

State of Colorado



Bill Ritter, Jr.
Governor

Rich Gonzales
Executive Director

Jennifer Okes
Deputy Executive Director

Leslie M. Shenefelt
State Controller

DPA

Department of Personnel
& Administration

Office of the State Controller
633 17th Street, Suite 1500
Denver, Colorado 80202
Phone (303) 866-6200
Fax (303) 866-4233
www.colorado.gov/dpa

October 31, 2007

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

Dear Governor Ritter:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the three-month period ended September 30, 2007. 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 September 30, 2007. Factors that contribute to the General Fund \$724.0 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When four percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$1,007.6 million. This compares to the unreserved fund balance deficit of \$765.2 million at September 30, 2006.

The General Fund is normally in deficit at this time of year because income taxes are disproportionately recorded in the final quarter of the fiscal year and because of the legal requirement for the Department of Education to transfer six months of public school moneys by the end of the first quarter. This transfer caused approximately \$706.1 million of the \$1,007.6 million unreserved fund balance deficit.

The cash position of the General Fund has declined significantly as compared to September 30, 2006. The state's current General Fund cash position (defined here as the Liability to Pooled Cash plus the State Treasurer's short-term borrowing payable in June 2008, reduced by investments available for liquidation) is \$1,210.0 million in deficit. Approximately \$180 million of this deficit is related to accelerated disbursements (as compared to prior years) from the General Fund by the Departments of Education and Higher Education. The state's General Fund deficit cash position was \$862.5 million, \$786.6 million, and \$750.2 million at September 30, 2006, 2005, and 2004, respectively. This trend in the cash balance is concerning because the cash deficit would likely worsen in the event of an economic downturn. The cash deficit is partly due to lower beginning cash balances related to recurring year-end General Fund Surplus transfers. In effect these transfers have reduced the liquidity of the General Fund. The General Fund reserve increasingly comprises tax and other receivables of unpredictable liquidity. The General Fund has access to the cash balance of various cash funds, and therefore, the state's overall cash position should also be considered using the definition of borrowable resources, which currently shows available cash resources in excess of \$2,330.8 million (\$2,394.2 million at September 30, 2006). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$496.3 million) increased significantly over the September 30, 2006, balance (\$350.5 million). The Fiscal Year 2005-06 balance at September 30, 2006 was low because large transfers were made late in Fiscal Year 2005-06. In addition,

Governor Bill Ritter
Page 2 of 2
October 31, 2007

Fiscal Year 2007-08 appropriated transfers from the General Fund and General Fund Surplus transfers as required by CRS 24-75-218 were made early in Fiscal Year 2006-07 but have not yet been expended. The Capital Construction Fund also has increased interest earnings related to the larger cash balances.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the three-month period ended September 30, 2007. The Current Annual Estimate/Unrestricted 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 without consideration of restrictions. Actual revenues reported on the September Year-to-Date Revenue Summary Report were more than the estimate by \$16.2 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved fund balance. However, the \$16.2 million revenue excess is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$5.5 million) is primarily related to the rollforward of prior year appropriations that are being expended in the current year.

At the end of the first quarter, actual general-purpose revenues were \$1,781.8 million, which is 23.6 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2006-07 into Fiscal Year 2007-08 and the accelerated transfers to the Public School Fund, it is not practicable to assess whether departmental spending rates are consistent with a quarterly allocation of appropriations. However, similar expenditure deferrals and accelerated transfers existed in Fiscal Year 2006-07. Departmental expenditures of the General Fund at the first quarter of the current fiscal year were 37.8 percent of current appropriations, which compares with the prior year figure of 35.4 percent of appropriations at September 30, 2006. In compliance with statutory requirements to report Medicaid expenditures on the cash basis, the Department of Health Care Policy and Financing is not required to prepare an accrual of Medicaid costs.

Exhibit C is a *Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance - Funded By General Purpose Revenue - Budget and Actual - Capital Construction Fund* for the three-month period ended September 30, 2007. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$130.3 million or 87.7 percent of the estimate. Actual expenditures of the Capital Construction Fund in each year are expected to be significantly less than outstanding appropriations because of the multi-year nature of the appropriations as compared to current fiscal year expenditures. The \$249.1 million unreserved fund balance has been reduced by \$247.1 million of encumbrances that are legal commitments of cash and federally funded projects (\$132.6 million), as well as general funded projects (\$114.5 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at September 30, 2007.

Based on a review of the attached financial reports and state 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,



Leslie M. Shenefelt
State Controller

Attachments

cc: Rich Gonzales, DPA
Todd Saliman, OSPB
John Ziegler, JBC
Website

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
SEPTEMBER 30, 2007

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 511,698
Taxes Receivable, net	1,032,063	-
Other Receivables, net	46,217	1,889
Intrafund Receivables	15,083	-
Due From Other Governments	141,170	2,315
Due From Other Funds	3,396	3,223
Inventories	3,267	-
Prepays, Advances, and Deferred Charges	24,798	1,147
Investments	4,533	-
Other Long-Term Assets	11	139
TOTAL ASSETS	\$ 1,270,538	\$ 520,411
LIABILITIES		
Liability to Pooled Cash	\$ 711,892	\$ -
Tax Refunds Payable	471,803	-
Accounts Payable and Accrued Liabilities	128,368	13,635
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	43,277	-
Due To Other Funds	1,708	4,446
Intrafund Payables	45	-
Deferred Revenue	132,878	6,033
Other Current Liabilities	503,804	-
Deposits Held in Custody for Others	96	2
Capital Lease Obligations	-	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	1,994,584	24,116
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	247,062
Long-Term Assets and Loans Receivable	11	139
Statutory Reserve	283,500	-
Unreserved:		
Designated	-	249,094
Undesignated	(1,007,557)	-
TOTAL FUND EQUITY	(724,046)	496,295
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,270,538	\$ 520,411

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,088,900	\$551,280	
Other Excise Taxes	91,800	24,056	
Individual Income Tax, net	4,640,700	1,026,217	
Corporate Income Tax, net	460,900	115,046	
Estate Tax	500	5	
Insurance Tax	186,600	44,945	
Parimutuel, Courts, and Other	51,700	11,743	
Investment Earnings	28,800	8,502	
TOTAL GENERAL PURPOSE REVENUES	7,549,800	1,781,794	23.6%
EXPENDITURES:			
Agriculture	7,414	2,451	
Corrections	636,588	183,841	
Education	3,064,216	1,570,089	
Governor	12,606	5,392	
Health Care Policy and Financing	1,427,876	337,872	
Higher Education	746,554	288,643	
Human Services	647,336	177,714	
Judicial Branch	297,822	96,703	
Law	9,549	2,618	
Legislative Branch	32,948	8,965	
Local Affairs	11,568	1,409	
Military Affairs	5,521	1,434	
Natural Resources	30,345	10,948	
Personnel and Administration	10,657	3,847	
Public Health and Environment	24,104	5,409	
Public Safety	73,132	19,431	
Regulatory Agencies	1,417	475	
Revenue	184,025	55,294	
Treasury	121,126	1,660	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,344,804	2,774,195	37.8%
Difference Between Recorded and Estimated Appropriations	(5,504)	-	
TOTAL GENERAL FUNDED EXPENDITURES	7,339,300	2,774,195	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	210,500	(992,401)	
EXCESS AUGMENTING REVENUES		6,936	
TRANSFERS:			
Transfers from General Fund to Capital Construction	(47,000)	(45,887)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(269,700)	(242,702)	
TOTAL TRANSFERS	(316,700)	(288,589)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(106,200)	(1,274,054)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	269,700	270,087	
Add Budgeted Non-GAAP Expenditures		(10)	
Deduct the GAAP Expenditures Not Budgeted		986	
(Additions) Deductions to Reserve for Encumbrance		11,912	
(Additions) Deductions to the Long-Term Loan Reserve		2	
(Additions) Deductions to the Statutory Four Percent Reserve	(16,500)	(16,480)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 147,000	\$ (1,007,557)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2007**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 47,000	\$ 45,887	
Beginning General Fund Excess Reserve Transfer	89,900	80,901	
Interest Earnings	11,700	3,509	
TOTAL CAPITAL CONSTRUCTION REVENUES	148,600	130,297	87.7%
EXPENDITURES:			
Agriculture	3,744	1,485	
Corrections	69,156	4,216	
Education	2,104	719	
Governor	57	-	
Health Care Policy and Financing	112	-	
Higher Education	173,588	13,970	
Human Services	68,833	8,134	
Judicial Branch	834	15	
Military Affairs	4,321	51	
Natural Resources	1,140	1,140	
Personnel	12,492	621	
Public Health and Environment	2,960	290	
Public Safety	10,206	290	
Revenue	9,428	327	
Transportation	45,000	-	
Intrafund Transfer-Out	4,128	4,128	
NET EXPENDITURES AND AUGMENTING REVENUES	408,103	35,386	8.7%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(259,503)	94,911	
EXCESS AUGMENTING REVENUES		5,364	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	199,126	199,126	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	192,635	192,635	
(Additions) Deductions to Reserve for Encumbrances - General Funded		(114,505)	
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded		(132,557)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	4,120	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 132,258	\$ 249,094	