



**REPORT OF  
THE  
STATE AUDITOR**

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

**February 2008**

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**STATE OF COLORADO**

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

February 6, 2008

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, 2007, dated February 6, 2008, and the *Schedule of TABOR Revenue*, as of June 30, 2007 and 2006, dated September 27, 2007. 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 the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*.

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**SCHEDULE OF COMPUTATIONS  
REQUIRED UNDER ARTICLE X, SECTION 20,  
OF THE STATE CONSTITUTION (TABOR)  
February 2008**

**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 that the State Auditor conduct an audit of the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* and 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 2007 through February 2008.

The purpose and scope of the audit were to:

- Express an opinion on the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* of June 30, 2007.
- Express an opinion on the *Schedule of TABOR Revenue* as of June 30, 2007 and 2006.
- Evaluate compliance with applicable state laws, rules, and regulations.

We noted no instances of noncompliance for the fiscal years ended June 30, 2007 and 2006.

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

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# TABOR Revenue

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## 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 2001, 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 refunded to taxpayers. For Fiscal Years 2006 and 2007 state revenue exceeded the TABOR spending limit in the amount of \$1.1 billion and \$1.3 billion, respectively. However, Referendum C, which was passed by the voters in November 2005, allowed the State to retain and expend all revenue in excess of the TABOR limit for both years.

Prior to the passage of Referendum C, the excess revenue was 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 lower TABOR revenue for subsequent years. 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 effective 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 2007 legislative session.

Further, voters have approved changes that lower revenue subject to TABOR. The table on the following page shows the voter approved changes and the effect on the Fiscal Years 2006 and 2007 revenue:

<b>Impact of Voter Approved Revenue Changes on TABOR Revenue</b>		
<b>Constitutional Amendment</b>	<b>Fiscal Year 2007 TABOR Impact</b>	<b>Fiscal Year 2006 TABOR Impact</b>
<b>Amendment 23</b> 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:		
Individual income taxes	\$358,988,000	\$330,233,725
Corporate income taxes	34,112,000	25,446,921
<u>Fiduciary income taxes</u>	<u>2,008,000</u>	<u>1,558,164</u>
<b>Total for Amendment 23</b>	<b>\$395,108,000</b>	<b>\$357,238,810</b>
<b>Amendment 14</b> Assesses a fee on housed commercial swine feeding operations.	\$158,846	\$180,292
<b>Amendment 20</b> Assesses an application fee to obtain a Medicinal Marijuana identification card.	\$138,408	\$89,792
<b>Amendment 35</b> Assesses a statewide tax on cigarette and tobacco products.	\$166,474,954	\$170,982,722
<b>Total Reductions in TABOR Revenue</b>	<b>\$561,880,208</b>	<b>\$528,491,616</b>
<b>Source:</b> Office of the State Auditor analysis of the Office of the State Controller's data. Amounts do not include interest or unrealized gains and losses.		

## Adjustments to 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 or 2007 TABOR revenue in excess of the limit.

In Fiscal Year 2006, the Office of the State Controller identified and posted prior year adjustments totaling \$2,871,444 that impacted 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. In Fiscal Year 2007, no adjustments were identified that impact prior years' TABOR refund liability.

## **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, which was the enabling legislation for 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 2007, the amount of excess revenue that the State is allowed to retain and spend is \$1,308,040,131. 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 2007, the TABOR revenue limit is \$8,333,826,755.

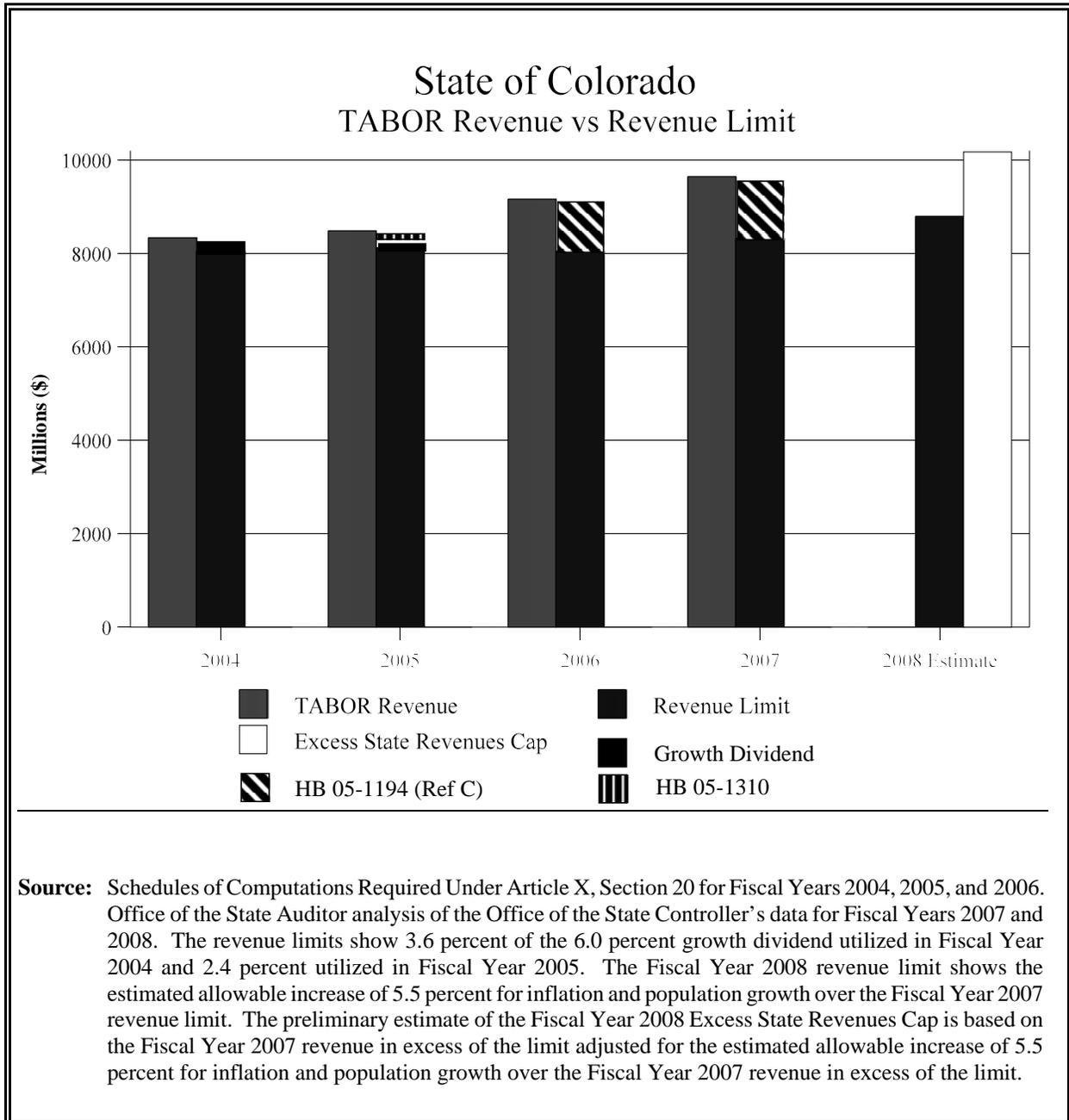
## Revenue

For Fiscal Year 2007, TABOR revenue was \$9,641,866,886. During our testwork there were adjustments that increased TABOR revenue by a net amount of \$19,190,901; these adjustments were posted by the Office of the State Controller and are reflected in the \$9,641,866,886.

The following shows the TABOR revenue, TABOR revenue limit, and the revenue in excess of the limit for Fiscal Year 2007.

Fiscal Year 2007 Revenue	\$9,641,866,886
Less: Fiscal Year 2007 TABOR Limit	<u>(8,333,826,755)</u>
Fiscal Year 2007 Revenue in Excess of the Limit	<u>\$1,308,040,131</u>

The graph on the following page compares the revenue limit computed each year to the TABOR revenue from Fiscal Year 2004 to Fiscal Year 2007, with an estimate of the Fiscal Year 2008 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 8.6 percent in Fiscal Year 2007, while cash funds, excluding the impact of TABOR enterprise qualifications, decreased at a rate of 4.1 percent in Fiscal Year 2007. Overall, TABOR revenue increased by 5.2 percent in Fiscal Year 2007.

The following tables show the major sources of revenue in Fiscal Year 2007, with comparative figures for 2006, separated by general-funded and cash-funded revenue. The *Schedule of TABOR Revenue* on 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, 2007**

	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2006</b>	<b>2006 to 2007 % Change</b>
<b>GENERAL-FUNDED REVENUE</b>			
Individual Income Tax, Net <sup>1</sup>	\$4,464,207,555	\$4,007,409,503	11.4%
Sales and Use Tax, Net <sup>3</sup>	1,982,323,748	1,902,780,765	4.2%
Corporate Income Tax, Net <sup>1</sup>	463,812,348	422,027,117	9.9%
Insurance Taxes	179,423,239	175,103,824	2.5%
Tobacco Products Tax, Net	60,040,314	59,443,619	1.0%
Fiduciary Income Tax, Net <sup>1</sup>	45,661,092	36,911,342	23.7%
Alcoholic Beverages Tax, Net	33,989,595	32,847,849	3.5%
Court and Other Fines	32,748,590	31,468,606	4.1%
Interest and Investment Income	28,075,363	33,200,389	-15.4%
Business Licenses and Permits	4,192,740	6,310,465	-33.6%
Gaming and Other Taxes	4,117,476	3,699,300	11.3%
Miscellaneous Revenue	3,596,875	3,637,377	-1.1%
Estate and Inheritance Taxes	782,760	6,794,841	-88.5%
Other General Revenue <sup>2</sup>	501,742	798,799	-37.2%
<b>TOTAL GENERAL-FUNDED REVENUE</b>	<b>\$7,303,473,437</b>	<b>\$6,722,433,796</b>	<b>8.6%</b>

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

<sup>1</sup> Net of Amendment 23 transfers. See table on page 5.

<sup>2</sup> Other General Revenue includes General Government Service Fees; Nonbusiness Licenses and Permits; Certifications and Inspections; Sales of Products; Other Excise Taxes, Net; Welfare Service Fees; Employment Taxes; and Other Charges for Services.

<sup>3</sup> Fiscal Year 2007 General-Funded Sales and Use Tax revenue reflects a decrease of \$20,738,272 reclassified as Cash-Funded Sales and Use Tax, from \$2,003,062,020 to \$1,982,323,748. This came to our attention subsequent to the issue of the Schedule of TABOR Revenue as of June 30, 2007.

**State of Colorado**  
**Sources of TABOR Revenue**  
**Cash-Funded Revenue**  
**June 30, 2007**

	<b>Fiscal Year 2007</b>	<b>Fiscal Year 2006</b>	<b>2006 to 2007 % Change</b>
<b>CASH-FUNDED REVENUE</b>			
Fuel and Transportation Taxes, Net	\$ 552,431,442	\$ 567,757,043	-2.7%
Employment Taxes	423,382,197	522,956,874	-19.0%
Sales and Use Tax, Net <sup>3</sup>	262,533,725	239,266,610	9.7%
Motor Vehicle Registrations	193,170,534	183,179,070	5.5%
Interest and Investment Income	181,903,545	123,329,690	47.5%
Severance Taxes	127,316,543	221,334,040	-42.5%
Gaming and Other Taxes	112,714,533	106,897,881	5.4%
Court and Other Fines	92,252,946	88,390,964	4.4%
Business Licenses and Permits	85,470,478	75,750,526	12.8%
Insurance Taxes	60,813,072	61,328,539	-0.8%
Rents and Royalties	37,012,372	34,059,244	8.7%
General Government Service Fees	35,799,329	43,734,419	-18.1%
Nonbusiness Licenses and Permits	35,277,117	37,858,770	-6.8%
Local Governments and Authorities	27,319,371	29,595,228	-7.7%
Other Charges For Services	24,241,438	16,099,259	50.6%
Health Service Fees	19,351,911	18,047,289	7.2%
Certifications and Inspections	19,308,942	21,350,910	-9.6%
Driver's Licenses	18,011,529	20,110,155	-10.4%
Miscellaneous Revenue	15,336,800	14,647,379	4.7%
Public Safety Service Fees	5,846,823	4,953,966	18.0%
Sales of Products	4,180,474	3,586,745	16.6%
Educational Fees	3,459,891	3,230,061	7.1%
Other Cash-Funded Revenue <sup>1</sup>	1,258,437	1,384,032	-9.1%
<b>TOTAL CASH-FUNDED REVENUE EXCLUDING TABOR ENTERPRISE QUALIFICATIONS</b>	<u>2,338,393,449</u>	<u>2,438,848,694</u>	<u>-4.1%</u>
Statewide Tolling Authority <sup>2</sup>	<u>-</u>	<u>108,236</u>	<u>-100%</u>
<b>TOTAL CASH-FUNDED REVENUE</b>	<u>2,338,393,449</u>	<u>2,438,956,930</u>	<u>-4.1%</u>
<b>TOTAL NONEXEMPT REVENUE</b>	<u>\$ 9,641,866,886</u>	<u>\$ 9,161,390,726</u>	<u>5.2%</u>

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

<sup>1</sup> Other Cash-Funded Revenue includes Alcoholic Beverage Tax, Net; Welfare Service Fees; Other Excise Taxes, Net; Higher Education Auxiliary Sales and Services; and Tobacco Products Tax, Net.

<sup>2</sup> Included for comparative purposes. Statewide Tolling Authority qualified as a TABOR enterprise in Fiscal Year 2007.

<sup>3</sup> Fiscal Year 2007 Cash-Funded Sales and Use Tax revenue reflects an increase of \$20,738,272 reclassified from General-Funded Sales and Use Tax, from \$241,795,453 to \$262,533,725. This came to our attention subsequent to the issue of the Schedule of TABOR Revenue as of June 30, 2007.



## STATE OF COLORADO

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February 6, 2008

### 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, 2007, and have issued our report thereon dated December 21, 2007. We have also audited the accompanying *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*, as of June 30, 2007. This schedule is the responsibility of the Office of the State Controller. 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, 2007, 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 Office of the State Controller 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, 2007, in conformity with accounting principles generally accepted in the United States of America.

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STATE OF COLORADO  
SCHEDULE OF COMPUTATIONS REQUIRED  
UNDER ARTICLE X, SECTION 20  
AS OF JUNE 30, 2007

	FISCAL YEAR 2005-06	FISCAL YEAR 2006-07
<b>COMPUTATION OF NONEXEMPT REVENUES</b>		
Total State Expenditures	\$ 24,687,098,730	\$ 27,047,119,882
Less Exempt Enterprises Expenses:		
Higher Education Enterprises	4,285,758,961	4,836,771,964
College Assist	437,190,510	523,490,413
State Lottery	477,769,929	469,698,341
CollegeInvest	320,884,776	352,739,083
Wildlife Division	100,788,085	104,925,886
Correctional Industries	42,303,679	52,134,604
State Nursing Homes	43,612,634	47,534,116
Petroleum Storage Tank Fund	35,416,339	44,680,704
State Fair Authority	8,690,633	-
Brand Board	4,065,130	3,842,120
Clean Screen Authority	604,278	1,526,775
Capitol Parking Authority	391,268	1,451,622
Statewide Tolling Enterprise	-	1,075,900
Subtotal Enterprise Expenses	<u>5,757,476,222</u>	<u>6,439,871,527</u>
Total District Expenditures	<u>18,929,622,508</u>	<u>20,607,248,355</u>
Less Exempt District Revenues:		
Interfund Transfers	5,498,947,757	6,262,897,192
Federal Funds	4,069,510,567	4,090,550,560
Gifts	179,808,295	173,798,218
Property Sales	53,703,338	49,071,560
Damage Awards	78,604,341	96,402,164
Exempt Investment Income	(22,916,334)	85,973,614
Other Sources and Additions (Note 7)	506,009,551	423,249,565
Voter Approved Revenue Changes (Note 8)	536,268,772	577,971,625
Subtotal Exempt District Revenues	<u>10,899,936,287</u>	<u>11,759,914,498</u>
Nonexempt District Expenditures	8,029,686,221	8,847,333,857
District Reserve/Fund Balance Increase (Decrease)	15,570,095	(513,507,102)
Excess TABOR Revenues	<u>1,116,134,410</u>	<u>1,308,040,131</u>
Total Nonexempt District Revenues	<u><u>9,161,390,726</u></u>	<u><u>9,641,866,886</u></u>
<b>COMPUTATION OF DISTRICT FUND BALANCE CHANGES</b>		
Beginning District Fund Balance	\$ 5,668,700,563	\$ 5,429,793,283
Prior Period District Fund Balance Adjustments (Note 11)	4,528,566	-
(Qualification)/Disqualification of Enterprises (Note 14)	(1,375,140,351)	2,470,400
District Reserve/Fund Balance Increase (Decrease)	15,570,095	(513,507,102)
Retention of Revenues in Excess of the Limit CRS 24-77-103.6(1)(a)	1,116,134,410	1,308,040,131
Ending District Fund Balance	<u>\$ 5,429,793,283</u>	<u>\$ 6,226,796,712</u>
<b>COMPUTATION OF SPENDING LIMITATION</b>		
<b>FY 2005-06 Fiscal Year Spending Limitation</b>	\$ 8,045,256,316	
Other Agency Revenues From Disqualified Enterprises (Note 13)	(64,268)	
Qualification of Enterprises (Notes 13 and 14)	(108,236)	
<b>FY 2005-06 Adjusted Fiscal Year Spending Limitation</b>	<u>\$ 8,045,083,812</u>	
Allowable TABOR Growth Rate (Note 12)		3.5%
<b>FY 2006-07 Unadjusted Fiscal Year Spending Limit</b>		8,326,661,746
Disqualification of Enterprises (Notes 13 and 14)		<u>7,165,009</u>
<b>FY 2006-07 Adjusted Fiscal Year Spending Limit</b>		8,333,826,755
Less Fiscal Year 2006-07 Nonexempt District Revenues		<u>(9,641,866,886)</u>
<b>Amount (Over)Under Adjusted Fiscal Year Spending Limit</b>		(1,308,040,131)
Under(Over) Statement of Prior Years' Refunds Carried Forward to Next Refund Year (Note 15)		2,871,444
FY2004-05 Amount in Excess of the Limit - Not Refunded at June 30, 2007 (Note 6)		727,335

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## NOTES TO THE TABOR SCHEDULE OF REQUIRED COMPUTATIONS

### NOTE 1. PURPOSE OF THE SCHEDULE OF REQUIRED COMPUTATIONS

The purpose of the Schedule of Required Computations is to determine and document compliance with Title 24 Article 77 of the Colorado Revised Statutes, which is the implementing statute for Article X Section 20 of the State Constitution (TABOR). The report is required to include at a minimum state fiscal year spending, reserves, revenues, and debt. The schedule also includes a calculation of the limit on fiscal year spending, the amount required to be refunded or the amount of excess revenue retained by law, as well as all related adjustments.

TABOR has many provisions including a requirement for a vote of the people for new taxes or tax rate increases and a limit on the amount of fiscal year spending. Fiscal year spending is defined as district expenditures and reserve increases except those expended from exempt sources, such as, gifts, federal funds, damage awards, property sales, reserves, and other items. This definition, while focused on spending is essentially a limitation on revenue retention because reserve increases are unspent revenues. Therefore, the terms fiscal year spending and nonexempt revenue are used interchangeably throughout these notes.

The limit on revenue retention is based on an allowable growth percentage (See Note 12) applied to the lesser of the prior year's revenues or the prior year's limit. Revenues in excess of the limit are required to be refunded to taxpayers unless voters approve retention of the excess. In the 2005 general election, voters approved Referendum C, which allowed the state to retain revenues in excess of the limit for a five-year period (See Note 9 below).

### NOTE 2. 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) for governmental entities except where an irreconcilable difference exists between GAAP, and state statute or the provisions of Article X Section 20 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 Office of the State Controller.

### NOTE 3. 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) an institution or group of institutions of higher education that has been designated as an enterprise;

(III) any special purpose authority;

(IV) any organization declared to be a joint governmental entity.

The General Assembly has designated the following as enterprises excluded from the district:

- ◆ State Lottery,
- ◆ College Assist,
- ◆ CollegeInvest,
- ◆ Division of Wildlife,
- ◆ State Nursing Homes,
- ◆ Division of Correctional Industries,
- ◆ Petroleum Storage Tank Fund,
- ◆ State Fair Authority,
- ◆ Brand Board,
- ◆ Clean Screen Authority,
- ◆ Capitol Parking Authority, and
- ◆ Statewide Tolling Enterprise.

It further established a statutory mechanism that allows governing boards of the institutions of higher education to designate certain auxiliary operations as enterprises, which are also exempt from TABOR. Senate Bill 189 enacted in the 2004 legislative session, expanded the authority for each governing board of the state institutions of higher education to designate the entire institution as a TABOR exempt enterprise. The Board of Regents of the University of Colorado designated the entire University of Colorado as an enterprise during Fiscal Year 2004-05, and the remaining boards designated their institutions as enterprises in Fiscal Year 2005-06. The Auraria Higher Education Center Board of Directors did not designate

all of its activities as a TABOR enterprise, but it continues to have selected activities designated as a TABOR enterprise.

Although the General Assembly and governing boards have designated certain enterprises as exempt from TABOR, those enterprises must continue to meet the criteria of a government-owned business authorized to issue its own revenue bonds and annually receiving under 10 percent of its revenue in grants from all Colorado state and local governments combined. In Fiscal Year 2006-07 the State Fair Authority received more than ten percent of its annual revenue in a transfer from the Travel and Tourism Promotion Fund managed by the Governor's Office of Economic Development; therefore, it did not qualify as a TABOR exempt enterprise (See Note 14).

#### **NOTE 4. 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 (TRANS) issued by the Colorado Department of Transportation do not constitute debt of the State as defined in Article XI Section 3 of the State Constitution. However, the Supreme Court ruled that the TRANS are a multiple-fiscal year obligation as defined by Article X Section 20 of the State Constitution, thus requiring an approving election before issuance. In November 1999 the voters approved the issuance of \$1.7 billion of TRANS.

## **NOTE 5. EMERGENCY RESERVES**

TABOR requires the reservation, for declared emergencies, of 3 percent or more of fiscal year spending, excluding bonded debt service payments. This requirement for FY 2006-07 totals \$289,256,007. At June 30, 2007, the financial net assets of the following funds were applied to the reserve, up to the limits set in the Long Appropriations Act:

- ♦ Major Medical Fund – The \$40,000,000 designation by the Legislature has been reduced by \$6,240,000 because that amount was transferred out of the TABOR emergency reserve to the Disaster Emergency Fund per Governors' Executive Orders to pay the cost of fighting wildfires and tornado damage mitigation in the state.
- ♦ Subsequent Injury Fund – \$40,000,000.
- ♦ Worker's Compensation Cash Fund – \$12,000,000.
- ♦ Wildlife Cash Fund – \$100,000,000. The Wildlife Cash Fund's net assets not invested in capital assets (net of related debt) total \$37,471,933. The remaining \$62,528,067 of the Wildlife portion of the reserve comes from the capital assets recorded in the Wildlife Cash Fund.

The 2006 legislative session Long Appropriations Act, as amended by the 2007 legislative session Long Appropriations Act, designated up to \$90,000,000 of state properties as the remainder of the emergency reserve. The estimate of the needed reserve was based on the December 2006 revenue estimate prepared by Legislative Council. Because the revenues subject to the TABOR reserve requirement were significantly more than estimated, the amount designated for the reserve was \$7,256,007 less than required by the State Constitution. There is no process by which the General Assembly can adjust the

designated reserve after the end of the legislative session when the total TABOR revenues are known. In the event of an emergency that exceeded the financial assets in the reserve, the designated Wildlife Cash Fund capital assets and general capital assets would have to be liquidated to meet the constitutional requirement.

## **NOTE 6. STATUS OF REFUNDING**

When refunds are required they are distributed to individual state taxpayers based on statutory mechanisms as discussed in Note 16. The Department of Revenue makes the distributions of the TABOR refund through the income tax refund process using estimates of the number of taxpayers expected to qualify for the TABOR refund. Because the exact number of qualifying taxpayers cannot be known in advance, the estimates may result in over or under distribution of the required refund throughout the four-year period allowed for amended tax returns.

As required by statute, under distributions are carried forward to subsequent years and added to the required refund. Over refunds are also carried forward to subsequent years and are used to offset any future refund liability. The statute requires the over/under refund carry forward to be applied in the year following the year in which the refund is required to be made, which results in a two year lag between the recording of the excess revenue and the adjustment for over or under refunds of those excess revenues.

At the beginning of Fiscal Year 2006-07 the state had an outstanding TABOR refund liability of \$2,916,844 related to Fiscal Year 2004-05 nonexempt revenues in excess of the limit. At the end of Fiscal Year 2006-07, \$727,335 of that liability remained to be refunded. Because of late filed and amended tax returns, the state continues to refund the outstanding unrefunded balance for up to four years after the excess revenues are recorded.

Because Referendum C precludes refunds until Fiscal Year 2010-11, the unrefunded balance is being carried forward on the Schedule of Required Computations and will be added to the next refund that is required by TABOR and the related implementing statutes.

A suit was 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 claimed that the transfers required increases or continuation of fees to replenish cash funds reserves, and these fees were actually tax increases not approved by the voters as required by TABOR. Plaintiffs seek to prevent similar future transfers, to terminate existing fees replenishing the cash funds, to prevent fee increases intended to replenish the cash funds, and to require the General Fund to replenish the cash funds. After Colorado Court of Appeals decisions, both the plaintiffs and the state petitioned the Colorado Supreme Court, and the case was accepted for review.

#### **NOTE 7. OTHER SOURCES AND ADDITIONS**

The \$423.2 million reported in this line item primarily comprises: \$310.8 million of pension and other employee benefit trust fund investment earnings and additions by participants; \$52.3 million of unclaimed property trust fund additions exempted from TABOR by C.R.S. 38-13-116.5; \$33.6 million of accounts payable reversions, reimbursements of prior year expenditures, and other miscellaneous exempt revenues; and \$7.0 million of local government expenditures recorded by the state as revenues and expenditures to meet grant matching-funds requirements.

Other Sources and Additions also includes \$3.9 million of capital lease financing and \$15.6 million from the Great Outdoors Colorado Trust Fund (GOCO) paid to the Department of Natural Resources and exempted by the GOCO Enabling Act.

#### **NOTE 8. VOTER APPROVED REVENUE CHANGES**

When state voters approve a revenue change, the resulting revenues are exempt from the TABOR limit on fiscal year spending. The following revenue changes were approved by voters:

- ♦ In the 1998 general election, voters approved a citizen-initiated law, C.R.S. 25-8-501.1 – Regulation of Commercial Hog Facilities, which instituted a permit fee. The State collected \$158,846 and \$180,292 from this exempt source in Fiscal Years 2006-07 and 2005-06, respectively.
- ♦ In the 2000 general election, voters 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 recorded \$141,137 and \$89,948 including interest and unrealized gains/losses from this revenue source in Fiscal Years 2006-07 and 2005-06, respectively.
- ♦ In the 2000 general election, voters approved a citizen-initiated amendment that added Section 17 to Article IX of the State Constitution. This amendment created the State Education Fund and diverted the revenues from a tax of one-third of one percent on taxable income of individuals, corporations, estates, and trusts from the General Fund to the State

Education Fund. It also exempted the revenue from TABOR. The amendment was effective January 1, 2001 and resulted in \$409,497,995 and \$364,885,961 of tax revenues, interest, and unrealized gains/losses, being excluded from fiscal year spending in Fiscal Years 2006-07 and 2005-06, respectively.

- ◆ In the 2004 general election, voters approved a citizen-initiated amendment that added Section 21 to Article X of the State Constitution. The amendment authorized additional cigarette and tobacco taxes (3.2 cents per cigarette and 20 percent of manufacturer's list price for other tobacco products) effective January 1, 2005. The amendment specified the use of the tax revenue generated for specific health related programs, and it exempted the revenue from the TABOR limitations. The state recorded \$168,173,648 and \$171,112,571 of tax revenues, interest, transfers, and unrealized gains/losses from this exempt source in Fiscal Year 2006-07 and 2005-06, respectively.
- ◆ In the 2005 general election, Colorado voters approved Referendum C – a measure referred to the voters by the Legislature. The referendum allows the state to retain revenues in excess of the TABOR limit for a period of five years, and it states that the excess revenue retained qualifies as a voter approved revenue change. However, in order to determine the amount retained, the Schedule of Required Computations must include the retained amount as nonexempt revenue. Therefore the retained amount is not reported in this note as a voter approved revenue change.

#### **NOTE 9. REFERENDUM C**

Referendum C was placed on the ballot by the General Assembly and was approved by the

voters in the November 2005 election. It contained the following provisions:

- ◆ The state shall be authorized to retain and spend all revenues in excess of the limit on fiscal year spending after July 1, 2005, and before July 1, 2010 (five fiscal years). The authorization constitutes a voter approved revenue change.
- ◆ After July 1, 2010, the state is allowed to retain revenues in excess of the limit on fiscal year spending up to a newly defined excess state revenues cap. The excess state revenues cap is the highest population and inflation-adjusted nonexempt revenue amount in the period from July 1, 2005, to June 30, 2010, also adjusted for qualification and disqualification of enterprises. This provision effectively disables the ratchet down provision of TABOR during the five-year period. (The ratchet down is a term used to describe the TABOR provision that requires each year's base for calculating the limit to be the lesser of the prior year's revenues or the prior year's limit.)
- ◆ A General Fund Exempt Account is created within the General Fund to consist of the retained revenues for each fiscal year. The Legislature shall appropriate the moneys in the account for health care, education (including related capital projects), firefighter and police pension funding (for local governments), and strategic transportation projects.
- ◆ The Director of Research of the Legislative Council shall report the amount of revenues retained with a description of how the retained revenues were expended.
- ◆ The State Controller's annual report demonstrating compliance with the statutes implementing TABOR shall include the amount of revenues that the state is authorized to retain and expend.

The Schedule of Required Computations shows that the state retained \$1,308,040,131 and \$1,116,134,410 of excess revenues as allowed by Referendum C in Fiscal Years 2006-07 and 2005-06, respectively. Additional information regarding how the \$1.3 billion was expended can be obtained from the report prepared by the Director of Research of the Legislative Council and from the Management Discussion and Analysis section of the State of Colorado Comprehensive Annual Financial Report.

#### **NOTE 10. DISTRICT RESERVES**

District reserves are the cumulative fund balances of the state reported in the state's Comprehensive Annual Financial Report at the fund level rather than the government-wide level. District reserves therefore exclude capital assets, liabilities that are not recorded in governmental funds at the fund level (primarily long-term liabilities), and net assets of the TABOR enterprises. The majority of these fund balances are not available for appropriation due to legal and contractual restrictions.

#### **NOTE 11. PRIOR-PERIOD DISTRICT FUND BALANCE ADJUSTMENTS**

Although there were prior period adjustments of fund balance reported in the state's Comprehensive Annual Financial Report, none of those adjustments affected the state TABOR district fund balances.

#### **NOTE 12. SOURCES OF TABOR GROWTH LIMIT**

After adjustment for voter approved revenue changes, the allowable percentage 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. 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 Office of State Planning and Budgeting provided the 3.5 percent allowable growth rate, which comprises a 1.4 percent increase for population growth (calendar year 2005) and a 2.1 percent increase for inflation.

#### **NOTE 13. SPENDING LIMIT ADJUSTMENTS**

In Fiscal Year 2006-07, there were two types of adjustments made to the base before applying the 3.5 percent allowable growth rate as follows.

- ♦ The Fiscal Year 2005-06 Fiscal Year Spending Limit was decreased by \$64,268 to remove Fiscal Year 2005-06 nonexempt revenue recorded by state agencies that received payments from the State Fair Authority, which was disqualified as a TABOR enterprise in Fiscal Year 2006-07. This adjustment is necessary so that the revenue counted in the Fiscal Year 2005-06 Fiscal Year Spending Limit is comparable to the Fiscal Year 2006-07 Nonexempt District Revenues. Because the State Fair Authority is not a qualified TABOR enterprise in Fiscal Year 2006-07, payments received by state agencies from the State Fair Authority are internal to the state's TABOR district, and therefore, are

not counted against the Fiscal Year 2006-07 Fiscal Year Spending Limit.

- ♦ The Fiscal Year 2005-06 Fiscal Year Spending Limit was decreased by \$108,236 for the qualification of the Statewide Tolling Enterprise as a TABOR enterprise. Because the Statewide Tolling Enterprise qualified as a TABOR enterprise in Fiscal Year 2006-07 its revenues will not be counted against the Fiscal Year Spending Limit; in order for the two years to be comparable, the Statewide Tolling Enterprise's nonexempt revenues must be removed from the Fiscal Year 2005-06 Fiscal Year Spending Limit.

One adjustment was made to the Fiscal Year 2006-07 Unadjusted Fiscal Year Spending Limit (after application of the 3.5 percent allowable growth rate). The Fiscal Year 2006-07 Unadjusted Fiscal Year Spending Limit was increased by \$7,165,009 in order to make the disqualification of the State Fair Authority neutral in regard to measuring excess fiscal year spending. The State Fair was a qualified TABOR enterprise in Fiscal Year 2005-06, and therefore, its revenues were not counted in that year and were not reflected in the base (prior to this adjustment). The State Fair Authority's revenues are counted in Fiscal Year 2006-07 Nonexempt District Revenues because it was disqualified as a TABOR enterprise, and in order for the two years to be comparable, the State Fair Authority's Fiscal Year 2006-07 nonexempt revenues have been added to the base.

#### **NOTE 14. ENTERPRISE QUALIFICATION AND DISQUALIFICATION**

The TABOR amendment to the State Constitution specifies that qualification and disqualification of enterprises shall change the district base. In order to ensure

comparability between the base and current year nonexempt revenue, when an activity qualifies as an enterprise the base is reduced by the activity's prior year nonexempt revenue offset by revenue that would have been counted as nonexempt due to the activity's interaction with other state agencies. When a TABOR enterprise becomes disqualified, its current year nonexempt revenue is added to the base after application of the population and inflation growth adjustment and its prior year payments to other state agencies are removed from the base (before application of the allowable growth rate).

As discussed in Note 13 above, the Statewide Tolling Authority became qualified as a TABOR enterprise in Fiscal Year 2006-07 after having been disqualified in Fiscal Year 2005-06, and the State Fair Authority was disqualified as a TABOR enterprise in Fiscal Year 2006-07. The dollar amounts of the base adjustments related to these changes to the state's TABOR district are listed in Note 13.

The qualification and disqualification of TABOR enterprises affects the Computation of District Fund Balance Changes, which shows a net increase in fund balance of \$2,470,400. That change comprises a \$6,833,441 increase related to the disqualification of the State Fair Authority as a TABOR enterprise and a \$4,363,041 decrease related to the qualification of the Statewide Tolling Authority as a TABOR enterprise.

#### **NOTE 15. TREATMENT OF ERROR CORRECTIONS UNDER REFERENDUM C**

CRS 24-77-103.5 requires that errors in the amount to be refunded be corrected in the year that they are discovered. In Fiscal Year 2006-

07, there were no errors identified by the Office of the State Controller or state agencies. However, the \$2,871,444 of net understatement of prior year refunds that was reported on the Fiscal Year 2005-06 Schedule of Required Computations is being carried forward until Fiscal Year 2010-11 or the first following fiscal year in which the state is required to distribute a TABOR refund.

#### **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 enacted additional mechanisms to refund the excess revenue. The mechanisms become active at different thresholds depending on the total amount of required TABOR refund. The thresholds are indexed to reflect the growth in Colorado personal income and are calculated by the Department of Revenue. The growth in personal income for the relevant years (2005 to 2006) was 7.029 percent. The mechanisms are as follows:

1. An earned income tax credit of 10 percent of the federal tax credit. This is available when the TABOR refund is \$76.3 million or more.
2. An income tax deduction for charitable contributions in excess of \$500 made by individuals who claim the standard deduction. The TABOR threshold is \$107.0 million; however, per statute the threshold is not applicable during the five years in which the state retains excess TABOR revenue because of the passage of Referendum C.
3. 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 \$256.7 million or more.
4. A business personal property tax credit, which is available when the TABOR refund is \$259.0 million or more.
5. Interest, dividend, and capital gains exclusion up to \$1,200 for individuals and \$2,400 for couples for tax year 2000. See mechanism number 12 for an increase that was applicable to later tax years. The TABOR threshold is \$396.2 million.
6. An income tax credit through December 31, 2007 to health and dental care providers who practice in certain rural areas. The TABOR threshold is \$402.3 million.
7. An income tax credit that is a percentage of the federal child care credit. The TABOR threshold is \$409.4 million.
8. An income tax credit for contributions to the Institute of Technology. The TABOR threshold is \$449.2 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 \$460.2 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 \$465.9 million.
11. An income tax credit for contributions to high technology scholarships. The TABOR threshold is \$465.9 million.
12. 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 \$493.9 million.

13. A sales tax exemption for certain pollution control devices. The TABOR threshold is \$493.9 million.
14. 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 \$493.9 million.
15. An income tax credit for eligible agricultural value-added cooperatives. The TABOR threshold is \$513.5 million.
16. 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 \$564.6 million.
17. An expansion of the capital gains modification to include capital gains realized in tax years beginning on or after January 1, 2001, as well as a reduction of the holding period from five years to one year. The TABOR threshold is \$607.1 million.
18. Any remaining amount is distributed to all full-year Colorado residents 18 years and older as a refund of sales taxes. When the refund is estimated to be under \$15 for each qualified taxpayer, an identical amount is refunded to each qualified taxpayer. When the sales tax refund is estimated to be over \$15 for each qualified taxpayer, a fixed amount is set 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.

Due to the passage of Referendum C, there is no refund in Fiscal Year 2006-07, and therefore, none of the refund mechanisms discussed above are active.

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## STATE OF COLORADO

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Sally Symanski, CPA  
State Auditor

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September 27, 2007

### 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, 2007, 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, 2007 and 2006. The *Schedule of TABOR Revenue* is the responsibility of the Office of the State Controller. 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, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

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

	Fiscal Year 2006-07	Fiscal Year 2005-06	Increase (Decrease)	2006 to 2007 % Change
Individual Income Tax, Net	\$ 4,464,207,555	\$ 4,007,409,503	\$ 456,798,052	11.4%
Corporate Income Tax, Net	463,812,348	422,027,117	41,785,231	9.9%
Fiduciary Income Tax, Net	45,661,092	36,911,342	8,749,750	23.7%
<b>TOTAL INCOME TAX</b>	<b>4,973,680,995</b>	<b>4,466,347,962</b>	<b>507,333,033</b>	<b>11.4%</b>
Sales Tax, Net	2,063,286,199	1,976,126,341	87,159,858	4.4%
Use Tax, Net	181,571,274	165,921,034	15,650,240	9.4%
Tobacco Products Tax, Net	60,040,765	59,443,992	596,773	1.0%
Alcoholic Beverages Tax, Net	34,554,236	33,376,238	1,177,998	3.5%
Other Excise Taxes, Net	218,166	206,794	11,372	5.5%
<b>TOTAL EXCISE TAX</b>	<b>2,339,670,640</b>	<b>2,235,074,399</b>	<b>104,596,241</b>	<b>4.7%</b>
Fuel and Transportation Taxes, Net	552,431,442	567,757,043	(15,325,601)	-2.7%
Employment Taxes, Net	423,382,197	522,956,909	(99,574,712)	-19.0%
Insurance Taxes, Net	240,236,311	236,432,363	3,803,948	1.6%
Severance Taxes, Net	127,316,543	221,334,040	(94,017,497)	-42.5%
Gaming and Other Taxes, Net	116,832,009	110,597,181	6,234,828	5.6%
Estate and Inheritance Taxes, Net	782,760	6,794,841	(6,012,081)	-88.5%
<b>TOTAL OTHER TAXES</b>	<b>1,460,981,262</b>	<b>1,665,872,377</b>	<b>(204,891,115)</b>	<b>-12.3%</b>
Motor Vehicle Registrations	193,170,534	183,179,070	9,991,464	5.5%
Business Licenses and Permits	89,663,218	82,060,991	7,602,227	9.3%
General Government Service Fees	36,098,739	44,324,867	(8,226,128)	-18.6%
Nonbusiness Licenses and Permits	35,449,697	38,007,468	(2,557,771)	-6.7%
Certifications and Inspections	19,334,002	21,402,020	(2,068,018)	-9.7%
Driver's Licenses	18,011,529	20,110,155	(2,098,626)	-10.4%
Health Service Fees	19,351,911	18,047,289	1,304,622	7.2%
Other Charges for Services	24,240,482	16,098,525	8,141,957	50.6%
Public Safety Service Fees	5,846,823	4,953,966	892,857	18.0%
Educational Fees	3,459,891	3,230,061	229,830	7.1%
Welfare Service Fees	268,406	614,552	(346,146)	-56.3%
<b>TOTAL LICENSES, PERMITS, AND FEES</b>	<b>444,895,232</b>	<b>432,028,964</b>	<b>12,866,268</b>	<b>3.0%</b>
Interest and Investment Income	209,978,908	156,530,079	53,448,829	34.1%
Court and Other Fines	125,001,536	119,859,570	5,141,966	4.3%
Rents and Royalties	37,012,372	34,059,244	2,953,128	8.7%
Local Governments and Authorities	27,319,371	29,595,228	(2,275,857)	-7.7%
Miscellaneous Revenue	18,935,954	18,287,684	648,270	3.5%
Sales of Products	4,186,122	3,595,286	590,836	16.4%
Higher Education Auxiliary Sales and Services	204,494	31,697	172,797	545.2%
<b>TOTAL OTHER REVENUE</b>	<b>422,638,757</b>	<b>361,958,788</b>	<b>60,679,969</b>	<b>16.8%</b>
<b>SUBTOTAL TABOR REVENUE BEFORE QUALIFICATION OF TABOR ENTERPRISES</b>	<b>9,641,866,886</b>	<b>9,161,282,490</b>	<b>480,584,396</b>	<b>5.2%</b>
Statewide Tolling Authority*	-	108,236	(108,236)	-100.0%
<b>TOTAL QUALIFICATION OF TABOR ENTERPRISES</b>	<b>-</b>	<b>108,236</b>	<b>(108,236)</b>	<b>-100.0%</b>
<b>TOTAL TABOR REVENUE</b>	<b>\$ 9,641,866,886</b>	<b>\$ 9,161,390,726</b>	<b>\$ 480,476,160</b>	<b>5.2%</b>

\*For comparative purposes. This entity qualified as a TABOR exempt enterprise in Fiscal Year 2007.

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# Appendix A

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## Description of Revenue Categories

<b>Category</b>	<b>Description</b>
<b>INCOME TAX</b>	
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), tax checkoffs, and Amendment 23 transfers to the State Education Fund
Corporate Income Tax, Net	Taxes based on the net profits of corporations net of Amendment 23 transfers to the State Education Fund
Fiduciary Income Tax, Net	Taxes on trust and estate income net of Amendment 23 transfers to the State Education Fund
<b>EXCISE TAX</b>	
Sales Tax, Net	Taxes collected by retailers on consumer purchases of tangible personal property net of refunds
Use Tax, Net	Taxes remitted by the end consumer of tangible personal property purchased at retail prices net of refunds
Tobacco Products Tax, Net	Tax on the sale, use, consumption, handling, or distribution of tobacco products net of refunds
Alcoholic Beverages Tax, Net	Taxes collected from retailers who sell alcohol products net of refunds

<b>Category</b>	<b>Description</b>
Other Excise Taxes, Net	Tax for occupational license renewals and certain penalties net of refunds
<b>OTHER TAXES</b>	
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 net of refunds
Employment Taxes, Net	Employment insurance paid by employers for funding unemployment benefits net of refunds
Insurance Taxes, Net	Taxes on insurance premiums collected by insurance companies net of refunds
Severance Taxes, Net	Mineral extraction taxes, net of refunds on coal, oil and gas, molybdenum, and metallic minerals net of refunds
Gaming and Other Taxes, Net	Taxes on gaming facilities based on percentages of income net of refunds
Estate and Inheritance Taxes, Net	Taxes collected on the assets of estates net of refunds
<b>LICENSES, PERMITS AND FEES</b>	
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)

<b>Category</b>	<b>Description</b>
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.
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
<b>OTHER REVENUE</b>	
Interest and Investment Income	Interest income, finance charges, and gains/losses on investments

<b>Category</b>	<b>Description</b>
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
Higher Education Auxiliary Sales and Services	Revenue from library fees, internal service center fees, athletic camp fees
Statewide Tolling Authority	All toll revenue collected from each toll highway within the toll highway system, excluding public authorities

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# Appendix B1

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## Description of Refunding Mechanisms

<b>Mechanism (Effective Date)</b>	<b>Description</b>
Earned Income Credit (January 1, 1999)	When the excess TABOR revenue exceeds \$50 million annually adjusted by personal income growth rate for Colorado, 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 amended July 1, 2005)	When the excess TABOR revenue exceeds \$100 million annually adjusted by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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.

<b>Mechanism (Effective Date)</b>	<b>Description</b>
Business Personal Property Tax Credit (July 1, 1999)	When the excess TABOR revenue exceeds \$170 million annually adjusted by personal income growth rate for Colorado, 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.
Colorado Capital Gains Modification (January 1, 1999)	When the excess TABOR revenue exceeds \$260 million annually adjusted by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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.

<b>Mechanism (Effective Date)</b>	<b>Description</b>
Child Care Credits (January 1, 2000)	When the excess TABOR revenue exceeds \$290 million annually adjusted by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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 (July 1, 2002)	When the excess TABOR revenue exceeds \$358.4 million annually adjusted by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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.

<b>Mechanism (Effective Date)</b>	<b>Description</b>
High Technology Scholarships (January 1, 2001)	When the excess TABOR revenue exceeds \$330 million annually adjusted by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, certain pollution control equipment is exempt from state sales and use tax, including solid waste, noise pollution, wind power, solar and thermal generation equipment.
Interstate Commerce Sales and Use Tax Exemption (January 1, 2001)	When the excess TABOR revenue exceeds \$350 million annually adjusted by personal income growth rate for Colorado, 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.

**Mechanism (Effective Date)****Description**

Agriculture Value-Added Development  
(January 1, 2001)

When the excess TABOR revenue exceeds \$400 million annually adjusted by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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 by personal income growth rate for Colorado, 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.

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.

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# Appendix B2

## Refunding Mechanism Thresholds

(As applicable to Fiscal Year 2007)

Refunding Mechanism	Original Threshold	Fiscal Year 2007 Threshold*
Sales Tax Refund	\$ 0	\$ 0
Earned Income Credit	\$ 50,000,000	\$ 76,300,000
Income Tax Deduction for Charity	\$ 100,000,000	\$ 107,000,000
Income Tax Credit for Foster Parents	\$ 200,000,000	\$ 256,700,000
Business Personal Property Tax Credit	\$ 170,000,000	\$ 259,000,000
Colorado Capital Gains Modification	\$ 260,000,000	\$ 396,200,000
Rural Health Care Providers	\$ 285,000,000	\$ 402,300,000
Child Care Credits	\$ 290,000,000	\$ 409,400,000
Telecommunication Education	\$ 350,000,000	\$ 449,200,000
Tangible Personal Property Used for R & D	\$ 358,400,000	\$ 460,200,000
Motor Vehicle Registration Fees	\$ 330,000,000	\$ 465,900,000
High Technology Scholarships	\$ 330,000,000	\$ 465,900,000
Interest, Dividends, and Capital Gains	\$ 350,000,000	\$ 493,900,000
Pollution Control Provisions	\$ 350,000,000	\$ 493,900,000
Interstate Commerce Sales and Use Tax Exemption	\$ 350,000,000	\$ 493,900,000
Agriculture Value-Added Development	\$ 400,000,000	\$ 513,500,000
Income Tax Credit for Cost of Health Benefits	\$ 400,000,000	\$ 564,600,000
Expanded Colorado Capital Gains Modification	\$ 430,000,000	\$ 607,100,000
* Thresholds are adjusted annually by the personal income growth rate for Colorado.		
<b>Source:</b> Office of the State Auditor analysis of the Department of Revenue data.		

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