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MEMORANDUM

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

FROM: Office of State Planning and Budgeting

DATE: June 20, 2008

SUBJECT: ***June 2008 Revenue Forecast***

This memorandum presents the June 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.

JUNE 2008 OSPB FORECAST HIGHLIGHTS

- After increasing 8.3 percent in FY 2006-07, gross **General Fund revenues** are forecast to increase 3.4 percent in FY 2007-08 and 3.5 percent in FY 2008-09. While Colorado continues to fare better than the nation as a whole, a slower local economy is still anticipated to yield lower revenue growth over the next few years. Because of higher than expected individual income taxes, the June forecast increased $25.8 million in total General Fund revenue in FY 2007-08 over the March forecast.

- **Cash fund revenues** are forecast to increase 9.3 percent in FY 2007-08, following a 4.9 percent decrease in FY 2006-07. The largest changes include: a decrease in the current year for gaming taxes, an increase in the forecast for severance taxes due to higher forecasted energy prices, and an increase in revenue from fees.

- 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 these transfers have decreased as a result of the lower revenue forecast. Additionally, the State is not projected to have **excess reserves** after FY 2007-08.

- Under the provisions of **Referendum C**, the State will retain $6.40 billion from FY 2005-06 through FY 2009-10; an increase of roughly $160 million from the March forecast. The increase is largely due to increases in expected severance tax collections. There is no TABOR refund expected during the forecast period.

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 1A presents the General Fund Overview for the June 2008 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. Line 4 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 exempted 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 includes funds that have been appropriated, as well as annual continuation costs associated with capital construction projects.

The bottom portion of Table 1A 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 1B reflects the changes to the General Fund Overview since the March 2008 forecast. Note that the SB 97-1 transfers, which reflect the allocation of General Fund revenues once the six percent appropriation limit and the four percent General Fund reserve requirement are satisfied, are shown as positive values for increased revenue diversions to transportation in this table.

Table 1A
General Fund Overview
(Dollar Amounts in Millions)

Line No.			June 2008 Estimate by Fiscal Year				
		FY 2006-07	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**	**$7,795.1**	**$8,071.3**	**$8,394.6**	**$8,841.3**	**$9,396.4**
3	*General Fund*	*$6,231.6*	*$6,511.6*	*$6,654.4*	*$7,115.8*	*$7,700.7*	*$8,112.8*
4	*General Fund Exempt*	*$1,308.2*	*$1,283.5*	*$1,416.8*	*$1,278.7*	*$1,140.6*	*$1,283.6*
5	**Senate Bill 97-1 Diversion**	**($228.6)**	**($240.7)**	**($236.4)**	**($99.4)**	**($63.7)**	**($111.5)**
6	*Percent of Maximum*	*100%*	*100%*	*95%*	*38%*	*23%*	*39%*
7	**Net Transfers to/(from) the General Fund /A**	**$0.0**	**$0.0**	**($2.9)**	**$0.0**	**$0.0**	**$0.0**
8	**TOTAL REVENUE**	**$7,562.9**	**$7,821.4**	**$8,115.4**	**$8,595.9**	**$9,096.4**	**$9,622.9**
Expenditures							
9	**General Fund Appropriations (Subject to 6% Limit)**	**$6,675.6**	**$7,087.8**	**$7,519.2**	**$7,970.6**	***$8,448.8***	***$8,955.8***
10	*Appropriations Change (from prior year)*	*$382.9*	*$412.3*	*$431.3*	*$451.4*	*$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**	**$0.2**	**$0.0**	**$0.0**	**$0.0**
13	**Spending Outside 6% Limit**	**$360.0**	**$344.0**	**$295.2**	**$306.5**	**$309.7**	**$308.9**
14	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
15	*Rebates and Expenditures /C*	*$164.6*	*$170.5*	*$183.4*	*$192.0*	*$187.2*	*$170.3*
16	*Homestead Exemption*	*$74.2*	*$79.8*	*$86.1*	*$93.4*	*$100.7*	*$107.7*
17	*Transfers to Capital Construction /D*	*$145.9*	*$93.7*	*$25.8*	*$21.1*	*$21.8*	*$30.8*
18	*Reversions and Accounting Adjustments*	*($24.7)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
19	**TOTAL OBLIGATIONS**	**$7,046.6**	**$7,438.0**	**$7,814.6**	**$8,277.1**	**$8,758.5**	**$9,264.6**
Reserves							
20	**Year-End Reserve**	**$516.3**	**$383.4**	**$300.8**	**$318.8**	**$338.0**	**$358.2**
21	*Year-End Reserve as a % of Appropriations*	*7.7%*	*5.4%*	*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**	**$99.9**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
24	*2/3 for Transportation /E*	*$166.2*	*$66.6*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
25	*1/3 for Capital Construction /E*	*$83.1*	*$33.3*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
26	Addendum: State Education Fund /F	$395.1	$410.1	$425.0	$442.0	$469.0	$500.2

Note: Lines in Bold represent totals.

/A Amount reflected in FY 2008-09 is amount H.B. 08-1078 transferred to the Veterans Trust Fund.

/B In FY 2006-07 a total of $11.1 million, in FY 2007-08 $6.1 million, and in FY 2008-09 $0.2 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 the necessary annual continuation costs associated with the FY 2008-09 appropriated 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.

Table 1B
General Fund Changes Since March 2008 Forecast
(Dollar Amounts in Millions)

Line No.			Differences from March to June 2008 Forecast				
		FY 2006-07	FY 2007-08	FY 2008-09	FY 2009-10	FY 2010-11	FY 2010-12
Revenue							
1	Beginning Reserve	$0.0	$0.0	$0.0	($0.0)	($0.0)	($0.0)
2	**Gross General Fund Revenue**	**$0.0**	**$69.1**	**$20.6**	**($112.9)**	**($180.2)**	**($195.3)**
3	*General Fund*	**$3.4**	*($84.7)*	*($46.5)*	*($58.7)*	*$6.2*	*$28.2*
4	*General Fund Exempt*	**($3.4)**	*$153.8*	*$67.1*	*($54.2)*	*($186.4)*	*($223.5)*
5	**Senate Bill 97-1 Diversion /A**	**$0.0**	**$43.3**	**$106.7**	**($75.9)**	**($158.9)**	**($182.0)**
7	**Net Transfers to/(from) the General Fund**	**$0.0**	**$0.0**	**($5.2)**	**$0.0**	**$0.0**	**$0.0**
8	**TOTAL REVENUE**	**$0.0**	**$25.8**	**($91.3)**	**($37.1)**	**($21.3)**	**($13.3)**
Expenditures							
9	**General Fund Appropriations (Subject to 6% Limit)**	**$0.0**	**$0.0**	**($0.4)**	**($0.2)**	**($0.2)**	**($0.2)**
12	**Exemptions to 6% Limit**	**$0.0**	**$0.0**	**$0.2**	**$0.0**	**$0.0**	**$0.0**
13	**Spending Outside 6% Limit**	**$0.0**	**($74.1)**	**($91.1)**	**($36.8)**	**($21.1)**	**($11.5)**
14	*TABOR Refund*	**$0.0**	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*($40.1)*
15	*Rebates and Expenditures*	**$0.0**	*$0.3*	*$3.0*	*$5.3*	*$5.6*	*$5.9*
16	*Homestead Exemption*	**$0.0**	*($1.2)*	*($0.1)*	*$3.4*	*$8.1*	*$11.8*
17	*Transfers to Capital Construction*	**$0.0**	*($73.2)*	*($94.0)*	*($45.5)*	*($34.8)*	*$11.0*
18	*Reversions and Accounting Adjustments*	**$0.0**	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
Reserves							
20	**Year-End Reserve**	**$0.0**	**$99.9**	**$0.0**	**$0.0**	**$0.0**	**($1.6)**
23	**Excess Monies Above (Below) Reserve**	**$0.0**	**$99.9**	**$0.0**	**$0.0**	**$0.0**	**($1.6)**
24	*2/3 for Transportation*	*$0.0*	*$66.6*	*$0.0*	*$0.0*	*$0.0*	*($1.1)*
25	*1/3 for Capital Construction*	*$0.0*	*$33.3*	*$0.0*	*$0.0*	*$0.0*	*($0.5)*

Note: Lines in Bold represent totals.

/A SB 97-1 transfers are shown as positive values for increased revenue diversions to transportation; negative values indicate decreased revenue diversions to transportation.

BUDGET IMPLICATIONS OF THE FORECAST

Overall, the forecast for total General Fund revenue was increased by $25.8 million, or 0.3 percent, for FY 2007-08 from the March 2008 revenue forecast. The bullets below summarize notable changes from March with respect to the State revenue picture. While the figures presented in the June 2008 OSPB General Fund Revenue forecast appear to portray an improved revenue outlook for the State in the near term, this does not mean to reflect that the economy has improved since the previous forecast. In fact, OSPB is forecasting that the opposite is true. Due to a combination of local and national economic factors, OSPB expects that inflation will be significantly higher in the short term. To the extent that this feeds into wages, personal income will be higher, leading to higher income tax collections. In addition, the price of goods sold at retail will rise, as will sales tax revenues. And while these increases in personal income and retail sales lead to increased revenues for the State, Colorado consumers are not projected to experience a better economy in *real* terms as compared to the March forecast.

- ***Appropriations*** **–** Based on the June 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 $431.3 million in FY 2008-09 and $451.4 million in FY 2009-10.

- ***Transportation*** **–** Since the March 2008 forecast, transportation transfers have been increased by $109.9 million in FY 2007-08, largely due to the improved revenue outlook for the current year ($43.3 million more in SB 97-1 transfers and $66.6 million in HB 02-1310 transfers).

- ***Capital Construction*** **–** Capital construction is reflected in the estimate by calculating the transfers into the Capital Construction Fund, an estimate for interest, and the out-year continuation costs for projects that were appropriated with Capital Construction Funds in FY 2008-09. This methodology has been refined since the March 2008 forecast by trying to more accurately project future needs. SB 08-233 caused several higher education projects in the March 2008 forecast to be covered through federal mineral lease-funded certificates of participation and these costs have been removed from the June forecast. Certificate of participation payments for Colorado State Penitentiary II and Fitzsimmons are covered by transfers in the out-years, and in FY 2011-12, the SB 97-1 transfer has been reduced to ensure that continuation projects are funded.

- ***Referendum C*** **–** Under the provisions of Referendum C, the State will retain $6.40 billion between FY 2005-06 and FY 2009-10, up roughly $160 million from the March forecast. Though it is counter-intuitive that this figure would increase given lower overall revenue projections for a number of years in the forecast period, lower than expected inflation in 2007 and an increase in cash funds offset the decrease in General Fund revenue, resulting in slightly higher General Fund revenue. OSPB does not expect the return of TABOR refunds through the end of the forecast period which differs from the March forecast; there were approximately $40.1 million in refunds expected for FY 2010-12 in the March 2008 forecast.

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 any revenue in excess of this limit. This forecast does not project any refunds as revenue is projected to be below the TABOR limit in FY 2010-11 and FY 2011-12 (line 10). Line 8 shows the amount of additional General Fund revenue that the State can retain as a result of the passage of Referendum C. The total amount of revenue retained during the five-year period ending in FY 2009-10 is projected to total $6.40 billion.

GENERAL FUND

Since the March 2008 forecast, individual income taxes have experienced a slight recovery, assumed to be a public response to the federal stimulus package, as individuals must file their taxes before their checks are mailed. Despite lower than previously projected retail sales figures of roughly $36.0 million through the end of the fiscal year, FY 2007-08 total General Fund revenue is projected to increase by $25.8 million over the March 2008 forecast.

For FY 2008-09 and beyond, greater inflation, unemployment, and reduced disposable income are anticipated as a result of increased fuel costs. These worsening indices have resulted in projected annual retail sales to be $50 to $60 million lower per year since the previous March forecast. However, because inflation is also projected to increase personal income, greater income tax collections are projected to offset much of these losses.

Other General Fund revenue changes were minimal. Ultimately, gross General Fund revenue is expected to grow at a compound average annual rate of 3.8 percent between FY 2007-08 and FY 2011-12.

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

Line No.		FY 2006-07	June 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	$7,532.0	$7,781.1	$8,071.3	$8,394.6	$8,841.3	$9,396.4
2	Cash Funds /B	$2,109.8	$2,305.3	$2,518.1	$2,520.0	$2,441.7	$2,539.6
3	**Total TABOR Revenues**	$9,641.9	$10,086.4	$10,589.4	$10,914.5	$11,283.0	$11,936.1
	Revenue Limit Calculation:						
4	Previous calendar year population growth	*1.4%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*1.9%*
5	Previous calendar year inflation	*2.1%*	*3.6%*	*2.2%*	*3.0%*	*3.2%*	*3.1%*
6	**Allowable TABOR Growth Rate**	*3.5%*	*5.5%*	*4.2%*	*5.1%*	*5.3%*	*5.0%*
7	TABOR Limit	$8,333.7	$8,802.9	$9,172.6	$9,635.8	$10,142.4	$10,652.5
8	General Fund Exempt Revenue Under Ref. C /C	$1,308.2	$1,283.5	$1,416.8	$1,278.7	$1,140.6	$1,283.6
9	**Revenue Limit Under Ref. C /D**	**$9,641.9**	**$10,086.4**	**$10,589.4**	**$10,914.5**	**$11,488.4**	**$12,066.1**
10	*Amount Above/(Below) Limit*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*($205.4)*	*($130.0)*
11	TABOR Reserve Requirement	$289.3	$302.6	$317.7	$327.4	$338.5	$358.1

/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)

				June 2008 Estimate by Fiscal Year									
Line No.	Category	FY 2006-07	% Chg	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%	$2,135.7	5.3%	$2,211.9	3.6%	$2,314.5	4.6%	$2,430.6	5.0%	$2,556.4	5.2%
2	Use /A	$181.6	9.4%	$188.8	4.0%	$194.4	3.0%	$201.9	3.9%	$212.1	5.1%	$222.7	5.0%
3	Cigarette	$47.1	-2.4%	$45.5	-3.4%	$43.2	-5.0%	$41.9	-3.2%	$40.6	-3.0%	$48.2	18.7%
4	Tobacco Products	$13.0	15.5%	$13.0	0.0%	$13.0	0.3%	$13.0	0.1%	$13.1	0.8%	$13.4	1.7%
5	Liquor	$34.0	3.5%	$36.0	5.8%	$43.1	19.8%	$44.4	3.1%	$45.7	2.9%	$47.0	2.7%
6	**Total Excise**	**$2,303.6**	**4.0%**	**$2,418.9**	**5.0%**	**$2,505.6**	**3.6%**	**$2,615.7**	**4.4%**	**$2,742.2**	**4.8%**	**$2,887.6**	**5.3%**
	Income Taxes:												
7	Net Individual Income	$4,870.9	11.3%	$5,015.5	3.0%	$5,231.2	4.3%	$5,452.5	4.2%	$5,803.5	6.4%	$6,231.8	7.4%
8	Net Corporate Income	$497.9	11.3%	$505.7	1.6%	$489.1	-3.3%	$494.8	1.2%	$510.3	3.1%	$515.4	1.0%
9	**Total Income**	**$5,368.8**	**11.3%**	**$5,521.2**	**2.8%**	**$5,720.3**	**3.6%**	**$5,947.2**	**4.0%**	**$6,313.8**	**6.2%**	**$6,747.2**	**6.9%**
10	*Less: State Education Fund Diversion*	*$395.1*	*10.6%*	*$410.1*	*3.8%*	*$425.0*	*3.6%*	*$442.0*	*4.0%*	*$469.0*	*6.1%*	*$500.2*	*6.7%*
11	**Total Income to General Fund**	**$4,973.7**	**11.4%**	**$5,111.1**	**2.8%**	**$5,295.3**	**3.6%**	**$5,505.3**	**4.0%**	**$5,844.8**	**6.2%**	**$6,247.0**	**6.9%**
	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	2.4%	$190.2	6.0%	$196.2	3.1%	$202.7	3.3%	$199.5	-1.6%	$206.0	3.2%
14	Interest Income	$28.2	-15.3%	$23.9	-15.3%	$29.8	25.0%	$30.6	2.6%	$31.4	2.6%	$32.2	2.6%
15	Pari-Mutuel	$3.0	-12.8%	$2.7	-10.0%	$2.4	-9.0%	$2.3	-7.0%	$2.1	-6.2%	$2.0	-6.4%
16	Court Receipts	$28.7	5.0%	$28.1	-2.2%	$21.4	-23.6%	$17.2	-19.9%	$0.0	-100.0%	$0.0	N/A
17	Gaming /C	$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	-13.6%	$19.8	24.6%	$20.0	1.0%	$20.4	1.7%	$20.8	2.0%	$21.2	2.0%
19	**Total Other**	**$262.5**	**-7.2%**	**$265.1**	**1.0%**	**$270.4**	**2.0%**	**$273.6**	**1.2%**	**$254.3**	**-7.0%**	**$261.8**	**3.0%**
20	**GROSS GENERAL FUND**	**$7,539.8**	**8.3%**	**$7,795.1**	**3.4%**	**$8,071.3**	**3.5%**	**$8,394.6**	**4.0%**	**$8,841.3**	**5.3%**	**$9,396.4**	**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%	$108.7	8.2%	$116.3	7.0%	$123.3	6.0%	$129.9	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%	$11.9	11.9%	$11.8	-0.4%	$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%**	**$170.5**	**3.6%**	**$183.4**	**7.6%**	**$192.0**	**4.7%**	**$187.2**	**-2.5%**	**$170.3**	**-9.0%**

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 have been almost entirely eliminated as of FY 2005-06.

/C S.B. 07-246 transfers $7.0 million to the Clean Energy Fund in FY 2006-07; the remaining $6.5 million is retained in the General Fund. In FY2007-08 and thereafter, all moneys from the Limited Gaming Fund that would have been transferred to the General Fund are transferred to the Clean Energy Fund.

CASH FUNDS

Table 4 summarizes the forecast for eight major cash fund categories. OSPB projects that there will be $2.31 billion in cash fund revenue in FY 2007-08, a 9.3 percent increase over FY 2006-07. Much of this increase is due to projected increases in severance tax revenues, new fee revenues and a temporary adjustment to the TABOR enterprise status of several State colleges. Highlights from the June 2008 forecast are presented below.

Transportation
OSPB projects that total transportation-related cash fund revenue will be $917.4 million in FY 2007-08, a 4.1 percent increase over the FY 2006-07 figure of $881.1 million. In April and May of 2008, revenues from registrations of new vehicles declined noticeably. While a reduction in vehicle miles traveled has not yet manifested itself in the fuel tax data, OSPB does project that revenue to the Highway Users Tax Fund will decline slightly in the near term, as drivers adjust to higher gasoline prices. OSPB projects that total transportation cash fund revenue will equal $912.0 million in FY 2008-09, a small 0.6 percent decline over projected FY 2007-08 revenue, before returning to trend growth by FY 2010-11.

Unemployment Insurance
OSPB projects unemployment insurance revenues, which include unemployment insurance taxes and interest earnings, will be $446.1 million in FY 2007-08, a 4.9 percent increase over FY 2006-07 collections of $425.2 million. These revenues are anticipated to continue to grow annually until FY 2010-11, when the solvency surcharge is anticipated to be removed in 2010. The unemployment insurance solvency surcharge, which is imposed on employers when the balance in the unemployment insurance fund falls below 0.9 percent of total private wages, is intended to ensure the State has sufficient funding to supporting unemployment benefits for those in need during difficult economic times. This forecast assumes that the solvency surcharge will be re-imposed in 2012.

Limited Gaming
OSPB projects that Limited Gaming tax revenue will be $119.3 million in FY 2007-08, a 1.2 percent increase over FY 2006-07 collections of $117.9 million. While it is difficult to determine how much of the recent declines in tax collections can be attributed to the smoking ban, adverse weather or a softening economy, it is clear that FY 2007-08 collections will underperform their historical growth rate. OSPB projects that gaming revenue will return to trend growth by FY 2010-11.

Regulatory Cash Funds
OSPB projects that FY 2007-08 cash fund revenue related to professional licensing, registration and public utilities will be $57.5 million in FY 2007-08, a 13.2 percent increase over FY 2006-07 revenue of $50.8 million. While this revenue source historically has grown proportionally to the size of Colorado's labor force, revenue from certifications of regulated professions has increased significantly in FY 2007-08, and is anticipated to continue in FY 2008-09, growing to $61.2 million.

Severance Taxes

Severance tax revenue is jointly projected by OSPB and Legislative Council Staff economists. Tax revenues are projected to be $172.7 million in FY 2007-08, an increase of 19.0 percent over FY 2006-07, when total revenues were $145.1 million. Due to a substantial increase in the hub prices of oil and natural gas and improved pipeline capacity for exporting oil and gas from Colorado, severance tax revenues are projected to increase to $356.4 million in FY 2008-09. In FY 2009-10, revenues are projected to decline to $254.9 million due to the impact of the ad valorem credit.

Federal Mineral Lease (FML) Revenue

The US Department of the Interior collects royalties from oil and gas operations on federal lands. Under current federal law, Colorado receives 49 percent of the royalties on most federal lands in the State. These intergovernmental transfers are TABOR exempt and are a growing source of revenue to the State. Beneficiaries of FML revenue include public schools, local governments most affected by natural resource development, and public institutions of higher education.

FML revenue is jointly forecast by OSPB and Legislative Council Staff economists. Due to strong price appreciation for crude oil and natural gas in futures markets, the June 2008 FML forecast is significantly higher than the March 2008 forecast. This forecast projects FY 2007-08 revenue to be $142.8 million, 6.3 percent higher than the $134.3 million projected in March. Expectations for FY 2008-09 revenue have increased substantially, to $223.2 million. This represents a 56.3 percent increase over anticipated FY 2007-08 collections and is an upward adjustment of 35.1 percent from the March 2008 forecast for FY 2008-09.

Please note that the FML revenue forecast above is presented for informational purposes only. FML revenues and other transfers from the federal government are not state-generated revenues and are therefore exempt from TABOR. As such, the amounts above are not reflected in the cash fund revenue forecast shown on the following page.

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

Category	FY 2006-07	June 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	$881.1	$917.4	$912.0	$928.8	$958.4	$987.4	
Change	1.3%	4.1%	-0.6%	1.8%	3.2%	3.0%	2.3%
Unemployment Insurance /A	$425.2	$446.1	$492.6	$547.0	$369.0	$388.8	
Change	-17.5%	4.9%	10.4%	11.0%	-32.5%	5.4%	-1.8%
Limited Gaming Fund	$117.9	$119.3	$125.0	$132.3	$140.9	$149.6	
Change	6.3%	1.2%	4.8%	5.9%	6.5%	6.2%	4.9%
Capital Construction - Interest	$14.9	$19.1	$9.6	$4.8	$2.9	$1.9	
Change	45.7%	28.2%	-49.5%	-50.4%	-40.4%	-32.2%	-33.5%
Regulatory Agencies	$50.8	$57.5	$61.2	$61.2	$63.2	$62.8	
Change	3.3%	13.2%	6.4%	0.0%	3.3%	-0.7%	4.3%
Insurance-Related	$66.2	$64.7	$70.7	$72.7	$74.3	$75.0	
Change	3.5%	-2.2%	9.3%	2.8%	2.3%	0.9%	2.5%
Severance Tax /B	$145.1	$172.7	$356.4	$254.9	$288.0	$301.3	
Change	-38.1%	19.0%	106.4%	-28.5%	13.0%	4.6%	15.7%
Other Miscellaneous Cash Funds /C	$408.7	$508.5	$490.6	$518.2	$545.0	$572.8	
Change	5.7%	24.4%	-3.5%	5.6%	5.2%	5.1%	7.0%
TOTAL CASH FUND REVENUE	***$2,109.8***	***$2,305.3***	***$2,518.1***	***$2,520.0***	***$2,441.7***	***$2,539.6***	
Change	-4.9%	9.3%	9.2%	0.1%	-3.1%	4.0%	3.8%

* CAAGR: Compound Annual Average Growth Rate.

Totals may not sum due to rounding.

/A Includes revenues from the solvency tax surcharge, which is in effect because the solvency ratio 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. Revenues also include the creation of the State Fair Authority Fund in FY 2006-07.

COLORADO ECONOMIC FORECAST

Colorado's economy continues to outperform the national economy in most major benchmarks such as income growth, employment growth, the unemployment rate and inflation. According to the US Department of Commerce's Bureau of Economic Analysis, Colorado's economy grew 2.0 percent in 2007 in inflation-adjusted terms, to $198.4 billion, good for 20th out of the 50 states. In *per capita* terms, Colorado has the 10th largest economy of the 50 states.

Although not immune to national and global economic problems, current macroeconomic circumstances have impacted Colorado far less than other states, for several reasons:

- Colorado's high country experienced one of its snowiest winters in recorded history. This allowed ski resorts to open earlier, close later and open more terrain. According to Colorado Ski Country USA, skiers and snowboarders from all over the world spent their vacations at Colorado resorts this past winter, nearly matching the single season record of 12.5 million visits set just one year ago.

- Global supply and demand dynamics conspired to push wholesale and retail energy prices ever higher, with oil prices projected by the investment bank Goldman Sachs to reach $150 per barrel during the summer of 2008. While the short-run impact to Colorado consumers is negative, the impact to the energy production sector, both conventional and renewable, has been far more positive.

  Through May 2008, the Department of Natural Resources approved 2,910 new drilling permits, an increase of 10.8 percent over the same period in 2007. According to the Colorado Department of Labor and Employment, the employment picture within extractive industries has also been positive. In the fourth quarter of 2007, 7,226 people were directly employed in oil and gas extraction at an average salary of $133,000, as compared to 5,928 in the same quarter of 2006, when the average salary was $115,000. Employment has increased 21.9 percent, average salaries are up 15.1 percent and total wages paid in oil and gas extraction increased 40.3 percent to $221.0 million.

- The oil price has also made renewable energy producers more economically competitive. The cluster of major research universities and federal laboratories on the Front Range has become a magnet for private-sector ventures in renewable energy. It appears this sector will lead the way for economic growth in Colorado for the foreseeable future.

- Due to economic concerns at the national level and an imbalance in real interest rates compared to other developed nations, the value of the dollar has fallen dramatically against benchmark currencies such as the euro, the pound sterling and the yen. This has hurt consumers by exacerbating price increases in energy, food and other commodities. However, it has been a boon for exporters and for foreign direct investment. The weak dollar made a good ski season even better, as additional foreign tourists visited Colorado. In addition, the weak dollar makes land, buildings and labor relatively inexpensive for foreign companies and has recently encouraged significant high-profile investment in Colorado by foreign firms such as Siemens AG, Vestas Wind Systems A/S, Brisa, BP PLC, Royal Dutch/Shell, EnCana, and Brookfield Properties.

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 2.2 percent, a net increase of 51,100 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 is projected to be 1.4 percent in 2008 and 1.6 percent in 2009. These figures are 0.0 and 0.2 percentage points lower than the March 2008 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 March forecast. The most recent data from the Colorado Department of Labor and Employment shows an unemployment rate of 4.4 percent in April, which remains low by historical standards but portends some slack in the labor market. This OSPB forecast projects the unemployment rate to rise to 4.7 percent in 2008 and then gradually decline to 4.1 percent by 2012.

INFLATION

During 2007, consumer prices in the Denver-Boulder-Greeley area increased only 2.2 percent – a relatively low rate of inflation by historical standards. However, due to continued increases in the three largest components of CPI (fuel, retail goods and rent-equivalent housing costs) since 2007, this OSPB forecast projects that local inflation will be 3.0 percent in 2008 and 3.2 percent in 2009, an increase of 0.3 percentage points over the March 2008 forecast in both years. This increase reflects the strong market for residential apartments in the Denver area, which posted a vacancy rate of 2.7 percent in the first quarter of 2008 according to the Colorado Department of Local Affairs, and fuel prices that are anticipated to remain around the $4 per gallon mark for the next couple of years, according to the US Department of Energy.

Local consumer price index (CPI) data, released by the federal Bureau of Labor Statistics semiannually, represents the average change in price over time for a market basket of goods and services.

WAGES AND INCOME

Personal income grew 6.0 percent in 2007. After adjusting for inflation and population growth, real per capita income growth was 1.7 percent. This OSPB forecast projects that personal income will grow 6.1 percent in 2008 and 6.2 percent in 2009. While these figures appear to be high with regard to a relatively soft economy, they incorporate increased inflationary pressures and do not reflect expectations of improved purchasing power for Colorado consumers.

Colorado wage and salary income rose 6.3 percent through 2007, reflecting a relatively strong labor market, growth in the labor force and inflation. This OSPB forecast projects wage and salary income to increase 5.6 percent in 2008 and 5.8 percent in 2009. Compared to the March 2008 forecast of 5.5 percent growth in 2008 and 5.6 percent growth in 2008, the June 2008 forecast essentially expects inflation to be priced into wage and salary demands with no significant increase to real incomes.

Population and Migration

In 2007, net in-migration to Colorado was 51,800, which contributed to total population growth of 2.0 percent. This OSPB forecast projects 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. These figures have not changed from the March 2008 forecast.

Construction

In 2007, *residential* construction permits dropped 22.6 percent to 30,400, the third consecutive annual decline. Big-company inventory reductions suggest a trend among large and small developers alike: a turn away from expanding new subdivisions on the outskirts of metropolitan areas, and a turn inward where small, attached multifamily units, renovation and remodeling, and "walkable urbanity" both are on the rise. Multifamily permits are still growing slightly; however, it is not enough to offset the decline of single-family permits, 43.2 percent, for the first quarter of 2008 according to the US Census Bureau. Based on a total decline of 30 percent for all residential permits through the first quarter of 2008, this OSPB forecast projects housing permits to decline 14.9 and 1.0 percent in 2008 and 2009, respectively, putting further upward pressure on rents and inflation measures.

The total value of *nonresidential* construction permits statewide grew 10.4 percent to $4.3 billion in 2007. However, this growth is not anticipated to be sustainable in the current economy. Given there was a reported decline of 2.2 percent in nonresidential construction permits just one year prior in 2006, this OSPB forecast projects the growth of nonresidential permits to be a modest 2.2 percent in 2008 and 2.8 percent in 2009.

Retail Trade

In 2007, retail trade sales in Colorado rose 7.0 percent. Retail sales growth is projected to continue growing, but at a slower rate of 4.3 percent in 2008 and 5.3 percent in 2009 due to rising consumer debt payments. These projected growth rates are down from the 5.4 and 5.5 percent figures forecast in March.

Risks to the Colorado Forecast

Although Colorado will fare better than the rest of the country, it cannot be totally insulated from broader economic issues. Ongoing corrections in local real estate markets outside Colorado will indirectly impact Colorado, as fewer people will be able to afford to travel to or buy second homes in Colorado.

The ongoing re-pricing of risk will impact Colorado in subtle ways by raising the interest rates at which local governments can float bonds, raising the costs to start or expand a business and raising the costs to finance the purchase of a home. Experts contend that the true magnitude of the subprime problem is vastly larger than what has already been announced through the writedown of hundreds of billions of dollars worth of bad debts. Further weakness in the banking sector could cause businesses and consumers in Colorado to find it more difficult to borrow money, which would definitely have a negative impact on Colorado's economy.

Table 5
History and Forecast for Key Colorado Economic Variables
Calendar Year 2003-2012

Line No.		Actual					Forecast				
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Current Income										
1	Personal Income (Billions)	$154.8	$163.8	$175.8	$188.2	$199.5	$211.7	$224.9	$238.4	$253.2	$268.5
2	Change	1.2%	5.8%	7.3%	7.0%	6.0%	6.1%	6.2%	6.0%	6.2%	6.0%
3	Wage and Salary Income (Billions)	$88.0	$92.1	$97.4	$104.0	$110.6	$116.8	$123.5	$130.9	$138.8	$146.9
4	Change	1.2%	4.6%	5.7%	6.9%	6.3%	5.6%	5.8%	6.0%	6.0%	5.8%
5	Per-Capita Income ($/person)	$33,989	$35,538	$37,618	$39,480	$41,042	$42,676	$44,433	$46,223	$48,162	$50,099
6	Change	0.1%	4.6%	5.9%	5.0%	4.0%	4.0%	4.1%	4.0%	4.2%	4.0%
	Population & Employment										
7	Population (Thousands) /A	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	1.1%	1.2%	1.4%	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%	1.9%
9	Net Migration (Thousands) /A	12.2	15.3	24.3	51.4	51.8	60.3	61.0	56.3	58.7	60.4
10	Civilian Unemployment Rate	6.1%	5.6%	5.2%	4.3%	3.8%	4.7%	4.5%	4.3%	4.2%	4.1%
11	Total Nonagricultural Employment (Thousands)	2,152.8	2,179.6	2,226.0	2,279.1	2,330.2	2,362.6	2,400.2	2,446.7	2,497.3	2,544.1
12	Change	-1.4%	1.2%	2.1%	2.4%	2.2%	1.4%	1.6%	1.9%	2.1%	1.9%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	39.4	46.4	46.3	39.3	30.4	25.9	25.6	26.0	26.6	27.2
14	Change	-17.7%	17.5%	-0.2%	-15.0%	-22.6%	-14.9%	-1.0%	1.3%	2.3%	2.4%
15	Nonresidential Construction Value (Millions)	2,433.7	3,155.2	3,979.5	3,890.4	4,294.5	4,389.5	4,513.7	4,670.6	4,838.5	5,006.3
16	Change	-7.7%	29.6%	26.1%	-2.2%	10.4%	2.2%	2.8%	3.5%	3.6%	3.5%
	Prices & Sales Variables										
17	Retail Trade Sales (Billions)	$58.7	$62.3	$65.5	$70.4	$75.4	$78.6	$82.8	$87.5	$92.6	$97.9
18	Change	-0.2%	6.1%	5.1%	7.6%	7.0%	4.3%	5.3%	5.7%	5.8%	5.7%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	186.8	187.0	190.9	197.7	202.1	208.1	214.8	221.5	228.2	235.1
20	Change	1.1%	0.1%	2.1%	3.6%	2.2%	3.0%	3.2%	3.1%	3.0%	3.0%

/A Growth rates calculated by the Colorado State Demography Office

NATIONAL ECONOMIC FORECAST

For a time it appeared likely that the U.S. economy would not experience a full blown recession, which is officially defined as two consecutive quarters of negative growth in inflation-adjusted *per capita* gross domestic product. However, the most recent economic data leaves little room for argument that the national economy is undergoing a serious correction, irrespective of any official pronouncement of a recession.

The nation's short-run economic challenges are largely due to a misallocation of financial resources to the sub-prime residential lending market, the magnitude of which is still not fully understood by the broader financial markets. These problems are being compounded by a demand-driven rise in the cost of most commodities, brought on by booming economies in Asia. The recent rise in the price of crude oil may largely have offset any aggregate benefit from the federal stimulus tax package, and the Federal Reserve is in a difficult spot with regards to fighting both inflation and a slowing economy.

This section presents the OSPB forecast for national economic and demographic indicators. It includes details related to the Gross Domestic Product, inflation, interest rates, employment and unemployment.

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. GDP is reported quarterly by the US Department of Commerce's Bureau of Economic Analysis, and 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. First quarter 2008 GDP growth was only 0.9 percent.

This OSPB forecast assumes GDP growth to be 1.6 percent in 2008 and 2.3 percent in 2009. This is a decrease of 0.6 and 0.5 percent over the March OSPB forecast for 2008 and 2009, respectively and is more in line with the reported first quarter 2008 GDP growth of 0.9 percent released at the end of May 2008.

- ***Consumer spending,*** which comprises roughly 67 percent of GDP, has continued to grow at a weak pace. Whereas durable goods spending had outpaced spending on services in 2007, the first quarter of 2008 saw a reversion to the long term secular trend which has seen the service sector becoming an ever larger part of the economy. This is down from fourth quarter 2007 performance of 2.3 percent and well below first quarter 2007 performance of 3.7 percent just one year ago. First quarter 2008 growth was 1.0 percent, with negative growth in durable goods spending offset by positive growth in services.

- ***Business investment,*** which comprises roughly 14 percent of GDP, remains the weakest component of GDP as the correction in the housing market continues. Residential investment growth was negative in each quarter of 2007, and dropped a further 25.2 percent in the first quarter of 2008. Commercial fixed investment had offset most of the weakness in the residential sector, but is now flat at 1.1 percent growth in the first quarter of 2008. First quarter 2008 business investment declined 7.8 percent from the same quarter in 2007.

- ***Government spending***, the remaining 19 percent of GDP, continues to be a relatively durable sector of the economy, with 2.0 percent growth in the first quarter of 2008 over the same quarter in 2007. Federal spending increased 4.4 percent in the first quarter of 2008, with defense spending increasing 5.6 percent and non-defense spending increasing by 1.8 percent. State and local government spending growth was more modest at 0.6 percent growth, due to the tax bases of many states and localities shrinking from the effects of the housing correction.

INFLATION

As the federal funds interest rate (2.0 percent as of April 30) is now lower than the official inflation rate as reported by the Bureau of Labor and Statistics (4.2 percent in May 2008), the benchmark interest rate is now negative in real terms. Coupled with the limited effects that the national stimulus package had in softening the twin blows of the sub-prime problem and rapidly rising energy costs, the national consumer price index (CPI) is anticipated to rise to 4.2 percent in 2008 before decreasing to 3.6 percent in 2009.

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. By raising or lowering a key cost of business for commercial banks, the Federal Reserve indirectly affects interest rates offered by lenders in order to control inflation and promote full employment. Based on increasingly high oil prices and high unemployment figures seen in recent months, the Federal Reserve must consider inflation and unemployment when considering changes to the federal funds rate, which as of April 2008, was 2.0 percent. This OSPB forecast assumes a federal funds rate of 2.3 percent and 3.0 percent in 2008 and 2009, respectively.

EMPLOYMENT

According to the Bureau of Labor and Statistics, national payrolls increased 1.1 percent in 2007, with 1.5 million workers added to non-agricultural payrolls between 2006 and 2007. In 2008 and 2009, employment is projected to increase 0.2 percent and 0.7 percent, respectively. This is a reduction of 0.5 and 0.3 percentage points from the March 2008 forecast.

The unemployment rate finished at 4.6 percent for 2007 and is forecast to be 5.2 percent in 2008 and 5.4 percent in 2009. This constitutes a slight upward adjustment from the March 2008 forecast, up 0.1 percent in 2008 and 0.3 percent in 2009, reflecting diminished expectations for short-term employment growth. By historical standards, unemployment rates around five percent are generally reflective of a healthy labor market, but the upward trend is enough to unsettle businesses and consumers alike.

Risks to the Forecast

The sub-prime crisis in the United States has caused bank insolvencies in the United States, Europe and Asia. The aggregate size of the losses resulting from subprime lending are estimated by the International Monetary Fund to be on the order of $1 trillion. If this figure is accurate, a significant period of time will be required before the nation's economy can unwind from all of the negative effects of the housing bubble.

Some risks to the upside include an earlier than anticipated stabilization of the housing market, continued diminishing of the trade deficit, and improvements to the structural problems in the federal budget. In addition, the price of oil currently incorporates a fairly significant risk factor due to geopolitical uncertainty in several areas of energy extraction. While high oil prices encourage conservation and innovation in the long run, a stabilized geopolitical climate would provide relief to consumers in the short run.

Table 6
History and Forecast for Key National Economic Variables
Calendar Year 2003-2012

Line No.		Actual					Forecast				
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	Inflation-Adjusted & Current Dollar Income Accounts										
1	Inflation-Adjusted Gross Domestic Product (Billions)	$10,302.4	$10,675.9	$11,004.9	$11,316.2	$11,566.8	$11,754.6	$12,026.6	$12,383.8	$12,743.1	$13,112.7
2	Change	2.5%	3.6%	3.1%	2.8%	2.2%	1.6%	2.3%	3.0%	2.9%	2.9%
3	Gross Domestic Product (Billions)	$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	4.7%	6.9%	6.3%	6.8%	5.9%	5.6%	5.3%	5.1%	5.0%	4.8%
5	Personal Income (Billions)	$9,163.6	$9,727.2	$10,301.1	$10,983.4	$11,659.6	$12,188.9	$12,848.0	$13,583.6	$14,318.4	$15,091.6
6	Change	3.2%	6.2%	5.9%	6.6%	6.2%	4.5%	5.4%	5.7%	5.4%	5.4%
7	Per-Capita Income ($/person)	$31,695	$33,355	$35,030	$36,935	$38,821	$40,256	$42,098	$44,010	$45,837	$47,739
8	Change	2.7%	5.2%	5.0%	5.4%	5.1%	3.7%	4.6%	4.5%	4.2%	4.2%
	Population & Employment										
9	Population (Millions)	291.6	294.6	297.5	300.3	302.7	305.1	307.9	310.6	313.4	318.9
10	Change	1.0%	1.0%	1.0%	1.0%	0.8%	0.8%	0.9%	0.9%	0.9%	1.7%
11	Civilian Unemployment Rate	6.0%	5.5%	5.1%	4.6%	4.6%	5.2%	5.4%	5.2%	5.2%	5.2%
12	Total Nonagricultural Employment1 (Millions)	130.0	131.4	133.7	136.1	137.6	137.9	138.8	140.5	142.2	143.9
13	Change	-0.3%	1.1%	1.7%	1.8%	1.1%	0.2%	0.7%	1.2%	1.2%	1.2%
	Financial Markets										
14	30-Year T-Bond Rate	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	4.0%	4.3%	4.3%	5.1%	5.1%	5.3%	5.5%	5.6%	5.4%	5.5%
16	Federal Fund Rate	1.1%	1.3%	3.2%	5.0%	5.0%	2.3%	3.0%	5.6%	5.5%	5.5%
	Price Variables										
17	Consumer Price Index (1982-84=100)	184.0	188.9	195.3	201.6	207.3	216.1	223.9	230.5	236.8	243.2
18	Change	2.3%	2.7%	3.4%	3.2%	2.9%	4.2%	3.6%	2.9%	2.7%	2.7%
19	Producer Price Index (1982=100)	143.3	148.5	155.7	160.4	166.6	178.2	185.2	189.8	194.2	198.7
20	Change	3.2%	3.6%	4.9%	3.0%	3.9%	6.9%	3.9%	2.5%	2.3%	2.3%
	Other Key Indicators										
21	Industrial Production Index (1996=100)	101.2	103.8	107.2	109.6	111.4	111.6	114.3	118.0	121.4	124.9
22	Change	1.2%	2.5%	3.3%	2.2%	1.7%	0.2%	2.4%	3.2%	2.9%	2.9%
23	Corporate Profits After Tax (Billions)	$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	15.4%	27.0%	32.6%	10.6%	-0.1%	4.0%	5.5%	5.1%	5.0%	4.7%
25	Housing Starts (Millions)	1.854	1.949	2.073	1.943	1.675	1.590	1.573	1.598	1.634	1.669
26	Change	8.4%	5.1%	6.4%	-6.3%	-13.8%	-5.1%	-1.1%	1.6%	2.2%	2.1%