STATE OF COLORADO

OFFICE OF STATE PLANNING AND BUDGETING
111 State Capitol Building
Denver, Colorado 80203
(303) 866-3317

Bill Owens
Governor

Dr. Nancy McCallin
Director

MEMORANDUM

TO: Governor Bill Owens
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: June 19, 2002

SUBJECT: ***June 2002 Revenue Forecast***

Summary

- We lowered our June 2002 forecast for General Fund revenues in both the current and subsequent fiscal years. The reduction reflects lower revenues received by the state through May 2002 and accounts for our revised Colorado forecast. The June 2002 General Fund revenue forecast for FY 2001-02 is lower than our March 2002 forecast by $275.4 million. Overall, General Fund revenues are expected to decrease 13.8 percent in FY 2001-02 and then grow 8.1 percent in FY 2002-03. The drop in revenues in FY 2001-02 is similar to the decrease occurring in all states throughout the nation. Indeed, nationwide state individual income tax revenues are down by more than 19 percent through April 2002.

- There will not be a TABOR surplus in FY 2001-02 because of lower revenues collected by the state. In fact, revenues will be $900 million below the TABOR limit in FY 2001-02. Furthermore, House Bill 02-1310 and Senate Bill 02-179 each have provisions that lower or eliminate future TABOR surpluses. We expect that TABOR surpluses will resume in FY 2006-07.

- In FY 2001-02, most General Fund expenditures were preserved through $1.2 billion of one-time revenues. This includes use of most of the state's statutory reserve, which started the year at $469.3 million, and transfers of nearly $830 million of other cash funds into the General Fund. Because these were one-time revenue sources, they maintained a revenue base in FY 2001-02 that was not sustainable in the future.

- Our baseline forecast shows that in FY 2002-03 the state will need to reduce General Fund expenditures by a total of $335.5 million to maintain the required reserve of two percent of appropriations. This $335.5 million takes into account the $46 million in line item vetoes exercised by the Governor and use of the full amount of transfer authority allowed by the General Assembly. In addition to the vetoes, the Governor ordered restrictions on state department spending totaling $183.3 million. This leaves an additional $152.2 million that must be reduced from the FY 2002-03 budget as required to maintain a two-percent reserve.

- Because there is no TABOR surplus in the current year, the General Fund will incur obligations of $352 million for K-12 education and the senior property tax credit as approved by the voters. These measures were supposed to come from the TABOR surplus, but without any surplus, the General Fund must pay for these provisions.

This memorandum provides a brief overview of the Office of State Planning and Budgeting (OSPB) June 2002 revenue forecast. First, this memorandum discusses the TABOR surplus due to the limits imposed by the Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado State Constitution. Next, the memorandum provides a description of the General Fund overview, discusses General Fund revenues, and compares Colorado's revenue situation with that of other states. Third, the memorandum outlines the forecast for the cash funds that contribute to TABOR revenues. Finally, a discussion of both our national and Colorado economic forecast is provided.

THE TABOR SURPLUS

Table 1 provides a detailed calculation of the TABOR surplus for the period from FY 2000-01 through FY 2006-07. It shows that there will not be a TABOR surplus in any year from FY 2001-02 through FY 2005-06. Indeed, the forecast shows that in FY 2001-02, TABOR revenues will be lower than the TABOR limit by $900.3 million, or 1.3 percent. The TABOR surplus vanishes over the next several years for four reasons.

- The record-long national economic expansion ended in March 2001, after an unprecedented 10 years of growth. Although a recovery in the national economy is underway, strong growth will not be evident until the end of 2002. The **Colorado economy** was negatively affected by the national recession and the events of September 11. We expect the Colorado economy will be slower in rebounding than the national economy by a few months, partially because it was slower to enter into a recession than the national economy. This will result in slower General Fund revenue growth. Furthermore, there is a 12- to 15-month lag between when an economy begins to expand and when revenue growth accelerates. Thus, while we anticipate that the Colorado economic recession will be over by mid-2002, we do not expect General Fund revenue growth to accelerate until 2003.

- Second, two **measures passed by voters** in the November 2000 election lower TABOR surplus revenues. Amendment 23 provides increased public school funding. Referendum A provides property tax relief for senior citizens. These measures were passed assuming that the state would have surpluses of at least $352 million to cover their costs. However, in FY 2001-02, the state is $900 million short of the TABOR limit. Thus, these measures are no longer taking funds from citizens' refunds, but rather are actual costs incurred in the General Fund. This causes an extra $352 million in General Fund obligations in FY 2002-03. These measures will lower the TABOR surplus in FY 2006-07 and beyond.

  - **Amendment 23** exempts a portion of the state's income tax from the TABOR spending limitation. The exempted amount is used for K-12 education.

  - **Referendum A** reduces property taxes for qualified senior citizens and provides state revenues to reimburse local governments for the lost property tax revenues.

- Third, both House Bill 02-1310 and Senate Bill 02-179 contain provisions that enable the state to recoup revenues lost because the TABOR limits computed during the 1990s used population estimates that were too low. The percentage change associated with this lost revenue is called the "growth dividend." This growth dividend, discussed in more detail below, raises the TABOR limit in FY 2002-03 through FY 2006-07, thereby eliminating the TABOR surplus in FY 2002-03 through FY 2005-06 and reducing it in FY 2006-07.

- Finally, the 2002 **federal economic stimulus** package lowers Colorado revenues, although to a lesser extent than the other three provisions. Indeed, the forecast for income tax receipts was lowered by over $50 million in FY 2001-02 because of the 2002 federal economic stimulus package, which contains a provision that accelerates the depreciation allowance for investments made after September 10, 2001 and prior to September 11, 2004. Our forecast was lowered to account for the impact of this provision on both individual and corporate income tax receipts.

The Growth Dividend

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

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

Since the state is not in a TABOR surplus position in FY 2001-02, the state cannot recoup the extra money refunded to taxpayers throughout the 1990s when the U.S. Bureau of the Census undercounted the state's population. Thus, House Bill 02-1310 and Senate Bill 02-179 allow the 6.0 percent growth dividend to be carried forward for up to nine years. The growth dividend is applied to the FY 2002-03 TABOR limit in an amount that maximizes the TABOR revenue growth rate given available TABOR revenues. In subsequent years, the unused amount of the growth dividend is applied in a similar manner, until either the cumulative amount by which the TABOR limit is increased equals 6.0 percent (the original growth dividend amount) or the nine-year limit is reached. In total, the growth dividend allows the state to keep approximately $1.9 billion in additional revenues over the next five years.

GENERAL FUND OVERVIEW

The baseline General Fund overview is presented in ***Table 2***, which provides a summary of General Fund revenues, expenditures, and reserves through FY 2006-07. ***Table 3*** shows the General Fund overview assuming current-law as well as the budget reduction package announced by the Governor in May 2002.

In response to declining General Fund revenues resulting from September 11 and the ensuing Colorado economic recession, a number of actions were taken to reduce General Fund expenditures and to enhance General Fund revenues through a series of transfers from other funds. In total, General Fund revenues have declined by $929.6 million (13.8 percent) from their FY 2000-01 level and by $663.3 million from the December 20, 2001 forecast. This section describes the actions taken by the Governor and the General Assembly to maintain the balanced budget required by Article X, Section 16 of the Colorado State Constitution and Colorado Revised Statutes (C.R.S.) Section 24-75-201.5.

In the 2001 Regular Session, the 2001 Second Extraordinary Session, and the 2002 Regular Session of the General Assembly, the Governor and the General Assembly passed budget balancing measures that increased General Fund revenues (through transfers and refinancings) by $830 million, reduced operating appropriations by $142 million, and reduced combined capital and transportation funding by almost $400 million. As a part of these budget measures, the General Assembly passed legislation that allows the Governor to direct the Treasurer and State Controller to transfer additional funds into the General Fund from June 20, 2002 through June 30, 2002 to ensure that the state does not end the fiscal year with a deficit.

Measures Taken in the 2001 Regular Session of the General Assembly

The passage of Amendment 23 in the 2000 election caused $164 million to be transferred from the General Fund to the State Education Fund in FY 2000-01 and an additional $262 million in FY 2001-02. Because of timing of the transfers and the lack of a TABOR surplus, these transfers took money from the General Fund. In an effort to offset this loss, the General Assembly transferred $244 million from the Controlled Maintenance Trust Fund to the General Fund.

Measures Taken in the Second Extraordinary Session of the 2001 General Assembly

Because the September 2001 revenue forecast showed that the state would not have enough revenue to fund budgeted expenditures, the Governor and the General Assembly agreed to reduce Capital Construction Fund appropriations and transfers to the Highway Users Trust Fund (HUTF). The transfer of revenues from the General Fund to the HUTF was lowered from $201.3 million to $35.2 million. In addition, appropriations in the Capital Construction Fund were lowered by $224 million and the available capital funds from this reduction were transferred back into the General Fund. Altogether, capital expenditures for buildings and transportation projects were lowered by roughly $390 million. Additionally, in October 2001, the Governor ordered Executive Directors to lower their expenditures (excluding K-12 total program and Medicaid). These reductions totaled approximately $70 million, an amount greater than originally directed by the Governor, and were submitted to the General Assembly on November 1, 2001.

Measures Taken in the Regular Session of the 2002 General Assembly

In March 2002, in response to the state financial situation apparent from decreasing revenue forecasts, the Governor ordered an additional 1.5 percent reduction in the Executive Departments' expenditures, a hiring freeze for Executive Departments, and a freeze on all capital projects that were in their early stages of construction. The Governor and the General Assembly also agreed to further reduce General Fund expenditures and to enhance General Fund revenue by the series of transfers outlined in Appendix A. These actions include the following:

- The transfer of $202.4 million from various cash funds to the General Fund per House Bill 02-1391, House Bill 02-1392, House Bill 02-1443, and House Bill 02-1444. These transfers include monies from the Hazardous Substance Response Fund ($30.0 million), the Severance Tax Fund ($20.2 million), the Fitzsimons Trust Fund ($18.4 million), the Employment Support Fund ($15.0 million), and various other funds.

- A reduction in General Fund appropriations totaling $141.9 million in FY 2001-02. The total includes the appropriations identified in the Governor's first $70 million restriction for Executive Departments ordered on November 1, 2001 and some of the restrictions ordered on March 1, 2002.

- The reclassification of the FY 2001-02 Senate Bill 97-1 transfer to the HUTF ($35.2 million), the FY 2001-02 Capital Construction Fund transfer ($78.9 million), and the FY 2001-02 diversion to the Older Coloradoans Program ($3.0 million) as monies subject to the six percent appropriations limit (House Bill 02-1389 and House Bill 02-1390).

- A Medicaid refinancing that allows participating teaching hospitals to draw down federal funds and pay the state approximately $11.2 million in FY 2001-02 and $10.7 million in FY 2002-03.

- A redesignation of the TABOR emergency reserve to be comprised of parts of the statutorily required four percent reserve, the Tobacco Trust Fund, the state Severance Tax Fund, the Employment Support Fund, the Unclaimed Property Trust Fund, the Wildlife Cash Fund, the Subsequent Injury Fund, and the Major Medical Insurance Fund (House Bill 02-1394 and House Bill 02-1442).

- The authorization of the Governor to direct the Treasurer and the State Controller to transfer money from the Unclaimed Property Trust Fund, the Tobacco Litigation Trust Fund, and the Major Medical Insurance Fund to the General Fund from June 20, 2002 to June 30, 2002 (House Bill 02-1445 and House Bill 02-1478). In total, there is approximately $383.4 million available to transfer at year-end into the General Fund. Monies used from the Tobacco Litigation Trust and the Major Medical Insurance funds must be repaid on July 1, 2002. After repayment of these funds, only $223.9 million of transfer authority is allowed in FY 2002-03.

- The elimination of the four percent appropriations reserve requirement in FY 2001-02 (House Bill 02-1478).

Legislation enacted during the Regular Session of the 2002 General Assembly and signed into law by Governor Owens also affects the refunding of the TABOR surplus.

- Senate Bill 02-218, along with House Bill 02-1310 and Senate Bill 02-179, repeal the requirement that the state sales tax refund mechanism amount be increased to 105 percent of the refund amount. The original 105 percent provision was enacted to guarantee that the sum of all refunds would equal or exceed the amount of the TABOR surplus. However, in recent years the refund amounts have exceeded the TABOR surplus by large margins, up to $70 million, indicating that the 105 percent provision is no longer necessary.

- House Bill 02-1015 provides a mechanism to facilitate the future return to an accrual system of accounting for TABOR surplus revenues. It does so by restricting the expenditure of a portion of surplus General Fund monies in years that have a TABOR surplus. Currently, TABOR surplus revenues can be spent in the year they are acquired and are then obligated for return to taxpayers in the following year. By contrast, an accrual system of accounting for the TABOR surplus would not allow the TABOR surplus revenues to be spent and instead, would require the surplus money to be set aside in the year it is collected. To return to the accrual system in a given year requires that both the TABOR surplus associated with the given year as well as the surplus associated with the previous year be obligated in the given year. Monies held through House Bill 02-1015 are intended to mitigate the fiscal impact on General Fund expenditures that this would entail. It should be noted, however, that there are no TABOR surpluses for the next several years. Hence, the state can easily return to an accrual system of accounting for refunding the TABOR surplus without ever invoking the provisions of House Bill 02-1015.

The FY 2002-03 Financial Picture

The state Constitution requires that Colorado not incur a deficit (Article X, Section 16 of the Constitution). In an effort to prevent the state from going into deficit, the General Assembly enacted a law in the late 1980s requiring the Governor to cut expenditures when revenues decrease. According to C.R.S. 24-75-201.5, the Governor must implement an expenditure reduction plan when the most recent revenue forecast shows that the state will fall below a two percent reserve based on the current revenue projection. The June 20, 2002 forecast shows that the state will indeed not have enough General Fund revenue to fund planned expenditures without falling below the two percent reserve requirement. ***Table 2*** shows that without any action by the Governor beyond the line item vetoes exercised, the state would have a $335.5 million shortfall from the budget enacted by the General Assembly. This takes into account the $45 million of General Fund line item vetoes, as well as using the full $223.9 million of transfer authority to the General Fund discussed in detail later. The $335.5 million expenditure reduction is necessary to maintain the two percent reserve required by statute. This shortfall occurs even without any General Fund money devoted for transportation in FY 2002-03.

In anticipation that the revenue situation would trigger the need for such a plan, the General Assembly passed various bills in early May, but the provisions fall well short of a balanced budget. First, the General Assembly gave the Governor authority to transfer funds from the Tobacco Litigation Settlement Trust Fund, the Unclaimed Property Trust Fund, the Employment Support Fund, and the Major Medical Insurance Fund if the required reserve falls below two percent of appropriations (House Bill 02-1445 and House Bill 02-1478). In total, there is approximately $223.9 million available for transfer to the General Fund in FY 2002-03 from these funds. Second, House Bill 02-1446 delayed the $276 million repayment of the Controlled Maintenance Trust Fund from July 1, 2002 to July 1, 2003 ($138 million) and July 1, 2004 ($138 million).

Even with the measures taken during the 2002 legislative session, there will still not be enough revenue to support appropriated expenditures in FY 2002-03. A $335.5 million decrease is necessary. Furthermore, although the General Fund revenue base fell significantly during FY 2001-02, the General Fund expenditure base was not similarly reduced. Instead, the General Assembly maintained FY 2001-02 operating expenditure growth of 5.5 percent, using transfers from other cash funds and reserve spending to augment General Fund revenues and finance appropriations. In total, $1.2 billion of one-time money was used to preserve operating expenditures in FY 2001-02. This enabled the General Assembly to maintain the FY 2002-03 General Fund operating appropriations at a high level, but revenues do not exist to support this appropriation base. Because the rate of growth in FY 2002-03 General Fund appropriations was not lowered from the maximum six percent allowed, the General Fund has a structural deficit in FY 2003-04 and beyond, even with an improving revenue situation over the forecast horizon.

In anticipation of a FY 2002-03 revenue shortfall, the Governor outlined his plan to reduce General Fund expenditures to maintain a two percent reserve. The Governor's balanced budget plan includes:

- Imposing a four percent restriction on all Executive Departments (excluding K-12 total program) and allowing the Executive Directors to manage the restriction;

- Vetoing approximately $45 million in General Fund appropriations from the FY 2002-03 long appropriations bill (an additional $1 million in non-General Fund appropriations were also vetoed, for total vetoes of $46 million);

- Continuing the capital construction freeze on projects in their early stages of construction;

- Delaying provider rate increases until January 2003; and

- Using the full amount of funds available for transfer ($223.9 million) per House Bill 02-1445 and House Bill 02-1478.

After taking into account the Governor's expenditure reduction plan, ***Table 3*** shows that the state must lower expenditures and/or transfer funds of an additional $152.2 million to the General Fund in order to ensure that a two percent reserve is available.

If General Fund appropriations continue to grow by the maximum six percent allowed by statute in FY 2003-04 and each year thereafter, our forecast shows that the state will not have enough revenues to meet its total obligations in future years. In the scenario in ***Table 3***, the total shortfall exceeds $1.6 billion. However, the amount of the shortfall in the out years is dependent on the action taken by the General Assembly to address the FY 2002-03 shortfall. In the scenario shown in ***Table 3***, General Fund obligations exceed revenues by $335.5 million before implementation of the Governor's budget plan. However, appropriations in FY 2003-04 are grown from the FY 2002-03 appropriated base, which is $335.5 million higher than revenues allow. This is because the Governor's budget plan is a restriction on *spending* and thus, does not affect the permitted amount of *appropriations* between FY 2002-03 and FY 2003-04. The General Assembly sets the appropriations level. An alternate scenario, shown in ***Table 4,*** indicates how the state's overall financial situation improves if the state reduces the appropriations base in FY 2002-03 to the actual expenditure level required to balance the budget. In this case, the revenue shortfall drops to $419.6 million over the forecast period versus the $1.6 billion in ***Table 3***.

GENERAL FUND REVENUES

Our forecast for General Fund revenues is shown in ***Table 5***. The forecast was lowered considerably in the June 2002 forecast compared with the March 2002 forecast. In total, we lowered our June 2002 General Fund revenue forecast by $275.4 million in FY 2001-02 based on revenue trends occurring through May 2002. The changes were mainly contained in the income tax forecast.

We lowered the June 2002 forecast for total income tax revenues by approximately $247.3 million in FY 2001-02 compared with the March 2002 forecast. The individual income tax forecast was lowered by $256.7 million, while the corporate income tax forecast was raised by $9.4 million. Overall, income tax receipts have slowed dramatically during the current fiscal year. In fact, through May, individual income tax receipts are 11.4 percent lower than the same period in FY 2000-01 and corporate income tax receipts are lower by 39.2 percent.

- The individual income tax forecast was lowered for each of the three income tax collection categories: withholding, estimated payments, and cash with returns. The amount refunded to taxpayers was also lowered.

  - Through May 2002, *withholding* of individual income taxes was 4.5 percent lower than during the same period in the prior fiscal year. The decline in withholding of income taxes shows that the current economic downturn has reduced our wage base. This is most likely the result of losing many high wage positions in the advanced technology and telecommunications sectors. Moreover, many positions that received large bonuses in the past did not receive bonuses this year. These positions are predominantly in the advanced technology, financial, insurance, and real estate sectors that are closely tied to the stock market.

  - There was a 26.2 percent decline in individual *estimated payments* through May 2002 in FY 2001-02 compared with the same period in FY 2000-01. Estimated payments began declining after the September 11 terrorist attack and the subsequent downturn in the stock market. We estimate that capital gains income declined 47.7 percent in Colorado in 2001, thus contributing to lower estimated payments. We expect that estimated payments will slowly improve as the economy recovers and the capital losses of 2001 dissipate.

  - Compared with FY 2000-01 year-to-date levels, FY 2001-02 *cash with returns* is down 17.4 percent, while *refunds* are up 2.7 percent. The changes can be attributed to a lower wage base coupled with lower amounts of income not subject to withholdings, such as capital gains, interest, and dividends.

- Corporate income tax receipts have declined considerably this fiscal year. Most states witnessed a large decline in corporate income tax revenues during FY 2000-01, but Colorado's corporate income tax revenues increased 14.0 percent during that fiscal year. The decrease, however, caught up to Colorado in FY 2001-02, as we estimate that corporate tax receipts will fall 45.4 percent.

- Both the individual and corporate income tax forecasts were lowered from our March 2002 because of the recently enacted federal Job Creation and Worker Assistance Act of 2002. One provision of this federal legislation allows for an accelerated depreciation schedule for investments made from September 11, 2001 through September 10, 2004. We estimate that this lowers income taxes by over $50 million in FY 2001-02 and by $75 million in FY 2002-03.

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

It is noteworthy that Colorado's revenue shortfall is comparable with shortfalls occurring in other states across the nation. A survey conducted cooperatively by the Federation of Tax Administrators, the National Association of State Budget Officers, the National Conference of State Legislatures, and the Nelson A. Rockefeller Institute of Government of the State University of New York found that on average, total income tax revenues for the first four months of 2002 were more than 19 percent below 2001. Furthermore, tax receipts normally associated with income not subject to tax withholding (for example, capital gains, rents, interest, and dividends) averaged 26 percent below year-to-date 2001. The survey revealed that through April nearly all of the states that have a broad-based individual income tax are experiencing revenues that are below projections. When compared to the tax projections that were the basis for state budgets for FY 2001-02, only two states reported that January through April 2002 collections were at or above budgeted or estimated amounts. Of states that reported collections below budget, 30 percent indicated that January through April collections were below forecast by more than 10 percent. According to the survey, most states in this position expect that the current FY 2002-03 revenue estimates will likely have to be revised downward because of the current pattern of income tax receipts in 2002. Highlights of the survey, which compares year-to-date receipts through April 2002 with the same period in 2001, follow:

- On average, withholding tax collections were down by about 3 percent during the first four months of 2002 compared with 2001.

- Year-to-date cash with returns averaged about 26 percent lower through April 2002 than through April 2001. Colorado's decline was smaller than three-quarters of the states with broad-based individual income taxes.

- Estimated payments — a harbinger of expected receipts in the year ahead — were nearly 27 percent below 2001 levels.

- The average dollar amount of income tax refunds was up nearly 14 percent.

- On average, total individual income tax revenues — collections less refunds — are down by more than 19 percent. Of the states with a broad-based individual income tax, 35 percent experienced a sharper decline in total income tax revenues than Colorado's 15.1 percent decline for the same period.

The survey results do not necessarily reflect how states will find their financial situation when the fiscal year is closed. However, the spring months are critical because they reflect the height of the income tax processing season. Although the precise amounts and causes of the drop in states' income tax revenues will not be known until all returns have been processed and are available for analysis, it is likely that a significant portion of the decline can be attributed to substantially lower amounts of income not subject to withholdings, such as capital gains, interest, and dividends, as well as a significant decline in stock options and bonuses.

CASH FUND REVENUE FORECAST

The OSPB June 2002 cash fund revenue forecast is summarized in ***Table 6***. These funds, which typically represent monies collected and earmarked for specific purposes, were 26 percent of total TABOR revenues in FY 2000-01. Cash fund revenues are forecast to increase 1.8 percent to $2,358.5 million in FY 2001-02 and to increase an additional 12.0 percent, to $2,522.6 million, in FY 2002-03 (see the OSPB March 2002 Revenue Forecast, http://www.state.co.us/ospb). From FY 2001-02 through FY 2006-07, cash fund revenues will grow at a compound annual average rate of 4.2 percent.

The June 2002 forecast for total cash fund revenues is lower than reported in March 2002 mostly because of a downward revision to the unemployment insurance tax forecast. The June forecast reflects updated information and recently passed legislation.

Highlights of the cash fund revenue forecast follow:

Transportation-Related Cash Funds

The *transportation-related cash funds* revenue forecast changed slightly to reflect current economic conditions as well as new information regarding local matching monies from counties and cities given to the State Highway Fund.

- Total transportation-related cash funds are forecast to increase 4.5 percent in FY 2001-02 and 2.0 percent in FY 2002-03. These funds will grow at a compound average annual rate of 2.4 percent between FY 2001-02 and FY 2006-07.

- The State Highway Fund is expected to grow 42.4 percent in FY 2001-02 and 1.7 percent in FY 2002-03. The strong growth in FY 2001-02 is because of increased amounts of local matching monies. In FY 2003-04, State Highway Fund revenues will decrease, as the state is not expected to receive as much in matching local monies.

Higher Education

The June 2002 forecast for *higher education cash funds* did not change materially from March 2002. The June 2002 forecast for higher education cash funds revenues incorporates assumptions about tuition increases. The Governor vetoed the FY 2002-03 footnote in the Department of Higher Education section in the appropriations bill, House Bill 02-1420 that allowed up to a 7.7 percent tuition increase in FY 2002-03 for the state's institutions of higher education. The Governor has instructed the Colorado Commission on Higher Education to consult with the Governing Boards of the public institutions of higher education and to prepare a tuition increase plan that is more in line with inflation. The forecast for higher education revenues was generated under the assumption that in FY 2002-03 resident tuition will increase by inflation and nonresident tuition will increase 7.7 percent. Thereafter, it is assumed that both resident and nonresident tuition increase by inflation. Based on final recommendations from the Colorado Commission on Higher Education, these figures will change in the future.

- Total higher education revenues are predicted to increase 8.1 percent in FY 2001-02 and to increase another 9.7 percent in FY 2002-03. The increases in FY 2001-02 and FY 2002-03 reflect increased growth in enrollment as well as tuition increases. Thereafter, higher education revenues average about 5.2 percent annual growth throughout the forecast horizon.

Unemployment Insurance Trust Fund

Compared with March 2002, we lowered our revenue forecast for revenue growth in the *Unemployment Insurance Trust Fund* by $35.9 million in FY 2001-02. Most of this decline is attributed to a downward revision to both our estimates of taxable wages and the effective unemployment insurance (UI) tax rate in FY 2001-02. The interest earned on the trust fund also declined because higher benefit payments in FY 2001-02 reduced the trust fund balance.

- Unemployment Insurance Trust Fund revenues are predicted to decline 1.5 percent in FY 2001-02 because of the 20 percent tax credit enacted through House Bill 00-1310. Revenues are expected to grow 83.0 percent in FY 2002-03. The large increase in UI tax revenue occurs because of an automatic adjustment in UI tax rates that compensates for higher UI benefit payments as well as because the House Bill 00-1310 tax credit will no longer be in effect. The Unemployment Insurance Trust Fund will increase by 18.1 percent in FY 2003-04.

- Unemployment benefits paid to workers are forecast to increase 184 percent in FY 2001-02. Unemployment benefits will decline 13.7 percent in FY 2002-03 as the economy and labor markets improve.

- The Job Creation and Worker Assistance Act of 2002, the federal economic stimulus package signed into law by President Bush on March 9, 2002, includes a Reed Act Distribution to offset the states' unemployment costs. The Colorado Department of Labor and Employment received $142.7 million as a result of this distribution. The Reed Act Distribution keeps the UI trust fund balance high enough to prevent the solvency surcharge from triggering in 2003. As a result, we forecast that Colorado's employers will not pay a $55.1 million solvency surcharge in calendar year 2003 that was previously expected. However, because benefit payments will remain high during FY 2002-03, we project the solvency surcharge tax will be necessary in calendar year 2004.

- The Job Creation and Worker Assistance Act of 2002 also provides Colorado's unemployed with extended UI benefits, paid from federal funds. Benefits were extended from 26 to 39 weeks and the federal government will provide the necessary funds to compensate for this.

Miscellaneous Cash Funds

- The forecasts for the *limited gaming, severance tax,* and *regulatory agencies* cash funds were not changed between the March 2002 and the June 2002 forecasts. These funds are discussed in more detail in the December 2001 *Colorado Economic Perspective.*

- The June 2002 forecast for *petroleum storage tank* revenues, and *capital construction* and *controlled maintenance interest* were adjusted to reflect changes in economic conditions and recently passed legislation.

    - The June 2002 forecast for petroleum storage tank fund revenues in FY 2002-03 increased by $2.1 million compared with the March 2002 forecast because House Bill 02-1391 transferred a portion of the fund balance to the General Fund, causing higher fees during portions of FY 2002-03.

    - Monies were also transferred from the capital construction fund to the General Fund, thereby reducing interest earned on the capital construction fund balance. Moreover, House Bill 02-1443 reduced the amount of the capital construction fund transfer in FY 2002-03 to $9.5 million from the previously scheduled transfer of $111.1 million. Thus, the amount of expected interest earnings to the fund is significantly lower.

    - House Bill 02-1446 delays the repayment of the Controlled Maintenance Trust Fund (CMTF) balance. Previously, the CMTF was scheduled to be repaid in FY 2002-03. Now, the CMTF will be replenished in two equal payments of $138.2 million in FY 2003-04 and FY 2004-05. This again alters the available fund balance and thus the subsequent interest earned by the CMTF.

Our June 2002 forecast increases the *insurance-related* cash funds revenue forecast to reflect rising workers' compensation insurance premiums in FY 2001-02. The rising premiums are partially the result of higher reinsurance costs resulting from the September 11 attacks.

THE NATIONAL ECONOMY

The national economy is quickly bouncing back from the mildest economic recession in history. The national economic recession began in March 2001 and lasted 11 months, with a decline in inflation-adjusted gross domestic product of only 0.3 percent. This section of the OSPB June 2002 Revenue Forecast presents our forecast for the national economy. Overall, the June 2002 national economic forecast shows stronger economic growth in 2002 than in the March 2002 forecast.

Recent Economic Evidence

- In the first quarter of 2002, inflation-adjusted gross domestic product (GDP) increased at a 5.6 percent annual pace, significantly higher than expected and well above the 1.7 percent annual pace posted in the fourth quarter of 2001.
    - Consumers continued to prop up GDP growth: consumer spending increased at a 3.5 percent annual rate in the first quarter of 2002, even with durable goods sales declining 8.0 percent because of the phase-out of automobile purchase incentives.
    - Nonresidential fixed investment declined at a 5.7 percent pace, mainly due to a large drop in construction. In comparison, the decline in equipment and software investment that occurred in the recession appears to be leveling off, posting only a 0.5 percent decline.
    - In total, government spending increased 7.9 percent in the first quarter of 2002, with a 19.6 percent increase in defense spending.
- Consumer confidence has significantly recovered from the low (84.9) recorded in November 2001. According to the Conference Board, in May consumer confidence reached 109.8. The Conference Board also reported an improvement in consumers' perceptions of their present financial conditions.
- The unemployment rate increased to 6.0 percent in April 2002, the highest recorded since January 1994. While the increase in the unemployment rate is not good news, it is attributable to an increase in the number of people coming back into the labor force rather than an increase in the number of people out of work. Moreover, the peak unemployment rate thus far in this recession is not as high as the peak of 7.8 percent recorded during the 1990-1991 recession.
- Private employment increased by over 40,000 jobs in April. Moreover, the loss in manufacturing jobs continues to slow, thereby suggesting that the manufacturing sector has reached bottom. In addition, service payrolls are rising at an accelerating pace.

The National Economic Forecast

While recent economic evidence shows that the national economy is expanding, we anticipate that growth will not match the robust pace of the first quarter of 2002. Economic growth for the remainder of 2002 will be more moderate than the first quarter's pace. Thereafter, as the employment situation improves nationally, consumer confidence will continue to inch upward and consumer spending will propel the economy forward in 2003 and beyond.

The highlights of the national economic forecast follow.

- **Inflation-adjusted GDP** will increase at a 2.5 percent pace in 2002, well above the 1.2 percent pace posted in 2001. The 2.5 percent annual rate represents a slower growth rate in the second and third quarter of 2002 than experienced in the first quarter and an acceleration in the final quarter of the year. The main reason that growth slows in the middle of 2002 is that consumer spending was artificially high in the first quarter because of larger-than-normal tax refunds. The current employment situation does not support continued strong consumer spending. However, by 2003, the economy will be closer to its long-term growth path, with inflation-adjusted GDP increasing 3.6 percent.

- *Consumer spending*, which accounts for two-thirds of GDP, will increase at a 3.4 percent rate in 2002, slightly above the 3.1 percent rate posted in 2001. Overall, growth in consumer spending slowed only slightly during the recession and thus, will not rebound as strongly as it has in previous expansions. In 2003, consumer spending will increase at a 3.5 percent rate.

- *Business investment*, a component of GDP that has suffered during the past two years, is anticipated to decline 5.0 percent in 2002, after a 3.2 percent drop in 2001. The decline in 2002 is mainly attributable to a more than 15 percent decrease in nonresidential building. Equipment and software spending, however, is anticipated to decline only 1.3 percent in 2002 and will then grow 9.1 percent in 2003 and 10.8 percent in 2004.

- In 2002, *federal government spending* is expected to increase at a 7.7 percent rate, the fastest pace in over a decade. Meanwhile, *state and local government spending* will grow only 2.8 percent, the slowest growth rate posted since 1996. Weak state and local government spending is largely the result of weak state and local revenue growth.

- **Inflation** will remain fairly tame throughout the forecast period. In 2002, inflation will be only 1.7 percent, significantly below the 2.8 percent rate posted in 2001. Thereafter, inflation will increase to a 2.6 percent rate in 2003 and remain fairly close to that rate throughout the forecast period. Inflation remains low because, although the economy is improving, it is not growing so rapidly as to ignite inflationary pressures. Thus, we anticipate the Federal Reserve will leave interest rates fairly low throughout the forecast horizon.

- The **employment** situation will not improve as quickly as the rest of the economy because employers are typically reluctant to hire new workers until they are sure that the economic recovery is robust. Employment will decline 0.4 percent in 2002, after increasing by that amount in 2001. However, employment will increase at a 1.9 percent pace in 2003 and at a 2.3 percent pace in 2004. The **unemployment rate** will peak at 6.0 percent in 2002, well below the levels seen after previous economic recessions. By 2003, the unemployment rate will fall to 5.7 percent and, by 2005, the unemployment rate will be one percentage point below the peak, at 5.0 percent.

Overall, the national forecast calls for moderate, yet improving economic activity throughout 2002 and for the remainder of the forecast horizon. By 2003, we expect that the economy will be close to its long-term growth path. However, consumers remain the driving force behind the anticipated economic growth. Thus, if employers do not begin hiring and businesses do not invest as predicted, consumer spending will not increase at the rate expected. If consumer confidence falters for any reason, spending will further slow and the unemployment rate will increase. If this scenario occurs, the economy could fall back into recession.

THE COLORADO ECONOMY

The Colorado economy appears to have bottomed out. However, just as the effects of the national recession took longer to reach Colorado than other states, Colorado's recovery is also lagging the national economic recovery by about three months. While year-to-date April 2002 employment is still below the year-to-date 2001 level, the employment declines appear to have stopped. Meanwhile, the unemployment rate fell in both March and April 2002 and manufacturing activity is beginning to increase.

The Colorado economy will remain on a slow growth path in 2002 and then will begin to strengthen significantly in 2003. The delay in Colorado's recovery compared with the nation's occurs for several reasons. First, the national recovery, while picking up speed, remains tentative. Colorado will have slow economic performance until the nation's economy accelerates more vigorously, which has not yet begun to happen. Second, the state's advanced technology sector remains affected by the recession and as long as this sector continues to struggle, it will hamper the Colorado economic recovery. Demand for advanced technology workers in the western region of the United States, including Colorado, fell by 71 percent between 2000 and 2002 and demand for advanced technology workers is not yet improving. Finally, Colorado's third most important sector, tourism, has yet to fully recover from the aftershocks of September 11. Although airline passenger traffic at Denver International Airport is increasing, it remains below last year's levels. The tourism sector is showing signs of strengthening.

The state economy is showing many encouraging signs. According to a Manpower Inc. survey reported in May 2002, Denver's employment outlook is better than most of the 20 largest U.S. metropolitan areas. Statewide, 38 percent of Colorado firms plan to hire in the third quarter of 2002, the same share as planned to hire in the third quarter of 2001 prior to the September 11 attacks. By comparison, 31 percent of Colorado firms planned to hire new workers in the second quarter of 2002. Between March 2002 and April 2002, employment rose and unemployment fell. Manufacturing activity in Colorado also increased during March and April 2002.

Low inflation is another positive economic indicator in the state. Moreover, a recent nationwide survey found that Colorado is one of the nation's top 10 destinations for vacations this summer. Finally, Colorado bankruptcies in 2001 were lower than those declared in 1997, even as bankruptcies nationwide reached record levels.

An Overview of Recent Colorado Economic Events

Evidence of the severity of the recession on the Colorado economy is interweaved with evidence that the low point of the state's recession has already occurred.

- Nonfarm employment, which has declined since September 2001, is showing signs of leveling off. Still, year-to-date average employment through April 2002 is 1.8 percent below the same period in 2001.

- The Colorado unemployment rate was 5.3 percent in April 2002, falling from a recent high of 5.7 percent in February 2002. The average unemployment rate thus far in 2002 is 5.6 percent.

- The number of residential housing permits issued through April 2002 is down 9.3 percent compared with year-to-date 2001. Single-family permits issued are 12.3 percent below 2001, while the number of multi-family permits issued is 1.2 percent above year-to-date 2001.

- The value of nonresidential construction decreased 4.5 percent through April 2002 compared with the same period in 2001. The value of office and factory construction is down 46.1 percent and 69.2 percent, respectively, while the value of retail construction rose 26.2 percent.

- Retail sales in 2001 grew 1.9 percent, but have been somewhat below 2001 levels in the first quarter of 2002. Through the first three months of 2002, retail sales in Colorado were down 2.6 percent compared with the same period in 2001.

Colorado's Economic and Demographic Indicators

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

Employment

Through April 2002, year-over-year employment levels have declined for eight consecutive months and Colorado's average nonfarm employment is 1.8 percent below the year-to-date average in 2001. However, there is evidence that the employment picture is improving. Between February and April 2002, 9,100 jobs were created in Colorado, compared with 8,700 during the same three-month period in 2001. Moreover, jobs were created in a number of different sectors, including construction, services, and transportation, communications, and public utilities.

Our forecast assumes year-over-year monthly employment levels will not materially rise until early 2003 and that they will resume more robust growth during the second half of 2003. Layoffs during the first half of 2001 were concentrated in the telecommunications, advanced technology, and manufacturing sectors and these sectors are now stabilizing. Meanwhile, the attacks of September 11 significantly impacted employment in the transportation and tourism sectors and will continue to do so until consumers recover from their post-attack trauma. Although employment growth slowed in reaction to the national recession that began in March 2001, the state did not experience drops in its employment level until after September 11. The effects of September 11 were severe on Colorado's economy, affecting the tourism industry and causing businesses to accelerate any layoff plans that may have been tenuous. In addition, the stock market decline following September 11 had a significant impact on income levels and purchasing power throughout the state. We forecast that Colorado employment will decline 0.6 percent in 2002 before resuming modest positive growth in 2003 of 1.8 percent. All of the job loss is concentrated in the early part of 2002, with the recovery noticeable by mid-2002. By 2004, we anticipate that employment growth will be 2.9 percent and that the pace will rise to 3.4 percent by 2006.

The Colorado unemployment rate has been above 5.0 percent since December 2001. Although unemployment is higher now than in recent years, it is still well below the 6.2 percent peak reached in the early 1990s and well below the historical high of 8.6 percent reached in 1986. In April 2002, Colorado's seasonally adjusted unemployment rate was 5.3 percent compared with a national unemployment rate of 6.0 percent. There are 8,400 fewer unemployed workers in Colorado in April 2002 than in January 2002, even as the labor force increased. The annual average unemployment rate for 2002 is forecast to be 5.2 percent. We forecast the state's unemployment rate will average 4.8 percent in 2003 and then decline to 3.8 percent by 2006.

Wages and Income

Colorado wage and salary and personal income grew faster than the national average throughout the 1990s. Indeed, for most of the 1990s Colorado was among the top 10 states in the nation for personal income and wage and salary growth. Furthermore, Colorado ranked second in the nation in 2000 for personal income growth (10.0 percent) and also ranked second through the first two quarters of 2001 (7.4 percent). However, wage and salary and personal income increased at a slower pace in 2001, by only 3.6 percent and 3.8 percent, respectively. The lower pace reflects smaller increases in the state's work force coupled with a contraction in the high-paid advanced technology and telecommunications sectors. In 2001, per capita personal income growth also slowed, rising 1.6 percent above 2001's level. However, the state's $32,957 per capita income is still the seventh highest in the country. We forecast that wage and salary and personal income growth will continue to be slow in 2002, but will resume a more robust pace in 2004 and beyond.

Population and Migration

The U.S. Bureau of the Census reported that Colorado's population grew by 2.2 percent in 2001. The increase means 55,000 more people came to the state than left in 2001. This is the third highest population growth in the country, bested only by Nevada (4.3 percent) and Arizona (2.8 percent). Colorado's net migration increases, as well as those of Nevada and Arizona, occur in part because retirees are moving to the more hospitable climates of the western states. Since the share of the nation's population over age 65 is expected to rapidly increase over the next 30 years, retirees will continue to drive migration patterns in Colorado for the foreseeable future. In addition, the availability of jobs in Colorado is an important attractor for people moving to the state. Because Colorado's job growth slowed in 2001 and 2002, our forecast for Colorado's net migration is lower than anticipated in our March 2002 forecast. In 2004 and beyond, net migration will increase as the state's employment picture improves. From 2002 through 2006, we anticipate that population will grow at an average annual rate of 1.7 percent.

Inflation

The Denver-Boulder-Greeley consumer price index, a proxy for a statewide consumer price index, rose 4.7 percent in 2001, primarily because of a surge in energy prices during the first half of the year. Inflationary pressures are expected to decline substantially in 2002 and to remain moderate throughout the rest of the forecast. In 2002, we expect the inflation rate to drop to 3.0 percent and then to gradually rise to 3.7 percent by 2006 as the state economy and price pressures accelerate.

Colorado's Economic Sectors

This section details our forecast for the construction, agriculture, exports, and tourism sectors in Colorado.

Construction

Through April 2002, residential home permits were 9.4 percent below the number issued through April 2001. Meanwhile, the value of nonresidential construction (excluding public projects like K-12 building and roads) declined 4.7 percent year-to-date through April 2002. Our June 2002 forecast for both residential and nonresidential construction continues to reflect slight overbuilding in both markets and we anticipate slowing in both residential and nonresidential construction throughout 2002 and into 2003.

Residential Construction

The number of housing permits issued in 2001 was 0.8 percent above the record high number issued in 2000, indicating that the recession of 2001 did little to affect residential construction plans in Colorado. In fact, the state hit a 22-year high in residential construction in 2001. Unfortunately, this means some areas in Colorado, including Denver and Colorado Springs, have an oversupply of homes that must be reduced to mitigate the risks associated with overbuilding. We anticipate that this correction in the residential home market will take place in 2002 and 2003, particularly in apartment construction.

The number of home permits issued through April 2002 was 9.4 percent less than the number issued through April 2001. The number of *single-family* home permits issued fell 12.3 percent, while the number of *multi-family* home permits increased 1.2 percent. Our forecast for the residential home market calls for a 21.5 percent downward correction in 2002, followed by a 9.2 percent decline in the number of home permits issued in 2003. In 2002, single-family home permits issued will fall by 18.1 percent, while multi-family home permits will decrease 28.5 percent. A smaller decline in single-family permits will also occur in 2003, coupled with another large decline in multi-family home permits issued. The more substantial drop in multi-family home permits is because of the significant increase in multi-family home building in the last two years, up 46.8 and 16.0 percent in 2000 and 2001, respectively. In 2004 and 2005, the number of home permits issued will level off to over 4.0 percent growth and then fall back to 1.8 percent growth in 2006.

The slowdown in 2002 and 2003 multi-family housing corrects for the large increases in inventory that occurred over the past several years. The average apartment vacancy rate was 8.7 percent in the first quarter of 2002, unchanged from the previous quarter and higher than one year ago, but below the 13.6 percent peak of the mid-1980s. Meanwhile, average apartment rental rates in the Denver area have fallen for two consecutive quarters, the first two-quarter decline since the mid-1980s. This is primarily because many developers built high-end apartment units that have had difficulty filling up. Pent-up demand exists in the lower rent cost units. As a result of oversupply on the high end, there has been a downward adjustment in rental rates at high rent apartments.

The decline in residential construction is also necessary because in-state migration will taper off. The number of unsold homes on the Denver area real estate market is up 6.6 percent through May 2002 compared with May 2001. However, the average home price remains on the upswing, up 5.0 percent, although lower than the 7.0 percent appreciation in 2001.

Nonresidential Construction

According to F.W. Dodge, the value of nonresidential building construction was essentially unchanged in 2001, following a 5.8 percent decline in 2000. Still, the value of nonresidential building construction in 2001 was the third highest on record, at $3.3 billion, surpassed only by 1999 and 2000.

Through April 2002, the value of nonresidential construction declined 4.7 percent compared with the same period in 2001. The value of *retail* construction was up 26.2 percent compared with year-to-date 2001, while the value of *office* and *factory* construction declined 46.1 percent and 69.2 percent, respectively. Meanwhile, vacancy rates have risen and some rental rates have fallen.

According to the Frederick Ross Company, Denver office vacancies rose to 20.9 percent, compared with a 19.3 percent vacancy rate in fourth quarter 2001. The central Denver business district office market continued to have the area's lowest vacancy rate, 12.9 percent, while the northwest market has a vacancy rate of 36.0 percent.

The industrial space vacancy rate in the Denver area averaged 8.8 percent in first quarter 2002, while the retail market vacancy rate was 8.6 percent. Signs of growth in the state's manufacturing sector, coupled with low levels of new supply entering the market, should bode well for the industrial space market. Meanwhile, because consumers continued to spend more during this recession than in previous recessions, the retail real estate market is likely to weather this downturn better than those of the past.

Our forecast for nonresidential construction assumes that this sector responds to the current overbuilt situation in a timely manner. Our forecast for private nonresidential construction calls for a 12.0 percent drop in 2002 compared with 2001. In 2003, we forecast a 9.7 percent decrease. Thereafter, we anticipate that nonresidential construction will increase modestly.

In contrast to slowing private nonresidential construction, a number of public sector construction projects have been recently undertaken. These large public projects are compensating in part for the decline in the private sector. Total public and nonprofit projects set to begin or already underway this year total more than $4 billion in value over several years. These projects include, among others, T-REX highway construction ($1.7 billion), the planned Children's Hospital in the Fitzsimons campus ($400 million), the expansion of Denver's convention center ($285 million), new runway and gate construction at Denver International Airport ($200 to $250 million), the Civic Center Office building ($132 million), and the Denver Art Museum expansion ($62.5 million).

Agriculture

The value of goods sold from farms and ranches in Colorado is $4.6 billion and the overall economic contribution of agriculture to the state is about $16 billion. The current statewide drought — the worst in decades — could have substantial impact to this important sector. (See http://cwcb.state.co.us/owc/Drought_Planning/Economy_ITF_report.pdf.) Potato crops in the San Luis Valley are expected to be 20 percent below normal. Furthermore, scarce water supply is forcing ranchers to cull their herds, while rising feed prices mean higher prices for the state's feedlot operators and dairy farmers. The devastation to the state's wheat crop because of the drought is at least $100 million, a magnitude of loss not seen since 1969. At Governor Owens' behest, the U.S. Department of Agriculture has declared all of Colorado a drought disaster area, meaning that farmers will be able to acquire low interest loans and financial assistance.

Exports

Colorado exports dropped 16.6 percent in first quarter 2002 compared with first quarter 2001. However, exports to Canada, the state's largest trading partner, were up nearly 37 percent. Exports to Canada of television receivers and television parts and computers and computer-related parts each increased by more than 100 percent. Offsetting this is that exports to Japan, the state's second-largest market, fell nearly 60 percent. Computers and computer parts — Colorado's number one export to Japan — were down 37 percent from the same period one year ago. Beef products to Japan were down 54 percent, medical equipment was down 84 percent, and photography products were down 75 percent. Recent indicators have shown improvement in the Japanese economy and the dollar has declined in value against the Japanese yen making Colorado's goods cheaper to the Japanese. Both factors will help stabilize exports to Japan.

Tourism

Colorado's $7.0 billion tourism sector has yet to fully recover from the September 11 terrorist attacks. However, recent trends indicate that this important sector of the state's economy is beginning to improve. A survey identified Colorado as one of the top 10 destinations for summer vacations this year. Indeed, Denver-area hotel occupancy rates in April 2002 were up to 63.2 percent compared with 61.7 percent in April 2001. This is the first increase after 13 months of year-over-year declines in occupancy rates. Moreover, conventions are bringing more travelers to the state.

First quarter 2002 passenger traffic at Denver International Airport (DIA), although still below the levels of 2001, is increasing month-by-month and DIA is now the fifth busiest airport in the country. Furthermore, Denver-based Frontier is one of the healthiest airlines in the country. However, recent survey results reported by the Business Travel Coalition indicate that companies cut air-travel spending nationwide by 16.5 percent in 2001 and are planning to make additional reductions in 2002. Although demand for air-travel has been improving, passengers are paying less per ticket by booking trips earlier and taking advantage of discounts. Additionally, business travelers are now frequently choosing alternatives to commercial air service, including travel by car or train and video-conferencing. It is important to monitor the impact of the state's drought, fire danger, and chronic wasting disease on the state's economy.

Risks to the Forecast

The main risk to our Colorado economic forecast is that the national economy will falter. Economic slowdowns in Colorado generally end at the same time as the national economy begins to expand. Thus, Colorado is likely to experience slow growth until the national economy resumes more robust growth. The risk of a prolonged period of stagnant growth at the national level would likely to be mirrored by a corresponding long period of slow growth at the state level.

TABLE 1

TABOR Surplus Revenue

(Dollar Amounts in Millions)

		June 2002 Estimate by Fiscal Year					
	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
TABOR Revenues:							
General Fund	$6,500.8 **/B**	$5,487.7 **/B**	$5,924.0 **/B**	$6,286.6 **/B**	$6,723.7 **/B**	$7,238.6 **/B**	$7,752.8 **/B**
Cash Funds	2,376.3	2,358.5	2,522.6	2,644.7	2,709.5	2,768.6	2,892.0
Total TABOR Revenues	8,877.1	7,846.1	8,446.7	8,931.2	9,433.2	10,007.2	10,644.8
TABOR Limit:							
Growth Rate	17.4% **/C**	-1.3% **/C**	9.1%	5.7% **/C**	5.6% **/C**	6.1% **/C**	6.4% **/C**
Allowable TABOR Growth Rate	5.1%	10.0%	9.1% **/G**	5.7% **/G**	5.6% **/G**	6.1% **/G**	6.0% **/G**
TABOR LIMIT	**$7,948.6**	**$8,746.5 /D**	**$8,446.7 /F**	**$8,931.2**	**$9,433.2**	**$10,007.2**	**$10,611.8**
REVENUES ABOVE / (BELOW) TABOR LIMIT	**$927.2**	**($900.3)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$33.1**
EMERGENCY RESERVE:							
TABOR Emergency Reserve	238.5 **/A**	235.4 **/A,E**	253.4 **/A,E**	267.9 **/A**	283.0 **/A**	300.2 **/A**	318.4 **/A**

Totals may not sum due to rounding.

NA: Not Applicable.

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

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

/B These figures differ from the General Fund revenues reported in other tables because they net out revenues credited to the State Education Fund per Amendment 23 and revenues that are already in the Cash Funds to avoid double counting. For instance, the General Fund gaming revenues, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out. These figures also include the full amount of sales and use tax before diversion to the Highway Users Tax Fund. The state diverts 10.34 percent of the sales and use tax revenues to the Highway Users Tax Fund.

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

/D In November 2000, Referendum A: Property Tax Reduction For Seniors, was passed by the citizens of Colorado. This measure increases the allowable TABOR revenues by $44 million in FY 2001-02. Per House Bill 01-102, the Division of Wildlife is designated an enterprise and is TABOR exempt beginning July 1, 2001. Therefore, the FY 2000-01 TABOR limit was adjusted to account for these changes.

/E

Severance Tax Fund, the Employment Support Fund, the Wildlife Cash Fund, the Unclaimed Property Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/F The allowable TABOR limit was lowered to account for a change in the treatment of scholarship revenue in the Higher Education cash funds.

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

TABLE 2

General Fund Overview

(Dollar Amounts in Millions)

	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07
		June 2002 Estimate by Fiscal Year					
BEGINNING RESERVE	$786.8	$469.3	$109.9	$119.0	$252.5	$267.6	$283.7
GROSS GENERAL FUND	6,716.8	5,787.2	6,254.3	6,640.5	7,106.3	7,653.4	8,198.7
TRANSFERS TO GENERAL FUND		585.8 **/F**	223.9				
TRANSFER OF CMTF MONIES (HB 01-1267)		244.0					
SENATE BILL 97-1 TRANSFERS TO THE HUTF	(197.2) **0.0**	0.0	0.0	0.0 **0.0**	(77.5) **0.0**	(209.0) **0.0**	(264.6)
DIVERSION TO OLDER COLORADOANS PROGRAM	(3.0) **/G**	0.0 **/G**	(2.0)	(2.0)	(2.0)	(2.0)	(2.0) **/G**
TRANSFER TO THE STATE EDUCATION FUND	(164.3) **/E**	(262.2) **/E**	(290.1) **/E**	(310.1) **/E**	(335.1) **/E**	(363.7) **/E**	(390.8) **/E**
TOTAL FUNDS AVAILABLE	$7,139.1	$6,824.1	$6,295.9	$6,447.4	$6,944.2	$7,346.4	$7,825.1
EXPENDITURES:							
General Fund Appropriations	$5,336.8 **/B**	$5,643.0 **/C**	$5,950.4	$6,292.4	$6,671.2	$7,072.6	$7,498.2
Additional Reduction Necessary to Maintain Required Reserve		0.0	(335.5) **/J**	(546.2) **/J**	(446.8) **/J**	(321.0) **/J**	(187.8) **/J**
K-12 Capital Construction	5.0 **/D**	10.0 **/D**	0.0 **/D**	20.0 **/D**	20.0 **/D**	20.0 **/D**	20.0 **/D**
Medicaid Overexpenditure	7.8	0.0	0.0	0.0	0.0	0.0	0.0
Rebates and Expenditures	125.1	134.1	135.8	132.8	134.3	135.2	136.3
Capital and Prison Construction	274.5	0.0	10.6	101.2	101.8	100.4	0.0
TABOR Refund	941.1	927.2	0.0	0.0	0.0	0.0	0.0
Homestead Exemption			62.3	56.6	58.0	55.5	57.6
Transfer of CMTF Monies (HB 02-1445)				138.0	138.0		
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)			353.4	0.0			
Accounting Adjustments	(20.5)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,669.8	$6,714.3	$6,176.9	$6,194.9	$6,676.5	$7,062.7	$7,524.4
YEAR-END GENERAL FUND RESERVE:	**$469.3**	**$109.9**	**$119.0**	**$252.5**	**$267.6**	**$283.7**	**$300.7**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**213.7**	**0.0**	**238.0**	**252.5**	**267.6**	**283.7**	**300.7**
MONIES IN EXCESS OF STATUTORY RESERVE	**255.6**	**109.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
RESERVE AS A % OF APPROPRIATIONS	**8.8%**	**1.9%**	**2.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$238.5	$235.4	$253.4	$267.9	$283.0	$300.2	$318.4
Appropriations Growth	$310.0	$303.4	$297.4	$362.0	$378.7	$401.5	$425.6
Appropriations Growth Rate	6.16%	5.67%	5.26%	6.08%	6.00%	6.00%	6.00%

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

/A Per H.B. 02-1394 and H.B. 1442, the TABOR reserve is designated as any money in the 4 percent reserve, the Tobacco Litigation Settlement Fund, the State Severance Tax Fund, the Employment Support Fund, the Unclaimed Property Fund, the Wildlife Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/B Includes $4.9 million in FY 2000-01 that are exempt for the statutory six percent appropriations limit. These amounts are included to calculate the base for FY 2001-02.

/C This figure includes a $35.2 million appropriation to the HUTF, a $78.9 million appropriation to the Capital Construction Fund, and a $3.0 million appropriation to the Older Coloradoans program.

/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).

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

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

/G Per H.B. 00-1072 and H.B. 01-1079, $3 million is appropriated to fund the Older Coloradoans Act in FY 2000-01 and FY 2001-02. Per H.B. 02-1209, $2 million is appropriated to fund the Older Coloradoans Act in FY 2002-03 and beyond.

/H The beginning reserve for FY 2000-01 was adjusted by $15.9 million because of a prior period accounting adjustment.

/I Per H.B. 02-1391, the state is required to payback some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391. In addition, H.B. 02-1445 and H.B. 02-1478 require the state to repay the Major Medical and Tobacco Settlement funds in the same amount as was transfered to the General Fund in FY 2001-02.

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

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

/L In FY 2002-03, the Governor is required to ensure that a 2.0 percent reserve is available.

TABLE 3

General Fund Overview with the Governor's Announced Plan

(Dollar Amounts in Millions)

		June 2002 Estimate by Fiscal Year					
	FY 2000-01	**FY 2001-02**	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**
BEGINNING RESERVE	$786.8 **/H**	$469.3	$109.9	$119.0	$252.5	$267.6	$283.7
GROSS GENERAL FUND	6,716.8	5,787.2	6,254.3	6,640.5	7,106.3	7,653.4	8,198.7
TRANSFERS TO GENERAL FUND		585.8 **/F**	223.9 **/F**				
TRANSFER OF CMTF MONIES (HB 01-1267)		244.0					
SENATE BILL 97-1 TRANSFERS TO THE HUTF	(197.2)	0.0	0.0	0.0	(65.6)	(196.3)	(264.6)
DIVERSION TO OLDER COLORADOANS PROGRAM	(3.0) **/G**	0.0 **/G**	(2.0) **/G**	(2.0) **/G**	(2.0) **/G**	(2.0) **/G**	(2.0) **/G**
TRANSFER TO THE STATE EDUCATION FUND	(164.3) **/E**	(262.2) **/E**	(290.1) **/E**	(310.1) **/E**	(335.1) **/E**	(363.7) **/E**	(390.8) **/E**
TOTAL FUNDS AVAILABLE	$7,139.1	$6,824.1	$6,295.9	$6,447.4	$6,956.1	$7,359.0	$7,825.1
EXPENDITURES:							
General Fund Appropriations	$5,336.8 **/B**	$5,643.0 **/C**	$5,950.4	$6,292.4	$6,671.2	$7,072.6	$7,498.2
Governor's Spending Restriction			(183.3)				
Additional Reduction Necessary to Maintain Required Reserve		0.0	(152.2) **/J**	(546.2) **/J**	(434.9) **/J**	(308.4) **/J**	(187.8) **/J**
K-12 Capital Construction	5.0 **/D**	10.0 **/D**	0.0 **/D**	20.0 **/D**	20.0 **/D**	20.0 **/D**	20.0 **/D**
Medicaid Overexpenditure	7.8	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	125.1	134.1	135.8	132.8	134.3	135.2	136.3
Capital and Prison Construction	274.5	0.0	10.6	101.2	101.8	100.4	0.0
TABOR Refund	941.1	927.2	0.0	0.0	0.0	0.0	0.0
Homestead Exemption	0.0	0.0	62.3	56.6	58.0	55.5	57.6
Transfer of CMTF Monies (HB 02-1445)				138.0	138.0		
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)			353.4 **/I**				
Accounting Adjustments	(20.5)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,669.8	$6,714.3	$6,176.9	$6,194.9	$6,688.4	$7,075.3	$7,524.4
YEAR-END GENERAL FUND RESERVE:	**$469.3**	**$109.9**	**$119.0 /L**	**$252.5**	**$267.6**	**$283.7**	**$300.7**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**213.7**	**0.0 /K**	**238.0**	**252.5**	**267.6**	**283.7**	**300.7**
MONIES IN EXCESS OF STATUTORY RESERVE	**255.6**	**109.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
RESERVE AS A % OF APPROPRIATIONS	**8.8%**	**1.9%**	**2.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$238.5	$235.4 **/A**	$253.4 **/A**	$267.9	$283.0	$300.2	$318.4
Appropriations Growth	$310.0	$303.4	$297.4	$362.0	$378.7	$401.5	$425.6
Appropriations Growth Rate	6.16%	5.67%	5.26%	6.08%	6.00%	6.00%	6.00%

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

/A Per H.B. 02-1394 and H.B. 1442, the TABOR reserve is designated as any money in the 4 percent reserve, the Tobacco Litigation Settlement Fund, the State Severance Tax Fund, the Employment Support Fund, the Unclaimed Property Fund, the Wildlife Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/B Includes $4.9 million in FY 2000-01 that are exempt for the statutory six percent appropriations limit. These amounts are included to calculate the base for FY 2001-02.

/C This figure includes a $35.2 million appropriation to the HUTF, a $78.9 million appropriation to the Capital Construction Fund, and a $3.0 million appropriation to the Older Coloradoans program.

/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).

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

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

/G Per H.B. 00-1072 and H.B. 01-1079, $3 million is appropriated to fund the Older Coloradoans Act in FY 2000-01 and FY 2001-02. Per H.B. 02-1209, $2 million is appropriated to fund the Older Coloradoans Act in FY 2002-03 and beyond.

/H The beginning reserve for FY 2000-01 was adjusted by $15.9 million because of a prior period accounting adjustment.

/I Per H.B. 02-1391, the state is required to payback some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391. In addition, H.B. 02-1445 and H.B. 02-1478 require the state to repay the Major Medical and Tobacco Settlement funds in the same amount as was transfered to the General Fund in FY 2001-02.

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

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

/L In FY 2002-03, the Governor is required to ensure that a 2.0 percent reserve is available.

TABLE 4

General Fund Overview with Reduction to FY 2002-03 Appropriations Base

(Dollar Amounts in Millions)

		June 2002 Estimate by Fiscal Year					
	FY 2000-01	**FY 2001-02**	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**
BEGINNING RESERVE	$786.8 **/I**	$469.3	$109.9	$112.6	$238.5	$252.9	$301.5
GROSS GENERAL FUND	6,716.8	5,787.2	6,254.3	6,640.5	7,106.3	7,653.4	8,198.7
TRANSFERS TO GENERAL FUND		585.8 **/G**	223.9 **/G**				
TRANSFER OF CMTF MONIES (HB 01-1267)		244.0					
SENATE BILL 97-1 TRANSFERS TO THE HUTF	(197.2) **/A**	0.0	0.0	0.0	(231.1) **/A**	(247.3) **/A**	(264.6) **/A**
DIVERSION TO OLDER COLORADOANS PROGRAM	(3.0) **/H**	0.0 **/H**	(2.0) **/H**	(2.0) **/H**	(2.0) **/H**	(2.0) **/H**	(2.0) **/H**
TRANSFER TO THE STATE EDUCATION FUND	(164.3) **/F**	(262.2) **/F**	(290.1) **/F**	(310.1) **/F**	(335.1) **/F**	(363.7) **/F**	(390.8) **/F**
TOTAL FUNDS AVAILABLE	$7,139.1	$6,824.1	$6,295.9	$6,440.9	$6,776.6	$7,293.2	$7,842.9
EXPENDITURES:							
General Fund Restriciton	$5,336.8 **/C**	$5,643.0 **/D**	$5,621.3	$5,943.6	$6,301.4	$6,680.7	$7,082.7
Additional Reduction Necessary to Maintain Required Reserve		0.0	0.0 **/K**	(189.8) **/K**	(229.8) **/K**	0.0 **/K**	0.0 **/K**
K-12 Capital Construction	5.0 **/E**	10.0 **/E**	0.0 **/E**	20.0 **/E**	20.0 **/E**	20.0 **/E**	20.0 **/E**
Medicaid Overexpenditure	7.8	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	125.1	134.1	135.8	132.8	134.3	135.2	136.3
Capital and Prison Construction	274.5	0.0	10.6	101.2	101.8	100.4	0.0
TABOR Refund	941.1	927.2	0.0	0.0	0.0	0.0	0.0
Homestead Exemption	0.0	0.0	62.3	56.6	58.0	55.5	57.6
Transfer of CMTF Monies (HB 02-1445)				138.0	138.0		
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)			353.4 **/J**				
Accounting Adjustments	(20.5)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,669.8	$6,714.3	$6,183.3	$6,202.4	$6,523.7	$6,991.7	$7,296.7
YEAR-END GENERAL FUND RESERVE:	**$469.3**	**$109.9**	**$112.6 /M**	**$238.5**	**$252.9**	**$301.5**	**$546.2**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**213.7**	**0.0 /L**	**224.9**	**238.5**	**252.9**	**268.0**	**284.1**
MONIES IN EXCESS OF STATUTORY RESERVE	**255.6**	**109.9**	**0.0**	**0.0**	**0.0**	**33.5**	**262.1**
Reserved Monies for Resumption of Accrual Accounting			**0.0**	**0.0**	**0.0**	**0.0**	**25.0**
Excess Monies Reserved for HUTF			**0.0**	**0.0**	**0.0**	**22.3**	**158.1**
Excess Monies Reserved for Capital Construction			**0.0**	**0.0**	**0.0**	**11.2**	**79.0**
RESERVE AS A % OF APPROPRIATIONS	**8.8%**	**1.9%**	**2.0%**	**4.0%**	**4.0%**	**4.5%**	**7.7%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$238.5	$235.4 **/B**	$253.4 **/B**	$267.9	$283.0	$300.2	$318.4
Appropriations Growth	$310.0	$303.4	($31.7)	$342.3	$357.8	$379.3	$402.0
Appropriations Growth Rate	6.16%	5.67%	-0.56%	6.09%	6.00%	6.00%	6.00%

NA: Not Applicable.

Totals may not sum due to rounding.

/A Per H.B. 02-1394 and H.B. 1442, the TABOR reserve is designated as any money in the 4 percent reserve, the Tobacco Litigation Settlement Fund, the State Severance Tax Fund, the Employment Support Fund, the Unclaimed Property Fund, the Wildlife Trust Fund, the Subsequent Injury Fund, and the Major Medical Fund.

/B Includes $4.9 million in FY 2000-01 that are exempt for the statutory six percent appropriations limit. These amounts are included to calculate the base for FY 2001-02.

/C This figure includes a $35.2 million appropriation to the HUTF, a $78.9 million appropriation to the Capital Construction Fund, and a $3.0 million appropriation to the Older Coloradoans program.

/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).

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

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

/G Per H.B. 00-1072 and H.B. 01-1079, $3 million is appropriated to fund the Older Coloradoans Act in FY 2000-01 and FY 2001-02. Per H.B. 02-1209, $2 million is appropriated to fund the Older Coloradoans Act in FY 2002-03 and beyond.

/H The beginning reserve for FY 2000-01 was adjusted by $15.9 million because of a prior period accounting adjustment.

/I Per H.B. 02-1391, the state is required to payback some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391. In addition, H.B. 02-1445 and H.B. 02-1478 require the state to repay the Major Medical and Tobacco Settlement funds in the same amount as was transfered to the General Fund in FY 2001-02.

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

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

/L In FY 2002-03, the Governor is required to ensure that a 2.0 percent reserve is available.

TABLE 5

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

			June 2002 Estimate by Fiscal Year with Percent Change Over Prior Year											
Category	**FY 2000-01**	**%**	**FY 2001-02**	**%**	**FY 2002-03**	**%**	**FY 2003-04**	**%**	**FY 2004-05**	**%**	**FY 2005-06**	**%**	**FY 2006-07**	**%**
Sales	$1,811.2 **/A**	3.8	$1,762.6 **/A**	-2.7	$1,858.6 **/A**	5.4	$1,947.4 **/A**	4.8	$2,082.0 **/A**	6.9	$2,232.4 **/A**	7.2	$2,393.8 **/A**	7.2
TABOR Overrefund	($60.1) **/D**		($75.0) **/D**		($28.6) **/D**		$0.0		$0.0		$0.0		$0.0	
Use	157.9 **/A**	10.8	140.3 **/A**	-11.2	140.9 **/A**	0.4	146.3 **/A**	3.9	153.5 **/A**	4.9	159.6 **/A**	4.0	164.8 **/A**	3.3
Cigarette	58.1	0.5	57.0	-1.9	57.3	0.6	57.7	0.7	58.8	1.8	58.5	-0.4	58.9	0.7
Tobacco Products	9.9	5.3	10.4	4.8	10.9	5.5	11.5	4.7	11.9	4.1	12.6	5.3	13.1	4.1
Liquor	29.3	4.6	29.5	0.7	31.4	6.4	32.8	4.6	34.4	4.9	36.2	5.1	38.0	5.1
TOTAL EXCISE	2,006.3	2.2	1,924.7	-4.1	2,070.5	7.6	2,195.7	6.0	2,340.5	6.6	2,499.3	6.8	2,668.7	6.8
Net Individual Income	4,017.8	8.1	3,328.4 **/C**	-17.2	3,691.6 **/C**	10.9	3,935.1 **/C**	6.6	4,233.6 **/C**	7.6	4,572.3 **/C**	8.0	4,921.0 **/C**	7.6
Net Corporate Income	329.7	14.0	180.0 **/C**	-45.4	189.6 **/C**	5.3	207.2 **/C**	9.2	244.1 **/C**	17.8	289.9 **/C**	18.8	303.6 **/C**	4.7
TOTAL INCOME	4,347.5	8.5	3,508.4	-19.3	3,881.3	10.6	4,142.3	6.7	4,477.8	8.1	4,862.2	8.6	5,224.6	7.5
Estate	82.6	38.4	72.4 **/B**	-12.3	51.0 **/B**	-29.6	31.4 **/B**	-38.3	11.5 **/B**	-63.3	1.5 **/B**	-87.0	1.0 **/B**	-33.3
Insurance	142.0	10.5	151.8	6.9	145.1	-4.4	151.7	4.6	154.3	1.7	157.3	2.0	164.0	4.2
Pari-Mutuel	6.1	-12.9	6.0	-1.8	6.0	0.0	6.0	0.0	6.0	0.1	6.0	0.1	6.0	0.1
Interest Income	45.2	6.9	25.4	-43.8	4.3	-82.9	12.0	175.0	14.7	22.8	15.2	3.8	17.0	11.6
Court Receipts	22.3	-17.7	25.5	14.3	24.5	-3.9	25.3	3.4	24.0	-5.2	27.2	13.2	28.2	3.6
Gaming	31.4	9.0	37.4	19.0	40.1	7.3	43.8	9.3	47.5	8.4	51.1	7.6	55.1	7.9
Medicaid (Intergovt. Transfer)	0.0	-100.0	11.2		10.7	-4.5	10.7	0.0	10.7	0.0	10.7	0.0	10.7	0.0
Other Income	33.4	4.7	24.4	-26.9	20.8	-14.8	21.5	3.3	19.3	-10.3	22.9	18.9	23.4	2.3
TOTAL OTHER	363.0	9.2	354.1	-2.5	302.5	-14.6	302.5	0.0	288.0	-4.8	292.0	1.4	305.5	4.6
GROSS GENERAL FUND	**$6,716.8**	**6.6**	**$5,787.2**	**-13.8**	**$6,254.3**	**8.1**	**$6,640.5**	**6.2**	**$7,106.3**	**7.0**	**$7,653.4**	**7.7**	**$8,198.7**	**7.1**
REBATES & EXPENDITURES:														
Cigarette Rebate	16.4	0.0	16.1	-1.9	16.2	0.6	16.3	0.7	16.6	1.8	16.5	-0.4	16.6	0.7
Old-Age Pension Fund	63.2	9.5	67.5	6.8	68.9	2.0	70.2	2.0	71.6	2.0	72.6	1.4	73.7	1.5
Aged Property Tax & Heating Credit	16.8	-21.9	21.6	28.6	21.2	-1.8	21.0	-0.9	20.8	-0.9	20.7	-0.5	20.7	-0.1
Fire/Police Pensions	28.7	0.0	28.9	0.7	29.5	2.1	25.3	-14.2	25.3	0.0	25.3	0.0	25.3	0.0
TOTAL REBATES & EXPENDITURES	125.1	0.6	134.1	7.2	135.8	1.2	132.8	-2.1	134.3	1.1	135.2	0.6	136.3	0.9

Totals may not sum due to rounding.

NA: Not Applicable.

/A

be diverted to the Highway Users Tax Fund per H.B. 00-1259. 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 The Federal tax relief package adopted in 2001 phases out the estate tax. Since the state collects revenues in lieu of sending them to the federal government, the state collections will also be almost entirely phased out and eliminated by FY 2005-06.

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

/D Per H.B. 99-1001, the state is required to refund 105 percent of the TABOR surplus. The 5 percent overrefund essentially lowers the following year's revenue. In the 2002 legislative session, three bills (H.B. 02-1310, S.B. 02-179, and S.B. 02-218) repealed this provision effective with the FY 2002-03 TABOR surplus and the state is now only required to refund 100 percent of the sales tax refund.

TABLE 6

Cash Fund Revenue Forecasts by Major Category
(Accrual Basis, Dollar Amounts in Millions)

	FY 2000-01	June 2002 Estimate by Fiscal Year FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2001-02 to FY 2006-07 CAAGR *
Transportation-Related	$781.0	$816.4	$832.7	$836.3	$862.0	$890.8	$920.3	
Change	2.0%	4.5%	2.0%	0.4%	3.1%	3.3%	3.3%	2.4%
Higher Education	$703.6 /A	$760.4 /B	$718.7 /H,I	$756.4 /I	$795.5 /I	$836.3 /I	$880.2 /I	
Change	7.3%	8.1%	9.7% /J	5.2%	5.2%	5.1%	5.2%	3.0%
Unemployment Insurance	$200.8 /C	$197.7 /C	$361.7 /C,D	$427.2 /D	$385.6	$344.7	$354.3	
Change	-11.0%	-1.5%	83.0%	18.1%	-9.7%	-10.6%	2.8%	12.4%
Limited Gaming Fund	$92.0	$99.8	$106.9	$116.2	$125.4	$134.6	$144.8	
Change	15.0%	8.5%	7.1%	8.7%	7.9%	7.3%	7.6%	7.7%
Wildlife Cash Fund	$58.9 /E							
Change	-0.9%							
Capital Construction - Interest	$34.9	$19.6	$9.7	$10.1	$10.3	$11.2	$12.1	
Change	-6.0%	-43.7%	-50.8%	4.1%	2.7%	8.7%	8.2%	-9.2%
Regulatory Agencies	$51.3	$52.8	$54.3	$55.6	$56.9	$58.0	$59.1	
Change	8.8%	3.1%	2.7%	2.5%	2.2%	2.0%	2.0%	2.3%
Insurance-Related	$51.4	$65.0	$68.5	$72.1	$75.7	$79.5	$83.6	
Change	2.4%	26.5%	5.5%	5.2%	5.0%	5.0%	5.1%	5.2%
Severance Tax	$74.7	$53.5	$64.4	$49.6	$63.8	$58.3	$65.7	
Change	79.2%	-28.4%	20.5%	-23.1%	28.7%	-8.6%	12.7%	4.2%
Petroleum Storage Tank Fund	$26.5	$22.9	$23.2	$20.8	$9.8	$9.9	$9.8	
Change	52.5%	-13.8%	1.3%	-10.4%	-52.9%	0.9%	-0.5%	-15.6%
Controlled Maintenance Trust Fund - Interest	$18.4	$0.5	$0.0	$4.1	$12.5	$16.8	$16.7	
Change	2.0%	-97.2%	-100.0%	NA	201.5%	34.2%	-0.4%	41.7% /F
Other Cash Funds	$282.9	$269.9	$282.6	$296.3	$312.0	$328.5	$345.3	
Change	14.4%	-4.6%	4.7%	4.9%	5.3%	5.3%	5.1%	5.1%
TOTAL CASH FUND REVENUE	**$2,376.3**	**$2,358.5**	**$2,522.6**	**$2,644.7**	**$2,709.5**	**$2,768.6**	**$2,892.0**	
Change	5.8%	1.8% /G	12.0% /J	4.8%	2.5%	2.2%	4.5%	4.2%

* CAAGR: Compound Annual Average Growth Rate.

/A Reflects a 4.0 percent increase in nonresident tuition and a 2.9 percent resident tuition increase.
/B Reflects a 5.0 percent increase in nonresident tuition and a 4.0 percent resident tuition increase.
/C Reflects the 20 percent credit against unemployment insurance taxes allowed by House Bill 00-1310 in calendar years 2001 and 2002.
/D Includes revenues from the solvency tax surcharge, which is applicable because the Solvency Ratio on June 30, 2002, and June 30, 2003, is less than 0.9 percent.
/E House Bill 01-1012 designates the Division of Wildlife an enterprise beginning July 1, 2001. For FY 2001-02 and thereafter, only those non-exempt revenues that are transferred from the wildlife cash funds back into the General Fund will be counted toward the TABOR limit. This amount will be reported as part of the "other" cash funds category.
/F The Controlled Maintenance Trust Fund interest CAAGR is computed for the period from FY 2003-04 through FY 2006-07.
/G This growth rate is computed using FY 2000-01 total cash fund revenue net of the wildlife cash funds.
/H Higher Education Revenues are net of scholarship allowances.
/I Higher Education tuition revenues are assumed to grow at the Denver-Boulder-Greeley inflation rate.
/J This growth rate is computed using FY 2001-02 total cash fund revenue net of the scholarship allowances.

TABLE 7

HISTORY FOR KEY NATIONAL ECONOMIC VARIABLES 1996-2006 *Calendar Year*	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
INFLATION-ADJUSTED & CURRENT DOLLAR INCOME ACCOUNTS											
Inflation-Adjusted Gross Domestic Product (Billions)	$7,813.1	$8,159.4	$8,508.9	$8,856.5	$9,224.0	$9,333.8	$9,569.2	$9,914.6	$10,304.6	$10,615.9	$10,903.0
Change	3.6%	4.4%	4.3%	4.1%	4.1%	1.2%	2.5%	3.6%	3.9%	3.0%	2.7%
Gross Domestic Product (Billions)	$7,813.2	$8,318.4	$8,781.5	$9,268.6	$9,872.9	$10,208.1	$10,596.9	$11,236.6	$11,952.5	$12,600.4	$13,232.9
Change	5.6%	6.5%	5.6%	5.5%	6.5%	3.4%	3.8%	6.0%	6.4%	5.4%	5.0%
Personal Income (Billions)	$6,547.4	$6,937.0	$7,426.0	$7,777.3	$8,319.2	$8,723.5	$9,014.3	$9,545.6	$10,132.8	$10,665.5	$11,204.8
Change	5.6%	6.0%	7.0%	4.7%	7.0%	4.9%	3.3%	5.9%	6.2%	5.3%	5.1%
Per-Capita Income ($/person)	$24,304	$25,443	$26,920	$27,871	$29,488	$30,630	$31,370	$32,926	$34,650	$36,162	$37,672
Change	4.4%	4.7%	5.8%	3.5%	5.8%	3.9%	2.4%	5.0%	5.2%	4.4%	4.2%
POPULATION AND EMPLOYMENT											
Population (Millions) *	269.4	272.6	275.9	279.0	282.1	284.8	287.4	289.9	292.4	294.9	297.4
Change	1.2%	1.2%	1.2%	1.2%	1.1%	0.9%	0.9%	0.9%	0.9%	0.9%	0.8%
Civilian Unemployment Rate	5.4%	4.9%	4.5%	4.2%	4.0%	4.8%	6.0%	5.7%	5.2%	5.0%	5.1%
Total Nonagricultural Employment (Millions)	119.6	122.7	125.8	128.9	131.8	132.2	131.7	134.2	137.3	139.4	141.0
Change	2.0%	2.6%	2.6%	2.4%	2.2%	0.4%	-0.4%	1.9%	2.3%	1.6%	1.1%
FINANCIAL MARKETS											
30-Year T-Bond Rate	6.7%	6.6%	5.6%	5.9%	5.9%	5.5%	5.7%	6.2%	6.3%	6.2%	6.2%
10-Year T-Bond Rate	6.4%	6.4%	5.3%	5.6%	6.0%	5.0%	5.4%	5.9%	6.0%	5.9%	5.9%
Federal Fund Rate	5.3%	5.5%	5.4%	5.0%	6.2%	3.9%	2.0%	4.0%	5.5%	5.5%	5.5%
PRICE VARIABLES											
Consumer Price Index (1982-84=100)	156.9	160.5	163.0	166.6	172.2	177.1	180.0	184.7	189.6	194.5	199.4
Change	2.9%	2.3%	1.5%	2.2%	3.4%	2.8%	1.7%	2.6%	2.6%	2.6%	2.5%
Producer Price Index (1982=100)	131.3	131.8	130.7	133.0	138.0	140.7	139.4	141.6	143.6	145.7	147.5
Change	2.6%	0.4%	-0.9%	1.8%	3.7%	2.0%	-0.9%	1.6%	1.4%	1.4%	1.2%
OTHER KEY INDICATORS											
Industrial Production Index (1996=100)	100.0	106.9	112.4	116.5	121.8	117.3	117.9	125.2	131.7	137.2	142.4
Change	4.6%	6.9%	5.1%	3.7%	4.5%	-3.7%	0.4%	6.2%	5.2%	4.1%	3.8%
Corporate Profits After Tax (Billions)	$502.7	$555.2	$482.3	$523.3	$574.0	$482.5	$463.5	$487.3	$509.7	$568.0	$574.8
Change	9.9%	10.4%	-13.1%	8.5%	9.7%	-15.9%	-3.9%	5.1%	4.6%	11.4%	1.2%
Housing Starts (Millions)	1.469	1.475	1.621	1.647	1.575	1.608	1.602	1.573	1.614	1.646	1.619
Change	7.9%	0.4%	9.9%	1.6%	-4.4%	2.1%	-0.3%	-1.8%	2.6%	2.0%	-1.7%

Sources: Standard & Poor's DRI and U.S. Bureaus of Economic Analysis and the Census.
* Population values through 2000 are adjusted for 2000 Census.

TABLE 8

HISTORY AND FORECAST FOR KEY COLORADO ECONOMIC VARIABLES

1996-2006

Calendar Year

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CURRENT INCOME											
Personal Income (Millions)	$100,012	$108,765	$118,413	$127,653	$140,225	$145,593	$148,944	$154,550	$164,259	$174,774	$189,882
Change	7.6%	8.8%	8.9%	7.8%	9.8%	3.8%	2.3%	3.8%	6.3%	6.4%	8.6%
Wage and Salary Disbursements (Millions)	$57,205	$62,524	$69,604	$76,358	$86,002	$89,070	$89,888	$93,340	$99,550	$106,613	$116,958
Change	8.2%	9.3%	11.3%	9.7%	12.6%	3.6%	0.9%	3.8%	6.7%	7.1%	9.7%
Per-Capita Income ($/Person)	$25,514	$27,067	$28,764	$30,206	$32,434	$32,957	$33,145	$33,873	$35,407	$36,993	$39,416
Change	5.0%	6.1%	6.3%	5.0%	7.4%	1.6%	0.6%	2.2%	4.5%	4.5%	6.6%
POPULATION AND EMPLOYMENT											
Population (Thousands)*	3,920.0	4,018.3	4,116.6	4,226.0	4,323.4	4,417.7	4,493.7	4,562.6	4,639.2	4,724.6	4,817.3
Change	2.4%	2.5%	2.4%	2.7%	2.3%	2.2%	1.7%	1.5%	1.7%	1.8%	2.0%
Net Migration (Thousands) **	62.6	69.2	77.5	76.9	61.6	57.6	39.2	31.3	38.5	46.9	53.7
Unemployment Rate	4.2%	3.3%	3.8%	2.9%	2.7%	3.7%	5.2%	4.8%	4.1%	3.8%	3.8%
Total Nonagricultural Employment (Thousands)	1,900.4	1,979.5	2,057.0	2,131.9	2,212.9	2,231.9	2,219.5	2,258.4	2,324.1	2,398.7	2,480.0
Change	3.6%	4.2%	3.9%	3.6%	3.8%	0.9%	-0.6%	1.8%	2.9%	3.2%	3.4%
CONSTRUCTION VARIABLES											
Total Housing Permits (Thousands)	41.1	43.1	51.2	49.3	54.6	55.0	43.2	39.2	40.8	42.7	43.5
Change	6.5%	4.7%	18.8%	-3.6%	10.7%	0.8%	-21.5%	-9.2%	4.1%	4.6%	1.8%
Nonresidential Construction (Millions) ***	$2,350.9	$2,985.8	$2,616.8	$3,543.8	$3,338.8	$3,324.6	$2,925.1	$2,639.9	$2,711.1	$2,817.8	$2,977.1
Change	27.7%	27.0%	-12.4%	35.4%	-5.8%	-0.4%	-12.0%	-9.7%	2.7%	3.9%	5.7%
PRICES AND SALES VARIABLES											
Retail Trade Sales (Billions)	$42.6	$45.1	$48.2	$52.6	$58.0	$59.1	$60.0	$62.4	$66.0	$70.6	$75.6
Change	6.8%	5.9%	6.7%	9.2%	10.2%	1.9%	1.6%	3.9%	5.7%	7.0%	7.1%
Denver-Boulder-Greeley Consumer Price Index	1.531	1.581	1.619	1.666	1.732	1.813	1.868	1.927	1.990	2.059	2.136
Change	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	3.0%	3.2%	3.3%	3.5%	3.7%

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

* Population values through 2000 are adjusted for 2000 Census.

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

***

Appendix A

House Bill	Description of Legislation	Funds Identified in Legislation	General Fund Appropriations	Transfer to the General Fund	
				FY 2001-02	FY 2002-03
01-1267	Transfers the Controlled Maintenance Trust Fund into the General Fund.	Controlled Maintenance Trust Fund		$244,000,000	
02-1389	Fixes an error in the Capital Construction Fund transfer from S.B. 01S2-232 and transfers $37,500,755 from the Capital Construction Fund to the Genreal Fund. Places both the capital construction transfer and the S.B. 97-1 transfer under the 6% limit for FY 2001-02.	Capital Construction Transfer	$83,187,599	$37,500,755	
		Senate Bill 97-1 Transfer	$35,179,062		
02-1390	Moves the Older Coloradans Act transfer under the 6% limit for FY 2001-02.	Older Coloradoans Act Transfer	$3,000,000		
02-1391	Transfers monies from numerous cash funds to the General Fund in FY 2001-02 and sets order of their repayment. (Repayment is not required unless revenues are sufficient to fund more than the two percent reserve requirement.)	Uniform Consumer Credit Code		$150,000	
		Petroleum Storage Tank Fund		$4,000,000	
		Employment Support Fund		$15,000,000	
		Auto Dealers License Fund		$726,478	
		Collection Agency Cash Fund		$462,000	
		Read to Achieve		$1,900,000	
		Fitzsimons Trust Fund		$18,400,000	
		Secretary of State Cash Fund		$1,200,000	
		Tobacco Litigation Settlement Cash Fund		$3,500,000	
		Waste Tire Clean Up Fund (Repealed in H.B. 02-1444)		$0	
		Trade Name Registration Cash Fund		$400,000	
		Capital Construction Fund Interest		$19,800,000	
		Controlled Maintenance Trust Fund Interest		$9,500,000	
		Hazardous Material Response Cash Fund		$30,000,000	
		Family Support Registry Cash Fund (Repealed in H.B. 02-1444)		$0	
		Species Conservation Trust Fund (repaid in FY 2001-02 with reversions)		$2,500,000	
		Children's Basic Health Plan Trust		$900,000	
		Severance Tax Trust Fund		$20,200,000	
		Disabled Telephone Users Fund		$500,000	
		Persistent Drunk Driver Cash Fund		$500,000	
		State Rail Bank Fund		$500,000	
		Total Transfer to GF in H.B. 02-1391		*$130,138,478*	
02-1392	Transfers $14.3 million from the Unclaimed Property Fund to the General Fund and $1.7 million to CoverColorado in FY 2001-02.	Unclaimed Property Fund		$14,300,000	
02-1393	Reduces General Fund appropriation for K-12 total program by $15,726,621 and increases State Education Fund appropration by the same amount.	Decrease in GF Appropriation in FY 2001-02	($15,726,621)		

House Bill	Description of Legislation	Funds Identified in Legislation	General Fund Appropriations	Transfer to the General Fund FY 2001-02	Transfer to the General Fund FY 2002-03
02-1394	Designates the Tobacco Litigation Settlement Fund, three percentage points of the statutory reserve, the Employment Support Fund, and the Severance Tax Trust Fund as the TABOR emergency reserve for FY 2001-02.				
02-1442	Adds the Wildlife Cash Fund, the Unclaimed Property, the Subsequent Injury Fund, and the Major Medical Fund to list of funds that comprise the TABOR emergency reserve.				
02-1443	Reduces the amount appropriated to the Capital Construction Fund by $4.3 million in FY 2001-02 ($83.1 million to $78.9 million) and transfers $53,545,000 from the Capital Construction Fund to the General Fund in FY 2001-02 and reduces the amount transferred to the Capital Construction Fund on July 1, 2002 from $111.1 million to $9.5 million.	Capital Construction Fund	($4,300,000)	$53,545,000	
02-1444	Makes additional cash fund transfers to the General Fund in FY 2001-02.	Support Registry Cash Fund in Judicial		$346,878	
		Waste Tire Recycling Development Cash Fund		$600,000	
		Species Conservation Trust Fund		$3,000,000	
		Auto Dealers License Fund		$373,522	
		Environmental Leadership Pollution Prevention Revolving Fund		$514,092	
02-1445	Establishes authority for the Governor to transfer funds from the Tobacco Litigation Settlement Trust Fund and Unclaimed Property Trust Fund to the General Fund for FY 2001-02. In addition to the other two funds, allows the Governor to transfer funds from Employment Support Fundto the General Fund in FY 2002-03. In addition, this bill eliminates the Senate Bill 97-1 diversion of sales and use tax revenues to the Highway Users Tax Fund for FY 2002-03 if any of the abovementioned funds are transferred into the General Fund.	Tobacco Litigation Settlement Trust Fund		$142,900,000	$142,900,000
		Unclaimed Property Fund		$30,000,000	
		Employment Support Fund			$6,000,000
02-1446	Moves repayment of Controlled Maintenance Trust Fund from $276 million on July 1, 2002 to $138 million on each July 1, 2003 and July 1, 2004.				
02-1478	Eliminates the statutory reserve requirement for FY 2001-02. Allows transfer of Major Medical Insurance Fund to the General Fund if the June 20, 2002 projections show a deficit and subsequent repayment in FY 2002-03. Also allows up to $75 million of the Major Medical Insurance Fund to be used in FY 2002-03 if revenue projections show the statutory reserve falling below two percent of appropriations.	Major Medical Insurance Fund		$210,479,175	$75,000,000
			Total Transfers Made to the General Fund	**$446,444,448**	
			Additional Monies Available to the General Fund	**$383,379,175**	**$223,900,000**