STATE OF COLORADO

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

MEMORANDUM

Bill Owens
Governor

Dr. Nancy McCallin
Director

TO: Governor Bill Owens
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: September 20, 2004

SUBJECT: ***September 2004 Revenue Forecast***

Attached is the Office of State Planning and Budgeting (OSPB) September 2004 revenue forecast. Included is a discussion of the Taxpayer's Bill of Rights (TABOR) limit as provided in Article X, Section 20 of the Colorado Constitution. Also provided are General Fund overviews, General Fund and cash fund revenue forecasts, and summaries of both the national and Colorado economic forecast.

September 2004 OSPB Forecast Highlights

- The September 2004 revenue projections indicate that the ***FY 2004-05 budget is balanced*** and that FY 2004-05 revenues will exceed the statutory four percent reserve requirement by $13.9 million.
- In FY 2005-06, ***General Fund appropriations*** can increase $79.5 million (1.4 percent) compared with FY 2004-05 appropriations levels assuming no other changes in law.
- ***General Fund revenues*** are forecast to increase 3.5 percent in FY 2004-05 and 5.5 percent in FY 2005-06.
- ***Cash fund revenues*** are forecast to increase 5.0 percent in FY 2004-05 and 0.1 percent in FY 2005-06. In FY 2004-05, unemployment insurance tax revenue growth drives total cash fund revenue growth. Meanwhile, in FY 2005-06, falling unemployment insurance tax revenues will offset increasing revenues in other cash funds, so total cash fund revenue will be unchanged in FY 2005-06 compared with FY 2004-05.
- The underlying assumptions for the OSPB September 2004 ***Colorado economic forecast*** have not changed materially since the release of the June 2004 forecast. Evidence still indicates that Colorado economic activity will accelerate throughout 2004.
- ***National economic growth*** slowed in second quarter 2004. Nonetheless, inflation-adjusted gross domestic product is forecast to increase 4.3 percent in 2004.

The TABOR Limit and General Fund Revenue Outlook

Summary

- In FY 2003-04, the state's General Fund ended the year with a $346.3 million reserve. The reserve exceeded four percent of FY 2003-04 General Fund appropriations by $122.7 million.
- Gross General Fund revenues in FY 2003-04 were just $3.5 million (0.06 percent) lower than reported in the June 2004 OSPB forecast and $67.8 million higher (1.1 percent) than reported in the March 2004 OSPB forecast.
- The September 2004 OSPB forecast indicates that General Fund revenues will increase 3.5 percent in FY 2004-05 and 5.5 percent in FY 2005-06.
- Based on the September 2004 OSPB revenue projections and the current FY 2004-05 appropriations level, the FY 2004-05 budget is balanced. In FY 2004-05, General Fund appropriations will increase $198.2 million (3.5 percent), the four percent statutory reserve will be exceeded by $13.9 million, and there will be a $53.1 million TABOR refund.
- The September 2004 OSPB revenue projections show that under current law, General Fund appropriations can increase $79.5 million — 1.4 percent — in FY 2005-06.

In FY 2004-05, General Fund appropriations will increase $198.2 million (3.5 percent), the four percent statutory reserve will be exceeded by $13.9 million, and there will be a $53.1 million TABOR refund.

This section provides a summary of the September 2004 Office of State Planning and Budgeting (OSPB) General Fund revenue and expenditure outlook. First, it discusses the limits contained in the Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado Constitution. Next, it provides a General Fund overview. Finally, the section discusses the OSPB General Fund revenue forecast.

The TABOR Surplus

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado Constitution — limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. ***Table 1*** displays the expected TABOR surpluses through the forecast horizon, while ***Table 2*** provides a detailed calculation of TABOR revenues from FY 2003-04 through FY 2009-10 under current law.

Table 1

TABOR Surplus Revenues
Based on the September 2004 OSPB Revenue Forecast
(Dollar Amounts in Millions)

Fiscal Year	TABOR Surplus
2003-04	$0.0
2004-05	$53.1
2005-06	$290.8
2006-07	$424.1
2007-08	$581.1
2008-09	$701.0
2009-10	$947.1
Cumulative Total	**$2,997.2**

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

After logging TABOR revenue surpluses for five years, the TABOR surplus vanished in FY 2001-02 and remained absent through FY 2003-04. The TABOR surplus disappeared because of the *recession*, *Amendment 23*, and the *growth dividend*. In FY 2004-05, the TABOR surplus reappears, totaling $53.1 million. From FY 2005-06 through the remainder of the forecast, we expect the TABOR surplus to range between $290 million and $950 million.

The September 2004 OSPB forecast for the FY 2004-05 TABOR surplus is slightly lower than was forecast in June 2004, while the TABOR surpluses in FY 2005-06 and beyond are generally slightly higher. There are several reasons for the change. First, TABOR revenues received in FY 2003-04 were higher than anticipated in June 2004, permitting more of the growth dividend to be used in FY 2003-04. This raises the FY 2004-05 TABOR limit, which in turn, lowers the amount of the FY 2004-05 TABOR surplus, all things equal. We have also made minor adjustments to the FY 2004-05 General Fund and cash fund forecasts in light of the recent deceleration in national economic growth. Meanwhile, exceptionally low inflation in 2004 will result in a lower TABOR limit in FY 2005-06. The TABOR surplus in FY 2005-06 will thus increase. The OSPB forecast for population growth and inflation is discussed in greater detail in the Colorado section of this report. Changes to the General Fund forecast are discussed at the end of this section and changes to the cash fund forecasts are discussed in the following section.

GENERAL FUND OVERVIEW

Table 3 provides an overview of General Fund revenues, expenditures, and reserves through FY 2009-10. Table 3 assumes current law for General Fund appropriations, capital construction transfers, other transfers to the General Fund, and rebates and expenditures. It also accounts for the effects of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 on Colorado's Medicaid program and tax receipts.

In FY 2003-04, the state's General Fund ended the year with a $346.3 million reserve.

In FY 2003-04, the state's General Fund ended the year with a $346.3 million reserve. This reserve exceeded the statutory four percent reserve by $122.7 million. Based on

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

Line No.		Preliminary Close FY 2003-04	September 2004 Estimate by Fiscal Year FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
	TABOR Revenues:							
1	General Fund	$5,719.1 **/A**	$5,929.4 **/A**	$6,252.2 **/A**	$6,680.8 **/A**	$7,098.0 **/A**	$7,517.4 **/A**	$8,077.7 **/A**
2	Cash Funds	$2,613.0 **/B**	$2,332.7 **/B**	$1,953.4 **/B**	$1,871.7	$1,888.0	$1,941.5	$1,968.8
3	Total TABOR Revenues	$8,332.1	$8,262.1	$8,205.6	$8,552.5	$8,986.0	$9,458.9	$10,046.5
4	*Adjustment to base*	*($387.1)* **/B**	*($380.3)* **/B**					
5	*Adjusted total for computing next year's limit*	$7,945.0	$7,881.8	$8,205.6	$8,552.5	$8,986.0	$9,458.9	$10,046.5
	TABOR Limit Calculation:							
6	*Previous calendar year population growth*	*1.7%*	*1.1%*	*1.0%*	*1.2%*	*1.3%*	*1.5%*	*1.6%*
7	*Previous calendar year inflation*	*1.9%*	*1.1%*	*0.1%*	*1.5%*	*2.1%*	*2.7%*	*2.3%*
8	*Growth Dividend*	*4.9%* **/C**	*1.1%* **/C**	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
9	Allowable TABOR Growth Rate	8.5%	3.3%	1.1%	2.7%	3.4%	4.2%	3.9%
10	Actual Change in TABOR Revenues from Limit	8.5%	4.0%	4.8%	8.1%	10.5%	12.5%	14.7%
11	**TABOR Limit**	**$8,332.1 /D**	**$8,209.0 /D**	**$7,914.8 /D**	**$8,128.5 /D**	**$8,404.8 /D**	**$8,757.8 /D**	**$9,099.4 /D**
12	**Revenues Above (Below) TABOR Limit**	**$0.0**	**$53.1**	**$290.8**	**$424.1**	**$581.1**	**$701.0**	**$947.1**
13	TABOR Emergency Reserve	$250.0 **/E,F**	$246.3 **/E,G**	$237.4 **/E,G**	$243.9 **/E,G**	$252.1 **/E,G**	$262.7 **/E,G**	$273.0 **/E,G**

/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 as both General Fund and cash fund. 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 S.B. 04-189 and S.B. 04-252 grant enterprise status to the University of Colorado in FY 2004-05 and all Colorado institutions of higher education in FY 2005-06 and thereafter. To account for this change, the FY 2003-04 TABOR limit is reduced by $387.1 million (the amount of tuition and fees collected by the University of Colorado in FY 2003-04) before the FY 2004-05 TABOR limit is computed. Similarly, the FY 2004-05 TABOR limit is reduced by $380.3 million (the amount of tuition and fees collected in FY 2004-05 by the remaining state institutions of higher education) before the FY 2005-06 TABOR limit is computed.

/C The allowable TABOR limit can be increased by a total of 6.0 percentage points over the next nine years as directed in H.B. 02-1310 and S.B. 02-179. These bills allow the state to increase the TABOR limit by 6.0 percentage points for population growth that occurred during the 1990s that was not captured by U.S. Bureau of the Census intercensal estimates. Since the state was not in a TABOR surplus position in FY 2001-02, the legislation allows the extra population growth to be used when the state returns to 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 2002-03, total TABOR revenues were less than the TABOR limit, so the FY 2003-04 TABOR limit was calculated by growing FY 2002-03 actual total TABOR revenues by the FY 2003-04 allowable TABOR growth rate. In the remaining years, the TABOR limit is less than or equal to total TABOR revenues, so the TABOR limit is calculated from the previous year's TABOR limit.

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

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

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

Line No.		Preliminary Close FY 2003-04	September 2004 Estimate by Fiscal Year FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10
	Funding Sources and Diversions:							
1	Beginning Reserve	$216.6	$223.6	$231.8	$235.1	$243.6	$253.2	$265.1
2	Gross General Fund Revenues	6,045.2	6,258.8	6,601.1	7,054.6	7,495.6	7,939.6	8,525.7
3	Transfers to General Fund	54.4 /A	26.2 /A	31.2 /A	30.5 /A	30.1 /A	34.1 /A	34.1 /A
4	Senate Bill 97-1 Transfers to the HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Diversion to the Older Coloradan's Program	(2.3)	(2.3)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
6	Transfer to the State Education Fund	(270.7) /B	(289.7) /B	(307.2) /B	(329.8) /B	(351.0) /B	(372.6) /B	(395.4) /B
7	Adjustments to the State Education Fund for Over (Under) Payments	(8.0) /C	0.0	0.0	0.0	0.0	0.0	0.0
8	**Total Funds Available**	$6,035.2	$6,216.6	$6,554.2	$6,987.8	$7,415.6	$7,851.5	$8,426.7
	Expenditures:							
9	General Fund Appropriations (Long Bill)	$5,590.7	$5,795.9	$5,877.9	6,090.3	6,330.5	6,626.6	6,933.5
10	Increase (reduction) from Supplemental Bills	9.5	2.6					
11	K-12 Capital Construction	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D
12	Capital Construction Freeze (S.B. 03-179)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Federal Medical Assistance Enhancement for Medicaid	(71.4)	0.0	0.0	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	112.8 /E	119.2 /E	150.3	156.6	164.0	171.7	179.8
15	Capital and Prison Construction	9.5	0.2 /F	0.1 /F	7.4	20.0	19.4	20.0
16	TABOR Refund	0.0	53.1	290.8	424.1	581.1	701.0	947.1
17	Homestead Exemption	0.0 /G	0.0 /G	0.0 /G	65.8	66.7	67.8	68.9
18	Transfer to the Controlled Maintenance Trust Fund (S.B. 03-262)	0.0	0.0 /H	0.0 /H	0.0	0.0	0.0	0.0
19	General Fund Payback	56.2 /I	0.0	0.0	0.0	0.0	0.0	0.0
20	Reversions & Accounting Adjustments	(18.5)	0.0	0.0	0.0	0.0	0.0	0.0
21	**Total Obligations**	$5,688.8	$5,970.9	$6,319.1	$6,744.2	$7,162.4	$7,586.4	$8,149.3
22	**Year-end General Fund Reserve:**	**$346.3**	**$245.7**	**$235.1**	**$243.6**	**$253.2**	**$265.1**	**$277.3**
23	**Statutory Reserve: 4.0% of Appropriations**	**223.6**	**231.8**	**235.1**	**243.6**	**253.2**	**265.1**	**277.3**
24	**Monies Above (Below) Statutory Reserve**	**122.7**	**13.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
25	**Excess Monies Reserved for Transportation**	**81.8 /J**	**9.3 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
26	**Excess Monies Reserved for Capital Construction**	**40.9 /J**	**4.6 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
27	**Reserve as a % of Appropriations**	**6.2%**	**4.2%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
28	**Appropriations Change**	**$185.8**	**$198.2**	**$79.5**	**$212.4**	**$240.2**	**$296.1**	**$307.0**
29		3.4%	3.5%	1.4%	3.6%	3.9%	4.7%	4.6%

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

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

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

/D S.B. 00-181 transfers money to the K-12 Capital Construction Fund. This money is exempt from the statutory limit, but is used in the base for calculation of the next year's limit. In FY 2003-04, the payment is paid from the State Education Fund and, to the extent available, Powerball. As per C.R.S. 24-75-201.1(4)(c), in FY 2004-05 and thereafter, the payment will not be made unless General Fund revenues exceed the statutory reserve by at least $80 million.

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

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

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

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

/I S.B. 03-191 requires that $10 million be repaid to the Major Medical Fund on July 1, 2003, and S.B. 03-274 requires that up to $6.9 million be repaid to the local government limited gaming impact fund from any revenues above $5.0 million collected through the FY 2003-04 tax amnesty program. Per H.B. 02-1391, the state is required to pay back some transfers into the General Fund if there are sufficient revenues. Our forecast shows that there is not sufficient revenue to make the paybacks required in H.B. 02-1391 from FY 2005-06 through the forecast horizon.

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

the September 2004 OSPB revenue projections and the FY 2004-05 appropriation level, FY 2004-05 revenues will exceed the statutory four percent reserve requirement by $13.9 million. Under current law, two-thirds of this excess will be distributed to the Highway Users Tax Fund and one-third will be distributed to the Capital Construction Fund.

General Fund Revenues

The forecast for General Fund revenues is shown in ***Table 4***. The September 2004 OSPB forecast for FY 2004-05 General Fund revenues is $41.7 million lower than the June 2004 OSPB forecast and the forecast for General Fund revenues in FY 2005-06 is $43.1 million lower. This section presents the details of our forecast for General Fund revenues in FY 2004-05 and FY 2005-06.

General Fund revenues are expected to increase 3.5 percent in FY 2004-05 compared with FY 2003-04.

FY 2004-05: General Fund revenues are expected to increase 3.5 percent in FY 2004-05 compared with FY 2003-04. This is a slightly slower pace than was reported in the June 2004 OSPB economic forecast. Colorado economic activity generally mirrors national economic activity and the national economy slowed in second quarter 2004. The subdued pace of economic growth at the national level is reflected in the September 2004 OSPB forecast for Colorado General Fund revenues.

Net individual income tax receipts will increase 4.6 percent in FY 2004-05 and 6.0 percent in FY 2005-06. The components of individual income taxes — ***withholdings, estimated payments, cash-with-returns receipts*** (checks mailed for income taxes due on April 15), and ***refunds*** — have stabilized. Indeed, following two years of declines, withholdings, estimated payments, and cash-with-returns are again growing in FY 2004-05. Meanwhile, refunds, which soared in FY 2002-03, are forecast to increase only modestly through the forecast horizon.

Net corporate income tax receipts rose 4.5 percent in FY 2003-04. They are forecast to increase 8.3 percent in FY 2004-05 and 7.2 percent in FY 2005-06. The September 2004 OSPB forecast assumptions for net corporate income tax receipts is not fundamentally different compared with the June 2004 OSPB forecast.

Sales tax revenues forecast to increase 4.2 percent in FY 2004-05 and 5.6 percent in FY 2005-06.

Sales tax revenues rose 4.0 percent in FY 2003-04 after falling 3.0 percent in FY 2002-03. Sales tax revenues are forecast to increase 4.2 percent in FY 2004-05 and 5.6 percent in FY 2005-06. Sales tax revenues are rising because of the strengthening Colorado economy, because of the fiscal stimulus provided by the federal Jobs and Growth Tax Relief Reconciliation Act of 2003, and because homeowners spent some of their equity when they refinanced their mortgages to take advantage of recent low mortgage rates.

General Fund revenues are forecast to grow 5.5 percent in FY 2005-06.

FY 2005-06: General Fund revenues are forecast to grow 5.5 percent in FY 2005-06. In FY 2005-06, 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. However, some of the federal tax law changes reported previously will affect revenue growth rates. For example, net corporate income tax revenue growth in FY 2005-06 will be inflated because the 50 percent bonus depreciation and increased small business expensing provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003 will no longer be in effect.

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

Line No.	Category	Preliminary Close FY 2003-04	% Chg	FY 2004-05	% Chg	FY 2005-06	% Chg	FY 2006-07	% Chg	FY 2007-08	% Chg	FY 2008-09	% Chg	FY 2009-10	% Chg
				September 2004 Estimate by Fiscal Year with Percent Change Over Prior Year											
	Excise Taxes:														
1	Sales	$1,771.0 /A	4.0	$1,845.7 /A	4.2	$1,948.5 /A	5.6	$2,082.8 /A	6.9	$2,220.6 /A	6.6	$2,355.3 /A	6.1	$2,485.4 /A	5.5
3	Use	$137.3 /A	0.6	$149.5 /A	8.8	$158.0 /A	5.7	$165.5 /A	4.8	$173.8 /A	5.0	$182.4 /A	5.0	$191.5 /A	5.0
4	Cigarette	$53.8	(1.0)	$53.3	(0.9)	$53.1	(0.3)	$53.1	(0.1)	$53.2	0.2	$53.3	0.2	$53.4	0.2
5	Tobacco Products	$12.0	15.3	$12.4	3.4	$13.0	5.4	$13.7	5.0	$14.3	4.7	$15.0	4.6	$15.7	4.6
6	Liquor	$30.9	4.0	$31.2	1.0	$31.6	1.4	$32.2	1.6	$33.1	3.0	$34.1	2.9	$35.1	2.9
7	***Total Excise***	***$2,005.0***	***4.7***	***$2,092.0***	***4.3***	***$2,204.2***	***5.4***	***$2,347.3***	***6.5***	***$2,495.1***	***6.3***	***$2,640.1***	***5.8***	***$2,781.0***	***5.3***
	Income Taxes:														
8	Net Individual Income	$3.450.0	10.5	$3.609.1	4.6	$3.823.9	6.0	$4.103.6	7.3	$4.371.4	6.5	$4.641.6	6.2	$4.928.3	6.2
9	Net Corporate Income	$235.2	4.5	$254.6	8.3	$273.0	7.2	$294.8	8.0	$309.6	5.0	$327.5	5.8	$345.0	5.4
10	***Total Income***	***$3,685.2***	***10.1***	***$3,863.7***	***4.8***	***$4,096.9***	***6.0***	***$4,398.4***	***7.4***	***$4,681.0***	***6.4***	***$4,969.1***	***6.2***	***$5,273.4***	***6.1***
	Other Revenues:														
11	Estate	$47.2 /B	(11.6)	$12.2 /B	(74.2)	$1.1 /B	(91.4)	$0.0 /B	NA	$0.0 /B	NA	$0.0 /B	NA	$125.0 /B	NA
12	Insurance	$175.9	2.7	$177.1	0.7	$182.0	2.8	$188.6	3.6	$195.3	3.5	$201.9	3.4	$208.5	3.3
13	Pari-Mutuel	$4.4	(6.2)	$4.4	1.4	$4.3	(2.7)	$4.1	(4.0)	$3.9	(5.0)	$3.7	(5.4)	$3.5	(5.9)
14	Interest Income	$19.5 /C	(61.7)	$11.2	(42.7)	$11.5	2.5	$11.8	2.7	$12.1	2.6	$12.4	2.6	$12.7	2.6
15	Court Receipts	$26.3	10.9	$26.5	1.1	$27.2	2.4	$27.8	2.4	$28.5	2.4	$29.2	2.3	$29.8	2.3
16	Gaming	$40.2	4.7	$39.7	(1.3)	$41.7	5.1	$44.1	5.7	$46.7	6.0	$49.6	6.2	$52.6	6.1
17	Medicaid Intergovernmental Transfer	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
18	Other Income	$41.5 /D	(9.4)	$31.8 /D	(23.4)	$32.2	1.2	$32.6	1.2	$33.1	1.6	$33.7	1.6	$39.2	16.4
19	***Total Other***	***$355.0***	***(12.1)***	***$303.0***	***(14.7)***	***$299.9***	***(1.0)***	***$309.0***	***3.0***	***$319.6***	***3.4***	***$330.4***	***3.4***	***$471.3***	***42.7***
20	**GROSS GENERAL FUND**	**$6,045.2**	**6.7**	**$6,258.8**	**3.5**	**$6,601.1**	**5.5**	**$7,054.6**	**6.9**	**$7,495.6**	**6.3**	**$7,939.6**	**5.9**	**$8,525.7**	**7.4**
	Rebates & Expenditures:														
21	Cigarette Rebate	$14.9	(1.6)	$14.9	0.1	$14.9	(0.4)	$14.9	0.1	$14.9	0.2	$14.9	0.2	$15.0	0.2
22	Old-Age Pension Fund	$78.5	4.8	$83.2	5.9	$88.7	6.7	$94.9	6.9	$102.0	7.5	$109.3	7.2	$117.2	7.2
23	Aged Property Tax & Heating Credit	$15.7	8.4	$17.3	10.3	$17.6	1.4	$17.8	1.4	$18.1	1.4	$18.3	1.4	$18.6	1.4
24	Fire/Police Pensions	$3.7 /E	(87.4)	$3.8 /E	3.9	$29.1	665.8	$29.1	0.0	$29.1	0.0	$29.1	0.0	$29.1	0.0
25	***Total Rebates & Expenditures***	***$112.8***	***(15.6)***	***$119.2***	***5.7***	***$150.3***	***26.1***	***$156.6***	***4.2***	***$164.0***	***4.7***	***$171.7***	***4.6***	***$179.8***	***4.7***

NA: Not Available.

/A Per H.B. 00-1259, beginning January 1, 2001, 10.34 percent of sales and use taxes will be diverted to the Highway Users Tax Fund 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 The 2001 Federal tax relief package phases out the federal estate tax as well as the state credit claimed by Colorado as its share of federal estate taxes. Thus, the state's estate tax collections will be phased out and almost entirely eliminated by FY 2005-06. If the federal estate tax relief is not made permanent, the estate tax will return in FY 2009-10.

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

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

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

Cash Fund Revenue Forecast

Summary

- **Cash fund revenues** increased 13.8 percent in FY 2003-04, to $2,613.0 million, primarily due to robust growth in three cash fund categories: higher education tuition, unemployment insurance taxes, and severance taxes. In FY 2004-05, cash fund revenues are forecast to grow 5.0 percent while in FY 2005-06, cash fund revenue growth will be flat.

- **Transportation-related revenues**, the largest group of cash funds, grew 4.3 percent in FY 2003-04. This group of cash funds is forecast to increase 1.4 percent in FY 2004-05 and 3.1 percent in FY 2005-06. From FY 2004-05 through FY 2009-10, these funds will grow at a compound annual average rate of 3.5 percent.

- **Higher education cash funds**, the next largest group of cash funds, increased 10.8 percent in FY 2003-04. The increase in total higher education revenues occurred because both tuition rates and the number of students increased substantially. In FY 2004-05, higher education cash fund revenues are forecast to increase 4.1 percent.

  - The University of Colorado became an enterprise in FY 2004-05 based on the enactment of Senate Bill 04-252. Thus, all tuition and fees collected from the University are exempt from the TABOR limit in FY 2004-05 and thereafter.

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

- **Unemployment insurance** (UI) revenues increased 56.2 percent in FY 2003-04 and are expected to increase 33.6 percent in FY 2004-05. The large increases occur because UI tax rates automatically rise to compensate for higher UI benefit payments. Through the forecast horizon, the improving economy will result in declining benefit payments, which in turn means UI tax rates will fall.

The September 2004 OSPB cash fund revenue forecast is summarized in ***Table 5***. Cash fund revenues are monies collected and earmarked for specific purposes. They comprised 31 percent of total TABOR revenues in FY 2003-04. In FY 2004-05, cash fund revenues are forecast to increase 5.0 percent, to $2,332.7 million. From FY 2004-05 through FY 2009-10, cash fund revenues will grow at a compound annual average rate of 0.2 percent. The weak cash fund revenue growth is primarily due to falling unemployment insurance (UI) tax revenues, which offset more robust growth in the remaining cash funds. Employers' UI tax rates fall as the state economy improves and this in turn lowers UI revenue growth.

In FY 2004-05, cash fund revenues are forecast to increase 5.0 percent.

In FY 2003-04, strong cash fund revenue growth was primarily due to robust growth in three cash fund categories: higher education, UI, and severance.

In FY 2003-04, strong cash fund revenue growth was primarily due to robust growth in three cash fund categories: higher education, UI, and severance. Higher education revenues rose 10.8 percent as tuition rates increased and enrollment grew. Meanwhile, UI tax collections surged as employer tax rates adjusted to replenish the UI Trust Fund, as is designed per statute. Finally, severance tax revenues rose as a result of higher prices and production levels coupled with merger and acquisition activity. Cash fund revenue growth remains robust in FY 2004-05.

In FY 2005-06, after adjusting for the newly granted enterprise status of Colorado institutions of higher education, total cash fund revenues will be essentially unchanged compared with FY 2004-05. In FY 2005-06, revenue received from the UI tax is expected to decline substantially as a result of the improving economy and lower UI tax rates. Moreover, higher education will no longer count toward TABOR, and severance taxes are forecast to fall. The combination of falling UI and severance tax revenues will offset the increases in the cash funds remaining after the institutions of higher education become an enterprise.

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

Transportation-Related Cash Funds

From FY 2004-05 through FY 2009-10, total transportation-related cash fund revenues will grow at a compound average annual rate of 3.5 percent.

Table 6 details the forecast for transportation-related cash fund revenues, which increased 4.3 percent in FY 2003-04. Total transportation-related cash fund revenues are forecast to increase 1.4 percent in FY 2004-05 and 3.1 percent in FY 2005-06. From FY 2004-05 through FY 2009-10, total transportation-related cash fund revenues will grow at a compound average annual rate of 3.5 percent.

- The ***Highway Users Tax Fund*** (HUTF), the largest of the transportation-related funds, is composed primarily of fuel tax revenues and registration fees. In FY 2003-04, HUTF revenues increased 2.4 percent. They are expected to increase 2.7 percent in FY 2004-05 as businesses continue to build their inventories and consumers have more disposable income to spend at the gasoline pump. While gasoline prices have risen sharply over the past year, the demand for gasoline is inelastic. Hence, we have not seen a decline in the amount of gasoline purchased over the short term.

- ***Other transportation-related cash fund revenue*** increased 25.9 percent in FY 2003-04 due in part to the enactment of Senate Bill 03-272, which imposes new fees on license plates, decals, placards, and tabs to cover the direct costs of issuing them and interest earnings on a loan. Also, the E-470 Authority repaid a loan to the Department of Transportation, including $10 million in interest, which created a one time infusion of money in this fund. In FY 2004-05, these cash funds are forecast to decrease 10.2 percent as a result of the one time payment from the E-470 Authority in FY 2003-04. In FY 2005-06, they will increase 2.1 percent.

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

		September 2004 Estimate by Fiscal Year						
	FY 2003-04	**FY 2004-05**	**FY 2005-06**	**FY 2006-07**	**FY 2007-08**	**FY 2008-09**	**FY 2009-10**	**FY 2004-05 to FY 2009-10 CAAGR***
Transportation-Related	$838.7	$850.7	$877.4	$922.0	$953.1	$987.8	$1,010.4	
Change	4.3%	1.4%	3.1%	5.1%	3.4%	3.6%	2.3%	3.5%
Higher Education	$757.8 /A	$380.3 /A	NE /B	NE /B	NE /B	NE /B	$0.0 /B	
Change	10.8%	4.1% /G	NE	NE	NE	NE	NE	NE
Unemployment Insurance	$342.2 /D	$457.1 /D	$430.3 /D	$287.1 /D	$253.6 /D	$253.8	$214.6	
Change	56.2%	33.6%	-5.9%	-33.3%	-11.7%	0.1%	-15.5%	-14.0%
Limited Gaming Fund	$102.7	$106.3	$111.1	$116.7	$122.8	$129.6	$136.7	
Change	2.7%	3.5%	4.5%	5.0%	5.3%	5.5%	5.5%	5.2%
Capital Construction – Interest	$1.7	$1.4	$0.9	$0.6	$0.3	$0.2	$0.1	
Change	-59.8%	-18.2%	-32.4%	-32.4%	-46.1%	-45.6%	-45.6%	-40.8%
Regulatory Agencies	$50.2	$51.8	$53.6	$55.5	$57.4	$59.5	$61.6	
Change	-6.1%	3.2%	3.4%	3.5%	3.5%	3.6%	3.6%	3.5%
Insurance-Related	$52.6	$53.2	$56.2	$59.5	$62.9	$66.6	$70.4	
Change	-14.2%	1.0%	5.7%	5.8%	5.8%	5.8%	5.8%	5.8%
Severance Tax	$125.1	$75.0	$55.0	$49.4	$61.3	$53.0	$66.9	
Change	283.7%	-40.0%	-26.7%	-10.2%	24.1%	-13.5%	26.1%	-2.3%
Petroleum Storage Tank Fund	$28.3 /E	$28.4 /E	$28.5 /E	$28.6 /E	$9.4 /E	$9.6	$10.0	
Change	41.3%	0.5%	0.4%	0.2%	-67.0%	2.0%	4.2%	-18.9%
Controlled Maintenance Trust Fund Interest	$2.0	$0.0 /F	$0.0 /F	$0.0	$0.0	$0.0	$0.0	
Change	NA	NA	NA	NA	NA	NA	NA	NA /E
Miscellaneous Cash Funds	$311.8	$328.4	$340.4	$352.4	$367.1	$381.4	$398.1	
Change	-2.9%	5.3%	3.7%	3.5%	4.2%	3.9%	4.4%	3.9%
TOTAL CASH FUND REVENUES	**$2,613.0**	**$2,332.7**	**$1,953.4**	**$1,871.7**	**$1,888.0**	**$1,941.5**	**$1,968.8**	
Change	13.8%	5.0% /G	0.1% /G	-4.2%	0.9%	2.8%	1.4%	0.2% /F

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

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

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

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

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

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

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

Table 6

Transportation-Related Cash Fund Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		September 2004 Estimate by Fiscal Year						
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2004-05 to FY 2009-10 CAAGR*
Highway Users Tax Fund (HUTF)								
Registrations	$156.4	$160.1	$167.0	$174.4	$182.9	$191.9	$200.0	
Change	3.5%	2.4%	4.3%	4.4%	4.9%	4.9%	4.2%	4.6%
Motor and Special Fuels Net of Refunds	$556.3	$572.5	$589.8	$607.7	$626.8	$647.6	$659.1	
Change	2.7%	2.9%	3.0%	3.0%	3.1%	3.3%	1.8%	2.9%
Other Receipts /A	$40.9 /A	$41.7 /A	$42.6 /A	$59.7 /A,B	$61.2 /A	$64.0 /A	$64.0 /A	
Change	-4.9%	2.0%	2.0%	40.2%	2.4%	4.7%	0.0%	8.9%
TOTAL HUTF	$753.6	$774.3	$799.4	$841.8	$870.8	$903.5	$923.2	
Change	2.4%	2.7%	3.2%	5.3%	3.5%	3.7%	2.2%	3.6%
Other Transportation-Related Cash Funds	$85.1	$76.4	$78.0	$80.3	$82.3	$84.3	$87.2	
Change	25.9%	-10.2%	2.1%	3.0%	2.5%	2.5%	3.5%	2.7%
TOTAL TRANSPORTATION-RELATED	**$838.7**	**$850.7**	**$877.4**	**$922.0**	**$953.1**	**$987.8**	**$1,010.4**	
Change	4.3%	1.4%	3.1%	5.1%	3.4%	3.6%	2.3%	3.5%

***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 Per Senate Bill 03-272, beginning in FY 2003-04, this category includes new fees collected on license plates, decals, placards, and tabs to cover the cost of issuing them.

Higher Education

The September 2004 forecast for ***higher education cash fund revenue*** is shown in ***Table 7***. In FY 2003-04, total higher education revenues increased 10.8 percent as a result of tuition increases and strong student enrollment growth. In FY 2004-05, higher education revenues (excluding the University of Colorado, which became an enterprise in FY 2004-05) are expected to grow 4.1 percent.

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

All state institutions of higher education are expected to meet the requirements necessary to be granted enterprise status beginning in FY 2005-06.

- In FY 2003-04, resident student tuition rates at the state's universities and colleges increased between 5.0 percent and 15.0 percent, while nonresident student tuition rates increased between 5.0 percent and 23.1 percent. In FY 2004-05, resident student tuition rates at the state's institutions of higher education excluding the University of Colorado will increase by the Denver-Boulder-Greeley inflation rate and, on average, nonresident student tuition rates will increase 5.0 percent. In FY 2005-06 and beyond, we assume all Colorado institutions of higher education will be enterprises. Since tuition and fees collected by these institutions will no longer count towards the TABOR limit, they are not forecast.

- Total higher education full time enrollment rose 3.3 percent in FY 2003-04. From FY 2004-05 through the forecast horizon, student enrollment including the University of Colorado will grow at an average 2.2 percent annual rate.

Unemployment Insurance Trust Fund

In FY 2003-04, total UI Trust Fund revenues — UI taxes and interest earnings on the UI Trust Fund balance — increased 56.2 percent.

The September 2004 UI revenue forecast is shown in ***Table 8***. In FY 2003-04, total UI Trust Fund revenues — UI taxes and interest earnings on the UI Trust Fund balance — increased 56.2 percent. They are forecast to increase 33.6 percent in FY 2004-05. Tax revenues rose in FY 2002-03 through FY 2004-05 because UI tax rates automatically rise to compensate for the higher UI benefit payments made since

2001. Employers' UI tax rates are designed to increase when benefit claims increase so that the UI Trust Fund is replenished. During good economic times, when UI benefit claims decrease, UI tax rates decline. In FY 2003-04, UI tax revenues (excluding interest revenues) increased 75.0 percent. They are expected to increase 34.8 percent in FY 2004-05 as rates continue to adjust upward. Thereafter, the improving economy will result in declining benefit payments, which means UI tax rates will fall.

In FY 2004-05, UI benefit payments will fall 34.9 percent following a 13.6 percent decrease in FY 2003-04.

- In FY 2004-05, UI benefit payments will fall 34.9 percent following a 13.6 percent decrease in FY 2003-04. They will continue to fall through the remainder of the forecast horizon as the economic recovery progresses. Between FY 2001-02 and FY 2002-03, benefit payments increased nearly 175 percent. The rising benefit payments were the result of the soft labor market and the ensuing increase in the number of unemployed.

- Colorado's UI Trust Fund received $142.7 million from the federal government through the Reed Act distribution. These funds kept the UI Trust Fund balance high enough to prevent the solvency surcharge from triggering in 2003. The solvency surcharge is an additional tax paid by employers when the ratio of the June 30th UI Trust Fund balance to the amount of total wages paid during the preceding calendar year is less than 0.9 percent.

    - As a result of the Reed Act distribution, Colorado's employers did not pay a $55.1 million solvency surcharge in calendar year 2003. However, because UI benefit payments were again high in FY 2002-03 and FY 2003-04, the surcharge was triggered in 2004 and we forecast it will remain triggered in 2005 and 2006.

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

- In both calendar years 2004 and 2005, the unemployment insurance tax rate schedule will move to a higher level. This occurs because two components of employer UI tax rates — the base rate and the solvency surcharge — rise when the UI Trust Fund balance drops below certain thresholds. The UI Trust Fund balance triggered the solvency surcharge on January 1, 2004. The UI Trust Fund had a balance of $298.7 million on June 30, 2003 and ended FY 2003-04 with a balance of only $133.9 million. These balances will trigger a tax rate schedule increase in calendar years 2004 and 2005. The statutory provisions of these mechanisms can be found in Section 8-76-103, C.R.S.

Other Cash Funds

The September 2004 forecast for total revenues collected by the remaining cash funds in FY 2004-05 is essentially unchanged from our June 2004 forecast. In FY 2003-04, these cash fund revenues increased 13.8 percent as a result of unusually high growth in severance tax collections. Severance taxes are monies collected on the production of minerals severed from the earth and, due to a combination of increased production, rising gas and oil prices, and merger and acquisition activity, revenues collected from severance taxes increased nearly 285 percent in FY 2003-04. In FY 2004-05, we forecast a 40 percent decline in severance tax revenues because of offsetting credits received for property taxes paid in previous years.

Table 7

Higher Education Cash Fund Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		September 2004 Estimate by Fiscal Year						
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2004-05 to FY 2009-10 CAAGR*
Tuition	$601.7 /A	$308.2 /A	NE /A	NE /A	NE /A	NE	NE	
Change	12.9%	4.5%	NE	NE	NE	NE	NE	NE
Non-Tuition	$156.1	$72.1	NE	NE	NE	NE	NE	
Change	3.4%	3.3%	NE	NE	NE	NE	NE	NE
TOTAL HIGHER EDUCATION	**$757.8**	**$380.3**	**NE**	**NE**	**NE**	**NE**	**NE**	
Change	10.8%	4.1%	NE	NE	NE	NE	NE	NE
Full-Time-Equivalent Students								
Total	158,003	161,461	164,051	167,699	170,490	174,164	177,923	
Change	3.3%	2.2%	1.6%	2.2%	1.7%	2.2%	2.2%	2.2%
Resident	135,938	139,253	141,750	145,190	147,776	151,252	154,811	
Change	3.9%	2.4%	1.8%	2.4%	1.8%	2.4%	2.4%	2.4%
Nonresident	22,065	22,208	22,301	22,509	22,714	22,912	23,113	
Change	-0.7%	0.6%	0.4%	0.9%	0.9%	0.9%	0.9%	0.9%

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

NE: Not Estimated.

Totals may not sum due to rounding.

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

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

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

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

Table 8

Unemployment Insurance Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		September 2004 Estimate by Fiscal Year						
	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2004-05 to FY 2009-10 CAAGR*
Beginning Fund Balance	$298.7	$133.9	$364.6	$639.3	$800.0	$937.3	$1,075.0	
Change	-52.4%	-55.2%	172.3%	75.3%	25.1%	17.2%	14.7%	51.7%
Income	$342.2	$457.1	$430.3	$287.1	$253.6	$253.8	$214.6	
Change	56.2%	33.6%	-5.9%	-33.3%	-11.7%	0.1%	-15.5%	-14.0%
Taxes	$332.9 /B	$448.8 /B	$413.4 /B	$257.4 /B	$213.0	$206.6	$173.9	
Change	75.0%	34.8%	-7.9%	-37.7%	-17.3%	-3.0%	-15.8%	-17.3%
Interest	$9.3	$8.3	$16.9	$29.6	$40.6	$47.2	$40.6	
Change	-67.8%	-10.3%	102.7%	75.4%	37.2%	16.2%	-13.9%	37.3%
Benefits and Accounting Adjustments	($507.0) /C	($259.4) /C	($183.4) /C	($147.6) /C	($138.0) /C	($137.1)	($136.7)	
Change	-7.3%	-48.8%	-29.3%	-19.5%	-6.5%	-0.6%	-0.4%	-12.0%
Ending Fund Balance	**$133.9**	**$364.6**	**$639.3**	**$800.0**	**$937.3**	**$1,075.0**	**$1,183.0**	
Solvency Ratio	0.2% /D	0.5% /D	0.9% /D	1.1% /D	1.2% /D	1.3%	1.4%	
Total Wages								
Change								

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

Totals may not sum due to rounding.

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

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

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

/D 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

Summary

- National economic growth slowed in second quarter 2004 and it is expected to remain subdued in the third quarter. Nonetheless, inflation-adjusted gross domestic product is forecast to increase 4.3 percent in 2004, as strong growth in the first and last quarter of the year will offset the weaker but still positive growth of the second and third quarters.
  - Consumer spending is forecast to grow 3.8 percent in 2004 and 3.4 percent in 2005.
  - Business investment is expected to average 9.8 percent growth in 2004 and 9.3 percent growth in 2005.
- Inflationary pressures are forecast to remain moderate. Overall, consumer prices are forecast to rise 2.6 percent in 2004 and 1.7 percent in 2005.
- National employment will increase 1.1 percent in 2004, with 1.4 million workers added to nonfarm payrolls between 2003 and 2004.
- The national unemployment rate is forecast to average 5.6 percent in 2004 and 2005.

Inflation-adjusted gross domestic product is forecast to increase 4.3 percent in 2004.

The national economy remains fundamentally strong. Corporate profits have surged, fueled by consistently robust productivity gains and the accelerated depreciation tax benefits businesses are receiving on equipment and software purchased before year-end 2004. Meanwhile, stronger overseas economies combined with a weaker dollar are stimulating U.S. exports. Nonetheless, business confidence is fragile and companies remain reluctant to commit to expanding their payrolls.

National economic growth slowed in second quarter 2004.

Despite the fundamental strength of the national economy, national economic growth slowed in second quarter 2004 and is expected to remain subdued in the third quarter. The tepid growth is the result of weakening consumer activity. Consumer spending growth has decelerated in response to higher energy prices, rising interest rates, and restrained wage increases. Furthermore, the employment cost index, one of the most accurate measures of labor compensation, grew at a record low 2.5 percent in the 12 months ending in June 2004. Over the same period, benefit costs accelerated over 7.0 percent, a near record high pace. Soaring healthcare insurance and pension costs have lowered take-home pay, as employers demand that employees shoulder ever larger shares of these benefits.

Notwithstanding the slowdown in the national economy, the Institute for Supply Management (ISM) surveys continue to signal expansion in both the manufacturing and services sectors. In August 2004, the ISM *manufacturing* index was 59, the first reading below 60 since October 2003. The ISM production index fell more than six points, accounting for a large portion of the overall decline. However, the drop in new orders was less dramatic and remained above 60. Overall, the August index suggests only a modest building of inventories. The ISM employment index also dropped but still indicates that manufacturing employment is expanding. Indeed, manufacturing payrolls rose by 22,000 jobs in August. Thus, the ISM report shows that the manufacturing sector is still healthy and growing, despite the threat posed by high commodity and energy prices.

Demand for services continues to expand, but at a noticeably slower pace. The August 2004 ISM *non-manufacturing* business activity index was 58.2, 6.6 points below the July 2004 reading and the lowest value since December 2003. Six industries reported a contraction in business activity, led by legal services, construction, and transportation. However, ten industries experienced increased business activity. Real estate, financial services, agriculture, and mining reported the fastest rates of expansion. Both new orders and exports were lower in August than in July.

Personal income grew 5.1 percent year-to-date through July 2004 compared with year-to-date July 2003.

Personal income grew 5.1 percent year-to-date through July 2004 compared with year-to-date July 2003. This is well ahead of the 3.2 percent pace averaged in 2003. The wage and salary component of personal income rose 4.4 percent year-to-date and nonfarm proprietors' incomes increased 9.5 percent. Meanwhile, the savings rate was 0.6 percent — the lowest since December 2002 — and household debt burdens and defaults remain high.

The Conference Board index of consumer confidence fell 7.5 points in August 2004, primarily due to a decline in the expectations component of the index. Weak job gains in both June and July 2004 contributed to lower confidence. Consumers' assessments of present and future business conditions and the employment outlook deteriorated. Buying plans also fell. The only improvement came in consumers' assessment of the outlook for income.

The Federal Reserve Board tightened monetary policy at its August 2004 meeting, increasing the federal funds rate to 1.5 percent. However, the inflation-adjusted funds rate, as measured by the difference between the nominal funds rate and inflation, has been negative since shortly after the terrorist attacks of September 11, 2001 and remains negative even after the August 2004 increase. Thus, even with the recent tightening by the Federal Reserve Board, monetary policy remains highly stimulatory.

Overview of Recent National Economic Activity

Table 9 summarizes recent national economic indicators.

- **Inflation-adjusted gross domestic product (GDP)** grew 4.5 percent in first quarter 2004, well above its long-term potential of 3.0 percent to 3.5 percent. However, in second quarter 2004 the pace fell to 2.8%.

- ***Consumer spending,*** which accounts for two-thirds of GDP, rose only 1.6% percent in second quarter 2004, the lowest gain in household consumption since second quarter 2002. Inflation-adjusted spending on both durable and nondurable goods was flat, while inflation-adjusted spending on services rose only 2.5 percent.

Table 9
National Economic Statistics

	2nd Quarter 2004	1st Quarter 2004	2003 Annual Average	2002 Annual Average
Inflation-Adjusted Annual GDP Growth[1]	2.8%	4.5%	3.0%	1.9%
Consumer Spending	1.6%	4.1%	3.3%	3.1%
Nonresidential Fixed Investment	12.1%	4.2%	3.3%	-8.9%
Structures	7.1%	-7.6%	-5.6%	-17.8%
Equipment and Software	13.6%	8.0%	6.4%	-5.5%
Residential Fixed Investment	14.7%	5.0%	8.8%	4.8%
Exports	6.1%	7.3%	1.9%	-2.3%
Imports	14.1%	10.6%	4.4%	3.4%
Government Expenditures and Investments	2.4%	2.5%	2.8%	4.4%
Federal Government	2.7%	7.1%	6.6%	7.5%
State and Local Governments	2.2%	0.0%	0.7%	2.8%
Productivity (output per hour, nonfarm business) [1]	2.5%	3.7%	4.4%	4.4%
	August 2004	**August 2003**	**2003 Annual Average**	**2002 Annual Average**
Inflation[2]	2.5%	2.4%	2.3%	1.6%
Nonfarm Employment Growth[2]	0.8%	-0.4%	-0.3%	-1.1%
Unemployment Rate	5.4%	6.1%	6.0%	5.8%
Housing Permit Growth[3]	11.8%	5.6%	8.1%	6.8%
Single-Family	12.6%	7.4%	9.6%	7.9%
Multi-Family	8.8%	-0.3%	3.2%	3.5%
Growth in the Value of Nonresidential Construction[3]	2.8%	-3.0%	-2.2%	-6.7%
Retail	4.5%	-10.4%	-7.2%	-18.9%
Offices	7.4%	-19.7%	-14.4%	-29.3%
Factories	-2.6%	-20.5%	-15.8%	-43.8%
Retail Sales[3]	7.6%	4.2%	4.9%	3.3%

1/ Annualized growth compared with preceding quarter.
2/ Year-to-date;
employment by place of work from Current Employment Statistics (CES) survey of payroll records.
3/ Year-to-date through July 2004.

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

- In second quarter 2004, ***residential investment*** posted strong growth, rising 14.7 percent as sales of new and existing homes climbed to a record high. This is the strongest gain in home building activity since third quarter 2003 and the second largest gain in eight years. The strong pace of sales has lifted the median existing house price up nearly 10 percent compared with one year ago. Improving labor markets, accelerating income growth, and low mortgage rates are all supporting single-family housing activity. In turn, the homeownership rate surged to a record high, even as housing affordability declined.

Improving labor markets, accelerating income growth, and low mortgage rates are all supporting single-family housing activity.

- ***Business investment*** decelerated during the first two quarters of 2004. Nonetheless, inflation-adjusted nonresidential fixed investment advanced at an annualized 12.1 percent pace in second quarter 2004, with spending on equipment and software up 13.6 percent and spending on structures up 7.1 percent. Transportation equipment spending fell during second quarter 2004, but this was offset by gains in information technology and industrial equipment spending. Factors contributing to business expansion remain favorable. Returns on capital spending are high, credit conditions are good, and corporate balance sheets are healthy. Moreover, business investment's share of GDP is at a historic low, signaling considerable pent-up demand for new equipment and structures investment.

Business investment's share of GDP is at a historic low, signaling considerable pent-up demand for new equipment and structures investment.

- ***Government expenditures*** rose 2.4 percent in second quarter 2004. State and local government expenditures rose 2.2 percent, posting their first increase since third quarter 2003. Meanwhile, federal nondefense expenditures increased 4.4 percent and federal defense expenditures increased 1.9 percent. Federal government expenditures have climbed about six percent since the beginning of the federal fiscal year in fourth quarter 2003.

- ***Productivity*** increased 2.5 percent in second quarter 2004, the smallest increase since fourth quarter 2002 but still faster than the historical average. Furthermore, over the past year, productivity has increased 4.6 percent. Output increased 5.8 percent but this was offset by a 1.2 percent increase in hours worked. Although unit labor costs increased in second quarter 2004, they are still 0.3 percent lower than one year ago.

Inflation continues to be modest and core inflationary pressures are low.

- **Inflation** continues to be modest and core inflationary pressures are low. Year-to-date through August 2004, consumer prices are up 2.5 percent compared with year-to-date August 2003, while core inflation is up 1.6 percent over the same period. August 2004 energy prices were 0.3 percent lower than July 2004 and 2.2 percent lower than June 2004. Since energy prices are not likely to increase substantially above their current record high levels, they are not likely to contribute more than a few tenths of a percentage point to overall consumer price inflation in the near term.

- **Energy markets** remain concerned about instability in Venezuela, Nigeria, Saudi Arabia, and Iraq. Hence, petroleum prices have set new records, even though supplies are adequate to meet strong demand growth. Surprisingly, gasoline prices at the pump have not followed the surge in crude prices. This is because refineries have operated at near capacity during the summer and gasoline inventories are currently adequate to meet seasonal demand. Meanwhile, petroleum imports have been strong, further preventing prices at the pump from rising. However, if the recent upsurge in crude prices continues, gasoline prices might follow. Natural gas inventories also appear adequate to meet near-term demand.

- **Retail sales** are up 7.6 percent year-to-date through July 2004 compared with year-to-date July 2003. Although the pace is slowing as the year progresses, the cause is not faltering retail sales activity in 2004. Rather, the apparent deceleration is due to the boost that retail sales received in 2003 from reduced tax withholdings, tax rebate checks, and money from mortgage refinancing. These sources of additional cash raised 2003 retail sales higher than would have occurred otherwise and thus make 2004 retail sales growth appear weaker.

- **Employment** grew by an average 100,000 jobs in June, July, and August 2004, compared with an average of nearly 300,000 jobs added in March, April, and May 2004. Moreover, the August 2004 unemployment rate — 5.4 percent — is the lowest since September 2001. Education, health, business, and professional services led the gains in service-providing industries. Meanwhile, goods-producing employment growth has been strong, reflecting healthy production growth in manufacturing and sustained activity in the housing market.

The National Forecast

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

Gross Domestic Product and Its Components

Inflation-adjusted GDP is forecast to increase 4.3 percent in 2004, with strong growth in the first and last quarter of the year offset by weaker but still positive growth in the second and third quarter. Inflation-adjusted annual GDP growth is forecast to grow at about its long-term potential of 3.1 percent from 2005 through 2009.

- ***Consumer spending***, which represents almost 70 percent of GDP, has been supported over the past year by tax cuts and borrowing from home equity. Now, the pace of sales growth will slow despite the strengthening economy because these other sources of cash are dissipating. Furthermore, rising interest rates will dampen demand, particularly for automobiles, homes, and home-related goods. Consumer spending is forecast to grow 3.8 percent in 2004 and 3.4 percent in 2005. In 2004, consumer spending on durable and nondurable goods will increase at a faster pace than will spending on services. In 2005, spending on services will lead growth.

- ***Business investment*** is expected to average 9.8 percent growth in 2004 and 9.3 percent growth in 2005. Investment growth will ease somewhat in 2005, with the expiration of two of the key provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. These provisions, which increase the amount of capital investment that small businesses are permitted to immediately expense and which provide a 50 percent bonus depreciation on investments made before the end of 2004, will increase business spending in 2004 by moving forward purchases that would otherwise have been made in 2005. Thus, 2005 investment will be lower than would have occurred without these provisions.

  Business investment is currently supported by replacement demand, as well as investment in new technologies. Future investment growth will be supported by strong profitability, healthy cash flow, and tax incentives. Investment in information technology equipment and software is forecast to increase 12.2 percent in 2004, 9.5 percent in 2005, and 4.7 percent in 2006. Meanwhile, nonresidential structures investment will increase 1.8 percent in 2004, 8.2 percent in 2005, and 5.7 percent in 2006.

Business investment is expected to average 9.8 percent growth in 2004 and 9.3 percent growth in 2005.

- ***Government spending*** is forecast to increase 2.2 percent in 2004 and 2.4 percent in 2005. In 2004 and 2005, federal defense spending will increase 7.4 percent and 5.0 percent, respectively, while federal nondefense spending is forecast to rise 0.4 percent and 3.2 percent, respectively. Defense spending will be relatively strong in the near term because of the conflict in Iraq and nondefense spending will rise because of the increasing costs of health care, entitlement programs, and homeland security. Passage of the Medicare prescription drug benefit program is also putting upward pressure on federal nondefense spending. Meanwhile, state and local government expenditures are forecast to increase 0.6 percent in 2004 and 1.2 percent in 2005.

Inflation

Core consumer price inflation is forecast to be 1.8 percent in 2004 and at or below 2.4 percent through the forecast horizon.

Inflationary pressures are moderate. Overall, consumer prices are forecast to rise 2.6 percent in 2004 and 1.7 percent in 2005. Meanwhile, core consumer price inflation is forecast to be 1.8 percent in 2004 and at or below 2.4 percent through the forecast horizon. The cost of shelter, the largest contributor to consumer price inflation, is forecast to rise 2.7 percent in 2004, while the cost of medical care is forecast to increase 4.5 percent. Energy prices are the key risk to this relatively sanguine outlook. Energy prices are expected to moderate over the next year as global energy demand growth decelerates and global energy supplies increase. Natural gas prices are also expected to decline, but to remain somewhat elevated compared to oil prices as imports of natural gas are currently constrained by a lack of available pipeline and seaport capacity. Natural gas accounts for nearly one quarter of the nation's energy consumption.

Interest Rates

The current stimulatory fiscal policy is expected to gradually diminish through the remainder of 2004 and by early 2005 fiscal policy is expected to be neutral. The Federal Reserve Board is expected to continue raising interest rates in a measured way through the end of 2005. The federal funds rate is expected to rise to 2.0 percent by year-end 2004 and to 3.5 percent by year-end 2005. In the long run, the federal funds rate target is expected to average about 4.5 percent, which is equal to long-run sustainable inflation-adjusted GDP growth of 3.0 percent plus 1.5 percent inflation.

Employment

National employment will increase 1.1 percent in 2004, with 1.4 million workers added to nonfarm payrolls between 2003 and 2004.

National employment will increase 1.1 percent in 2004, with 1.4 million workers added to nonfarm payrolls between 2003 and 2004. In 2005 and 2006, employment will increase 1.9 percent and 1.5 percent, respectively. Service-producing industries — including well-paying occupations in professional and business services — will increase their payrolls most rapidly. Construction employment, which is benefiting from the unusual strength of the housing market, will also add jobs. However, despite recent month-over-month increases, manufacturing employment will continue to contract through the forecast horizon.

In 2004 and 2005, the unemployment rate is forecast to average 5.6 percent. The strengthening labor market will entice job-seekers back into the labor force, offsetting the number of currently unemployed workers that will find employment in newly created positions. Thus, the unemployment rate will not fall until 2007 and even then, it will only be reduced to 5.5 percent. Thereafter, the unemployment rate will gradually decline, falling to 5.0 percent in 2009.

Risks to the Forecast

Most of the events likely to affect the current national economic forecast would result in a downward revision to the near-term strength of the recovery.

As has been true over the past year, most of the events likely to affect the current national economic forecast would result in a downward revision to the near-term strength of the recovery. The threat of global terrorism continues to pose a significant downside risk, with the deteriorating security situation in Iraq and the rising American death toll each negatively impacting consumer and business confidence. Moreover, increased political tension in oil-producing nations could curtail expected output, thereby disrupting the economic recovery. Meanwhile, the large current account deficit might necessitate an even steeper decline in the dollar, with ensuing economic disruptions. Also, household debt burdens and defaults remain high and the possibility of declining house prices in overpriced housing markets increases the risk of falling household credit quality. Weakening household credit quality could undermine lenders' willingness to extend credit, thereby curtailing households' ability to spend and weakening economic growth.

Table 10
History And Forecast For Key National Economic Variables 1999-2009

Line No.		Actual					September 2004 Forecast					
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Inflation-Adjusted & Current Dollar Income Accounts											
1	Inflation-Adjusted Gross Domestic Product (Billions)	$9,470.5	$9,816.9	$9,890.6	$10,074.9	$10,381.5	$10,823.1	$11,187.8	$11,565.7	$11,985.8	$12,407.5	$12,787.0
2	Change	4.5%	3.7%	0.8%	1.9%	3.0%	4.3%	3.4%	3.4%	3.6%	3.5%	3.1%
3	Gross Domestic Product (Billions)	$9,268.6	$9,816.9	$10,127.9	$10,487.0	$11,004.3	$11,699.6	$12,283.4	$12,952.1	$13,669.3	$14,393.9	$15,100.9
4	Change	6.0%	5.9%	3.2%	3.5%	4.9%	6.3%	5.0%	5.4%	5.5%	5.3%	4.9%
5	Productivity (Output per Hour, Nonfarm Business)	112.3	115.4	118.4	123.5	129.0	134.1	136.6	139.2	142.7	145.8	148.3
6	Change	2.7%	2.7%	2.6%	4.3%	4.5%	4.0%	1.9%	1.9%	2.5%	2.2%	1.7%
7	Personal Income (Billions)	$7,802.5	$8,429.8	$8,724.2	$8,878.8	$9,161.9	$9,649.9	$10,077.2	$10,516.7	$11,005.3	$11,516.6	$12,036.3
8	Change	5.1%	8.0%	3.5%	1.8%	3.2%	5.3%	4.4%	4.4%	4.6%	4.6%	4.5%
9	Per-Capita Income ($/person)	$27,922	$29,836	$30,563	$30,794	$31,468	$32,841	$33,981	$35,141	$36,445	$37,802	$39,163
10	Change	3.9%	6.9%	2.4%	0.8%	2.2%	4.4%	3.5%	3.4%	3.7%	3.7%	3.6%
	Population & Employment											
11	Population[1] (Millions)	279.4	282.5	285.5	288.3	291.1	293.8	296.6	299.3	302.0	304.7	307.3
12	Change	1.2%	1.1%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
13	Civilian Unemployment Rate	4.2%	4.0%	4.8%	5.8%	6.0%	5.6%	5.6%	5.5%	5.3%	5.1%	5.0%
14	Total Nonagricultural Employment[2] (Millions)	129.0	131.8	131.8	130.3	129.9	131.3	133.8	135.8	137.4	139.3	141.2
15	Change	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.9%	1.5%	1.2%	1.4%	1.4%
	Financial Markets											
16	30-Year T-Bond Rate	5.9%	5.9%	5.5%	5.4%	5.1%	5.4%	6.0%	6.2%	6.0%	5.9%	6.0%
17	10-Year T-Bond Rate	5.6%	6.0%	5.0%	4.6%	4.0%	4.5%	5.0%	5.7%	5.7%	5.5%	5.6%
18	Federal Fund Rate	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	2.7%	4.1%	4.9%	4.7%	4.7%
	Price Variables											
19	Consumer Price Index (1982-84=100)	166.6	172.2	177.0	179.9	184.0	188.8	191.9	195.2	199.6	203.9	208.4
20	Change	2.2%	3.4%	2.8%	1.6%	2.3%	2.6%	1.7%	1.7%	2.2%	2.1%	2.2%
21	Producer Price Index (1982=100)	132.8	138.0	140.7	138.9	143.3	148.9	152.0	152.8	156.0	159.3	162.9
22	Change	1.7%	3.9%	2.0%	-1.3%	3.2%	3.9%	2.1%	0.6%	2.1%	2.1%	2.2%
	Other Key Indicators											
23	Industrial Production Index (1992=100)	110.6	115.4	111.5	110.9	111.2	116.4	120.3	123.3	127.2	131.1	134.8
24	Change	4.4%	4.4%	-3.4%	-0.6%	0.3%	4.7%	3.3%	2.6%	3.1%	3.1%	2.8%
25	Corporate Profits After Tax (Billions)	$517.3	$508.2	$503.7	$574.3	$639.6	$699.4	$768.1	$832.4	$886.8	$942.7	$996.6
26	Change	10.1%	-1.8%	-0.9%	14.0%	11.4%	9.3%	9.8%	8.4%	6.5%	6.3%	5.7%
27	Housing Starts (Millions)	1.647	1.573	1.601	1.710	1.853	1.906	1.677	1.537	1.554	1.611	1.603
28	Change	1.6%	-4.5%	1.8%	6.8%	8.3%	2.9%	-12.0%	-8.3%	1.1%	3.6%	-0.5%

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

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

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

The Colorado Economy

Summary

- The September 2004 OSPB forecast indicates that Colorado employment will increase 0.8 percent in 2004, averaging a net increase of just over 9,000 new jobs per month through the remainder of 2004.
- The 2004 Colorado unemployment rate is forecast to average 5.3 percent, substantially below the 6.0 percent rate posted in 2003. The unemployment rate will fall below five percent in 2005 and will decline to 4.2 percent by 2009.
- Personal income growth will average 3.2 percent in 2004 and 5.4 percent in 2005. Colorado per capita income will continue to exceed the national average.
- Retail trade sales are forecast to grow 5.6 percent in 2004 and 5.1 percent in 2005.
- We forecast that consumer prices in the Denver-Boulder-Greeley area will rise 0.1 percent in 2004 and 1.5 percent in 2005.
- In 2004, net in-migration to Colorado will be slightly under 10,000 and total population growth will be 1.0 percent.

The Colorado economy is showing increasing strength. Year-to-date average state employment through June 2004 increased for the first time since December 2001 and remained slightly above the 2003 year-to-date average in July. Moreover, the Colorado unemployment rate has remained relatively constant — ranging between 4.9 percent and 5.1 percent — since March 2004. The July 2004 unemployment rate is 1.1 percentage points lower than the July 2003 unemployment rate. Meanwhile, residential construction is recovering from a two-year correction, as home sales — and prices — climb.

The Colorado economy is showing increasing strength.

Overview of Recent Colorado Economic Activity

Most of Colorado's recent economic news has been favorable. The state's labor market is improving, construction activity is healthy, personal income is rising, and retail sales are up. ***Table 11*** summarizes the Colorado economic indicators discussed below.

Table 11
Colorado Economic Statistics

	July 2004	July 2003	2003 Annual Average	2002 Annual Average
Nonfarm Employment Growth[1,2]	0.1%	-1.6%	-1.5%	-1.9%
Unemployment Rate	5.1%	6.1%	6.3%	5.9%
Change in Housing Permits Issued[1]	20.6%	-18.1%	-17.3%	-13.0%
Single-Family	19.5%	-9.6%	-3.3%	-4.0%
Multi-Family	26.6%	-46.9%	-55.5%	-30.7%
Change in Value of Nonresidential Construction[1, 3]	14.5%	-24.9%	-11.2%	-21.8%
Retail	-12.3%	-11.8%	-13.4%	-8.7%
Offices	-27.4%	-22.2%	-32.3%	-42.2%
Factories	136.7%	-46.2%	-62.9%	-53.2%
Retail Trade Sales[4]	5.0%	-0.1%	0.0%	-0.7%

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

- Colorado **nonfarm employment** news is encouraging. Beginning in April 2004, Colorado payrolls have posted consecutive year-over-year gains. Moreover, year-to-date average employment through June 2004 was higher compared with year-to-date June 2003 — the first such year-over-year increase since December 2001 — and average statewide employment year-to-date through July 2004 remained slightly above the July 2003 average. Year-to-date July 2004 employment is 0.1 percent above the corresponding period in 2003.

Year-to-date July 2004 employment is 0.1 percent above the corresponding period in 2003.

- The July 2004 seasonally adjusted **unemployment rate** was 5.1 percent, 1.0 percentage point below the state's July 2003 unemployment rate and 0.4 percentage points below the July 2004 national unemployment rate. The Colorado unemployment rate has ranged between 4.9 percent and 5.1 percent since March 2004.

- Colorado **personal income** in first quarter 2004 was 3.7 percent higher compared with first quarter 2003. **Wage and salary disbursements**, which represent more than 55 percent of personal income, were 1.4 percent higher.

Colorado personal income in first quarter 2004 was 3.7 percent higher compared with first quarter 2003.

- The state's **residential housing** market is showing exceptional strength.
  - Residential housing permits issued are up 20.6 percent year-to-date through July 2004 compared with year-to-date July 2003. Single-family permits are up 19.5 percent while multi-family permits have increased 26.6 percent.
  - In July 2004, Denver-area residents sold 6,229 homes, a 32.5 percent increase compared with July 2003.
  - Although inventory is high, home prices continue to rise. Through July, the average price of a single-family home rose to $288,461, up 7.3 percent compared with year-to-date July 2003.
  - In second quarter 2004, Denver's apartment vacancy rate dropped to 9.7 percent, the lowest Denver apartment vacancy rate since second quarter 2002.

In July 2004, Denver-area residents sold 6,229 homes, a 32.5 percent increase compared with July 2003.

- The value of **nonresidential construction** built through July 2004 is 14.5 percent above year-to-date July 2003, as a result of new hospitals, medical facilities, and manufacturing plants: retail and office construction are still showing year-over-year declines.
    - The Denver area retail market posted a 9.5 percent vacancy rate in the first half of 2004. Over 1.5 million square feet of vacant space became occupied between January and June 2004. Meanwhile, 1.8 million square feet of new supply was added, with most of this space already occupied upon completion. Retail rental rates moved up slightly, reflecting the improving market.
    - The Denver office market continues to show signs of recovery. At the end of second quarter 2004, total occupied office space grew by almost 720,000 square feet, nearly double the absorption in all of 2003. However, vacancy rates increased slightly to 22.8% due to new supply delivered in the first half of 2004. More than one million square feet of office space has been added in the Denver area, twice the amount delivered in 2003. On average, Denver-area office rental rates at mid-year are essentially the same as those quoted at the end of 2003.
    - During the first six months of 2004, the Denver industrial market absorbed 1.1 million square feet of vacant space and the industrial vacancy rate fell to 9.0 percent from 9.2 percent. Industrial rental rates were relatively flat over this period.
- **Retail sales** through June 2004 are up 5.0 percent compared with year-to-date June 2003. All eight retail sectors are posting year-over-year growth. Indeed, building materials and farm equipment stores and furniture and home furnishing stores both posted more than ten percent growth compared with year-to-date 2003.
- The **tourism industry** in Colorado continues to improve. In July 2004, Colorado hotels were 73.5 percent occupied, the highest occupancy rate since July 2001, when 74.2 percent of hotel rooms were filled. Furthermore, the average room rate statewide in July 2004 rose to \$96.96 compared with \$96.44 in July 2003.

In July 2004, Colorado hotels were 73.5 percent occupied, the highest occupancy rate since July 2001.

Colorado's Economic Forecast

The September 2004 OSPB forecast for the Colorado economy reflects that the state economy has reacted to the recent deceleration of national economic activity.

Economic Indicators

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

Employment

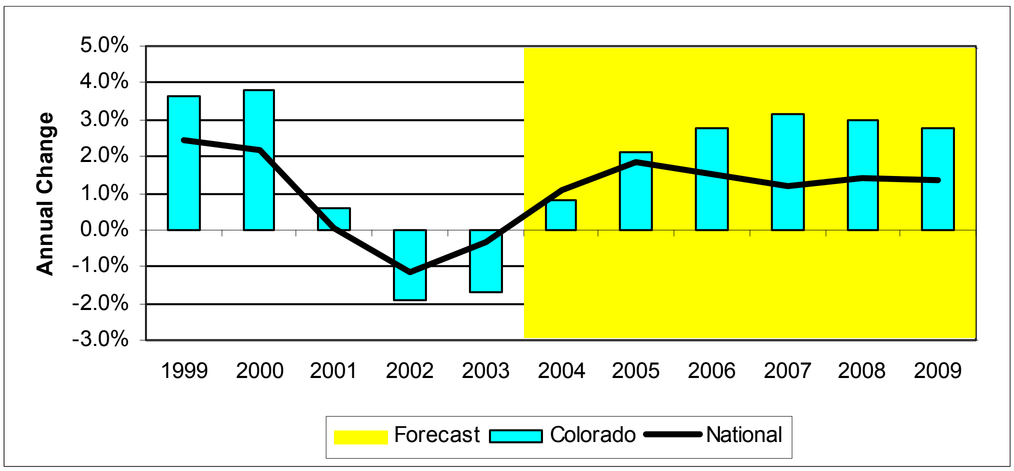
Figure 1 shows the national and Colorado forecasts for *employment*. Our September 2004 forecast indicates employment will rise 0.8 percent in 2004, averaging a net increase of about 9,000 new jobs per month through the remainder of the year. This

Our September 2004 forecast indicates employment will rise 0.8 percent in 2004, averaging a net increase of about 9,000 new jobs per month through the remainder of the year.

is slightly lower than we forecast in June 2004 because our expectation for national economic growth is now lower. However, we forecast that employment will continue to strengthen through 2004. By 2005, employment growth will be above two percent and we forecast that the number of jobs in the state will increase by more than three percent annually in 2007 and 2008.

The 2004 Colorado *unemployment rate* will average 5.3 percent, substantially below the 6.0 percent rate posted in 2003. The unemployment rate will not decline further in 2004 because the improving employment situation will encourage job seekers who had become discouraged and stopped looking for work to return to the labor force. Since people looking for work are counted as unemployed, the risk is that the rate could increase slightly. The unemployment rate will drop below five percent in 2005 and fall to 4.2 percent by 2009.

Figure 1
Colorado and National Employment



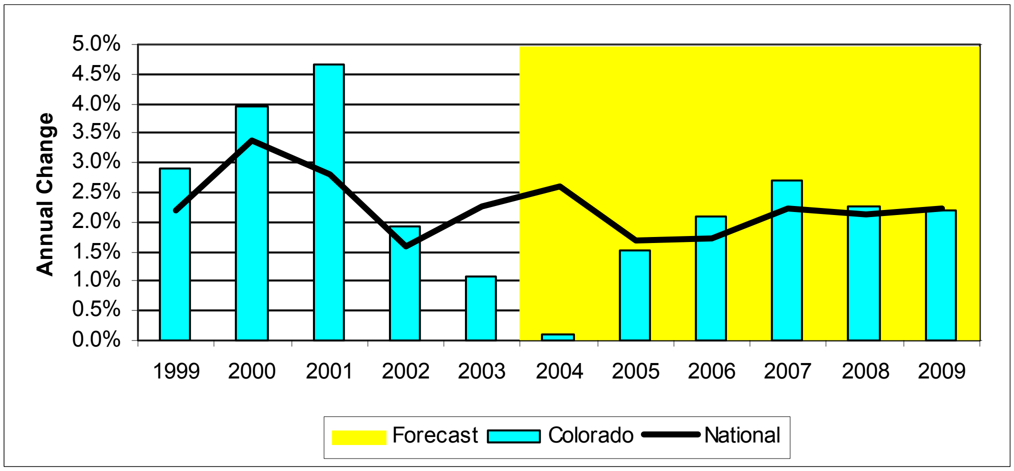
Source: U.S. Department of Labor, Bureau of Labor Statistics, employment by place of work from Current Employment Statistics (CES) survey of payroll records.

Inflation

We forecast that overall consumer prices in the Denver-Boulder-Greeley area will be virtually unchanged in 2004 compared with 2003.

The national and Colorado forecasts for inflation are displayed in ***Figure 2***. We forecast that overall consumer prices in the Denver-Boulder-Greeley area will be virtually unchanged in 2004 compared with 2003. In Colorado, inflationary pressure associated with the price of shelter continues to be constrained by the large number of vacant apartments. Although the average price of homes sold in Colorado continues to rise, the official measure of the change in the cost of shelter shows a decline because rental rates are falling. Since the cost of shelter contributes almost one-third of total inflation, a decline in shelter costs will translate into exceptionally low inflation. Meanwhile, energy prices climbed in the first half of 2004 but will likely recede later in 2004, so they are unlikely to add significantly to Colorado inflation this year.

Figure 2
Colorado and National Inflation



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

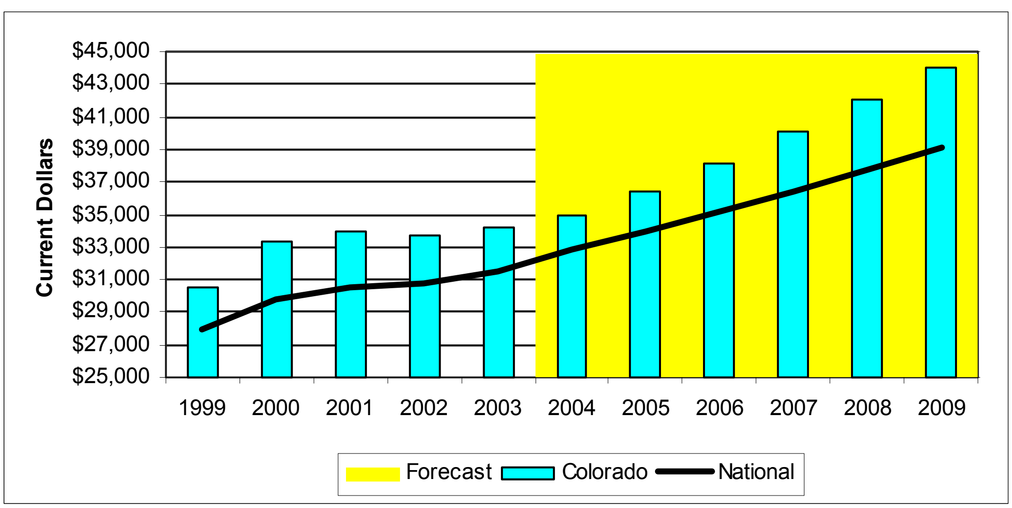
We forecast that Colorado inflation will be 0.1 percent in 2004, 1.5 percent in 2005, and 2.1 percent in 2006. The relatively low 2005 inflation rate is the consequence of offsetting price pressures. The strengthening economy will provide upward pressure, but this will be countered by falling energy prices and rising interest rates that will limit home price increases. From 2006 through 2009, Colorado inflation will remain well below three percent.

From 2006 through 2009, Colorado inflation will remain well below three percent.

Wages and Income

As shown in ***Figure 3,*** Colorado per capita income will continue to exceed the national average.

Figure 3
Colorado and National Per Capita Income



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

We forecast that personal income will grow 3.2 percent in 2004 and 5.4 percent in 2005.

Overall, personal income grew 2.5 in 2003, with the pace accelerating throughout the year. We forecast that personal income will grow 3.2 percent in 2004 and 5.4 percent in 2005. Personal income growth will exceed six percent from 2006 through 2009.

Colorado wage and salary income rose only 0.7 percent in 2003 because employment levels were lower and because high-wage jobs in the advanced technology and financial sectors had been lost. As labor markets recover, we forecast that total wage and salary disbursements will rise, increasing 2.6 percent in 2004, 4.8 percent in 2005, and 5.7 percent in 2006. In 2007 and thereafter, wage and salary income growth will be over six percent.

Population and Migration

In 2004, net in-migration to Colorado will be slightly under 10,000 and total population growth will be 1.0 percent.

We forecast that in 2004, net in-migration to Colorado will be slightly under 10,000 and total population growth will be 1.0 percent. Despite the 2001 recession, state net migration has remained positive. As the national and Colorado economies recover, the number of net in-migrants to the state will increase and the state's population growth will be 1.6 percent by 2008.

Industrial Sectors

This section details our forecast for Colorado's residential and nonresidential construction and retail trade industries.

Construction

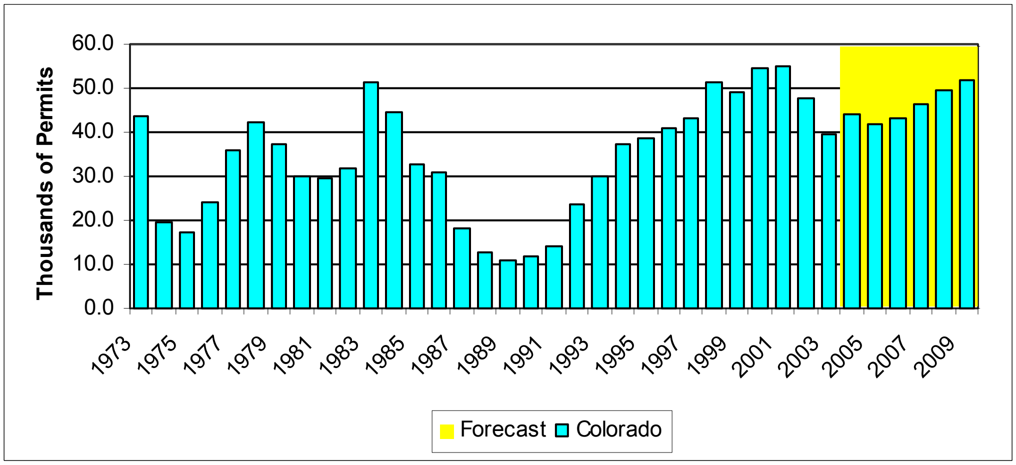
Residential home permits issued in Colorado year-to-date through July 2004 are up 20.6 percent compared with year-to-date July 2003. Meanwhile, the value of nonresidential construction (excluding nonbuilding projects like roads) increased 14.5 percent during this period. The September 2004 OSPB forecast for the residential and nonresidential construction markets anticipates moderating growth through the remainder of 2005.

Residential Construction

In 2002 and 2003, single-family home construction fell in reaction to high inventories that were the result of the rapidly deteriorating economy after the events of September 11, 2001. Now, home construction activity is increasing in response to the strengthening Colorado economy. We forecast that the total number of home permits issued in 2004 will increase 12.3 percent, with strong increases in the first half of the year followed by less robust activity in the last half. Meanwhile, low in-migration combined with now high inventories and rising interest rates will dampen demand for new homes in 2005. In 2006 and beyond, the number of home permits issued will rise year-over-year as net in-migration and jobs increase.

The two year correction in Colorado's single-family home market has improved the state's competitive advantage. The latest report by the National Association of Realtors ranks Denver housing as the 29th most expensive out of 128 markets in the country. The trade group reported the median price of a Denver area home was $241,800 at the end of second quarter 2004. Denver ranked 109th in year-over-year housing appreciation. Relatively lower housing costs compared with other areas of the country are advantageous because it makes the area more attractive to workers being recruited from outside the state. In 2001, the Denver area housing was more expensive than all but six other major metropolitan areas — San Francisco, San Diego, Orange County CA, Seattle, Boston, and New York.

Figure 4
Residential Housing Permits Issued



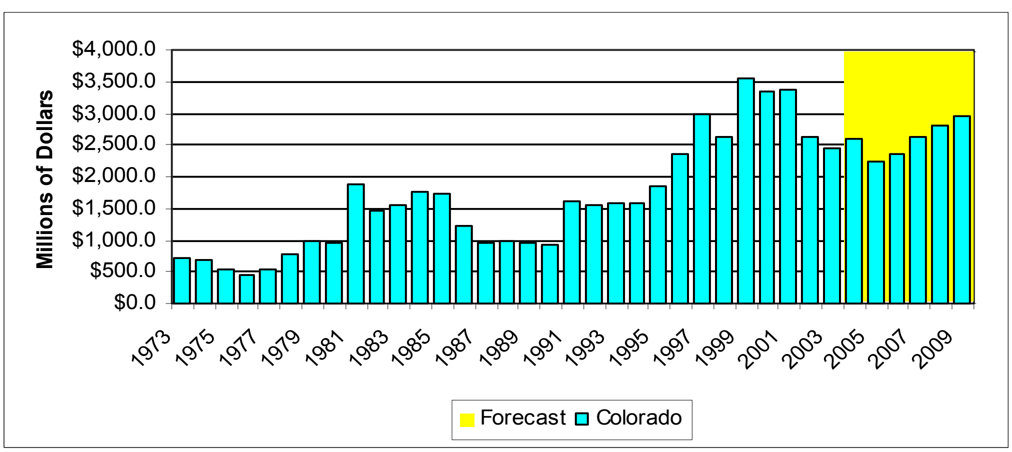
Source: U.S. Department of Commerce, Bureau of the Census.

Nonresidential Construction

Denver-area nonresidential building construction continues to be impacted by oversupply in most markets. The year-to-date July 2004 value of new nonresidential building construction is up 14.5 percent compared with the same period in 2003. This is primarily the consequence of new hospitals, medical facilities, and manufacturing plants. We forecast that these projects will offset a correction in office and retail construction so that, in 2004, the value of nonresidential building construction will rise, but by a much lower percentage than implied by the first seven months of data. The correction will continue into 2005. Thereafter, the value of nonresidential construction put in place will continue to show modest increases through 2009, as the economy recovers and currently vacant space becomes occupied with newly formed and expanding businesses.

The year-to-date July 2004 value of new nonresidential building construction is up 14.5 percent compared with the same period in 2003.

Figure 5
Construction Value Put In Place



Source: U.S. Department of Commerce, Bureau of the Census

Retail Trade

June 2004 retail sales exceed June 2003 by 8.2 percent.

Year-to-date retail trade sales in Colorado are up 5.0 percent through June 2004 compared with year-to-date June 2003. Meanwhile, June 2004 retail sales exceed June 2003 by 8.2 percent. We forecast retail sales will grow 5.6 percent in 2004 and 5.1 percent in 2005. In 2005, spending increases will be less than implied by the strengthening state economy because consumer demand was already satiated as consumers took advantage of low interest rates and tax rebates to make purchases earlier than would have occurred otherwise.

Risks to the Colorado Forecast

Colorado's recovery will begin to outpace the national recovery by the middle of 2005. However, the Colorado recovery will likely mirror any major shift — either positive or negative — in the national recovery.

Table 12
History And Forecast For Key Colorado Economic Variables
Calendar Year 1999-2009

Line No.		Actual					September 2004 Forecast					
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Current Income											
1	Personal Income (Billions)	$128,859	$144,393	$150,594	$151,790	$155,572	$160,619	$169,220	$179,600	$192,075	$204,780	$217,806
2	Change	8.7%	12.1%	4.3%	0.8%	2.5%	3.2%	5.4%	6.1%	6.9%	6.6%	6.4%
3	Wage and Salary Income (Billions)	$76,343	$86,048	$88,436	$87,061	$87,698	$90,006	$94,347	$99,707	$106,160	$113,196	$120,401
4	Change	9.7%	12.7%	2.8%	-1.6%	0.7%	2.6%	4.8%	5.7%	6.5%	6.6%	6.4%
5	Per-Capita Income ($/person)	$30,492	$33,371	$34,003	$33,723	$34,187	$34,936	$36,363	$38,080	$40,116	$42,104	$44,072
6	Change	5.9%	9.4%	1.9%	-0.8%	1.4%	2.2%	4.1%	4.7%	5.3%	5.0%	4.7%
	Population & Employment											
7	Population[1] (Thousands)	4,226.0	4,326.9	4,428.8	4,501.1	4,550.7	4,597.6	4,653.6	4,716.3	4,788.0	4,863.7	4,942.0
8	Change	2.7%	2.4%	2.4%	1.6%	1.1%	1.0%	1.2%	1.3%	1.5%	1.6%	1.6%
9	Net Migration[2] (Thousands)	75.4	64.2	66.3	35.1	12.4	9.5	18.5	25.0	33.7	37.4	39.7
10	Civilian Unemployment Rate	2.9%	2.8%	3.7%	5.7%	6.0%	5.3%	4.8%	4.7%	4.4%	4.3%	4.2%
11	Total Nonagricultural Employment[3]	2,131.5	2,212.6	2,225.4	2,182.5	2,146.0	2,163.2	2,208.6	2,269.5	2,341.5	2,411.8	2,478.9
12	Change	3.6%	3.8%	0.6%	-1.9%	-1.7%	0.8%	2.1%	2.8%	3.2%	3.0%	2.8%
	Construction Variables											
13	Total Housing Permits Issued (Thousands)	49.3	54.6	55.0	47.9	39.4	44.3	42.0	43.0	46.4	49.5	52.0
14	Change	-3.6%	10.7%	0.8%	-12.9%	-17.7%	12.3%	-5.1%	2.2%	8.0%	6.7%	4.9%
15	Nonresidential Construction Value[4] (Millions)	$3,543.8	$3,338.8	$3,373.4	$2,637.8	$2,445.5	$2,582.6	$2,226.8	$2,362.4	$2,612.7	$2,806.4	$2,946.3
16	Change	35.4%	-5.8%	1.0%	-21.8%	-7.3%	5.6%	-13.8%	6.1%	10.6%	7.4%	5.0%
	Prices & Sales Variables											
17	Retail Trade Sales (Billions)	$52.6	$58.0	$59.1	$58.7	$58.7	$62.0	$65.2	$68.9	$73.3	$77.7	$81.9
18	Change	9.2%	10.2%	2.0%	-0.7%	0.0%	5.6%	5.1%	5.7%	6.5%	5.9%	5.4%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	166.6	173.2	181.3	184.8	186.8	187.0	189.8	193.8	199.0	203.5	208.0
20	Change	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	1.5%	2.1%	2.7%	2.3%	2.2%

1/ Population values through 2000 are adjusted for 2000 Census.
2/ Values through 2000 revised by Colorado Department of Local Affairs to reflect 2000 Census.
3/ Employment by place of work from Current Employment Statistics (CES) survey of payroll records.
4/ Copyright 2003, F.W. Dodge Division, The McGraw-Hill companies. All rights reserved.

Sources: U.S. Department of Labor, Bureau of Labor Statistics;
U.S. Department of Commerce, Bureaus of the Census and Economic Analysis;
Colorado Departments of Labor and Employment, Local Affairs, and Revenue; and
F.W. Dodge Division, the McGraw-Hill companies.

[THIS PAGE INTENTIONALLY LEFT BLANK]