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: September 20, 2005

SUBJECT: ***September 2005 Revenue Forecast***

Attached is the September 2005 Office of State Planning and Budgeting 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.

September 2005 OSPB Forecast Highlights

- In FY 2005-06, the ***TABOR limit*** is 1.3 percent and the ***TABOR surplus*** is forecast to be $440.4 million. From FY 2005-06 through the remainder of the forecast period, we expect the TABOR surplus to range between $440 million and $1,010 million. TABOR surpluses are increased compared with the June 2005 forecast because the Colorado economy is strengthening and this is increasing General Fund and cash funds revenue growth.
- Based on the September 2005 OSPB revenue projections and year-to-date FY 2005-06 appropriations, the state will not have enough General Fund revenue to meet the statutory four percent reserve. Furthermore, assuming current law, the available appropriations in FY 2006-07 will require the budget to drop 2.7 percent from the current level.
- After increasing 6.9 percent in FY 2004-05, gross ***General Fund revenues*** are forecast to increase 4.6 percent in FY 2005-06 and 5.9 percent in FY 2006-07.
- ***Cash fund revenues*** are forecast to increase 4.4 percent in FY 2005-06 and decrease 3.7 percent in FY 2006-07. In FY 2005-06, severance taxes and unemployment insurance tax revenue growth drive total cash fund revenue growth.
- The ***national economy*** continues to strengthen. Inflation-adjusted gross domestic product is growing at a healthy pace, inflationary pressures remain moderate, and payrolls are increasing.
- The underlying assumptions for the September 2005 ***Colorado economic forecast*** have not changed materially since the release of the June 2005 forecast. The state's labor markets are recovering and Colorado economic activity is accelerating.
- The impact of ***Hurricane Katrina*** will be primarily felt in the Gulf of Mexico's energy infrastructure, which accounts for a large portion of the nation's domestic petroleum production and distribution.

The TABOR Limit and General Fund Revenue Outlook

This section provides a summary of the September 2005 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 and outlines legislation passed by the 2005 General Assembly that made additional monies available for the FY 2005-06 General Fund operating budget. 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*** provides a detailed calculation of TABOR revenues from FY 2004-05 through FY 2010-11 under current law.

In FY 2004-05, the TABOR surplus reappeared after a four-year absence, totaling $44.7 million. The TABOR surplus returned in FY 2004-05 because of rising General Fund revenues from income taxes and surging severance and unemployment insurance taxes. The September 2005 OSPB forecast for the FY 2004-05 TABOR surplus is lower than was forecast in June 2005. This occurred because the TABOR surpluses paid in prior years exceeded the required amounts. By statute, these over-refunds reduce subsequent refunds. These changes are explained in greater detail at the end of this section. At the end of this report, ***Table 5*** details the September 2005 OSPB forecast threshold amounts for FY 2004-05 through FY 2006-07 and the surplus amounts paid through each refund mechanism. From FY 2005-06 through the remainder of the forecast, we expect the TABOR surplus to range between $440 million and $1,010 million. Monies not refunded to taxpayers through the targeted TABOR refund mechanisms are refunded through the six-tier sales tax refund, House Bill 99-1001.

In FY 2004-05, the TABOR surplus reappeared . . . totaling $44.7 million.

General Fund Overview

Table 2 provides an overview of General Fund revenues, expenditures, and reserves through FY 2010-11. Table 2 assumes current law for capital construction transfers, other transfers to the General Fund, and rebates and expenditures.

In FY 2004-05, the state's General Fund ended the year with a $331.4 million reserve. This reserve exceeded the statutory four percent reserve by $94 million. Under current law, two-thirds of this excess will be distributed to the Highway User's Tax Fund and one-third will be distributed to the Capital Construction Fund. Based on the September 2005 OSPB forecast, in FY 2005-06, the state will only have enough revenue to preserve a 2.1 percent reserve. Should the state fall below a two percent reserve, the Governor would be required to implement an expenditure

Based on the September 2005 OSPB forecast, in FY 2005-06, the state will only have enough revenue to preserve a 2.1 percent reserve.

reduction plan as specified in section 24-75-201.1(1)(d)(III), C.R.S. Any increases in obligations, including a higher TABOR surplus, could trigger the need for an expenditure reduction plan. Table 2 shows that the available appropriations in FY 2006-07 will require the budget to drop 2.7 percent from the current level, assuming current law.

. . . the available appropriations in FY 2006-07 will require the budget to drop 2.7 percent from the current level, assuming current law.

Table 3 provides an overview of General Fund revenues assuming passage of Referendum C. Referendum C (formerly House Bill 05-1194) is the agreement reached jointly by the Governor and the General Assembly. The referendum calls for a five-year "time-out" from TABOR's growth limit beginning in FY 2005-06. If passed by the voters, the foregone TABOR refund will total $3.0 billion. Furthermore, if Referendum D (formerly House Joint Resolution 05-1057) passes, the TABOR limit set for FY 2010-11 will include an additional one-time $100 million increase to the base for transportation notes. In FY 2011-12 and thereafter, when the state is in a TABOR surplus situation, the state income tax rate will be reduced to 4.5 percent from 4.63 percent.

Measures taken during the 2005 Regular Session of the General Assembly

This section discusses the major legislation passed during the 2005 Regular Session of the General Assembly that directly affects monies available for the FY 2005-06 budget.

Senate Bill 05-039 ***grants the Petroleum Storage Tank Fund enterprise status beginning in FY 2005-06 for purposes of TABOR***, which affects the computations of the TABOR limit as discussed in the footnotes for Table 2. The impact of this bill is discussed in greater detail in the Cash Funds section of this document.

Senate Bill 05-210 ***requires the state Treasurer to transfer $55 million from the General Fund and appropriates $130.6 million to the Controlled Maintenance Trust Fund by June 30, 2005.*** Additionally, the Treasurer is directed to make an appropriation of $185.6 million from the Controlled Maintenance Trust Fund to the General Fund on June 1, 2006.

House Bill 05-1208 credits back to employers incremental increases they otherwise would have been paying of $36.4 million in FY 2005-06 and $91.5 million in FY 2006-07.

House Bill 05-1208 ***revises the solvency surcharge paid to the Unemployment Insurance Trust Fund by employers***. Beginning in calendar year 2006 through calendar year 2009, the solvency surcharge will not increase as long as the ratio of fund balance to total wages does not decline. House Bill 05-1208 credits back to employers incremental increases they otherwise would have been paying of $36.4 million in FY 2005-06 and $91.5 million in FY 2006-07. As such, this credit reduces TABOR revenues and helps balance the FY 2005-06 budget. The impact of this bill is discussed in greater detail in the Cash Funds section of this document.

General Fund Revenues

The forecast for General Fund revenues is shown in ***Table 4***. The September 2005 OSPB forecast for FY 2005-06 General Fund revenues is $74.3 million higher than the June 2005 OSPB forecast and the forecast for General Fund revenues in FY 2006-07 is $10.4 million higher. The FY 2005-06 increase is due to the strengthening Colorado economy and growing personal income. Moreover, the

June 2005 forecast anticipated a higher TABOR surplus, which would have triggered the Child Care Tax Credit, allowing taxpayers to claim it as a refund on their 2005 taxes in FY 2005-06. However, since the $44.7 million TABOR surplus is less than the estimated $46 million tax credit, it will not be available to be claimed until tax year 2006 per section 39-22-119, C.R.S. This section presents the details of our forecast for General Fund revenues in FY 2005-06 and FY 2006-07.

After increasing 6.9 percent in FY 2004-05, General Fund revenues are expected to increase 4.6 percent in FY 2005-06 and 5.9 percent in FY 2006-07. It is important to note that the FY 2005-06 forecast reflects federal tax law changes that will affect revenue growth rates. For example, net corporate income tax revenue growth in FY 2004-05 was inflated because of the 50 percent bonus depreciation and increased small business expensing provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. This is no longer in effect in FY 2005-06.

General Fund revenues are expected to increase . . . 5.9 percent in FY 2006-07.

Net individual income tax receipts increased 7.6 percent in FY 2004-05 and are forecast to increase 6.9 percent in FY 2005-06 and 5.5 percent in FY 2006-07. The components of individual income taxes — ***withholdings, estimated payments,*** and ***cash-with-returns receipts*** (checks mailed for income taxes due on April 15) — have grown at a faster rate compared with recent years, while ***refunds*** are growing at a slower rate. Indeed, FY 2004-05 individual income tax withholdings and estimated payments increased 6.0 percent and 24.7 percent, respectively, compared with FY 2003-04. Furthermore, the TABOR surplus in FY 2004-05 was not large enough to trigger the Child Care Tax Credit, per House Bill 00-1351, as the TABOR surplus is less than the amount of the credit. As a result, qualifying individuals will not be able to claim the credit against their 2005 income taxes, as was previously expected in June. Hence, we do not expect higher refunds in FY 2005-06, as people will not be able to claim the credit until FY 2006-07. From FY 2006-07 through FY 2010-11, this credit will reduce TABOR revenues by a total of about $250 million, thereby lowering the cumulative TABOR surpluses refunded to taxpayers by an equal amount.

The components of individual income taxes . . . have grown at a faster rate compared with recent years . . . .

Net corporate income tax receipts rose 33.9 percent in FY 2004-05 as a result of the 50 percent bonus depreciation and increased small business expensing provisions of the Federal Jobs and Growth Tax Relief Reconciliation Act of 2003, which ended in 2004. In FY 2005-06, they are forecast to decrease 5.2 percent as a result of increasing FY 2005-06 refunds and the strong growth in FY 2004-05. Beginning in FY 2006-07, net corporate income tax receipts are expected to increase as refunds slow down and the economy continues to expand.

Sales tax revenues rose 4.7 percent in FY 2004-05 and are forecast to grow 3.7 percent in FY 2005-06 and 6.4 percent in FY 2006-07. In FY 2005-06, sales tax revenues will grow at a slower rate as prices for consumer goods rise as a result of Hurricane Katrina and higher energy prices limit the amount of discretionary income available for people to spend. In FY 2006-07, sales tax revenues are expected to increase at a faster pace because of the strengthening Colorado economy, as rising payrolls increase the wages available for Colorado citizens to spend.

Sales tax revenues . . . are forecast to grow 3.7 percent in FY 2005-06 and 6.4 percent in FY 2006-07.

Changes in the Treatment of TABOR Revenues

The state refunds each year's TABOR surplus through a variety of mechanisms. Currently there are 17 refund mechanisms in addition to the TABOR sales tax refund that taxpayers collect when they file their Colorado income tax returns. Because monies are distributed through each of the mechanisms concurrently, the state has frequently refunded more money to taxpayers than the actual TABOR surplus. Since the state is not obligated to refund more than the TABOR surplus, legislation was enacted to credit the amount of the over payment to future TABOR surpluses. This legislation, enacted as section 27-77-103.7, C.R.S., simply reduced revenues by the amount of the over payment, thereby lowering the amount of that year's TABOR surplus. The procedure specified in section 27-77-103.7, C.R.S. did not anticipate the impact of a recession on calculations of TABOR revenues.

Because there was no TABOR surplus in FY 2001-02 and FY 2002-03, the reduction of TABOR revenues by the amount of the over payment did not result in a credit to future TABOR surpluses as was intended. Additionally, since TABOR revenues were reduced by the amount of the over payment in FY 2001-02 and FY 2002-03, the TABOR limits computed for FY 2002-03 and FY 2003-04 were too low. Indeed, in FY 2002-03, the reported TABOR revenues used to compute the FY 2003-04 TABOR limit were $91.6 million lower than actual FY 2002-03 TABOR revenues because the state deducted the prior years' over payments from General Fund revenue.

House Bill 05-1310 allows the $127.8 million in over payments made to taxpayers that have not yet been credited towards TABOR surpluses to be used as a credit against future TABOR surpluses, as was originally intended. It also corrects the error in the TABOR limit that was perpetuated because the reported FY 2002-03 TABOR revenues were lower than actual TABOR revenues by $91.6 million. Thus, House Bill 05-1310 permanently raises the TABOR limit by $91.6 million — increased annually by population growth plus inflation — and allows $127.8 million to be credited towards the FY 2004-05 surplus.

Table 1
TABOR Surplus Revenue Calculation
(Dollar Amounts in Millions)

Line No.		FY 2004-05	September 2005 Estimate by Fiscal Year FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	TABOR Revenues:							
1	General Fund	$6,104.1 /A	$6,395.5 /A	$6,771.8 /A	$7,192.2 /A	$7,635.0 /A	$8,117.2 /A	$8,613.5 /A
2	Cash Funds	$2,388.7 /B	$2,053.9 /B	$1,978.8	$1,902.1	$1,896.4	$1,941.0	$2,003.9
3	**Total TABOR Revenues**	$8,492.8	$8,449.4	$8,750.6	$9,094.3	$9,531.4	$10,058.2	$10,617.4
	TABOR Limit Calculation:							
4	Previous calendar year population growth	*1.1%*	*1.2%*	*1.3%*	*1.3%*	*1.5%*	*1.6%*	*1.6%*
5	Previous calendar year inflation	*1.1%*	*0.1%*	*1.7%*	*2.2%*	*2.3%*	*2.4%*	*2.6%*
6	Growth Dividend	*2.4%* /C	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
7	**Allowable TABOR Growth Rate**	*4.6%*	*1.3%*	*3.0%*	*3.5%*	*3.8%*	*4.0%*	*4.2%*
8	Actual Change in TABOR Revenues from Limit	*6.8%*	*6.9%*	*9.3%*	*10.3%*	*11.7%*	*13.5%*	*15.2%*
9	**TABOR Limit**	**$8,320.3 /D**	**$8,008.9 /D**	**$8,246.0 /D**	**$8,535.4 /D**	**$8,861.5 /D**	**$9,219.5 /D**	**$9,611.3 /D**
10	**Revenues Above (Below) TABOR Limit**	**$44.7 /G**	**$440.4**	**$504.6**	**$558.9**	**$670.0**	**$838.8**	**$1,006.1**
11	**Adjustments to TABOR Base**	($414.1) **/B**	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
12	**Adjusted TABOR Base**	**$7,906.1**	**$8,008.9**	**$8,246.0**	**$8,535.4**	**$8,861.5**	**$9,219.5**	**$9,611.3**
13	TABOR Emergency Reserve	$249.6 /E,F	$240.3 /E,F	$247.4 /E,F	$256.1 /E,F	$265.8 /E,F	$276.6 /E,F	$288.3 /E,F

/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 all Colorado institutions of higher education and S.B. 05-039 grants enterprise status to the Petroleum Storage Tank Fund in FY 2005-06 and thereafter. To account for this change, the FY 2004-05 TABOR limit is reduced by $386.9 million (the amount of tuition and fees collected in FY 2004-05 by the remaining state institutions of higher education) and $27.2 million (the amount of fees collected in FY 2004-05 in the Petroleum Storage Tank Fund) 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 1990 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 state 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 state Constitution, it need only reserve three percent of such amount.

/F Per H.B. 04-1422 and S.B. 05-209, the three percent TABOR emergency reserve is designated as up to $24.0 million in FY 2004-05 and up to $20 million in FY 2005-06 from the Major Medical Insurance Fund, up to $20.0 million in FY 2004-05 and up to $35 million in FY 2005-06 from the Subsequent Injury Fund, up to $12.0 million in FY 2004-05 and FY 2005-06 from the Workers’ Compensation Cash Fund, up to $6.0 million in FY 2004-05 and up to $7.3 million in FY 2005-06 from the Severance Tax Trust Fund, up to $6.0 million in FY 2004-05 and up to $5.5 million in FY 2005-06 from the Colorado River Recovery Program Loan Fund, up to $3.0 million in FY 2004-05 in the Fish and Wildlife Resources Fund, up to $98.7 million in FY 2004-05 and up to $100 million in FY 2005-06 in the Wildlife Cash Fund and fund equity, and up to $89.0 million in FY 2004-05 and up to $75 million in FY 2005-06 of state properties.

/G Per H.B. 05-1310, the FY 2002-03 TABOR Limit was permanently raised by $91.6 million and $127.8 million is credited towards the FY 2004-05 surplus.

Table 2
General Fund Overview – Current Law
(Dollar Amounts in Millions)

Line No.		FY 2004-05	September 2005 Estimate by Fiscal Year: FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	Funding Sources and Diversions:							
1	Beginning Reserve	$224.0	$237.4	$130.0	$240.5	$255.0	$270.3	$284.3
2	Gross General Fund Revenues	6,460.4	$6,756.5	7,154.8	7,599.8	8,069.2	8,580.0	9,105.9
3	Transfers to General Fund	66.1 /A	232.8 /A	35.4 /A	40.4 /A	39.7 /A	39.0 /A	39.0 /A
4	Senate Bill 97-1 Transfers to the HUTF	0.0	0.0	0.0	(101.0)	(43.2)	0.0	0.0
5	Diversion to the Older Coloradan's Program	(2.3)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
6	Transfer to the State Education Fund	(313.9) /B	(319.6) /B	(339.3) /B	(361.4) /B	(385.2) /B	(410.8) /B	(437.4) /B
7	Adjustments to the State Education Fund for Over (Under) Payments	0.0 /C	0.0 /C	0.0 /C	0.0 /C	0.0 /C	0.0 /C	0.0 /C
8	**Total Funds Available**	$6,434.3	$6,904.3	$6,978.2	$7,415.6	$7,932.7	$8,475.6	$8,989.0
	Expenditures:							
9	General Fund Appropriations (Long Bill)	$5,935.2	6,178.3	6,013.3	6,374.1	6,756.6	7,107.7	7,431.2
10	Increase (Reduction) from Supplemental Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	K-12 Capital Construction	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D
12	Capital Construction Freeze (S.B. 03-179)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Federal Medical Assistance Enhancement for Medicaid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	110.7 /E	155.4 /E	153.9	160.9	168.1	176.0	184.5
15	Capital and Prison Construction	0.2 /F	0.1 /F	0.0	0.0	0.0	0.0	0.0
16	TABOR Refund	44.7	440.4	504.6	558.9	670.0	838.8	1,006.1
17	Homestead Exemption	0.0 /G	0.0 /G	65.8	66.7	67.8	68.9	70.0
18	Transfer to the Controlled Maintenance Trust Fund (S.B. 05-210)	55.0 /H	0.0 /H	0.0	0.0	0.0	0.0	0.0
19	General Fund Payback	0.0	0.0	0.0	0.0	0.0	0.0	0.0
20	Reversions & Accounting Adjustments	(42.9)	0.0	0.0	0.0	0.0	0.0	0.0
21	**Total Obligations**	$6,102.9	$6,774.2	$6,737.6	$7,160.6	$7,662.5	$8,191.3	$8,691.8
22	**Year-end General Fund Reserve:**	**$331.4**	**$130.0**	**$240.5**	**$255.0**	**$270.3**	**$284.3**	**$297.2**
23	**Statutory Reserve: 4.0% of Appropriations**	**237.4**	**247.1**	**240.5**	**255.0**	**270.3**	**284.3**	**297.2**
24	**Monies Above (Below) Statutory Reserve**	**94.0**	**(117.1)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
25	**Excess Monies Reserved for Transportation**	**62.7 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
26	**Excess Monies Reserved for Capital Construction**	**31.3 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
27	**Reserve as a % of Appropriations**	**5.6%**	**2.1%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
28	**Appropriations Change**	**$335.9**	**$243.1**	**($165.0)**	**$360.8**	**$382.4**	**$351.1**	**$323.5**
29		6.0%	4.1%	-2.7%	6.0%	6.0%	5.2%	4.6%

/A This figure represents the total transfers to the General Fund per H.B. 02-1267, H.B. 02-1391, H.B. 02-1392, H.B. 02-1443, H.B. 02-1444, H.B. 02-1445, H.B. 02-1478, S.B. 03-107, S.B. 03-172, S.B. 03-179, S.B. 03-188, S.B. 03-190, S.B. 03-191, S.B. 03-260, S.B. 03-261, S.B. 03-271, S.B. 03-274, S.B. 03-296, S.B. 03-300, H.B. 04-1421, H.B. 05-1262, S.B. 05-210, and S.B. 05-211.

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

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

/D Per section 24-75-201.1(4)(c), C.R.S., in FY 2004-05 and thereafter, the capital construction 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. Per S.B. 05-209, the Volunteer Firefighter Retirement Plan and Volunteer Firefighter Death and Disability Insurance appropriations are not subject to the limitation on General Fund spending and are included in this amount.

/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. Per S.B. 05-210, $55 million will be transferred to the Controlled Maintenance Trust Fund on June 30, 2005.

/I 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 H.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. In FY 2004-05, appropriations were approximately $200,000 below reaching six percent appropriations growth, thus the two-thirds, one-third split of the excess reserve.

Table 3
General Fund Overview – Assuming Referenda C and D
(Dollar Amounts in Millions)

Line No.		FY 2004-05	September 2005 Estimate by Fiscal Year FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
	Funding Sources and Diversions:							
1	Beginning Reserve	$224.0	$237.4	$247.1	$262.0	$277.7	$294.3	$312.0
2	Gross General Fund Revenues	6,460.4	6,783.9	7,203.0	7,651.1	8,123.7	8,637.9	9,167.2
3	Transfers to General Fund	66.1 /A	232.8 /A	35.4 /A	40.4 /A	39.7 /A	39.0 /A	39.0 /A
4	Senate Bill 97-1 Transfers to the HUTF	0.0	0.0	(109.2)	(138.2)	(160.3)	(196.5)	(187.8)
5	Diversion to the Older Coloradan's Program	(2.3)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)	(2.8)
6	Transfer to the State Education Fund	($313.9) /B	($321.7) /B	($342.9) /B	($365.2) /B	($389.2) /B	($415.1) /B	($442.0) /B
7	Adjustments to the State Education Fund for Over (Under) Payments	$0.0 /C	$0.0 /C	$0.0 /C	$0.0 /C	0.0 /C	0.0 /C	0.0 /C
8	**Total Funds Available**	$6,434.3	$6,929.7	$7,030.7	$7,447.3	$7,888.8	$8,356.9	$8,885.7
	Expenditures:							
9	General Fund Appropriations (Long Bill)	$5,935.2	$6,178.3	$6,549.0	$6,942.0	$7,358.5	$7,800.0	$8,268.0
10	Increase (Reduction) from Supplemental Bills	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	K-12 Capital Construction	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D	0.0 /D
12	Capital Construction Freeze (S.B. 03-179)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13	Federal Medical Assistance Enhancement for Medicaid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14	Rebates and Expenditures	110.7 /E	155.4	153.9	160.9	168.1	176.0	184.5
15	Capital and Prison Construction	0.2 /F	0.1 /F	0.0	0.0	0.0	0.0	0.0
16	TABOR Refund	44.7	0.0	0.0	0.0	0.0	0.0	32.5
17	Homestead Exemption	0.0 /G	0.0 /G	65.8	66.7	67.8	68.9	70.0
18	Transfer to the Controlled Maintenance Trust Fund (S.B. 03-262)	55.0 /H	0.0 /H	0.0	0.0	0.0	0.0	0.0
19	General Fund Payback	0.0 /I	0.0 /I	0.0 /I	0.0 /I	0.0 /I	0.0 /I	0.0 /I
20	Reversions & Accounting Adjustments	(42.9)	0.0	0.0	0.0	0.0	0.0	0.0
21	**Total Obligations**	$6,102.9	$6,333.8	$6,768.7	$7,169.6	$7,594.4	8,044.9	8,555.0
22	**Year-end General Fund Reserve:**	**331.4**	**595.9**	**262.0**	**277.7**	**294.3**	**312.0**	**330.7**
23	**Statutory Reserve: 4.0% of Appropriations**	**237.4**	**247.1**	**262.0**	**277.7**	**294.3**	**312.0**	**330.7**
24	**Monies Above (Below) Statutory Reserve**	**94.0 /J**	**348.7 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
25	**Excess Monies Reserved for Transportation**	**62.7 /J**	**232.5 /J**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
26	**Excess Monies Reserved for Capital Construction**	**31.3**	**116.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
27	**Reserve as a % of Appropriations**	**5.6%**	**9.6%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**
28	**Appropriations Change**	**$335.9**	**$243.1**	**$370.7**	**$392.9**	**$416.5**	**$441.5**	**$468.0**
29		6.0%	4.1%	6.0%	6.0%	6.0%	6.0%	6.0%

/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, H.B. 04-1421, H.B. 05-1262, S.B. 05-210, and S.B. 05-211.

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

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

/D Per section 24-75-201.1(4)(c), C.R.S., in FY 2004-05 and thereafter, the capital construction 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. Per S.B. 05-209, the Volunteer Firefighter Retirement Plan and Volunteer Firefighter Death and Disability Insurance appropriations are not subject to the limitation on General Fund spending and are included in this amount.

/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. Per S.B. 05-210, $55 million will be transferred to the Controlled Maintenance Trust Fund on June 30, 2005.

/I 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 H.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. In FY 2004-05, appropriations were approximately $200,000 below reaching six percent appropriations growth, thus the two-thirds, one-third split of the excess reserve.

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

Line No.	Category	FY 2004-05	% Chg	September 2005 Estimate by Fiscal Year with Percent Change Over Prior Year											
				FY 2005-06	% Chg	FY 2006-07	% Chg	FY 2007-08	% Chg	FY 2008-09	% Chg	FY 2009-10	% Chg	FY 2010-11	% Chg
	Excise Taxes:														
1	Sales	$1,854.6 /A	4.7	$1,923.8 /A	3.7	$2,047.7 /A	6.4	$2,180.1 /A	6.5	$2,313.6 /A	6.1	$2,456.9 /A	6.2	$2,607.4 /A	6.1
2	Use	$152.9 /A	11.3	$163.1 /A	6.7	$170.1 /A	4.3	$178.6 /A	5.0	$187.5 /A	5.0	$196.9 /A	5.0	$206.8 /A	5.1
3	Cigarette	$51.5	(4.3)	$49.7	(3.4)	$48.0	(3.5)	$46.2	(3.7)	$44.5	(3.6)	$43.2	(3.0)	$42.1	(2.5)
4	Tobacco Products	$14.2	18.5	$10.0	(29.2)	$11.9	19.0	$11.9	(0.3)	$11.9	(0.1)	$11.9	(0.3)	$11.8	(0.8)
5	Liquor	$31.2	0.8	$31.5	1.1	$32.0	1.7	$32.5	1.3	$33.0	1.5	$33.5	1.7	$34.0	1.5
6	***Total Excise***	***$2,104.3***	***5.0***	***$2,178.1***	***3.5***	***$2,309.8***	***6.0***	***$2,449.2***	***6.0***	***$2,590.5***	***5.8***	***$2,742.3***	***5.9***	***$2,902.1***	***5.8***
	Income Taxes:														
7	Net Individual Income	$3,711.8	7.6	$3,967.3	6.9	$4,186.0 /F	5.5	$4,463.8 /F	6.6	$4,759.9 /F	6.6	$5,081.9 /F	6.8	$5,415.9 /F	6.6
8	Net Corporate Income	$315.0	33.9	$298.5	(5.2)	$343.3	15.0	$360.2	4.9	$381.2	5.8	$401.9	5.4	$422.4	5.1
9	***Total Income***	**$4,026.8**	**9.3**	**$4,265.7**	**5.9**	**$4,529.2**	**6.2**	**$4,824.0**	**6.5**	**$5,141.1**	**6.6**	**$5,483.8**	**6.7**	**$5,838.3**	**6.5**
	Other Revenues:														
10	Estate	$26.0 /B	(44.9)	$4.0 /B	(84.6)	$0.0 /B	NA	$0.0 /B	NA	$0.0 /B	NA	$0.0 /B	NA	$10.0 /B	NA
11	Insurance	$189.2	7.6	$197.1	4.2	$200.9	1.9	$207.9	3.5	$215.0	3.4	$222.0	3.3	$219.1	(1.3)
12	Interest Income	$13.4	(31.3)	$14.0	4.0	$14.3	2.7	$14.7	2.6	$15.1	2.6	$15.5	2.6	$15.9	2.6
13	Pari-Mutuel	$3.8	(12.7)	$3.7	(2.7)	$3.6	(4.0)	$3.4	(5.0)	$3.2	(5.4)	$3.0	(5.9)	$2.8	(6.2)
14	Court Receipts	$26.3	0.2	$26.9	2.4	$27.6	2.4	$28.2	2.4	$28.9	2.3	$29.6	2.3	$30.2	2.3
15	Gaming	$40.2	0.1	$41.4	2.8	$43.7	5.5	$46.2	5.8	$49.0	6.0	$51.9	6.0	$55.0	6.0
16	Medicaid Intergovernmental Transfer	0.0	NA	0.0	NA	0.0	NA	0.0	NA	NA	NA	NA	NA	NA	NA
17	Other Income	$30.2 /C	(27.3)	$25.5	(15.5)	$25.8	0.9	$26.1	1.3	$26.5	1.4	$31.9	20.7	$32.5	1.8
18	***Total Other***	***$329.2***	***(7.3)***	***$312.6***	***(5.0)***	***$315.8***	***1.0***	***$326.6***	***3.4***	***$337.6***	***3.4***	***$353.9***	***4.8***	***$365.6***	***3.3***
19	**GROSS GENERAL FUND**	**$6,460.4**	**6.9**	**$6,756.5**	**4.6**	**$7,154.8**	**5.9**	**$7,599.8**	**6.2**	**$8,069.2**	**6.2**	**$8,580.0**	**6.3**	**$9,105.9**	**6.1**
	Rebates & Expenditures:														
20	Cigarette Rebate	$14.4	(3.2)	$13.9	(3.6)	$13.4	(3.4)	$12.9	(3.7)	$12.5	(3.6)	$12.1	(3.0)	$11.8	(2.5)
21	Old-Age Pension Fund	$86.7	10.3	$90.4	4.3	$96.6	6.9	$103.9	7.5	$111.3	7.2	$119.4	7.2	$127.9	7.2
22	Aged Property Tax & Heating Credit	$5.8 /G	(62.8)	$22.0 /G	276.9	$14.8	(32.7)	$15.0	1.4	$15.2	1.4	$15.4	1.4	$15.6	1.4
23	Fire/Police Pensions	$3.8 /D	3.9	$29.1	665.6	$29.1	0.0	$29.1	0.0	$29.1	0.0	$29.1	0.0	$29.1	0.0
24	***Total Rebates & Expenditures***	***$110.7***	***(1.8)***	***$155.4***	***40.3***	***$153.9***	***(0.9)***	***$160.9***	***4.5***	***$168.1***	***4.5***	***$176.0***	***4.7***	***$184.5***	***4.8***
25	Amendment 35 Tobacco Tax	$81.1 /E	NA	$170.8 /E	5.3	$165.3 /E	(3.2)	$159.6 /E	(3.4)	$154.3 /E	(3.3)	$150.1 /E	(2.8)	$146.6 /E	(2.3)

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 2010-11.

/C Other income in 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 2003-04 and a decline in other income growth in FY 2004-05.

/D 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.

/E Effective January 1, 2005, Amendment 35 raised the state's tax on cigarettes by $0.64 per pack and the tax on tobacco products by 20 percent. These revenues are TABOR exempt and shown for informational purposes only. The growth rate in FY 2005-06 has been adjusted to reflect the partial collection of taxes in FY 2004-05, the fiscal year the tax increases were enacted.

/F Per H.B. 00-1351, when the state has a TABOR surplus, qualifying individuals are allowed an additional childcare credit against income taxes. The September 2005 OSPB forecast indicates that this credit will be in effect in FY 2006-07 through FY 2010-11. In FY 2006-07, individual income tax receipts are lowered by about $45 million due to this credit.

/G As a result of a change in the rebating the Aged Property Tax and Heating Credits, a portion of the FY 2004-05 rebates will be paid in FY 2005-06.

Table 5

TABOR Refund Mechanisms

(Dollar Amounts in Millions)

	FY 2004-05 Surplus (Actual)		FY 2005-06 Surplus (Forecast)		FY 2006-07 Surplus (Forecast)	
	Threshold FY 2004-05	Amount	Threshold FY 2005-06	Amount	Threshold FY 2006-07	Amount
Total TABOR Refund:		$44.7		$440.4		$504.6
Refund Mechanism In Order of Threshold Amounts:						
H.B. 00-1049 Make Earned Income Tax Credit Permanent	$67.0	$0.0	$71.3	$36.3	$76.1	$37.1
H.B. 05-1125 Income Tax Deduction for Charity (Begins in FY 2005-06)	NA	NA	$100.0	$3.4	$106.8	$3.5
H.B. 01-1313 Income Tax Credit for Foster Parents	$225.7	$0.0	$240.1	$0.2	$256.3	$0.2
H.B. 01-1287 Increase Business Personal Property Tax Credit	$227.8	$0.0	$242.3	$110.2	$258.7	$112.4
H.B. 99-1237 Colorado Capital Gains Modification	$348.3	$0.0	$370.5	$55.8	$395.6	$56.9
H.B. 01-1063 Income Tax Credit for Health Care Shortage Areas	$353.6	$0.0	$376.2	$0.2	$401.6	$0.3
H.B. 00-1351 Increase Child Care Tax Credits	$359.9	$0.0	$382.8	$26.5	$408.7	$27.0
H.B. 02-1059 Contributions to the Institute for Telecommunication Education	$394.9	$0.0	$420.1	$0.0	$448.5	$0.0
H.B. 01-1081 Tangible Personal Property Used for Research and Development	$404.6	$0.0	$430.4	$15.2	$459.5	$15.5
H.B. 00-1227 Motor Vehicle Registration Fees	$409.6	$0.0	$435.7	$37.5	$465.2	$38.3
H.B. 00-1355 High Technology Scholarships	$409.6	$0.0	$435.7	$0.0	$465.2	$0.0
H.B. 00-1171 Income Tax Modification for Interest, Dividends, and Capital Gains	$434.2	$0.0	$461.9	$0.0	$493.1	$49.9
H.B. 00-1257 Pollution Control Provisions	$434.2	$0.0	$461.9	$0.0	$493.1	$2.1
H.B. 00-1259 Interstate Commerce Sales and Use Tax Exemption	$434.2	$0.0	$461.9	$0.0	$493.1	$4.9
H.B. 01-1086 Agriculture Value-Added Development Fund Program	$451.4	$0.0	$480.2	$0.0	$512.7	$0.0
H.B. 00-1104 Income Tax Credit for Cost of Health Benefits	$496.3	$0.0	$528.0	$0.0	$563.7	$0.0
H.B. 00-1209 Expand Colorado Capital Gains Modification	$533.6	$0.00	$567.66	$0.00	$606.04	$0.00
Sales Tax Refund		**$44.7**		**$155.0**		**$156.6**
Average Sales Tax Refund Per Adult (in actual dollars)		**$15.0**		**$51.4**		**$51.2**

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Cash Fund Revenue Forecast

The September 2005 OSPB cash fund revenue forecast is summarized in ***Table 6***. Cash fund revenues are monies collected and earmarked for specific purposes. They comprised 28 percent of total TABOR revenues in FY 2004-05. In FY 2005-06, cash fund revenues are forecast to increase 4.4 percent, to $2,053.9 million. However, from FY 2005-06 through FY 2010-11, cash fund revenue growth will be flat, primarily due to falling unemployment insurance (UI) tax revenues that are forecast to offset more robust growth in the remaining cash funds. The remainder of this section details the revenue forecasts for the larger cash funds.

In FY 2005-06, cash fund revenues are forecast to increase 4.4 percent . . . .

Transportation-Related Cash Funds

Table 7 details the forecast for transportation-related cash fund revenues, which increased 0.6 percent in FY 2004-05. Total transportation-related cash fund revenues are forecast to remain flat in FY 2005-06 and increase 1.8 percent in FY 2006-07. From FY 2005-06 through FY 2010-11, total transportation-related cash fund revenues will grow at a compound annual average rate of 2.7 percent.

Total transportation-related cash fund revenues will grow at a compound annual average rate of 2.7 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 2004-05, HUTF revenues increased 1.3 percent. This group of revenues will see flat growth in FY 2005-06 as consumers begin to slow their purchase of newer automobiles and the combination of higher gasoline prices and more fuel efficient vehicles creates a slight decline in gasoline purchases. In FY 2006-07, the state will experience a decline in driver's license revenues due to the passage of Senate Bill 05-047 during the 2005 legislative session. The bill reduces the renewal term of adult driver's licenses and identification cards from ten years to five years, and eliminates a July 1, 2006 scheduled fee increase for adult driver's licenses from $15 to $30. As a result of the elimination of the previously expected fee increase of $15, combined with the shortened renewal period, the driver's license revenues are expected to decline $2.0 million beginning in FY 2006-07 through FY 2009-10, as an estimated 80 percent of license holders have ten year licenses that will not expire until FY 2010-11.

- ***Other transportation-related cash fund revenue*** fell 4.8 percent in FY 2004-05 after growing 25.9 percent in FY 2003-04. The strong growth in FY 2003-04 was due in part to the enactment of Senate Bill 03-272, which imposed new fees on license plates, decals, placards, and tabs to cover the direct costs of issuing them. Also, in FY 2004-05, the E-470 Authority repaid a loan to the Department of Transportation that included a $10 million interest payment, a one-time infusion of money in this fund. In FY 2005-06, these cash funds are forecast to decline 14.6 percent, as more normal collection activity resumes.

Higher Education

Under the provisions of Senate Bill 04-252, the University of Colorado became eligible for enterprise status beginning in FY 2004-05. Moreover, as a result of the funding mechanism provided by Senate Bill 04-189, all state institutions of higher education were granted enterprise status beginning in FY 2005-06. Because of their enterprise status, the tuition and fees collected by all state institutions of higher education do not count as TABOR revenue in FY 2005-06 and thereafter and are no longer included in the cash fund revenue forecast. An annual enrollment forecast will be published in the December *Colorado Economic Perspective*.

Unemployment Insurance Trust Fund

In FY 2004-05, total UI Trust Fund revenues . . . increased 36.1 percent.

The September 2005 UI Trust Fund revenue forecast is shown in ***Table 8***. In FY 2004-05, total UI Trust Fund revenues — UI taxes and interest earnings on the UI Trust Fund balance — increased 36.1 percent. They are forecast to increase 4.6 percent in FY 2005-06. Tax revenues rose in FY 2002-03 through FY 2005-06 because UI tax rates automatically increase to compensate for the higher UI benefit payments made since 2001. Thereafter, the improving economy will result in declining benefit payments, which means UI tax rates will fall.

House Bill 05-1208 credits back to employers incremental increases they otherwise would have been paying of approximately $36.4 million in FY 2005-06.

- In both calendar years 2004 and 2005, the unemployment insurance tax rate schedule moved to a higher level. This occured 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. Furthermore, the UI Trust Fund balance triggered the solvency surcharge on January 1, 2004. Meanwhile, the UI Trust Fund ended FY 2004-05 with a balance of only $220.9 million, so the solvency surcharge remains in effect in calendar year 2005. During the 2005 legislative session, House Bill 05-1208 changed the manner in which the solvency surcharge is calculated in calendar year 2006. The new legislation prevents the solvency surcharge from increasing incrementally as long as the ratio of fund balance to total wages does not decline. As such, House Bill 05-1208 credits back to employers incremental increases they otherwise would have been paying of approximately $36.4 million in FY 2005-06. The OSPB forecast indicates the solvency surcharge will remain in effect through calendar year 2007. The statutory provisions of the UI base rates and solvency surcharge can be found in section 8-76-103, C.R.S.

- In FY 2005-06, UI benefit payments will fall 20.9 percent, following a 27.5 percent decline in FY 2004-05. They will continue to fall through FY 2007-08, and beginning in FY 2008-09, benefit payments will remain flat, reflecting a healthy labor market. The risk to this forecast is if benefit payments do not fall as anticipated. Higher benefit payments will strain the UI Trust Fund resources, leading to a lower ending fund balance and triggering higher UI employer tax rates.

- In FY 2008-09, the solvency ratio exceeds 1.1 percent, triggering the Unemployment Insurance Tax Credit beginning in calendar year 2010. This tax credit was established by House Bill 00-1310 and was made permanent with House Bill 02-1410. The credit is estimated to save employers $30 million in FY 2009-10 and $43 million in FY 2010-11.

Other Cash Funds

The September 2005 forecast for total revenues collected by the remaining cash funds in FY 2005-06 is essentially unchanged from our June 2005 forecast with the exception of the severance tax forecast. In FY 2004-05, other cash fund revenues increased 1.3 percent as a result of the strong 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 300 percent in FY 2003-04. In FY 2004-05, severance taxes rose 21.5 percent and we forecast a 31.8 percent increase in severance tax revenues in FY 2005-06 as higher oil prices continue to spur drilling activity around the state. Additionally, as per Senate Bill 02-1310, $31.3 million in FY 2004-05 was transferred to the Capital Construction Fund from the General Fund due to excess monies subject to the TABOR limit. Earned interest income for the Capital Construction Fund will be $3.8 million in FY 2005-06.

In FY 2004-05, other cash fund revenues increased 1.3 percent . . . .

Measures taken during the 2005 Regular Session of the General Assembly

During the 2005 legislative session, several pieces of legislation were passed that affect cash fund revenue collections beginning in FY 2005-06.

Senate Bill 05-039 ***grants enterprise status to the Petroleum Storage Tank Fund in FY 2005-06 for purposes of TABOR***. Because of its enterprise status, the fees collected in this fund do not count as TABOR revenue in FY 2005-06 and thereafter and are thus not included in the cash fund revenue forecast.

Senate Bill 05-176 ***extends from July 1, 2005 until July 1, 2010 the Inspection and Consumer Services Cash Fund***. Furthermore, this bill directs fines collected for violating the Colorado Commercial Feed Law to be deposited into the Inspection and Consumer Services cash fund instead of the General Fund. In total, Senate Bill 05-176 is expected to increase cash fund collections by $3.9 million beginning in FY 2005-06.

Senate Bill 05-210 ***directs the state Treasurer to transfer $55 million from the General Fund and appropriates $130.6 million to the Controlled Maintenance Trust Fund by June 30, 2005.*** Additionally, the Treasurer is directed to make an appropriation of $185.6 million from the Controlled Maintenance Trust Fund to the General Fund on June 1, 2006.

House Bill 05-1264 ***eliminates the Real Estate Recovery Cash Fund***. As such, state revenues are expected to decrease $563,335 in FY 2005-06 and $853,017 in FY 2006-07.

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

		September 2005 Estimate by Fiscal Year						
	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2005-06 to FY 2010-11 CAAGR*
Transportation-Related	$844.1	$839.0	$853.9	$879.0	$903.6	$927.9	$960.4	
Change	0.6%	-0.6%	1.8%	2.9%	2.8%	2.7%	3.5%	2.7%
Unemployment Insurance	$465.6 /A	$487.3 /A	$439.5 /A	$311.1 /A	$278.5	$262.8 /B	$271.1 /B	
Change	36.1%	4.6%	-9.8%	-29.2%	-10.5%	-5.6%	3.2%	-11.1%
Limited Gaming Fund	$103.1	$107.5	$112.9	$118.9	$125.4	$132.3	$139.6	
Change	0.4%	4.2%	5.0%	5.3%	5.5%	5.5%	5.5%	5.4%
Capital Construction – Interest	$2.3	$3.8	$1.6	$1.7	$1.8	$1.8	$1.9	
Change	37.3%	61.8%	-56.7%	2.6%	4.4%	4.4%	4.4%	-12.7%
Regulatory Agencies	$51.4	$47.3	$48.7	$50.4	$52.2	$54.1	$56.0	
Change	2.3%	-7.9%	2.9%	3.5%	3.6%	3.6%	3.6%	3.4%
Insurance-Related	$53.2	$58.0	$61.0	$64.6	$68.3	$72.3	$76.5	
Change	1.1%	9.0%	5.3%	5.8%	5.8%	5.8%	5.8%	5.7%
Severance Tax	$152.0	$200.3	$146.2	$149.9	$128.4	$138.1	$131.3	
Change	21.5%	31.8%	-27.0%	2.5%	-14.3%	7.5%	-4.9%	-8.1%
Controlled Maintenance Trust Fund Interest	$0.0 /C	$5.6 /D	$0.0 /C	$0.0 /C	$0.0 /C	$0.0 /C	$0.0 /C	
Change	NA	NA	NA	NA	NA	NA	NA	NA
Miscellaneous Cash Funds	$295.4	$305.2	$314.9	$326.6	$338.1	$351.7	$367.1	
Change	-6.2%	3.3%	3.2%	3.7%	3.5%	4.0%	4.4%	3.8%
TOTAL CASH FUND REVENUES	**$1,967.3**	**$2053.9**	**$1,978.8**	**$1,902.1**	**$1,896.4**	**$1,941.0**	**$2,003.9**	
Change	7.5%	4.4%	-3.7%	-3.9%	-0.3%	2.4%	3.2%	-0.5%

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

/A Includes revenues from the solvency tax surcharge, which is in effect because the solvency ratio on June 30, 2004, June 30, 2005, June 30, 2006, and June 30, 2007 is less than 0.9%.

/B Tax revenues reflect a 20 percent credit for calendar years 2010 and 2011 as specified by House Bill 00-1310.

/C Per H.B. 04-1222, payback of the Controlled Maintenance Trust Fund is eliminated.

/D Per S.B. 05-210, appropriates $130 million and requires the Treasurer to transfer $55 million to the Controlled Maintenance Trust Fund (CMTF) by June 30, 2005. On June 1, 2006, requires the Treasurer to transfer $185.6 million from the CMTF to the General Fund.

Table 7

Transportation-Related Cash Fund Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		September 2005 Estimate by Fiscal Year						
	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2005-06 to FY 2010-11 CAAGR*
Highway Users Tax Fund (HUTF)								
Registrations	$165.0	$171.1	$177.2	$183.6	$190.4	$197.6	$207.2	
Change	5.5%	3.7%	3.6%	3.6%	3.7%	3.8%	4.9%	3.9%
Motor and Special Fuels Net of Refunds	$553.6	$553.4	$563.2	$579.1	$593.1	$606.2	$617.8	
Change	-0.5%	0.0%	1.8%	2.8%	2.4%	2.2%	1.9%	2.2%
Other Receipts	$44.5 **/A**	$45.4 **/A**	$42.3 **/A,B**	$43.3 **/A**	$45.3 **/A**	$46.8 **/A**	$56.1 **/A**	
Change	8.7%	2.0%	-6.8%	2.4%	4.7%	3.2%	20.0%	4.3%
TOTAL HUTF	$763.1	$769.8	$782.7	$806.0	$828.8	$850.5	$881.1	
Change	1.3%	0.9%	1.7%	3.0%	2.8%	2.6%	3.6%	2.7%
Other Transportation-Related Cash Funds	$81.1	$69.3	$71.3	$73.0	$74.8	$77.4	$79.3	
Change	-4.8%	-14.6%	2.9%	2.5%	2.5%	3.4%	2.5%	2.8%
Total Transportation-Related	**$844.1**	**$839.0**	**$853.9**	**$879.0**	**$903.6**	**$927.9**	**$960.4**	
Change	0.6%	-0.6%	1.8%	2.9%	2.8%	2.7%	3.4%	2.7%

***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 Per S.B. 05-047, the July 1, 2006 scheduled fee increase for adult driver's licenses is eliminated.

Table 8

Unemployment Insurance Revenue by Source

(Accrual Basis, Dollar Amounts in Millions)

		September 2005 Estimate by Fiscal Year						
	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2005-06 to FY 2010-11 CAAGR*
Beginning Fund Balance	$133.9	$220.9	$495.0	$746.3	$880.6	$984.0	$1,068.4	
Change	-55.2%	65.0%	124.1%	50.8%	18.0%	11.7%	8.6%	37.1%
Income	$465.6	$487.3	$439.5	$311.1	$278.5	$262.8	$271.1	
Change	36.1%	4.6%	-9.8%	-29.2%	-10.5%	-5.6%	3.2%	-11.1%
Taxes	$459.1 /A	$471.9 /A	$410.8 /A	$269.3 /A	$226.4	$203.2 /B	$204.5 /B	
Change	37.9%	2.8%	-13.0%	-34.5%	-15.9%	-10.3%	0.6%	-15.4%
Interest	$6.5	$15.4	$28.7	$41.8	$52.0	$59.6	$66.6	
Change	-29.6%	135.0%	86.6%	45.9%	24.3%	14.6%	11.8%	34.1%
Benefits and Accounting Adjustments	($381.0) /C	($213.2) /C	($188.2) /C	($176.8) /C	($175.1) /C	($178.3) /C	($191.8) /C	
Change	-24.7%	-44.1%	-11.7%	-6.0%	-1.0%	1.8%	7.6%	-2.1%
Ending Fund Balance	**$220.9**	**$495.0**	**$746.3**	**$880.6**	**$984.0**	**$1,068.4**	**$1,147.8**	
Solvency Ratio	0.3% /D	0.7% /D	0.9% /D	1.0% /D	1.1% /D	1.1% /D	1.1% /D	
Total Wages	$69,721 /E	$74,483 /E	$78,690 /E	$83,063 /E	$88,352 /E	$93,701 /E	$99,792 /E	
Change	5.4%	6.8%	5.6%	5.6%	6.4%	6.1%	6.5%	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, 2004, June 30, 2005, June 30, 2006, and June 30, 2007 is less than 0.9%.

/B Tax revenues reflect a 20 percent credit for calendar years 2010 and 2011 as specified by House Bill 00-1310.

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

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

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

The National Economy

The September 2005 national forecast is not fundamentally different compared with the June 2005 national forecast. The following section details the current outlook for the nation's economy.

The National Economic Forecast

Gross Domestic Product and Its Components

Inflation-adjusted gross domestic product (GDP) increased 3.3 percent in second quarter 2005. In 2004, GDP increased 4.2 percent, with strong growth in the first and third quarter of the year offsetting slower growth in the second and fourth quarter. Inflation-adjusted annual GDP growth is forecast to grow 2.8 percent to 3.7 percent from 2005 through 2010.

- ***Consumer spending***, which represents almost 70 percent of GDP, was supported over the past year by tax cuts and borrowing from home equity. Now, the pace of retail 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 grew 3.9 percent in 2004 and is expected to grow 3.5 percent in 2005. In 2004, consumer spending on durable and nondurable goods increased at a faster pace than spending on services. In 2005 and through the remainder of the forecast, spending on nondurable goods and services will lead growth.

Consumer spending grew 3.9 percent in 2004 and is expected to grow 3.5 percent in 2005.

- ***Business investment*** grew 9.7 percent in 2004 and is expected to average 7.5 percent growth in 2005. Investment growth in 2005 is affected by the expiration of two key provisions of the federal Jobs and Growth Tax Relief Reconciliation Act of 2003. These provisions, which increased the amount of capital investment that small businesses were permitted to immediately expense and which provided a 50 percent bonus depreciation on investments made before the end of 2004, increased business spending in 2004 by moving forward purchases that would otherwise have been made in 2005. Thus, 2005 investment is 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 increased 11.9 percent in 2004 and is expected to increase 10.8 percent in 2005 before moderating to a 6.1 percent pace in 2006. Meanwhile, investment in nonresidential structures in 2004 increased a brisk 9.4 percent as a result of favorable lending conditions. In 2005, nonresidential investment will increase 8.7 percent and slow to 6.1 percent in 2006 as rising interest rates dampen investment spending.

- ***Government spending*** increased 2.2 percent in 2004 and is expected to increase 1.7 percent in 2005 and 2.2 percent in 2006. In 2005 and 2006, federal defense spending will increase 2.1 percent and 2.0 percent, respectively. Meanwhile, federal nondefense spending, which increased 1.8 percent in 2004, is expected to rise an additional 1.3 percent in 2005 and 2.1 percent in 2006. 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. State and local government expenditures are forecast to increase 1.7 percent in 2005 and 2.2 percent in 2006.

Inflation

Core consumer prices . . . increased 1.8 percent in 2004 and are expected to increase at or below 2.9 percent through the forecast horizon.

Inflationary pressures are moderate. Overall, consumer prices rose 2.7 percent in 2004 and are expected to rise 3.0 percent in 2005 and 2.6 percent in 2006. Meanwhile, core consumer prices — which exclude energy and food prices — increased 1.8 percent in 2004 and are expected to increase at or below 2.9 percent through the forecast horizon. The cost of shelter, the largest contributor to consumer price inflation, is forecast to rise 2.6 percent in 2005, while the cost of medical care is forecast to increase 4.5 percent. Energy prices are the key risk to this outlook. The impact of Hurricane Katrina will be realized primarily through the Gulf of Mexico’s energy infrastructure (which represents about one-third of domestic oil and natural gas production), and the accompanying loss of refining capacity and distribution. As the United States imports the majority of its oil, the direct impact of Hurricane Katrina on oil production is expected to be under ten percent of national daily consumption. While in the wake of the category-four storm prices of crude oil spiked — trading at over $70 per barrel — they have since settled, trading in the mid-sixties. Prices are expected to further stabilize as the Department of Energy announced it would open the Strategic Petroleum Reserve in an effort to offset the oil production losses in the Gulf of Mexico. Ultimately, energy prices are expected to moderate by this time next year as global energy demand growth decelerates and global energy supply increases. However, natural gas prices are expected to remain somewhat elevated compared with 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 2005 and into 2006. By mid-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 was 1.9 percent at year-end 2004 and is expected to rise to 3.9 percent by year-end 2005. In the long run, the federal funds rate target is expected to average about 4.5 percent, which is equal to long-run sustainable inflation-adjusted GDP growth of 3.0 percent plus 1.5 percent inflation.

Employment

National payrolls will increase 1.7 percent in 2005, with 2.2 million workers added to nonfarm payrolls.

The national employment forecast has not changed materially since the June 2005 forecast. National payrolls will increase 1.7 percent in 2005, with 2.2 million workers added to nonfarm payrolls between 2004 and 2005. In 2006 and 2007, employment will increase 1.8 percent and 0.9 percent, respectively. Serviceproducing 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.

In 2005 and 2006, the unemployment rate is forecast to average 5.1 percent and 5.0 percent, respectively. The strengthening labor market will entice job-seekers back into the labor force, offsetting the number of currently unemployed workers that will find employment in newly created positions. Thus, the unemployment rate will fall only gradually, slowly reaching 4.8 percent by 2010.

Risks to the Forecast

Most of the events likely to affect the current national economic forecast would result in a downward revision to the near-term strength of the recovery. The economic recovery could be disrupted if the expected moderation in energy prices fails to materialize. Furthermore, the immediate and long-term affects of Hurricane Katrina continue to be analyzed. Katrina not only disrupted the production and distribution of petroleum products, but also created problems on the Mississippi River. Port and loading shortages and disrupted barge traffic lend towards backlogs in commodities, placing upward pressure on consumer goods. Moreover, the threat of global terrorism continues to pose a significant downside risk, negatively impacting consumer and business confidence. Meanwhile, the current account deficit, made even larger with aid provided to the Gulf States in need of support in the wake of Katrina, might necessitate an even steeper decline in the dollar, which would cause interest rates to rise and slow the economic recovery. 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 9
History And Forecast For Key National Economic Variables
2000-2010

Line No.		Actual					September 2005 Forecast					
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Inflation-Adjusted & Current Dollar Income Accounts											
1	Inflation-Adjusted Gross Domestic Product (Billions)	$9,816.9	$9,890.6	$10,048.9	$10,320.8	$10,755.8	$11,154.9	$11,562.8	$11,885.3	$12,265.2	$12,650.1	$13,009.4
2	Change	3.7%	0.8%	1.6%	2.7%	4.2%	3.7%	3.7%	2.8%	3.2%	3.1%	2.8%
3	Gross Domestic Product (Billions)	$9,816.9	$10,127.9	$10,469.7	$10,971.5	$11,734.4	$12,484.2	$13,306.1	$13,993.2	$14,736.2	$15,510.1	$16,269.2
4	Change	5.9%	3.2%	3.4%	4.8%	7.0%	6.4%	6.6%	5.2%	5.3%	5.3%	4.9%
5	Productivity (Output per Hour, Nonfarm Business)	115.5	118.5	123.6	129.0	134.1	136.9	139.3	142.3	145.5	148.2	150.7
6	Change	2.6%	2.6%	4.3%	4.3%	4.0%	2.1%	1.8%	2.1%	2.3%	1.9%	1.6%
7	Personal Income (Billions)	$8,429.8	$8,724.2	$8,878.8	$9,161.9	$9,689.8	$10,317.4	$10,867.5	$11,367.3	$11,885.8	$12,436.9	$12,997.0
8	Change	8.0%	3.5%	1.8%	3.2%	5.8%	6.5%	5.3%	4.6%	4.6%	4.6%	4.5%
9	Per-Capita Income ($/person)	$29,834	$30,562	$30,798	$31,468	$32,959	$34,772	$36,295	$37,625	$38,995	$40,447	$41,905
10	Change	6.8%	2.4%	0.8%	2.2%	4.7%	5.5%	4.4%	3.7%	3.6%	3.7%	3.6%
	Population & Employment											
11	Population[1] (Millions)	282.6	285.5	288.3	291.2	294.0	296.7	299.4	302.1	304.8	307.5	310.2
12	Change	1.1%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
13	Civilian Unemployment Rate	4.0%	4.8%	5.8%	6.0%	5.5%	5.1%	5.0%	5.1%	4.9%	4.8%	4.8%
14	Total Nonagricultural Employment[2] (Millions)	131.8	131.8	130.3	130.0	131.5	133.7	136.1	137.3	138.8	140.6	142.4
15	Change	2.2%	0.0%	-1.1%	-0.3%	1.1%	1.7%	1.8%	0.9%	1.0%	1.4%	1.2%
	Financial Markets											
16	30-Year T-Bond Rate	5.9%	5.5%	5.4%	5.1%	5.1%	4.7%	6.0%	6.2%	6.0%	6.2%	6.2%
17	10-Year T-Bond Rate	6.0%	5.0%	4.6%	4.0%	4.3%	4.4%	5.8%	5.8%	5.6%	5.8%	5.9%
18	Federal Fund Rate	6.2%	3.9%	1.7%	1.1%	1.3%	3.2%	4.6%	4.6%	4.5%	4.5%	4.5%
	Price Variables											
19	Consumer Price Index (1982-84=100)	172.2	177.1	179.8	184.0	188.9	194.5	199.7	205.1	210.1	215.0	219.9
20	Change	3.4%	2.8%	1.6%	2.3%	2.7%	3.0%	2.6%	2.7%	2.4%	2.3%	2.3%
21	Producer Price Index (1982=100)	138.0	140.7	138.9	143.3	148.5	154.2	157.0	160.2	163.4	166.3	169.3
22	Change	3.8%	1.9%	-1.3%	3.2%	3.6%	3.8%	1.8%	2.0%	2.0%	1.8%	1.8%
	Other Key Indicators											
23	Industrial Production Index (1992=100)	115.4	111.3	111.0	110.9	115.5	119.2	122.2	124.7	127.6	130.8	133.6
24	Change	4.3%	-3.6%	-0.3%	0.0%	4.1%	3.2%	2.5%	2.0%	2.4%	2.5%	2.1%
25	Corporate Profits After Tax (Billions)	$508.2	$503.7	$575.9	$705.1	$788.1	$871.8	$855.5	$899.2	$957.1	$1,016.6	$1,068.8
26	Change	-1.8%	-0.9%	14.3%	22.4%	11.8%	10.6%	-1.9%	5.1%	6.4%	6.2%	5.1%
27	Housing Starts (Millions)	1.573	1.601	1.710	1.854	1.950	2.011	1.809	1.527	1.551	1.543	1.549
28	Change	-4.5%	1.8%	6.8%	8.4%	5.2%	3.2%	-10.1%	-15.6%	1.6%	-0.5%	0.3%

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

The Colorado economy is showing increased strength. In 2004, Colorado added 27,600 jobs, representing 1.3 percent growth. Moreover, Colorado's 2.3 percent August 2005 employment increase is 10th highest in the country. Meanwhile, 2004 retail trade sales increased 6.2 percent, the highest annual rise since 2000. ***Table 10*** highlights the state's recent economic activity.

Colorado's 2.3 percent August 2005 employment increase is 10th highest in the country.

Table 10

Recent Colorado Economic Statistics

	August 2005	August 2004	2004 Annual Average
Nonfarm Employment Growth[1,2]	2.3%	0.9%	1.3%
Unemployment Rate	5.0%	5.5%	5.5%
Change in Housing Permits Issued[4]	1.0%	20.6%	15.6%
Single-Family	3.5%	19.5%	12.8%
Multi-Family	-12.7%	26.6%	29.5%
Change in Value of Nonresidential Construction[1,3]	-8.3%	24.4%	26.3%
Retail	11.1%	4.7%	5.5%
Offices	40.9%	-23.0%	21.1%
Factories	-87.1%	160.4%	144.2%
Retail Trade Sales[5]	5.9%	5.0%	6.2%

1/ Year-to-date.
2/ Employment by place of work from the Current Employment Statistics (CES) survey of payroll records.
3/ Copyright 2005, F.W. Dodge Division, The McGraw-Hill companies. All rights reserved.
4/ Year-to-date through July 2005.
5/ Year-to-date through June 2005.

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

Colorado's Economic Forecast

The September 2005 OSPB forecast for the Colorado economy has not significantly changed compared with the June 2005 forecast.

The September 2005 OSPB forecast for the Colorado economy has not significantly changed. . . .

Economic Indicators

This section presents the OSPB forecast for Colorado's economic and demographic indicators, shown in ***Table 11***. It includes a discussion of employment and unemployment, inflation, wages and income, and population and migration.

Employment

In 2004, Colorado *employment* rose 1.3 percent, a net increase of 27,600 new jobs. By 2005, employment growth will be 2.3 percent and we forecast that the number of jobs in the state will increase by 2.6 percent in 2006.

The U.S. Department of Labor, Bureau of Labor Statistics, has revised the methodology for computing the national and state unemployment rates. The revision resulted in an increase in the 2004 Colorado *unemployment rate* to 5.5 percent from

5.1 percent as computed under the old system. The unemployment rate will drop to 5.1 percent in 2005 and fall to 4.4 percent by 2007.

Inflation

Overall consumer prices in the Denver-Boulder-Greeley area were essentially unchanged in 2004 . . . .

Overall consumer prices in the Denver-Boulder-Greeley area were essentially unchanged in 2004, rising a mere 0.1 percent. Through the first half of 2005, inflation increased 1.4 percent. 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 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 translates into exceptionally low inflation. Furthermore, incentives offered by automobile dealers for new vehicles lower the trade-in and resale value of used vehicles, further suppressing the transportation component of inflation.

We forecast that Colorado inflation will be 1.7 percent in 2005 and 2.2 percent in 2006. From 2007 through 2010, Colorado inflation will remain well below three percent.

Wages and Income

Colorado per capita income continues to exceed the national average. Overall, personal income grew 5.8 percent in 2004, with the pace accelerating throughout the year. We forecast that personal income will grow 6.4 percent in 2005 and average about 6.7 percent from 2006 through 2009.

Colorado wage and salary income rose 4.6 percent in 2004 as labor markets began to recover and payrolls increased. As the labor markets continue to recover and the state gains back portions of the high-wage jobs lost during the 2001 recession, we forecast that total wage and salary disbursements will rise, increasing 6.1 percent in 2005 and 5.7 percent in 2006. In 2007 and thereafter, wage and salary income growth will be above six percent.

Population and Migration

In 2004, net in-migration to Colorado was 15,400 and total population growth was 1.2 percent.

In 2004, net in-migration to Colorado was 15,400 and total population growth was 1.2 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 2008.

Industrial Sectors

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

Construction

In 2004, residential home permits issued in Colorado rose 15.6 percent. Meanwhile, the value of nonresidential construction (excluding nonbuilding projects like roads) increased 26.3 percent. The September 2005 OSPB forecast for the residential and nonresidential construction markets anticipate a moderate correction in 2005 and 2006 as interest rates rise and the cost of construction increases as a result of Hurricane Katrina.

Residential and nonresidential construction markets anticipate a moderate correction in 2005 and 2006 . . . .

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. In 2004, home construction activity increased in response to low mortgage interest rates and the strengthening Colorado economy. The total number of home permits issued in 2004 rose 15.6 percent. However, in 2005 and 2006, low in-migration combined with high inventories and rising interest rates will dampen demand for new homes. In 2007 and beyond, the number of home permits issued will rise year-over-year as net in-migration and jobs increase.

Nonresidential Construction

Denver-area nonresidential building construction continues to be impacted by oversupply in most markets. However, the 2004 value of new nonresidential building construction rose 26.3 percent. This is primarily the consequence of new hospitals, medical facilities, and manufacturing plants, which offset a correction in office and retail construction. The correction in office and retail construction will continue into 2005 and the first half of 2006. Thereafter, the value of nonresidential construction put in place will show modest increases through 2010, as the economy recovers and currently vacant space becomes occupied with newly formed and expanding businesses.

Retail Trade

Retail trade sales in Colorado rose 6.2 percent in 2004, with substantial strengthening in the second half of the year. We forecast retail sales will grow 5.8 percent in 2005 and 5.6 percent in 2006. In 2005, spending increases will be less than might be 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. Furthermore, rising energy and commodity prices as a result of Hurricane Katrina will decrease consumer's discretionary income.

Retail trade sales in Colorado rose 6.2 percent in 2004, with substantial strengthening in the second half of the year.

Risks to the Colorado Forecast

The main risk to our Colorado economic forecast is that the national economic recovery will stumble. Indeed, the Colorado recovery will likely mirror any major shift — either positive or negative — in the national recovery. Additional risk lies in high energy prices and their impact on consumers. A prolonged period of high energy costs will dampen consumer spending on discretionary goods and place pressure most noticeably on inflation and the housing market. Another risk to the forecast is the impact of Hurricane Katrina on the national economy. The hurricane will most likely increase costs of goods and utilities, further constricting consumer's discretionary income. In this respect, the primary risk is to the retail trade and construction forecast. Constriction of these variables will impact the sales and use tax forecast outlined in the General Fund section, which accounts for nearly one-third of General Fund revenues.

Table 11

History And Forecast For Key Colorado Economic Variables
Calendar Year 2000 - 2010

Line No.		Actual					September 2005 Forecast					
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Current Income											
1	Personal Income (Billions)	$144,394	$152,700	$153,962	$157,171	$166,342	$176,952	$188,911	$201,546	$215,195	$229,315	$244,955
2	Change	12.1%	5.8%	0.8%	2.1%	5.8%	6.4%	6.8%	6.7%	6.8%	6.6%	6.8%
3	Wage and Salary Income (Billions)	$85,909	$88,297	$86,807	$87,747	$91,769	$97,406	$102,981	$109,374	$116,130	$123,579	$131,834
4	Change	12.6%	2.8%	-1.7%	1.1%	4.6%	6.1%	5.7%	6.2%	6.2%	6.4%	6.7%
5	Per-Capita Income ($/person)	$33,370	$34,491	$34,228	$34,561	$36,150	$37,960	$39,990	$42,027	$44,181	$46,345	$48,711
6	Change	9.4%	3.4%	-0.8%	1.0%	4.6%	5.0%	5.4%	5.1%	5.1%	4.9%	5.1%
	Population & Employment											
7	Population[1] (Thousands)	4,327.0	4,427.3	4,498.1	4,547.6	4,601.4	4,661.6	4,723.9	4,795.7	4,870.7	4,948.0	5,028.7
8	Change	2.4%	2.3%	1.6%	1.1%	1.2%	1.3%	1.3%	1.5%	1.6%	1.6%	1.6%
9	Net Migration (Thousands)	64.3	63.4	33.6	12.3	15.4	21.7	23.6	32.9	35.9	37.8	41.0
10	Civilian Unemployment Rate	2.6%	3.9%	5.9%	6.2%	5.5%	5.1%	4.8%	4.4%	4.4%	4.4%	4.4%
11	Total Nonagricultural Employment[2] (Thousands)	2,212.4	2,225.4	2,182.5	2,150.9	2,178.6	2,225.4	2,284.1	2,352.3	2,411.2	2,476.3	2,546.5
12	Change	3.8%	0.6%	-1.9%	-1.4%	1.3%	2.3%	2.6%	3.0%	2.5%	2.7%	2.8%
	Construction Variables											
13	Total Housing Permits Issued (Thousands)	54.6	55.0	47.9	39.4	45.6	42.5	41.7	44.1	45.9	47.0	48.3
14	Change	10.7%	0.8%	-12.9%	-17.7%	15.6%	-6.7%	-1.9%	5.6%	4.2%	2.3%	2.7%
15	Nonresidential Construction Value[3] (Millions)	$3,338.8	$3,373.4	$2,637.8	$2,433.7	$3,073.1	$2,789.6	$2,771.2	$2,933.1	$3,098.5	$3,211.2	$3,299.6
16	Change	-5.8%	1.0%	-21.8%	-7.7%	26.3%	-9.2%	-0.7%	5.8%	5.6%	3.6%	2.8%
	Prices & Sales Variables											
17	Retail Trade Sales (Billions)	$58.0	$59.1	$58.7	$58.7	$62.4	$66.0	$69.7	$74.1	$78.5	$83.0	$87.9
18	Change	10.2%	2.0%	-0.7%	0.0%	6.2%	5.8%	5.6%	6.3%	5.9%	5.8%	5.8%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	173.2	181.3	184.8	186.8	187.0	190.1	194.3	198.8	203.6	209.0	214.9
20	Change	4.0%	4.7%	1.9%	1.1%	0.1%	1.7%	2.2%	2.3%	2.4%	2.6%	2.8%

1/ United States Bureau of the Census.

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

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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.