

State of Colorado



Bill Ritter, Jr.
Governor

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Executive Director

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State Controller

DPA

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November 5, 2009

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, 2009. 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 \$1,125.7 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When two percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$1,261.8 million. This compares to the unreserved fund balance deficit of \$1,186.1 million at September 30, 2008.

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 \$769.1 million of the \$1,261.8 million unreserved fund balance deficit.

The cash position of the General Fund has declined as compared to September 30, 2008. 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 \$1,413.9 million in deficit. The state's General Fund deficit cash position was \$1,268.1 million, \$1,210.0 million, and \$862.5 million at September 30, 2008, 2007, and 2006, respectively. This trend in the cash balance is not unexpected but is concerning because the cash deficit will likely worsen as the economic downturn continues. As the cash balance declines, 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 \$2,458.2 million (\$2,524.8 million at September 30, 2008). However, moving those cash resources to the General Fund has been contentious in the past.

The Total Fund Equity of the Capital Construction Fund (\$114.5 million) decreased from the September 30, 2008, balance (\$357.6 million). The decrease is the result of spending on previously appropriated projects and significantly lower appropriated transfers from the General Fund. As required by SB09-278 there was no General Fund Surplus transfer in Fiscal Year 2009-10 as was previously required by CRS 24-75-218.

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, 2009. 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 \$136.4 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 \$136.4 million revenue shortfall is reflected in the actual unreserved fund balance deficit. The line item titled Difference Between Recorded and Estimated Appropriations (\$581.4 million) is the result of \$604.3 million of Governor's restrictions and refinancings that have not yet been fully recorded by Departments.

At the end of the first quarter, actual general-purpose revenues were \$1,628.9 million, which is 23.2 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2008-09 into Fiscal Year 2009-10 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 2008-09. Departmental expenditures of the General Fund at the first quarter of the current fiscal year were 38.0 percent of current appropriations, which compares with the prior year figure of 38.2 percent of appropriations at September 30, 2008. However, when the unrecorded Governor's restrictions are considered 41.1 percent of appropriations have been expended. 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, 2009.

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, 2009. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$2.9 million or 70.0 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 \$51.6 million unreserved fund balance deficit is a result of \$166.1 million of encumbrances that are legal commitments of cash and federally funded projects (\$122.1 million), as well as general funded projects (\$44.0 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at September 30, 2009.

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

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BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
SEPTEMBER 30, 2009

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 140,622
Taxes Receivable, net	1,007,489	-
Other Receivables, net	40,156	1,084
Intrafund Receivables	23,501	-
Due From Other Governments	187,762	204
Due From Other Funds	6,438	-
Inventories	3,036	-
Prepays, Advances, and Deferred Charges	40,595	817
Investments	4,284	-
Property, Plant and Equipment, net	-	152
Other Long-Term Assets	-	121
TOTAL ASSETS	\$ 1,313,261	\$ 143,000
LIABILITIES		
Liability to Pooled Cash	\$ 758,874	\$ -
Tax Refunds Payable	624,317	-
Accounts Payable and Accrued Liabilities	206,388	20,190
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	22,772	-
Due To Other Funds	4,608	6,690
Intrafund Payables	53	-
Deferred Revenue	164,913	939
Other Current Liabilities	656,228	670
Deposits Held in Custody for Others	67	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	2,438,933	28,489
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	166,138
Long-Term Assets and Loans Receivable	-	-
Statutory Reserve	136,100	-
Unreserved:		
Designated	-	(51,627)
Undesignated	(1,261,772)	-
TOTAL FUND EQUITY	(1,125,672)	114,511
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,313,261	\$ 143,000

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2009**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,066,000	\$525,447	
Other Excise Taxes	94,800	32,438	
Individual Income Tax, net	4,260,500	927,118	
Corporate Income Tax, net	334,500	82,117	
Estate Tax	-	23	
Insurance Tax	207,400	43,883	
Parimutuel, Courts, and Other	37,500	13,534	
Investment Earnings	15,300	4,354	
TOTAL GENERAL PURPOSE REVENUES	7,016,000	\$1,628,914	23.2%
EXPENDITURES:			
Agriculture	6,861	2,387	
Corrections	632,947	190,975	
Education	3,239,441	1,678,606	
Governor	14,288	6,595	
Health Care Policy and Financing	1,613,575	361,558	
Higher Education	662,012	243,732	
Human Services	671,273	168,504	
Judicial Branch	336,358	114,292	
Labor and Employment	-	42	
Law	10,367	2,688	
Legislative Branch	35,162	9,525	
Local Affairs	11,890	3,319	
Military Affairs	5,874	1,423	
Natural Resources	29,692	9,612	
Personnel and Administration	6,300	1,980	
Public Health and Environment	28,232	5,425	
Public Safety	83,263	32,796	
Regulatory Agencies	1,667	545	
Revenue	180,910	40,862	
Treasury	6,895	1,140	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,577,007	2,876,006	38.0%
Difference Between Recorded and Estimated Appropriations	(581,365)		
TOTAL GENERAL FUNDED EXPENDITURES	6,995,642	2,876,006	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	20,358	(1,247,092)	
EXCESS AUGMENTING REVENUES		12,793	
TRANSFERS:			
Transfer from Cash Funds to General Fund	280,000	137,465	
Net Transfers to/from the General Fund	(8,000)	(8,000)	
Transfers from General Fund to Repay Cash Funds	(458,058)	(458,058)	
Transfers from General Fund to Capital Construction	(2,000)	(1,976)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	-	-	
TOTAL TRANSFERS	(188,058)	(330,569)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(167,700)	(1,564,868)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	291,700	289,516	
Deduct the GAAP Expenditures Not Budgeted		(1)	
(Additions) Deductions to Reserve for Encumbrance		1,468	
(Additions) Deductions to the Long-Term Loan Reserve		1	
(Additions) Deductions to the Statutory Four Percent Reserve	12,100	12,112	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ 136,100	\$ (1,261,772)	

**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, 2009**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		PERCENT OF ESTIMATE
REVENUES:			
General Fund Transfer-In	\$ 2,000	\$ 1,976	
Interest Earnings	2,200	963	
TOTAL CAPITAL CONSTRUCTION REVENUES	4,200	2,939	70.0%
EXPENDITURES:			
Agriculture	2,460	671	
Corrections	35,036	10,374	
Education	1,157	14	
Higher Education	55,492	23,273	
Human Services	12,132	2,890	
Judicial Branch	-	1	
Labor and Employment	476	476	
Military Affairs	7,719	253	
Natural Resources	1,010	1,010	
Personnel	11,834	2,101	
Public Health and Environment	184	-	
Public Safety	5,226	786	
Revenue	17,557	2,850	
Transportation	46	-	
Intrafund Transfer-Out	30,031	30,031	
NET EXPENDITURES AND AUGMENTING REVENUES	180,360	74,730	41.4%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES	(176,160)	(71,791)	
EXCESS AUGMENTING REVENUES		461	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS	54,492	54,492	
Add Budgeted Non-GAAP Expenditures	-	152	
Previously Expended for Budgetary Purposes	-	345	
Release of the Beginning Reserve For Encumbrances - All Funding Sources	128,039	128,039	
(Additions) to Reserve for Encumbrances - General Funded - Estimate		(44,006)	
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate		(122,132)	
(Additions) Deductions to Reserve for Other Specific Purposes		2,692	
(Additions) Deductions to the Reserve for Long-Term Assets	-	121	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$ 6,371	\$ (51,627)	