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Bill Ritter Jr.
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MEMORANDUM

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

FROM: Office of State Planning and Budgeting

DATE: December 19, 2008

SUBJECT: ***December 2008 Revenue Forecast***

This memorandum presents the December 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.

DECEMBER 2008 OSPB FORECAST HIGHLIGHTS

- Due to the declining economic situation globally, nationally, and now locally, this OSPB forecast reflects that the **General Fund revenue projections will not be able to support full 6 percent General Fund appropriations growth in any of the forecast years**. While economic conditions are anticipated to improve by the end of 2009, due to the timing of Referendum C expiring June 30, 2010, the outlook for State budgeting will remain challenging.
- Gross **General Fund revenues** are anticipated to remain relatively level at $7.8 billion in FY 2008-09. This revised forecast reflects only 0.4 percent growth over FY 2007-08 revenues as excise tax revenue is anticipated to fall short of prior year collections by roughly 3.0 percent. Income tax collections are projected to offset lower excise revenues, but by a small margin, as FY 2008-09 income tax revenues are estimated to increase by 2.1 percent from FY 2007-08 levels. Beyond FY 2008-09, individual income taxes are forecast to remain suppressed due to projected negative job growth through much of 2009 and retail sales are not anticipated to grow substantially above the projected rate of inflation. Colorado's economy is anticipated to turn positive again near the end of 2009.
- **Cash fund revenues** are forecast to increase 1.1 percent in FY 2008-09 (to $2.3 billion), with revenues from severance tax collections being the largest contributor. However, due to the volatility in prices for natural gas and the anticipated continuation of the unemployment solvency tax beyond FY 2009-10, the State may be faced with significant TABOR refund obligations following the expiration of Referendum C.
- Under the provisions of **Referendum C**, the State will retain $5.0 billion from FY 2005-06 through FY 2009-10; a decrease of roughly $843 million from the November 1 interim forecast, and roughly $1.2 billion less than forecast one year ago. **TABOR refunds of $197.8 million and $541.8 million** are forecast for FY 2010-11 and FY 2011-12.
- Due to weak state revenues, the forecast indicates no General Fund revenues will be available for transportation or capital construction through Senate Bill 97-1 or HB 02-1310 during any of the forecast years.

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 December 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 21), as well as maintain a statutory four percent reserve (line 22). Line 7 represents other transfers from the General Fund including funding to the Colorado State Veteran's Trust Fund, the Supplemental Old Age Pension Health and Medical Care Fund, and the Older Coloradans Cash Fund.

Lines 9 through 13 summarize the amount of allowable General Fund appropriations based on the six percent limit. Line 9 represents the maximum amount of General Fund appropriation growth allowable by TABOR, including a full 6 percent increase over the combined sum of lines 11 and 14 from the prior year. Line 10 reflects the impact to General Fund appropriation growth in the event that revenues cannot fully support the maximum 6 percent in any given fiscal year.

Lines 14 through 20 summarize spending that is exempted from the six percent limit, but is included in the base for future growth (line 11), and other spending outside the six percent limit (line 15). It should be noted that the total on line 15 must be funded *prior* to funding General Fund appropriations under the six percent limit. Line 19 includes funds that have been appropriated, as well as annual continuation costs associated with capital construction projects, level I controlled maintenance and certificate of participation payment (COP) obligations.

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 statutorily required four percent reserve (line 24) 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 a maximum transfer to the Highway User Tax Fund (HUTF) under Senate Bill 97-1, the remaining revenue is recorded as excess reserve (line 25). Any excess reserve at the end of the fiscal year is then transferred in the following fiscal year, with two-thirds distributed for transportation (line 26) and one-third for capital construction (line 27).

Finally, for informational purposes only, line 28 shows the amount of money credited to the State Education Fund. Under the provisions of Amendment 23, the State credits an amount equal to one-third of one percent of State taxable income to the State Education Fund.

Table 1B reflects the changes to the General Fund Overview since the November 1 interim 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 <u>increased</u> revenue diversions to transportation in this table.

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

Line No.		Preliminary /H FY 2007-08	December 2008 Estimate by Fiscal Year FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenue						
1	Beginning Reserve	$267.0	$283.5	$299.1	$305.9	$315.9
2	**Gross General Fund Revenue**	**$7,742.7**	**$7,775.0**	**$7,952.8**	**$8,439.2**	**$9,004.3**
3	*General Fund*	*$6,537.6*	*$6,886.4*	*$7,456.9*	*$8,439.2*	*$9,004.3*
4	*General Fund Exempt*	*$1,205.1*	*$888.6*	*$495.8*	*$0.0*	*$0.0*
5	**Senate Bill 97-1 Diversion**	**($238.1)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
6	*Percent of Maximum*	*100%*	*0%*	*0%*	*0%*	*0%*
7	**Net Transfers to/(from) the General Fund /A**	**($5.8)**	**($11.7)**	**($10.8)**	**($10.8)**	**($10.8)**
8	**TOTAL REVENUE**	**$7,765.9**	**$8,046.9**	**$8,241.1**	**$8,734.4**	**$9,309.5**
Expenditures						
9	*Allowable General Fund Appropriation Limit /B*	*$7,087.8*	*$7,546.9*	*$7,925.5*	*$8,107.4*	*$8,372.0*
10	*Reductions to General Fund Appropriations*	*$0.0*	*($70.2)*	*($277.0)*	*($209.3)*	*($260.0)*
11	**General Fund Appropriations (Subject to 6% Limit)**	**$7,087.8**	***$7,476.6***	***$7,648.5***	***$7,898.1***	***$8,111.9***
12	*Appropriations Change (from prior year)*	*$412.3*	*$388.8*	*$171.9*	*$249.6*	*$213.9*
13	*Percent Change /C*	*6.2%*	*5.5%*	*2.3%*	*3.3%*	*2.7%*
14	**Exemptions to 6% Limit /C**	**$31.9**	**$0.2**	**$0.0**	**$0.0**	**$0.0**
15	**Spending Outside 6% Limit**	**$320.8**	**$270.9**	**$286.6**	**$520.4**	**$873.1**
16	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$197.8*	*$541.8*
17	*Rebates and Expenditures /D*	*$173.8*	*$160.8*	*$169.9*	*$175.6*	*$175.9*
18	*Homestead Exemption*	*$79.8*	*$85.2*	*$91.4*	*$97.6*	*$103.4*
19	*Transfers to Capital Construction /E*	*$93.7*	*$24.9*	*$25.3*	*$49.4*	*$52.0*
20	*Reversions and Accounting Adjustments*	*($26.5)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
21	**TOTAL OBLIGATIONS**	**$7,440.5**	**$7,747.8**	**$7,935.1**	**$8,418.5**	**$8,985.0**
Reserves						
22	**Year-End Reserve**	**$325.4**	**$299.1**	**$305.9**	**$315.9**	**$324.5**
23	*Year-End Reserve as a % of Appropriations*	*4.6%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
24	**Statutory Reserve: 4% of Appropriations**	**$283.5**	**$299.1**	**$305.9**	**$315.9**	**$324.5**
25	**Excess Monies Above (Below) Reserve**	**$41.9**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
26	*2/3 for Transportation /F*	*$27.9*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
27	*1/3 for Capital Construction /F*	*$14.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
28	Addendum: State Education Fund /G	$407.9	$416.3	$422.5	$450.0	$480.5

Note: Lines in Bold represent totals.

/A Includes General Fund transfers to the State Veterans Trust Fund, the Older Coloradans Cash Fund, and the Supplemental Old Age Pension Health and Medical Care Fund.

/B Reflects the previous year's exempt and non-exempt General Fund appropriations (rows 11 and 14) plus six percent.

/C $31.9 million in FY 2007-08 (including $25.7 million in Medicaid overexpenditures) and $0.2 million in FY 2008-09 are not subject to the six percent limit pursuant to Section 24-75-201.1(1)(a)(III)(B), C.R.S., but are included the base for calculation of the next year's appropriation's limit. As such, these exemptions allow for General Fund growth to exceed six percent of the prior year's non-exempt General Fund Appropriations amount shown on row 11.

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

/E This includes continuation costs for FY 2009-10 capital requests, Level I Controlled Maintenance funding and certificate of participation payments appropriated from Capital Construction funds.

/F 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.

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

/H FY 2007-08 figures are considered preliminary until audited figures become available.

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

Line No.		Preliminary FY 2007-08	November 2008 to December 2008 Forecast Changes FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenue						
1	Beginning Reserve	$0.0	$0.0	($2.8)	($14.1)	($23.3)
2	**Gross General Fund Revenue**	**$0.0**	**($135.9)**	**($365.5)**	**($428.4)**	**($409.2)**
3	*General Fund*	*$0.0*	*$171.3*	*$170.7*	*($428.4)*	*($409.2)*
4	*General Fund Exempt /A*	*$0.0*	*($307.2)*	*($536.3)*	*$0.0*	*$0.0*
5	**Senate Bill 97-1 Diversion**	**$0.0**	**($62.3)**	**($13.9)**	**($12.5)**	**$0.0**
7	**Net Transfers to/(from) the General Fund /B**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
8	**TOTAL REVENUE**	**$0.0**	**($73.5)**	**($354.5)**	**($430.0)**	**($432.5)**
Expenditures						
11	**General Fund Appropriations (Subject to 6% Limit) /C**	**$0.0**	**($70.2)**	**($351.4)**	**($581.8)**	**($569.5)**
12	*Appropriations Change*	*$0.0*	*($70.2)*	*($281.2)*	*($230.4)*	*$12.3*
13	*Percent Change*	*0.0%*	*-1.0%*	*-3.7%*	*-2.7%*	*0.3%*
14	**Exemptions to 6% Limit**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
15	**Spending Outside 6% Limit**	**$0.0**	**($0.5)**	**$11.0**	**$175.2**	**$159.8**
16	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$170.0*	*$157.5*
17	*Rebates and Expenditures*	*$0.0*	*$1.3*	*$5.1*	*$6.8*	*$6.6*
18	*Homestead Exemption*	*$0.0*	*($0.9)*	*($2.0)*	*($3.1)*	*($4.3)*
19	*Transfers to Capital Construction*	*$0.0*	*($0.9)*	*$7.9*	*$1.5*	*$0.0*
20	*Reversions and Accounting Adjustments*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
21	**TOTAL OBLIGATIONS**	**$0.0**	**($70.7)**	**($340.4)**	**($406.7)**	**($409.7)**
Reserves						
22	**Year-End Reserve**	**$0.0**	**($2.8)**	**($14.1)**	**($23.3)**	**($22.8)**
23	**Statutory Reserve: 4% of Appropriations**	**$0.0**	**($2.8)**	**($14.1)**	**($23.3)**	**($22.8)**
24	**Excess Monies Above (Below) Reserve**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
25	*2/3 for Transportation*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
26	*1/3 for Capital Construction*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
27	Addendum: State Education Fund /E	*$0.0*	*($7.8)*	*($22.2)*	*($24.9)*	*($22.5)*

Note: Lines in Bold represent totals.

/A Reported reductions in General Fund Exempt and increases in General Fund revenues are due to previous forecasts continuing to represent a Referendum C impact beyond FY 2009-10. This forecast assumes all General Fund collected after FY 2009-10 is applicable to the new limit once Referendum C expires.

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

/C General Fund appropriations subject to the 6 percent limit are reduced to reflect insufficient General Fund revenue growth in FY 2008-09 and FY 2009-10. Beginning in FY 2010-11, reductions in this line are due to largely to the TABOR surplus calculation that will be in effect once Referendum C expires.

BUDGET IMPLICATIONS OF THE FORECAST

The December FY 2008-09 forecast for General Fund revenue was reduced $135.9 million from November's interim estimate, reflecting that, while still stronger than many other states in the nation, Colorado is also feeling economic pressures. This negative adjustment from the November forecast is predominately reflective of reductions to individual and corporate income taxes of $75.0 million and $33.7 million, respectively. These reductions are projected despite revenues through November continuing to reflect OSPB expectations as published in its previous forecast. Finally, while revenues in the current year are only anticipated to grow by 0.4 percent, due to FY 2007-08 excess General Fund revenues totaling $280.0 million above the allowable 6.0 percent appropriation growth limit in that year, the State will still be able to maintain a 5.5 percent budget increase for FY 2008-09.

Beyond FY 2008-09, Colorado's budget picture looks much worse than previously forecasted. As unemployment claims continue to rise in Colorado and the prospect of continued negative growth in jobs appears to be likely for the next calendar year, this OSPB forecast assumes that sales tax revenue will not grow substantially more than inflation and individual income tax collections will reflect a stagnant economy through much of calendar year 2009. Therefore, it is anticipated that General Fund revenues will not be sufficient for appropriations to grow by the maximum allowable six percent in FY 2009-10, and have been lowered from the previous OSPB forecast by $365.5 million, to roughly $7.9 billion.

Finally, just as the economy is anticipated to improve beginning in calendar year 2010, the expiration of Referendum C at the end of FY 2009-10 will cause an increase in revenues subject to TABOR; that is, those revenues that are above inflation plus population growth, be returned to Colorado taxpayers. As a result, TABOR refunds of $197.8 million and $541.8 million are anticipated in FY 2010-11 and FY 2011-12, respectively.

Highlights of Budget Implications:

- ***Appropriations* –** The December 2008 forecast projects that the State will no longer have enough revenue to fully fund the six percent General Fund appropriations growth in any of the forecast years. The annual allowable increase in General Fund appropriations is projected to equal $388.8 million in FY 2008-09 (5.5 percent growth) and $171.9 million in FY 2009-10 (2.3 percent growth).

- ***Transportation*** – The State transferred $266.0 million to fund transportation-related projects in FY 2007-08 ($27.9 million from HB 02-1310 and $238.1 million from full SB 97-1 transfers). The December 2008 forecast estimates that there will not be excess General Fund revenue to fund either SB 97-1 or HB 02-1310 transfers for the forecast period.

- ***Capital Construction* –** Because there are no HB 02-1310 transfers projected in the near future, a General Fund transfer is needed to cover essential projects. This General Fund transfer results in a reduction of funds available for state programs that are financed under the 6% appropriations limit. These essential capital construction projects include continuation projects from prior years, Level I Controlled Maintenance, and certificates of participation annual payments for Colorado State Penitentiary II and the Anschutz Medical Center. The forecast applies a spending pattern to all transfers and appropriations into the Capital Construction Fund of 30% in year one, 60% in year two, and 10% in year three. In addition, in order to reduce strain on General Fund transfers, OSPB's projection uses the balance from the Corrections Expansion Reserve Bills as the fund is infused to cover portions of certain Corrections projects.

OSPB has updated its interest projection since the November 1 interim forecast, assuming a rate of return of 3.40% in the current year, in-line with actual returns experienced to date in FY 2008-09 as supplied by the Treasurer's Office website. OSPB applies this interest rate to the current balance in the fund, in addition to expected transfers, rather than assuming the entire balance is committed. The average monthly balance remaining in the fund at the end of FY 2007-08 (as reported by the State Treasurer’s website) was also assumed to be accruing interest, and is greater than the available balance as reported in Legislative Council Staff documents.

- ***Referendum C*** **–** Under the provisions of Referendum C, the State will retain $5.0 billion between FY 2005-06 and FY 2009-10, down $843 million from the November forecast. This reduction in exempt revenue is due to lower TABOR revenue projections as outside economic pressures creep into Colorado.

  Since the TABOR limit is forecast to be below projected revenue estimates in the year Referendum C expires, TABOR revenues in FY 2009-10 are still anticipated to determine the starting point for the new allowable revenue limit in future fiscal years. However, as the economy begins to improve in calendar year 2010, TABOR revenues are anticipated to increase more than the combined population plus inflation increase beginning in FY 2010-11, resulting in TABOR refunds for FY 2010-11 and FY 2011-12 of $197.8 million and $541.8 million, respectively.

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, during a five-year TABOR "time out."

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 projects a refund situation in 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 $5.0 billion.

GENERAL FUND

Individual projections for excise, income, and other General Fund revenue sources can be found in Table 3. Ultimately, gross General Fund revenue is expected to grow at a compound average annual rate of 4.8 percent between FY 2007-08 and FY 2011-12.

Consistent with the November 2008 interim forecast, sales tax revenue remains below prior year collection levels by roughly 3.0 percent. While the second six months of FY 2007-08 were not as strong as the first six, this forecast assumes that total excise tax revenues will remain roughly 3.0 percent below FY 2007-08 revenues on an annual basis.

Individual income tax collections continue to show positive growth over FY 2007-08 levels. Individual income withholdings and estimated payments, the two income tax revenue sources most indicative of what is happening in the current year, are roughly 3.0 percent above prior year collections through November. However, as unemployment rates continue to rise and as negative job growth is anticipated for calendar year 2009, the second half of FY 2008-09 and the first half of FY 2009-10 reflect substantially reduced revenues from these sources. Therefore, this forecast anticipates that individual income will grow by 3.0 percent for FY 2008-09 and by 1.2 percent in FY 2009-10 before improving in 2010.

Corporate income tax collections, while definitely below prior year levels, are showing some resiliency. Through November, there remains only one real data point from which to estimate current year revenues, as corporate filings are predominately quarterly. As such, at the end of September (completion of quarter one), revenues were down six percent from FY 2007-08. While this may seem surprising given recent media headlines, one must consider Colorado's economy. Colorado continues to see job growth in areas such as aerospace and renewable energy sectors and has a very limited presence of automotive and banking industries within its borders. Colorado has felt the greatest impact in its retail and construction industries. Due to corporate estimated payments (the best indicator of current year strength) showing only a small decline from prior year revenues through November (a decline of 0.9 percent), this forecast assumes that annual revenues will fall below prior year collections by 6.6 percent in FY 2008-09.

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

Line No.		Preliminary /E FY 2007-08	December 2008 Estimate by Fiscal Year FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
	TABOR Revenues:					
1	General Fund /A	$7,746.0	$7,775.0	$7,952.8	$8,439.2	$9,004.3
	Percent Change from Prior Year	*2.8%*	*0.4%*	*2.3%*	*6.1%*	*6.7%*
2	Cash Funds /B	$2,254.6	$2,278.4	$2,240.8	$2,379.9	$2,629.4
	Percent Change from Prior Year	*6.9%*	*1.1%*	*-1.7%*	*6.2%*	*10.5%*
3	**Total TABOR Revenues**	$10,000.6	$10,053.4	$10,193.5	$10,819.2	$11,633.7
	Percent Change from Prior Year	*3.7%*	*0.5%*	*1.4%*	*6.1%*	*7.5%*
	Revenue Limit Calculation:					
4	Previous calendar year population growth	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*1.9%*
5	Previous calendar year inflation	*3.6%*	*2.2%*	*3.8%*	*2.2%*	*2.5%*
6	**Allowable TABOR Growth Rate**	*5.5%*	*4.2%*	*5.8%*	*4.2%*	*4.4%*
7	TABOR Limit	$8,795.5	$9,164.8	$9,697.7	$10,104.7	$10,552.5
8	General Fund Exempt Revenue Under Ref. C /C	$1,205.1	$888.6	$495.8	N/A	N/A
9	**Revenue Limit Under Ref. C /D**	**$10,000.6**	**$10,053.4**	**$10,193.5**	**$10,621.3**	**$11,092.0**
10	*Amount Above/(Below) Limit*	*$0.0*	*$0.0*	*$0.0*	*$197.8*	*$541.8*
11	TABOR Reserve Requirement	$300.0	$301.6	$305.8	$318.6	$332.8

/A The FY 2007-08 amount differs from the General Fund revenues reported in other tables because of entries made after Period 13.

/B FY 2007-08 Cash Funds does include revenues from two state colleges that lost their enterprise status in FY 2007-08 and thus were subject to TABOR. It is the expectation that these schools will again become enterprises in FY 2008-09 and beyond.

/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."

/E FY 2007-08 figures are considered preliminary until audited figures become available.

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

Line No.	Category	Preliminary /D FY 2007-08	% Chg	December 2008 Estimate by Fiscal Year FY 2008-09	% Chg	FY 2009-10	% Chg	FY 2010-11	% Chg	FY 2011-12	% Chg
	Excise Taxes:										
1	Sales /A	$2,126.9	4.9%	$2,044.2	-3.9%	$2,109.6	3.2%	$2,235.4	6.0%	$2,379.8	6.5%
2	Use /A	$191.3	5.3%	$202.1	5.6%	$216.2	7.0%	$235.4	8.9%	$255.9	8.7%
3	Cigarette	$45.2	-4.0%	$43.5	-3.7%	$41.0	-5.9%	$39.2	-4.3%	$37.5	-4.4%
4	Tobacco Products	$12.4	-4.2%	$11.8	-5.2%	$15.7	33.0%	$17.3	10.2%	$19.0	9.9%
5	Liquor	$35.7	5.0%	$36.3	1.7%	$37.6	3.7%	$38.7	2.7%	$40.4	4.6%
6	**Total Excise**	**$2,411.4**	**4.7%**	**$2,337.9**	**-3.0%**	**$2,420.0**	**3.5%**	**$2,565.9**	**6.0%**	**$2,732.5**	**6.5%**
	Income Taxes:										
7	Net Individual Income	$4,973.7	2.1%	$5,124.7	3.0%	$5,187.1	1.2%	$5,539.3	6.8%	$5,928.8	7.0%
8	Net Corporate Income	$507.9	2.0%	$474.2	-6.6%	$496.8	4.8%	$526.5	6.0%	$561.5	6.6%
9	**Total Income**	**$5,481.6**	**2.1%**	**$5,598.9**	**2.1%**	**$5,683.9**	**1.5%**	**$6,065.8**	**6.7%**	**$6,490.2**	**7.0%**
10	*Less: State Education Fund Diversion*	*$407.9*	*3.2%*	*$416.3*	*2.1%*	*$422.5*	*1.5%*	*$450.0*	*6.5%*	*$480.5*	*6.8%*
11	**Total Income to General Fund**	**$5,073.7**	**2.0%**	**$5,182.6**	**2.1%**	**$5,261.5**	**1.5%**	**$5,615.8**	**6.7%**	**$6,009.7**	**7.0%**
	Other Revenues:										
12	Estate /B	$0.2	-76.7%	$0.0	-100.0%	$0.0	N/A	$0.0	N/A	$0.0	N/A
13	Insurance	$187.8	4.7%	$192.5	2.5%	$200.3	4.1%	$205.6	2.7%	$211.0	2.6%
14	Interest Income	$17.9	-36.4%	$15.7	-12.2%	$27.6	75.4%	$29.0	5.1%	$27.8	-4.1%
15	Pari-Mutuel	$2.7	-8.7%	$0.7	-74.2%	$0.5	-28.6%	$0.5	0.0%	$0.5	0.0%
16	Court Receipts	$29.6	3.0%	$23.9	-19.3%	$20.8	-12.9%	$0.0	-100.0%	$0.0	N/A
17	Gaming /C	$0.0	-100.0%	$0.0	N/A	$0.0	N/A	$0.0	N/A	$0.0	N/A
18	Other Income	$19.3	21.6%	$21.7	12.4%	$22.1	1.5%	$22.4	1.5%	$22.7	1.5%
19	**Total Other**	**$257.6**	**-1.9%**	**$254.6**	**-1.2%**	**$271.3**	**6.6%**	**$257.5**	**-5.1%**	**$262.1**	**1.8%**
20	**GROSS GENERAL FUND**	**$7,742.7**	**2.7%**	**$7,775.0**	**0.4%**	**$7,952.8**	**2.3%**	**$8,439.2**	**6.1%**	**$9,004.3**	**6.7%**
	Rebates & Expenditures:										
21	Cigarette Rebate	$12.7	-3.9%	$12.3	-3.0%	$11.6	-5.9%	$11.1	-4.3%	$10.6	-4.4%
22	Old-Age Pension Fund	$99.0	5.7%	$100.5	1.6%	$109.2	8.6%	$114.2	4.6%	$118.0	3.3%
23	Aged Property Tax & Heating Credit	$10.4	24.4%	$10.6	1.4%	$10.7	1.4%	$10.9	1.4%	$11.0	1.4%
24	Interest Payments for School Loans	$11.9	12.3%	$7.9	-33.7%	$8.9	12.3%	$9.9	12.3%	$11.2	12.3%
25	Fire/Police Pensions	$38.8	0.2%	$29.5	-24.1%	$29.5	0.0%	$29.5	0.0%	$25.1	-14.8%
26	Amendment 35 General Fund Expenditure	$1.0	N/A	$0.0	-100.0%	$0.0	N/A	$0.0	N/A	$0.0	N/A
27	**Total Rebates & Expenditures**	**$173.8**	**5.6%**	**$160.8**	**-7.5%**	**$169.9**	**5.6%**	**$175.6**	**3.4%**	**$175.9**	**0.2%**

/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.

/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.

/D FY 2007-08 figures are considered preliminary until audited figures become available.

CASH FUNDS

Table 4 summarizes the forecast for eight major cash fund categories. Highlights from the December 2008 forecast are presented below. OSPB projects that there will be $2.3 billion in cash fund revenue in FY 2008-09, a 1.1 percent increase over FY 2007-08.

Transportation

OSPB projects that total FY 2008-09 transportation-related cash fund revenues will be $898.7 million, a 2.4 percent decrease from FY 2007-08 revenues of $920.7 million. This is reflective of the national decline in vehicle miles travelled through September 2008 of 4.6 percent when compared to the same time last year per the Federal Highway Administration, largely in response to several months of gasoline prices near $4 per gallon. While prices for fuel have now declined to levels not seen during the past five years, due to rising unemployment, this forecast assumes that the current 5.0 percent decline from FY 2007-08 revenue collection levels through November will be too large to overcome in the remaining seven months in FY 2008-09 to have positive growth for the year.

Unemployment Insurance

OSPB projects that unemployment insurance tax revenue will equal $431.6 million in FY 2008-09, a 1.2 percent increase over FY 2007-08 collections of $426.6 million. The solvency surcharge, which is imposed on employers when the fund balance falls below 0.9 percent of total private wages, is no longer anticipated to be removed in 2010, and is a large component contributing to the estimated $197.8 million TABOR refund anticipated in FY 2010-11.

Limited Gaming

Due to the reduction in disposable income brought on by rising fuel costs and inflationary increase in taxable and non taxable goods, through November, gaming tax revenues are below FY 2007-08 collections by over 25.0 percent. As economic conditions are anticipated to remain poor through much of calendar year 2009, this OSPB forecast does not anticipate a significant reversal in these revenue collections, despite comparing to a weaker second half of FY 2007-08 when the smoking ban was implemented and harsh weather conditions prevented Coloradoans from travelling to mountain gaming locations. Therefore, this forecast assumes a decline in gaming revenue of 10.5 percent in the current year and only modest growth of 3.6 percent in FY 2009-10.

Capital Construction - Interest

Capital construction interest is calculated on the existing fund balance within the Capital Construction Trust Fund (CCTF). Revenue into the CCTF includes both General Fund appropriations through the Long Bill and special legislation, plus two-thirds of any HB 02-1310 revenues when excess General Fund revenue is collected.

Because appropriations for capital construction projects may be accessed for up to three years (instead of the one year allowed for operating budgets), OSPB does not assume that the balance will be zero due to appropriation obligations. Instead, OSPB assumes that, on average, expenditures out of the Capital Construction Trust Fund will be spent at a rate of 30 percent in year one, 60 percent in year two, and 10 percent in year three for appropriated projects in FY 2009-10. However, due to the construction freeze currently in place as a result of the current economic environment, OSPB has assumed that FY 2008-09 appropriated projects will expend out at a rate of 5 percent in year one, 65 percent in year two, and 30 percent in year three, resulting in slightly more interest earnings in the near term. The OSPB forecast assumes that funding for continuation capital construction projects which have been recommended for funding by OSPB on November 1, 2008 will be funded into the future, if applicable.

Based on currently approved capital construction projects and certificates of participation payment obligations, this forecast projects that interest earnings in the Capital Construction Trust Fund will equal $19.3 million in FY 2008-09 and $13.2 million in FY 2009-10.

Regulatory Cash Funds

OSPB projects that cash fund revenues related to professional licensing, registration and public utilities will be $59.8 million in FY 2008-09, a 4.4 percent increase over the FY 2007-08 revenues of $57.3 million. While this revenue is dependent on Colorado’s labor force, the use of excess fund balance and increases and decreases in fee rates ultimately all shape the amount of revenues collections in a given year to fund administrative costs at the Department of Regulatory Agencies.

Severance Taxes

The global financial crisis has dramatically reduced the availability of speculative financing. As this type of financing is essential to the mining industry, both locally and globally there has been a reduction in the amount of mineral and energy development - not a reduction in production, but rather a reduction in the future growth of production.

In addition, the global decline in economic demand has reduced the demand for Colorado mineral products, which has resulted in a decline in the price of existing and continuing Colorado mineral production of natural gas, oil, coal, gold and molybdenum – the big mineral in Colorado this decade is natural gas. The current and continuing decline in natural gas prices is incorporated in this forecast, as well as a multi-year pause in the growth of the quantity of gas production and a slowdown in development activity (rigs and permits). Longer term price projections anticipate continuation of price cycles with natural gas markets, though at a reduced level - the so-called "basis differential" from mainline gas prices in Louisiana.

As most of Colorado’s natural gas must be transported to distant markets, Colorado natural gas producers face the additional constraint of pipeline "take-out" capacity. While pipelines are currently near capacity, new pipeline capacity expansion projects are in limbo - this again is due to their dependency on speculative financing. Therefore, Colorado natural gas production quantity is now projected to be relatively flat for a number of years until these pipeline expansion projects can be re-financed, built and brought on line in 2012.

Based on the above information, severance tax revenues are projected to be $220.5 million in FY 2008-09, an increase of 29.7 percent over FY 2007-08 revenues of $170.1 million. This is a reduction of $82.8 million in near term revenues from the previous OSPB forecast, but is still a significant increase on an annual basis. Note that the large fluctuations in near and long term revenue estimates are a result of estimated price volatility.

Federal Mineral Lease Payments

The US Department of the Interior collects payments from the lease of mineral rights 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.

This forecast projects FY 2008-09 revenue to equal $232.8 million, representing an increase of 51.6 percent over the previous year's collections. This is above September projections of $196.1 million despite recent declines in natural gas prices mentioned in the severance tax section above as Colorado will receive the bonus payments from the Roan Plateau (totaling $56 million for Colorado) in the current year, rather than in the subsequent year as previously predicted.

Federal Mineral Lease (FML) Payments

Fiscal Year	Bonus Payments	Non-Bonus Payments	Total FML	Percent Change
FY 2007-08	$15.1	$138.5	$153.6	N/A
FY 2008-09	$67.4	$165.4	$232.8	51.6%
FY 2009-10	$16.6	$153.3	$169.9	-27.0%
FY 2010-11	$17.0	$188.4	$205.4	20.9%
FY 2011-12	$15.8	$248.1	$263.9	25.5%

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	Preliminary /D FY 2007-08	December 2008 Estimate by Fiscal Year FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12	FY 2007-08 to FY 2011-12 CAAGR *
Transportation-Related	$920.7	$898.7	$936.4	$968.9	$1,001.4	
Change	4.5%	-2.4%	4.2%	3.5%	3.4%	2.1%
Unemployment Insurance /A	$426.6	$431.6	$455.1	$470.9	$490.0	
Change	0.3%	1.2%	5.4%	3.5%	4.0%	3.5%
Limited Gaming Fund	$113.6	$101.7	$105.3	$110.9	$119.3	
Change	-3.6%	-10.5%	3.6%	5.3%	7.6%	1.2%
Capital Construction - Interest	$19.3	$19.3	$13.2	$6.6	$2.5	
Change	29.4%	0.0%	-31.7%	-50.1%	-61.5%	-39.8%
Regulatory Agencies	$57.3	$59.8	$58.1	$59.5	$61.2	
Change	12.8%	4.4%	-3.0%	2.5%	2.8%	1.7%
Insurance-Related	$64.7	$53.8	$54.6	$54.0	$55.8	
Change	-2.1%	-16.9%	1.4%	-0.9%	3.3%	-3.6%
Severance Tax /B	$170.1	$220.5	$111.9	$168.7	$324.8	
Change	17.2%	29.7%	-49.3%	50.8%	92.5%	17.6%
Other Miscellaneous Cash Funds /C	$482.4	$493.0	$506.4	$540.4	$574.4	
Change	18.0%	2.2%	2.7%	6.7%	6.3%	4.5%
TOTAL CASH FUND REVENUE	**$2,254.6**	***$2,278.4***	***$2,240.8***	***$2,379.9***	***$2,629.4***	
Change	6.9%	1.1%	-1.7%	6.2%	10.5%	3.9%

* 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 remain in effect through the forecast period.

/B The forecast of severance taxes was discussed with Legislative Council Staff per SB 07-253 prior to release of this forecast.

/C Revenue in Other Miscellaneous Cash Funds includes interest and other earnings from numerous trust funds, fees, and revenue from higher education institutions. The creation and elimination of State enterprises is reflected in these totals.

/D FY 2007-08 figures are considered preliminary until audited figures become available.

COLORADO ECONOMIC FORECAST

While Colorado's economy has remained strong relative to the national economy, there are a number of indicators that suggest Colorado's economy is beginning to slip into a recession. Though many of Colorado's economic indicators have been revised to reflect the anticipated severity of current declines in economic activity, Colorado is still experiencing better employment growth, lower unemployment rates, and positive growth in personal income when compared to national benchmarks. Colorado revenues continue to demonstrate some resilience from the current financial crisis but the tightening of the national credit markets continues to threaten Colorado business owners' ability to secure the financing necessary to continue operations as usual. If the credit markets remain tight for an extended period, this forecast anticipates Colorado businesses, and the economy in general, will suffer the ill-effects of corporate bankruptcies.

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

For 2008, the unemployment rate in Colorado is expected to average 5.0 percent, which is slightly lower than the 5.1 percent that was forecasted in the November economic update. However, in the near term, it is estimated that Colorado will experience its worst unemployment rates in recent years primarily because of a stagnating construction industry and dramatic reduction in retail sales. This stagnation has been brought on by the collapse of the housing bubble and the resultant decrease in demand for new homes, as well as the increases in fuel prices that led to greater inflationary costs on all goods both taxable and nontaxable. On the positive side, industries such as health care and education are expected to see increases in overall employment due to an expanding health care industry and population growth, respectively.

In concert with the increasing unemployment rate and in spite of the employment growth of some industry sectors, employment growth in Colorado slowed considerably during the second half of 2008. In 2009, employment is expected to decline by 0.7% as the Colorado economy sheds jobs due to decreased demand for housing and non-essential goods and services. This decline is not expected to be nearly as great as the percent of job losses in the national economy, as the State economy is anticipated to weather the fallout of the financial crisis better than the rest of the country.

INFLATION

Recently, non-renewable energy resources have experienced a considerable decline in price due to an overall decrease in demand. This decline is the primary factor driving the overall decrease in OSPB's estimated inflation rates for 2008 and 2009 since the November 1 interim forecast. While fuel prices have subsided in recent months, retailers typically do not lower prices by the same magnitude, as they often need to prop up slower sales figures and have room built into profit margins to weather difficult times. The possibility of price wars also deter large price declines, resulting in the preferred option to hold prices level in the near term until income levels and consumer demand return to previous levels.

Due to the substantial increases in the cost of fuel, retail goods, and residential rentals, the Office of State Planning and Budgeting has projected a 3.8 percent increase in the Denver-Boulder-Greeley Consumer Price Index for 2008, and then a much lower 2.2 percent in 2009.

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

This forecast projects that personal income will grow 4.0 percent in 2008 and 2.7 percent in 2009. These estimates reflect 0.6 percent and 1.2 percent reductions from the November 1 interim forecast as a result of the recent increases in unemployment rates and the anticipated negative job growth in 2009.

Colorado wage and salary income rose 6.3 percent through 2007, reflecting a relatively strong labor market, growth in the labor force and inflation. However, the December 2008 forecast projects wage and salary income to increase by only 2.9 percent in 2008. The forecasted wage and salary growth of 1.9 percent for 2009 is a significant downward revision of the 3.3 percent growth figure reported in the November 1 interim forecast.

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 to 60,300 in 2008 and 61,000 in 2009.

CONSTRUCTION

Based on credit markets continuing to remain frozen by historical lending standards, this OSPB forecast projects residential housing permits to decline 33.1 percent and 11.7 percent in 2008 and 2009, respectively. Nonresidential permits are also now beginning to show the effects of corporate profit reductions and credit market woes, and are projected to decrease 7.7 percent in 2008, and 2.5 percent in 2009 before returning to positive growth in 2010.

RETAIL TRADE

Retail sales are projected to grow at a rate of 3.3 percent in 2008. This is significantly lower than the last two years of growth at 7.0 or more percent, and is anticipated to be even lower during 2009 as negative job growth and the elimination of home equity lending options result in a forced retraction of consumer spending levels. Ultimately, the projected 2.2 percent growth in retail trade equates to the affects of inflation projected for 2009.

Risks to the Colorado Forecast

Overall confidence in the financial sector has been falling and is not anticipated to rebound in the near future. This is due, in part, to the redirection of the $700 billion Targeted Asset Relief Program funding that was originally intended to shore up confidence in companies that were deeply invested in the sub-prime lending debacle. However, as the Federal Reserve and U.S. Treasury continue to take unprecedented actions to limit the current recessionary impact, the duration and magnitude of economic pressures that are pushing into Colorado are unknown.

With only one true data point for corporate income tax collections, this source of revenue for Colorado is still somewhat of a wild card. Due to the timing of income tax collections, with significantly more weight being placed on December and April revenues, there are still possibilities for large fluctuations in annual revenues.

Table 5
History and Forecast for Key Colorado Economic Variables
Calendar Year 2004-2012

Line No.		Actual				Forecast				
		2004	2005	2006	2007	2008	2009	2010	2011	2012
	Current Income									
1	Personal Income (Billions)	$163.8	$175.8	$188.2	$199.5	$207.5	$213.0	$223.2	$236.2	$250.9
2	Change	5.8%	7.3%	7.0%	6.0%	4.0%	2.7%	4.8%	5.8%	6.2%
3	Wage and Salary Income (Billions)	$92.1	$97.4	$104.0	$110.6	$113.8	$116.0	$120.4	$126.0	$132.3
4	Change	4.6%	5.7%	6.9%	6.3%	2.9%	1.9%	3.8%	4.7%	5.0%
5	Per-Capita Income ($/person)	$35,538	$37,618	$39,480	$41,042	$41,825	$42,076	$43,278	$44,921	$46,801
6	Change	4.6%	5.9%	5.0%	4.0%	1.9%	0.6%	2.9%	3.8%	4.2%
	Population & Employment									
7	Population (Thousands) /A	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	1.2%	1.4%	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%	1.9%
9	Net Migration (Thousands) /A	15.3	24.3	51.4	51.8	60.3	61.0	56.3	58.7	60.4
10	Civilian Unemployment Rate	5.6%	5.2%	4.3%	3.8%	5.0%	6.5%	6.0%	5.2%	4.8%
11	Total Nonagricultural Employment (Thousands)	2,179.6	2,226.0	2,279.1	2,330.2	2,347.1	2,331.8	2,373.3	2,434.0	2,507.8
12	Change	1.2%	2.1%	2.4%	2.2%	0.7%	-0.7%	1.8%	2.6%	3.0%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	46.4	46.3	39.3	30.4	20.3	18.0	18.0	18.5	19.3
14	Change	17.5%	-0.2%	-15.0%	-22.6%	-33.1%	-11.7%	0.4%	2.3%	4.8%
15	Nonresidential Construction Value (Millions)	3,155.2	3,979.5	3,890.4	4,294.5	3,965.1	3,865.3	3,947.0	4,077.3	4,228.6
16	Change	29.6%	26.1%	-2.2%	10.4%	-7.7%	-2.5%	2.1%	3.3%	3.7%
	Prices & Sales Variables									
17	Retail Trade Sales (Billions)	$62.3	$65.5	$70.4	$75.4	$77.8	$79.5	$82.7	$86.8	$91.4
18	Change	6.1%	5.1%	7.6%	7.0%	3.3%	2.2%	4.0%	4.9%	5.3%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	187.0	190.9	197.7	202.1	209.7	214.2	219.6	225.7	232.6
20	Change	0.1%	2.1%	3.6%	2.2%	3.8%	2.2%	2.5%	2.8%	3.1%

/A Growth rates calculated by the Colorado State Demography Office

NATIONAL ECONOMIC FORECAST

The National Bureau of Economic Research (NBER) recently confirmed that the United States has been in a recession since December of 2007. The November jobs report indicated that the economy lost 540,000 non-farm jobs in November alone, which underscores the overall loss of 1.9 million jobs since the recession began. In addition to the bleak jobs outlook, the current crises in the financial system and the ailing housing market have created additional concerns regarding the depth and duration of the current recession. Current estimates indicate that the economy will begin to rebound during the second half of 2009, but additional shocks to the already dampened housing or financial markets could prolong the recession. Amid the fears of an impending recession, consumers have been enjoying a considerable decrease in the price of fuel as the per barrel cost of oil has plunged nearly 70% since its high of $147.27 per barrel in July of 2008. While the decrease in price is definitely positive to the average consumer, it is nevertheless an indication of a flagging economy as the decrease in price has been demand-driven. The price per barrel of crude oil continues to fall regardless of OPEC's efforts to prop up the price of oil by cutting production considerably.

In light of the national economic outlook outlined above, the following presents key changes to the national economic and demographic indicators, including Gross Domestic Product, interest rates, inflation, 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. Despite the lack of two consecutive quarters of declining growth in GDP recently, the national economy has officially been in a recession since December 2007.

This OSPB forecast projects GDP growth to be 1.2 percent in 2008 and negative 0.4 percent in 2009. This is a decrease of 0.1 and 2.1 percent from the previous OSPB forecast for 2008 and 2009, respectively.

- ***Consumer spending,*** which comprises roughly 67 percent of GDP, has continued to grow at a weak pace. First quarter 2008 growth was relatively anemic at 0.6 percent, with slight improvement to 0.9 percent in the second quarter. Quarter three figures report that personal consumption spending has declined 2.7 percent. This 2.7 percent decline was comprised of a 1.2 percent decline in durable goods spending, a 1.5 percent decline in nondurable goods spending, and no change in service expenditures.

- ***Business investment,*** which comprises roughly 14 percent of GDP, has demonstrated the most improvement since the start of the calendar year. With preceding first and second quarter declines of 0.9 percent and 1.7 percent respectively, third quarter growth in business investment was a welcomed positive 0.1 percent. Residential investment growth remains negative, down 0.7 percent, but was offset by a positive growth of 0.9 percent in private inventories. Commercial fixed investment also declined by 0.2 percent for the third quarter of 2008.

- ***Government spending***, the remaining 19 percent of GDP, continues to offset negative growth from personal consumer spending. Overall, government spending has increased every quarter in 2008: 0.4 percent in quarter one, 0.8 percent in quarter two, and 1.1 percent in quarter three.

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 through 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 the federal funds rate, which was cut to a "target band" of 0.00 to 0.25 percent in December (historic lows), and has been less than 2.0 percent since April 2008, this forecast assumes an average federal funds rate of 2.0 percent and 1.1 percent in 2008 and 2009, respectively.

Inflation

On December 16, 2008, the Bureau of Labor Statistics reported that the price for goods and services decreased 1.7 percent in November, following a 1.0 percent decline in October. Both were record decreases for this index and reflect the sharp retraction in consumer demand and decreases in fuel costs. It is because of these declining inflationary pressures that the Federal Reserve was able to all but eliminate any interest component associated with the federal funds interest rate as noted in above. For this quarterly forecast, the national consumer price index (CPI) is anticipated to rise 4.0 percent in 2008 and 0.6 percent in 2009.

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 decrease 0.2 percent and 1.4 percent, respectively.

The unemployment rate finished at 4.6 percent for 2007 and is forecast to be 5.7 percent in 2008 and 7.8 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.

Risks to the Forecast

As stated earlier, actions taken by the Federal Reserve and U.S. Treasury have resulted in all-time lows in the federal funds rate and a new precedence has been set for many forms of government assistance and investment practices. As these practices continue, and additional forms of federal intervention emerge, forecasters are experiencing a new environment when estimating future economic outcomes. Despite the substantial role the federal government is taking in mitigating recessionary impacts, there is still much speculation around how fast the national economy can recover. Therefore, risks to current national forecast figures include greater than currently estimated housing starts, higher rates of unemployment and even greater negative job growth, and less than projected inflationary declines.

Table 6
History and Forecast for Key National Economic Variables
Calendar Year 2004-2012

Line No.		Actual				Forecast				
		2004	2005	2006	2007	2008	2009	2010	2011	2012
	Inflation-Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions)	$10,675.8	$10,990.9	$11,291.3	$11,524.6	$11,667.4	$11,618.0	$11,934.2	$12,300.4	$12,657.1
2	Change	3.6%	3.0%	2.7%	2.1%	1.2%	-0.4%	2.7%	3.1%	2.9%
3	Gross Domestic Product (Billions)	$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	6.9%	6.3%	6.8%	5.9%	5.6%	5.3%	5.1%	5.0%	4.8%
5	Personal Income (Billions)	$9,727.2	$10,269.7	$10,993.9	$11,663.2	$12,122.0	$12,410.6	$13,073.1	$13,810.8	$14,556.6
6	Change	6.2%	5.6%	7.1%	6.1%	3.9%	2.4%	5.3%	5.6%	5.4%
7	Per-Capita Income ($/person)	$33,356	$35,008	$37,058	$38,825	$39,854	$40,523	$42,404	$44,282	$46,120
8	Change	5.2%	5.0%	5.9%	4.8%	2.7%	1.7%	4.6%	4.4%	4.2%
	Population & Employment									
9	Population (Millions)	294.4	296.8	299.7	302.6	305.1	307.9	310.6	313.4	318.4
10	Change	1.0%	0.8%	1.0%	1.0%	0.8%	0.9%	0.9%	0.9%	1.6%
11	Civilian Unemployment Rate	5.5%	5.1%	4.6%	4.6%	5.7%	7.8%	7.6%	7.2%	7.2%
12	Total Nonagricultural Employment1 (Millions)	131.4	133.7	136.1	137.6	137.4	135.5	137.0	139.1	140.8
13	Change	1.1%	1.7%	1.8%	1.1%	-0.2%	-1.4%	1.2%	1.5%	1.2%
	Financial Markets									
14	30-Year T-Bond Rate	3.3%	3.6%	5.2%	5.6%	5.7%	5.9%	5.9%	5.8%	5.9%
15	10-Year T-Bond Rate	4.3%	4.3%	5.1%	5.1%	5.3%	5.5%	5.6%	5.4%	5.5%
16	Federal Fund Rate	1.3%	3.2%	5.0%	5.0%	2.0%	1.1%	3.2%	5.5%	5.5%
	Price Variables									
17	Consumer Price Index (1982-84=100)	188.9	195.3	201.6	207.3	215.6	217.0	222.4	228.2	234.3
18	Change	2.7%	3.4%	3.2%	2.9%	4.0%	0.6%	2.5%	2.6%	2.7%
19	Producer Price Index (1982=100)	148.5	155.7	160.4	166.6	177.3	174.0	178.6	183.0	187.2
20	Change	3.6%	4.9%	3.0%	3.9%	6.5%	-1.9%	2.6%	2.5%	2.3%
	Other Key Indicators									
21	Industrial Production Index (1996=100)	103.8	107.2	109.6	111.4	110.1	106.3	110.8	114.8	118.1
22	Change	2.5%	3.3%	2.2%	1.7%	-1.2%	-3.4%	4.3%	3.6%	2.9%
23	Corporate Profits After Tax (Billions)	$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	27.0%	32.6%	10.6%	-0.1%	4.0%	5.5%	5.1%	5.0%	4.7%
25	Housing Starts (Millions)	1.949	2.073	1.943	1.675	1.590	1.573	1.598	1.634	1.669
26	Change	5.1%	6.4%	-6.3%	-13.8%	-5.1%	-1.1%	1.6%	2.2%	2.1%

GOVERNOR'S REVENUE FORECAST ADVISORY COMMITTEE

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