

State of Colorado



Bill Ritter, Jr.
Governor

Rich Gonzales
Executive Director

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April 30, 2009

The Honorable Bill Ritter
Governor
136 State Capitol Building
Denver, Colorado 80203

Dear Governor Ritter:

I am submitting a Quarterly Financial Report on the status of the state's financial condition for the nine-month period ended March 31, 2009. This Quarterly Financial Report summarizes activity in the General Fund and the Capital Construction Fund.

The attached Exhibit A provides a *Balance Sheet* for the Unrestricted General Fund and Capital Construction Fund at March 31, 2009. Factors that contribute to the General Fund \$1,647.8 million deficit Total Fund Equity are addressed in the Exhibit B discussion below. When four percent of appropriations are reserved, as is required by current law, the General Fund unreserved fund balance deficit is \$1,939.2 million. This compares to the unreserved fund balance deficit of \$1,327.6 million at March 31, 2008.

The General Fund is normally in deficit at this time of year because income taxes are disproportionately recorded in the final quarter of the fiscal year and because of the legal requirement for the Department of Education to transfer twelve months of public school moneys by the end of the third quarter. This transfer caused approximately \$712.6 million of the \$1,939.2 million unreserved fund balance deficit. While a portion of the total deficit will be mitigated by income tax receipts collected in the fourth quarter, it is anticipated that the remaining shortfall will only be remedied through the current cash transfer bills Senate Bill 09-208 and Senate Bill 09-279 (if passed). These two bills would transfer approximately \$335.7 million to the General Fund in Fiscal Year 2008-09.

While the fund balance deficit is significant, the trend in the General Fund cash deficit may be more serious. The state's current General Fund cash position (defined here as the Liability to Pooled Cash plus the State Treasurer's short-term borrowing payable in June 2009, reduced by investments available for liquidation) is \$2,065.9 million in deficit. The state's General Fund deficit cash position was \$1,448.7 million, \$1,262.7 million, and \$1,107.3 million at March 31, 2008, 2007, and 2006, respectively. The cash deficit is partly due to lower beginning cash balances related to recurring year-end General Fund Surplus transfers. In effect these transfers have reduced the liquidity of the General Fund. The General Fund reserve increasingly comprises tax and other receivables of unpredictable liquidity. The current revenue estimate

anticipates \$2,561.3 million of cash and accrued revenue for the remainder of the fiscal year. Based on the March 20 estimate, the unexpended appropriation when added to the current cash deficit exceeds the anticipated remaining revenue to be collected. As a result, it is possible the General Fund will end the fiscal year in a cash deficit position. Further revenue shortfalls or overexpenditures will worsen the General Fund cash position. The General Fund has access to the cash balance of certain cash funds, and therefore, the state's overall cash position must also be considered using the definition of borrowable resources, which currently shows available cash resources of \$1,859.3 million (\$1,970.8 million at March 31, 2008). The cash transfers in Senate Bill 09-208 and Senate Bill 09-279 will reduce borrowable resources. If the balance between expenditures and revenues is not corrected, the state will eventually deplete its borrowable cash resources.

The Total Fund Equity of the Capital Construction Fund (\$252.3 million) decreased from the March 31, 2008, balance (\$413.4 million). The decrease is the result of resources expended during Fiscal Year 2008-09 and significantly lower appropriated transfers from the General Fund and General Fund Surplus transfers as required by CRS 24-75-218 in Fiscal Year 2008-09.

Exhibit B provides a *Schedule of Revenues, Expenditures and Changes in Unreserved Fund Balance - General Fund - Budget and Actual* for the nine-month period ended March 31, 2009. The Current Annual Estimate/Unrestricted Budget column reflects the most recently published OSPB estimate of revenues on the modified accrual basis for the fiscal year and current appropriations and transfers in law without consideration of restrictions. Actual revenues reported on the March Year-to-Date Revenue Summary Report were less than the estimate by \$63.8 million. This amount is not reflected in the Current Annual Estimate, and it is therefore not reflected in the projected ending unreserved fund balance. However, the \$63.8 million revenue shortfall is reflected in the actual unreserved fund balance deficit.

The line item titled Difference Between Recorded and Estimated Appropriations (\$457.4 million) is primarily attributed to estimated reductions to General Fund appropriations reflected in the most recently published OSPB estimate that were not finalized through the legislative budget process by the close of the third quarter. The most significant reductions were due to enhanced federal funding for Medicaid related to the federal stimulus, reductions in general funded appropriations across all departments, and the decision to not fund the state's contribution to the Fire and Police Protective Association pension. The remaining difference is due to assumptions made regarding the transfer of cash funds into the General Fund as referenced above. Both the OSPB estimate of appropriations and the budget record on the state's accounting system change significantly during the final portion of the legislative session. Therefore, aligning the estimated appropriation and the recorded amount is not practicable at the close of the third quarter.

At the end of the third quarter, actual general-purpose revenues were \$4,767.2 million, which is 65.1 percent of the annual estimated revenue. Due to the deferral of payroll expenditures and Medicaid costs from Fiscal Year 2007-08 into Fiscal Year 2008-09 and the accelerated transfers to the Public School Fund, it is not practicable to assess whether departmental spending rates are consistent with a quarterly allocation of appropriations. However, similar expenditure deferrals and accelerated transfers existed in Fiscal Year 2007-08. Departmental expenditures of the General Fund at the third quarter of the current fiscal year were 86.0 percent of current appropriations, which compares with the prior year figure of 86.4 percent of appropriations at March 31, 2008. In compliance with statutory requirements to report Medicaid expenditures on the cash basis, the Department of Health Care Policy and Financing is not required to record an accrual of Medicaid costs at March 31, 2009.

Governor Bill Ritter
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Exhibit C is a *Schedule of Revenues, Expenditures, and Changes in Unreserved Fund Balance – Funded By General Purpose Revenue – Budget and Actual – Capital Construction Fund* for the nine-month period ended March 31, 2009. The estimated expenditures of the Capital Construction Fund do not reflect budget restrictions. The revenues of the fund were \$47.8 million or 92.9 percent of the estimate. Actual expenditures of the Capital Construction Fund in each year are expected to be significantly less than outstanding appropriations because of the multi-year nature of the appropriations as compared to current fiscal year expenditures. The \$74.9 million unreserved fund balance has been reduced by \$177.2 million of encumbrances that are legal commitments of cash and federally funded projects (\$103.6 million), as well as general funded projects (\$73.7 million). Not all of the revenue expected to support the cash and federally funded projects has been earned at March 31, 2009.

Based on a review of the attached financial reports and state agency comments, I have presented the financial issues that I believe are significant to the state. Questions concerning this report should be directed to my office.

Sincerely yours,



David J. McDermott
Colorado State Controller

Attachments

cc: Rich Gonzales, DPA
Todd Saliman, OSPB
John Ziegler, JBC
Website

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**BALANCE SHEET
GENERAL AND CAPITAL CONSTRUCTION FUNDS
MARCH 31, 2009**

(DOLLARS IN THOUSANDS)	UNRESTRICTED GENERAL FUND	CAPITAL CONSTRUCTION
ASSETS:		
Cash and Pooled Cash	\$ -	\$ 267,566
Taxes Receivable, net	1,015,886	-
Other Receivables, net	45,185	2,765
Intrafund Receivables	13,739	-
Due From Other Governments	215,161	(311)
Due From Other Funds	4,731	5,524
Inventories	3,506	-
Prepays, Advances, and Deferred Charges	46,255	747
Investments	4,914	-
Property, Plant and Equipment, net	-	1,399
Other Long-Term Assets	-	130
TOTAL ASSETS	\$ 1,349,377	\$ 277,820
LIABILITIES		
Liability to Pooled Cash	\$ 1,716,536	\$ -
Tax Refunds Payable	552,690	-
Accounts Payable and Accrued Liabilities	213,996	22,677
TABOR Refund Fiscal Year 2004-05	706	-
Due To Other Governments	26,254	-
Due To Other Funds	1,499	2,288
Intrafund Payables	25	-
Deferred Revenue	128,043	596
Other Current Liabilities	356,010	-
Deposits Held in Custody for Others	1,453	-
Other Long-Term Liabilities	7	-
TOTAL LIABILITIES	2,997,219	25,561
FUND EQUITY:		
Fund Balances:		
Reserved For:		
Encumbrances	-	177,236
Long-Term Assets and Loans Receivable	-	130
Statutory Reserve	291,400	-
Unreserved:		
Designated	-	74,893
Undesignated	(1,939,242)	-
TOTAL FUND EQUITY	(1,647,842)	252,259
TOTAL LIABILITIES AND FUND EQUITY	\$ 1,349,377	\$ 277,820

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - GENERAL FUND
BUDGET AND ACTUAL - BUDGETARY BASIS
FOR THE NINE MONTHS ENDED MARCH 31, 2009**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET	ACTUAL	PERCENT OF ESTIMATE
REVENUES:			
Sales and Use Tax	\$2,136,400	\$1,472,742	
Other Excise Taxes	95,300	75,202	
Individual Income Tax, net	4,536,400	2,874,163	
Corporate Income Tax, net	309,600	157,018	
Estate Tax	-	13	
Insurance Tax	185,300	148,046	
Parimutuel, Courts, and Other	43,100	32,678	
Investment Earnings	21,500	7,364	
Gaming	900	-	
TOTAL GENERAL PURPOSE REVENUES	7,328,500	4,767,226	65.1%
EXPENDITURES:			
Agriculture	7,223	5,621	
Corrections	674,201	529,562	
Education	3,148,944	3,120,467	
Governor	13,450	11,180	
Health Care Policy and Financing	1,583,602	1,218,007	
Higher Education	784,255	695,660	
Human Services	691,374	537,015	
Judicial Branch	325,942	269,807	
Labor and Employment	-	42	
Law	9,270	7,267	
Legislative Branch	35,033	25,813	
Local Affairs	12,347	8,575	
Military Affairs	5,686	4,348	
Natural Resources	31,065	25,681	
Personnel and Administration	5,775	5,179	
Public Health and Environment	26,586	20,013	
Public Safety	80,091	59,201	
Regulatory Agencies	1,466	1,289	
Revenue	216,783	134,343	
Treasury	118,546	4,549	
SUBTOTAL DEPARTMENTAL EXPENDITURES	7,771,639	6,683,619	86.0%
Difference Between Recorded and Estimated Appropriations	(457,439)		
TOTAL GENERAL FUNDED EXPENDITURES	7,314,200	6,683,619	
EXCESS GENERAL REVENUES OVER (UNDER) GENERAL FUNDED EXPENDITURES	14,300	(1,916,393)	
EXCESS AUGMENTING REVENUES		6,398	
TRANSFERS:			
Net Transfers to/from the General Fund	20,781	(10,668)	
Transfers from General Fund to Repay Cash Funds	(2,281)	(2,281)	
Transfers from General Fund to Capital Construction	(24,900)	(24,914)	
Transfer of Excess Beginning Reserve to Highways and Capital Construction	(43,500)	(43,447)	
TOTAL TRANSFERS	(49,900)	(81,310)	
NET CHANGE IN UNRESERVED FUND BALANCE RELATED TO BUDGETED OPERATIONS	(35,600)	(1,991,305)	
BEGINNING UNRESERVED FUND BALANCE - BUDGET BASIS	43,500	43,447	
Deduct the GAAP Expenditures Not Budgeted		10	
(Additions) Deductions to Reserve for Encumbrance		16,487	
(Additions) Deductions to the Long-Term Loan Reserve		7	
(Additions) Deductions to the Statutory Four Percent Reserve	(7,900)	(7,888)	
ENDING UNRESERVED FUND BALANCE - BUDGET BASIS	\$ (0)	\$ (1,939,242)	

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
UNRESERVED FUND BALANCE - FUNDED BY GENERAL PURPOSE REVENUE
BUDGET AND ACTUAL - CAPITAL CONSTRUCTION FUND
FOR THE NINE MONTHS ENDED MARCH 31, 2009**

(DOLLARS IN THOUSANDS)	CURRENT ANNUAL ESTIMATE/ UNRESTRICTED BUDGET		ACTUAL	PERCENT OF ESTIMATE
REVENUES:				
General Fund Transfer-In	\$	24,900	\$ 24,914	
Beginning General Fund Excess Reserve Transfer		14,500	14,482	
Interest Earnings		12,100	8,441	
TOTAL CAPITAL CONSTRUCTION REVENUES		51,500	47,837	92.9%
EXPENDITURES:				
Agriculture		4,750	1,362	
Corrections		61,220	20,671	
Education		1,581	330	
Higher Education		208,711	93,940	
Human Services		40,817	20,426	
Judicial Branch		473	-	
Military Affairs		9,780	1,555	
Natural Resources		911	911	
Personnel		22,787	9,506	
Public Health and Environment		1,400	980	
Public Safety		10,006	2,433	
Revenue		18,787	6,935	
Transportation		28,950	28,895	
Intrafund Transfer-Out		5,240	5,245	
NET EXPENDITURES AND AUGMENTING REVENUES		415,413	193,189	46.5%
EXCESS GENERAL REVENUES OVER (UNDER) NET CAPITAL CONSTRUCTION EXPENDITURES				
		(363,913)	(145,352)	
EXCESS AUGMENTING REVENUES				
			2,969	
BEGINNING UNRESERVED FUND BALANCE - GAAP BASIS				
		134,470	134,470	
Add Budgeted Non-GAAP Expenditures		-	1,399	
Release of the Beginning Reserve For Encumbrances - All Funding Sources		255,101	255,101	
(Additions) to Reserve for Encumbrances - General Funded - Estimate			(73,656)	
(Additions) to Reserve for Encumbrances - Non-General Funded - Estimate			(103,580)	
(Additions) Deductions to Reserve for Other Specific Purposes			3,542	
ENDING UNRESERVED FUND BALANCE - GAAP BASIS	\$	25,658	\$ 74,893	