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MEMORANDUM

September 19, 2003

TO: Members of the General Assembly

FROM: The Economics Staff, (303) 866-3521

SUBJECT: *Focus Colorado, Economic and Revenue Forecast, 2003-2009*

In this report, we present the September 2003 General Fund revenue forecast and overview, the projections of surplus TABOR revenues, the cash funds forecast, and the national and state economic forecasts. The tables for the forecasts and overview are included at the end of this report.

Summary

- This forecast marks the first time since June 2001 that the forecast was not revised down significantly. We increased the General Fund revenue forecast by $22.2 million for FY 2003-04 and by $24.8 million for FY 2004-05. General Fund revenue will increase 2.3% in FY 2003-04 and 6.8% in FY 2004-05. The forecast for the following three years was revised down by a total of $70.9 million.

- General Fund appropriations must be reduced by $38.1 million in FY 2003-04 to maintain a four percent statutory reserve. Additionally, appropriations can increase by only 2.74% and 1.93% in the next two fiscal years if a four percent reserve is maintained. While capital construction transfers could be reduced or the payback to the Controlled Maintenance Trust Fund delayed again to keep appropriations at a higher level, these actions would only delay the need for eventual appropriations increases below the six percent maximum.

- If the budget shortfall is resolved via appropriations increases at the levels suggested above, Senate Bill 97-1 diversions could resume in FY 2006-07. The payback of monies borrowed from several cash funds could occur within the forecast period and a small amount of excess reserve funds could be transferred to the Highway Users Tax Fund and the Controlled Maintenance Trust Fund in FY 2008-09.

- The state will have a TABOR surplus of $35.8 million in FY 2004-05. Over the entire forecast period, the surpluses will total $1.27 billion. The surpluses through FY 2007-08 are $311.3 million less than in the June forecast.

- Cash fund revenue subject to the TABOR revenue limit will increase 10.7% in FY 2003-04. Increases in unemployment insurance revenue and higher education revenue are responsible for nearly two-thirds of the increase. A continued rise in unemployment insurance taxes because of a solvency tax will lead to a 9.8% increase in total cash fund revenue in FY 2004-05.

General Fund Revenue

This section presents a review of FY 2002-03 and our outlook for General Fund revenue for FY 2003-04 through FY 2008-09. Table 1 shows the forecast.

Review of FY 2002-03. The economy was still weak during the past year. The average level of employment was 1.0% lower than in the previous fiscal year. While wage and salary income is not yet available for the fiscal year, it declined by 0.3% through the first three quarters of the fiscal year, compared with the previous year. Additionally, it is likely that capital gains income declined again.

Most taxes declined as a result. Based on preliminary and unaudited data from the Office of the State Controller, General Fund revenue declined 1.7% in FY 2002-03, following a record 15.0% decline in available revenue in FY 2001-02. Income taxes from individuals declined 6.7% in FY 2002-03, the second consecutive decline. Both sales tax and use tax revenue declined by 3.0%. Estate taxes, affected by the phase out of the state tax credit on federal estate tax returns, declined by 26.4%. Tax categories that recorded gains included corporate income (26.4%), insurance (10.8%), gaming (12.6%), and to a lesser extent tobacco products (0.4%) and liquor (0.8%).

While the overall revenue picture may appear negative, revenue was $110.3 million better than expected in the June 2003 forecast. Several reasons account for the difference. The tax amnesty program in June brought in $19.1 million to the General Fund, $14.1 million more than anticipated. The sale of investments by the state Treasurer's office to pay back tax anticipation notes added $3.9 million to the expected gains of $35 million. We had believed that a portion of the unemployment tax surcharge would be transferred to the General Fund. Instead, the surcharge ($14.6 million) was counted as revenue rather than as a transfer. Additionally, the surcharge amount was larger than anticipated. Each year, the Department of Revenue has tax receipts that are not recorded to a particular tax account. At the end of the year, the department clears up these issues. At the end of FY 2002-03, this revenue was nearly $14 million larger than in the previous year. Finally, the tax accruals were larger than we anticipated.

The General Fund forecast. While the economy has not yet shown significant signs of turning up, it very likely has bottomed out. We are seeing similar signs in General Fund revenue. General Fund revenue in July and August was higher in each month compared with a year ago. This is the first time in 2½ years that consecutive gains were recorded.

We increased the General Fund forecast by $22.2 million for FY 2003-04 and $24.8 million for FY 2004-05. However, we decreased the forecast by a total of $70.9 million over the following three fiscal years. These changes are the smallest since the September 2001 forecast when it became apparent that the economic and stock market downturns were significantly affecting revenue and the terrorist attacks would sharpen the revenue decline.

Individual income taxes will increase 7.4% in FY 2003-04. A significant portion of the gain is attributable to the accrual process. This process subtracted almost $119 million from cash receipts in FY 2002-03. Accruals will be positive in FY 2003-04 and will add over three percentage points to the growth rate. We expect that wage and salary gains will be minimal through the rest of this budget year. The recent stock market gains will translate into higher estimated payments, although it should be somewhat muted by taxpayers carrying forward losses from the two previous years. Individual income taxes will increase by 7.5% in FY 2004-05 when more positive economic factors begin to affect income tax revenue.

Corporate income taxes will decline 9.8% in FY 2003-04. The federal tax law changes of this past spring will reduce state tax receipts by an estimated $27.6 million, thus more than offsetting a rebound in taxes from increased corporate profits.

Sales taxes will increase 2.4% in FY 2003-04. After falling in every month of FY 2002-03 compared with the same month of the previous fiscal year, sales taxes increased in July and August. We believe that this is a good indication that the economy is turning around. Tourism spending is likely higher this summer, particularly after wildfires and drought reduced travel to Colorado last year. The federal tax cuts began to put additional money in consumers' wallets in July and August and will provide a stimulus to spending over the next few months. Sales tax receipts will be higher this year and next because of a temporary reduction in the vendor's discount.

Use taxes will still be constrained by the lack of willingness among businesses to invest. Much of Colorado's use tax comes from the utilities and construction industries. These industries are expected to remain weak over the next several quarters. Thus, use taxes will decrease 2.8% this year. A more robust growth rate of 8.3% will occur in FY 2004-05.

Estate taxes will be affected by the on-going impact of the federal phase-out of the state tax credit allowed on federal returns. By FY 2006-07, receipts from the estate tax will be eliminated. *Insurance premium taxes* have shown the most robust growth during the economic downturn. This trend will continue during the forecast period. *Investment income* will decline significantly this year, as last June's gains from the sale of investment assets were one-time in nature. The state's General Fund will not experience the sharp gains of recent years for *gaming taxes*. These taxes will increase only 2.4% in FY 2003-04 and decline 2.1% in FY 2004-05.

General Fund Overview

This section presents a review of the recently concluded fiscal year and the outlook for the General Fund balance. This overview is based on the preliminary, unaudited report from the Office of the State Controller. Table 2 presents the General Fund overview.

Review of FY 2002-03. The economic downturn and decline in revenue caused the General Assembly to take many actions to produce a balanced budget for FY 2002-03. A net amount of $206.2 million was transferred to the General Fund from cash funds. These transfers are in addition to $1.0 billion of net transfers in FY 2001-02. The legislature reduced General Fund appropriations throughout the recent session. By the end of the fiscal year, appropriations were $245.4 million, or 4.34%, lower than the previous year.

Because of the greater-than-expected revenue during the year, $15.0 million of federal matching funds for Medicaid assistance, and $20.8 million of reversions at the end of the year, the General Fund had a year-end fund balance of $223.1 million. This balance is $6.4 million higher than the four percent reserve requirement in effect for most years. Although the reserve requirement for FY 2002-03 was less than four percent, a statute requiring diversion of reserve monies in excess of the four percent required reserve is still in effect. Thus, the $6.4 million will be transferred to the Highway Users Tax Fund (HUTF) and the Capital Construction Fund (CCF) on a 2/3 to 1/3 ratio in FY 2003-04.

The outlook for the General Fund overview. Table 2 presents the General Fund overview after incorporating the revenue forecast, any expected TABOR surpluses, and other expenditures from the General Fund. The overview also incorporates the additional revenue from the federal government that is to be used for assisting the state in making Medicaid payments.

We expect that General Fund appropriations will need to be reduced by $38.1 million this year in order to maintain a four percent reserve. While revenues in FY 2002-03 were higher than expected, a portion of the reserve will be transferred to other funds as mentioned previously. Without these transfers, appropriations would not need to be reduced as much to provide a balanced budget with a four percent reserve. The state received $146.3 million of discretionary funds from the federal government that Governor Owens wanted to use for future declines in revenue in FY 2003-04. Some of the funds have been allocated to specific uses and $109.9 million remains. While this money could be used to offset the anticipated $38.1 million shortfall, it would necessitate even higher reductions in General Fund appropriations in future years because the appropriations base would be higher.

For FY 2004-05 and FY 2005-06, capital construction transfers of roughly $100 million in each year and the payback of $138.2 million in each year to the Controlled Maintenance Trust Fund (CMTF) are scheduled. Combined with the revenue forecast, we anticipate that appropriations cannot grow by the six percent maximum and maintain the four percent reserve requirement. In order to prevent a budget shortfall, General Fund appropriations can increase by only 2.74% and 1.93% for FY 2004-05 and FY 2005-06, respectively. The reductions below the six percent limit amount to $177.2 million and $237.5 million. While capital construction transfers and the CMTF payback could be reduced or delayed, this action would only delay the need to eventually reduce General Fund appropriations.

If the budget balancing occurs through reduced appropriations as indicated in Table 2, diversions of sales and use tax revenues could resume in FY 2006-07. A partial diversion would occur in that year and a full diversion would occur in FY 2007-08 and FY 2008-09. The full repayment of $67.1 million to several cash funds would occur during the last two years of the forecast period. The repayment to these funds was contingent on General Fund appropriations being fully funded at the maximum six percent limit, the statutory reserve being fully funded at four percent, and a full diversion of sales and use taxes to the HUTF.

The Constitutional Revenue Limit — TABOR

The provisions of Article X, Section 20 of the Colorado Constitution (TABOR) require that revenue collected above the TABOR limit be refunded to taxpayers within one year after the fiscal year in which they were collected. TABOR limits annual growth in most state revenue to inflation plus the annual percentage change in population.

Table 3 shows the projections of future TABOR surpluses based upon current law and the September 2003 forecasts of revenue, inflation, and population. The state had a TABOR surplus for five consecutive years between FY 1996-97 and FY 2000-01 and refunded $3.25 billion to taxpayers as a result. The economic downturn, coupled with tax reductions and voter-approved changes to the constitution, caused the state to fall $365.7 million and $619.7 million below the allowable limit for FY 2001-02 and FY 2002-03, respectively.

The TABOR limit of $8.3 billion for FY 2002-03 includes a $23.4 million adjustment for the disqualification of an enterprise. We anticipate that the state nursing home enterprise will re-qualify for enterprise status in FY 2003-04 and later years. Thus, the TABOR limit for FY 2003-04 has a similar adjustment.

When the state drops below its allowable TABOR limit, the next year's limit is calculated based on actual revenue rather than the prior year's limit, causing a "ratcheting-down" effect on the limit. Thus, when revenue growth resumes at a stronger rate during the current fiscal year, the state will again have revenue growth that exceeds the allowable increase based on population and inflation despite falling nearly a combined $1 billion below the limit during the prior two years.

Due to the passage of the "population adjustment" as part of Senate Bill 02-179 and House Bill 02-1310, the state will not have a surplus during FY 2003-04. This adjustment allows for the "carrying forward" of the unused part of the TABOR limit from FY 2001-02 that can be associated with population. Therefore, six percentage points of allowable growth were carried forward and 1.6 percentage points worth will be used in FY 2003-04 to increase the TABOR limit so that no surplus exists in that year. The population adjustment will allow the state to retain an additional $120.3 million in FY 2003-04. The rest of the adjustment will be made during FY 2004-05, allowing the state to retain an incremental $356.6 million. The combined impact of both years' adjustments will allow the state to keep an additional $480.3 million in FY 2004-05.

Surpluses collected between FY 2004-05 and FY 2007-08 will total $1,015.9 million. This estimate is $311.3 million lower than in our June 2003 forecast. We decreased our estimate for the

TABOR surplus for two reasons. First, the TABOR revenues for FY 2002-03 were $96 million higher than we had anticipated. Second, the forecast for TABOR revenues during the forecast period is lower than we had forecast in June.

The General Assembly has enacted 18 refund methods that will be used to return the surplus TABOR revenue to taxpayers. Except for the sales tax refund, a refund is used only if the amount of the surplus exceeds a threshold amount set for the refund method. For the FY 2004-05 surplus, only the sales tax refund will be used. In addition to the sales tax refund, four refund mechanisms will be in effect in FY 2005-06, seven will be in effect in FY 2006-07, and three will be in effect in FY 2007-08. In FY 2008-09, only the sales tax refund and the earned income tax credit refund will be used.

During the 2003 legislative session, the General Assembly passed House Bill 03-1238 and reversed the accounting of the TABOR refund from what was done under House Bill 98-1414. The latter bill allowed the state to record the TABOR surplus liability in the year after it was incurred. House Bill 03-1238 requires the state to now record the TABOR surplus liability in the same year it occurs. This will prevent the state from "pre-spending" the surplus as it did in earlier years. Because of the change in accounting methodology, appropriations during the forecast period will be $649.8 million lower. However, the Senate Bill 97-1 diversion will be an estimated $306.4 million higher and transfers to the HUTF and CCF will be $3.7 million higher. Additionally, the paybacks to the cash funds will occur, the General Fund reserve is higher, and an additional year of the TABOR surplus has been recorded.

Cash Funds Revenue Forecast

This section presents the forecast of cash fund revenue subject to the TABOR revenue limit. Table 4 presents the forecast by fund type. After decreasing 4.3% in FY 2002-03, **total cash fund revenue** subject to the TABOR limit will increase 10.7% in FY 2003-04 and at an average annual rate of 5.1% between FY 2002-03 and FY 2008-09. The pattern of growth will be varied due to numerous bills that alter fee revenue and the imposition of the unemployment insurance solvency tax during calendar years 2004 through 2007.

The forecast for cash fund revenue was reduced by $58.6 million for FY 2003-04 and by a total of $255.7 million between FY 2003-04 and FY 2007-08. The largest reductions occurred in the forecasts for higher education and unemployment insurance revenues. The forecast for unemployment insurance revenue was reduced by $29.2 million in FY 2003-04 and by a total of $44.0 million between FY 2003-04 and FY 2007-08. The forecast for higher education revenue was reduced by $24.7 million in FY 2003-04 as a result of lower-than-expected nontuition revenue. The reduction was carried forward through the forecast period for a total reduction of $212.7 million between FY 2003-04 and FY 2007-08.

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and several smaller funds. Revenue to the transportation-related cash funds will increase 1.6% in FY 2003-04 and increase at an average annual rate of 3.4% over the forecast period. The HUTF will increase 1.5% in FY 2003-04, with registration fee revenue increasing 2.0% and motor fuel tax revenue increasing 2.3%. HUTF revenue will increase at an average annual rate of 3.1% over

the forecast period. SHF revenue, which includes interest earnings on the fund balance and matching funds from local governments, will decrease substantially in FY 2003-04 after a similar decrease in FY 2002-03. Matching funds from local governments are decreasing from record levels in FY 2001-02. The record levels in FY 2001-02 were due to projects accelerated with the use of Transportation Revenue Anticipation Notes. While $4.3 million will be transferred from the excess General Fund reserve to the HUTF in FY 2003-04, another transfer will not occur again until FY 2008-09. In addition, the Senate Bill 97-1 diversion will not occur until FY 2006-07.

Higher education cash fund revenue (net of scholarship allowances) will increase 8.4% in FY 2003-04. Enrollment is projected to increase by 1.5% this year. While enrollment gains will be relatively lower in FY 2003-04, the growth rate for revenue will remain strong due to significant tuition increases. The amount of higher education revenue for FY 2003-04 is lower than the June 2003 estimate due to a less-than-expected level of nontuition revenue, representing student fees, auxiliary operations, and interest income last year.

Once the economy recovers in 2004 and job growth improves, enrollment and revenue growth will moderate to more typical levels as more prospective students will be able to obtain jobs. Over the six-year forecast period through FY 2008-09, higher education revenue will grow at a 5.8% average annual growth rate. Meanwhile, public higher education enrollment, based on the number of full-time-equivalent students, will increase at an average annual pace of 1.5% over the forecast period.

Total *unemployment insurance* (UI) revenue will increase 46.0% in FY 2003-04 to $319.9 million after increasing 11.7% in FY 2002-03. The increase will occur as a result of rising UI tax rates due to historically high levels of benefit payments and the imposition of the UI solvency tax beginning in January 2004. After increasing 165.7% in FY 2001-02 and another 9.6% in FY 2002-03, benefit payments will decrease 13.1% to $463.7 million in FY 2003-04. While benefit payments are expected to continue to decline throughout the remainder of the forecast period, they will remain higher than historical levels for several years. This unprecedented demand on the fund's resources will draw the fund balance down to a level such that a higher tax rate schedule will be in effect during 2004, 2005, and 2006. In addition, the solvency tax, which is levied when the fund balance falls to below 0.9% of total private wages, will be in effect in calendar years 2004 through 2007. The solvency tax will generate a total of $644.4 million over the four-year period. Thus, total UI taxes will increase 59.8% in FY 2003-04, 55.9% in FY 2004-05, and 10.8% in FY 2005-06. The fund balance will recover as a result, increasing to $989.8 million by FY 2008-09.

Limited Gaming Cash Fund revenue, which includes gaming taxes and license fees, will increase 2.9% in FY 2003-04 after increasing 0.9% in FY 2002-03. A saturation point in the industry will lead to low growth rates in gaming taxes during the remainder of the forecast period relative to the double-digit pace experienced during much of the last half of the 1990s. Total gaming revenue will increase at an average annual rate of 4.7% over the forecast period.

Severance taxes are imposed on oil, natural gas, coal, molybdenum, and metallic minerals mined in Colorado. Severance taxes and interest earnings to the fund will increase 92.6% in FY 2003-04 to $62.8 million after decreasing 43.3% in FY 2002-03. The uneven pattern in severance tax revenue comes from oil and gas severance taxes, which are impacted by volatility in natural gas prices

and property taxes on the value of oil and gas produced in Colorado. Oil and gas producers are allowed a tax credit on severance taxes equal to the current year's property taxes, which are based on an earlier year's production value. Total severance tax revenue will increase at an average annual rate of 9.8% between FY 2002-03 and FY 2008-09.

All *other cash fund revenue* will increase 8.9% in FY 2003-04, and at an average annual rate of 5.8% over the forecast period. Revenue to the umbrella group of *"other cash funds"* will increase 14.0% in FY 2003-04 as a result of 35 bills that will increase revenue to these funds by a net amount of $53.4 million. Fee revenue to the Petroleum Storage Tank Fund will increase 33.5% in FY 2003-04 because the environmental response surcharge is expected to remain at $75 for the entire fiscal year due to high demand on the fund's resources. Colorado law increases the surcharge from $50 to $75 when the fund balance falls below $5 million.

National Economy

This section provides a review of the recent performance of the national economy and details the national economic forecast.

Recent data. Inflation-adjusted gross domestic product (**GDP**) increased at a 3.1% annual pace in the second quarter, the strongest growth rate since the third quarter of 2002. Most sectors were positive. Consumer spending increased 3.8%, while business investment grew 8.0%. Government spending increased at an 8.2% annual rate, spurred by a 46% increase in defense spending. Net exports/imports were the typical drag on the economy, but less than previously estimated. Business inventory changes were also a drag on the economy, but this statistic will be more positive in future quarters.

Consumers carried the economy through the recession of 2001 and thereafter. Thus, consumer demand is largely spent-up. High debt levels, a recent increase in mortgage rates that will slow refinancing gains, and the lack of job creation will keep consumers from posting more solid spending increases. One short-term positive for consumer spending is the refund checks to taxpayers with children. The checks that were issued in late July and early August, as well as other tax reductions, will put $40 billion into consumers' pockets through the end of the year.

The spending by businesses was particularly encouraging, because their participation in the economic expansion is crucial to an on-going expansion. Spending on equipment and software increased at the fastest pace in three years. Combined with a more positive outlook for manufacturing, business spending is now on a more solid footing.

Government spending cannot increase at the same pace in future quarters. The run-up was attributable to the Iraq war and its aftermath. Future government spending increases will be constrained by growing budget deficits.

While economic growth as measured by GDP was good, the positive news still does not extend to **employment** trends. Businesses continued to shed jobs through August. In fact, the loss of 93,000 jobs in August was the highest number since March when the war in Iraq began. Employment is 2.8 million below the peak of March 2001 when the recession started and still 900,000 below the level in December 2001 when the economic recovery began. Somewhat heartening was the decline in new unemployment claims below 400,000 for several weeks. However, new claims have edged back up to 420,000 in recent weeks. New claims will have to fall significantly before healthy conditions return for the nation's workers. The unemployment rate reached its cyclical high of 6.4% in June, before falling to 6.2% in July and 6.1% in August. While the decline in the unemployment rate is seemingly a positive for the economy, the decline was at least partially a result of discouraged workers leaving the labor force.

Economic indicators for the **manufacturing sector** are beginning to turn positive. The Institute for Supply Management index rose above the critical 50 level in July and increased nearly three additional

points in August. A score above 50 indicates expansion. The war in Iraq had pushed the index below 50 from March to June. The industrial production index increased by 0.5% in July. Business inventories are at low levels, indicating that production will turn even more positive as the economic turnaround becomes solid. Durable goods orders advanced 1.0% in July, following a 2.6% gain in June. The gains were broad based, indicating that better times are ahead. Despite the recent gains, the recovery for manufacturing is likely to be weak compared with previous post-recession recoveries. Consumers continued to spend during the recent recession and its aftermath and will not likely spark a more solid rebound. While business demand is picking up, business spending will be hindered by low consumer spending gains and corporate profit constraints. In addition, export markets are still weak because of the slow rebound in the global economy, although they were helped by a fall in the value of the dollar late last year and earlier in 2003.

The **housing** markets continued at a high pace through July. *Existing home sales* set a new record at 6.12 million sales on an annual basis. *New home sales* in June reached a record of 1.2 million homes on an annual basis, while July sales were the second-highest of all time. The decline in mortgage rates was responsible for the records. These peak levels will likely not be attained again during the current business cycle because mortgage rates are now on the rise. However, the robust activity of recent months will continue to provide an economic boost in coming months as the new homeowners fix up and furnish their homes.

In the June forecast, we addressed the **confidence levels** of investors, businesses, and consumers. We noted that each had increased significantly in the previous three months, but would have to be sustained over a longer period to have a full effect. The stock market, reflecting *investor confidence*, has continued its advance, albeit at a slower pace. Many investors are still waiting for a longer string of positive news before re-entering the markets. *Business confidence* continues to make gains. Most significantly, businesses are increasingly optimistic about future conditions. Thus, expectations that the economy would be much improved in the second half of 2003 appear to be on track. According to the University of Michigan consumer sentiment survey, *consumer confidence* is still well above the March low, but it has not improved since May. Consumer confidence is greatly affected by the lack of job creation as well as high debt levels. Until job creation resumes in a significant manner, consumers will not play their typical role after recessionary and slow economic times.

The National Economic Forecast. This section presents the forecast of the national economy. The detailed forecast can be found in Table 5.

- Inflation-adjusted gross domestic product (**GDP**) will increase 2.5% in 2003. As noted in the last forecast and earlier in this forecast, the second half of the year (2.8% growth) will be stronger than the first half (2.2%). The second-half strength will carry over into 2004 with an expected growth rate of 3.7%. Growth will cool slightly to 3.1% in 2005.

- Nonfarm **employment** growth will lag the overall expansion of the economy through 2004. Employers are still constrained by rising benefit costs and are using productivity gains for increased output. They want to see sustained business profitability before increasing hiring. Employment will decline by 0.2% in 2003. The nation's labor markets will begin to expand in 2004, with more significant growth in the second half of the year. Employment growth will average 0.9% in 2004, followed by a 2.1% increase in 2005. The **unemployment rate** will average 6.2% in 2003 and 6.4% in 2004. The increase in 2004 is attributable to would-

be workers who re-enter the labor force but who are not immediately successful in finding a job. The unemployment rate will decline to 5.8% in 2005 and decline through the remainder of the forecast period.

- **Income** growth will remain weak this year. Employers are trying to hold down wage and salary gains because of rising benefit costs. Additionally, employers can constrain wage increases because of the weak labor market. To the extent that job creation is occurring, it tends to be in lower-paying industries than during the height of the expansion. These factors will begin to ease next year. Personal income will increase 3.3% in 2003, followed by 4.1% and 4.5% gains in 2004 and 2005, respectively.

- Low mortgage rates and a perceived investment alternative to the stock market drove a 16-year high for **housing starts** in 2002. Despite weak income growth and on-going employment declines, the housing market remains robust in 2003 because of record-low mortgage rates. Rates are now on the rise and households will be less likely to pursue new homes. Thus, housing starts will decline by 0.4% in 2003 and 8.4% in 2004.

- The weak economy at home and abroad has resulted in low **inflation**. This trend will continue through the remainder of 2003 and into 2004. Inflation will be an estimated 2.1% in 2003 and 1.5% in 2004.

- While the economy seems poised to increase at a strong pace in upcoming quarters, several **risks** remain for the forecast. This is typical during a turnaround period. A significant risk is the jobless recovery (called the job loss recovery by some) and its impact on consumer confidence. If employment does not turn around soon, the damage to consumer confidence could bring the economic recovery to a halt. Consumer debt is also a worry. As it has been since September 2001, geopolitical uncertainty remains a risk. Natural gas inventories are at low levels. A harsh winter would lead to sharply higher prices and endanger the expansion.

Colorado Economy

This section provides a review of the current state of the Colorado economy and details the Colorado economic forecast.

Recent performance. While Colorado reached the bottom of the business cycle several months ago, it appears in no hurry to start an earnest recovery. The state is still unable to sustain job growth. Colorado had significant job gains in April and May, only to lose jobs again in the next two months. Recent increases in interest rates may impact some segments of consumer spending if they continue. Local consumers have provided support to the state's economy during the last two years. A slowdown in spending from tourists, however, countered resident spending. Colorado's workers are highly educated and while unemployment is up, those with jobs still enjoy high incomes. The finance sector has begun to recover as the stock markets show improvement. Improved tourism during the next year, resulting from a more stable weather pattern in Colorado sans the drought and forest fires of the recent past, will provide a positive impetus for consumer spending. Improvement in the national economy will also help to lift Colorado out of the doldrums.

The state may see increases in defense spending as several local companies have recently won contracts at the federal level. This could be an invaluable boost as business spending is the ingredient that is most missing from the state's economic brew. Defense could also provide a boost in the middle of 2004 if the state sees the return of a significant number of soldiers who are deployed overseas. As previously mentioned in this forecast, the state's tax revenue situation has moderated after tax receipts declined over the past two years. The end of the tax hemorrhage is another indicator that the economy has finally landed on solid ground and may be poised to recover.

While Colorado's economic base became much more diversified during the 1990s, many of the industries that led the boom are highly cyclical in nature and also led the bust. While the finance industry has shown signs of recovery, over-capacity and high debt levels in the telecommunications sector continue to hurt that industry and the advanced technology sector cannot recover until other businesses resume capital spending. Despite the recent recession, Colorado's housing prices have continued to escalate and the state’s disadvantage with respect to these costs remains significant. Lease rates for office space have fallen during the economic downturn and now compare favorably with the major metropolitan areas of the U.S. Aside from relatively high housing costs, however, Colorado remains an attractive place for businesses to locate and operate.

The Colorado forecast. The following sections highlight the Colorado economic forecast. The detailed forecast can be found in Table 6.

- **Employment** will lag the rest of the economy during the early stages of recovery. Because businesses remain hesitant to invest and have been able to maintain activity with inventory reductions and productivity gains, new hiring has not materialized. Until the other factors in the economy turn around, businesses will continue to delay increases in their work forces. After falling by 1.9% in 2002, employment will decline by 0.7% in 2003, making it the first time for consecutive job declines. This amounts to job losses numbering 15,300 in 2003. The lack of forward momentum in the Colorado economy will limit job growth to 1.2% in

2004. More solid growth rates in the 2.4% to 2.9% range will occur for the remainder of the forecast.

- The loss of high-paying jobs in the economy led to a decline in **wage and salary income** during 2002 of 1.5%. While the labor market is still weak, some employees are seeing raises due to increased productivity, leading to a small gain of 1% for wage and salary income during 2003. Wages and salaries will increase 3.7% in 2004 and 5.5% in 2005. **Personal income**, meanwhile, remained positive with a 1.2% gain during 2002. It will rise 2.4% in 2003 and 3.8% in 2004.

- **Retail trade** sales will decline slightly for the second consecutive year in 2003. Drought and fires throughout the state during 2002 caused a major hit to the tourism industry. Tourism has rebounded in 2003, but a more significant rebound will happen next year as the national economic expansion continues. Retail trade sales will increase 3.6% in 2004 and rates of growth will approach 6% for the remainder of the forecast period.

- Permits for **residential construction** declined slightly in 2001 before falling 11.5% in 2002. The slow economy, a lack of jobs, a relatively high cost for new housing, and a correction in the multi-family housing segment will lead to a continuation of the trend during the next two years. Permits will fall 19.1% during 2003 and 8.2% in 2004. Residential construction will rebound after that point, with positive growth for the rest of the forecast period. This market will see the largest impact from changes in mortgage rates. While rates have increased slightly recently, they are still at historically low levels. Housing affordability is directly related to mortgage rates. If the recent upward trend in mortgage rates continues, the housing market will see a bigger hit than expected.

- After booming during the late 1990s, we anticipate the correction in **nonresidential construction** that began in 2002 to continue through 2004. Nonresidential construction dipped 21.1% in 2002 and will fall another 30.8% in 2003. After slipping 11.1% in 2004, gains will again be seen during the latter parts of the decade. Considerable retail construction has occurred in the state during the last decade, and with tourism and consumer spending lagging, new construction will be limited. Office and industrial construction will be slow to recover because existing vacant space must be occupied before significant levels of new construction resume.

- **Inflation**, which never picked up as typically would be expected during the long expansion of the 1990s, nearly disappeared from the economy during the recession. In fact, many analysts were more concerned about deflation rather than inflation. While we do not believe that deflation will be an issue, we do see inflation remaining at low levels for the significant future. After rising only 1.9% in 2002, inflation will remain very low at just 1.7% in 2003. While increasing at slightly faster rates thereafter, we do not anticipate inflation exceeding 3% during the remainder of the forecast period.

- **Net migration** in Colorado has declined significantly since the start of the downturn because of the lack of job creation. During the 1990s, Colorado experienced significantly more people entering the state than leaving it. While Colorado is still a net importer of people, the number has slowed considerably. Net migration will increase slightly over the

following several years. The decline in migration to the state has also impacted the growth rate of **population**. After increasing at a compound average annual rate of almost 2.5% during the previous five years, population grew at only a 1.7% rate in 2002 and the growth rate will slow to 1.2% in 2003. The growth rate of population will increase during the rest of the decade, but will be moderate compared with the 1990s.

Conclusion. While some factors are indicating that a recovery is in Colorado's future, the state will continue to bounce around the bottom for the remainder of 2003. Colorado will begin to see the rebound in 2004, after the national economy reaches a point of sustained growth, tourism completes its rebound, and business confidence turns up with increases in investment and hiring.

Table 1
September 2003 General Fund Revenue Estimates
(Dollars in millions)

Category	Preliminary FY 2002-03	Percent Change	Estimate FY 2003-04	Percent Change	Estimate FY 2004-05	Percent Change	Estimate FY 2005-06	Percent Change	Estimate FY 2006-07	Percent Change	Estimate FY 2007-08	Percent Change	Estimate FY 2008-09	Percent Change
Sales /A	$1,703.3	-3.0	$1,744.6	2.4	$1,839.9	5.5	$1,927.8	4.8	$2,040.0	5.8	$2,161.6	6.0	$2,282.9	5.6
TABOR Overrefund	-19.9	-30.4	0.0	-100.0	0.0		0.0		0.0		0.0		0.0	
Use /A	136.5	-3.0	132.7	-2.8	143.7	8.3	150.3	4.6	158.6	5.5	166.0	4.6	172.8	4.1
Cigarette	54.3	-1.6	52.8	-2.7	51.3	-3.0	49.5	-3.5	48.3	-2.5	47.1	-2.5	45.9	-2.5
Tobacco Products	10.4	0.4	11.3	8.9	11.8	4.8	12.4	4.8	13.0	4.9	13.7	5.1	14.4	5.0
Liquor	29.7	0.8	30.2	1.5	30.8	2.1	31.5	2.3	32.3	2.6	33.2	2.6	34.0	2.4
TOTAL EXCISE	$1,914.3	-2.5	$1,971.6	3.0	$2,077.5	5.4	$2,171.6	4.5	$2,292.3	5.6	$2,421.5	5.6	$2,549.9	5.3
Net Individual Income	$3,122.3	-6.7	$3,351.8	7.4	$3,601.9	7.5	$3,862.4	7.2	$4,126.0	6.8	$4,380.2	6.2	$4,648.9	6.1
Net Corporate Income	225.1	26.4	203.0	-9.8	275.8	35.9	342.0	24.0	372.0	8.8	388.6	4.4	404.8	4.2
TOTAL INCOME TAXES	$3,347.4	-5.0	$3,554.9	6.2	$3,877.7	9.1	$4,204.4	8.4	$4,498.1	7.0	$4,768.8	6.0	$5,053.7	6.0
Less: Portion directed to the State Education Fund /B	-188.4	-31.0	-267.6	42.0	-291.4	8.9	-315.6	8.3	-337.5	6.9	-357.6	6.0	-378.8	5.9
INCOME TAXES TO GENERAL FUND	$3,159.0	-2.8	$3,287.3	4.1	$3,586.3	9.1	$3,888.7	8.4	$4,160.6	7.0	$4,411.2	6.0	$4,674.9	6.0
Estate	$53.4	-26.4	$33.0	-38.2	$16.6	-49.6	$1.9	-88.7	$0.0	-100.0	$0.0	NA	$0.0	NA
Insurance	171.3	10.8	185.9	8.6	195.5	5.1	210.0	7.5	224.5	6.9	239.0	6.4	252.8	5.7
Pari-Mutuel	4.7	-18.9	5.9	26.6	5.6	-5.0	5.5	-2.0	5.8	5.6	5.7	-1.7	5.6	-1.8
Investment Income	50.9	101.1	15.7	-69.2	18.5	17.8	19.3	4.3	20.5	6.2	22.0	7.3	23.0	4.5
Court Receipts	23.7	1.7	25.1	5.9	23.8	-5.2	24.4	2.8	25.1	2.8	25.8	2.7	26.4	2.5
Gaming /C	38.4	12.6	39.3	2.4	38.5	-2.1	40.3	4.8	43.1	6.8	45.4	5.4	47.6	4.8
Medicaid (Intergovt. Transfer)	15.6	39.6	0.0	-100.0	0.0	NA	0.0	NA	0.0	NA	0.0	NA	0.0	NA
Other Income	45.8	43.5	40.8	-11.1	21.7	-46.7	22.5	3.8	23.4	3.8	24.3	3.7	25.1	3.5
TOTAL OTHER	$403.7	12.6	$345.7	-14.4	$320.2	-7.4	$324.0	1.2	$342.4	5.7	$362.2	5.8	$380.5	5.1
GROSS GENERAL FUND	**$5,477.0**	**-1.7**	**$5,604.5**	**2.3**	**$5,984.0**	**6.8**	**$6,384.4**	**6.7**	**$6,795.3**	**6.4**	**$7,194.9**	**5.9**	**$7,605.3**	**5.7**
REBATES & EXPENDITURES:														
Cigarette Rebate	$15.1	-4.7	$14.7	-2.7	$14.3	-3.0	$13.8	-3.5	$13.5	-2.5	$13.1	-2.5	$12.8	-2.5
Old-Age Pension Fund	76.0	5.5	79.4	4.5	83.5	5.2	88.5	6.0	94.1	6.3	100.8	7.1	108.4	7.5
Aged Property Tax & Heating Credit	14.5	-38.6	14.7	1.4	17.2	16.7	16.9	-1.7	16.7	-1.1	16.9	1.7	16.8	-0.7
Fire/Police Pensions	29.1	0.6	3.8	-86.9	3.8	0.0	29.1	665.8	29.1	0.0	29.1	0.0	29.1	0.0
TOTAL REBATES & EXPENDITURES	$134.7	-4.1	$112.6	-16.4	$118.7	5.5	$148.3	24.9	$153.3	3.4	$160.0	4.3	$167.1	4.4

Totals may not sum due to rounding.
NA: Not Applicable.
/A Sales and use taxes diverted to the Highway Users Tax Fund can be found in Table 2.
/B In November 2000, Colorado voters approved Amendment 23 that deposits an amount equal to 0.33 percent of Colorado taxable income into the State Education Fund. These revenues are exempt from the TABOR revenue limit.
/C Includes only the amount credited to the General Fund.

Table 2
September 2003 General Fund Overview
(Dollars in millions)

	Preliminary FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09
Beginning Reserve	$138.4	$223.1	$220.0	$223.4	$227.7	$241.3	$259.5
Gross General Fund	5,477.0	5,604.5	5,984.0	6,384.4	6,795.3	7,194.9	7,605.3
Senate Bill 97-1 Diversion to the HUTF /A	0.0	0.0	0.0	0.0	-123.0	-241.0	-254.3
Paybacks to Other Funds	-349.6	-16.2	0.0	0.0	0.0	-29.6	-37.5
Transfers from Other Funds	555.8	14.2	0.0				
Diversion of Sales Taxes to Other Funds	-2.0	-1.5	-1.5	-2.0	-2.0	-2.0	-2.0
TABOR Surplus Liability	0.0	0.0	-35.8	-298.8	-406.8	-274.4	-249.7
Total Funds Available	$5,819.6	$5,824.1	$6,166.7	$6,306.9	$6,491.2	$6,889.2	$7,321.3
EXPENDITURES:							
Allowable General Fund Appropriations /B	$5,416.8	$5,538.4	$5,761.7	$5,909.6	$6,013.6	$6,375.6	$6,759.3
Necessary Reductions to Balance Budget		**-$38.1**	**-$177.2**	**-$237.5**			
Medicaid Overexpenditure	5.8	0.0	0.0	0.0	0.0	0.0	0.0
Rebates and Expenditures	134.7	112.6	118.7	148.3	153.3	160.0	167.1
Reimbursement for Senior Property Tax Cut	62.6	0.0	0.0	0.0	55.1	53.6	52.5
Funds in Prior Year Excess Reserve to HUTF		4.3	0.0	0.0	0.0	0.0	2.5
Funds in Prior Year Excess Reserve to Capital Construction		2.1	0.0	0.0	0.0	0.0	1.2
Capital Construction Transfer /F	10.6	9.5	101.8	100.7	7.9	20.5	19.3
Transfer for Highway Construction	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to the Controlled Maintenance Trust Fund /C	0.0	40.0	138.2	138.2	0.0	0.0	0.0
Federal Medicaid Assistance	-15.0	-64.7	0.0	0.0	0.0	0.0	0.0
K-12 Settlement Funding Adds to GF Appropriation /B, D	0.0	0.0	0.0	20.0	20.0	20.0	20.0
Accounting Adjustments	-19.0	NE	NE	NE	NE	NE	NE
Total Obligations	$5,596.5	$5,604.1	$5,943.2	$6,079.2	$6,249.9	$6,629.7	$7,021.9
YEAR-END GENERAL FUND RESERVE:	**$223.1**	**$220.0**	**$223.4**	**$227.7**	**$241.3**	**$259.5**	**$299.4**
STATUTORY RESERVE: 4.0% OF APPROPRIATIONS /E	**131.3**	**220.0**	**223.4**	**227.7**	**241.3**	**255.8**	**271.2**
GENERAL FUND EXCESS RESERVE	**$91.8**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$3.7**	**$28.2**
RESERVE AS A % OF APPROPRIATIONS	**4.1%**	**4.0%**	**4.0%**	**4.0%**	**4.0%**	**4.1%**	**4.4%**
TABOR RESERVE REQUIREMENT:							
General & Cash Fund Emergency Reserve Requirement	$230.4	$241.6	$259.3	$268.9	$281.5	$295.6	$310.3
Appropriations Growth /C	-$245.4	$28.0	$148.9	$107.5	$341.5	$362.0	$383.7
Appropriations Growth Rate /C	-4.34%	0.52%	2.74%	1.93%	6.00%	6.00%	6.00%
Addendum: Amount Directed to State Education Fund	$188.4	$267.6	$291.4	$315.6	$337.5	$357.6	$378.8

NE: Not Estimated.
Totals may not sum due to rounding.
/A 10.355% of sales and use taxes are diverted to the Highway Users Tax Fund when the full six percent General Fund appropriations limit can be attained.
/B The amounts for the K-12 settlement funding attributable to Senate Bill 00-181 are also appropriations from the General Fund and should be added to the General Fund appropriations line to calculate total appropriations.
/C House Bill 01-1267 transferred the principal balance of the CMTF to the General Fund on July 1, 2001. HB 03-262 transfers $138.2 million from the General Fund to the CMTF in FYs 2004-05 and 2005-06. SB 03-268 requires the transfer of $40 million to the CMTF for a cash flow reserve.
/D The settlement requires that the General Fund have at least $80 million in excess reserves for funding to take place. Because the General Assembly has funded the settlement in two budget years without reaching the $80 million threshold, it has been included in this overview for all years except FY 2002-03 and FY 2003-04 when it is funded from the State Education Fund.
/E The General Assembly set the statutory reserve at $131.3 million for FY 2002-03.
/F The capital construction transfer includes $7.3 million in FY 2006-07, $20.0 million in FY 2007-08, and $19.3 million in FY 2008-09 for estimated certificates of participation obligations.

Table 3

September 2003 Forecast for the TABOR Revenue Limit and Emergency Reserve

(Dollars in millions)

	Preliminary FY 2002-03	Estimate FY 2003-04	Estimate FY 2004-05	Estimate FY 2005-06	Estimate FY 2006-07	Estimate FY 2007-08	Estimate FY 2008-09
TABOR Revenues:							
General Fund /A	$5,420.5	$5,551.2	$5,931.5	$6,330.1	$6,738.2	$7,135.5	$7,543.7
Cash Funds	2,259.0	2,500.8	2,746.4	2,930.6	3,051.6	2,991.1	3,050.8
Total TABOR Revenues	$7,679.5	$8,052.0	$8,677.9	$9,260.7	$9,789.8	$10,126.6	$10,594.5
LIMIT:							
Allowable TABOR Growth Rate	6.9%	5.2%	7.3%	3.7%	4.7%	5.0%	5.0%
Inflation	4.7%	1.9%	1.7%	2.2%	2.9%	3.0%	3.0%
Population Growth	2.2%	1.7%	1.2%	1.5%	1.8%	2.0%	2.0%
Population Adjustment for Growth Dividend (6% Carried Forward)		1.6%	4.4%	0.0%	0.0%	0.0%	0.0%
Allowable TABOR Limit /B	**$8,299.2**	**$8,052.1**	**$8,642.1**	**$8,961.8**	**$9,383.0**	**$9,852.2**	**$10,344.8**
Revenues Above / (Below) TABOR Limit	**-$619.7**	**$0.0**	**$35.8**	**$298.8**	**$406.8**	**$274.4**	**$249.7**
EMERGENCY RESERVE:							
TABOR Emergency Reserve /C	$230.4	$241.6	$259.3	$268.9	$281.5	$295.6	$310.3

Totals may not sum due to rounding.

Note: TABOR broadly defines spending such that expenditures are equal to revenues. The statutory 6 percent limit applies to the General Fund appropriations only. Thus, the two concepts are not directly comparable.

/A These figures differ from the General Fund revenues reported in other tables because they net out revenues that are already in the Cash Funds to avoid double counting. For instance, the General Fund gaming revenues are netted out. These figures also include the amount of sales and use tax, after the over-refund of surplus TABOR revenues. Senate Bill 97-1 diverts 10.355% of the gross sales and use tax revenues to the Highway Users Tax Fund under certain conditions.

/B Includes $23.4 million in FY 2002-03 for the disqualification of an enterprise. We expect that the enterprise will re-qualify in FY 2003-04 and the TABOR limit was adjusted accordingly for that year.

/C In years where the projected revenues exceed the amount allowed by the Constitution, the reserve is calculated based on the limit, rather than on projected receipts. Given that the state will only retain the maximum allowed by the Constitution, it need only reserve three percent.

Table 4
Cash Fund Revenue Estimates by Category, September 2003
Millions of Dollars

	Preliminary FY 02-03	Estimate FY 03-04	Estimate FY 04-05	Estimate FY 05-06	Estimate FY 06-07	Estimate FY 07-08	Estimate FY 08-09	FY 02-03 to FY 08-09 CAAGR *
Transportation-Related /A	**$799.7**	**$812.2**	**$848.9**	**$885.1**	**$916.4**	**$936.8**	**$976.3**	
% Change	-1.8%	1.6%	4.5%	4.3%	3.5%	2.2%	4.2%	**3.4%**
Higher Education /B	**$683.7**	**$741.4**	**$771.4**	**$806.0**	**$853.2**	**$903.5**	**$959.8**	
% Change	7.6%	8.4%	4.1%	4.5%	5.9%	5.9%	6.2%	**5.8%**
Unemployment Insurance /C	**$219.1**	**$319.9**	**$486.4**	**$549.0**	**$554.3**	**$397.8**	**$332.5**	
% Change	11.7%	46.0%	52.1%	12.9%	1.0%	-28.2%	-16.4%	**7.2%**
Limited Gaming Fund	**$100.0**	**$102.9**	**$107.8**	**$112.7**	**$119.6**	**$125.6**	**$131.5**	
% Change	0.9%	2.9%	4.8%	4.5%	6.2%	5.1%	4.6%	**4.7%**
Capital Construction - Interest	**$4.2**	**$2.8**	**$7.4**	**$10.5**	**$7.3**	**$5.2**	**$3.6**	
% Change	-75.8%	-32.7%	160.7%	41.7%	-30.0%	-29.7%	-29.7%	**-2.5%**
Controlled Maintenance Trust Fund - Interest /E	**$0.0**	**$1.4**	**$9.1**	**$22.2**	**$26.6**	**$28.8**	**$31.0**	
% Change			527.5%	144.1%	20.2%	8.0%	7.7%	
Insurance-Related	**$61.3**	**$54.2**	**$57.4**	**$61.6**	**$66.3**	**$71.5**	**$75.9**	
% Change	-7.4%	-11.7%	6.0%	7.2%	7.6%	7.8%	6.3%	**3.6%**
Regulatory Agencies	**$53.1**	**$53.8**	**$54.8**	**$56.1**	**$57.6**	**$59.2**	**$60.0**	
% Change	5.3%	1.3%	1.8%	2.4%	2.7%	2.8%	1.4%	**2.1%**
Severance Tax /D	**$32.6**	**$62.8**	**$45.4**	**$50.5**	**$52.6**	**$55.6**	**$57.0**	
% Change	-43.3%	92.6%	-27.6%	11.1%	4.3%	5.7%	2.5%	**9.8%**
Employment Support Fund	**$19.5**	**$19.8**	**$20.8**	**$21.9**	**$23.2**	**$24.5**	**$25.5**	
% Change	-0.7%	1.6%	4.8%	5.5%	6.0%	5.6%	3.9%	**4.5%**
Petroleum Storage Tank Fund	**$20.0**	**$26.7**	**$23.5**	**$24.1**	**$24.8**	**$12.8**	**$6.5**	
% Change	-6.1%	33.5%	-12.0%	2.8%	2.8%	-48.6%	-48.7%	**-17.0%**
Other Cash Funds	**$265.8**	**$302.9**	**$313.5**	**$331.0**	**$349.7**	**$370.0**	**$391.1**	
% Change	4.4%	14.0%	3.5%	5.6%	5.6%	5.8%	5.7%	**6.6%**
Total Cash Fund Revenues	**$2,259.0**	**$2,500.8**	**$2,746.4**	**$2,930.6**	**$3,051.6**	**$2,991.1**	**$3,050.8**	
Subject to the TABOR Limit	**-4.3%**	**10.7%**	**9.8%**	**6.7%**	**4.1%**	**-2.0%**	**2.0%**	**5.1%**

Totals may not sum due to rounding.

* CAAGR: Compound Average Annual Growth Rate.

/A This includes the Highway Users Tax Fund, the State Highway Fund, and other transportation-related funds.

/B Higher Education tuition revenues are net of scholarship allowances.

/C Includes a 20% tax credit on unemployment insurance taxes during calendar year 2002. Reflects the solvency tax that will be in effect during calendar years 2004 through 2007.

/D This figure includes total severance tax revenue and interest earnings before distribution to the Local Government Severance Tax Fund.

/E The principal balance of the Controlled Maintenance Trust Fund, or $243.9 million, was transferred to the General Fund on July 1, 2001. The CMTF will be repaid in two installments on July 1, 2004 and July 1, 2005. In addition, Senate Bill 03-342 required a $40 million transfer from the General Fund to the Controlled Maintenance Trust Fund on July 1, 2003.

Table 5

National Economic Indicators, September 2003 Forecast

(Dollar amounts in billions)

	1999	2000	2001	2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007
Gross Domestic Product (GDP)	$9,274.3	$9,824.7	$10,082.1	$10,446.3	$10,853.7	$11,353.0	$11,875.2	$12,504.6	$13,117.3
percent change	5.6%	5.9%	2.6%	3.6%	3.9%	4.6%	4.6%	5.3%	4.9%
Inflation-adjusted GDP	$8,858.9	$9,191.4	$9,214.5	$9,439.9	$9,675.9	$10,033.9	$10,345.0	$10,696.7	$11,017.6
percent change	4.1%	3.8%	0.3%	2.4%	2.5%	3.7%	3.1%	3.4%	3.0%
Nonagricultural Employment (millions)	129.0	131.8	131.8	130.4	130.1	131.3	134.0	136.3	138.1
percent change	2.4%	2.2%	0.0%	-1.1%	-0.2%	0.9%	2.1%	1.7%	1.3%
Unemployment Rate	4.2%	4.0%	4.8%	5.8%	6.2%	6.4%	5.8%	5.5%	5.3%
Personal Income	$7,786.5	$8,406.6	$8,685.4	$8,922.2	$9,216.6	$9,594.5	$10,026.3	$10,477.4	$10,938.5
percent change	4.9%	8.0%	3.3%	2.7%	3.3%	4.1%	4.5%	4.5%	4.4%
Inflation (Consumer Price Index)	2.2%	3.4%	2.8%	1.6%	2.1%	1.5%	1.8%	2.4%	2.3%
10-year Treasury Note	5.6%	6.0%	5.0%	4.6%	3.9%	4.4%	4.8%	5.8%	5.9%

Table 6
Colorado Economic Indicators, September 2003 Forecast
(Calendar Years)

	1998	1999	2000	2001	2002	Forecast 2003	Forecast 2004	Forecast 2005	Forecast 2006	Forecast 2007
Population (thousands), July 1	4,116.6	4,226.0	4,326.8	4,431.0	4,506.5	4,560.6	4,629.0	4,712.3	4,806.6	4,902.7
percent change /A	2.4%	2.7%	2.4%	2.2%	1.7%	1.2%	1.5%	1.8%	2.0%	2.0%
Nonagricultural Employment (thousands)	2,056.6	2,131.4	2,212.9	2,225.5	2,183.2	2,167.9	2,193.9	2,246.6	2,305.0	2,369.5
percent change	3.9%	3.6%	3.8%	0.6%	-1.9%	-0.7%	1.2%	2.4%	2.6%	2.8%
Unemployment Rate	3.8%	2.9%	2.7%	3.7%	5.3%	5.7%	5.5%	5.3%	4.9%	4.7%
Personal Income (millions)	$118,413	$128,386	$143,043	$148,239	$149,481	$153,069	$158,885	$166,353	$175,502	$185,155
percent change	8.9%	8.4%	11.4%	3.6%	0.8%	2.4%	3.8%	4.7%	5.5%	5.5%
Wage and Salary Income (millions)	$69,604	$76,343	$86,048	$88,436	$86,749	$87,616	$90,858	$95,856	$101,607	$107,602
percent change	11.3%	9.7%	12.7%	2.8%	-1.9%	1.0%	3.7%	5.5%	6.0%	5.9%
Retail Trade Sales (millions)	$48,131	$52,209	$58,018	$59,027	$58,634	$58,458	$60,563	$64,015	$67,856	$71,791
percent change	6.6%	8.5%	11.1%	1.7%	-0.7%	-0.3%	3.6%	5.7%	6.0%	5.8%
Home Permits (thousands)	51.2	49.3	54.6	55.0	48.9	39.5	36.3	37.5	40.1	42.2
percent change	18.8%	-3.6%	10.7%	0.8%	-11.2%	-19.1%	-8.2%	3.4%	6.9%	5.1%
Nonresidential Building (millions)	$2,617	$3,544	$3,339	$3,373	$2,613	$1,808	$1,607	$1,786	$1,866	$1,976
percent change	-12.4%	35.4%	-5.8%	1.0%	-22.5%	-30.8%	-11.1%	11.1%	4.5%	5.9%
Denver-Boulder-Greeley Inflation Rate	2.4%	2.9%	4.0%	4.7%	1.9%	1.7%	2.2%	2.9%	3.0%	3.0%

/A Colorado's population on April 1, 2000, was 4,301,261 according to the U.S. Census Bureau. The changes that are shown in this table for 1998 to 2000 are based on the intercensal estimates by the Census Bureau and do not reflect the original estimates.