REPORT OF

THE

STATE AUDITOR

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

January 2007

LEGISLATIVE AUDIT COMMITTEE
2007 MEMBERS

Senator Stephanie Takis
Chair

Representative James Kerr
Vice-Chair

Representative Dorothy Butcher
Senator Jim Isgar
Representative Rosemary Marshall
Representative Victor Mitchell
Senator Nancy Spence
Senator Jack Taylor

Office of the State Auditor Staff

Sally Symanski
State Auditor

Dianne Ray
Deputy State Auditor

Devin Conroy
Legislative Auditors

STATE OF COLORADO

SALLY SYMANSKI, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

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

January 24, 2007

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, 2006, dated January 24, 2007, and the *Schedule of TABOR Revenue*, as of June 30, 2006 and 2005, dated September 29, 2006. 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)*.

Sally Symanski

TABLE OF CONTENTS

STATE OF COLORADO
OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

SALLY SYMANSKI, CPA
State Auditor

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

Authority, Purpose, and Scope

The audit of TABOR revenue was conducted under the authority of Section 24-77-106.5, C.R.S., which requires 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 2006 through January 2007.

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, 2006.

- 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: • 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.

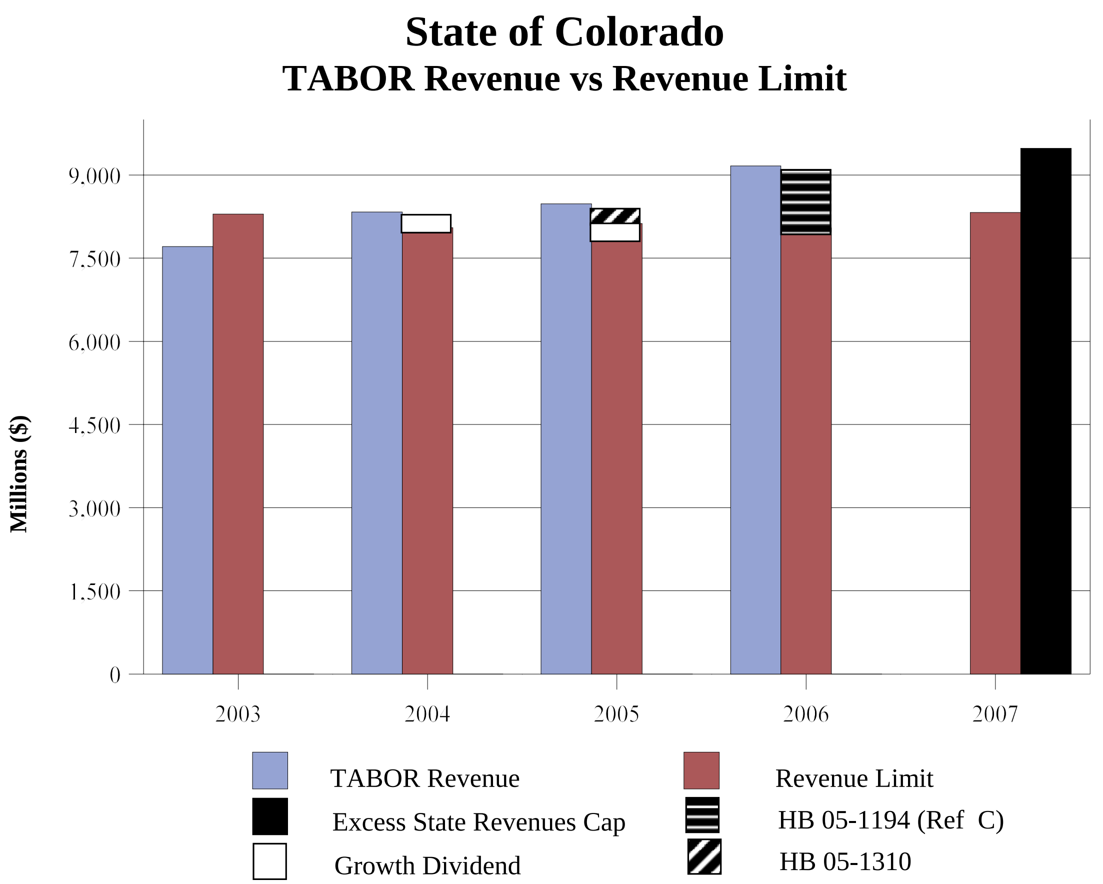
Revenue

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	(8,045,256,316)
Fiscal Year 2006 Revenue in Excess of the Limit	$1,116,134,410

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.



Source: Schedules of Computations Required Under Article X, Section 20 for Fiscal Years 2003 and 2005, and the Schedule of Computations for Fiscal Year 2004 adjusted for HB 05-1310. The revenue limits show 3.6 percent of the 6.0 percent growth dividend utilized in Fiscal Year 2004 and 2.4 percent utilized in Fiscal Year 2005. The Fiscal Year 2007 limit shows the estimated allowable increase of 3.5 percent. The preliminary estimate of the Excess State Revenues Cap is based on total Fiscal Year 2006 revenue adjusted for the estimated allowable increase of 3.5 percent.

Sources of TABOR Revenue

There are two types of revenue subject to the growth limitations set forth in TABOR—general funds and cash funds. General funds primarily include revenue from the general taxing authority of the State, such as individual and corporate income taxes. Cash funds generally include revenue from fees and other sources that are to be used for specific programs, such as education service fees and fuel/transportation taxes. 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.
[1]The amount of Individual Income Tax for Fiscal Year 2006 was reduced by Amendment 23 transfers of $330,233,725.
[2]The amount of Corporate Income Tax for Fiscal Year 2006 was reduced by Amendment 23 transfers of $25,446,921.
[3]The 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 2006	Fiscal Year 2005	2005-2006 % 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 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

STATE OF COLORADO

SALLY SYMANSKI, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

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

January 24, 2007

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, 2006, and have issued our report thereon dated December 8, 2006. We have also audited the accompanying *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)*, as of June 30, 2006. This schedule is the responsibility of the State Controller's Office. Our responsibility is to express an opinion on this schedule based on our audit.

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

Our auditing procedures also included reconciling amounts contained in this report to the State's Comprehensive Annual Financial Report for the year ended June 30, 2006, and testing for irreconcilable conflicts between the State's financial statements and the provisions of TABOR. Additional procedures consisted of evaluating the State of Colorado's compliance with constitutional and statutory provisions of TABOR. Our audit does not provide a legal determination of the State's compliance with specified requirements.

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

In our opinion, the *Schedule of Computations Required Under Article X, Section 20, of the State Constitution (TABOR)* referred to above presents fairly, in all material respects, the revenue, expenditures, changes in reserves, and spending limitation as determined under Article X, Section 20, of the State Constitution for the year ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

Sally Symanski

STATE OF COLORADO
SCHEDULE OF COMPUTATIONS REQUIRED
UNDER ARTICLE X, SECTION 20
AS OF JUNE 30, 2006

	FISCAL YEAR 2004-05		FISCAL YEAR 2005-06
COMPUTATION OF NON-EXEMPT REVENUES			
Total State Expenditures	$ 24,286,140,521		$ 24,687,098,730
Less Exempt Enterprises Expenses:			
Higher Education Enterprises	2,667,253,877		4,285,758,961
State Lottery	421,039,681		477,769,929
College Access Network	88,315,746		437,190,510
CollegeInvest	431,717,678		320,884,776
Wildlife Division	97,282,958		100,788,085
State Nursing Homes	37,761,754		43,612,634
Correctional Industries	38,971,843		42,303,679
Petroleum Storage Tank Fund	-		35,416,339
State Fair Authority	8,939,862		8,690,633
Brand Board	3,842,737		4,065,130
Clean Screen Authority	106,724		604,278
Capitol Parking Authority	632,218		391,268
Statewide Tolling Authority	675,340		-
Subtotal Enterprise Expenses	3,796,540,417		5,757,476,222
Total District Expenditures	20,489,600,104		18,929,622,508
Less Exempt District Revenues:			
Interfund Transfers	5,325,531,037		5,498,947,756
Federal Funds	4,221,571,877		4,069,510,567
Gifts	268,483,185		179,808,295
Property Sales	50,385,042		53,703,338
Damage Awards	94,522,330		78,604,341
Exempt Investment Income	22,022,033		(22,916,334)
Other Sources and Additions (Note 7)	628,383,228		506,009,551
Voter Approved Revenue Changes (Note 8)	405,059,496		536,268,772
Subtotal Exempt District Revenues	11,015,958,228		10,899,936,286
Non-Exempt District Expenditures	9,473,641,876		8,029,686,222
District Reserve/Fund Balance Increase (Decrease)	(1,159,551,994)		15,570,095
Excess TABOR Revenues	168,873,379		1,116,134,410
Total Non-Exempt District Revenues	8,482,963,261		9,161,390,726
COMPUTATION OF FUND BALANCE CHANGES			
Beginning District Fund Balance	$ 8,027,835,852		$ 5,668,700,563
Prior Period District Fund Balance Adjustments (Note 11)	19,183,180		4,528,566
(Qualification)/Disqualification of Enterprises (Note 14)	(1,346,576,350)		(1,375,140,351)
District Reserve/Fund Balance Increase (Decrease)	(1,159,551,994)		15,570,095
Retention of the Credit for Overpayments per CRS 24-77-103.7(3)(b)	127,809,875		
Retention of Revenues in Excess of the Limit CRS 24-77-103.6(1)(a)			1,116,134,410
Ending District Fund Balance	$ 5,668,700,563		$ 5,429,793,282
COMPUTATION OF SPENDING LIMITATION			
FY 2004-05 Unadjusted Fiscal Year Spending Limitation	$ 8,314,373,686		
Errors in Prior Years	1,585,878		
Qualification of Enterprises (Note 14)	(374,056,227)		
FY 2004-05 Adjusted Fiscal Year Spending Limitation	$ 7,941,903,337		
Allowable TABOR Growth Rate (Note 12)		1.3%	
FY 2005-06 Unadjusted Fiscal Year Spending Limit			8,045,148,080
Disqualification of Enterprises (Note 14)			108,236
FY 2005-06 Adjusted Fiscal Year Spending Limit			8,045,256,316
Less Fiscal Year 2005-06 Non-Exempt District Revenues			(9,161,390,726)
Amount (Over)Under Adjusted Fiscal Year Spending Limit			(1,116,134,410)
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, 2006			2,916,844

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 ascertain 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) any special purpose authority.

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

- State Lottery,
- College Access Network,
- 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 Authority.

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 2005-06, the Statewide Tolling Enterprise received more than ten percent of its annual revenue in a transfer from the Colorado Department of Transportation; 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 debt service payments. This requirement for FY 2005-06 totals $274,841,722. The General Assembly originally designated the required reserve in May 2005 and adjusted the amount in May 2006 based on the December 2005 revenue estimate prepared by Legislative Council.

Because the actual revenues subject to the TABOR reserve requirement were significantly more than the estimate, the amount designated for the reserve was $15,041,722 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.

The State has designated the following balances for this reserve:

- $20,000,000 – Major Medical Fund.
- $35,000,000 – Subsequent Injury Fund.
- $12,000,000 – Worker's Compensation Cash Fund.
- $7,300,000 – Operational Account of the Severance Tax Trust Fund.
- $5,500,000 – Colorado River Recovery Program Loan Fund.
- $100,000,000 – Wildlife Cash Fund. The Wildlife Cash Funds net assets not invested in capital assets total $29,882,729, and the remaining portion of the Wildlife reserve ($70,117,271) comes from the capital assets recorded in the Wildlife Cash Fund.
- $80,000,000 of state properties authorized for designation as part of the emergency reserve.

In the event of an emergency that exceeded the financial assets in the reserve, the designated Wildlife Cash Fund 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 2005-06 the state had an outstanding TABOR refund liability of $41,063,503 related to Fiscal Year 2004-05 nonexempt revenues in excess of the limit. At the end of Fiscal Year 2005-06, $2,916,844 of that liability remained to be refunded. The state continues to refund the outstanding unrefunded balance through late filed tax returns and amended tax returns.

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. The plaintiffs were seeking replenishment of the cash funds from the General Fund and a halt to this practice in the future. The court ruled against the plaintiffs, and they have appealed the court's decision. If the plaintiffs were to prevail in their appeals, any required disbursements could be considered a required TABOR refund.

NOTE 7. OTHER SOURCES AND ADDITIONS

The $506.0 million reported in this line item primarily comprises: $130.6 million of certificate of participation proceeds and related premiums issued by the Department of Corrections for prison construction; $248.5 million of pension and other employee benefit trust fund investment earnings and additions by participants; $53.8 million of unclaimed property trust fund additions exempted from TABOR by C.R.S. 38-13-116; $44.4 million of accounts payable reversions, reimbursements of prior year expenditures, and other miscellaneous exempt revenues; and $10.8 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 $1.5 million of capital lease financing and $16.1 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, adopting a permit fee. The State collected $180,292 and $155,396 from this exempt source in Fiscal Years 2005-06 and 2004-05, 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 $89,948 and $75,372 including interest and unrealized gains/losses from this revenue source in Fiscal Years 2005-06 and 2004-05, 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 this Fund. It also exempted the revenue from TABOR. The amendment was effective January 1, 2001 and resulted in $364,885,961 and $323,769,489 of tax revenues, interest, and unrealized gains/losses, being excluded from fiscal year spending in Fiscal Years 2005-06 and 2004-05, 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 TABOR limitations. The state recorded $171,112,571 and $81,059,239 of tax revenues, interest, and unrealized gains/losses from this exempt

source in Fiscal Year 2005-06 and the half-year period from January 1, 2005 through June 30, 2005, 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 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 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, 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 Computations shows that the state retained $1,116,134,410 of excess revenues as allowed by Referendum C. Additional information regarding how the $1.1 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 excluding the capital assets, non-fund liabilities of the governmental funds, and fund balances of the exempt enterprises. The majority of these fund balances are not available for appropriation due to legal and contractual restrictions.

NOTE 11. PRIOR-PERIOD DISTRICT FUND BALANCE ADJUSTMENTS

The increase of $4,528,566 in the district beginning fund balance consists of the following:

- The Department of Education increased beginning fund balance by $5,386,670 when it removed liabilities inappropriately accrued at the end of Fiscal Year 2004-05 related to reimbursement-type capital construction grants for which the department had no documentation of local school district expenditures.
- The Office of the State Controller reduced beginning district fund balance by $864,293 when it determined that three funds operated by the Division of Wildlife that were previously included in the district should not have been included in the district. The three funds are now reported as part of the TABOR enterprise.
- The Office of the State Controller increased beginning district fund balance by $198,037 when it determined that three funds operated by the State Nursing Homes that were previously excluded from the district should have been included in the district. The three funds are now reported as part of the district.
- The Office of the State Controller increased beginning district fund balance by $628,507 when it determined that the Fitzsimons Trust Fund operated by the University of Colorado at Denver and Health Sciences Center was inappropriately excluded from the district. The Fitzsimons Trust Fund is now reported as part of the district.
- The Department of Personnel & Administration decreased beginning district fund balance by $243,666 and $646,376 when it recorded those amounts as due to Colorado State University and the University of Northern Colorado, respectively, because the universities assumed current risk management liabilities when they opted out of the State Risk Management Program. Both universities were fully qualified TABOR enterprises at the time that they opted out of the program.
- The Office of the State Controller decreased beginning district fund balance by $1,469,322 when it determined that the Fiscal Year 2004-05 ending fund balance was overstated due to the elimination of payables in Higher Education Institution district fund's against receivables in the Higher Education Institution TABOR enterprise funds. The elimination was required for financial statement purposes but crossed the district boundary, and it should not have been reported in the Fiscal Year 2004-05 TABOR schedule of computations.
- The Department of Treasury increased beginning district fund balance by $1,856,942 when the Department of Revenue (DOR) informed it that DOR inappropriately held that amount of Highway User Tax Fund revenue in an agency fund at the close of Fiscal Year 2004-05. A related adjustment of the prior year refunds was made for Fiscal Year 2004-05 revenue that was not recognized in that year due to this error.
- The Auraria Higher Education Center decreased beginning district fund balance by $66,070 when it determined that activity previously recorded in the district should have been recorded in its TABOR exempt enterprise.
- The Office of the State Controller decreased beginning district fund balance by $251,863 when it determined that all activities of the Brand Board should be excluded from the district.

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 1.3 percent allowable growth rate, which comprises a 1.2 percent increase for population growth (calendar year 2004) and a .1 percent increase for inflation.

NOTE 13. SPENDING LIMIT ADJUSTMENTS

In Fiscal Year 2005-06, there were two types of adjustments made to the base before applying the 1.3 percent allowable growth rate as follows,

- an increase of $1,585,878 to correct for the understatement of nonexempt revenue in prior years, and
- a decrease of $374,056,227 for the qualification of enterprises (See Note 14).

The increase of $1,585,878 is the result of errors in computing Fiscal Year 2002-03 and 2003-04 revenues. In order to show the total effect on the Fiscal Year 2005-06 base, the error amounts shown below related to Fiscal year 2002-03 have been increased by the allowable growth rate of 3.6 percent between Fiscal Years 2002-03 and 2003-04 and by the allowable growth rate of 2.2 percent between Fiscal Years 2003-04 and 2004-05.

The Office of the State Controller understated Fiscal Year 2002-03 and 2003-04 nonexempt revenue by $1,007,167 and $36,101, respectively, when it failed to identify transfers from the Canteen portion of Correctional Industries (a TABOR qualified enterprise) to the Department of Correction's Capital Construction Fund as original source revenue of the district that should have been counted as nonexempt.

The Office of the State Controller understated Fiscal Year 2003-04 nonexempt revenue by $1,477,600 when it failed to identify transfers from the Unclaimed Property Trust Fund to the Department of Treasury as original source revenue of the district that should have been counted as nonexempt per CRS 38-13-116.5(2).

The Office of the State Controller understated Fiscal Year 2003-04 nonexempt revenue by $41,144 when it failed to identify fees earned from goods and services provided to the State Fair Authority, a TABOR qualified enterprise, as original source revenue of the district that should have been counted as nonexempt.

The Office of the State Controller overstated Fiscal Year 2002-03 and 2003-04 nonexempt revenue by $95 and $3,106, respectively, when it counted certain revenues of the Division of Wildlife as exempt notwithstanding that those revenues were recorded outside of the current definition of the Wildlife TABOR qualified enterprise.

Additional understatements of Fiscal Year 2004-05 revenue totaling $6.2 million were identified during Fiscal Year 2005-06; however, those errors did not affect the 2005-06 TABOR base because the Fiscal Year 2004-05 revenues were in excess of Fiscal Year 2004-05 limit. See Note 15 for the treatment of these errors in relation to previous refunds.

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. Multiple activities became fully qualified TABOR enterprises in Fiscal Year 2005-06, and one of the Fiscal Year 2004-05 qualified enterprises was disqualified. Enterprise qualifications reduced the beginning Fiscal Year base by $374,056,227, and disqualification of the Statewide Tolling Authority Enterprise increased the Fiscal Year 2005-06 Fiscal Year spending limit by $108,236.

The Petroleum Storage Tank Fund became a qualified TABOR enterprise in Fiscal Year 2005-06, which reduced the Fiscal Year 2005-06 beginning base by $24,115,223. The adjustment comprises $27,160,477 of Fiscal Year 2004-05 nonexempt revenue offset by $3,045,254 of interactions with other state agencies that would have been counted as nonexempt revenue if the Petroleum Storage Tank Fund had been an enterprise in Fiscal Year 2004-05.

All state institutions of Higher Education became fully qualified TABOR enterprises with the exception of the Auraria Higher Education Center and the University of Colorado, the latter of which became a fully qualified enterprise in Fiscal Year 2004-05. This qualification reduced the beginning Fiscal Year 2005-06 base by $349,941,004. The adjustment comprises $381,672,297 of Fiscal Year 2004-05 nonexempt revenue offset by $31,731,293 of interactions with other state agencies that would have been counted as nonexempt revenue if the Higher Education Institutions had been fully qualified enterprises in Fiscal Year 2004-05.

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 2005-06, the Office of the State Controller and state agencies identified $2,871,444 of net understatement of prior year refunds.

With the passage of Referendum C, no refund was required for Fiscal Year 2005-06. Therefore, it was determined that the $2.9 million of error corrections will be carried forward until Fiscal Year 2010-11 or the first following fiscal year when a refund is required. The state recorded an Other Long-term Liability related to the $2.9 million error correction on the state's Government-wide *Statement of Net Assets.* The liability related to error corrections will be adjusted each year for any errors related to years when a refund would have been required. In Fiscal Year 2010-11, or later fiscal year if applicable, the error correction liability will be added to the refund required in that year.

As explained in Note 13 above, errors related to Fiscal Year 2002-03 were discovered in Fiscal Year 2005-06 in the amount of $1,007,072. Because fiscal year spending was $584.3 million under the limit in Fiscal Year 2002-03, the identified error affected the base calculation but did not result in an understatement of the amount to be refunded.

The $2,871,444 of net understatement of prior year refunds comprises net understatements of $508,413 and $2,363,031 for Fiscal Years 2003-04 and 2004-05, respectively.

The $508,413 understatement related to Fiscal Year 2003-04 is the result of $1,551,740 of net nonexempt revenue understatements and a $1,043,327 increase in the Fiscal Year 2003-04 base related to errors discovered related to Fiscal Year 2002-03. The $1,551,740 comprises the following:

- The Office of the State Controller understated Fiscal Year 2003-04 nonexempt revenue by $1,477,600 when it failed to identify transfers from the Unclaimed Property Trust Fund to the Department of Treasury as original source revenue of the district that should have been counted as nonexempt per CRS 38-13-116.5(2).
- The Office of the State Controller understated Fiscal Year 2003-04 nonexempt revenue by $41,144 when it failed to identify fees earned from goods and services provided to the State Fair Authority, a TABOR qualified enterprise, as original source revenue of the district that should have been counted as nonexempt.
- The Office of the State Controller understated Fiscal Year 2003-04 nonexempt revenue by $36,101 when it failed to identify transfers from the Canteen Fund, a portion of the Correctional Industries TABOR qualified enterprise, to the Capital Construction Fund as original source revenue of the district that should have been counted as nonexempt.
- The Office of the State Controller overstated Fiscal Year 2003-04 nonexempt revenue by $3,106, respectively, when it counted certain revenues of the Division of Wildlife as exempt notwithstanding that those revenues were recorded outside of the Wildlife TABOR qualified enterprise.

The $2,363,031 understatement related to Fiscal Year 2004-05 is the result of net understatement of nonexempt revenue of $6,240,147, offset by a $1,585,878 increase in the Fiscal Year 2004-05 base (related to understatement of Fiscal Year 2003-04 nonexempt revenue) and offset by a $2,291,238 overstatement of the Fiscal Year 2004-05 refund related to miscalculation of the base in that year. The $6,240,147 of net understated nonexempt revenue of Fiscal Year 2004-05 comprises the following:

- The State Treasurer understated Fiscal Year 2003-04 nonexempt revenue by $2,858,423 when the Department of Revenue failed to record that amount of motor vehicle registration revenue of the Highway Users Tax Fund. The DOR inadvertently recorded the cash related to the revenue in an agency fund.
- The Office of the State Controller understated nonexempt revenue by $1,638,246 when it failed to identify transfers from the Unclaimed Property Trust Fund to the Department of Treasury as original source revenue of the district that should have been counted as nonexempt per CRS 38-13-116.5(2).
- The Office of the State Controller understated nonexempt revenue by $1,222,501 when it failed to identify transfers from the University of Colorado to the Colorado Commission on Higher Education as original source revenue of the district that should have been counted as nonexempt when the University became a fully qualified enterprise in Fiscal Year 2004-05.
- The Auraria Higher Education Center understated nonexempt revenue by $500,633 when it failed to identify charges to the University of Colorado as original

source revenue that should have been counted as nonexempt revenue of the district when the University became a fully qualified enterprise in Fiscal Year 2004-05.

- The Office of the State Controller understated nonexempt revenues by $70,588 when it failed to identify charges made to the State Fair Authority as original source revenue that should have been counted as nonexempt revenue of the district.
- The Office of the State Controller understated nonexempt revenues by $31,195 when it failed to identify transfers from the Canteen portion of Correctional Industries as original source revenue that should have been counted as nonexempt revenue because it crossed the district boundary.
- The Office of the State Controller overstated nonexempt revenue by $81,439 related to a change in the definition of the Division of Wildlife Enterprise and the counting of an internal transfer within the district as nonexempt revenue.

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 inflation and are calculated by the Office of State Planning and Budgeting. 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 threshold equals $71.4 million.
2. An income tax deduction for charitable contributions in excess of $500 made by individuals who claim the standard deduction. The TABOR threshold is $100.0 million.
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 $240.7 million or more.
4. A business personal property tax credit, which is available when the TABOR refund is $242.9 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 $371.5 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 $377.1 million.
7. An income tax credit that is a percentage of the federal child care credit. The TABOR threshold is $383.8 million.
8. An income tax credit for contributions to the Institute for Telecommunications Education. The TABOR threshold is $421.1 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 $431.5 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 $436.8 million.
11. An income tax credit for contributions to high technology scholarships. The TABOR threshold is $436.8 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 $463.1 million.
13. A sales tax exemption for certain pollution control devices. The TABOR threshold is $463.1 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 $463.1 million.
15. An income tax credit for eligible agricultural value-added cooperatives. The TABOR threshold is $481.4 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 $529.3 million.
17. An expansion of the capital gains modification to include capital gains realized in tax years beginning on or after January 1, 1999, as well as a reduction of the holding period from five years to one year. The TABOR threshold is $569.1 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 2005-06, and therefore, none of the refund mechanisms discussed above are active.

Schedule of TABOR Revenue
(Dated September 29, 2006)

STATE OF COLORADO

SALLY SYMANSKI, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

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

September 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.

Sally Symanski

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	4,466,347,962	3,713,800,886	752,547,076	20.3%
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	2,235,074,399	2,119,807,388	115,267,011	5.4%
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	1,665,872,377	1,553,573,556	112,298,821	7.2%
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	432,028,964	404,371,142	27,657,822	6.8%
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	362,067,024	282,577,515	79,489,509	28.1%
SUBTOTAL TABOR REVENUE BEFORE QUALIFICATION OF TABOR ENTERPRISES	9,161,390,726	8,074,130,487	1,087,260,239	13.5%
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	-	408,832,774	(408,832,774)	-100.0%
TOTAL TABOR REVENUE	$ 9,161,390,726	$ 8,482,963,261	$ 678,427,465	8.0%

*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

Category	Description
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
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

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.

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

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

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

Report Control Number 1853