Colorado
Economic & Fiscal Outlook

December 20, 2023

STATE OF COLORADO

Governor's Office of State Planning & Budgeting

COLORADO
Governor Jared Polis

Contents

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Alex Carlson - Manager
Will Mixon - Manager
Anders Shropshire - Tax Policy Analyst
Clint Saloga - Economist
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Forecast in Brief

OSPB has revised up its economic growth expectations from the September forecast due to a rebound of consumption and investment in the third quarter of 2023. Real disposable income is positive and outpacing pre-pandemic growth as inflation is resettling more quickly than moderation of wages. As consumer demand shifts from goods to services, there are anticipated sector-specific slowdowns in labor demand as a result. Local inflation growth is expected to outpace the nation's inflation rate due to higher services demand, but positive developments in local shelter and energy inflation are expected to help shrink the gap by the end of next year.

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 stable at 30 percent. 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.

In FY 2023-24, as a result of General Fund growth expectations underpinned by a stronger economy, TABOR refunds are expected to total $1,651.3 million, a $213.2 million upward revision from September. 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 $1,280.4 and $1,413.0 million above the cap in FY 2024-25 and FY 2025-26, respectively.

Under this forecast, the General Fund ending balance is projected to be $166.9 million and $36.8 million above the statutory reserve level of 15 percent in FY 2023-24 and FY 2024-25, respectively. This accounts for the November 1st budget submission, but does not factor in supplemental requests or budget amendments to be submitted in January.

General Fund	● **General Fund revenue is revised up $247.3 million in FY 2023-24**, largely a result of stronger than anticipated **corporate income revenue**, with smaller upward revisions in individual income, sales, insurance, and interest income. ● **FY 2024-25 revenue is revised down $78.1 million** largely due to slightly lower job growth than the previous forecast, which impacts **individual income withholdings revenue**. ● **General Fund revenue is expected to grow 4.6 percent to $19.1 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 2.9 percent in FY 2023-24 and then increasing 4.9 percent in FY 2024-25. Compared with the September forecast, cash funds are revised down $36.6 million and $49.7 million in FY 2023-24 and FY 2024-25 respectively, as revenue impacts from the Governor's budget more than offset increases in **severance and transportation revenue** expectations.

Economic Outlook

The labor market remains strong though jobs growth continues a slow decline at both the state and national level. Similarly, consumer demand has proven more resilient on higher durable goods spending and continued services growth but is expected to decelerate during the first half of 2024. Inflation growth has continued to moderate in Colorado and the nation as a whole as shelter and energy prices continue their downward trajectories. The gap between local and national prices has also narrowed, but price growth remains higher locally than nationwide largely due to higher local demand for services. Resilient consumption patterns, combined with higher than anticipated recent investment and inventory activity, boost 2023 GDP expectations by 0.4 percentage points. Going forward, OSPB still anticipates that growth will slow in early 2024 due to slowdowns in consumer demand, slowing inventories, and investments, followed by a rebound to potential growth by 2025. Colorado has seen earlier slowdowns than the U.S. as a whole in retail spending and the labor market in recent months but is expected to fare slightly better than the nation as a whole over the course of the forecast period due to labor market tightness and a higher proportion of service spending.

Overview of Economic Indicators

GDP: In a revision upward since September, real GDP is now expected to outpace 2022 growth (1.9 percent) and grow at 2.5 percent in 2023 as a result of: (1) continued strength in service spending; (2) slow growth in goods spending; and 3) higher near-term inventory growth. GDP expectations correspond with a soft landing as quarter-over-quarter annualized GDP growth is expected to slow in early 2024 but remain at or above 0.5 percent. These factors and base effects of a higher end point in 2023 translate to an additional upward revision of 0.4 percentage points to 1.5 percent growth in 2024. Economic growth is expected to return to 1.6 percent on average in 2025, as GDP is now expected to return to potential growth a quarter later than in the September forecast.

Labor Market: Both the current U.S. unemployment rate of 3.7 percent and the Colorado rate of 3.3 percent remain above full employment and job growth continues, albeit at a slowing rate. The gap between the number of job openings and unemployed workers remains elevated though it continues to decline, signifying moderately tight but loosening labor market conditions. Jobs growth in Colorado remains slower than the nationwide average, attributable to a quicker labor market recovery from the pandemic paired with constraints around a more rapidly aging workforce in the state and relatively expensive housing costs.

Wages and Income: Strength in real disposable personal income exists as disinflation outpaces slowing wage growth, and real average hourly earnings have turned positive paired with continued positive returns in non-wage income, such as equities, fixed income, and rental income. As a result, household balance sheets are currently strong on net, but the drawdown of savings has forced lower-income households to rely more on credit. Accordingly, income growth is distributed unequally across the economy with strength concentrated in the top two income quintiles. Going forward, wage growth is forecast to decelerate from currently elevated levels at both the national and state level while non-wage income is expected to maintain resilience as fixed-income investments remain appealing due to relatively high interest rates.

Consumer Spending: Consumer spending remains resilient and has elevated recent real GDP readings above expected levels but is slowing in both the U.S. and Colorado due to constraints on savings and credit, especially for lower-income earners. Colorado retail sales have slowed more quickly than the U.S. thus far this year, likely tied to a faster and stronger resurgence out of the pandemic and possibly an earlier shift from goods to services spending.

Inflation: The U.S. disinflationary path continues, allowing the Federal Reserve to shift its stance away from additional hikes and a slower path of cuts for the federal funds rate. The gap between national and local inflation has narrowed but local inflation remains elevated above national levels as services prices drive 2023 average annual inflation growth to an expected 5.2 percent, compared to 4.1 percent nationwide.

Energy: Increased production in the U.S., as well as other non-OPEC countries, is leading to an expected domestic oil production record in 2023. As a result, oil prices have failed to record sustained growth over the past quarter despite the extension of oil production cuts by OPEC-Plus and swelling geopolitical turbulence and uncertainty in the Middle East. These offsets have resulted in a relatively balanced market, with domestic natural gas production remaining strong in the face of below-average prices. Substantial risk and uncertainty remain as future production decisions or supply disruptions from geopolitical conflicts could cause volatility in the market.

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 as permits locally and across the nation still lag behind the levels necessary to handle demand. For the time being, slower times to complete projects has served to keep new housing supply stable, but downside risk on completions is on the horizon as permitting is not expected to rebound in the near term.

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. Colorado will depend on in-migration among young people to maintain economic growth, retain a healthy workforce, support an aging population with increasing public service costs, and supplant income and sales tax revenues as the 65+ population ages out of the workforce and spends less.

Small Business: 47.6 percent of all employed persons in Colorado work for a small business, and that number skews higher in rural communities. Recent data shows that these businesses have faced difficulties related to the inability to continue using personal savings and government assistance. As the combined effects of higher interest rates and tightening of availability for traditional lines of credit take hold, small business owners face an uphill battle, highlighting the need for local financial institutions and technical assistance.

Trade: Net U.S. exports have been reverting back to their pre-pandemic level since spring of 2022 after the U.S. trade deficit peaked at over $116 billion in March. However, the elevated value of the U.S. dollar and weaker international economies may serve as headwinds to the trade deficit in the near-term. Still, a focus on U.S. production and alleviated supply chain pressures will contribute positively to the U.S. trade balance going forward. Colorado's exports are comprised largely of high value-added goods, making them more insulated from variations in price and the business cycle due to their relatively inelastic demand in international markets.

Bottom Line

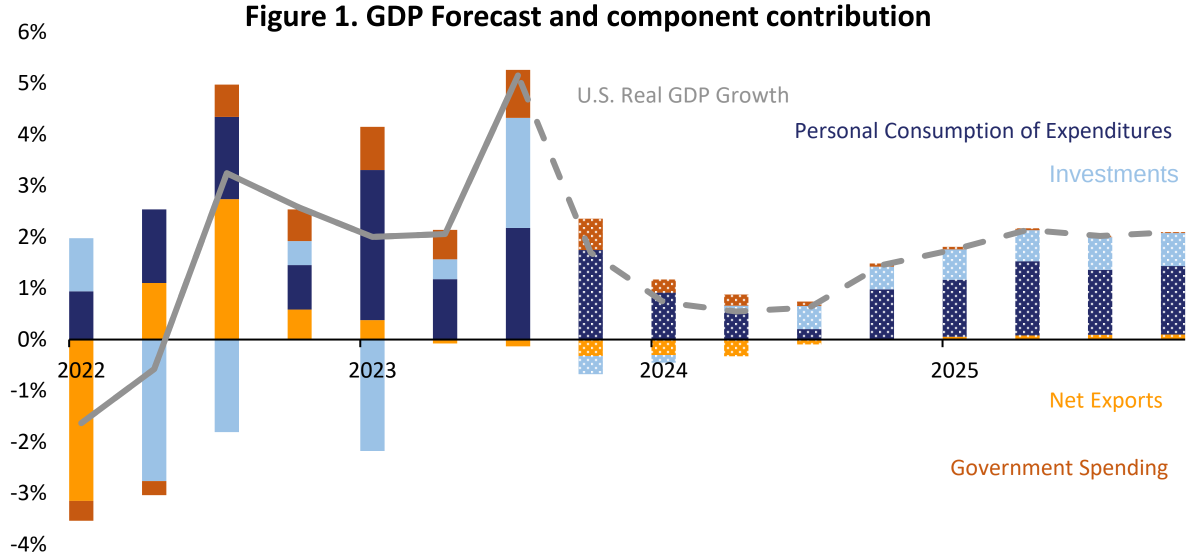
Overall, short-term economic prospects have improved since the previous forecast, largely as a result of resilient consumer spending and elevated real disposable income. A deep or protracted recession is still not currently expected, and OSPB views the likelihood of a recession in the next 12 months to be 30 percent. Future risks are largely weighted to the downside.

Gross Domestic Product

After growing 1.9 percent on average in 2022, the economy maintained similar growth in the first half of 2023. However, GDP picked up significantly in the third quarter of 2023, with 5.2 percent growth, driven by a combination of stronger consumption, investment, and government spending than the previous quarter. Consumption contributed 2.2 percentage points of the 5.2 percent growth due to the service sector's overall strength combined with stronger than previously expected retail sales. Investment contributed 2.1 percentage points with a key driver being inventory growth, while non-residential investment was relatively weak despite the surge of manufacturing construction. Despite strong consumption in the current quarter, continued constraints on lending and falling inventories lead to a drag on growth in the last quarter of the year. Even so, OSPB revised up its 2023 forecast from 2.1 to 2.5 percent.

In the first half of 2024, growth is expected to cool due to demand-driven pressures that slow consumer demand, drag inventory and investment growth, and mute net exports. However, a continued healthy job market is expected to limit the cool-down when combined with easing financial conditions that re-emerge in mid-2024. With easing financial conditions in the second half of 2024 and into 2025, GDP growth picks up as growth in consumer spending and investment contributions bounce back. Overall growth in GDP still remains contained close to potential GDP during that time period due to the lagged effects of monetary policy remaining in restrictive territory. Overall, annual 2024 GDP growth is expected to rise 1.5 percent, 0.4 percent above the previous forecast primarily due to base effects, while 2025 growth is revised down 0.2 percentage points to 1.6 percent as GDP now is expected to return to potential growth a quarter later. Real GDP levels are still expected to exceed the September forecast.

Figure 1. GDP Forecast and component contribution



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

Figure 1 above depicts quarter-over-quarter annualized growth in real GDP, where the gray 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, has been buoyed by stronger than expected goods demand as well as continued strength in services demand this year. Strong services demand was largely expected, but in the most recent quarter, only about a quarter of the services growth was due to food services, accommodations, or recreation, implying a broader base but also one less linked to taxable services sales. Meanwhile, continued real growth in U.S. durable goods consumption was not expected. OSPB attributes this strength to higher demand for vehicles and other large durable goods purchases now that production delays have subsided. Both of these trends likely represent a split between higher savings rates amongst the wealthiest two quintiles who can more easily afford growth in such consumption, while lower income individuals have run out of savings but continue to depend on access to credit. Looking ahead, there remains a clear shift towards services spending, as real durable goods consumption is expected to turn negative in 2024 while non-durable goods is projected to flat-line mid next year. Additionally, OSPB now assumes that the services share of overall consumption is likely settling at a new normal closer to 65 percent, rather than the 67 percent observed pre-pandemic. Real services spending as a share of overall real PCE spending has been on slight decline since before the pandemic, but the work-from-home lifestyle likely accelerated the country's spending trends to a new steady state. Overall, consumer spending is still rising, but it should grow more slowly due to tighter credit and higher borrowing costs.

Investments (Including Inventories)

Investments are expected to impose a drag in the fourth quarter of 2023 as a dip in inventories more than offsets slight growth in non-residential structures and equipment investment in industries incentivized by the Inflation Reduction Act (IRA) and CHIPS. However, there are sectoral differences in investment, with perceived weakness in commercial real estate also dragging growth. Additionally, residential investment growth is expected to fall this quarter before slowly picking back up in 2024 and 2025 in response to falling monetary policy rates. Similarly, overall investment is not expected to grow in the first half of 2024 as monetary policy likely remains unchanged until the second quarter of 2024 in this forecast.

Net Exports

Net exports are expected to be a drag on economic growth over the next year as a strong dollar is expected to limit export growth relative to imports. Additionally, OSPB expects weakening demand in the Euro region alongside sticky disinflation, while Chinese exports are expected to stabilize after a weaker than expected 2023. By the second half of next year, there is limited goods import demand as slowing consumption helps to normalize net exports back toward minimal impact by the end of 2024.

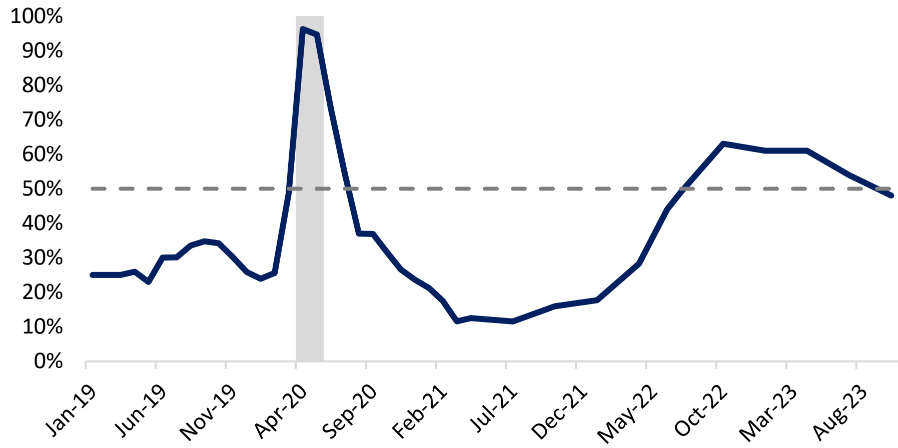
Government Spending

Finally, government spending is expected to have a small positive impact on GDP in the year ahead 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 to water infrastructure, and is discussed further in the relevant section below. Additionally, the IRA will incentivize investments in clean energy projects, domestic manufacturing capacity, and subsidize health care costs. However, government spending is expected to flatten more due to the current political climate, driving a near net neutral impact on economic growth in the outyears.

Recession Risk

OSPB decreased its expected likelihood of a recession slightly in the next 12 months to 30 percent, down from 33 percent in the previous forecast. OSPB expects the U.S. to avoid a recession due to strong household finances, transparency of monetary policy, unaligned sector specific downturns, and slow moving commercial real estate drags that avoid a concentrated impact on the broader economy. As shown in figure 2 below, this level of recession risk is below Wall Street Journal's consensus of 48 percent as reported in October though the market consensus now agrees with OSPB that the baseline point estimate forecast slightly favors avoiding a recession in the next year.

Figure 2. Market Consensus Recession Risk



Source: Wall Street Journal Economic Forecasting Survey

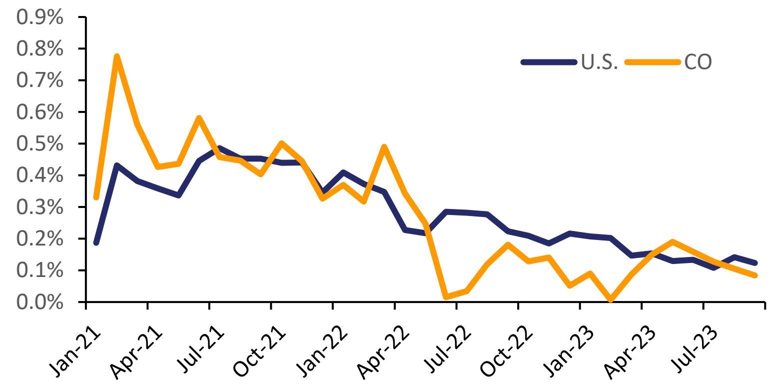
While OSPB has slightly revised up its point estimate forecast of GDP based on the reasons above, it also notes that the current environment would have been considered an upside scenario a year ago. There are now fewer upside risks left and thus the distribution of outcomes around the OSPB baseline scenario is currently weighted more heavily to the downside.

These downside risks include: 1) sticky inflation with concomitant high interest rates which dampen both consumer spending and business investment, 2) increasing consumer debt, 3) exhausted pandemic savings, 4) resumption of student loan payments, 5) lower levels of government spending than anticipated alongside the risk of a government shutdown, 6) a large structural deficit facing federal fiscal policy, 7) possible declines in labor participation due to the closure of childcare facilities resulting from the end of federal childcare subsidies, and 8) geopolitical conflicts around the world including in Eastern Europe, the Middle East, and Asia.

Upside risks include: 1) the labor shortages putting additional upward pressure on real disposable income and consumption, 2) quicker than expected disinflation despite stronger consumer demand, and 3) federal and state policies to support affordable housing and workforce development, which could help bridge existing gaps and further support the economy.

Labor Market

Figure 3. Total Nonfarm Job Growth, Three-Month Moving Average, 2021-2023



Source: Bureau of Labor Statistics, author's calculations

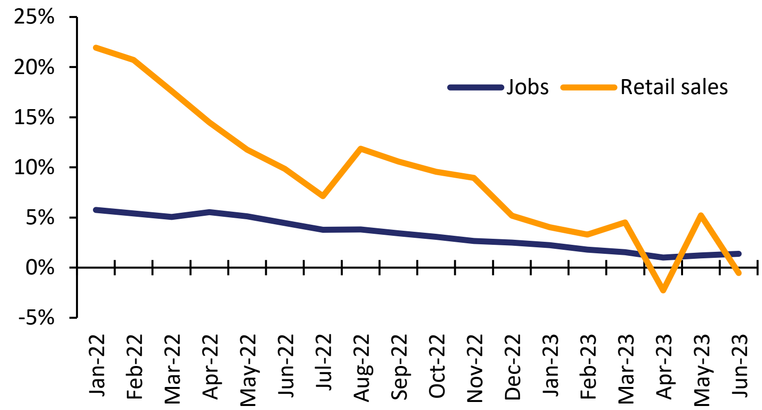
Throughout 2023, both Colorado and the U.S. have experienced cooling job growth. As of November, the U.S. has added an average of 232,000 jobs per month, down from 399,000 per month in 2022; Colorado has averaged 2,900 jobs per month, down from 5,900 per month in 2022. OSPB projects that overall year-over-year jobs growth in 2023 will be 1.4 percent in Colorado and 2.3 percent nationally, down from 4.3 percent for both in 2022. Jobs growth is projected to continue to slow until mid-2025 before beginning to increase again, suggesting a resettling of the labor market following the significant tightening of the last few years. This trend is in line with a general cooling of economic conditions.

Figure 4. Jobs Growth, Annual Forecast

	2023	2024	2025
Colorado	1.4%	1.2%	1.1%
United States	2.3%	1.1%	0.8%

The following analysis is based on the current benchmarks used by CDLE and BLS to normalize monthly estimates of total employment; however, it is worth noting that CDLE expects a substantial revision upward early next year when the benchmarks are updated. These benchmarks are based on comparing monthly survey data to administrative records from the Quarterly Census of Employment and Wages (QCEW) once available, and the difference represents the amount that survey data will need to be adjusted to ensure accuracy. However, since the previous benchmarking was done in March, CDLE has observed an undercount in employment for total non-farm jobs, likely due to declining survey response rates, and expects to see that jobs growth this past year has been higher than previously believed. That said, since this data will not be available for several months, OSPB's forecast uses the current benchmarking processes as the basis for analysis, with the caveat that there is the chance for revision in future forecasts once the new benchmark is released.

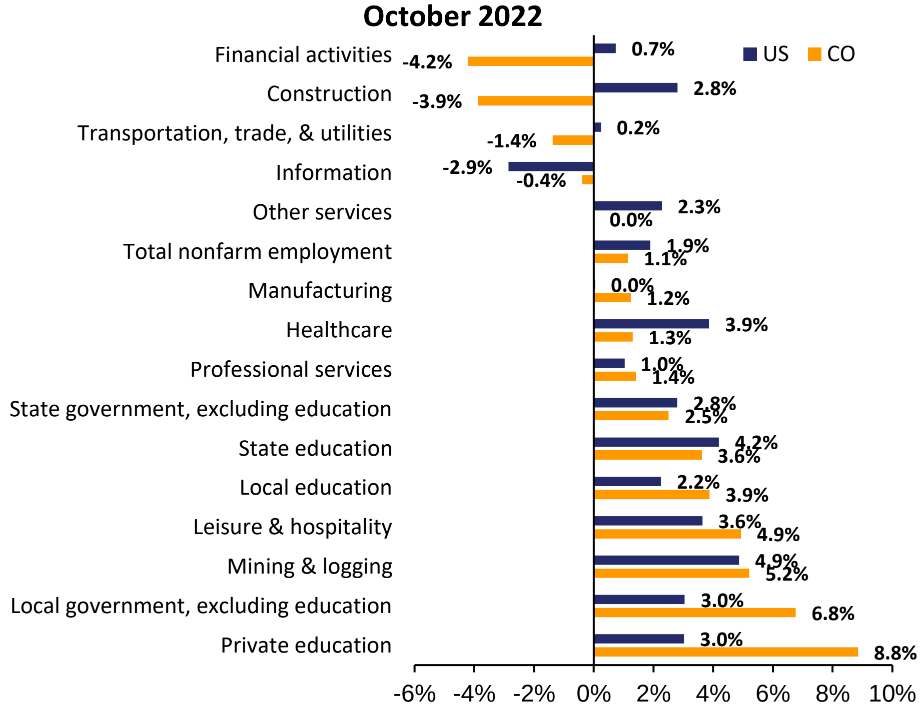
Figure 5. YoY Growth in Jobs and Retail Sales in Colorado, 2022-2023



Source: Bureau of Labor Statistics, Bureau of Economic Analysis

As discussed in OSPB's September 2023 forecast, Colorado has been seeing slower jobs growth than the nation as a whole, attributed to a quicker recovery after the pandemic recession in 2020. Going forward, OSPB expects a reversal of that trend, with jobs growth slowing more for the U.S. as a whole. This trend may be in part due to differences in consumption trends, which often drive job growth. As discussed in more detail in the consumer spending section below, retail sales growth has been higher nationally than in Colorado since June 2023. OSPB anticipates that a slowing of spending, especially on goods, is expected to be a significant driver of general economic conditions going forward. Since Colorado has already experienced this spending slowdown, it is likely that Colorado has already begun to experience the slowing of jobs growth that the U.S. as a whole will face going forward, as both the state and the nation are likely to see slower jobs growth through 2025.

Figure 6. Percent Change in Employment since October 2022



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

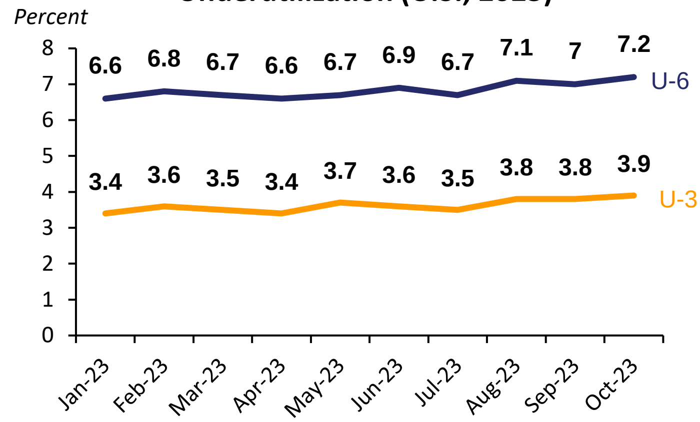
As a result of these shifting consumption patterns, employers have less need for workers in sectors that are heavily reliant on goods consumption. Since October 2022, Colorado has experienced job losses in five sectors, two of which – Transportation, Trade, & Utilities and Nondurable Goods Manufacturing – have a demand for labor that is most directly driven by consumer spending on goods rather than services. In contrast, the U.S. as a whole has seen increases in employment in both Wholesale and Retail Trade, supporting OSPB's assertions that as consumer spending on goods decreases nationally, overall jobs growth may similarly begin to slow. Colorado has also experienced job losses in Construction, likely related to the temporary slowdown in housing permits, discussed in the "Housing" section. About two-thirds of Colorado construction employees are contractors, and thus OSPB expects labor market dynamics to move more quickly than other sectors if new opportunities emerge. Finally, it is worth noting that Colorado's state and local government and education employment has recovered, with state employment relatively stable and larger gains at the local level.

Alongside cooling jobs growth, unemployment has also risen slightly in recent months. Nationally, despite a reduction in the number of unemployed workers in November, unemployment has generally increased in recent months, averaging 3.8 percent since August, up 0.4 percentage points from the low of 3.4 percent in April 2023. It is anticipated that going forward, unemployment will continue to increase. Colorado experienced a 0.1 percentage point month-over-month increase in unemployment, resulting in an unemployment rate of 3.3 percent in October, up 0.7 percentage points from the low of 2.6 percent in August 2022. OSPB anticipates that, in alignment with the cooling labor market, unemployment for the U.S. and Colorado will continue to increase through 2025, peaking in spring 2025, before falling again. While unemployment is rising and is likely to keep doing so, these unemployment rates remain well below the 23-year averages of 5.8 percent for the U.S. and 4.7 percent for Colorado, suggesting that unemployment, like job growth, reflects a resettling of economic conditions. Full expectations for unemployment over the forecast period are shown below.

Figure 7. Unemployment Rate, Annual Forecast

	2023	2024	2025
Colorado	3.0%	3.6%	3.7%
United States	3.7%	4.1%	4.2%

Figure 8. Alternative Measures of Labor Underutilization (U.S., 2023)



Source: Bureau of Labor Statistics

The additional groups of underutilized workers that are unaccounted for by the average but that are likely to become more relevant in the near future are also a part of these headline unemployment numbers. While the difference between the broad U-6 unemployment rate and the headline U-3 rate is relatively stable at present, it is likely to grow due to increases in marginally attached and discouraged workers, as well as those working part-time for economic reasons.[1] First, job flow numbers suggest that the rise in unemployment is more a function of the jobless not finding work than of employed people losing it. According to TLR Analytics, the share of the September unemployed finding work in October fell by 1.7 percentage points while the share of the employed becoming unemployed was unchanged. The share of employed and unemployed leaving the labor force rose 0.1 and 0.8, respectively. These numbers are consistent with the observed increase in discouraged and marginally attached workers, but may also reflect an increase in retirement as the economy stabilizes. Second, it is worth noting that shortages in child care labor and facilities may have resulted in lower labor force participation rates, especially among women. This trend is likely to worsen given the end of federal child care subsidies from ARPA, which expired September 30 and is projected to result in the closure of more than 70,000 child care centers and the subsequent loss of 3 million child care slots. With a decreased supply of child care, many parents – particularly mothers – may be forced to drop out of the labor force entirely due to affordability and availability constraints.

Going forward, OSPB expects that the labor market will continue to stabilize along with other economic conditions, settling at a higher (but still relatively low) rate of unemployment and stable job growth. However, given the recent divergence in employment trends across sectors, it is likely that job growth will be uneven, with some sectors experiencing labor shortages while others face a surplus. As unemployment continues to rise and turnover remains low, it is possible that a reshuffling of workers across industries will occur. Colorado's earlier cooling of the labor market relative to the U.S. indicates that the state may serve as a leading indicator for a cooling national labor market in the near term. Given the increasing importance of prime working age adults (25-54) to Colorado's economy and the implications of the labor and housing markets on net migration, it will be important to monitor industry-specific trends as the post-COVID economy reshapes consumer behavior and thus employers' labor force decisions.

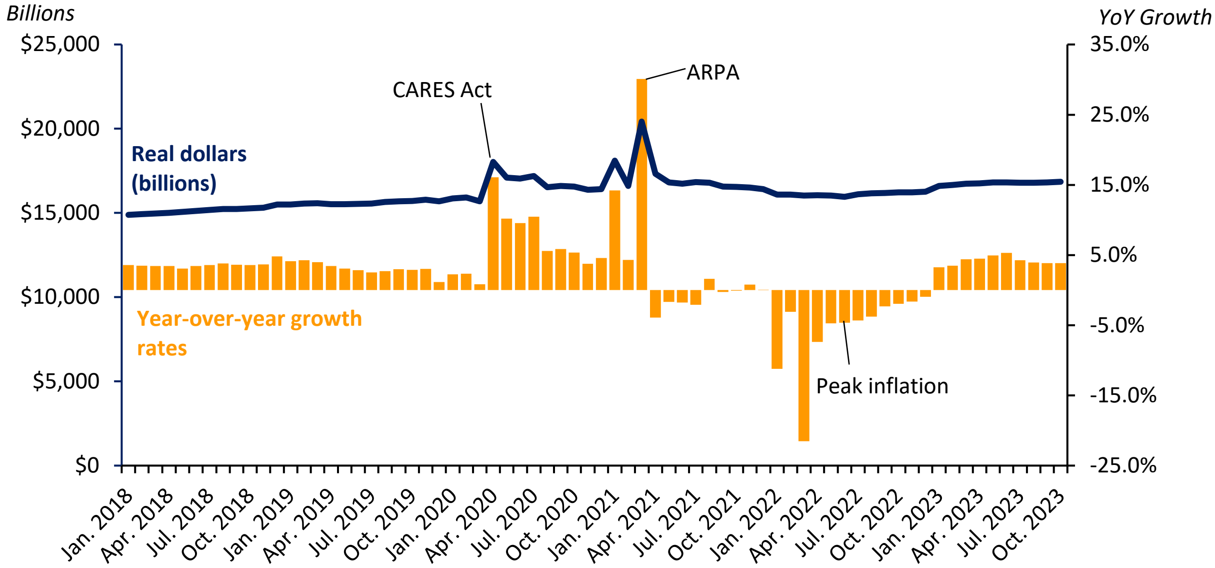
[1] U-3 unemployment refers to the most commonly used measure of unemployment: individuals who do not have a job and have made efforts to find one in the previous four weeks. U-6 unemployment is a broader measure that includes marginally attached workers – those who do not have a job, are not actively looking, but have looked in the previous year – as well as those who are employed part-time for economic reasons.

Wages and Income

Throughout 2023, the national economy has been buoyed by increasing real disposable personal income after it fell in 2022, which has, in some part, contributed to the economy outpacing prior expectations through strong consumption leading to GDP growth above consensus expectations. Strength in real disposable personal income has come to fruition as disinflation outpaced slowing wage growth leading to real average hourly earnings turning positive, combined with continued positive returns in non-wage income, such as equities, fixed income, and rental income. While income growth remains a point of strength in the overall economy during 2023, it is distributed relatively unequally as higher-income earners have been able to weather high inflation and interest rates, while lower-income earners are financially stretched to the point of having a negative savings rate and increasing credit card delinquency rates. Overall, personal income growth continues to power a relatively robust economy despite the strength mostly concentrated in the upper income quintiles.

Following negative real disposable personal income growth in 2022 (-6.0 percent), growth has turned decidedly positive year-to-date in 2023 at 4.2 percent as inflation continues to recede, wage growth remains strong, and non-wage income growth maintains positive momentum. Real disposable personal income reflects personal income that an individual or household has after subtracting income taxes and adjusting for inflation, or what an individual or household has available to spend or save in real terms. Higher real disposable income indicates that an individual has a greater ability to spend. Thus, significant increases over 2023 in this category have provided significant upside growth to the economy as consumption has accelerated at greater rates than previously expected. The balance struck between continual disinflation and strong, albeit slowing, wage growth is providing the consumer greater purchasing power that they did not have in 2022 due to higher inflationary headwinds. As reflected in Figure 9, real disposable personal income saw growth over 2018 and 2019 before sharply accelerating in 2020 and early 2021, largely from government transfer payments provided for in the Coronavirus Aid, Relief, and Economic Security Act (CARES) and ARPA. As inflation reached its peak over 2022, real disposable personal income turned negative as income growth did not keep up with inflation in addition to downward pressure from the roll-off of government transfer payments. With real growth at 4.2 percent in 2023 through October, real disposable income is at its highest growth rate since 2000 (4.9 percent), with the exception of 2020 which saw real growth of 6.4 percent as government transfer payments coupled with low inflation led to large increases in real disposable personal income. This trend in 2023 is providing a significant tailwind to the economy.

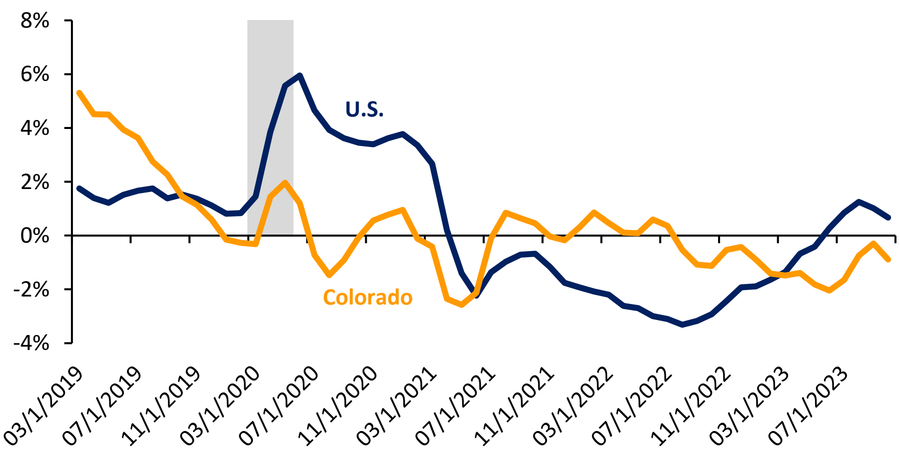
Figure 9. U.S. Real Disposable Income Levels and Annual Growth



Note: Real disposable income levels displayed in billions of chained 2017 dollars.
Source: Bureau of Economic Analysis

Part of the acceleration in real disposable personal income is coming from real wage growth turning positive at the national level. Year-to-date average hourly earnings growth through October 2023 is at 4.4 percent, outpacing inflation levels over the second half of the year. This comes after 24 straight months of negative real average hourly earnings growth at the national level. Despite strong nominal average hourly earnings growth at the national level of 5.4 percent in 2022, real growth remained decidedly negative due to inflation outpacing earnings growth. In contrast, Colorado was able to maintain flat to positive real growth over much of 2022 as average hourly earnings growth was 7.8 percent, remaining competitive with inflation levels at the time. In Colorado, real average hourly earnings have turned negative since the final quarter of 2022, although they are trending in a positive direction. The divergence between the U.S. and Colorado has led to national

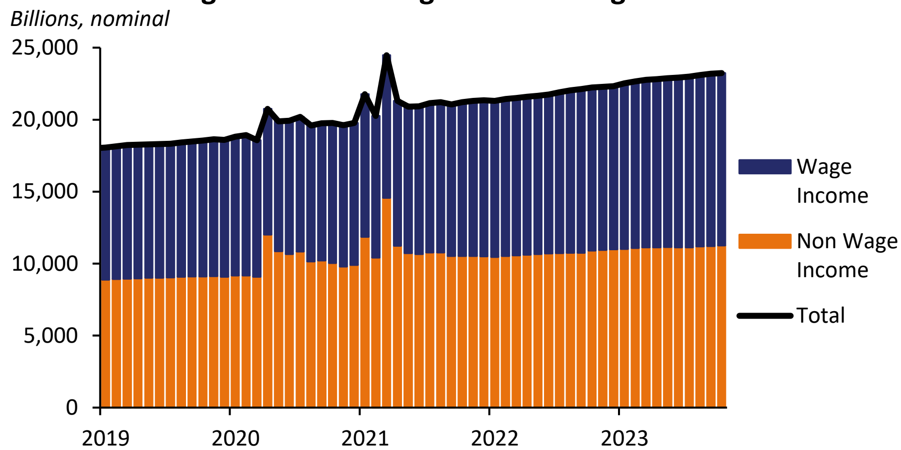
Figure 10. Real Average Hourly Earnings Growth
3-Month Rolling Average



retail sales outpacing statewide retails year-to-date in 2023, as average consumers at the national level have a greater ability to spend than in Colorado.

As wages remain strong at a nominal level and are turning positive in real terms, non-wage income continues to provide a boon to overall personal income as well. Non-wage income consists of equities, fixed-income investments, proprietors' income, rental income, government benefits, and other income not generated from employee wages. Thus far in 2023 (through October), non-wage income stands at 4.4 percent, outpacing inflation levels, yet not quite as strong as overall wage growth, which is currently at 6.1 percent year-to-date. Looking forward, the labor market is expected to loosen from current levels, which will place downward pressure on wage growth. As treasury bonds and other fixed-income investments provide strong outlets for investors from other assets as the economy slows, there is likely to be further parity among wage and non-wage growth in 2024. These appealing fixed-income investments at above-average interest rates will also provide an overall boon to personal income growth through the forecast period.

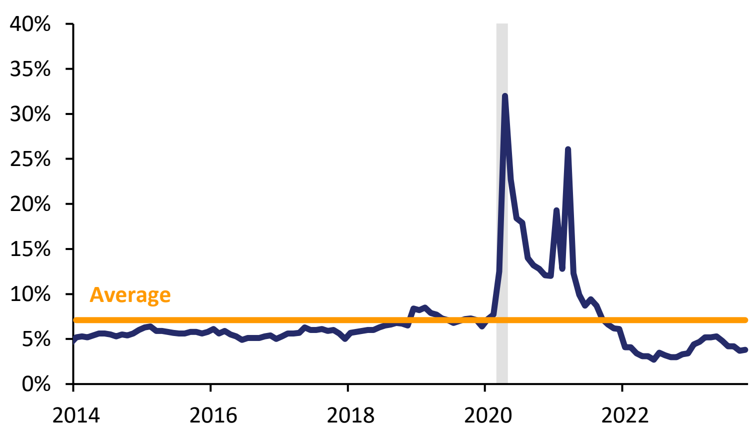
Figure 11. U.S. Wage vs. Non-Wage Income



Source: Bureau of Economic Analysis

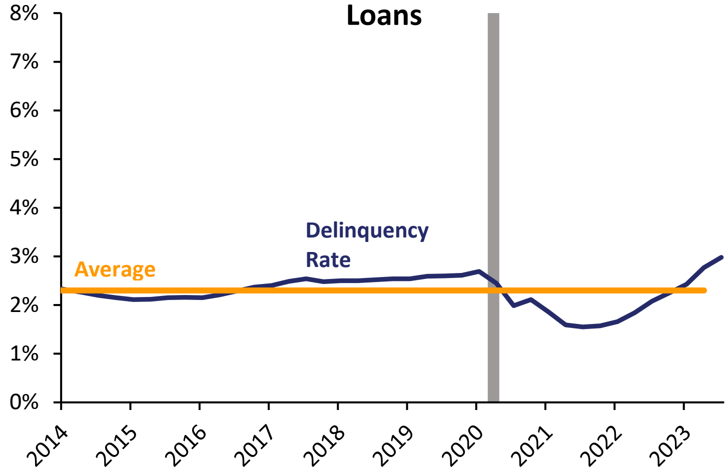
Despite strong overall income growth, there are weaknesses surfacing with the national savings rate below the ten-year average alongside above-average credit card delinquency rates, reflecting increasingly distressed consumers with fewer savings and increasing revolving debt. While real personal income growth on aggregate continues to power the overall economy, the distribution of its positive impacts are concentrated among the two highest income quintiles, while the lowest three income quintiles are seeing the most financial distress. Recent research from Moody's found that the top 40 percent of income earners maintained a double-digit savings rate above ten percent, while the bottom 60 percent of income earners had a negative savings rate of nearly -5.0 percent. The overall savings rate

Figure 12. U.S. Savings Rate



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

Figure 13. Delinquency Rate on Credit Card Loans



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

currently stands at 3.8 percent as of October 2023 compared to the ten-year average of 7.1 percent.

Similarly, credit card delinquency rates are higher among lower-income quintiles, as the overall delinquency rate is currently 3.0 percent compared to the ten-year average of 2.3 percent. While the current delinquency rate is just above the long-term average, the trajectory has turned sharply positive and has nearly doubled since the recent trough in 2021. Further, even though lower-income earners make up the greatest share of delinquencies, all income quartiles are now above their pre-pandemic levels, reflecting more financial distress among all income earners compared to pre-pandemic levels.

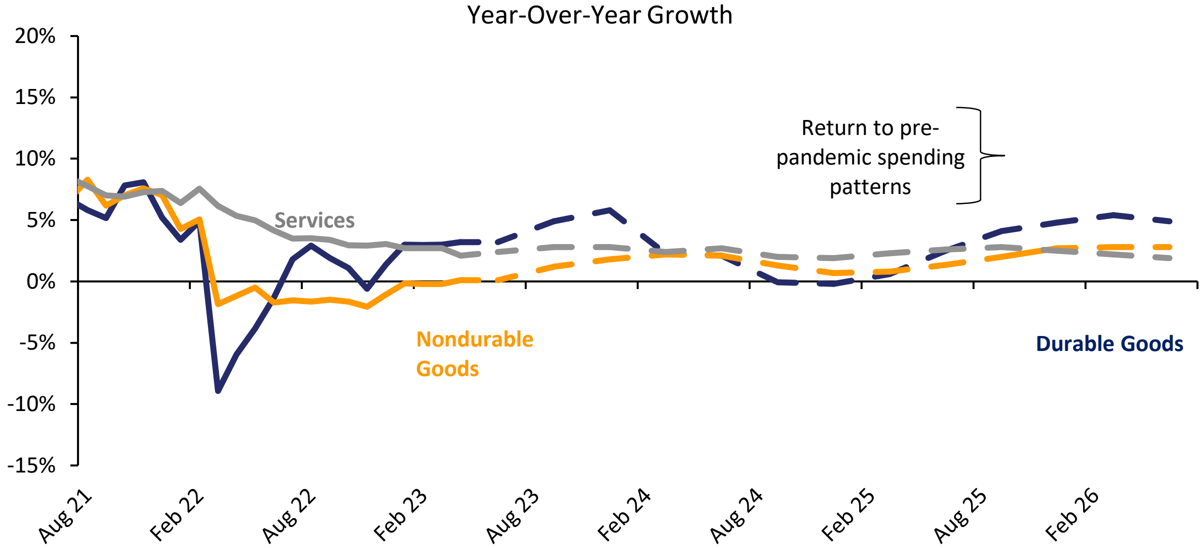
Overall, much of the surprising strength in the economy over 2023 has come from real personal income growth powering consumption to a greater degree than previous OSPB or consensus forecasts estimated. This strength is most pronounced in real disposable personal income, which is on pace this year for its second-highest growth rate recorded since 2000, reflecting an economy in which individuals have a greater ability to spend. However, this ability is spread across the economy in an uneven manner with lower-income groups facing more financial distress compared to higher earners. Going forward, wage growth is forecast to continue to decelerate from currently elevated levels at both the national and state level as the labor market loosens, while non-wage income is expected to maintain resilience even with a minor economic slowdown as fixed-income investments remain appealing due to high interest rates.

Consumer Spending

Consumer spending has demonstrated sustained resilience since the beginning of 2023. However, amid mounting headwinds, the surge in spending has reached a point where an inevitable slowdown is anticipated as the year draws to a close. Previous OSPB projections anticipated a national decline in consumer spending to commence in the latter half of the year, but this deceleration has proven to be more gradual than initially anticipated. Signs of a spending slowdown started to show in Colorado earlier than at the national level as year-over-year retail sales growth has been higher nationally than in Colorado since June 2023. The second quarter of 2023 witnessed strength in spending at the national level as real personal consumption expenditures (PCE) grew at a rate of 1.6 percent from the previous quarter, primarily due to higher than expected durable goods spending and elevated services spending growth. Contrary to forecast expectations, the upswing in spending, especially durable goods spending, has persisted through the third quarter of 2023. Nevertheless, OSPB anticipates a deceleration in real spending during the first half of 2024, with a subsequent return to historical trends in 2025.

Figure 14. Real Spending by Category

Year-Over-Year Growth

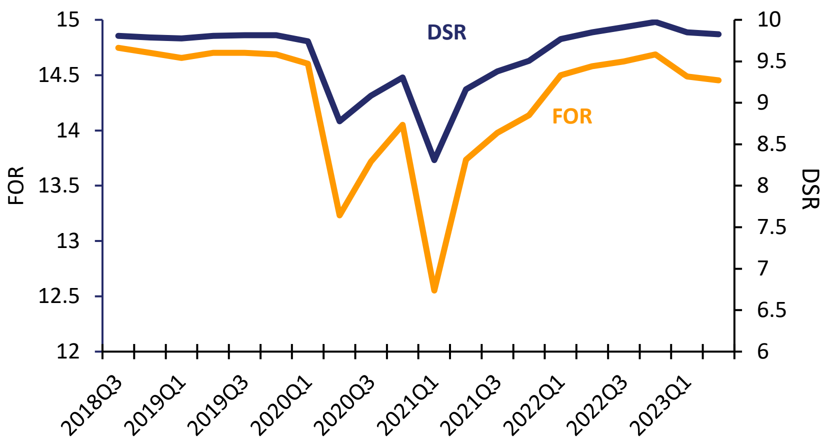


Note: Dotted line indicates forecast.
Source: Bureau of Economic Analysis

On the retail sales front, national sales recorded 1.6 percent year-over-year growth in the second quarter of 2023, experiencing an uptick to 3.0 percent in the third quarter. However, a slowdown in consumer spending is expected entering the last quarter of the year as spending is not expected to outperform the 2022 holiday season. Real spending at both the national and state level is expected to slow further before returning to trend towards the end of 2024. Additionally, retail sales growth has come in below the inflation rate for the past two quarters, resulting in negative real sales growth for both quarters. Overall, national retail growth is expected to continue to outperform Colorado retail growth until 2025.

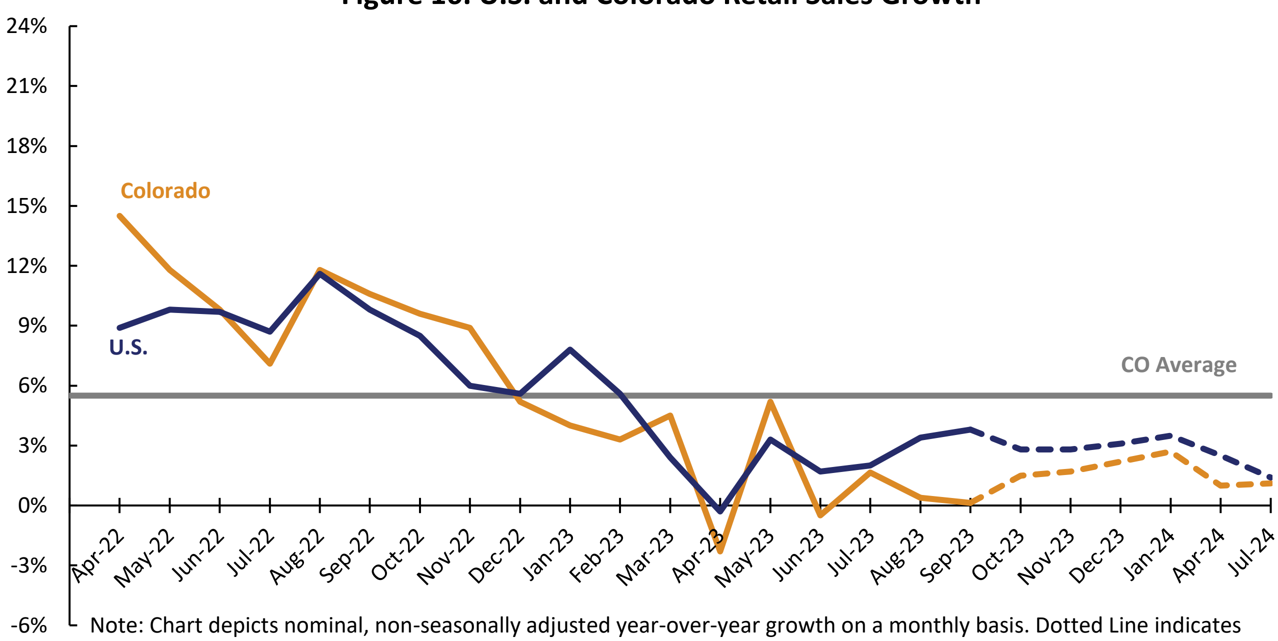
Consumers have exhibited sustained resilience in their spending behaviors, navigating through inflationary pressures, heightened interest rates, and dwindling savings. This spending endurance is underpinned by several factors, including increasing real disposable income over 2023, a robust labor market, surplus savings within the top two income quintiles, elevated consumer credit, and overall wealth accumulation predominantly concentrated among the higher income quintiles. The highest earners are the backbone of this continued spending strength, however, accumulated excess savings among this group is not indicative of continued spending going forward. Higher-income quintiles seem to be holding on to their excess savings with no intention of using it to sustain spending habits, while the lower-income groups have diminished any pandemic savings. Consumer spending has reached a point where sustaining such elevated levels of spending has become challenging for consumers and an anticipated shift towards flattening spending before returning to pre-pandemic spending patterns is increasingly evident. Indications of this reversion can be discerned by examining the emerging financial burdens experienced by consumers. Nationally, the Debt Service Ratio (DSR - ratio of total required household debt payments to disposable income) and the Financial Obligations Ratio (FOR - a broader measure than DSR) are returning to pre-pandemic levels, as seen in figure 15.

Figure 15. Consumer Burden Returning to Pre-Pandemic Levels



This increasing burden on the consumer will start to put downward pressure on spending going into 2024. In addition to increasing financial burdens, consumers are grappling with heightened interest rates, particularly for credit cards, along with stricter lending standards. Notably, the DSR incompletely captures the potential financial strain resulting from spikes in interest rates, primarily because the majority of consumers presently are facing fixed interest rates. These effects are expected to amplify the financial burden on consumers as 2024 begins.

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



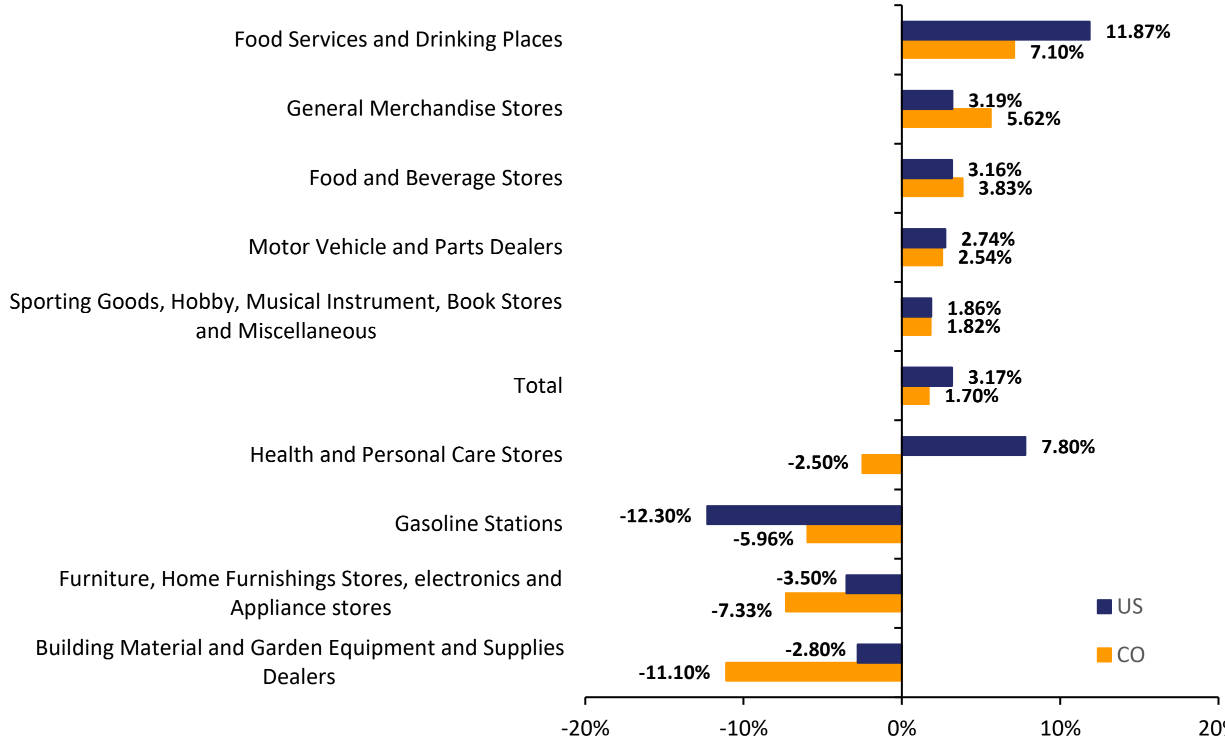
Note: Chart depicts nominal, non-seasonally adjusted year-over-year growth on a monthly basis. Dotted Line indicates forecast.
Source: U.S. Census Bureau, Colorado Department of Revenue, OSPB December 2023 Forecast

As seen in figure 16, national retail growth has started to outperform Colorado retail growth since the second quarter of 2023. This pattern persisted into the third quarter, with year-over-year growth reaching 3.0 percent growth observed at the national level in contrast to 0.7 percent in Colorado. Despite national sales outperforming those at the state level, both are anticipated to experience a downward trend as we progress into the fourth quarter of the year. Nevertheless, fueled by robust consumer spending in the third quarter, OSPB has revised up national retail growth expectations to 3.1 percent for 2023 from 2.7 percent. Going into 2024, the various headwinds confronting consumers – such as high interest rates, a loosening labor market, and pessimistic consumer sentiment – are expected to begin to influence outcomes. These headwinds are anticipated to result in a slower annual national retail growth for 2024 at 2.6 percent. Due to the observed retail slowdown in the second and third quarters for Colorado, there is a downward revision to the annual retail growth forecast. OSPB now projects annual retail growth in Colorado to be 1.8 percent in 2023 and 2.3 percent in 2024, a downward revision from 2.3 percent and 3.2 percent respectively.

Colorado's relative weakness relative to the nation indicates a decline in spending below pre-pandemic levels before stabilizing at the state level with consumer spending returning to pre-pandemic levels. The observed slowdown could be more pronounced due to the inflationary pressures Coloradans are facing. One indicator that can be used to understand the consumer's mindset in Colorado is the Household Pulse Survey, which is a bi-weekly survey conducted by the U.S. Census Bureau. Close to 26 percent of Coloradans between the ages 24-39 are using credit cards or loans to meet spending needs compared to 21 percent nationally and nearly 22 percent of 65 and above Coloradans are using money from savings or selling assets or possessions to meet spending needs compared to 16 percent nationally. More importantly, according to survey findings, the majority of Coloradans (across all age groups) are finding their regular income sources insufficient in meeting their spending needs. Going into the last quarter of 2023, it is anticipated that higher earners will be the primary contributors to sustained spending strength during this holiday season. The 2023 Deloitte Holiday Retail Survey found that nearly 30 percent of shoppers (high spenders evenly split between men and women, and with an annual income greater than $100K) will be responsible for approximately 70 percent of holiday spending. Overall, holiday retail spending is expected to grow at a slower pace in 2023 after above average growth between 2020 and 2022. According to McKinsey[2], consumers this year are more price sensitive and less inclined to splurge than they were in 2022.

[2]https://www.mckinsey.com/industries/retail/our-insights/us-holiday-shopping-2023-consumer-caution-and-retailer-resilience

Figure 17. Retail Sales Growth by Industry (Q1-Q3 2023)

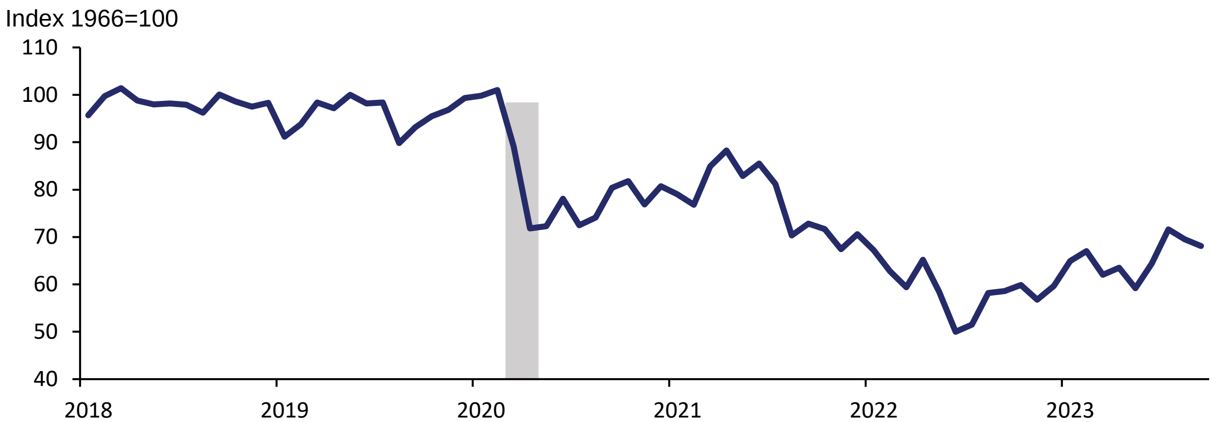


Note: Year-over-year Percentage Change
Source: U.S. Census Bureau, Colorado Department of Revenue

As seen in figure 17, there is only one industry that has outperformed national retail in the state for 2023 to date: general merchandise stores. In contrast, during this time period, Building Material and Garden Equipment, as well as Furniture and Home Furnishing stores, experienced significant negative growth. This aligns with the fact that the Colorado housing market has been slowing more relative to the national housing market during 2023. One industry which saw a significant decline in retail sales both for U.S. and Colorado is gasoline stations. 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 significant price drops in 2023, indicating that the quantity of gasoline purchased remained relatively stable at both the national and state levels. Restaurants and drinking places, which have always played a pivotal role in driving consumer spending, saw a steady increase in sales growth for both U.S. and Colorado during the year.

Consumer sentiment has remained at historic lows throughout much of 2022 and 2023 and expectations are that these prolonged pessimistic sentiments will start to hamper spending at the end of 2023 and into 2024. The consumer sentiment index dropped further in October as seen in figure 18. As mentioned in earlier forecasts, these prolonged negative sentiments have not yet been fully reflected in actual spending data, as spending has outpaced expectations all throughout 2022 and 2023 despite sentiment being down. Notably, sentiment is deteriorating more significantly within the bottom and middle 33 percent of the income bracket, with both groups registering their lowest consumer sentiment scores since the beginning of 2023. For the bottom 33 percent of earners, October marked a negative 2.5 percent year-over-year change in consumer sentiment, indicating that these consumers feel less optimistic going into the holiday season this year as compared to last season.

Figure 18. University of Michigan Consumer Sentiment



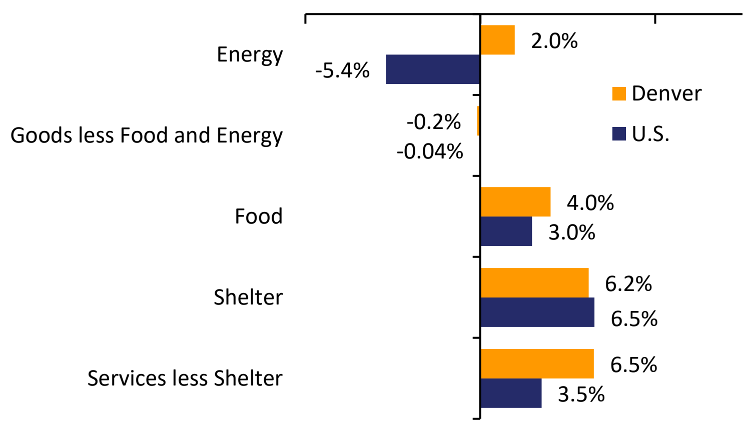
Note: Shaded areas denote recession
Source: University of Michigan

In conclusion, the OSPB forecast for the upcoming period describes a slowing landscape for consumer spending. As the economy settles into new spending patterns, weakening consumer resilience is expected to slow spending, hampering retail growth. The lower half of the income scale, which has played a pivotal role in boosting retail growth both at the state and national level recently, continues to grapple with escalating debt burdens, diminishing savings, and rising inflationary pressures. These challenges imply an impending shift in spending patterns for this demographic. Consumer spending is projected to slow in the first half of 2024, with a modest dip in real spending in the middle of the year. Both durable and non-durable goods spending are expected to level off in the near-term, with a return to their trend shares of overall consumption by the beginning of 2025. Looking ahead, there remains a clear shift towards service spending as current lifestyle changes (such as work-from-home) are expected to move services spending to a new steady state, which is slightly lower than the services share of overall consumption prior to the pandemic. Overall, the robustness of consumer spending is expected to weaken, leading to a slowdown in growth in the upcoming quarters, followed by a subsequent recovery.

Inflation

Year-over-year consumer price inflation (CPI) rates continue to decline in both Colorado and the U.S., though a gap remains between national and local declines due largely to elevated service inflation in Denver and lagging disinflation in the energy component of CPI locally.[3] Notably, however, the gap between local and national inflation narrowed in November as local shelter inflation came down in line with national levels. On net, U.S. CPI has largely come in around expectations in recent months while local CPI exceeded expectations through September but has since abated as anticipated. Since the data available in the previous forecast, U.S. inflation came down from 3.7 percent in August to 3.1 percent in November as a result of continued energy deflation (-5.4 percent) and consistent disinflation in both the shelter (down 0.7 percentage points) and food (down 1.3 percentage points) components. Local CPI dropped considerably in the most recent reading to 4.5 percent in November as shelter inflation dropped 1.3 percentage points from 7.5 percent in October to 6.2 percent. Energy also dropped to from 4.6 to 2.0 percent growth year-over-year, while service price growth remains elevated over the U.S. The graph to the right compares U.S. and local inflation by category for November.

Figure 19. YoY Inflation by Major Component November 2023, Denver vs. U.S.



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

As discussed in more detail below, the prolonged divergence between U.S. and local inflation has begun to close in recent months and is expected to return to more historical levels (0.5 percentage points or lower) by mid-2024 as the following forces play out:

1. Existing disparities between energy prices in Colorado continue to rebalance as expected in-line with prices across the U.S.;
2. Service inflation falls as consumers pull back on elevated services spending.

Overall, inflationary expectations for U.S. CPI are unchanged from the previous (September) forecast at 4.1 percent in 2023, 2.7 percent in 2024, and 2.5 percent in 2025. This U.S. inflationary path anticipates a relative flattening of the disinflationary pace through the end of the year due

[3] Note, local inflation is measured as CPI in the Denver-Aurora-Lakewood metro area; thus, it is possible that other portions of the state may have experienced divergent rates of inflation as compared to this metro area.

to consumer demand and seasonal effects followed by descent below 3.0 percent starting in January 2024. Colorado inflation has been revised up 0.2 percentage points to 5.2 percent in 2023, and remains unchanged at 3.1 percent in 2024 and 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.

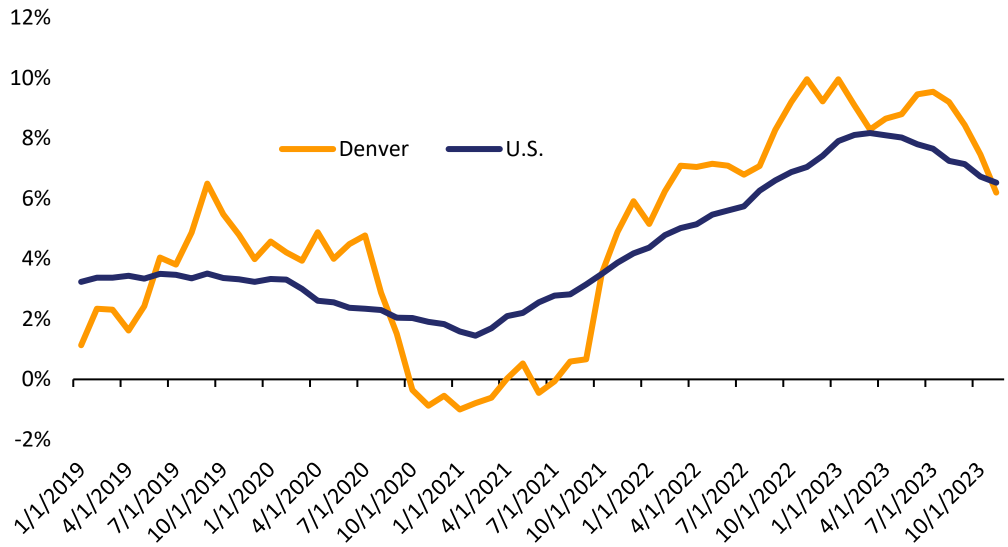
Energy

- *Recent Data:* After large year-over-year increases in energy prices in the first quarter of 2023, energy prices have generally come down both nationally and locally. U.S. energy prices are down 5.4 percent year-over-year in November, while Colorado energy prices continue a disinflationary path but remain up 2.0 percent year-over-year. A large part of recent declines comes from retail gasoline prices, which were down 13 percent month over month in Colorado in November.
- *Factors Driving Prices:* Multiple competing effects continue to affect energy prices across the U.S. Namely, energy price demand has declined moderately due to slower economic growth across the globe. Further, as discussed in the energy section, OPEC-Plus production cuts balance with increased U.S. production to create near term (and recent) declines in energy prices, but on net lift the energy price forecast compared to previous expectations over the course of the rest of the forecast period.
- *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 net increased domestic production will lift the price forecast slightly going forward. OSPB expects that both U.S. and Colorado energy inflation will be near flat through the rest of the 2023 and into 2024.

Shelter

- *Recent Data:* U.S. shelter inflation has declined 1.7 percent to 6.5 percent in November from a peak of 8.2 percent in March 2023. Monthly growth for the past quarter has averaged 0.48 percent (5.9 percent annualized). Colorado shelter prices were trending downward more slowly, but notably dropped 0.9 percentage points from 8.4 percent to 7.5 percent in just one month from September to October followed by an additional 1.3 percentage point drop to 6.2 percent after some price stickiness over the summer. Notably, the gap between local and national shelter inflation has reversed from +1.9 percentage points locally in June to -0.3 percentage points locally in November.

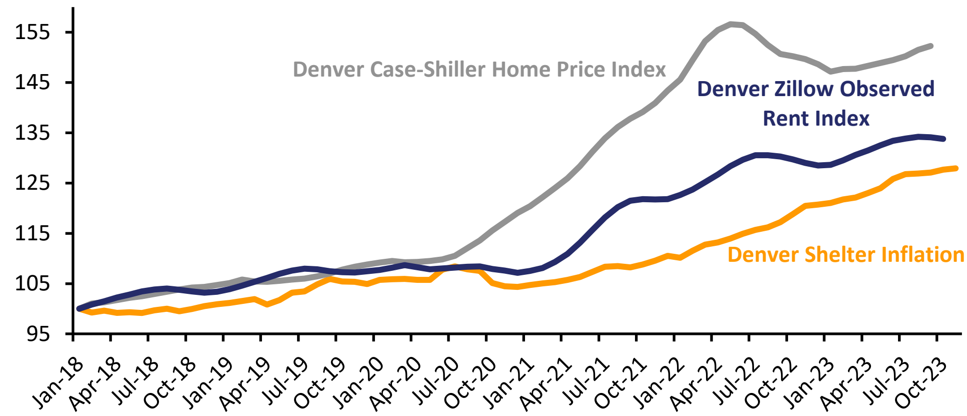
Figure 20. Monthly Shelter Inflation
Denver vs. U.S., YoY



Source: Bureau of Labor Statistics.

- *Factors Driving Prices:* Shelter inflation is stickier than prices across the broader housing market because it is based on rental pricing (observed and imputed), but generally is still responsive to higher interest rates and slower demand over time. The shelter inflation measure also generally tracks well with the Zillow observed rent index, which shows that Denver rental prices have only increased by 1.7 percent over the past six months. However, the measure often still takes time to calibrate upward or downward during high-change times. As the graph below shows, Denver shelter inflation has largely closed the gap with the Zillow rent index and is thus anticipated to flatten in slope akin to the behavior of rental prices.

Figure 21. Denver Shelter Inflation Close-Up



Source: U.S. Census Bureau, CO Department of Revenue, and Zillow.
Indexed to Jan. 2018.

- *Expectations*: U.S. shelter inflation is expected to continue to decline from its current rate of 6.5 percent in November 2023 to 3.7 percent by December 2024, consistent with a return to monthly inflation rates of 0.3 percent starting in February 2024. 0.3 percent monthly shelter price growth is just slightly elevated above pre-pandemic levels of 0.27 percent (2018-2019) and reflects the fact that while supply continues to lag, price growth is resuming a more "normal" trajectory. Along similar lines, Colorado shelter inflation is also expected to decline to 3.9 percent by the end of 2024 given four considerable months of disinflation from 9.5 percent in July to 6.2 percent in November.

Goods minus Food/Energy

- *Recent Data:* Goods inflation has largely been flat to negative in recent months in both Denver and the nation as a whole. U.S. goods inflation came in flat at 0.0 percent year-over-year in September through November and local goods inflation has come in slightly negative in recent months (-0.8 percent on average year-over-year July through November). Prices for both national and local goods are expected to remain relatively flat through the end of 2024.
- *Factors Driving Prices:* Relatively slower goods demand as compared to previous years paired with the resolution of temporary price bumps for core goods, such as used cars, has driven goods inflation to near 0 percent or below both locally and nationally. Temporary hiccups in these disinflationary trends for core goods translated to higher goods inflation in the first half of 2023. However, these temporary factors have largely resolved and goods inflation has resumed a relatively flat trajectory.
- *Expectations:* Goods inflation is expected to remain relatively flat through most of 2023 in both the U.S. and Denver, with year-over-year prices expected to be 0.8 percent up in December 2024 for the U.S. and 0.9 percent to round out 2024 for Denver.

Food

- *Recent Data:* Food price inflation has largely declined both nationally and locally in recent months. Year-over-year U.S. food price growth declined to 3.0 percent in November and Denver food price growth bumped up just 0.1 percentage points to 4.0 percent in November.
- *Factors Driving Prices:* Nearly two years into the Russia-Ukraine conflict, the 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 shows signs of flattening after accelerating at historical levels during and coming out of the COVID-19 pandemic. Risks continue related to each of these factors, but the outlook for food inflation is largely downward.
- *Expectations:* Food prices have come in largely in-line with expectations in recent months. Continued declines in the rate of food price inflation from peak levels in late 2022 and early 2023 mean that overall food price inflation for 2023 is expected to come in at 5.8 percent, largely as anticipated by OSPB and in-line with recent USDA forecasts. Going forward, OSPB anticipates that food price inflation will remain low, averaging 3.2 percent in 2024 for the U.S. These expectations are largely consistent with expectations from the Economic Research Service at the U.S. Department of Agriculture, which forecasts 5.8 percent food price growth on average in 2023 and 2.9 percent food price growth for 2024.[4] Notably, food price growth going forward into 2024 is expected to be concentrated in meat products, but constrained by low (or negative) price growth in eggs, dairy, fruits and vegetables, and grains, all of which experienced spikes in prices in 2022 or 2023.

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 just 3.5 percent in November. Colorado services inflation has remained elevated at 6.5 percent in November after jumping to 6.0 percent in July and is only 0.9 percentage points lower than its peak of 7.4 percent in March 2022.
- *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 largely downward trajectory in the U.S. as a result of slower wage growth. Colorado service inflation is expected to remain elevated at or around 6.0 percent for a few months due seasonal impacts affecting

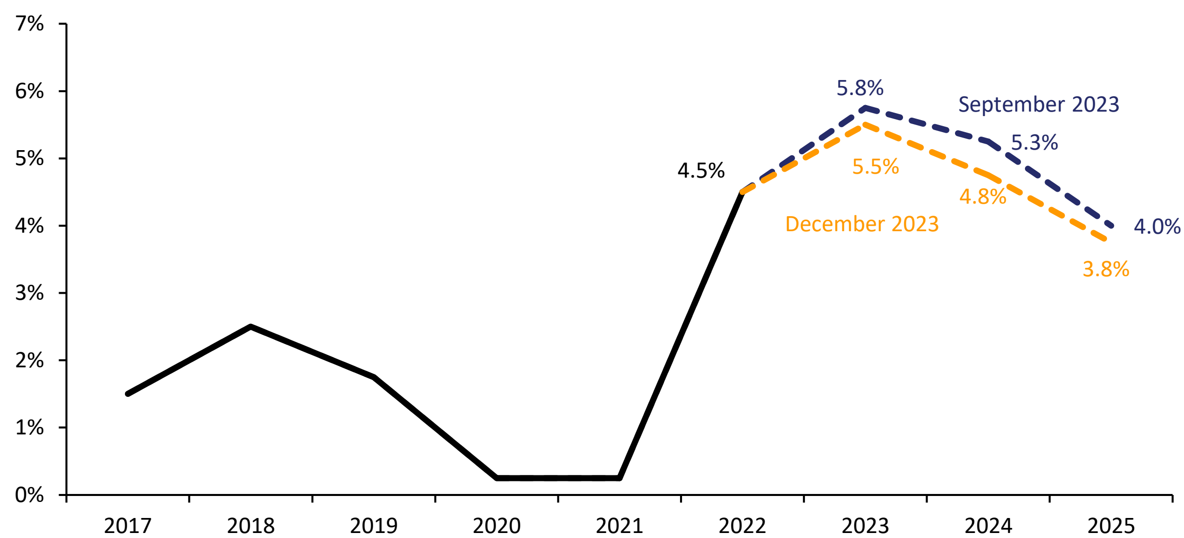
[4] https://www.ers.usda.gov/data-products/food-price-outlook.aspx

the year-over-year figure in Colorado before resuming a downward trajectory. Year-over-year U.S. service inflation is expected to settle at 3.1 percent by December 2024 and Colorado service inflation is expected to decline to 3.8 percent, notably still driving more inflationary pressure in Colorado than the U.S. as a whole through the end of 2024.

Financial Conditions

As U.S. inflation has continued its disinflationary path despite a slow recovery of shelter inflation and stronger than previously expected consumer demand, the Federal Reserve has shifted its stance away from additional hikes and a slower path of cuts for the Federal Funds Rates. Based on the December 2023 Summary of Economic Projections (SEP) published by the Federal Open Market Committee, OSPB expects that the hiking cycle is complete and that at least one additional cut is expected relative to September expectations, see figure 22. After the July 2023 hike, the Federal Reserve took a pause to assess how their actions to date would flow into the economy. Despite strong consumption and a better labor market than previously expected, the Fed expects continued disinflationary progress by remaining in restrictive interest rate territory despite a quicker path of cuts. Market consensus of recession risk has dropped slightly as well, with many viewing slightly less tight monetary policy as sufficient to support a possible smooth landing that the policymakers hope to achieve. OSPB expects at least three cuts in 2024 based on the SEP, with some upside potential for a fourth cut if the OSPB inflation and labor forecasts are correct. The cuts could come as early as March, but are more likely to begin in June as economic growth and consumption slow, followed by cuts every other Federal Open Market Committee meeting in 2024 and 2025 as the committee slowly works its way out of restrictive territory.

Figure 22. FOMC End of Period Fed Funds Rate Upper Bound Expectations



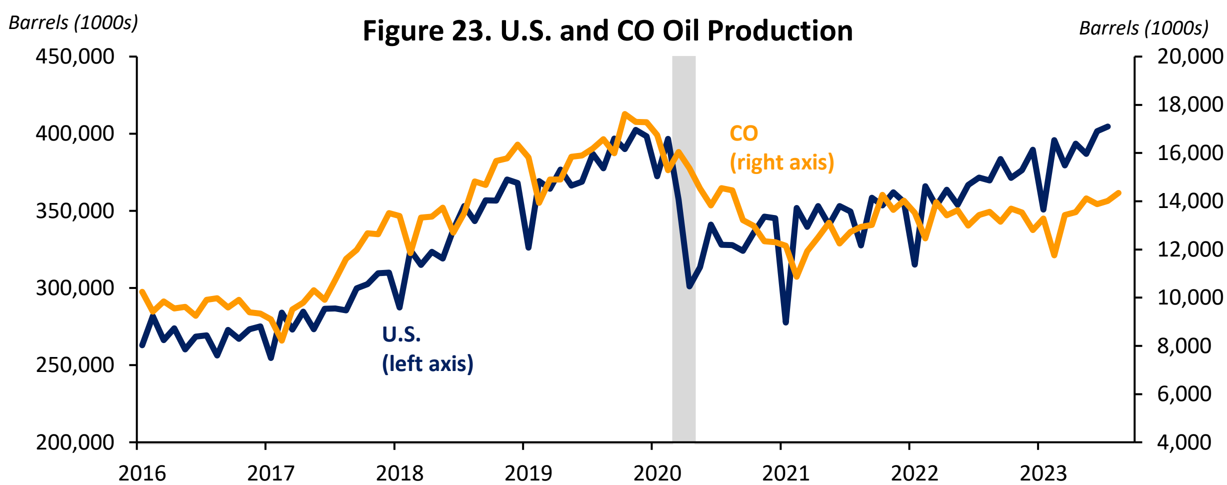
Source: Federal Open Market Committee's Summary of Economic Projections

Despite easing monetary policy, credit standards for banks are tightening, even after deposit outflows have stabilized following a tenuous spring. The first reason for this is likely considerations of risk exposure to commercial real estate (CRE) that shifts asset portfolios away from that industry, due to a recognition that CRE firms are experiencing a deterioration of collateral value and credit quality within the industry. Second, banks are beginning to build up provisions across all lines of business to cover potential loan losses as recession fears still loom. Additionally, a downside risk could occur if there was a renewed rise in long term rates, which might reignite concerns about banks' balance sheets.

Energy

Despite the extension of oil production cuts by OPEC-Plus coupled with geopolitical turbulence and uncertainty in the Middle East, oil prices have failed to record sustained growth over the past quarter even with short-lived rallies at times during the period. Production cut decisions by OPEC-Plus have largely been offset by increased production in non-OPEC countries, led by the United States, which is projected to set an oil production record in 2023. These offsets have resulted in a relatively balanced market, with domestic natural gas production also remaining strong in the face of below-average prices. Retail gasoline prices have dropped considerably since the September forecast in response to falling oil prices. Although energy commodity prices have seen relative stability compared to 2022, upside risk remains from continued production cuts from OPEC-Plus and geopolitical conflicts potentially disrupting supply.

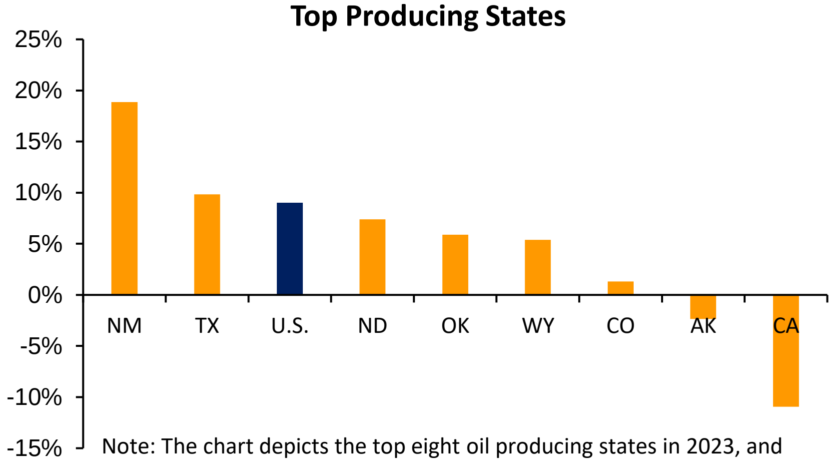
Figure 23. U.S. and CO Oil Production



Note: Shaded area denotes recession
Source: Energy Information Administration

Although OPEC-Plus production decisions have constrained global oil supply, domestic oil production in the United States has largely offset those production cuts. In August, U.S. oil production hit a record high at 404.6 million barrels, beating the previous monthly record set in December 2019 of 402.4 million. Thus far in 2023, domestic oil production is outpacing 2022 levels by 9.0 percent through August per Energy Information Administration (EIA) data, and the EIA forecasts that annual 2023 domestic oil production of 12.9 million barrels per day will beat the previous record set in 2019 of 12.3 million barrels per day. Compared to 2019, oil production is pacing 6.0 percent higher in 2023 through August. Looking to 2024, the EIA forecasts domestic oil production to increase by 1.9 percent and break the annual record once again at an estimated 13.2 million barrels produced per day.

Figure 24. 2023 Domestic Oil Production Growth by Top Producing States

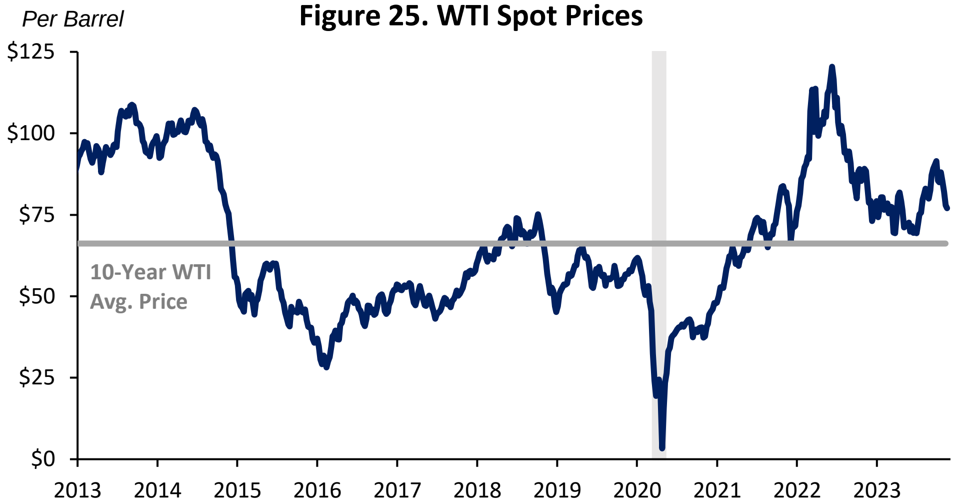


Note: The chart depicts the top eight oil producing states in 2023, and their year-over-year production growth. Data through August.
Source: Energy Information Administration

Colorado production is recording slow growth in 2023 at 1.3 percent above 2022 levels through August, but it still remains 12.3 percent off the pace from the record level the state set in 2019. Despite the slower growth in the state compared to the nation, Colorado is the fourth-highest oil producer in the country at 462,000 barrels per day behind Texas at 5.5 million, New Mexico at 1.8 million, and North Dakota at 1.2 million as of June 2023. The strength of overall domestic oil production growth has come from the Permian Basin with Texas seeing 9.8 percent production growth and New Mexico recording 18.9 percent growth thus far in 2023. Federal offshore production in the Gulf of Mexico has also registered positive growth of 8.6 percent. In 2024, this forecast assumes positive, yet relatively flat, year-over-year oil production growth in Colorado.

In contrast to the production ramp up taking place domestically, OPEC-Plus, led by Saudi Arabia, convened in late November and decided to extend oil production cuts of 1.3 million barrels per day, while cutting an additional 900,000 barrels per day through the first quarter of 2024. These productions cuts will constrain supply to the global market and maintain a higher price floor. To date, however, oil prices have not been overly responsive to the production cuts except for short-term price rallies as non-OPEC production remains strong and lowered global demand continues to place a ceiling on the price.

Figure 25. WTI Spot Prices

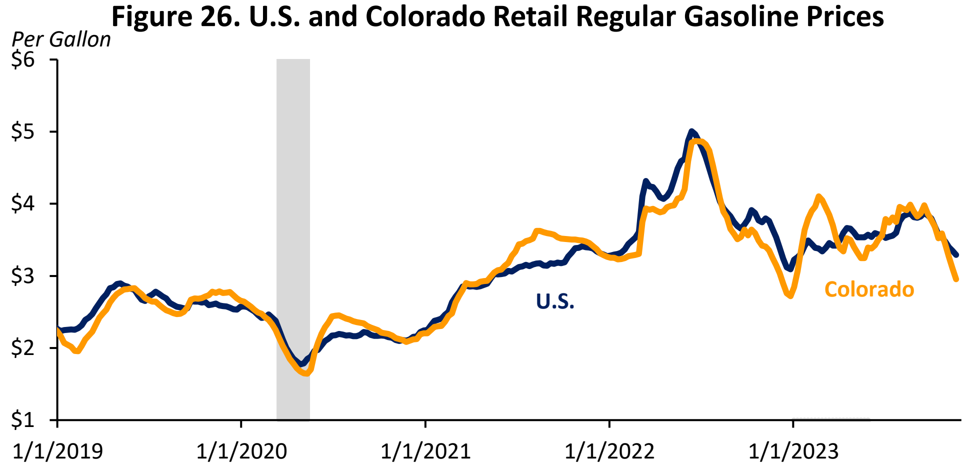


Note: Shaded area denotes recession.
Source: Energy Information Administration

With production increases and cuts largely offsetting each other over 2023, West Texas Intermediate (WTI) oil prices have remained relatively stable compared to the previous three years. Through mid-November, WTI prices averaged $78 per barrel in 2023 compared to $95 per barrel in 2022. Although prices have remained above ten-year average levels, they have maintained stability in 2023: primarily between $70 to $80 per barrel, dropping from the peaks reached in 2022.

Lower oil prices have resulted in lowered retail gasoline prices. After jumping to nearly $4 per gallon over the summer's peak demand season in Colorado for regular gasoline, prices have fallen substantially since, dropping below $3 per gallon for the first time since the beginning of the year. As of late November, the average price for retail regular gasoline in Colorado was $2.96 per gallon, while the U.S. was $3.29 per gallon. Retail gasoline price changes are strongly correlated with oil price changes, which has led to lower prices at the pump, but domestic gasoline demand has ticked down as well, even when accounting for fall and winter seasonal effects. This has led to additional downward pressure on retail gasoline prices at the national and state level.

Figure 26. U.S. and Colorado Retail Regular Gasoline Prices



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

Similar to oil, domestic natural gas production is also strong and is expected to reach a record high in 2023. Production is up 4.4 percent over last year, which is the current all-time high for annual production. The strength exhibited in natural gas production is a surprise to some extent due to below-average natural gas prices. However, production is buoyed by associated natural gas production, which is produced from oil wells. With oil prices remaining in profitable ranges for firms, and thus, driving oil production, these market dynamics are allowing for continued strength in associated natural gas production. Record domestic production alongside weak demand from above-average winter temperatures have led to a glut of supply domestically with inventories six percent above the five-year average as of the end of October. As of mid-November, the spot price for Henry Hub natural gas was $2.74 per million BTU – nearly 18 percent below the ten-year average price of $3.33. Prices are forecast to remain at or below the ten-year average over the next year as the EIA forecasts that natural gas inventories in the U.S. will end winter 21 percent above the five-year average. Similarly, in the European Union, their natural gas stockpiles were at 99 percent as of November, which should mute any upside price concerns heading into the winter months, as the EU continues to secure energy supplies in the face of Russian aggression.

While Europe's natural gas stockpiles provide stability to energy markets in spite of the geopolitical conflict taking place on the continent with Russia's invasion of Ukraine, a conflict in the Middle East between Israel and Hamas has arisen since the September forecast with potential impacts on energy markets. While oil prices initially jumped following the beginning of the conflict, they have since dropped below levels seen before it began. At this time, the baseline energy forecast is not materially impacted by this conflict, however, it does pose significant risk and uncertainty to the forecast and has the potential to cause supply disruptions and upward price pressure on oil.

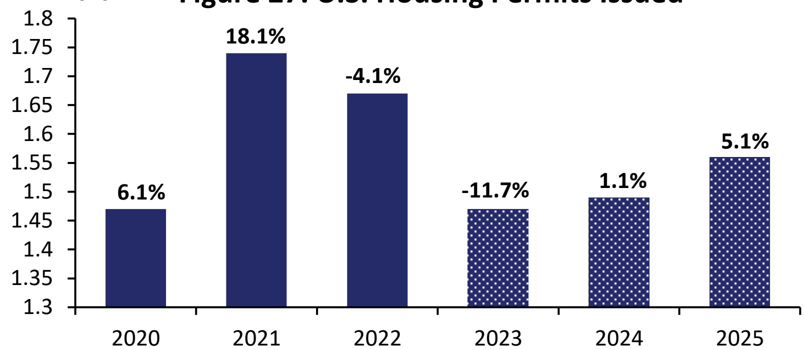
Regional industry sentiment within the oil and gas sector is relatively positive even as drilling activity, business activity, and revenues have fallen year-over year, according to a survey of energy firms which was administered by the Federal Reserve's Tenth District. The Tenth District includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, and parts of Missouri and New Mexico. While activity is down year-over-year, industry expectations are positive, as they expect revenues, capital expenditures, and the number of employees, and drilling and business activity to increase over the next six months. The regional sector reports that the breakeven price for a barrel of oil is $64, while the WTI price necessary to substantially increase drilling is $90 per barrel. With prices expected to remain in the $64 to $90 per barrel range over the next year, alongside more upside risk, it places the sector in a generally positive fiscal position.

Overall, energy prices continue to remain relatively stable in the face of global production cuts and geopolitical conflicts as record domestic oil and gas production alongside weakening demand maintain balance in the market. Despite the current balance, substantial risk and uncertainty remain as future production decisions or supply disruptions from geopolitical conflicts could cause volatility in the market.

Housing and Rental Market

After high levels of permitting in 2021 and 2022, the highest since the early 2000's, the most recent data from the U.S. Census Bureau indicates a relatively quick decline in permitting towards normalcy in 2023. However, in level terms, OSPB forecasts there to be roughly 1.47 million housing permits issued in the United States in 2023 which is still above average levels from 2015 to 2019 (1.28 million). OSPB expects flat growth in 2024 given the high interest rate environment, followed by stronger growth in the outyear as monetary policy continues to ease, displayed in Figure 27.

Figure 27. U.S. Housing Permits Issued

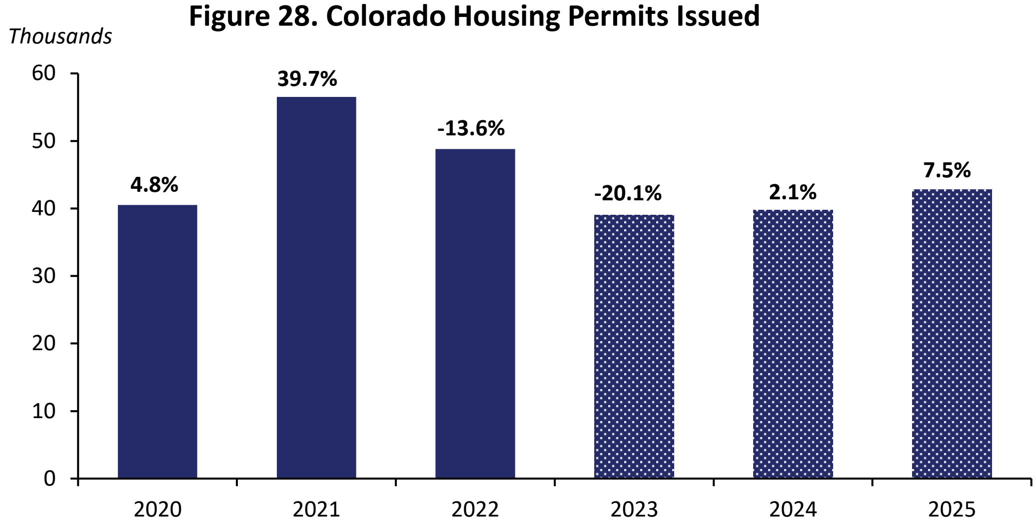


Source: U.S. Census Bureau
*Shading denotes forecast

A similar trend to the United States housing permitting is occurring in Colorado, but with higher volatility. In 2021, Colorado's permitting grew at more than double the rate of U.S. permitting in 2021, but increased headwinds are normalizing housing supply. Thus, OSPB is forecasting a larger decline in permits in 2023 relative to the previous year. Even with a 20.1 percent forecasted decrease in permits issued, the 39,000 permits forecasted in Colorado for 2023 is still in line with historical levels for the average number of permits issued from 2015 to 2019, which hovered around 38,600.

Slowing permits in Colorado and the U.S. are a concern given the consistent demand for homes and the fact that existing homeowners are unwilling to sell with current historically high mortgage rates and market conditions. As a result of many homeowners being locked in at low 30 year fixed mortgage rates in a now high interest rate environment, existing home sales have reached their lowest levels since the Great Recession, and new homes construction is necessary to fill that demand. By 2025, OSPB expects permitting in Colorado to rebound, driven by assumptions of continued demand for housing, falling interest rates which will incentivize new projects, as well as potential impacts of affordable housing policy such as Proposition 123. Proposition 123 was a ballot initiative in 2022 which dedicated one tenth of one percent of state income tax revenue to fund housing programs, and will fund many different initiatives from rental assistance to increasing affordable housing options as well as others. According to DOLA as of November 27th, 2023, Colorado has received commitments from local governments on Proposition 123 accounting for over 87.7 percent of the state's population. The full picture of the forecasted amount of housing permits in Colorado is in Figure 28 below.

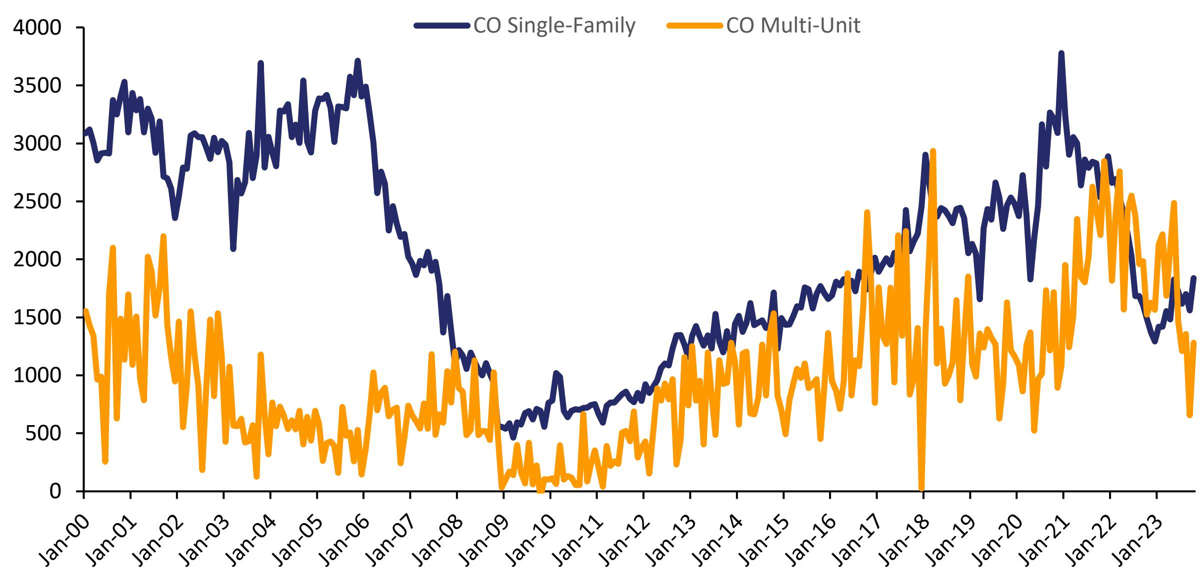
Figure 28. Colorado Housing Permits Issued



Source: U.S. Census Bureau
*Shading denotes forecast

Additionally, permits issued can be split into two categories, single-family homes and multi-family structures. In recent years, Colorado has skewed toward multi-unit structures instead of permits for single-family homes. As displayed in Figure 29 below, multi-family units have fallen in the past few months while single-family homes have shown a slight uptick since the beginning of the year. These trends could be further driven by concerns of homebuilders mentioned above (limited land, labor or materials cost), or by the high interest rates limiting larger investments across the state.

Figure 29. Colorado Private Housing Units Authorized by Building Permits, Single-Family vs. Multi-Family



Source: U.S. Census Bureau

Permitting throughout the state and the country is only one part of the picture when it comes to housing supply. According to the National Association of Home Builders and the U.S. Census Bureau[5], starts are based on a survey of permit holders, which indicates that about half of single-family homes are started in the same month the permit is issued and over 90 percent have started within two months. For multifamily homes, about 33 percent are started in the same month as receiving the permit and roughly 80 percent have started within two months.

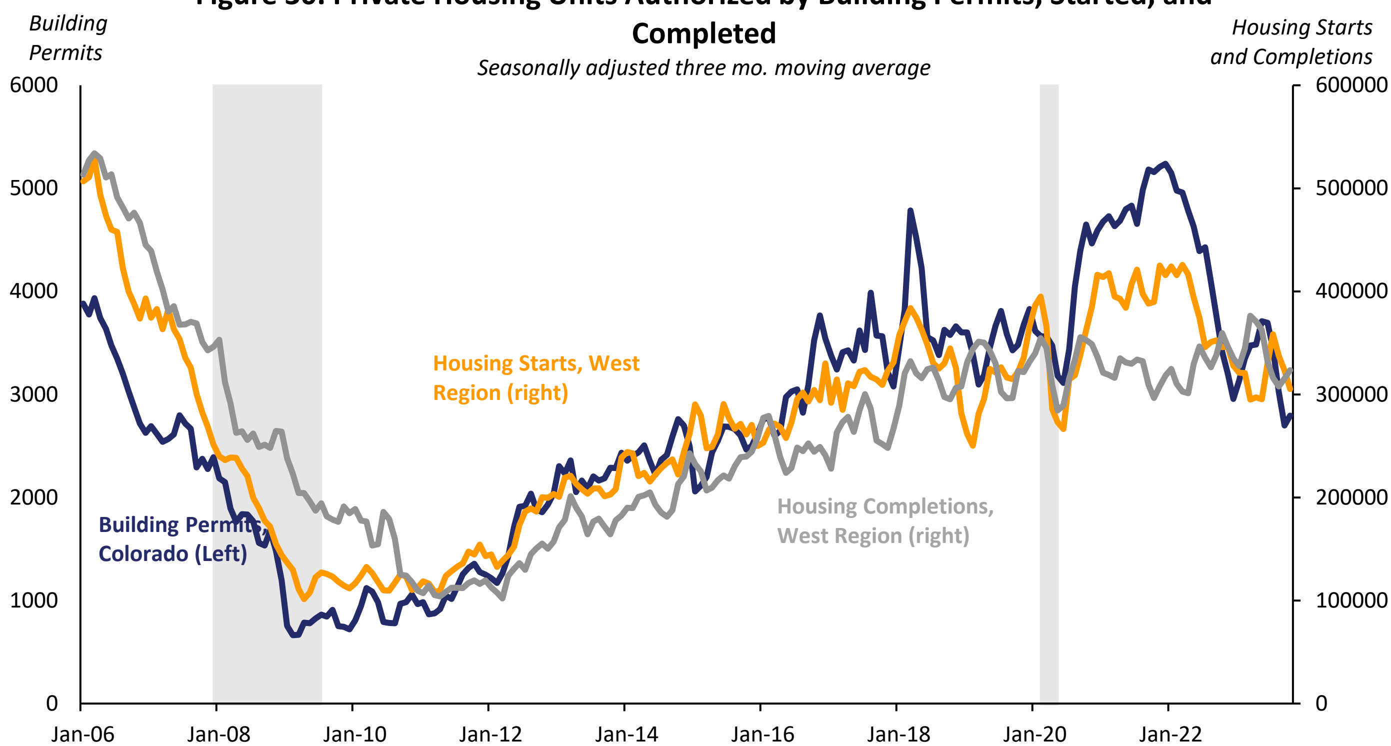
Additionally, the time to build is contributing to existing market dynamics, with projects taking increasing lengths of time to go from starting construction to completion. The U.S. Census Bureau has a Survey of Construction[6] that tracks the typical completion time for a home in the U.S. and by region. In 2022, the length of time from start to completion set all-time highs, at 8.3 months to complete an average single family home and 17 months to complete an average multifamily unit. These lengths were 15 percent longer for single-family homes and 10 percent longer for multi-family homes than 2021. Similarly, in the Western U.S. Region (contains AZ, CA, CO, ID, NM, NV, OR, UT, WA, and WY), 2022 average time to build a single-family home and multi-family home was 9.2 months and 17.0 months respectively. These times vary depending on who is completing the project (built for sale, contractor-built, owner-built), weather, and other factors. Note that there is not state level data available for starts and completions, only for the Western U.S. region.

In summary, permits turn into housing starts rather quickly and so housing starts have experienced similar spikes to permitting discussed above. However, given the increased time to build, housing completions have remained relatively consistent since 2019, as illustrated in Figure 30.

[5] https://www.nahb.org/news-and-economics/housing-economics/national-statistics/starts-and-permits
[6] https://www.census.gov/construction/nrc/pdf/avg_starttocomp.pdf

Figure 30. Private Housing Units Authorized by Building Permits, Started, and Completed

Seasonally adjusted three mo. moving average



*West Region is comprised of AZ, CA, CO, ID, MT, NM, NV, OR, UT, WA, and WY

Note: Shaded areas denote recession

Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development

Demographics

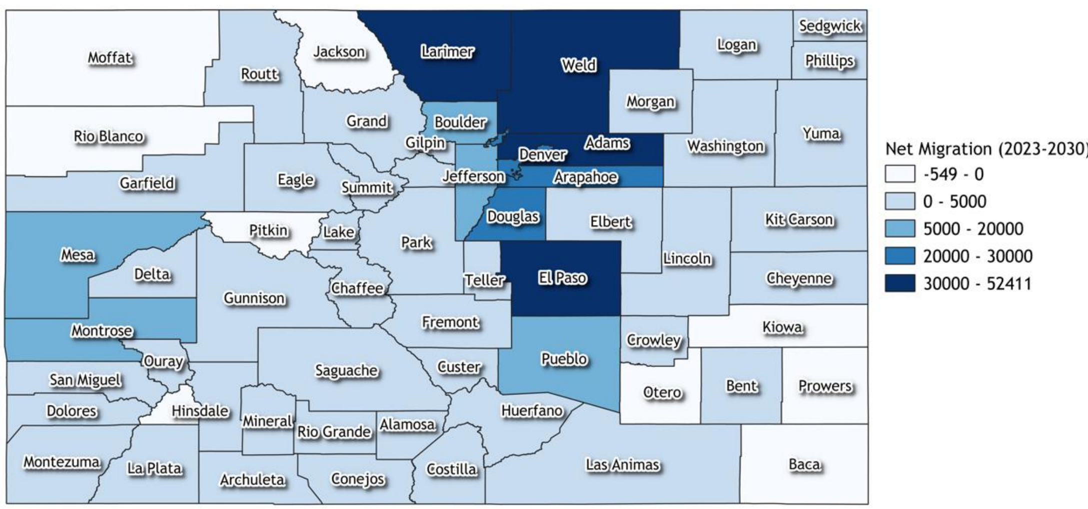
Demographic trends in Colorado continue to indicate looming economic challenges in the coming decades, including: (1) slowing growth in prime working age adults (PWAA), (2) declining birth rates, and (3) a dramatic rise in the number of people aged 65+ and the associated increase in deaths. Colorado will depend on migration among young people and PWAA to maintain economic growth, retain a healthy workforce, support an aging population with increasing public service costs, and supplant income and sales tax revenues as the 65+ population ages out of the workforce and spends less.

The State Demographer's Office (SDO) anticipates a recovery in population growth from COVID-induced lows in both net in-migration and natural growth (the change in population from births and deaths), peaking at 1.3 percent in 2026 before trending slowly downwards for the next two decades. Net migration is expected to be the major driving force of population growth in Colorado, accounting for 74 percent of Colorado's population growth from 2023 to 2050, while natural growth accounts for just 26 percent.

Colorado has had relatively stable historic migration patterns in terms of geographic and age distributions that are expected to broadly persist. The majority of in-migrants (40.4 percent) over the past two years came from California, Texas, Florida, New York, Illinois, and Arizona. Younger adults between 20 and 39 accounted for the largest share of net in-migrants (60 percent) between 2000 and 2020. Continuous in-migration among this group will be critical to support workforce strength and government revenues from income, sales, and property taxes.

Net migration into Colorado does not occur evenly across the state, as illustrated in Figure 31 below. There are several factors that may influence where new (or moving) Coloradans choose to locate, such as education and job opportunities. At the same time, a tight labor market or limited housing availability and affordability may impede Colorado's attractiveness to potential migrants, especially among PWAA. El Paso, Weld, Adams, and Larimer counties are expected to have the highest numbers of net in-migration, while some counties in the northwest and southeast are expected to experience net out-migration.

Figure 31. Projected Net Migration (2023-2030), by County



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

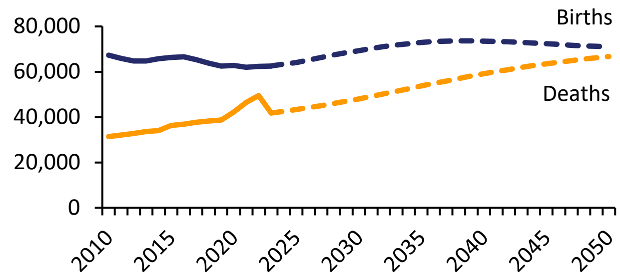
Natural growth will contribute modestly to overall growth in coming decades; however, Colorado's general fertility rate has been on a steady decline and is expected to fall to an average of 54.2 births per 1,000 women aged 15-44 between 2023 and 2050, down from a 1970-2015 average of 65.4. Around 2040, the total number of annual births in Colorado is expected to begin declining. By comparison, the U.S. has also been on a steady decline since 2008 with 56.0 births per 1,000 women in 2022.[7,8]

The number of annual deaths in Colorado began receding in 2023 from the recent highs in 2022 associated with COVID. However, annual deaths are expected to increase steadily as the population ages. Figure 32 below illustrates projected annual births and deaths through 2050.

[7] https://www.cdc.gov/nchs/products/databriefs/db477.htm

[8] https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2022/12/the-long-term-decline-in-fertility-and-what-it-means-for-state-budgets

Figure 32. Projected Annual Births and Deaths



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

The rapidly aging population continues to drive shifts in the composition of Colorado's populace. Since the mid-2000s, growth in the age 65+ population has consistently outpaced all other age groups at an annual growth rate twice that of the overall population. Currently, the population aged 65+ is less than one million (16.4 percent of the population), but is expected to grow to 1.6 million (21.1 percent) by 2050. In conjunction with the rapid growth in this cohort, 40,000 annual retirements are expected for the next five years. Despite this rapid outflow from the workforce, SDO expects sufficient net migration to fill job growth and replace retiring workers in the near-term.

In the longer-term, the state's ability to attract PWAA will have important workforce implications. There are several important economic implications of a rapidly aging population. The 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 healthcare costs due to more complicated medical needs and increased utilization of long-term services such as nursing homes and Home and Community-Based Services (HCBS) waivers. 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. Another important consideration for older Coloradans is whether they will elect to age in place or cash out their home equity after years of significant appreciation[9] and relocate to lower cost areas. Statewide migration data from 2010 to 2020 indicates a small net out-migration among those aged 70 to 85, while most age in place – a pattern that has persisted since the 1970s. Growing interstate disparities in housing prices and cost of living could incentivize more older Coloradans to leave.

In summary, the importance of PWAA migration for Colorado's economy is underscored by the implications of the rapidly aging population and associated large number of retirements in the short term, and declining births and increasing deaths in the longer term. Recent trends indicate that in-migration is occurring at a sufficient workforce replacement rate, however the future of

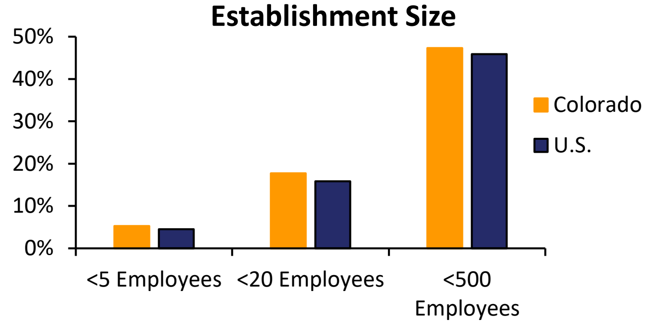
[9] https://fred.stlouisfed.org/series/COSTHPI

migration into Colorado is uncertain and faces headwinds in the form of a tight job market and housing affordability.

Small Business

Small businesses, defined as businesses with fewer than 500 employees,[10] play an important role in the Colorado economy as 47.6% 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, and 4) Accommodation and Food Services. Small businesses are especially important to non-metro areas, as small businesses frequently account for over 75% 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 33. Share of Total Employment by Establishment Size

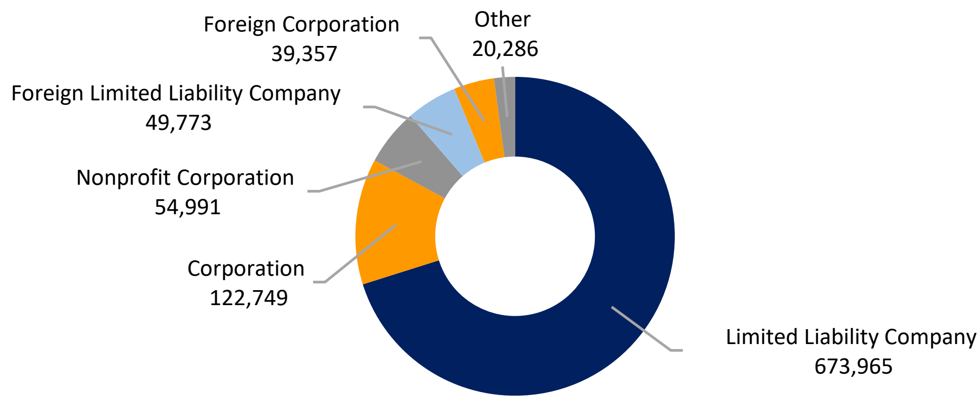


Source: 2020 Census, Statistics of U.S. Businesses

In Colorado, over 70% of business entities in Good Standing are Limited Liability Companies, or LLCs, that are domestic to the state of Colorado. LLCs are the most popular entity type in Colorado because of their simplistic ownership structures and administrative requirements. This is also reflected by the age of for-profit business entities in the State of Colorado, as younger business entities are more likely to be LLCs, whereas older and more mature businesses are more likely to be traditional corporations.

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

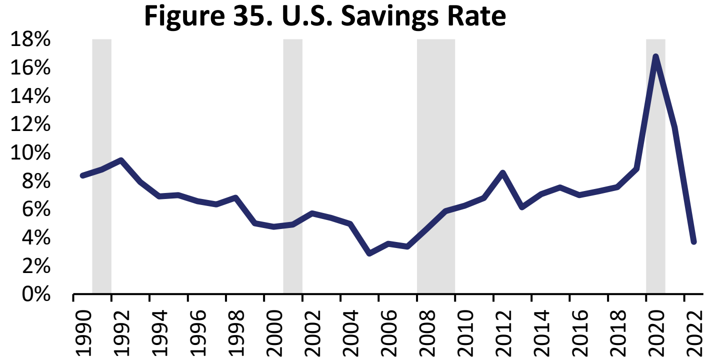
Figure 34. Colorado Business Entities by Type (Good Standing)



Source: Colorado Department of State

When looking at overall small business conditions, according to the Federal Reserve's 2023 Report on Employer Establishments from the 2022 Small Business Credit Survey[11], over two-thirds (66%) of firms used the owner's personal savings or funding from friends or family in the past five years. Over the same period, over half (55%) of firms used government assistance. The report on employer firms also details that as pandemic-related financial assistance declined in 2022, many firms switched to traditional lines of credit. With these traditional lines of credit, firms were mostly likely to receive at-least partial approval from small banks. This further highlights the linkage of small banks to small businesses, and the impact that community-based lending has on the vast majority of firms nationally.

Figure 35. U.S. Savings Rate



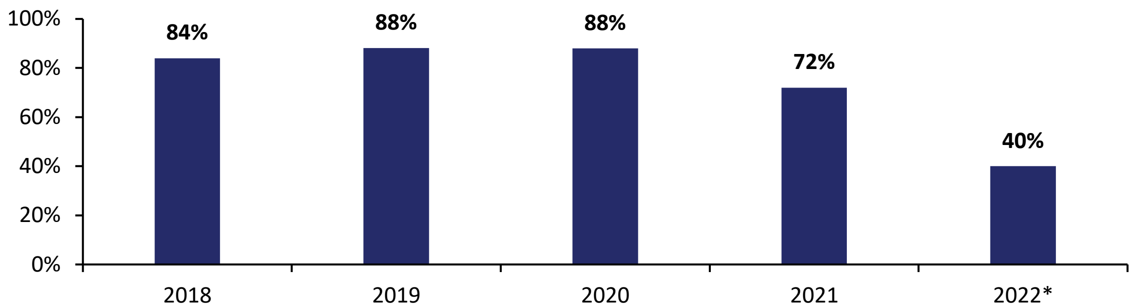
Note: Shaded areas denote recession
Source: Bureau of Economic Analysis

Small businesses, both nationally and locally in Colorado, need to be closely monitored as they are being squeezed on two sides, (1) from dwindling available personal savings and (2) lack of from access to credit. On the personal savings front, as highlighted in the 2022 Small Business Credit Survey, two-thirds of small business have used personal savings in the past five years. From 2020-2022, that was a more feasible option as Americans accumulated large amounts of excess savings. However, excess savings have been spent down and the savings rate has fallen below the pre-pandemic trend in 2023. Access to personal savings

[11] https://doi.org/10.55350/sbcs-20230308

is especially important to new businesses, as 80% of startup employer firms (0-2 years in business) reported using personal savings as a funding source.

Figure 36. Percent of Firms which Applied for Loans/Line of Credit in Past 12 months



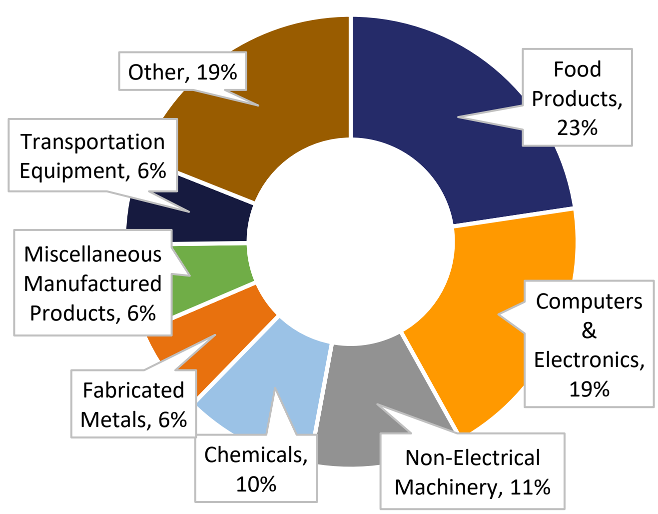
Source: 2019-2023 Federal Reserve Small Business Credit Survey
*Note: 2022 question included merchant cash advance

Access to capital is a particular concern to small businesses as they have shown to be sensitive to changes in the interest rate. According to the Federal Reserve's Small Business Credit Survey, firms applying for financing decreased applications to loan/lines of credit from 88 percent in 2020, decreased to 72 percent in 2021, and again to 40 percent in 2022. According to the Federal Reserve's October 2023 Senior Loan Officer Opinion Survey (SLOOS) on Bank Lending Practices , one-third of respondents said that economic conditions are a "very important" factor contributing to tightening lending standards currently. This remains relatively unchanged from the July 2023 SLOOS.

Trade

Colorado's largest exporting industries according to the North American Industry Classification System (NAICS) are Food & Kindred Products (22.6 percent of exports in 2022, or $2,330.4 million), Computer & Electronic Products (19.3 percent; $1,983.6 million), Non-Electrical Machinery (11 percent; $1,134.6 million), and Chemicals (9.4 percent; $963.1 million). However, the NAICS classification obscures the significance of agriculture in Colorado's export economy: the

Figure 37. Colorado Exports, 2022

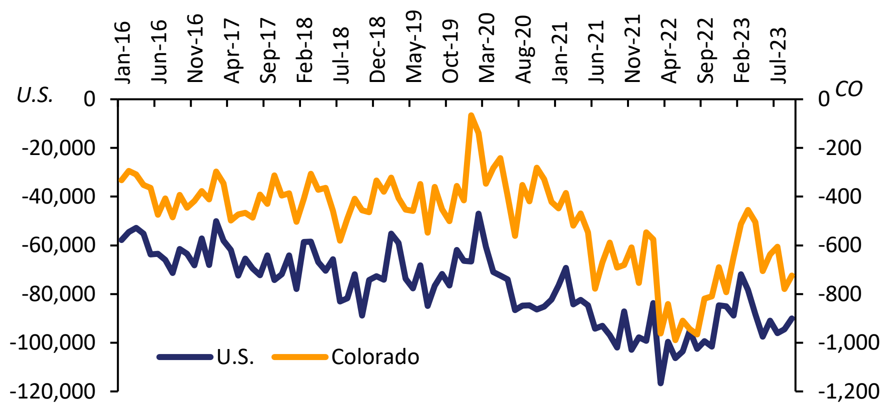


Source: USA Trade (U.S. Census Bureau), author's calculations

USDA valued Colorado's 2022 agricultural exports at $2,462.5 million, 1.3 percent of total U.S. agricultural exports.[12] Agricultural trade will be discussed in further detail below. Overall, Colorado's exports are made up of largely high value-added goods, making them more insulated from variations in price and the business cycle due to their relatively inelastic demand in international markets.

Net exports have been reverting back to their pre-pandemic level since spring of 2022, after the U.S. trade deficit peaked at -$116,661.7 million in March, followed by Colorado's peak of -$989.4 million in May. The COVID-19 pandemic and recovery were marked by increases in consumer spending and increased demand for goods, while U.S. production slowed due to labor shortages and higher production costs. These higher costs were due primarily to the pressures on the supply chain following the pandemic, measured by the New York Federal Reserve as a function of global transportation costs, delivery times, backlogs, and purchased stocks, which make up the Global Supply Chain Pressure Index (GSCPI), defined as how many standard deviations the value is from the index's historical average.[13] Net exports are inversely related to the GSCPI, reflecting the decreased production – and therefore, lower export levels – that occurs when inputs are difficult to acquire and costs are high. These factors resulted in imports significantly increasing (and outpacing exports) in late 2021 and early 2022 as backlogs began to clear; however, since the GSCPI has been negative since February 2023 and consumer spending on goods is expected to decrease going forward, the trade deficit is likely to decrease in turn while net exports rise.

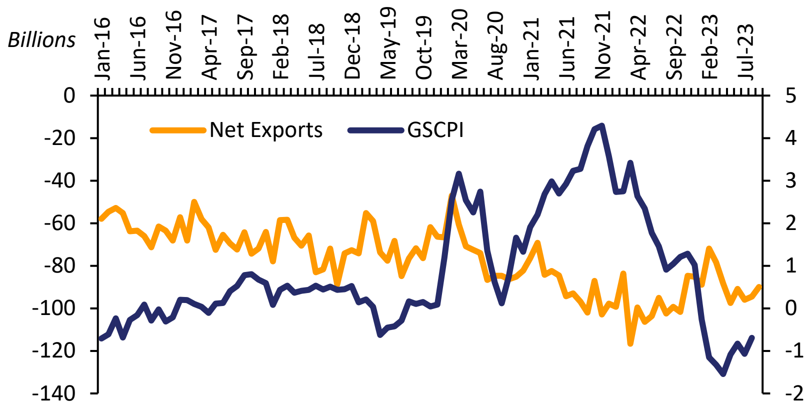
Figure 38. Net Exports In Millions, 2016-2023



Source: USA Trade (U.S. Census Bureau), author's calculations

[12] https://apps.fas.usda.gov/gats/ExpressQuery1.aspx
[13] https://www.newyorkfed.org/research/policy/gscpi/

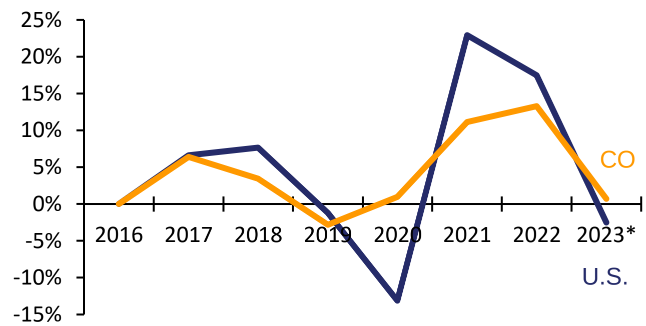
Figure 39. U.S. Net Exports vs. GSCPI, 2016-2023



Source: USA Trade (U.S. Census Bureau), New York Federal Reserve

However, the current elevated value of the U.S. dollar and weaker international economies may serve as headwinds to the trade deficit. The steady increases to the interest rate over the last few years have resulted in rapid appreciation of the dollar, resulting in lower prices for imports and higher prices for exports, subsequently increasing consumer demand for imports relative to domestically-produced goods while U.S. exporters see decreased demand for their products abroad. Alongside high interest rates, high inflation has also contributed to slowdowns in many economies, including the U.S. and countries within the European Union. Higher energy prices in Europe following Russia's invasion of Ukraine, as well as a real estate crisis in China, have also dragged down the global economy. This effect may grow stronger, depending on the outcome of the ongoing review of Section 232 and 301 tariffs, both imposed in 2018, by the Office of the U.S. Trade Representative. The Section 301 tariffs were imposed on Chinese goods as a result of a U.S. investigation finding "unreasonable or discriminatory" practices regarding China's technology transfer, intellectual property, and innovation policies, while the Section 232 tariffs were imposed on steel and aluminum products due to national security concerns. The Section 232 tariffs have been found to significantly increase domestic production in the relevant industries, while the impact Section 301 tariffs have been inconclusive.[14] The Biden Administration has proposed changes to the scope of exclusions on both tariffs, which, if instated, would effectively decrease tariffs on the affected goods, potentially leading to increased demand for imports relative to domestically-produced goods.

Figure 40. Yearly Growth Rate of Exports, 2017-2023



Source: USA Trade (U.S. Census Bureau), author's calculations
*2023 estimated based on monthly growth Jan-Sep 2022,

However, given the Biden Administration's emphasis on strengthening American manufacturing – particularly through policies established through IRA, IIJA, and CHIPS – OSPB anticipates that,

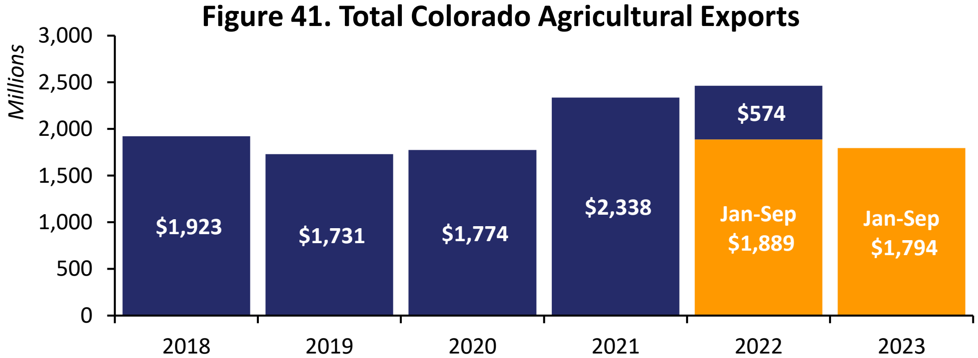
[14] https://www.usitc.gov/press_room/news_release/2023/er0315_63679.htm

at the Federal level, increased protectionism is likely to result in increased net exports in the long run in spite of these headwinds. The short term pressures of a strong dollar are likely result in slightly lower net exports through the first half of 2024, but the normalization of global supply chains over the last two years (especially given the Biden Administration's November 27 announcement of the creation of the White House Council on Supply Chain Resilience[15]), and decreased consumer demand for goods, combined with the aforementioned policies supporting domestic manufacturing are likely to result in increased net exports and a lowering of the trade deficit through 2025 and 2026, both in Colorado and the U.S. as a whole.

Agricultural Trade

International trade of Colorado agricultural products are concentrated in beef, pork, hides and skins, and dairy products according to USDA Foreign Agricultural Service (FAS) GATS Database. In 2022, Colorado agricultural exports totaled $2.4 billion, and total exports in 2023 through September have totaled $1.8 billion. As shown in Figure 41 below, year-over-year, year-to-date exports through September are down 5 percent in 2023. This growth in 2022 was driven by a record year for Colorado beef exports, which saw 38.6 percent year-over-year growth.

Figure 41. Total Colorado Agricultural Exports



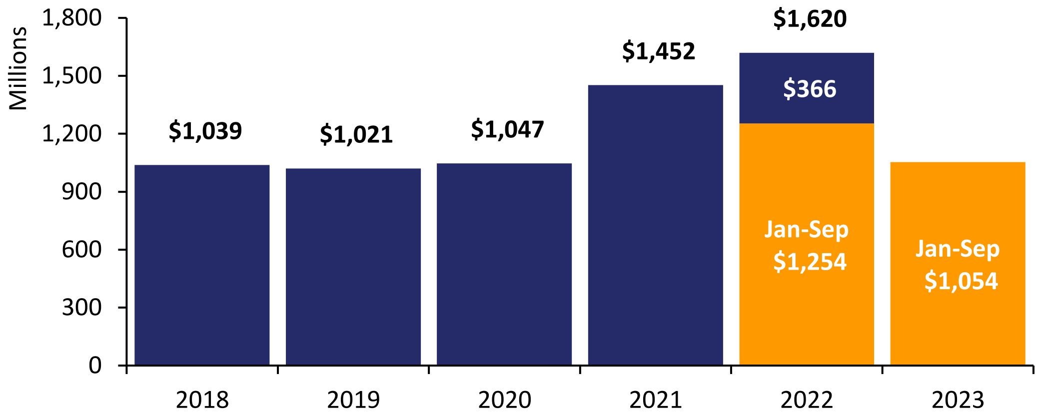
Source: USDA FAS GATS

Colorado is consistently in the top five of beef exporting states in the US, and in 2022 Colorado primarily exported its Beef and Beef Products to five nations: (1) South Korea, (2) China, (3) Japan, (4) Mexico, and (5) Canada.

South Korean consumption of Colorado beef accounted for $515.4 million, or 20.9 percent, of all Colorado agricultural exports in 2022. This has continued into 2023, and South Korean consumption of Colorado beef has accounted for 15.7 percent of all agricultural exports within the state through September. Notably in 2023, even though the year still has a quarter of data left, Canada has already imported more Colorado beef than in any full calendar year since 2018. Colorado agricultural exports for the full calendar year of 2023 are expected to land someplace in between 2021 and 2022 totals with strong growth in exports to the South Korean, Chinese, and Canadian markets despite exports to Japan weakening slightly.

[15] https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/27/fact-sheet-president-biden-announces-new-actions-to-strengthen-americas-supply-chains-lower-costs-for-families-and-secure-key-sectors/

Figure 42. Total Colorado Beef Exports



Source: USDA FAS GATS

Free trade agreements with South Korea (KORUS), Japan (USJTA), China (Phase One), and Mexico & Canada (USMCA) have benefited U.S. and Colorado agricultural producers. These agreements have allowed Colorado agricultural producers, and specifically beef producers, to benefit from access to those markets and have improved opportunities from the decreased tariffs and non-tariff measures.

Infrastructure Investment and Jobs Act (IIJA)

The IIJA was signed into law in November 2021 and is a critical investment opportunity for Colorado. IIJA includes investments in (1) transit, (2) water resiliency and clean drinking water, (3) roads, bridges and railways, (4) high speed internet, and (5) environmental justice and climate resiliency. More than $4.6 billion has already been awarded or announced for IIJA projects in Colorado:

- $3.2 billion directly to state government;
- $350 million to Denver and Adams counties for flood risk reduction and river restoration;
- $657 million to local governments, Tribes, airports, and private industry; and
- $662 million implemented directly by federal agencies in Colorado.

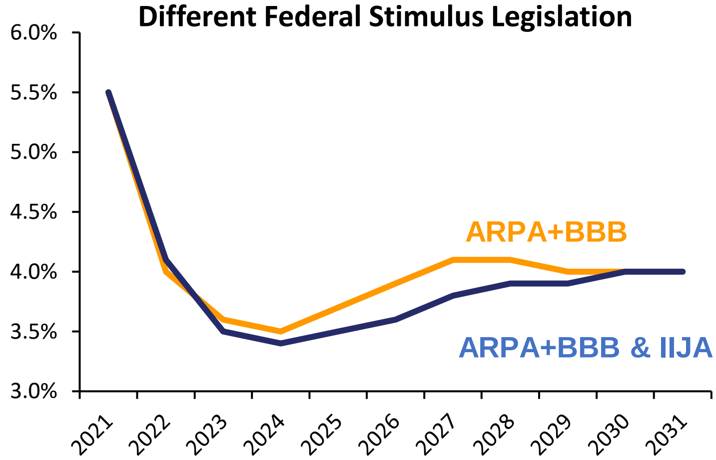
The state has invested an additional $164 million of the General Fund into an IIJA Cash Fund, through SB 22-215 and SB 23-283, to incentivize and assist local governments and Tribes as well as departments in meeting federal matching requirements for various infrastructure investment programs. As of December 2023, the State has allocated approximately $23 million ($11 million conditionally awarded) to departments (CDPHE and CDOT) and local governments, drawing down approximately $106 million in additional infrastructure funding.

Approximately $133 million remains in the IIJA Cash Fund with an estimated need for $51.6 million in matching funds for the Broadband Equity Access and Deployment program, $19 million in matching needs for water infrastructure investments, and $61 million for the Colorado

Department of Transportation (CDOT), specifically in regards to railway investments and improvements. These state funds are able to have an outsized impact by leveraging high federal matching ratios. For instance, the $61 million in state funds for CDOT support a federal match to receive a total of $392.6 million in federal infrastructure investment. Of the state funds, CDOT estimates $41.8 million may be needed for rail specific projects (Intercity Passenger Rail and the Railroad Crossing Elimination Program); $9.4 million for transit projects including accessibility updates and low to no emission upgrades within public transportation; and an estimated $15 million needed for Front Range Rail matching funds.

Investments made by the IIJA into state economies have had a significant impact and those impacts will continue to grow in coming years. For Colorado, investments in local infrastructure will increase job availability in key sectors, likely mitigating the overall slowdown in job growth due to rebalancing labor market conditions. In fact, the IIJA was originally estimated to create more than 800,000 jobs by 2025 across the U.S. as a whole.[16] An increase in demand and investment in construction and infrastructure projects also supports higher GDP levels, as noted in the GDP section. Moody's estimates an increase in GDP due to investment; seeing numbers peak in 2026. Net government expenditures are expected to grow by nearly $400 billion between 2022 and 2031, with a maximum estimated impact peak of $78.6 billion in 2026.[17] The expected static budget impact will then decrease to below 2023 levels by 2030, with estimated government expenditures reducing to $23.6 billion in 2030, and $6.1 billion in 2031; however infrastructure spending alone will remain between $26-$35 billion towards the end of the decade.

Figure 43. U.S. Unemployment Rate Under Different Federal Stimulus Legislation



Source: Moody's Analytics

Expectations around GDP growth due to infrastructure investment is also based on the assumption the Biden Administration has placed on future private investment into infrastructure, specifically in semiconductor and clean energy investment.[18] Investments in roads, bridges, airports, and waterways will also have a direct impact on supply chain issues and assist in inflation reduction, primarily through reducing risk on infrastructure associated with climate change

16 https://www.moodysanalytics.com/-/media/article/2021/macroeconomic-consequences-of-the-infrastructure-investment-and-jobs-act-and-build-back-better-framework.pdf, pg 4

17 https://www.moodysanalytics.com/-/media/article/2021/macroeconomic-consequences-of-the-infrastructure-investment-and-jobs-act-and-build-back-better-framework.pdf, table 1, pg 6

18 https://www.whitehouse.gov/briefing-room/blog/2023/08/16/the-economics-of-public-investment-crowding-in-private-investment/

and natural disaster, in addition to its impact on job growth.[19] As for job growth, Moody's estimates that IIJA will begin adding nonfarm employment to the workforce starting, most significantly, in 2024 through 2031, adding a maximum of 800,000 jobs annually. Figure 43 above illustrates Moody's assumptions for the unemployment rate aligned with these job growth expectations.

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 disposable income and wealth effect spending of the top two quintiles support personal consumption.

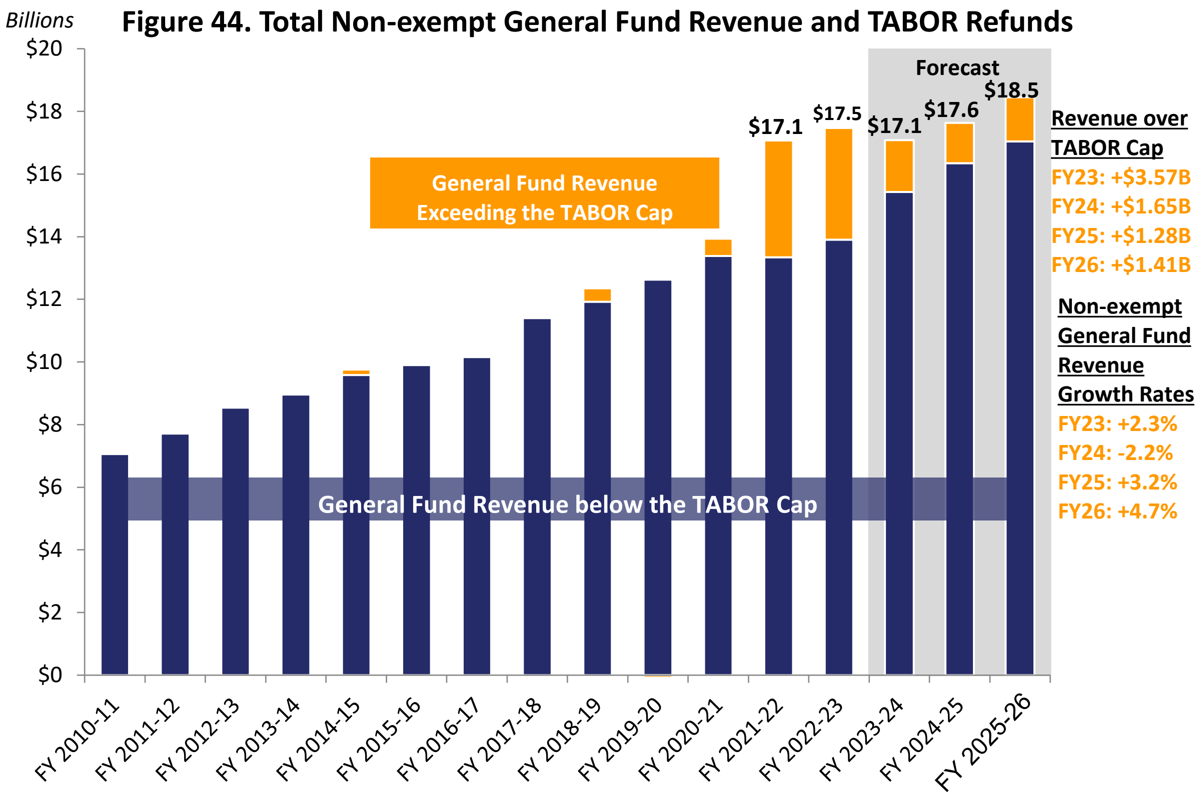
Downside risks to the forecast include sticky inflation combined with high interest rates, outsized impacts on residential and commercial construction financing, increasing consumer debt, geopolitical risks, and a Federal government shutdown. Upside risks include slowing in services inflation despite strong wage growth, labor shortages continuing to put upward pressure on real disposable income and consumption, and Federal and state policies to support affordable housing and workforce development. Overall, OSPB views economic risks to this forecast as weighted to the downside. That being said, OSPB views the probability of a recession occurring in the next 12 months at 30 percent.

[19] https://www.whitehouse.gov/briefing-room/statements-releases/2021/07/28/fact-sheet-historic-bipartisan-infrastructure-deal/

General Fund Outlook

Preliminary actuals for General Fund revenue in FY 2022-23 increased 1.7 percent to $18,002.2 million. General Fund revenue expectations in FY 2023-24 are upwardly revised from the September forecast due to year-to-date corporate income tax revenue collections above previous forecast expectations, while FY 2024-25 General Fund revenue is downwardly revised due to wage growth and goods spending expected to slow more, leading to lower sales tax and withholdings individual income tax revenue. In FY 2023-24, revenue is expected to decrease by 2.5 percent year-over-year to $17,557.1 million before increasing by 3.8 percent in FY 2024-25 to $18,231.1 million. General Fund revenue is projected to grow an additional 4.6 percent in FY 2025-26 to $19,070.4 million. General Fund revenue for FY 2023-24 is revised up by $247.3 million from September, while revenue in FY 2024-25 is revised down by $78.1 million and FY 2025-26 revenue is revised up by $90.6 million. Note that revenue levels and growth rates differ slightly in Figure 44 below, due to the fact that General Fund forecasts in the text include some exempt General Fund revenue, like those collected as a result of the recent Proposition FF which funds Healthy School Meals for All.

Figure 44. Total Non-exempt General Fund Revenue and TABOR Refunds



General Fund revenue is projected to exceed the TABOR cap throughout the forecast period. Revenue exceeded the cap by $3.57 billion in FY 2022-23. General Fund revenue exceeding the TABOR cap is projected at $1.65 billion in FY 2023-24, $1.28 billion in FY 2024-25, and $1.41 billion in FY 2025-26. This is an upward revision of $213.2 million from the September forecast for FY 2023-24, a downward revision of $128.7 million for FY 2024-25, and an upward revision of $83.7 million in FY 2025-26.

<u>Overview of General Fund Revenue Streams</u>

Individual Income Tax: Revenue from individual income tax dropped 6.5 percent to $10,952.7 million in FY 2022-23 following historic growth of 23.6 percent in FY 2021-22. Revenue is projected to fall another 0.1 percent to $10,938.6 million in FY 2023-24 before rebounding with positive 6.6 percent growth to $11,660.4 million in FY 2024-25. Revenue is projected to grow an additional 4.4 percent to $12,175.5 million in FY 2025-26. Between FY 2023-24 and FY 2025-26, this is a total downward revision of $224.7 million largely due to a slower aggregate wage growth forecast, largely due to slower expected jobs growth.

Corporate Income Tax: Revenue from corporate income tax increased 50.9 percent to a record $2,366.7 million in FY 2022-23. Revenue is expected to fall 13.9 percent to $2,038.2 million in FY 2023-24 and fall an additional 12.5 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 6.8 percent. For the full forecast period, this is a total upward revision of $586.8 million due to continued corporate resiliency.

Sales and Use Tax: Revenue from sales and use tax grew 5.3 percent to $4,552.8 million in FY 2022-23. Revenue growth is forecast to slow to 1.5 percent in FY 2023-24 as retail activity in the state slows from recent highs. Revenue growth is forecast to rebound to 4.8 percent in FY 2024-25 and accelerate by 5.6 percent in FY 2025-26. For the full forecast period, this is a total downward revision of $43.0 million, as statewide retail sales are projected to grow slower than previously expected, placing downward pressure on sales and use tax revenue.

Proposition EE Tax and Other Excise Tax: Revenue from Proposition EE increased 13.0 percent to $235.0 million in FY 2022-23 and is forecast to grow to $240.9 million by FY 2025-26 following statewide voter approval of Proposition II in the November 2023 election.

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 from decreased cash balances and lower interest rates.

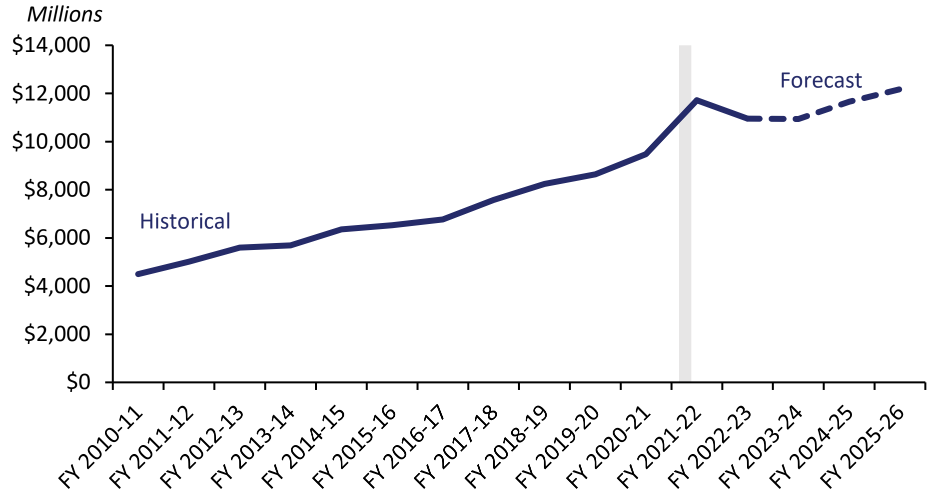
State Education Fund Revenue: Income tax revenue to the State Education Fund grew 7.3 percent to $1,066.4 million in FY 2022-23. Revenue is forecast to slightly drop from that level in FY 2023-24 before rebounding in FY 2024-25 and FY 2025-26.

Individual Income Tax

Overall Forecast Trends

Preliminary actual receipts for individual income tax in FY 2022-23 decreased by 6.5 percent to $10,952.7 million ($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 a record high in the previous fiscal year with softening equities, tightening monetary policy, and the roll-off of expansionary fiscal policy placing downward pressure on that revenue stream. Withholdings collections also cooled in FY 2022-23 compared to the prior fiscal year but maintained strength at 4.4 percent growth.

Figure 45. Individual Income Tax



Source: Colorado Department of Revenue, OSPB Forecast

In FY 2023-24, individual income revenue is expected to decrease slightly by 0.1 percent to $10,938.6 million due to slower wage growth, lower business earnings for smaller firms, and new tax credits from the most recent regular legislative session. This is a small upward revision, however, from the September forecast of $8.2 million primarily from expected strength in non-wage income leading to greater estimated payments than previously expected. Withholdings revenue is anticipated to grow, but below its trend rate as aggregate Colorado wage and salary growth is forecast to slow to 4.3 percent in 2024 following growth from 2021 to 2023 of 9.4 percent, 9.1 percent, and an expected 6.4 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 6.6 percent to $11,660.4 million as the labor market and wage growth accelerates from slower FY 2023-24 levels alongside an increase in small business earnings. However, this is a downward revision of $131.1 million from the September forecast due to a slightly higher unemployment forecast of 3.6 percent in 2024 and 3.7 percent in 2025, leading to slower wage growth and lower withholdings than previously expected. In FY 2025-26, normalizing growth of 4.4 percent to $12,175.5 billion is forecast, which is a downward revision of $101.8 million from September primarily from base effects of slower growth in FY 2024-25.

Figure 46. 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 2022-23	**$10,952.7**	**-6.5%**	**$0.0**	No year-end revisions
FY 2023-24	**$10,938.6**	**-0.1%**	**$8.2**	Higher estimated payments from non-wage income; labor market expectations similar from September
FY 2024-25	**$11,660.4**	**6.6%**	**($131.1)**	Labor market remains strong but loosens more than previously expected leading to slower aggregate wage growth
FY 2025-26	**$12,175.5**	**4.4%**	**($101.8)**	Downward revision largely from FY 2024-25 base effects; slightly slower aggregate wage growth

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 yet are expected to slow over the forecast period. In FY 2022-23, $9,457.2 million in withholdings were recorded, reflecting 4.4 percent growth off extraordinarily high 16.4 percent growth in FY 2021-22, exhibiting a tight labor market and strong aggregate wage growth. In FY 2023-24, withholdings are expected to maintain slow growth at 1.0 percent and $9,554.7 million in collections, which is a largely static upward revision of $10.9 million from the prior forecast as labor market expectations remain largely the same. In FY 2024-25, withholdings are projected to grow by 3.9 percent to $9,927.7 million. This is a $78.6 million downward revision from September as the labor market is expected to loosen slightly more than previously expected leading to slower aggregate wage growth. Continued growth of 3.9 percent in withholdings is forecast in FY 2025-26, which is a downward revision from September primarily due to FY 2024-25 base effects as well as slightly lower aggregate wage growth. Over the forecast period, below-average withholdings growth is expected after significant, above-average increases in FY 2020-21 and FY 2021-22, while projected below-average job growth is expected to drag on aggregate wage growth over the period, as well.

Estimated Payments

In FY 2022-23, estimated payment receipts fell from a record level of $2,641.0 million in the prior year to $1,614.6 million, reflecting a decline of 38.9 percent, as softening equities, tightening monetary policy, and the roll-off of expansionary fiscal policy placed downward pressure on that revenue stream. In FY 2023-24, as the economy largely continues to surprise to the upside, non-wage income is expected to perform better than previously expected, leading to year-over-year growth in estimated payments of 4.1 percent to $1,681.5 million. This is an upward revision of $175.8 million from the prior forecast in which estimated payments were expected to decline year-over-year by 6.7 percent. A significant part of the expected increase in estimated payments comes from better economic expectations for pass-through businesses and equities than previous forecasts projected. In FY 2024-25, estimated payments are expected to accelerate by 6.3 percent to $1,786.9 million in a loosening monetary policy environment, although this is a small downward revision of $48.9 million from an expected spending slowdown weighing more on pass-through businesses in that fiscal year. In FY 2025-26, estimated payments are expected to grow by 6.7 percent to $1,906.3 million, which is largely static from the September forecast.

Cash with Returns and Refunds

In general, OSPB assumes 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 $2,109.4 million, reflecting strong 32.6 percent growth year-over-year. This significant growth is primarily recorded from proprietor profits coming in above their expectations from last year. In FY 2023-24, cash with returns are forecast to fall by 24.8 percent, reflecting a downward revision of $105.5 million to $1,587.2 million, which is more than offset by the upward revision in estimated payments. In FY 2024-25, cash with returns are revised up by $15.6 million to $1,737.1 million, reflecting 9.4 percent year-over-year growth. Flat growth of 0.8 percent is projected in FY 2025-26 to $1,751.5 million, reflecting a small downward revision from September.

Policy Adjustments

In addition to the above economic drivers, there are tax policy impacts on individual income tax revenue, most recently from the Governor's Executive Budget submitted to the General Assembly on November 1st, which included tax policy proposals that, if enacted, would result in lower individual income tax revenue over the forecast period. These tax policy proposals would result in an estimated $45.1 million reduction in individual income tax revenue over FY 2024-25 and FY 2025-26 combined.

In the most recent regular legislative session, there were also a variety of bills passed and signed into law with revenue impacts on individual income tax. The range of income tax credit bills passed in that legislative session 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, although changes to the provisions of this bill are proposed in the Governor's FY 2024-25 November 1st budget submission. 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. Note that in the extraordinary legislative session, HB23B-1002, Increased Earned Income Tax Credit 2023, raised the Tax Year 2023 amount from 25 to 50 percent, but this adjustment will be paid out of TABOR refunds, see the TABOR section for more detail. 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. Various 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 regular legislative session, last year’s November election also had impacts on income tax revenue. 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 and is projected to increase FY 2023-24 revenue by $104.2 million, FY 2024-25 revenue by a projected $110.5 million, and FY 2025-26 by $129.4 million. Additionally, 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 $311.4 million is projected to be diverted in FY 2023-24, $322.7 million in FY 2024-25, and $338.0 million in FY 2025-26 from the General Fund to affordable housing programs. Proposition 121 State Income Tax Rate Reduction passed in that election, as well, which reduced the income tax rate from 4.55 percent to 4.4 percent.

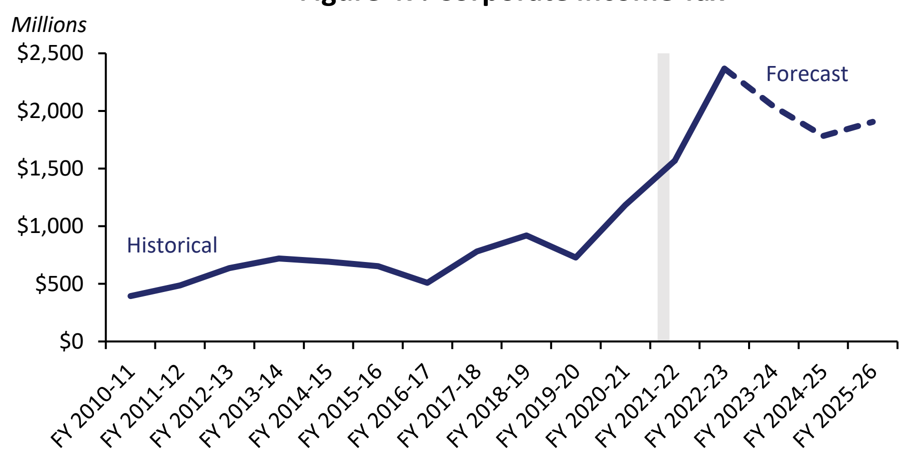
There are also three federal bills driving policy adjustments. First, the IRA has a minimal, positive impact on revenue, mostly as a result of increased IRS audit enforcement. This minimal impact is due to the fact that the base of Colorado's income tax is federal taxable income, so changes to existing 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. 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 IIJA also has a minimal impact through the forecast period. The Federal December 2022 omnibus appropriations 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 (TCJA), which was enacted in 2017, will sunset in 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 repealing certain personal exemptions more than offsetting the reduced standard deduction. 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 $2,366.7 million ($2.37 billion) in FY 2022-23, surpassing the record set in FY 2021-22 of $1,568.6 million. The continued growth in corporate income tax revenue is largely due to U.S. corporate profits remaining at elevated levels above $3 trillion throughout 2022 and 2023, with elevated profits also being recorded at the state level. In FY 2023-24, corporate income tax revenue is expected to drop by 13.9 percent to $2,038.2 million, however, this is a sizable revision up of $281.4 million from the September forecast following collections above expectations over the past quarter. Further, this upward revision is driven by U.S. corporate profits increasing in the third quarter of 2023 when prior OSPB forecasts expected a decline. These continually strong corporate profits are buoyed by a better economic outlook led by strong consumer demand and a resilient labor market, which are providing a healthy environment for business profits. Similarly, while FY 2024-25 corporate income revenue is forecast to fall by 12.5 percent to $1,783.8 million, revenue is revised up from September by $92.5 million. Corporate income tax revenue is forecast to grow

Figure 47. Corporate Income Tax

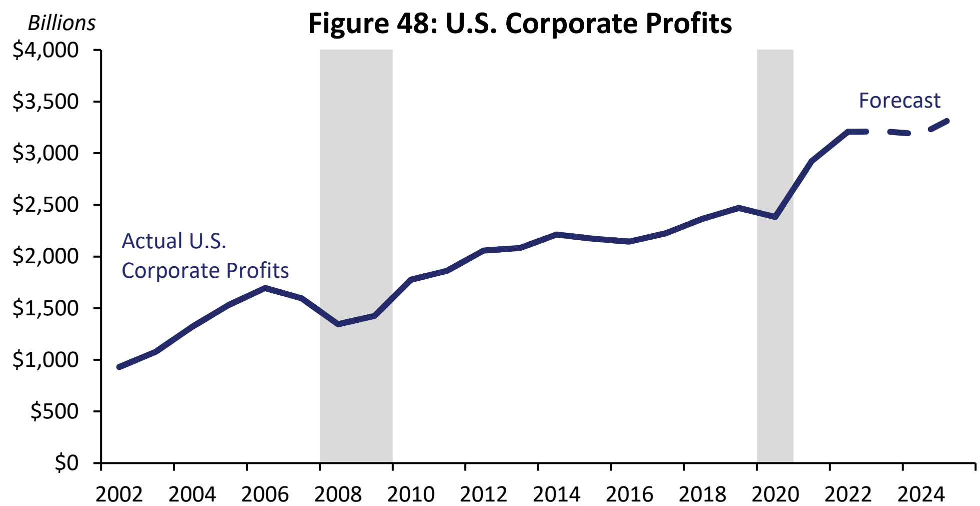


Source: Colorado Department of Revenue, OSPB Forecast by 6.8 percent to $1,905.8 million in FY 2025-26, reflecting a $212.9 million upward revision from the September forecast.

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 by 22.6 and 6.6 percent in those years to record levels. With surprising strength in the economy remaining to date, corporate profits are expected to grow slowly in 2023 by 0.1 percent to a new record annual level of $3.2 trillion. This is a significant upward revision from the September forecast, which projected a 6.6 percent decline in corporate profits for 2023, as strong consumer demand has offset rising investment costs and led to growing corporate profits. In 2024, corporate profits are forecast to fall by 0.9 percent as a restrictive monetary policy environment and weaker consumer demand are expected to constrain profits. Corporate profits are projected to accelerate again in 2025 alongside loosening monetary policy as a rebalanced, stable economic environment allows for 5.7 percent growth and new record levels at $3.4 trillion.

When developing expectations on future corporate income tax revenue, an important explanatory variable is corporate profits before taxes, accounting for inventory and capital adjustments. In the third quarter of 2023, such profits nationwide increased over second-quarter levels and remained at near-historic highs at $3.3 trillion – only $22 billion below the quarterly record high reached in the third quarter of 2022. Corporate profits have now increased for two consecutive quarters after falling over the final quarter of 2022 and first quarter of 2023. Additionally, the Bureau of Economic Analysis (BEA) has recently published their 2023 Comprehensive Update of the National Economic Accounts in which they significantly revised up U.S. corporate profits from 2017-2022, while largely downwardly revising compensation and proprietors' income over the time period. This data update from the BEA now shows increased corporate profit levels over previous publications, which has led to a forecast recalibration showing increased corporate profits, and thus, increased corporate income tax revenue. However, as consumer demand slows from historically elevated levels, and the

Figure 48: U.S. Corporate Profits



Note: Shaded area denotes recession.
Source: Bureau of Economic Analysis, OSPB Forecast

consumer basket shifts away from durable goods towards services, growth in profits from these historic highs are expected to marginally fall in 2024 before rebounding in 2025.

In addition to the above economic drivers, there are tax policy impacts, most recently from the Governor's Executive Budget submitted to the General Assembly on November 1st, which included tax policy proposals that, if enacted, would result in lower corporate income tax revenue over the forecast period. These tax policy proposals would result in an estimated $45.1 million reduction in corporate income tax revenue over FY 2024-25 and FY 2025-26 combined.

Further, there are additional policy impacts from the most recent regular legislative session, as well as prior 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.

Finally, prior legislative sessions included bills which lower corporate income revenue 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 provide ridesharing, transit, or other transportation options with an expanded credit. The bill reduced cash with returns revenue by an accrued $6.6 million in FY 2022-23 and is estimated to reduce revenue by $14.1 million in FY 2023-24. There are two federal bills also driving policy adjustments. First, the IRA has a minimal, positive impact on revenue, mostly as a result of increased IRS audit enforcement, but those impacts are delayed, and OSPB's initial expectations are that those amount to less than one percent of overall revenue by FY 2024-25. Second, the IIJA also has a minimal impact through the forecast period. Finally, the sunsetting of the federal TCJA, which is set to end in 2025, is not expected to have a material impact on the corporate income revenue forecast.

Sales and Use Taxes

Sales Tax

Sales tax revenue for FY 2022-23 recorded growth of 5.2 percent, reaching $4,301.6 million and building off historic 19.6 percent growth in FY 2021-22. In the September forecast, OPSB revised down sales revenue in response to a slowdown in actual June and July collections, affecting the final collection periods of FY 2022-23. Entering the first few month of FY 2023-24, this slowdown in retail sales continued in Colorado, but the effect of this slowdown on sales revenue was not as pronounced as expected. Sales collections exceeded expectations in September and October; however, November saw a below-expectation performance with mere 0.1 percent year-over-year growth. Consequently, this forecast anticipates a deceleration in sales revenue, initially anticipated for the early months of FY 2023-24, becoming evident entering into the latter half of the fiscal year. Therefore, OSPB has made a slight upward revision of 0.2 percent for sales revenue growth in FY 2023-24 on year-to-date collections, now reaching 2.0 percent. Slowing revenue growth is attributed to factors such as a shift from goods to services spending, dwindling savings, and increased consumer debt, all of which are expected to hinder retail growth until the end of FY 2024-25. Despite the headwinds, consumer spending has remained largely resilient defying expectations through the third quarter of calendar year 2023, primarily due to the spending among the top two income quintiles while the lower income quintiles are facing stretched household finances. This trend is also starting to show within Colorado as some lower income counties are showing sales tax revenue losses whereas some higher income counties are witnessing gains. For instance, Pueblo County recorded negative sales revenue growth in the second and third quarter of calendar year 2023. Whereas counties with higher median household income such as Denver, Weld, and Garfield witnessed solid sales growth both quarters.

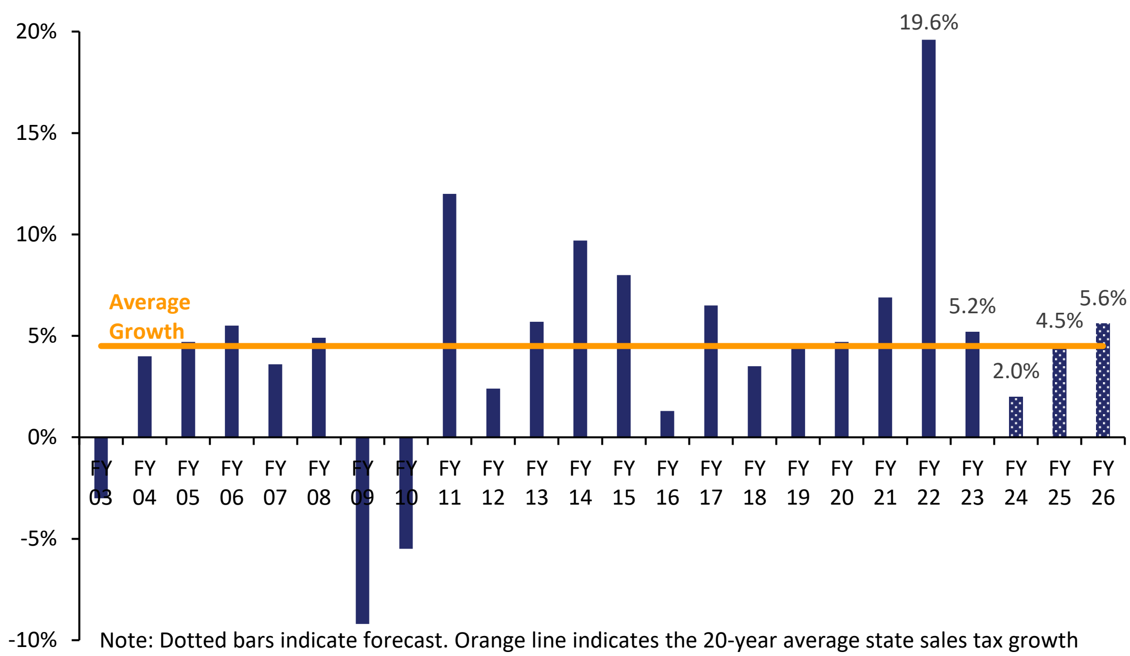
Sales tax revenue in FY 2024-25 is revised down by $45.8 million to $4,586.3 million, and growth is also revised down by 1.3 percent to 4.5 percent. OSPB forecasts the first two quarters of FY 2024-25 will witness slower sales tax revenue gains before accelerating during the last two quarters. The primary reason for this downward revision is due to an expected slowdown in spending concentrated within goods spending. Sales tax growth is largely predicated upon nominal state retail sales growth, which has also been significantly revised down for Colorado over the forecast period. State retail sales growth is forecasted to grow by 1.8 percent in 2023, 2.3 percent in 2024, and 4.4 percent in 2025. After this dip in consumer resilience, OSPB projects retail growth to return to pre-pandemic trends in 2025. This trend translates into the sales revenue forecast as OSPB expects sales revenue growth of 4.5 percent in FY 2024-25 and 5.6 percent in FY 2025-26, which is closer to the historical average of 4.6 percent.

Figure 49. Sales and Use Tax Revenue Forecast

Fiscal Year	Sales Revenue (millions)	Growth	Use Revenue (millions)	Growth	Total Revenue (millions)	Growth
FY 2022-23	$4,301.6	5.2%	$251.2	8.0%	$4,552.8	5.3%
FY 2023-24	$4,387.1	2.0%	$234.1	-6.8%	$4,621.2	1.5%
FY 2024-25	$4,586.3	4.5%	$256.7	9.7%	$4,843.0	4.8%
FY 2025-26	$4,842.3	5.6%	$272.4	6.1%	$5,114.7	5.6%

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

Figure 50. Sales Tax Growth History and Forecast



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

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.

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 (HDGF) for affordable housing initiatives. While the fiscal note for the bill initially projected new net revenue of $49.4 million in FY 2021-22, the actual collection exceeded expectations. This was attributed to subsequent legislation (HB 21-1312) and stronger-than-anticipated sales tax collections, including vendor fee collections. Consequently, a total of $66.1 million in revenue, stemming from these changes, was collected and directed to the Housing Development Grant Cash Fund during that fiscal year. In FY 2022-23, $71.0 million in vendor fee revenue dedicated to affordable housing was recorded, resulting in 7.4 percent growth from the previous year. Vendor fees projections for FY 2024-25 are $39.8 million ($36.5 million downward revision) and FY 2025-26 is $44.7 million ($35.5 million downward revision). The reason for this outsized downward revision is from a tax policy proposal in the Governor's November 1st budget, as $35 million is being reduced in vendor fees dedicated toward the Housing Development Grant Fund (HDGF) and replaced with sales of tax credits each year of the same amount, as outlined in the Governor's FY 2024-25 budget. The reallocation of a portion of the HDGF into a tax credit aims to increase investments in housing and simultaneously broaden the scope of the state Affordable Housing Tax Credit.

Figure 51. 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	$72.0	$74.8	$79.7
Housing Development Grant Fund Revenue (millions)	$71.0	$72.0	$39.8	$44.7

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 grew by 8.0 percent in FY 2022-23 to $251.2 million. This is following 8.6 percent growth and $232.6 million in collections in FY 2021-22. In FY 2023-24, revenue is expected to fall by 6.8 percent to $234.1 million, which is a downward revision of $10.8 million from the previous forecast. This downward revision is primarily influenced by the low collections reported between the months of September to November. During this period, year-over-year growth for each month recorded negative growth of 13.9 percent, 7.5 percent, and 18.4 percent, respectively. The negative year-over-year growth in FY 2023-24 is partly attributed to the deceleration in residential construction activity, which makes up a larger portion of the use tax base relative to the sales tax base. Following this subdued growth period, OSPB projects that increased investment and heightened construction activity will drive a revenue upswing, anticipated to occur at the end of FY 2024-25 and extend through most of FY 2025-26. In line with these expectations, use tax is projected to grow at a faster pace of 9.7 percent in FY 2024-25 to $256.7 million and 6.1 percent to $272.4 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 and is expected to rebound in FY 2023-24 to $228.7 million followed by additional growth to $259.6 million in FY 2024-25. Further analysis of marijuana tax collections can be found in the Revenue Outlook – Cash Funds section of this report.

Proposition EE and Other Excise Taxes

Proposition EE, approved in 2020 and effective in 2021, imposes additional taxes on cigarettes and tobacco products and charges a new tax on other nicotine products such as e-cigarettes. Through FY 2022-23, revenue from the Proposition EE-imposed taxes 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 required that the General Assembly refer a ballot measure to retain the excess revenue. In the 2023 legislative session, the General Assembly passed HB23-1290[20] to refer Proposition II[21] 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. On December 4th the Secretary of State certified the Election and Proposition II was approved by voters[22].

- *Since voters approved Proposition II*, Proposition EE Taxes will remain at the same rate (listed in Figure 52 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 had rejected Proposition II*, then Proposition EE Taxes would have been reduced by 11.53 percent (listed in Figure 52 as reduced) and the State would have had 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 OSPB and LCS forecasts 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 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 an accrual basis[23].

Figure 52: 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 (December)	1.94	1.94	1.94	1.94	2.24	2.64
Reduced (September)	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 (December)	50%	50%	50%	50%	56%	62%
Reduced (September)	50%	50%	50%	49%	54%	59%
Nicotine	**2021**	**2022**	**2023**	**2024 (Jan-Jun)**	**July 2024 - June 2027**	**July 2027 Onward**
Original (December)	30%	35%	50%	50%	56%	62%
Reduced (September)	30%	35%	50%	44%	50%	55%

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

[21] 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

[22] More information about the 2023 Coordinate Election can be found at: https://www.coloradosos.gov/pubs/newsRoom/pressReleases/2023/PR20231204ElectionCertification.html

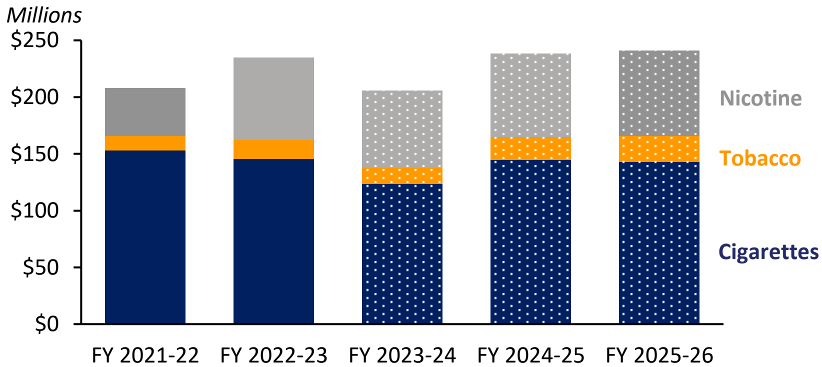
[23] More information about GAAP standards can be found at the Governmental Accounting Standards Board (GASB) Governmental Accounting Research System (GARS). https://gars.gasb.org/Home

The September 2023 OSPB forecast assumed the lesser of the two proposed tax rates, since Proposition II had not yet been voted on at that time. The OSPB forecast for Proposition EE revenue for December 2023 and onward will revert back to using the original Proposition EE tax rates, as approved by voters based on the outcome of Proposition II. As a result, the December forecast has been revised up by $11.4 million to $205.6 million in FY 2023-24, by $22.8 million to $238.0 million in FY 2024-25, and by $30.4 million to $240.9 million in FY 2025-26. As shown in Figure 52, taxes on all three types of products will increase on July 1, 2024 and again to its maximum rate on July 1, 2027. 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 53.

Figure 53. Proposition EE Revenue

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Total	**$208.0**	**$235.0**	**$205.6**	**$238.0**	**$240.9**
Other Transfers	$206.6	$233.6	$15.0	$35.0	$35.0
Preschool Programs Cash Fund	$1.4	$1.4	$190.6	$203.0	$205.9

Figure 54. Fiscal Year Proposition EE Revenue



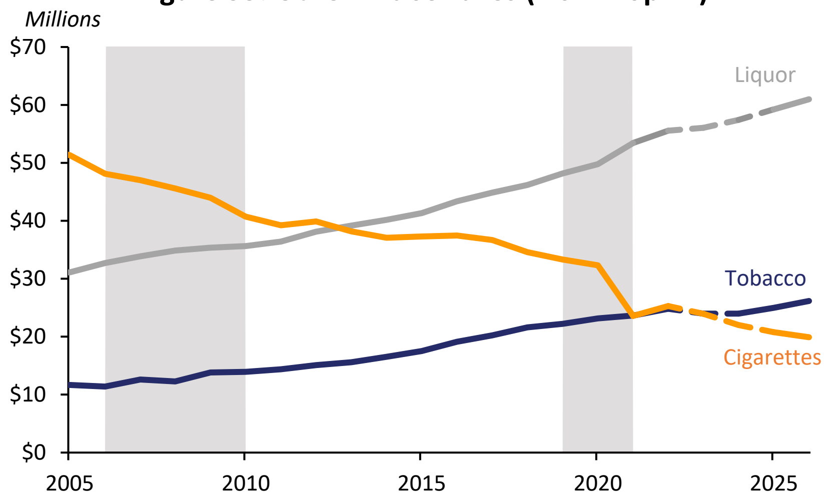
Note: Dotted region indicates forecast period. Accruals begin FY22-23
Source: Colorado Department of Revenue; OSPB Forecast

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 61.0 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 increase in FY 2025-26 for two reasons:

- 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[24]. This trend is particularly strong amongst the 18-34 age 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.

Figure 55. Other Excise Taxes (Non Prop EE)



Sources: Department of Revenue; OSPB Forecast

In addition to Proposition EE, which is largely not subject to TABOR and is transferred out to other funds, the state collects other excise taxes that are credited directly to the General Fund. These other excise taxes include the initial statutory taxes on cigarettes and tobacco, as well as revenue from liquor taxes. Liquor and tobacco taxes, which are each charged as a percentage rate, have increased slowly over time while cigarette taxes, charged at a flat per pack amount, have fallen consistently. Revenue for liquor is forecast to grow by 2.3 percent in FY 2023-24 to $57.6 million, by 3.2 percent to $59.4 million in FY 2024-25, and by 2.9 percent to $61.2 million in FY 2025-26. Tobacco revenue is forecast to drop to $23.0 million in FY 2023-24, grow by 11.3 percent to $25.6 million in FY 2024-25, and by 4.7 percent to $26.8 million in FY 2025-26. However, cigarette revenue is forecast to decline 8.0 percent to $22.0 million in FY 2023-24, by 5.6 percent to $20.8 million in FY 2024-25, and by 4.2 percent to $19.9 million in FY 2025-26. Compared to the September forecast, there have been minor downward revisions to tobacco and liquor excise taxes while there continue to be more revisions to cigarette excise taxes as cigarette usage continues to decline.

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. In FY 2023-24, Other General Fund revenue is expected to decrease by a relatively small 0.5 percent to $793.7 million total as changes to

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

insurance tax policy are fully integrated, interest continues to grow slightly, while the category of other income faces significant decreases in a return to trend after a one-time jump. For FY 2023-24 and FY 2024-25, projections are revised up by $46.3 million and $51.9 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.

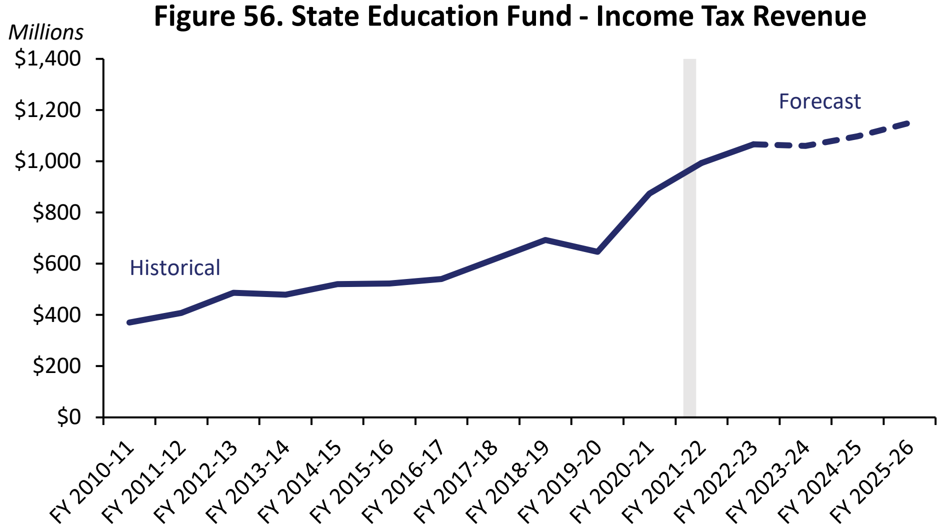
Interest income is forecast to increase by 3.9 percent to $200.3 million in FY 2023-24. On average, General Fund investment income earned interest at 1.13 percent in FY 2021-22. Comparatively, General Fund investment income earned an average interest rate of 2.79 percent in FY 2022-23 and in the first few months of this fiscal year surpassed 3.5 percent. Currently, interest revenue received through the first four periods of FY 2023-24 is 69.6 percent higher than the revenue received during the same period in the previous fiscal year. With this trend continuing into FY 2023-24, and with interest rates likely remaining elevated well into the fiscal year and significant amounts of TABOR refunds accruing interest income, there is potential upward pressure on Other General Fund revenue in FY 2023-24. During FY 2024-25, interest income is revised up by $34.5 million, though it is expected to decrease 25.4 percent year-over-year due to the lower level of TABOR refunds relative to FY 2022-23 and Federal Funds rate cuts during FY 2024-25. OSPB expects this downward trend to continue into FY 2025-26 with a 17.4 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. This revenue growth is largely due to HB21-1312, which reduced the size of the annuities exemption and the regional home office rate reduction. The December forecast has been revised up by $7.3 million from the September forecast due to signs of strength from early collections. In FY 2023-24 and FY 2024-25, insurance revenue growth is expected to normalize to 3.6 percent and 3.7 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 $1,066.4 million (or $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. Growth in revenue 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. In FY 2023-24, income tax revenue to the SEF is expected to fall by $6.3 million, or 0.6 percent, to $1,060.1 million as corporate income tax revenue is forecast to drop from record highs. Despite falling year-over-year revenue, this is an upward revision from the September forecast of $76.1 million largely due to upward revisions in corporate income tax revenue. In FY 2024-25, revenue is forecast to increase by 3.6 percent and $38.2 million to $1,098.3 million as individual income is expected to grow. While overall income tax revenue in FY 2024-25 is revised down from September, the income tax diversion to the SEF is revised up $52.6 million to better align anticipated proportional diversion amounts with prior-year actuals. In FY 2025-26, growth is forecast at 4.7 percent, leading to SEF revenue of $1,150.3 million and an upward revision of $66.9 million from the September forecast.

Figure 56. State Education Fund - Income Tax Revenue



Source: Colorado Department of Revenue, OSPB Forecast

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.

After strong 19.0 percent growth in FY 2021-22, cash funds returned to a more tempered 3.5 percent growth in FY 2022-23. Total cash fund revenue in the recently completed fiscal year totaled $2,758.0 million. Forecast revenue for FY 2023-24 is revised down by $36.6 million, largely due to downward revisions in other miscellaneous cash funds as a result of the Governor's budget, slightly countered by slight revisions up in severance tax revenue and transportation revenue. The end result is a projected 2.9 percent decline in cash funds subject to TABOR in the current fiscal year. Expectations were also revised down for FY 2024-25 by $49.7 million from the prior forecast largely driven by limited gaming and miscellaneous cash funds also resulting from the Governor's FY 2024-25 budget proposal. However, FY 2024-25 is expected to rebound to 4.9 percent growth in revenue after a year of declining revenue in FY 2023-24. Revenue is projected to stabilize and grow 2.0 percent in FY 2025-26.

Overview of Cash Funds

Transportation: Transportation revenue is expected to have strong growth in the upcoming year, as OSPB forecasts a 10.6 percent increase from the previous year, driven by motor and special fuel taxes, increasing Road Usage Fees, and continued elevated registration revenue with a restored Road Safety Surcharge. In FY 2024-25, revenue is expected to grow 5.0 percent, sustained by Road Usage Fees and Other Non-HUTF Transportation funds.

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. Adjusted Gross Proceeds (AGP) is expected to return to more normal trends during the forecast horizon, applying downward pressure on gaming revenue in the long term. The drop in estimated revenue in FY 2024-25 is linked to the Governor's Budget request on revenue classification for distribution to another government.

Severance: Severance tax revenue collections broke the all-time state annual collection record in FY 2022-23 at $374.6 million as oil and gas prices maintained above-average levels. In FY 2023-24, revenue is projected to decline by 41.7 percent to $218.5 million even with a similar oil price forecast in FY 2022-23 as higher taxpayer usage of ad valorem credit claims drag on revenue collections. In FY 2024-25, collections are estimated to increase by 18.7 percent to $259.3 million despite similar oil price expectations as FY 2023-24, as there is less of a projected revenue drag from ad valorem credit claims. In FY 2025-26, revenue is forecast to drop by 6.2 percent to $243.2 million.

Regulatory Agencies Revenue: 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 fee relief passed in past legislation. As a result of this legislative impact and a reversion to trend fee collections, FY 2023-24 revenue is expected to drop 4.6 percent to $85.2 million. In FY 2024-25, revenue is expected to bounce back by 14.7 percent to $97.8 million, followed by a more moderate 3.1 percent increase in revenue in FY 2025-26.

Other Cash Funds Subject to TABOR: Forecasts for FY 2023-24 have been revised down 6.7 percent from the September forecast largely as a result of impacts to the Employment Support Fund and the Housing Development Grant Fund tied to requests in the Governor's Budget. Additionally, large Judicial Cash Funds are expected to normalize and drop in revenue after a higher than expected FY 2022-23. Out-year fiscal year forecasts are expected to grow at a moderate pace of 3.5 percent in FY 2024-25 and 1.3 percent in FY 2025-26.

Notable Cash Funds Not Subject to TABOR: OSPB continues to revise marijuana revenue forecasts down with received revenue lower than anticipated due to low prices despite steady demand. However, wholesale prices are showing signs of a rebound, which likely indicate an impending uptick in retail prices as well in the coming months. 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. However, with lower prices currently, FML revenue is expected to fall 36.1 percent in the current year and stabilize there. Sports betting tax revenue in the coming fiscal years will be driven by rising hold percentages and the 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 grow a total of 10.6 percent in FY 2023-24. This is an upward revision from the September forecast, due to improved expectations on travel supporting higher fuel tax revenue 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. OSPB expects upward revenue pressure in FY 2023-24 as this legislation rolls off in the coming years, even as economic conditions are projected to weaken in late FY 2023-24 and early FY 2024-25. Overall, the expectation for transportation revenue is steady growth in the out-years with 5.0 percent growth in FY 2024-25 and 3.7 percent growth in FY 2025-26.

Figure 57. Detailed Transportation Cash Fund Forecast

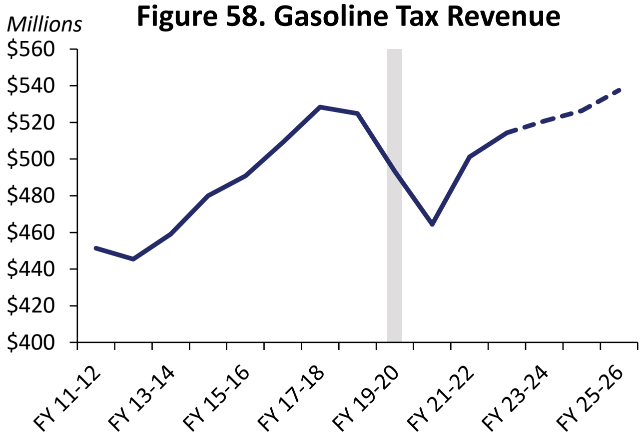
	Actual FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
Highway Users Tax Fund (HUTF)				
Motor and Special Fuel Taxes	$652.3	$662.0	$671.9	$686.5
Percent Change	*3.0%*	*1.5%*	*1.5%*	*2.2%*
Road Usage Fees	$12.7	$88.1	$120.9	$145.8
Percent Change	*N/A*	*593.8%*	*37.2%*	*20.6%*
Total Registrations	**$328.6**	**$374.1**	**$396.1**	**$412.2**
Percent Change	***-15.3%***	***13.9%***	***5.9%***	***4.1%***
Registrations	$219.9	$235.1	$235.8	$245.9
Road Safety Surcharge	$72.4	$102.3	$124.9	$129.0
Late Registration Fees	$36.3	$36.7	$35.4	$37.3
Other HUTF	$72.4	$72.8	$73.7	$74.4
Percent Change	*15.3%*	*0.5%*	*1.3%*	*0.9%*
Total HUTF	**$1,066.0**	**$1,197.0**	**$1,262.6**	**$1,319.0**
Percent Change	***-0.6%***	***12.3%***	***5.5%***	***4.5%***
Non-HUTF				
State Highway Fund	$27.5	$30.6	$27.4	$24.7
Percent Change	*-8.1%*	*11.1%*	*-10.4%*	*-9.9%*
Other Transportation Funds	$173.3	$173.1	$180.9	$182.0
Percent Change	*71.0%*	*-0.1%*	*4.5%*	*0.6%*
Total Transportation Revenue				
Total Transportation	**$1,266.7**	**$1,400.7**	**$1,470.9**	**$1,525.7**
Percent Change	***2.2%***	***10.6%***	***5.0%***	***3.7%***

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 September for the HUTF for FY 2023-34 by $17.1 million and $6.3 million in FY 2024-25.

OSPB expects continued strength in revenue to levels previously seen pre-pandemic, as received revenue for this fiscal year has exceeded the collections from the same period during FY 2017-18 which was the peak for gasoline revenue collections in Colorado. Thereafter, steady growth is expected through the end of the forecast horizon, due to relatively stable demand for travel. However, there will be downward pressure on gasoline tax revenue 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 the first quarter of 2023 compared to the first quarter of 2022, as electric cars continue to gain more popularity in Colorado.

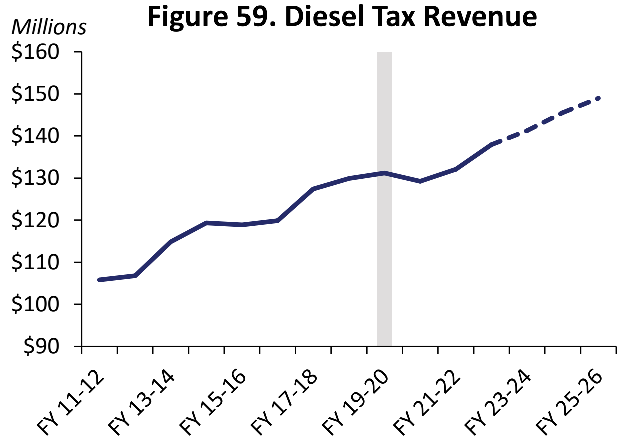
Diesel tax revenue continued its strong growth trend into FY 2022-23, with a record year of $137.9 million in revenue. Elevated consumer spending has increased business operations and shipping, placing significant upward pressure on diesel tax revenue. After a record year, OSPB expects a return to the previous trend of slower growth, based on slowing growth in personal consumption of goods, and there is an expectation for a drop-off in diesel tax revenue in FY 2023-24 to $141.3 million. In FY 2024-25 and FY 2025-26, growth is expected to return to trend with revenue collections totaling $145.5 million and $149.0 million respectively.

Figure 58. Gasoline Tax Revenue



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

Figure 59. Diesel Tax Revenue



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

OSPB also forecasts a notable rebound of 13.9 percent from the previous year's revenue in the Total Registrations account within the HUTF. This small revision downward from the September forecast is largely driven by received revenue in recent months. It is likely that high interest rates have begun to discourage new car sales and applied downward pressure on registration revenue.

OSPB expects relatively slow yet consistent growth during the forecast period. 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 60. HUTF Distributions, Annual Forecast

	Actual 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	$195.1	$195.1
CDOT - State Highway Fund (65%)	$185.6	$193.5	$174.6	$186.8
Counties (26%)	$74.2	$77.4	$69.8	$74.7
Cities (9%)	$25.7	$26.8	$24.2	$25.9
Total First Stream	**$451.3**	**$478.9**	**$463.7**	**$482.4**
Second Stream				
CDOT - State Highway Fund (60%)	$368.8	$430.9	$479.3	$501.9
Counties (22%)	$135.2	$158.0	$175.8	$184.0
Cities (18%)	$110.6	$129.3	$143.8	$150.6
Total Second Stream	**$614.7**	**$718.1**	**$798.9**	**$836.6**
Total HUTF Distributions				
Total HUTF	**$1,066.0**	**$1,197.0**	**$1,262.6**	**$1,319.0**

Other transportation-related funds include the State Highway Fund (SHF) and other miscellaneous revenue, which make up a smaller portion of total revenue than the HUTF. Revenue to the SHF is made up of various smaller revenue streams including sales of state property and earned interest. 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 combined 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 earlier this year.

Continued strength in aviation revenue resulted in strong overall growth for other transportation revenue in FY 2022-23, however aviation revenue is expected to slow in the current fiscal year. While OSPB expects elevated travel to continue through the end of the calendar year, the growth is expected to decline beginning in 2024 due to relative costs of air versus automobile travel. Aviation revenue is down 21.7 percent compared to the same period in the previous fiscal year. The addition of DRIVES and Multimodal Transportation Options Fund are expected to largely offset losses in aviation revenue. OSPB estimates stability in other transportation funds revenue in FY 2023-24 with a 0.1 percent decrease year-over-year, followed with a 4.5 percent increase in FY 2024-25 before a minimal 0.6 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 growth in FY 2023-24, FY 2024-25, and FY 2025-26. These numbers and the corresponding distributions are shown in Figure 61 below. Additionally, it is worth noting that the limited gaming category in FY 2024-25 and FY 2025-26 has decreased when compared to previous forecasts. This is a result of the Governor's November 1st Budget requesting the proper classification of funds intended for cities and counties as TABOR exempt. With this proposed change, this revenue is not included in the total gaming revenue subject to TABOR. These amounts, listed in line F within figure 61 below, will continue to be disbursed to counties and cities at the same distribution they were previously.

Figure 61. Limited Gaming Distributions

Distribution of Limited Gaming Revenues	Actual 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**	**$177.5**	**$182.7**	**$188.6**
Annual Percent Change	7.5%	0.8%	3.0%	3.2%
3.5% Cap	$169.38	N/A	N/A	N/A
B. Gaming Revenue Exempt from TABOR (Extended Limited)	**$52.1**	**$55.1**	**$56.8**	**$58.9**
Annual Percent Change	7.9%	5.9%	3.0%	3.7%
C. Gaming Revenue Subject to TABOR (Limited)	**$121.3**	**$122.3**	**$100.5**	**$103.5**
Annual Percent Change	5.2%	0.8%	-17.8%	2.9%
D. Total Amount to Base Revenue Recipients	**$108.5**	**$112.1**	**$90.2**	**$93.2**
Amount to State Historical Society (28%)	$30.4	$31.4	$32.4	$33.4
History Colorado (80% of 28%)	$24.3	$25.1	$25.9	$26.8
Grants to Cities for Historical Preservation (20% of 28%)	$6.1	$6.3	$6.5	$6.7
Amount to Counties (12%)	$13.0	$13.4		
Amount to Cities (10%)	$10.8	$11.2		
Amount to Distribute to Remaining Programs (State Share) (50%)	$54.2	$56.0	$57.8	$59.7
Local Government Impact Fund	$6.7	$7.0	$7.2	$7.4
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	$19.89	$21.5	$23.0	$24.7

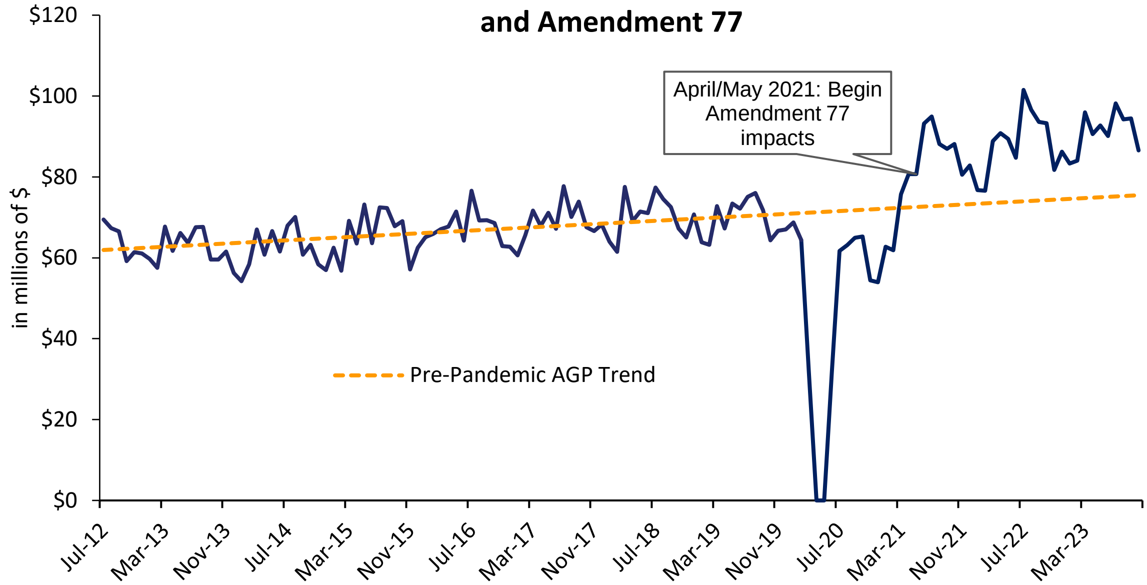
E. Total Amount to Amendment 50 Revenue Recipients	**$47.5**	**$50.5**	**$52.1**	**$54.2**
Community Colleges, Mesa and Adams State (78%)	$37.0	$39.4	$40.7	$42.3
Counties (12%)	$5.7	$6.1	$6.3	$6.5
Cities (10%)	$4.7	$5.1	$5.2	$5.4
F. Total Amount to Counties and Cities Originally from Limited Gaming			**$25.4**	**$26.3**
Amount to Counties (12%)			$10.8	$11.2
Amount to Cities (10%)			$9.0	$9.3

As shown in Figure 61, OSPB forecasts total gaming revenue to grow 0.8 percent in fiscal year 2023-24, and 3.0 percent and 3.2 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 above 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 forecast period 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 percent threshold by the end of FY 2024-25. With participating casinos and gaming operators incentivized to have this rule become permanent, they are likely to utilize marketing and various business methods to increase revenue, and therefore boost 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 the first four periods of the current fiscal year has shown a 3.0 percent decrease from AGP when compared to the same period from the previous fiscal year, but this number is still 30.0 percent greater than AGP collected in the first four months of FY 2019-20. These trends in AGP pre- and post-Amendment 77 are shown in Figure 62. Going forward, it is expected that AGP, and thus revenue, will likely have similar growth rates to pre-Amendment 77 but at an elevated level now that the initial shock of Amendment 77 expanding gaming revenue have been fully incorporated and settled.

Figure 62. Adjusted Gross Proceeds (AGP) and Amendment 77



Source: Colorado Department of Revenue; Division of Gaming.

Severance

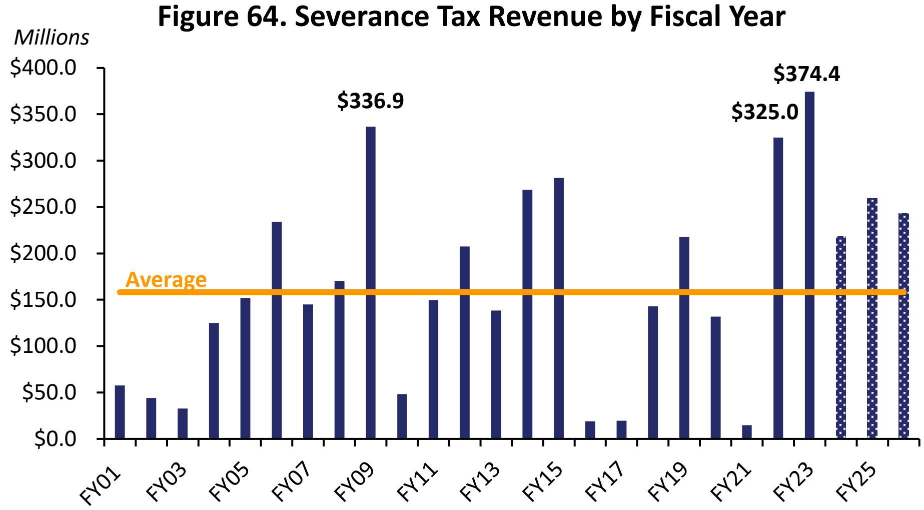
Severance tax revenue collections broke the all-time state annual collection record in FY 2022-23 at $374.6 million as oil and gas prices maintained above-average levels over the first half of the fiscal year, though they have retreated since the turn of the calendar year. In FY 2023-24, revenue is projected to decline by 41.7 percent to $218.5 million even with similar forecast oil prices as FY 2022-23 as higher taxpayer usage of ad valorem credit claims and lower natural gas prices drag on revenue collections. This is a $13.7 million upward revision from the September forecast primarily from year-to-date actuals coming in above forecast expectations. In FY 2024-25, collections are estimated to increase by 18.7 percent to $259.3 million despite similar oil price expectations as FY 2023-24, as there is less of a projected revenue drag from ad valorem credit claims. This is a $17.1 million upward revision from the September forecast due to increasing oil price expectations. Finally, in FY 2025-26, revenue is forecast to drop by 6.2 percent to $243.2 million, representing a $5.2 million upward revision from September. Throughout the forecast period, revenue is forecast to remain above the long-term average of $158.1 million.

Figure 63. Severance Tax Revenue

	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Oil & Gas	$347.1	$191.2	$236.3	$223.5
Coal	$4.4	$4.6	$4.4	$4.3
Moly & Metals	$0.6	$2.0	$2.1	$2.1
Interest	$22.4	$20.6	$16.5	$13.2
Total	**$374.6**	**$218.5**	**$259.3**	**$243.2**
Change	***15.3%***	***-41.7%***	***18.7%***	***-6.2%***

The previous annual record for severance tax revenue was $336.9 million in FY 2008-09, and FY 2022-23 outpaced the record year by nearly $40 million. In earlier forecasts, OSPB projected FY 2022-23 severance tax revenue to retreat from FY 2021-22 levels of $325.0 million 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, currently 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, however, ad valorem credit claims were significantly lower than forecast in Tax Year 2022. 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 claims will likely be more utilized than in FY 2022-23. 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 year-over-year 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 in FY 2023-24 and throughout the forecast period with production levels increasing year-over-year in 2023. Statewide production expectations remain relatively strong going forward alongside oil prices remaining above the long-term average.

Figure 64. Severance Tax Revenue by Fiscal Year



Beginning in FY 2023-24, the distribution for severance tax revenue changes due to provisions within HB23-1272, Tax Policy that Advances Decarbonization, which 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.

By statute, the remaining 50 percent of 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 65.

Figure 65. Severance Tax Forecast Distribution Table

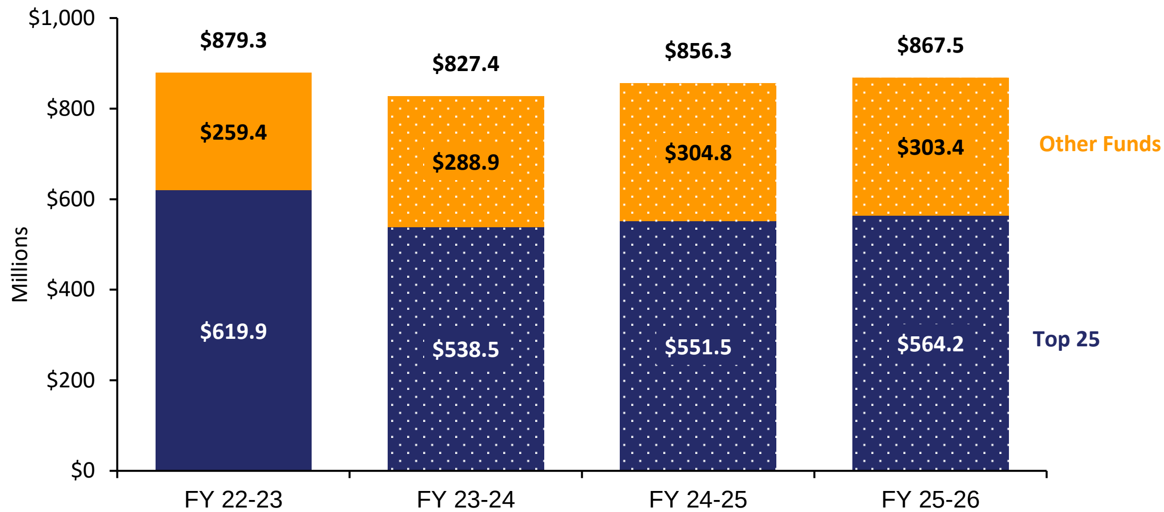
	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total Severance Tax Revenue (excluding interest, in millions)	**$352.2**	**$197.8**	**$242.8**	**$229.9**
Distribution				
Decarbonization Tax Credits Administration	$0.0	$12.9	$29.2	$32.3
Department of Natural Resources	$176.1	$92.5	$106.8	$98.8
Department of Local Affairs	$176.1	$92.5	$106.8	$98.8

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 HB22-1298, Fee Relief Nurses Nurse Aides and Technicians, and HB22-1299, 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 4.6 percent to $85.2 million. In FY 2024-25, revenue is expected to bounce back by 14.7 percent to $97.8 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.

Figure 66. Miscellaneous Cash Fund Forecast



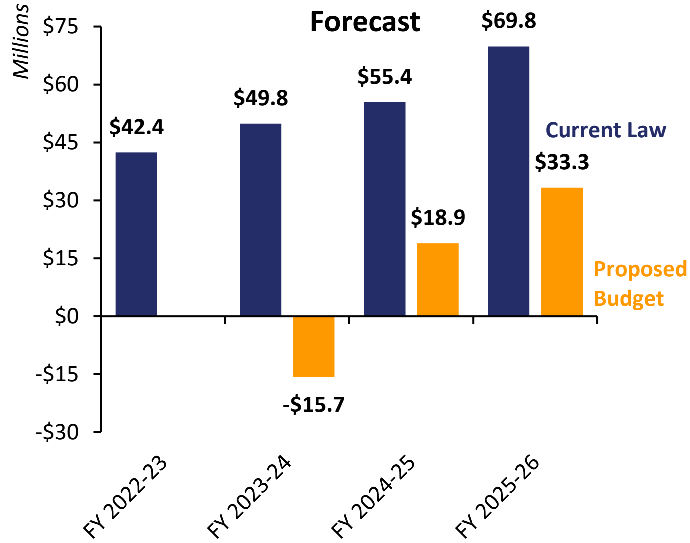
Note: Dotted region indicates forecast period
Source: Department of Revenue

The category of "Other Miscellaneous Cash Funds" includes revenue from over 300 cash fund programs that collect revenue from fees, fines, and interest earnings. Historically, OSPB has broken this forecast down into the 30 funds that tend to have the largest revenue separately from the rest of the smaller cash funds. Beginning with this December 2023 revenue forecast, OSPB has transitioned to a structure that breaks down this forecast into an updated list of 25 funds that had the most revenue in FY 2022-23 and separate out the rest of the smaller cash funds.

The updated list of 25 funds, or the "Top 25", accounted for 71.3 percent of revenue in the Miscellaneous Cash Fund forecast in FY 2022-23. Eight of the funds within the Top 25 are administered by the Judicial branch. These Judicial funds accounted for a fifth of all Miscellaneous Cash Fund Revenue in FY 2022-23 and are primarily funded through court fines. OSPB conducted a review session with Judicial to get their input on these 8 funds and based on their feedback, OSPB revised down FY 2023-24 estimates from the September OSPB Forecast. The other important change from September is that the Governor's November 1st Budget submission has a net downward revenue revision for Miscellaneous Cash Funds through the forecast period which is described further below.

Downward pressure on revenue in the miscellaneous cash funds is caused by proposals within the Governor's November 1st Budget, which include reductions to the Employment Support Fund (ESF) from the reduced cap in all forecast years, the Housing Development Grant Fund (HDGF) in FY 2024-25 and FY 2025-26, and a fee reduction to CDPHE's Recycling Resources Economic Opportunity Fund in FY 2024-25 and FY 2025-26. For the ESF, there is an ongoing impact of changing the distributions from Unemployment Compensation Fund (UCF) to ESF that will limit the amount of ongoing revenue generated by the ESF by $23.5 million. Additionally for the ESF, there is a one-time impact of $29.0 million by lowering the cap on reserves from $32.5 million to $3.5 million. Note that the negative reserves collected is a reflection of the amount of money credited back to the UCF due to high fund balances.

Figure 67. Employment Support Fund Forecast



For HDGF, the Governor's November 1st Budget Submission proposes to reduce the transfer to the HDGF by $35 million in FY 2024-25 and beyond. These reduced transfers are proposed to be offset by increased tax credits to support housing development by the same amount. These revenue reductions more than offset the anticipated $19.9 million increase from fee increases and result in an overall revision down in revenue to Miscellaneous Cash Funds across the forecast period.

Figure 68. Housing Development Grant Fund Forecast

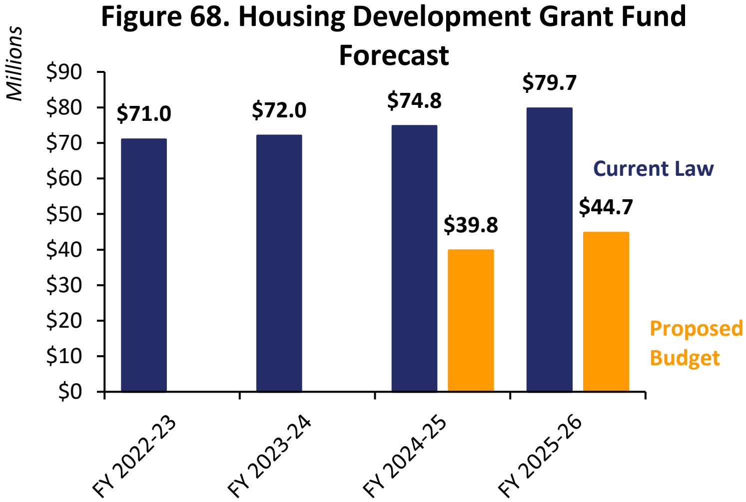


Figure 69. Miscellaneous Cash Fund Forecast ($ millions)

Fiscal Year	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Top 25	$619.9	$538.5	$551.5	$564.2
Other	$259.4	$288.9	$304.8	$303.4
Total	$879.3	$827.4	$856.3	$867.5

In FY 2023-24, revenue collections for aggregated miscellaneous cash funds are expected to drop 5.9 percent to $827.4 million. Out-year fiscal year forecasts are expected to grow at a moderate pace of 3.5 percent in FY 2024-25 and 1.3 percent in FY 2025-26.

Figure 70. Miscellaneous Cash Fund Forecast – Growth Rate

Fiscal Year	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Top 25	4.8%	-13.1%	2.4%	2.3%
Other	-6.6%	11.4%	5.5%	-0.5%
Total	1.1%	-5.9%	3.5%	1.3%

An additional item added during this forecast is the individual annual estimates for the Top 25 group of cash funds within the miscellaneous revenue forecast. Those estimates are detailed in the appendix in Table 6b.

TABOR Exempt Funds with Significant Fiscal Implications

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

Marijuana

Marijuana revenue continues to come in lower than anticipated due to prolonged downward price effects. However, the most recent wholesale prices for flower have risen nearly 16 percent, from $640 per pound to $750 in the past six months (April-October). These wholesale price increases indicate that post-pandemic price lows due to oversupply may be over. As a result, wholesale prices and thus the 15 percent excise tax charged on wholesale marijuana is likely to stabilize and begin a positive trajectory. Price changes for retail marijuana tend to lag wholesale price trends, and consequently there is a larger negative revision to the 15 percent special sales tax. Going forward, retail prices are expected to follow the upward trajectory of wholesale through the rest of the forecast period. On net, total marijuana revenue declined by 22.6 percent in FY 2022-23, but is expected to grow by 5.5 percent in FY 2023-24, followed by 12.6 percent growth in FY 2024-25 and slow, normalizing growth of 2.7 percent in FY 2025-26. Figure 71 below shows expected revenue for each stream under these revised assumptions.

Figure 71. Marijuana Tax Revenue, Annual Forecast

Marijuana Tax Revenue	Actual 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	$219.9	$228.7	$259.6	$266.1
Retail Marijuana 15% Excise Tax	$57.8	$64.8	$71.1	$73.9
Total Proposition AA Taxes	**$277.7**	**$293.6**	**$330.6**	**$340.0**
2.9% Sales Tax & Interest (Subject to TABOR)				
Medical Marijuana 2.9% State Sales Tax	$5.6	$5.4	$6.0	$5.9
Retail Marijuana 2.9% State Sales Tax	$1.1	$1.2	$1.2	$1.2
Interest Earnings	$0.4	$0.4	$0.4	$0.4
Total 2.9% Sales Taxes & Interest	**$7.2**	**$7.0**	**$7.6**	**$7.5**
Total Marijuana Taxes	**$284.9**	**$300.6**	**$338.3**	**$347.5**

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 72 below in addition to the revisions downward from the previous forecast.

Figure 72. Marijuana Tax Distributions, Annual Forecast

Marijuana Tax Revenue (December)	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	$300.6	$22.9	$32.0	$64.8	$25.9	$154.9
FY 2024-25 Projected	$338.3	$26.0	$36.3	$71.1	$29.4	$175.5
FY 2025-26 Projected	$347.5	$26.6	$37.3	$73.9	$30.1	$179.5

Change from September	Total Marijuana Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	Marijuana Tax Cash Fund
FY 2022-23 Preliminary	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
FY 2023-24 Projected	-$16.6	-$1.4	-$1.9	-$1.8	-$1.6	-$9.9
FY 2024-25 Projected	-$9.2	-$0.5	-$0.7	-$4.2	-$0.6	-$3.1
FY 2024-25 Projected	-$8.2	-$0.4	-$0.6	-$4.4	-$0.5	-$2.4

Marijuana taxes for both the 15 percent special sales tax collected 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 but a 15.6 percent increase in the wholesale AMR from April to October indicates that prices for both wholesale and retail marijuana are headed upward. Stable slow growth in the volume of marijuana sold has kept revenue afloat relative to 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.

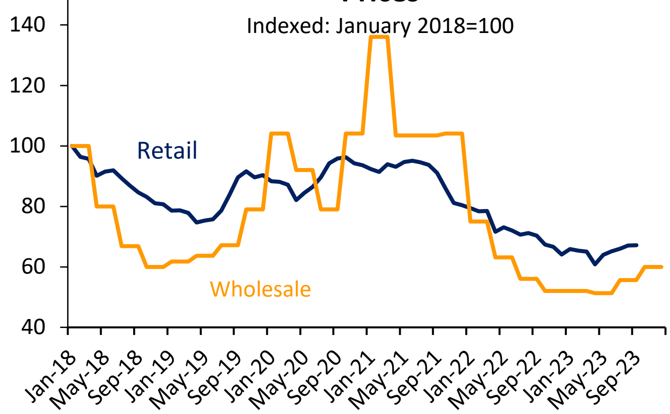
As a result of these price drivers, near term expectations have been revised downward while continued strength in volume sold and slightly more optimistic expectations for FY 2024-25 prices have marginally lifted FY 2024-25 growth expectations. Prices for retail and wholesale marijuana are anticipated to increase as noted below:

- Retail marijuana prices were at $3.66 per gram in September 2023 and are expected to rise to $4.20 per gram by June 2024 prior to stabilizing between $4.20 and $4.30 per gram throughout FY 2024-25. These prices are generally aligned with pre-pandemic pricing in FY 2018-2019, which averaged $4.30 per gram.
- The average market rate for wholesale flower is expected to continue to rise from its current October 2023 level of $750 per pound ($1.71 per gram) to approximately $900 per pound ($2.05 per gram) by June 2024 and stabilize at or just below that level

throughout FY 2024-25. These prices are notably more volatile and thus respond more to seasonal variation and other short-term factors.

To better illustrate the stories above surrounding price and volume of marijuana sold in recent months and going forward, the following section explores these trends in more detail.

Figure 73. Retail v. Wholesale Marijuana Prices

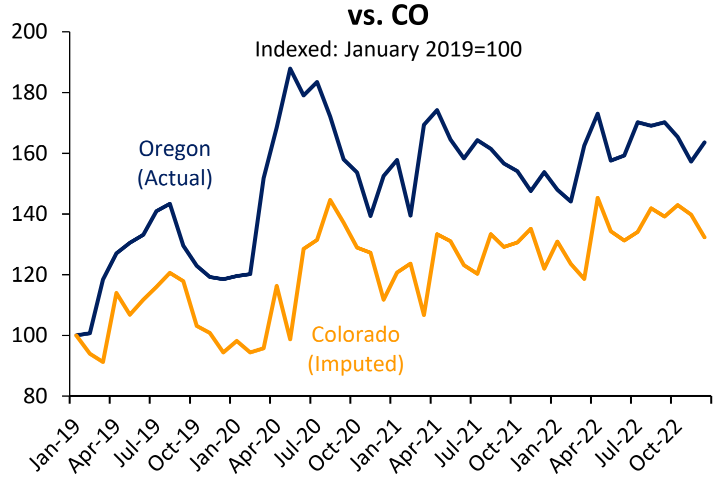


Source: Colorado Department of Revenue; Colorado MED Dashboard; Author's Calculations.

Figure 73 on the left shows the historical price relationship between wholesale and retail marijuana, which helps highlight the lagged and muted correlation between the two prices. In particular, the graph demonstrates two key trends: (1) retail marijuana prices tend to follow trends in wholesale marijuana prices; and (2) movements in retail marijuana prices tend to be smaller than movements in wholesale marijuana prices, hence the larger swings in excise marijuana tax collections which are based on wholesale tax collections.

Finally, Figure 74 on the right uses actual reported data from Oregon to corroborate OSPB's analysis which backs out data on volume sold for adult use retail marijuana in Colorado. Oregon is a good comparison for Colorado marijuana sales not only because of its similar population, but also because it's a similarly mature marijuana market with recreational marijuana sales commencing in 2015. Notably, the data illuminates the fact that the drag in overall marijuana revenue largely stems from reduced prices and not from the level of marijuana consumption in the state, which has generally remained at or above levels seen during the pandemic.

Figure 74. Quantity of Marijuana Sold, OR vs. CO



Source: Colorado Department of Revenue; Colorado MED Dashboard; Oregon Recreational Marijuana Market Data Dashboard; Author's Calculations.

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. Since the recent peak of Henry Hub natural gas prices at nearly $10 per million BTU in late summer 2022, prices have plummeted to just above $2.50 on average for 2023 – well below the ten-year average of $3.33. With the price decline, revenue softened in the final quarter of FY 2022-23 and first quarter of FY 2023-24, and with natural gas prices largely forecast to remain at or below average levels through 2024, FML revenue is expected to decline from the recent highs.

In the first quarter of FY 2023-24, $20.7 million in FML revenue was collected compared to $39.1 million in the first quarter of FY 2022-23, reflecting a year-over-year decline of 47.1 percent. While a straight-line projection for the fiscal year would result in $82.8 million in FML revenue, this forecast estimates $111.0 million for the fiscal year as the first quarter is projected to be the lowest collection of the year as natural gas prices tick up from recent troughs. Compared to the September forecast, revenue is revised up by $1.9 million in FY 2023-24 due to an upward revision in oil price expectations for the second half of the fiscal year. In the first half of FY 2024-25, natural gas prices are expected to rebound closer to the long-term average, while oil price expectations are slightly higher than in September, leading to a $1.7 million upward revision. In FY 2025-26, revenue is expected to tick down by 0.3 percent to $114.7 million, reflecting a $0.9 million upward revision from the prior forecast. 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 75.

Figure 75. FML Forecast Distributions ($ millions)

	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total FML Revenue	**$173.6**	**$111.0**	**$115.1**	**$114.7**
Change	38.8%	-36.1%	3.6%	-0.3%
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	$109.8	$113.9	$113.5
State Public School Fund	$83.3	$53.0	$55.0	$54.8
Colorado Water Conservation Board	$17.2	$11.0	$11.4	$11.4
DOLA Grants	$34.5	$22.0	$22.8	$22.7
DOLA Direct Distribution	$34.5	$22.0	$22.8	$22.7
School Districts	$2.9	$1.9	$1.9	$1.9

Overall, there has been a long-term, downward federal 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 figure 75.

Sports Betting

In Fiscal Year 2022-23, sports betting exceeded expectations and set records with over $5.1 billion wagered throughout Colorado, which led to record sports betting tax revenue of roughly $25.6 million. The total in wagers reflected 7.5 percent growth from the previous fiscal year, while sports betting tax revenue recorded 105.6 percent growth from the previous fiscal year. Despite growing wagers, the large discrepancy in growth of 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 the effective tax rate increasing. These two factors are impacting this current fiscal year and will continue to impact the growth of sports betting revenue through the forecast period.

OSPB forecasts relatively strong growth for the upcoming fiscal years for Colorado. In FY 2023-24, OSPB forecasts a 16.6 percent increase in revenue to $33.5 million, while FY 2024-25 is forecast to grow by 2.5 percent, and lastly, in FY 2025-26, OSPB expects 6.2 percent growth. Prior expectations were that sports betting would not be able to maintain the rapid growth experienced in FY 2022-23. However, the first four months of received revenue is 22.2 percent higher than the revenue received through the first four months of the previous fiscal year. The strong continuation of received revenue is largely attributable to increasing trends in hold percentage for the sports betting operators, as well as the effective tax rate.

Previous OSPB expectations were that operators would slowly raise their hold percentage closer to the national average. From legalization until June 2023, the average hold percentage of operators was 6.8 percent. Since July 2023, Colorado sports betting operators are averaging an 8.7 percent hold percentage which is an increase from where it was previously. According to Legal Sports Report, Colorado Operators in the last few months are now above the national average of approximately 8.3 percent. This increasing hold percentage seems to be occurring nationally, which could be due to a rising base of less experienced users or unpredictability in the large-wager sports such as basketball, football, baseball, or hockey.

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 15.7 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. Prior to the implementation of this legislation the average effective tax rate was 5.1 percent, but since the bill was implemented limiting free bets, the average effective tax rate has been 7.0 percent. 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 76. Sports Betting Distribution Formula ($ millions)

Distribution Formula	Preliminary FY2022-23	Forecast FY2023-24	Forecast FY2024-25	Forecast FY2025-26
Total Sports Betting Tax Revenue	$25.59	$33.48	$34.33	$36.45
Change	105.6%	30.8%	2.5%	6.2%
Hold-Harmless Fund (6%)	$1.54	$2.01	$2.06	$2.19
Behavioral Health Administration	$0.13	$0.13	$0.00	$0.00
				.
Water Plan Implementation Cash Fund	$23.92	$31.34	$32.27	$34.27

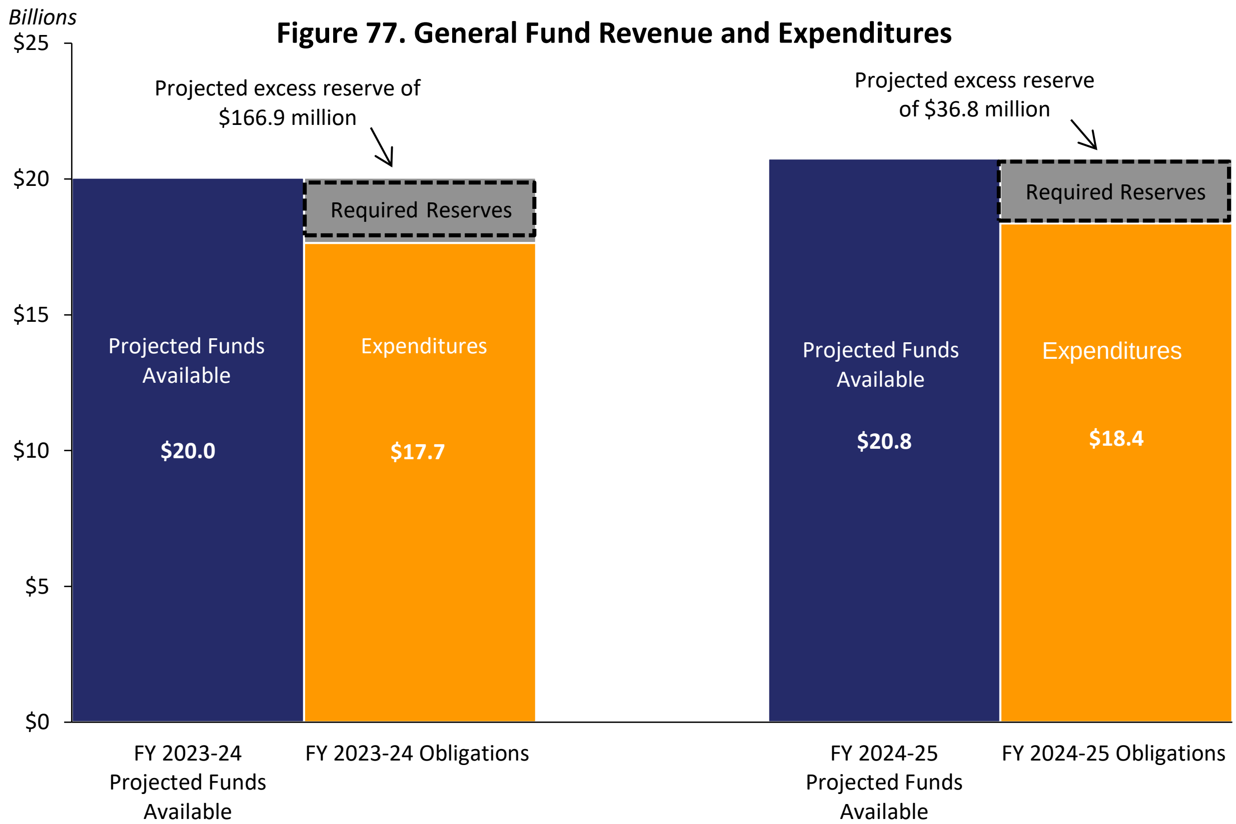
As shown in Figure 76 above, sports betting revenues are distributed by a formula. Six percent of the sports betting revenue goes to the 'Wagering Revenue Recipients Hold-Harmless Fund' to offset any demonstrated loss of revenue attributable to sports betting. Additionally, $130,000 goes to the Behavioral 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 2.5 percent off of the previous year's record, reflecting a shallower decline than the 3.8 percent expected in September. This is an upward revision of $247.3 million compared to September, as OSPB's economic growth expectations are revised up in 2023 from 2.1 to 2.5 percent. However, given the expected slowdown in economic growth, revenue is expected to grow slightly slower in FY 2024-25 at 3.8 percent, compared with 5.8 percent in the September forecast. Therefore, the forecast in FY 2024-25 is revised down $78.1 million from September largely due to a small downward revision in Colorado wages and salaries that impacts individual withholdings revenue.

Figure 77. General Fund Revenue and Expenditures



The General Fund estimated ending balance is $166.9 million above the statutory reserve level of 15.0 percent of appropriations in FY 2023-24 and estimated to be $36.8 million above the statutory reserve level of 15.0 percent of appropriations in FY 2024-25.

In the current forecast, there is $431.5 million in room above the statutory reserve limit for FY 2022-23, $86.2 million above the $345.3 million in the September forecast as a result of the preliminary unaudited General Fund reversions tallied by the Office of the State Controller. In FY 2023-24, the available room above the statutory reserve limit decreased $16.8 million from $183.7 million to $166.9 million, largely as a result of the Governor's budget requests that impact revenue nearly offsetting increased forecasts for cash fund revenue and rebates and expenditures for FY 2023-24.

Note that this forecast includes a range of revenue and expenditure impacts resulting from the Governor's November 1 budget, in addition to the extraordinary legislative session. In the session, the largest impacts included appropriations and transfers in SB23B-001 and HB23B-1001 to support property tax reductions and rental assistance. In addition to that funding, the Governor's budget includes a range of appropriations and transfers to support fully funding K-12 education, support housing supply efforts in Colorado, investing in the state's workforce, among other goals. In addition to appropriations found in Reference Table 4, Figure 78 below shows an aggregated list of transfers that impact the balancing described above. Note that the November 1st budget included $29.2 million in supplementals, thereby impacting the amount above the 15 percent reserve.

Figure 78. Transfer Impacts (in millions of $) from the Governor's Budget

Item	Forecast Section	FY24 Impact	FY25 Impact	FY26 Impact
Severance Tax Sweep	Transfers into GF	$0.0	$50.0	$0.0
IIJA Swap	Transfers into GF	$0.0	$19.3	$0.0
CSI Mill Levy Equalization	Transfers out GF	$0.0	$42.1	$0.0
Retail EV Charging Stations	Transfers out GF	$0.0	$0.3	$0.0
Creative Districts Modifications & Funding	Transfers out GF	$0.0	$0.5	$0.0
Opportunity Now 2.0	Transfers out GF	$0.0	$5.3	$0.0
Investment in Local Crime Prevention Strategies	Transfers out GF	$0.0	$7.5	$0.0
Placeholder for Natural Medicine	Transfers out GF	$0.0	$0.1	$0.0
Broadband	Transfers out GF	$0.0	$11.4	$0.0
Workforce Housing	Transfers out GF	$0.0	$16.0	$0.0
STR Local Gov't Reimbursement	Transfers out GF	$0.0	$15.0	$0.0
Transit-Oriented Development	Transfers out GF	$0.0	$35.0	$0.0
Other Governor's Requests	Transfers out GF	$0.0	$5.0	$0.0

Additionally, the Governor's budget submission included a range of revenue impacts to cash funds and the General Fund that had an overall impact of reducing revenue. The OSPB forecast includes all these revenue adjustments, but throughout this document, sections include what revenue expectations would be with and without the budget requests and legislative placeholders. See Figure 79 below for a summary of these revenue impacts.

Figure 79. Revenue Impacts (in millions of $) from the Governor's Budget

Item	Forecast Section	FY24 Impact	FY25 Impact	FY26 Impact
HDGF Change	Vendor Fees/Misc CF	$0.0	-$35.0	-$35.0
Recycling Resources Program Fee	Miscellaneous	$0.0	-$3.3	-$3.3
Gaming Revenue Reclassification	Gaming	$0.0	-$25.4	-$26.3
Cig Revenue Reclassification	Other Excise	$0.0	-$6.1	-$5.8
ESF Change	Miscellaneous	-$52.5	-$23.5	-$23.5
Expected Fee Increases	Miscellaneous	$0.0	$19.9	$19.9
Tax Credits in the Governor's Budget*	Income	$0.0	-$10.4	-$79.8

**note Tax credits include Affordable Housing, HDGF Tax credit conversion, Opportunity Now tax credit, among others discussed in the budget letter*

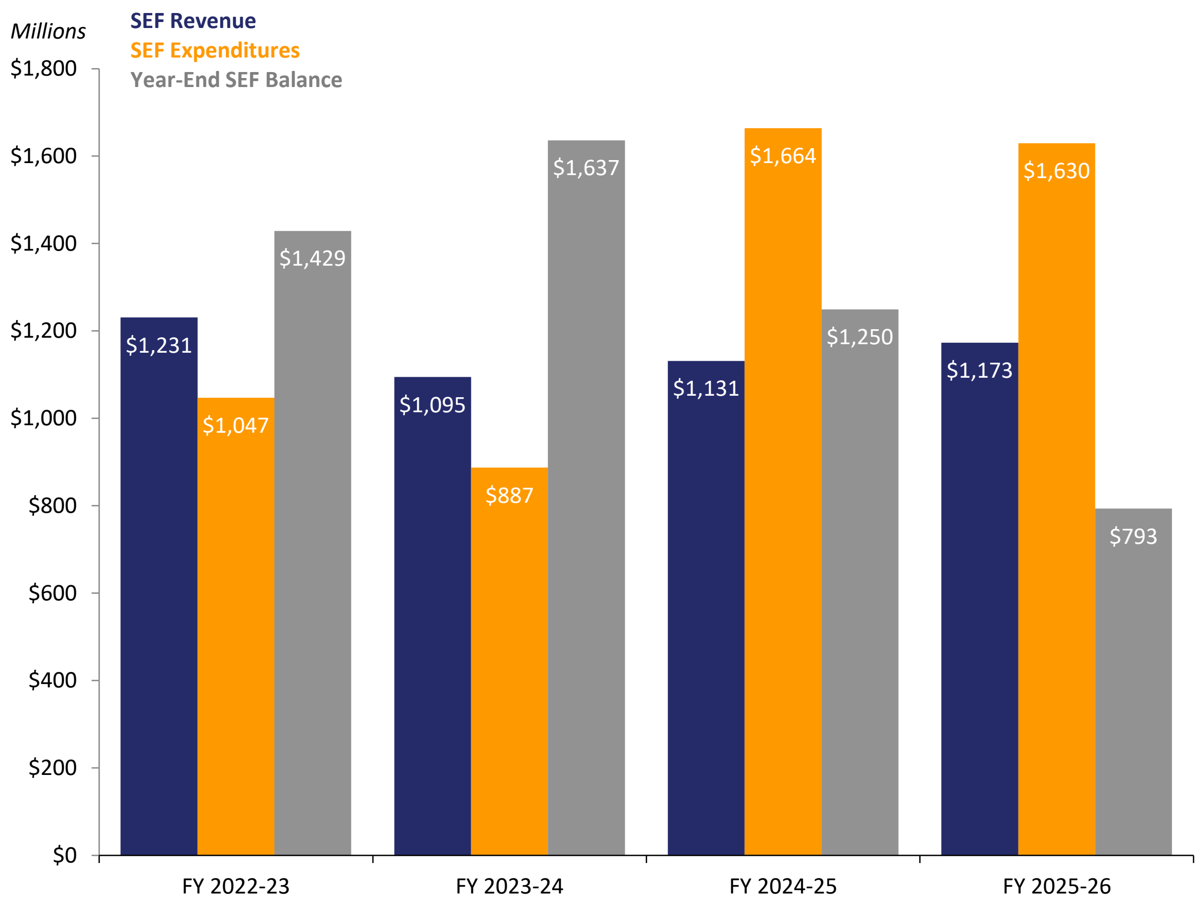
State Education Fund

In FY 2022-23, the State Education Fund's (SEF) preliminary year-end balance is $1,429.2 million, reflecting an upward revision of $17.2 million from the September forecast due to year-end accounting adjustments. 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 increase to $1,636.6 million, reflecting an upward revision of $289.2 million from September, primarily driven by higher local property tax share assumptions reducing the share of SEF expenses for school finance and an upwardly revised forecast for SEF income tax revenue. The FY 2023-24 ending balance takes into account all SEF appropriations and legislative changes enacted in the 2023 regular legislative session and November's extraordinary legislative session.

In FY 2024-25, the SEF fund balance is forecast to decrease to $1,249.5 million, which is an upward revision of $382.0 million from September primarily due to a higher expected beginning balance carried over from FY 2023-24 and a newly enacted $146.0 million transfer from the General Fund to the SEF as provided for in SB23B-001, 2023 Property Tax Relief, which was passed in November's extraordinary legislative session and signed by the Governor. In FY 2025-26, the SEF fund balance is projected to decrease by 36.7 percent to $793.4 million as increasing state share of Total Program expenses begin to draw down the fund balance.

The SEF fund balance is forecast to remain above historical averages throughout the forecast period as a significant increase in the share of local property taxes contributing to school finance alongside strong growth in income tax revenue diverted to the SEF have alleviated short-term fiscal concerns related to the fund. However, large increases in Total Program amounts due to high inflation (8.0 percent in FY 2023-24 and 5.2 percent forecast in FY 2024-25) along with the full buydown of the Budget Stabilization Factor are projected to result in total SEF expenses eclipsing $1.6 billion in FY 2024-25 and FY 2025-26. Further, economic uncertainty remains a downside risk that could negatively weigh on the fund's revenue streams, especially in the out-years. Figure 80 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 80. SEF Revenue, Expenditures, and Ending Balances



Forecast Risks

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

On the upside, labor demand may remain more resilient than expected in the baseline, avoiding an uptick in unemployment in the out-years and keeping income withholdings elevated with it. High interest rates, sticky inflation, and increasing consumer debt are a few of the downside risks that could 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 towards downside risk.

In addition to our baseline forecast, OSPB has begun to stress test our baseline economic and revenue assumptions. This process is implemented by creating two additional upside and downside scenarios in addition to the OSPB baseline forecast. Similar to the baseline forecast, all other scenarios begin with defining a GDP forecast, which is then distributed into cascading economic and revenue models to provide alternative possibilities of overall revenue outcomes. Note that the current structure only stress tests specific revenue models, including income, sales and transportation revenue, which make up over 90% of all TABOR non-exempt revenue. The scenarios are described below:

1. Extreme Upside scenario: Considered to represent an outcome better than 95 percent of all scenarios. However, given the relative lack of tailwinds, there is asymmetric risk that limits the economic growth in this scenario to 3.9 percent in 2024 and 2.8 percent in 2025 relative to the extreme downside counterpart. This is a bespoke scenario, similar to the other upside and downside scenarios with the exception of the extreme downside.
2. Relative Upside scenario: Represents GDP growth better than 75 percent of all scenarios, with economic growth of 2.5 percent in 2024 and 2.0 percent in 2025.
3. Baseline scenario: The OSPB forecast described in this document with 2.5 percent GDP growth in 2023, followed by 1.5 percent and 1.6 percent in 2024 and 2025 respectively.
4. Relative Downside scenario: Represents GDP growth that is better than 25 percent of all scenarios, with economic growth of 0.1 percent in 2024 and 1.0 percent in 2025. This scenario represents a very mild recession, with negative growth in two quarters in the middle of 2024. Note that OSPB considers recession risk to be 30 percent, which expressed another way means that OSPB expects 30 percent of all likely scenarios to result in a recession. OSPB projects that TABOR refunds would remain at approximately $1.1 billion in the current fiscal year due to the downturn only impacting the final quarter of this budget year. However, in FY 2024-25, the estimated revenue impact would fully eliminate TABOR refunds and reduce the General Fund reserve to approximately 14.4 percent of appropriations, slightly below the statutory limit of 15 percent.
5. Extreme Downside scenario: This scenario is not a bespoke OSPB scenario, but is instead aligned with the Federal Reserve's 2023 Dodd-Frank Act Stress Test scenario that is also

used to stress test large banks. Utah's budget office also uses this scenario in their stress testing. OSPB considers this to be a 5 percent scenario (worse than 95 percent of all possible outcomes). This would result in a slightly worse recession than the Global Financial Crisis of 2008, but nowhere near as bad as the Great Depression. The one tweak that OSPB makes here is to update the peak downturn to occur in 2024 instead of 2023, keeping the same growth rates across all variables, but pushed out a year. Therefore, this stress test includes economic growth of -5.2 percent in 2024 and -2.5 percent in 2025, alongside a U.S. unemployment rate of 7.4 percent in 2024 and 9.8 percent in 2025. While the sharpest GDP downturn occurs in the second half of FY 2023-24, the timing is such that OSPB would still expect TABOR refunds in the current year of approximately $300 million. However, as the unemployment rate remains elevated above 9% for much of FY 2024-25, General Fund revenue is estimated to fall to $14.6 billion, a combined 18.8 percent loss over two fiscal years. Under such a scenario, not only would TABOR refunds be eliminated, but revenue would be low enough to require an estimated $2.0 billion of the $2.4 billion reserve. This would leave only 2.5 percent of the 15 percent reserve remaining, thereby requiring budget balancing actions for FY 2024-25.

This stress testing exercise illustrates the need to maintain elevated reserves to buffer against the possibility of extreme downside risk. Further, OSPB is currently working to incorporate these stress tests into its long term financial planning model, in order to better understand the long term impacts of different budget solutions to a downside scenario. This is an important next step in both creating a budget plan in advance of a possible severe recession as well as developing a path to re-establishing reserves after the next recession passes.

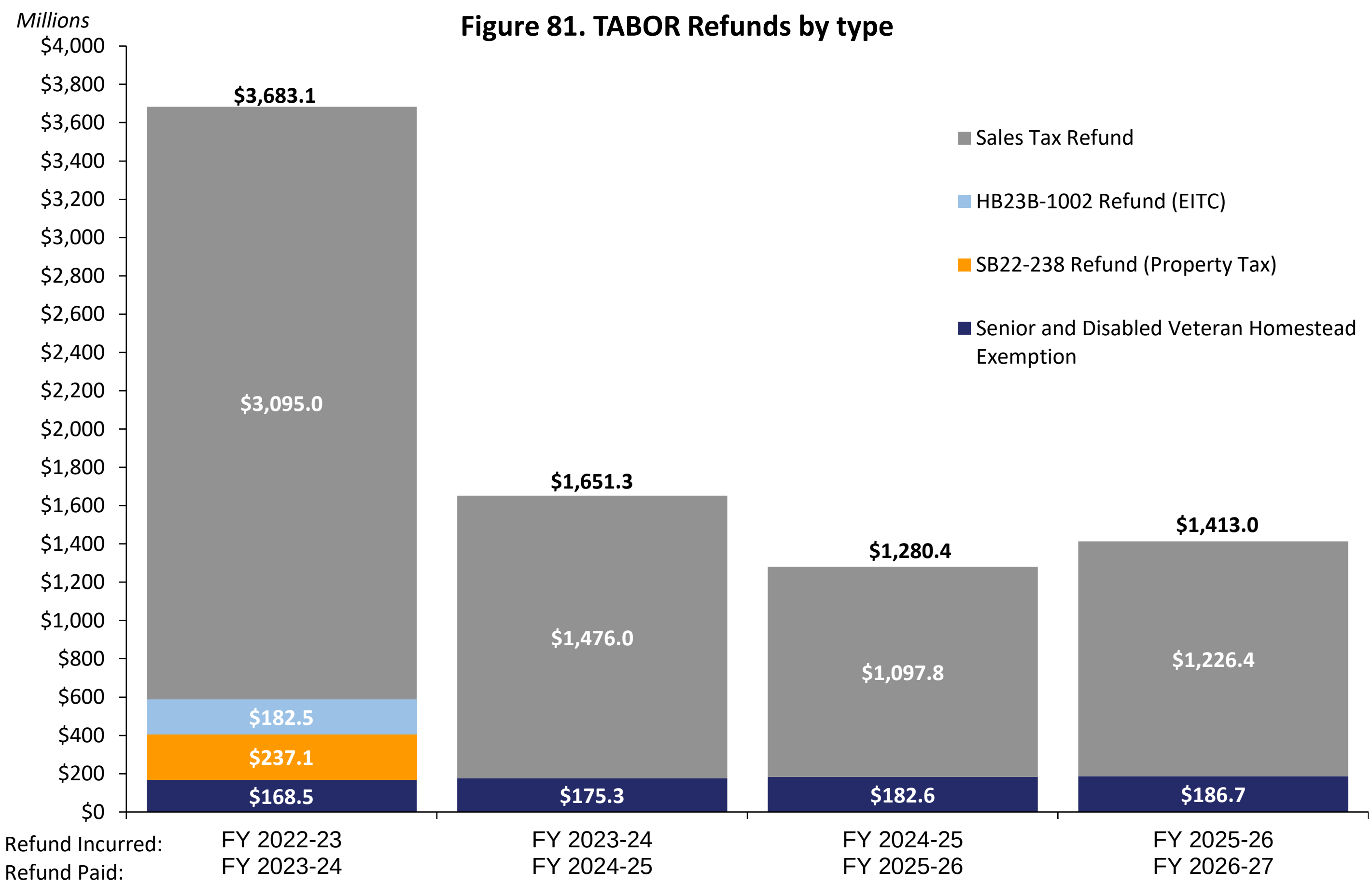
Supplemental Materials

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, with an additional $114.4 million in pending amounts distributed from prior year refunds. Therefore, the total combined $3,683.1 million in refunds is only $165.0 million below the record set in FY 2021-22. In FY 2023-24, revenue is projected to be $1,651.3 million above the cap, a $213.2 million upward revision, as increased income and severance revenue are above previous expectations. In FY 2024-25, the amount above the cap is expected to fall slightly to $1,280.4 million, a $128.7 million decrease due to downward revisions to individual income and sales tax revenue due to slowing consumer and labor demand. In FY 2025-26, refunds are expected to stabilize at $1,413.0 as the economy returns to growing at its potential.

Figure 81. TABOR Refunds by type



Current law specifies two mechanisms by which revenue in excess of the cap is to be refunded to taxpayers for refunds incurred in FY 2023-24 and beyond: the senior homestead and disabled veteran 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. In addition to these mechanisms, SB22-238, 2023 and 2024 Property Tax*,* provides an estimated $237.1 million in refunds to backfill local governments' losses as a result of reduced property tax revenue for revenue collected in FY 2022-23. For that fiscal year's revenue, there was also a refund mechanism created for that year only in the most recent extraordinary legislative session. HB23B-1002 increased the state earned income tax credit from 25 to 50 percent of the federal credit, with the difference being paid out in a refund mechanism at a cost of $182.5 million.

An estimated $168.5 million of the $3,683.1 million refund obligation (including prior year refunds) will be refunded via the senior homestead and disabled veterans property tax exemption expenditures. Note that the $3,683.1 million includes $114.4 million in TABOR refunds going out based on refunds owed in FY 2018-19, FY 2020-21, and FY 2021-22, as can be seen in Table 7 in this document's appendix. 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. Finally, $3,095.0 million is expected to be refunded via the sales tax refund mechanism. Note that another bill in the special session, SB23B-003, directed that the sales tax refund mechanism be a one-tier sales tax refund instead of the normal six-tier mechanism. The Colorado Department of Revenue has estimated that this payment will then be $800 per single filer and $1,600 for joint filers.

TABOR refunds incurred in FY 2023-24 are revised up, given that OSPB now expects the economy to grow more strongly than expected in September for the current fiscal year. Therefore, in addition to the $175.3 million in the senior homestead and disabled veteran property tax exemption expenditures, OSPB expects $1,476.0 million via the six-tier sales tax refund. In FY 2024-25, with the economy growing its slowest in the forecast, revenue growth is also slower than its historical average, resulting in a $1,097.8 million sales tax refund after accounting for the senior homestead and disabled veteran exemption.

Reference Tables

Table 1: Colorado Economic Variables – History and Forecast

		Actual 2017	Actual 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022	Forecast 2023	Forecast 2024	Forecast 2025
	Income									
1	Personal Income (Billions) /A	$303.4	$328.1	$351.4	$375.2	$418.0	$442.2	$466.1	$486.1	$510.4
2	Change	6.9%	8.2%	7.1%	6.8%	11.4%	5.8%	5.4%	4.3%	5.0%
3	Wage and Salary Income (Billions)	$160.9	$170.8	$183.0	$187.8	$205.6	$224.3	$238.7	$249.0	$260.7
4	Change	6.5%	6.1%	7.1%	2.7%	9.4%	9.1%	6.4%	4.3%	4.7%
5	Per-Capita Income ($/person) /A	$54,173.0	$57,796.0	$61,268.0	$64,862.0	$71,878.0	$75,488.0	$79,072.0	$81,778.0	$85,077.0
6	Change	5.6%	6.7%	6.0%	5.9%	10.8%	5.0%	4.7%	3.4%	4.0%
	Population & Employment									
7	Population (Thousands)	5,600.0	5,677.0	5,735.0	5,784.0	5,815.0	5,858.0	5,894.5	5,944.5	5,999.8
8	Change	1.3%	1.4%	1.0%	0.9%	0.5%	0.7%	0.6%	0.8%	0.9%
9	Net Migration (Thousands)	42.4	51.8	34.2	28.6	11.0	14.9	19.5	34.0	40.0
10	Unemployment Rate	2.6%	3.0%	2.7%	6.8%	5.5%	3.0%	3.0%	3.6%	3.7%
11	Total Nonagricultural Employment (Thousands)	2,660.3	2,727.3	2,790.1	2,652.7	2,750.9	2,869.6	2,909.8	2,944.7	2,977.1
12	Change	2.3%	2.5%	2.3%	-4.9%	3.7%	4.3%	1.4%	1.2%	1.1%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	40.7	42.6	38.6	40.5	56.5	48.8	39.0	39.8	42.8
14	Change	4.4%	4.8%	-9.4%	4.8%	39.7%	-13.6%	-20.1%	1.9%	7.7%
15	Nonresidential Construction Value (Millions) /B	$6,150.7	$8,132.0	$5,161.5	$5,607.4	$5,684.5	$6,732.4	$6,819.9	$6,710.8	$6,878.6
16	Change	2.7%	32.2%	-36.5%	8.6%	1.4%	18.4%	1.3%	-1.6%	2.5%
	Price Variables									
17	Retail Trade (Billions) /C	$194.6	$206.1	$224.6	$228.8	$268.3	$299.9	$305.3	$312.3	$326.1
18	Change	5.4%	5.9%	9.0%	1.9%	17.3%	11.8%	1.8%	2.3%	4.4%
19	Denver-Aurora-Lakewood Consumer Price Index (1982-84=100)	255.0	262.0	267.0	272.2	281.8	304.4	320.3	330.2	339.8
20	Change	3.4%	2.7%	1.9%	2.0%	3.5%	8.0%	5.2%	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)

/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.

Table 2: National Economic Variables – History and Forecast

		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	$19,612.1	$20,193.9	$20,692.1	$20,234.1	$21,407.7	$21,822.0	$22,367.6	$22,703.1	$23,066.4
2	Change	2.5%	3.0%	2.5%	-2.2%	5.8%	1.9%	2.5%	1.5%	1.6%
3	Personal Income (Billions) /B	$16,662.8	$17,528.2	$18,356.2	$19,629.0	$21,407.7	$21,840.8	$22,954.6	$23,758.1	$24,732.1
4	Change	4.9%	5.2%	4.7%	6.9%	9.1%	2.0%	5.1%	3.5%	4.1%
5	Per-Capita Income ($/person) /B	$51,284	$53,586	$55,743	$59,213	$64,475	$65,531	$68,667	$70,788	$73,396
6	Change	4.2%	4.5%	4.0%	6.2%	8.9%	1.6%	4.8%	3.1%	3.7%
7	Wage and Salary Income (Billions)	$8,474.4	$8,899.8	$9,325.0	$9,464.6	$10,312.6	$11,116.0	$11,794.1	$12,206.9	$12,621.9
8	Change	4.7%	5.0%	4.8%	1.5%	9.0%	7.8%	6.1%	3.5%	3.4%
	Population & Employment									
9	Population (Millions)	324.9	327.1	329.3	331.5	332.0	333.3	334.3	335.6	337.0
10	Change	0.7%	0.7%	0.7%	0.7%	0.1%	0.4%	0.3%	0.4%	0.4%
11	Unemployment Rate	4.4%	3.9%	3.7%	8.1%	5.4%	3.7%	3.7%	4.1%	4.2%
12	Total Nonagricultural Employment (Millions)	146.6	148.9	150.9	142.2	146.3	152.6	156.2	157.9	159.1
13	Change	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%	2.3%	1.1%	0.8%
	Other Key Indicators									
14	Consumer Price Index (1982-84=100)	245.1	251.1	255.7	258.8	271.0	292.7	304.7	312.9	320.7
15	Change	2.1%	2.4%	1.8%	1.2%	4.7%	8.0%	4.1%	2.7%	2.5%
16	Corporate Profits (Billions)	$2,225.2	$2,365.2	$2,470.3	$2,383.3	$2,922.8	$3,208.7	$3,210.7	$3,182.7	$3,364.0
17	Change	3.8%	6.3%	4.4%	-3.5%	22.6%	9.8%	0.1%	-0.9%	5.7%
18	Housing Permits (Millions)	1.28	1.33	1.39	1.47	1.74	1.67	1.47	1.49	1.56
19	Change	6.3%	3.6%	4.3%	6.1%	18.1%	-4.1%	-11.7%	1.1%	5.1%
20	Retail Trade (Billions)	$5,732.8	$5,983.1	$6,175.0	$6,223.3	$7,366.2	$8,070.9	$8,321.1	$8,537.5	$8,836.3
21	Change	4.1%	4.4%	3.2%	0.8%	18.4%	9.6%	3.1%	2.6%	3.5%

/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	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	$4,301.6	5.2%	$4,387.1	2.0%	$4,586.3	4.5%	$4,842.3	5.6%
2	Use	$251.2	8.0%	$234.1	-6.8%	$256.7	9.7%	$272.4	6.1%
3	Retail Marijuana Sales - Special Sales Tax	$219.9	-15.0%	$228.7	4.0%	$259.6	13.5%	$266.1	2.5%
4	Cigarette	$23.9	-7.9%	$22.0	-8.0%	$20.8	-5.6%	$19.9	-4.2%
5	Tobacco Products	$23.7	-11.0%	$23.0	-3.0%	$25.6	11.3%	$26.8	4.7%
6	Liquor	$56.3	-0.1%	$57.6	2.3%	$59.4	3.2%	$61.2	2.9%
7	Total Proposition EE	$235.0	13.0%	$205.6	-12.5%	$238.0	15.8%	$240.9	1.2%
8	**Total Excise**	**$5,111.7**	**4.4%**	**$5,158.1**	**0.9%**	**$5,446.4**	**5.6%**	**$5,729.6**	**5.2%**
	Income Taxes								
9	Net Individual Income	$10,952.7	-6.5%	$10,938.6	-0.1%	$11,660.4	6.6%	$12,175.5	4.4%
10	Net Corporate Income	$2,366.7	50.9%	$2,038.2	-13.9%	$1,783.8	-12.5%	$1,905.8	6.8%
11	**Total Income**	**$13,319.5**	**0.2%**	**$12,976.8**	**-2.6%**	**$13,444.2**	**3.6%**	**$14,081.3**	**4.7%**
12	*Less: State Education Fund Diversion*	*$1,066.4*	*7.3%*	*$1,060.1*	*-0.6%*	*$1,098.3*	*3.6%*	*$1,150.3*	*4.7%*
13	*Less: Proposition 123 Diversion*	*$160.0*	*NA*	*$311.4*	*94.7%*	*$322.7*	*3.6%*	*$338.0*	*4.7%*
14	**Total Income to General Fund**	**$12,093.1**	**-1.6%**	**$11,605.2**	**-4.0%**	**$12,023.2**	**3.6%**	**$12,593.0**	**4.7%**
	Other Revenue								
15	Insurance	$516.7	32.4%	$535.2	3.6%	$554.8	3.7%	$566.0	2.0%
16	Interest Income	$192.8	178.5%	$200.3	3.9%	$149.4	-25.4%	$123.5	-17.4%
17	Pari-Mutuel	$0.3	-20.4%	$0.4	27.6%	$0.4	-12.5%	$0.4	4.1%
18	Court Receipts	$3.1	30.6%	$3.1	-0.8%	$3.1	0.5%	$3.1	0.1%
19	Other Income	$84.5	85.3%	$54.7	-35.2%	$53.8	-1.7%	$54.8	1.9%
20	**Total Other**	**$797.4**	**57.0%**	**$793.7**	**-0.5%**	**$761.5**	**-4.1%**	**$747.8**	**-1.8%**
21	**GROSS GENERAL FUND**	**$18,002.2**	**1.7%**	**$17,557.1**	**-2.5%**	**$18,231.1**	**3.8%**	**$19,070.4**	**4.6%**

/A Dollars in Millions

Table 4: General Fund Overview /A

		Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
Revenue					
1	**Beginning Reserve**	**$3,203.2**	**$2,427.7**	**$2,392.2**	**$2,394.0**
2	**Gross General Fund Revenue**	**$18,002.2**	**$17,557.1**	**$18,231.1**	**$19,070.4**
3	*Transfers to the General Fund*	$53.5	$59.0	$130.6	$61.2
4	**TOTAL GENERAL FUND AVAILABLE**	**$21,258.9**	**$20,043.7**	**$20,753.9**	**$21,525.6**
Expenditures					
5	**Appropriation Subject to Limit**	**$13,308.1**	**$14,950.9**	**$15,829.8**	**$16,825.8**
6	*Dollar Change (from prior year)*	$1,266.9	$1,642.8	$878.9	$996.0
7	*Percent Change (from prior year)*	10.5%	12.3%	5.9%	6.3%
8	**Spending Outside Limit**	**$5,723.8**	**$2,700.6**	**$2,530.1**	**$2,193.2**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$3,683.1	$1,651.3	$1,280.43	$1,413.01
10	*Homestead Exemption (Net of TABOR Refund)*	$0.1	$0.0	$0.0	$0.0
11	*Other Rebates and Expenditures*	$168.6	$175.2	$164.4	$160.7
12	*Transfers for Capital Construction*	$493.2	$332.4	$239.5	$50.0
13	*Transfers for Transportation*	$88.0	$0.0	$117.5	$117.5
14	*Transfers to State Education Fund*	$290.0	$0.0	$146.0	$0.0
15	*Transfers to Other Funds*	$1,000.8	$541.7	$582.3	$452.0
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$19,031.9**	**$17,651.5**	**$18,359.9**	**$19,019.0**
17	*Percent Change (from prior year)*	6.7%	-7.3%	4.0%	3.6%
18	Reversions and Accounting Adjustments	-$200.7	$0.0	$0.0	$0.0
Reserves					
19	**Year-End General Fund Balance**	**$2,427.7**	**$2,392.2**	**$2,394.0**	**$2,506.6**
20	*Year-End General Fund as a % of Appropriations*	18.2%	16.0%	15.2%	15.0%
21	*General Fund Statutory Reserve*	$1,996.2	$2,225.3	$2,357.2	$2,506.6
22	*Statutory Reserve %*	15.0%	15.0%	15.0%	15.0%
23	***Above/Below Statutory Reserve***	**$431.5**	**$166.9**	**$36.8**	**$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 December 20, 2023. Reversions and accounting adjustments are preliminary and unaudited. FY 2024-25 appropriations reflect the Governor's Budget. FY 2025-26 expenditures and fund balance projections shown are illustrative only. Dollars in millions.

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

		Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
	Revenue				
1	**Beginning Reserves**	**$4,604.5**	**$4,476.8**	**$4,596.0**	**$4,404.8**
2	*State Education Fund*	$955.9	$1,429.2	$1,636.6	$1,249.5
3	*General Fund*	$3,648.6	$3,047.6	$2,959.4	$3,155.2
4	**Gross State Education Fund Revenue**	**$1,230.7**	**$1,094.6**	**$1,131.2**	**$1,173.4**
5	Transfer to State Education Fund	$290.0	$0.0	$146.0	$0.0
6	**Gross General Fund Revenue /B**	**$18,055.7**	**$17,616.0**	**$18,361.7**	**$19,131.6**
7	**TOTAL FUNDS AVAILABLE FOR EXPENDITURE**	**$23,890.9**	**$23,187.4**	**$24,088.9**	**$24,709.7**
	Expenditures				
8	General Fund Expenditures /C	$18,863.2	$17,704.2	$18,165.9	$17,450.3
9	State Education Fund Expenditures	$1,047.4	$887.2	$1,664.3	$1,629.5
10	**TOTAL OBLIGATIONS**	**$19,910.6**	**$18,591.4**	**$19,830.1**	**$19,079.8**
11	*Percent Change (from prior year)*	7.2%	-6.6%	6.7%	-3.8%
12	*Reversions and Accounting Adjustments*	-$206.5	$0.0	$0.0	$0.0
	Reserves				
13	**Year-End Balance**	**$4,476.8**	**$4,596.0**	**$4,404.8**	**$5,629.9**
14	State Education Fund	$1,429.2	$1,636.6	$1,249.5	$793.4
15	General Fund	$3,047.6	$2,959.4	$3,155.2	$4,836.5
16	*General Fund Above/Below Statutory Reserve*	$2,102.7	$1,468.2	$1,596.1	$4,658.4

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

Table 6: Cash Fund Revenue Subject to TABOR /A

	Category	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
1	**Transportation-Related /A**	**$1,266.8**	**$1,400.7**	**$1,470.9**	**$1,525.7**
2	Change	2.2%	10.6%	5.0%	3.7%
3	**Limited Gaming Fund /B**	**$121.3**	**$122.3**	**$100.5**	**$103.5**
4	Change	5.2%	0.8%	-17.8%	2.9%
7	**Regulatory Agencies**	**$89.4**	**$85.2**	**$97.8**	**$100.8**
8	Change	-3.1%	-4.6%	14.7%	3.1%
9	**Insurance-Related**	**$26.5**	**$23.5**	**$22.9**	**$23.2**
10	Change	9.3%	-11.4%	-2.6%	1.3%
11	**Severance Tax**	**$374.6**	**$218.5**	**$259.3**	**$243.2**
12	Change	15.3%	-41.7%	18.7%	-6.2%
13	**Other Miscellaneous Cash Funds**	**$879.3**	**$827.4**	**$856.3**	**$867.5**
14	Change	1.1%	-5.9%	3.5%	1.3%
15	**TOTAL CASH FUND REVENUE**	**$2,758.0**	**$2,677.7**	**$2,807.8**	**$2,863.8**
16	Change	3.5%	-2.9%	4.9%	2.0%

/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 6b: Top 25 Miscellaneous Cash Funds - Individual Fund Estimates

	Fund Name	Fund Code	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
1	Housing Development Grant Fund	23V0	$71.7	$72.0	$39.8	$44.7
2	Medicaid Nursing Facility Cash Fund	22X0	$53.2	$51.3	$51.8	$52.2
3	General Fund - Unrestricted	1000	$46.6	$47.3	$47.0	$47.1
4	Employment Support Fund	2320	$42.4	-$15.7	$18.9	$33.3
5	Oil and Gas Conservation Fund	1700	$35.0	$28.3	$24.4	$20.2
6	Judicial Stabilization Cash Fund	16D0	$33.2	$30.8	$31.7	$31.7
7	School Fund	7050	$33.0	$34.7	$35.0	$35.2
8	Auraria Higher Education Center - Nonenterprise Activities	305M	$32.8	$33.9	$34.0	$34.3
9	Information Technology Revolving Fund	6130	$31.4	$28.2	$29.4	$29.1
10	Judicial Information Technology Cash Fund	21X0	$29.6	$26.8	$27.8	$27.7
11	Adult Dental Fund	28C0	$26.7	$26.9	$27.6	$27.6
12	Offender Services Fund	1010	$24.6	$17.3	$19.3	$18.9
13	Department of State Cash Fund	2000	$22.3	$25.5	$24.9	$25.2
14	Colorado Water Conservation Board Construction Fund	4240	$15.0	$15.2	$15.3	$15.4
15	Victims Assistance Fund	7140	$14.0	$12.4	$12.8	$12.7
16	Supreme Court Committee Fund	7160	$13.9	$14.1	$14.2	$14.2
17	Fleet Management Fund	6070	$13.7	$13.1	$13.4	$9.9
18	Stationary Sources Fund	1190	$13.6	$14.2	$20.7	$20.8
19	Justice Center Cash Fund	21Y0	$11.3	$11.2	$11.3	$11.3
20	Victims Compensation Fund	7130	$11.2	$12.0	$11.8	$11.9
21	State Fair Authority Fund	5100	$10.7	$11.4	$11.3	$11.5
22	Judicial Collection Enhancement Fund	26J0	$9.4	$6.4	$7.2	$7.0
23	Colorado Bureau of Investigation Identification Unit Fund	22Q0	$8.7	$9.2	$9.3	$9.4
24	Correctional Treatment Cash Fund	2550	$7.9	$5.4	$6.1	$5.9
25	Perfluoroalkyl and Polyfluoroalkyl Substances Cash Fund	PPSF	$7.8	$6.6	$6.8	$6.8
	Total		**$619.9**	**$538.5**	**$551.5**	**$564.2**

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

		Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
1	General Fund /A	$17,468.0	$17,080.1	$17,629.3	$18,452.9
2	Cash Funds /A	$2,758.0	$2,677.7	$2,807.8	$2,863.8
3	**Total TABOR Revenues**	**$20,225.9**	**$19,757.8**	**$20,437.1**	**$21,316.8**
4	Previous calendar year population growth	0.7%	0.7%	0.6%	0.8%
5	Previous calendar year inflation	3.5%	8.0%	5.2%	3.1%
6	**Allowable TABOR Growth Rate**	**4.2%**	**8.7%**	**5.8%**	**3.9%**
7	TABOR Limit /B	$13,445.2	$14,614.9	$15,462.6	$16,065.6
8	General Fund Exempt Revenue Under Ref. C /C	$3,212.1	$3,491.5	$3,694.0	$3,838.1
9	**Revenue Cap Under Ref. C /B /D**	**$16,657.3**	**$18,106.5**	**$19,156.7**	**$19,903.8**
10	***Amount Above/Below Cap***	**$3,568.6**	**$1,651.3**	**$1,280.4**	**$1,413.0**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$3,683.1**	**$1,651.3**	**$1,280.4**	**$1,413.0**
12	TABOR State Emergency Reserve Requirement	$499.7	$543.2	$574.7	$597.1

/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 November 1, 2023 Transfers					
12-47.1-701 (d) Ltd. Gaming Revenue Transfer to the General Fund	$13.985	$21.646	$21.472	$23.045	$24.701
HB92-1126 Land and Water Management Fund	$0.000	$0.052	$0.000	$0.000	$0.000
HB05-1262 A35 Tobacco Tax 24-22-117 (1)(c)(I)	$0.728	$0.678	$0.606	$0.582	$0.565
HB08-1216 Consumer Outreach and Education Program	$0.017	$0.000	$0.000	$0.000	$0.000
SB11-047 Bioscience Income Tax Transfer to OEDIT*	-$14.613	-$17.614	-$7.000	-$7.000	-$7.000
HB13-1318/SB 17-267 Transfers of Special Sales Tax to MTCF	-$165.724	-$142.200	-$147.906	-$167.850	-$172.046
HB 17-1343 Repeal of Intellectual and Developmental Disabilities Services Cash Fund		$16.933			
SB17-261 Repeal of 2013 Flood Recovery Account	$8.317	$0.000	$0.000	$0.000	$0.000
SB17-267 Sustainability of Rural CO (Transfer MJ Special Sales Tax to Public School Fund)	-$29.039	-$24.917	-$25.917	-$29.412	-$30.147
HB18-1323 Pay For Success Fund at OSPB	-$0.448				
HB20-1116 Procurement Technical Assistance Program Extension	-$0.175	-$0.220	-$0.220	-$0.220	-$0.220
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	-$207.987	-$234.993	-$205.552	-$237.990	-$240.917
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	$4.050	$4.050	$4.050	$4.050	$4.050
SB20-002 Repeal of Emergency Direct Assistance Grant Program Fund		$0.016			
Proposition EE - Preschool Programs Cash Fund	-$0.364	$0.000	$0.000	$0.000	$0.000
HB21-1149 Energy Sector Career Pathway in Higher Education	-$5.000				
HB21-1285 Funding To Support Creative Arts Industries	-$18.000				
SB21-209 Transfer to GF from Repealed Cash Funds		$0.054			
SB21-213 Use Of Increased Medicaid Match	$11.862	$9.985	$9.171	$7.418	$1.128
SB21-222 Repeal of Recovery Audit Cash Fund		$0.029			
SB21-225 Repay Cash Funds for 2020 Transfers	-$10.000				
SB21-251 General Fund Loan Family Medical Leave Program			$1.530		
SB21-252 Community Revitalization Grant Program	-$65.000	$0.000	$0.000	$0.000	
SB21-260 Community Access Enterprise		$0.100			
SB21-281 Severance Tax Trust Fund Allocation		-$9.456			
SB21-283 Cash Fund Solvency	-$4.300				
HB22-1001 Reduce Fees For Bus Filings	$0.000	-$8.435	$0.000		
HB22-1004 Driver License Fee Reduction	$0.000	-$3.900	$0.000		
HB22-1011 Wildfire Mitigation Incentives For Local Gov	$0.000	-$10.000	$0.000		
HB22-1012 Wildfire Mitigation and Recovery	$0.000	-$7.200	$0.000		
HB22-1115 Prescription Drug Monitoring Program	$0.000	-$2.045	$0.000		
HB22-1132 Regulation & Services For Wildfire Mitigation	$0.000	-$0.100	$0.000		
HB22-1151 Turf Replacement Program	$0.000	-$2.000	$0.000		
HB22-1194 Local Firefighter Safety Resources	-$5.000	$0.000	$0.000		
HB22-1197 Effective Date Of Dept. Of Early Childhood	-$3.001	$0.000	$0.000		
HB22-1298 Fee Relief Nurses Nurse Aides &Technicians	$0.000	-$11.720	$0.000		
HB22-1299 License Regis Fee Relief For Mental Health Profls	$0.000	-$3.699	$0.000		
HB22-1350 Regional Talent Development Initiative Grant Prog	$32.373	$0.000	$0.000		
HB22-1362 Building Greenhouse Gas Emissions	-$25.000	$0.000	$0.000		

HB22-1381 CO Energy Office Geothermal Energy Grant Program	$0.000	-$12.000	$0.000		
HB22-1382 Support Dark Sky Designation & Promotion In CO	$0.000	-$0.035	$0.000		
HB22-1394 Fund Just Transition Community & Worker Supports	$0.000	-$15.000	$0.000		
HB22-1408 Modify Performance-based Incentive For Film Production	$0.000	-$2.000	$0.000		
HB22-1411 Money From Coronavirus State Fiscal Recovery Fund	-$28.000	$0.000	$0.000		
SB22-036 State Payment Old Hire Death And Disability Benefits	$0.000	-$6.650	$0.000		
SB22-130 State Entity Authority For Public-private Partnerships	$0.000	-$15.000	$0.000		
SB22-134 State Fair Master Plan Funding	-$4.000	$0.000	$0.000		
SB22-151 Safe Crossings For Colorado Wildlife & Motorists	$0.000	-$5.000	$0.000		
SB22-163 Establish State Procurement Equity Program	$0.000	-$2.000	$0.000		
SB 22-168 Backcountry Search and Rescue	-$1.000	$0.000	$0.000		
SB22-183 Crime Victims Services	-$6.000	-$1.000	$0.000		
SB22-191 Procurement Of Information Technology Resources	$0.000	$0.000	$0.000		
SB22-193 Air Quality Improvement Investments	-$102.000	-$1.500	$0.000		
SB22-195 Modifications To Conservation District Grant Fund	$0.000	-$0.148	-$0.148	-$0.148	-$0.148
SB22-202 State Match for Mill Levy Override Revenue	$0.000	-$10.000	$0.000		
SB22-206 Disaster Preparedness & Recovery Resources	-$35.000	$0.000	$0.000		
SB22-214 General Fund Transfer To PERA Payment Cash Fund	$0.000	-$198.471	$0.000		
SB22-215 Infrastructure Investment & Jobs Act Cash Fund	-$80.250	$0.000	$0.000		
SB22-238 2023 and 2024 Property Tax	$0.000	-$200.000	$0.000		
HB23-1041 Prohibit Wagering On Simulcast Greyhound Races				-$0.025	
HB23-1107 Crime Victim Services Funding			-$3.000		
HB23-1272 Tax Policy That Advances Decarbonization			$11.615	$26.186	$30.755
HB23-1273 Creation of Wildfire Resilient Homes Grant Program			-$0.100		
HB23-1290 Proposition EE Funding Retention Rate Reduction			-$5.624		
HB23-1305 Continue Health Benefits in Work-related Death			-$0.150	-$0.150	-$0.150
SB23-001 Authority Of Public-private Collaboration Unit For Housing			-$5.000		
SB23-005 Forestry And Wildfire Mitigation Workforce		-$1.000	-$1.000	-$1.000	-$1.000
SB23-044 Veterinary Education Loan Repayment Program			-$0.540		
SB23-056 Compensatory Direct Distribution to PERA			-$10.000		
SB23-137 Transfer to Colorado Economic Development Fund		-$5.000			
SB23-161 Financing to Purchase Firefighting Aircraft		-$26.000			
SB23-166 Establishment of a Wildfire Resiliency Code Board			-$0.250		
SB23-205 Universal High School Scholarship Program			-$25.000		
SB23-215 State Employee Reserve Fund General Fund Transfer			$4.914		
SB23-246 Transfers to State Emergency Reserve		-$20.000			
SB23-255 Wolf Depredation Compensation Fund			-$0.175	-$0.350	-$0.350
SB23-257 Auto Theft Prevention Cash Fund			-$5.000		
SB23-275 Colorado Wild Horse Project		-$1.500			
SB23-283 Mechanisms For Federal Infrastructure Funding			-$84.000		
Transfers Enacted in 2023 Special Session or November Ballot Measures					
HB23B-1001: ERA Transfer			-$15.100		
Proposition II Passage Return Funds to General Fund			$5.624		

Transfers Included in Governor's November 1 Budget Request					
Severance Tax				$50.000	
IIJA Swap				$19.300	
CSI Mill Levy Equalization				-$42.123	
Retail EV Charging Stations				-$0.263	
Creative Districts Modifications & Funding				-$0.500	
Opportunity Now 2.0				-$5.250	
Investment in Local Crime Prevention Strategies				-$7.500	
Placeholder for Natural Medicine				-$0.100	
Broadband				-$11.407	
Workforce Housing				-$16.000	
STR Local Gov Reimbursement				-$15.000	
Transit-Oriented Development				-$35.000	
Other Governor's Requests				-$5.000	
Transfers into General Fund	**$71.333**	**$53.546**	**$58.982**	**$130.581**	**$61.199**
Transfers out of General Fund	**-$809.901**	**-$1,000.802**	**-$541.681**	**-$582.288**	**-$451.977**
Net Transfers	**-$738.568**	**-$947.256**	**-$482.700**	**-$451.706**	**-$390.779**

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
HB15-1344 Fund National Western Center and Capital Projects	$20.0	$20.0	$20.0	$20.0	$20.0
HB20-1378 Capital-Related Transfers					
SB21-064 Retaliation Against an Elected Official	$0.1				
SB21-112 Gen Fund Transfer to Cap Construction Fund State Parks					
SB21-224 Capital-related Transfers Of Money	$328.8				
HB22-1195 Transfers From General Fund To Cap Constr Fund	$5.064	$0.000	$0.000	$0.000	
HB22-1340 Capital-related Transfers Of Money	$0.000	$462.195	$0.000	$0.000	
SB22-239 Buildings In The Capitol Complex	$0.000	$0.000	$0.000	$0.000	
SB23-141 Transfers for Capital Construction		$11.001			
SB23-243 General Fund Transfers to Capital Construction Fund	$0.000	$0.000	$294.170	$0.000	
SB23-294 Increase General Fund Transfers to Capital Construction Fund			$18.213		
Governor's Budget Request for Capital and IT Capital				$219.453	
Total Capital Construction	**$354.0**	**$493.2**	**$332.4**	**$239.5**	**$50.0**
SB21-110 Fund Safe Revitalization of Main Streets					
SB21-260 Sustainability of the Transportation System	$282.5	$2.5	$0.0	$117.5	$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**	**$117.5**

Table 8c: General Fund Transfers for State Education Fund

Transfers from GF to State Education Fund	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
HB 20-1420	$23.0				
SB 21-208	$100.0				
HB 22-1390 (Reduced by $10M as result of SB 22-202)		$290.0			
SB23B-001 SEF Transfer				$146.0	
Total	**$123.0**	**$290.0**	**$0.0**	**$146.0**	**$0.0**

Table 9: Rebates and Expenditures

Category	FY 2022-23	% Chg	FY 2023-24	% Chg	FY 2024-25	% Chg	FY 2025-26	% Chg
Rebates & Expenditures:								
Cigarette Rebate to Local Governments	$7.7	-7.0%	$6.5	-15.7%	$0.0	-100.0%	$0.0	N/A
Marijuana Rebate to Local Governments	$21.9	-14.5%	$22.9	4.4%	$26.0	13.5%	$26.6	2.5%
Old-Age Pension Fund/Older Coloradans Fund	$94.9	9.2%	$89.6	-5.6%	$86.4	-3.7%	$86.5	0.1%
Aged Property Tax & Heating Credit	$12.0	105.2%	$10.6	-11.7%	$10.1	-4.5%	$10.3	1.2%
Homestead Exemption	$163.7	1.0%	$168.5	2.9%	$175.3	4.1%	$182.6	4.2%
TABOR Refund Portion of Homestead Exemption	*($163.6)*		*($168.5)*		*($175.3)*		*($182.6)*	
Debt Payment on Bonds for School Loans	$10.5	952.4%	$23.9	126.4%	$18.9	-20.8%	$13.1	-30.5%
Fire/Police Pensions	$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%	$0.6	-10.6%	$0.6	-4.0%	$0.6	-3.0%
Property Tax Exemption Reimbursement to Local Governments	$16.6	-0.5%	$16.6	-0.3%	$17.8	7.1%	$18.9	6.5%
Property Tax Assessed Value Reductions from SB22-238			$237.1	N/A				
TABOR Refund Portion of Reductions			*($237.1)*	N/A				
Total Rebates & Expenditures (Excluding TABOR Refund)	**$168.7**	**12.8%**	**$175.2**	**3.9%**	**$164.4**	**-6.2%**	**$160.7**	**-2.2%**