STATE OF COLORADO

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Bill Ritter Jr.
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MEMORANDUM

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

FROM: Office of State Planning and Budgeting

DATE: September 19, 2007

SUBJECT: ***September 2007 Revenue Forecast***

This memorandum presents the September 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, a summary of significant legislation from the recent legislative session that impacted the forecast, and summaries of both the national and Colorado economic forecasts.

SEPTEMBER 2007 OSPB FORECAST HIGHLIGHTS

- After increasing 8.6 percent in FY 2006-07, gross **General Fund revenues** are forecast to increase 3.0 percent in FY 2007-08 and 4.0 percent in FY 2008-09. A slowing national economy will contribute significantly to a slower local economy, yielding lower revenue growth over the next few years. After adjusting for preliminary actual revenues from FY 2006-07, the forecast was hardly changed from June.

- **Cash fund revenues** are forecast to increase 4.7 percent in FY 2007-08, following a 5.8 percent decrease in FY 2006-07. The fluctuations in the forecast are largely due to volatile severance tax collections.

- Through FY 2008-09, the state is projected to have enough General Fund revenue to maintain **appropriations** growth of six percent and make complete **Senate Bill 97-1 transfers** of $241.3 million in FY 2007-08 and $250.9 in FY 2008-09 to the Highway Users Tax Fund. Additionally, the state is projected to have **excess reserves** of $147 million in FY 2007-08, and $49 million in FY 2008-09.

- In total, after receiving $410.4 million from FY 2006-07 revenue, **transportation** is expected to receive an additional $1.3 billion over the five-year forecast period. Meanwhile, **capital construction** received $235.8 million from FY 2006-07 revenue and is expected to receive an additional $183.6 million over the five-year forecast period, largely based on excess reserve transfers.

- Under the provisions of **Referendum C**, the State will retain $5.99 billion from FY 2005-06 through FY 2009-10. The $360 million increase in this figure over June forecast figures is almost entirely due to increases in the forecasts for severance taxes and unemployment insurance.

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 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 September 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 7. 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 10.355 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 18), as well as maintain a statutory four percent reserve (line 21).

Lines 8 through 10 summarize the amount of allowable General Fund Appropriations based on the six percent limit. Lines 11 through 17 summarize spending that is excepted from the six percent limit, but is included in the base for future growth (line 11), and other spending outside the six percent limit. It should be noted that the total on line 12 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 21) 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 22). 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 23) and one-third for capital construction (line 24).

Finally, for informational purposes only, line 25 shows the amount of money credited to the State Education Fund. Under the provisions of Amendment 23, the state credits an amount equal to 0.33 percent of state taxable income to the State Education Fund.

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

Line No.		Preliminary FY 2006-07	September 2007 Estimate by Fiscal Year FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenue							
1	Beginning Reserve	$251.7	$267.0	$283.5	$300.8	$318.8	$337.9
2	**Gross General Fund Revenue**	**$7,562.5**	**$7,791.1**	**$8,102.0**	**$8,515.8**	**$8,979.3**	**$9,481.9**
3	*General Fund*	*$6,250.9*	*$6,617.1*	*$6,919.7*	*$7,312.3*	*$7,788.8*	*$8,263.4*
4	*General Fund Exempt*	*$1,311.6*	*$1,174.0*	*$1,182.3*	*$1,203.6*	*$1,190.5*	*$1,218.5*
5	**Senate Bill 97-1 Diversion**	**($230.6)**	**($241.3)**	**($250.9)**	**($241.2)**	**($229.6)**	**($242.0)**
6	*Percent of Maximum*	*100%*	*100%*	*100%*	*92%*	*83%*	*84%*
7	**TOTAL REVENUE**	**$7,583.7**	**$7,816.8**	**$8,134.6**	**$8,575.4**	**$9,068.6**	**$9,577.9**
Expenditures							
8	**General Fund Appropriations (Subject to 6% Limit)**	**$6,675.6**	**$7,087.5**	**$7,519.3**	**$7,970.4**	***$8,448.7***	***$8,955.6***
9	*Appropriations Change*	*$382.9*	*$412.0*	*$431.8*	*$451.2*	*$478.2*	*$506.9*
10	*Percent Change*	*6.1%*	*6.2%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*
11	**Exemptions to 6% Limit /A**	**$10.8**	**$6.1**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
12	**Spending Outside 6% Limit**	**$360.6**	**$292.6**	**$265.5**	**$286.2**	**$281.9**	**$264.1**
13	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
14	*Rebates and Expenditures /B*	*$164.6*	*$169.4*	*$179.8*	*$186.4*	*$181.2*	*$164.1*
15	*Homestead Exemption*	*$74.2*	*$76.2*	*$77.2*	*$78.5*	*$79.2*	*$80.2*
16	*Transfers to Capital Construction*	*$145.9*	*$47.0*	*$8.5*	*$21.3*	*$21.6*	*$19.8*
17	*Reversions and Accounting Adjustments*	*($24.1)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
18	**TOTAL OBLIGATIONS**	**$7,047.0**	**$7,386.3**	**$7,784.8**	**$8,256.6**	**$8,730.6**	**$9,219.6**
Reserves							
19	**Year-End Reserve**	**$536.7**	**$430.5**	**$349.8**	**$318.8**	**$337.9**	**$358.2**
20	*Year-End Reserve as a % of Appropriations*	*8.0%*	*6.1%*	*4.7%*	*4.0%*	*4.0%*	*4.0%*
21	**Statutory Reserve: 4% of Appropriations**	**$267.0**	**$283.5**	**$300.8**	**$318.8**	**$337.9**	**$358.2**
22	**Excess Monies Above (Below) Reserve**	**$269.7**	**$147.0**	**$49.0**	**$0.0**	**$0.0**	**$0.0**
23	*2/3 for Transportation /C*	*$179.8*	*$98.0*	*$32.7*	*$0.0*	*$0.0*	*$0.0*
24	*1/3 for Capital Construction /C*	*$89.9*	*$49.0*	*$16.3*	*$0.0*	*$0.0*	*$0.0*
25	Addendum: State Education Fund /D	$395.1	$409.3	$426.9	$450.9	$479.4	$507.3

Note: Lines in Bold represent totals.

/A In FY 2006-07 a total of $10.8 million,and in FY 2007-08 $6.1 million 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.

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

/C 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.

/D 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 largely unchanged as compared with the June 2007 revenue forecast. Though it appears General Fund revenues will remain strong through FY 2007-08, there is some downside risk in FY 2008-09, as the next several months will provide additional clarity as to the national economic picture. As has been well documented, Colorado typically lags the national economy in terms of the timing of economic cycles, thus making the national economic health a significant indicator of the direction of the Colorado economy:

- ***Appropriations* –** Based on the September forecast, the state will have enough revenue to fully fund General Fund Appropriations up to the six-percent limit through at least FY 2011-12. After adding in exemptions, including Medicaid over expenditures, from the limit in FY 2006-07, the six percent allowable growth represents $412 million in FY 2007-08

- ***Transportation*** – The total amount of General Fund revenue flowing to transportation will be more than $1.3 billion over the next five years. 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 2007-08 revenue were essentially unchanged from June at $96 million.

- ***Referendum C*** – Under the provisions of Referendum C, the state will retain $5.99 billion between FY 2005-06 and FY 2009-10. The increase of approximately $360 million over figures published in June is almost entirely the result of increases in the forecasts for unemployment insurance and severance taxes. Largely due to very slow cash fund growth during the last two years of the forecast period, **TABOR refunds** are not forecast to return by FY 2011-12.

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 each subsequent year. Beginning in FY 2010-11, the state will be required to refund revenue in excess of this limit. This forecast does not project a refund in FY 2010-11 or FY 2011-12 (line 10). Because TABOR revenues includes both cash fund and General Fund revenues, the relatively slow growth in cash funds during these years allows for more robust General Fund revenue growth without generating a refund. 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 $5.99 billion.

GENERAL FUND

The forecast for General Fund revenues is shown in Table 3. The June 2007 forecast for General Fund revenues forecast was low in comparison to the preliminary numbers for FY 2006-07. Preliminary General Fund revenue figures for FY 2006-07 represent an 8.6 percent increase over FY 2005-06. This increase was due to an 11.3% increase in both individual and corporate income tax receipts, more than offsetting decreases in General Fund revenue from legislation passed in the 2007 session. 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.		Preliminary FY 2006-07	September 2007 Estimate by Fiscal Year FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
	TABOR Revenues:						
1	General Fund /A	$7,554.8	$7,777.1	$8,102.0	$8,515.8	$8,979.3	$9,481.9
2	Cash Funds	$2,090.7	$2,189.1	$2,297.7	$2,362.3	$2,389.2	$2,437.2
3	**Total TABOR Revenues**	$9,645.4	$9,966.1	$10,399.7	$10,878.1	$11,368.5	$11,919.2
	Revenue Limit Calculation:						
4	Previous calendar year population growth	*1.4%*	*1.9%*	*2.0%*	*2.1%*	*2.1%*	*2.0%*
5	Previous calendar year inflation	*2.1%*	*3.6%*	*2.8%*	*2.9%*	*3.1%*	*3.2%*
6	**Allowable TABOR Growth Rate**	*3.5%*	*5.5%*	*4.8%*	*5.0%*	*5.2%*	*5.1%*
7	TABOR Limit	$8,333.8	$8,792.2	$9,217.3	$9,674.5	$10,178.0	$10,700.7
8	General Fund Exempt Revenue Under Ref. C /C	$1,311.6	$1,174.0	$1,182.3	$1,203.6	$1,190.5	$1,218.5
9	**Revenue Limit Under Ref. C /B**	**$9,645.4**	**$9,966.1**	**$10,399.7**	**$10,878.1**	**$11,444.2**	**$12,031.9**
10	*Amount Above/(Below) Limit*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*($75.7)*	*($112.7)*
11	TABOR Reserve Requirement	$289.4	$299.0	$312.0	$326.3	$341.1	$357.6

/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 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."

/C 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.

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

Line No.	Category	Preliminary FY 2006-07	% Chg	September 2007 Estimate by Fiscal Year FY 2007-08	% Chg	FY 2008-09	% Chg	FY 2009-10	% Chg	FY 2010-11	% Chg	FY 2011-12	% Chg
	Excise Taxes:												
1	Sales /A	$2,050.7	4.8%	$2,148.2	4.8%	$2,234.2	4.0%	$2,337.8	4.6%	$2,455.1	5.0%	$2,582.2	5.2%
2	Use /A	$181.6	9.4%	$182.0	0.3%	$189.2	3.9%	$196.3	3.7%	$203.8	3.8%	$211.0	3.6%
3	Cigarette	$47.1	-2.4%	$45.5	-3.4%	$43.8	-3.6%	$42.5	-3.0%	$41.5	-2.5%	$40.9	-1.3%
4	Tobacco Products	$13.0	15.5%	$12.6	-3.1%	$12.8	1.6%	$13.0	1.5%	$13.1	1.3%	$13.4	1.7%
5	Liquor	$34.0	3.5%	$33.7	-0.8%	$34.5	2.3%	$35.4	2.8%	$36.4	2.6%	$37.3	2.5%
6	**Total Excise**	**$2,326.3**	**5.0%**	**$2,422.0**	**4.1%**	**$2,514.5**	**3.8%**	**$2,625.0**	**4.4%**	**$2,749.9**	**4.8%**	**$2,884.8**	**4.9%**
	Income Taxes:												
7	Net Individual Income	$4,870.9	11.3%	$5,013.7	2.9%	$5,259.8	4.9%	$5,574.3	6.0%	$5,946.6	6.7%	$6,322.0	6.3%
8	Net Corporate Income	$497.9	11.3%	$497.0	-0.2%	$487.0	-2.0%	$496.7	2.0%	$512.1	3.1%	$524.9	2.5%
9	**Total Income**	**$5,368.8**	**11.3%**	**$5,510.8**	**2.6%**	**$5,746.8**	**4.3%**	**$6,071.0**	**5.6%**	**$6,458.7**	**6.4%**	**$6,846.9**	**6.0%**
10	*Less: State Education Fund Diversion*	*$395.1*	*10.6%*	*$409.3*	*3.6%*	*$426.9*	*4.3%*	*$450.9*	*5.6%*	*$479.4*	*6.3%*	*$507.3*	*5.8%*
11	**Total Income to General Fund**	**$4,973.7**	**11.4%**	**$5,101.4**	**2.6%**	**$5,319.9**	**4.3%**	**$5,620.1**	**5.6%**	**$5,979.3**	**6.4%**	**$6,339.6**	**6.0%**
	Other Revenues:												
12	Estate /B	$0.8	-88.5%	$0.5	-36.2%	$0.5	0.0%	$0.5	0.0%	$0.5	0.0%	$0.5	0.0%
13	Insurance	$179.4	2.5%	$186.6	4.0%	$193.0	3.4%	$199.3	3.3%	$195.6	-1.8%	$202.0	3.2%
14	Interest Income	$28.2	726.2%	$28.8	2.2%	$29.6	2.6%	$30.3	2.6%	$31.1	2.6%	$31.9	2.6%
15	Pari-Mutuel	$3.0	-91.1%	$2.6	-12.0%	$2.5	-5.4%	$2.3	-5.9%	$2.2	-6.2%	$2.0	-6.4%
16	Court Receipts	$28.7	5.0%	$29.3	2.0%	$22.1	-24.5%	$17.9	-19.2%	$0.0	-100.0%	$0.0	N/A
17	Gaming	$6.5	-62.7%	$0.0	-100.0%	$0.0	N/A	$0.0	N/A	$0.0	N/A	$0.0	N/A
18	Other Income	$15.9	-17.7%	$19.8	24.7%	$20.0	1.0%	$20.4	1.7%	$20.8	2.0%	$21.2	2.0%
19	**Total Other**	**$262.5**	**-7.2%**	**$267.7**	**2.0%**	**$267.6**	**0.0%**	**$270.7**	**1.1%**	**$250.2**	**-7.6%**	**$257.6**	**3.0%**
20	**GROSS GENERAL FUND**	**$7,562.5**	**8.6%**	**$7,791.1**	**3.0%**	**$8,102.0**	**4.0%**	**$8,515.8**	**5.1%**	**$8,979.3**	**5.4%**	**$9,481.9**	**5.6%**
	Rebates & Expenditures:												
21	Cigarette Rebate	$13.2	-6.3%	$11.7	-11.3%	$11.4	-2.9%	$11.1	-2.5%	$10.9	-1.9%	$10.9	0.0%
22	Old-Age Pension Fund	$93.7	5.1%	$100.4	7.2%	$105.7	5.2%	$111.0	5.1%	$117.7	6.0%	$124.1	5.4%
23	Aged Property Tax & Heating Credit	$8.4	-14.3%	$7.7	-8.2%	$12.7	65.7%	$14.0	10.1%	$13.6	-3.0%	$13.6	0.0%
24	Interest Payments for School Loans	$10.6	-6.3%	$10.8	2.0%	$11.2	3.7%	$11.4	1.8%	$11.5	0.9%	$11.5	0.0%
25	Fire/Police Pensions	$38.8	33.3%	$38.8	0.1%	$38.8	0.0%	$38.8	0.0%	$27.5	-29.1%	$4.0	-85.5%
26	**Total Rebates & Expenditures**	**$164.6**	**7.3%**	**$169.4**	**3.0%**	**$179.8**	**6.1%**	**$186.4**	**3.7%**	**$181.2**	**-2.8%**	**$164.1**	**-9.5%**

NA: Not Applicable.

/A Per H.B. 00-1259, beginning January 1, 2001, 10.355 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 has been almost entirely eliminated as of FY 2005-06.

In general, excise tax revenue came in as expected for FY 2006-07. As a result, these forecasts were largely unchanged from June. Total sales tax collections will be $2.15 billion in FY 2007-08, 4.8 percent higher than collections in FY 2006-07. The medium-term forecast reflects less optimistic expectation for economic growth, particularly in tourism as the national economy slows.

Though Other General Fund revenue sources were changed to reflect end-of-fiscal-year figures, this did not amount to any dramatic changes. Ultimately, we expect gross General Fund revenues to grow at a compound average annual rate of 4.6 percent through FY 2011-12.

CASH FUNDS

Table 4 summarizes the forecast for nine major **cash fund** categories. Total cash fund revenue in FY 2006-07 was $2.09 billion dollars, as compared to $2.21 billion in FY 2005-06. The majority of the decline was due to highly volatile ***severance tax*** collections, which where $234.3 million in FY 2005-06, but only $145.1 million in FY 2006-07. OSPB and Legislative Council staff project severance tax revenues of $171.1 million in FY 2007-08 and $200.0 million in FY 2008-09, as a new pipeline is expected to come online at the beginning of next year, increasing demand for Colorado natural gas. ***Transportation-related*** cash fund revenues were $884.6 million in FY 2006-07, increasing only slightly over FY 2005-06 revenue of $869.6 million. Transportation-related revenue will be $903.6 million in FY 2007-08 and $921.2 million in FY 2008-09. ***Unemployment Insurance*** revenue was $425.2 million, as compared to the June 2007 forecast of $464.7 million. Unemployment insurance revenue will be $440.5 million in FY 2007-08 and $472.8 million in FY 2008-09. The forecast was increased significantly in the out-years due to an increase in the expectation of average tax rates. ***Limited Gaming*** revenue was $117.9 million in FY 2006-07, compared to $110.9 million in FY 2005-06 and a June 2007 forecast of $119.7 million. Gaming revenue will be $133.2 million in FY 2007-08 and $143.3 million in FY 2008-09.

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

Category	FY 2006-07	September 2007 Estimate by Fiscal Year: FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2006-07 to FY 2011-12 CAAGR *
Transportation-Related	$884.6	$903.6	$921.2	$931.5	$953.0	$970.4	
Change	1.7%	2.1%	1.9%	1.1%	2.3%	1.8%	1.9%
Unemployment Insurance /A	$425.2	$440.5	$472.8	$499.6	$464.0	$462.3	
Change	-17.5%	3.6%	7.3%	5.7%	-7.1%	-0.4%	1.7%
Limited Gaming Fund	$117.9	$133.2	$143.3	$152.9	$162.8	$172.9	
Change	6.3%	13.0%	7.6%	6.7%	6.5%	6.2%	8.0%
Capital Construction - Interest	$14.9	$11.7	$8.8	$6.1	$3.5	$3.5	
Change	313.9%	-21.2%	-25.4%	-30.1%	-43.3%	0.0%	-25.3%
Regulatory Agencies	$50.8	$51.9	$53.0	$54.1	$55.3	$56.0	
Change	3.3%	2.2%	2.0%	2.1%	2.3%	1.3%	2.0%
Insurance-Related	$66.2	$68.5	$70.2	$71.9	$73.8	$74.1	
Change	3.5%	3.6%	2.4%	2.5%	2.6%	0.3%	2.3%
Severance Tax /B	$145.1	$171.1	$200.0	$195.5	$203.2	$201.1	
Change	-38.1%	17.9%	16.9%	-2.2%	4.0%	-1.0%	6.7%
Controlled Maintenance Trust Fund Interest	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	
Change	NA	NA	NA	NA	NA	NA	NA
Other Miscellaneous Cash Funds	$386.0	$408.5	$428.6	$450.6	$473.6	$497.0	
Change	5.7%	5.8%	4.9%	5.1%	5.1%	4.9%	5.2%
TOTAL CASH FUND REVENUE	***$2,090.7***	***$2,189.1***	***$2,297.7***	***$2,362.3***	***$2,389.2***	***$2,437.2***	
Change	-5.8%	4.7%	5.0%	2.8%	1.1%	2.0%	3.1%

* 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%.

/B Per Senate Bill 07-253, the forecast of severance taxes reflected here is provided by Legislative Council Staff in consultation with OSPB.

COLORADO ECONOMIC FORECAST

In the last few months, there have not been any major shocks to the Colorado economy. As such, the September 2007 OSPB forecast for the Colorado economy has not significantly changed compared with the June 2007 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

In 2006, Colorado *employment* rose 2.4 percent, a net increase of 52,800 new jobs. Based on the most recent employment data, we forecast that 2007 employment growth will continue this trend at a slightly slower pace, reaching 1.9 percent in 2007 and 1.8 percent in 2008. These figures are slightly lower than the June forecast.

The 2006 Colorado *unemployment* rate dropped to 4.3 percent, well below the 5.1 percent rate posted in 2005. We forecast another drop in 2007, to 3.9 percent, moderating to 4.0 percent in 2008.

INFLATION

During 2006, consumer prices in the Denver-Boulder-Greeley area increased 3.6 percent after posting a 2.1 percent increase in 2005. Local CPI data is released by the federal Bureau of Labor Statistics semiannually. Prices in the Denver-Boulder-Greeley area grew by 2.5 percent in the first half of 2007, which was somewhat lower than expected. The rental cost of shelter is the most heavily weighted component, representing 35 percent of the basket of goods used in calculating the index. Although rents rose by 3.0 percent compared to the first six months of 2006, the other large components held the index down. Transportation costs (17 percent of the index) rose by only 0.9 percent. Fuel and utilities, a relatively minor part of the index, actually dropped in cost by 5.1 percent, while healthcare costs continued to rise more quickly than the overall index, at 8.9 percent.

We forecast that local inflation will be 2.8 percent in 2007 and 2.9 percent in 2008. This represents a downward revision from the June 2007 forecast of 0.4 percentage points in 2007.

WAGES AND INCOME

Personal income grew 6.5 percent in 2006. However, after adjusting for inflation and population growth, real per capita income growth was 1.0 percent. We forecast that personal income will grow 6.2 percent in 2007, which corresponds to real per capita growth of 1.3 percent. Compared to the June forecast, we have reduced our projection of income growth, as reduced expectations for capital gains will offset slight gains in employment and wage growth.

Colorado wage and salary income rose 7.5 percent in 2006, reflecting a reasonably strong labor market, growth in the labor force and inflation. We forecast wage and salary income to increase 6.0 percent in 2007 and 2008. This represents a slight downward adjustment as compared to the June forecast, caused by slightly weaker employment projections.

Population and Migration

The forecast for the population growth rate reflected in this document are done by the State Demographers Office. In 2006, net in-migration to Colorado was 49,700, which contributed to total population growth of 1.9 percent. Net in-migration will grow slightly to 61,000 in 2007 and 65,500 in 2008, with total population growth of 2.0 percent in 2007 and 2.1 percent in 2008.

Construction

In 2006, *residential* single-family permits dropped 15 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 project a drop of 4.9 percent in 2007, then stabilizing 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 begin to recover, with -0.7 percent stabilization in 2007 and 1.5 percent growth in 2008.

Retail Trade

In 2006, retail trade sales in Colorado rose 5.6 percent. Retail sales growth should continue to grow by a similar, but slowing, rate in 2007 of 5.4 percent due to rising consumer debt payments. We expect retail sales growth to be 6.4 percent in 2008.

Risks to the Colorado Forecast

Although the September forecast is more moderate than the June forecast, we believe the risks to this forecast remain skewed to the downside, due to economic uncertainty at the national level. Historically, Colorado's economic fortunes have tended to lag those of the rest of the nation. Although it is not well-understood why this has been the case, Colorado appears poised to repeat that scenario in the event of a nationwide economic slowdown, as a relatively strong energy production sector and a lack of exposure to the correction in the real estate market will dilute the effects of broader nationwide events.

For the most part, Colorado did not experience the unsustainable real estate conditions seen in the coastal United States. The most noticeable fallout to date has been a concentration of foreclosures in various locations along the Front Range, which is a lagging indicator of economic distress. However, due to broader national conditions, businesses and consumers in Colorado may find it more difficult to borrow money at any interest rate, as domestic and foreign markets begin to re-price risks associated with collateralized debt instruments.

At the moment, wholesale petrochemical prices remain high enough to profitably extract oil and gas from Colorado, and are projected to remain so for the duration of the forecast horizon. While a burden to consumers generally, high energy prices will insulate the Western Slope from the worst effects of any nationwide economic weakness.

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	$186.3	$197.9	$210.4	$224.5	$238.9	$254.0
2	Change	0.2%	1.2%	6.3%	6.2%	6.5%	6.2%	6.3%	6.7%	6.4%	6.3%
3	Wage and Salary Income (Billions)	$86.9	$88.0	$92.1	$97.3	$104.5	$110.8	$117.4	$124.7	$132.2	$139.9
4	Change	-1.5%	1.2%	4.6%	5.7%	7.5%	6.0%	6.0%	6.2%	6.0%	5.8%
5	Per-Capita Income ($/person)	$34,027	$34,056	$35,766	$37,459	$39,196	$40,800	$42,489	$44,414	$46,352	$48,325
6	Change	-1.4%	0.1%	5.0%	4.7%	4.6%	4.1%	4.1%	4.5%	4.4%	4.3%
	Population & Employment										
7	Population (Thousands) /A	4,498.4	4,548.1	4,601.8	4,665.2	4,753.4	4,850.3	4,951.9	5,055.7	5,154.6	5,255.1
8	Change	1.6%	1.1%	1.2%	1.4%	1.9%	2.0%	2.1%	2.1%	2.0%	1.9%
9	Net Migration (Thousands)	34.2	12.4	15.3	24.5	49.7	61.0	65.5	67.4	61.8	62.9
10	Civilian Unemployment Rate	5.7%	6.1%	5.6%	5.1%	4.3%	3.9%	4.0%	4.1%	4.3%	4.0%
11	Total Nonagricultural Employment (Thousands)	2,184.1	2,152.8	2,179.6	2,226.0	2,278.8	2,315.1	2,356.2	2,397.0	2,443.8	2,494.2
12	Change	-1.9%	-1.4%	1.2%	2.1%	2.4%	1.9%	1.8%	1.7%	2.0%	2.1%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	47.9	39.4	46.4	46.3	39.3	37.4	37.3	39.0	40.3	41.7
14	Change	-12.9%	-17.7%	17.5%	-0.2%	-15.0%	-4.9%	-0.3%	4.7%	3.4%	3.4%
15	Nonresidential Construction Value (Millions)	2,637.8	2,433.7	3,155.2	3,979.5	3,890.4	3,864.6	3,923.6	4,046.1	4,229.9	4,361.3
16	Change	-21.8%	-7.7%	29.6%	26.1%	-2.2%	-0.7%	1.5%	3.1%	4.5%	3.1%
	Prices & Sales Variables										
17	Retail Trade Sales (Billions)	$58.8	$58.7	$62.3	$65.5	$69.1	$72.9	$77.6	$81.9	$86.5	$91.3
18	Change	-0.5%	-0.2%	6.1%	5.1%	5.6%	5.4%	6.4%	5.6%	5.5%	5.6%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	1.8	1.9	1.9	1.9	2.0	2.0	2.1	2.2	2.2	2.3
20	Change	1.9%	1.1%	0.1%	2.1%	3.6%	2.8%	2.9%	3.1%	3.2%	3.0%

/A Growth rates calculated by the Colorado State Demography Office

NATIONAL ECONOMIC FORECAST

Since the June 2007 forecast, a somewhat disorderly re-pricing of credit risk has had noticeable effects on equity and bond markets in the United States and abroad, causing a dent in consumer confidence and lowered expectations from Major international organizations such as the International Monetary Fund and the Organization for Economic Cooperation and Development about second half US economic performance. To date, the unwinding of real estate conditions in the coastal United States has been contained in that segment of the economy but the full effect has yet to be measured. We project that the second half of 2007 will see below-trend economic conditions.

This section presents the 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 2.8 percent. A preliminary reading of 1.3 percent growth in the first quarter of 2007 was revised downwards to 0.6 percent, but second quarter performance was solid, at 4.0 percent growth over the second quarter of 2006. Growth in the second quarter was led by robust government spending growth of 4.1 percent and surging export growth fueled by a weak dollar. We forecast GDP growth to be 2.0 percent in 2007, rebounding to 3.1 percent in 2008.

- ***Consumer spending,*** which comprises more than two thirds of GDP, rose 3.7 percent in the first quarter of 2007. However, a deceleration in consumption growth occurred in the second quarter, pulling growth down to 1.4 percent. Consumption was weak in each component, with services spending increasing only 2.3 percent, durable goods spending increasing by 1.7 percent, and nondurable goods spending actually decreasing 0.3 percent.

- ***Business investment*** rose a modest 3.3 percent in the second quarter of 2007, after four consecutive quarters of contraction in this sector. Residential investment, at -11.6 percent growth, exerted a drag on the overall measure. However, nonresidential construction continued its strong recent performance, posting a 27.7 percent increase over the second quarter of 2006.

INFLATION

Overall, consumer prices rose 3.2 percent in 2006 and are expected to rise 2.7 percent in both 2007 and 2008. Meanwhile, core consumer prices — which exclude energy and food prices — increased 2.5 percent in 2006 and are expected to increase 2.4 percent in 2007 and 2.5 percent in 2008. Up until its September meeting, actions by the Federal Reserve have underlined its commitment to price stability, even in the face of short-term economic weakness. Inflationary pressures will be contained for the foreseeable future.

INTEREST RATES

The federal funds rate is the interest rate at which banks lend to each other in order to maintain the minimum amount of reserves required by the Federal Reserve. The Federal Reserve will target a particular rate by buying and selling government securities on the open market. The federal funds rate has been at 1.75 percent as recently as September 2004 and is now 4.75 percent. In the first quarter of the year, fed watchers had expected rates to increase in late 2007, but due to recent events in the credit markets the Fed reduced the rate by 50 basis points at its September meeting. The Bank's unwillingness to immediately infuse cash into ailing credit markets signaled its ongoing commitment to price stability rather than the active correction of market imbalances.

EMPLOYMENT

National payrolls increased 1.9 percent in 2006, with 2.5 million workers added to non-farm payrolls between 2005 and 2006. Though showing particular weakness in August, in 2007 and 2008, employment will increase 1.4 percent and 1.2 percent, respectively.

The unemployment rate finished at 4.6 percent for 2006 and is forecast to average 4.6 percent in 2007 and in 2008. While this is an upward adjustment from the June forecast, most 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 ongoing expectations of a healthy labor market in the medium term.

RISKS TO THE FORECAST

The risks to the national forecast are skewed to the downside, due to uncertainties foreign and domestic. If the shakeout of the credit markets leads to the failure of a large bank or mortgage lender, drastic action would have to be taken to avoid a liquidity-driven recession. 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.

Some risks to the upside include an orderly housing-related correction in the credit markets, continued diminishing of the trade deficit, and improvements to the structural problems in the federal budget. 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)	$10,047.8	$10,302.4	$10,675.9	$11,004.9	$11,316.2	$11,545.9	$11,899.2	$12,286.9	$12,664.8	$13,036.9
2	Change	1.6%	2.5%	3.6%	3.1%	2.8%	2.0%	3.1%	3.3%	3.1%	2.9%
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	$9,202.5	$9,777.0	$10,360.8	$11,037.7	$11,738.3	$12,436.0	$13,165.8	$13,899.3	$14,655.2
6	Change	1.9%	3.4%	6.2%	6.0%	6.5%	6.3%	5.9%	5.9%	5.6%	5.4%
7	Per-Capita Income ($/person)	$30,866	$31,695	$33,355	$35,030	$36,946	$38,893	$40,771	$42,629	$44,461	$46,320
8	Change	0.9%	2.7%	5.2%	5.0%	5.5%	5.3%	4.8%	4.6%	4.3%	4.2%
	Population & Employment										
9	Population (Millions)	288.7	291.6	294.6	297.5	300.3	302.3	305.1	307.9	310.6	313.4
10	Change	1.0%	1.0%	1.0%	1.0%	1.0%	0.7%	0.9%	0.9%	0.9%	0.9%
11	Civilian Unemployment Rate	5.8%	6.0%	5.5%	5.0%	4.6%	4.6%	4.6%	4.5%	4.5%	4.5%
12	Total Nonagricultural Employment1 (Millions)	130.3	130.0	131.4	133.7	136.2	138.0	139.7	141.5	143.3	145.0
13	Change	-1.1%	-0.3%	1.1%	1.7%	1.9%	1.4%	1.2%	1.3%	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%	5.2%	5.4%	5.6%	5.5%	5.5%
	Price Variables										
17	Consumer Price Index (1982-84=100)	179.9	184.0	188.9	195.3	201.6	207.1	212.6	218.3	224.2	230.2
18	Change	1.6%	2.3%	2.7%	3.4%	3.2%	2.7%	2.7%	2.7%	2.7%	2.7%
19	Producer Price Index (1982=100)	139.1	143.7	149.0	156.4	160.4	166.3	169.5	173.4	177.3	181.4
20	Change	-0.9%	3.3%	3.7%	5.0%	2.5%	3.7%	1.9%	2.3%	2.3%	2.3%
	Other Key Indicators										
21	Industrial Production Index (1996=100)	100.2	101.2	103.8	107.2	111.5	113.8	117.4	121.2	125.0	128.7
22	Change	0.6%	0.9%	2.7%	3.3%	3.9%	2.1%	3.1%	3.3%	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)	1.710	1.854	1.949	2.073	1.943	1.675	1.590	1.573	1.598	1.634
26	Change	6.8%	8.4%	5.1%	6.4%	-6.3%	-13.8%	-5.1%	-1.1%	1.6%	2.2%