STATE OF COLORADO

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MEMORANDUM

Bill Owens
Governor

Henry R. Sobanet
Director

TO: Governor Bill Owens
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: December 20, 2004

SUBJECT: December 2004 ***Revenue Forecast***

Attached is the Office of State Planning and Budgeting (OSPB) December 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 forecasts.

December 2004 OSPB Forecast Highlights

- In FY 2004-05, the ***TABOR surplus*** reappears, totaling $150.8 million. From FY 2005-06 through the remainder of the forecast, we expect the TABOR surplus to range between $390 million and $1,050 million.
- Based on the December 2004 OSPB revenue projections and FY 2004-05 supplemental expenditures approved to date, the ***General Fund reserve*** will be $97.8 million short of the statutory four percent reserve. Assuming that the General Assembly preserves the FY 2004-05 statutory four-percent reserve, in FY 2005-06 the state will need an additional $207.7 million to fund the Governor's November budget as requested.
- ***General Fund revenues*** are forecast to increase 3.8 percent in FY 2004-05 and 5.5 percent in FY 2005-06.
- ***Cash fund revenues*** are forecast to increase 9.5 percent in FY 2004-05 and to decline 0.6 percent in FY 2005-06. In FY 2004-05, unemployment insurance tax revenue growth drives total cash fund revenue growth.
- The underlying assumptions for the OSPB December 2004 ***Colorado economic forecast*** have not changed materially since the release of the September 2004 forecast. Evidence still indicates that Colorado economic activity will continue to accelerate.
- Prospects for the ***national economy*** are upbeat. Inflation-adjusted gross domestic product is growing at a healthy pace, inflationary pressures remain moderate, and payrolls are increasing.

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 $122.3 million.
- The December 2004 OSPB forecast indicates that General Fund revenues will increase 3.8 percent in FY 2004-05 and 5.5 percent in FY 2005-06.
- In FY 2004-05, the TABOR surplus reappears, totaling $150.8 million. From FY 2005-06 through the remainder of the forecast, we expect the TABOR surplus to range between $390 million and $1,050 million.
- Based on the December 2004 OSPB revenue projections and FY 2004-05 supplemental expenditures approved to date, the General Fund reserve will be $97.8 million short of the statutory four percent reserve.
- Assuming that the General Assembly preserves the FY 2004-05 statutory four-percent reserve, in FY 2005-06 the state will need an additional $207.7 million to fund the Governor's November budget as requested.

In FY 2004-05, the TABOR surplus reappears, totaling $150.8 million.

This section provides a summary of the December 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 December 2004 OSPB Revenue Forecast
(Dollar Amounts in Millions)

Fiscal Year	TABOR Surplus
2003-04	$0.0
2004-05	$150.8
2005-06	$391.6
2006-07	$492.3
2007-08	$639.0
2008-09	$759.4
2009-10	$1,047.0
Cumulative Total	**$3,480.1**

In FY 2004-05, the TABOR surplus reappears, after a three-year absence.

In FY 2004-05, the TABOR surplus reappears after a three-year absence, totaling $150.8 million. From FY 2005-06 through the remainder of the forecast, we expect the TABOR surplus to range between $390 million and $1,050 million.

The December 2004 OSPB forecast for the FY 2004-05 TABOR surplus is $97.7 million higher than was forecast in September 2004. The primary reason for the increase is an upward revision to cash fund revenues that generates a dollar-for-dollar increase in the TABOR surplus. In addition, exceptionally low inflation in 2004 will result in a low TABOR limit in FY 2005-06. 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. The special reports included at the end of this publication discuss the details of TABOR and the mechanisms currently in place to refund the FY 2004-05 and FY 2005-06 TABOR surpluses.

General Fund Overview

Table 3 provides an overview of General Fund revenues, expenditures, and reserves through FY 2009-10. Table 3 shows the original FY 2004-05 General Fund appropriation as well as the additional amount necessitated by supplemental bills, primarily required to fund Medicaid and K-12 expenditures. Table 3 assumes current law for 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, which exceeded the statutory four percent reserve by $122.3 million. However, in FY 2004-05, the OSPB forecast shows that the state will not have enough General Fund revenue to accommodate appropriated and supplemental FY 2004-05 expenditures approved to date and other FY 2004-05 General Fund obligations without falling $97.8 million below the four-percent statutory reserve requirement specified in C.R.S. 24-75-201.1(1)(d)(III). This occurs because General Fund revenues are used to refund the TABOR surplus and the increase in cash fund revenues results in a dollar-for-dollar decrease in General Fund revenues available for other obligations. Assuming that the General Assembly preserves the FY 2004-05 statutory four-percent reserve, in FY 2005-06 the state will need an additional $207.7 million to fund the Governor's November budget as requested. This figure does not include an adjustment in the budget request for higher expenses required by Amendment 23. Because personal income growth in 2004 is expected to exceed 4.5 percent, the amount of General Fund required for K-12 education will increase by approximately $90 million. This budget amendment, along with other adjustments to the budget, will be presented to the General Assembly in January 2005.

The FY 2004-05 cash fund revenue forecast is higher in large part due to an expected surge in unemployment insurance tax revenue. Unemployment insurance (UI) tax rates automatically rise as the balance in the UI Trust Fund is drawn down, which occurs when unemployment compensation claims outpace unemployment insurance tax revenues. Between July 1, 2001 and July 1, 2004, the UI Trust Fund balance fell 83 percent — to $133.9 million from $794.1 million three years earlier — as the job losses caused by the recession took their toll. In turn, the average unemployment insurance tax rate paid by employers more than doubled during this period. Now, as the state economy recovers and payrolls are increasing, employers are paying a higher rate on more employees. This slows job creation. It also raises unemployment insurance taxes at a faster pace than is necessary to replenish the UI Trust Fund in a timely manner.

To mitigate the negative impact that higher UI taxes are having on the pace of the state economic recovery, as well as their negative impact on the General Fund, the Governor proposes that legislation be enacted by the 2005 General Assembly that would give employers a 10.0 percent credit against UI taxes due in 2005 retroactive to January 1, 2005. This would reduce FY 2004-05 UI tax revenues — and the FY 2004-05 TABOR surplus — by about $35 million. In turn, the credit would reduce FY 2004-05 General Fund obligations by the same amount and thus mitigate the impact of the higher TABOR refund on the General Fund. We estimate that this will save an employer with 50 employees about $1,500 in 2005.

General Fund Revenues

The forecast for General Fund revenues is shown ***Table 4***. The December 2004 OSPB forecast for FY 2004-05 General Fund revenues is not materially different compared with the September 2004 OSPB forecast. The December 2004 OSPB forecast for FY 2004-05 General Fund revenues is $13.3 million higher than the September 2004 OSPB forecast and the forecast for General Fund revenues in FY 2005-06 is $17.6 million higher. This section presents the details of our forecast for General Fund revenues in FY 2004-05 and FY 2005-06.

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

General Fund revenues are expected to increase 3.8 percent in FY 2004-05 compared with FY 2003-04. This is a slightly faster pace than was reported in the September 2004 OSPB economic forecast. In FY 2005-06, General Fund revenues are forecast to grow 5.5 percent, a result of the strengthening Colorado economy. The FY 2005-06 forecast also reflects federal tax law changes that 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.

Net individual income tax receipts will increase 4.1 percent in FY 2004-05 and 6.1 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 compared with recent years. Indeed, following two years of declines, withholdings, estimated payments, and cash-with-returns are again growing in FY 2004-05.

Net corporate income tax receipts rose 4.5 percent in FY 2003-04. They are forecast to increase 16.8 percent in FY 2004-05 and 7.1 percent in FY 2005-06. The December 2004 OSPB forecast assumptions for net corporate income tax receipts is not fundamentally different compared with the September 2004 OSPB forecast.

Sales tax revenues forecast to increase 4.0 percent in FY 2004-05 and 5.8 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 4.0 percent in FY 2004-05 and 5.8 percent in FY 2005-06. Sales tax revenues are rising because of the strengthening Colorado economy, as rising payrolls increase the wages available for Colorado citizens to spend.

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

Line No.		Preliminary Close FY 2003-04	December 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**	$5,922.5 **/A**	$6,269.1 **/A**	$6,698.7 **/A**	$7,116.2**/A**	$7,536.2**/A**	$8,097.4**/A**
2	Cash Funds	$2,612.9 **/B**	$2,432.4 **/B**	$2,030.6 **/B**	$1,939.0	$1,928.9	$1,957.1	$2,041.6
3	Total TABOR Revenues	$8,332.0	$8,354.9	$8,299.7	$8,637.7	$9,045.1	$9,493.2	$10,139.0
4	*Adjustment to base*	*($391.6)* **/B**	*($389.7)* **/B**					
5	*Adjusted total for computing next year's limit*	$7,940.4	$7,965.2	$8,299.7	$8,637.7	$9,045.1	$9,493.2	$10,139.0
	TABOR Limit Calculation:							
6	*Previous calendar year population growth*	*1.7%*	*1.1%*	*1.1%*	*1.2%*	*1.3%*	*1.5%*	*1.5%*
7	*Previous calendar year inflation*	*1.9%*	*1.1%*	*0.1%*	*1.8%*	*1.9%*	*2.4%*	*2.6%*
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%	1.2%	3.0%	3.2%	3.9%	4.1%
10	Actual Change in TABOR Revenues from Limit	8.5%	5.2%	6.2%	9.2%	11.0%	12.9%	16.1%
11	**TABOR Limit**	**$8,332.0 /D**	**$8,204.1 /D**	**$7,908.1 /D**	**$8,145.4 /D**	**$8,406.0/D**	**$8,733.9/D**	**$9,092.0/D**
12	**Revenues Above (Below) TABOR Limit**	**$0.0**	**$150.8**	**$391.6**	**$492.3**	**$639.0**	**$759.4**	**$1,047.0**
13	TABOR Emergency Reserve	$250.0 **/E,F**	$246.1 **/E,G**	$237.2 **/E,G**	$244.4 **/E,G**	$252.2**/E,G**	$262.0**/E,G**	$272.8**/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 $391.6 million (the amount of tuition and fees collected by the University of Colorado in FY 2003-04 plus adjustments for the Brand Board and the Capitol Parking Fund becoming TABOR exempt enterprises on July 1, 2004) before the FY 2004-05 TABOR limit is computed. Similarly, the FY 2004-05 TABOR limit is reduced by $389.7 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	December 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	$224.0	$232.2	$239.9	$241.8	$251.6	$263.5
2	Gross General Fund Revenues	6,045.2	6,272.1	$6,618.7	7,073.2	7,514.5	7,959.1	8,546.2
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	**Additional Amount Needed to Preserve 4% Statutory Reserve**	**0.0**	**97.8**	**207.7**	**0.0**	**0.0**	**0.0**	**0.0**
5	Senate Bill 97-1 Transfers to the HUTF	0.0	0.0	0.0	0.0	0.0	0.0	0.0
6	Diversion to the Older Coloradan's Program	(2.3)	(2.3)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
7	Transfer to the State Education Fund	(270.7) /B	(289.9) /B	(307.9) /B	(330.5) /B	(351.7) /B	(373.3) /B	(396.2) /B
8	Adjustments to the State Education Fund for Over (Under) Payments	(8.0) /C	(20.0) /C	0.0	0.0	0.0	0.0	0.0
9	**Total Funds Available**	$6,035.2	$6,307.9	$6,779.2	$7,010.4	$7,432.0	$7,868.6	$8,444.7
	Expenditures:							
10	General Fund Appropriations (Long Bill)	$5,590.7	$5,795.9	$5,996.7	6,045.8	6,289.9	6,586.3	6,854.8
11	Increase (Reduction) from Supplemental Bills	9.5	9.0	0.0				
12	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
13	Capital Construction Freeze (S.B. 03-179)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Federal Medical Assistance Enhancement for Medicaid	(71.4)	0.0	0.0	0.0	0.0	0.0	0.0
15	Rebates and Expenditures	112.8 /E	119.9 /E	151.0	157.4	164.8	172.4	180.5
16	Capital and Prison Construction	9.5	0.2 /F	0.1 /F	7.4	20.0	19.4	19.3
17	TABOR Refund	0.0	150.8	391.6	492.3	639.0	759.4	1,047.0
18	Homestead Exemption	0.0 /G	0.0 /G	0.0 /G	65.8	66.7	67.8	68.9
19	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
20	General Fund Payback	56.2 /I	0.0	0.0	0.0	0.0	0.0	0.0
21	Reversions & Accounting Adjustments	(18.5)	0.0	0.0	0.0	0.0	0.0	0.0
22	**Total Obligations**	$5,688.8	$6,075.7	$6,539.3	$6,768.6	$7,180.4	$7,605.2	$8,170.5
23	**Year-end General Fund Reserve:**	**$346.3**	**$232.2**	**$239.9**	**$241.8**	**$251.6**	**$263.5**	**$274.2**
24	**Statutory Reserve: 4.0% of Appropriations**	**224.0**	**232.2**	**239.9**	**241.8**	**251.6**	**263.5**	**274.2**
25	**Monies Above (Below) Statutory Reserve**	**122.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
26	**Excess Monies Reserved for Transportation**	**81.5 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
27	**Excess Monies Reserved for Capital Construction**	**40.8 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
28	**Reserve as a % of Appropriations**	**6.2%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
29	**Appropriations Change**	**$185.8**	**$204.6**	**$191.8**	**$49.1**	**$244.1**	**$296.3**	**$268.5**
30		3.4%	3.7%	3.3%	0.8%	4.0%	4.7%	4.1%

/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.

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	December 2004 Estimate by Fiscal Year with Percent Change Over Prior Year FY 2004-05	% Chg	FY 2005-06	% Chg	FY 2006-07	% Chg	FY 2007-08	% Chg	FY 2008-09	% Chg	FY 2009-10	% Chg
	Excise Taxes:														
1	Sales	$1,771.0 **/A**	4.0	$1,841.6 **/A**	4.0	$1,948.2 **/A**	5.8	$2,082.5 **/A**	6.9	$2,220.3 **/A**	6.6	$2,355.0 **/A**	6.1	$2,485.1 **/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)	$55.9	4.0	$55.7	(0.3)	$55.7	(0.1)	$55.8	0.2	$55.9	0.2	$56.0	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***	***$2,090.5***	***4.3***	***$2,206.5***	***5.5***	***$2,349.5***	***6.5***	***$2,497.4***	***6.3***	***$2,642.4***	***5.8***	***$2,783.4***	***5.3***
	Income Taxes:														
8	Net Individual Income	$3.450.0	10.5	$3.592.4	4.1	$3.812.5	6.1	$4.091.3	7.3	$4.358.1	6.5	$4.627.3	6.2	$4.913.5	6.2
9	Net Corporate Income	$235.2	4.5	$274.7	16.8	$294.2	7.1	$317.7	8.0	$333.7	5.0	$353.0	5.8	$371.9	5.4
10	***Total Income***	***$3,685.2***	***10.1***	***$3,867.1***	***4.9***	***$4,106.7***	***6.2***	***$4,408.9***	***7.4***	***$4,691.7***	***6.4***	***$4,980.3***	***6.2***	***$5,285.3***	***6.1***
	Other Revenues:														
11	Estate	$47.2 **/B**	(11.6)	$18.3 **/B**	(61.3)	$1.1 **/B**	(94.2)	$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)	$23.0	17.8	$23.6	2.5	$24.2	2.7	$24.8	2.6	$25.5	2.6	$26.1	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)	$25.4 **/D**	(38.8)	$25.7	0.9	$25.9	0.9	$26.2	1.3	$26.6	1.4	$31.9	20.1
19	***Total Other***	***$355.0***	***(12.1)***	***$314.5***	***(11.4)***	***$305.5***	***(2.9)***	***$314.7***	***3.0***	***$325.4***	***3.4***	***$336.4***	***3.4***	***$477.5***	***42.0***
20	**GROSS GENERAL FUND**	**$6,045.2**	**6.7**	**$6,272.1**	**3.8**	**$6,618.7**	**5.5**	**$7,073.2**	**6.9**	**$7,514.5**	**6.2**	**$7,959.1**	**5.9**	**$8,546.2**	**7.4**
	Rebates & Expenditures:														
21	Cigarette Rebate	$14.9	(1.6)	$15.6	5.0	$15.6	(0.4)	$15.6	0.1	$15.6	0.2	$15.7	0.2	$15.7	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)***	***$119.9***	***6.3***	***$151.0***	***25.9***	***$157.4***	***4.2***	***$164.8***	***4.7***	***$172.4***	***4.6***	***$180.5***	***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.

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Cash Fund Revenue Forecast

Summary

- Cash fund revenues increased 13.8 percent in FY 2003-04, to $2,612.9 million, primarily due to robust growth in three cash fund sources: higher education tuition, unemployment insurance taxes, and severance taxes. In FY 2004-05, cash fund revenues are forecast to grow 9.5 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 1.2 percent in FY 2004-05 and 3.2 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 enables 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 57.1 percent in FY 2004-05. The large increases occur because UI tax rates automatically rise to compensate for higher UI benefit payments. Through the remainder of the forecast horizon, the improving economy will result in declining benefit payments, which in turn means UI tax rates will fall.

The December 2004 OSPB cash fund revenue forecast is summarized in ***Table 6***. 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 9.5 percent, to $2,432.4 million. Overall, from FY 2004-05 through FY 2009-10, cash fund revenue growth will be neutral. The flat growth is primarily due to falling unemployment insurance (UI) tax revenues, which offsets more robust growth in the remaining cash funds. Employers' UI tax rates fall as the Trust Fund balance improves with the improving economy.

In FY 2004-05, cash fund revenues are forecast to increase 9.5 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 soared 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 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 December 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 7 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 1.2 percent in FY 2004-05 and 3.2 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 2.5 percent in FY 2004-05 as consumers have more disposable income with which to purchase newer automobiles. Automobile dealers continue to offer incentives, leading consumers to replace their older vehicles at a fast pace.

- ***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. Also, the E-470 Authority repaid a loan to the Department of Transportation that included $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 because the FY 2003-04 revenues were inflated by the one-time payment from the E-470 Authority. In FY 2005-06, other transportation-related cash fund revenue will increase 2.1 percent.

Table 6
Cash Fund Revenue by Major Category
(Accrual Basis, Dollar Amounts in Millions)

		December 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	$848.5	$875.3	$920.1	$951.4	$983.3	$1,008.8	
Change	4.3%	1.2%	3.2%	5.1%	3.4%	3.4%	2.6%	3.5%
Higher Education	$757.8 /A	$389.7 /A	NE /B	NE /B	NE /B	NE /B	NE /B	
Change	10.8%	4.1% /F	NE	NE	NE	NE	NE	NE
Unemployment Insurance	$342.2 /C	$537.4 /C	$497.9 /C	$333.0 /C	$262.5	$259.9	$248.6	
Change	56.2%	57.1%	-7.4%	-33.1%	-21.2%	-1.0%	-4.4%	-14.3%
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	$56.7	$59.9	$63.4	$67.0	$70.9	$75.0	
Change	-14.2%	7.6%	5.7%	5.8%	5.8%	5.8%	5.8%	5.8%
Severance Tax	$125.1	$83.6	$62.9	$68.7	$90.8	$62.7	$102.5	
Change	283.7%	-33.1%	-24.8%	9.3%	32.2%	-31.0%	63.6%	4.2%
Petroleum Storage Tank Fund	$28.3 /D	$28.4 /D	$28.5 /D	$28.6 /D	$9.4 /D	$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 /E	$0.0 /E	$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	**$2,612.9**	**$2,432.4**	**$2,030.6**	**$1,939.0**	**$1,928.9**	**$1,957.1**	**$2,041.6**	
Change	13.8%	9.5% /F	-0.6% /F	-4.5%	-0.5%	1.5%	4.3%	0.0%

***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 7
Transportation-Related Cash Fund Revenue by Source
(Accrual Basis, Dollar Amounts in Millions)

		December 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	$166.9	$174.1	$181.8	$190.8	$200.1	$208.7	
Change	3.5%	6.7%	4.3%	4.4%	4.9%	4.9%	4.3%	4.6%
Motor and Special Fuels Net of Refunds	$556.3	$563.5	$580.6	$598.3	$617.2	$634.7	$646.1	
Change	2.7%	1.3%	3.0%	3.0%	3.2%	2.8%	1.8%	2.8%
Other Receipts	$40.9 **/A**	$41.7 **/A**	$42.6 **/A**	$59.7 **/A,B**	$61.2 **/A**	$64.0 **/A**	$66.8 **/A**	
Change	-4.9%	2.0%	2.0%	40.2%	2.4%	4.7%	4.3%	9.9%
TOTAL HUTF	$753.6	$772.1	$797.3	$839.8	$869.1	$898.9	$921.6	
Change	2.4%	2.5%	3.3%	5.3%	3.5%	3.4%	2.5%	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**	**$848.5**	**$875.3**	**$920.1**	**$951.4**	**$983.3**	**$1,008.8**	
Change	4.3%	1.2%	3.2%	5.1%	3.4%	3.4%	2.6%	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.

Higher Education

The December 2004 forecast for ***higher education cash fund revenue*** is shown in ***Table 8***. 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**. Under the provisions of Senate Bill 04-252, the University of Colorado became eligible for enterprise status beginning in FY 2004-05. 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 increased by the Denver-Boulder-Greeley inflation rate and, on average, nonresident student tuition rates increased 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 included in the cash fund forecast.

- Total higher education full time enrollment rose 3.6 percent in FY 2003-04 and we are forecasting similar growth in FY 2004-05. From FY 2004-05 through the forecast horizon, student enrollment including the University of Colorado will grow at an average 1.6 percent annual rate.

Unemployment Insurance Trust Fund

The December 2004 UI revenue forecast is shown in ***Table 9***. 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 57.1 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

Total UI Trust Fund revenues . . . are forecast to increase 57.1 percent in FY 2004-05t.

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 58.9 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 state 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. Meanwhile, the UI Trust Fund ended FY 2003-04 with a balance of only $133.9 million, so the solvency surcharge remains in effect in calendar year 2005. The OSPB forecast indicates the solvency surcharge will remain in effect through calendar year 2006. The statutory provisions of the UI base rates and solvency surcharge can be found in Section 8-76-103, C.R.S.

Other Cash Funds

The December 2004 forecast for total revenues collected by the remaining cash funds in FY 2004-05 is essentially unchanged from our September 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 value 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 33.1 percent decline in severance tax revenues primarily because of offsetting credits received for property taxes paid on mineral production sites in previous years.

Table 8

Higher Education Cash Fund Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

	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*
		December 2004 Estimate by Fiscal Year						
Tuition	$601.7 /A	$317.6 /A	NE	NE	NE	NE	NE	
Change	12.9%	5.7%	NE	NE	NE	NE	NE	NE
Non-Tuition	$156.1	$72.1	NE	NE	NE	NE	NE	
Change	3.4%	4.6%	NE	NE	NE	NE	NE	NE
TOTAL HIGHER EDUCATION	**$757.8**	**$389.7 /B**	**NE /B**	**NE /B**	**NE /B**	**NE /B**	**NE /B**	
Change	10.8%	4.1% /C	NE	NE	NE	NE	NE	NE
Full-Time-Equivalent Students								
Total	158,494 /D	164,288 /D	167,283 /D	169,607 /D	172,254 /D	175,174 /D	178,056 /D	
Change	3.6%	3.7%	1.8%	1.4%	1.6%	1.7%	1.6%	1.6%
Resident	136,486	142,191	145,266	147,575	150,226	153,161	156,000	
Change	4.4%	4.2%	2.2%	1.6%	1.8%	2.0%	1.9%	1.9%
Nonresident	22,008	22,097	22,017	22,032	22,028	22,013	22,056	
Change	-1.0%	0.4%	-0.4%	0.1%	0.0%	-0.1%	0.2%	0.0%

***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 9

Unemployment Insurance Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		December 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	$367.8	$633.0	$752.8	$807.5	$869.1	
Change	-52.4%	-55.2%	174.7%	72.1%	18.9%	7.3%	7.6%	45.4%
Income	$342.2	$537.4	$497.9	$333.0	$262.5	$259.9	$248.6	
Change	56.2%	57.1%	-7.4%	-33.1%	-21.2%	-1.0%	-4.4%	-14.3%
Taxes	$332.9 /A	$529.0 /A	$481.7 /A	$308.0 /A	$230.9 /A	$225.9 /A	$212.3 /A	
Change	75.0%	58.9%	-8.9%	-36.1%	-25.0%	-2.2%	-6.0%	-16.7%
Interest	$9.3	$8.5	$16.2	$25.1	$31.6	$34.1	$36.3	
Change	-67.8%	-8.9%	91.6%	54.8%	26.2%	7.7%	6.5%	33.8%
Benefits and Accounting Adjustments	($507.0) /B	($303.5) /B	($232.7) /B	($213.3) /B	($207.9) /B	($198.3) /B	($201.2) /B	
Change	-7.3%	-40.1%	-23.3%	-8.3%	-2.5%	-4.6%	1.4%	-7.9%
Ending Fund Balance	**$133.9**	**$367.8**	**$633.0**	**$752.8**	**$807.5**	**$869.1**	**$916.6**	
Solvency Ratio	0.2% /C	0.5% /C	0.9% /C	1.0% /C	1.0% /C	1.0% /C	1.0% /C	
Total Wages	$66,158 /D	$69,358 /D	$73,386 /D	$77,710 /D	$82,359 /D	$87,566 /D	$92,890 /D	
Change	-0.1%	4.8%	5.8%	5.9%	6.0%	6.3%	6.1%	6.0%

***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 regained momentum in the third quarter of 2004 and the economy's prospects through 2005 are upbeat. Inflation-adjusted gross domestic product is forecast to increase 4.4 percent in 2004 and 3.4 percent in 2005.
  - Consumer spending is forecast to grow 3.6 percent in 2004 and 3.0 percent in 2005.
  - Business investment is expected to average 10.5 percent growth in 2004 and 9.9 percent growth in 2005.
- Inflationary pressures are forecast to remain moderate. Overall, consumer prices are forecast to rise 2.7 percent in 2004 and 2.1 percent in 2005. Core consumer prices, which exclude food and energy prices, will rise 1.8 percent in 2004 and 2.2 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 5.5 percent in 2004 and 5.4 percent in 2005.

Inflation-adjusted gross domestic product is forecast to increase 4.4 percent in 2004.

Strong employment gains in October 2004 were offset by weak gains in November. However, several important economic indicators — inflation-adjusted gross domestic product (GDP), personal income, and corporate profits — are near or above their pre-recession peaks. Moreover, businesses have reaped the benefits of robust productivity gains and falling unit labor costs and interest payments. In turn, business investments are rising, inventories are building, and jobs are steadily increasing.

Business investments are rising, inventories are building, and jobs are increasing.

Inflation-adjusted GDP grew 3.9 percent in third quarter 2004, up from 3.3 percent in the second quarter. Business investment rose 12.9 percent and government spending was up 1.2 percent. Meanwhile, consumer spending, which accounts for about two-thirds of GDP, rose 5.1 percent during the quarter. This was a significantly faster pace than the 1.6 percent growth in consumer spending in second quarter 2004. The third quarter increase was due in part to robust vehicle sales that resulted from aggressive automobile dealer incentives. Indeed, third quarter 2004 consumer expenditures on durable goods jumped 17.2 percent.

The Institute for Supply Management (ISM) surveys signal expansion in both the manufacturing and services sectors, albeit at a moderating pace. In October 2004, the ISM *manufacturing* index was 56.8, down from 58.5 in September 2004. The ISM new orders index rose to 58.3, slightly above the September posting, while the production index fell to 58.9, 2.7 points below the September value. The ISM employment index also fell but still indicated that manufacturing employment is expanding. Meanwhile, demand for services expanded at a faster pace in October 2004 than in September 2004. The October 2004 ISM *non-manufacturing* business activity index rose 3.1 points to 59.8, indicating a healthy rate of expansion in the nation's services sector. The survey continues to show the expansion in service producing industries to be broad based, with twelve industries reporting increased business activity. Growth was strongest in communication, business services, finance and banking, and wholesale trade. Only the "other services" sector showed a decline in activity.

Personal income grew 5.0 percent year-to-date through September 2004 compared with year-to-date September 2003.

Personal income grew 5.0 percent year-to-date through September 2004 compared with year-to-date September 2003. The 2004 pace is well ahead of the 3.2 percent growth averaged in 2003. The wage and salary component of personal income is up 4.4 percent year-to-date and nonfarm proprietors' income is up 9.1 percent. Nevertheless, despite rising income levels, the September 2004 savings rate fell to 0.2 percent, the second lowest on record. The only savings rate lower than the September 2004 rate was recorded in December 2002, when a negative savings rate indicated that consumers spent more than their available disposable income.

The Conference Board index of consumer confidence has fallen for four consecutive months. In November 2004, the index was 90.5, the lowest reading since March 2004. Consumers expressed a slightly more optimistic assessment of their present situation but a more pessimistic assessment of their expectations for the future. Indeed, all three components of the expectations index — assessments of income, labor markets, and business conditions — deteriorated. The details of the survey also show that consumers sharply curtailed their plans for future purchases of vehicles, homes, and other durable goods. The number expressing plans to purchase these large ticket items is the lowest since April 2001. Declining confidence can be attributed to higher energy prices and rising interest rates, both of which stress household budgets.

In November 2004, the inflation-adjusted federal funds rate — the difference between the nominal funds rate and inflation — became positive for the first time in three years. The inflation-adjusted federal funds rate became negative shortly after the terrorist attacks of September 11, 2001 and remained negative through October 2004, despite three rate increases. In December 2004, the Federal Reserve Board raised the federal fund rate again, to end the year at 2.25 percent.

Overview of Recent National Economic Activity

Table 9 summarizes recent national economic indicators.

- **Inflation-adjusted gross domestic product (GDP)** grew 3.9 percent in third quarter 2004, well above its long-term potential of 3.0 percent to 3.5 percent but less than the 4.5 percent growth posted in first quarter 2004.
    - ***Consumer spending,*** which accounts for two-thirds of GDP, rose 5.1 percent. The pace was significantly above the 1.6% percent growth posted in second quarter 2004. Inflation-adjusted spending on durable goods soared 17.2

percent, while spending on nondurable goods increased 4.8 percent and spending on services rose 2.9 percent.

Table 9
National Economic Statistics

	3rd Quarter 2004	2st Quarter 2004	2003 Annual Average	2002 Annual Average
Inflation-Adjusted Annual GDP Growth[1]	3.9%	3.3%	3.0%	1.9%
Consumer Spending	5.1%	1.6%	3.3%	3.1%
Nonresidential Fixed Investment	12.9%	12.5%	3.3%	-8.9%
Structures	-0.3%	6.9%	-5.6%	-17.8%
Equipment and Software	17.2%	14.2%	6.4%	-5.5%
Residential Fixed Investment	1.7%	16.5%	8.8%	4.8%
Exports	6.3%	7.3%	1.9%	-2.3%
Imports	6.0%	12.6%	4.4%	3.4%
Government Expenditures and Investments	1.2%	2.2%	2.8%	4.4%
Federal Government	4.7%	2.7%	6.6%	7.5%
State and Local Governments	-0.8%	1.9%	0.7%	2.8%
Productivity (output per hour, nonfarm business)[1]	1.9%	3.9%	4.4%	4.4%
	November 2004	**November 2003**	**2003 Annual Average**	**2002 Annual Average**
Inflation[2]	2.6%	2.3%	2.3%	1.6%
Nonfarm Employment Growth[2]	1.0%	-0.3%	-0.3%	-1.1%
Unemployment Rate	5.4%	5.9%	6.0%	5.8%
Housing Permit Growth[3]	8.0%	8.0%	8.1%	6.8%
Single-Family	8.9%	9.2%	9.6%	7.9%
Multi-Family	5.0%	4.2%	3.2%	3.5%
Growth in the Value of Nonresidential Construction[3]	3.3%	-1.7%	-2.2%	-6.7%
Retail	6.3%	-7.9%	-7.2%	-18.9%
Offices	6.7%	-16.1%	-14.4%	-29.3%
Factories	-0.7%	-14.9%	-15.8%	-43.8%
Retail Sales[3]	7.0%	4.7%	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 October 2004.

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

- In third quarter 2004, ***residential investment*** rose 1.7 percent, following a 16.5 percent surge in second quarter 2004. Third quarter sales of new and existing homes slowed from second quarter 2004 but are still the second highest in history. Furthermore, housing starts are increasing at the fastest pace in nearly a quarter century. In turn, homeownership rates rose to a record 69.3 percent in second quarter 2004. Meanwhile, home price growth is strong and is expected to remain so through 2005. In third quarter 2004, the median existing home price rose 7.7 percent while the median new home price rose 9.7 percent. However, in some areas, housing markets are due for a moderate correction as recent price surges are unsustainable.

Homeownership rates rose to a record 69.3 percent in second quarter 2004.

- ***Business investment*** was robust in second and third quarter 2004. Inflation-adjusted nonresidential fixed investment advanced at an annualized 12.9

Third quarter 2004 equipment and software investment rose 17.2 percent.

percent pace in third quarter 2004, following a 12.5 percent rise in the second quarter. Nonresidential investments in structures fell 0.3 percent because excess capacity is still a problem. However, office and factory construction is beginning to recover. By contrast, third quarter 2004 equipment and software investment rose 17.2 percent, led by transportation equipment spending, which climbed 35.7 percent, and industrial equipment spending, which jumped 27.3 percent. Meanwhile, gains in information technology and industrial equipment spending growth was 7.6 percent in third quarter 2004.

- ***Government expenditures*** rose 1.2 percent in third quarter 2004. State and local government expenditures declined 0.8 percent and federal nondefense spending fell 5.3 percent. However, federal government defense expenditures rose 9.8 percent. Overall, federal government expenditures climbed 6.7 percent during the federal fiscal year that ended September 31, 2004. During federal fiscal year 2004, federal defense spending rose 10.4 percent while nondefense spending was essentially unchanged. Meanwhile, federal tax revenues increased five percent: corporate income tax revenues surged 40.0 percent and payroll taxes increased almost three percent.

- ***Productivity*** growth slowed to 1.9 percent in third quarter 2004, following a 3.9 percent increase in second quarter 2004 and a 4.6 percent increase in the first quarter. During third quarter 2004, output increased 4.1 percent but this was offset by a 2.1 percent increase in hours worked. Although unit labor costs increased 1.6 percent in third quarter 2004, they are still 0.4 percent lower than the 2003 average. The third quarter rise in productivity is about equal to average productivity growth over the past two decades.

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 November 2004, consumer prices are up 2.6 percent compared with year-to-date November 2003, while average core inflation is up 1.7 percent over the same period. Year-to-date through November 2004, energy prices are 10.4 percent higher than year-to-date through November 2003. However, since energy prices are generally stabilizing, 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 geopolitical tensions and possible supply disruptions in the absence of significant spare capacity. Thus, current prices continue to include a risk premium and petroleum prices have set new records, even though current supplies are adequate to meet strong demand growth. Crude oil prices have fallen since the peak reached in October 2004, reflecting supply within the normal range for this time of year. Meanwhile, natural gas supplies are at a record high, although a cold winter would increase both demand and prices. By contrast, heating oil inventories are below the lower end of the average range for this point in the heating season. Indeed, heating oil costs have increased substantially compared with one year ago.

- **Retail sales** are up 7.0 percent year-to-date through October 2004 compared with year-to-date October 2003. Earlier in 2004, sales were boosted by year-end 2003 bonuses, larger than normal tax refunds, and refinancing activity. Retail sales growth through the end of 2004 and into 2005 will be constrained, as these sources of cash fade. Rising energy prices and interest rates will also limit spending. In addition, demand for automobiles, homes and home-related goods has been satiated, leaving little pent-up demand to fuel near term spending. However, job gains are expected to contribute to sales growth during the 2004 holiday season.

- **Employment** payrolls increased by 112,000 jobs in November 2004, a much weaker showing than the 303,000 jobs created in October 2004. On average, fewer than 180,000 jobs were added in the three-month period from September to November 2004. By contrast, an average of nearly 300,000 jobs were added in March, April, and May 2004. Nearly every sector created fewer jobs in November compared with October and payrolls in retail trade and manufacturing declined. Nonetheless, November's seasonally adjusted payroll — 132,075,000 — nearly equals the pre-recession peak — 132,507,000 — reached in March 2001. The November 2004 unemployment rate was 5.4 percent, compared with a 5.9 percent rate in November 2003.

The National Forecast

Table 10 presents historical and forecast values for key national economic series. The December 2004 national forecast is not fundamentally different compared with the September 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 4.4 percent in 2004, with strong growth in the first and last quarter of the year offset by weaker but still respectable growth in the second and third quarter. Inflation-adjusted annual GDP growth is forecast to grow at about its long-term potential — 3.0 percent to 3.5 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 3.6 percent in 2004 and 3.0 percent in 2005, a slight downward revision compared with the September forecast. 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 10.5 percent growth in 2004 and 9.9 percent growth in 2005. Investment growth in 2005 is affected by 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

Business investment is expected to average 10.5 percent growth in 2004 and 9.9 percent growth in 2005.

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 13.1 percent in 2004 and 9.9 percent in 2005 before moderating to 4.6 percent in 2006. Meanwhile, nonresidential structures investment will increase 1.9 percent in 2004, 9.6 percent in 2005, and 5.7 percent in 2006.

- ***Government spending*** is forecast to increase 2.1 percent in 2004 and 2.3 percent in 2005. In 2004 and 2005, federal defense spending will increase 7.8 percent and 6.3 percent, respectively. Meanwhile, federal nondefense spending is forecast to fall 0.6 percent in 2004 and to rise 1.9 percent in 2005. 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 0.5 percent in 2004 and 0.8 percent in 2005.

Inflation

Core consumer price inflation is forecast to be 1.8 percent in 2004 and at or below 2.2 percent through the forecast horizon.

Inflationary pressures are moderate. Overall, consumer prices are forecast to rise 2.7 percent in 2004 and 2.1 percent in 2005. Meanwhile, core consumer price inflation is forecast to be 1.8 percent in 2004 and at or below 2.2 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 supply increases. 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 into 2005. By early 2006 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 2.25 percent at year-end 2004 and is expected to rise 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

The national employment forecast has not changed materially since the September OSPB forecast. National payrolls will increase 1.1 percent in 2004, with 1.4 million workers added between 2003 and 2004. In 2005 and 2006, employment will increase 1.8 percent and 1.4 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. Meanwhile, manufacturing employment will continue to contract through the forecast horizon.

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

In 2004 and 2005, the unemployment rate is forecast to average 5.5 percent. The strengthening labor market will entice job-seekers back into the labor force, essentially offsetting the number of currently unemployed workers that will find employment in newly created positions. Thus, the unemployment rate will fall only gradually, slowly reaching 4.8 percent by 2009.

Risks to the Forecast

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, negatively impacting consumer and business confidence. Moreover, the economic recovery could be disrupted if the expected moderation in energy prices fails to materialize. Meanwhile, the large current account deficit might necessitate an even steeper decline in the dollar, which would negatively impact the economy. Also, household debt burdens and defaults remain high and the possibility of declining house prices in overpriced 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.

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.

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

Line No.		Actual					December 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	$10,841.3	$11,207.6	$11,564.0	$11,970.8	$12,400.3	$12,786.6
2	Change	4.5%	3.7%	0.8%	1.9%	3.0%	4.4%	3.4%	3.2%	3.5%	3.6%	3.1%
3	Gross Domestic Product (Billions)	$9,268.6	$9,816.9	$10,127.9	$10,487.0	$11,004.3	$11,727.0	$12,345.2	$13,035.7	$13,769.8	$14,506.6	$15,220.6
4	Change	6.0%	5.9%	3.2%	3.5%	4.9%	6.6%	5.3%	5.6%	5.6%	5.4%	4.9%
5	Productivity (Output per Hour, Nonfarm Business)	112.3	115.4	118.4	123.5	129.0	134.2	136.3	138.8	142.3	145.5	148.0
6	Change	2.7%	2.7%	2.6%	4.3%	4.5%	4.0%	1.6%	1.8%	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	$9,610.6	$10,026.0	$10,467.9	$10,962.3	$11,477.2	$12,002.7
8	Change	5.1%	8.0%	3.5%	1.8%	3.2%	4.9%	4.3%	4.4%	4.7%	4.7%	4.6%
9	Per-Capita Income ($/person)	$27,922	$29,836	$30,563	$30,794	$31,468	$32,707	$33,808	$34,978	$36,303	$37,672	$39,054
10	Change	3.9%	6.9%	2.4%	0.8%	2.2%	3.9%	3.4%	3.5%	3.8%	3.8%	3.7%
	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%	5.5%	5.4%	5.3%	5.2%	4.9%	4.8%
14	Total Nonagricultural Employment[2] (Millions)	129.0	131.8	131.8	130.3	129.9	131.3	133.6	135.5	137.1	139.0	141.0
15	Change	2.4%	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.8%	1.4%	1.1%	1.4%	1.4%
	Financial Markets											
16	30-Year T-Bond Rate	5.9%	5.9%	5.5%	5.4%	5.1%	5.2%	6.0%	6.3%	6.0%	5.8%	6.0%
17	10-Year T-Bond Rate	5.6%	6.0%	5.0%	4.6%	4.0%	4.3%	5.0%	5.8%	5.6%	5.5%	5.7%
18	Federal Fund Rate	5.0%	6.2%	3.9%	1.7%	1.1%	1.3%	3.0%	4.3%	4.9%	4.5%	4.5%
	Price Variables											
19	Consumer Price Index (1982-84=100)	166.6	172.2	177.0	179.9	184.0	188.8	192.8	196.6	201.0	205.1	209.2
20	Change	2.2%	3.4%	2.8%	1.6%	2.3%	2.7%	2.1%	2.0%	2.2%	2.0%	2.0%
21	Producer Price Index (1982=100)	132.8	138.0	140.7	138.9	143.3	148.3	152.2	153.4	155.9	158.7	161.5
22	Change	1.7%	3.9%	2.0%	-1.3%	3.2%	3.5%	2.6%	0.8%	1.6%	1.8%	1.7%
	Other Key Indicators											
23	Industrial Production Index (1992=100)	110.6	115.4	111.5	110.9	111.2	116.2	120.1	123.1	126.7	130.7	134.4
24	Change	4.4%	4.4%	-3.4%	-0.6%	0.3%	4.5%	3.3%	2.5%	3.0%	3.1%	2.9%
25	Corporate Profits After Tax (Billions)	$517.3	$508.2	$503.7	$574.3	$639.7	$710.4	$775.2	$836.3	$890.8	$947.3	$1,002.2
26	Change	10.1%	-1.8%	-0.9%	14.0%	11.4%	11.1%	9.1%	7.9%	6.5%	6.3%	5.8%
27	Housing Starts (Millions)	1.647	1.573	1.601	1.710	1.853	1.946	1.734	1.522	1.540	1.607	1.594
28	Change	1.6%	-4.5%	1.8%	6.8%	8.3%	5.0%	-10.9%	-12.2%	1.2%	4.3%	-0.8%

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 December 2004 OSPB forecast indicates that Colorado employment will increase 0.8 percent in 2004, a net increase of 17,700 new jobs compared with 2003.
- The 2004 Colorado unemployment rate is forecast to average 5.1 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 5.6 percent in 2004 and 5.1 percent in 2005. Colorado per capita income will continue to exceed the national average.
- Retail trade sales are forecast to grow 4.4 percent in 2004 and 5.6 percent in 2005.
- We forecast that consumer prices in the Denver-Boulder-Greeley area will rise 0.1 percent in 2004 and 1.8 percent in 2005.
- In 2004, net in-migration to Colorado will be slightly below 11,000 and total population growth will be 1.1 percent.

The Colorado economy is showing increasing strength. Year-to-date average state employment through October 2004 is up 0.4 percent. Moreover, the Colorado unemployment rate has remained relatively constant — ranging between 4.9 percent and 5.1 percent — since March 2004. The October 2004 unemployment rate is 0.9 percentage points lower than the October 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.

- Colorado nonfarm employment news is encouraging. Since April 2004, Colorado payrolls have posted consecutive year-over-year gains and average statewide employment year-to-date through October 2004 is up 0.4 percent compared with the average year-to-date through October 2003.

Table 11
Colorado Economic Statistics

	October 2004	October 2003	2003 Annual Average	2002 Annual Average
Nonfarm Employment Growth[1,2]	0.4%	-1.5%	-1.5%	-1.9%
Unemployment Rate	5.0%	5.9%	6.1%	5.8%
Change in Housing Permits Issued[1]	15.5%	-16.0%	-17.3%	-13.0%
Single-Family	14.8%	-5.7%	-3.3%	-4.0%
Multi-Family	19.1%	-47.8%	-55.5%	-30.7%
Change in Value of Nonresidential Construction[1,3]	16.1%	-8.2%	-11.2%	-21.8%
Retail	-0.9%	-11.0%	-13.4%	-8.7%
Offices	-5.0%	-24.7%	-32.3%	-42.2%
Factories	129.3%	-49.7%	-62.9%	-53.2%
Retail Trade Sales[4]	4.6%	0.7%	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 September 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.

- The October 2004 seasonally adjusted **unemployment rate** was 5.0 percent, 0.9 percentage point below the state's October 2003 unemployment rate. The Colorado unemployment rate has ranged between 4.9 percent and 5.1 percent since March 2004.

Colorado personal income through second quarter 2004 was 5.3 percent higher compared with second quarter 2003.

- Colorado **personal income** through second quarter 2004 was 5.3 percent higher compared with year-to-date second quarter 2003. **Wage and salary disbursements**, which represent more than 55 percent of personal income, were up 4.5 percent.

- The state's **residential housing** market continues to show exceptional strength.
  - Residential housing permits issued are up 15.5 percent year-to-date through October 2004 compared with year-to-date October 2003. Single-family permits are up 14.8 percent while multi-family permits have increased 19.1 percent.

In October 2004, Denver-area residents sold 5,131 homes, a 3.2 percent increase compared with October 2003.

  - In October 2004, Denver-area residents sold 5,131 homes, a 3.2 percent increase compared with October 2003.
  - Although inventory is high, home prices continue to rise. Through October 2004, the average price of a single-family home rose to $290,171, up 4.6 percent compared with year-to-date October 2003.
  - In third quarter 2004, Denver's apartment vacancy rate dropped to 8.5 percent, the lowest Denver apartment vacancy rate in four years.

- The value of **nonresidential construction** built through October 2004 is 16.1 percent above year-to-date October 2003. The increase is primarily due to new hospitals, medical facilities, and manufacturing plants. Meanwhile, retail and office construction are still showing year-over-year declines, albeit much smaller drops than were posted in 2003.

   - The Denver area retail construction market posted a 6.1 percent vacancy rate in third quarter 2004 compared with 6.8 percent posted in second quarter 2004. Year-to-date, nearly 700,000 square feet of vacant retail space has been absorbed, 515,000 square-feet of which were occupied in the third quarter. Meanwhile, 2.1 million square feet of new retail construction is underway, the majority of which will be occupied immediately upon completion. Retail rental rates moved up slightly during the quarter, reflecting the improving market.

   - The Denver-Boulder-Longmont office market continues to show signs of recovery. At the end of third quarter 2004, total occupied office space grew by almost 470,000 square feet and vacancy rates decreased slightly to 18.0 percent from 18.4 percent in second quarter 2004. On average, Denver-area office rental rates at mid-year are essentially the same as those quoted at the end of 2003.

   - During the third quarter 2004, the Denver industrial construction market absorbed nearly one million square feet of vacant space and the industrial vacancy rate fell to 4.3 percent from 4.7 percent in second quarter 2004. Through third quarter 2004, net absorption totaled 2.1 million square feet, compared with the 2.3 million square feet absorbed in all of 2003. Industrial rental rates were relatively flat over this period.

- **Retail sales** through September 2004 are up 4.6 percent compared with year-to-date September 2003. All retail sectors except food stores are posting year-over-year growth.

- The **tourism industry** in Colorado continues to improve. Moreover, a snowstorm during the national broadcast of the Sunday night football game between the Denver Broncos and the Oakland Raiders should have a significant positive impact on the state's ski season. In September 2004, Colorado hotels were 61.6 percent occupied, compared with 58.0 percent occupancy in September 2003. In September 2004, the average room rate statewide rose to $90.65 compared with $89.43 in September 2003.

In September 2004, Colorado hotels were 61.6 percent occupied, compared with 58.0 percent occupancy in September 2003.

Colorado's Economic Forecast

The December 2004 OSPB forecast for the Colorado economy is not significantly changed compared with the September 2004 forecast.

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

The December 2004 OSPB forecast indicates employment will rise 0.8 percent in 2004.

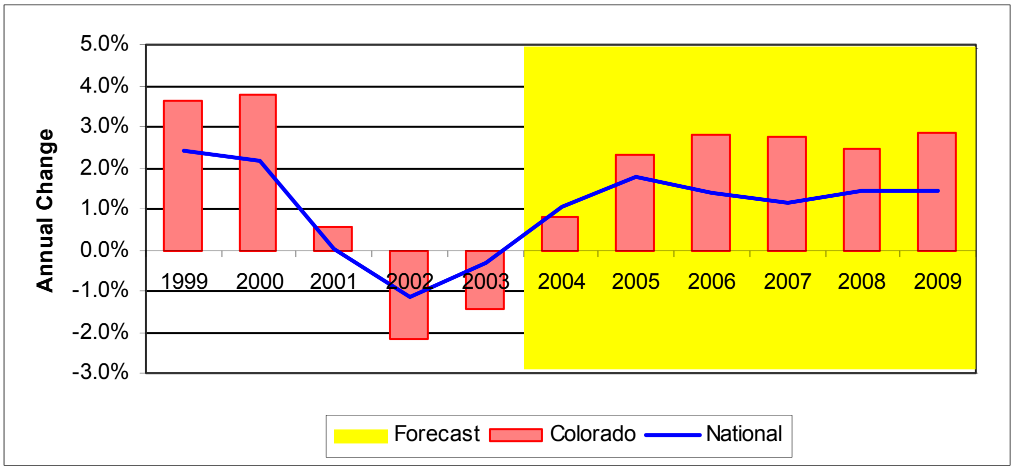
Figure 1 shows the national and Colorado forecasts for *employment*. The December 2004 OSPB forecast indicates employment will rise 0.8 percent in 2004, a net increase of about 17,000 new jobs. This is the same growth that we forecast in

September 2004. By 2005, employment growth will be 2.3 percent and we forecast that the number of jobs in the state will increase by 2.8 percent in 2006.

The 2004 Colorado unemployment rate will average 5.1 percent.

The 2004 Colorado *unemployment rate* will average 5.1 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. The unemployment rate will drop below five percent in 2005 and fall to 4.1 percent in 2009.

Figure 1
Colorado and National Employment

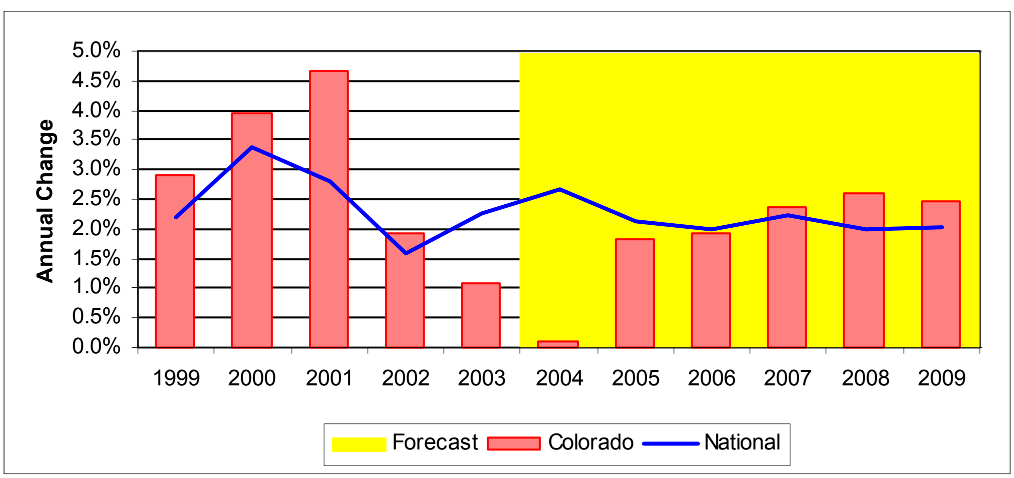


Source: U.S. Department of Labor, Bureau of Labor Statistics, employment by place of work from Current Employment Statistics (CES) survey of payroll records.

Inflation

The national and Colorado forecasts for inflation are displayed in ***Figure 2***.

Figure 2
Colorado and National Inflation



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

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 incentives offered by landlords that lower rental costs. 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 effective 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. Indeed, the risk is that the 2004 Denver-Boulder-Greeley consumer price index will fall compared with 2003 if landlords continue to offer significant incentives to entice renters into vacant apartments.

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

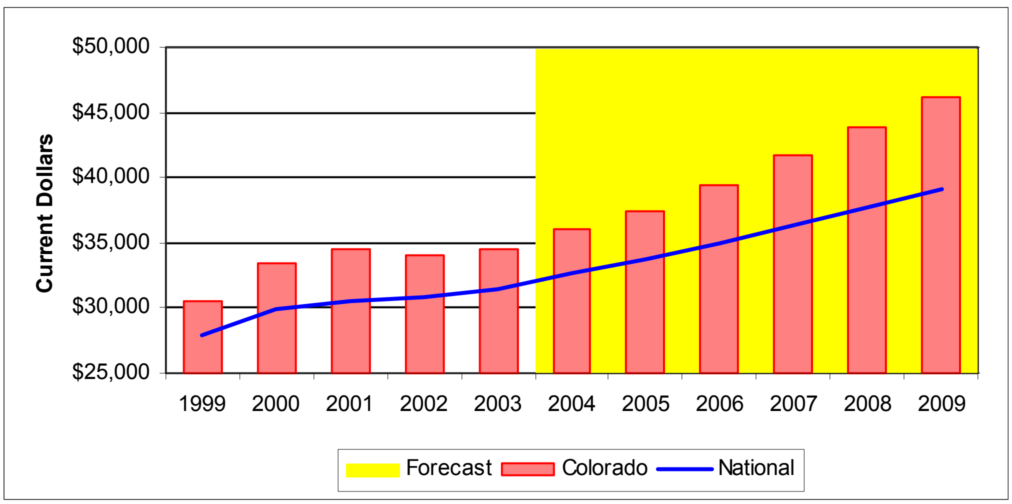
We forecast that Colorado inflation will be 0.1 percent in 2004, 1.8 percent in 2005, and 2.0 percent in 2006. From 2006 through 2009, Colorado inflation will remain well below three percent.

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.

Overall, personal income grew 2.2 in 2003, with the pace accelerating throughout the year. We forecast that personal income will grow 5.6 percent in 2004 and 5.1 percent in 2005. Personal income growth will average about seven percent from 2006 through 2009.

Colorado wage and salary income rose only 0.9 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 4.5 percent in 2004, 6.0 percent in 2005, and 6.2 percent in 2006. In 2007 and thereafter, wage and salary income growth will be at or above six percent.

In 2004, net in-migration to Colorado will be slightly under 11,000 and total population growth will be 1.1 percent.

Population and Migration

We forecast that in 2004, net in-migration to Colorado will be slightly under 11,000 and total population growth will be 1.1 percent. Despite the severity of 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 2009.

Industrial Sectors

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

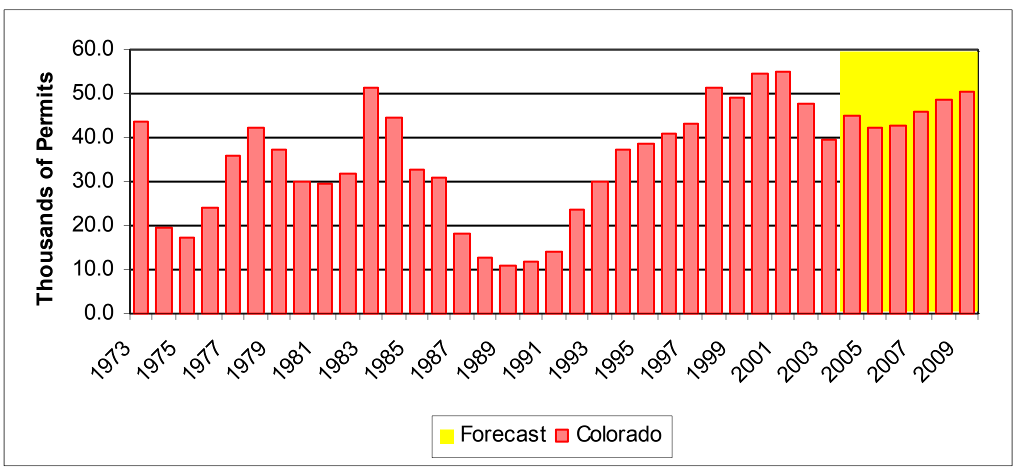
Construction

Residential home permits issued in Colorado year-to-date through October 2004 are up 15.5 percent compared with year-to-date October 2003. Meanwhile, the value of nonresidential construction (excluding nonbuilding projects like roads) increased 16.1 percent during this period. The December 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 still low mortgage interest rates and the strengthening Colorado economy. We forecast that the total number of home permits issued in 2004 will increase 14.2 percent, with activity falling off towards the end of the year. 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.

Figure 4
Residential Housing Permits Issued



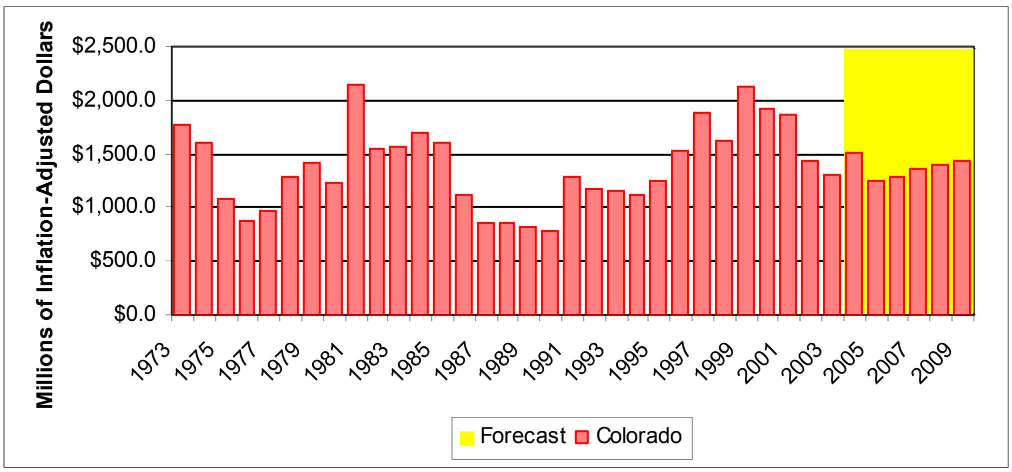
Source: U.S. Department of Commerce, Bureau of the Census.

Nonresidential Construction

Denver-area nonresidential building construction continues to be impacted by oversupply in most markets. However, the year-to-date October 2004 value of new nonresidential building construction is up 16.1 percent compared with the same period in 2003. This is primarily the consequence of new hospitals, medical facilities, and manufacturing plants, which offset a correction in office and retail construction in 2004. The correction in office and retail construction 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 October 2004 value of new nonresidential building construction is up 16.1 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

Year-to-date retail trade sales in Colorado are up 4.6 percent through September 2004 compared with year-to-date September 2003. We forecast retail sales will grow 5.0 percent in 2004 and 5.5 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.

Year-to-date retail trade sales in Colorado are up 4.6 percent through September 2004.

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					December 2004 Forecast					
		1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
	Current Income											
1	Personal Income (Billions)	$128,859	$144,394	$152,713	$153,593	$157,043	$165,892	$174,351	$186,035	$199,374	$212,916	$228,085
2	Change	8.7%	12.1%	5.8%	0.6%	2.2%	5.6%	5.1%	6.7%	7.2%	6.8%	7.1%
3	Wage and Salary Income (Billions)	$76,343	$86,048	$88,436	$87,054	$87,879	$91,817	$97,343	$103,361	$110,051	$116,708	$124,132
4	Change	9.7%	12.7%	2.8%	-1.6%	0.9%	4.5%	6.0%	6.2%	6.5%	6.0%	6.4%
5	Per-Capita Income ($/person)	$30,492	$33,371	$34,482	$34,124	$34,510	$36,071	$37,474	$39,454	$41,664	$43,833	$46,227
6	Change	5.9%	9.4%	3.3%	-1.0%	1.1%	4.5%	3.9%	5.3%	5.6%	5.2%	5.5%
	Population & Employment											
7	Population[1] (Thousands)	4,226.0	4,326.9	4,428.8	4,501.1	4,550.7	4,599.1	4,652.6	4,715.3	4,785.2	4,857.5	4,934.0
8	Change	2.7%	2.4%	2.4%	1.6%	1.1%	1.1%	1.2%	1.3%	1.5%	1.5%	1.6%
9	Net Migration[2] (Thousands)	75.4	64.2	66.3	35.1	12.4	10.9	15.9	25.0	31.9	33.9	37.9
10	Civilian Unemployment Rate	2.9%	2.8%	3.7%	5.7%	6.0%	5.1%	4.7%	4.4%	4.3%	4.2%	4.1%
11	Total Nonagricultural Employment[3]	2,131.5	2,212.6	2,225.4	2,177.1	2,146.0	2,163.7	2,213.9	2,276.2	2,338.5	2,395.7	2,463.5
12	Change	3.6%	3.8%	0.6%	-2.2%	-1.4%	0.8%	2.3%	2.8%	2.7%	2.4%	2.8%
	Construction Variables											
13	Total Housing Permits Issued (Thousands)	49.3	54.6	55.0	47.9	39.4	45.0	42.2	42.8	46.0	48.5	50.5
14	Change	-3.6%	10.7%	0.8%	-12.9%	-17.7%	14.2%	-6.3%	1.5%	7.5%	5.2%	4.2%
15	Nonresidential Construction Value[4] (Millions)	$3,543.8	$3,338.8	$3,373.4	$2,637.8	$2,432.0	$2,816.4	$2,393.6	$2,486.5	$2,689.5	$2,853.4	$2,982.0
16	Change	35.4%	-5.8%	1.0%	-21.8%	-7.8%	15.8%	-15.0%	3.9%	8.2%	6.1%	4.5%
	Prices & Sales Variables											
17	Retail Trade Sales (Billions)	$52.6	$58.0	$59.1	$58.7	$58.7	$61.6	$65.0	$68.4	$72.5	$76.5	$80.9
18	Change	9.2%	10.2%	2.0%	-0.7%	0.0%	5.0%	5.5%	5.1%	6.1%	5.5%	5.7%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	166.6	173.2	181.3	184.8	186.8	187.0	190.4	194.1	198.6	203.8	208.8
20	Change	2.9%	4.0%	4.7%	1.9%	1.1%	0.1%	1.8%	1.9%	2.4%	2.6%	2.5%

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.

TABOR — The Taxpayer's Bill of Rights

Summary

- TABOR restricts state revenues from growing by more than the sum of inflation plus state population growth. It also requires voter approval for any new or increased taxes.

- If state revenues are higher than the TABOR limit, the surplus revenues in excess of the limit must be refunded to taxpayers unless the state has voter approval to keep a portion of the excess. If revenues are lower than the TABOR limit, no refunds occur.

- TABOR has not caused any of the recent budget shortfalls or cuts. We have not rebated any TABOR revenue since FY 2000-01 because there has not been any TABOR surplus since then. TABOR only requires that, when revenues exceed the limit, the surplus must be returned to taxpayers. When revenues are less than the TABOR limit, as has been the case since FY 2000-01, there are no TABOR refunds.

- The fact that the TABOR limit was higher than revenues from FY 2001-02 through FY 2002-03 meant that the state could keep the revenues it collected for its programs. Budget "cuts" were the result of sagging revenues — a phenomenon experienced in 42 other states that do not possess a TABOR limit.

- The ratchet-down effect occurs because TABOR re-bases the limit to revenues in the event of a revenue downturn. Once the TABOR limit is re-based, it again grows by population growth plus inflation. This means that the reduction in the TABOR limit that results from the re-basing is not recovered.

What is TABOR?

On November 3, 1992, the voters of Colorado approved Amendment 1[1] (53.7 percent for; 46.3 percent against), a constitutional amendment that is codified as Article X, Section 20 of the Colorado Constitution. This amendment is commonly known as TABOR — the Taxpayer's Bill of Rights. TABOR imposes various fiscal limits and requirements on the state and local Colorado governments.

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[1] Citizen initiatives to amend the Colorado Constitution are numbered on a two year cycle in the order in which the Secretary of State validates the number of signatures submitted.

Overall, TABOR is a limitation on the amount of *revenue* that may be kept by the state in any particular year, regardless of whether that revenue is spent during the year. Any revenue received during a fiscal year in excess of the limitations provided for in TABOR must be refunded to the taxpayers during the next fiscal year unless voters approve its retention.

This report describes the TABOR limit and TABOR surplus. It discusses why the TABOR surplus disappeared and the resulting "ratchet down" effect. It also details how TABOR is implemented, how it interacts with the Arveschoug-Bird statutory appropriations limit, the outlook for future TABOR surpluses, and potential future budgetary issues. Constitutional and statutory citations for the provisions discussed herein are listed in the last section of this report. The actual language of the TABOR amendment is included at the end of this document. The refund mechanisms used to return the TABOR surplus to taxpayers are discussed separately in the Governor's Office of State Planning and Budgeting (OSPB) Special Report titled "The TABOR Surplus and TABOR Refund Mechanisms" (see www.state.co.us/ospb).

What is the TABOR limit?

The TABOR provision of the constitution limits the state's revenue growth to the sum of inflation and population growth from the previous calendar year.

The TABOR provision of the constitution limits the state's revenue growth to the sum of inflation and population growth in the previous calendar year. For example, the FY 2002-03 limit was 6.9 percent, which is the sum of calendar year 2001 inflation (4.7 percent) and population growth (2.2 percent). Local governments have TABOR growth limits that differ from the state's limit. For example, school districts face a TABOR limit tied to inflation plus student enrollment growth, while other local governments are restricted to growth that must not exceed inflation plus a measure of actual value growth attributed to new construction.

It is important to note that although TABOR is widely thought to be a *spending* limit, it is actually a *revenue* limit. TABOR defines fiscal year spending as all expenditures and increases in reserves except those for refunds or those from gifts, federal funds, collections for another government, pension contributions by employees, pension fund earnings, reserve transfers or spending from reserves, damage awards, or earnings from property sales. *This definition of spending is so broad that it effectively means all revenues collected directly by the state.* Thus, the TABOR revenue limit applies to almost all state revenues, from both general and cash sources. Only those sources specifically excluded from the definition of fiscal year spending are excluded from the TABOR revenue growth limit.

What is the TABOR surplus?

All surplus revenues received in excess of the TABOR limit must be refunded in the next fiscal year unless voters authorize the state to retain the revenue.

The TABOR surplus is the amount by which revenues exceed the TABOR limit. All surplus revenues received in excess of the TABOR limit must be refunded in the next fiscal year unless voters authorize the state to retain the revenue. Table 14 shows the amount of the TABOR surplus from FY 1992-93 through FY 2003-04 and the December 2004 OSPB forecast for the TABOR surplus from FY 2004-05 through FY 2009-10.

The state first exceeded the TABOR limit in FY 1996-97. The healthy Colorado economy and the national economic expansion of the 1990s generated strong revenue growth. This robust revenue growth, coupled with low TABOR limits (the sum of population growth plus inflation), led to large TABOR surpluses. Indeed, the TABOR surplus exceeded $900 million in both FY 1999-00 and FY 2000-01. However, in FY 2001-02 through FY 2003-04 there was no TABOR surplus. Furthermore, we forecast that when the TABOR surplus reappears in FY 2004-05 the excess will be relatively small. Between FY 2005-06 and FY 2009-10, we expect the TABOR surplus to be between $390 million and $1,050 million.

Table 14
TABOR Revenues, Limits, and Surpluses

Fiscal Year	TABOR Limit(1) Amount (Millions)	TABOR Limit(1) Change (%)	Net TABOR Revenues(1,2) Total (Millions)	Net TABOR Revenues(1,2) Change (%)	Revenues Above (Below) Limit (Millions)
1992-93	$5,109.9	NA	$5,057.0	NA	NA
1993-94	5,401.2	6.5	5,385.7	6.5	($15.5)
1994-95	5,769.4	7.1	5,757.3	6.9	(12.1)
1995-96	6,160.3	7.0	6,124.3	6.4	(36.0)
1996-97	6,508.6	6.6	6,647.6	8.5	139.0
1997-98	6,872.0	5.5	7,435.2	14.2	563.2
1998-99	7,243.4	5.3	7,923.0	15.3	679.6
1999-00	7,563.7	4.4	8,503.0	17.4	941.1
2000-01	7,948.6	5.1	8,877.1	17.4	927.2
2001-02(3)	8,126.2	4.0	7,752.2	(2.5)	(365.7)
2002-03(3)	8,296.8	6.9	7,712.5	(0.5)	(584.3)
2003-04(3)	8,332.0	8.5	8,332.0	8.5	0.0
2004-05(4)	8,204.1	3.3	8,354.9	5.2	150.8
2005-06(4)	7,908.1	1.2	8,299.7	6.2	391.6
2006-07(4)	8,145.4	3.0	8,637.7	9.2	492.3
2007-08(4)	8,406.0	3.2	9,045.1	11.0	639.0
2008-09(4)	8,733.9	3.9	9,493.2	12.9	759.4
2009-10(4)	9,092.0	4.1	10,139.0	16.1	1,047.0

NA: Not Available.
(1) TABOR limits are periodically adjusted for changes to the TABOR revenue base. Because of this, the amounts and changes shown here do not necessarily correspond arithmetically.
(2) Net TABOR revenues exclude amounts credited to the State Education Fund per Amendment 23 and other revenues that are exempt from TABOR. Change in revenue is from the previous year's TABOR limit.
(3) The TABOR limit is computed from the lesser of the previous year's TABOR revenues and TABOR limit.
(4) OSPB December 2004 forecast.

Why did the TABOR surplus disappear?

After logging surplus TABOR revenues for five years, the TABOR surplus vanished in FY 2001-02 and remains absent through FY 2003-04. Indeed, FY 2002-03 TABOR revenues were lower than the TABOR limit by $584.3 million. We do not expect the TABOR surplus to reappear until FY 2004-05. The TABOR surplus disappeared for three reasons.

The TABOR surplus disappeared for three reasons.

- First, a national recession began in March 2001, after an unprecedented 10 years of economic expansion. The ***Colorado economy*** was negatively affected by the national recession and the events of September 11, 2001. As a result, state revenues decreased in FY 2001-02 and FY 2002-03. Although a recovery in the national economy is underway, strong growth in Colorado will not be evident until late 2004.

- Second, a ***measure passed by voters*** in the November 2000 election lowered TABOR revenues each year by more than $250 million. *Amendment 23*, which provides increased public school funding, exempts about 7.2 percent of Colorado income tax revenues from the TABOR restriction.

Legislation enacted through House Bill 02-1310 and Senate Bill 02-179 enables the state to recoup revenues.

- 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*** and is equal to six percent. The state will gradually be using this growth dividend in FY 2003-04 and FY 2004-05. The full six percent growth dividend is applied to the TABOR limit by FY 2004-05. The growth dividend acts to eliminate the TABOR surplus in FY 2003-04 and to reduce the TABOR surplus in FY 2004-05. This adjustment allows the state to keep an additional $3.4 billion through the forecast horizon.

In FY 2004-05, the TABOR surplus reappears, totaling $150.8 million. From FY 2005-06 through the forecast horizon, we expect the TABOR surplus to range between $390 million and $1,050 million.

What is the "ratchet down" effect of TABOR?

There are no provisions in TABOR to account for cyclical revenue swings.

There are no provisions in TABOR to account for cyclical revenue swings. This results in a "ratchet down" effect when state revenues fall below the allowed TABOR limit. The ratchet down effect occurs because the TABOR limit is based on the lesser of the previous year's TABOR revenues and TABOR limit. For example, the FY 2002-03 TABOR limit is computed from FY 2001-02 TABOR revenues — not the FY 2001-02 TABOR limit — because FY 2001-02 revenues were less than the FY 2001-02 limit. Similarly, the FY 2003-04 TABOR limit is computed from FY 2002-03 TABOR revenues — not the FY 2002-03 TABOR limit — because FY 2002-03 revenues were less than the FY 2002-03 limit. Hence, the base from which the TABOR limit is computed is permanently lowered in subsequent years because of the 2001-2002 economic downturn.

Note in Table 14 that state revenues were lower than the TABOR revenue limit from FY 1993-94 through FY 1995-96. Thus, the state experienced a ratchet down effect in each of those three years. However, as shown in Table 14, revenues were below the TABOR limit by a relatively small amount. Furthermore, the TABOR growth rate was substantially above the appropriations growth allowed by Arveschoug-Bird. Hence, the ratchet down effect did not significantly disrupt government services to its citizens and appropriations continued to grow during this period.

The revenue growth limits during the first four years after TABOR was enacted ranged from 6.5 percent to 7.1 percent.

The revenue growth limits during the first four years after TABOR was enacted ranged from 6.5 percent to 7.1 percent and averaged 6.8 percent, well above General Fund appropriations growth allowed by TABOR and Arveschoug-Bird. Furthermore, General Fund *appropriations* represent less than two-thirds of the TABOR *revenue limit*. Thus, the state could build a substantial General Fund excess reserve, which is the difference between fiscal year spending — the sum of General Fund appropriations, highway spending, capital construction, the TABOR refund, the four percent statutory reserve, other General Fund rebates and expenditures, and cash fund obligations — and the TABOR revenue limit. Indeed, the high TABOR revenue growth limits in FY 1993-94 through FY 1996-97 meant that the TABOR revenue limit was diverging from the appropriations level by a substantial amount. Thus, from FY 1996-97 through FY 2000-01, the amount of new spending allowed by the TABOR revenue limit was more than enough to support significant capital and highway construction as well as six percent appropriations growth, even though the TABOR growth limit averaged just 5.1 percent during this period.

How do cash fund revenues affect General Fund spending under TABOR?

Most cash fund revenues are included in the TABOR revenue limit and are part of the base upon which future TABOR limits are computed. TABOR thus required several adjustments to the budgeting and appropriations process related to cash funds. Now, cash fund forecasts are reviewed, evaluated, and included in the quarterly revenue forecasts prepared by both the Executive and Legislative Branches. In particular, the format of the state budget was altered to include extra columns to identify cash funds appropriations excluded from the limitations.

As a matter of policy, the state pays the entire TABOR refund from the General Fund. Thus, the cash fund revenue growth rate is an important variable in state budgeting. If the state is in a TABOR surplus position, the state can keep more General Fund revenues under TABOR when cash fund revenues grow at a pace that is less than the TABOR revenue growth limit. Conversely, when cash fund revenues grow faster than the TABOR limit, the amount of General Fund revenues that the state can keep will grow slower than the TABOR limit.

When cash fund revenues grow faster than the TABOR limit, the amount of General Fund revenues that the state can keep will grow slower than the TABOR limit.

Between FY 1993-94 and FY 2000-01, cash fund revenues, which contribute about one third of total TABOR revenues, grew by less than the TABOR limit in most years. Indeed, between FY 1993-94 and FY 2000-01, annual cash fund revenue growth averaged only 5.1 percent per year while the TABOR revenue growth limit averaged 5.9 percent. Since cash fund revenues were growing slower than the TABOR limit, General Fund revenues — and obligations — could grow faster than the TABOR limit. Indeed, slow cash fund revenue growth from FY 1993-94 through FY 2000-01 meant there was an additional $177 million that could be collected in the General Fund without violating the TABOR revenue limit.

The 2001-2002 economic downturn resulted in cash fund revenue growth that was substantially faster than the TABOR limit. Indeed, during and immediately after the 2001 recession, revenue growth for some of the major cash funds accelerated, even as General Fund revenues declined. For example, unemployment insurance tax revenues — a large contributor to total cash fund revenues — automatically climbed (as they are designed to do) in order to compensate for rising unemployment insurance benefit payments. In addition, higher education tuition payments — another large source of total cash fund revenues —also grew much faster than the TABOR limit. Tuition payments increased because student enrollment soared as a consequence of the tight labor market and because tuition rates were raised to compensate for reduced General Fund appropriations for higher education. However, even with rising cash fund revenues, the state was well below the TABOR limit in FY 2001-02 and FY 2002-03.

Both House Bill 02-1310 and Senate Bill 02-179 contain provisions that enable the state to recoup revenues lost because the TABOR limits computed during the 1990s used population estimates that were too low.

What is the Growth Dividend?

Legislation adopted during the 2002 legislative session mitigates the ratchet down effect of TABOR through the decennial census adjustment. Both House Bill 02-1310 and Senate Bill 02-179 contain provisions that enable the state to recoup revenues lost because the TABOR limits computed during the 1990s used population estimates that were too low. This undercount resulted in lower TABOR limits and higher refunds than would have occurred with more accurate population figures. The percentage change associated with this lost revenue is called the ***growth dividend***.

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

Since the state was not in a TABOR surplus position in FY 2001-02, the state could not recoup the extra money refunded to taxpayers through the 1990s when the census undercounted the state's population. Thus, House Bill 02-1310 and Senate Bill 02-179 allow the six percent growth dividend to be carried forward for up to nine years. The growth dividend is applied to the TABOR limit in an amount that maximizes the TABOR revenue growth rate subject to available TABOR revenues. In subsequent years, the unused amount of the growth dividend is applied in a similar manner, until either the cumulative amount by which the TABOR limit is increased equals six percent (the original growth dividend amount) or the nine-year limit is reached.

The December 2004 OSPB revenue forecast indicates that the state will use the growth dividend in FY 2003-04 and FY 2004-05, with the full six percent growth dividend applied to the TABOR limit by FY 2004-05. The growth dividend acts to eliminate the TABOR surplus in FY 2003-04 and reduce the TABOR surplus in FY 2004-05. This adjustment allows the state to keep an additional $3.4 billion through the forecast horizon. The details of the December 2004 OSPB forecast for TABOR surplus revenues are shown in Table 15.

How does the TABOR limit interact with the Arveschoug-Bird limit?

Originally statutory in nature, the Arveschoug-Bird appropriation limit is now constitutionally established because of TABOR.

The Arveschoug-Bird limit — often called the six percent limit — is a statutory limit that applies only to General Fund *appropriations growth*. By contrast, the TABOR limit only affects state *revenues*. The Arveschoug-Bird statute (Section 24-75-201.1(1), C.R.S.) limits General Fund appropriations to the lesser of (a) the previous year's General Fund appropriations increased by six percent or (b) five percent of Colorado personal income. Exceptions to the Arveschoug-Bird limit include court orders, federal mandates, transfers to the Capital Construction Fund, and Medicaid over-expenditures. Although originally statutory in nature, the Arveschoug-Bird appropriation limit is now constitutionally established because of TABOR. TABOR does not allow the state to weaken any existing spending limits without voter approval. Thus, state General Fund appropriations are constitutionally prohibited from growing by more than six percent per year without prior voter approval.

Table 15
TABOR Surplus Revenue Calculation
(Dollar Amounts in Millions)

Line No.		Preliminary Close FY 2003-04	December 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**	$5,922.5 **/A**	$6,269.1 **/A**	$6,698.7 **/A**	$7,116.2**/A**	$7,536.2**/A**	$8,097.4**/A**
2	Cash Funds	$2,612.9 **/B**	$2,432.4 **/B**	$2,030.6 **/B**	$1,939.0	$1,928.9	$1,957.1	$2,041.6
3	Total TABOR Revenues	$8,332.0	$8,354.9	$8,299.7	$8,637.7	$9,045.1	$9,493.2	$10,139.0
4	*Adjustment to base*	*($391.6)* **/B**	*($389.7)* **/B**					
5	*Adjusted total for computing next year's limit*	$7,940.4	$7,965.2	$8,299.7	$8,637.7	$9,045.1	$9,493.2	$10,139.0
	TABOR Limit Calculation:							
6	*Previous calendar year population growth*	*1.7%*	*1.1%*	*1.1%*	*1.2%*	*1.3%*	*1.5%*	*1.5%*
7	*Previous calendar year inflation*	*1.9%*	*1.1%*	*0.1%*	*1.8%*	*1.9%*	*2.4%*	*2.6%*
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%	1.2%	3.0%	3.2%	3.9%	4.1%
10	Actual Change in TABOR Revenues from Limit	8.5%	5.2%	6.2%	9.2%	11.0%	12.9%	16.1%
11	**TABOR Limit**	**$8,332.0 /D**	**$8,204.1 /D**	**$7,908.1 /D**	**$8,145.4 /D**	**$8,406.0/D**	**$8,733.9/D**	**$9,092.0/D**
12	**Revenues Above (Below) TABOR Limit**	**$0.0**	**$150.8**	**$391.6**	**$492.3**	**$639.0**	**$759.4**	**$1,047.0**
13	TABOR Emergency Reserve	$250.0 **/E,F**	$246.1 **/E,G**	$237.2 **/E,G**	$244.4 **/E,G**	$252.2**/E,G**	$262.0**/E,G**	$272.8**/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.

What constitutes the TABOR emergency reserve?

Under TABOR, the state must create an emergency reserve equal to three percent of TABOR spending. The TABOR emergency reserve can be used only for declared emergencies and, by definition, such emergencies exclude "economic conditions, revenue shortfalls, and district salary or fringe benefit increases."

Senate Bill 04-1422 designates the funds that constitute the TABOR emergency reserve. In FY 2004-05 and thereafter, 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.

Were FY 2001-02 through FY 2003-04 General Fund appropriations lower because of TABOR?

To date, it is not the TABOR *limit* that has impacted state fiscal year spending but rather the decline in General Fund revenues.

In FY 2001-02, gross General Fund revenues fell by an unprecedented 13.0 percent and, for the first time since FY 1996-97, there was no TABOR surplus. Indeed, revenues declined to such an extent that substantial fiscal adjustments had to be made in FY 2001-02 and FY 2002-03.

Because revenues collected by the state were less than the TABOR limit in both 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.

Because revenues collected by the state were less than the TABOR limit in both 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. Furthermore, gross General Fund revenues from which appropriations are made declined in FY 2001-02 and FY 2002-03 by 13.0 percent and 3.1 percent, respectively. Thus, *General Fund appropriations did not grow by six percent in FY 2001-02 through FY 2003-04 because the state did not collect enough General Fund revenues to support six percent revenue growth*, not because of the provisions of TABOR. Hence, it is not the TABOR *limit* that impacted state fiscal year spending in FY 2001-02 through FY 2003-04. Rather, TABOR simply prohibited the state from responding to falling revenues by increasing taxes without voter approval. Once the state is again in a surplus position, however, General Fund appropriation growth could be adversely affected by the TABOR limit.

How will TABOR affect FY 2003-04 through FY 2009-10 spending?

In most years since FY 1995-96, the Arveschoug-Bird six percent General Fund appropriations growth limit exceeded the TABOR revenue growth limit. However, for the reasons cited above, General Fund appropriations were able to grow at the maximum allowed six percent rate until FY 2001-02 even when the TABOR revenue growth limit was substantially less than six percent. Indeed, through FY 2000-01 the state had substantial year-end General Fund reserves that it could keep and spend on capital and highway construction projects and other obligations that do not count towards the Arveschoug-Bird six percent appropriations growth limit.

The December 2004 OSPB forecast indicates that net General Fund revenues — General Fund revenues remaining after diversions to the Highway Users Tax Fund, the State Education Fund, and the Older Coloradans Program — will grow less than six percent in FY 2004-05 and FY 2005-06. If General Fund revenues increase by less than six percent, General Fund expenditures must also increase by less than six percent. However, beginning in FY 2004-05, the state will again have a TABOR surplus. This means that, beginning in FY 2004-05, TABOR will impact General Fund appropriations growth.

If General Fund revenues increase by less than six percent . . . General Fund expenditures must also increase by less than six percent.

What is the current accounting treatment of the TABOR surplus/refund?

Although TABOR is not the cause of the state's present financial situation, House Bill 98-1414 exacerbated the revenue shortfall in FY 2001-02. Hence, House Bill 98-1414 was reversed during the 2003 legislative session.

House Bill 98-1414 exacerbated the revenue shortfall in FY 2001-02.

The provisions of TABOR require that the state refund any TABOR surplus revenues in the following year. Legislation was passed in 1998 that allowed the state to recognize this obligation in the year after the money was realized instead of in the year in which the revenues were collected. This legislation — House Bill 98-1414 — obligated the TABOR refund from the following year's revenues. Hence, beginning in 1998 the state has treated the TABOR surplus as an asset in the year it occurred and only recognized it as a liability in the following year. This pre-spending of TABOR surplus revenues in FY 1998-99 freed $468.3 million for capital construction and highways. If the TABOR surplus had been restricted in the year it was realized, only $287 million would have been available for capital and highway expenditures in that year.

The House Bill 98-1414 mechanism for obligating the TABOR refund was problematic when TABOR revenues in FY 2001-02. Because there was no TABOR surplus in FY 2001-02, the refund due to the taxpayers for the FY 2000-01 TABOR surplus ($927.2 million) came at the expense of capital construction projects, the Senate Bill 97-1 transfer to the Highway Users Tax Fund, and General Fund expenditures.

The delayed recognition of the TABOR obligation legislated by House Bill 98-1414 significantly worsened the FY 2001-02 revenue shortfall. In order to avoid a replay of this situation in future years, two bills — Senate Bill 03-222 and House Bill 03-1238 — were passed during the 2003 legislative session to reverse the 1998 legislation. 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 must be refunded in the next year. In sum, it places the state in a much better financial situation to deal with future revenue shortfalls when they occur.

What are the actual provisions of TABOR?

TABOR's revenue limitations are implemented through certain restrictions on fiscal year spending:

- TABOR spending is defined to mean all expenditures and reserve increases except those for refunds made in the current or next fiscal year. It also excludes expenditures made by governmental operations defined as business enterprises and expenditures made from gifts, federal funds, collections for another government, pension contributions by employees and pension fund earnings, reserve transfers or expenditures, damage awards, and property tax sales. This effectively defines TABOR spending as all revenues received by the state, other than those that are specifically exempted.

- If revenues received from sources not exempted from TABOR spending exceed the TABOR limit — the previous year's TABOR spending base, adjusted for revenue changes approved by voters and increased by the sum of inflation plus the percentage change in state population in the prior calendar year — the excess must be refunded in the next fiscal year unless voters authorize the state to retain the excess. TABOR specifies the provisions for annual, statewide elections each November and provides requirements for voter notification of ballot issues to obtain such voter approval. Prior voter approval is required for:

Prior voter approval is required for any increase in state TABOR spending from one year to the next in excess of the TABOR limit.

  - Any increase in state TABOR spending from one year to the next in excess of the TABOR limit; and any new state tax, state tax rate increase, extension of an expiring state tax, state tax policy change directly causing a net revenue gain to the state, or the creation of any state "multiple fiscal year direct or indirect…debt or other financial obligation."

- The TABOR refund must be made from the General Fund even though both General Fund and cash fund sources are counted as TABOR revenues and contribute to the TABOR surplus. The TABOR refund must be taken from the General Fund because cash fund monies are restricted to be used only for specific purposes.

- TABOR requires voter approval to weaken any existing statutory limits on revenue, spending, and debt. Hence, the Arveschoug-Bird statutory limit on appropriations growth became "constitutionalized" by TABOR. Now, the limit on appropriations growth cannot be increased except through voter approval, whereas previously, it could be increased by legislation introduced by the General Assembly and signed by the Governor.

- TABOR allows local governments, with the exception of K-12 funding, to reduce or end its subsidy to the State for any mandated program for which the State requires a local subsidy.

- TABOR limits the ability of local governments and school districts to adjust mill levies without voter approval; and sets up provisions for annual, statewide elections each November, and provides requirements for voter notification of ballot issues.

The TABOR emergency reserve can be used only for declared emergencies and, by definition, such emergencies exclude "economic conditions, revenue shortfalls, and salary and fringe benefit increases."

- Under TABOR, the state must create an emergency reserve equal to three percent of TABOR spending.

  - The TABOR emergency reserve can be used only for declared emergencies and, by definition, such emergencies exclude "economic conditions, revenue shortfalls, and district salary or fringe benefit increases."

  - An emergency is declared either by the passage of a joint resolution that is approved by a two-thirds majority of the members of both houses of the

General Assembly and by the Governor (Section 24-77-104(3)(a), C.R.S.) or by executive order or proclamation of the Governor if a disaster has occurred (Section 24-32-2104(4), C.R.S.).

- If the TABOR emergency reserve is depleted, an emergency tax can be imposed by the roll call recorded passage of a bill that is approved by a two-thirds majority of the members of both houses of the General Assembly and that is approved by the Governor. The emergency tax expires in the month of the next statewide election that occurs 60 days or more after the declaration of the emergency unless voters approve continuance of the tax at that election. Any emergency tax revenues that are not spent on the declared emergency must be refunded to taxpayers within 180 days after the emergency ends.

- The TABOR emergency reserve must be restored to three percent at the beginning of each fiscal year.

The TABOR emergency reserve must be restored to three percent at the beginning of each fiscal year.

A number of statutes implementing TABOR have been enacted by the General Assembly, including statutes defining the revenues and spending included in the state's fiscal year revenue and spending for purposes of TABOR's revenue and spending limits, the accounting treatment of refunds owed by the state under TABOR, and defining state operations that qualify as "enterprises," which are excluded from TABOR. Statutory citations for these are listed in the last section of this report.

What is the statutory implementation of TABOR?

The General Assembly adopted and Governor Romer signed Senate Bill 93-094, which provides a framework for the implementation of TABOR. Specifically, Senate Bill 93-094 specified C.R.S. Sections 24-77-101 through 107, which:

- Further define terms and definitions used in Article X, Section 20, such as "grant," "gift," "property sale," etc.;
- Establish a reporting mechanism for officials to notify the General Assembly and the Governor of the estimates of population changes in the State and estimates of the inflation rate, as defined by the Denver-Boulder CPI;
- Establish a number of reserve funds so expenditure of these reserves can be spent with no impact on future fiscal years' spending limitations including:
  - Subsequent Injury Fund in the Department of Labor;
  - Major Medical Insurance Fund in the Department of Labor;
  - Unemployment Compensation Fund:
  - Capital Construction Fund; and
  - Highway Users Tax Fund;
- Expand the number of funds subject to annual appropriation by the General Assembly to include:
  - The Old Age Pension Fund;
  - The Old Age Pension Health and Medical Care Fund;

  - The Fire and Police Pension Association payments;
  - The Cigarette tax distributions to local governments;
  - The Property Tax Assistance Grants for the Elderly and Disabled;
  - The Aviation Fund;
  - The Displaced Homemakers Fund;
  - The Elected state officials discretionary funds;
  - The Highway Crossing Protection Fund; and
  - Allocations of the cities' and counties' share of the Highway Users Tax Fund.
- Establish procedures for the General Assembly to follow in budgeting for the institutions in Higher Education including limiting the amount of tuition and other fee income that each Governing Board may raise in any fiscal year; and
- Grant the General Assembly authority to limit total expenditures from the state highway fund administered by the Transportation Commission.

Senate Bill 94-073 also provides a comprehensive listing of criteria for determining which cash funds are exempt from the TABOR spending limitations. These include the following:

1. Gifts and donations, including the accrued interest. A gift is defined as something of value that is given to the State voluntarily by any person or entity, regardless of whether the person or entity specifies the purpose for which it is to be used. Examples of gifts would include: voluntary contributions of state income tax refunds, tax check-offs, grants from foundations, sponsored research in Higher Education, and patient revenues.
2. Refunds of excess state revenues made in current or subsequent fiscal years.
3. Federal funds including interest on federal funds.
4. Collections for another government, i.e. Assistance Payment Intercept. This refers to tax revenues collected by the State for the benefit and use of any government other than the State. These revenues would be passed through to that government.
5. Pension contributions from employees to the retirement plan.
6. Pension fund earnings from the investment of moneys set aside for retirement income for state employees.
7. Reserve transfers or expenditures out of a reserve.
8. Damage awards, including interest on damage awards. Damage award means any pecuniary (payment of money) compensation received by the State as a result of a judgment in favor of the State for any loss, detriment, or injury through unlawful act or omission or negligence of any person or entity.
9. Property sales, including interest. Property sales are defined as the transfer of absolute ownership of tangible assets, intangible rights, or any contract resulting in the payment of pecuniary compensation to the State for another to exploit, use, or

market nonrenewable natural resources located on real property owned by the State. This includes royalties from the sale of nonrenewable minerals.

What are the relevant constitutional and statutory citations?

TABOR

- Article X, Section 20, Colorado Constitution.
- Implementation details —
  - Definition of terms: Section 24-77-102, C.R.S.
  - Determination of population growth: Section 24-77-103(2), C.R.S.
  - Declaration of Emergency: Section 24-77-104(3)(a), C.R.S.
  - Executive order proclaiming disaster: Section 24-32-2104(4), C.R.S.
  - See also cross-references at the end of Article X, Section 20.

Amendment 23

- Article IX, Section 17, Colorado Constitution.

Arveschoug-Bird appropriation growth limit

- Section 24-75-201.1 (1), C.R.S.
- General Fund transfers excluded from the Arveschoug-Bird limit —
  - Capital Construction Fund: Section 24-75-302(2), C.R.S.
  - Controlled Maintenance Trust Fund: Section 24-75-201.1(1)(c.5)(II), C.R.S.

Diversions from General Fund revenues

- Highway Users Tax Fund: Section 39-26-123(2), C.R.S.
  - Receives 10.34 percent from state sales and use taxes.
- State Education Fund: Article IX, Section 17 (4), Colorado Constitution.
  - Receives 0.00333 percent of federal taxable income
- Older Coloradans Program: Section 26-11-205.5.
  - Receives monies appropriated by the General Assembly.

Colorado Constitution, Article X, Section 20: The Taxpayer's Bill of Rights.

(1) General provisions. This section takes effect December 31, 1992 or as stated. Its preferred interpretation shall reasonably restrain most the growth of government. All provisions are self-executing and severable and supersede conflicting state constitutional, state statutory, charter, or other state or local provisions. Other limits on district revenue, spending, and debt may be weakened only by future voter approval. Individual or class action enforcement suits may be filed and shall have the highest civil priority of resolution. Successful plaintiffs are allowed costs and reasonable attorney fees, but a district is not unless a suit against it be ruled frivolous. Revenue collected, kept, or spent illegally since four full fiscal years before a suit is filed shall be refunded with 10% annual simple interest from the initial conduct. Subject to judicial review, districts may use any reasonable method for refunds under this section, including temporary tax credits or rate reductions. Refunds need not be proportional when prior payments are impractical to identify or return. When annual district revenue is less than annual payments on general obligation bonds, pensions, and final court judgments, (4) (a) and (7) shall be suspended to provide for the deficiency.

(2) Term definitions. Within this section:

(a) "Ballot issue" means a non-recall petition or referred measure in an election.

(b) "District" means the state or any local government, excluding enterprises.

(c) "Emergency" excludes economic conditions, revenue shortfalls, or district salary or fringe benefit increases.

(d) "Enterprise" means a government-owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined.

(e) "Fiscal year spending" means all district expenditures and reserve increases except, as to both, those for refunds made in the current or next fiscal year or those from gifts, federal funds, collections for another government, pension contributions by employees and pension fund earnings, reserve transfers or expenditures, damage awards, or property sales.

(f) "Inflation" means the percentage change in the United States Bureau of Labor Statistics Consumer Price Index for Denver-Boulder, all items, all urban consumers, or its successor index.

(g) "Local growth" for a non-school district means a net percentage change in actual value of all real property in a district from construction of taxable real property improvements, minus destruction of similar improvements, and additions to, minus deletions from, taxable real property. For a school district, it means the percentage change in its student enrollment.

(3) Election provisions.

(a) Ballot issues shall be decided in a state general election, biennial local district election, or on the first Tuesday in November of odd-numbered years. Except for petitions, bonded debt, or charter or constitutional provisions, districts may consolidate ballot issues and voters may approve a delay of up to four years in voting on ballot issues. District actions taken during such a delay shall not extend beyond that period.

(b) At least 30 days before a ballot issue election, districts shall mail at the least cost, and as a package where districts with ballot issues overlap, a titled notice or set of notices addressed to "All Registered Voters" at each address of one or more active registered electors. The districts may coordinate the mailing required by this paragraph (b) with the distribution of the ballot information booklet required by section 1 (7.5) of article V of this constitution in order to save mailing costs. Titles shall have this order of preference: **"NOTICE OF ELECTION TO INCREASE TAXES/TO INCREASE DEBT/ON A CITIZEN PETITION/ON A REFERRED MEASURE."** Except for district voter-approved additions, notices shall include only:

(i) The election date, hours, ballot title, text, and local election office address and telephone number.

(ii) For proposed district tax or bonded debt increases, the estimated or actual total of district fiscal year spending for the current year and each of the past four years, and the overall percentage and dollar change.

(iii) For the first full fiscal year of each proposed district tax increase, district estimates of the maximum dollar amount of each increase and of district fiscal year spending without the increase.

(iv) For proposed district bonded debt, its principal amount and maximum annual and total district repayment cost, and the principal balance of total current district bonded debt and its maximum annual and remaining total district repayment cost.

(v) Two summaries, up to 500 words each, one for and one against the proposal, of written comments filed with the election officer by 45 days before the election. No summary shall mention names of persons or private groups, nor any endorsements of or resolutions against the proposal. Petition representatives following these rules shall write this summary for their petition. The election officer shall maintain and accurately summarize all other relevant written comments. The provisions of this subparagraph (v) do not apply to a statewide ballot issue, which is subject to the provisions of section 1 (7.5) of article V of this constitution.

(c) Except by later voter approval, if a tax increase or fiscal year spending exceeds any estimate in (b) (iii) for the same fiscal year, the tax increase is thereafter reduced up to 100% in proportion to the combined dollar excess, and the combined excess revenue refunded in the next fiscal year. District bonded debt shall not issue on terms that could exceed its share of its maximum repayment costs in (b) (iv). Ballot titles for tax or bonded debt increases shall begin, **"SHALL (DISTRICT) TAXES BE INCREASED (first, or if phased in, final, full fiscal year dollar increase) ANNUALLY...?" or "SHALL (DISTRICT) DEBT BE INCREASED (principal amount), WITH A REPAYMENT COST OF (maximum total district cost)…?"**

(4) Required elections. Starting November 4, 1992, districts must have voter approval in advance for:

(a) Unless (1) or (6) applies, any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.

(b) Except for refinancing district bonded debt at a lower interest rate or adding new employees to existing district pension plans, creation of any multiple-fiscal year direct or indirect district debt or other financial obligation whatsoever without adequate present cash reserves pledged irrevocably and held for payments in all future fiscal years.

(5) Emergency reserves. To use for declared emergencies only, each district shall reserve for 1993 1% or more, for 1994 2% or more, and for all later years 3% or more of its fiscal year spending excluding bonded debt service. Unused reserves apply to the next year's reserve.

(6) Emergency taxes. This subsection grants no new taxing power. Emergency property taxes are prohibited. Emergency tax revenue is excluded for purposes of (3) (c) and (7), even if later ratified by voters. Emergency taxes shall also meet all of the following conditions:

(a) A 2/3 majority of the members of each house of the general assembly or of a local district board declares the emergency and imposes the tax by separate recorded roll call votes.

(b) Emergency tax revenue shall be spent only after emergency reserves are depleted, and shall be refunded within 180 days after the emergency ends if not spent on the emergency.

(c) A tax not approved on the next election date 60 days or more after the declaration shall end with that election month.

(7) Spending limits. (a) The maximum annual percentage change in state fiscal year spending equals inflation plus the percentage change in state population in the prior calendar year, adjusted for revenue changes approved by voters after 1991. Population shall be determined by annual federal census estimates and such number shall be adjusted every decade to match the federal census.

(b) The maximum annual percentage change in each local district's fiscal year spending equals inflation in the prior calendar year plus annual local growth, adjusted for revenue changes approved by voters after 1991 and (8) (b) and (9) reductions.

(c) The maximum annual percentage change in each district's property tax revenue equals inflation in the prior calendar year plus annual local growth, adjusted for property tax revenue changes approved by voters after 1991 and (8) (b) and (9) reductions.

(d) If revenue from sources not excluded from fiscal year spending exceeds these limits in dollars for that fiscal year, the excess shall be refunded in the next fiscal year unless voters approve a revenue change as an offset. Initial district bases are current fiscal year spending and 1991 property tax collected in 1992. Qualification or disqualification as an enterprise shall change district bases and future year limits. Future creation of district bonded debt shall increase, and retiring or refinancing district bonded debt shall lower, fiscal year spending and property tax revenue by the annual debt service so funded. Debt service changes, reductions, (1) and (3) (c) refunds, and voter-approved revenue changes are dollar amounts that are exceptions to, and not part of, any district base. Voter-approved revenue changes do not require a tax rate change.

(8) Revenue limits. (a) New or increased transfer tax rates on real property are prohibited. No new state real property tax or local district income tax shall be imposed. Neither an income tax rate increase nor a new state definition of taxable income shall apply before the next tax year. Any income tax law change after July 1, 1992 shall also require all taxable net income to be taxed at one rate, excluding refund tax credits or voter-approved tax credits, with no added tax or surcharge.

(b) Each district may enact cumulative uniform exemptions and credits to reduce or end business personal property taxes.

(c) Regardless of reassessment frequency, valuation notices shall be mailed annually and may be appealed annually, with no presumption in favor of any pending valuation. Past or future sales by a lender or government shall also be considered as comparable market sales and their sales prices kept as public records. Actual value shall be stated on all property tax bills and valuation notices and, for residential real property, determined solely by the market approach to appraisal.

(9) State mandates. Except for public education through grade 12 or as required of a local district by federal law, a local district may reduce or end its subsidy to any program delegated to it by the general assembly for administration. For current programs, the state may require 90 days notice and that the adjustment occur in a maximum of three equal annual installments.

Source: Initiated 92: Entire section added, effective December 31, 1992, see **L. 93,** p. 2165. **L. 94:** (3)(b)(v) amended, p. 2851, effective upon proclamation of the Governor, **L. 95,** p. 1430, January 19, 1995. **L. 96:** IP(3)(b) and (3)(b)(v) amended, p. 1425, effective upon proclamation of the Governor, **L. 97,** p. 2393, December 26, 1996.

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The TABOR Surplus and TABOR Refund Mechanisms

Summary

- The TABOR provision of the constitution limits the state's revenue growth in a given fiscal year to the sum of inflation plus population growth in the preceding calendar year.
- State taxes comprise 82 percent of TABOR revenues. Colorado residents pay 71 percent of state taxes, businesses pay 27 percent, and nonresidents pay two percent.
- Policymakers have concentrated on returning the TABOR surplus to those who have contributed to it. Income taxes (both individual and corporate) account for 68.7 percent of the FY 2000-01 TABOR surplus.
- Current law specifies 24 refund mechanisms that determine how the surplus TABOR revenues are refunded to taxpayers each year.
- On average, individual tax payers received a $202 sales tax refund from the FY 2000-01 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. The state first exceeded the TABOR limit in FY 1996-97. In FY 1999-00 and FY 2000-01 the TABOR surplus was over $900 million.

This report describes the sources of surplus TABOR revenues in FY 2000-01 — the most recent year with a surplus — and the refund mechanisms used to return these revenues to taxpayers. The details of TABOR are discussed in the Governor's Office of State Planning and Budgeting (OSPB) Special Report titled "TABOR — The Taxpayer's Bill of Rights." (To download, see http://www.state.co.us/ospb).

What is the TABOR limit?

The TABOR provision of the constitution limits the state's revenue growth in a given fiscal year to the sum of inflation plus population growth in the preceding calendar year. For example, the FY 2000-01 TABOR limit was 5.1 percent, which is the sum of calendar year 1999 inflation (2.9 percent) plus population growth (2.2 percent).

The TABOR provision of the constitution limits the state's revenue growth in a given fiscal year to the sum of inflation and population growth in the preceding calendar year.

It is important to note that although TABOR is widely thought to be a spending limit, it is actually a revenue limit. The limit applies to most state revenues, from both

General Fund and cash fund sources. There are a few exclusions to the growth restriction; for example, revenue received from the federal government is exempt. In addition, local governments have TABOR growth limits that differ from the state's limit. School districts face a TABOR limit tied to inflation plus student enrollment growth, while other local governments are restricted to inflation plus a measure of actual value growth attributed to new construction. Any revenues received in excess of the TABOR limit must be refunded in the next fiscal year unless voters allow the state to retain the revenue.

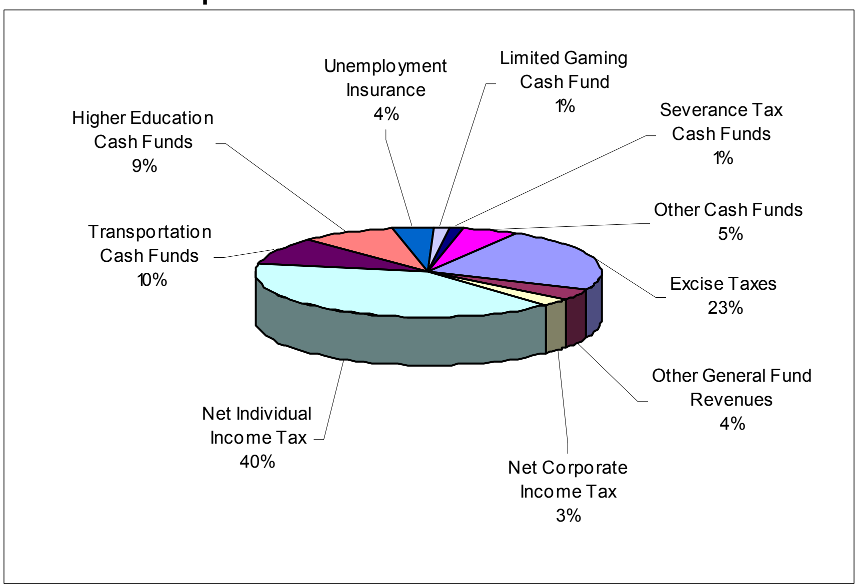
What are TABOR revenues?

TABOR revenues include most General Fund and cash fund revenues collected by the state. In FY 2003-04, General Fund revenues accounted for 69 percent of total TABOR revenues and cash fund revenues accounted for 31 percent. Individual income tax and sales tax receipts are the largest General Fund sources of TABOR revenues. The largest cash fund revenue sources are transportation taxes and fees, higher education tuition, and unemployment insurance taxes.

Figure 6 shows the major sources of TABOR revenues in FY 2003-04.

Figure 6

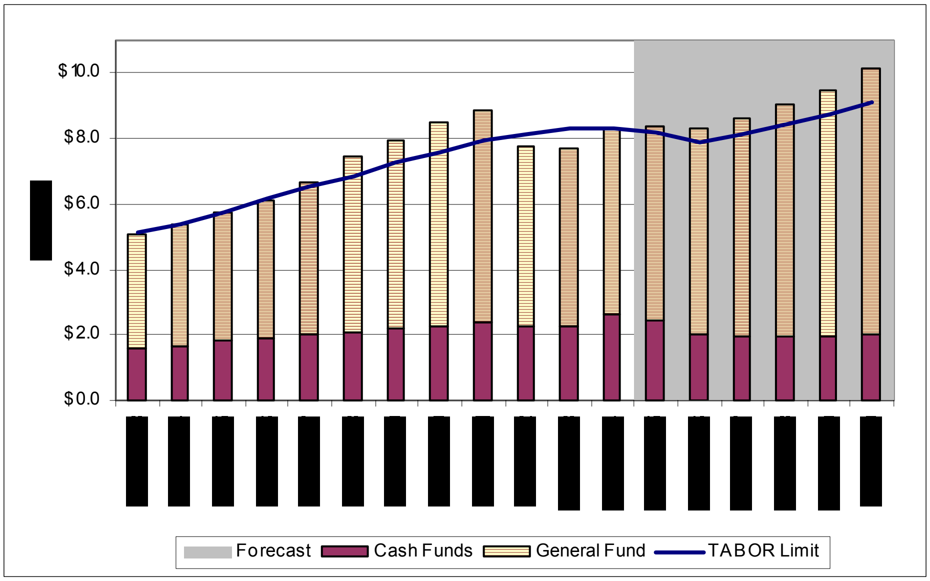
Components of FY 2003-04 TABOR Revenues



The OSPB economic forecast for the next six years calls for a strengthening state economy.

Figure 7 displays total TABOR revenues from FY 1992-93 through FY 2003-04 and the December 2004 OSPB forecast for TABOR revenues from FY 2004-05 through FY 2009-10. The Colorado economy was negatively affected by the national recession and the events of September 11, 2001 and, as a result, TABOR revenues declined in FY 2001-02 and FY 2002-03. The OSPB economic forecast for the next six years calls for a strengthening state economy, albeit with slower TABOR revenue growth than the pace witnessed during in the late 1990s.

Figure 7
Total TABOR Revenues



Source: December 2004 OSPB forecast.

Who pays TABOR revenues?

State taxes comprise 82 percent of TABOR revenues. Colorado residents pay 71 percent of state taxes, businesses pay 27 percent, and nonresidents pay two percent (***Table 16***). Resident individuals pay 92 percent of state income taxes and 61 percent of sales and use taxes. Businesses pay eight percent of income taxes and 35 percent of sales and use taxes. Meanwhile, non-residents — primarily tourists — pay five percent of sales and use taxes. The remaining 18 percent of TABOR revenues are not taxes. They are user fees for both individuals and businesses, including higher education tuition, vehicle registrations, and fees for professional licenses.

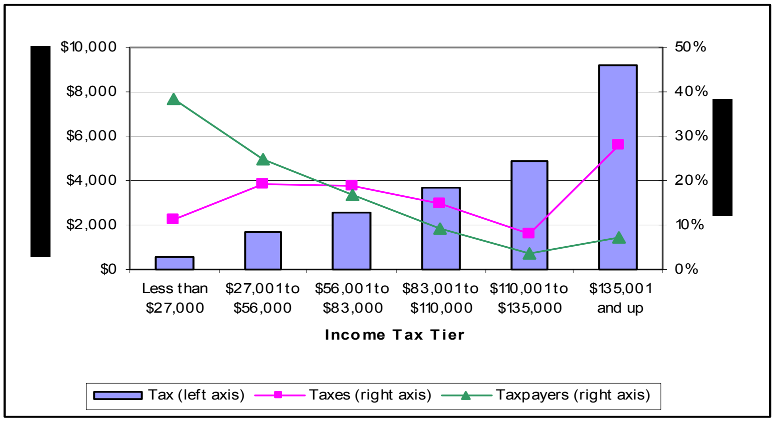
Table 16
Who Pays State Taxes?

Share Paid By:	Total State Taxes	Income Taxes	Sales and Use Taxes
Residents	70.9%	91.9%	60.5%
Businesses	26.7%	7.7%	34.6%
Nonresidents	2.4%	0.5%	4.8%

Source: Colorado Department of Revenue, Tax Analysis Division

On average, Colorado residents pay less than five percent of their income in state taxes. The higher income group pays the bulk of state taxes (***Figure 8***). In total, 28 percent of total state taxes are paid by the seven percent of the population with incomes above $135,000, while the 38 percent of Colorado taxpayers who earn $27,000 or less pay only 11 percent of total state taxes.

Figure 8
Share Of State Taxes Paid By Income Level



Source: Colorado Department of Revenue, Tax Analysis Division

What is the TABOR surplus?

The TABOR surplus is the amount by which revenues exceed the TABOR limit.

The TABOR surplus is the amount by which TABOR revenues exceed the TABOR limit. All surplus revenues received in excess of the TABOR limit must be refunded in the next fiscal year unless voters allow the state to retain the revenue. ***Table 17*** shows the amount of the TABOR surplus from FY 1992-93 through FY 2003-04 and the December 2004 OSPB forecast for the TABOR surplus from FY 2004-05 through FY 2009-10. The table shows the TABOR limit, expressed as both a dollar amount and as a change from the previous year's limit. It also shows TABOR revenues and the amount by which they changed.

Table 17
TABOR Revenues, Limits, and Surpluses

Fiscal Year	TABOR Limit(1) Amount (Millions)	TABOR Limit(1) Change (%)	Net TABOR Revenues(1,2) Total (Millions)	Net TABOR Revenues(1,2) Change (%)	Revenues Above (Below) Limit (Millions)
1992-93	$5,109.9	NA	$5,057.0	NA	NA
1993-94	5,401.2	6.5	5,385.7	6.5	($15.5)
1994-95	5,769.4	7.1	5,757.3	6.9	(12.1)
1995-96	6,160.3	7.0	6,124.3	6.4	(36.0)
1996-97	6,508.6	6.6	6,647.6	8.5	139.0
1997-98	6,872.0	5.5	7,435.2	14.2	563.2
1998-99	7,243.4	5.3	7,923.0	15.3	679.6
1999-00	7,563.7	4.4	8,503.0	17.4	941.1
2000-01	7,948.6	5.1	8,877.1	17.4	927.2
2001-02(3)	8,126.2	4.0	7,752.2	(2.5)	(365.7)
2002-03(3)	8,296.8	6.9	7,712.5	(0.5)	(584.3)
2003-04(3)	8,332.0	8.5	8,332.0	8.5	0.0
2004-05(4)	8,204.1	3.3	8,354.9	5.2	150.8
2005-06(4)	7,908.1	1.2	8,299.7	6.2	391.6
2006-07(4)	8,145.4	3.0	8,637.7	9.2	492.3
2007-08(4)	8,406.0	3.2	9,045.1	11.0	639.0
2008-09(4)	8,733.9	3.9	9,493.2	12.9	759.4
2009-10(4)	9,092.0	4.1	10,139.0	16.1	1,047.0

NA: Not Available.

(1) TABOR limits are periodically adjusted for changes to the TABOR revenue base. Because of this, the amounts and changes shown here do not necessarily correspond arithmetically.

(2) Net TABOR revenues exclude amounts credited to the State Education Fund per Amendment 23 and other revenues that are exempt from TABOR. Change in revenue is from the previous year's TABOR limit.

(3) The TABOR limit is computed from the lesser of the previous year's TABOR revenues and TABOR limit.

(4) December 2004 OSPB forecast.

Why is there a TABOR surplus in most years?

As shown in ***Table 18***, state revenue growth exceeds the sum of inflation plus population growth in most years. This is primarily because a large portion (42 percent) of the state's revenue is attributable to the individual income tax and individual income taxes inherently grow faster than personal income. Meanwhile, personal income will almost always grow faster than the sum of inflation plus population growth because it includes a component that rewards people for their efficiency and experience. Productivity increases are reflected in personal income growth and over the past decade, productivity has increased at a fast rate, largely due to technological advances.

State revenue growth exceeds the sum of inflation plus population growth in most years.

Table 18
The Allowed TABOR Growth Rate, Change in TABOR Revenues, and Change in Gross General Fund and Individual Income Tax Revenues

Fiscal Year	Population Growth (%)	Inflation (%)	Growth Dividend (%)	Allowed TABOR Growth Rate (%)	Net TABOR Revenue Change(1) (%)	Cash Fund Revenue Change (%)	Gross General Fund Revenue Change (%)	Individual Income Tax Change (%)
1981-82	2.0	12.0	NA	14.0	17.1	15.0	18.0	29.5
1982-83	2.5	11.2	NA	13.7	5.2	10.5	2.9	13.3
1983-84	2.8	9.1	NA	11.9	23.3	29.9	20.2	13.2
1984-85	2.4	5.6	NA	8.0	7.7	12.7	5.2	15.7
1985-86	1.0	3.8	NA	4.8	3.1	0.3	4.6	5.6
1986-87	1.2	2.6	NA	3.8	8.3	13.6	5.6	11.2
1987-88	0.9	0.7	NA	1.6	4.9	5.7	4.5	10.5
1988-89	0.7	2.7	NA	3.4	6.6	3.0	8.7	9.7
1989-90	0.1	2.7	NA	2.8	5.2	7.6	4.0	5.3
1990-91	0.4	1.8	NA	2.2	2.9	2.4	3.1	5.9
1991-92	0.9	4.4	NA	5.3	10.2	6.2	12.4	10.0
1992-93	1.9	3.8	NA	5.7	11.4	3.3	15.6	9.4
1993-94	2.7	3.7	NA	6.5	6.5	3.3	8.0	9.1
1994-95	2.9	4.2	NA	7.1	6.9	9.3	5.8	9.7
1995-96	2.6	4.4	NA	7.0	6.4	4.3	7.3	10.1
1996-97	2.3	4.3	NA	6.6	8.5	7.0	9.7	11.0
1997-98	2.0	3.5	NA	5.5	11.8	4.0	15.4	18.6
1998-99	2.1	3.3	NA	5.4	6.6	4.3	7.3	9.0
1999-00	2.0	2.4	NA	4.4	7.3	3.2	8.8	11.8
2000-01(2)	2.2	2.9	NA	5.1	4.4	5.8	6.6	8.1
2001-02	6.0	4.0	NA	10.0	(12.7)	2.0	(13.0)	(16.7)
2002-03	2.2	4.7	0.0	6.9	(0.5)	2.7	(3.1)	(6.7)
2003-04	1.7	1.9	4.9	8.5	8.5	12.5	6.7	10.5
2004-05(3)	1.1	1.1	1.1	3.3	0.3	5.4	3.8	4.1
2005-06(3)	1.1	0.1	0.0	1.2	(0.7)	0.1	5.5	6.1
2006-07(3)	1.2	1.8	0.0	3.0	4.1	(4.5)	6.9	7.3
2007-08(3)	1.3	1.9	0.0	3.2	4.7	(0.5)	6.2	6.5
2008-09(3)	1.5	2.4	0.0	3.9	5.0	1.5	5.9	6.2
2009-10(3)	1.5	2.6	0.0	4.1	6.8	4.3	7.4	6.2
Average(4)	**2.0**	**4.3**	**na**	**6.5**	**6.9**	**7.4**	**7.1**	**9.3**

NA: Not Applicable
(1) Net TABOR revenues exclude amounts credited to the State Education Fund per Amendment 23 and other revenues that are exempt from TABOR. Change in net TABOR revenues is the arithmetic change without adjustments to the TABOR revenue base. It is not the change from the previous year's TABOR limit as shown in Table 17.
(2) TABOR revenues and income tax revenue growth is lower in FY 2000-01 due to the income tax rate reductions imposed by H.B. 99-1207 and H.B. 00-1103.
(3) December 2004 OSPB forecast.
(4) Average computed from FY 1981-82 through FY 2003-04.

Colorado's income tax structure is progressive because the amount of deductions and personal exemptions is fixed.

Individual income taxes grow faster than personal income because of the state's progressive tax structure. Even though the state has a flat income tax rate of 4.63 percent, Colorado's income tax structure is progressive because the amount of deductions and personal exemptions is fixed. These deductions and exemptions are a larger share of income for low-income households than for high-income households, thus producing a progressive tax system.
Another reason that overall personal income growth is generally lower than individual income tax growth is that capital gains income is not a component of personal income. However, it is an important contributor to individual income tax receipts in recent years. Capital gains income accounted for an estimated 9.6 percent of income tax receipts in 1998, double the share of only a few years earlier. However, by the 2001 tax year the share had fallen back to 6.3 percent.

Note that Table 18 does not permit us to determine how many times there would have been a TABOR surplus since FY 1981-82. This is because the TABOR limit is actually a cumulative limit with base year FY 1992-93. After FY 1992-93, the important measure is how much revenues grow compared with the previous year's TABOR limit, not how much they increase compared with the previous year's TABOR revenues as shown in Table 18. If FY 1980-81 had been the base year and the TABOR limit had been allowed to grow from the previous year's TABOR spending (the minimum of the previous year's limit and revenues), then TABOR revenues would have exceeded the TABOR limit every year from FY 1983-84 through the forecast horizon, a span of 27 years. Indeed, in FY 2001-02 TABOR revenues would have been $950 million more than the TABOR limit computed using the 10 percent TABOR limit resulting from the 2000 Census.

Slow cash fund revenue growth from FY 1993-94 through FY 2000-01 meant there was an additional $177 million that could be obligated from the General Fund without violating the TABOR revenue limit.

Note also that cash fund revenues are included in the TABOR revenue limit and are part of the base upon which future limits are computed. Between FY 1993-94 and FY 2000-01, cash fund revenues, which contribute about one-third of total TABOR revenues, grew by less than the TABOR limit in most years. Indeed, between FY 1993-94 and FY 2000-01, annual cash fund revenue growth averaged only 5.1 percent per year while the TABOR revenue growth limit averaged 7.3 percent. Since cash fund revenues were growing slower than the TABOR limit, General Fund revenues — and obligations — could grow faster than the TABOR limit. Indeed, slow cash fund revenue growth from FY 1993-94 through FY 2000-01 meant there was an additional $177 million that could be obligated from the General Fund without violating the TABOR revenue limit.

The 2001-2002 economic downturn resulted in cash fund revenue growth that is substantially faster than the TABOR limit. Indeed, during and immediately after the 2001 recession, revenue growth for some of the major cash funds accelerated, even as General Fund revenues declined. For example, unemployment insurance tax revenues — a large contributor to total cash fund revenues — are automatically climbing (as they are designed to do) in order to compensate for rising unemployment insurance benefit payments. In addition, higher education tuition payments — another large source of total cash fund revenues — are also growing much faster than the TABOR limit. Tuition payments increased because student enrollment soared as a consequence of the tight labor market and because tuition rates were raised to compensate for reduced General Fund appropriations for higher education. However, even with rising cash fund revenues, the state was well below the TABOR limit in FY 2001-02 and FY 2002-03.

Why did the TABOR surplus disappear?

After logging surplus TABOR revenues for five years, the TABOR surplus vanished in FY 2001-02 and remains absent through FY 2003-04. Indeed, FY 2002-03 TABOR revenues were lower than the TABOR limit by $584.3 million. We do not expect the TABOR surplus to reappear until FY 2004-05. The TABOR surplus disappeared for three reasons.

- First, a national recession began in March 2001, after an unprecedented 10 years of economic expansion. The ***Colorado economy*** was negatively affected by the national recession and the events of September 11, 2001. As a result, state revenues decreased in FY 2001-02 and FY 2002-03. Although a recovery in the national economy is underway, strong growth in Colorado will not be evident until late 2004.
- Second, a ***measure passed by voters*** in the November 2000 election lowered TABOR revenues each year by at least $250 million. *Amendment 23*, which provides increased public school funding, exempts about 7.2 percent of income tax 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*** and is equal to six percent. The state will use this growth dividend in FY 2003-04 and FY 2004-05. The full six percent growth dividend is applied to the TABOR limit by FY 2004-05. The growth dividend acts to eliminate the TABOR surplus in FY 2003-04 and to reduce the TABOR surplus in FY 2004-05. This adjustment allows the state to keep an additional $2.9 billion through the forecast horizon.

Legislation enacted through House Bill 02-1310 and Senate Bill 02-179 enables the state to recoup revenues.

In FY 2004-05, the TABOR surplus reappears, totaling $150.8 million. From FY 2005-06 through the forecast horizon, we expect the TABOR surplus to range between $390 million and $1,050 million.

What are the revenue sources of the FY 2000-01 TABOR surplus?

In the course of determining how to refund the surplus TABOR revenues, policymakers have concentrated on returning the excess to those who have contributed to it. We have estimated the respective contributions to the surplus TABOR revenues and the types of taxpayers who pay these revenues (individuals, businesses, and nonresidents). This section presents these figures for FY 2000-01, the year of the most recent TABOR surplus.

Figure 9 shows the estimated contribution to the surplus TABOR revenues in FY 2000-01 by major revenue source. Figure 9 differs from

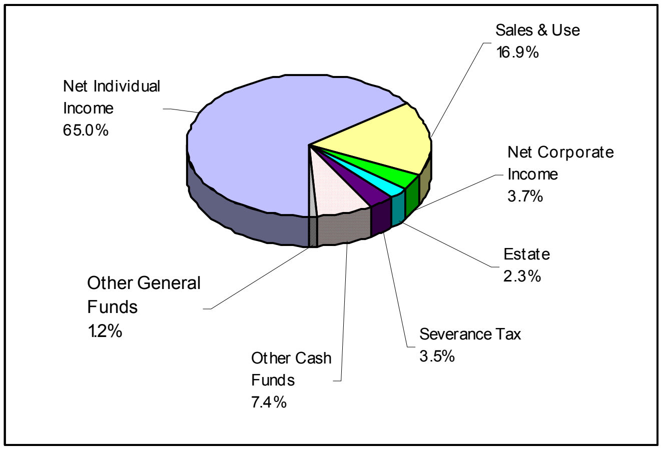
Figure 6 in that Figure 9 only shows TABOR revenue sources that grew faster than the TABOR limit and thus, that caused there to be a TABOR surplus, whereas

Figure 6 shows the sources of all TABOR revenues. The largest contributors to the TABOR surplus in FY 2000-01 were individual income taxes (65.0 percent), followed by sales and use taxes (16.9 percent), and other cash funds (7.4 percent).

Altogether, income taxes (both individual and corporate) accounted for 68.7 percent of the surplus.

Altogether, income taxes (both individual and corporate) accounted for 68.7 percent of the surplus.

Figure 9
Sources of TABOR Surplus, FY 2000-01



. . . 80 percent of the FY 2000-01 surplus TABOR revenues came from individuals . . .

Did the FY 2000-01 TABOR surplus revenues come from individuals or businesses?

We estimate that 80 percent of the FY 2000-01 surplus TABOR revenues came from individuals, 17 percent from businesses, and three percent from nonresidents. This contrasts with FY 1996-97, when individuals contributed two-thirds of the TABOR surplus versus one-third for businesses. The primary reason for the large share of surplus revenues derived from individuals is the strong growth in individual income taxes.

How was the FY 2000-01 surplus TABOR revenue refunded?

This section provides a brief description of each of the 24 refund mechanisms passed during the 1999, 2000, 2001, and 2002 legislative sessions. These refund mechanisms determine how the surplus TABOR revenues are refunded to taxpayers each year. A threshold is specified for each refund mechanisms except for the six-tier sales tax refund mechanism established by House Bill 99-1001. The threshold indicates the smallest TABOR surplus that must exist for a given refund mechanism to be in effect. Since the FY 2000-01 TABOR surplus — $927.2 million — was larger than the highest threshold, all of the refund mechanisms were in effect when the surplus was refunded in FY 2001-02. The six-tier sales tax refund mechanism is used to refund the TABOR surplus amount not refunded through the other TABOR refund mechanisms.

Table 19 displays the six-tiered refund structure for the FY 2001-02 sales tax refund. Taxpayers in the lowest income tier (those earning less than $27,001) received a $144 refund in FY 2001-02, while those in the highest income tier ($135,001 and up) received $451 in FY 2001-02. Individuals claimed the refund on their 2001 state income tax returns filed in 2002. Individuals without a tax liability could submit a state income tax return to receive the refund.

Table 19
Average FY 2001-02 Sales Tax Refund by Income Tier

	From:	To:	FY 2000-01 Average Refunded in FY 2001-02 Single Filer	FY 2000-01 Average Refunded in FY 2001-02 Joint Filer
First Tier	Less than	$27,001	$144	$288
Second Tier	$27,001	$56,000	$187	$374
Third Tier	$56,001	$83,000	$220	$440
Fourth Tier	$83,001	$110,000	$252	$504
Fifth Tier	$110,001	$135,000	$283	$566
Sixth Tier	$135,001	and up	$451	$902
Average Per Taxpayer			$202	$405

The refund thresholds for the targeted mechanisms are adjusted each year by state personal income growth. For the TABOR surplus that occurred in FY 2000-01, the threshold amounts ranged from $54.0 million to $430.0 million. In FY 2004-05, when we forecast that the state will next have a TABOR surplus, the thresholds will range between $63.4 million and $505.0 million. However, the December 2004 OSPB forecast is for a small TABOR surplus in FY 2004-05 that is less than the lowest threshold. Because the TABOR surplus is forecast to be small in FY 2004-05, only the six-tier sales tax refund mechanism will be operative.

Table 20 shows the December 2004 OSPB forecast threshold amounts in FY 2004-05 and FY 2005-06 and the amounts of the FY 2004-05 and FY 2005-06 surpluses that will be paid through each refund mechanism. Monies not refunded to taxpayers through the targeted TABOR refund mechanisms are refunded through the six-tier sales tax refund, House Bill 99-1001. Individual taxpayers on average received a sales tax refund from the FY 2000-01 surplus of $202 in April 2002. This refund is in addition to the tax relief provided by the income and sales tax rate reductions, credits, and exclusions. When combined with permanent tax relief, on average an individual received $433 of tax relief in FY 2001-02 and a married couple received $866.

House Bill 99-1383 creates an earned income tax credit for Colorado taxpayers.

1. **1999 earned income tax credit** — House Bill 99-1383 creates an earned income tax credit for Colorado taxpayers claiming the federal earned income tax credit. The amount of the credit is equal to 8.5 percent of the federal earned income tax credit claimed on the individual's federal tax return.

   FY 2004-05 TABOR surplus threshold: $63.4 million
   Amount refunded in FY 2005-06: See H.B. 00-1049
   FY 2005-06 TABOR surplus threshold: $67.0 million
   Amount refunded in FY 2006-07: See H.B. 00-1049

2. **Make earned income tax credit permanent** — House Bill 00-1049 is an expansion of the 1999 earned income tax credit (House Bill 99-1383). The 2000 bill expands the income tax credit to 10.0 percent from 8.5 percent of the federal tax credit.

   FY 2004-05 TABOR surplus threshold: $63.4 million
   Amount refunded in FY 2005-06: $35.5 million
   FY 2005-06 TABOR surplus threshold: $67.0 million
   Amount refunded in FY 2006-07: $36.2 million

Table 20
TABOR Refund Mechanisms
(Dollar Amounts in Millions)

		FY 2004-05 Surplus(1)		FY 2005-06 Surplus(1)	
		Thresholds (Millions)	Amounts Refunded in FY 2005-06	Thresholds (Millions)	Amounts Refunded in FY 2006-07
Total TABOR Refund:			$150.8 million		$391.6 million
Refund Mechanism In Order of Threshold Amounts:					
H.B. 99-1383	1999 Earned Income Tax Credit	$63.4	See H.B. 00-1049	$67.0	See H.B. 00-1049
H.B. 00-1049	Make Earned Income Tax Credit Permanent	$63.4	$35.5 million	$67.0	$36.2 million
H.B. 01-1313	Income Tax Credit for Foster Parents	$213.6	$0.0	$225.6	$0.2 million
H.B. 99-1311	Business Personal Property Tax	$215.5	See H.B. 01-1287	$227.7	See H.B. 01-1287
H.B. 01-1287	Increase Business Personal Property Tax Credit	$215.5	$0.0	$227.7	$110.2 million
H.B. 00-1361	Individual Development Accounts	$223.1	$0.0	$235.7	less than $0.1 million
H.B. 99-1237	Colorado Capital Gains Modification	$329.6	$0.0	$348.2	$55.7 million
H.B. 00-1063	Income Tax Credit for Health Care Shortage Areas	$334.7	See H.B. 01-1257	$353.5	See H.B. 01-1257
H.B. 01-1257	Modified Health Care Shortage Area Tax Credit	$334.7	$0.0	$353.5	$0.2 million
H.B. 00-1351	Increase Child Care Tax Credits	$340.6	$0.0	$359.8	$28 million
H.B. 00-1052	Income Tax Credit for Contributions to the Institute for Telecommunication Education	$373.7	See H.B. 02-1059	$394.8	See H.B. 02-1059
H.B. 02-1059	Income Tax Credit for Contributions to the Institute for Telecommunication Education	$373.7	$0.0	$394.8	$0.0
H.B. 01-1081	Tangible Personal Property Used for Research and Development	$382.9	$0.0	$404.5	$0.0
H.B. 00-1227	Motor Vehicle Registration Fees	$387.6	$0.0	$409.5	$0.0
H.B. 00-1355	High Technology Scholarships	$387.6	$0.0	$409.5	$0.0
H.B. 00-1053	Income Tax Deduction for Charity	$410.9	$0.0	$434.1	$0.0
H.B. 99-1137	Income Tax Modification for Interest, Dividends, and Capital Gains	$410.9	See H.B. 00-1171	$434.1	See H.B. 00-1171
H.B. 00-1171	Income Tax Modification for Interest, Dividends, and Capital Gains	$410.9	$0.0	$434.1	$0.0
H.B. 00-1257	Pollution Control Provisions	$410.9	$0.0	$434.1	$0.0
H.B. 00-1259	Interstate Commerce Sales and Use Tax Exemption	$410.9	$0.0	$434.1	$0.0
H.B. 01-1086	Agriculture Value-Added Development Fund Program	$427.2	$0.0	$451.3	$0.0
H.B. 00-1104	Income Tax Credit for Cost of Health Benefits	$469.7	$0.0	$496.2	$0.0
H.B. 00-1209	Expand Colorado Capital Gains Modification	$505.0	$0.0	$533.5	$0.0
	Sales Tax Refund	Remaining	$115.3 million	Remaining	$161.0 million
	Average Sales Tax Refund Per Taxpayer (in actual dollars)		$39		$53

(1) December 2004 OSPB forecast.

3. **Income tax credit for foster parents** — House Bill 01-1313 allows an income tax credit for providing foster care to children less than 18 years of age. The credit is equal to $500 or 100 percent of the non-reimbursed expenses for providing foster care, whichever is less. The credit is nonrefundable, but can be carried forward.

   FY 2004-05 TABOR surplus threshold: $213.6 million
   Amount refunded in FY 2005-06: $0.0
   FY 2005-06 TABOR surplus threshold: $225.6 million
   Amount refunded in FY 2006-07: $0.2 million

House Bill 01-1313 allows an income tax credit for providing foster care to children.

4. **Business personal property tax credit** — House Bill 99-1311 allows a refund for a share of business personal property taxes paid to all jurisdictions. The amount of the refund is equal to the aggregate amount of business personal property tax paid to all jurisdictions or $500, whichever is less, plus 13.37 percent of the personal property tax paid that is over $500.

   FY 2004-05 TABOR surplus threshold: $215.5 million
   Amount refunded in FY 2005-06: See H.B. 01-1287
   FY 2005-06 TABOR surplus threshold: $227.7 million
   Amount refunded in FY 2006-07: See H.B. 01-1287

5. **Increase business personal property tax credit** — House Bill 01-1287 expands the business personal property tax credit provided by House Bill 99-1311 to equal 16 percent of business personal property tax paid plus the lesser of $409.80 or 81.96 percent of the aggregate amount paid.

   FY 2004-05 TABOR surplus threshold: $215.5 million
   Amount refunded in FY 2005-06: $0.0
   FY 2005-06 TABOR surplus threshold: $227.7 million
   Amount refunded in FY 2006-07: $110.2 million

6. **Individual development accounts** — House Bill 00-1361 permits the establishment of accounts, contributions to which are exempt from income taxation, for eligible individuals or dependents for funding of post-secondary education or training, for purchasing a first home, or for capitalizing a business. Contributors of matching funds for this program are eligible for a tax credit.

   FY 2004-05 TABOR surplus threshold: $223.1 million
   Amount refunded in FY 2005-06: $0.0
   FY 2005-06 TABOR surplus threshold: $235.7 million
   Amount refunded in FY 2006-07: less than $0.1 million

5. **Business personal property tax credit** — House Bill 99-1311 allows a refund for a share of business personal property taxes paid to all jurisdictions. The amount of the refund is equal to the aggregate amount of business personal property tax paid to all jurisdictions or $500, whichever is less, plus 13.37 percent of the personal property tax paid that is over $500.

   FY 2004-05 TABOR surplus threshold: $215.5 million
   Amount refunded in FY 2005-06: See H.B. 01-1287
   FY 2005-06 TABOR surplus threshold: $227.7 million
   Amount refunded in FY 2006-07: See H.B. 01-1287

6. **Business personal property tax credit** — House Bill 99-1311 allows a refund for a share of business personal property taxes paid to all jurisdictions. The amount of

the refund is equal to the aggregate amount of business personal property tax paid to all jurisdictions or $500, whichever is less, plus 13.37 percent of the personal property tax paid that is over $500.

FY 2004-05 TABOR surplus threshold: $215.5 million
Amount refunded in FY 2005-06: See H.B. 01-1287
FY 2005-06 TABOR surplus threshold: $227.7 million
Amount refunded in FY 2006-07: See H.B. 01-1287

7. **Increase business personal property tax credit** — House Bill 01-1287 expands the business personal property tax credit provided by House Bill 99-1311 to equal 16 percent of business personal property tax paid plus the lesser of $409.80 or 81.96 percent of the aggregate amount paid.

   FY 2004-05 TABOR surplus threshold: $215.5 million
   Amount refunded in FY 2005-06: $0.0
   FY 2005-06 TABOR surplus threshold: $227.7 million
   Amount refunded in FY 2006-07: $110.2 million

8. **Individual development accounts** — House Bill 00-1361 permits the establishment of accounts, contributions to which are exempt from income taxation, for eligible individuals or dependents for funding of post-secondary education or training, for purchasing a first home, or for capitalizing a business. Contributors of matching funds for this program are eligible for a tax credit.

   FY 2004-05 TABOR surplus threshold: $223.1 million
   Amount refunded in FY 2005-06: $0.0
   FY 2005-06 TABOR surplus threshold: $235.7 million
   Amount refunded in FY 2006-07: less than $0.1 million

9. **Colorado capital gains modification** — House Bill 99-1237 extends a modification of the capital gains exclusion to Colorado assets and property acquired before May 9, 1994. Previously, taxpayers were allowed to claim a modification for capital gains associated with the sale of Colorado-based property and assets that were acquired on or after May 9, 1994 and that were held for five years.

   FY 2004-05 TABOR surplus threshold: $329.6 million
   Amount refunded in FY 2005-06: $0.0
   FY 2005-06 TABOR surplus threshold: $348.2 million
   Amount refunded in FY 2006-07: $55.7 million

House Bill 00-1063 provides a temporary income tax credit for health care professionals who reside and practice in areas of Colorado that are understaffed.

10. **Income tax credit for health care shortage areas** — House Bill 00-1063 provides a temporary income tax credit for health care professionals who reside and practice in areas of Colorado that are understaffed. The tax credits are allowed from January 1, 2001 through January 1, 2005. The credit is equal to the taxpayer's income tax liability but is not allowed to exceed the taxpayer's student loan obligation.

    FY 2004-05 TABOR surplus threshold: $334.7 million
    Amount refunded in FY 2005-06: See H.B. 01-1257
    FY 2005-06 TABOR surplus threshold: $353.5 million
    Amount refunded in FY 2006-07: See H.B. 01-1257

11. **Modified health care shortage area tax credit** — House Bill 01-1257 increases the tax credit provided by House Bill 00-1063. This bill expands the definition

of a health care professional for purposes of the tax credit for practicing in a health care shortage area to include dentists. It also extends the credit to January 1, 2008.

FY 2004-05 TABOR surplus threshold: $334.7 million
Amount refunded in FY 2005-06: $0.0
FY 2005-06 TABOR surplus threshold: $353.5 million
Amount refunded in FY 2006-07: $0.2 million

12. **Increase child care tax credits** — House Bill 00-1351 changes the existing three-tiered state child care tax credit to a two-tiered tax credit and raises the amount of the child care tax credit that resident individuals can claim. The bill extends the maximum allowed federal adjusted gross income to $64,000 and increases the maximum child tax credit to $300 for each qualifying child or 70 percent of the amount of the federal credit for child care expenses claimed on the individual's federal tax return, whichever is larger. The bill also allows in-home child care providers to claim credits for their own children. Prior to the passage of this law, the credit was equal to the greater of $200 per child and 50 percent of the amount claimed on individuals' federal tax return if their federal adjusted gross income was less than or equal to $60,000.

House Bill 00-1351 . . . raises the amount of the child care tax credit that resident individuals can claim.

FY 2004-05 TABOR surplus threshold: $340.6 million
Amount refunded in FY 2005-06: $0.0
FY 2005-06 TABOR surplus threshold: $359.8 million
Amount refunded in FY 2006-07: $28 million

13. **Income tax credit for contributions to the institute for telecommunication education** — House Bill 00-1052 provides an income tax credit for 15 percent of monetary contributions made to the Colorado Institute for Telecommunication Education. This credit begins January 1, 2001 and cannot be carried forward or refunded.

FY 2004-05 TABOR surplus threshold: $373.7 million
Amount refunded in FY 2005-06: See H.B. 02-1059
FY 2005-06 TABOR surplus threshold: $394.8 million
Amount refunded in FY 2006-07: See H.B. 02-1059

14. **Income tax credit for contributions to the institute for telecommunication education** — House Bill 02-1059 corrects and clarifies language in House Bill 00-1052 to provide an income tax credit for monetary contributions made to the Colorado Institute of Technology. This credit begins January 1, 2002 and cannot be carried forward or refunded.

FY 2004-05 TABOR surplus threshold: $373.7 million
Amount refunded in FY 2005-06: $0.0
FY 2005-06 TABOR surplus threshold: $394.8 million
Amount refunded in FY 2006-07: $0.0

15. **Tangible personal property used for research and development** — House Bill 01-1081 allows a 50 percent sales tax credit for the sale, purchase, storage, use, or consumption of tangible personal property used in Colorado directly and predominantly for research and development. The credit is for purchases made on or after July 1, 2002 and will refund $6.6 million dollars in FY 2003-04.

FY 2004-05 TABOR surplus threshold: $382.9 million
Amount refunded in FY 2005-06: $0.0
FY 2005-06 TABOR surplus threshold: $404.5 million
Amount refunded in FY 2006-07: $0.0

16. **Motor vehicle registration fees** — House Bill 00-1227 reduces annual registration fees for passenger vehicles and certain trailers to $2.50 plus an additional amount based on the age of the vehicle. The bill also reduces by 25 percent the annual registration fees for trucks, truck tractors, and other vehicles. Revenues lost to the Highway Users Tax Fund are back filled by General Fund revenues.

    FY 2004-05 TABOR surplus threshold: $387.6 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $409.5 million
    Amount refunded in FY 2006-07: $0.0

17. **High technology scholarships —** House Bill 00-1355 creates an income tax credit equal to 25 percent of the contribution made to the Colorado high technology scholarship program. The income tax credit may not exceed 15 percent of income taxes due.

    FY 2004-05 TABOR surplus threshold: $387.6 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $409.5 million
    Amount refunded in FY 2006-07: $0.0

House Bill 00-1053 allows an income tax credit beginning January 1, 2001 for charitable contributions.

18. **Income tax deduction for charity** — House Bill 00-1053 allows an income tax credit beginning January 1, 2001 for charitable contributions in excess of $500 for individuals who claim the basic standard deduction on their federal return.

    FY 2004-05 TABOR surplus threshold: $410.9 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $434.1 million
    Amount refunded in FY 2006-07: $0.0

19. **Dividend, interest, and capital gains exemption** — House Bill 99-1137 excludes from the state's income tax, capital gains, interest, and dividend income up to $1,200 for individuals and up to $2,400 for joint filers.

    FY 2004-05 TABOR surplus threshold: $410.9 million
    Amount refunded in FY 2005-06: See H.B. 00-1171
    FY 2005-06 TABOR surplus threshold: $434.1 million
    Amount refunded in FY 2006-07: See H.B. 00-1171

20. **Income tax modification for interest, dividends, and capital gains** — House Bill 00-1171 is an extension of House Bill 99-1137. It excludes up to $1,500 for individuals and $3,000 for couples in interest, dividends, and capital gains from the state's income tax beginning January 1, 2001. This represents a $300 increase in the amount of the exemption available through House Bill 99-1137.

    FY 2004-05 TABOR surplus threshold: $410.9 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $434.1 million
    Amount refunded in FY 2006-07: $0.0

21. **Pollution control provisions** — House Bill 00-1257 exempts certain pollution control equipment, including solid waste, noise pollution, wind power, solar, and thermal generation, from the state sales and use tax.

    FY 2004-05 TABOR surplus threshold: $410.9 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $434.1 million
    Amount refunded in FY 2006-07: $0.0

22. **Interstate commerce sales and use tax exemption** — House Bill 00-1259 provides a refund for sales taxes paid above a rate of 0.01 percent that are imposed on new or used commercial trucks, truck tractors, tractors, semi trailers, or vehicles used in interstate commerce with a gross vehicle weight in excess of 26,000 pounds.

    FY 2004-05 TABOR surplus threshold: $410.9 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $434.1 million
    Amount refunded in FY 2006-07: $0.0

23. **Agriculture value-added development fund program** — House Bill 01-1086 allows state income tax credits to eligible agricultural value-added cooperatives for new or ongoing rural agricultural business projects. The credit is equal to the lesser of 50 percent of the member's investment or $15,000, up to an aggregate amount of $1.5 million per project and $4 million per year. The credit can be transferred to another person.

    FY 2004-05 TABOR surplus threshold: $427.2 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $451.3 million
    Amount refunded in FY 2006-07: $0.0

24. **Income tax credit for cost of health benefits** — House Bill 00-1104 allows an income tax credit for health benefit plans not paid by an employer or deducted from federal adjusted gross income. The credit is capped at $500, with qualifying income capped at $25,000 for individuals without dependents, $30,000 for joint filers without dependents, and $35,000 for individual or joint filers with dependents. The credit is not refundable.

    FY 2004-05 TABOR surplus threshold: $469.7 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $496.2 million
    Amount refunded in FY 2006-07: $0.0

House Bill 00-1104 allows an income tax credit for health benefit plans not paid by an employer.

25. **Expand Colorado capital gains modification** — House Bill 00-1209 expands the exemption allowed in House Bill 99-1237 to include Colorado capital gains made for any tax year beginning on or after January 1, 1999. It reduces the holding period for such capital gains exclusions from five years to one year for Colorado assets. The credit is equal to the amount of income attributable to qualifying Colorado gains receiving capital treatment by the qualified taxpayer during the taxable year and included in federal taxable income.

    FY 2004-05 TABOR surplus threshold: $505.0 million
    Amount refunded in FY 2005-06: $0.0
    FY 2005-06 TABOR surplus threshold: $533.5 million
    Amount refunded in FY 2006-07: $0.0

26. **Sales tax refund** — House Bill 99-1001 establishes a temporary sales tax refund as a mechanism to return excess TABOR revenues. House Bill 99-1001 uses a six-tiered approach (based on federal adjusted gross income) to refund the TABOR surplus. This bill is used when the amount of the TABOR surplus does not reach one of the thresholds or for any amount not refunded through one of the refund mechanisms.

    FY 2004-05 TABOR surplus threshold: Remaining

    Amount refunded in FY 2005-06: $115.3 million

    Average refund: $39 per taxpayer

    FY 2005-06 TABOR surplus threshold: Remaining

    Amount refunded in FY 2006-07: $161.0 million

    Average refund: $53 per taxpayer