Colorado
Economic & Fiscal Outlook

June 20, 2024

STATE OF COLORADO

Governor's Office of State Planning & Budgeting

COLORADO

Governor Jared Polis

Contents

Jared Polis – Governor
Mark Ferrandino – Budget Director
Bryce Cooke – Deputy Director
Alex Carlson – Manager
Will Mixon – Manager
Anders Shropshire – Tax Policy Analyst
Clint Saloga - Economist
Edward Crandall – Economist
Emily Hrovat – Economist
Samantha Krejcik – Federal Funds Analyst
Skyler Schuck – Economist
Soumanetra Ghosh - Economist

Governor's Revenue Estimating Advisory Committee

Tatiana Bailey
Alison Felix
Sol Halpern
Ian Lange
Brian Lewandowski
Jessica Ostermick
Nathan Perry
Rachel Rose
Kelly Campbell
Ryan Gedney
Laura Jackson
Wendy Lea
Tom Lipetzky
Shawn Osthoff
Trini Rodriguez
Ken White Jr.

For additional information about the Governor's Office of State Planning and Budgeting, to access this publication electronically, or to sign up to be notified by email when the quarterly forecast is released, please visit www.colorado.gov/ospb.

Forecast in Brief

OSPB has revised up its economic growth expectations from the March forecast as near term spending remains more resilient than previously expected in 2024, particularly with regard to services consumption. The labor market also remains strong though jobs growth is slowing in both Colorado and the U.S. and the gap between the number of job openings and the number of unemployed individuals continues its downward trend. Finally, the inflationary trends between Colorado and the U.S. have reversed such that Colorado inflation is now below the nation's given quicker than expected declines in shelter and service price increases. OSPB views the likelihood of a recession in the next 12 months to be 25 percent though future risks are largely weighted to the downside.

In FY 2023-24, TABOR refunds are expected to total $1,446.8 million, a $581.3 million downward revision from March, largely due to elevated individual income refunds after accounting for TABOR refunds. Additionally, revenue subject to TABOR is expected to remain above this cap through the duration of the forecast period. Currently, revenue projections are $695.0 and $867.3 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 $113.9 million and $35.4 million below the statutory reserve level of 15 percent in FY 2023-24 and FY 2024-25, respectively.

General Fund	● General Fund revenue is revised down $528.6 million in FY 2023-24, largely a result of stronger than anticipated individual income refunds more than offsetting revisions up of corporate income revenue. ● FY 2024-25 and FY 2025-26 are revised down $677.2 million and $1,049.2 million respectively, largely due to impacts from the Family Affordability and Earned Income Tax Credit expansions.
Cash Funds	● Cash funds are expected to shrink by 1.1 percent in FY 2023-24 and then increase 5.9 percent in FY 2024-25. Compared with the March forecast, cash funds are revised down $38.2 million and $16.8 million in FY 2023-24 and FY 2024-25 respectively, as severance and limited gaming revenue declines more than offset increases to miscellaneous and transportation revenue.

Economic Outlook

Current Conditions and Long-Term Trends

Overview of Current Economic Conditions

Expectations for economic growth have been revised upward in the near-term as spending remains more resilient than previously expected, especially with regard to services consumption. The labor market also remains strong though jobs growth is slowing in both Colorado and the U.S. and the gap between the number of job openings and the number of unemployed individuals continues its downward trend. Finally, the inflationary trends between Colorado and the U.S. have reversed such that Colorado inflation now lags the nation given quicker than expected declines in shelter and service price increases. On the flip side, more elevated than anticipated service and shelter price pressure on the U.S. side, paired with stronger economic growth, raises the potential that the Federal Reserve will keep rates higher for longer. OSPB views the likelihood of a recession in the next months to be 25 percent though future risks are largely weighted to the downside.

Overview of Long-Term Trends

Despite significant action during recent legislative sessions, long-term trends place pressures on consumers, businesses, and governments across the country. In particular, trends in housing, inflation, education, workforce, demographics, energy, and the environment will continue to impact the economy and the state budget. Brief summaries of these trends are provided below.

- Housing: Higher mortgage rates continue to put pressure on residential construction and the supply of housing, paired with other cost pressures on homeowners (or potential homeowners) such as insurance prices. Legislative actions from 2024 seek to address some of these challenges.
- Inflation and Financial Conditions: Both inflation and the federal funds rate remain elevated. Expectations for longer-term inflation rates have been revised upward as has the terminal federal funds rate, which now stands at 2.8 percent. Financial conditions are thus likely to remain in more restrictive territory longer than previously expected. Price pressures continue to impact both households and the state budget, though these effects are distributed unevenly.
- Education Sector Workforce: Over time, average teacher pay in Colorado has been on the rise as the Budget Stabilization Factor has dropped. The gap between job openings and hires remains elevated for the education sector due to a number of factors including the roll-on (and -off) of temporary employees, fewer new entrants into the sector, and protracted pandemic effects on job flows in education. Steps have been taken at both the state and national level to begin addressing these issues.

- Aging: A rapidly aging population in Colorado will impact labor supply and the housing market, as well as tax revenue and state government expenditures. The effects of these changes in Colorado's demographic make-up will be unevenly distributed across state departments and geography across the state.
- Energy: Over the past decade, both the U.S. and Colorado have increased the use of renewable energy for electricity generation and decreased usage of fossil fuels. However, fossil fuels currently make up the majority of electricity generation at both the national and state level. The growth of renewable energy in Colorado has outpaced the U.S. and Colorado is likely to use fewer fossil fuels than the U.S. as a proportionate share of its generation mix by 2025.
- Environmental Risks - Water: Colorado is especially impacted by water and the policy surrounding its use as a headwater state, particularly as water demand grows alongside population and supply is dependent on drought conditions. The agricultural sector currently use the vast majority of Colorado's water supply, though demands from municipalities facing steep population growth continue to increase. The implications of these shifting trends in demand include upward pressure on water costs and the need to upgrade aging water infrastructure across the state. Elevated sports betting and severance tax revenue, combined with leveraging federal match opportunities provide funding support for infrastructure development.

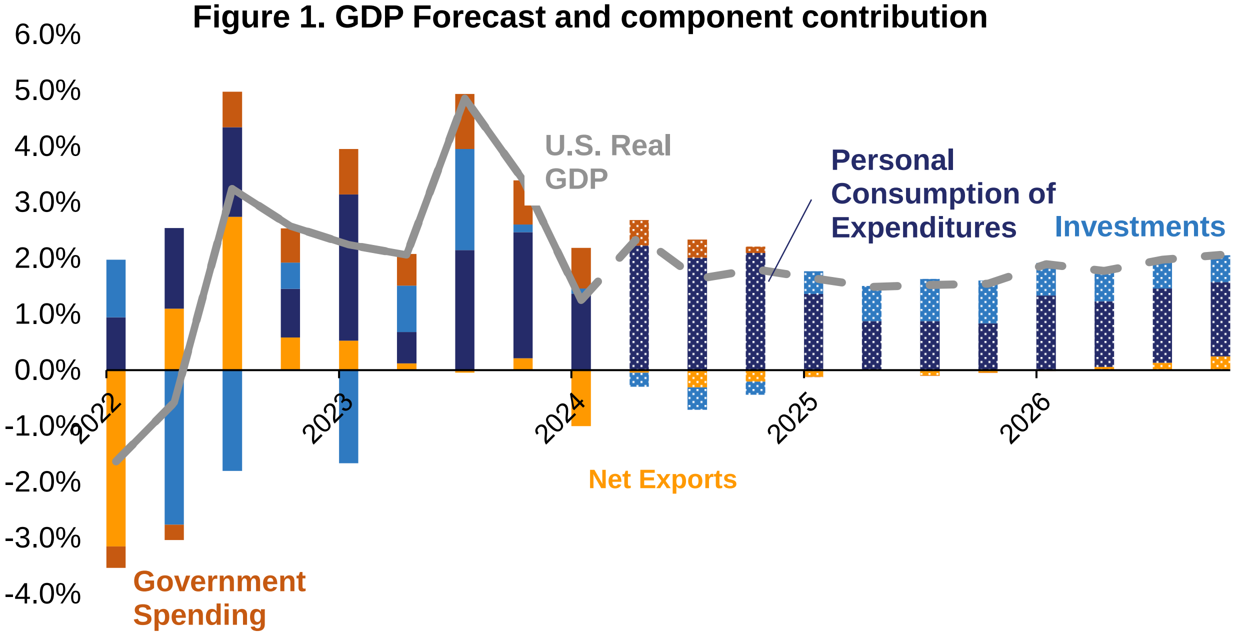
Current Economic Conditions

Gross Domestic Product

After growing 2.5 percent on average in 2023, economic growth slowed to 1.3 percent in the first quarter of 2024. However, there was a drag on growth from net exports and inventory, which, if removed would lead to growth in line with the 2023 average (2.6 percent). 2023 growth was spurred by continued strength in services consumption and a sizable contribution from residential investments. In fact, services consumption growth has increased in each of the last four quarters, at 3.9 percent, while residential investments set a post-pandemic record at 15.4 percent.

Figure 1 below depicts quarterly annualized growth in real GDP. The line represents GDP growth and the bars depict the four drivers of GDP growth/contraction: 1) personal consumption expenditures, 2) inventories/investments, 3) net exports, and 4) government spending.

Figure 1. GDP Forecast and component contribution



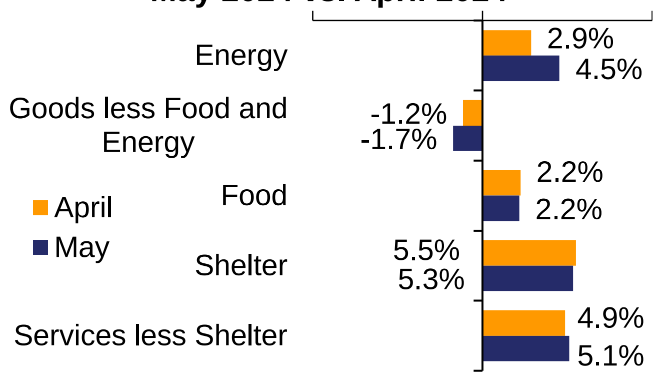
Source: U.S. Bureau of Economic Analysis; OSPB Forecast

In 2024, GDP growth is revised up from 2.2 to 2.5 percent as the unwinding of consumption is now thought to take longer than previously expected, with weaker growth in durable goods consumption offset by stronger services consumption growth. Investments' contribution to GDP is expected to be negative for the rest of 2024 due to higher interest rates, while net exports are expected to drag on GDP growth as global demand weakens relative to domestic demand. In 2025, GDP growth is revised up from 1.5 to 1.7 percent despite slowing consumption in the middle of next year. Falling interest rates by that time likely indicate that investments contribute more positively to overall GDP growth, offsetting the slack from a consumption slowdown. Quarter over quarter annualized growth is expected to trough at 1.5 percent in mid-2025 before rebounding slowly to potential growth. That shallower expected rebound results in a revision down in 2026 annual average GDP from 2.1 percent in the last forecast to 1.8 percent now.

Inflation

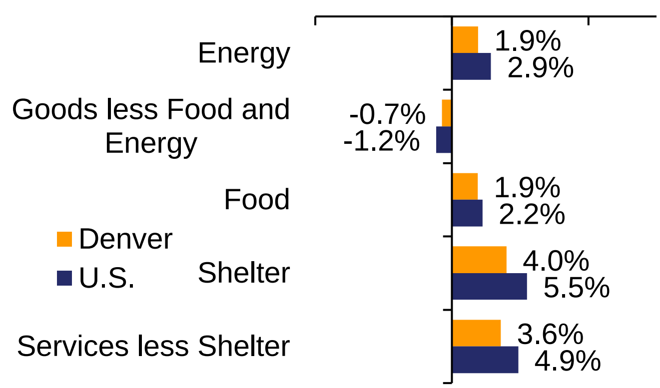
The trajectories of Consumer Price Inflation (CPI) for the U.S. and Denver have diverged slightly in recent months. U.S. inflation rates have largely flattened in recent months as a result of a rebound in year over year service price growth and stubborn shelter inflation and came in at 3.3 percent in May. Meanwhile, Denver inflation has taken a steeper downward trajectory, dipping below the U.S. in March for the first time since November 2022, now at 2.6 percent in May. The recent reversal of the relationship between national and local inflationary trends stems largely from a quicker than anticipated slowdown in both the shelter and services categories locally, as well as some seasonal, local-specific effects on energy.

Figure 2. U.S. YoY Inflation by Major Component May 2024 vs. April 2024



Source: Bureau of Labor Statistics; OSPB Calculations.

Figure 3. YoY Inflation by Major Component May 2024, Denver vs. U.S.

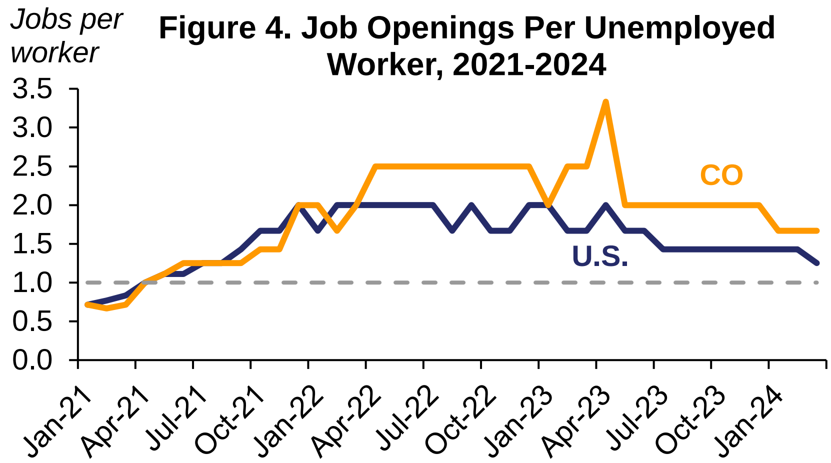


Source: Bureau of Labor Statistics; OSPB's Calculations.

Overall, expectations for U.S. CPI are revised up in the near term given the trends discussed above, at 3.2 percent in 2024, 2.5 percent in 2025, and 2.3 percent in 2026. This drawn-out path of more elevated inflation translates into a higher outlook for the Federal Funds Rate, as is discussed in more detail in the long-term inflation section below. Meanwhile, Denver CPI expectations for 2024 are changed incrementally from March, down 0.1 percentage points to 2.6 percent in 2024 and up slightly to 3.0 percent in 2025 and 2.7 percent in 2026. The long-term relationship between U.S. and Denver CPI is expected to return in line with historical trends starting in 2025, whereby a larger share of shelter and services and stronger price growth in those categories propel Denver inflation above national levels after a dip in 2024.

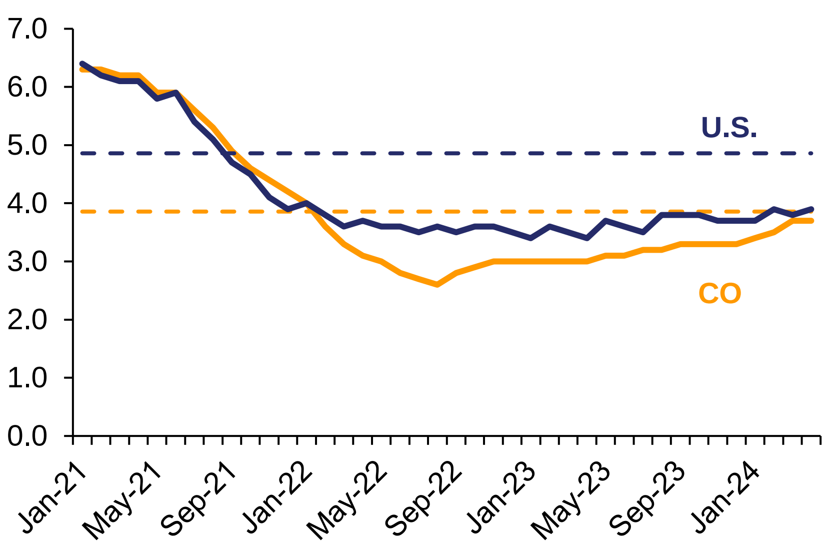
Labor Market

The labor market has begun to loosen for both the U.S. and Colorado, largely returning to the pre-pandemic trajectory. The ratio of open jobs to unemployed workers has fallen, and while it remains above 1:1 at both the state and national level, the decrease suggests that churn has slowed and the labor market remains relatively stable. An increase in the unemployment rate suggests that at least part of this difference is a result of an increase in unemployed workers without a matching increase in jobs; however, both unemployment and job growth have remained fairly stable over the past two years and these changes are marginal. Given these trends, OSPB anticipates that job growth should remain relatively stable but decline modestly. The jobs market is revised slightly up in 2024 and 2025 in both U.S. and Colorado with a smaller downturn in economic growth expected. Colorado jobs growth is expected to slow from 2.5 percent in 2023 to 2.0 percent and 1.4 percent in 2024 and 2025, up slightly from March expectations. However, with slower growth in 2026, unemployment is expected to remain marginally higher at 3.7 percent (compared to 3.4 percent in March). Overall, the volatility of growth is dropping, and the



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

Figure 5. Unemployment Rate, 2021-2024



Source: Bureau of Labor Statistics
Dotted lines indicate average for 2014-2024

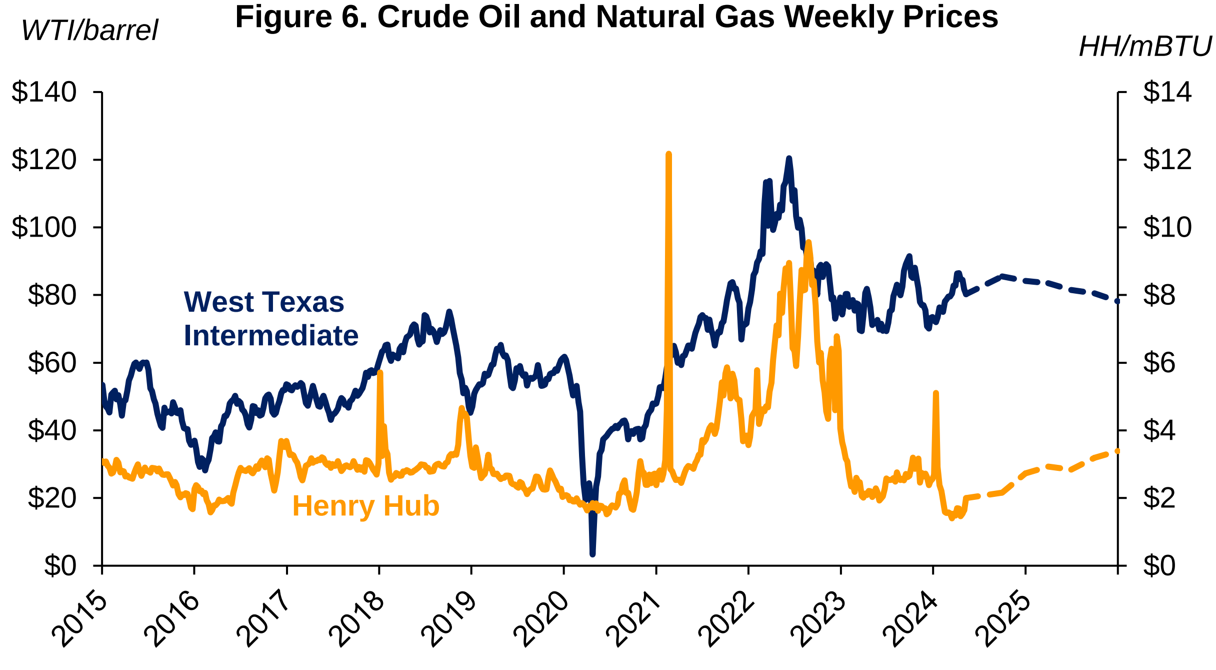
labor market is therefore expected to be healthier than anticipated in previous forecasts.

Energy

Oil and gas energy markets have remained stable over the first half of 2024, with crude oil prices reaching their lowest volatility level since 2019 prior to pandemic market disruptions. Crude oil prices remain stable at above-average levels, and natural gas prices are steady at below-average levels. While energy markets have remained firm, continued geopolitical instability in Europe and the Middle East as well as OPEC-Plus production cuts are upside price risks due to the potential supply constraints they could cause. In 2024 thus far, however, healthy global inventories as well as strong non-OPEC global production have offset these risks, providing a relative equilibrium. Over the forecast period, crude oil prices are expected to slowly decline, while natural gas prices are projected to gradually increase.

Through mid-May 2024, West Texas Intermediate crude oil prices have averaged $79.58 per barrel year-to-date – above the ten-year average of $63 per barrel but below the recent peaks of $100-$120 reached in 2022. Through the end of 2025, the U.S. Energy Information Administration (EIA) forecasts that prices will range from $78 to $86 per barrel. Henry Hub natural gas prices have averaged $2.01 per million BTU year-to-date, which is below the ten-year average of $3.21

Figure 6. Crude Oil and Natural Gas Weekly Prices



Note: Dotted line indicates Energy Information Administration forecast. The axis on the left is the West Texas Intermediate price per barrel of oil. The axis on the right is the Henry Hub price per million BTU of natural gas.
Source: Energy Information Administration

and well below the recent highs in 2022 that ranged from $8.00 to $9.50. The EIA projects that Henry Hub prices will range from $2.00 to $3.40 through 2025. In the near-term, crude oil prices could be impacted by OPEC-Plus production decisions and the global demand trajectory, while natural gas prices are expected to remain below-average due to inventories at above-average levels. However, domestic natural gas production is projected to fall slightly which will likely lead to slowly increasing prices.

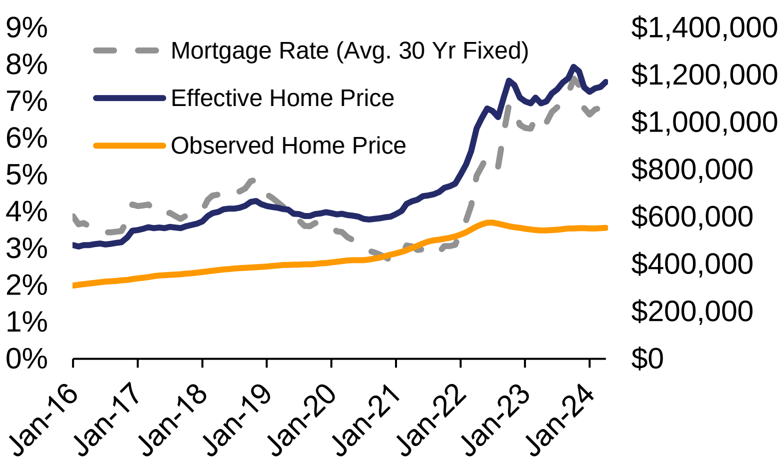
Long-Term Trends

Housing and Real Estate

Mortgage Rates and Housing Affordability

As discussed in the inflation section below, the effective federal funds rate (targeted by the Federal Reserve) remains elevated at 5.3 percent and is not expected to decline by greater than 50 basis points through the end of the year. Accordingly, mortgage rates have also remained elevated, averaging 6.9 percent thus far this year (through May 2024) compared to pre-pandemic rates of 3.5 percent (February 2020). Elevated mortgage rates have both short and long term negative impacts on the affordability of the housing stock: (1) directly increasing the short-term "effective home price," or the total price for a home after factoring in the impact of higher rates on total monthly payments; (2) driving up long-term prices by dis-incentivizing construction, thus constraining growth in supply. Figures 7 and 8 below demonstrate these impacts.

Figure 7. Mortgage Rate Impacts on Effective Home Prices - Colorado



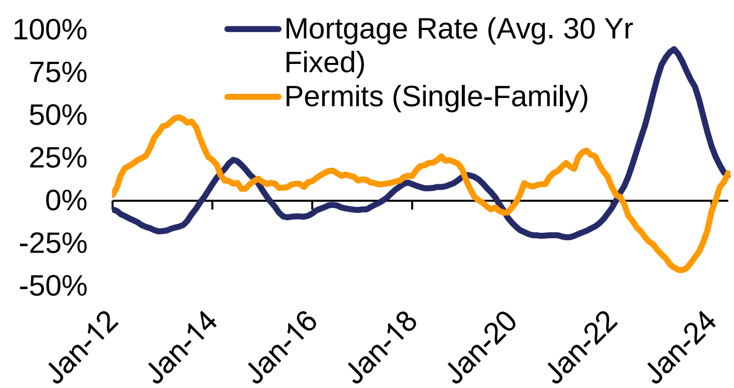
Sources: Freddie Mac; Zillow Home Value Index.

Figure 7 highlights the first, immediate impact on affordability. As mortgage rates increased particularly steeply from near 3 percent in 2021 to greater than 7 percent in 2023, the effective home price (calculated as the total price paid including down payment and payments made over the life of the loan) skyrocketed despite flattening headline home prices. Figure 8 highlights the longer term effects on single-family permits of mortgage rates higher than those seen in recent years. There is a strong negative correlation between the change in the average 30-year fixed mortgage rate[1] and single-family housing

[1] Change in the average 30-year fixed rate mortgage calculated as the 12-month average year over year change in mortgage rates for a given month.

permits in Colorado. The strength of the correlation between the rates of change is more than double the strength of the correlation between the levels of mortgage rates and single-family permits. One hypothesis for this disproportionate correlation is that buyers of single-family homes (and thus builders who are heavily responsive to expectations of consumer demand) are in fact more sensitive to changes in mortgage rates than to the actual rates themselves. This helps to explain the steep declines in permitting in 2022 and 2023 and may also provide some tailwind to permitting (and thus future housing supply) in late 2024 and into 2025 as a result of declining mortgage rates even though overall rates are likely to remain elevated longer than previously expected, in alignment with fed funds rates discussed above. These increased borrowing costs disincent current homeowners from downsizing in retirement, resulting in lower stock of for-sale housing.

Figure 8. Change in 30 Yr Mortgage vs. Change in Permits - Colorado



Sources: Freddie Mac; U.S. Census Bureau.

Housing Supply and Demand

Any decline in the production of new housing units will exacerbate the housing shortage that has persisted in Colorado since the 2010s. A study by Up for Growth[2] compares new housing unit production levels to the total number of new housing units needed to estimate underproduction. The study's methodology calculates underproduction as the difference between total housing need and total housing availability, taking into account vacancy rates, second homes, vacation homes, rentals, and uninhabitable units. These considerations are particularly important where Colorado attracts many wealthier families to purchase second or vacation homes, rental properties are relatively common, and there is a mismatch between demand and supply of affordable housing. Vacancy rates are also factored in, as some degree of vacancy is expected in a healthy residential real estate market. Finally, uninhabitable units are those that have been vacant for more than a year and are presumed to be prohibitively expensive to renovate.

Figure 9 below shows that new demand for housing has slowed with population growth and migration, while production has been on an upward trend for the past few years. In 2020, new supply surpassed new demand and started to reduce the number of additional housing units needed, as seen in Figure 10. However, the number of total housing units still needed to fill existing gaps in housing remained above 100,000 through 2021. If new supply continues to

[2] Up for Growth (2023). "2023 Housing Underproduction in the U.S.".https://upforgrowth.org/apply-the-vision/2023-housing-underproduction/

outpace new demand at the same 2021 levels (13,754 more new units built than new demand), Colorado would close the housing unit shortage in about seven years.

Figure 9. Annual Change in Supply and Demand of Housing Units

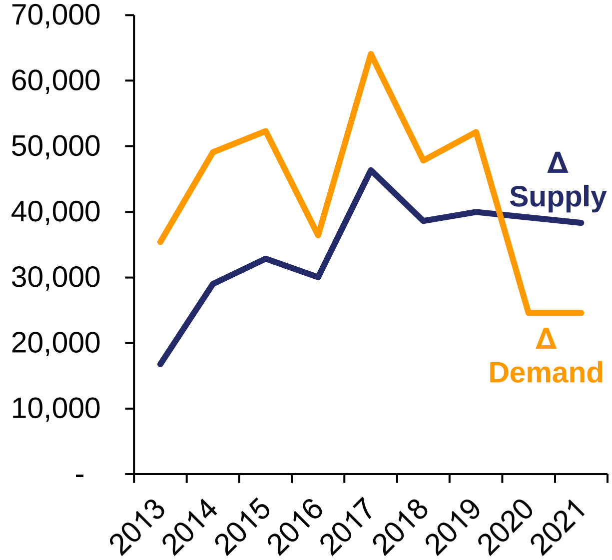
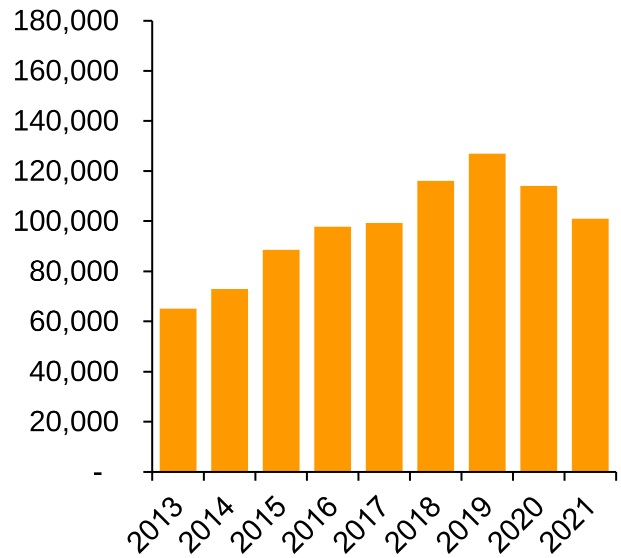


Figure 10. Additional Housing Units Needed



Source: Up for Growth. (2023). 2023 Housing Underproduction in the U.S.

Policies that incentivize new home construction will be critical to address the housing shortage crisis that continues to contribute to unaffordability. New laws passed in the 2024 Legislative Session (discussed in more detail below) aim to incentivize new housing via reforms around land-use, parking requirements, accessory dwelling units (ADUs), occupancy limits, and density goals near transit. However, the impacts of these new laws will likely take years to be fully realized.

Other Long-Term Housing Cost Pressures

In addition to higher mortgage rates and supply limitations discussed above, other cost pressures such as rising construction and insurance costs have had notable downstream impacts on the price of shelter and the housing market. Demand for shelter remains relatively firm despite these significant challenges existing within the market. As a result, median single family home prices in Colorado have crept back up to the record 2022 peaks. According to the Colorado Association of Realtors, the median single family home price in Colorado in April 2024 was $595,000[3].

On top of the cost of the home and increased cost of borrowing with average mortgage rates at 6.9 percent across the U.S., an additional factor impacting affordability is homeowners' insurance. According to a National Association of Insurance Commissioners report, the average

[3] Colorado Association of Realtors, "Statewide Report Single Family and Townhouse-Condo April 2024," https://coloradorealtors.com/market-trends/regional-and-statewide-statistics/

homeowner's insurance policy in 2021 was $1,802 per year in Colorado and the average condo insurance was $484 per year. Colorado ranked 6th in the nation for costs of homeowner's insurance in 2021. Over the last 10-years, Colorado's homeowners insurance premiums also increased by 73.6 percent, the second fastest average rate increase across the country. Compared to the U.S., Colorado costs and rate of growth in homeowners' insurance premiums are likely due to increased risk from higher-than-average property values and multiple types of natural disasters such as hail, wind, and wildfire.

As housing costs in Colorado have continued to become out of reach for more individuals across the state, many individuals have opted to rent instead of purchasing a house. However, apartments and rental units have not been immune to cost pressures. With increased demand throughout Colorado, rents have been steadily increasing. Additionally, renters have been subject to increasing non-rent related shelter costs such as renter's insurance and utilities. According to the Colorado Housing and Finance Authority, statewide apartment rents (omitting the Denver metro area) have increased 26.8 percent since the first quarter of 2020. High rent prices continue to squeeze budgets, especially for lower- and middle-income people across the state.

2024 Legislative Changes Alleviating Pressures Discussed Above

In the 2024 Legislative Session, the General Assembly adopted a range of bills to address the state's housing challenges. Through a mix of tax incentives and regulatory changes, these actions will increase the range of housing available to residents and increase the supply, therefore putting downward pressure on costs over the medium and long term.

The first set of bills change regulations in communities across the state to incentivize density and ease restrictions on development. These policies lower the costs of new developments in order to help more housing be constructed and increase the number of units that can be included in a given structure. They include the following major bills:

- HB24-1313 – Transit Oriented Communities, which will designate certain areas as transit-oriented communities and require those areas to be more densely zoned by local governments creating more housing availability over time, as well as allocating $35 million of grant funding to support infrastructure upgrades;
- HB24-1007 - Prohibit Residential Occupancy Limits, which bans local government restrictions on occupancy of a home based on familial relationships and provides significantly more flexibility for individuals to live in homes with the people of their choosing;
- HB24-1304 - Minimum Parking Requirements, which limits minimum parking requirements set by local governments for new developments. Parking requirements can significantly drive up the cost to construct buildings, requiring expensive parking garages to be constructed and restricting the number of units that are feasible to construct.

Other bills focused on actions of individual homeowners include:

- HB24-1152 - Accessory Dwelling Units, which eases the process for constructing small ADUs on single family properties and prohibits local laws that discourage their construction, as well as creating an $8 million pool of grant funding to support access to credit for the development of ADUs. This policy supports the construction of new homes, including more affordable units for low- and middle-income residents;
- SB24-111 - Senior Primary Residence Property Tax Reduction, which permits portability of the State's Homestead property tax exemption for Seniors and Disabled vets and their families. Previously, seniors looking to move and downsize their homes would have been forfeiting their property tax exemption due the requirement that the home be owned for 10 years, but this new legislation will allow the exemption to be transferred. This may help stimulate the housing market and increase the number of homes available.

Though these new regulatory policies and incentives will take several years to generate a full impact, they will significantly ease pressures on rental and housing markets over time by increasing the choices available to tenants and increase the supply of available homes.

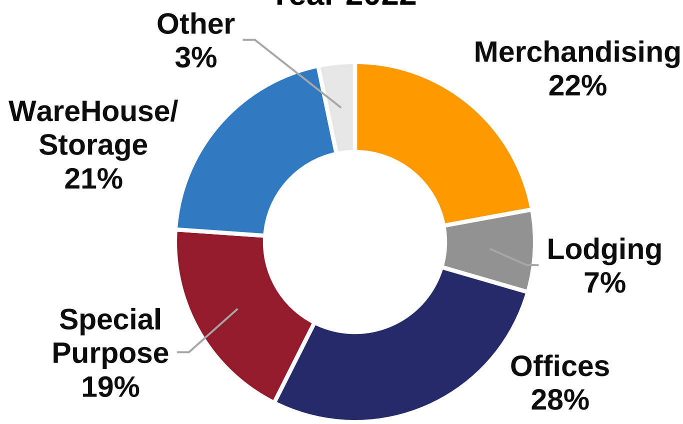
Alongside these regulatory changes, the legislature authorized greater than $1 billion worth of tax credits to support the construction, rehabilitation, or protection of housing units accessible to low- and middle-income renters. The largest new incentives are contained in HB24-1434 *Expand Affordable Housing Tax Credit* and HB24-1316 *Middle Income Housing Tax Credit*. HB24-1434 includes two tax credits that create $966 million worth of tax incentives for low-income housing development over the course of 15 years. The first expands the existing Affordable Housing Tax Credit, which is modeled after the federal Low-Income Housing Tax Credit, and the second is a new tax credit designed to support the Transit Oriented Communities bill by supporting the development of affordable housing in transit centers. HB24-1316 creates an additional $200 million of tax incentives focused on developing and preserving middle-income, multi-family rental housing. Smaller and more targeted tax incentives are included in HB24-1295 *Creative Industry Community Revitalization Incentives* and HB24-1314 *Modification Tax Credit Preservation Historic Structures*. These investments not only support the construction of new units but protect their status as affordable for many years following the credit utilization.

While these legislative actions will buoy housing production, headwinds remain including the supply pressures and other costs mentioned above, as well as other local regulations such as affordable housing minimums, stringent energy codes, and potential local resistance to new zoning requirements.

Other Trends in Real Estate and Development – Commercial Real Estate

Commercial real estate (CRE) remains a lingering economic concern throughout the United States and Colorado. As shown in Figure 11, Tax Year (TY) 2022 data indicates that the Total Assessed Value for Commercial property is led by Offices, Warehouse/storage, Merchandising and Special Purpose. While this figure omits multi-family housing, multi-family housing also remains a significant part of the Colorado commercial real estate picture. The status of these individual markets remains mixed, while some sectors of CRE remain stronger than others within the state.

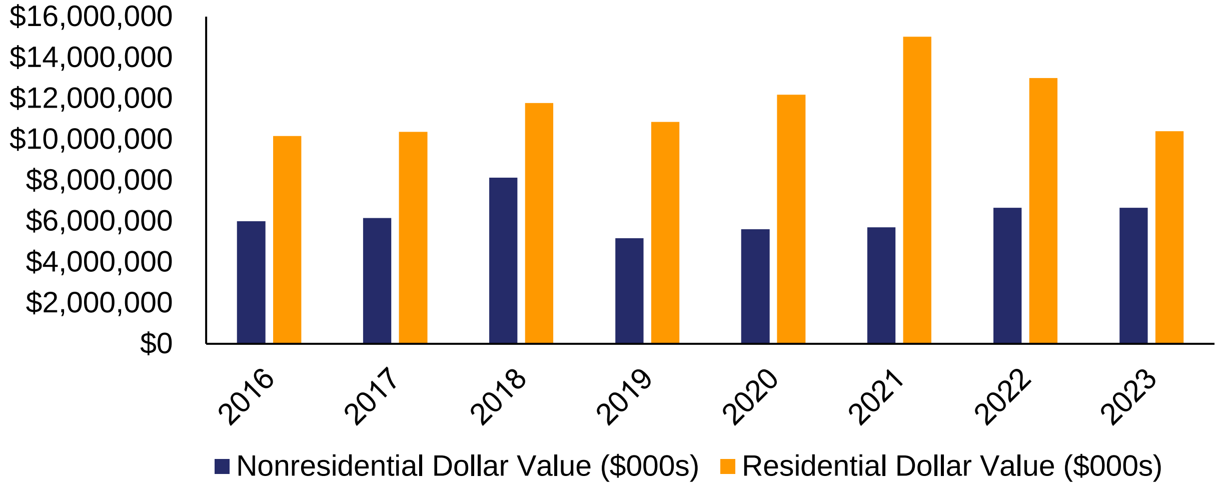
Figure 11. Total Assessed Value for Commercial by Category from Tax Year 2022



Source: DOLA Division of Property Taxes 2022 Annual Report

Nonresidential construction starts are one indicator of the health of the Commercial Real Estate industry. As shown in Figure 12, nonresidential construction start values in Colorado have remained relatively flat in contrast to residential starts, which generally saw growth through 2021 and have since slowed. However, recent months of data indicate a decline in nonresidential construction spending due to factors including higher interest rates and slowing demand for nonresidential space, such as offices. OSPB forecasts that nonresidential construction value will decrease 1.4 percent in 2024. This first decrease since 2019 is expected to be driven by reduced demand for new construction and declining values of certain types of nonresidential properties. OSPB anticipates a rebound in 2025 with 0.5 percent growth, practically returning to 2023 levels, before returning to more stable growth in 2026. These outyear growths could be propelled by the loosening of Federal Reserve interest rates leading to further nonresidential construction investment.

Figure 12. Colorado Construction Starts History

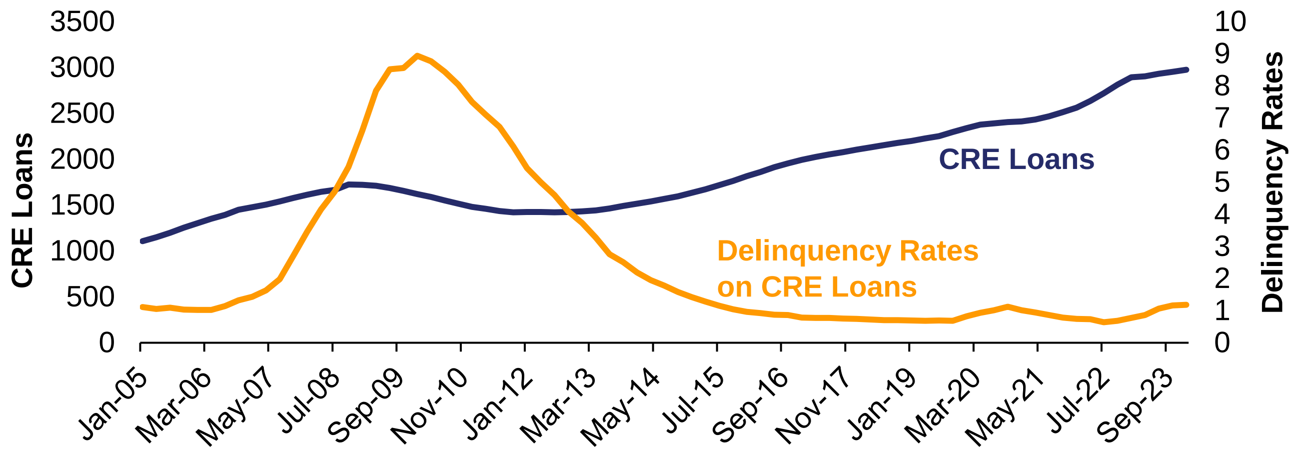


Source: Dodge Data and Analytics.

While overall expectations are for steady but lower overall investment, Colorado has exposure to financial and economic risk as a result from the struggling office sector within commercial real estate. This risk is heavily concentrated in states' urban centers. Return to work from the pandemic has not driven the occupancy rates expected by property owners and investors, and Denver's office market is a leading cause for concern. According to CBRE, the vacancy rate for office space across the Denver Metro area is 23.5 percent, compared to the nationwide average of 18.8 percent.[4] Much of this vacancy is in the Downtown Denver area and within the Class B and C space. There is little interest in moving into these vacant Denver offices indicated by twelve of the last thirteen quarters resulting in a negative total net absorption of square footage in Denver Office space. Despite concerning indicators of net absorption and vacancies, rents have still been climbing, driven by premium Class A space as investors work to not default on loan payments. The office space market will pay very close attention to the Federal Reserve's action on rates as sustained elevated rates could cause further trouble for the industry. There may be some optimism in conversions of these vacant spaces, however, these are rare and unlikely to work for conversion into multi-family housing due to limitations in office buildings with plumbing and electrical not being designed for a residential space. Perhaps there may be further opportunities for conversions to an alternative high demand market, such as data centers, with lower costs for the conversion.

Colorado and local government budgets could be impacted by the downturn in the office space sector through property taxes within the urban centers. As shown in Figure 13, commercial real estate loans across the country have steadily increased since 2012, while delinquency rates on CRE loans (excluding farmland) have crept up to the highest level since 2015. Investors across the country are working to refinance their loans specifically in the office space to avoid delinquencies until interest rates subside. If investors begin to default on their loans on office buildings in Denver, this could have negative downstream impacts on property tax revenues in Colorado, but more specifically urban counties.

Figure 13. U.S. CRE Loans vs. Deliquency Rates on CRE Loans



Source: Board of Governors of the Federal Reserve System

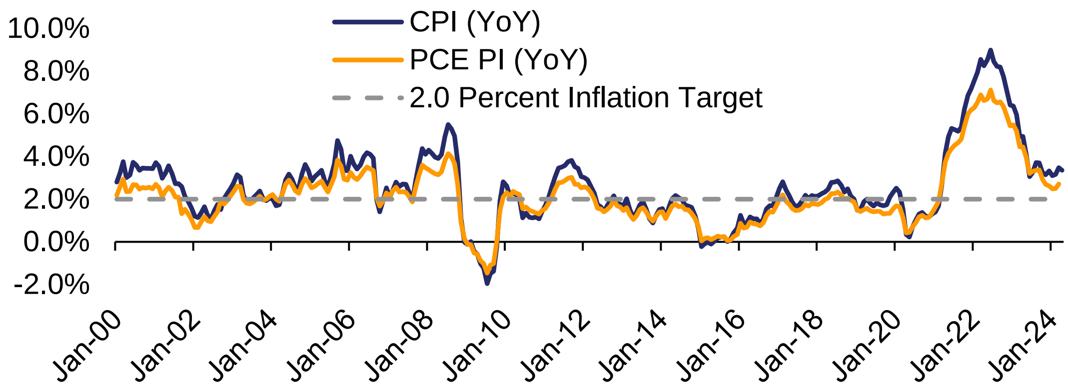
Inflation and Financial Conditions

Long-Term Inflationary Trends and the Federal Reserve

Inflation has remained elevated above the Federal Reserve target of 2.0 percent since March 2021 for both the Personal Consumption Expenditures Price Index (PCEPI), which is the Federal Reserve's target measure, and the headline Consumer Price Index (CPI). Currently (as of April), PCEPI is at 2.8 percent after reaching a low of 2.5 percent in January and February 2024. Slowing disinflation and reversals of disinflationary trends mean that inflation may remain above the target rate for months to come. As a result, there is continuing pressure on the Federal Reserve to keep the effective Federal Funds Rate,[5] which is at its highest level since 2001 (currently at 5.3 percent), more elevated than previously expected through the end of 2024. In fact, market participants now anticipate only one rate cut through the end of the year, down from three in March 2024 and six at the start of the year.[6] These trends are shown in the graphs below.

[5] The Effective Federal Funds Rate is calculated as the volume-weighted median of overnight federal funds transactions and generally falls closest to the midpoint of the Federal Reserve's rate range.
[6] Market expectations refer to expectations as reported by CME Group's FedWatch Tool, available at https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html?redirect=/trading/interest-rates/countdown-to-fomc.html.

Figure 14. Trends since 2000 - CPI vs. PCE PI vs. Target (U.S.)

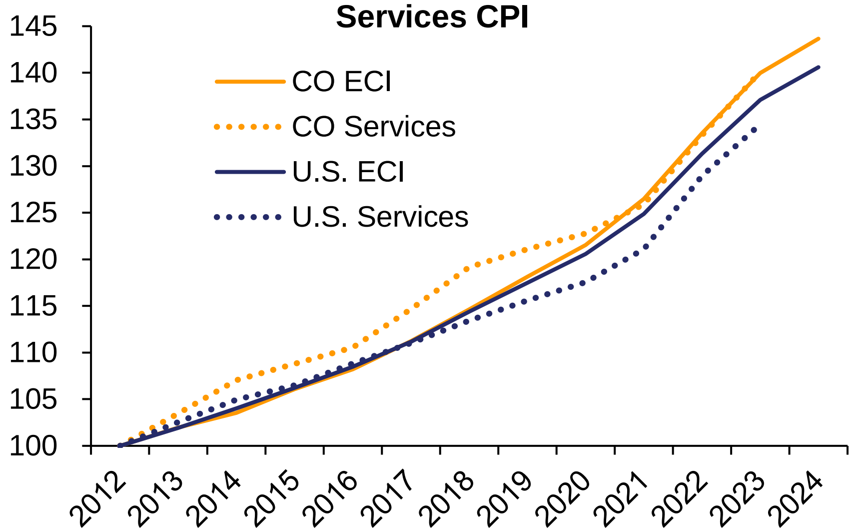


Sources: U.S. Bureau of Labor Statistics; U.S. Bureau of Economic Analysis.

As shown in Figure 14, both CPI and PCEPI not only remain above the Federal Reserve's target rate, but both have seen recent re-accelerations in inflationary pressure. This resilience in price pressures is a divergence from the trends seen in recent history. Service price growth continues to drive a significant portion of PCEPI pressure in contrast to relatively flat prices for goods. U.S. services price growth is elevated at 3.9 percent year over year in April, likely as a result of recent wage pressures and worker shortages that have driven up the Employment Cost Index (ECI) as shown in Figure 15. Similarly, CPI has also remained buoyed by services (4.9 percent in May), and pressure from shelter (5.5 percent in May) which is more heavily weighted in CPI than PCEPI.

The resilience of inflation has also translated to consistent increases in medium- and long-term consumer expectations for inflation, which impact future rate policy as consumer expectations indirectly affect future prices. Median April expectations from the New York Federal Reserve's *Survey of Consumer Expectations* came in as follows: one-year-ahead inflation at 3.3 percent, up from 3.0 percent in March; five-year-ahead inflation at

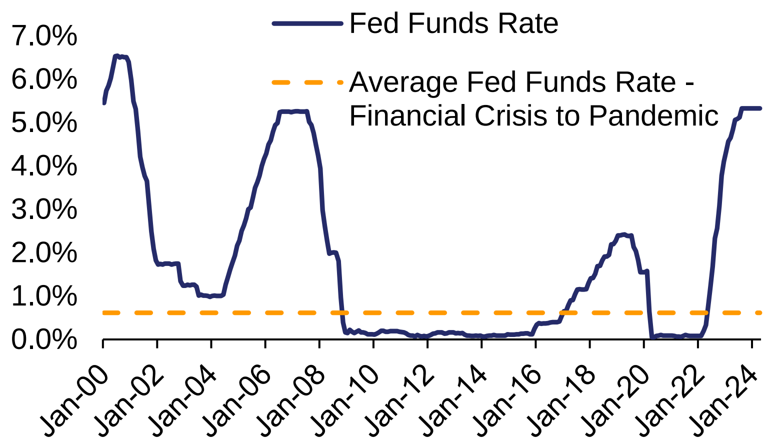
Figure 15. Employment Cost Index and Services CPI



Source: U.S. Bureau of Labor Statistics.

2.8 percent, up from 2.6 percent in March.[7] Accordingly, the Federal Reserve may hold an even stronger stance against cutting rates if these expectations are worrying. As a result of these trends, the Federal Reserve has continued to increase expectations for the trajectory of rates in 2024 and onward, as shown in Figure 16 below.

Figure 16. Effective Federal Funds Rate (U.S.)



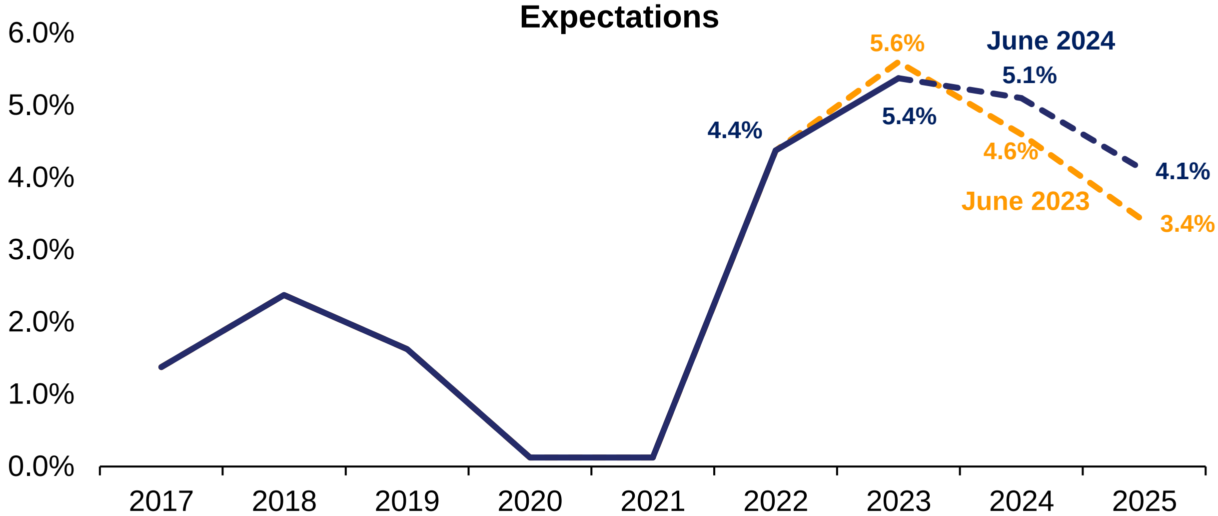
Source: Federal Reserve Board of Governors.

The trends discussed above, paired with an overall U.S. economy (e.g. GDP and consumer spending) that has remained stronger than expectations, likely means that Federal Reserve action will continue to diverge from previous expectations. As a result, it is likely that rates of 4+ percent will likely persist into 2026, above the rates that borrowers and investors settled into pre-pandemic. Similarly, the terminal Federal Funds Rate has continued to move upward, currently at 2.8 percent. Higher near term pressure and expectations for elevated rates going forward mean higher borrowing costs, higher interest rates on investments, and increased mortgage rates, all of which are discussed in more detail elsewhere in this document. These impacts are especially relevant as issues including a push toward de-globalization and upward wage pressure from demographic changes to the labor market may elevate inflation for years to come. If these impacts begin to overcool the economy without quelling service and shelter cost pressures in particular, two questions re-emerge:

- How much will the Fed cut rates before the PCEPI hits its 2.0 percent target? Alternatively, might the Fed decide to hold rates in restrictive territory if inflation remains above target even if the labor market begins to soften by more than its current course?
- More broadly, might the Fed consider reevaluating its target interest rates and other monetary policy tools if the cost pressures (largely shelter and services) are not particularly responsive to the continuation of elevated rates?

[7] https://www.newyorkfed.org/microeconomics/sce#/

Figure 17. FOMC End of Period Fed Funds Rate Midpoint Expectations

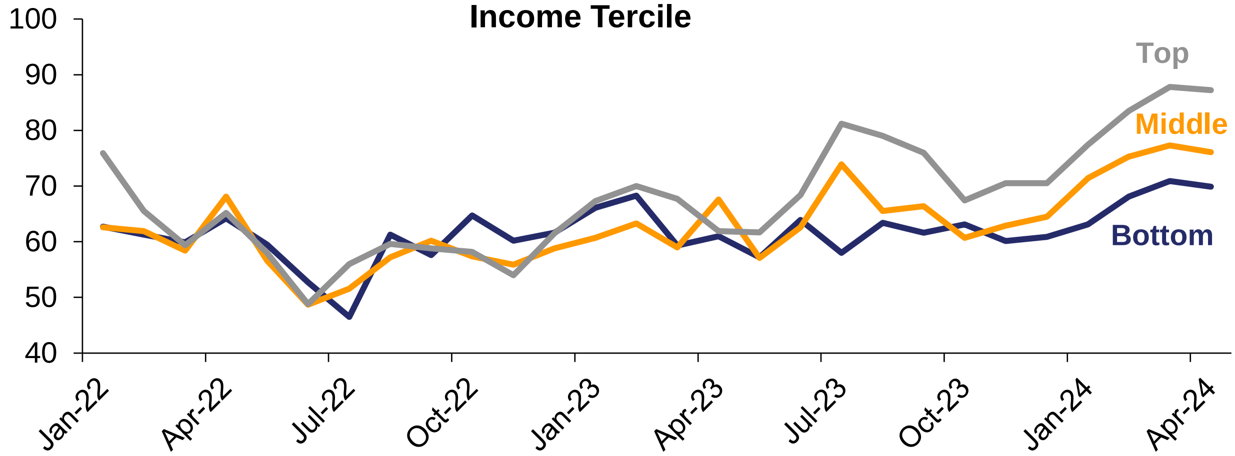


Source: Federal Open Market Committee's Summary of Economic Projections

Inflation - The Consumer Perspective

Consumer spending has buoyed economic growth over the past two years amidst consumer resilience against inflationary pressures, rising interest rates, and shrinking savings. This spending endurance is underpinned by several factors, including increasing real disposable income over 2023, a robust labor market, elevated consumer credit, surplus savings and overall wealth accumulation predominantly concentrated among the higher income quintiles. These factors, particularly among higher income groups, have continued to drive economic growth, especially as services spending has continued to comprise a larger share of growth. The increased spending observed during the pandemic years correlates with significantly low household debt and higher disposable incomes. However, household debt levels are beginning to return to pre-pandemic

Figure 18. Consumer Sentiment Starting to Diverge Across Income Tercile

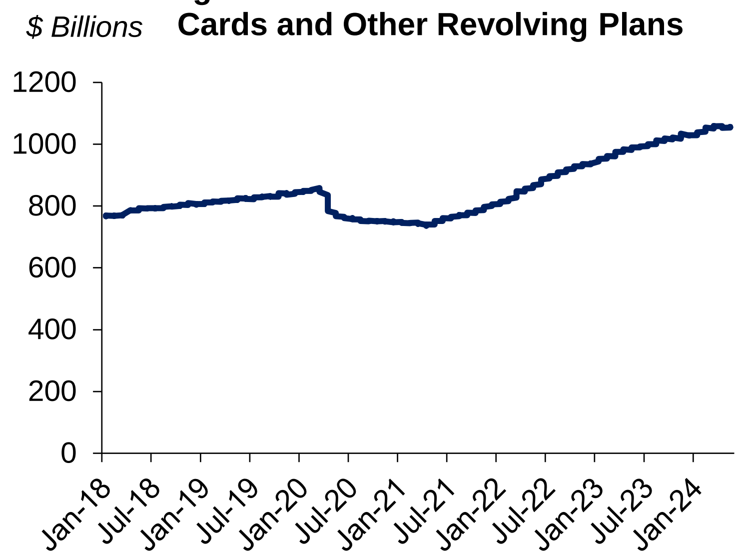


Note: Top, Middle and Bottom refer to those with highest, moderate, and lowest incomes, respectively.
Source: University of Michigan

norms and consumers are slowing their spending. This reduction in disposable income is not a concern for high earners, but middle and lower-income individuals are starting to feel the financial burden more acutely. University of Michigan's Consumer Expectations survey on consumer expectations across income terciles is starting to show these trends. As seen in Figure 18, consumer expectations remained relatively similar across all three income terciles until the second half of 2023, when divergent trends began to emerge in 2024. Middle and lower-income earners are starting to feel pessimistic about their financial outlook, while top earners remain optimistic.

Another indicator of rising consumer debt is that credit card balances reached an all-time high of approximately $1.12 trillion in the first quarter of 2024 as seen in Figure 19. Additionally, the share of credit card debt that's more than 90 days overdue rose to 10.7 percent during the first quarter of 2024, a 14-year high. The younger population is managing to make their minimum payments and avoid delinquency but are too financially stressed to pay off their full balances. This group is likely to be the most financially vulnerable in the long term due to their spending habits over the past three years.

Figure 19. Consumer Loans: Credit Cards and Other Revolving Plans

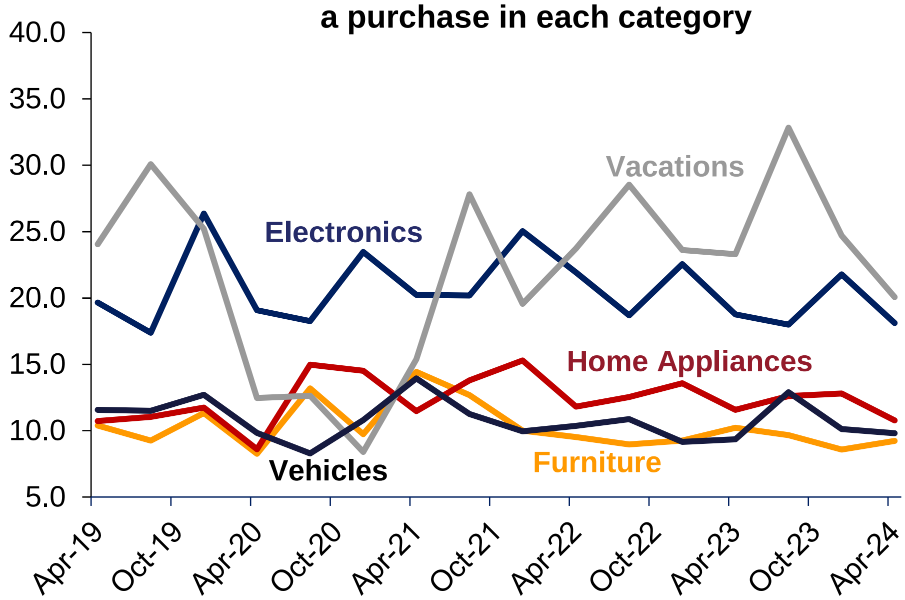


Source: Federal Reserve Bank (FRED) Economic Data

As consumers are starting to feel a financial strain, overall spending growth is expected to reduce over the next year. Spending patterns are also beginning to shift, with a noticeable drop in the growth of discretionary spending, particularly on items like clothing, while more moderate decreases are seen in non-discretionary categories such as groceries.

Consumers are starting to change the way in which they prioritize spending. Based on the Household Spending Survey published by the Federal Reserve of New York, the share of households reporting at least one large purchase in the last four months decreased to 53.8 percent in April, the lowest since April of 2020. Figure 20 below shows that the percentage of households who made purchases in each category over the past four months is on the decline across all categories, especially for durable goods. As mentioned earlier households are starting to prioritize essential spending while reducing spending on non-essential items. However, Deloitte's U.S. Financial Well-being Index indicates that sentiment for leisure travel ahead of summer 2024 remains exceptionally strong. Intentions for leisure travel spending, hotel bookings, and flight reservations all remain robust. According to their report, the consumers reporting intentions to travel, particularly internationally, are primarily higher and middle-income earners. These groups are expected to maintain consumer spending strength in the coming months.

Figure 20. Percentage of Households that made a purchase in each category

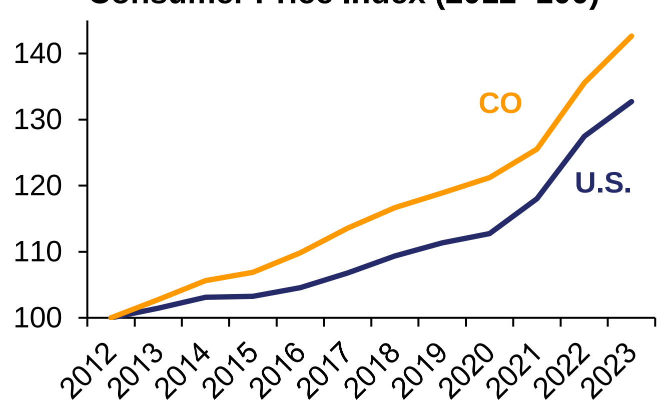


Source: SCE Household Spending Survey, Federal Reserve Bank of New York

Colorado vs. U.S. and Inflation's Effects on State Budget Costs

In addition to the inflationary trends discussed above, it is necessary to consider the diverging impacts between the nation and the state of Colorado from price increases. Overall, inflation has hit Colorado harder than the U.S. over the past decade, with Colorado prices now 43 percent higher than in 2012, compared to 33 percent for the U.S. In other words, in 2023, the same basket of goods costs 7.5 percent more in Colorado than across the U.S. as compared to 2012 prices. Several factors may contribute to faster price increases in Colorado, including higher population growth rates, constrained housing supply, a generally tighter labor market, and higher wages and household income. Figure 21 compares the local and national inflation trends, while Figure 22 on the following page shows several Colorado price indices, illustrating how

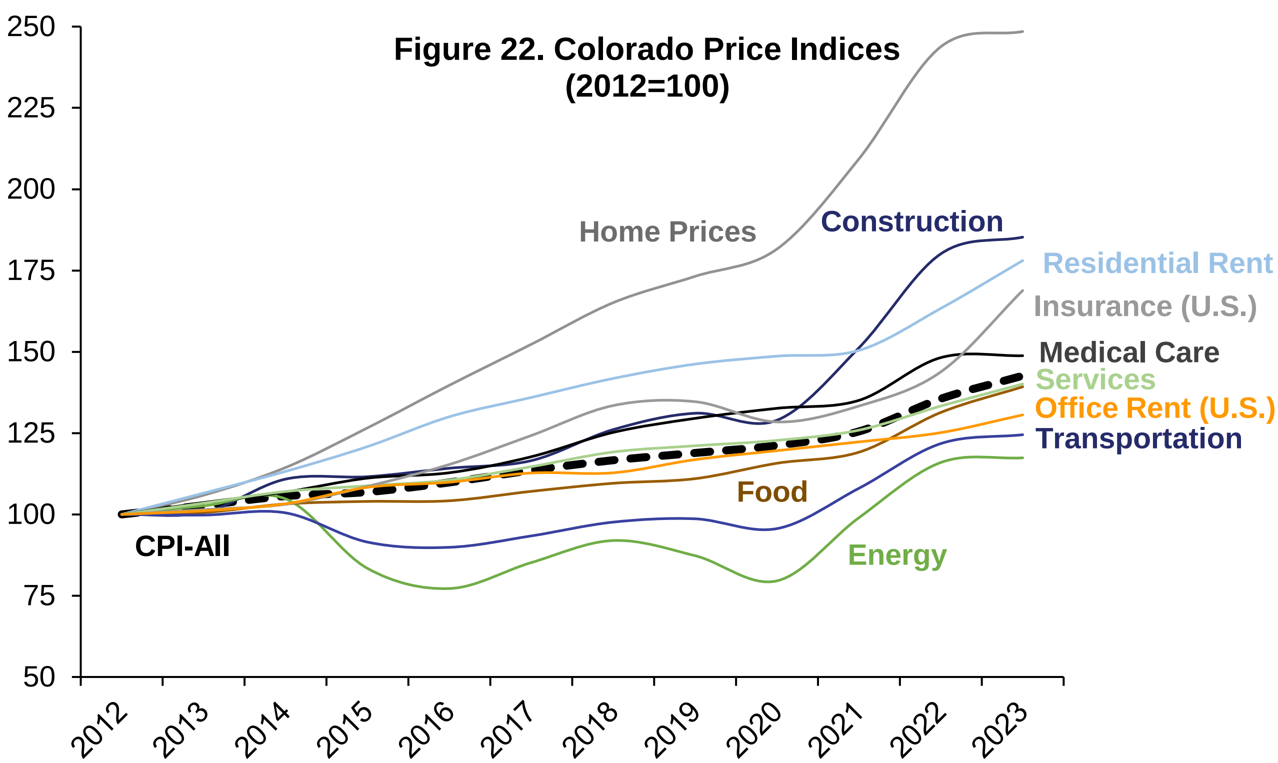
Figure 21. Denver-Aurora-Lakewood Area vs. U.S. Consumer Price Index (2012=100)



Source: U.S. Bureau of Labor Statistics inflationary pressures have varied across different economic sectors over time.

Several sectors have experienced inflation at a faster pace than the overall Consumer Price Index for All Urban Consumers in the Denver-Aurora-Lakewood area, which indicates that a typical basket of goods and services has increased by 43 percent since 2012. The fastest-rising prices in Colorado are tied to housing, where home prices are now 150 percent more expensive than they were in 2012, and residential rental prices have increased in price by 80 percent over the same period. For departments like DPS and DNR that provide housing for employees, or DOLA that subsidizes housing, increasing housing and rental costs will continue to place pressure on their budgets.

Several departments also lease commercial office space. In contrast to residential rent, office space rental rates have slowed relative to CPI since the pandemic began in 2020. As a result, new lease negotiations and agreements may provide an avenue for General Fund savings going forward, so long as commercial space costs lag the CPI.

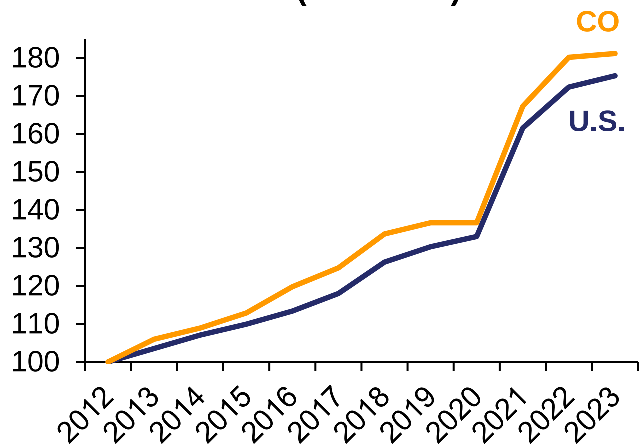


Source: U.S. Bureau of Labor Statistics; Colorado Department of Transportation; Mortenson Construction and Real Estate Development; Statista.

Other sectors that have experienced inflation rates above overall CPI include: construction, insurance, and medical services, all of which impact not only consumers across the state, but also the state's General Fund budget. These individual sectoral trends are discussed in more detail below.

The cost of construction in Colorado has outpaced the overall CPI by 27 percent since the start of the pandemic in 2020 and has increased by 80 percent since 2012. Colorado construction costs have also increased more than the U.S. average over that period, as illustrated in Figure 23 to the right. Continued increases in construction costs may have significant impacts on the state budget, which appropriated $262.2 million in general fund capital construction for FY 2024-25. All else equal, this trend means that the state will be able to undertake fewer capital projects with the same amount of money. Figure 24 below illustrates the wide range of departments and projects affected by construction costs.

Figure 23. Construction Cost Index (2012=100)



Source: Mortenson Construction and Real Estate Development

Figure 24. Departmental Construction and Maintenance

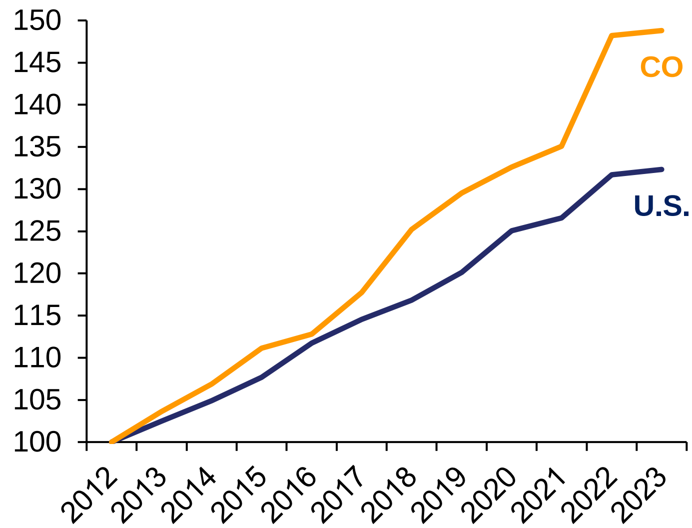
Department	Projects
CDOT	Roads, Bridges, Tunnels, Rail, Aviation, Facilities
DNR	State Parks, Water Facilities, Dams, Hatcheries, Mines, Oil and Gas
CEO	EV Infrastructure, Utilities, Building Decarbonization and Weatherization
DOLA	Affordable Housing and Community Development
OIT	IT Infrastructure
CDHE	Roofs, HVAC, Fire Safety, Renovations
CDE	BEST grants and COPs, CSDB
All	Controlled Maintenance (CDHS, DOC, CDHE, DPA, DNR are largest)
Multiple	Disaster Recovery (DNR, DPS, CDPHE, DOC, CDHS)

Source: OSPB budget documents.

National insurance prices have also seen significant pressures beyond Colorado's overall CPI in recent years, as shown in Figure 22 above. While OSPB does not have data on Colorado insurance rates over time, the state's rates tend to be higher than the national average due to auto theft, uninsured drivers, frequent hailstorms, and wildfires (Colorado ranks second in the country for hail claims and third for wildfire risk).[8,9,10] In addition to the impacts on consumers, as discussed in the section on the costs of homeownership, the state budget has significant exposure to insurance costs including the vehicle fleet, buildings and facilities, and other infrastructure. The state paid $21.7 million in premiums for worker's compensation, liability, and property insurance for FY 2023-24, compared to $14.7 million in FY 2022-23. As insurance costs continue to climb, the state will have to spend more to protect its assets from damage and loss.

Colorado's costs for medical care have also outpaced the broader CPI by 4.3 percent since 2012 and continue to increase above national averages (see Figure 22 above and Figure 25 to the right). While the gap between overall CPI and medical inflation has narrowed slightly in recent years, increased prices have put pressure on departments whose budgets rely on state-provided and contracted medical services, which will likely continue to apply pressure in years to come. Local wage rules also require higher minimum wages and contribute to the cost of employing or contracting medical service professionals. In an effort to mitigate these increasing costs, Governor Polis created the Wildly Important Goal to save Coloradans money on health care. Departments who are particularly affected include Health Care Policy and Financing (HCPF), Human Services (CDHS), the Behavioral Health Administration (BHA), and Corrections (DOC), who collectively account for more than 40 percent of the total state General Fund budget.

Figure 25. Medical Care Services Price Indices (2012=100)



Source: U.S. Bureau of Labor Statistics

The elevated inflation levels in recent years have strained the Colorado state budget. In addition, variation in inflation levels across sectors has created differential impacts on state departments, depending on the types of services and activities they perform.

---

[8] CBS News (2024). "Colorado car owners seeing increasingly higher insurance premiums compared to other states". https://www.cbsnews.com/colorado/news/colorado-car-owners-seeing-increasingly-higher-insurance-premiums-compared-to-other-states/

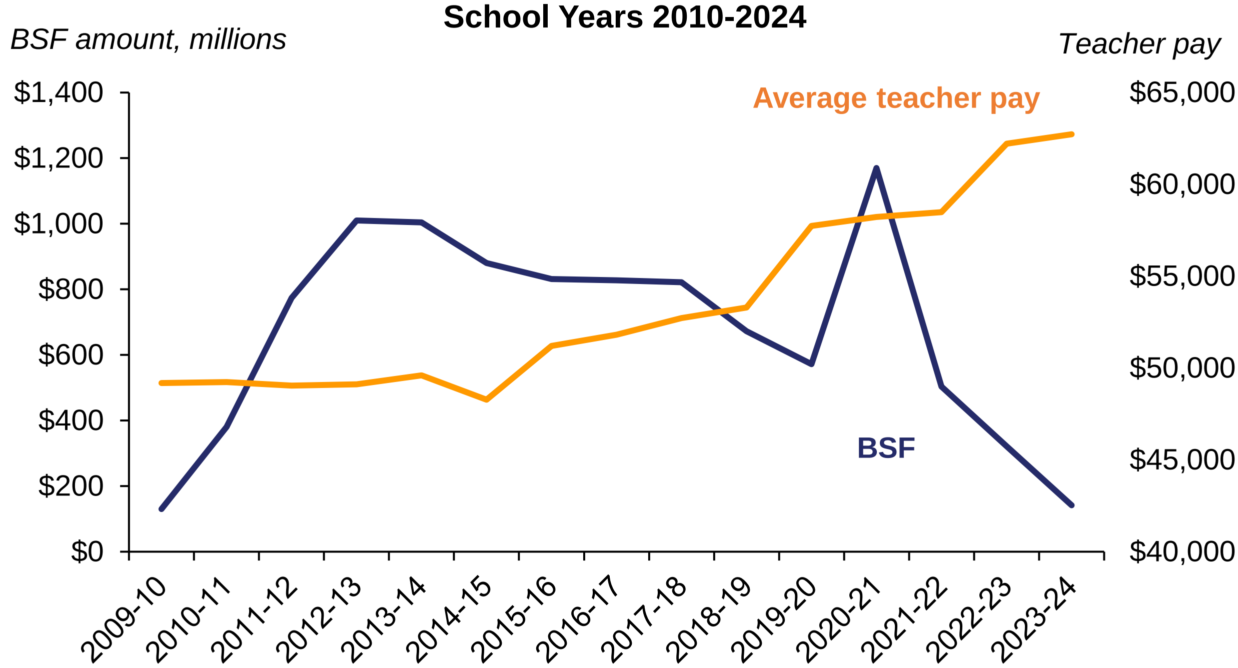
[9] KOAA News5 (2024). "Colorado homeowners consider selling as insurance rates continue to increase". https://www.koaa.com/news/covering-colorado/colorado-homeowners-consider-selling-as-insurance-rates-continue-to-increase

[10] Reinsurance transfers losses from an insurance company, or ceding company, to a reinsurer. Reinsurers may increase the costs that insurers must pay before reinsurance applies. To cover these costs, insurers may pass higher rates on to their customers.

Education Sector Workforce

As discussed in the Labor Market section above, the overall labor market remains relatively strong, with stable jobs growth and low unemployment. Similar to the overall economy, there is a growing imbalance between the supply and demand for educators, as evidenced by job openings and hiring data. In addition, there are growing concerns of the impacts of a reliance on temporary workers and one-time federal funds in the education sector. New state-level investments, including the buy-down of the Budget Stabilization Factor (BSF) have been enacted to address this shortage by allocating more funds to school districts, who can raise educator salaries in Colorado. As Figure 26 shows, there is largely an inverse relationship between teacher pay and the BSF amount. Generally, when the BSF rose, teacher pay fell or stayed constant and when the BSF fell, teacher pay rose. Note that when the BSF spiked in the 2020-21 school year, $1.8 billion in federal aid from pandemic stimulus packages, discussed later in this section, allowed teacher pay to remain largely constant. The full buy-down of the BSF in FY 2024-25 means that districts will likely have more room in their budgets to increase teacher salaries, which will likely improve teacher recruitment and retention, enabling schools to keep experienced teachers and in turn increasing overall instructional quality and ensuring a better education for students. The state has also invested in new pathways, like teacher apprenticeship programs, to create new entry points into the profession to address educator shortfalls. While not quick fixes, these initiatives will continue to provide pathways to strengthen the education sector.

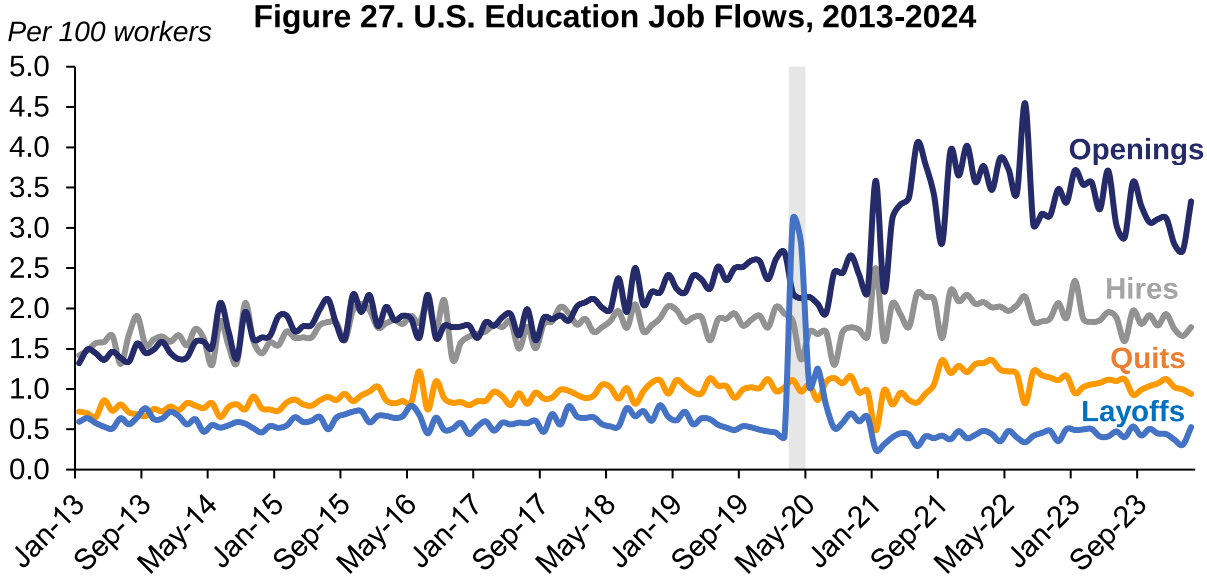
Figure 26. BSF Amount and Colorado Teacher Pay (current $), School Years 2010-2024



Sources: Colorado Department of Education, National Center for Education Statistics, World Population Review.

The education industry nationwide is struggling to attract new teachers. Figure 27 shows how education job flows have changed over the past decade. From 2013 to mid-2018, the opening and hiring rates within the education sector were nearly the same. However, that gap began to grow in 2018 and widened drastically in 2021, after which there have been nearly twice as many openings as there have been hires. While the quit rate is slightly elevated since the pandemic, this is not sufficient to explain the entirety of the gap. Instead, there are three main theories as to why the gap persists:

Figure 27. U.S. Education Job Flows, 2013-2024



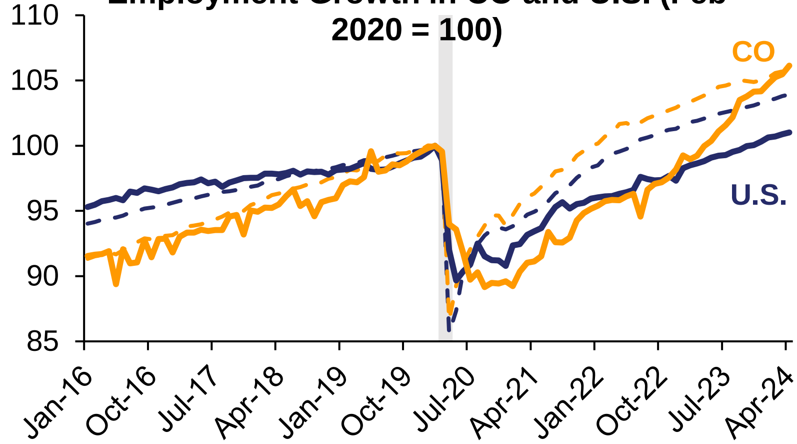
Source: Bureau of Labor Statistics Job Openings and Labor Turnover Survey

1. <u>Fewer entrants into the education industry</u>: increased openings relative to hires, quits, and layoffs may reflect a lack of entrants to the industry altogether. Education workers may not be leaving the profession in droves, but as they do leave, there is not a sufficient supply of new teachers available to replace them. These trends may be exacerbated by older teachers leaving the workforce altogether, a trend across industries as described in more detail in the *Aging Population* section below. Additionally, low pay, COVID-19 related mandates, rising incidence of violence in schools, and battles over social issues in some states may also contribute to lowered supply. Note also that there was a spike in layoffs (shown in figure 27), but no increases in hiring since to offset the demand illustrated in the number of openings.

2. <u>Temporary employment</u>: Due to the teacher shortage, many districts have been forced to hire temporary or underqualified teachers, or leave positions unfilled. As a result, some positions have been open consistently, while others are seeing higher turnover as temporary

contracts expire. In Colorado, according to the Colorado Department of Education, 15 percent of all teaching positions in the state were unfilled going into the 2022-2023 school year, and after using those shortage methods mentioned above, 9 percent remained unfilled for the full year. This has led to an increase in part-time and temporary teaching positions, as well as proliferation of auxiliary positions like tutors and paraprofessionals as stopgap measures, resulting in faster post-pandemic employment growth in education since that time relative to the all-industry average, as shown in Figure 28.

Figure 28. Indexed Education Employment Growth in CO and U.S. (Feb 2020 = 100)



Note: Shaded areas denote recessions; dotted lines indicate overall jobs growth
Source: Bureau of Labor Statistics

3. Protracted pandemic effects: the big spike in openings from 2020 onwards is also related to the pandemic. During the pandemic, billions of dollars were invested in strengthening the educator workforce. This funding was used either to give salary boosts to teachers or hire new teachers on a short-term basis (that is, as long as the stimulus money lasts).

The pandemic also created multiple hardships for the education sector. Starting in 2020, Congress passed stimulus bills that resulted in the unprecedented injection of federal funds into the U.S. economy. In March 2021, the federal government sent $112 billion out to 14,000 districts. Colorado received an unprecedented $1.8 billion in federal pandemic recovery funds to aid students, families, and educators. These funds, part of the Elementary and Secondary School Emergency Relief Fund (ESSER), were distributed in three phases—March 2020, December 2020, and March 2021—to help schools and communities respond to the pandemic and address lost learning opportunities. Districts used this money for various functions, including investments in social-emotional learning and expanded learning time. While the federal government advised against using ESSER funds for large construction projects or recurring expenses like hiring new permanent staff, schools were not explicitly barred from doing so. Data from the Edunomics Lab at Georgetown University revealed that 40 to 50 percent of ESSER funds were used for labor costs, including salary increases for teachers and the addition of more staff, such as learning specialists, tutors, and counselors. Despite federal guidance permitting districts to use temporary stimulus funds for permanent salary increases, most states opted to hire additional staff rather than provide pay raises or stipends. During this time, schools saw significant growth in hiring paraprofessionals, including classroom and special education aides, along with an increase in counselors to support student mental health. As the stimulus funding approaches its end, the positions most at risk of being cut are those primarily funded by this aid, including counselors, aides, school nurses, and behavior specialists.

Steps are being taken both nationally and at the state level to combat the difficulties facing the education sector, in hopes of attracting and retaining teachers. At the national level, programs aimed at expanding registered teacher apprenticeships, returning schools to pre-pandemic staffing levels, and encouraging teacher pay increases have been a focus of the Biden-Harris Administration's education policy. In April 2024, the U.S. Department of Education, in an effort to expand high-quality and affordable pathways into teaching while increasing pay, joined the Biden-Harris Administration's Good Job Initiative. Additionally, through the reformed Public Service Loan Forgiveness Program, close to 876,000 borrowers engaged in public service, including teachers, have had their federal student loans forgiven.

At the state level, there have been over 50 bills across 22 states in 2024 aimed at increasing teacher pay/compensation. States with the most-sweeping reform bills regarding minimum starting salaries, higher bonuses, and overall salary boosts included Arkansas, Utah, Tennessee, Florida and Maryland. In Colorado, this past legislative session saw two big steps taken in the education sphere which will result in increased funding for schools.

- First, in FY 2024-25, Colorado fully eliminated the Budget Stabilization Factor (BSF), fully funding public schools for the first time since 2009.
- Second, HB24-1448 *New Public School Finance Formula* is set to overhaul the current funding formula for Total Program costs in the state, resulting in higher funding allocations to districts across the state, which should help increase teacher salaries statewide.

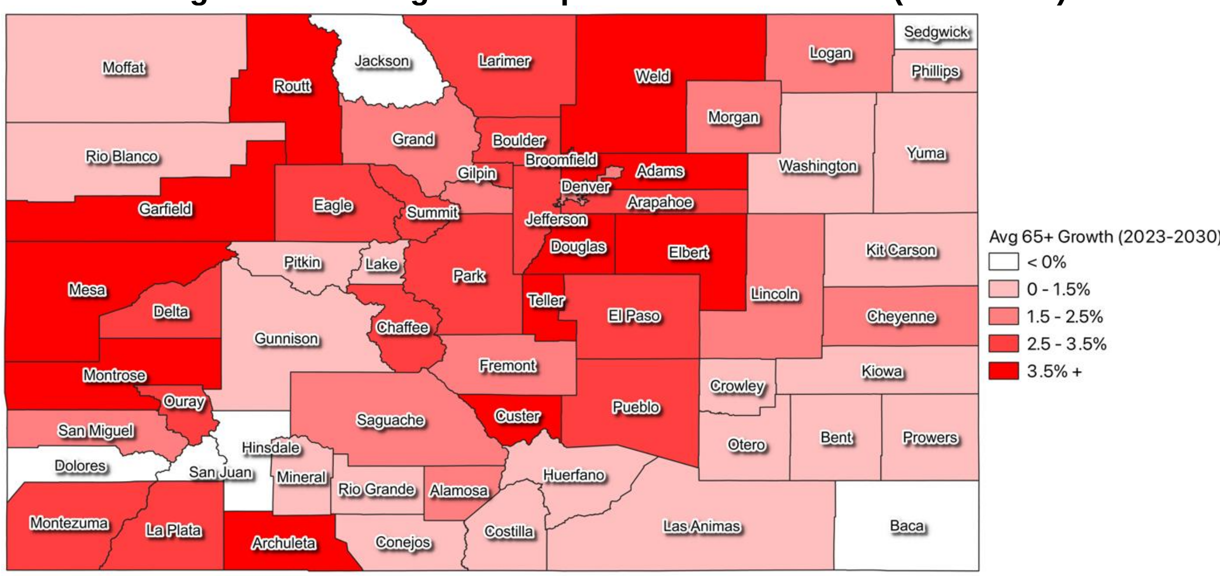
In addition, other non-monetary steps have been taken including teacher mentorship and development programs to create and retain a highly skilled workforce. Most mentorship programs operate at a district level because mentor-mentee relationships among educators are more effective locally, fostering stronger bonds between teachers and the communities they serve. However, there also steps that can be taken at the state level for such programs. In Colorado, the Department of Education (CDE) houses The Educator Development Unit, which partners up with various organizations to provide professional development opportunities for teachers. In addition, Colorado has invested in a number of workforce development strategies, including the Career Advance Colorado program, which provides free credentialing for a handful of in-demand sectors, including early childhood and education. HB24-1340 will also provide a tax credit for Colorado students to receive two years of free college at any public institution in the state, an effort that can help ease the debt burden for individuals looking to enter a profession like education.

Policy efforts at both national and state levels, including teacher mentorship programs and financial incentives, are critical steps towards attracting and retaining qualified educators. However, these measures alone are not a quick fix. Sustained commitment and multifaceted approaches are essential to ensure a robust education sector that can provide high-quality education for future generations to come.

Aging

The state demographics of a rapidly aging population over time will impact labor supply, the housing market, as well as tax revenue and state government expenditures. As discussed earlier in this document, the labor market is cooling but remains strong. Going forward, however, due to demographic trends in the state population, the Colorado labor market may face substantial challenges. The Colorado population aged 65 and older comprises 16.4 percent of the total population (1 million) but is expected to grow at twice the overall population growth rate to 21.1 percent of the population by 2050 (1.6 million). Considering the anticipated tight budget environment in coming years, it is critical to consider the unique economic and budgetary implications of a rapidly aging population. Figure 29 below illustrates the counties that are expected to have the highest rates of retirements from the job market, based on the projected growth rates of the 65 and older age group.

Figure 29. Average 65+ Population Growth Rate (2023-2030)



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

Exploring Housing Impacts of An Aging Population

Another important economic consideration for older Coloradans is whether they will elect to age in place or cash out their home equity after years of significant appreciation[11] and relocate to lower cost areas. Nearly 82 percent of individuals over the age of 65 own their residence,

[11] As observed in the Colorado All Homes Price Index: https://fred.stlouisfed.org/series/COSTHPI

compared to 62 percent of people under 65.[12] Figure 30 below shows that the 65 and older group accounts for 15 percent of the population but owns an estimated 25 percent of the homes.

Figure 30. 2020 Housing Units Owned and Occupied by Age Group

Age Group	Population %	Homeownership Rate	Percent of Homes Owned*
< 65	85%	62%	75%
65+	15%	82%	25%

** Percent of Homes Owned estimates are based on ownership rates, population, and average household size estimates.*
Source: Colorado State Demography Office, OSPB calculations.

Statewide migration data from 2010 to 2020 indicates a small net out-migration among those aged 70 to 85, while most seniors age in place – a pattern that has persisted since the 1970s. As this group grows, the share of homes that they occupy is also likely to grow. According to the State Demographer's Office (SDO), 57 percent of homeowners aged 65+ do not have mortgages, and only 6-7 percent of individuals aged 65+ move to a new home each year. Tightness in the housing market, elevated mortgage rates, and continued home value appreciation provide additional incentives for older homeowners to age in place. The housing implications of these trends are reduced availability and churn, which could further exacerbate the housing shortage and unaffordability across the state, though SB24-111's addition of portability for the state's Senior Homestead and Property Tax Exemption may begin to relieve some of these issues.

Impact on Tax Revenue

As a growing number of adults reach retirement age, an estimated exodus of 40,000 older Coloradans from the labor force each year[13] will have several impacts on the state budget and economy. One of the most significant impacts to the state budget will come in the form of reduced tax revenues after retirement. Once individuals retire, they generally shift from receiving regular wages to a lower fixed income or other retirement benefits. This has the dual impact of reducing their income tax revenue, while also lowering their consumer spending and thus their sales tax collections. A study from SUNY Albany examines the potential revenue impacts of the aging populations in six states and finds that five would likely experience a decrease in per capita income tax revenues of 0.7 to 1.8 percent, while state sales tax revenue could decline by as much as 26 percent per individual as they age from 60 to 65.[14] Using Colorado income data from 2019, the average individual aged 55-64 in Colorado earned $124,455 per year, compared to $100,435

[12] Urban Institute (2021). Forecasting State and National Trends in Household Formation and Ownership. https://www.urban.org/policy-centers/housing-finance-policy-center/projects/forecasting-state-and-national-trends-household-formation-and-homeownership/colorado

[13] State Demographer's Office (2023). "The Next 10 Years", presented at the 41st Annual Demography Summit in November, 2023. https://docs.google.com/uc?export=download&id=1o2cFbnvy_OieiibnilDicC0KwHMQyKhV

[14] Boyd, Don. (2019). Demographics, Aging, and State Taxes. SUNY Albany. https://www.pewtrusts.org/-/media/assets/2020/01/demographics_aging_and_state_taxes.pdf

for those aged 65 and older.[15] This $24,020 difference is equivalent to $1,057 in income tax revenue per average individual under the state's 4.4 percent income tax rate.

This reduction in income is also associated with a decline in spending after retirement. Growing the consumer expenditures data presented in the Colorado Futures Center report[16] by the CPI inflation rate to 2023 dollars and applying a ratio of 30 percent taxable spending,[17,18] the average 55-64 year-old Coloradan has an estimated $23,285 in annual taxable spending, compared to $19,474 for the 65-74 age group. The difference of $3,811 in annual taxable spending is equivalent to a decline of $110 in sales tax revenue per senior, based on the state's 2.9 percent sales tax rate.

In total, the potential average decline in state income and sales tax amount to $1,157 annually per average retiree aged 65 or older, compared to non-retirees under the age of 65. Combining this figure with the estimated 40,000 retirements per year, the state could see a decline of $46.7 million in tax revenues *per year* as this group transitions into retirement. To maintain overall revenue levels in the face of these declines, the state will need sufficient net migration to replace the retirees' jobs, income, and expenditures. The State Demographer's Office expects sufficient net migration to fill job growth and replace retiring workers in the near-term, thus the net effect of the retirements will not likely result in a smaller income tax base, but rather slowing trend growth rates going forward that could provide downside risk to revenue in the longer term. In addition, given recent slows in net migration related to housing affordability and other issues, if net migration rates continue to remain lower than expectations, there is an added risk that retirements negatively impact state revenue.

Impact on Expenditures

On the expenditure side, the growing 65 and older cohort will also place increasing demands on the state budget via increased participation in public health and social services programs. This population 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).

According to the HCPF's FY 2022-23 Annual Report to the Community,[19] eligible individuals aged 65 and older comprised 3 percent of the 1.7 million Colorado Medicaid enrollees but accounted

---

[15] Colorado Department of Revenue. Statistics of Income Reports. https://cdor.colorado.gov/data-and-reports/statistics-of-income-reports

[16] Colorado Futures Center (CFC) (2016). "The Effects of Aging on Colorado's Revenue and Expenditures: A View to 2030." https://agingstrategy.colorado.gov/sites/agingstrategy/files/CFC Finance Report for SAPGA.pdf

[17] Bureau of Labor Statistics (2015). "Beyond the Numbers, Prices and Spending – Consumer expenditures vary by age". https://www.bls.gov/opub/btn/volume-4/pdf/consumer-expenditures-vary-by-age.pdf

[18] Not all consumer spending is taxable, such as rent or mortgage payments. The CFC report assumes that 30 percent of all annual consumer expenditures are taxable.

[19] Colorado Department of Health Care Policy & Financing. *Report to the Community, Fiscal Year 2022-2023*. https://hcpf.colorado.gov/2023-report-to-community

for 15 percent of the total expenditures.[20] As the population ages on net, an increasing proportion of Medicaid participants are likely to be older adults. Coupled with increasing health care costs[21,22] as discussed in the inflation section above, Medicaid is likely to continue growing as a proportion of all General Fund expenditures, after already increasing from around 15 percent in the early 1990s to around 25 percent by the early 2020s.

Colorado also has a Homestead Property Tax Exemption, which reduces the taxable value of their property by up to $100,000 for qualifying senior citizens and was recently expanded to include portability via SB24-111.[23] Excluding any underlying special tax districts and depending on the county, this exclusion can amount to $510 in exempted property tax revenue per year, based on an estimated state-wide average county property tax rate of 0.51 percent.[24] The state then backfills local governments for their losses in revenue as a result of this exemption, at a cost of approximately $163 million in FY 2023-24, but likely growing to approximately $200 million by the end of the forecast period with the addition of portability.

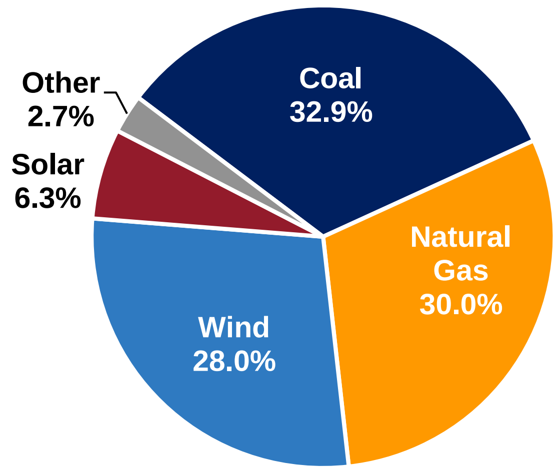
Other state programs are also likely to see increased utilization and costs as the older population expands, including Old Age Pension (CDHS), and medical care within the DOC correctional population.

Energy

Another long-term trend developing across the nation and in Colorado is the growing role of renewable energy as a component of the overall electricity generation mix. Electricity generation for residential, commercial, and industrial use is a significant growing sector of the total energy used across the country. Over the past decade, both the U.S. and Colorado have increased the use of renewable energy for electricity generation and decreased usage of fossil fuels. However, fossil fuels – primarily made up of natural gas and coal – still make up the majority of electricity generation at both the national and state level. According to the EIA, in 2023 approximately 60 percent of electricity generation in the U.S. was sourced from fossil fuels, while 21 percent was generated from renewable sources of energy primarily made up of wind, hydropower, and solar. The remaining 19 percent of U.S. electricity generation came from nuclear energy.

[20] This disproportion is a result of older adults having more frequent and intensive health care needs such as doctor visits, procedures, medication and equipment, and long-term care.
[21] Peter G. Peterson Foundation (2023). Why are Americans Paying more for healthcare? https://www.pgpf.org/blog/2023/01/why-are-americans-paying-more-for-healthcare
[22] American Medical Association (2023). Trends in health care spending. https://www.ama-assn.org/about/research/trends-health-care-spending

Figure 31. 2023 Colorado Electricity Generation by Energy Source



Source: Energy Information Administration

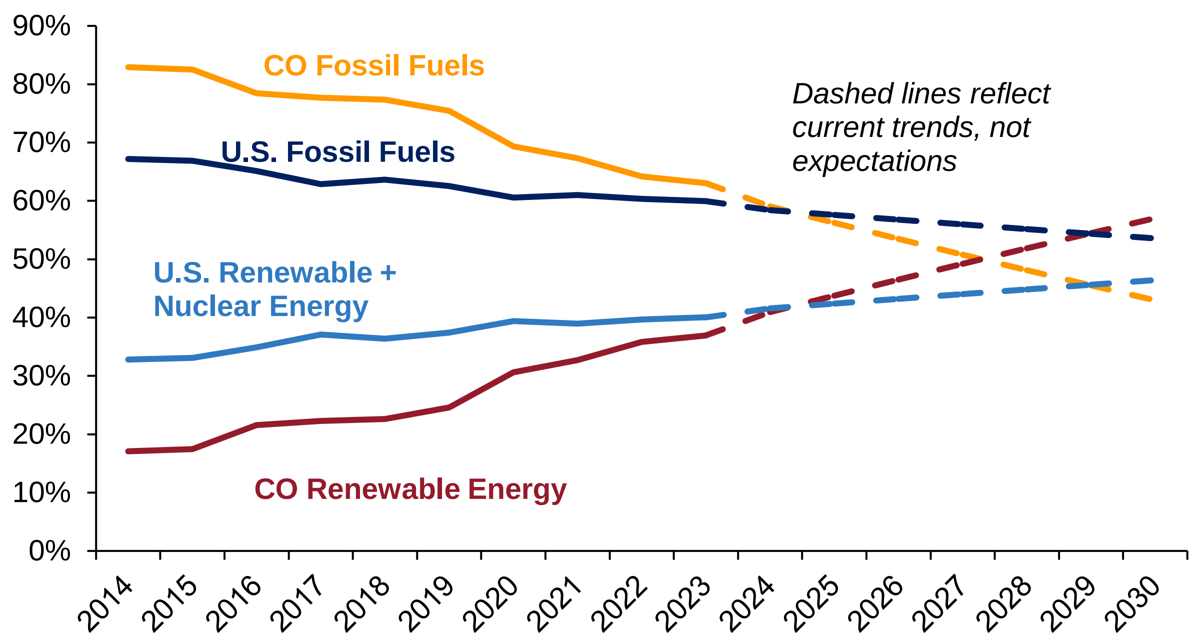
Utilities regulated by the Colorado Public Utilities Commission utilize a market-based, competitive procurement strategy for new electricity resources. As a result of cost declines in renewable energy, primarily wind and solar, Colorado has seen a significant increase in the use of these energy sources. As illustrated in Figure 31, Colorado sourced approximately 63 percent of its electricity generation from fossil fuels and about 37 percent from renewable energy sources. Coal makes up the largest plurality of sourced energy for electricity generation at 32.9 percent, while natural gas and wind are closely behind at 30.0 percent and 28.0 percent, respectively.

Equity, Diversity, and Inclusion Box 1: Impacts of the Energy Transition

The energy transition is surrounded by equity considerations, from the disproportionate burden of the impacts of climate change and poor air quality, to the share of contribution to these problems by different groups, to the access to the tools and technologies to address mitigation. Electrification and energy efficiency improving technologies such as electric cars or e-bikes, heat pumps, roof-top solar, batteries, and appliances, as well as more low-tech interventions such as window upgrades, can be very costly. Despite state and local tax credits and other incentives, the high upfront costs may create difficulties for many Coloradans to adopt at first. Others may be renters, and unable to make these choices for their homes. Further improvement and adoption of these technologies may continue to drive costs lower even without intervention, but to address more immediate gaps, targeted subsidies such as grants or point-of-sale tax credits are short term steps that can improve broader access across income levels.

Although coal comprised about one-third of electricity generation within the state in 2023, that is a significant reduction from 2014 when it accounted for approximately 65 percent of electricity generation. Going forward, the usage of coal for electricity generation in the state will cease as all coal plants in Colorado have established retirement dates no later than 2031. As the usage of coal in electricity generation declines in the state, a portion of the generation is likely to be replaced by natural gas in the coming years with a growing share of renewable energy replacing the loss of coal, as well. Figure 32 depicts the trends toward renewable energy at the national and state level, and the declines in fossil fuel usage for electricity generation in order to illustrate the pace of progress in the state compared with the nation. Note that these trends are not intended to reflect expectations. In fact, currently approved or proposed electricity plans from Colorado Utilities are expected to achieve an 89% reduction of greenhouse gas emissions in 2030 as compared to 2005 levels, in part due to state emissions requirements but primarily due to the cost competitiveness of these resources in the marketplace.

Figure 32. Electricity Generation by Energy Source



Note: Dotted line indicates current trend forecast and does not include assumptions around individual developments in renewable energy or fossil fuel infrastructure. The U.S. Renewable Energy line also includes nuclear energy. There is no nuclear energy utilized in Colorado for electricity generation.
Source: Energy Information Administration; Author's calculations

From 2014 to 2023, usage of fossil fuels for electricity generation has declined from 67 percent to 60 percent in the U.S. and from 83 percent to 63 percent in Colorado. These declines have largely been recorded by the reduction of coal usage replaced with an increased share of natural gas within the electricity generation mix and the increased deployment of renewable energy infrastructure. The growth of renewable energy in Colorado has outpaced the U.S. with 37 percent of electricity generation in the state coming from renewables compared to 17 percent in 2014, while the U.S. had approximately 21 percent of its generation mix sourced from renewable energy in 2023 compared to 13 percent in 2014.

If both the U.S. and Colorado remain on their current trends, Colorado would use fewer fossil fuels as a proportionate share of its generation mix compared to the U.S. beginning in 2025. To illustrate, though, that Colorado is likely outpacing its historical trend, the Colorado Energy Office expects that switch to occur by the end of this year. In order to reach the State's goal of 100 percent renewable energy for electricity generation by 2040, renewable energy infrastructure deployment will need to continue to expand at an accelerated pace compared to current trends including renewable energy, battery storage, electric transmission, and dispatchable zero-emission technologies like geothermal or clean hydrogen generation. Based on current cost projections and trends, the most cost-effective pathway to meet growing electric demand in Colorado in 2040 achieves an approximately 97% reduction in emissions primarily through wind and solar, which will need to be tripled and quintupled respectively to meet this demand.

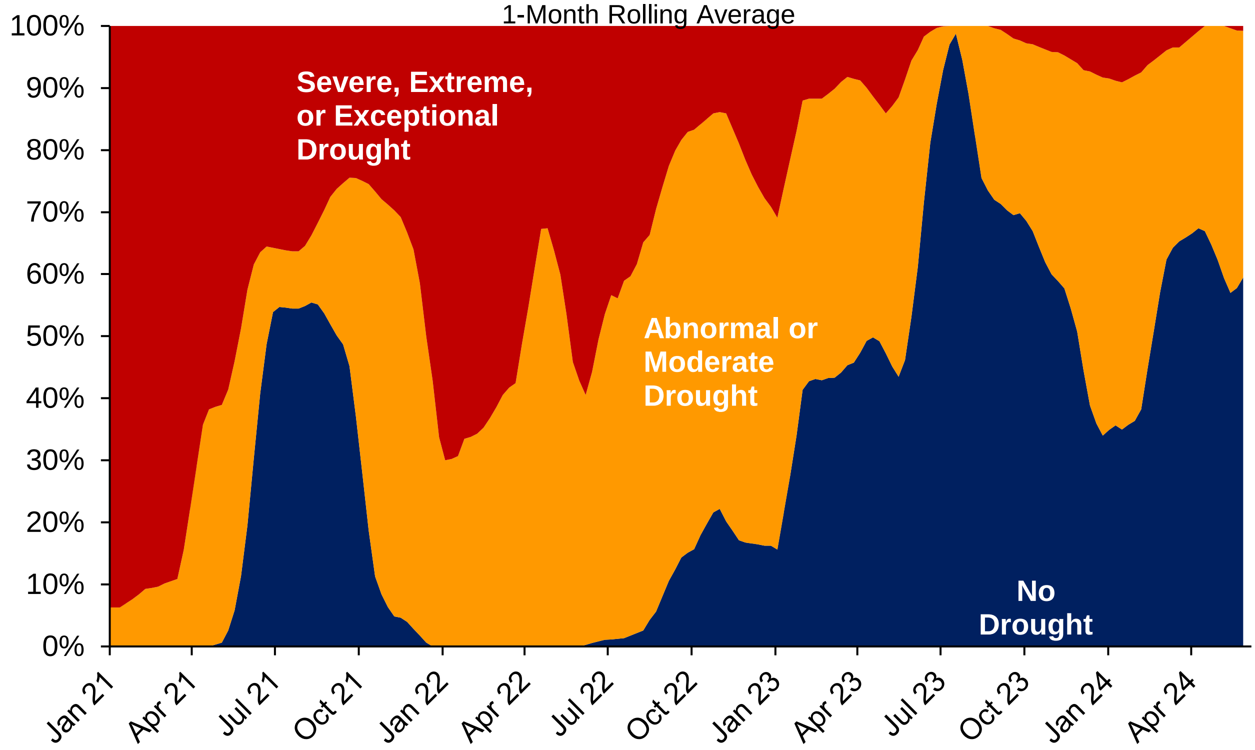
Environmental Risks - Water

Background

As a headwaters state, Colorado is particularly impacted by water and the policy surrounding its use as water demand grows alongside population and supply shrinks as more frequent drought conditions occur. Over that last year, Colorado has seen some drought abatement from healthy precipitation from winter snow and summer rain, as illustrated in Figure 33. In 2023, the State averaged 58.2 percent of land area having no drought conditions and so far through May 28, 2024 the State has averaged 56.9 percent of land area having no drought conditions.

Figure 33. Percentage of Colorado Land Area Under Drought Conditions

1-Month Rolling Average



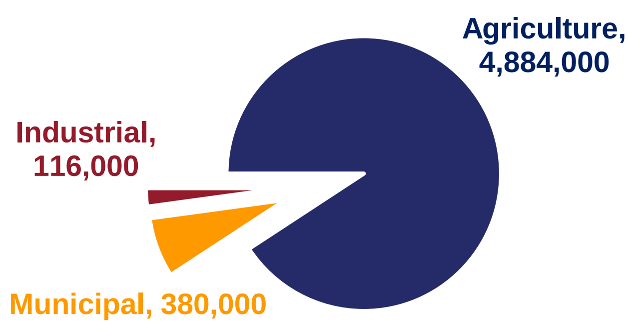
Source: National Drought Mitigation Center at the University of Nebraska-Lincoln

Precipitation in the state predominantly falls west of the continental divide and feeds the primary surface water flows of the Arkansas River, the Colorado River, the North and South Platte Rivers, and the Rio Grande River. Groundwater is also a critical resource to the state, especially for communities in the eastern part of the state, and is stored in aquifers across the state. While groundwater only accounts for 17 percent of water use in Colorado, the state's aquifers can be thought of as its savings account or "not-so-rainy-day" fund when surface water flows are weak from low precipitation. With this backdrop, the sections below consider the key users of water across the state and the impacts that these users have on the overall supply of water.

Key Water Users - Agriculture, Municipalities, and Industry

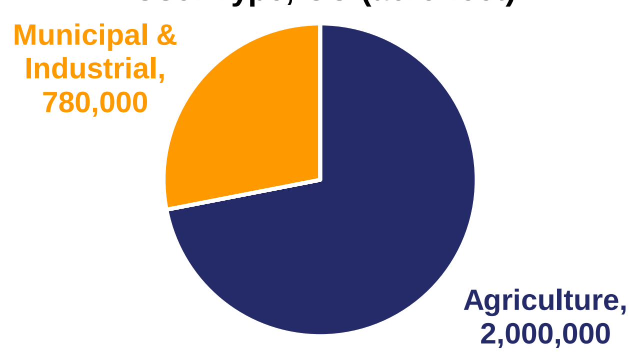
Agriculture is a primary user of water in Colorado and accounts for over 90 percent of total water usage (Figure 34), including 72 percent of groundwater usage (Figure 35). Agricultural groundwater usage in Colorado is almost exclusively used for livestock and crop irrigation. In Colorado there are 3.28 million acres of irrigated agricultural land, with the majority of land in the South Platte Basin. These 3.28 million acres consume 4.84 million acre-feet of water per year. In contrast to municipal and industrial demand, however, agricultural demand for water is expected to decline due to: (1) the agricultural community's lower willingness to pay as compared to municipal and industrial users and (2) known improvements in irrigation efficiency from better practices such as improved leak monitoring and improved water rights transactions. Continued improvements in water use efficiency by agricultural producers will be aided by technological advancements in water monitoring and specifically leak monitoring. However, getting agricultural producers to utilize more efficient irrigation techniques and practices may be challenging as there are conflicting policies from different levels of government. For example, local governments may try to decrease groundwater usage but federal crop insurance may mandate that producers must keep watering in order to keep their insurance policy. Additionally, water rights can be difficult to transfer so agricultural producers may inefficiently use water when they may have otherwise sold or transferred it.

Figure 34. Surface Water Usage by User Type, CO



Source: 2023 Colorado Water Plan

Figure 35. Groundwater Usage by User Type, CO (acre-feet)



Source: 2023 Colorado Water Plan

In alignment with increasing costs, growing populations, and a higher willingness to pay, municipal water authorities have a history of purchasing agricultural land exclusively for the water rights. Most recently, the city of Aurora purchased 5,200 acres of land in Otero County for $80.4 million and plans to utilize the water three out of ten years. This trend will continue as agricultural land is directly converted into residential land and growing municipality population means higher demand for water, forcing local governments to explore all opportunities for water access for residents. Recent legislation such as SB24-197 and SB24-005 also aim to aid in the conservation of water resources throughout the state in a multitude of avenues both on the agricultural and municipal sides by incentivizing water rights transfers and protecting municipal conservation techniques.

Increasing Water Costs – Causes and Impacts

Primary drivers for impacts on Colorado's water economy include growing population. This growth has put pressure on both housing and utilities. Establishing water use and wastewater coverage add to the cost of housing now exacerbates these issues. For example, Fort Collins has seen a 4 percent increase in both water utility and wastewater utility for piping and meters.[25] The same phenomenon can be seen in Wellington, Colorado, as well, as base water rates have spiked to nearly four times as high as Denver and Fort Collins base water rates--base water rates for Denver were reported at $16.46, Fort Collins at $18.30, with Wellington base rates at $66.00 in 2021.[26] As of 2024, these rates have reduced marginally, with Wellington now seeing $52 as a base rate, still higher than Denver, which has risen to $18.40 a month.[27] [28]

A phenomenon associated with rapid population growth is the need to replace outdated and inefficient water infrastructure. These projects are funded in part through public funds, thus causing marginal increases in water rates in more populous cities like Denver with expanded infrastructure, while sometimes leading to sharper increases in smaller and lower income areas, like Wellington, to cover the costs of these infrastructure projects. Further, the lack of available dollars to replace outdated infrastructure causes a longer delay, increasing costs again in the long term, likely causing a continued rate increase that could disproportionately impact smaller and lower income communities across Colorado. Federal dollars and current funding for water projects are discussed below.

Equity, Diversity, and Inclusion Box 2: Water

Base rate increases and pump fees for water use across the state will continue to rise due to population growth, as well as drought mitigation efforts. These rates can have a disproportionate impact on smaller and low-income communities across Colorado–for example, the San Luis Valley anticipates a rise in pump fees due to diminishing aquifers. In the San Luis Valley, one out of every four individuals live below the poverty line, increasing the risk that the rising cost of water may threaten local economies in these small communities. While cities have maintained steady and affordable rate increases in the past, drought, diminishing water, and necessary infrastructure updates may cause long-term risk for low-income individuals and families, primarily in Denver, Pueblo, Colorado Springs, and the San Luis Valley. Additionally, the need for clean water infrastructure primarily impacts low-income communities. In Colorado, the infrastructure need for clean water is estimated at $10 billion–while portions of this can be covered by federal infrastructure dollars, base rate increases will also be used to cover funding gaps. Rates are traditionally determined by median income, but median income does not always accurately reflect poverty in communities, thus a rapid increase in rates to cover infrastructure needs may burden low-income families in the long term.

Colorado Water Plan

The Colorado Water Conservation Board (CWCB) anticipates a total need of $1 billion dollars in order to address water projects throughout the state.[29] The Colorado Water Plan and CWCB have received $23 million in FY 2022-23 through sports betting revenue, and will receive an estimated $29 million in FY 2023-24 ongoing under current law[30]. Additionally, half of the severance collections that are distributed to the Department of Natural Resources go into the Perpetual Base Fund for water projects. The distribution from FY 2022-23 revenue totaled $88.1 million, with an additional $144.6 million expected over the next three years based on revenue forecasts discussed in the relevant Cash Fund section. Finally, the Biden Administration announced $73 million in clean water infrastructure funding for Colorado in February 2024.[31] With these investments, added to the $694 million available to Colorado for water projects through formula and match funding provided by the Bipartisan Infrastructure Act, it is expected that the state will have the funds necessary to address the projects the CWCB has identified as priorities in water infrastructure within the forecast's time horizon.[32]

---

[29] 2023 Colorado Water Plan, *https://cwcb.colorado.gov/colorado-water-plan*.

[31] Biden-Harris Administration Announces over $73M for Colorado Water Infrastructure Upgrades, *https://www.epa.gov/newsreleases/biden-harris-administration-announces-over-73m-colorado-water-infrastructure-upgrades*.

[32] White House, Colorado IIJA Fact Sheet, *https://www.whitehouse.gov/wp-content/uploads/2024/05/Colorado-IIA-State-Fact-Sheet.pdf*.

Forecast Risks

Short-Term Risks

Interest rates over the immediate forecast period may remain elevated enough that there is downside risk to consumer demand and business investment alike. Additionally, increasing consumer debt and risks to commercial real estate could add stress to banks' balance sheets, with possible contagion effects. Additionally, global geopolitical conflicts raise economic risk in the near term.

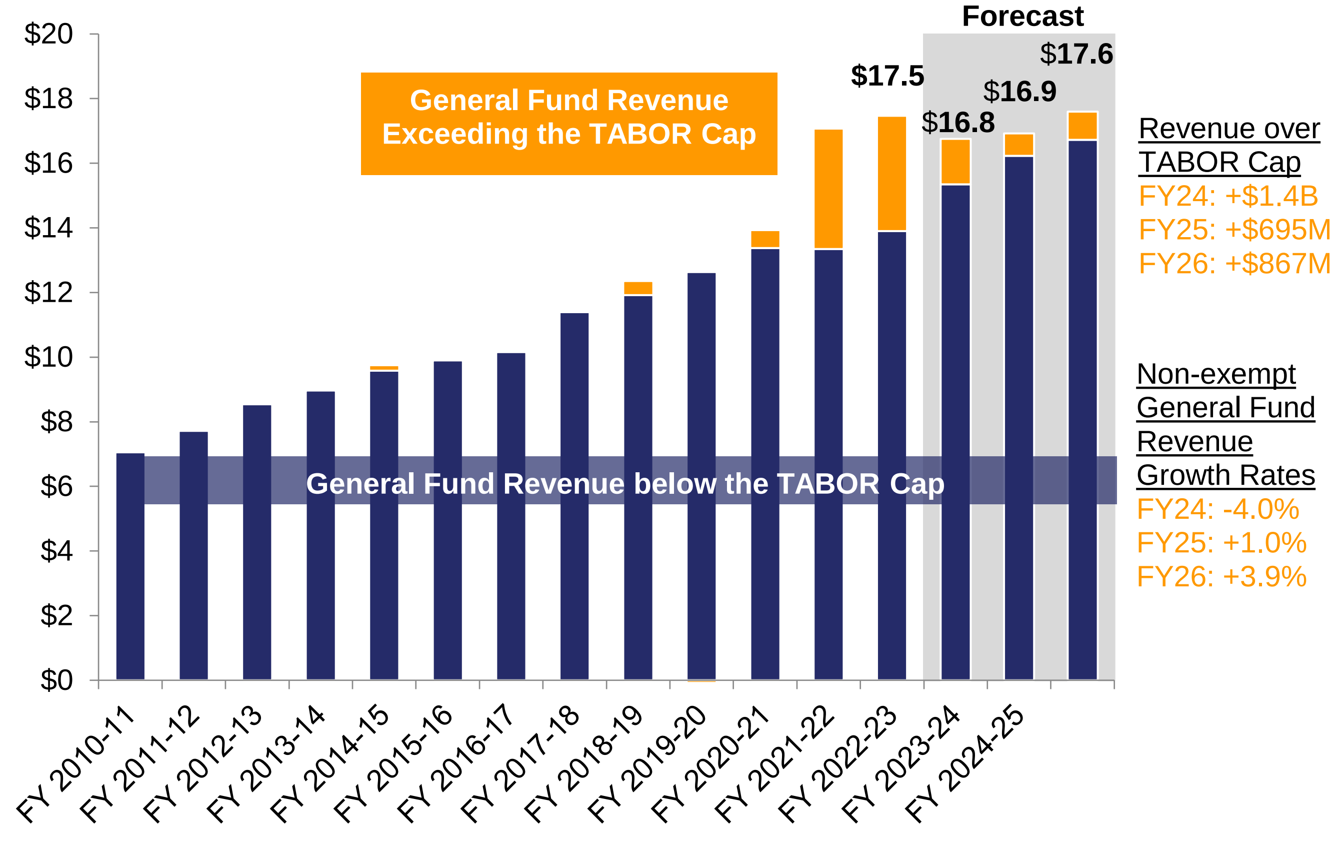
Long-Term Risks

Beyond the forecast horizon, OSPB sees additional risks as a result of the state's rapidly aging population, including possible impacts on state revenues and expenditures. Additionally, increased climate risk linked to drought and wildfire drive up insurance costs and put water infrastructure solutions at the forefront. Higher long term inflation is a risk based on the potential for growing de-globalization. Finally, there are labor supply shortfalls in key areas, which has motivated action to pass legislation to support further development of the state's labor force.

General Fund Outlook

General Fund revenue expectations in FY 2023-24 are downwardly revised from the March forecast due to year-to-date individual income refunds above previous forecast expectations and legislative changes, despite stronger expected corporate revenue growth. General Fund revenue in FY 2024-25 is downwardly revised again, largely as a result of changes from the 2024 legislative session. In FY 2023-24, general fund revenue from non-exempt sources is expected to decrease by 4.0 percent year-over-year to $16,759.1 million before increasing by 1.0 percent in FY 2024-25 to $16,927.1 million. General Fund revenue is projected to grow an additional 3.9 percent in FY 2025-26 to $17,594.0 million. General Fund revenue for FY 2023-24 is revised down by $528.6 million from March, while revenue in FY 2024-25 is revised down by $677.2 million and FY 2025-26 revenue is revised down by $1,049.2 million.

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



General Fund revenue is projected to exceed the TABOR cap throughout the forecast period. General Fund revenue exceeding the TABOR cap is projected at $1.4 billion in FY 2023-24, $695.0 million in FY 2024-25, and $867.3 million in FY 2025-26. This is a downward revision of $587.3 million, $598.8 million, and $899.8 million from the March forecast for FY 2023-24, for FY 2024-25, and FY 2025-26 respectively.

Overview of General Fund Revenue Streams

Individual Income Tax: Revenue from individual income tax in FY 2023-24 is projected to decline 6.3 percent to $10,261.0 million as a result of elevated refunds. Growth is projected to rebound to 3.4 percent in FY 2024-25 to $10,607.9 million before growing by 3.6 percent to $10,987.2 million in FY 2025-26. The major driver for the downward revision was the implementation of tax credits passed in the most recent legislative session.

Corporate Income Tax: Revenue from corporate income tax in FY 2023-24 is estimated to increase off of the annual record set last fiscal year by 11.4 percent to $2,636.3 million. Revenue is expected to then fall in FY 2024-25 by 19.2 percent to $2,130.6 million in FY 2024-25 due to slowing consumer demand and corporate profits before rebounding in FY 2025-26 with 6.4 percent growth to $2,267.1 million.

Sales and Use Tax: Revenue from sales and use tax in FY 2023-24 is forecast to grow slowly by 0.4 percent to $4,572.3 million on softening retail sales. Revenue growth is projected to rebound from the current trough and grow by 5.5 percent in FY 2024-25 to $4,824.0 million, then stabilizing at 5.4 percent in FY 2025-26 to $5,086.0 million. The revision is largely due to weaker than expected retail sales in the current year, which shifts the outyears' levels down as well.

Proposition EE Tax and Other Excise Tax: Revenue from Proposition EE is projected to decline 10.4 percent to $210.5 million in FY 2023-24 due to falling cigarette tax revenue before increasing over the forecast period to $233.0 million in FY 2024-25 and $232.7 million in FY 2025-26.

Other General Fund Revenue: Other General Fund revenue is estimated to grow by 12.2 percent in FY 2023-24 to $890.4 million even after elevated growth of 56.2 percent in the prior year, as interest earnings revenue reaches historically high levels. In FY 2024-25, revenue is projected to remain relatively flat, declining 0.7 percent as interest rates are expected to remain elevated for longer. In FY 2025-26, as interest rates are expected to be cut, a larger 5.2 percent decline in revenue is anticipated.

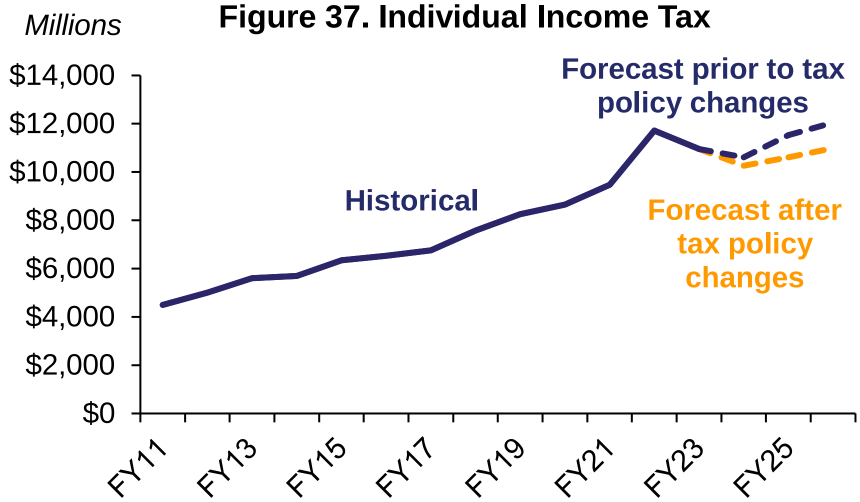
State Education Fund Revenue: Revenue to the State Education Fund is projected to grow by 13.4 percent to $1,209.0 million due to anticipated corrections communicated by Legislative Council Staff. In FY 2024-25, the diversion is expected to decline 7.7 percent, as the completed diversion correction the prior year more than offsets increased expected taxable income.

Individual Income Tax

Overall Forecast Trends

Individual income tax revenue 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 2023-24, individual income revenue is expected to decrease by 6.3 percent to $10,261.0 million as a result of tax policy adjustments in the 2024 legislative session that reduce individual income tax revenue combined with elevated refunds from Tax Year 2023 filings. In FY 2023-24, these tax policy adjustments result in an estimated $348.2 million reduction in revenue. Additionally, the last three months (March to May) collections included $2.04 billion in refunds, well above the $1.49 billion collected in March through May 2023. Despite the previous forecast expecting higher refunds this year, the pace exceeded expectations, resulting in a downward revision of $390.9 million prior to the tax policy changes. OSPB now expects elevated refunds for the full forecast period based on tax year 2023 returns thus far, as it appears that refunds in recent months is driven by an increased volume of filers in addition to the proportion of filers that are getting refunds with their return, per feedback from the Department of Revenue. This is potentially tied to higher TABOR refunds driving up filings, as estimated payments have decreased significantly from tax year 2022 collections, thus refunds are likely not the result of overpayments. Furthermore, the ratio of total credits to taxable income has remained the same, while withholdings have increased in line with wage growth.

Figure 37. Individual Income Tax

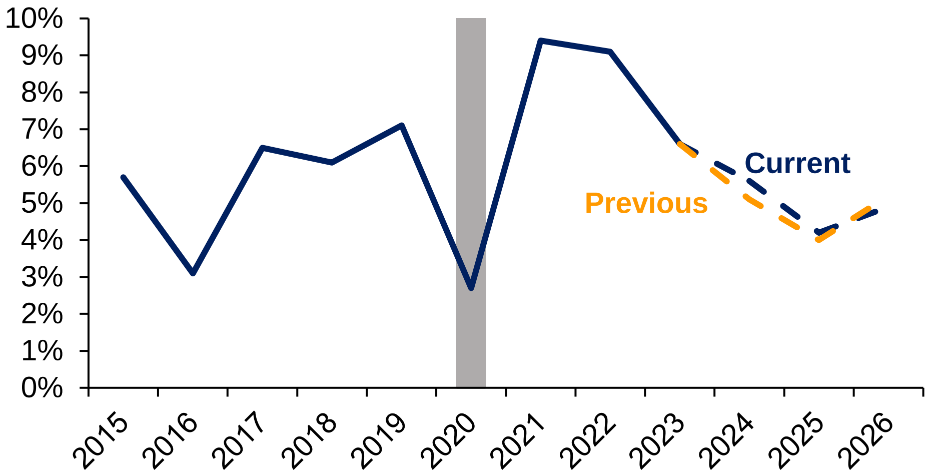


Source: Colorado Department of Revenue, OSPB Forecast

In FY 2024-25, individual income tax revenue is projected to rebound by 3.4 percent to $10,607.9 million despite tax policy adjustments weighing on revenue by an estimated $920.2 million. This includes an estimated $739.6 million impact from the Family Affordability Tax Credit and Earned Income Tax Credits, which are assumed to be fully turned on in Tax Year 2025 and 2026 due to revenue growth expectations, as discussed later in this section. Prior to the tax policy adjustments, revenue was estimated to grow by 8.7 percent to $11,528.1 million. Finally, in FY 2025-26, revenue is projected to grow by 3.2 percent to $10,774.2, although growth was expected to be 4.5 percent prior to the tax policy adjustments.

While refunds and tax policy have had significant impacts on the individual income revenue forecast, withholdings remains the largest long term driver of collections, which make up over 90 percent of total collections. Withholdings is largely linked to wages and salaries expectations, which OSPB has revised up in the current forecast, as seen in Figure 38. As such, withholdings has been revised up $127.5 million in FY 2023-24, $84.7 million in FY 2024-25, and $93.9 million in FY 2025-26. Note that the revision up in aggregate wages and salaries growth from 5.1 to 5.6 percent in the current year leads to an upward shift in the withholdings estimate, which is maintained across the forecast horizon.

Figure 38. Colorado Salary and Wage Growth



Source: Colorado Department of Revenue, OSPB Forecast

Note, while Proposition FF revenue has historically been discussed here, the most recent legislative session created an exempt Cash Fund for Healthy School Meals for All beginning in FY 2024-25. Therefore, please refer to the Cash Fund section for more information on those revenue expectations.

Policy Adjustments

Changes to tax policy since the last forecast are impacting future projections. At the federal level, however, there are no significant changes to tax policy. Despite early movement of a bill that would have increased the federal Child Tax Credit, it ultimately has not yet passed. OSPB continues to monitor the anticipated expiration of certain Tax Cut and Jobs Act (TCJA) provisions in 2025. At the state level in Colorado, the General Assembly added a significant amount of tax expenditures in the 2024 session, in addition to the continued maturation of previous session tax credits, which will see growing revenue impacts.

Tax credits implemented from previous sessions will continue to have impacts. Credits authorized in HB23-1272 *Tax Policy that Advances Decarbonization* will see an increased revenue impact from the estimated $53 million of revenue loss in FY 2023-2024 up to $76.3 million of revenue loss in FY 2024-2025 tied to full year impacts of the Industrial Clean Energy, Geothermal Energy, Heat pump, and Electric Bicycle credits in TY24 and TY25, affecting corporate and individual income streams. Elevated levels of credit will continue for several years thereafter. HB23-1091 extended the Child Care Contribution credit which was set to expire after TY24, but will now continue to be available through TY27, resulting in nearly $40 million of revenue loss through that period. HB23-1112 reformed the state Earned Income Tax Credit (EITC) and Child Tax Credit (CTC). The 2024 session saw further adjustments to the EITC, outlined below, while the adjustments to the CTC decoupled the state credit from the federal credit, setting specific dollar amounts instead of percentages of the federal credit, which increases the state cost by around $46 million in TY24.

In the 2024 legislative session, the legislature added or adjusted over 30 tax credits, many affecting individual income. The impacts of these new or adjusted tax expenditures step up over the course of the tax years in the forecast period. Some of the larger expenditures affecting individual income are outlined in Figure 39 below, including a further expanded EITC of 50 percent of the federal credit in TY24, 35 percent in TY25, and 25 percent in years thereafter. Further expansions of up to 50 percent of the federal credit are authorized when state revenue growth meets specific thresholds, as outlined at the end of this section. The expansion to the base will reduce revenue by around $93 million in TY24, $78 million in TY25, and around $40 million in the following years. Other significant credits include a means-tested tax credit for certain care workers, established in HB24-1312, which is expected to reduce revenue by around $45 million per year beginning in TY25 for those employed in child care and direct care, and a means-tested tax credit for high school graduates from Colorado to offset out of pocket costs for attending the first two years of higher education at public institutions in Colorado, established in HB24-1340. This credit is expected to reduce state revenues by around $37 million per year beginning in TY25. In total, the new income tax credits are expected to reduce individual income revenue to the state by $161.7 million in TY24, $169.3 million in TY25, and $134.7 million in TY26. These impacts will be to refunds paid out and reductions in cash with returns. OSPB uses historical data to approximate monthly impacts of these credits throughout the tax year and then the cash basis revenue forecast adjustments are translated to the fiscal year through its accrual methodology.

Additionally, two larger tax expenditures were constructed to vary in size depending on the growth of state revenues. The Family Affordability Tax Credit (FATC), and an incremental state EITC of up to 50 percent of the federal credit. OSPB ran iterative forecasts to determine if these credits would be turned on and, if so, to what extent. Including all tax expenditures with the exception of the implementation of the FATC and EITC, overall TABOR revenue is expected to grow by 4.4 percent in FY 2025-26 and 4.2 percent in FY 2026-27. OSPB assumes then that these triggers will be fully turned on during TY25 and TY26 per the triggers laid out in Figure 40 and 41 below, as defined in HB24-1134 and HB24-1311. As can be seen in the Figure 39, OSPB projects the full amount of both credits will be offered through TY26, raising the total revenue reduction from credits claimed by individuals to approximately $1 billion.

Figure 39. New Tax Credits Impacting Individual Income by Tax Year ($M)

Bill Number	Tax Credit Name	TY24	TY25	TY26
HB24-1134	Earned Income Tax Credit Expansion	-$93.6	-$78.0	-$39.0
HB24-1052	Senior Housing Income Tax Credit	-$67.6	$0.0	$0.0
HB24-1312	Tax Credit for Careworkers	$0.0	-$42.4	-$43.4
HB24-1340	Incentives for Post-Secondary Education Tax Credit	$0.0	-$36.2	-$37.2
HB24-1268	PTC Income Tax Credit		-$6.5	-$6.6
	All other	-$0.5	-$6.2	-$8.5
	Total	**-$161.7**	**-$169.3**	**-$134.7**
HB24-1311	Family Affordability Tax Credit	-$654.0	-$673.6	-$693.8
HB24-1134	Expanded ETIC	$0.0	-$117.0	-$195.0
	Total with Trigger Credits	**-$815.7**	**-$959.9**	**-$1,023.5**

Figure 40. Family Affordability Trigger Levels (beginning TY26)

Annual Revenue Growth over FY25	Base Credit Amount (Children under 6)	Decrease for each add'l $5,000 of income	Est. Credit Cost ($M)
Over 3.75%	$3,200	6.875%	$655
Over 3.56%	$3,200	9.06%	$539
Over 3.37%	$3,200	13.59%	$430
Over 3.18%	$2,600	19.23%	$297
Over 3%	$1,650	30.30%	$183
Less than 3%	$0	0%	$0

Figure 41. Earned Income Tax Credit Trigger Levels (beginning TY26)

Annual Revenue Growth over FY25	Size of EITC (as share of federal credit amount)	Est. Credit Cost over base 25% credit value ($M)
Over 3.75%	50%	$195
Over 3.56%	45%	$156
Over 3.37%	40%	$117
Over 3.18%	35%	$78
Over 3%	30%	$39
Less than 3%	25%	$0

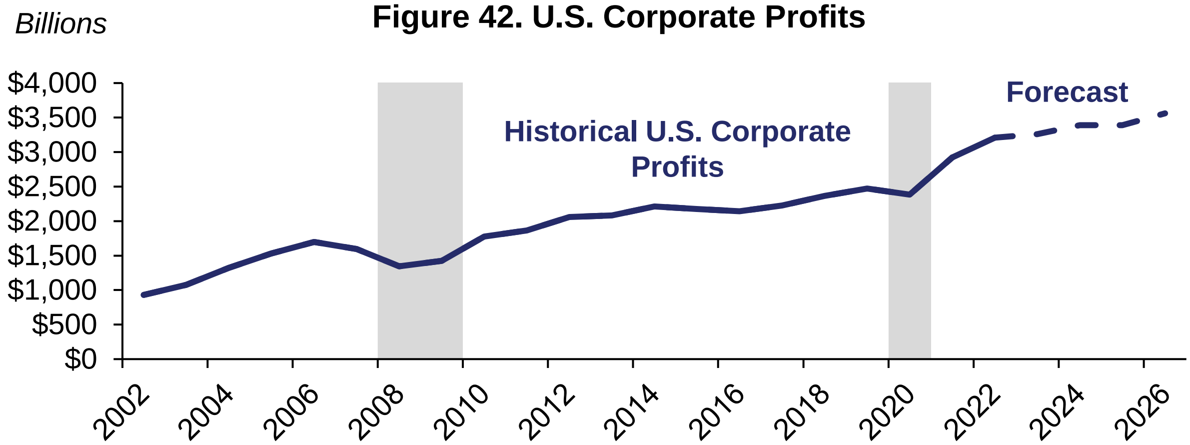
Corporate Income Tax

Overall Forecast Trends

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 increase by 11.4 percent to $2,636.3 million and set a new annual collection record. This is an upward revision of $379.2 million from the prior forecast following strong April collections. In FY 2024-25 corporate income revenue is forecast to fall by 19.2 percent to $2,130.6 million, reflecting an upward revision of $352.2 million from March. Corporate income tax revenue is forecast to grow by 6.4 percent to $2,267.1 million in FY 2025-26, reflecting a $397.9 million upward revision from the March forecast. Tax policy adjustments from the most recent legislative session are included within this forecast and result in an estimated $12.3 million reduction in corporate income tax revenue in FY 2024-25 and $79.9 million in FY 2025-26. These tax policy adjustments are discussed in more detail below.

When developing expectations on future corporate income tax revenue, an important explanatory variable is corporate profits before taxes, accounting for inventory and capital adjustments. 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 percent and 9.8 percent respectively in those years to record levels. With surprising strength in the economy over 2023, corporate profits continued to grow slowly by 1.5 percent to a new record annual level of $3.3 trillion. In 2024, corporate profits are forecast to grow again by 4.0 percent, as businesses navigate a restrictive monetary environment. Corporate

Figure 42. U.S. Corporate Profits



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

profits are projected to flatten to 0.1 percent growth in 2025 before accelerating to 5.0 percent in 2026 as the economy enters a less restrictive monetary environment.

Policy Adjustments

Changes to tax policy since the last forecast are impacting future projections. At the federal level, however, there are no significant changes to tax policy since the last forecast. OSPB continues to monitor the anticipated expiration of certain Tax Cut and Jobs Act (TCJA) provisions in 2025. At the state level in Colorado, the General Assembly added a number of tax expenditures in the 2024 session, in addition to the continued maturation of previous session tax credits, which will see growing revenue impacts.

The primary impacts from previous sessions impacting the corporate income forecast were contained in HB23-1272 *Tax Policy that Advances Decarbonization*. Several tax credits included in this bill were aimed at corporate entities including for geothermal energy and other clean energy development, sustainable aviation fuel, and electric vehicles. These tax credits largely began in TY24, so the full revenue impacts will be seen in FY 2024-25.

In the 2024 legislative session, the General Assembly created new tax expenditures affecting corporate income. The largest of these was the expansion of the Affordable Housing Tax Credit and the creation of the Transit Oriented Communities tax credit in HB24-1434. These credits support the development of affordable housing, and are often sold to corporate entities by the original claimants to help raise capital for housing developments. Other notable tax credits focus on workforce and economic development including one established in HB24-1365 *Opportunity Now Grants and Tax Credit* which offsets eligible costs in facility improvement and equipment acquisition for training programs to address workforce shortage issues. This credit begins in TY26 and will be worth $15 million per year until it sunsets. Additionally, HB24-1439 established an Apprenticeship Tax Credit for the employment of an apprentice. This credit is additionally worth $15 million per year beginning in TY25, a portion of which may be claimed by those filing individual returns. SB24-190 established two freight rail credits to support the continued use of rail through Coal Just Transition communities. They combine to have a revenue impact of $10 million per year once fully implemented outside of the horizon of this forecast.

In total, income tax credits claimed by corporate entities are anticipated to reduce revenue by $42.4 million in TY25 and increasing to $162 million in TY26, largely due to the shape of housing tax credit claims over time. These impacts will affect both refunds and cash with returns, which OSPB has projected and integrated into the forecast, as well as accrual of revenue impacts into proper fiscal years. Based on OSPB’s accrual methodology, the impacts are estimated to reduce revenue by $12.3 million in FY 2024-25 and $79.9 million in FY 2025-26.

Figure 43. New Tax Credits Impacting Corporate Revenue by Tax Year

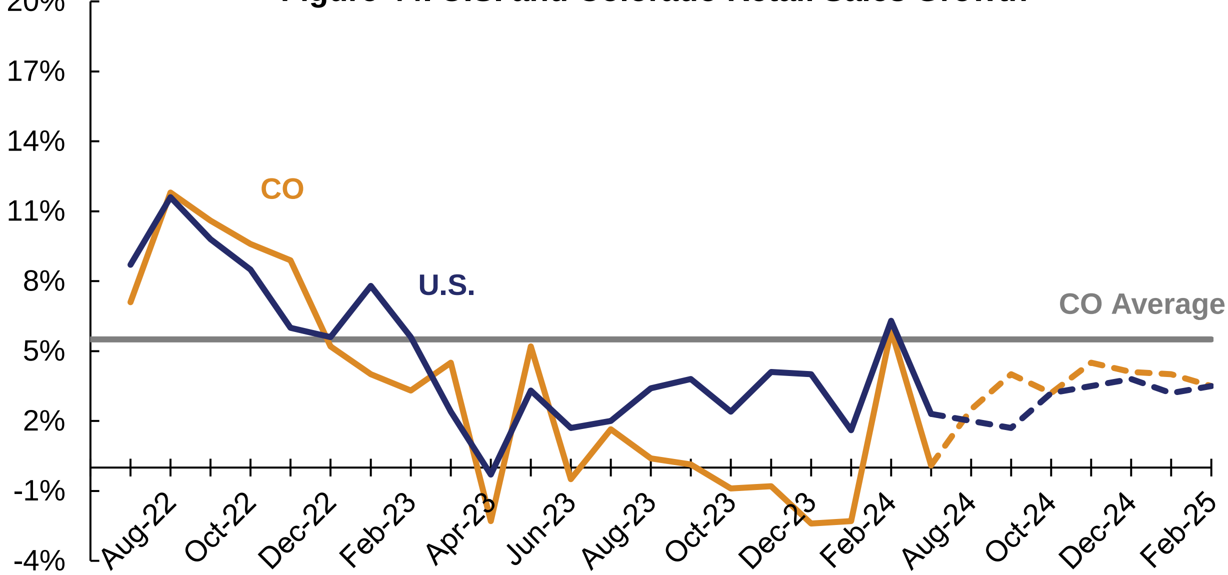
Bill Number	Tax Credit Name	TY24	TY25	TY26
HB24-1434	Affordable Housing and Transit Oriented Communities Tax Credits	0.0	-12.6	-92.6
HB24-1365	Opportunity Now	0.0	0.0	-15.0
HB24-1439	Expand Apprenticeships	0.0	-12.0	-12.0
HB24-1295	Creative Industry Revitalization	0.0	0.0	-10.0
SB24-190	Rail and Coal Transition Communities	0.0	0.0	-3.0
	All other Tax Credits	0.0	-17.8	-29.4
	Total	**0.0**	**-42.4**	**-162.0**

Sales and Use Taxes

Sales Tax

Over the past six months, Colorado retail has slowed down, with a year-over-year decline of 1.4 percent in the last quarter of 2023 and a modest 1.0 percent growth in the first quarter of 2024. This retail slowdown was expected in the state as Colorado was coming off of historically high retail growth levels of 17.3 percent and 11.8 percent in 2021 and 2022, respectively. However, the retail slowdown has been slightly more prolonged than expected leading to a downward revision in retail growth expectations for 2024. OSPB forecasts retail growth for Colorado to be 2.7 percent in 2024 (a downward revision of 0.2 percent), 3.9 percent in 2025 (no revision) and 4.8 percent in 2026 (a downward revision of 0.8 percent). Based on these estimates, Colorado

Figure 44. 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 June 2024 Forecast

retail is anticipated to start outperforming national retail growth in the second half of 2024, and U.S. retail is projected to grow by 3.2 percent in 2024, 2.8 percent in 2025, and 4.0 percent in 2026.

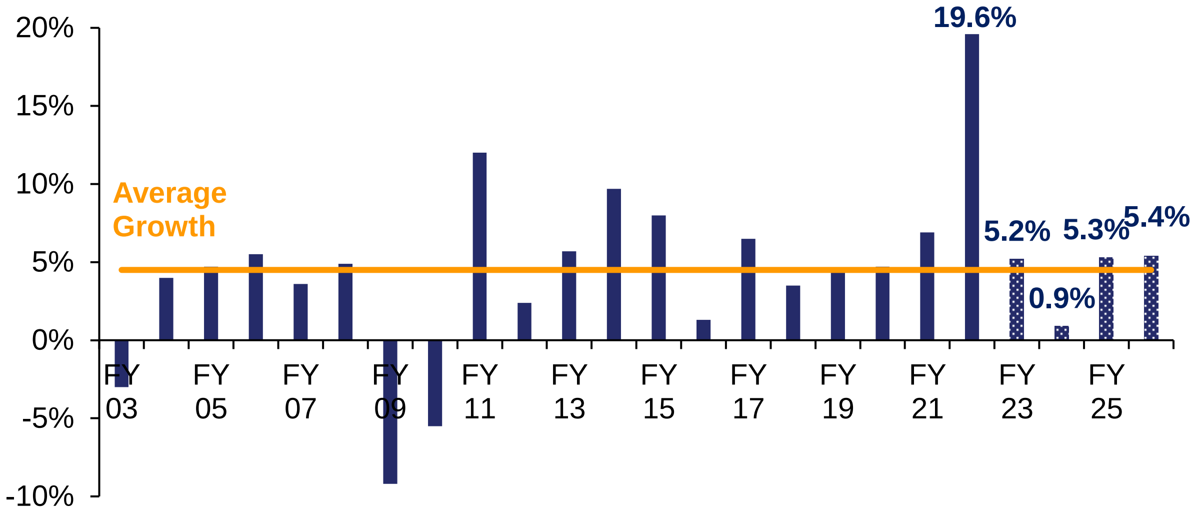
In earlier forecasts, OSPB had expected retail sales to pick up as we enter the second quarter of 2024, however as mentioned above the retail slowdown has been more prolonged than expected. Due to this, sales tax revenue for FY 2023-24 has been revised down by $33.2 million or 0.8 percent, to $4,339.1 million. This revision is primarily due to actual sales tax collections being significantly lower than expected in March, April, and May. In FY 2024-25, the anticipated sales revenue growth is slightly higher at 5.3 percent, resulting in total collection expectations of $4,567.3 million. For FY 2025-26, there is a downward revision of 0.2 percent or $28.3 million from the previous forecast resulting in total sales revenue of $4,813.9 million in FY 2025-26.

Figure 45. 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	$4,339.1	0.9%	$233.2	-7.2%	$4,572.3	0.4%
FY 2024-25	$4,567.3	5.3%	$256.7	10.1%	$4,824.0	5.5%
FY 2025-26	$4,813.9	5.4%	$272.2	6.0%	$5,086.0	5.4%

This forecast also takes into account policy adjustments due to recent legislative action that are not fully incorporated into the broader sales tax base trend. These adjustments are forecast to result in a sales and use tax revenue decrease of $22.4 million in FY 2022-23, an increase of $15.0 million in FY 2023-24, and a decrease of $2.9 million in FY 2024-25. In the 2023 legislative session, two bills were passed and signed by the Governor that will have an impact on sales and use tax revenue. The most significant fiscal impact of the two bills comes from HB 23-140 *Sales and Use Tax Exemption for Wildfire Disaster Construction*, which provides for a sales and use tax exemption related to rebuilding or repairing a residential structure damaged or destroyed by a declared wildfire disaster from 2020 to 2022. This exemption will result in projected unrealized sales and use tax revenue of $6.3 million in FY 2023-24 and $4.4 million in FY 2024-25. The other bill passed during the 2023 legislative session with a sales and use revenue impact is HB 23-1272 *Tax Policy that Advances Decarbonization*, though its fiscal impact on sales and use revenue is relatively minor. In the 2024 legislative session, HB24-1036 *Adjusting Certain Tax Expenditures* is the one bill expected to impact sales tax revenue, reducing revenue by approximately $1.0 million in FY 2024-25 and FY 2025-26, due to the modular and panel-built home sales tax exemption.

Figure 46. 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 June 2023 Forecast

Vendor Fees

In accordance with HB19-1245 *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. 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. Vendor fee revenue dedicated to affordable housing came in at $71.0 million in FY 2022-23, resulting in a 7.4 percent growth from the previous year. Vendor fees projections for FY 2023-24 is $71.5 million, for FY 2024-25 is $40.1 million ($35.3 million downward revision) and for FY 2025-26 is $44.2 million ($35.2 million downward revision). The downward revision in FY 2024-25 and FY 2025-26 from the previous forecast is primarily due to recent legislation being passed in the 2024 legislative session. HB24-1434 *Expand Affordable Housing Tax Credit*, reduced vendor fees allocated to the Housing Development Grant Fund (HDGF) by $35 million and replaced them with an annual allocation of tax credits of the same amount.

Figure 47. Vendor Fee Revenue Forecast (in millions)

	FY 2022-23	FY 2023-24 Forecast	FY 2024-25 Forecast	FY 2025-26 Forecast
Vendor Fee Revenue Forecast	$71.0	$71.5	$75.1	$79.2
Impacts from HB24-1434	$0.0	$0.0	-$35.0	-$35.0
Net Vendor Fee Revenue	**$71.0**	**$71.5**	**$40.1**	**$44.2**
Change	*7.4%*	*0.7%*	*-43.9%*	*10.2%*

Use Tax

In FY 2023-24, use tax revenue is expected to fall by 7.2 percent to $233.2, which is a $0.4 million downward revision from the previous forecast. This downward revision is primarily due to use tax revenue collections coming in lower than expected over the past 3 months. For FY 2024-25, use tax collections have been slightly revised down by $0.1 million from the previous forecast, resulting in a total expected revenue of $256.7 million. Similar to sales tax collections, use tax collections is revised down in FY 2025-26 by $1.7 million from the March forecast, which translates into 6.0 percent growth.

Marijuana Sales

The 15 percent special sales tax on marijuana retail sales is expected to decline by 8.8 percent to $200.6 million in FY 2023-24 before it is expected to rebound in FY 2024-25 to $215.5 million and resume slower growth to $228.3 million in FY 2025-26. 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. Beginning 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.

Figure 48. Proposition EE Tax Rates

	2021	2022	2023	January 2024- June 2024	July 2024 - June 2027	July 2027 Onward
Cigarettes (Per Pack)	1.94	1.94	1.94	1.94	2.24	2.64
Tobacco	50%	50%	50%	50%	56%	62%
Nicotine	30%	35%	50%	50%	56%	62%

The June forecast has been revised down by $0.5 million to $210.5 million in FY 2023-24, up by $1.2 million to $233.0 million in FY 2024-25, and up by $1.6 million to $232.7 million in FY 2025-26. As shown in Figure 48, taxes on all three types of products will increase on July 1, 2024 and again to its maximum rate on July 1, 2027. The specific distributions are summarized below in Figure 49.

Figure 49. Proposition EE Revenue

	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Total	**$208.0**	**$235.0**	**$210.5**	**$233.0**	**$232.7**
Other Transfers	$206.6	$233.6	$15.0	$35.0	$35.0
Preschool Programs Cash Fund	$1.4	$1.4	$195.5	$198.0	$197.7

The bulk of Proposition EE revenue (57.6 percent in FY 2023-24) 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 56.4 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[33]. This trend is particularly strong amongst the 18-34 age demographic, which from 2019 to 2023 saw cigarette consumption drop from 13.8 percent to 6.7 percent and electronic cigarette (nicotine) consumption increase from 8.1 percent to 13.8 percent.

In addition to Proposition EE, which is largely not subject to TABOR and is transferred out to other funds, the state collects other excise taxes that are credited directly to the General Fund. These other excise taxes include the initial statutory taxes on cigarettes and tobacco, as well as revenue from liquor taxes. Liquor and tobacco taxes are each charged as a percentage rate while cigarette taxes charged at a flat per pack amount. Liquor and tobacco revenues had been increasing slowly over time, but tobacco revenues seem to have fallen in line with cigarette revenue, which have been slowly decreasing over time. Across the forecast period were expecting continued weakness

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

among the other excise tax category, as general usage trends of such products are starting to plateau or decrease. Revenue for liquor is forecast to fall by 0.7 percent in FY 2023-24 to $55.9 million, the grow by 0.9 percent to $56.4 million in FY 2024-25, and by 1.7 percent to $57.4 million in FY 2025-26. Tobacco revenue is forecast to drop 8.9 percent to $21.6 million in FY 2023-24, then increase by 5.3 percent to $22.7 million in FY 2024-25, before dropping again by 1.5 percent to $22.4 million in FY 2025-26. Cigarette revenue is forecast to decline 9.3 percent to $21.7 million in FY 2023-24, by 5.6 percent to $20.5 million in FY 2024-25, and by 4.2 percent to $19.6 million in FY 2025-26. Compared to the March forecast, there have been downward revisions to liquor excise taxes, tobacco excise taxes, and cigarette excise taxes.

Other General Fund Revenue

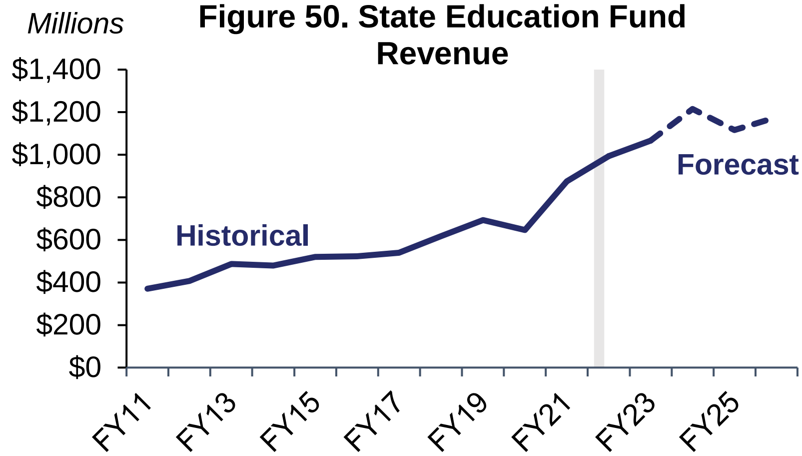
Other General Fund revenue includes insurance premium tax revenue, interest and investment income, and court receipts. Other General Fund Revenue increased by a substantial 56.2 percent in FY 2022-23 to $793.3 million, as insurance premium tax revenue and interest income grew by 32.4 percent and 172.2 percent, respectively. In FY 2023-24, Other General Fund revenue is expected to increase by 12.2 percent to $890.4 million total as changes to insurance tax policy are fully integrated, interest income continues its strong growth, while the category of other income applies some downward pressure to trend after a one-time jump. For FY 2023-24 and FY 2024-25, projections are revised up by $4.6 million and $18.5 million respectively, driven both by interest income due to elevated interest rates and expected growth in insurance premiums.

Interest income is forecast to increase by 39.8 percent to $263.4 million in FY 2023-24. On average, General Fund investment income earned interest at 1.13 percent in FY 2021-22, whereas the yield this fiscal year has been 3.6 percent continuing to add upward pressure on interest revenue. During FY 2024-25, interest income is revised up by $16.5 million, though it is expected to decrease 25.0 percent year-over-year due to the lower level of TABOR refunds relative to FY 2022-23 and the beginning of Federal Funds rate cuts during FY 2024-25. While Federal Funds rate cuts are anticipated, they are expected to be slower than anticipated in previous forecasts. Additionally, OSPB anticipates this downward trend to continue into FY 2025-26 with a 31.5 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 likely due to HB21-1312, which reduced the size of the annuities exemption and the regional home office rate reduction. The June forecast for insurance revenue in the current fiscal year has been revised down by $10.7 million from the March forecast due to actuals that have come in since March. That being said, Colorado has been experiencing larger than expected year-over-year growth in insurance costs. Therefore, in FY 2023-24 and FY 2024-25, insurance revenue growth is expected to continue its strength with 11.0 percent and 9.9 percent respectively, before it begins to normalize in FY 2025-26 with 2.5 percent growth.

State Education Fund

Figure 50. State Education Fund Revenue



Source: Colorado Department of Revenue, OSPB Forecast

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. In FY 2023-24, income tax revenue to the SEF is expected to increase by 142.6 million, or 13.4 percent, to $1,209.0 million. This increase is largely based upon Legislative Council Staff's analysis and corrections of prior-year diversions which will take place in the FY 2023-24 diversion, resulting in a $135.1 million upward adjustment to meet the constitutional requirement. This is a significant upward revision from the March forecast of $126.0 million due to that adjustment. In FY 2024-25, revenue is forecast to decrease by $92.5 million or 7.7 percent, to $1,116.5 million, as a result of the one-time adjustment the previous year more than offsetting an expectation of growing overall taxable income. However, this is an upward revision from the March forecast of $37.2 million for FY 2024-25 due to forecast expectations of more elevated taxable income. Finally, in FY 2025-26, growth is forecast to accelerate by 5.3 percent, leading to SEF revenue of $1,175.7 million. This is an upward revision of $23.8 million from the March 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. However, for the forecast period, that relationship does not continue, given the immediate implementation of tax credits with sizable revenue impacts that do not impact taxable income, as well as an expected adjustment to diversions in the current year. Since these tax credit changes do not impact taxable income, 2024 legislation related to tax expenditures will not affect the SEF diversion amount.

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. Note that in this section, all forecasts reported here do include adjustments based on legislation passed within this most recent session, some of which either increase or decrease expected revenue.

Total non-exempt cash fund revenue in FY 2022-23 grew by 3.4 percent and totaled $2,757.1 million. Forecasted revenue for FY 2023-24 is revised down by $38.2 million, driven by legislative actions including HB24-1409 and HB24-1469 which are highlighted in the relevant sections below. This would result in a 1.1 percent decrease in cash funds subject to TABOR. Expectations were also revised down for FY 2024-25 by $16.8 million from the prior forecast largely driven by revisions to limited gaming and severance. However, FY 2024-25 is expected to rebound to 5.9 percent growth after a year in declining revenue in FY 2023-24. Revenue is projected to further stabilize and grow 4.7 percent in FY 2025-26.

Overview of Cash Funds

Transportation: Transportation revenue is expected to have strong growth in FY 2023-24, as OSPB forecasts a 12.1 percent increase from the previous year, driven by a large rebound in registration revenue and increasing Road Usage Fees. In FY 2024-25, revenue growth is revised up to 5.8 percent, due to upward revisions to Registration related fee revenue, such as the Road Safety Surcharge.

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 (AGP). However, AGP is expected to return to more normal trends applying downward pressure on gaming revenue in the long term. Additionally, HB24-1469 *Collections for Another Government* has clarified the local distribution of gaming revenue to be TABOR exempt. This results in revisions down on the TABOR non-exempt funds from Limited Gaming revenue.

Severance: Severance tax revenue collections broke the all-time state annual collection record in FY 2022-23 at $374.7 million as oil and gas prices maintained above-average levels in the first half of that fiscal year. In FY 2023-24, revenue is projected to decline by 41.1 percent to $220.5 million despite similar oil prices as FY 2022-23 due to higher taxpayer usage of ad valorem credit claims. In FY 2024-25, collections are estimated to increase by 8.9 percent to $240.2 million, as natural gas prices are projected to recover, and it will be the first full year of implementation for the reduced ad valorem credit enacted by HB23-1272. In FY 2025-26, revenue is forecast to again increase by 8.0 percent to $259.5 million. Throughout the forecast period, revenue is expected to remain above the long-term average.

Other Cash Funds Subject to TABOR: The forecast for Other Miscellaneous Cash Funds is revised down in the current year but up in the outyears. The most important change from the March 2024 Forecast is that 2024 legislation is included in the forecast now that they are enacted law. Revenue for Other Miscellaneous Cash Funds is forecasted to increase 0.7 percent to $884.2 million in FY 2023-24, with more elevated growth in FY 2024-25 of 4.9 percent to $927.5 million, and 4.4 percent growth in FY 2025-26 to $968.3 million.

Notable Cash Funds Not Subject to TABOR: OSPB continues to revise marijuana revenue forecasts down due to stable prices and lower sales volume, though moderate growth is expected to re-emerge in FY 2024-25. Federal Mineral Lease (FML) revenue is expected to decrease 39.7 percent to $104.6 million in FY 2023-24 due to lower natural gas prices, before growing 9.9 percent in FY 2024-25 to $115.0 million and stabilizing at those levels. Sports betting tax revenue has shown signs of slowing growth largely attributable a low operator hold percentage and elevated free bets offered. OSPB has now also added a forecast for the Healthy School Meals for All (HSMA) Cash Fund to the list of exempt cash funds, given recent legislative action to create the fund in HB24-1390. Compared to the March forecast, OSPB is revising up Proposition FF revenue estimates in FY 2023-24 by $13.8 million to $127.1 million and in FY 2024-25 by $14.3 million to $130.5 million. These upward revisions are primarily due to actual revenue surprising to the upside.

Transportation

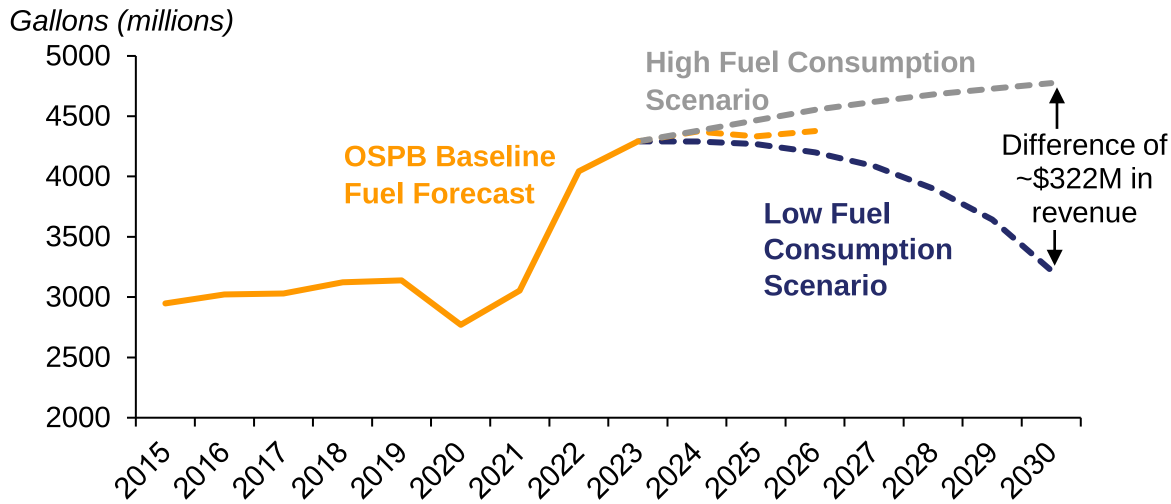
Transportation-related cash funds include the Highway Users Tax Fund (HUTF), the State Highway Fund (SHF), and a handful of smaller cash funds. Transportation revenue is expected to grow by a total of 12.1 percent in FY 2023-24. Going forward, the expectation for transportation revenue is stabilization and steady growth in the out-years with 5.8 percent growth in FY 2024-25 and 4.5 percent growth in FY 2025-26. These revisions up from the March 2024 Forecast is driven by continued strength in registration related revenue, while fuel revenue has come in below expectations in recent months.

Figure 51. Detailed Transportation Cash Fund Forecast

Highway Users Tax Fund (HUTF)	Actual FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
Motor and Special Fuel Taxes	$652.3	$664.9	$671.7	$685.3
Percent Change	*3.0%*	*1.9%*	*1.0%*	*2.0%*
Road Usage Fees	$12.7	$90.2	$124.1	$161.2
Percent Change	*N/A*	*610.0%*	*37.6%*	*30.0%*
Total Registrations	**$328.6**	**$380.2**	**$420.2**	**$435.4**
Percent Change	***-15.3%***	***15.7%***	***10.5%***	***3.6%***
Registrations	$219.9	$234.1	$234.4	$244.4
Road Safety Surcharge	$72.4	$103.7	$142.8	$146.2
Late Registration Fees	$36.3	$42.4	$43.0	$44.8
Other HUTF	$72.4	$78.4	$80.3	$81.5
Percent Change	*15.3%*	*8.2%*	*2.4%*	*1.6%*
Total HUTF	**$1,066.0**	**$1,213.6**	**$1,296.2**	**$1,363.4**
Percent Change	***-0.6%***	***13.9%***	***6.8%***	***5.2%***
Non-HUTF				
State Highway Fund	$27.5	$28.7	$26.6	$26.1
Percent Change	*29.4%*	*4.2%*	*-7.2%*	*-2.1%*
Other Transportation Funds	$173.3	$177.8	$180.2	$181.2
Percent Change	*19.1%*	*2.6%*	*1.3%*	*0.6%*
Total Transportation Revenue				
Total Transportation	**$1,266.8**	**$1,420.2**	**$1,503.0**	**$1,570.7**
Percent Change	***2.2%***	***12.1%***	***5.8%***	***4.5%***

The Highway Users Tax Fund is the largest transportation-related cash fund, with revenues primarily coming from motor fuel taxes and motor vehicle registrations. Motor fuel taxes make up over half of the HUTF and comprise both gas and diesel tax revenue. OSPB has made a revision upward from June for the HUTF for FY 2023-34 by $5.0 million and $7.7 million in FY 2024-25. OSPB also forecasts a notable rebound of 15.7 percent from the previous year's revenue in the Total Registrations account within the HUTF. 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, which have now expired, and the full fee is in effect. Fully implemented registration fees continue to provide upward pressure on the current fiscal year and the outyears.

Figure 52. Colorado Gallons of Fuel Consumed Forecast



Source: US Department of Transportation: Federal Highway Administration and OSPB Calculations

As a significant portion of HUTF Revenue comes from Motor and Special Fuel Taxes, Colorado has long term revenue risk pending the amount of fuel consumed within the state. In Figure 52 shown above, there are different scenarios forecast for high fuel and low fuel consumption for Colorado. The high fuel consumption scenario is driven by assumptions that current car efficiency of miles per gallon is maintained and Vehicle Miles Traveled (VMT) grows more quickly than its historical rate. The low consumption scenario is driven by assumptions that Electric Vehicles (EVs) are adopted at more significant rates and vehicles become more efficient, therefore consuming less fuel. The Colorado EV Plan[34] set the ambitious goal to hit 940,000 EV's on the road by 2030. This would be a combination of Battery Electric Vehicles (BEVs) and Plug-in Hybrid Electric Vehicles (PHEVs). According to the EValuateCO Dashboard from Atlas Public Policy, there are an estimated 125,938 total EVs on the road already. Additionally, in recent years, President Biden's administration has established Corporate Average Fuel Economy Standards (CAFE), which requires large gains in average miles-per-gallon (MPG) for light duty vehicles, SUV's and pickups for newly produced vehicles. These standards would see roughly over 28 percent gains in efficiency in the average vehicle being sold in 2031 as compared to now. Based on OSPB's calculations, the difference in the high and low fuel consumption scenarios could result in a difference of 1.55 billion less gallons of fuel being consumed by Coloradans in 2030. OSPB's current transportation forecast through fiscal year 2025-26 lands in between these two consumption scenarios.

[34] https://energyoffice.colorado.gov/transportation/ev-education-resources/2023-colorado-ev-plan

Figure 53. Difference Between High and Low Fuel Consumption Scenarios

Revenue Source	Difference
Motor and Special Fuel Taxes	-$337.10
Road Usage Fee	-$98.83
EV Registration Revenue	$61.36
EV Road Equalization Fee	$52.76
TOTAL:	**-$321.81**

A reduction in fuel usage would have significant impacts on transportation related revenue. Recent legislation, such as SB21-260, has created fees on Electric Vehicles to offset potential revenue losses in fuel in the future through additional registration fees. This bill implemented a flat EV Registration fee (which is tied to inflation) and an EV Road Equalization fee, which rises each fiscal year on a tiered basis. In fiscal year 2031-32, the EV Road Equalization Fee will increase to $96 for BEV's and $27 for PHEV's and thereafter increases with inflation. However, even with these additional EV registration fees, OSPB calculates in the low fuel consumption scenario that there will be a large net loss in revenue from a decrease in fuel usage when compared to the high consumption scenario. This would translate to a relative reduction in funding for those receiving HUTF Distributions, such as local counties and cities, the State Highway Fund, the Department of Revenue, and the Department of Public Safety. OSPB will continue to monitor fuel consumption and other factors and how it will impact transportation revenue and funding in the future.

Figure 54. HUTF Distributions

First Stream	Actual FY 22-23	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
Off-the-Top Deductions	$165.8	$181.2	$191.3	$191.3
CDOT - SHF Fund (65%)	$185.6	$193.5	$177.1	$192.9
Counties (26%)	$74.2	$77.4	$70.8	$77.2
Cities (9%)	$25.7	$26.8	$24.5	$26.7
Total First Stream	**$451.3**	**$478.9**	**$463.7**	**$488.1**
Second Stream				
CDOT - SHF (60%)	$368.8	$440.9	$499.5	$525.2
Counties (22%)	$135.2	$161.6	$183.1	$192.6
Cities (18%)	$110.6	$132.3	$149.8	$157.6
Total Second Stream	**$614.7**	**$734.8**	**$832.5**	**$875.3**
Total HUTF Distributions				
Total HUTF	**$1,066.0**	**$1,213.6**	**$1,296.2**	**$1,363.4**

Other transportation-related funds include the State Highway Fund (SHF) and other miscellaneous revenue. Revenue to the SHF is made up of various smaller revenue streams including sales of state property, special transport permits, 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. Other miscellaneous transportation revenue is being driven by strong revenue collections in the DRIVES account, Multimodal Transportation fund, and Aviation funds.

Limited Gaming

Limited gaming revenue maintained its strength in demand as FY 2023-24 revenue has slightly exceeded the prior fiscal year of record gaming revenues. Adjusted gross proceeds (AGP) year to date has been 0.3 percent above the AGP through the first ten periods of the previous fiscal year. OSPB anticipates a 0.9 percent growth in total limited gaming revenues by the end of FY 2023-24, with limited gaming revenues subject to TABOR anticipated to decline by 24.6 percent. This is due to HB24-1469 *Collections for Another Government*, which specifies some of the Limited Gaming Revenue distribution to local governments, seen in section F of figure 55, as TABOR exempt revenue. Limited gaming revenue subject to TABOR is expected to grow by 2.2 and 2.4 percent in FY 2024-25 and FY 2025-26 respectively. While excess savings may be dwindling, OSPB anticipates FY 2024-25 gaming revenues will be driven by operators' effort meet a threshold for an Electronic Player Credits refund rule to go into permanent effect. These numbers and the corresponding distributions are shown in Figure 55 below.

Figure 55. Limited Gaming Distributions

Distribution of Limited Gaming Revenues	Forecast FY 23-24	Forecast FY 24-25	Forecast FY 25-26
A. Total Limited Gaming Revenues (Includes Fees and Interest)	**$177.5**	**$181.5**	**$186.0**
Annual Percent Change	0.9%	2.2%	2.5%
3.5% Cap	N/A	N/A	N/A
B. Gaming Revenue Exempt from TABOR (Extended Limited)	**$55.2**	**$56.4**	**$57.8**
Annual Percent Change	5.9%	2.2%	2.5%
C. Gaming Revenue Subject to TABOR (Limited)	**$91.4**	**$93.4**	**$95.7**
Annual Percent Change	-24.6%	2.2%	2.4%
D. Total Amount to Base Revenue Recipients	**$112.1**	**$114.8**	**$117.9**
Amount to State Historical Society (28%)	$31.4	$32.2	$33.0
History Colorado (80% of 28%)	$25.1	$25.7	$26.4
Grants to Cities for Historical Preservation (20% of 28%)	$6.3	$6.4	$6.6
Amount to Counties (12%)	$13.5	$13.8	$14.1
Amount to Cities (10%)	$11.2	$11.5	$11.8
Amount to Distribute to Remaining Programs (State Share) (50%)	$56.1	$57.4	$58.9
Local Government Impact Fund	$7.0	$7.1	$7.3
Colorado Tourism Promotion Fund	$15.0	$15.0	$15.0
Creative Industries Cash Fund	$2.0	$2.0	$2.0
Film, Television, and Media Operational Account	$0.5	$0.5	$0.5
Bioscience Discovery Evaluation Fund	N/A	N/A	N/A
Advanced Industries Acceleration Fund	$5.5	$5.5	$5.5
Innovative Higher Education Research Fund	$2.1	$2.1	$2.1
Responsible Gaming Fund	$2.5	$2.5	$2.5
State Historical Society Strategic Initiatives Fund	$0.0	$0.0	$0.0
Transfer to the General Fund	$21.5	$22.7	$24.0
E. Total Amount to Amendment 50 Revenue Recipients	**$50.5**	**$51.7**	**$53.1**
Community Colleges, Mesa and Adams State (78%)	$39.4	$40.4	$41.4
Counties (12%)	$6.1	$6.2	$6.4
Cities (10%)	$5.1	$5.2	$5.3
F. Total Amount to Counties and Cities Originally From Limited Gaming	**$30.9**	**$31.7**	**$32.5**
Amount to Counties (12%)	$13.5	$13.8	$14.1
Amount to Cities (10%)	$11.2	$11.5	$11.8
Grants to Cities for Historical Preservation (20% of 28%)	$6.3	$6.4	$6.6

Severance

Severance tax revenue collections broke the all-time state annual collection record in FY 2022-23 at $374.7 million as oil and gas prices maintained elevated levels throughout most of the fiscal year. In FY 2023-24, revenue is projected to decline by 41.1 percent to $220.5 million even with similar average oil prices as FY 2022-23 due to higher taxpayer usage of ad valorem credit claims and lower natural gas prices dragging on revenue collections. This is a $5.8 million downward revision from the March forecast due to softer than expected collections, which is partially offset by an upward revision in estimated interest earnings. In FY 2024-25, collections are estimated to increase by 8.9 percent to $240.2 million as natural gas prices are projected to recover, and it will be the first full year of implementation for the reduced ad valorem credit enacted by HB23-1272. However, this is a $15.5 million downward revision from the March forecast as revenue expectations have weakened for calendar year 2024 on higher expected overall taxpayer usage of ad valorem credits. Finally, in FY 2025-26, revenue is forecast to increase by 8.0 percent to $259.5 million, representing an $11.4 million upward revision from March. Throughout the forecast period, revenue is forecast to remain above the long-term average of $158.1 million.

Figure 56. Severance Tax Revenue

	Actual FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Oil & Gas	$347.1	$185.3	$209.5	$233.5
Coal	$4.4	$5.5	$5.3	$5.2
Moly & Metals	$0.6	$2.0	$2.0	$2.0
Interest	$22.4	$27.7	$23.5	$18.8
Total	**$374.7**	**$220.5**	**$240.2**	**$259.5**
Change	***15.3%***	***-41.2%***	***8.9%***	***8.0%***

Beginning in January 2024, the distribution for severance tax revenue changed 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 TY 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. TY2026 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 57.

Figure 57. Severance Tax Forecast Distribution Table

	Actual 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**	**$192.8**	**$216.7**	**$240.6**
Distribution				
Decarbonization Tax Credits Administration	$0.0	$13.7	$27.4	$30.8
Department of Natural Resources	$176.1	$89.6	$94.7	$104.9
Department of Local Affairs	$176.1	$89.6	$94.7	$104.9

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 4.1 percent to $85.7 million. In FY 2024-25, revenue is expected to bounce back by 17.5 percent to $100.7 million, largely a result of these fee reductions rolling off, followed by a more moderate 4.8 percent increase in revenue in FY 2025-26 to $105.5 million.

The category of "Other Miscellaneous Cash Funds" includes revenue from over 300 cash fund programs that collect revenue from fees, fines, and interest earnings. OSPB breaks down this forecast into a list of 25 funds that had the most revenue in FY 2022-23 and separates out the rest of the smaller cash funds. The 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. The individual annual estimates for the Top 25 group of cash funds within the miscellaneous revenue forecast are detailed in the appendix in Table 6b. The other important change from the March 2024 Forecast is that 2024 legislation is now included in the forecast now that they are signed into law including: (1) modifications to the Employment Support Fund (HB24-1409), (2) reductions in the Housing Development Grant Fund Vendor Fee (HB24-1434), (3) reductions to the Recycling Resources Program Fee (HB24-1449), and (4) other various fee increases. Compared to the March 2024 Forecast, FY 2023-24 has been revised down 1.2 percent and -$11.0 million, FY 2024-25 revised up 2.0 percent and $18.4 million, and FY 2025-26 has been revised up by 3.6 percent and $33.5 million. The below table details the forecasted revenue through FY 2025-26.

Figure 58. Miscellaneous Cash Funds Revenue Estimates (Millions)

Fiscal Year	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Top 25	$591.7	$619.9	$576.1	$585.8	$604.1
Other	$277.8	$258.6	$308.0	$341.7	$364.2
Total	$869.4	$878.4	$884.2	$927.5	$968.3

Figure 59. Miscellaneous Cash Funds Revenue Estimates (Growth)

Fiscal Year	FY21-22	FY22-23	FY23-24	FY24-25	FY25-26
Top 25		4.8%	-7.1%	1.7%	3.1%
Other		-6.9%	19.1%	10.9%	6.6%
Total		1.0%	0.7%	4.9%	4.4%

As highlighted in the March OSPB forecast, interest income has quickly become a driving force in Miscellaneous Cash Fund forecast and the forecast as a whole. This has been driven by increased interest rates in 2023 and 2024 from the Federal Reserve, as well as the State having higher average cash portfolios throughout the Fiscal Year. Over the last decade from FY 2012-13 to FY 2023-24 the Treasurer's Office has averaged an interest rate of return of 1.6 percent, which consistently beat out their market performance benchmark of 1.4 percent. In FY 2023-24 through March 31, 2024, the Treasurer's Office has had an average interest rate of return of 3.5 percent, over double what the State had been earning historically. On the portfolio front, the amount of State Funds in Treasury's portfolio averaged $11.4 billion from FY 2012-13 to FY 2023-24, but in FY 2023-24 the Treasury's portfolio has averaged $21.0 billion. While some of the funds in the Treasury's portfolio are exempt from TABOR because they come from exempt streams such as Federal Funds, voter approved taxes, and more, the general size and increases of the Treasury's portfolio indicates over the near term that elevated interest income earnings are here to stay and will continue to impact the state's budget for interest earned on nonexempt funds within the portfolio.

TABOR Exempt Funds with Fiscal Implications

Outside of the cash funds subject to TABOR discussed above, OSPB also forecasts Healthy School Meals for All (HSMA), 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.

Healthy School Meals for All (HSMA) Cash Fund

Proposition FF created the Healthy School Meals for All (HSMA) Program to provide access to free meals for all public school students in Colorado. Proposition FF funds the HSMA program by limiting the amount of tax deductions on tax filers earning over $300,000 and by securing additional federal funding for school meals. Until FY 2023-24, revenue attributable to the income tax addition under Proposition FF was deposited into a TABOR-exempt General Fund account. HB24-1390 created the HSMA cash fund and required the balance from the exempt account to be transferred into the cash fund in FY 2024-25. HB24-1390 also allocated additional funding to the HSMA program, as projected meal reimbursement expenses are expected to exceed initial appropriation levels and were expected to outstrip revenue derived from Proposition FF in the OSPB March forecast. However, recent data on the number of tax filers eligible under the Proposition FF threshold suggest that initial revenue estimates were conservative.

Figure 60. Healthy School Meals for All Cash Fund Revenue Forecast

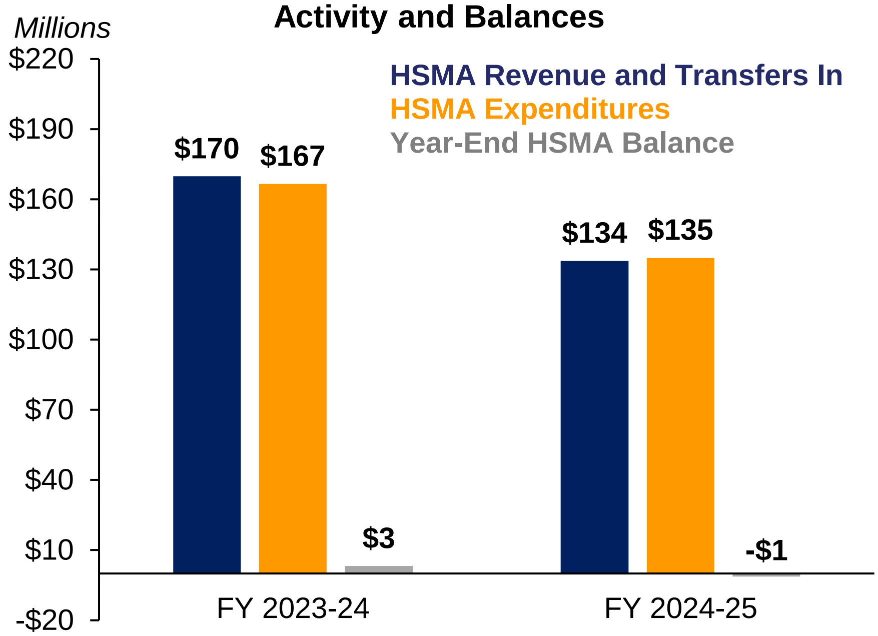
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue Projection *(In millions)*	**$42.7**	**$127.1**	**$130.5**	**$121.0**
Growth	-	197.6%	2.7%	-7.2%

In the March forecast, OSPB estimated that individual income revenue increased by $42.7 million in FY 2022-23, by $113.3 million in FY 2023-24, and by $116.2 million in FY 2024-25 due to Proposition FF. Since the March forecast, actual Tax Year 2023 data has been received from the Department of Revenue on the number of qualifying tax filers year-to-date and the accompanying revenue allocated to the HSMA account. Through June, actual revenue has surprised to the upside, leading to an upward revision of $13.8 million in FY 2023-24 to $127.1 million and $14.3 million in FY 2024-25 to $130.5 million. The current expenditure estimate for the HSMA program in FY 2023-24 is $166.6 million. Based on revenue estimates mentioned above OSPB expects approximately $3.2 million to be transferred from the General Fund exempt account into the new HSMA Cash Fund on July 1st, 2024. Originally, Proposition FF was estimated to affect 113,988 returns according to the Blue Book, or about five percent of returns filed in Colorado. However, in TY 2022, there were 205,666 tax returns with an Adjusted Gross Income (AGI) of $300,000 or above. Note that the revenue retained in FY 2023-24 as a result of Proposition FF is capped by the 2022 blue book estimate, which is $26.4 million below current expectations.

As of June 2024, the Department of Revenue has received tax filling information indicating that approximately 106,642 filers with an AGI above $300,000 have submitted their tax returns for TY 2023. This likely represents 50-60 percent of the expected filers in this income bracket for the year, based on historical returns trends. For FY 2025-26, there is a slight downward revision of

$0.3 million resulting in estimated revenue of $121.0 million. As seen in Figure 60 above, OSPB forecasts revenue collected under Proposition FF to reduce by 7.2 percent in FY 2025-26. This is due to the federal Tax Cuts and Jobs Act (TCJA) standard deduction provisions sun setting on December 31, 2025, which would negatively impact Proposition FF revenue. TCJA initially increased the standard deduction to $12,000 for single filers, $24,000 for joint filers, and $18,000 for heads of households with inflationary increases, and while the federal government may take action to extend current federal law, the OSPB forecast only assumes current law, and thus the sunset of these provisions. In TY 2024, the standard deduction is $14,600 for single filers, $29,200 for joint filers, and $21,900 for heads of households. Under Proposition FF, households with AGI above $300,000 are limited to $12,000 in state income tax deductions for single filers and to $16,000 for joint filers. If the TCJA roll-off occurs, under current law, the majority of the revenue allocated to Proposition FF from filers using the standard deduction is projected to be lost, with nearly all the revenue then coming from filers using itemized deductions. If the higher standard deductions provided for in the TCJA are extended, Proposition FF revenue in FY 2025-26 would likely increase year-over-year. The Colorado Department of Education (CDE) estimates HSMA program expenditures for meal reimbursements alone to be approximately $166.6 million in FY 2023-24 and between $131-$135 million in FY 2024-25. The HSMA Program in addition to meal reimbursement costs also includes various grant programs such as the local school food purchasing grant, technical assistance grant, and wage reimbursement programs. These grants have been delayed until FY 2025-26 and are expected to cost an additional $20-$22 million annually. As seen in Figure 61 above, assuming these expenditure estimates and that the revenue above the Blue Book estimate is able to be retained, Proposition FF revenue is projected to fully cover the meal reimbursement costs in FY 2023-24 without the need to utilize State Education Fund, as provided for in HB24-1390, and almost fully cover meal reimbursement costs in FY 2024-25.

Figure 61. Healthy School Meals for All Fund Activity and Balances



Marijuana

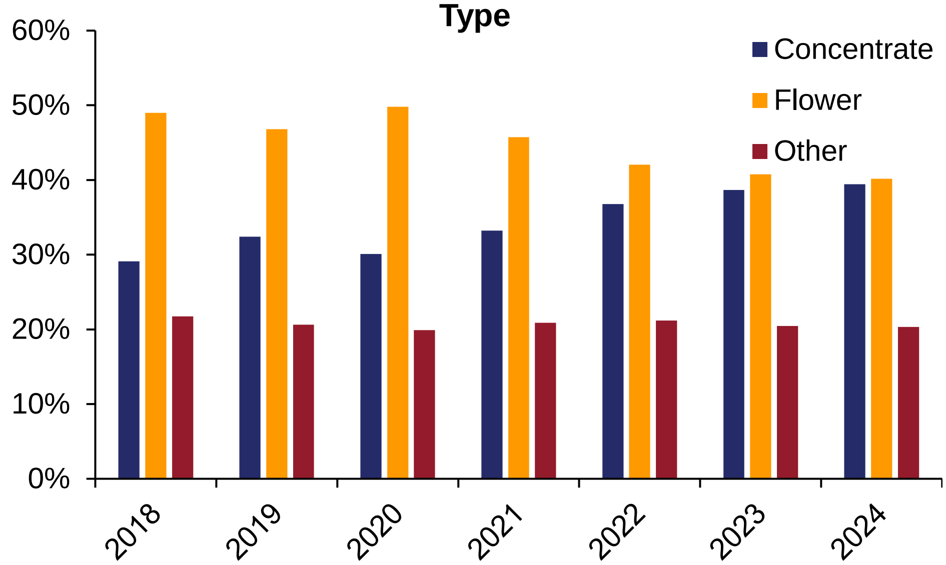
Marijuana revenue continues to fall, largely as a function of stable prices and a decrease in the quantity of wholesale flower sold. Medical flower is also declining, while retail adult use marijuana sales have remained relatively stable; however, there is substantial variation across different types of retail products. OSPB anticipates that marijuana revenue in FY 2023-24 will have a year-over-year decline of 10.4 percent, followed by 7.9 percent growth in FY 2024-25 and 6.8 percent in FY 2025-26.

Figure 62. Marijuana Tax Revenue Through FY 2025-26

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	$200.6	$215.5	$228.3
Retail Marijuana 15% Excise Tax	$57.8	$49.1	$52.9	$58.7
Total Proposition AA Taxes	**$277.7**	**$249.7**	**$268.4**	**$287.0**
2.9% Sales Tax & Interest (Subject to TABOR)				
Medical Marijuana 2.9% State Sales Tax	$5.6	$4.0	$5.7	$5.8
Retail Marijuana 2.9% State Sales Tax	$1.1	$1.3	$1.2	$1.1
Interest Earnings	$0.1	$0.1	$0.1	$0.1
Total 2.9% Sales Taxes & Interest	**$6.9**	**$5.4**	**$7.0**	**$7.0**
Total Marijuana Taxes	**$284.6**	**$255.1**	**$275.3**	**$294.0**

Marijuana prices as a whole have remained relatively stable over the past three quarters, as the average market rate (AMR) for wholesale flower has been virtually the same at this time ($750 per pound for Q4 2023 and Q1 2024, and $749 per pound for Q2 2024). However, since 2018, the share of marijuana retail revenue coming from different types of products has changed drastically. As shown in Figure 63, the share of revenue coming from flower has fallen over time, while the share coming from concentrate has grown to be nearly equal to that of flower. This change in shares is notable given the difference in prices between these categories: as of March 2024, flower costs $3.46 per gram, while concentrate is $11.32 per gram. Thus, while the two product types bring in roughly the same amount of revenue, the volume of flower sold is nearly three times that of concentrate. This may help explain the discrepancy between retail and wholesale sales volume highlighted in the March forecast. In the past, OSPB has used retail flower equivalent as a proxy for all the types of retail products; however, the increase in high-value-added concentrate as a share of sales indicates that less wholesale marijuana is required to meet demand relative to when flower made up the majority of retail sales. OSPB expects this trend to continue, keeping wholesale revenue low relative to retail trends.

Figure 63. Share of Revenue by Retail Product Type



Source: Colorado Department of Revenue
Other includes edibles, nonedibles, and shake/trim

Marijuana revenue goes to a number of different sources once collected, the largest being (1) the Marijuana Tax Cash Fund (MTCF) from the retail special sales tax and (2) BEST School Capital Construction from the excise tax on wholesale purchases. Allocations to each of these funds are shown in Figure 64 below in addition to the revisions downward from the previous forecast.

Figure 64. Forecasts and Forecast Revisions by Fund

Marijuana Tax Revenue (June)	Total Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	Marijuana Tax Cash Fund
Actual FY 2022-23	$284.5	$22.0	$30.8	$57.8	$24.9	$149.0
Forecast FY 2023-24	$255.0	$20.1	$28.1	$49.1	$22.7	$135.0
Forecast FY 2024-25	$275.2	$21.6	$30.2	$52.9	$24.4	$146.2
Forecast FY 2025-26	$293.9	$22.8	$32.0	$58.7	$25.9	$154.5
Change from March	**Total Revenue**	**Local Share**	**General Fund**	**BEST School Capital Construction**	**Public School Fund**	**Marijuana Tax Cash Fund**
Actual FY 2022-23	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Forecast FY 2023-24	-$15.0	-$0.5	-$0.7	-$8.4	-$0.6	-$4.8
Forecast FY 2024-25	-$38.8	-$1.7	-$2.4	-$20.8	-$2.0	-$11.8
Forecast FY 2025-26	-$45.9	-$2.0	-$2.7	-$25.9	-$2.2	-$13.1

These revisions down are primarily attributed to the decline in wholesale sales, which OSPB expects to continue given the trend discussed above. To a lesser extent, MTCF revenue is revised down, largely due to expectations that retail sales will continue to grow at a slower pace than previously anticipated. Going forward, prices are expected to increase slowly while the decline in sales volume slows, then reverses in mid-2025.

Federal Mineral Lease

After elevated Federal Mineral Lease (FML) revenue collections of $173.6 million in FY 2022-23, revenue is expected to fall in FY 2023-24 to $104.6 million primarily due to lower natural gas prices. During FY 2022-23, Henry Hub natural gas prices averaged $4.63 per million BTU on a weekly basis, reaching a peak of $9.56 in August 2022. Thus far in FY 2023-24, Henry Hub prices have averaged $2.38 per million BTU on a weekly basis, reaching a recent trough of $1.40 in mid-March. This $2.25 (-48.6 percent) average price decline year-over-year is the main driver in lower FML revenue collections. Throughout the forecast period, Henry Hub prices are projected to largely remain at below-average levels, which will result in lower revenue collections compared to the recent peak reached in FY 2022-23. In calendar year 2023, royalty revenue derived from natural gas production on federal leases accounted for roughly half of total FML revenue in Colorado, while oil made up approximately one-quarter. This results in natural gas price fluctuations driving FML revenue collections more than severance tax revenue, which is more reliant on oil production and price. However, crude oil prices have remained at above-average levels, providing a buoy to overall FML revenue. Energy price assumptions are discussed in more detail in the energy section of the economic outlook.

Through three quarters of the fiscal year, $77.0 million in FML revenue has been collected compared to $148.0 million last year through three quarters, reflecting a 52.0 percent decline. In the final quarter of FY 2023-24, approximately $28 million in revenue is projected to be collected.

Compared to the March forecast, revenue is revised down by $1.1 million in FY 2023-24 due to weaker than expected third quarter collections. During FY 2024-25, natural gas prices are expected to rebound closer to the long-term average, which is projected to result in revenue growth of 9.9 percent to $115.0 million in that fiscal year. This is an upward revision of $4.4 million from March. In FY 2025-26, revenue is expected to tick up by 0.3 percent to $115.4 million, reflecting a $3.5 million upward revision from the prior forecast. Since FY 2016-17, annual FML revenue collections have averaged $104.9 million. Detailed FML revenue and distribution forecast expectations can be found in Figure 65.

Figure 65. FML Forecast Distribution Table

	Actual FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total FML Revenue	**$173.6**	**$104.6**	**$115.0**	**$115.4**
Change	*38.8%*	*-39.7%*	*9.9%*	*0.3%*
Bonus Payments (portion of total FML revenue)	$1.3	$0.5	$0.5	$0.5
Local Government Perm Fund	$0.6	$0.2	$0.2	$0.2
Higher Ed FML Revenues Fund	$0.6	$0.2	$0.2	$0.2
Non-Bonus FML Revenue	$172.4	$104.2	$114.5	$114.9
State Public School Fund	$83.3	$50.3	$55.3	$55.5
Colorado Water Conservation Board	$17.2	$10.4	$11.5	$11.5
DOLA Grants	$34.5	$20.8	$22.9	$23.0
DOLA Direct Distribution	$34.5	$20.8	$22.9	$23.0
School Districts	$2.9	$1.8	$1.9	$2.0

Sports Betting

Since sports betting's legalization in Colorado, the revenue stream has shown substantial growth resulting, most recently, in a record of $5.1 billion wagered and $25.6 million in tax revenue collected over the course of Fiscal Year 2022-23. In fiscal year 2023-24, OSPB forecasts a 16.5 percent increase in sports betting tax revenue to $29.8 million, while FY 2024-25 is forecast to grow by 13.1 percent, and lastly, in FY 2025-26, OSPB expects 8.9 percent growth. This is a revision down in total revenue collected for all three of the forecast years. Despite already exceeding the wagers of the prior fiscal year in the first ten months of this fiscal year, Colorado's tax revenue has been limited by operator hold percentage and effective tax rate. Additionally, Colorado remains the state with the second lowest operator hold percentage by operators (6.8 percent) only behind Nevada[35]. This indicates that Colorado bettors have been statistically better than bettors in other legal states. This could be due to Colorado bettors being more predisposed to bet on home teams, such as the NBA's Denver Nuggets, who have had considerable recent success. With professional basketball being the most wagered sport in Colorado this could be one

[35] https://www.legalsportsreport.com/sports-betting/revenue/

explanation for why operators win or hold percentage remains well below the 8.4 percent national average. There may be some additional upward pressure on sports betting tax revenue in the outyears as Colorado's hold percentage may trend more toward the national average.

Figure 66. Sports Betting Revenue Distributions

Distribution Formula	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Total Sports Betting Tax Revenue	$29.8	$33.7	$36.7
Change	*16.5%*	*13.1%*	*8.9%*
Maximum State Collections	$29.0	$29.0	$29.0
Hold-Harmless Fund (6%)	$1.7	$1.7	$1.7
Behavioral Health Administration	$0.1		
Water Plan Implementation Cash Fund	$27.1	$27.3	$27.3

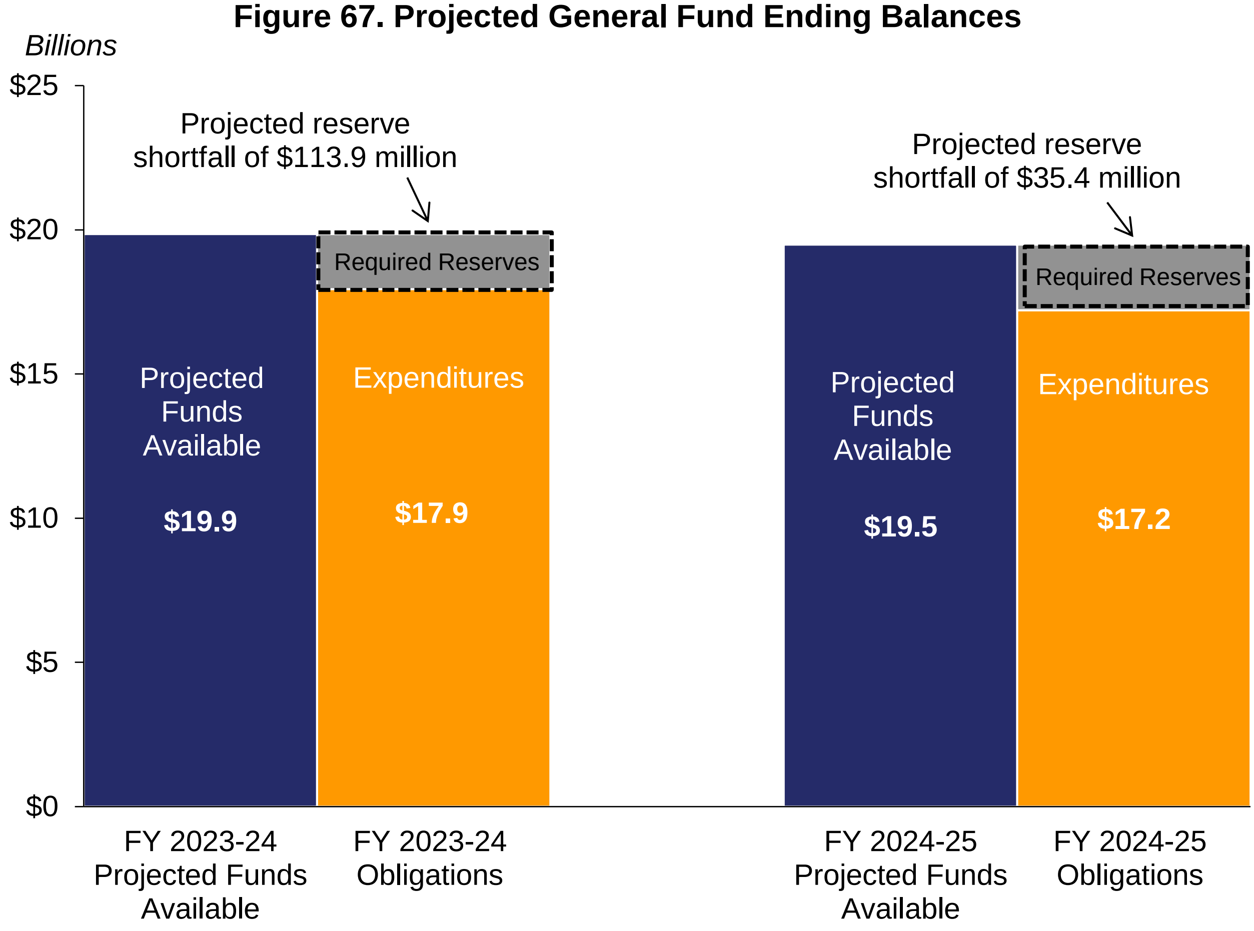
As shown in Figure 66 above, sports betting revenues are distributed by a formula. Under current state law as approved by the voters within Proposition DD, Colorado is limited to collecting up to $29 million. However, with the passage of HB24-1436 *Sports Betting Tax Revenue Voter Approval,* this bill refers a measure to the upcoming ballot in November for the state to retain the excess revenue above $29 million. 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. Typically, 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 $17,998.0 million. In FY 2023-24, revenue is expected to decline by 3.7 percent off of the previous year's record, a steeper decline than the 0.7 percent expected in March. This is a downward revision of $528.6 million compared to March, as tax policy changes, increased diversions, and increased individual refunds contribute to the decline. The largest change to revenue in the outyears is a result of the Family Affordability and Earned Income Tax Credits, as discussed in the individual income section, which results in gross general fund revenue growing slowly at 0.5 percent in FY 2024-25, compared to a 1.3 percent increase expected in March.

Figure 67. Projected General Fund Ending Balances



In Figure 67 above, the gray bar represents the amount of total reserves relative to the dashed box representing the statutory reserve requirement. Note that the statutory reserve requirement is smaller in FY 2023-24 than FY 2024-25, due to legislation actions discussed further below. OSPB presents the budgetary outcomes resulting from the revenue projections included in this forecast combined with all bills passed in the 2024 state legislative session.

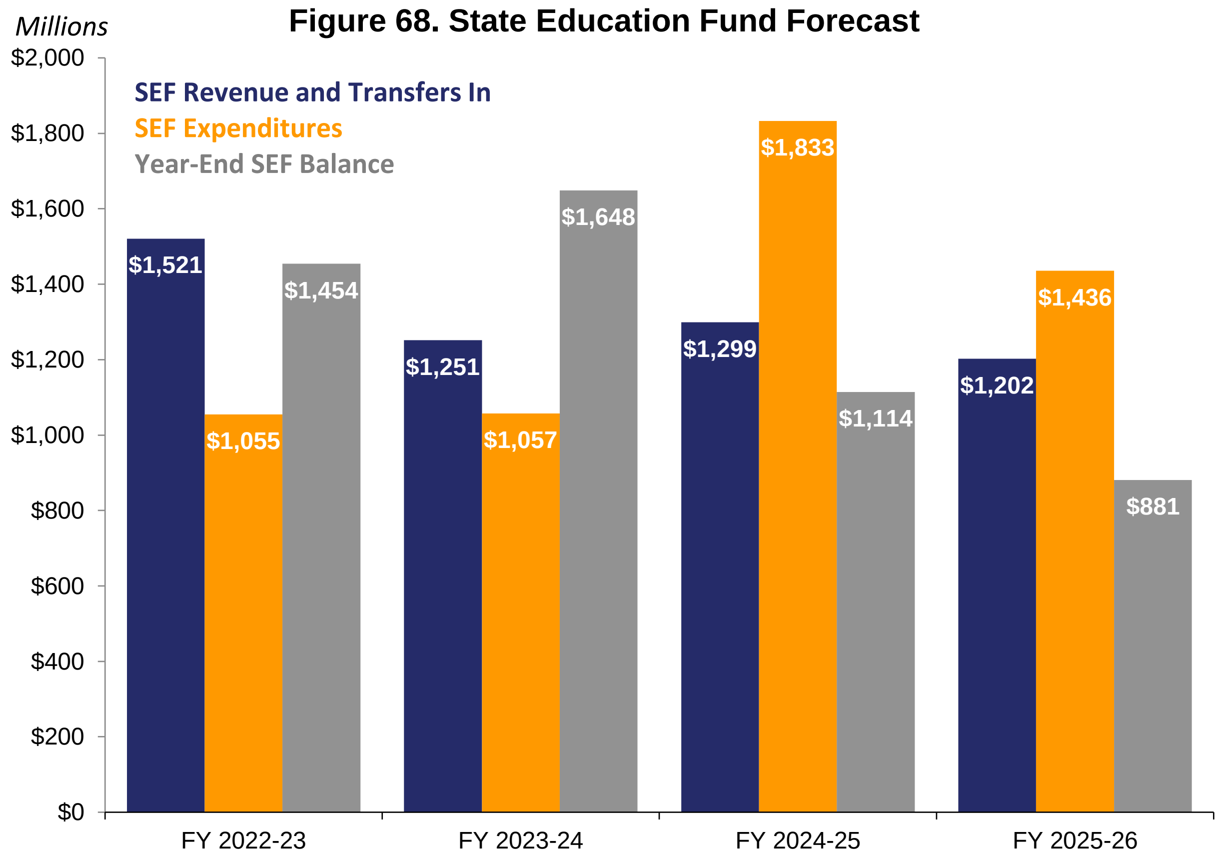
First, a few pieces of legislation additionally made small, temporary adjustments to the 15 percent reserve on General Fund appropriations. In HB24-1231, $41.3 million in General Fund is transferred into an escrow account to support capital construction costs related to health care education. The statutory reserve is temporarily adjusted downward by this amount until the money is released from escrow, at which point the reserve moves back as the state will recoup the money. Also, note that the FY 2023-24 reserve amount is currently negative, despite being positive after including supplemental FY 2023-24 bills in the March forecast. The main reason is HB24-1466, which laid out a two year plan to expedite spending of American Rescue Plan Act (ARPA) money before relevant deadlines and free up General Fund dollars for other uses. The timing of that swap reduced General Fund expenditures by $1,018.0 million but increased transfers from the General Fund by $1,394.6 million in FY 2023-24, causing a drag on net General Fund available in the current fiscal year by $376.6 million. Also, note that the bill had intended to adjust the statutory reserve up in the current fiscal year to offset the decreased obligation, but the statute reference in the bill made it inappropriate to make the intended adjustment. Had that adjustment been made, the forecast would have anticipated that the state would be short of its reserve requirement by $266.2 million in FY 2023-24. However, the legislation created additional General Fund expenditure savings in FY 2024-25 and includes an adjustment to the statutory reserve next fiscal year to not move down the statutory reserve despite the one time savings. Therefore, by the end of FY 2024-25, the bill is budget neutral and does not cause a budgetary cliff. Altogether, based on 2024 legislation, the FY 2023-24 statutory reserve requirement is 14.7 percent of a reduced General Fund expenditure amount resulting from prioritizing ARPA funds. In table 4 in the reference tables, see that the statutory reserve for FY 2024-25 rises to 15.1 percent.

In the current forecast, OSPB expects the state will be $113.9 million below the statutory reserve limit for FY 2023-24. This is largely a result of HB24-1466, as discussed above, which more than offsets lower cash fund revenue expectations as a result of legislation discussed in the cash fund section as well as a lower rebates and expenditures forecast, with cigarette rebates no longer counting as TABOR nonexempt revenue, per HB24-1469, as seen in Table 9. In FY 2024-25, the forecasted reserve is now $35.4 million below the statutory requirement. The largest change since the passage of the long bill, based on the March OSPB forecast, is the result of an audit finding that was resolved at the tail end of session. It found that the Healthcare Insurance Affordability enterprise transfers were misclassified as exempt, resulting in $33.9 million in TABOR under-refunds between FY 2020-21 and FY 2022-23 that will be distributed alongside FY 2023-24 refunds. In addition to this change, there was also limited upward pressure from higher transfers and rebates and expenditures that more than offset lower cash fund revenue expectations. For the FY 2024-25 ending balance, General Fund reversions in a normal year would be sufficient to resolve this shortfall, as could swings in forecasted expenditures, transfers, and cash fund revenue. However, if it appears that such dynamics would not be sufficient to cover the shortfall, it could be addressed in the next supplemental budget submission.

State Education Fund

In FY 2022-23, the State Education Fund's (SEF) year-end fund balance was $1,454.1 million ($1.45 billion), placing the fund in a strong fiscal position moving forward over the forecast period. In FY 2023-24, the year-end balance is expected to increase to $1,648.4 million, $84.6 million above the March forecast, due to a larger than previously expected diversion into the fund to correct for prior-year net under-transfers, which more than offsets increased expenses from the 2024 legislative session. The fund balance projections throughout the forecast period take into account all SEF appropriations and legislative changes enacted in the 2024 regular legislative session, including bills with a significant fiscal impact such as HB24-1207 *Adjustments to School Funding Budget Year 2023-24*, SB24-188 *Public School Finance,* HB24-1448 *New Public School Finance Formula,* and SB 24-233 *Property Tax*.

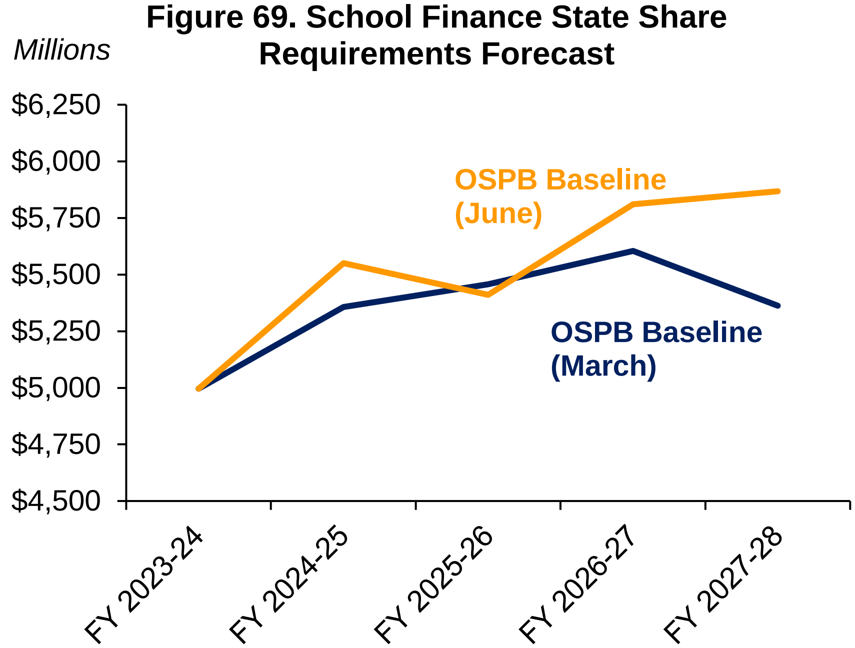
Figure 68. State Education Fund Forecast



In FY 2024-25, the SEF ending balance is forecast to decrease to $1,114.2 million, which is a downward revision of $68.0 million from March. Two bills unrelated to general Total Program requirements with a significant SEF fiscal impact enacted during the 2024 legislative session are HB24-1389 *School Funding 2023-24 for New Arrival Students* ($24 million one-time) and HB24-1390 *School Food Programs* ($15-$30 million over two fiscal years). In FY 2025-26, the SEF fund balance is projected to decrease to $880.7 million, an upward revision of $162.9 million. Between FY 2023-24 and FY 2024-25, expenditures have increased by nearly $200 million compared to March forecast expenditure estimates for the same period. The smaller fiscal impact bills with an impact of over one-million dollars are, HB24-1290 *Student Educator Stipend Program* ($4.1 million one-time), HB24-1282 *Ninth-Grade Success Grant & Performance Reporting* ($2 million ongoing), and HB24-1446 *Professional Development for Science Teachers* ($3 million one-time).

Overall state share requirements for school finance are projected to be higher from FY 2024-25 through FY 2027-28 compared to March forecast expectations. These expected increases relative to March are primarily due to two bills passed in the 2024 legislative session: HB24-1448, and SB24-233. HB24-1448, which changed the school finance formula with full implementation taking place over six years, is estimated to increase Total Program requirements by over $500 million combined in the first three years of implementation from FY 2025-26 through FY 2027-28. SB24-233 is projected to reduce cumulative local share revenue by $90 million from FY 2024-25 through FY 2027-28 compared to OSPB expectations in March (which included an expectation of additional property tax relief). This results in significantly higher estimated state share requirements through FY 2027-28, primarily in the out-years as formula reform is incrementally implemented with compounding fiscal effects.

Figure 69. School Finance State Share Requirements Forecast



Forecast Risks

This budget outlook is based on OSPB's economic forecast as detailed in Tables 1 and 2 of the Reference Tables at the end of this document. This economic forecast is subject to both upside and downside risks. On the upside, labor demand may remain more resilient than expected in the baseline, avoiding an uptick in unemployment in the out-years and keeping income withholdings elevated with it. High interest rates, rising shipping costs, and increasing consumer debt are a few of the downside risks that could negatively weigh on aggregate demand. This is likely to impact 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.

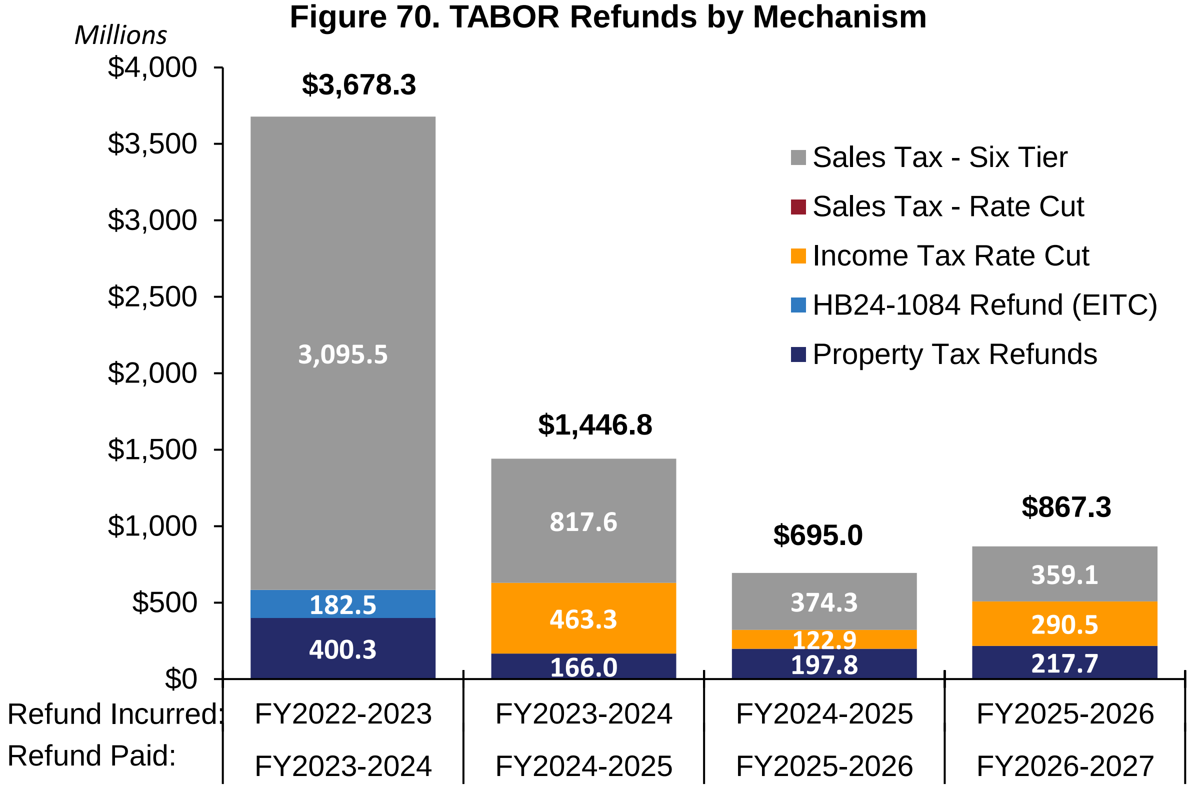
Supplemental Materials

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 occurring in the most recently completed fiscal year. This forecast includes significant downward revisions to TABOR refunds when compared with the March forecast due

Figure 70. TABOR Refunds by Mechanism



to changes in income revenue expectations combined with policy decisions adopted by the General Assembly during the 2024 legislative session. Additionally, there is an increased State Education Fund diversion out of income revenue anticipated in FY 2023-24, based on communication with Legislative Council Staff, which would reduce refunded amounts. In FY 2023-24, revenue is projected to be $1,413.0 million above the cap, a $615.1 million downward revision, tied largely to higher than expected refunds after accounting for TABOR refunds, as described in the individual income section above. An additional $33.9 million will be refunded to taxpayers tied to an audit finding related to the Healthcare Affordability Insurance Enterprise, which found non-exempt revenue being classified as exempt, and erroneously retained by the State. In FY 2024-25, the amount above the cap is expected to fall to $695.0 million, a $598.8 million decrease as individual income moderates and corporate income revenue is expected to drop 19.2 percent. In FY 2025-26, refunds are expected to rebound slightly to $867.3 million as the economy returns to slightly stronger growth.

Also during the 2024 legislative session, the General Assembly reformed the TABOR refund mechanisms through SB24-228. This bill expanded the refund mechanisms from the dual mechanisms of the Senior Homestead Exemption and the Six Tier Sales Tax refund, to a structure of up to 4 mechanisms, which are activated or not depending on the amount of refunds. Now, in addition to the established mechanisms above, refund mechanisms may include an income tax cut of between .04 percent to .15 percent, implemented if refunds are expected to exceed at least $300 million after the senior homestead exemption, and a sales tax rate cut of .13 percent if refunds exceed $1.5 billion, again after accounting for homestead expenditures. An income tax reduction had previously been a refund mechanism prior to the passage of Proposition 121 in 2022, which permanently lowered the state's income tax rate. SB24-228 also modified the six-tier refund mechanism to increase the minimum refund amount distributed to taxpayers through that mechanism to align with IRS estimates of minimum sales tax paid in Colorado.

In addition to these mechanisms, SB22-238 *2023 and 2024 Property Tax*, provides an estimated $237.1 million in refunds to backfill local government 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 that 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. Note that for FY 2022-23 refunds paid out this fiscal year, the $3,678.3 million includes $114.9 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, which is incurred in FY 2022-23, to be refunded in FY 2023-24, in this forecast. Finally, $3,095.6 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. Finally, an estimated $163.2 million of the $3,678.3 million refund obligation (including prior year refunds) will be refunded via the Senior Homestead and Disabled Veteran property tax exemption expenditures, based on TY 2023 property taxes and out of refunds incurred in the completed FY 2022-23.

OSPB expects the value of the exemption to remain relatively steady through the end of the forecast period, which reflects downward revisions versus the March forecast, due to the passage of SB24-233 *Property Tax*. This bill set new assessment rates and exemptions for future property tax years at lower rates than previous statute. As a result, it will lower the value received by Homestead recipients based on the market value reductions. Additionally, the passage of SB24-111, which allows portability of the exemption for TY 2025 and TY 2026, may encourage some current recipients of the exemption to relocate and sell their homes, which decreases claims on the existing exemption beginning in TY 2025, and transitions them to the new, temporary exemption. The portable exemption as adopted expires after TY 2026, but it is possible that future legislative sessions may extend this provision.

TABOR refunds incurred in FY 2023-24 are revised down as noted above. In addition to the $166.0 million in the Senior Homestead and Disabled Veteran property tax exemption expenditures, OSPB expects $817.6 million to be refunded via the six-tier sales tax refund, and $463.3 million be refunded through an income tax rate cut of .15 percent to 4.25 percent, per SB24-228.

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 $374.3 million sales tax refund after accounting for the projected $166.1 million in senior homestead and disabled veteran exemption, as well as the first year of the portability provision, which adds an estimated $31.7 million to be refunded through property tax related mechanisms. The amount of the refund triggers an income tax rate cut of .04 percent to 4.36 percent, refunding $122.9 million of surplus.

In FY 2025-26, OSPB projects a slight rebound in economic growth, raising the refund amount back to $867.3 million. After accounting for the combined $217.7 million of projected Homestead and Homestead portability refunds, OSPB projects $359.1 million to be refunded through the six-tier sales tax mechanism, and $290.5 million to be refunded through a .09 percent reduction in the state income tax. These refunds will be paid out during FY 2026-27. Additionally, the TABOR cap in this fiscal year is anticipated to be shifted as a result of SB24-123 *Waste Tire Management Enterprise*, which establishes a new enterprise and folds existing non-exempt waste tire fee revenue into the enterprise. This action requires a commensurate downward adjustment to the cap, which OSPB projects at around $1.7 million.

Reference Tables

Table 1: Colorado Economic Variables – History and Forecast

		Actual 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022	Actual 2023	Forecast 2024	Forecast 2025	Forecast 2026
	Income									
1	Personal Income (Billions) /A	$328.1	$351.4	$375.2	$418.0	$442.2	$463.9	$486.6	$509.5	$537.5
2	Change	8.2%	7.1%	6.8%	11.4%	5.8%	4.9%	4.9%	4.7%	5.5%
3	Wage and Salary Income (Billions)	$170.8	$183.0	$187.8	$205.6	$224.3	$239.2	$252.6	$263.2	$276.1
4	Change	6.1%	7.1%	2.7%	9.4%	9.1%	6.6%	5.6%	4.2%	4.9%
5	Per-Capita Income ($/person) /A	$57,797.0	$61,269.0	$64,855.0	$71,927.0	$75,737.0	$78,949.0	$82,202.0	$85,334.0	$89,272.0
6	Change	6.7%	6.0%	5.9%	10.9%	5.3%	4.2%	4.1%	3.8%	4.6%
	Population & Employment									
7	Population (Thousands)	5,676.9	5,734.9	5,784.6	5,811.0	5,838.7	5,875.3	5,919.3	5,970.1	6,020.6
8	Change	1.4%	1.0%	0.9%	0.5%	0.5%	0.6%	0.7%	0.9%	0.8%
9	Net Migration (Thousands)	51.8	34.2	29.0	10.9	16.7	19.7	25.0	30.0	30.0
10	Unemployment Rate	3.0%	2.7%	6.8%	5.5%	3.0%	3.2%	3.8%	3.9%	3.7%
11	Total Nonagricultural Employment (Thousands)	2,727.3	2,790.1	2,652.7	2,750.9	2,869.7	2,942.0	3,000.8	3,042.9	3,088.5
12	Change	2.5%	2.3%	-4.9%	3.7%	4.3%	2.5%	2.0%	1.4%	1.5%
	Construction Variables									
13	Total Housing Permits Issued (Thousands)	42.6	38.6	40.5	56.5	48.8	39.4	37.5	39.4	41.6
14	Change	4.8%	-9.4%	4.8%	39.7%	-13.6%	-19.3%	-4.8%	4.9%	5.7%
15	Nonresidential Construction Value (Millions) /B	$8,132.0	$5,161.5	$5,607.4	$5,664.1	$6,653.8	$6,660.4	$6,567.2	$6,600.0	$6,824.4
16	Change	32.2%	-36.5%	8.6%	1.0%	17.5%	0.1%	-1.4%	0.5%	3.4%
	Price Variables									
17	Retail Trade (Billions) /C	$206.1	$224.6	$228.8	$268.3	$299.9	$302.6	$310.7	$322.9	$338.4
18	Change	5.9%	9.0%	1.9%	17.3%	11.8%	0.9%	2.7%	3.9%	4.8%
19	Denver-Aurora-Lakewood Consumer Price Index (1982-84=100)	262.0	267.0	272.2	281.8	304.4	320.3	328.6	338.5	347.6
20	Change	2.7%	1.9%	2.0%	3.5%	8.0%	5.2%	2.6%	3.0%	2.7%

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

/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 2018	Actual 2019	Actual 2020	Actual 2021	Actual 2022	Actual 2023	Forecast 2024	Forecast 2025	Forecast 2026
	Inflation-Adjusted & Current Dollar Income Accounts									
1	Inflation-Adjusted Gross Domestic Product (Billions) /A	$20,193.9	$20,692.1	$20,234.1	$21,407.7	$21,822.0	$22,376.9	$22,936.3	$23,326.2	$23,746.1
2	Change	3.0%	2.5%	-2.2%	5.8%	1.9%	2.5%	2.5%	1.7%	1.8%
3	Personal Income (Billions) /B	$17,528.2	$18,356.2	$19,629.0	$21,407.7	$21,840.8	$22,978.4	$24,012.4	$25,020.9	$26,171.9
4	Change	5.2%	4.7%	6.9%	9.1%	2.0%	5.2%	4.5%	4.2%	4.6%
5	Per-Capita Income ($/person) /B	$53,586	$55,743	$59,213	$64,475	$65,531	$68,738	$71,545	$74,253	$77,360
6	Change	4.5%	4.0%	6.2%	8.9%	1.6%	4.9%	4.1%	3.8%	4.2%
7	Wage and Salary Income (Billions)	$8,899.8	$9,325.0	$9,464.6	$10,312.6	$11,116.0	$11,816.3	$12,430.8	$12,890.7	$13,406.3
8	Change	5.0%	4.8%	1.5%	9.0%	7.8%	6.3%	5.2%	3.7%	4.0%
	Population & Employment									
9	Population (Millions)	327.1	329.3	331.5	332.0	333.3	334.3	335.6	337.0	338.3
10	Change	0.7%	0.7%	0.7%	0.1%	0.4%	0.3%	0.4%	0.4%	0.4%
11	Unemployment Rate	3.9%	3.7%	8.1%	5.4%	3.7%	3.6%	4.0%	4.1%	4.0%
12	Total Nonagricultural Employment (Millions)	148.9	150.9	142.2	146.3	152.5	156.1	158.7	160.4	162.5
13	Change	1.6%	1.3%	-5.8%	2.9%	4.3%	2.3%	1.7%	1.1%	1.3%
	Other Key Indicators									
14	Consumer Price Index (1982-84=100)	251.1	255.7	258.8	271.0	292.7	304.7	314.5	322.3	329.7
15	Change	2.4%	1.8%	1.2%	4.7%	8.0%	4.1%	3.2%	2.5%	2.3%
16	Corporate Profits (Billions)	$2,365.2	$2,470.3	$2,383.3	$2,922.8	$3,208.7	$3,258.0	$3,388.4	$3,391.7	$3,561.3
17	Change	6.3%	4.4%	-3.5%	22.6%	9.8%	1.5%	4.0%	0.1%	5.0%
18	Housing Permits (Millions)	1.33	1.39	1.47	1.74	1.67	1.45	1.46	1.49	1.55
19	Change	3.6%	4.3%	6.1%	18.1%	-4.1%	-12.8%	0.5%	2.3%	3.5%
20	Retail Trade (Billions)	$5,984.5	$6,173.8	$6,219.7	$7,364.5	$8,021.1	$8,294.2	$8,559.6	$8,799.3	$9,151.3
21	Change	4.4%	3.2%	0.7%	18.4%	8.9%	3.4%	3.2%	2.8%	4.0%

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

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

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

	Category	Actual FY 2022-23	Percent Change	Forecast FY 2023-24	Percent Change	Forecast FY 2024-25	Percent Change	Forecast FY 2025-26	Percent Change
	Excise Taxes								
1	Sales	$4,301.6	5.2%	$4,339.1	0.9%	$4,567.3	5.3%	$4,813.9	5.4%
2	Use	$251.2	8.0%	$233.2	-7.2%	$256.7	10.1%	$272.2	6.0%
3	Retail Marijuana Sales – Special Sales Tax	$219.9	-15.0%	$200.6	-8.8%	$215.5	7.4%	$228.3	5.9%
4	Cigarette	$23.9	-7.9%	$21.7	-9.3%	$20.5	-5.6%	$19.6	-4.2%
5	Tobacco Products	$23.7	-11.0%	$21.6	-8.9%	$22.7	5.3%	$22.4	-1.5%
6	Liquor	$56.3	-0.1%	$55.9	-0.7%	$56.4	0.9%	$57.4	1.7%
7	Total Proposition EE	$235.0	13.0%	$210.5	-10.4%	$233.0	10.7%	$232.7	-0.1%
8	**Total Excise**	**$5,111.7**	**4.4%**	**$5,082.6**	**-0.6%**	**$5,372.2**	**5.7%**	**$5,646.5**	**5.1%**
	Income Taxes								
9	Net Individual Income	$10,952.7	-6.5%	$10,261.0	-6.3%	$10,607.9	3.4%	$10,987.2	3.6%
10	Net Corporate Income	$2,366.7	50.9%	$2,636.3	11.4%	$2,130.6	-19.2%	$2,267.1	6.4%
11	**Total Income**	**$13,319.5**	**0.2%**	**$12,897.3**	**-3.2%**	**$12,738.5**	**-1.2%**	**$13,254.3**	**4.0%**
12	*Less: State Education Fund Diversion*	*$1,066.4*	*7.3%*	*$1,209.0*	*13.4%*	*$1,116.5*	*-7.7%*	*$1,175.7*	*5.3%*
13	*Less: Proposition 123 Diversion*	*$160.0*	*NA*	*$324.0*	*102.5%*	*$335.0*	*3.4%*	*$352.7*	*5.3%*
14	*Less: Healthy School Meals*	*$0.0*	*NA*	*$0.0*	*NA*	*$130.5*	*NA*	*$121.0*	*-7.3%*
15	**Total Income to General Fund**	**$12,093.1**	**-1.6%**	**$11,364.3**	**-6.1%**	**$11,156.5**	**-1.8%**	**$11,604.9**	**4.0%**
	Other Revenue								
16	Insurance	$516.7	32.4%	$573.3	11.0%	$630.1	9.9%	$646.1	2.5%
17	Interest Income	$188.4	172.2%	$263.4	39.8%	$197.4	-25.0%	$135.2	-31.5%
18	Pari-Mutuel	$0.3	-20.4%	$0.3	4.4%	$0.4	4.3%	$0.4	0.8%
19	Court Receipts	$3.1	30.6%	$3.1	-0.6%	$3.1	0.4%	$3.1	0.2%
20	Other Income	$84.8	85.9%	$50.2	-40.8%	$53.4	6.5%	$53.8	0.8%
21	**Total Other**	**$793.3**	**56.2%**	**$890.4**	**12.2%**	**$884.5**	**-0.7%**	**$838.6**	**-5.2%**
22	**GROSS GENERAL FUND**	**$17,998.0**	**1.7%**	**$17,337.3**	**-3.7%**	**$17,413.1**	**0.5%**	**$18,090.1**	**3.9%**

/A Dollars in Millions

Table 4: General Fund Overview /A

		Actual FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
	Revenue				
1	**Beginning Reserve**	**$3,203.2**	**$2,427.4**	**$1,911.6**	**$2,279.4**
2	**Gross General Fund Revenue**	**$17,998.0**	**$17,337.3**	**$17,413.1**	**$18,090.1**
3	*Transfers to the General Fund*	$53.5	$92.4	$164.2	$58.9
4	**TOTAL GENERAL FUND AVAILABLE**	**$21,254.8**	**$19,857.1**	**$19,488.9**	**$20,428.4**
	Expenditures				
5	**Appropriation Subject to Limit**	**$13,308.1**	**$13,933.9**	**$15,330.2**	**$16,369.8**
6	*Dollar Change (from prior year)*	$1,266.9	$625.8	$1,396.3	$1,039.6
7	*Percent Change (from prior year)*	10.5%	4.7%	10.0%	6.8%
8	**Spending Outside Limit**	**$5,719.1**	**$4,011.7**	**$1,879.3**	**$1,644.5**
9	*TABOR Refund under Art. X, Section 20, (7) (d)*	$3,678.3	$1,446.8	$695.0	$867.3
10	*Homestead Exemption (Net of TABOR Refund)*	$0.1	$0.0	$0.0	$0.0
11	*Other Rebates and Expenditures*	$168.6	$225.9	$181.1	$179.6
12	*Transfers for Capital Construction*	$493.2	$392.6	$254.1	$50.0
13	*Transfers for Transportation*	$88.0	$5.0	$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	$1,941.3	$485.7	$430.0
16	**TOTAL GENERAL FUND OBLIGATIONS**	**$19,027.2**	**$17,945.6**	**$17,209.5**	**$18,014.2**
17	*Percent Change (from prior year)*	6.7%	-5.7%	-4.1%	4.7%
18	Reversions and Accounting Adjustments	-$199.8	$0.0	$0.0	$0.0
	Reserves				
19	**Year-End General Fund Balance**	**$2,427.4**	**$1,911.6**	**$2,279.4**	**$2,414.2**
20	*Year-End General Fund as a % of Appropriations*	18.2%	13.9%	14.9%	14.7%
21	*General Fund Statutory Reserve /B*	$1,996.2	$2,025.4	$2,314.8	$2,414.2
22	*Statutory Reserve %*	15.0%	14.7%	15.1%	14.7%
23	***Above/Below Statutory Reserve***	**$431.2**	**-$113.9**	**-$35.4**	**$0.0**

/A. FY 2023-24 and FY 2024-25 expenditures and transfers reflect all bills signed by the Governor through the end of the 2024 legislative session. Reversions and accounting adjustments for FY 2022-23 reflect the published ACFR. FY 2025-26 expenditures and fund balance projections are intended to be illustrative. The statutory reserve is no longer simply 15 percent of General Fund appropriations, but is adjusted slightly for HB24-1231 and HB24-1466, as described in the budget section. Dollars in millions.

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

	Actual FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Revenue				
Beginning Reserves	**$4,159.1**	**$3,881.5**	**$3,559.9**	**$3,393.6**
State Education Fund	$955.9	$1,454.1	$1,648.4	$1,114.2
General Fund	$3,203.2	$2,427.4	$1,911.6	$2,279.4
Gross State Education Fund Revenue	**$1,230.7**	**$1,251.3**	**$1,152.8**	**$1,202.1**
Transfer to State Education Fund	$290.0	$0.0	$146.0	$0.0
Gross General Fund Revenue /B	**$18,051.6**	**$17,429.7**	**$17,577.3**	**$18,149.0**
TOTAL FUNDS AVAILABLE FOR EXPENDITURE	**$23,441.4**	**$22,562.6**	**$22,290.1**	**$22,744.7**
Expenditures				
General Fund Expenditures /C	$19,027.1	$17,945.6	$17,209.5	$18,014.2
State Education Fund Expenditures	$1,047.4	$1,057.1	$1,833.0	$1,435.5
TOTAL OBLIGATIONS	**$20,074.5**	**$19,002.6**	**$19,042.5**	**$19,449.8**
Percent Change (from prior year)	7.2%	-5.3%	0.2%	2.1%
Reversions and Accounting Adjustments	-$224.7	$0.0	$0.0	$0.0
Reserves				
Year-End Balance	**$3,881.6**	**$3,559.9**	**$3,393.6**	**$3,294.9**
State Education Fund	$1,454.1	$1,648.4	$1,114.2	$880.7
General Fund	$2,427.4	$1,911.6	$2,279.4	$2,414.2
General Fund, SEF Combined Reserves /C	$1,885.4	$1,534.5	$1,078.8	$880.7

/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. Combined Reserves include GF in excess of the 15% GF appropriations reserve.

Table 6: Cash Fund Revenue Subject to TABOR /A

	Category	Final FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
1	**Transportation-Related /A**	**$1,266.8**	**$1,420.2**	**$1,503.0**	**$1,570.7**
2	Change	2.2%	12.1%	5.8%	4.5%
3	**Limited Gaming Fund /B**	**$121.3**	**$91.4**	**$93.4**	**$95.7**
4	Change	5.2%	-24.6%	2.2%	2.4%
7	**Regulatory Agencies**	**$89.4**	**$85.7**	**$100.7**	**$105.5**
8	Change	-3.1%	-4.1%	17.5%	4.8%
9	**Insurance-Related**	**$26.5**	**$25.1**	**$24.4**	**$24.3**
10	Change	9.3%	-5.4%	-2.8%	-0.4%
11	**Severance Tax**	**$374.7**	**$220.5**	**$240.2**	**$259.5**
12	Change	15.3%	-41.1%	8.9%	8.0%
13	**Other Miscellaneous Cash Funds**	**$878.4**	**$884.2**	**$927.5**	**$968.3**
14	Change	1.0%	0.7%	4.9%	4.4%
15	**TOTAL CASH FUND REVENUE**	**$2,757.1**	**$2,727.0**	**$2,889.3**	**$3,023.9**
16	Change	3.4%	-1.1%	5.9%	4.7%

/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 TABOR Nonexempt Revenue Estimates

	Fund Name	Fund Code	Actual FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
1	Housing Development Grant Fund	23V0	$71.7	$71.5	$40.1	$44.2
2	Medicaid Nursing Facility Cash Fund	22X0	$53.2	$54.0	$54.3	$54.2
3	General Fund - Unrestricted	1000	$46.6	$51.9	$49.7	$50.6
4	Employment Support Fund	2320	$42.4	-$0.9	$30.3	$44.5
5	Oil and Gas Conservation Fund (ECMC)	1700	$35.0	$27.5	$30.3	$32.0
6	Judicial Stabilization Cash Fund	16D0	$33.2	$32.5	$32.8	$32.7
7	School Fund	7050	$33.0	$38.3	$37.6	$37.8
8	Auraria Higher Education Center - Nonenterprise Activities	305M	$32.8	$35.6	$35.4	$35.3
9	Information Technology Revolving Fund	6130	$31.4	$23.6	$23.4	$23.5
10	Judicial Information Technology Cash Fund	21X0	$29.6	$29.0	$29.3	$29.2
11	Adult Dental Fund	28C0	$26.7	$33.4	$41.0	$42.7
12	Offender Services Fund	1010	$24.6	$18.0	$19.7	$19.3
13	Department of State Cash Fund	2000	$22.3	$29.1	$27.6	$27.9
14	Colorado Water Conservation Board Construction Fund	4240	$15.0	$16.9	$16.5	$16.6
15	Victims Assistance Fund	7140	$14.0	$12.0	$12.4	$12.3
16	Supreme Court Committee Fund	7160	$13.9	$15.5	$15.1	$15.2
17	Fleet Management Fund	6070	$13.7	$13.4	$13.6	$9.9
18	Stationary Sources Fund	1190	$13.6	$15.1	$14.8	$14.8
19	Justice Center Cash Fund	21Y0	$11.3	$11.7	$11.7	$11.7
20	Victims Compensation Fund	7130	$11.2	$9.0	$9.5	$9.3
21	State Fair Authority Fund	5100	$10.7	$11.7	$11.6	$11.6
22	Judicial Collection Enhancement Fund	26J0	$9.4	$6.7	$7.4	$7.2
23	Colorado Bureau of Investigation Identification Unit Fund	22Q0	$8.7	$9.9	$9.8	$9.8
24	Correctional Treatment Cash Fund	2550	$7.9	$5.4	$6.0	$5.9
25	Perfluoroalkyl and Polyfluoroalkyl Substances Cash Fund	PPSF	$7.8	$5.4	$5.8	$5.7
26	**Total**		**$619.9**	**$576.1**	**$585.8**	**$604.1**

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

		Actual FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
	TABOR Revenues				
1	General Fund /A	$17,463.6	$16,759.1	$16,927.1	$17,594.0
2	Cash Funds /A	$2,757.1	$2,727.0	$2,889.3	$3,023.9
3	**Total TABOR Revenues**	**$20,220.7**	**$19,486.1**	**$19,816.4**	**$20,618.0**
	Revenue Limit Calculation				
4	Previous calendar year population growth	0.7%	0.5%	0.6%	0.7%
5	Previous calendar year inflation	3.5%	8.0%	5.2%	2.6%
6	**Allowable TABOR Growth Rate**	**4.2%**	**8.5%**	**5.8%**	**3.3%**
7	TABOR Limit /B	$13,445.2	$14,588.1	$15,434.2	$15,941.7
8	General Fund Exempt Revenue Under Ref. C /C	$3,212.1	$3,485.1	$3,687.2	$3,808.9
9	**Revenue Cap Under Ref. C /B /D**	**$16,657.3**	**$18,073.2**	**$19,121.4**	**$19,750.7**
10	***Amount Above/Below Cap***	**$3,563.4**	**$1,413.0**	**$695.0**	**$867.3**
11	***Revenue to be Refunded including Adjustments from Prior Years /E***	**$3,678.3**	**$1,446.8**	**$695.0**	**$867.3**
12	TABOR State Emergency Reserve Requirement	$499.7	$542.2	$573.6	$592.5

/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 8: List of Transfers to/from General Fund

Bill Number and Description	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Transfers from Other Funds				
12-47.1-701 (d) Ltd. Gaming Revenue Transfer to the General Fund	$21.6	$21.5	$22.7	$24.0
HB92-1126 Land and Water Management Fund	$0.1			
HB05-1262 A35 Tobacco Tax 24-22-117 (1)(c)(I)	$0.7	$0.6	$0.6	$0.6
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	$4.1	$4.1	$4.1	$4.1
HB17-1343 Repeal of Intellectual and Developmental Disabilities Services Cash Fund	$16.9			
SB20B-002 Repeal of Emergency Direct Assistance Grant Program Fund	$0.0			
SB21-209 Transfer to GF from Repealed Cash Funds	$0.1			
SB21-213 Use Of Increased Medicaid Match	$10.0	$9.2	$7.4	$1.1
SB21-222 Repeal of Recovery Audit Cash Fund	$0.0			
SB21-251 General Fund Loan Family Medical Leave Program		$1.5		
SB21-260 Community Access Enterprise	$0.1			
HB23-1272 Tax Policy That Advances Decarbonization		$12.4	$24.3	$29.2
Proposition II Passage Return Funds to General Fund		$5.6		
SB23-215 State Employee Reserve Fund General Fund Transfer		$4.9		
HB24-1413 Severance Tax Transfers			$69.3	
HB24-1414 Repeal COVID Heroes Collaboration Fund			$3.8	
HB24-1415 State Employee Reserve Fund		$31.2		
HB24-1424 College Opportunity Fund Transfer to General Fund		$1.5		
HB24-1426 Controlled Maintenance Trust Fund Transfer			$32.0	
Transfers to Other Funds				
SB11-047/HB24-1396 Bioscience Income Tax Transfer to OEDIT	-$17.6	-$14.4	-$11.0	-$14.1

HB13-1318/SB 17-267 Transfers of Special Sales Tax to MTCF	-$142.2	-$129.7	-$139.4	-$147.6
SB17-267 Sustainability of Rural CO (Transfer MJ Special Sales Tax to Public School Fund)	-$24.9	-$22.7	-$24.4	-$25.9
HB20-1116/HB24-1398 Procurement Technical Assistance Program Extension	-$0.2	-$0.2	-$0.2	-$0.2
HB20-1427 (Prop EE) - 2020 Tax Holding Fund	-$235.0	-$210.5	-$233.0	-$232.7
SB21-281 Severance Tax Trust Fund Allocation	-$9.5			
HB22-1001 Reduce Fees For Bus Filings	-$8.4			
HB22-1004 Driver License Fee Reduction	-$3.9			
HB22-1011 Wildfire Mitigation Incentives For Local Gov	-$10.0			
HB22-1012 Wildfire Mitigation and Recovery	-$7.2			
HB22-1115 Prescription Drug Monitoring Program	-$2.0			
HB22-1132 Regulation & Services For Wildfire Mitigation	-$0.1			
HB22-1151 Turf Replacement Program	-$2.0			
HB22-1298 Fee Relief Nurses Nurse Aides &Technicians	-$11.7			
HB22-1299 License Regis Fee Relief For Mental Health Profls	-$3.7			
HB22-1381 CO Energy Office Geothermal Energy Grant Program	-$12.0			
HB22-1382 Support Dark Sky Designation & Promotion In CO	$0.0			
HB22-1394 Fund Just Transition Community & Worker Supports	-$15.0			
HB22-1408 Modify Performance-based Incentive For Film Production	-$2.0			
SB22-036 State Payment Old Hire Death And Disability Benefits	-$6.7			
SB22-130 State Entity Authority For Public-private Partnerships	-$15.0			
SB22-151 Safe Crossings For Colorado Wildlife & Motorists	-$5.0			
SB22-163 Establish State Procurement Equity Program	-$2.0			
SB22-183 Crime Victims Services	-$1.0			
SB22-193 Air Quality Improvement Investments	-$1.5			
SB22-195 Modifications To Conservation District Grant Fund	-$0.1	-$0.1	-$0.1	-$0.1
SB22-202 State Match for Mill Levy Override Revenue	-$10.0			
SB22-214 General Fund Transfer To PERA Payment Cash Fund	-$198.5			
SB22-238 2023 and 2024 Property Tax	-$200.0			
HB23-1041 Prohibit Wagering On Simulcast Greyhound Races			$0.0	-$0.1

HB23-1107 Crime Victim Services Funding		-$3.0		
HB23-1273 Creation of Wildfire Resilient Homes Grant Program		-$0.1		
HB23-1290 Proposition EE Funding Retention Rate Reduction		-$5.6		
HB23-1305 Continue Health Benefits in Work-related Death		-$0.2	-$0.2	-$0.2
SB23-001 Authority Of Public-private Collaboration Unit For Housing		-$5.0		
SB23-005 Forestry And Wildfire Mitigation Workforce	-$1.0	-$1.0	-$1.0	-$1.0
SB23-044 Veterinary Education Loan Repayment Program		-$0.5		
SB23-056 Compensatory Direct Distribution to PERA		-$10.0		
SB23-137 Transfer to Colorado Economic Development Fund	-$5.0			
SB23-161 Financing to Purchase Firefighting Aircraft	-$26.0			
SB23-166 Establishment of a Wildfire Resiliency Code Board		-$0.3		
SB23-205 Universal High School Scholarship Program		-$25.0		
SB23-246 Transfers to State Emergency Reserve	-$20.0			
SB23-255 Wolf Depredation Compensation Fund		-$0.2	-$0.4	-$0.4
SB23-257 Auto Theft Prevention Cash Fund		-$5.0		
SB23-275 Colorado Wild Horse Project	-$1.5			
SB23-283 Mechanisms For Federal Infrastructure Funding		-$84.0		
HB23B-1001: ERA Transfer		-$15.1		
HB24-1043 State Contribution to FPPA Death & Disability Fund				-$2.1
HB24-1152 Accessory Dwelling Units		-$5.0	-$8.0	
HB24-1176 Behavioral Health Grant for Capital Project			-$4.0	
HB24-1211 State Funding for Senior Services Contingency Fund		-$2.0		
HB24-1213 Gen Fund Transfer Judicial Collection Enhancement		-$2.5		
HB24-1214 Community Crime Victims Funding		-$4.0		
HB24-1237 Programs for the Development of Child Care Facilities			-$0.3	
HB24-1280 Welcome, Reception, & Integration Grant Program			-$2.5	
HB24-1313 Housing in Transit-Oriented Communities			-$35.0	
HB24-1364 Education-Based Workforce Readiness				-$5.0
HB24-1365 Opportunity Now Grants & Tax Credit			-$4.0	

HB24-1379 Regulate Dredge & Fill Activities in State Waters				
HB24-1386 Broadband Infrastructure Cash Fund for DOC			-$4.6	
HB24-1390 School Food Programs			-$3.2	
HB24-1397 Creative Industries Cash Fund Transfer			-$0.5	
HB24-1420 Transfer to Colorado Crime Victim Services Fund			-$4.0	
HB24-1421 Modifying Public Safety Program Funding			-$3.0	
HB24-1439 Financial Incentives Expand Apprenticeship Programs			-$4.0	
HB24-1465 Program Changes Refinance Coronavirus Recovery Funds		-$0.4		
HB 24-1466 Refinance Federal Coronavirus Recovery Funds		-$1,394.6		
SB 24-170 America 250 - Colorado 150 Commission				-$0.3
SB24-214 Implement State Climate Goals			-$0.4	-$0.4
SB24-218 Modernize Energy Distribution Systems			-$0.8	
SB24-221 Funding for Rural Health Care			-$1.7	
Transfers for Capital Construction				
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
HB22-1340 Capital-related Transfers Of Money	-$462.2			
SB23-141 Transfers for Capital Construction	-$11.0			
SB23-243 General Fund Transfers to Capital Construction Fund		-$294.2		
SB23-294 Increase General Fund Transfers to Capital Construction Fund		-$18.2		
HB24-1215 Transfers to the Capital Construction Fund		-$19.0		
HB24-1231 State Funding for Higher Education Projects		-$41.3		
HB24-1425 Transfers for Capital Construction			-$232.2	
SB24-222 State Funding to Relocate Two State Entities			-$1.9	
Transfers for Transportation				
SB21-260 Sustainability of the Transportation System	-$2.5		-$117.5	-$117.5
HB22-1351 Temporarily Reduce Road User Charges	-$78.5			
SB22-176 Early Stage Front Range Passenger Rail Funding	-$7.0			
SB22-180 Programs To Reduce Ozone Through Increased Transit				

SB23-283 Mechanisms for Federal Infrastructure Funding		-$5.0		
Transfers to the State Education Fund				
HB 22-1390 (Reduced by $10M as result of SB 22-202)	-$290.0			
SB23B-001 SEF Transfer			-$146.0	
Total transfers into General Fund	**$53.5**	**$92.4**	**$164.2**	**$58.9**
Total transfers out of General Fund	**-$1,872.0**	**-$2,338.9**	**-$1,003.2**	**-$597.5**
(Subtotal) Transfers to Other Funds	**-$1,000.8**	**-$1,941.3**	**-$485.7**	**-$430.0**
(Subtotal) Transfers for Capital Construction	**-$493.2**	**-$392.6**	**-$254.1**	**-$50.0**
(Subtotal) Transfers for Transportation	**-$88.0**	**-$5.0**	**-$117.5**	**-$117.5**
(Subtotal) Transfers to the State Education Fund	**-$290.0**		**-$146.0**	
Total Net Transfers	**-$1,818.5**	**-$2,246.4**	**-$839.1**	**-$538.6**

Table 9: Rebates and Expenditures

Line No.	Category	FY 2022-23	% Chg	FY 2023-24	% Chg	FY 2024-25	% Chg	FY 2025-26	% Chg
	Rebates & Expenditures:								
1	Cigarette Rebate to Local Governments*	$7.7	-7.0%	$0.0	-100.0%	$0.0	N/A	$0.0	N/A
2	Marijuana Rebate to Local Governments	$21.9	-14.5%	$20.1	-8.5%	$21.6	7.4%	$22.8	5.9%
3	Old-Age Pension Fund/Older Coloradans Fund	$94.9	9.2%	$94.2	-0.7%	$100.1	6.3%	$105.0	4.8%
4	Aged Property Tax & Heating Credit	$12.0	105.2%	$10.8	-10.0%	$9.8	-9.4%	$8.1	-17.1%
5	Homestead Exemption	$163.7	1.0%	$163.2	-0.3%	$166.0	1.7%	$166.1	0.1%
6	*TABOR Refund Portion of Homestead Exemption*	*($163.6)*		*($163.2)*		*($166.0)*		*($166.1)*	
7	Property Tax Assessed Value Reductions from SB22-238, SB23b-001	$0.0	N/A	$291.1	N/A	$0.0	-100.0%	$0.0	N/A
8	*TABOR Refund Portion of Homestead Exemption*	*$0.0*		*($237.1)*		*$0.0*		*$0.0*	
9	Portable Homestead Exemption Expansion (SB24-111)	$0.0	N/A	$0.0	N/A	$0.0	N/A	$31.7	N/A
10	*TABOR Refund Portion of Homestead Exemption*	*$0.0*		*$0.0*		*$0.0*		*($31.7)*	
11	Debt Payment on Bonds for School Loans	$10.5	952.4%	$25.4	140.9%	$27.6	8.9%	$21.4	-22.6%
12	Fire/Police Pensions	$4.3	-5.0%	$4.3	-0.1%	$4.5	5.0%	$4.7	5.6%
13	Amendment 35 General Fund Expenditure	$0.7	-6.9%	$0.6	-11.7%	$0.6	-3.1%	$0.6	-3.9%
14	Property Tax Exemption Reimbursement to Local Governments	$16.6	-0.5%	$16.6	-0.3%	$16.9	2.0%	$17.0	0.6%
15	**Total Rebates & Expenditures (Excluding TABOR Refund)**	**$168.7**	**12.8%**	**$226.0**	**33.9%**	**$181.1**	**-19.8%**	**$179.6**	**-0.8%**

**Cigarette Rebates to local governments are classified as exempt beginning in FY 2023-24, per HB24-1469*