STATE OF COLORADO

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MEMORANDUM

Bill Ritter Jr.
Governor

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Director

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

FROM: Office of State Planning and Budgeting

DATE: December 20, 2007

SUBJECT: ***December 2007 Revenue Forecast***

This memorandum presents the December 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.

DECEMBER 2007 OSPB FORECAST HIGHLIGHTS

- After increasing 8.3 percent in FY 2006-07, gross **General Fund revenues** are forecast to increase 4.2 percent in FY 2007-08 and 3.7 percent in FY 2008-09. A slowing national economy will contribute to a slower local economy, yielding lower revenue growth over the next few years. Other than small increases in sales and income tax forecasts for FY 2007-08, the forecast was hardly changed from September.
- **Cash fund revenues** are forecast to increase 5.1 percent in FY 2007-08, following a 5.8 percent decrease in FY 2006-07. Despite the forecast for severance taxes being decreased by almost $42 million to reflect significant decreases in the price of natural gas, this is an increase over the September forecast. Unemployment Insurance taxes were increased in the near-term due to low account balances.
- 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 $242.9 million in FY 2007-08, $254.0 million in FY 2008-09, and $265.6 million in FY 2009-10 to the Highway Users Tax Fund. Additionally, the state is projected to have **excess reserves** of $139.0 million in FY 2007-08, $72.6 million in FY 2008-09, and $5.7 million in FY 2009-10.
- Under the provisions of **Referendum C**, the State will retain $6.21 billion from FY 2005-06 through FY 2009-10; an increase of roughly $220 million from the September forecast. The increase is largely due to increases in the near-term forecast for Unemployment Insurance taxes.

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 December 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. Line 16 also includes funds that have been formally requested, as well as annual continuation costs associated with this funding.

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).

Due to a taxpayer audit at the Department of Revenue released in December, it was discovered that funds being booked as general sales taxes should have been reflected as aviation fuel tax. The result was a decrease in sales taxes of $22.8 million. This serves to decrease the Senate Bill 97-1 transfer by about $2 million and the remainder is reflected in lower House Bill 1310 transfers from a decrease in the excess reserve for FY 2006-07.

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
(Dollar Amounts in Millions)

Line No.		Preliminary FY 2006-07	December 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	$338.0
2	**Gross General Fund Revenue**	**$7,539.8**	**$7,853.3**	**$8,142.8**	**$8,557.9**	**$9,023.0**	**$9,530.9**
3	*General Fund*	*$6,228.1*	*$6,615.5*	*$6,826.1*	*$7,331.8*	*$7,888.0*	*$8,316.5*
4	*General Fund Exempt*	*$1,311.6*	*$1,237.8*	*$1,316.8*	*$1,226.1*	*$1,135.0*	*$1,214.4*
5	**Senate Bill 97-1 Diversion**	**($228.6)**	**($242.9)**	**($254.0)**	**($265.6)**	**($245.0)**	**($272.7)**
6	*Percent of Maximum*	*100%*	*100%*	*100%*	*100%*	*88%*	*93%*
7	**TOTAL REVENUE**	**$7,562.9**	**$7,877.5**	**$8,172.3**	**$8,593.1**	**$9,096.8**	**$9,596.2**
Expenditures							
8	**General Fund Appropriations (Subject to 6% Limit)**	**$6,675.6**	**$7,087.8**	**$7,519.6**	**$7,970.8**	***$8,449.0***	***$8,956.0***
9	*Appropriations Change*	*$382.9*	*$412.3*	*$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**	**$11.1**	**$6.1**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
12	**Spending Outside 6% Limit**	**$360.0**	**$361.0**	**$279.3**	**$297.7**	**$309.8**	**$281.9**
13	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
14	*Rebates and Expenditures /B*	*$164.6*	*$170.2*	*$180.4*	*$186.8*	*$181.6*	*$164.5*
15	*Homestead Exemption*	*$74.2*	*$81.0*	*$86.2*	*$90.0*	*$92.6*	*$96.0*
16	*Transfers to Capital Construction /C*	*$145.9*	*$109.7*	*$12.7*	*$20.9*	*$35.6*	*$21.5*
17	*Reversions and Accounting Adjustments*	*($24.7)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
18	**TOTAL OBLIGATIONS**	**$7,046.6**	**$7,455.0**	**$7,798.9**	**$8,268.5**	**$8,758.9**	**$9,237.9**
Reserves							
19	**Year-End Reserve**	**$516.3**	**$422.5**	**$373.4**	**$324.6**	**$338.0**	**$358.2**
20	*Year-End Reserve as a % of Appropriations*	*7.7%*	*6.0%*	*5.0%*	*4.1%*	*4.0%*	*4.0%*
21	**Statutory Reserve: 4% of Appropriations**	**$267.0**	**$283.5**	**$300.8**	**$318.8**	**$338.0**	**$358.2**
22	**Excess Monies Above (Below) Reserve**	**$249.3**	**$139.0**	**$72.6**	**$5.7**	**$0.0**	**$0.0**
23	*2/3 for Transportation /D*	*$166.2*	*$92.7*	*$48.4*	*$3.8*	*$0.0*	*$0.0*
24	*1/3 for Capital Construction /D*	*$83.1*	*$46.3*	*$24.2*	*$1.9*	*$0.0*	*$0.0*
25	Addendum: State Education Fund /E	$395.1	$413.0	$427.8	$451.7	$480.2	$508.2

Note: Lines in Bold represent totals.

/A In FY 2006-07 a total of $11.1 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 This includes funding for projects requested in the Governor's FY 2008-09 Budget Request, as well as the necessary annual continuation costs associated with those projects.

/D 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.

/E 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

Overall, the forecast for General Fund revenue was increased $62.2 million, or 0.8 percent, for FY 2007-08 from the September 2007 revenue forecast. It should be noted that the adjustment resulting from the previously mentioned mis-booking of sales taxes served to decrease the FY 2006-07 revenue base by $22.8 million. National and global economic influences will likely limit growth over the forecast period. Because Colorado typically lags the national economy in terms of the timing of economic cycles, we expect the largest impact will occur in FY 2008-09.

- ***Appropriations*** – Based on the December 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. The annual allowable six percent increase in appropriations is $412.3 million in FY 2007-08 and $431.8 million in FY 2008-09.

- ***Transportation*** – As compared with the OSPB September 2007 forecast, transportation is projected to receive over the five-year forecast period roughly $89.4 million more than the September forecast.

- ***Capital Construction*** – Projected funds available for capital construction were increased by $89.3 million over the five-year forecast period compared with the September 2007 forecast.

- ***Referendum C*** – Under the provisions of Referendum C, the state will retain $6.21 billion between FY 2005-06 and FY 2009-10, up a little more than $220 million from the September forecast. Because of large declines in revenue from Unemployment Insurance in the out-years of the forecast, TABOR refunds will not return during the forecast period.

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. This limit is also adjusted for the creation and elimination of enterprises such as the State Fair.

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 $6.21 billion.

GENERAL FUND

The forecast for General Fund revenue increased approximately $62 million for FY 2007-08 from the September 2007 revenue forecast. The increase is largely due to small increases in both the sales and income tax forecasts. The $22.8 million decrease the FY 2006-07 revenue base did not largely affect the forecasts from September. Total sales tax collections will be $2.16 billion in FY 2007-08, 6.4 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.

Table 2
TABOR Revenue & Referendum C Revenue Limit
(Dollar Amounts in Millions)

Line No.		Preliminary FY 2006-07	December 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	$7,839.3	$8,142.8	$8,557.9	$9,023.0	$9,530.9
2	Cash Funds /B	$2,090.7	$2,198.1	$2,403.2	$2,351.6	$2,291.7	$2,379.1
3	**Total TABOR Revenues**	$9,645.4	$10,037.4	$10,546.0	$10,909.5	$11,314.7	$11,910.0
	Revenue Limit Calculation:						
4	Previous calendar year population growth	*1.4%*	*1.9%*	*2.1%*	*2.0%*	*2.0%*	*1.9%*
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%*	*4.9%*	*4.9%*	*5.1%*	*5.1%*
7	TABOR Limit	$8,333.8	$8,799.6	$9,229.3	$9,683.4	$10,179.7	$10,695.5
8	General Fund Exempt Revenue Under Ref. C /C	$1,311.6	$1,237.8	$1,316.8	$1,226.1	$1,135.0	$1,214.4
9	**Revenue Limit Under Ref. C /D**	**$9,645.4**	**$10,037.4**	**$10,546.0**	**$10,909.5**	**$11,468.6**	**$12,049.8**
10	*Amount Above/(Below) Limit*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*($153.9)*	*($139.8)*
11	TABOR Reserve Requirement	$289.4	$301.1	$316.4	$327.3	$339.4	$357.3

/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 These totals do not include revenues from three state colleges that will lose enterprise status in FY 2007-08 and thus be subject to TABOR. It is the expectation that these schools will again become enterprises in FY 2008-09 and beyond. Therefore, because both of the affected years are during the Referendum C "timeout" period and neither is anticipated to be the highest revenue year, the numbers reflected here are consistent with how much revenue will be subject to limit over the long-term.

/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.

/D 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."

Table 3
Colorado General Fund – Revenue Estimates by Tax Category
(Accrual Basis, Dollar Amounts in Millions)

Line No.	Category	Preliminary FY 2006-07	% Chg	December 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	$2,028.0	3.6%	$2,158.1	6.4%	$2,258.6	4.7%	$2,363.3	4.6%	$2,482.0	5.0%	$2,610.4	5.2%
2	Use /A	$181.6	9.4%	$187.2	3.1%	$194.6	4.0%	$201.9	3.7%	$209.5	3.8%	$217.0	3.6%
3	Cigarette	$47.1	-2.4%	$45.0	-4.4%	$43.2	-4.0%	$41.9	-3.2%	$40.6	-3.0%	$43.2	6.4%
4	Tobacco Products	$13.0	15.5%	$12.7	-2.3%	$12.8	1.4%	$13.0	1.1%	$13.1	1.0%	$13.4	1.7%
5	Liquor	$34.0	3.5%	$34.0	-0.1%	$35.5	4.6%	$36.6	3.1%	$37.7	2.9%	$38.7	2.7%
6	**Total Excise**	**$2,303.6**	**4.0%**	**$2,437.0**	**5.8%**	**$2,544.8**	**4.4%**	**$2,656.7**	**4.4%**	**$2,782.9**	**4.8%**	**$2,922.7**	**5.0%**
	Income Taxes:												
7	Net Individual Income	$4,870.9	11.3%	$5,057.5	3.8%	$5,264.2	4.1%	$5,578.4	6.0%	$5,950.6	6.7%	$6,326.3	6.3%
8	Net Corporate Income	$497.9	11.3%	$504.5	1.3%	$494.3	-2.0%	$504.2	2.0%	$519.8	3.1%	$532.8	2.5%
9	**Total Income**	**$5,368.8**	**11.3%**	**$5,562.0**	**3.6%**	**$5,758.5**	**3.5%**	**$6,082.5**	**5.6%**	**$6,470.4**	**6.4%**	**$6,859.1**	**6.0%**
10	*Less: State Education Fund Diversion*	*$395.1*	*10.6%*	*$413.0*	*4.5%*	*$427.8*	*3.6%*	*$451.7*	*5.6%*	*$480.2*	*6.3%*	*$508.2*	*5.8%*
11	**Total Income to General Fund**	**$4,973.7**	**11.4%**	**$5,149.0**	**3.5%**	**$5,330.7**	**3.5%**	**$5,630.8**	**5.6%**	**$5,990.2**	**6.4%**	**$6,350.9**	**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%	$2.3	-23.2%	$2.2	-5.4%	$2.0	-5.9%	$1.9	-6.2%	$1.8	-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%**	**$267.3**	**1.8%**	**$267.3**	**0.0%**	**$270.4**	**1.1%**	**$249.9**	**-7.6%**	**$257.3**	**3.0%**
20	**GROSS GENERAL FUND**	**$7,539.8**	**8.3%**	**$7,853.3**	**4.2%**	**$8,142.8**	**3.7%**	**$8,557.9**	**5.1%**	**$9,023.0**	**5.4%**	**$9,530.9**	**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%	$11.6	9.5%	$11.8	1.7%	$11.8	0.0%	$11.9	0.8%	$11.9	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%**	**$170.2**	**3.4%**	**$180.4**	**5.9%**	**$186.8**	**3.5%**	**$181.6**	**-2.8%**	**$164.5**	**-9.4%**

NA: Not Applicable.

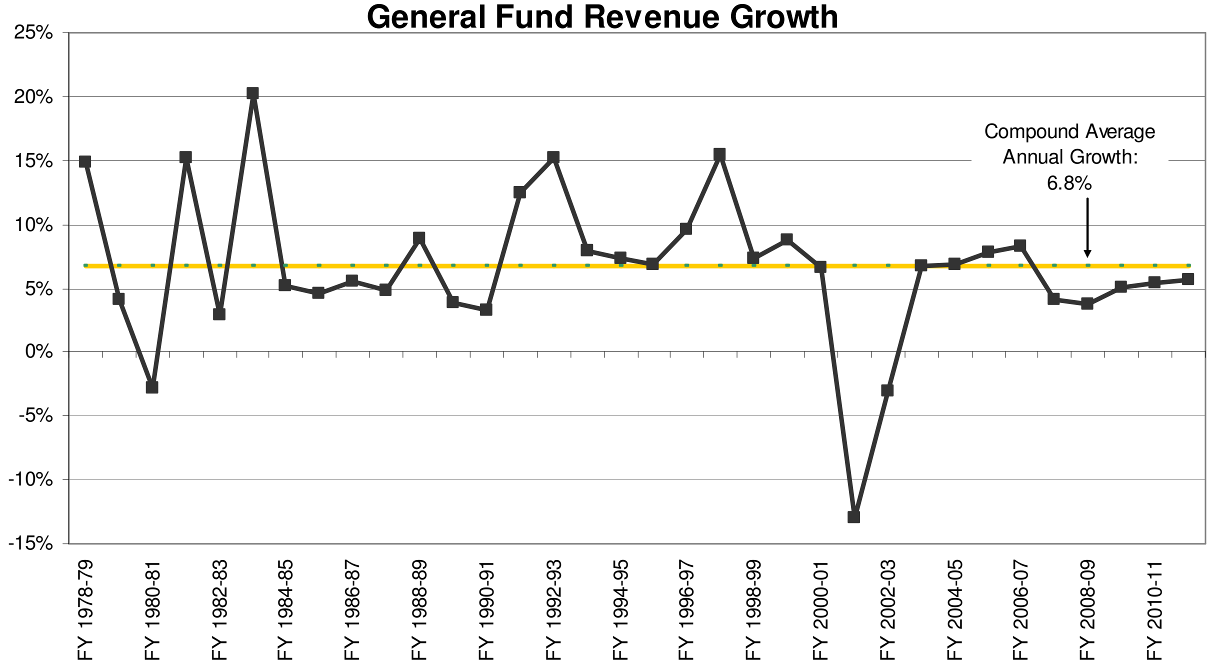
/A Per H.B. 00-1259, beginning January 1, 2001, 10.355 percent of sales and use taxes will be diverted to the Highway Users Tax Fund when revenues are available to fund expenditures. The full amount of sales and use taxes are reported here and the amount transferred is deducted from available revenues 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.

Other General Fund revenue changes were minimal. Ultimately, we expect gross General Fund revenues to grow at a compound average annual rate of 5.0 percent through FY 2011-12.

National and global economic influences will likely limit growth over the forecast period. However, it should be noted that should the nation and Colorado slip into recession, it is unlikely that the impact would be so severe as to result in actual declines in revenue. Figure 1 shows the annual growth rate in General Fund revenue. Colorado has experienced a compound average annual growth rate of 6.8 percent over the last three decades. Even during recessions in the 1980s, General Fund revenue grew at a moderate pace. Without the extraordinary circumstances that set the stage in the early 2000s (i.e., high levels of speculative investment and capital gains), General Fund revenue in Colorado will likely continue to grow at a pace with that seen in the past.

Figure 1
General Fund Revenue Growth



CASH FUNDS

Table 4 summarizes the forecast for eight 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 were $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 $129.1 million in FY 2007-08 and $213.9 million in FY 2008-09. The almost $42 million decrease in projected funds for FY 2007-08 reflect significant decreases in the price of natural gas. The relative stability in the forecast for FY 2008-09 is based on the expectation that natural gas prices will return to previous levels. ***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 $909.4 million in FY 2007-08 and $927.1 million in FY 2008-09. ***Unemployment Insurance*** cash fund revenues were $425.2 million in FY 2006-07, decreasing from $515.2 million received in FY 2005-06. Unemployment insurance revenue will be $408.4 million in FY 2007-08 and $425.1 million in FY 2008-09. The forecast for Unemployment Insurance taxes was increased in the near-term and decreased in the last two years of the forecast to account for lower tax rates in the out years resulting from a high fund balance. ***Limited Gaming*** revenue was $117.9 million in FY 2006-07, compared to $110.9 million in FY 2005-06. Gaming revenue will be $130.7 million in FY 2007-08 and $140.6 million in FY 2008-09. ***Other Miscellaneous Cash Funds*** include all other cash funds that are received by the State. The creation and elimination of State enterprises are forecasted in these totals. In FY 2007-08, the creation of the State Fair Enterprise Fund is reflected in the total in Table 4.

Table 4
Cash Fund Revenue Forecasts by Major Category
(Dollar Amounts in Millions)

Category	FY 2006-07	December 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	$909.4	$927.1	$937.5	$959.0	$976.6	
Change	1.7%	2.8%	1.9%	1.1%	2.3%	1.8%	2.0%
Unemployment Insurance /A	$425.2	$482.1	$559.7	$502.3	$357.3	$400.3	
Change	-17.5%	13.4%	16.1%	-10.3%	-28.9%	12.0%	-1.2%
Limited Gaming Fund	$117.9	$130.7	$140.6	$150.1	$159.8	$169.7	
Change	6.3%	10.9%	7.6%	6.7%	6.5%	6.2%	7.6%
Capital Construction - Interest	$14.9	$17.6	$13.1	$9.2	$5.2	$2.6	
Change	313.9%	18.1%	-25.6%	-29.8%	-43.5%	-50.0%	-29.5%
Regulatory Agencies	$50.8	$52.0	$53.0	$54.0	$55.1	$55.7	
Change	3.3%	2.4%	1.9%	1.9%	2.0%	1.1%	1.9%
Insurance-Related	$66.2	$68.8	$70.7	$72.9	$74.8	$75.0	
Change	3.5%	4.0%	2.8%	3.1%	2.6%	0.3%	2.5%
Severance Tax /B	$145.1	$129.1	$213.9	$181.8	$216.7	$214.4	
Change	-38.1%	-11.0%	65.6%	-15.0%	19.2%	-1.0%	8.1%
Other Miscellaneous Cash Funds /C	$386.0	$408.4	$425.1	$443.8	$463.8	$484.7	
Change	5.7%	5.8%	4.1%	4.4%	4.5%	4.5%	4.7%
TOTAL CASH FUND REVENUE	***$2,090.7***	***$2,198.1***	***$2,403.2***	***$2,351.6***	***$2,291.7***	***$2,379.1***	
Change	-5.8%	5.1%	9.3%	-2.1%	-2.5%	3.8%	2.6%

* 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 from June 30, 2006 through June 30, 2009, is less than 0.9%. The solvency surcharge is expected to be reapplied at the beginning of 2012 when the solvency ratio is again 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.

/C The creation and elimination of State enterprises is reflected in these totals, including the State Fair in FY 2007-08.

COLORADO ECONOMIC FORECAST

Colorado's economy continues to show modest, resilient growth despite the uncertainty about the national economy. In the absence of major positive or negative news, the December 2007 OSPB forecast for the Colorado economy is largely unchanged from the September 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. Recent employment figures have been stronger than anticipated, so we have revised our outlook for 2007 and 2008 slightly upwards. Employment growth in Colorado will be 1.9 percent in 2007 and 2008. Compared to the September 2007 forecast, these figures are unchanged for 2007 and 0.1 percentage points higher for 2008.

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 3.7 percent, moderating to 3.9 percent in 2008. These figures are little changed from the September 2007 forecast; downward revisions of 0.2 percentage points in 2007 and 0.1 percentage points in 2008 reflect the recent strength in employment numbers.

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 in February and August. Prices in the Denver/Boulder 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. Compared to the September 2007 forecast, there is no change in our inflation forecast.

Wages and Income

Personal income grew 7.0 percent through 2006. After adjusting for inflation and population growth, real per capita income growth was 1.1 percent. We forecast that personal income will grow 6.5 percent in 2007 and average 6.3 percent in 2008, which corresponds to real per capita growth of 1.3 percent in 2007 and 2008. Compared to the September 2007 forecast, we have revised our projection of income growth upwards by 0.3 percentage points in 2007, reflecting continued strength in employment.

Colorado wage and salary income rose 6.9 percent through 2006, reflecting a reasonably strong labor market, growth in the labor force and inflation. We forecast wage and salary income to increase 6.6 percent in 2007 and 6.5 percent in 2008. Compared to the September forecast of 6.0 percent in 2007 and 2008, the December 2007 forecast reflects an employment outlook that has improved somewhat in recent months.

Population and Migration

In 2006, net in-migration to Colorado was 51,400, which contributed to total population growth of 1.9 percent. We expect net in-migration to grow slightly to 52,700 in 2007 and 61,600 in 2008. Colorado's total population will be 4.85 million in 2007 and 4.95 million in 2008, reflecting growth rates of 2.1 and 2.0 percent, respectively.

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. The total number of new residential units permitted fell 16.4 percent in 2006. We project a drop of 16.9 percent in 2007, recovering to 6.4 percent growth 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 11.3 percent growth in 2007 and 4.3 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 5.2 percent due to rising consumer debt payments. We expect retail sales growth to be 5.6 percent in 2008.

Risks to the Colorado Forecast

Weakness and uncertainty at the national level have not yet translated into a slowdown in Colorado. While we do expect unemployment and other key economic indicators to return to their long run averages over the forecast horizon, the immediate outlook is positive. The continued strength of the energy production sector and a lack of exposure to the correction in the real estate market will dilute the effects of broader nationwide events.

The most easily identified risks to the forecast are still to the downside. As the unwinding of unsustainable real estate markets evolves from stagnant sales to price depreciation, it is possible that consumers could pull back on spending as they see the value of their assets decline. In addition, financial markets have begun to adjust the market value of banks and other lenders to reflect the risks related to nontraditional mortgages. This process has been disorderly and has not yet run its course. Further weakness in the banking sector could cause businesses and consumers in Colorado to find it more difficult to borrow money, which would put the brakes on Colorado’s economy.

At the moment, wholesale energy 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, and support the fledgling alternative energy sector.

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	$154.8	$163.8	$175.8	$188.2	$200.5	$213.2	$225.2	$238.7	$252.5
2	Change	0.2%	1.2%	5.8%	7.3%	7.0%	6.5%	6.3%	5.6%	6.0%	5.8%
3	Wage and Salary Income (Billions)	$86.9	$88.0	$92.1	$97.4	$104.0	$110.9	$118.1	$125.1	$132.7	$140.2
4	Change	-1.5%	1.2%	4.6%	5.7%	6.9%	6.6%	6.5%	6.0%	6.0%	5.7%
5	Per-Capita Income ($/person)	$34,014	$34,059	$35,621	$37,702	$39,465	$41,225	$42,951	$44,463	$46,255	$48,003
6	Change	-1.4%	0.1%	4.6%	5.8%	4.7%	4.5%	4.2%	3.5%	4.0%	3.8%
	Population & Employment										
7	Population (Thousands) /A	4,500.1	4,546.0	4,598.5	4,663.3	4,753.4	4,853.2	4,950.3	5,049.3	5,145.2	5,243.0
8	Change	1.6%	1.0%	1.2%	1.4%	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%
9	Net Migration (Thousands)	37.7	12.2	15.3	24.3	51.4	52.7	61.6	64.4	59.4	61.9
10	Civilian Unemployment Rate	5.7%	6.1%	5.6%	5.1%	4.3%	3.7%	3.9%	4.1%	4.4%	4.2%
11	Total Nonagricultural Employment (Thousands)	2,184.2	2,152.8	2,179.6	2,226.0	2,278.8	2,322.9	2,367.3	2,402.8	2,443.0	2,489.1
12	Change	-1.9%	-1.4%	1.2%	2.1%	2.4%	1.9%	1.9%	1.5%	1.7%	1.9%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	47.9	39.6	46.5	45.9	38.3	31.8	33.9	34.9	36.4	37.7
14	Change	-12.9%	-17.3%	17.5%	-1.3%	-16.4%	-16.9%	6.4%	3.1%	4.3%	3.4%
15	Nonresidential Construction Value (Millions)	2,637.8	2,433.7	3,155.2	3,979.5	3,890.4	4,331.9	4,519.7	4,651.4	4,841.2	5,012.4
16	Change	-21.8%	-7.7%	29.6%	26.1%	-2.2%	11.3%	4.3%	2.9%	4.1%	3.5%
	Prices & Sales Variables										
17	Retail Trade Sales (Billions)	$58.8	$58.7	$62.3	$65.5	$69.2	$72.8	$76.8	$80.8	$85.1	$89.8
18	Change	-0.5%	-0.2%	6.1%	5.1%	5.6%	5.2%	5.6%	5.2%	5.3%	5.5%
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%

NATIONAL ECONOMIC FORECAST

Since the September forecast, the re-pricing of credit risk in financial markets has continued to be the one of the main contributors to economic uncertainty at the national level, and has impacted foreign countries as well. Since the September 2007 forecast, the Federal Reserve and the White House Council of Economic Advisors have both downgraded their forecasts for 2008, due to fallout from the housing slump and ongoing high energy prices. We project that the second half of 2007 will see below-trend economic conditions, returning to trend growth in 2008.

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 2.8 percent. A weak first quarter of 2007 GDP growth of 0.6 percent was followed by two relatively strong quarters, with 3.8 percent growth in the second quarter and 4.9 percent growth in the third. Robust government spending, surging export growth, and resilient consumer expenditures have helped the nation avoid recession in 2007. We forecast GDP growth to be 2.2 percent in 2007, rebounding to 2.7 percent in 2008.

- ***Consumer spending,*** which comprises roughly 70% of GDP, has continued to grow at a solid if unspectacular pace. Durable goods spending has outpaced spending on services, reversing the long term secular trend which has seen the service sector becoming an ever larger part of the economy. First quarter growth of 3.7 percent was tempered by a relatively weak second quarter figure of 1.4 percent, and third quarter growth returned close to trend, at 2.7 percent.

- ***Business investment*** continues to be the weakest component of GDP, as the correction in the housing market continues apace. Residential investment has been negative for each quarter in 2007 and is projected to be -25.9 percent in the fourth quarter. The correction is expected to continue through 2008. Commercial fixed investment has offset most of the weakness in the residential sector, with 11.0 percent growth in the second quarter and 9.4 percent growth in the third. Overall, investment will fall 6.9 percent in the fourth quarter, leaving 2007 annual growth at -3.1 percent. 2008 will see a continued deterioration, moderating to -1.3 percent growth before finally rebounding in 2009.

Inflation

Overall, consumer prices rose 3.2 percent in 2006 and are expected to rise 2.8 percent in 2007 and 3.4 percent in 2008. Meanwhile, core consumer prices — which exclude energy and food prices — increased 2.5 percent in 2006 and are expected to increase 2.3 percent in 2007 and 2.4 percent in 2008. Although the Federal Reserve has taken accommodative steps with the discount rate and federal funds target in response to the ongoing re-pricing of credit risk, the open market committee believes that inflation risks remain prevalent.

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 4.25 percent. Bullish sentiments from Fed watchers early in the year led to expectations that the Fed would raise interest rates by the end of 2007, but liquidity problems brought on by the subprime mortgage sector caused the Fed to lower their target interest rates.

Employment

National payrolls increased 1.9 percent in 2006, with 2.5 million workers added to non-farm payrolls between 2005 and 2006. In 2007 and 2008, employment will increase 1.3 percent and 1.0 percent, respectively.

The unemployment rate finished at 4.6 percent for 2006 and is forecast to be 4.6 percent again in 2007, rising to 4.8 percent in 2008. This constitutes a slight upward adjustment from the September 2007 forecast. However, by historical standards, unemployment rates below five percent are generally reflective of a healthy labor market.

Risks to the Forecast

The risks to the national forecast continue to be skewed to the downside. 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	$11,562.1	$11,869.0	$12,222.9	$12,584.3	$12,949.2
2	Change	1.6%	2.5%	3.6%	3.1%	2.8%	2.2%	2.7%	3.0%	3.0%	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	$11,035.6	$11,759.9	$12,440.3	$13,171.1	$13,941.4	$14,695.3
6	Change	1.9%	3.4%	6.2%	6.0%	6.5%	6.6%	5.8%	5.9%	5.8%	5.4%
7	Per-Capita Income ($/person)	$30,866	$31,695	$33,355	$35,030	$36,935	$38,985	$40,901	$42,866	$44,869	$46,732
8	Change	0.9%	2.7%	5.2%	5.0%	5.4%	5.6%	4.9%	4.8%	4.7%	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%	4.8%	4.8%	4.8%	4.8%
12	Total Nonagricultural Employment1 (Millions)	130.3	130.0	131.4	133.7	136.2	138.0	139.3	140.8	142.4	144.1
13	Change	-1.1%	-0.3%	1.1%	1.7%	1.9%	1.3%	1.0%	1.1%	1.1%	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%	4.9%	4.8%	5.5%	5.6%	5.5%
	Price Variables										
17	Consumer Price Index (1982-84=100)	179.9	184.0	188.9	195.3	201.6	207.3	214.2	219.9	225.8	231.9
18	Change	1.6%	2.3%	2.7%	3.4%	3.2%	2.8%	3.4%	2.6%	2.7%	2.7%
19	Producer Price Index (1982=100)	139.1	143.7	149.0	156.4	160.4	167.5	174.1	178.2	182.4	186.6
20	Change	-0.9%	3.3%	3.7%	5.0%	2.5%	4.5%	3.9%	2.3%	2.4%	2.3%
	Other Key Indicators										
21	Industrial Production Index (1996=100)	100.2	101.2	103.8	107.2	111.5	113.7	116.3	119.9	123.5	127.1
22	Change	0.6%	0.9%	2.7%	3.3%	3.9%	2.0%	2.3%	3.2%	3.0%	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%