



**REPORT OF
THE
STATE AUDITOR**

SCHEDULE OF TABOR REVENUE

September 2006

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STATE OF COLORADO

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September 29, 2006

Members of the Legislative Audit Committee:

This report contains the results of the financial audit of the *Schedule of TABOR Revenue* as of June 30, 2006 and 2005. The audit was conducted under the authority of Section 24-77-106.5, C.R.S., which requires the State Auditor to conduct an audit of TABOR revenue. The audited numbers are as follows:

Fiscal Year 2006 Revenue	\$9,161,390,726
Less: Fiscal Year 2006 TABOR Limit	(8,045,256,316)
Fiscal Year 2006 Revenue in Excess of the Limit	<u>\$1,116,134,410</u>

In accordance with Section 24-77-103.6, C.R.S., the State is authorized to retain and spend the \$1,116,134,410 in excess of the limitation on fiscal year spending. This statute was enacted by House Bill 05-1194 as a result of the approval of Referendum C by the Colorado voters in November 2005.

During our testwork there were adjustments that increased revenue by a net amount of \$1,852,097; these adjustments were posted by the State Controller's Office and are reflected in the TABOR revenue for Fiscal Year 2006. In addition, the State Controller's Office identified and posted prior year adjustments totaling \$2,871,444 that impact the Fiscal Year 2005 TABOR liability.

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SCHEDULE OF TABOR REVENUE September 2006

Authority, Purpose, and Scope

This audit was conducted under the authority of Section 24-77-106.5, C.R.S., which requires that the State Auditor conduct an audit of the *Schedule of TABOR Revenue*. The audit was conducted in accordance with generally accepted auditing standards. We performed our audit work during the period August 2006 through September 2006.

The purpose and scope of the audit were to:

- Express an opinion on the *Schedule of TABOR Revenue* as of June 30, 2006 and 2005.
- Evaluate compliance with applicable state laws, rules, and regulations.

We noted no instances of noncompliance for the fiscal years ended June 30, 2006 and 2005.

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

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 ". . . 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." For Fiscal Years 1997 through 2005, excluding Fiscal Years 2002 through 2004, cumulative excess revenue of about \$3.5 billion was refunded to taxpayers. For Fiscal Years 2002 through 2004 state revenue did not exceed the TABOR spending limit, and there were no refunds for these years. During Fiscal Year 2005, revenue exceeded the TABOR limit, which resulted in excess TABOR revenue of about \$41 million.

The excess revenue has been refunded to the taxpayers through a variety of ways. 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 tax return. In 1999, the excess was refunded through 3 mechanisms, in 2000 the excess was refunded through 9 mechanisms, and in 2001 the excess was refunded through 15 credits and the application of Fiscal Year 2000 excess refunds. For Fiscal Year 2005, the entire excess was distributed as a sales tax credit on each full-year resident's individual income tax return. Appendices B1 and B2 provide more detail regarding each refunding mechanism.

Revenue Reductions

Several significant revenue reductions were enacted during the 1999, 2000, and 2001 legislative sessions that lowers TABOR revenue for subsequent years. The Office of State Planning and Budgeting estimated about a \$643.2 million revenue reduction in Fiscal Year 2006 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, bingo equipment exclusions, sales and use tax exemptions for certain agricultural items, unemployment insurance tax credits, and oil and gas severance tax exemptions. 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. Taxpayers can also receive a refund for certain child care costs. There were no permanent tax cuts enacted during the 2006 legislative session.

Further, voters have approved changes that lowers revenue subject to TABOR. The table on the following page shows the voter approved changes and the effect on the Fiscal Year 2006 revenue:

Impact of Voter Approved Revenue Changes on TABOR Revenue Fiscal Year 2006		
Constitutional Amendment	Requirement	TABOR Impact
Amendment 23	Creates the State Education Fund, which receives all state revenue collected from a tax of 1/3 of 1 percent of federal taxable income as follows: <ul style="list-style-type: none"> • Individual income taxes of \$4.34 billion reduced by \$330.2 million; • Corporate income taxes of \$447.5 million reduced by \$25.4 million; • Fiduciary income taxes of \$38.5 million reduced by \$1.6 million. 	\$357,238,810
Amendment 14	Assesses a fee on housed commercial swine feeding operations.	\$180,292
Amendment 20	Assesses an application fee to obtain a Medicinal Marijuana identification card.	\$89,792
Amendment 35	Assesses a statewide tax on cigarette and tobacco products.	\$170,982,722
Total Reductions in Fiscal Year 2006 TABOR Revenue		\$528,491,616
Source: State Controller's Office and Department of Revenue information. Amounts do not include interest or unrealized gains and losses.		

Adjustments for Over Refunds

Article X, Section 20 (7) (a) of the State's Constitution requires the TABOR spending limit to be the lesser of the current fiscal year's actual revenue or the prior fiscal year's TABOR spending limit adjusted for inflation and the change in population. Prior to July 1, 2005, Section 24-77-103.7, C.R.S., provided a mechanism to apply refunds paid in excess of the TABOR refund liability for one fiscal year against the following year's TABOR refund liability, if one existed. If a TABOR refund liability did not exist in the following year, the excess refunds decreased the State's revenue in the year the excess refund was paid.

Effective as of Fiscal Year 2005, Section 24-77-103.7, C.R.S., was repealed and reenacted through House Bill 05-1310. This legislation required the State Controller

to make two types of adjustments in Fiscal Year 2005 related to over refunds that were paid during Fiscal Years 2002 through 2004.

First, for Fiscal Year 2005, HB 05-1310 required the State Controller to calculate the limit on state fiscal year spending for Fiscal Years 2002 through 2004 without reducing TABOR revenue for over refunds paid during these years or carried forward from prior years. As a result, the State Controller made one-time “look back” adjustments of \$92.1 million and \$643,000 to the fiscal year spending limit for Fiscal Years 2003 and 2004, respectively, based on over refunds paid in those years. The \$92.7 million in adjustments was reflected in the Fiscal Year 2005 revised spending limit.

Second, HB 05-1310 required the State Controller to make a reduction to the Fiscal Year 2005 TABOR revenue in excess of the limit for the *total* amount of over refunds paid during Fiscal Years 2002 through 2004. This resulted in a \$127.8 million reduction to the TABOR refund liability for Fiscal Year 2005.

HB 05-1310 requires that in Fiscal Year 2006 and future years TABOR revenue in excess of the limit on fiscal year spending be reduced by any amounts over refunded in the prior year. Any unused amount is to be carried forward and decrease future refund liabilities until the excess is depleted. No over refund was identified that would affect Fiscal Year 2006 TABOR revenue in excess of the limit.

Growth Dividend

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 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 Session the General Assembly enacted legislation to account for underestimates of population growth in prior years. Section 24-77-103 (2) (b) (II.5), C.R.S., adds a carry forward mechanism for a census-related adjustment in population growth. The adjustment can be applied to future calculations of the limitation on the State’s spending for up to nine years. This carry forward is referred to as the growth dividend. The growth dividend allowed the State to raise the TABOR spending limit and retain excess TABOR revenue in the amount

of \$565.3 million. The growth dividend was fully utilized during Fiscal Years 2004 and 2005.

Referendum C

During Fiscal Year 2005, the legislature approved House Bill 05-1194, also known as Referendum C. In November of 2005, Referendum C was approved by a vote of the people and became effective as of July 1, 2005. Referendum C allows the State to retain and expend all revenue in excess of the constitutional limit on fiscal year spending for each of the five fiscal years commencing with Fiscal Year 2006.

For Fiscal Year 2006, the amount of excess revenue that the State is allowed to retain and spend is \$1,116,134,410. The funds retained by the State are to be applied toward education; healthcare; roads, bridges, and other strategic transportation projects; and retirement plans for firefighters and police officers.

Commencing in Fiscal Year 2011, the State is allowed to retain and spend the amount of revenue in excess of the spending limit and up to the "Excess State Revenues Cap." The "Excess State Revenues Cap" is defined as the highest total state revenue earned between Fiscal Years 2006 and 2010, adjusted for inflation and population growth for each subsequent year; the qualification/disqualification of enterprises; and debt service changes.

Revenue Limit

We reviewed the State Controller's computation of the TABOR revenue limit. For Fiscal Year 2006, the TABOR revenue limit is \$8,045,256,316.

Revenue

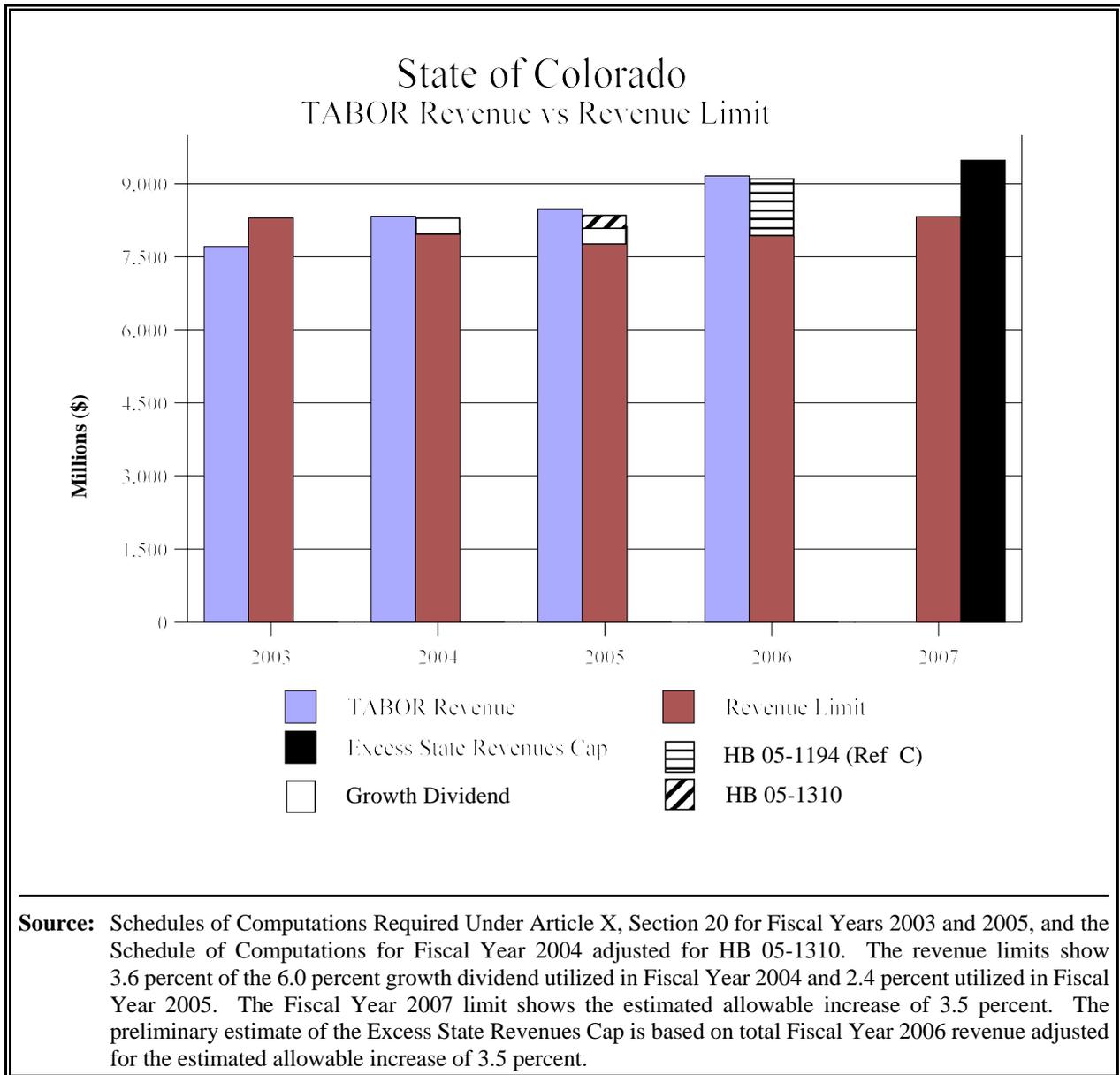
For Fiscal Year 2006, TABOR revenue was \$9,161,390,726. During our testwork we found adjustments that increased revenue by a net amount of \$1,852,097; these adjustments were posted by the State Controller's Office and are reflected in the \$9,161,390,726. In addition, the State Controller's Office identified and posted prior year adjustments totaling \$2,871,444 that impact the Fiscal Year 2005 TABOR refund liability. Section 24-77-103.8, C.R.S., states that "Any amount of state revenues in excess of the limitation on state fiscal year spending for the 2001-02 fiscal year and for every fiscal year thereafter that voters statewide did not authorize the state to retain and spend and that are required to be refunded pursuant to section 20 (7) (d) of article X of the state constitution, but that are not refunded by the state as required, . . . shall be added to and refunded with subsequent fiscal years' state

revenues in excess of the limitation on state fiscal year spending that are required to be refunded. . . .” As a result, the \$2,871,444 will be carried forward to the next refund year.

The following shows the TABOR revenue limit, TABOR revenue, and the revenue in excess of the limit for Fiscal Year 2006.

Fiscal Year 2006 Revenue	\$9,161,390,726
Less: Fiscal Year 2006 TABOR Limit	<u>(8,045,256,316)</u>
Fiscal Year 2006 Revenue in Excess of the Limit	<u>\$1,116,134,410</u>

The graph on the following page compares the revenue limit computed each year to the TABOR revenue from Fiscal Year 2003 to Fiscal Year 2006, with an estimate of the Fiscal Year 2007 limit.



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. General funds increased at a rate of 10.1 percent in Fiscal Year 2006, while cash funds, excluding the impact of TABOR enterprise qualifications, increased at a rate of 23.8

percent in Fiscal Year 2006. In general, cash fund increases come from two sources—either an increase in the rate charged or an increase in the usage of services.

The following tables show the major sources of revenue in Fiscal Year 2006, with comparative figures for 2005, separated by general-funded and cash-funded revenue. The *Schedule of TABOR Revenue* of page 15 combines the general-funded and cash-funded revenue presented on pages 11 and 12, respectively.

State of Colorado
Sources of TABOR Revenue
General-Funded Revenue
June 30, 2006

	Fiscal Year 2006	Fiscal Year 2005	2005 to 2006 % Change
GENERAL-FUNDED Revenue			
Individual Income Tax, Net ¹	\$4,007,409,503	\$3,390,610,407	18.2%
Sales and Use Tax, Net	1,902,780,765	2,007,962,580	-5.2%
Corporate Income Tax, Net ²	422,027,117	292,614,927	44.2%
Insurance Taxes, Net	175,103,824	189,202,038	-7.5%
Tobacco Products Tax, Net	59,443,619	65,636,084	-9.4%
Fiduciary Income Tax, Net ³	36,911,342	30,575,552	20.7%
Interest and Investment Income	33,200,389	27,652,018	20.1%
Alcoholic Beverages Tax, Net	32,847,849	31,230,428	5.2%
Court and Other Fines	31,468,606	29,951,933	5.1%
Estate and Inheritance Taxes, Net	6,794,841	26,004,399	-73.9%
Business Licenses and Permits	6,310,465	4,093,280	54.2%
Gaming and Other Taxes, Net	3,699,300	4,230,957	-12.6%
Miscellaneous Revenue	3,637,377	3,396,159	7.1%
Other General Revenue	798,799	902,859	-11.5%
TOTAL GENERAL-FUNDED REVENUE	\$6,722,433,796	\$6,104,063,621	10.1%

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

¹The amount of Individual Income Tax for Fiscal Year 2006 was reduced by Amendment 23 transfers of \$330,233,725.

²The amount of Corporate Income Tax for Fiscal Year 2006 was reduced by Amendment 23 transfers of \$25,446,921.

³The amount of Fiduciary Income Tax for Fiscal Year 2006 was reduced by Amendment 23 transfers of \$1,558,164.

Note: Certain reclassifications were made to the 2005 revenue to conform to the 2006 presentation. In addition, in the Fiscal Year 2005 Schedules of Computations and TABOR Revenue, revenue was presented net of prior year adjustments. Fiscal Year 2005 revenue above is reported at gross to conform with the 2006 presentation. Fiscal Year 2005 revenue reflects a decrease in revenue of \$409,452, from \$8,483,372,713 to \$8,482,963,261, that came to our attention subsequent to the issue of the *Schedule of TABOR Revenue* as of June 30, 2005. Fiscal Year 2006 revenue does not reflect prior year adjustments totaling \$2,871,444.

State of Colorado			
Sources of TABOR Revenue			
Cash-Funded Revenue			
June 30, 2006			
	Fiscal Year	Fiscal Year	2005-2006 %
	2006	2005	Change
CASH-FUNDED REVENUE			
Fuel and Transportation Taxes, Net	\$567,757,043	\$556,879,060	2.0%
Employment Taxes, Net	522,956,874	480,629,574	8.8%
Sales and Use Tax, Net	239,266,610	14,136,542	1592.5%
Severance Taxes, Net	221,334,040	143,383,071	54.4%
Motor Vehicle Registrations	183,179,070	170,225,762	7.6%
Interest and Investment Income	123,393,111	70,276,135	75.6%
Gaming and Other Taxes, Net	106,897,881	99,934,909	7.0%
Court and Other Fines	88,390,964	81,323,684	8.7%
Business Licenses and Permits	75,750,526	79,534,931	-4.8%
Insurance Taxes, Net	61,328,539	53,309,548	15.0%
General Government Service Fees	43,734,419	31,108,002	40.6%
Nonbusiness Licenses and Permits	37,858,770	37,389,951	1.3%
Rents and Royalties	34,059,244	25,045,566	36.0%
Local Governments and Authorities	29,595,228	33,222,610	-10.9%
Certifications and Inspections	21,350,910	20,906,628	2.1%
Driver's Licenses	20,110,155	21,054,610	-4.5%
Health Service Fees	18,047,289	16,543,003	9.1%
Other Charges For Services	16,099,259	14,405,135	11.8%
Miscellaneous Revenue	14,692,194	8,203,623	79.1%
Public Safety Service Fees	4,953,966	4,198,569	18.0%
Sales of Products	3,586,745	3,425,485	4.7%
Educational Fees	3,230,061	3,199,236	1.0%
Other Cash-Funded Revenue	1,384,032	1,731,232	-20.1%
TOTAL CASH-FUNDED REVENUE	2,438,956,930	1,970,066,866	23.8%
EXCLUDING TABOR ENTERPRISE			
QUALIFICATIONS	2,438,956,930	1,970,066,866	23.8%
Higher Education Institutions*	-	381,672,297	-100%
Petroleum Storage Tank Fund*	-	27,160,477	-100%
TOTAL CASH-FUNDED REVENUE	2,438,956,930	2,378,899,640	2.5%
TOTAL NONEXEMPT REVENUE	\$9,161,390,726	\$ 8,482,963,261	8.0%

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

*For comparative purposes. These entities qualified as TABOR enterprises in Fiscal Year 2006.

Note: Certain reclassifications were made to the 2005 revenue to conform to the 2006 presentation. In addition, in the Fiscal Year 2005 Schedules of Computations and TABOR Revenue, revenue was presented net of prior year adjustments. Fiscal Year 2005 revenue above is reported at gross to conform with the 2006 presentation. Fiscal Year 2005 revenue reflects a decrease in revenue of \$409,452, from \$8,483,372,713 to \$8,482,963,261, that came to our attention subsequent to the issue of the *Schedule of TABOR Revenue* as of June 30, 2005. Fiscal Year 2006 revenue does not reflect prior year adjustments totaling \$2,871,444.

Financial Information



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September 29, 2006

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 Constitution (TABOR)*, as of June 30, 2006, 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, 2006 and 2005. 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 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 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 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. This schedule is not intended to be a complete presentation of the State's revenue.

In our opinion, the accompanying *Schedule of TABOR Revenue* referred to above 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, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

**STATE OF COLORADO
OFFICE OF THE STATE CONTROLLER
SCHEDULE OF TABOR REVENUE**

	Fiscal Year 2005-06	Fiscal Year 2004-05	Increase (Decrease)	2005 to 2006 % Change
Individual Income Tax, Net	\$ 4,337,643,228	\$ 3,681,097,407	\$ 656,545,821	17.8%
Corporate Income Tax, Net	447,474,038	315,011,927	132,462,111	42.0%
Fiduciary Income Tax, Net	38,469,506	31,625,552	6,843,954	21.6%
State Education Fund Diversion (Amend 23)	(357,238,810)	(313,934,000)	(43,304,810)	-13.8%
TOTAL INCOME TAX	<u>4,466,347,962</u>	<u>3,713,800,886</u>	<u>752,547,076</u>	<u>20.3%</u>
Sales Tax, Net	1,976,126,341	1,869,200,550	106,925,791	5.7%
Use Tax, Net	165,921,034	152,898,572	13,022,462	8.5%
Tobacco Products Tax, Net	59,443,992	65,636,084	(6,192,092)	-9.4%
Alcoholic Beverages Tax, Net	33,376,238	31,854,442	1,521,796	4.8%
Other Excise Taxes, Net	206,794	217,740	(10,946)	-5.0%
TOTAL EXCISE TAX	<u>2,235,074,399</u>	<u>2,119,807,388</u>	<u>115,267,011</u>	<u>5.4%</u>
Fuel and Transportation Taxes, Net	567,757,043	556,879,060	10,877,983	2.0%
Employment Taxes, Net	522,956,909	480,629,574	42,327,335	8.8%
Insurance Taxes, Net	236,432,363	242,511,586	(6,079,223)	-2.5%
Severance Taxes, Net	221,334,040	143,383,071	77,950,969	54.4%
Gaming and Other Taxes, Net	110,597,181	104,165,866	6,431,315	6.2%
Estate and Inheritance Taxes, Net	6,794,841	26,004,399	(19,209,558)	-73.9%
TOTAL OTHER TAXES	<u>1,665,872,377</u>	<u>1,553,573,556</u>	<u>112,298,821</u>	<u>7.2%</u>
Motor Vehicle Registrations	183,179,070	170,225,762	12,953,308	7.6%
Business Licenses and Permits	82,060,991	83,628,211	(1,567,220)	-1.9%
General Government Service Fees	44,324,867	31,693,460	12,631,407	39.9%
Nonbusiness Licenses and Permits	38,007,468	37,547,021	460,447	1.2%
Certifications and Inspections	21,402,020	20,941,922	460,098	2.2%
Driver's Licenses	20,110,155	21,054,610	(944,455)	-4.5%
Health Service Fees	18,047,289	16,543,003	1,504,286	9.1%
Other Charges for Services	16,098,525	14,415,111	1,683,414	11.7%
Public Safety Service Fees	4,953,966	4,273,893	680,073	15.9%
Educational Fees	3,230,061	3,199,236	30,825	1.0%
Welfare Service Fees	614,552	848,913	(234,361)	-27.6%
TOTAL LICENSES, PERMITS, AND FEES	<u>432,028,964</u>	<u>404,371,142</u>	<u>27,657,822</u>	<u>6.8%</u>
Interest and Investment Income	156,593,500	97,928,153	58,665,347	59.9%
Court and Other Fines	119,859,570	111,275,617	8,583,953	7.7%
Rents and Royalties	34,059,244	25,045,566	9,013,678	36.0%
Local Governments and Authorities	29,595,228	33,253,070	(3,657,842)	-11.0%
Miscellaneous Revenue	18,332,499	11,600,403	6,732,096	58.0%
Sales of Products	3,595,286	3,434,543	160,743	4.7%
Higher Education Auxiliary Sales and Services	31,697	40,163	(8,466)	-21.1%
TOTAL OTHER REVENUE	<u>362,067,024</u>	<u>282,577,515</u>	<u>79,489,509</u>	<u>28.1%</u>
SUBTOTAL TABOR REVENUE BEFORE QUALIFICATION OF TABOR ENTERPRISES	<u>9,161,390,726</u>	<u>8,074,130,487</u>	<u>1,087,260,239</u>	<u>13.5%</u>
Higher Education Institutions*	-	381,672,297	(381,672,297)	-100.0%
Petroleum Storage Tank Fund*	-	27,160,477	(27,160,477)	-100.0%
TOTAL QUALIFICATION OF TABOR ENTERPRISES	<u>-</u>	<u>408,832,774</u>	<u>(408,832,774)</u>	<u>-100.0%</u>
TOTAL TABOR REVENUE	<u>\$ 9,161,390,726</u>	<u>\$ 8,482,963,261</u>	<u>\$ 678,427,465</u>	<u>8.0%</u>

*For comparative purposes. These entities qualified as TABOR enterprises in Fiscal Year 2006.

Note: Certain reclassifications were made to the 2005 revenue to conform to the 2006 presentation. In addition, in the Fiscal Year 2005 Schedules of Computations and TABOR Revenue, revenue was presented net of prior year adjustments. Fiscal Year 2005 revenue above is reported at gross to conform with the 2006 presentation. Fiscal Year 2005 revenue reflects a decrease in revenue of \$409,452, from \$8,483,372,713 to \$8,482,963,261, that came to our attention subsequent to the issue of the Schedule of TABOR Revenue as of June 30, 2005. Fiscal Year 2006 revenue does not reflect prior year adjustments totaling \$2,871,444.

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
State Education Fund Diversion (Amend 23)	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 Tax, 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 Taxes	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 Taxes	Taxes collected on the assets of estates
LICENSES, PERMITS AND FEES	
Motor Vehicle Registrations	Collection of fees for license plates, tags, and registrations.
Business Licenses and Permits	Licenses and permits for special functions of a business (e.g., alcoholic beverage licenses, tobacco products licenses, business registrations, health licenses, child care licenses, and waste management permits)
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)
Nonbusiness Licenses and Permits	Environmental response surcharges, park passes, motorcycle operator safety training, waste tire recycling, etc.

Category	Description
Certifications and Inspections	Emission inspection stickers, emission registration, emission inspection station licenses, and other fees
Driver's Licenses	Fees for driver's licenses and ID cards
Health Service Fees	Fees collected for health services, including laboratory test fees, genetic testing, vital records fees, and children's health plan premiums
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
Public Safety Service Fees	Fees for firefighter response, fire service education and training, search and rescue fund fees
Educational Fees	Conference fees and teacher certification fees collected primarily by the Department of Education
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
Rents and Royalties	Income from the lease of state land to private parties
Local Governments and Authorities	Funds from counties, cities, special districts, etc. primarily in the form of grants
Miscellaneous Revenue	Revenue not included in another category
Sales of Products	Sales of publications, maps, materials, and supplies

Category	Description
Higher Education Auxiliary Sales and Services	Revenue from library fees, internal service center fees, athletic camp fees
Higher Education Institutions	Revenue from tuition and other education fees, net of scholarship allowances; investment income and miscellaneous revenue attributable to all universities except the University of Colorado and Auraria Higher Education Center
Petroleum Storage Tank Fund	Revenue from fees charged to owner/operators of petroleum storage tanks and used to remediate petroleum contamination

Appendix B1

Description of Refunding Mechanisms

Mechanism (Effective Date)	Description
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.
Income Tax Deduction for Charity (January 1, 2001)	When the excess TABOR revenue exceeds \$100 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. In prior years, this limit was \$350 million.
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.
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
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.
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.
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.
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.

Mechanism (Effective Date)	Description
Tangible Personal Property used for Research and Development (July 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.
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.
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.
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.
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.

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.
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.
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.
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.

Mechanism (Effective Date)

Description

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.

Appendix B2

Refunding Mechanism Thresholds

(As applicable to Fiscal Year 2006)

Refunding Mechanism	Original Threshold	Fiscal Year 2006 Threshold Adjusted for Inflation
Sales Tax Refund	\$ 0	\$ 0
Earned Income Credit	\$ 50,000,000	\$ 71,400,000
Income Tax Deduction for Charity*	\$ 100,000,000	\$ 100,000,000
Income Tax Credit for Foster Parents	\$ 200,000,000	\$ 240,700,000
Business Personal Property Tax Credit	\$ 170,000,000	\$ 242,900,000
Colorado Capital Gains Modification	\$ 260,000,000	\$ 371,500,000
Rural Health Care Providers	\$ 285,000,000	\$ 377,100,000
Child Care Credits	\$ 290,000,000	\$ 383,800,000
Telecommunication Education	\$ 350,000,000	\$ 421,100,000
Tangible Personal Property Used for R & D	\$ 358,400,000	\$ 431,500,000
Motor Vehicle Registration Fees	\$ 330,000,000	\$ 436,800,000
High Technology Scholarships	\$ 330,000,000	\$ 436,800,000
Interest, Dividends, and Capital Gains	\$ 350,000,000	\$ 463,100,000
Pollution Control Provisions	\$ 350,000,000	\$ 463,100,000
Interstate Commerce Sales and Use Tax Exemption	\$ 350,000,000	\$ 463,100,000
Agriculture Value-Added Development	\$ 400,000,000	\$ 481,400,000
Income Tax Credit for Cost of Health Benefits	\$ 400,000,000	\$ 529,300,000
Expand Colorado Capital Gains Modification	\$ 430,000,000	\$ 569,100,000
<p>Source: Office of the State Auditor analysis of the Office of State Planning and Budgeting (OSPB) data. *Effective July 1, 2005, the threshold was reestablished at \$100 million.</p>		

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