

Executive Summary

The Governor's Office of State Planning and Budgeting (OSPB) is charged with providing estimates of revenues for the purpose of determining the amount of funds available for appropriation. This issue of the *Colorado Economic Perspective* presents the OSPB December 2003 forecast of General Fund and cash funds revenues. Forecasts for the national and Colorado economies also are provided along with a study of Colorado's employment sectors.

The Taxpayer's Bill of Rights

The Taxpayer's Bill of Rights (TABOR) — Article X, Section 20 of the Colorado State Constitution — limits the state's revenue growth to the sum of inflation plus population growth in the previous calendar year. The state was below its TABOR limit in FY 2001-02 and FY 2002-03.

- FY 2002-03 TABOR revenues were lower than the TABOR limit by \$584.3 million and TABOR surpluses remain absent through FY 2005-06.
- In FY 2006-07, the TABOR surplus returns and is forecast to be \$103.7 million. Through the forecast horizon, we expect the TABOR surplus to range between \$100 million and \$300 million.

General Fund Revenue

The FY 2002-03 General Fund reserve was \$224.9 million. The reserve exceeded four percent of FY 2002-03 General Fund appropriations by \$8.4 million, thereby allowing \$5.6 million to be transferred to the Highway Users Tax Fund and \$2.8 million to be transferred to the Capital Construction Fund.

- The December 2003 forecast for FY 2003-04 General Fund revenues is \$77.0 million higher than the September 2003 forecast and the forecast for General Fund revenues in FY 2004-05 is up \$35.0 million.
- The OSPB revenue projections indicate that FY 2003-04 revenues will grow 5.6 percent and exceed the statutory four percent reserve requirement by \$66.0 million.
- General Fund revenues are forecast to increase 3.7 percent in FY 2004-05.

Cash Funds Revenues

Cash funds revenues comprised 29.4 percent of total TABOR revenues in FY 2002-03. In FY 2003-04, cash funds revenues are forecast to increase 9.7 percent to \$2,515.5 million and in FY 2004-05 they are forecast to rise an additional 7.2 percent to \$2,697.7 million. In FY 2003-04, strong cash funds revenue growth is primarily due to robust growth in two cash fund categories: higher education tuition and unemployment insurance tax. From FY 2003-04 through FY 2008-09, cash funds revenues will grow at a compound annual average rate of 3.5 percent.

- **Transportation-related revenues**, the largest group of cash funds, are forecast to increase 1.4 percent in FY 2003-04 and 2.5 percent in FY 2004-05. From FY 2003-04 through FY 2008-09, these funds will grow at a compound annual average rate of 4.0 percent.

- **Higher education cash funds**, the next largest group of cash funds, are forecast to increase 13.2 percent in FY 2003-04. The increase in total higher education revenues occurs because both tuition rates and the number of students increased substantially.
- Unemployment Insurance (UI) taxes are the primary revenue source for the **Unemployment Insurance Trust Fund**. Revenues from these taxes are forecast to increase 41.0 percent as UI tax rates continue to rise to compensate for higher UI benefit payments. In both calendar years 2004 and 2005, the unemployment insurance tax rate schedule will move to a higher level. This occurs because two components of employer UI tax rates — the base rate and the solvency surcharge — rise when the UI Trust Fund balance drops below certain thresholds.

The National Economy

The nation's economic recovery is accelerating appreciably. Third quarter 2003 inflation-adjusted gross domestic product (GDP) grew at the fastest pace since first quarter 1984 and without assistance from federal spending. Meanwhile, third quarter 2003 productivity growth was 9.4 percent. Manufacturers are increasing production in response to new orders and firming demand. The Institute for Supply Management (ISM) manufacturing index rose to its highest level since 1987. Meanwhile, services have been expanding for seven consecutive months and continue to lead the way in the nation's economic recovery.

- Third quarter 2003 inflation-adjusted GDP grew at a remarkable 8.2 percent annualized rate, the fastest pace since first quarter 1984 and more than twice the 3.3 percent pace of second quarter 2003. On average, GDP is forecast to grow 3.0 percent in 2003 and 4.3 percent in 2004.
 - Consumer spending, which represents about two-thirds of GDP, did not decline during the 2001 recession and has not declined since. Consumer spending is forecast to grow 3.1 percent in 2003 and 3.6 percent in 2004.
 - Business investment climbed at an annualized 14.0 percent rate during third quarter 2003 as third quarter 2003 corporate profits gained 11.8 percent, their third consecutive quarterly gain. Businesses are no longer simply replacing obsolete equipment but rather starting to invest in new technologies. Overall business confidence is rising. Business equipment investment growth will average 5.6 percent in 2003 and surge 14.8 percent in 2004.
- Inflationary pressures are forecast to remain subdued. Consumer prices are forecast to rise 2.4 percent in 2003 and 1.4 percent in 2004.
- The national labor market is stabilizing and has shown slight improvement during third quarter 2003. However, on average, employment will be down 0.2 percent in 2003. Employment is forecast to rise 0.7 percent in 2004 and 1.8 percent in 2005.

The Colorado Economy

The Colorado economy idles in neutral, even as the national economy surges forward. However, recent Colorado economic signals are mostly positive.

- Colorado placed among the top five states for economic development in 2003, receiving an "A" for business vitality and for development capacity, and a "B" for performance.
- Venture capital investments in Colorado companies totaled \$129.9 million in third quarter 2003, an 80 percent increase over third quarter 2002 investments.

- The American Electronics Association reports that in 2002, Colorado still had the highest concentration of advanced technology workers in the country. Colorado ranks 10th in the number of advanced technology businesses and ranks 12th in advanced technology employment. The state's advanced technology workers are the ninth best paid nationwide.
- Recent Colorado economic signals are also mostly positive. Although year-to-date employment levels are below their year-earlier levels, jobs are generally increasing month to month and some employment sectors are showing year-over-year growth. Our December 2003 forecast is that employment will decline 1.3 percent in 2003 compared with 2002 but that employment will grow 1.9 percent in 2004.
- The October 2003 unemployment rate fell to 5.5 percent. Colorado's annual average unemployment rate will peak at 5.6 percent in 2003 and then gradually decline to 4.4 percent by 2008.
- The Colorado residential real estate market is not participating in the national residential building surge currently underway, but the local market is starting to recover. We forecast that the total number of home permits issued in 2003 will decline 19.9 percent, with the correction occurring in single-family and multi-family units.
- The decline in nonresidential construction abated during third quarter 2003. The value of nonresidential building construction is forecast to decline about 11 percent in 2003 and an additional 2.5 percent in 2004.
- Retail sales through third quarter 2003 are up 0.7 percent compared with last year. Six of eight retail sectors are posting year-over-year growth and only building materials and farm equipment and miscellaneous retail stores posted significant declines. Our forecast is for retail sales to grow 1.6 percent in 2003 and 3.8 percent in 2004.

Colorado Employment

This study examines Colorado employment by sector. It identifies the sources of employment data, discusses the major employment sectors, indicates how Colorado employment is distributed among the sectors, and presents the average wage in each sector. Finally, it examines how the various employment sectors were impacted by the 2001 recession. It compares Colorado employment with other states and the U.S. as a whole. Detailed analyses of the economic impact of individual sectors and their historical trends will be the subject of future OSPB Special Studies.

- Colorado employment has been primarily in service-based industries for more than six decades. Indeed, since 1944, more than 70 percent of Colorado jobs have been in service industries.
- In 2003, the share of Colorado jobs classified as service providing is slightly above average compared with other states while its share of jobs classified as goods producing is below average.
- On average, Colorado workers in the information sector received the highest wage in first quarter 2003, \$64,500 per year. Wages in the leisure and hospitality sector averaged \$16,300, the lowest average Colorado wage in first quarter 2003.
- In 2003, 18.4 percent of the businesses in the state are in the goods-producing industry, while the service-providing industry accounts for 81.6 percent of businesses in Colorado.
- The five largest employment sectors in Colorado are in the service-providing supersector. These five sectors account for nearly two-thirds of Colorado employment.
- Colorado employment is distributed among the various sectors in a pattern that roughly matches that of the U.S. as a whole.

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