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Bill Owens
Governor

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Director

MEMORANDUM

TO: Governor Bill Owens
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: March 18, 2003

SUBJECT: ***March 2003 Revenue Forecast***

Summary

- The March 2003 forecast shows that in FY 2002-03 the state will need to reduce General Fund expenditures by an additional $101 million in order to maintain the four percent statutory reserve, after accounting for the budget reduction package already signed into law.

- Based on current law, the forecast indicates that the state will need to reduce General Fund expenditures by an additional $495 million in FY 2003-04 to meet the four percent statutory reserve requirement. After accounting for *some* actions taken by the Joint Budget Committee (JBC) to balance the FY 2003-04 budget, General Fund expenditures need to be reduced by $452 million from the allowable six percent appropriations growth to maintain the statutory reserve. Roughly $233 million of this is expected to be addressed by lower capital expenditures and delaying a payment to the Controlled Maintenance Trust Fund. This leaves $219 million to be addressed. The forecast shows that anticipated General Fund revenues will support a General Fund appropriations level of $5,571 million.

- Under current law, there will not be a TABOR surplus through the forecast horizon, in part because revenues are lower, but primarily because measures enacted during the 2002 legislative session (House Bill 02-1310 and Senate Bill 02-179) have provisions regarding the growth dividend that eliminate the TABOR surplus through FY 2007-08.

- The Office of State Planning and Budgeting lowered its March 2003 forecast for General Fund revenues in both the current and subsequent fiscal years. The reduction reflects lower revenues received by the state through February 2003. The March 2003 General Fund revenue forecast is lower than the December 2002 forecast by $86 million in FY 2002-03 and by $138 million in FY 2003-04. Over the forecast horizon, the General Fund revenue forecast is reduced by $1.0 billion.

This memorandum provides an overview of the Office of State Planning and Budgeting (OSPB) March 2003 revenue forecast. First, this memorandum discusses 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, outlines measures taken to balance the General Fund budget, and discusses General Fund revenues. Third, the memorandum outlines the forecast for the cash funds that contribute to TABOR revenues. Finally, a discussion of both the national and Colorado economic forecast is provided.

THE TABOR SURPLUS

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado State Constitution — limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year.

Table 1 provides a detailed calculation of TABOR revenues from FY 2001-02 through FY 2007-08. It shows that there will not be any TABOR surplus throughout the forecast horizon. Indeed, TABOR revenues were lower than the TABOR limit by $365.8 million in FY 2001-02 and the forecast indicates that TABOR revenues will be lower than the TABOR limit by $523.6 million in FY 2002-03. The TABOR surplus vanishes over the next several years for three reasons.

- First, the record-long national economic expansion ended in March 2001, after an unprecedented 10 years of growth. Although a tentative recovery in the national economy is underway, strong growth will not be evident until late 2003. The **Colorado economy** was negatively affected by the national recession and the events of September 11. In turn, total TABOR revenues decreased 2.5 percent in FY 2001-02 and are forecast to rise only 0.3 percent in FY 2002-03, well below the TABOR limit of 7.1 percent.

- Second, two **measures passed by voters** in the November 2000 election — Amendment 23, which provides increased public school funding, and Referendum A, which provides property tax relief for senior citizens — specify that the TABOR surplus be used each year to cover their costs. This effectively lowers the TABOR surplus each year by $315 million.

- Third, legislation enacted through House Bill 02-1310 and Senate Bill 02-179 enable the state to recoup revenues lost because the TABOR limits used during the 1990s relied on population estimates that were too low. The percentage change associated with this lost revenue is called the "**growth dividend.**" The forecast indicates that in FY 2002-03, TABOR revenues will once again be below the TABOR limit. From FY 2003-04 through FY 2007-08, most of the 6.0 percent growth dividend will be applied to the TABOR limit, which will allow the state to keep $1.9 billion in additional revenues through the forecast period. This will eliminate the TABOR surplus in FY 2003-04 through FY 2007-08.

GENERAL FUND OVERVIEW

The baseline General Fund overview is presented in ***Table 2***, which provides a summary of General Fund revenues, expenditures, and reserves through FY 2007-08. Table 2 assumes current law for General Fund appropriations, capital construction transfers, other transfers to the General Fund, and rebates and expenditures. Table 2 also includes the over $800 million in budget reductions proposed by the Governor and adopted by the General Assembly. ***Table 3*** displays the General Fund overview that includes some of the revenue enhancement actions approved by the Joint Budget Committee (JBC) to balance the FY 2003-04 budget as well as the maximum allowable General Fund appropriations. It is important to note that two measures (the reduction in the transfer to the capital construction fund and the delay in the repayment of the Controlled Maintenance Trust Fund) proposed by the Governor are not included in Table 3 because the JBC has yet to take action on them, although the JBC is expected to vote to adopt these measures within the week.

In response to declining General Fund revenues resulting from the impacts of the national recession and September 11 on the state's economy, a number of actions were taken to reduce General Fund expenditures and to enhance General Fund revenues in FY 2001-02 and FY 2002-03. In total, FY 2001-02 General Fund revenues declined $872.4 million (13.0 percent) from their FY 2000-01 level and in FY 2002-03 they are forecast to decline another 3.0 percent.

The OSPB March 2003 General Fund forecast indicates that there is not enough revenue to support the appropriated expenditures in FY 2002-03. Furthermore, although the General Fund *revenue* base fell significantly during FY 2001-02, the General Fund *expenditure* base was not similarly reduced. Instead, the General Assembly maintained FY 2001-02 operating expenditures at their original levels, relying on $1.1 billion of one-time money to augment General Fund revenues and finance appropriations. In addition, the enacted FY 2002-03 budget grew 7.3 percent. Because the rate of growth in General Fund appropriations was not lowered, the General Fund now will have a structural deficit in FY 2002-03 and beyond unless action to lower expenditures is taken. This occurs even though the revenue situation improves over the forecast horizon. Indeed, the structural deficit in FY 2002-03 totals $1.1 billion, an amount approximately equal to the amount of one-time revenues used by the General Assembly to balance the FY 2001-02 budget instead of reducing expenditures. In addition, there are two constitutionally required expenditures — Amendment 23 and the Homestead Exemption — that the state must fund, even though there is no TABOR surplus to cover the costs. Therefore, the General Fund is obligated to incur another $315 million in expenditures.

During the 2002 Regular Session of the General Assembly, the Governor and the General Assembly agreed to various provisions to partially address the FY 2002-03 General Fund shortfall. First, the General Assembly, through House Bill 02-1445 and House Bill 02-1478, gave the Governor authority to transfer to the General Fund monies 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 fell below two percent of appropriations. On July 1, 2002, the Governor transferred a total of $219 million to the General Fund 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).

Since March 2002, the OSPB General Fund forecasts have indicated that there would not be enough revenue to support the FY 2002-03 expenditures appropriated by the 2002 General Assembly. According to Section 24-75-201.5, C.R.S., the Governor must implement an expenditure reduction plan when the OSPB revenue forecast shows that the state will fall below a two percent reserve based on the current revenue projection. The OSPB June 2002 forecast indicated the need for such a budget-balancing plan. Because the OSPB June 2002 forecast indicated a large revenue shortfall in FY 2002-03, the Governor vetoed approximately $46 million in operating and capital appropriations from the FY 2002-03 long appropriations bill (House Bill 02-1420), thereby permanently reducing the General Fund appropriations base by $45 million. In addition, he implemented a plan to reduce General Fund expenditures by $220 million, which included a four percent spending restriction on Executive Branch departments, eliminating inflationary provider rate increases, and freezing capital construction projects in their early stages.

As the magnitude of the budget shortfall became more apparent, the Governor initiated a number of other measures. In total, the Governor's proposals addressed about $700 million — nearly 80 percent — of the FY 2002-03 budget deficit and brought the General Fund in line with statutory requirements. Furthermore, because the Governor directed Executive Branch departments to begin restricting spending before the start of the fiscal year, agencies had time to adjust their activities to compensate for the required cuts. Most of the measures proposed by the Governor to balance the FY 2002-03 budget have now been enacted by the 2003 General Assembly and signed into law by the Governor. The enacted measures include:

- Reducing Corrections expenditures by four percent, Medicaid expenditures by seven percent, and most other department expenditures by 10 percent. The Governor exempted K-12 total program, K-12 categoricals, developmental disabilities, and the School for the Deaf and the Blind from these cuts. In addition, child care and child welfare were held harmless. This reduction lowers FY 2002-03 expenditures by about $400 million and lowers the appropriations base for the FY 2003-04 budget by the same amount.

- Shifting the June pay date each year for state government employees from June 30 to July 1, beginning with June 2003. This saves the state nearly $90 million in General Fund monies in FY 2002-03. The savings will be carried forward as a reduction to the appropriations base for FY 2003-04.

- Maintaining the state share of K-12 total program funding at $2.5 billion — a $255 million increase in FY 2002-03 — but changing the mix of state funds that are used. The FY 2002-03 General Fund appropriation for K-12 includes a 5.2 percent ($108 million) increase and total state funds for K-12 grows 11.5 percent.

- Enacting cash fund transfers and re-financings totaling more than $250 million in FY 2002-03.

- Conducting a tax amnesty program in June 2003 to encourage delinquent taxpayers to pay back taxes. The tax amnesty program halves the amount of interest and eliminates any fine or civil or criminal penalty for past due taxes. It is estimated that the tax amnesty program will raise about $5 million.

Table 2 shows the General Fund overview after enactment of all of the above measures except the tax amnesty program. Because the estimate of revenues that will be obtained through the tax amnesty program is tenuous, these revenues were not counted in the General Fund revenues reported in Table 3. Excluding the tax amnesty program, the above measures reduced expenditures by a total of $520 million and made an additional $251 million in revenues available for General Fund expenditures. However, Table 2 also shows that the General Assembly must reduce General Fund expenditures by an additional $101 million in FY 2002-03 to maintain the required reserve.

Table 3 reports the General Fund overview including all measures enacted to balance the FY 2002-03 budget as well as *some* of the action taken by the JBC to balance the FY 2003-04 budget (for specific items included, see the next page). The table shows that the state must reduce expenditures by an additional $452 million in order to ensure that a four percent reserve is available. The $452 million in additional appropriations reductions does not include the reductions the JBC has made during figure setting of the long appropriations bill and is not comparable to the $870 million figure the JBC has stated the budget needs to be reduced. Instead, the figure is the amount that General Fund expenditures need to be reduced based on the maximum allowable General Fund appropriations level compared with available revenues. The JBC has adopted an appropriations level for FY 2003-04 of $5,150 million. Our forecast shows that General Fund revenues will support a $5,570.5 million level of General Fund appropriations. To date, the measures adopted by the JBC have enhanced General Fund revenues in FY 2003-04 by $43.5 million. It is important to note that Table 3 does not include two measures proposed by the Governor to balance the FY 2003-04 budget because the JBC has not yet addressed them. These two measures (reducing the capital construction fund transfer and delaying the Controlled Maintenance Trust Fund payback), if adopted, would reduce the General Fund deficit by $233 million, leaving $219 million still to be addressed. We expect the JBC to take action on these measures within the week.

JBC Budget Balancing Actions for FY 2003-04 included in Table 3:

- ***Divert half of the 0.22 Percent Surcharge from Unemployment Trust Fund to the General Fund***. Employers pay unemployment insurance premiums determined by unemployment insurance tax rates that are comprised of three individual components. One component is a 0.22 percent state surcharge, half of which is currently placed in the Unemployment Insurance (UI) Trust Fund and the other half of which is placed in the Employment Support Fund. The proposal adopted by the JBC would divert the half of the surcharge that is currently placed into the UI Trust Fund to the General Fund. The remaining 0.11 percent would continue to flow into the Employment Support Fund. The amount collected each year from this portion of the surcharge is roughly $20 million. These revenues would be used to fund $4.2 million of customized training for employees of Colorado businesses, leaving approximately $16 million for other General Fund expenditures. The effect of this proposal on UI Trust Fund revenues is discussed later in the Cash Fund section of this memorandum.

- ***Securitize the Tobacco Litigation Settlement and Use the Revenues for the TABOR Reserve***. The JBC has voted to securitize $200 million of the Tobacco Litigation Settlement. The revenues made available through this process as well as the Wildlife Cash Fund will be used to satisfy the TABOR reserve requirement. As adopted, this securitization does not directly affect General Fund revenues or expenditures.

- ***Allow State Institutions of Higher Education to Increase Tuition and Fees by an Amount Not to Exceed Inflation Plus 10 Percent.*** This proposal could cause FY 2003-04 higher education cash fund revenues to increase by as much as 15.6 percent compared with FY 2002-03 levels, a jump of more than $83 million. This proposal will affect the amount of General Fund revenues available for appropriations because higher education cash fund revenues are TABOR revenues. When higher education cash funds grow faster than the TABOR limit — as they would under this proposal — they contribute towards the TABOR surplus. However, the General Fund must pay higher education's share of the TABOR surplus because higher education cash fund revenues are earmarked for specific educational purposes. Thus, if higher education revenues grow faster than the TABOR limit and thereby contribute to the TABOR surplus, there will be less money for General Fund appropriations because the General Fund must pay the TABOR refund.

- ***Make the University of Colorado an Enterprise***. The JBC voted to allow the schools in the University of Colorado system to become an enterprise for purposes of TABOR if they meet the statutory requirements for becoming an enterprise. This would mean that revenues collected by the University of Colorado would no longer count towards the TABOR limit. Because revenues collected by the University of Colorado have generally grown faster than the TABOR limit, this would reduce future TABOR surpluses and thus make more money available for General Fund appropriations.

- ***Eliminate State Funding for Old Hire Pension Plans in FY 2003-04 and FY 2004-05***. The JBC voted to eliminate state funding for un-funded, old hire pension plans in the Fire and Police Pensions Association. This results in a savings of about $25 million in each of FY 2003-04 and FY 2004-05.

- ***Reduce the Homestead Exemption Property Tax Credit***. The JBC voted to sponsor legislation to lower the maximum amount of a home's actual value subject to the 50 percent Homestead Exemption property tax credit. This is estimated to reduce General Fund expenditures by about $12 million in FY 2003-04.

What happens in FY 2004-05 and beyond?

The amount of the General Fund revenue shortfall in the out years of the forecast is dependent on the action taken by the General Assembly to address the remaining FY 2002-03 deficit as well as the figure setting actions for the FY 2003-04 budget. In the current law scenario shown in Table 2, General Fund obligations still exceed revenues by $101 million in FY 2002-03. Thus, even after reducing FY 2002-03 appropriations by $489 million and enhancing General Fund revenues through cash fund transfers, the forecast shows that additional reductions are necessary in FY 2002-03 if the four percent reserve requirement is to be met. Furthermore, FY 2003-04 expenditures must be reduced by $495 million in order to meet the statutory four percent reserve requirement. Indeed, Table 3 shows that even after the cuts to appropriations in FY 2002-03 coupled with use of the growth dividend and one-time monies, there is a budget deficit in every year of the forecast. However, if the General Assembly chooses to address the remaining shortfall in FY 2002-03 and FY 2003-04 through base reductions, there will be a smaller shortfall in FY 2004-05 and thereafter.

It should be noted that the state's budgetary shortfalls are not the result of TABOR. Rather the General Fund deficit is the result of two years of declining General Fund revenues. Since state revenues fell below the TABOR limit in fiscal years 2001-02 and 2002-03, the TABOR limit was not binding and the state could — and did — keep all of the money it collected. Meanwhile, the budget deficits that occurred in those two fiscal years were the result of state expenditures that were not reduced enough to compensate for the decline in the amount of revenues collected.

GENERAL FUND REVENUES

The forecast for General Fund revenues is shown in ***Table 4***. The forecast for FY 2002-03 gross General Fund revenues was lowered in the March 2003 forecast compared with the December 2002 forecast. In total, we reduced the General Fund revenue forecast by $86 million in FY 2002-03 and by $138 million in FY 2003-04. The changes were primarily in the individual and corporate income tax forecasts, which were lowered by $65.2 million and $49.7 million, respectively. Increases in the forecasts for sales and estate tax revenues partially offset these declines. Overall, we expect General Fund revenues to decline 3.0 percent in FY 2002-03 before increasing 6.0 percent in FY 2003-04.

Of the four categories of individual income tax receipts — withholding, estimated payments, cash-with-returns, and refunds — only the forecast for estimated payments changed substantially between the December 2002 and March 2003 forecasts. Estimated payment tax receipts for the period from

July 2002 through February 2003 are 7.8 percent lower than for the same period in FY 2001-02. The decline is most likely the result of lower capital gains due to the faltering stock market coupled with weak proprietors' income caused by the state's losses in its advanced technology, telecommunications, travel, and tourism industries. Individual withholding taxes were essentially flat during this period compared with the same period in FY 2001-02, indicating that the state's wage and salary base is stabilizing as the labor market stabilizes. By comparison, during the first eight months of FY 2001-02, individual withholding taxes declined 4.3 percent compared with the same period in FY 2000-01.

Corporate income tax receipts declined by 46 percent in FY 2001-02 and from July 2002 through February 2003, they are nearly 23 percent below the same period in FY 2001-02. Nationally, corporate profits fell 10.0 percent in 2001 and 5.0 percent in 2002. During the past two years, corporations have undertaken cost cutting measures to improve profitability and minimize losses. National corporate profits are forecast to rise 8.4 percent in 2003 as the economy strengthens following the resolution of the Iraqi situation. We anticipate that Colorado corporate income tax revenues will also begin to rise as 2003 progresses and therefore predict that the overall decline in FY 2002-03 will be only 4.3 percent. Corporations will carry forward losses that occurred in the current business downturn for the next several years, dampening growth in corporate income taxes in FY 2003-04 and FY 2004-05.

The forecast for sales tax revenues did not change materially from the December 2002 forecast. Sales tax revenues are forecast to decline 1.9 percent in FY 2002-03, a slight upward revision from the December 2002 forecast. Consumers are adjusting to recent financial and world events and, while spending remains subdued, consumers are no longer cutting spending plans by significant amounts. We forecast that sales tax revenues will continue to increase through FY 2002-03 and rise 4.1 percent in FY 2003-04. By FY 2007-08, sales tax revenue growth will again approach six percent.

CASH FUND REVENUE FORECAST

The OSPB March 2003 cash fund revenue forecast is summarized in ***Table 5***. Cash fund revenues are monies collected and earmarked for specific purposes and comprised 28.8 percent of total TABOR revenues in FY 2001-02. Cash fund revenues are forecast to reach $2,407.2 million (up 7.8 percent) in FY 2002-03 and to reach $2,516.8 million (up 4.6 percent) in FY 2003-04. From FY 2002-03 through FY 2007-08, cash fund revenues will grow at a compound annual average rate of 3.7 percent.

Transportation-Related Cash Funds

Total transportation-related cash funds are forecast to increase 0.4 percent in FY 2002-03 and increase 0.7 percent in FY 2003-04. From FY 2002-03 through FY 2007-08, these funds will grow at a compound annual average rate of 2.9 percent.

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

- The largest of these funds, the *Highway Users Tax Fund* (HUTF), is comprised primarily of fuel tax revenues and registration fees. In FY 2002-03, higher unemployment levels and decreasing wages are leading consumers to purchase less gasoline. Motor and special fuel revenues are nearly flat compared with FY 2001-02 and the overall pace of HUTF revenue growth is slower in FY 2002-03 than it was in FY 2001-02. HUTF revenues are expected to increase slightly (2.0 percent) in FY 2003-04. Beginning in FY 2006-07, drivers' license fees will increase, contributing to higher growth in that year.

- The *other transportation-related cash funds*, which grew 18.5 percent in FY 2001-02, will drop 11.1 percent in FY 2002-03 and will fall an additional 14.6 percent in FY 2003-04. The strong growth in FY 2001-02 was due to increased amounts of local matching monies for highway construction that were placed in the State Highway Fund. In FY 2002-03 and FY 2003-04, matching local monies are expected to decline substantially. These local monies match funds provided through the TRANS bonding program, which accelerated transportation funding for 28 key projects in the state. TRANS bonds are not TABOR revenues, but the matching local monies are TABOR revenues. TRANS bonds will not be issued in FY 2003-04 and beyond, so there will no longer be matching local monies placed in the State Highway Fund. This will cause the overall fall in the other transportation-related cash funds revenues.

Higher Education

The March 2003 forecast for FY 2002-03 *higher education cash funds*, shown in ***Table 7,*** reflects tuition increases that were higher than the 4.7 percent inflation rate for some of Colorado's institutions of higher education. In FY 2002-03, resident tuition at Colorado state and community colleges increased by inflation (4.7 percent), while resident tuition at Colorado's universities increased 6.2 percent. Nonresident tuition increased 7.7 percent at Colorado state and community colleges and at the University of Northern Colorado. Fiscal year 2002-03 nonresident tuition increased 9.0 percent at other state universities. The forecast for FY 2003-04 and beyond assumes that both resident and nonresident tuition increase by the Denver-Boulder-Greeley inflation rate.

- Total higher education full-time-equivalent (FTE) enrollment rose 5.0 percent in FY 2002-03, the largest increase since the 1989-1990 school year. The strong increase in enrollment occurred because of the slower economy. Total enrollment will grow 3.3 percent in FY 2003-04 and from FY 2002-03 through FY 2007-08, total FTE enrollment will rise at an annual average rate of 2.2 percent.
- Total higher education revenues will increase 9.5 percent in FY 2002-03, reflecting an increase in tuition rates of between 4.7 percent and 9.0 percent coupled with a substantial increase in the number of FTE students. For the remainder of the forecast, tuition rates are assumed to increase by the Denver-Boulder-Greeley inflation rate. Higher education revenues will average 4.4 percent annual growth through the forecast horizon.
- The Joint Budget Committee has recommended allowing state institutions of higher education to increase FY 2003-04 tuition and fees by 11.9 percent. If the full amount of this increase were applied to both resident and nonresident student tuition rates at every state college and university, higher education cash fund revenues would increase by $83 million in FY 2003-04. Indeed, if these tuition increases occur, FY 2003-04 higher education cash fund revenues will be 15.6 percent above their FY 2002-03 level because enrollment is forecast to rise 3.3 percent in FY 2003-04.

Unemployment Insurance Trust Fund

The Unemployment Insurance (UI) tax revenue forecast is shown in ***Table 8***. UI Trust Fund revenues are forecast to surge 59.8 percent in FY 2002-03. Tax revenues will rise as UI tax rates automatically adjust to compensate for higher UI benefit payments. Moreover, revenues will rise because the temporary 20 percent tax credit enacted through House Bill 00-1310 and House Bill 02-1401 will not be in effect in calendar year 2003. Revenues are expected to increase 21.2 percent in FY 2003-04 and to average 13.2 percent growth through FY 2007-08.

- UI benefits paid to workers increased nearly 200 percent in FY 2001-02. In FY 2002-03, UI benefit payments will decline slightly from this unusually high level as the labor market improves. Benefit payments will decline through the remainder of the forecast as the economic recovery progresses.
- Colorado received $142.7 million as a result of the federal Reed Act distribution. These funds kept the UI Trust Fund balance high enough to prevent the solvency surcharge — an additional tax paid by employers when the ratio of the UI Trust Fund balance at the end of the fiscal year to the amount of total wages paid during the preceding calendar year is less than 0.9 percent — from triggering in 2003. As a result, Colorado's employers will not pay a $59.5 million solvency surcharge in calendar year 2003. However, because UI benefit payments will remain high during FY 2002-03, we project the solvency surcharge will be triggered in calendar years 2004 through 2006.
- Senate Bill 03-207, which was signed into law by the Governor, allows $6.4 million in the Employment Support Fund to be refinanced with Reed Act dollars previously reserved as a part of the UI Trust Fund. This bill also provides a one-time allocation of $7 million in Reed Act dollars from the UI Trust Fund to county One-Stop Workforce Centers. This combined $13.4 million allocation of Reed Act dollars has been deducted from the FY 2002-03 UI Trust Fund ending balance.

Currently, employers pay a 0.22 percent surcharge tax with their unemployment insurance taxes, half of which goes to the UI Trust Fund. The Joint Budget Committee voted to sponsor legislation to divert half of the 0.22 percent surcharge from the UI Trust Fund to the General Fund beginning in FY 2003-04. The expenditure of Reed Act money in combination with diverting half of the surcharge from the UI Trust Fund to the General Fund is likely to affect the amount of UI taxes paid by Colorado employers. This occurs because two components of employer UI tax rates — the base rate and the solvency surcharge — rise when the UI Trust Fund balance drops below certain thresholds. Indeed, the UI tax revenue and benefit payment forecast shown in Table 8 already indicates that the UI Trust Fund balance is low enough to trigger the solvency surcharge (the additional tax paid by employers when the ratio of the UI Trust Fund balance to the amount of total wages paid during the preceding calendar year is less than 0.9 percent) and is at the end of the fiscal year very close to dropping below $450 million, which would trigger a tax rate schedule increase.

Table 8 shows that the ending UI Trust Fund balance in FY 2002-03 and FY 2003-04 is very close to $450 million and this is the level that triggers higher base tax rates. Indeed, without half of the surcharge being placed in the UI Trust Fund, the forecast indicates that the fund balance will drop below $450 million in FY 2003-04 and thus a higher tax schedule will be in effect beginning January 1, 2005.

Table 9

Diversion of Half the Surcharge from the Unemployment Insurance Trust Fund to the General Fund

	FY 2003-04	FY20 04-05	FY 2005-06	FY 2006-07	FY 2007-08
Current Law: Leave Half the Surcharge in UI Trust Fund					
Taxes Paid By Employers	$373.4	$440.5	$493.5	$383.4	$327.2
Ending Trust Fund Balance	$467.2	$583.8	$798.6	$932.6	$1,024.2
Proposal: Divert Half the Surcharge from UI Trust Fund to General Fund					
Taxes Paid By Employers	$373.4	$469.5	$508.1	$383.4	$327.2
Ending Trust Fund Balance	$445.9	$570.2	$791.2	$885.2	$948.5
Difference (Proposal less Current Law)					
Taxes Paid By Employers	$0.0	$29.0	$14.6	$0.0	$0.0
Ending Trust Fund Balance	-$21.3	-$13.6	-$7.4	-$47.4	-$75.7

Table 9 summarizes the effects of the proposed diversion of half of the surcharge into the General Fund. Table 9 indicates that in fiscal years 2004-05 and 2005-06 employers would pay a total of an additional $44 million in unemployment insurance tax premiums because of the diversion. The higher taxes paid by employers will restore the UI Trust Fund balance to a level above $450 million, thereby preventing a schedule tax increase in the remaining years of the forecast. Table 9 also shows that the diversion would reduce the UI Trust Fund by $76 million in FY 2007-08, which is the difference between the $20 million diversion per year less the $44 million in higher taxes paid by employers.

Miscellaneous Cash Funds

The March 2003 forecast for total revenues for the miscellaneous cash funds is $20 million higher in FY 2002-03 than reported in the December 2002 forecast. Highlights from the miscellaneous cash funds follow:

- The *limited gaming fund* forecast was increased to reflect higher year-to-date growth in gaming revenues. The limited gaming fund will grow 8.1 percent in FY 2002-03 and average 7.0 percent growth through FY 2007-08.
- In FY 2002-03, *severance tax funds* are forecast to decrease 34.6 percent. The decline in these revenues is due to rebates received for property taxes paid in previous years and stagnant fuel production in Colorado. Beginning in FY 2003-04, property tax rebates are not expected to be as large, allowing a greater amount of tax revenues to be collected by the state. Severance tax revenues will grow at a compound annual average rate of 10.1 percent through the forecast period.
- The *other cash fund* category, which includes a large number of smaller funds, was increased by $28.5 million in the March 2003 forecast. The primary reason for the increase is that $30 million from the Unclaimed Property Fund is being counted as TABOR revenue for transfer to the General Fund, as allowed by House Bill 02-1445 and House Bill 02-1478.

THE NATIONAL ECONOMY

The national economy is poised between recession and recovery, as it has been for several months. The precursors to economic growth are in place, however growth to date has been slow and uncertainty continues to dampen consumer confidence. Inflation-adjusted gross domestic product (GDP) grew 2.4 percent in 2002, signifying that a real, albeit modest recovery has begun. In the fourth quarter of 2002, business investment increased for the first time in more than two years, evidence that business confidence is improving. In addition, manufacturing is beginning to expand, corporate profits have stabilized, and payrolls have leveled. However, growth is slow and consumers appear to be tapped out.

This section discusses recent national economic performance, the forecast for the national economy, and risks to the tenuous economic recovery.

Overview of Recent National Economic Activity

- **Inflation-adjusted GDP** grew 2.4 percent in 2002. Growth in the first and third quarter was very healthy — 5.0 percent and 4.0 percent, respectively. However, this was offset by second and fourth quarter growth that was weak because consumer spending, which accounts for about two-thirds of GDP, grew by only modest amounts during these two quarters. As a consequence of slower consumer spending, inflation-adjusted GDP growth was 1.3 percent in second quarter 2002 and 1.4 percent in fourth quarter 2002.

- In spite of weakness in the second and fourth quarters, *consumer spending* increased 3.1 percent for the year in 2002. Consumers' purchases of durable goods (including automobiles) soared 7.3 percent in 2002, primarily because of automobile dealer incentives that encouraged consumers to buy now rather than later. Expenditures on non-durable goods and services rose 3.2 percent and 2.2 percent, respectively. Consumer spending weakened markedly in the fourth quarter, as did consumer confidence, in response to uncertainties arising from the Iraqi situation, soaring energy prices, and weak labor markets.

- *Business investment* declined 5.7 percent in 2002, following a 5.2 percent decline in 2001. *Equipment and software* investments declined 1.7 percent in 2002 and dropped 6.4 percent in 2001. Meanwhile, investment in *new buildings and structures* fell 16.4 percent in 2002 after a 1.7 percent decline in 2001. In fourth quarter 2002, investment in structures declined at an annualized 9.4 percent rate. Although this is a decrease, it represents a significant improvement over the 21.3 percent annualized decline observed in third quarter 2002.

- Businesses have stopped drawing down *inventories*, although they are not yet building them to the levels seen in the late 1990s. Just-in-time production explains part of the decline. However, lower inventories also reflect a lack of business confidence in future demand.

- *Federal government expenditures* contributed significantly to GDP growth, rising 7.5 percent in 2002, compared with 4.8 percent growth in 2001. Federal government spending was led by national defense spending.

- **Inflation** was a meager 1.6 percent in 2002, down from a 2.8 percent rate in 2001. In 2002, a 3.8 percent increase in the cost of housing and a 4.7 percent rise in medical costs were offset by a 5.8 percent decline in energy prices. However, by year-end 2002, energy prices were rising at a rapid pace as a result of the Iraqi situation and the oil strike in Venezuela. December 2002 energy prices were up 11.0 percent compared with December 2001. Higher energy prices will lead to higher inflation in 2003.

- **Consumer confidence** tumbled nearly 15 points in February 2003 to its lowest level in 10 years. The fall was the largest single month decline since September 2001. Consumer expectations for future business conditions, jobs, and income all fell sharply, yet buying plans did not fall as dramatically. Consumers' plans to buy homes increased, while their plans to purchase major appliances and automobiles decreased.

- **Employment** declined in 2002 at an average rate of 0.9 percent, although by year-end the pace of decline slowed substantially. Most sectors ended 2002 with relatively stable employment levels. The health and education services sectors posted modest job gains in 2002, but the fiscal situation facing most areas eroded state and local government job levels. Meanwhile, in December 2002 the manufacturing sector posted its 30th consecutive month of lower employment levels. In 2002, the national **unemployment rate** was 5.8 percent, well above the 4.8 percent rate posted in 2001, but significantly less than the peak 9.2 percent rate posted during the 1991-1992 recession. The January 2003 unemployment rate was 5.7 percent.

- Diminishing **wage pressures** provide further evidence of a weak labor market. Average hourly earnings rose only 2.7 percent in 2002, the lowest year-over-year increase since 1996.

The National Economic Forecast

The March 2003 OSPB forecast for the national economy is slightly less optimistic than our December 2002 forecast. The principal restraint on the national economic recovery is the uncertainty arising from the possibility of war with Iraq and rising energy prices. Until the Iraqi situation is resolved, energy prices are likely to remain high. This means that households have fewer discretionary dollars to spend on other goods and corporations have less funds available for business investment. While higher energy prices hurt the U.S. economy, European and Asian economies are damaged to an even greater extent because they import a greater percentage of their total energy needs. These strains on the global economy could also translate into weakness in the U.S. economy as demand for exported goods weakens.

The following presents our outlook for the nation's economy:

Gross Domestic Product. Inflation-adjusted GDP grew 2.4 percent in 2002, led by consumer and government spending. Inflation-adjusted GDP is forecast to again post 2.4 percent annual growth in 2003, assuming the successful resolution of the Iraqi situation and passage of a federal economic stimulus package. In 2004, consumer and business confidence will rebound, igniting stronger economic growth, with inflation-adjusted GDP increasing 3.5 percent; in 2005 and beyond, the pace will remain at or above three percent. The following outlines the components of this GDP growth.

- *Consumer spending* rose 3.1 percent in 2002, compared with 2.5 percent growth in 2001. However, in fourth quarter 2002, consumer spending grew only 1.5 percent, primarily due to a large decline in automobile sales during the quarter. On average, consumer spending in 2003 is forecast to rise only 2.3 percent. Consumer spending in 2003 will increase by only modest amounts compared with 2002 because low interest rates coupled with big incentives kept 2002 consumer spending at higher levels than would otherwise have occurred by prompting consumers to move purchases planned for 2003 up to 2002. Furthermore, as 2003 begins, low consumer confidence caused by the Iraqi situation and weak labor markets will dampen consumer spending. However, by year-end 2003 the pace is forecast to be 3.6 percent as the economy resumes more robust growth. This pace will continue into 2004. From 2005 through the forecast horizon, consumers will spend on average three percent more each year.

- *Business investment* declined more than 5.0 percent in both 2001 and 2002. In 2001, the decline was led by lower investment in *equipment and software*, while in 2002 the decline was led by lower investment in *nonresidential structures*. However, in the fourth quarter of 2002, total nonresidential fixed investment increased 2.5 percent — the first investment gain in nine quarters. This gain occurred because growth in investment in business equipment, software, and fleet vehicles more than offset the decline in nonresidential structures. Improving corporate profitability and cash flow, more friendly capital markets and bank lenders, and stronger replacement activity all contributed to the fourth quarter 2002 increase in investment. The massive retrenchment in investment spending over the past two years has finally led to pent-up demand for capital goods. Furthermore, new orders are healthy and the manufacturing sector is improving.

Investment in nonresidential structures and equipment fell 5.8 percent in 2002. It is forecast to rise 3.0 percent in 2003. Investment in computer hardware and software will see healthy gains throughout 2003, while investment in telecommunications equipment will not increase substantially until 2004. Nonresidential structures investment will begin to rise by year-end 2003 as businesses begin to expand, thereby reducing currently vacant space and increasing demand for new facilities. By 2004, nonresidential structures investment will make a positive contribution to GDP growth. Total nonresidential fixed investment will grow 9.0 percent in 2004 and then fall back to a 4.1 percent pace by 2007.

- Overall, *government expenditures and investment* will rise 2.9 percent in 2003 and 1.0 percent in 2004. *Federal spending* increased 7.5 percent in 2002 as federal *defense* spending soared 9.3 percent in reaction to September 11 and the Iraqi situation. Indeed, fourth quarter 2002 federal spending climbed 11.2 percent, with defense spending rising 11.4 percent. Federal defense spending is forecast to post a 7.8 percent increase in 2003 as a consequence of the Iraqi situation. However, in 2004, there will be little impetus for further increases in defense spending and thus, the forecast calls for a very modest 0.5 percent growth rate. In 2005 and beyond, federal defense spending will increase just over two percent per year. *Federal non-defense spending* will grow 4.0 percent in 2003, but will gradually decline to a 2.7 percent pace by 2007. Meanwhile, *state and local government* spending are forecast to grow less than one percent in 2003 and 2004, but will rise to a three percent pace by 2007.

- **Inflation.** Energy prices are forecast to remain high until a resolution in Iraq occurs. Meanwhile, near-term core inflationary pressures will be modest because the economy is still weak. Consumer price inflation will average 2.1 percent in 2003, beginning the year with inflation above 2.1 percent because of increased energy costs but ending the year with inflation below 2.1 percent after resolution of the Iraqi situation allows energy prices to fall. Inflation will average 2.0 percent in 2004 as the strengthening economy increases inflationary pressures throughout the year. Inflation will increase to 2.5 percent in 2005 before gradually falling to 2.3 percent in 2007.

- **Employment.** Jobs fell 0.9 percent in 2002, the first annual decline since 1991. The labor market is not expected to regain real strength until the end of 2003. The possible war with Iraq will keep business spending and hiring in check during the first half of 2003. The forecast is that *employment* will grow 0.4 percent in 2003, but then accelerate to a nearly two percent pace in 2004 and 2005 after the Iraqi situation is resolved. The *unemployment rate* will peak at 6.2 percent in 2003, well below levels observed following previous recessions. In 2004, the unemployment rate will be 5.7 percent and it will continue to fall to 5.2 percent in 2007.

Risks to the National Forecast

The risks to the national forecast are mainly to the downside. First, there is the possibility of a failed or protracted war with Iraq, which would negatively affect consumer and business spending and investment decisions. Also, the possibility of another terrorist attack puts long-term downward pressure on the economy. Rising costs are another threat to the economic recovery. Businesses currently have little pricing power, so rising prices cut directly into already slim profits. A large increase in producer prices could thus result in many business closings.

Another risk is a protracted lull in economic activity. This would occur if businesses do not believe the tentative national economic expansion is sustainable and thus, they hold off implementing hiring and investment plans. If the current lull continues for a long period, staffing levels will again deteriorate. Companies are under pressure to control costs and labor costs are an obvious target. Employers are currently retaining workers by using cost cutting measures other than layoffs, but this cannot continue indefinitely. The longer the current stall in the U.S. and international economies continues, the more difficult it will be for employers to continue to maintain staffing levels.

Finally, falling consumer confidence could translate into a decline in consumer spending. Consumer spending has been the primary source of strength in the economy over the past year. A substantial decline in consumption would likely push the economy back into recession.

THE COLORADO ECONOMY

The Colorado economy will show renewed growth shortly after the national economy rebounds, which is predicted to occur once the Iraqi situation is resolved. The current areas of weakness in the Colorado economy — manufacturing, transportation, and advanced technology — mirror the areas of weakness in the national economy. And like the national economy, it appears the worst is behind us. Nonetheless, the robust growth of the 1990s is not expected to resume anytime soon.

Evidence that the Colorado economy is turning towards an expansion is fivefold. First, employment levels in most sectors of Colorado held steady during the last half of 2002. Furthermore, although the 2002 Colorado unemployment rate was 5.3 percent, it was essentially steady throughout the year, not rising to any significant degree. Second, the necessary correction in the state's nonresidential construction market occurred in 2002, thus lowering inventories and setting the stage for a turnaround. Third, vacant office and industrial space provide opportunities for entrepreneurial businesses to lower costs. Fourth, the state's defense sector is benefiting from increases in federal defense dollars as the nation ramps up its spending on the war on terrorism and a possible conflict in Iraq. Finally, the pace of decline in retail sales is abating and tourism activity in Colorado is expanding.

Overall, the recent declines in the Colorado economy will improve the state's competitive advantage by lowering the cost of living and doing business, thus initiating future economic growth. In the long term, Colorado's economy has the necessary components in place for expansion. The state is centrally located and has a well-developed infrastructure, a highly educated work force, and an Internet savvy population. These reasons — cited by Adelphia when explaining its proposal to move its corporate headquarters to Denver — will lead enterprising companies to relocate here as the national economy strengthens.

Overview of Recent Colorado Economic Activity

- **Non-farm employment** fell 2.0 percent in 2002, primarily from losses in the telecommunications and advanced technology sectors. The education and health services sectors remained relatively strong in 2002 and the government and mining sectors also increased. Meanwhile, retail trade, tourism, and transportation employment was beginning to recover by year-end 2002. Indeed, the pace of declining employment slowed consistently over the last half of 2002. However, manufacturing and wholesale trade employment levels continued to decline throughout the year.

- In 2002, the **unemployment rate** was 5.3 percent, below the national unemployment rate of 5.8 percent, but above Colorado's average 2001 rate of 3.7 percent.

- **Residential housing permits** fell 12.7 percent in 2002; single-family permits fell 2.5 percent and multi-family permits fell 33.3 percent.

- The value of **nonresidential construction** in 2002 dropped 22.5 percent. The value of retail construction declined 8.3 percent, while the value of office and industrial construction fell 43.8 percent and 54.1 percent, respectively.
- **Retail sales** declined 0.7 percent in 2002. Sales of general merchandise, food, and apparel increased, while sales in other categories, such as auto dealers and eating and drinking establishments, declined. Most of this drop was concentrated in the first half of the year. Indeed, December 2002 retail sales were up 32.4 percent compared with December 2001.

Colorado's Economic and Demographic Indicators

The March 2003 OSPB forecast for the Colorado economy is somewhat weaker than the December 2002 forecast, mainly reflecting the less optimistic national economic forecast. Overall, the forecast is one of cautious optimism, as the evidence indicates that Colorado's economy has stopped its descent. This section presents the forecast for Colorado's economic and demographic indicators. Included is a discussion of employment, wages and income, population and migration, and inflation.

Employment

Since September 2001, Colorado's monthly job level has been less than that of the same month in the prior year. However, the year-over-year monthly decline peaked in March 2002 and has since slowed. Overall, the unemployment rate held relatively steady in 2002, averaging 5.3 percent.

Our forecast assumes *employment levels* will remain stable over the first half of 2003 and will not rise significantly until third quarter 2003. We forecast that Colorado employment will rise 0.7 percent in 2003 and then climb 2.1 percent in 2004. In 2005 and beyond, employment will grow more than three percent per year. The Colorado *unemployment rate* will peak at 5.9 percent in 2003 and then gradually decline to 4.4 percent by 2007.

Wages and Income

We forecast that 2002 Colorado wage and salary income will fall 1.4 percent, reflecting lower employment levels coupled with the loss of high-wage jobs in the advanced technology and financial sectors. As our state economy recovers in 2003, wage and salary income will grow, albeit by a modest 3.0 percent. By 2004, wage and salary income growth will be 5.5 percent and the pace will accelerate to 7.3 percent by 2007.

Our forecast predicts that personal income grew a modest 1.0 percent in 2002, even as wage and salary disbursements declined. (Income data for 2002 will not be released until April 2003.) This growth in overall income occurs in spite of lower wages because transfer payments such as unemployment insurance benefits increased in 2002. We forecast that personal income will increase 3.3 percent in 2003 and that the pace will quicken to 5.7 percent in 2004. Personal income growth will continue to accelerate through the forecast horizon and will reach 7.5 percent by 2007.

Population and Migration

The U.S. Bureau of the Census reported that in 2002, Colorado net migration was 38,300 and in total, Colorado's population increased 1.7 percent. The Census Bureau also revised Colorado's 2000 and 2001 population estimates slightly upward.

We forecast that in 2003, net migration to Colorado will be slightly less than 20,000 and that total population growth will be only 1.3 percent. The lower level of net migration is the result of Colorado's comparatively weak economy in 2003. As the Colorado economy recovers, the number of net migrants to the state will also increase. The state's population growth will rise to 1.8 percent by 2007.

Inflation

Colorado enjoyed a low 1.9 percent inflation rate in 2002, primarily because energy prices fell substantially below 2001 levels. In 2003, energy prices are again on the rise and this will increase inflation. Furthermore, rising medical care costs show little sign of abating. However, the increase in energy prices and medical care costs will be slightly offset by smaller increases in 2003 home prices. Our forecast is for Colorado to see 2.9 percent inflation in both 2003 and 2004. As the state economy accelerates in 2005 and beyond, we forecast that inflation will also accelerate, reaching 3.7 percent by 2007.

Colorado's Economic Sectors

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

Construction

In 2002, 12.9 percent fewer residential home permits were issued in Colorado than were issued in 2001. Meanwhile, the value of nonresidential construction (excluding non-building projects like roads) declined 22.5 percent in 2002. Our March 2003 forecast for residential and nonresidential construction anticipates further slowing in both markets through the first half of 2004.

Residential Construction

The *average* Denver-area previously owned single-family home price declined 0.8 percent in February 2003 compared with February 2002, while the *median* home price inched up 1.4 percent. These prices reflect the sluggish economy, job losses, a glut of unsold homes, and war jitters that are not quite offset by the positive influence of low mortgage rates that have propped the market up over the past several months. The difference between the two measures of home prices — average and median —reflects weakness in the sale of high-end homes. Sales of homes and condominiums priced below $250,000 remain strong. Low interest rates are enticing first-time buyers into the market, fueling the demand for lower-priced homes. Home prices also reflect the overabundance of homes on the market. There were 22,989 homes for sale in February 2003, up 33.0 percent from February 2002 but down from the record 23,769 listed in October 2002.

Total residential home permits issued in 2002 fell 12.9 percent, with a modest 2.5 percent decline in the number of single-family home permits dwarfed by a 33.3 percent decline in the number of multi-family home permits. Low mortgage rates allowed those who already owned homes to move into larger homes, thereby diminishing the decline in single-family home permits issued. Meanwhile, low mortgage rates also enabled renters to become first-time homeowners. As a consequence, apartment vacancy rates rose dramatically. In turn, high vacancy rates led to the decline in apartment construction activity.

In 2003, we forecast that the number of home permits issued will decline nearly 20 percent, with a correction occurring in both single-family and multi-family units. The number of single-family home permits issued will fall 15.5 percent, while the number of multi-family home permits will drop by nearly one-third. Both corrections are in response to weakened demand, as the relatively weak 2003 Colorado economy will not attract a large net-migration to the state and thus there will be less need for new homes. The number of permits issued will fall another three percent in 2004 before increasing in 2005 and beyond.

Nonresidential Construction

Denver area nonresidential building construction continues to be impacted by oversupply as is evidenced by high vacancy rates.

- On average, metro-area *Class A office* vacancy rates were 22.8 percent in 2002, up from 19.3 percent in 2001 and 7.8 percent in 2000. One positive influence is that vacant sublease space decreased nearly 10 percent, to 3.7 million square feet in 2002 from 4.1 million square feet in 2001. In 2002, metro area Class A office vacancy rates ranged from a high of 34.7 percent in the northwest corridor to a low of 15.0 percent in the midtown area. A total of 1.4 million square feet of Class A office space was built in 2002. By comparison, overall office vacancy rates topped 28 percent in the mid-1980s, with the central business district experiencing more than a 35 percent vacancy rate.

- The metro Denver *industrial warehouse* vacancy rate was considerably lower than the office vacancy rate, even though 2.8 million square feet of new warehouse space was added in 2002. The industrial warehouse vacancy rate averaged 7.3 percent at year-end 2002, up from 6.7 percent at year-end 2001. Industrial warehouse vacancy rates ranged from a low 2.5 percent in the southwest metro area to a high of 9.4 percent in the eastern metro-area.

- A total of 4.7 million square feet of *retail space* was built in the Denver metro area in 2002, yet the retail space vacancy rate declined to 10.9 percent from a 12.0 percent rate in 2001. In 2002, retail vacancy rates ranged from 1.9 percent in Cherry Creek to 12.0 percent in the southwest metro area.

The value of nonresidential construction built in 2002 dropped 22.5 percent compared with 2001. This is a slower rate of decline than occurred in 1986, but about the same as the 21.9 percent decline that occurred in 1987. Unlike the late 1980s, we forecast that nonresidential construction will not face back-to-back years of large corrections in 2002 and 2003. Rather, we forecast that the 2002 correction will be followed by a relatively small 4.1 percent correction in 2003. Easily obtained financing from savings and loans and passive tax laws influenced contractors to greatly overbuild in the mid-1980s, thus requiring the large back-to-back corrections in 1986 and 1987. These influences are not present now, so a smaller correction will bring nonresidential construction activity back in line with demand in 2003. In 2004 and thereafter, the value of nonresidential construction will again resume positive growth.

Retail Trade

Retail trade sales in Colorado fell 0.7 percent in 2002 as a consequence of lower employment and income levels resulting from the state's weak economy. Not all categories of retail sales contracted: apparel, general merchandise, and food sales continued to expand. Our forecast is for retail sales to grow 2.7 percent in 2003 and 3.3 percent in 2004. Thereafter, retail sales growth will accelerate to a 6.5 percent rate by 2007.

Risks to the Colorado Forecast

The main risk to the Colorado forecast is that the national economy will not resume robust growth in the near term. Colorado's recovery will follow the national recovery. Thus, a delay in the national recovery will likely mean a delay in the Colorado recovery.

TABLE 1

TABOR Surplus Revenue
(Dollar Amounts in Millions)

		March 2003 Estimate by Fiscal Year					
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
TABOR Revenues:							
General Fund	$5,519.8 **/B**	$5,371.8 **/B**	$5,685.6 **/B**	$5,984.6 **/B**	$6,393.4 **/B**	$6,852.5 **/B**	$7,313.5 **/B**
Cash Funds	2,232.4 **/F**	2,407.2 **/F**	2,516.8 **/F**	2,665.0 **/F**	2,814.8 **/F**	2,833.9 **/F**	2,893.7 **/F**
Total TABOR Revenues	7,752.2	7,779.0	8,202.4	8,649.6	9,208.1	9,686.4	10,207.1
TABOR Limit:							
Growth Rate	-2.5% **/C**	0.3% **/C**	5.4%	5.5%	6.5%	5.2%	5.4%
Allowable TABOR Growth Rate	4.0%	7.1% **/G**	5.4% **/G**	5.5% **/G**	6.5% **/G**	5.2% **/G**	5.4% **/G**
TABOR LIMIT	**$8,126.2 /D**	**$8,302.6**	**$8,202.4**	**$8,649.6**	**$9,208.1**	**$9,686.4**	**$10,207.1**
REVENUES ABOVE / (BELOW) TABOR LIMIT	**($365.8)**	**($523.6)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
EMERGENCY RESERVE:							
TABOR Emergency Reserve	232.6 **/A,E**	233.4 **/A,E**	246.1 **/A**	259.5 **/A**	276.2 **/A**	290.6 **/A**	306.2 **/A**

Totals may not sum due to rounding.

Note:

Fund appropriations only. Thus, the two concepts are not directly comparable.

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

/B These figures differ from the General Fund revenues reported in other tables because they net out revenues credited to the State Education Fund per Amendment 23, the Homestead

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 UsersTax Fund. The state diverts 10.34 percent of the sales and use tax revenues to the Highway Users Tax Fund when revenues are sufficient to cover certain expenditures.

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

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

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

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

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

TABLE 2

General Fund Overview: Current Law (Dollar Amounts in Millions)							
		March 2003 Estimate by Fiscal Year					
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
BEGINNING RESERVE	$469.3	$145.2	$218.5	$231.6	$245.5	$260.2	$275.8
GROSS GENERAL FUND	5,844.4	5,666.3	6,004.5	6,325.5	6,760.9	7,249.9	7,740.6
TRANSFERS TO GENERAL FUND	536.3 **/E**	500.4 **/E**	6.8 **/E**				
TRANSFER OF CMTF MONIES (HB 01-1267)	253.4						
SENATE BILL 97-1 TRANSFERS TO THE HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DIVERSION TO OLDER COLORADOANS FUNDS	0.0 **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**
TRANSFER FROM THE STATE EDUCATION FUND		59.2 **/K**					
TRANSFER TO THE STATE EDUCATION FUND	(272.9) **/D**	(254.3) **/D**	(276.2) **/D**	(295.5) **/D**	(318.6) **/D**	(344.6) **/D**	(370.1) **/D**
TOTAL FUNDS AVAILABLE	$6,830.5	$6,113.8	$5,950.5	$6,258.6	$6,684.8	$7,162.5	$7,643.3
EXPENDITURES:							
General Fund Appropriations	$5,643.0 **/B**	$5,950.4	$5,789.3	$6,116.7	$6,484.9	$6,875.1	$7,288.9
Spending Reductions		(520.4)	0.0				
Additional Reduction Necessary to Maintain Required Reserve	0.0	(101.1) **/H**	(495.3) **/H**	(553.3) **/H**	(369.8) **/H**	(200.4) **/H**	(148.7) **/H**
K-12 Capital Construction	10.0 **/C**	0.0 **/C**	0.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**
Medicaid Overexpenditure	NA	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	132.7	133.2	131.2	133.3	135.1	136.8	137.2
Capital and Prison Construction	0.0	10.6	100.0	101.8	100.4	0.0	0.0
TABOR Refund	927.2	0.0	0.0	0.0	0.0	0.0	0.0
Homestead Exemption	0.0	60.7	55.5	56.5	54.1	55.1	53.6
Transfer of CMTF Monies (HB 02-1445)			138.2	138.2			
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)	2.5 **/G**	349.6 **/G**					
Reversions	(26.3) **/J**	(7.3) **/J**					
Accounting Adjustments	(3.8)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,685.2	$5,875.7	$5,718.9	$6,013.1	$6,424.6	$6,886.7	$7,350.9
YEAR-END GENERAL FUND RESERVE:	**$145.2**	**$218.5**	**$231.6**	**$245.5**	**$260.2**	**$275.8**	**$292.4**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**0.0 /I**	**218.5**	**231.6**	**245.5**	**260.2**	**275.8**	**292.4**
MONIES IN EXCESS OF STATUTORY RESERVE	**145.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
RESERVE AS A % OF APPROPRIATIONS	**2.6%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$232.6 **/A**	$233.4 **/A**	$246.1	$259.5	$276.2	$290.6	$306.2
Appropriations Growth	$303.4	($191.4)	$327.7	$347.4	$368.2	$390.3	$413.7
Appropriations Growth Rate	5.67%	-3.39%	6.00%	6.00%	6.00%	6.00%	6.00%

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

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

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

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

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

/E This figure represents the total transfers 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, H.B. 02-1478, S.B. 03-109, S.B. 03-172, S.B. 03-185, S.B. 03-188, S.B. 03-190, and S.B. 03-191.

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

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

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

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

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

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

TABLE 3

General Fund Overview with JBC Figure Setting Actions

(Dollar Amounts in Millions)

		March 2003 Estimate by Fiscal Year					
	FY 2001-02	**FY 2002-03**	**FY 2003-04**	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**
BEGINNING RESERVE	$469.3	$145.2	$218.5	$231.6	$245.5	$260.2	$275.8
GROSS GENERAL FUND	5,844.4	5,666.3	6,005.6	6,325.5	6,760.9	7,249.9	7,740.6
TRANSFERS TO GENERAL FUND	536.3 **/E**	500.4 **/E**	22.6 **/L**	15.8 **/L**	15.8 **/L**	15.8 **/L**	15.8 **/L**
TRANSFER OF CMTF MONIES (HB 01-1267)	253.4						
SENATE BILL 97-1 TRANSFERS TO THE HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
DIVERSION TO OLDER COLORADOANS FUNDS	0.0 **/F**	(3.0) **/F**	(2.8) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**	(3.0) **/F**
TRANSFER FROM THE STATE EDUCATION FUND		59.2 **/K**					
TRANSFER TO THE STATE EDUCATION FUND	(272.9) **/D**	(254.3) **/D**	(276.2) **/D**	(295.5) **/D**	(318.6) **/D**	(344.6) **/D**	(370.1) **/D**
TOTAL FUNDS AVAILABLE	$6,830.5	$6,113.8	$5,967.7	$6,274.4	$6,700.6	$7,178.3	$7,659.1
EXPENDITURES:							
General Fund Appropriations	$5,643.0 **/B**	$5,950.4	$5,789.3	$6,116.7	$6,484.9	$6,875.2	$7,288.9
Spending Reductions		(520.4)	0.0				
Additional Reduction Necessary to Maintain Required Reserve	0.0	(101.1) **/H**	(451.8) **/H**	(512.2) **/H**	(354.1) **/H**	(184.6) **/H**	(132.9) **/H**
K-12 Capital Construction	10.0 **/C**	0.0 **/C**	0.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**	20.0 **/C**
Medicaid Overexpenditure	NA	NA	NA	NA	NA	NA	NA
Rebates and Expenditures	132.7	133.2	105.9 **/N**	108.0 **/N**	135.1	136.8	137.2
Capital and Prison Construction	0.0	10.6	100.0	101.8	100.4	0.0	0.0
TABOR Refund	927.2	0.0	0.0	0.0	0.0	0.0	0.0
Homestead Exemption	0.0	60.7	44.4 **/0**	56.5	54.1	55.1	53.6
Transfer of CMTF Monies (HB 02-1445)			138.2	138.2			
General Fund Payback (HB 02-1391, HB 02-1444 and HB 02-1478)	2.5 **/G**	349.6 **/G**	10.0				
Reversions	(26.3) **/J**	(7.3) **/J**					
Accounting Adjustments	(3.8)	NA	NA	NA	NA	NA	NA
TOTAL OBLIGATIONS	$6,685.2	$5,875.7	$5,736.1	$6,028.9	$6,440.4	$6,902.5	$7,366.7
YEAR-END GENERAL FUND RESERVE:	**$145.2**	**$218.5**	**$231.6**	**$245.5**	**$260.2**	**$275.8**	**$292.4**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**0.0 /I**	**218.5**	**231.6**	**245.5**	**260.2**	**275.8**	**292.4**
MONIES IN EXCESS OF STATUTORY RESERVE	**145.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
RESERVE AS A % OF APPROPRIATIONS	**2.6%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
TABOR CONSTITUTIONAL EMERGENCY RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$232.6 **/A**	$233.4 **/A**	$246.1 **/M**	$259.5	$276.2	$290.6	$306.2
Appropriations Growth	$303.4	($191.4)	$327.7	$347.4	$368.2	$390.3	$413.7
Appropriations Growth Rate	5.67%	-3.39%	6.00%	6.00%	6.00%	6.00%	6.00%

NA: Not Applicable.

Totals may not sum due to rounding.

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

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

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

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

/E This figure represents the total transfers 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, H.B. 02-1478, S.B. 03-109, S.B. 03-172, S.B. 03-185, S.B. 03-188, S.B. 03-190, and S.B. 03-191.

/F Per H.B. 00-1072 and H.B. 01-1079, $3 million is appropriated to fund the Older Coloradoans Act in FY 2000-01 and FY 2001-02. Per H.B. 02-1209, $2 million is appropriated to fund the Older Coloradoans Act in FY 2002-03 and beyond. Per H.B. 02-1276, $1 million is transferred to the Older Coloradoans Health and Medical Care fund beginning in FY 2002-03. The JBC voted to reduce the amount to Older Coloradoans Health and Medical Care by $250,000 in FY 2003-04.

/G Per H.B. 02-1391, the state is required to pay back some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391. In addition, H.B. 02-1445 and H.B. 02-1478 required the state to repay the Major Medical and Tobacco Settlement funds in the same amount as was transfered to the General Fund in FY 2001-02. H.B. 02-1391 required the state to repay the $2.5 million transf from the Species Conservation Fund from the General Fund by June 30, 2002. This amount was paid from year-end reversions. S.B. 03-191 requires the state to repay $10 million to the Major Medical Fun

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

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

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

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

/L Includes transfer made to the General Fund per S.B. 03-172 and S.B. 03-191 and a diversion of the 0.11% surcharge from the Unemployment Insurance Trust Fund in FY 2003-04 through FY 2007-08.

/M The JBC voted to securitize $200 million of the tobacco settlement and place the proceeds in the Tobacco Litigation Trust Fund. These monies, along with the Wildlife Cash Fund, will be used for the TABOR reserve.

/N This includes a proposal by the JBC not to fund the unfunded, old hire pension plans in the Fire and Police Pensions Association.

/O This estimate was reduced by 20 percent per JBC action.

TABLE 4

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

Category	FY 2001-02	%	FY 2002-03	%	FY 2003-04	%	FY 2004-05	%	FY 2005-06	%	FY 2006-07	%	FY 2007-08	%
			March 2003 Estimate by Fiscal Year with Percent Change Over Prior Year											
Sales	$1,755.7 **/A**	-3.1	$1,721.7 **/A**	-1.9	$1,791.7 **/A**	4.1	$1,866.2 **/A**	4.2	$1,973.0 **/A**	5.7	$2,089.4 **/A**	5.9	$2,210.8 **/A**	5.8
TABOR Overrefund	($28.6) **/D**		($18.7) **/D**		$0.0		$0.0		$0.0		$0.0		$0.0	
Use	140.6 **/A**	-11.0	133.8 **/A**	-4.8	136.4 **/A**	2.0	140.5 **/A**	3.0	145.2 **/A**	3.4	152.3 **/A**	4.9	161.2 **/A**	5.8
Cigarette	55.2	-5.0	56.7	2.6	57.0	0.6	57.9	1.6	57.5	-0.7	57.8	0.5	58.1	0.5
Tobacco Products	10.3	4.3	10.7	4.1	11.5	6.6	11.9	4.1	12.6	5.3	13.1	4.1	13.5	3.1
Liquor	29.5	0.6	31.4	6.6	32.8	4.4	34.4	4.9	36.2	5.1	38.1	5.3	39.9	4.8
TOTAL EXCISE	1,962.7	-2.2	1,935.7	-1.4	2,029.4	4.8	2,111.0	4.0	2,224.5	5.4	2,350.7	5.7	2,483.6	5.7
Net Individual Income	3,345.1 **/C**	-16.7	3,225.0 **/C**	-3.6	3,509.7 **/C**	8.8	3,762.3 **/C**	7.2	4,062.3 **/C**	8.0	4,399.6 **/C**	8.3	4,730.6 **/C**	7.5
Net Corporate Income	178.0 **/C**	-46.0	170.3 **/C**	-4.3	172.4 **/C**	1.2	176.9 **/C**	2.6	185.9 **/C**	5.1	195.2 **/C**	5.0	205.1 **/C**	5.1
TOTAL INCOME	3,523.1	-19.0	3,395.3	-3.6	3,682.1	8.4	3,939.2	7.0	4,248.3	7.8	4,594.9	8.2	4,935.7	7.4
Estate	72.5 **/B**	-12.2	55.4 **/B**	-23.6	26.4 **/B**	-52.3	6.3 **/B**	-76.0	1.5 **/B**	-76.3	1.0 **/B**	-33.3	2.5 **/B**	150.0
Insurance	154.6	8.9	156.1	0.9	163.1	4.5	166.1	1.8	169.8	2.3	178.9	5.3	188.4	5.3
Pari-Mutuel	5.7	-6.6	5.3	-7.1	5.3	0.0	5.3	0.1	5.3	0.1	5.3	0.1	5.3	-0.1
Interest Income	25.3	-44.0	11.2	-55.6	9.8	-12.4	10.0	1.5	13.8	38.2	16.0	16.0	16.8	5.0
Court Receipts	23.3	4.5	24.1	3.5	24.9	3.4	23.6	-5.2	26.8	13.2	27.7	3.6	28.7	3.5
Gaming	34.1	8.5	40.2	17.9	42.6	6.1	45.5	6.6	48.9	7.7	52.9	8.1	57.0	7.8
Medicaid (Intergovt. Transfer)	11.2		20.0	79.0										
Other Income	31.9	-4.5	23.0	-27.8	20.7	-10.2	18.5	-10.3	22.0	18.9	22.5	2.3	22.5	0.0
TOTAL OTHER	358.5	-1.2	335.3	-6.5	292.9	-12.6	275.3	-6.0	288.2	4.7	304.4	5.6	321.3	5.6
GROSS GENERAL FUND	**$5,844.4**	**-13.0**	**$5,666.3**	**-3.0**	**$6,004.5**	**6.0**	**$6,325.5**	**5.3**	**$6,760.9**	**6.9**	**$7,249.9**	**7.2**	**$7,740.6**	**6.8**
REBATES & EXPENDITURES:														
Cigarette Rebate	15.9	-3.0	16.3	2.6	16.4	0.6	16.7	1.6	16.6	-0.7	16.7	0.5	16.7	0.5
Old-Age Pension Fund	72.0	13.9	70.7	-1.9	72.1	2.0	73.5	2.0	74.5	1.4	75.6	1.5	75.6	0.0
Aged Property Tax & Heating Credit	15.9	-5.4	16.8	5.5	17.5	4.2	17.8	1.9	18.7	4.9	19.3	3.2	19.5	1.4
Fire/Police Pensions	28.9	0.7	29.5	2.1	25.3	-14.2	25.3	0.0	25.3	0.0	25.3	0.0	25.3	0.0
TOTAL REBATES & EXPENDITURES	132.7	6.1	133.2	0.4	131.2	-1.5	133.3	1.6	135.1	1.3	136.8	1.3	137.2	0.3

Totals may not sum due to rounding.

NA: Not Applicable.

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

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

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

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

TABLE 5

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

		March 2003 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	CAAGR *
Transportation-Related	$813.9	$817.3	$823.0	$845.3	$872.3	$913.5 **/K**	$945.1	
Change	4.2%	0.4%	0.7%	2.7%	3.2%	4.7%	3.5%	2.9%
Higher Education	$635.4 **/A,H**	$696.0 **/H,B**	$724.4 **/H,I**	$752.3 **/H,I**	$788.0 **/H,I**	$824.8 **/H,I**	$864.9 **/H,I**	
Change	8.6% **/J**	9.5%	4.1%	3.9%	4.7%	4.7%	4.9%	4.4%
Unemployment Insurance	$196.1 **/C**	$313.3 **/C**	$379.6 **/D**	$446.7 **/D**	$506.8 **/D**	$411.2 **/D**	$364.2	
Change	-2.4%	59.8%	21.2%	17.7%	13.5%	-18.9%	-11.4%	3.1%
Limited Gaming Fund	$99.1	$107.1	$113.7	$121.0	$129.9	$139.8	$150.3	
Change	7.7%	8.1%	6.2%	6.4%	7.3%	7.7%	7.5%	7.0%
Capital Construction - Interest	$17.5	$5.2	$2.3	$1.5	$3.8	$3.5	$1.9	
Change	-49.8%	-70.2%	-56.8%	-31.7%	149.8%	-8.5%	-46.7%	-18.5%
Regulatory Agencies	$50.4	$53.9	$55.4	$56.6	$57.7	$58.9	$60.1	
Change	-1.6%	6.9%	2.7%	2.2%	2.0%	2.0%	2.1%	2.2%
Insurance-Related	$66.3	$67.1	$72.0	$76.3	$80.8	$85.5	$90.5	
Change	29.0%	1.3%	7.3%	6.0%	5.9%	5.8%	5.8%	6.2%
Severance Tax	$57.5	$37.6	$43.1	$55.5	$50.7	$57.1	$60.8	
Change	-23.1%	-34.6%	14.6%	28.7%	-8.6%	12.7%	6.4%	10.1%
Petroleum Storage Tank Fund	$21.3	$20.2	$19.7	$9.5	$9.5	$9.5	$9.4	
Change	-19.9%	-4.9%	-2.7%	-51.9%	0.4%	0.2%	-1.1%	-14.2%
Controlled Maintenance Trust Fund Interest	$0.5	$0.0	$0.0 **/E**	$4.1	$8.2	$8.2	$8.1	
Change	-97.1%	NA	NA	NA	98.6%	0.0%	-1.5%	25.0% **/F**
Other Cash Funds	$274.4	$289.5	$283.7	$296.2	$307.1	$321.9	$338.5	
Change	-3.0%	5.5%	-2.0%	4.4%	3.7%	4.8%	5.1%	3.2%
TOTAL CASH FUND REVENUE	**$2,232.4**	**$2,407.2**	**$2,516.8**	**$2,665.0**	**$2,814.8**	**$2,833.9**	**$2,893.7**	
Change	2.0% **/G**	7.8%	4.6%	5.9%	5.6%	0.7%	2.1%	3.7%

* CAAGR: Compound Annual Average Growth Rate.

/A Reflects a 5.0 percent increase in nonresident tuition and a 4.0 percent resident tuition increase.

/B In FY 2002-03, schools increased resident tuition between 4.7 percent and 6.2 percent and nonresident tuition between 7.7 percent and 9.2 percent.

/C Reflects the 20-percent credit against unemployment insurance taxes allowed by House Bill 00-1310 in calendar years 2001 and 2002.

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

/E Assumes that the Controlled Maintenance Trust Fund payback will be made in FY 2004-05 and FY 2005-06.

/F The Controlled Maintenance Trust Fund interest CAAGR is computed for the period from FY 2004-05 through FY 2007-08.

/G This growth rate is computed using FY 2000-01 total cash fund revenue net of the wildlife cash funds and scholarship allowances.

/H Higher Education revenues are net of scholarship allowances.

/I Higher Education tuition rates are assumed to grow at the Denver-Boulder-Greeley inflation rate.

/J This growth rate is computed using FY 2000-01 tuition revenue net of scholarship allowances.

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

TABLE 6

Transportation-Related Cash Funds Revenue Forecast (Accrual Basis, Dollar Amounts in Millions)		March 2003 Estimate by Fiscal Year						
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2002-03 to FY 2007-08 CAAGR *
Highway Users Tax Fund (HUTF)								
Registrations	$151.4	$160.6	$163.8	$167.8	$173.3	$179.8	$186.7	
Change	1.8%	6.1%	2.0%	2.4%	3.3%	3.7%	3.8%	3.1%
Motor and Special Fuels	$544.6 **/A**	$546.4 **/A**	$557.9 **/A**	$572.6 **/A**	$590.1 **/A**	$608.1 **/A**	$627.4 **/A**	
Change	3.5%	0.3%	2.1%	2.6%	3.1%	3.0%	3.2%	2.8%
Other Receipts	$43.7 **/B**	$44.3 **/B**	$45.0 **/B**	$45.9 **/B**	$46.8 **/B**	$59.7 **/B, D**	$61.2 **/B**	
Change	0.6%	1.3%	1.5%	2.0%	2.0%	27.6%	2.4%	6.7%
TOTAL HUTF	$739.7	$751.3	$766.6	$786.2	$810.2	$847.6	$875.2	
Change	3.0%	1.6%	2.0%	2.6%	3.1%	4.6%	3.3%	3.1%
Other Transportation-Related Cash Funds	$74.2 **/C**	$66.0 **/C**	$56.3 **/C**	$59.1 **/C**	$62.1 **/C**	$65.9 **/C**	$69.9 **/C**	
Change	18.5%	-11.1%	-14.6%	4.9%	5.2%	6.0%	6.1%	1.2%
TOTAL TRANSPORTATION-RELATED	**$813.9**	**$817.3**	**$823.0**	**$845.3**	**$872.3**	**$913.5**	**$945.1**	
Change	4.2%	0.4%	0.7%	2.7%	3.2%	4.7%	3.5%	2.9%

* CAAGR: Compound Annual Average Growth Rate.

/A Net of Refunds.

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

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

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

TABLE 7

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

		March 2003 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	CAAGR *
Tuition	$473.6	$528.8	$549.5	$569.5	$596.0	$623.2	$653.1	
Change	10.1%	11.7%	3.9%	3.6%	4.6%	4.6%	4.8%	4.3%
Non-Tuition	$161.8	$167.2	$174.9	$182.8	$192.0	$201.6	$211.8	
Change	3.3%	3.3%	4.7%	4.5%	5.0%	5.0%	5.1%	4.9%
TOTAL HIGHER EDUCATION	**$635.4**	**$696.0**	**$724.4**	**$752.3**	**$788.0**	**$824.8**	**$864.9**	
Change	8.6%	9.5%	4.1%	3.9%	4.7%	4.7%	4.9%	4.4%
Full-Time-Equivalent Students								
Total	143,972	151,117	156,125	159,097	162,066	165,003	168,091	
Change	4.0%	5.0%	3.3%	1.9%	1.9%	1.8%	1.9%	2.2%
Resident	122,062	129,189	134,118	137,100	139,866	142,620	145,517	
Change	4.1%	5.8%	3.8%	2.2%	2.0%	2.0%	2.0%	2.4%
Nonresident	21,911	21,928	22,007	21,997	22,200	22,383	22,574	
Change	3.2%	0.1%	0.4%	0.0%	0.9%	0.8%	0.9%	0.6%

Totals may not sum due to rounding.

* CAAGR: Compound Annual Average Growth Rate.

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

TABLE 8

Unemployment Insurance Trust Fund Forecast (Accrual Basis, Dollar Amounts in Millions)								
		March 2003 Estimate by Fiscal Year						FY 2002-03 to FY 2007-08 CAAGR *
	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	
Beginning Fund Balance	$794.1	$626.9	$458.2	$467.2	$583.8	$798.6	$932.6	
Change	4.0%	-21.1%	-26.9%	2.0%	24.9%	36.8%	16.8%	3.3%
Income	$196.1	$313.3	$379.6	$446.7	$506.8	$411.2	$364.2	
Change	-2.4%	59.8%	21.2%	17.7%	13.5%	-18.9%	-11.4%	13.2%
Taxes	$150.7 **/A**	$280.1 **/A**	$313.1 **/B**	$316.8 **/B**	$300.8 **/B**	$301.0 **/B**	$303.6	
Change	0.7%	85.9%	11.8%	1.2%	-5.1%	0.1%	0.9%	15.0%
Interest	$45.4	$33.2	$25.4	$26.7	$34.8	$50.4	$60.6	
Change	-11.4%	-26.8%	-23.5%	5.0%	30.4%	44.7%	20.2%	5.9%
Solvency Surcharge	$0.0	$0.0	$41.1	$103.1	$171.1	$59.8	$0.0	
Benefits and Accounting Adjustments	($506.0) **/C**	($482.1) **/C**	($370.6) **/C**	($330.1) **/C**	($291.9) **/C**	($277.1) **/C**	($272.6) **/C**	
Change	197.1%	-4.7%	-23.1%	-10.9%	-11.6%	-5.1%	-1.6%	-11.6%
Ending Fund Balance	**$626.9**	**$458.2**	**$467.2**	**$583.8**	**$798.6**	**$932.6**	**$1,024.2**	
Solvency Ratio	0.9% **/D**	0.7% **/D**	0.7% **/D**	0.8% **/D**	1.0% **/D**	1.1% **/D**	1.1% **/D**	
Total Wages	$69,055 **/E**	$66,717 **/E**	$68,077 **/E**	$72,288 **/E**	$77,127 **/E**	$83,364 **/E**	$89,678 **/E**	
Change	1.8%	-3.4%	2.0%	6.2%	6.7%	8.1%	7.6%	5.4%

Totals may not sum due to rounding.

* CAAGR: Compound Annual Average Growth Rate.

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

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

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

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

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

TABLE 10

HISTORY FOR KEY NATIONAL ECONOMIC VARIABLES
1997-2007

Calendar Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
INFLATION-ADJUSTED & CURRENT DOLLAR INCOME ACCOUNTS											
Inflation-Adjusted Gross Domestic Product (Billions)	$8,159.4	$8,509.1	$8,859.1	$9,191.4	$9,214.6	$9,436.2	$9,658.3	$9,991.8	$10,302.6	$10,662.3	$10,981.2
Change	4.4%	4.3%	4.1%	3.8%	0.3%	2.4%	2.4%	3.5%	3.1%	3.5%	3.0%
Gross Domestic Product (Billions)	$8,318.4	$8,781.8	$9,274.5	$9,824.6	$10,082.2	$10,442.3	$10,852.2	$11,395.5	$11,969.9	$12,620.8	$13,240.8
Change	6.5%	5.6%	5.6%	5.9%	2.6%	3.6%	3.9%	5.0%	5.0%	5.4%	4.9%
Personal Income (Billions)	$6,937.1	$7,426.1	$7,786.6	$8,406.7	$8,685.4	$8,948.2	$9,255.5	$9,672.8	$10,173.4	$10,682.8	$11,199.4
Change	6.0%	7.0%	4.9%	8.0%	3.3%	3.0%	3.4%	4.5%	5.2%	5.0%	4.8%
Per-Capita Income ($/person)	$25,444	$26,921	$27,906	$29,788	$30,442	$31,031	$31,814	$32,960	$34,371	$35,789	$37,208
Change	4.7%	5.8%	3.7%	6.7%	2.2%	1.9%	2.5%	3.6%	4.3%	4.1%	4.0%
POPULATION AND EMPLOYMENT											
Population (Millions) *	272.64	275.85	279.03	282.22	285.31	288.36	290.93	293.47	295.99	298.50	300.99
Change	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	0.9%	0.9%	0.9%	0.8%	0.8%
Civilian Unemployment Rate	4.9%	4.5%	4.2%	4.0%	4.8%	5.8%	6.2%	5.7%	5.4%	5.2%	5.2%
Total Nonagricultural Employment (Millions)	122.67	125.85	128.91	131.72	131.92	130.78	131.32	133.71	136.25	138.21	140.00
Change	2.6%	2.6%	2.4%	2.2%	0.2%	-0.9%	0.4%	1.8%	1.9%	1.4%	1.3%
FINANCIAL MARKETS											
30-Year T-Bond Rate	6.6%	5.6%	5.9%	5.9%	5.5%	5.4%	5.2%	5.6%	6.0%	6.1%	6.2%
10-Year T-Bond Rate	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.5%	5.3%	5.8%	5.9%	5.8%
Federal Fund Rate	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	1.6%	4.4%	5.3%	5.1%	5.0%
PRICE VARIABLES											
Consumer Price Index (1982-84=100)	160.5	163.0	166.6	172.2	177.1	179.9	183.7	187.5	192.2	196.9	201.5
Change	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.1%	2.0%	2.5%	2.4%	2.3%
Producer Price Index (1982=100)	131.8	130.7	133.0	138.0	140.7	138.8	141.2	144.7	145.3	148.2	151.8
Change	0.4%	-0.9%	1.8%	3.7%	2.0%	-1.3%	1.7%	2.5%	0.4%	2.0%	2.4%
OTHER KEY INDICATORS											
Industrial Production Index (1992=100)	100.0	105.6	110.1	115.3	111.2	110.5	112.5	116.2	119.3	122.6	125.9
Change	7.3%	5.6%	4.3%	4.7%	-3.5%	-0.7%	1.8%	3.3%	2.6%	2.8%	2.7%
Corporate Profits After Tax (Billions)	$555.2	$482.2	$514.4	$522.9	$470.7	$447.4	$485.1	$545.1	$583.9	$618.5	$649.7
Change	10.4%	-13.2%	6.7%	1.7%	-10.0%	-5.0%	8.4%	12.4%	7.1%	5.9%	5.0%
Housing Starts (Millions)	1.475	1.621	1.647	1.573	1.603	1.710	1.587	1.493	1.559	1.608	1.568
Change	0.4%	9.9%	1.6%	-4.5%	1.9%	6.7%	-7.2%	-5.9%	4.5%	3.1%	-2.5%

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

* Population values through 2000 are adjusted for 2000 Census.

TABLE 11

HISTORY AND FORECAST FOR KEY COLORADO ECONOMIC VARIABLES
1997-2007
Calendar Year

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CURRENT INCOME											
Personal Income (Millions)	$108,765	$118,413	$128,192	$142,752	$147,860	$149,378	$154,242	$163,071	$173,734	$186,819	$200,864
Change	8.8%	8.9%	8.3%	11.4%	3.6%	1.0%	3.3%	5.7%	6.5%	7.5%	7.5%
Wage and Salary Disbursements (Millions)	$62,524	$69,604	$76,344	$86,056	$88,434	$87,179	$89,803	$94,759	$101,218	$108,636	$116,569
Change	9.3%	11.3%	9.7%	12.7%	2.8%	-1.4%	3.0%	5.5%	6.8%	7.3%	7.3%
Per-Capita Income ($/Person)	$27,067	$28,764	$30,334	$32,993	$33,370	$33,147	$33,794	$35,242	$36,967	$39,055	$41,244
Change	6.1%	6.3%	5.5%	8.8%	1.1%	-0.7%	2.0%	4.3%	4.9%	5.7%	5.6%
POPULATION AND EMPLOYMENT											
Population (Thousands)*	4,018.3	4,116.6	4,226.0	4,326.8	4,431.0	4,506.5	4,564.2	4,627.1	4,699.8	4,783.4	4,870.1
Change	2.5%	2.4%	2.7%	2.4%	2.4%	1.7%	1.3%	1.4%	1.6%	1.8%	1.8%
Net Migration (Thousands) **	67.8	66.5	75.4	64.1	68.6	38.3	19.8	24.1	33.0	43.0	44.9
Unemployment Rate	3.3%	3.8%	2.9%	2.8%	3.7%	5.3%	5.9%	5.8%	5.2%	4.7%	4.4%
Total Nonagricultural Employment (Thousands)	1,979.5	2,057.0	2,131.9	2,212.9	2,225.4	2,180.9	2,196.6	2,243.4	2,313.4	2,391.4	2,469.3
Change	4.2%	3.9%	3.6%	3.8%	0.6%	-2.0%	0.7%	2.1%	3.1%	3.4%	3.3%
CONSTRUCTION VARIABLES											
Total Housing Permits (Thousands)	43.1	51.2	49.3	54.6	55.0	47.9	38.4	37.2	38.0	40.4	42.9
Change	4.7%	18.8%	-3.6%	10.7%	0.8%	-12.9%	-19.8%	-3.1%	2.2%	6.1%	6.4%
Nonresidential Construction (Millions) ***	$2,985.8	$2,616.8	$3,543.8	$3,338.8	$3,373.4	$2,613.0	$2,505.2	$2,513.1	$2,616.8	$2,691.1	$2,829.6
Change	27.0%	-12.4%	35.4%	-5.8%	1.0%	-22.5%	-4.1%	0.3%	4.1%	2.8%	5.1%
PRICES AND SALES VARIABLES											
Retail Trade Sales (Billions)	$45.1	$48.2	$52.6	$58.0	$59.1	$58.7	$60.3	$62.2	$65.0	$69.2	$73.7
Change	5.9%	6.7%	9.2%	10.2%	2.0%	-0.7%	2.7%	3.3%	4.5%	6.4%	6.5%
Denver-Boulder-Greeley Consumer Price Index	1.581	1.619	1.666	1.732	1.813	1.848	1.902	1.957	2.019	2.086	2.162
Change	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	2.9%	2.9%	3.2%	3.4%	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.