

State of Colorado



Bill Owens
Governor

Troy A. Eid
Executive Director

Paul Farley
Deputy Executive Director

Richard Pennington
Division Director

Arthur L. Barnhart
State Controller

DPA

**Department of Personnel
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January 31, 2003

The Honorable Bill Owens
Governor
136 State Capitol Building
Denver, Colorado 80203

Dear Governor Owens:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the six-month period ended December 31, 2002. This Quarterly Financial Report summarizes activity in the General Fund and the Capital Construction Fund.

The attached Exhibit A provides a *Balance Sheet* for the Unrestricted General Fund and Capital Construction Fund at December 31, 2002. Several factors that contribute to the \$1,147.1 million deficit total fund equity are discussed in Exhibit B below. When four percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$1,387.8 million. This compares to the unreserved fund balance deficit of \$1,350.0 million at December 31, 2001. However, the December 31, 2001 deficit was largely the result of the delayed recognition of the Fiscal Year 2000-01 \$927.2 million TABOR refund liability as required by House Bill 98-1414. While there is no TABOR refund liability in Fiscal Year 2002-03, the current year deficit is comparable in size because of revenue shortfalls and the structural budget imbalance made possible by House Bill 98-1414. In Fiscal Year 2001-02, the deficit was addressed by reserve spending and by \$726.1 million of one-time transfers from cash funds. Except for the \$130.6 million net transfer back to the cash funds, those monies are unavailable to address the current deficit. The General Fund is normally in deficit at this time of year because of the legal requirement for the Department of Education to transfer nine months of public school moneys by the end of the second quarter. However, the additional three months of public school moneys accounts for less than \$700 million of the deficit.

While the fund balance deficit is significant, the trend in the General Fund cash deficit may be more serious. The state's current General Fund cash position (defined here as the Liability to Pooled Cash plus State Treasurer's short-term borrowing payable at June 27, 2003, reduced by investments available for liquidation) is \$1,688.5 in deficit. The state's General Fund deficit cash position was \$911.2 million and \$322.4 million at December 31, 2001, and 2000, respectively. Although there will be no outflow for TABOR refunds this year, the State Treasurer anticipates a General Fund cash deficit at fiscal year end even

after the Governor's proposed ten percent reduction in General Fund expenditures. The ability to repay the Treasurer's short-term borrowing at fiscal year end is contingent on the availability of borrowable resources in the Treasurer's cash and investment pool, which includes certain cash fund resources. The state's General Fund cash position continues to deteriorate due to expenditures in excess of revenues. As a result, more of the state's borrowable resources will have to be used to repay the Treasurer's General Fund borrowing. If the balance between expenditures and revenues is not corrected, the state will eventually use up the cash in its borrowable resources. Unfortunately changes in budgetary policies, such as, delaying recognition of accrued payroll liabilities, Medicaid payables, or tax refunds payable, do not beneficially affect the state's ongoing cash position. In addition, while transfers from cash funds benefit the General Fund fund balance, they consume borrowable resources, and therefore, do not benefit the state's overall cash position. Continued pressure on the state's cash position could result in the state being unable to meet its obligations.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the six-month period ended December 31, 2002. The Current Estimate/Budget column reflects the most recent OSPB estimate of revenues on the modified accrual basis for the fiscal year and appropriations and transfers currently in law. Departments recorded \$86.1 million and \$56.1 million of general fund budget restrictions at December 31, 2002, and 2001 respectively, and are in the process of recording the balance of the Governor's proposed ten percent restrictions. Because the Fiscal Year 2002-03 restrictions recorded at December 31, 2002, do not reflect the Governor's entire proposed reductions, no restrictions on departmental budgets are reported in the departmental budget amounts. The ten percent restriction is reflected as part of the \$852.2 million shown in the line item titled Appropriation Reductions Needed to Meet the Required Statutory Reserve. An additional \$20.1 million revenue shortfall reported on the December Year-to-Date Revenue Summary Report is not yet reflected in the Current Revenue Estimate and is therefore also not reflected in the \$852.2 million amount.

At the end of the second quarter, actual general-purpose revenues were \$2,655.1 million, which is 47.9 percent of the annual estimate. Departmental expenditures of the General Fund through the second quarter were 61.9 percent of current appropriations. This compares with the prior year figure of 60.2 percent of appropriations at December 31, 2001. The primary reason for spending more than 50 percent for the second quarter is the legal requirement to transfer nine months of public school moneys totaling \$1,849.2 million from the General Fund to the Public School Fund by December 31. At the end of the second quarter, eight departments have spent in excess of 50 percent of their unrestricted budgets while eleven departments have spent less than 50 percent. However, only three departments have spent 45 percent or less of their unrestricted budgets that would be expected in order to meet the Governor's proposed ten percent reduction.

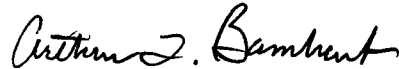
Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the six-month period ended December 31, 2002. Consistent with our normal reporting practice, the estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. It is anticipated that expenditures will be reduced to prevent a deficit fund balance. Expenditures of the Capital Construction Fund are expected to be less than outstanding appropriations because of the multi-year nature of the appropriations compared to current fiscal year

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expenditures. This timing difference between the revenues and expenditures, inherent in the multi-year appropriations process, causes a large variance between the estimated and the actual fund balance.

Based on review of the attached financial reports and agency comments, I have presented the financial issues that I believe are significant to the state. Questions concerning this report should be directed to my office.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Arthur L. Barnhart".

Arthur L. Barnhart
State Controller

Attachments

cc: Troy A. Eid, DPA
Nancy McCallin, OSPB
John Ziegler, JBC

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BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
DECEMBER 31, 2002

(DOLLARS IN THOUSANDS)	UNRESTRICTED	
	GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Cash Equivalents	\$ -	\$ 120,685
Taxes Receivable, net	735,780	-
Other Receivables, net	57,427	112
Intrafund Receivables	10,990	1,424
Due From Other Governments	459,556	6,476
Due From Other Funds	1,854	1,274
Inventories	5,794	-
Prepays, Advances, and Deferred Charges	63,173	3,979
Investments	400,138	-
Other Long-Term Assets	320	180
TOTAL ASSETS	\$ 1,735,032	\$ 134,164
LIABILITIES		
Liability to Pooled Cash	\$ 1,073,561	\$ -
Tax Refunds Payable	382,566	-
Accounts Payable and Accrued Liabilities	280,650	13,519
Due To Other Governments	30,476	-
Due To Other Funds	35,062	1,841
Intrafund Payables	835	-
Deferred Revenue	63,708	(276)
Other Current Liabilities	1,015,034	-
Deposits Held in Custody for Others	30	-
Other Long-Term Liabilities	205	-
TOTAL LIABILITIES	2,882,127	15,084
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	81,190
Other Specific Purposes		3,255
Long-Term Assets and Loans Receivable	320	180
Statutory Reserve	240,400	-
Unreserved:		
Designated	-	34,455
Undesignated	(1,387,815)	-
TOTAL FUND EQUITY	(1,147,095)	119,080
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,735,032	\$ 134,164

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2002**

(DOLLARS IN THOUSANDS)		CURRENT ESTIMATE/ RESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
Sales and Use Tax	\$	1,826,200	\$	910,789
Other Excise Taxes		98,800		48,609
Individual Income Tax, net		3,083,300		1,483,989
Corporate Income Tax, net		223,500		64,662
Estate Tax		46,200		34,799
Insurance Tax		150,500		71,858
Parimutuel, Courts, and Other		53,000		29,543
Interest Earnings		17,500		5,477
Gaming		38,700		-
Medicaid Transfer		10,700		5,336
TOTAL GENERAL PURPOSE REVENUES		5,548,400	2,655,062	47.9%
EXPENDITURES:				
Agriculture		10,618		5,589
Corrections		495,575		235,180
Education		2,407,933		1,991,767
Governor		20,420		11,066
Health Care Policy and Financing		1,181,443		552,991
Higher Education		797,861		453,393
Human Services		548,117		255,091
Judicial Branch		228,144		106,954
Law		9,682		4,176
Legislative Branch		33,194		13,994
Local Affairs		9,735		4,416
Military Affairs		4,873		2,347
Natural Resources		28,603		16,382
Personnel and Administration		14,758		7,648
Public Health and Environment		21,610		11,121
Public Safety		59,523		27,709
Regulatory Agencies		2,068		1,041
Revenue		189,721		80,601
Treasury		92,532		29,743
SUBTOTAL DEPARTMENTAL EXPENDITURES		6,156,410	3,811,209	61.9%
Appropriation to Capital Construction Fund		10,657		10,657
Appropriation Reductions Needed to Meet the Required Statutory Reserve		(852,167)		
TOTAL GENERAL FUNDED EXPENDITURES		5,314,900	3,821,866	
EXCESS GENERAL REVENUES OVER (UNDER)				
GENERAL FUNDED EXPENDITURES		233,500		(1,166,804)
EXCESS AUGMENTING REVENUES		-	11,592	
TRANSFERS:				
Transfer from Cash Funds to General Fund		219,000		219,015
Transfers from General Fund to Repay Cash Funds		(349,600)		(349,605)
TOTAL TRANSFERS		(130,600)	(130,591)	
BEGINNING UNRESERVED FUND BALANCE		137,500	137,595	
Deduct the GAAP Expenditures Not Budgeted				(152)
Add GAAP Revenue Adjustments				135
(Additions) Deductions to the Statutory Four Percent Reserve		(240,400)		(240,400)
Prior Period Adjustment				810
ENDING UNRESERVED FUND BALANCE	\$	0	\$	(1,387,815)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE SIX MONTHS ENDED DECEMBER 31, 2002**

(DOLLARS IN THOUSANDS)	CURRENT ESTIMATE/ BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 10,657	\$ 10,657	
Interest Earnings	5,200	3,412	
TOTAL CAPITAL CONSTRUCTION REVENUES	15,857	14,069	88.7%
EXPENDITURES:			
Agriculture	1,553	323	
Corrections	19,023	3,063	
Education	1,292	504	
Governor	1,100	275	
Health Care Policy and Financing	3,718	-	
Higher Education	94,368	36,861	
Human Services	13,889	3,611	
Judicial Branch	960	59	
Law	83	66	
Local Affairs	497	174	
Military Affairs	1,431	436	
Natural Resources	765	765	
Personnel	19,228	6,721	
Public Health and Environment	4,099	978	
Public Safety	6,009	1,838	
Revenue	282	-	
Transportation	5,071	1,312	
Intrafund Transfer-Out	1,168	1,168	
NET EXPENDITURES AND AUGMENTING REVENUES	174,536	58,154	33.3%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(158,679)	(44,085)	
EXCESS AUGMENTING REVENUES	-	16,480	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	43,029	43,029	
Add Budgeted Non-GAAP Expenditures	-	-	
Deduct the GAAP Expenditures Not Budgeted	-	(15,126)	
(Additions) Deductions to Reserve for Encumbrances	115,347	34,157	
(Additions) Deductions to Reserve for Other Specific Purposes	-	-	
(Additions) Deductions to the Reserve for Long-Term Assets	-	-	
Prior Period Adjustment	-	-	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ (303)	\$ 34,455	