

Colorado Economy and Budget Structure

Josh Harwood
Chief Economist
Office of State Planning and
Budgeting



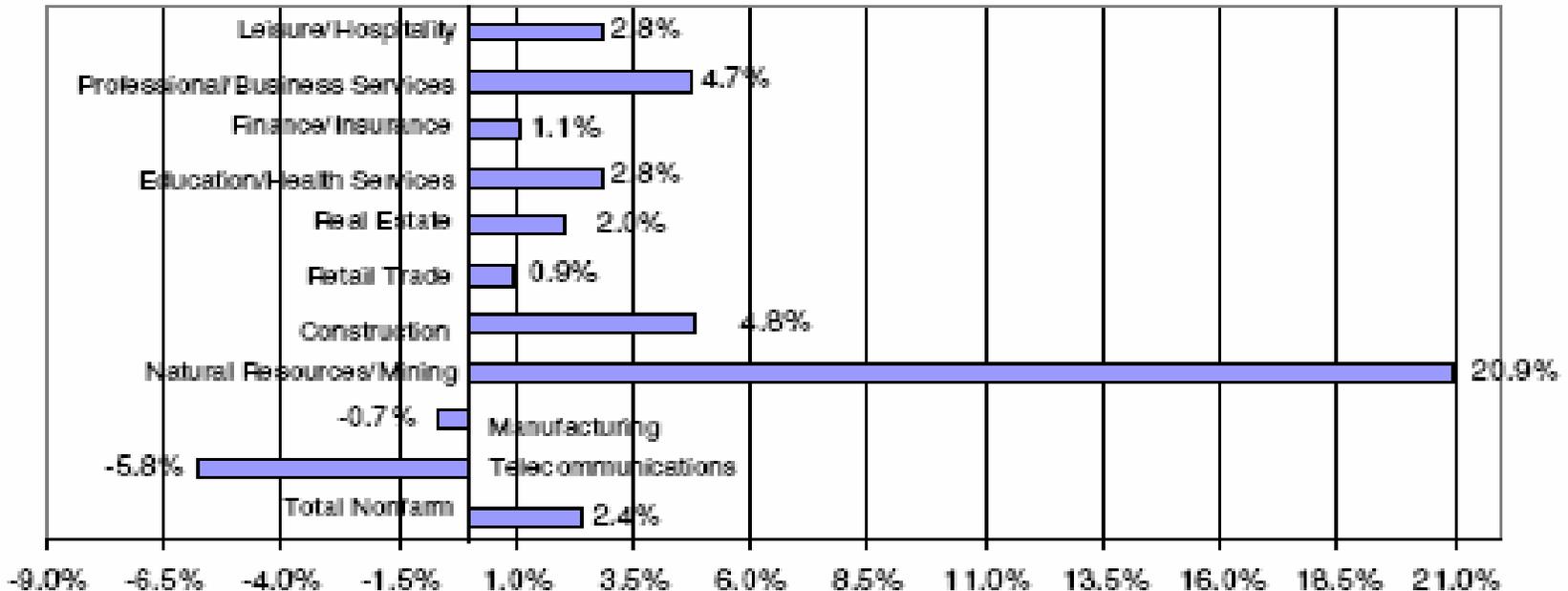
Solid Growth in 2006

- Employment increased 2.4%
 - Highest since 2000
- Low unemployment, high wage & salary growth
- Correction occurring in residential markets



Employment Growth

Figure 1. 2006 Employment Percent Change in Selected Colorado Industries



Source: Colorado Department of Labor and Employment, Current Employment Statistics



Economic Signals Mostly Positive

- *Employment* through April 2007 grew 2.1%. Only 3.5% Unemployment Rate.
- *Retail sales* increased 9.5% through March 2007.
- Colorado's *tourism* industry continues to expand.
 - Ski resort visits were up 11.9% over the prior year during the 2006-07 season.
 - Denver International Airport is currently ranked the fifth busiest airport in the country.
- *Natural resource* activity is booming.
 - Colorado ranked seventh among coal producing states, and oil and gas drilling permits set a new record in 2006, increasing 37 percent compared with 2005.
- Colorado *business activity* outpaces nation
 - Entrepreneurial activity ranks second in U.S.
 - 10 Colorado firms added to the Russell 3000 Index



Revenue Picture

- Sharp increase in Income Tax collections
 - Up nearly 20% in FY 2005-06, steady growth in FY 2006-07.
- Sales taxes healthy statewide.
 - Most rapid growth outside Metro Denver.
- Resource development driving spike in Severance tax growth.



What Lies Ahead

- Steady, but slowing growth pattern
 - National and global economies are weakening
 - When will housing “hit bottom”
- Risk of recession
 - Slowdown more likely
 - Local exposure not as troubling as in 2000



State Budget Basics

- General Funds
 - Income & Sales taxes, etc.

- Cash Funds
 - Dedicated fees for programs

- Federal Funds
 - Earmarked for specific purposes



TABOR

- Applies to most revenue collected through taxes and fees (General Funds and Cash Funds).
- Created growth limit on revenues based on population and inflation.
- Requires state to refund any revenue in excess of the limit.
- Based revenue limit on either prior year's total revenue or prior year's limit, ***whichever is less.***



Referendum C Adjustments to TABOR

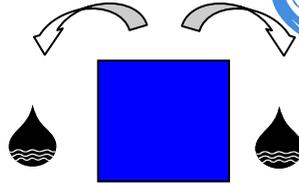
- Allows state to keep all revenue from FY 2005-06 to FY 2009-10
- Revenue limit for FY 2010-11 and beyond based on highest revenue year, increased for population and inflation
- Future revenue limits based only on prior year limit, not actual revenues (eliminates “ratchet effect”)

Where do taxes go?

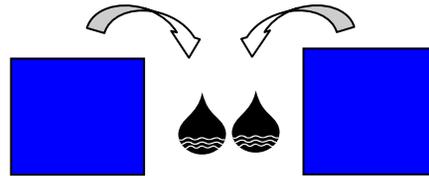


General Fund Revenue

General Fund Obligations
(Outside 6% Limit)

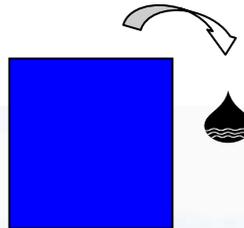


General Fund 4%
Reserve



General Fund 6%
Appropriations

SB 97-1 Diversion to
HUTF



General Fund Excess Reserve
(1/3 to Capital Construction,
2/3 Transportation)

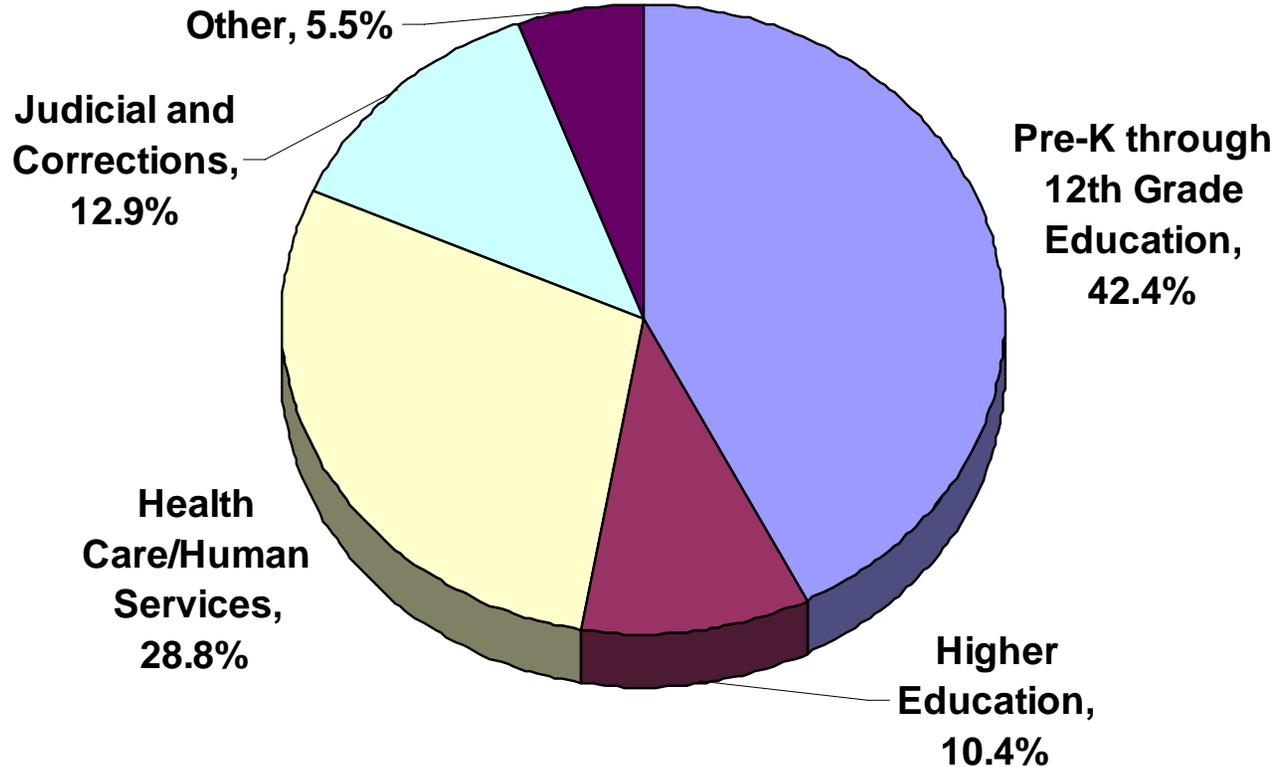


6% Appropriations Limit

- Applies to total General Fund appropriations for operating purposes.
 - Not department or program specific
- Historically, a budget that maintains current service levels will require close to 6% annual increases.
- “Ratchet effect” still applies to this limit.



FY 2007-08 General Fund Appropriations





Factors Driving Budget Increases

- Caseloads
 - Corrections, Medicaid, Pre-K through 12th Grade Education
- Statutory/Constitutional Requirements
 - Amendment 23, Maintenance of Effort for Human Services
- Restoration of Programs/Services cut during recession



Section 24 - 75 - 201.1, C.R.S.

- (VI) If the general assembly ***significantly restructures*** the method by which elementary, secondary, or postsecondary education in this state is financed, the general assembly shall examine the limitation on the level of state general fund appropriations set forth in this section and shall determine whether said limitation should be modified in light of such restructuring.