.

* Population values through 2000 are adjusted for 2000 Census.

The Colorado Economy

The Colorado economy is showing some encouraging signs. Stable employment over the past four months indicates that the economic decline has halted, although the lack of job creation over this period also shows that the state's economic recovery is tenuous. Nationally, the advanced technology and telecommunication industries continue to struggle, although their downward descent has slowed. While not yet rebounding from their difficulties, these industries — so important to Colorado's economic health — are beginning to stabilize. Third quarter increases in business investment in computers and equipment coupled with rising military spending will help nudge these industries back to life. Meanwhile, manufacturing activity in Colorado is expanding and substantial amounts of early snow have given the winter ski season a good start. Furthermore, passenger traffic at Denver International Airport is returning to pre-September 11 levels more quickly than at most other airports. This also is good economic news, since the health of Colorado's tourism industry depends on air traffic to the state. Thus, Colorado's overall economic situation is beginning to look up as 2002 comes to a close.

Stable employment over the past four months indicates that the economic decline has halted.

The Colorado economy will remain on a slow growth path through the first half of 2003 and will not begin to strengthen significantly until the second half of 2003. Colorado will have slow economic performance until the nation's economy accelerates more vigorously. While Colorado's competitive advantage has improved over the past year, businesses outside the state are not yet in a position to take advantage of its highly educated population, abundant skilled labor, and softening real estate market. Once this happens, however, the state is poised for growth.

AN OVERVIEW OF RECENT COLORADO ECONOMIC EVENTS

By many measures, Colorado's recession has been the most severe in many years. Recent economic news shows Colorado's economic recovery is tenuous.

- Through October 2002, average nonfarm employment is 2.0 percent below year-to-date October 2001. However, employment levels have remained steady for the last four months, providing hope that the employment situation has bottomed out.
- The average Colorado unemployment rate through October 2002 is 5.3 percent. Although this is higher than the record low rates the state enjoyed during most of the 1990s, it is lower than the unemployment rate of any year during the 1980s.
- The number of residential housing permits issued through October 2002 is down 16.0 percent compared with year-to-date 2001; single-family permits issued are 5.4 percent below 2001, while the number of multi-family permits issued is 37.5 percent below year-to-date 2001.
- The value of nonresidential construction decreased 21.0 percent through October 2002 compared with the same period in 2001. Year-to-date office and factory construction values are down about 50 percent, while the value of retail construction has fallen more than 10 percent.
- Through the first nine months of 2002, retail sales in Colorado are down 0.8 percent compared with the same period in 2001.

- In November 2002, Colorado year-to-date bankruptcy filings exceeded the record set in 1997 for the most bankruptcies filed in a single year. More than 97 percent of the year-to-date 2002 filings were by individuals. The combination of easy credit, sagging stock markets, and rising unemployment has contributed to the 1997 record being broken. Year-to-date September 2002 Colorado bankruptcy filings were up 11.7 percent, to 15,860 from 14,194 year-to-date September 2001, while third-quarter 2002 bankruptcy filings were 23 percent above third-quarter 2001, 5,766 compared with 4,689.

Colorado's Front Range has returned to Money magazine's list of the 10 best places to live in America.

It is noteworthy that Colorado's Front Range has returned to *Money* magazine's list of the 10 best places to live in America after an eight-year absence. This year, the magazine's editors selected cities based on population growth and home-price appreciation during the past decade. Denver previously ranked among the five best big cities in 1994 and ranked fourth out of 10 in 1989. This year's selection was based on popular neighborhoods, suburbs, and economic zones that contributed to the growth of an area. *Money* identified Denver's Washington Park neighborhood, the western suburb of Lakewood, and Colorado Springs as among the top areas in the nation.

COLORADO'S ECONOMIC AND DEMOGRAPHIC INDICATORS

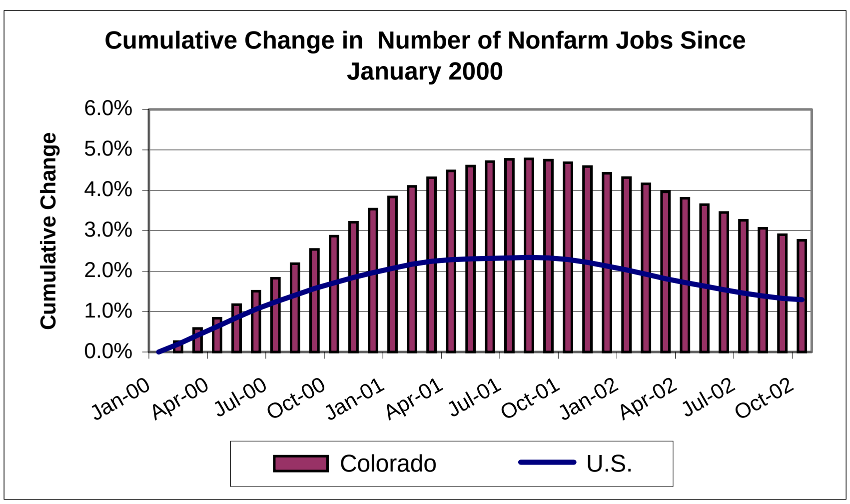
This section discusses our forecast for Colorado's economic and demographic indicators. Included in this discussion are employment, wages and income, population and migration, and inflation.

Employment

In October 2002, the number of Colorado nonfarm jobs is still 2.8 percent higher than in January 2000.

Figure 3 shows the cumulative change in the number of nonfarm jobs since January 2000. Colorado employment increased nearly four percent from January 2000 to January 2001 and continued to show year-over-year growth until August 2001. Since September 2001, Colorado employment has declined each month compared with the corresponding month one year earlier. However, in October 2002, the number of Colorado nonfarm jobs is still 2.8 percent higher than in January 2000. By comparison, national employment grew only 2.3 percent in August 2001 compared with January 2000 and was only 1.3 percent higher in October 2002 compared with January 2000.

Figure 3



Through October 2002, Colorado's average nonfarm employment is 2.0 percent below the year-to-date average in 2001. However, since July 2002, nonfarm employment has held steady, neither contracting nor expanding. Our forecast assumes year-over-year monthly employment levels will not rise significantly until mid-2003 and that employment will resume more robust growth during the second half of 2003. We forecast that Colorado employment will post a 2.4 percent decline in 2002, followed by a 0.8 percent increase in 2003. By 2004, we anticipate that employment growth will be 2.2 percent and that the pace will rise to 3.3 percent by 2006.

By 2004, we anticipate that employment growth will be 2.2 percent and that the pace will rise to 3.3 percent by 2006.

In October 2002, Colorado's seasonally adjusted unemployment rate was 5.2 percent compared with a national unemployment rate of 5.7 percent. Although unemployment is higher now than in recent years, it is still well below the 6.2 percent peak reached in the early 1990s and well below the state's historical high of 8.8 percent reached in 1982. Indeed, unemployment was above five percent throughout the 1980s. The annual average unemployment rate is forecast to be 5.3 percent in 2002. We forecast the state's unemployment rate will average 5.2 percent in 2003 and then decline to 4.6 percent by 2007.

The state's unemployment rate will average 5.2 percent in 2003 and then decline to 4.6 percent by 2007.

Wages and Income

In 2002, Colorado wage and salary disbursements are forecast to be 3.0 percent below 2001, primarily because of lower overall employment levels and a substantial decline in high-wage jobs. Personal income will also decline compared with 2001, although by a smaller amount since increasing transfer payments make up some of the difference. In 2003, both wage and salary disbursements and personal income will again increase, although at rates that are only about half of the average growth that occurred during the 1990s. By 2006, we forecast that growth of wage and salary disbursements and personal income will nearly return to the average pace of the previous economic expansion.

Population and Migration

Over the past decade, Colorado has had positive net migration, primarily because of the state's impressive economic performance. However, retirees are also moving to Colorado and other western states in order to enjoy the hospitable climate. Since the share of the nation's population over age 65 is expected to rapidly increase over the next 30 years, retirees will continue to drive migration patterns in Colorado for the foreseeable future. Thus, although the number of jobs in Colorado will decline in 2002 and will not resume the spectacular pace of the late 1990s for years to come, we forecast that net migration to Colorado will remain positive during the current economic downturn and throughout the forecast horizon. In 2002 and 2003, we forecast net migration of 23,500 and 20,400, respectively. In 2004 and beyond, net migration will increase as the state's employment picture improves. From 2002 through 2007, we anticipate that Colorado's population will grow at an annual average rate of 1.5 percent.

From 2002 through 2007, Colorado's population will grow at an average annual rate of 1.5 percent.

Inflation

In 2001, a surge in energy prices resulted in a 4.7 percent increase in the Denver-Boulder-Greeley consumer price index, the state's proxy for a Colorado price index. Energy prices have since retreated and prices increased only 2.2 percent in the first

From 2002 through 2007, inflation will average 2.9 percent compared with a 3.7 percent average rate of inflation during the 1990s.

half of 2002 compared with the first half of 2001. Furthermore, the slow economy is producing few inflationary pressures. Thus, our forecast for inflation in 2002 is 1.8 percent, unchanged from our September forecast, and inflation will remain moderate through the forecast horizon. From 2002 through 2007, inflation will average 2.9 percent compared with a 3.7 percent average rate of inflation during the 1990s.

COLORADO'S ECONOMIC SECTORS

This section details our forecast for the construction, retail, tourism, and venture capital industries in Colorado.

Construction

Through October 2002, residential home permits were 16.0 percent below the number issued through October 2001. Meanwhile, the value of nonresidential construction (excluding nonbuilding projects like roads) declined 21.0 percent year-to-date through October 2002. Our December 2002 forecast for both residential and nonresidential construction anticipates slowing in both residential and nonresidential construction in 2003 and 2004 that will correct overbuilding in both markets.

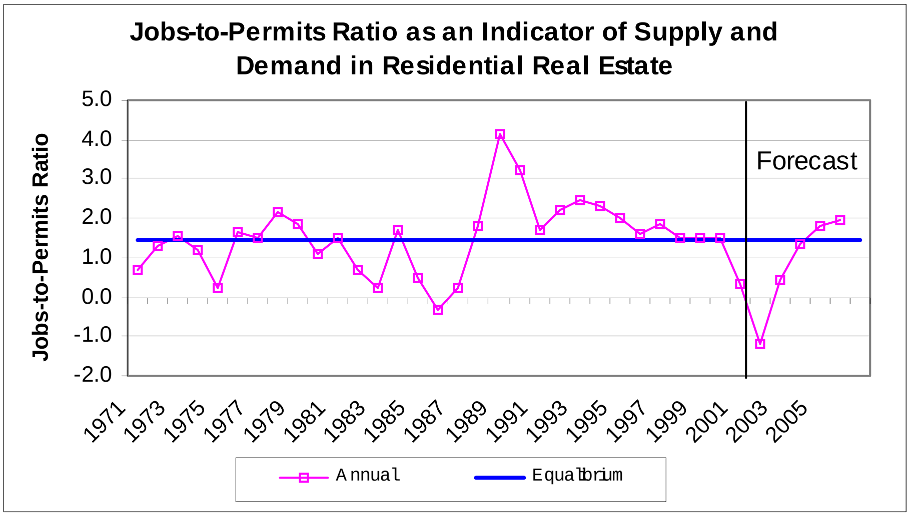
Residential Construction

Although builders have scaled back inventory, the sale of new homes is up 2.5 percent compared with 2001.

Although builders have scaled back inventory, the sale of new homes is up 2.5 percent compared with 2001. Low interest rates have encouraged many Denver-area residents to become first-time homeowners. This is supporting residential construction levels that are higher than that which can be sustained by the number of new jobs in the area. According to the Genesis Group, supply and demand in the housing market can be considered in balance when there are 1.44 new jobs for every house permit issued. A ratio of jobs to permits that is higher than 1.44 indicates that demand for new homes exceeds supply, while a ratio that is less than 1.44 indicates supply exceeds demand. The state hit a 22-year high in residential construction in 2001 — and a 14-year low of 0.35 in the Genesis Group jobs-to-permits ratio. This indicates some areas in Colorado, including Denver and Colorado Springs, have an oversupply of homes. Furthermore, although the year-to-date October 2002 number of permits issued is down 16.0 percent, the number of jobs in the state has declined below year-to-date October 2001 levels, leaving the year-to-date jobs-to-permits ratio at a record low –0.9.

A correction in the residential home market is taking place in 2002 and will continue into 2003 and 2004, particularly in apartment construction. ***Figure 4*** shows the annual jobs-to-permits ratio for Colorado since 1973. Our forecast is for a jobs-to-permit ratio below 1.44 until 2004, indicating excess supply. Thereafter, the jobs-to-permit ratio is at or above 1.44, indicating that demand will exceed supply once the Colorado economy resumes a more robust expansion path.

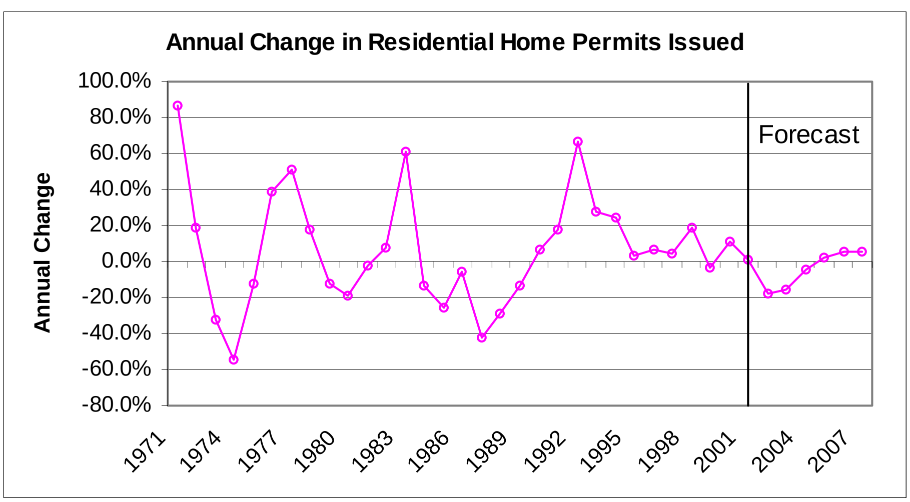
Figure 4



The number of home permits issued through October 2002 was 16.0 percent less than the number issued through October 2001. The number of *single-family* home permits issued fell 5.4 percent to 30,646, while the number of *multi-family* home permits declined 37.5 percent to 9,895. By year-end 2002, we forecast that residential home permits will be 17.2 percent below 2001 levels. We forecast that the number of home permits issued will continue to decline in 2003 and 2004. Both single-family and multi-family permits will fall, although multi-family permits will drop further. The more substantial correction in multi-family home permits is partly a response to the significant increase in multi-family homes built in 2000 and 2001, but also reflects high vacancy rates because a large number of former renters are now homeowners, thanks to record low mortgage rates. In 2005, 2006, and 2007, the number of home permits issued will show slight year-over-year increases. ***Figure 5*** shows historical residential permit growth as well as our forecast through 2007. It indicates that the correction currently underway is not especially large in an historical context.

The correction currently underway is not especially large in an historical context.

Figure 5



Nonresidential Construction

Denver area nonresidential building construction is still being impacted by an overabundance of vacant space. Most of the 1.4 million square feet of office space added in 2002 remains vacant, resulting in a 21.9 percent office vacancy rate and flat office rental rates in third quarter 2002. Furthermore, there is an additional 800,000 square feet of office space currently scheduled to become available, 200,000 square feet in 2002 and 600,000 square feet in 2003. However, the Denver area retail market is faring better than the office market. In 2002, over 90 percent of the 1.4 million square feet of new supply that became available is occupied.

According to F.W. Dodge, the value of Colorado nonresidential building construction in 2001 was the third highest on record ($3.3 billion), surpassed only by 1999 and 2000. Thus, it is not surprising that through October 2002, the value of nonresidential construction declined 21.0 percent compared with the same period in 2001. The value of *retail* construction was down 12.7 percent compared with year-to-date 2001, while the value of *office* and *factory* construction declined 50.1 percent and 50.6 percent, respectively. Meanwhile, vacancy rates have risen and rental rates have fallen. Although this indicates a substantial correction in the nonresidential construction market, it is not unprecedented. Over the past 30 years, construction values have declined from year-to-year about half of the time, corrections of more than a 10 percent decline have occurred six times, and in 1986 the value of nonresidential construction dropped nearly 30 percent.

The nonresidential construction value in 2003 is supported in part by more than $800 million in school bond initiatives passed during the November 2002 elections.

We forecast that 2002 nonresidential construction value will be 25.6 percent below 2001 levels. The nonresidential construction value in 2003 is supported in part by more than $800 million in school bond initiatives passed during the November 2002 elections; this will mitigate most of the correction in nonresidential construction value that would otherwise have occurred in 2003. Given this public building construction, we forecast that nonresidential construction values will fall by about two percent in 2003 and 2004. Thereafter, we forecast that nonresidential construction will resume positive growth through 2007.

Retail Sales

Rates for home-equity lines of credit are at their lowest levels ever, providing shoppers with ready cash for bargains offered by retailers.

An increase in consumer confidence raises hopes that consumers will continue to support the economy during the 2002 holiday season. However, Deloitte & Touche Consulting indicates that 36 percent of 13,000 consumers surveyed nationwide plan to spend less during the 2002 holiday season than they did during the 2001 holiday season, 11 percent plan to spend more, while the remainder plans to spend about the same. A similar survey by the Consumer Federation of America and the Credit Union National Association marked the third consecutive year that a greater number of Americans (21 percent) plan to decrease holiday spending than plan to increase it (15 percent). Still, rates for home-equity lines of credit are at their lowest levels ever, providing shoppers with ready cash for bargains offered by retailers. Furthermore, historically low home mortgage rates make it very attractive for people to refinance and take the equity out of their houses to spend now, thereby providing a boost to the economy.

Through September 2002, retail sales are down 0.8 percent compared with year-to-date 2001 and our forecast is for retail sales in the final quarter of 2002 to be somewhat below the final quarter of 2001. Overall, we forecast that 2002 retail sales will be 1.0 percent below 2001. We forecast that retail sales will show modest increases in 2003 and 2004 and that by 2005, consumer spending will grow by more than five percent annually.

Tourism

Colorado's $7.0 billion tourism sector continues to be impacted by the repercussions of the September 11 terrorist attacks, although this important sector of the state's economy is beginning to improve. Visits to Colorado national parks dropped 11 percent during the 12-months ending in July 2002 compared with the 12-months ending in July 2001. However, traffic at Denver International Airport (DIA) is down only five percent through the first nine months of 2002 compared with the same period in 2001. Furthermore, September 2002 airport traffic was up nearly 37 percent compared with September 2001, when air traffic was halted for several days in the aftermath of the terrorist attacks. DIA expects to handle more than 665,000 travelers during the Thanksgiving weekend, about 17 percent more than last year.

Colorado ski resorts have record early-season snow pack and lifts operating nearly one month sooner than normal. Year-end reservations at Steamboat Springs, as well as airline reservations into that area's local airport, are both up compared with the 2000 and 2001 holiday seasons, while Crested Butte is reporting a 5.5 percent increase in reservations.

Colorado ski resorts have record early-season snow pack and lifts operating nearly one month sooner than normal.

Statewide, year-to-date hotel occupancy rates are 60.1 percent compared with 62.1 percent through October 2001. Through October 2002, statewide hotel room rates are $95.05, down 1.8 percent compared with year-to-date October 2001. Denver-area hotel occupancy and average room rates also continue to lag behind year-ago levels. Metro-Denver average room rates in October 2002 were 2.3 percent below October 2001 rates, $86.48 compared with $88.43. Monthly Denver-area rates have exceeded year-ago values only twice in 2002. Meanwhile, the percentage of occupied hotel rooms in the metro-Denver area remains below year-to-date values in 2001. Through October 2002, hotel room occupancy was 62.7 percent compared with 65.5 percent through October 2001. However, October 2002 occupancy was above October 2001, 59.9 percent compared with 57.2 percent. The Denver area has been particularly hard hit by the decline in travel by business executives, a response to recent corporate scandals.

Venture Capital

Venture capital funding for Colorado companies dropped 72 percent in third quarter 2002 compared with second quarter 2002 and was 88 percent below third quarter 2001. According to PricewaterhouseCoopers LLP's MoneyTree Survey, 13 Colorado companies received a total of $45 million in venture during the third quarter of 2002. Software companies, following a national trend, continued to attract most (40 percent) of the state's venture capital. Through September 2002, just 0.2 percent of Colorado's $444.8 million venture-investment total was awarded to start-up companies, meaning that investors are not betting on ideas with greater risk, but greater potential. Nationwide, start-up companies received nearly 19 percent of venture capital in 1995, but only 1.4 percent in third quarter 2002.

RISKS TO THE FORECAST

The main risk to our Colorado economic forecast is that the national economy will falter. Colorado is likely to experience slow growth until the national economy resumes more robust growth. A prolonged period of stagnant growth at the national level is likely to be mirrored by a corresponding long period of slow growth at the state level.

TABLE 10

HISTORY AND FORECAST FOR KEY COLORADO ECONOMIC VARIABLES

1997-2007

Calendar Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CURRENT INCOME											
Personal Income (Millions)	$108,765	$118,413	$128,192	$142,752	$147,860	$147,754	$153,625	$161,708	$171,974	$185,396	$198,573
Change	8.8%	8.9%	8.3%	11.4%	3.6%	-0.1%	4.0%	5.3%	6.3%	7.8%	7.1%
Wage and Salary Disbursements (Millions)	$62,524	$69,604	$76,344	$86,056	$88,434	$85,777	$88,904	$93,675	$99,841	$107,427	$114,818
Change	9.3%	11.3%	9.7%	12.7%	2.8%	-3.0%	3.6%	5.4%	6.6%	7.6%	6.9%
Per-Capita Income ($/Person)	$27,067	$28,764	$30,334	$33,018	$33,470	$33,002	$33,883	$35,152	$36,802	$38,986	$41,048
Change	6.1%	6.3%	5.5%	8.8%	1.4%	-1.4%	2.7%	3.7%	4.7%	5.9%	5.3%
POPULATION AND EMPLOYMENT											
Population (Thousands)*	4,018.3	4,116.6	4,226.0	4,323.4	4,417.7	4,477.2	4,534.0	4,600.3	4,672.9	4,755.4	4,837.6
Change	2.5%	2.4%	2.7%	2.3%	2.2%	1.3%	1.3%	1.5%	1.6%	1.8%	1.7%
Net Migration (Thousands) **	67.8	66.5	75.4	60.7	58.7	23.5	20.4	29.3	35.0	44.1	43.0
Unemployment Rate	3.3%	3.8%	2.9%	2.7%	3.7%	5.3%	5.2%	4.6%	4.6%	4.6%	4.6%
Total Nonagricultural Employment (Thousands)	1,979.5	2,057.0	2,131.9	2,212.9	2,231.9	2,178.1	2,194.6	2,243.1	2,310.5	2,387.9	2,457.9
Change	4.2%	3.9%	3.6%	3.8%	0.9%	-2.4%	0.8%	2.2%	3.0%	3.3%	2.9%
CONSTRUCTION VARIABLES											
Total Housing Permits (Thousands)	43.1	51.2	49.3	54.6	55.0	45.5	38.3	36.4	37.2	39.3	41.5
Change	4.7%	18.8%	-3.6%	10.7%	0.8%	-17.2%	-15.9%	-5.0%	2.1%	5.7%	5.6%
Nonresidential Construction (Millions) ***	$2,985.8	$2,616.8	$3,543.8	$3,338.8	$3,413.7	$2,540.7	$2,489.4	$2,440.0	$2,485.4	$2,585.5	$2,717.9
Change	27.0%	-12.4%	35.4%	-5.8%	2.2%	-25.6%	-2.0%	-2.0%	1.9%	4.0%	5.1%
PRICES AND SALES VARIABLES											
Retail Trade Sales (Billions)	$45.1	$48.2	$52.6	$58.0	$59.1	$58.5	$60.3	$62.6	$65.7	$69.9	$73.9
Change	5.9%	6.7%	9.2%	10.2%	2.0%	-1.0%	3.1%	3.8%	4.9%	6.5%	5.6%
Denver-Boulder-Greeley Consumer Price Index	1.581	1.619	1.666	1.732	1.813	1.846	1.891	1.951	2.014	2.084	2.159
Change	3.3%	2.4%	2.9%	4.0%	4.7%	1.8%	2.4%	3.1%	3.2%	3.5%	3.6%

Sources: U.S. Bureaus of Economic Analysis and Census, Colorado Depts. of Labor & Employment, Local Affairs, and Revenue.

* Population values through 2000 are adjusted for 2000 Census.

** Values through 2000 revised by Colorado Department of Local Affairs to reflect 2000 Census.

Defense Study

Summary

- The Department of Defense (DoD) received 16.6 percent of the federal appropriation in Federal Fiscal Year (FFY) 2001. This represented 44.6 percent of total federal discretionary spending.
- In FFY 2001, the DoD had over 60,000 people stationed in Colorado. There were 28,574 active duty military positions, 10,701 civilian hires, and 21,122 Reserve and National Guard troops. This is the 14th largest defense industry employment concentration in the country.
- In 1986, defense industry jobs accounted for 4.0 percent of Colorado employment. By 2001, the share declined to 1.8 percent. Still, in 2001, only state government employed more than the DoD in Colorado.
- Since 1987, the number of active duty military and civilian defense industry personnel in Colorado, excluding those working for civilian contractors, has declined 31.2 percent, to 39,275 employees in 2001 from a peak of 57,167 employees.
- On average, in 2001 DoD civilian employees received annual wages of $42,848, 12.9 percent higher than Colorado's average wage.
- Total expenditures by the DoD in Colorado were approximately $1,100 for every person in the state in FFY 2001. This is the 12th highest per capita amount in the country.
- In FFY 2001, the DoD spent $4.8 billion in Colorado. This amount includes $2.5 billion for Colorado military payrolls and $2.3 billion spent on contracts and grants awarded to Colorado companies.
- Over the past 15 years, Colorado received a relatively constant share of total national defense industry dollars.
- The defense industry accounts for approximately one-third of the Colorado Springs economic base.

In FFY 2001, the DoD had over 60,000 people stationed in Colorado.

In 2001 DoD civilian employees received annual wages of $42,848, 12.9 percent higher than Colorado's average wage.

The defense industry is a major contributor to the U.S. and Colorado economies. At the national level, nearly $244 billion was spent in the United States on national defense in Federal Fiscal Year (FFY) 2001, October 1, 2000 to September 30, 2001, the latest year for which detailed data is available. In total, the U.S. defense industry employs nearly 2.8 million active duty military, civilian hires, and Reserve and National Guard troops with a payroll of $72.8 billion. In addition, the defense industry pays $137.8 billion to states for defense-related contracts and grants.

In FFY 2001, the defense industry directly contributed $4.8 billion to the Colorado economy.

In FFY 2001, the defense industry directly contributed $4.8 billion to the Colorado economy — $2.5 billion in defense payrolls plus $2.3 billion in contracts and grants to Colorado businesses. This represents about $1,100 for every person in the state and is the 12th highest per capita amount in the country. In FFY 2001, the Department of Defense (DoD) had 60,397 people stationed in Colorado, including 28,574 active duty military personnel, 10,701 civilian hires, and 21,122 Reserve and National Guard troops. This study examines the economic impact of the defense industry at the national and state levels.

What Constitutes the Defense Industry?

The defense industry comprises the DoD — active and reserve military personnel, National Guard troops, and civilian hires — and other defense organizations such as the Office of the Secretary of Defense and the Joint Chiefs of Staff. It also includes some portions of the Department of Energy as well as the civilian contractors that work for these agencies. Civilian contractors encompass a range of businesses, many of which are also associated with advanced technology. They include electronics, research and development, aerospace, manufacturing, construction, and service activities. This study focuses on employment directly related to DoD active military personnel and DoD civilian hires and does not include employment related to national defense contracts.

THE DEFENSE INDUSTRY AND THE NATIONAL ECONOMY

The defense industry contributed $243.8 billion to the United States economy in FFY 2001.

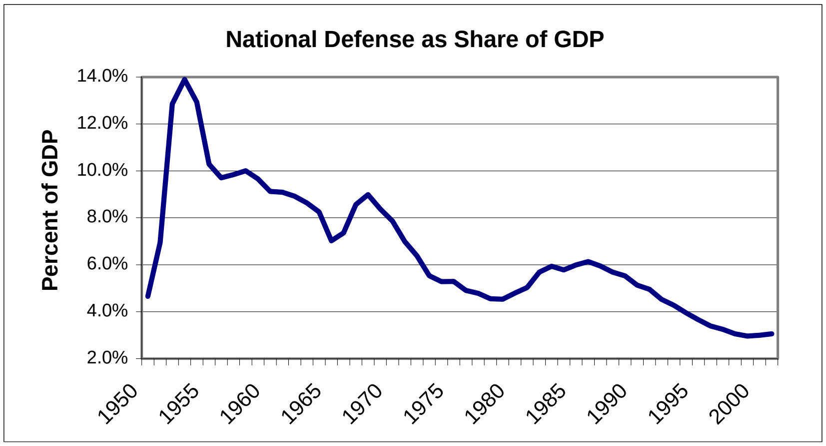
The defense industry contributed $243.8 billion — more than $850 per capita — to the United States economy in FFY 2001. The defense industry payroll is $72.8 billion and covers nearly 2.8 million active duty military, civilian hires, and Reserve and National Guard troops. The defense industry also awarded $137.8 billion to states for defense-related contracts and grants in FFY 2001.

Defense Industry Spending and the National Economy

Since the Korean conflict, the share of GDP contributed by national defense has declined dramatically and, in 2001 is only 3.1 percent.

Figure 6 shows the contribution made by national defense to *gross domestic product* (GDP) since 1950. Not surprisingly, the share of GDP attributable to national defense peaks during periods of national military activity — most notably, World Wars I and II and the Korean and Vietnam conflicts. Indeed, during World War II, national defense contributed nearly 40 percent of GDP, while during World War I and the Korean conflict national defense contributed about 15 percent of GDP. The contribution made by national defense during the Vietnam conflict was lower, but still accounted for nine percent of GDP. Since the Korean conflict, the share of GDP contributed by national defense has declined dramatically and, in 2001 is only 3.1 percent.

Figure 6



The share of the *national budget* spent on national defense has also declined. ***Figure 7*** shows national defense appropriations as a share of the national budget. The figure shows that national defense spending fell from 49.0 percent of the total federal budget in 1962 to a low of 16.2 percent of the budget in 1998 and 1999. Since then, national defense spending has risen to about 18 percent of the total federal budget. National defense expenditures as a share of discretionary spending have also declined, but by a substantially smaller amount, to 42.1 percent in 2002 from 74.0 percent in 1962. The smaller decline in defense spending as a share of discretionary spending occurred because the share of the national budget spent on mandatory programs — Medicaid, Social Security and federal retirement programs, interest payments, etc. — has soared during this period while inflation-adjusted national defense expenditures have remained relatively constant.

National defense spending fell from 49.0 percent of the total federal budget in 1962 to a low of 16.2 percent of the budget in 1998.

Figure 7

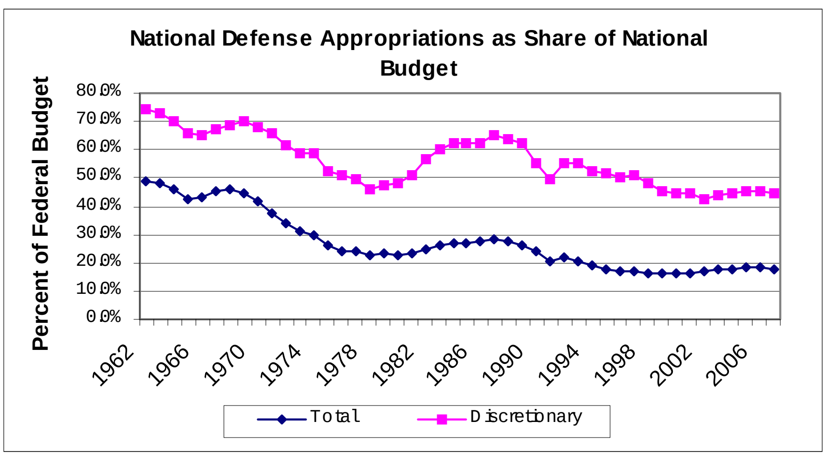
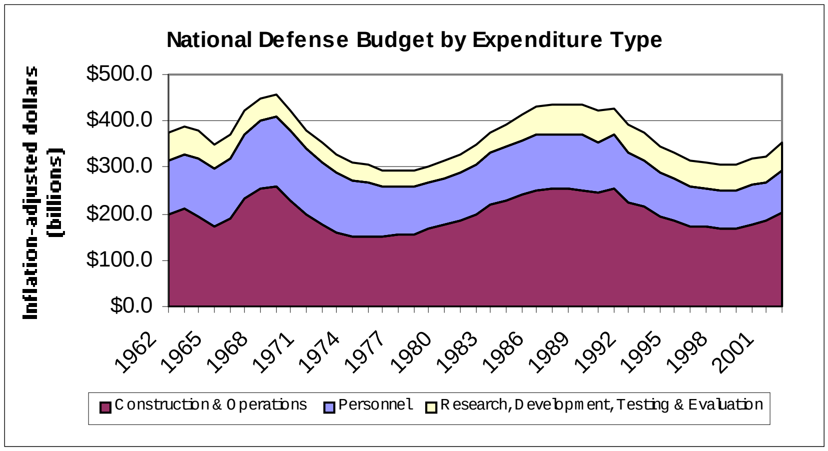


Figure 8 shows the national defense budget in inflation-adjusted dollars. Inflation-adjusted federal defense expenditures fell 36.2 percent between 1969 and 1976 following the end of the Vietnam conflict, rose 49.4 percent between 1976 and 1988 as the nation explored space-based defense strategies, and then declined by 29.9 percent between 1988 and 1998 after the Cold War came to a close. Since 1998, inflation-adjusted defense spending is again on the rise, up 23.2 percent in just four years. DoD appropriations

Since 1998, inflation-adjusted defense spending is again on the rise, up 23.2 percent in just four years.

grew 9.3 percent in FFY 2002. The FFY 2003 budget request includes a 6.7 percent increase in appropriations for national defense and the nation's war on terrorism will contribute to rising national defense spending over the next several years. Indeed, we expect that defense spending will increase about 10 percent per year for the next few years. On average, 45 percent of the national defense budget is spent on military personnel and research, development, testing, and evaluation. The remaining 55 percent is spent on operations, maintenance, construction, and procurement.

Figure 8

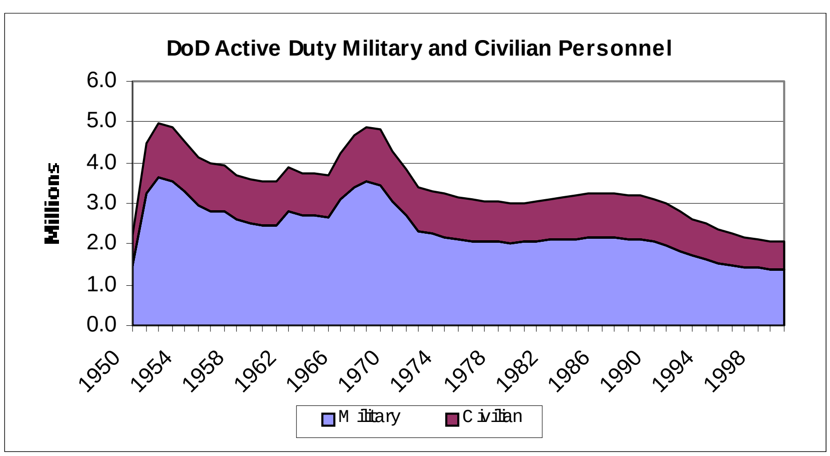


Defense Industry Employment and the National Economy

Figure 9 shows the number of active duty military and civilian DoD personnel since 1950. The identifiable patterns in the previous figures are visible: defense employment rises during times of military activity and falls thereafter. However, there is also an obvious overall decline in the total number of national defense personnel over the past half century. The drop in the number of DoD personnel occurs because technology has improved efficiency, enabling fewer people to provide the same level of protection. In FFY 2001, the DoD employed 991,006 active duty military personnel and 627,619 civilians, or 1.2 percent of total nonfarm employment in the U.S. In addition, there were 1,162,820 reserve and National Guard troops in 2001. By contrast, full-time national defense personnel comprised 6.0 percent of total nonfarm employment in 1970.

In FFY 2001, the DoD employed 1.2 percent of total nonfarm employment in the U.S.

Figure 9



In FFY 2001, nearly $244 billion was spent in the United States on national defense. The defense payroll for nearly 2.8 million active duty military, civilian hires, and Reserve and National Guard troops was $72.8 billion. An additional $33.2 billion was paid to retired military and a total of $137.8 billion was paid in the U.S. for defense-related contracts and grants. Nearly half (46.3 percent) of defense contracts were for supplies and equipment while one third (33.0 percent) were for services. Contracts for RTD&E captured 15.5 percent of expenditures, while the remaining 5.2 percent was evenly split between construction and civil function contracts.

THE DEFENSE INDUSTRY IN COLORADO

Colorado's economy is a major beneficiary of national defense expenditures. Colorado is home to several military installations, a substantial number of National Guard and Reserve troops, and significant defense contractor activity. Total expenditures from the DoD in Colorado were $4.8 billion in FFY 2001, including contract awards, grants, and payrolls. This is approximately $1,100 for every person in the state and is the 12th highest per capita amount in the country. In Colorado, nearly half of this amount comes from DoD contracts received by Colorado businesses while the remainder is due to payroll expenditures. Colorado ranks 14th among the states for per capita DoD contract amounts and Colorado's share of DoD personnel also ranks 14. These ranks have been relatively constant over the past decade.

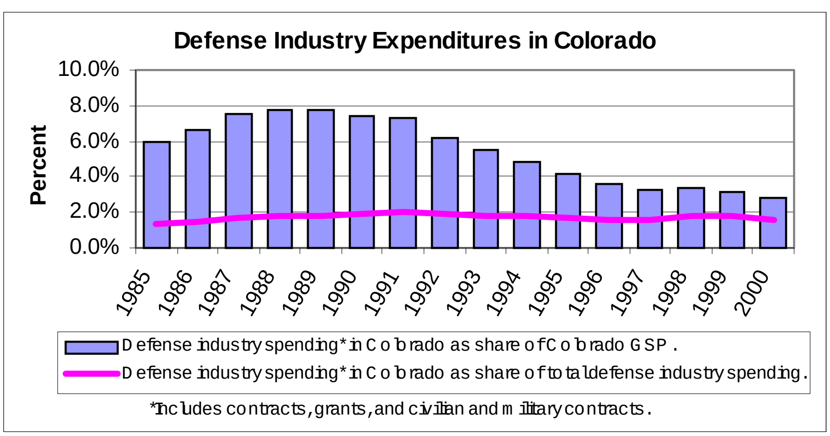
Total expenditures from the DoD in Colorado were approximately $1,100 for every person in the state.

Defense Industry Spending in Colorado

Figure 10 shows Colorado defense industry expenditures — contracts, grants, and civilian and military salaries — as a share of the state's gross state product (GSP) and as a share of total national defense spending. In FFY 2001, the DoD spent $4.8 billion in Colorado. This amount includes $2.5 billion for Colorado military payrolls and $2.3 billion spent on contracts and grants awarded to Colorado companies. DoD spending in Colorado contributed 2.8 percent of GSP in 2000 (the most recent data available). Although this is a substantial contribution to the state's economy, it is considerably less than the 7.7 percent share contributed in 1988 and 1989. However, Figure 10 also shows that for the past 15 years, Colorado has received a relatively constant share of total national defense industry dollars. Thus, the declining impact of the defense industry on the Colorado economy is a simply a consequence of declining national defense spending. Conversely, the state can expect to receive more federal defense dollars as the nation ramps up its spending on the war on terrorism and since the new Northern Command is located in Colorado Springs.

For the past 15 years, Colorado has received a relatively constant share of total national defense industry dollars.

Figure 10



Defense Industry Employment in Colorado

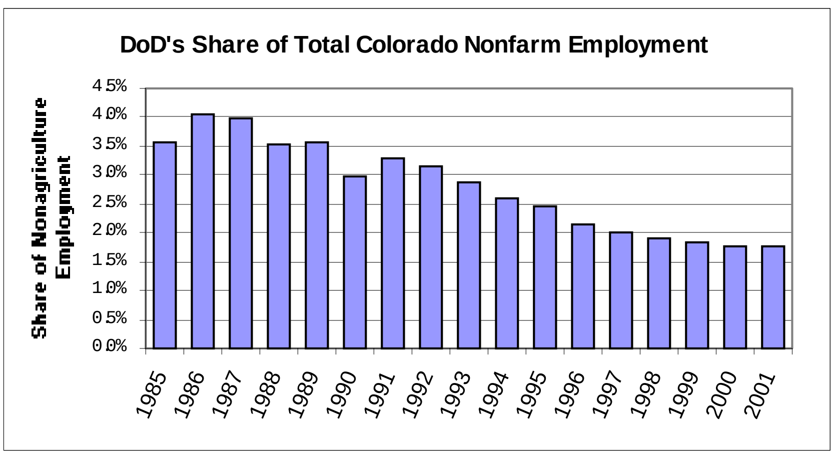
In FFY 2001, the DoD had over 60,000 people stationed in Colorado, the 14th largest defense industry employment concentration in the country.

In FFY 2001, the DoD had over 60,000 people stationed in Colorado. There were 28,574 active duty military positions, 10,701 civilian hires, and 21,122 Reserve and National Guard troops. This is the 14th largest defense industry employment concentration in the country. The Army and Air Force each account for nearly 44 percent of these positions, while the remaining 12 percent of DoD personnel are associated with the Navy and Marine Corps. Colorado has four major Air Force facilities: the United States Air Force Academy, Peterson Air Force Base, and Schriever Air Force Base in Colorado Springs, and Buckley Air Force Base in Denver. Fort Carson, also in Colorado Springs, is the Army's primary Colorado facility.

In 1986, defense industry jobs accounted for just over 4.0 percent of Colorado employment. By 2001, the share had declined to 1.8 percent.

Figure 11 shows the share of Colorado total nonfarm employment represented by active duty military and civilian DoD personnel. (Reserve and National Guard troops are not included because they generally represent positions that do not preclude full-time employment elsewhere.) In 1986, defense industry jobs accounted for just over 4.0 percent of Colorado employment. By 2001, the share had declined to 1.8 percent. Since 1987, the number of active duty military and civilian defense industry personnel, excluding those working for civilian contractors, has declined 31.2 percent, to 39,275 employees in 2001 from a peak of 57,167 employees. Even when Reserve and National Guard personnel are included, the decline is 21.4 percent. The base closings that occurred in 1988, 1991, 1993, and 1995 resulted in the loss of over 7,300 defense industry jobs and accounted for 14.0 percent of the decline. Since 1996, there has been an average loss in Colorado of more than 500 defense industry jobs per year. Despite these declines, the DoD is Colorado's second largest employer. Only Colorado state government employs more than the DoD. Indeed, the state's largest private employer, Wal-Mart, has approximately 18,700 workers in Colorado, less than half the number of civilian and military personnel employed by the DoD.

Figure 11



Defense Contractors in Colorado

The total DoD contract amount received by Colorado businesses was the 14th highest per capita and the 19th highest share of personal income in FFY 2001.

In FFY 2001, Colorado received more than $2.3 billion in DoD contract awards. Colorado ranked 17th in share of total contract awards among the 50 states and District of Columbia. Colorado DoD contracts amounted to $521 per person and represented a 1.6 percent share of Colorado personal income. The total DoD contract amount received by Colorado businesses was the 14th highest per capita and the 19th highest share of personal income in FFY 2001. These awards were concentrated in service, RDT&E, and supply and equipment contracts. Businesses in Colorado received $949.3 million in services contracts, $941.6 million in research and development contracts, and $325.6 million in supply and equipment contracts. The rest of the contract awards were dispersed between construction and civil function awards.

Table 11 lists the top four Colorado defense contractors and the amount of contract awards they received during the past four federal fiscal years. These four companies have received the bulk of DoD contracts for the past several years. Moreover, since 1994, Lockheed Martin (and its predecessor Martin Marietta) has received on average half of the state's DoD contract monies.

TABLE 11
Top Four Colorado DoD Contractors
($ amounts in thousands)

	2001	2000	1999	1998
Lockheed Martin Corporation	$ 920,217	$ 911,737	$1,276,608	$1,388,317
TRW Inc.	120,181	85,897	133,376	50,569
ITT Industries, Inc.	118,619	99,344	69,185	75,957
Berkshire Hathaway, Inc.	67,077	63,691	110,109	80,372

The contracts received by these four companies are primarily for RDT&E and services. Lockheed Martin Corporation develops missile and space systems and TRW Inc. develops advanced technology defense systems. Funds received by ITT Industries, Inc., are primarily for automated data processing and telecommunications services, while Berkshire Hathaway, Inc. was awarded contracts primarily for the development of operational training devices. Lockheed Martin Corporation employed 9,400 in 2001 and was the state's eighth-largest private employer.

Defense Industry Wages in Colorado

In FFY 2001, the total DoD payroll in Colorado was $2.5 billion, including active duty military, civilian hires, wages for Reserve and National Guard troops, and retired military personnel. On average, in 2001 DoD civilian employees received annual wages of $42,848 (12.9 percent higher than the state's average wage), and active duty military personnel received annual wages of $36,553 (3.7 percent lower than the state's average wage). According to the U.S. Bureau of Economic Analysis, Colorado's overall average wage was $37,953 in 2001.

In FFY 2001, the total DoD payroll in Colorado was $2.5 billion.

Regional Impacts of the Defense Industry in Colorado

El Paso County, which includes Colorado Springs, has the largest concentration of military personnel in Colorado and receives more than half of DoD expenditures in the state. The metro-Denver area receives about the same amount of defense contracts as the Colorado Springs area, but has substantially fewer DoD personnel and thus, a substantially smaller payroll than the Colorado Springs area. Furthermore, the defense industry contributes a much smaller share to the Denver area economy than it does to the Colorado Springs economy.

El Paso County and Colorado Springs

The defense industry in Colorado Springs accounts for approximately 35 to 45 percent of the local economic base.

It is estimated that one out of every three workers in Colorado Springs is employed by the military or directly paid through defense spending. The defense industry in Colorado Springs thus accounts for approximately 35 to 45 percent of the local economic base. By contrast, the next largest sector in the Colorado Springs economy is tourism, which has fewer than 15,000 jobs in the area and comprises 12 percent of the area's economic base.

Over 55 aerospace and defense companies employing more than 7,000 professionals are headquartered or have branches located in Colorado Springs.

Because of the numerous defense installations located in and around Colorado Springs, many defense contractors have a presence in the city. The Colorado Springs Economic Development Corporation reports that over 55 aerospace and defense companies employing more than 7,000 professionals are headquartered or have branches located in Colorado Springs. Colorado Springs and its surrounding military installations — Fort Carson, the United States Air Force Academy, Peterson Air Force Base, and Schriever Air Force Base — received $2.5 billion from the DoD in FFY 2001, including payroll outlays of $1.5 billion and grants and contracts worth nearly $1.0 billion.

The military maintains several large installations within El Paso County. The following briefly profiles the major military installations in the area and their impact on the Colorado Springs economy.

- *Fort Carson* is one of the state's largest employers and is the largest military installation in Colorado. In FFY 2001, Fort Carson employed 16,434 active duty military and civilians and had a payroll of $570.1 million. It is estimated that Fort Carson injected $1.1 billion into the local economy in FFY 2001.

- The *United States Air Force Academy* is the second largest military installation in Colorado and supports a total of 8,249 personnel, including 3,951 cadets and 1,944 civilian employees. In FFY 2001, the total payroll at the Academy was $299.5 million. In addition, the Academy received $69.7 million in grants and contracts. It is estimated that the total FFY 2001 economic impact of the United States Air Force Academy, including current construction projects, was $541 million.

- *Peterson Air Force Base* is the former home of the U.S. Space Command and the new home of the Northern Command, which will coordinate homeland response to attacks on American soil. At the Peterson Air Force complex there are 3,208 active troops and 1,820 civilian employees. It is the third largest military installation in Colorado. The total payroll at the complex in FFY 2001 was $234.8 million. Total expenditures including payroll exceeded $361 million in FFY 2001.

- *Schriever Air Force Base* is home to 1,791 active duty troops and employs 430 civilians. The total economic impact of this base on the Colorado Springs area was $350 million FFY 2001. This impact includes several construction projects that were finished in 2001. Schriever Air Force Base was also granted funding for new construction projects in FFY 2002. These projects include a backup space-based infrared radar system ($19 million), a secure logistics facility ($11.4 million), and a medical and dental facility ($4 million).

Metro Denver

The DoD employs 2,363 active duty military personnel and 3,370 civilian employees in the Denver metro area. Both the Buckley Air Force Base and the former Lowry Air Force Base are located within the metro-Denver area. The Buckley Air Force Base has 1,001 DoD personnel, while 386 civilian hires remain at the former Lowry Air Force Base. Construction projects totaling $34.4 million are currently underway at the Buckley Air Force Base.

Although metro Denver total DoD employment (5,733) is significantly lower than in Colorado Springs, the Denver area receives a much larger share of the state's defense contracts than does Colorado Springs. Thus, the largest defense industry impact within the Denver-metro area comes from procurement awards and contracts. Defense contractors in the Denver area with awards over $20 million in FFY 2000 include:

The Denver area receives a much larger share of the state's defense contracts than does Colorado Springs.

- Lockheed Martin (Denver/Littleton);
- Raytheon (Aurora);
- Premco Holdings (Aurora);
- Ball Aerospace (Boulder/Westminster);
- Foster Wheeler Corp. (Commerce City);
- Agilent Technologies (Englewood);
- Flight Safety International (Englewood/Littleton); and
- Space Imaging (Thornton).

In addition, the Department of Energy spent over $670 million on defense-related environmental clean-ups in Colorado. The majority of these funds were spent at the Rocky Flats site in Boulder County.

Other Counties

Several other Colorado counties also received procurement awards in FFY 2001. While the economic impact on these geographic areas is smaller, it is nonetheless important. Businesses in Larimer County received contracts worth $13.3 million, Mesa County businesses received $5.6 million in awards, and businesses in Pueblo were the recipients of $9.3 million in contracts. DoD activities aimed at demilitarizing the Pueblo Army Depot also have an economic impact in Pueblo County. This project was awarded $11 million in FFY 2002.

CONCLUSION

The defense industry is an important part of the Colorado economy and its importance will grow as defense spending increases in response to the threat of terrorism. In FFY 2001, Colorado received DoD contracts worth $2.3 billion. In addition, Colorado has a DoD payroll of $2.5 billion that covers 78,550 positions as well as a significant number of military retirees. In total, the DoD spent $4.8 billion in Colorado in FFY 2001.

The defense industry is an important part of the Colorado economy and its importance will grow as defense spending increases in response to the threat of terrorism.

Colorado Springs and the Denver area receive the greatest economic benefit from defense spending in the state. These two areas account for nearly 90 percent of all contracts awarded in Colorado. The defense industry is the largest sector of the Colorado Springs economy, sustaining approximately one-third of all jobs in the area.