Moody's Investors Service

Global Credit Research
New Issue
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New Issue: Colorado (State of)

MOODY'S ASSIGNS MIG1 RATING TO STATE OF COLORADO GENERAL FUND TAX AND REVENUE ANTICIPATION NOTES

State
CO

Moody's Rating

ISSUE	RATING
General Fund Tax and Revenue Anticipation Notes, Series 2007 A	MIG 1

Sale Amount	$500,000,000
Expected Sale Date	06/27/07
Rating Description	Tax and Revenue Anticipation Notes

Opinion

NEW YORK, Jun 22, 2007 -- Moody's Investors Service has assigned a MIG-1 rating to the State of Colorado's $500 million Tax and Revenue Anticipation Notes, Series 2007A. The notes are being issued to fund temporary cash flow imbalances in the state's General Fund during the 2008 fiscal year. The notes are payable from and secured by a limited pledge of anticipated fiscal 2008 General Fund revenues, and, if necessary, proceeds of inter-fund borrowings from other state funds. The notes do not constitute a general obligation or indebtedness of the state. The best-quality short-term note rating reflects the following credit strengths and challenges:

Credit Strengths

* Pledge of general fund revenues.

* Very substantial balances in other state funds and accounts, projected at over $2 billion, may be borrowed by the state treasurer if necessary to ensure note repayment.

Credit Challenges

* Complex system of state constitutional revenue limits and spending requirements

FISCAL 2008 CASH FLOWS INDICATE $257 MILLION ENDING CASH BALANCE IN GENERAL FUND

The notes' proceeds will enable the state to meet its seasonal cash needs that arise due to large public school distributions in the months of July, September, and December, pending the normal replenishment of cash balances in April, May, and June. Fiscal 2008 cash flow projections for the General Fund reflect the state's enacted fiscal 2008 budget, and also include the effects of several constitutional and legislative amendments on both revenues and expenses. The projected ending cash balance in June 2008, after repayment of the notes and payment of interest, is $257 million. This balance amounts to about 3% of projected state-source revenues for the year, representing a modest cushion to absorb potential revenue and expenditure forecast risks. Total estimated general fund cash revenues for fiscal 2008 of over $7.5 billion provide 15 times coverage of the $500 million principal note amount.

While the projections indicate that some additional borrowing could be needed during the year, the state treasurer's office currently anticipates that this will be accommodated by tapping available liquid balances in other state funds and accounts. The state does not plan on the issuance of any additional notes.

SUBSTANTIAL BORROWABLE RESOURCES IN OTHER FUNDS ARE KEY TO MIG 1 RATING

The state treasurer covenants to credit pledged General Fund revenues to the note payment account so that the amount available on June 15, 2008 will be sufficient to pay the aggregate note principal and interest due on the note maturity date. If necessary to meet the obligation to deposit sufficient funds in the note payment account by June 15, the treasurer has covenanted to effect inter-fund borrowings from other state funds and accounts. Amounts legally available in other funds are substantial, with over $2 billion in aggregate balances projected at end of June 2008. These balances reside in over 600 separate funds and accounts, including sixteen major funds which account for $2.1 billion in borrowables and around 600 smaller funds and accounts which total over $500 million in available borrowable resources. State highway funds, the State Education Fund, and certain others are not available for inter-fund borrowing, and are not included in the available balance projections. There is no requirement to repay inter-fund borrowings by fiscal year-end, which provides the state with some financial flexibility in dealing with potential funding shortfalls.

STATE TAX REVENUES CONTINUE TO GROW AT A HEALTHY PACE

State tax revenues are on target to post a 7% increase at the end of fiscal year 2007 (June 30), according to the latest fiscal update released by the state. This growth comes on top of a 13% increase in revenues in fiscal 2006. Projections for fiscal 2008 anticipate general fund revenue growth at a moderate 4.5%.

Personal income tax (PIT) is the largest source of general fund revenue and is anticipated to increase by 8.3% in fiscal 2007. Additionally, sales and use tax is expected to post a 5% increase. The latest state revenue revision forecasts growth in fiscal 2008 of 5% in PIT and 4% in sales and use tax. State expenditures are limited to 6% year over year growth as a result of the state's Taxpayer Bill of Rights (TABOR)

The expected fiscal 2007 budget surplus of $383 million ensures funding of the budget reserve which is statutorily set to equal 4% of general fund appropriations. The reserve amount for fiscal 2007 equals $267 million. Monies in excess of the reserve s will be used to fund transportation and pay as you go capital costs as required by state legislation. Additionally, the state continues its trend of positive GAAP balances, ending fiscal 2006 with an audited GAAP undesignated unreserved general fund balance of $295 million (4.2%) of general fund revenues.

ECONOMIC CONTINUES GROWTH

Colorado's economic outlook continues to be favorable as measured by unemployment, personal income growth, and other measures. The state remains below the national level of unemployment. The May 2007 seasonally adjusted unemployment rate of 3.6% is a full percentage below the nations (4.7%). The state is also outpacing the nation in employment growth, posting a 2% gain vs. 1.4% for the nation (May 2007 preliminary U.S. BLS figures).

State personal income growth (4.5%) slightly lagged the nation's i(5.2%) in 2006 (preliminary figures from U.S. BEA) . However, Colorado is a wealthy state, with per capita income equal to 108% of the U.S. average and ranking of eighth highest in the nation.

The state economy is diverse, with below average employment concentration in manufacturing and a variety of service sector strengths. Looking ahead, the economic outlook is favorable, reflecting the growing population and workforce, relatively low costs of living and doing business, and mix of technology and service industries.

COMPLEX CONSTITUTIONAL CONSTRAINTS GOVERN STATE FINANCES

State finances are strongly influenced by a number of statutory and constitutional limits and requirements affecting spending and revenue growth. The constitutional amendment known as TABOR was passed by state voters in 1992 and limits state revenue and expenditure growth to the rate of population growth plus the rate of inflation. In the event that tax revenues decline in any year the constitutional growth limit going forward is applied to the lower revenue base. Any annual tax revenues that exceed the constitutional limit must be refunded (unless voters approve otherwise) in the following year.

The state experienced severe revenue declines in fiscal 2002 and fiscal 2003 and, as a result of the TABOR amendment; state revenue available for appropriations in the subsequent years was severely limited. In November 2005 voters passed Referendum C, which suspended the growth limit on revenues and allowed the state to retain and appropriate revenues in excess of the TABOR limit for the period of July 1, 2005 through June 30, 2010. The passage of Referendum C provided the state with much needed fiscal relief. The state estimates that it will be able to retain over $5 billion in revenues during the enacted period. These excess monies will be used to fund healthcare, higher education spending and public employee retirement plans.

Back in November 2000, voters passed Constitutional Amendment 23, which diverts a portion of the state's income tax revenue to a separate State Education Fund, and requires total state K-12 education funding to increase by the inflation rate plus 1% through 2010, and by the inflation rate thereafter. While the increased education spending is exempted from the base spending and revenue limits of the constitution, the K-12 constitutional spending increases could be at the expense of other state programs in the event of future revenue declines.

Analysts

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July 3, 2007

Mr. Charles Scheibe
Chief Financial Officer
State of Colorado
140 State Capitol
Denver, CO 80203

Dear Mr. Scheibe:

We wish to inform you that on July 3, 2007, Moody's Investors Service reviewed and assigned a rating of **MIG 1** to the State of Colorado Education Loan Program Tax and Revenue Anticipation Notes, Series 2007A.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Jolene Yee, at 415-274-1720.

Sincerely,

Kenneth B. Kurtz

Kenneth B. Kurtz
Managing Director

KBK:JY/cm

cc: Mr. Terry Casey
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December 11, 2007

Mr. Charles Scheibe
Chief Financial Officer
State of Colorado
140 State Capitol
Denver, CO 80203

Dear Mr. Scheibe:

We wish to inform you that on December 10, 2007, Moody's Investors Service reviewed and assigned a rating of **MIG 1** to the State of Colorado Education Loan Program Tax and Revenue Anticipation Notes, Series 2007B.

In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, including annual financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's ratings desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Jolene Yee, at 415-274-1720.

Sincerely,

Kenneth B. Kurtz

Kenneth B. Kurtz
Managing Director

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cc: Mr. Terry Casey
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