



June 2025 | Legislative Council Staff
Economic & Revenue Forecast

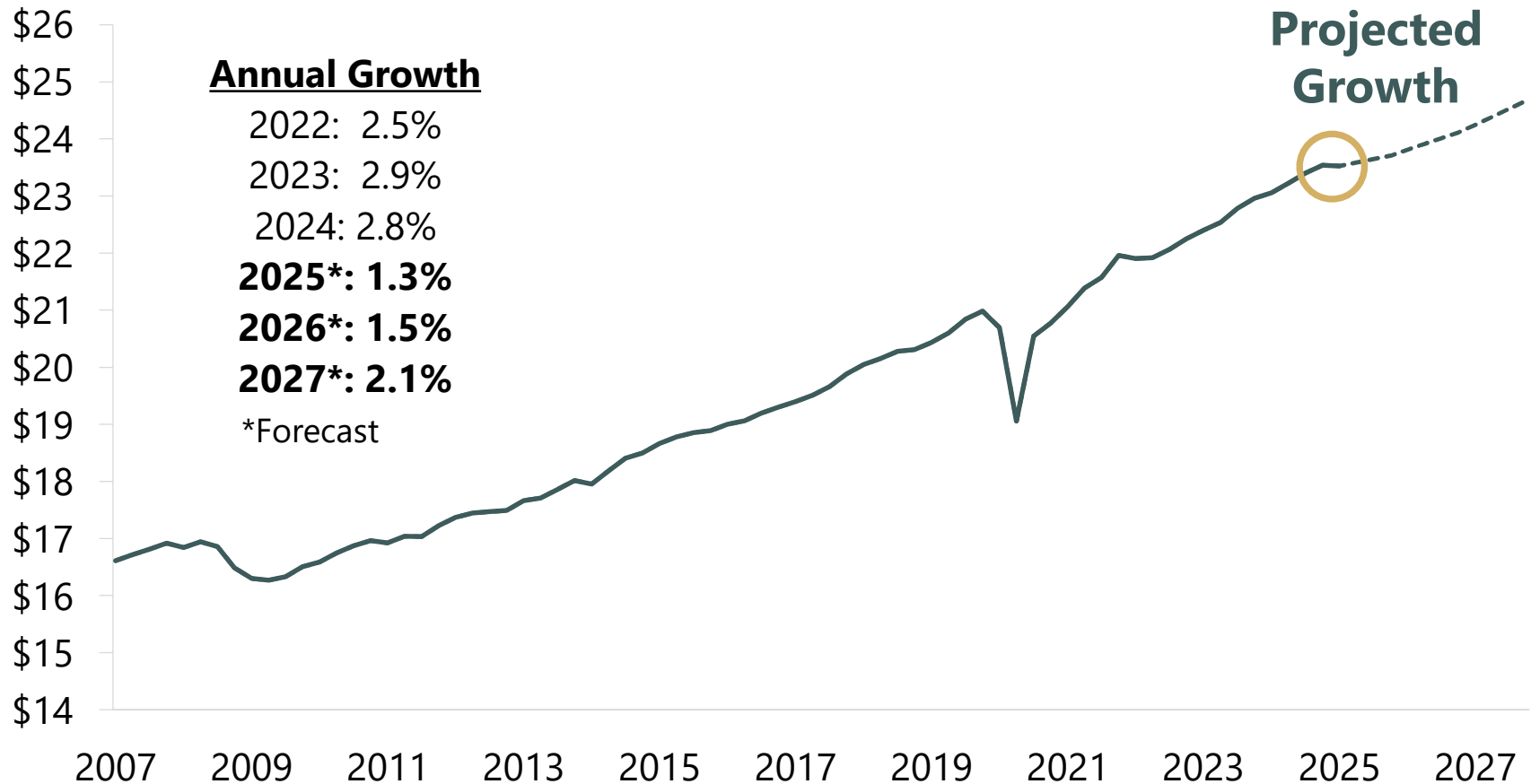
Presentation to the Joint Budget Committee
June 18, 2025

Economic Forecast



The path for continued U.S. expansion narrows, expectations downgraded from March

Real U.S. Gross Domestic Product
Trillions of Dollars, Adjusted for Inflation

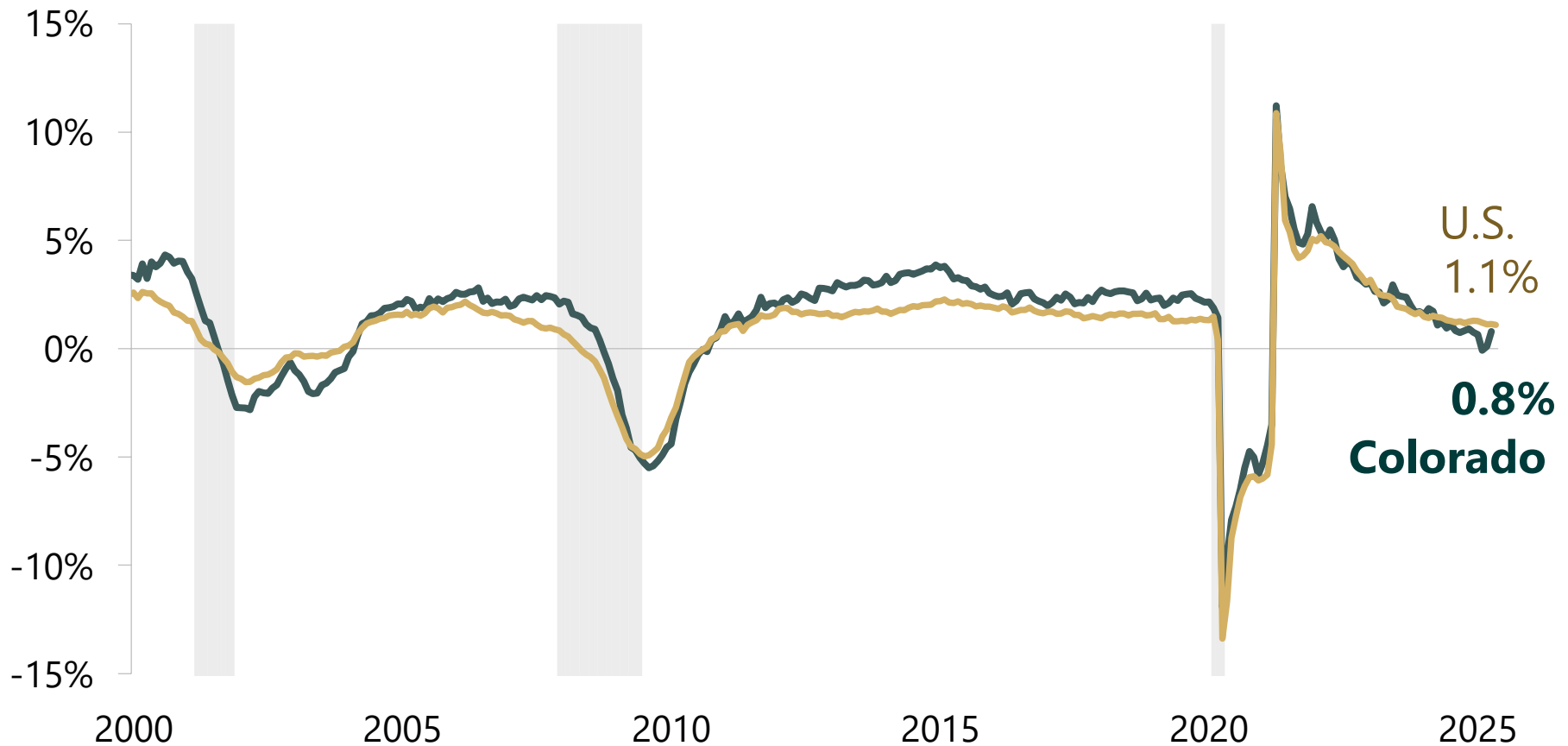


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections. Real GDP is inflation-adjusted to chained 2017 levels and shown at seasonally adjusted annualized rates.

Colorado and U.S. employment growth expected to decelerate into 2026

Year-over-Year Nonfarm Employment Growth

Percent

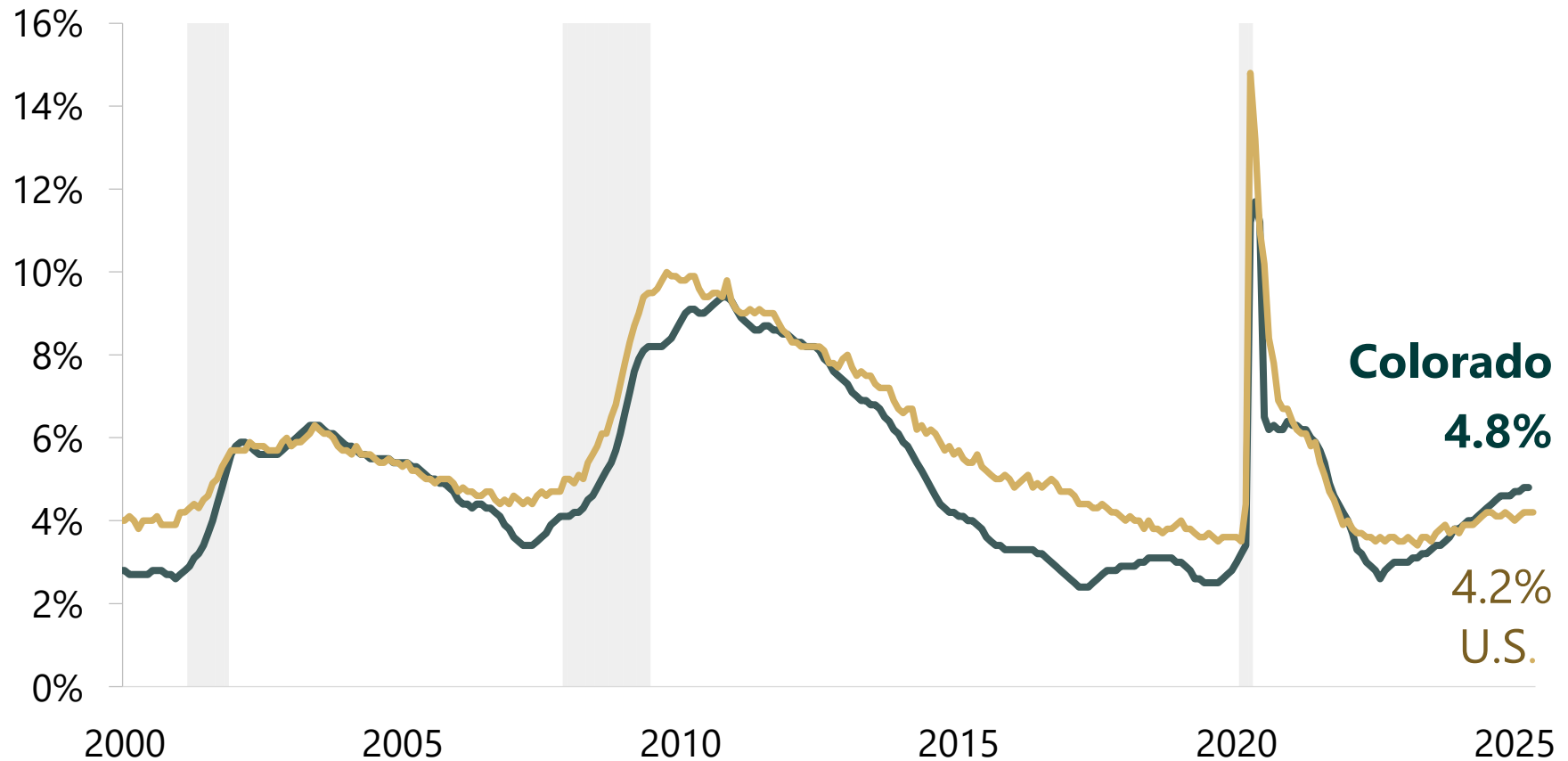


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. U.S. data are through May 2025. Colorado data are through April 2025.

Colorado's labor market performance lagging U.S. as unemployment rate moves higher

Unemployment Rates

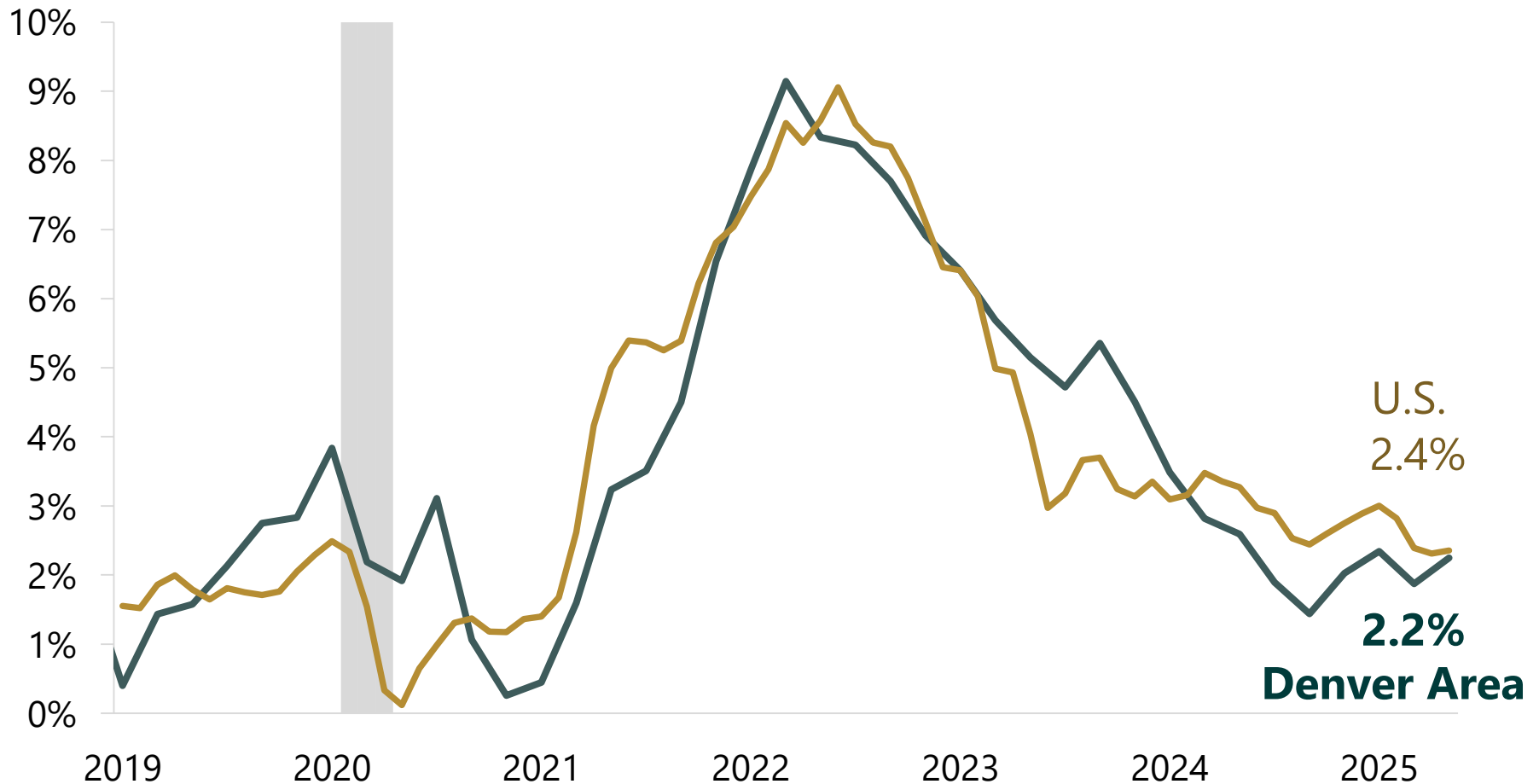
Percent



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. U.S. data are through May 2025. Colorado data are through April 2025.

Inflation ticks up in May, muted tariff signals so far but near-term upward pressure expected

Headline CPI-U Inflation
Year-over-Year Change in Prices

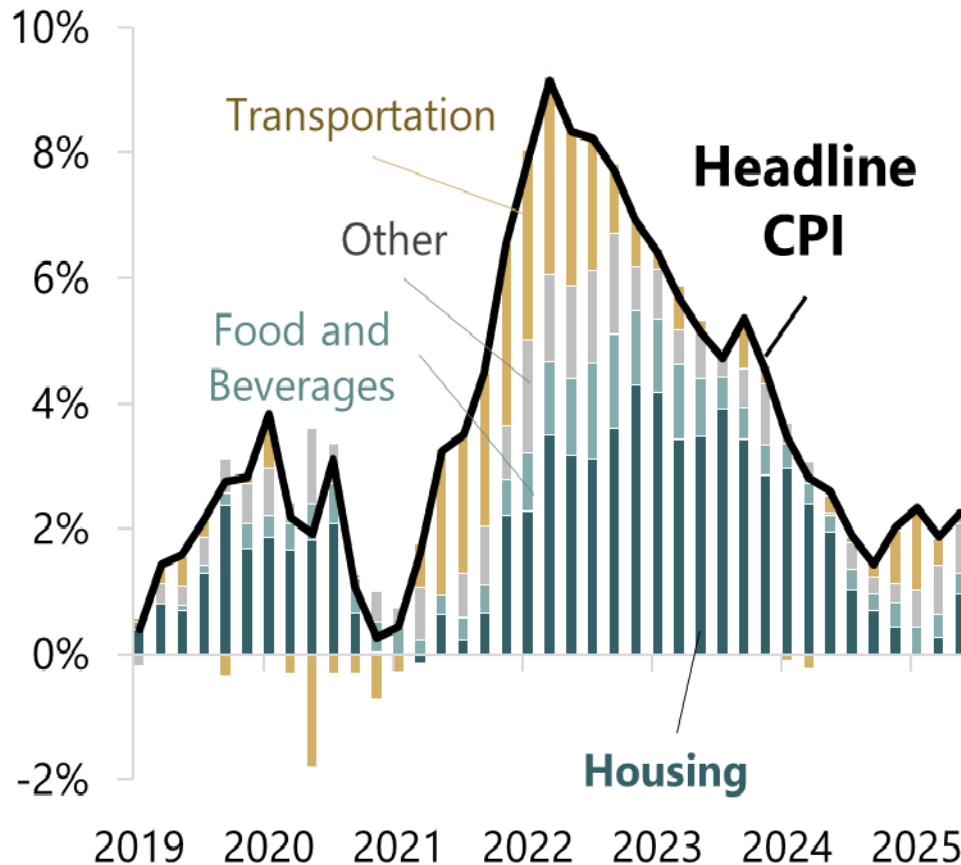


Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are through May 2025.

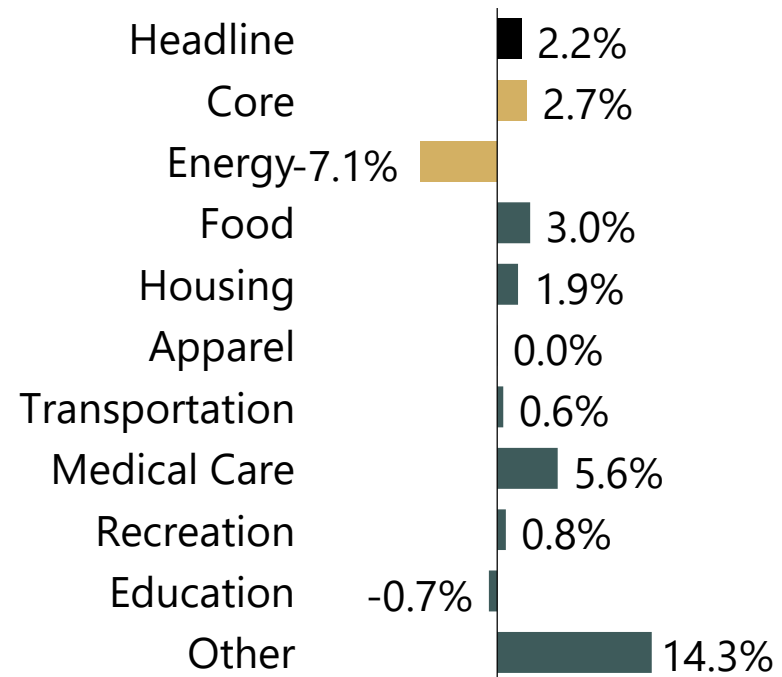
Energy offsets part of the upward pressure from housing on Denver area prices over the past year

Contributions to Denver-Aurora-Lakewood CPI-U

Year-over-Year Change in Prices



Selected Components, May 2025

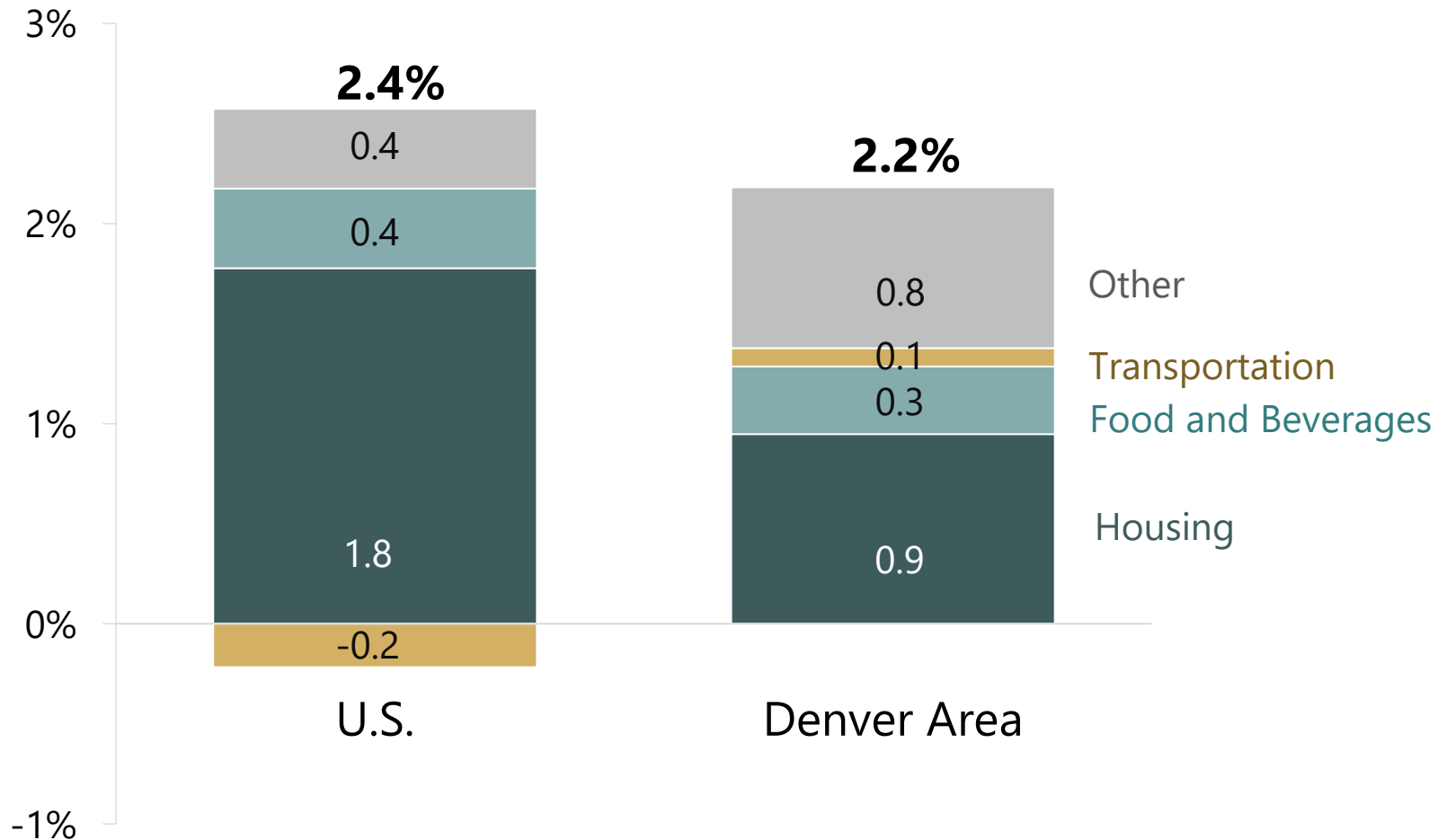


Source: U.S. Bureau of Labor Statistics and LCS calculations.

Housing continues to lead the difference in inflation contributions between Denver Area and the U.S.

Contributions to Inflation

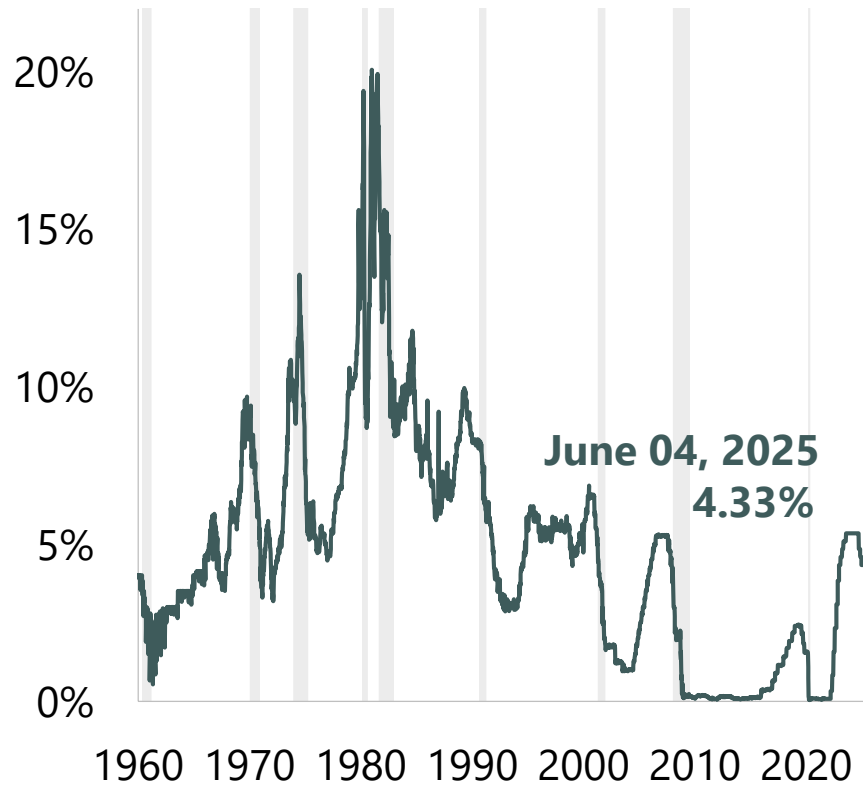
Percent / Percentage Point Contributions



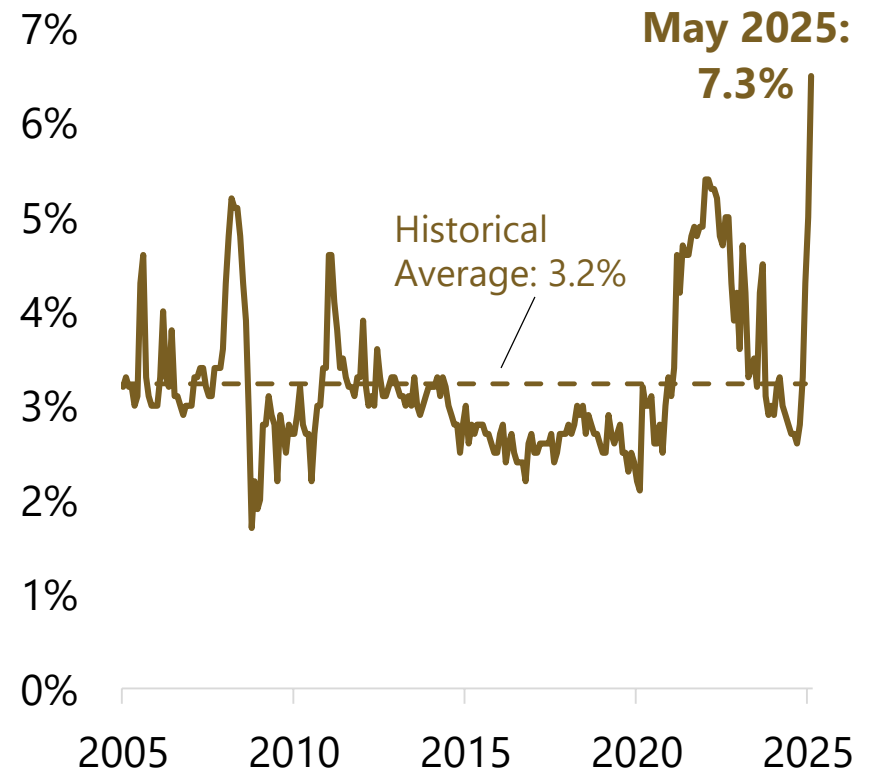
Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are for May 2025.

Federal Reserve expected to pause rate cutting amidst shifting inflation expectations

Effective Federal Funds Rate
Percent



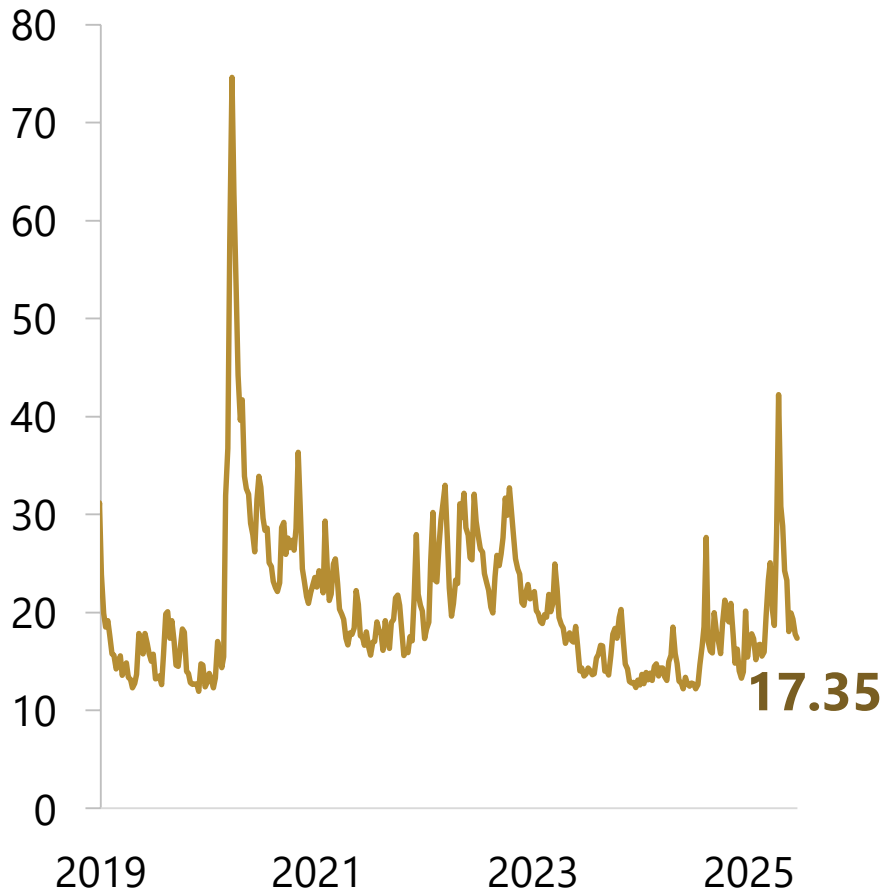
Year-Ahead Inflation Expectations
Percent



Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates. Bureau of Economic Analysis (left); University of Michigan Survey of Consumer Sentiment (right).

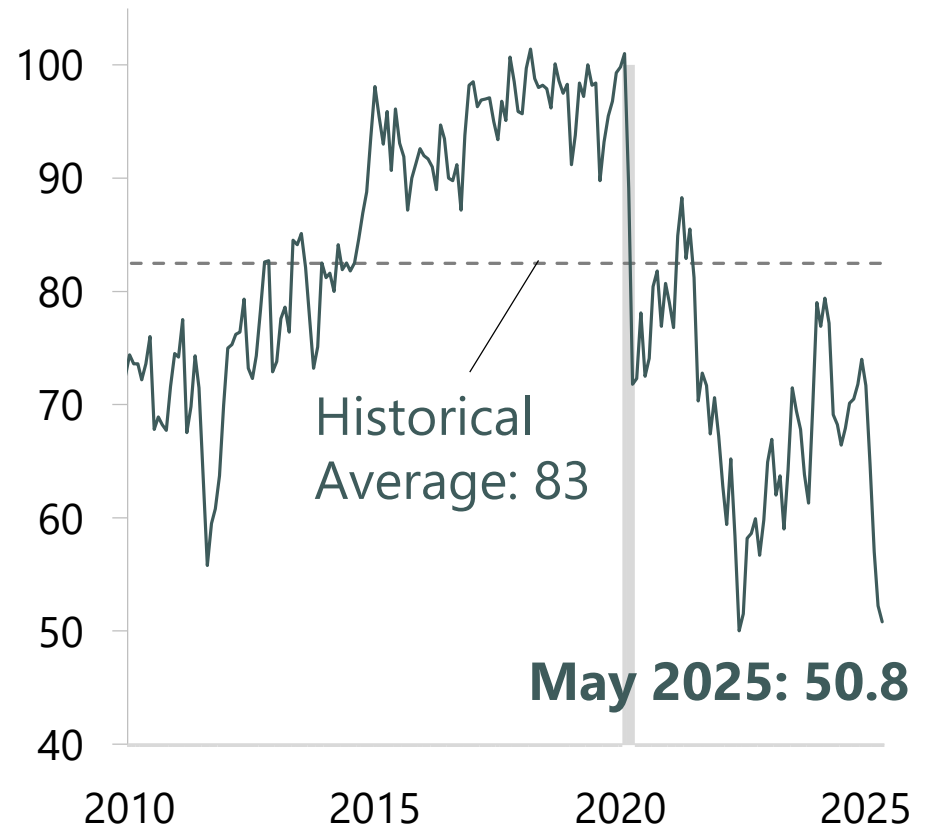
Market volatility recedes after April spike, consumer sentiment still down

CBOE Volatility Index



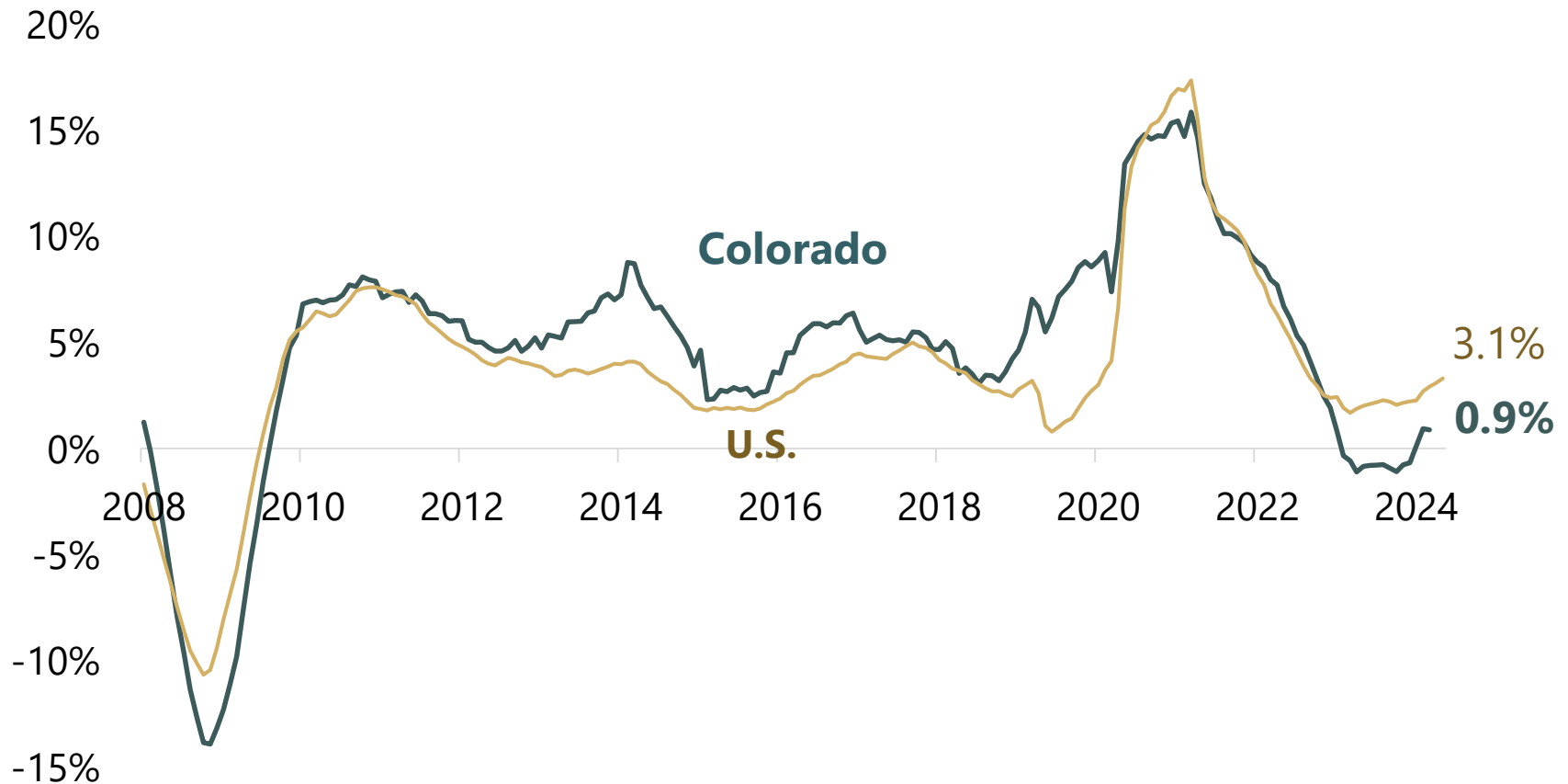
Consumer Sentiment Index

Index Value 1996 = 100



Colorado retail trade growth trails the U.S., forecast for 2025 and 2026 revised lower

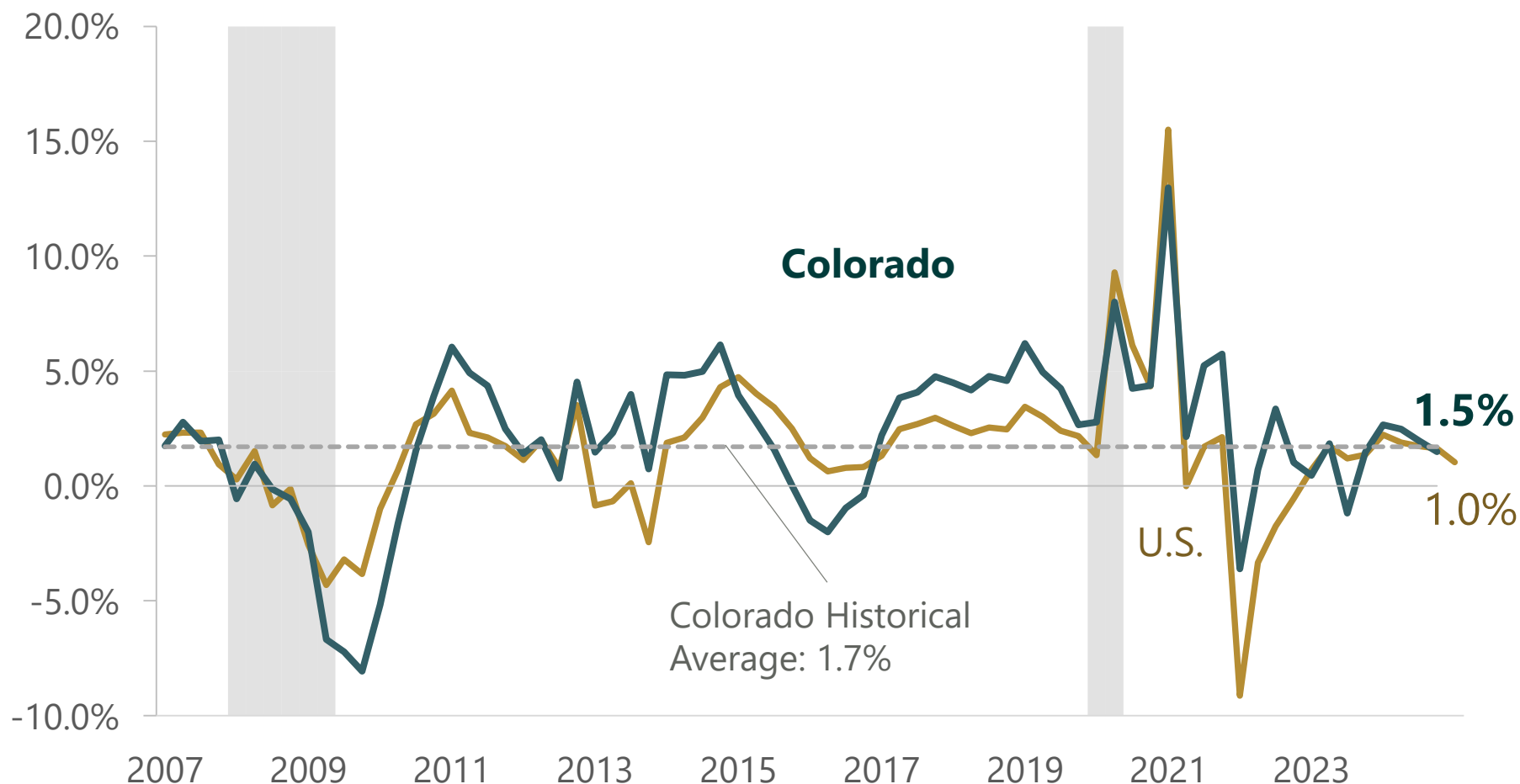
Retail Trade Sector Sales Year-over-year Percent Change



Source: U.S. data from U.S. Census Bureau, seasonally adjusted through April 2025. Colorado data from Colorado Department of Revenue through February 2025. Data seasonally adjusted using a 12-month moving average.

Colorado's real personal income growth falls just below the historical average

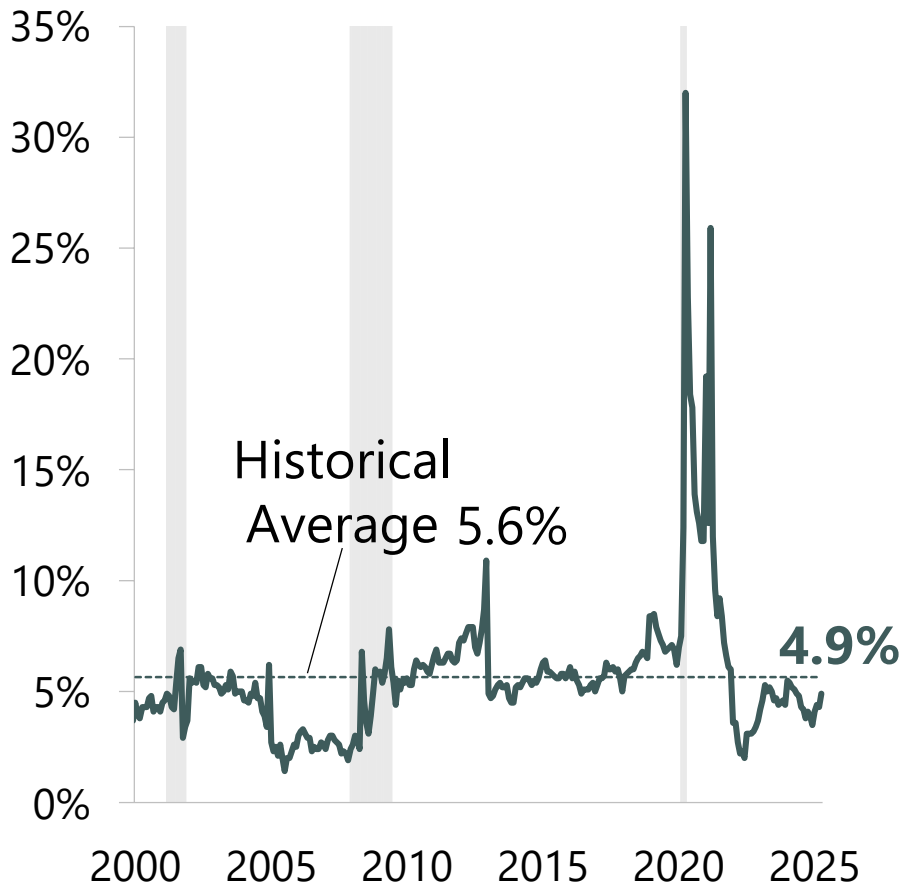
Real Per-Capita Personal Income
Year-over-year Percent Change



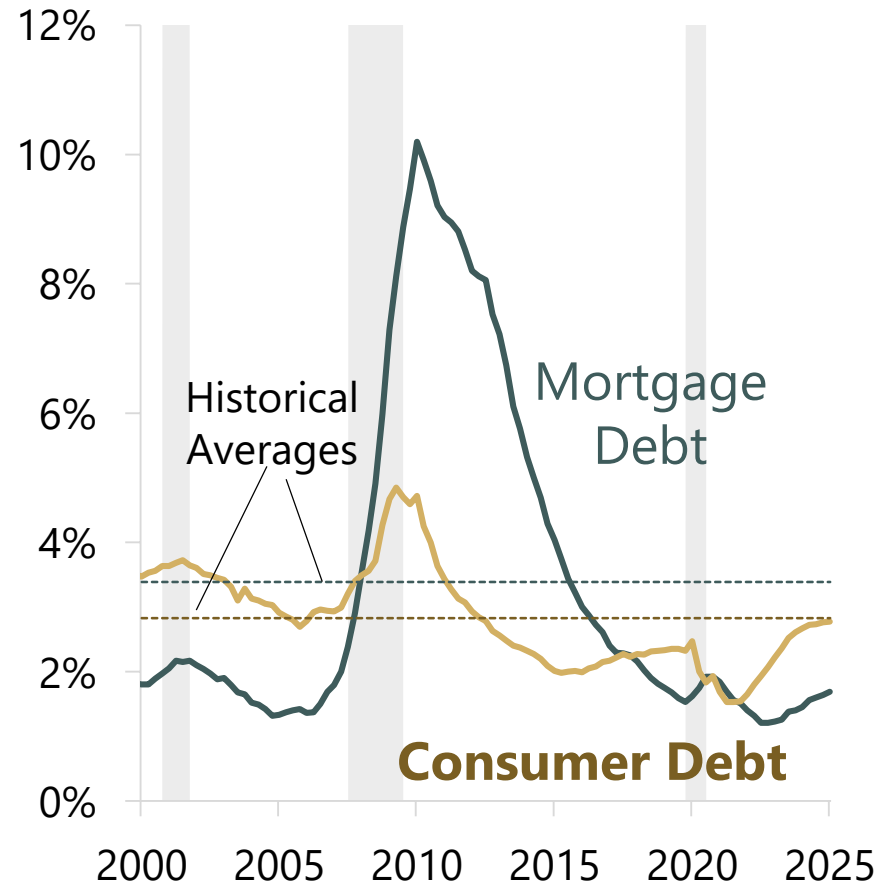
Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and LCS calculations. Data are adjusted for inflation using the national PCE price index. Data for the U.S. are through Q1 2025. Data for Colorado are through Q4 2024.

Household savings below the historical average, delinquencies rising

Personal Savings Rate
Percent



Delinquency Rates
Percent of Loans

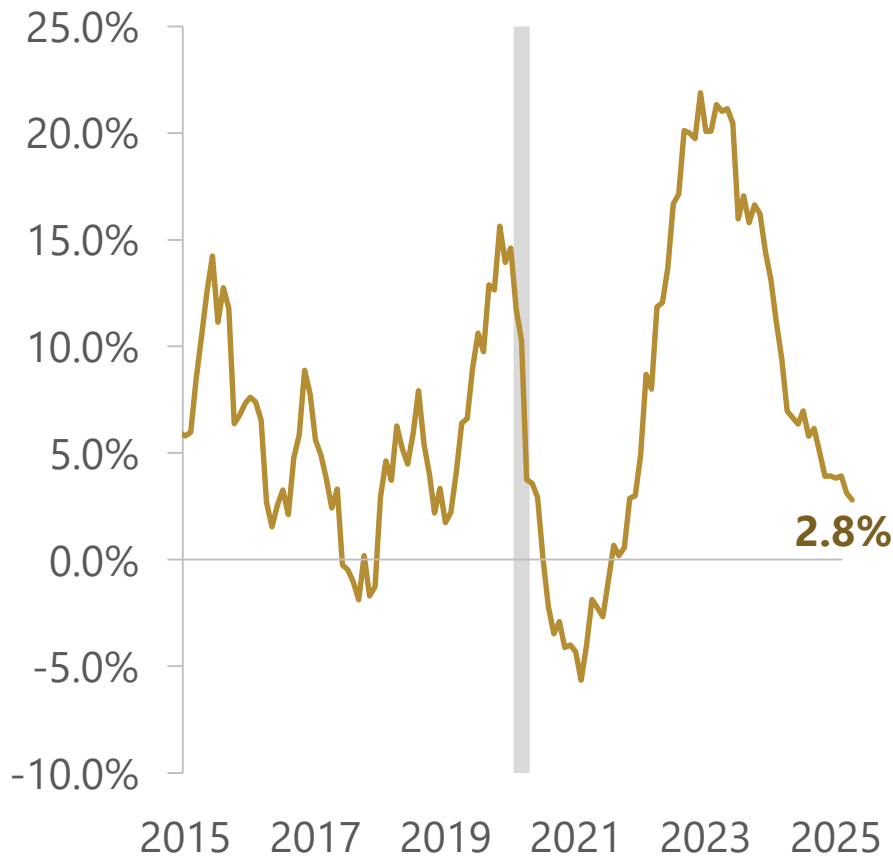


Source: U.S. Bureau of Economic Analysis and Federal Reserve Board of Governors.

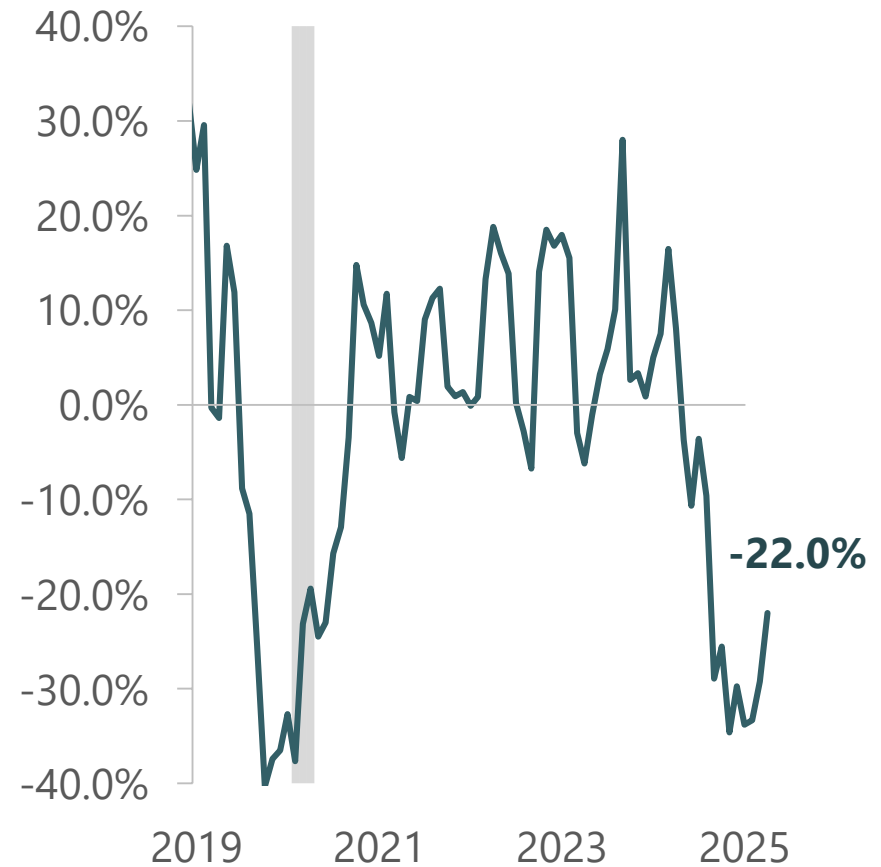
*The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates through April 2025 (left) and 2025Q1 (right).

Nonresidential construction activity decelerates nationally, contracts in Colorado

U.S. Nonresidential Construction
Year-Over-Year Percent Change



CO Nonresidential Construction
Year-Over-Year Percent Change 12-Mo. Average



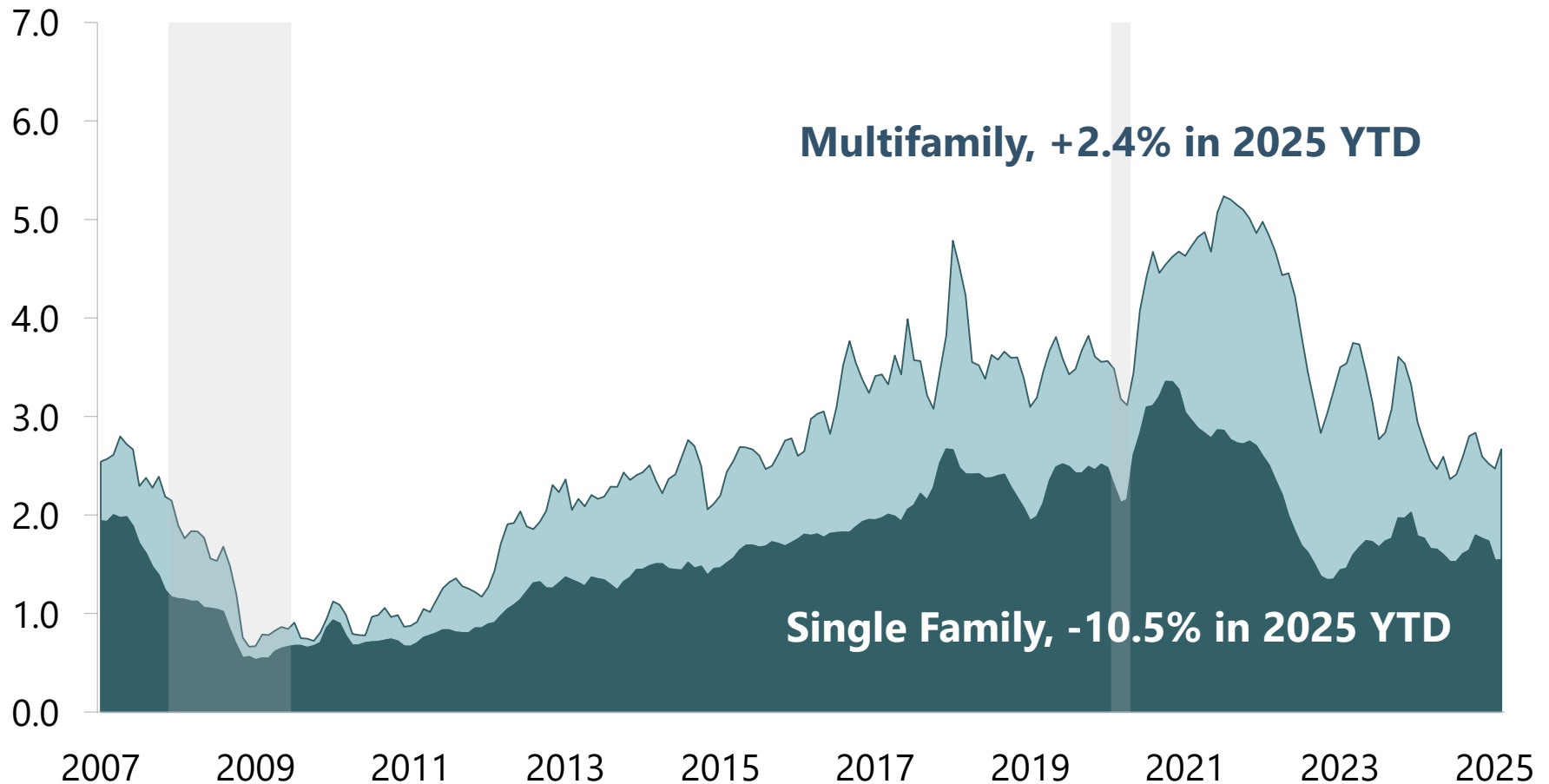
Source: U.S. Census Bureau, data through April 2025; F.W. Dodge, data through April 2025.

Note: U.S. data represents year-over-year percent changes in the seasonally adjusted annual rate of value. Colorado data represents year-over-year percent changes in the 12-month moving average value of nonresidential construction starts.

Steep decline in state's multifamily construction in 2024, single family falling at start of 2025

Colorado Residential Building Permits

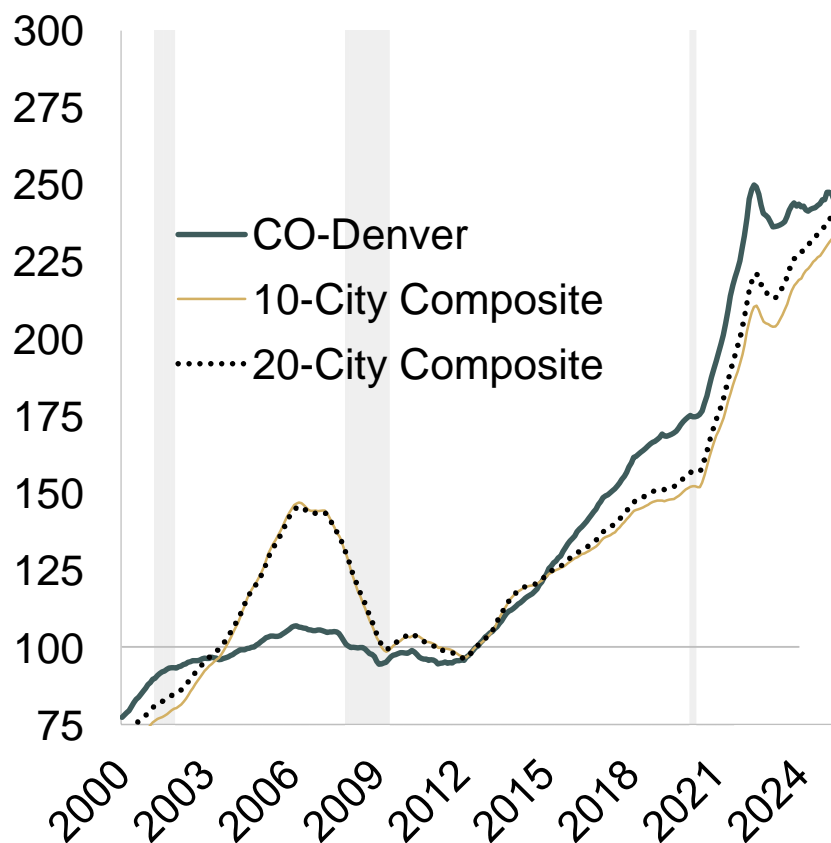
Thousands of Units, Three-Month Moving Average



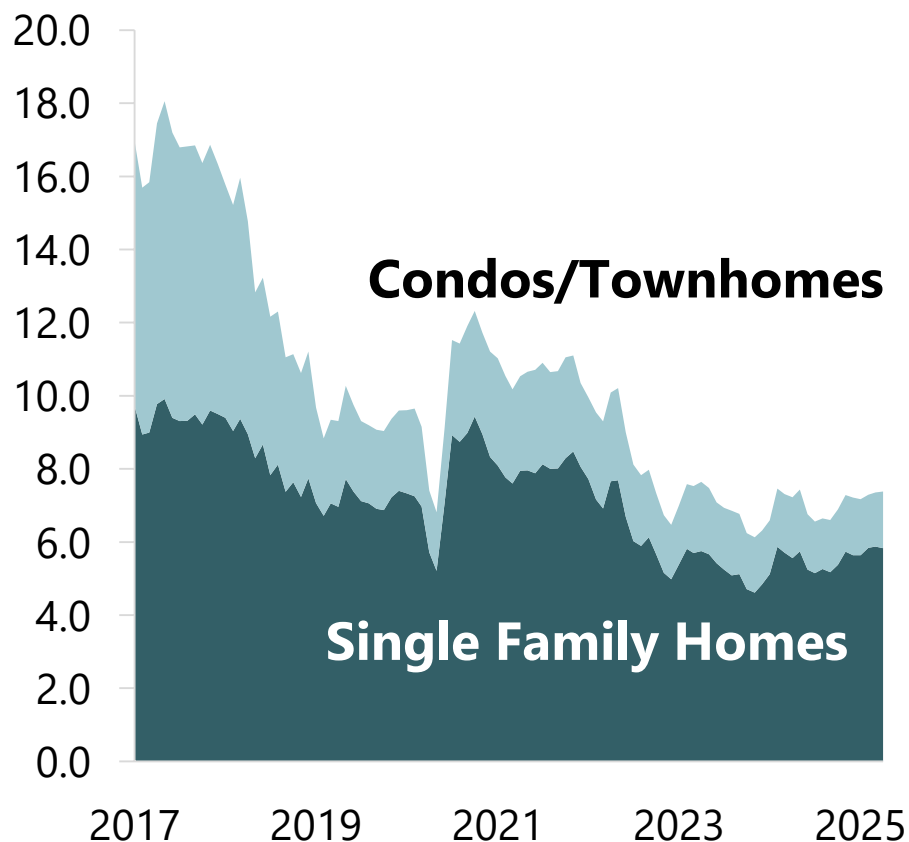
Source: U.S. Census Bureau and LCS calculations. Data are three-month moving averages through April 2025.

Denver home prices remain below peak, continue to grow nationwide; Colorado home sales improve

Home Price Indices
Index 100=July 2012



Colorado monthly home sales
Thousands of homes



Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through March 2025 (left). Colorado Association of Realtors. Data are seasonally adjusted by LCS and are through April 2025 (right).

The forecast anticipates a continued, slowing expansion, with risks now tipped to the downside

Downside Risks:

- Federal policy changes and national debt
- International trade policy
- Geopolitical tensions
- Deteriorating labor market conditions
- Uncertainty, persistent inflation, or tighter monetary policy hurt consumption and investment

Upside Risks:

- Federal policy changes
- More monetary policy easing
- Faster labor market response to monetary policy easing

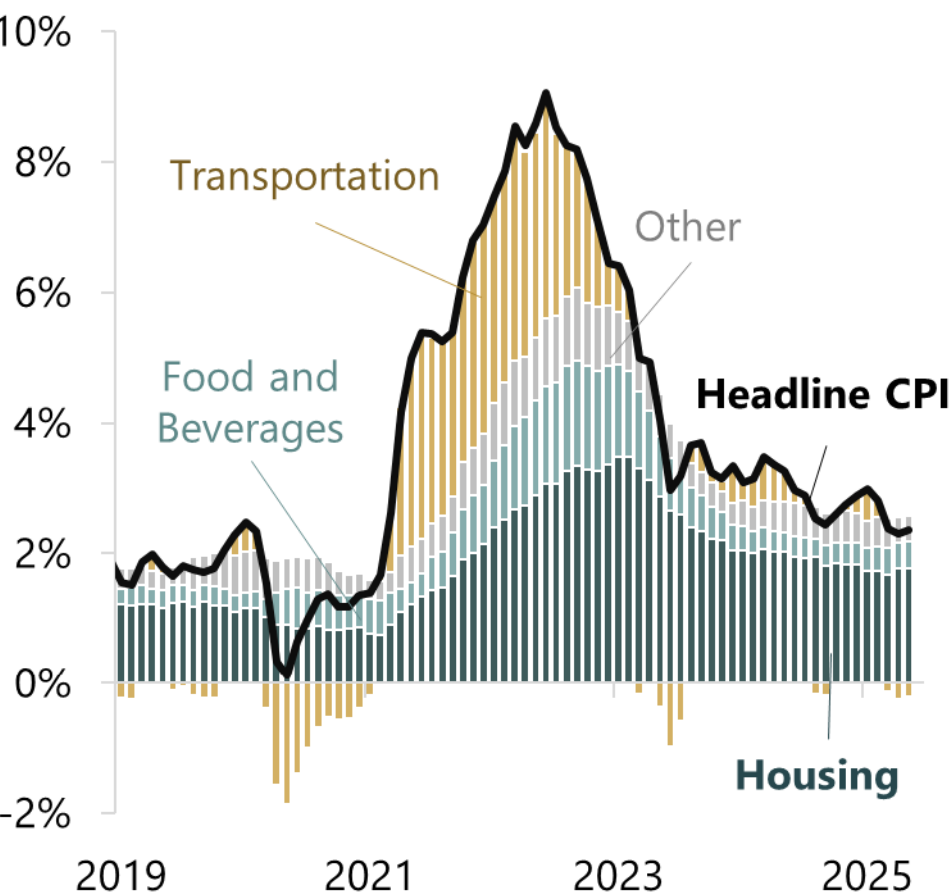
Supplemental Slides



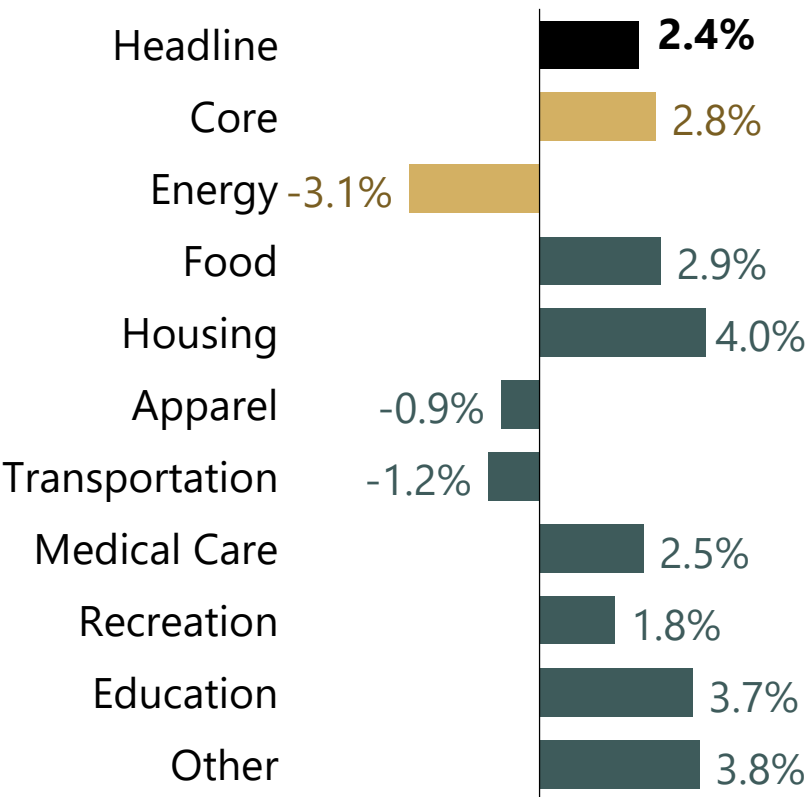
Housing price inflationary pressure remains sticky, ticks up in recent data

Contributions to U.S. Consumer Price Index (CPI-U) Inflation

Year-over-Year Change in Prices



Selected Components, May 2025



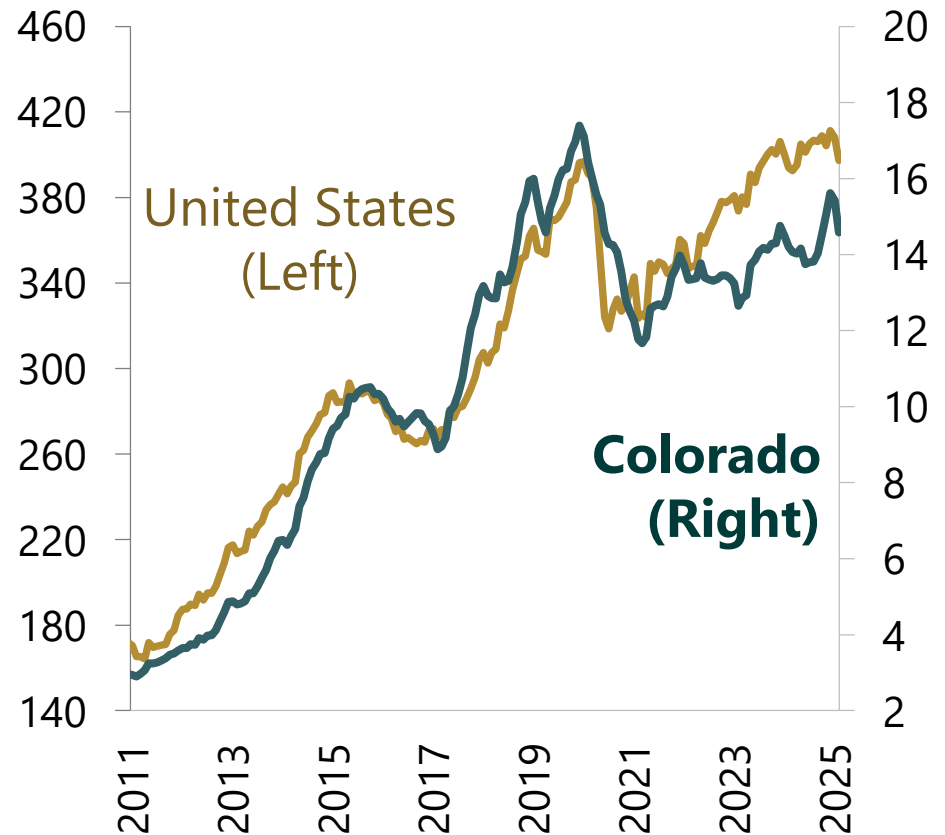
Source: U.S. Bureau of Labor Statistics and LCS calculations.

Crude oil prices down, expected to impact production

Crude Oil Price - WTI
Dollars per Barrel



Crude Oil Production
Millions of Barrels per Month



Source: U.S. Energy Information Administration. Weekly average prices (left). Monthly production (right). Data are shown as three-month moving average and are not seasonally adjusted.

Revenue & Budget Forecast



General Fund Revenue

- revised down with economic expectations in FY 2025-26 and FY 2026-27
- tax credits that depend on revenue conditions triggered down for tax year 2026

Cash Fund Revenue

- significant downgrade due to legislation and lower collections

TABOR Outlook

- small surpluses, sensitive to revenue

Budget Bottom Line

- General Fund reserve expected to be below the reserve requirement in all 3 years



General Fund Revenue Legislative Adjustments

Dollars in Millions

Bill Number & Title	FY 2025-26	FY 2026-27
SB 25-317 Transfer CF Investment Earnings to GF	\$30.0	\$10.0
SB 25-262 Changes to Money in the Capital Construction Fund	\$12.5	\$12.5
HB 25-1320 School Finance Act	\$0.0	-\$228.1
SB 25-310 Proposition 130 Implementation	-\$15.0	-\$15.0
Other Bills Reducing Revenue	-\$3.5	-\$6.0
HB 25-1296 Tax Expenditure Adjustment	\$5.4	\$10.7
Other Bills Increasing Revenue	\$0.5	\$0.5
Total	\$29.8	-\$215.5

Cash Fund Revenue Legislative Adjustments

Dollars in Millions

Bill Number & Title	FY 2025-26	FY 2026-27
SB 25-317 Transfer Cash Fund Investment Earnings to GF	-\$30.0	-\$10.0
SB 25-262 Changes to Money in Capital Construction Fund	-\$12.5	-\$12.5
HB 25-1320 School Finance Act	\$0.0	\$228.1
SB 25-270 Enterprise Nursing Facility Provider Fees	-\$65.1	-\$65.1
SB 25-316 Auraria Higher Education Center Appropriations	-\$31.4	\$0.0
SB 25-242 Division Unemployment Insurance Funding Mechanism	-\$27.2	-\$22.1
SB 25-173 Revenue Classification Taxpayer Bill of Rights	-\$15.3	-\$15.3
SB 25-258 Temporarily Reduce Road Safety Surcharge	-\$11.4	-\$23.0
SB 25-040 Future of Severance Taxes & Water Funding Task Force	\$8.0	\$16.8
All Other Bills (on net)	-\$0.2	-\$1.4
Total	-\$185.1	\$98.2

Certain tax credits depend on revenue forecasts

- **SB 23-1272:** Tax credits that advance decarbonization
- **HB 24-1365:** Opportunity Now grants and tax credit
- **HB 24-1311:** Family affordability tax credit
- **HB 24-1134:** Adjustments to tax expenditures to reduce burden (expanded earned income tax credit)

Initial Forecast for Revenue Subject to TABOR BEFORE Tax Credit Triggers Dollars in Millions

	FY 2024-25	FY 2025-26	FY 2026-27
Revenue Subject to TABOR	\$19,281.7	\$19,661.9	\$20,726.1
Percent Change in Revenue Subject to TABOR	-0.8%	2.0%	5.4%
TABOR Surplus	\$142.2	-\$164.9	\$284.7

Tax credits from all four bills are expected to be reduced in tax year 2026 only

The order in which tax credit triggers are evaluated matters! And it's ambiguous in statute.

- **HB 23-1272:** Electric vehicle, E-bike, and heat pump credits
 - Actual credit reduction determined by the preceding **June** forecasts
 - Credits **will** be reduced by 50% in tax year 2026 only
- **HB 24-1365:** Workforce shortage tax credit
 - Actual credit amounts determined by the preceding **September** forecasts
 - Revenue cap expected to be reduced from \$15 million to \$7.5 million in tax year 2026 only
- **HB 24-1311:** Family affordability tax credit & **HB 24-1134:** Expanded earned income tax credit
 - Actual credit amounts determined by the preceding **December** forecast
 - Trigger based on compound annual growth rate (CAGR) for FY 2026-27
 - CAGR expected to be **3.5%** for FY 2026-27
 - Credits expected to be reduced, but still available, in tax year 2026 only

Despite tax credit reductions, General Fund revenue revised down in FY 2025-26 and FY 2026-27

Gross General Fund Revenue

Billions of Dollars

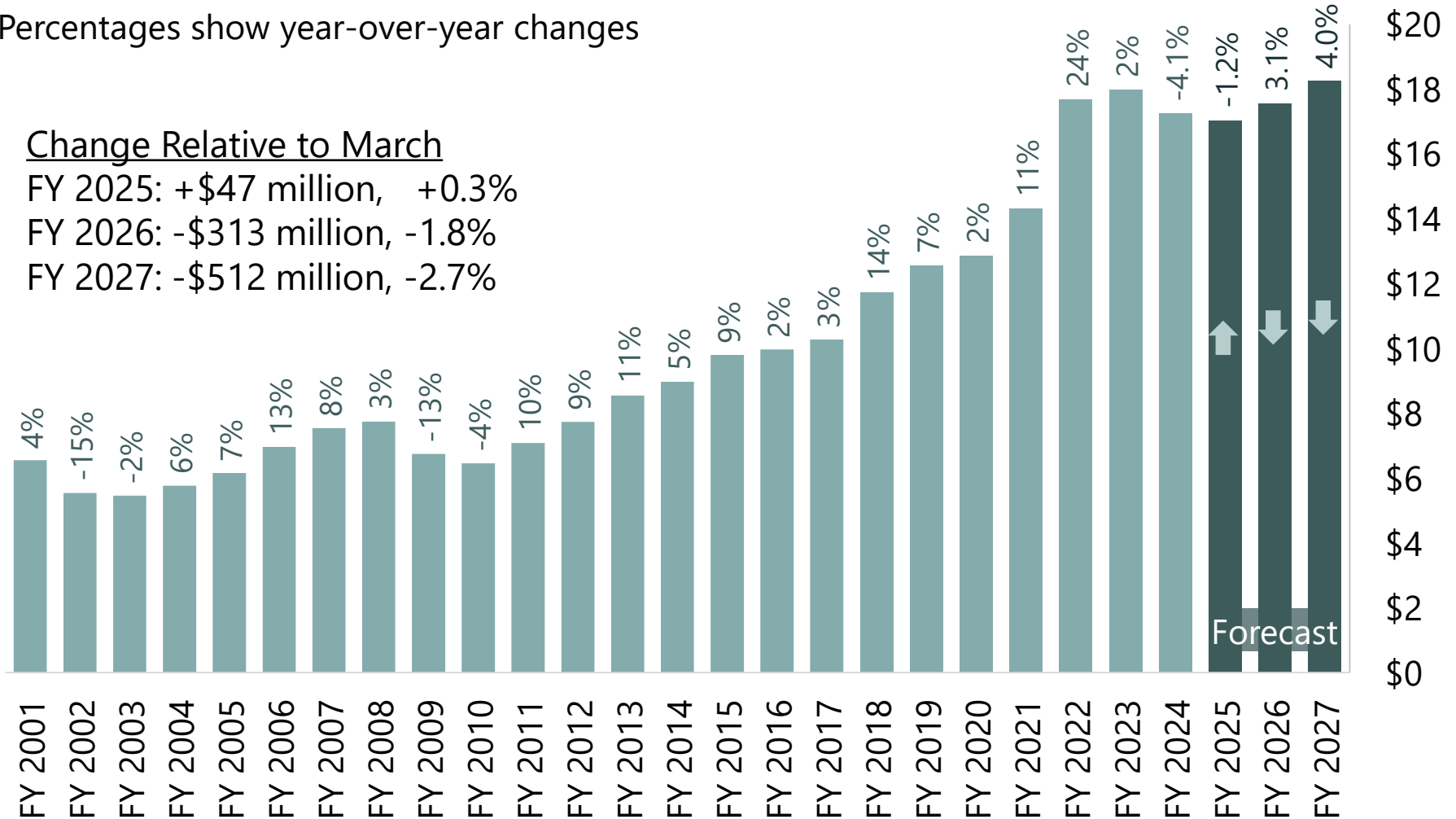
Percentages show year-over-year changes

Change Relative to March

FY 2025: +\$47 million, +0.3%

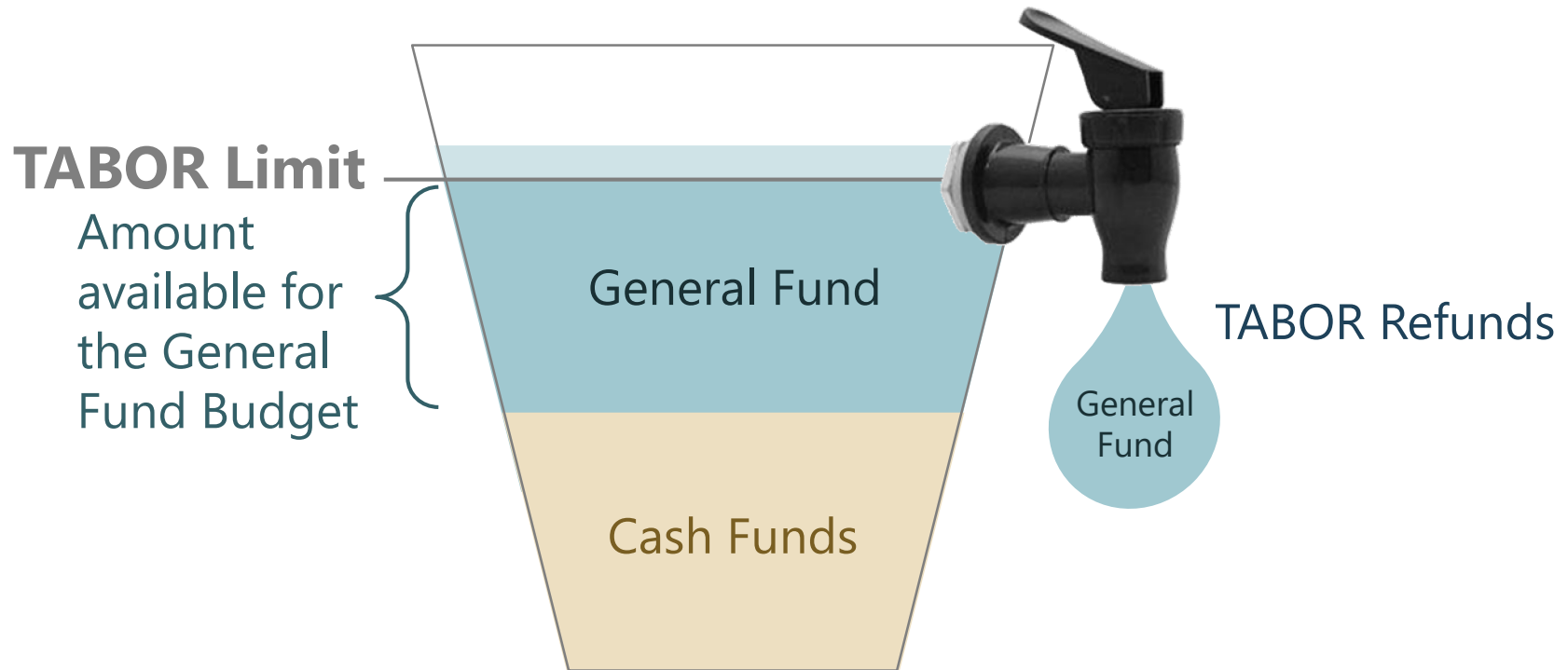
FY 2026: -\$313 million, -1.8%

FY 2027: -\$512 million, -2.7%



TABOR Refunds are paid from the General Fund

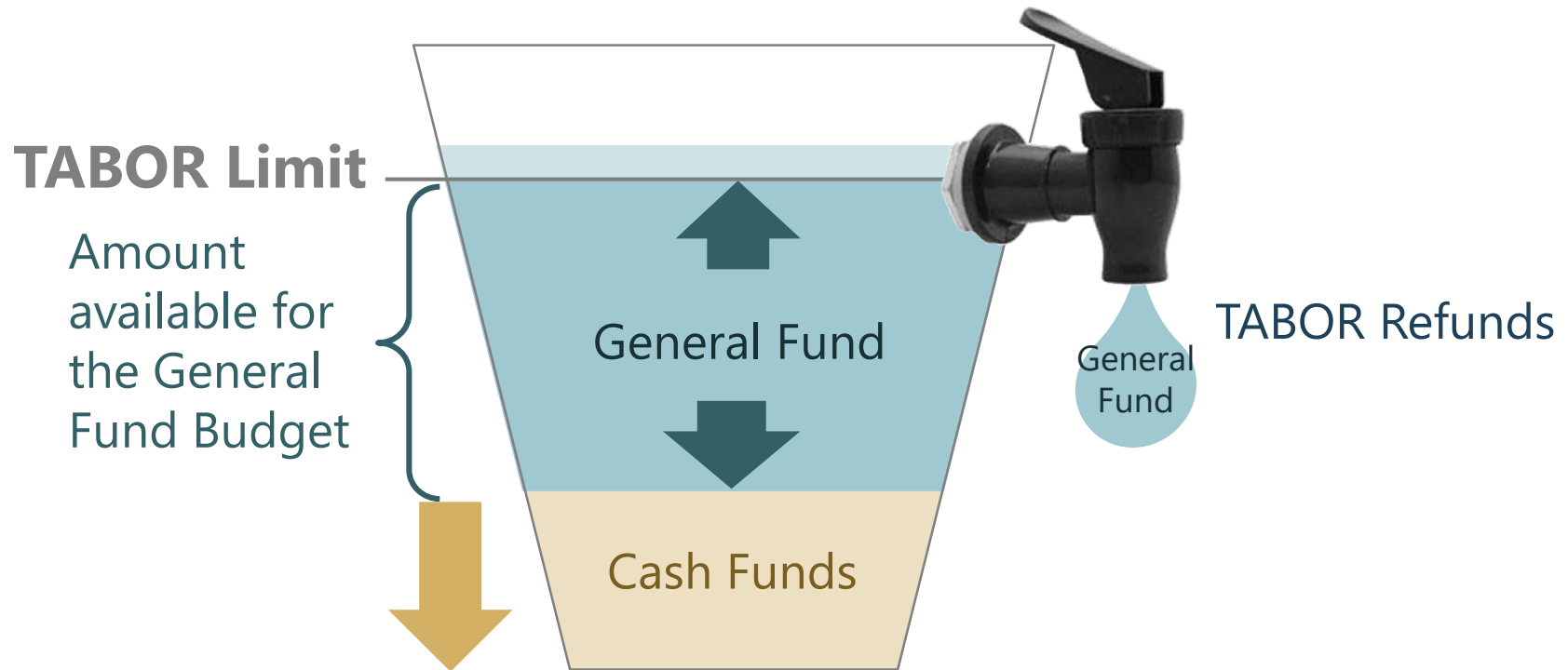
In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

TABOR Refunds are paid from the General Fund

In a TABOR surplus situation...



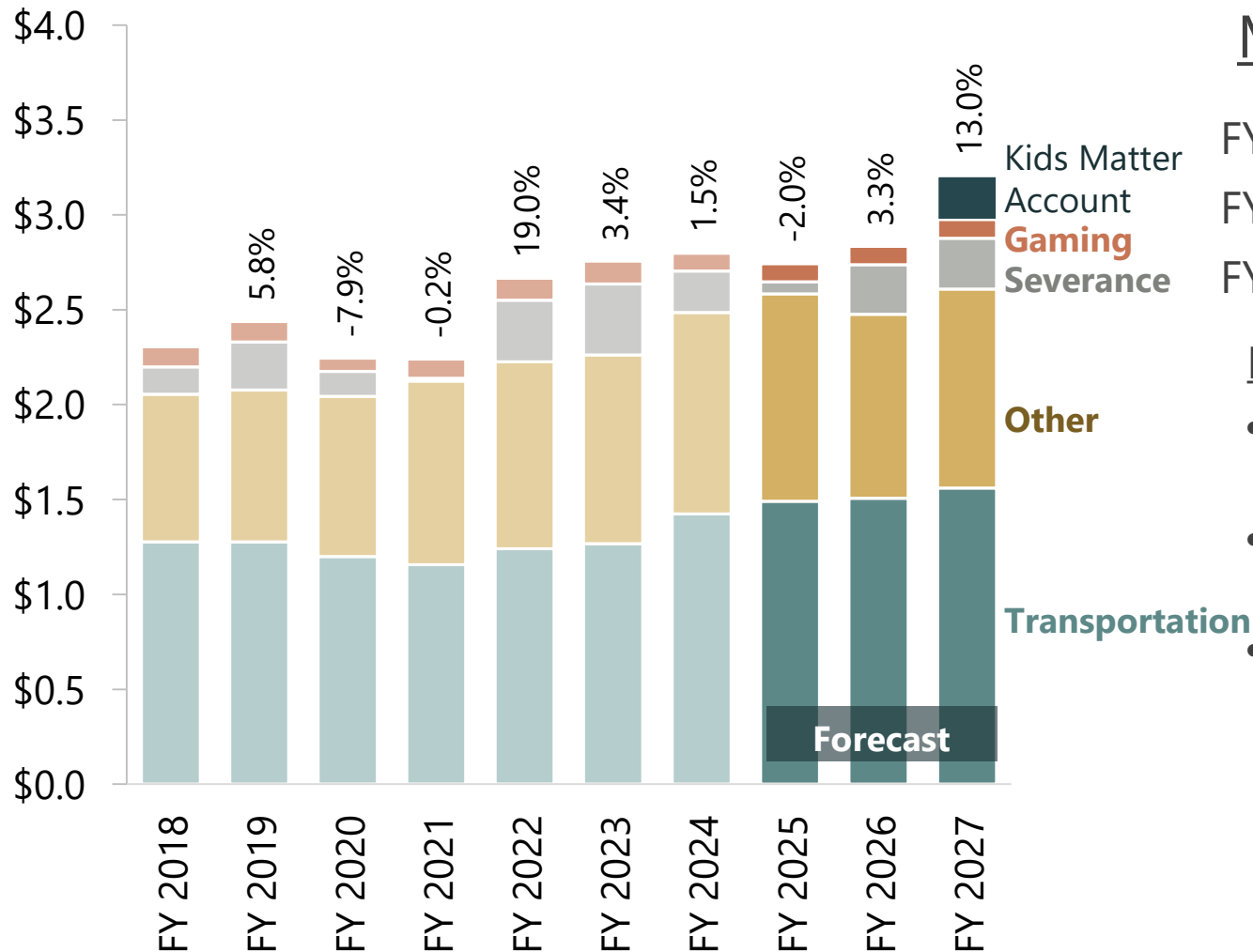
Less Cash Fund Revenue = More General Fund Budget Space*

**Provided that General Fund appropriations are not needed to offset lost cash fund revenue.*

June 2025 | Cash Funds Subject to TABOR

Billions of Dollars

Percentages show year-over-year percent changes



Change since the March forecast:

FY 2024-25: -\$19 million

FY 2025-26: -\$235 million

FY 2026-27: -\$180 million

Net impacts of:

- major downgrade to **other cash funds**, all years
- modest downgrade to **transportation**, all years
- New diversion to Kids Matter Account, pursuant to **HB 25-1320**

Source: Office of the State Controller and LCS June 2025 Forecast.

Downward revisions to GF and CF revenue mean small expected TABOR surpluses

Revenue Subject to TABOR

Billions of Dollars

TABOR Surplus Forecast

FY 2024: \$1.35 billion

FY 2025: \$142 million

FY 2026: \$83 million

FY 2027: \$536 million

Percent of Revenue

7.5%

0.7%

0.4%

2.6%

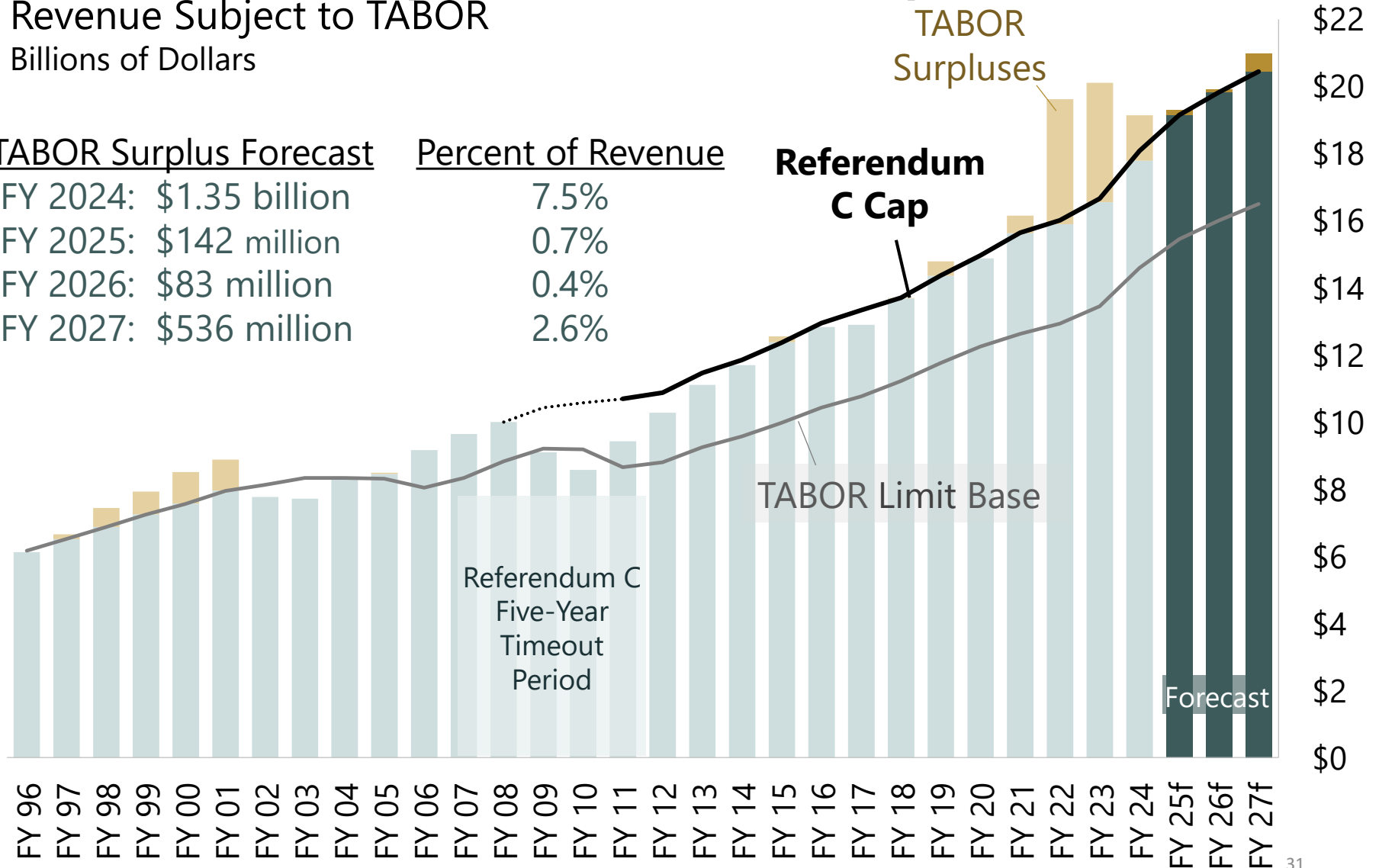
**Referendum
C Cap**

TABOR
Surpluses

TABOR Limit Base

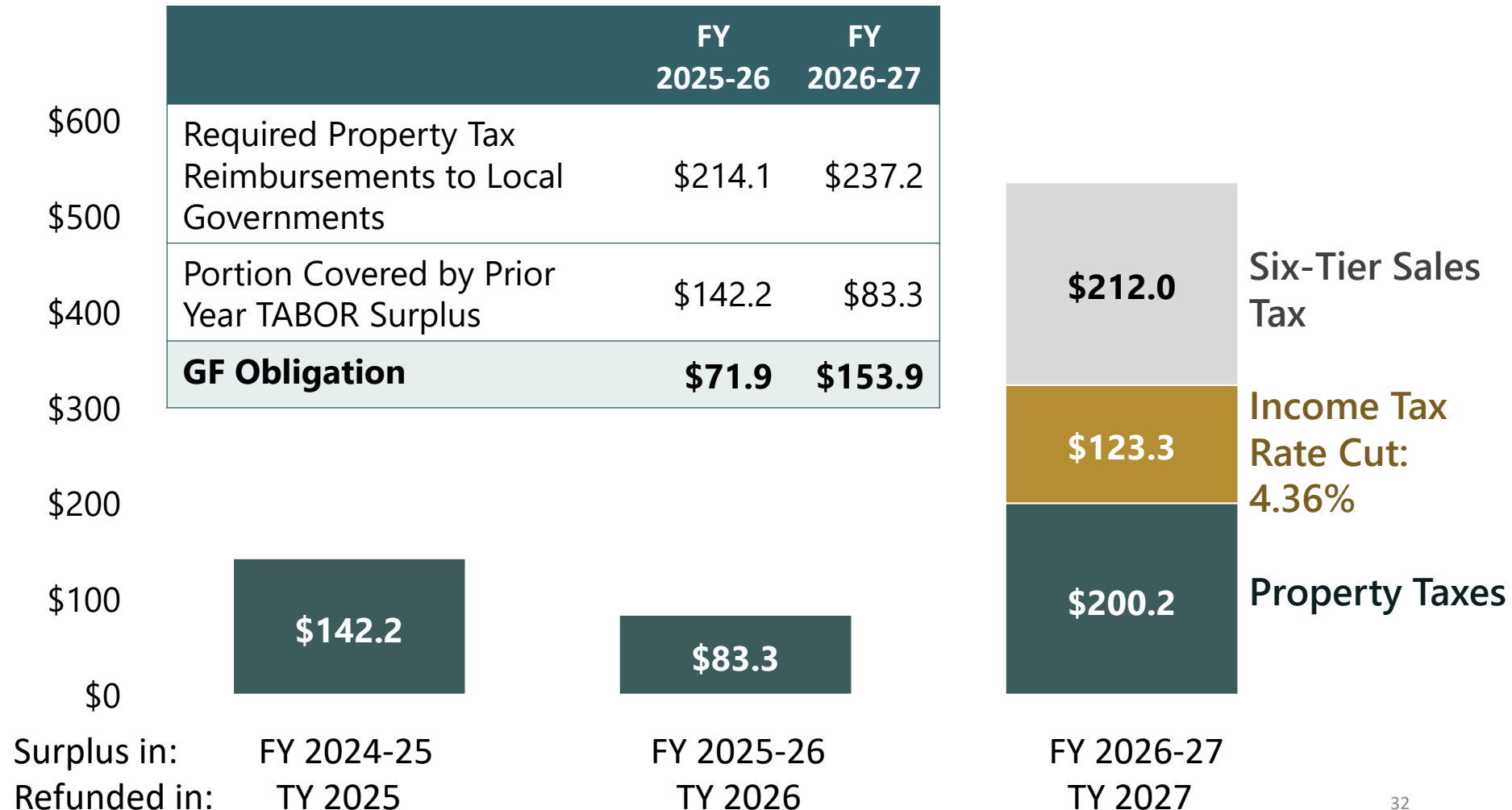
Referendum C
Five-Year
Timeout
Period

Forecast



TABOR refund obligation may not fully fund property tax exemptions in FY 2026 and 2027

TABOR Refund Mechanisms, Millions



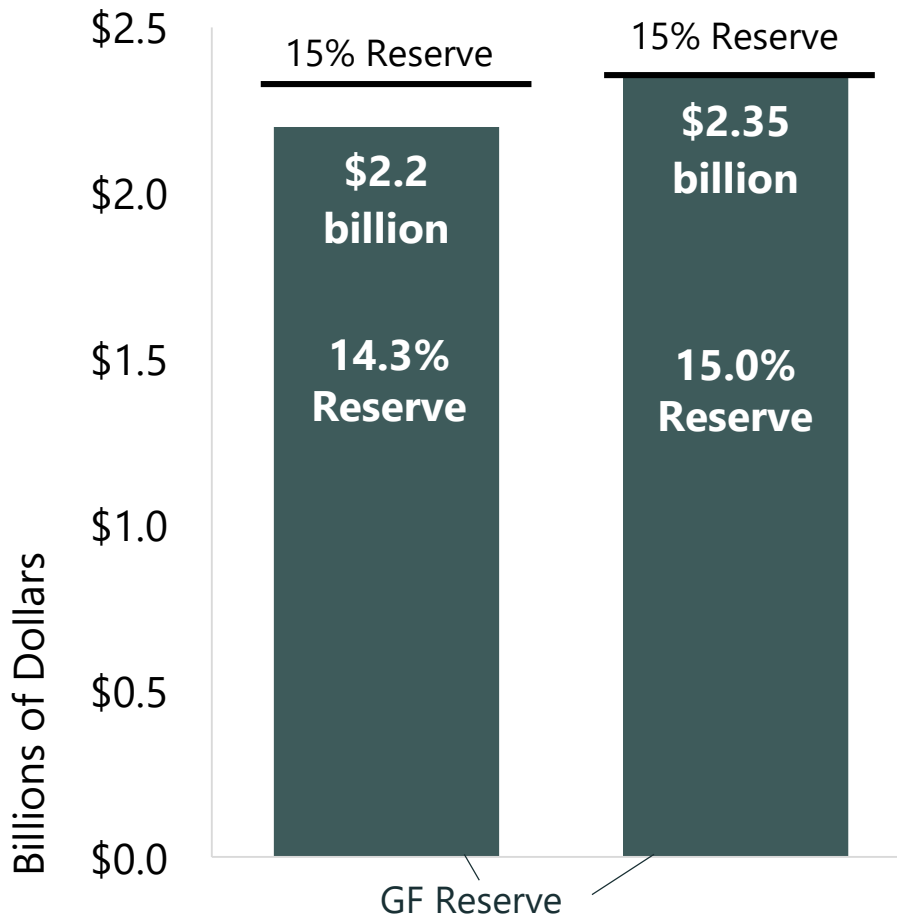
Current Year | FY 2024-25 **General Fund Reserve**

March
Forecast

June
Forecast

Excess Reserve: **-\$127.1 million**

-\$8.6 million



Change since the
March forecast:

Net **+\$118.5 million** increase in GF
reserve relative to requirement

What Changed?

2025 legislation
increased **transfers** **+\$343 million**
to the GF

Reduced **Cash Fund**
revenue (on net) **+\$19 million**

Increased **GF**
appropriations and **-\$238 million**
reserve requirement

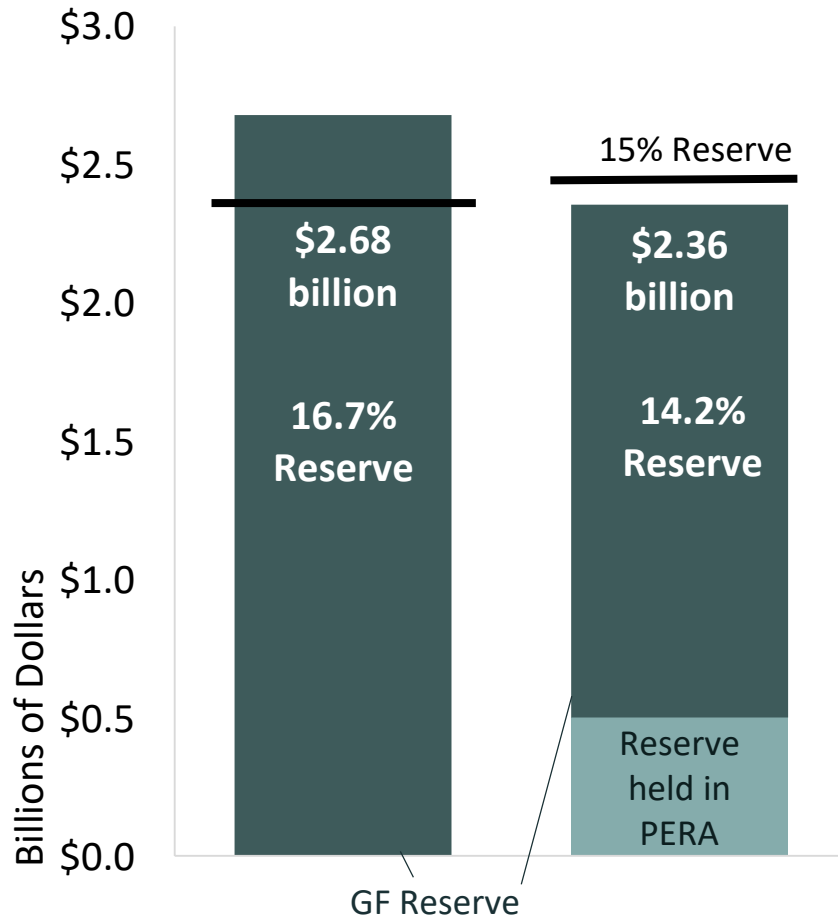
Next Year | FY 2025-26 **General Fund Reserve**

	March (Scenario A)	June
Excess Reserve:	Forecast \$320.1 million	Forecast -\$83.6 million

Change since the
March forecast (Scenario A)

Net **-\$403.7 million** change in GF
reserve relative to requirement

What Changed?



Downward Revision to **CF Forecast** **+\$235 mil.**

Increased **beginning balance** **+\$150 mil.**

Reduced transportation transfers
(**SB 25-257**) **+\$75 mil.**

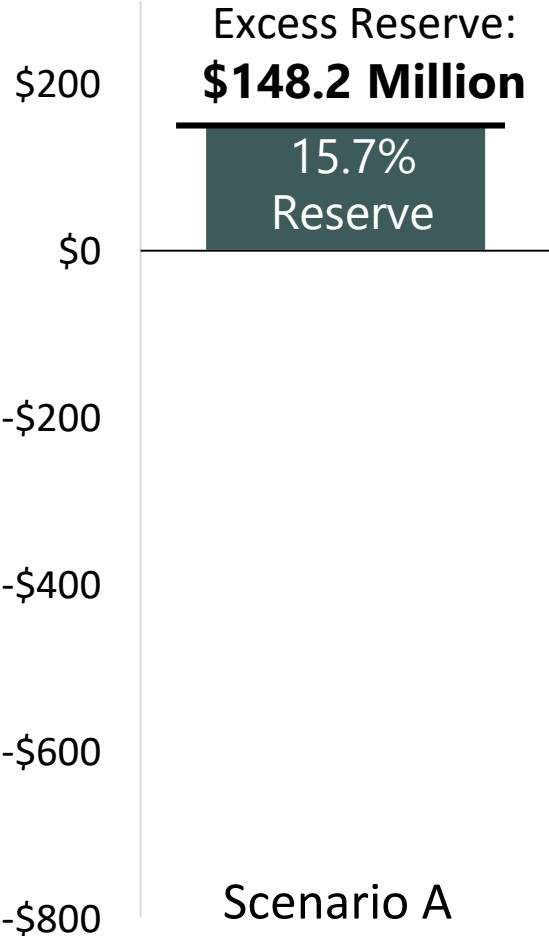
Increased **Rebates and
Expenditures** **-\$120 mil.**

Increased capital construction
transfers (**SB 25-262**) **-\$151 mil.**

Increased **GF appropriations** and
reserve requirement **-\$617 mil.**

Budget Year | FY 2026-27 **Scenario A**

General Fund Reserve Above/Below the 15% Reserve Requirement
Dollars in Billions

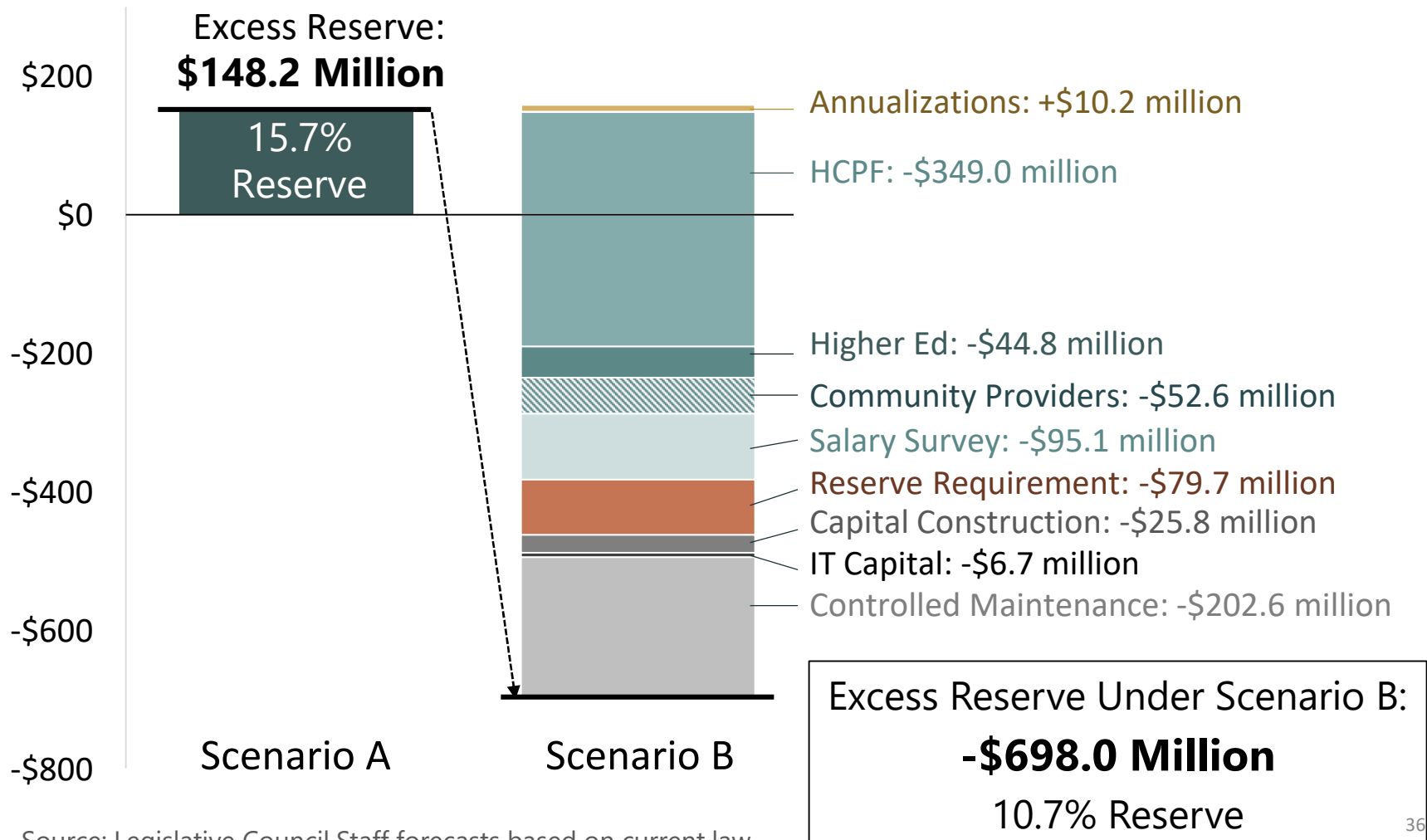


Source: Legislative Council Staff forecasts based on current law.

Budget Year | FY 2026-27 **Scenarios A and B**

General Fund Reserve Above/Below the 15% Reserve Requirement

Dollars in Billions



Forecast Takeaways

- The economic outlook has weakened and remains highly uncertain - we've downgraded our revenue forecast accordingly
- Revenue downgrades are consequential when we are close to the TABOR cap:
 - Small TABOR surpluses not enough to fully fund homestead for FY 2025-26 or FY 2026-27
 - Tax credit triggers are highly sensitive to changes in the revenue forecast, and significantly impact the budget
- The biggest changes to the budget for FY 2025-26 are due to legislation
- The General Fund is expected to end FY 2026-27 below the reserve requirement under Scenario B assumptions

Questions?

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