Colorado Economic & Fiscal Outlook

September 20, 2023

STATE OF COLORADO

Governor's Office of State Planning & Budgeting

COLORADO

Governor Jared Polis

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Forecast in Brief

A range of economic indicators has exceeded OSPB's expectations from the June forecast. The labor market remains healthier than anticipated and consumer demand has exceeded expected growth. U.S. inflation has also declined alongside inflation expectations and wage growth has continued to moderate, though real wages remain positive. Local inflation growth is expected to outpace the nation's 4.1 percent rate due to higher shelter and services demand.

OSPB expects the economy to achieve a moderately soft landing despite restrictive monetary policy and the risk of recession in the next 12 months is revised down to 33 percent, from 45 percent in June. The economy is expected to avoid a contraction as consumer demand holds firm, in large part due to services spending and increased non-residential investments, despite increasing costs of financing.

As a result of general fund and cash fund growth expectations, in FY 2023-24, underpinned by a stronger economy, TABOR refunds are expected to total $1,438.1 million, a $902.2 million upward revision from June. Additionally, revenue subject to TABOR is expected to stabilize and remain above this cap through the duration of the forecast period. Currently, revenue projections are $1,409.1 and $1,329.3 million above the cap in FY 2024-25 and FY 2025-26, respectively.

Under this forecast, the General Fund ending balance is projected at $345.3 million and $183.7 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.

General Fund	• **General Fund revenue is revised up $792.9 million in FY 2023-24**, largely a result of stronger than anticipated **individual and corporate income revenue**, with smaller upward revisions in sales, insurance, and interest income. • **In FY 2024-25, General Fund revenue is revised up $137.8 million** largely due to sustained higher **individual income withholdings revenue** as the labor market is expected to be in a stronger position than the June forecast. • **General fund revenue is expected to grow 3.7 percent to $19.0 billion in FY 2025-26** due to stable growth in **income and sales revenue** as the economy grows at potential GDP.
Cash Funds	• **Cash funds are expected to remain about flat** in the near-term, falling an expected 1.6 percent in FY 2023-24 and then increasing 5.3 percent in FY 2024-25. Compared with the June forecast, cash funds are revised up $56.0 million and $18.6 million in FY 2023-24 and FY 2024-25 respectively, particularly due **severance and transportation revenue** expectations.

Economic Outlook

Since June, the labor market has remained strong and consumer demand has outperformed expectations. U.S. inflation and wage growth have continued to moderate, though price growth is currently higher locally than nationwide due to higher local demand for shelter and services. Strong consumption, combined with increased investment and inventory activity boosts 2023 GDP expectations, and OSPB has updated the growth forecast to reflect a moderately soft landing, followed by a rebound to potential growth by 2025. The soft landing is a departure from the June forecast, which expected slowing consumer demand and tightening financial conditions to cause a contraction in economic growth in the final quarter of 2023 and beginning of 2024, before recovering over the remainder of the year. Colorado is expected to fare slightly better than the nation as a whole over the course of the forecast period due to a marginally tighter labor market and a higher proportion of service spending.

<u>**Overview of Economic Indicators**</u>

GDP: Following higher than anticipated real GDP growth of 2.1 percent for 2022, real GDP is expected to again grow at 2.1 percent in 2023, buoyed by: (1) continued strength in service spending; (2) slow growth in goods spending, which was previously expected to nominally retract over the second half of the year; and 3) increased expectations for non-residential investment based on early signs that recent federal legislation has incentivized capital development in sectors that produce green technology and semi-conductors. Based on expectations for a soft landing, GDP quarter over quarter growth is expected to slow to 0.75 percent but a contraction is no longer expected. This results in an upward revision of 0.3 percentage points to 1.1 percent growth in 2024. Economic growth is expected to return to 1.8 percent on average in 2025, aligned with its potential growth.

Labor Market: Both the current U.S. unemployment rate of 3.8 percent and the Colorado rate of 3.1 percent remain above full employment and job growth continues. The gap between the number of job openings and unemployed workers also remains elevated, signifying tight labor market conditions. Jobs growth in Colorado is now slower than the nationwide average due to: 1) an earlier labor market recovery, 2) a more rapidly aging workforce in the state, and 3) relatively expensive housing costs.

Wages and income: Wages and income growth for Colorado and the U.S. have also remained stronger than anticipated as the tight labor market has kept wages and salaries elevated above historical trends, but growth has begun to slow. Household balance sheets are currently strong, but the drawdown of savings has forced lower income households to rely more on credit.

Consumer Spending: Consumer spending is currently resilient but is slowing in both the U.S. and Colorado, due to constraints on savings and credit. Colorado retail sales have slowed more quickly than the U.S. thus far this year, but this is likely tied to a faster and stronger resurgence out of the pandemic, and OSPB expects local retail sales to trough and rebound earlier than the nation.

Inflation: The U.S. disinflationary path continues, allowing the Federal Reserve to pause at least temporarily in its hiking path, though OSPB expects one further hike before the end of this cycle. Local inflation is decreasing at a slower rate as a resurgence in shelter and services prices drive 2023 inflation growth to an expected 5.0 percent, compared to 4.1 percent nationwide.

Energy: Oil prices have risen over the first half of this year due to oil production cuts from OPEC-Plus and Russia, coupled with strengthened demand in an improving global economy. Further downward pressure on natural gas prices is the result of high inventory levels from strong domestic production, and the extended effects of the mild winter both domestically and in Europe.

Housing and Rental Market: Given recent home price increases and high interest rates, many homeowners find themselves unmotivated to sell. Meanwhile, potential home buyers are finding that new builds alone are not enough to keep up with existing demand. Therefore, home affordability is declining across the U.S., including Colorado.

Demographics: Colorado's demographic composition has been shifting over the last decade with a rapidly aging population that constrains labor supply alongside slowing in-migration and birth rates. A continuation of this long-term trend may also have state revenue and expenditure implications.

Small Business: 47.6 percent of all employed persons in the state work for a small business and that number skews higher in rural communities. The last two quarters had record small business filings, with 39.1 percent growth in the second quarter of 2023. Small business owners are concerned about inflation and tightening lending conditions, highlighting the need for local financial institutions and technical assistance.

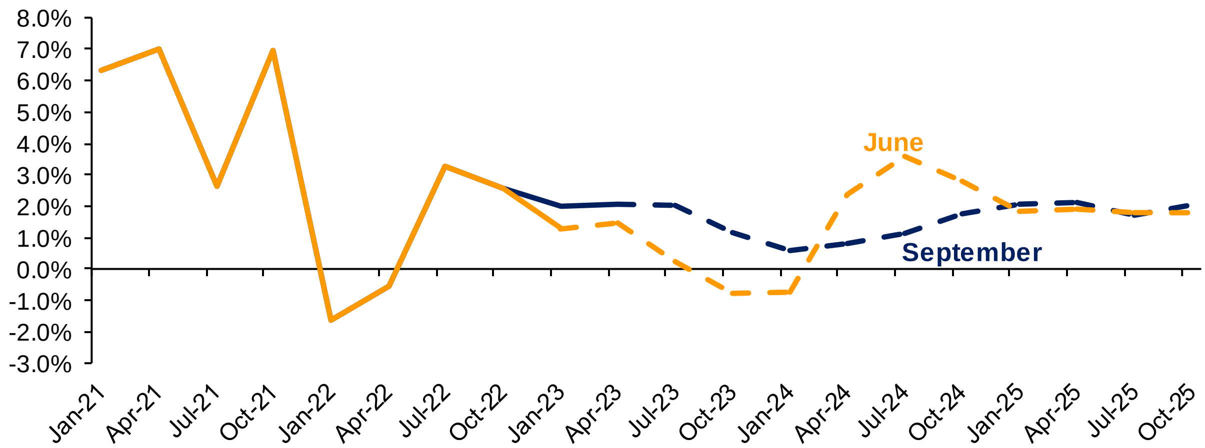
Bottom Line

Overall, short-term economic prospects have improved since the previous forecast, largely as a result of resilient consumer spending. A deep or protracted recession is still not currently expected, and OSPB views the likelihood of a recession in the next 12 months to be 33 percent.

Gross Domestic Product

After growing 2.1 percent on average in 2022, the economy has maintained strong growth in the first half of 2023. In the first quarter of 2023, GDP grew by 2.0 percent as consumption reaccelerated and offset drags in business fixed investment and inventories. Subsequently, growth in the second quarter slightly outpaced the previous quarter as consumption contributed 1.1 percentage points to GDP growth, while investment contributed another 0.5 percentage points to the overall 2.1 percent quarter over quarter annualized growth rate in real terms. Additionally, recent reports for the third quarter confirm sustained strength in consumer demand as home prices and equities as of late have continued to boost household wealth and consumer confidence. Therefore, OSPB expects a fifth consecutive quarter of GDP growth over 2.0 percent in the third quarter before slowing to 0.9 percent in the last quarter of 2023. As a result, the current U.S. GDP estimate for 2023 is revised up 0.7 percentage points from the last report to 2.1 percent, supported by strength in expected consumption more than offsetting future drags in exports and investment.

Figure 1. September GDP Projections Compared to the June Forecast



Source: Bureau of Economic Analysis; OSPB September 2023 Forecast.

Consumer spending is expected to slow in the first half of 2024, with a slight downturn in real spending in the second quarter of the year. However, growth of investments underpins continued economic growth as easing financial conditions re-emerge. GDP growth continues to pick up in the second half of 2024 and into 2025 as growth in consumer spending and investment contributions accelerate as the Federal Reserve is expected to cut rates. Overall growth in GDP remains contained close to potential GDP due to the lagged effects of monetary policy. Overall, annual 2024 GDP is expected to grow 1.1 percent, 0.3 percentage points above the previous forecast as OSPB is no longer forecasting a single quarter of contracting GDP growth. However, expected 2025 growth is revised down from 2.3 to 1.8 percent as tighter monetary policy has a lagged effect on growth. Note though that real GDP levels are still expected to exceed the June forecast by the fourth quarter of 2025 by $111.4 billion.

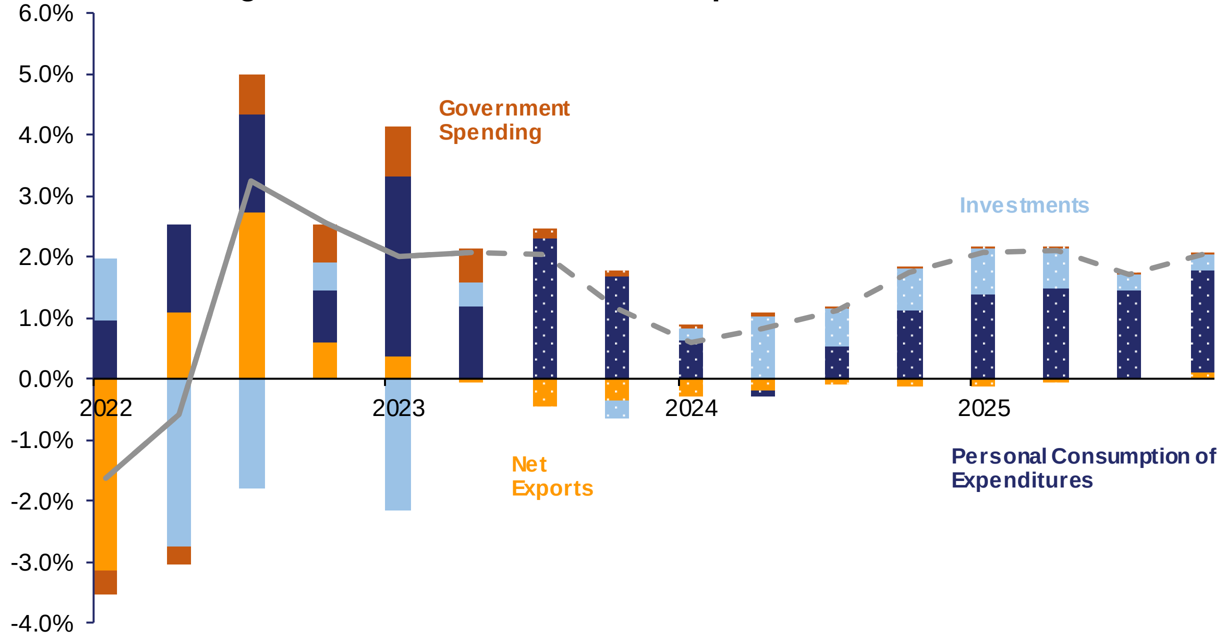
OSPB expects the U.S. to avoid a recession due to: 1) a slower unwinding of demand due to increased consumer confidence, 2) stronger than previously expected household finances, 3) transparency of monetary policy, 4) a resurgence of manufacturing from federal legislation, and 5) unaligned sector-specific downturns and slow moving commercial real estate drags that avoid a concentrated impact on the broader economy.

Figure 2 below 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.

Personal Consumption Expenditures

Real PCE, the largest component of GDP, grew faster than expected at 1.6 percent in the second quarter, buoyed by stronger than expected goods demand and continued strength in services demand. While stronger services demand was largely expected, continued real growth in durable goods consumption was not. OSPB attributes this strength to higher demand for vehicles and other large durable goods purchases now that production delays have subsided. Meanwhile, there remains a clear shift towards services spending, which is expected to remain elevated above trend in the second half of the year. Continued consumer demand coming off of high inflation and tight monetary policy can be attributed to persistent upward pressure on wages generated by a tight labor market, a low savings rate, excess savings and assets amongst wealthier households, and a willingness to borrow as higher prices have led to further dependence on credit cards. As for the components of PCE, both durable and nondurable goods expenditures are forecast to flatten between now and the first quarter of 2024 before returning to their trend shares of overall consumption by mid-2025. Meanwhile, at the start of 2024, services spending is expected to grow more slowly and then fall in the second quarter, placing a temporary drag on economic growth from its PCE contribution, before growing again to its trend share of total personal consumption by mid-2025.

Figure 2: GDP Forecast and Component Contribution



Source: U.S. Bureau of Economic Analysis; OSPB September 2023 Forecast.

Investments (Including Inventories)

Investments are expected to have minimal impact in the third quarter of 2023 as a dip in non-residential structural investment is offset by a boost in equipment investment. The drag from structures is due to the perceived weakness in commercial real estate and falling collateral to support investment while the increase in equipment investment is related to recent federal legislation incentivizing domestic investments in the construction of the computers and electronics sector. It appears that tax credits, future grant opportunities, and other incentives from both the Inflation Reduction Act (IRA) and the CHIPS Act are influencing business decisions more quickly than expected as firms' investments in sector-specific activities are on the rise. As discussed in the labor market section, labor demand outpaces supply, and so workforce investments in these sectors would be beneficial to support the future value of existing investments. By the fourth quarter of the year, a temporary pullback in investments is projected as the OSPB forecast expects a final rate hike by the Federal Reserve before the end of this year in response to continued above-normal growth. After the pullback in the fourth quarter, financial conditions will become supportive to kick off 2024 and equipment and residential investment will begin to boost the economy alongside growing inventories in response to expected increasing consumer confidence. In 2024, these dynamics provide a limited boost to GDP of 0.1 percentage points relative to the previous forecast.

Net Exports

Net exports are projected to shrink in 2023, thereby providing a slight drag on GDP as the U.S. economy is expected to fare better than its major trading partners, including developed nations in the Euro area and China. OSPB expects growth in the Euro area to slow to 0.5 percent in 2023 as a result of continued high local energy prices, tighter lending standards, and weakening demand despite sticky disinflation. In China, the growth from reopening was weaker than previous expectations, but Chinese exports are expected to stabilize. Longer-term challenges in China related to demographic and real estate developments along with geopolitical tensions are likely to constrain demand and limit U.S. exports to the country. As economies of major U.S. trading partners recover, U.S. net exports to the world are expected to contribute minimally to GDP.

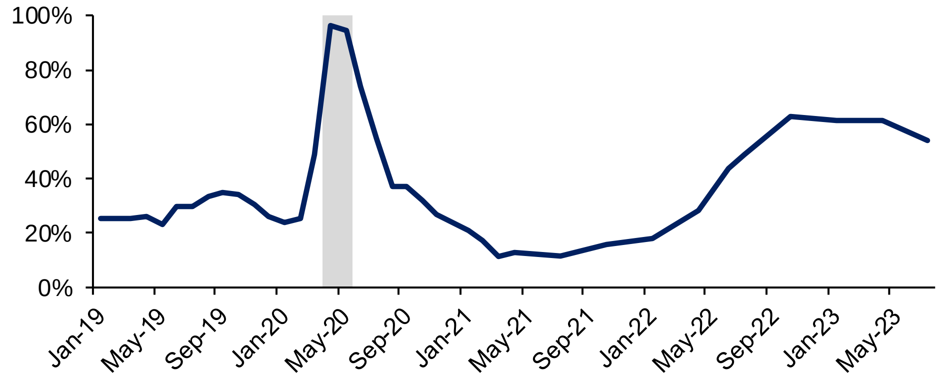
Government Spending

Finally, government spending is expected to have a small positive impact on GDP as the Infrastructure Investment and Jobs Act (IIJA) and the IRA slightly offset the roll off of American Rescue Plan Act (ARPA) funding. IIJA will drive economic activity through a range of infrastructure investments from rail to high-speed internet. Additionally, the IRA will incentivize investments in clean energy projects, domestic manufacturing capacity, and subsidize health care costs. Congress also passed a deal to suspend the debt limit until 2025 while limiting increases in spending. Therefore, the government spending contribution is expected to flatten more in the Federal 2024 Fiscal Year, driving a near net neutral impact on economic growth rather than a slight boost as previously expected. However, there is elevated risk of a government shutdown in the 2024 Federal Fiscal Year, which would increase uncertainty in funding for states, individuals, and businesses, thereby creating risk of a drag on economic growth.

Recession Risk

OSPB has revised down its expected likelihood of a recession in the next 12 months to 33 percent, down from 45 percent in June. This is also below Wall Street Journal's consensus of 54 percent as reported in July, see Figure 3 below, but indicators reported since the beginning of the summer have generally exceeded consensus and OSPB expectations. Specifically, consumer spending remains resilient and capital investments exceeded expectations as gross private domestic investment rose 5.7 percent in response to a resolution of regional banking issues and business sentiment and incentives outweighing higher lending costs. Businesses and households have been able to shrug of higher prices and higher interest rates as 1) wages are growing in real terms again, 2) many households were able to lock in lower interest rates on mortgages, auto loans, and other debt obligations before monetary policy tightened, 3) business investment in manufacturing facilities has exceeded expectations in response to financial incentives for green technology and semiconductors. Additionally, the labor market continues to exceed expectations as sustained low unemployment, above normal jobs growth, and elevated ratios of jobs to unemployed persons are keeping average hourly earnings above their historical norms.

Figure 3. Market Consensus Recession Risk



Source: Wall Street Journal Economic Forecasting Survey.

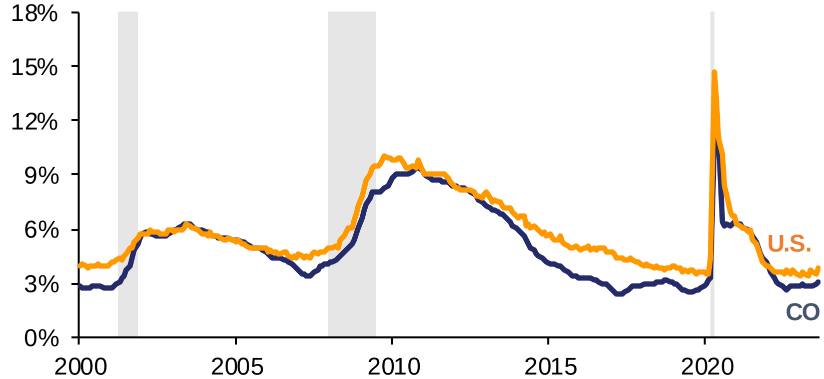
OSPB has revised down its recession risk not only due to the recent developments discussed above, but also further consideration of two popular leading indicators that would currently suggest a recession in the near future. First, the inverted yield curve is viewed as a relatively reliable indicator of a recession, but this time might be different because the Federal Reserve has stated that it has pushed monetary policy to a restrictive place but that it intends to cut rates over the next few years as inflation fades, even if there is no recession. Therefore, investors would price debt instruments based on Fed statements rather than perceived recession risk. Second, the Index of Leading Economic Indicators has had a 16-month decline, raising red flags amongst forecasters. However, given that this indicator traditionally leads the business cycle by seven months, according to the Conference Board, the economy should have fallen into a recession by the end of 2022. The false alarm seems to be tied to its weighting of leading indicators in the current environment, with four of the ten indicators tied to manufacturing despite the sector accounting for eight percent of nonfarm payrolls. Additionally, the most negative indicator is consumer expectations, but these numbers have been consistently low since the pandemic even related to underlying economic data. Based on recent data, consumer sentiment among more affluent households appears to be still quite well positioned, which matters for GDP growth given the disproportionate impact of higher income individuals on aggregate demand.

Turning to other indicator that OSPB tracks, on the upside, The Institute for Supply Management (ISM) services survey, the New York Federal Reserve Business Leaders survey, and the Conference Board's Consumer Confidence survey show business and consumer confidence above traditional recessionary levels. However, looking to downside risks, continued above normal growth will likely mean sustained inflation above 2 percent, which will only further motivate the Federal Reserve to further slow demand with additional interest rate hikes to achieve their target. Additionally, the Senior Loan Officer Opinion Survey highlights that further expected tightening of available credit as a risk to growth. In addition to credit conditions, the National Federation of Independent Business' Small Business Optimism Index finds a continued concern of small firms to find qualified talent. In fact, surveyed small business owners identify it as a larger problem than banks tightening their lending standards. While unemployed people are well positioned to find a job, this survey calls attention to the idea that a smaller talent pool can also be a drag on further investment and economic growth.

Labor Market

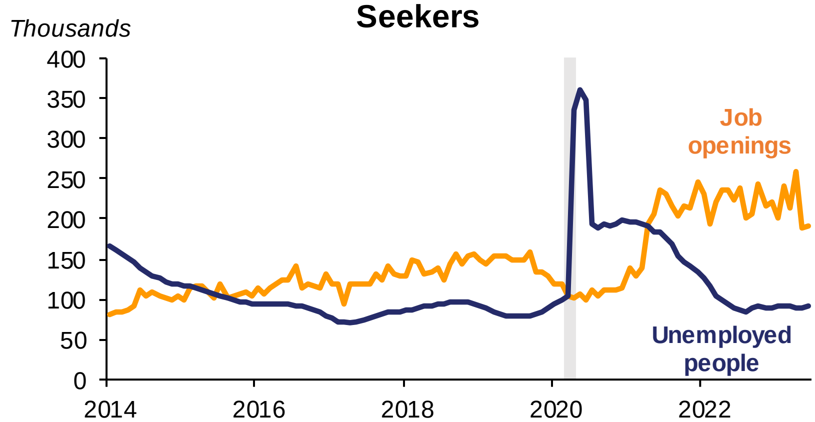
Colorado consistently sees a higher labor force participation rate (LFPR) than the U.S. as a whole. As of August 2023, Colorado's LFPR was 68.7 percent, the fifth highest in the US, while the national rate was 62.8 percent. Paired with Colorado's lower than average unemployment rate of 3.1 percent (compared to 3.8 percent nationally), the state has less room for additional employment growth than the country overall. As a result of these dynamics and quicker jobs recovery early on in the pandemic, Colorado now lags the nation as a whole with respect to monthly employment growth. These trends likely indicate a higher rate of labor market churn. That is, when a new hire occurs, it is more likely to be due to a worker directly leaving one job for another rather than coming out of unemployment. A high level of churn is also consistent with the fact that Colorado has maintained a rate of two job openings for every unemployed person for the past year. The prevailing theory to explain this phenomenon is the lack of new labor supply, discussed in more depth below. However, this may be changing, as Colorado's unemployment rate has risen above 3.0 percent for the first time in 15 months, due

Figure 4. CO Unemployment Consistently Lower than U.S.



Source: Bureau of Labor Statistics; Colorado Department of Labor and Employment.
Note: Shaded areas denote recessions.

Figure 5. CO Has More Jobs than Job Seekers

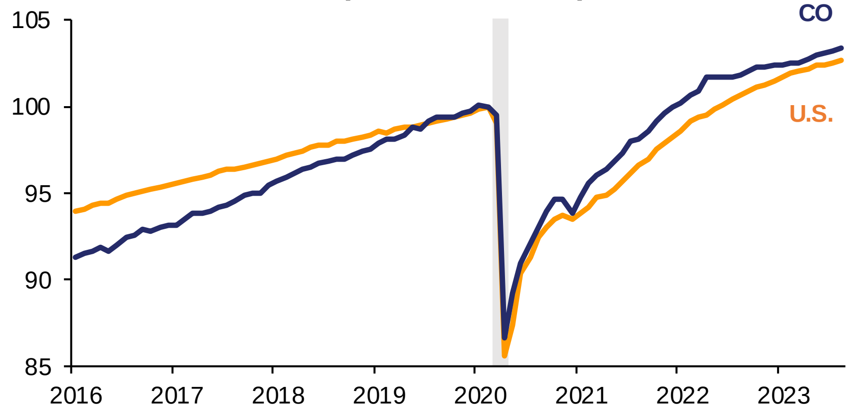


Source: Bureau of Labor Statistics, JOLTS.
Note: Shaded areas denote recessions.

to a modest decline in employment (-2,200 jobs) and a modest increase in labor force participation (+2,500 workers).

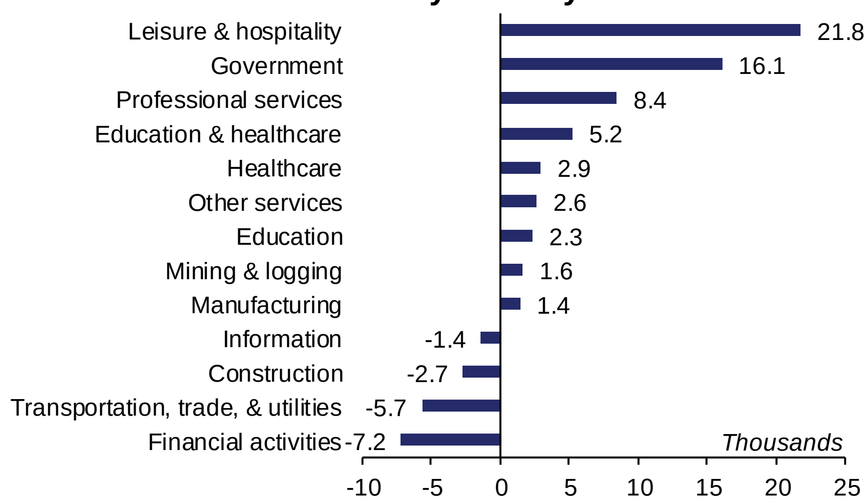
This summer, job growth has remained relatively slow, though payroll employment remains higher than pre-pandemic levels. Colorado added 1,800 jobs in June, 3,400 jobs in July, and 5,600 jobs in August while the U.S. added 105,000 in June, 157,000 in July, and 187,000 in August. In Colorado, the greatest gains since August 2022 have been in government, leisure and hospitality, and professional services. However, growth has turned negative for the construction, finance, information, and transportation industries, suggesting that the growth slowdown may be driven by losses in those fields. OSPB predicts that jobs growth will remain slow for the remainder of 2023, with an overall growth rate of 2.1 percent for the year. Certain sectors may retain tighter labor markets than others over the next few years. One such example highlighted in the GDP section is that there have been increased capital investments in high tech sectors following recent legislation to incentivize production of green technology and semiconductors. Soon, this will lead to additional job openings for a limited existing workforce in those fields. Thus, making workforce investments in the future of the jobs market now will help match the labor supply with sectors where demand is strongest.

Figure 6. Indexed Jobs Growth in CO and U.S. (Feb 2020 = 100)



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

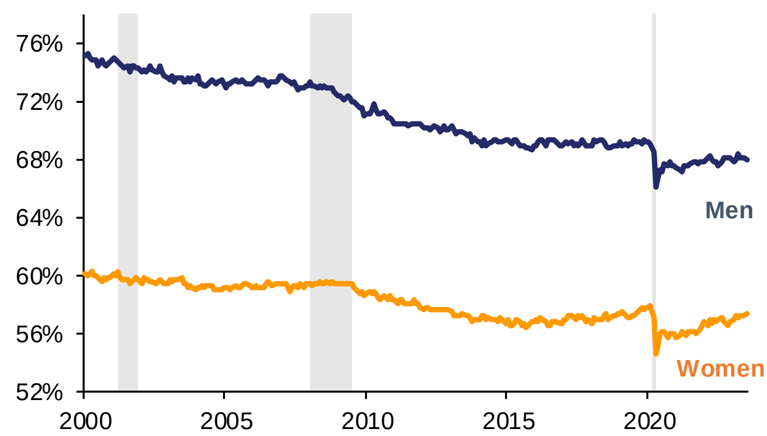
Figure 7. CO Net Job Gains since August 2022 by Industry



Source: Bureau of Labor Statistics; Colorado Department of Labor and Employment.

Sector-specific labor market dynamics have resulted in systemic changes in labor trends for certain demographic groups that have persisted beyond the COVID-19 pandemic. For example, at the onset of the pandemic recession, Hispanic or Latine unemployment surpassed Black unemployment, a deviation from the trend since 2000 in which Black unemployment has generally been higher. One explanation for this is that Hispanic and Latine workers may be overrepresented in "non-essential" industries, such as hospitality and construction, in which the most jobs were lost during the pandemic. While the hospitality industry has been one of the fastest growing sectors since August 2022, construction has seen further job losses over that same period. With respect to gender, women saw greater losses during the pandemic due to their overrepresentation in the service industry; however, since the pandemic, service jobs have seen immense growth, while male-dominated sectors like transportation, mining, manufacturing, and finance have seen much slower or even negative growth. This trend is reflected in the increase in women's labor force participation in the last year, while men's labor force participation has stayed relatively constant.

Figure 8. LFPR by Gender, U.S.



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

Looking forward, OSPB forecasts the following unemployment rates through 2026. Trends underpinning these forecasts are discussed in more detail below.

Figure 9. Unemployment Rate, Annual Forecast

	2023	2024	2025	2026
Colorado	3.0%	3.4%	3.5%	3.1%
United States	3.7%	4.0%	4.1%	3.6%

OSPB expects that unemployment will rise through 2024 and 2025 though only slightly and primarily due to the Federal Reserve's rate hikes to combat inflation. As discussed in the inflation section below, the Fed is expected to raise interest rates one more time in 2023, increasing the pressure on employers and causing labor demand to slow. The 2025 average U.S. unemployment forecast of 4.1 percent is still in line with full employment, which is consistent with growth slowing temporarily, followed by a return to potential GDP growth. The strength of Colorado's labor market is likely to have a moderating effect and unemployment will likely remain below the U.S. average as a result.

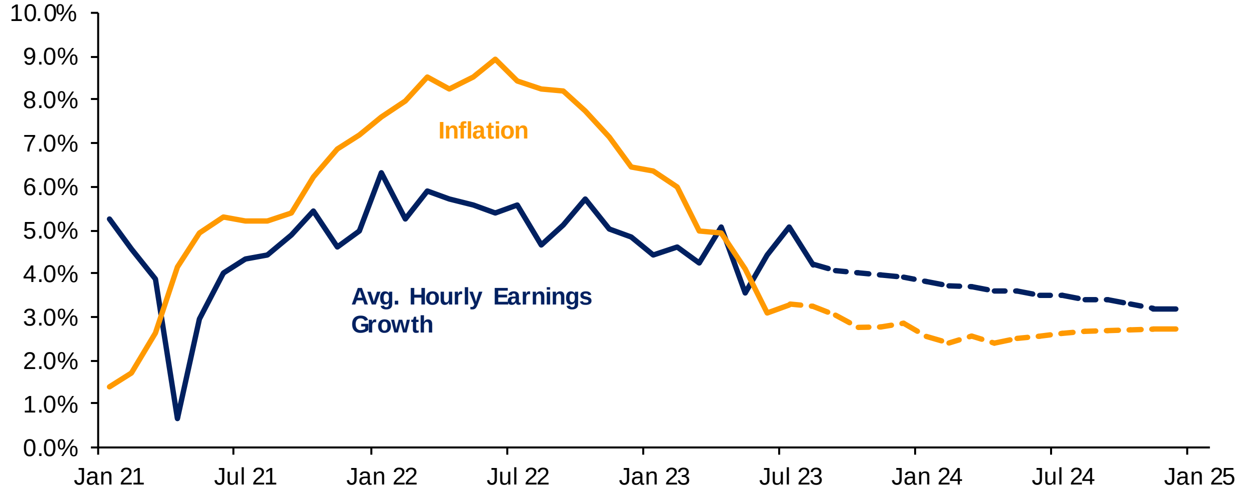
Despite some weakening of labor demand as a result of Fed policy, the labor market is likely to remain tight thanks to the aforementioned lack of new labor supply, driven by decreased in-migration and the aging of the population, both throughout the forecast period and longer term. With regard to migration, Colorado has historically been a high-demand location, but net migration has been slowing since 2016, especially in the wake of the pandemic in 2021 and 2022. The State Demography Office expects migration to return to pre-COVID levels from 2023 to 2030, but migration is dependent on Colorado's relative employment strength compared to other states, as well as the movements of retirees, international migration levels, and relative cost of living. Affordable housing policy could be one tool to attract prime-age workers to Colorado and bolster labor force and economy going forward. These broad trends are discussed in greater detail in the demographics section, but it is important to note that decreased labor supply constrains future economic growth without workers to sustain current growth rates in production.

Wages and Income

Growth in personal income remains a point of strength in both the national and state economy with wage growth making up the largest share of that growth, even as it decelerates from recent highs in 2021 and 2022 in nominal terms. Positive real wage growth in 2023 is providing a boon to the consumer economy after wage growth lagged inflation in 2022. Although income growth remains positive, the spenddown of excess savings from pandemic highs continues, especially among lower earners. Higher earners maintain more accumulated savings due to alternative income streams. The drawdown of excess savings accompanied by low savings rates means that consumers are turning more to revolving credit, and delinquency rates on credit cards are increasing above pre-pandemic trends. Though inflation is easing, high interest rates along with the upcoming restart of student loan payments will place more pressure on individual budgets over the rest of the forecast period.

Overall, year-over-year personal income growth as of July is 4.6 percent nationally, with wage growth leading the way at 4.8 percent growth and non-wage income growth at 4.5 percent. Year-to-date, wage growth has outpaced non-wage income growth 5.6 percent to 5.2 percent, respectively. Although wage growth has decelerated from elevated levels of 8.8 percent and 8.7 percent in 2021 and 2022, respectively, it still remains above the average wage growth experienced from 2012 to 2019 (4.4 percent). Real average hourly earnings, however, turned negative in 2021 and remained negative until early 2023 due to elevated inflation, though it has now turned decidedly positive again over the past quarter as inflation has eased. This trend is reflected in Figure 10.

Figure 10. U.S. Average Hourly Earnings Growth and Inflation

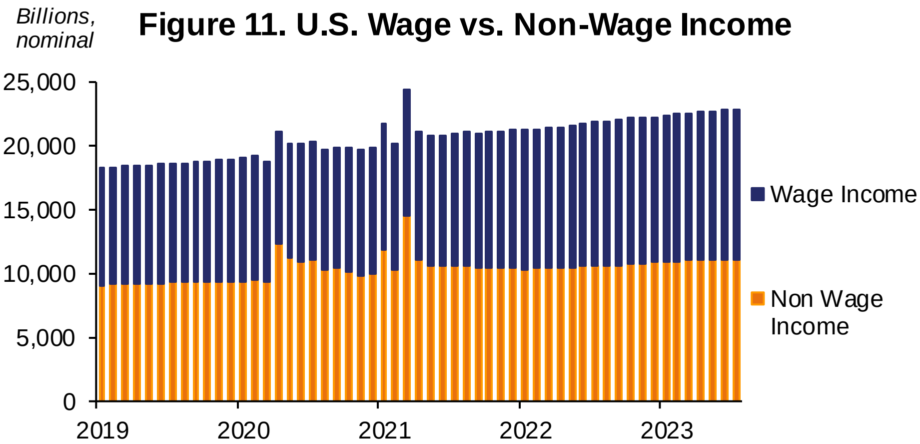


Source: Bureau of Labor Statistics, Bureau of Economic Analysis; OSPB September 2023 Forecast.
Note: Dotted lines indicate forecast.

For 2023, Colorado is projected to outpace U.S. aggregate wage growth at 6.3 percent compared to 5.3 percent. For the U.S., this reflects no revision from the June forecast and a small revision down for Colorado, as hourly wage growth is expected to decelerate a bit more than previously expected but still remain robust. Looking forward, salary expectations among American workers remain high, jumping 7.6% year-over-year in July 2023 according to the New York Federal Reserve, which could continue to cause upward pressure on actual wage growth. In 2024 and 2025, OSPB forecasts U.S. aggregate wage growth at 3.4 percent and 4.0 percent, respectively, while Colorado aggregate wage growth is projected to grow by 4.4 percent and 4.9 percent, respectively. For 2024, these figures reflect significant upward revisions from the June forecast, as this forecast assumes that the labor market will retain much more strength into next year than previously expected, with approximately 1 million and 25 thousand more jobs added in the U.S. and Colorado, respectively, compared to the June forecast. From 2021 through 2023, at both the state and national level, wage growth has generally outpaced non-wage income with the exception of one-time federal stimulus transfers, as the labor market has largely outperformed non-wage income components, which are made up of proprietor income, rental income, assets, and government transfers. This trend is expected to continue in 2024 before reversing slightly in 2025 as wage growth normalizes while proprietor and asset income re-emerge.

Despite the continued strength of the labor market and overall personal income growth, the excess savings built up by households over the course of the pandemic has largely been spent down. According to the San Francisco Federal Reserve, excess savings was $500 billion as of March before falling to $190 billion as of June. They expect the remainder of excess savings to be depleted in the third quarter of 2023. Estimates surrounding excess savings in the economy involve a significant amount of uncertainty and can vary greatly depending on the methodology used. Other economic analyses peg excess savings at higher levels than the San Francisco Federal Reserve analysis. However, there is relative consensus that over $2 trillion in excess savings were accumulated quickly over 2020 and 2021 before being spent down rapidly over 2022 and 2023. Furthermore, it is also largely hypothesized that the remaining excess savings in the economy is held by higher earners and that lower-income quintiles have generally already depleted their excess savings.

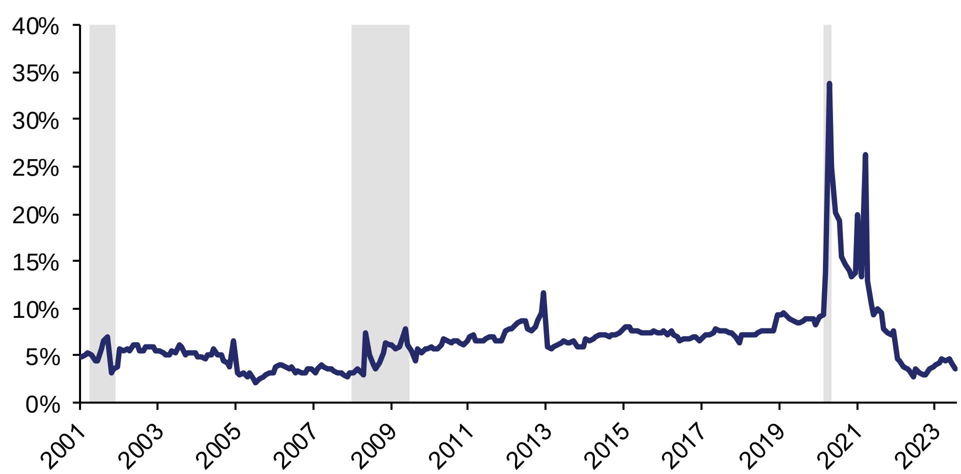
Figure 11. U.S. Wage vs. Non-Wage Income



Source: Bureau of Economic Analysis.

The accumulation and spenddown of excess savings is partially displayed through trends in the U.S. savings rate. Illustrated in Figure 12 the savings rate peaked in April 2020 at 33.8 percent and was in the double-digits from March 2020 to June 2021 before plummeting over the course of 2022. The savings rate ticked back up slightly over the first half of 2023 before falling again to 3.5 percent in July. The savings rate has remained below 5 percent for 19 consecutive months, which is the longest stretch since the lead-up to the Great Recession. The low

Figure 12. U.S. Savings Rate

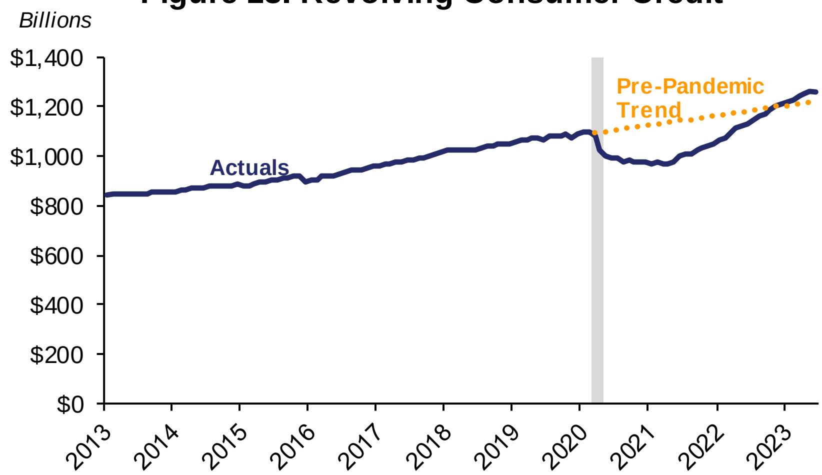


Source: Bureau of Economic Analysis.
Note: Shaded areas denote recession.

savings rate remains a boon for spending nationally; however, it portends difficulties for household budgets – especially in the lower-income quartiles – who are unable to save and in order to maintain their spending levels are forced to rely on credit.

This reliance on credit has resulted in revolving consumer credit, largely made up of credit card debt, to jump above the pre-pandemic trend after falling well below trend throughout 2020 and 2021. In May, it hit $1.3 trillion, with credit card balances landing above $1 trillion for the first time ever in the second quarter of the year. With excess savings dwindling and largely nonexistent among lower-income groups, coupled with a low savings rate, the spike in revolving consumer credit indicates that there are an increasing number of households relying on credit to maintain spending levels.

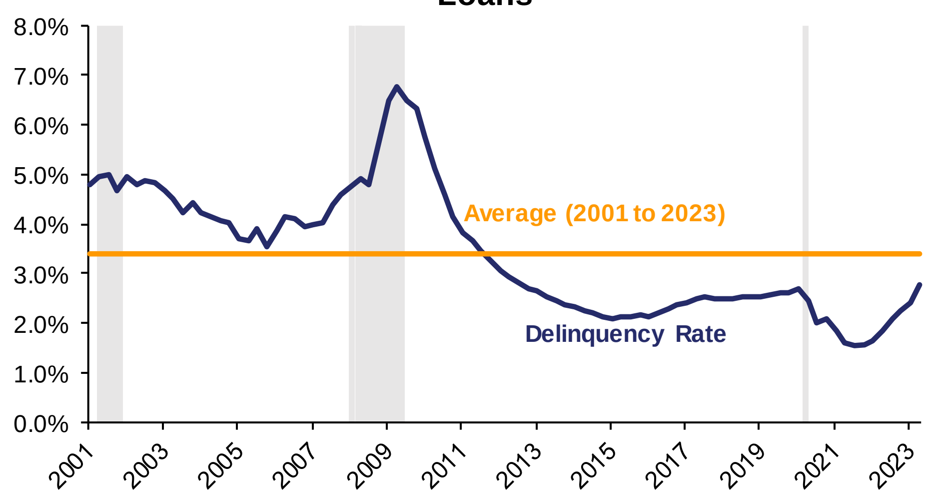
Figure 13. Revolving Consumer Credit



Source: Board of Governors of the Federal Reserve System.
Note: Shaded areas denote recession.

Along with the rise of revolving consumer credit, delinquencies on credit card loans are also rising. In the second quarter of 2023, delinquency rates hit 2.8 percent – the highest level since 2012. Even though delinquency rates are increasing, they are still below the long-term average of 3.4 percent. The trend, however, is on pace to eclipse the long-term average over the second half of 2023 or early 2024. This is another sign of increasingly distressed household budgets.

Figure 14. Delinquency Rate on Credit Card Loans



Source: Board of Governors of the Federal Reserve System.
Note: Shaded areas denote recession.

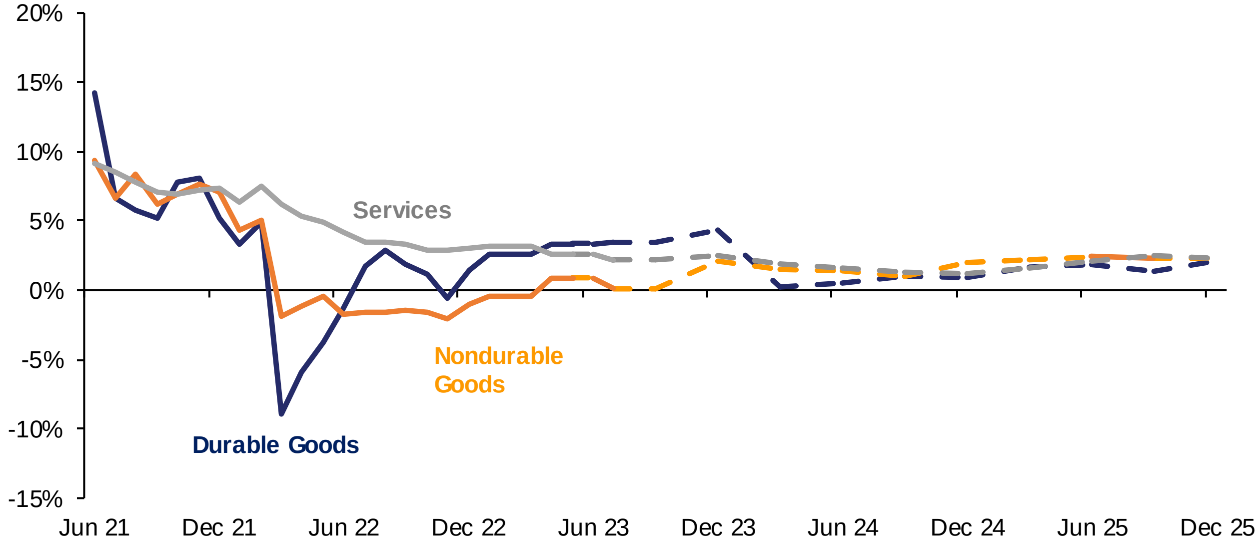
Overall, personal income and wage growth remain at strong levels in both the national and state economies as real wage growth continues to drive better-than-expected consumption, which has led to stronger GDP growth and a better economic outlook moving forward. For the time being, OSPB expects that higher income households' growing asset wealth will support consumer spending enough that personal consumption expenditures only experience a slight downturn in 2024. However, headwinds remain as household budgets – especially in the lower-income quintiles – have grown tighter in the face of inflation and higher interest rates, which has led to the drawdown of excess savings, low savings rates, and increasing credit card delinquencies.

Consumer Spending

At the onset of 2023, consumer spending showed resilience, but has gradually decelerated as the year has progressed, albeit at a slightly less rapid pace than previous OSPB forecasts expected for the U.S. In contrast to retail sales growth nationally, Colorado retail has underperformed slightly as compared to forecast. In the first quarter of 2023, real personal consumption expenditures (PCE) came in strong and this momentum carried into the second quarter, in which real PCE grew at a rate of 1.6 percent. Real PCE growth continues to show strength primarily due to higher than expected durable goods spending and elevated services spending growth.

On the retail sales front, national sales were strong in the first quarter of 2023 at 4.0 percent, but started to show signs of a slowdown as year-over-year second quarter growth registered at 0.7 percent. In Colorado, retail sales growth in the first two quarters of 2023 fell below the inflation rate, resulting in negative real sales growth both quarters. Moving into the second half of 2023, real spending at both the national and state level is expected to slow further. Slowing in real spending despite largely abating pressure from inflation is a result of diminishing consumer demand and pessimistic consumer sentiment. Sentiment is influenced by the ongoing rise in interest rates, dwindling savings, and mounting consumer debt that place increased burdens on consumers. Over the course of 2024, real spending is expected to recover, though slower national growth is anticipated compared to Colorado over the full forecast period. These trends in real spending are shown in Figure 15 below.

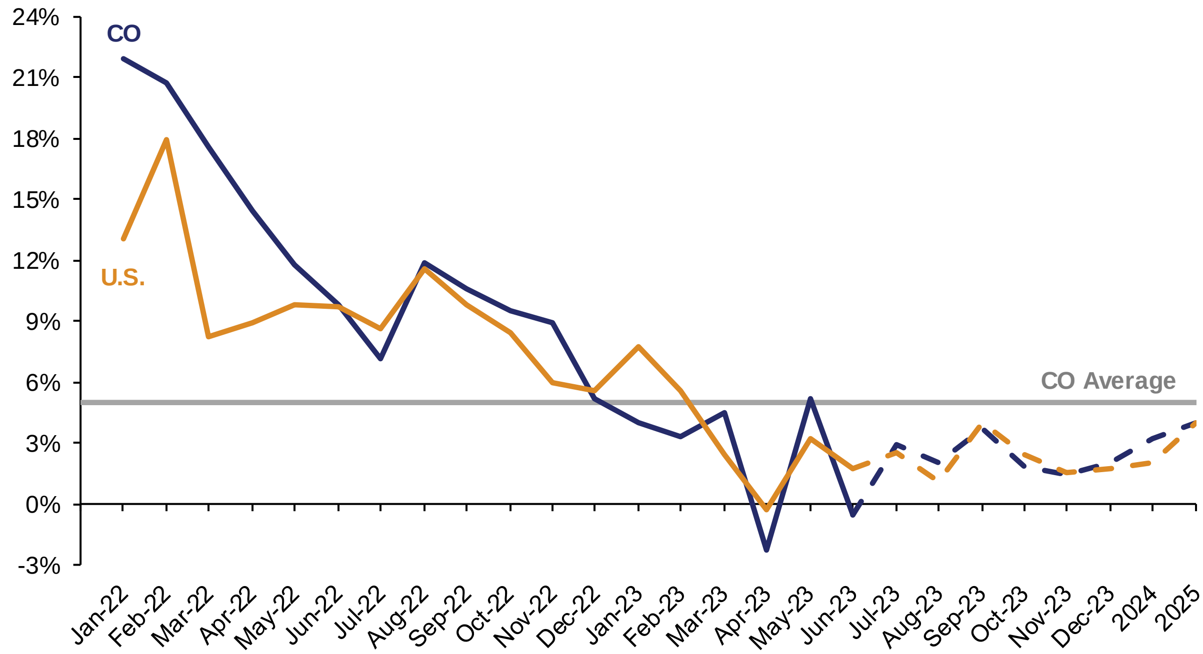
Figure 15. Real Spending by Category
Year-Over-Year Growth



Source: Bureau of Economic Analysis; OSPB September 2023 Forecast.
Note: Dotted line indicates forecast.

Despite the presence of high interest rates, increased consumer debt, and diminishing savings, retail sales growth remains relatively robust on the national scale. While real wage growth remains strong and is providing tailwinds to spending, this continued strength may also partially be due to consumers increasingly relying on borrowing to sustain their spending habits. In the second quarter of 2023, consumer credit surpassed $1 trillion for the first time ever, and the delinquency rate reached its highest point since 2012, standing at 2.8 percent. Even still, national retail sales have experienced a noticeable deceleration in comparison to their performance in 2022 and are expected to trend downward over the course of the rest of the year. In the first quarter of 2023, there was a robust year-over-year growth of 5.2 percent, but by the second quarter, national retail sales growth had considerably tapered off to 1.6 percent. OSPB forecasts the annual retail growth for 2023 to be around 2.7 percent compared to the annual growth of 9.5 percent witnessed in 2022. In Colorado, the slowdown in retail sales has been particularly pronounced. April 2023 marked a notable downturn with a negative year-over-year retail sales growth of -2.3 percent, marking the first month of negative growth since February of 2021. As a result of this trend, OSPB anticipates that Colorado's annual retail sales growth for 2023 will be a modest 2.3 percent, which is a 0.5 percentage point revision from the June 2023 OSPB forecast, a significant contrast to the robust 11.7 percent retail growth the state witnessed in 2022.

Figure 16. U.S. and Colorado Retail Sales Growth

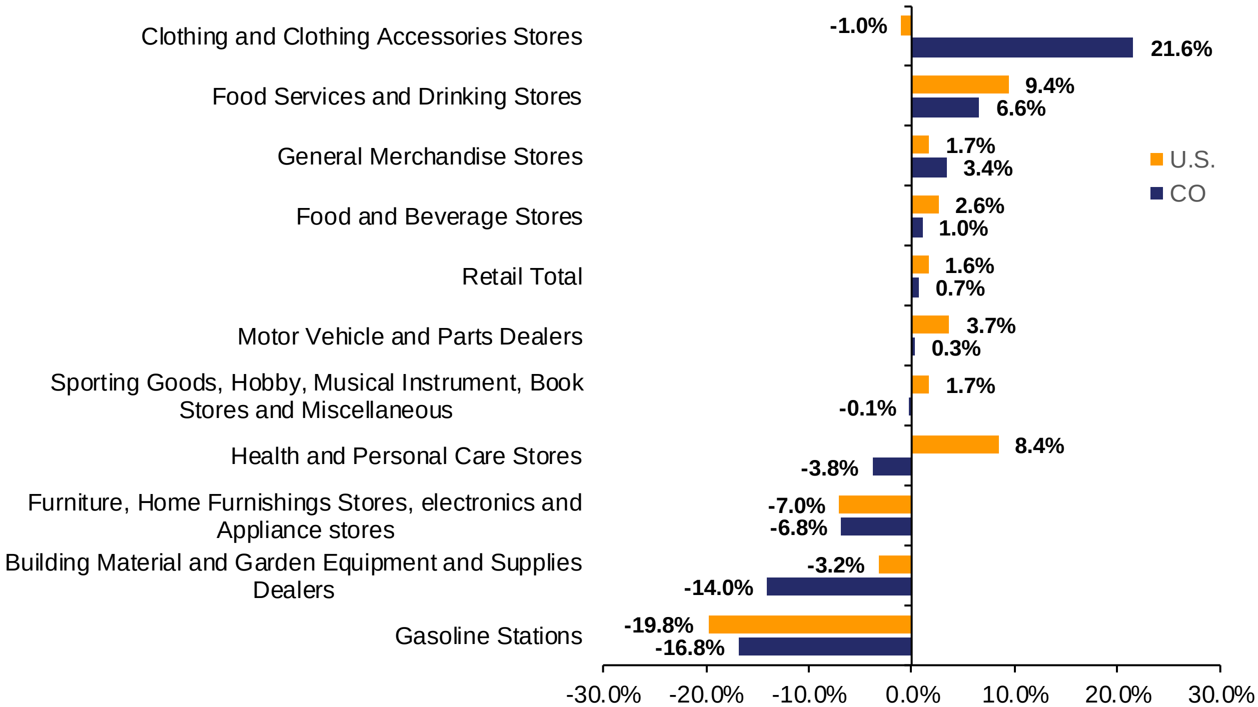


Source: U.S. Census Bureau; Colorado Department of Revenue; OSPB September 2023 Forecast.

During the first quarter of 2023, the U.S. retail sector demonstrated stronger performance compared to than Colorado. Entering the third quarter of 2023, it appears that state growth levels may lag national retail growth levels, reversing the story from the previous OSPB forecast where Colorado was expected to fare better than the nation. Both national and state retail saw unprecedented growth levels in 2021 and 2022, catapulting sales numbers towards unsustainable trends. As projected in previous OSPB forecasts, retail sales was expected to face a cooling off period.

Slowing Colorado retail could indicate that this cooling off period has begun in the state and Colorado is on the leading edge of the rebalancing in retail. Furthermore, the lower half of the income scale, which has played a pivotal role in boosting the state's retail sector in recent years, continues to face greater inflationary pressures than the nation as a whole that may be constraining their spending habits. For example, Pueblo recorded negative retail growth figures in the first two quarters of this year. This could suggest a shift among Pueblo residents, compelled to allocate their resources away from discretionary spending toward essential needs like housing, given the area's projected annual rental price increase of 6% percent. Similar trends are emerging in Boulder, Colorado Springs, and the Denver-Aurora-Lakewood region, where negative year-over-year monthly retail growth coincides with sharp rises in average rental costs. Thus, the accelerated retail slowdown in the state may reflect a shift in consumption patterns, especially among Colorado's younger generation, as their disposable incomes face constraints.

Figure 17. 2023 Q2 (Apr-Jun) Retail Sales Growth by Industry

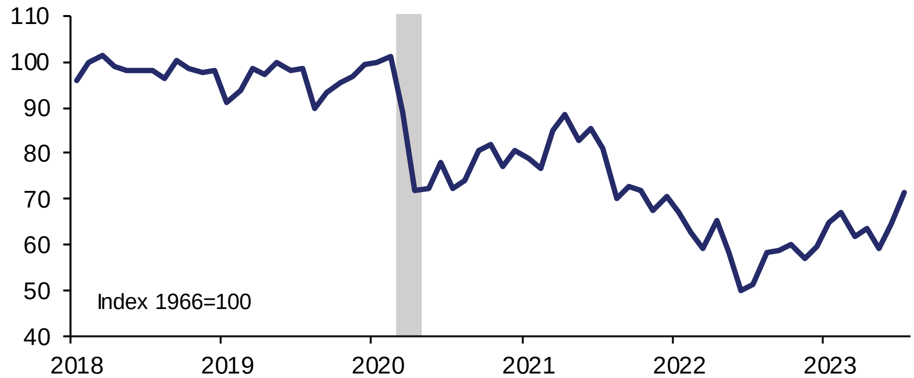


Source: U.S. Census Bureau, Colorado Department of Revenue.
Note: Year over Year Percentage Change.

As seen in Figure 17, industries that outperformed national retail in the state over the last quarter were clothing and clothing accessories stores as well as motor vehicle and parts dealers. These industries were also the main drivers that kept Colorado from witnessing a negative year-over-year growth in the second quarter of 2023. Conversely, the largest decline in industry retail sales was observed within the gasoline stations sector. However, this decline can be attributed primarily to the drop in gasoline prices rather than a reduction in gasoline consumption. Gasoline prices across the U.S. registered a significant 19 percent decrease in the second quarter of 2023, indicating that the quantity of gasoline consumed remained relatively stable at both the national and state levels. Finally, food and beverage stores also recorded slower growth as compared to the first quarter at both the state and national level, likely also as a result of slowing inflation.

At the beginning of 2023, consumer sentiment experienced a slight improvement, which persisted until February, after which each subsequent month witnessed a decline until a significant jump in July 2023. In July 2023, there was an upturn in consumer sentiment, marking the highest reading in the Consumer Sentiment Index since November of 2021. This uptick in consumer sentiment could indicate why national spending is performing better than expected.

Figure 18. University of Michigan Consumer Sentiment



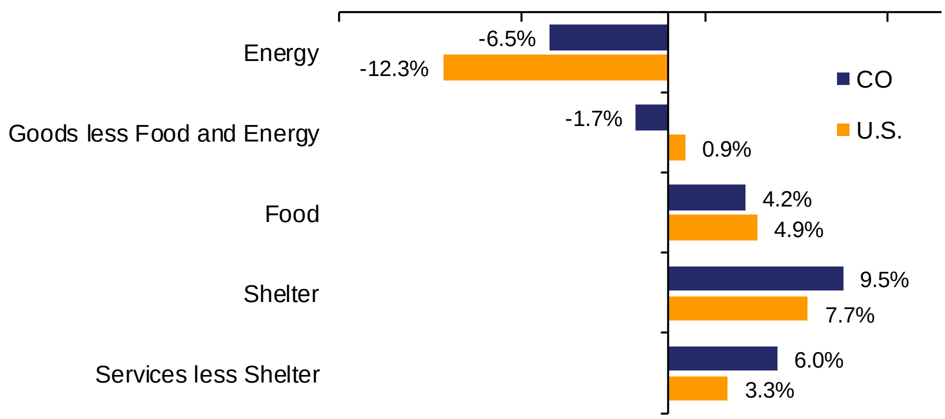
Source: University of Michigan.
Note: Shaded areas denote recession.

Overall, consumer sentiment scores have remained at historic lows throughout much of 2022 and 2023. As mentioned in earlier forecasts, these prolonged negative sentiments had not yet been fully reflected in actual spending data, which would tend to imply a forthcoming slowdown in spending. We are now beginning to observe signs of this spending slowdown despite now seeing an uptick in sentiment, particularly within the retail trade sector, where the U.S. continues to outperform Colorado. In conclusion, the OSPB forecast for the upcoming period describes a nuanced landscape for consumer spending. That is, resilience of overall U.S. spending, remaining stronger than anticipated albeit still decelerating, underscores the robustness of the economy. While consumer spending is projected to slow in the first half of 2024, with a modest dip in real spending during the second quarter, it is important to note that this adjustment is expected to be temporary. Both durable and non-durable goods expenditures are expected to level off in the near-term, with a return to their trend shares of overall consumption by mid-2025. The overall resilience suggests a certain degree of economic buoyancy and adaptability, which bodes well for the economic outlook.

Inflation

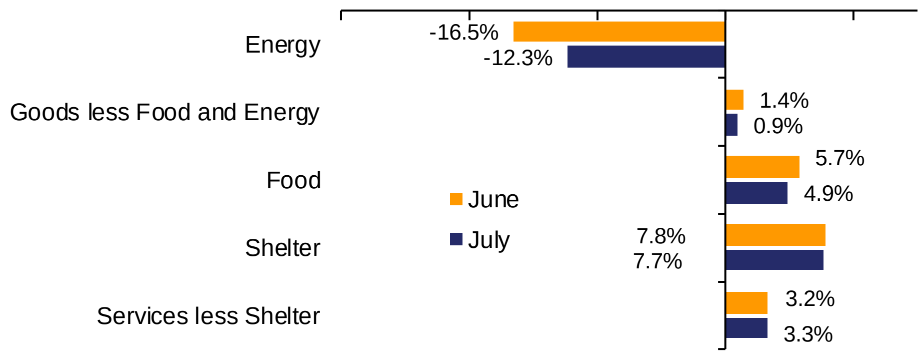
Inflation rates have continued to decline in both Colorado and the U.S. as a result of slowing consumer demand, tighter monetary conditions, and fewer shocks to supply. However, there has been a larger divergence than anticipated between the local and national rates in recent months as a result of shelter and services inflation. Note that the Bureau of Labor Statistics does not measure inflation for Colorado statewide but uses the Denver Metropolitan Statistical Area as a proxy, so it is possible that some areas of the state have had faster or slower paces of disinflation based on micro-level effects. After coming in around expectations for June and July, U.S. August inflation came in at 3.7 percent, above expectations of 3.2 percent due to higher than anticipated energy prices. Other categories came in in-line with expectations and thus OSPB does not anticipate that the U.S. will diverge considerably from previous forecasts going forward. On the other hand, Colorado inflation exceeded expectations for July, at 4.7 percent, on consistently elevated local shelter inflation. The divergence between the U.S. and Colorado is largely a result of two main drivers: (1) shelter, at 9.5 percent vs. 7.7 percent in the U.S. in July due to Colorado's relatively hotter housing market; and (2) services, at 6.0 percent in the state vs. 3.3 percent nationally in July, likely as a result of services demand and lagged effects of higher wage growth in the state. These two factors alone combine to comprise more than 90 percent of overall Colorado inflation in July.

Figure 19. YoY Inflation by Major Component July 2023, CO vs. U.S.



Source: Bureau of Labor Statistics; OSPB September 2023 Forecast.

Figure 20. U.S. YoY Inflation by Major Component July vs. June 2023



Source: Bureau of Labor Statistics; OSPB September 2023 Forecast.

Outside of a wider than anticipated gap between U.S. and Colorado inflation, the same big picture trends remain at the national level and further reduce the risk for significant additional tightening of monetary conditions. Two key components of these trends are (1) disinflation in nearly every category including shelter and services and (2) particularly large reductions in year over year inflation for energy, goods, and food as supply pressures on all three of those categories have subsided considerably.

Looking forward, inflation expectations for the U.S. are largely unchanged at 4.1 percent in 2023 (+0.1 percent), 2.7 percent in 2024 (+0.3 percent), 2.5 percent in 2025 (+0.1 percent). OSPB expects the disinflationary path in the U.S. to largely stall for the rest of the year due to continued consumer demand and seasonal effects, putting additional pressure on the Federal Reserve to continue tightening monetary policy. On the Colorado side, inflation has been revised up 0.3 percentage points to 5.0 percent in 2023, 0.4 percentage points to 3.1 percent in 2024, and 0.2 percentage points to 2.9 percent in 2025. Recent inflationary data and forecasts are discussed in more detail by component below, in addition to further context around current financial conditions and monetary policy expectations.

Energy

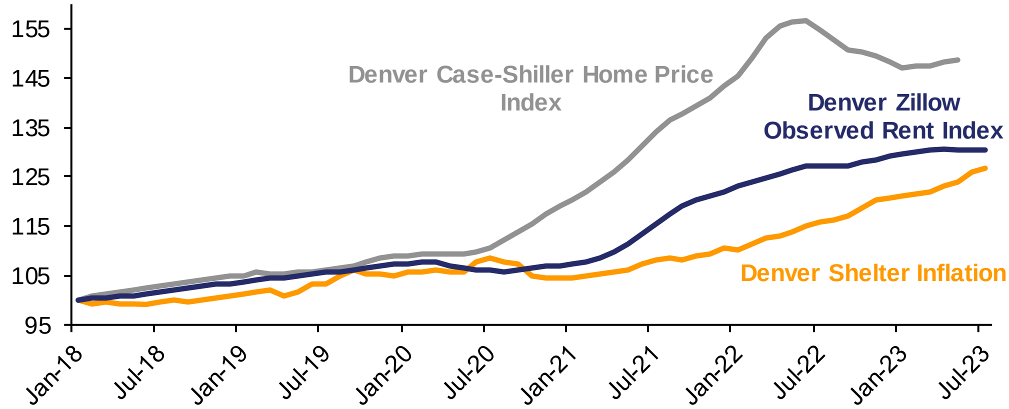
- *Recent Data:* After year over year increases in energy prices in the first part of 2023, both the U.S. and Colorado energy prices are year over year, at -3.7 percent in August and -6.5 percent in July in the U.S. and Colorado, respectively. However, both the U.S. and Colorado have seen recent month over month growth in prices.
- *Factors Driving Prices:* The effects of the Russia-Ukraine conflict on energy prices have largely moderated, as have the effects of increased demand for energy from re-emerging manufacturing in China that likely drove up prices in early 2023. The Colorado-specific effects of the Suncor plant shutdown also largely resolved by April, after driving a wedge between energy prices in Colorado and the U.S. through March. Finally, as discussed in the energy section, OPEC-Plus production cuts and improved global demand have lifted prices in recent months compared to expectations.

- *Expectations:* Temporary global and local price shocks drove up oil and gas prices in the summer of 2022, causing natural gas prices (Henry Hub) and oil prices (WTI) to peak in August and June 2022, respectively. Now that these shocks have largely resolved, year over year energy inflation has fallen from those levels However, OPEC-Plus production cuts and generally strong global demand will keep prices relatively elevated, though still down from 2022 highs, going forward. OSPB expects that both U.S. and Colorado energy inflation will be near flat through the rest of the year.

Shelter

- *Recent Data:* U.S. shelter inflation reached a peak of 8.2 percent in March and has slowly fallen to 7.2 percent year over year through August. Colorado shelter prices have not trended downward as consistently and while they're still down from their November 2022 high of 10.0 percent, shelter inflation is back up to 9.5 percent after increasing for a fourth straight month in July. The gap between U.S. and Colorado shelter inflation in July (1.8 percentage points) is the largest since December 2022.
- *Factors Driving Prices:* Shelter inflation is calculated based on observed rental prices and imputed rents for properties that are not on the rental market. Given the length of lease agreements and BLS methodology, shelter inflation generally lags and is much less volatile than increases in housing prices. Accordingly, shelter inflation is stickier than prices across the broader housing market, but generally is still responsive to higher interest rates and slower demand. As a result of this shelter inflation calculation, the continued gap between Denver and the U.S. on shelter inflation is consistent with the fact that peak rental price growth in Denver (from June 2021 through July 2022) averaged 18.2 percent year over year as compared to 16.9 percent in the U.S. Similarly, it is expected that Colorado shelter inflation will eventually decline at least temporarily in line with home prices and observed rents, which have each experienced declines and/or significant flattening as shown in the graph below.

Figure 21. Denver Shelter Inflation vs. Rent and HPI



Source: U.S. Census Bureau; CO Department of Revenue; Zillow.
Note: Indexed to Jan-18 = 100.

- *Expectations*: The U.S. peaked at 8.2 percent shelter inflation in March and is now expected to decline from 7.7 percent in July to 5.3 percent by January 2024. Meanwhile, Colorado has experienced recent increases to 9.5 percent in July, but is still expected to decline over the second half of the year and fall to 6.0 percent by January 2024. The revision upward in expectations for Colorado shelter places upward pressure on overall Colorado inflation through the end of the year and comprises a large portion of the 0.3 percentage point revision upward to the overall figure for 2023.

Goods minus Food/Energy

- *Recent Data:* After minor increases in early 2023, goods inflation has largely trended downward in both the U.S. (through August) and Colorado (through July). In fact, Colorado goods inflation has declined to -1.7 percent year over year and goods prices are expected to remain below previous year levels (i.e. negative goods inflation) through the end of 2023. U.S. goods inflation has also declined, down to 0.4 percent year over year through July.
- *Factors Driving Prices:* Broad downward pressure on goods prices continues as a result of reduced supply chain issues and relatively slower goods demand as compared to previous years. Temporary hiccups in these disinflationary trends for core goods, such as used cars sold at auction and new cars, translated to higher goods inflation in the first half of the year largely due to used car prices. However, these temporary factors have largely resolved as car prices have come back down and goods inflation has resumed a downward trajectory.
- *Expectations:* Now that the temporary headwinds have resolved, goods inflation is expected to continue to drop through most of 2023 in both the U.S. and Colorado, with year over year prices expected to be nearly slightly positive in January 2024 for the U.S. at +0.6 percent and negative in Colorado at -2.2 percent year over year.

Food

- *Recent Data:* Food price disinflation has continued to accelerate in the U.S. and in Colorado, with similar trajectories for both regions. Year over year U.S. food price growth dropped 7.0 percentage points from its peak of 11.3 percent in August 2022 to 4.3 percent in August 2023. Similarly, food inflation in Colorado has dropped from 12.0 percent in July 2022 to 4.2 percent in July 2023.
- *Factors Driving Prices:* Now that the one-year anniversary of the conflict in Ukraine has passed, any effects on prices of commodities including corn and wheat are largely built into the price base. Other factors including high input prices for fertilizers and climate impacts on shipping and crop yield across the country have also likely stagnated after accelerating in 2021 and 2022. Risks continue related to each of these factors, but the outlook for food inflation is largely downward.
- *Expectations:* Recent food prices have continued to come in below expectations. As a result, expectations have been revised downward to start 2024 at 2.5 percent in the U.S. and 2.3 percent in Colorado. These expectations are largely consistent with expectations from the Economic Research Service at the U.S. Department of Agriculture, which forecasts 5.9 percent food price growth on average in 2023 compared to an OSPB forecast of 5.7 percent.

Services (minus shelter)

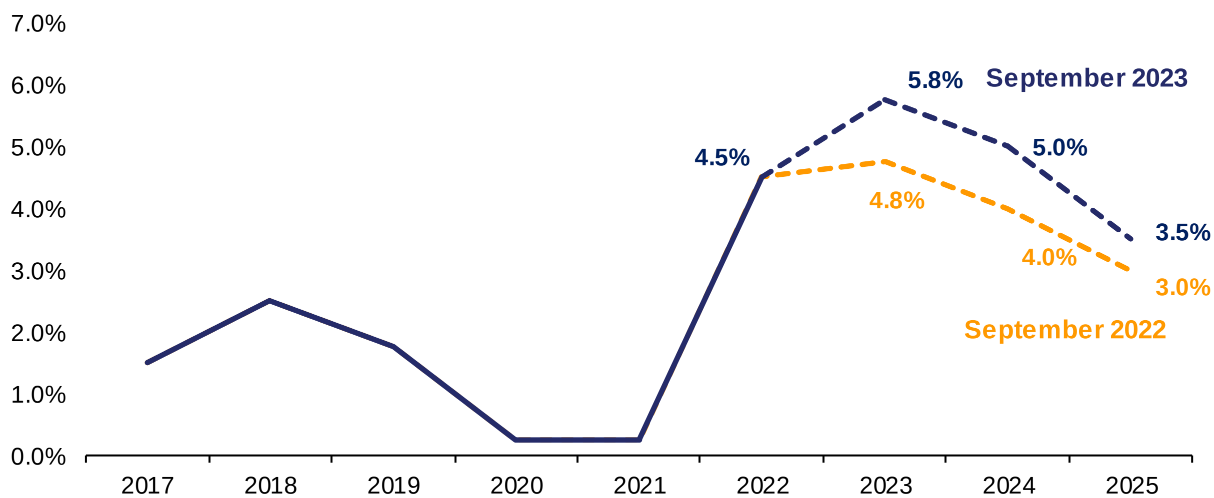
- *Recent Data:* Services inflation continues to be a driver of elevated headline CPI alongside shelter inflation and, while it has largely retracted at the U.S. level, it has ticked up in recent months in Colorado. U.S. services inflation came in at 3.1 percent in August, nearing more stable long term growth levels and down from its peak of 8.0 percent in September 2022. On the other side, Colorado services inflation in July resumed an upward trajectory to 6.0 percent, only 1.4 percentage points lower than its peak of 7.4 percent in March 2022 and the second highest reading since that peak.
- *Factors Driving Prices:* Service inflation is tied largely to shifting consumer demand toward services spending and away from goods as wealthier households continue to spend on services such as airfare and dining out. Elevated wage growth in the service industry may also be continuing to put upward pressure on service prices. However, these pressures have begun to alleviate as reflected in recent data, especially on the U.S. side. Services, however, are growing more quickly in Colorado, likely as a result of services demand and lagged effects of higher wage growth in the state.
- *Expectations:* Service inflation is expected to continue its consistent trajectory downward in the U.S. as wage growth slows and lower household balance sheets translate to slower spending on services such as leisure and hospitality. Colorado service inflation is expected

to remain elevated at or around 6.0 percent for a few months due seasonal impacts affecting the year over year figure in Colorado before resuming a downward trajectory. Year over year U.S. service inflation is expected to decline to 2.3 percent by January 2024 and Colorado service inflation is expected to come in at 6.0 percent year over year growth, driving more inflationary pressure in Colorado than the U.S. as a whole.

Financial Conditions

As U.S. inflation is expected to temporarily stall in its disinflationary path due to seasonal issues, a slow recovery of shelter inflation, and stronger than previously expected consumer demand, the Federal Reserve is likely to strengthen their resolve of higher Federal Funds Rates for longer. Based on recent communications, OSPB expects one more hike this cycle to end the current calendar year at a Fed Upper Bound of 5.75 percent. In addition to having a higher peak rate, the better economic environment and increased likelihood of a soft landing may give monetary policymakers the confidence to slow the path of cuts. OSPB expects the first cut in June of 2024 as economic growth stabilizes, followed by cuts every other Federal Open Market Committee meeting to end 2024 at a 5.0 percent Fed Funds Upper Bound. See below how OSPB has updated its thinking on the monetary policy response, based on Fed communications between one year ago and today.

Figure 22. FOMC End of Period Fed Funds Rate Expectations



Source: Federal Open Market Committee's Summary of Economic Projections; OSPB September 2023 Forecast.

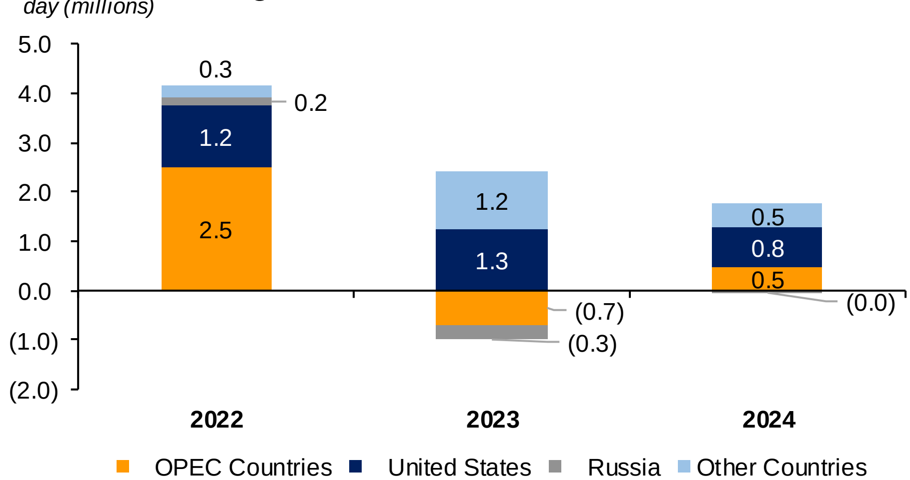
Because of the lag between implementation of policy and the economic impact, this higher for longer pace is expected to weigh on economic growth in 2025. Additionally, this delayed response is still leading to tightening credit standards for banks despite the slowing pace of interest rate hikes. Such tightening is affecting loan demand for large and small businesses alike, as small and regional banks are back on more equal footing in their deposit flows relative to larger banks. Firms involved in commercial real estate are most impacted by lending standard tightening due to a deterioration of collateral value and credit quality within the industry. Consumers also have weaker loan demand, but wealthier households are leveraging existing assets to lift their spending patterns and limit the full impact of Fed action.

Energy

Since the previous forecast in June, oil prices have increased due to continued OPEC-Plus production cuts along with strengthening demand and an improved global economic outlook. Rising oil prices have led to higher retail gasoline prices at both the national and state levels. Oil prices have also led to continued strength in domestic oil production, as the U.S. is on pace to break the annual domestic oil production record this year, which was previously set in 2019. Natural gas production is also maintaining strength domestically, although prices remain below long-term averages as inventories remain above average. Risks in the energy sector are relatively balanced due to potential downside demand risk from slowing regional economies, including China, coupled with supply risks from potential additional global production cuts, geopolitical risks, and other potential supply shocks.

Following additional production cuts by OPEC-Plus, primarily led by Saudi Arabia, West Texas Intermediate (WTI) oil prices rose above $80 per barrel throughout most of August with increased upward price pressure in early September. These production cuts, coupled with strengthening global demand, have led to a reduction in oil inventories which results in upward price pressure. While OPEC and Russia have significantly cut production over 2023, the U.S. and non-OPEC oil producing countries are largely increasing production, as depicted in Figure 23. The U.S. is increasing oil production by 1.3 million barrels per day in 2023 compared to 2022, while OPEC and Russia are cutting production by a combined 1.0 million barrels per day. Production cuts by OPEC and Russia are largely in response to lower oil prices over the first half of 2023 as they attempt to maintain a

Figure 23. Oil Production Growth

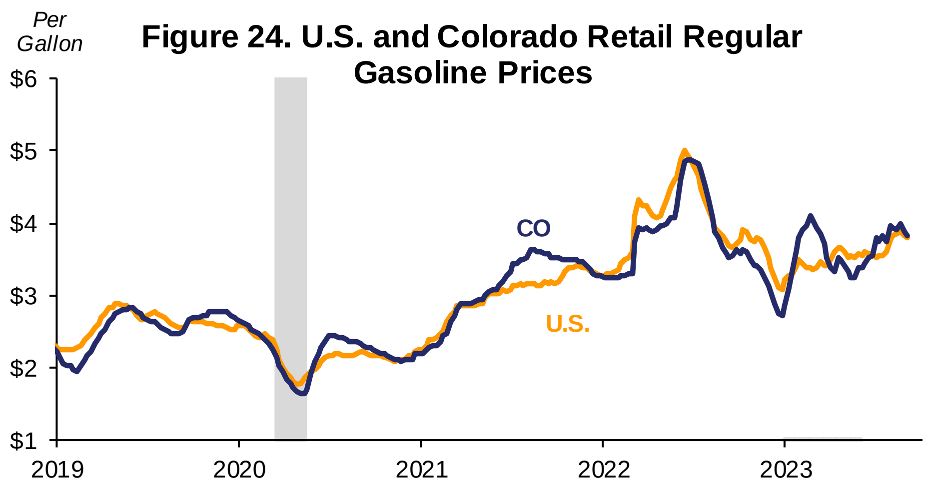


Source: Energy Information Administration.
Note: 2022 is actual data. 2023 and 2024 data are EIA forecasts.

higher price floor. This follows 2022 when global production increased across the board as a result of high oil prices above $100 per barrel. In total, the Energy Information Administration (EIA) forecasts that global oil production will increase by 1.4 million barrels per day in 2023 with the U.S. itself making up nearly that whole total. Other notable non-OPEC countries which are increasing production includes Brazil at 290,000 additional barrels per day, Mexico at 220,000, and Canada at 130,000. In 2022, the U.S. (20 percent), Russia (11 percent), and OPEC countries (34 percent) comprised nearly two-thirds of the world's total oil supply, so production decisions by those countries and large energy firms within those countries play an outsized role in global oil markets and prices.

With oil prices finding an elevated price floor, retail gasoline prices have responded accordingly. In August, U.S. prices on a weekly basis peaked at $3.87 per gallon of regular retail gasoline, while Colorado recorded higher prices, peaking at $3.99 per gallon. For the U.S., August had the highest retail gasoline prices since October 2022, while Colorado saw the highest prices since February of this year after the Suncor refinery was temporarily shuttered. Both the U.S. and Colorado prices are largely aligned at the beginning of September.

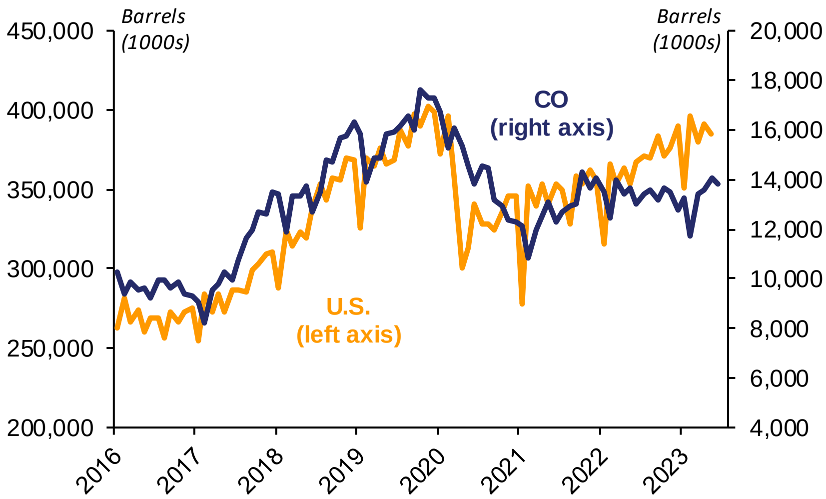
Figure 24. U.S. and Colorado Retail Regular Gasoline Prices



Source: Energy Information Administration.
Note: Shaded area denotes recession.

After elevated oil prices in 2022 and stabilized but incrementally increasing prices in 2023, domestic oil production is in a strengthened position this year and is expected to break the production record set in 2019.

Figure 25. U.S. and CO Monthly Oil Production

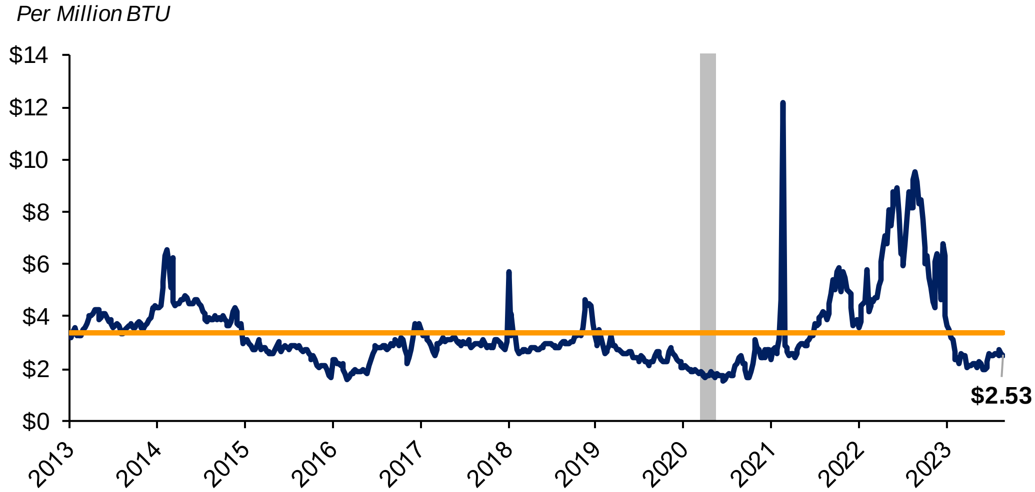


Source: Energy Information Administration.
Note: Shaded area denotes recession.

In 2019, domestic oil production averaged 12.3 million barrels per day, and the EIA projects that U.S. oil production will reach 12.8 million barrels per day in 2023. In 2024, they forecast production to further increase above 13 million barrels per day. Through the first half of 2023, domestic oil production is outpacing last year by 8.8 percent and 2019 by 5.6 percent. Increased U.S. oil production is largely driven by the Permian Basin in Texas and New Mexico, which makes up over half of domestic oil production, while Colorado production is largely flat year-over-year. Through the first half of 2023, Colorado production is down 0.1 percent compared to the first half of 2022 and remains 12.4 percent below the record levels set in 2019. However, it is still outpacing 2018, which was the second-highest production year for the state by 2.0 percent.

While oil prices remain strong, natural gas prices remain at below-average levels due to inventories remaining above-average and resilience in natural gas production in the face of a lower price environment. In August, Henry Hub natural gas prices averaged around $2.60 per million BTU compared to the ten-year average price of $3.37. This is largely due to inventories at 12 percent above the five-year average and 22 percent above last year as production remains strong, primarily in the Permian Basin, due to associated natural gas production from more-profitable oil wells. With inventories and production at high levels, the EIA expects natural gas prices to largely remain below the long-term average over the course of 2023 and 2024.

Figure 26. Henry Hub Natural Gas Spot Prices



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

Although overall domestic production mostly remains in a position of strength, regional energy industry activity and sentiment has fallen compared to the high levels reached in 2022. Energy firms located within the Federal Reserve's Tenth District, which includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, and parts of Missouri and New Mexico, report that drilling and business activity have declined over the first half of 2023, and looking forward, firms expect it to decline more over the next six months. However, the industry reports an increased, positive index for the number of employees and its ability to access credit, and with a reported breakeven price of $63 per barrel, the regional industry should remain relatively healthy.

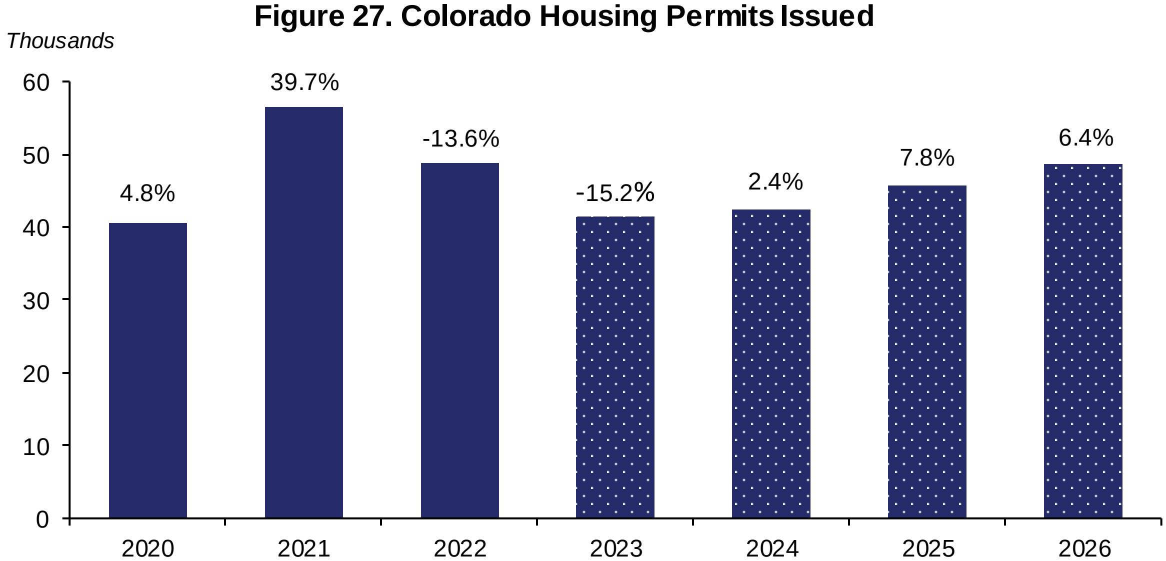
Over the forecast period, risks remain relatively balanced with upside demand risk from a global economy that could outpace previous expectations equally weighted against downside demand risk from economic regions that could underperform, primarily China. On the supply side, strong domestic production of oil and gas, along with above-average inventories, provide some price stability to what has been a volatile market over the past few years, although OPEC-Plus is causing downward supply pressure. Further, geopolitical risks remain elevated, additional global production cuts are possible, and the probability of extreme weather events has increased which could cause supply interruptions and upward price pressure. These factors place the sector on an ambiguous trajectory over the forecast period with heightened uncertainty.

Housing and Rental Market

Given recent home price increases and high interest rates, many homeowners find themselves unmotivated to sell. Meanwhile, potential home buyers are finding that new builds alone are not enough to keep up with existing demand. Therefore, home affordability is declining across the U.S., despite a significant ramp up in permitting during the early pandemic years. While permitting has led to a substantial amount of housing completions throughout the state and alleviated some of the supply concerns, but there has not continuously been enough new homes to fully rectify the supply driven housing issue.

After two successive years of strong levels of permitting in 2020 and 2021, both the U.S. and Colorado are experiencing declines in permitting levels. Since 2021, the U.S. is averaging 1.70 million permits issued, compared to the pre-pandemic average of roughly 1.30 million permits issued each year between 2016 and 2019. Colorado has followed a similar trend. In 2021, Colorado had the highest numbers of permits issued (56,500) in the last 30 years and maintained strong permitting levels in 2022 with 48,800 permits issued, both significantly higher than the pre-pandemic average (2016-2019) of 40,200 permits issued per year. If Colorado and the U.S. maintain the current pace of permits issued in 2023 there will be a drop off in permitting levels.

Figure 27. Colorado Housing Permits Issued

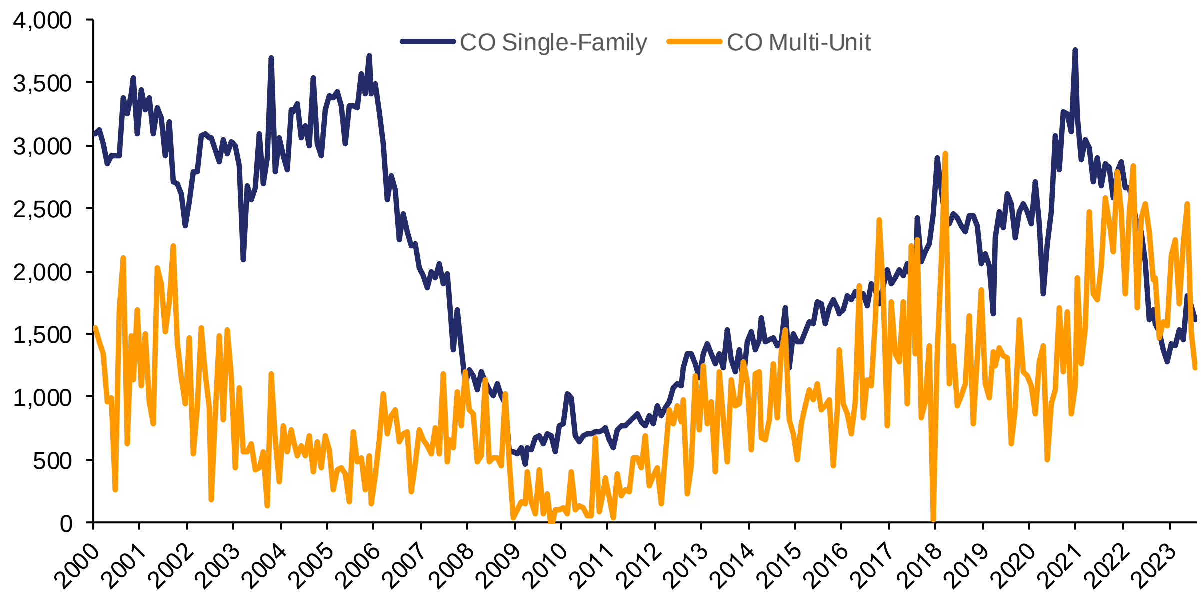


Source: U.S. Census Bureau; OSPB September 2023 Forecast.
Note: Shading denotes forecast.

OSPB forecasts that the U.S. will issue 1.42 million permits in 2023, a 14.8 percent drop from 2022, followed by 1.48 million permits issued in 2024, 1.54 million permits issued in 2025, and 1.60 million permits issued in 2026. Colorado is forecasted to issue 41,400 permits in 2023, a 15.2 percent drop from the previous year, before holding relatively flat thereafter with 42,400 permits expected in 2024 and some stronger years following with 45,700 permits issued expected in 2025 and 48,600 permits issued in 2026. This is a relatively minor downturn as a result of restrictive monetary policy. For the U.S., these levels are on par with OSPB's expectation in the June forecast, whereas there are slight revisions upward for Colorado, based on current permitting numbers reported as well as other economic factors.

For Colorado, multi-family permits have begun to see declines after years of sustained and solid growth, while single family permits have begun to surge again and have overtaken multi-family permits issued in recent months. Investors could be cooling their interest in multi-family units, as the housing market comes under pressure for further supply as existing single-family homes are not coming up for sale and there is increased demand for this category of housing as a growing cohort ages into homeownership. However, over the past few years the dominant trend is for multi-family unit permits to be increasing steadily, while single-family units had strong growth until late 2020 with permitting levels declining substantially since then as shown in Figure 28. Going forward, we anticipate that the breakdown of single vs. multi-family permit growth will continue along with current trends as single-family permits will start to tick back up to stability, while multi-family permits slowly decline.

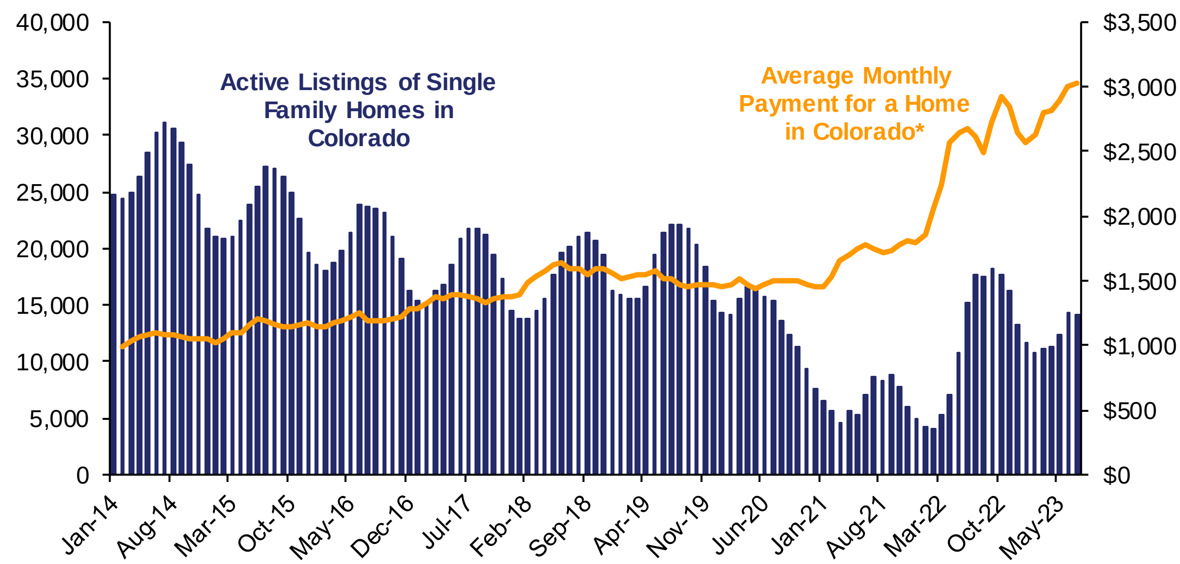
Figure 28. Colorado Private Housing Units Authorized by Building Permits, Single-Family vs. Multi-Family



Source: U.S. Census Bureau.

Supply issues, and therefore permitting levels, have significant downstream effects on home prices and affordability as Colorado has seen a tick back up in the median single family home price as it surges back up toward peak levels. In addition, the impact of higher interest rates has also increased the effective price of homes alongside the resurgence in home price growth. According to the Colorado Association of Realtors, as of July 2023, the median single family home price was $578,250. Moreover, the effective median home price of a home sold in July 2023 is over $1.2 million once mortgage rates (August 2023 30 year fixed rates averaged 7.07 percent) have been factored in. As a result, the average monthly payment for a home in Colorado now exceeds $3,000, which is the highest it has ever been within Colorado, as shown in more detail in Figure 29 below. Despite these headwinds driving home prices upward, home price growth could still moderate going forward if the current permitting, starts, and completions trends persist in creating more housing supply at a rate quicker than household creation.

Figure 29. Average Monthly Payment vs. CO Single Family Homes Active Listings



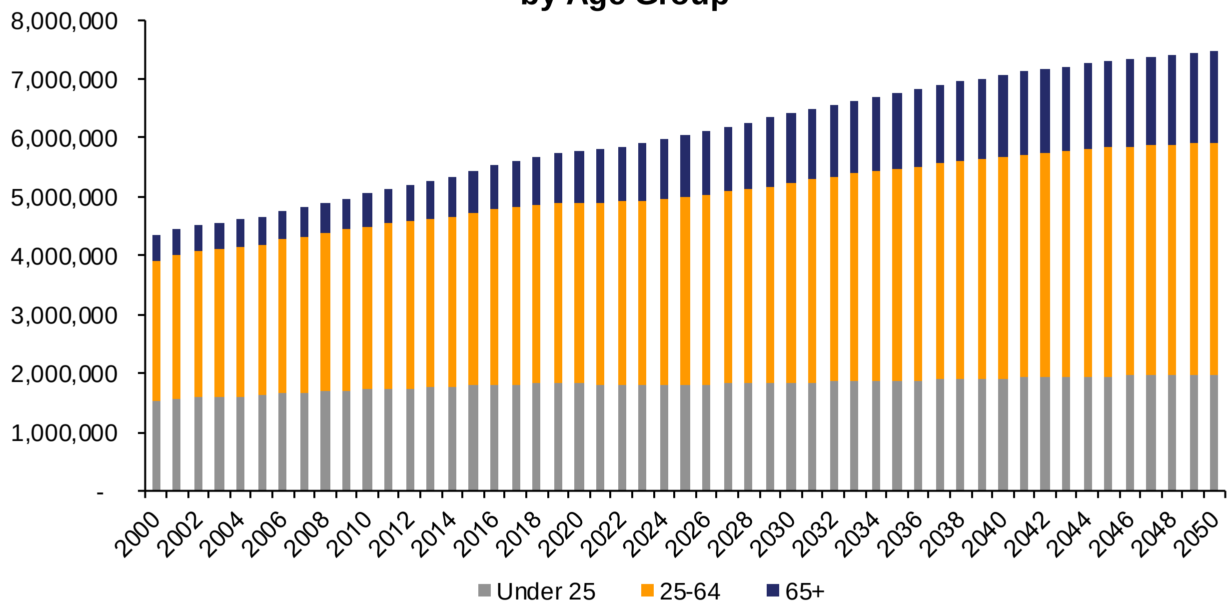
Source: U.S. Census Bureau; OSPB September 2023 Forecast.
Note: Assumes 20% Down Payment and 30 Year Fixed Rate Mortgage.

As effective home prices and monthly payments continue to climb, many Coloradans are opting to rent instead of purchasing a home. As a result, vacancy rates across the state have declined despite rising apartment prices. According to the U.S. Department of Housing and Urban Development, the fair market rent for a two-bedroom apartment increased 19 percent in the Denver metro area from FY 23 to FY 24. Additionally, the Zillow Observed Rent Index for the Denver metro area has increased by 30 percent since the beginning of 2018. These rental pricing problems are the most prominent in Denver, but large spikes in rent are being observed throughout the state. These rent effects contribute (albeit on a lagged basis) to the elevated statewide shelter inflation mentioned in the inflation section above.

Demographics

Colorado's demographic composition continues to be driven by changes in net migration and growth in the older (65+) population. From 2015 to 2021, Colorado's population growth rate declined from 1.5 percent to just 0.5 percent, driven in part by the COVID-19 pandemic. As the state recovers from the pandemic, population growth is expected to peak at 1.3 percent in 2026 before trending slowly downwards for the next two decades to 0.4 percent in 2050. The current 2023 population is estimated at 5.9 million and is expected to grow steadily to 7.5 million by 2050, at an average annual growth rate of 0.9 percent.

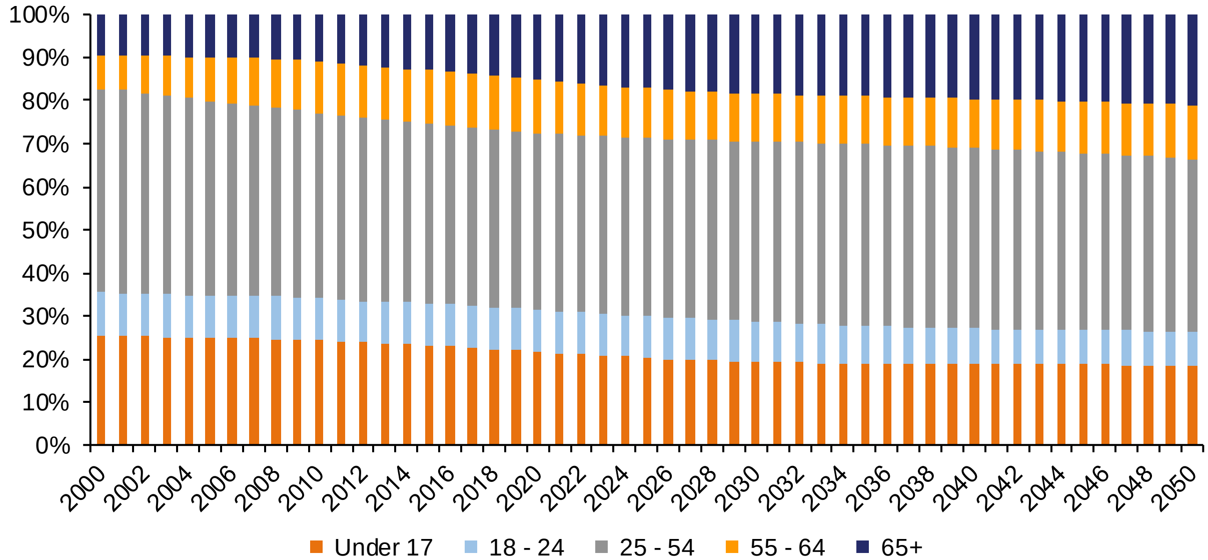
Figure 30. Population Composition, by Age Group



Source: Colorado Department of Local Affairs, State Demographer's Office.

The composition of Colorado's population continues to shift significantly by age group, as illustrated in the following chart. Since the mid-2000s, growth in the age 65+ population has consistently outpaced all other age groups. Currently, the population aged 65 and older comprises 16.4 percent of the total population is expected to grow to 21.1 percent of the population by 2050, at an annual growth rate of 1.8 percent, twice the overall population growth rate. The number of residents aged 65+ is projected to increase from less than one million to nearly 1.6 million over the next 27 years. In contrast, the younger cohorts comprise a shrinking share of the population, with the under-17 group declining from 21 percent of the population in 2023 to 18 percent in 2050, 18-24-year-olds declining from 10 percent to 8 percent, and prime working age adults aged 25-54 decreasing from 41 percent to 40 percent of the state's total population.

Figure 31. Age Group Populations as a Percentage of State Population



Source: Colorado Department of Local Affairs, State Demographer's Office.

Despite shrinking as shares of the total population, all age cohorts are expected to have net positive growth between 2023 and 2050. However, population growth projections include relatively steady annual population growth for the 65+ cohort, but declining growth among the PWAA cohort from 2030 onwards. In addition, the young adult cohort aged 18-24 has negative projected growth in several years in the 2030s, but their overall growth will still be positive through 2050. On net, population growth will be comprised by group as follows:

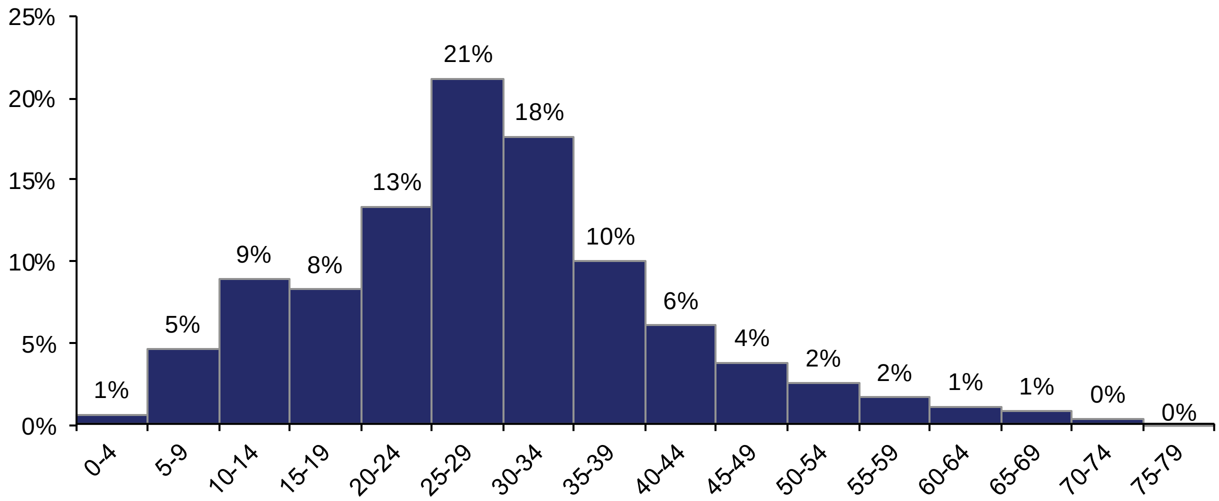
- Under 17, 8.0 percent;
- 18-24, 2.9 percent;
- 25-54, 31.5 percent;
- 55-64, 16.3 percent; and
- 65+, 41.3 percent.

Total population growth in Colorado is now primarily driven by net migration, as opposed to natural growth based on births and deaths. From 2000 to 2023, net migration accounted for an average of 53 percent of Colorado's annual population growth, compared to 47 percent attributable to natural growth. As birth rates slow, death rates climb, and migration recovers from the pandemic, 74 percent of Colorado's expected population will be due to immigration from 2023 to 2050, with just 26 percent attributable to natural growth. Over this period, the net migration rate is projected to fall from 0.9 percent to 0.4 percent, while the natural growth rate is expected to fall more dramatically from 0.4 percent to just 0.1 percent due to fewer births and increasing deaths among the rapidly growing 65+ age cohort.

Colorado has a significantly higher total net migration rate than the net international migration rate of the U.S., which is expected to average just under 0.3 percent through 2050. These in-migrants are coming largely from California, Illinois, New York, Texas, Georgia, and Maryland according to data from the American Consumer Survey. On the other side, out-migrants tend to leave Colorado for Arizona, Washington, Arkansas, Utah, Iowa, and Idaho.

Of the in-migrants discussed above, younger adults between 20 and 39 have tended to account for a large share of migration, for a combined 62 percent of all net inbound migrants from 1970 to 2020, as shown in Figure 32 below. It is anticipated that this group will continue to account for a significant share of in-migration going forward, slightly dampening the effects of aging on Colorado's population.

Figure 32. 1970-2020 Net Migration, by Age Group



Source: Colorado Department of Local Affairs, State Demographer's Office; OSPB September 2023 Forecast.

The ongoing shifts in Colorado's demographic composition have several important fiscal policy implications in coming years, especially at the intersections of health care, housing affordability, education, and the labor market:

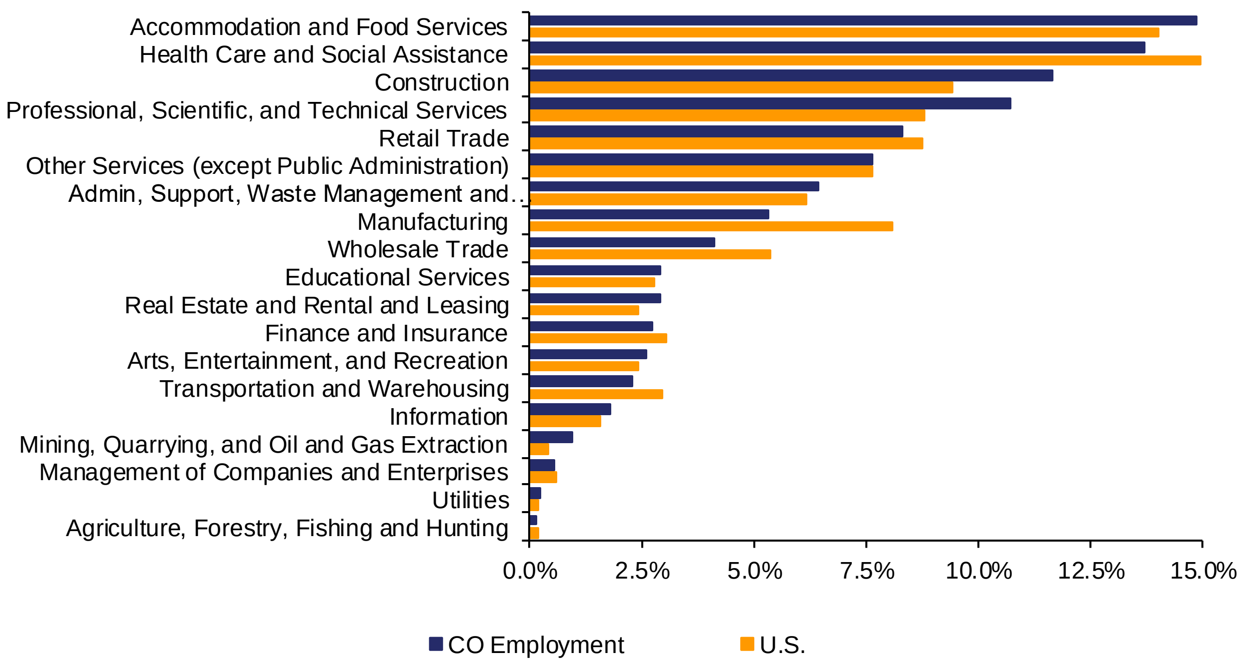
- The rapidly growing 65+ cohort will continue to place increasing demands on the state budget via increased participation in public health and social services programs. This population also has higher than average health care costs due to more complicated medical needs and increased utilization of long-term services such as nursing homes and HCBS waiver services.
- The 65+ cohort will simultaneously put downward pressure on revenue growth as older adults typically pay lower income taxes due to retirement or fixed incomes, generate lower sales tax collections through reduced spending, and qualify for more tax benefits such as property tax exemptions like the Senior Homestead Exemption.

- Growth in the prime working age cohort is particularly important to fill jobs, generate income and property tax, and begin new families. Two areas that could influence prime working age growth include the competitiveness of our job market and housing affordability, relative to other states.

Small Business

Small Business, defined as businesses with fewer than 500 employees,[1] play an important role in the Colorado economy as 47.6 percent of all employed persons in the state work for a small business. The composition of small business employment in Colorado is shown in Figure 33. In Colorado, total employment and payroll in small businesses are concentrated most amongst four categories: 1) Professional, Scientific, & Technological Services, 2) Construction, 3) Health Care & Social Assistance, 4) Accommodation and Food Services.

Figure 33. Share of Small Business Employment

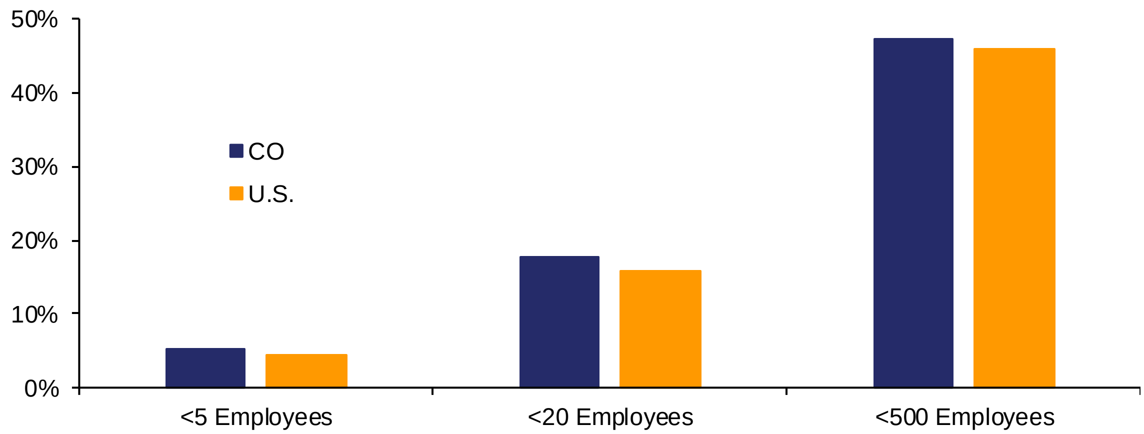


Source: Census, Statistics of U.S. Businesses.
Note: Only industries with >5% of employment in Colorado shown for clarity.

[1] https://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-CO.pdf

Small businesses are especially important to non-metro areas, as small businesses frequently account for over 75 percent of employment. According to the 2020 Statistics of U.S. Businesses Dataset, Colorado has higher concentrations of all size categories of small businesses than is found in the U.S.

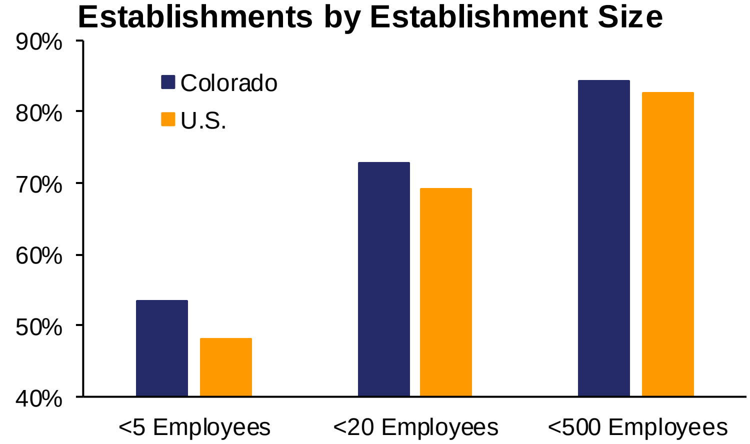
Figure 34. Share of Total Employment by Establishment Size



Source: 2020 Census, Statistics of U.S. Businesses.

Furthermore, in Q1 and Q2 2023, the Colorado Department of State recorded record filings and are up 39.1 percent year-over-year in Q2. This is likely being driven in part by *HB22-1001*, which made it so businesses filing for initial LLC formations and initial trade name registrations only paid $1 during FY 2022-23, down from the normal fees of $50 and $20. Additional reasoning for the surge in initial LLC formations and trade name registrations could be that Colorado continues to have a job openings to unemployed person ratio of greater than 2:1, which means that there is less risk in Colorado for people to start a business.

Figure 35. Share of Total Establishments by Establishment Size



Source: 2020 Census, Statistics of U.S. Businesses.

Colorado continues to support small businesses through other channels, both public and private. The Colorado Small Business Development Center division of the Colorado Office of Economic Development and International Trade (OEDIT), distributed over $47.7M in capital across multiple programs in FY 2022-23 to small businesses across Colorado. Within the Denver Metro, the City and County of Denver's Department of Economic Development and Opportunity's Business Impact Opportunity Fund recently launched a new round of funding opportunities in the form of Acceleration, Activation, and Anti-

Displacement Grants to aide businesses impacted by the pandemic, facing displacement, or looking to fill service gaps caused by pandemic business closures[2].

Access to capital is a particular concern to small businesses, as they are more likely to receive capital from local institutions such as credit unions and community banking institutions. During high interest rate environments, financial conditions are generally more turbulent, which can be risky for these smaller banking institutions that tend to lend to small businesses. According to a 2021 study[3], community banks have a positive impact on small businesses, particularly in rural areas, by promoting employment growth and shielding them during recessions. This multifaceted support to small businesses through programs such as reduced business filing fees and access to capital will continue to be important as businesses are facing tightening lending conditions heading through 2023 and into 2024. According to the Federal Reserve's July 2023 Senior Loan Officer Opinion Survey on Bank Lending Practices[4], one-third of respondents said that economic conditions are a "very important" factor contributing to tightening lending standards currently. Overall, the health of small businesses is key to the Colorado economy, and the state looks poised to be able to support them in these aspects.

The other major concern amongst small business owners nationwide continues to be inflation, according to the U.S. Chamber of Commerce Small Business Index. As discussed in other economic sections within this September Forecast, OSPB has revised up Colorado inflation and revised down U.S. inflation for 2023 from the June forecast. While an increased inflation forecast locally in Colorado may be concerning to small businesses owners in the state, this is primarily due to Colorado's high cost of shelter and inflation in the services sector, which will have mixed effects on small businesses. Services inflation has a direct impact on all small businesses, as they have to pay more and charge more for intangible commodities compared to other states. Shelter inflation has an indirect effect on small businesses, as wages demanded by employees will increase to be able to afford to live in the state.

OSPB forecasts inflation to be 4.1 percent for 2023 and 2.6 percent for 2024 for the U.S. and 5.0 percent for 2023 and 3.1 percent for 2024 for Colorado. Inflation will continue to put pressure on small businesses over the foreseeable future. OSPB also expects monetary policy rates to remain in restrictive territory in the near term, thereby increasing the cost of financing instruments. This combination of economic conditions has the potential to squeeze small businesses and there is potential for a tightening in small business activity at the state and national level.

[2] For more information please visit the following link: bit.ly/biofund23

[3] Petach, L., Weiler, S., & Conroy, T. (2021). It's a wonderful loan: local financial composition, community banks, and economic resilience. *Journal of Banking & Finance*, *126*, 106077.

[4] https://www.federalreserve.gov/data/sloos/sloos-202307.htm

Forecast Risks

OSPB creates a point estimate forecast 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 a soft landing for the economy, with growth in the out-years constrained by potential GDP as sustained restrictive monetary policy to slow inflation works its way through the economy. Monetary policy is expected to lead to a loosening job market, though job openings are expected to outnumber unemployed people through the forecast period. While a spending slowdown is expected to occur, it is not expected to significantly slow the economy as positive real income, low delinquency rates, a positive consumer outlook, and wealth effect spending of the wealthiest quartile support personal consumption.

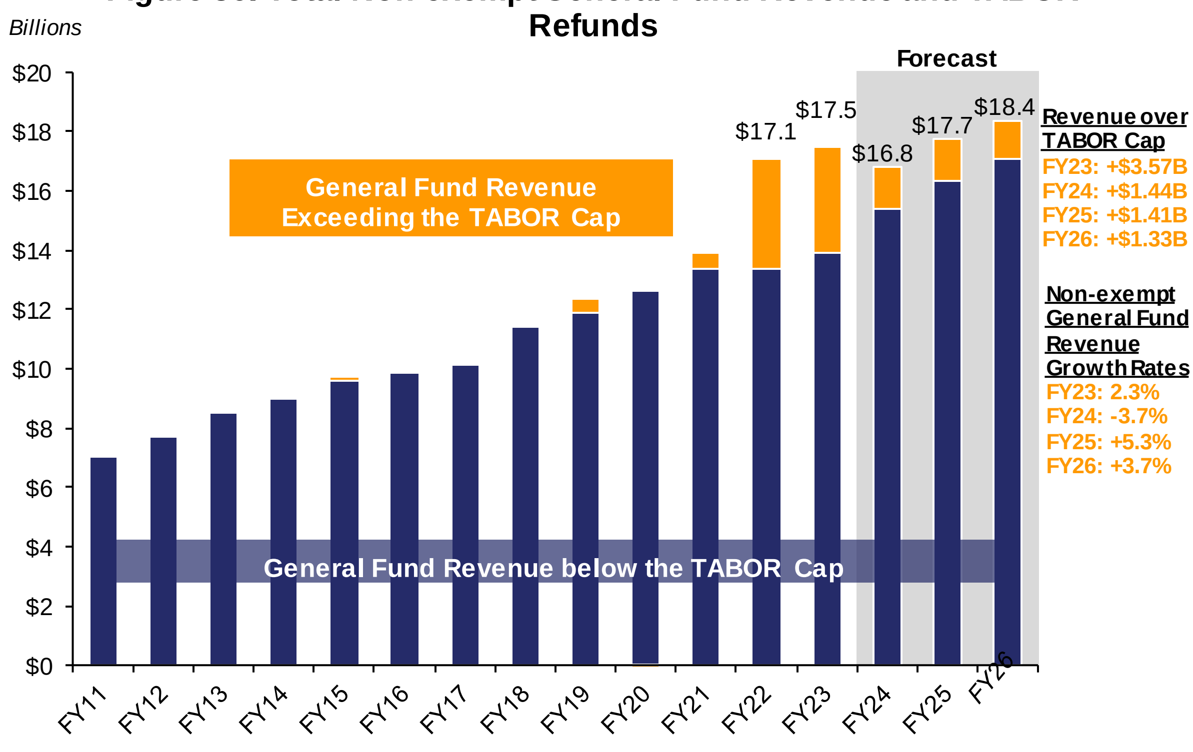
Downside risks to the forecast include an unexpected acceleration of tightening lending conditions, further tightening of monetary policy rates, geopolitical risks, and a Federal government shutdown. Upside risks include slowing in services inflation despite strong wage growth, quicker than anticipated normalization of shelter inflation, stronger labor demand, and debt delinquency rates remaining low. Overall, OSPB views economic risks to this forecast as relatively balanced.

General Fund Outlook

Preliminary actuals for General Fund revenue in FY 2022-23 increased 1.7 percent to $18,002.2 million. Revenue came in $222.9 million above June forecast expectations to end the fiscal year. General Fund revenue expectations in FY 2023-24 and FY 2024-25 are upwardly revised from the June forecast due to a better economic outlook with better than previously expected consumer demand and labor market conditions. In FY 2023-24, revenue is expected to decrease by 3.8 percent to $17,309.8 million before increasing by 5.8 percent in FY 2024-25 to $18,309.2 million. General Fund revenue is projected to grow an additional 3.8 percent in FY 2025-26 to $18,979.8 million. General Fund revenue for FY 2023-24 is revised up by $792.9 million from June, while revenue in FY 2024-25 is revised up $137.8 million.

General Fund revenue is projected to exceed the TABOR cap throughout the forecast period. Revenue exceeded the cap by $3.73 billion in FY 2021-22, and preliminary FY 2022-23 actuals

Figure 36. Total Non-exempt General Fund Revenue and TABOR Refunds



Source: Office of the State Controller; OSPB September 2023 Forecast.

place General Fund revenue above the TABOR cap by $3.57 billion in FY 2022-23. General Fund revenue exceeding the cap is projected at $1.44 billion in FY 2023-24, $1.41 billion in FY 2024-25, and $1.33 billion in FY 2025-26. This is an upward revision of $193.0 million from the June forecast for FY 2022-23, an upward revision of $902.2 million for FY 2023-24, and an upward revision of $108.2 million in FY 2024-25.

Overview of General Fund Revenue Streams

Individual Income Tax: Revenue from individual income tax dropped 6.5 percent to $10.95 billion in FY 2022-23 following historic growth of 23.6 percent in FY 2021-22. Revenue is projected to fall another 0.2 percent to $10.93 billion in FY 2023-24 before rebounding with positive 7.9 percent growth to $11.79 billion in FY 2024-25. Revenue is projected to grow an additional 4.1 percent to $12.27 billion in FY 2025-26. Between FY 2022-23 and FY 2024-25, this is a total upward revision of $400.3 million largely due to stronger labor market expectations.

Corporate Income Tax: Revenue from corporate income tax increased 50.9 percent to a record $2.37 billion in FY 2022-23 beating the previous record set in FY 2021-22 of $1.57 billion. Revenue is expected to fall 25.8 percent to $1.76 billion in FY 2023-24 and fall an additional 3.7 percent in FY 2024-25 due to slower consumer demand compared to recent levels and a restrictive monetary policy environment. In FY 2025-26, revenue is projected to grow 0.1 percent. For the full forecast period, this is a total upward revision of $706.9 million due to continued corporate resiliency.

Sales and Use Tax: Revenue from sales and use tax grew 5.3 percent to $4.55 billion in FY 2022-23 following historic growth of 19.0 percent in FY 2021-22. Revenue growth is forecast to slow to 1.5 percent in FY 2023-24 and $4.62 billion in collections as retail activity in the state slows from recent highs. Revenue growth is forecast to rebound to 6.0 percent in FY 2024-25 and stabilize at 4.6 percent in FY 2025-26. For the full forecast period, this is a total upward revision of $7.1 million, reflecting little change in expectations from the prior forecast.

Marijuana Special Sales Tax: Revenue declined by 15.0 percent to $219.9 million in FY 2022-23 but is forecast to rebound significantly in FY 2023-24 and FY 2024-25.

Proposition EE Tax and Other Excise Tax: Revenue from Proposition EE increased 13.0 percent to $235.0 million in FY 2022-23. Throughout the remainder of the forecast period, revenue is assumed to drop from that level, however, that will largely be dependent upon the outcome of the vote on Proposition II, which Colorado voters will vote on in November 2023.

Other General Fund Revenue: Other General Fund revenue grew by 57.0 percent to $797.4 million in FY 2022-23 due to elevated interest earnings and increased insurance receipts. Over the forecast period, this revenue is projected to tick downward as interest earnings retreat due to decreased cash balances and interest rate cuts.

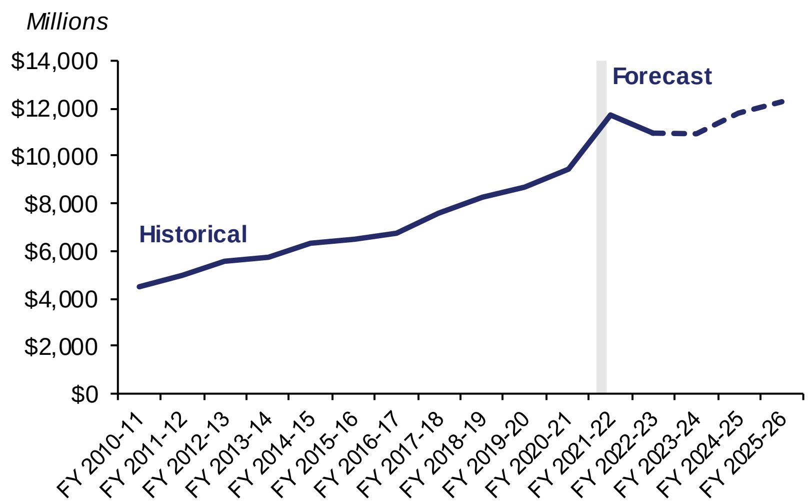
State Education Fund Revenue: Income tax revenue to the State Education Fund grew 7.3 percent to $1.07 billion in FY 2022-23. Revenue is forecast to slightly drop from that level in FY 2023-24 before rebounding in FY 2024-25 and FY 2025-26.

Individual Income Tax

Overall Forecast Trends

Preliminary actual receipts for individual income tax in FY 2022-23 decreased by 6.5 percent to $10.95 billion following historic 23.6 percent growth in FY 2021-22. In FY 2022-23, the year-over-year decrease is largely due to estimated payments falling from record heights in the previous fiscal year, as they could not be replicated with softening equities, tightening monetary policy, and the roll-off of expansionary fiscal policy. Withholdings collections also cooled in FY 2022-23 compared to the prior fiscal year but maintained strength at 4.4 percent growth. Although year-over-year growth is negative, the FY 2022-23 preliminary actuals reflect a $58.2 million upward revision from the June forecast due to stronger than expected withholdings to close the fiscal year.

Figure 37. Individual Income Tax



Source: Colorado Department of Revenue, OSPB September 2023 Forecast.

Figure 38. Individual Income Revenue Forecast and Revisions

Fiscal Year	Total Individual Income Revenue (in $M)	Growth	Revision from Previous Forecast (in $M)	Reasons for Revisions/Assumptions
FY 2023	$10,952.7	-6.5%	$58.2	Stronger than expected withholdings to end the year
FY 2024	$10,930.4	-0.2%	$411.6	Labor market maintains greater strength than previously expected leading to higher withholdings, estimated payments
FY 2025	$11,791.5	7.9%	($69.5)	Revision downward from increased collections offset by higher refunds
FY 2026	$12,277.3	4.1%	NA	Slower, normalizing growth; tax policy adjustment from TCJA sunset

In FY 2023-24, individual income revenue is expected to decrease slightly by 0.2 percent to $10.93 billion due to slower wage growth, lower business earnings for smaller firms, and new tax credits from the last legislative session. This is an upward revision, however, from the June forecast as the labor market is projected to maintain greater strength than previously expected, which will lead to higher withholdings than forecast in June. Withholding revenue is anticipated to grow, but slightly below its trend rate, as aggregate Colorado wage and salary growth is forecast to slow to 4.4 percent in 2024 following growth from 2021 to 2023 of 9.4 percent, 10.7 percent, and 6.3 percent, respectively. Although this is a slowdown from recent highs, statewide wage growth is still projected to outpace the nation. In FY 2024-25, overall individual income revenue is forecast to increase by 7.9 percent to $11.79 billion as the labor market and wage growth accelerates from slower FY 2023-24 levels along with an increase in small business earnings. This is a downward revision of $69.5 million from the June forecast due to higher expected refunds, though withholdings are upwardly revised. In FY 2025-26, slower, normalizing growth of 4.1 percent to $12.28 billion in collections is forecast.

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 are improved over the full forecast period relative to June expectations. In FY 2022-23, preliminary full-year withholdings came in $170.9 million above the June forecast at $9.46 billion, as the labor market continues to exhibit strength. In FY 2023-24, withholdings are expected to maintain slow growth at 0.9 percent and $9.54 billion in collections, which is a significant upward revision of $372.5 million from the prior forecast. This is a result of wages and salaries growth now being projected at 4.4 percent in 2024 compared to the 3.0 percent expected in the June forecast. In FY 2024-25, OSPB expects aggregate wages in Colorado to stabilize above the 2024 average to 4.9 percent, in part due to nonfarm payrolls expected to surpass 3 million workers for the first time in history, resulting in 4.8 percent growth in withholdings and $10.01 billion in collections. Continued growth of 3.8 percent in withholdings is forecast in FY 2025-26.

Estimated Payments

In FY 2021-22, estimated payments hit a new record at $2.64 billion and 45.3 percent annual growth, alongside record business earnings. In FY 2022-23, estimated payment receipts fell from that record level by 38.9 percent to $1.61 billion. This is a downward revision from the June forecast of $62.5 million, partly attributed to tightening financial conditions placing financial pressure on smaller firms. In FY 2023-24, with the economy projected to slow from recent levels in late 2023, pass-through businesses are expected to continue to reduce estimates to account for the new environment. Further, more expensive lending options and slowing consumer demand are expected headwinds to pass-through businesses, which will lead to lower business earnings and lower estimated payments. These dynamics lead to estimated payments falling by 6.7 percent to $1.51 billion in FY 2023-24. Although negative year-over-year growth is projected, this is an upward revision of $180.0 million from June, with consumer demand maintaining more strength than previously expected, and the economy is not expected to slow to the levels thought in June. In FY 2024-25, the economy is expected to regain stability from a slower period, and as a result, estimated payments are forecast to grow by 21.9 percent to $1.84 billion before growing an additional 3.1 percent to $1.89 billion in FY 2025-26.

Cash with Returns and Refunds

In general, OSPB assumes individual income cash with returns and refunds largely offset each other, meaning that filers in aggregate do reasonably well at covering expected tax obligations through withholdings and estimated payments. Cash with returns ended FY 2022-23 at $2.11 billion, reflecting a small revision downward of $17.2 million from the last forecast, but strong 32.6 percent growth year-over-year. This is because of strength in proprietor profits coming in above their expectations from last year, reflecting a relatively healthier business environment in recent history than is currently the case. In FY 2023-24, cash with returns are forecast to fall by 19.8 percent, reflecting a small $43.5 million upward revision to $1.69 billion. In FY 2024-25, cash with returns are revised up by $23.1 million to $1.72 billion, reflecting stable year-over-year growth. Stability is expected to continue in FY 2025-26 as growth in cash with returns is expected to remain relatively flat, falling by 0.3 percent. Meanwhile, refunds in FY 2022-23 came in $33.1 million above expected in June to end the year at $2.23 billion. Similar to cash with returns, refunds are expected to drop 18.7 percent in FY 2023-24, before stabilizing at $1.77 billion in FY 2024-25.

Policy Adjustments

In addition to the above economic drivers, there are policy impacts, particularly from the 2023 legislative session. The range of income tax credit bills are expected to reduce individual income revenue by $121.3 million and $190.9 million in FY 2023-24 and FY 2024-25, respectively. The largest impact is a result of HB23-1112, Earned Income and Child Tax Credits, which has an impact of $74.8 million in FY 2023-24 and $97.6 million in FY 2024-25. Of this, $52.0 million is due to an increase in the Colorado Earned Income Tax Credit (EITC) credit from 25 percent to 38 percent of the federal credit in Tax Year 2024. The rest is a result of expanding access to the Child Tax Credit (CTC), which restructures the state credit so that taxpayers receive flat dollar amounts, rather than a percentage of the federal CTC claim. This results in low-income households receiving higher credit amounts. Additionally, HB23-1272, Tax Policy that Advances Decarbonization, reduces individual income revenue by $36.8 million and $53.1 million in FY 2023-24 and FY 2024-25, respectively. These reductions are the result of a range of tax credits to encourage purchasing electric or hybrid vehicles, utilize geothermal energy, purchase e-bikes, and additional tax credit programs. Also, HB23-1091, Continuation of Child Care Contribution Tax Credit, will continue to reduce revenue in FY 2024-25 by $18.6 million in order to extend a tax credit for contributing to qualifying childcare facilities from Tax Year 2024 to Tax Year 2027. A host of other bills with smaller impacts include SB23-016 (Greenhouse Gas Emission Reduction Measures), HB23-1084 (Continuation of Military Retirement Benefits Deduction), and HB23-1081 (Employee Ownership Tax Credit Expansion).

In addition to the most recent session, last year's November election also has impacts on income tax revenue. *Proposition 121 State Income Tax Rate Reduction* passed in that election, which reduced the income tax rate from 4.55 percent to 4.4 percent. Additionally, *Proposition FF Healthy School Meals for All* increased taxes on households with more than $300,000 in income, which increased FY 2022-23 individual income revenue by an estimated $42.7 million, FY 2023-24 revenue by an expected $95.0 million, and FY 2024-25 revenue by a projected $110.8 million. Finally, *Proposition 123 Dedicate Revenue for Affordable Housing Programs* affects retained General Fund revenue, as $160.0 million was diverted in FY 2022-23 and an estimated $304.5 million will be diverted in FY 2023-24 and $323.6 million in FY 2024-25 from the General Fund to affordable housing programs.

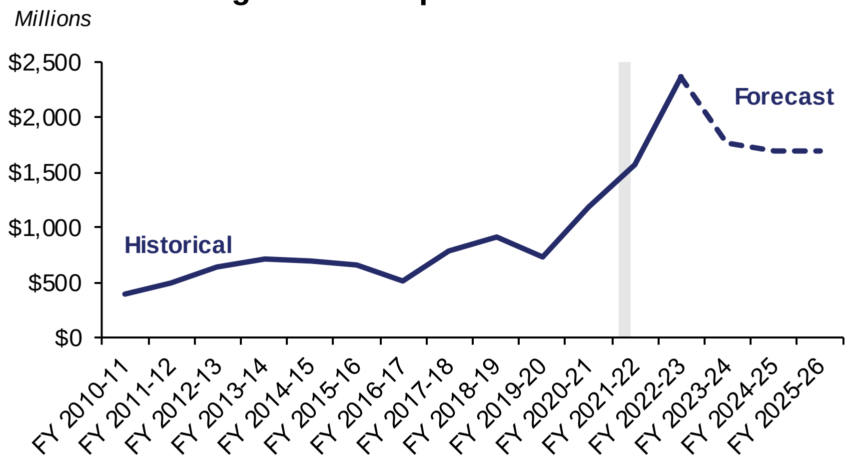
There are also three federal bills driving policy adjustments. First, the Inflation Reduction Act (IRA) has a minimal, positive impact on revenue, mostly as a result of increased IRS audit enforcement. This minimal impact is due to the fact that the base of Colorado's income tax is federal taxable income, 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. OSPB's initial expectations are that those amount to less than one percent of overall revenue by FY 2024-25. However, these impacts are proportionately reduced to reflect the funding reduction agreed to in the debt ceiling debt. The IRA also expands a federal deduction, which reduces taxable income, and provides for a variety of grants, which increases taxable income, that 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. Finally, the Federal December Omnibus bill included the Secure Act 2.0, which focuses on retirement plans, and is expected to increase state individual income revenue by $18.4 million and $16.3 million in FY 2023-24 and FY 2024-25. Specific rule changes to retirement plans that will increase expected revenue include measures on early retirement plan withdrawals and elected deferrals to the contribution limit.

Finally, the federal Tax Cuts and Jobs Act, which was enacted in 2017, will have portions of the bill start to sunset at the end of 2025 and result in an estimated decrease in income tax revenue of $43.5 million beginning in FY 2025-26. The reduction in revenue is largely due to the roll-off of the repeal of certain personal exemptions and the increased standard deduction more than outweighing the impact of eliminating the qualified business income deduction for pass-through businesses along with other miscellaneous changes. This expected policy adjustment will continue to be monitored and analyzed over the forecast period.

Corporate Income Tax

Corporate income tax revenue grew by 50.9 percent to a record $2.37 billion in FY 2022-23, surpassing the record set in FY 2021-22 of $1.57 billion. The continued growth in corporate income tax revenue is largely due to corporate profits remaining at elevated levels throughout 2021 and 2022. Preliminary actuals for FY 2022-23 came in $144.9 million above June forecast expectations following stronger than expected receipts to close the fiscal year. These record revenues not only indicate continued strength in business development, but they also reflect a portion of last year's record profits still flowing through to the state. Estimated payments and cash with returns have both exceeded expectations to end the fiscal year, contributing to the sizable revision. In FY 2023-24, corporate income tax revenue is expected to drop by 25.8 percent to $1.76 billion alongside softening corporate profits. While this reflects a significant year-over-year decline, it would still outpace the prior record revenue level set in FY 2021-22, and it is an upward revision from the June forecast of $410.7 million. This upward revision is driven by a better economic outlook assumed in this forecast led by strong consumer and labor demand, which will continue to provide a healthy environment for business profits. Similarly, while FY 2024-25 corporate income revenue is forecast to fall an additional 3.7 percent to $1.69 billion, revenue is revised up from June by $151.3 million. Corporate income tax revenue growth is forecast to remain relatively flat in FY 2025-26, growing by 0.1 percent.

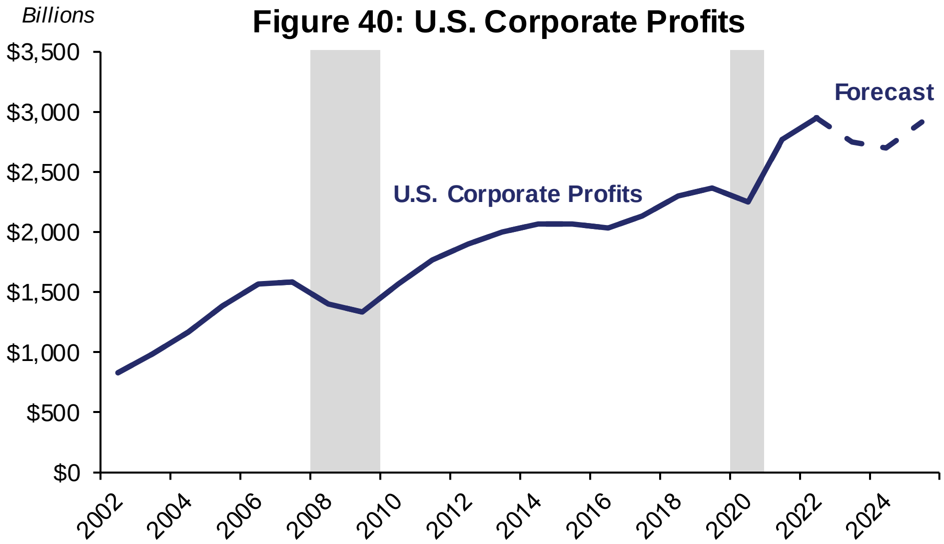
Figure 39. Corporate Income Tax



Source: Colorado Department of Revenue, OSPB September 2023 Forecast.
Note: Shaded area denotes recession.

During 2021 and 2022, expansionary fiscal and monetary policy helped promote a healthy business environment with high profits, resulting in U.S. corporate profits before taxes growing 22.6 and 6.6 percent in those years, respectively. Although strength in the economy remains, corporate profits are expected to fall in 2023 by 6.6 percent as consumer demand slows from very elevated levels along with rising investment costs. In 2024, corporate profits are forecast to fall again by 2.0 percent as a restrictive monetary policy environment will continue to constrain profits. Corporate profits are projected to accelerate again in 2025 alongside loosening monetary policy and a rebalanced, stable economic environment allow for 8.1 percent growth, falling just short of record corporate profits set in 2022.

Figure 40: U.S. Corporate Profits



Source: Bureau of Economic Analysis; OSPB September 2023 Forecast.
Note: Shaded area denotes recession.

When developing expectations on future corporate income revenue, an important explanatory variable is corporate profits before taxes, accounting for inventory and capital adjustments. In the second quarter of 2023, such profits nationwide remained at near-historic highs at $2.8 trillion but are on the decline from the $3.0 trillion reached in the second and third quarter of 2022. Prior to the pandemic, the record was $2.41 trillion, but that mark has been broken every quarter over the last three years. However, as the consumer demand slows from historically elevated levels, and the consumer basket shifts away from durable goods towards services, growth in profits from these historic highs are expected to fall over 2023 and 2024 before rebounding in 2025.

In addition to the above economic drivers, there are additional policy impacts, from the most recent legislative session, as well as prior impacts from the November 2022 election and increasing impacts from previous legislative sessions. In the most recent legislative session, a number of income tax credit bills were signed into law that are expected to have an aggregate impact of reducing corporate income revenue by $17.5 million and $27.4 million in FY 2023-24 and FY 2024-25, respectively. The largest impacts include corporate tax relief for clean energy in HB23-1272 and HB23-1281, as well as incentivizing semi-conductor production in HB23-1260. HB23-1272, Tax Policy That Advances Decarbonization, includes a range of energy tax credits that will reduce revenue by an expected $16.0 million and $23.2 million in FY 2023-24 and FY 2024-25, respectively, including a credit to incentivize owners of industrial facilities to implement greenhouse gas emissions improvements. HB23-1281, Advance the Use of Clean Hydrogen, creates a refundable income tax credit for using clean hydrogen that is expected to reduce corporate income revenue by $1.3 million and $2.5 million in FY 2023-24 and FY 2024-25, respectively. Finally, HB23-1260, Advances Industry and Semiconductor Manufacturing Incentives, allows local governments to designate new areas where manufacturers may be eligible for tax credits for semi-conductor production. It is expected to decrease corporate income tax revenue by $1.0 million in FY 2024-25.

Additionally, in the November 2022 election, Colorado voters approved Proposition 121 State Income Tax Rate Reduction, which reduces both the individual and corporate income tax rate from 4.55 percent to 4.4 percent. Finally, prior legislative sessions included bills with increasing corporate income revenue impacts over time. From the 2022 legislative session, HB22-1026, Alternative Transportation Options Tax Credit, has the largest effect. This bill replaces an existing income tax deduction for employers who provider 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. There are two federal bills also 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. These impacts have also been adjusted based on the recent debt ceiling deal, which reduced the increase in enforcement funding. Second, the Infrastructure Investment and Jobs Act also has a minimal impact through the forecast period. Finally, the sun setting of the federal Tax Cuts and Job Act, for which portions begin to sunset at the end of 2025, is not expected to have a material impact on the corporate income revenue forecast.

Sales and Use Taxes

Sales Tax

Based on preliminary actuals, sales tax revenue is projected to grow by 5.2 percent in FY 2022-23 to $4.30 billion following 19.6 percent growth and $4.09 billion in collections in FY 2021-22. For FY 2022-23, this is an $11.5 million, or 0.3 percent, downward revision from the June forecast. This revision was necessitated due to June and July collections, which fell short of expectations. Furthermore, the deceleration in retail trade observed in Colorado between May to June is another contributing factor to revised collections. As discussed in the prior forecast, tightening monetary policy, dwindling savings, and increased consumer debt were expected to pose downward pressure on spending. While consumer spending has largely surprised to the upside on a national scale, there are more pronounced signs of this slowdown at the state level. Examining the current disparity in retail deceleration between Colorado and the broader U.S., it becomes evident that the state's retail growth is unlikely to surpass national retail growth levels at the onset of FY 2023-24. This slowdown may also indicate that Colorado is a harbinger for the nation as the state retail figures slow and rebalance in the first half of FY 2023-24 before beginning to return to trend towards the second half of the fiscal year. The result of lower sales tax revenue in the first half of FY 2023-24, combined with an uptick in revenue towards the second half of the year, is forecast to result in 1.8 percent growth in sales tax revenue in FY 2023-24, which is a $13.1 million upward revision from June. Sales tax revenue in FY 2024-25 is revised up by $6.6 million to $4.63 billion, although growth is revised down due to base effects from the upward revision to FY 2023-24. Growth in FY 2025-26 is forecast at 4.7 percent, near the long-term average rate. Sales tax growth is largely predicated upon nominal state retail sales growth, which grew by 11.8 percent in calendar year 2022 and is forecast to grow by 2.3 percent in 2023, 3.2 percent in 2024, and 4.7 percent in 2025.

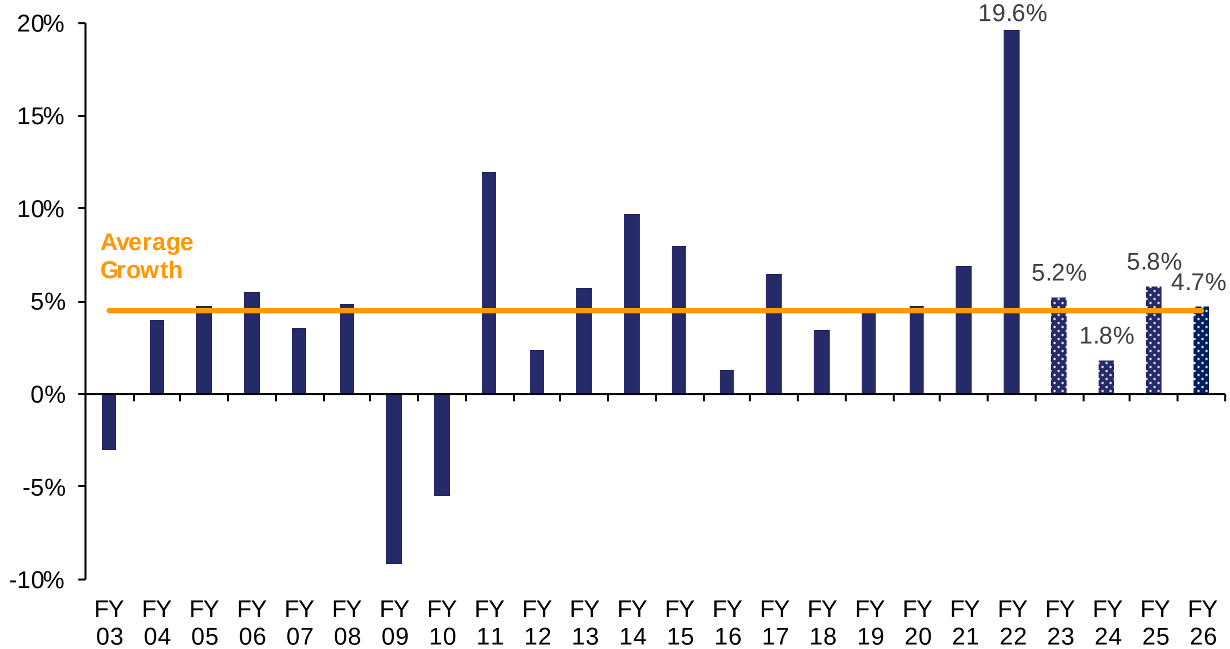
Figure 41. Sales and Use Tax Revenue Forecast

Fiscal Year	Sales Revenue (millions)	Growth	Use Revenue (millions)	Growth	Total Revenue (millions)	Growth
FY 2022-23 (Prelim)	$4,301.6	5.2%	$251.2	8.0%	$4,552.8	5.3%
FY 2023-24	$4,377.7	1.8%	$244.9	-2.5%	$4,622.6	1.5%
FY 2024-25	$4,632.1	5.8%	$266.9	8.9%	$4,899.0	6.0%
FY 2025-26	$4,848.9	4.7%	$273.2	2.4%	$5,122.1	4.6%

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 and use tax revenue decrease of $22.4 million in FY 2022-23, an increase of $15.0 million in FY 2023-24, and a decrease of $2.9 million in FY 2024-25. In the 2023 legislative session, two bills were passed and signed by the Governor that will have an impact on sales and use tax revenue. The most significant fiscal impact of the two bills comes from HB 23-140, Sales and Use Tax Exemption for Wildfire Disaster Construction, which provides for a sales and use tax exemption related to rebuilding or repairing a residential structure damaged or destroyed by a declared wildfire disaster from 2020 to 2022. This exemption will result in projected unrealized sales and use tax revenue of $6.3 million in FY 2023-24 and $4.4 million in FY 2024-25. The other bill passed during the 2023 legislative session with a sales and use revenue impact is HB 23-1272, Tax Policy that Advances Decarbonization, though its fiscal impact on sales and use revenue is relatively minor.

After historic sales tax strength in FY 2021-22, revenue growth recorded a slowdown in FY 2022-23. This weakening growth is forecast to continue into the first half of FY 2023-24 with a slight uptick towards the second half of the year. By FY 2024-25, revenue growth is expected to rebound and normalize. In contrast to the 20-year average sales growth rate of 4.5 percent, the growth rate in FY 2021-22 soared to an unprecedented high of 19.6 percent. As indicated in the June forecast, an anticipated return to historical average levels was expected. This projection has indeed materialized, as the preliminary estimate for sales revenue in FY 2022-23 indicates a growth rate of 5.2 percent. Following the drop in growth in FY 2023-24, growth is expected to accelerate in FY 2024-25 above the long-term average levels. Figure 42 illustrates historic sales tax growth by fiscal year and forecast growth rates.

Figure 42. Sales Tax Growth History and Forecast



Source: Colorado Department of Revenue, OSPB September 2023 Forecast.
Note: Dotted bars indicate forecast. Orange line indicates the 20-year average state sales tax growth rate.

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 that fiscal year. Preliminary actuals for vendor fee revenue dedicated to affordable housing was $71.0 million in FY 2022-23 ($1.0 million downward revision from June). OSPB projects vendor fee revenue of $72.4 million in FY 2023-24 (no revision), $76.3 million in FY 2024-25 ($0.5 million downward revision), and $80.2 million in FY 2025-26.

Figure 43. Vendor Fee Revenue Forecast

	FY 2022-23 Preliminary	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast
Vendor Fee Revenue (millions)	**$71.0**	**$72.4**	**$76.3**	**$80.2**
Change	***7.4%***	***1.9%***	***5.3%***	***5.2%***

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

Based on preliminary actuals, use tax revenue is projected to grow by 8.0 percent in FY 2022-23 to $251.2 million following 8.6 percent growth and $232.6 million in collections in FY 2021-22. This reflects a $3.3 million downward revision from June with collections coming in below expectations. In FY 2023-24, revenue is expected to fall by 2.5 percent to $244.9 million, although revenue is revised up by $1.0 million from the June forecast. This upward revision is mostly aligned with the upward sales tax revision, however, use tax revenue is projected to record negative year-over-year growth in FY 2023-24 in some part due to the slowdown in residential construction activity, which makes up a larger portion of the use tax base relative to the sales tax base. Year-over-year growth for use tax revenue has been negative for four consecutive months, and that is expected to continue for the first half of FY 2023-24 before positive growth reemerges in the latter half of the fiscal year. Use tax growth is expected to rebound in FY 2024-25 with collections forecast to grow 8.9 percent to $266.9 million before growing an additional 2.4 percent to $273.2 million in FY 2025-26. 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 declined by 15.0 percent to $219.9 million in FY 2022-23 before it is expected to rebound in FY 2023-24 to $242.6 million and resume slower growth to $264.8 million and $270.1 million in FY 2024-25 and FY 2025-26, respectively. 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 was largely transferred to the State Education Fund. In FY 2023-24, revenue will be transferred almost entirely into the Preschool Programs Cash Fund, aside from relatively small transfers of $10.95 million and $4.1 million to the Tobacco Tax Cash Fund and General Fund, respectively. In total, these taxes brought in $49.0 million in FY 2020-21 and $208.0 million in FY 2021-22 – the first full year of implementation. The 2020 Blue Book estimate for total Proposition EE revenue in FY 2021-22 was $186.5 million, or $21.5 million under actual revenue. Because actual revenue in FY 2021-22 came in higher than the 2020 Blue Book estimate, TABOR requires that the General Assembly refer a ballot measure to retain the excess revenue. In the 2023 legislative session, the General Assembly passed HB23-1290[5] to refer Proposition II[6] to the November 2023 ballot to retain the revenue collected from Proposition EE in FY 2021-22 in excess of the 2020 Blue Book estimate.

- *If the voters approve Proposition II*, then Proposition EE Taxes will remain at the same rate (listed in Figure 44 as original) and the State will be able to retain the revenue collected in FY 2021-22 in excess of the 2020 Blue Book estimate.
- *If the voters reject Proposition II*, then Proposition EE Taxes will be reduced by 11.53 percent (listed in Figure 44 as reduced) and the State will have to refund the revenue collected in FY 2021-22 in excess of the 2020 Blue Book estimate to taxpayers who paid the Proposition EE taxes.

An additional change that began in the June 2023 Forecast for both LCS and OPSB is the shift from cash basis to accrual basis forecasting for Proposition EE revenue. To comply with Generally Accepted Accounting Principles (GAAP), OSPB and LCS have come to a solution to begin

[5] More information about *HB23-1290, Proposition EE Funding Retention Rate Reduction* can be found at: https://leg.colorado.gov/bills/HB23-1290

[6] More information about the Blue Book Final Draft Packet for *Proposition II* can be found at: https://leg.colorado.gov/ballots/retain-nicotine-tax-revenue-excess-blue-book-estimate

forecasting Prop EE revenue and transfers beginning with FY 2022-23 on an accrual basis. By changing from cash basis to accrual basis for FY 2022-23, the amount of revenue and subsequent transfers for Prop EE for FY 2021-22 will be understated and FY 2022-23 will be overstated because no revenue from FY 2022-23 Cash Flow would be accrued back to FY 2021-22 on accrual basis[7].

Figure 44: Assumed Proposition EE Tax Rates Based on Proposition II Outcome

Cigarettes (Per Pack)	2021	2022	2023	2024 (Jan-Jun)	July 2024 - June 2027	July 2027 Onward
Original (Passes)	1.94	1.94	1.94	1.94	2.24	2.64
Reduced (Fails)	1.94	1.94	1.94	1.81	2.08	2.43
Tobacco	**2021**	**2022**	**2023**	**2024 (Jan-Jun)**	**July 2024 - June 2027**	**July 2027 Onward**
Original (Passes)	50%	50%	50%	50%	56%	62%
Reduced (Fails)	50%	50%	50%	49%	54%	59%
Nicotine	**2021**	**2022**	**2023**	**2024 (Jan-Jun)**	**July 2024 - June 2027**	**July 2027 Onward**
Original (Passes)	30%	35%	50%	50%	56%	62%
Reduced (Fails)	30%	35%	50%	44%	50%	55%

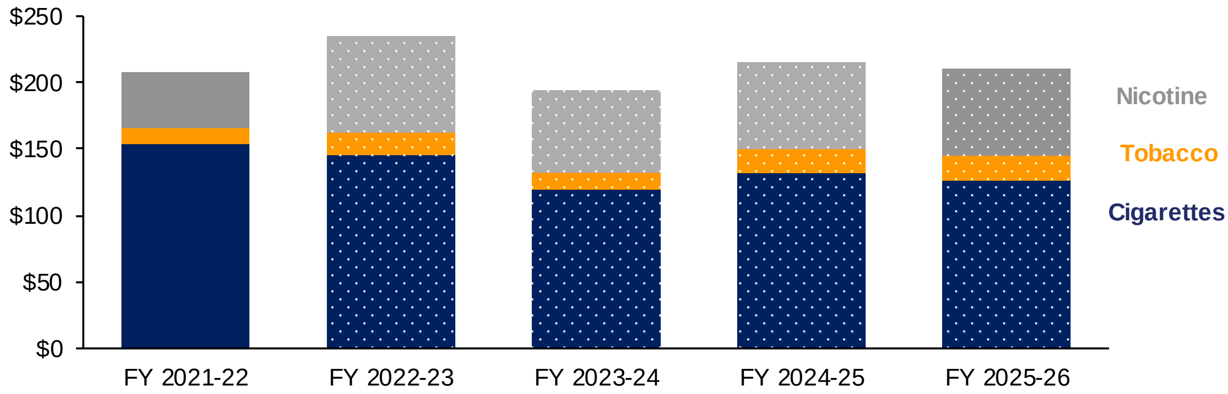
The OSPB forecast for Proposition EE revenue assumes the lesser of the two proposed tax rates, since Proposition II has not yet been voted on, and the adjustment to an accrual accounting basis beginning in FY 2022-23. Revenue for FY 2022-23 came within one percent of expectation of the June forecast at $235.0 million. The September forecast has been revised down by $6.0 million to $194.2 million in FY 2023-24 and by $3.1 million to $215.2 million in FY 2024-25. Then, in FY 2025-26, revenue is expected to decline 2.2 percent to $210.5 million on declining cigarette demand. As shown in Figure 44, taxes on all three types of products will increase on July 1, 2024 and again to its maximum rate on July 1, 2027. In the current forecast, the cumulative increase of those tax rates is assumed to be 11.53 percent lower than the original rates, and will be adjusted in the December forecast if Proposition II passes in November. 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 in Figure 45.

Figure 45. Proposition EE Revenue with Reduced Rates

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Total	**$208.0**	**$235.0**	**$194.2**	**$215.2**	**$210.5**
Other Transfers	$206.6	$233.6	$15.0	$35.0	$35.0
Preschool Programs Cash Fund	$1.4	$1.4	$179.2	$180.2	$175.5

[7] More information about GAAP standards can be found at the Governmental Accounting Standards Board (GASB) Governmental Accounting Research System (GARS). https://gars.gasb.org/Home

Figure 46. Fiscal Year Proposition EE Revenue



Source: Colorado Department of Revenue; OSPB September 2023 Forecast.
Note: Dotted region indicates forecast period. Accruals begin FY22-23.

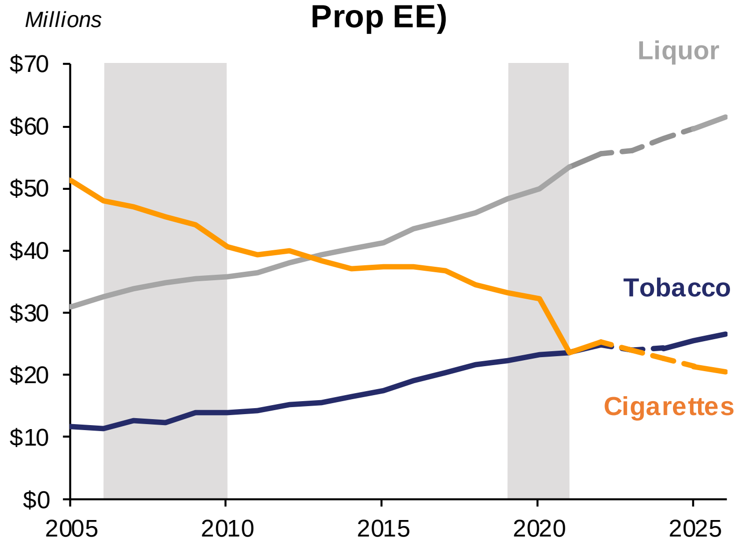
The bulk of Proposition EE revenue (65.0 percent in FY 2022-23) currently comes from taxes on cigarettes, for which the long-term consumption trends are negative. Cigarette sales dropped from FY 2021-22 to FY 2022-23 and are expected to decline in FY 2023-24. The percentage of revenue coming from cigarette taxes will average 62.2 percent during the forecast period and the percentage stemming from nicotine will increase considerably over the forecast period to match the drop from cigarettes. Nicotine consumption is estimated to increase over time, but OSPB estimates a drop in revenue in FY 2023-24, an increase in FY 2024-25, and a slight decline in FY 2025-26 for three reasons:

- The reduced assumed tax rate structure in this forecast that will be decided by voters through Proposition II.
- The timing of the tax rate increase in calendar year 2024 being on July 1, rather than January 1 like other years means that FY 2023-24 will be the first fiscal year of Proposition EE revenue without an increase during the fiscal year. This means year-over-year growth from FY 2023-2024 to FY 2024-25 is very pronounced compared to other fiscal years and is primarily driven by the increased tax rates.
- Cigarette consumption continues to fall and electronic cigarette (nicotine) consumption continues to climb amongst all age groups[8]. This trend is particularly strong amongst the 18-34 demographic, which from 2019 to 2022 saw cigarette consumption drop from 13.8 percent to 8.1 percent and electronic cigarette (nicotine) consumption increase from 8.1 percent to 12.1 percent.

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

[8] National Center for Health Statistics, National Health Interview Survey. *wwwn.cdc.gov/NHISDataQueryTool/ER_Biannual/index_biannual.html*

Figure 47. Other Excise Taxes (Non Prop EE)



Source: Department of Revenue; OSPB September 2023 Forecast.

consistently. Revenue for liquor is forecast to grow by 3.4 percent in FY 2023-24 to $58.0 million and by 2.8 percent to $59.8 million in FY 2024-25. Similarly, tobacco revenue is forecast to grow by 1.5 percent to $24.3 million in FY 2023-24 and by 4.2 percent to $25.4 million in FY 2024-25. However, cigarette revenue is forecast to decline 5.4 percent to $22.7 million in FY 2023-24 and by 5.6 percent to $21.4 million in FY 2024-25. Compared to the June forecast, there have only been marginal revisions to liquor and tobacco excise taxes and no revision for cigarette excise taxes for FY 2023-24.

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 a substantial 57.0 percent in FY 2022-23 to $797.4 million, as insurance premium tax revenue and interest income grew by 32.4 percent and 178.5 percent, respectively. Interest earnings in FY 2022-23 were higher than all the interest revenue collected from FY 2008-09 to FY 2019-20 combined, driving the significant overall other General Fund revenue increase. However, in FY 2023-24, revenue is expected to decrease by 6.3 percent to $747.5 million as changes to insurance tax policy are fully integrated and fund balance available to accrue interest falls slightly. For the current and following fiscal year, projections are revised up by $60.1 million and $55.3 million respectively, driven both by interest income due to elevated interest rates, and insurance premiums due to larger than previously expected fiscal impacts of HB21-1312, Insurance Premium Property Sales Severance Tax.

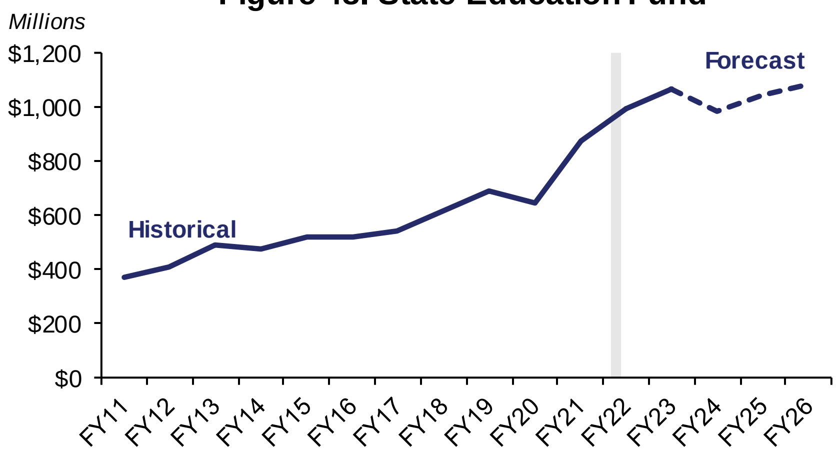
Interest income is forecast to decline by 9.6 percent to $174.3 million in FY 2023-24. On average, General Fund investment income earned interest at 1.13 percent in FY 2021-22. Comparatively, General Fund investment income earned an average interest rate of 2.79 percent in FY 2022-23 and in June of this year surpassed 3.5 percent. With interest rates likely remaining elevated well into FY 2023-24 and significant amounts of TABOR refunds accruing interest income, there is potential upward pressure on Other General Fund revenue in FY 2023-24. In FY 2024-25, OSPB has revised up expectations for available TABOR refunds in FY 2023-24 that would accrue interest. Pairing higher TABOR refunds with expected Federal Funds rate cuts during FY 2024-25, interest income is revised up by $39.4 million, though it is expected to decrease 34.0 percent due to the lower level of TABOR refunds relative to FY 2022-23. OSPB expects this downward trend to continue into FY 2025-26 with a 13.1 percent decrease in interest income due to falling interest rates as monetary policy is expected to ease.

During FY 2022-23, insurance revenue grew by 32.4 percent from the prior year, strengthening its pace during the second half of the fiscal year and coming in $26.1 million above the June forecast. This revenue growth is largely due to HB21-1312, which reduced the size of the annuities exemption and the regional home office rate reduction. In FY 2023-24 and FY 2024-25, insurance revenue growth is expected to normalize to 2.2 percent and 3.8 percent respectively, as the legislative effects on revenue are not expected to grow in the out-years.

State Education Fund

Revenue to the State Education Fund (SEF) from income taxes reached $1.07 billion in FY 2022-23, reflecting 7.3 percent growth and an additional $72.9 million from the $993.5 million in revenue collected in FY 2021-22. Continued revenue growth to the SEF in FY 2022-23 can largely be attributed to corporate income tax revenue growing by 50.9 percent, as individual income tax revenue dropped year-over-year. This is an upward revision in FY 2022-23 of $49.1 million from the June forecast. In FY 2023-24, revenue to the SEF is expected to fall by $82.4 million, or 7.7 percent, as corporate income tax revenue is forecast to retreat. Despite falling year-over-year revenue, this is an upward revision from the June forecast of $63.8 million. In FY 2024-25, revenue is forecast to increase again by 6.3 percent to $1.05 billion as individual income is expected to accelerate. In FY 2025-26, growth is forecast at 3.6 percent, leading to SEF revenue of $1.08 billion.

Figure 48. State Education Fund



Source: Colorado Department of Revenue, OSPB September 2023 Forecast.
Note: Shaded area denotes recession.

The Colorado Constitution requires that one-third of one percent of Colorado taxable income is 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.

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.

As compared to the June forecast, revenue came in $11.0 million lower than estimated for FY 2022-23, largely the result of other miscellaneous cash funds and transportation tax revenue coming in below expectations while severance continued to come in above expectations. Therefore, total cash fund revenue in the recently completed fiscal year totaled $2,758.0 million, a 3.5 percent increase from the prior year. Forecast revenue for FY 2023-24 is revised up by $56.0 million, largely due to the expectation of stronger severance and transportation revenue, but the end result is still a 1.6 percent year-over-year decline in cash funds subject to TABOR. Expectations were also revised up for FY 2024-25 by $18.6 million from the prior forecast largely due to a higher oil price forecast lifting severance tax revenue. After an expected 5.3 percent growth of revenue in FY 2024-25, revenue is projected to stabilize and grow 1.5 percent in FY 2025-26.

Overview of Cash Funds

Transportation: Transportation revenue is expected to see an upcoming year of strong growth, as OSPB forecasts a 9.9 percent increase from the previous year, driven by motor and special fuel taxes and continued elevated registration revenue. In FY 2024-25, revenue is expected to grow 5.2 percent, buoyed by aviation funds and DRIVES revenue.

Limited Gaming: Limited gaming had a strong year in FY 2022-23 with 5.2 percent growth from the previous fiscal year, due to record numbers of adjusted gross proceeds. With a newly implemented gaming rule capping total gaming revenues at 3.5 percent growth and refunding any amount of growth above the cap to the operators, operators are incentivized to make the pilot program of this rule permanent by hitting the necessary revenues threshold.

Severance: Revenue collections set a record in FY 2022-23 at $374.6 million. Although oil prices are projected to remain relatively flat on average in FY 2023-24 compared to FY 2022-23, ad valorem credit claims are expected to cause a significant drag on revenue, and collections are forecast to fall by 45.3 percent to $204.8 million. This is a $21.2 million upward revision, though, as oil prices are expected to rise above expectations from June. In FY 2024-25 and FY 2025-26, revenue is projected to stabilize at $242.2 million and $238.0 million, as falling prices are more than offset by decreasing ad valorem credit claims and tax policy changes to ad valorem credit claims in HB23-1272.

Regulatory Agencies Revenue: DORA's revenue in FY 2022-23 came in at $89.4 million, but OSPB expects a decline in revenue of 5.9 percent for FY 2023-24 as a result of increased revenue impacts for nurses and mental health professionals passed in HB22-1298 and HB22-1299. As this legislative impact rolls off and fee collections revert to trend, FY 2024-25 revenue is expected to increase by 13.7 percent to $95.7 million.

Other Cash Funds Subject to TABOR: Revenue for FY 2022-23 came in at $879.3 million, which was 1.7 percent below the June forecast. Looking forward into the current fiscal year of FY 2023-24, forecast revenue is at $886.4 million, a 0.8 percent increase. The Oil and Gas Conservation Fund (OGCC) and Employment Support Fund (ESF) are pulling that forecast in opposite directions as the OGCC Fund is revised up due to higher expected oil prices while the ESF drives revenue down.

Notable Cash Funds Not Subject to TABOR: OSPB continues to revise marijuana revenue forecasts down, but current record-low prices are showing signs of a rebound. Federal Mineral Lease (FML) revenue increased by 38.8 percent in FY 2022-23 to $173.6 million, primarily due to elevated natural gas prices throughout the first half of the fiscal year driving higher revenue collections. Sports betting tax revenue in the coming fiscal years will be driven by rising hold percentage and effective tax rate, both of which OSPB expects to climb slowly over the coming years, largely stabilizing sports betting revenue.

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 experienced some turbulence in the past few years, with many competing factors applying pressure to the revenue stream. Transportation revenue grew a total of 2.2 percent in FY 2022-23 and is expected to a grow a total of 9.9 percent in FY 2023-24. This is an upward revision from the June forecast, due to upward revisions to spending and travel supporting higher fuel taxes and other related fees. The larger than normal growth in revenue is also due to the rolling off of recent legislative limits, as well as full implementation of new fees. Legislation includes the delay of Road Usage Fees and limits on revenue for motor fuel taxes and the Road Safety Surcharge. Going forward, OSPB expects upward pressure in FY 2023-24 as this legislation rolls off in the coming years, even as economic conditions are projected to weaken in FY 2023-24. Overall, the expectation for transportation revenue is steady growth in the out-years with 5.2 percent growth in FY 2024-25 and 2.0 percent growth in FY 2025-26.

Figure 49. Detailed Transportation Cash Fund Forecast

	Preliminary FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
Highway Users Tax Fund (HUTF)				
Motor and Special Fuel Taxes	$634.1	$651.4	$664.4	$673.5
Percent Change	*1.5%*	*2.7%*	*2.0%*	*1.4%*
Road Usage Fees	$16.0	$89.0	$122.7	$127.5
Percent Change	*N/A*	*454.4%*	*38.0%*	*3.8%*
Total Registrations	**$350.6**	**$378.0**	**$406.4**	**$420.5**
Percent Change	***-8.2%***	***7.8%***	***7.5%***	***3.5%***
Registrations	$237.3	$238.8	$242.3	$253.1
Road Safety Surcharge	$79.2	$108.0	$130.9	$132.5
Late Registration Fees	$34.1	$31.2	$33.1	$34.9
Other HUTF	$60.8	$61.5	$62.8	$63.1
Percent Change	*-3.2%*	*1.0%*	*2.2%*	*0.5%*
Total HUTF	**$1,061.6**	**$1,179.9**	**$1,256.4**	**$1,284.5**
Percent Change	***-0.7%***	***11.1%***	***6.5%***	***2.2%***
Non-HUTF				
State Highway Fund	$29.2	$27.1	$24.2	$23.4
Percent Change	*-2.6%*	*-7.1%*	*-10.7%*	*-3.4%*
Other Transportation Funds	$176.0	$185.9	$184.7	$186.2
Percent Change	*73.7%*	*5.6%*	*-0.6%*	*0.8%*
Total Transportation Revenue				
Total Transportation	**$1,266.8**	**$1,392.9**	**$1,465.2**	**$1,494.1**
Percent Change	***2.2%***	***9.9%***	***5.2%***	***2.0%***

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 comprise both gas and diesel tax revenue. OSPB has made a revision upward from June for the HUTF for FY 2023-34 by $11.0 million and $7.5 million in FY 2024-25.

In both FY 2021-22 and FY 2022-23, revenue for gasoline taxes performed strongly and surpassed the amount collected in FY 2020-2021. Despite the elevated prices as discussed in the energy section of the economic outlook, consistent revenues further reinforced gasoline's relatively inelastic demand. Gasoline tax revenue was also supported by a continuing return to work as well as strength in leisure travel by car throughout Colorado. While there was a slight drop off in gasoline tax revenue in FY 2022-23 from the previous year, this drop can be attributed to the effects of SB21-260 and HB22-1351 limiting the revenue for fuel taxes. As these impacts begin to roll off, OSPB expects continued strength to levels previously seen in 2016 and 2017 and steady growth through the end of the forecast horizon. Additionally, there will be downward pressure on gasoline tax pressure beyond this three year forecast horizon as Electric Vehicles become more widely adopted. According to the Colorado Automobile Dealers Association, there was a 10.2 percent increase in more battery electric vehicle (BEV) registrations in Q1 of 2023 compared to Q1 of 2022, as electric cars continue to gain more popularity in Colorado.

Diesel tax revenue continued its strong trend of growth into FY 2022-23, with a record year of $142.7 million in revenue. Elevated consumer spending has increased business operations and shipping and placed significant upward pressure on diesel tax revenue and will continue to do so for the near future. After a record year, OSPB expects a return to the previous trend of slower growth, based on strong performance for the previous fiscal year and the anticipation that diesel

Figure 50.Gasoline Tax Revenue

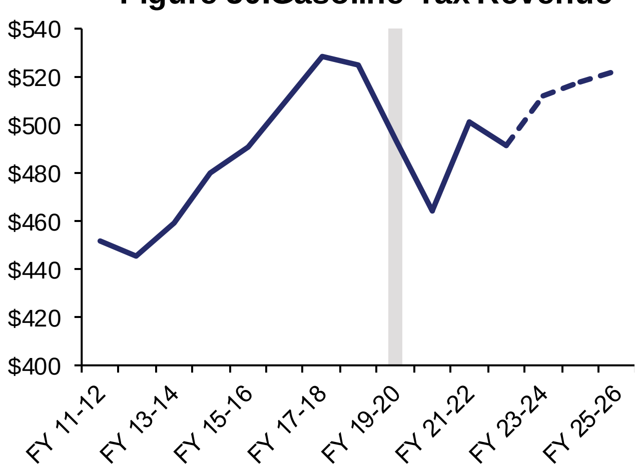
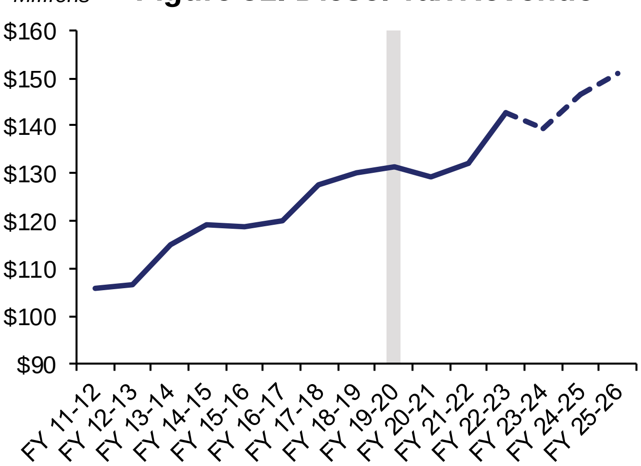


Figure 51. Diesel Tax Revenue



Source: Colorado Department of Revenue. OSPB September 2023 Forecast.
Note: Dotted line indicates forecast; shading denotes recession.

demand will not continue at this aggressive rate. Based on a soft economic landing with slowing growth in personal consumption, there is an expectation for a drop-off in diesel tax revenue in FY 2023-24 to $139.4 million. By historical standards, though, it will still be a strong year for diesel revenue, before ticking back up in FY 2024-25 to $146.6 million and continuing growth in FY 2025-26 with $151.0 million.

OSPB also forecasts a notable rebound of 7.8 percent from the previous year's revenue in the Total Registrations account within the HUTF. This small revision upward from the June forecast is largely driven by revenue received in recent months, as well as unexpected, continued strength in car sales. Consumers have been purchasing cars at a higher pace than previously expected despite high interest rates, which will apply slight upward pressure to Registration revenue. Another substantial portion of Total Registrations is the Road Safety Surcharge. The Road Safety Surcharge has been limited by reductions laid out in SB21-260 and HB22-1351. HB22-1351 is set to expire halfway through FY 2023-24, which will apply upward pressure on the Road Safety Surcharge revenue that fiscal year.

Figure 52. HUTF Distributions, Annual Forecast

	Preliminary FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
First Stream				
Off-the-Top Deductions	$165.8	$181.2	$191.3	$191.3
CDOT - State Highway Fund (65%)	$185.6	$193.5	$183.2	$185.9
Counties (26%)	$74.2	$77.4	$73.3	$74.4
Cities (9%)	$25.7	$26.8	$25.4	$25.7
Total First Stream	**$451.3**	**$478.9**	**$473.2**	**$477.3**
Second Stream				
CDOT - State Highway Fund (60%)	$366.2	$420.6	$469.9	$484.3
Counties (22%)	$134.3	$154.2	$172.3	$177.6
Cities (18%)	$109.9	$126.2	$141.0	$145.3
Total Second Stream	**$610.3**	**$701.0**	**$783.1**	**$807.2**
Total HUTF Distributions				
Total HUTF	**$1,061.6**	**$1,179.9**	**$1,256.4**	**$1,284.5**

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. OSPB forecasts the stabilization of the SHF, followed by a slight decline for the out-years driven by special transport permits and other services returning to historical norms.

The category of "other transportation funds" forecast has been realigned to include the entire DRIVES account, as HB22-1339 wraps the revenue from the Licensing Services Cash Fund into the DRIVES account. Thus, DRIVES will now be counted within the transportation forecast, rather than within the "other miscellaneous cash fund" revenue stream. Additionally, this category now includes Multimodal Transportation Options Fund which was realigned from the Miscellaneous Cash Funds forecast.

Continued strength in aviation revenue resulted in a very strong year for other transportation revenue in FY 2022-23, however aviation revenue is expected to slow in the coming fiscal year alongside slower growth in consumption. The number of total air travel passengers[9] through Denver International Airport increased 8.2 percent from January to June this year compared to the first six months of 2022. While OSPB expects this some of this elevated travel to continue through the end of the calendar year, the growth is expected to decline beginning in 2024. Between the addition of DRIVES, Multimodal Transportation Options Fund, and aviation revenue, OSPB estimates strong other transportation funds revenue in FY 2023-24 with a 5.6 percent increase year over year, with a slight decrease 0.6 percent decline in FY 2024-25 before a minimal 0.8 percent expected increase in FY 2025-26.

Limited Gaming

Sustained strength in demand and the continued impacts of Amendment 77 on gaming revenue drove total gaming revenue up by 7.5 percent to $176.0 million in FY 2022-23. Going forward, it is expected that out-year gaming revenue will slow slightly after a period of strong demand and grow at or around pre-Amendment 77 trend levels in FY 2023-24, FY 2024-25, and FY 2025-26. These numbers and the corresponding distributions are shown in Figure 53 below.

Figure 53. Limited Gaming Distributions, Annual Forecast

Distribution of Limited Gaming Revenues	Preliminary FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
A. Total Limited Gaming Revenues (Includes Fees and Interest)	**$176.0**	**$179.4**	**$185.2**	**$190.8**
Annual Percent Change	7.5%	2.0%	3.2%	3.0%
3.5% Cap	$169.38	N/A	N/A	N/A
B. Gaming Revenue Exempt from TABOR (Extended Limited)	**$54.7**	**$55.7**	**$57.8**	**$59.6**
Annual Percent Change	13.2%	2.0%	3.7%	3.1%
C. Gaming Revenue Subject to TABOR (Limited)	**$121.3**	**$123.7**	**$127.4**	**$131.2**
Annual Percent Change	5.2%	2.0%	3.0%	3.0%
D. Total Amount to Base Revenue Recipients	**$111.3**	**$113.4**	**$117.1**	**$120.9**
Amount to State Historical Society (28%)	$31.2	$31.8	$32.8	$33.9
History Colorado (80% of 28%)	$24.9	$25.4	$26.2	$27.1
Grants to Cities for Historical Preservation (20% of 28%)	$6.2	$6.4	$6.6	$6.8
Amount to Counties (12%)	$13.4	$13.6	$14.1	$14.5
Amount to Cities (10%)	$11.1	$11.3	$11.7	$12.1

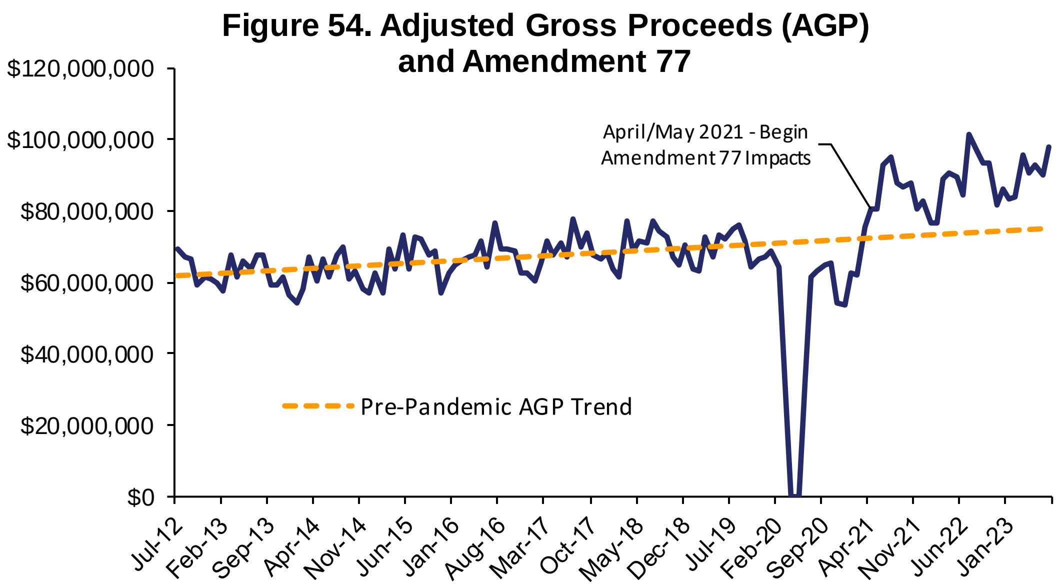
[9] https://www.flydenver.com/about/financials/passenger_traffic?date_filter%5Bvalue%5D%5Byear%5D=2022

Amount to Distribute to Remaining Programs (State Share) (50%)	$55.6	$56.7	$58.6	$60.5
Local Government Impact Fund	$6.4	$6.5	$6.7	$6.9
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	$0.0	$0.0	$0.0	$0.0
Transfer to the General Fund	$21.65	$22.6	$24.2	$25.9
E. Total Amount to Amendment 50 Revenue Recipients	**$44.1**	**$51.1**	**$53.2**	**$54.9**
Community Colleges, Mesa and Adams State (78%)	$34.4	$39.9	$41.5	$42.8
Counties (12%)	$5.3	$6.1	$6.4	$6.6
Cities (10%)	$4.4	$5.1	$5.3	$5.5

As shown in Figure 53, OSPB forecasts total gaming revenue to grow 2.0 percent in fiscal year 2023-24, and 3.2 percent and 3.0 percent in FY 2024-25 and FY 2025-26. As result of a taxation of free play rule that was delayed due to the pandemic, growth in total gaming revenue is capped at 3.5 percent starting with a base year of FY 2021-22. If gaming revenues exceed this threshold, casinos get a share of the amount, which exceeded this threshold in the form of a tax rate adjustment. If the FY 2024-25 total amount of gaming revenues exceeds 10.87 percent of growth compared to the base year (FY 2021-22) total gaming revenues, this pilot program will become permanent.

Currently, OSPB expects FY 2022-23 to be the only year in the forecasted years to exceed this 3.5 percent cap, as OSPB forecasts slower growth in the out-years as adjusted gross proceeds (AGP) and revenue return to slower pre pandemic growth trends. However, OSPB expects this rule to become permanent and for total gaming revenues to grow by more than the 10.87 threshold by the end of FY25. Participating casinos and gaming operators are incentivized to have this rule become permanent, and therefore may push marketing to hit the necessary threshold in revenue growth, therefore boosting taxation revenue in the coming years.

Strength in gaming revenue in FY 2022-23 and the out-years is a result of a continuation in elevated tax collections and AGP after the passage and implementation of Amendment 77. Specifically, AGP in FY 2022-23 was up 29.7 percent over FY 2018-19. However, received AGP for July 2023 has shown a 3.3 percent decrease from AGP in July of 2022, but this number is still 30.7 percent greater than AGP collected in July of 2019. These trends in AGP pre- and post-Amendment 77 are shown in Figure 54. Going forward, it is expected that AGP, and thus revenue, will continue to come in at a relatively consistent but elevated trend now that the revenue impacts of Amendment 77 expanding gaming revenue have been fully incorporated.



Source: Colorado Department of Revenue; Division of Gaming.

Severance

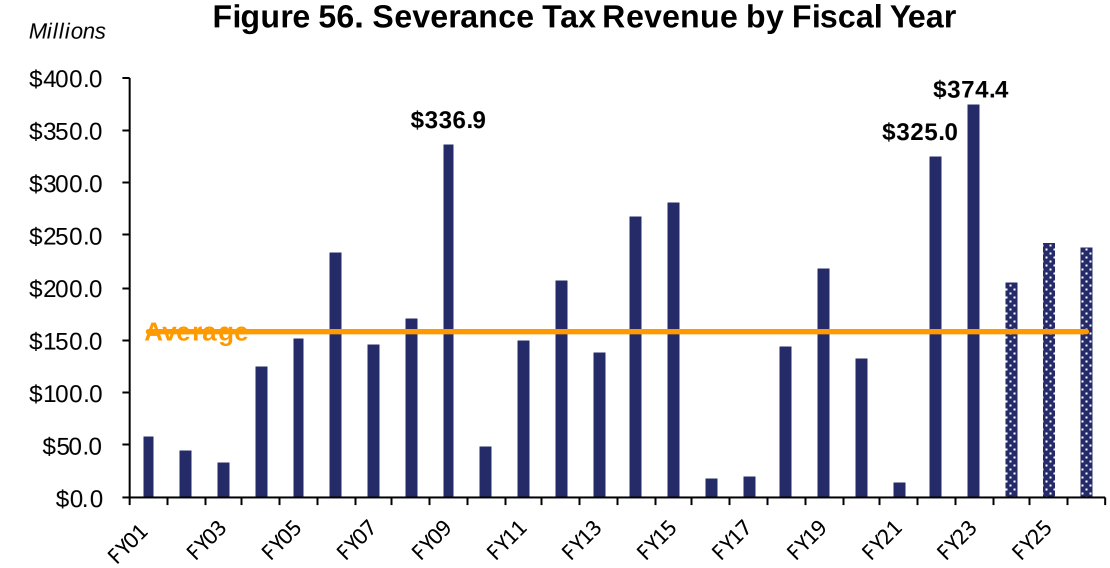
Severance tax revenue collections broke the all-time record in FY 2022-23 at $374.6 million as oil and gas prices maintained above-average levels over the first half of the fiscal year, though they retreated over the second half of the fiscal year. This represents an upward revenue revision from the June forecast of $18.6 million following an above-expectation June collection, interest earnings beating expectations, and end-of-year accounting adjustments. Although oil prices are projected to remain relatively flat on average in FY 2023-24 compared to FY 2022-23, ad valorem credit claims are expected to cause a significant drag on revenue, and collections are forecast to fall by 45.3 percent to $204.8 million, however, this is a $21.2 million upward revision from June due to higher oil price expectations. Revenue in FY 2024-25 is forecast to increase by 18.3 percent to $242.2 million, reflecting an upward revision of $19.0 million from June also due to an increased oil price forecast. In FY 2025-26, revenue is forecast to tick down by 1.7 percent to $238.0 million.

Figure 55. Severance Tax Revenue Forecast

	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Oil & Gas	$347.1	$178.4	$219.9	$218.9
Coal	$4.4	$4.2	$4.0	$4.0
Moly & Metals	$0.6	$2.0	$2.2	$2.2
Interest	$22.4	$20.2	$16.2	$12.9
Total	**$374.6**	**$204.8**	**$242.2**	**$238.0**
Change	***15.3%***	***-45.3%***	***18.3%***	***-1.7%***

The previous annual record for severance tax revenue was $336.9 million in FY 2008-09, and FY 2022-23 outpaced the previous record year by nearly $40 million. In prior forecasts before June's, OSPB projected FY 2022-23 severance tax revenue to retreat from FY 2021-22 levels due to lower oil and gas prices on average compared to the prior fiscal year along with projected ad valorem credit claims creating a more significant revenue drag over the final quarter of the fiscal year. Ad valorem credit claims, which are based on local property tax assessments of the value of oil and gas production, allow oil and gas taxpayers 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 related to Tax Year 2022 were forecast to drag on revenue in FY 2022-23 and FY 2023-24. At this time, it is now expected that most of the revenue drag from ad valorem credit claims will take place in FY 2023-24 as well above average oil and gas prices in the first half of FY 2022-23 muted the effects in that fiscal year. With oil prices in FY 2023-24 projected to remain around the same average price as FY 2022-23 and natural gas prices anticipated to remain well below average, ad valorem credit claims are forecast to have a more pronounced effect and reduce severance tax revenue collections closer to their long-term average in FY 2023-24. Despite the projected revenue drag from ad valorem credit claims, revenue is still expected to remain above the long-term average of $158.1 million in FY 2023-24 and throughout the forecast period with production levels remaining relatively strong and oil prices remaining above the long-term average.

Figure 56. Severance Tax Revenue by Fiscal Year



Note: Dotted bars indicate forecast.
Source: Department of Revenue; OSPB September 2023 Forecast.

Beginning in FY 2023-24, the distribution for severance tax revenue changes due to provisions within HB23-1272, Tax Policy that Advances Decarbonization. This bill reduces the ad valorem credit for oil and gas taxpayers from 87.5 percent to 75 percent in Tax Years 2024 and 2025 and allocates the additional revenue from this tax change to the Decarbonization Tax Credits Administration Cash Fund for costs associated with the administration of decarbonization tax credits provided for within the bill. Tax Year 2026 includes additional changes to the ad valorem credit, which are accounted for in this forecast. Any funds above $100,000 remaining in the Decarbonization Tax Credits Administration Cash Fund at the end of a fiscal year are transferred to the General Fund.

After first taking into account the additional revenue driven by the reduction of the ad valorem credit in HB23-1272, by statute, 50 percent of the remaining severance tax revenue is distributed to the Department of Natural Resources and the other 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. That distribution is reflected in Figure 57.

Figure 57. Severance Tax Distributions Forecast

Severance Tax Distribution Table	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total Severance Tax Revenue in millions (excluding interest)	**$352.2**	**$184.6**	**$226.1**	**$225.1**
Distribution				
Decarbonization Tax Credits Administration	$0.0	$15.4	$32.9	$35.0
Department of Natural Resources	$176.1	$84.6	$96.6	$95.0
Department of Local Affairs	$176.1	$84.6	$96.6	$95.0

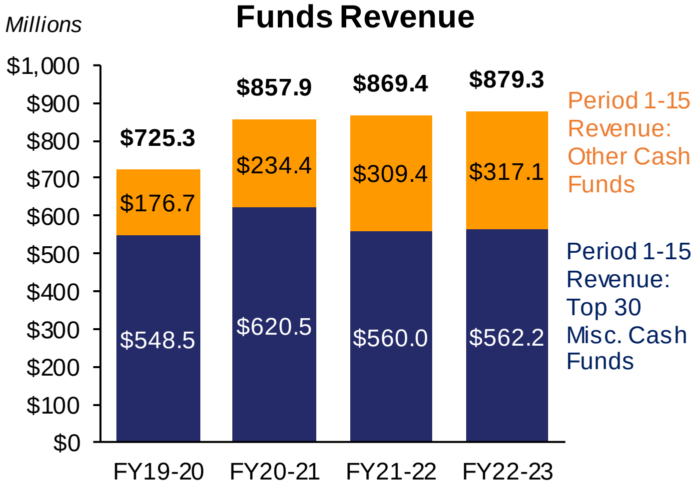
Other Cash Funds Subject to TABOR

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 2022-23 came in at $89.4 million, but OSPB expects a decline in revenue for FY 2023-24 as a result of increased revenue impacts for nurses and mental health professionals 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 $8.6 million in the current fiscal year, compared with a $6.8 million reduction in the recently completed FY 2022-23. As a result of this legislative impact and a reversion to trend fee collections, FY 2023-24 revenue is expected to drop 5.9 percent to $84.1 million. In FY 2024-25, revenue is expected to bounce back by 13.7 percent to $95.7 million, largely a result of these fee reductions rolling off, followed by a more moderate 3.1 percent increase in revenue in FY 2025-26.

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. Revenue for FY 2022-23 through Period 15 came in at $879.3M, which was 1.7 percent below the June forecast. This is being driven by accounting revisions in Periods 13, 14, and 15. Looking forward into the current fiscal year of FY 2023-24, forecast revenue is at $886.4M which is a 0.8% revision up from the June forecast.

Figure 58. Miscellaneous Cash Funds Revenue

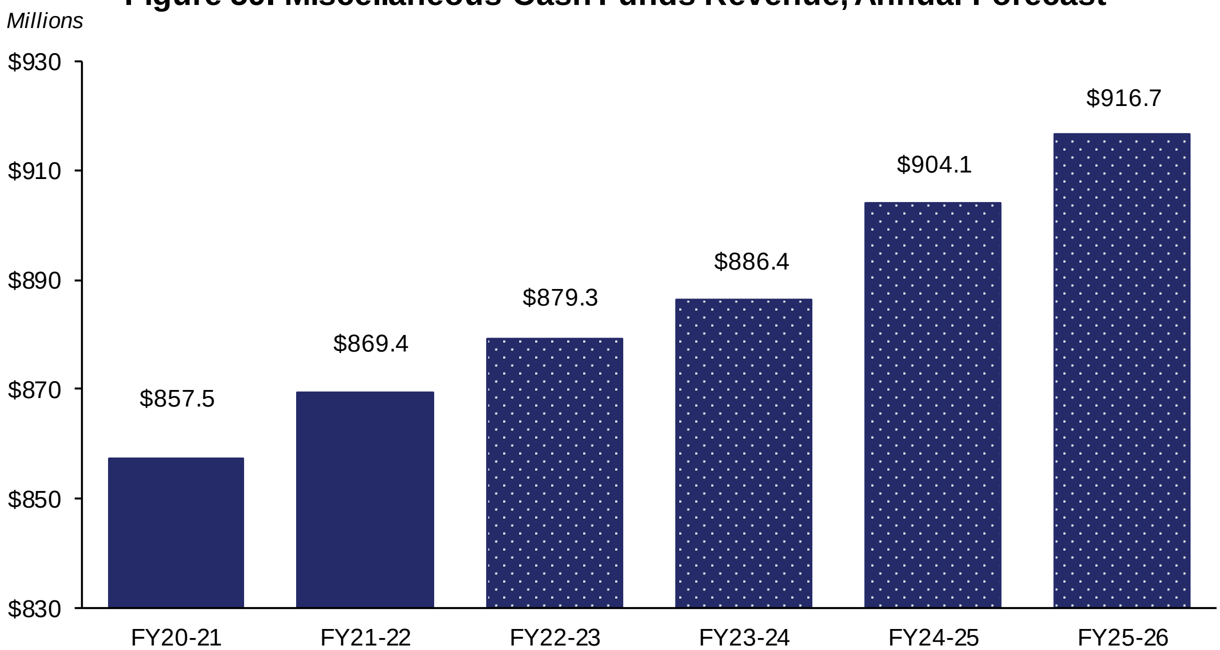


Source: Colorado Department of Revenue

Revenue from both the top 30 funds and other funds for the end of FY 2022-23 came in around expectation relative to the June forecast. Total revenue collected for Miscellaneous Cash Funds is up 1.1 percent year-over-year for revenue collected through Accounting Period 15 for FY 2022-23 and is forecast to remain low at just 0.8% year-over-year growth for FY 2023-24. Two funds that are pulling the forecast in opposite directions are the Oil and Gas Conservation Fund (OGCC) and Employment Support Fund (ESF).

The OGCC Fund has led to several upward revisions this year due to high oil price expectations. The Oil and Gas Conservation Fund is expected to have slightly negative Year-Over-Year growth from FY 2022-23 to FY 2023-24, but upward revisions to the OSPB WTI oil price forecast lead to additional revenue relative to what was expected in June. The changes to ESF from SB23-232 is a primary drag on FY 2023-24, which will cap the amount of revenue that can be credited to the Employment Support Fund and will reduce the overall forecast by an expected $43.8M this fiscal

Figure 59. Miscellaneous Cash Funds Revenue, Annual Forecast



Source: Colorado Department of Revenue; OSPB September 2023 Forecast.
Note: Dotted region indicates forecast period

year. Per the bill, revenue subject to TABOR is based on the amount of expenditures out of the ESF, so if expenditures increase so can TABOR revenue if the amount exceeds the reserve cap. A difference from the June forecast is that OSPB now assume ESF expenditures to grow at their historical pace, whereas in June, OSPB assumed no growth in expenditures.

An important note for the September forecast is the revision to the Multimodal Transportations Options Fund (MTOF), which have been moved to the OSPB and LCS Transportation Forecast Section. In FY 2022-23 the Colorado DRIVES Fund which accounted for $64.3 million in revenue, and the Multimodal Transportation Options Fund accounted for $11.5M. Forecasts for FY 2023-24 have been revised up 1.1 percent from the June forecast. Out-year fiscal year forecasts have been revised down 0.1 percent in FY 2024-25 and FY 2025-26 is now included in the forecast. The shape of our forecast continues to reflect slow growth across the entire forecast period through FY 2025-26 with FY 2024-25 having slightly higher growth.

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

Expectations for marijuana revenue collections have continued to be revised downward, though the most recent price readings for wholesale marijuana show signs that the record low prices will begin to rise as continued moderate increases in quantity consumed eats into the post-pandemic oversupply. Accordingly, this forecast shows near term revisions downward due to low prices, but revenue is expected to come in slightly above previous expectations by FY 24-25 as quantity consumed has remained slightly above expected levels and prices do show signs of an upward trajectory. On net, total marijuana revenue declined by 22.6 percent in FY 2022-23, but is expected to grow by 11.3 percent in FY 2023-24, followed by 9.6 percent growth in FY 2024-25 and slow, normalizing growth of 2.4 percent in FY 2025-26. Figure 60 shows expected revenue for each stream under these revised assumptions.

Figure 60. Marijuana Tax Revenue, Annual Forecast

Marijuana Tax Revenue	Actual FY 21-22	Preliminary FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
Proposition AA Taxes (Not Subject to TABOR)					
Retail Marijuana 15% Special Sales Tax	$258.7	$219.9	$242.6	$264.8	$270.1
Retail Marijuana 15% Excise Tax	$97.3	$57.8	$66.6	$75.3	$78.3
Total Proposition AA Taxes	**$356.1**	**$277.7**	**$309.2**	**$340.1**	**$348.4**
2.9% Sales Tax & Interest (Subject to TABOR)					
Medical Marijuana 2.9% State Sales Tax	$9.2	$5.6	$6.4	$5.9	$5.8
Retail Marijuana 2.9% State Sales Tax	$2.3	$1.1	$1.1	$1.1	$1.1
Interest Earnings	$0.4	$0.4	$0.4	$0.4	$0.4
Total 2.9% Sales Taxes & Interest	**$11.9**	**$7.2**	**$7.9**	**$7.4**	**$7.3**
Total Marijuana Taxes	**$368.0**	**$284.9**	**$317.2**	**$347.5**	**$355.7**

Marijuana revenue goes to a number of different sources once collected, the largest being the Marijuana Tax Cash Fund from the retail special sales tax and BEST School Capital Construction from the excise tax on wholesale purchases. Allocations to each of these funds are shown in Figure 61 below in addition to the revisions downward from the previous forecast.

Figure 61. Marijuana Tax Distributions, Annual Forecast

Marijuana Tax Revenue	Total Marijuana Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	Marijuana Tax Cash Fund
FY 2022-23 Preliminary	$284.9	$22.0	$30.8	$57.8	$24.9	$149.4
FY 2023-24 Projected	$317.2	$24.3	$34.0	$66.6	$27.5	$164.8
FY 2024-25 Projected	$347.5	$26.5	$37.1	$75.3	$30.0	$178.6
FY 2025-26 Projected	$355.7	$27.0	$37.8	$78.3	$30.6	$181.9

Change from June	Total Marijuana Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	Marijuana Tax Cash Fund
FY 2022-23 Preliminary	-$3.8	-$0.3	-$0.5	-$0.1	-$0.4	-$2.5
FY 2023-24 Projected	-$17.8	-$1.1	-$1.6	-$6.1	-$1.3	-$7.8
FY 2024-25 Projected	$2.9	$0.6	$0.8	-$2.5	$0.7	$3.4

Marijuana taxes for both the 15 percent special sales tax charged at the point of sale and the 15 percent excise tax on wholesale purchases are directly linked to the price of marijuana. The special sales tax is charged on the final purchase price paid by the consumer (the “retail price” multiplied by volume sold) and the excise tax is calculated by multiplying the average market rate (AMR) by the quantity sold at the wholesale level. Both the retail prices and the wholesale market rates stayed at historical lows for longer than anticipated previously; however the July price per pound of wholesale flower ticked upward for the first time since October 2021. Still, after the July increase to $709 per pound, the wholesale market rate for flower remains down 46 percent compared to the average price for the first half of FY 2021-22. The price for retail flower was also down to $3.47 in March, 31 percent below levels seen in FY 2021-22. The volume of marijuana sold has kept revenue elevated above what these drops in prices would have otherwise caused. Going forward, prices and revenue are expected to increase as the effects of post-pandemic oversupply phase off due to quantity growth and post-pandemic cultivation reductions. Notably, in contrast to 2021, in which the number of plants cultivated for recreational consumption increased by 15.6 percent while quantity consumed increased only by 3.8 percent, these trends reversed in 2022, in which cultivation declined by 9.1 percent and quantity consumed increased by 6.4 percent. It is expected that these trends will continue through 2023 and eventually stabilize prices at higher levels.

As a result of these price drivers, near term expectations have been revised downward while continued strength in volume sold and slightly more optimistic expectations for FY 2024-25 prices have marginally lifted FY 2024-25 expectations. Price expectations are now as follows:

- The FY 2022-23 (June 2023) ending price for retail marijuana is $3.42/g as compared to a June expectation of $3.67/g, a revision downward of 6.8 percent.
- The FY 2023-24 (June 2024) ending price for retail marijuana is $4.28/g as compared to a June expectation of $4.41/g, a revision downward of 2.9 percent.

Federal Mineral Lease

Federal Mineral Lease (FML) revenue increased by 38.8 percent in FY 2022-23 to $173.6 million, primarily due to elevated natural gas prices throughout the first half of the fiscal year driving higher revenue collections. Preliminary actuals for the fiscal year were largely on track from the June forecast, coming in just $0.9 million below expectations. Since the recent peak of Henry Hub natural gas prices at nearly $10 per million BTU in late summer 2022, prices have plummeted to below $2.50 on average for 2023 – well below the long-term average of $3.37. With the price decline, revenue softened in the final quarter of FY 2022-23, and with natural gas prices largely forecast to remain below average through 2024, FML revenue is expected to decline from the recently reached highs.

In the final quarter of FY 2022-23, a total of $25.6 million in FML revenue was recorded. Final quarter collections retreated considerably from the prior two quarters of collections, which saw more than $50 million in revenue in both quarters. This drop in revenue is largely attributed to the drop in Henry Hub natural gas prices. Though natural gas prices are expected to remain below average in FY 2023-24, oil prices have been revised up considerably since the June forecast, leading to a $3.8 million upward revision in that fiscal year. Natural gas prices are expected to rebound closer to the long-term average in the first half of FY 2024-25, though remain lower than previously expected in the June forecast, leading to a $0.8 million downward revision. In FY 2025-26, revenue is expected to tick up by 1.1 percent to $113.8 million. Since FY 2016-17, annual FML revenue collections have averaged $104.9 million. In calendar year 2022, royalty revenue derived from natural gas production on federal leases accounted for roughly half of total FML revenue in Colorado, resulting in natural gas price fluctuations driving FML revenue collections more than severance tax revenue, which is more reliant on oil prices. Price assumptions are discussed in more detail in the energy section of the economic outlook. Detailed FML revenue and distribution forecast expectations can be found in Figure 62.

Figure 62. FML Revenue and Distributions, Annual Forecast

	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total FML Revenue	**$173.6**	**$109.1**	**$112.6**	**$113.8**
Change	38.8%	-37.2%	3.2%	1.1%
Bonus Payments (portion of total FML revenue)	$1.3	$1.2	$1.2	$1.2
Local Government Perm Fund	$0.6	$0.6	$0.6	$0.6
Higher Ed FML Revenues Fund	$0.6	$0.6	$0.6	$0.6
Non-Bonus FML Revenue	$172.4	$107.9	$111.4	$112.6
State Public School Fund	$83.3	$52.1	$53.8	$54.4
Colorado Water Conservation Board	$17.2	$10.8	$11.1	$11.3
DOLA Grants	$34.5	$21.6	$22.3	$22.5
DOLA Direct Distribution	$34.5	$21.6	$22.3	$22.5
School Districts	$2.9	$1.8	$1.9	$1.9

Overall, there has been a long-term, downward oil and gas lease trend in the state as industry investment interest on federal land has waned. In federal FY 2021-22, the number of leases in Colorado declined from the prior fiscal year by 4.4 percent from 3,245 to 3,103. Over the past ten years, from federal FY 2012-13 to 2021-22, the number of leases declined annually by 4.9 percent on average dropping from 4,963 to 3,103. Leased acreage dropped by 42.5 percent over that same period. Despite the downward trend, there remains areas of strength in the state for FML royalty revenue, including the counties of Garfield, Rio Blanco, Weld, and Montezuma, which made up approximately 85 percent of FML revenue in calendar year 2022. During the forecast period, the number of leases is expected to continue on a similar, declining trajectory.

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

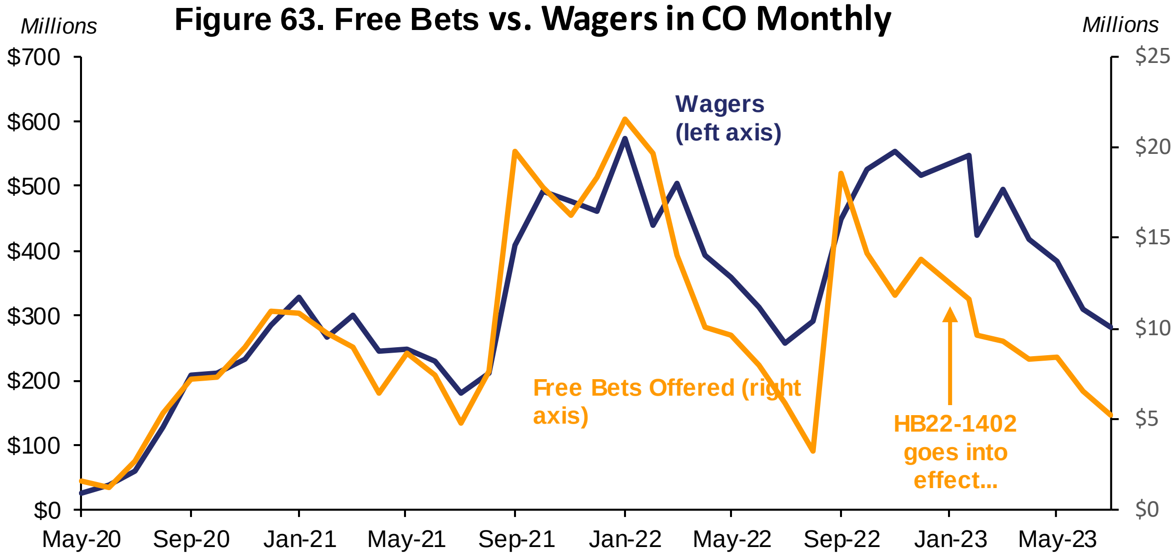
As the FY 2022-23 has ended, sports betting tax revenue set a new record, increasing 105.1 percent from FY 2021-22 to FY 2022-23. The final amount of sports betting tax revenue for FY23 was $25.6 million. However, the boom in revenue is likely not entirely from the bettors and massive amounts of wagers throughout Colorado. For fiscal year 2022-23, wagers only increased 7.5 percent from the previous fiscal year. The discrepancy in growth for tax revenue and wagers can be attributed to a larger hold (the overall win percentage of the operators) percentage from the sports betting operators, as well as effective tax rate increasing. These two factors will continue to impact the growth of sports betting revenue for many years to come.

OSPB forecasts slower but relatively strong growth for the upcoming fiscal years for Colorado. In fiscal year 2023-24, OPSB forecasts a 13.2 percent increase in revenue to $28.9 million, while FY 2024-25 is forecast to grow by 8.5 percent, and lastly, in FY 2025-26, OSPB expects 4.2 percent growth. It would be challenging for FY 2023-24 to match the growth that was seen last fiscal year, however, the first month of revenue (July 2023) reported for FY 23 has come in 62.86 percent higher than July 2022 which is largely attributable to increased effective tax rate which is 0.6 percent higher than it was in July of the previous fiscal year. For July 2022, wagers were 8.8 percent higher than last July and Gross Gaming revenue was 20.2 percent higher.

In FY 2023-24, OSPB expects that the hold percentage of operators will slowly increase to meet the national average as the market matures. According to the Legal Sports Report[10], the long-term U.S. average Hold percentage is about eight percent, and Colorado is below this at 6.9 percent. It is likely that over the coming months that Colorado will continue to approach the U.S. average, increasing the amount of taxable income for operators. Additionally, Colorado's sports betting revenue could receive upward or downward pressure from a successful or failure of a popular, home team among Coloradans, such as the success of the Denver Nuggets and Colorado Avalanche. With the football season arriving, much of this weight could be carried by CU Boulder football and their new coach, Deion "Coach Prime" Sanders. The Colorado Buffaloes (Buffs) are currently the most popular bet in college football[11], which accounts for 3.6 percent of Colorado's total sports betting wagers since legalization.

[10] https://www.legalsportsreport.com/sports-betting/revenue/
[11] https://kdvr.com/sports/colorado-buffaloes/bets-win-total-2023/

Figure 63. Free Bets vs. Wagers in CO Monthly



Source: Division of Revenue: Division of Gaming.

In recent months, the effects of HB22-1402, Responsible Gaming Grant Program, have been observed, as free bets offered after this legislation went into effect declined 33.64 percent compared to free bets offered over the same period in the previous year. This is because the bill modifies the number of free bets that may be deducted from net sports betting proceeds. As is the nature of sports betting, free bets offered by sports betting operators are also quite seasonal, however, the declines are expected to continue as HB22-1402 continues to limit free bets as a percentage of wagers across Colorado. Therefore, this legislation will continue have a positive impact on the effective tax rate in the long term. Sports betting revenue will likely continue to remain strong with elevated wagers from Colorado players, increasing hold percentage from operators, and decreasing levels of free bets.

Figure 64. Sports Betting Distribution Formula

Distribution Formula	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total Sports Betting Tax Revenue	$25.59	$29.46	$31.45	$32.77
Change	105.6%	15.1%	6.7%	4.2%
Hold-Harmless Fund (6%)	$1.54	$1.77	$1.89	$1.97
Behavioral Health Administration	$0.13	$0.13	$0.00	$0.00
Water Plan Implementation Cash Fund	$23.92	$27.57	$29.56	$30.80

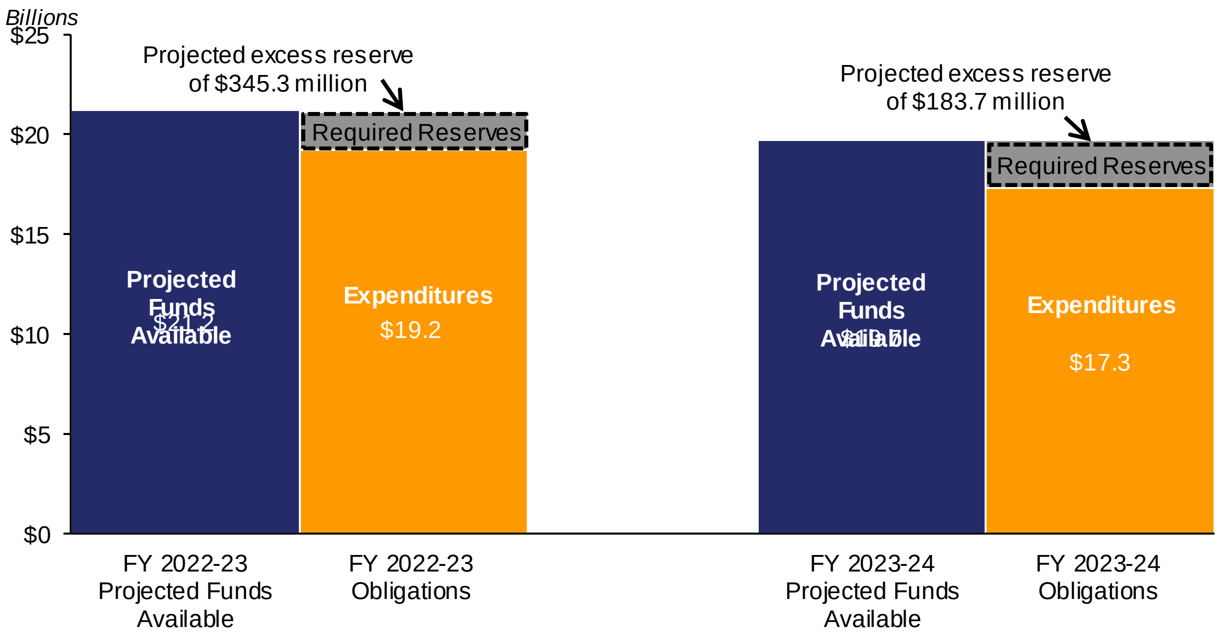
As shown in Figure 64 above, sports betting revenues are distributed by a formula. Six percent of the sports betting revenue goes to the 'Wagering Revenue Recipients Hold-Harmless Fund' to offset any demonstrated loss of revenue attributable to sports betting. Additionally, $130,000 goes to the Behavioral 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 FY 2023-24 under current law. Last, the remaining funds (minus administration costs) are 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 1.7 percent in FY 2022-23 to $18,002.2 million. In FY 2023-24, revenue is expected to decline by 3.8 percent off of the previous year's record, a more shallow decline than the 7.1 percent expected in June. This is an upward revision of $792.9 million compared to June, as OSPB's economic growth expectations are revised up in 2023, from 1.4 to 2.1 percent. However, given the expected softer economic landing, revenue is expected to grow slightly slower in FY 2024-25 at 5.8 percent, compared with 10.0 percent in the June forecast. Therefore, the forecast in FY 2024-25 is revised up $137.8 million from June as the economy is in a better position entering the year but is no longer expected to have a rapid recovery.

Figure 65. General Fund Revenue and Expenditures



Source: OSPB September 2023 Forecast.

The General Fund estimated ending balance is $345.3 million above the statutory reserve level of 15.0 percent of appropriations in FY 2022-23 and estimated to be $183.7 million above the statutory reserve level of 15.0 percent of appropriations in FY 2023-24.

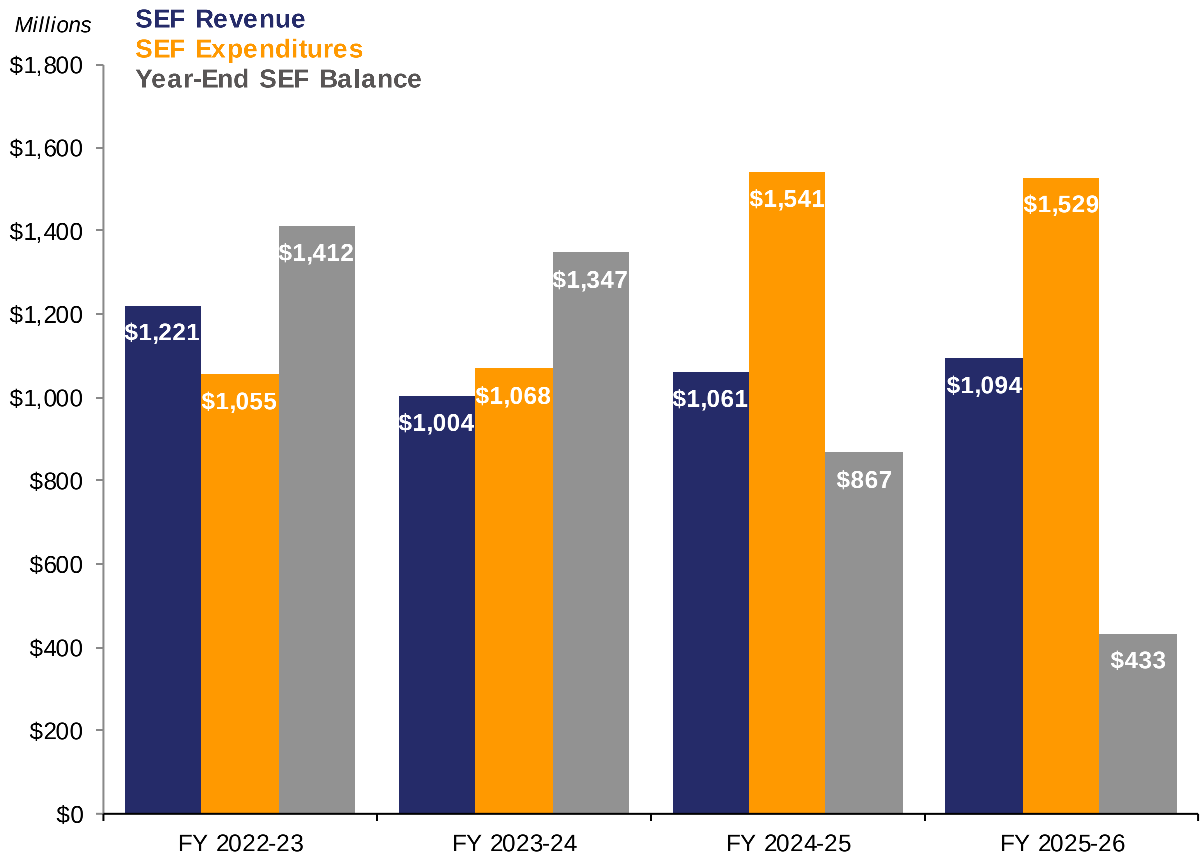
In the current forecast, there is $345.3 million in room above the statutory reserve limit for FY 2022-23, $49.9 million above the $295.5 million in the June forecast. This difference is largely a result of slightly lower than anticipated cash fund revenue in FY 2022-23, as well as additional end of years transfers into the General Fund that were not previously anticipated, partially offset by higher rebates and expenditures than anticipated. In FY 2023-24, the available room above the statutory reserve limit decreased $29.1 million from $212.8 million to $183.7 million, largely as a result of increased cash fund revenue for FY 2023-24.

State Education Fund

In FY 2022-23, the State Education Fund's (SEF) preliminary year-end balance is $1,412.0 million, reflecting an upward revision of $24.3 million from the June forecast following stronger than expected income tax revenue. The ending balance includes the $290 million transfer to the SEF in FY 2022-23 as provided for in HB 22-1390 and amended by SB 22-202. In FY 2023-24, the year-end balance is expected to tick down to $1,347.4 million, reflecting an upward revision of $67.9 million from June, primarily driven by the SEF income tax revenue upward revision of $63.8 million. The FY 2023-24 ending balance takes into account all SEF appropriations enacted in the 2023 legislative session. In FY 2024-25, the SEF fund balance is forecast to decrease to $867.5 million, which is an upward revision of $164.0 million, as upward income tax revisions from FY 2022-23 to FY 2024-25 contribute to a higher fund balance.

The SEF fund balance is forecast to remain above historical averages through FY 2024-25 before it begins to return closer to historical norms in FY 2025-26. However, economic uncertainty remains a downside risk that could negatively weigh on the fund's revenue streams, especially in the out-years. Figure 66 summarizes total State Education Fund revenue, expenditures, and ending balances for FY 2022-23, FY 2023-24, FY 2024-25, and FY 2025-26.

Figure 66. SEF Revenue, Expenditures, and Ending Balances



Source: OSPB September 2023 Forecast.

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 more resilient than expected in the baseline, avoiding an uptick in unemployment in the out-years and keeping income withholdings elevated with it. Tightening financial conditions in the out-years is the main downside risk, as this might negatively weigh on aggregate demand. This is likely to impact both sales revenue directly and estimated payments and cash with returns from income revenue indirectly. Economic conditions currently underlying this forecast are weighted equally.

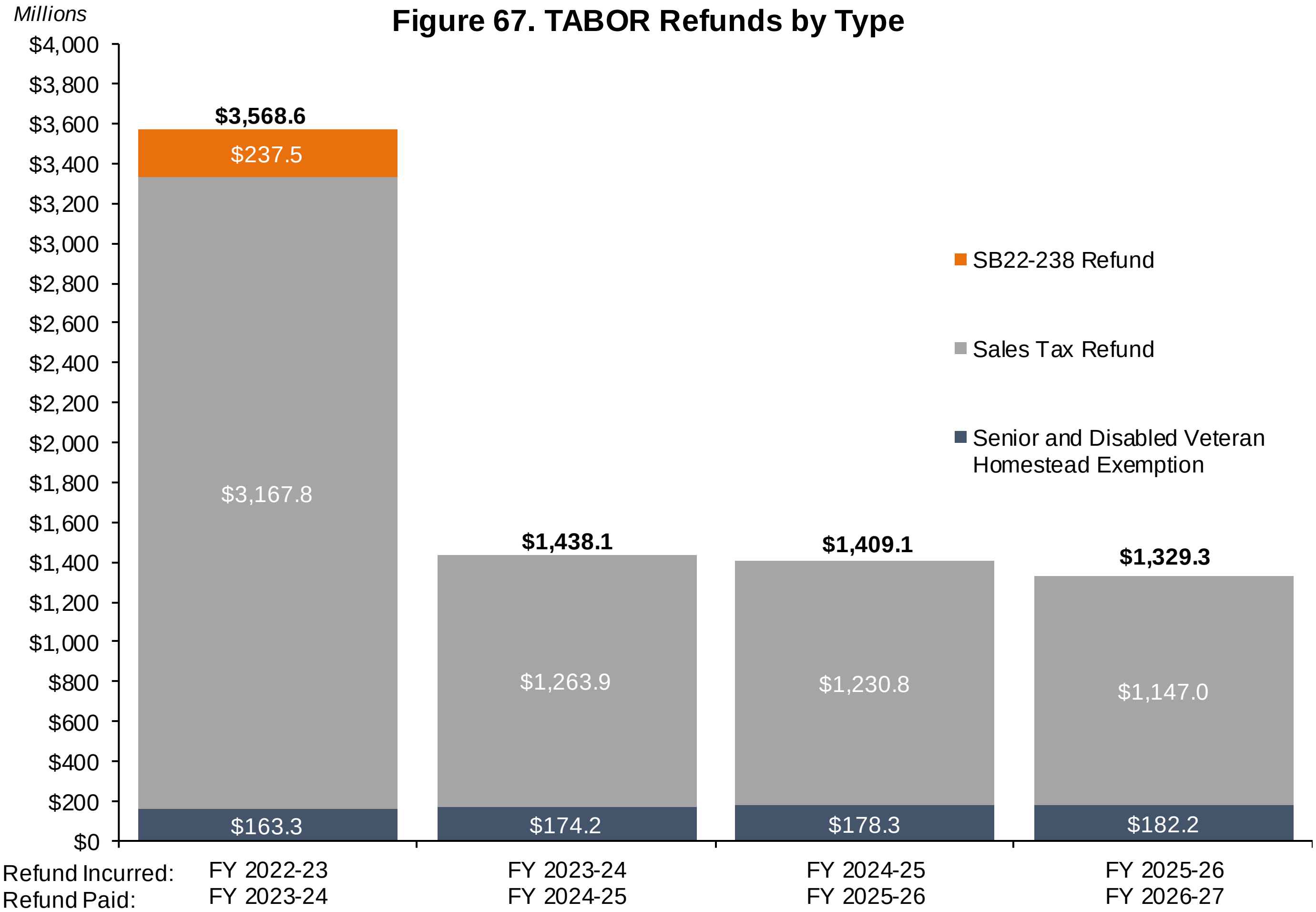
Supplemental Materials

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, with the second-highest refund amount on record expected to have occurred in the most recently completed fiscal year. In that year, FY 2022-23, the TABOR surplus is estimated to be $3,568.6 million, only $159.8 million below the record set in FY 2021-22. In FY 2023-24, revenue is projected to be $1,438.1 million above the cap, a $902.2 million revision, as increased income and severance revenue are above previous expectations. In FY 2024-25, the amount above the cap is expected to stabilize at $1,409.1 million then decrease slightly to $1,329.3 million in FY 2025-26, as the economy is now expected to achieve a soft landing and then maintain potential GDP growth soon after.

Figure 67. TABOR Refunds by Type



Current law specifies two mechanisms by which revenue in excess of the cap is to be refunded to taxpayers: the senior homestead and disabled veterans property tax exemptions and a sales tax refund. Prior to the passage of Proposition 121 in November 2022, there was also a temporary income tax rate reduction from 4.55 to 4.5 percent, but this no longer applies as the permanent rate is reduced to 4.40 percent. The size of the refund determines which refund mechanisms are utilized. In addition to these mechanisms, SB22-238, 2023 and 2024 Property Tax, provides an estimated $237.5 million in refunds to backfill local governments' losses as a result of reduced property tax revenue in FY 2022-23 only.

An estimated $163.3 million of the $3,568.6 million refund obligation will be refunded via the senior homestead and disabled veterans property tax exemption expenditures and $237.5 million will be refunded via SB23-238. Finally, $3,167.8 million is expected to be refunded via the sales tax refund mechanism. Finally, as can be seen in Table 7 in this document's appendix, there are an additional $114.4 million in TABOR refunds going out based on refunds owed in FY 2018-19, FY 2020-21, and FY 2021-22, bringing the total refunds in FY 2022-23 to $3,683.1 million. 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, which is incurred in FY 2022-23, to be refunded in FY 2023-24, in this forecast.

TABOR refunds in FY 2023-24 are expected to stabilize given that OSPB now expects the economy to grow more strongly than expected in June and likely achieve a soft landing. Therefore, in addition to the $174.2 million in the senior homestead and disabled veterans property tax exemption expenditures, OSPB expects $1,263.9 million via the six-tier sales tax refund. In FY 2024-25, with the economy expected to remain stable, revenue does as well, resulting in a $1,230.8 million sales tax refund after accounting for the senior homestead and disabled veterans exemption.

Reference Tables

Table 1: Colorado Economic Variables – History and Forecast

		Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022	Forecast 2023	Forecast 2024	Forecast 2025
	Income										
1	Personal Income (Billions) /A	$289.7	$309.4	$331.9	$356.3	$378.1	$410.9	$433.5	$457.8	$477.5	$502.8
2	Change	1.7%	6.8%	7.3%	7.4%	6.1%	8.7%	5.5%	5.6%	4.3%	5.3%
3	Wage and Salary Income (Billions)	$151.2	$160.9	$170.8	$183.0	$187.6	$205.3	$227.2	$241.5	$252.1	$264.5
4	Change	3.1%	6.5%	6.1%	7.1%	2.5%	9.4%	10.7%	6.3%	4.4%	4.9%
5	Per-Capita Income ($/person) /A	$52,386.0	$55,253.0	$58,455.0	$62,134.0	$65,362.0	$70,670.0	$74,001.0	$77,419.0	$79,923.0	$83,308.0
6	Change	0.2%	5.5%	5.8%	6.3%	5.2%	8.1%	4.7%	4.6%	3.2%	4.2%
	Population & Employment										
7	Population (Thousands)	5,529.6	5,600.0	5,677.0	5,735.0	5,784.0	5,815.0	5,858.0	5,913.0	5,974.0	6,035.0
8	Change	1.5%	1.3%	1.4%	1.0%	0.9%	0.5%	0.7%	0.9%	1.0%	1.0%
9	Net Migration (Thousands)	53.3	42.4	51.8	34.2	28.6	11.0	14.9	35.0	40.0	40.0
10	Unemployment Rate	3.1%	2.6%	3.0%	2.7%	6.8%	5.5%	3.0%	3.0%	3.4%	3.5%
11	Total Nonagricultural Employment (Thousands)	2,601.7	2,660.3	2,727.3	2,790.1	2,652.7	2,750.9	2,869.6	2,929.9	2,967.9	3,009.5
12	Change	2.4%	2.3%	2.5%	2.3%	-4.9%	3.7%	4.3%	2.1%	1.3%	1.4%
	Construction Variables										
13	Total Housing Permits Issued (Thousands)	39.0	40.7	42.6	38.6	40.5	56.5	48.8	41.4	42.4	45.2
14	Change	22.3%	4.4%	4.8%	-9.4%	4.8%	39.7%	-13.6%	-15.2%	2.4%	6.6%
15	Nonresidential Construction Value (Millions) /B	$5,987.8	$6,150.7	$8,151.0	$5,157.4	$5,585.6	$5,729.3	$6,605.2	$5,858.8	$5,608.0	$5,824.5
16	Change	20.0%	2.7%	32.5%	-36.7%	8.3%	2.6%	15.3%	-11.3%	-4.3%	3.9%
	Price Variables										
17	Retail Trade (Billions) /C	$184.7	$194.6	$206.1	$224.6	$228.8	$268.3	$299.9	$306.8	$316.6	$331.4
18	Change	1.0%	5.4%	5.9%	9.0%	1.9%	17.3%	11.8%	2.3%	3.2%	4.7%
19	Denver-Aurora-Lakewood Consumer Price Index (1982-84=100)	246.6	255.0	262.0	267.0	272.2	281.8	304.4	319.6	329.6	339.1
20	Change	2.8%	3.4%	2.7%	1.9%	2.0%	3.5%	8.0%	5.0%	3.1%	2.9%

/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.

/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).

Table 2: National Economic Variables – History and Forecast

		Actual 2016	Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022	Forecast 2023	Forecast 2024	Forecast 2025
	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	$20,014.1	$20,434.4	$20,659.2	$21,031.1
2	Change	1.7%	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%	2.1%	1.1%	1.8%
3	Personal Income (Billions) /B	$16,096.9	$16,839.8	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,777.2	$22,757.2	$23,462.7	$24,471.6
4	Change	2.6%	4.6%	5.0%	5.1%	6.7%	7.4%	2.3%	4.5%	3.1%	4.3%
5	Per-Capita Income ($/person) /B	$49,880	$51,829	$54,061	$56,443	$59,826	$64,135	$65,341	$68,009	$69,838	$72,551
6	Change	1.9%	3.9%	4.3%	4.4%	6.0%	7.2%	1.9%	4.1%	2.7%	3.9%
7	Wage and Salary Income (Billions)	$8,091.2	$8,474.4	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,189.6	$11,782.7	$12,183.3	$12,670.6
8	Change	2.9%	4.7%	5.0%	4.8%	1.4%	8.8%	8.7%	5.3%	3.4%	4.0%
	Population & Employment										
9	Population (Millions)	322.7	324.9	327.1	329.3	331.5	332.0	333.3	334.6	336.0	337.3
10	Change	0.7%	0.7%	0.7%	0.7%	0.7%	0.1%	0.4%	0.4%	0.4%	0.4%
11	Unemployment Rate	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	3.7%	4.0%	4.1%
12	Total Nonagricultural Employment (Millions)	144.3	146.6	148.9	150.9	142.2	146.3	152.6	156.2	157.7	159.2
13	Change	1.8%	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.4%	0.9%	0.9%
	Other Key Indicators										
14	Consumer Price Index (1982-84=100)	240.0	245.1	251.1	255.7	258.8	271.0	292.7	304.7	312.9	320.7
15	Change	1.3%	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%	4.1%	2.7%	2.5%
16	Corporate Profits (Billions)	$2,037.7	$2,128.6	$2,311.9	$2,402.2	$2,260.1	$2,771.1	$2,952.6	$2,757.7	$2,702.6	$2,921.5
17	Change	-1.1%	4.5%	8.6%	3.9%	-5.9%	22.6%	6.6%	-6.6%	-2.0%	8.1%
18	Housing Permits (Millions)	1.21	1.28	1.33	1.39	1.47	1.74	1.67	1.42	1.48	1.54
19	Change	2.0%	6.3%	3.6%	4.3%	6.1%	18.1%	-4.1%	-14.8%	4.1%	4.1%
20	Retail Trade (Billions)	$5,506.0	$5,732.8	$5,983.1	$6,175.0	$6,223.3	$7,366.2	$8,070.9	$8,288.9	$8,496.1	$8,835.9
21	Change	2.9%	4.1%	4.4%	3.2%	0.8%	18.4%	9.6%	2.7%	2.5%	4.0%

/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	Actual FY 2021-22	Percent Change	Preliminary FY 2022-23	Percent Change	Estimate FY 2023-24	Percent Change	Estimate FY 2024-25	Percent Change	Estimate FY 2025-26	Percent Change
	Excise Taxes										
1	Sales	$4,089.0	19.6%	$4,301.6	5.2%	$4,377.7	1.8%	$4,632.1	5.8%	$4,848.9	4.7%
2	Use	$232.6	8.6%	$251.2	8.0%	$244.9	-2.5%	$266.9	8.9%	$273.2	2.4%
3	Retail Marijuana Sales -Special Sales Tax	$258.7	-10.2%	$219.9	-15.0%	$242.6	10.3%	$264.8	9.2%	$270.1	2.0%
4	Cigarette	$26.0	-13.8%	$23.9	-7.9%	$22.7	-5.3%	$21.4	-5.6%	$20.5	-4.2%
5	Tobacco Products	$26.6	-8.3%	$23.7	-11.0%	$23.3	-1.5%	$25.9	11.1%	$26.6	2.3%
6	Liquor	$56.3	5.6%	$56.3	-0.1%	$58.1	3.3%	$59.8	2.9%	$61.4	2.7%
7	Total Proposition EE	$208.0	324.3%	$235.0	13.0%	$194.2	-17.3%	$215.2	10.8%	$210.5	-2.2%
8	**Total Excise**	**$4,897.2**	**20.0%**	**$5,111.7**	**4.4%**	**$5,163.6**	**1.0%**	**$5,486.1**	**6.2%**	**$5,711.2**	**4.1%**
	Income Taxes										
9	Net Individual Income	$11,717.8	23.6%	$10,952.7	-6.5%	$10,930.4	-0.2%	$11,791.5	7.9%	$12,277.3	4.1%
10	Net Corporate Income	$1,568.6	32.5%	$2,366.7	50.9%	$1,756.8	-25.8%	$1,691.4	-3.7%	$1,692.9	0.1%
11	**Total Income**	**$13,286.4**	**24.6%**	**$13,319.5**	**0.2%**	**$12,687.1**	**-4.7%**	**$13,482.8**	**6.3%**	**$13,970.2**	**3.6%**
12	*Less: State Education Fund Diversion*	*$993.5*	*13.6%*	*$1,066.4*	*7.3%*	*$984.0*	*-7.7%*	*$1,045.7*	*6.3%*	*$1,083.5*	*3.6%*
13	*Less: Proposition 123 Diversion*	*$0.0*	*NA*	*$160.0*	*NA*	*$304.5*	*90.3%*	*$323.6*	*6.3%*	*$335.3*	*3.6%*
14	**Total Income to General Fund**	**$12,292.9**	**25.6%**	**$12,093.1**	**-1.6%**	**$11,398.7**	**-5.7%**	**$12,113.6**	**6.3%**	**$12,551.4**	**3.6%**
	Other Revenue										
15	Insurance	$390.2	16.0%	$516.7	32.4%	$527.9	2.2%	$547.8	3.8%	$560.9	2.4%
16	Interest Income	$69.2	38.3%	$192.8	178.5%	$174.3	-9.6%	$114.9	-34.0%	$99.8	-13.1%
17	Pari-Mutuel	$0.4	34.8%	$0.3	-20.4%	$0.4	30.7%	$0.4	-14.0%	$0.4	4.3%
18	Court Receipts	$2.4	-31.4%	$3.1	30.6%	$3.5	10.8%	$3.1	-10.0%	$3.0	-3.0%
19	Other Income	$45.6	-10.1%	$84.5	85.3%	$41.4	-51.0%	$43.3	4.5%	$53.1	22.6%
20	**Total Other**	**$507.8**	**15.2%**	**$797.4**	**57.0%**	**$747.5**	**-6.3%**	**$709.6**	**-5.1%**	**$717.2**	**1.1%**
21	**GROSS GENERAL FUND**	**$17,697.9**	**23.7%**	**$18,002.2**	**1.7%**	**$17,309.8**	**-3.8%**	**$18,309.2**	**5.8%**	**$18,979.8**	**3.7%**

/A Dollars in Millions

Table 4: General Fund Overview /A

		Actual FY 2021-22	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
Revenue						
1	**Beginning Reserve**	**$3,181.5**	**$3,203.2**	**$2,341.5**	**$2,396.5**	**$2,413.1**
2	**Gross General Fund Revenue**	**$17,697.9**	**$18,002.2**	**$17,309.8**	**$18,309.2**	**$18,979.8**
3	*Transfers to the General Fund*	$71.3	$53.6	$45.4	$53.4	$56.7
4	**TOTAL GENERAL FUND AVAILABLE**	**$20,950.8**	**$21,259.0**	**$19,696.7**	**$20,759.1**	**$21,449.6**
Expenditures						
5	**Appropriation Subject to Limit**	**$12,041.2**	**$13,308.1**	**$14,867.6**	**$16,188.8**	**$16,962.2**
6	*Dollar Change (from prior year)*	$1,062.1	$1,266.9	$1,559.5	$1,321.2	$773.4
7	*Percent Change (from prior year)*	9.7%	10.5%	11.7%	21.6%	4.8%
8	**Spending Outside Limit**	**$5,797.5**	**$5,723.8**	**$2,432.6**	**$2,157.2**	**$1,958.3**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$3,848.1	$3,683.1	$1,438.1	$1,409.06	$1,329.28
10	*Homestead Exemption (Net of TABOR Refund)*	$0.0	$0.1	$0.0	$0.0	$0.0
11	*Other Rebates and Expenditures*	$149.6	$168.6	$154.6	$155.4	$154.6
12	*Transfers for Capital Construction*	$354.0	$493.2	$314.2	$50.0	$50.0
13	*Transfers for Transportation*	$512.9	$88.0	$0.0	$117.5	$0.0
14	*Transfers to State Education Fund*	$123.0	$290.0	$0.0	$0.0	$0.0
15	*Transfers to Other Funds*	$809.9	$1,000.8	$525.8	$425.3	$424.4
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$17,838.7**	**$19,031.9**	**$17,300.2**	**$18,346.0**	**$18,920.5**
17	*Percent Change (from prior year)*	33.8%	6.7%	-9.1%	6.0%	3.1%
18	Reversions and Accounting Adjustments	-$91.1	-$114.4	$0.0	$0.0	$0.0
Reserves						
19	**Year-End General Fund Balance**	**$3,203.2**	**$2,341.5**	**$2,396.5**	**$2,413.1**	**$2,529.1**
20	*Year-End General Fund as a % of Appropriations*	26.6%	17.6%	16.1%	14.9%	14.9%
21	*General Fund Statutory Reserve*	$1,613.5	$1,996.2	$2,212.8	$2,413.1	$2,529.1
22	*Statutory Reserve %*	13.4%	15.0%	15.0%	15.0%	15.0%
23	***Above/Below Statutory Reserve***	**$1,589.7**	**$345.3**	**$183.7**	**$0.0**	**$0.0**

/A. FY 2022-23 and FY 2023-24 expenditures reflect all legislation that has passed through both the Colorado House and Senate as of June 20, 2023. Proposition HH is not included in balancing at this time, as the appropriations only go into effect upon voter approval. See the Budget section for more information. FY 2024-25 appropriations will be adopted in future budget legislation. Therefore, FY 2024-25 expenditures and fund balance projections shown are illustrative only. Dollars in millions.

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

		Actual FY 2021-22	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
	Revenue					
1	**Beginning Reserves**	**$3,735.2**	**$4,159.1**	**$3,753.5**	**$3,743.9**	**$4,689.6**
2	*State Education Fund*	$553.7	$955.9	$1,412.0	$1,347.4	$867.5
3	*General Fund*	$3,181.5	$3,203.2	$2,341.5	$2,396.5	$3,822.2
4	**Gross State Education Fund Revenue**	**$1,268.4**	**$1,221.2**	**$1,003.7**	**$1,061.4**	**$1,094.3**
5	Transfer to State Education Fund	$0.0	$290.0	$0.0	$0.0	$0.0
6	**Gross General Fund Revenue /B**	**$17,769.3**	**$18,055.8**	**$17,355.2**	**$18,362.6**	**$19,036.5**
7	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$22,772.9**	**$23,436.1**	**$22,112.4**	**$23,167.9**	**$24,820.5**
	Expenditures					
8	General Fund Expenditures /C	$17,838.7	$19,031.9	$17,300.2	$16,937.0	$17,591.2
9	State Education Fund Expenditures	$888.0	$1,055.1	$1,068.3	$1,541.3	$1,528.7
10	**TOTAL OBLIGATIONS**	**$18,726.7**	**$20,087.0**	**$18,368.5**	**$18,478.3**	**$19,119.9**
11	*Percent Change (from prior year)*	33.9%	7.3%	-8.6%	0.6%	3.5%
12	*Reversions and Accounting Adjustments*	-$112.9	-$114.4	$0.0	$0.0	$0.0
	Reserves					
13	**Year-End Balance**	**$4,159.1**	**$3,753.5**	**$3,743.9**	**$4,689.6**	**$5,700.6**
14	State Education Fund	$955.9	$1,412.0	$1,347.4	$867.5	$433.1
15	General Fund	$3,203.2	$2,341.5	$2,396.5	$3,822.2	$5,267.5
16	*General Fund Above/Below Statutory Reserve*	$3,179.4	$690.6	$367.4	$2,818.1	$5,476.7

/A See the General Fund and Budget sections discussing the State Education Fund for information on the figures in this table. Note that Proposition HH is not accounted for in balancing at this time, as the appropriations only go into effect upon voter approval. The aforementioned sections also have additional information on how this measure interacts with the SEF and backfilling local share to school districts for Total Program.
/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	Final FY 2021-22	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
1	**Transportation-Related /A**	**$1,239.5**	**$1,266.8**	**$1,392.9**	**$1,465.2**	**$1,494.1**
2	Change	7.2%	2.2%	9.9%	5.2%	2.0%
3	**Limited Gaming Fund /B**	**$115.4**	**$121.3**	**$123.7**	**$127.4**	**$131.2**
4	Change	13.3%	5.2%	2.0%	3.0%	3.0%
7	**Regulatory Agencies**	**$92.3**	**$89.4**	**$84.1**	**$95.7**	**$98.6**
8	Change	3.6%	-3.1%	-5.9%	13.7%	3.1%
9	**Insurance-Related**	**$24.3**	**$26.5**	**$22.5**	**$22.9**	**$23.2**
10	Change	15.4%	9.3%	-15.2%	1.8%	1.3%
11	**Severance Tax**	**$325.0**	**$374.6**	**$204.8**	**$242.2**	**$238.0**
12	Change	2113.0%	15.3%	-45.3%	18.3%	-1.7%
13	**Other Miscellaneous Cash Funds**	**$869.4**	**$879.3**	**$886.4**	**$904.1**	**$916.7**
14	Change	1.4%	1.1%	0.8%	2.0%	1.4%
15	**TOTAL CASH FUND REVENUE**	**$2,665.9**	**$2,758.0**	**$2,714.3**	**$2,857.5**	**$2,901.8**
16	Change	19.0%	3.5%	-1.6%	5.3%	1.5%

/A Includes revenue from *Senate Bill 09-108* (FASTER) which began in FY 2009-10. Roughly 40 percent of FASTER-related revenue is directed to State Enterprises. Revenue to State Enterprises is exempt from TABOR and is thus not included in the figures reflected by this table. Dollars in millions. Additionally, includes the impact of SB21-260, 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

		Actual FY 2021-22	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
	TABOR Revenues					
1	General Fund /A	$17,075.4	$17,468.0	$16,830.2	$17,726.3	$18,388.4
2	Cash Funds /A	$2,665.9	$2,758.0	$2,714.3	$2,857.5	$2,901.8
3	**Total TABOR Revenues**	**$19,741.3**	**$20,225.9**	**$19,544.6**	**$20,583.8**	**$21,290.2**
	Revenue Limit Calculation					
4	Previous calendar year population growth	0.3%	0.7%	0.7%	0.9%	1.0%
5	Previous calendar year inflation	2.0%	3.5%	8.0%	5.0%	3.1%
6	**Allowable TABOR Growth Rate**	**2.2%**	**4.2%**	**8.7%**	**5.9%**	**4.1%**
7	TABOR Limit/B	$12,929.8	$13,445.2	$14,614.9	$15,477.2	$16,111.8
8	General Fund Exempt Revenue Under Ref. C /C	$3,083.1	$3,212.1	$3,491.5	$3,697.5	$3,849.1
9	**Revenue Cap Under Ref. C /B /D**	**$16,012.9**	**$16,657.3**	**$18,106.5**	**$19,174.8**	**$19,960.9**
10	***Amount Above/Below Cap***	**$3,728.4**	**$3,568.6**	**$1,438.1**	**$1,409.1**	**$1,329.3**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$3,848.1**	**$3,683.1**	**$1,438.1**	**$1,409.1**	**$1,329.3**
12	TABOR State Emergency Reserve Requirement	$480.4	$499.7	$543.2	$575.2	$598.8

/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	FY 2025-26
Pre 2023 Legislative Session Transfers					
12-47.1-701 (d) Ltd. Gaming Revenue Transfer to the General Fund	$14.0	$21.6	$22.1	$23.7	$25.3
HB92-1126 Land and Water Management Fund		$0.1			
HB05-1262 A35 Tobacco Tax 24-22-117 (1)(c)(I)	$0.7	$0.7	$0.6	$0.6	
HB08-1216 Consumer Outreach and Education Program	$0.0				
SB11-047 Bioscience Income Tax Transfer to OEDIT*	-$14.6	-$17.6	-$7.0	-$7.0	-$7.0
HB13-1318/SB 17-267 Transfers of Special Sales Tax to MTCF	-$165.7	-$142.2	-$156.9	-$171.3	-$174.7
HB 17-1343 Repeal of Intellectual and Developmental Disabilities Services Cash Fund		$16.9			
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	-$24.9	-$27.5	-$30.0	-$30.6
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	-$235.0	-$194.2	-$215.2	-$210.5
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	$4.1	$4.1	$4.1	$4.1	$4.1
SB20-002 Repeal of Emergency Direct Assistance Grant Program Fund		$0.0			
Proposition EE - Preschool Programs Cash Fund	-$0.4				
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			
SB21-213 Use Of Increased Medicaid Match	$11.9	$10.0			
SB21-222 Repeal of Recovery Audit Cash Fund		$0.0			
SB21-225 Repay Cash Funds for 2020 Transfers	-$10.0				
SB21-251 General Fund Loan Family Medical Leave Program			$1.5		
SB21-252 Community Revitalization Grant Program	-$65.0				
SB21-260 Community Access Enterprise		$0.1			
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				
HB22-1298 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	-$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			
Transfers Enacted in 2023 Legislative Session					
HB23-1041 Prohibit Wagering On Simulcast Greyhound Races				$0.0	
HB23-1107 Crime Victim Services Funding			-$3.0		
HB23-1272 Tax Policy That Advances Decarbonization			$12.2	$25.0	$27.3
HB23-1273 Creation of Wildfire Resilient Homes Grant Program			-$0.1		

HB23-1290 Proposition EE Funding Retention Rate Reduction			-$5.6		
HB23-1305 Continue Health Benefits in Work-related Death			-$0.2	-$0.2	-$0.2
SB23-001 Authority Of Public-private Collaboration Unit For Housing			-$5.0		
SB23-005 Forestry And Wildfire Mitigation Workforce		-$1.0	-$1.0	-$1.0	-$1.0
SB23-044 Veterinary Education Loan Repayment Program			-$0.5		
SB23-056 Compensatory Direct Distribution to PERA			-$10.0		
SB23-137 Transfer to Colorado Economic Development Fund		-$5.0			
SB23-161 Financing to Purchase Firefighting Aircraft		-$26.0			
SB23-166 Establishment of a Wildfire Resiliency Code Board			-$0.3		
SB23-205 Universal High School Scholarship Program			-$25.0		
SB23-215 State Employee Reserve Fund General Fund Transfer			$4.9		
SB23-246 Transfers to State Emergency Reserve		-$20.0			
SB23-255 Wolf Depredation Compensation Fund			-$0.2	-$0.4	-$0.4
SB23-257 Auto Theft Prevention Cash Fund			-$5.0		
SB23-275 Colorado Wild Horse Project		-$1.5			
SB23-283 Mechanisms For Federal Infrastructure Funding			-$84.0		
Transfers into General Fund	**$71.3**	**$53.6**	**$45.4**	**$53.4**	**$56.7**
Transfers out of General Fund	**-$809.9**	**-$1,000.8**	**-$525.8**	**-$425.3**	**-$424.4**
Net Transfers	**-$738.6**	**-$947.2**	**-$480.3**	**-$371.9**	**-$367.7**

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

Transfers from GF for State infrastructure	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Placeholder for Level 1 Controlled Maintenance				$30.0	$30.0
HB15-1344 Fund National Western Center and Capital Projects	$20.0	$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	$5.1	$0.0	$0.0	$0.0	
HB22-1340 Capital-related Transfers Of Money	$0.0	$462.2	$0.0	$0.0	
SB22-239 Buildings In The Capitol Complex	$0.0	$0.0	$0.0	$0.0	
SB23-141 Transfers for Capital Construction		$11.0			
SB23-243 General Fund Transfers to Capital Construction Fund	$0.0	$0.0	$294.2	$0.0	
SB23-294 Increase General Fund Transfers to Capital Construction Fund			$18.2		
Total Capital Construction	**$354.0**	**$493.2**	**$314.2**	**$50.0**	**$50.0**
SB21-260 Sustainability of the Transportation System	$282.5	$2.5	$0.0	$117.5	
SB21-265 Transfer from GF to SHF	$124.0				
HB22-1411 Money From Coronavirus State Fiscal Recovery Fund	$36.5	$0.0	$0.0	$0.0	
HB22-1351 Temporarily Reduce Road User Charges	$0.0	$78.5	$0.0	$0.0	
SB22-176 Early Stage Front Range Passenger Rail Funding	$1.9	$7.0	$0.0	$0.0	
SB22-180 Programs To Reduce Ozone Through Increased Transit	$68.0	$0.0	$0.0	$0.0	
SB23-283 Mechanisms for Federal Infrastructure Funding			$5.0		
TOTAL TRANSPORTATION	**$512.9**	**$88.0**	**$0.0**	**$117.5**	**$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

September 2023 Estimate by Fiscal Year

Category	FY 2021-22	% Chg	FY 2022-23	% Chg	FY 2023-24	% Chg	FY 2024-25	% Chg	FY 2025-26	% Chg
Rebates & Expenditures:										
Cigarette Rebate to Local Governments	$8.2	-11.2%	$7.7	-7.0%	$6.6	-13.1%	$6.3	-5.6%	$6.0	-4.3%
Marijuana Rebate to Local Governments	$25.6	-11.7%	$21.9	-14.5%	$24.3	10.7%	$26.5	9.2%	$27.0	2.0%
Old-Age Pension Fund/Older Coloradans Fund	$86.9	0.0%	$94.9	9.2%	$83.6	-11.9%	$83.9	0.3%	$84.0	0.1%
Aged Property Tax & Heating Credit	$5.9	-8.0%	$12.0	105.2%	$8.1	-32.3%	$7.7	-5.1%	$7.8	1.6%
Homestead Exemption	$162.1	2.7%	$163.7	1.0%	$163.3	-0.2%	$174.2	6.7%	$178.3	2.3%
TABOR Refund Portion of Homestead Exemption	*($162.1)*		*($163.6)*		*($163.3)*		*($174.2)*		*($178.3)*	
Debt Payment on Bonds for School Loans	$1.0	-20.9%	$10.5	952.4%	$10.0	-5.0%	$9.0	-10.0%	$7.7	-15.0%
Fire/Police Pensions	$4.5	4.4%	$4.3	-5.0%	$4.6	7.4%	$4.7	2.2%	$4.8	2.1%
Amendment 35 General Fund Expenditure	$0.7	-6.9%	$0.7	-6.9%	$0.6	-8.8%	$0.6	-4.0%	$0.6	-3.1%
Property Tax Exemption Reimbursement to Local Governments	$16.7	N/A	$16.6	-0.5%	$16.7	0.6%	$16.8	0.2%	$16.8	0.0%
Total Rebates & Expenditures (Excluding TABOR Refund)	**$149.6**	**-49.4%**	**$168.7**	**12.8%**	**$154.6**	**-8.4%**	**$155.4**	**0.5%**	**$154.6**	**-0.5%**