



**REPORT OF
THE
STATE AUDITOR**

**SCHEDULE OF COMPUTATIONS REQUIRED
UNDER ARTICLE X, SECTION 20, OF THE
STATE CONSTITUTION (TABOR)**

JANUARY 2005

**LEGISLATIVE AUDIT COMMITTEE
2005 MEMBERS**

Representative Val Vigil
Chair

Senator Norma Anderson
Vice-Chair

Representative Fran Coleman
Senator Deanna Hanna
Representative David Schultheis
Senator Stephanie Takis
Senator Jack Taylor
Representative Al White

Office of the State Auditor Staff

Joanne Hill
State Auditor

Sally Symanski
Deputy State Auditor

Debra Burgess
Barb Gold
Legislative Auditors



STATE OF COLORADO

JOANNE HILL, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

January 28, 2005

Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*, as of June 30, 2004, dated January 28, 2005, and the *Schedule of TABOR Revenue*, as of June 30, 2004 and 2003, dated September 17, 2004. The audit was conducted pursuant to Section 24-77-106.5, C.R.S., which requires the State Auditor to examine the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*.

TABLE OF CONTENTS

	PAGE
REPORT SUMMARY	1
TABOR Revenue	3
AUDITOR'S REPORT AND SCHEDULE OF COMPUTATIONS REQUIRED UNDER ARTICLE X, SECTION 20, OF THE STATE CONSTITUTION (TABOR)	
Independent Auditor's Report	13
Schedule of Computations Required Under Article X, Section 20 Report	15
Notes to the TABOR Report	17
AUDITOR'S REPORT AND SCHEDULE OF TABOR REVENUE	
Independent Auditor's Report	23
Schedule of TABOR Revenue	25
APPENDICES	
Appendix A - Description of Revenue Categories	27
Appendix B - Description of Refunding Mechanisms	31



STATE OF COLORADO

JOANNE HILL, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

SCHEDULE OF COMPUTATIONS REQUIRED UNDER ARTICLE X, SECTION 20, OF THE STATE CONSTITUTION (TABOR)

Authority, Purpose, and Scope

The audit of TABOR revenue was conducted under the authority of Section 24-77-106.5, C.R.S., which requires the Office of the State Auditor to examine the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* and the *Schedule of TABOR Revenue*. We conducted this audit in accordance with generally accepted auditing standards. We performed our audit work during the period August 2004 through January 2005.

The purpose and scope of this audit was to:

- Express an opinion on the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*, as of June 30, 2004.
- Express an opinion on the *Schedule of TABOR Revenue*, as of June 30, 2004 and 2003.
- Evaluate compliance with applicable state laws, rules, and regulations.

We noted no instances of noncompliance for the fiscal years ended June 30, 2004 and 2003.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

TABOR Revenue

Description and Background

The Taxpayer's Bill of Rights (TABOR) was added as Article X, Section 20, of the Colorado Constitution in the November 1992 general election. TABOR limits increases in the State's revenue to the annual inflation rate plus the percentage change in the State's population. The State Controller annually prepares a *Schedule of TABOR Revenue* and a *Schedule of Computations Required Under Article X, Section 20 of the State Constitution (TABOR)*. These reports are audited as part of the annual financial audit.

Prior Year Refunds

Fiscal Year 2004 is the third consecutive year that state revenue did not exceed the TABOR revenue limit. In Fiscal Year 2004 actual revenue equaled the TABOR revenue limit as the result of using 4.9 percent of the growth dividend. According to estimates by the Office of State Planning and Budgeting and Legislative Council, the State will have surplus TABOR revenue over the next few fiscal years.

For Fiscal Years 1997 through 2001, there was a cumulative excess revenue of about \$3.5 billion that was refunded to taxpayers. With regard to excess revenue, Article X, Section 20 (7) (d) of the State's Constitution states that "if revenue from sources not excluded from fiscal year spending exceeds these limits in dollars for that fiscal year, the excess shall be refunded in the next fiscal year unless voters approve a revenue change as an offset." The State is not limited to refunding solely from general funds or ratably from those revenue sources in excess of the limit. Article X, Section 20 (1) says that "...districts may use any reasonable method for refunds under this section, including temporary tax credits or rate reductions. Refunds need not be proportional when prior payments are impractical to identify or return."

The excess revenue has been refunded in a variety of ways since the revenue surpluses first began in 1997. In both 1997 and 1998 the General Assembly decided to distribute the entire excess as a sales tax credit on each full-year resident's individual income tax return. In 1999 the excess of \$679.6 million was refunded through three mechanisms. In 2000 the excess of \$941.1 million was refunded through nine mechanisms.

In Fiscal Year 2001 there was an excess of \$927.2 million that was refunded through 15 credits. Subsequent to our Schedule of TABOR Revenue report dated September 17, 2004, an error in the amount of \$54.8 million was identified and is reported below as an increase in Capital Gains Modification. As a result, refunds for 2001 increased to \$1,027.2 million and exceeded the liability by \$100 million. The refunds exceeding the liability lowered revenue in the year in which they are paid. Appendix B provides a more detailed description of each refunding mechanism.

Fiscal Year 2001 Refund Distribution Per Statute (Through June 30, 2004)		
Description	Statute Citation	Fiscal Year 2001 Refunds (Millions)
Sales Tax Refund	Section 39-22-2003, C.R.S.	\$576.7
Other Credits:		
Colorado Capital Gains Modification and Expansion ¹	Section 39-22-518, C.R.S.	\$133.0
Business Personal Property Tax Credit	Section 39-22-124, C.R.S.	99.8
Interest, Dividends, and Capital Gains	Section 39-22-104, C.R.S.	44.3
Motor Vehicle Registration Fees	Section 24-75-216, C.R.S.	34.0
Earned Income Credit	Section 39-22-123, C.R.S.	32.9
Child Care Credits	Section 39-22-119, C.R.S.	25.5
Interstate Commerce Sales and Use Tax Exemption	Section 39-26-106, C.R.S.	5.2
Income Tax Deduction for Charity	Section 39-22-104, C.R.S.	2.9
Income Tax Credit for the Cost of Health Benefits	Section 39-22-125, C.R.S.	2.4
Agriculture Value-Added Development	Section 39-22-527, C.R.S.	.5
Rural Health Care Providers	Section 39-22-126, C.R.S.	.2
Income Tax Credit for Foster Parents	Section 39-22-127, C.R.S.	.2
Individual Development Accounts ²	Section 39-22-524, C.R.S.	-
High Technology Scholarships ³	Section 39-22-523, C.R.S.	-
Subtotal Other Credits		\$380.9
Application of Fiscal Year 2000 Excess Refunds	Section 24-77-103.7, C.R.S.	\$69.6
TOTAL REFUNDED		\$1,027.2
TOTAL AMOUNT TO BE REFUNDED		\$927.2
Excess of Refunds Over Liability		\$100.0
Source: Department of Revenue information.		
¹ Amount includes additional \$54.8 million from an error identified subsequent to the Schedule of TABOR Revenue Report dated September 17, 2004.		
² Amount is \$10,816.		
³ Amount is \$3,343.		

Revenue Reductions

Several revenue reductions were enacted during the 1999, 2000, and 2001 legislative sessions that will lower future TABOR revenue. Legislative Council estimated about a \$468.5 million revenue reduction in Fiscal Year 2004 due to these permanent tax cuts. The most significant reduction was in income taxes for individuals, estates, and trusts. The rate was reduced to 4.75 percent from 5 percent effective January 1, 1999, and was further reduced to 4.63 percent on January 1, 2000. The sales tax rate was reduced to 2.9 percent from 3 percent effective January 1, 2001. There are a variety of other permanent tax reductions that include low-income housing owner credits, redevelopment incentives for contaminated property, prepaid tuition tax exclusions, bingo equipment exclusions, sales and use tax exemptions for certain agricultural items, unemployment insurance tax credits, and oil and gas severance tax exemptions. There were no permanent tax cuts enacted during the 2004 legislative session. In addition, for those years when TABOR revenue exceeds the limit, taxpayers can receive a full or partial refund for a conservation easement instead of being required to carry forward an unused tax credit, and taxpayers can also receive a refund for certain child care costs.

Further, voters approved changes that will lower future revenue subject to TABOR. The table on the following page shows the voter approved changes that were enacted and the related Fiscal Year 2004 revenue:

Impact of Voter Approved Revenue Changes on TABOR Revenue Fiscal Year 2004		
Constitutional Amendment	Requirement	TABOR Impact
Amendment 23	Created the State Education Fund and directs that a tax of 1/3 of 1 percent of federal taxable income is credited to the fund as follows: <ul style="list-style-type: none"> • Individual income taxes of \$3.4 billion reduced by \$260.4 million; • Corporate income taxes of \$235.2 million reduced by \$17.5 million; • Fiduciary income taxes of \$22.6 million reduced by \$0.8 million. 	\$278,700,000
Amendment 14	Assesses a fee on housed commercial swine feeding operations.	\$164,080
Amendment 20	Assesses an application fee to obtain a Medicinal Marijuana identification card.	\$52,934
Total Reductions in Fiscal Year 2004 TABOR Revenue		\$278,917,014
Source: State Controller's Office and Department of Revenue information.		

Revenue Limits

We reviewed the State Controller's computation of the TABOR Revenue limit. The State Controller's Office reported the TABOR limit as \$8,331,990,617 and revenue as \$8,331,990,617. These amounts do not include an audit adjustment that would have increased the TABOR limit and TABOR revenue reported by the State Controller's Office. The difference is due to revenue of \$3,322,425 earned by the Department of Natural Resources that should have been included as TABOR revenue. If this adjustment had been included, the TABOR spending limit and TABOR revenue for Fiscal Year 2004 would have been increased to \$8,335,313,042 from \$8,331,990,617. This additional revenue would have increased the amount of the growth dividend utilized for Fiscal Year 2004 from \$374,702,740 to \$378,025,165.

During our testwork we found adjustments that increased revenue by a net amount of about \$12.9 million; these adjustments were posted by the State Controller's Office and are reflected in the TABOR revenue for Fiscal Year 2004. We also identified an issue related to a small entity that during Fiscal Year 2004 achieved TABOR

enterprise status as a result of statutory change that occurred prior to year end. The impact on TABOR revenue was not material (less than \$34,000).

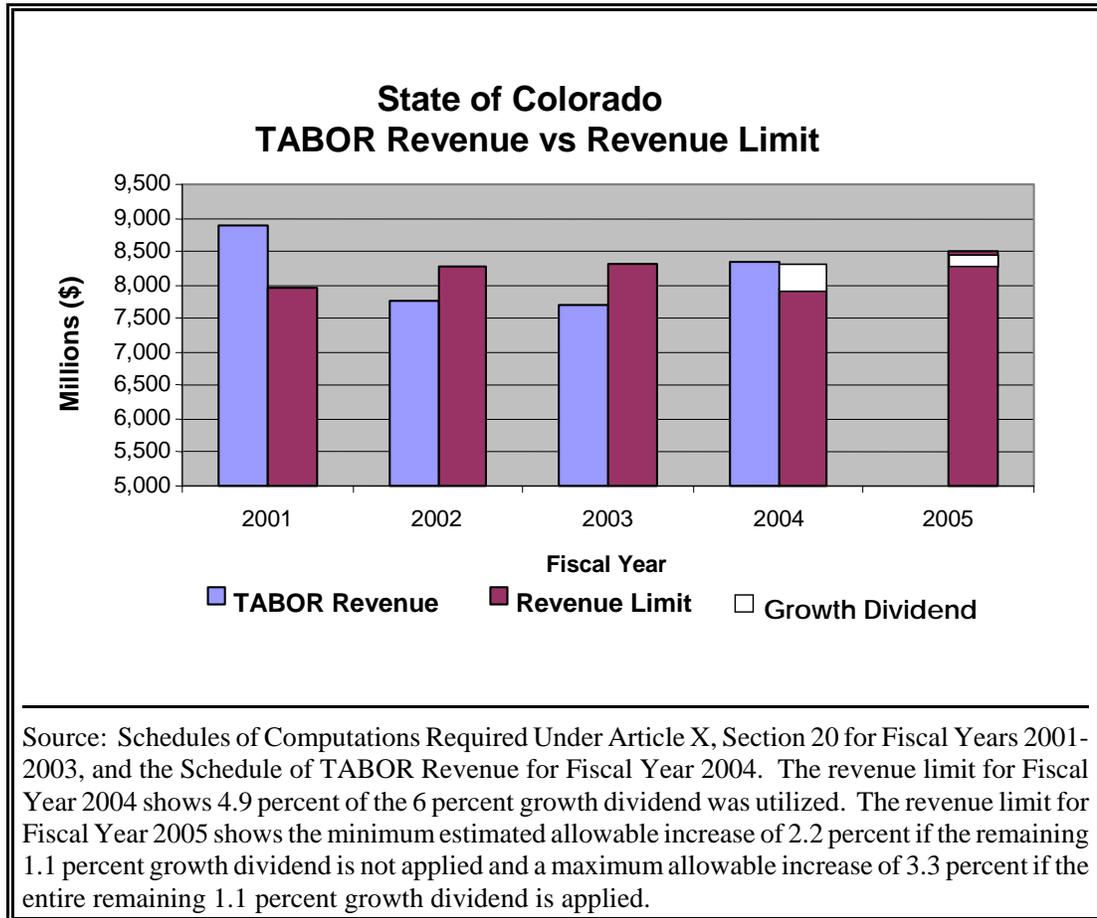
Article X, Section 20 (7) (a) of the State's Constitution requires that the change in population growth, in conjunction with inflation, be used to determine the change in fiscal year spending. This section of the Constitution states that "population shall be determined by annual federal census estimates and such number shall be adjusted every decade to match the federal census." Based on the 2000 census, it was determined that the federal government underestimated Colorado's population by 6 percent during the 1990s. Because of this, the State refunded more money to taxpayers than would have been had the population estimates more accurately reflected population growth in Colorado.

As a result, during the 2002 legislative session the General Assembly enacted legislation to adjust for revenue lost to the State due to underestimates of population growth in prior years. Section 24-77-103 (2) (b) (II.5), C.R.S., allows the State to carry forward a census-related adjustment in population growth and apply it to future calculations of the limitation in spending for up to nine years. The carry forward is referred to as the growth dividend. The growth dividend allows the State to raise the TABOR limit and retain future excess TABOR revenue.

In Fiscal Years 2002 and 2003, actual TABOR revenue was less than the allowable limit, and the 6 percent growth dividend was carried forward. In Fiscal Year 2004, prior to applying the allowable growth rate and the growth dividend, TABOR revenue exceeded the limit by about 8.5 percent. (Note: The 8.5 percent reflects adjustments to the base, which are primarily due to the requalification of enterprises at the end of the fiscal year.) The TABOR allowable growth rate for the fiscal year was 3.6 percent. In addition, 4.9 percent of the growth dividend was utilized (8.5 percent minus 3.6 percent), which increased the allowable limit and made it equal to the amount of actual TABOR revenue. Had the 4.9 percent growth dividend not been applied, the State would have had to refund \$374.7 million as reported by the State Controller's Office. The remaining 1.1 percent of the growth dividend (6 percent minus 4.9 percent) will be available for use in the remaining eligible years.

The graph on the following page compares the revenue limit computed each year to the TABOR revenue from Fiscal Year 2001 to Fiscal Year 2004, with an estimate of the Fiscal Year 2005 limit.

The Office of State Planning and Budgeting estimated that the minimum TABOR growth rate would be 2.2 percent for Fiscal Year 2005. If the remainder of the growth dividend of 1.1 percent is applied, the maximum allowable TABOR growth rate would be 3.3 percent.



Sources of TABOR Revenue

There are two types of revenue subject to the growth limitations set forth in TABOR—general funds and cash funds. General funds primarily include revenue from the general taxing authority of the State, such as individual and corporate income taxes. Cash funds generally include revenue from fees and other sources that are to be used for specific programs, such as education service fees and fuel/transportation taxes. In general, cash fund decreases come from two sources—either a change in the rate charged or a decrease in the usage of services. General funds increased at a rate of 5.5 percent in Fiscal Year 2004 as compared with a 1.8 percent decrease in Fiscal Year 2003, while cash funds increased at a rate of 14 percent in Fiscal Year 2004 as compared with 2.3 percent for Fiscal Year 2003. The

following tables show the major sources of revenue in Fiscal Year 2004, with comparative figures for 2003 and 2002 separated by general-funded and cash-funded revenue. For those revenue sources used for both general- and cash-funded purposes, amounts in the charts below must be added together to arrive at the totals of the individual revenue categories shown in the Schedule of TABOR Revenue on page 25.

State of Colorado
Sources of TABOR Revenue
General-Funded Revenue

	Fiscal Year 2004	Fiscal Year 2003	2003 to 2004 % Change	Fiscal Year 2002	2002 to 2003 % Change
GENERAL-FUNDED REVENUE:					
Individual Income Tax, Net ¹	\$ 3,167,967,223	\$ 2,932,538,532	8.0%	\$ 3,071,852,841	-4.5%
Sales and Use Tax, Net	1,908,355,392	1,819,884,315	4.9%	1,867,638,218	-2.6%
Corporate Income Tax, Net ²	217,703,035	214,306,883	1.6%	164,661,376	30.2%
Insurance Taxes	175,903,027	171,273,668	2.7%	154,588,623	10.8%
Tobacco Products Tax, Net	65,726,065	64,711,879	1.6%	65,550,423	-1.3%
Estate and Inheritance Tax	47,196,940	53,382,543	-11.6%	72,517,741	-26.4%
Court and Other Fines	34,196,826	27,037,745	26.5%	25,857,347	4.6%
Alcoholic Beverages Tax, Net	30,915,564	29,724,696	4.0%	29,497,434	0.8%
Fiduciary Income Tax, Net ³	20,798,321	12,105,030	71.8%	13,815,708	-12.4%
Interest and Investment Income	19,440,939	51,540,952	-62.3%	25,267,405	104.0%
Employment Taxes	15,515,388	14,567,909	6.5%	-	100.0%
Business Licenses and Permits	6,065,693	4,604,987	31.7%	6,230,863	-26.1%
Gaming and Other Taxes	4,765,727	5,003,982	-4.8%	6,221,565	-19.6%
Disproportionate Share Providers	-	15,593,540	-100.0%	11,171,358	39.6%
Other General-Funded Revenue	4,598,121	4,177,696	10.1%	4,978,885	-16.1%
TOTAL GENERAL-FUNDED REVENUE	5,719,148,261	5,420,454,357	5.5%	5,519,849,787	-1.8%

Source: Office of the State Auditor analysis of the State Controller's Office data.

¹The amount of Individual Income Tax for Fiscal Year 2004 was reduced by Amendment 23 transfers of \$260,402,000 from the amount shown on the Schedule of TABOR Revenue.

²The amount of Corporate Income Tax for Fiscal Year 2004 was reduced by Amendment 23 transfers of \$17,512,000 from the amount shown on the Schedule of TABOR Revenue.

³The amount of Fiduciary Income Tax for Fiscal Year 2004 was reduced by Amendment 23 transfers of \$786,000 from the amount shown on the Schedule of TABOR Revenue.

State of Colorado
Sources of TABOR Revenue
Cash-Funded Revenue

	Fiscal Year 2004	Fiscal Year 2003	2003 to 2004 % Change	Fiscal Year 2002	2002 to 2003 % Change
CASH-FUNDED					
REVENUE:					
Education Tuition and Fees, Net	668,962,279	595,021,957	12.4%	517,371,529	15.0%
Fuel and Transportation Taxes, Net	557,682,598	544,319,913	2.5%	546,484,337	-0.4%
Employment Taxes	352,941,317	206,516,253	70.9%	170,292,023	21.3%
Motor Vehicle Licenses	161,817,015	151,048,546	7.1%	151,414,842	-0.2%
Severance Taxes	119,124,475	26,218,572	354.4%	50,550,128	-48.1%
Gaming and Other Taxes	99,452,024	98,480,878	1.0%	96,803,744	1.7%
Interest and Investment Income	95,144,411	126,826,968	-25.0%	176,628,881	-28.2%
Business Licenses and Permits	82,434,605	76,546,747	7.7%	64,448,613	18.8%
Court and Other Fines	72,519,022	59,365,984	22.2%	55,725,587	6.5%
Nonbusiness Licenses and Permits	64,652,699	52,392,415	23.4%	53,347,068	-1.8%
Insurance Taxes	52,736,694	55,659,719	-5.3%	55,083,246	1.0%
Local Governments and Authorities	37,890,996	35,259,754	7.5%	39,216,761	-10.1%
General Government Service Fees	34,764,528	28,129,731	23.6%	27,680,072	1.6%
Unclaimed Money, Net	26,224,733	33,838,740	-22.5%	12,372,110	173.5%
Rents	24,053,274	25,330,294	-5.0%	28,209,372	-10.2%
Higher Education Auxiliary Sales and Services	22,604,455	22,862,230	-1.1%	31,508,030	-27.4%
Other Charges for Services	20,460,528	26,606,368	-23.1%	34,560,735	-23.0%
Certifications and Inspections	20,367,046	16,957,793	20.1%	17,906,253	-5.3%
Driver's Licenses	19,693,182	21,058,598	-6.5%	21,444,506	-1.8%
Health Service Fees	17,443,249	36,153,286	-51.8%	22,241,347	62.5%
Sales and Use Tax, Net	10,729,528	10,828,189	-0.9%	9,844,878	10.0%
Sales of Products	3,474,450	2,902,874	19.7%	14,406,282	-79.8%
Other Program Revenue	47,669,248	39,731,512	20.0%	43,104,922	-7.8%
TOTAL CASH-FUNDED REVENUE	2,612,842,356	2,292,057,321	14.0%	2,240,645,266	2.3%
TOTAL TABOR REVENUE	\$8,331,990,617	\$7,712,511,678	8.0%	\$7,760,495,053	-0.6%

Source: Office of the State Auditor analysis of the State Controller's Office data.

Financial Information



STATE OF COLORADO

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

JOANNE HILL, CPA
State Auditor

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

January 28, 2005

Independent Auditor's Report

Members of the Legislative Audit Committee:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the State of Colorado for the year ended June 30, 2004, and have issued our report thereon dated December 23, 2004. We have also audited the accompanying *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*, as of June 30, 2004. This schedule is the responsibility of the State Controller's Office. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit of the schedule in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

Our auditing procedures also included reconciling amounts contained in this report to the State's Comprehensive Annual Financial Report for the year ended June 30, 2004, and testing for irreconcilable conflicts between the State's financial statements and the provisions of TABOR. Additional procedures consisted of evaluating the State of Colorado's compliance with constitutional and statutory provisions of TABOR. Our audit does not provide a legal determination of the State's compliance with specified requirements.

The accompanying *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* was prepared by the State Controller's Office pursuant to Section 24-77-106.5, C.R.S., which requires a financial report ascertaining compliance with state fiscal policies relating to Article X, Section 20, of the State Constitution (TABOR). Article 77 further requires a financial report to be prepared in conformity with generally accepted accounting principles unless an irreconcilable conflict exists between generally accepted accounting principles and TABOR, in which case the provisions of said constitutional provision shall control.

In our opinion, the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* referred to above presents fairly, in all material respects, the revenue, expenditures, changes in reserves, and spending limitation as determined under Article X, Section 20, of the State Constitution for the year ended June 30, 2004, in conformity with accounting principles generally accepted in the United States of America.

The *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*, as of June 30, 2004, does not include an audit adjustment that would have increased the Fiscal Year 2004 TABOR spending limit and Fiscal Year 2004 TABOR revenue by \$3,322,425. This adjustment came to our attention subsequent to the September 17, 2004 issuance of the *Schedule of TABOR Revenue*. If this adjustment had been included in the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution*, the TABOR spending limit and TABOR revenue for Fiscal Year 2004 would have been increased to \$8,335,313,042 from \$8,331,990,617.

STATE OF COLORADO
SCHEDULE OF COMPUTATIONS REQUIRED
UNDER ARTICLE X, SECTION 20
AS OF JUNE 2004

	FISCAL YEAR 2002-03	FISCAL YEAR 2003-04
COMPUTATION OF NON-EXEMPT REVENUES		
Total State Expenditures	\$ 21,636,295,013	\$ 21,132,636,792
Less Exempt Enterprises Expenses:		
Higher Education Enterprises	685,445,127	915,219,244
State Lottery	398,021,540	408,582,297
Student Obligation Bond Authority	84,998,298	110,464,077
Wildlife Division	86,052,919	89,647,747
Guaranteed Student Loan Program	79,871,353	73,459,330
State Nursing Homes	1,806,180	38,721,676
Correctional Industries	41,971,225	37,826,111
State Fair Authority	-	8,724,599
Statewide Tolling Authority	-	59,282
Clean Screen Authority	32,535	-
Subtotal Enterprise Expenses	<u>1,378,199,177</u>	<u>1,682,704,363</u>
Total District Expenditures	<u>20,258,095,836</u>	<u>19,449,932,429</u>
Less Exempt District Revenues:		
Interfund Transfers	5,427,904,274	4,508,454,646
Federal Funds	4,483,306,694	4,880,597,487
Gifts	391,225,264	432,923,098
Property Sales	6,004,867	46,261,218
Damage Awards	108,706,608	90,749,867
Exempt Investment Income	268,192,830	7,677,764
Other Sources and Additions (Note 6)	1,128,625,581	1,402,737,092
Voter Approved Revenue Changes (Note 7)	245,405,784	280,699,303
Subtotal Exempt District Revenues	<u>12,059,371,902</u>	<u>11,650,100,475</u>
Non-Exempt District Expenditures	8,198,723,934	7,799,831,954
District Reserve/Fund Balance Increase (Decrease)	<u>(486,212,256)</u>	<u>532,158,663</u>
Total Non-Exempt District Revenues	<u>7,712,511,678</u>	<u>8,331,990,617</u>
COMPUTATION OF FUND BALANCE CHANGES		
Beginning District Fund Balance (Note 8)	\$ 7,960,848,706	\$ 7,476,824,096
Prior Period District Fund Balance Adjustments (Note 9)	433,902	58,784,594
(Qualification)/Disqualification of Enterprises (Note 10)	1,753,744	(39,931,501)
District Reserve/Fund Balance Increase (Decrease)	<u>(486,212,256)</u>	<u>532,158,663</u>
Ending District Fund Balance	<u>\$ 7,476,824,096</u>	<u>\$ 8,027,835,852</u>
COMPUTATION OF SPENDING LIMITATION		
FY 2002-03 Fiscal Year Spending Limitation	\$ 7,712,511,678	
Post Audit Entries (Note 11)	(177,686)	
Errors in Recording Revenues (Note 12)	(276,083)	
Qualification of Enterprises (Note 13)	<u>(31,278,105)</u>	
FY 2002-03 Adjusted Fiscal Year Spending Limitation	\$ 7,680,779,804	
Allowable TABOR Growth Rate (Note 14)		3.6%
FY 2003-04 Unadjusted Fiscal Year Spending Limit		7,957,287,877
Portion of Available 6% Growth Dividend Utilized (Note 15)		4.9%
FY 2003-04 Adjusted Fiscal Year Spending Limit		8,331,990,617
Less Fiscal Year 2003-04 Non-Exempt District Revenues		<u>(8,331,990,617)</u>
Amount (Over) Under Adjusted Fiscal Year Spending Limit		<u>\$ -</u>

NOTES TO THE TABOR REPORT

NOTE 1. BASIS OF ACCOUNTING

Pursuant to Article 77 of Title 24, Colorado Revised Statutes, this report is prepared in accordance with generally accepted accounting principles (GAAP) except where an irreconcilable difference exists between GAAP, and state statute or the provisions of Section 20, Article X of the state constitution (TABOR).

The accounting principles used by the State are more fully described in the State's Comprehensive Annual Financial Report available from the State Controller's Office.

NOTE 2. DEFINITION OF THE DISTRICT

TABOR defines the district as "the state or any local government, excluding enterprises." It further defines enterprise as "a government-owned business authorized to issue its own revenue bonds and receiving under 10 percent of annual revenue in grants from all Colorado state and local governments combined."

The General Assembly, for the purpose of implementing TABOR, stated in C.R.S. 24-77-102(16)(a) that "state" means the central civil government of the State of Colorado, which consists of the following:

- (I) the legislative, executive, and judicial branches of government established by Article III of the state constitution;
- (II) all organs of the branches of government specified in subparagraph (I) of paragraph (a) of this subsection (16), including the departments of the executive branch; the legislative houses and agencies; and the appellate and trial courts and court personnel; and
- (III) state institutions of higher education.

(b) "state" does not include:

- (I) any enterprise;
- (II) any special purpose authority.

The General Assembly has designated the State Lottery, the Guaranteed Student Loan Program, the Division of Correctional Industries, the Division of Wildlife, the State Fair Authority, Colorado Student Obligation Bond Authority, the Clean Screen Authority, the Statewide Tolling Authority, and the State Nursing Homes as enterprises excluded from the district. It further set up a mechanism in statute by which the governing boards of the institutions of higher education could designate certain auxiliary operations as enterprises, also exempt from TABOR.

Although the General Assembly has designated certain enterprises as exempt from TABOR, they must also meet the criteria of a government-owned business authorized to issue its own revenue bonds and receiving under 10 percent of annual revenue in grants from all Colorado state and local governments combined annually.

NOTE 3. DEBT

Certificates of Participation, which are used by the State for long-term lease purchases, are not considered debt of the State for purposes of this report as provided by C.R.S. 24-30-202(5.5).

In interrogatories submitted by the General Assembly regarding House Bill 99-1325, the Colorado Supreme Court ruled that Transportation Revenue Anticipation Notes (RANS) issued by the Colorado Department of Transportation do not constitute debt of the State as defined in Section 3, Article XI of the constitution.

However, the Supreme Court ruled that they are a multiple-fiscal year obligation as defined by Section 20, Article X of the constitution, thus requiring an election before they could be issued. In November 1999 the voters approved the issuance of \$1.7 billion of RANS.

NOTE 4. EMERGENCY RESERVES

TABOR requires the reservation, for declared emergencies, of 3 percent or more of the Fiscal Year Spending, excluding debt service payments. This requirement for FY 2003-04 is \$249,959,719.

The State has designated \$26,231,928 of the Tobacco Litigation Settlement Fund, \$11,293,740 of the Species Conservation Fund, \$258,368 of the Controlled Maintenance Trust Fund, \$11,567,428 of the Colorado River Recovery Program Fund, \$4,742,170 of the Fish & Wildlife Resources Fund, and \$118,107,841 of the Severance Tax Trust Fund for this reserve.

The remaining amount of \$77,758,244 needed to meet the emergency reserve requirement comes from the non-capital assets and the Capital Assets, Net of Related Debt, in the Wildlife Fund. In the event of an emergency that exceeded the financial assets in the reserve, the capital assets would have to be liquidated to satisfy the constitutional requirement.

NOTE 5. STATUS OF REFUNDING

There was no refund resulting from the State's computation of Fiscal Year 2003-04 or Fiscal Year 2002-03 fiscal year spending.

A suit has been filed in state court challenging the constitutionality of \$442.7 million of transfers from various cash funds to the General Fund made in and after Fiscal Year 2001-02 to mitigate shortfalls of general

purpose revenues. The suit claims that the transfers required increases or continuation of fees to replenish the cash funds and these fees were actually tax increases not approved by the voters as required by TABOR. The plaintiffs seek replenishment of the cash funds from the General Fund and a halt to this practice in the future.

NOTE 6. OTHER SOURCES AND ADDITIONS

This line item consists primarily of \$567.8 million of refunding and new bond proceeds for highway construction, \$782.0 million of pension and other employee benefit trust fund additions by participants and employers, and \$20.4 million of reimbursements of prior year expenditures.

Other sources include \$1.8 million in capital lease financing, \$8.1 million from the Great Outdoors Colorado Trust Fund to the Department of Natural Resources, \$1.7 million in accounts payable reversions and \$20.9 million in other exempt revenues and required governmental accounting entries.

NOTE 7. VOTER APPROVED REVENUE CHANGES

The voters in the 1998 general election approved a citizen initiated law, C.R.S. 25-8-501.1, Regulation of Commercial Hog Facilities, adopting the permit fee. The State collected \$164,080 and \$145,803 from this revenue in Fiscal Years 2003-04, and 2002-03, respectively.

The voters in the 2000 general election approved a citizen initiated amendment that added Section 14 to Article XVIII of the state constitution. This amendment allowed the use of marijuana for medical purposes and authorized the Department of Public Health and Environment to charge a fee for the

issuance of a permit for such purpose. The State collected \$52,762 and \$33,937 including interest and unrealized gains/losses, from this revenue source in Fiscal Years 2003-04 and 2002-03, respectively

The voters in the 2000 general election approved a citizen-initiated amendment that added Section 17 to Article IX of the state constitution. This amendment created the State Education Fund and shifted the revenues from a tax of one-third of one percent on taxable income of individuals, corporations, estates, and trusts to this fund. It also exempted that revenue from TABOR. The amendment was effective January 1, 2001 and resulted in \$280,482,461 and \$245,226,044 of revenues, including interest and unrealized gains/losses, being excluded from Fiscal Year Spending in Fiscal Years 2003-04 and 2002-03, respectively.

NOTE 8. DISTRICT RESERVES

District reserves are the cumulative fund balances of the State, excluding the capital assets and non-fund liabilities of the governmental funds and fund balances of the exempt enterprises. The majority of these fund balances are not available for appropriation due to legal and contractual restrictions.

NOTE 9. PRIOR PERIOD FUND BALANCE ADJUSTMENTS

The increase of \$58,784,594 in the District beginning fund balance consisted primarily of an increase of \$43,040,533 required by the Governmental Accounting Standards Board Technical Bulletin regarding the accrual of tobacco damage award based on the underlying shipment of tobacco products.

Other changes included a \$1,859,999 increase in the fund balance of the University of Colorado Health Sciences Center, a \$4,548,190 decrease in the fund balance of

Colorado State University, an increase of \$16,116,448 at Fleet for the correction of depreciation of their vehicles, \$775,164 increased fund balance at the Auraria Higher Education Center that decreased interest expense, a decrease of \$1,733,077 at the Secretary of State's Office to properly record deferred revenue, a \$495,406 increase for revenue at the Department of Regulatory Agencies that was incorrectly deferred in prior years, and an increase of \$2,778,311 in the fund balance of the University of Northern Colorado for deferred revenue inappropriately accrued in prior years.

NOTE 10. ENTERPRISE QUALIFICATIONS

In Fiscal Year 2002-03 the State Nursing Homes, with the exception of the State Nursing Home at Walsenburg, were disqualified as a group because of a substantial capital contribution by the State to the Fitzsimons State Nursing Home. These Nursing Homes qualified as exempt enterprises in Fiscal Year 2003-04 reducing the district fund balance by \$30,158,435.

In addition the State Fair Authority qualified as an exempt enterprise after several years of receiving state and local government support of more than 10 percent of their revenues. This reduced the district fund balance by \$8,821,965. The Statewide Tolling Authority in the Department of Transportation, an exempt enterprise, had financial activity beginning in FY 2003-04 that requires its inclusion as a distinct enterprise. This reduced the district fund balance by \$951,101.

NOTE 11. POST AUDIT ENTRIES

In Fiscal Year 2002-03 a late post closing entry was made to the State’s books for a \$177,686 decrease to interest earned at the Auraria Higher Education Center. This entry was made after the audit of the TABOR computation and thus would have reduced TABOR revenues in Fiscal Year 2002-03.

NOTE 12. SPENDING LIMIT ADJUSTMENTS

The decrease of \$276,083 for spending limit adjustments is the net result of six errors in Fiscal Year 2002-03 revenues:

Historical Society understated non-exempt interest it earned on gaming revenues transferred to it by \$1,919,339. The interest was originally recorded by the agency as exempt.

The Department of Human Services understated non-exempt revenues when it recorded \$444,441 of matching local school district funds.

The Department of Regulatory Agencies understated non-exempt revenues when it deferred \$105,200 that should have been recorded as earned revenue.

The Department of State overstated non-exempt revenue when it recorded \$310,038 received that should have been deferred or held in custody for others.

The Department of Personnel and Administration overstated non-exempt revenues when it recorded \$1,868,010 employee fees and other revenues for Pension and Other Benefit Trust Funds as not exempt from TABOR. TABOR specifically excludes pensions and trusts.

The Department of Human Services overstated non-exempt revenue when they recorded \$567,015 for Medicaid revenue.

NOTE 13. ENTERPRISE QUALIFICATION

TABOR specifies that qualification and disqualification of enterprises shall change the district base.

The State Nursing homes were disqualified in Fiscal Year 2002-03 but qualified in Fiscal Year 2003-04. This reduced the base by \$23,425,560 for their TABOR nonexempt revenues earned in Fiscal Year 2002-03.

The State Fair Authority was disqualified in Fiscal Year 2002-03 but qualified in Fiscal Year 2003-04 as a TABOR enterprise resulting in a reduction to the base of \$7,852,545 for their TABOR nonexempt revenues earned in Fiscal Year 2002-03.

NOTE 14. SOURCES OF TABOR GROWTH LIMITS

The allowable increase in state fiscal year spending equals the sum of inflation and the percentage change in state population in the calendar year ending six months prior to the start of the fiscal year, adjusted for voter approved revenue changes. Inflation is defined in C.R.S. 24-77-102(8) as "the percentage change in the consumer price index for the Denver-Boulder Consolidated Metropolitan Statistical Area For All Urban Consumers, All Goods, as published by the U.S. Department of Labor."

The percentage change for calendar year 2002 used in this report was provided by the Office of State Planning and Budgeting and consisted of 1.7 percent for population growth and 1.9 percent for inflation.

NOTE 15. GROWTH DIVIDEND

The 2000 Federal Census adjusted the change in the State’s population between 1999 and 2000 by 6.0 percent to account for

a larger than estimated population change in the State during the 1990s. If the estimates of the State's population change had been more accurate then the State would have been able to retain larger amounts of the TABOR non-exempt revenues to meet the needs generated by this growth. Thus, the General Assembly passed legislation in the 2002 Session that recaptures the revenues lost because of the error in the population estimates. This is commonly referred to as the growth dividend.

In Fiscal Year 2003-04 TABOR revenues exceeded the allowable 3.6 percent growth by \$374,702,740. Without the growth dividend, the State would either have to refund this amount to the taxpayers, or request that it retain all or a portion of this amount on the November, 2004 ballot. However, by law the State will retain this full amount and add it to the base for computing the Fiscal Year 2004-05 limit. This amount uses 4.9 percent of the 6.0 percent growth dividend leaving 1.1 percent that can be added to the allowable percentage growth in future years.

NOTE 16. FUTURE REFUNDS

In the 1999 regular session, the General Assembly enacted mechanisms to refund Fiscal Year 1998-99 and subsequent years' excess revenue. In succeeding sessions the General Assembly has enacted additional mechanisms to refund the excess revenue. If refunds had been required for excess revenues in FY 2003-04 then the refunds, by statute, would have been paid as follows:

1. An earned income tax credit of 10 percent of the federal tax credit. This is available when the TABOR threshold equals \$63.4 million.
2. An income tax credit of the lesser of \$500 or 100 percent of non-reimbursed foster care expenses for foster parents.

This is available if the TABOR refund is \$213.6 million or more.

3. A business personal property tax credit, which is available when the TABOR refund is \$215.5 million or more.
4. An income tax credit for contributors of matching funds to those qualified individuals who save for post-secondary education, purchase a first home, or start a business. The TABOR threshold is \$223.1 million.
5. An interest, dividend, and capital gains exclusion up to \$1,200 for individuals and \$2,400 for couples. (See number 13 of these mechanisms). The TABOR threshold is \$329.6 million.
6. An income tax credit through January 1, 2005 to health and dental care providers who practice in certain rural areas. The TABOR threshold is \$334.7 million.
7. An income tax credit that is a percentage of the federal child care credit. The TABOR threshold is \$340.6 million.
8. An income tax credit for contributions to the Institute for Telecommunications Education. The TABOR threshold is \$373.7 million.
9. A 50 percent sales tax credit for the sale, purchase, storage, use, or consumption of tangible personal property used directly and predominantly for research and development in Colorado. The TABOR threshold is \$382.9 million.
10. A reduction in the annual registration fees for motor vehicles and a 25 percent reduction in the fees for trucks, truck tractors, and other vehicles. The TABOR threshold is \$387.6 million.
11. An income tax credit for contributions to high technology scholarships. The TABOR threshold is \$387.6 million.

12. An income tax deduction for charitable contributions in excess of \$500 made by individuals who claim the standard deduction. The TABOR threshold is \$410.9 million.
13. An extension of mechanism number 5 changing the maximums to \$1,500 for individuals and \$3,000 for couples in interest, dividends, and capital gains excludable from state income taxes beginning January 1, 2001. The TABOR threshold is \$410.9 million.
14. A sales tax exemption for certain pollution control devices. The TABOR threshold is \$410.9 million.
15. A sales tax refund when the sales tax rate exceeds 0.01 percent and is imposed on new or used commercial trucks or other vehicles that are used in interstate commerce and have a gross weight of more than 26,000 pounds. The TABOR threshold is \$410.9 million.
16. An income tax credit for eligible agricultural value-added cooperatives. The TABOR threshold is \$427.2 million.
17. An income tax credit for the cost of health benefit plans not paid by the employer or deducted from the individual's federal adjusted gross income. The TABOR threshold is \$469.7 million.
18. An expansion of the capital gains modification to include capital gains realized in tax years beginning on or after January 1, 1999, as well as a reduction of the holding period from five years to one year. The TABOR threshold is \$505.0 million.
19. Any remaining amount is given to all full-year Colorado residents 18 years and older as a refund of sales taxes. The sales tax refund is a fixed amount for each of six tiers of federal adjusted gross income. The Department of Revenue calculates the amount of the individual refund for each tier as a statutory percentage of the total sales tax refund divided by the number of anticipated taxpayers in each tier.

Since the State does not have excess revenues in Fiscal Year 2003-04, none of the statutory refund mechanisms will be used until the State is required to make a refund of future year's excess revenues.

Schedule of TABOR Revenue
(Dated September 17, 2004)



STATE OF COLORADO

JOANNE HILL, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

September 17, 2004

Independent Auditor's Report

Members of the Legislative Audit Committee:

We are in the process of auditing, in accordance with generally accepted auditing standards, the *Schedule of Computations Required Under Article X, Section 20 of the State Constitution (TABOR)*, as of June 30, 2004, and have not yet issued our report. As part of that audit, we have audited the *Schedule of TABOR Revenue* of the State of Colorado for the years ended June 30, 2004 and 2003. The *Schedule of TABOR Revenue* is the responsibility of the State Controller's Office. Our responsibility is to express an opinion on this schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the *Schedule of TABOR Revenue* is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts in the schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying *Schedule of TABOR Revenue* was prepared for the purpose of demonstrating compliance with state fiscal policies relating to Article X, Section 20 of the State Constitution (TABOR) with regard to TABOR revenue. The schedule has been prepared in conformity with accounting principles generally accepted in the United States of America unless an irreconcilable conflict exists between generally accepted accounting principles and TABOR, in which case the provisions of said constitutional provision shall control. The schedule is not intended to be a complete presentation of the State's revenue.

In our opinion, the accompanying *Schedule of TABOR Revenue* presents fairly, in all material respects, the revenue as determined under Article X, Section 20 of the State Constitution for the years ended June 30, 2004 and 2003, in conformity with accounting principles generally accepted in the United States of America.

State of Colorado
Schedule of TABOR Revenues

	Fiscal Year 2004	Fiscal Year 2003	Increase (Decrease)	Percent Change
Individual Income Tax, Net	\$ 3,428,369,223	\$ 3,109,550,532	\$ 318,818,691	10.3%
Corporate Income Tax, Net	235,215,035	225,100,883	10,114,152	4.5%
Fiduciary Income Tax, Net	21,584,321	12,699,030	8,885,291	70.0%
Education Fund Transfers (Amend 23)	(278,700,000)	(188,400,000)	(90,300,000)	47.9%
TOTAL INCOME TAX	3,406,468,579	3,158,950,445	247,518,134	7.8%
Sales Tax, Net	1,781,770,733	1,694,232,732	87,538,001	5.2%
Use Tax, Net	137,314,187	136,479,772	834,415	0.6%
Tobacco Products Tax, Net	65,726,065	64,711,879	1,014,186	1.6%
Alcoholic Beverages Tax, Net	30,915,564	30,078,294	837,270	2.8%
Other Excise Taxes, Net	212,264	201,466	10,798	5.4%
TOTAL EXCISE TAX	2,015,938,813	1,925,704,143	90,234,670	4.7%
Fuel and Transportation Taxes, Net	557,682,598	544,319,913	13,362,685	2.5%
Employment Taxes	368,456,705	221,084,162	147,372,543	66.7%
Insurance Taxes	228,639,721	226,933,387	1,706,334	0.8%
Severance Taxes	119,124,475	26,218,572	92,905,903	354.4%
Gaming and Other Taxes	104,217,751	103,484,860	732,891	0.7%
Estate and Inheritance Taxes	47,196,940	53,382,543	(6,185,603)	-11.6%
TOTAL OTHER TAXES	1,425,318,190	1,175,423,437	249,894,753	21.3%
Education Tuition and Fees, Net	668,962,279	595,021,957	73,940,322	12.4%
Motor Vehicle Licenses	161,817,015	151,048,546	10,768,469	7.1%
Business Licenses and Permits	88,500,298	81,151,734	7,348,564	9.1%
Nonbusiness Licenses and Permits	64,652,699	53,031,793	11,620,906	21.9%
General Government Service Fees	34,764,528	28,458,344	6,306,184	22.2%
Other Charges for Services	20,460,528	26,626,820	(6,166,292)	-23.2%
Certifications and Inspections	20,367,046	17,817,793	2,549,253	14.3%
Driver's Licenses	19,693,182	21,058,598	(1,365,416)	-6.5%
Health Service Fees	17,443,249	36,153,286	(18,710,037)	-51.8%
Public Safety Service Fees	4,031,342	3,314,843	716,499	21.6%
Welfare Service Fees	799,789	348,322	451,467	129.6%
TOTAL LICENSES, PERMITS AND FEES	1,101,491,955	1,014,032,036	87,459,919	8.6%
Interest and Investment Income	114,585,350	178,367,920	(63,782,570)	-35.8%
Court and Other Fines	106,715,848	86,403,729	20,312,119	23.5%
Miscellaneous Revenue	47,223,994	37,842,536	9,381,458	24.8%
Local Governments and Authorities	37,890,996	35,259,754	2,631,242	7.5%
Unclaimed Money, Net	26,224,733	33,838,740	(7,614,007)	-22.5%
Rents	24,053,274	25,330,294	(1,277,020)	-5.0%
Higher Education Auxiliary Sales and Services	22,604,455	22,862,230	(257,775)	-1.1%
Disproportionate Share Providers	-	15,593,540	(15,593,540)	-100.0%
Sales of Products	3,474,430	2,902,874	571,556	19.7%
OTHER REVENUE	382,773,080	438,401,617	(55,628,537)	-12.7%
TOTAL TABOR REVENUE	\$ 8,331,990,617	\$ 7,712,511,678	\$ 619,478,939	8.0%

Appendices

Appendix A

Description of Revenue Categories

Category	Description
INCOME TAX	
Individual Income Tax, Net	Tax paid on wages, unearned income, and other income of individuals, net of refunds on property tax credits, income tax intercepts (e.g., IRS, child support), and tax checkoffs
Corporate Income Tax, Net	Taxes based on the net profits of corporations
Fiduciary Income Tax, Net	Taxes on trust and estate income
Education Fund Transfers	Reduction of income taxes for transfers made to the State Education Fund
EXCISE TAX	
Sales Tax, Net	Taxes collected by retailers on consumer purchases of tangible personal property
Use Tax, Net	Taxes remitted by the end consumer of tangible personal property purchased at retail prices
Tobacco Products Tax, Net	Tax on the sale, use, consumption, handling, or distribution of tobacco products
Alcoholic Beverages, Net	Taxes collected from retailers who sell alcohol products
Other Excise Taxes, Net	Tax for occupational license renewals and certain penalties

Category	Description
OTHER TAXES	
Fuel and Transportation Taxes, Net	Gross ton mileage tax on motor carriers and taxes on diesel, gasoline, aviation jet fuel, aviation gasoline and other fuels
Employment Taxes	Employment insurance paid by employers for funding unemployment benefits
Insurance Taxes	Taxes on insurance premiums collected by insurance companies
Severance Tax	Mineral extraction taxes, net of refunds on coal, oil and gas, molybdenum, and metallic minerals
Gaming and Other Taxes	Taxes on gaming facilities based on percentages of income
Estate and Inheritance Tax	Taxes collected on the assets of estates
LICENSES, PERMITS AND FEES	
Education Tuition and Fees	Tuition and other education-related fees collected by state colleges and universities from students, net of scholarship allowances
Motor Vehicle Licenses	Collection of fees for license plates and tags
Business Licenses and Permits	Licenses and permits for special functions of a business (e.g., alcoholic beverage licenses, tobacco products licenses, business registrations and waste management permits)
Nonbusiness Licenses and Permits	Environmental response surcharges, park passes, snowmobile passes, off highway vehicle fees, distributive data processing fees, motorcycle operator safety training, waste tire recycling, etc.

Category	Description
General Government Service Fees	Service charges by various agencies to the public (e.g., filing fees charged by the Department of State, charges by the Motor Vehicle Division for driving record inquiries, and certain fees charged by the Department of Agriculture and Department of Natural Resources)
Other Charges for Services	Various fees, the majority of which are collected by Public Utilities Commission, the Division of Banking, and the Oil and Gas Conservation Fund, which are used to ensure compliance with applicable regulations
Certifications and Inspections	Emission inspection stickers, emission registration, emission inspection station licenses, and other fees
Driver's Licenses	Fees for driver's licenses
Health Service Fees	Fees collected for health services, including laboratory test fees and animal diagnostic lab fees, and children's health plan premiums
Public Safety Service Fees	Fees for firefighter response, fire service education and training, search and rescue fund fees
Welfare Service Fees	Child abuse registry fees
OTHER REVENUE	
Interest and Investment Income	Interest income, finance charges, and gains/losses on investments
Court and Other Fines	Fines and forfeits levied by the courts
Miscellaneous Revenue	Revenue not included in another category (e.g., charges by colleges and universities for services to outside entities and operating transfers from TABOR exempt enterprises and auxiliaries to other non-exempt state agencies)

Category	Description
Local Governments and Authorities	Funds from counties, cities, special districts, etc. primarily in the form of grants
Unclaimed Money, Net	Abandoned property, unclaimed insurance proceeds, and unclaimed interests in business association; net of claims paid and allowance for future claims payments
Rents	Income from the lease of state land to private parties
Higher Education Auxiliary Sales and Services	Revenues from library fees, internal service center fees, athletic camp fees
Disproportionate Share Providers	Donations under the Medicaid disproportionate share program from University Hospital and Denver Health Medical Center, and donations from private and public sources
Sales of Products	Sales of publications, maps, materials, and supplies

Appendix B

Description of Refunding Mechanisms

Mechanism (Effective Date)	Description
Colorado Capital Gains Modification (January 1, 1999)	When the excess TABOR revenue exceeds \$260 million annually adjusted for inflation, a deduction is provided for capital gains taken on assets purchased prior to May 9, 1994 that were held for at least five years prior to a gain on the disposition. Both individuals and corporations are eligible for the deduction.
Expanded Colorado Capital Gains Modification (January 1, 2001)	When the excess TABOR revenue exceeds \$430 million annually adjusted for inflation, the exemption allowed in the Colorado Capital Gains Modification Act is expanded to include Colorado capital gains made for any tax year beginning on or after January 1, 1999. It reduces the holding period of the asset for such capital gains exclusions from five years to one year. The credit is equal to the amount of income attributable to qualifying Colorado gains receiving capital treatment and included in federal taxable income.
Business Personal Property Tax Credit (July 1, 1999)	When the excess TABOR revenue exceeds \$170 million annually adjusted for inflation, a personal property tax credit is allowed for 16 percent of the aggregate amount of personal property tax paid, plus the lesser of 84 percent of the amount paid or \$588. This is an increase from the Fiscal Year 2000 amount of the lesser of \$500 plus 13.37 percent of the amount exceeding \$500 or the amount of actual taxes paid.

Mechanism (Effective Date)	Description
Income Tax Modification for Interest, Dividends, and Capital Gains (January 1, 2000)	When the excess TABOR revenue exceeds \$350 million annually adjusted for inflation, taxpayers may deduct the lesser of \$1,500 or their total amount of interest, dividend, and capital gains income on their state income tax return. Married taxpayers will be allowed to deduct up to \$3,000 of such income. This is an increase of \$300 for single taxpayers and \$600 for married taxpayers from Fiscal Year 2000.
Motor Vehicle Registration Fees (July 1, 2001)	When the excess TABOR revenue exceeds \$330 million annually adjusted for inflation, there is a reduction in the annual registration fees for passenger vehicles, trucks, truck tractors, and certain trailers. Revenue lost to the Highway Users Tax Fund is replaced by General Fund revenue.
Earned Income Credit (January 1, 1999)	When the excess TABOR revenue exceeds \$50 million annually adjusted for inflation, an earned income credit of 10 percent of the taxpayer's federal earned income tax credit may be claimed. This percentage increased from the 8.5 percent allowed in Fiscal Year 1999.
Child Care Credits (January 1, 2000)	When the excess TABOR revenue exceeds \$290 million annually adjusted for inflation, a credit of 20 or 70 percent of an individual's federal child care credits may be claimed. The credit allowed depends on the taxpayer's income level with a maximum allowable income of \$64,000. In addition, the credit increased from \$200 per child to \$300 per child for tax years beginning on or after January 1, 2000. The bill also allows in-home child care providers to claim credits for their own children.

Mechanism (Effective Date)	Description
Interstate Commerce Sales and Use Tax Exemption (January 1, 2001)	When the excess TABOR revenue exceeds \$350 million annually adjusted for inflation, a refund for sales taxes paid above a rate of 0.01 percent that are imposed on new or used commercial trucks, truck tractors, tractors, semi trailers, or vehicles used in interstate commerce with a gross vehicle weight in excess of 26,000 pounds is allowed.
Income Tax Deduction for Charity (January 1, 2001)	When the excess TABOR revenue exceeds \$350 million annually adjusted for inflation, an income tax credit for charitable contributions in excess of \$500 for individuals who claim the basic standard deduction on their federal return is allowed.
Income Tax Credit for Cost of Health Benefits (January 1, 2000)	When the excess TABOR revenue exceeds \$400 million annually adjusted for inflation, an income tax credit for health benefit plans not paid for by an employer or deducted from federal adjusted gross income is allowed. The credit is capped at \$500, with qualifying income capped at \$25,000 for individuals without dependents, \$30,000 for joint filers without dependents, and \$35,000 for individual or joint filers with dependents. The credit is only available to the extent of the individual's tax liability.
Agriculture Value-Added Development (January 1, 2001)	When the excess TABOR revenue exceeds \$400 million annually adjusted for inflation, an income tax credit to eligible agricultural value-added cooperatives for new or ongoing rural agricultural business projects is allowed. The credit is equal to the lesser of 50 percent of the member's investment or \$15,000, up to an aggregate amount of \$1.5 million per project and \$4 million per year.

Mechanism (Effective Date)	Description
Rural Health Care Providers (January 1, 2000)	When the excess TABOR revenue exceeds \$285 million annually adjusted for inflation, a temporary income tax credit will be provided for health care professionals who reside and practice in areas of Colorado that are understaffed. The definition of health care provider has been expanded to include dentists. This credit is equal to the taxpayer's income tax liability but is not to exceed the taxpayer's student loan obligation. This credit is effective from January 1, 2000 to January 1, 2008.
Income Tax Credit for Foster Parents (January 1, 2001)	When the excess TABOR revenue exceeds \$200 million annually adjusted for inflation, an income tax credit for providing foster care to children under 18 years of age is allowed. The credit is equal to the lesser of 100 percent of the nonreimbursed expenses of providing foster care to children or \$500.
Individual Development Accounts (January 1, 2001)	When the excess TABOR revenue exceeds \$190 million annually adjusted for inflation, a tax credit is allowed for contributors of matching funds for the Individual Development Accounts program. The program permits the establishment of accounts for eligible individuals or dependents for funding of post-secondary education, for purchasing a first home, or for capitalizing a business. Contributions to these accounts are exempt from income taxation.
High Technology Scholarships (January 1, 2001)	When the excess TABOR revenue exceeds \$330 million annually adjusted for inflation, an income tax credit for 25 percent of the contributions made to the Colorado high technology scholarship program is allowed. The income tax credit may not exceed 15 percent of income taxes due.

Mechanism (Effective Date)	Description
Pollution Control Providers (July 1, 1999)	When the excess TABOR revenue exceeds \$350 million annually adjusted for inflation, certain pollution control equipment is exempt from state sales and use tax, including solid waste, noise pollution, wind power, solar and thermal generation equipment.
Telecommunication Education (January 1, 2001)	When the excess TABOR revenue exceeds \$350 million annually adjusted for inflation, an income tax credit for 15 percent of monetary contributions made to the Colorado Institute for Telecommunication Education is allowed. The credit cannot be carried forward or refunded.
Tangible Personal Property used for Research and Development (January 1, 2002)	When the excess TABOR revenue exceeds \$358.4 million annually adjusted for inflation, a 50 percent sales tax credit for the sale, purchase, storage, use, or consumption of tangible personal property used in Colorado directly for research and development is allowed.
Sales Tax Refund (January 1, 1999)	When there is excess TABOR revenue after the above mechanisms have been applied, a tiered income bracket system will be used to distribute the excess sales tax as a credit to be taken on individual income tax returns.

The electronic version of this report is available on the Web site of the
Office of the State Auditor
www.state.co.us/auditor

A bound report may be obtained by calling the
Office of the State Auditor
303.869.2800

Please refer to the Report Control Number below when requesting this report.

Report Control Number 1667