STATE OF COLORADO

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MEMORANDUM

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

FROM: Office of State Planning and Budgeting

DATE: March 20, 2008

SUBJECT: ***March 2008 Revenue Forecast***

This memorandum presents the March 2008 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 2008 OSPB FORECAST HIGHLIGHTS

- After increasing 8.3 percent in FY 2006-07, gross **General Fund revenues** are forecast to increase 2.5 percent in FY 2007-08 and 4.2 percent in FY 2008-09. The slowing national economy has Colorado pointed in a direction towards a slower local economy, yielding lower revenue growth over the next few years. Due to decreases associated largely with individual income taxes along with the near-term negative revenue impacts from the federal economic stimulus package, the forecast for General Fund revenues in FY 2007-08 fell $127.3 million.

- **Cash fund revenues** are forecast to increase 6.1 percent in FY 2007-08, following a 5.8 percent decrease in FY 2006-07. The largest changes were a decrease in the current year for Gaming taxes as the casinos adjust to the smoking ban, which began in January, and an increase in the forecast for Severance taxes in the out years of the forecast as expectations of future energy prices have risen.

- Through FY 2011-12, the state is projected to have enough General Fund revenue to maintain **appropriations** growth of six percent and make at least partial **Senate Bill 97-1 transfers**, though they have decreased as a result of the lower revenue forecast. Additionally, the state is not projected to have **excess reserves** return until a very small excess reserve in FY 2011-12.

- Under the provisions of **Referendum C**, the State will retain $6.24 billion from FY 2005-06 through FY 2009-10; an increase of roughly $30 million from the September forecast. The increase is largely due to increases in the expectations for Severance tax collections. Despite a significant decrease in General Fund revenue relative to the December forecast, lower-than-expected inflation offset this decrease and resulted in a slightly higher retention figure. A small TABOR refund is expected in FY 2011-12.

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 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 10.355 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 19), as well as maintain a statutory four percent reserve (line 22).

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. Line 17 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 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 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	March 2008 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**	**$7,726.0**	**$8,050.7**	**$8,507.5**	**$9,021.5**	**$9,591.8**
3	*General Fund*	*$6,228.1*	*$6,596.3*	*$6,700.9*	*$7,174.5*	*$7,694.5*	*$8,084.7*
4	*General Fund Exempt*	*$1,311.6*	*$1,129.7*	*$1,349.8*	*$1,332.9*	*$1,327.0*	*$1,507.1*
5	**Senate Bill 97-1 Diversion**	**($228.6)**	**($197.4)**	**($129.7)**	**($175.3)**	**($222.6)**	**($293.5)**
6	*Percent of Maximum*	*100%*	*81%*	*51%*	*66%*	*80%*	*100%*
7	**Net Transfers to/(from) the General Fund /A**	**$0.0**	**$0.0**	**$2.3**	**$0.0**	**$0.0**	**$0.0**
8	**TOTAL REVENUE**	**$7,562.9**	**$7,795.7**	**$8,206.8**	**$8,633.0**	**$9,117.8**	**$9,636.2**
Expenditures							
9	**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***
10	*Appropriations Change*	*$382.9*	*$412.3*	*$431.8*	*$451.2*	*$478.2*	*$506.9*
11	*Percent Change*	*6.1%*	*6.2%*	*6.1%*	*6.0%*	*6.0%*	*6.0%*
12	**Exemptions to 6% Limit /B**	**$11.1**	**$6.1**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
13	**Spending Outside 6% Limit**	**$360.0**	**$418.2**	**$386.4**	**$343.3**	**$330.7**	**$320.3**
14	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$40.1*
15	*Rebates and Expenditures /C*	*$164.6*	*$170.2*	*$180.4*	*$186.8*	*$181.6*	*$164.5*
16	*Homestead Exemption*	*$74.2*	*$81.0*	*$86.2*	*$90.0*	*$92.6*	*$96.0*
17	*Transfers to Capital Construction /D*	*$145.9*	*$166.9*	*$119.8*	*$66.5*	*$56.5*	*$19.8*
18	*Reversions and Accounting Adjustments*	*($24.7)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
19	**TOTAL OBLIGATIONS**	**$7,046.6**	**$7,512.1**	**$7,906.0**	**$8,314.1**	**$8,779.8**	**$9,276.3**
Reserves							
20	**Year-End Reserve**	**$516.3**	**$283.5**	**$300.8**	**$318.9**	**$338.0**	**$359.8**
21	*Year-End Reserve as a % of Appropriations*	*7.7%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
22	**Statutory Reserve: 4% of Appropriations**	**$267.0**	**$283.5**	**$300.8**	**$318.8**	**$338.0**	**$358.2**
23	**Excess Monies Above (Below) Reserve**	**$249.3**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$1.6**
24	*2/3 for Transportation /E*	*$166.2*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$1.1*
25	*1/3 for Capital Construction /E*	*$83.1*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.5*
26	Addendum: State Education Fund /F	$395.1	$401.8	$419.8	$446.9	$479.2	$511.6

Note: Lines in Bold represent totals.

/A Amount reflected in FY 2008-09 is amount included in the Executive budget request to be transferred to the Veterans Trust Fund.

/B 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.

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

/D 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.

/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

Overall, the forecast for General Fund revenue was decreased $127.3 million, or 1.6 percent, for FY 2007-08 from the December 2007 revenue forecast. National and global economic influences will likely continue to limit growth over the forecast period. Expected weakness in estimated payments related to capital gains will likely contribute greatly to slower revenue growth in the near-term.

- ***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 December 2007 forecast, transportation is projected to receive over the five-year forecast period roughly $405 million less than the December forecast.

- ***Capital Construction*** – Demand for projected funds available for capital construction was increased by $157.2 million over the five-year forecast period compared with the December 2007 forecast. The occurred largely due to changes in proposed Executive project funding and associated continuation costs. **The OSPB will submit an amended capital construction request, which will reduce the needed transfer in FY 2007-08 in order to allow for a full Senate Bill 97-1 transfer in FY 2007-08.**

- ***Referendum C*** – Under the provisions of Referendum C, the state will retain $6.24 billion between FY 2005-06 and FY 2009-10, up a little more than $30 million from the December forecast. Though counter-intuitive that this figure would increase given lower revenue projections, lower-than-expected inflation more than offset the decrease in the revenue forecast, resulting in a slightly higher figure. Further, we expect the return of TABOR refunds in FY 2011-12, with a modest $40.1 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 each subsequent year. Beginning in FY 2010-11, the state will be required to refund revenue in excess of this limit. This forecast projects a refund in FY 2011-12 (line 10). This occurs largely because the lower near-term forecast lowers the amount that may be retained beginning in FY 2010-11. 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 $6.24 billion.

GENERAL FUND

The forecast for General Fund revenue decreased approximately $127.3 million for FY 2007-08 from the December 2007 revenue forecast. In spite of a weakening income tax base that is driving lower expectations, total sales tax collections have remained relatively strong and will be $2.17 billion in FY 2007-08, 7.1 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	March 2008 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	$7,712.0	$8,050.7	$8,507.5	$9,021.5	$9,591.8
2	Cash Funds /B	$2,090.7	$2,217.3	$2,468.2	$2,427.2	$2,379.2	$2,483.1
3	**Total TABOR Revenues**	$9,645.4	$9,929.3	$10,518.9	$10,934.6	$11,400.7	$12,074.9
	Revenue Limit Calculation:						
4	Previous calendar year population growth	*1.4%*	*1.9%*	*2.0%*	*2.0%*	*2.0%*	*1.9%*
5	Previous calendar year inflation	*2.1%*	*3.6%*	*2.2%*	*2.7%*	*2.9%*	*3.0%*
6	**Allowable TABOR Growth Rate**	*3.5%*	*5.5%*	*4.2%*	*4.7%*	*4.9%*	*4.9%*
7	TABOR Limit	$8,333.8	$8,799.6	$9,169.1	$9,601.7	$10,073.7	$10,567.8
8	General Fund Exempt Revenue Under Ref. C /C	$1,311.6	$1,129.7	$1,349.8	$1,332.9	$1,327.0	$1,507.1
9	**Revenue Limit Under Ref. C /D**	**$9,645.4**	**$9,929.3**	**$10,518.9**	**$10,934.6**	**$11,472.2**	**$12,034.8**
10	*Amount Above/(Below) Limit*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*($71.5)*	*$40.1*
11	TABOR Reserve Requirement	$289.4	$297.9	$315.6	$328.0	$342.0	$361.0

/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	March 2008 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%	$2,171.7	7.1%	$2,265.0	4.3%	$2,370.1	4.6%	$2,489.0	5.0%	$2,617.8	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%	$48.2	18.7%
4	Tobacco Products	$13.0	15.5%	$12.8	-1.5%	$12.8	0.6%	$13.0	1.1%	$13.1	1.0%	$13.4	1.7%
5	Liquor	$34.0	3.5%	$34.7	2.2%	$36.3	4.6%	$37.5	3.1%	$38.6	2.9%	$39.6	2.7%
6	**Total Excise**	**$2,303.6**	**4.0%**	**$2,451.4**	**6.4%**	**$2,552.0**	**4.1%**	**$2,664.2**	**4.4%**	**$2,790.8**	**4.8%**	**$2,936.0**	**5.2%**
	Income Taxes:												
7	Net Individual Income	$4,870.9	11.3%	$4,916.0	0.9%	$5,172.8	5.2%	$5,531.8	6.9%	$5,956.9	7.7%	$6,401.8	7.5%
8	Net Corporate Income	$497.9	11.3%	$489.7	-1.6%	$475.0	-3.0%	$484.4	2.0%	$499.5	3.1%	$504.5	1.0%
9	**Total Income**	**$5,368.8**	**11.3%**	**$5,405.7**	**0.7%**	**$5,647.8**	**4.5%**	**$6,016.3**	**6.5%**	**$6,456.4**	**7.3%**	**$6,906.4**	**7.0%**
10	*Less: State Education Fund Diversion*	*$395.1*	*10.6%*	*$401.8*	*1.7%*	*$419.8*	*4.5%*	*$446.9*	*6.5%*	*$479.2*	*7.2%*	*$511.6*	*6.8%*
11	**Total Income to General Fund**	**$4,973.7**	**11.4%**	**$5,003.9**	**0.6%**	**$5,228.0**	**4.5%**	**$5,569.3**	**6.5%**	**$5,977.2**	**7.3%**	**$6,394.7**	**7.0%**
	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%	$190.2	6.0%	$196.6	3.4%	$203.1	3.3%	$199.5	-1.7%	$206.0	3.2%
14	Interest Income	$28.2	726.2%	$28.4	0.6%	$29.1	2.6%	$29.8	2.6%	$30.6	2.6%	$31.4	2.6%
15	Pari-Mutuel	$3.0	-91.1%	$2.5	-16.7%	$2.3	-5.4%	$2.2	-5.9%	$2.1	-6.2%	$1.9	-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%**	**$270.6**	**3.1%**	**$270.7**	**0.0%**	**$273.9**	**1.2%**	**$253.5**	**-7.4%**	**$261.0**	**3.0%**
20	**GROSS GENERAL FUND**	**$7,539.8**	**8.3%**	**$7,726.0**	**2.5%**	**$8,050.7**	**4.2%**	**$8,507.5**	**5.7%**	**$9,021.5**	**6.0%**	**$9,591.8**	**6.3%**
	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 4.9 percent through FY 2011-12.

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 $127.1 million in FY 2007-08 and $245.4 million in FY 2008-09. Futures prices for natural gas fell significantly between the September 2007 and December 2007 forecasts, and have since risen again between the December 2007 and March 2008 forecasts. This has led to across-the-board increases in the forecast for FY 2008-09 and beyond. ***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 $929.5 million in FY 2007-08 and $958.1 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 is unchanged from December 2007. ***Limited Gaming*** revenue was $117.9 million in FY 2006-07, compared to $110.9 million in FY 2005-06. Gaming revenue will be $125.0 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. In FY 2007-08, the creation of the State Fair Enterprise Fund is reflected in the total in Table 4. Total cash fund revenue will be $2.22 billion in FY 2007-08 and $2.47 billion in FY 2008-09.

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

Category	FY 2006-07	March 2008 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	$929.5	$958.1	$985.1	$1,016.6	$1,047.6	
Change	1.7%	5.1%	3.1%	2.8%	3.2%	3.0%	3.4%
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	$125.0	$140.6	$150.1	$159.8	$169.7	
Change	6.3%	6.0%	12.5%	6.7%	6.5%	6.2%	7.6%
Capital Construction - Interest	$14.9	$22.0	$13.1	$9.2	$5.2	$2.6	
Change	313.9%	47.7%	-40.5%	-29.8%	-43.5%	-50.0%	-29.5%
Regulatory Agencies	$50.8	$54.4	$55.4	$56.4	$57.6	$58.3	
Change	3.3%	7.1%	1.9%	1.8%	2.0%	1.2%	2.8%
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	$127.1	$245.4	$207.4	$244.1	$245.0	
Change	-38.1%	-12.4%	93.0%	-15.5%	17.7%	0.4%	11.0%
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***	***$2,217.3***	***$2,468.2***	***$2,427.2***	***$2,379.2***	***$2,483.1***	
Change	-5.8%	6.1%	11.3%	-1.7%	-2.0%	4.4%	3.5%

* 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 growing evidence that the national economy may lapse into recession. However, recent economic data suggests that Colorado will experience a mild slowdown. This information has been incorporated into the forecast and has resulted in lowered expectations for employment, retail, and construction in Colorado.

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 2007, Colorado *employment* rose 2.0 percent, a net increase of 45,500 new jobs. Employment growth continues to be positive, but not at a rate sufficient to reduce the number of Coloradans actively searching for a job. Employment growth in Colorado will be 1.4 percent in 2008 and 1.8 percent in 2009. These figures are 0.5 percentage points lower and 0.3 percentage points higher than the December 2007 forecast for 2008 and 2009, respectively.

The 2007 Colorado *unemployment* rate dropped to 3.8 percent, the lowest reading since 2000. Although Colorado continues to fare better than other states, the employment outlook has softened somewhat since the December forecast. The most recent data shows an unemployment rate of 4.2 percent in January, which remains low by historical standards but portends some slack in the labor market. We forecast the unemployment rate to rise to 4.6 percent in 2008 and then gradually decline to 4.0 percent by 2011.

Inflation

During 2007, consumer prices in the Denver-Boulder-Greeley area increased 2.2 percent after posting a 3.6 percent increase in 2006. Local CPI data is released by the federal Bureau of Labor Statistics semiannually. Prices in the Denver/Boulder area grew by 2.5 percent in the first half of 2007 and 1.9 percent in the second half. Both readings were significantly lower than expected, which is additional evidence of an economic slowdown. The rental cost of shelter is the most heavily weighted component, representing 35 percent of the basket of goods used in calculating the 2007 index. Rents rose in the Denver-Boulder-Greeley area by 2.2 percent in 2007, driving the bulk of the deceleration in price growth compared to 2006. Medical care (5.4 percent of the index) was the component with the most significant price appreciation, at 6.5 percent. Fuels and utilities (3.7 percent of the index) showed the greatest price decline, at -5.1 percent. We forecast that local inflation will be 2.7 percent in 2008 and 2.9 percent in 2009.

Wages and Income

Personal income grew 5.9 percent in 2007. After adjusting for inflation and population growth, real per capita income growth was 1.6 percent. We forecast that personal income will grow 5.9 percent in 2008 and 6.0 percent in 2009, which corresponds to real per capita growth of 1.5 percent in 2008 and 2009. Compared to the December 2007 forecast, we have revised our projection of income growth downwards by 0.4 percentage points in 2008, reflecting the recent weakening of the labor market, and upwards by 0.4 percentage points in 2009.

Colorado wage and salary income rose 6.0 percent through 2007, reflecting a relatively strong labor market, growth in the labor force and inflation. We forecast wage and salary income to increase 5.5 percent in 2008 and 5.6 percent in 2009. Compared to the December 2007 forecast of 6.5 percent in 2008 and 6.0 percent in 2008, the March 2008 forecast reflects an employment outlook that has moderated somewhat in recent months.

Population and Migration

In 2007, net in-migration to Colorado was 51,800, which contributed to total population growth of 2.0 percent. We expect net in-migration to grow slightly to 60,300 in 2008 and 61,000 in 2009, with total population growth of 2.0 percent in 2008 and 2.0 percent in 2009.

Construction

In 2007, *residential* construction permits dropped 22.6 percent to 30,400, the third consecutive annual decline. Weakness in the housing sector manifested itself in Colorado somewhat earlier and in a milder form than what is afflicting large portions of the rest of the country. We forecast housing permits to grow 1.0 percent in 2008 and 2.0 precent in 2009.

The commercial real estate market in Colorado has recovered significantly since 2003. The total value of *nonresidential* construction permits statewide grew 10.4 percent in 2007 after falling 2.2 percent in 2006. We forecast the value of nonresidential permits to continue to grow modestly, with 2.3 percent growth in 2008 and 2.6 percent growth in 2009.

Retail Trade

In 2007, retail trade sales in Colorado rose 6.3 percent. Retail sales growth will continue to grow in in 2008, but at a slower rate of 5.4 percent due to rising consumer debt payments. We expect retail sales growth to be 5.5 percent in 2009.

Risks to the Colorado Forecast

Weakness and uncertainty at the national level have begun to feed into economic indicators in Colorado, but a strong energy sector and reasonable housing fundamentals should ensure that the state remains insulated from the worst of the impacts to the rest of the country. 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 neutral.

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 a negative wealth effect could dent the resiliency of consumer spending nationwide, which will feed into the demand for goods and services produced by Colorado firms. In addition, the rather disorderly repricing of risk associated with collateralized debt obligations continues to plague financial markets. 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 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, and support the fledgling alternative energy sector.

Table 5
History and Forecast for Key Colorado Economic Variables
Calendar Year 2002-2012

Line No.		Actual					Forecast					
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Current Income											
1	Personal Income (Billions)	$153.1	$154.8	$163.8	$175.8	$188.2	$199.3	$211.0	$223.6	$236.9	$251.2	$266.4
2	Change	0.2%	1.2%	5.8%	7.3%	7.0%	5.9%	5.9%	6.0%	5.9%	6.0%	6.0%
3	Wage and Salary Income (Billions)	$86.9	$88.0	$92.1	$97.4	$104.0	$110.2	$116.2	$122.7	$129.9	$137.4	$145.4
4	Change	-1.5%	1.2%	4.6%	5.7%	6.9%	6.0%	5.5%	5.6%	5.8%	5.8%	5.8%
5	Per-Capita Income ($/person)	$33,956	$33,989	$35,538	$37,618	$39,480	$40,989	$42,534	$44,181	$45,931	$47,772	$49,695
6	Change	-1.4%	0.1%	4.6%	5.9%	5.0%	3.8%	3.8%	3.9%	4.0%	4.0%	4.0%
	Population & Employment											
7	Population (Thousands) /A	4,507.8	4,555.2	4,609.3	4,673.7	4,766.2	4,861.5	4,960.7	5,061.7	5,158.3	5,258.0	5,360.0
8	Change	1.7%	1.1%	1.2%	1.4%	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%	1.9%
9	Net Migration (Thousands) /A	37.7	12.2	15.3	24.3	51.4	51.8	60.3	61.0	56.3	58.7	60.4
10	Civilian Unemployment Rate	5.7%	6.1%	5.6%	5.1%	4.3%	3.8%	4.6%	4.3%	4.1%	4.0%	4.0%
11	Total Nonagricultural Employment (Thousands)	2,184.2	2,152.8	2,179.6	2,226.0	2,278.8	2,324.3	2,357.9	2,399.3	2,444.7	2,493.3	2,541.5
12	Change	-1.9%	-1.4%	1.2%	2.1%	2.4%	2.0%	1.4%	1.8%	1.9%	2.0%	1.9%
	Construction Variables											
13	Total Housing Permits Issued (Thousands)	47.9	39.4	46.4	46.3	39.3	30.4	30.7	31.3	32.1	32.9	33.9
14	Change	-12.9%	-17.7%	17.5%	-0.2%	-15.0%	-22.6%	1.0%	2.0%	2.4%	2.7%	2.8%
15	Nonresidential Construction Value (Millions)	2,637.8	2,433.7	3,155.2	3,979.5	3,890.4	4,294.5	4,394.3	4,510.5	4,682.3	4,867.9	5,048.7
16	Change	-21.8%	-7.7%	29.6%	26.1%	-2.2%	10.4%	2.3%	2.6%	3.8%	4.0%	3.7%
	Prices & Sales Variables											
17	Retail Trade Sales (Billions)	$58.8	$58.7	$62.3	$65.5	$69.2	$73.5	$77.5	$81.8	$86.2	$91.1	$96.2
18	Change	-0.5%	-0.2%	6.1%	5.1%	5.6%	6.3%	5.4%	5.5%	5.4%	5.6%	5.6%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	184.8	186.8	187.0	190.9	197.7	202.0	207.5	213.4	219.8	226.4	233.2
20	Change	1.9%	1.1%	0.1%	2.1%	3.6%	2.2%	2.7%	2.9%	3.0%	3.0%	3.0%

/A Growth rates calculated by the Colorado State Demography Office

NATIONAL ECONOMIC FORECAST

Since the December 2007 forecast, the re-pricing of credit risk in financial markets and a broadly negative housing market have conspired to put the national economy close to recession. 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.

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 2007, inflation-adjusted gross GDP increased 2.2 percent, down from 2.8 percent in 2006. 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, but fourth quarter growth registered at just 0.6 percent as financial and housing markets continued to deteriorate. In the end, robust government spending, surging export growth, and resilient consumer expenditures helped the nation avoid recession in 2007. We forecast GDP growth to be 2.2 percent in 2008, rebounding to 2.8 percent in 2009.

- ***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 2.8 percent before relatively weak fourth quarter performance of 1.9 percent.

- ***Business investment*** continues to be the weakest component of GDP, as the correction in the housing market continues. Residential investment growth was negative in each quarter of 2007, and is expected to continue to weaken through 2008. Commercial fixed investment has offset most of the weakness in the residential sector, with 26.2.percent growth in the second quarter, 16.4 percent growth in the third and 14.7 percent growth in the fourth. Overall, investment fell 3.5 percent in the fourth quarter.

Inflation

Overall, consumer prices rose 3.9 percent in 2007 and are expected to rise 5.0 percent in 2008 and 2.6 percent in 2009. 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, it remains to be seen whether those policies will stimulate aggregate demand. In an environment with weak demand despite ongoing monetary stimulus, the inflation picture is a cloudy one, with fears of stagflation despite a February 2008 CPI reading of zero percent inflation.

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 2.25 percent, fully 300 basis points lower than in September 2007. 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. Market watchers expect the federal funds rate to fall as low as 1.0 percent in the coming months as the Federal Reserve will use all of its available tools to stabilize financial markets.

Employment

National payrolls increased 1.1 percent in 2007, with 1.5 million workers added to non-farm payrolls between 2006 and 2007. In 2008 and 2009, employment will increase 0.7 percent and 1.0 percent, respectively.

The unemployment rate finished at 4.6 percent for 2007 and is forecast to be 5.1 percent in 2008 and 2009. This constitutes a slight upward adjustment from the December 2007 forecast. By historical standards, unemployment rates around 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. One large investment bank has been bailed out, and if the shakeout of the credit markets leads to bank failures, drastic action would have to be taken to avoid 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 earlier than anticipated stabilization of the housing market, continued diminishing of the trade deficit, or improvements to the structural problems in the federal budget. In addition, the price of oil increasingly looks to be out of line with fundamentals, leaving open the possibility of a correction which would boost the spending power of American consumers.

Table 6
History and Forecast for Key National Economic Variables
Calendar Year 2002-2012

Line No.		Actual					Forecast					
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	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	$11,567.3	$11,816.8	$12,145.5	$12,492.3	$12,854.5	$13,227.3
2	Change	1.6%	2.5%	3.6%	3.1%	2.8%	2.2%	2.2%	2.8%	2.9%	2.9%	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	$18,130.3
4	Change	3.4%	4.7%	6.9%	6.3%	6.8%	5.9%	5.6%	5.3%	5.1%	5.0%	4.8%
5	Personal Income (Billions)	$8,881.9	$9,163.6	$9,727.2	$10,301.1	$10,983.4	$11,658.8	$12,214.6	$12,930.4	$13,672.3	$14,411.4	$15,189.6
6	Change	1.8%	3.2%	6.2%	5.9%	6.6%	6.1%	4.8%	5.9%	5.7%	5.4%	5.4%
7	Per-Capita Income ($/person)	$30,866	$31,695	$33,355	$35,030	$36,935	$38,814	$40,329	$42,286	$44,197	$46,031	$47,941
8	Change	0.9%	2.7%	5.2%	5.0%	5.4%	5.1%	3.9%	4.9%	4.5%	4.2%	4.2%
	Population & Employment											
9	Population (Millions)	288.7	291.6	294.6	297.5	300.3	302.7	305.1	307.9	310.6	313.4	319.6
10	Change	1.0%	1.0%	1.0%	1.0%	1.0%	0.8%	0.8%	0.9%	0.9%	0.9%	2.0%
11	Civilian Unemployment Rate	5.8%	6.0%	5.5%	5.1%	4.6%	4.6%	5.1%	5.1%	5.1%	5.1%	5.1%
12	Total Nonagricultural Employment1 (Millions)	130.3	130.0	131.4	133.7	136.1	137.6	138.6	139.9	141.4	143.1	144.8
13	Change	-1.1%	-0.3%	1.1%	1.7%	1.8%	1.1%	0.7%	1.0%	1.1%	1.2%	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%	5.9%
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%	5.5%
16	Federal Fund Rate	1.7%	1.1%	1.3%	3.2%	5.0%	5.0%	3.0%	3.9%	5.5%	5.5%	5.5%
	Price Variables											
17	Consumer Price Index (1982-84=100)	179.9	184.0	188.9	195.3	201.6	207.3	215.0	220.6	226.5	232.6	238.9
18	Change	1.6%	2.3%	2.7%	3.4%	3.2%	2.9%	3.7%	2.6%	2.7%	2.7%	2.7%
19	Producer Price Index (1982=100)	138.9	143.3	148.5	155.7	160.4	166.6	175.0	179.5	183.9	188.2	192.5
20	Change	-1.3%	3.2%	3.6%	4.9%	3.0%	3.9%	5.0%	2.6%	2.5%	2.3%	2.3%
	Other Key Indicators											
21	Industrial Production Index (1996=100)	100.0	101.1	103.6	106.9	111.2	113.4	115.4	118.8	122.2	125.8	129.4
22	Change	0.0%	1.1%	2.5%	3.2%	4.0%	1.9%	1.8%	3.0%	2.9%	2.9%	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	$1,569.9
24	Change	14.3%	15.4%	27.0%	32.6%	10.6%	-0.1%	4.0%	5.5%	5.1%	5.0%	4.7%
25	Housing Starts (Millions)	1.710	1.854	1.949	2.073	1.943	1.675	1.590	1.573	1.598	1.634	1.669
26	Change	6.8%	8.4%	5.1%	6.4%	-6.3%	-13.8%	-5.1%	-1.1%	1.6%	2.2%	2.1%