State Taxpayer Accountability Report (STAR)
Fiscal Year 2008–09




STATE OF COLORADO
NIL SINE NUMINE
1876

It is our privilege to present the State Taxpayer Accountability Report. It summarizes the operations of the State of Colorado for the fiscal year that ended June 30, 2009. This report has been designed to present information about the current fiscal condition of Colorado state government in a clear, understandable, and accessible manner. In this fourth year of the report, we expect that it will advance our goals of greater transparency and accountability in state finances.

The sources of the information included in this report are the state's Comprehensive Annual Financial Report (CAFR), the State Treasurer's Office, the Governor's Office, and other state departments. For more detailed information you may access the sources online at:

CAFR: http://www.colorado.gov/dpa/dfp/sco/CAFR/cafr.htm

Treasurer's Office: http://www.colorado.gov/treasury/

Governor's Office: http://www.colorado.gov/governor/

Additional information on the state's finances, including an online searchable database of all state expenditures (http://tops.state.co.us/), and TaxTracks on online tool that shows taxpayers how their money is spent are now available on the Treasurer's website.

We hope you find this report both informative and beneficial, and we welcome your questions and comments.

Bill Ritter, Jr.
Governor

Cary Kennedy
State Treasurer

David J. McDermott
State Controller

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Fiscal Year 2008–09

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Design and layout services provided by the Colorado Department of Personnel & Administration; Division of Central Services; Integrated Document Solutions (IDS).


WELCOME TO
COLORFUL
COLORADO

Field of Spring Wildflowers in the mountains of Colorado.

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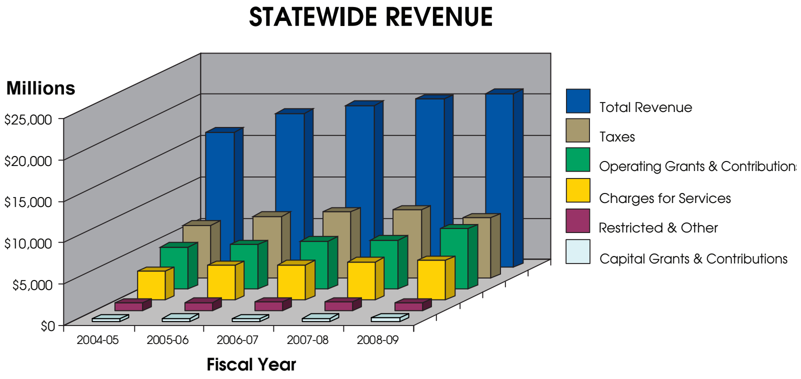
WHERE THE MONEY COMES FROM (REVENUE)

The state's major sources of revenue are Taxes, Operating Grants and Contributions, and Charges for Services. A large increase in Operating Grants and Contributions made up for a major decrease in Taxes in Fiscal Year 2008–09. Over the five year period, the state's total revenue has increased from $16.4 billion to $21.0 billion (28.0 percent). The amounts shown as Taxes generally are collected without any requirements as to how they will be spent. They are the primary source of money for the Legislature and Governor when they decide where state money will be spent. Operating Grants and Contributions are monies that usually must be spent on the purpose for which the money was received. Most of this money comes from the federal government. Restricted revenues include certain taxes dedicated to education and highways. Capital Grants and Contributions include money that is required to be spent on capital assets such as buildings or equipment. Most of this money comes from the federal government. The graph above shows total statewide revenue including certain internal transactions in actual dollars without adjustment for inflation.

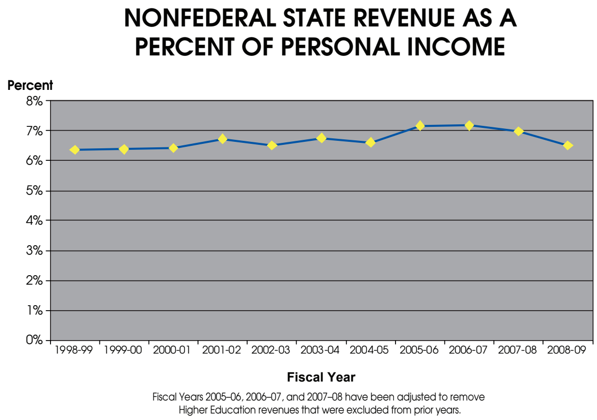


The state's revenue generally follows the growth in income of the state's citizens, including wages, business income, and investment income. Personal income in the state is estimated to have increased by 19.5 percent from 2005 to 2009, but declined from 2008 to 2009. Economic growth increases jobs, wages, and in most instances, the stock market. Over the five year period this has resulted in increases in state revenue from taxes on wages and investments.

The graph above shows the general upward trend in state revenue. However, growth in state government should also be viewed in relation to its impact on taxpayers' personal income. The graph below shows that total budgeted nonfederal revenue as a percent of personal income remained relatively constant through Fiscal Year 2004–05.

In Fiscal Year 2005–06 retained state revenue relative to personal income increased by about 8.5 percent (See the TABOR and Referendum C sections starting on page 6). From Fiscal Year 2005–06 to Fiscal Year 2008–09, revenue as a percent of personal income has declined to pre-Referendum C levels indicating that nonfederal revenues of the state have declined faster than personal income.

The following pie charts show the relative size of the sources of general-purpose taxes, dedicated taxes, and all other revenues of the state. Sales within the government, transfers, and grants moving within the state, as well as additions to trust funds, have been excluded.



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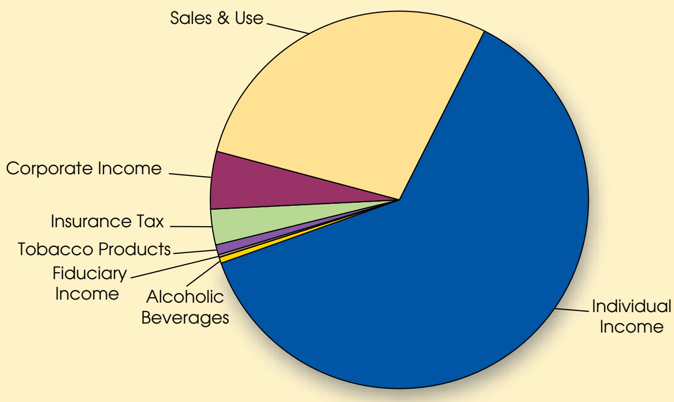
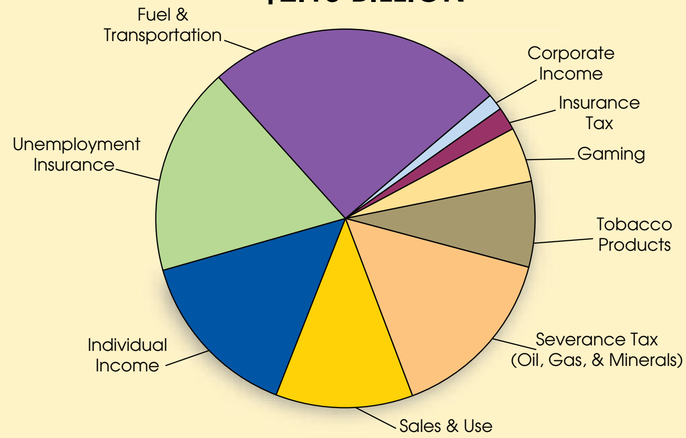
FISCAL YEAR 2008–09

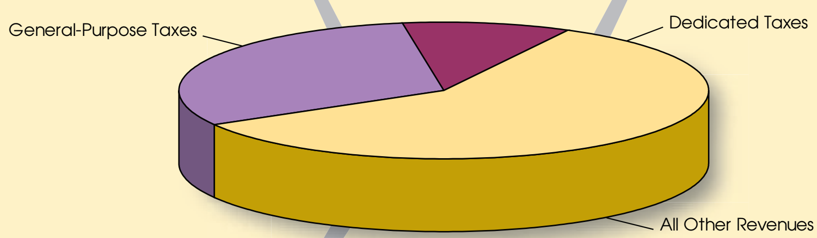
GENERAL–PURPOSE TAXES
$6.48 BILLION



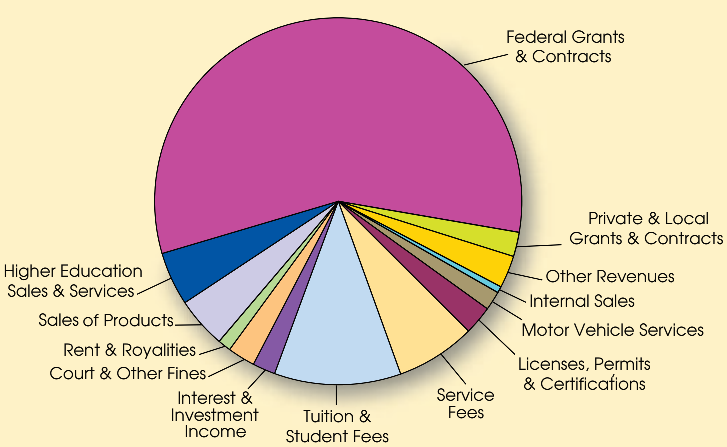
DEDICATED TAXES
$2.13 BILLION

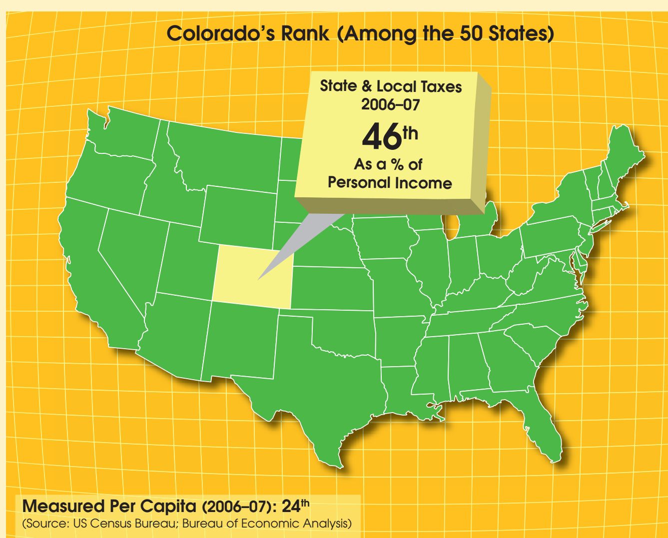


TOTAL REVENUES
$20.94 BILLION



ALL OTHER REVENUES
$ 12.33 BILLION





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COLORADO'S ENERGY REVENUES

Like other states in the West, Colorado began seeing significant revenues from the production of oil and gas at the beginning of the decade. However, the inherent volatility of the revenue has been highlighted by the steep decline in the price of oil and natural gas in the fall of 2008, although there is a lag between price and state revenue collection.

Colorado ranks third in the nation for proven, natural gas reserves and 12th in proven oil reserves. For the 2008 calendar year, the Colorado Geological Survey estimated the total value of oil and gas production at $12.7 billion, up 65.5 percent from the previous year.

Colorado receives revenue at the state level from the production of oil and gas from two main sources—the state's severance tax and revenue received from the federal government from oil and gas production on federal lands within the state.

In 1977 the Colorado state legislature created a state severance tax on oil and gas, coal, metallic minerals, molybdenum ore, and oil shale. By statute, Colorado's severance tax is intended to recapture a portion of the wealth irretrievably lost when these nonrenewable natural resources are removed from the earth.

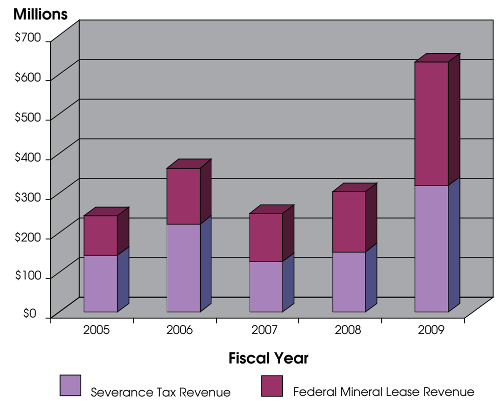
Although the volume of oil and gas produced in the state has increased each year during the five-year period, revenues received have been more volatile due in part to fluctuating commodity prices. In addition, with respect to state severance tax collections, a unique combination of credits and exemptions amplifies the inherent price volatility resulting in wide fluctuations, including a year-to-year decline in severance tax collections in four of the past ten years.

Severance tax collections in Fiscal Year 2008–09 were $319.1 million (about 96 percent of which came from oil and gas production in the state), approximately 123 percent more than the receipts in Fiscal Year 2004–05.

Federal Mineral Lease revenues come from the leases of federal lands within the state for mineral production. Roughly 50 percent of the revenues collected on federal leases in Colorado are transferred by the U.S. Government to the Colorado State Treasurer. Federal Mineral Lease Revenues for Fiscal Year 2008–09 were $312.4 million, or approximately 211 percent of the receipts in Fiscal Year 2004–05.

The legislature's legislative council staff compared the total tax burden on oil and gas production in Colorado in Fiscal Year 2004–05 to that in four other states (total taxes include local property tax, severance tax, corporate income tax and sales tax). The chart to the right summarizes their findings.

STATE MINERAL REVENUE



TOTAL TAX BURDEN ON OIL & GAS PRODUCTION

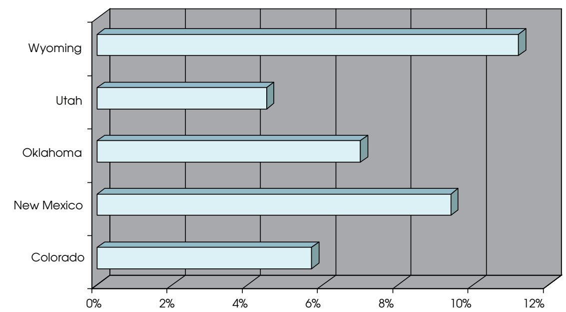
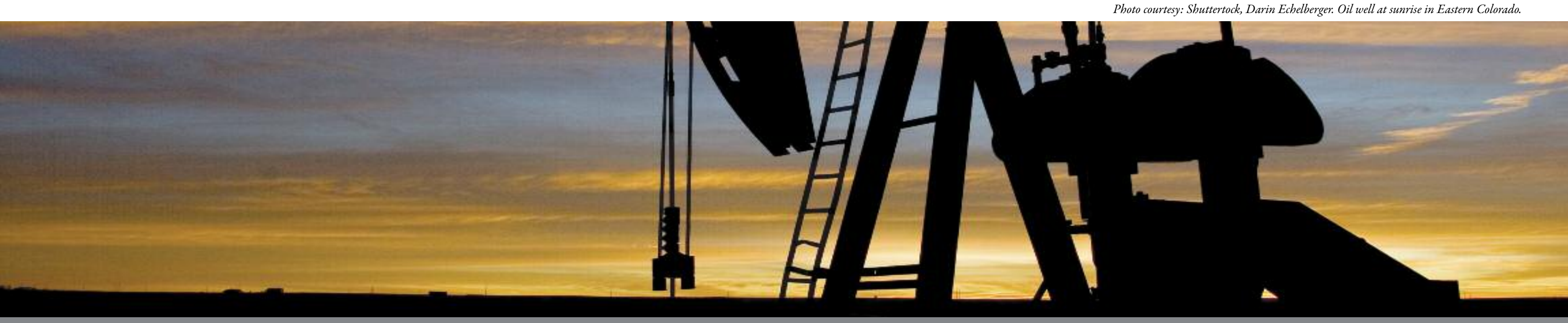


Photo courtesy: Shuttertock, Darin Echelberger. Oil well at sunrise in Eastern Colorado.



Arkansas River near Pueblo, Colorado.

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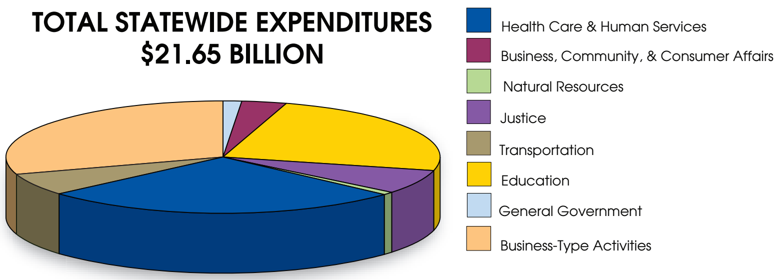
WHAT COLORADO CITIZENS BUY (EXPENDITURES[1])

The state uses the revenue it collects to provide various services to the state's citizens. Buying those services through vendors, paying state employees, or transferring money to local governments and schools results in expenditures. The state tracks these expenditures in the broad categories shown in the pie chart. Additional information on these categories is presented later in this report.

The table below shows expenditures by department in the budget format with a column removing transfers. Some items (such as, depreciation and certain higher education activities) are not budgeted, and therefore, total expenditures shown in the pie chart are greater than the amount shown in the table.



EXPENDITURES BY DEPARTMENT ON THE BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2009 (DOLLARS IN THOUSANDS)

	GENERAL	CASH	FEDERAL	TRANSFERS	TOTAL
Budgeted Expenditures & Transfers					
Departmental					
Agriculture	$ 7,516	$ 25,567	$ 6,956	$ (1,826)	$ 38,213
Corrections	663,050	157,888	31,693	(10,739)	841,892
Education	3,215,292	3,652,896	534,539	(3,160,319)	4,242,408
Governor	13,410	100,451	232,955	(10,960)	335,856
Health Care Policy & Financing	1,354,714	521,548	2,176,102	(177,339)	3,875,025
Higher Education	776,683	2,856,215	658,770	(253,839)	4,037,829
Human Services	711,654	339,424	1,190,518	(25,721)	2,215,875
Judicial Branch	326,959	162,708	4,681	(70,170)	424,178
Labor & Employment	—	1,077,512	476,004	(224,464)	1,329,052
Law	8,791	36,050	1,102	(4,178)	41,765
Legislative Branch	35,027	2,439	—	(3,200)	34,266
Local Affairs	12,229	421,439	59,285	(168,849)	324,104
Military & Veterans Affairs	8,745	1,566	12,146	17	22,474
Natural Resources	30,561	524,916	34,658	(186,538)	403,597
Personnel & Administration	17,140	487,002	53	(33,573)	470,622
Public Health & Environment	27,758	246,855	233,843	(97,850)	410,606
Public Safety	82,192	124,583	28,225	(9,894)	225,106
Regulatory Agencies	1,436	74,552	1,670	(12,705)	64,953
Revenue	202,506	666,186	2,459	(252,854)	618,297
State	—	20,550	6,551	(3,180)	23,921
Transportation	28,904	1,163,732	509,881	(204,763)	1,497,754
Treasury	122,879	1,966,015	244,716	(1,878,391)	455,219
Transfers Not Appropriated by Department	74,222	7,061	—	(81,283)	—
TOTAL	**$ 7,721,668**	**$ 14,637,155**	**$ 6,446,807**	**$ (6,872,620)**	**$ 21,933,010**

[1] The term expenditures is used throughout this document to avoid confusion. Outflows of business-type activities (Enterprise and Internal Service Funds) and trust funds are technically referred to as expenses.

[2] Transfers, which are payments that move within and between funds, and most purchases between state agencies have been excluded from the chart.

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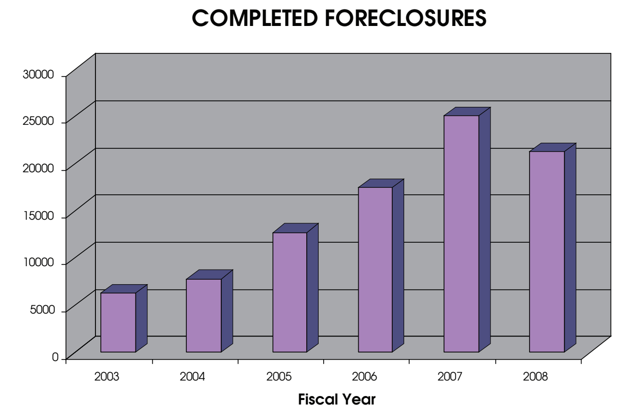
RECESSION: THE STATE'S ECONOMY, REVENUES, AND BUDGET ACTIONS

Economy

According to the National Bureau of Economic Research, the nation entered a recession in December 2007. The recession deepened sharply following the crisis in the financial sector beginning with the bankruptcy of Lehman Bros. Holding Inc. in mid-September 2008.

Colorado's economy, like the rest of the nation, has suffered during the current recession. According to the US Department of Commerce's Bureau of Labor Statistics, the unemployment rate in Colorado climbed from 4.8% in June 2008 to 7.6 percent in July 2009, which represented a year-over-year loss of more than 104,000 jobs statewide. This included a seasonally-adjusted decline of 15.4 percent in jobs in the construction sector, and an 8.8 percent decline in the professional and business services sector.



Colorado was hit hard by the developments in the real estate sector that led to the recession. However, new foreclosure filings declined 2 percent between calendar year 2007 and calendar year 2008 and completed foreclosures declined nearly 15 percent according to the Colorado Department of Local Affairs Division of Housing.

Budget Actions

In the same manner as many families, the State of Colorado experienced a substantial revenue decline in Fiscal Year 2009. During the 2009 legislative session, the Governor and the Legislature enacted a series of spending cuts and revenue enhancements to address a gross General Fund revenue decline of approximately $1,005.1 million from Fiscal Year 2007–08 to Fiscal Year 2008–09.

The 13 percent General Fund revenue decline included a 12.9 percent decline in individual income tax revenues and a 9.2 percent decline in sales tax revenues.

The State's Fiscal Year 2009 budget, at the end of the 2009 legislative session, included more than $805 million dollars of revenue enhancements to the General Fund. Of this amount, approximately $346.9 million came in the form of transfers from state cash funds for budgeted items, another $12.5 million represented revenue enhancements and $458.1 was a cash fund transfer at the end of the fiscal year to ensure the budget was in balance after the legislature adjourned.

In addition to the General Fund revenue changes, the 2009 budget also reflected about $389.7 million of American Recovery and Reinvestment Act (ARRA) funding, which spared Higher Education from a potential $150 million budget cut.

Fall Colors in Colorado.

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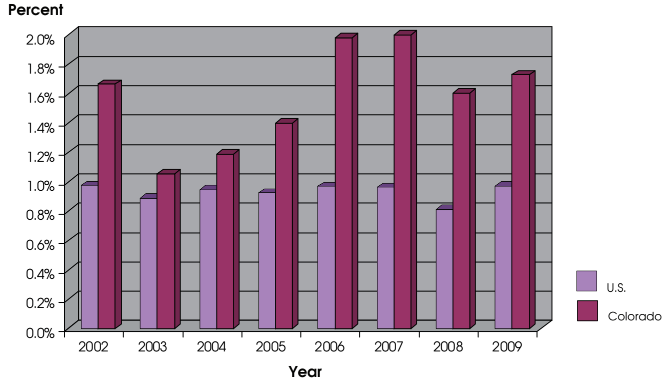
COLORADO DEMOGRAPHIC INFORMATION

The state's economic condition and outlook are greatly affected by the number of people living in or moving into the state. The graph to the right shows that even at the low point of the period covered by the graph (2003), Colorado's population has grown faster than the United States' population. During the economic downturn in 2002 and 2003, fewer people moved into the state because of the lack of job opportunities.

COLORADO & U.S. ANNUAL PERCENTAGE POPULATION GROWTH



Even though population growth slowed from 2002 to 2003, the following table shows that the state's population has steadily increased over the last ten years. The table also shows large increases in the average amount of personal income (per capita income), and the number of people employed. The average individual personal income of Colorado citizens has been above the national average throughout the past ten years.

COLORADO DEMOGRAPHIC DATA 2000 TO 2009

Year	Population (In Thousands)	Percentage Share of U.S. Population	Total Personal Income (Billions)	Per Capita Personal Income (Dollars)	% of U.S. Per Capita Income	Employment (In Thousands)	Unemployment %
2009 est	4,789	1.56%	$207.3	$43,289	110.9%	2,502	7.6%
2008	4,940	1.62%	209.0	42,377	110.1%	2,596	4.9
2007	4,862	1.62%	199.4	41,019	106.4%	2,602	3.8
2006	4,766	1.60%	188.2	39,489	107.5%	2,537	4.3
2005	4,674	1.59%	175.4	37,522	108.3%	2,437	5.1
2004	4,609	1.57%	163.7	35,523	107.2%	2,385	5.6
2003	4,555	1.58%	154.8	33,989	107.9%	2,324	6.1
2002	4,508	1.57%	153.1	33,956	110.2%	2,304	5.7
2001	4,432	1.56%	152.7	34,438	112.6%	2,304	3.8
2000	4,328	1.54%	144.4	33,361	111.8%	2,300	2.7

Source: U.S. Department of Commerce, Bureau of Economic Analysis, U.S. Census Bureau, & Colorado Dept. of Labor & Employment

Other demographic factors also affect economic performance. For example, younger persons are normally not employed or are employed in jobs paying lower wages. Older citizens are likely to be retired, and therefore, generate less economic activity. The two graphs on the following page show the percentage of the total population that each age group represented in 1999 and 2007 for the state and the nation as a whole. The graphs show that the stage of life of the state's citizens has changed significantly over the seven years between the graphs.

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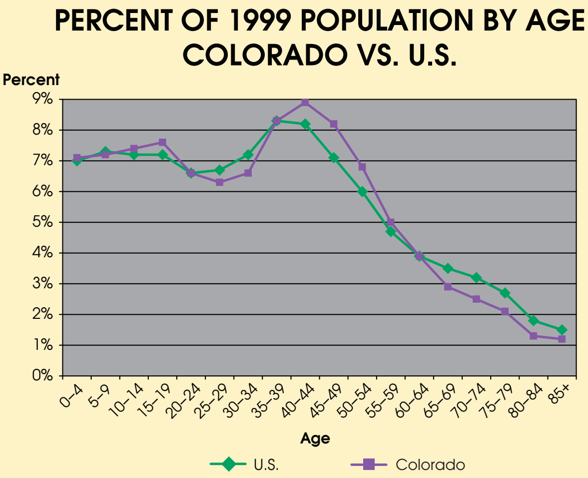
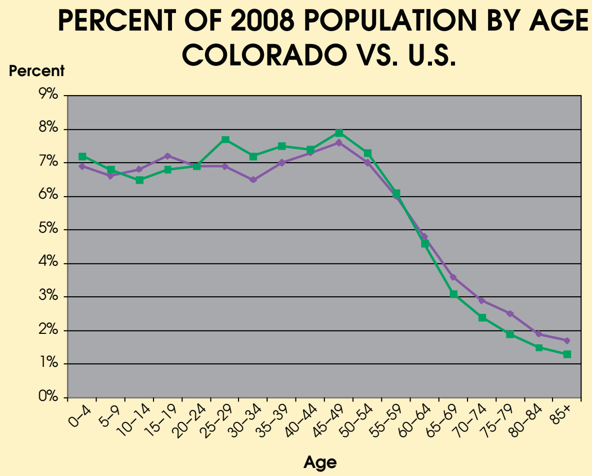
In 1999, as compared to the nation as a whole, the state enjoyed a larger proportion of persons in their prime earning and spending years (37–57) than was the case in 2008 (the most recent data available). Today Colorado has lost the advantage of the 42–57 age group and instead has a comparatively high percentage of 27–37 year olds. These individuals are in their early career years or may be enrolled in postsecondary education; as a result, they are likely to require more government services and produce less economic activity than the group they replaced. In addition, these graphs dramatically show the aging of the Baby Boom generation in both Colorado and the nation.





TABOR (TAXPAYERS' BILL OF RIGHTS) and REFERENDUM C

Although TABOR had little effect on the state finances in Fiscal Year 2008–09, over the long-term it is probably the most important factor affecting the level of services the state's provides to its citizens. TABOR was added to the State Constitution by the voters in 1992 and became effective in Fiscal Year 1993–94. It limits the rate of spending increases and requires the state to pay back to the taxpayers any revenue that the state collects over a limit. The limit is reset each year to reflect increases in population and inflation. TABOR requires a vote of the people to allow the state to keep and use money it collects that is over the limit. In November 2005 the voters passed Referendum C, which allowed the state to retain and use revenues in excess of the TABOR limit from July 1, 2005, until June 30, 2010.

In Fiscal Year 2008-09, revenues were $101.5 million under the TABOR limit. The following graph shows revenues that exceeded the TABOR limit from Fiscal Year 1993–94 through 2008–09 and whether the revenue over the limit was required to be refunded. Fiscal Year 1996–97 was the first year that the state collected revenues greater than the TABOR limit. The state's revenues were under the TABOR limit in 2001–02 and 2002–03, which permanently reduced the base upon which future limits would be set. In 2004–05 the state retained about $127.8 million that would otherwise have been refunded because the state had refunded more than was required in the late 1990's.

The passage of Referendum C allowed the state to keep and spend revenues in excess of the TABOR limit beginning in Fiscal Year 2005–06 through Fiscal Year 2009–10. It also removed the ratchet down effect of TABOR that comes from using the lesser of revenues or the current limit to set the subsequent limit. Because Referendum C was in place in Fiscal Year 2008–09, the decline in revenues will not permanently reduce the limit against which refunds will be measured.

Spring Orchard in Palisade, Colorado.

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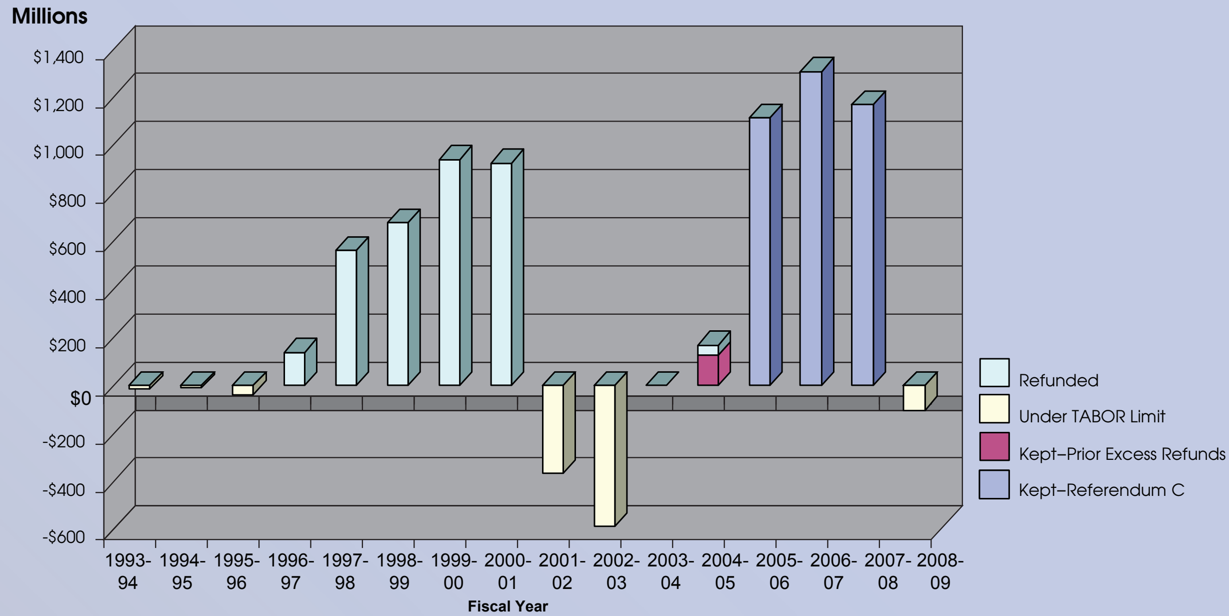
OVER/UNDER TABOR LIMIT



The following tables show the TABOR revenue base, the TABOR limit, and amounts refunded or retained and used by the state since the first year that TABOR was in effect.

TABOR LIMIT CALCULATION
(DOLLARS IN THOUSANDS)

	2008–09	2007–08	2006–07	2005–06	2004–05	2003–04	2002–03	2001-02
TABOR Revenue Base	$8,829,131	$8,333,827	$8,045,257	$8,314,374	$8,331,991	$7,712,512	$7,752,211	$7,948,550
Inflation	2.2%	3.6%	2.1%	0.1%	1.1%	1.9%	4.7%	4.0%
Population Change	1.9%	2.0%	1.4%	1.2%	1.1%	1.7%	2.2%	0.0%
Percentage Allowable Growth	4.1%	5.5%	3.5%	1.3%	2.2%	3.6%	6.9%	4.0%
TABOR Adjusted Revenue Limit	$9,203,842	$8,829,131	$8,333,827	$8,045,257	$8,314,374	$8,331,991	$8,296,787	$8,126,189
TABOR Non-Exempt Revenues	$9,102,354	$9,998,559	$9,641,867	$9,161,391	$8,482,963	$8,331,991	$7,712,512	$7,752,211
Correction of Prior Years' Refunds					$284			$8,284
(Over) Under TABOR Limitation	$101,488	($1,169,428)	($1,308,040)	($1,116,134)	($168,873)	$0	$584,275	$365,694
Kept		$1,169,428	$1,308,040	$1,116,134	$127,810			
Refunded	$0	$0	$0	$0	($41,063)	$0	$0	

TABOR LIMIT CALCULATION
(DOLLARS IN THOUSANDS)

	2000–01	1999–00	1998–99	1997–98	1996–97	1995–96	1994–95	1993–94
TABOR Revenue Base	$7,563,710	$7,243,385	$6,872,039	$6,508,592	$6,124,314	$5,757,317	$5,385,087	$5,067,752
Inflation	2.9%	2.4%	3.3%	3.5%	4.3%	4.4%	4.2%	3.7%
Population Change	2.2%	2.0%	2.0%	2.0%	2.3%	2.6%	2.9%	2.8%
Percentage Allowable Growth	5.1%	4.4%	5.3%	5.5%	6.6%	7.0%	7.1%	6.5%
TABOR Adjusted Revenue Limit	$7,948,550	$7,563,710	$7,243,385	$6,872,039	$6,508,592	$6,160,329	$5,767,428	$5,399,258
TABOR Non-Exempt Revenues	$8,877,105	$8,502,952	$7,923,019	$7,435,202	$6,647,618	$6,124,314	$5,757,317	$5,385,087
Correction of Prior Years' Refunds	($1,354)	$1,887						
(Over) Under TABOR Limitation	($927,201)	($941,129)	($679,634)	($563,163)	($139,026)	$36,015	$10,111	$14,171
Kept								
Refunded	($927,201)	($941,129)	($679,634)	($563,163)	($139,026)	$0	$0	$0

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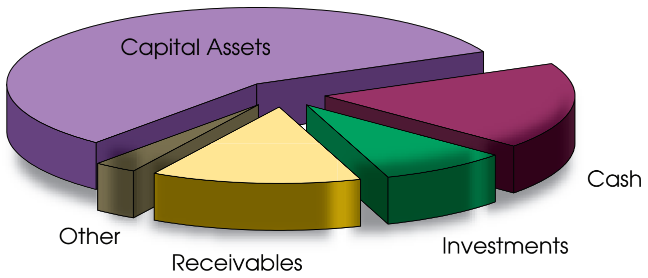
WHAT COLORADO CITIZENS OWN (ASSETS)

The state has five major types of assets:

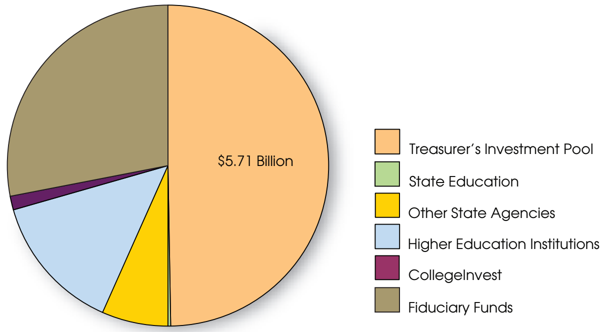
- Cash,
- Receivables (cash that the state is owed but has not yet collected);
- Investments, which mostly consists of cash lent to the federal government (U.S. Treasury notes and bonds), to corporations (bonds and commercial paper), and to individuals through mutual funds for mortgages;
- Capital Assets, which includes land, buildings, equipment, and infrastructure (roads, bridges, dams, etc.); and
- Other Assets, which includes loans to students and local governments, taxes that will not be collected for at least one year, amounts paid for goods or services not yet received, and various supplies (inventory).

FISCAL YEAR 2008–09 TOTAL ASSETS

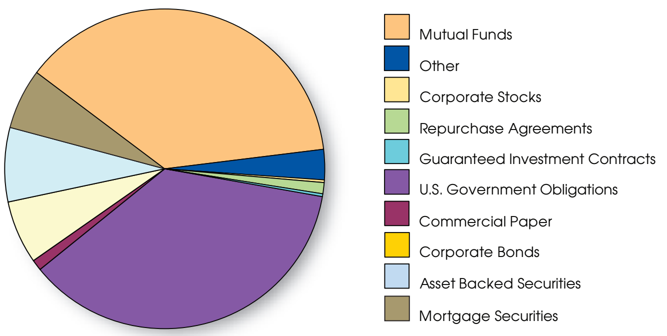


The state had $6.37 billion of cash at June 30, 2009—all but $761.6 million of which was invested by the State Treasurer. The state also had $5.71 billion of other investments based on market value at June 30, 2009, including those held for others in Fiduciary Funds. The following charts show where the state's investments are held and the types of securities that have been purchased.

WHERE THE INVESTMENTS ARE HELD $11.33 BILLION



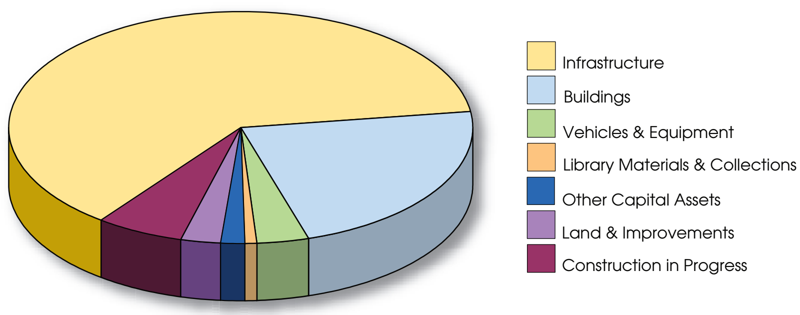
INVESTMENT TYPES $11.33 BILLION



The State Treasurer is responsible for investing most of the state's cash and managing the related investments. For efficiency, and in order to increase investment yields, monies from the General Fund, state agencies, and political subdivisions of the state on deposit with the Treasury are pooled for investment purposes. The Treasury Department invests the monies in accordance with statutorily prescribed objectives and standards. The Treasurer's Investment Pool totaled $5.6 billion at the end of Fiscal Year 2008–09. The average yield on the Pool's investments was 3.0 percent and the total interest income for the fiscal year was $177.4 million. A complete listing of the State Treasurer's investment holdings along with quarterly performance results is available on the Treasurer's website at http://www.colorado.gov/treasury/ (under Investments Division, State's Portfolio).

The citizens own $17.4 billion of capital assets of various types as shown in the chart to the right. The amounts shown for these assets are based on the amount that the state originally paid for the asset less any depreciation that has been recorded. The capital assets increased about $747.5 million over the prior year mostly related to building construction at Higher Education Institutions.

CAPITAL ASSETS

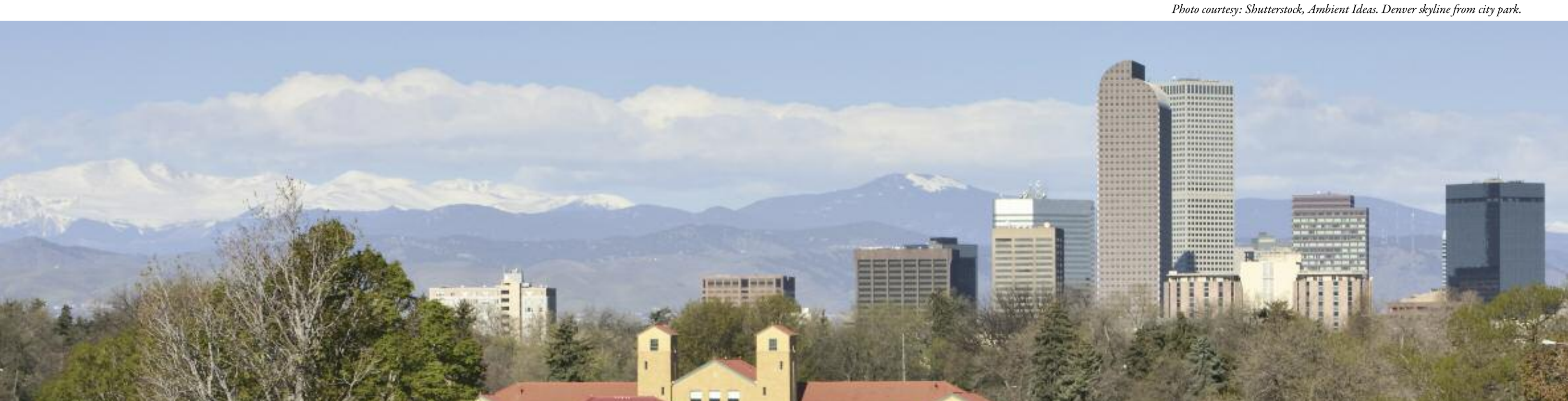


The following table shows the amounts the state reported for working capital and net assets over the last five years. The table also shows that the state has a strong current ratio, which is current assets divided by current liabilities. The table is in actual dollars and has not been adjusted for inflation.

GOVERNMENT-WIDE WORKING CAPITAL & NET ASSETS AT JUNE 30
LAST FIVE FISCAL YEARS (DOLLARS IN THOUSANDS – PERCAPITA AMOUNTS RESTATED)

	2008–09	2007–08	2006–07	2005–06	2004–05
Current Assets	$ $5,991,706	$ $6,516,040	$ $6,142,704	$ $5,647,092	$ $5,190,016
Less Current Liabilities	(3,731,801)	(3,315,995)	(2,799,495)	(2,791,901)	(2,923,815)
Working Capital	$ 2,259,905	$ 3,200,045	$ 3,343,209	$ 2,855,191	$ 2,266,201
Working Capital Per Capita	$ 472	$ 648	$ 688	$ 599	$ 485
Current Ratio	1.61	1.97	2.19	2.02	1.78
Working Capital	$ 2,259,905	$ 3,200,045	$ 3,343,209	$ 2,855,191	$ 2,266,201
Investments	1,253,716	1,105,125	1,053,617	935,475	249,491
Capital Assets	17,363,100	16,615,629	16,775,157	16,252,397	16,084,881
Other Long-Term Assets	5,901,722	5,853,965	5,173,342	4,466,989	4,081,516
Less Long-Term Liabilities	(6,421,126)	(5,817,484)	(5,437,517)	(4,969,387)	(4,578,623)
Net Assets	$ 20,357,317	$ 20,957,280	$ 20,907,808	$ 19,540,665	$ 18,103,466
Net Assets Per Capita	$ 4,251	$ 4,242	$ 4,300	$ 4,100	$ 3,873

Photo courtesy: Shutterstock, Ambient Ideas. Denver skyline from city park.



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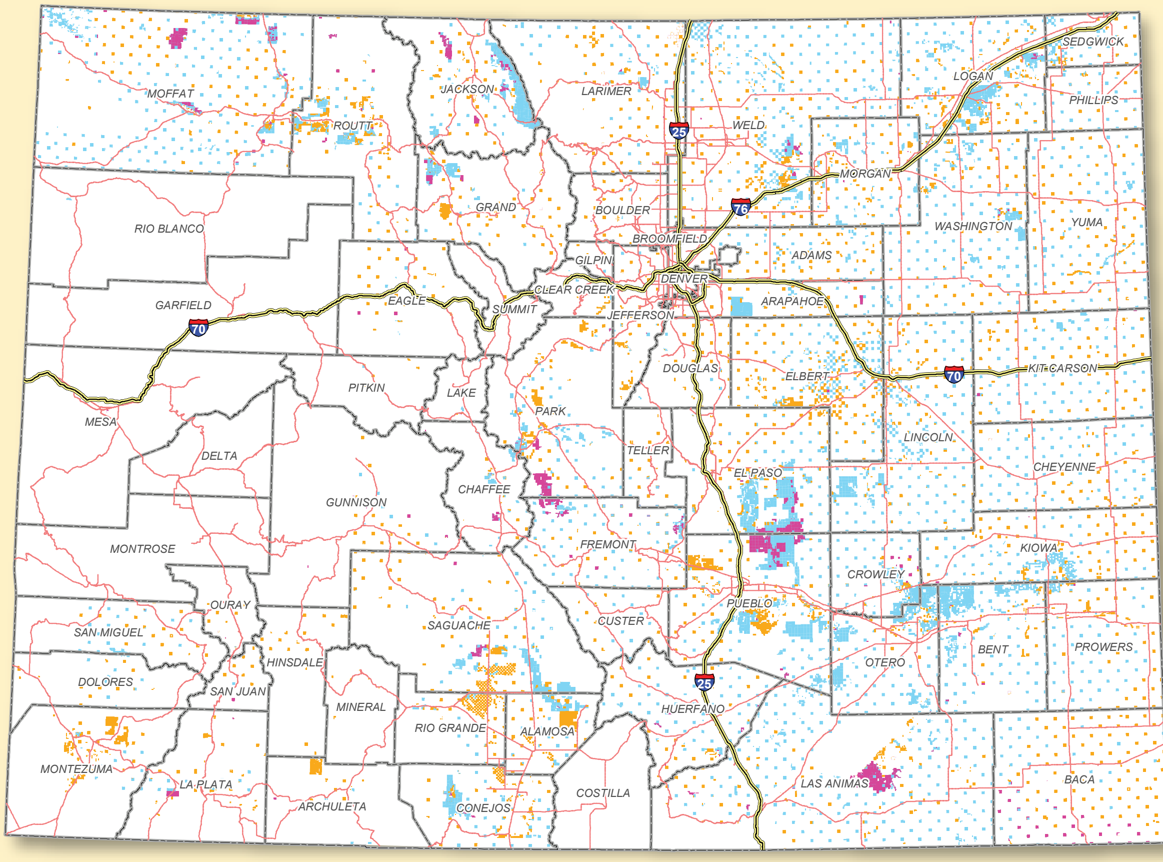
Colorado State Land Board Surface Ownership & Mineral Estate



The state owns about three million acres of state trust lands, which were given to Colorado by the federal government in 1876 for specific purposes, such as the support of "common schools." Some of the lands are leased for ranching, farming, mineral and oil and gas production, and other uses. Proceeds are used to support eight trusts, the largest of which benefits preschool through12th grade education in the state.

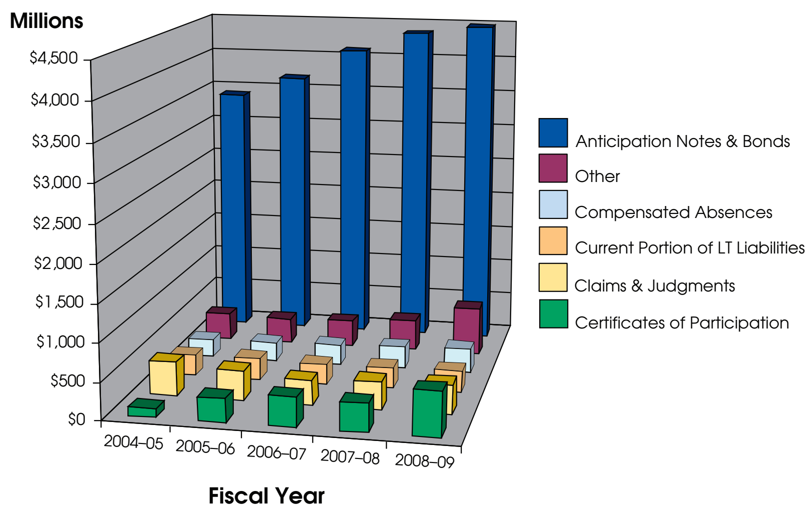
Surface & Sub-Surface Ownership | Surface Ownership Only | Sub-Surface Ownership Only

(Source: Colorado State Land Board)

WHAT COLORADO CITIZENS OWE (LIABILITIES)

The state is prohibited by its Constitution from borrowing money based on its ability to collect taxes except in extremely limited circumstances; such borrowing is commonly referred to as general obligation debt. Although the state is normally prohibited from issuing general obligation debt, it borrows money under several other financing mechanisms, such as, revenue bonds, anticipation notes, and certificates of participation. These borrowings are recorded as long-term liabilities along with other types of state obligations. Long-term liabilities totaled $6.7 billion at the end of Fiscal Year 2008–09, which was $0.6 billion more than the prior year. The largest increases occurred in leases and Certificates of Participation.

COMPONENTS OF TOTAL LONG-TERM LIABILITIES



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The state reports several categories of long-term liabilities, the largest of which is anticipation notes and revenue bonds. Anticipation notes and revenue bonds are most often sold to investors to provide the state with cash to buy or build capital assets or make loans to students. The state is required to pay the borrowed money back to the investors and pay them interest on the use of the money. The state is required to dedicate a source of revenue to make these payments because of the prohibition against general obligation debt. Some of the revenue bonds shown were issued after a vote of the citizens approved borrowing to improve the state's highways. The total amount of outstanding borrowing and the percentage increase is shown in the following table.

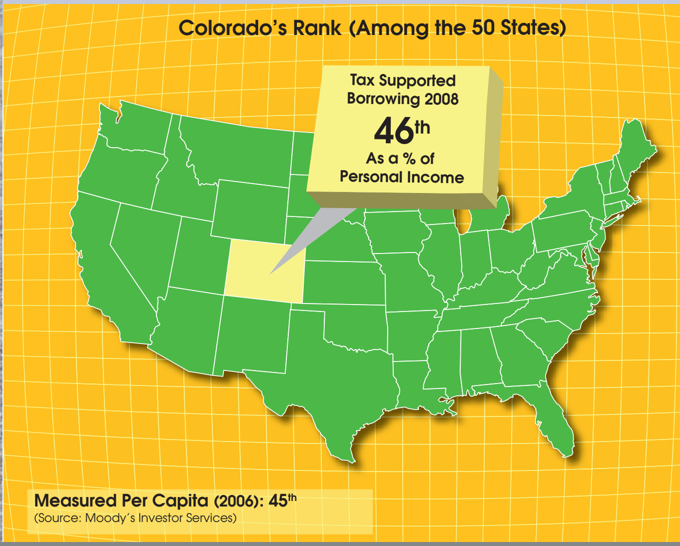
OUTSTANDING BORROWING FOR REVENUE BONDS, COPS, CAPITAL LEASES, NOTES, & MORTGAGES AT JUNE 30, 2009 (DOLLARS IN THOUSANDS)

	2008–09	2007–08	2006–07	2005–06	
Outstanding Borrowing	$ 5,972,627	$ 5,544,326	$ 5,110,760	$ 4,680,136	$ 4,357,276
Percent Change Over Previous Year	7.7%	2.7%	2.6%	2.5%	2.5%

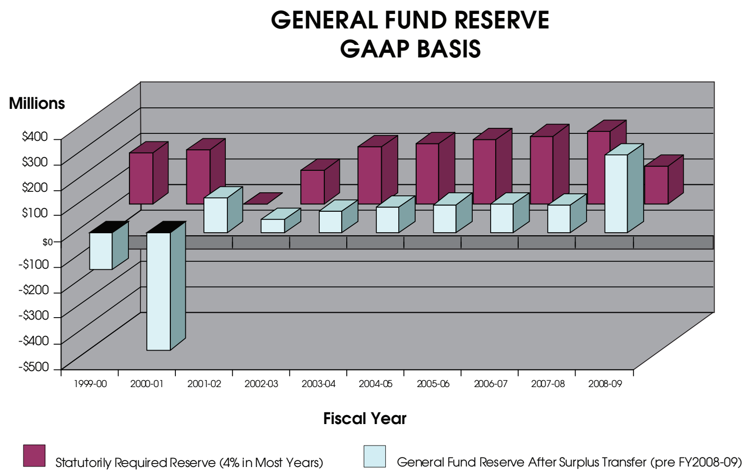
At June 30, 2009, the following amounts in the form of anticipation notes, revenue bonds, and certificates of participation were outstanding.

NOTES, BONDS, & CERTIFICATES OF PARTICIPATION AT JUNE 30, 2008 (DOLLARS IN THOUSANDS)

Borrowed Cash Used for	Anticipation Notes & Revenue Bonds	Certificates of Participation
Fleet Vehicles		$ 17,149
Capitol Parking Structure		7,475
State Fair Buildings & Facilities		125,187
Prisons		182,105
Fitzsimons Medical Buildings		225,360
Higher Education Auxiliary Facilities	$ 1,850,258	31,717
Highway Projects (Anticipation Notes)	1,106,973	
Highway Department Buildings		19,716
Student Loans	1,701,330	
TOTAL	$ 4,658,561	$ 608,709



SAVING FOR A DOWNTURN



In most years, state law requires a four percent reserve in the General Fund. Beginning in Fiscal Year 2003–04, legislation required the state to transfer any surplus over the reserve in a two-thirds to one-third ratio to the Highway Users Tax Fund and the state Capital Construction Fund. On a budgetary basis, the state usually meets its General Fund four percent reserve requirement. However, as shown in the graph, the state lowered the required reserve to two percent for Fiscal Year 2008–09 and cancelled the transfer of the General Fund Surplus. When all current liabilities are recognized as required by Generally Accepted Accounting Principles (GAAP), the graph shows $303.6 million total fund balance in Fiscal Year 2008–09. With the shortfall in revenues occurring in Fiscal Year 2008–09, such a fund balance would not be expected and occurred only because a $458.1 million transfer from other funds at fiscal year end. The transfer was to prevent a constitutionally prohibited General Fund deficit; the transfer was much larger than than eventually determined to be necessary because the final revenue and expenditures were unknown at the required date of the transfer. If the transfer had not been made, the General Fund balance would have been negative by $154.5 million (GAAP basis) and $14.3 million (budget basis).

The lack of significant reserves in the General Fund leaves the state vulnerable in an economic downturn as any significant drop in revenues will more likely require cuts in services. For this reason the Treasurer, legislature and Governor worked for the passage of a bill that will increase the state's reserves by 0.5% a year for the period from Fiscal Year 2012–13 to 2016–17 if the state's personal income meets a certain threshold.

PENSION FUNDING

The Public Employee's Retirement Association (PERA) provides retirement and other benefits to the employees of more than 400 government agencies and public entities in the State of Colorado. PERA is a substitute for Social Security for most of these public employees. Benefits are prefunded, which means while a member is working, he or she is required to contribute a fixed percentage of their salary to the pension fund. The employer also contributes a percentage of pay to the pension fund. The fund is then invested by PERA under the direction of a board of trustees.

Because of retiree benefits increases and reduced contributions in the early 2000's and recent investment losses, the pension assets have become smaller in relation to the pension liabilities. At December 31, 2008, PERA reported the pension assets of the State Division were 67.9 percent of pension liabilities (down 5.4 percentage points from the prior year), and at the then current contribution rates, the pension assets would never be large enough to pay all of the benefits promised. To address this problem, in the 2006 session the Legislature increased the amount that the state pays into the pension fund—part of which will be taken from wage increases that employees would otherwise have received. The statute requires these payments to increase each year until 2013. For 2008 PERA reported a negative 26.0 percent return on investments.

View of Colorado Springs from Palmer Park's Grand View.

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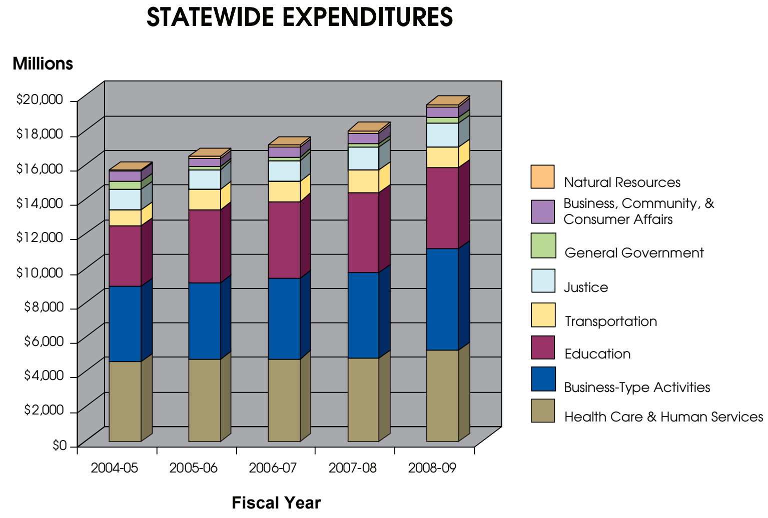
MORE ABOUT WHAT COLORADO CITIZENS BUY

The graph shows the total statewide expenditures using inflation adjusted 2005 dollars broken out by major program. Total real dollar expenditures increased over the five-year period from $15.7 billion to $19.5 billion. The state's major expenditures occur in health care and human services, business-type activities, education, transportation, and justice. Business-type activities include Higher Education, Lottery, Unemployment Insurance, student lending, and several smaller programs. The largest increases occurred in Business-type activities primarily due increases in unemployment insurance benefits paid as a result of the economic downturn.

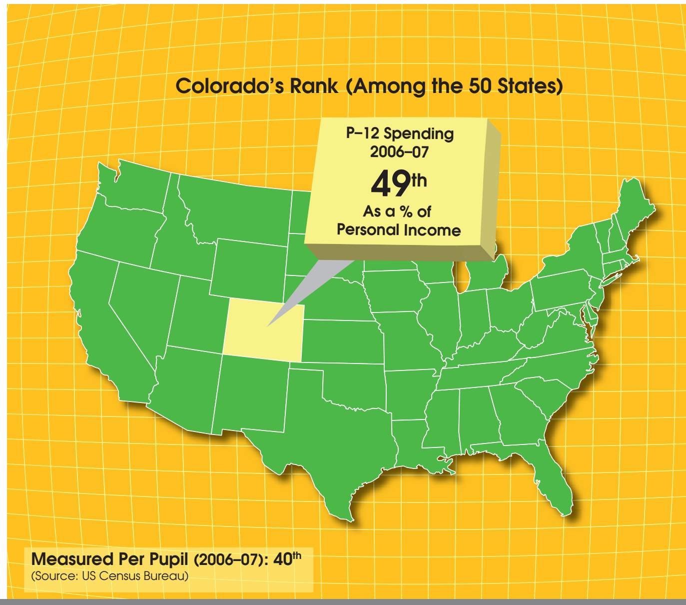


As shown above, most of the state's expenditures are on the functions that include education (preschool through 12th grade and higher education), health and medical care (primarily Medicaid), transportation, and justice (primarily prisons). Some of these expenditures are made up mainly of payments to vendors (Medicaid) or local governments (preschool through 12th grade education), and others are driven by the cost of employing state workers.

Education

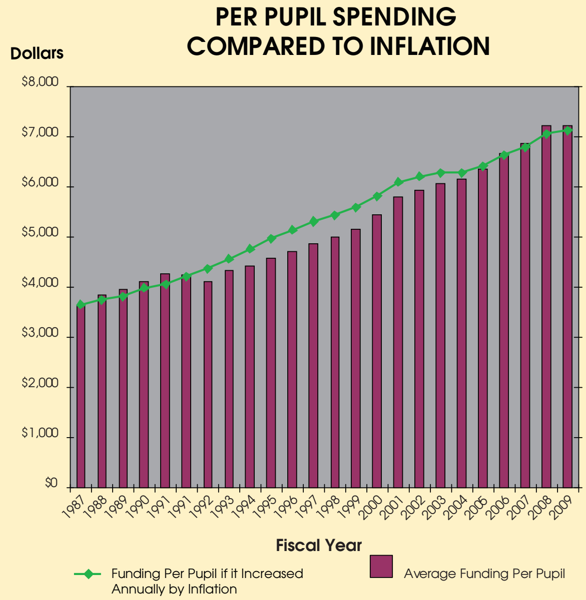
In the State of Colorado, primary and secondary education (preschool through 12th grade—P–12) is controlled mostly by local school districts. The Colorado Department of Education sets standards and monitors the quality of education provided by the local school districts. The money to support these schools comes from the local school district (mostly property taxes) and the state. Two constitutional amendments passed by the voters (Gallagher and TABOR) limit the amount of revenue that local governments can collect from property taxes. As a result, local funding has declined as a percentage of the support for local schools. To address this problem, the state has had to make increasingly large payments to the local school districts

Voters approved Amendment 23 in the 2000 general election. The amendment directed a portion of the state income tax into a new State Education Fund, and required the state to increase the amount spent on each pupil by at least the rate of inflation plus one percent through 2011. It also excluded this stream of money from the requirements of TABOR. The intent of the amendment was to restore P–12 spending to inflation adjusted levels and to make sure that spending could be maintained using the money and related investment earnings in the State Education Fund.



However, shortly after the passage of Amendment 23, the state economy suffered a recession, and some of the principal of the State Education Fund was used to meet the required increase in school payments. The current recession is projected to have similar adverse effect on the Fund.

In October 2008, the student enrollment count was 818,443, and in Fiscal Year 2008–09 the state distributed $4.14 billion to local school districts. The enrollment amount represents a 6.6 percent increase in students attending local primary and secondary schools over five years. During about the same period, state payments to local school districts increased by 26.2 percent. The increase in state payments was partially due to the Amendment 23 requirement to make up for previous shortfalls in P–12 funding. However, it also included increases in state funding required because the local districts were unable to maintain their support for the school districts through property taxes.




Shovel Ready School Already Underway.

BUILDING EXCELLENT SCHOOLS TODAY (B.E.S.T.)

In the 2008 legislative session, the Treasurer helped craft, the Colorado General Assembly passed, and the Governor signed the Building Excellent Schools Today (B.E.S.T) Act.

The B.E.S.T program represents a substantial new state commitment to fund the capital needs of school districts and charter schools across the state. The program directs a stream of revenue earned from School Trust Lands to fund school building repair, renovation, and replacement.

The program is designed to fund a large portion of the new projects through the issuance of Certificates of Participation. At the time of its passage, the program was estimated to have the potential to invest as much as one billion dollars into Colorado school buildings. B.E.S.T. grants are matching grants and part of this amount will come from local school district and charter school revenues.

The first round of B.E.S.T. grant awards were made by the State Board of Education in Fiscal Year 2008–09. The project list includes about $98.5 million of school building investment. Of that, $76.5 million is state grant dollars and $22 million represents the local district contribution. The construction includes five new schools to replace existing schools that had substantial health and safety problems; it also includes several repair and renovation projects.

Fall Colors in Boulder, Colorado.

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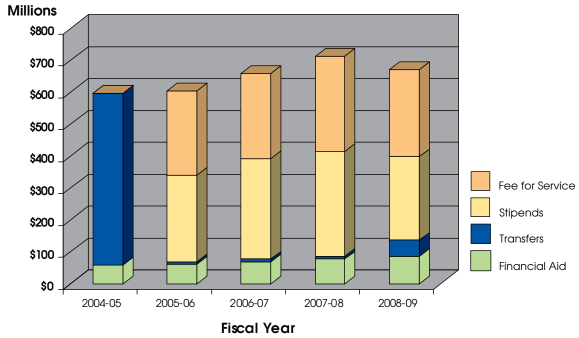
Higher Education

In actual dollars, general fund spending on Higher Education increased by 12.3 percent from Fiscal Year 2004–05 to 2008–09, but it declined by 5.9 percent from Fiscal Year 2007–08 to 2008–09. In Fiscal Year 2001–02, the state spent 12.9 percent of its total general-funded expenditures on Higher Education. By Fiscal Year 2008–09 that percentage had fallen to 8.9 percent—a decline of 31.0 percent. During this period, in-state enrollment increased .5 percent from 143,850 to 144,577. The percentage of total state spending represented by spending on Higher Education dropped for several reasons including and the current general revenue shortfall and unavoidable growth in other areas of the General Fund budget, which growth was limited to six percent growth prior to Fiscal Year 2009–10. The decline in the current year was backfilled with $151.0 million of monies from the federal American Recovery and Reinvestment Act.

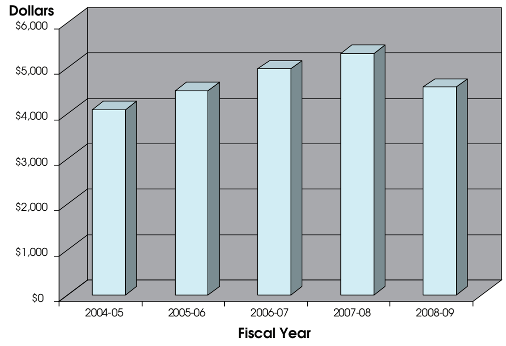
Higher Education has other sources of revenue beside appropriations from the state. It receives revenue from federal grants, tuition, and fees, among other sources. The federal grants are mostly related to research programs at the four major universities, and therefore, grants are not as important a source of revenue for the state's colleges or community college system. As a result, much of the burden of covering increasing costs of higher education fell on increasing tuition and fees.

In Fiscal Year 2005–06, the state began making stipend payments to higher education students through the College Opportunity Fund, and entering contracts to purchase higher education services from the higher education institutions instead of providing direct General Fund support. In the graph on the top right, the Fiscal Year 2005–06 through 2008–09 columns show this change from General Fund transfers paid directly to the institutions to revenues that the institutions must earn by providing education services to students (stipends) or the state (fee-for-service contracts).

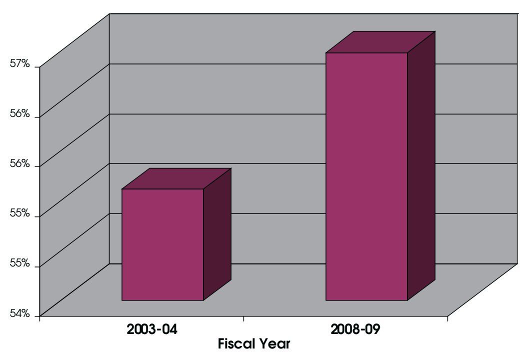
GENERAL FUND SPENDING FOR HIGHER EDUCATION

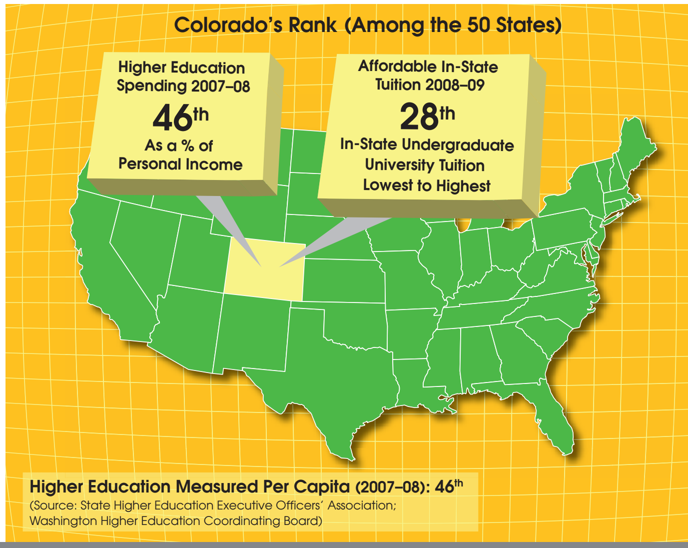


STATE SPENDING PER IN-STATE STUDENT



STUDENT SHARE OF TOTAL HIGHER EDUCATION COSTS





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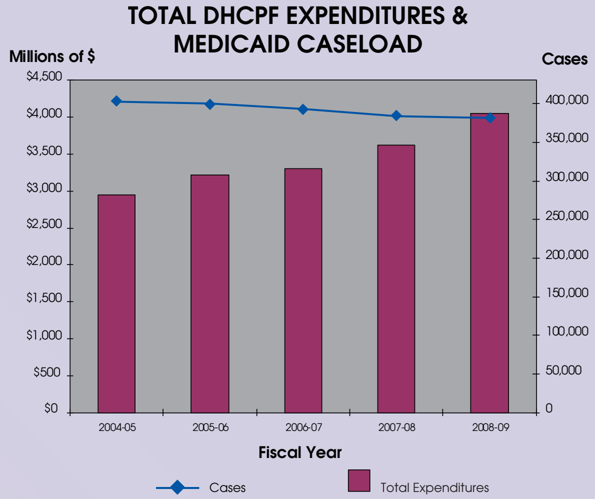
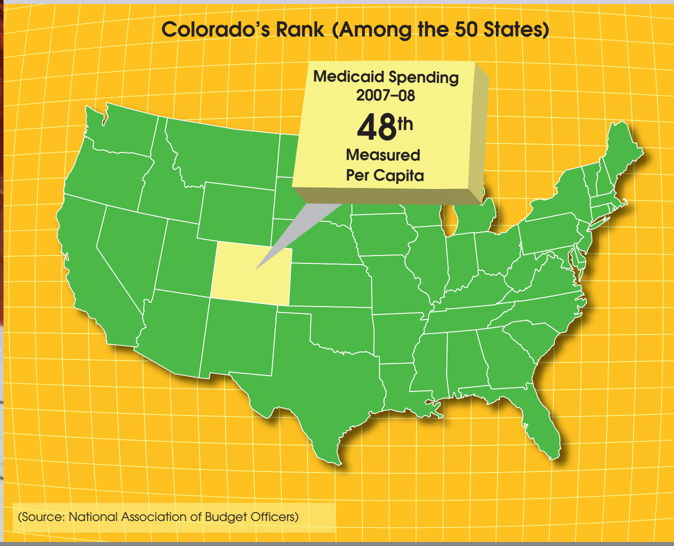
Health Care

Colorado's largest government supported health care program is the federal Medicaid program. Medicaid pays health care and long-term care costs for those who qualify under the Medicaid eligibility rules; eligibility is mostly based on an individual's level of income. Normally, about one-half of all Medicaid expenditures are paid using federal dollars; however, in Fiscal Year 2008–09, the federal share was increased to approximately 60 percent using $247.6 million from the American Recovery and Reinvestment Act.



The state also provides health care access to low-income children through the Child Health Plan Plus (CHP+). CHP+ was created as a federal and state partnership to increase the number of children with access to health care. In fiscal year 2009 CHP+ provided low cost health insurance to 77,152 children in Colorado who otherwise would have been uninsured. The state receives a two-dollar federal match for every dollar of state funds spent on the program. In Fiscal Year 2008–09, Colorado, through the Department of Health Care Policy and Financing (DHCPF), spent $4.05 billion from all sources (general, cash, and federal revenues) on its health care mission, which was a 37.4 percent increase since Fiscal Year 2004–05. During the same five years the Department's share of the General Fund budget decreased from 20.1 percent to 17.7 percent. The declining caseload as compared to increasing expenditures is a result of medical care inflation. Caseloads have been restated from the prior year.



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Transportation

Transportation expenditures by the state are a combination of spending on new or replacement construction, maintenance of existing roadways, and debt service. As shown by the graph just below the map, the state spent $1.50 billion on transportation in Fiscal Year 2008–09, which was down from the peak-spending amount of $1.66 billion in Fiscal Year 2002–03. The spending decline was mostly due to unusually high new construction spending in Fiscal Years 2000–01 through 2003–04. The new construction spending in that period was made possible by Transportation Revenue Anticipation Notes (TRANs) issued by the state after voters approved Referendum A in the 1999 general election.

Colorado pays for transportation costs from cash and federal revenues. The use of federal revenue is limited by Federal Highway Administration requirements and generally excludes maintenance activities. The cash sources include highway users taxes, such as, fuel tax, vehicle registrations, and before Fiscal Year 2008–09 included transfers and sales and use taxes diverted from the General Fund.

The Department of Transportation reports that much of the need for highway construction maintenance is not being met. The graph to the right compares the existing highways (measured in lane miles) to the demand for highways (measured in daily vehicle miles traveled). In high-density metropolitan areas, the increase in miles traveled without similar increases in lane miles or alternative transportation capacity results in increasing congestion.

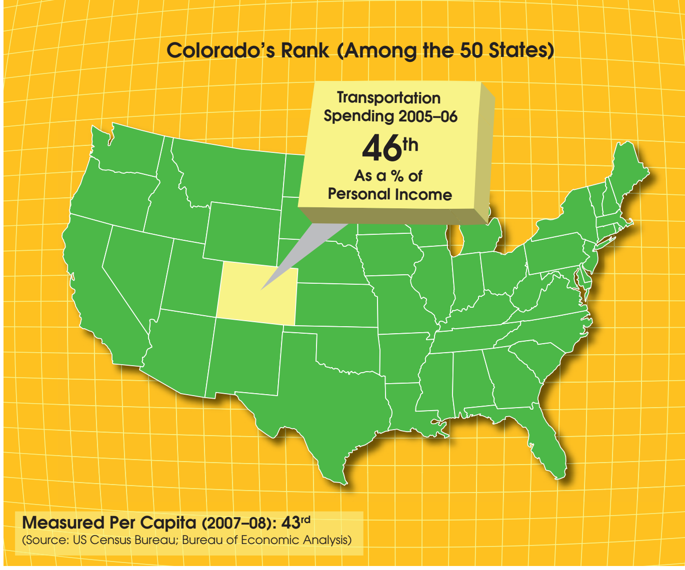
State fuel tax revenues have been losing purchasing power over time. Since 1991, the last time the Colorado legislature adjusted the state fuel tax, fuel tax revenues have lost 40.9 percent of their purchasing power adjusted for the Denver-Boulder consumer price index (real dollars). This, coupled with a rise in vehicle miles traveled, has caused a multi-billion gap in transportation funding.

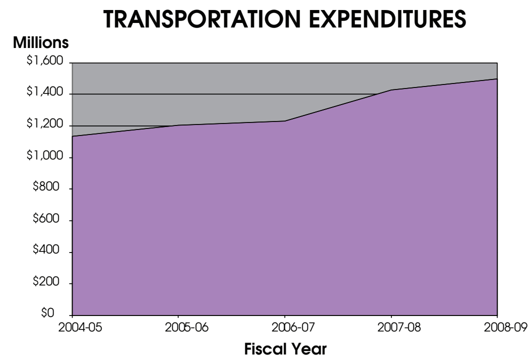
The following table shows the percentage of roadways rated good and fair as compared to those rated poor.

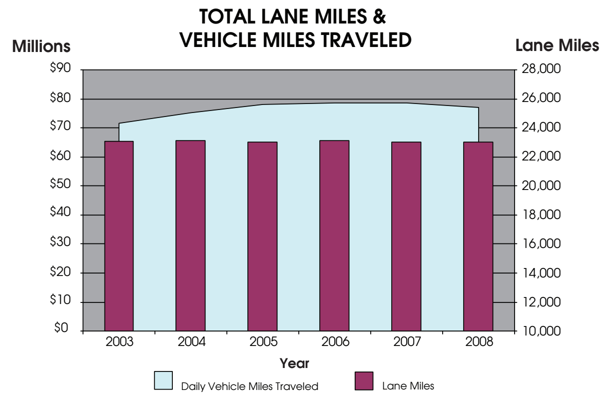
	2008	2007	2006	2005	2004
Percent Rated Good	53	59	63	65	61
Percent Rated Poor	47	41	37	35	39

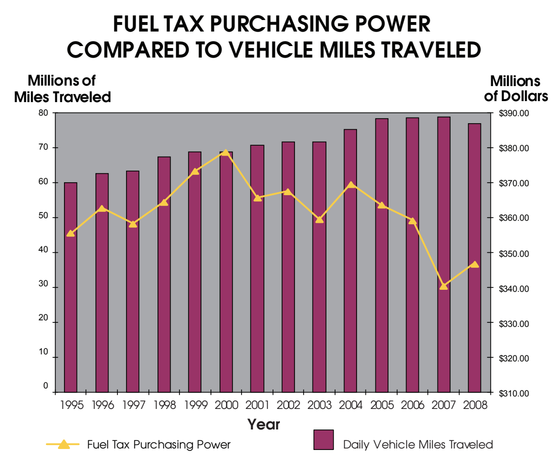
The following table shows the percentage of state bridge deck area that is assessed as being in poor condition as defined by the Department of Transportation. The Department of Transportation closes all bridges that are considered a threat to public safety. In Fiscal Year 2007–08 the Department was forced by lack of adequate funding to beginning reporting depreciation on its bridges because they could no longer be maintained at target levels.

	2009	2008	2007	2006	2005
Percent Rated Poor	5.62	6.21	5.81	5.61	3.39









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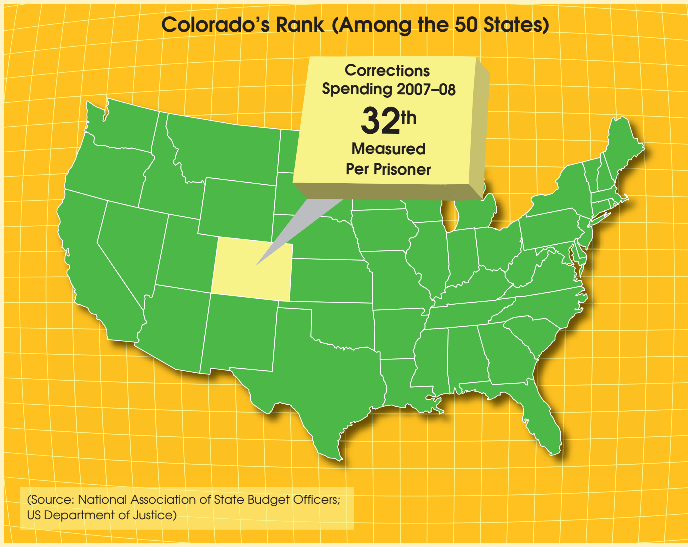
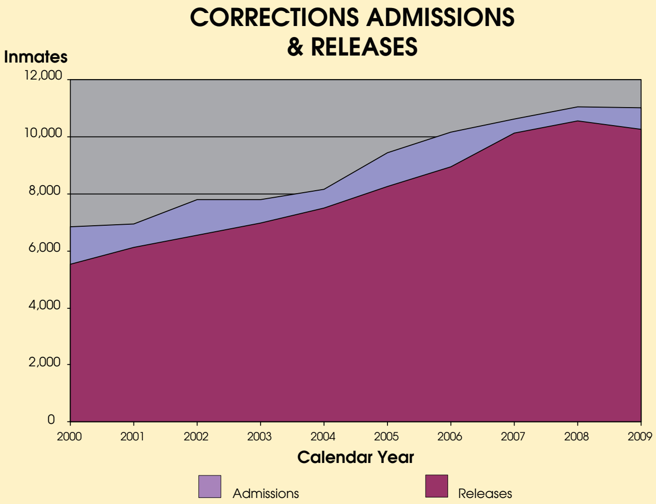
Justice

The justice function includes the Judicial Branch of government, and the Departments of Law, Public Safety, and Corrections. The Department of Corrections' general-funded expenditures increased from $495.2 million in Fiscal Year 2004–05 to $637.3 million in Fiscal Year 2008–09—a 28.7 percent increase. This represents an increase from 8.0 percent of the General Fund budget to 8.6 percent.

The general-funded expenditure amounts stated above do not include payments made to construct and repair the department's correctional facilities. In Fiscal Year 2005–06, the department issued $130.6 million of Certificates of Participation (COPs) to pay for construction of a new correctional facility.

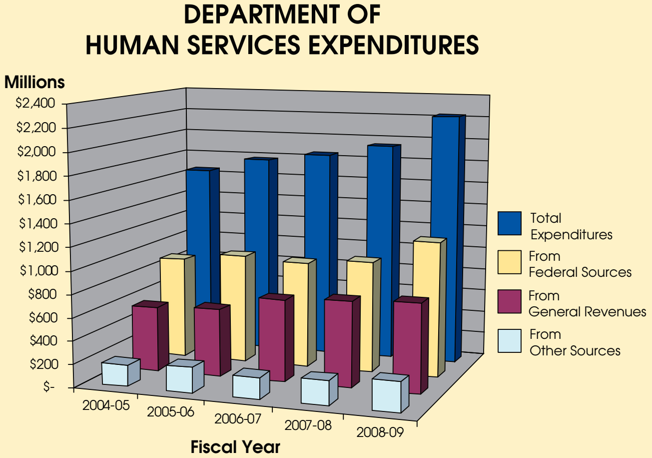
The Department of Corrections measures the demand for prison space and related general-funded operating costs based on the number of persons admitted to and released from the correctional facilities. The graph to the right shows that admissions have consistently exceeded releases by a significant amount over the past ten years. Although the gap between admissions and releases narrowed in Fiscal Years 2006–07 and 2007–08, it widened again in Fiscal Year 2008–09 causing a net increase in prison population of 719. Unless the growth in releases exceeds the growth in admissions, the prison population will continue to put pressure on the state General Fund budget.

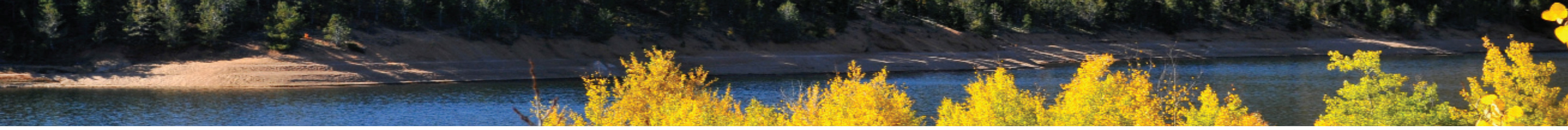




Social Assistance (Department of Human Services)

The Department of Human Services operates a wide variety of programs to assist the state's citizens including mental health institutes, residential mental health services, veterans' nursing homes, youth corrections, child and elderly services, and federal poverty programs. The chart shows that historically the federal government has provided most of the increase in social assistance expenditures. In Fiscal Year 2006–07 the increase was primarily from the General Fund; however, federal assistance once again provided the greater amount of the increase for Fiscal Year 2008–09. The demand for social services is affected by general increases in state population and increases in the portion of the population that is considered needy under program rules.





Crystal Reservoir in the Pike National Forest, Colorado.

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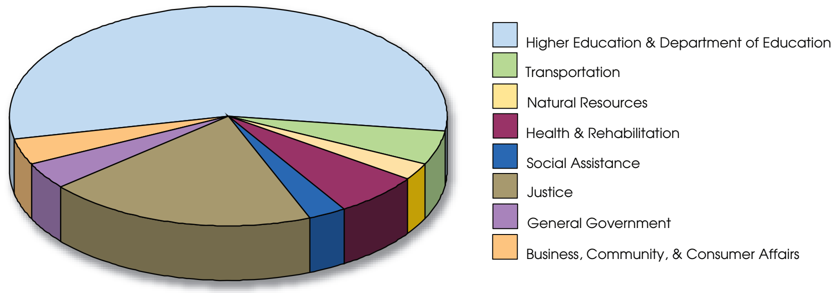
State Employee Workforce

In Fiscal Year 2008–09, the State of Colorado employed 64,535 full-time- equivalent employees (FTE); and total personal service expenditures (wages, salaries, and benefits) were $5.0 billion. Personal service expenditures have increased by 19.3 percent over the past five years with the effects of inflation removed (32.6 percent in real dollars). 52.1 percent of total FTE growth occurred in the Education function (primarily Higher Education workers because P–12 workers are employed by local school districts). Over the five-year period, the total number of state FTE has grown 11.2 percent while the state's population grew 7.5 percent.

NUMBER OF FULL-TIME EMPLOYEES BY FUNCTION

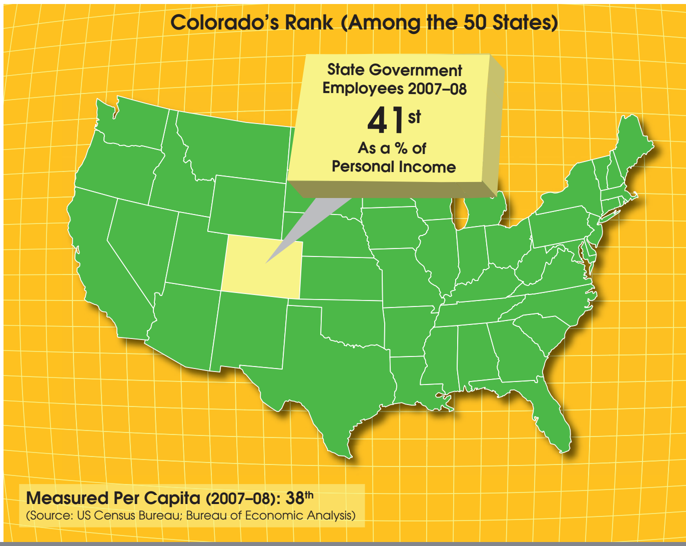


The chart shows the function where state workers are employed. The largest employer is the education function, up 10.3 percent over five years, followed by justice, up 17.3 percent (primarily prison guards), health and rehabilitation workers, up 7.1 percent, and transportation workers, up 9.7 percent.

NUMBER OF FULL-TIME-EQUIVALENT STATE EMPLOYEES BY FUNCTION
LAST FIVE FISCAL YEARS

FUNCTION	2008–09	2007–08	2006–07	2005–06	2004–05
General Government	2,454	2,392	2,322	2,255	2,219
Business, Community, & Consumer Affairs	2,437	2,372	2,335	2,342	2,367
Higher Education & Department of Education	36,042	34,469	33,464	32,680	32,664
Health & Rehabilitation	3,944	3,865	3,774	3,729	3,681
Justice	13,000	12,467	11,791	11,372	11,083
Natural Resources	1,587	1,583	1,522	1,485	1,472
Social Assistance	1,671	1,656	1,593	1,520	1,462
Transportation	3,400	3,111	3,072	3,085	3,098
TOTAL FTE	64,535	61,915	59,873	58,468	58,046

[3] The term full-time-equivalent in this instance is used to estimate the number of full-time employees that would be needed to provide the same services that are currently provided by a mix of full-time employees and in some instances a large number of part-time or seasonal employees. The estimate is based on each agency's average salaries of full-time employees divided into the total part-time payroll.



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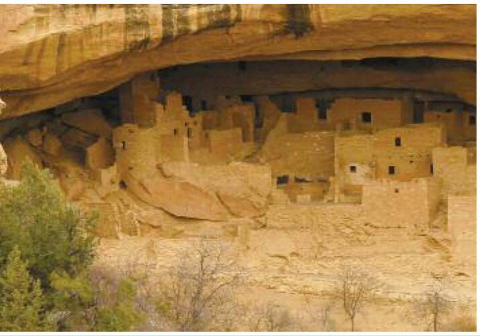
Colorado State Facts

Some Important Dates:

A.D. 1–1299	Anasazi culture flourishes in the area of Mesa Verde in southwestern Colorado.
c. 1500	Ute Indians inhabit mountain areas of southern Rocky Mountains, making these Native Americans the oldest continuous residents of Colorado.
1541	Coronado leads an expedition north from Mexico in search of the Seven Cities of Cibola. It is likely Coronado and his party passed through the present-day area of southeastern Colorado.
1803	The United States purchases land, including what is now most of eastern Colorado, from France in the Louisiana Purchase.
1806	Lt. Zebulon M. Pike and a small party of U.S. soldiers sent to explore the southwestern boundary of the Louisiana Purchase discover the peak that bears his name but fail in their effort to climb it. However, they do reach the headwaters of the Arkansas River near Leadville.
1851	The founding of the town of San Luis, in the San Luis Valley, the first permanent European settlement in the state.
1858	Gold is discovered along Cherry Creek near the present day Denver.
1861	Congress establishes the Colorado Territory with the boundaries of the present state and chooses its name from the Spanish word for "colored red." President Lincoln appoints William Gilpin as the first territorial governor. The State Supreme Court is organized. The first assembly meets, creates 17 counties, and selects Colorado City as the territorial capital.
1867	Denver established as permanent seat of the territorial government by the legislature meeting in Golden.
1870	The Denver Pacific Railroad is completed to Denver.
1876	Colorado is admitted to the Union as the 38th state. John L. Routt is elected the first governor.
1877	The University of Colorado opens classes at Boulder with two teachers and forty-four students.
1894	The State Capitol Building, designed by Elijah E. Meyers, is completed at a cost of $2.5 million. Colorado becomes the second state, after Wyoming, to extend suffrage to women.
1906	The U.S. Mint at Denver issues its first coins.
1910	Colorado voters adopt a constitutional amendment allowing citizen initiatives.
1973	The Eisenhower Tunnel is built beneath the Continental Divide, sixty miles west of Denver.

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Geography:

Area: 104,247 square miles.

Highest Elevation: Mt Elbert—14,431 feet above sea level.

Lowest Elevation: Along the Arkansas River in Prowers County, 3,350 feet above sea level.

Colorado has the highest average elevation of all fifty states at 6,800 feet above sea level.

State Facts and Symbols:

State Animal—Rocky Mountain Bighorn Sheep

State Bird—Lark Bunting

State Fish—Greenback Cutthroat Trout

State Flower—White and Lavender Columbine

State Folk Dance—Square Dance

State Fossil—Stegosaurus

State Gemstone—Aquamarine

State Grass—Blue Grama

State Insect—Hairstreak Butterfly

State Mineral—Rhodochrosite

State Motto—Nil Sine Numine—Nothing Without Providence (or Deity)

State Nickname—Centennial State

State Reptile—Western Painted Turtle

State Rock—Yule Marble

State Songs—Where the Columbines Grow and Rocky Mountain High

State Tree—Colorado Blue Spruce

State Winter Recreational Sports—Skiing and Snowboarding

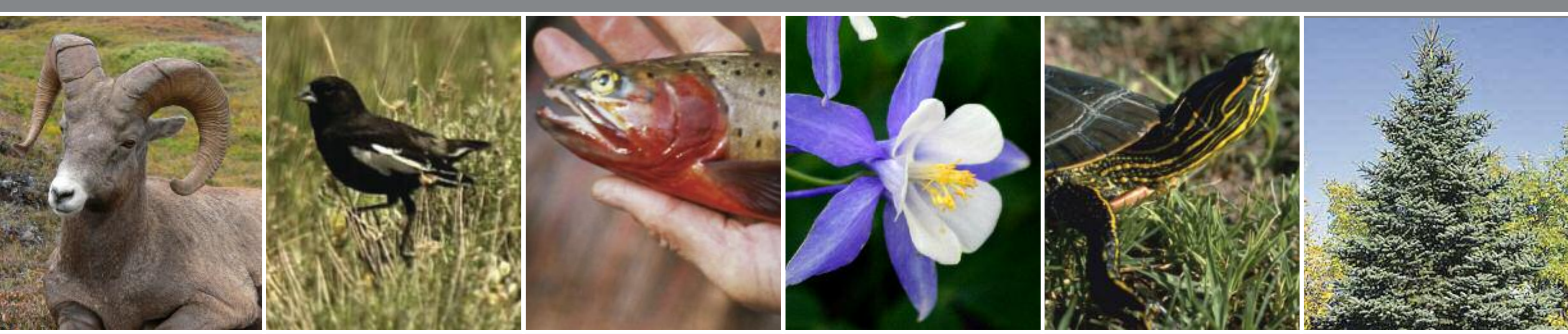

Photo courtesy: Various photos from Shutterstock, CDOW, and other image sources.

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