

State of Colorado



Bill Ritter, Jr.
Governor

Rich Gonzales
Executive Director

Jennifer Okes
Deputy Executive Director

David J. McDermott
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

April 30, 2008

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 nine-month period ended March 31, 2008. 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, 2008. Factors that contribute to the General Fund \$1,044.1 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 \$1,327.6 million. This compares to the unreserved fund balance deficit of \$1,216.5 million at March 31, 2007.

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 twelve months of public school moneys by the end of the third quarter. This transfer caused approximately \$706.1 million of the \$1,327.6 million unreserved fund balance deficit.

The cash position of the General Fund has declined significantly as compared to March 31, 2007. 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 \$1,448.7 million in deficit. The state's General Fund deficit cash position was \$1,262.7 million, \$1,107.3 million, and \$846.1 million at March 31, 2007, 2006, and 2005, respectively. The 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 must also be considered using the definition of borrowable resources, which currently shows available cash resources in excess of \$1,970.8 million (\$1,827.8 million at March 31, 2007). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$413.4 million) increased significantly over the March 31, 2007, balance (\$344.8 million). The increase is primarily related to the General Fund Surplus transfers required by CRS 24-75-218 and interest earnings on a growing cash balance in the Fund.

Governor Bill Ritter
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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, 2008. 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 March Year-to-Date Revenue Summary Report were less than the estimate by \$8.1 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 \$8.1 million revenue shortfall is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$16.5 million) is primarily related to the rollforward of prior year appropriations that are being expended in the current year.

At the end of the third quarter, actual general-purpose revenues were \$5,068.0 million, which is 67.3 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 occurred in Fiscal Year 2006-07. Departmental expenditures of the General Fund at the third quarter of the current fiscal year were 86.4 percent of current appropriations, which compares with the prior year figure of 84.8 percent of appropriations at March 31, 2007. 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 nine-month period ended March 31, 2008. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$144.7 million or 95.0 percent of the estimate. The revenue estimate for the Capital Construction Fund reflects current law and therefore does not include HB08-1376, which would transfer \$45.9 million from the General Fund to the Capital Construction Fund; this bill had not been signed or enacted as of the third quarter. Also, the estimate does not include a request from your office to the Capital Development Committee for an additional \$73.8 million transfer from the General Fund to the Capital Construction Fund as reflected in the March 20, 2008 Economic Perspective. 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 \$172.7 million unreserved fund balance has been reduced by \$240.5 million of encumbrances that are legal commitments of cash and federally funded projects (\$112.5 million), as well as general funded projects (\$128.0 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at March 31, 2008.

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,



David J. McDermott
State Controller

Attachments

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

BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
MARCH 31, 2008

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 428,077
Taxes Receivable, net	1,031,981	-
Other Receivables, net	48,082	2,333
Intrafund Receivables	20,886	-
Due From Other Governments	125,693	1,303
Due From Other Funds	2,832	6,219
Inventories	3,436	-
Prepays, Advances, and Deferred Charges	29,528	916
Investments	4,291	-
Other Long-Term Assets	5	139
TOTAL ASSETS	\$ 1,266,734	\$ 438,987
LIABILITIES		
Liability to Pooled Cash	\$ 950,371	\$ -
Tax Refunds Payable	471,803	-
Accounts Payable and Accrued Liabilities	195,050	20,454
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	44,883	-
Due To Other Funds	1,711	638
Intrafund Payables	244	-
Deferred Revenue	139,842	4,495
Other Current Liabilities	505,022	-
Deposits Held in Custody for Others	1,202	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	2,310,841	25,587
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	240,529
Long-Term Assets and Loans Receivable	5	139
Statutory Reserve	283,500	-
Unreserved:		
Designated	-	172,732
Undesignated	(1,327,612)	-
TOTAL FUND EQUITY	(1,044,107)	413,400
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,266,734	\$ 438,987

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2008**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,161,500	\$1,574,613	
Other Excise Taxes	92,500	69,398	
Individual Income Tax, net	4,562,700	2,963,452	
Corporate Income Tax, net	441,300	266,803	
Estate Tax	500	175	
Insurance Tax	190,200	147,144	
Parimutuel, Courts, and Other	51,600	35,084	
Investment Earnings	28,400	11,331	
TOTAL GENERAL PURPOSE REVENUES	7,528,600	5,068,000	67.3%
EXPENDITURES:			
Agriculture	7,326	5,550	
Corrections	625,021	488,928	
Education	3,064,240	3,044,103	
Governor	12,626	10,340	
Health Care Policy and Financing	1,440,061	1,105,565	
Higher Education	746,690	645,210	
Human Services	654,381	517,226	
Judicial Branch	298,918	243,064	
Labor and Employment	-	-	
Law	9,355	6,560	
Legislative Branch	33,074	24,575	
Local Affairs	11,532	8,231	
Military Affairs	5,519	4,284	
Natural Resources	30,267	24,757	
Personnel and Administration	11,518	8,749	
Public Health and Environment	24,122	16,558	
Public Safety	73,271	54,755	
Regulatory Agencies	1,414	1,294	
Revenue	185,017	139,061	
Treasury	127,355	8,904	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,361,707	6,357,714	86.4%
Difference Between Recorded and Estimated Appropriations	(16,507)	-	
TOTAL GENERAL FUNDED EXPENDITURES	7,345,200	6,357,714	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	183,400	(1,289,714)	
EXCESS AUGMENTING REVENUES		12,592	
TRANSFERS:			
Transfers from General Fund to Capital Construction	(166,900)	(45,887)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(249,300)	(249,273)	
TOTAL TRANSFERS	(416,200)	(295,160)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(232,800)	(1,572,282)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	249,300	249,273	
Deduct the GAAP Expenditures Not Budgeted		(1,057)	
Add GAAP Revenue Adjustments		1,031	
(Additions) Deductions to Reserve for Encumbrance		11,912	
(Additions) Deductions to the Long-Term Loan Reserve		8	
(Additions) Deductions to the Statutory Four Percent Reserve	(16,500)	(16,480)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 0	\$ (1,327,612)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2008**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		PERCENT OF ESTIMATE
		ACTUAL	
REVENUES:			
General Fund Transfer-In	\$ 47,200	\$ 45,887	
Beginning General Fund Excess Reserve Transfer	83,100	83,092	
Interest Earnings	22,000	15,740	
TOTAL CAPITAL CONSTRUCTION REVENUES	152,300	144,719	95.0%
EXPENDITURES:			
Agriculture	3,744	1,490	
Corrections	69,156	13,129	
Education	2,104	821	
Governor	16	1	
Health Care Policy and Financing	112	-	
Higher Education	190,489	59,855	
Human Services	70,520	30,167	
Judicial Branch	758	274	
Labor and Employment	-	283	
Military Affairs	5,259	574	
Natural Resources	1,140	1,140	
Personnel	14,381	2,585	
Public Health and Environment	2,960	1,135	
Public Safety	10,206	807	
Revenue	18,998	7,418	
Transportation	45,000	8,285	
Intrafund Transfer-Out	3,002	3,002	
NET EXPENDITURES AND AUGMENTING REVENUES	437,845	130,966	29.9%
EXCESS GENERAL REVENUES OVER (UNDER)			
NET CAPITAL CONSTRUCTION EXPENDITURES	(285,545)	13,753	
EXCESS AUGMENTING REVENUES		3,627	
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		(128,050)	
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded		(112,479)	
(Additions) Deductions to Reserve for Other Specific Purposes	-	4,120	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 106,216	\$ 172,732	