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STATE OF COLORADO

Governor's Office of State Planning and Budgeting

COLORADO ECONOMIC
AND
FISCAL OUTLOOK

COLORADO

Governor Jared Polis

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Forecast in Brief

NATIONAL ECONOMIC OUTLOOK

The U.S. economy is rebounding in 2021, and while headwinds exist, GDP is likely to grow at its fastest pace in decades. Aggregate household finances are strong, with wage growth and government aid supporting high savings and low debt, underpinned by accommodative financial conditions. New business formation has stabilized at a high level after rapid increases through mid-2021. High COVID caseloads are constraining global supply chains, increasing inflation expectations.

COLORADO ECONOMIC OUTLOOK

Colorado's unemployment rate is higher than the national average, but this is in part due to the state's higher labor force participation rate, which is a positive sign for Colorado's near-term economic outlook. While job recovery in the tourism and leisure and hospitality sectors continues to lag other sectors, Colorado has seen significant recovery in demand for these services. There are downside risks to the forecast from continued disparities in the labor market and supply chain disruptions along with continued inflationary concerns. Overall, however, risks remain balanced.

GENERAL FUND REVENUE

General Fund revenue is projected to increase to $15.3 billion in FY 2021-22, a 7.3 percent change from the prior fiscal year. The projection for FY 2021-22 is $260.6 million higher than the June forecast. The growth rate is expected to moderate to 3.9 percent in FY 2022-23 and 4.7 percent in FY 2023-24. This upward revision is due to high revenue collections in recent months across all revenue streams as well as strong economic expectations going forward.

CASH FUND REVENUE

Total cash fund revenue subject to TABOR was $2.2 billion in FY 2020-21, a 2.0 percent reduction from the prior fiscal year. In FY 2021-22, cash fund revenue is projected to increase by 10.4 percent followed by 6.3 percent growth in FY 2022-23 and 5.5 percent growth in FY 2023-24.

TABOR

After exceeding the Referendum C cap (as restored by S.B. 21-260) by $453.6 million in FY 2020-21, revenue subject to TABOR is expected to remain above this cap through the duration of the forecast period. Current projections show that revenue will be $1,260.1 million above the cap in FY 2021-22, $1,277.3 million above the cap in FY 2022-23, and $1,467.3 million above the cap in FY 2023-24, triggering the temporary income tax rate reduction in each year.

GENERAL FUND RESERVE

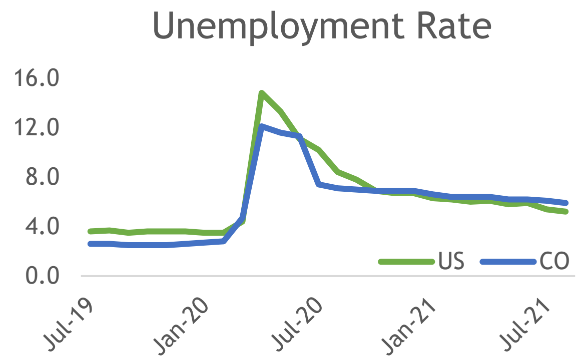
Under this forecast, the General Fund ending balance is projected to be $1,863.2 million above the statutory reserve level of 13.4 percent of appropriations in FY 2021-22.

Economic Outlook

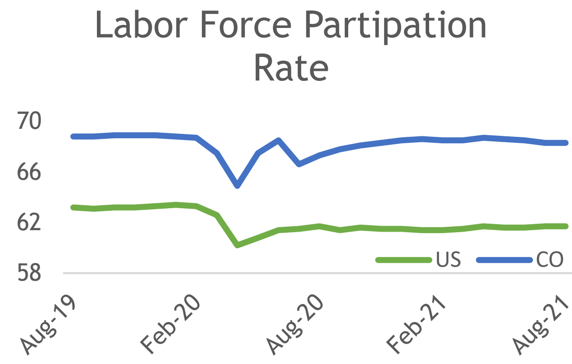
Colorado's economic recovery from the pandemic recession continues at a rapid pace, although headwinds exist. Labor market inefficiencies due to skill mismatches and job preferences are limiting improvements in the job market. Additionally, the Delta variant has reduced consumer confidence and constrained global supply chains, driving up expectations for higher inflation in the short- and medium-term. Monthly new business applications have stabilized at a high level after rapid increases through mid-2021, while business ownership has increased significantly among Blacks and Latinos. Furthermore, household finances are strong, with wage growth and government aid supporting high savings and low debt, underpinned by accommodative financial conditions.

Employment Recovery

Colorado's labor force participation rate was higher than the national rate before the Covid-19 pandemic, and has remained higher than the national rate throughout the pandemic. Colorado's labor force participation rate stood at 68.8 percent in February 2020, dropped to 64.9 percent at the start of the pandemic, and has rebounded nearly completely to stand at 68.3 percent in August 2021. The labor force participation rate for the U.S. has not recovered as strongly, at 61.7 percent in August 2021 compared to 63.3 percent before the pandemic. Similarly, Colorado's unemployment rate was slightly lower than the national rate before the pandemic. However, both Colorado and the U.S.'s unemployment rate remain significantly higher than they were before the pandemic. The United States unemployment rate came in at 5.2 percent in August 2021, while Colorado came in at 5.9 percent. The U.S. has both a lower labor force participation rate and a lower unemployment rate than Colorado. The U.S.'s low labor force participation rate may be a sign of more discouraged workers, which would artificially lower the unemployment rate, whereas Colorado suffers from this problem to a lesser extent.

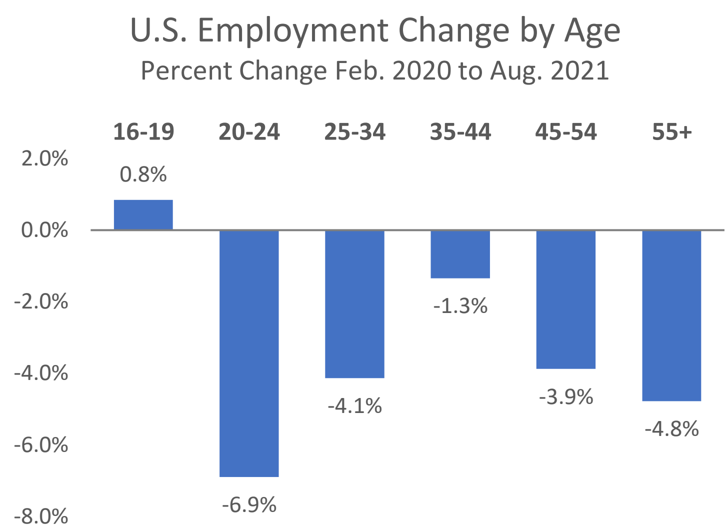


Source: Bureau of Labor Statistics.



Source: Bureau of Labor Statistics.

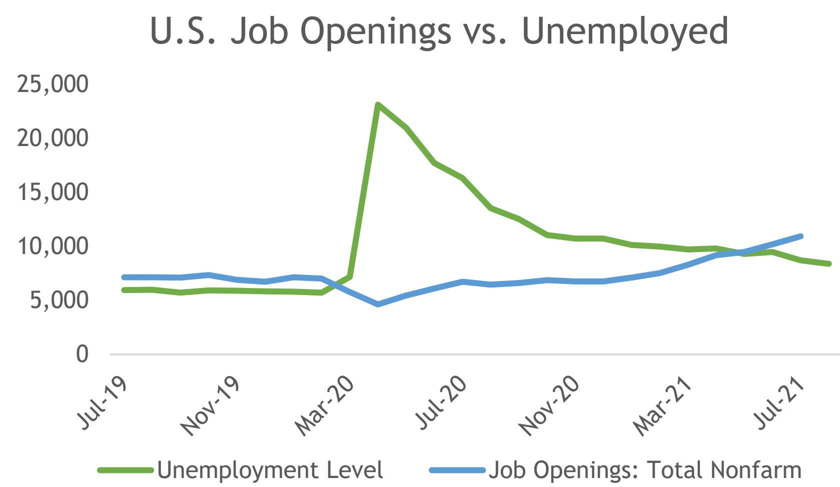
Although both the labor force participation rate and unemployment rate continue to move closer to their pre-pandemic levels, the labor market recovery has not been even across all demographic groups. For instance, the effect of the pandemic on unemployment has varied across different age groups. The figure below shows the percent change in employment between February 2020 and August 2021 by age group. In other words, it shows how much of employment is still unrecovered since before the pandemic. At the start of the pandemic, the age groups at the tail ends of the age distribution experienced the biggest losses to employment. Interestingly, the 16-19 age group has also seen the most complete recovery, with the August 2021 employment level 0.8 percent higher than February 2020. This pattern may be explained by the large concentration of 16-19 year olds in the leisure and hospitality industry, which saw large initial declines in employment but is now experiencing a labor shortage. Currently, the 20-24 age group is the least recovered age group, down 6.9 percent from pre-pandemic. This is consistent with the trend that younger age groups tend to have more cyclical employment outcomes. The 55+ age group is still down by 4.8 percent relative to pre-pandemic, which also correlates with an increase in the share of retirees in the population during the pandemic. Prime-age workers have seen the most complete employment recovery, particularly the 35-44 age group.



Source: Bureau of Labor Statistics.

Another important aspect of the labor market is separating labor supply versus labor demand. The total number of job openings is a measure of labor demand while the unemployment level is a measure of active and available labor supply. Prior to the pandemic, the number of job openings was consistently higher than the level of unemployment, which corresponds to a tight labor market during an expansion period. Between February and April 2020, the total number of unemployed persons increased by 17,392, primarily due to layoffs or other loss of employment, while job openings dropped by 2,382. This caused a historically high unemployment rate and signaled that supply significantly outpaced demand for labor.

Since April 2020, labor demand has recovered significantly and total job openings have surpassed unemployment as of May 2021. Job openings exceeded unemployment by 1,295 in February 2020, and exceeded by 2,232 in July 2021, signaling that the labor demand is outpacing supply to a greater degree than before the pandemic. Businesses are reporting significant labor shortage issues and difficulty hiring as a result of labor demand exceeding supply, which in many cases is constraining output.[1] According to the August National Federation for Independent Business Small Business Optimism Survey, half of small business owners reported job openings that could not be filled. This is due to both labor demand (a seasonally adjusted 32 percent of owners are planning to create jobs in the next few months) and labor supply drivers (29 percent of owners trying to hire reported no qualified applicants for their open positions). The notion that business are reporting such broad-based labor supply issues seems counterintuitive given the elevated level of unemployment; however, there are a few potential explanations for these difficulties including: (1) mismatch in wage expectations and skills between unemployed individuals and employers that are hiring and (2) shifting preferences for unemployed individuals away from traditional low-wage jobs and toward other alternatives due to concerns around COVID-19 risks and the buffer of accumulated savings. Additionally, women without a college degree who have children have had particularly low labor force participation since the beginning of the pandemic, suggesting that childcare access may also be restricting labor supply for this group.

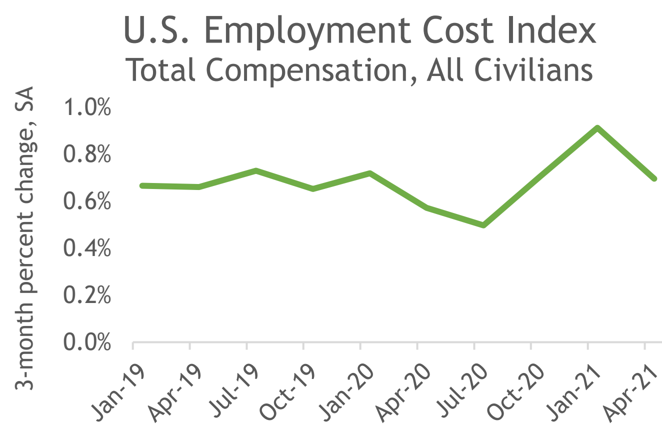


Source: Bureau of Labor Statistics.

[1] Federal Reserve September 2021 Summary of Commentary on Current Economic Conditions ("Beige Book")

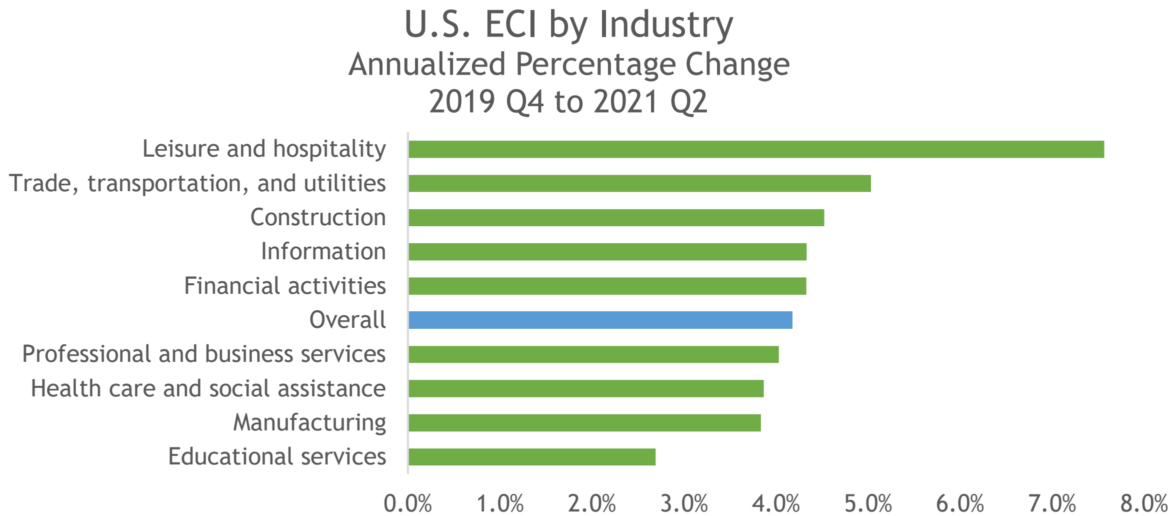
Wages

Wage growth has been particularly strong in 2021 after slowing in 2020. Covid-19 caused workers in low-wage occupations to leave the labor force and become unemployed at higher rates than those in higher-wage occupations, therefore changing the composition of the labor force. While this change in composition artificially raised some measures of wage growth through 2020, and artificially lowered in them 2021, the Employment Cost Index (ECI) is a reliable metric as it measures total compensation for a fixed 'basket' of jobs and is less sensitive to changes in composition. Prior to the pandemic, total compensation measured by the ECI was growing at approximately 0.7 percent per quarter. At the onset of the pandemic in 2020, growth slowed to 0.5 percent before rebounding. In the first quarter of 2021, growth was well above trend reaching 0.9 percent, but has returned closer to trend in the second quarter at 0.7 percent.



Source: Bureau of Labor Statistics

The wage growth recovery has not been consistent across all industries. The graph below shows the percent change in ECI between the pre-pandemic level and Q2 of 2021. The ECI for Leisure and Hospitality is 7.6 percent higher than pre-pandemic levels, compared to 4.2 percent for the economy as a whole. Leisure and Hospitality has grown by nearly 4 percent in 2021 alone. The high wage growth in Leisure and Hospitality is likely being driven by the labor shortage in this industry. The job openings rate for Leisure and Hospitality reached 10.1 percent in July 2021, compared to 5.3 percent before the pandemic, signaling that there are many jobs open as businesses struggle to find workers. On the other end of the spectrum, wage growth in Educational Services has been the slowest of all industries, at 2.4 percent, which is lower than its pre-pandemic trend, largely driven by slow wage growth in higher education.



Source: Bureau of Labor Statistics

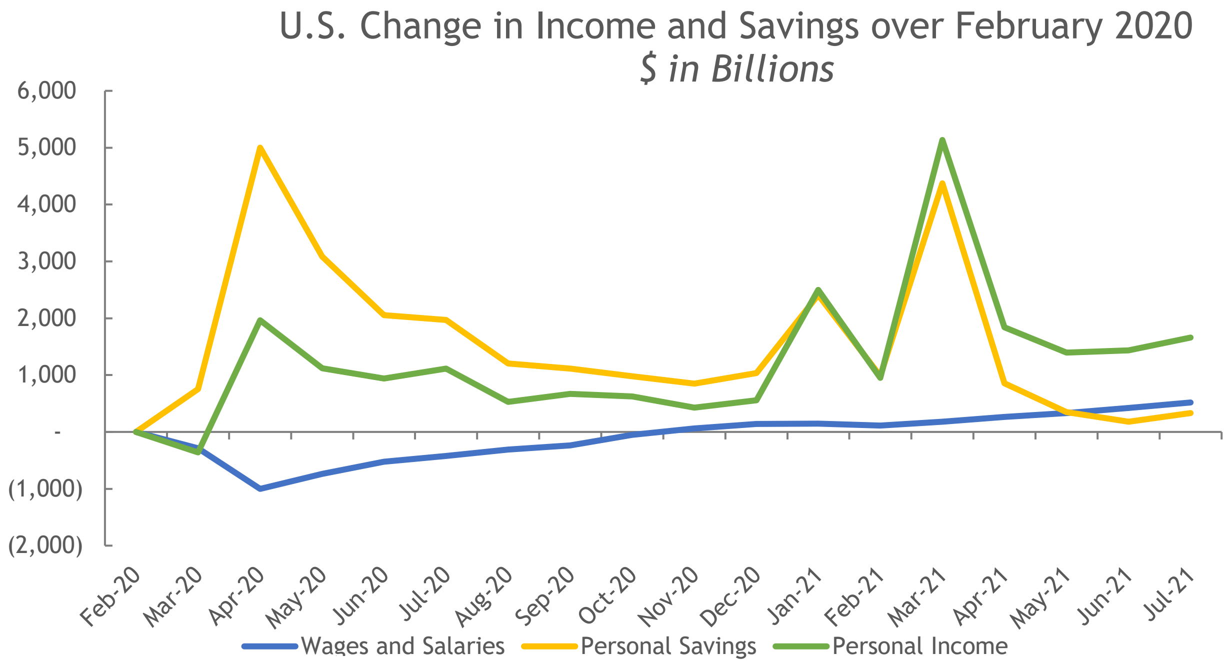
Household Finances

Household finances continue to strengthen following the pandemic. National data show that aggregate wages and salaries stand at $10.3 trillion, which exceeds pre-pandemic levels by more than $500 billion. In July 2021, wages and salaries increased by 10.1 percent compared to the prior July. This is substantially greater than the 4.3 percent compound average annual growth rate observed between 2010 and 2019.

Total personal income, which includes wages and salaries, government transfers, and other sources, remains elevated and grew slightly in July. This growth partially reflects implementation of the federal Child Tax Credit (CTC), which provides many taxpayers monthly payments between July and December of 2021. Taxpayers may receive up to $300 per month per child, with smaller amounts for higher income taxpayers. In Colorado, approximately 600,000 taxpayers are receiving the Child Tax Credit, and the aggregate tax credit amounts to approximately $255 million per month. Preliminary evidence on the impact of the CTC indicates that it is helping low-income families escape poverty. Economists have found that the percentage of families with children earning less than $35,000 per year who reported not having enough to eat dropped by 8 percentage points due to the first CTC payment in July.[2]

Personal savings in July were only slightly above levels observed before the pandemic, but consumers have accumulated roughly $2.3 trillion in savings over the course of the pandemic and recovery. These savings will support continued spending even as government relief payments expire.

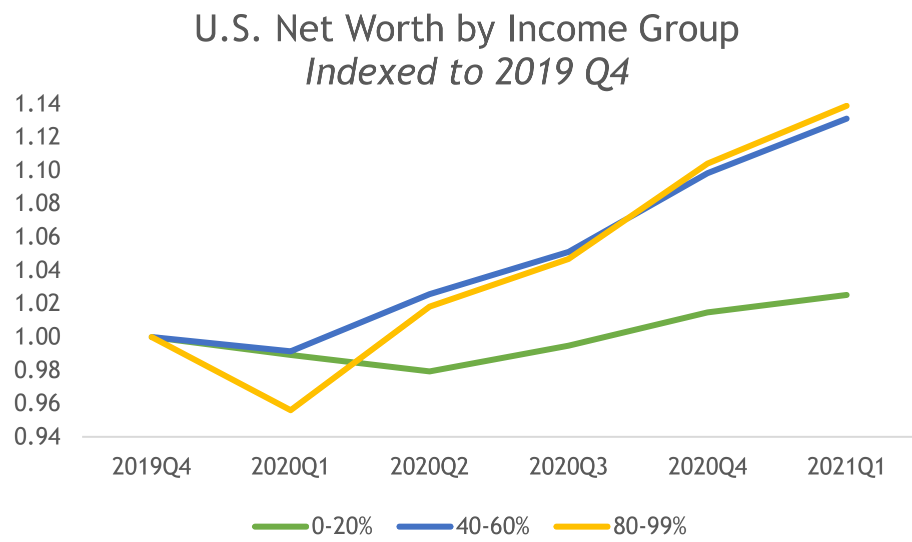
[2] Parolin Z, Ananat E, Collyer S, Curran M, Wimer C. "The Initial Effects of the Expanded Child Tax Credit on Material Hardship," Columbia University Center on Poverty and Social Policy, Working Paper, August 30, 2021.



Source: Bureau of Economic Analysis.

Despite the overall positive data on household incomes, wealth disparities remain and have been exacerbated through the pandemic and recovery. For example, the wealth gap between high- and low-income earners has widened during the pandemic and recovery. Individuals in the 80 to 99th percentile of the income distribution had an aggregate net worth of $57.0 trillion in the first quarter of 2021. The net worth of individuals in the 0 to 20th percentile was $3.5 trillion: a difference of $53.5 trillion. Just one year earlier, the difference was $44.5 trillion.

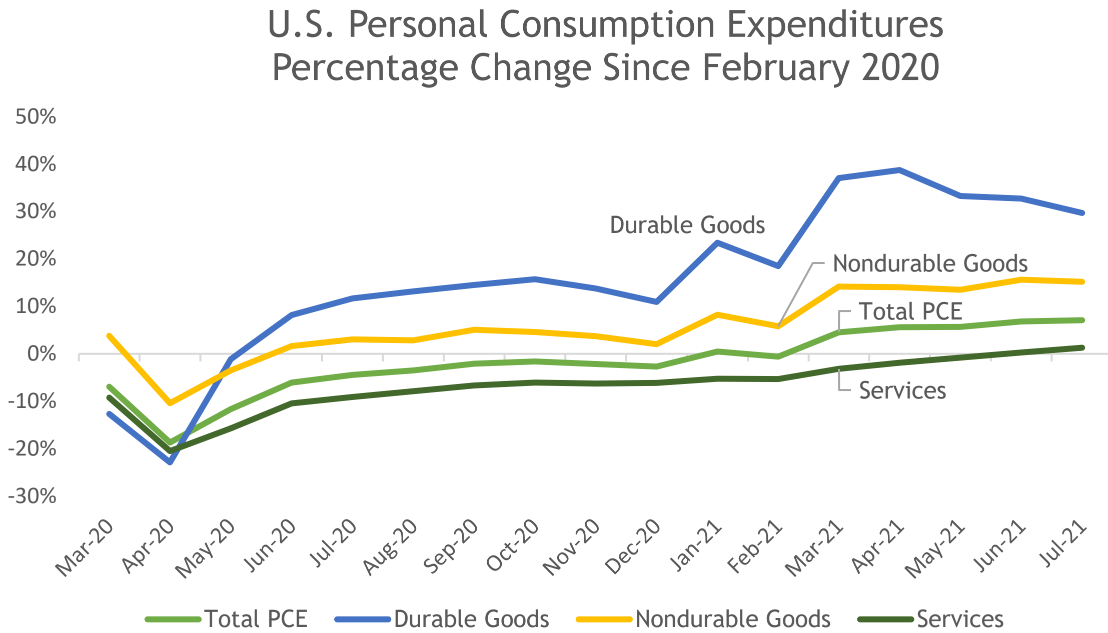
From the last quarter of 2019 to the second quarter of 2021, the net worth of people in the 0 to 20th percentile of the income distribution increased by 2.5 percent. Before the pandemic, the net worth for this group was growing at roughly 15 percent per year. However, the net worth of people in middle-income category (40 to 60th percentile of the income distribution) and high-income category (80th to 99th percentile) rose by 13.1 and 13.9 percent, respectively. For these two income groups, the rate of growth is more than double the pre-pandemic rates. Real estate and investment assets (e.g., stock ownership) have recorded record growth recently, but ownership of those asset types is concentrated among those in the middle- and high-income categories.



Source: Board of Governors of the Federal Reserve System

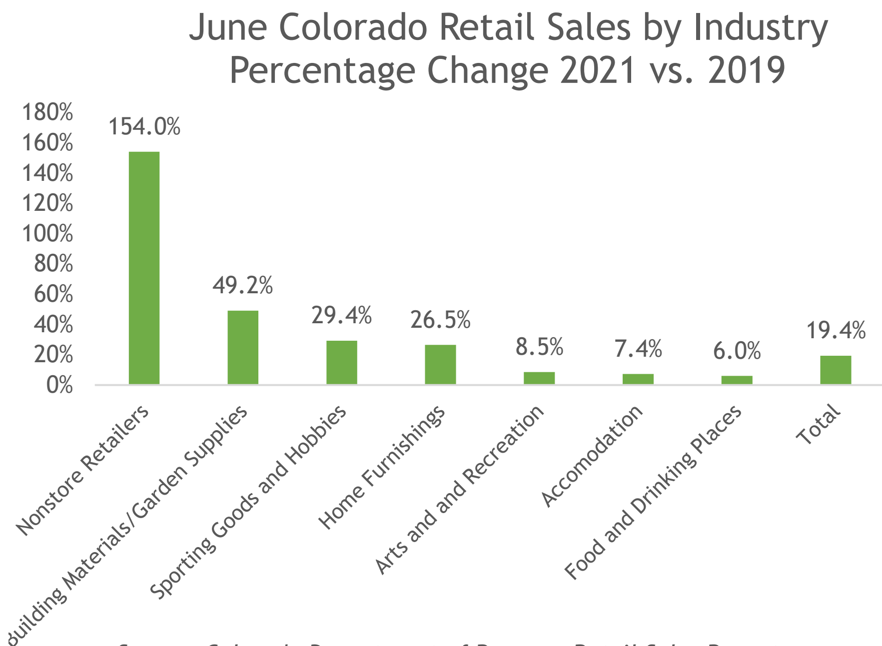
Retail Sales and Consumer Spending

Consumer spending has remained strong over the course of the pandemic recession and recovery. This strength in consumer demand has been bolstered by federal stimulus and strong wage growth in addition to fewer spending opportunities early on in the pandemic, which led to significant accumulated savings for all income groups across the country, as described above. While spending has remained strong, there have been notable changes in the way individuals spend and these are indicative of broader changes across the economy.



Source: Bureau of Economic Analysis.

The graph above depicts changes in monthly personal consumption expenditures (PCE) across the U.S. since the start of the pandemic. While total PCE declined nearly 20.5 percent below the February 2020 level in April 2020, expenditures steadily recovered to the pre-pandemic level in January 2021, and have exceeded that level since March. The strong recovery in total PCE has been driven by significantly above-trend spending on durable goods as well as higher spending on nondurable goods. At the same time, total PCE have been limited by services spending, which comprises a much larger portion of PCE and only reached its pre-pandemic level in June 2021. While durable goods have declined slightly from their April 2021 highs, durable goods purchases continue well above trend despite services spending now also being fully recovered. Still, the question remains as to whether total PCE will stay elevated at this “new normal” level for years to come or if durable goods purchases will continue a to decline until they return back to pre-pandemic levels as accumulated savings diminish. At the moment, durable goods show no signs of an abrupt slowdown of this kind and the greatest risk is likely to the services side of the equation as the Delta variant continues to spread.

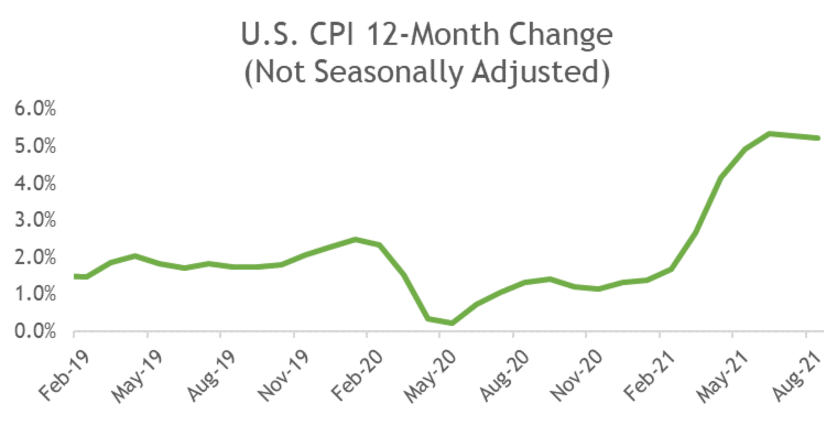


Source: Colorado Department of Revenue Retail Sales Reports

While personal consumption expenditures look at the entire basket of goods and services, the graph on the left focuses more specifically on retail sales and food services in Colorado to highlight some of the specific evolutions in spending across the economy. Notably, total retail sales are up 19 percent over 2019 levels in June. Non-store retailers (up 154 percent) have seen the biggest increase as compared to pre-pandemic. While some of this increase (and some of the total increase) is likely due to the *Wayfair* decision and increased collection of sales reporting from online sellers, it is also the case that this increase is indicative of a broader shift in consumer behavior. Similarly, other goods like garden supplies, home furnishings, and sporting equipment have seen significant growth over 2019 levels. Finally, while hospitality industries such as arts and entertainment, hotels, and restaurants have been the slowest to recover, even sales in these sectors were above 2019 levels in May.

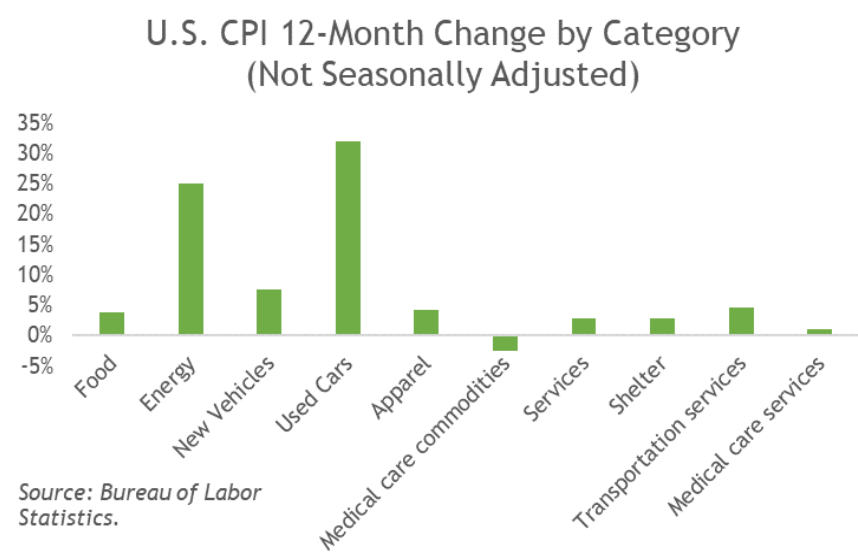
Inflation

Year-over-year inflation in the US has risen sharply since the beginning of 2021, in August increasing 5.3 percent over the course of the last 12 months, a slight decline from 5.4 percent in July, with core inflation rising 4.0 percent compared to 4.3 percent in July. Despite the slight decline in the growth rate in August, the current rate of inflation is still well above historical norms. The base effects resulting from reduced consumption at the onset of the pandemic is partially responsible for the historic



Source: Bureau of Labor Statistics.

highs in recent months. However, this increase since April has also been a result of supply chain disruptions leading to temporary shortages, as well as continued consumer demand given the strong household finances. Looking at the component-level trends, used cars remain a driver as stimulus-driven demand has coincided with supply-driven shortages due to semiconductor supply chain issues that have led to a 31.9 percent 12-month change in used car prices in August. Continued lockdowns in Asia may continue to cause disruptions, potentially sustaining the period of high prices for longer. Energy prices are rising rapidly as well due to a combination of supply- and demand-side factors that has translated into higher oil and gas prices. Additionally, prices for food away from home have started to rise, 4.7 percent over the last 12 months in August, likely due to restaurants passing along sectoral wage increases to the consumer. Finally, the shelter category has started to accelerate, making up over half of core inflation increases in July, growing 2.8 percent over the last 12 months but showing increasing signs of life since starting the year at 1.6 percent over 12 months. Traditionally, shelter prices, which are rental prices or rental equivalents, follow a five-quarter lag behind housing price movements,[3] so some level of sustained inflation is likely as long as a similar relationship between housing prices and rental prices holds true this time.



The key question now is how transitory are the expectations for continued inflation. The Federal Bank of New York's recent *Survey of Consumer Expectations* in August shows that median one-year-ahead inflation expectations rose to 5.2 percent. Meanwhile, longer run measures (for 5-10 years out) taken at the University of Michigan rose to 3.0 percent in August after holding at 2.8 percent the prior two months.[4] Therefore, consumers believe that current supply chain constraints and excess demand will continue to be a cause for concern over the next year then slowly mitigate over time. However, the financial markets appear less concerned about a sustained upward shift in inflation expectations, as seen here in the 5-year inflation expectation

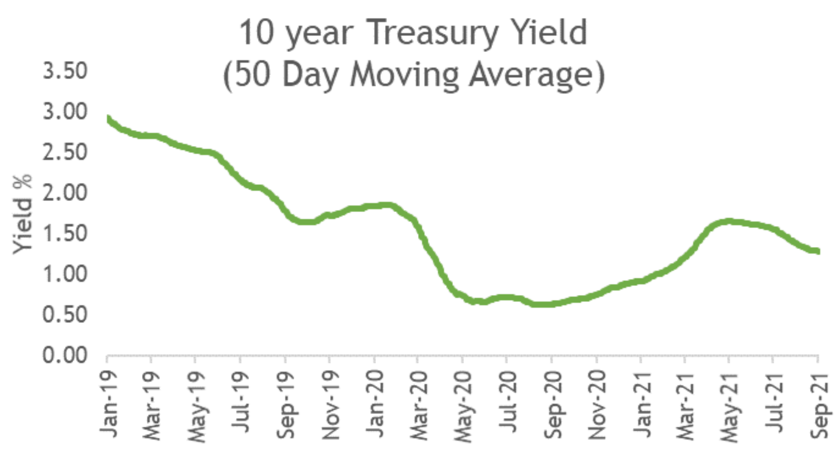
[3] "Housing Insights: Housing Poised to Become Strong Driver of Inflation", Fannie Mae, June 9, 2021
[4] University of Michigan Surveys of Consumers, August 13, 2021

chart. This series, the relative ratio between the 10-year and 5-year nominal and inflation adjusted Treasury securities, indicates that medium term expectations for inflation are well anchored within recent bounds. This implies a level of trust in the Federal Reserve to appropriately target long-term inflation while allowing it to run hot in the short-term as long as the labor market remains a concern.

Source: Federal Reserve Bank of St. Louis.

Lending Conditions

Building on the discussion of inflation targets and the Federal Reserve, current favorable market conditions have led to easy lending standards and low interest rates. Lending conditions had already remained supportive since the June forecast for a couple reasons. First, the environment is low-risk due to the fiscal support and elevated household savings. Low risk to default on consumer spending has contributed to banks relaxing requirements when lending, according to UBS research.[5] Additionally, S&P Global expects the speculative-grade corporate default rate to decline to 2.5 percent by June 2022 from 3.8 percent as of June 2021.[6]



Source: Board of Governors of the Federal Reserve System.

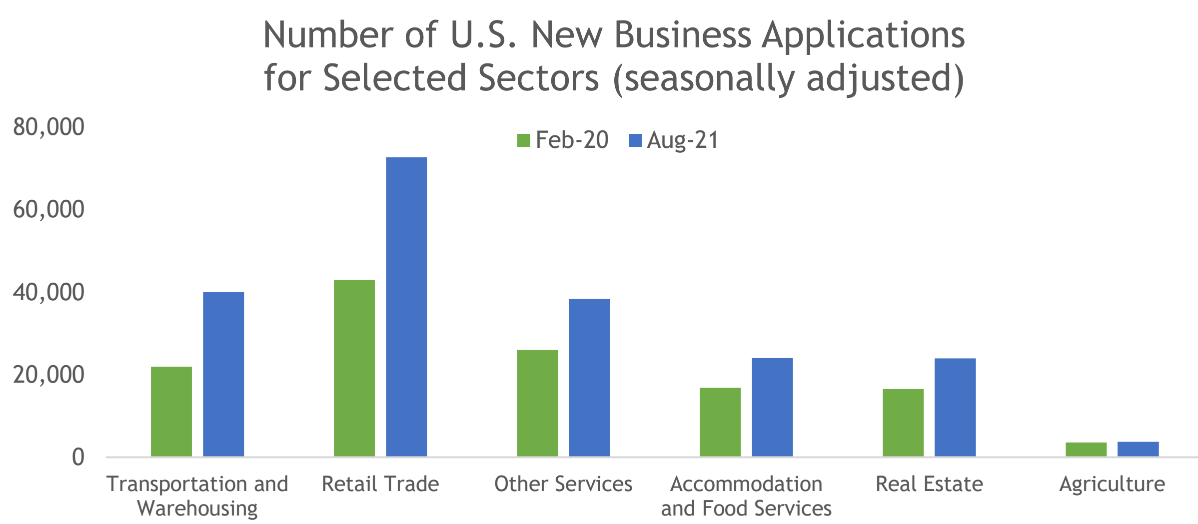
[5] "US banks relax lending standards in battle to lend", OLT News, May 2, 2021

[6] "Default, Transition, and Recovery: The U.S. Speculative-Grade Corporate Default Rate Could Fall to 2.5% By June 2022", S&P Global Ratings, August 20, 2021

Second, long-term interest rates (10-year to 30-year Treasuries) are currently driven in part by perceptions of a slow labor market recovery that indicate to many that the Fed will continue to provide support with lower interest rates. This expectation of low long-term rates is illustrated here through the average yield of the 10-year Treasury, which has been falling since April as labor supply concerns began to materialize. These low interest rates allow for cheap borrowing for individuals and businesses alike, which can support a strong economic recovery and additionally provide low cost debt for everything from mortgages to car loans.

Small Business

The number of new business applications in both Colorado and the US has stabilized at a high level since spring after experiencing unprecedented growth between April 2020 and January 2021. National data shows that this increase in entrepreneurship is across all sectors. The largest was for new applications for transportation and warehousing businesses, increasing 83 percent between February 2020 and August 2021. In addition, applications for retail trade businesses increased 69 percent during that period, with most likely non-store retail startups selling goods and services online. The smallest increases came in the agriculture (4 percent) and mining sectors (9 percent).



Source: U.S. Census Bureau.

National estimates also indicate that this national startup surge is disproportionately concentrated among non-White groups (and increasingly in suburban areas[7]). As of August 2021 the number of small businesses owned by Whites was three percent lower than before the pandemic, while it was two percent lower for Asians, 15 percent higher for Latinos, and 38 percent higher for Blacks.[8] Payroll data shows this trend is heightened for women entrepreneurs,

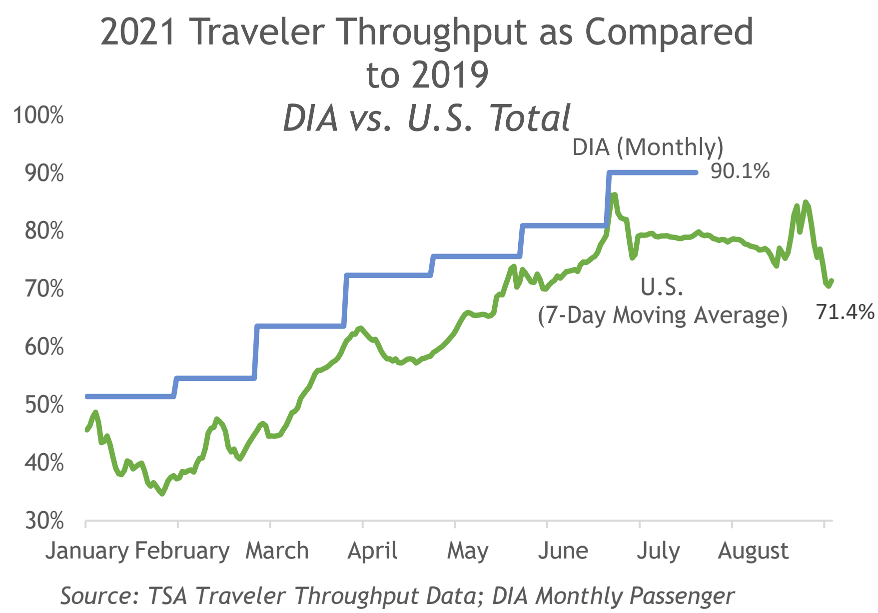
[7] "New Business Creation During COVID-19: A Survey of Pandemic Entrepreneurs", Luke Pardue, Gusto, May 13, 2021
[8] Robert Fairlie, UC Santa Cruz

with 47 percent of small businesses started by women in 2020 minority-owned.[9] Many of these new entrepreneurs of color may have been previously laid off, since small businesses located in majority-minority neighborhoods were both less profitable during the pandemic[10] and closed at higher rates (36 percent) compared to majority-white neighborhoods (22 percent).[11]

Overall, like their larger counterparts, small businesses have had trouble finding workers. 50 percent of small business owners in an August national survey reported job openings that could not be filled, the highest in the survey's history, and significantly above the 48-year historical average of 22 percent.[12]

Tourism, Leisure, and Hospitality

The recovery of the tourism, leisure, and hospitality industries that were devastated by the onset of the pandemic has been a key focus of economists and policymakers. These tourism and leisure-related sectors (including accommodations, food services, arts, entertainment, and recreation) accounted for 11.2 percent of employment in Colorado in 2019.[13] While the job recovery in these sectors continues to lag behind other sectors in the economy (*see* labor market section, above), Colorado has seen significant recovery in the demand for these services. Below are two graphs that depict the recovery to these industries in Colorado, as well as a description of the risks that persist with the presence of the Delta variant.



This graph compares total U.S. TSA traveler throughput to originating passengers at Denver International Airport (DIA). The blue line shows that DIA passengers totaled 90.1 percent of 2019 levels in July of this year as compared to a U.S. average of only 71.4 percent as of the most recent daily passenger data.

[9] "Who Started Businesses During the Pandemic? A Survey of Women Starting Businesses During COVID", Luke Pardue, Gusto, March 17, 2021

[10] "Small Business Finances in Illinois during the COVID-19 Pandemic", JPMorgan Chase Institute, June 2021

[11] "2020 – A challenging year for SMBS", Safaa Amer, Facebook, 2021

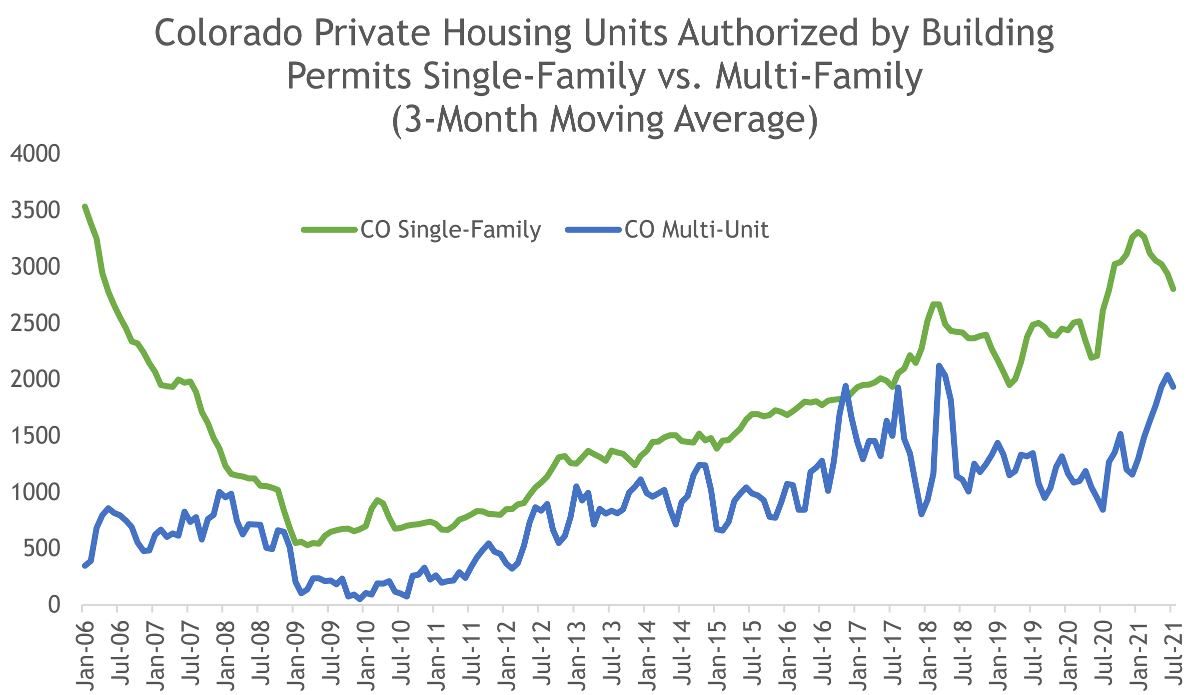
[12] August 2021 National Federation of Independent Business Jobs Report

[13] Bureau of Labor Statistics.

This graph also highlights that the Delta variant poses significant future risks for travel. While these impacts had not yet appeared as of the July DIA data release, it is possible that this has been a factor in the drop-off in total U.S. air travel that has taken place since July. These impacts may be seen especially in a delay to the return of business travel, a segment that makes up an estimated 24 percent of total domestic trips and is already struggling significantly more than leisure travel.[14] To highlight that difference, many other airports across Colorado that rely more heavily on leisure travel have actually recovered well above 2019 levels, such as Aspen, which is up 7 percent over 2019.[15]

Housing Market

Unlike the Great Recession, which caused a precipitous drop in residential construction in both Colorado and the US, the pandemic recession has had the opposite effect. Between April 2020 and July 2021, building permits for single-family and multi-unit residences in Colorado increased by 43 percent and 50 percent on a seasonally adjusted basis, respectively.



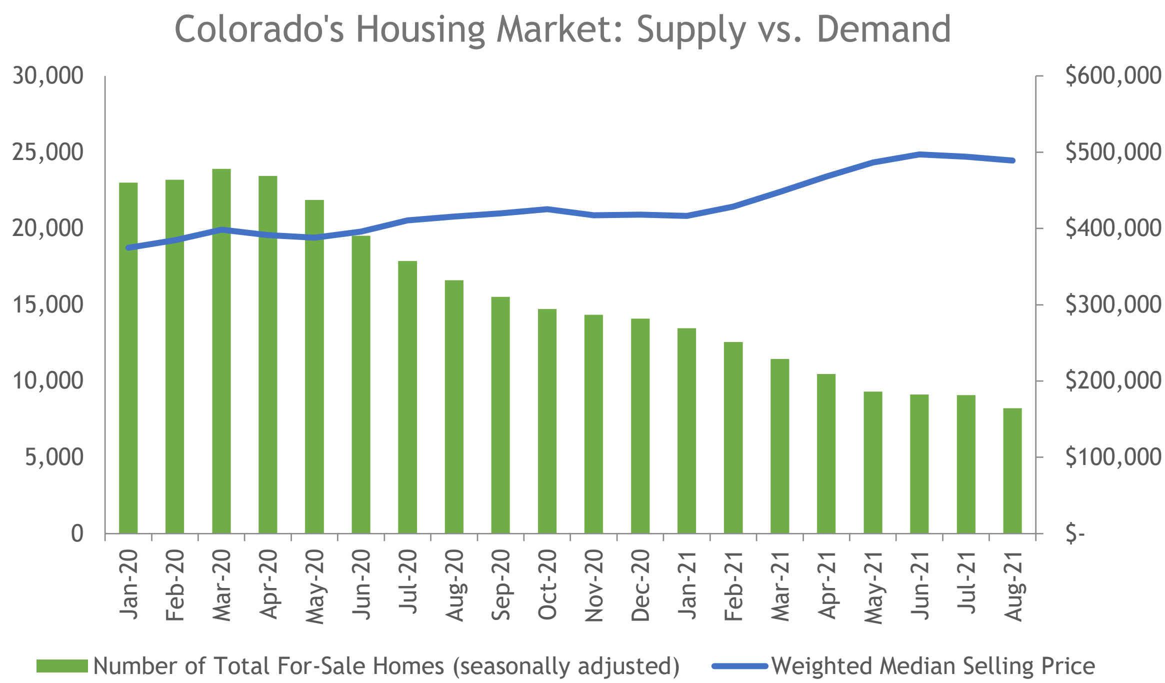
Source: US Census Bureau.

This housing boom is primarily because of strong household finances, low mortgage rates, and increased household formation. Given already high pre-pandemic housing demand and active listings at their lowest point since the Colorado Association of Realtors began tracking inventory

[14] U.S. Travel Association

[15] "July aircraft activity up slightly over same month in 2020, 7% over 2019," *Aspen Daily News*, August 26, 2021

data in 2010, this has led to the median sales price of a Colorado single-family home reaching a historic high of $530,000 in June 2021, with the median townhouse/condo sales price also peaking at $387,000 in May 2021 (though both have slightly decreased since then). At the same time, the normal summertime surge of inventory did not occur this year. Home sales have also occurred at historic speed, with the average single-family home and townhouse/condo spending just 24 and 25 days on the market in August 2021, respectively, compared to 109 and 137 days on the market in January 2010.



Source: Colorado Association of Realtors

In addition, supply chain bottlenecks and the rising cost of construction labor have led to more measured increases in home construction since April. However, prices appear to be stabilizing. The expiration of the federal ban on foreclosures may result in more inventory, although the delinquency rate on single-family home mortgages is still at one of its lowest points since 2007. Overall, however, increased household formation and a stronger preference for aging in place may point to a new normal with less inventory than in past decades, increasing pressure on housing prices in the long run.

For similar reasons the rental market has not been spared from price increases either, particularly in urban areas, although some of this is because of below-trend rent increases in 2020. An Apartment Association of Metro Denver report indicated that the average apartment rent in metro Denver was $1,651 during the second quarter of 2021, a 9 percent year-over-year increase and the largest quarterly increase since the survey was introduced in 1981. Even larger annual rent increases have been recently reported in Thornton (18 percent), Colorado Springs (17 percent), Longmont (15 percent), and mountain communities.[16]

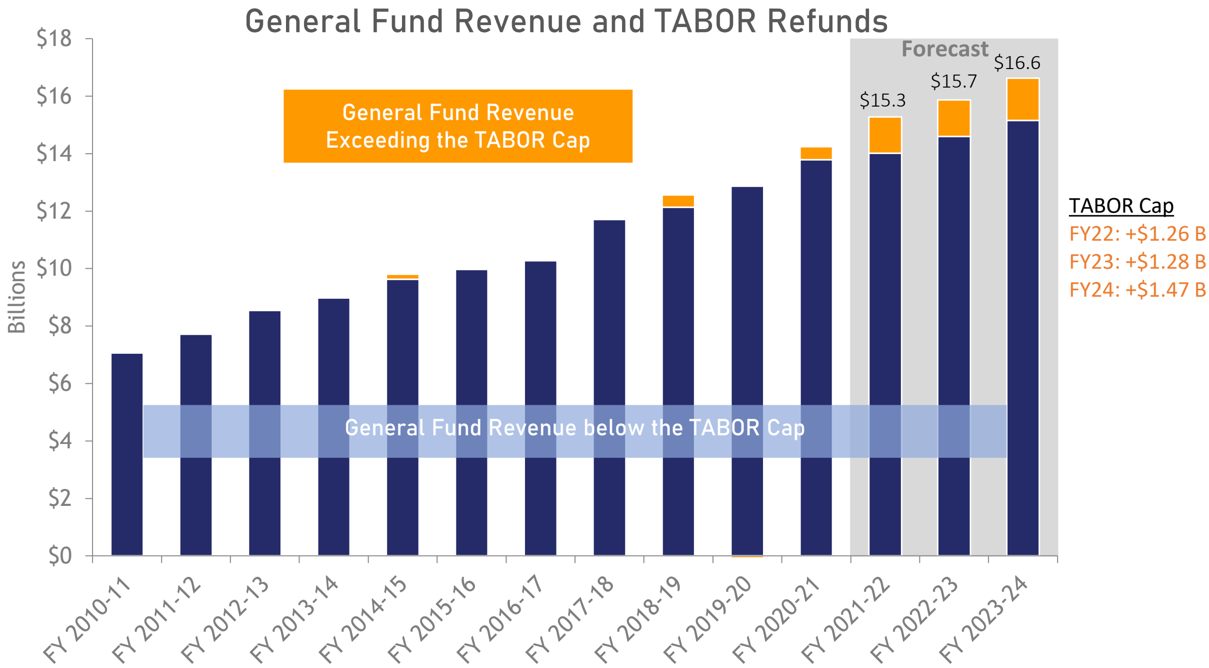
Forecast Risks

There is downside risk to the forecast as continued disparities in the labor market and supply chain disruptions may be a drag on further growth as well as a driver of possibly more permanent inflationary concerns. Overall, however, the risks to the forecast are balanced to the upside as wage growth shows signs of strength as the recovery continues and financial conditions are historically supportive.

Revenue Outlook – General Fund

General Fund revenue is projected to increase to $15.3 billion in FY 2021-22, a 7.3 percent change from the prior fiscal year. The projection for FY 2021-22 is $260.6 million higher than the June forecast. The growth rate is expected to moderate to 3.9 percent in FY 2022-23 and 4.7 percent in FY 2023-24.

[16] Apartment List Colorado rent estimates, updated August 26, 2021



The upward revision to the forecast reflects continued strength in the current economic recovery, as vaccine distribution and high consumer demand fuel business activity.

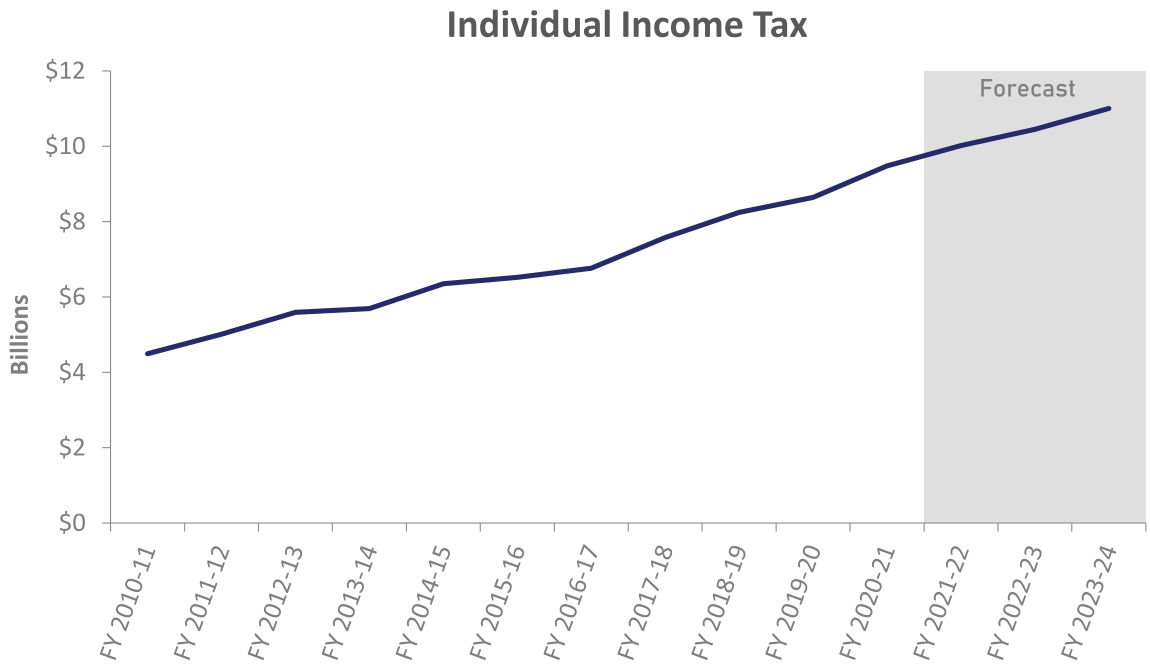
General Fund revenue is projected to exceed the TABOR cap in the current fiscal year and throughout the forecast period. Revenue is expected to exceed the cap by $1.3 billion in FY 2021-22, which is $250.4 million more than forecasted in June. General Fund revenue above the cap is projected to reach $1.5 billion by FY 2023-24.

Individual Income Tax

Individual income tax receipts in FY 2020-21 amounted to $9.5 billion. This represents a 9.7 percent increase ($837.7 billion) compared to FY 2019-20.

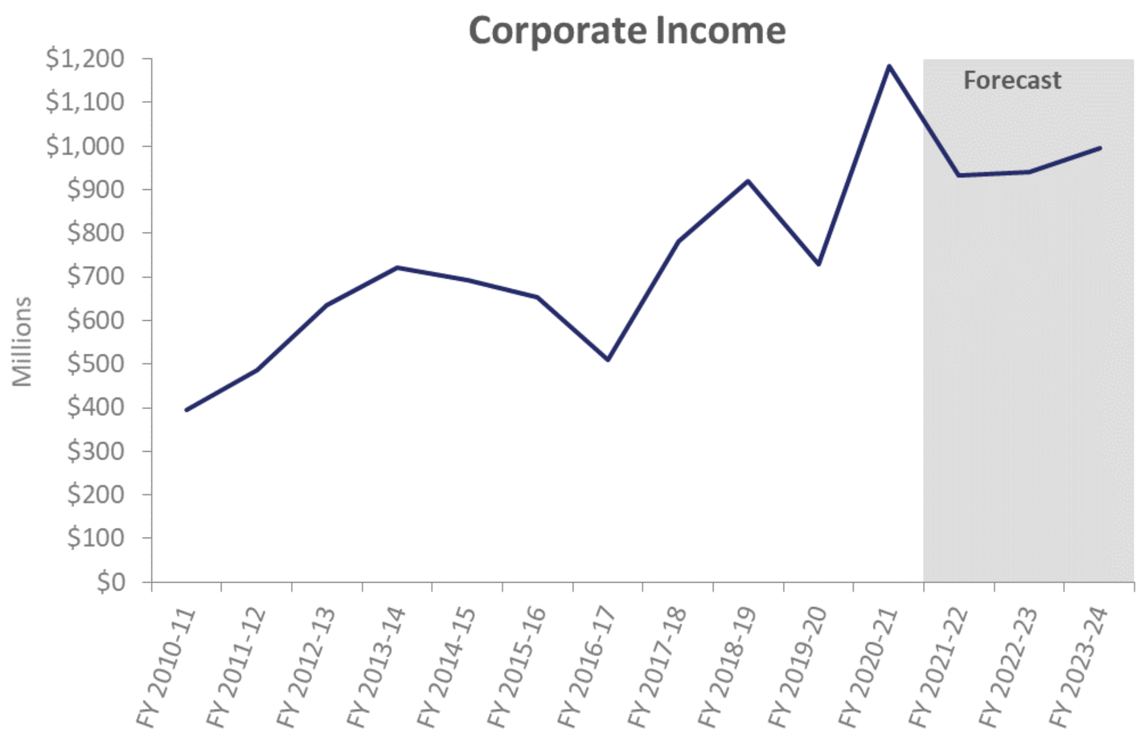
Future growth rates are projected to be more moderate but will remain strong as the economy is expected to continue its steady growth. The state's unemployment rate is forecast to decline from 5.9 percent in 2021 down to 3.8 percent in 2023, while the annual growth rates for wages and salaries are expected to range from 6.1 percent to 4.8 percent over that same time span. Income from capital gains will also contribute to rising receipts with the strong growth in real estate and investment values. At the same time, changes in federal and state tax policy are reducing income tax liabilities for many taxpayers by several hundred million dollars.

Individual income tax revenue is forecasted to climb 5.7 percent in FY 2021-22 to $10.0 billion. Receipts are projected to grow an additional 4.3 percent in FY 2022-23 to $10.4 billion, and reach $11.0 billion in FY 2023-24; these estimates are only marginally higher than projected in the June forecast.



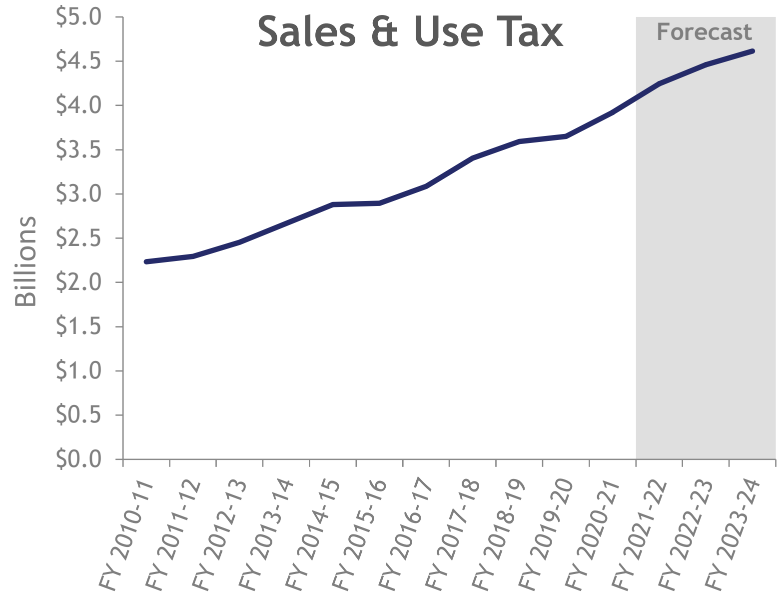
Corporate Income Tax

Corporate income tax collections increased by 62.5 percent in FY 2020-21 to $1,183.7 million, the highest total on record. Federal relief in the form of expense reductions reduced revenue to an extent, but was more than offset by other government support and record corporate profits. Corporate income tax receipts are projected to fall from these historic highs in FY 2021-22 by 21.3 percent as conditions normalize. With corporate profits revised up from the previous forecast in 2022 and 2023, the projected FY 2022-23 corporate revenue is now expected to increase slightly, 1.0 percent, instead of decreasing. Finally, in FY 2023-24, corporate tax revenues are expected to grow by 5.7 percent, resulting in the second highest total on record after FY 2020-21. Note, recently passed state bills are expected to limit certain deductions in FY 2021-22 through FY 2023-24, but the overall impact on corporate revenue collections is rather limited.



Sales and Use Taxes

Sales tax revenue grew 7.0 percent in FY 2020-21 and is expected to grow by an additional 9.5 percent in FY 2021-22 before slowing to 5.2 percent growth in FY 2022-23. Relative to the June forecast, the projection for FY 2021-22 was revised upward by approximately $78.7 million to $3.746 billion. The projection for FY 2022-23 was also revised upward by $64.5 million. Finally, we have projected FY 2023-24 revenue for the first time in this forecast and are expecting slower but continued growth of 3.5 percent to $4.077 billion.



The upward revision to FY 2021-22 is a result of strong collections continuing into July and August. Detailed Colorado data through June shows that this increase has been driven by increased consumption across the spectrum of goods, with particularly strong spending at non-store retailers, building and gardening supply stores, and on sporting goods and hobbies. In addition, arts and recreation, accommodations, and food and drinking places all showed strong recoveries in June, all above 2019 June levels. Additional upward revisions to growth in FY 2021-22 and FY 2022-23 reflect new data showing that July and August collections have continued an upward trajectory above expectations, and while we expect that this growth will ease as we move into the fall and winter, it is clear that the effects of increased savings and pent-up demand across the economy persist.

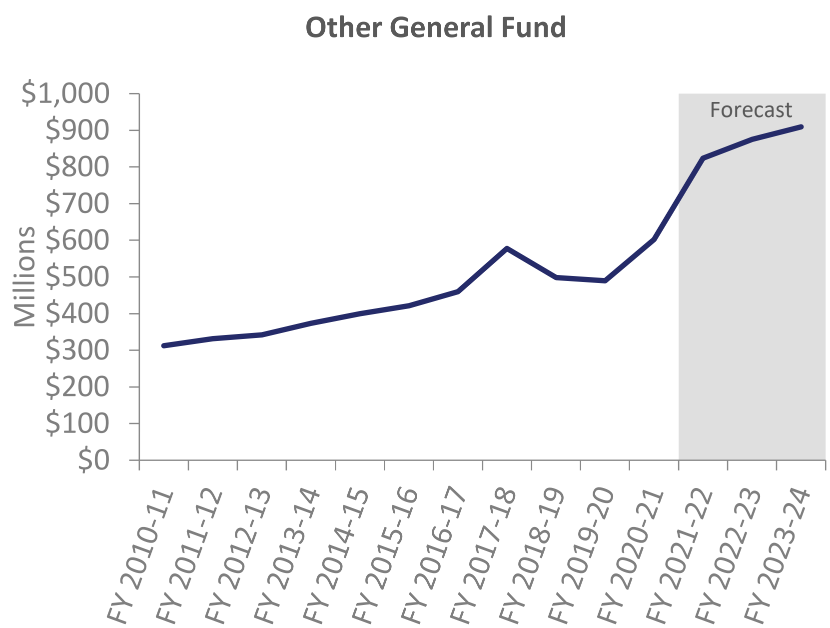
Note that these sales tax revenue estimates incorporate bills passed over the course of the 2021 Colorado legislative session. Policy-related adjustments for FY 2021-22 through FY 2023-24 are -$27.7 million, +$27.6 million, and +$30.9 million respectively.

Use tax revenue increased 1.8 percent to $214.2 million in FY 2020-21 after a 39.1 percent decline in FY 2019-20 as a result of HB 19-1240 and the collection of out-of-state sales tax. Further, it is expected that use taxes will continue to rebound to $227.9 million in FY 2021-22 and grow to $235.0 million in FY 2022-23. These projections are revised upward from June's forecast due to higher-than-expected collections in June, July, and August and the projections assume that the trade-off between sales and use revenue as a result of HB 19-1240 has largely leveled off as a more normal relationship between sales and use collections resumes.

After a 27.4 percent increase to $245.5 million in FY 2019-20, the 15 percent special sales tax on marijuana retail sales increased by another 17.4 percent to $288.2 million in FY 2020-21. After two months with relatively weaker collections than expected in July and August, marijuana revenue is expected to decline by 5.7 percent in FY 2021-22 and resume slower growth in FY 2022-23 and FY 2023-24. Further analysis of marijuana tax collections can be found in the Revenue Outlook – Cash Funds section of this report.

Other General Fund Revenue

Other General Fund revenue includes excise taxes on cigarettes, tobacco, nicotine, and liquor, as well as insurance premium tax revenue and interest income. Other General Fund revenue is expected to increase by 36.8 percent in FY 2021-22, followed by growth of another 6.2 percent in FY 2022-23 and 3.9 percent in FY 2023-24. This estimate was revised upward from the June forecast due to higher than expected cigarette and nicotine revenues in recent months. In particular, bulk buying of cigarettes and other tobacco products in December 2020, just prior to the imposition of the new Proposition EE taxes on cigarettes, nicotine, and other tobacco products, weighed heavily on collections through May. However, incoming cigarette revenue has returned to pre-Proposition EE trends since the previous forecast. Additionally, nicotine revenue came in much higher than expected since the June forecast, resulting in a higher forecast for nicotine revenue for FY 2021-22 and FY 2022-23.

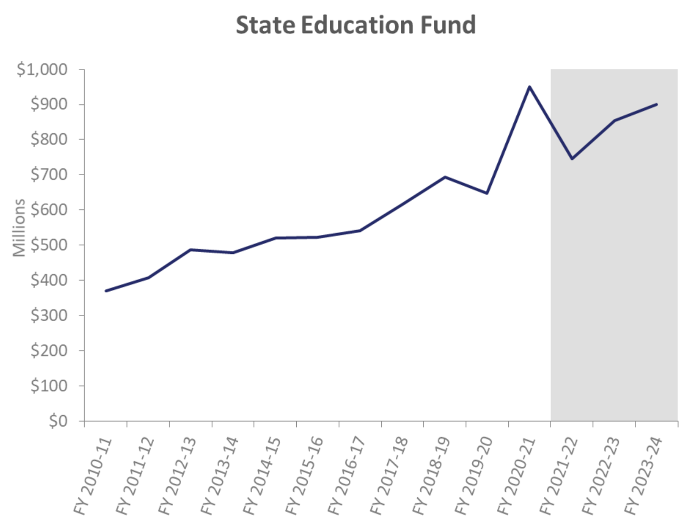


The forecast for Other General Fund Revenue has increased significantly from the FY 2019-20 forecast for FY 2021-22 and onward, which is largely due to additional revenues resulting from the approval of Proposition EE. Proposition EE, a ballot measure approved in November 2020, imposes additional taxes on cigarettes and other tobacco products and creates a tax on other nicotine products such as e-cigarettes, which were implemented in January 2021. Specifically, Proposition EE adds a tax of $1.10 per pack of cigarettes, more than doubling the current tax of $0.84 per pack. In addition, Proposition EE increases the tax on other tobacco products by 10 percentage points from 40 percent of manufacturer's list price (MLP) to 50 percent of MLP. Finally, Proposition EE creates a tax on other nicotine products, starting at 30 percent of MLP and increasing to 50 percent of MLP by the end of this forecast period (FY 2022-24). Through FY 2022-23, revenue from the Proposition EE-imposed taxes is largely transferred to the State Education Fund, with smaller amounts going to the Rural Schools Cash Fund, the Housing Development Grant Fund, the Tobacco Tax Cash Fund, the Eviction Legal Defense Fund, and the Preschool Programs Cash Fund. Looking past FY 2022-23, Proposition EE increases each of these taxes and will generate additional revenue for the state going forward. Starting in FY 2023-24, these funds will be transferred almost entirely into the Preschool Programs Cash Fund aside from a small transfer to the Tobacco Education Programs Fund.

Moreover, the FY22-24 insurance premium tax forecast has been revised upwards due to expectations of stronger premium growth. Reasons for this include an uptick in life insurance policies purchased, price increases in certain lines of property and casualty insurance, and improvement in the broader economy.

State Education Fund

Revenue to the State Education Fund from income taxes increased by 46.9 percent in FY 2020-21 but is expected to decrease 21.5 percent in FY 2021-22. The large increase in FY 2020-21 is largely due to the impact of a delayed transfer from FY 2019-20 revenue collections. Additionally, the size of the drop in FY 2021-22 is due in part to an overestimate in the size of that transfer for FY 2020-21, which will be corrected in FY 2021-22. In FY 2022-23, there is a 14.5 percent increase to $854.3 million in FY 2022-23 and a 5.3 percent increase to $900.0 million in FY 2023-24. This does not include transfers from other funds.



The Colorado Constitution requires that 1/3 of 1 percent of Colorado taxable income be credited to the State Education Fund. As the State Education Fund revenue is derived from taxable income, it generally follows the trends in individual income and corporate income tax revenue collections. However, the State Education Fund deviates from the steadily rising trend in income tax revenue, with the delayed transfers from revenue collections mentioned above driving the break in the relationship.

Revenue Outlook – Cash Funds

Cash funds are taxes, fees, fines, and interest collected by various State programs to fund services and operations. These revenue sources are designated by statute for a particular program and as such are distinct from General Fund revenue, which is available for general purpose expenditures. The following discussion highlights those cash fund revenues that are subject to TABOR or have significant fiscal implications.

Total cash fund revenue subject to TABOR was $2.2 billion in FY 2020-21, a reduction of 2.0 percent from the prior fiscal year. In FY 2021-22, cash fund revenue is projected to increase by 10.4 percent followed by 6.3 percent growth in FY 2022-23 and 5.5 percent growth in FY 2023-24.

Transportation

Transportation-related cash fund revenue fell by 6.1 percent in FY 2019-20 and 3.5 percent in FY 2020-21. The forecast for FY 2021-22 has been revised downward slightly since June. Motor fuel tax revenue, which typically accounts for over half of all Highway Users Cash Fund revenue, came in lower than expected since the June forecast as commuting travel remains below pre-pandemic levels. Motor fuel taxes are still expected to pick up in FY 2021-22 based on increased tourism into the state and a return to offices, but the forecast has been revised down since June. Strong vehicle purchases helped bolster registration-related collections FY 2020-21, but declines in registration revenue are expected in FY 2021-22 and FY 2022-23 due to the impact of the recent Sustainability of the Transportation System bill, SB21-260. This bill reduces the road safety surcharge in 2022 and 2023, decreasing registration revenue by an estimated $32.8 million in FY 2021-22. In FY 2022-23, the bill begins to affect revenue flows more broadly. It introduces a range of fees to fuel taxes and other categories which more than offset the reduction in the road safety surcharge, resulting in a $28.3 million expected increase to the Highway Users Tax Fund on net and $6.9 million in other funds subject to TABOR. In FY 2023-24, SB 21-260 is expected to increase HUTF revenue by $97.3 million and other revenue subject to TABOR by $7.8 million. Total transportation revenue is forecast to grow by 3.5 percent in FY 2021-22, 6.6 percent in FY 2022-23, and 7.6 percent in FY 2023-24.

Transportation Revenue	Preliminary FY 19-20	Preliminary FY 20-21	Forecast FY 21-22	Forecast FY 22-23	Forecast FY 23-24
Highway Users Tax Fund (HUTF)					
Motor and Special Fuel Taxes	**$624.5**	**$593.7**	**$628.0**	**$701.4**	**$741.5**
Change	-4.6%	-4.9%	5.8%	11.7%	5.7%
Total Registrations	**$381.8**	**$400.2**	**$370.9**	**$358.8**	**$403.7**
Change	-0.2%	4.8%	-7.3%	-3.3%	12.5%
Registrations	*$227.0*	*$234.1*	*$240.2*	*$240.0*	*$248.7*
Road Safety Surcharge	*$134.0*	*$137.8*	*$105.7*	*$92.9*	*$127.7*
Late Registration Fees	*$20.9*	*$28.3*	*$25.1*	*$25.9*	*$27.3*
Other HUTF	**$62.9**	**$48.1**	**$62.1**	**$75.0**	**$77.8**
Change	-11.50%	-23.5%	29.3%	20.7%	3.8%
Total HUTF	**$1,069.2**	**$1,041.9**	**$1,061.0**	**$1,135.1**	**$1,223.0**
Change	-3.6%	-2.6%	1.8%	7.0%	7.7%
Non-HUTF					
State Highway Fund	**$27.5**	**$18.4**	**$22.2**	**$23.2**	**$25.2**
Change	-30.9%	-33.2%	20.5%	4.5%	8.6%
Other Transportation Funds	**$101.4**	**$95.5**	**$112.6**	**$116.9**	**$124.3**
Change	-20.4%	-5.8%	17.9%	3.8%	6.4%
Total Transportation Revenue	**$1,198.2**	**$1,155.8**	**$1,195.8**	**$1,275.2**	**$1,372.5**
Change	-6.1%	-3.5%	3.5%	6.6%	7.6%

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and a number of smaller cash funds. The primary revenue source for the largest portion of transportation cash funds is the HUTF, which consists mainly of motor fuel taxes and registration fees. The table below illustrates HUTF distributions based on the first and second stream allocation formulas with the current forecast for HUTF revenue. Off-the-top deductions for Colorado State Patrol and Division of Revenue reflect the FY 2021-22 appropriation and are assumed to remain at that level in future years.

HUTF Revenue Distributions	Preliminary FY 20-21	Forecast FY 21-22	Forecast FY 22-23	Forecast FY 23-24
Off-the-Top Deductions	$134.8	$181.2	$181.2	$181.2
State Highway Fund (CDOT)	$561.2	$544.5	$590.7	$644.9
Counties	$213.1	$206.9	$224.5	$245.1
Cities	$132.8	$128.5	$138.7	$151.8
Total HUTF Distribution	**$1,041.9**	**$1,061.0**	**$1,135.1**	**$1,223.0**

Limited Gaming

After a large decline in FY 2019-20, limited gaming revenue rebounded and grew by 48.2 percent to $121.7 million in FY 2020-21 due to resiliency in gaming revenues over the winter and strong collections through spring and summer. This represents an upward revision of $5.2 million over our June forecast. In addition, revenues have been significantly above expectations in June and July, which has raised expectations for revenue going forward. In particular, it is expected that gaming revenues will reach a new high of $150.5 million in FY 2021-22.

Distribution of Limited Gaming Revenues	Actual FY 19-20	Preliminary FY 20-21	Forecast FY 21-22	Forecast FY 22-23	Forecast FY 23-24
A. Total Limited Gaming Revenues (Includes Fees and Interest)	**$82.1**	**$121.7**	**$150.5**	**$152.8**	**$154.6**
Annual Percent Change	-35.4%	48.2%	23.6%	1.5%	1.2%
B. Gaming Revenue Exempt from TABOR (Extended Limited)	**$13.0**	**$20.2**	**$21.5**	**$21.8**	**$22.1**
Annual Percent Change	-35.7%	55.7%	6.3%	1.5%	1.2%
C. Gaming Revenue Subject to TABOR	**$69.1**	**$101.5**	**$129.0**	**$131.0**	**$132.5**
Annual Percent Change	-35.4%	46.8%	27.1%	1.5%	1.2%
D. Total Amount to Base Revenue Recipients	**$50.3**	**$87.6**	**$114.7**	**$116.9**	**$118.4**
Amount to State Historical Society (28%)	$14.1	$24.5	$32.1	$32.7	$33.2
Amount to Counties (12%)	$6.0	$10.5	$13.8	$14.0	$14.2
Amount to Cities (10%)	$5.0	$8.8	$11.5	$11.7	$11.8
Amount to Distribute to Remaining Programs (State Share) (50%	$25.2	$43.8	$57.4	$58.4	$59.2
Amount to Local Government Impact Fund	$0.0	$0.0	$5.4	$5.5	$5.6
Colorado Tourism Promotion Fund	$0.0	$0.0	$15.0	$15.0	$15.0
Creative Industries Cash Fund	$0.0	$0.0	$2.0	$2.0	$2.0
Film, Television, and Media Operational Account	$0.0	$0.0	$0.5	$0.5	$0.5
Advanced Industries Acceleration Fund	$0.0	$0.0	$5.5	$5.5	$5.5
Innovative Higher Education Research Fund	$0.0	$0.0	$2.1	$2.1	$2.1
Transfer to the General Fund	$25.2	$43.8	$26.9	$27.8	$28.5
E. Total Amount to Amendment 50 Revenue Recipients	**$15.1**	**$17.4**	**$19.1**	**$19.2**	**$19.5**
Community Colleges, Mesa and Adams State (78%)	$11.8	$13.6	$14.9	$15.0	$15.2
Counties (12%)	$1.8	$2.1	$2.3	$2.3	$2.3
Cities (10%)	$1.5	$1.7	$1.9	$1.9	$2.0

These strong upward revisions to FY 2021-22 and onward are due to altered expectations related to Amendment 77 changes increasing maximum bets and expanding game options, which most Colorado casinos began to enact starting in May. We originally assumed that these changes would have a minor ($2-$5 million) positive effect on gaming revenue going forward, but in light of strong collections since these changes were put into place, we now anticipate that these changes may have a larger impact, in the range of $15-$20 million. We will continue to revisit these expectations for the effect of Amendment 77 and revise in future forecasts if needed.

Severance

Severance tax revenue fell to negative $15.3 million in FY 2020-21, the lowest level since the tax was implemented in 1978, due to high ad valorem tax credit claims and significantly reduced market activity from the pandemic recession. Oil and gas production levels did not drop as much as feared, with the 151.8 million bbl of oil and 2.0 million MCF of gas produced in FY2020-21 still bettering FY2017-2018 numbers. This is partly because oil and gas prices rebounded to pre-pandemic levels by January 2021 and August 2020, respectively. However, oil and gas interest owners claimed $118.5 million in severance tax refunds during FY2020-21, the second-highest amount since at least FY2004-05. This largely reflects high ad valorem credits stemming from 2018-2019 local property tax assessments.

Severance tax revenue is expected to moderately increase in Fiscal Year 2021-22 to $106.1 million as market conditions improve – an upward revision of $11.4 million (12 percent) from the June forecast. Colorado's active rig count has more than doubled to 11 compared to this time last year, portending higher extraction, although this is still well below the 20+ average pre-pandemic.[17] At the same time, major operators have been more hesitant to redeploy capital to the DJ Basin than in the past, even as prices increase, preferring the lower costs and higher returns in the Permian and other basins.[18] In addition, state regulatory changes and a spike in Delta coronavirus cases provide downside risk to both supply and demand. The FY2022-23 severance tax projection has been revised slightly upwards (6 percent) from the June forecast to $140.2 million, with similar assumptions resulting in an expected $148.7 million in FY2023-24.

Marijuana

Marijuana taxes grew 32.4 percent overall in FY 2019-20 and grew an additional 22.5 percent in FY 2020-21 as a result of a spike in sales during the height of the pandemic. Strong marijuana sales have continued throughout the summer, though notably sales have finally slowed from the sharp growth trajectory they exhibited over the course of FY 2020-21. In particular, revenue from the 15 percent special sales tax on medical marijuana (the largest source of marijuana revenue for the state) came in $7.8 million lower than anticipated in July and August. For context, these revenues were on average 7.9 percent below the same months in 2020. In addition, revenue from the 15 percent excise tax on retail marijuana came in $2.4 million lower than anticipated in May through July.

[17] Baker Hughes North American Rotary Rig Count

[18] https://www.worldoil.com/news/2021/6/2/dj-basin-production-could-increase-with-greater-capital-allocation-among-operators

Tax Revenue from the Marijuana Industry	Actual FY 19-20	Preliminary FY 20-21	Forecast FY 21-22	Forecast FY 22-23	Forecast FY 23-24
Proposition AA Taxes					
Retail Marijuana 15% Special Sales Tax	$245.5	$290.2	$271.8	$285.4	$296.8
Retail Marijuana 15% Excise Tax	$88.5	$120.3	$113.1	$116.3	$118.6
Total Proposition AA Taxes	**$334.0**	**$410.6**	**$384.9**	**$401.7**	**$415.4**
2.9% Sales Tax & Interest (Subject to TABOR)					
Medical Marijuana 2.9% State Sales Tax	$11.7	$13.0	$11.3	$11.1	$10.8
Retail Marijuana 2.9% State Sales Tax	$1.3	$1.6	$1.4	$1.4	$1.4
Interest Earnings	$0.3	$0.3	$0.4	$0.4	$0.0
Total 2.9% Sales Taxes & Interest	**$13.3**	**$14.9**	**$13.1**	**$12.9**	**$12.2**
Total Marijuana Taxes	**$347.3**	**$425.5**	**$398.0**	**$414.6**	**$427.7**

Fiscal Year	Local Share	General Fund	BEST School Capital Construction	Public School Permanent Fund	Public School Fund	Marijuana Tax Cash Fund
FY 2019-20 Actual	$24.5	$34.4	$88.5	$0.0	$27.8	$172.1
FY 2020-21 Preliminary	$29.0	$40.6	$40.0	$0.0	$113.2	$202.6
FY 2021-22 Projected	$27.2	$38.1	$113.1	$0.0	$30.8	$188.8
FY 2022-23 Projected	$28.5	$40.0	$116.3	$0.0	$32.3	$197.4
FY 2023-24 Projected	$29.7	$41.6	$118.6	$0.0	$33.6	$204.2

There is not sufficient data to make any firm conclusions about the reasons for the change in consumption. However, one preliminary hypothesis is that marijuana consumption at home has declined and while it seems that marijuana consumption outside the home has increased (e.g. consumption by both Colorado residents and non-residents while on vacation in mountain communities), it has not increased sufficiently to account for the drop in at-home consumption. Data on retail marijuana sales by county in Colorado lend support to this hypothesis, as retail marijuana sales in Denver have declined as a percentage of total state sales while sales in mountain and vacation communities such as Summit, Eagle, and Lake counties have increased as a percentage of total sales.

Further, these new months of data do not negate the fact that both the consumer base and transaction size of marijuana have increased over the course of the pandemic. Thus, while the growth rates have slowed, it is still expected that FY 2021-22 through FY 2023-24 revenues will exceed pre-pandemic levels significantly. In addition, the current level of demand likely continues to pressure supply, as the average market rate for flower remains elevated at $1,309/lb, up $1/lb since last forecast.

Federal Mineral Lease

Federal Mineral Lease (FML) revenue increased by 30.8 percent to $82.0 million in FY 2019-20. This was largely due to increased gas and oil production (particularly on the Western Slope), gas prices recovering to pre-pandemic levels by August 2020, and strong price growth since then. At the same time, Colorado's rig count is well below pre-pandemic levels[19] and high prices should lead to reduced natural gas consumption in the electric power sector this winter,[20] moderately dampening price levels. Still, July and August FML receipts have come in stronger than anticipated. FML revenue in Colorado is expected to grow by 14.6 percent in FY 2021-22, which has been revised upwards since the June forecast by $18.8 million (25 percent).

Expectations for a recovery of global gas demand in the industrial and other sectors have led to a positive outlook for FY 2022-23 and FY 2023-24, especially as the federal government resumes selling oil and gas leases on federal land. Royalties collected in FY 2021-22 and FY 2022-23 are forecast to increase by 2.6 percent and 3.0 percent in those years, respectively. While FML revenue is exempt from TABOR, it is included here because a portion of the money is distributed to the Public School Fund.

FML Forecast Distribution Table	Preliminary FY 2020-21	Forecast FY 2021-22	Forecast FY 2022-23	Forecast FY 2023-24
Total FML Revenue	**$82.0**	**$94.0**	**$96.4**	**$99.3**
Change	30.8%	14.6%	2.6%	3.0%
Bonus Payments (portion of total FML revenue)	1.6	1.9	1.9	2.0
Local Government Perm Fund	0.8	0.9	1.0	1.0
Higher Ed FML Revenues Fund	0.8	0.9	1.0	1.0
Other (non-bonus) FML Revenue	80.4	92.1	94.5	97.3
State Public School Fund	38.8	44.5	45.6	47.0
Colorado Water Conservation Board	8.0	9.2	9.4	9.7
DOLA Grants	16.1	18.4	18.9	19.5
DOLA Direct Distribution	16.1	18.4	18.9	19.5
School Districts	1.4	1.6	1.6	1.7
Total Higher Ed Maintenance Reserve Fund	0.8	0.9	1.0	1.0

Other Cash Funds

The State receives revenue from a variety of other cash funds as well. This includes cash fund revenue to the Department of Regulatory Agencies (DORA), which is forecasted to be $90.1 million in FY 2021-22. This estimate was revised downward from the June forecast because collections in FY 2020-21 came in lower than expected at the end of the fiscal year. Insurance-

[19] Baker Hughes North American Rotary Rig Count

[20] U.S. Energy Information Administration, Short-Term Energy Outlook, September 2021

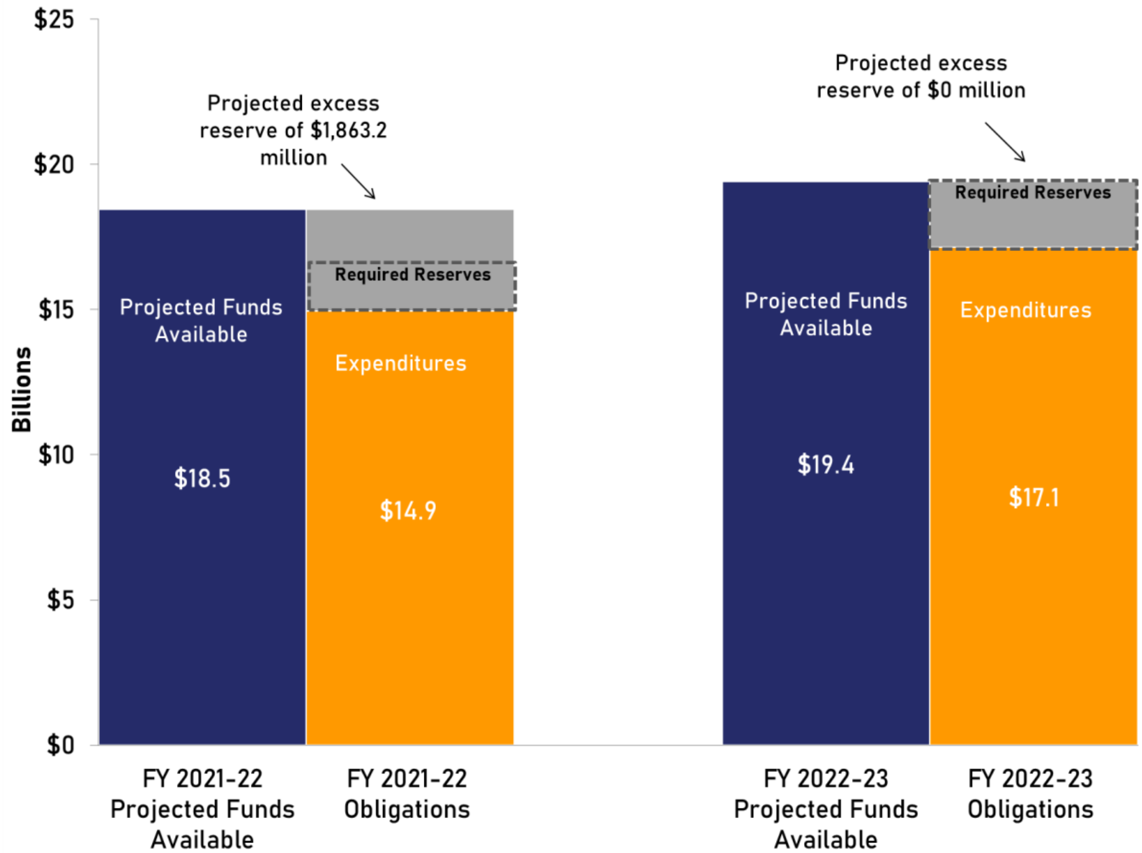
related cash fund revenue is obtained largely from a surcharge on workers' compensation insurance and has been adjusted upward slightly to $21.8 million in FY 2021-22.

Finally, the "Other Miscellaneous Cash Funds" category includes revenue from over 300 cash fund programs that collect revenue from fines, fees, and interest earnings. This broad category is less sensitive to general economic conditions than revenue sources like income and severance taxes. Receipts in FY 2020-21 were $854.2 million, which is $21.4 million (2.4 percent) lower than forecasted in June 2021. Miscellaneous cash funds are expected to increase by 4.3 percent to $891.0 million in FY 2021-22. Growth rates in subsequent years are forecasted to moderate slightly to 4.0 percent growth in FY 2022-23 and 3.4 percent in FY 2023-24.

Budget Outlook

General Fund

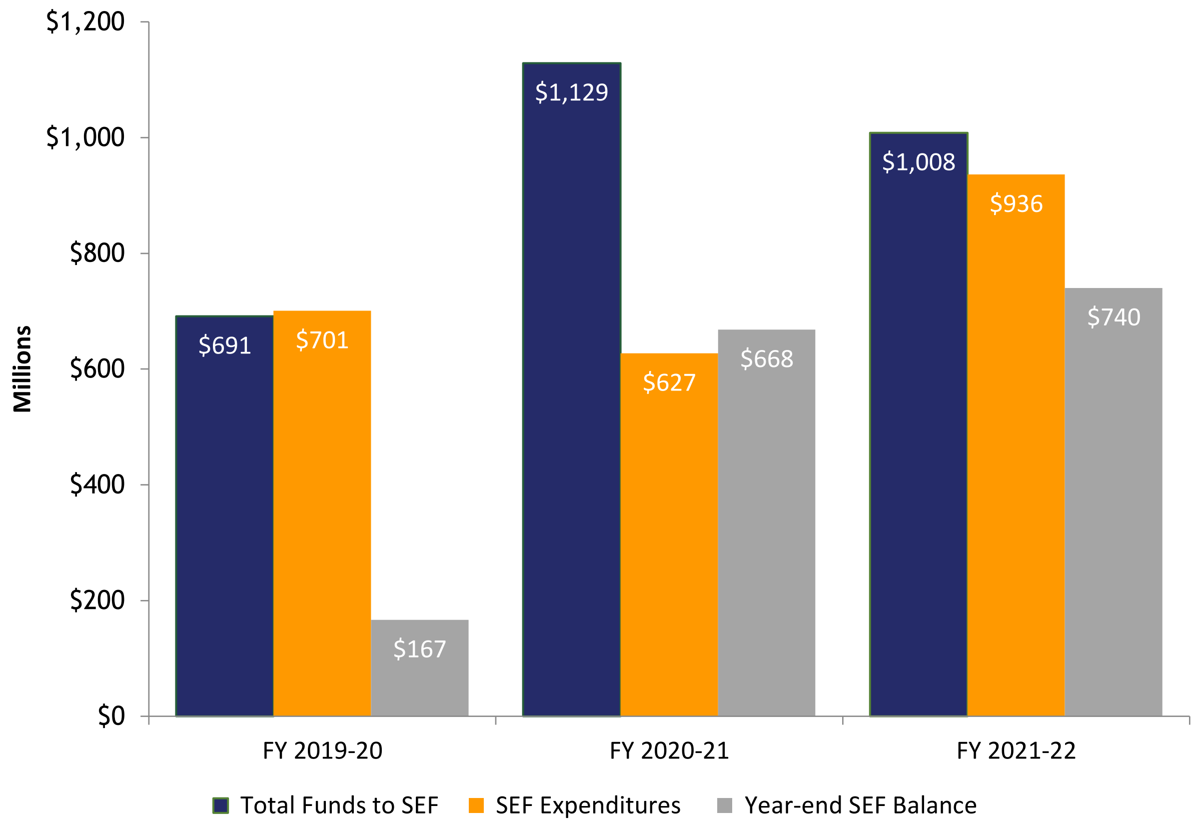
General Fund revenue increased 10.7 percent in FY 2020-21 and is projected to increase 7.3 percent in FY 2021-22 before growing 3.9 percent in FY 2022-23 and 4.7 percent in FY 2023-24. General Fund revenue for FY 2021-22 is $260.6 million, or 1.7 percent higher than was estimated in June, as State revenue collections continue to exceed expectations. The forecast for FY 2022-23 is $221.4 million, or 1.4 percent higher than estimated in June.



The General Fund ending balance was significantly above the required statutory reserve amount of 2.86 percent of appropriations in FY 2020-21. Under this forecast, the General Fund ending balance is projected to be $1,863.2 million above the statutory reserve level of 13.4 percent of appropriations in FY 2021-22. The chart above summarizes total projected General Fund revenue available, total obligations, and reserve levels for FY 2020-21 and FY 2021-22 under current law.

State Education Fund

The State Education Fund's year-end balance was $668 million in FY 2020-21 and is projected to increase to $740 million in FY 2021-22. This is an $88 million upward revision in FY 2020-21 and a $15 million upward revision in FY 2021-22 compared to the June 2021 forecast, due in part to higher than expected income tax revenue collected in FY 2020-21, a portion of which is diverted to the State Education Fund. The figure below summarizes total State Education Fund revenue, expenditures, and ending balances for FY 2020-21 and FY 2021-22.



Forecast Risks

This budget outlook is based on OSPB's economic forecast as detailed in Tables 1 and 2 of the Reference Tables at the end of this document. This economic forecast is subject to both upside and downside risks.

On the upside, consumer spending continues to drive the economy as household utilize excess savings. Additionally, financial conditions are supportive of a strong economic recovery. However, on the downside, supply chain disruptions continue to weigh down economic growth and the job market recovery in 2021 thus far is an additional drag on the economy. Although economic conditions could be more negative than described in this forecast, the risks to the budget outlook are balanced.

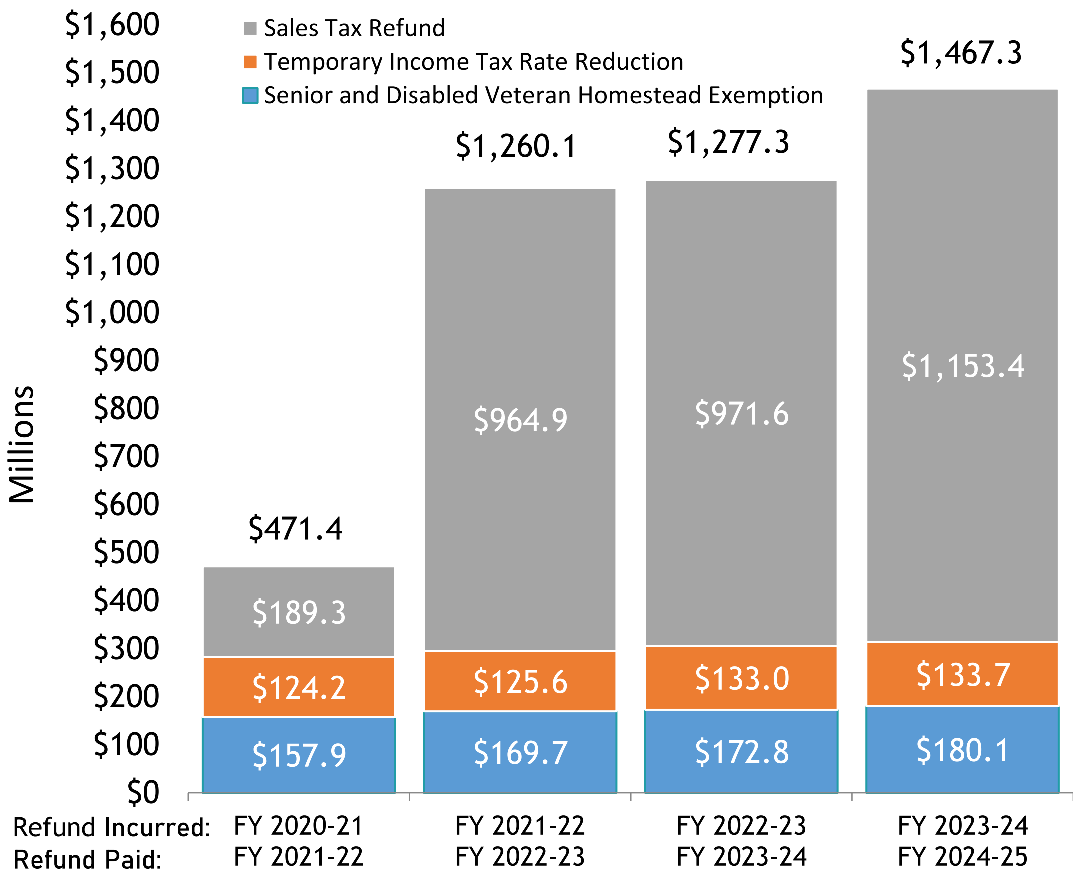
Supplemental Materials

An overview of General Fund and State Education Fund revenue, expenditures, and end-of-year reserves is provided in the Reference Tables at the end of this document. A more detailed discussion of the information presented in the Reference Tables can be found at the Office of State Planning and Budgeting's website: www.colorado.gov/governor/economics

TABOR Outlook

Under Article X, Section 20 of the State Constitution, the Taxpayer's Bill of Rights (TABOR), revenue received from certain sources is subject to an annual limit determined by the prior year's limit after adjustments for inflation and population growth. Any TABOR revenue received above the cap is to be refunded to taxpayers in the subsequent fiscal year. Current projections show that TABOR revenue will be $453.6 million above the Referendum C cap in FY 2020-21, $1,260.1 million above the cap in FY 2021-22, $1,277.3 million above the cap in FY 2022-23, and $1,467.3 million above the cap in FY 2023-24.

Current law specifies three mechanisms by which revenue in excess of the cap is to be refunded to taxpayers: the senior homestead and disabled veterans property tax exemptions, a temporary income tax rate reduction (to 4.50 percent), and a sales tax refund. The size of the refund determines which refund mechanisms are utilized.



The $453.6 million refund obligation in FY 2020-21 is increased by $17.8 million to account for under-refunding of the FY 2018-19 TABOR surplus. An estimated $124.2 million of this $471.4 million refund obligation will be paid out as an income tax rate reduction, while $157.9 million will be refunded via the senior homestead and disabled veterans property tax exemption expenditures and $189.3 million via a sales tax refund in FY 2021-22. Any difference between estimated refunds and actual refunds will be corrected in the next fiscal year in which a refund is owed, which in this forecast is FY 2021-22.

Reference Tables

Table 1: Colorado Economic Variables – History and Forecast

Line No.		Actual						September 2021 Forecast		
		2015	2016	2017	2018	2019	2020	2021	2022	2023
	Income									
1	Personal Income (Billions) /A	$284.8	$290.7	$312.0	$335.2	$352.2	$369.5	$392.7	$403.7	$423.5
2	Change	5.0%	2.1%	7.4%	7.4%	5.1%	4.9%	6.3%	2.8%	4.9%
3	Wage and Salary Income (Billions) /A	$146.6	$151.1	$160.8	$170.3	$182.1	$185.0	$196.2	$206.4	$216.3
4	Change	5.8%	3.1%	6.5%	5.9%	6.9%	1.6%	6.1%	5.2%	4.8%
5	Per-Capita Income ($/person) /A	$52,372.0	$52,624.0	$55,783.0	$59,097.0	$61,400.0	$63,904.0	$67,389.6	$68,546.0	$71,038.7
6	Change	3.3%	0.5%	6.0%	5.9%	3.9%	4.1%	5.5%	1.7%	3.6%
	Population & Employment									
7	Population (Thousands)	5,438.4	5,523.5	5,593.9	5,671.9	5,735.9	5,782.0	5,827.5	5,889.6	5,961.4
8	Change	1.7%	1.6%	1.3%	1.4%	1.1%	0.8%	0.8%	1.1%	1.2%
9	Net Migration (Thousands)	68.5	55.4	42.8	52.5	40.1	25.5	30.0	40.0	50.0
10	Unemployment Rate	3.8%	3.1%	2.6%	3.0%	2.7%	7.3%	5.9%	4.4%	3.8%
11	Total Nonagricultural Employment (Thousands)	2,541.0	2,601.7	2,660.3	2,727.3	2,790.1	2,644.6	2,719.2	2,812.5	2,871.1
12	Change	3.1%	2.4%	2.3%	2.5%	2.3%	-5.2%	2.8%	3.4%	2.1%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	31.9	39.0	40.7	42.6	38.6	40.5	47.1	49.9	51.2
14	Change	11.0%	22.3%	4.4%	4.8%	-9.4%	4.8%	16.5%	5.9%	2.7%
15	Nonresidential Construction Value (Millions) /B	$4,990.8	$5,987.8	$6,154.9	$8,146.4	$5,101.3	$5,482.4	$5,333.0	$5,511.7	$5,635.7
16	Change	14.7%	20.0%	2.8%	32.4%	-37.4%	7.5%	-2.7%	3.4%	2.3%
	Prices									
17	Retail Trade (Billions)	$182.8	$184.7	$194.6	$206.1	$224.6	$228.8	$259.2	$270.9	$279.9
18	Change	0.1%	1.0%	5.4%	5.9%	9.0%	1.9%	13.3%	4.5%	3.3%
19	Denver-Aurora-Lakewood Consumer Price Index (1982-	240.0	246.6	255.0	262.0	267.0	272.2	282.3	290.7	298.6
20	Change	1.2%	2.8%	3.4%	2.7%	1.9%	2.0%	3.7%	3.0%	2.7%

/A Personal Income as reported by the U.S. Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

/B Nonresidential Construction Value is reported by Dodge Analytics (McGraw-Hill Construction) and includes new construction, additions, and major remodeling projects predominately at commercial and manufacturing facilities, educational institutions, and medical and government buildings. Nonresidential does not include non-building projects (such as streets, highways, bridges and utilities).

/C In 2018, the geography and data frequency of this series were revised. 2017 and prior years represent Denver-Boulder-Greeley regional prices.

Table 2: National Economic Variables – History and Forecast

Line No.		Actual						September 2021 Forecast		
		2015	2016	2017	2018	2019	2020	2021	2022	2023
	Inflation-Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$17,390.3	$17,680.3	$18,079.1	$18,606.8	$19,032.7	$18,384.7	$19,469.4	$20,345.5	$20,793.1
2	Change	2.8%	1.7%	2.3%	2.9%	2.3%	-3.4%	5.9%	4.5%	2.2%
3	Personal Income (Billions) /B	$15,685.2	$16,096.9	$16,850.2	$17,706.0	$18,424.4	$19,627.6	$20,821.6	$21,196.4	$22,107.8
4	Change	4.6%	2.6%	4.7%	5.1%	4.1%	6.5%	6.1%	1.8%	4.3%
5	Per-Capita Income ($/person)	$48,903	$49,825	$51,827	$54,174	$56,115	$59,571	$62,965	$63,741	$66,106
6	Change	3.8%	1.9%	4.0%	4.5%	3.6%	6.2%	5.7%	1.2%	3.7%
7	Wage and Salary Income (Billions) /B	$7,859.5	$8,091.2	$8,474.7	$8,900.5	$9,323.5	$9,444.1	$10,010.8	$10,481.3	$10,914.5
8	Change	5.1%	2.9%	4.7%	5.0%	4.8%	1.3%	6.0%	4.7%	4.1%
	Population & Employment									
9	Population (Millions)	320.7	323.1	325.1	326.8	328.3	329.5	330.7	332.5	334.4
10	Change	0.8%	0.7%	0.6%	0.5%	0.5%	0.4%	0.4%	0.6%	0.6%
11	Unemployment Rate	5.3%	4.9%	4.4%	3.9%	3.7%	8.1%	5.5%	4.3%	3.9%
12	Total Nonagricultural Employment (Millions)	141.8	144.3	146.6	148.9	150.9	142.2	146.3	150.9	153.2
13	Change	2.1%	1.8%	1.6%	1.6%	1.3%	-5.8%	2.9%	3.2%	1.5%
	Other Key Indicators									
14	Consumer Price Index (1982-84=100)	237.0	240.0	245.1	251.1	255.7	258.8	270.2	277.4	283.5
15	Change	0.1%	1.3%	2.1%	2.4%	1.8%	1.2%	4.4%	2.7%	2.2%
16	Pre-Tax Corporate Profits (Billions)	$2,060.5	$2,037.7	$2,128.9	$2,305.0	$2,367.8	$2,243.8	$2,587.1	$2,686.7	$2,804.9
17	Change	-2.8%	-1.1%	4.5%	8.3%	2.7%	-5.2%	15.3%	3.9%	4.4%
18	Housing Permits (Millions)	1.183	1.207	1.282	1.329	1.386	1.471	1.756	1.850	1.890
19	Change	12.4%	2.0%	6.3%	3.6%	4.3%	6.1%	19.3%	5.4%	2.2%
20	Retail Trade (Billions)	$5,352.2	$5,506.1	$5,732.9	$5,985.1	$6,184.6	$6,215.1	$7,224.5	$7,537.6	$7,726.0
21	Change	2.6%	2.9%	4.1%	4.4%	3.3%	0.5%	16.2%	4.3%	2.5%

/A U.S. Bureau of Economic Analysis, National Income and Product Accounts. Inflation-adjusted, in 2009 dollars.
/B Personal Income as reported by the U.S. Bureau of Economic Analysis includes: wage and salary disbursements, supplements to wages and salaries, proprietors' income with inventory and capital consumption adjustments, rental income of persons with capital consumption adjustments, personal dividend income, personal interest income, and personal current transfer receipts, less contributions from government social insurance.

Table 3: General Fund Revenue Estimates by Tax Category /A

Line No.	Category	Preliminary FY 2020-21	% Chg	September 2021 Estimate by Fiscal Year FY 2021-22	% Chg	FY 2022-23	% Chg	FY 2023-24	% Chg
	Excise Taxes:								
1	Sales	$3,419.5	7.0%	$3,745.5	9.5%	$3,939.6	5.2%	$4,077.3	3.5%
2	Use	$214.2	1.8%	$227.9	6.4%	$235.0	3.1%	$240.3	2.2%
3	Retail Marijuana Sales - Special Sales Tax	$288.2	17.4%	$271.8	-5.7%	$285.4	5.0%	$296.8	4.0%
4	Cigarette	$30.1	-7.5%	$28.5	-5.3%	$27.6	-3.0%	$26.8	-3.0%
5	Tobacco Products	$29.0	19.1%	$25.6	-11.7%	$26.9	4.7%	$26.5	-1.2%
6	Liquor	$53.4	6.6%	$55.2	3.4%	$56.8	3.0%	$58.3	2.7%
7	Proposition EE/Nicotine	$49.0	N/A	$200.8	309.6%	$197.4	-1.7%	$200.8	1.8%
8	**Total Excise**	**$4,083.5**	**8.6%**	**$4,555.3**	**11.6%**	**$4,768.7**	**4.7%**	**$4,927.0**	**3.3%**
	Income Taxes:								
9	Net Individual Income	$9,482.7	9.7%	$10,021.8	5.7%	$10,449.9	4.3%	$11,005.1	5.3%
10	Net Corporate Income	$1,183.7	62.5%	$931.6	-21.3%	$941.3	1.0%	$994.5	5.7%
11	**Total Income**	**$10,666.3**	**13.8%**	**$10,953.5**	**2.7%**	**$11,391.2**	**4.0%**	**$11,999.7**	**5.3%**
12	*Less: State Education Fund Diversion*	*$950.2*	*46.9%*	*$745.9*	*-21.5%*	*$854.3*	*14.5%*	*$900.0*	*5.3%*
13	**Total Income to General Fund**	**$9,716.2**	**11.3%**	**$10,207.5**	**5.1%**	**$10,536.9**	**3.2%**	**$11,099.7**	**5.3%**
	Other Revenue:								
14	Insurance	$336.3	-0.3%	$438.5	30.4%	$495.4	13.0%	$520.2	5.0%
15	Interest Income	$50.0	60.9%	$42.4	-15.3%	$34.0	-19.8%	$36.8	8.2%
16	Pari-Mutuel	$0.3	-21.2%	$0.5	66.2%	$0.5	-2.0%	$0.5	-2.0%
17	Court Receipts	$3.5	-9.8%	$3.8	8.7%	$3.7	-2.6%	$3.7	0.0%
18	Other Income	$50.6	422.4%	$28.7	-43.4%	$33.0	15.0%	$35.7	8.2%
19	**Total Other**	**$440.8**	**15.2%**	**$513.8**	**16.6%**	**$566.6**	**10.3%**	**$596.9**	**5.3%**
20	**GROSS GENERAL FUND**	**$14,240.4**	**10.7%**	**$15,276.7**	**7.3%**	**$15,872.1**	**3.9%**	**$16,623.5**	**4.7%**

/A Dollars in millions.

Table 4: General Fund Overview /A

Line No.		Preliminary FY 2020-21	September 2021 Estimate by Fiscal Year FY 2021-22	FY 2022-23	FY 2023-24
Revenue					
1	**Beginning Reserve**	**$1,825.2**	**$3,150.2**	**$3,508.9**	**$2,263.0**
2	**Gross General Fund Revenue**	**$14,240.4**	**$15,276.7**	**$15,872.1**	**$16,623.5**
3	*Transfers to the General Fund*	$335.3	$30.0	$28.6	$30.8
4	**TOTAL GENERAL FUND AVAILABLE**	**$16,400.8**	**$18,456.8**	**$19,409.7**	**$18,917.3**
Expenditures					
5	**Appropriation Subject to Limit**	**$10,978.9**	**$12,281.9**	**$15,086.9**	**$14,586.3**
6	*Dollar Change (from prior year)*	-$826.2	$1,303.0	$2,805.0	-$500.7
7	*Percent Change (from prior year)*	-7.0%	11.9%	22.8%	-3.3%
8	**Spending Outside Limit**	**$2,271.7**	**$2,666.0**	**$2,059.7**	**$2,143.1**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$471.4	$1,260.1	$1,277.3	$1,467.3
10	*Homestead Exemption (Net of TABOR Refund)*	$157.9	$0.0	$0.0	$0.0
11	*Other Rebates and Expenditures*	$137.9	$140.5	$142.1	$143.4
12	*Transfers for Capital Construction*	$43.0	$348.9	$50.0	$50.0
13	*Transfers for Transportation*	$30.0	$294.0	$115.0	$0.0
14	*Transfers to State Education Fund*	$113.0	$123.0	$0.0	$0.0
15	*Transfers to Other Funds*	$1,318.5	$499.4	$475.3	$482.4
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$13,250.7**	**$14,947.9**	**$17,146.6**	**$16,729.4**
17	*Percent Change (from prior year)*	4.2%	12.8%	14.7%	-2.4%
18	Reversions and Accounting Adjustments	$0.0	$0.0	$0.0	$0.0
Reserves					
19	**Year-End General Fund Balance**	**$3,150.2**	**$3,508.9**	**$2,263.0**	**$2,187.9**
20	*Year-End General Fund as a % of Appropriations*	28.7%	28.6%	15.0%	15.0%
21	*General Fund Statutory Reserve*	$314.0	$1,645.8	$2,263.0	$2,187.9
22	*Above/Below Statutory Reserve*	$2,836.2	$1,863.2	$0.0	$0.0

/A. FY 2020-21 and FY 2021-22 expenditures reflect all legislation that has passed through both the Colorado House and Senate as of June 18, 2021. FY 2022-23 appropriations will be adopted in future budget legislation. Therefore, FY 2022-23 expenditures and fund balance projections shown are illustrative only. Dollars in millions.

Table 5: General Fund and State Education Fund Overview /A

Line No.		Preliminary FY 2020-21	September 2021 Estimate by Fiscal Year FY 2021-22	FY 2022-23	FY 2023-24
Revenue					
1	**Beginning Reserves**	**$1,991.8**	**$3,818.3**	**$4,249.2**	**$2,774.0**
2	*State Education Fund*	$166.7	$668.1	$740.3	$511.0
3	*General Fund*	$1,825.2	$3,150.2	$3,508.9	$2,263.0
4	**Gross State Education Fund Revenue**	**$1,128.6**	**$1,008.3**	**$985.2**	**$1,030.8**
5	**Gross General Fund Revenue /B**	**$14,575.7**	**$15,306.7**	**$15,900.7**	**$16,654.3**
6	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$17,696.1**	**$20,133.2**	**$21,135.1**	**$20,459.1**
Expenditures					
7	General Fund Expenditures /C	$13,250.7	$14,947.9	$17,146.6	$16,729.4
8	State Education Fund Expenditures	$627.2	$936.1	$1,214.5	$1,530.5
9	**TOTAL OBLIGATIONS**	**$13,877.8**	**$15,884.0**	**$18,361.1**	**$18,259.9**
10	*Percent Change (from prior year)*	3.5%	14.5%	15.6%	-0.6%
11	*Reversions and Accounting Adjustments*	$0.0	$0.0	$0.0	$0.0
Reserves					
12	**Year-End Balance**	**$3,818.3**	**$4,249.2**	**$2,774.0**	**$2,199.2**
13	State Education Fund	$668.1	$740.3	$511.0	$11.3
14	General Fund	$3,150.2	$3,508.9	$2,263.0	$2,187.9
15	*General Fund Above/Below Statutory Reserve*	$2,836.2	$3,726.3	$0.0	$0.0

/A FY 2020-21 and FY 2021-22 expenditures reflect all legislation that has passed through both the Colorado House and Senate as of June 18, 2021. FY 2022-23 appropriations will be adopted in future budget legislation. Therefore, FY 2022-23 expenditures and fund balance projections shown are illustrative only. Dollars in millions.
/B These amounts include the following transfers: $115.8 million in FY 2020-21, $248.1 million in FY 2021-22, and $124.0 million in FY 2022-23.
/C This amount includes transfers to the General Fund.
/D General Fund expenditures include appropriations subject to the limit of 5.0 percent of Colorado personal income as well as all spending outside the limit.

Table 6: Cash Fund Revenue Subject to TABOR /A

Line No.	Category	Preliminary FY 2020-21	September 2021 Estimate by Fiscal Year FY 2021-22	FY 2022-23	FY 2023-24
1	**Transportation-Related /A**	**$1,155.8**	**$1,195.8**	**$1,275.2**	**$1,372.5**
2	Change	-3.5%	3.5%	6.6%	7.6%
3	**Limited Gaming Fund /B**	**$101.5**	**$129.0**	**$131.0**	**$132.5**
4	Change	46.8%	27.1%	1.5%	1.2%
5	**Capital Construction - Interest**	**$2.8**	**$3.7**	**$4.2**	**$4.2**
6	Change	-55.5%	30.0%	15.0%	0.0%
7	**Regulatory Agencies**	**$89.1**	**$90.1**	**$92.8**	**$95.8**
8	Change	9.9%	1.1%	3.0%	3.3%
9	**Insurance-Related**	**$20.3**	**$21.8**	**$21.0**	**$21.2**
10	Change	-18.6%	7.4%	-3.7%	1.0%
11	**Severance Tax**	**($15.3)**	**$106.1**	**$140.2**	**$148.7**
12	Change	-110.3%	-794.1%	32.2%	6.0%
13	**Other Miscellaneous Cash Funds**	**$854.2**	**$891.0**	**$926.7**	**$957.8**
14	Change	17.8%	4.3%	4.0%	3.4%
15	**TOTAL CASH FUND REVENUE**	***$2,208.6***	***$2,437.5***	***$2,591.1***	***$2,732.7***
16	Change	-2.0%	10.4%	6.3%	5.5%

/A Includes revenue from Senate Bill 09-108 (FASTER) which began in FY 2009-10. Roughly 40 percent of FASTER-related revenue is directed to State Enterprises. Revenue to State Enterprises is exempt from TABOR and is thus not included in the figures reflected by this table. Dollars in millions. Additionally, includes the impact of SB 21-260 which dedicates funding and creates new state enterprises to enable the planning, funding, development, construction, maintenance, and supervision of a sustainable transportation system.
/B Excludes tax revenue from extended gaming as allowed by Amendment 50 to the Colorado Constitution as this revenue is exempt from TABOR. The portion of limited gaming revenue that is exempt is projected based on the formula outlined in House Bill 09-1272.

Table 7: TABOR and the Referendum C Revenue Limit/A

Line No.		Preliminary FY 2020-21	September 2021 Estimate by Fiscal Year FY 2021-22	FY 2022-23	FY 2023-24
	TABOR Revenues:				
1	General Fund /A	$13,860.2	$14,811.1	$15,394.2	$16,127.6
	Percent Change from Prior Year	9.7%	6.9%	3.9%	4.8%
2	Cash Funds /A	$2,237.7	$2,437.5	$2,591.1	$2,732.7
	Percent Change from Prior Year	-0.3%	8.9%	6.3%	5.5%
3	**Total TABOR Revenues**	**$16,097.9**	**$17,248.6**	**$17,985.3**	**$18,860.3**
	Percent Change from Prior Year	8.2%	7.1%	4.3%	4.9%
	Revenue Limit Calculation:				
4	Previous calendar year population growth	1.2%	0.3%	0.8%	1.1%
5	Previous calendar year inflation	1.9%	2.0%	3.7%	3.0%
6	**Allowable TABOR Growth Rate**	**3.1%**	**2.2%**	**4.5%**	**4.1%**
7	TABOR Limit /B	$12,628.1	$12,905.9	$13,486.7	$14,039.6
8	General Fund Exempt Revenue Under Ref. C /C	$3,016.3	$3,082.6	$3,221.3	$3,353.4
9	**Revenue Cap Under Ref. C /B /D**	**$15,644.3**	**$15,988.5**	**$16,708.0**	**$17,393.0**
10	***Amount Above/Below Cap***	**$453.6**	**$1,260.1**	**$1,277.3**	**$1,467.3**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$471.4**	**$1,260.1**	**$1,277.3**	**$1,467.3**
12	TABOR State Emergency Reserve Requirement	$469.3	$479.7	$501.2	$521.8

/A Amounts differ from the revenue totals reported in Table 3 and Table 6 due to accounting adjustments, and because some General Fund revenue is exempt from TABOR. Dollars in millions.

/B The TABOR limit and Referendum C cap are adjusted to account for changes in the enterprise status of various state entities.

/C Under Referendum C, a "General Fund Exempt Account" is created in the General Fund. The account consists of money collected in excess of the TABOR limit in accordance with Referendum C.

/D The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenue" or the "Revenue Cap under Ref. C," whichever is smaller. Beginning in FY 2010-11, the revenue limit is based on the highest revenue total from FY 2005-06 to 2009-10 plus the "Allowable TABOR Growth Rate." FY 2007-08 was the highest revenue year during the Referendum C timeout period. SB 17-267 reduced the Referendum C cap by $200 million in FY 2017-18. SB 21-260 raises the Referendum C cap back to its pre-SB 17-267 levels, adjusted for inflation and population growth since the passage of SB 17-267. The new cap, in line with the original Referendum C cap, then grows by inflation and population growth in subsequent years.

/E These adjustments are the result of: (a) changes that were made to State accounting records for years in which TABOR refunds occurred that resulted in changes in required refunds to taxpayers, and (b) the refund to taxpayers in previous years was different than the actual amount required. Such adjustments are held by the State until a future year in which a TABOR refund occurs when they adjust the total refund amount distributed to taxpayers.