STATE OF COLORADO

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Bill Owens
Governor

Dr. Nancy McCallin
Director

MEMORANDUM

TO: Governor Bill Owens
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: June 20, 2003

SUBJECT: ***June 2003 Revenue Forecast***

Summary

- The June 2003 forecast for General Fund revenues in both the current and subsequent fiscal years is lower than the March 2003 forecast. The reduction reflects continued weakness in the Colorado economy and in capital gains income. Still, the state's year-end balance is $144.7 million, slightly more than the required reserve. The June 2003 General Fund revenue forecast for FY 2002-03 is lower than the March 2003 forecast by $78.6 million. The reduction is tempered by some one-time gains made on state investments. The June 2003 forecast also lowers FY 2003-04 General Fund revenues by $172.7 million compared with the March 2003 forecast.

- Recent assistance from the federal government will improve the state's financial position. The federal Jobs and Growth Tax Relief Reconciliation Act of 2003 will distribute a total of $238.5 million to Colorado over the next several months, with $92.3 million coming from increased Medicaid assistance and $146.3 million in the form of flexible federal grants. The Act also reduces Colorado income tax receipts by $58.5 million in FY 2003-04 and $31.2 million in FY 2004-05.

- In FY 2002-03, state revenues remain below the TABOR limit and thus there will be no TABOR surplus. TABOR surpluses will return in FY 2004-05 and beyond.

This memorandum provides an overview of the Office of State Planning and Budgeting (OSPB) June 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. Second, it provides a General Fund overview, outlines measures taken to balance the General Fund budget, and discusses General Fund revenues. Third, it presents 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 displays expected TABOR surpluses, while ***Table 2*** provides a detailed calculation of TABOR revenues from FY 2001-02 through FY 2007-08. After logging TABOR revenue surpluses for five years, the TABOR surplus vanished in FY 2001-02 and FY 2002-03. Indeed, FY 2001-02 TABOR revenues were lower than the TABOR limit by $365.7 million and we expect TABOR revenues to be $749.9 million below the limit in FY 2002-03. We do not expect the TABOR surplus to reappear until FY 2004-05 and even then it is a mere $17.9 million. The TABOR surplus vanishes 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 2004. The ***Colorado Economy*** was negatively affected by the national recession and the events of September 11, 2001.

- Second, two ***measures passed by voters*** in the November 2000 election lower the TABOR surplus each year by $250 million or more. *Amendment 23*, which provides increased public school funding, and *Referendum A*, also known as the Homestead Exemption, which provides property tax relief for senior citizens, both exempt revenues from the TABOR restriction.

- Third, legislation enacted through House Bill 02-1310 and Senate Bill 02-179 enables 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 growth dividend is equal to 6.0 percent and will be applied to the TABOR limit in future years to allow the state to keep revenues. The June 2003 OSPB forecast indicates that in FY 2002-03, TABOR revenues will once again be below the TABOR limit. Thus, the growth dividend is not applicable. In FY 2003-04 and FY 2004-05, the 6.0 percent growth dividend will be applied to the TABOR limit, which will allow the state to keep $728.7 million in additional revenues during those years. This will eliminate the TABOR surplus in FY 2003-04 and reduce the TABOR surplus in FY 2004-05. In total, the growth dividend allows state government to keep $2.3 billion over the five-year forecast cycle.

By FY 2004-05, the TABOR surplus reappears, totaling $17.9 million. In subsequent years, we expect the TABOR surplus to total between $140 million and $400 million. Table 1 displays the anticipated TABOR surpluses during the forecast horizon.

TABLE 1
Estimated TABOR Surplus Revenues
(Dollar Amounts in Millions)

Fiscal Year	TABOR Surplus
2001-02	$0.0
2002-03	$0.0
2003-04	$0.0
2004-05	$17.9
2005-06	$144.3
2006-07	$236.5
2007-08	$392.1
Cumulative Total	$790.7

How does TABOR affect the budget shortfalls?

It is important to note that the budgetary shortfalls that are occurring are not the result of TABOR. TABOR limits the amount of taxpayer money the state can keep. Since state revenues fell below the TABOR limit in FY 2001-02 and FY 2002-03, the TABOR limit was not binding and the state could — and did — keep all of the money it collected. The budget shortfalls that occurred in FY 2001-02 and FY 2002-03 are the result of declining revenues and because state expenditures were not reduced enough to compensate for the decline in the amount of revenues collected.

Reversal of House Bill 98-1414 — The accounting treatment of the TABOR surplus/refund

Although TABOR is not the cause of the state's present financial situation, legislative action previously taken to implement TABOR exacerbated the current revenue shortfall. This previous action — House Bill 98-1414 — was reversed during the 2003 legislative session.

In the 2003 legislative session, a very important change was made in how the state treats its TABOR surplus. In 1998, the General Assembly passed a bill (House Bill 98-1414) that permitted the state to spend TABOR surplus revenues in the year in which they were received instead of setting the money aside that needed to be refunded to taxpayers the following year. Effectively, this delayed recognizing the state's TABOR refund obligation by one year and allowed the state to spend money that it was obligated to return to taxpayers. For example, in FY 2000-01 the state had a $927.2 million TABOR surplus that was required to be refunded in FY 2001-02. Rather than reserve this obligation in FY 2000-01 when the surplus revenues came into the state, the 1998 legislation allowed the state to defer this obligation until the refund was due in FY 2001-02. Thus, the state was in a situation where it spent the surplus revenue in FY 2000-01 but needed to refund $927.2 million in FY 2001-02 at a time when revenues came in significantly lower than the previous year. This delayed recognition of the TABOR obligation significantly exacerbated the revenue shortfall. In order to avoid a replay of this situation in future years, two bills passed in the 2003 session to reverse the 1998 legislation (Senate Bill 03-222 and House Bill 03-1238). In future years, the state must set aside surplus revenues in the year in which they come to the state and recognize the obligation in that year. This prevents the state from spending money that we know must be refunded in the next year. In sum, it puts the state in a much better financial situation to deal with revenue shortfalls should they occur.

GENERAL FUND OVERVIEW

Table 3 provides a summary of General Fund revenues, expenditures, and reserves through FY 2007-08. Table 3 assumes current law for General Fund appropriations, capital construction transfers, other transfers to the General Fund, and rebates and expenditures. It also accounts for the effects on Colorado's Medicaid program and tax receipts of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, discussed below. The flexible federal funds are not reflected on the overview because they are custodial funds.

Based on the June 2003 OSPB revenue projections, the FY 2002-03 ending reserve balance is above the statutory requirement by $13.4 million. The state will end FY 2002-03 with a $144.7 million reserve. Meanwhile, in FY 2003-04, expenditures must be cut an additional $97.1 million if the General Assembly desires to maintain the four percent reserve. Without additional reductions, the year-end reserve is 2.2 percent.

When the reserve falls below two percent, the Governor must implement a plan to restore the reserve to two percent. The revenue forecast indicates that the FY 2003-04 reserve is $120.6 million,

$12.0 million above the two percent target of $108.6 million. Previously, the Governor announced that he is setting aside $131.7 million of the flexible federal money coming to the state through the 2003 federal tax act in a separate lockbox to be used to address revenue shortfalls. As such, if FY 2003-04 revenues fall by $12.0 million or more so that the two percent reserve is not satisfied on July 1, 2004 in subsequent forecasts, the Governor intends to transfer some of the federal flexible aid from the 2003 tax act into the General Fund to replenish the reserve to two percent and to avoid expenditure reductions. A more detailed discussion of the impact of the 2003 tax act on the state can be found later in this section and in Appendix A.

The revenue outlook for FY 2004-05 indicates that appropriations will remain essentially unchanged from FY 2003-04. There is some flexibility in FY 2004-05, however, as the scheduled transfers to the Controlled Maintenance Trust Fund and the Capital Construction Fund may be cancelled, freeing up $240 million for ongoing operating needs. If these transfers are cancelled, however, the state will have three years of only minimal capital investment.

Balancing the FY 2002-03 and FY 2003-04 General Fund Budgets

The state's FY 2002-03 General Fund was faced with a structural deficit: even though the FY 2001-02 General Fund *revenue base* fell significantly, the FY 2001-02 General Fund *expenditure base* had not been reduced. Instead, the 2002 General Assembly relied on $1.1 billion of one-time money to augment General Fund revenues and finance appropriations. Furthermore, the FY 2002-03 budget passed by the 2002 General Assembly was 7.3 percent larger than the FY 2001-02 budget, which had been propped up by $1.1 billion of one-time money.

The use of one-time monies, passage of a FY 2002-03 budget that grew 7.3 percent, and persistent revenue shortfalls caused the General Fund to have a structural deficit in FY 2002-03. Indeed, the structural deficit in FY 2002-03 approximately equaled the amount of one-time revenues used by the General Assembly to balance the FY 2001-02 budget. To address this deficit, the Governor and state legislature enacted measures that lower expenditures in FY 2002-03 and FY 2003-04. The actions taken to balance the budget are summarized as follows:

Measures taken prior to the Regular Session of the 2003 General Assembly

In total, FY 2001-02 General Fund revenues declined $880.1 million (13.1 percent) from their FY 2000-01 level. In FY 2002-03, General Fund revenues are forecast to decline another 4.3 percent. In total, revenues came in $1.0 billion lower in FY 2002-03 than the March 2002 revenue forecast that the General Assembly used to set the FY 2002-03 budget.

When the Governor received the FY 2002-03 budget in May 2002, we knew that it was at least $500 million higher than available revenues. 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 plan must assure a two percent reserve. Because the OSPB June 2002 forecast indicated a 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) and permanently reduced the General Fund appropriations base by $45 million. Altogether, he implemented a plan to reduce General Fund expenditures by $220 million through imposing a four percent spending restriction on Executive Branch departments, eliminating provider-rate inflation increases, and freezing capital construction projects that were in their early stages. These measures were subsequently incorporated into the appropriations base through legislation passed by the 2003 General Assembly.

As the magnitude of the FY 2002-03 General Fund budget shortfall worsened, the Governor initiated a number of additional measures in November 2002. 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 FY 2002-03, agencies had time to adjust their activities to compensate for the required cuts.

Measures taken during the 2003 Regular Session of the General Assembly

During the 2003 legislative session, numerous negative supplemental bills were enacted that reduced FY 2002-03 expenditures to match expected revenues. Virtually all of the $700 million in budget balancing measures ordered by the Governor were incorporated into legislation by the 2003 General Assembly. The General Assembly also initiated additional budget balancing measures totaling more than $250 million. In the end, General Fund appropriations decreased 4.2 percent in FY 2002-03 compared with FY 2001-02. Furthermore, the FY 2003-04 appropriations level increased 2.3 percent. This occurs at the same time when K-12 General Fund appropriations, which represent 43 percent of the budget, increased 2.0 percent in FY 2002-03 and 4.5 percent in FY 2003-04. Thus, other departments had significant decreases in General Fund appropriations in order to maintain growth in K-12 appropriations.

The remainder of this section discusses the major legislation passed during the 2003 Regular Session of the General Assembly to balance both the FY 2002-03 and future budgets. The enacted measures can be roughly grouped into four categories: expenditure reductions, short-term provisions, long-term provisions, and cash-flow enhancements. A discussion of the effect on Colorado revenues of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 follows.

- **Expenditure reductions:** Several measures were passed by the 2003 General Assembly that reduce state expenditures, either permanently or temporarily.

  - ***Reduce FY 2002-03 General Fund appropriations for most Departments.*** Supplemental legislation reduced FY 2002-03 expenditures — and the appropriations base for the FY 2003-04 budget — by $460 million. The Department of Corrections appropriation was reduced by four percent, Medicaid expenditures were reduced by seven percent, and most other departments' appropriations were reduced by ten percent or more. The Governor and General Assembly exempted K-12 total program, K-12 categoricals, and the School for the Deaf and the Blind from these cuts. Most of the developmental disabilities programs were exempted from the cuts as well. It should be noted that these reductions are not off of the FY 2001-02 appropriation base, but rather off the FY 2002-03 appropriation set by the 2002 General Assembly, which was 7.3 percent larger than the FY 2001-02 appropriation.

  - ***Reduce capital construction expenditures.*** Senate Bill 03-179 reduced funding for FY 2002-03 capital construction projects that were still in early stages — those that can be postponed without substantial financial consequences. Senate Bill 03-179 reduced FY 2002-03 capital construction expenditures by $98.1 million. In addition, Senate Bill 03-262 reduced the FY 2003-04 capital construction transfer for new projects by $91.7 million. The only General Fund capital projects funded for FY 2003-04 are related to lease purchase agreements, emergency maintenance projects, and completion of a large computer project at the Department of Human Services.

  - ***Eliminate performance pay and salary survey wage increases in FY 2003-04.*** Senate Bill 03-273 eliminated salary survey and performance pay wage increases for state employees in FY 2003-04. This measure reduced FY 2003-04 General Fund expenditures by $29.2 million.

- ***Eliminate the senior Homestead Exemption in FY 2003-04 through FY 2005-06.*** Senate Bill 03-265 eliminated the senior Homestead Exemption property tax credit in FY 2003-04 through FY 2005-06. This action reduced General Fund expenditures by more than $55 million in each of these years. The exemption is reestablished in 2006. The homestead exemption is an initiative passed by voters in 2000 that exempts 50.0 percent of the actual value of a home from property taxes for homeowners aged 65 or older who have lived in their home for the previous 10 years. The maximum exemption for a home's value was initially set at $200,000. The Homestead Exemption legislation gives the General Assembly the ability to adjust the amount of actual value exempted.

- ***Eliminate state funding for Old Hire Pension Plans in FY 2003-04 and FY 2004-05.*** Senate Bill 03-263 eliminated state funding for un-funded, old hire pension plans in the Fire and Police Pension Association in FY 2003-04 and FY 2004-05. This reduced General Fund expenditures by about $25 million in each of these two years.

- ***Shift the June pay date for state government employees.*** Senate Bill 03-197 switched the June pay date for state government employees from June 30 to July 1, 2003. In FY 2002-03, this reduced General Fund expenditures by nearly $90 million because the state will only issue 11 paychecks. However, this is a one-time savings, as 12 paychecks are budgeted for FY 2003-04 and each year thereafter.

- ***Record Medicaid payments on a cash basis.*** Senate Bill 03-196 allowed state Medicaid payments to be recorded on a cash basis rather than an accrual basis, thereby reducing FY 2002-03 General Fund expenditures by $77 million. Currently, the federal government and many other states account for Medicaid in this fashion.

- ***Delay reimbursement of the Controlled Maintenance Trust Fund (CMTF).*** Senate Bill 03-262 delayed the repayment of monies to the CMTF. In FY 2001-02, monies in the state's CMTF were transferred into the General Fund. This money was scheduled to be repaid to the CMTF in FY 2003-04 and FY 2004-05. Under the provisions of the new bill, the money will be repaid in FY 2004-05 and FY 2005-06 instead of FY 2003-04 and FY 2004-05, as originally scheduled. This reduced General Fund expenditures by $138.2 million in FY 2003-04.

- ***Reduce the transfer to fund the Older Coloradoans Act and the supplemental Older Coloradoans Program Health and Medical Care Fund**.* In FY 2002-03 and each year thereafter, House Bill 02-1209 appropriated $2 million to fund the Older Coloradoans Act and House Bill 02-1276 appropriated $1 million to the Older Coloradoans Health and Medical Care Fund. Senate Bill 03-295 reduced by $500,000 the amount appropriated to fund the Older Coloradoans Act in FY 2003-04 and FY 2004-05. Senate Bill 03-299 permanently reduces by $250,000 the amount appropriated to the Older Coloradoans Health and Medical Care Fund. These two bills together reduced FY 2003-04 and FY 2004-05 appropriations by $750,000.

- ***Eliminate the state presidential primary.*** Senate Bill 03-188 eliminated the state presidential primary, thereby saving $2.2 million in FY 2003-04.

● **Short-term provisions:** The following measures increase General Fund revenues on a one-time basis.

- ***Implement a tax amnesty program.*** Senate Bill 03-185 created a 30-day tax amnesty program beginning June 1, 2003. The program is expected to generate approximately $10 million in state revenues in FY 2002-03 by encouraging delinquent taxpayers to pay back taxes owed to the state.

- ***Reduce sales tax vendor fees.*** In return for collecting state sales, use, tobacco, and cigarette taxes, retailers are allowed to keep a portion of the taxes collected. Senate Bill 03-317 reduced the proportion of the tax that vendors are allowed to keep by one percentage point, from 3.33 percent to 2.33 percent. The reduction is only in effect in FY 2003-04 and FY 2004-05. This bill increased state tax collections by nearly $20 million in each FY 2003-04 and FY 2004-05.

- ***Shift state funding for K-12 education***. Senate Bill 03-195 set the state share of FY 2002-03 K-12 total program funding to $2.5 billion — a $255 million increase compared with FY 2001-02 — but changed the mix of state funds that are used for these expenditures. Thus, in FY 2002-03, General Fund expenditures are reduced by about $46 million, but the amount of funding from other state revenues for K-12 is increased by the same amount. The FY 2003-04 General Fund appropriation for K-12 includes a 5.2 percent ($108 million) increase.

- ***Divert half of the 0.22 percent surcharge from Unemployment Insurance (UI) Trust Fund to the General Fund***. Employers pay unemployment insurance premiums determined by unemployment insurance tax rates that are composed of three individual components. One component is a statutory 0.22 percent surcharge, half of which is currently placed in the state's UI Trust Fund. Senate Bill 03-296 diverted these monies from the UI Trust Fund to the General Fund in FY 2003-04. After accounting for $4.2 million of customized training for employees of Colorado businesses, there will be approximately $23 million available for General Fund expenditures from this source.

- ***Transfer cash fund balances to the General Fund.*** The General Assembly adopted nine bills that transferred $531.8 million from various cash funds to the General Fund in FY 2002-03. These transfers are reduced to a mere $44.8 million in FY 2003-04. By comparison, cash fund transfers to balance the FY 2001-02 budget totaled $1.1 billion.

● **Long-term provisions:** These are measures that will continue to generate revenues through the forecast horizon.

- ***Promote economic development.*** The General Assembly passed and the Governor signed into law several bills that will stimulate the Colorado economy. The long-term economic growth, and hence, the increase in state revenues, generated by measures such as these is substantial, although difficult to quantify. Tourism promotion was increased by $9 million and an additional $4 million for economic development grants was provided. In addition, Senate Bill 03-207 appropriated $7 million for the state's one-stop employment centers, which provide job placement and related services to job applicants and Colorado employers through a network of Workforce Centers throughout the state. Another economic development bill, House Bill 03-1354**,** established the Micro-enterprise Development Advisory Council in the Colorado Office of Economic Development in the Governor's Office. The Council is charged with integrating the principles of micro-enterprise development into small business development and assistance programs.

- ***Make fee-based programs self-supporting.*** Numerous bills passed during the 2003 Regular Session of the General Assembly that increased the fees collected for various state services. The increases were necessary because the amounts previously collected for these services did not cover program costs. When fees are set too low to cover the costs of a program, General

Fund revenues must be used to supplement the costs. Bills that create or increase fees for programs previously funded in part by General Fund revenues will generate about $60 million in cash fund revenue in FY 2003-04 and FY 2004-05.

- ***Fund more tax examiners and revenue and compliance agents.*** Senate Bill 03-258 provided funding for 18 new positions in the Department of Revenue that will allow more tax examiners and revenue and compliance agents to be hired. It is estimated that this will increase tax revenues by about $11 million per year by improving taxpayer compliance.

● **Cash-flow enhancements:** Three measures were passed that improve the state's cash flow. They are required because state tax revenues are not collected in equal amounts each month — most state tax revenues come in during the last quarter of the state's fiscal year (April through June).

- ***Sale of tobacco settlement revenues.*** Senate Bill 03-268 authorized the state to sell one or more portions of its right to receive tobacco settlement revenues in exchange for one or more lump-sum cash payments. The amount to be securitized cannot exceed 60 percent of the state's annual payment from the settlement and the sale must occur before January 1, 2004. If utilized, this provision is expected to raise $160 million. It is not certain at this time that the state will need to exercise this provision. The state has until January 1, 2004 to make this decision.

- ***Sale and leaseback of facilities***. Senate Bill 03-342 authorized the Executive Director of the Department of Personnel, subject to approval by the Director of the OSPB and the Treasurer, to sell the state's interest in one or more state facilities. Per the legislation, proceeds of up to $160 million can be raised through these sales. The Executive Director is authorized to execute a lease-purchase agreement for up to 20 years, subject to annual renewal, for any legal interest in a property that is sold as described above. The sale must occur before January 1, 2004. It is not certain at this time that the state will need to exercise this provision. The state has until January 1, 2004 to make this decision.

- ***Issuance of notes for schools***. House Bill 03-1274 authorized the state Treasurer to issue tax and revenue anticipation notes for the purpose of making interest-free loans to school districts experiencing temporary cash flow deficits. Previously, the state's General Fund provided interest-free loans to the schools.

How does the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 affect Colorado?

On May 28, 2003, the President signed into law the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. The provisions of the Act fund temporary state fiscal relief, provide growth incentives for businesses, temporarily accelerate certain previously enacted federal tax reductions, and reduce taxes on capital gains and dividends. Two types of financial assistance are provided, totaling $238.5 million. Colorado will receive a total of about $90 million through the federal Medical Assistance Percentage Enhancement for Medicaid. In addition, Colorado will receive about $146 million as flexible federal grants. These provisions are summarized as follows:

● **Flexible federal aid to states:** Colorado will receive $146.3 million in flexible federal aid in two equal payments. The first will be received in FY 2002-03 and the second will be received in FY 2003-04. The Act limits use of the funds to "the types of expenditures permitted under the most recently approved budget for the state." The Governor announced that he would set aside 90 percent of the flexible funding ($131.7 million) in a separate lockbox to be used in the event that

General Fund revenues continue to decrease. This will enable the state to avoid further cuts in the event that revenues fall further than expected. This purpose will be reevaluated if the revenue outlook stabilizes. The remaining 10 percent of the flexible funds ($14.6 million) will be spent on programs we believe are not adequately funded because of the state's revenue situation: $5.6 million for the Children's Basic Health Plan and for prenatal health care services for low income women; $3.0 million for Read-to-Achieve, a literacy program for second and third grade students; $4.0 million for youth services; and $2.0 million for financial aid in higher education.

- **Enhanced Medicaid match:** Colorado is expected to receive $92.3 million in additional federal money through the enhanced Medicaid match provided by the Act. Roughly $18 million of these monies will be received in FY 2002-03 and $75 million in FY 2003-04.

Some of the provisions of the Act provide tax relief for Colorado taxpayers without affecting state tax revenues. However, the growth incentives for businesses includes a 50.0 percent bonus depreciation allowance and a small business expensing provision that will lower federal adjusted income and this is the basis for Colorado's income tax. Hence, Colorado income tax revenues will be lower because federal adjusted income will be lower. These two provisions — bonus depreciation and small business expensing — will lower Colorado income tax receipts by $58.5 million in FY 2003-04 and $31.2 million in FY 2004-05. Since the state uses an accrual system of accounting, some of the FY 2003-04 decline in income tax receipts will be counted against FY 2002-03 revenues.

A more detailed analysis of the tax provisions of this act can be found in Appendix A.

How have recently enacted tax cuts affected the state's budget shortfalls?

The tax rate cuts enacted during legislative sessions of the late 1990s through 2000 are responsible for less than 4.5 percent, or $40 million, of the $880.1 million revenue decline in FY 2001-02 and they do not contribute to the FY 2002-03 decline at all. The income tax rate was 4.63 percent in FY 2000-01 and each year thereafter, so it was not a factor in the decline in FY 2001-02 revenues. Meanwhile, the sales and use tax rate was reduced to 2.9 percent from 3.0 percent on January 1, 2001. This reduction lowered FY 2001-02 sales and use tax revenues by $39.0 million compared with the sales and use tax revenues that would have been collected without the lower tax rate. Hence, the reduced sales and use tax rate accounts for $39.0 million — 4.4 percent — of the revenue decline in FY 2001-02. Since the sales and use tax rate is 2.9 percent in all of FY 2002-03 and beyond, the decline in revenues in FY 2002-03 is not the result of the tax rate reduction.

The sales and use and income tax rate reductions passed during recent legislative sessions lowered the amount of taxes paid by Coloradoans. However, the decline in revenues that occurred in FY 2001-02 through FY 2003-04 were substantially more than the amount of the tax relief and hence, even had these tax cuts not been enacted, there would not have been a TABOR surplus in FY 2001-02 through FY 2003-04. Furthermore, without the sales, use, and income tax rate reductions enacted since 1999, the FY 2001-02 revenue shortfall would have been $39.5 million worse *even if all other spending were unchanged*. A more likely scenario occurs assuming the General Assembly spent nearly all the excess General Fund reserve on capital. If this had happened, the deficit would have reached almost $1.7 billion in FY 2001-02 instead of $1.1 billion.

GENERAL FUND REVENUES

The forecast for General Fund revenues is shown in ***Table 4***. The forecast for FY 2002-03 General Fund revenues was lowered in the June 2003 forecast compared with the March 2003 forecast. This section presents our forecast for General Fund revenues in FY 2002-03 through FY 2007-08.

FY 2002-03: General Fund revenues are expected to decline 4.3 percent in FY 2002-03 compared with FY 2001-02. The projected decline in General Fund revenues results mainly from declining sales, use, and individual income tax revenues. In FY 2002-03, sales tax revenues are forecast to fall 3.3 percent and use tax revenues are expected to drop 9.8 percent. Individual income tax revenue is forecast to drop 6.9 percent in FY 2002-03, but net corporate income tax revenues will increase 10.1 percent.

In total, the FY 2002-03 General Fund revenue forecast was reduced $78.6 million compared with our March 2003 forecast. The change was primarily due to a downward revision in individual income tax receipts, which were lowered by $111.7 million. The forecasts for sales and use taxes were also lowered. The decreases were partially offset by $35.8 million realized from state investments. The $35.8 million investment revenue is one-time in nature.

With respect to ***individual income tax receipts***, cash-with-returns and refunds changed substantially between the March 2003 and June 2003 forecasts, although the changes were partially offsetting. In FY 2002-03, individual cash-with-returns receipts (checks mailed in with income taxes due on April 15th) are forecast to decline 18.6 percent from the previous year. Meanwhile, although individual refunds are forecast to be 23.7 percent higher in FY 2002-03 than in the previous year, refunds are still significantly lower than expected in our March forecast. Hence, we lowered both our cash-with-returns and refunds forecasts significantly. Individual withholding taxes are essentially flat in FY 2002-03 compared with FY 2001-02, indicating that the state's wage and salary base is stabilizing as the labor market stabilizes. Individual estimated payments are also forecast to decline in FY 2002-03, but by a comparatively modest 5.2 percent. The decline in individual estimated payments 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.

Net corporate income tax receipts declined 46 percent in FY 2001-02, but they are forecast to increase 10.1 percent in FY 2002-03. 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 or minimize losses. National corporate profits are forecast to rise 8.5 percent in 2003 and 13.0 percent in 2004 as the economy strengthens. Colorado corporate income tax revenues have also risen as a result of cost cutting measures that improved profitability. Indeed, through May 2003, Colorado net corporate income tax revenues are nearly $17 million above the year-to-date March 2003 forecast. However, corporations will carry forward losses that occurred in the current business downturn for the next several years, which, coupled with recent federal tax cuts, will dampen growth in corporate income taxes in FY 2003-04 and FY 2004-05.

Sales tax revenues are forecast to decline 3.3 percent in FY 2002-03, a downward revision of $23.7 million from the March 2003 forecast. Consumer spending remains subdued because of the weakness in the Colorado economy. Sales tax revenues will increase as the economy strengthens.

FY 2003-04: In general, FY 2003-04 General Fund revenues will increase for a number of reasons. We expect jobs to grow modestly and wages to rise. The stock market will once again contribute to consumer wealth and consumers will satisfy pent-up demand and make postponed purchases. Corporate profits will climb as low interest rates and the Jobs and Growth Tax Relief Reconciliation Act of 2003 stimulate business investment and as a strengthening national economy again gives businesses the opportunity to expand. Still, the General Fund revenues reported in this forecast for FY 2003-04 are revised $172.7 million lower compared with our March 2003 forecast.

General Fund revenues are forecast to grow 4.4 percent in FY 2003-04 compared with FY 2002-03. The increase is partially due to the large negative accrual adjustment made to FY 2002-03 General Fund revenues. The large negative accrual adjustment occurred as a consequence of the rapid and dramatic decline in state revenues in FY 2001-02 and FY 2002-03. Because the Colorado economy is forecast to stabilize in FY 2003-04, the FY 2003-04 accrual adjustment will be small. On a cash basis, General Fund revenues will increase 2.5 percent in FY 2003-04, reflecting a modest improvement to the state economy. However, General Fund revenues are reported on an accrual basis and the large downward accrual adjustment in FY 2002-03 makes FY 2003-04 growth appear larger.

In FY 2003-04, the Colorado economy will have strengthened and, as a consequence, most of the revenue streams that contribute to the General Fund are forecast to increase compared with FY 2002-03. However, some of the law changes reported previously will affect revenue growth rates. For example, sales tax revenues will climb about six percent in FY 2003-04, in part because of increased consumer spending resulting from more jobs and higher wages, but also because Senate Bill 03-317 reduced the vendor fee collected by merchants. Because of Senate Bill 03-317, the state will receive a larger share of the sales tax revenues collected, so sales tax revenue growth will be larger. Meanwhile, net corporate income tax revenue growth in FY 2003-04 will be reduced because of the 50.0 percent bonus depreciation and increased small business expensing provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003.

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TABLE 2

TABOR Surplus Revenue
(Dollar Amounts in Millions)

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
		June 2003 Estimate by Fiscal Year					
TABOR Revenues:							
General Fund	$5,519.8 **/A**	$5,302.0 **/A**	$5,528.9 **/A**	$5,849.6 **/A**	$6,236.5 **/A**	$6,653.8 **/A**	$7,038.3 **/A**
Cash Funds	2,232.4	2,250.7	2,546.7	2,799.3	2,909.8	3,016.8	3,278.5
Total TABOR Revenues	7,752.2	7,552.7	8,075.6	8,648.8	9,146.3	9,670.6	10,316.8
TABOR Limit Calculation:							
Previous calendar year population growth	*NA* **/B**	*2.4%*	*1.7%*	*1.2%*	*1.3%*	*1.4%*	*1.7%*
Previous calendar year inflation	*4.0%*	*4.7%*	*1.9%*	*2.8%*	*2.9%*	*3.0%*	*3.0%*
Growth Dividend	*na*	*0.0%*	*3.3%*	*2.7%*	*0.0%*	*0.0%*	*0.0%*
Allowable TABOR Growth Rate	4.0%	7.1% **/C**	6.9% **/C**	6.9% **/C**	4.3% **/C**	4.8% **/C**	5.2% **/C**
Actual Change in TABOR Revenues from Limit	-2.5%	-2.6%	6.9%	7.1%	6.0%	7.4%	9.4%
TABOR LIMIT	**$8,126.2 /D**	**$8,302.6 /D**	**$8,075.6 /D**	**$8,630.9 /D**	**$9,002.1 /D**	**$9,434.2 /D**	**$9,924.7 /D**
REVENUES ABOVE / (BELOW) TABOR LIMIT	**($365.7)**	**($749.9)**	**$0.0**	**$17.9**	**$144.3**	**$236.5**	**$392.1**
EMERGENCY RESERVE:							
TABOR Emergency Reserve	$232.6 **/E,F**	$226.6 **/E,G**	$242.3 **/E,H**	$258.9 **/E,H**	$270.1 **/E,H**	$283.0 **/E,H**	$297.7 **/E,H**

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

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

Footnotes for TABLE 2 — TABOR Surplus Revenue:

/A These figures differ from the General Fund revenues reported in other tables because they net out revenues credited to the State Education Fund per Amendment 23, other revenues that are exempt from TABOR, and revenues that are recorded in both the General Fund and in Cash Funds to avoid double counting. For instance, the General Fund gaming revenues, unexpended prior-year Medicaid expenditures that are booked in "other revenue," and transfers of unclaimed property are netted out.

/B The 2000 Census showed 6.0 percent population growth between 1999 and 2000 prior to the revision of Colorado population through the 1990s. This growth rate captures Colorado population growth during the 1990s that was missed by U.S. Bureau of the Census estimates during the decade. Since the state was not in a TABOR surplus position in FY 2001-02, House Bill 02-1310 and Senate Bill 02-179 directed the population growth portion of the FY 2001-02 TABOR limit to be used when the state is in a TABOR surplus position.

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

/D The TABOR Limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "TABOR Limit," whichever is smaller. In FY 2001-02, total TABOR revenues are less than the TABOR limit, so the FY 2002-03 TABOR limit is calculated by growing FY 2001-02 total TABOR revenues by the FY 2002-03 allowable TABOR growth rate. Similarly, in FY 2002-03, total TABOR revenues are also less than the TABOR limit, so the FY 2003-04 TABOR limit is calculated by growing FY 2002-03 actual total TABOR revenues by the FY 2003-04 allowable TABOR growth rate. In the remaining years, the TABOR limit is less than or equal to total TABOR revenues, so the TABOR limit is calculated from the previous years TABOR limit.

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

/F In FY 2001-02, per House Bill 02-1394 and House Bill 02-1442, the three percent TABOR emergency reserve is designated 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.

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

/H In FY 2003-04 through FY 2007-08, per Senate Bill 03-258, the three percent TABOR emergency reserve is designated as the Colorado river recovery program loan fund, the fish and wildlife resources fund, the perpetual base account of the severance tax trust fund, the species conservation trust fund, the wildlife cash fund and fund equity, and up to $87.4 million of state properties.

TABLE 3

General Fund Overview
Current Law
(Dollar Amounts in Millions)

	FY 2001-02	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08
		June 2003 Estimate by Fiscal Year					
BEGINNING RESERVE	$469.3	$137.5	$144.7	$217.7	$221.0	$230.4	$244.2
GROSS GENERAL FUND REVENUES	5,836.7	5,587.7	5,832.7	6,174.2	6,585.7	7,027.0	7,434.2
Transfers to General Fund	789.7 **/A**	531.8 **/A**	44.8 **/A**	4.1 **/A**	5.5 **/A**	5.5 **/A**	5.5 **/A**
Senate Bill 97-1 Transfers to the HUTF	0.0	0.0	0.0	0.0	0.0	(163.8)	(31.5)
Diversion to the Older Coloradan's Program	0.0	(3.0)	(2.3)	(2.3)	(2.8)	(2.8)	(2.8)
Transfer to the State Education Fund	(272.9) **/B**	(247.9) **/B**	(262.6) **/B**	(282.2) **/B**	(303.4) **/B**	(323.8) **/B**	(342.6) **/B**
Transfer from the State Education Fund for overpayments	0.0	59.2 **/C**	0.0	0.0	0.0	0.0	0.0
TOTAL FUNDS AVAILABLE	$6,822.8	$6,065.4	$5,757.3	$6,111.6	$6,506.0	$6,772.5	$7,307.0
EXPENDITURES:							
General Fund Appropriations (Long Bill & Special Bills)	$5,643.0 **/D**	$5,414.5	$5,538.4	$5,504.0	$5,739.6	$6,085.2	$6,451.5
Additional Reduction Necessary to Maintain Required Reserve	0.0	NA	(97.1) **/E**	0.0	0.0	0.0	0.0
K-12 Capital Construction	10.0 **/F**	0.0 **/F**	0.0 **/F**	20.0 **/F**	20.0 **/F**	20.0 **/F**	20.0 **/F**
Capital Construction Freeze (S.B. 03-179)	0.0	(30.5)	0.0	0.0	0.0	0.0	0.0
Federal Medical Assistance Enhancement for Medicaid	0.0	(17.8)	(74.5)	0.0	0.0	0.0	0.0
Rebates and Expenditures	132.7	132.0	108.5 **/G**	108.6 **/G**	133.1	131.5	131.0
Capital and Prison Construction	0.0	10.6	9.4	101.8	100.4	0.0	0.0
TABOR Refund	927.2	0.0	0.0	17.9	144.3	236.5	392.1
Homestead Exemption	0.0	62.3	0.0 **/H**	0.0 **/H**	0.0 **/H**	55.1	53.6
Transfer to the Controlled Maintenance Trust Fund (S.B. 03-262)	0.0	0.0	0.0	138.2	138.2	0.0	0.0
General Fund Payback	2.5 **/I**	349.6 **/I**	15.0 **/I**	0.0	0.0	0.0	0.0
Transfer to CMTF for Cash Flow Enhancement	0.0	0.0	40.0 **/J**	0.0	0.0	0.0	0.0
Reversions & Accounting Adjustments	(30.1)	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL OBLIGATIONS	$6,685.2	$5,920.7	$5,539.7	$5,890.6	$6,275.6	$6,528.3	$7,048.2
YEAR-END GENERAL FUND RESERVE:	**$137.5**	**$144.7**	**$217.7**	**$221.0**	**$230.4**	**$244.2**	**$258.9**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS	**0.0 /K**	**131.3 /K**	**217.7**	**221.0**	**230.4**	**244.2**	**258.9**
MONIES ABOVE (BELOW) STATUTORY RESERVE	**137.5**	**13.4**	**0.0**	**0.0**	**0.0**	**0.0**	**(0.0)**
RESERVE AS A % OF APPROPRIATIONS	**2.4%**	**2.7%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
Appropriations Change	**$303.4**	**($238.5)**	**$123.9**	**($14.4)**	**$235.6**	**$345.6**	**$366.3**
	5.7%	-4.2%	2.3%	-0.3%	4.3%	6.0%	6.0%

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

Footnotes for TABLE 3 — General Fund Overview, Current Law:

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

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

/C The state 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 section 22-55-103, C.R.S.

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

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

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

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

/H Senate Bill 03-265 eliminated the senior Homestead Exemption property tax credit in FY 2003-04 through FY 2005-06.

/I Per House Bill 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 House Bill 02-1391 throughout the forecast horizon. In addition, House Bill 02-1445 and House Bill 02-1478 required the state to repay on July 1, 2002, the Major Medical and Tobacco Settlement funds in the same amount as was transferred to the General Fund in FY 2001-02. House Bill 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. Senate Bill 03-191 requires that \$10 million be repaid on July 1, 2003, to the Major Medical Fund and Senate Bill 03-274 requires that up to \$6.9 million be repaid to the local government limited gaming impact fund from any revenues above \$5.0 million collected through the tax amnesty program.

/J Senate Bill 03-342 appropriates \$40 million to the Controlled Maintenance Trust Fund to enhance the General Fund's cash flow in FY 2003-04.

/K Per House Bill 02-1478, the four percent statutory reserve was eliminated in FY 2001-02 only and per Senate Bill 03-349, the four percent statutory reserve is lowered in FY 2002-03.

TABLE 4

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

			June 2003 Estimate by Fiscal Year with Percent Change Over Prior Year											
Category	**FY 2001-02**	**%**	**FY 2002-03**	**%**	**FY 2003-04**	**%**	**FY 2004-05**	**%**	**FY 2005-06**	**%**	**FY 2006-07**	**%**	**FY 2007-08**	**%**
Sales	$1,755.7 **/A**	(3.1)	$1,698.0 **/A**	(3.3)	$1,796.0 **/A**	5.8	$1,888.3 **/A**	5.1	$2,010.8 **/A**	6.5	$2,163.3 **/A**	7.6	$2,299.1 **/A**	6.3
TABOR Overrefund	(36.3) **/B**		(18.7) **/B**		0.0		0.0		0.0		0.0		0.0	
Use	140.6 **/A**	(11.0)	126.8 **/A**	(9.8)	130.1 **/A**	2.6	133.8 **/A**	2.8	137.1 **/A**	2.5	143.6 **/A**	4.8	150.6 **/A**	4.8
Cigarette	55.2	(5.0)	54.2	(1.8)	54.6	0.6	55.3	1.4	54.1	(2.2)	54.1	0.0	54.1	0.0
Tobacco Products	10.3	4.3	10.4	0.7	11.0	6.2	11.5	4.2	11.8	2.4	12.1	2.5	12.3	1.5
Liquor	29.5	0.6	29.6	0.3	29.7	0.4	30.0	1.0	30.4	1.4	30.9	1.6	31.9	3.1
TOTAL EXCISE	$1,955.0	(2.6)	$1,900.3	(2.8)	$2,021.4	6.4	$2,119.0	4.8	$2,244.2	5.9	$2,404.0	7.1	$2,547.9	6.0
Net Individual Income	$3,345.1	(16.7)	$3,113.3	(6.9)	$3,354.8	7.8	$3,557.9	6.1	$3,796.4	6.7	$4,029.9	6.1	$4,272.8	6.0
Net Corporate Income	178.0	(46.0)	195.9	10.1	142.5	(27.3)	202.3	41.9	248.4	22.8	287.0	15.6	294.2	2.5
TOTAL INCOME	$3,523.1	(19.0)	$3,309.3	(6.1)	$3,497.4	5.7	$3,760.2	7.5	$4,044.8	7.6	$4,316.9	6.7	$4,567.0	5.8
Estate	$72.5 **/C**	(12.2)	$54.0 **/C**	(25.5)	$41.2 **/C**	(23.6)	$15.0 **/C**	(63.7)	$1.1 **/C**	(93.0)	$0.0 **/C**	NA	$0.0 **/C**	NA
Insurance	154.6	8.9	169.3	9.5	168.4	(0.5)	176.4	4.8	181.7	3.0	185.8	2.3	194.9	4.9
Pari-Mutuel	5.7	(6.6)	4.5	(21.1)	5.8	27.9	5.7	(0.6)	5.7	(0.7)	5.6	(0.8)	5.6	(0.8)
Interest Income	25.3	(44.0)	45.2 **/D**	78.6	11.0	(75.6)	11.2	1.5	15.5	38.2	17.9	16.0	18.8	5.0
Court Receipts	23.3	4.5	26.1	12.0	27.6	5.8	27.4	(0.7)	27.0	(1.4)	26.7	(1.1)	26.1	(2.3)
Gaming	34.1	8.5	37.8	10.9	41.2	8.9	42.5	3.2	45.7	7.7	49.4	8.1	53.3	7.9
Medicaid (Intergovt. Transfer)	11.2	NA	20.0	79.0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Other Income	31.9	(4.5)	21.2	(33.5)	18.8	(11.3)	16.9	(10.3)	20.0	18.9	20.5	2.3	20.5	0.0
TOTAL OTHER	$358.5	(1.2)	$378.1	5.5	$314.0	(17.0)	$295.1	(6.0)	$296.7	0.5	$306.0	3.2	$319.3	4.3
GROSS GENERAL FUND	**$5,836.7**	**(13.1)**	**$5,587.7**	**(4.3)**	**$5,832.7**	**4.4**	**$6,174.2**	**5.9**	**$6,585.7**	**6.7**	**$7,027.0**	**6.7**	**$7,434.2**	**5.8**
REBATES & EXPENDITURES:														
Cigarette Rebate	$15.9	(3.0)	$15.6	(1.8)	$15.7	0.6	$15.9	1.4	$15.6	(2.2)	$15.6	0.0	$15.6	0.0
Old-Age Pension Fund	72.0	13.9	70.7	(1.9)	72.4	2.5	72.9	0.7	73.2	0.4	72.9	(0.3)	73.4	0.6
Aged Property Tax & Heating Credit	15.9	(5.4)	16.3	2.4	16.5	1.7	16.0	(3.0)	15.2	(5.0)	13.9	(8.6)	12.9	(7.1)
Fire/Police Pensions	28.9	0.7	29.5	2.1	3.8	(87.1)	3.8	0.0	29.1	665.8	29.1	0.0	29.1	0.0
TOTAL REBATES & EXPENDITURES	$132.7	6.1	$132.0	(0.5)	$108.5	(17.9)	$108.6	0.2	$133.1	22.5	$131.5	(1.2)	$131.0	(0.4)

NA = Not Applicable.

Totals may not sum due to rounding.

Footnotes for TABLE 4 — Colorado General Fund, Accrual Basis, Revenue Estimates by Tax Category

/A Beginning January 1, 2001, 10.34 percent of sales and use taxes will be diverted to the Highway Users Tax Fund per House Bill 00-1259 when revenues are available to fund expenditures. The full amount of sales and use taxes are reported here and the amount transferred is deducted from available revenues in the General Fund Overview in Table 3.

/B Per House Bill 99-1001, the state was required to refund 105 percent of the TABOR surplus. The five percent over-refund essentially lowers the following year's sales tax revenue. In the 2002 legislative session, three bills (House Bill 02-1310, Senate Bill 02-179, and Senate Bill 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, $69.9 million of the TABOR over-refund 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 over-refund is associated with the FY 1999-00 and FY 2000-01 TABOR surplus.

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

/D The state received $35.8 million in one-time revenues from the sale of financial assets in FY 2002-03, thus resulting in extremely strong interest income growth in FY 2002-03 and very weak interest income growth in FY 2003-04.

CASH FUND REVENUE FORECAST

The OSPB June 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 $2,250.7 million (up 0.8 percent) in FY 2002-03 and to reach $2,546.2 million (up 13.1 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 7.8 percent.

In FY 2003-04, cash funds will see a large increase (13.1 percent) primarily due to strong revenue growth in three categories: higher education, Unemployment Insurance (UI) Trust Fund, and other miscellaneous cash funds. Higher education revenues will rise 16.0 percent as tuition rates are increased and enrollment continues to grow. The UI Trust Fund will experience a surge in revenue as employer tax rates adjust to replenish the UI Trust Fund, as is designed per statute. Finally, the other miscellaneous cash funds will increase 22.2 percent due to various new fee legislation enacted during the 2003 legislative session. The remainder of this section details revenues for the large cash funds.

Transportation-Related Cash Funds

Total transportation-related cash funds are forecast to decrease 2.1 percent in FY 2002-03 and to increase 1.2 percent in FY 2003-04. The FY 2002-03 decrease is primarily the function of decreased local monies, which are explained below. From FY 2002-03 through FY 2007-08, these funds will grow at a compound average annual rate of 3.0 percent. ***Table 6*** details the forecast for transportation-related cash fund revenues.

- The largest of these funds, the ***Highway Users Tax Fund*** (HUTF), is composed primarily of fuel tax revenues and registration fees. In FY 2002-03, a weak economy is reducing demand for gasoline. As businesses nationally and locally continue to lower inventories due to a lack of consumer spending, the number of trucks entering the state also declined leading to a drop in the amount of diesel gasoline purchased. Indeed, the number of heavy vehicle registrations has dropped substantially. Hence, motor and special fuel taxes and vehicle registration 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 (1.5 percent) in FY 2003-04 as businesses begin to build up their inventories and consumers have more disposable income to spend at the gasoline pump. Beginning in FY 2006-07, driver’s license fees will increase, contributing to a faster pace of growth in the out years.

- The ***other transportation-related cash funds***, which grew 18.5 percent in FY 2001-02, will drop 24.9 percent in FY 2002-03 and will fall an additional 3.8 percent in FY 2003-04. The strong growth in FY 2001-02 was due to increased amounts of local matching monies placed in the State Highway Fund from the Regional Transportation District (RTD) for light rail and highway construction. These local monies match funds provided through federal grant programs. In FY 2002-03 and FY 2003-04, RTD will not be contributing funds; hence, matching local monies are expected to decline substantially. This will cause the overall fall in the other transportation-related cash funds revenues.

- The General Assembly passed legislation in the 2003 session impacting the revenue stream to the other transportation-related cash funds.

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

- Senate Bill 03-192 increased the fee for restoring revoked drivers licenses. This fee will contribute an additional $1 million in revenue.

Higher Education

The June 2003 forecast for FY 2002-03 ***higher education cash funds***, shown in ***Table 7,*** reflects resident tuition increases at Colorado state and community colleges of 4.7 percent while Colorado's large universities increased resident tuition by 6.2 percent. For FY 2002-03, nonresident tuition increased 7.7 percent at the Colorado State University, at community colleges, and at the University of Northern Colorado. Nonresident tuition increased 9.0 percent at other state universities. For FY 2003-04, the June 2003 forecast uses tuition rates approved by the General Assembly and the Colorado Commission on Higher Education. The rates provide for resident tuition and fee increases of five percent to ten percent depending on the institution, and nonresidential tuition increases of six percent to ten percent depending on the institution. In addition, the University of Colorado at Boulder was allowed an additional increase for its Quality for Colorado program through the forecast horizon. The forecast for FY 2004-05 and beyond assumes that both residential and nonresidential 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 1989-90 school year. The strong increase in enrollment occurred because of the slower economy. The difficult job market causes many who would otherwise be working to go back to school. Total enrollment is expected to grow 3.3 percent in FY 2003-04.

- Total higher education revenues will increase 10.0 percent in FY 2002-03, reflecting an increase in tuition rates of between 4.7 percent and 9.0 percent coupled with the substantial increase in the number of FTE students. In FY 2003-04, total higher education revenues will increase by 16.0 percent, reflecting an increase in tuition rates of between 5.0 percent and 15.0 percent and continued strong growth in student enrollment. For the remainder of the forecast, tuition rates are assumed to increase by the Denver-Boulder-Greeley inflation rate.

Unemployment Insurance Trust Fund

The Unemployment Insurance (UI) tax revenue forecast is shown in ***Table 8***. UI Trust Fund revenues are forecast to increase 18.1 percent in FY 2002-03. Tax revenues 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 expire in calendar year 2003. UI tax revenues are expected to surge 45.0 percent in FY 2003-04 as rates continue to adjust upward. UI tax rates are designed to increase when benefit claims rise in order to replenish the UI Trust Fund. During good economic times when UI benefit claims decrease, the UI tax rates decline. Through FY 2007-08, we expect UI tax revenues will grow an average 3.9 percent per year.

- UI benefits paid to workers increased nearly 200 percent in FY 2001-02. In FY 2002-03, UI benefit payments will increase another 13.8 percent as the labor market continues to be soft. Benefit payments will begin to decline in FY 2003-04 and through the remainder of the forecast as the economic recovery progresses.

- Colorado's UI Trust Fund received $142.7 million from the federal government as a result of the federal Reed Act Distribution. These funds kept the UI Trust Fund balance high enough to prevent the solvency surcharge from triggering in 2003. The solvency surcharge is an additional tax paid by employers when the ratio of the UI Trust Fund balance to the amount of total wages paid during the preceding calendar year is less than 0.9 percent. As a result, Colorado's employers will not pay a $55.1 million solvency surcharge in calendar year 2003. However, because UI benefit payments remained high during FY 2002-03, we project that the solvency surcharge will be triggered in calendar years 2004 through 2009.

- In both calendar years 2004 and 2005, employers will experience a tax rate schedule increase. 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 in 2004. In addition, the UI Trust Fund balance will end FY 2002-03 at $265.7 million and FY 2003-04 at $60.9 million. These balances will trigger a tax rate schedule increase in calendar years 2004 and 2005.

- The 2003 General Assembly passed legislation that affects the UI Trust Fund balance.

  - Currently, employers pay a statutory 0.22 percent surcharge tax with their unemployment insurance taxes, half of which goes to the UI Trust Fund. With the passage of Senate Bill 03-296, this half of the 0.22 percent surcharge from the UI Trust Fund is diverted to the General Fund for the remainder of FY 2002-03 through FY 2003-04. This action is expected to divert $23 million to the General Fund.

  - Senate Bill 03-207 allows $6.4 million in the Employment Support Fund to be refinanced with Reed Act dollars. This bill also provides a one-time allocation of $7 million in Reed Act dollars to county one-stop Workforce Centers. The $7 million for the Workforce Centers will be used to help dislocated workers.

Miscellaneous Cash Funds

The June 2003 forecast for total revenues for the miscellaneous cash funds is $32.4 million lower in FY 2002-03 than our March 2003 forecast. Highlights from the miscellaneous cash funds follow:

- The ***limited gaming fund*** forecast was lowered to reflect weaker-than-expected growth in gaming revenues. Slower growth in gaming revenues is primarily attributed to March's blizzard and construction on Colorado Highway 119. The snow caused road closures and, as a consequence, 20 of the 26 casinos in Black Hawk and Central City were closed for three days. The limited gaming fund will grow 2.5 percent in FY 2002-03 and average 6.9 percent growth through FY 2007-08.

- In FY 2002-03, ***severance tax funds*** are forecast to decrease 34.6 percent. The decline in revenue is due to credits received for property taxes paid in previous years and significant declines in the value of fuel between 2001 and 2002 coupled with a slower production growth rate. Beginning in FY 2003-04, property tax rebates are not expected to be as large, so a greater amount of severance tax revenues will be collected. Severance tax revenues will grow at a compound annual average rate of 10.1 percent through the forecast period.

- The ***other miscellaneous cash funds*** category, which includes a large number of smaller funds, totaled $269 million in FY 2002-03. The revenue forecast for these funds was reduced by

$20.7 million in the June 2003 forecast. The primary reason for the reduction is a $15 million transfer from the Unclaimed Property Trust Fund to the General Fund, as allowed by House Bill 02-1445 and House Bill 02-1478. Meanwhile, a change in the status of the Canteen and Library fund also contributed to the decline. The Canteen and Library fund was given enterprise status for TABOR purposes, as allowed by House Bill 02-1171. This means that the revenues collected into this fund will no longer count toward the TABOR limit.

- Various new legislation passed by the 2003 General Assembly will impact the revenue stream of these other cash funds. The majority of new legislation will take effect July 1, 2003. The new legislation will account for about $60 million in additional fee revenue in FY 2003-04 and beyond.

TABLE 5

Cash Fund Revenue Forecasts by Major Category

(Accrual Basis, Dollar Amounts in Millions)

		June 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	
Transportation-Related	$813.9	$796.5	$805.7	$827.2	$853.3	$893.3	$923.7	
Change	4.2%	-2.1%	1.2%	2.7%	3.1%	4.7%	3.4%	3.0%
Higher Education	$635.4 **/A**	$699.1 **/A**	$810.7 **/A**	$837.4 **/A**	$874.6 **/A**	$913.8 **/A**	$954.6 **/A**	
Change	8.6%	10.0%	16.0%	3.3%	4.4%	4.5%	4.5%	6.4%
Unemployment Insurance	$196.1 **/B**	$206.9 **/B**	$303.4 **/C**	$474.4 **/C**	$499.2 **/C**	$494.0 **/C**	$648.7 **/C**	
Change	-2.4%	5.5%	46.7%	56.3%	5.2%	-1.0%	31.3%	25.7%
Limited Gaming Fund	$99.1	$101.6	$107.3	$114.1	$122.5	$131.9	$141.8	
Change	7.7%	2.5%	5.6%	6.4%	7.3%	7.7%	7.5%	6.9%
Capital Construction - Interest	$17.5	$4.3	$0.2	$1.5	$3.8	$3.5	$1.9	
Change	-49.8%	-75.4%	-94.9%	590.5%	151.8%	-8.0%	-46.8%	-15.5%
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	$61.8	$66.3	$70.3	$74.4	$78.7	$83.3	
Change	29.0%	-6.7%	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	$24.4 **/D**	$18.9 **/D**	$14.3 **/D**	$9.5 **/D**	$9.4	
Change	-19.9%	-4.9%	20.8%	-22.4%	-24.7%	-33.2%	-1.1%	-14.2%
Controlled Maintenance Trust Fund Interest	$0.5	$0.0	$1.2 **/E**	$4.1 **/E**	$6.4 **/E**	$6.4	$6.3	
Change	-97.1%	NA	NA	NA	55.1%	-0.4%	-1.9%	14.8% **/E**
Other Miscellaneous Cash Funds	$274.4	$268.8	$328.5	$342.9	$355.5	$371.3	$388.9	
Change	-3.0%	-2.0%	22.2%	4.4%	3.7%	4.4%	4.7%	7.7%
TOTAL CASH FUND REVENUE	**$2,232.4**	**$2,250.7**	**$2,546.2**	**$2,803.0**	**$2,912.2**	**$3,018.4**	**$3,279.4**	
Change	2.0%	0.8%	13.1%	10.1%	3.9%	3.6%	8.6%	7.8%

* CAAGR: Compound Annual Average Growth Rate.

NA = Not Applicable.

Totals may not sum due to rounding.

/A In FY 2002-03, schools increased resident tuition between 4.7% and 6.2% and nonresident tuition between 7.7% and 9.2%. In FY 2003-04, schools will increase resident tuition between 5.0% an 10.0% and nonresident tuition between 6.0% and 10.0% The University of Colorado at Boulder was allowed an additional 5.0% increase for its Quality for Colorado program. For the outyears, tuition rates are assumed to grow at the Denver-Boulder-Greeley inflation rate.

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

/C Includes revenues from the solvency tax surcharge, which is in effect because the Solvency Ratio on June 30, 2003, June 30, 2004, June 30, 2005, June 30 2006, June 30, 2007, and June 30, 2008 is less than 0.9%.

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

/E Per H.B. 03-262, the Controlled Maintenance Trust Fund payback will be made in FY 2004-05 and FY 2005-06. The CAAGR interest is computed for the period from FY 2004-05 through FY 2007-08.

TABLE 6

Transportation-Related Cash Funds Revenue Forecast *(Accrual Basis, Dollar Amounts in Millions)*								
		June 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	$154.0	$156.2	$159.9	$165.2	$171.4	$178.0	
Change	1.8%	1.7%	1.4%	2.4%	3.3%	3.7%	3.8%	2.9%
Motor and Special Fuels Net of Refunds	$544.6	$542.5	$551.0	$565.3	$582.3	$599.8	$618.5	
Change	3.5%	-0.4%	1.6%	2.6%	3.0%	3.0%	3.1%	2.7%
Other Receipts	$43.7 **/A**	$44.3 **/A**	$45.0 **/A**	$45.9 **/A**	$46.8 **/A**	$59.7 **/A,B**	$61.2 **/A**	
Change	0.6%	1.3%	1.5%	2.0%	2.0%	27.6%	2.4%	6.7%
TOTAL HUTF	$739.7	$740.8	$752.1	$771.1	$794.3	$830.9	$857.6	
Change	3.0%	0.1%	1.5%	2.5%	3.0%	4.6%	3.2%	3.0%
Other Transportation-Related Cash Funds	$74.2 **/C**	$55.7 **/B**	$53.6 **/B**	$56.1 **/B**	$58.9 **/B**	$62.4 **/B**	$66.1 **/B**	
Change	18.5%	-24.9%	-3.8%	4.7%	5.0%	5.9%	5.9%	3.5%
TOTAL TRANSPORTATION-RELATED	**$813.9**	**$796.5**	**$805.7**	**$827.2**	**$853.3**	**$893.3**	**$923.7**	
Change	4.2%	-2.1%	1.2%	2.7%	3.1%	4.7%	3.4%	3.0%

* CAAGR: Compound Annual Average Growth Rate.

Totals may not sum due to rounding.

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

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

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

TABLE 7

Higher Education Cash Fund Revenue Forecast by Source (Accrual Basis, Dollar Amounts in Millions)								
		June 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	$531.9 **/A**	$625.2 **/A**	$643.0 **/A**	$671.0 **/A**	$700.7 **/A**	$731.4 **/A**	
Change	10.1%	12.3%	17.5%	2.8%	4.4%	4.4%	4.4%	6.6%
Non-Tuition	$161.8	$167.2	$185.4	$194.3	$203.5	$213.2	$223.2	
Change	3.3%	3.3%	10.9%	4.8%	4.7%	4.7%	4.7%	6.0%
TOTAL HIGHER EDUCATION	**$635.4**	**$699.1**	**$810.7**	**$837.4**	**$874.6**	**$913.8**	**$954.6**	
Change	8.6%	10.0%	16.0%	3.3%	4.4%	4.5%	4.5%	6.4%
Full-Time-Equivalent Students								
Total	143,972	151,117	156,046	159,018	161,986	164,922	168,010	
Change	4.0%	5.0%	3.3%	1.9%	1.9%	1.8%	1.9%	2.1%
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	21,928	21,918	22,120	22,302	22,493	
Change	3.2%	0.1%	0.0%	0.0%	0.9%	0.8%	0.9%	0.5%

* CAAGR: Compound Annual Average Growth Rate.

Totals may not sum due to rounding.

/A In FY 2002-03, schools increased resident tuition between 4.7% and 6.2% and nonresident tuition between 7.7% and 9.2%. In FY 2003-04, schools will increase resident tuition between 5.0% and 10.0% and nonresident tuition between 6.0% and 10.0% The University of Colorado at Boulder was allowed an additional 5.0% increase for its Quality for Colorado program. For the outyears, tuition rates are assumed to grow at the Denver-Boulder-Greeley inflation rate.

TABLE 8

Unemployment Insurance Trust Fund Forecast *(Accrual Basis, Dollar Amounts in Millions)*								
		June 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	$265.7	$60.9	$151.6	$314.4	$482.6	
Change	4.0%	-21.1%	-57.6%	-77.1%	149.1%	107.3%	53.5%	-5.1%
Income	$196.1	$206.9	$303.4	$474.4	$499.2	$494.0	$648.7	
Change	-2.4%	5.5%	46.7%	56.3%	5.2%	-1.0%	31.3%	25.7%
Taxes	$150.7 **/A**	$177.9 **/A**	$257.9 **/B**	$379.9 **/B**	$341.5 **/B**	$266.8 **/B**	$215.4	
Change	0.7%	18.1%	45.0%	47.3%	-10.1%	-21.9%	-19.2%	3.9%
Interest	$45.4	$29.0	$9.4	$3.8	$9.0	$17.4	$27.5	
Change	-11.4%	-36.1%	-67.5%	-59.7%	136.2%	94.2%	57.4%	-1.1%
Solvency Surcharge	$0.0	$0.0	$36.2	$90.6	$148.6	$209.8	$405.8	
Benefits and Accounting Adjustments	($506.0) **/C**	($567.5) **/C**	($526.3) **/C**	($416.7) **/C**	($369.7) **/C**	($351.8) **/C**	($346.6) **/C**	
Change	197.1%	12.2%	-7.3%	-20.8%	-11.3%	-4.8%	-1.5%	-9.4%
Ending Fund Balance	**$626.9**	**$265.7**	**$60.9**	**$151.6**	**$314.4**	**$482.6**	**$805.6**	
Solvency Ratio	0.9% **/D**	0.4% **/D**	0.1% **/D**	0.2% **/D**	0.4% **/D**	0.6% **/D**	0.9% **/D**	
Total Wages	$69,055 **/E**	$66,742 **/E**	$68,414 **/E**	$72,332 **/E**	$77,591 **/E**	$83,753 **/E**	$90,365 **/E**	
Change	1.8%	-3.3%	2.5%	5.7%	7.3%	7.9%	7.9%	6.2%

* CAAGR: Compound Annual Average Growth Rate.

Totals may not sum due to rounding.

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

/B Includes revenues from the solvency tax surcharge, which is in effect because the Solvency Ratio on June 30, 2003, June 30, 2004, June 30, 2005, June 30 2006, June 30, 2007, and June 30, 2008 is less than 0.9%.

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

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

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

THE NATIONAL ECONOMY

The national economy suffered major negative shocks over the past two years: the stock market bubble burst, terrorists attacked on U.S. soil, wars were fought in Afghanistan and Iraq, and numerous corporate scandals surfaced. Thus, it is not surprising that the national economic recovery continues to be weak, even though the precursors to economic growth are in place. Indeed, the economic recovery stalled mainly because of geopolitical uncertainty and this uncertainty's impact on spending patterns. The nation prepared for war with Iraq, the threat of terrorism became elevated, the global economy fell into disarray, and consumers became more cautious about committing to large purchases. Furthermore, business investment has been weak since third quarter 2000, contributing little if anything to the economy.

Inflation-adjusted gross domestic product (GDP) grew a modest 1.9 percent in first quarter 2003, as consumers and businesses alike awaited the outcome of the Iraqi situation. Consumer confidence has since rebounded substantially, although it remains low by historical standards. Fortunately, consumer spending is not as depressed as is consumer confidence, in part because low interest rates and car dealer incentives entice continued purchases. In particular, mortgage refinancing has helped boost purchasing power. Nonetheless, the national economy is displaying sound fundamentals. For example, productivity growth is strong, which supports wages and profit margins, and the equipment that sustained productivity over the past two years is nearing the end of its useful lifespan, which in turn will lead to rising demand for new equipment purchases. Also, the weaker dollar is helping beleaguered manufacturers by making goods produced in America cheaper in comparison with their foreign competitors. Meanwhile, lower energy prices leave more money for businesses and consumers to spend elsewhere. Furthermore, the recent federal fiscal stimulus package will spur investment. Indeed, the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003 will stimulate the economy because the majority of the provisions are concentrated on increasing demand over a relatively short 16-month period.

The national economy will be weak in 2003 and will not resume robust growth until mid-2004. GDP growth will remain below its long-term growth path throughout 2003 and average employment in 2003 will be the same as in 2002, with newly created jobs just offsetting job cuts. However, by year-end 2004, the U.S. economy will have regained the ground lost since the recession began in March 2001. This section discusses recent national economic performance, the forecast for the national economy, and risks to the economic recovery.

Overview of Recent National Economic Activity

- ***Inflation-adjusted GDP*** grew 1.9 percent in first quarter 2003, following a mere 1.4 percent increase in fourth quarter 2002. Growth was weak as consumer spending, which accounts for about two-thirds of GDP, grew by only a modest amount at the end of 2002 and the beginning of 2003.

  - Rising energy costs, concerns about the war with Iraq, and declining equity wealth all contributed to restrained ***consumer spending*** in first quarter 2003. Consumer spending increased at an annualized 2.0 percent rate in first quarter 2003, an improvement over the 1.7 percent pace posted in fourth quarter 2002. Durable goods purchases fell by 1.8 percent but expenditures on non-durable goods rose 6.4 percent while spending on services was essentially flat. By comparison, consumer spending had been uncharacteristically strong for this stage of the business cycle. Indeed, on average consumer spending has grown 2.7 percent in the nine quarters starting in first quarter 2001. By contrast, in the nine quarters following the beginning of the 1990-1991 recession, consumption only averaged 1.2 percent growth. Furthermore, during this nine-quarter period in 1990-1991, consumer spending declined in three quarters whereas for every quarter since first quarter 2001, consumer spending has grown by 1.4 percent or more.

- ***Business investment*** declined 4.8 percent in first quarter 2003 following a 2.3 percent increase in fourth quarter 2002 and *inventories* remain well below their 1998 peak. *Equipment and software* investments fell 6.3 percent during first quarter 2003, although spending on computer equipment surged. Meanwhile, investment in *new nonresidential buildings and structures* rose 0.2 percent in first quarter 2003, the first gain in structures investment since third quarter 2001. Overall, business investment has been weak, falling 6.7% from its peak level in third quarter 2003.

- ***Federal government non-defense expenditures*** contributed significantly to first quarter 2003 GDP growth, rising 9.3 percent, only slightly slower than the 11.0 percent fourth quarter 2002 pace. However, annualized federal defense spending declined 3.4 percent in first quarter 2003, compared with an 11.1 percent increase in fourth quarter 2002.

- Annualized ***inflation*** was 3.9 percent in first quarter 2003, up from 2.0 percent in fourth quarter 2002. Energy prices were the largest contributor to inflation during first quarter 2003, rising 17.4 percent. The core rate, which excludes food and energy prices, rose only 1.3 percent.

- ***Consumer confidence*** rose in March and April 2003, after tumbling in February 2003 to the lowest level in 10 years. Even so, consumer confidence remains below that of September 2001. Consumer expectations for future business conditions rose, while their assessments of the present economic situation and labor conditions deteriorated. Yet, buying plans generally improved as low interest rates, discounting, and incentives lured consumers to spend.

- The nation continued to lose jobs through the first four months of 2003. ***Employment*** fell 0.2 percent year-to-date through April 2003 compared with year-to-date April 2002. The pace of the decline has accelerated slightly since the first of the year. The service, construction, and government sectors posted year-to-date gains, while manufacturing cuts again accelerated. Indeed, since mid-1998, more than 2.6 million manufacturing jobs have been eliminated and many of these are permanently gone. Thus, most displaced manufacturing workers need to find work outside of that industry.

- In April 2003, the national ***unemployment rate*** again rose to 6.0 percent, up from 5.7 percent in January 2003.

- The Institute of Supply Managers Purchasing Managers' Index rose to 49.4 in May 2003, up from 45.4 in April. Values below 50 indicate contraction in manufacturing, but the pace of decline has slowed markedly in the previous two months. An increase in new orders raises hopes for an expansion in manufacturing activity in the coming months. However, manufacturing jobs continue to decline as the manufacturing sector makes substantial productivity advances.

The National Economic Forecast

Table 9 presents historical and forecast values for key national economic variables. The June 2003 OSPB forecast shows the U.S. economic recovery strengthening by mid-2004. The following details our outlook for the nation's economy:

- **Gross Domestic Product:** In 2003, inflation-adjusted GDP is projected to grow 2.2 percent. Weak growth in the first half of the year will be compensated by stronger growth towards the end of 2003. By 2004, inflation-adjusted GDP growth will be 3.7 percent. The increase will be spurred in part by the recently passed federal fiscal stimulus package. In 2005 and beyond, the pace will remain at or above 3.0 percent.

  - ***Consumer spending*** will grow 2.2 percent in 2003, down from the 3.1 percent pace posted in 2002. 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. These discounts and incentives prompted consumers to move purchases planned for 2003 into 2002. Furthermore, as 2003 began, low consumer confidence caused by the uncertain global situation and weak labor markets dampened consumer spending. However, by year-end 2003 consumer spending will rebound 3.5 percent and this pace will continue into 2004. From 2005 through the forecast horizon, consumers will spend on average about three percent more each year.

  - Increased ***business investment*** is key to the nation's economic recovery. Business investment declined more than 5.0 percent in both 2001 and 2002. Indeed, total business investment, which includes *nonresidential structures* and *equipment and software*, posted its first gain in two years in fourth quarter 2002. Meanwhile, in first quarter 2003, overall business investment fell 4.8 percent: investment in nonresidential structures rose for the first time since first quarter 2001, but this was offset by a 6.3 percent decline in equipment and software investment. That said, we forecast that this setback will be short-lived and in 2003, business investment will increase on average by 1.3 percent. Improving corporate profitability and cash flow, and strong replacement activity will contribute to increased investment.

  - Overall, ***government expenditures and investment*** will rise 2.5 percent in 2003 and 2.3 percent in 2004. *Federal defense* spending is forecast to post a 6.3 percent increase in 2003 and a 6.8 percent gain in 2004. In 2005 and beyond, federal defense spending increases will average just over two percent per year. *Federal non-defense spending* will grow 6.3 percent in 2003 and then gradually decline to a 2.7 percent pace in 2007. Meanwhile, *state and local government* spending growth is forecast to be less than one-half percent in 2003 and 2004, but will rise to nearly three percent by 2007.

- **Inflation:** Energy prices rose in response to the situation in Iraq, but quickly fell once the outcome of the war was certain. Meanwhile, near-term core inflationary pressures are modest as the economy is still weak. Consumer price inflation will average 2.5 percent in 2003. The year will begin with inflation at nearly four percent as a result of increased energy costs but will end with inflation below two percent. Inflation will average 2.1 percent in 2004 and increase to 2.5 percent in 2005 before gradually falling to 2.3 percent in 2007.

- **Employment:** Job cuts continued through the first half of 2003. Indeed, in 2003 we forecast that new jobs will just offset cuts and, on average, *employment* will be unchanged compared with 2002. However, the labor market will have regained some strength by year-end 2003 and in 2004 and 2005 employment will increase 1.2 percent and 2.1 percent, respectively.

- **Unemployment:** The average *unemployment rate* will peak at 6.0 percent in 2003 — well below the 9.7 percent rate observed in 1982. In 2004, the unemployment rate will be about the same as in 2003, averaging 5.9 percent. By 2006, the unemployment rate will fall to 5.2 percent.

Risks to the National Forecast

The risks to the national forecast are mainly to the downside. First, the global economy is weak and thus unlikely to stimulate U.S. economic growth. Also, the possibility of another terrorist attack puts long-term downward pressure on the economy. Deflation (falling prices) is a low-probability risk because the Federal Reserve still has some room to cut interest rates, although it would be very harmful to the economy if it did occur. Inflation is a more likely threat to the economic recovery — rapidly rising prices would cut directly into the already slim profits of businesses that have little pricing power at this point in the economic recovery. If inflation climbs, it could result in another round of job cuts.

Another risk is a protracted period of low business confidence that leaves employers reluctant to increase staffing levels. This could cause a decline in consumer confidence and hence 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. Finally, household debt burdens and defaults remain high and this could undermine the willingness of lenders to extend credit and thus reduce household's ability to spend.

TABLE 9

HISTORY AND FORECAST 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	$9,440.0	$9,652.3	$10,008.2	$10,305.1	$10,658.9	$10,978.5
Change	4.4%	4.3%	4.1%	3.8%	0.3%	2.4%	2.2%	3.7%	3.0%	3.4%	3.0%
Gross Domestic Product (Billions)	$8,318.4	$8,781.8	$9,274.5	$9,824.6	$10,082.2	$10,446.4	$10,872.2	$11,439.2	$11,998.1	$12,641.5	$13,261.6
Change	6.5%	5.6%	5.6%	5.9%	2.6%	3.6%	4.1%	5.2%	4.9%	5.4%	4.9%
Personal Income (Billions)	$6,937.1	$7,426.1	$7,786.6	$8,406.7	$8,685.4	$8,929.1	$9,258.1	$9,631.3	$10,069.2	$10,528.9	$10,999.3
Change	6.0%	7.0%	4.9%	8.0%	3.3%	2.8%	3.7%	4.0%	4.5%	4.6%	4.5%
Per-Capita Income ($/person)	$25,444	$26,921	$27,906	$29,788	$30,442	$30,965	$31,823	$32,819	$34,019	$35,273	$36,543
Change	4.7%	5.8%	3.7%	6.7%	2.2%	1.7%	2.8%	3.1%	3.7%	3.7%	3.6%
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%	6.0%	5.9%	5.4%	5.2%	5.2%
Total Nonagricultural Employment (Millions)	122.67	125.85	128.91	131.72	131.92	130.78	130.74	132.32	135.07	137.17	138.96
Change	2.6%	2.6%	2.4%	2.2%	0.2%	-0.9%	0.0%	1.2%	2.1%	1.6%	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%	5.7%	6.3%	6.2%
10-Year T-Bond Rate	6.4%	5.3%	5.6%	6.0%	5.0%	4.6%	4.2%	4.7%	4.9%	5.8%	5.9%
Federal Fund Rate	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	1.3%	2.5%	4.1%	5.0%	5.0%
PRICE VARIABLES											
Consumer Price Index (1982-84=100)	160.5	163.0	166.6	172.2	177.1	179.9	184.4	188.3	193.0	197.7	202.3
Change	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.5%	2.1%	2.5%	2.4%	2.3%
Producer Price Index (1982=100)	131.8	130.7	133.0	138.0	140.7	138.9	143.9	145.8	147.8	150.5	154.1
Change	0.4%	-0.9%	1.8%	3.7%	2.0%	-1.3%	3.7%	1.3%	1.3%	1.8%	2.4%
OTHER KEY INDICATORS											
Industrial Production Index (1992=100)	100.0	105.6	110.1	115.3	111.2	110.4	111.8	115.8	119.1	122.4	125.7
Change	7.3%	5.6%	4.3%	4.7%	-3.5%	-0.7%	1.3%	3.6%	2.9%	2.8%	2.7%
Corporate Profits After Tax (Billions)	$555.2	$482.2	$514.4	$522.9	$470.7	$451.9	$490.1	$554.0	$590.0	$624.6	$656.2
Change	10.4%	-13.2%	6.7%	1.7%	-10.0%	-4.0%	8.4%	13.1%	6.5%	5.9%	5.1%
Housing Starts (Millions)	1.475	1.621	1.647	1.573	1.603	1.710	1.698	1.509	1.528	1.570	1.555
Change	0.4%	9.9%	1.6%	-4.5%	1.9%	6.7%	-0.7%	-11.1%	1.3%	2.7%	-1.0%

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

* Population values through 2000 are adjusted for 2000 Census.

THE COLORADO ECONOMY

The Colorado economy will show renewed growth once the national economy begins to rebound. However, the surge in the national economy that was expected to occur after the successful resolution of the Iraqi situation has yet to materialize. The current areas of weakness in the Colorado economy — manufacturing, transportation, and advanced technology — mirror the areas of weakness in the national economy. The difference in Colorado is that the construction market is weaker than the national construction market — the result of several years of inventory building. Although we continue to think the worst is behind us, we now forecast the state will not see robust growth until 2004.

Recent Colorado economic data are not particularly encouraging. While employment levels continue to rise, they are below the same periods in 2002. Meanwhile, the unemployment rate is inching up. Retail sales were weak through first quarter 2003 compared with first quarter 2002. However, evidence continues to indicate that the worst is behind us. First, fourth quarter 2002 personal income and wage and salary disbursements both exceeded the fourth quarter 2001 levels, implying that Colorado consumers have more money to spend. Second, even though Colorado's employment situation is disappointing in aggregate, individual sectors are showing improvement. Third, the necessary correction in the state's residential and nonresidential construction market occurred as anticipated, thus lowering inventories and setting the stage for a turnaround. Fourth, vacant office and industrial space provide opportunities for businesses to lower costs; already we have experienced lower vacancy rates as demand for office space improved. Finally, tourism activity in Colorado is expanding.

Overall, the recent declines in the Colorado economy improve the state's competitive advantage by lowering the cost of living and doing business. 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 will lead enterprising companies to relocate here as the national economy strengthens.

Overview of Recent Colorado Economic Activity

- ***Nonfarm employment*** dropped 0.4 percent — 7,900 jobs — year-to-date through April 2003 compared with year-to-date April 2002. January 2003 employment posted the first year-over-year monthly increase since August 2001, but February, March, and April 2003 employment were each below the corresponding month in 2002. The professional and business services, durable goods manufacturing, information, and construction sectors posted the largest losses, 12,600 jobs, 9,900 jobs, 7,100 jobs, and 4,800 jobs, respectively. Meanwhile, Colorado's government sector (federal, state, and local combined) grew by 12,600 jobs year-to-date 2003, the leisure and entertainment sector grew by 8,400 jobs, and the educational and health services sector grew by 5,100 jobs. Moreover, the number of jobs created between January and April 2002 was more than three times higher than the number created between January and April 2003.

- While job growth continues to elude most sectors of the state, the unemployment rate is lower than historical unemployment rates would imply for this stage of the business cycle. Through April 2003, the ***unemployment rate*** averaged 5.7 percent, below the national unemployment rate of 5.8 percent and equal to the state's 2002 average rate. This 5.7 percent rate compares with a 7.7 percent rate in the state's pervious recession in 1987. The relatively low unemployment rate reflects a lower labor force participation rate, meaning that many of the unemployed are choosing to pursue other activities rather than continuing to look for work.

- ***Residential housing permits*** fell 18.1 percent through April 2003 compared with the same period in 2002; single-family permits fell 8.8 percent and multi-family permits fell 46.4 percent.

- The value of ***nonresidential construction*** built through April 2003 is 46.7 percent below the value of construction built through April 2002. The value of retail construction is down 28.6 percent, while the value of office and industrial construction is down 43.2 percent and 76.7 percent, respectively.

- ***Retail sales*** were down 0.6 percent in first quarter 2003 compared with first quarter 2002. General merchandise and food stores both posted year-over-year gains, but sales in the larger automobile component were lower than in 2002.

Colorado's Economic Forecast

Table 10 presents historical and forecast values for key national economic variables. The June 2003 OSPB forecast for the Colorado economy is weaker than the March 2003 forecast, mirroring the weaker national economic forecast. This section presents the forecast for Colorado's economic and demographic indicators, including a discussion of employment, wages and income, population and migration, and inflation.

Employment

With the exception of January 2003, Colorado's monthly job level has been less than that of the corresponding month in the prior year since September 2001. However, the year-over-year monthly decline peaked in March 2002 and has since tempered. Overall, the unemployment rate held relatively steady in 2002, averaging 5.7 percent.

Our forecast assumes that ***employment*** levels will continue to decline through the first half of 2003, but that the state's economy begins to add jobs in the latter half of 2003. However, employment will not rise significantly until 2004. On average, we forecast that Colorado employment will fall 0.1 percent in 2003, as the job losses that occur in the first half of 2003 are not fully offset by job growth in the second half of the year. Employment will grow 1.8 percent in 2004 and by 2007 employment growth will accelerate to 2.9 percent. Meanwhile, the Colorado average annual ***unemployment rate*** will peak at 5.9 percent in 2003 and then gradually decline to 4.8 percent by 2007.

Wages and Income

Colorado ***wage and salary income*** fell 1.5 percent in 2002, reflecting lower employment levels and the loss of high-wage jobs in the advanced technology and financial sectors. However, the 2002 decline spiked in first quarter 2002 and by, fourth quarter 2002, wage and salary income exceeded that of fourth quarter 2001. As the Colorado economy recovers in 2003, wage and salary income will grow, albeit by a modest 1.8 percent. By 2004, wage and salary income growth will be 3.7 percent and the pace will accelerate to 6.4 percent by 2007.

On average, ***personal income*** grew a modest 1.2 percent in 2002, even as wage and salary disbursements declined. However, by fourth quarter 2002 personal income growth accelerated to 2.6 percent. Personal income growth occurs in spite of declining wages because nonfarm proprietors' income and other (non-wage and salary) income each increased by about five percent in 2002. Moreover, transfer payments, including unemployment insurance benefits, also rose in 2002. We forecast that personal income will increase 3.1 percent in 2003 and that the pace will quicken to 3.9

percent in 2004. Personal income growth will continue to accelerate through the forecast horizon and will reach 6.6 percent by 2007.

Population and Migration

We forecast that in 2003, net in-migration to Colorado will be slightly less than 17,000 and total population growth will be 1.2 percent. Lower net in-migration is the result of Colorado's comparatively weak economy in 2003. As most other states' economies are also struggling, we do not forecast negative net out-migration to occur, as was the case during the 1980s. During the Colorado recession in the mid- to late-1980s, there were areas of the country experiencing strong job growth. Because of this, people left Colorado to find employment elsewhere, resulting in 66,700 more people leaving the state than coming to the state. In 2003, there are no areas of the country with especially strong employment growth; hence, people in Colorado are not leaving the state at the rate that occurred in the 1980s. As the Colorado economy recovers, the number of net migrants to the state will increase and the state's population growth will rise to 1.7 percent by 2007.

Inflation

Colorado enjoyed a low 1.9 percent inflation rate in 2002, primarily because energy prices fell substantially compared with 2001. In 2003, energy prices rose for the first three months of the year as troubles in the Middle East pushed fuel prices up. However, in April 2003, energy prices again declined as the market anticipated that Iraqi oil would once again come on-line and increase supply. Inflation in 2003 will also be affected by medical care costs and home prices that are abating somewhat as the weak economy curbs consumers' willingness to spend ever-larger amounts on these items. Offsetting these downward trends, the rising stock market will make Colorado consumers feel wealthier again, which in turn will make them more likely to spend despite the weakened economy. This will push prices up more than might otherwise be expected towards the end of 2003.

We forecast that Colorado will experience much the same price pressures as the nation in 2003. Our forecast is for Colorado to see inflation under three percent in both 2003 and 2004. As the state economy accelerates in 2005 and beyond, we forecast that inflation will also accelerate, reaching 3.2 percent by 2007.

Colorado's Industrial Sectors

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

Construction

Through April 2003, 18.1 percent fewer residential home permits were issued in Colorado than were issued through April 2002. Meanwhile, the value of nonresidential construction (excluding non-building projects like roads) declined 46.7 percent year-to-date through April 2003 compared with year-to-date April 2002. Our June 2003 forecast for residential and nonresidential construction anticipates further decreases in both markets in 2003 and through the first half of 2004.

Residential Construction

The *average* price of a previously owned single-family home in the Denver-area rose 1.9 percent through April 2003 compared with the same period in 2002. Meanwhile, the *median* home price climbed 3.4 percent during this period. These prices reflect the positive influence of low mortgage rates that have propped up the demand for homes over the past several months. The difference between the two measures of home prices — average and median — indicates weakness in the sale of higher-priced 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. Still, the inventory of unsold homes is rising. On average, there were 30 percent more homes for sale year-to-date through April 2003 than there were year-to-date through April 2002: through April 2003, there were 17,600 previously owned homes for sale compared with 13,500 homes on the market through April 2002.

In reaction to the higher inventories, new home construction fell. Through April 2003, the total number of residential home permits issued is down 18.1 percent compared with the same period in 2002. Single-family permits issued are down 8.8 percent and multi-family permits issued are down 46.4 percent. Single-family home sales continue to be fueled by low mortgage rates that allow those who already own a home to move into larger quarters. Meanwhile, low mortgage rates also enable renters to become first-time homeowners. As a consequence, apartment vacancy rates have risen dramatically. In turn, high apartment vacancy rates led to the decline in multi-family housing activity.

We forecast that the number of home permits issued will decline 16.7 percent in 2003, with a substantial correction occurring in both single-family and multi-family units — the number of single-family home permits issued will fall 8.2 percent, while the number of multi-family home permits will drop more than 40 percent. Both decreases are in response to weakened demand, as the relatively anemic 2003 Colorado economy will not attract a large net in-migration to the state. Slower in-migration combined with higher inventories will lead to less of a need for new homes. The number of permits issued will fall about four percent in 2004. In 2005 and beyond, the number of home permits issued will increase year-over-year, although substantial increases in home permits issued will not occur until 2006 and 2007.

Nonresidential Construction

Denver-area nonresidential building construction continues to be impacted by oversupply.

- In 2002, net absorption of office space trended in a positive direction. Indeed, in first quarter 2003, vacant Denver-area office space increased only minimally. Furthermore, in first quarter 2003 the amount of office space available for sublease declined for the third consecutive quarter. On average, metro-area ***office vacancy rates*** were 18.3 percent in first quarter 2003, up from 17.6 percent in fourth quarter 2002. By comparison, overall office vacancy rates topped 28 percent in the mid-1980s. In first quarter 2003, metro area office vacancy rates ranged from a high of 29.6 percent in the small Northwest corridor to a low of 8.1 percent in Cherry Creek. The largest office markets, the Central Business District and the Southeast, including the Denver Technological Center, had vacancy rates of 16.5 percent and 19.5 percent, respectively. Meanwhile, Denver office lease rates continue their downward trend. First quarter 2003 asking lease rates declined 2.0 percent, to $15.91 per square foot from $16.32 per square foot in fourth quarter 2002. Average asking lease rates declined 11 percent since they peaked in fourth quarter 2001.

- The first quarter 2003 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 fell to 5.2 percent in first quarter 2003 from 5.6 percent in fourth quarter 2002. All but two of 11 sub-markets — Boulder and Southeast — had vacancy rates well below 10 percent. Industrial warehouse vacancy rates ranged from 1.7 percent in central Denver to 14.1 percent in the Boulder area. One million square feet of available space was absorbed into the market during first quarter 2003 and since first quarter 2002, the Denver area absorbed over four million square feet of industrial space.

- In first quarter 2003, the average Denver area ***retail vacancy rate*** was 6.7 percent, down from 6.9 percent in fourth quarter 2002. Retail vacancy rates ranged from a high of 13.6 percent in the Northeast metro-Denver area to a low of 2.6 percent in the Southeast. Retail vacancy rates are low because there has not been much over building in that market.

The year-to-date April 2003 value of new ***nonresidential building construction*** declined 46.7 percent compared with the same period in 2002. This decrease comes on the heels of a 22.5 percent drop in 2002. According to F.W. Dodge, the year-to-date April 2003 value of new retail construction fell 28.6 percent, the value of new office construction fell 43.2 percent, and the value of new warehouse construction fell 76.7 percent. We forecast that the 2003 correction will be about 14 percent. In 2004, the value of nonresidential building construction will be about the same as in 2003. Thereafter, the value of nonresidential construction will again resume positive growth.

Retail Trade

Retail trade sales in Colorado fell 0.6 percent in first quarter 2003 as a consequence of lower employment and income levels. However, this is a slight improvement from the 0.7 percent average decline that occurred in 2002. The drop in retail sales in first quarter 2003 is partly because dealer incentives in 2002 prompted consumers to make purchases earlier than they would have otherwise, robbing 2003 of some sales. However, not all categories of retail sales contracted: apparel, general merchandise, and food sales all continued to expand. Our forecast is for retail sales to grow 2.9 percent in 2003 and 3.3 percent in 2004. Thereafter, retail sales growth will accelerate to about a six 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 10

HISTORY AND FORECAST FOR KEY COLORADO ECONOMIC VARIABLES 1997-2007 *Calendar Year*	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
CURRENT INCOME											
Personal Income (Millions)	$108,765	$118,413	$128,386	$143,043	$148,238	$149,958	$154,566	$160,546	$168,737	$180,253	$192,221
Change	8.8%	8.9%	8.4%	11.4%	3.6%	1.2%	3.1%	3.9%	5.1%	6.8%	6.6%
Wage and Salary Disbursements (Millions)	$62,524	$69,604	$76,343	$86,048	$88,436	$87,082	$88,609	$91,848	$96,631	$102,945	$109,501
Change	9.3%	11.3%	9.7%	12.7%	2.8%	-1.5%	1.8%	3.7%	5.2%	6.5%	6.4%
Per-Capita Income ($/Person)	$27,067	$28,764	$30,380	$33,060	$33,455	$33,276	$33,887	$34,732	$35,991	$37,825	$39,669
Change	6.1%	6.3%	5.6%	8.8%	1.2%	-0.5%	1.8%	2.5%	3.6%	5.1%	4.9%
POPULATION AND EMPLOYMENT											
Population (Thousands)*	4,018.3	4,116.6	4,226.0	4,326.8	4,431.0	4,506.5	4,561.2	4,622.4	4,688.3	4,765.5	4,845.6
Change	2.5%	2.4%	2.7%	2.4%	2.4%	1.7%	1.2%	1.3%	1.4%	1.6%	1.7%
Net Migration (Thousands) **	67.8	66.5	75.4	64.1	68.6	38.3	16.7	22.4	26.2	36.5	38.3
Unemployment Rate	3.3%	3.8%	2.9%	2.8%	3.7%	5.7%	5.9%	5.7%	5.3%	4.9%	4.8%
Total Nonagricultural Employment (Thousands)	1,979.5	2,056.7	2,131.5	2,212.6	2,225.4	2,183.7	2,181.4	2,219.9	2,272.2	2,335.2	2,403.1
Change	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-0.1%	1.8%	2.4%	2.8%	2.9%
CONSTRUCTION VARIABLES											
Total Housing Permits (Thousands)	43.1	51.2	49.3	54.6	55.0	47.9	39.9	38.4	38.8	40.4	42.3
Change	4.7%	18.8%	-3.6%	10.7%	0.8%	-12.9%	-16.7%	-3.7%	1.1%	4.0%	4.7%
Nonresidential Construction (Millions) ***	$2,985.8	$2,616.8	$3,543.8	$3,338.8	$3,373.4	$2,613.0	$2,235.7	$2,231.8	$2,258.3	$2,403.5	$2,544.0
Change	27.0%	-12.4%	35.4%	-5.8%	1.0%	-22.5%	-14.4%	-0.2%	1.2%	6.4%	5.8%
PRICES AND SALES VARIABLES											
Retail Trade Sales (Billions)	$45.1	$48.2	$52.6	$58.0	$59.1	$58.7	$60.4	$62.4	$65.5	$69.5	$73.6
Change	5.9%	6.7%	9.2%	10.2%	2.0%	-0.7%	2.9%	3.3%	5.0%	6.2%	5.9%
Denver-Boulder-Greeley Consumer Price Index	1.581	1.619	1.666	1.732	1.813	1.848	1.899	1.953	2.012	2.071	2.140
Change	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	2.8%	2.9%	3.0%	3.0%	3.3%

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

* Population values through 2000 are adjusted for 2000 Census.

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

APPENDIX A
The Jobs and Growth Tax Relief Reconciliation Act of 2003

On May 28, 2003, the President signed into law the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. The provisions of the Act fund temporary state fiscal relief, provide growth incentives for businesses, temporarily accelerate certain previously enacted federal tax reductions, and reduce taxes on capital gains and dividends.

Two types of financial assistance are provided, totaling $238.5 million. Colorado will receive a total of about $90 million through the federal Medical Assistance Percentage Enhancement for Medicaid. In addition, Colorado will receive about $146 million as flexible federal grants. These provisions are summarized as follows:

- **Enhanced Medicaid match:** Colorado is expected to receive $92.3 million in additional federal money through the enhanced Medicaid match provided by the Act. Roughly $18 million of these monies will be received in FY 2002-03 and $75 million in FY 2003-04.

- **Flexible federal aid to states:** Colorado will receive $146.3 million in flexible federal aid in two equal payments. The first will be received in FY 2002-03 and the second will be received in FY 2003-04. The Act states that the state may only use funds provided by the flexible payment for "the types of expenditures permitted under the most recently approved budget for the state." The Governor announced that he would set aside 90 percent of the flexible funding ($131.7 million) in a separate account to be used in the event that General Fund revenues continue to decrease. This will enable the state to avoid further cuts in the event that revenues fall further than expected. This purpose will be reevaluated if the revenue outlook stabilizes. The remaining 10 percent of the flexible funds ($14.6 million) will be spent on programs we believe are not adequately funded because of the state's revenue situation: $5.6 million for the Children's Basic Health Plan and for prenatal health care services for low income women; $3.0 million for Read-to-Achieve, a literacy program for second and third grade students; $4.0 million for youth services; and $2.0 million for financial aid in higher education.

Some of the provisions of the Act provide tax relief for Colorado taxpayers without affecting state tax revenues. However, the growth incentives for businesses includes a 50.0 percent bonus depreciation allowance and a small business expensing provision that will lower federal adjusted income, and this is the basis for Colorado's income tax. Hence, Colorado income tax revenues will be lower because federal adjusted income will be lower. These two provisions — bonus depreciation and small business expensing — will lower Colorado income tax receipts by $58.5 million in FY 2003-04 and $31.2 million in FY 2004-05. Since the state uses an accrual system of accounting, some of the FY 2003-04 decline in income tax receipts will be counted against FY 2002-03 revenues.

A more detailed discussion of the four tax relief provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 follows:

1. **Provide growth incentives for businesses:** The two growth incentive provisions of the 2003 Act lower Colorado income tax revenues because they lower federal adjusted gross income, which is the base for Colorado income taxes. In total, these two provisions will reduce Colorado income tax receipts in FY 2003-04 by $58.5 million.

    - ***Provide special depreciation allowance for certain property***. The Jobs and Growth Tax Relief Reconciliation Act of 2003 provides an additional first-year depreciation deduction that equals 50.0 percent of the adjusted basis of qualified property. This provision allows a significantly enhanced expenditure allowance for capital assets on a tax basis, thereby lowering taxes. In order to qualify for this benefit, capital assets must be purchased after May 5, 2003, but before January 1, 2005.

- ***Provide increased small business expensing***. The 2003 Act increases the maximum dollar amount of qualified property that a small business can annually expense. Previously, such investments were limited to $25,000 and were phased out dollar-for-dollar when the business' income reached $200,000. Under the 2003 Act, the limit is increased to $100,000 in 2003, 2004, and 2005. Furthermore, the $200,000 phase-out amount is increased to $400,000 for property placed in service in tax years beginning in 2003, 2004, and 2005. After 2005, the phase-out amount is indexed to inflation. The 2003 federal act also changes the definition of qualifying property to include off-the-shelf computer software.

2. **Accelerate tax cuts:** A number of provisions were enacted to lower overall federal taxes. The savings to Colorado taxpayers provided by these measures do not affect Colorado tax revenues.

- ***Accelerate the increase in the child tax credit***. The Act increases the amount of the child tax credit in 2003 and 2004 to $1,000 from $600. In 2005 the amount of the credit reverts to previous levels — $700 in 2005 through 2007, $800 in 2009, and $1,000 in 2010. The $400 increase in the amount of the credit in 2003 will be paid in advance, with checks being mailed beginning in July 2003.

- ***Accelerate marriage penalty relief***. Currently, federal taxes are such that married couples pay more in taxes than if they were two single individuals. The 2001 federal tax relief act phased out this so-called marriage penalty over 10 years. The current 2003 legislation temporarily accelerates this phase out. The 2003 Act increases the standard deduction amount for married taxpayers filing a joint return to be twice the standard deduction for single individuals in 2003 and 2004. The Act also increases the size of the 15 percent regular income tax rate bracket for married taxpayers filing joint returns to double that of the 15 percent regular income tax rate bracket for single returns for taxable years beginning in 2003 and 2004. In 2005, both of these provisions revert to the amounts specified in the 2001 federal tax relief package. This provision does not affect Colorado income tax revenues because Colorado income taxes are already adjusted to eliminate the marriage penalty. ***Table A.1*** shows the marginal tax rates applicable before and after enactment of the 2003 Act.

TABLE A.1
Individual income tax rates before and after enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003

Highest Income in Bracket		Tax Rate in Bracket	
Single	**Married**	**Previous**	**2003 Act**
$6,000	$12,000	10%	10%
$7,000	$14,000	15%	10%
$28,400	$47,450	15%	15%
$28,400	$56,800	27%	15%
$68,800	$114,650	27%	25%
$143,400	$174,700	30%	28%
$311,950	$311,950	35%	33%
---	---	38.5%	35%

- ***Accelerate reductions in individual income tax rates***. As shown in Table A.1, the 2003 Act also lowers the marginal individual income tax rates for individuals, with the new rates retroactively effective January 1, 2003. First, the Act raises the taxable income levels of the

10 percent rate bracket so that the income levels scheduled by the 2001 federal tax package to become effective in 2008 will become effective in 2003 and 2004. Second, the individual income tax rate provision of the 2003 Act accelerates the reductions in the regular income tax rates that were scheduled to become effective in 2004 and 2006. The new marginal tax rates are effective for tax years beginning after December 13, 2002 and through 2008, at which time the rate reduction provision will sunset as specified by the Economic Growth and Tax Relief Reconciliation Act of 2001.

- ***Increase alternative minimum tax exemption amounts***. The 2003 Act increases the alternative minimum tax exemption amount for married taxpayers filing joint returns and surviving spouses to $58,000. For unmarried taxpayers, the alternative minimum tax exemption amount is increased to $40,250. The increase is applicable in taxable years beginning in 2003 and 2004. In 2005, this provision reverts to the amounts specified in the 2001 federal tax relief package.

3. **Reduce taxes on capital gains and dividends:**

- ***Reduce individual capital gains rates***. The 2003 Act reduces the 10 percent and 20 percent tax rates on capital gains to five percent and 15 percent, respectively. These rates apply to capital gains realized on or after May 6, 2003, and before January 1, 2009. In 2008, the five percent rate is reduced to zero. In 2009, the capital gains rates are scheduled to return to the previous levels of 10 percent and 20 percent. ***Table A.2*** shows the effective marginal tax rates on capital gains before and after the enactment of the 2003 Act.

TABLE A.2
Capital gains tax rates before and after enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003

Highest Income in Bracket		Tax Rate in Bracket	
Single	Married	Previous	2003 Act
$28,400	$47,450	10%	5%
---	---	20%	15%

- ***Reduce taxes on dividends***. Tax rates on dividends are substantially lowered. ***Table A.3*** shows the effective marginal tax rates on stock dividends before and after the enactment of the 2003 Act. The lower rates are applicable from May 6, 2003, through December 31, 2008. Thereafter, the tax rate on dividend income will revert to that of ordinary income.

TABLE A.3
Stock dividend tax rates before and after enactment of the Jobs and Growth Tax Relief Reconciliation Act of 2003

Highest Income in Bracket		Tax Rate in Bracket	
Single	Married	Previous	2003 Act
$6,000	$12,000	10%	10%
$7,000	$14,000	15%	10%
$28,400	$47,450	15%	10%
$28,400	$56,800	27%	15%
$68,800	$114,650	27%	15%
$143,400	$174,700	30%	15%
$311,950	$311,950	35%	15%
---	---	38.5%	15%