STATE OF COLORADO

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

Bill Ritter Jr.
Governor

Todd Saliman
Director

MEMORANDUM

TO: Governor Bill Ritter Jr.
Members of the General Assembly

FROM: Office of State Planning and Budgeting

DATE: March 20, 2007

SUBJECT: ***March 2007 Revenue Forecast***

This memorandum presents the March 2007 Office of State Planning and Budgeting (OSPB) revenue forecast. The memorandum includes a General Fund overview, General Fund and cash fund revenue forecasts, a discussion of the budget implications of this forecast, and summaries of both the national and Colorado economic forecasts.

MARCH 2007 OSPB FORECAST HIGHLIGHTS

- After increasing 13.1 percent in FY 2005-06, gross **General Fund revenues** are forecast to increase 6.1 percent in FY 2006-07 and 5.0 percent in FY 2007-08. A large increase in the forecast for individual income taxes accounts for much of the difference from the December 2006 forecast. Meanwhile, the sales and use tax forecasts were decreased slightly in FY 2006-07 to reflect the impact of the holiday snowstorms.

- **Cash fund revenues** are forecast to decrease 3.9 percent in FY 2006-07 and increase 3.1 percent in FY 2007-08. The forecasts for cash funds were not significantly altered from those presented in December, except that the forecast for severance tax collections was lowered for FY 2006-07 and FY 2007-08.

- Through FY 2008-09, the state will have enough General Fund revenue to maintain **appropriations** growth of six percent and make a maximum **Senate Bill 97-1 transfer** to the Highway Users Tax Fund. Additionally, the state will have **excess reserves** of $116.1 million in FY 2006-07, $107 million in FY 2007-08, and $0.5 million in FY 2008-09.

- For FY 2006-07, there is projected to be an additional $101.1 million for **transportation** and $38.7 million for **capital construction** over figures presented in December 2006. For FY 2007-08, the increases in the forecast for funds to transportation and capital are $202.1 million and $35.7 million, respectively. Over the five-year forecast period, projected revenue to transportation increased $856.3 million, while projected revenue to capital construction increased $74.6 million.

- Under the provisions of **Referendum C**, the State will retain $5.35 billion from FY 2005-06 through FY 2009-10. Therefore, there will not be a TABOR surplus during this five-year period. However, a TABOR refund of $30.8 million is expected in FY 2010-11.

GENERAL FUND OVERVIEW AND BUDGET IMPLICATIONS

This section summarizes how the forecasts of General Fund revenue and cash funds revenue flow through the state spending structure. Also included is a brief discussion of the impacts of revenue changes from the previous OSPB forecast on the state budget, particularly as it relates to transportation and capital construction.

GENERAL FUND OVERVIEW

Table 1 presents the General Fund Overview for the March 2007 OSPB revenue forecast. The top portion of the table summarizes the amount of General Fund revenue available for spending, culminating with "Total Revenue" on line 8. Lines 3 and 4 show the split of General Fund Non-Exempt and General Fund Exempt revenue, which is the amount of money that the state is allowed to retain above the TABOR Revenue Limit as a result of the passage of Referendum C. Line 5 shows the amount of money that will be diverted for transportation funding per Senate Bill 97-1. Under the provisions of Senate Bill 97-1, the state is required to transfer up to 10.335 percent of sales and use tax revenue to the Highway Users Tax Fund (HUTF) in years when the state has enough revenue to pay its total obligations (line 19).

Lines 9 through 11 summarize the amount of allowable General Fund Appropriations based on the six percent limit. Lines 12 through 18 summarize spending that is excepted from the six percent limit, but is included in the base for future growth (line 12), and other spending outside the six percent limit. It should be noted that the total on line 13 must be funded *prior* to funding General Fund Appropriations under the six percent limit.

The bottom portion of Table 1 presents the amount of revenue forecasted to flow into the year-end reserve. The amount of revenue in the statutory four percent reserve (line 22) moves in tandem with the appropriate fiscal year's appropriation. This amount is carried forward into the subsequent fiscal year as the beginning reserve (line 1). If available revenue exceeds that which is necessary to fund all obligations, reserves, and make a maximum transfer to the HUTF under Senate Bill 97-1, the remaining revenue creates an excess reserve (line 23). Whatever is remaining in the excess reserve at the end of the fiscal year is then transferred in the following fiscal year, with two-thirds distributed for transportation (line 24) and one-third for capital construction (line 25).

Finally, for informational purposes only, line 26 shows the amount of money credited to the State Education Fund. Under the provisions of Amendment 23, the state credits an amount equal to .33 percent of state taxable income to the State Education Fund.

Table 1
General Fund Overview – Current Law
($ Millions)

Line No.			March 2007 Estimate by Fiscal Year				
		FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
Revenue							
1	Beginning Reserve	$237.4	$251.7	$267.0	$283.3	$300.3	$318.3
2	**Gross General Fund Revenue**	**$6,964.6**	**$7,387.0**	**$7,754.6**	**$8,052.4**	**$8,492.0**	**$8,969.5**
3	*General Fund*	*$5,848.5*	*$6,224.3*	*$6,617.9*	*$7,114.8*	*$7,494.3*	*$7,893.1*
4	*General Fund Exempt*	*1,116.1*	*$1,162.7*	*$1,136.7*	*$937.6*	*$997.7*	*$1,076.3*
5	**Senate Bill 97-1 Diversion**	**(220.4)**	**(231.3)**	**(245.8)**	**(259.4)**	**(224.9)**	**(183.3)**
6	*Percent of Maximum*	*100%*	*100%*	*100%*	*100%*	*82%*	*63%*
7	**Net Transfers to/(from) the General Fund /A**	**157.9**	**(3.8)**	**(3.8)**	**(3.8)**	**(3.8)**	**(3.8)**
8	**TOTAL REVENUE**	**$7,139.5**	**$7,403.6**	**$7,772.0**	**$8,072.5**	**$8,563.6**	**$9,100.7**
Expenditures							
9	**General Fund Appropriations (Subject to 6% Limit)**	**6,292.7**	**6,675.6**	**7,082.2**	**7,507.2**	**7,957.6**	**8,435.1**
10	*Appropriations Change*	*361.2*	*383.7*	*400.9*	*424.9*	*450.4*	*477.5*
11	*Percent Change*	*6.1%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
12	**Exceptions to 6% Limit /B**	**5.0**	**5.8**	**0**	**0**	**0**	**0**
13	**Spending Outside 6% Limit**	**153.4**	**339.1**	**299.4**	**264.5**	**287.7**	**328.2**
14	*TABOR Refund*	*0*	*0*	*0*	*0*	*0*	*30.8*
15	*Rebates and Expenditures /C*	*153.4*	*161.5*	*170.0*	*177.7*	*186.0*	*195.0*
16	*Homestead Exemption*	*0*	*76.6*	*78.6*	*79.7*	*81.0*	*81.7*
17	*Transfers to Capital Construction /D*	*10.1*	*101.0*	*50.8*	*7.1*	*20.7*	*20.8*
18	*Reversions and Accounting Adjustments*	*-10.1*	*0*	*0*	*0*	*0*	*0*
19	**TOTAL OBLIGATIONS**	**$6,451.1**	**$7,020.4**	**$7,381.7**	**$7,771.7**	**$8,245.3**	**$8,763.2**
Reserves							
20	**Year-End Reserve**	**688.4**	**383.2**	**390.3**	**300.8**	**318.3**	**337.4**
21	*Year-End Reserve as a % of Appropriations*	*10.9%*	*5.7%*	*5.5%*	*4.0%*	*4.0%*	*4.0%*
22	**Statutory Reserve: 4% of Appropriations**	**251.7**	**267.0**	**283.3**	**300.3**	**318.3**	**337.4**
23	**Excess Monies Above (Below) Reserve**	**436.7**	**116.1**	**107.0**	**0.5**	**0.0**	**0.0**
24	*2/3 for Transportation /E*	*291.1*	*77.4*	*71.4*	*0.4*	*0.0*	*0.0*
25	*1/3 for Capital Construction /E*	*145.6*	*38.7*	*35.7*	*0.2*	*0.0*	*0.0*
26	Addendum: State Education Fund /F	357.2	381.2	399.3	412.1	433.6	458.0

Note: Lines in Bold represent totals.

/A This figure represents the total transfers to the General Fund per H.B. 04-1421, H.B. 04-1417, H.B. 05-1262, S.B. 05-210, and S.B. 05-211, as well as transfers and diversions from the General Fund under the Older Coloradans Act. In FY 2005-06 paybacks to cash funds totaling $67.1 million is also included.

/B In FY 2005-06, $5.0 million is appropriated to the Department of Education as a result of a requirement of a final state court order, and in FY 2006-07, per H.B. 06-1395, $5.8 million is appropriated for residential child health care and is not subject to the six percent limit pursuant to Section 24-75-201.1(1)(a)(III)(B), C.R.S., but is used as the base for calculation of the next year's appropriation's limit.

/C Includes the Cigarette rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions.

/D Includes $20.9 million in FY 2006-07 and $18 million in FY 2007-08 per Governor's recommendation.

/E Per H.B. 02-1310, two-thirds of the amount in excess of a four percent reserve is transferred to the Highway Users Tax Fund and one-third is credited to the Capital Construction Fund in the following fiscal year.

/F Per Amendment 23, one-third of one percentage point of Colorado taxable income is credited to the State Education Fund.

BUDGET IMPLICATIONS OF THE FORECAST

The forecast for General Fund revenue was increased by more than $1 billion over the five-year forecast period as compared with the OSPB December 2006 revenue forecast, due largely to an increase in the forecast of individual income taxes. This forecast also assumes that Senate Bill 07-97 will be signed by the Governor, thereby diverting approximately $30 million per year from Tobacco Master Settlement money that would have flowed to the General Fund. These changes, along with several smaller changes, has a significant impact on how much money the state is expected to receive:

- ***Appropriations*** – Based on the March forecast, the state will have enough revenue to fully fund General Fund Appropriations up to the six percent limit through at least FY 2010-11.

- ***Transportation*** **–** As compared with the OSPB December 2006 forecast, **transportation** is projected to receive an additional $101.1 million from FY 2006-07 revenue and an additional $856.3 million over the five-year forecast period. This includes providing the maximum diversion under Senate Bill 97-1 through FY 2008-09 and a partial diversion in the remaining years of the forecast.

- ***Capital Construction*** – Projected funds available for capital construction from FY 2006-07 revenue were increased by $38.7 million and $74.6 million over the five-year forecast period compared with the December 2006 forecast.

- ***Homestead Exemption*** – The forecast for the cost of the state **homestead exemption** (line 16 of Table 1) was increased by roughly $8 million annually due to higher-than-expected mill levies associated with homes that will receive the exemption on their property taxes.

- ***Referendum C*** – Under the provisions of **Referendum C**, the state will retain $5.35 billion between FY 2005-06 and FY 2009-10. **TABOR refunds** will return in FY 2010-11, with a $30.8 million refund.

REVENUE FORECASTS

TABOR REVENUE & REFERENDUM C

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. Under the provisions of TABOR, revenue collected above the TABOR limit must be returned to taxpayers, unless voters decide the State can retain the revenue. In November 2005, voters approved Referendum C, which allows the state to retain all revenue through FY 2009-10.

Table 2 summarizes the forecasts of TABOR Revenue, the TABOR Revenue Limit, and the revenue limit under Referendum C. Line 3 represents total TABOR revenue, which includes all General Fund revenue and revenue from non-exempt cash funds. Line 6 shows the allowable TABOR growth rate based on the most recent previous calendar year's growth in population and inflation. This is applied to either the previous year's revenue or limit, whichever is less, in order to compute the TABOR limit shown on line 7.

Under the provisions of Referendum C, the state is allowed to retain all revenue collected through FY 2009-10. Beginning in FY 2010-11, the amount of revenue that the state may retain is computed by multiplying the highest revenue total between FY 2005-06 and FY 2009-10 (line 9) by the allowable TABOR growth rate (line 6) for FY 2010-11. Beginning in FY 2010-11, the state will be required to refund revenue in excess of this limit. This forecast projects a refund of $30.8 million in FY 2010-11 (line 10). Line 8 shows the amount of additional General Fund revenue that the state can retain as a result of the passage of Referendum C. The total amount of revenue retained during the five-year period ending in FY 2009-10 is projected to total $5.35 billion.

GENERAL FUND

The forecast for General Fund revenues is displayed in Table 3. The March 2007 forecast for General Fund revenues is $164.7 million higher in FY 2006-07 and $271.1 million higher in FY 2007-08 than the December 2006 OSPB forecast. This increase is due to continued strength in income tax receipts, particularly in estimated payments. Income tax revenue growth is forecast to decelerate in the latter part of FY 2007-08 and FY 2008-09 as stock market gains are expected to decrease and corporations adjust to the expiration of federal tax packages.

Table 2
TABOR Revenue & Referendum C Revenue Limit
($ Millions)

Line No.		FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11
			March 2007 Estimate by Fiscal Year				
	TABOR Revenues:						
1	General Fund /A	$6,942.8	$7,356.8	$7,722.9	$8,018.5	$8,455.8	$8,930.8
2	Cash Funds	$2,218.6	$2,132.8	$2,198.6	$2,134.4	$2,162.7	$2,228.1
3	**Total TABOR Revenues**	$9,161.4	$9,489.6	$9,921.5	$10,152.9	$10,618.5	$11,158.9
	Revenue Limit Calculation:						
4	Previous calendar year population growth	*1.2%*	*1.4%*	*1.9%*	*1.7%*	*1.7%*	*1.7%*
5	Previous calendar year inflation	*0.1%*	*2.1%*	*3.6%*	*3.2%*	*2.7%*	*3.1%*
6	**Allowable TABOR Growth Rate**	*1.3%*	*3.5%*	*5.5%*	*4.9%*	*4.4%*	*4.8%*
7	TABOR Limit	$8,045.3	$8,326.9	$8,784.9	$9,215.3	$9,620.8	$10,082.6
8	General Fund Exempt Revenue Under Ref. C /B	$1,116.1	$1,162.7	$1,136.7	$937.6	$997.7	$1,076.3
9	**Revenue Limit Under Ref. C /C**	**$9,161.4**	**$9,489.6**	**$9,921.5**	**$10,152.9**	**$10,618.5**	**$11,128.2**
10	*Amount Above/(Below) Limit*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$30.8*
11	TABOR Reserve Requirement /D	$274.8	$284.7	$297.6	$304.6	$318.6	$333.8

/A These figures differ from the General Fund revenues reported in other tables because they net out 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 Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The Account consists of monies collected in excess of the TABOR limit in accordance with voter-approval of Referendum C.

/C The Revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" or the "Revenue Limit Under Ref. C," whichever is smaller. Beginning in FY 2010-11, the Revenue limit will be based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate."

/D Per S.B. 05-209, and H.B. 06-1385, the three percent TABOR emergency reserve is designated as up to $20 million in FY 2005-06 and up to $40.0 million in FY 2006-07 from the Major Medical Insurance Fund, up to $35 million in FY 2005-06 and up to $40.0 million in FY 2006-07 from the Subsequent Injury Fund, up to $12.0 million in FY 2005-06 and FY 2006-07 from the Workers' Compensation Cash Fund, up to $7.3 million in FY 2005-06 from the Severance Tax Trust Fund, up to $5.5 million in FY 2005-06 from the Colorado River Recovery Program Loan Fund, up to $100 million in FY 2005-06 and FY 2006-07 in the Wildlife Cash Fund and fund equity, and up to $75 million in FY 2005-06, and up to $80.0 million in FY 2006-07 of state properties.

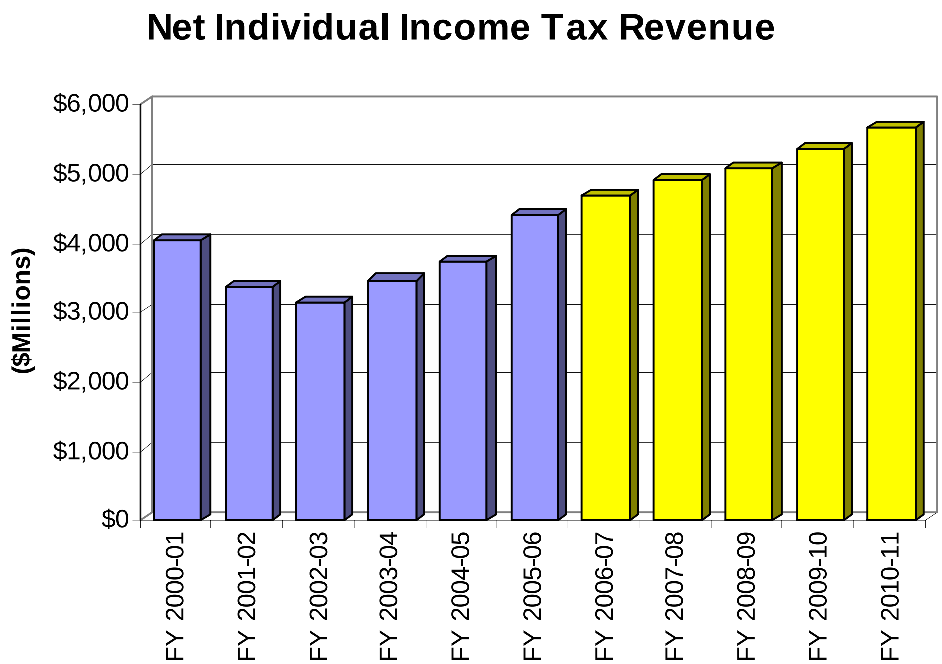
Table 3
Colorado General Fund – Revenue Estimates by Tax Category
($ Millions)

Line No.	Category	FY 2005-06	March 2007 Estimate by Fiscal Year FY 2006-07	% Chg	FY 2007-08	% Chg	FY 2008-09	% Chg	FY 2009-10	% Chg	FY 2010-11	% Chg
	Excise Taxes:											
1	Sales /A	$1,957.3	$2,059.2	5.2%	$2,196.2	6.7%	$2,318.2	5.6%	$2,461.7	6.2%	$2,612.5	6.1%
2	Use /A	$165.9	$179.3	8.1%	$182.4	1.7%	$191.7	5.1%	$203.1	5.9%	$214.3	5.5%
3	Cigarette	$48.2	$45.2	-6.1%	$43.6	-3.7%	$42.0	-3.6%	$40.7	-3.0%	$39.7	-2.5%
4	Tobacco Products	$11.2	$11.9	6.4%	$13.1	9.8%	$13.1	-0.1%	$13.0	-0.2%	$12.9	-0.7%
5	Liquor	$32.8	$34.1	4.1%	$34.5	1.0%	$35.0	1.5%	$35.6	1.7%	$36.1	1.5%
6	**Total Excise**	**$2,215.4**	**$2,329.8**	**5.2%**	**$2,469.7**	**6.0%**	**$2,599.9**	**5.3%**	**$2,754.1**	**5.9%**	**$2,915.6**	**5.9%**
	Income Taxes:											
7	Net Individual Income	$4,376.1	$4,663.1	6.6%	$4,898.5	5.0%	$5,061.1	3.3%	$5,342.5	5.6%	$5,647.6	5.7%
8	Net Corporate Income	$447.4	$465.3	4.0%	$472.6	1.6%	$479.7	1.5%	$489.2	2.0%	$514.1	5.1%
9	**Total Income**	**$4,823.5**	**$5,128.3**	**6.3%**	**$5,371.2**	**4.7%**	**$5,540.8**	**3.2%**	**$5,831.7**	**5.2%**	**$6,161.7**	**5.7%**
10	*Less: State Education Fund Diversion*	*$357.2*	*$381.2*	*6.7%*	*$399.3*	*4.7%*	*$412.1*	*3.2%*	*$433.6*	*5.2%*	*$458.0*	*5.6%*
11	**Total Income to General Fund**	**$4,466.3**	**$4,747.1**	**6.3%**	**$4,971.9**	**4.7%**	**$5,128.7**	**3.2%**	**$5,398.0**	**5.3%**	**$5,703.7**	**5.7%**
	Other Revenues:											
12	Estate /B	$6.8	$1.0	-85.3%	$1.0	0.0%	$1.0	0.0%	$1.0	0.0%	$10.0	900.0%
13	Insurance	$175.1	$194.7	11.2%	$194.5	-0.1%	$201.1	3.4%	$207.7	3.3%	$204.3	-1.6%
14	Interest Income	$33.3	$45.4	36.3%	$46.6	2.6%	$47.8	2.6%	$49.0	2.6%	$50.3	2.6%
15	Pari-Mutuel	$3.4	$3.1	-7.4%	$2.8	-9.6%	$2.7	-5.4%	$2.5	-5.9%	$2.4	-6.2%
16	Court Receipts	$27.4	$25.5	-7.0%	$26.1	2.4%	$26.7	2.3%	$27.3	2.3%	$27.9	2.3%
17	Gaming	$17.6	$16.3	-7.7%	$17.7	8.7%	$19.9	12.5%	$22.2	11.6%	$24.7	11.1%
18	Other Income	$19.3	$24.1	24.7%	$24.4	1.2%	$24.7	1.3%	$30.2	22.2%	$30.7	1.7%
19	**Total Other**	**$282.9**	**$310.1**	**9.6%**	**$313.0**	**0.9%**	**$323.8**	**3.5%**	**$339.9**	**5.0%**	**$350.2**	**3.0%**
20	**GROSS GENERAL FUND**	**$6,964.6**	**$7,387.0**	**6.1%**	**$7,754.6**	**5.0%**	**$8,052.4**	**3.8%**	**$8,492.0**	**5.5%**	**$8,969.5**	**5.6%**
	Rebates & Expenditures:											
21	Cigarette Rebate	$14.1	$12.7	-10.2%	$12.2	-3.7%	$11.8	-3.6%	$11.4	-3.0%	$11.1	-2.5%
22	Old-Age Pension Fund	$89.1	$96.1	7.8%	$103.3	7.5%	$110.7	7.2%	$118.7	7.2%	$127.2	7.2%
23	Aged Property Tax & Heating Credit	$9.8	$11.9	21.0%	$13.2	11.2%	$13.4	1.4%	$13.5	1.4%	$13.7	1.4%
24	Interest Payments for School Loans	$11.3	$11.8	4.4%	$12.3	4.2%	$12.8	4.1%	$13.3	3.9%	$13.8	3.8%
25	Fire/Police Pensions	$29.1	$29.1	-0.1%	$29.1	0.0%	$29.1	0.0%	$29.1	0.0%	$29.1	0.0%
26	**Total Rebates & Expenditures**	**$153.4**	**$161.5**	**5.3%**	**$170.0**	**5.3%**	**$177.7**	**4.5%**	**$186.0**	**4.7%**	**$195.0**	**4.8%**

NA: Not Applicable.

/A Per H.B. 00-1259, beginning January 1, 2001, 10.335 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 1.

/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.

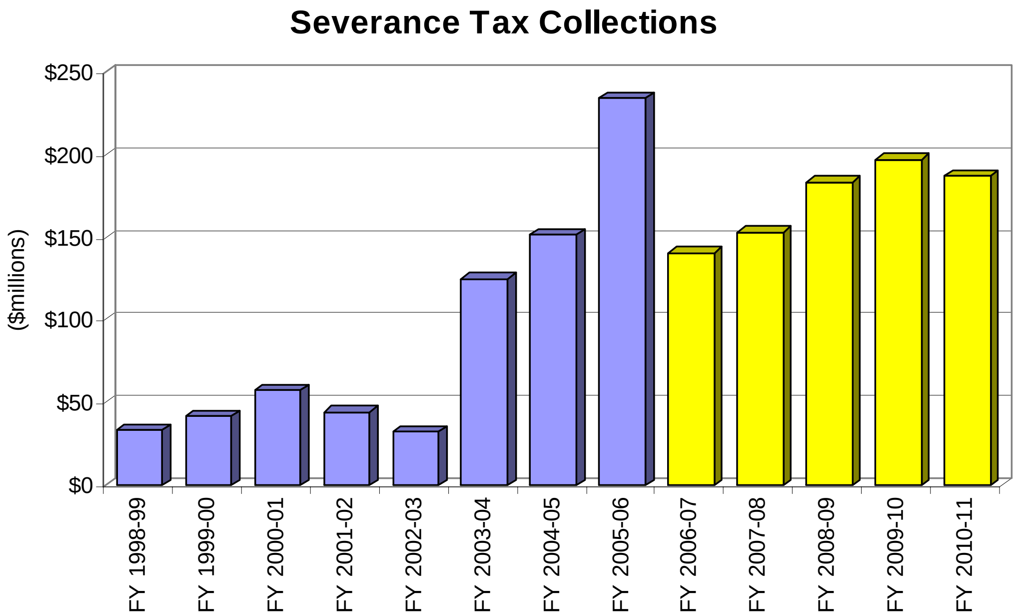


Sales tax receipts were significantly impacted by the severe snowstorms which affected much of the Front Range in late December 2006. However, state coffers were partially restored in January, due to the fact that delayed mail service included sales tax remittances. We expect that total sales tax collections will be $19.2 million less than the previous $2.04 billion forecast, largely due to the one-off impact of the snowstorms. Although the impact of the storms was severe in certain parts of Colorado, we do not believe this one-time event has altered the dynamics of the statewide economy. Therefore, we retain the same medium-term figures as the December 2006 forecast. The other excise taxes are tracking closely with previous forecasts, and are not significantly changed since December 2006.

Other General Fund revenue sources were not significantly changed with one exception. The forecast for insurance tax receipts was increased $23.8 million in FY 2006-07 due to higher-than-expected receipts through January of the fiscal year. Ultimately, we expect gross General Fund revenues to grow at a compound average annual rate of 5.2 percent through FY 2010-11.

CASH FUNDS

Table 4 summarizes the forecast for nine major **cash fund** categories. Overall, the forecast for most of these categories has not significantly changed from the December 2006 forecast. However, the forecast of severance tax revenue was reduced significantly ($25.5 million) in FY 2006-07 to account for a larger-than-normal property tax credit that taxpayers will be able to claim for the remainder of the fiscal year. Severance taxes are expected to rebound in the long-term, resulting in $6 million less in severance tax collections over the five-year forecast period as compared to the December 2006 forecast.



There were also minor increases in the forecast for transportation-related cash funds, as well as other cash funds, which represent a large group of small funds that collect fees from a variety of sources. Aggregate cash fund revenue to the state is expected to decrease 3.9 percent in FY 2006-07 and increase at a compound average annual rate of 1.1 percent over the forecast period.

Table 4
Cash Fund Revenue Forecasts by Major Category
($ Millions)

Category	FY 2005-06	March 2007 Estimate by Fiscal Year: 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	$869.6	$900.3	$906.1	$923.6	$937.8	$961.2	
Change	3.1%	3.5%	0.6%	1.9%	1.5%	2.5%	2.0%
Unemployment Insurance /A	$515.2	$470.5	$494.5	$357.1	$330.1	$354.6	
Change	10.7%	-8.7%	5.1%	-27.8%	-7.6%	7.4%	-7.2%
Limited Gaming Fund	$110.9	$117.0	$122.3	$128.3	$134.5	$138.9	
Change	7.5%	5.5%	4.5%	5.0%	4.8%	3.2%	4.6%
Capital Construction - Interest	$3.6	$9.0	$7.1	$5.3	$3.7	$2.1	
Change	56.5%	148.7%	-20.7%	-25.4%	-30.2%	-43.2%	-10.2%
Regulatory Agencies	$49.2	$52.7	$55.5	$57.5	$59.5	$61.7	
Change	-4.3%	7.2%	5.2%	3.6%	3.6%	3.6%	4.6%
Insurance-Related	$63.9	$61.0	$63.4	$66.0	$68.8	$71.7	
Change	20.1%	-4.7%	4.0%	4.1%	4.2%	4.3%	2.3%
Severance Tax	$234.3	$140.6	$153.1	$183.7	$197.1	$187.4	
Change	54.2%	-40.0%	8.9%	20.0%	7.3%	-4.9%	-4.4%
Controlled Maintenance Trust Fund Interest	$6.7	$0.0	$0.0	$0.0	$0.0	$0.0	
Change	NA	NA	NA	NA	NA	NA	NA
Other Miscellaneous Cash Funds	$365.3	$381.8	$396.7	$413.0	$431.2	$450.6	
Change	24.4%	4.5%	3.9%	4.1%	4.4%	4.5%	4.3%
TOTAL CASH FUND REVENUE	***$2,218.6***	***$2,132.8***	***$2,198.6***	***$2,134.4***	***$2,162.7***	***$2,228.1***	
Change	*12.9%*	*-3.9%*	*3.1%*	*-2.9%*	*1.3%*	*3.0%*	*0.1%*

* CAAGR: Compound Annual Average Growth Rate.

NA = Not Applicable.

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, 2006, and June 30, 2007, is less than 0.9%.

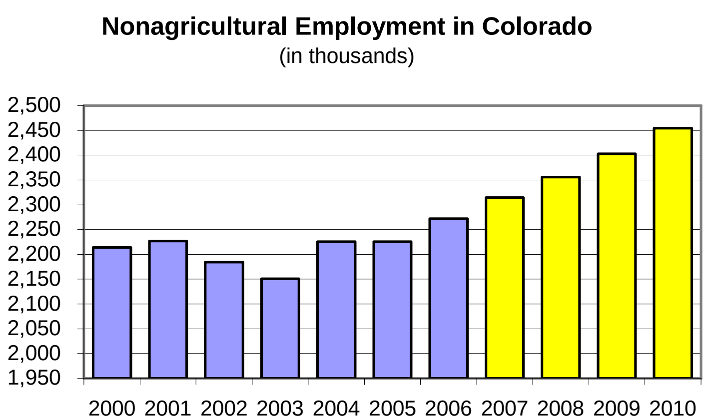
COLORADO ECONOMIC FORECAST

The economic recovery continues in Colorado, in concert with broader national economic conditions. Although some sectors are faring better than others, aggregate indicators like the unemployment rate, retail trade, and wage growth have continued at positive, sustainable levels. In the last few months, there have not been any major shocks to the Colorado economy. As such, the March 2007 OSPB forecast for the Colorado economy has not significantly changed compared with the December 2006 forecast.

This section presents the OSPB forecast for Colorado economic and demographic indicators. It includes a discussion of employment and unemployment, inflation, wages and income, and population and migration.

EMPLOYMENT

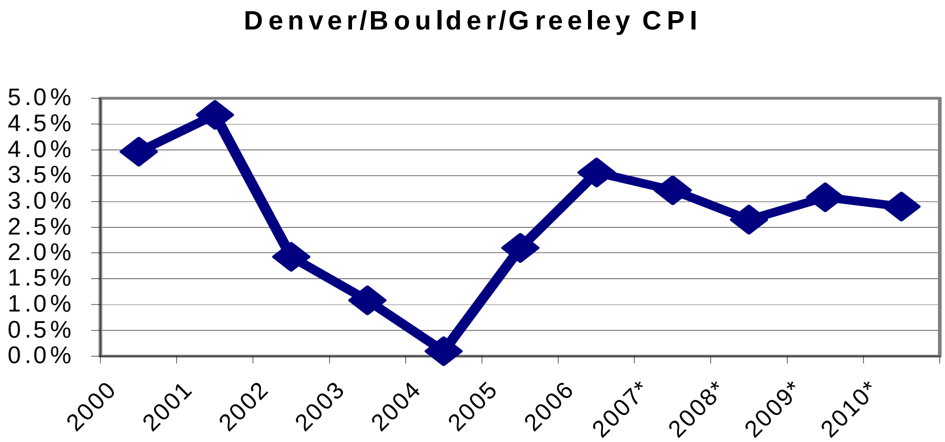
Recently revised figures show that Colorado *employment* rose 2.4 percent in 2006, a net increase of 52,800 new jobs. We expect that 2007 employment growth will moderate to 1.9 percent in 2007 and 1.8 percent in 2008.



The 2006 Colorado *unemployment* rate dropped to 4.3 percent, well below the 5.0 percent rate posted in 2005. The unemployment rate will increase slightly 4.4 percent in 2007 as growth in the labor force more than matches the expected increases in new jobs.

INFLATION

During 2006, consumer prices in the Denver-Boulder-Greeley area increased 3.6 percent after posting a 2.1 percent increase in 2005. The largest component of the CPI is the rental cost of shelter. Whereas the rental market in the Denver metropolitan area had been soft for several years, a combination of factors led to a strengthening market in 2006. Higher absorption rates, little new inventory and a shift away from owning to renting conspired to push prices higher. In addition, the transportation component of the index rose significantly due to higher fuel prices, and the medical component reflected increases in the costs of medical care. We forecast that local inflation will be 3.2 percent in 2007 and 2.7 percent in 2008.



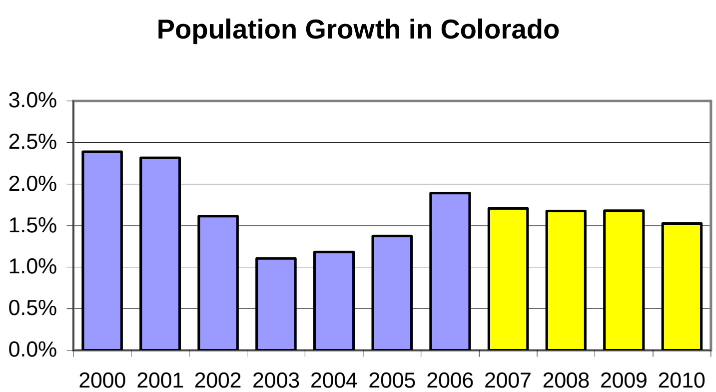
Wages and Income

Personal income grew 6.4 percent in Colorado through the third quarter of 2006. However, after for adjusting for inflation and population growth, real per capita income growth was only 0.8 percent. We forecast that personal income will grow 6.3 percent in 2007 and 6.0 percent in 2008, which corresponds to real per capita growth of 1.3 percent and 1.6 percent, respectively.

Colorado wage and salary income rose 7.0 percent through the third quarter of 2006, reflecting a reasonably strong labor market, growth in the labor force, and inflation. We forecast wage and salary income to increase 6.3 percent in 2007 and 6.0 percent in 2008.

Population and Migration

In 2006, net in-migration to Colorado was 49,700, which contributed to total population growth of 1.9 percent. In accordance with our moderating employment forecast, we expect net in-migration to slow slightly to 41,900 in 2007 and 41,400 in 2008, with total population growth of 1.7 percent in 2007 and 2008.



Construction

In 2006, *residential* single-family permits dropped 22.7 percent, as the supply of homes outstripped demand. However, multifamily permits grew 38.1 percent in response to renewed strength in the apartment market and the continuing build-out of urban renewal sites in the Front Range. We forecast single-family permits to be flat in 2007 and gradually recover to 2.9 percent growth in 2008, while multifamily permit growth will slow to 3.9 percent in 2007 and 0.9 percent in 2008.

Although the Denver-area commercial real estate market has recovered significantly since 2003, the total value of *nonresidential* construction permits statewide fell 2.2 percent in 2006, reflecting conservatism in the construction of new commercial space. We forecast the value of nonresidential permits to decline 1.4 percent in 2007 and begin to recover in 2008 with 3.6 percent growth.

RETAIL TRADE

In 2006, retail trade sales in Colorado rose 5.7 percent. We forecast retail sales will continue at this pace in 2007 and in 2008 as well. Whereas, retail sales have been lower in recent years than might have been expected by the relative strength of the economy, stabilizing energy prices and the expiration of steep automotive incentives will make consumer demand more regular in the short term.

RISKS TO THE COLORADO FORECAST

Colorado's economic condition is largely determined by the national economy. Historically, the Colorado economy has tended to lag the national economy, so any serious downturn in the national condition will work its way into Colorado eventually. Colorado is now no longer as vulnerable to a correction in the information technology sector as it was in the early 2000s, because IT employment has continued to shrink. High energy prices, while a burden to consumers generally, have led to an economic boom in the Western Slope. Although the impact to the state's economy from energy prices is ambiguous, the state government receives more revenue from sales and use taxes than from severance taxes and mineral lease revenue. In that sense, high energy prices represent a downside risk to state revenue.

Colorado is seen as being largely insulated from the deteriorating housing market conditions that exist on the coasts. Except for resort communities and certain Front Range communities with restrictions on new housing development, Colorado did not experience the double-digit growth seen over the last couple of years in places like Las Vegas, Phoenix and Washington, D.C. As such, there is less of a decline necessary to return house prices to their historic relation to income and rents. Foreclosures, while high compared to other states and endemic to certain localities, are a lagging indicator of economic distress and therefore do not represent a serious risk to the statewide economy.

Table 5
History and Forecast for Key Colorado Economic Variables
Calendar Year 2002-2011

Line No.		Actual					Forecast				
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Current Income										
1	Personal Income (Billions)	$153.1	$154.9	$164.6	$174.8	$186.0	$197.7	$209.7	$223.2	$237.9	$252.7
2	Change	0.2%	1.2%	6.3%	6.2%	6.4%	6.3%	6.0%	6.4%	6.6%	6.2%
3	Wage and Salary Income (Billions)	$86.9	$88.0	$92.1	$97.3	$104.0	$110.5	$117.1	$124.1	$131.7	$140.0
4	Change	-1.5%	1.2%	4.6%	5.7%	7.0%	6.2%	5.9%	6.0%	6.1%	6.3%
5	Per-Capita Income ($/person)	$34,027	$34,056	$35,766	$37,459	$39,126	$40,904	$42,655	$44,655	$46,888	$49,018
6	Change	-1.4%	0.1%	5.0%	4.7%	4.5%	4.5%	4.3%	4.7%	5.0%	4.5%
	Population & Employment										
7	Population (Thousands)	4,498.4	4,548.1	4,601.8	4,665.2	4,753.4	4,834.4	4,915.5	4,997.9	5,074.2	5,154.8
8	Change	1.6%	1.1%	1.2%	1.4%	1.9%	1.7%	1.7%	1.7%	1.5%	1.6%
9	Net Migration (Thousands)	34.2	12.4	15.3	24.5	49.7	41.9	41.4	42.4	35.9	39.9
10	Civilian Unemployment Rate	5.7%	6.1%	5.6%	5.0%	4.3%	4.4%	4.5%	4.5%	4.3%	4.3%
11	Total Nonagricultural Employment (Thousands)	2,184.2	2,151.1	2,175.9	2,226.0	2,278.8	2,321.4	2,363.0	2,410.2	2,461.4	2,514.1
12	Change	-1.9%	-1.5%	1.2%	2.3%	2.4%	1.9%	1.8%	2.0%	2.1%	2.1%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	47.9	39.4	46.4	46.3	39.3	39.6	40.6	42.5	43.9	45.4
14	Change	-12.9%	-17.7%	17.5%	-0.2%	-15.0%	0.8%	2.5%	4.6%	3.2%	3.4%
15	Nonresidential Construction Value (Millions)	2,637.8	2,433.7	3,155.2	3,979.5	3,890.4	3,837.8	3,974.5	4,101.3	4,287.2	4,420.7
16	Change	-21.8%	-7.7%	29.6%	26.1%	-2.2%	-1.4%	3.6%	3.2%	4.5%	3.1%
	Prices & Sales Variables										
17	Retail Trade Sales (Billions)	$58.8	$58.7	$62.3	$65.5	$69.2	$73.2	$77.3	$81.8	$86.7	$91.9
18	Change	-0.5%	-0.2%	6.1%	5.1%	5.7%	5.7%	5.7%	5.8%	5.9%	6.0%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	184.8	186.8	187.0	190.9	197.7	204.1	209.5	215.9	222.2	229.2
20	Change	1.9%	1.1%	0.1%	2.1%	3.6%	3.2%	2.6%	3.1%	2.9%	3.1%

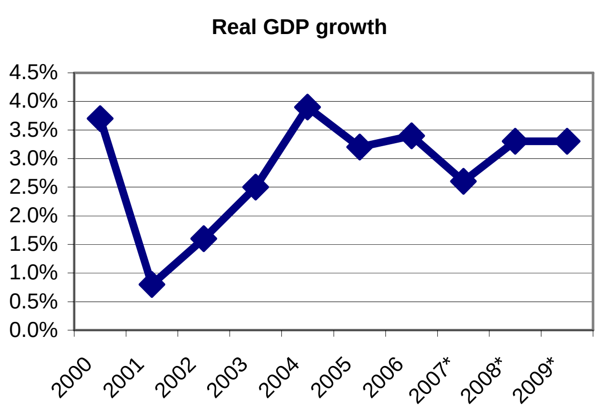
NATIONAL ECONOMIC FORECAST

The national economy is healthy, despite unusual conditions in major sectors of the economy. The unemployment rate is near a historic low and output growth has been solid, if unspectacular. The housing sector of the economy has continued to slow, and structural challenges in the federal budget are still prominent, despite recent increases in tax revenue. Uncertainty in asset markets has recently manifested itself in payroll and inventory figures, but consensus forecasts for 2007 discount the likelihood of recession. In the absence of strong data, the March 2007 national forecast is not significantly different than the December 2006 forecast.

This section presents the OSPB forecast for National economic and demographic indicators. It includes a discussion of employment and unemployment, inflation, wages and income, and population and migration.

GROSS DOMESTIC PRODUCT

Gross Domestic Product (GDP) is the value of all final goods and services produced in the United States and sold at retail. It is the broadest measure of economic well-being. In 2006, inflation-adjusted gross GDP increased 3.3 percent. A robust 3.5 percent growth figure in the fourth quarter was revised downwards to 2.2 percent, the third consecutive quarter of real GDP growth below three percent. The medium-term outlook for GDP has softened in the last few months, with consensus forecasts between 2.6 percent and 3.3 percent growth through 2011.



The increase in real GDP in the fourth quarter was primarily due to increased personal consumption expenditures, exports, and government spending. Imports, which are a subtraction in the calculation of GDP, decreased. These gains were partially offset by negative results in private inventory investment and residential fixed investment.

- ***Consumer spending,*** which comprises more than two thirds of GDP, rose 4.2 percent in the fourth quarter of 2006. Strong fourth quarter performance allayed fears of a slowdown, as lower growth rates of 2.6 percent and 2.8 percent in the second and third quarters had followed a solid 4.8 percent first quarter growth rate. Growth in the production of retail goods outpaced that of services, as durable goods increased 6.0 percent and nondurable goods increased 6.9 percent in the fourth quarter. Services expenditures increased 2.9 percent.

- ***Business investment*** grew 4.6 percent in 2006, backed by strong growth in the commercial real estate market. Commercial structural investment ended 2006 9.1 percent higher than 2005, and business equipment and software sales grew 6.7 percent. Residential investment actually declined 4.2 percent as overheated housing markets on the coasts finally began to cool down.

INFLATION

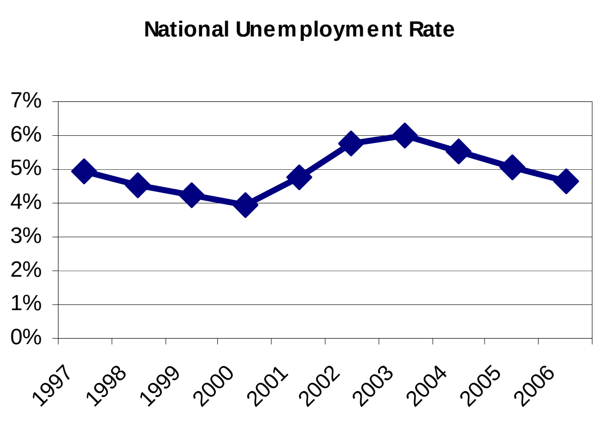
Inflationary pressures are stabilizing. While low by historical standards, inflation is running slightly above the comfort level of most central bankers. Overall, consumer prices rose 3.2 percent in 2006 and are expected to rise 2.3 percent in 2007 and 2.7 percent in 2008. Meanwhile, core consumer prices — which exclude energy and food prices — increased 2.5 percent in 2006 and are expected to increase at 2.5 percent annually through 2009.

INTEREST RATES

Whereas monetary policy has been very accommodating in recent years, we have experienced a gradual restoration of a neutral policy. The federal funds rate, which was at 1.75 percent as recently as September 2004, is now 5.25 percent and is expected to stay that way for at least the first half of 2007, with a rate hike possible towards the end of the third quarter if inflation persists. Recent comments by members of the Federal Reserve's Open Market Committee have reiterated their broad commitment to price stability and the viability of the banking system, rather than narrower issues such as asset bubbles and sub-prime mortgage lending.

EMPLOYMENT

National payrolls increased 1.9 percent in 2006, with 2.7 million workers added to nonfarm payrolls between 2005 and 2006. In 2007 and 2008, employment will increase 1.7 percent and 1.2 percent, respectively.



The unemployment rate finished at 4.6 percent for 2006 and is forecast to average 4.4 percent in 2007 and 4.3 percent in 2008. Economists tend to think that an unemployment rate around 4.5 percent is the lowest that can be sustained; in this sense, the forecast reflects expectations of a fundamentally strong labor market in the medium term.

RISKS TO THE FORECAST

This forecast has a variety of risks. The downside risks are more easily identifiable. While the U.S. economy is far more inoculated against energy price shocks than it was in the 1970s, a major geopolitical event, severe weather, or OPEC action could still cause significant harm. In addition, an increasingly global financial system exposes the national economy to harm from events such as debt defaults, currency devaluations, or the arbitrary imposition of capital controls. On the domestic front, any further weakening in the housing market will put a noticeable dent in employment and output.

Some risks to the upside include a soft landing for the housing market, further diminishing of the federal budget deficit, or a satisfactory conclusion to the Doha round of multilateral trade talks. In addition, there is still a large risk premium on the price of oil due to perceived security risks in the Middle East. An improvement in the geopolitical climate could reduce the price of oil significantly, which would boost the spending power of American consumers.

Table 6
History and Forecast for Key National Economic Variables
Calendar Year 2002-2011

Line No.		Actual					Forecast				
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Inflation-Adjusted & Current Dollar Income Accounts										
1	Inflation-Adjusted Gross Domestic Product (Billions)	$10,017.9	$10,239.2	$10,644.2	$10,991.8	$11,359.4	$11,700.5	$12,078.4	$12,476.9	$12,871.4	$13,251.6
2	Change	1.3%	2.2%	4.0%	3.3%	3.3%	3.0%	3.2%	3.3%	3.2%	3.0%
3	Gross Domestic Product (Billions)	$10,469.7	$10,961.0	$11,712.6	$12,456.0	$13,304.7	$14,093.0	$14,882.1	$15,676.3	$16,476.0	$17,304.9
4	Change	3.4%	4.7%	6.9%	6.3%	6.8%	5.9%	5.6%	5.3%	5.1%	5.0%
5	Personal Income (Billions)	$8,896.8	$9,203.7	$9,778.9	$10,293.0	$10,939.5	$11,500.0	$12,132.6	$12,804.2	$13,509.3	$14,244.0
6	Change	1.9%	3.4%	6.2%	5.3%	6.3%	5.1%	5.5%	5.5%	5.5%	5.4%
7	Per-Capita Income ($/person)	$30,864.0	$31,615.0	$33,269.0	$34,694.0	$36,400.0	$37,735.0	$39,278.0	$40,937.0	$42,669.0	$44,459.0
8	Change	0.8%	2.4%	5.2%	4.3%	4.9%	3.7%	4.1%	4.2%	4.2%	4.2%
	Population & Employment										
9	Population (Millions)	288.3	291.1	293.9	296.7	299.4	302.2	305.1	307.9	310.6	313.4
10	Change	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	1.0%	0.9%	0.9%	0.9%
11	Civilian Unemployment Rate	5.8%	6.0%	5.5%	5.0%	4.6%	4.4%	4.3%	4.2%	4.2%	4.2%
12	Total Nonagricultural Employment1 (Millions)	130.4	130.0	131.1	133.1	135.8	137.8	139.6	141.3	143.1	144.8
13	Change	-1.3%	-0.3%	0.8%	1.5%	2.0%	1.5%	1.3%	1.2%	1.3%	1.2%
	Financial Markets										
14	30-Year T-Bond Rate	4.8%	3.9%	3.3%	3.6%	5.2%	5.6%	5.7%	5.9%	5.9%	5.8%
15	10-Year T-Bond Rate	4.6%	4.0%	4.3%	4.3%	5.1%	5.1%	5.3%	5.5%	5.6%	5.4%
16	Federal Fund Rate	1.6%	1.1%	1.5%	3.4%	5.0%	5.5%	5.8%	5.6%	5.5%	5.5%
	Price Variables										
17	Consumer Price Index (1982-84=100)	179.2	183.4	187.8	194.2	200.8	205.2	211.0	216.6	222.4	228.4
18	Change	1.5%	2.3%	2.4%	3.4%	3.4%	2.2%	2.8%	2.7%	2.7%	2.7%
19	Producer Price Index (1982=100)	139.1	143.7	149.0	156.4	160.4	163.4	167.3	171.2	175.1	179.1
20	Change	-0.9%	3.3%	3.7%	5.0%	2.6%	1.9%	2.4%	2.3%	2.3%	2.3%
	Other Key Indicators										
21	Industrial Production Index (1992=100)	100.2	100.8	105.1	108.3	111.5	114.1	118.0	122.0	125.8	129.5
22	Change	0.6%	0.6%	4.3%	3.0%	3.0%	2.3%	3.4%	3.4%	3.1%	2.9%
23	Corporate Profits After Tax (Billions)	$575.9	$664.8	$844.2	$1,119.5	$1,238.1	$1,237.3	$1,287.1	$1,358.2	$1,428.0	$1,498.8
24	Change	14.3%	15.4%	27.0%	32.6%	10.6%	-0.1%	4.0%	5.5%	5.1%	5.0%
25	Housing Starts (Millions)	1.71	1.85	1.95	2.07	1.94	1.68	1.59	1.57	1.60	1.63
26	Change	6.8%	8.4%	5.1%	6.4%	-6.3%	-13.8%	-5.1%	-1.1%	1.6%	2.3%