Colorado
Economic & Fiscal Outlook

December 20, 2022

STATE OF COLORADO

Governor's Office of State Planning & Budgeting

COLORADO
Governor Jared Polis

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Jared Polis – Governor
Lauren Larson – Budget Director
Bryce Cooke – Chief Economist
Alex Carlson – Senior Economist
Will Mixon – Senior Economist
Edward Crandall - Economist

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Forecast in Brief

NATIONAL ECONOMIC OUTLOOK

The labor market continues its strong trajectory in both the US and Colorado as job growth and strength in job openings have exceeded previous expectations. Consumer spending and corporate profits have also continued to come in higher than anticipated through the summer and fall of 2022 as post-pandemic consumer demand remains resilient despite high inflation. As a result of the recent strength in these indicators, the possibility of an economic downturn in the first half of 2023 is low. However, consumers are turning towards new revolving credit and spending down excess savings in the face of persistent high inflation, which when paired with the impact of tightening monetary conditions on the labor market is expected to lead to a mild economic slowdown in the second half of 2023.

COLORADO ECONOMIC OUTLOOK

The strength of the labor market will help buoy the Colorado economy through the anticipated nationwide slowdown next year. The local unemployment rate is expected to continue to be lower than the nation and job growth is expected to outpace U.S. job growth. Additionally, consumer spending habits are expected to shift towards services over the next year, which benefits the Colorado economy relative to the nation as a whole due to a larger local industry makeup in sectors with this increasing consumer demand. However, shelter inflation remains higher locally than nationwide, which serves as a drag on the local economy.

GENERAL FUND REVENUE

General Fund revenue in FY 2021-22 increased by 23.7 percent, to $17.7 billion, as income and sales tax revenues grew at 20 percent or more. The projection for FY 2022-23 is an upward revision of $412.4 million since the September forecast, although still a modest decline of 4.8 percent off of last year's record high. This upward revision is driven by actuals to date, and a shift in short term expectations towards higher cash received with income tax returns. The revisions in FY 2022-23 more than offset impacts of Proposition 121, which reduces the income tax rate from 4.55 to 4.4 percent by approximately $620 million. For FY 2023-24, revenue is expected to decline 2.1 percent, including a downward revision of $225.0 million largely due to the impacts of Proposition 121. In FY 2024-25, revenues are expected to grow more quickly, at 6.8 percent, as the economy rebalances.

CASH FUND REVENUE

In FY 2021-22, cash fund revenue subject to TABOR increased by 19.0 percent to $2.67 billion. In FY 2022-23, revenue is expected to fall 2.0 percent, followed by a 0.7 percent increase in FY 2023-24 and 4.8 percent growth in FY 2024-25. Forecasts are revised up in FY 2022-23 and FY 2023-24 by $21.5 and $27.5 million respectively.

TABOR

In FY 2021-22, revenue exceeded the Referendum C cap (as restored by S.B. 21-260) by $3,850.0 million. Additionally, revenue subject to TABOR is expected to remain above this cap through the duration of the forecast period, although revised downward from September for the outyears. Current projections show that revenue will be $2,337.7 million above the cap in FY 2022-23, $469.4 million above the cap in FY 2023-24, and $736.5 million above the cap in FY 2024-25.

GENERAL FUND RESERVE

Under this forecast, the General Fund ending balance is projected to be $1,589.7 million above the statutory reserve level of 13.4 percent of appropriations in FY 2021-22 and $42.3 million and $44.2 million above the statutory reserve level of 15 percent in FY 2022-23 and FY 2023-24 respectively. The statutory reserve remains at 15 percent of appropriations beyond FY 2023-24.

Economic Outlook

The labor market continues its strong trajectory in both the US and Colorado as job growth and strength in job openings have exceeded previous expectations. Consumer spending and corporate profits have also continued to come in higher than anticipated through the summer and fall of 2022 as post-pandemic consumer demand remains resilient despite high inflation. As a result of the recent strength in these indicators, the possibility of an economic downturn in the first half of 2023 is low. However, reduced flexibility of consumers' revolving credit and diminished excess savings paired with the impact of tightening monetary conditions on the labor market is expected to lead to a mild economic slowdown by the second half of 2023.

Accordingly, economic activity is expected to remain strong through the end of 2022 and annual US GDP growth is forecast at 1.9 percent in 2022, revised up from 1.6 percent previously. Stronger economic conditions through the first half of 2023 slightly outweigh a deeper downturn in the second half of the year and 2023 GDP growth is revised upward from 0.7 percent to 0.8 percent. Finally, 2024 GDP growth has been revised down to 1.3 percent reflecting the base effects of the downturn in late 2023.

Consumer spending habits are expected to shift towards services over the next year; however, goods spending has remained more resilient than anticipated through the fall. Still, durable goods spending is expected to fall as a share of spending over the course of the next year as interest rates reduce demand for large purchases. These shifts will put additional downward pressure on consumer spending by late 2023 as durable goods' share will have troughed while services spending begins to revert back to a more normal share of expenditures.

The inflationary impacts of the conflict between Russia and Ukraine on energy and food prices and the effects of other supply chain constraints on goods prices have eased more quickly than anticipated. However, shelter inflation remains elevated and will continue to keep headline inflation above the Federal Reserve's target level through 2023. Thus, continued monetary tightening is anticipated, in alignment with the slowing economic conditions expected in late 2023.

Overall, short-term economic prospects have improved slightly since the previous forecast and medium-term slowing of the economy is still expected. A deep or protracted recession is still not currently expected. The strength of the labor market and high wages and salaries will help buoy the US and Colorado economies through the anticipated slowdown next year.

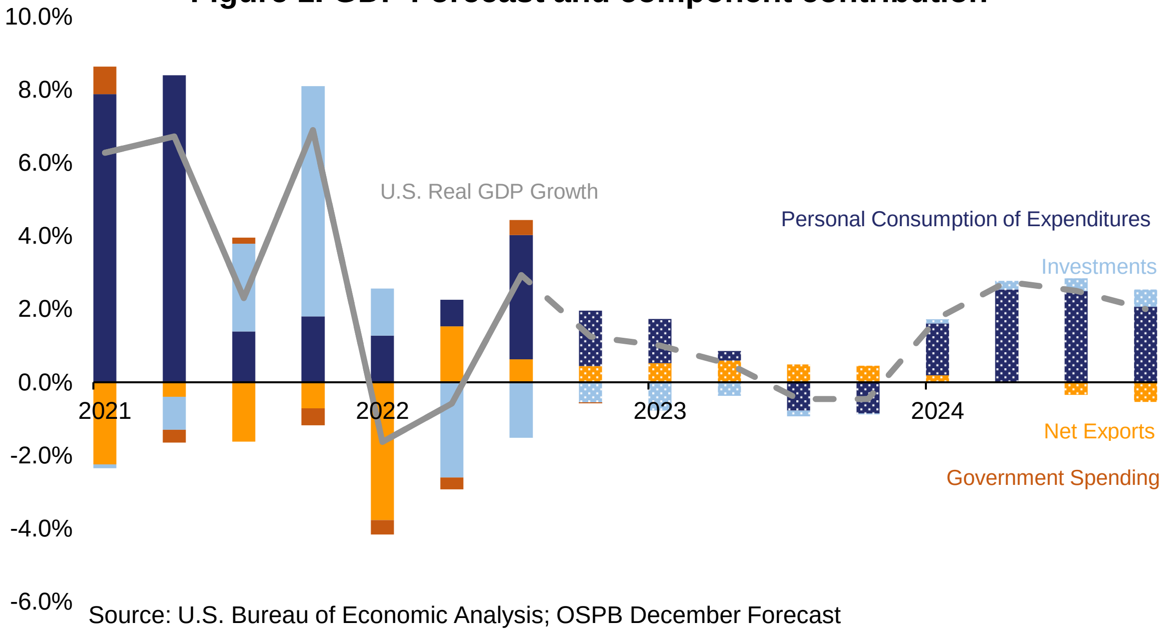
Gross Domestic Product

Nationally, US real economic growth increased by 2.9 percent in the third quarter, after a 0.9 percent decline in the second quarter. The decline earlier in the year was driven by a significant trade deficit, as net exports hit historic lows and companies miscalculated consumer demand for goods and overstocked their inventories. Consequently, retailers purchased fewer items for their shelves, leading to reduced inventory growth. Shrinking structural investments (particularly those related to the housing market) as a result of rising interest rates also drove the second quarter decline. In contrast, the most recent quarter showed stronger growth as trade disruptions abated and personal consumption remained strong in the face of high inflation and rising interest rates.

As a result of these trends exceeding expectations, 2022 US GDP growth has been revised up from 1.6 percent in September to 1.9 percent. Despite a slightly larger downturn in the second half of 2023 compared to last quarter's expectation, the 2023 growth forecast is also revised up from 0.7 percent to 0.8 percent based on a better start to the year. In 2024, stronger growth is expected to resume, though growth has been revised down from 1.9 percent to 1.3 percent due to the later downturn producing a lower GDP level to start the year. Colorado GDP for 2022 and 2023 has been revised up from 1.9 percent and 0.8 percent respectively to 2.1 percent and 1.0 percent, slightly higher than the national average. This is due to the relatively higher concentration of service firms in the state, which are expected to fare relatively better.

Figure 1 depicts quarter-over-quarter annualized growth in real GDP, where the line represents GDP growth and the bars depict the four respective drivers of GDP growth/contraction: 1) personal consumption expenditures (PCE); 2) inventories and investments; 3) net exports; and 4) government spending.

Figure 1. GDP Forecast and component contribution



Source: U.S. Bureau of Economic Analysis; OSPB December Forecast

PCE, the largest component of GDP, exceeded expectations in the third quarter as the shift towards service spending continues and retail sales (largely categorized as goods) are growing stronger than previously expected. The resilience in consumer demand in the face of high inflation and tight monetary policy can be attributed to persistent increases in wages generated by a tight labor market, a lower savings rate than expected, and an increased reliance on credit. As for the components of PCE, both durable and nondurable goods expenditures are forecast to slow to their pre-pandemic shares of total consumption in the first half of 2023 before undershooting in the second half of the year and returning to trend by 2024. Meanwhile, services spending is expected to overshoot by the first half of 2023 before slowing in the second half of the year due to constraints from wages, diminished excess savings, and lowered credit availability. Like goods spending, consumption of services is expected to return to trend by 2024.

Investments are expected to drag GDP through 2023, led primarily by the residential real estate sector as a consequence of tightening monetary policy. This drag will be partially mitigated by moderate inventory growth as retailers and manufacturers rebuild supplies now that the apparent overshoot in orders, which characterized the first half of 2022, has resolved itself. By 2024, the Fed is likely to ease rates as inflation normalizes, after which investments and inventories are expected to boost GDP.

Net exports are expected to increase as spending continues to shift away from goods produced abroad and towards services, thereby limiting imports. By the second half of 2023, net exports are expected to remain positive as global growth improves relative to the US economy. However, as the US consumer demand normalizes in 2024, net exports will likely exert a small drag on GDP growth.

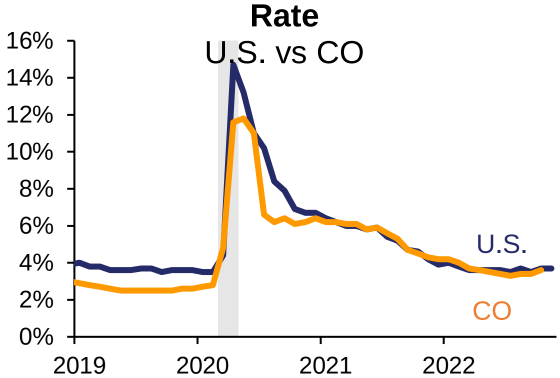
Finally, government spending is expected to have minimal impact on GDP as federal stimulus funds from the American Rescue Plan Act (ARPA), Infrastructure Investment and Jobs Act (IIJA), and the Inflation Reduction Act (IRA) have counteracting effects.

The chances of a recession in the next 18 months are estimated at 50 percent. The economy has exceeded expectations over the past quarter, as the labor market has yet to slow down and higher wages and salaries place upward pressure on inflation. Depending on the extent and persistence of these effects on inflation, the Federal Reserve could hike the Federal Funds rate higher than previously expected. Such action would fulfill their primary mission of tethering inflation expectations, but comes with the risk of stifling continued growth. Further, the risk of consumers running through excess savings and available credit due to the interaction of resilient demand and continued high inflation could cause PCE to fall further in the second half of 2023, especially if wages begin to slow more quickly than inflation. Fed action may also cool down the housing market too quickly, placing downward pressure on prices through lower demand amid rising interest rates. On the other hand, the persistence of a tight labor market, as well as the likelihood that supply related constraints impacting inflation (particularly in gas, food, and vehicles) will abate, may increase economic resilience. This forecast assumes that the current geopolitical climate, particularly the war in Ukraine, remains static in the near term.

Labor Market

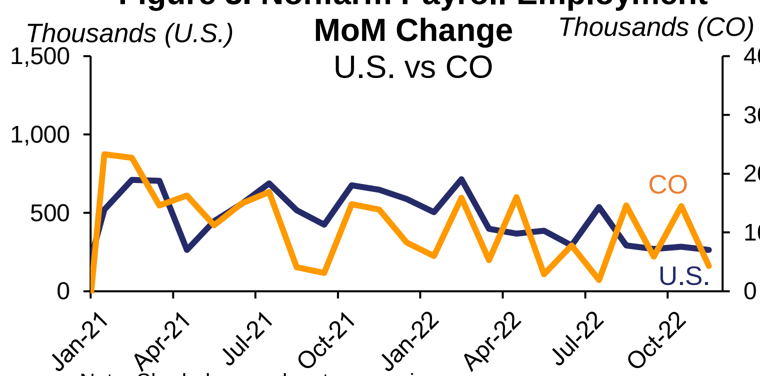
The labor market both in Colorado and nationwide remains tight, as unemployment rates have stayed low relative to historical levels. Since April, the Colorado unemployment rate has risen by 0.2 percent from 3.3 percent to 3.5 percent in November and overall US unemployment was at 3.7 percent in November. After trailing national job growth in the late summer, Colorado has outpaced the nation's monthly job growth in the early fall and added 14,500 nonfarm jobs in October, before settling down to 4,300 jobs in November. Meanwhile, US growth has stabilized between 250,000 and 300,000 jobs added per month for each of the past four months, with 261,000 jobs having been added in October. These figures also exceed the pre-pandemic average monthly job growth of 190,000 from January, 2019 through February, 2020.

Figure 2. Unemployment Rate



Note: Shaded areas denote recession.
Source: Bureau of Labor Statistics

Figure 3. Nonfarm Payroll Employment MoM Change

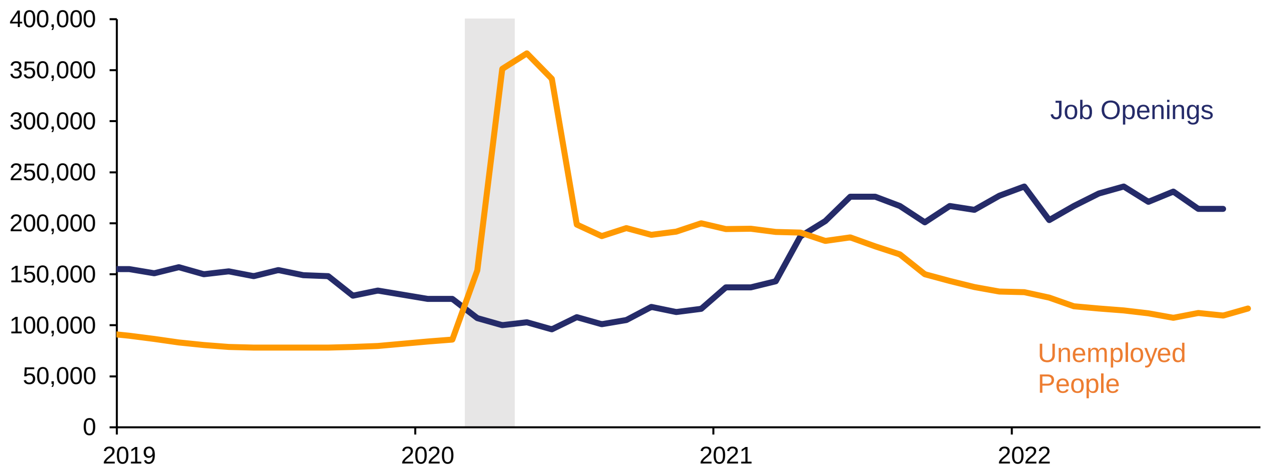


Note: Shaded areas denote recession.
Source: Bureau of Labor Statistics, retrieved from FRED

Labor force participation also remains elevated in Colorado at 69.2 percent (ranked second in the nation) as compared to 62.1 percent for the US. Moving into early 2023, OSPB expects these trajectories to continue. Unemployment appears likely to average 3.6 percent for 2022 in Colorado and 3.7 percent in the US as a whole, followed by a slight uptick in 2023 to 3.9 percent and 4.1 percent and finally annual averages of 4.0 percent and 4.2 percent for the US and Colorado respectively, consistent with slowing economic growth and a slackening labor market in late 2023.

Overall, labor demand (measured by the number of job openings) remains higher than additional labor supply (measured by the number of unemployed persons actively seeking employment). Despite interest rate hikes by the Federal Reserve as well as the prevailing economic narrative around layoffs and hiring slowdowns, job openings remain high, with 0.51 unemployed persons per job opening in Colorado, or nearly two open jobs per unemployed person.

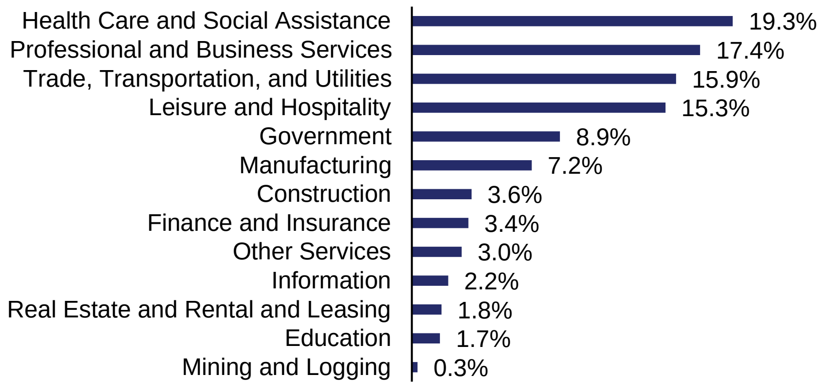
Figure 4. CO Job Openings vs. Unemployed People



Note: Shaded areas denote recession.
Source: Bureau of Labor Statistics

As shown in Figure 5, total job openings continue to be driven by openings in industries affected disproportionately by the pandemic. These industries include: health care and social assistance; trade, transportation, and utilities, and leisure and hospitality.

Figure 5. Percentage of Total US Job Openings by Industry
October 2022



Source: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey.

Given the persistence of the gap between the labor supply and demand, it is likely that interest rate hikes will pass through to firms' hiring decisions and lead to a retraction in demand. However, this will initially have little effect on overall unemployment as demand is likely to remain below labor supply, thereby muting the particularly high levels of unemployment seen in previous economic slowdowns. Nonetheless, certain industries which are more sensitive to interest rate hikes and slowing economic conditions may see a greater retraction in labor demand. These include tech jobs as well as construction (though this may be lagged or avoided given the backlog of residential construction in Colorado).

Colorado's labor force participation rate of 69.2 percent exceeds pre-pandemic levels and outpaces the national average, which has stagnated between 62.1 percent and 62.4 percent since January (more than one percentage point below pre-pandemic levels). Investigating the lagging US labor force by demographic group, the pandemic discrepancies in recovery rates have partially resolved and similar lags in participation are now observed across nearly all groups. The composition of the labor force by gender currently sits at 68.0 percent for men and 56.5 percent for women, figures which are 1.3 and 1.4 percent below their pre-pandemic levels respectively. By race and ethnicity, Asian workers have seen the strongest recovery and are the only group to have recovered above pre-pandemic levels, as participation among these workers is 0.6 percent higher than February 2020. Meanwhile, those identifying as Hispanic or Latino have seen the slowest recovery in labor force participation, still lagging 2.3 percent below pre-pandemic levels. Labor force participation is also stratified by education. Those possessing a bachelor's degree or higher have recovered to 0.7 percent below pre-pandemic levels of participation, whereas those with a high school education or less remain 2 percent or more below pre-pandemic levels. These figures can likely be attributed to the demographic breakdown across various industries, which have seen differentiated recovery rates. Going forward as excess savings diminish and available revolving credit has already been utilized, there will likely be a further rebalancing, particularly related to lower earners as they reenter the labor force, drawn by a need for additional money.

Wages and Income

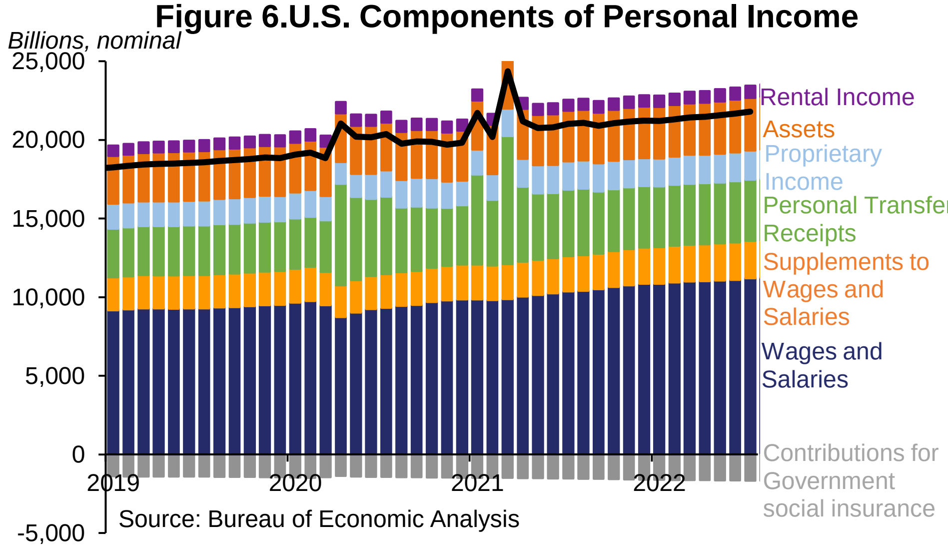
Since the previous OSPB forecast, the Bureau of Economic Analysis (BEA) has revised Personal Income and Outlays reporting for recent years. Wages and salaries for 2021 were revised down for both Colorado and the US, but overall personal income was revised up due to increases in proprietor's income and income from assets. Even with the downward revision, wage growth remains elevated due to the tight labor market and resulting competition for workers.

Nominal aggregate wage growth, as a measure of all employed wages, continues to experience historic highs due to current rapid employment growth and overall labor shortages relative to job openings, which have motivated businesses to raise wages. Sustained wage growth in 2022 has led to upward revisions in aggregate wages and salaries for Colorado despite the downward revision in nationwide aggregate wages reported by the National Income and Product Accounts (NIPA). Colorado's stronger performance in aggregate wages and salaries stems from significantly higher average hourly earnings in Colorado relative to the national average as a result of tighter labor market conditions given the higher labor force participation rate.

However, this trend is expected to normalize in mid-2023 as demand for workers decreases amid slowing economic expectations, lower corporate profits, and higher costs of new investment. Therefore, 2023 average nominal aggregate wage growth is expected to moderate to historical rates of 4.7 percent for the US and 5.7 percent for Colorado. OSPB expects the number of job openings to decrease enough to only slightly outpace the number of unemployed persons, due to higher interest rates and higher perceptions of recession risk that limit business investments and hiring. Furthermore, the number of unemployed persons is expected to temporarily increase towards the end of 2023 and into 2024, and aggregate wage growth will slow as the newly unemployed persons are no longer earning wages.

Wages and salaries accounted for just over half of all income in the third quarter of 2022, and growth in total personal income for 2022 is expected to be 4.4 percent. Moreover, total personal income growth is expected to exceed wage growth due to the BEA's upward revisions for proprietary and asset income. The

Figure 6.U.S. Components of Personal Income



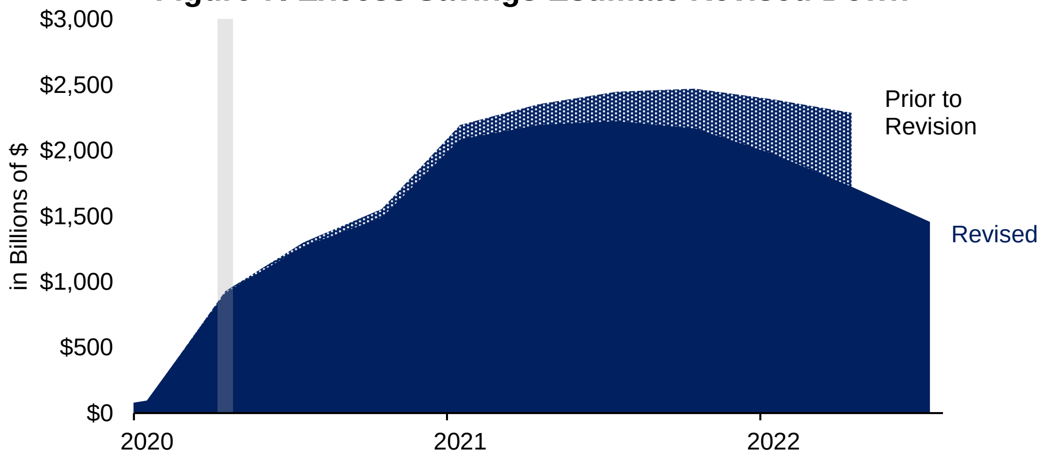
Source: Bureau of Economic Analysis

sole reason that growth in personal income is significantly lower in 2022 as compared to 2021 is due to the elevated personal transfer receipts as a result of the effects of the stimulus payments and unemployment benefits provided by the American Rescue Plan Act (ARPA). Such benefits also helped to provide strong fundamentals for household finances, including excess savings, which translated into lesser need for new credit.

In 2023, nationwide personal income is expected to grow to 3.8 percent, higher than 2022 but slower than wage growth, as slowing consumer spending limits proprietor income and equities markets further limit opportunities for growth in income from assets. Upside risks to personal income include stronger wage growth (based on higher firm investment in the face of rising interest rates and recession risk) and less of a decline in asset prices. Downside risks to personal income include a more pronounced downturn than anticipated, which would likely further shrink assets and proprietary income as business profits decline more sharply. Additionally, this forecast assumes a rental market based on current limited supply of homes relative to demand. However, if monetary policy begins to eat more significantly into housing prices, this could limit rental income growth as well.

The downward revisions of NIPA indicate a lower peak of excess savings than previously thought, as PCE was revised up more than Personal Income. This suggests that excess savings will be depleted by mid-2023 for the majority of people, particularly those in the bottom two income quartiles. The Federal Reserve estimates that only 21 percent of remaining excess savings are held within the bottom 50 percent of income, whereas the top quartile of income held 48 percent of remaining savings by mid-2022. The same report indicates that the bottom quartile used to hold 12 percent of excess savings two years ago, a figure which now sits at 5 percent. Overall, the share of excess savings has shifted more heavily towards being owned by wealthier households.

Figure 7. Excess Savings Estimate Revised Down

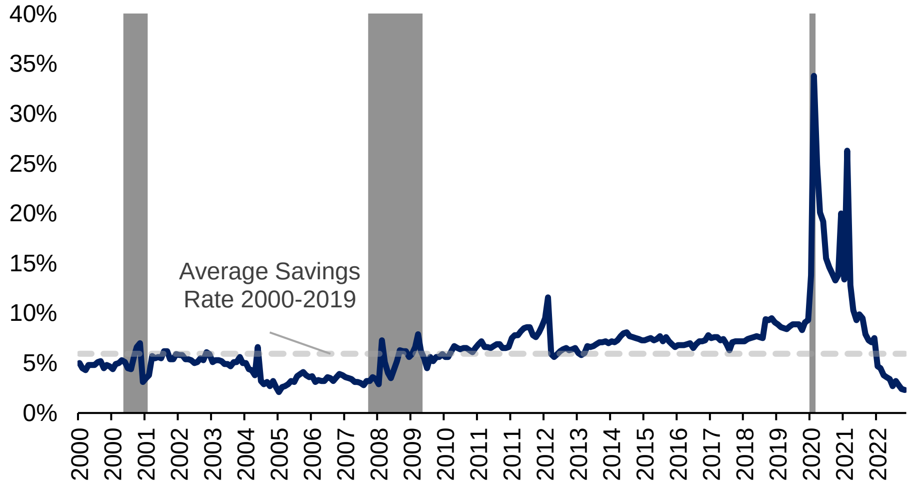


Note: Shaded areas denote recession
Source: Bureau of Economic Analysis

Aggregate excess savings were assumed to peak at about $2.5 trillion prior to NIPA's revisions. However, those estimates have now been significantly reduced as personal expenditures and other outlays were revised up by a larger amount than personal income. Prior to the revisions, excess savings in the second quarter of 2022 were estimated at $2.3 trillion, but have since been revised down to $1.7 trillion. In the third quarter, they fell to under $1.5 trillion. The methodology used to arrive at these numbers involved creating log linear trends (based on 2015-2019 history) for the components of flow savings (disposable income, PCE, and other outlays) and then tracking the flow of these variables relative to their long-term trends. This change to the flow of savings is further evidenced by revisions to the savings rate, as shown by Figure 8 below.

Prior to the NIPA revision, the savings rate was around 5 percent, but this has since been revised down with the most recent data registered in October, 2.3 percent, marking a 17 year low. Despite the persistence of strong wage growth in many sectors at the present time, high inflation means that only a small percentage of income is saved and many individuals are spending down what remaining excess savings they have.

Figure 8. Personal Savings Rate hits 17 year low



Note: Shaded areas denote recession
Source: Bureau of Economic Analysis

Given the resilience of consumer demand in the face of high inflation, wages and excess savings are likely no longer sufficient for all households to make ends meet and thus households have seen an uptick in leveraging credit in 2022. If the recent pace continues, revolving consumer credit owned and securitized as a share of disposable personal income will rise above the 2019 average by the second quarter of 2023. Consumers remain intent on spending in the face of high inflation through a combination of sources, including through this increased credit. However, as interest rates continue to climb and credit begins to exceed its pre-pandemic share of disposable income, consumer demand faces downside risks. It is particularly notable that, while new auto and mortgage loans are less prevalent recently due to high interest rates, credit card borrowing is up. In 2020 and 2021, most consumers were able to run down their credit card balances, but thus far in 2022, borrowers under 30 have been running larger balances. This is the only age group whose balances already exceed their pre-pandemic levels. According to Equifax's

September U.S. National Consumer Credit Trends Report, borrowers in low-income zip codes also now have balances that exceed their pre-pandemic levels.

Over the coming months, it is possible that the pace of revolving credit balance growth will slow, though there are no signs of a significant slowdown as of yet. Thus, if the Fed keeps its lending rates above its long-term levels as consumer demand finally runs out of steam, this limited access to credit and the decline in excess savings alongside normalizing wage growth leads to elevated recession risk of approximately 50 percent.

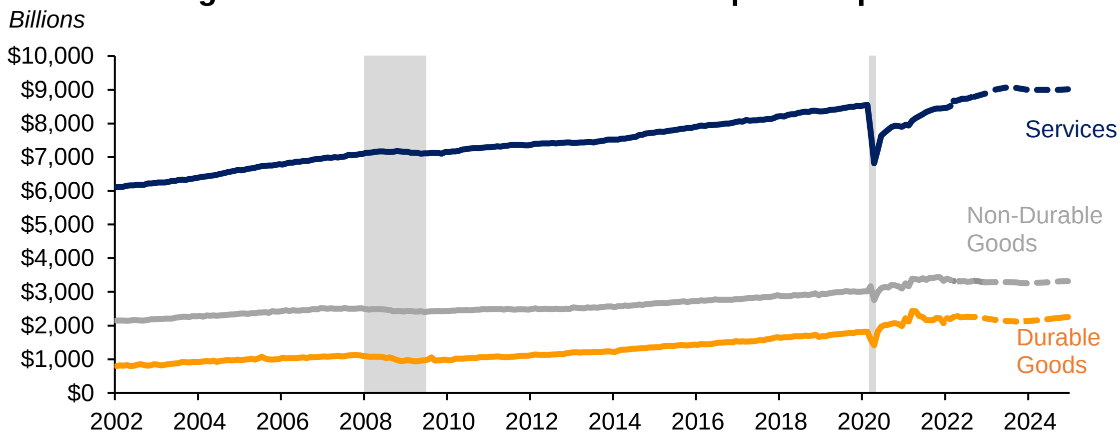
Consumer Spending

Consumer spending remains resilient in both the U.S. and Colorado despite inflationary headwinds and rising interest rates. During the third quarter of 2022, real personal consumption expenditures (PCE) grew at an annualized rate of 1.7 percent. Though real annualized goods spending contracted by 0.2 percent, this contraction was more than outweighed by strong services spending of 2.7 percent. Even in the first two quarters of the year, when real GDP contracted, real spending grew at annualized rates of 1.3 percent and 2.0 percent. In Colorado, consumption is outpacing the nation, with strong spending in the services sector lifting overall spending. Year-to-date retail sales growth in the state is nearly double the inflation rate, reflecting strong real spending growth. Moving into 2023, real spending at both the state and national level is expected to moderate over the first half of the year before turning slightly negative in the second half. Over the course of 2024, real spending growth is expected to recover and return to slow positive growth.

After well above-average growth of 8.3 percent in 2021 as the economy rebounded from the economic effects of the pandemic, real PCE has returned to historical trend growth in 2022. Consumers have remained resilient in the face of 40-year high inflation and rising interest rates, as sustained services spending growth has buoyed overall growth, particularly as real goods spending has retracted through all three quarters of the year thus far. From the first to the third quarter, real services spending grew at annualized rates of 2.1 percent, 4.6 percent, and 2.7 percent respectively, while real goods spending has retracted at rates of -0.1 percent, -2.6 percent, and -0.2 percent respectively. Following dampened services spending during the heights of the pandemic, the rebound and continued robustness in services spending comes as consumers have begun to fully engage again with the sector throughout 2022. This consumer behavior, combined with the effects of inflation and high interest rates, have led consumers to pull back on goods spending.

This dynamic is expected to continue through the end of 2022 and into the first half of 2023. While real goods spending will continue to retract, overall PCE growth is expected to remain positive, driven primarily by services spending. In the September forecast, spending was expected to slow earlier in 2023, but due to its continued strength, it is now expected that real growth continues throughout the first half of the year. In the latter half of 2023, a slowing economy, a slackening labor market, lowered savings, and lighter wage gains are expected to drag real spending for both goods and services, turning real PCE growth negative overall. However, real spending is expected to grow and recover to trend in 2024. Figure 9 depicts these historical and expected trends broken out by services, durable goods, and nondurable goods.

Figure 9. U.S. Real Personal Consumption Expenditures



Note: Shaded areas denote recession
Source: Bureau of Economic Analysis; OSPB December 2022 forecast

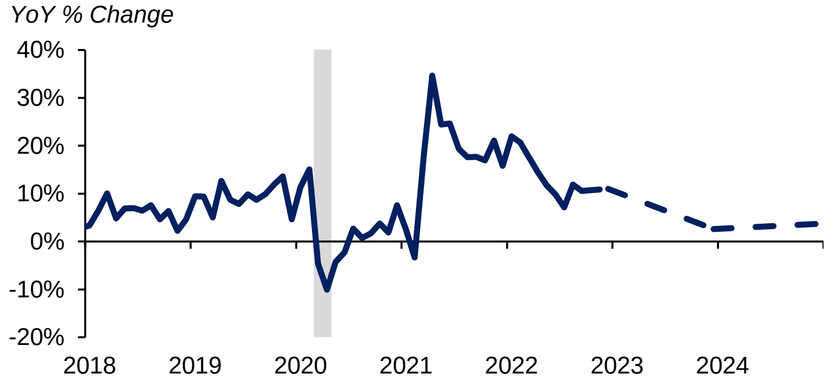
Retail sales also continues its strength with nominal national retail sales registering 9.9 percent growth through the first 10 months of 2022 as compared with the same period in 2021. The restaurant and bar sector underlies a significant amount of this strength, making up 13.1 percent of all retail sales and growing at 17.5 percent year-to-date, while gas station sales have grown 34.4 percent year-to-date, largely due to retail gasoline price increases, particularly during the spring and summer months. Conversely, durable goods such as automobiles and building materials are dragging on overall retail growth in the face of inflationary pressures and higher interest rates. At 9.9 percent, national retail sales growth remains above the November

Figure 10. U.S. Retail Sales Growth and Inflation

Note: Shaded area denote recession. Dotted line indicates forecast.
Source: Census Bureau; Bureau of Labor Statistics; OSPB December 2022 Forecast

inflation print of 7.1 percent, reflecting continued real growth. Retail growth is expected to end 2022 at 9.8 percent before slowing considerably in 2023 to 2.4 percent as spending and the overall economy slows before rebounding to 2.9 percent in 2024. With inflation expected at 4.2 percent in 2023, real retail sales growth is expected to be negative for the year before resuming positive growth in 2024. This forecast is displayed in Figure 10.

Figure 11. CO Monthly Retail Sales

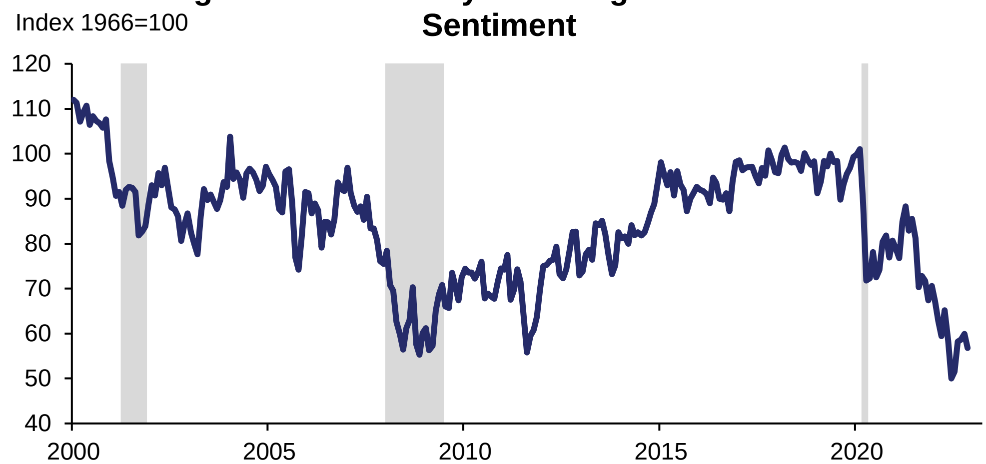


Note: Shaded areas denote recession
Source: Colorado Department of Revenue

In Colorado, nominal retail sales growth is considerably outpacing the nation at 13.5 percent year-over-year growth through the first nine months of the year. This figure is particularly strong when compared with the state's November inflation rate of 6.9 percent. In line with national trends, the restaurant and bar sector is displaying especially strong year-over-year growth of 16.6 percent through September, while other service sector industries have recorded strong growth as well, such as accommodations which recorded 31.8 percent growth and growth in the arts, entertainment, and recreation sector is currently at 25.4 percent for the year. Colorado has recorded $217.9 billion in retail sales during the first nine months of 2022, compared with $192.1 billion over the same period in 2021. Statewide retail sales growth is expected to moderate from current levels over the final quarter of the year as compared to the final quarter of 2021, though end at a well above-average 12.8 percent. Like the US, real growth is expected to turn negative in 2023, though nominal growth is expected to remain positive at 2.6 percent before rebounding to 3.7 percent in 2024, which will again reflect real growth. Figure 11 illustrates historical retail sales growth in the state along with the forecast.

Though consumer sentiment has rebounded from the trough experienced during peak gas prices, it remains at levels not experienced since the Great Recession, as inflation, high interest rates, lowered savings rates, and global uncertainty weigh on sentiment. Low sentiment throughout much of 2022 has not translated into topline lessened spending, though inflation and interest rate hikes have placed a drag on certain aspects of consumption, such as durable goods, especially items like vehicles and building materials. Figure 12 depicts historic consumer sentiment data.

Figure 12. University of Michigan Consumer Sentiment



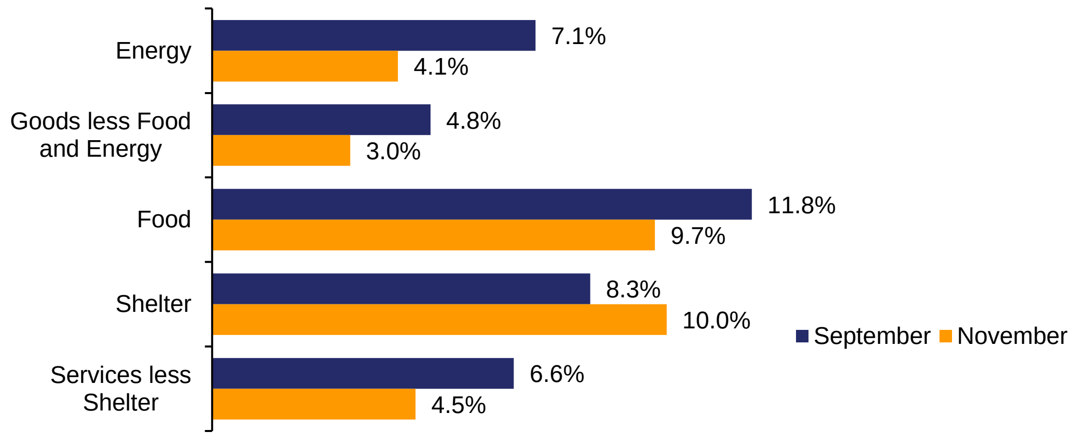
Note: Shaded areas denote recession
Source: University of Michigan

Despite the resiliency of consumer spending throughout 2022, which has remained strong in the face of a litany of economic headwinds, the consumer spending outlook is weighted to the downside as a result of heightened inflation, interest rate increases, souring consumer sentiment, and dwindling individual savings. Services spending will continue to buoy overall spending growth through the first half of 2023 before real growth turns negative as overall spending slows in the second half of 2023 at both the state and national level.

Inflation

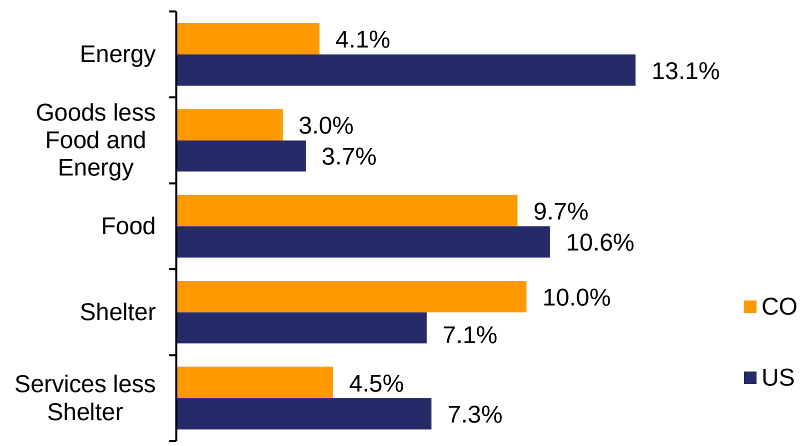
After peaking over the summer at 9.1 percent in both the US and Colorado, CPI has steadily declined through the fall, with US and Colorado CPI down to 7.1 percent at 6.9 percent respectively in November. These levels are below expectations from the September forecast. In particular, while shelter has generally exceeded forecast expectations and continues to keep price growth elevated, energy, goods, and services inflation have come down considerably more than anticipated over the course of the fall. Food inflation declined along with expectations in November. These trends indicate that many of the key drivers are moderating, including supply chain constraints on goods, gas prices at the pump, and food price growth related to the Ukraine conflict and input prices. However, risk to the forecast exists for higher inflation, particularly for Colorado where shelter inflation neared 10 percent in November. Figure 13 below exemplifies these trends, showing inflationary pressure in Colorado by category in November vs. September.

Figure 13. CO YoY Inflation by Major Component November vs. September 2022



Source: Bureau of Labor Statistics; Author's Calculations.

Figure 14. YoY Inflation by Major Component November 2022



Source: Bureau of Labor Statistics; Author's Calculations.

For the rest of the year and into 2023, overall inflation is expected to continue to moderate faster than expected previously. OSPB has revised downward expectations for goods, energy, and service inflation, whereas a slight revision upward has been made for food and a larger revision upward has been made for shelter. Headline CPI for Colorado for 2022 has been revised downward from 8.3 percent to 8.0 percent, while national CPI for the year has been revised downward from 8.2 percent to 8.1 percent. Moving into 2023, Colorado CPI has been revised down from 4.5 percent to 4.2 percent and US CPI expectations have dropped from 4.2 percent to 4.0 percent. Trends in inflationary pressures in the US and Colorado are broadly similar, though show some differences in magnitude of specific categories, such as energy and shelter inflation. These trends are displayed in Figure 14.

Energy

- *Recent Data:* US energy inflation has declined from a June high of 41.6 percent to 13.1 percent in November, alongside gas prices that have dropped 25.2 percent from $4.93 to $3.69.[1] Over the same period, energy inflation in Colorado is down from 31.7 percent to just 4.1 percent.
- *Factors Driving Prices:* Energy inflation initially spiked as a consequence of the conflict in Ukraine, bolstered by increased demand for energy from shipping and individual consumers. However, increased energy production and increased inventories have since combined to drive prices down. Moreover, slowing demand as well as market concerns related to slowing global economic growth over the next year, have also exerted downward pressure on oil and gas prices.
- *Expectations:* While no additional large-scale declines in energy prices are expected over the forecast period, energy price growth is expected to moderate and turn slightly negative on a month over month basis in early 2023 as a result of the factors discussed above and the base effects of last year's historic price hikes. While demand is projected to fall, lingering uncertainty over supply disruptions and slowing production means that year-over-year energy inflation is expected to drop below zero by March 2023.

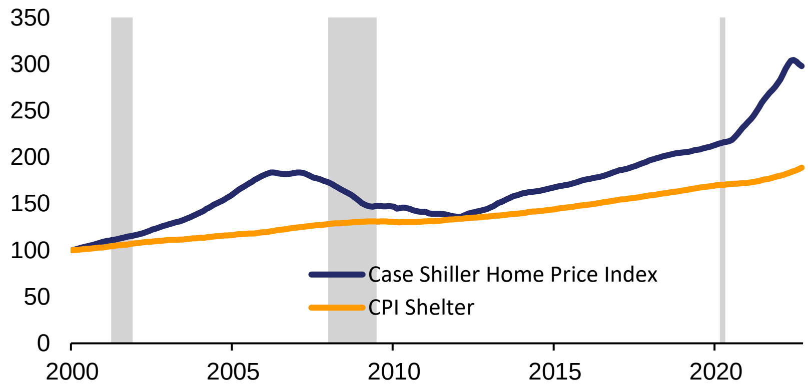
Shelter

- *Recent Data:* In contrast to housing prices, which have been on a downward path since this summer, the shelter component of CPI has continued to rise to new heights, particularly in Colorado where the year over year rate was at 10.0 percent in November, as compared to a national rate of 7.1 percent for the same month.

[1] U.S. Energy Information Administration, available at https://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=emm_epmr_pte_nus_dpg&f=m.

- *Factors Driving Prices:* Though housing prices influence shelter inflation, the figure is derived from rent and rent-equivalent prices, which are much more resilient to rapid changes than housing prices, as demonstrated by Figure 15 below. For instance, during the Great Recession, rental prices declined for just a few months and came down only 1 percent from peak to trough, however housing prices declined consistently over multiple years for a total of 26 percent. In today's market, mismatched supply and demand continue to exert upward pressure on shelter inflation, particularly in Colorado where underlying demand remains heightened. Still, moving forward, Federal Reserve interest rate hikes and their impact on consumer demand should eventually place downward pressure that moderates shelter inflation.

Figure 15. Housing Index and US CPI Shelter



Note: Shaded areas denote recession.
Source: Federal Reserve Bank of St. Louis; Author's Calculations.

- *Expectations:* It is anticipated that despite hitting a rate of 10.0 percent in November, Colorado shelter inflation has not yet peaked and will eclipse 10 percent in January 2023 before taking a downward trajectory. Even then, month over month growth in shelter prices will remain elevated above normal levels and the year-over-year numbers will remain positive despite downward pressure on housing prices due to interest rate hikes, given the sticky nature of high rental prices.

Goods minus Food/Energy

- *Recent Data:* Goods inflation has continued to moderate both in the US as a whole and in Colorado specifically, as year over year rates for November were 3.7 percent and 3.0 percent in the US in Colorado respectively.
- *Factors Driving Prices:* Supply-chain disruptions related to the pandemic have continued to dissolve and inventories continue to return to more normal levels across the US. Consumer demand for goods has remained quite high, though that has not applied consistent upward pressure on prices given the countervailing forces referenced above. Additionally, while new COVID-related disruptions have flared up in Asia, these

disruptions have yet to pass through to prices for goods in the US and are not anticipated to have noticeable effects.

- *Expectations:* Goods inflation is expected to return to more "normal" levels of around 2 percent in both the US and Colorado by the end of 2023 and onward as consumer demand ramps down and any small remaining supply chain issues fully resolve.

Food

- *Recent Data:* Food prices have declined slightly more slowly than previously expected in both the US and Colorado, though they do continue to fall. US food prices have dropped from 11.4 percent in August to 10.6 percent in November. Similarly, food inflation in Colorado dropped from 12.0 percent in July to 9.7 percent in November.
- *Factors Driving Prices:* The effects from the conflict in Ukraine continue to constrain the supply of corn and wheat. However, Russia recently agreed to the extension of an agreement allowing Ukraine to resume shipping of wheat and other products to global markets. The extension of this agreement has already been felt via lower commodity prices for wheat. Still, food costs remain more elevated than expected as a result of that conflict, continued high input prices for fertilizers, and lower water levels affecting agricultural shipments along the Mississippi.
- *Expectations:* Due to the factors above and the recent data, it is expected that food inflation will remain more elevated than previously expected, but will moderate over the course of 2023 such that food inflation will be back to more normal levels in both the US and Colorado of between 2-3 percent year-over-year.

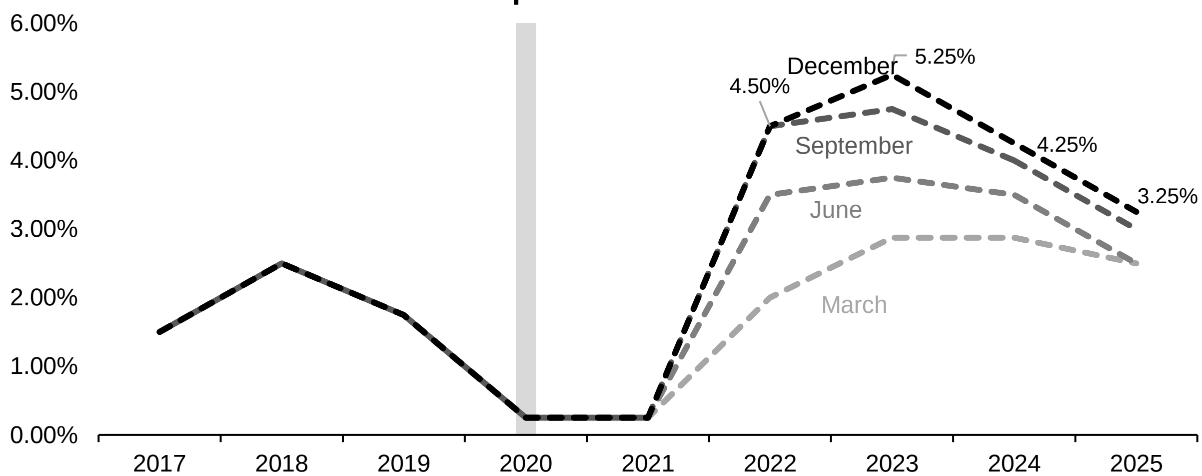
Services

- *Recent Data:* Services inflation reached its US peak in September at 8.2 percent before dropping to 7.3 percent. In Colorado, it is also expected to have peaked at 6.6 percent in September and has fallen to 4.5 percent in November.
- *Factors Driving Prices:* Inflation in services has been driven by the shift in spending away from goods and in favor of services as part of the broader rebalancing from the pandemic economy. Increased labor costs in multiple sectors adds to the price pressure from this shift, thus placing upward pressure on prices in labor-heavy service sector industries.
- *Expectations:* As anticipated in September, CPI for services is expected to peak in the fourth quarter of 2022 and this category is expected to comprise a significant share of total inflation in 2023, alongside shelter. However, given recent trends in data, service inflation is expected to play a smaller role in future inflationary pressure than previously anticipated because the economy was better equipped to handle increased services demand without prompting significant price hikes. These downward revisions to services inflation are largely offset by the relatively larger increases in shelter inflation than anticipated, especially in Colorado.

Federal Reserve Action

As a consequence of the inflation rates seen year-to-date in 2022, the Federal Reserve has pursued a tightened monetary policy by gradually raising interest rates, which is expected to continue through the end of the year. Federal Reserve Chair Jerome Powell has expressed the Fed's commitment to using interest rate hikes as a mechanism to slow inflation despite the effects it may have on consumer spending and the labor market. The first interest rate hike of 25 basis points (0.25 percent) occurred in March, followed by a 50-basis point increase in May, then three consecutive 75 basis point hikes in June, July, and September. This has brought the upper bound of the federal funds rate to 3.25 percent. By the end of the year, this figure is expected to be above 4.5 percent after a rate hike of 75 basis points in November and an additional 50 basis point hike in December.

Figure 16. FOMC End of Period Fed Funds Upper Bound Rate Expectations



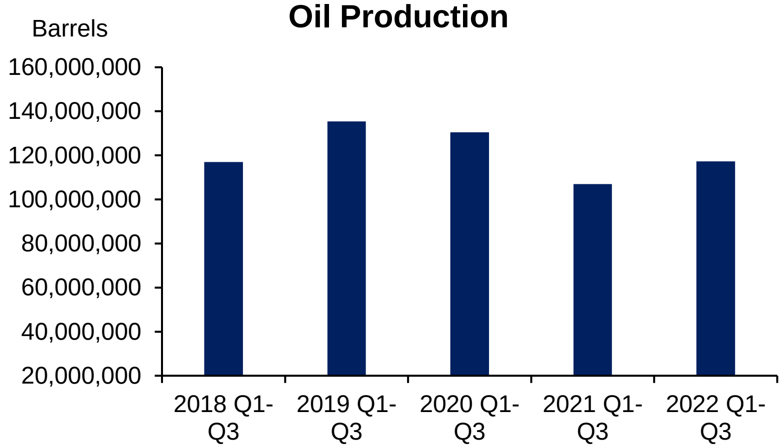
Note: Shaded areas denote recession
Source: Federal Open Market Committee's Summary of Economic Projections

Energy

During the second half of 2022, increased energy production, stabilizing inventories, and slowing demand have exerted downward pressure on oil and gas prices. However, the price forecasts remain relatively balanced as uncertainty and above-average volatility persist due to the potential of supply interruptions and inventories remaining below five-year averages.

During the summer, West Texas Intermediate (WTI) oil prices peaked at over $120 per barrel, driven Russia's invasion of Ukraine which caused supply constraints, low global inventories, and increased demand in the spring and summer months. Since the spring, domestic production has picked up, leading to greater inventories. Combined with lower demand, WTI prices have trended downward and averaged $84.37 per barrel in November. Downward pressure on oil prices have led to reduced prices at the pump, as retail gas prices declined from a national average of nearly $5 per gallon over the summer to less than $3.40 in early December. Colorado prices remain below the national average at around $3.05 as of early December. Similarly, with rising production, natural gas has recorded a significant price drop from a summer high of nearly $10 per million BTU to $5.45 in November. Increased stockpiles in Europe, via increased American exports to replace Russian gas, have also provided more stability to the market and given Europe secure reserves for winter.

Figure 17. January - September Colorado Oil Production

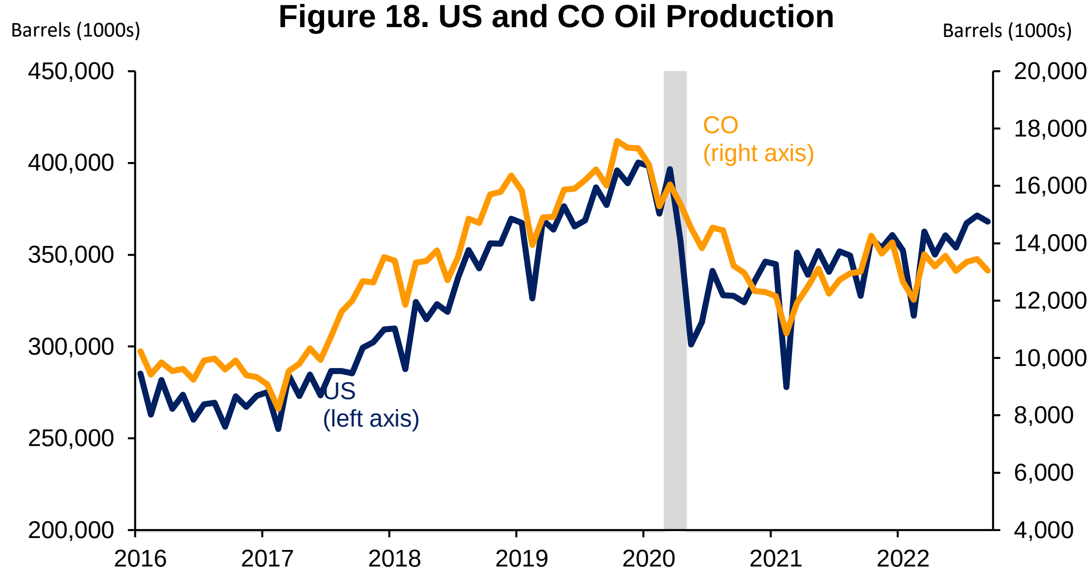


Note: This chart depicts the top six oil-producing counties in Colorado which make up approximately 98% of production.
Source: Colorado Oil and Gas Conservation Commission.

Compared with the first three quarters of 2021, the first three quarters of 2022 have seen oil production increase by 5.6 percent nationwide, whereas Colorado production levels are currently 9.7 percent higher than one year ago and are slightly higher (0.4 percent) year-to-date than in 2018 – the second highest oil production year for the state. Figure 17 provides a five-year view of Colorado oil production through the first three quarters of the year.

While production levels at both the national and state level have still not reached 2019 pre-pandemic highs, as shown in Figure 18, the Energy Information Administration's December forecast[2] projects that domestic oil production in 2023 will outpace 2019 levels and set a new domestic production record high.

Figure 18. US and CO Oil Production



Note: Shaded area denotes recession
Source: Energy Information Administration; Colorado Oil and Gas Commission

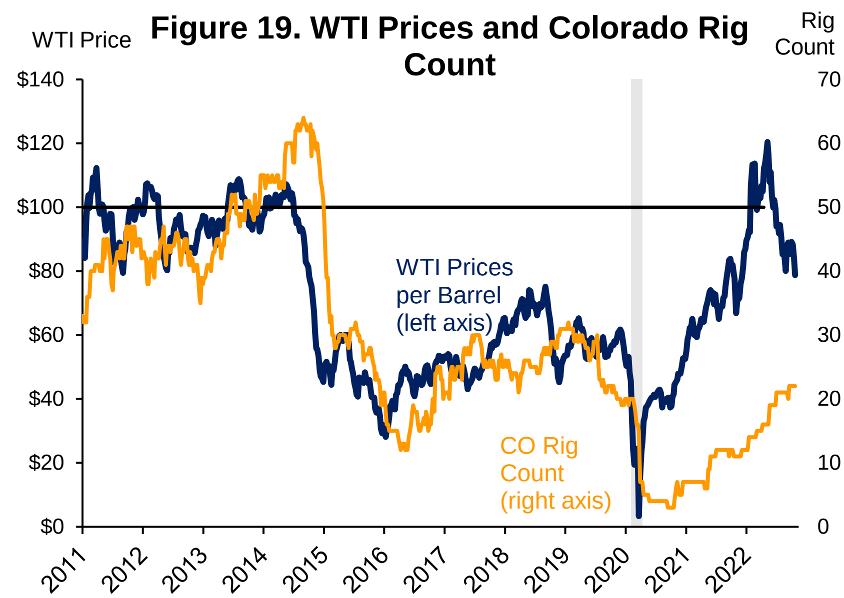
A large part of the production growth in Colorado over the course of 2022 stems from the growing rig count. As of November, the Colorado rig count was 22 – double the amount (11) from the start of the year. This is the highest rig count in the state since November 2019, and this increase over 2022 has led to more production, likely pointing to an additional production increase through the remainder of 2022 and the first half of 2023 in response to sustained high price levels. However, after the 2015 and 2020 oil and gas market contractions, firms nationwide appear slower to invest in increased production compared to recent high commodity price environments due to increased labor costs, intensive capital costs for production, current debt levels, and a fiscal incentive to maintain stable investment levels that result in higher profit margins due to elevated WTI prices. Moreover, investor preference for public firms to focus on debt reduction and dividends in lieu of growth is also factored into production decisions. Nonetheless, production is expected to increase, albeit at a moderate pace. Even with a slowing demand forecast, WTI prices are expected to remain above average with demand levels still expected to outstrip supply, which should lead to sustained levels of production.

[2] U.S. Energy Information Administration, available at https://www.eia.gov/outlooks/steo/pdf/steo_full.pdf

While domestic oil production remains three percent lower than the pre-pandemic peak in 2019, natural gas production exceeds pre-pandemic production levels. Through the first three quarters of 2022, domestic natural gas production is 6.9 percent above 2019 levels, an average that exceeds statewide natural gas production.

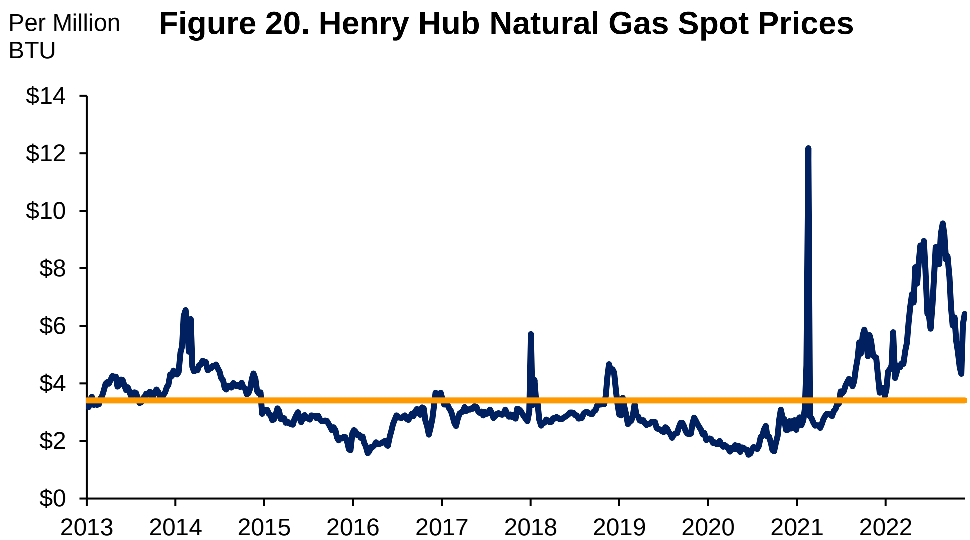
Globally, much of the natural gas price volatility that has taken place in 2022 has been closely tied to Russia's invasion of Ukraine, as European markets responded by beginning to significantly curtail natural gas imports from Russia. With a significant amount of supply taken off the market along with low inventories, prices rose dramatically. Figure 20 depicts Henry Hub natural gas spot prices over a ten-year period. The price volatility recorded over the past year is unprecedented over that time frame. In August, the Henry Hub spot price hit nearly $10 per million BTU. Over the course of the year, the U.S. has significantly increased its natural gas production and roughly doubled its natural gas exports to Europe compared to 2021. As a result, inventories have stabilized, and European natural gas stockpiles have grown. This has steadied natural gas prices somewhat as there is now an expectation that Europe will have sufficient natural gas supply for the cold winter months when usage increases. While stockpiles remain strong for 2022, uncertainty remains in

Figure 19. WTI Prices and Colorado Rig Count



Note: Shaded area denotes recession.
Source: Energy Information Administration and Baker Hughes

Figure 20. Henry Hub Natural Gas Spot Prices



Note: The orange line denotes the Henry Hub ten-year average natural gas spot price.
Source: Energy Information Administration

2023 as European stockpiles will have to be replenished again with lessening supply from Russia. Domestically, winter weather in the U.S. is expected to be mild overall, which will lead to stable to declining energy prices.

According to the 10th District Federal Reserve energy survey[3] (which includes Colorado) industry sentiment remains relatively positive regarding drilling and business activity, though it has tempered somewhat since the summer. Looking toward the next six months, industry expects increased capital expenses and drilling and business activity. According to the survey, regional industry states that $61 per barrel is the floor profitable price while $102 per barrel would lead to substantially increased drilling. With WTI prices expected to remain somewhere in that range, production is expected to continue to increase at a slow, steady space in the near-term.

Over the forecast period, uncertainty surrounding macroeconomic conditions could significantly affect energy markets. Slowing growth will likely lead to reduced global and domestic demand, but supply uncertainty also remains. Overall, these pressures are relatively balanced, but the trajectory during the forecast period remains ambiguous due to high levels of uncertainty.

Housing and Rental Market

Colorado has experienced strong growth in home prices since early 2020, largely due to demographic change in the state and skyrocketing housing demand during the pandemic. However, after strong sustained growth within in Colorado and the United States, the housing market has begun to cool. Colorado is expected to maintain growth in 2022 after a year of impressive growth in housing permits issued in 2021.

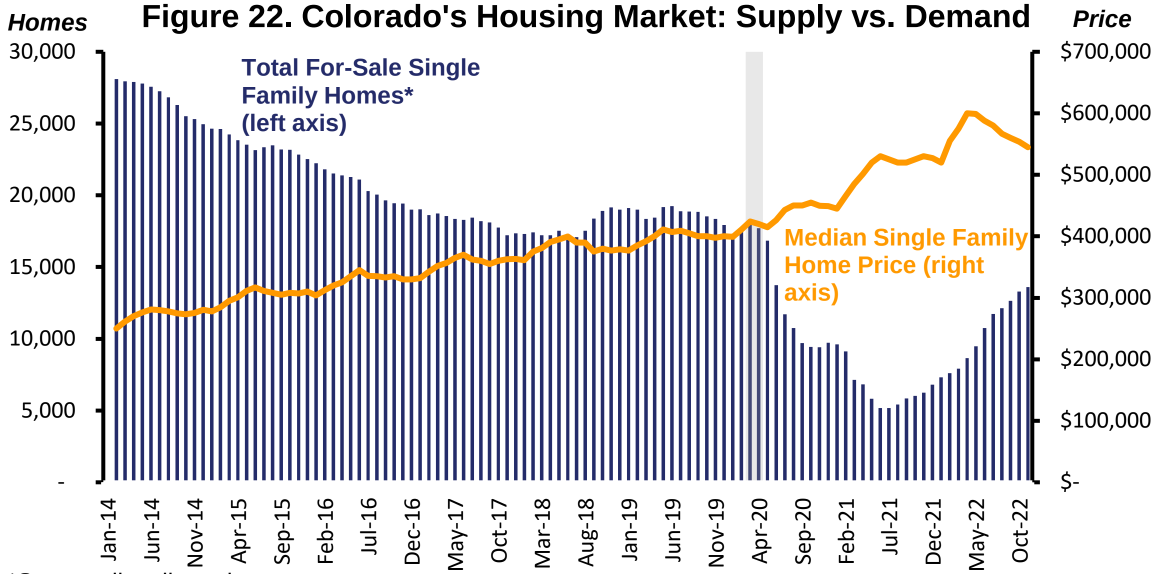
Figure 21. Housing Permits Issued

	Actual			Forecast					
	2020	2021	Change	2022	Change	2023	Change	2024	Change
CO	40,500	56,500	39.7%	57,700	2.0%	48,700	-15.5%	50,000	2.7%
US	1,471,000	1,740,000	18.1%	1,700,000	-2.2%	1,490,000	-12.5%	1,500,000	1.0%

As shown by Figure 21, housing permits in Colorado increased at a much higher rate than that of the US in 2021 (39.7 percent for Colorado as opposed to 18.1 percent nationwide). The housing market has since cooled significantly in 2022, translating to housing permit growth rates of 2.0 percent in Colorado compared to a national reduction of -2.2 percent. Moving into 2023, elevated interest rates are expected to lead to a reduction in building permits for both the US and Colorado before returning to pre-pandemic trends later in the year and into 2024.

[3] Federal Reserve Bank of Kansas City, available at https://www.kansascityfed.org/surveys/energy-survey/tenth-district-energy-activity-grew-solidly/

Figure 22. Colorado's Housing Market: Supply vs. Demand



*Seasonally adjusted
Shading denotes recession
Source: Colorado Association of Realtors

Colorado saw initial housing price growth in 2022 due to the mismatch between supply and demand. However, slowing demand has since placed downward pressure on prices, thereby leading to a slight rebalancing of the housing market. The slowdown in demand is largely driven by worries over upcoming economic conditions, higher interest rates, and importantly the elevated 30-year fixed mortgage rate that have discouraged purchasing. Similarly, the percentage of the listing price received for single family homes in Colorado dropped below 100 percent in October and November of 2022 for the first time since 2021. This drop in purchase price compared to listing price shows that competition over properties in Colorado has declined and more properties remain on the market, signaling the shift from away from a sellers' market.

On the supply side, new listings statewide are down 21.6 percent year to date. Though inventories of active listings are up 56 percent year to date, there may be a mismatch between the specific types of housing that consumers are looking for.

Median house prices are up in the Denver Metro area and in the state overall, as are average home sales prices. This can partially be attributed to fewer aggregate housing units built between 2010 and 2020 (126,000) as compared with the previous decade. Furthermore, the fastest growing household type is among those aged 65 and older, a demographic which tends to move less, thus constraining the supply of housing. Macroeconomic factors and the nature of the housing industry have had an impact as well, as growth in housing availability tends to follow financing as opposed to population growth. Moreover, global supply chain constraints have also had knock-on effects on growth in the housing market, slowing the construction of new units.

Homeownership in Colorado, after falling to a low in 2016, has seen a steady climb upward and is expected to peak in 2023 at around 71 percent. However, housing affordability in Colorado continues to be challenging, as the estimated income required to purchase a median sale price home is over 100 percent of the area median income in the majority of Colorado counties as reported by the Colorado Department of Local Affairs: Division of Housing utilizing US Census Bureau data. This trend is reflected in the rental market as well.

Forecast Risks

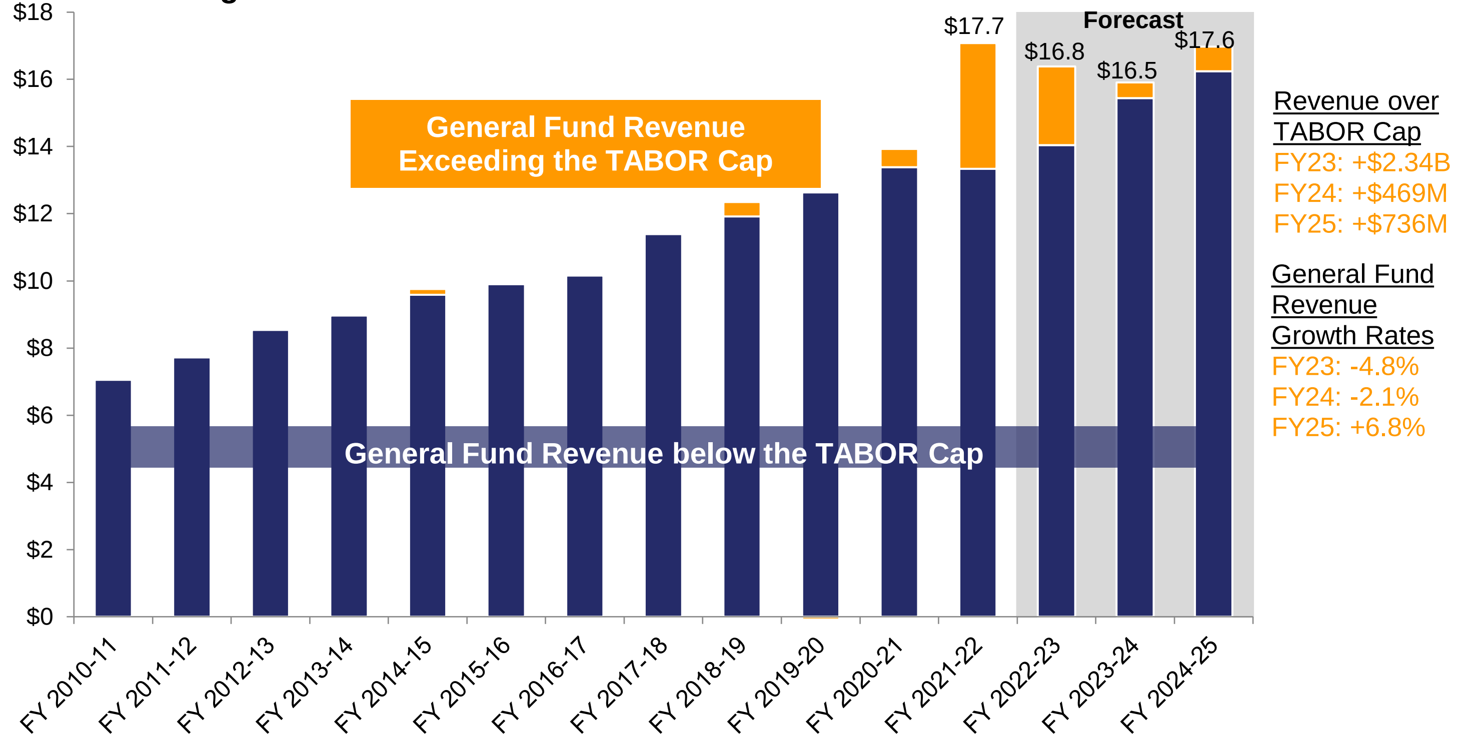
OSPB creates a point estimate forecast, the baseline scenario, for all economic and revenue variables. However, it does explore alternative economic growth scenarios to capture the risks in the economic environment. The baseline scenario includes sustained high inflation until mid 2023, as monetary policy hikes begin to impact consumer and labor demand. While job market loosening is expected, it is still relatively elevated as jobs available are expected to outnumber unemployed persons. However, in 2023, consumers are expected to be over-leveraged on credit card debt as they also deplete their excess savings in the face of high inflation. The resulting pullback in spending is expected to lead to an economic slowdown.

Downside risks to the forecast include labor market demand falling further in the face of higher cost of investment, and a re-emergence of supply chain risks due to global uncertainty. Upside risks include quickly dissipating inflation in food, energy, and goods, with softer growth in shelter inflation in 2023 than expected in the baseline. An additional upside risk is continued strength in consumer demand in the face of high interest rates and low savings in 2023.

General Fund Outlook

General Fund revenue increased 23.7 percent in FY 2021-22 to $17,697.9 million. Following stronger than expected revenue collections year-to-date and a healthier near-term economic outlook, OSPB has upwardly revised General Fund expectations in FY 2022-23. General Fund revenue expectations in FY 2023-24 and FY 2024-25 are downwardly revised due to ballot measure impacts that were approved by voters in November outweighing otherwise upward revisions based upon economic fundamentals. In FY 2022-23, revenue is expected to decline by 4.8 percent and drop by another 2.1 percent in FY 2023-24 before rebounding in FY 2024-25 with 6.8 percent growth. General Fund revenue for FY 2022-23 is revised up by $412.4 million, or 2.3 percent, from September driven by particularly strong individual and corporate income revenue collections and expectations. The forecast for FY 2023-24 is $225.0 million lower than estimated in September as ballot measure impacts and a slowing economy weigh on income tax revenue. The forecast in FY 2024-25 is revised down $39.3 million from September as ballot measure impacts outweigh upward revisions based on expected economic conditions.

Figure 23. Total General Fund Revenue and TABOR Refunds



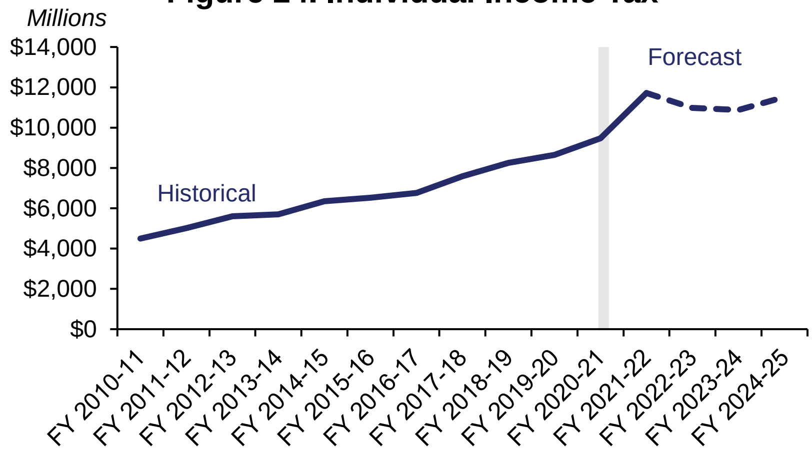
General Fund revenue is projected to exceed the TABOR cap throughout the forecast period. Revenue exceeded the cap by $3.9 billion in FY 2021-22. Going forward, General Fund revenue is projected to be above the TABOR cap by $2.3 billion in FY 2022-23, $469.4 million in FY 2023-24, and $736.5 million in FY 2024-25. This is a revision upward of $439.7 million from the September forecast for FY 2022-23 and a downward revision of $215.7 million and $5.9 million for FY 2023-24 and FY 2024-25, respectively.

Individual Income Tax

Overall Forecast Trends

Individual income tax receipts in FY 2021-22 are estimated to have increased by 23.6 percent compared to the prior fiscal year, to $11.7 billion. This record growth was driven by record estimated payments and cash with returns as the economy rebounded quickly from the pandemic-induced recession. Estimated payments drastically exceeded expectations due to pass-through businesses widely adjusting estimated earnings up from the required levels of the previous year to account for a continuation of growing record profits to start 2022. This business decision was also motivated by firms owing a significant amount in cash with returns in April as a result of under-reporting previous estimated payments. In addition to that, cash with returns increased because of capital gains owed on equity sales during the stock market boom in 2021.

Figure 24. Individual Income Tax



Source: Colorado Department of Revenue, OSPB Forecast

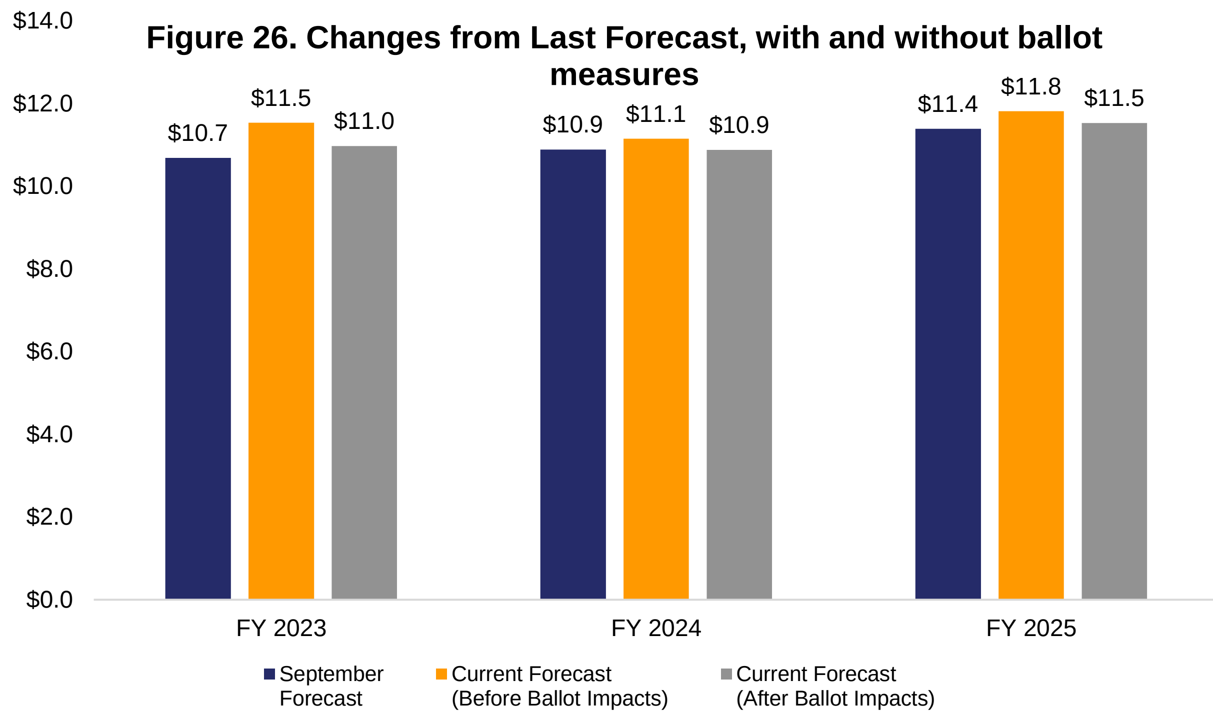
Figure 25. Individual Income Tax Revenue Revisions

Fiscal Year	Total Individual Income Revenue (in $M)	Growth	Revision from Previous Forecast (in $M)	Reasons for Revisions
FY 2023	$10,973.4	-6.4%	$289.1	Increased expectations of cash with returns (especially in FY2023) due to improved business environment expectations largely offsets ballot measures impacts
FY 2024	$10,876.0	-0.9%	($8.7)	
FY 2025	$11,525.5	6.0%	$135.4	

Overall better economic conditions for FY 2022-23 relative to the September forecast outweigh the drag of a lower income tax rate from 4.55 percent to 4.4 percent as a result of Proposition 121: State Income Tax Rate Reduction, resulting in an upward revision of $289.1 million. However, overall individual income revenue is still expected to decrease by 6.4 percent as compared to FY 2021-22. In addition, recent data confirms that cash with returns are not being significantly reduced as a result of proprietors mostly being able to cover taxes with estimated payments alone. This is because the business environment is exceeding expectations as consumers continue to spend at higher rates than assumed in September.

In FY 2023-24, individual income revenue is expected to continue to slow as declining demand and the full weight of tightening monetary policy is a drag on economic growth, and withholding revenue grows below its trend rate while estimated payments continue to fall. However, by the end of FY 2023-24, the economy is expected to stabilize at near equilibrium growth, offsetting the slowdown at the start of the fiscal year and leading to a mere 0.9 percent decline in individual income revenue over the course of the year. In FY 2024-25, overall individual income revenue returns to approximately historical growth of 6.0 percent as the economy is fully stabilized.

Figure 26. Changes from Last Forecast, with and without ballot measures



Component Trends

Withholdings

Individual income tax withholdings account for more than 80 percent of net individual income tax receipts and are closely linked to aggregate wages and salaries. Colorado aggregate wages and salaries are currently strong in response to a historically tight labor market, and the relative pace of growth has been revised up in 2023 because greater labor market resilience in the face of a more aggressive monetary policy path. In calendar year 2022, wage growth is largely unchanged from the September forecast, but wage growth over the course of 2023 is now expected to be 1.6 percent higher compared with previous expectations. This strength in wages and salaries is expected despite the fact that the Colorado unemployment rate is expected to rise slightly in 2023, ending at 4.5 percent next December. Therefore, withholdings are revised down in FY 2022-23 by $372.2 million from the September forecast as a lower tax rate from Proposition 121 more than offsets stronger expected wage and job growth in the first half of 2023. In FY 2023-24, withholdings revenue growth slows further as the labor market continues to loosen, constituting a $308.8 million downward revision from September. Note that without the impacts of Proposition 121, the result would be an upward revision in FY 2022-23 and a small downward revision in FY 2023-24.

Estimated Payments

In FY 2021-22, estimated payments hit a new record, alongside record business earnings. During the second half of 2022, corporations and proprietors have made higher profits than expected in the September forecast, and this strength is expected to continue through the end of FY 2022-23. Therefore, estimated payments decline by 36.9 percent, a slight $46.0 million downward revision from the last forecast due to a lower tax rate more than offsetting earnings gains. Then, as the economy is projected to slow in the second half of 2023, pass-through businesses are expected to respond by reversing course and reducing estimates to account for the new environment. The slowing economy is a result of depressed aggregate demand in the face of higher interest rates, which impacts small businesses and C-corps alike. More expensive lending options and slowing consumer demand are expected to be obstacles on recently formed businesses in particular, many of which were financed during the supportive fiscal and monetary policy over the last two years. Even though the first half of 2024 is expected to rebound to potential growth, proprietors' profits are expected to be reduced relative to the September forecast. In summary, estimated payments are revised down by $107.1 million in FY 2023-24. In FY 2024-25, the economy is expected to be on much more stable footing and as a result, estimated payments are forecasted to grow 13.5 percent.

Cash with Returns and Refunds

Even with the change to the tax rate, cash with returns are revised up significantly by $580.7 million from the last forecast in FY 2022-23. This is because of continued strength in corporate profits above expectations that has meant companies are unable to prepay for future taxes with estimated payments owed, as OSPB previously expected. In FY 2023-24, cash with returns are expected to fall by 6.1 percent to amounts similar to FY 2021-22, as a reduced tax rate more than offsets a slight uptick to account for the pullback in estimated payments. Finally, refunds are expected to stabilize at FY 2021-22 levels during FY 2022-23 and FY 2023-24 to match the growth of combined withholdings and estimated payments revenue.

Policy Adjustments

In addition to the above economic drivers, there are additional policy impacts, particularly from the recent November ballot. Proposition 121: State Income Tax Rate Reduction passed in that election, which requires a new income rate of 4.4 percent, below the 4.55 percent that was in place during the September forecast. Overall, we estimate the impact of this bill on individual income tax revenue to be a $561.1 million drag in FY 2022-23 and $370.8 million and $392.9 million in FY 2023-24 and FY 2024-25 respectively. Additionally, Proposition FF: Healthy School Meals for All increases taxes on households with more than $300,000 in income, which increases FY 2023-24 individual income revenue by $100.7 million and FY 2024-25 revenue by an expected $104.6 million. Note that these revenues are also accounted for in the Appendix table for Rebates and Expenditures, as the State serves as a custodian of these funds, and they are TABOR exempt. Finally, Proposition 123: Dedicate Revenue for Affordable Housing Programs affects retained General Fund revenue, as an estimated $145 million is diverted in FY 2022-23 and $290 million is diverted in FY 2023-24, with growth in fiscal years beyond that determined by growth in overall income. These are the largest state policy changes but there are also bills from the last two State legislative sessions that are accounted for as well, described in the paragraph below.

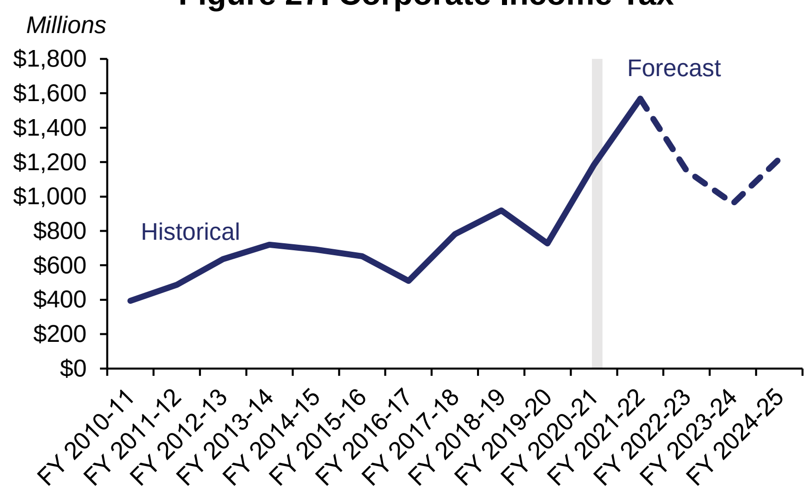
From the 16 bills with a revenue impact in the most recent session, HB22-1205, Senior Housing Income Tax Credit, has the largest effect. This bill creates a new one-time refundable income tax credit for seniors who own a home but don't qualify for the Homestead Exemption and is expected to increase refunds by $95 million over FY 2021-22 and FY 2022-23 with additional reductions to cash with returns of $5 million. From the 2021 legislative session, portions of HB21-1311 and HB21-1312 have increasing impacts in FY 2022-23 and beyond. One such example is the cap on itemized deductions in HB21-1311, which ramps up significantly in FY 2022-23 and is expected to increase cash with returns by $123.7 million on an accrued basis, over double the impact relative to the current fiscal year.

Finally, there are two federal bills driving policy adjustments. First, the Inflation Reduction Act (IRA) has a minimal, positive impact on revenue, mostly as a result of increased IRS audit enforcement. This minimal impact is due to the fact that the base of Colorado's income tax is federal taxable income, so changes to existing federal credits or the creation of new credits that do not affect taxable income need no adjustment for the forecast period. Similarly, the IRA's creation of a new 15 percent corporate minimum tax on certain large corporations does not result in a state revenue impact because Colorado imposes its own state tax rate. Only three provisions in the IRA affect state income tax revenues in the forecast period. The largest comes from increased funding for IRS tax enforcement activities, which should increase collections from state audits given the IRS often shares audit results with states, but those impacts are delayed and OSPB’s initial expectations are that those amount to less than one percent of overall revenue by FY 2024-25. The IRA also expands a federal deduction (reducing taxable income) and provides for a variety of grants (increasing taxable income), which will affect the tax liabilities of certain state taxpayers. The IRA extended a limitation on the excess business losses of non-corporate taxpayers as well, but that won't result in state revenue impacts until FY 2026-27. Second, the Infrastructure Investment and Jobs Act, also has a minimal impact through the forecast period.

Corporate Income Tax

In FY 2021-22, corporate income tax receipts grew 32.5 percent off of the previous fiscal year's historic highs as corporate profits growth outpaced expectations. This sustained healthy business environment with high profits has continued through the end of 2022 more than previously expected. OSPB has revised up expected corporate profits by 5.4 percent to 7.4 percent growth this year. However, the recent passage of Proposition 121: State Income Tax Rate Reduction, which lowered the income tax rate from 4.55 percent to 4.4 percent, reduces revenues. Given the already strong revenue-to-date this year, combining these effects leads to an upward revision of $152.0 million in FY 2022-23, necessitating a slightly smaller expected drop in corporate tax revenue of 26.7 percent despite the income tax rate reduction. While declines from recent record highs in corporate profits are expected beginning in mid-2023 as a result of slowing aggregate demand, the decline is slightly less than was expected in September. Overall, corporate income is expected to further contract by 16.5 percent in FY 2023-24, which is a $38.9 million upward revision from the last forecast. The drag in revenue as a result of a lower tax rate is more than offset by a similar negative growth rate starting from a higher FY 2022-23 revenue base. In FY 2024-25, a newly rebalanced and stable economic environment allow for 26.9 percent revenue as economic growth is expected to again be growing faster than potential by the middle of 2024.

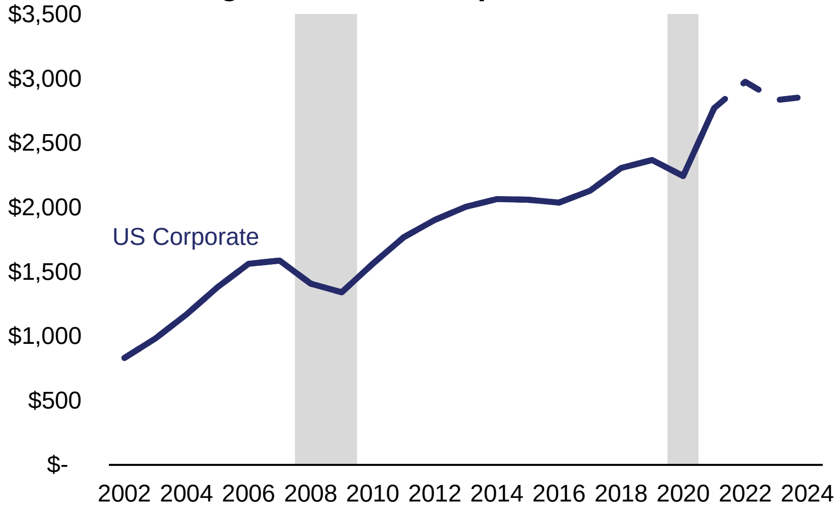
Figure 27. Corporate Income Tax



Source: Colorado Department of Revenue, OSPB Forecast

When developing expectations on future corporate income revenue, an important variable to consider is corporate profits before taxes, accounting for inventory and capital adjustments. In the most recent quarter, such profits nationwide were second highest on record, at $3.0 trillion, after last quarter. Prior to the pandemic, the record was $2.41 trillion, but that mark has been broken every quarter for the last two years. However, as the consumer basket shifts away from durable goods towards services, growth in profits from these historic highs are expected to slow in 2022 to 7.4 percent growth. Then, with reduced consumer demand driving a slowdown in 2023, corporate profits fall by 4.7 percent before rebounding with the economy in 2024.

Figure 28. U.S. Corporate Profits



Source: Bureau of Economic Analysis

The resulting impact on corporate estimated payments and cash with returns is similar to the corresponding individual income revenue streams. In FY 2022-23, estimated payments are expected to fall 16.8 percent while cash with returns fall by 21.5 percent. Cash with returns were expected to fall further in September but observing recent revenue data in this category shows that C-corps still have a need to pay out cash with returns at a higher level than expected in the last forecast, due to profits still outpacing expectations. In FY 2023-24, further expected drops in estimated payments and cash with returns are expected as the economy slows. In FY 2024-25, estimated payments and cash with returns are expected to grow by double digits as the economy is again expected to grow above its potential.

In addition to the above economic drivers, there are additional policy impacts, particularly from the recent November ballot. Proposition 121: State Income Tax Rate Reduction passed in that election, which requires a new income rate of 4.4 percent, below the 4.55 percent that was in place during the September forecast. Overall, we estimate the impact of this bill on corporate income tax revenue to be a reduction of $58.8 million in FY 2022-23 and $32.7 million and $41.5 million in FY 2023-24 and FY 2024-25 respectively. This is the largest policy impact but there are also bills from the last two State legislative sessions that are accounted for as well. From the bills with a revenue impact in the most recent session, HB22-1026, Alternative Transportation Options Tax Credit, has the largest effect. This bill replaces an existing income tax deduction for employers who provide ridesharing, transit, or other transportation options with an expanded credit. The bill reduces cash with returns revenue by an accrued $6.6 million in FY 2022-23 and $14.1 million in FY 2023-24. While last session's bills largely reduced anticipated cash with returns revenue, the 2021 session largely increased corporate cash with returns revenue through HB21-1311 and HB21-1312. Those two bills have increasing impacts in the out-years which are accounted for, including moving to the 'Finnigan' corporate tax apportionment (where a corporation is taxable if any member of its unitary group is taxable), which more than double to $20.2 million on an accrued basis in FY 2022-23. Finally, there are two federal bills driving policy adjustments. First, the Inflation Reduction Act has a minimal, positive impact on revenue, mostly as a result of increased IRS audit enforcement, but those impacts are delayed and OSPB's initial expectations are that those amount to less than one percent of overall revenue by FY 2024-25. Second, the Infrastructure Investment and Jobs Act, also has a minimal impact through the forecast period.

Sales and Use Taxes

Sales Tax

In FY 2021-22, $4.1 billion in sales tax revenue was collected, representing 19.6 percent growth over FY 2020-21. Sales tax revenue is forecast to grow by 6.3 percent in FY 2022-23 to $4.3 billion. Compared to the September forecast, this is an upward revision of $84.3 million due to strength in consumption that is now expected to continue through the remainder of FY 2022-23 before tapering off next fiscal year. FY 2023-24 revenue is revised upward from September by $9.3 million due to elevated base effects, however, the growth rate is revised down considerably from 3.2 percent to 1.4 percent as a slowdown in spending under a cooling economy will drag on growth. FY 2024-25 expectations remain the same as September with sales tax revenue forecast to register 4.9 percent growth and $4.6 billion in revenue. Consumer spending is expected to maintain strength into 2023 before flattening and then turning negative on a real basis in the second half of the year, which will cause significant downward pressure on sales tax revenue in FY 2023-24. While relatively flat real sales tax revenue growth in FY 2022-23 is forecast, real growth in FY 2023-24 is expected to be decidedly negative with slight nominal growth a product of inflation. Real growth is expected to materialize again in FY 2024-25 when consumer spending is forecast to rebound and normalize. Sales tax growth is largely predicated upon nominal state retail sales growth, which grew by 17.3 percent in calendar year 2021 and is forecast to grow by 12.8 percent in 2022, 2.6 percent in 2023, and 3.7 percent in 2024.

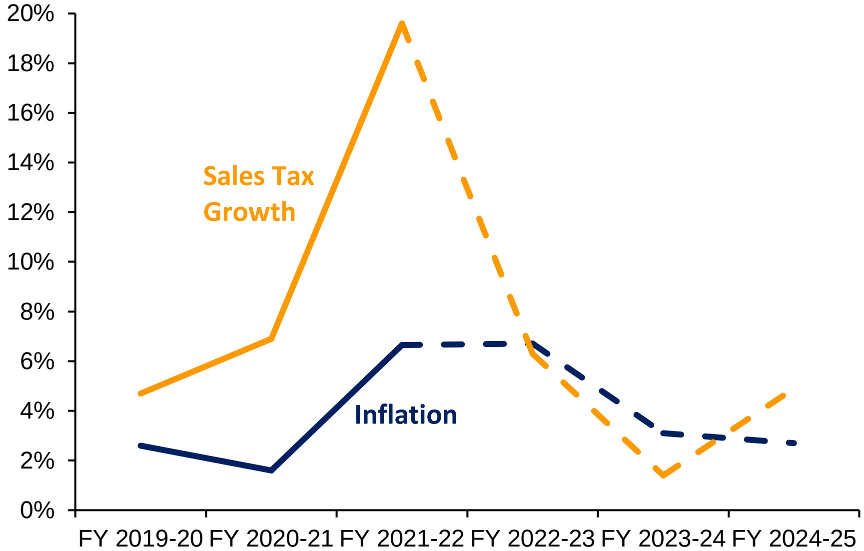
Figure 29. Sales and Use Tax Revenue Forecast

Fiscal Year	Sales Revenue (billions)	Growth	Use Revenue (millions)	Growth	Total Revenue (billions)	Growth
FY 2021-22 (prelim)	$4,089.0	19.6%	$232.6	8.6%	$4,321.6	19.0%
FY 2022-23	$4,344.6	6.3%	$255.5	9.8%	$4,600.1	6.4%
FY 2023-24	$4,406.4	1.4%	$250.2	-2.1%	$4,656.6	1.2%
FY 2024-25	$4,620.2	4.9%	$264.1	5.5%	$4,884.3	4.9%

This forecast also takes into account policy adjustments due to recent legislative action that are not fully incorporated into the broader sales tax base trend. These adjustments are forecast to result in a sales tax revenue reduction of $22.4 million in FY 2022-23 and an increase of $21.3

million in FY 2023-24. The most significant policy impact comes from HB22-1406, Qualified Retailer Retain Sales Tax, which allows certain businesses in the food services sector to deduct up to $70,000 from net taxable sales for up to five locations each month. This deduction was only enacted through the first quarter of FY 2022-23 and will result in an estimated sales tax revenue reduction of $39.3 million.

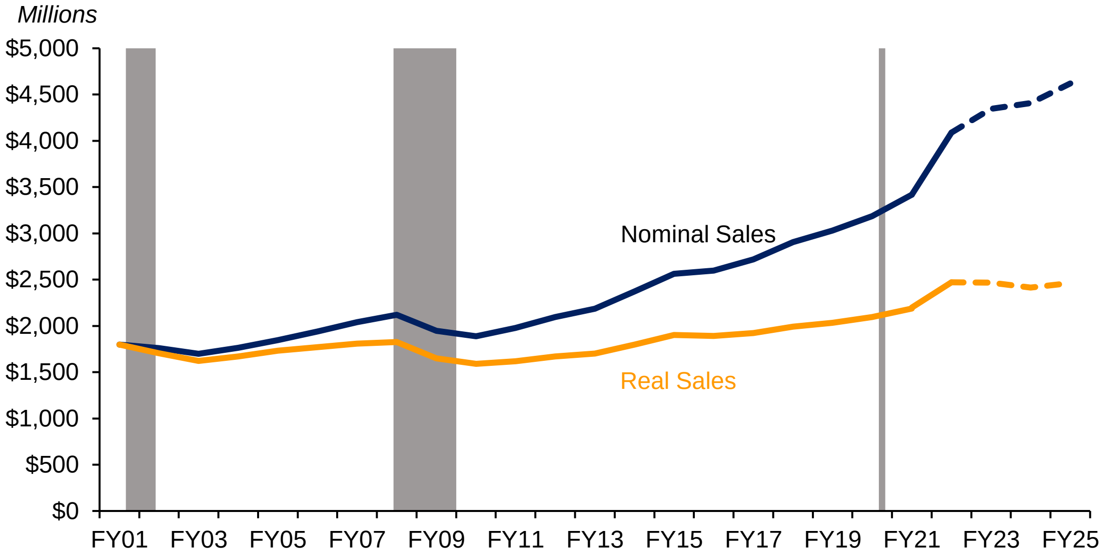
Figure 30. Nominal Sales Tax Growth vs. Inflation



Note: Inflation levels are shown on a fiscal year basis. Dotted line indicates forecast.
Source: Colorado Department of Revenue, Bureau of Labor Statistics, and OSPB December Forecast

While sales tax growth in FY 2021-22 of 19.6 percent came in nearly three times above inflation levels, the forecast growth in FY 2022-23 of 6.3 percent is right around inflation expectations on a fiscal year basis of 6.7 percent, reflecting relatively flat real growth. This is illustrated in Figure 30 depicting forecast sales tax growth falling in line with forecast inflation in FY 2022-23 and then falling below forecast inflation in FY 2023-24. Inflation in FY 2023-24 is forecast at 3.1 percent with 1.4 percent in sales tax growth expected. Real sales tax growth has consistently been recorded over FY 2019-20, FY 2020-21, and FY 2021-22 with sales tax growth remaining higher than the inflation rate over that time period. In FY 2024-25, real sales tax growth is expected to turn positive again with nominal sales tax growth forecast at 4.9 percent and the inflation rate expected at 2.7 percent. This dynamic is further illustrated in Figure 31, which depicts nominal and real sales tax growth over time. While nominal sales growth is expected to remain on its historic, positive growth trajectory over the forecast period, real sales is expected to be negative to flat. Over the past two fiscal years, the separation between nominal and real sales has accelerated with elevated inflation levels.

Figure 31. Sales Tax Forecast (Nominal vs. Real, Indexed to FY 2001)



Note: Dotted line indicates forecast. Shaded areas denote recession.
Source: Colorado Department of Revenue, Bureau of Labor Statistics, and OSPB December Forecast

After historic sales tax strength in FY 2021-22, revenue growth is expected to normalize in FY 2022-23, weaken in FY 2023-24, and rebound in FY 2024-25. With consumer spending and retail sales expected to soften from current levels, nominal sales tax growth in much of calendar years 2023 and 2024 will largely be a product of inflation with negative to flat real growth before real growth turns positive again in 2024 and 2025.

Vendor Fees

In accordance with HB 19-1245, Affordable Housing Funding from Vendor Fee Changes, beginning in FY 2021-22, the total net revenue gain from changes related to vendor fees was deposited into the Housing Development Grant Cash Fund for affordable housing. The fiscal note for the bill estimated new net revenue of $49.4 million in FY 2021-22, but due to subsequent legislation (HB 21-1312) and stronger than expected sales tax collections – and by virtue, vendor fee collections – $66.1 million in revenue related to these changes was collected and deposited into the Housing Development Grant Cash Fund. Vendor fee revenue dedicated to affordable housing is forecast at $72.1 million in FY 2022-23, $73.2 million in FY 2023-24, and $76.7 million in FY 2024-25.

The vendor fee is an amount that a retailer is permitted to retain for its expenses incurred in collecting and remitting the state sales tax. Under current law, a retailer with monthly taxable sales of $1.0 million or less is able to retain a vendor fee of four percent, subject to a $1,000 monthly limit. As provided for by SB 22-006, Sales Tax Assistance for Small Business, beginning

January 1, 2023, a retailer with less than $100,000 in monthly taxable sales is able to retain a vendor fee of 5.3 percent for calendar year 2023 only, subject to the $1,000 monthly limit.

Use Tax

Use tax revenue increased 8.6 percent to $232.6 million in FY 2021-22 and is forecast to increase by an additional 9.8 percent in FY 2022-23 to $255.5 million. In FY 2023-24, revenue is expected to fall by 2.1 percent to $250.2 million. This is an upward revision of $12.4 million from the September forecast for FY 2022-23 following above-expectation collections in the fiscal year thus far. FY 2023-24 is revised up by $7.5 million due to elevated base effects, however, growth is revised down from -0.1 percent to -2.1 percent due to an economic slowdown over the second half of 2023 weighing on revenue. With an elevated oil price forecast in the near-term, higher levels of capital investment in the oil and gas industry are expected to contribute to use tax growth to some extent during FY 2022-23. However, an expected overall consumer activity slowdown is forecast to outweigh the upside and create downward pressure on revenue in FY 2023-24 as capital investments in the energy and housing industries are expected to retreat. Use tax growth is expected to rebound in FY 2024-25 with collections forecast to grow 5.5 percent to $264.1 million. These projections continue to assume that the trade-off between sales and use tax revenue as a result of HB 19-1240, which codified the state's sales tax rules in response to the *South Dakota v. Wayfair* ruling, has largely leveled off to a new equilibrium relationship between sales and use tax collections.

Marijuana Sales

The 15 percent special sales tax on marijuana retail sales increased by 17.4 percent to $288.2 million in FY 2020-21 before falling 10.2 percent to $258.7 million in FY 2021-22. Revenue is expected to decline by 11.4 percent in FY 2022-23 then resume slower growth in FY 2023-24 and FY 2024-25. Further analysis of marijuana tax collections can be found in the Revenue Outlook – Cash Funds section of this report.

Proposition EE and Other Excise Taxes

Proposition EE, approved in 2020 and effective in 2021, imposes additional taxes on cigarettes and tobacco products and charges a new tax on other nicotine products such as e-cigarettes.

Through FY 2022-23, revenue from the Proposition EE-imposed taxes is largely transferred to the State Education Fund. In FY 2023-24 and onward, revenue will be transferred almost entirely into the Preschool Programs Cash Fund aside from two small transfers, $11.0 million and $4.6 million, to the Tobacco Education Programs Fund and General Fund, respectively. In total, these taxes brought in $49.0 million in FY 2020-21 and $210.9 million in FY 2021-22, their first full year of implementation. The amounts are expected to grow to $215.1 million in FY 2022-23 and $215.5 million in FY 2023-24, before increasing to $261.1 million in FY 2024-25 as a result of additional tax increases for tobacco, cigarettes, and nicotine. Figure 32 summarizes the new taxes levied on these products through FY 2024-25. Taxes on all three types of products will also increase once more in FY 2027-28.

Figure 32. Proposition EE Tax Rates

Cigarettes	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	
Original Tax	$0.20	$0.20	$0.20	$0.20	$0.20	
Amendment 35	$0.64	$0.64	$0.64	$0.64	$0.64	
Proposition EE	$1.10	$1.10	$1.10	$1.10	$1.40	
Total Cigarette Taxes	**$1.94**	**$1.94**	**$1.94**	**$1.94**	**$2.24**	
Tobacco	**FY 2020-21**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	
Original Tax	20%	20%	20%	20%	20%	
Amendment 35	20%	20%	20%	20%	20%	
Proposition EE	10%	10%	10%	10%	16%	
Total Tobacco Taxes	**50%**	**50%**	**50%**	**50%**	**56%**	
Nicotine	**2021**	**2022**	**2023**	**2024 (Jan-Jun)**	**2024 (Jul-Dec)**	**2025**
Proposition EE	30%	35%	50%	50%	56%	56%
Total Nicotine Taxes	**30%**	**35%**	**50%**	**50%**	**56%**	**56%**

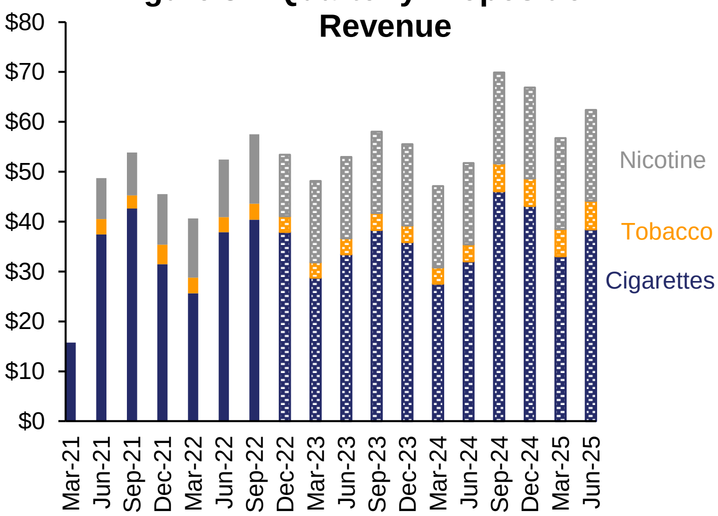
As noted above, the bulk of these taxes are for the purposes of the implementation of universal preschool and will be deposited primarily in the preschool programs cash fund starting in FY 2023-24. The specific distributions are summarized below.

Figure 33. Proposition EE Distribution Amounts

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Total	**$210.9**	**$215.1**	**$215.5**	**$261.1**
State Education Fund	$152.4	$151.5	$0.0	$0.0
Rural Schools Cash Fund	$30.0	$35.0	$0.0	$0.0
Housing Development Grant Fund	$11.2	$11.2	$0.0	$0.0
Tobacco Tax Cash Fund	$11.0	$11.0	$11.0	$11.0
General Fund	$4.6	$4.6	$4.6	$4.6
Eviction Legal Defense Fund	$0.5	$0.5	$0.0	$0.0
Preschool Programs Cash Fund	$1.4	$1.4	$200.0	$245.6

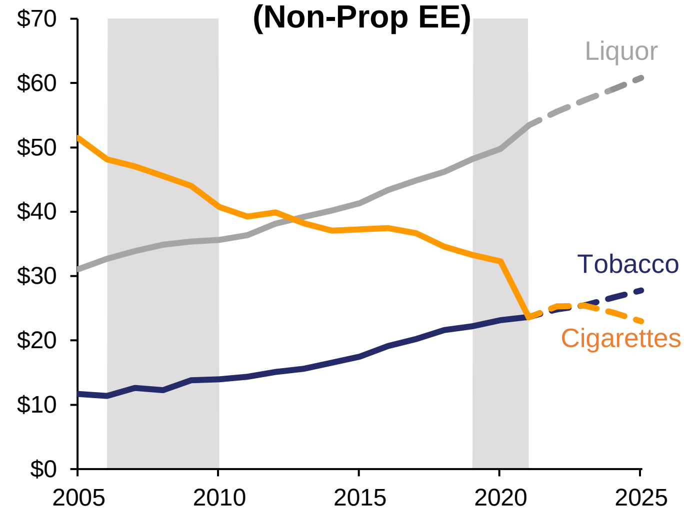
The bulk of Proposition EE revenue (73.6 percent in FY 2021-22) currently comes from taxes on cigarettes, for which the long-term consumption trends are negative. Throughout the forecast period and going forward, the percentage of revenue coming from cigarette taxes will decrease (down to 63 percent by FY 2024-25) and the percentage stemming from nicotine will increase considerably, with nicotine consumption increasing over time.

Figure 34. Quarterly Proposition EE Revenue



Note: Dotted region indicates forecast period.
Source: Colorado Department of Revenue; OSPB Forecast

Figure 35. Other Excise Taxes (Non-Prop EE)



Sources: Department of Revenue; OSPB Forecast

In addition to Proposition EE, which is largely not subject to TABOR and is transferred out to other funds, the state collects other excise taxes that are credited directly to the General Fund. These other excise taxes include the initial statutory taxes on cigarettes and tobacco, as well as revenue from liquor taxes. Liquor and tobacco taxes, which are each charged as a percentage rate, have increased slowly over time while cigarette taxes, charged at a flat per pack amount, have fallen consistently.

Other General Fund Revenue

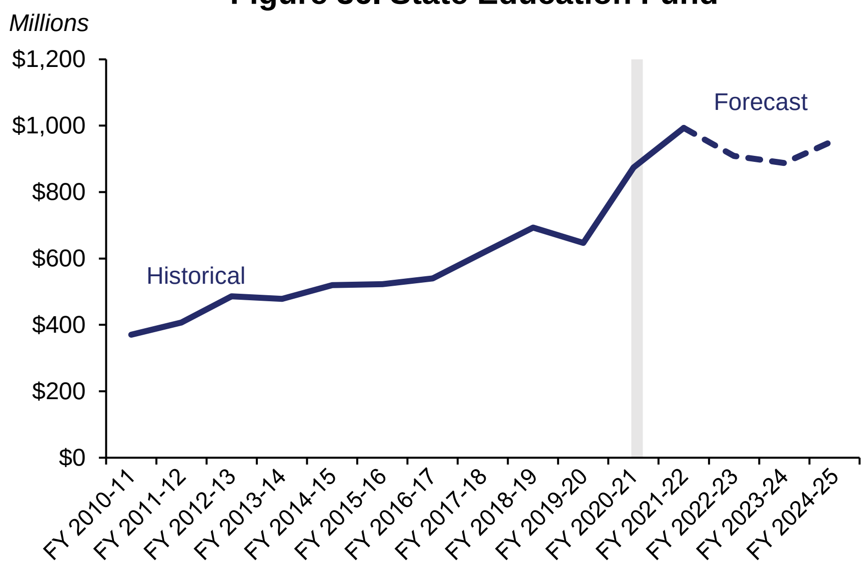
Other General Fund revenue includes insurance premium tax revenue, interest and investment income, and court receipts. Other General Fund revenue increased by 15.2 percent to $507.8 million in FY 2021-22 due to increases to insurance premium tax revenue and interest income. Revenue is expected to increase by 19.4 percent in FY 2022-23 and decrease by 3.2 percent in FY 2023-24. The FY 2022-23 estimate was revised up from the September forecast largely due to growth in interest revenue in FY 2022-23. The revision upward is largely due to higher interest rates. On average, General Fund investment income earned interest at 1.13 percent in FY 2021-22. Comparatively, General Fund investment income has earned an average interest of 2.17

percent over the first four months of FY 2022-23. Revenues and interest rates are expected to stabilize after this fiscal year, reflected in the other General Fund accounts returning to trend. Additionally, in FY 2022-23, early insurance revenue reporting to date exceeds expectations when compared with the prior year, reinforcing the additional impacts of HB21-1312, which reduced the size of the annuities exemption and the regional home office rate reduction. After an expected 19.0 percent growth in FY 2022-23, insurance revenue growth is expected to normalize to 3.7 percent and 4.8 percent in the out-years.

State Education Fund

Revenue to the State Education Fund (SEF) from income taxes reached $993.5 million in FY 2021-22, reflecting 13.6 percent growth compared to FY 2020-21. The strong growth was due to a robust economic recovery in FY 2021-22, which significantly increased revenue, but also due to the correction of a technical error, which delayed a transfer of $75.6 million into the SEF from FY 2020-21 to FY 2021-22. In FY 2022-23, an 8.5 percent decrease in revenue to $909.9 million is expected, which is due in part to base effects from the delayed transfer correction and in part to moderating economic activity as inflation remains high and interest rates rise. While revenue is expected to fall in FY 2022-23, this is an upward revision from the September forecast by $33.7 million as year-to-date income tax revenue has surprised to the upside and strength in the economy is expected to last longer than previously forecast. In FY 2023-24, revenue is expected to fall again by 2.4 percent to $887.7 million as falling corporate income is expected to be the main drag on revenue. Though growth is revised down from the September forecast for FY 2023-24 from 1.1 percent to -2.4 percent, revenue is slightly revised up $2.3 million due to the elevated base in the prior fiscal year. In FY 2024-25, growth is forecast at 7.7 percent, increasing revenue to $955.8 million.

Figure 36. State Education Fund



Source: Colorado Department of Revenue, OSPB Forecast

The Colorado Constitution requires that a third of a 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's current deviation from the trend in income tax revenue is attributed to 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 section highlights those cash fund revenues that are subject to TABOR or that have significant fiscal implications.

Cash Fund Revenue Subject to TABOR

Total cash fund revenue subject to TABOR was $2.67 billion in FY 2021-22, an increase of 19.0 percent from the prior fiscal year. Approximately 72 percent of the overall increase was driven by severance collections increasing $310.3 million year-over-year. In FY 2022-23, cash fund revenue is projected to decrease by 2.0 percent to $2.61 billion, followed by a 0.7 percent increase in FY 2023-24, and 4.8 percent growth in FY 2024-25.

As compared to the September forecast, revenue came in higher than estimated, largely the result of greater than expected severance revenue while most other categories were below expectations by comparatively small margins. For FY 2022-23, revenue is forecast higher than the September forecast by $21.5 million, or 0.8 percent, with an upward revision to severance tax revenue driving most of the increase with a decrease in transportation and miscellaneous cash funds offsetting some of those gains. Forecast revenue for FY 2023-24 is revised up by $27.5 million, 1.1 percent, as a result of increased severance tax revenue predicated on oil prices remaining higher slightly longer than anticipated in the September forecast. However, there is some downward pressure miscellaneous cash fund revenue due to slowing economic activity similar to the case in FY2022-23.

Transportation

Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and a handful of smaller cash funds. Transportation revenue has climbed back to more steady level following a pandemic, which had a great effect on transportation-related cash funds such as Motor and Special Fuel Taxes, Total Registrations, Road Usage Fees, and others. As people returned to the roads at a level more similar to pre-pandemic standards in Fiscal Year

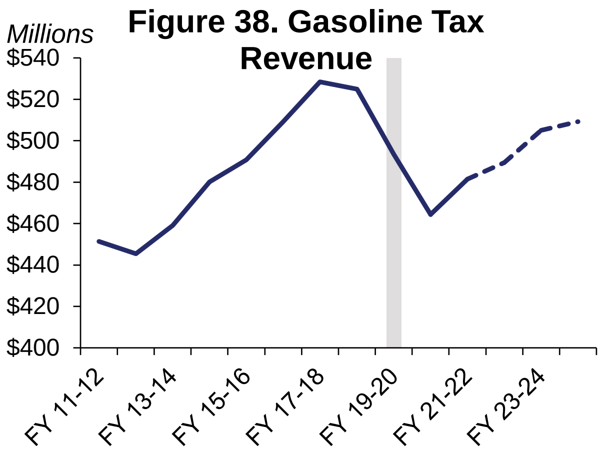
2021-22, transportation revenues also rose to more normal levels. However, a decline in transportation-related cash fund revenue of 3.1 percent is expected in FY 2022-23 as road safety surcharges and registrations fall. Recent legislation is relevant to the transportation revenue forecast, specifically, H.B. 22-1351 which delayed implementation of the Road Usage Fees such that the fee of two cents per gallon will go into effect on April 1, 2023 and increase in later years and reducing the road safety surcharge by an additional $5.50 for 2023.

Figure 37. Detailed Transportation Cash Fund Forecast

	Actual FY 21-22	Forecast FY 22-23	Forecast FY 23-24	Forecast FY 24-25
Highway Users Tax Fund (HUTF)				
Motor and Special Fuel Taxes	$623.2	$636.2	$637.7	$650.1
Percent Change	*-0.2%*	*2.1%*	*0.2%*	*1.9%*
Road Usage Fees	$0.0	$14.3	$87.2	$118.4
Percent Change	*N/A*	*N/A*	*N/A*	*2.2%*
Total Registrations	**$406.6**	**$334.9**	**$369.2**	**$416.7**
Percent Change	***6.5%***	***-17.6%***	***10.2%***	***12.9%***
Registrations	$254.9	$237.0	$246.2	$257.6
Road Safety Surcharge	$115.6	$70.1	$92.8	$127.1
Late Registration Fees	$36.1	$27.9	$30.2	$31.2
Other HUTF	$62.9	$72.1	$73.9	$74.8
Percent Change	*0.0%*	*14.6%*	*2.6%*	*1.2%*
Total HUTF	**$1,092.7**	**$1,057.5**	**$1,168.0**	**$1,260.0**
Percent Change	***2.2%***	***-3.2%***	***10.4%***	***7.9%***
Non-HUTF				
State Highway Fund	$21.3	$29.5	$26.5	$18.7
Percent Change	*-28.9%*	*38.6%*	*-10.2%*	*-29.6%*
Other Transportation Funds	$135.3	$123.2	$131.5	$122.6
Percent Change	*33.6%*	*-9.0%*	*6.7%*	*-6.8%*
Total Transportation Revenue				
Total Transportation	**$1,249.4**	**$1,210.3**	**$1,326.0**	**$1,401.2**
Percent Change	***4.1%***	***-3.1%***	***9.6%***	***5.7%***

OSPB has made a slight revision down, specifically for funds within the HUTF. The Highway Users Tax Fund is the largest transportation-related cash fund, with revenues primarily coming from motor fuel taxes and motor vehicle registrations. Motor fuel taxes make up over half of the HUTF and are comprised of both gas and diesel tax revenue.

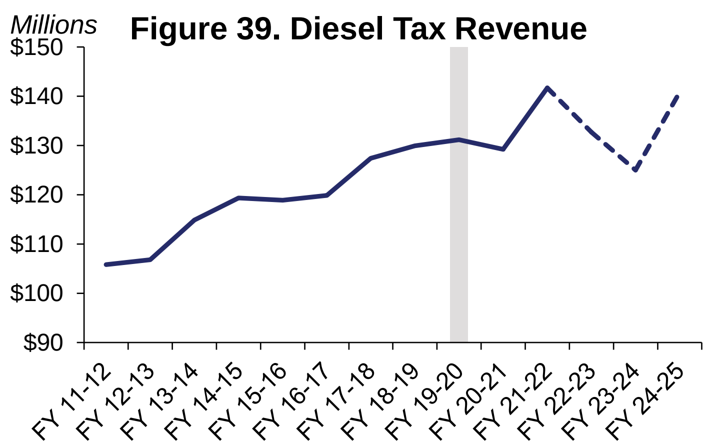
Gas Taxation revenue has wavered this year more than previously expected in the OSPB September forecast. Demand for gas fell earlier this year when prices climbed to record highs across the country, likely causing consumers to travel less, or find a cheaper alternative to driving or commuting. In the outyears, OSPB still expects slow steady growth for gasoline tax revenue as demand is relatively inelastic and the progression of electric vehicles will most likely take time. However, there are downward pressures in the long term as electric vehicles may grow at a quicker rate or as cars become more fuel-efficient. *S.B. 21-260* has policies in place for sustainable funding to match these decreases, which were considered in the out years as consistent growth is maintained throughout transportation revenue.



Note: Dotted line indicates forecast; shading denotes recession.
Source: Colorado Department of Revenue

Diesel Tax revenue is expected to have a slight tick down after the incredibly strong year of Diesel Tax revenue last year. Across the country, consumer spending has come in above consensus expectations, and with this elevated spending, shipping is expected to continue at a high rate, thereby placing slight upward pressure on Diesel tax revenue. There is an expectation that shipping will decrease under slowing economic growth in FY 2023-24, applying further strain on diesel tax revenue.

Another notable decrease would be in the Total Registrations portion of the HUTF. OSPB forecasts a 17.6 percent decline from the previous year's revenue in Total Registrations. This is driven by declines in new vehicle registrations related to declines in new vehicle demand as inflation and interest rates are elevated. Another substantial portion of Total Registrations is the Road Safety Surcharge. The Road Safety Surcharge has been limited by reductions laid out in *S.B. 21-260* and *H.B. 22-1351*. *H.B. 22-1351* is going to expire halfway through FY 2023-24, which will have an upward pressure on the Road Safety Surcharge revenue that fiscal year.



Note: Dotted line indicates forecast; shading denotes recession.
Source: Colorado Department of Revenue

Figure 40. HUTF Distributions

	Actual FY 21-22	Forecast FY 22-23	Forecast FY 23-24	Forecast FY 24-25
First Stream				
Off-the-Top Deductions	$165.8	$181.2	$191.3	$191.3
CDOT - State Highway Fund (65%)	$185.6	$200.3	$168.0	$187.2
Counties (26%)	$74.2	$80.1	$67.2	$74.9
Cities (9%)	$25.7	$27.7	$23.3	$25.9
Total First Stream	**$451.3**	**$489.3**	**$449.8**	**$479.3**
Second Stream				
CDOT - State Highway Fund (60%)	$384.8	$340.9	$430.9	$468.4
Counties (22%)	$141.1	$125.0	$158.0	$171.7
Cities (18%)	$115.4	$102.3	$129.3	$140.5
Total Second Stream	**$641.3**	**$568.2**	**$718.2**	**$780.7**
Total HUTF Distributions				
Total HUTF	**$1,092.7**	**$1,057.5**	**$1,168.0**	**$1,260.0**

Other transportation-related funds include the State Highway Fund (SHF) and other miscellaneous revenue, which make up a smaller portion of total revenue than the HUTF. Revenue to the SHF is made up of various smaller revenue streams including sales of state property and earned interest. Based on received revenue, OSPB forecasts the continuation of a stronger year for the SHF, then a stabilization for the outyears driven by special transport permits and other services returning to normal. Similar to the most recent forecast, OSPB expects the category of "other transportation funds" to be driven by Aviation revenue. After a strong year for revenue in FY 2021-22, OSPB estimates the revenue to remain strong for this fiscal year and decrease in FY 2023-24 when Coloradans face tougher economic conditions and change their spending habits away from travel.

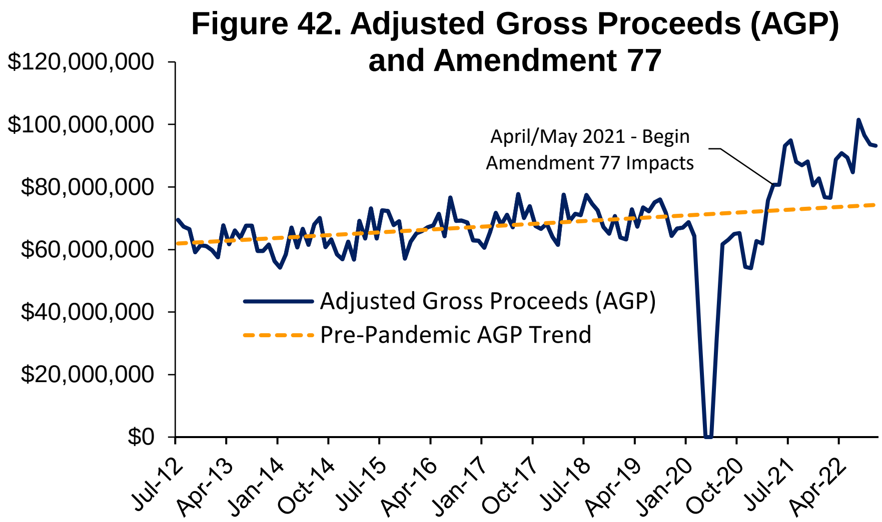
Limited Gaming

Continued strength in demand and the impacts of Amendment 77 on gaming revenue drove total gaming revenue up 34.5 percent to $163.7 million in FY 2021-22. While previous OSPB forecasts anticipated a slight correction downward in FY 2022-23 after such strong growth in FY 2021-22, strong first quarter collections have driven a revision upward to 6.0 percent growth in FY 2022-23. Going forward, it is expected that out-year gaming revenue will grow at or around pre-Amendment 77 trend levels of 1.0 to 2.0 percent per year in FY 2023-24 and FY 2024-25. These numbers and the corresponding distributions are shown in Figure 41 below.

Figure 41. Limited Gaming Distributions

Distribution of Limited Gaming Revenues	Actual FY 21-22	Forecast FY 22-23	Forecast FY 23-24	Forecast FY 24-25
A. Total Limited Gaming Revenues (Includes Fees and Interest)	**$163.7**	**$173.5**	**$175.5**	**$178.4**
Annual Percent Change	34.5%	6.0%	1.1%	1.7%
B. Gaming Revenue Exempt from TABOR (Extended Limited)	**$48.3**	**$54.7**	**$55.3**	**$56.2**
Annual Percent Change	143.3%	13.2%	1.1%	1.7%
C. Gaming Revenue Subject to TABOR (Limited)	**$115.4**	**$118.8**	**$120.2**	**$122.2**
Annual Percent Change	13.3%	3.0%	1.1%	1.7%
D. Total Amount to Base Revenue Recipients	**$101.8**	**$108.7**	**$110.0**	**$112.0**
Amount to State Historical Society (28%)	$28.5	$30.4	$30.8	$31.4
History Colorado (80% of 28%)	$22.8	$24.3	$24.6	$25.1
Grants to Cities for Historical Preservation (20% of 28%)	$5.7	$6.1	$6.2	$6.3
Amount to Counties (12%)	$12.2	$13.0	$13.2	$13.4
Amount to Cities (10%)	$10.2	$10.9	$11.0	$11.2
Amount to Distribute to Remaining Programs (State Share) (50%)	$50.9	$54.3	$55.0	$56.0
Local Government Impact Fund	$6.3	$6.8	$6.8	$7.0
Colorado Tourism Promotion Fund	$15.0	$15.0	$15.0	$15.0
Creative Industries Cash Fund	$2.0	$2.0	$2.0	$2.0
Film, Television, and Media Operational Account	$0.5	$0.5	$0.5	$0.5
Bioscience Discovery Evaluation Fund	N/A	N/A	N/A	N/A
Advanced Industries Acceleration Fund	$5.5	$5.5	$5.5	$5.5
Innovative Higher Education Research Fund	$2.1	$2.1	$2.1	$2.1
Responsible Gaming Fund	$2.5	$2.5	$2.5	$2.5
State Historical Society Strategic Initiatives Fund	$3.0	$0.0	$0.0	$0.0
Transfer to the General Fund	$14.0	$20.0	$20.6	$21.4
E. Total Amount to Amendment 50 Revenue Recipients	**$46.8**	**$50.0**	**$50.6**	**$51.5**
Community Colleges, Mesa and Adams State (78%)	$36.5	$39.0	$39.5	$40.2
Counties (12%)	$5.6	$6.0	$6.1	$6.2
Cities (10%)	$4.7	$5.0	$5.1	$5.2

Strength in gaming revenue in FY 2022-23 and the out-years is a result of a continuation in elevated tax collections and adjusted gross proceeds (AGP) after the passage and implementation of Amendment 77. Specifically, AGP in FY 2021-22 was up 22.4 percent over FY 2018-19. These trends in AGP pre and post Amendment 77 are shown in Figure 42. Going forward, it is expected that AGP, and thus revenue, will continue to come in at a relatively consistent level now that the revenue impacts of Amendment 77 expanding gaming revenue have been fully incorporated.



Source: Colorado Department of Revenue; Division of Gaming.

Severance

Following the lowest severance tax revenue collection since 1990 in FY 2020-21 of $14.7 million, collections sharply rebounded in FY 2021-22 and reached $325.0 million – the highest collection since FY 2008-09. The upward shift in revenue was primarily caused by increased oil and gas prices over the past 12 months, coupled with increased production. This shift comes after demand fell sharply during the height of the pandemic in FY 2020-21, which led to lower prices and depressed production. Even with strong revenue collections through the first five months of the fiscal year and above-average oil and gas prices expected into the first half of 2023, severance tax revenue in FY 2022-23 is forecast to drop by 16.5 percent to $271.3 million largely due to increased ad valorem credit claims, which are described in more detail below. With stronger than anticipated revenue collections through November, revenue is revised upward from the September forecast by $38.1 million, though oil and gas price expectations for the remainder of the fiscal year remain relatively similar to September. With oil and gas prices projected to remain slightly higher in FY 2023-24 than expected in September, forecast revenue is revised upward by $26.5 million to $168.4 million. Revenue in FY 2024-25 is forecast to tick downward by 1.4 percent to $166.1 million.

Figure 43. Severance Tax Revenue

	Preliminary FY 2021-22	Forecast FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25
Oil & Gas	$310.4	$256.3	$153.5	$151.6
Coal	$3.2	$3.1	$2.9	$2.8
Moly & Metals	$2.7	$2.4	$2.3	$2.2
Interest	$8.6	$9.5	$9.7	$9.5
Total	**$325.0**	**$271.3**	**$168.4**	**$166.1**
Change	***2110.7%***	***-16.5%***	***-37.9%***	***-1.4%***

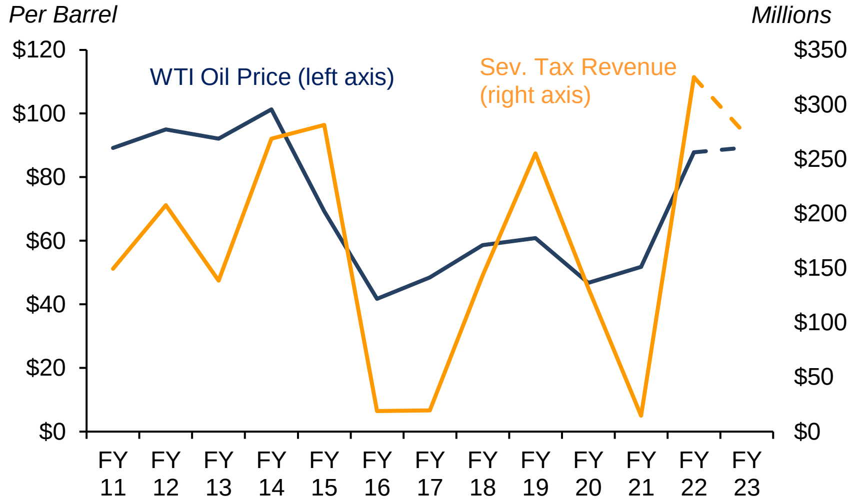
Source: OSPB forecast

Through five months of collections in FY 2022-23, $137.4 million in severance tax revenue has been recorded – the second highest on record and $88.6 million above collections through the same period last fiscal year. Although revenue levels this fiscal year are significantly higher than last fiscal year, revenue is forecast to come in $53.7 million below last year's amount. One reason this is expected is related to estimated tax payments. Last fiscal year, taxpayers underestimated their tax liability due to unforeseen price increases both through market forces and Russia's invasion of Ukraine, which led to the highest severance tax monthly collection on record by nearly three orders of magnitude in April 2022 when taxes were due ($184.3 million). That monthly payment made up 57 percent of the total collections for the year. A payment of that magnitude is not expected in April this fiscal year as taxpayers are making much larger estimated payments, which should make month-to-month revenue more stable than last year.

An element that will likely lead to decreased revenue this fiscal year compared to last year is related to ad valorem credit claims. Due to the increased price levels over the past year, ad valorem credit claims, which are based on local property tax assessments of the value of oil and gas production, are expected to increase this fiscal year. Oil and gas taxpayers can use the credit to reduce their severance tax liability by up to 87.5 percent of the real property taxes they most recently paid to their local governments, school districts, and special districts. That said, there is a one-to-two-year lag between when the production is valued by county assessors and when the credit is applied against state severance taxes. Thus, increased ad valorem credit claims are expected to reduce revenue in FY 2022-23 and FY 2023-24, though revenue is still expected to remain well above average in FY 2022-23 due to strong revenue collections year-to-date and above-average oil prices. In FY 2023-24, revenue is forecast to drop to just above the long-term average level with prices expected to see downward pressure and ad valorem credit claims projected to have a greater, overall net-negative effect on revenue.

Oil and gas severance tax revenue, which accounts for 97 to 98 percent of overall collections throughout the forecast period, is primarily dependent on production levels multiplied by price. West Texas Intermediate (WTI) oil prices are expected to remain around $80 per barrel for the remainder of 2022 and then range from $80 to $90 per barrel in 2023. These sustained, above-average oil and gas prices are also expected to spur some increase in production, though these effects have been slower to materialize compared to prior high-price runs. More details on price and production can be found in the energy section of the economic outlook.

Figure 44. Severance Tax Collections & WTI Oil Price per Barrel



Source: Colorado Department of Revenue; Energy Information Administration.

To demonstrate the close relationship between WTI oil prices and severance tax collections, Figure 44 depicts WTI price by fiscal year and corresponding severance tax revenue. In general, there is typically a six-to-nine-month lag in severance tax collections responding to the change in WTI prices. This dynamic often results in the WTI shift driving severance tax revenue outcomes in the following fiscal year, especially when there is a dramatic swing in price, although it is sometimes reflected in the same fiscal year, depending on timing. For FY 2022-23, though WTI prices are forecast to resemble the prior fiscal year, ad valorem credit claims are expected to reduce severance tax revenue collections. Taking economic outlook considerations and revenue collections into account, severance tax revenue should remain well above long-term average levels in FY 2022-23 before returning closer to average levels in FY 2023-24 and FY 2024-25.

By statute, 50 percent of severance tax revenue is distributed to the Department of Natural Resources and 50 percent is allocated to the Department of Local Affairs. Of the amount distributed to the Department of Natural Resources, 50 percent is allocated toward water projects and loans while the other 50 percent is used for departmental programs, including natural resource and energy-related programs. For the Department of Local Affairs, 70 percent of their share is allocated toward local impact grants and loans for local governments socially or economically impacted by mineral extraction, while 30 percent is distributed to local governments based on measures related to oil, gas, and mining activities.

Other Cash Funds Subject to TABOR

The State receives revenue from a variety of other, smaller cash funds. This includes non-exempt cash fund revenue to the Department of Regulatory Agencies (DORA), which is made up of revenue from professional and occupational licensing, the Public Utilities Commission, and other sources. DORA's revenue in FY 2021-22 came in at $92.3 million, but OSPB expects a decline in revenue for FY 2022-23 as a result of fee reductions for nurses and mental health professionals for two years passed in H.B. 22-1298 Fee Relief Nurses Nurse Aides and Technicians and H.B. 22-1299 License Registration Fee Relief for Mental Health Professionals. These two bills are expected to reduce revenue by $6.8 million in FY 2022-23 and $8.6 million in FY 2023-24. As a result, FY 2022-23 is expected to drop 7.1 percent to $85.7 million, remaining depressed at $86.7 million in FY 2023-24. In FY 2024-25, revenue is expected to bounce back to $99.7 million as these fee reductions roll off alongside an increase in revenue as a result of the passage of Proposition 122, Access to Natural Psychedelic Substances.

The category of "Other Miscellaneous Cash Funds" includes revenue from over 300 cash fund programs that collect revenue from fines, fees, and interest earnings. OSPB breaks down this forecast into the 30 funds that tend to have the largest revenue separately from the rest of the smaller cash funds. Historically, these 30 funds have made up for over 75 percent of the entire miscellaneous cash fund revenue. Forecasted revenue for FY 2022-23 is estimated at $905.2 million; $8.1 million below the September forecast.

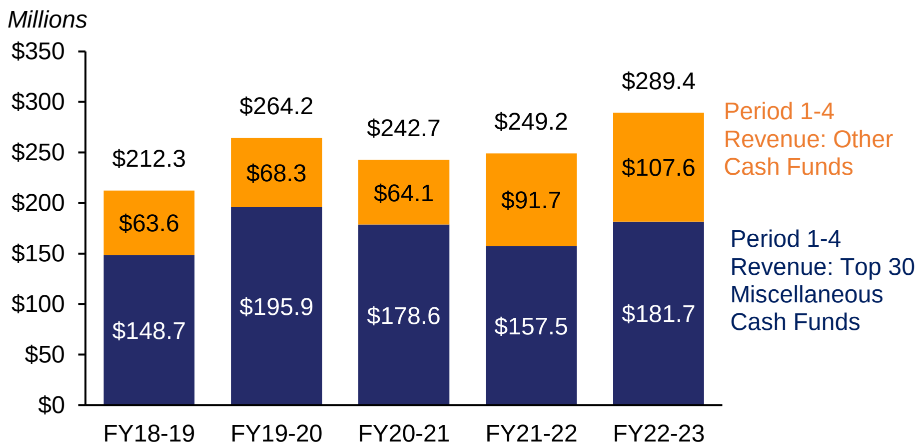
The slight revision downwards can be attributed to the larger funds with ties to economic conditions reporting revenue lower than expectations for the first few months of this fiscal year. A fund to note would be the Oil and Gas Conservation Fund. This fund is coming off a high year for revenue with $38 million for Fiscal Year 2021-22, while the prior four fiscal years of revenue for this fund has an average of $12.3M. This fund beat OSPB expectations last fiscal year, but as oil prices return closer to trend and stabilize, revenue for the Oil and Gas Conservation Fund is expected to fall slightly, though remaining well above the four-year average at an estimated $31M for FY2022-23. The Oil and Gas Conservation Fund has shown recent alignment with Severance Tax revenues as both are related to oil prices, which is expected to continue.

Another top 30 fund of note is the Employment Support Fund (ESF), which incoming revenues for this fiscal year have come in quite low despite a strong labor market in Colorado. The ESF cash fund has traditionally been used to ensure critical investments in employment-related services at both the local workforce center and community partner levels, as well as through state employment and training programs. The ESF is a cash fund that is tied to fluctuations in the Unemployment Insurance premiums paid by employers, and therefore reflective of labor market dynamics. The ESF cleared expectations last fiscal year, but revenues are expected to fall as job gains are thought to normalize the rest of fiscal year FY 2022-23 after significant recent jobs growth. In FY 2023-24, jobs gains are expected to temporarily reverse more than the previous forecast, negatively impacting outyear revenue. This trend does not hold true for the Workers Compensation fund, which is performing quite strong, but makes up a substantially smaller portion of the miscellaneous cash fund revenues than the ESF.

While these funds that are more tied to economic conditions have shown lower revenue than OSPB's previous expectation this year, there are still many funds that have performed strongly relative to their historical trends. Some of these funds are Offender Services Fund, Education Center – Nonenterprise Activities Fund, Colorado DRIVES Fund, the State Fair Authority Fund, as well as others. While many of these funds are relatively smaller, their upside provides additional confidence in a small revision down from the previous growth forecasted.

However, there is upward pressure from the total revenue outside the top 30 funds. OSPB expects a continuation of previously recognized trends regarding these smaller funds, as they will likely continue to increase as a share of the total miscellaneous cash funds revenue. While these funds are extremely varied, the sheer number of these funds desensitize the overall total from shifts in economic conditions. OSPB forecasts this trend with the smaller funds to continue in the outyears, but at a slower rate.

Figure 45. Miscellaneous Cash Funds Revenue



Source: Colorado Department of Revenue

In FY 2023-24, revenue is revised down $4.7 million to $910.4 million as slowing economic conditions in 2023 lead to near zero growth in cash funds. In FY 2024-25, revenue is also revised down by $3.8 million to $947.1 million. In FY 2024-25, miscellaneous cash funds are expected to grow 4.0 percent as economic conditions return to a more favorable state.

TABOR Exempt Funds with Significant Fiscal Implications

Outside of the cash funds subject to TABOR discussed above, OSPB also forecasts marijuana, federal mineral lease (FML), and sports betting revenues because of the significant budgetary implications of these revenues. In particular, these revenues impact the General Fund, Marijuana Tax Cash Fund, distributions to local governments, BEST funding for school capital construction, the Public School Fund, and the Water Plan Implementation Cash Fund, each of which is shown in more detail below.

Marijuana

Marijuana revenue collections have continued to come in well below the levels seen over the course of FY 2020-21 and FY 2021-22 due to sustained low prices as a result of oversupply and slowing growth in the quantity of marijuana sold. Consistent with these trends in price observed over the past few months, it is expected that anticipated price increases will now be delayed until late FY 2022-23 and potentially deeper into FY 2023-24 as supply returns to an equilibrium with demand. Accordingly, after falling by 13.3 percent in FY 2021-22, marijuana revenue is expected to fall by an additional 11.4 percent in FY 2022-23 before returning to positive growth in FY 2023-24 (10.7 percent) and FY 2024-25 (2.2 percent).

These downward trends are driven by the 15 percent excise tax charged on wholesale marijuana, which in FY 2022-23 are expected to lag even pre-pandemic (FY 2019-20) levels by 19 percent due to their sensitivity to low prices, while the 15 percent special sales tax charged on retail marijuana is expected to come in consistent with pre-pandemic levels (up 0.2 percent from FY 2019-20). Figures 46, 47, and 48 below summarize these projections and their impacts on each of the distributions as compared to the September forecast.

Figure 46.

Tax Revenue from the Marijuana Industry	Preliminary FY 21-22	Forecast FY 22-23	Forecast FY 23-24	Forecast FY 24-25
Retail Marijuana 15% Special Sales Tax	$258.7	$246.1	$266.0	$271.4
Retail Marijuana 15% Excise Tax	$97.3	$62.2	$85.9	$89.3
Total Proposition AA Taxes	**$356.1**	**$308.2**	**$351.9**	**$360.7**
		0.2%		
Medical Marijuana 2.9% State Sales Tax	$9.2	$6.8	$7.3	$6.9
Retail Marijuana 2.9% State Sales Tax	$2.3	$1.5	$1.4	$1.4
Interest Earnings	$0.4	$0.4	$0.4	$0.0
Total 2.9% Sales Taxes & Interest	**$11.9**	**$8.6**	**$9.1**	**$8.3**
Total Marijuana Taxes	**$368.0**	**$316.9**	**$361.1**	**$369.0**

Figure 47.

Tax Revenue from the Marijuana Industry	Total Marijuana Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	Marijuana Tax Cash Fund
FY 2021-22 Projected	$368.0	$25.9	$36.2	$97.3	$29.3	$179.2
FY 2022-23 Projected	$326.1	$24.6	$34.5	$71.4	$27.9	$167.8
FY 2023-24 Projected	$361.1	$26.6	$37.3	$85.9	$30.1	$181.2
FY 2024-25 Projected	$369.4	$27.1	$38.0	$89.3	$30.7	$184.2

Figure 48.

Change from September	Total Marijuana Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	Marijuana Tax Cash Fund
FY 2021-22 Actual	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
FY 2022-23 Projected	-$28.6	-$0.8	-$1.1	-$19.1	-$0.9	-$6.8
FY 2023-24 Projected	-$4.3	-$0.1	-$0.2	-$1.1	-$0.2	-$2.6
FY 2024-25 Projected	-$4.4	-$0.1	-$0.2	-$1.2	-$0.2	-$2.7

Prices for both retail and wholesale marijuana have remain depressed for longer than anticipated in previous forecasts; in fact, the average market rate per pound of flower at the wholesale level has reached an all-time low of $658/lb., 13.3 percent lower than its previous historical low of $759/lb.[4] The extension of these downward price impacts likely stems from more protracted effects of oversupply than anticipated after an influx of product during the height of the pandemic as producers ramped up to meet skyrocketing demand. These effects have kept prices low for longer than anticipated.

Federal Mineral Lease

Federal Mineral Lease (FML) revenue increased by 52.5 percent to $125.1 million in FY 2021-22 and is forecast to increase by an additional 13.8 percent in FY 2022-23 to $142.4 million due to continued elevated oil and gas prices throughout the fiscal year. This is an upward revision of $4.0 million from the September forecast largely predicated upon above-expectation FML revenue collections in the first quarter of the fiscal year. Oil and gas price expectations for FY 2022-23 largely remain in line with the September forecast.

FML revenue is expected to tick downward over the forecast period. FY 2023-24 revenue is expected to drop by 21.9 percent to $111.3 million and revenue in FY 2024-25 is forecast to drop 7.5 percent to $102.9 million. While natural gas prices are forecast to drop in the next fiscal year from FY 2022-23 levels, the FY 2023-24 forecast is revised up from September based upon higher natural gas price expectations with the Henry Hub benchmark price expected to range closer to $5 per million BTU compared to just over $4 that was expected in the previous forecast. Revenue derived from natural gas production on federal leases accounts for roughly 50 percent of total FML revenue, resulting in natural gas price fluctuations driving FML revenue collections much more than severance tax revenue, which is more reliant on oil prices. Oil price expectations remain similar to the prior forecast and are expected to drop from 2022 levels in 2023 with overall economic activity expected to slow. Price assumptions are discussed in more detail in the

[4] Average Market Rates - Current and Prior, Colorado Department of Revenue, September 2022, available at https://tax.colorado.gov/sites/tax/files/documents/AMR_PriorRates_Oct2022.pdf.

energy section of the economic outlook. Detailed FML revenue forecast expectations can be found in Figure 49.

Figure 49. FML Forecast Distribution Table	Preliminary FY 2021-22	Forecast FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25
Total FML Revenue	**$125.1**	**$142.4**	**$111.3**	**$102.9**
Change	52.5%	13.8%	-21.9%	-7.5%
Bonus Payments (portion of total FML revenue)	$0.8	$1.6	$1.2	$1.2
Local Government Perm Fund	$0.4	$0.8	$0.6	$0.6
Higher Ed FML Revenues Fund	$0.4	$0.8	$0.6	$0.6
Other (non-bonus) FML Revenue	$124.4	$140.8	$110.1	$101.7
State Public School Fund	$60.1	$68.0	$53.2	$49.1
Colorado Water Conservation Board	$12.4	$14.1	$11.0	$10.2
DOLA Grants	$24.9	$28.2	$22.0	$20.3
DOLA Direct Distribution	$24.9	$28.2	$22.0	$20.3
School Districts	$2.1	$2.4	$1.9	$1.7
Total Higher Ed Maintenance Reserve Fund	$0.4	$0.8	$0.6	$0.6

Overall, there has been a long-term, downward-to-flattening oil and gas lease trend as industry investment interest on federal land has waned. The number of leases dropped 37 percent from federal FY 2011-12 to FY 2020-21 from 5,160 to 3,245 while leased acreage dropped by 43.7 percent over that same period. During the forecast period, the number of leases is expected to remain flat to slightly negative.

While FML revenue is exempt from TABOR, it is included here because a portion of the money is distributed to the Public School Fund as detailed in the table.

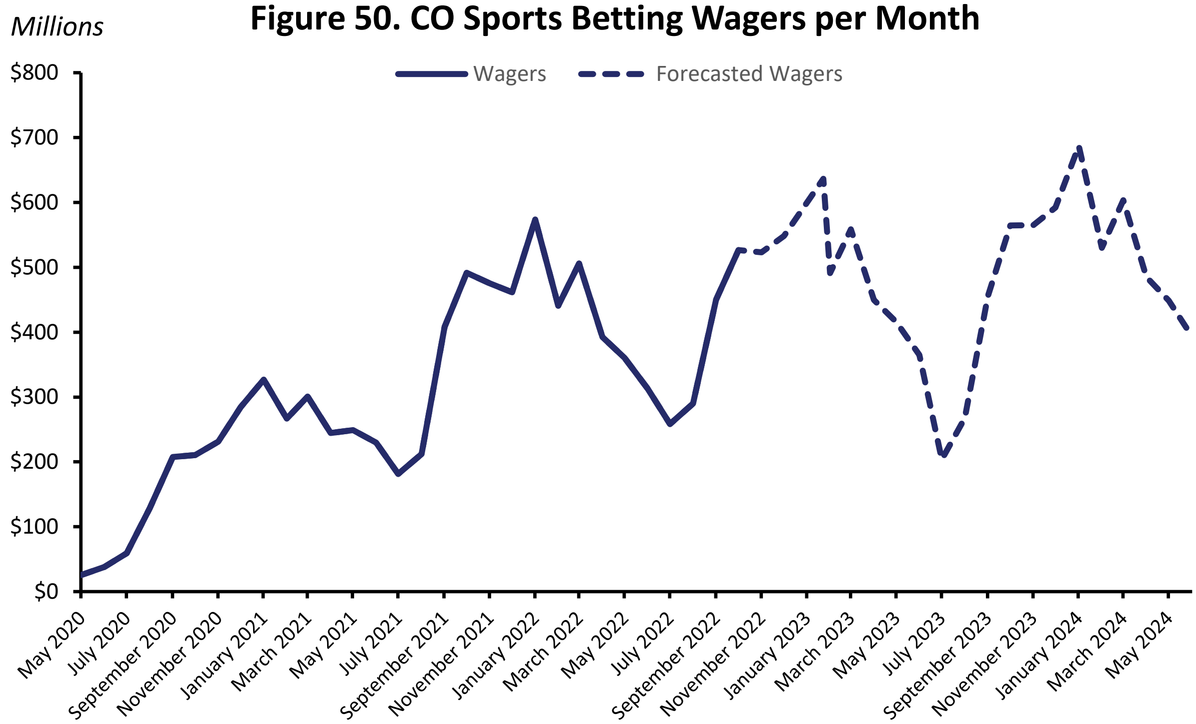
Sports Betting

Sports betting revenue is a new addition for this 2022 December Forecast and OSPB will continue to forecast this revenue stream going forward because despite its TABOR-exempt status, it has a material budget impact. Sports betting was legalized in November 2020 through the voter approval of Proposition DD. Since its passage in 2020, sports betting has been popular in Colorado.

The taxation on sports betting is on the Gross Gaming Revenue (GGR), which is the number of wagers made by players and subtract the amount paid out to players by the sports betting operators. Colorado has an established tax rate for GGR of 10 percent, however, sports betting operators are allowed to deduct the amount of free bets offered to players and federal excise tax from what they are supposed to owe, so the effective tax rate ends up being less than 10 percent. This effective tax rate will be affected by legislation mentioned later in the section.

For the first quarter of this fiscal year 2022-23, reported wagers by players in Colorado has been 18 percent higher than fiscal year 2021-22. OSPB estimates this trend to continue through the end of this fiscal year and forecasts over $5.5 billion in wagers for this fiscal year. As a further demonstration of sports betting's popularity and growth in Colorado, October 2022 was the second highest month of wagers reported in state history, with $526.6 million in wagers which is $35.2 million higher than the previous October. Through analysis of other states further into their legalization of sports betting whom sustained strong growth for the first four years, OSPB expects these high wager numbers to continue through the fiscal year and finish with 14.5 percent growth in wagers from the previous year. As displayed in Figure 50 below, the sports betting industry is seasonal, based on what sports are available at a given time. The wagers are led by popular anchors of the industry in Football and Basketball (professional and NCAA), as well as events that do not occur on an annual basis such as the Olympics and the World Cup, which were taken into consideration when forecasting elevated wagers as well.

Figure 50. CO Sports Betting Wagers per Month



Source: CO Department of Revenue: Division of Gaming & OSPB Forecast

OSPB expects FY 2023-24 revenue to be slightly lower due to tougher economic conditions, forecasting a 5.2 percent growth for wagers and a 3.4 percent growth for revenue. With the demographics of players and those participating in sports betting, some will elect to save instead of participating in further betting during tighter economic conditions. OSPB anticipates some more healthy growth in FY25 with a 9.7 percent growth in revenue.

With the introduction of HB22-1402, there will be a limit on the number of free bets a sports betting operator can offer starting on January 1, 2023. This will increase the effective tax rate, and therefore increase the amount of tax revenue gained from sports betting by the state. Sports betting revenue increased by 53.4 percent to $12.4 million in FY 2021-22 and is forecasted to increase by 93.3 percent to $24.1 million in FY2022-23. Many of these gains will be seen in the outyears, as the higher effective tax rate will offset downward pressure from less wagers, and therefore less GGR.

Figure 51. Sports Betting Distribution Formula

Distribution Formula	FY 2021-2022	Forecast FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25
Total Sports Betting Tax Revenue	$12.44	$24.06	$24.88	$27.29
Change	53.4%	93.3%	3.4%	9.7%
Hold-Harmless Fund (6%)	$0.75	$1.44	$1.49	$1.64
Behavioral Health Administration	$0.13	$0.13	$0.13	$0.00
Water Plan Implementation Cash Fund	$11.36	$22.48	$23.25	$25.65

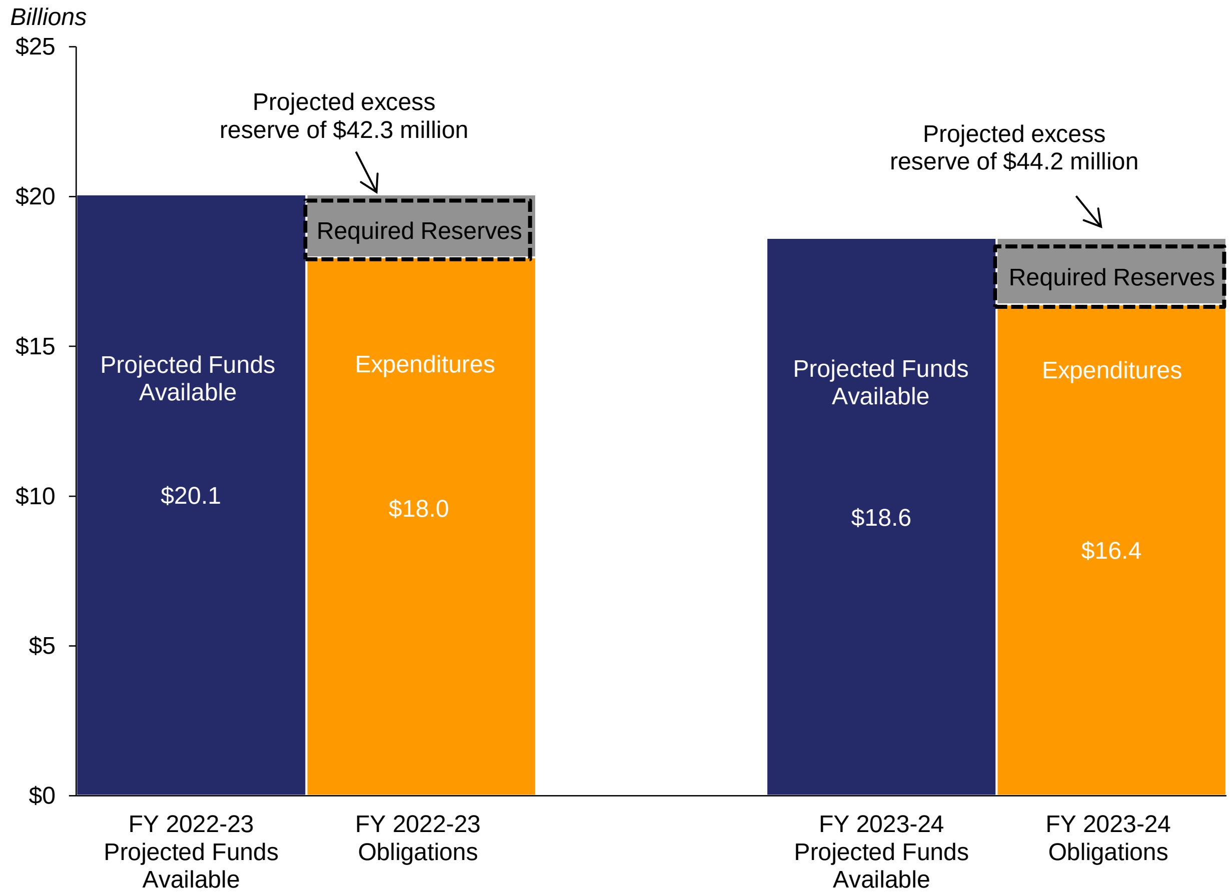
As shown in Figure 51 above, sports betting revenues are distributed by a formula. Six percent of the sports betting revenue goes to the 'Wagering Revenue Recipients Hold-Harmless Fund' to offset any demonstrated loss of revenue attributable to sports betting. Additionally, $130,000 goes to the Behavioral Health Administration in the Department of Human Services to operate a crisis hotline for gamblers and to assist the prevention, education, treatment, and workforce development by counselors certified in the treatment of gambling disorders and is distributed through fiscal year 2023-24 under current law. Last, the remaining funds (minus some administration costs) should be disbursed to the water plan implementation cash fund. Over 90 percent of sports betting revenues ends up going to the Water Plan Implementation Cash Fund.

Budget Outlook

General Fund

General Fund revenue increased 23.7 percent in FY 2021-22 to $17,697.9 million. In FY 2022-23, however, revenue is expected to decline by 4.8 percent and a further 2.1 percent in FY 2023-24 before rebounding by 6.8 percent in FY 2024-25. The general fund forecast for FY 2022-23 is $412.4 million higher than estimated in September, as income revenue from cash with returns improve on a better than expected business environment as aggregate demand shows its resiliency. The forecast in FY 2023-24 is revised down $225.0 million from September, as *Proposition 121* and *Proposition 123* more than offset expected increases in income.

Figure 52.



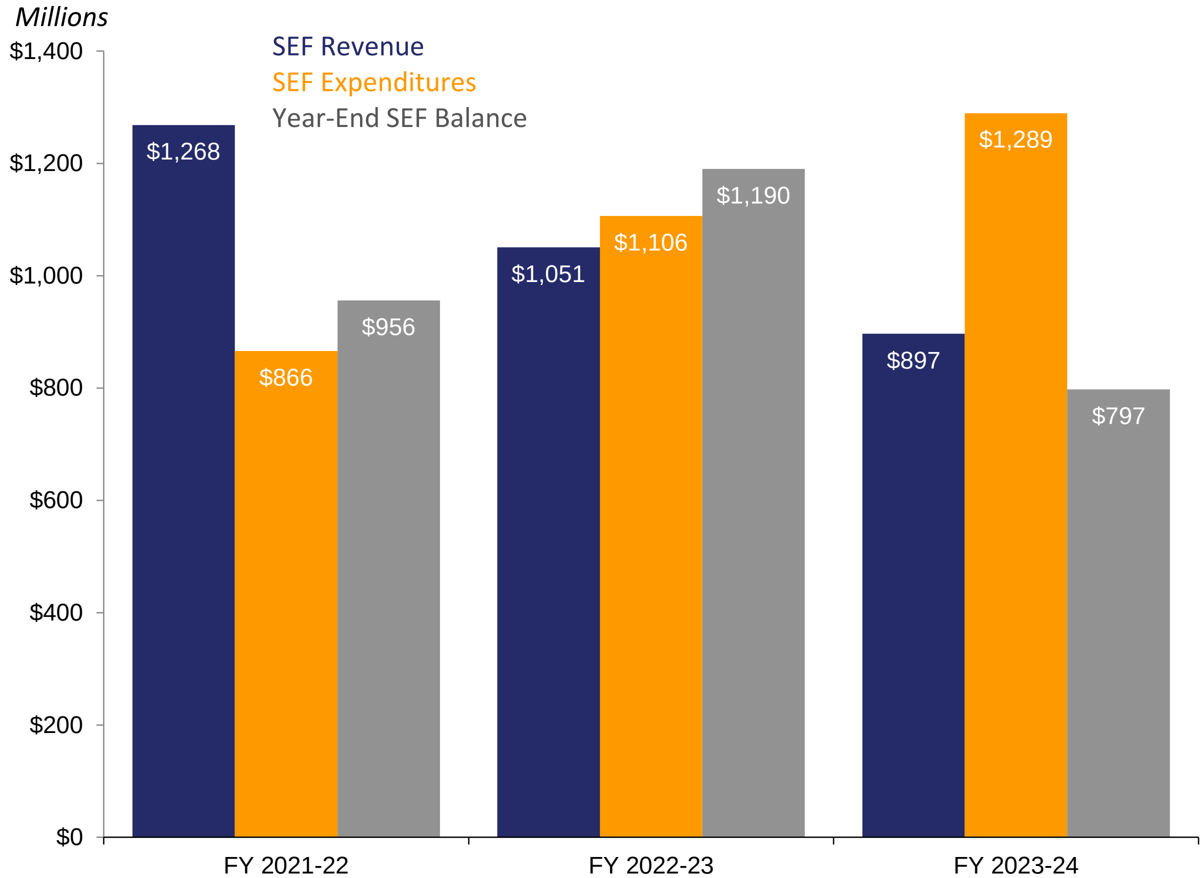
The General Fund estimated ending balance is $1,589.7 million above the statutory reserve level of 13.4 percent of appropriations in FY 2021-22 and estimated to be $42.3 million and $44.2 million above the statutory reserve level of 15.0 percent of appropriations in FY 2022-23 and FY 2023-24 respectively. Figure 51 summarizes total projected General Fund revenue available, total obligations, and reserve levels for FY 2022-23 and FY 2023-24 under current law.

During the current forecast, there is $42.3 million in room above the statutory reserve limit for FY 2022-23, a slight $1.6 million above the $40.7 million in the September forecast. Increases in revisions to transfers just slightly offset cash fund increases and accrual adjustments provided as part of the Office of the State Controller's Annual Comprehensive Financial Reporting (ACFR) process. This forecast also reflects the recent Governor's Budget as released on November 1st. Therefore, there are additional adjustments to reflect that proposal, updated from the placeholder assumption of no reserve available in FY 2023-24 in previous forecasts.

State Education Fund

The State Education Fund's (SEF) year-end balance is estimated to be $955.9 million in FY 2021-22, including transfers. In FY 2022-23, the year-end balance is revised up $55.3 million above the September forecast to $1,190.2 million, largely due to income tax revenue upward revisions and an increased ending balance from the prior fiscal year following year-end accounting adjustments. These ending balances include the $290 million transfer to the SEF in FY 2022-23 as provided for in HB22-1390 and amended by SB22-202. In FY 2023-24, the year-end balance is expected to fall to $797.4 million given lowered income tax revenue compared to the prior fiscal year along with increased costs to the School Finance formula as a result of inflation. Figure 53 summarizes total State Education Fund revenue, expenditures, and ending balances for FY 2021-22, FY 2022-23, and FY 2023-24, and reflects the Governor's November 1st budget.

Figure 53. SEF Revenue, Expenditures, and Ending Balances



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, labor demand may remain resilient in the face of slowing economic growth, avoiding a small uptick in unemployment in the outyears and keeping income withholdings elevated with it. Prolonged inflation and slowing consumption in the outyears are the main downside risk, as this might eat into aggregate demand, thereby slowing economic growth. This is likely to impact both sales revenue directly and estimated payments and cash with returns from income revenue indirectly. Risks to the revenue forecast are weighted evenly.

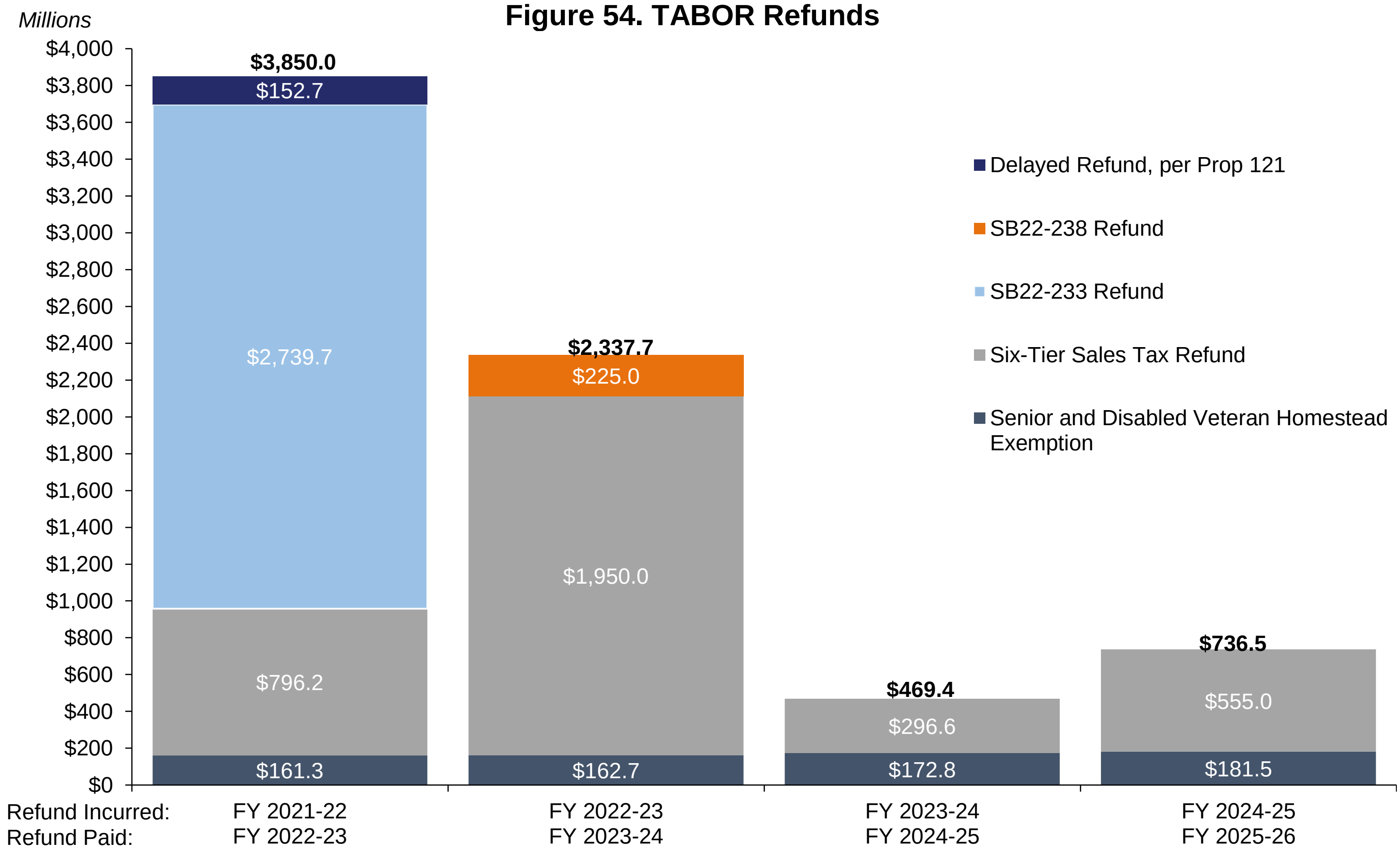
Supplemental Materials

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. Revenue subject to TABOR is expected to exceed the cap in each of the forecast years, but the highest refund amount is expected to have occurred in the most recently completed fiscal year. In that year, FY 2021-22, the TABOR surplus is estimated to be $3,850.0 million due primarily to upward revisions in individual income tax revenue. In FY 2022-23, revenue is projected to be $2,337.7 million above the cap as increased income revenue, particularly from cash with returns, is above previous expectations. In FY 2023-24, the amount above the cap lowers to $469.4 million as current high inflation allows for further growth in the Referendum C limit, while *Proposition 121* and *Proposition 123* lower the income revenue forecast compared to September. In FY 2024-25, the refunds are expected to stabilize, totaling $736.5 million.

Figure 54. TABOR Refunds



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 (from 4.55 percent to 4.50 percent), and a sales tax refund. However, the temporary income tax rate reduction no longer applies, as the permanent rate is reduced to 4.40 percent, per Proposition 121. The size of the refund determines which refund mechanisms are utilized. In addition to these mechanisms, SB22-233, Tabor Refund Mechanism for FY 2021-22 Only, refunded $750 checks to single filers and $1,500 to joint filers as a part of the Colorado Cash Back program. Finally, SB22-238, 2023 and 2024 Property Tax, provides $225 million in refunds to backfill local governments' losses as a result of reduced property tax revenue.

An estimated $2,739.7 million of the $3,850.0 million refund obligation is paid out as a part of the Colorado Cash Back. Additionally, $161.3 million will be refunded via the senior homestead and disabled veterans property tax exemption expenditures and $796.2 million via a sales tax refund. Note that $152.7 million is currently listed as an under-refunded amount. This is because the TABOR certification occurred prior to the passage of Proposition 121, which eliminated the need for this mechanism, meaning that the $152.7 million will not be sent out in the FY 2021-22 refunds repaid in FY 2022-23. Instead, this amount will be applied to the following year's refund under current law. This follows the normal process that any difference between estimated refunds and actual refunds will be corrected in the next fiscal year in which a refund is owed.

Reference Tables

Table 1: Colorado Economic Variables – History and Forecast

		Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024
	Income									
1	Personal Income (Billions) /A	$289.7	$309.4	$331.9	$356.3	$378.1	$410.9	$429.0	$448.8	$466.3
2	Change	1.7%	6.8%	7.3%	7.4%	6.1%	8.7%	4.4%	4.6%	3.9%
3	Wage and Salary Income (Billions)	$151.2	$160.9	$170.8	$183.0	$187.6	$205.3	$226.8	$239.8	$248.4
4	Change	3.1%	6.5%	6.1%	7.1%	2.5%	9.4%	10.5%	5.7%	3.6%
5	Per-Capita Income ($/person) /A	$52,386.0	$55,257.0	$58,456.0	$62,135.0	$65,360.0	$70,674.0	$73,244.0	$75,895.0	$78,049.0
6	Change	0.2%	5.5%	5.8%	6.3%	5.2%	8.1%	3.6%	3.6%	2.8%
	Population & Employment									
7	Population (Thousands)	5,529.6	5,599.6	5,676.9	5,734.9	5,784.2	5,814.7	5,843.8	5,896.4	5,955.3
8	Change	1.5%	1.3%	1.4%	1.0%	0.9%	0.5%	0.5%	0.9%	1.0%
9	Net Migration (Thousands)	53.3	42.4	51.8	34.2	28.6	15.1	15.0	35.0	40.0
10	Unemployment Rate	3.1%	2.6%	3.0%	2.6%	6.9%	5.4%	3.6%	3.9%	4.0%
11	Total Nonagricultural Employment (Thousands)	2,601.7	2,660.3	2,727.3	2,790.1	2,651.1	2,744.0	2,865.0	2,913.7	2,937.0
12	Change	2.4%	2.3%	2.5%	2.3%	-5.0%	3.5%	4.4%	1.7%	0.8%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	39.0	40.7	42.6	38.6	40.5	56.5	57.7	48.7	50.0
14	Change	22.3%	4.4%	4.8%	-9.4%	4.8%	39.7%	2.0%	-15.5%	2.7%
15	Nonresidential Construction Value (Millions) /B	$5,987.8	$6,150.7	$8,151.0	$5,157.4	$5,558.0	$5,609.4	$6,030.1	$5,861.3	$5,925.7
16	Change	20.0%	2.7%	32.5%	-36.7%	7.8%	0.9%	7.5%	-2.8%	1.1%
	Price Variables									
17	Retail Trade (Billions) /C	$184.7	$194.6	$206.1	$224.6	$228.8	$268.3	$302.7	$310.5	$322.0
18	Change	1.0%	5.4%	5.9%	9.0%	1.9%	17.3%	12.8%	2.6%	3.7%
19	Denver-Aurora-Lakewood Consumer Price Index (1982-84=100)	246.6	255.0	262.0	267.0	272.2	281.8	304.3	317.1	325.7
20	Change	2.8%	3.4%	2.7%	1.9%	2.0%	3.5%	8.0%	4.2%	2.7%

/A Personal Income as reported by the federal 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. 2016 data is not final and represents OSPB's estimates.

/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, medical and government buildings. Nonresidential does not include non-building projects (such as streets, highways, bridges and utilities).

/C Retail Trade includes motor vehicles and automobile parts, furniture and home furnishings, electronics and appliances, building materials, sales at food and beverage stores, health and personal care, sales at convenience stores and service stations, clothing, sporting goods / books / music, and general merchandise found at warehouse stores and internet purchases. In addition, the above dollar amounts include sales from food and drink vendors (bars and restaurants). 2016 data is not final and represents OSPB's estimates.

Table 2: National Economic Variables – History and Forecast

		Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Forecast 2022	Forecast 2023	Forecast 2024
	Inflation-Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$17,680.3	$18,076.7	$18,609.1	$19,036.1	$18,509.1	$19,609.8	$19,982.4	$20,142.3	$20,404.1
2	Change	1.7%	2.2%	2.9%	2.3%	-2.8%	5.9%	1.9%	0.8%	1.3%
3	Personal Income (Billions) /B	$16,096.9	$16,839.8	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,784.6	$22,612.4	$23,245.6
4	Change	2.6%	4.6%	5.0%	5.1%	6.7%	7.4%	2.3%	3.8%	2.8%
5	Per-Capita Income ($/person) /B	$49,880	$51,829	$54,061	$56,443	$59,826	$64,162	$65,572	$67,928	$69,621
6	Change	1.9%	3.9%	4.3%	4.4%	6.0%	7.2%	2.2%	3.6%	2.5%
7	Wage and Salary Income (Billions)	$8,091.2	$8,474.4	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,205.9	$11,732.6	$12,025.9
8	Change	2.9%	4.7%	5.0%	4.8%	1.4%	8.8%	8.9%	4.7%	2.5%
	Population & Employment									
9	Population (Millions)	322.7	324.9	327.1	329.3	331.5	331.9	332.2	332.9	333.9
10	Change	0.7%	0.7%	0.7%	0.7%	0.7%	0.1%	0.1%	0.2%	0.3%
11	Unemployment Rate	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	4.1%	4.2%
12	Total Nonagricultural Employment (Millions)	144.3	146.6	148.9	150.9	142.2	146.1	152.1	154.4	155.2
13	Change	1.8%	1.6%	1.6%	1.3%	-5.8%	2.8%	4.1%	1.5%	0.5%
	Other Key Indicators									
14	Consumer Price Index (1982-84=100)	240.0	245.1	251.1	255.7	258.8	271.0	293.0	304.7	312.3
15	Change	1.3%	2.1%	2.4%	1.8%	1.2%	4.7%	8.1%	4.0%	2.5%
16	Corporate Profits (Billions)	$2,037.7	$2,128.6	$2,311.9	$2,402.2	$2,260.1	$2,771.1	$2,976.1	$2,833.3	$2,861.6
17	Change	-1.1%	4.5%	8.6%	3.9%	-5.9%	22.6%	7.4%	-4.8%	1.0%
18	Housing Permits (Millions)	1.210	1.280	1.330	1.390	1.470	1.740	1.700	1.490	1.500
19	Change	2.0%	6.3%	3.6%	4.3%	6.1%	18.1%	-2.2%	-12.5%	1.0%
20	Retail Trade (Billions)	$5,506.0	$5,732.9	$5,987.4	$6,175.0	$6,219.6	$7,441.4	$8,170.6	$8,366.7	$8,609.4
21	Change	2.9%	4.1%	4.4%	3.1%	0.7%	19.6%	9.8%	2.4%	2.9%

/A U.S. Bureau of Economic Analysis, National Income and Product Accounts
/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

	Category	Estimate FY 2021-22	Percent Change	Estimate FY 2022-23	Percent Change	Estimate FY 2023-24	Percent Change	Estimate FY 2024-25	Percent Change
	Excise Taxes								
1	Sales	$4,089.0	19.6%	$4,344.6	6.3%	$4,406.4	1.4%	$4,620.2	4.9%
2	Use	$232.6	8.6%	$255.5	9.8%	$250.2	-2.1%	$264.1	5.5%
3	Retail Marijuana Sales - Special Sales Tax	$258.7	-10.2%	$246.1	-4.9%	$266.0	8.1%	$271.4	2.0%
4	Cigarette	$26.0	-13.8%	$25.4	-2.2%	$24.3	-4.2%	$23.0	-5.6%
5	Tobacco Products	$26.6	-8.3%	$25.2	-5.4%	$27.2	8.1%	$28.4	4.5%
6	Liquor	$56.3	5.6%	$57.6	2.3%	$59.2	2.8%	$61.0	3.0%
7	Total Proposition EE	$208.0	324.3%	$215.1	3.4%	$215.5	0.2%	$261.1	21.2%
8	**Total Excise**	**$4,897.2**	**20.0%**	**$5,169.5**	**5.6%**	**$5,248.9**	**1.5%**	**$5,529.2**	**5.3%**
	Income Taxes								
9	Net Individual Income	$11,717.8	23.6%	$10,973.4	-6.4%	$10,876.0	-0.9%	$11,525.5	6.0%
10	Net Corporate Income	$1,568.6	32.5%	$1,149.8	-26.7%	$960.0	-16.5%	$1,218.3	26.9%
11	**Total Income**	**$13,286.4**	**24.6%**	**$12,123.2**	**-8.8%**	**$11,836.1**	**-2.4%**	**$12,743.7**	**7.7%**
12	*Less: State Education Fund Diversion*	*$993.5*	*13.6%*	*$909.2*	*-8.5%*	*$887.7*	*-2.4%*	*$955.8*	*7.7%*
13	*Less: Proposition 123 Diversion*	*$0.0*	*NA*	*$145.0*	*NA*	*$290.0*	*100.0%*	*$312.2*	*7.7%*
14	**Total Income to General Fund**	**$12,292.9**	**25.6%**	**$11,069.0**	**-10.0%**	**$10,658.4**	**-3.7%**	**$11,475.7**	**7.7%**
	Other Revenue								
15	Insurance	$390.2	16.0%	$464.4	19.0%	$481.7	3.7%	$504.6	4.8%
16	Interest Income	$69.2	38.3%	$89.6	29.4%	$70.1	-21.8%	$61.8	-11.8%
17	Pari-Mutuel	$0.4	34.8%	$0.4	-8.3%	$0.4	14.3%	$0.4	-13.7%
18	Court Receipts	$2.4	-31.4%	$3.3	37.3%	$3.5	6.6%	$3.2	-9.6%
19	Other Income	$45.6	-10.1%	$48.5	6.3%	$31.2	-35.8%	$37.7	21.1%
20	**Total Other**	**$507.8**	**15.2%**	**$606.1**	**19.4%**	**$586.8**	**-3.2%**	**$607.7**	**3.6%**
21	**GROSS GENERAL FUND**	**$17,697.9**	**23.7%**	**$16,844.5**	**-4.8%**	**$16,494.0**	**-2.1%**	**$17,612.6**	**6.8%**

/A Dollars in millions.

Table 4: General Fund Overview /A

		Estimate FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
Revenue					
1	**Beginning Reserve**	**$3,181.5**	**$3,201.9**	**$2,097.0**	**$2,218.2**
2	**Gross General Fund Revenue**	**$17,697.9**	**$16,844.5**	**$16,494.0**	**$17,612.6**
3	*Transfers to the General Fund*	$59.525	$23.997	$26.083	$25.413
4	**TOTAL GENERAL FUND AVAILABLE**	**$20,939.0**	**$20,070.4**	**$18,617.1**	**$19,856.2**
Expenditures					
5	**Appropriation Subject to Limit**	**$12,031.21**	**$13,698.21**	**$14,493.4**	**$15,825.0**
6	*Dollar Change (from prior year)*	$1,052.1	$1,667.0	$795.2	$1,331.6
7	*Percent Change (from prior year)*	9.6%	13.9%	5.8%	9.2%
8	**Spending Outside Limit**	**$5,799.4**	**$4,275.1**	**$1,905.5**	**$1,657.4**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$3,850.0	$2,337.7	$469.4	$736.45
10	*Homestead Exemption (Net of TABOR Refund)*	$0.0	$0.0	$0.0	$0.0
11	*Other Rebates and Expenditures*	$149.6	$140.0	$248.5	$253.4
12	*Transfers for Capital Construction*	$354.0	$482.2	$302.7	$50.0
13	*Transfers for Transportation*	$512.9	$88.0	$0.0	$0.0
14	*Transfers to State Education Fund*	$123.0	$290.0	$0.0	$0.0
15	*Transfers to Other Funds*	$809.9	$937.3	$884.8	$617.5
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$17,830.6**	**$17,973.4**	**$16,398.9**	**$17,482.5**
17	*Percent Change (from prior year)*	33.8%	0.8%	-8.8%	6.6%
18	Reversions and Accounting Adjustments	-$93.4	$0.0	$0.0	$0.0
Reserves					
19	**Year-End General Fund Balance**	**$3,201.9**	**$2,097.0**	**$2,218.2**	**$2,373.8**
20	*Year-End General Fund as a % of Appropriations*	26.6%	15.3%	15.3%	15.0%
21	*General Fund Statutory Reserve*	$1,612.2	$2,054.7	$2,174.0	$2,373.8
22	*Statutory Reserve %*	13.4%	15.0%	15.0%	15.0%
23	***Above/Below Statutory Reserve***	**$1,589.7**	**$42.3**	**$44.2**	**$0.0**

/A. FY 2021-22 and FY 2022-23 expenditures reflect all legislation that has passed through both the Colorado House and Senate as of June 21, 2022. FY 2023-24 appropriations will be adopted in future budget legislation. Therefore, FY 2023-24 expenditures and fund balance projections shown are illustrative only. Dollars in millions.

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

		Estimate FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
	Revenue				
1	**Beginning Reserves**	**$3,735.2**	**$4,157.3**	**$3,286.3**	**$3,014.1**
2	*State Education Fund*	$553.7	$955.9	$1,190.2	$797.4
3	*General Fund*	$3,181.5	$3,201.4	$2,096.1	$2,216.7
4	**Gross State Education Fund Revenue**	**$1,268.4**	**$1,050.5**	**$896.6**	**$965.3**
5	Transfer to State Education Fund	$0.0	$290.0	$0.0	$0.0
6	**Gross General Fund Revenue /B**	**$17,757.5**	**$16,868.5**	**$16,520.1**	**$17,638.0**
7	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$22,761.1**	**$22,076.3**	**$20,703.0**	**$21,617.5**
	Expenditures				
8	General Fund Expenditures /C	$17,849.0	$17,973.8	$16,399.5	$16,746.0
9	State Education Fund Expenditures	$888.0	$1,106.2	$1,289.4	$1,540.1
10	**TOTAL OBLIGATIONS**	**$18,737.0**	**$19,080.0**	**$17,688.9**	**$18,286.1**
11	*Percent Change (from prior year)*	34.0%	1.8%	-7.3%	3.4%
12	*Reversions and Accounting Adjustments*	-$133.3	$0.0	$0.0	$0.0
	Reserves				
13	**Year-End Balance**	**$4,157.3**	**$3,286.3**	**$3,014.1**	**$3,331.3**
14	State Education Fund	$955.9	$1,190.2	$797.4	$222.6
15	General Fund	$3,201.4	$2,096.1	$2,216.7	$3,108.7
16	*General Fund Above/Below Statutory Reserve*	$3,178.4	$82.7	$85.5	$1,470.0

/A See the section discussing the General Fund and State Education Fund budget starting on page X for information on the figures in this table.
/B This amount includes transfers to the General Fund shown in line 3 in Table 4.
/C General Fund expenditures include appropriations subject to the limit of 5.0% of Colorado personal income shown in line 5 in Table 4 as well as all spending outside the limit shown in line 8 in Table 4.

Table 6: Cash Fund Revenue Subject to TABOR /A

	Category	Estimate FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
1	**Transportation-Related /A**	**$1,225.9**	**$1,210.3**	**$1,326.0**	**$1,401.2**
2	Change	6.1%	-1.3%	9.6%	5.7%
3	**Limited Gaming Fund /B**	**$115.4**	**$117.4**	**$118.7**	**$120.7**
4	Change	13.3%	1.7%	1.1%	1.7%
7	**Regulatory Agencies**	**$92.3**	**$85.7**	**$86.7**	**$99.7**
8	Change	3.6%	-7.1%	1.1%	15.0%
9	**Insurance-Related**	**$24.3**	**$22.6**	**$21.4**	**$21.9**
10	Change	15.4%	-6.9%	-5.3%	2.3%
11	**Severance Tax**	**$325.0**	**$271.3**	**$168.4**	**$166.1**
12	Change	2113.0%	-16.5%	-37.9%	-1.4%
13	**Other Miscellaneous Cash Funds**	**$883.5**	**$905.2**	**$910.4**	**$947.1**
14	Change	3.0%	2.5%	0.6%	4.0%
15	**TOTAL CASH FUND REVENUE**	**$2,666.3**	**$2,612.4**	**$2,631.7**	**$2,756.8**
16	Change	19.0%	-2.0%	0.7%	4.8%

/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

		Estimate FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
	TABOR Revenues				
1	General Fund /A	$17,075.4	$16,383.4	$15,911.8	$16,975.5
2	Cash Funds /A	$2,666.3	$2,612.4	$2,631.7	$2,756.8
3	**Total TABOR Revenues**	**$19,741.7**	**$18,995.8**	**$18,543.5**	**$19,732.3**
	Revenue Limit Calculation				
4	Previous calendar year population growth	0.3%	0.7%	0.5%	0.9%
5	Previous calendar year inflation	2.0%	3.5%	8.0%	4.2%
6	**Allowable TABOR Growth Rate**	**2.2%**	**4.2%**	**8.5%**	**5.1%**
7	TABOR Limit /B	$12,929.8	$13,445.5	$14,588.4	$15,332.4
8	General Fund Exempt Revenue Under Ref. C /C	$3,083.1	$3,212.6	$3,485.6	$3,663.4
9	**Revenue Cap Under Ref. C /B /D**	**$16,012.9**	**$16,658.1**	**$18,074.0**	**$18,995.8**
10	***Amount Above/Below Cap***	**$3,728.9**	**$2,337.7**	**$469.4**	**$736.5**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$3,850.0**	**$2,337.7**	**$469.4**	**$736.5**
12	TABOR State Emergency Reserve Requirement	$480.4	$499.7	$542.2	$569.9

/A Amounts differ from the General Fund and Cash Fund revenues reported in Table 3 and Table 6 due to accounting adjustments and because some General Fund revenue is exempt from TABOR.
/B The TABOR limit and Referendum C Cap is 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 voter-approval of Referendum C.
/D The revenue limit is calculated by applying the "Allowable TABOR Growth Rate" to either "Total TABOR Revenues" 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.
/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 the total refund amount distributed to taxpayers is adjusted.

Table 8a: List of Transfers to/from General Fund

Bill Number and Description	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
12-47.1-701 (d) Ltd. Gaming Revenue Transfer to the General Fund	$14.0	$19.4	$20.0	$20.8
HB05-1262 A35 Tobacco Tax 24-22-117 (1)(c)(I)	$0.7	$0.5	$0.5	$0.5
HB08-1216 Consumer Outreach and Education Program	$0.0			
SB11-047 Bioscience Income Tax Transfer to OEDIT*	-$14.6	-$7.0	-$7.0	-$7.0
HB13-1318/SB 17-267 Transfers of Special Sales Tax to MTCF	-$165.7	-$159.1	-$172.0	-$175.5
SB17-261 Repeal of 2013 Flood Recovery Account	$8.3			
SB17-267 Sustainability of Rural CO (Transfer MJ Special Sales Tax to Public School Fund)	-$29.0	-$27.9	-$30.1	-$30.7
HB18-1323 Pay For Success Fund at OSPB	-$0.4			
HB20-1116 Procurement Technical Assistance Program Extension	-$0.2	-$0.2	-$0.2	-$0.2
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	-$208.0	-$215.1	-$215.5	-$261.1
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	$4.1	$4.1	$4.1	$4.1
Proposition EE - Preschool Programs Cash Fund	-$0.4	-$0.6		
HB21-1149 Energy Sector Career Pathway in Higher Education	-$5.0			
HB21-1285 Funding To Support Creative Arts Industries	-$18.0			
SB21-209 Transfer to GF from Repealed Cash Funds	$0.1			
SB21-225 Repay Cash Funds for 2020 Transfers	-$10.0			
SB21-251 General Fund Loan Family Medical Leave Program			$1.5	
SB 21-252 Community Revitalization Grant Program	-$65.0			
SB21-281 Severance Tax Trust Fund Allocation		-$9.5		
SB21-283 Cash Fund Solvency	-$4.3			
HB22-1001 Reduce Fees For Bus Filings		-$8.4		
HB22-1004 Driver License Fee Reduction		-$3.9		
HB22-1011 Wildfire Mitigation Incentives For Local Gov		-$10.0		
HB22-1012 Wildfire Mitigation and Recovery		-$7.2		
HB22-1115 Prescription Drug Monitoring Program		-$2.0		
HB22-1132 Regulation & Services For Wildfire Mitigation		-$0.1		
HB22-1151 Turf Replacement Program		-$2.0		
HB22-1194 Local Firefighter Safety Resources	-$5.0			
HB22-1197 Effective Date Of Dept. Of Early Childhood	-$3.0			
HB22-1295 Dept. Early Childhood & Universal Preschool Prog			-$136.8	-$142.9
HB22-1298 Fee Relief Nurses Nurse Aides &Technicians		-$11.7		

HB22-1299 License Regis Fee Relief For Mental Health Profls		-$3.7		
HB22-1350 Regional Talent Development Initiative Grant Prog	$32.4			
HB22-1362 Building Greenhouse Gas Emissions	-$25.0			
HB22-1381 CO Energy Office Geothermal Energy Grant Program		-$12.0		
HB22-1382 Support Dark Sky Designation & Promotion In CO		$0.0		
HB22-1394 Fund Just Transition Community & Worker Supports		-$15.0		
HB22-1408 Modify Performance-based Incentive For Film Production		-$2.0		
HB22-1411 Money From Coronavirus State Fiscal Recovery Fund	-$28.0			
SB22-036 State Payment Old Hire Death And Disability Benefits		-$6.7		
SB22-130 State Entity Authority For Public-private Partnerships		-$15.0		
SB22-134 State Fair Master Plan Funding	-$4.0			
SB22-151 Safe Crossings For Colorado Wildlife & Motorists		-$5.0		
SB22-163 Establish State Procurement Equity Program		-$2.0		
SB 22-168 Backcountry Search and Rescue	-$1.0			
SB22-183 Crime Victims Services	-$6.0	-$1.0		
SB22-191 Procurement Of Information Technology Resources				
SB22-193 Air Quality Improvement Investments	-$102.0	-$1.5		
SB22-195 Modifications To Conservation District Grant Fund		-$0.1	-$0.1	-$0.1
SB22-202 State Match for Mill Levy Override Revenue		-$10.0		
SB22-206 Disaster Preparedness & Recovery Resources	-$35.0			
SB22-214 General Fund Transfer To PERA Payment Cash Fund		-$198.5		
SB22-215 Infrastructure Investment & Jobs Act Cash Fund	-$80.3			
SB22-238 2023 and 2024 Property Tax		-$200.0		
FY 24 Transfers Requested in November 1 Budget Request				
Business Fee Relief (SOS)			-$9.0	
Transfers Requested as DIs (DNR/IIJA)			-$105.0	
Transfer to State Emergency Reserve			-$50.0	
Budget Amendments			-$159.0	
Transfers into General Fund	**$59.5**	**$24.0**	**$26.1**	**$25.4**
Transfers out of General Fund	**-$809.9**	**-$937.3**	**-$884.8**	**-$617.5**
Net Transfers	**-$750.376**	**-$913.262**	**-$858.741**	**-$592.132**

*The Bioscience income tax transfer to OEDIT's Advanced Industries Cash Fund per SB11-047 is set to expire in FY 2022-23; however, the Governor's November 1 Budget request extends this transfer. Thus, the OSPB forecast assumes this transfer continues through the forecast period.

Table 8b: General Fund Transfers for Infrastructure and Capital Construction

Bill Number and Description	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
Placeholder for Level 1 Controlled Maintenance				$30.0
HB15-1344 Fund National Western Center and Capital Projects	$20.0	$20.0	$20.0	$20.0
SB21-064 Retaliation Against an Elected Official	$0.1			
SB21-224 Capital-related Transfers Of Money	$328.8			
HB22-1195 Transfers From General Fund To Cap Constr Fund	$5.064			
HB22-1340 Capital-related Transfers Of Money		$462.195		
SB22-239 Buildings In The Capitol Complex				
Governor's November 1 Budget Request			$282.695	
Total Capital Construction	**$354.0**	**$482.2**	**$302.7**	**$50.0**
SB21-260 Sustainability of the Transportation System	$282.5	$2.5		
SB21-265 Transfer from GF to SHF	$124.0			
HB22-1411 Money From Coronavirus State Fiscal Recovery Fund	$36.5			
HB22-1351 Temporarily Reduce Road User Charges		$78.5		
SB22-176 Early Stage Front Range Passenger Rail Funding	$1.9	$7.0		
SB22-180 Programs To Reduce Ozone Through Increased Transit	$68.0			
Total Transportation	**$512.9**	**$88.0**	**$0.0**	**$0.0**

Table 8c: General Fund Transfers for State Education Fund

Bill Number and Description	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
HB 20-1420	$23.0			
SB 21-208	$100.0			
HB 22-1390 (Reduced by $10M as result of SB 22-202)		$290.0		
Total	**$123.0**	**$290.0**	**$0.0**	**$0.0**

Table 9: Rebates and Expenditures

Category	December 2022 Estimate by Fiscal Year							
	FY 2021-22	% Change	FY 2022-23	% Change	FY 2023-24	% Change	FY 2024-25	% Change
Rebates & Expenditures:								
Cigarette Rebate to Local Governments	$8.2	-11.2%	$7.4	-9.7%	$6.8	-8.7%	$6.4	-5.6%
Marijuana Rebate to Local Governments	$25.6	-11.7%	$24.6	-4.0%	$26.6	8.1%	$27.1	2.0%
Old-Age Pension Fund/Older Coloradans Fund	$86.9	0.0%	$74.6	-14.1%	$81.2	8.7%	$81.3	0.2%
Aged Property Tax & Heating Credit	$5.9	-8.0%	$7.3	25.5%	$6.9	-5.8%	$7.0	1.8%
Homestead Exemption	$162.1	2.7%	$161.3	-0.5%	$162.7	0.8%	$172.8	6.2%
TABOR Refund Portion of Homestead Exemption	*($162.1)*		*($161.3)*		*($162.7)*		*($172.8)*	
Debt Payment on Bonds for School Loans	$1.0	-20.9%	$1.6	59.9%	$1.8	15.0%	$2.1	15.0%
Fire/Police Pensions	$4.5	4.4%	$4.7	4.2%	$4.8	2.1%	$4.8	0.0%
Amendment 35 General Fund Expenditure	$0.7	-6.9%	$0.7	-8.1%	$0.6	-6.3%	$0.6	-4.0%
Property Tax Exemption Reimbursement to Local Governments	$16.7	N/A	$19.0	13.5%	$19.1	0.5%	$19.4	1.5%
Proposition FF: Healthy School Meals for All	$0.0	N/A	$0.0	N/A	$100.7	N/A	$104.6	3.9%
Total Rebates & Expenditures (Excluding TABOR Refund)	**$149.6**	**-49.4%**	**$140.0**	**-6.4%**	**$248.5**	**77.5%**	**$253.4**	**2.0%**