Executive Summary of 1989 Recommendations

ECONOMIC GOALS BY 1992:

Job Creation: Two percent per year job growth rate should provide over 120,000 net jobs.

Unemployment Rate: Less than 5.5%.

Per Capita Income: Over $20,000.

ECONOMIC DEVELOPMENT

Continue to create more effective economic development structures for Colorado, with the private sector taking the lead while working with appropriate economic development agencies. Private leadership should:

- initiate a statewide long-term strategic plan;
- expand pro-active economic development programs to retain and develop existing industries; and
- encourage local economic development initiatives.

Enhance technology transfer from university research to private commercialization.

Create more capital through public/private investment in venture capital funds.

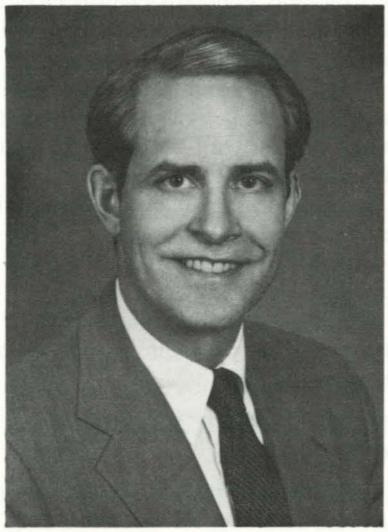
Eliminate regulatory impediments to accumulation of capital.

Assess Colorado's future as an international financial services center.

EDUCATION

Maintain adequate funding for K-12 and Higher Education to improve quality of life and promote economic development by:

- fully funding HB 1341, the Public School Finance Act of 1988;
- increasing higher education base funding by $30 million;
- having public colleges and universities reinvest $35 million within their institutions;
- increasing funding for Colorado First by $280,000;
- continuing Western Interstate Commission on Higher Education partnerships in optometry and veterinary medicine;
- increasing funding for the Colorado Advanced Technology Institute by $2.5 million; and
- increasing student financial aid by $4 million.



Jeff Coors, chairman of the Blueprint for Colorado Steering Committee.

Implement accountability and efficiency measures throughout the public education systems in Colorado.

For K-12 public education Blueprint supports:

- standardized testing and remediation, if required, for high school juniors;
- tying funding to "guaranteed graduates" program;
- HB 1341 accountability requirements; and
- restructuring systems for decentralized, school-based management

For higher education, Blueprint supports:

- Colorado Commission on Higher Education accountability for prior efficiency improvements and over $50 million of new funds for program enhancement;
- HB 1187 accountability requirements;
- affirmative action accountability; and
- Auraria campus governance accountability.

Continue business community efforts to reduce the number of school dropouts.

Support the mission of the Colorado Advanced Technology Institute to identify and promote university research with economic development potential and to transfer technology to private business.

TRANSPORTATION

Expedite construction of a new international airport, to be the air transportation hub of Colorado and the Rocky Mountain region.

Create a regional transportation authority in the metropolitan Denver area with responsibility for highways, beltways, road systems, and regional mass transit.

Create a Colorado Department of Transportation (D.O.T.)

Require strict accountability measures for highway funds.

Maintain and redistribute funding for highway construction and maintenance.

ENVIRONMENT

Implement technically defensible and cost-effective measures to achieve an acceptable level of air quality throughout Colorado.

Facilitate business compliance with environmental regulations.

Minimize industrial waste generation and improper disposal, and create a regulatory climate that encourages business growth.

HEALTH

Disseminate comparative information on cost and quality of health care to members of the business community to improve purchasing strategies.

Maximize government resources for health care services to the poor.

Regionalize health care facilities in rural areas and for the medically indigent in large urban areas.

Reduce medical malpractice insurance costs.

Encourage the various pending forms of reorganization involving Colorado University Hospital, Denver General Hospital, and some private hospitals, to maximize efficiency and strengthen Colorado's regional leadership in health care delivery, research and teaching.

EMPLOYER/EMPLOYEE PROGRAMS

Support cost-containment recommendations of the General Assembly's Interim Committee on Workers' Compensation and Unemployment Compensation.

(Continued on Page 6)

(Continued from Page 5)

Increase the maximum unemployment insurance tax rate for employers with a negative account balance.

Encourage employers to exercise control over spiraling workers' compensation costs through managed health and safety measures.

Develop educational brochures for employers and employees delineating rights and responsibilities in unemployment insurance and workers' compensation to help reduce litigation.

Encourage employers to appeal classification determinations in workers' compensation insurance.

Tighten accounting controls in the Division of Employment and Training.

Support state welfare reform efforts if coordination, efficiency, employment access, and incentives are improved.

WATER

Create a long-term financial mechanism for water projects, to be used only if other water financing resources have been exhausted.

Expedite federal funding of the Animas-La Plata project, support timely regulatory approval of the Two Forks project, and continue to pursue other necessary projects to capture Colorado's full share of water entitlements.

Maintain sufficient funds to protect Colorado's water rights.

EXECUTIVE BRANCH MANAGEMENT

Create an Executive Branch Reform Review Commission.

Continue the Colorado Commission on Productivity.

JUSTICE SYSTEM

Continue efforts to maximize automation of administrative procedures in the Colorado Judicial Department to better utilize limited resources and reduce case-load backlogs.

Evaluate conflict resolution alternatives to civil litigation, such as mediation and arbitration, and staffing costs associated with such alternatives.

Better inform the public about criminal penalties.

Support alternatives to detention for nonviolent offenders.

Support cost-saving alternatives to the present methods of building and running detention facilities.

CROSS-JURISDICTIONAL COOPERATION

Encourage the private sector to cooperate with and support efforts among the various jurisdictions in Colorado to implement cross-jurisdictional authorities.

CULTURAL ARTS

Encourage and increase private and public sector support of arts and cultural activities which demonstrate excellence, accountability and sound management.

TAXATION/FINANCE

Financing the recommendations contained in this Blueprint requires some $174 million Revenue sources, in order of priority, are listed below:

- Reallocate and implement cost savings of about one percent of the state's general fund budget — $25 million.
- Eliminate the remaining preferential exemptions from the income tax base — $60 million.
- Eliminate remaining consumption exemptions from the sales tax base and provide low income credits — $100 million.
- Consider raising the state sales tax by up to one percent on the current base — up to $260 million.

To expand the state sales tax base and permit a lowering of the overall sales tax rate, study the option of a sales tax on consumption services conditioned on adoption of a uniform base, uniform definitions, and state administration for all taxing jurisdictions.

If federal authorization is enacted, expanded the state sales tax base to include mail order goods.

Eliminate the gross-ton-mile (GTM) tax in favor of increased licensing and registration fees on trucks.

In the event that stricter standards for air and water quality are imposed, seek establishment of a tax credit for air and water pollution control equipment required to meet those standards.

ECONOMIC FORECAST 1989-1992

Our initial report in 1987 contained specific goals to measure economic progress by 1990. Categories such as job creation, unemployment rate and per capita income are indicators of economic health in Colorado. This year, Blueprint projects new economic goals through 1992.

JOB CREATION

Over 120,000 new jobs should be generated by 1992 based upon a healthy job growth rate above two percent annually during the next four years. A number of previous Blueprint recommendations will assist job growth.

UNEMPLOYMENT RATE

Blueprint expects strength in Colorado's economy and a low rate of unemployment through 1992. A projected unemployment rate of 5.5 percent should place Colorado at or below the national average in 1992.

PER CAPITA INCOME

Colorado ranks 16th in the nation in per capita income. One reason for such strength is Colorado's highly educated work force, which ranks first nationally. A six percent growth rate should raise Colorado per capita income in 1992 to over $20,000.

State government efficiency study:

Recommendations to include five year budgeting

by Anne Lawshe

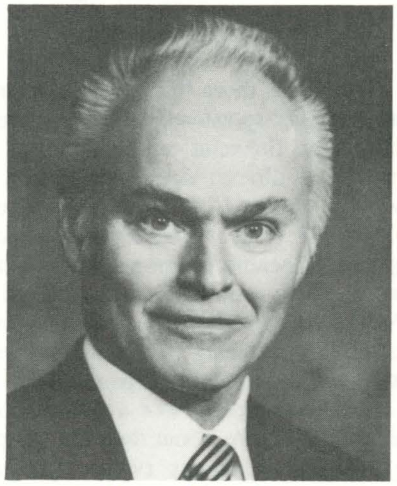
The Commisison on State Government Efficiency will recommend a five year budgeting process for Colorado as part of its findings, anticipated the end of January.

The Commission is in its final stages of reviewing each of the 20 state government departments and editing the final recommendations it will make to the Governor and state legislature. The efficiencies which needs to be made are primarily systemic, according to the Commission's findings thus far. State government personnel have been found to be highly capable and knowledgeable about their departments' obligations.

The Commission began its study of efficiency in state government operations in October and anticipates a published report on its analysis will be out by the end of January.

Duane Pearsall, Columbine Venture Fund general partner and co-chairman of the Commission, state that while it is difficult at this point to identify specific areas of need, the Commission is very pleased with the progress of the 20 committees which have been analyzing state government and with the cooperation the Commission has received from the state departments. Each committee is headed by an executive from the private sector and the director of the executive branch department.

Fifteen committees were charged with reviewing the operations of the 20 departments within the state government and five committees studied cross-over functions within the departments such as purchasing. Within the past three months, each department head presented its budget, functions, and operating procedures to the committees, which then prepared recommendations on how the department's performance could improve.



Duane Pearsall

In the course of hearing the departmental presentations, Commission members learned that the majority of the state personnel welcome the study and are looking forward to hearing the results and the possibilities of reorganizing their offices to make them more effective.

Pearsall states there are three objectives the Commission is trying to achieve with the study: to have the government institute a new incentive system to reduce costs; to initiate a budget process that extends to five years rather than just one; and to give the Governor a better feedback system for the management of his administration. The Commission members believe a five-year projected budget would allow state legislators to plan tax and spending programs with more vision and productiveness.

The Commission is now tackling the task of finding the best ways to implement the recommendations and how to get the legislature's attention. The recommended changes in government operations will most likely require a combination of legislation, including constitutional changes and internal departmental modifications.

Pearsall states that CACI members should be aware that CACI initiated the Commission's work and that CACI president George Dibble is acting secretary to the commission. Several CACI members have also contributed significant amounts of time, personnel, and resources to the study, especially Computer Technology Associates; IBM; Colorado-Ute; US West; KCNC; Public Service Co. of Colorado; and Martin Marietta.

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Colorado Benefit Trends

W. Frank Kelly and Andrew Mosko,
Stewart-Jennings, Incorporated

Benefits have become a major expense. Historically, "fringe benefits" were those aspects of an employer's compensation package which ensure an employee a basic level of health protection and a means of accumulating some long-term capital. Benefits were called fringe because this cost was fairly small and was considered to be a minor component of the total compensation.

Employers through Colorado and the rest of the country recognize that employee benefits are no longer a fringe element of their compensation package. Employee benefits programs have become increasingly more important to both employers and employees. As these programs have increased in importance, there has been a corresponding increase in costs associated with providing the benefit package.

Employees more than ever before rely on employer-sponsored benefit programs to provide financial protection from the effects of illness, death, disability, as well as financial security beyond employment. Unfortunately, employer-sponsored benefit programs have become increasingly complex and expensive. Poor employee benefit decisions once made, can seriously impact a company's structure and financial performance.

Most companies have a difficult time making decisions about their benefit programs. Executives typically sense benefit-related problems but are unable to clearly articulate or define them. This inability on the part of companies reflects the lack of useful comparative information about employer-sponsored benefit programs. Recognizing a need for this type of information, The Colorado Association of Commerce and Industry (CACI) in conjunction with Stewart-Jennings, Incorporated, conducted a survey in the summer of 1988 to determine the type(s) of benefit programs utilized by Colorado employers. Questionnaires were mailed to 5,700 Colorado employers with 25 or more employees and those questionnaires returned through the mail by the deadline of September, 1988 were included in the survey analysis. A total of 568 Colorado employers participated in this survey.

The results of this survey provide Colorado employers with a unique opportunity to evaluate the existing benefits against a state specific standard as in the case of benefit costs. An analysis of the responses indicates that the cost of benefits as a percentage of payroll varies by type of industry and employer size. As shown below:

Industry Type	Average Payroll Expended for Benefits
State-Wide	18.2%
Manufacturing	17.3
Financial Services	22.4
Wholesale/Retail	16.4
Non-Profit	17.7
Professional Services	17.2
Real Estate	15.6
Combined*	19.7

* Includes Mining/Construction, Petroleum, Utilities and Transportation Services

Employer Size	Average Payroll Cost Expended for Benefits
State-Wide	18.1%
Under 50 employees	15.5
50 - 100 employees	17.6
101 - 500 employees	18.6
501 - 1,000 employees	23.9
1,001 - 2,500 employees	22.9
2,501 or more employees	25.2

Most companies feel that they compete within their industry for human resources. As the table above shows, employer expenditures for employee benefits do vary by industry with 45.1 percent of Financial Services employers paying more than 20 percent of payroll for benefits.

(Continued on Page 9)

"Section 89" Taxation of Employee Benefits

The following information is provided by CACI member company Shenkin Kurtz Baker & Co., certified public accountants. Call them for further details at (303) 796-2600.

Various employee benefits have enjoyed tax advantages without having to satisfy complex qualification rules. However, all that is about to change. As part of the Tax Reform Act of 1986, Congress established new requirements for statutory benefit plans to maintain their tax benefits. The new rules generally apply to accident or health plans and to group term life insurance plans for taxable years beginning after December 31, 1988.

The new Section 89 requirements consist essentially of two parts. The basic requirements are that statutory benefit plans must be in writing, must be legally enforceable, must be maintained for the exclusive benefit of employees, and must be reasonably communicated to employees. If these requirements are not met, the cost of the benefits is still deductible by the employer, but **all** employees must pay tax on the value of the benefit they receive.

The second part consists of rules to test for discrimination. If the plan is found to be discriminatory, highly compensated employees ("HCEs") must pay tax on the "excess benefit" (essentially, the portion which is not available to lower-paid workers). Since these discrimination tests are extraordinarily complex, making the required computations may not even be possible.

What do you need to do immediately? First, because the sanction for not meeting the basic requirements affects all employees, you should formalize all plans in writing and communicate them to employees before year-end. Second, you must start developing the information to test for discrimination. Many smaller employers are planning to simply report the excess benefit to the HCEs rather than attempting the costly exercise of testing for discrimination. However, determining the excess benefit may still require discrimination testing unless you decide simply to report the entire benefit.