State Taxpayer Accountability Report (STAR)
Fiscal Year 2006–07

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, 2007. 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 second 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/

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

Leslie M. Shenefelt
State Controller

State Taxpayer Accountability Report (STAR)

Fiscal Year 2006–07

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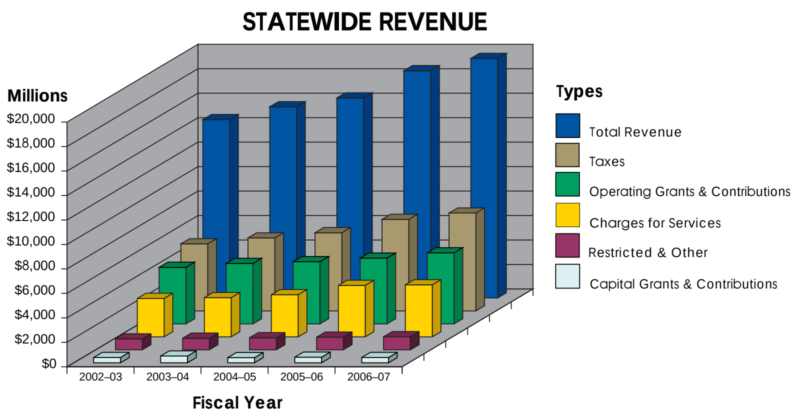
Design & print services provided by the Colorado Department of Personnel & Administration; Division of Central Services; Integrated Document Solutions.

Cattle Ranch Near Fairplay, Colorado

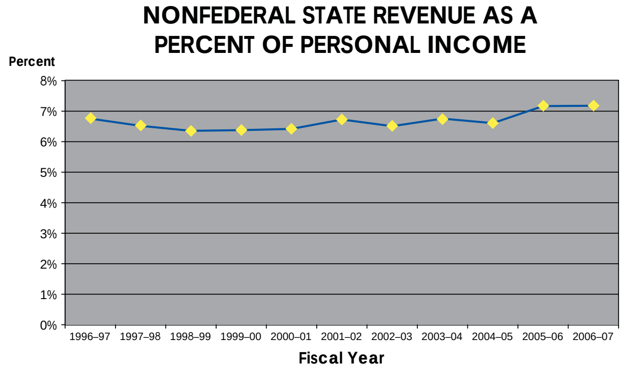
WHERE THE MONEY COMES FROM (REVENUE)



The state's major sources of revenue are Taxes, Operating Grants and Contributions, and Charges for Services. All three sources have increased steadily over five years. As a result, the state's total revenue has increased from $14.6 billion to $19.6 billion (34.2 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 29.5 percent from 2003 to 2007. Economic growth increases jobs, wages, and in most instances, the stock market. This results 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.



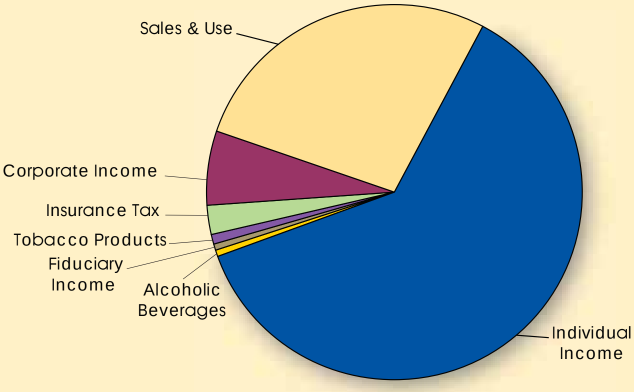
Fiscal Years 2005–06 and 2006–07 have been adjusted to remove Higher Education revenues that were excluded from prior years.

In Fiscal Year 2005–06, following approval of a ballot measure authorizing the state temporarily to retain excess revenues, the size of state revenue relative to personal income increased for a variety of reasons. First, Coloradans increased their wealth in areas that are not reported as part of personal income—increased wealth from stock market gains and energy royalty earnings. Second, state revenues from oil and gas production increased dramatically. Third, the state enacted an accounting change that double-counted a portion of revenue associated with higher education funding. Finally, the state financed the construction of a new prison. From Fiscal Year 2005–06 to Fiscal Year 2006–07, revenue as a percent of personal income remained virtually unchanged.

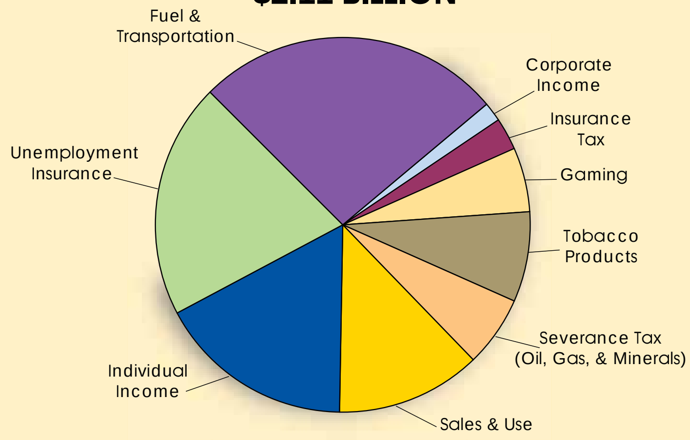
The following pie charts show the relative size of the sources of general-purpose taxes, dedicated taxes, and all other revenues of the state. Sales, transfers, and grants moving within the state, as well as additions to trust funds, have been excluded.

FISCAL YEAR 2006–07

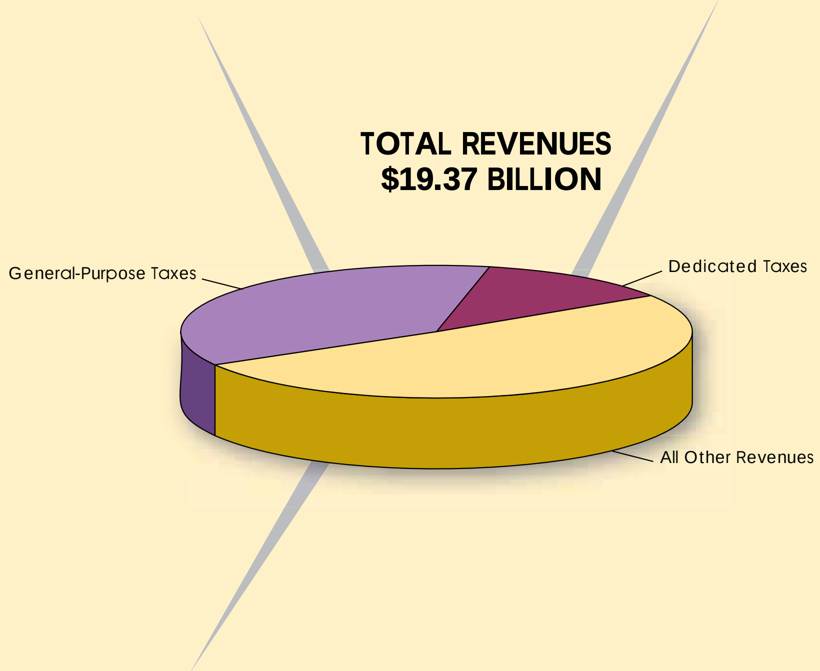
GENERAL–PURPOSE TAXES
$7.24 BILLION



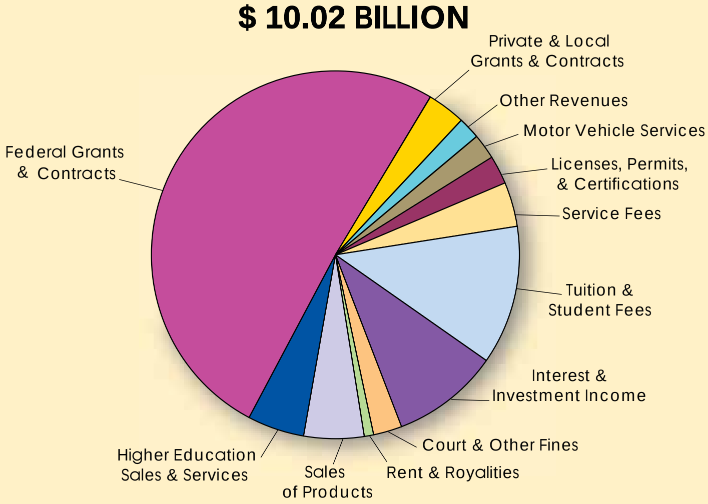
DEDICATED TAXES
$2.11 BILLION

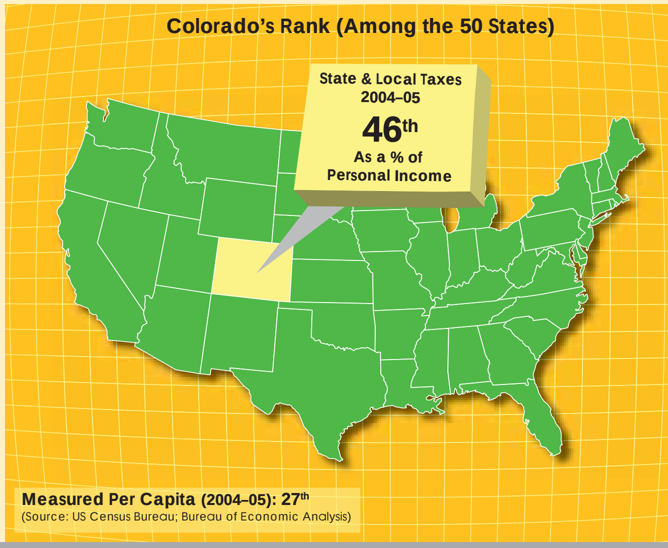


TOTAL REVENUES
$19.37 BILLION



ALL OTHER REVENUES
$ 10.02 BILLION





Maroon Bells in the White River National Forest of Colorado

COLORADO'S BOOMING ENERGY REVENUES

Like other states in the west, Colorado's energy industry is booming. Colorado ranks fifth in the nation for proven, natural gas reserves and 12th in proven oil reserves. For the 2006 calendar year, the Colorado Geological Survey estimated the total value of oil and gas production at $8.58 billion, up 220 percent from five years ago.

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.

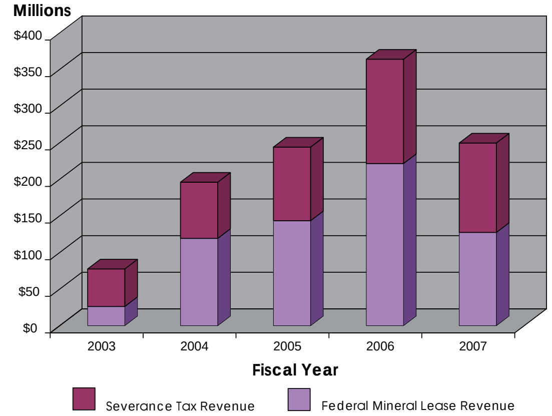
Although the volume of oil and gas produced in the state has increased each year during the five-year period, revenues received have been more volatile due in part to fluctuating commodity prices. In addition, with respect to state severance tax collections, a unique combination of credits and exemptions 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 2006–07 were $127 million (about 92 percent of which came from oil and gas production in the state), nearly five-times collections in Fiscal Year 2002–03.

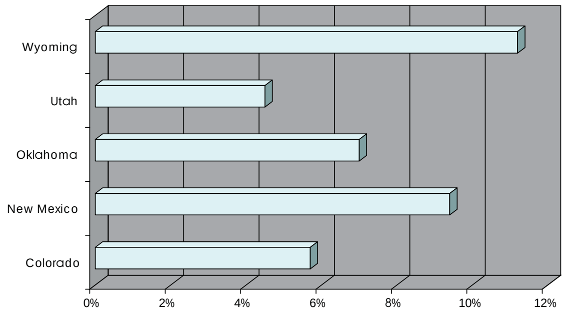
Federal Mineral Lease revenues come from the leases of federal lands within the state for mineral production. Roughly 50 percent of the revenues collected on federal leases in Colorado are transferred by the U.S. Government to the Colorado State Treasurer. Federal Mineral Lease Revenues for Fiscal Year 2006–07 were $122 million, well over twice the receipts in Fiscal Year 2002–03.

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

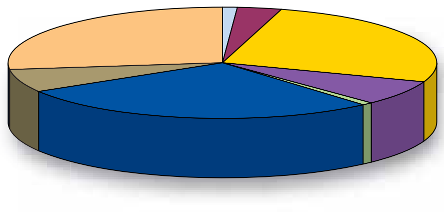


WHAT COLORADO CITIZENS BUY (EXPENDITURES[1])

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.

TOTAL STATEWIDE EXPENDITURES
$18.23 BILLION



EXPENDITURES BY DEPARTMENT ON THE BUDGETARY BASIS FOR THE YEAR ENDED JUNE 30, 2007 (DOLLARS IN THOUSANDS)

	GENERAL	CASH	FEDERAL	TRANSFERS	TOTAL
Budgeted Expenditures & Transfers					
Departmental					
Agriculture	$ 5,159	$ 24,142	$ 7,692	$ (1,082)	$ 35,911
Corrections	577,492	77,543	4,908	(7,514)	652,429
Education	2,883,206	3,143,307	529,143	(2,710,137)	3,845,519
Governor	11,356	53,457	32,357	(19,214)	77,956
Health Care Policy & Financing	1,363,703	349,640	1,586,348	(74,375)	3,225,316
Higher Education	729,016	2,568,648	249,586	(232,696)	3,314,554
Human Services	632,199	270,984	926,802	(19,336)	1,810,649
Judicial Branch	264,184	92,940	3,515	(26,241)	334,398
Labor & Employment	108	459,676	111,887	(77,409)	494,262
Law	8,864	29,592	920	(3,312)	36,064
Legislative Branch	29,647	2,255	—	(1,642)	30,260
Local Affairs	9,973	195,167	90,538	(10,890)	284,788
Military & Veterans Affairs	5,529	3,134	11,886	(455)	20,094
Natural Resources	28,122	300,068	28,795	(103,620)	253,365
Personnel & Administration	12,668	416,250	732	(8,865)	420,785
Public Health & Environment	27,204	141,497	211,719	(18,658)	361,762
Public Safety	67,172	111,290	28,627	(8,806)	198,283
Regulatory Agencies	1,267	63,975	1,164	(10,403)	56,003
Revenue	180,237	635,886	1,818	(253,758)	564,183
State	—	34,331	132	(556)	33,907
Transportation	—	977,821	428,748	(176,035)	1,230,534
Treasury	121,407	1,908,313	128,615	(1,697,149)	461,186
Transfers Not Appropriated by Department	585,826	7,143	—	(592,969)	—
TOTAL	**$ 7,544,339**	**$ 11,867,059**	**$ 4,385,932**	**$ (6,055,119)**	**$ 17,742,211**

[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.

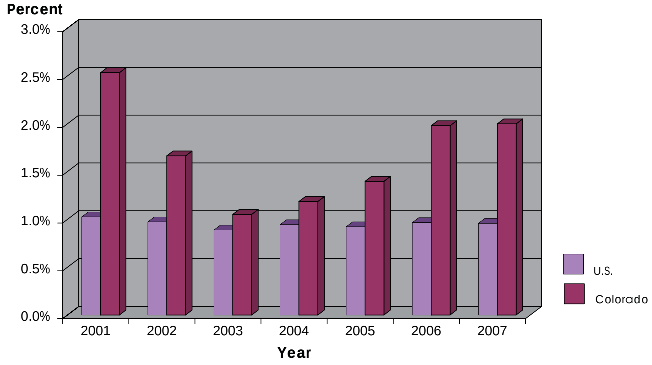
Photo courtesy: Andrea Golod/Weaver Multimedia Group

Grand Junction, Colorado

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 in 2002 and 2003, the following table shows that the state's population has steadily increased over the last ten years, and it is now a larger portion of the total United States population. 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.

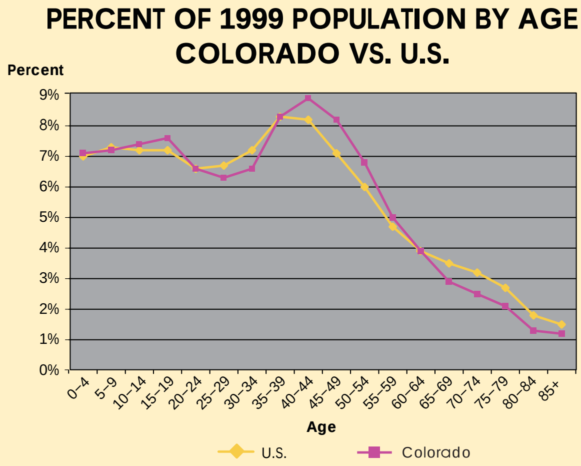
COLORADO DEMOGRAPHIC DATA 1998 TO 2007

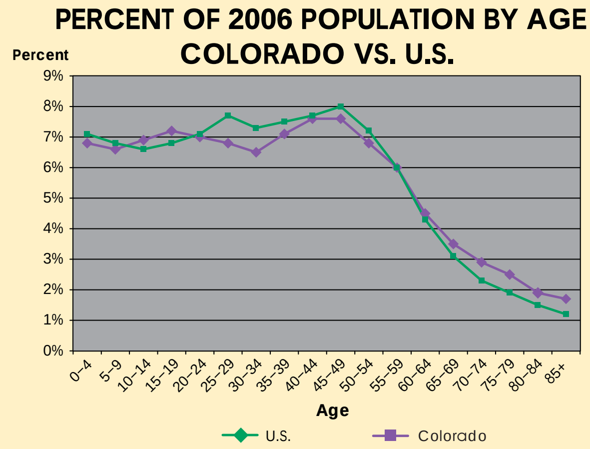
Year	Population (In Thousands)	Percentage Share of U.S. Population	Total Personal Income (Billions)	Per Capita Personal Income (Dollars)	% of U.S. Per Capita Income	Employment (In Thousands)	Unemployment %
2007 est	4,890	1.62%	$196.9	$40,749	109.1%	2,576	4.8%
2006 est	4,795	1.60	185.8	39,107	108.8	2,513	4.5
2005	4,723	1.59	174.8	37,459	117.0	2,419	3.8
2004	4,653	1.57	164.6	35,766	114.6	2,371	5.6
2003	4,587	1.58	154.9	34,056	109.8	2,312	6.1
2002	4,522	1.57	153.1	34,027	110.5	2,293	5.7
2001	4,447	1.56	152.7	34,493	112.8	2,304	3.8
2000	4,326	1.54	144.4	33,371	111.8	2,300	2.7
1999	4,216	1.51	128.9	30,492	109.2	2,198	2.9
1998	4,103	1.49	118.5	28,784	107.1	2,156	3.8

Source: U.S. Department of Commerce, Bureau of Economic Analysis, & Colorado Business Economic Outlook Committee.

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 2006 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 six years between the graphs.

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 2006 (the most recent data available). Today Colorado has lost the advantage of the 37–57 age group and instead has a very high percentage of 25–35 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.





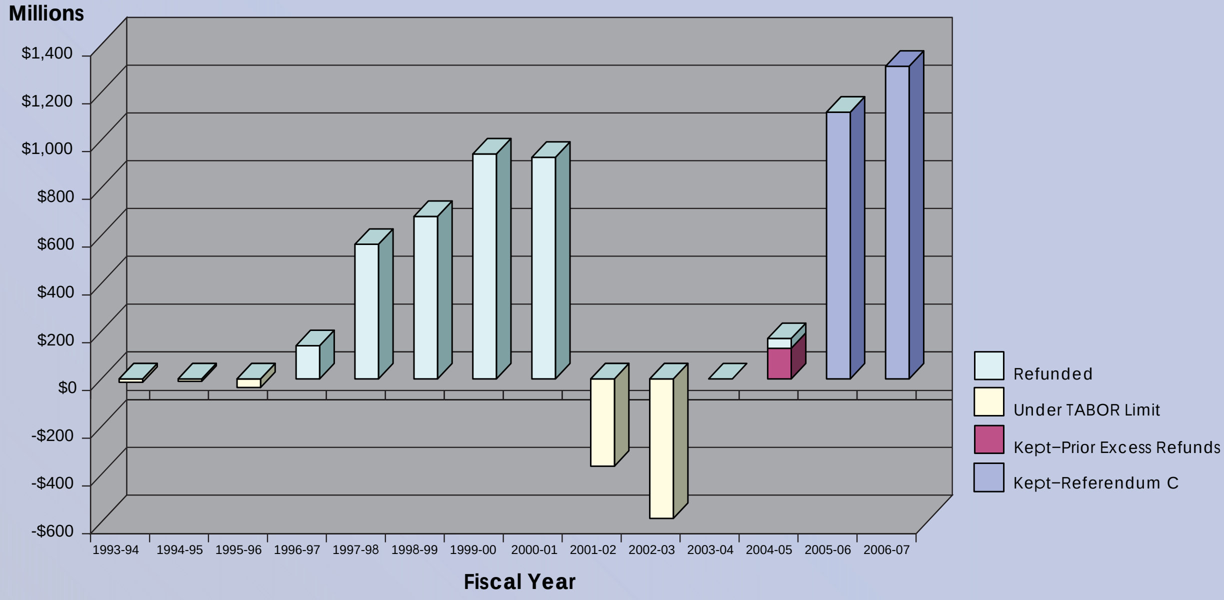
TABOR (TAXPAYERS' BILL OF RIGHTS)

Next to the relative strength of the economy, TABOR is probably the most important factor affecting the state's finances and the government's ability to provide services to the 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 2006–07, revenues were $1,308.0 million over the TABOR limit. The following graph shows revenues that exceeded the TABOR limit from Fiscal Year 1993–94 through 2006–07 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.

Great Sand Dunes National Park, Colorado

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)

	2006–07	2005–06	2004–05	2003–04	2002–03	2001–02	2000–01
TABOR Revenue Base	$8,045,257	$8,314,374	$8,331,991	$7,712,512	$7,752,211	$7,948,550	$7,563,710
Inflation	2.1%	0.1%	1.1%	1.9%	4.7%	4.0%	2.9%
Population Change	1.4%	1.2%	1.1%	1.7%	2.2%	0.0%	2.2%
Percentage Allowable Growth	3.5%	1.3%	2.2%	3.6%	6.9%	4.0%	5.1%
TABOR Adjusted Revenue Limit	$8,333,827	$8,045,257	$8,314,374	$8,331,991	$8,296,787	$8,126,189	$7,948,550
TABOR Non-Exempt Revenues	$9,641,867	$9,161,391	$8,482,963	$8,331,991	$7,712,512	$7,752,211	$8,877,105
Correction of Prior Years' Refunds			$284			$8,284	($1,354)
(Over) Under TABOR Limitation	($1,308,040)	($1,116,134)	($168,873)	$0	$584,275	$365,694	($927,201)
Kept	$1,308,040	$1,116,134	$127,810				
Refunded	$0	$0	($41,063)	$0	$0	$0	($927,201)

TABOR LIMIT CALCULATION (DOLLARS IN THOUSANDS)

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

Referendum C Spending

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.

During the preparation of the budget, legislative economists estimated that $1,062.2 million would be available as a result of Referendum C in Fiscal Year 2006–07. The Legislature authorized spending that amount as follows: preschool through 12th grade education ($343.1 million), health care ($343.1 million), higher education ($322.4 million), fire and police pensions ($38.6 million), and transportation projects ($15.0 million). Actual revenues retained exceeded the estimate by $245.8 million to total $1,308.0 million. It is expected that in the 2008 legislative session the Legislature will enact an adjustment to the Fiscal Year 2006–07 budget to appropriate the $245.8 million for purposes similar to those listed above.

Photo courtesy: Grant Blakeman

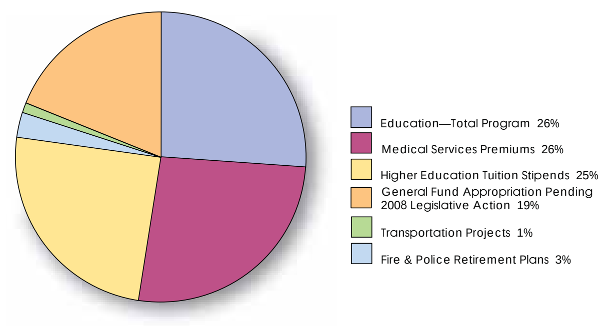
The use of Referendum C money is restricted by the limit on allowable growth in General Fund appropriations, which is six percent annually in most years. The cap limits the total amount of General Fund dollars that can be spent including those spent for preschool through 12th grade education, health care, and higher education. Since the appropriations limit has already been reached, total general fund appropriations cannot increase; therefore, any additional increases in Referendum C appropriations to these programs will be offset by reductions in appropriations of other monies.

Retaining the $1,308.0 million of TABOR revenue allowed the state to avoid spending cuts, depleting reserves, or taking other actions such as the sale of state assets. In addition, retaining the excess TABOR revenue provided adequate resources to trigger the following statutory requirements:

- Transfer the General Fund Surplus (the amount above the required four percent reserve) to;
    - The Highway Fund (two-thirds = $166.2 million),
    - The Capital Construction Fund (one-third = $83.1 million), and
- Divert slightly over ten percent of sales tax revenue to the Highway Fund ($230.4 million).

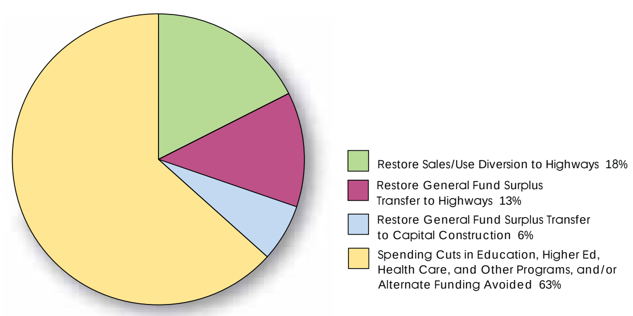
REFERENDUM C APPROPRIATIONS

$1,308.0 Million

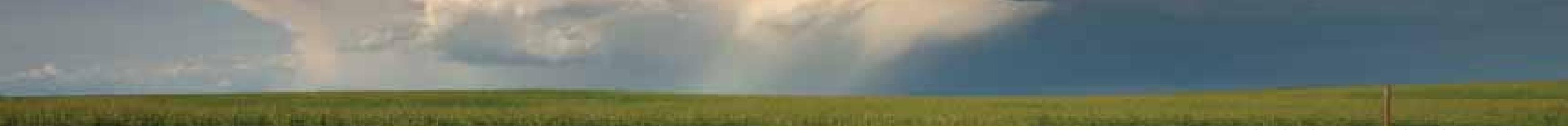


BENEFITS OF REFERENDUM C

$1,308.0 Million



Spending Cuts or Alternate Funding Sources percentage assumes current spending levels, which likely would not have occurred without Referendum C.



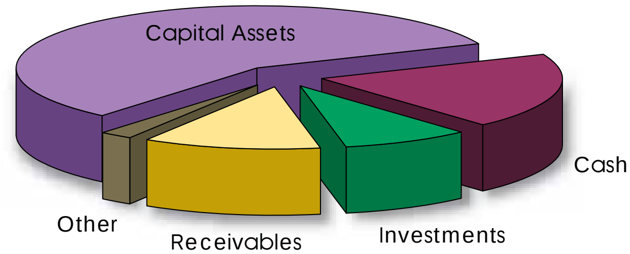
Spring Thunderstorm Over the Colorado Plains

WHAT COLORADO CITIZENS OWN (ASSETS)

The state has five major types of assets:

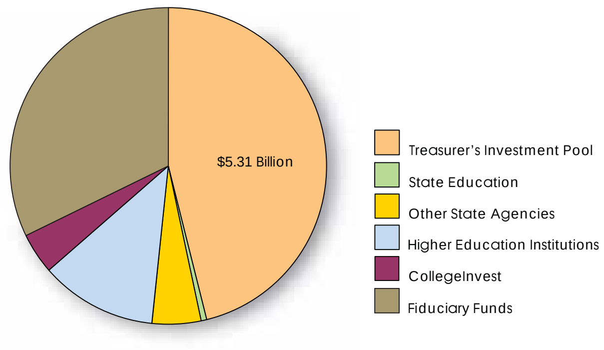
- Cash
- Receivables (cash that the state is owed but has not yet collected);
- Investments, which mostly consists of cash lent to the federal government (U.S. Treasury notes and bonds), to corporations (bonds and commercial paper), and to individuals through mutual funds for mortgages;
- Capital Assets, 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 2006–07 TOTAL ASSETS

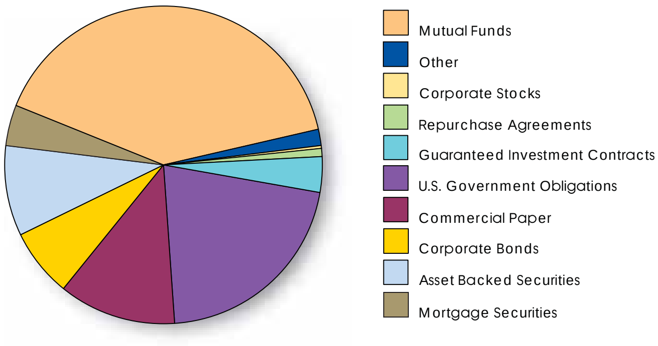


The state had $5.73 billion of cash at June 30, 2007. The state also had $6.19 billion of investments based on their market value at June 30, 2007, including those held for others in Fiduciary Funds. The following charts show where the state's investments are held and the types of securities that have been purchased.

WHERE THE INVESTMENTS ARE HELD
$11.50 BILLION

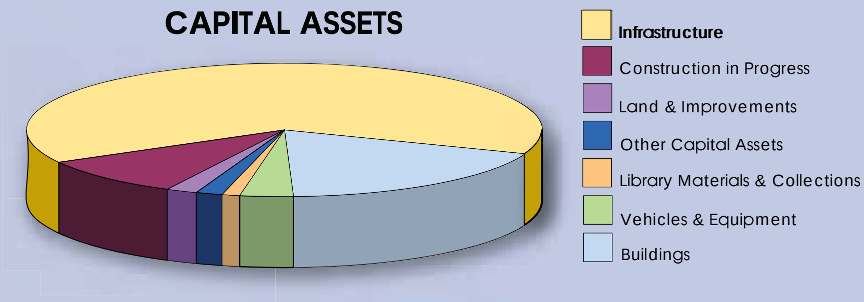


INVESTMENT TYPES
$11.50 BILLION



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 $5.3 billion at the end of Fiscal Year 2006–07. The average yield on the Pool's investments was 4.7 percent and the total interest income for the fiscal year was $244.3 million. A complete listing of the State Treasurer's investment holdings along with quarterly performance results is now available on the Treasurer's website at http://www.colorado.gov/treasury/ (under Divisions & Programs, Investments Division, State's Portfolio).

The citizens own $16.78 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.



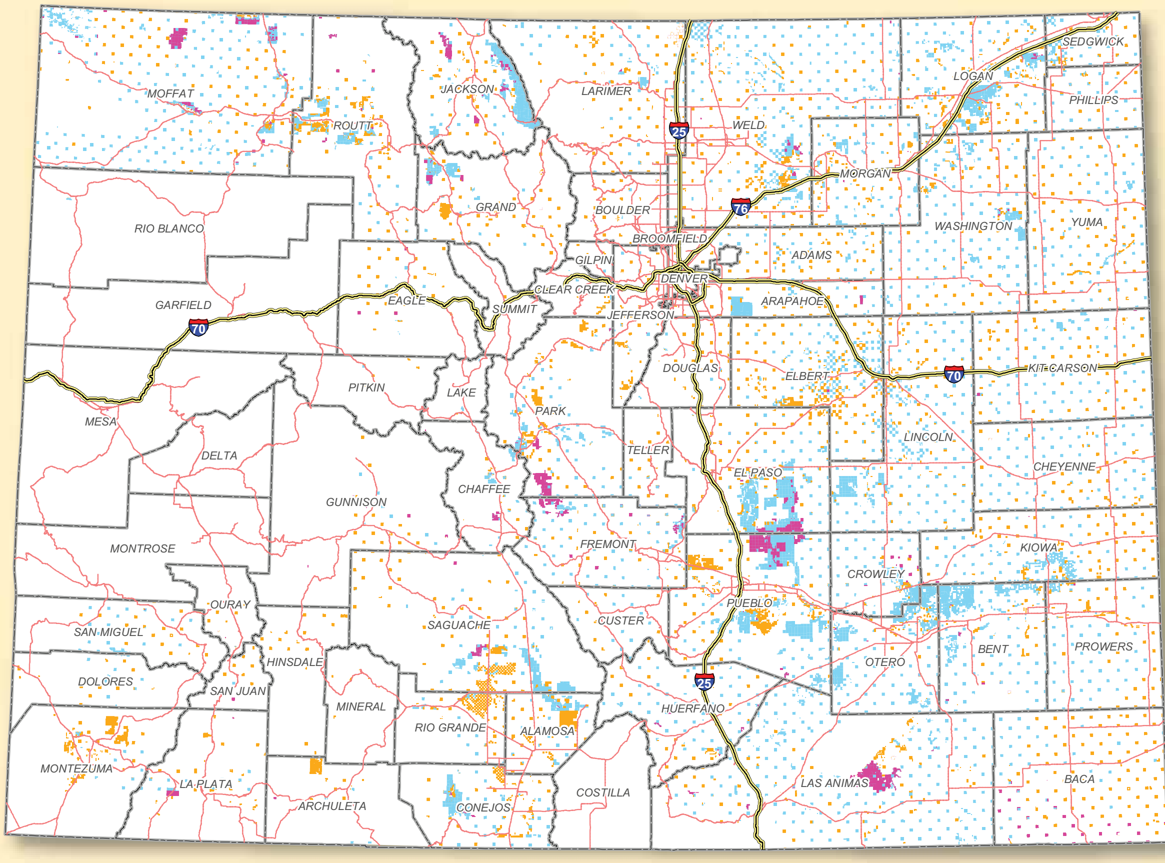
The following table shows the amounts the state reported for working capital and net assets over the last five years. The table also shows that the state has a strong and improving current ratio, which is current assets divided by current liabilities. The table is in actual dollars and has not been adjusted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

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

	2006–07	2005–06	2004–05	2003–04	2002–03
Current Assets	$ 6,142,704	$ 5,647,092	$ 5,190,016	$ $3,885,959	$ 3,308,011
Less Current Liabilities	(2,799,495)	(2,791,901)	(2,923,815)	(2,555,692)	(2,129,082)
Working Capital	$ 3,343,209	$ 2,855,191	$ 2,266,201	$ 1,330,267	$ 1,178,929
Working Capital Per Capita	$ 684	$ 596	$ 473	$ 278	$ 246
Current Ratio	2.19	2.02	1.78	1.52	1.55
Working Capital	$ 3,343,209	$ 2,855,191	$ 2,266,201	$ 1,330,267	$ 1,178,929
Investments	1,053,617	935,475	249,491	581,674	1,165,586
Capital Assets	16,775,157	16,252,397	16,084,881	15,786,758	15,004,566
Other Long-Term Assets	5,173,342	4,466,989	4,081,516	3,795,114	3,078,496
Less Long-Term Liabilities	(5,437,517)	(4,969,387)	(4,578,623)	(4,069,907)	(3,786,996)
Net Assets	$ 20,907,808	$ 19,540,665	$ 18,103,466	$ 17,423,906	$ 16,640,581
Net Assets Per Capita	$ 4,276	$ 4,078	$ 3,835	$ 3,745	$ 3,628

Photo courtesy: Matt Inden/Weaver Multimedia Group

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 kindergarten through12th grade education in the state.

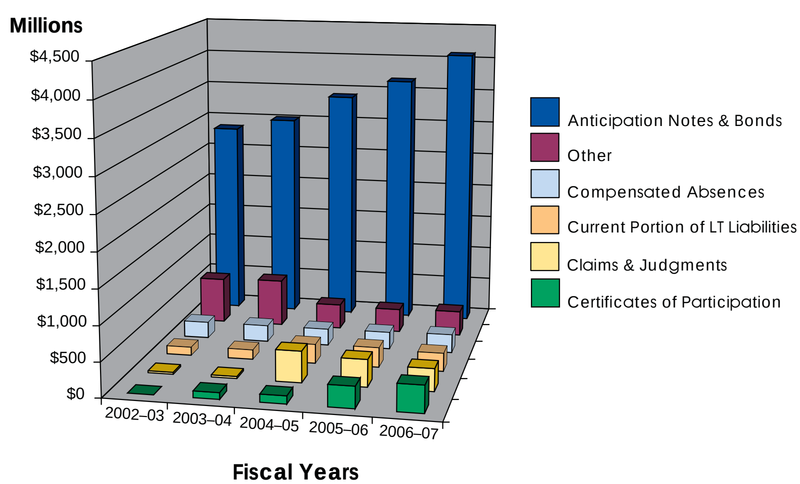
Surface & Sub-Surface Ownership   Surface Ownership Only   Sub-Surface Ownership Only

(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; such borrowing is commonly referred to as general obligation debt. Although the state is 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 to $5.70 billion at the end of Fiscal Year 2006–07.

COMPONENTS OF TOTAL LONG-TERM LIABILITIES



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, 2007 (DOLLARS IN THOUSANDS)

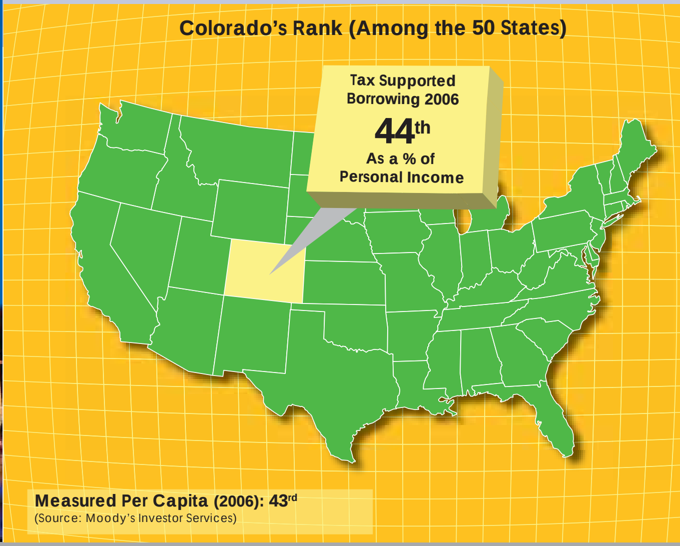
	2006–07	2005–06	2004–05	2003–04	2002–03
Outstanding Borrowing	$ 5,110,760	$ 4,680,136	$ 4,357,276	$ 3,721,291	$ 3,031,751
Percent Change Over Previous Year	9.2%	7.4%	17.1%	22.7%	12.5%

At June 30, 2007, 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, 2007 (DOLLARS IN THOUSANDS)

Borrowed Cash Used for	Anticipation Notes & Revenue Bonds	Certificates of Participation
Fleet Vehicles		$ 33,221
Capitol Parking Structure		8,120
State Fair Buildings & Facilities	$ 1,126	
Prisons		129,987
Fitzsimons Medical Buildings		191,769
Higher Education Auxiliary Facilities	1,292,953	19,027
Highway Projects (Anticipation Notes)	1,319,718	
Highway Department Buildings		19,995
Student Loans	1,641,304	
TOTAL	$ 4,255,100	$ 402,119

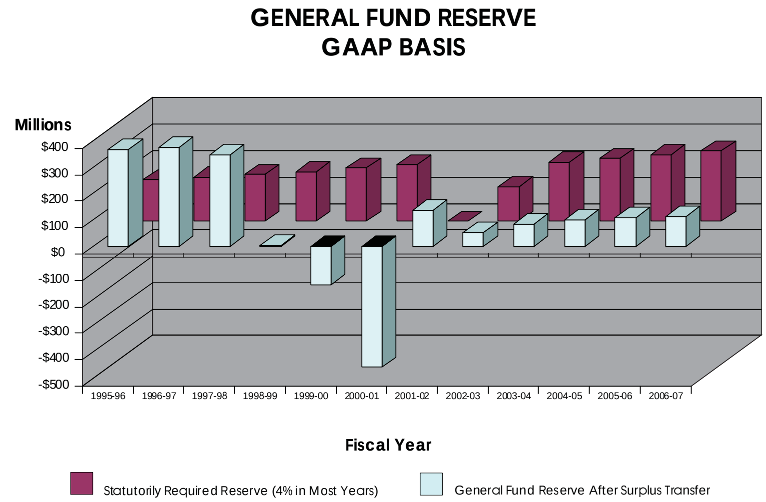
Photo courtesy: Colorado State Fair: Denise Chambers/Weaver Multimedia Group



Mt. Sneffels in the Uncompahgre National Forest of Colorado

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 resources 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 (exceptions are made during downturns). However, as shown in the graph, after recognizing all current liabilities of each fiscal year as required by generally accepted accounting principles and including the required transfers, the state falls well below the statutory four percent reserve. This leaves the state vulnerable in an economic downturn as any significant drop in revenues will more likely require cuts in services.



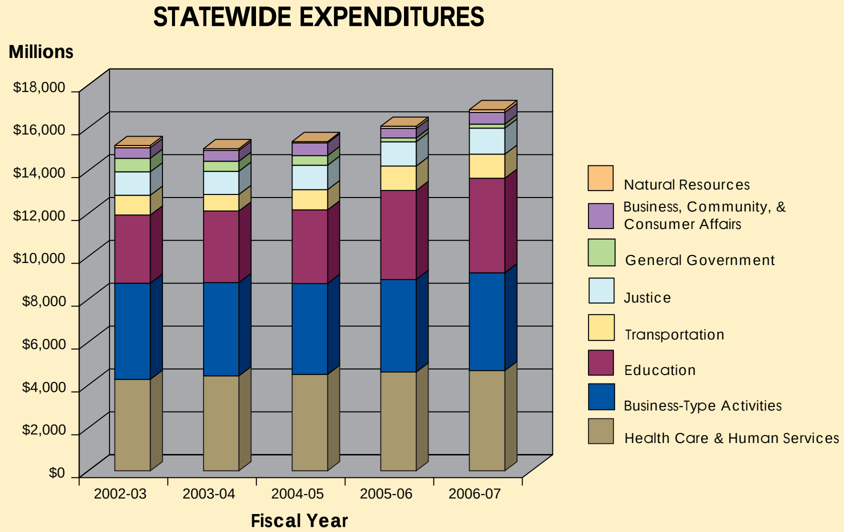
PENSION FUNDING

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, reduced contributions, and investment losses in the early 2000's, the pension assets have become smaller in relation to the pension liabilities. At December 31, 2006, PERA reported the pension assets of the State Division were 73 percent of pension liabilities, and at the then current contribution rates, the pension assets would never be large enough to pay 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.

MORE ABOUT WHAT COLORADO CITIZENS BUY

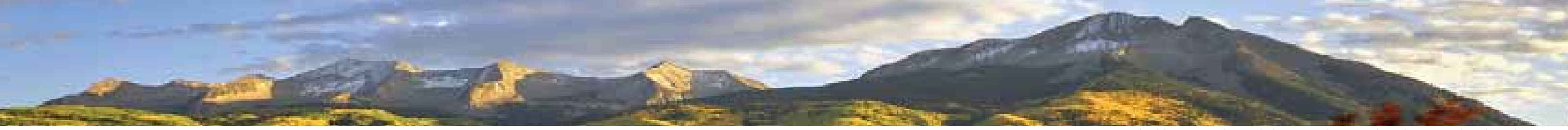
The graph shows the total statewide expenditures using inflation adjusted 2003 dollars broken out by major program. Total expenditures went down from Fiscal Year 2002–03 to 2003–04 as a result of the decline in the state's economy but increased in total over the five-year period from $14.1 billion to $17.0 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 increase occurred in Education primarily due to the Amendment 23 required growth in education spending and the decreasing percent of total preschool through 12th grade education expenditures paid by local school districts.[3] Business-Type Activities—primarily Higher Education—also had a significant increase primarily related to funds made available by Referendum C.



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 personnel costs.

Photo courtesy: Colorado Historical Society Building/Stan Obert

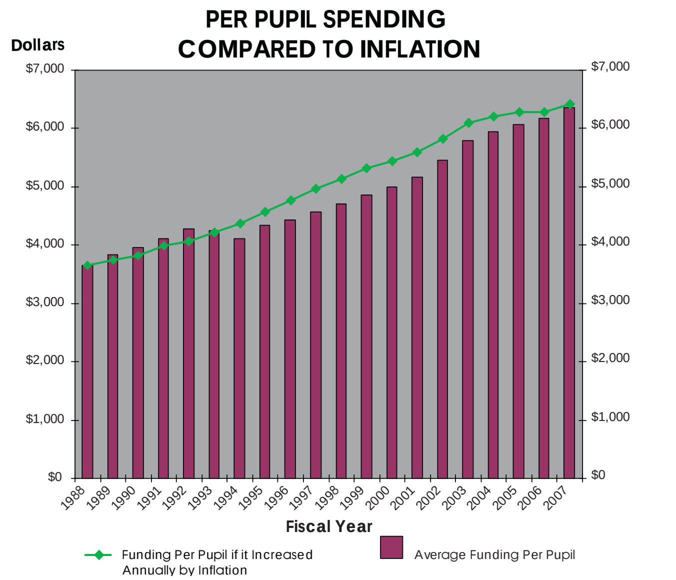
[3] This erosion of the local portion of preschool through 12th grade funding was ended in the 2007 legislative session, to take effect in Fiscal Year 2007–08.



West Beckwith Mountain and the Gunnison National Forest of Colorado

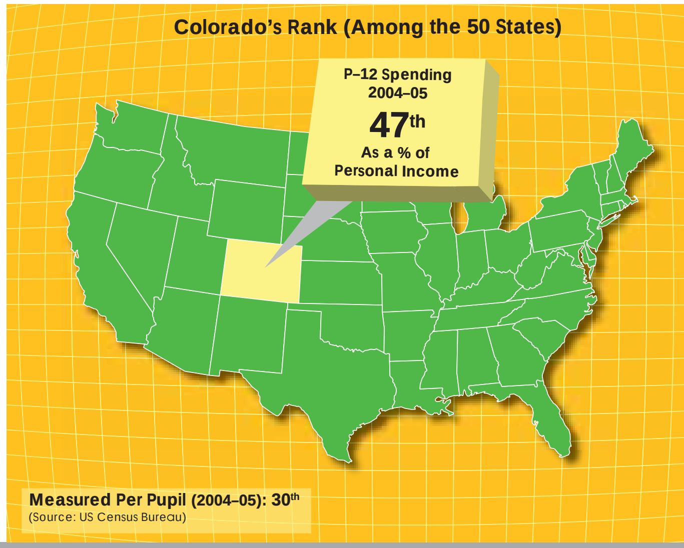
Education

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. Furthermore, the 1994 School Finance Act has had the effect of creating deeper reductions in school district property taxes. As a result, local funding has declined as a percentage of the support for local schools. To address this problem, the state makes increasingly large payments to the local school districts. In 2007, the Legislature and the Governor enacted legislation to stabilize local funding for P–12 education; however, a suit was filed challenging the freeze in school district property taxes as an unapproved tax increase.



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.



In October 2007, the student enrollment count was 802,639, and in Fiscal Year 2006–07 the state distributed $3.72 billion to local school districts. The enrollment amount represents a 5.9 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.

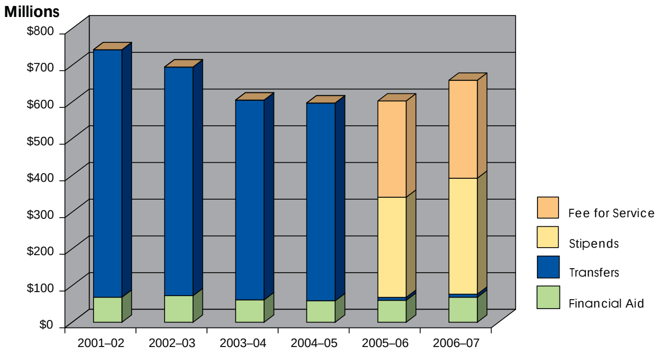
Higher Education

In Fiscal Year 2001–02, the state spent 12.9 percent of its total general-funded expenditures on Higher Education. In Fiscal Year 2006–07 that percentage fell to 9.3 percent—a decline of 27.9 percent. During this period when state spending on Higher Education decreased, in-state enrollment increased from 123,256 to 139,294. The percentage of total state spending represented by spending on Higher Education dropped for several reasons including required TABOR refunds, the economic downturn in Fiscal Years 2001–02 and 2002–03, unavoidable growth in other areas of the budget, and the permanent income and sales tax rate reductions passed by the Legislature in the late 1990's.

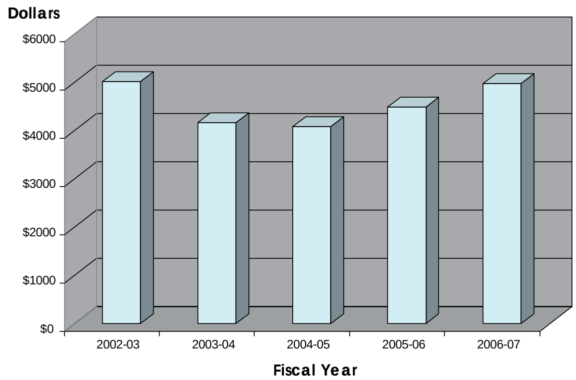
Higher Education has other sources of revenue beside appropriations from the state. Higher Education receives revenue from federal grants, tuition, and fees, among other sources. The federal grants are mostly related to research programs at the four major universities, and therefore, grants are not as important a source of revenue for the state's colleges or community college system. As a result, much of the burden of covering the reduced state appropriations 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 and 2006–07 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).

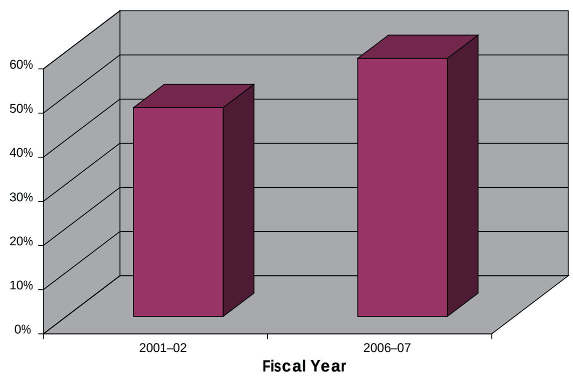
GENERAL FUND SPENDING FOR HIGHER EDUCATION

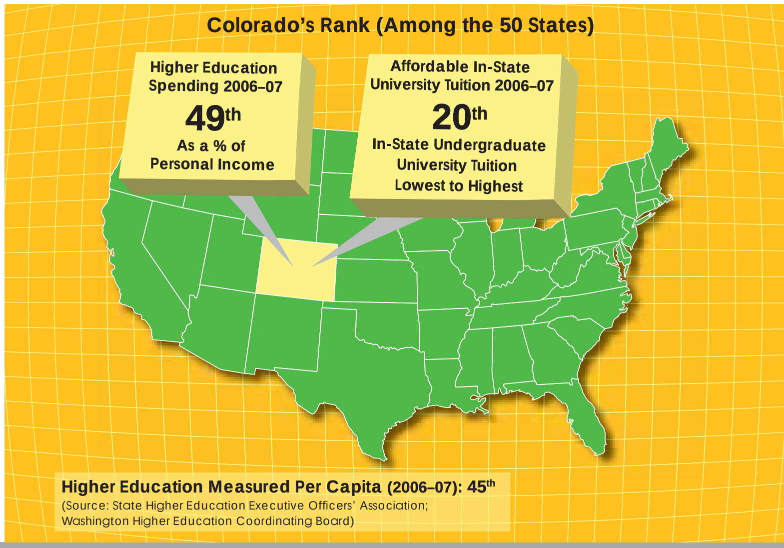


STATE SPENDING PER IN-STATE STUDENT



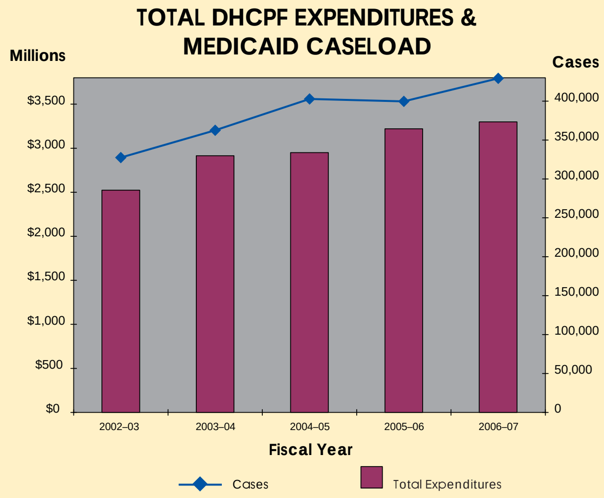
STUDENT SHARE OF TOTAL HIGHER EDUCATION COSTS



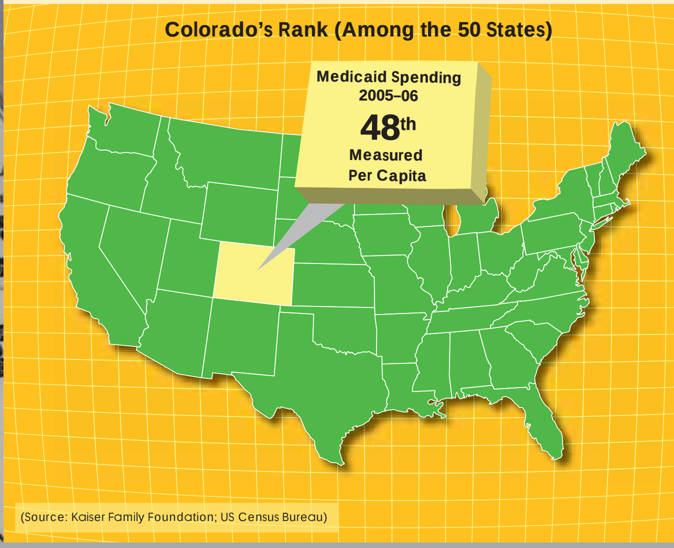


Mesa Verde National Park, Colorado

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. About one-half of all Medicaid expenditures is paid using federal dollars. 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 2007 CHP+ provided low cost health insurance to 52,199 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 2006–07, Colorado, through the Department of Health Care Policy and Financing (DHCPF), spent $3.30 billion from all sources (general, cash, and federal revenues) on its health care mission, which was a 30.7 percent increase since Fiscal Year 2002–03. During the same five years the Department's share of the General Fund budget decreased from 19.6 percent to 18.3 percent.



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 $1.21 billion on transportation in Fiscal Year 2006–07, 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 2004–05. The new construction spending was made possible by Transportation Revenue Anticipation Notes (TRANs) issued by the state after voters approved Referendum A in the 1999 general election.

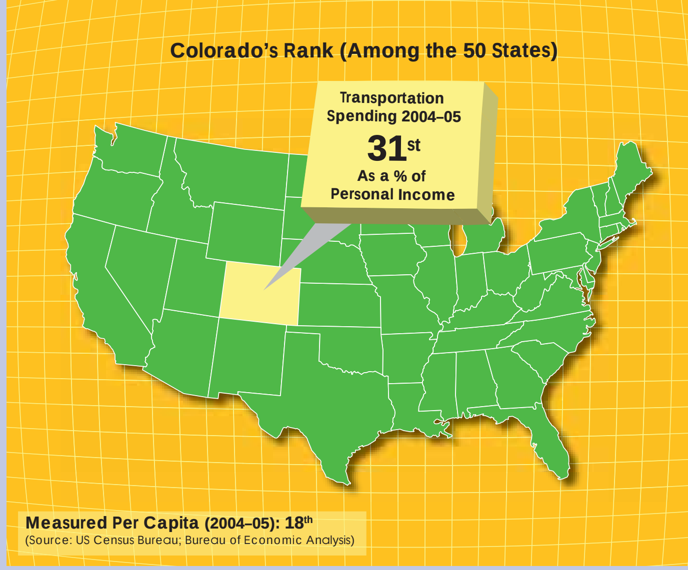
Colorado pays for transportation costs from cash and federal revenues. The use of federal revenue is limited by Federal Highway Administration requirements and generally excludes maintenance activities. The cash sources include highway users taxes (such as, fuel tax and vehicle registrations), transfers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

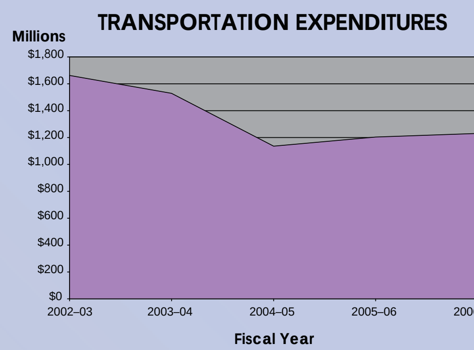
The Department of Transportation reports that much of the need for highway construction maintenance is not being met. The graph to the right compares the existing highways (measured in lane miles) to the demand for highways (measured in miles traveled). In high-density metropolitan areas, the increase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

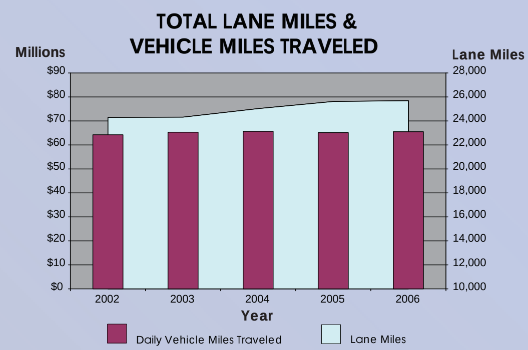
In addition, state fuel tax revenues have been losing value over time. Since 1991, the last time the Colorado legislature adjusted the state fuel tax, fuel tax revenues have lost 38 percent of their purchasing power adjusted for the Denver-Boulder consumer price index (real dollars) and have lost 59 percent of their purchasing power relative to the construction cost index. This, coupled with a rise in vehicle miles traveled, has caused a multi-billion gap in transportation funding.

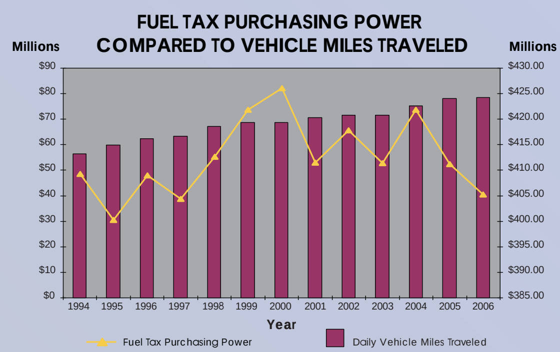
The following table shows the percentage of roadways rated good and fair as compared to those rated poor.

	2006	2005	2004	2003	2002
Percent Rated Good/Fair	63	65	61	58	58
Percent Rated Poor	37	35	39	42	42









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.

	2007	2006	2005	2004	2003
Percent Structurally Deficient	5.25	5.19	3.2	3.25	3.36

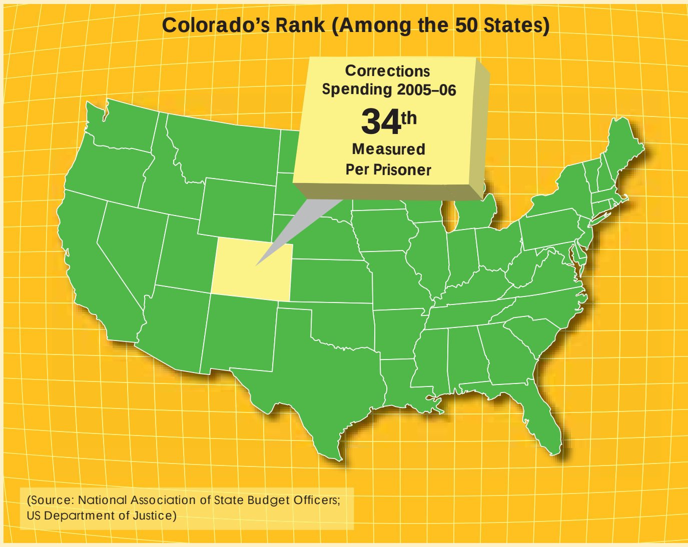
Independence Rock in Colorado National Monument

Justice

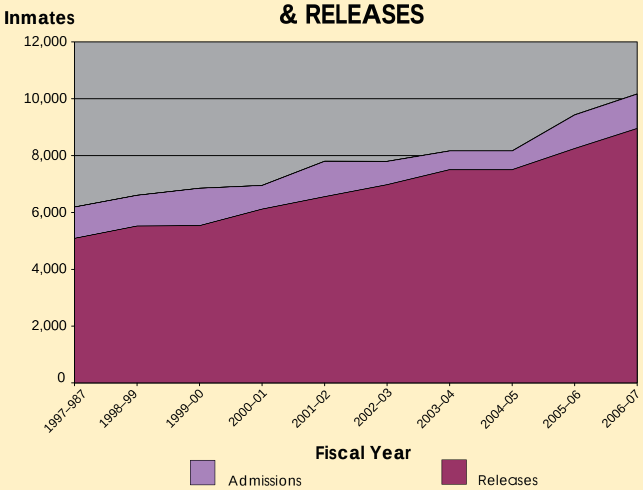
The justice function includes the Judicial Branch of government, and the Departments of Law, Public Safety, and Corrections. The Department of Corrections' expenditures increased from $477.0 million in Fiscal Year 2002–03 to $577.5 million in Fiscal Year 2006–07—a 21.1 percent increase. This represents a decrease from 8.3 percent of the General Fund budget to 7.7 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. In addition to paying for a new state prison, the state is increasingly contracting with private prisons to meet the growing capacity needs.

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. This will continue to put pressure on the state General Fund budget.



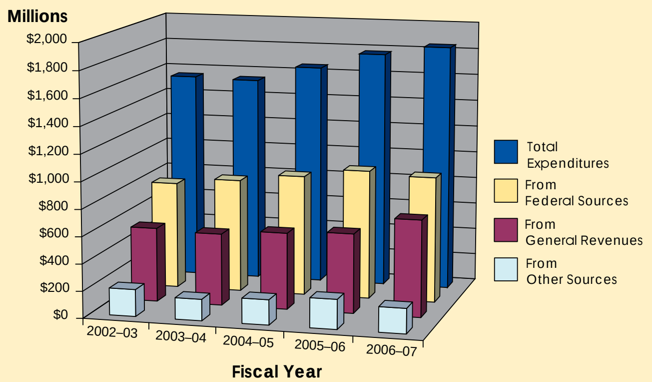
CORRECTIONS ADMISSIONS & RELEASES



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; however, in Fiscal Year 2006–07 the increase was primarily from the General Fund. 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.

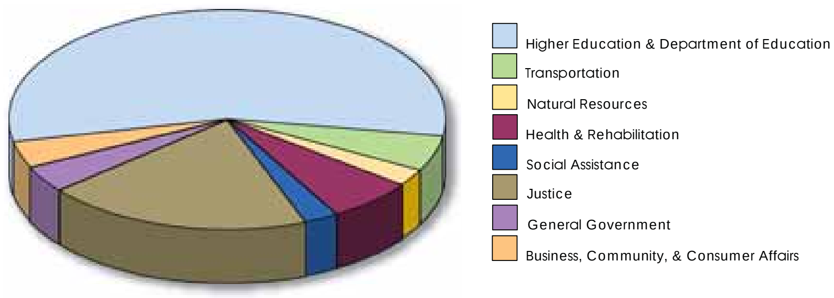
DEPARTMENT OF HUMAN SERVICES EXPENDITURES



State Employee Workforce

In Fiscal Year 2006–07, the State of Colorado employed 59,873 full-time-equivalent employees (FTE[4]); and total personal service expenditures (wages, salaries, and benefits) were $4.20 billion. Personal service expenditures have increased by 5.8 percent over the past five years with the effects of inflation removed. Over the same five-year period, the number of state FTE has grown 2.8 percent while the state's population grew 6.7 percent. As a result, the number of state employees declined as a percentage of both the state population and as a percentage of the total public and private workforce.

NUMBER OF FULL-TIME EMPLOYEES BY FUNCTION

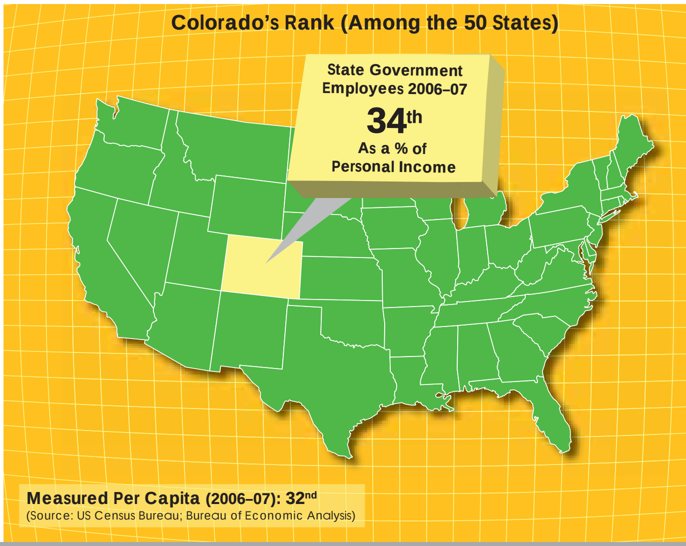


The chart shows the function where state workers are employed. The largest employer is the education function (primarily Higher Education because P–12 workers are employed by local school districts) followed by justice (primarily prison guards), health and rehabilitation workers, and transportation workers.

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

FUNCTION	2006–07	2005–06	2004–05	2003–04	2002–03
General Government	2,322	2,255	2,219	2,180	2,300
Business, Community, & Consumer Affairs	2,335	2,342	2,367	2,343	2,344
Higher Education & Department of Education	33,464	32,680	32,664	32,595	32,435
Health & Rehabilitation	3,774	3,729	3,681	3,717	3,803
Justice	11,791	11,372	11,083	10,767	11,257
Natural Resources	1,522	1,485	1,472	1,446	1,453
Social Assistance	1,593	1,520	1,462	1,482	1,567
Transportation	3,072	3,085	3,098	3,113	3,080
TOTAL FTE	59,873	58,468	58,046	57,643	58,239

[4] 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.



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.

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 Designations:

State Animal—Rocky Mountain Bighorn Sheep

State Bird—Lark Bunting

State Fish—Greenback Cutthroat Trout

State Flower—White and Lavender Columbine

State Fossil—Stegosaurus

State Gemstone—Aquamarine

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

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