Colorado Economic Perspective

State Revenue and Economic Projections through FY 2008-09

Office of State Planning and Budgeting
June 18, 2004

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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 June 2004 OSPB forecast of General Fund and cash funds revenues. Forecasts for the national and Colorado economies are also provided.

The Taxpayer's Bill of Rights

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado 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 through FY 2003-04.

- FY 2002-03 TABOR revenues were lower than the TABOR limit by $584.3 million. The growth dividend eliminated the TABOR surplus in FY 2003-04.
- In FY 2004-05, the TABOR surplus returns and is forecast to be $82.3 million. Through the forecast horizon, we expect the TABOR surplus to range between $230 million and $560 million.

General Fund Revenue

The FY 2002-03 General Fund reserve was $224.9 million. The reserve exceeded four percent of FY 2002-03 General Fund appropriations by $8.4 million, thereby allowing $5.6 million to be transferred to the Highway Users Tax Fund and $2.8 million to be transferred to the Capital Construction Fund.

- The June 2004 OSPB forecast for FY 2003-04 General Fund revenues is $71.2 million higher compared with the March 2004 forecast and the forecast for General Fund revenues in FY 2004-05 is $98.6 million higher. General Fund revenues are forecast to increase 6.8 percent in FY 2003-04 and 4.2 percent in FY 2004-05.
- The June 2004 revenue projections indicate that FY 2003-04 revenues will exceed the statutory four percent reserve requirement by $112.0 million. Two-thirds of this excess will be distributed to the Highway Users Tax Fund and one-third to the Capital Construction Fund.
- Based on the June 2004 OSPB revenue projections and the FY 2004-05 appropriations amount set by House Bill 04-1422, the FY 2004-05 budget is balanced. In FY 2004-05, the General Fund appropriation will increase $208.4 million (3.7 percent), the four percent statutory reserve is exceeded by $24.7 million, and there is a $82.3 million TABOR refund.

Cash Funds Revenues

Cash funds revenues are forecast to increase 12.5 percent in FY 2003-04, to $2,583.0 million. In FY 2003-04, strong cash funds revenue growth is primarily due to robust growth in three cash fund categories: higher education tuition, unemployment insurance tax, and severance taxes. In FY 2004-05, the cash funds will increase 6.2 percent.

- Transportation-related revenues, the largest group of cash funds, are forecast to increase 1.6 percent in FY 2003-04 and 2.9 percent in FY 2004-05. From FY 2003-04 through FY 2008-09, these funds will grow at a compound annual average rate of 3.7 percent.

- Higher education cash funds, the next largest group of cash funds, are forecast to increase 12.4 percent in FY 2003-04. The increase in total higher education revenues occurs because both tuition rates and the number of students increased substantially.
  - The June 2004 OSPB cash funds forecast assumes the University of Colorado is an enterprise beginning in FY 2004-05 based on the enactment of Senate Bill 04-252. Thus, all tuition and fees collected from the University are exempt from the TABOR limit in FY 2004-05 and thereafter.
  - In FY 2005-06, Senate Bill 04-189 permits the remaining state institutions of higher education to qualify for enterprise status, so the tuition and fees collected from these institutions will not be counted as TABOR revenue in FY 2005-06 and thereafter.
- Unemployment Insurance (UI) taxes are the primary revenue source for the Unemployment Insurance Trust Fund. Revenues from these taxes are forecast to increase 50.1 percent in FY 2003-04 as UI tax rates rise to compensate for higher UI benefit payments. Through the remainder of the forecast horizon, the improving economy will result in declining benefit payments, which in turn means UI tax rates will fall.

The National Economy

Most recent economic data are showing considerable strength. The national labor market is rebounding, with a net increase of 1.2 million jobs since January 2004 and with employment growth accelerating month-over-month. Meanwhile, initial jobless claims are continuing their downward trend, demand and production growth are strong, and inflation-adjusted gross domestic product (GDP) is growing at about one percentage point above its long-term potential.

- National employment will increase 0.9 percent in 2004 and 1.7 percent in each of 2005 and 2006.
- Inflation-adjusted GDP grew 4.4 percent in first quarter 2004, well above the long-term potential of 3.0 percent to 3.5 percent.
  - Consumer spending climbed 3.9 percent, due to an increased pace in nondurable and service spending.
  - Residential investment increased 3.8 percent in first quarter 2004, following a 7.9 percent rise in fourth quarter 2003 and a 21.9 percent surge in third quarter 2003.
  - Business investment is expected to average 11.5 percent growth in 2004 and 9.2 percent growth in 2005. First quarter 2004 investment in business equipment climbed at its fastest pace since second quarter 2000 and orders for nondefense capital equipment — a proxy for near-term business investment — are up 17.0 percent compared with first quarter 2003.
- Inflationary pressures are constrained and expected to remain so through the near term. Excluding energy and food costs, consumer price inflation is forecast to be 1.4 percent in 2004 and at or below 2.5 percent through 2008.

The Colorado Economy

Colorado economic indicators are increasingly heartening. In April 2004, state employment increased year-over-year for the first time since July 2001 and the 0.7 percent seasonally adjusted growth posted between March 2004 and April 2004 — an increase of 17,700 jobs — was the third highest in the nation and the largest percent increase in Colorado in more than four years. Furthermore, the April 2004 Colorado unemployment rate dropped to 5.1 percent, down 1.1 percentage points compared with the 6.2 percent rate posted in the state in April 2003. Meanwhile, the number of Colorado companies on the 2003 Fortune 500 list increased to eight, up from six in 2002.

- According to the Ernst and Young 18th Annual Biotech report, Colorado's eight publicly traded biotechnology companies increased their revenues by 28 percent and grew their market capitalization by 153 percent in 2003.
- Colorado exports surged 16.2 percent in first quarter 2004 compared with first quarter 2003.
- The June 2004 OSPB forecast is that employment will increase 1.2 percent in 2004, averaging a net increase of just over 10,000 new jobs per month through the remainder of 2004.
- The 2004 Colorado unemployment rate is forecast to average 5.4 percent, substantially below the 6.0 percent rate posted in 2003.
- We forecast that consumer prices in the Denver-Boulder-Greeley area will rise 1.8 percent in 2004 and 2.0 percent in 2005.
- In 2004, net in-migration to Colorado will be slightly under 15,000 and total population growth will be 1.2 percent.

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The TABOR Limit and General Fund Revenue Outlook

Summary

- In FY 2002-03, the state's General Fund ended the year with a $224.9 million reserve. The reserve exceeded four percent of FY 2002-03 General Fund appropriations by $8.4 million, thereby allowing $5.6 million to be transferred to the Highway Users Tax Fund and $2.8 million to be transferred to the Capital Construction Fund.
- The June 2004 OSPB forecast for FY 2003-04 General Fund revenues is $71.2 million higher compared with the March 2004 forecast and the forecast for General Fund revenues in FY 2004-05 is $98.6 million higher. General Fund revenues are forecast to increase 6.8 percent in FY 2003-04 and 4.2 percent in FY 2004-05.
- The June 2004 revenue projections indicate that FY 2003-04 revenues will exceed the statutory four percent reserve requirement by $112.0 million. Two-thirds of this excess will be distributed to the Highway Users Tax Fund and one-third to the Capital Construction Fund.
- Based on the June 2004 OSPB revenue projections and the FY 2004-05 appropriations amount set by House Bill 04-1422, the FY 2004-05 budget is balanced. In FY 2004-05, General Fund appropriations increase $208.4 million (3.7 percent), the four percent statutory reserve is exceeded by $24.7 million, and there is an $82.3 million TABOR refund.

The June 2004 OSPB forecast for FY 2003-04 General Fund revenues is $71.2 million higher compared with the March 2004 forecast and the forecast for General Fund revenues in FY 2004-05 is $98.6 million higher.

This section of the forecast provides an overview of the June 2004 Office of State Planning and Budgeting (OSPB) revenue forecast. First, it discusses the limits contained in the Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado Constitution. Next, it provides a description of the General Fund overview and outlines the legislation passed by the 2004 General Assembly that made additional monies available for the FY 2004-05 General Fund operating budget. Finally, the section discusses the OSPB General Fund revenue forecast.

THE TABOR SURPLUS

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado Constitution — limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. ***Table 1*** displays the expected TABOR surpluses through the forecast horizon, while ***Table 2*** provides a detailed calculation of TABOR revenues from FY 2002-03 through FY 2008-09 under current law.

Table 1

TABOR Surplus Revenues

(Dollar Amounts in Millions)

Fiscal Year	TABOR Surplus
2002-03	$0.0
2003-04[1]	$0.0
2004-05[1]	$82.3
2005-06[1]	$230.2
2006-07[1]	$467.8
2007-08[1]	$513.9
2008-09[1]	$554.6
Cumulative Total[1]	**$1,848.8**

1/ Forecast

The TABOR surplus disappeared because of the recession, Amendment 23, and the growth dividend.

After logging TABOR revenue surpluses for five years, the TABOR surplus vanished in FY 2001-02 and remains absent through FY 2003-04. Indeed, FY 2002-03 TABOR revenues were lower than the TABOR limit by $584.3 million. The TABOR surplus disappeared because of the *recession*, *Amendment 23*, and the *growth dividend*. In FY 2004-05, the TABOR surplus reappears, totaling $82.3 million. Through the remainder of the forecast, we expect the TABOR surplus to range between $230 million and $560 million.

The June 2004 OSPB forecast for the TABOR surplus is higher than was forecast in March 2004 primarily because the Colorado economy is strengthening and this is increasing General Fund and cash funds revenue growth. The OSPB forecast for population growth and inflation is discussed in greater detail in the Colorado section of this report.

GENERAL FUND OVERVIEW

Table 3 provides a summary of General Fund revenues, expenditures, and reserves through FY 2008-09. Table 3 assumes current law for General Fund appropriations, capital construction transfers, other transfers to the General Fund, and rebates and expenditures. It also accounts for the effects of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 on Colorado's Medicaid program and tax receipts.

In FY 2002-03, the state's General Fund ended the year with a $224.9 million reserve. This reserve exceeded the statutory reserve by $93.7 million because the FY 2002-03 statutory reserve was lowered to 2.4 percent. Based on the June 2004 OSPB revenue projections and the FY 2003-04 appropriation level, FY 2003-04 revenues will exceed the statutory four percent reserve requirement by $112.0 million. Two-thirds of this excess will be distributed to the Highway Users Tax Fund and one-third will be distributed to the Capital Construction Fund.

The June 2004 OSPB forecast indicates that the FY 2004-05 budget is balanced.

The June 2004 OSPB forecast presented in Table 3 indicates that the FY 2004-05 budget is balanced.

Table 2
TABOR Surplus Revenue Calculation
(Dollar Amounts in Millions)

Line No.		FY 2002-03	June 2004 Estimate by Fiscal Year					
			FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
	TABOR Revenues:							
1	General Fund	$5,438.6 **/A**	$5,733.5 **/A**	$5,968.5 **/A**	$6,292.8 **/A**	$6,733.5 **/A**	$7,168.7 **/A**	$7,591.8 **/A**
2	Cash Funds	$2,273.9 **/B**	$2,583.0	$2,366.7 **/C**	$1,988.5 **/C**	$2,051.0	$1,978.0	$1,975.4
3	Total TABOR Revenues	$7,712.5	$8,316.5	$8,335.2	$8,281.2	$8,784.6	$9,146.7	$9,567.2
4	*Adjustment to base*	*($23.4)* **/D**	*($353.5)* **/C**	*($436.3)* **/C**				
5	*Adjusted total for computing next year's limit*	$7,689.1	$7,963.0	$7,898.9	$8,281.2	$8,784.6	$9,146.7	$9,567.2
	TABOR Limit Calculation:							
6	*Previous calendar year population growth*	*2.2%*	*1.7%*	*1.1%*	*1.2%*	*1.3%*	*1.4%*	*1.6%*
7	*Previous calendar year inflation*	*4.7%*	*1.9%*	*1.1%*	*1.8%*	*2.0%*	*2.4%*	*2.8%*
8	*Growth Dividend*	*0.0%*	*4.6%* **/E**	*1.4%* **/E**	*0.0%*	*0.0%*	*0.0%*	*0.0%*
9	Allowable TABOR Growth Rate	6.9%	8.2%	3.6%	3.0%	3.3%	3.8%	4.4%
10	Actual Change in TABOR Revenues from Limit	-0.5%	8.2%	4.7%	5.9%	9.1%	10.0%	10.8%
11	**TABOR Limit**	**$8,296.8 /F**	**$8,316.5 /F**	**$8,252.9 /F**	**$8,051.1 /F**	**$8,316.8 /F**	**$8,632.8 /F**	**$9,012.6 /F**
12	**Revenues Above (Below) TABOR Limit**	**($584.3)**	**$0.0**	**$82.3**	**$230.2**	**$467.8**	**$513.9**	**$554.6**
13	TABOR Emergency Reserve	$231.4 **/G,H**	$249.5 **/G,I**	$247.6 **/G,J**	$241.5 **/G,J**	$249.5 **/G,J**	$259.0 **/G,J**	$270.4 **/G,J**

/A 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, other revenues that are exempt from TABOR, and revenues that are recorded in both the General Fund and in 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.

/B Cash funds revenue reported here differ from the cash funds revenue reported elsewhere because they net out values credited to the General Fund.

/C S.B. 04-189 and S.B. 04-252 grant enterprise status to the University of Colorado in FY 2004-05 and all Colorado institutions of higher education in FY 2005-06 and thereafter. To account for this change, the FY 2003-04 TABOR limit is reduced by $353.5 million (the amount of tuition and fees collected by the University of Colorado in FY 2003-04) before the FY 2004-05 TABOR limit is computed. Similarly, the FY 2004-05 TABOR limit is reduced by $436.3 million (the amount of tuition and fees collected in FY 2004-05 by the remaining state institutions of higher education) before the FY 2005-06 TABOR limit is computed.

/D Revenues collected by the Canteen and Library Fund were included in TABOR revenues in FY 2002-03, but in FY 2003-04 this fund has enterprise status and thus its revenue stream is not counted as FY 2003-04 TABOR revenue. The FY 2002-03 TABOR limit is reduced by $23.4 million before computing the FY 2003-04 TABOR limit to account for this change in status.

/E 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. These bills allow the state to increase the TABOR limit by 6.0 percentage points for population growth that occurred during the 1990s that was not captured by U.S. Bureau of the Census intercensal estimates. Since the state was 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.

/F The TABOR limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "TABOR Limit," whichever is smaller. In FY 2002-03, total TABOR revenues are also less than the TABOR limit, so the FY 2003-04 TABOR limit is calculated by growing FY 2002-03 actual total TABOR revenues by the FY 2003-04 allowable TABOR growth rate. In the remaining years, the TABOR limit is less than or equal to total TABOR revenues, so the TABOR limit is calculated from the previous year's TABOR limit.

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

/H In FY 2002-03, per S.B. 03-348, the three percent TABOR emergency reserve is designated as the balance of funds in the employment support fund, the tobacco litigation settlement cash fund, the wildlife cash fund, the unclaimed property trust fund, the severance tax trust fund, and $3.7 million of state properties.

/I In FY 2003-04, per S.B. 03-258, the three percent TABOR emergency reserve is designated as the Colorado river recovery program loan fund, the fish and wildlife resources fund, the perpetual base account of the severance tax trust fund, the species conservation trust fund, the wildlife cash fund and fund equity, and up to $87.4 million of state properties.

/J In FY 2004-05 and thereafter, per H.B. 04-1422, the three percent TABOR emergency reserve is designated as up to $24.0 million from the major medical insurance fund, up to $20.0 million from the subsequent injury fund, up to $12.0 million from the workers' compensation cash fund, up to $6.0 million from the severance tax trust fund, up to $6.0 million from the Colorado river recovery program loan fund, up to $3.0 million in the fish and wildlife resources fund, up to $98.7 million in the wildlife cash fund and fund equity, and up to $89.0 million of state properties.

Table 3
General Fund Overview – Current Law
(Dollar Amounts in Millions)

Line No.		FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
			June 2004 Estimate by Fiscal Year					
	Funding Sources and Diversions:							
1	Beginning Reserve	$138.5	$216.6	$223.6	$231.9	$239.0	$244.1	$258.6
2	Gross General Fund Revenues	5,665.4	6,048.7	6,300.5	6,644.2	7,110.6	7,571.3	8,022.3
3	Transfers to General Fund	525.3 **/A**	15.3 **/A**	27.0 **/A**	31.2 **/A**	30.5 **/A**	30.1 **/A**	34.1 **/A**
4	Senate Bill 97-1 Transfers to the HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Diversion to the Older Coloradan's Program	(3.0)	(2.3)	(2.3)	(2.8)	(2.8)	(2.8)	(2.8)
6	Transfer to the State Education Fund	(247.6) **/B**	(275.5) **/B**	(290.7) **/B**	(308.7) **/B**	(331.1) **/B**	(353.0) **/B**	(377.0) **/B**
7	Adjustments to the State Education Fund for Over (Under) Payments	59.2 **/C**	(8.0) **/C**	0.0	0.0	0.0	0.0	0.0
8	**Total Funds Available**	$6,137.8	$5,994.8	$6,258.1	$6,595.9	$7,046.3	$7,489.7	$7,935.2
	Expenditures:							
9	General Fund Appropriations (Long Bill)	$5,414.5	$5,590.7	$5,795.9	$5,975.0	$6,103.0	$6,464.8	$6,846.1
10	Increase (reduction) from Supplemental Bills		(0.7)	2.6				
11	K-12 Capital Construction	0.0 **/D**	0.0 **/D**	0.0 **/D**	0.0 **/D**	0.0 **/D**	0.0 **/D**	0.0 **/D**
12	Capital Construction Freeze (S.B. 03-179)	(30.5)	0.0	0.0	0.0	0.0	0.0	0.0
13	Federal Medical Assistance Enhancement for Medicaid	(15.0)	(71.4)	0.0	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	133.7	114.9 **/E**	120.6 **/E**	151.7	158.2	165.7	173.6
15	Capital and Prison Construction	10.6	9.5	0.2 **/F**	0.1 **/F**	7.4	20.0	19.4
16	TABOR Refund	0.0	0.0	82.3	230.2	467.8	513.9	554.6
17	Homestead Exemption	62.6	0.0 **/G**	0.0 **/G**	0.0 **/G**	65.8	66.7	67.8
18	Transfer to the Controlled Maintenance Trust Fund (S.B. 03-262)	0.0	0.0	0.0 **/H**	0.0 **/H**	0.0	0.0	0.0
19	General Fund Payback	349.6 **/I**	16.2 **/I**	0.0	0.0	0.0	0.0	0.0
20	Reversions & Accounting Adjustments	(12.6)	0.0	0.0	0.0	0.0	0.0	0.0
21	**Total Obligations**	$5,912.9	$5,659.2	$6,001.5	$6,356.9	$6,802.2	$7,231.2	$7,661.4
22	**Year-end General Fund Reserve:**	**$224.9**	**$335.6**	**$256.6**	**$239.0**	**$244.1**	**$258.6**	**$273.8**
23	**Statutory Reserve: 4.0% of Appropriations**	**131.3 /J**	**223.6**	**231.9**	**239.0**	**244.1**	**258.6**	**273.8**
24	**Monies Above (Below) Statutory Reserve**	**93.7**	**112.0**	**24.7**	**0.0**	**0.0**	**0.0**	**0.0**
25	**Excess Monies Reserved for Transportation**	**5.6 /K,L**	**74.7 /K**	**16.5 /K**	**0.0**	**0.0**	**0.0**	**0.0**
26	**Excess Monies Reserved for Capital Construction**	**2.8 /K,L**	**37.3 /K**	**8.2 /K**	**0.0**	**0.0**	**0.0**	**0.0**
27	**Reserve as a % of Appropriations**	**4.2%**	**6.0%**	**4.4%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
28	**Appropriations Change**	**($238.5)**	**$175.5**	**$208.4**	**$176.5**	**$128.0**	**$361.8**	**$381.3**
29		-4.2%	3.2%	3.7%	3.0%	2.1%	5.9%	5.9%

/A This figure represents the total transfers to the General Fund per H.B. 02-1267, H.B. 02-1391, H.B. 02-1392, H.B. 02-1443, H.B. 02-1444, H.B. 02-1445, H.B. 02-1478, S.B. 03-107, S.B. 03-172, S.B. 03-179, S.B. 03-188, S.B. 03-190, S.B. 03-191, S.B. 03-260, S.B. 03-261, S.B. 03-271, S.B. 03-274, S.B. 03-296, S.B. 03-300, and H.B. 04-1421.

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

/C As new data become available regarding federal taxable income, the state must adjust the diversion to the State Education Fund as per section 22-55-103, C.R.S.

/D 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 payment is paid from the State Education Fund and, to the extent available, Powerball. As per C.R.S. 24-75-201.1(4)(c), in FY 2004-05 and thereafter, the payment will not be made unless General Fund revenues exceed the statutory reserve by at least $80 million.

/E Per S.B. 03-263, state expenditures for unfunded, old hire pension plans in the Fire and Police Pensions Association are eliminated in FY 2003-04 and FY 2004-05.

/F H.B. 04-1412 eliminated the General Fund transfer to the capital construction fund scheduled to occur in FY 2004-05 and FY 2005-06. The transfers shown in FY 2004-05 and FY 2005-06 are per H.B. 04-1003 and H.B. 04-1021, respectively.

/G S.B. 03-265 eliminated the senior homestead exemption property tax credit in FY 2003-04 through FY 2005-06.

/H H.B. 04-1267 repealed the statutory requirement to repay the Controlled Maintenance Trust Fund in FY 2004-05 and FY 2005-06.

/I 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 throughout the forecast horizon. In addition, H.B. 02-1445 and H.B. 02-1478 required the state to repay on July 1, 2002, the Major Medical and Tobacco Settlement funds in the same amount as was transferred 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. S.B. 03-191 requires that $10 million be repaid on July 1, 2003, to the Major Medical Fund and S.B. 03-274 requires that up to $6.9 million be repaid to the local government limited gaming impact fund from any revenues above $5.0 million collected through the tax amnesty program.

/J Per S.B. 03-349, the statutory reserve was lowered in FY 2002-03 to 2.4 percent.

/K Per S.B. 02-1310, two-thirds of monies in excess of a four percent reserve are credited the Highway Users Tax Fund and one-third of the excess is credited to the Capital Construction Fund.

/L In FY 2002-03 the statutory reserve was lowered to 2.4 percent. A four percent reserve would be $216.6 million. The $8.3 million in excess of amount are credited to the Highway Users Tax Fund and the Capital Construction Fund as per note **/I** above.

Measures taken during the 2004 Regular Session of the General Assembly

This section discusses the major legislation passed during the 2004 Regular Session of the General Assembly that directly affected monies available for the FY 2004-05 budget.

- House Bill 04-1267 ***repealed the statutory requirement for the $138.2 million transfer from the General Fund to the Controlled Maintenance Trust Fund*** scheduled to occur on July 1, 2004 and July 1, 2005.

- House Bill 04-1412 ***repealed the $101.8 million transfer from the General Fund to the Capital Construction Fund scheduled to occur in FY 2004-05 and the $100.7 million transfer scheduled to occur in FY 2005-06***, thereby eliminating these General Fund obligations. The remaining FY 2005-06 transfer is authorized in House Bill 04-1003 and House Bill 04-1021.

- House Bill 04-1421 ***specified the allocation of monies received through the tobacco settlement*** for programs funded from the payment. In FY 2004-05, this bill will provide $27.0 million for General Fund programs.

- Senate Bill 04-189 and Senate Bill 04-252 ***grant Colorado institutions of higher education enterprises status for purposes of TABOR***, which affects the computations of the TABOR limit as discussed in the footnotes for Table 2. The impact of these bills is explained in greater detail in the Cash Funds section of this document.
    - Senate Bill 04-252 makes the University of Colorado an enterprise beginning in FY 2004-05. Thus, all tuition and fees collected from the University are exempt from the TABOR limit in FY 2004-05 and thereafter.
    - In FY 2005-06, Senate Bill 04-189 permits the remaining state institutions of higher education to qualify for enterprise status, so the tuition and fees collected from these institutions will not count as TABOR revenue in FY 2005-06 and thereafter.

GENERAL FUND REVENUES

The forecast for General Fund revenues is shown in ***Table 4***. The June 2004 forecast for FY 2003-04 General Fund revenues is $71.2 million higher than the March 2004 forecast and the forecast for General Fund revenues in FY 2004-05 is up $98.6 million. This section presents the details of our forecast for General Fund revenues in FY 2003-04 and FY 2004-05.

The June 2004 forecast for General Fund revenues for FY 2003-04 is $71.2 million higher than the March 2004 forecast.

FY 2003-04: In total, the FY 2003-04 General Fund revenue forecast for June 2004 is $71.2 million higher than our March 2004 forecast. General Fund revenues are expected to increase 6.8 percent in FY 2003-04 compared with FY 2002-03.

Net individual income tax receipts will increase 10.3 percent in FY 2003-04 and 5.0 percent in FY 2004-05. The strong growth in FY 2003-04 is, in part, a consequence of accrual adjustments that significantly lowered FY 2002-03 individual income tax revenue, thereby making the increase between FY 2003-04 and FY

2004-05 larger. The components of individual income taxes — ***withholdings, estimated payments, cash-with-returns receipts*** (checks mailed for income taxes due on April 15), and ***refunds*** — have stabilized. Indeed, following two years of declines, withholdings, estimated payments, and cash-with-returns are again growing in FY 2003-04. Meanwhile, refunds, which soared in FY 2002-03, are forecast to increase only modestly through the forecast horizon.

Net corporate income tax receipts increased 26.5 percent in FY 2002-03. They are forecast to increase 2.5 percent in FY 2003-04. The relatively small increase occurs because of an $11.5 million refund that resulted from resolution of an audit. Because this $11.5 refund is related to corporate activity prior to the current year, it does not impact our forecast for future years. The FY 2004-05 forecast for net corporate income tax growth is unchanged from December 2003. However, the downward revision to FY 2003-04 net corporate income tax revenues results in a stronger FY 2004-05 growth rate. This adjustment further exacerbates the natural volatility of corporate income tax revenues.

Sales tax revenues declined 3.0 percent in FY 2002-03 compared with FY 2001-02. They are forecast to increase 3.9 percent in FY 2003-04. Sales tax revenues are rising because of the strengthening state Colorado economy, because of the fiscal stimulus provided by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, and because homeowners spent some of their equity when they refinanced their mortgages to take advantage of recent low mortgage rates. In addition, Senate Bill 03-317 reduced to two and one-third percent (from three and one-third percent) the portion of sales tax revenues that merchants can keep as payment for collecting sales tax revenues for the state. States that collect a sales tax often provide such vendor fees to their merchants in recognition that the merchants collect the tax for the state. Because of Senate Bill 03-317, the state will receive a larger share of sales tax revenues collected in FY 2003-04 than it received in FY 2002-03, so sales tax revenue growth in FY 2003-04 is larger than it would have been without passage of Senate Bill 03-317. Then, in FY 2005-06, when the fee that merchants can keep rises back to three and one-third percent, sales tax revenue growth will be reduced compared with FY 2004-05 because the state will keep a smaller share of sales tax revenues.

FY 2004-05: The June 2004 OSPB forecast for FY 2004-05 General Fund revenues is $98.6 million higher compared with the March 2004 forecast. General Fund revenues are forecast to grow 4.2 percent in FY 2004-05 compared with FY 2003-04. In FY 2004-05, the Colorado economy will have strengthened and, as a consequence, most of the revenue streams that contribute to the General Fund are forecast to increase. Furthermore, some of the federal tax law changes reported previously will affect revenue growth rates. For example, net corporate income tax revenue growth in FY 2004-05 will be increased because the 50 percent bonus depreciation and increased small business expensing provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 will no longer be in effect.

Table 4
Colorado General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	FY 2002-03	%	FY 2003-04	%	FY 2004-05	%	FY 2005-06	%	FY 2006-07	%	FY 2007-08	%	FY 2008-09	%
				June 2004 Estimate by Fiscal Year with Percent Change Over Prior Year											
	Excise Taxes:														
1	Sales	$1,703.3 **/A**	(3.0)	$1,770.1 **/A**	3.9	$1,870.5 **/A**	5.7	$1,973.5 **/A**	5.5	$2,124.7 **/A**	7.7	$2,270.5 **/A**	6.9	$2,383.9 **/A**	5.0
2	TABOR Overrefund	(19.9) **/B**		0.0		0.0		0.0		0.0		0.0		0.0	
3	Use	136.5 **/A**	(2.9)	136.9 **/A**	0.3	147.1 **/A**	7.5	154.8 **/A**	5.2	162.1 **/A**	4.8	170.0 **/A**	4.9	175.9 **/A**	3.5
4	Cigarette	54.3	(1.6)	53.8	(1.0)	53.3	(0.9)	53.1	(0.4)	53.1	0.0	53.2	0.2	53.8	1.0
5	Tobacco Products	10.4	0.5	12.0	15.8	12.6	4.8	13.2	5.0	13.9	5.0	14.5	4.3	14.9	3.0
6	Liquor	29.7	0.8	30.4	2.3	30.7	0.9	31.1	1.3	31.6	1.7	32.6	3.1	33.6	3.0
7	***Total Excise***	***$1,914.3***	***(2.5)***	***$2,003.3***	***4.6***	***$2,114.2***	***5.5***	***$2,225.7***	***5.3***	***$2,385.5***	***7.2***	***$2,540.8***	***6.5***	***$2,662.1***	***4.8***
	Income Taxes:														
8	Net Individual Income	$3.122.3	(6.7)	$3.444.3	10.3	$3.617.7	5.0	$3.838.5	6.1	$4.115.0	7.2	$4.392.3	6.7	$4.694.2	6.9
9	Net Corporate Income	225.1	26.5	230.7 **/C**	2.5	259.7 **/C**	12.6	279.3 **/C**	7.5	301.6 **/C**	8.0	316.7 **/C**	5.0	335.1	5.8
10	***Total Income***	***$3,347.4***	***(5.0)***	***$3,675.0***	***9.8***	***$3,877.5***	***5.5***	***$4,117.7***	***6.2***	***$4,416.6***	***7.3***	***$4,709.1***	***6.6***	***$5,029.3***	***6.8***
	Other Revenues:														
11	Estate	$53.4 **/D**	(26.4)	$50.1 **/D**	(6.1)	$15.0 **/D**	(70.1)	$1.1 **/D**	(93.0)	$0.0 **/D**	NA	$0.0 **/D**	NA	$0.0 **/D**	NA
12	Insurance	171.3	10.8	172.4	0.6	173.4	0.6	177.4	2.3	182.4	2.8	191.3	4.9	196.4	2.7
13	Pari-Mutuel	4.7	(18.9)	4.8	2.1	4.7	(0.6)	4.7	(0.7)	4.7	(0.8)	4.6	(0.8)	4.6	(0.8)
14	Interest Income	50.9 **/E**	101.1	22.4 **/E**	(56.0)	11.2	(50.1)	11.5	2.5	11.8	2.7	12.1	2.6	12.4	2.6
15	Court Receipts	23.7	1.7	27.6	16.6	27.4	(0.7)	27.0	(1.4)	26.7	(1.1)	26.1	(2.3)	25.6	(2.0)
16	Gaming	38.4	12.6	39.6	3.2	41.2	4.1	42.7	3.6	46.0	7.6	49.6	7.9	53.5	7.9
17	Medicaid Intergovernmental Transfer	15.6	39.6	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
18	Other Income	45.8 **/F**	43.5	53.5 **/F**	16.7	35.8 **/F**	(33.1)	36.4	1.8	37.0	1.6	37.7	1.9	38.4	1.9
19	***Total Other***	***$403.7***	***12.6***	***$370.4***	***(8.3)***	***$308.8***	***(16.6)***	***$300.8***	***(2.6)***	***$308.5***	***2.6***	***$321.4***	***4.2***	***$331.0***	***3.0***
20	**GROSS GENERAL FUND**	**$5,665.4**	**(3.1)**	**$6,048.7**	**6.8**	**$6,300.5**	**4.2**	**$6,644.2**	**5.5**	**$7,110.6**	**7.0**	**$7,571.3**	**6.5**	**$8,022.3**	**6.0**
	Rebates & Expenditures:														
21	Cigarette Rebate	$15.1	(4.7)	$15.0	(1.0)	$14.9	(0.9)	$14.8	(0.4)	$14.8	0.0	$14.8	0.2	$15.0	1.0
22	Old-Age Pension Fund	75.0	4.1	79.0	5.4	84.6	7.1	90.3	6.7	96.5	6.9	103.7	7.5	111.2	7.2
23	Aged Property Tax & Heating Credit	14.5	(8.8)	17.1	17.8	17.3	1.5	17.6	1.4	17.8	1.4	18.1	1.4	18.3	1.4
24	Fire/Police Pensions	29.1	0.6	3.8 **/G**	(86.9)	3.8 **/G**	0.0	29.1	665.8	29.1	0.0	29.1	0.0	29.1	0.0
25	***Total Rebates & Expenditures***	***$133.7***	***0.8***	***$114.9***	***(14.1)***	***$120.6***	***5.0***	***$151.7***	***25.8***	***$158.2***	***4.3***	***$165.7***	***4.8***	***$173.6***	***4.7***

NA: Not Available.

/A 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 Table 3.

/B Per H.B. 99-1001, the state was required to refund 105 percent of the TABOR surplus. The five percent over-refund essentially lowers the following year's sales tax 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. The FY 2002-03 over-refund is associated with the FY 1999-00 and FY 2000-01 TABOR surplus.

/C The Federal tax relief packages adopted in 2001, 2002, and 2003 significantly reduce Colorado net corporate income tax revenues in FY 2003-04. In FY 2004-05, a number of these provisions are no longer in effect so there is a large percentage increase in FY 2004-05 Colorado net corporate income tax revenues. Furthermore, in FY 2005-06 and FY 2006-07, many of the provisions of the federal tax legislation result in an increase in federal adjusted income and thus, contribute to higher net corporate income tax growth rates in these years and a lower growth rate in FY 2007-08.

/D The 2001 Federal tax relief package phases out the federal estate tax as well as the state credit claimed by Colorado as its share of federal estate taxes. Thus, the state's estate tax collections will be phased out and almost entirely eliminated by FY 2005-06.

/E The state received about $40 million in one-time revenues from the sale of financial assets in FY 2002-03, resulting in strong interest income growth in FY 2002-03 and a decline in interest income in FY 2003-04.

/F Other income in FY 2002-03 and FY 2003-04 includes monies from the Employment Support Fund surcharge as per S.B. 03-296, resulting in strong other income growth in FY 2002-03 and FY 2003-04 and a decline in other income in FY 2004-05.

/G Per S.B. 03-263, state expenditures for unfunded, old hire pension plans in the Fire and Police Pensions Association are eliminated in FY 2003-04 and FY 2004-05.

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Cash Funds Revenue Forecast

Summary

- **Cash funds revenues** are forecast to increase 12.5 percent in FY 2003-04, to $2,583.0 million. In FY 2003-04, strong cash funds revenue growth is primarily due to robust growth in three cash fund categories: higher education tuition, unemployment insurance tax, and severance taxes. In FY 2004-05, the cash funds will increase 6.2 percent.

- **Transportation-related revenues**, the largest group of cash funds, are forecast to increase 1.6 percent in FY 2003-04 and 2.9 percent in FY 2004-05. From FY 2003-04 through FY 2008-09, these funds will grow at a compound annual average rate of 3.7 percent.

- **Higher education cash funds**, the next largest group of cash funds, are forecast to increase 12.4 percent in FY 2003-04. The increase in total higher education revenues occurs because both tuition rates and the number of students increased substantially.

  - The June 2004 OSPB cash funds forecast assumes the University of Colorado is an enterprise beginning in FY 2004-05 based on the enactment of Senate Bill 04-252. Thus, all tuition and fees collected from the University are exempt from the TABOR limit in FY 2004-05 and thereafter.

  - In FY 2005-06, Senate Bill 04-189 permits the remaining state institutions of higher education to qualify for enterprise status, so the tuition and fees collected from these institutions will not be counted as TABOR revenue in FY 2005-06 and thereafter.

- Unemployment Insurance (UI) taxes are the primary revenue source for the **Unemployment Insurance Trust Fund**. Revenues from these taxes are forecast to increase 50.1 percent in FY 2003-04 as UI tax rates rise to compensate for higher UI benefit payments. Through the remainder of the forecast horizon, the improving economy will result in declining benefit payments, which in turn means UI tax rates will fall.

The June 2004 OSPB cash funds revenue forecast is summarized in ***Table 5***. Cash funds revenues are monies collected and earmarked for specific purposes. They comprised 29.4 percent of total TABOR revenues in FY 2002-03. In FY 2003-04, cash funds revenues are forecast to increase 12.5 percent, to $2,583.0 million. From FY 2003-04 through FY 2008-09, cash funds revenues will grow at a compound annual average rate of 6.0 percent.

In FY 2003-04, cash funds revenues are forecast to increase 12.5 percent.

Strong cash funds revenue growth is primarily due to robust growth in three cash fund categories: higher education tuition, unemployment insurance tax, and severance tax.

In FY 2003-04, strong cash funds revenue growth is primarily due to robust growth in three cash fund categories: higher education tuition, unemployment insurance (UI) tax, and severance taxes. Higher education revenues will rise 12.4 percent as tuition rates are increased and enrollment continues to grow. Meanwhile, UI taxes will experience a surge in revenues as employer tax rates adjust to replenish the UI Trust Fund, as is designed per statute. However, in FY 2005-06, revenue received from the UI tax is expected to decline substantially as a result of the improving economy and lower UI tax rates, causing an overall decline in total cash fund revenues collected. Meanwhile, severance tax revenues rose rapidly in FY 2003-04 as a result of higher prices and production levels coupled with merger and acquisition activity.

During the 2004 legislative session, the General Assembly passed several bills that will affect the higher education and other miscellaneous cash funds revenues beginning in FY 2004-05. These revenue changes have been accounted for in the June 2004 forecast and the impacts are discussed below in the appropriate areas. The remainder of this section details the revenue forecasts for the larger cash funds.

Transportation-Related Cash Funds

From FY 2003-04 through FY 2008-09, total transportation-related cash funds revenue will grow at a compound average annual rate of 3.7 percent.

Table 6 details the forecast for transportation-related cash funds revenue. Total transportation-related cash funds revenues are forecast to increase 1.6 percent in FY 2003-04 and 2.9 percent in FY 2004-05 as the Colorado economy continues to improve. In FY 2002-03 these funds decreased 1.8 percent primarily due to a decline in local matching monies placed in the State Highway Fund, as explained below. From FY 2003-04 through FY 2008-09, total transportation-related cash funds revenue will grow at a compound average annual rate of 3.7 percent.

- The ***Highway Users Tax Fund*** (HUTF), the largest of the transportation-related funds, is composed primarily of fuel tax revenues and registration fees. In FY 2002-03, a weak economy reduced demand for gasoline. As businesses nationally and locally lowered inventories due to a lack of consumer spending, the number of trucks entering the state also declined, leading to a drop in diesel fuel purchases. Indeed, the number of heavy vehicle registrations dropped substantially. Hence, FY 2002-03 motor and special fuel taxes and vehicle registration revenues were nearly flat compared with FY 2001-02. HUTF revenues are expected to increase 2.5 percent in FY 2003-04 and 3.0 percent in FY 2004-05 as businesses begin to build their inventories and consumers have more disposable income to spend at the gasoline pump. These trends will continue through the forecast horizon. While gasoline prices have risen sharply over the past year, the demand for gasoline is 'inelastic.' Hence, we will not see a decline in the amount of gasoline purchased over the short term. Also, beginning in FY 2006-07, driver's license fees will increase, contributing to a faster pace of growth in the later years of the forecast.

- ***Other transportation-related cash funds revenue***, which grew 18.5 percent in FY 2001-02, fell 14.4 percent in FY 2002-03 and are expected to decline 9.0 percent in FY 2003-04.

Table 5
Cash Funds Revenue Forecasts by Major Category
(Accrual Basis, Dollar Amounts in Millions)

		June 2004 Estimate by Fiscal Year						
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2003-04 to FY 2008-09 CAAGR*
Transportation-Related	$799.7	$812.5	$836.0	$862.4	$907.9	$938.7	$974.1	
Change	-1.8%	1.6%	2.9%	3.2%	5.3%	3.4%	3.8%	3.7%
Higher Education	$683.7 /A	$768.8 /A	$436.3 /A	NE /B	NE /B	NE /B	NE /B	
Change	7.6%	12.4%	5.0% /G	NE	NE	NE	NE	NE
Unemployment Insurance	$219.1 /C	$331.1 /D	$447.5 /D	$464.3 /D	$457.1 /D	$324.6 /D	$258.6	
Change	11.7%	51.1%	35.2%	3.8%	-1.6%	-29.0%	-20.3%	-4.8%
Limited Gaming Fund	$100.0	$103.7	$108.7	$115.6	$124.0	$133.3	$140.8	
Change	0.9%	3.7%	4.8%	6.4%	7.2%	7.5%	5.7%	6.3%
Capital Construction – Interest	$4.2	$1.8	$1.4	$0.9	$0.6	$0.3	$0.2	
Change	-75.8%	-57.0%	-23.6%	-32.4%	-32.4%	-46.1%	-45.6%	-36.6%
Regulatory Agencies	$53.5	$49.8	$51.4	$53.2	$55.1	$57.0	$59.1	
Change	6.1%	-6.9%	3.2%	3.6%	3.5%	3.5%	3.6%	3.5%
Insurance-Related	$61.3	$52.9	$53.4	$56.5	$59.7	$63.2	$66.9	
Change	-7.4%	-13.8%	1.0%	5.7%	5.8%	5.8%	5.8%	4.8%
Severance Tax	$32.6	$102.2	$59.5	$55.0	$56.3	$61.3	$66.9	
Change	-43.3%	213.5%	-41.8%	-7.5%	2.5%	8.8%	9.1%	-8.1%
Petroleum Storage Tank Fund	$20.0	$28.5 /E	$28.4 /E	$23.8 /E	$21.4 /E	$15.3 /E	$9.6	
Change	-5.9%	42.3%	-0.1%	-16.4%	-9.8%	-28.6%	-37.6%	-19.6%
Controlled Maintenance Trust Fund Interest	$0.0	$2.1	$0.0 /F	$0.0 /F	$0.0	$0.0	$0.0	
Change	NA	NA	NA	NA	NA	NA	NA	NA /F
Other Miscellaneous Cash Funds	$321.1	$329.6	$344.1	$356.7	$368.9	$384.2	$399.3	
Change	17.0%	2.7%	4.4%	3.7%	3.4%	4.2%	3.9%	3.9%
TOTAL CASH FUNDS REVENUE	**$2,295.3**	**$2,583.0**	**$2,366.7**	**$1,988.5**	**$2,051.0**	**$1,978.0**	**$1,975.4**	
Change	2.8%	12.5%	6.2% /G	3.0% /G	3.1%	-3.6%	-0.1%	6.0% /G

***CAAGR:** Compound Annual Average Growth Rate.
NA: Not Applicable.
NE: Not Estimated.
Totals may not sum due to rounding.

/A In FY 2002-03, schools increased resident tuition between 4.7% and 6.2% and nonresident tuition between 7.7% and 9.2%. In FY 2003-04, schools will increase resident tuition between 5.0% and 15.0% and nonresident tuition between 5.0% and 23.1%. The University of Colorado at Boulder was allowed an additional 5.0% increase for its Quality for Colorado program. In FY 2004-05, residential tuition will increase by the Denver-Boulder-Greeley inflation rate and, on average, nonresidential tuition will increase 5.0%.

/B Per S.B. 04-189 and S.B. 04-252, state institutes of higher education are granted enterprise status. This means that Higher Education tuition and fees will no longer count as TABOR revenues. Beginning in FY 2004-05, the University of Colorado is an enterprise and in FY 2005-06, the remaining state institutions of higher education are considered enterprises for purposes of this forecast.

/C Reflects the 20% credit against unemployment insurance taxes allowed by H.B. 00-1310 in calendar years 2001 and 2002.

/D Includes revenues from the solvency tax surcharge, which is in effect because the solvency ratio on June 30, 2003, June 30, 2004, June 30, 2005, June 30 2006, and June 30, 2007 is less than 0.9%.

/E Reflects a change in the state environmental surcharge imposed on petroleum products.

/F Per H.B. 04-1222, payback of the Controlled Maintenance Trust Fund will be eliminated.

/G Growth rates have been adjusted to account for the enterprise status of state institutions of higher education.

Table 6

Transportation-Related Cash Funds Revenue Forecasts by Source

(Accrual Basis, Dollar Amounts in Millions)

		June 2004 Estimate by Fiscal Year						
	FY 2002-03	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2003-04 to FY 2008-09 CAAGR***
Highway Users Tax Fund (HUTF)								
Registrations	$151.0	$160.3	$165.9	$173.0	$180.7	$189.6	$198.9	
Change	-0.2%	6.2%	3.5%	4.3%	4.4%	4.9%	4.9%	4.4%
Motor and Special Fuels Net of Refunds	$541.9	$554.4	$570.6	$587.9	$605.7	$624.7	$646.2	
Change	-0.5%	2.3%	2.9%	3.0%	3.0%	3.1%	3.4%	3.1%
Other Receipts	$43.0 **/A**	$39.8 **/A**	$40.6 **/A**	$41.4 **/A**	$59.7 **/A,B**	$61.2 **/A**	$64.0 **/A**	
Change	-1.7%	-7.5%	2.0%	2.0%	44.2%	2.4%	4.7%	10.0%
TOTAL HUTF	$736.0	$754.6	$777.1	$802.3	$846.1	$875.4	$909.2	
Change	-0.5%	2.5%	3.0%	3.3%	5.5%	3.5%	3.9%	3.8%
Other Transportation-Related Cash Funds	$63.7	$57.9	$59.0	$60.1	$61.8	$63.3	$64.9	
Change	-14.4%	-9.0%	1.8%	1.9%	2.8%	2.5%	2.5%	2.3%
TOTAL TRANSPORTATION-RELATED	**$799.7**	**$812.5**	**$836.0**	**$862.4**	**$907.9**	**$938.7**	**$974.1**	
Change	-1.8%	1.6%	2.9%	3.2%	5.3%	3.4%	3.8%	3.7%

***CAAGR:** Compound Annual Average Growth Rate.

Totals may not sum due to rounding.

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

/B In accordance with C.R.S. 42-2-114, drivers' license fees will be raised on July 1, 2006.

- In FY 2001-02, the Regional Transportation District (RTD) placed large amounts of money into the State Highway Fund for light rail and highway construction projects. These local monies match funds provided through federal grant programs. Beginning in FY 2002-03 and through the remainder of the forecast horizon, RTD will not contribute local matching monies; hence, total local matching monies declined substantially in FY 2002-03 compared with FY 2001-02. A decline in interest earnings and fees collected will cause the overall fall in other transportation-related cash funds revenues in FY 2003-04.

- The 2003 General Assembly passed legislation that also impacts the revenue stream to the other transportation-related cash funds.

  - Senate Bill 03-272 imposes new fees on license plates, decals, placards, and tabs to cover the direct costs of issuing these items. This new fee is expected to generate $6.5 million in FY 2003-04.

  - Senate Bill 03-192 increases the fee for restoring revoked drivers licenses. This fee will contribute an additional $1.0 million in FY 2003-04.

Higher Education

The June 2004 forecast for FY 2003-04 ***higher education cash funds revenue*** is shown in ***Table 7***. In FY 2003-04, total higher education revenues will increase 12.4 percent, reflecting large tuition increases and strong student enrollment growth.

In FY 2003-04, total higher education revenues will increase 12.4 percent.

During the 2004 legislative session, the General Assembly passed two bills that affect the higher education cash funds: **Senate Bill 04-189** and **Senate Bill 04-252**. Senate Bill 04-189 creates the College Opportunity Fund Program in FY 2005-06. The College Opportunity Fund Program is a mechanism through which eligible undergraduate students in Colorado can apply for a stipend to use for undergraduate courses taken at a state or participating private institution of higher education. The stipend amount, which is set by the General Assembly, is *not* an appropriation to the institution of higher education. Instead, the stipend is granted to the *student*, who in turn applies it to tuition credits at the approved institution. As a result of the funding mechanism provided by Senate Bill 04-189, all state institutions of higher education are expected to meet the requirements necessary to be granted enterprise status beginning in FY 2005-06. Meanwhile, beginning in FY 2004-05, the University of Colorado will be eligible for enterprise status under the provisions of Senate Bill 04-252. Because of its enterprise status, the tuition and fees collected from the University of Colorado do not count as TABOR revenue in FY 2004-05 and thereafter and are therefore not included in the cash funds revenue forecast.

The June 2004 OSPB cash funds forecast assumes the University of Colorado is an enterprise beginning in FY 2004-05. In FY 2005-06, Senate Bill 04-189 permits the remaining state institutions of higher education to qualify for enterprise status, so the tuition and fees collected from these institutions will not be counted as TABOR revenue in FY 2005-06 and thereafter. Thus, beginning in FY 2005-06, the OSPB cash funds forecast will not include tuition and fees collected by Colorado institutions of higher education.

- In FY 2003-04, resident student tuition rates at the state's universities and colleges increased between 5.0 percent and 15.0 percent, while nonresident student tuition rates increased between 5.0 percent and 23.1 percent. In FY 2004-05, resident student tuition rates will increase by the Denver-Boulder-Greeley inflation rate and, on average, nonresident student tuition rates are assumed to increase 5.0 percent. In FY 2005-06 and beyond, tuition and fees will no longer count towards the TABOR limit and thus are not forecast.

- Total higher education FTE enrollment rose 6.3 percent in FY 2002-03. The strong enrollment increase occurred because of the slower economy, which caused many who would have been otherwise been working to go back to school. Total enrollment grew 3.3 percent in FY 2003-04. From FY 2003-04 through the forecast horizon, student enrollment will grow at an average 2.2 percent annual rate.

Unemployment Insurance Trust Fund

UI Trust Fund revenues are forecast to increase 51.1 percent in FY 2003-04.

The June 2004 Unemployment Insurance (UI) tax revenue forecast is shown in ***Table*** 8. Total UI Trust Fund revenues are forecast to increase 51.1 percent in FY 2003-04, following an 11.7 percent increase in FY 2002-03. Tax revenues are rising because UI tax rates automatically adjust to compensate for the higher UI benefit payments made since 2001. UI tax rates are designed to increase when benefit claims rise so that the UI Trust Fund is replenished. During good economic times, when UI benefit claims decrease, the UI tax rates decline. UI tax revenues are expected to increase 50.1 percent in FY 2003-04 and 29.0 percent in FY 2004-05 as rates adjust upward. Thereafter, the improving economy will result in declining benefit payments, which means UI tax rates will fall.

- In FY 2002-03, UI benefit payments increased 9.6 percent. Rising benefit payments are the result of the soft labor market and the ensuing increase in the number of unemployed. Benefit payments will begin to decline in FY 2003-04 and continue to fall through the remainder of the forecast horizon as the economic recovery progresses.

- Colorado's UI Trust Fund received $142.7 million from the federal government through the Reed Act distribution. These funds kept the UI Trust Fund balance high enough to prevent the solvency surcharge from triggering in 2003. The solvency surcharge is an additional tax paid by employers when the ratio of the UI Trust Fund balance to the amount of total wages paid during the preceding calendar year is less than 0.9 percent.
    - As a result of the Reed Act distribution, Colorado's employers did not pay a $55.1 million solvency surcharge in calendar year 2003. However, because UI benefit payments were again high in FY 2002-03 and are forecast to remain high in FY 2003-04, we forecast that the solvency surcharge will be triggered in calendar years 2004 through 2007.

In both calendar years 2004 and 2005, the unemployment insurance tax rate schedule will move to a higher level.

- In both calendar years 2004 and 2005, the unemployment insurance tax rate schedule will move to a higher level. This occurs because two components of employer UI tax rates — the base rate and the solvency surcharge — rise when the UI Trust Fund balance drops below certain thresholds. Indeed, as shown in Table 8, the UI Trust Fund balance triggered the solvency surcharge on

January 1, 2004. The UI Trust Fund had a balance of $293.2 million on June 30, 2003 and is forecast to end FY 2003-04 with a balance of only $146.4 million. These balances will trigger a tax rate schedule increase in calendar years 2004 and 2005. The statutory provisions of these mechanisms can be found in section 8-76-103, C.R.S.

Miscellaneous Cash Funds

The June 2004 forecast for total revenues collected for the miscellaneous cash funds in FY 2003-04 is $41.3 million higher than our March 2004 forecast. The increase in revenue is a result of increased severance tax collections due to higher production levels and prices. Additionally, as per House Bill 04-1222, the designated cash flow reserve within the controlled maintenance trust fund is eliminated in FY 2003-04 and the balance of the reserve is transferred to the state General Fund at the end of March 2004. Therefore, our forecast has been adjusted to reflect that the Controlled Maintenance Trust Fund will not be generating interest earnings beginning in April 2004. The forecast for the remainder of the miscellaneous cash funds is essentially unchanged from the March 2004 forecast.

Table 7

Higher Education Cash Funds Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		June 2004 Estimate by Fiscal Year						
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2003-04 to FY 2008-09 CAAGR*
Tuition	$532.8 /A	$606.4 /A	$338.4 /A	NE	NE	NE	NE	
Change	12.5%	13.8%	4.3%	NE	NE	NE	NE	NE
Non-Tuition	$150.9	$162.4	$97.8	NE	NE	NE	NE	
Change	-6.7%	7.6%	3.3%	NE	NE	NE	NE	NE
TOTAL HIGHER EDUCATION	**$683.7**	**$768.8**	**$436.3 /B**	**NE /B**	**NE /B**	**NE /B**	**NE /B**	
Change	7.6%	12.4%	5.0% /C	NE	NE	NE	NE	NE
Full-Time-Equivalent Students								
Total	153,018	158,003	161,461 /D	164,051 /D	167,699 /D	170,490 /D	174,164 /D	
Change	6.3%	3.3%	2.2%	1.6%	2.2%	1.7%	2.2%	2.2%
Resident	130,788	135,938	139,253	141,750	145,190	147,776	151,252	
Change	7.1%	3.9%	2.4%	1.8%	2.4%	1.8%	2.4%	2.4%
Nonresident	22,230	22,065	22,208	22,301	22,509	22,714	22,912	
Change	1.5%	-0.7%	0.6%	0.4%	0.9%	0.9%	0.9%	0.9%

***CAAGR:** Compound Annual Average Growth Rate.

NE: Not Estimated.

Totals may not sum due to rounding.

/A In FY 2002-03, schools increased resident tuition between 4.7% and 6.2% and nonresident tuition between 7.7% and 9.2%. In FY 2003-04, schools will increase resident tuition between 5.0% and 15.0% and nonresident tuition between 5.0% and 23.1%. The University of Colorado at Boulder was allowed an additional 5.0% increase for its Quality for Colorado program. In FY 2004-05, residential tuition will increase by the Denver-Boulder-Greeley inflation rate and, on average, nonresidential tuition will increase 5.0%.

/B Per S.B. 04-189 and S.B. 04-252, state institutes of higher education are granted enterprise status. This means that higher education tuition and fees will no longer count as TABOR revenues. Beginning in FY 2004-05, the University of Colorado is an enterprise and in FY 2005-06, the remaining state institutes of higher education are considered enterprises for purposes of this forecast.

/C Growth rates have been adjusted to account for the enterprise status of state institutions of higher education.

/D The FTE student enrollment forecast includes all students attending state institutions of higher education, including the University of Colorado.

Table 8

Unemployment Insurance Trust Fund Forecast

(Accrual Basis, Dollar Amounts in Millions)

		June 2004 Estimate by Fiscal Year						
	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2003-04 to FY 2008-09 CAAGR*
Beginning Fund Balance	$626.9	$293.2	$146.4	$229.8	$427.3	$662.7	$777.1	
Change	-21.1%	-53.2%	-50.1%	57.0%	85.9%	55.1%	17.3%	21.5%
Income	$219.1	$331.1	$447.5	$464.3	$457.1	$324.6	$258.6	
Change	11.7%	51.1%	35.2%	3.8%	-1.6%	-29.0%	-20.3%	-4.8%
Taxes	$190.2 **/A**	$285.5 **/B**	$368.1 **/B**	$339.2 **/B**	$279.0 **/B**	$218.1	$215.0	
Change	26.2%	50.1%	29.0%	-7.8%	-17.8%	-21.8%	-1.5%	-5.5%
Interest	$28.9	$10.8	$7.5	$13.0	$23.7	$37.1	$43.7	
Change	-36.4%	-62.5%	-31.0%	73.7%	82.5%	56.7%	17.7%	32.2%
Solvency Surcharge	$0.0	$34.8	$71.9	$112.1	$154.4	$69.4	$0.0	
Benefits and Accounting Adjustments	($541.6) **/C**	($465.7) **/C**	($353.6) **/C**	($260.8) **/C**	($216.7) **/C**	($206.3) **/C**	($205.9)	
Change	7.0%	-14.0%	-24.1%	-26.3%	-16.9%	-4.8%	-0.2%	-15.1%
Ending Fund Balance	**$293.2**	**$146.4**	**$229.8**	**$427.3**	**$662.7**	**$777.1**	**$826.0**	
Solvency Ratio	0.4% **/D**	0.2% **/D**	0.3% **/D**	0.6% **/D**	0.9% **/D**	1.0% **/D**	1.0%	
Total Wages	$66,200 **/E**	$66,675 **/E**	$69,110 **/E**	$71,671 **/E**	$74,791 **/E**	$79,046 **/E**	$83,997	
Change	-4.1%	0.7%	3.7%	3.7%	4.4%	5.7%	6.3%	4.7%

***CAAGR:** Compound Annual Average Growth Rate.

Totals may not sum due to rounding.

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

/B Includes revenues from the solvency tax surcharge, which is in effect because the solvency ratio (the ratio of the fund balance to total wages) on June 30, 2003, June 30, 2004, June 30, 2005, June 30 2006, and June 30, 2007 is less than 0.9%.

/C These amounts include small accounting adjustments 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.

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The National Economy

Summary

- The national labor market is rebounding, with a net increase of 1.2 million jobs since January 2004 and with employment growth accelerating month-over-month. Employment will increase 0.9 percent in 2004 and 1.7 percent in each of 2005 and 2006.
- Inflation-adjusted GDP grew 4.4 percent in first quarter 2004, well above the long-term potential of 3.0 percent to 3.5 percent.
  - Consumer spending climbed 3.9 percent due to an increased pace in nondurable and service spending.
  - Residential investment increased 3.8 percent in first quarter 2004, following a 7.9 percent rise in fourth quarter 2003 and a 21.9 percent surge in third quarter 2003.
  - First quarter 2004 investment in business equipment climbed at its fastest pace since second quarter 2000 and orders for nondefense capital equipment — a proxy for near-term business investment — are up 17.0 percent compared with first quarter 2003. Business investment is expected to average 11.5 percent growth in 2004 and 9.2 percent growth in 2005.
- Inflationary pressures are constrained and expected to remain so through the near term. Excluding energy and food costs, consumer price inflation is forecast to be 1.4 percent in 2004 and at or below 2.5 percent through 2008.

The national labor market is rebounding, with a net increase of 1.2 million jobs since January 2004 and with employment growth accelerating month-over-month.

Most recent economic data are showing considerable strength. The national labor market is rebounding, with a net increase of 1.2 million jobs since January 2004 and with employment growth accelerating month-over-month. Meanwhile, initial jobless claims are continuing their downward trend, demand and production growth are strong, and inflation-adjusted gross domestic product (GDP) is growing at about one percentage point above its long-term potential of 3.0 percent to 3.5 percent.

Most recent economic data are showing considerable strength.

The Institute for Supply Management (ISM) surveys are signaling rapid expansion in both the manufacturing and services sector. In May 2004, the ISM *manufacturing* index was above 60 for the seventh consecutive month, indicating robust growth in the manufacturing sector. Manufacturing payrolls rose by 32,000 jobs in May and have increased in each of the past four months. In contrast, manufacturing payrolls declined in each of the 42 months prior to February 2004. Meanwhile, the May 2004 ISM *non-manufacturing* business activity index was down only 3.2 points from the record high 68.4 posted in April 2004 and was above 60 for the past five months, also indicating a strong pace of expansion. Real estate, business services, and transportation ranked among the fastest growing industries tracked by the index.

Personal income grew 5.3 percent year-to-date through April 2004 compared with year-to-date April 2003, well ahead of the 3.3 percent pace averaged in 2003. Furthermore, the wage and salary component of personal income rose 4.4 percent year-to-date and proprietors' incomes surged 10.4 percent. Meanwhile, interest income increased in April for the first time this year. Disposable personal income — income after taxes — grew 4.4 percent year-to-date through April 2004 as a consequence of the federal tax relief passed last year that contributed to a 1.3 percent year-to-date reduction in personal taxes. Healthy income gains were reflected in the 6.1 percent year-to-date increase in consumer expenditures. Not only are labor markets improving, but consumers still have added cash from larger than usual tax refunds and a wave of refinancing. However, higher interest rates will slow spending later in the year, even as labor markets improve.

The national economy has strengthened sufficiently to all but eliminate the threat of deflation that was present in 2003.

Federal fiscal policy remains highly stimulatory, as evidenced by the budget deficit and low interest rates. Moreover, tax policy provided about $300 billion of additional stimuli in 2001 through 2004. As a result, the national economy has strengthened sufficiently to all but eliminate the threat of deflation that was present in 2003, when core consumer price inflation, which excludes energy and food costs, was close to 1.0 percent. Although inflation is rising, it is still a low 1.8 percent, about one-half of what it was one decade ago when the Federal Reserve began to aggressively raise rates. Meanwhile, capacity utilization is low and employment is well below its pre-recession peak, indicating that broad price pressures are unlikely to surface soon. Nonetheless, the Federal Reserve is expected to begin a moderate tightening of monetary policy earlier rather than later, possibly as soon as its June 2004 meeting, in order to avoid the severe economic disturbance that resulted from their aggressive actions in the early 1990s.

Geopolitical uncertainty, which is destabilizing the stock market and contributing to rising energy prices, remains the major downside risk to the economy. As a consequence, the Conference Board index of consumer confidence was virtually unchanged in May and has shown little upward or downward trend since November 2003. As expected, the May index reflects optimism generated by improving labor markets and general economic conditions that is offset by anxiety about renewed terrorism threats, an unsteady stock market, and rising energy prices, interest rates, and inflation. Consumer confidence is expected to trend upward in the near-term, but further spending growth will depend on increasing household cash, not optimism, especially given lack of pent-up demand and high debt levels.

Overview of Recent National Economic Indicators

Table 9 summarizes recent national economic indicators. Most have been positive.

- **Inflation-adjusted GDP** grew 4.4 percent in first quarter 2004, well above its long-term potential of 3.0 percent to 3.5 percent. Weakness was limited to durable goods, business structures, and state and local government spending.
    - ***Consumer spending*** climbed 3.9 percent, with an increased pace in nondurable and service spending offset in part by a decline in durable goods purchases caused by falling vehicle sales. Tax cuts and borrowing from home equity have provided the stimulus for recent consumer expenditures. The tax cuts have resulted in disposable income growth that is nearly equal

to the 1999-2000 average. Meanwhile, household mortgage liabilities have increased rapidly since the beginning of 2002. Double-digit sales growth at building supply, appliance, furniture, and electronics stores indicate that consumers are using these sources of cash to invest in their homes.

Double-digit sales growth at building supply, appliance, furniture, and electronics stores indicate that consumers are using these sources [tax cuts and home equity loans] of cash to invest in their homes.

Table 9
National Economic Statistics

	2004 1st Quarter	2003 4th Quarter	2003 Annual Average	2002 Annual Average
Inflation-Adjusted Annual GDP Growth	4.4%	4.1%	3.1%	2.2%
Consumer Spending	3.9%	3.2%	3.1%	3.4%
Nonresidential Fixed Investment	5.8%	10.9%	3.0%	-7.2%
Structures	-7.0%	-1.4%	-4.6%	-18.4%
Equipment and Software	9.8%	14.9%	5.5%	-2.8%
Residential Fixed Investment	3.8%	7.9%	7.5%	4.9%
Exports	4.9%	20.5%	2.0%	-2.4%
Imports	5.9%	16.4%	4.0%	3.3%
Government Expenditures and Investments	2.9%	-0.1%	3.3%	3.8%
Federal Government	9.2%	0.7%	8.7%	7.9%
State and Local Governments	-0.7%	-0.5%	0.5%	1.8%
Productivity (output per hour, nonfarm business)	3.8%	2.5%	4.4%	5.0%
	April 2004	**April 2003**	**2003 Annual Average**	**2002 Annual Average**
Inflation[1]	1.9%	2.7%	2.3%	1.6%
Nonfarm Employment Growth[3]	0.5%	-0.3%	-0.3%	-1.1%
Unemployment Rate	5.6%	6.1%	6.0%	5.8%
Housing Permit Growth[1]	13.8%	4.1%	8.1%	6.8%
Single-Family	15.1%	4.1%	9.6%	7.9%
Multi-Family	9.1%	3.9%	3.2%	3.5%
Growth in the Value of Nonresidential Construction[2]	-1.2%	-6.3%	-2.2%	-6.7%
Retail	-1.1%	-14.2%	-7.2%	-18.9%
Offices	3.1%	-21.0%	-14.4%	-29.3%
Factories	-5.3%	-30.3%	-15.8%	-43.8%
Retail Sales[2]	11.0%	6.9%	8.3%	3.4%

1/ Year-to-date.
2/ Year-to-date through March 2004.
3/ Year-to-date through May 2004;
employment by place of work from Current Employment Statistics (CES) survey of payroll records.
Sources: U.S. Department of Labor, Bureau of Labor Statistics;
U.S. Department of Commerce, Bureaus of the Census and Economic Analysis.

- ***Residential investment*** increased 3.8 percent in first quarter 2004, following a 7.9 percent rise in fourth quarter 2003 and a 21.9 percent surge in third quarter 2003. Furthermore, the Mortgage Bankers Association mortgage applications index and the National Association of Homebuilders housing market index each indicate that second quarter 2004 residential investment is likely to decline only modestly, even as mortgage rates begin to rise. However, as mortgage rates increase more dramatically later in the year, homebuilding activity will slow appreciably. Meanwhile, new home prices are soaring. The median price for a new home was $221,200 in April 2004, up nearly 17 percent compared with April 2003.

The median price for a new home was $221,200 in April 2004, up nearly 17 percent compared with April 2003.

- ***Business investment*** rose 5.8 percent in first quarter 2004, as a 9.8 percent increase in equipment and software expenditures was only partially offset by a 7.0 percent decrease in nonresidential structures investment. Excluding software, investment in business equipment climbed at its fastest pace since

A recent jump in industrial equipment investment and climbing orders for machinery suggest that businesses are finally starting to expand physical production capacity.

second quarter 2000 and orders for nondefense capital equipment — a proxy for near-term business investment — is up 17.0 percent compared with first quarter 2003 and near a three-year high. Overall, business confidence is rising. A recent jump in industrial equipment investment and climbing orders for machinery suggest that businesses are finally starting to expand physical production capacity rather than simply invest in productivity-enhancing capital equipment. Capacity utilization, which the Federal Reserve estimates to be 76 percent, has increased significantly since the middle of 2003. Business investment growth is expected to accelerate in the second quarter and remain strong through the end of the year, in part because of increasing investment in nonresidential structures.

- ***Government expenditures*** rose at a 2.9 percent annual pace in first quarter 2004, with federal spending rising 9.2 percent and state and local government spending down 0.7 percent. Federal defense outlays increased 17.0 percent in the current federal fiscal year, which began October 1, 2003, while nondefense spending climbed 4.0 percent. State and local government expenditures are not expected to recover in the near-term, as state and local government revenue gains are expected to remain relatively small compared with what has occurred in past expansions. State and local governments will not return to an expansion mode until their revenue growth strengthens. To this end, one-third of states have proposed tax increases for fiscal year 2004-05. However, in ten other states — Oregon, West Virginia, New Mexico, California, Alaska, Michigan, Mississippi, Indiana, New York, and Georgia — expenditures will decline between FY 2003-04 and FY 2004-05.

Productivity growth was 3.8 percent in first quarter 2004, an appreciable acceleration compared with the 2.5 percent productivity growth posted in fourth quarter 2003.

- ***Productivity growth*** was 3.8 percent in first quarter 2004, an appreciable acceleration compared with the 2.5 percent productivity growth posted in fourth quarter 2003. Manufacturing productivity was 2.9 percent, reflecting a contraction in nondurable manufacturing productivity coupled with a 5.9 percent increase in durable goods manufacturing productivity. Meanwhile, hourly compensation and unit labor costs have risen for two consecutive quarters. Unit labor costs are still less than they were one year ago and are thus not yet a source of inflationary pressure, but neither are they a source of deflationary pressure as they have been in the recent past.

- **Inflation** continues to be modest. Year-to-date through April 2004, consumer prices rose 1.9 percent compared with year-to-date April 2003, while core inflation was 1.4 percent over the same period. Both overall and core inflationary pressures were lower in April 2004 than they were in March 2004. Although there is some risk that the rate of core inflation will accelerate in the coming months, it is more likely that it will level out. Rising energy prices are unlikely to contribute more than a few tenths of a percentage point to overall consumer price inflation, since energy prices are unlikely to move substantially higher than their current record high level.

- **Energy markets** are plagued by geopolitical tensions and the risk of supply disruptions from the Gulf. Prices are also being pushed higher due to strong global demand, particularly from China, capacity constraints at U.S. refineries, and lean inventories. High crude prices are leading to higher natural gas prices, as plants with dual use capacity switch to natural gas. However, non-oil energy prices have already begun to moderate and energy prices will likely remain stable over the next few months and then decline. Meanwhile, OPEC has adjusted oil quotas up by two million barrels per day, which will help ease the upward pressure on oil prices. Indeed, oil prices, which are currently over $40 per barrel, are unlikely to climb significantly higher, although they are expected to remain above $30 per barrel for most of the year.

- **Retail sales** fell 0.5 percent in April 2004 compared with March 2004, largely because of declining automobile sales. The month-over-month April decline in retail sales was the first since September 2003. However, year-to-date through March 2004, retail sales growth is 11.0 percent higher than year-to-date 2003. Building material dealers, electronics and appliance stores, catalogue retailers, food services and drinking places, and gasoline stations all posted double-digit year-over-year gains in April. Meanwhile, future spending increases will be limited by record high energy prices, near record debt burdens, and a lack of pent-up demand, especially for automobiles, homes, and household goods.

- **Employment** grew by 248,000 jobs in May 2004 — the third consecutive month of strong employment gains — while initial jobless claims continue to trend downward. Since the beginning of the year, the national economy has generated a net increase of 1.2 million jobs. Meanwhile, over the first five months of 2004, the unemployment rate has been relatively constant at about 5.6 percent, even as the labor force has increased substantially. This indicates that job seekers joining the labor force are finding work relatively quickly, since otherwise the unemployment rate would rise. Service industries created most of the jobs in May, led by leisure and hospitality, education and health, and business and professional services. Together, these three sectors account for about two-thirds of new jobs. However, the construction and manufacturing sectors also posted healthy gains, indicating that job creation is becoming increasingly broad-based.

Since the beginning of the year, the national economy has generated a net increase of 1.2 million jobs.

The National Forecast

Table 10 presents historical and forecast values for key national economic series. The June 2004 national forecast reflects slightly improving economic conditions compared with the March 2004 forecast. The following details the outlook for the nation's economy.

Gross Domestic Product and Its Components

Inflation-adjusted gross domestic product is forecast to grow 4.7 percent in 2004, with consistently strong growth throughout the year. Inflation-adjusted annual GDP growth is forecast to grow at just above its long-term potential of 3.5 percent from 2005 through 2007 before dropping to 3.3 percent in 2008.

Inflation-adjusted annual GDP growth is forecast to grow at just above its long-term potential of 3.5 percent from 2005 through 2007.

- ***Consumer spending***, which represents about two-thirds of GDP, has been higher in recent quarters than what would be expected given the nation's economic health. This is because consumer spending has been supported by tax cuts and borrowing from home equity. Now, the pace of sales growth will slow despite the strengthening economy because these other non-wage sources of cash flow are dissipating: the stimulus of the 2003 tax cut will soon be gone and rising interest rates will result in declining refinancing activity. Furthermore, rising interest rates will dampen demand, particularly for automobiles, homes, and home-related goods. Consumer spending is forecast to grow at a 4.1 percent pace in 2004 and at a 3.3 percent pace in 2005. In 2004, consumer expenditures will be relatively equally distributed between goods and services, while in 2005, spending on services will lead growth, as the demand for durable goods will have been satisfied by purchases made in 2003 and 2004.

Business investment is expected to average 11.5 percent growth in 2004 and 9.2 percent growth in 2005.

- ***Business investment*** is expected to average 11.5 percent growth in 2004 and 9.2 percent growth in 2005. Investment in information technology equipment and software will lead the rebound. Business investment is supported by replacement demand, although recent increases in industrial equipment investment and climbing orders for machinery suggest that businesses are finally starting to expand physical production capacity rather than simply invest in productivity-enhancing capital equipment. Future investment growth will be supported by strong profitability and cash flow and tax incentives.

  On average, investment in nonresidential structures will be virtually unchanged in 2004, with declines in the first half of the year offset by new nonresidential construction in the second half. Nonresidential structures investment will increase 6.5 percent in 2005 and 7.1 percent in 2006, with warehouse construction rebounding more quickly and office construction more slowly.

  Investment growth will ease somewhat in 2005, with the expiration of two of the key provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. These provisions, which increased the amount of capital investment that small businesses were permitted to immediately expense and which provided a 50 percent bonus depreciation on investments made before the end of 2004, will increase business spending in 2004 by moving forward purchases that would otherwise have been made in 2005. Thus, 2005 investment will be lower than would have occurred without these provisions.

- ***Government spending*** is forecast to increase 1.8 percent in 2004 and 1.9 percent in 2005. Federal defense spending will increase 7.4 percent in 2004 and 2.5 percent in 2005, while federal nondefense spending in 2004 and 2005 is forecast to rise 1.8 percent and 3.5 percent, respectively. Defense spending will be relatively strong in the near term because of the conflict in Iraq and nondefense spending will rise because of the increasing costs of health care, entitlement programs, and homeland security. Passage of the Medicare prescription drug benefit program is also putting upward pressure on federal nondefense spending. Meanwhile, state and local government expenditures are forecast to decline 0.3 percent in 2004 and to grow by less than one percent throughout the remainder of the forecast.

Inflation

Inflationary pressures are constrained and expected to remain so.

Inflationary pressures are constrained and expected to remain so. Excess capacity coupled with productivity gains will restrain inflation throughout 2004 and, despite recent increases, core inflation will remain low in the near-term. Furthermore, it is unlikely that energy prices will contribute significantly to near-term inflation, given that energy prices are already at extremely elevated levels and are unlikely to rise significantly higher. Also, we expect commodity price inflation to moderate as global demand for industrial commodities weakens in the second half of the year. Consumer prices are forecast to rise 1.9 percent in 2004 and 1.3 percent in 2005. Core consumer price inflation is forecast to be 1.4 percent in 2004 and at or below 2.5 percent through the forecast horizon. The cost of shelter, the largest contributor to consumer price inflation, is forecast to rise 2.3 percent in 2004, while the cost of medical care is forecast to increase 4.1 percent.

Employment

Employment will increase 0.9 percent in 2004, with 2.0 million workers added to payrolls between 2003 and 2004.

Employment will increase 0.9 percent in 2004, with 2.0 million workers added to payrolls between 2003 and 2004. In each of 2005 and 2006, employment will increase 1.7 percent. Most of the job gains will be in service-producing industries, including well-paying occupations in management and technical consulting and engineering and architectural services. Trade contractors, building material stores, and building construction firms, which are benefiting from the unusual strength of the housing market, will also add jobs. Furthermore, after a three-year slump, U.S. advanced technology firms are again hiring.

In 2004 and 2005, the unemployment rate is forecast to average 5.7 percent. The strengthening labor market will entice job-seekers back into the labor force, offsetting the formerly unemployed that will find work in newly created positions. Thus, the unemployment rate will not fall until 2006 and even then, it will only be reduced to 5.5 percent.

Risks to the Forecast

Most of the events likely to affect the current national economic forecast would result in a downward revision to the near-term strength of the recovery. The threat of global terrorism continues to pose a significant downside risk and has the potential to disrupt the financial and energy markets that are important to the economic recovery. Meanwhile, the large current account deficit might necessitate an even steeper decline in the dollar, with ensuing economic disruptions. Finally, household debt burdens and defaults remain high and the possibility of declining house prices in some overpriced housing markets increases the risk of falling household credit quality, which would also weaken the economic recovery.

Table 10
History And Forecast For Key National Economic Variables
1998-2008

Line No.		Actual						June 2004 Forecast				
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Inflation-Adjusted & Current Dollar Income Accounts											
1	Inflation-Adjusted Gross Domestic Product (Billions)	$9,067.1	$9,470.5	$9,816.8	$9,866.6	$10,083.2	$10,398.2	$10,885.0	$11,264.5	$11,682.9	$12,127.8	$12,532.8
2	Change	4.2%	4.5%	3.7%	0.5%	2.2%	3.1%	4.7%	3.5%	3.7%	3.8%	3.3%
3	Gross Domestic Product (Billions)	$8,747.2	$9,268.6	$9,816.9	$10,100.8	$10,480.9	$10,988.1	$11,702.0	$12,264.3	$12,923.6	$13,658.4	$14,368.4
4	Change	5.3%	6.0%	5.9%	2.9%	3.8%	4.8%	6.5%	4.8%	5.4%	5.7%	5.2%
5	Productivity (Output per Hour, Nonfarm Business)	109.2	112.2	115.2	117.8	123.6	129.1	134.3	136.7	139.5	143.0	145.9
6	Change	2.6%	2.8%	2.7%	2.2%	4.9%	4.4%	4.0%	1.8%	2.1%	2.5%	2.1%
7	Personal Income (Billions)	$7,423.1	$7,802.5	$8,429.8	$8,713.2	$8,910.2	$9,203.8	$9,655.9	$10,072.0	$10,517.4	$11,020.8	$11,525.9
8	Change	7.3%	5.1%	8.0%	3.4%	2.3%	3.3%	4.9%	4.3%	4.4%	4.8%	4.6%
9	Per-Capita Income ($/person)	$26,870	$27,922	$29,835	$30,523	$30,901	$31,614	$32,883	$34,009	$35,216	$36,593	$37,953
10	Change	6.1%	3.9%	6.9%	2.3%	1.2%	2.3%	4.0%	3.4%	3.5%	3.9%	3.7%
	Population & Employment											
11	Population[1] (Millions)	276.3	279.4	282.5	285.5	288.3	291.1	293.6	296.2	298.7	301.2	303.7
12	Change	1.2%	1.2%	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%	0.8%	0.8%	0.8%
13	Civilian Unemployment Rate	4.5%	4.2%	4.0%	4.8%	5.8%	6.0%	5.7%	5.7%	5.5%	5.4%	5.2%
14	Total Nonagricultural Employment[2] (Millions)	125.9	129.0	131.8	131.8	130.3	129.9	131.1	133.3	135.6	137.4	139.2
15	Change	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%	0.9%	1.7%	1.7%	1.4%	1.3%
	Financial Markets											
16	30-Year T-Bond Rate	5.6%	5.9%	5.9%	5.5%	5.4%	5.1%	5.6%	6.0%	6.2%	6.1%	5.9%
17	10-Year T-Bond Rate	5.3%	5.6%	6.0%	5.0%	4.6%	4.0%	4.6%	5.1%	5.7%	5.7%	5.6%
18	Federal Fund Rate	5.4%	5.0%	6.2%	3.9%	1.7%	1.1%	1.1%	2.9%	4.6%	4.9%	4.7%
	Price Variables											
19	Consumer Price Index (1982-84=100)	163.0	166.6	172.2	177.0	179.9	184.0	187.5	189.9	193.5	198.0	202.6
20	Change	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	1.9%	1.3%	1.9%	2.3%	2.3%
21	Producer Price Index (1982=100)	130.7	132.8	138.0	140.7	138.9	143.3	147.6	149.4	151.8	155.6	159.2
22	Change	-0.9%	1.7%	3.9%	2.0%	-1.3%	3.2%	3.0%	1.2%	1.6%	2.5%	2.3%
	Other Key Indicators											
23	Industrial Production Index (1992=100)	105.9	110.6	115.4	111.5	110.9	111.2	116.2	119.9	123.3	127.4	131.0
24	Change	5.9%	4.4%	4.4%	-3.4%	-0.6%	0.3%	4.5%	3.2%	2.9%	3.3%	2.8%
25	Corporate Profits After Tax (Billions)	$469.9	$517.3	$508.2	$495.6	$550.0	$631.6	$781.0	$882.7	$938.1	$995.6	$1,047.6
26	Change	-14.9%	10.1%	-1.8%	-2.5%	11.0%	14.8%	23.6%	13.0%	6.3%	6.1%	5.2%
27	Housing Starts (Millions)	1.621	1.647	1.573	1.601	1.711	1.848	1.856	1.602	1.535	1.578	1.597
28	Change	9.9%	1.6%	-4.5%	1.8%	6.9%	8.0%	0.4%	-13.7%	-4.2%	2.8%	1.3%

1/ Population values through 2000 are adjusted for 2000 Census.

2/ Employment by place of work from Current Employment Statistics (CES) survey of payroll records.

Sources: Economy.com; U.S. Department of Labor, Bureau of Labor Statistics; and U.S. Department of Commerce, Bureaus of the Census and Economic Analysis.

The Colorado Economy

Summary

- Colorado per capita income edged up to eighth highest in the nation in 2003 and the number of Colorado companies on the 2003 Fortune 500 list increased to eight, up from six in 2002.
- According to the Ernst and Young 18th Annual Biotech report, Colorado's eight publicly traded biotechnology companies increased their revenues by 28 percent and grew their market capitalization by 153 percent in 2003.
- Colorado exports surged 16.2 percent in first quarter 2004 compared with first quarter 2003.
- In April 2004, employment in Colorado increased year-over-year for the first time since July 2001 and the 0.7 percent seasonally adjusted growth posted between March 2004 and April 2004 was the third highest in the nation. The June 2004 OSPB forecast is that employment will increase 1.2 percent in 2004, averaging a net increase of just over 10,000 new jobs per month through the remainder of 2004.
- The April 2004 Colorado unemployment rate dropped to 5.1 percent, down 1.1 percentage points compared with the 6.2 percent rate posted in April 2003. The 2004 Colorado unemployment rate is forecast to average 5.4 percent, substantially below the 6.0 percent rate posted in 2003.
- We forecast that consumer prices in the Denver-Boulder-Greeley area will rise 1.8 percent in 2004 and 2.0 percent in 2005.
- In 2004, net in-migration to Colorado will be slightly under 15,000 and total population growth will be 1.2 percent.

Colorado economic indicators are increasingly heartening.

Colorado economic indicators are increasingly heartening. In April 2004, state employment increased year-over-year for the first time since July 2001 and the 0.7 percent seasonally adjusted growth posted between March 2004 and April 2004 — an increase of 17,700 jobs — was the third highest in the nation and the largest percent increase in Colorado in more than four years. Furthermore, the April 2004 Colorado unemployment rate dropped to 5.1 percent, down 1.1 percentage points compared with the 6.2 percent rate posted in the state in April 2003. Meanwhile, Colorado per capita income edged up to eighth highest in the nation in 2003 and the number of Colorado companies on the 2003 Fortune 500 list increased to eight, up from six in 2002.

Colorado exports surged 16.2 percent in first quarter 2004 compared with first quarter 2003.

Colorado exports surged 16.2 percent in first quarter 2004 compared with first quarter 2003, despite a 28 percent decline in beef exports due to the negative impact of reports of mad cow disease in the U.S. The increase in exports can be attributed to the weaker dollar coupled with a recovering global economy that is increasing worldwide demand, especially for information technology, aircraft, and aerospace goods. Colorado's first quarter increase in exports was nearly three percentage points stronger than the national increase. In first quarter 2004, Colorado exported goods worth $325.1 million in the "electronic integrated circuits, microassemblies, parts" category, up 59 percent compared with first quarter 2003. Colorado companies exporting goods in that category include computer chip makers Atmel Corp. and Intel Corp. in Colorado Springs and Agilent Technologies Inc. in Fort Collins. Canada is Colorado's largest trade partner, followed by Mexico, Malaysia, Korea, and Japan.

Colorado's eight publicly traded biotechnology companies increased their revenues by 28 percent and grew their market capitalization by 153 percent in 2003.

Colorado's biotechnology industry is strengthening. According to the Ernst and Young 18th Annual Biotech report, Colorado's eight publicly traded biotechnology companies increased their revenues by 28 percent and grew their market capitalization by 153 percent in 2003. Their losses declined by 244 percent.

According to a new report by the Metro Denver Economic Development Corp, Colorado's booming aeronautic, defense, military, and space industries have increased state employment by 142,500 jobs that have a combined $9.7 billion payroll. The impact on Colorado's economy of companies such as Lockheed Martin, Northrop Grumman, Raytheon, and Ball Aerospace, as well as military facilities such as Buckley Air Force Base and the bases and command centers in Colorado Springs ranks fourth highest in the country. Only California, Texas, and Florida rank above Colorado.

Bloomberg Wealth Manager listed Colorado the fifth-best state for preserving wealth via favorable tax rates.

In a recent survey, the Bloomberg Wealth Manager listed Colorado the fifth-best state for preserving wealth via favorable tax rates. The survey examined hypothetical families with high annual income or net worth and calculated the amount they would pay in state and local taxes for income, real estate, retail purchases, and personal property. The results showed a Colorado family with income of $533,000 and a home valued at $1 million would pay $32,675 in state and local taxes, substantially lower than last-ranked Rhode Island, which had a typical tax of more than twice that amount.

Overview of Recent Colorado Economic Activity

Table 11 summarizes recent Colorado economic indicators.

Table 11
Colorado Economic Statistics

	April 2004	April 2003	2003 Annual Average	2002 Annual Average
Nonfarm Employment Growth[1,2]	-0.7%	-1.3%	-1.5%	-1.9%
Unemployment Rate	5.1%	6.2%	6.0%	5.8%
Change in Housing Permits Issued[1]	19.2%	-18.1%	-17.7%	-12.9%
Single-Family	19.6%	-8.8%	-5.9%	-2.5%
Multi-Family	17.0%	-46.4%	-51.4%	-33.3%
Change in Value of Nonresidential Construction[1, 3]	54.5%	-42.2%	-11.2%	-21.8%
Retail	-7.2%	-14.5%	-13.4%	-8.7%
Offices	-40.1%	-40.7%	-32.3%	-42.2%
Factories	-23.2%	-76.7%	-62.9%	-53.2%
Retail Trade Sales[4]	5.5%	-0.6%	0.0%	-0.7%

1/ Year-to-date.
2/ Seasonally adjusted employment by place of work from the Current Employment Statistics (CES) survey of payroll records.
3/ Copyright 2003, F.W. Dodge Division, The McGraw-Hill companies. All rights reserved.
4/ Year-to-date through March 2004.
Sources: U.S. Department of Labor, Bureau of Labor Statistics;
U.S. Department of Commerce, Bureaus of the Census and Economic Analysis; and
F.W. Dodge Division, the McGraw-Hill companies.

- **Nonfarm employment** news is encouraging. In April 2004, employment in Colorado increased year-over-year for the first time since July 2001. Moreover, the 0.7 percent seasonally adjusted growth posted between March 2004 and April 2004 — an increase of 17,700 jobs — was the third highest in the nation and the largest percent increase in Colorado in more than four years. Although year-to-date April 2004 employment is 0.7 percent below the corresponding period in 2003, 25,100 jobs have been added since the beginning of the year. Indeed, employment has increased since January 2004 in all sectors except construction and government.

In April 2004, employment in Colorado increased year-over-year for the first time since July 2001.

- The April 2004 seasonally adjusted **unemployment rate** was 5.1 percent, 1.1 percentage points below the state's April 2003 unemployment rate and 0.5 percentage points below the national unemployment rate.

The April 2004 seasonally adjusted unemployment rate was 5.1 percent, 1.1 percentage points below the state's April 2003 unemployment rate.

- Colorado **personal income** in fourth quarter 2003 was 4.1 percent higher than in fourth quarter 2002. **Wage and salary disbursements** were 2.6 percent higher.

- The state's **residential housing** market is recovering after a two-year correction.

  - Residential housing permits issued are up 19.2 percent year-to-date through April 2004 compared with year-to-date 2003. Single-family permits are up 19.6 percent while multi-family permits have increased 17.0 percent.

  - The inventory of available homes-for-sale in first quarter 2004 was 6.7 percent higher than one year ago, but down 21.3 percent from the peak set in May 2003. In May 2004, Denver-area homebuyers put 3,529 homes under contract, up 27.3 percent from 2,773 put under contract in May 2003 and 5.7 percent more than in April 2004. Over the first five months of 2004, Denver home sales increased 22.0 percent as purchases were moved forward in anticipation of rising mortgage rates. Demand continues to be strongest for homes priced under $300,000.

  - Although inventory is high, home prices continue to rise. The Genesis Group reported that housing prices in the Denver-metro area in first quarter 2004 were up about 3.5 percent. The median single-family home price in May was $239,000, up 4.5 percent compared with May 2003, while the median condominium price increased 3.5 percent.

Housing prices in the Denver-metro area in first quarter 2004 were up about 3.5 percent.

  - Apartment vacancy rates continue to be high because low home mortgage rates have allowed many former apartment dwellers to become homeowners. Nonetheless, in fourth quarter 2003, Denver's apartment vacancy rate dropped to 10.9 percent. In contrast, the metro Denver apartment vacancy rate was 11.7 percent in fourth quarter 2002 and 11.1 percent in third quarter 2003.

- **Nonresidential construction** built through April 2004 is 54.5 percent above year-to-date April 2003, primarily as a result of new hospitals and medical facilities: retail, offices, and factories and warehouses are still showing year-over-year declines.

  - The reduction in new retail construction is well timed, given the decrease in absorption over the past year. Metro area retail vacancy rates were 6.7 percent in first quarter 2004, unchanged from fourth quarter 2003.

The Denver office market has begun to recover.

- ○ The Denver office market has begun to recover. At the end of first quarter 2004, the total available office lease space was nearly one million square feet less than first quarter 2003 and sublease space was down by over one-half million square feet. Most of the Denver-area office submarkets recorded decreases in vacancy rates compared with fourth quarter 2004. The improvement can be attributed in part to a broad base of small and mid-size enterprises, start-up ventures, and incubator candidates that are being formed. This is the legacy of workers who lost their jobs when the advanced technology sector collapsed and who chose to stay in Colorado rather than leave the state for employment elsewhere. These workers —educated, motivated, competitive, and resilient — will fuel near-term economic growth.

- ○ For the first time since fourth quarter 2001, the average asking lease rate for industrial space did not decline. First quarter industrial vacancy rates in central and north Denver were 0.7 percent and 3.0 percent, respectively.

- **Retail sales** through March 2004 are up 5.5 percent compared with last year. Six of eight retail sectors are posting year-over-year growth. Indeed, building materials and farm equipment stores, apparel and accessories stores, furniture and home furnishing stores, and eating and drinking establishments each posted year-to-date growth over ten percent when compared with year-to-date 2003.

- The **tourism industry** in Colorado is improving. U.S. vacationers rank Colorado the fifth-most desirable state to visit in 2004. Last year, the state ranked eighth. Passenger traffic at Denver International Airport through April 2004 is 19.0 percent higher than one year ago and Denver-area hotel occupancy rates through April 2004 equaled or exceeded the rate posted one year earlier. Year-to-date average Denver area occupancy rates increased to 56.4 percent, up from 53.6 percent in the same period in 2003. Moreover, the occupancy rate for April 2004 was 57.3 percent, up 4.5 percentage points from April 2003. Statewide, the overall year-to-date hotel and mountain property occupancy rate improved to 51.2 percent compared with 48.2 percent year-to-date 2003 and the average room rate rose to $103.32, up 1.8 percent compared with 2003's average room rate of $101.31.

Colorado's Economic Forecast

The June 2004 OSPB forecast for the Colorado economy indicates that the state is responding to strengthening national economic activity.

Economic Indicators

This section presents the OSPB forecast for Colorado's economic and demographic indicators, shown in ***Table 12***. It includes a discussion of employment and unemployment, inflation, wages and income, and population and migration.

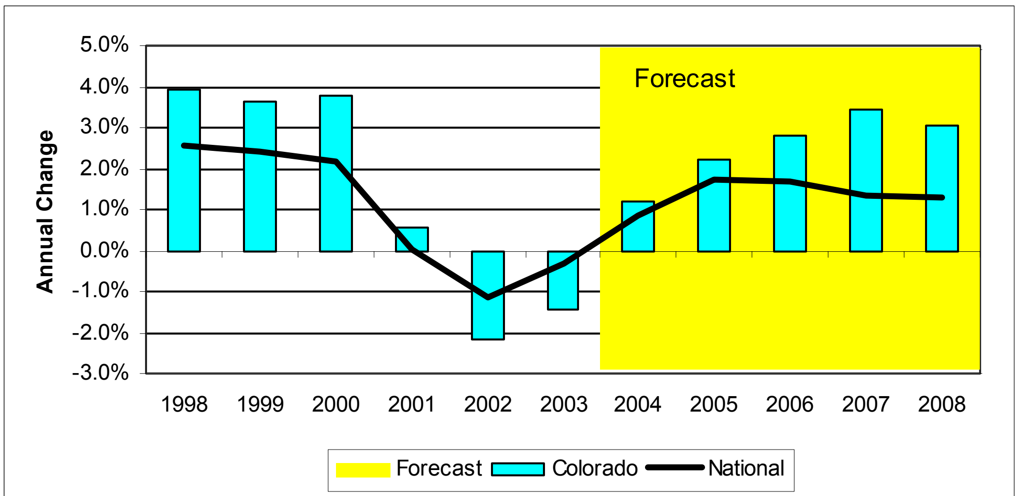
Employment

Figure 1 shows the national and Colorado forecasts for *employment*. Our June 2004 forecast is that employment will rise 1.2 percent in 2004, averaging a net increase of just over 10,000 new jobs per month through the remainder of the year. This is slightly lower than we forecast in March 2004, reflecting the first quarter 2004 decline in employment compared with first quarter 2003. However, our assumption of an invigorated state labor market has not changed. We forecast that employment will continue to strengthen through 2004. By 2005, employment growth will be above two percent and we forecast that the number of jobs in the state will increase by more than three percent annually in 2007 and 2008.

Our June 2004 forecast is that employment will rise 1.2 percent in 2004, averaging a net increase of just over 10,000 new jobs per month through the remainder of the year.

The 2004 Colorado *unemployment rate* will average 5.4 percent, substantially below the 6.0 percent rate posted in 2003. The unemployment rate will not decline further in 2004 because the improving employment situation will encourage the return to the labor force of job-seekers who had become discouraged and stopped looking for work. The unemployment rate will drop below five percent in 2005 and fall to 4.3 percent by 2008.

Figure 1
Colorado and National Employment



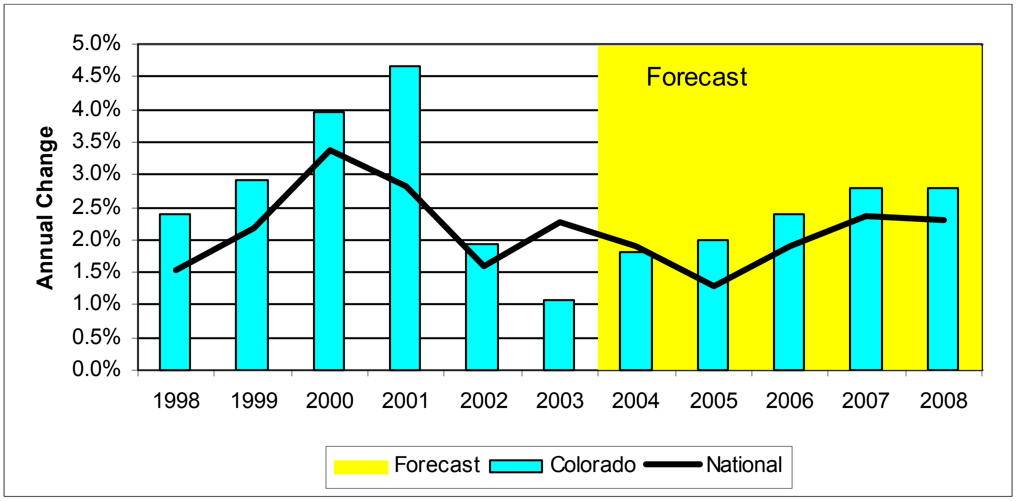
Source: U.S. Department of Labor, Bureau of Labor Statistics, employment by place of work from Current Employment Statistics (CES) survey of payroll records.

Inflation

The national and Colorado forecasts for inflation are displayed in ***Figure 2***. We forecast that consumer prices in the Denver-Boulder-Greeley area will rise 1.8 percent in 2004. Energy prices are climbing in the first half of 2004 as energy markets continue to be affected by geopolitical tensions and the risk of supply disruptions from the Gulf, as well as increased global demand. However, energy prices are stabilizing and will likely recede later in 2004, so they are unlikely to add significantly to Colorado inflation. Meanwhile, inflationary pressure associated with the price of shelter continues to be constrained by the large number of vacant apartments. The cost of shelter contributes almost one-third of total inflation, so if housing prices do not climb, neither will inflation.

We forecast that Colorado inflation will be 1.8 percent in 2004.

Figure 2
Colorado and National Inflation



Source: U.S. Department of Labor, Bureau of Labor Statistics.

We forecast that Colorado inflation will be 2.0 percent in 2005 and 2.4 percent in 2006.

We forecast that Colorado inflation will be 2.0 percent in 2005 and 2.4 percent in 2006. The relatively low 2005 inflation rate is the consequence of offsetting price pressures. The strengthening economy will provide upward pressure, but this will be countered by falling energy prices and rising interest rates that will put downward pressure on home price increases. From 2005 through 2008, Colorado inflation will remain above the national level, but below three percent.

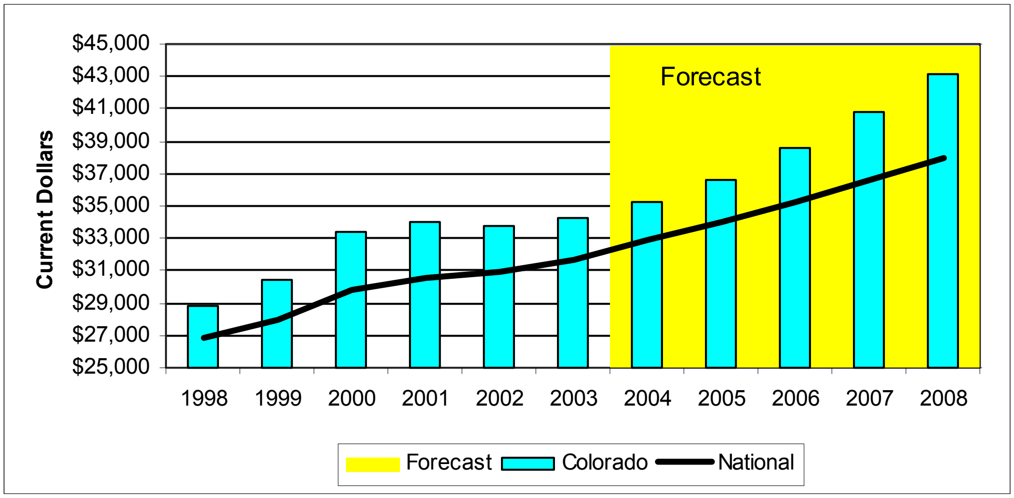
Wages and Income

Colorado wage and salary income rose only 1.4 percent in 2003 because of lower employment levels and the loss of high-wage jobs in the advanced technology and financial sectors. However, in fourth quarter 2004, average wage and salary income was 2.6 percent higher than one year earlier. Our forecast is that total wage and salary disbursements will rise 3.5 percent in 2004, as state employment grows and higher paying jobs return. By 2005, wage and salary income growth will be 5.0 percent and the pace will accelerate to over six percent in 2006 and thereafter.

Personal income growth will average 3.9 percent in 2004 and the pace will quicken to 5.4 percent in 2005.

The forecast for national and Colorado per capita personal income is displayed in ***Figure 3***. Overall, personal income grew 2.8 in 2003, with the pace accelerating throughout the year. By fourth quarter 2004, the year-over-year change was more than four percent. We forecast that personal income growth will average 3.9 percent in 2004 and that the pace will quicken to 5.4 percent in 2005. Personal income growth will continue to accelerate through the forecast horizon and will reach 7.6 percent by 2006. Meanwhile, Colorado per capita income will continue to exceed the national average.

Figure 3
Colorado and National Per Capita Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Population and Migration

We forecast that in 2004, net in-migration to Colorado will be slightly under 15,000 and total population growth will be 1.2 percent. In past recessions, Coloradans have moved out-of-state to find work. However, despite the severe 2001 recession, state net migration remained positive. As the national and Colorado economies recover, the number of net in-migrants to the state will increase and the state's population growth will be 1.7 percent by 2008.

In 2004, net in-migration to Colorado will be slightly under 15,000 and total population growth will be 1.2 percent.

Industrial Sectors

This section details our forecast for the residential and nonresidential construction and retail trade industries in Colorado.

Construction

Residential home permits issued in Colorado through April 2004 are 19.2 percent more than through March 2003. Meanwhile, the value of nonresidential construction (excluding nonbuilding projects like roads) increased 54.5 percent year-to-date through April 2004 compared with year-to-date April 2003. The June 2004 OSPB forecast for the residential and nonresidential construction markets anticipates moderating growth through the remainder of 2005.

Residential Construction

A correction occurred in Colorado's residential construction market in 2002 and 2003. New single-family home construction fell in reaction to higher inventories that were the result of the rapidly deteriorating economy after the events of September 11, 2001. Meanwhile, low mortgage rates enabled renters to become first-time homeowners, and, as a consequence, apartment vacancy rates rose. In turn, high apartment vacancy rates led to a decline in multi-family housing construction.

New home construction over the next few years will reflect a number of influences that will have offsetting impacts.

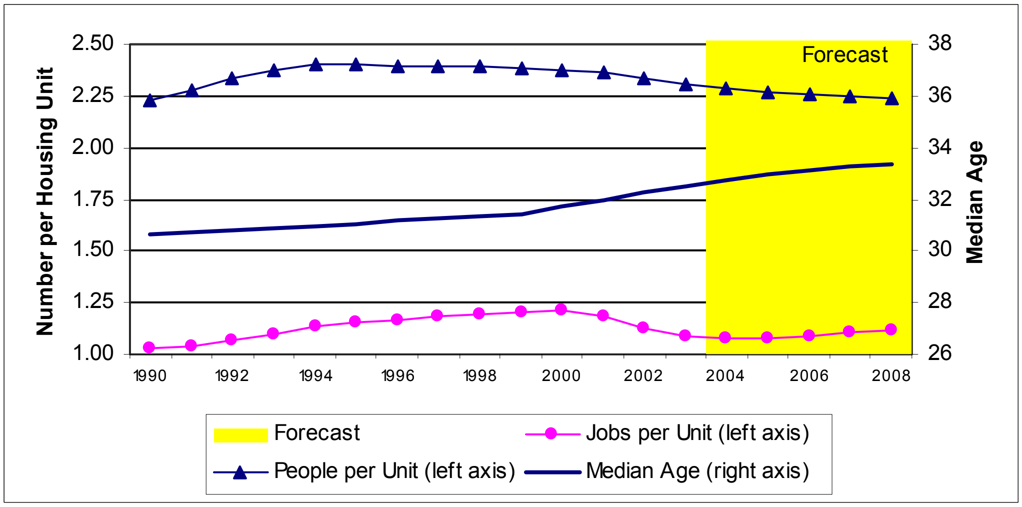
New home construction over the next few years will reflect a number of influences that will have offsetting impacts. The strengthening economy will mean more households will want to purchase a home. However, rising interest rates will make homes less affordable, thereby lowering demand. We forecast that the total number of home permits issued in 2004 will increase 4.3 percent, with strong increases in the first four months of the year followed by less robust activity in the last eight months. Meanwhile, low in-migration combined with now high inventories and rising interest rates will dampen demand for new homes in 2005. In 2006 and beyond, the number of home permits issued will rise year-over-year as net in-migration and jobs increase.

Our new home construction forecast represents more housing units per job and per person than were realized in the earlier 1990s, when the number of jobs and people per housing unit was climbing rapidly. New home construction — both single-family and multi-family units for purchase and for rent — increases the state's housing stock. ***Figure 4*** shows how Colorado housing stock is distributed among jobs and population from 1990 through 2008.

As is apparent from Figure 4, the size of households, that is, the number of people per housing unit, increased from 1990 to 1994. This means that Colorado's population was increasing faster than the number of new homes being built. The size of households leveled off during the mid 1990s, and then, beginning in the late 1990s, the number of people per household declined. This means that population increases today produce greater demand for new home construction than they did in the early 1990s. The downward trend in household size can be attributed to the aging of the state's population. The rising median age means that there will be fewer households with children and thus fewer people per household. We expect this trend to continue through at least 2008 and our forecast for home permits issued reflects this trend.

Figure 4 also shows that the number of jobs per household increased steadily throughout the 1990s, but that since 2000 the ratio of jobs to housing units fell dramatically. Thus, during the 1990s the number of jobs increased faster than the number of new homes being built, but since 2000 the number of jobs has increased more slowly than the number new housing units. Again, this means that employment increases today produce greater demand for new home construction than they did in the early 1990s. Many households that were previously supported by more than one job had to get by on only one job during the economic downturn that began in 2001. Some of these families have found the flexibility provided by having only one working member is appealing and thus, they will continue this arrangement even after the state labor market recovers and new jobs are plentiful. Furthermore, low interest rates have allowed a large number of singles to live on their own. The OSPB forecast for home permits issued reflects our expectation that this trend toward fewer jobs per housing unit will continue.

Figure 4
Jobs and People Per Housing Unit



Source: U.S. Department of Commerce, Bureau of the Census;
U.S. Department of Labor, Bureau of Labor Statistics;
Colorado Department of Local Affairs.

Nonresidential Construction

Denver-area nonresidential building construction continues to be impacted by oversupply in most markets. The year-to-date April 2004 value of new nonresidential building construction is up 54.5 percent compared with the same period in 2003, but this is primarily the consequence of new hospitals and medical facilities put in place. We forecast that these projects will offset a correction to office, retail, and industrial construction so that, in 2004, the value of nonresidential building construction will rise, but by a much lower percentage than implied by the first four months of data. Thereafter, the value of nonresidential construction put in place will continue to show modest increases through 2008, as the economy recovers and now vacant space becomes occupied with newly formed and expanding businesses.

The year-to-date April 2004 value of new nonresidential building construction is up 54.5 percent compared with the same period in 2003.

Retail Trade

Year-to-date retail trade sales in Colorado increased 5.5 percent through March 2004 compared with year-to-date March 2003. Indeed, March 2004 retail sales exceeded those in March 2003 by 11.9 percent, with double-digit increases in about half of the retail sectors. Our forecast is for retail sales to grow 5.4 percent in 2004 and to average around six percent through 2008. Purchases stimulated by a strengthening economy will be muted to some extent by consumer demand that has been satiated by purchases made during the recent period of record low interest rates.

Year-to-date retail trade sales in Colorado increased 5.5 percent through March 2004.

Risks to the Colorado Forecast

Colorado's recovery will begin to outpace the national recovery by the middle of 2005. However, if the national recovery were to stumble for any reason over the next year, the Colorado recovery would likely also falter.

Table 12
History And Forecast For Key Colorado Economic Variables
Calendar Year 1998-2008

Line No.		Actual						June 2004 Forecast				
		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	Current Income											
1	Personal Income (Billions)	$118,493	$128,859	$144,393	$150,594	$151,790	$156,009	$162,119	$170,932	$182,497	$196,034	$210,935
2	Change	9.8%	8.7%	12.1%	4.3%	0.8%	2.8%	3.9%	5.4%	6.8%	7.4%	7.6%
3	Wage and Salary Income (Billions)	$69,604	$76,343	$86,048	$88,308	$86,889	$88,091	$91,133	$95,669	$101,811	$108,913	$116,619
4	Change	11.3%	9.7%	12.7%	2.6%	-1.6%	1.4%	3.5%	5.0%	6.4%	7.0%	7.1%
5	Per-Capita Income ($/person)	$28,784	$30,492	$33,371	$34,003	$33,723	$34,283	$35,216	$36,638	$38,560	$40,755	$43,111
6	Change	7.2%	5.9%	9.4%	1.9%	-0.8%	1.7%	2.7%	4.0%	5.2%	5.7%	5.8%
	Population & Employment											
7	Population[1] (Thousands)	4,116.6	4,226.0	4,326.9	4,428.8	4,501.1	4,550.7	4,603.5	4,665.4	4,732.8	4,810.1	4,892.9
8	Change	2.4%	2.7%	2.4%	2.4%	1.6%	1.1%	1.2%	1.3%	1.4%	1.6%	1.7%
9	Net Migration[2] (Thousands)	66.5	75.4	64.2	66.3	35.1	12.4	14.8	23.0	27.4	36.2	40.5
10	Civilian Unemployment Rate	3.8%	2.9%	2.8%	3.7%	5.7%	6.0%	5.4%	4.8%	4.7%	4.4%	4.4%
11	Total Nonagricultural Employment[3] (Thousands)	2,056.7	2,131.5	2,212.6	2,225.4	2,177.6	2,145.8	2,171.3	2,219.0	2,281.8	2,360.5	2,433.1
12	Change	3.9%	3.6%	3.8%	0.6%	-2.1%	-1.5%	1.2%	2.2%	2.8%	3.5%	3.1%
	Construction Variables											
13	Total Housing Permits Issued (Thousands)	51.2	49.3	54.6	55.0	47.9	39.4	41.1	40.9	42.0	44.4	47.7
14	Change	18.8%	-3.6%	10.7%	0.8%	-12.9%	-17.7%	4.3%	-0.6%	2.7%	5.6%	7.6%
15	Nonresidential Construction Value[4] (Millions)	$2,616.8	$3,543.8	$3,338.8	$3,373.4	$2,637.8	$2,390.0	$2,827.0	$2,969.9	$3,103.0	$3,292.9	$3,576.2
16	Change	-12.4%	35.4%	-5.8%	1.0%	-21.8%	-9.4%	18.3%	5.1%	4.5%	6.1%	8.6%
	Prices & Sales Variables											
17	Retail Trade Sales (Billions)	$48.2	$52.6	$58.0	$59.1	$58.7	$58.7	$61.9	$65.5	$69.3	$73.7	$78.1
18	Change	6.7%	9.2%	10.2%	2.0%	-0.7%	0.0%	5.3%	6.0%	5.8%	6.3%	6.1%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	161.9	166.6	173.2	181.3	184.8	186.8	190.2	194.0	198.6	204.1	209.8
20	Change	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%	1.8%	2.0%	2.4%	2.8%	2.8%

1/ Population values through 2000 are adjusted for 2000 Census.
2/ Values through 2000 revised by Colorado Department of Local Affairs to reflect 2000 Census.
3/ Employment by place of work from Current Employment Statistics (CES) survey of payroll records.
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Sources: U.S. Department of Labor, Bureau of Labor Statistics;
U.S. Department of Commerce, Bureaus of the Census and Economic Analysis;
Colorado Departments of Labor and Employment, Local Affairs, and Revenue; and
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