

State of Colorado



DPA

Department of Personnel
& Administration

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Bill Owens
Governor

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Richard Pennington
Division Director

Arthur L. Barnhart
State Controller

April 30, 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 nine-month period ended March 31, 2003. 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 March 31, 2003. Several factors that contribute to the \$930.2 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 \$1,149.0 million. This compares to the unreserved fund balance deficit of \$1,234.0 million at March 31, 2002. However, the March 31, 2002, 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. In Fiscal Year 2001-02, the deficit was addressed by reserve spending and by \$726.1 million of one-time transfers from cash funds. In the current year, \$351.5 million has already been transferred in to augment the General Fund; however, that amount is offset by \$349.6 million that was transferred out to repay a portion of the prior year transfers. The \$351.5 million transfer-in reported does not include \$150.0 million and \$20.0 million scheduled to be transferred to the General Fund on May 1, 2003, from the Major Medical and Subsequent Injury funds respectively.

The General Fund is normally in deficit at this time of year because of the legal requirement for the Department of Education to transfer twelve months of public school moneys by the end of the third quarter. However, the additional three months of public school moneys accounts for less than \$330 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 \$1,553.3 in deficit. The state's General Fund deficit cash position was \$1,208.6 million and \$739.2 million at March 31, 2002, and 2001, respectively. Although there will be no significant outflow for TABOR refunds this year, the State Treasurer anticipates a General Fund cash deficit at fiscal year end even after the supplemental budget reductions passed by the Legislature.

The current revenue estimate anticipates \$1,590.3 million of cash and accrued revenue for the remainder of the fiscal year. If no expenditures were made in the final three periods of the year, nearly the entire expected revenue would be required to pay off the current General Fund cash deficit. Since, expenditures will certainly occur in the final quarter, the ability to repay the Treasurer's short-term borrowing at fiscal year end is reliant on the availability of borrowable resources in the Treasurer's cash and investment pool, which includes certain cash fund resources. The State Treasurer currently anticipates adequate borrowable resources to repay the current short-term borrowing; however, it is expected that next year's cash-management borrowings will be constrained by lack of borrowable resources. The state's General Fund cash position continues to deteriorate due to expenditures in excess of revenues. Refinancing of General Fund expenditures (as cash fund expenditures) and transfers from cash funds to the General Fund are consuming borrowable resources at a significant rate. If the balance between expenditures and revenues is not corrected, the state will use up the cash in its borrowable resources.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the nine-month period ended March 31, 2003. The Current Annual Estimate/Restricted 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. The line item titled Appropriation Reductions Needed to Meet the Required Statutory Reserve shows that an additional \$125.5 million reduction in expenditures is needed to preserve the \$218.5 million four percent reserve. The \$125.5 million differs from the \$101.1 million reported by OSPB in the March 2003 Revenue Forecast because not all spending reductions anticipated in the forecast were recorded by the March 31 accounting system close. An additional \$4.2 million revenue shortfall reported on the March Year-to-Date Revenue Summary Report is not yet reflected in the Current Annual Estimate and is therefore also not reflected in the \$125.5 million amount.

At the end of the third quarter, actual general-purpose revenues were \$3,880.9 million, which is 70.9 percent of the annual estimate. Departmental expenditures of the General Fund through the third quarter were 87.7 percent of current appropriations. This compares with the prior year figure of 84.2 percent of appropriations at March 31, 2002. With the shifting of the June payroll date to July 1, departments should be expected to have spent less than 82 percent of the restricted budget. The primary reason for spending more than 82 percent for the third quarter is the legal requirement to transfer twelve months of public school moneys totaling \$2,179.1 million from the General Fund to the Public School Fund by March 31. At the end of the third quarter, six departments have spent in excess of 82 percent of their unrestricted budgets while thirteen departments have spent less than 82 percent.

Exhibit C is a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - Regular Capital Construction Fund - Budget and Actual* for the nine-month period ended March 31, 2003. The estimated expenditures of the Capital Construction Fund reflect

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budget restrictions. Actual 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 expenditures.

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

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
MARCH 31, 2003

(DOLLARS IN THOUSANDS)	UNRESTRICTED	
	GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Cash Equivalents	\$ -	\$ 73,912
Taxes Receivable, net	735,750	-
Other Receivables, net	64,417	112
Intrafund Receivables	12,239	2,190
Due From Other Governments	525,631	9,054
Due From Other Funds	1,263	1,240
Inventories	5,799	-
Prepays, Advances, and Deferred Charges	51,005	4,728
Investments	376,512	-
Other Long-Term Assets	320	180
TOTAL ASSETS	\$ 1,772,936	\$ 91,416
LIABILITIES		
Liability to Pooled Cash	\$ 914,176	\$ -
Tax Refunds Payable	382,566	-
Accounts Payable and Accrued Liabilities	295,338	19,868
Due To Other Governments	27,039	-
Due To Other Funds	5,040	518
Intrafund Payables	746	-
Deferred Revenue	62,315	3,183
Other Current Liabilities	1,015,673	-
Deposits Held in Custody for Others	29	-
Other Long-Term Liabilities	205	-
TOTAL LIABILITIES	2,703,127	23,569
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	57,223
Other Specific Purposes		3,255
Long-Term Assets and Loans Receivable	320	180
Statutory Reserve	218,500	-
Unreserved:		
Designated	-	7,189
Undesignated	(1,149,011)	-
TOTAL FUND EQUITY	(930,191)	67,847
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,772,936	\$ 91,416

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2003**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
Sales and Use Tax	\$	1,836,800	\$	1,366,511
Other Excise Taxes		98,800		71,805
Individual Income Tax, net		3,027,200		2,119,246
Corporate Income Tax, net		173,100		87,588
Estate Tax		55,400		47,105
Insurance Tax		156,100		131,716
Parimutuel, Courts, and Other		52,400		43,088
Interest Earnings		11,200		6,719
Gaming		40,200		-
Medicaid Transfer		20,000		7,115
TOTAL GENERAL PURPOSE REVENUES		5,471,200	3,880,893	70.9%
EXPENDITURES:				
Agriculture		8,299		6,898
Corrections		453,769		351,069
Education		2,353,052		2,344,924
Governor		34,209		18,732
Health Care Policy and Financing		1,042,981		840,537
Higher Education		689,829		582,183
Human Services		459,361		370,334
Judicial Branch		188,412		159,063
Law		8,076		6,035
Legislative Branch		28,601		20,599
Local Affairs		7,475		5,213
Military Affairs		4,177		3,180
Natural Resources		26,267		20,053
Personnel and Administration		12,052		10,317
Public Health and Environment		16,271		14,332
Public Safety		53,717		41,163
Regulatory Agencies		1,499		1,211
Revenue		175,888		133,684
Treasury		92,012		29,554
SUBTOTAL DEPARTMENTAL EXPENDITURES		5,655,947	4,959,081	87.7%
Appropriation to Capital Construction Fund		10,657		9,489
Appropriation Reductions Needed to Meet the Required Statutory Reserve		(125,509)		
TOTAL GENERAL FUNDED EXPENDITURES		5,541,095	4,968,570	
EXCESS GENERAL REVENUES OVER (UNDER)				
GENERAL FUNDED EXPENDITURES		(69,895)		(1,087,677)
EXCESS AUGMENTING REVENUES				
		-		16,913
TRANSFERS:				
Transfers from Cash Funds to General Fund		500,400		351,470
Transfers from General Fund to Repay Cash Funds		(349,600)		(349,605)
TOTAL TRANSFERS		150,800		1,865
BEGINNING UNRESERVED FUND BALANCE				
Add Budgeted Non-GAAP Expenditures		-		2
Balance Carried Forward from Prior Period				(522)

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2003**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ RESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 10,657	\$ 9,489	
Interest Earnings	5,200	4,220	
TOTAL CAPITAL CONSTRUCTION REVENUES	15,857	13,709	86.5%
EXPENDITURES:			
Agriculture	875	347	
Corrections	12,638	4,337	
Education	629	519	
Governor	747	332	
Health Care Policy and Financing	3,718	-	
Higher Education	72,296	45,727	
Human Services	11,320	4,611	
Judicial Branch	964	263	
Law	83	75	
Local Affairs	497	192	
Military Affairs	688	639	
Natural Resources	765	765	
Personnel	15,988	9,591	
Public Health and Environment	4,099	1,583	
Public Safety	6,009	3,469	
Revenue	76	5	
Transportation	5,071	1,477	
Intrafund Transfer-Out	30,645	29,476	
NET EXPENDITURES AND AUGMENTING REVENUES	167,108	103,408	61.9%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(151,251)	(89,699)	
EXCESS AUGMENTING REVENUES	-	10,861	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	43,029	43,029	
Previously Expended for Budgetary Purposes	-	(15,126)	
(Additions) Deductions to Reserve for Encumbrances	115,347	58,124	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 7,125	\$ 7,189	