Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Memorandum

July 30, 2025

TO: Executive Committee

FROM: Legislative Council Staff, Economics Section

SUBJECT: June 2025 Forecast Update with Impacts of H.R. 1 – the One Big Beautiful Bill Act (OBBBA)

Executive Summary

This memorandum presents the budget outlook based on the June 2025 forecast for General Fund revenue, cash fund revenue, and the state TABOR outlook, and current law after incorporating the fiscal impacts of H.R. 1 - the One Big Beautiful Bill Act (OBBBA). FY 2024-25 has additionally been updated with actual data for May and June.

General Fund Budget Outlook

FY 2024-25

The General Fund is expected to end FY 2024-25 with a 14.9 percent reserve, $27.0 million below the statutory requirement. General Fund revenue declined by 0.4 percent and totaled $17.18 billion. Boosted by higher-than-expected insurance and income tax revenue, collections ended the fiscal year $138.1 million, or 0.8 percent, above the June forecast for General Fund revenue. This forecast update expects that revenue exceeded the Referendum C cap by $311.1 million, 1.6 percent above the cap. Due to the timing of the passage of OBBBA, the bill does not impact FY 2024-25 revenue.

FY 2025-26

This forecast update adjusts the June revenue forecast for the direct impacts of the OBBBA. General Fund revenue is expected to decrease 2.0 percent to $16.83 billion, a $745.2 million or 4.2 percent downward revision compared to the June forecast. The General Fund is expected to end FY 2025-26 with a 10.6 percent reserve, $691.9 million below the statutory reserve requirement. Total state revenue subject to TABOR is expected to fall short of the Referendum C cap by $661.8 million, 3.34 percent below the level of the cap.

The June forecast assumed that certain tax credits contingent upon the revenue forecast would be reduced in tax year 2026. After incorporating expected impacts of the OBBBA into the June forecast, the Family Affordability Tax Credit and the expanded state earned income tax credit are expected to be triggered fully off, unavailable to be claimed for tax years 2026 and 2027. The conservation easement tax credit is expected to be nonrefundable in FY 2025-26. In addition, tax credits related to decarbonization pursuant to House Bill 23-1272 and the Workforce Shortage Tax Credit (House Bill 24-1365) are expected to be reduced in tax year 2026 only, as previously assumed in the June 2025 forecast.

FY 2026-27

General Fund revenue is expected to grow 10.0 percent and total $18.50 billion, with state revenue subject to TABOR exceeding the Referendum C cap by $758.8 million. With the expected OBBBA impacts, the General Fund is projected to have $532.1 million, or 2.9 percent, less available to spend or save than what is budgeted to be spent in FY 2025-26 after current law transfers and the statutory reserve requirement are fulfilled. This amount does not incorporate caseload growth, inflation, or other budgetary pressures.

The General Fund Budget Overview section presents an alternative scenario that projects additional FY 2026-27 budget obligations based on current law. This scenario (“Scenario B”) was updated to include additional costs for SNAP administration that are required under the OBBBA. Under this scenario, the year-end General Fund reserve could fall short of the reserve requirement by $1.39 billion, 7.7 percent below the requirement. Additional explanation can be found in the discussion of the budget Scenario B (see Table 4 on page 26).

Risks to the Budget Outlook

Estimates of the impact of the OBBBA on the state budget include significant uncertainty, and the actual impact could fall considerably higher or lower than projections. In total, the passage of the OBBBA is expected to decrease state revenue by $1.05 billion in FY 2025-26 and $633.0 million in FY 2026-27. The FY 2025-26 impact includes the OBBBA provisions impacting tax year 2025 that cannot be attributable to FY 2024-25 since the fiscal year ended June 30, 2025. As a result, FY 2025-26 incorporates 18 months of impacts from the OBBBA. Additional details regarding the OBBBA scoring methodology and estimates can be found in the OBBBA section below.

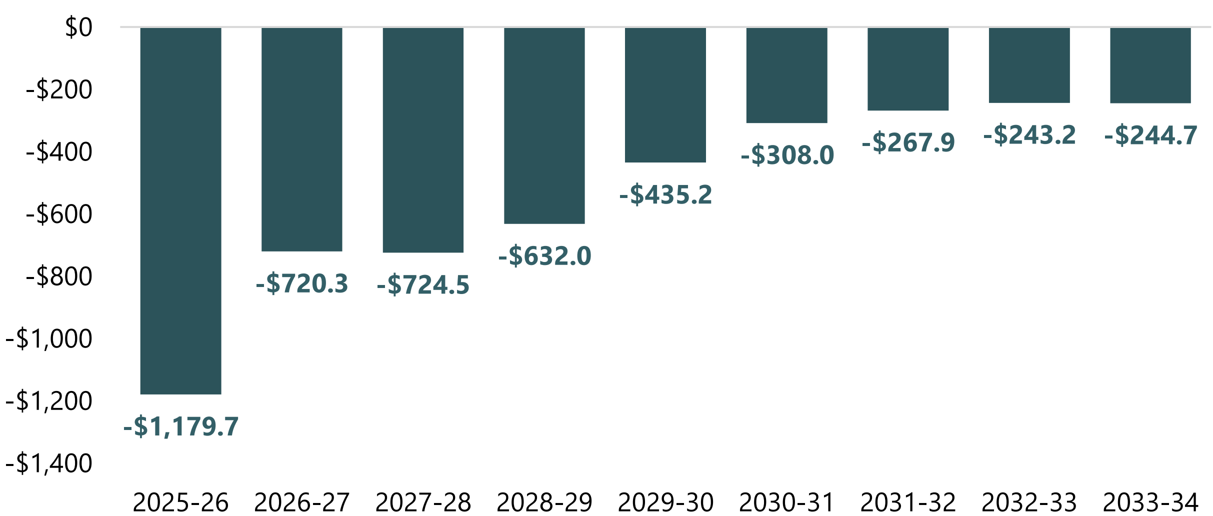
State Revenue Impacts of the One Big Beautiful Bill Act

The passage of the OBBBA, which was signed into law on July 4, 2025, is expected to decrease Colorado’s state income tax revenue beginning in FY 2025-26. The bill represents the most significant change to federal income tax policy since the Tax Cuts and Jobs Act (TCJA) in 2017, with over a hundred tax provisions alone. The OBBBA is expected to affect both individual and corporate income tax revenue, particularly in the current fiscal year, although other revenue streams, such as insurance premium tax revenue, may be indirectly impacted. The following provides a summary of the estimated impacts of the OBBBA, as well as a discussion of the methodology used to prepare these estimates, an overview of how Colorado income taxes are calculated, and a summary of key OBBBA provisions impacting individual and business income taxes.

Preliminary State Revenue Impacts from the OBBBA

Figure 1 and Table 1 summarize the preliminary estimates of the total General Fund revenue impact expected for the state of Colorado as a result of the OBBBA on an accrual accounting basis. Some of the bill's impacts begin in tax year 2025, which would normally be accrued partially to FY 2024-25. However, because the bill was signed into law after the close of the state's 2024-25 fiscal year, those fiscal year impacts, estimated at -$319.8 million, are expected to be accrued to the current FY 2025-26, along with an estimated -$859.9 million, for **a total revenue decrease of $1.2 billion accrued to FY 2025-26**. Individual and corporate income tax revenue accounts for all impacts shown in Figure 1.

Figure 1
Preliminary Estimates of State Revenue Impacts from the OBBBA
Dollars in Millions for State Fiscal Years



Source: Legislative Council Staff estimates based on Joint Committee on Taxation estimates and available data. Estimates are on an accrual accounting basis so that FY 2024-25 impacts are added to FY 2025-26 estimates. Estimates remain preliminary and subject to change with additional information or data.

Table 1
Preliminary Estimates of State Revenue Impacts by Revenue Stream
Dollars in Millions

General Fund Revenue Stream	FY 2025-26	FY 2026-27	FY 2027-28
Individual Income Tax	-$843.4	-$569.0	-$574.9
Corporate Income Tax	-$336.3	-$151.3	-$149.7
Total	**-$1,179.7**	**-$720.3**	**-$724.5**

Source: Legislative Council Staff estimates based on Joint Committee on Taxation estimates and available data. Estimates are on an accrual accounting basis so that FY 2024-25 impacts are added to FY 2025-26 estimates. Estimates remain preliminary and subject to change with additional information. Totals may not sum due to rounding.

How the OBBBA Impacts State Revenue

The OBBBA modifies and permanently extends many provisions from the TCJA, which lowered federal tax rates and broadened the federal tax base. While changes to federal tax rates do not have an impact on Colorado's income tax revenue, changes to federal taxable income do impact the state's revenue expectations, as discussed below. The majority of provisions under the TCJA were set to repeal after 2025.

In addition, the OBBBA includes many new provisions that will impact state taxable income and income tax revenue, some of which are temporary, and many of which are permanent. While the TCJA's provisions were estimated to increase state income tax revenue on net for tax years 2018 through 2025 because of its base-broadening provisions, the OBBBA's base-broadening impacts, many of which are lessened relative to TCJA, are outweighed by provisions that decrease state taxable income for both individuals and businesses. Revenue impacts of specific provisions are discussed further below.

The impacts of the OBBBA on Colorado's income tax revenue may be larger as a share of total state revenue than that for many other states because Colorado's state tax base begins with federal taxable income. Most states with an income tax instead use federal adjusted gross income as a starting point. The OBBBA impacts on federal taxable income are much greater than those for adjusted gross income.

OBBBA Impacts on Income Tax Credits Conditional on Revenue Conditions

Revenue impacts shown in Figure 1 do not include downward adjustments to income tax credits that are conditional on forecasted revenue subject to TABOR, which are expected to be partially or fully turned off for both tax years 2026 and tax years 2027, due to OBBBA impacts to individual and corporate income tax revenue. The reduced availability of individual income tax credits will offset General Fund revenue reductions from the OBBBA, as discussed further below.

OBBBA Impacts on Healthy School Meals for All Program Revenue

General Fund revenue impacts shown in Figure 1 will be partially offset by expected increases in revenue deposited into the Healthy School Meals for All (HSMA) Cash Fund. Beginning in tax year 2023, non-corporate taxpayers with adjusted gross incomes over $300,000 are required to add back a portion of their federal standard or itemized deductions when computing their Colorado taxable income. This revenue is exempt from TABOR, and is required to be spent for the healthy school meals program created in Proposition FF and approved by voters in November 2022.

OBBBA provisions that extend and expand the increased standard deductions under the TCJA and modify itemized deductions on federal taxes, particularly the increased cap on itemized deductions for state and local taxes (SALT), are expected to increase the amounts required to be added back under Proposition FF, increasing revenue to the HSMA Program by $28 million in FY 2025-26, and by $46 million in FY 2026-27.

Revenue Impact Estimate Methodology

Data are not available at the state level to model most provisions of the OBBBA. Therefore, state level estimates are based on federal estimates published by the Joint Committee on Taxation (JCT).[1] The Congressional Budget Act of 1974 created the JCT and charged its nonpartisan staff with providing official estimates for all tax legislation considered by Congress. Legislative Council Staff's state-level estimates use the JCT estimates of federal revenue impacts relative to the current policy baseline that were published on July 1, 2025, as a starting point. The current policy baseline measures OBBBA impacts relative to the change from current tax policy, which includes TCJA provisions, including those set to expire.

[1] For these estimates and more information, visit the Joint Committee on Taxation website.

For example, the TCJA repealed personal and dependent exemptions for tax years 2018 through 2025. The OBBBA permanently extends the repeal of personal and dependent exemptions, but adds an additional $6,000 deduction for seniors for tax years 2025 through 2028. The repeal of personal exemptions in the TCJA and the OBBBA both have the impact of increasing federal taxable income and state income tax revenue on net, relative to pre-TCJA law and what would have been post-TCJA law had the OBBBA not been enacted, but the OBBBA's new senior deduction reduces federal taxable income and state income tax revenue relative to the TCJA, which is the current policy baseline that is the starting point for LCS estimates of the OBBBA impacts.

From the JCT current policy baseline estimates for each of the OBBBA's tax provisions, the LCS estimates then generally follow a four-step process:

1. estimate total federal taxable income for all U.S. taxpayers;
2. estimate the share of federal taxable income attributable to Colorado filers;
3. apply the state tax rate; and
4. adjust for state-specific tax provisions.

The JCT's estimates provide the federal revenue impact of legislation and are generally published for each major provision of a bill. For each provision of the OBBBA that impacts Colorado income tax via federal taxable income, the JCT's July 1, 2025, estimates were divided by an estimate of the average effective federal tax rate to arrive at an estimate of total federal taxable income impacted by the OBBBA. Estimates assume an average effective federal individual income tax rate of 19.3 percent, and an average effective federal corporate income tax rate of 21.8 percent.[2]

Many of the business provisions of the TCJA apply to both corporate and individual filers. Legislative Council Staff's state revenue impact estimates assume that 47.6 percent of business taxable income is attributable to corporate filers based on an average of 2000 to 2015 data published by the Internal Revenue Service.[3] The share of taxable income assumed attributable to corporate filers was divided by the effective corporate tax rate assumption. The remaining share was divided by the individual income tax rate assumption.

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[2] Assumptions are based on the JCT's assumptions and on Internal Revenue Service 2022 Statistics of Income data, respectively.

[3] Data are downloadable at the IRS website.

Next, total estimated federal taxable income was multiplied by an assumption of the share attributable to Colorado filers to arrive at an estimate of federal taxable income for Colorado filers. Data from the 2022 Statistics of Income published by the Internal Revenue Service were used to determine Colorado's historical share of total federal taxable income by taking the ratio of total taxable income across Colorado filers to total taxable income across all filers. This Colorado share (2.05 percent) was applied across estimates for most provisions of the OBBBA, while the Colorado share for provisions impacting the standard deduction (1.8 percent), senior deductions (1.7 percent), itemized deductions (2.0 percent), and SALT deductions (1.9 percent) relied upon Statistics of Income data for these specific deductions. For provisions affecting corporate filers, a 1.82 percent assumption was used based on Colorado's share of gross operating surplus for 2019 through 2023.[4]

For each provision, estimates of Colorado taxable income were multiplied by the state tax rate of 4.40 percent to estimate the state revenue impact of the OBBBA. Finally, adjustments were made for specific state tax provisions that interact with the OBBBA, including for example, the state add-back for state income taxes deducted from federal income tax and the expiring state add-back for qualified business income deductions for some taxpayers.[5] The enhanced federal Child and Dependent Care Credit is expected to impact the amount of the state's Child and Dependent Care Credit, which is based on a percentage of the federal tax credit. Hence the impact on state income tax revenue is based on that percentage multiplied by the state share of federal child and dependent care tax credits (1.5 percent).

Finally, estimates were adjusted to account for a January 2025 start date, where applicable, and for the difference between the state fiscal year, which begins on July 1, and the federal fiscal year, which begins on October 1.

Estimates for the OBBBA's impacts on HSMA revenue were prepared by adding back the assumed revenue impact due to the expiration of the TCJA, along with state-level OBBBA estimates adjusted for the share of Colorado deductions taken by taxpayers with adjusted gross incomes of $300,000 or more for standard deductions (4.4 percent), itemized deductions (41.8 percent), and SALT deductions (28.8 percent), based on the Colorado Department of Revenue 2020 Statistics of Income Report.

[4] This assumption is based on data published by the U.S. Bureau of Economic Analysis.

[5] Adjustments for state-specific policies are based on the Colorado Department of Revenue 2020 Statistics of Income data.

Risks to Revenue Estimates

Changes in federal tax policy will cause shifts in taxpayer behavior as individuals and businesses seek to minimize their combined state and federal income tax liabilities. The full extent and timing of these shifts are unknown and pose a significant risk to estimates, where revenue impacts may be smaller or larger than those published here.

Without an estimate of the margin of error for the JCT's estimates, a margin of error for state-level estimates cannot be quantified. The JCT estimates assume a baseline for economic growth. To the extent that the economy under- or over-performs relative to this baseline, impacts will be lower or higher than estimated. To the extent that federal taxable income among Colorado filers differs from that of all federal filers and these differences are not captured by the state estimate methodology, estimates will over- or understate the revenue impacts of the OBBBA.

The complexity of the changes made under the OBBBA and data limitations make verification of state revenue impact estimates impossible. Without access to detailed taxpayer data, there is no way to disentangle the changes under the OBBBA from changes caused by the business cycle, natural shifts in taxpayer behavior, or other factors that would have occurred regardless of the bill.

How are Income Taxes Calculated?

To understand how changes to the federal tax law will impact Colorado taxes, it is helpful to understand how federal and state taxes are calculated. Figure 2 summarizes these calculations and illustrates how state and federal taxable income are tied. As federal taxable income serves as the base for Colorado income tax, changes to federal taxable income flow through to Colorado taxable income. In contrast, changes to federal tax rates and tax credits have no direct impact on the Colorado income tax, except for state tax credits that are based on the amount of federal tax credits. The following provides a brief description of the calculation of both federal and state taxable income.

When filing a federal income tax return, taxpayers first compute their **federal adjusted gross income (AGI)**. AGI differs from total income because the federal tax code allows certain amounts to be excluded, exempted, or deducted. These provisions are sometimes called **"above the line"** deductions because they are available regardless of whether a taxpayer chooses to use the standard or itemized deduction. Notable examples of "above the line" deductions from the 2024 tax form include those for:

- educator expenses;
- health savings account contributions;

- moving expenses;
- health insurance expenses by self-employed persons; and
- student loan interest.

After calculating AGI, taxpayers next have to compute their federal taxable income. Taxpayers may subtract from their AGI a fixed amount called the **standard deduction**, or may instead choose to subtract **itemized deductions**. For tax year 2024, the standard deduction amount is $14,600 for single filers, $21,900 for heads of household, and $29,200 for joint filers. Individuals who are at least 65 years old at the start of the tax year, and/or who are blind, are able to claim larger standard deduction amounts. Itemized deductions include, but are not limited to:

- medical and dental expenses;
- state and local taxes (SALT);
- home mortgage and investment interest;
- gifts to charity; and
- casualty losses from a federally declared disaster.

A taxpayer's **federal taxable income equals the taxpayer's adjusted gross income less standard or itemized deductions and qualified business income**, as shown in Figure 2.

Figure 2
Calculating Federal and Colorado State Individual Income Taxes

Federal Income Tax

Gross Income (All sources) - "Above-the-Line" Deductions = Adjusted Gross Income

Adjusted Gross Income - Standard or Itemized Deductions - Qualified Business Income Deduction = **Federal Taxable Income**

Federal Taxable Income × Tax Rates - Tax Credits = **Net Federal Taxes Owed**

Colorado State Income Tax

Federal Taxable Income + State Additions - State Subtractions = **Colorado Taxable Income**

Colorado Taxable Income × Tax Rate - State Tax Credits = **Net Colorado Taxes Owed**

Prepared by Legislative Council Staff.

The starting point for **Colorado taxable income** is federal taxable income. From federal taxable income, Colorado taxpayers are then required to add or subtract certain state-specific additions and subtractions to arrive at Colorado taxable income. The largest **state addition** to taxable income is the state add-back for state income taxes deducted from federal taxable income.[6] Following the TCJA, an add-back was included for the qualified business income deduction.[7] In recent years, add-backs have also included an add-back for individual income taxpayers with AGI over $300,000.[8]

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6 Section 39-22-104 (3)(d), C.R.S.
7 Section 39-22-104 (3)(o), C.R.S.
8 Section 39-22-104 (3)(p.5), C.R.S.

Notable **state subtractions** include those for:

- contributions to 529 (CollegeInvest) savings plans;[9]
- retirement income included in federal taxable income (limited to $20,000 for those aged 55 to 64 years of age, and $24,000 for those 65 and older);[10] and
- charitable contributions in excess of $500 for taxpayers who claim the standard deduction.[11]

Individual Income Tax Impacts under the OBBBA

Individual income tax collections are the largest single source of revenue to the state, and account for about 53 percent of revenue to the General Fund. The OBBBA provisions with the largest individual income tax impacts are discussed below.

In addition to these federal tax changes, Colorado has state additions and tax credits that interact with certain provisions of the OBBBA. For example, the state income tax add-back offsets the revenue impact of increasing the cap on SALT deductions. The state add-back for qualified business income for some taxpayers (discussed under the Business Income Tax Impacts section below) increases the revenue impact of extending this deduction in the OBBBA, because the state add-back expires after tax year 2025. Finally, the state's child and dependent care tax credit is calculated as a share of the federal tax credit, which is enhanced under the OBBBA.

Extension and Enhancement of Increased Standard Deduction

Reduces Revenue

The OBBBA permanently extends and expands the current standard deduction, which was expanded by TCJA and set to expire after 2025, and beginning in 2026 increases the indexing for inflation by changing the base year from 2017 to 2016. For single filers and married couples filing jointly, the standard deduction will increase by $750 to $15,750 and by $1,500 to $31,500, respectively starting in tax year 2025. This provision is expected to increase deductions from federal taxable income, resulting in reduced income tax revenue.

[9] Section 39-22-104 (4)(i), C.R.S.

[10] Section 39-22-104 (4)(f), C.R.S.

[11] Section 39-22-104 (4)(m), C.R.S.

Repeal Exemption for Personal Exemptions other than the Temporary Senior Deduction

Increases Revenue Relative To Pre-TCJA, Reduces Revenue Relative To TCJA

Under current law, the elimination of deductions for personal and dependent exemptions is set to expire after tax year 2025. The OBBBA permanently repeals the deduction for personal exemptions. It also adds an additional deduction of $6,000 for senior taxpayers for tax years 2025 through 2028. This provision is expected to reduce state income tax revenue for FY 2025-26 through FY 2028-29.

Extension and Modification of Limits to Itemized Deductions

Increases Revenue

The OBBBA maintains limits to itemized deductions, with some modifications reducing these limitations, including restricting deductions for mortgage interest, moving expenses, personal casualty losses, and miscellaneous itemized deductions. The new law allows a deduction for charitable contributions for taxpayers who do not itemize their deductions, up to $1,000 and $2,000 per year for single and joint filers, respectively. The TCJA repealed the previous overall limitation on itemized deductions through tax year 2025. Beginning in tax year 2026, this provision creates a new overall limitation on itemized deductions. In general, this provision caps the value of each dollar of itemized deductions at $0.35 per $1.00 for individuals. These provisions are expected to slightly increase state income tax revenue on net.

Expanded SALT Deduction

Reduces Revenue

The OBBBA continues the cap on SALT deductions established in the TCJA, but temporarily increases the SALT deduction cap from $10,000 to $40,000 starting in tax year 2025. The $40,000 cap applies to households with an AGI of $500,000 or less, $250,000 for married couples filing separately. For those with income above these thresholds, the deduction is gradually reduced but does not fall below $10,000, meaning households with AGI above $600,000 in 2025 are limited to a $10,000 SALT deduction. Both the deduction cap and the AGI threshold will increase by 1 percent each year for tax year 2026 through 2029. Beginning in tax year 2030, the limit on the SALT deduction will revert to the original $10,000, regardless of income level. This provision is expected to reduce state revenue from FY 2025-26 through FY 2029-2030, with positive or neutral revenue impacts thereafter. Impacts are partially offset by the state add-back of state income taxes deducted from federal taxable income.

No Tax on Tips, Overtime, or Car Loan Interest

Reduces Revenue

For tax years 2025 through 2028, the OBBBA provides new federal tax deductions for tips, overtime, and car loan interest paid. Up to $25,000 in income received from tips is tax deductible. Qualified tips must be received voluntarily by an individual in an occupation that traditionally and customarily receives tips. The OBBBA provides a federal tax deduction of up to $12,500 per year for income received from qualified overtime pay. Under current law, overtime wages are included in federal taxable income. However, House Bill 25-1296 requires any overtime compensation excluded from federal taxable income to be added back to Colorado taxable income starting in tax year 2026. Finally, under the OBBBA, taxpayers can deduct up to $10,000 in interest expenses from new car loans for cars assembled in the U.S. These provisions are expected to reduce state income tax revenue from FY 2025-26 through FY 2028-29, but with reduced impacts after FY 2025-26, when the overtime deduction in Colorado is decoupled from federal tax policy.

Business Income Tax Impacts

The OBBBA includes provisions that impact income taxes for businesses, some impacting businesses that file taxes using an individual income tax form, some that file as corporations, and some impact both corporate and individual filers. Like individual income tax, Colorado's corporate income tax is based on federal taxable income. Therefore, any changes to federal corporate income tax deductions will carry through to the state level. The provisions in the OBBBA with the largest impact on Colorado state tax revenue are discussed below.

Full Expensing for Certain Business Property

Reduces Revenue

The depreciation deduction allows taxpayers to recover the cost of certain property over the life of the property. It is an annual allowance for the wear and tear, deterioration, or obsolescence of the property and is deducted from the income of the business. The larger the deduction, the lower the federal taxable income. The Internal Revenue Service publishes depreciation schedules for different types of property. Most types of tangible property (except land), such as buildings, machinery, vehicles, furniture, and equipment, are depreciable and have unique depreciation schedules.

In addition, through the TCJA, 100 percent bonus depreciation was available on business property placed into service from September 28, 2017, through the end of 2022, and stepping down as follows: 80 percent in 2023, 60 percent in 2024, 40 percent in 2025, 20 percent in 2026, and 0 percent beyond 2026. The bonus depreciation deduction allows for faster recovery of costs by allowing a larger percent of the costs of business property to be deducted from federal taxable income in the first year the property is placed in service. For example, through TCJA and before the passage of the OBBBA, 40 percent of the cost of a computer purchased in 2025 could be deducted from that tax year's federal taxable income, before following the regular depreciation schedule for remaining years.

The OBBBA modifies bonus depreciation provisions to allow for 100 percent bonus depreciation for property placed into service on or after January 19, 2025. The bonus depreciation deduction, or additional first-year depreciation deduction, allows businesses to deduct from federal taxable income the entire cost of certain eligible assets in the first year they are placed in service, rather than depreciating over a longer period. The bonus depreciation deduction applies to tangible personal property with a recovery period of 20 years or less; certain computer software, water utility properties; qualified film, television and live theatrical productions; and interior improvements to certain nonresidential property. The change to the bonus depreciation deduction is expected to reduce corporate and individual income tax revenue from businesses by significant but decreasing amounts beginning in FY 2025-26.

Full Expensing of Domestic Research and Experimental Expenditures

Reduces Revenue

Through the TCJA, the amortization deduction allows businesses to gradually deduct the cost of foreign research and experimental expenditures across a 5-year period, or 15 year-period for certain assets. The amortization deduction works similarly to the depreciation deduction but applies to intangible assets such as patents, trademarks, copyrights, licenses, and startup costs.

The OBBBA expands this deduction to additionally allow for the deduction of domestic research and experiment expenditures, for which all costs may be deducted immediately, rather than overtime as with foreign assets. This change goes into effect permanently beginning in tax year 2025, reducing total federal taxable income. As a result, the amortization deduction is expected to reduce corporate and individual income tax revenue from businesses by significant but decreasing amounts beginning in FY 2025-26.

Special Depreciation Allowance for Qualified Production Property

Reduces Revenue in the Near-Term, Increases Revenue over the Longer-Term

Similar to the bonus depreciation deduction described above, the OBBBA adds a new section to the U.S. tax code allowing for taxpayers to elect to deduct 100 percent of the cost of qualified production property from federal taxable income for properties where construction begins after January 19, 2025, and before January 1, 2029, with the property being placed in service before January 1, 2031. Qualifying property must be nonresidential real property used as an integral component of manufacturing, production, or refining of tangible personal property in the United States. Any portion of the property that is used for functions unrelated to manufacturing, production, or refining of tangible personal property is excluded from the special depreciation allowance. If the use of the property changes within 10 years after being placed in service, the lost tax revenue may be recaptured.

For the state of Colorado, the special depreciation allowance for qualified production properties is expected to reduce business income tax revenue over the next six years (FY 2025-26 through FY 2030-31, before slightly increasing revenue.

Modifications of Limitations on Business Interest

Reduces Revenue

A business' "adjusted taxable income" is calculated as the business' earnings before interest, taxes, depreciation, and amortization. For most businesses, the TCJA limited the deduction of interest to 30 percent of adjusted taxable income. However, any interest that cannot be deducted can be carried forward indefinitely. Beginning in 2022, the calculation of adjusted taxable income was limited to earnings before interest and taxes. The OBBBA reverts to the calculations for adjusted taxable income that were allowable prior to 2022, such that depreciation and amortization can be accounted for. The provision is expected to increase interest deductions from federal taxable income, resulting in a loss of state income tax revenue beginning in FY 2025-26.

Qualified Business Income Deduction

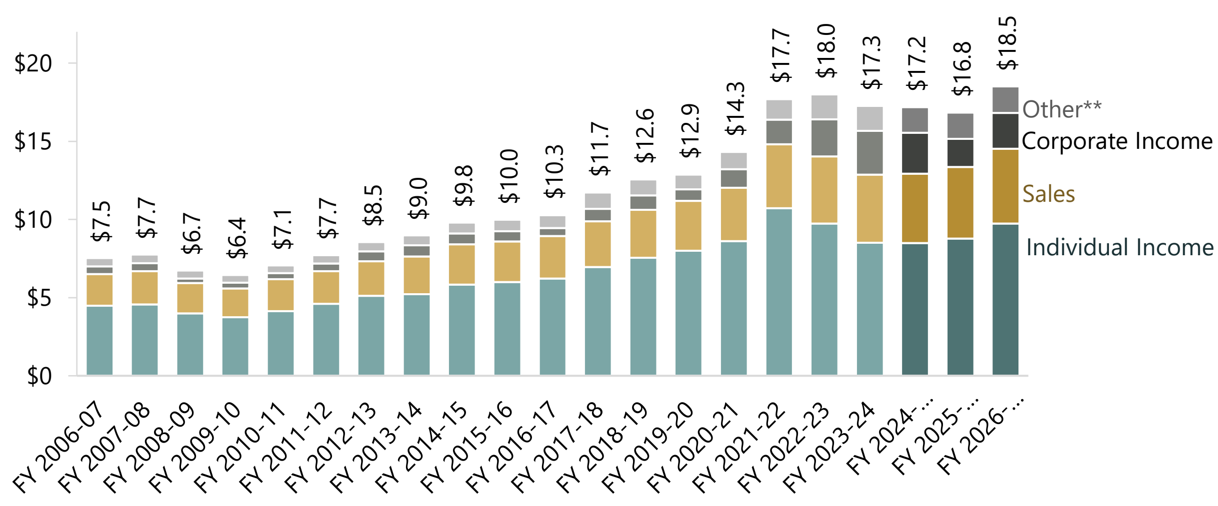
Reduces Revenue

The TCJA created a new income tax deduction for qualified business income for certain pass-through entities that was set to expire after the 2025 tax year. The OBBBA permanently extends the deduction beginning in tax year 2026 and expands it by implementing a minimum deduction of $400 that is increased for inflation each year. The OBBBA also expands the deduction by raising the provision's income-based phase-in thresholds for certain deduction limitations. Following passage of the TCJA, House Bill 20-1420 was passed to create a state add-back for the amount of the federal deduction for nonfarm, higher-income businesses. Initially for tax years 2021 and 2022, House Bill 21-1311 extended the state add-back through tax year 2025. This provision is expected to reduce state income tax revenue starting in FY 2025-26.

General Fund Revenue

This section presents the outlook for General Fund revenue, the state's main source of funding for discretionary operating appropriations. The three primary sources of General Fund revenue are individual income tax, sales tax, and corporate income tax collections. Other sources of General Fund revenue include excise taxes (retail marijuana, tobacco, and liquor), insurance premium tax, pari-mutuel tax, court receipts, and investment income. The General Fund revenue section has been updated form the June 2025 forecast to incorporate FY 2024-25 May and June actuals and the expected impacts of the OBBBA on individual and corporate income tax revenue. Table 2 on page 17 summarizes General Fund revenue collections for FY 2023-24 and projections for FY 2024-25 through FY 2026-27; these are also illustrated in Figure 3, below.

Figure 3
General Fund Revenue Sources
Billions of Dollars



Amounts shown for FY 2024-25 through FY 2026-27 are forecasts.
The segment labeled "Other" includes: use tax; retail marijuana special sales tax; cigarette, tobacco, and liquor excise taxes; Proposition EE tobacco taxes; firearms and ammunition tax; insurance premium tax; pari-mutuel wagering tax; court receipts; investment income; and miscellaneous small sources that are not forecast independently.
Source: Office of the State Controller and Legislative Council Staff July update to June 2025 forecast.

Individual income tax is the largest component of General Fund revenue and is expected to end FY 2024-25 at $10.0 billion, $89.6 million above the June 2025 forecast as a result of higher-than-expected May and June actuals. After accounting for the expected impacts of the OBBBA, individual income tax revenue is expected to grow 2.3 percent in FY 2025-26 to $10.2 billion, a $512.8 million or 4.8 percent downgrade from the June 2025 forecast. In FY 2026-27, individual income tax revenue is expected to grow 12.7 percent, to $11.5 million, a $346.8 million upgrade from the June 2025 forecast. These revisions are driven largely by changes in certain income tax credits that are conditional on forecasted revenue subject to TABOR, which were revised downward as a result of expected OBBBA impacts. These downward revisions triggered adjustments in the amounts of conditional tax credits, thereby reducing expected income tax refunds, which are a subtraction from total income tax revenue and discussed in more detail in the section below. After accounting for the income tax credits that are reduced or turned off for tax years 2026 and 2027, FY 2026-27 is revised up from the June 2025 forecast.

Table 2A
Total General Fund Revenue Estimates
Dollars in Millions

Line	Category	Actual FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	Estimate FY 2026-27
1	**Sales, Use, and Excise Taxes**	**$5,096.7**	**$5,194.1**	**$5,358.8**	**$5,603.2**
2	Percent Change in Sales, Use, and Excise Taxes	-0.3%	2.0%	3.1%	4.6%
3	**Income Tax to the General Fund**	**$11,304.7**	**$11,111.1**	**$10,564.5**	**$12,003.0**
4	Percent Change in Income Tax to the General Fund	-6.5%	-1.7%	-4.9%	13.6%
5	**Other General Fund Revenue**	**$850.1**	**$831.5**	**$904.7**	**$897.7**
6	Percent Change in Other General Fund Revenue	-7.2%	2.4%	3.9%	-0.8%
7	**Gross General Fund Revenue**	**$17,251.4**	**$17,175.7**	**$16,828.0**	**$18,504.0**
8	**Percent Change in Gross General Fund Revenue**	**-4.1%**	**-0.4%**	**-2.0**	**10.0%**

Table 2B
Income Taxes
Dollars in Millions

Line	Category	Actual FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	Estimate FY 2026-27
9	**Net Individual Income Tax**	**$10,044.2**	**$10,003.5**	**$10,231.9**	**$11,529.9**
10	Percent Change in Net Individual Income Tax	-8.3%	-0.4%	2.3%	12.7%
11	**Net Corporate Income Tax**	**$2,796.6**	**$2,619.5**	**$1,789.0**	**$2,273.8**
12	Percent Change in Net Corporate Income Tax	18.2%	-6.3%	-31.7%	27.1%
13	**Total Income Taxes**	**$12,840.8**	**$12,623.0**	**$12,020.9**	**$13,803.8**
14	Percent Change in Total Income Taxes	-3.6%	-1.7%	-4.8%	14.8%
15	**Less: Portion Diverted to the SEF**	**-$1,209.0**	**-$1,060.6**	**-$1,010.1**	**-$1,111.6**
16	Percent Change in SEF Diversion	13.4%	-12.3%	-4.8%	10.0%
17	**Less: Portion Diverted to Kids Matter Account**	**$0.0**	**$0.0**	**$0.0**	**-$216.8**
18	Percent Change in Kids Matter Diversion				N/A
19	**Less: Portion Diverted for Affordable Housing**	**-$327.0**	**-$319.4**	**-$303.0**	**-$333.5**
20	Percent Change in Affordable Housing Diversion	104.4%	-2.3%	-5.1%	10.0%
21	**Less: Portion Diverted for Healthy School Meals**	**$0.0**	**-$131.9**	**-$143.3**	**-$138.9**
22	Percent Change in School Meals Diversion	N/A	N/A	8.6%	-3.1%
23	**Income Tax to the General Fund**	**$11,304.7**	**$11,111.1**	**$10,564.5**	**$12,003.0**
24	**Percent Change in Income Tax to the General Fund**	**-6.5%**	**-1.7%**	**-4.9%**	**13.6%**

Corporate income taxes are expected to end FY 2024-25 at $2.62 billion, a $14.7 million increase from the June forecast after accounting for May and June actuals. With the provisions in the OBBBA expected to impact business tax revenue, corporate income tax collections are expected to fall 31.7 percent in FY 2025-26 to $1.79 billion, a $335.8 million or 15.8 percent downgrade compared to the June forecast. Corporate income tax revenue is then expected to increase to

$2.27 billion in FY 2026-27, a $153.8 million downgrade from the June forecast, after accounting for the impacts of the OBBBA.

Fiscal Policies Dependent on Revenue Conditions

In 2023 and 2024, the General Assembly adopted four bills that create income tax credits for which availability and amounts depend on revenue forecasts. Additionally, the refundability of the conservation easement tax credit depends on actual collections of revenue subject to TABOR. Under this forecast, the tax credits from all four bills are expected to be reduced or eliminated in tax years 2026 and 2027 as a result of reduced revenue expectations.

Tax Credits Related to Decarbonization

House Bill 23-1272 extends pre-existing income tax credits for electric and plug-in hybrid electric passenger vehicles (through 2028) and trucks (through 2032). It also creates new income tax credits for installation of heat pumps or sales of electric bicycles, both through 2032. Beginning in tax year 2026, credit amounts are reduced by half in tax years where the preceding June forecast from either Legislative Council Staff (LCS) or the Office of State Planning and Budgeting (OSPB) anticipates that state revenue subject to TABOR will grow by less than 4 percent.

The credit amounts for electric motor vehicles, heat pumps, and electric bicycles will be reduced by 50 percent in tax year 2026 as determined by the June 2025 forecast. Under this forecast update, revenue growth in FY 2026-27 is expected to be sufficient for the tax credits to be available in full in tax year 2027. This is unchanged from the June 2025 forecast.

Workforce Shortage Tax Credit

House Bill 24-1365 creates a tax credit for tax years 2026 through 2032 for facility improvement and equipment acquisition costs associated with training programs to alleviate worker shortages. Total credit certificates issued for each tax year may not exceed $15 million. This amount is reduced to $7.5 million in tax years where the preceding September forecast from either LCS or OSPB anticipates that state revenue subject to TABOR will grow by less than 4 percent. The trigger will first apply based on the September 2025 forecasts of revenue for FY 2025-26.

Because FY 2025-26 revenue growth is not expected to exceed 4 percent, the revenue cap for the tax credit is expected to be reduced to $7.5 million in tax year 2026. Revenue growth is expected to be sufficient for FY 2026-27 for the revenue cap to return to $15 million in tax year

2027. These expectations are unchanged from the June 2025 forecast. The actual revenue cap for 2026 will be determined by the September 2025 forecast.

Expanded Earned Income Tax Credit and Family Affordability Tax Credit

These bills expand the state earned income tax credit (House Bill 24-1134) and create a family affordability income tax credit (House Bill 24-1311). Both credits apply unconditionally in tax year 2024. For tax year 2025 and later tax years, the credits in the bills may be reduced based on revenue projections for the fiscal year that begins during the tax year, as projected in the December forecast that is prepared by the agency whose forecast was selected by the Joint Budget Committee (JBC) to balance that fiscal year's budget. Based on the December 2024 OSPB forecast, both credits will be allowed in full for tax year 2025.

The availability and amounts of these two credits are determined by an adjustment factor, calculated as the forecasted compound annual growth of state revenue subject to TABOR in any fiscal year, in relation to the March 2024 OSPB forecast for FY 2024-25 revenue. The adjustment factor must be at least 3.75 percent for the credits to be available in full. If the adjustment factor is below 3.0 percent, the tax credits will be unavailable.

Under this forecast update, the adjustment factor is expected to be less than 3.0 percent for FY 2026-27 and for FY 2027-28 (unpublished), such that neither tax credit is expected to be available for tax years 2026 and 2027. This is a departure from the June 2025 forecast, which had assumed that the credits would be partially available in tax year 2026 and fully available in tax year 2027. Making the FATC and expanded EITC unavailable for tax years 2026 and 2027 is expected to increase revenue by $302.1 million in FY 2025-26 and $870.2 million in FY 2026-27 relative to the June forecast.

Because the JBC selected the March 2025 OSPB forecast to balance the FY 2025-26 budget, the actual amounts of the credits for tax year 2026 will depend on the December 2025 OSPB forecast for FY 2026-27 revenue subject to TABOR.

Partial Refundability of the Conservation Easement Tax Credit

Prior to 2027, the conservation easement income tax credit is available as a nonrefundable credit in tax years when the state does not refund a TABOR surplus, as determined by the Annual Comprehensive Financial Report. In tax years when the state does refund a TABOR surplus, taxpayers may claim an amount up to $50,000, less their income tax liability, as a refundable credit. Beginning in tax year 2027, the credit will be partially refundable regardless of whether there is a TABOR surplus. Under this forecast update, revenue is expected to fall below the

Referendum C cap in FY 2025-26 such that the tax credit will be nonrefundable for one year. This forecast update assumes that this will result in more credits being claimed in the following fiscal year when the credit is refundable.

OBBBA Impacts to Healthy School Meals for All Program Funding

General Fund revenue impacts will be partially offset by expected increases in revenue deposited into the Healthy School Meals for All (HSMA) Cash Fund, as discussed above. Beginning in tax year 2023, non-corporate taxpayers with adjusted gross incomes over $300,000 are required to add back a portion of their federal standard or itemized deductions when computing their Colorado taxable income. This revenue is exempt from TABOR, and is required to be spent for the healthy school meals program created in Proposition FF and approved by voters in November 2022.

OBBBA provisions that maintain and enhance the increased standard deductions under the TCJA and modify itemized deductions on federal taxes, particularly an increased cap on itemized deductions for state and local taxes (SALT), are expected to increase the amounts required to be added back under Proposition FF. Higher add-back amounts are expected to increase revenue to the HSMA Program by $28.4 million in FY 2025-26 and by $45.5 million in FY 2026-27. The forecast continues to incorporate the constitutionally required adjustment in addback amounts under TABOR (3)(c). Proposition FF revenue is expected to total $131.9 million for FY 2024-25, $143.3 million for FY 2025-26, and $138.9 million for FY 2026-27.

General Fund Budget Overview

This section presents the General Fund overview based on current law, after incorporating the revenue impacts of the OBBBA, changes to tax credit availability, additional expenditures from the OBBBA in Scenario B, and new revenue collections data from May and June. This section presents the following:

- the General Fund overview (Tables 3A through 3F);
- a budget scenario for FY 2026-27 that incorporates General Fund obligations expected under current law (Table 4);
- a summary of changes in expectations relative to the June 2025 forecast (Table 5);
- a summary of transfers to and from the General Fund (Table 6); and
- transfers to the State Education Fund (Figure 4).

Table 3A
Funds Available in the General Fund
Dollars in Millions

Line	Funds Available	FY 2023-24 Actual	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate
1	Beginning Reserve	$2,427.4	$3,153.5	$2,331.6	$1,247.5
2	General Fund Revenue	$17,251.4	$17,175.7	$16,828.0	$18,504.0
3	Transfers from Other Funds	$93.3	$521.2	$125.9	$57.7
4	**Total Funds Available**	**$19,772.2**	**$20,850.4**	**$19,285.4**	**$19,809.2**
5	Percent Change in Funds Available	-7.0%	5.5%	-7.5%	2.7%

Table 3B
General Fund Expenditures
Dollars in Millions

Line	Expenditures	FY 2023-24 Actual	FY 2024-25 Budgeted	FY 2025-26 Estimate	FY 2026-27 Estimate
6	GF Appropriations Subject to the Limit	$13,818.6	$15,621.8	$16,538.1	*
7	Appropriations from HSMA	$115.3			
8	Overexpenditure from General Fund	$153.8			
9	TABOR Refund Obligation Under Art. X, §20, (7)(d)	$1,643.4	$311.1	$0.0	$758.8
10	Rebates and Expenditures (Table 7)	$241.9	$169.7	$832.8	$565.9
11	Transfers to Other Funds (Table 8B)	$543.9	$1,883.9	$453.8	$458.1
12	Transfers to the State Education Fund	$0.0	$146.0	$0.0	$0.0
13	Transfers to Transportation Funds (Table 5A)	$5.0	$117.5	$42.7	$61.0
14	Transfers to Capital Funds (Table 5B)	$348.9	$254.1	$170.6	$20.0
15	**Total Expenditures**	**$16,870.8**	**$18,504.1**	**$18,037.9**	*
16	Percent Change In Funds Available	-11.3%	9.7%	-2.5%	*
17	Reversions and Accounting Adjustments	$252.2	-$14.7		*

Asterisks ("*") indicate values not estimated.

Line 12, "Transfers to the State Education Fund," includes transfer pursuant to SB 23B-001. It does not include transfers to the SEF under Amendment 23, which are shown on line 29.

Line 17, "Reversions and Accounting Adjustments," indicates reversions of appropriated amounts and other accounting adjustments to arrive at the year-end balance published in the Annual Comprehensive Financial Report. FY 2023-24 includes $255.0 million underrefunded from prior TABOR refund obligations, along with other adjustments. FY 2024-25 includes $15.0 million in revised accrual adjustments for FY 2023-24 Proposition FF revenue, and an $0.2 million reversion required by SB 25-243.

Table 3C
General Fund Reserve
Dollars in Millions

Line	Reserve	FY 2023-24 Actual	FY 2024-25 Budgeted	FY 2025-26 Estimate	FY 2026-27 Estimate
18	Year-End Reserve in General Fund	$3,153.5	$2,331.6	$1,247.5	*
19	Year-End Reserve in PERA	$0.0	$0.0	$500.0	*
20	**Total Year-End Reserve**	**$3,153.5**	**$2,331.6**	**$1,747.5**	*
21	Year-End Reserve as a Percent of Appropriations	22.8%	14.9%	10.6%	*
22	Statutorily Required Reserve	$2,031.5	$2,358.5	$2,439.5	*
23	**Amount in Excess or (Deficit) of Statutory Reserve**	**$1,122.0**	**-$27.0**	**-$691.9**	*
24	Excess Reserve as a Percent of Expenditures	6.7%	-0.1%	-3.8%	*

Asterisks ("*") indicate values that are not estimated.

Line 22, "Statutorily Required Reserve," calculates the reserve as 15 percent of operating appropriations, minus $41.25 million (beginning in FY 2023-24), plus $56.5 million (for FY 2024-25 only). Appropriations from the Healthy School Meals Account (line 7) are exempt from the reserve requirement.

Table 3D
Budget Scenario A: Holds FY 2025-26 Appropriations Constant
Dollars in Millions

Line	Projected Reserve Under Scenario	FY 2026-27 Estimate
25	Amount in Excess or (Deficit) of 15% Reserve Requirement	**-$532.1**
26	As a Percent of Prior-Year Expenditures	-2.9%

This scenario holds appropriations in FY 2025-26 equal to appropriations in FY 2024-25 (line 6) to determine the total amount of money available relative to FY 2024-25 expenditures, net of the obligations in lines 9 through 14. Line 25 includes the year-end reserve amounts held in the both the General Fund and in PERA.

Table 3E
Budget Scenario B: Projected Obligations Based on Current Law
Dollars in Millions

Line	Projected Reserve Under Scenario	FY 2026-27 Estimate
27	Amount in Excess or (Deficit) of 15% Reserve Requirement	**-$1,390.6**
28	As a Percent of Proposed Expenditures	-7.7%

This scenario includes annualized costs for 2025 legislation; assumed increases for school finance, Medicaid, higher education, community provider rates, and state employee compensation; capital construction and IT capital projects approved to date; and State Architect recommendations for controlled maintenance. See Table 2. Line 27 includes the year-end reserve amounts held in the both the General Fund and in PERA.

Table 3F
General Fund Overview Addenda
Dollars in Millions

Line	Addendum Items	FY 2023-24 Actual	FY 2024-25 Estimate	FY 2025-26 Estimate	FY 2026-27 Estimate
29	Percent Change in GF Appropriations	3.8%	13.0%	5.9%	*
30	5% of Personal Income Appropriations Limit	$20,836.4	$22,392.7	$23,530.3	$24,659.7
31	Transfers to SEF per Amendment 23	$1,209.0	$1,060.6	$1,010.1	$1,111.6

Asterisks ("*") indicate values that are not estimated.

FY 2024-25

After incorporating new revenue data from May and June, the General Fund is expected to end FY 2024-25 with a 14.9 percent reserve, $27.0 million below the statutory reserve requirement. The General Fund reserve requirement is set at 15.0 percent of appropriations less $41.25 million, plus $56.5 million (Table 3C, line 22). Expectations for the year-end excess reserve were revised down by $18.4 million relative to the June forecast due to higher cash fund revenue collections, which were partially offset by lower rebates and expenditures and higher General Fund exempt revenue. General Fund revenue collections are expected to fall by 0.4 percent relative to FY 2023-24, mostly due to falling individual and corporate income tax revenue. State revenue subject to TABOR is expected to exceed the Referendum C cap by $311.1 million.

FY 2025-26

After incorporating revenue impacts from the OBBBA and changes to tax credit availability, the General Fund is expected to end FY 2025-26 with a 10.6 percent reserve, $691.9 million below the statutory reserve requirement. The reserve requirement is set at 15.0 percent of appropriations less $41.25 million (Table 3C, line 21 through 23). The reserve amount includes money located in both the General Fund and in PERA, under Senate Bill 25-310.

General Fund revenue collections are expected to fall by 2.0 percent due to a reduction in taxable income from the OBBBA, which are partially offset by the family affordability tax credit (FATC) and expanded earned income tax credit (EITC) being triggered off in tax year 2026. Revenue is expected to fall below the Referendum C cap by $661.8 million.

FY 2026-27 (Unbudgeted)

General Fund revenue is expected to grow by 10.0 percent in FY 2026-27 compared to FY 2025-26, driven by individual and corporate income tax collections. The state revenue impact of the OBBBA is expected to be smaller in FY 2026-27, and the FATC and expanded EITC are expected to be triggered off for the full fiscal year. State revenue subject to TABOR is expected to exceed the Referendum C cap by $758.8 million. Because a budget has not yet been enacted for FY 2026-27, this forecast presents two scenarios for the General Fund budget outlook.

Scenario A: Holds Appropriations Constant from FY 2025-26

Scenario A, shown on lines 25 and 26 of Table 3D, shows the amount of revenue available to be spent or saved in FY 2026-27, if FY 2026-27 appropriations are assumed to be held constant at the same level as FY 2025-26 appropriations. This scenario does not include annualizations of legislation.

Based on this forecast, the General Fund will have $532.1 million, or 2.9 percent, less available to spend or save than in FY 2025-26 due to a lower starting balance. This amount assumes current law obligations for FY 2025-26, including transfers, rebates, and expenditures (Table 3B, lines 10 through 14), as well as a reserve requirement equal to 15.0 percent of appropriations, minus $41.25 million, and the projected TABOR refund obligation. The $532.1 million less budget space incorporates the FY 2025-26 enacted budget and projected year-end balance.

Any changes in revenue or adjustments made to the budget for FY 2025-26, including the 2026 supplemental budget package, will carry forward into FY 2026-27. This amount holds FY 2025-26 appropriations constant and therefore does not reflect any caseload, inflationary, or other budget pressures.

Scenario B: Projected Obligations under Current Law

Scenario B, shown on lines 27 and 28 of Table 2E, presents the amount of revenue in excess or deficit of the statutory reserve requirement for FY 2025-26, based on a set of projected changes to appropriations and transfers to accommodate current law budget pressures. The inclusion of Scenario B is illustrative and should not be considered an endorsement of any of the listed actions by Legislative Council Staff. All of the Scenario B expenditure assumptions are the same as in June, except the addition of $10.7 million in additional appropriations for SNAP administration. Under Scenario B, the General Fund would end FY 2025-26 with a 6.6 percent reserve, $1.39 billion below the statutory reserve requirement.

Table 4 details the assumptions used to calculate Scenario B. Some additional explanation is provided below.

Changes in General Fund Appropriations. Scenario B shows how appropriations for the largest areas of General Fund expenditure may change in FY 2026-27. Table 4 shows expenditure assumptions based on JBC Staff analysis of prior year budget actions. Please note that these assumptions may overstate or understate needed cost increases for FY 2026-27. Specifically, these assumptions include:

- no increase in General Fund appropriations for school finance as a result of the new diversion to the Kids Matter Account authorized by House Bill 25-1320 (Table 4, line 3);
- $349.0 million in increased General Fund appropriations for the Department of Health Care Policy and Financing for medical services premiums, behavioral health, and the Medicare Modernization Act, among others (Table 4, line 4);
- $44.8 million in increased General Fund appropriations for higher education institutions, representing a 2.8 percent inflationary increase on the FY 2025-26 base for governing boards and financial aid (Table 4, line 5);
- $52.6 million in increased General Fund appropriations for community providers, representing the same growth as seen in FY 2025-26 (Table 4, line 6);
- $95.1 million in increased General Fund appropriations for state employee salaries, representing a 4.0 percent increase (Table 4, line 7);
- $5.4 million in annualizations of FY 2025-26 decision items for all other departments (Table 4, line 8); and
- $10.7 million in increased General Fund appropriations for administrative expenses for SNAP benefits as a result of an increased state share of total expenses beginning in Federal Fiscal Year 2027 under the OBBBA.

Scenario B also includes out-year cost annualizations for 2025 legislation, which are unchanged from the June forecast. Based on LCS final fiscal notes, FY 2026-27 General Fund expenditures for 2025 legislation are expected to be $15.6 million less than FY 2025-26 expenditures (Table 4, line 2).

In total, Scenario B shows the budget impact of $542.1 million in additional appropriations in FY 2026-27 compared with Scenario A (Table 3, line 10). With this increase, the scenario also estimates an $81.3 million increase in the statutory reserve requirement (Table 4, line 11). Scenario B does not incorporate the costs for any new state programs receiving General Fund appropriations, which would further reduce the available amount.

Changes in General Fund transfers for capital projects. Scenario B shows a total of $235.2 million in additional General Fund obligations for transfers to the Capital Construction Fund (Table 4, line 15). The amount includes out-year costs for capital construction (line 12) and IT capital (line 13) projects funded in FY 2025-26, alongside the State Architect's recommended annual allocation for controlled maintenance spending (line 14), equal to one percent of the current replacement value of state buildings. The costs for new projects funded with General Fund transfers in FY 2026-27 would add to the total amount.

Table 4
FY 2026-27 Budget Scenario B
Projected General Fund Obligations Based on Current Law
Dollars in Millions

Line	Component	FY 2026-27
1	**Excess Reserve Under Scenario A**	**-$532.1**
2	2025 Legislation Out-Year Cost Annualizations	-$15.6
3	School Finance (No increase due to Kids Matter Account diversion)	$0.0
4	HCPF (all decision items)	$349.0
5	Higher Ed. Institutions (2.8% increase based on inflation)	$44.8
6	Community Providers (same increase as FY 2025-26)	$52.6
7	Salary Survey (4.0% increase)	$95.1
8	Estimated FY 2026 Decision Items Annualizations for Other Agencies	$5.4
9	SNAP Administration Expenses	$10.7
10	**Total Change in Appropriations**	**$542.1**
11	**Change in Required Reserve** (15% of Line 10)	**$81.3**
12	Out-Year Cost of FY 2025-26 Funded Capital Const. Projects	$25.8
13	Out-Year Cost of FY 2025-26 IT Capital Projects	$6.7
14	State Architect Recommendation for Controlled Maintenance	$202.6
15	**Total Change in Capital Transfers**	**$235.2**
16	**Total Change in General Fund Obligations** (sum of lines 10, 11, and 15)	**$858.5**
17	**Excess Reserve Under Scenario B** (Line 1 minus Line 15)	**-$1,390.6**

Source: June 2025 LCS Forecast Update and Joint Budget Committee Staff.

Changes since the June Forecast

Table 5 presents revisions to the General Fund budget outlook relative to the June forecast. These changes are explained below.

FY 2024-25

The June forecast anticipated that the General Fund would end FY 2024-25 with a reserve $8.6 million below the statutory requirement. This forecast update downgraded that expectation by $18.4 million and anticipates a reserve $27.0 million below the statutory requirement (Table 3C, line 23) after incorporating new revenue data.

Expected General Fund and cash fund revenue were both increased, primarily due to increases in individual and corporate income tax revenue and miscellaneous cash fund revenue. Cash fund revenue expectations were revised up by $48.1 million, creating less budget space, while exempt General Fund revenue was increased by $17.4 million and rebates and expenditures were reduced by $17.2 million, creating more budget space. Additionally, transfers out of the General Fund were increased by $4.5 million due to increases in marijuana and Proposition EE revenue and a decrease in revenue from Proposition FF.

FY 2025-26

The June forecast anticipated that the General Fund would end FY 2025-26 with a reserve $83.6 million below the statutory requirement. This forecast downgraded that expectation by $608.3 million, and anticipates a reserve of $691.9 million below the statutory requirement. This change was driven by a $745.2 million downward revision to General Fund revenue due to the OBBBA and updated tax credit availability, as described in the General Fund Revenue section. The downward revision to General Fund revenue was partially offset by a $71.9 million reduction in the General Fund obligation for property tax reimbursements due to an upward revision in revenue subject to TABOR in FY 2024-25. Additionally, the TABOR refund obligation was reduced by $83.3 million from the June forecast, as revenue is expected to fall below the Referendum C cap.

FY 2026-27

Table 5 presents a comparison between the FY 2026-27 General Fund budget outlook under Scenario A in the June forecast and this forecast update. The year-end General Fund reserve relative to the reserve requirement was revised down by $680.3 million. Of this amount, $608.3 million is carried forward from a lower expected ending balance in FY 2025-26. Additionally, there is expected to be $83.3 million in additional GF obligation for property tax reimbursements due to lower expected revenue collections in FY 2025-26. Lastly, the forecast for the diversion to the Kids Matter Account in the State Education Fund was revised down by $11.4 million, which increases General Fund available by the same amount due to reduced TABOR refund obligation from cash funds.

Table 5
Changes in the General Fund Budget Relative to the June 2025 Forecast
Dollars in Millions, Positive Amounts Reflect an Increase Relative to June

Components of Change	FY 2024-25	FY 2025-26	FY 2026-27	Description of Changes
Total Funds Available	**$137.8**	**-$763.6**	**-$373.7**	
Beginning Balance	$0.0	-$18.4	-$608.3	Carries forward anticipated year-end balances from each year into the following year.
General Fund Revenue	$138.1	-$745.2	$234.7	Reflects forecast changes from new data (FY 2024-25 only), OBBBA fiscal impacts, and elimination of the Family Affordability Tax Credit and expanded Earned Income Tax Credit.
Transfers from Other Funds	-$0.3	$0.0	$0.0	Reflects reduced transfer from the Decarbonization Tax Credit Administration and increased transfer from Limited Gaming Fund based on new data.
Total Expenditures	**$156.2**	**-$155.2**	**$306.6**	
Operating Appropriations	$0.0	$0.0	$0.0	
TABOR Refund Obligation	$168.9	-$83.3	$223.3	Changes to General Fund and cash fund revenue forecasts. See Table 9.
Rebates and Expenditures	-$17.2	-$71.9	$83.3	Reflects changes to the General Fund obligation for property tax reimbursements in FY 2025-26 and FY 2026-27.
SEF Transfers	$0.0	$0.0	$0.0	
Transportation Transfers	$0.0	$0.0	$0.0	
Capital Const. Transfers	$0.0	$0.0	$0.0	
Other Cash Fund Transfers	$4.5	$0.0	$0.0	Reflects new data for the marijuana, Proposition EE, and Proposition FF forecasts.
Required Reserve	**$0.0**	**$0.0**	**$0.0**	
Accounting Adjustments	**$0.0**	**$0.0**	**$0.0**	
Surplus Relative to Required Reserve	**-$18.4**	**-$608.3**	**-$680.3**	Nets the above changes.

Summary of Net Transfers between the General Fund and Cash Funds

Statutory transfers to and from the General Fund are presented in lines 3 and 11 through 14 of Table 3. Table 6 groups these transfers and summarizes their impact on the net General Fund position.

Table 6
Net Transfers between the General Fund and Cash Funds
Dollars in Millions

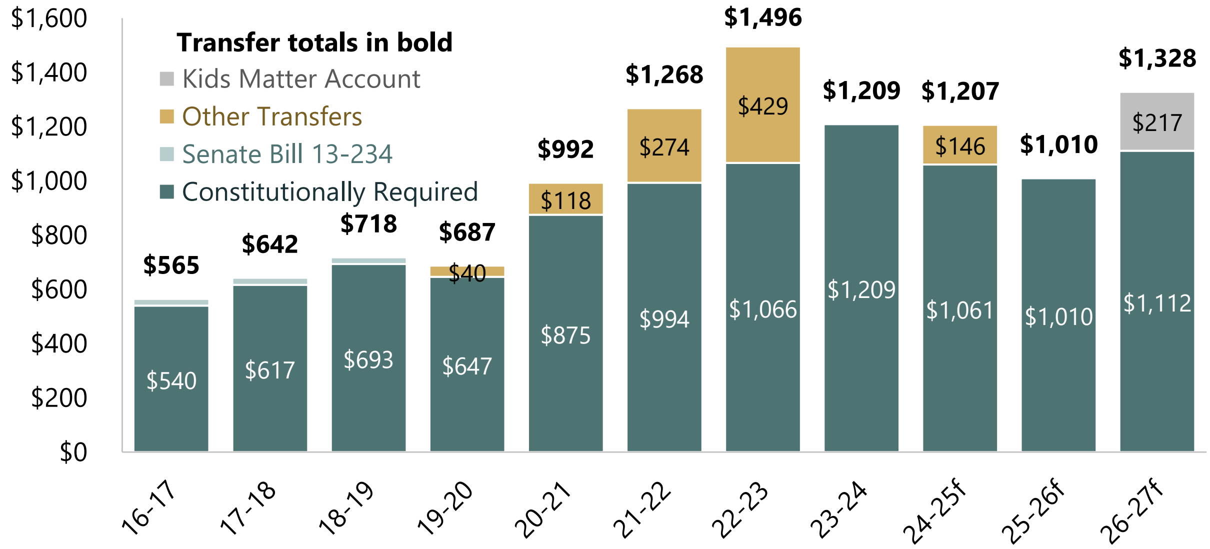
Transfer Category	2023-24	2024-25	2025-26	2026-27
Cash Fund Transfers to the GF	$93.3	$521.2	$125.9	$57.7
General Fund Transfers to the SEF	$0.0	-$146.0	$0.0	$0.0
General Fund Transfers to Transportation Funds	-$5.0	-$117.5	-$42.7	-$61.0
General Fund Transfers to Capital Funds	-$348.9	-$254.1	-$170.6	-$20.0
General Fund Transfers to Other Cash Funds	-$543.9	-$1,883.9	-$453.8	-$458.1
Net General Fund Transfers	**-$804.4**	**-$1,880.3**	**-$541.2**	**-$481.4**

"GF" = General Fund; "SEF" = State Education Fund.

State Education Fund Transfers and Diversions

The Colorado Constitution (Amendment 23) requires the State Education Fund (SEF) to receive one-third of one percent of taxable income. In FY 2024-25, the SEF received a total of $1.06 billion as a result of this requirement, plus a $146 million transfer scheduled under Senate Bill 23B-001. The SEF is expected to receive $1.01 billion in FY 2025-26 and $1.33 billion in FY 2026-27, including the new diversion to the Kids Matter Account under House Bill 25-1320 that begins in FY 2026-27. Because the OBBBA reduces taxable income, expectations for transfers to the SEF were revised down by $101.4 million in FY 2025-26 and $58.4 million in FY 2026-27. Figure 4 shows revenue to the State Education Fund, which is required to be used to fund kindergarten through twelfth grade public education.

Figure 4
Revenue to the State Education Fund
Dollars in Millions



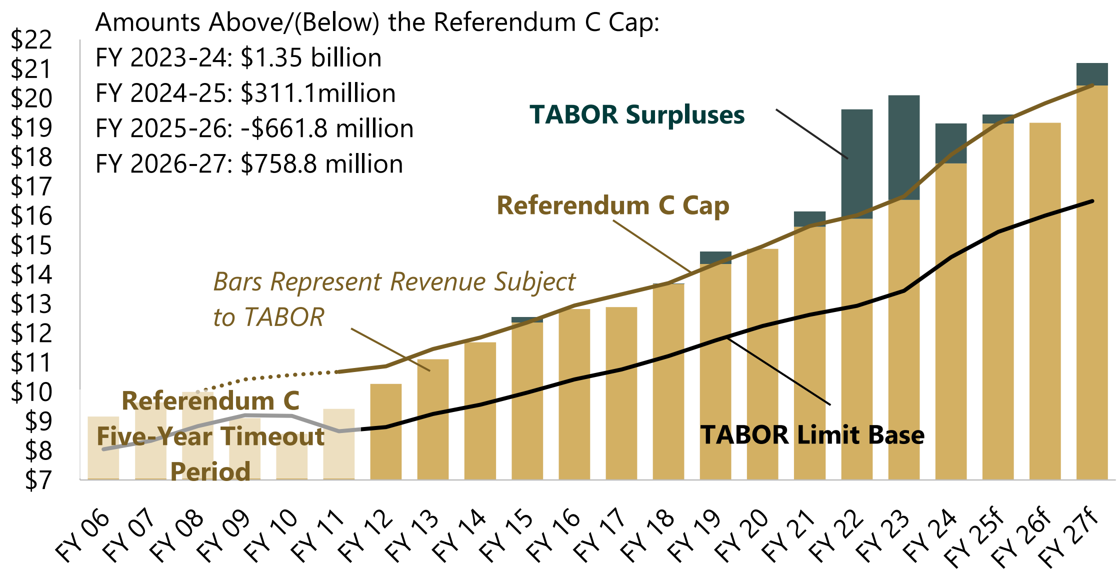
Source: Office of the State Controller and Legislative Council Staff forecast. f = Forecast.
"Other Transfers" includes transfers under SB 19-246 for FY 2019-20, HB 20-1420 for FY 2020-21 and FY 2021-22, HB 20-1427 for FY 2020-21 through FY 2022-23, SB 21-208 for FY 2021-22, HB 22-1390 for FY 2022-23, and SB 23B-001 for FY 2024-25.
"Constitutionally Required" shows the one-third of 1 percent of federal taxable income that is required to be transferred to the State Education Fund under Article IX, Section 17 of the Colorado Constitution. The transfer for FY 2023-24 includes $135 million in corrections for prior-year under-transfers.

Revenue transferred to the SEF under Amendment 23 is exempt from TABOR. Transfer amounts reduce both General Fund revenue and the state TABOR refund obligation, with no net impact on the amount available for the General Fund budget. Revenue transferred to the Kids Matter Account is subject to TABOR, and accounted as cash fund revenue subject to TABOR in this forecast.

TABOR Outlook

The state TABOR outlook is presented in Table 7 and illustrated in Figure 5, which also provides a history of the TABOR limit base and the Referendum C cap. State revenue subject to TABOR is projected to exceed the Referendum C cap in FY 2024-25, fall short of the cap in FY 2025-26, then exceed the cap once again in FY 2026-27. In FY 2024-25 and FY 2026-27 when revenue exceeds the cap it creates a state obligation for TABOR refunds to be paid to taxpayers in FY 2025-26 and FY 2027-28. No TABOR refund obligation is expected for FY 2026-27 because revenue is projected to fall below the cap in FY 2025-26.

Figure 5
TABOR Revenue, TABOR Limit Base, and the Referendum C Cap
Dollars in Billions



Source: Office of the State Controller and Legislative Council Staff. f = Forecast.
*The refund amount for FY 2023-24 differs from the surplus amounts because it includes $288.9 million in under-refunds from prior TABOR surpluses.

Forecasts for FY 2024-25 through FY 2026-27

In FY 2024-25, state revenue subject to TABOR is projected to exceed the Referendum C cap by $311.1 million, and a refund of this amount is expected to be returned to taxpayers in FY 2025-26. The actual refund obligation in any given year will incorporate any over- or under-refund of prior year surpluses. The surplus will be used to fully provide reimbursements to local governments for the homestead property tax exemption refund mechanism, and for property tax refunds for assessed value reductions for qualifying seniors through the provisions of

Senate Bill 24-111. The remaining TABOR surplus will be refunded using the six-tier sales tax refund mechanism.

In FY 2025-26, state revenue subject to TABOR is projected to fall below the Referendum C cap by $661.8 million and the state will not incur an obligation for TABOR refunds. As a result, no refunds to taxpayers are expected to be made via property tax exemptions and assessed value reductions, or refunds using the income tax form. The state obligation to reimburse counties for homestead exemptions and assessed value reductions, an estimated $237 million, will be paid from General Fund revenue rather than TABOR surplus dollars in FY 2026-27.

In FY 2026-27, state revenue subject to TABOR is projected to exceed the Referendum C cap by $758.8 million, and a refund of this amount is expected to be returned to taxpayers in FY 2027-28. Refunds to taxpayers will be paid using property tax reimbursements for homestead property tax exemptions, a temporary income tax rate reduction, and the six-tier sales tax refund mechanism.

Changes Relative to the June Forecast

Relative to the June forecast, expectations for revenue subject to TABOR were increased by $168.9 million in FY 2024-25, reflecting preliminary fiscal year end data for collections of General Fund and cash fund revenue subject to TABOR exceeding the June forecast by $120.7 million and $48.2 million, respectively. Expectations for revenue subject to TABOR were decreased by $745.2 million in FY 2025-26, reflecting downward impacts of the OBBBA on revenue partially offset by reduced values of the expanded earned income tax credit (House Bill 24-1134) and the Family Affordability Tax Credit (House Bill 24-1311) that are conditional on forecasted revenue subject to TABOR. In FY 2026-27, revenue subject to TABOR was revised up by $223.3 million, as decreases due to impacts of the OBBBA on revenue were more than offset by increases from reduced income tax credits.

Table 7A
State Revenue Subject to TABOR
Dollars in Millions

Line	TABOR Revenue	Actual FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	Estimate FY 2026-27
1	General Fund Revenue	$16,630.5	$16,660.0	$16,330.8	$18,009.1
2	Cash fund Revenue	$2,797.2	$2,790.6	$2,834.1	$3,191.1
3	**Total TABOR Revenue**	**$19,427.7**	**$19,450.6**	**$19,164.9**	**$21,200.2**

Line 1, General Fund Revenue, differs from the amount in the General Fund revenue summary because of accounting adjustments across TABOR boundaries.

Table 7B
TABOR Revenue Limit
Dollars in Millions

Line	Revenue Limit	Actual FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	Estimate FY 2026-27
4	Allowable TABOR Growth Rate	8.5%	5.9%	3.6%	3.1%
5	Inflation (from Prior Calendar Year)	8.0%	5.2%	2.3%	2.3%
6	Population Growth (from Prior Calendar Year)	0.5%	0.6%	1.4%	0.8%
7	TABOR Limit Base	$14,588.1	$15,448.7	$16,003.1	$16,499.2
8	Voter Approved Revenue Change (Referendum C)	$3,485.1	$3,690.7	$3,157.2	$3,942.1
9	Total TABOR Limit/Referendum C Cap	$18,073.2	$19,139.5	$19,826.7	$20,441.4
10	**TABOR Revenue Above or Below Referendum C Cap**	**$1,354.5**	**$311.1**	**-$661.8**	**$758.8**

Line 9, Total TABOR Limit, assumes that all enterprises will maintain enterprise status. If an enterprise is disqualified, both revenue subject to TABOR and the Referendum C cap will have equal upward adjustments.

Table 7C
Revenue Retained and Refunded Under TABOR
Dollars in Millions

Line	Retained/Refunded Revenue	Actual FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	Estimate FY 2026-27
11	Revenue Retained under Referendum C	$3,485.1	$3,690.7	$3,161.8	$3,942.1
12	Fiscal Year Spending (revenue available to be spent or saved)	$18,073.2	$19,139.5	$19,164.9	$20,441.4
13	Outstanding Under-refund Amount	$288.9			
14	**Revenue Refunded to Taxpayers**	**$1,643.4**	**$311.1**	**$0.0**	**$758.8**

Line 11, "Revenue Retained under Referendum C", is referred to as "General Fund Exempt" in the budget.

Line 13, "Outstanding Under-refund Amount," represents under-refunds from prior years.

Table 7D
TABOR Reserve Requirement
Dollars in Millions

Line	Reserve Requirement	Actual FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	Estimate FY 2026-27
15	TABOR Reserve Requirement	$542.2	$574.2	$574.9	$613.2