

# 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**

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October 31, 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 three-month period ended September 30, 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 September 30, 2008. Factors that contribute to the General Fund \$884.2 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 \$1,186.1 million. This compares to the unreserved fund balance deficit of \$1,007.6 million at September 30, 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 six months of public school moneys by the end of the first quarter. This transfer caused approximately \$739.2 million of the \$1,186.1 million unreserved fund balance deficit.

The cash position of the General Fund has declined as compared to September 30, 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 2009, reduced by investments available for liquidation) is \$1,268.1 million in deficit. The state's General Fund deficit cash position was \$1,210.0 million, \$862.5 million, and \$786.6 million at September 30, 2007, 2006, and 2005, 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 \$2,524.8 million (\$2,330.8 million at September 30, 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 (\$357.6 million) decreased from the September 30, 2007, balance (\$496.3 million). The decrease is the result of significantly lower appropriated transfers from the General Fund and General Fund Surplus transfers as required by CRS 24-75-218 in Fiscal Year 2008-09.

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 three-month period ended September 30, 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 estimated appropriations and transfers without consideration of restrictions. Actual revenues reported on the September Year-to-Date Revenue Summary Report were less than the estimate by \$18.7 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 \$18.7 million revenue shortfall is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$20.8 million) is primarily related to approximately \$25.7 million of FY2007-08 Medicaid overexpenditures that OSPB expects the General Assembly to approve as part of the FY2008-09 base budget.

At the end of the first quarter, actual general-purpose revenues were \$1,806.5 million, which is 23.0 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2007-08 into Fiscal Year 2008-09 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 2007-08. Departmental expenditures of the General Fund at the first quarter of the current fiscal year were 38.2 percent of current appropriations, which compares with the prior year figure of 37.8 percent of appropriations at September 30, 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 record an accrual of Medicaid costs at September 30, 2008.

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, 2008. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$41.1 million or 69.4 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. At September 30, 2008, state agencies had restricted approximately \$22.0 million of general-funded capital construction projects primarily related to the delay the Governor required in funding those projects. The \$113.8 million unreserved fund balance has been reduced by \$243.7 million of encumbrances that are legal commitments of cash and federally funded projects (\$94.8 million), as well as general funded projects (\$148.9 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at September 30, 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**  
**SEPTEMBER 30, 2008**

<b>(DOLLARS IN THOUSANDS)</b>	<b>UNRESTRICTED GENERAL FUND</b>	<b>CAPITAL CONSTRUCTION</b>
<b>ASSETS:</b>		
Cash and Pooled Cash	\$ -	\$ 385,041
Taxes Receivable, net	1,015,894	-
Other Receivables, net	56,330	-
Intrafund Receivables	26,019	-
Due From Other Governments	145,427	1,136
Due From Other Funds	3,464	1,606
Inventories	3,670	-
Prepays, Advances, and Deferred Charges	45,372	916
Investments	5,046	-
Other Long-Term Assets	1	130
<b>TOTAL ASSETS</b>	<b>\$ 1,301,223</b>	<b>\$ 388,829</b>
<b>LIABILITIES</b>		
Liability to Pooled Cash	\$ 918,814	\$ -
Tax Refunds Payable	552,690	-
Accounts Payable and Accrued Liabilities	201,346	27,309
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	24,621	-
Due To Other Funds	2,111	1,380
Intrafund Payables	181	-
Deferred Revenue	129,127	2,568
Other Current Liabilities	355,796	-
Deposits Held in Custody for Others	36	-
Other Long-Term Liabilities	7	-
<b>TOTAL LIABILITIES</b>	<b>2,185,435</b>	<b>31,257</b>
<b>FUND EQUITY:</b>		
Fund Balances:		
Reserved For:		
Encumbrances	-	243,659
Long-Term Assets and Loans Receivable	1	130
Statutory Reserve	301,900	-
Unreserved:		
Designated	-	113,783
Undesignated	(1,186,113)	-
<b>TOTAL FUND EQUITY</b>	<b>(884,212)</b>	<b>357,572</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$ 1,301,223</b>	<b>\$ 388,829</b>

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
UNRESERVED FUND BALANCE - GENERAL FUND  
BUDGET AND ACTUAL - BUDGETARY BASIS  
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008**

<b>(DOLLARS IN THOUSANDS)</b>	<b>CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET</b>	<b>ACTUAL</b>	<b>PERCENT OF ESTIMATE</b>
<b>REVENUES:</b>			
Sales and Use Tax	\$2,161,300	\$535,288	
Other Excise Taxes	93,100	25,141	
Individual Income Tax, net	4,854,800	1,079,337	
Corporate Income Tax, net	482,900	107,107	
Estate Tax	-	3	
Insurance Tax	190,500	42,310	
Parimutuel, Courts, and Other	46,500	11,766	
Investment Earnings	30,500	5,548	
<b>TOTAL GENERAL PURPOSE REVENUES</b>	<b>7,859,600</b>	<b>1,806,500</b>	<b>23.0%</b>
<b>EXPENDITURES:</b>			
Agriculture	7,696	2,702	
Corrections	679,982	207,030	
Education	3,175,369	1,635,114	
Governor	16,011	6,233	
Health Care Policy and Financing	1,531,507	379,423	
Higher Education	813,195	331,618	
Human Services	703,773	182,575	
Judicial Branch	327,715	112,147	
Labor and Employment	-	283	
Law	10,186	8,754	
Legislative Branch	35,026	9,297	
Local Affairs	12,778	1,817	
Military Affairs	5,855	1,687	
Natural Resources	32,103	12,408	
Personnel and Administration	6,439	2,851	
Public Health and Environment	26,834	6,362	
Public Safety	82,520	21,494	
Regulatory Agencies	1,579	585	
Revenue	187,872	48,689	
Treasury	126,359	1,227	
<b>SUBTOTAL DEPARTMENTAL EXPENDITURES</b>	<b>7,782,799</b>	<b>2,972,296</b>	<b>38.2%</b>
Difference Between Recorded and Estimated Appropriations	20,801		
<b>TOTAL GENERAL FUNDED EXPENDITURES</b>	<b>7,803,600</b>	<b>2,972,296</b>	
<b>EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES</b>	<b>56,000</b>	<b>(1,165,796)</b>	
<b>EXCESS AUGMENTING REVENUES</b>		<b>13,406</b>	
<b>TRANSFERS:</b>			
Net Transfers to/from the General Fund	(9,419)	(10,668)	
Transfers from General Fund to Repay Cash Funds	(2,281)	(2,281)	
Transfers from General Fund to Capital Construction	(25,900)	(24,914)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(41,900)	(37,702)	
<b>TOTAL TRANSFERS</b>	<b>(79,500)</b>	<b>(75,565)</b>	
<b>NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS</b>	<b>(23,500)</b>	<b>(1,227,955)</b>	
<b>BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>41,900</b>	<b>44,040</b>	
Deduct the GAAP Expenditures Not Budgeted		22	
(Additions) Deductions to Reserve for Encumbrance		16,162	
(Additions) Deductions to the Long-Term Loan Reserve		6	
(Additions) Deductions to the Statutory Four Percent Reserve	(18,400)	(18,388)	
<b>ENDING UNRESERVED FUND BALANCE - BUDGET BASIS</b>	<b>\$ (0)</b>	<b>\$ (1,186,113)</b>	

**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, 2008**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
General Fund Transfer-In	\$	25,900	\$	24,914
Beginning General Fund Excess Reserve Transfer		14,000		12,568
Interest Earnings		19,300		3,592
TOTAL CAPITAL CONSTRUCTION REVENUES		59,200	41,074	69.4%
EXPENDITURES:				
Agriculture		4,750		896
Corrections		61,209		6,893
Education		1,581		233
Higher Education		222,140		40,545
Human Services		40,818		8,950
Judicial Branch		473		-
Military Affairs		9,780		690
Natural Resources		911		911
Personnel		22,729		7,020
Public Health and Environment		1,400		526
Public Safety		10,006		301
Revenue		18,787		2,765
Transportation		28,950		5,101
Intrafund Transfer-Out		5,238		5,240
NET EXPENDITURES AND AUGMENTING REVENUES		428,772	80,071	18.7%
EXCESS GENERAL REVENUES OVER (UNDER)				
NET CAPITAL CONSTRUCTION EXPENDITURES		(369,572)		(38,997)
EXCESS AUGMENTING REVENUES			3,326	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS				
Release of the Beginning Reserve For Encumbrances - All Funding Sources		134,568		134,568
(Additions) Deductions to Reserve for Encumbrances - General Funded		255,101		255,101
(Additions) Deductions to Reserve for Encumbrances - Non-General Funded				(148,852)
(Additions) Deductions to Reserve for Other Specific Purposes				(94,807)
		-		3,444
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$	20,097	\$	113,783