STATE OF COLORADO

OFFICE OF STATE PLANNING AND BUDGETING
111 State Capitol Building
Denver, Colorado 80203
(303) 866-3317

Bill Ritter Jr.
Governor

Todd Saliman
Director

MEMORANDUM

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

FROM: Office of State Planning and Budgeting

DATE: June 22, 2009

SUBJECT: ***June 2009 Revenue Forecast***

This memorandum presents the June 2009 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 2009 OSPB FORECAST HIGHLIGHTS

- This OSPB forecast reflects that **General Fund revenues will not support current General Fund appropriations for FY 2008-09 or FY 2009-10**. Though economic conditions are anticipated to improve by the end of 2009, revenues will enable only slight growth in General Fund appropriations until FY 2011-12.

- **Gross General Fund revenues in FY 2008-09 are projected to fall 13.6 percent below prior year levels**, attributable predominately to individual income tax collections declining by the same percentage and corporate income taxes falling more than 44.6 percent. State revenues are anticipated to begin a slow recovery over the next two fiscal years, mirroring the anticipated movement of Colorado's economy. However, despite the projected gradual recovery in Colorado, the elimination of the vendor fee allowance and cigarette tax credit for FY 2008-09 and FY 2009-10, will result in nearly $100 million of additional sales tax revenue for these years. This will temporarily bolster State revenues in the near term.

  Beyond FY 2009-10, revenues are forecast to remain strong as Colorado's economy expands on its stable aerospace and clean energy industries, leading to accelerated job growth, and as pent up demand leads to increased expenditures from individual savings.

- **FY 2008-09 cash fund revenues are forecast to increase 1.9 percent** (to $2.3 billion) from the prior fiscal year, due nearly exclusively to the positive 54.4 percent growth in severance tax revenue this year. Without the influence of severance taxes, overall cash fund revenues would have declined 5.5 percent.

  Beyond FY 2008-09, cash fund revenues are projected to remain volatile in part due to severance tax revenue fluctuations, but also due to limited interest earnings for capital construction and the exclusion of a $15 million one-time transfer of funds in FY 2008-09 related to regulatory cash funds. Finally, beginning FY 2009-10, three significant adjustments are made to TABOR-related cash fund revenue: the omission of unemployment related cash funds due to HB 09-1363 granting enterprise status for this program; the inclusion of hospital provider fee revenues associated with HB 09-1293; and the addition of greater transportation related cash funds pursuant to SB 09-108.

JUNE 2009 OSPB FORECAST HIGHLIGHTS (CONTINUED)

- The $787 billion from the **American Recovery and Reinvestment Act (ARRA)** provides states with funding necessary to restore cuts in essential budget areas for the short term and will speed the economic recovery process. Aside from the specific impacts from the State Fiscal Stabilization Fund and enhanced federal match on Medicaid expenditures, this OSPB forecast integrates the effects of the ARRA at the national level which consequently influences projections for the Colorado economy. As such, no additional adjustments have been made to the Colorado forecast independent of these influences at the national economic level due to these relationships; however, one can assume that greater levels of unemployment and reduced employment growth would have occurred, had the federal stimulus legislation failed.

- This **federal stimulus funding** is incorporated into this forecast with regards to the additional Medicaid matching percentage, beginning in FY 2008-09 and continuing into FY 2010-11. These federal funds, equal to $717.1 million over three fiscal years, will reduce State General Fund expenditures associated with Medicaid expenditures. In addition, the Governor approved use of $70.0 million of flexible federal funds from the State Fiscal Stabilization Fund, one component of the American Recovery and Reinvestment Act (ARRA), in order to help balance the budget in FY 2008-09 and FY 2009-10. These funds will be used to lower General Fund expenditures, and conversely increase federal funding, within the Department of Corrections budget for this two year period.

- Under the provisions of **Referendum C**, the State is now projected to retain $3.6 billion from FY 2005-06 through FY 2009-10. **TABOR refunds are not anticipated during the forecast period** as FY 2007-08 TABOR revenues are anticipated to be the highest revenue levels during the time-out period of Referendum C.

- Due to the passage of SB 09-228 and SB 09-278, beginning in FY 2008-09, there is no longer a statutory requirement to transfer a portion of excess General Fund to **transportation or capital construction**.

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

Table 1A presents the General Fund Overview for the June 2009 OSPB revenue forecast. The top portion of the table summarizes the amount of General Fund revenue available for spending, culminating with “Total General Fund Available for Expenditure” on line 8. Lines 3 and 4 display 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 was diverted for transportation funding per Senate Bill 97-001 during FY 2007-08. Beginning in FY 2008-09, with the passage of SB 09-228, statute pertaining to excess General Fund transfers from the sales and use tax holding fund to the Highway Users Tax Fund (39-26-123 (3)(a), C.R.S.) has been revised such that transfers will no longer be required even in years when the State has enough revenue to pay all General Fund obligations (line 24) and maintain the statutory General Fund reserve (line 27).

Line 7 represents other transfers both to and from the General Fund, including:

- repayment to the Colorado State Veteran’s Trust Fund,
- repayment to the Older Coloradans Cash Fund,
- budget balancing cash fund transfer bills (such as SB 09-210, SB 09-208 and SB 09-279),
- transfers from tobacco tax and litigation settlement monies (SB 09-269 and SB 09-270),
- Government Services Funds from the American Recovery and Reinvestment Act, and
- transfers of enhanced federal financial participation pursuant to SB 09-264 for specific programs that incorporate the certification of public expenditures process.

Lines 9 through 15 summarize the amount of allowable General Fund appropriations based on the limit specified in 24-75-201.1 (1)(a)(II), C.R.S. Prior to FY 2009-10, this limit was equal to the lesser of five percent of Colorado personal income or six percent growth over the prior year’s total General Fund appropriation. Beginning in FY 2009-10, this limit is now set at five percent of Colorado personal income. Lines 9 and 10 reflect the General Fund appropriation limit and the forecasted variance from the limit based on projected revenues. Two new lines (lines 11 and 12) have been added to reflect current General Fund appropriations through FY 2009-10 that are subject to the limit outlined above, and the current variance from actual appropriations and projected revenues. Note that for FY 2008-09 and FY 2009-10, these rows include the requested impact from a June 22 Emergency Supplemental request from the Governor’s Office entitled “ARRA Funds to Avoid Reduction in Corrections” which requests reductions to current General Fund appropriations in these years by $24.6 million and $45.4 million, respectively.

Lines 16 through 23 summarize spending that is exempted from the General Fund appropriations limit as defined in 24-75-201.1 (1)(a)(II), C.R.S. It should be noted that the total on line 17 must be funded *prior* to funding General Fund appropriations under the limit. Line 21 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.

Lastly, this forecast assumes the infusion of federal stimulus funding for Medicaid over three fiscal years, beginning with FY 2008-09 (line 23). Based on the current forecast, Colorado is anticipated to receive an anticipated 8.78 percent in enhanced federal funding for medical services, increasing the State's federal match rate up from 50 percent to 58.78 percent for quarters 2 and 3 in FY 2008-09. Beginning in quarter 4, Colorado is anticipated to receive an additional 1.4 percent federal match, based on the unemployment rate thresholds included in the American Recovery and Reinvestment Act. All of these additional federal funds are anticipated to reduce General Fund expenditures and are therefore shown as negative values in this row.

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 General Fund reserve (line 25) 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).

Finally, prior to FY 2008-09, if available revenue exceeded that which was necessary to fund all obligations, reserves, and a maximum transfer to the Highway User Tax Fund (HUTF) under SB 97-001, the remaining revenue in those years was recorded as excess reserve (line 28) – all of which was then transferred in the following fiscal year, with two-thirds distributed for transportation (line 29) and one-third for capital construction (line 30). Beginning with FY 2008-09, pursuant to SB 09-278 and SB 09-228, required transfers of any excess General Fund at the end of these fiscal years will not be required, at least not until FY 2012-13. Beginning in FY 2012-13, if Colorado personal income growth is at least equal to 5.0 percent, transfers to these programs will resume at the amounts specified in SB 09-228.

For informational purposes only, line 31 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.

GENERAL FUND OVERVIEW – TABLE 1B

Table 1B has been revised since the March OSPB forecast and now reflects the same information as outlined above for Table 1A, but incorporates the allowable actions that the Governor may take to balance the budget for FY 2008-09 as identified in section 28 of SB 09-279.

Pursuant to 24-75-201.5, C.R.S., based on this June OSPB forecast, since it is anticipated that expenditures will exceed the amount of available revenues for the current year, the State Treasurer and the State Controller shall transfer (from specified cash funds) such amounts as necessary to support existing appropriations. These transfers (up to a maximum of $565.9 million) shall take place upon written order from the Governor, and all such transfers shall be repaid by the General Fund immediately on July 1, 2009.

Based on the allowances provided to the Governor through SB 09-279, the impact of this authority has been included in line 7 (Net Transfers to/from the General Fund) which results in a balanced budget for FY 2008-09 (line 12), but revises the revenue to appropriation variance from the current appropriation for FY 2009-10, resulting in a budget deficit of $81.8 million.

Table 1A
General Fund Overview – Without SB 09-279 Budget Balancing Allowance Included
(Dollar Amounts in Millions)

Line No.		FY 2007-08	June 2009 Estimate by Fiscal Year FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenue						
1	Beginning Reserve	$267.0	$283.5	$142.6	$151.6	$294.4
2	**Gross General Fund Revenue**	**$7,742.9**	**$6,689.0**	**$7,160.0**	**$7,624.9**	**$8,248.6**
3	*General Fund*	*$6,573.5*	*$6,689.0*	*$7,160.0*	*$7,624.9*	*$8,074.9*
4	*General Fund Exempt*	*$1,169.4*	*$0.0*	*$0.0*	*$0.0*	*$173.7*
5	**Senate Bill 97-1 Diversion /A**	**($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 /B**	**($5.0)**	**$351.1**	**$238.1**	**$10.0**	**($2.9)**
8	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$7,766.9**	**$7,323.6**	**$7,540.6**	**$7,786.5**	**$8,540.2**
Expenditures						
9	*Allowable General Fund Appropriation Limit /C*	*$7,087.8*	*$7,546.9*	*$10,466.1*	*$10,490.0*	*$10,755.0*
10	*Total Allowable General Fund Appropriation Limit not Supported by Revenues*	*$0.0*	*($417.6)*	*($2,885.5)*	*($3,129.0)*	*($2,875.5)*
11	*Current Appropriation Subject to Limit /D*	*$7,087.8*	*$7,385.5*	*$7,411.2*	*N/A*	*N/A*
12	*Current Appropriation (Above) Below Revenues*	*$0.0*	*($256.3)*	*$169.4*	*N/A*	*N/A*
13	**General Fund Appropriations (Subject to Limit) Supported by Forecast**	**$7,087.8**	***$7,129.3***	***$7,580.6***	***$7,361.0***	***$7,879.5***
14	*Appropriations Change (from prior year)*	*$412.3*	*$41.4*	*$451.4*	*($219.6)*	*$518.5*
15	*Percent Change*	*6.2%*	*0.6%*	*6.3%*	*-2.9%*	*7.0%*
16	**Exemptions to Limit**	**$31.9**	**$0.2**	**$0.0**	**$0.0**	**$0.0**
17	**Spending Outside Limit**	**$320.2**	**$250.0**	**$154.2**	**$304.0**	**$345.5**
18	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
19	*Rebates and Expenditures /E*	*$173.8*	*$137.4*	*$153.2*	*$159.0*	*$194.0*
20	*Homestead Exemption*	*$79.8*	*$87.7*	*$1.0*	*$100.5*	*$105.0*
21	*Transfers to Capital Construction /F*	*$93.7*	*$24.9*	*$0.0*	*$44.4*	*$46.4*
22	*Reversions and Accounting Adjustments*	*($27.1)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
23	**Enhanced Medicaid Match (reduces GF expenditures)**	**N/A**	**($198.4)**	**($345.8)**	**($172.9)**	**N/A**
24	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,439.9**	**$7,181.1**	**$7,389.0**	**$7,492.1**	**$8,225.0**
Reserves						
25	**Year-End Reserve**	**$327.0**	**$142.6**	**$151.6**	**$294.4**	**$315.2**
26	*Year-End Reserve as a % of Appropriations*	*4.6%*	*2.0%*	*2.0%*	*4.0%*	*4.0%*
27	**Statutory Reserve /G**	**$283.5**	**$142.6**	**$151.6**	**$294.4**	**$315.2**
28	**Excess Monies Above (Below) Reserve**	**$43.4**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
29	*2/3 for Transportation /H*	*$29.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
30	*1/3 for Capital Construction /H*	*$14.5*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
31	Addendum: State Education Fund (one-third of 1% of Colorado taxable income)	$407.9	$343.1	$363.8	$385.7	$429.1

Note: Lines in Bold represent totals.

/A Per SB 09-228, effective July 1, 2009, statutorily required transfers from the sales and use tax holding fund to the to the highway users tax fund are no longer required during the forecast period.

/B Includes transfers to the State Veterans Trust Fund ($2.9 million in FY 2008-09) and the Older Coloradans Cash Fund ($8.0 million in FY 2008-09 and thereafter) as well as various transfers to the General Fund for budget balancing purposes. Reference the General Fund Overview section of this forecast publication for greater detail related to specific bills reflected in this line.

/C For FY 2007-08 and FY 2008-09, reflects the previous year's exempt and non-exempt General Fund appropriations (rows 11 and 14) plus six percent. Per SB 09-228, this limit is revised to 5.0% of Colorado personal income beginning July 1, 2009.

/D Current appropriations for FY 2008-09 and FY 2009-10 include the impact associated with the OSPB June 22 Emergency Supplemental titled "ARRA Funds to Avoid Reduction in Corrections" which identifies a reduction to General Fund appropriations (equal to $24.6 million in FY 2008-09 and $45.4 million in FY 2009-10) and an increase in federal funds by the same amount.

/E Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions.

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

/G Per SB 09-219 and SB 09-277, the statutory General Fund reserve required per 24-75-201.1 was lowered to 2.0 percent for FY 2008-09 and FY 2009-10.

/H Prior to FY 2008-09, per H.B. 02-1310, two-thirds of the amount in excess of a four percent reserve was transferred to the Highway Users Tax Fund and one-third is credited to the Capital Construction Fund in the following fiscal year. Pursuant to SB 09-278, any excess General Fund in FY 2008-09 and FY 2009-10 shall not be transferred to the highway user tax fund or the capital construction fund and shall instead remain in the General Fund. Pursuant to SB 09-228, all excess General Fund transfers per 24-75-218, C.R.S. are no longer required during the forecast period above.

Table 1B
General Fund Overview – With SB 09-279 Budget Balancing Allowance Included
(Dollar Amounts in Millions)

Line No.		FY 2007-08	June 2009 Estimate by Fiscal Year FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Revenue						
1	Beginning Reserve	$267.0	$283.5	$147.7	$146.6	$294.2
2	**Gross General Fund Revenue**	**$7,742.9**	**$6,689.0**	**$7,160.0**	**$7,624.9**	**$8,248.6**
3	*General Fund*	*$6,573.5*	*$6,689.0*	*$7,160.0*	*$7,624.9*	*$8,074.9*
4	*General Fund Exempt*	*$1,169.4*	*$0.0*	*$0.0*	*$0.0*	*$173.7*
5	**Senate Bill 97-1 Diversion /A**	**($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 /B**	**($5.0)**	**$612.5**	**($23.3)**	**$10.0**	**($2.9)**
8	**TOTAL GENERAL FUND AVAILABLE FOR EXPENDITURE**	**$7,766.9**	**$7,585.1**	**$7,284.4**	**$7,781.5**	**$8,540.0**
Expenditures						
9	*Allowable General Fund Appropriation Limit /C*	*$7,087.8*	*$7,546.9*	*$10,466.1*	*$10,490.0*	*$10,755.0*
10	*Total Allowable General Fund Appropriation Limit not Supported by Revenues*	*$0.0*	*($161.3)*	*($3,136.7)*	*($3,133.8)*	*($2,875.7)*
11	*Current Appropriation Subject to Limit /D*	*$7,087.8*	*$7,385.5*	*$7,411.2*	*N/A*	*N/A*
12	*Current Appropriation (Above) Below Revenues*	*$0.0*	*$0.0*	*($81.8)*	*N/A*	*N/A*
13	**General Fund Appropriations (Subject to Limit) Supported by Forecast**	**$7,087.8**	***$7,385.5***	***$7,329.4***	***$7,356.2***	***$7,879.3***
14	*Dollar Change (from prior year)*	*$412.3*	*$297.7*	*($56.2)*	*$26.8*	*$523.2*
15	*Percent Change (from prior year)*	*6.2%*	*4.2%*	*-0.8%*	*0.4%*	*7.1%*
16	**Exemptions to Limit**	**$31.9**	**$0.2**	**$0.0**	**$0.0**	**$0.0**
17	**Spending Outside Limit**	**$320.2**	**$250.0**	**$154.2**	**$304.0**	**$345.5**
18	*TABOR Refund*	*$0.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
19	*Rebates and Expenditures /E*	*$173.8*	*$137.4*	*$153.2*	*$159.0*	*$194.0*
20	*Homestead Exemption*	*$79.8*	*$87.7*	*$1.0*	*$100.5*	*$105.0*
21	*Transfers to Capital Construction /F*	*$93.7*	*$24.9*	*$0.0*	*$44.4*	*$46.4*
22	*Reversions and Accounting Adjustments*	*($27.1)*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
23	**Enhanced Medicaid Match (reduces GF expenditures)**	**N/A**	**($198.4)**	**($345.8)**	**($172.9)**	**N/A**
24	**TOTAL GENERAL FUND OBLIGATIONS**	**$7,439.9**	**$7,437.3**	**$7,137.8**	**$7,487.3**	**$8,224.8**
Reserves						
25	**Year-End Reserve**	**$327.0**	**$147.7**	**$146.6**	**$294.2**	**$315.2**
26	*Year-End Reserve as a % of Appropriations*	*4.6%*	*2.0%*	*2.0%*	*4.0%*	*4.0%*
27	**Statutory Reserve /G**	**$283.5**	**$147.7**	**$146.6**	**$294.2**	**$315.2**
28	**Excess Monies Above (Below) Reserve**	**$43.4**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
29	*2/3 for Transportation /H*	*$29.0*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
30	*1/3 for Capital Construction /H*	*$14.5*	*$0.0*	*$0.0*	*$0.0*	*$0.0*
31	Addendum: State Education Fund (one-third of 1% of Colorado taxable income)	$407.9	$343.1	$363.8	$385.7	$429.1

Note: Lines in Bold represent totals.

/A Per SB 09-228, effective July 1, 2009, statutorily required transfers from the sales and use tax holding fund to the to the highway users tax fund are no longer required during the forecast period.

/B Includes transfers to the State Veterans Trust Fund ($2.9 million in FY 2008-09) and the Older Coloradans Cash Fund ($8.0 million in FY 2008-09 and thereafter) as well as various transfers to the General Fund for budget balancing purposes. Reference the General Fund Overview section of this forecast publication for greater detail related to specific bills reflected in this line; however, note that Table 1B reflects the inclusion of conditional transfers authorized in section 28 of SB 09-279 through written direction from the Governor.

/C For FY 2007-08 and FY 2008-09, reflects the previous year's exempt and non-exempt General Fund appropriations (rows 11 and 14) plus six percent. Per SB 09-228, this limit is revised to 5.0% of Colorado personal income beginning July 1, 2009.

/D Current appropriations for FY 2008-09 and FY 2009-10 include the impact associated with the OSPB June 22 Emergency Supplemental titled "ARRA Funds to Avoid Reduction in Corrections" which identifies a reduction to General Fund appropriations (equal to $24.6 million in FY 2008-09 and $45.4 million in FY 2009-10) and an increase in federal funds by the same amount.

/E Includes the Cigarette Rebate, Old Age Pension Fund, Property Tax, Heat, and Rent Credit, and Fire and Police Pensions Association (FPPA) contributions.

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

/G Per SB 09-219 and SB 09-277, the statutory General Fund reserve required per 24-75-201.1 was lowered to 2.0 percent for FY 2008-09 and FY 2009-10.

/H Prior to FY 2008-09, per H.B. 02-1310, two-thirds of the amount in excess of a four percent reserve was transferred to the Highway Users Tax Fund and one-third is credited to the Capital Construction Fund in the following fiscal year. Pursuant to SB 09-278, any excess General Fund in FY 2008-09 and FY 2009-10 shall not be transferred to the highway user tax fund or the capital construction fund and shall instead remain in the General Fund. Pursuant to SB 09-228, all excess General Fund transfers per 24-75-218, C.R.S. are no longer required during the forecast period above.

BUDGET IMPLICATIONS OF THE FORECAST

FY 2008-09

This June OSPB forecast is reflective of severely reduced individual and corporate income tax collections from FY 2007-08, beyond what the previous OSPB forecast had anticipated. While tax withholdings from employees' paychecks continues to remain relatively strong, there were significant declines in quarterly estimated tax payments (corresponding with the loss of investment income and individual contractors being unable to find or retain significant work) and an extreme shift in the balance between refunds and additional tax liability owed by/to the State.

Based on this June OSPB forecast, projected revenues are not anticipated to fully fund current FY 2008-09 General Fund appropriations of $7,385.5 million[1] subject to the six percent limit. OSPB projects that revenues will fall short of current appropriated levels by $256.3 million (line 12 in Table 1A). However, pursuant to section 28 of SB 09-279, upon written order from the Governor, the State Treasurer and the State Controller are authorized to transfer (out of identified cash funds) any amount necessary in order to allow for prompt payment of existing General Fund obligations as appropriated for FY 2008-09. This transfer must be limited to $565.9 million and must be repaid on July 1, 2009, one day following the initial transfer into FY 2008-09. Table 1B assumes the impact of the Governor exercising this authority in line 7, as transfers for FY 2008-09 have increased $261.4 million and transfers for FY 2009-10 have decreased by a like amount. The difference between the unfunded appropriation in Table 1A (line 12) and the increase to transfers into and out of the General Fund in Table 1B (line 7) is due to the two percent reserve required for all appropriations under the limit as defined by 24-75-201.1, C.R.S.

FY 2009-10

Assuming at least a minimum one-day transfer of $261.4 million for FY 2008-09, this OSPB forecast projects a budgetary shortfall of $81.8 million for FY 2009-10. As this shortfall is greater than one-half of the two percent statutory reserve in FY 2009-10 (line 27), the Governor will implement a plan pursuant to C.R.S. 24-75-201.5:

> *(1) (a) Except as provided in paragraphs (c) and (d) of this subsection (1), whenever the revenue estimate for the current fiscal year, prepared in accordance with section 24-75-201.3 (2), indicates that general fund expenditures for such fiscal year based on appropriations then in effect will result in the use of one-half or more of the reserve required by section 24-75-201.1 (1) (d), the governor shall formulate a plan for reducing such general fund expenditures so that said reserve, as of the close of the fiscal year, will be at least one-half of the amount required by said section 24-75-201.1 (1) (d). The governor shall promptly notify the general assembly of such plan. Such plan shall be promptly implemented by the governor, using the procedures set forth in section 24-2-102 (4) or 24-50-109.5 or any other lawful means.*

[1] Includes impact of requested reduction to General Fund appropriations in Corrections equal to $24.6 million in FY 2008-09, as outlined in the June 22 OSPB Emergency Supplemental request entitled “ARRA Funds to Avoid Reduction in Corrections”.

FY 2010-11 AND BEYOND

Based on this OSPB forecast, FY 2010-11 appropriations will only be able to increase by $26.8 million from an adjusted FY 2009-10 level (line 14 in Table 1B). While OSPB continues to project an improving economy beginning in the final quarter of calendar year 2009 and continuing even stronger into 2010, the impact of needing to restore the General Fund reserve to four percent, the return of the senior property tax credit, only two quarters of enhanced federal financial participation for Medicaid, various one-time actions taken in FY 2009-10, and small cash fund transfers will diminish the State's ability to grow during this fiscal year.

After FY 2010-11, the State is projected to collect sufficient revenue such that growth in the FY 2011-12 budget can increase by more than the previously allowed six percent rate of growth prior to SB 09-228 (line 15 in Table 1B).

Highlights of Budget Implications:

- ***Appropriations*** **–** Despite the addition of one-time cash fund transfers, increases in enhanced federal financial participation and partial use of the four percent General Fund reserve, the current FY 2008-09 appropriation of $7,385.5 million[2] is anticipated to be greater than the amount that can be supported by current revenue projections. However, because of the provisions found in section 28 of SB 09-279, the current appropriation will be maintained.

  For FY 2009-10, the current General Fund appropriation subject to limitation equates to $7,456.6 million[3]. However, due to the one-day transfer allowed under section 28 of SB 09-279, the State will need to address a projected shortfall of $81.8 million in this year to remain in balance. If this balance is achieved through reductions to the current appropriated amount, it is projected that the FY 2009-10 budget will be reduced by 0.8 percent from the prior year.

  While General Fund appropriations for FY 2010-11 have not yet been determined, the OSPB forecast indicates current revenue sources will only be able to support an increase in appropriations of $26.8 million over the FY 2009-10 adjusted appropriation level based on available revenue. Because constitutional, statutory and federal requirements will mandate new spending in some areas well in excess of $26.8 million, significant budgetary changes will be required in FY 2010-11.

- ***Transportation*** **–** The State transferred $267.1 million to fund transportation-related projects in FY 2007-08 ($29.0 million from HB 02-1310 and $238.1 million from full SB 97-001 transfers). As SB 09-278 prohibited any excess General Fund transfers in FY 2008-09 and FY 2009-10, and as SB 09-228 repealed language associated with these transfers, these prior sources of revenue for transportation no longer exist. However,

[2] Includes impact of requested reduction to General Fund appropriations in Corrections equal to $24.6 million in FY 2008-09, as outlined in the June 22 OSPB Emergency Supplemental request entitled "ARRA Funds to Avoid Reduction in Corrections".

[3] Includes impact of requested reduction to General Fund appropriations in Corrections equal to $45.4 million in FY 2009-10, as outlined in the June 22 OSPB Emergency Supplemental request entitled "ARRA Funds to Avoid Reduction in Corrections".

with the passage of SB 09-108, cash fund revenues for transportation will increase to help fund the needed improvements to Colorado's infrastructure, thereby offsetting the lack of General Fund infusions in the near term. Additionally pursuant to SB 09-228, as the economy improves and if Colorado personal income grows at a rate of at least 5.0 percent, transportation will receive additional appropriations equal to 2.0 percent or greater of General Fund revenues for five years, beginning as early as FY 2012-13.

- ***Capital Construction*** – Pursuant to SB 09-279 and SB 09-228, beginning in FY 2008-09, excess General Fund revenue transfers to the Capital Construction Fund will not be required until FY 2012-13. Senate Bill 09-228 also states that when Colorado personal income grows at a rate of at least 5.0 percent, Capital Construction will receive additional appropriations for five years beginning as early as FY 2012-13. Capital needs that are not met through the implementation of SB 09-228 will require a General Fund transfer. This General Fund transfer would result in a reduction of funds available for state programs that are financed under the appropriations limit as defined in 24-75-201.1 C.R.S.

  Based on the $82 million in capital funding that was made available by deappropriating projects approved in FY 2008-09 and earlier, this OSPB forecast assumes all appropriated capital construction projects are fully funded in FY 2009-10. This includes the impacts associated with incorporating two years of higher education capital construction payments for certificates of participation (formerly funded from Federal Mineral Lease revenue) from the Capital Construction Fund as well as a cash fund transfer into the General Fund at the end of FY 2008-09 equal to $28.0 million.

  For FY 2009-10, currently approved capital construction projects totaling approximately $49.9 million include: Level I Controlled Maintenance, annual payments for certificates of participation for Colorado State Penitentiary II and the Anschutz Medical Center, the Colorado Integrated Tax Architecture, and Ft. Lupton Readiness Center. Beginning in FY 2010-11 and continuing into FY 2011-12, this forecast assumes out-year funding levels necessary to continue the above mentioned projects, as needed.

  The forecast assumptions related to capital construction interest include fully expending FY 2009-10 appropriations (assuming a mid-year average for all payments) as these funds relate largely to certificate of participation payments and controlled maintenance. The same holds true for FY 2010-11 and FY 2011-12. The only variance from this mid-year assumption for expenditures pertains to capital construction projects appropriated prior to FY 2009-10. Since capital projects have three year appropriations, a sizable balance remains in the Capital Construction Fund from year to year, until these projects fully expend the funds. As such, this forecast assumes a gradual expenditure pattern for projects appropriated in fiscal years prior to FY 2009-10. All fund balance is anticipated to earn a rate of return of 3.63 percent in FY 2009-10 and 4.23 percent in FY 2010-11 and beyond as the economy and investment vehicles improves. The 4.23 percent rate of return in FY 2010-11 is based upon actual return on investments during FY 2007-08; the 3.63 percent is the midpoint between this anticipated FY 2010-11 rate of return and the return experienced during FY 2008-09 (equal to roughly 3.05 percent).

- ***Referendum C*** **–** Under the provisions of Referendum C, the State will retain $3.6 billion between FY 2005-06 and FY 2009-10. As TABOR revenues continue to be projected to decline below FY 2007-08 collections for the remainder of the Referendum C period (ending June 30, 2010), a revenue limit much greater than projected revenues in FY 2010-11 is anticipated, despite lower forecasts for inflation and population growth in the near term.

- ***K-12 Education*** **–** Due to the weaken economic environment, price increases have been kept in check and are projected to remain relatively level on average for the duration of calendar year 2009. As a result, the budgetary increase for K-12 education in FY 2010-11 is predominately anticipated to be a function of changes in pupil count, changes in local share from revisions to property valuations, and the mandatory 1.0 percent increase required per Amendment 23. Because personal income growth from 2008 to 2009 is projected to equal 0.2 percent, the 5.0 percent General Fund maintenance of effort requirement for K-12 total program will be suspended for FY 2010-11.

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. Notable changes to TABOR revenues collected in FY 2009-10 include: the exclusion of cash funds related to the unemployment insurance program administered by the Department of Labor and Employment pursuant to HB 09-1363 and the extension of enterprise status for this program, and also the inclusion of fees collected from hospital providers as authorized under HB 09-1293.

Line 6 shows the allowable TABOR growth rate based on the most recent previous calendar year's growth in population and inflation. These two growth rates are combined (line 6) and are then applied to the previous year's limit in order to compute the new TABOR limit (line 7). Note that the passage of HB 09-1363 mentioned above required that for FY 2009-10, the TABOR limit be adjusted to reflect the removal of unemployment insurance-related cash funds collected in FY 2008-09, prior to inflating the FY 2008-09 TABOR limit forward.

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 revenue limit between FY 2005-06 and FY 2009-10 (line 9) associated with the highest TABOR revenue year during that same period (line 3) by the allowable TABOR growth rates (line 6) for each subsequent year. Based on this June OSPB forecast, the highest TABOR revenue year is anticipated to be FY 2007-08. Therefore, the FY 2010-11 revenue limit was calculated assuming the FY 2007-08 limit inflated to FY 2008-09 by population plus inflation; was then adjusted downward for the removal of all unemployment insurance-related cash funds (due to the passage of SB 09-1363); and finally was again inflated by the remaining TABOR growth rates to FY 2010-11. At this time, the OSPB does not project that any refunds will be required during the forecast period (line 10).

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 only 1.6 percent between FY 2007-08 and FY 2011-12, with nearly all of this growth anticipated between FY 2010-11 and FY 2011-12.

Sales and Use Taxes

Sales and use tax revenues for FY 2008-09 are anticipated to fall below prior year collections by nearly 9.0 percent. This dramatic reduction from prior year levels was attributable largely to the rapid collapse of auto sales, the rise in fuel prices to nearly four dollars a gallon, and the subsequent inflationary increase in goods which drove out disposable income.

As consumer confidence begins to rise and markets begin to stabilize, the State is projected to experience relatively stable retail trade spending in the near term before pent up demand begins to escalate consumer spending again. However, because of the passage of SB 09-275, the State will retain the full amount allowable from the 2.9 percent sales tax rate, without a reduction for administrative costs associated with vendors collecting the tax. This will result in the state receiving nearly $90 million in additional sales tax revenue during FY 2009-10 and FY 2010-11, before this change is repealed. Therefore, the State will experience sizable revenue growth during these next two fiscal years before returning to a lesser rate of growth for FY 2011-12.

Individual and Corporate Income Taxes

Individual income tax collections, while all related, can be analyzed under three primary categories: monthly revenues from payroll withholdings, quarterly estimated tax payments for investment earnings and contractors, and refunds or additional taxes due at year-end. While monthly payroll withholdings remained flat when compared to the prior fiscal year (despite recent reductions in jobs around the State), investment income for Coloradans fell significantly over previous year levels. This loss of wage and investment income resulted in more refunds being paid this year, roughly 18.0 percent above FY 2007-08 levels.

For FY 2009-10, individual income tax collections are still anticipated to remain below historical norms due to continued rates of higher unemployment and very little job growth. However, because of the State's accrual accounting process, which allocates revenue (and expenditures) into the year for which it is attributable, overall individual income tax revenues for FY 2009-10 are anticipated increase roughly 5.2 percent. This is because more revenue is anticipated to be collected in FY 2009-10 attributable to FY 2008-09 than was collected during FY 2008-09 attributable to FY 2007-08.

Corporate income tax collections for FY 2008-09 are anticipated to decline approximately 44.6 percent below FY 2007-08 collections, well below the previous forecasted decline of 32.8 percent in the March OSPB forecast. As credit markets thaw and financial markets return to more stable rates of change, recovery is anticipated in FY 2009-10 and FY 2010-11, especially as federal stimulus funding begins to generate increased economic activity.

Like individual income tax collections, due to the accrual accounting process, revenues in FY 2009-10 are projected to increase above FY 2008-09 levels. However, all years beyond FY 2008-09 also incorporate the impact of HB 09-1219 (equal to roughly $2.3 million) which prohibits the payment of interest on overpayments of corporate income taxes that are not made to satisfy a bona fide estimate of tax liability.

Capital Construction – General Fund Transfer

Each quarter, OSPB forecasts any General Fund transfer that may be needed to ensure Committee projects are funded. To do so, for each fiscal year, after calculating the beginning year fund balance and accounting for any excess General Fund transfers pursuant to HB 02-1310 (applicable only prior to FY 2008-09), OSPB deducted obligations from the total available fund balance.

To arrive at the FY 2009-10 projection, the balance in the Capital Construction Fund was increased due to deappropriating $82.1 million in capital projects and decreased by the amount to be transferred to the Corrections Expansion Reserve Fund[4]. OSPB then reduced the remaining fund balance by the amount of the projects appropriated by the General Assembly in SB 09-259 (and the continuation costs of those projects for the out-years of FY 2010-11 and FY 2011-12). Lastly, for FY 2009-10, OSPB reduced the total by transfers to the Higher Education Federal Mineral Lease Revenues Fund and the General Fund that were funded by the deappropriated projects.

Therefore, the table below shows that FY 2009-10 is balanced and no additional General Fund transfer is needed. Due to the obligations of the continuation projects, General Fund transfers are needed in FY 2010-11 and FY 2011-12 of $44 million and $46 million, respectively. These transfers are needed to cover required annual payments for certificates of participation, Level I Controlled Maintenance, and continuation costs for the Colorado Integrated Tax Architecture (CITA) project.

General Fund Transfer Need for Capital Construction

	FY 2009-10	FY 2010-11	FY 2011-12
Uncommitted Balance from Prior Year	$206,000	$275,283	$0
1/3 of FY 2007-08 excess GF	$14,482,333	$0	$0
Projected Interest	$10,000,000	$5,058,598	$1,311,732
Deappropriated Projects	$82,122,640	$0	$0
Funds available	**$106,810,973**	**$5,333,881**	**$1,311,732**
Statutory Appropriations to CERF	($1,976,068)	$0	$0
Lease Purchase of Academic Facilities at Anshutz Medical Center	($5,142,063)	($5,142,213)	($5,142,713)
Lease Purchase of Colorado State Penitentiary II	($8,175,782)	($13,940,350)	($13,938,850)
Level 1 (life safety) Controlled Maintenance	($23,431,711)	($20,000,000)	($20,000,000)
Colorado Integrated Tax Architecture	($7,444,907)	($10,686,173)	($8,628,383)
Ft Lupton Readiness Center	($5,661,451)	$0	$0
SB 09-280 Transfer to the Higher Education Revenues Fund	($26,649,232)	$0	$0
Transfer to General Fund through SB 09-279	($28,054,476)	**$0**	**$0**
Subtotal Less Transfers and Appropriated Projects	**$275,283**	**($44,434,855)**	**($46,398,214)**
General Fund Transfer Need	**$0**	**$44,434,855**	**$46,398,214**

[4] Utilizing the methodology incorporated by Joint Budget Committee staff in the March 2009 Capital Construction Figure Setting

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

Line No.		FY 2007-08	June 2009 Estimate by Fiscal Year FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
	TABOR Revenues:					
1	General Fund /A	$7,738.7	$6,684.9	$7,141.1	$7,605.8	$8,248.6
	Percent Change from Prior Year	*2.7%*	*-13.6%*	*6.8%*	*6.5%*	*8.5%*
2	Cash Funds /B	$2,259.8	$2,302.0	$1,842.7	$2,033.7	$2,150.7
	Percent Change from Prior Year	*7.1%*	*1.9%*	*-20.0%*	*10.4%*	*5.8%*
3	**Total TABOR Revenues**	$9,998.6	$8,986.9	$8,983.8	$9,639.5	$10,399.4
	Percent Change from Prior Year	*3.7%*	*-10.1%*	*0.0%*	*7.3%*	*7.9%*
	Revenue Limit Calculation:					
4	Previous calendar year population growth	*1.9%*	*1.9%*	*2.0%*	*1.8%*	*1.7%*
5	Previous calendar year inflation	*3.6%*	*2.2%*	*3.9%*	*0.0%*	*1.5%*
6	**Allowable TABOR Growth Rate**	*5.5%*	*4.1%*	*5.9%*	*1.8%*	*3.2%*
7	TABOR Limit	$8,829.1	$9,191.1	$9,321.9	$9,489.7	$9,793.4
8	General Fund Exempt Revenue Under Ref. C /C	$1,169.4	$0.0	$0.0	$0.0	$173.7
9	**Revenue Limit Under Ref. C /D**	**$9,998.6**	**$9,191.1**	**$9,321.9**	**$10,802.1**	**$11,147.8**
10	*Amount Above/(Below) Limit*	*$0.0*	*($204.2)*	*($338.1)*	*($1,162.7)*	*($748.4)*
11	TABOR Reserve Requirement	$300.0	$269.6	$269.5	$289.2	$312.0

/A The FY 2007-08 amount differs from the General Fund revenues reported in Table 3 (General Fund Revenues) as some double counting exists when cash funds are transferred to the General Fund, and due to other Period 13 adjustments.

/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.

/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." This forecast anticipates that FY 2007-08 is the highest revenue year during the Referendum C period. For purposes of determining the FY 2010-11 revenue limit post Referendum C, the FY 2007-08 revenue limit increased to FY 2008-09 by the Allowable TABOR Growth Rate, then adjusted downward to reflect the impact of HB 09-1363, and the inflated for population plus inflation to FY 2010-11.

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

Line No.	Category	FY 2007-08	% Chg	June 2009 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	$2,126.6	4.9%	$1,938.1	-8.9%	$2,119.8	9.4%	$2,300.5	8.5%	$2,368.5	3.0%
2	Use /A	$191.3	5.3%	$174.5	-8.8%	$167.9	-3.8%	$178.2	6.2%	$189.0	6.0%
3	Cigarette	$45.2	-4.0%	$44.4	-1.8%	$41.7	-6.1%	$39.9	-4.4%	$38.1	-4.3%
4	Tobacco Products	$12.4	-4.2%	$13.3	6.9%	$14.6	9.6%	$14.9	2.3%	$15.4	3.3%
5	Liquor	$35.7	5.0%	$35.2	-1.5%	$35.8	1.8%	$36.3	1.5%	$36.8	1.3%
6	**Total Excise**	**$2,411.1**	**4.7%**	**$2,205.5**	**-8.5%**	**$2,379.8**	**7.9%**	**$2,569.8**	**8.0%**	**$2,647.8**	**3.0%**
	Income Taxes:										
7	Net Individual Income	$4,973.7	2.1%	$4,299.6	-13.6%	$4,523.7	5.2%	$4,766.4	5.4%	$5,312.0	11.4%
8	Net Corporate Income	$507.9	2.0%	$281.4	-44.6%	$345.1	22.6%	$406.3	17.8%	$464.4	14.3%
9	**Total Income**	**$5,481.6**	**2.1%**	**$4,581.0**	**-16.4%**	**$4,868.8**	**6.3%**	**$5,172.7**	**6.2%**	**$5,776.4**	**11.7%**
10	*Less: State Education Fund Diversion*	*$407.9*	*3.2%*	*$343.1*	*-15.9%*	*$363.8*	*6.0%*	*$385.7*	*6.0%*	*$429.1*	*11.3%*
11	**Total Income to General Fund**	**$5,073.7**	**2.0%**	**$4,238.0**	**-16.5%**	**$4,505.0**	**6.3%**	**$4,787.0**	**6.3%**	**$5,347.3**	**11.7%**
	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	$188.3	5.0%	$191.7	1.8%	$202.3	5.5%	$206.5	2.0%	$212.4	2.9%
14	Interest Income	$17.9	-36.4%	$7.9	-55.9%	$16.0	102.4%	$17.3	8.0%	$19.1	10.6%
15	Pari-Mutuel	$2.7	-8.7%	$0.8	-70.6%	$0.9	10.4%	$1.0	11.0%	$1.1	11.6%
16	Court Receipts	$29.6	3.0%	$21.0	-29.0%	$16.8	-20.1%	$3.6	-78.7%	$0.0	N/A
17	Gaming /C	$0.0	-100.0%	$4.1	N/A	$18.8	359.9%	$19.1	1.5%	$0.0	-100.0%
18	Other Income	$19.3	21.5%	$20.1	3.8%	$20.4	1.5%	$20.7	1.5%	$21.0	1.5%
19	**Total Other**	**$258.1**	**-1.7%**	**$245.6**	**-4.8%**	**$275.2**	**12.1%**	**$268.1**	**-2.6%**	**$253.6**	**-5.4%**
20	**GROSS GENERAL FUND**	**$7,742.9**	**2.7%**	**$6,689.0**	**-13.6%**	**$7,160.0**	**7.0%**	**$7,624.9**	**6.5%**	**$8,248.6**	**8.2%**
	Rebates & Expenditures:										
21	Cigarette Rebate	$12.7	-3.9%	$12.7	0.0%	$11.8	-7.1%	$11.3	-4.4%	$10.8	-4.3%
22	Old-Age Pension Fund	$99.0	5.7%	$106.1	7.2%	$122.0	15.0%	$124.0	1.7%	$129.9	4.7%
23	Aged Property Tax & Heating Credit	$10.4	24.4%	$8.0	-23.2%	$8.1	1.4%	$8.2	1.4%	$8.3	1.4%
24	Interest Payments for School Loans	$11.9	12.3%	$5.5	-53.5%	$6.2	11.6%	$10.3	67.5%	$14.5	40.3%
25	Fire/Police Pensions /D	$38.8	0.2%	$4.0	-89.6%	$4.1	2.4%	$4.1	0.0%	$29.5	611.3%
26	Amendment 35 General Fund Expenditure	$1.0	N/A	$1.0	1.2%	$1.0	0.0%	$1.0	0.0%	$1.0	0.0%
27	**Total Rebates & Expenditures**	**$173.8**	**5.6%**	**$137.4**	**-21.0%**	**$153.2**	**11.5%**	**$159.0**	**3.8%**	**$194.0**	**22.0%**

/A Sales tax figures for FY 2008-09 and beyond include the impact of SB 09-212, which reduced vendor allowances from 3.33% to 1.35% of all sales tax revenue. In addition, per SB 09-275 no vendor allowance is allowed in FY 2009-10 or FY 2010-11. Finally, HB 09-1342 eliminated the eighty-four cent cigarette tax exemption for FY 2009-10 and FY 2009-10.

/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 Per 12-47.1-701, C.R.S., in years when General Fund revenue is determined to be insufficient to support full General Fund appropriations, Limited Gaming revenues that would otherwise be transferred to the Colorado Travel and Tourism Promotion Fund, the New Jobs Incentive Fund, State Council on the Arts Fund, and Film Incentives Cash Fund are to instead be transferred to the General Fund. This forecast assumes these transfers to the General Fund will occur - with the exception of FY 2008-09 which includes the passage of SB 09-217, preserving a portion of gaming revenues for the programs listed above.

/D Per SB 09-227 (Temporary Suspension of FPPA Contributions) and SB 09-203 (Treasury Supplemental), for fiscal years FY 2008-09, FY 2009-10, and FY 2010-11, State's contributions to the Old Hire Plan have been suspended. The remaining amount reflected in this row is for volunteer firefighter pensions appropriated in the Department of Local Affairs' budget.

Cash Funds

Table 4 summarizes the forecast for eight major cash fund categories. Highlights from the June 2009 forecast are presented below. OSPB projects that there will be $2.3 billion in cash fund revenue in FY 2008-09, a 1.9 percent increase from FY 2007-08.

Transportation

Declined transportation revenue in FY 2008-09 for Colorado is no surprise when looking at the national downward trend in highway miles travel in 2008 and 2009. A March 2009 report by the U.S. Department of Transportation data indicates cumulative travel on all roads and streets fell by 1.2 percent (a reduction of 3.1 billion vehicle miles) as compared with March 2008. Additional consideration must be given to the decline in vehicle miles traveled in 2008 as representative of the significant consumer response to several months of gasoline prices near $4 per gallon – well above average historical price trends. While prices for fuel have declined from 2008 highs, motor fuel demand is expected to remain weakened because of recession-related factors, particularly diminished aggregate demand. Finally, compounding the above economic pressures on transportation revenues with extremely limited numbers of new vehicle registrations and licensing is what all resulted in the OSPB projected decrease of 5.6 percent in transportation-related revenues for FY 2008-09 from FY 2007-08 collection levels.

However, transportation related revenues are expected to increase 21.1 percent in FY 2009-10 due predominately to roughly $150 million in additional vehicle registration and licensing fees associated with SB 09-108 (known as the FASTER transportation initiative). Without this legislation, transportation-related revenues were anticipated to increase roughly 3.2 percent from FY 2008-09 collections.

Unemployment Insurance

OSPB projects that unemployment insurance tax revenue will equal $388.5 million in FY 2008-09, a 8.9 percent decrease from FY 2007-08 collections of $426.6 million. The increase in first-time claims filings and benefits payments during the last quarter of 2008 and the first two quarters of 2009 has been unprecedented. However, there are some recent signs that suggest possible stabilization among variables such as initial claims and benefits payments. While the potential for fund insolvency remains, particularly in late 2010 or early 2011, it should be noted that insolvency does not imply cessation of benefits payments to current recipients or payments to new claimants; it simply implies the need for augmentative measures to restore fund solvency. There are a number of options available to restore solvency, such as the issuance of revenue bonds and federal loans via a process already available to all states.

HB 09-1363 designates the Unemployment Compensation Section in the Department of Labor and Employment as an enterprise. Since the section will be an enterprise, revenue collected by it will not be subject to Colorado's TABOR law (Article X, Section 20 of the state Constitution). Employers pay premiums and surcharges to fund the unemployment compensation structure. Beginning in FY 2009-10, approximately $400 million in revenue collected annually will not be included in the TABOR base because of this designation, and total state revenue subject to the Referendum C Cap will be reduced.

Limited Gaming

FY 2008-09 gaming tax revenues are projected to be 15.3 percent below FY 2007-08 collections, which is congruous with diminished personal income, increased unemployment, depressed wage growth, and an overall decline in consumer spending. Although a slight recovery in broad economic conditions is anticipated in calendar year 2009, this OSPB forecast does not anticipate a significant trend reversal in FY 2008-09 gaming tax revenues. Limited gaming revenues in FY 2009-10 are projected to increase 0.6 percent above FY 2008-09 levels.

Amendment 50, approved by Colorado voters in the last election, allows casinos in Central City, Black Hawk, and Cripple Creek to extend their hours of operation, offer the games of roulette and craps, and raise the ceiling on the maximum allowable bets from $5 to $100. Such allowances are anticipated to increase TABOR-exempt limited gaming revenues by approximately $300 million over the first five years the changes are in effect. A portion of the increased revenues attributable to the enactment of Amendment 50 will be divided among Colorado's community, junior, and district colleges and gaming communities.

SB 07-246 created the Clean Energy Fund and requires that revenues in the Limited Gaming Fund that were transferred to the General Fund prior to the enactment of SB 07-246 be instead transferred to the Clean Energy Fund. However, as outlined in 12-47.1-701, C.R.S., in those years in which General Fund revenues are too low to support full General Fund appropriations, limited gaming revenues that would be transferred to the Colorado Travel and Tourism Promotion Fund, the New Jobs Incentive Fund, State Council on the Arts Fund, and Film Incentives Cash Fund are to be transferred to the General Fund instead.

Finally, SB 09-217 allows for an exception to the stipulation associated with years in which General Fund revenues are too low, and requires that at the end of FY 2008-09 transfers $18.7 million from the Limited Gaming Fund be transferred to the funds identified above, and all remaining revenues beyond that amount be deposited into the General Fund. Beginning in FY 2009-10 and beyond, this exception does not apply and all funds mentioned above may not receive some or all of their allocations as defined in 12-47.1-701, C.R.S. whenever General Fund appropriations subject to the limit specified in 24-75-201.1, C.R.S. fall below 6.0 percent.

Capital Construction - Interest

Capital construction interest is calculated on the existing fund balance within the Capital Construction Fund (CCF). Revenue into the CCF includes both General Fund appropriations through the Long Bill and special legislation, plus for years prior to FY 2008-09, two-thirds of any HB 02-1310 revenues when excess General Fund revenue was collected. Beginning in FY 2008-09, language related to these transfers to the Capital Construction Fund from excess General Fund surplus has been repealed. However, pursuant with the passage of SB 09-228, beginning as early as FY 2012-13, if Colorado personal income is above 5.0 percent, automatic transfers from the General Fund to the Capital Construction Fund will occur, based on the percentages outlined in is legislation.

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 fund balance will be zero due to appropriation obligations. Instead, OSPB assumes a specific expenditure pattern relative to the type of projects being appropriated. For instance, all payments associated with certificate of participation payments (such as those for Colorado State Penitentiary II and Anschutz Medical Center) are assumed to be fully expended in the year they are appropriated. However, for some of the sizable projects that were appropriated during FY 2007-08 and FY 2008-09, a gradual expenditure pattern is assumed over the three year period that the appropriation is available. For all FY 2008-09 projects, it is anticipated that expenditures will occur at a rate of 30 percent in year one, 60 percent in year two, and 10 percent in year three.

Finally, it is anticipated that the average rate of return for interest in the capital construction fund will be approximately 3.0 percent during FY 2008-09. However, as investment vehicles begin to show gradually higher rates of return, the June OSPB forecast assumes that the return on investment for this fund will improve partially to 3.63 percent in FY 2009-10 and fully to 4.26 percent in FY 2010-11, which is comparable to the rate of return experienced during FY 2007-08.

Regulatory Cash Funds

OSPB projects that cash fund revenues related to professional licensing, registration and public utilities will be $79.5 million in FY 2008-09, a 40.0 percent increase over the FY 2007-08 revenues of $56.8 million. SB 09-272 requires the Public Utilities Commission to transfer funding from the High Cost Support Mechanism Reserves to the High Cost Administration Fund in FY 2008-09. Since this money will be considered new State revenue, these funds will increase regulatory cash funds in FY 2008-09 by $15.0 million. Absent the $15.0 million transfer, revenues still rose 13.6 percent. SB 09-279, a companion bill, will transfer these $15.0 million transferred by SB 09-272 from the High Cost Administration Fund to the General Fund in FY 2009-10 to help balance the budget.

The Department of Regulatory Agencies, responsible primarily for consumer protection, has great autonomy in setting industry fees to fund administrative costs. 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 influence revenue collection in a given year for the Department of Regulatory Agencies.

Hospital Provider Fees

HB 09-1293 establishes the Health Care Affordability Act of 2009, which is intended to provide a payer source for some low-income and uninsured populations who would otherwise receive uncompensated care. The bill directs the Department of Health Care Policy and Financing to collect hospital provider fees, set by the State Medical Services Board and based on federal regulations. By assessing provider fees, Colorado will be able to leverage state funds to draw down additional federal funds and provide coverage to more than 100,000 uninsured Coloradans. HB 09-1293 is projected to increase cash fund revenue by $336.4 million in FY 2009-10; and $389.5 million in FY 2010-11; and $487.8 in FY 2011-12.

Severance Taxes and Federal Mineral Lease Revenues

Natural gas prices are the major variable in forecasting Colorado severance tax and federal mineral lease receipts, and dramatic changes in this variable can contribute to significant revenue fluctuations. Reflective of the inherent volatility of this revenue source, severance tax revenue is expected to drop significantly in FY 2009-10 before starting to rise once again. Federal mineral lease receipts to the state are also projected to decline in FY 2009-10, but are higher than estimated in the previously published March OSPB forecast.

Revenue from State severance tax and federal mineral lease receipts rose significantly in FY 2008-09 due to special factors. Both severance tax and federal mineral lease revenues increased because of a spike in natural gas prices and the opening of the Rockies Express pipeline, which has facilitated the export of Colorado natural gas. Federal mineral lease receipts also dramatically increased from a one-time, $56 million bonus receipt in late 2008 from the Roan Plateau lease auction.

A sharp decline is expected in FY 2009-10 as these special factors abate. Additionally, natural gas prices have fallen dramatically as the pipeline has reached capacity, and the demand for Colorado minerals has declined along with the national economy. However, over the forecast period, Colorado natural gas production is expected to continue to rise slightly, as market prices recover from recent declines.

Short Term Projections

The significant decline in Colorado active drilling rig counts has not affected actual production in the near term. The high drilling activity in the last five years has created an abundance of permits and wells that will continue to produce. In addition, while down, the rate of drilling continues at levels that will increase production capacity. New wells will sustain the state's gas production capacity above the export capacity of the pipelines.

The price of Colorado natural gas depends on the ability to export the gas via pipeline to other markets, particularly the West Coast, Midwest, and Eastern urban markets. Therefore, pipeline capacity expansion is an important factor for sustaining the production growth trend. While pipeline capacity expansion projects have been delayed due to declines in the national economy, many plans continue to develop.

Long Term Perspective

Longer term, there is evidence that new production from vast shale deposits ranging from Texas to New York could be substantial and compete with Colorado gas in key urban markets. But the expected national increase in natural gas consumption as a substitute for coal and oil, and the likely reduction in gas imports due to global demand, will keep Colorado gas prices on a rising trend on a real-dollar basis.

Federal mineral lease revenues can be categorized into two groups, bonus and non-bonus receipts. Bonus receipts equate to the State's share of revenues from auctioning the rights to mine federal land within Colorado's border; non-bonus receipts equate to the State's share of the adjusted value of the resources being mined from Colorado lands. Both of these receipts are allocated between Colorado and the Feds at a ratio of approximately 49.0 percent to 51.0 percent, respectively. As these payments relate to federal regulations, corporations are also still required to pay State severance taxes on the same adjusted value of the resources extracted.

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	$61.9	$166.2	$228.1	48.5%
FY 2009-10	$5.1	$138.6	$143.7	-37.0%
FY 2010-11	$6.5	$154.3	$160.8	11.9%
FY 2011-12	$2.7	$181.8	$184.5	14.7%

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 in Table 4.

<u>Federal Mineral Lease Revenue Projections and Higher Education</u>

As one can see in the table below, the estimated spillover amounts for the Federal Mineral Lease Higher Education Revenues Fund are projected to equal $18.1 million, $2.0 million, and $10.9 million for FY 2008-09, 2009-10, and FY 2010-11, respectively. The Federal Mineral Lease Higher Education Revenues Fund is used to make the annual payments required for the certificates of participation authorized in SB 08-233. In March 2009, OSPB projected that there would not be enough fund balance in the Federal Mineral Lease Higher Education Revenues Fund to make the necessary payments for FY 2008-09 and FY 2009-10. Based on that projection, the Joint Budget Committee initiated action to transfer $26.6 million from the Capital Construction Fund into the Revenues Fund to ensure future payments could be made. The table below illustrates this transfer, and indicates that although the June forecast has improved the Funds' balance projection over March, that transfer was needed, at least in part, to make the upcoming payments. The second table below shows what the June 2009 projections would be if not for the $26.6 million transfer. Due to the volatility inherent in these projections, as described above, OSPB continues to recommend that no additional certifications of participation be purchased until this fund balance is more stable.

Higher Education Federal Mineral Lease Revenues Fund Spillover Projection for SB 08-233 Annual Payments								
	March 2009			**June 2009**				
Fiscal Year	**Spillover Projection**	**Annual Payments**	**Net**	**Spillover Projection**	**Transfer from SB 09-280 (1)**	**Annual Payments**	**Net**
FY 2008-09	$17,260,000	$9,996,507	$7,263,493	$18,117,711	$26,649,232	$9,996,507	$18,615,371
FY 2009-10	$420,000	$16,652,725	($8,969,232)	$1,962,646	$0	$16,652,725	$12,894,638
FY 2010-11	$13,510,000	$16,654,550	($12,113,782)	$10,931,992	$0	$16,654,550	$23,241,365
FY 2011-12	$27,900,000	$16,653,475	($867,257)	$27,001,277	$0	$16,653,475	$33,589,166
FY 2012-13	$28,760,000	$16,652,575	$11,240,168	Not forecasted		$16,652,575	

Due to the unknown nature of expenditure timing, OSPB has not projected interest to the Higher Education Reserves Fund
(1) Per SB 09-280 and post deappropriated capital projects from fiscal years FY 2008-09 and earlier

Higher Education Federal Mineral Lease Revenues Fund Spillover Projection for SB 08-233 Annual Payments if SB 09-280 Funds Not Included							
	March 2009			June 2009			
Fiscal Year	**Spillover Projection**	**Annual Payments**	**Net**	**Spillover Projection**	**Transfer from SB 09-280 (1)**	**Annual Payments**	**Net**
FY 2008-09	$17,260,000	$9,996,507	$7,263,493	$18,117,711	$0	$9,996,507	$8,121,204
FY 2009-10	$420,000	$16,652,725	($8,969,232)	$1,962,646	$0	$16,652,725	($6,568,875)
FY 2010-11	$13,510,000	$16,654,550	($12,113,782)	$10,931,992	$0	$16,654,550	($12,291,433)
FY 2011-12	$27,900,000	$16,653,475	($867,257)	$27,001,277	$0	$16,653,475	($1,943,632)
FY 2012-13	$28,760,000	$16,652,575	$11,240,168	Not forecasted		$16,652,575	
Due to the unknown nature of expenditure timing, OSPB has not projected interest to the Higher Education Reserves Fund (1) Per SB 09-280 and post deappropriated capital projects from fiscal years FY 2008-09 and earlier							

The interest gained in Higher Education Maintenance and Reserve Fund can be used to offset costs for controlled maintenance for institutions of higher education. However, due to the minimal balance in the Fund due to budget balancing, and low interest rates expected, no significant interest develops in FY 2009-10 or FY 2010-11 to be used in the upcoming budget cycle, based on this projection. Therefore, the table illustrates that OSPB plans to carry the interest forward into FY 2011-12.

Higher Education Federal Mineral Lease Maintenance and Reserve Fund Projection for Higher Education Controlled Maintenance				
	March 2009	June 2009		
Fiscal Year	**Interest Available for Controlled Maintenance**	**Spillover Projection**	**Allowed by SB 09-280 for Budget Balancing**	**Interest Available for Controlled Maintenance**
FY 2008-09	$121,874	$30,940,866	($30,940,866)	$0
FY 2009-10	$367,551	$2,541,989	$0	$0
FY 2010-11	$367,551	$3,257,268	$0	$48,208
FY 2011-12 (1)	$594,654	$1,345,415	$0	$95,566
FY 2012-13	$835,009	Not forecasted		
(1) Assumes FY 2010-11 interest remains in fund for use in FY 2011-12 Projection includes spillover and the bonus revenue to the HEMRF				

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

Category	FY 2007-08	June 2009 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 /A	$920.5	$868.6	$1,051.8	$1,072.6	$1,125.3	
Change	4.5%	-5.6%	21.1%	2.0%	4.9%	5.1%
Unemployment Insurance /B	$426.6	$388.5	N/A	N/A	N/A	
Change	0.3%	-8.9%	N/A	N/A	N/A	-8.9%
Limited Gaming Fund /C	$113.6	$96.2	$96.8	$106.0	$117.0	
Change	-3.6%	-15.3%	0.6%	9.5%	10.4%	0.7%
Capital Construction - Interest /D	$19.3	$10.0	$5.1	$1.3	$1.0	
Change	29.4%	-48.1%	-49.4%	-74.1%	-23.5%	-52.2%
Regulatory Agencies	$56.8	$79.5	$56.6	$57.4	$58.6	
Change	11.8%	40.0%	-28.9%	1.5%	2.0%	0.8%
Insurance-Related	$64.7	$53.8	$53.0	$41.1	$42.3	
Change	-2.1%	-16.9%	-1.5%	-22.5%	3.0%	-10.1%
Severance Tax /E	$170.1	$297.7	$53.1	$192.0	$228.5	
Change	17.2%	75.1%	-82.2%	261.7%	19.0%	7.7%
Medicaid Hospital Provider Fees /F	N/A	N/A	$336.4	$389.5	$487.8	
Change	N/A	N/A	N/A	15.8%	25.2%	20.4%
Other Miscellaneous Cash Funds /G	$488.2	$507.6	$526.3	$563.2	$578.1	
Change	19.4%	4.0%	3.7%	7.0%	2.6%	4.3%
TOTAL CASH FUND REVENUE	**$2,259.8**	***$2,302.0***	***$1,842.7***	***$2,033.7***	***$2,150.7***	
Change	7.1%	1.9%	-20.0%	10.4%	5.8%	-1.2%

* CAAGR: Compound Annual Average Growth Rate.

/A Revenues beginning in FY 2009-10 include the impact of SB 09-108 (FASTER).

/B 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. Pursuant to HB 09-1363, on July 1, 2009 the unemployment compensation section in the Department of Labor and Employment will operate as an enterprise and all revenue collected by this program will be exempt from TABOR.

/C Revenues above exclude any impact from Amendment 50 as these revenues are exempt from TABOR.

/D Interest assumptions used in this forecast are identical to those used in the calculations for Capital Construction in Table 1A.

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

/F Pursuant to HB 09-1293, beginning July 1, 2009, the Department of Health Care Policy and Financing is authorized to collect hospital provider fees for the purpose of obtaining federal financial participation.

/G Revenue in Other Miscellaneous Cash Funds includes interest and other earnings from numerous trust funds, fees, and revenue from higher education institutions.

COLORADO ECONOMIC FORECAST

Although both the national and Colorado economies remain in a recession, Colorado continues to fare better by comparison, due largely to its diverse base and its expansion of renewable energy, aerospace, and biotechnology industries. Along these lines, the mix of Colorado's base will allow the state to emerge strongly, once conditions improve. For this forecast, OSPB projects improvement in economic conditions in Colorado toward the end of calendar year 2009 and continuing into 2010.

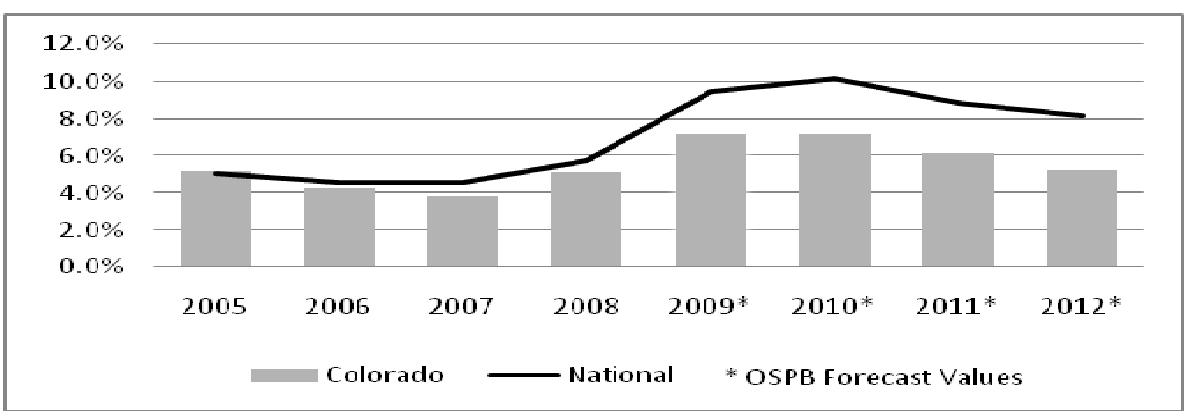
The following presents the OSPB forecast for Colorado economic and demographic indicators. Included is an overview of employment and unemployment, inflation, wages and income, population and migration, construction, and retail trade.

EMPLOYMENT

In April 2009, the Colorado seasonally adjusted unemployment rate decreased to 7.4 percent – down from 7.5 percent in March. While the decline of one-tenth of a percentage point does represent the first time since October 2007 that the unemployment rate has fallen, several months of data are needed in order to determine a trend. Between April 2008 and April 2009, the number of Coloradoans unsuccessfully seeking work has increased 74,000, and total employment has fallen 62,900 over the same period.

It is likely that unemployment will continue to remain high in Colorado, especially as new graduates emerge from educational institutions and due to the lagging nature of job creation. Further, it should be noted that unemployment is a lagging indicator, which means that despite an economic turnaround, it will take some time before Colorado will realize more traditional levels of unemployed individuals relative to the workforce. This OSPB forecast projects unemployment rates of 7.2 percent in both 2009 and 2010. Total nonagricultural employment is projected to contract by 2.2 percent in 2009 and then only rise 1.0 percent in 2010 from this lower 2009 base.

Colorado and National Unemployment Rates



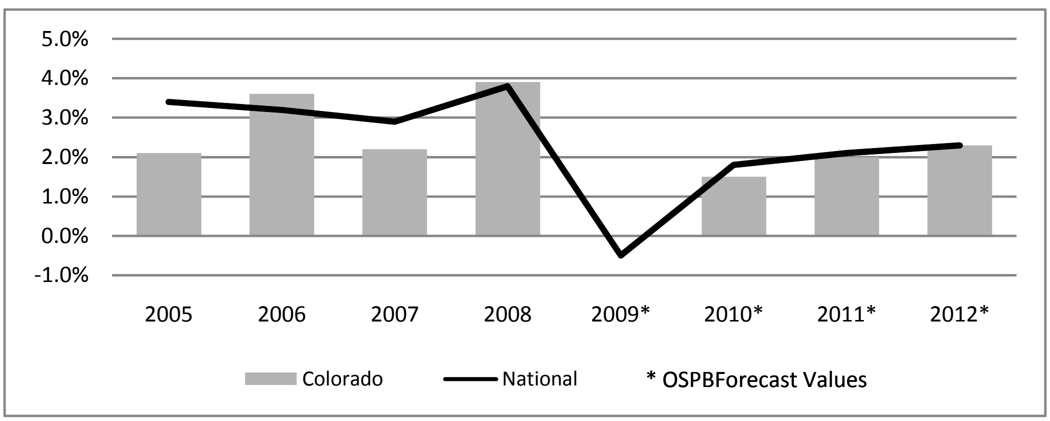
Source: U.S. Department of Labor, Bureau of Labor Statistics

INFLATION

The Consumer Price Index (CPI) measures the average price of a specified market basket of goods and services purchased by consumers. Measured by the federal Bureau of Labor Statistics every six months for the Denver-Boulder-Greeley metropolitan area, the CPI identifies price fluctuations for many components, including: food, housing, medical care, transportation, education, energy, entertainment, etc.

As reported in the March 2009 OSPB forecast, high fuel prices that extended through the second and third quarters of calendar year 2008 contributed to upward price pressure for clothing, food, transportation, and even heating and cooling costs in Colorado. National data trends and significant slack in labor markets suggest diminished inflationary pressures in Colorado for the near term, and high unemployment and decreased aggregate demand are expected to minimize the potential for demand-pull inflationary pressure. However, for the long term, movement toward historical averages is still anticipated. This OSPB forecast projects that inflation will remain flat in 2009 and only a slight rise in 2010 of 1.5 percent.

Consumer Price Index



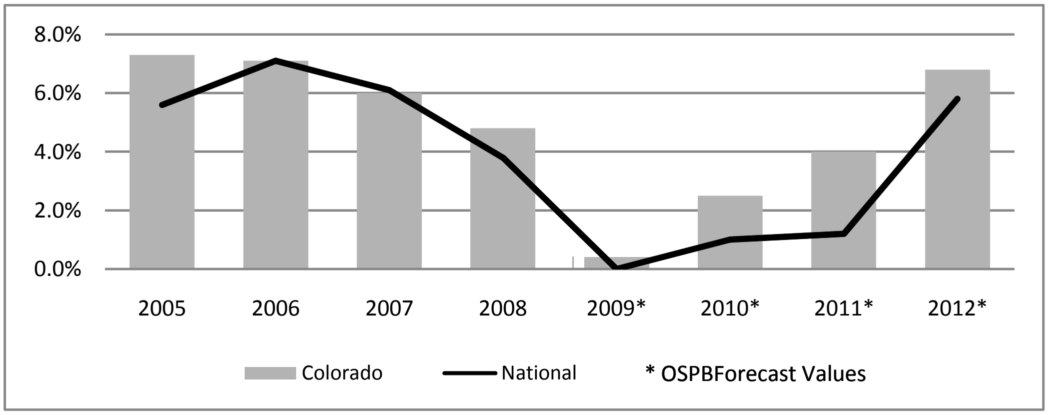
Source: U.S. Department of Labor, Bureau of Labor Statistics

WAGES AND INCOME

In 2008, Colorado personal income increased 4.8 percent above the prior year, while national personal income increased 3.8 percent. Colorado personal income is expected to increase 0.2 percent in calendar year 2009 and 2.5 percent in 2010 as the economy begins to expand. Forecast personal income increases are consistent with expectations of slight investment earnings and reduced or flat wage growth, both for hourly and non-hourly workers.

Colorado wage and salary income is projected to remain relatively unchanged in 2009 (declining 0.2 percent) and is expected to increase by 1.0 percent in 2010. Wage and salary income expectations are influenced by current labor market conditions and the expected absence of upward inflationary pressures in 2009. This variable is projected to show improvement in 2010 as labor market conditions improve.

Percentage Change in Personal Income



Source: U.S. Department of Commerce, Bureau of Economic Analysis

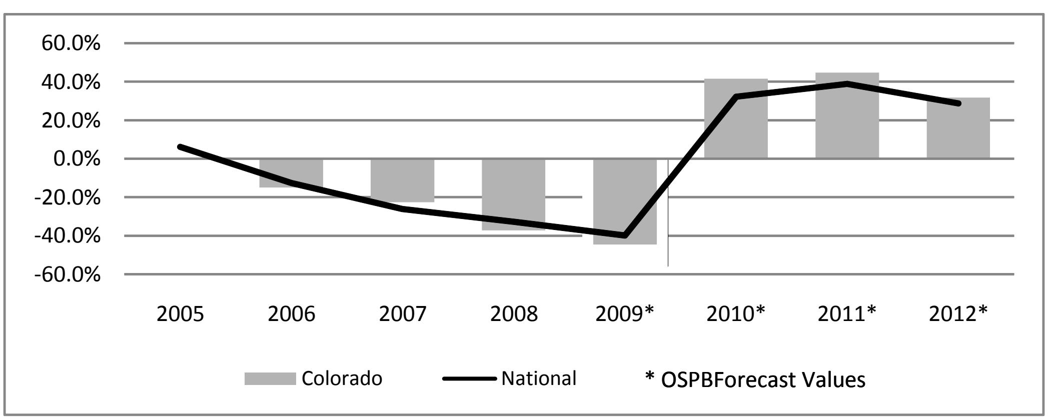
POPULATION AND MIGRATION

In 2008, net in-migration to Colorado was approximately 50.0 and total population growth was 2.0 percent. The diversity of Colorado's economic base and unique tourist attractions make the state an attractive destination for both companies and people alike. Additionally, Colorado is positioned to emerge strongly from the current nationwide recession, and population growth is expected to increase as the state's economy recovers. This forecast projects the Colorado population to increase by 2.8 percent in 2009 and by 1.8 percent in 2010.

CONSTRUCTION

Housing starts in Colorado were down 35.3 percent in 2008. The housing sector continues to remain sluggish as the economic downturn persists. This forecast projects housing starts to decrease 44.2 percent in 2009 and then increase off this low base by 41.5 percent in 2010. It should be noted that the increase in 2010 will be from a base that is comparable to levels not seen since the early 1990s.

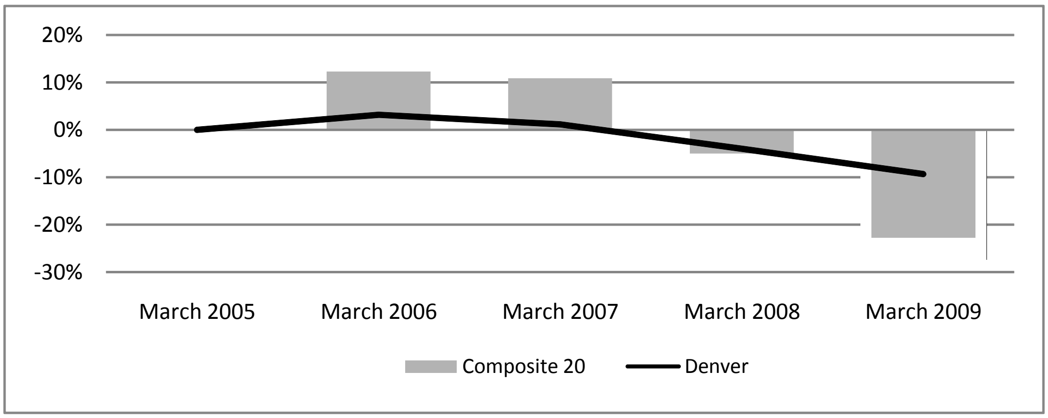
Percentage Change in Housing Starts



Source: U.S. Census Bureau

While housing markets generally remain distressed around the nation, the Colorado housing market, which has not experienced the volatility seen in many other states, remains relatively stable and is positioned to fare well as the economy expands. The following graph, which is derived from Case-Schiller housing data, depicts the housing market in the Denver metro area relative to twenty other large metropolitan areas across the nation. This graph identifies that while still negative, home values in the Denver metropolitan area have been more stable over time and are roughly 9 percent below 2005 values, versus the composite twenty average decline of roughly 23 percent.

U.S. Metropolitan Home Price Values



Source: S&P/Case-Shiller Home Price Indices

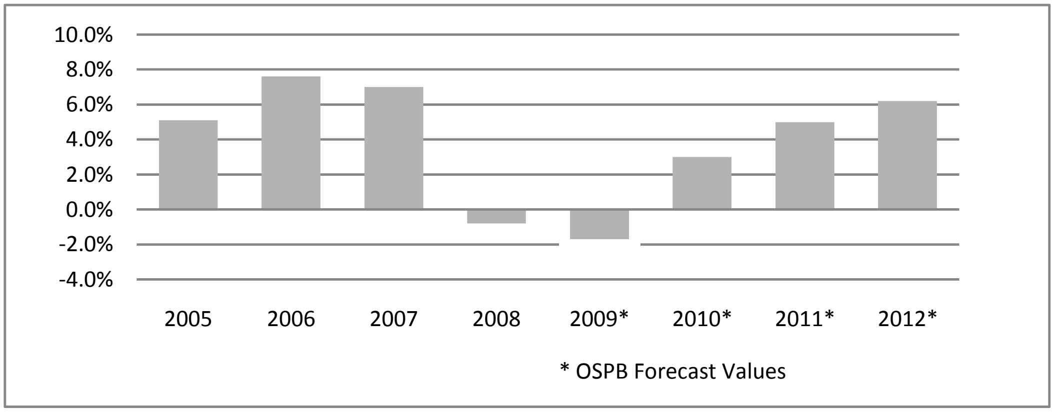
Finally, Colorado nonresidential construction value declined 12.5 percent in 2008. Nonresidential construction value is projected to decrease 10.0 percent in 2009 and increase 3.6 percent in 2010. The construction sector is expected to show improvements in 2010 as lending is expected to increase and demand increases.

RETAIL TRADE

Negative job growth, high unemployment, and diminished consumer confidence contributed to a 0.8 percent decrease in retail trade sales in 2008. Retail trade sales are expected to decrease 1.7 percent in 2009 and then increase 3.0 percent in 2010.

The expected continued decline in retail trade sales for 2009 is attributable to declining employment opportunities and expectations of low wage and salary growth during 2009. Similarly, the projected increase in 2010 is influenced by an expectation of increased personal income in that year and is consistent with expectations of economic expansion toward the end of 2009 and into 2010. Another contributing factor is the personal saving rate, which continues to trend upward. This trend is anticipated to be reversed as consumer confidence improves and the economy stabilizes, at which point pent-up savings will bolster retail trade sales.

Colorado Retail Trade Sales



Source: Colorado Department of Revenue

RISKS TO THE FORECAST

Although some signs of recovery are becoming apparent, the national economy remains weakened. The main risk to the Colorado economic forecast is that the national economy will contract further. Additional considerations include the extent to which the American Recovery and Reinvestment Act of 2009 affects the economy, further unanticipated fiscal or monetary intervention, and energy market volatility.

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

Line No.		Actual 2005	Actual 2006	Actual 2007	Actual 2008	Forecast 2009	Forecast 2010	Forecast 2011	Forecast 2012
	Current Income								
1	Personal Income (Billions)	$175.4	$188.2	$199.5	$209.3	$209.8	$215.1	$223.7	$238.8
2	Change	7.1%	7.3%	6.0%	4.9%	0.2%	2.5%	4.0%	6.8%
3	Wage and Salary Income (Billions)	$97.4	$104.1	$110.9	$116.1	$115.8	$117.0	$118.4	$125.3
4	Change	5.8%	6.9%	6.5%	4.7%	-0.2%	1.0%	1.2%	5.8%
5	Per-Capita Income ($/person)	$37,611.0	$39,612.0	$41,192.0	$42,377.0	$41,313	$41,626	$42,562	$44,639
6	Change	5.7%	5.3%	4.0%	2.9%	-2.5%	0.8%	2.2%	4.9%
	Population & Employment								
7	Population (Thousands)	4,662.7	4,751.5	4,842.8	4,939.5	5,078.3	5,167.4	5,255.9	5,349.6
8	Change	1.4%	1.9%	1.9%	2.0%	2.8%	1.8%	1.7%	1.8%
9	Net Migration (Thousands)	30.1	49.1	50.5	50.0	38.5	46.1	44.1	48.8
10	Civilian Unemployment Rate	5.1%	4.4%	3.9%	4.9%	7.2%	7.2%	6.2%	5.3%
11	Total Nonagricultural Employment (Thousands)	2,226.0	2,279.1	2,331.4	2,350.0	2,297.6	2,320.6	2,377.0	2,444.7
12	Change	2.1%	2.4%	2.3%	0.8%	-2.2%	1.0%	2.4%	2.8%
	Construction Variables								
13	Total Housing Permits Issued (Thousands)	45.9	38.3	29.5	19.0	10.6	15.0	21.7	28.6
14	Change	-1.3%	-16.4%	-23.2%	-35.5%	-44.2%	41.5%	44.7%	31.8%
15	Nonresidential Construction Value (Millions)	3,979.5	3,890.4	4,294.5	3,756.9	3,381.2	3,502.9	3,839.2	4,223.1
16	Change	26.1%	-2.2%	10.4%	-12.5%	-10.0%	3.6%	9.6%	10.0%
	Prices & Sales Variables								
17	Retail Trade Sales (Billions)	$65.5	$70.4	$75.4	$74.8	$73.5	$75.7	$79.5	$84.5
18	Change	5.1%	7.6%	7.0%	-0.8%	-1.7%	3.0%	5.0%	6.3%
19	Denver-Boulder-Greeley Consumer Price Index (1982-84=100)	190.9	197.7	202.0	209.9	209.9	213.0	217.3	222.3
20	Change	2.1%	3.6%	2.2%	3.9%	0.0%	1.5%	2.0%	2.3%

NATIONAL ECONOMIC FORECAST

The national economy has continued to contract since the March 2009 OSPB forecast which was consistent with expectations. As the economy exhibits some early signs of stabilization, cautious optimism is slowly spreading. Signs of positive economic activity include: U.S. corporate profits (with inventory valuation and capital consumption adjustments) increasing $42.6 billion in the first quarter of 2009 after having fallen $250.3 billion in quarter four of 2008; the Consumer Confidence Index has more than doubled (to 54.9 in May) from its near-term low in February 2009; national existing-home sales in April were up slightly (2.9 percent) from March 2009; and credit markets have continued to loosen.

However, broad stabilization in the economy and significant capital spending must occur for a robust recovery to take place. The economy remains susceptible to shocks and current conditions, despite these early signs of improvement, suggest a tenuous and slow recovery. Manufacturing activity remains weakened, downward pressure on prices persists, and employment continues to decline, although at a decreasing rate. This OSPB forecast projects slight improvement in the national economy toward the end of calendar year 2009 which is expected to persist into 2010.

The following presents changes to key national economic indicators, specifically to gross domestic product, interest rates, inflation, and employment and unemployment.

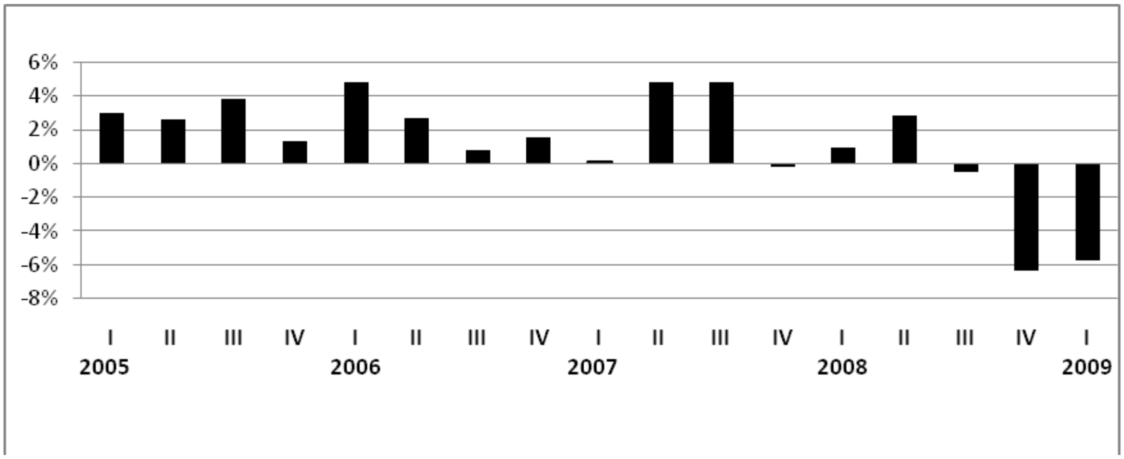
GROSS DOMESTIC PRODUCT

Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given time period, and it is generally perceived as a reasonable indicator of economic well-being. GDP in the United States is reported quarterly by the U.S. Department of Commerce's Bureau of Economic Analysis. GDP is estimated as the sum of final-expenditure components: personal consumption expenditures (consumer spending), gross private domestic investment, net exports (exports of goods and services less imports of goods and services) and government consumption expenditures and gross investment (government spending).

Preliminary estimates from the Bureau of Economic Analysis (BEA) indicate real GDP declined 5.7 percent from the fourth quarter of 2008 to the first quarter of 2009. In the fourth quarter of 2008, real GDP decreased 6.3 percent. The first quarter decline in real GDP is notably attributable to declines in exports, equipment and software, private inventory investment, nonresidential structures, and residential fixed investment. The decline in GDP was less in the first quarter than in the fourth quarter because of a larger decrease in imports, an increase in personal consumption expenditures for durable goods, and a smaller decrease in personal consumption expenditures for nondurable goods.

This OSPB forecast projects U.S. GDP to decline by 1.1 percent in 2009 before showing positive growth of 4.0 percent in 2010. GDP growth is expected to remain low in 2009 as difficulties in the credit and housing markets persist. Growth in 2010 is projected at a higher rate which is consistent with expectations of improved economic conditions in that year.

Change in Real U.S. GDP by Quarter



Source: U.S. Department of Commerce, Bureau of Economic Analysis
Note: Data is provided on a quarterly, calendar year basis.

- ***Consumer spending (roughly 70 percent of GDP):*** Real personal consumption expenditures, a measure of goods and services consumed by individuals, rose 1.5 percent in the first quarter of 2009. This variable had decreased 4.3 percent in the fourth quarter of 2008. Real disposable personal income increased 0.1 percent in March, 1.1 percent in April. Although consumer spending has shown improvement in the first quarter of 2009, this variable is related to unemployment. Rising unemployment suggests a delayed recovery in consumer spending, which could moderate the economic turnaround.

- ***Business investment (roughly 14 percent of GDP):*** Decreased consumer confidence and difficulties in the credit market have contributed to declines in business investment. Gross U.S. private domestic investment is a measure of business investment in structures, equipment and software, and inventories. The decline in real gross U.S. private domestic investment suggests that companies have recently lacked incentives and resources to expand operations, which is a key component of economic growth. In addition to reducing business investment, companies continue to emphasize cost savings to mitigate the recession's impacts. Real nonresidential fixed investment decreased 36.9 percent in the first quarter; real residential fixed investment decreased 38.7 percent.

- ***Government spending (roughly 17 percent of GDP):*** Real federal government consumption expenditures and gross investment decreased 4.3 percent in the first quarter of 2009, due to decreases in defense spending. This variable had increased 7.0 percent in the fourth quarter of 2008. National defense spending declined by 6.8 percent in the first quarter. Although nondefense spending increased 15.3 percent in quarter four of 2008, it increased only 1.0 percent in quarter one of 2009. Real state and local government consumption expenditures and gross investment declined 2.9 percent.

INTEREST RATES

Interest rates affect virtually each component of aggregate demand. 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. Through the process of raising or lowering the federal funds rate, the Federal Reserve will indirectly affect interest rates offered by lenders in order to control the rate of inflation and promote full employment. In order to realize its strategic objectives, the Federal Reserve reduced the federal funds rate to between 0.00 and 0.25 percent in December 2008. This forecast anticipates that the federal funds rate will average 0.1 percent in 2009 and 0.9 percent in 2010. While these projected values are low relative to historic values, they are consistent with expectations of bank lending levels nationally.

INFLATION

The Consumer Price Index, reported by the U.S. Bureau of Labor and Statistics (BLS), is a measure of the average change in prices over time of goods and services purchased by households. The Consumer Price Index for All Urban Consumers increased 0.2 percent in April 2009 (on a seasonally unadjusted basis). Over the preceding twelve months this index had decreased 0.7 percent due largely to a 25.2 percent decrease in energy prices; the energy index decreased by 3.0 percent in March and 2.4 percent in April.

According to BLS, on a seasonally adjusted basis, in April 2009 the CPI-U remained unchanged from March. Indices where there is continued decline include motor fuel, fuel oil, natural gas, and electricity. But the overall CPI-U remained relatively constant as some indices have also increased, such as the food index, which grew by 3.3 percent over the past year. This forecast projects a 0.4 percent decline in the Consumer Price Index in 2009 and before returning to positive growth of 1.8 percent in 2010.

EMPLOYMENT

The most recent Bureau of Labor Statistics release of employment data indicated that nonfarm payroll employment fell by 345,000 in May 2009, and the unemployment rate rose from 8.9 to 9.4 percent. The number of unemployed persons has now risen to 14.5 million. Since the recession began in December 2007, the number of unemployed persons has increased by 7.0 million and the unemployment rate has increased by 4.5 percentage points. A turnaround in this variable is expected to lag the broader economic turnaround once that occurs. Therefore, while this forecast anticipates improvement in the economy beginning in 2009, the national unemployment rate is still expected to remain high, at 9.4 percent in 2009 and 10.1 percent in 2010. Total nonagricultural employment is projected to be 131.8 million in 2009 and roughly identical in 2010.

RISKS TO THE FORECAST

Although some signs of recovery are becoming apparent, the national economy remains weakened. Risks to the forecast include: credit market volatility; further unanticipated fiscal or monetary intervention; energy market volatility; rising national debt; the strength of the dollar; the stability of the financial system; and the extent to which the American Recovery and Reinvestment Act of 2009 affects the economy.

Table 6
History and Forecast for Key National Economic Variables
Calendar Year 2005-2012

Line No.		Actual				Forecast			
		2005	2006	2007	2008	2009	2010	2011	2012
	Inflation-Adjusted & Current Dollar Income Accounts								
1	Inflation-Adjusted Gross Domestic Product (Billions)	$10,989.5	$11,294.8	$11,523.9	$11,652.0	$11,323.6	$11,549.7	$11,982.6	$12,353.8
2	Change	2.9%	2.8%	2.0%	1.1%	-2.8%	2.0%	3.7%	3.1%
3	Gross Domestic Product (Billions)	$12,421.9	$13,178.4	$13,807.5	$14,264.6	$14,113.7	$14,677.9	$15,617.1	$16,488.8
4	Change	6.3%	6.1%	4.8%	3.3%	-1.1%	4.0%	6.4%	5.6%
5	Personal Income (Billions)	$10,269.8	$10,993.9	$11,663.2	$12,100.6	$12,102.5	$12,578.4	$13,353.2	$14,119.4
6	Change	5.6%	7.1%	6.1%	3.8%	0.0%	3.9%	6.2%	5.7%
7	Per-Capita Income ($/person)	$34,746.9	$36,847.4	$38,710.8	$39,796.8	$39,464.5	$40,734.0	$42,848.4	$44,836.9
8	Change	4.6%	6.0%	5.1%	2.8%	-0.8%	3.2%	5.2%	4.6%
	Population & Employment								
9	Population (Millions)	295.6	298.4	301.3	304.1	306.7	308.8	311.6	314.9
10	Change	0.9%	0.9%	1.0%	0.9%	0.9%	0.7%	0.9%	1.0%
11	Civilian Unemployment Rate	5.1%	4.6%	4.6%	5.8%	9.4%	10.1%	8.9%	7.3%
12	Total Nonagricultural Employment1 (Millions)	133.7	136.1	137.6	137.0	131.8	131.8	134.4	138.0
13	Change	5.6%	7.1%	6.1%	3.8%	-3.8%	0.0%	2.0%	2.6%
	Financial Markets								
14	30-Year T-Bond Rate	4.4%	4.9%	4.8%	4.3%	4.0%	4.6%	5.1%	5.7%
15	3 Month T-Bond Rate	3.2%	4.9%	4.5%	1.4%	0.3%	1.0%	2.5%	4.0%
16	Prime Rate	6.2%	8.0%	8.1%	5.1%	3.3%	3.9%	5.6%	7.4%
17	Federal Fund Rate	3.2%	5.0%	5.0%	1.9%	0.1%	0.9%	2.6%	4.4%
	Price Variables								
18	Consumer Price Index (1982-84=100)	195.3	201.6	207.3	215.2	214.4	218.3	222.8	228.0
19	Change	3.4%	3.2%	2.9%	3.8%	-0.4%	1.8%	2.1%	2.3%
20	Producer Price Index (1982=100)	155.7	160.4	166.6	177.2	171.3	175.5	179.8	184.1
21	Change	4.9%	3.0%	3.9%	6.3%	-3.3%	2.5%	2.5%	2.4%
	Other Key Indicators								
22	Industrial Production Index (1996=100)	107.2	109.7	111.3	108.8	97.3	100.4	107.5	114.4
23	Change	3.3%	2.3%	1.5%	-2.2%	-10.6%	3.2%	7.1%	6.4%
24	Corporate Profits After Tax (Billions)	$1,034.2	$1,199.6	$1,192.0	$1,109.9	$984.2	$1,013.9	$1,078.8	$1,139.0
25	Change	11.9%	16.0%	-0.6%	-6.9%	-11.3%	3.0%	6.4%	5.6%
26	Housing Starts (Millions)	2.068	1.801	1.355	0.906	0.520	0.710	0.991	1.279
27	Change	5.8%	-12.9%	-24.8%	-33.2%	-42.6%	36.5%	39.6%	29.1%

GOVERNOR'S REVENUE FORECAST ADVISORY COMMITTEE

The Governor's Office of State Planning and Budgeting would like to thank the following individuals that provided valuable feedback on key national and Colorado-specific economic indices included in this forecast. All of these individuals possess expertise in a number of economic and financial disciplines and were extremely generous of their time and knowledge.

- Elizabeth Garner – State Demographer, Colorado Department of Local Affairs
- Alexandra Hall – Labor Market Information Director, Colorado Department of Labor and Employment
- James Jacobs – Consultant
- David McDermott – State Controller, Department of Personnel and Administration
- Ronald New – Vice President, Stifel Nicolaus
- Patricia Silverstein – President, Development Research Partners
- Richard Wobbekind – Associate Dean, Leeds School of Business; University of Colorado, Boulder

The Governor's Office of State Planning and Budgeting would also like to thank the following individuals who helped with the maintenance and modification of OSPB's Colorado economic and revenue models:

- Seoung Chung
- John Cuddington
- Daniel Jerrett
- Robert McNown