Economic & Revenue Forecast

June 2023

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

June 2023 | Economic & Revenue Forecast

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Executive Summary

This report presents the budget outlook based on current law and the June 2023 forecast for General Fund revenue, cash fund revenue, and the state TABOR outlook. It also includes summaries of expectations for the U.S. and Colorado economies and an overview of current economic conditions in nine regions of the state.

General Fund Budget Outlook

FY 2022-23

The General Fund is expected to end FY 2022-23 with a 17.5 percent reserve, $337.5 million above the statutorily required 15.0 percent reserve. General Fund revenue collections are expected to total $17.70 billion, the same level as last year, with modest contributions from economic growth offset by the income tax rate cut approved at the November 2022 general election. Revenue is expected to exceed the Referendum C cap by $3.31 billion.

FY 2023-24

This forecast incorporates the 2023 Long Bill and other appropriations for FY 2023-24 enacted during the legislative session. The General Fund is expected to end FY 2023-24 with a 15.2 percent reserve, $26.0 million above the statutorily required 15.0 percent reserve. General Fund revenue is expected to grow by just 0.4 percent and total $17.76 billion, with modest gains in individual income tax and sales tax collections more than offsetting an expected decline from record high corporate income taxes. Revenue is expected to exceed the Referendum C cap by $2.06 billion after the cap rises by 8.5 percent.

FY 2024-25 Unbudgeted

General Fund revenue is expected to grow 4.5 percent and total $18.57 billion, with state revenue subject to TABOR exceeding the Referendum C cap by $1.97 billion. The General Fund is projected to have $1.09 billion, or 6.1 percent, more available to spend or save relative to what is budgeted to be spent in FY 2023-24 after the application of current law transfers and the 15.0 percent statutory reserve requirement. This amount does not incorporate caseload growth, inflationary, or other budgetary pressures.

The General Fund Budget Overview section presents an alternative scenario that projects additional FY 2024-25 budget obligations based on current law. Under this scenario ("Scenario B"), the year-end General Fund reserve could fall short of the 15.0 percent statutory reserve requirement by $77.6 million. Additional discussion can be found in budget Scenario B (see Table 2 on page 8).

Risks to the budget outlook. Rising costs for government services will put upward pressure on appropriations, limiting budget flexibility. Further, the revenue outlook carries significant uncertainty, with bidirectional risk. The outlook for corporate income tax collections is especially uncertain, as discussed in detail in the General Fund Budget Overview and General Fund Revenue sections. While state revenue remains above the Referendum C cap, upside risk to the cash fund revenue forecast also poses downside risk to budget flexibility.

Cash Fund Revenue

Cash fund revenue subject to TABOR is expected to total $2.77 billion in the current FY 2022-23. Revenue will increase by 3.9 percent, with most of the growth occurring in transportation-related and miscellaneous cash funds. Cash fund revenue growth is expected to increase by 3.8 percent in FY 2023-24 and by 5.7 percent in FY 2024-25. Relative to March, the cash fund forecast for FY 2022-23 was revised up by a modest $43.0 million, while forecast revisions were minimal for both FY 2023-24 and FY 2024-25. In the current TABOR environment, rising cash fund revenue expectations create a corresponding General Fund obligation to pay refunds to taxpayers, so higher expectations beginning in FY 2023-24 are expected to limit budget flexibility. The forecast for cash fund revenue is presented beginning on page 35, and summarized in Table 14 on page 35.

Economic Outlook

The U.S. and Colorado economies are slowing after a period of strong labor market growth and consumer spending along with record corporate profits. Employment and real GDP growth remain positive but have decelerated. This forecast anticipates further slow growth through 2023, and a return to a modest pace of expansion in 2024 and 2025. The expansion is expected to be supported by slowly dissipating inflation, a resilient labor market, and continued improvement in real wages, bolstering real spending.

A few of the most significant threats to the economy have dissipated over the last three months. Congress and the Biden Administration reached an agreement to end the standoff over the federal debt ceiling, and the banking sector has thus far averted a cascading financial crisis. However, an overly restrictive course of monetary policy remains the primary risk factor for a near-term recession. Inflation has begun to cool, but the consequences of rising interest rates are showing wear on business activity, investment, and construction nationwide. The second half of 2023 is a key period for the Federal Reserve to bring the economy to a soft landing. In June, the Fed acknowledged falling inflation nationally and chose not to raise interest rates again, characterizing this change as a “pause.” To this point, inflation, labor market data, and the Fed’s communicated monetary policy plans suggest that the probability of a near-term recession is receding, but the probability of continued inflation above the Federal Reserve’s target rate is high.

Discussion of the economic outlook begins on page 45, and summaries of expectations for the U.S. and Colorado economies are presented, respectively, in Tables 21 and 22 on pages 67 and 68.

General Fund Budget Overview

This section presents the General Fund overview based on current law. The General Fund overview is shown in Table 1. This section also presents the following:

- a budget scenario for FY 2024-25 that incorporates General Fund obligations expected under current law (Table 2);
- a summary of changes in expectations relative to the March 2023 forecast (Table 3);
- transfers to the State Education Fund (Figure 1);
- transfers to transportation and capital construction funds (Table 4);
- the disposition of fiscal policies dependent on revenue conditions, including calculations for an affordable housing transfer required by statute to appear in this June forecast (Table 5);
- General Fund rebates and expenditures (Table 6); and
- cash fund transfers to and from the General Fund (Table 7).

Legislative Assumptions

This forecast is based on current law and incorporates all 2023 legislation that became law or that will become law if a referendum petition is not filed. Notably, the forecast incorporates the FY 2023-24 Long Bill and associated budget package. The forecast does not account for provisions that would only take effect if voters approve ballot measures (Propositions HH and II) at the November election.

FY 2022-23

The General Fund is expected to end FY 2022-23 with a 17.5 percent reserve, $337.5 million above the statutorily required 15.0 percent reserve (Table 1, line 20). Expectations for the year-end excess reserve were revised up by $124.2 million over the March forecast, mostly because of reductions in FY 2022-23 appropriations enacted during the 2023 legislative session. General Fund revenue collections are expected to equal their FY 2021-22 level, and state revenue subject to TABOR is expected to exceed the Referendum C cap by $3.31 billion.

FY 2023-24

Incorporating appropriations adopted in the Long Bill and other 2023 legislation, as well as forecast expectations for revenue, transfers, rebates and expenditures, and the TABOR refund obligation, the General Fund is expected to end FY 2023-24 with a 15.2 percent reserve, $26.0 million above the 15.0 percent reserve requirement (Table 1, line 20). In addition to normal forecast revisions, ballot measures approved at the November 2023 election, supplemental appropriations adopted during the 2024 legislative session, and other legislative changes to appropriations and transfers will affect this amount.

General Fund revenue collections are expected to grow minimally, by 0.4 percent, with modest increases in revenue from individual income and sales taxes more than offsetting declines from the record level of corporate income tax revenue expected in FY 2022-23. State revenue subject to TABOR is expected to exceed the Referendum C cap by $2.06 billion.

Table 1
General Fund Overview
Dollars in Millions

	Funds Available	**FY 2021-22 Actual**	**FY 2022-23 Estimate**	**FY 2023-24 Estimate**	**FY 2024-25 Estimate**
1	Beginning Reserve	$3,181.5	$3,203.2	$2,331.7	$2,238.9
2	General Fund Revenue *(Table 13)*	$17,697.9	$17,696.6	$17,763.7	$18,568.6
3	Transfers from Other Funds *(Table 6)*	$71.3	$58.8	$57.4	$60.1
4	**Total Funds Available**	**$20,950.8**	**$20,958.7**	**$20,152.8**	**$20,867.5**
5	Percent Change	27.2%	0.0%	-3.8%	3.5%
	Expenditures	**Actual**	**Budgeted**	**Budgeted**	**Estimate**
6	General Fund Appropriations Subject to the Limit[1]	$12,041.2	$13,294.7	14,752.2	*
7	Appropriations from Healthy School Meals Account[1]			115.3	*
8	TABOR Refund Obligation Under Art. X, §20, (7)(d)	$3,848.1	$3,457.8	$2,055.2	$1,971.7
9	Rebates and Expenditures *(Table 6)*	$149.6	$153.5	$151.7	$151.5
10	Transfers to Other Funds *(Table 7)*	$837.9	$1,003.5	$502.1	$432.3
11	Transfers to the State Education Fund[2]	$123.0	$290.0	$0.0	$0.0
12	Transfers to Transportation Funds *(Table 4)*	$484.9	$88.0	$5.0	$117.5
13	Transfers to Capital Construction Funds *(Table 4)*	$354.0	$488.3	$332.4	$20.0
14	**Total Expenditures**	**$17,838.7**	**$18,776.0**	**$17,913.9**	*
15	Percent Change	33.9%	5.3%	-4.6%	*
16	Accounting Adjustments[3]	$91.1	$149.0	*	*
	Reserve	**Actual**	**Budgeted**	**Budgeted**	**Estimate**
17	Year-End General Fund Reserve	$3,203.2	$2,331.7	$2,238.9	*
18	Year-End Reserve as a Percent of Appropriations	26.6%	17.5%	15.2%	*
19	Statutorily Required Reserve[4]	$1,613.5	$1,994.2	$2,212.8	*
20	**Amount in Excess or (Deficit) of Statutory Reserve**	**$1,589.7**	**$337.5**	**$26.0**	*
21	Excess Reserve as a Percent of Expenditures	8.9%	1.8%	0.1%	*
	Perspectives on FY 2024-25 (Unbudgeted)				**Estimate**
	Scenario A: Holds FY 2023-24 Appropriations Constant[5]				
22	Amount in Excess or (Deficit) of 15% Reserve Requirement				$1,094.1
23	As a Percent of Prior-Year Expenditures				6.1%
	Scenario B: Projected Obligations Based on Current Law[6]				
24	Amount in Excess or (Deficit) of 15% Reserve Requirement				-$77.6
25	As a Percent of Prior-Year Expenditures				-0.4%
	Addendum	**Actual**	**Estimate**	**Estimate**	**Estimate**
26	Percent Change in General Fund Appropriations	9.7%	10.4%	*	*
27	5% of Colorado Personal Income Appropriations Limit	$17,817.1	$18,902.6	$20,547.4	$21,656.4
28	Transfers to State Education Fund per Amendment 23	$993.5	$1,066.4	$1,060.3	$1,112.6

*Totals may not sum due to rounding. * Not estimated.*

[1]Line 6 shows appropriations subject to the statutory reserve requirement (line 19) and the appropriations limit (line 27). Line 7 shows appropriations from the Healthy School Meals Program Exempt Account pursuant to Proposition FF and SB 23-221. The amounts on line 7 are not subject to the reserve requirement and appropriations limit.

[2]Includes transfers pursuant to HB 20-1420; SB 21-208; and HB 22-1390, net of amendments in SB 22-202. Does not include transfers to the SEF under Amendment 23, which are shown on line 28.

[3]Reversions of appropriated amounts and other accounting adjustments to arrive at the year-end balance in the published Annual Comprehensive Financial Report. FY 2022-23 includes $149.0 million expected to be underrefunded from the current year TABOR refund obligation due to the passage of Proposition 121.

[4]The required reserve is calculated as a percent of operating appropriations: 13.4 percent in FY 2021-22, and 15 percent each year thereafter. Appropriations from the Healthy School Meals Account (line 7) are exempt from the reserve requirement.

[5]This scenario holds appropriations in FY 2024-25 equal to appropriations in FY 2023-24 (lines 6 and 7) to determine the total amount of money available relative to FY 2022-23 expenditures, net of the obligations in lines 8 through 13.

[6] This scenario includes budget requests approved to date (primarily K-12 and Medicaid); assumed inflationary increases for higher education; estimated changes in employee compensation and community provider rates; capital construction and IT capital projects approved to date; and State Architect recommendations for controlled maintenance. See Table 2.

FY 2024-25 (Unbudgeted)

General Fund revenue is expected to grow 4.5 percent, more than in FY 2022-23 and FY 2023-24, but still below the historical trend growth rate. The forecast anticipates moderate growth contributions from individual income and sales tax revenue as the economy begins to reaccelerate. State revenue subject to TABOR is expected to exceed the Referendum C cap by $1.97 billion. Because a budget has not yet been enacted for FY 2024-25, this forecast presents two scenarios for the General Fund budget outlook.

Scenario A: Holds appropriations constant in FY 2024-25. Table 1 (lines 22 and 23) shows the amount of revenue available to be spent or saved in FY 2024-25 relative to the amount appropriated in FY 2023-24. Based on this forecast, the General Assembly will have $1.09 billion, or 6.1 percent, more available to spend or save than in FY 2023-24. This amount assumes current law obligations for FY 2024-25, including transfers, rebates, and expenditures (Table 1, lines 9 through 13), as well as a 15.0 percent reserve requirement and the projected TABOR refund obligation. The $1.09 billion amount is a cumulative amount that reflects the FY 2023-24 budget situation and projected year-end balance. Any changes in revenue or adjustments made to the budget for FY 2023-24 will carry forward into FY 2024-25. This amount holds FY 2023-24 appropriations constant and therefore does not reflect any caseload, inflationary, or other budget pressures.

Scenario B: Projected obligations based on current law. Scenario B, shown on lines 24 and 25 of Table 1, presents the amount of revenue in excess or deficit of the statutorily required 15 percent reserve after the application of a set of assumptions for growth in appropriations and transfers consistent with the General Assembly's budget actions for FY 2023-24. Table 2 itemizes these assumptions, which include:

- anticipated changes in budget requests funded through the Long Bill, including primarily Medicaid and K-12 education (Table 2, line 2);
- a JBC Staff estimate for the incremental cost of a 3.0 percent inflationary increase for higher education institutions and financial aid (Table 2, line 3);
- increases in employee compensation and community provider rates consistent with the increases approved for FY 2023-24 (Table 2, lines 4 and 5);
- increases in the statutory reserve requirement that follow from the assumed changes in appropriations (Table 2, line 12);
- FY 2024-25 costs for capital construction and IT capital projects funded for FY 2023-24 (Table 2, lines 7 and 8); and
- a placeholder amount for capital transfers for controlled maintenance, consistent with the State Architect's recommendation for annual controlled maintenance expenditures (Table 2, line 9).

In total, the assumptions in Scenario B add $1.17 billion in General Fund obligations for appropriations, transfers, and the statutory reserve in excess of the current law appropriations and transfers incorporated in Scenario A (Table 2, line 13). Under Scenario B, the year-end General Fund reserve would fall short of the 15 percent statutory requirement by $77.6 million (Table 2, line 14).

Scenario B is meant to be illustrative of possible budgetary circumstances for FY 2024-25, and should not be interpreted as a policy recommendation by Legislative Council Staff.

Table 2
Projected Changes in FY 2024-25 General Fund Budget Obligations Under Current Law
Dollars in Millions

		FY 2023-24
1	**Excess Reserve Under Scenario A**	**$1,094.1**
	Change in Appropriations[1]	
2	Change in Budget Requests Funded through Long Bill (primarily Medicaid and K-12 Education)	$371.8
3	Estimated Inflationary Increase for Higher Education	$42.3
4	Change in Employee Compensation at 3.0% Increase	$224.2
5	Change in Community Provider Rates	$127.5
6	**Total Change in Appropriations**	**$765.8**
	Change in Capital Transfers[1]	
7	FY 2024-25 Costs for FY 2023-24 Approved Capital Construction	$90.4
8	FY 2024-25 Costs for FY 2023-24 Approved IT Capital	$44.2
9	State Architect Recommendation for Controlled Maintenance[2]	$156.5
10	**Total Change in Capital Transfers**	**$291.1**
11	**Change in Expenditures** (Line 6 plus Line 10)	**$1,056.8**
12	**Change in Required Reserve** (15% of Line 6)	**$114.9**
13	**Total Change in General Fund Obligations**	**$1,171.7**
14	**Excess Reserve Under Scenario B** (Line 1 minus Line 13)	**($77.6)**

[1]Source: Joint Budget Committee Staff based on FY 2023-24 budget actions.
[2]1.0 percent of current replacement value of state facilities.

Risks to the General Fund Budget Outlook

Recession risk threatens the budget outlook. The economy has entered a crucial period. This forecast assumes that the Federal Reserve will navigate the narrow path to a soft landing, but acknowledges high recession risk over the second half of 2023 and into 2024. A recession would likely reduce revenue below the Referendum C cap, thereby reducing the amount available for the General Fund budget in FY 2023-24 and beyond.

Costs for governments will continue to rise. Consumer price inflation has begun to cool, but certain costs for governments, including employee wages and capital project costs, are expected to continue to rise faster than their long-term trend. Higher costs put pressure on state government spending and the General Fund budget.

Higher-than-expected cash funds revenue will increase General Fund budget pressures. Some cash funds—including severance tax revenue, which is the state's most volatile revenue stream—are subject to the TABOR limit. Because TABOR surpluses are refunded using General Fund money, higher than expected cash fund revenue would create additional budgetary pressures for the General Fund.

The corporate income tax outlook is especially uncertain. Corporate income tax collections are poised to increase by an estimated 44.2 percent in FY 2022-23, an unprecedented rise that follows another mammoth increase last year. Corporate collections are surging around the country with record profits in 2022. The forecast anticipates a sizeable 14.7 decline in next year's collections, but identifies significant bidirectional risk. In the near term, forecast error would initially result in a higher or lower TABOR refund obligation with no downstream impact on the state budget. However, especially volatile corporate collections could exacerbate the budget consequences of a potential recession.

Changes Between the March and June Forecasts

Table 3 presents revisions to the General Fund budget outlook relative to the March 2023 forecast. These changes are explained below.

FY 2022-23. Expectations for the year-end excess reserve were revised up by $124.2 million relative to the March forecast. As shown in Table 3, the largest revisions were increases in General Fund revenue and the TABOR refund obligation. These two adjustments mostly cancelled each other out, with a net decrease of $24.6 million in the year-end balance.

The more impactful changes are in operating appropriations and transfers. Most importantly, this forecast reflects a $189.4 million reduction in FY 2022-23 operating appropriations enacted in 2023 legislation, which also reduced the year-end reserve requirement by $28.4 million. Expectations for transfers out of the General Fund increased by $64.7 million, primarily reflecting SB 23-161 ($26.0 million) and SB 23-246 ($20.0 million). Higher expectations for transfers out of the General Fund reduce the expected year-end reserve, but only partially offset the larger increase resulting from reduced appropriations.

FY 2023-24. Because a budget for FY 2023-24 had not yet been adopted in March, Table 3 compares this June forecast to the version of Scenario A that was included in the March forecast. As a result, Table 3 captures the effects of the 2023 Long Bill, other appropriations in legislation, and impacts on transfers.

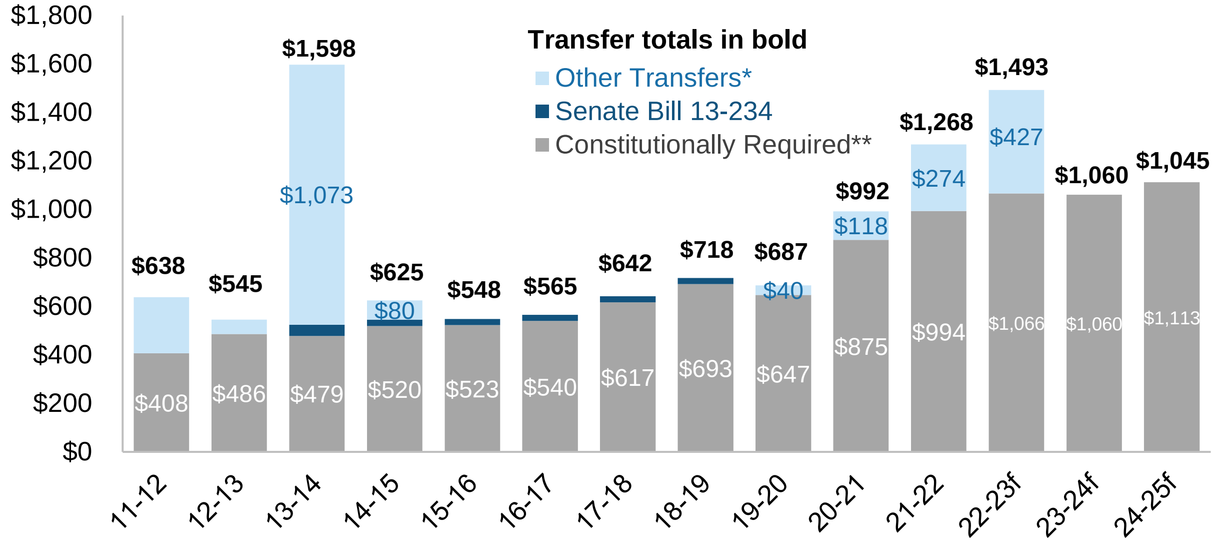
Table 3
Changes in the General Fund Budget Relative to the March 2023 Forecast (Scenario A)
Dollars in Millions, Positive Amounts Reflect an Increase Relative to March

Components of Change	FY 2022-23	FY 2023-24	Description of Changes
Funds Available	**$530.9**	**$137.0**	
Beginning Reserve	$0.0	$95.8	Carries the higher FY 2022-23 end balance into FY 2023-24.
General Fund Revenue	$530.9	$23.6	See Table 13. Reflects upgrade to corporate income tax forecast.
Transfers from Other Funds	$0.0	$17.6	See Table 7. Adds HB 23-1272 and SB 23-215.
Expenditures	**$432.7**	**$1,710.5**	
Operating Appropriations	-$189.4	$1,383.4	FY 2023-24 Long Bill and other changes to appropriations.
TABOR Refund Obligation	$555.6	$31.4	See Table 9. Increased forecast for revenue subject to TABOR.
Rebates and Expenditures	$1.9	$0.2	See Table 6.
SEF Transfers	$0.0	$0.0	
Transportation Transfers	$0.0	$5.0	See Table 4. Adds SB 23-283.
Capital Const. Transfers	$0.0	$312.4	See Table 4. Adds SB 23-243 and SB 23-294.
Other Cash Fund Transfers	$64.7	-$21.8	See Table 7. Reflects 2023 legislation, esp. SB 23-216 and SB 23-283.
Required Reserve	-$28.4	$190.2	Reflects changes to operating appropriations.
Accounting Adjustment	-$2.3	$0.0	Upward adjustment for TABOR refunds via homestead exemptions.
Surplus Relative to Required Reserve	**$124.2**	**-$1,763.6**	Nets the above changes.

State Education Fund Transfers

The Colorado Constitution (Amendment 23) requires that one-third of 1 percent of taxable income be credited to the State Education Fund. In FY 2022-23, the State Education Fund is expected to receive $1.07 billion as a result of this requirement. The amount credited to the SEF is expected to be similar, $1.06 billion, in FY 2023-24, and to grow to $1.11 billion in FY 2024-25. Figure 1 shows revenue to the State Education Fund.

Figure 1
Revenue to the State Education Fund
Dollars in Millions



Source: Colorado State Controller's Office and Legislative Council Staff forecast. f = Forecast.
**Includes transfers under SB 09-260 for FY 2008-09, SB 11-183 and SB 11-156 for FY 2011-12, HB 12-1338 for FY 2012-13 and FY 2013-14, HB 14-1342 for FY 2014-15, 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, and HB 22-1390 for FY 2022-23.*
***One-third of 1 percent of federal taxable income is required to be dedicated to the State Education Fund under Article IX, Section 17, of the Colorado Constitution (Amendment 23).*

In addition, the General Assembly has at different times authorized additional transfers from the General Fund to the State Education Fund (see Table 1, line 11). Notably, House Bill 22-1390, as modified by Senate Bill 22-202, transferred $290 million in FY 2022-23. Money in the State Education Fund is required to be used to fund kindergarten through twelfth grade public education.

Finally, Proposition EE, which was approved by voters in the November 2020 election, also transfers revenue from increased cigarette, tobacco and nicotine taxes to the State Education Fund for three fiscal years. Proposition EE transfers were $4.9 million in FY 2020-21 and $151.3 million in FY 2021-22, and are estimated at $136.9 million in FY 2022-23. These amounts represent a portion of the transfers from the General Fund to the 2020 Tax Holding Fund shown in Table 7 under House Bill 20-1427.

General Fund Transfers for Transportation and Capital Construction

Statutory transfers from the General Fund to transportation and capital construction funds are shown in Table 4. In the General Fund overview shown in Table 1, these transfers are included on lines 12 and 13. Other non-infrastructure-related transfers to and from the General Fund are summarized in Table 7, and shown on lines 3 and 10 of Table 1.

Table 4
Infrastructure Transfers from the General Fund
Dollars in Millions

Transportation Funds	2021-22	2022-23	2023-24	2024-25
SB 21-260	$282.5	$2.5		$117.5
SB 21-265	$124.0			
HB 22-1351		$78.5		
HB 22-1411	$36.5			
SB 22-176	$1.9	$7.0		
SB 22-180	$40.0			
SB 23-283			$5.0	
Total	**$484.9**	**$88.0**	**$5.0**	**$117.5**

Capital Construction Funds	2021-22	2022-23	2023-24	2024-25
HB 15-1344*	$20.0	$20.0	$20.0	$20.0
SB 21-064	$0.1			
SB 21-224	$328.8			
HB 22-1195	$5.1			
HB 22-1340		$462.2		
SB 23-141		$6.1		
SB 23-243			$294.2	
SB 23-294			$18.2	
Total	**$354.0**	**$488.3**	**$332.4**	**$20.0**

**Transfers are contingent upon requests made by the Capital Development Committee.*

General Fund contributions to transportation. Legislation enacted in 2022 directs $85.5 million to transportation-related cash funds in FY 2022-23, as follows:

- $31.4 million to the Highway Users Tax Fund (HB 22-1351);
- $0.5 million to the Unused State-Owned Real Property Fund (SB 22-176); and
- $53.6 million to the State Highway Fund ($47.1 million from HB 22-1351; $6.5 million from SB 22-176).

One bill from 2023, Senate Bill 23-283, directs $5.0 million to the State Highway Fund in FY 2023-24.

Finally, Senate Bill 21-260, enacted in 2021, will direct annual transfers from the General Fund to the State Highway Fund ($107.0 million) and the Multimodal Transportation and Mitigation Options Fund ($10.5 million) beginning in FY 2024-25. These transfers continue annually at the same amounts through FY 2028-29 and then are reduced to smaller amounts beginning in FY 2029-30.

General Fund transfers for capital projects. Legislation enacted in 2022 directs $462.2 million in FY 2022-23 for capital construction and IT capital projects. Legislation enacted in 2023 as part of the supplemental budget package directs an additional $6.1 million for capital projects in FY 2022-23.

Legislation enacted in 2023 directs transfers of $312.4 million in FY 2023-24 for capital construction and IT projects, including $294.2 million under SB 23-243 and $18.2 million under SB 23-294.

Fiscal Policies Dependent on Revenue Conditions

Certain fiscal policies are dependent upon forecast revenue conditions. These policies are summarized below.

Partial refundability of the conservation easement tax credit is expected to be available for tax years 2022 through 2025. The conservation easement income tax credit is available as a nonrefundable credit in most years. In tax years when the state refunds a TABOR surplus, taxpayers may claim an amount up to $50,000, less their income tax liability, as a refundable credit. The state collected a TABOR surplus in FY 2021-22, and this forecast expects a TABOR surplus in each of FY 2022-23, FY 2023-24, and FY 2024-25. Therefore, partial refundability of the credit is expected to be available for tax years 2022, 2023, 2024, and 2025.

Contingent transfers for affordable housing. House Bill 19-1322 created conditional transfers from the Unclaimed Property Trust Fund (UPTF) to the Housing Development Grant Fund for affordable housing projects for three fiscal years. House Bill 20-1370 delayed the start of these contingent transfers until FY 2022-23. The transfers are contingent based on the balance in the UPTF as of June 1 and this Legislative Council Staff June 2023 forecast and subsequent June forecasts. For the fiscal year in which the June forecast is published, if revenue subject to TABOR is projected to fall below a "cutoff" amount equal to the projected Referendum C cap minus $30 million dollars, a transfer will be made. The transfer is equal to the lesser of $30 million or the UPTF fund balance.

Statute requires that this June forecast and subsequent June forecasts report estimates of state revenue subject to TABOR and the cutoff amount, and the calculated transfer amount based on these estimates for the current fiscal year. Table 5 presents these amounts for FY 2022-23.

Table 5
FY 2022-23 Transfer from the Unclaimed Property Trust Fund to the Housing Development Grant Fund
Dollars in Millions

	FY 2022-23
Revenue Subject to TABOR	$19,965.9
TABOR Limit (Referendum C Cap)	$16,657.1
Transfer Cutoff Amount	$16,627.1
Excess/(Deficit) of Cutoff Amount*	$3,338.8
FY 2022-23 Transfer Amount	**$0.0**

**This amount must be $0 or less for a transfer to be made.*

Because this forecast projects that revenue subject to TABOR will exceed the cutoff amount, **no transfer will be made for FY 2022-23**. Based on this forecast, no transfer is expected for FY 2023-24 or FY 2024-25, as revenue subject to TABOR is expected to come in well above the cutoff amount in both years.

Table 6
General Fund Rebates and Expenditures
Dollars in Millions

Category	Actual FY 2021-22	Percent Change	Estimate FY 2022-23	Percent Change	Estimate FY 2023-24	Percent Change	Estimate FY 2024-25	Percent Change
Senior and Veterans Property Tax Exemptions	$162.1	2.7%	$163.7	1.0%	$163.2	-0.3%	$171.9	5.3%
TABOR Refund Mechanism[1]	-$162.1		-$163.7		-$163.2		-$171.9	
Property Tax Assessed Value Reductions					$230.6		$0.0	
TABOR Refund Mechanism[2]					-$230.6		NA	
Cigarette Rebate	$8.2	-11.2%	$6.6	-19.6%	$6.3	-4.9%	$6.0	-3.9%
Old Age Pension Fund	$76.9	-2.5%	$71.5	-7.0%	$70.9	-0.9%	$69.5	-2.0%
Aged Property Tax and Heating Credit	$5.9	-8.0%	$11.2	90.9%	$9.9	-11.6%	$9.7	-1.3%
Older Coloradans Fund	$10.0	25.0%	$10.0	0.0%	$10.0	0.0%	$10.0	0.0%
Interest Payments for School Loans	$1.0	-20.9%	$10.5	952.4%	$10.5	0.0%	$10.5	0.0%
Firefighter Pensions	$4.5	4.4%	$4.3	-4.7%	$4.6	7.0%	$4.6	0.0%
Amendment 35 Distributions	$0.7	-6.9%	$0.7	-7.9%	$0.6	-4.5%	$0.6	-2.4%
Marijuana Sales Tax Transfer to Local Governments	$25.6	-11.7%	$22.1	-13.9%	$21.9	-0.9%	$23.0	5.3%
Business Personal Property Exemptions[3]	$16.7		$16.6	-0.5%	$17.0	2.2%	$17.4	2.2%
Total Rebates and Expenditures	**$149.6**	**-49.4%**	**$153.5**	**2.6%**	**$151.7**	**-1.2%**	**$151.5**	**-0.2%**

Totals may not sum due to rounding. NA = Not applicable.

[1]Pursuant to SB 17-267, local government reimbursements for these property tax exemptions are the first TABOR refund mechanism used to meet the prior year's refund obligation.

[2]Pursuant to SB 22-238, local government reimbursements for these property tax reductions are the second TABOR refund mechanism used to meet the refund obligation incurred in FY 2022-23 only.

[3]Pursuant to HB 21-1312, local governments are reimbursed for expanded business personal property tax exemptions.

Table 7
Cash Fund Transfers
Dollars in Millions

Transfers to the General Fund		2021-22	2022-23	2023-24	2024-25
HB 05-1262	Amendment 35 Tobacco Tax	$0.7	$0.7	$0.6	$0.6
HB 08-1216	Consumer Outreach and Education Program	$0.02	$0.0	$0.0	$0.0
SB 13-133 & HB 20-1400	Limited Gaming Fund	$14.0	$20.4	$21.9	$22.1
HB 17-1343	Repeal of Intellectual and Developmental Disabilities Services Cash Fund		$16.9		
SB 17-261	Repeal of 2013 Flood Recovery Account	$8.3			
HB 20-1427	2020 Tax Holding Fund	$4.1	$4.1	$4.1	$4.1
SB 21-209	Repealed Cash Funds		$0.1		
SB 21-213	Use of Increased Medicaid Match	$11.9	$16.7	$11.7	$7.8
SB 21-251	Loan Family Medical Leave Program			$1.5	
HB 22-1350	Workers, Employers, and Workforce Centers Cash Fund	$32.4			
HB 23-1272	Decarbonization Tax Credits Administration			$12.6	$25.5
SB 23-215	State Employee Reserve Fund			$4.9	
Total Transfers to the General Fund		**$71.3**	**$58.9**	**$57.2**	**$60.1**

Transfers from the General Fund		2021-22	2022-23	2023-24	2024-25
SB 11-047 & HB 13-1001 & SB 23-066	Bioscience Income Tax Transfer to OEDIT	$14.6	$17.6	$18.7	$19.8
SB 14-215	Marijuana Tax Cash Fund	$165.7	$142.7	$141.4	$148.8
SB 15-244 & SB 17-267	State Public School Fund	$29.0	$25.0	$24.8	$26.1
HB 18-1323	Pay For Success Contracts Pilot Program Funding	$0.4			
HB 20-1116	Procurement Technical Assistance Program Extension	$0.2	$0.2	$0.2	$0.2
HB 20-1427	2020 Tax Holding Fund	$208.0	$232.2	$192.7	$235.8
HB 20-1427[1]	Preschool Programs Cash Fund	$0.4	$0.0		
HB 21-1149	Energy Sector Career Pathway in Higher Education	$5.0			
HB 21-1285	Funding to Support Creative Arts Industries	$18.0			
SB 21-225	Repay Cash Funds For 2020 Transfers	$10.0			
SB 21-252	Community Revitalization Grant Program	$65.0			
SB 21-281	Severance Tax Trust Fund Allocation		$9.5		
SB 21-283	Cash Fund Solvency	$4.3			

[1]HB 20-1427 requires the transfer of 73% of additional sales tax revenue due to the imposition of the minimum cigarette price to the Preschool Programs Cash Fund on June 30th in 2021, 2022, and 2023.

Table 7 (Cont.)
Cash Fund Transfers
Dollars in Millions

Transfers from the General Fund (Cont.)		2021-22	2022-23	2023-24	2024-25
HB 22-1001	Reduce Fees For Business Filings		$8.4		
HB 22-1004	Driver License Fee Reduction		$3.9		
HB 22-1011	Wildfire Mitigation Incentives for Local Governments		$10.0		
HB 22-1012	Wildfire Mitigation and Recovery		$7.2		
HB 22-1115	Prescription Drug Monitoring Program		$2.0		
HB 22-1132	Regulation and Services for Wildfire Mitigation		$0.1		
HB 22-1151	Turf Replacement Program		$2.0		
HB 22-1194	Local Firefighter Safety Resources	$5.0			
HB 22-1197	Effective Date of Dep't of Early Childhood	$3.0			
HB 22-1298	Fee Relief for Nurses, Nurse Aides, and Technicians		$11.7		
HB 22-1299	Fee Relief for Mental Health Professionals		$3.7		
HB 22-1362	Building Greenhouse Gas Emissions	$25.0			
HB 22-1381	CO Energy Office Geothermal Grant Program		$12.0		
HB 22-1382	Support Dark Sky Designation and Promotion		$0.04		
HB 22-1394	Fund Just Transition Community & Worker Supports		$15.0		
HB 22-1408	Modify Incentives for Film Production		$2.0		
HB 22-1411	Money from Coronavirus State Fiscal Recovery Fund	$28.0			
SB 22-036	State Payment Old Hire Death and Disability Benefits		$6.7		
SB 22-130	Authority For Public-Private Partnerships		$15.0		
SB 22-134	State Fair Master Plan Funding	$4.0			
SB 22-151	Safe Crossings for Colorado Wildlife and Motorists		$5.0		
SB 22-163	Establish State Procurement Equity Program		$2.0		
SB 22-168	Backcountry Search and Rescue	$1.0			
SB 22-180	Programs to Reduce Ozone Through Transit	$28.0			
SB 22-183	Crime Victims Services	$6.0	$1.0		
SB 22-191[1]	Procurement of Information Technology Resources				
SB 22-193	Air Quality Improvement Investments	$102.0	$1.5		
SB 22-195	Conservation District Grant Fund		$0.1	$0.1	$0.1
SB 22-202	State Match for Mill Levy Override Revenue		$10.0		
SB 22-206	Disaster Preparedness and Recovery Resources	$35.0			
SB 22-214	General Fund Transfer to PERA Payment Cash Fund		$198.5		
SB 22-215 & SB 23-283	Infrastructure Investment and Jobs Act Cash Fund	$80.3		$84.0	
SB 22-238	State Public School Fund		$200.0		

[1]Beginning in FY 2023-24, SB 22-191 directs transfers of unspent prior year General Fund appropriations for IT procurement. Any transfer amount for FY 2023-24 is included in the FY 2022-23 General Fund appropriation amount and not included here.

Table 7 (Cont.)
Cash Fund Transfers
Dollars in Millions

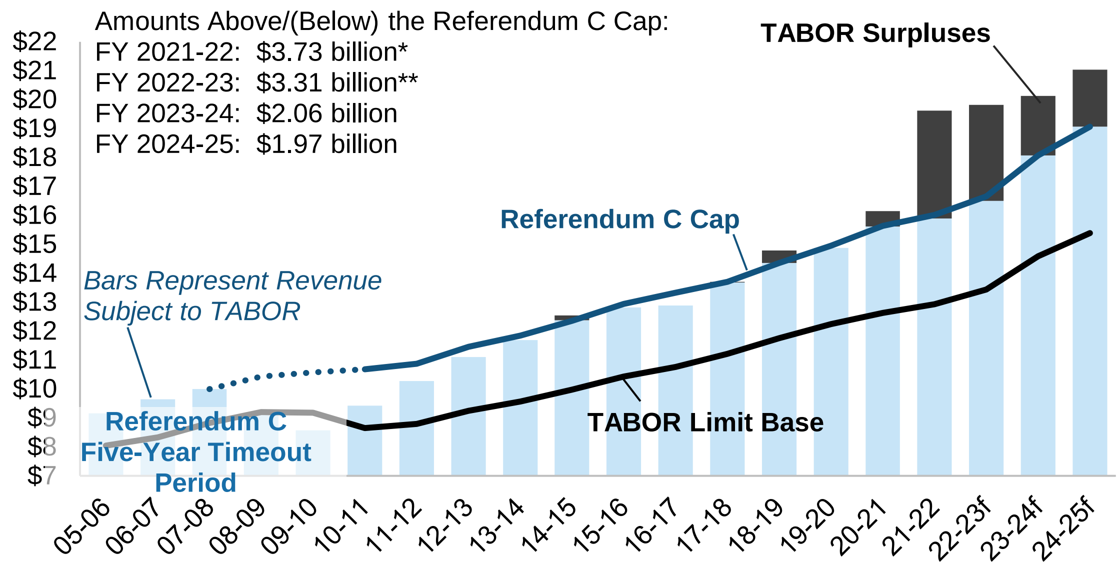
Transfers from the General Fund (Cont.)		2021-22	2022-23	2023-24	2024-25
HB 23-1041	Prohibit Greyhound Wagering				$0.03
HB 23-1107	Crime Victim Services			$3.0	
HB 23-1269[1]	Extended Stay & Boarding Permits				
HB 23-1273	Wildfire Resilient Homes Grant Program			$0.1	
HB 23-1290[2]	Proposition EE Revenue Retention				
HB 23-1305	Continue Health Benefits in Work-Related Death			$0.2	$0.2
SB 23-001	Public-Private Collaborations for Housing			$5.0	
SB 23-005	Forestry and Wildfire Mitigation Workforce		$1.0	$1.0	$1.0
SB 23-044	Veterinary Education Loan Repayment Program			$0.5	
SB 23-137	Colorado Economic Development Fund		$5.0		
SB 23-141	DMVA Real Estate Proceeds Cash Fund		$4.9		
SB 23-161	Firefighting Aircraft		$26.0		
SB 23-166	Wildfire Resiliency Code Board			$0.3	
SB 23-199[3]	Marijuana Cash Fund				
SB 23-205	Universal High School Scholarship Program			$25.0	
SB 23-246	State Emergency Reserve		$20.0		
SB 23-255	Wolf Depredation Compensation Fund			$0.2	$0.4
SB 23-257	Auto Theft Prevention Cash Fund			$5.0	
SB 23-263	Natural Disaster Mitigation Enterprise		$0.1		
SB 23-275	Wild Horse Management Project		$1.5		
Total Transfers from the General Fund		**$837.9**	**$1,003.5**	**$502.1**	**$432.3**
Net General Fund Impact		**-$766.6**	**-$944.7**	**-$444.7**	**-$372.3**

[1]For FY 2022-23 and FY 2023-24, HB 23-1269 requires transfers from unexpended funds appropriated for county child welfare programs. Any transfer amount is already included in General Fund appropriations amounts and not counted again here.
[2]HB 23-1290 requires that $23.65 million be transferred from the Preschool Programs Cash Fund (PPCF) to the Proposition EE Refund Cash Fund on September 1, 2023. If the balance of the PPCF is insufficient, the remaining amount will be transferred from the General Fund. This forecast assumes the full transfer will be made from the PPCF.
[3]For FY 2022-23 only, SB 23-199 requires transfers from unexpended funds appropriated to the Department of Revenue. Any transfer amount is already included in the General Fund appropriations amount and not counted again here.

TABOR Outlook

The state TABOR outlook is presented in Table 9 and illustrated in Figure 2, which also provides a history of the TABOR limit base and the Referendum C cap. In FY 2021-22, state revenue subject to TABOR exceeded the Referendum C cap, creating a state obligation for TABOR refunds to taxpayers in FY 2022-23. State revenue subject to TABOR is projected to exceed the Referendum C cap in each of FY 2022-23, FY 2023-24, and FY 2024-25, creating a state obligation for TABOR refunds to taxpayers in each of, FY 2023-24, FY 2024-25, and FY 2025-26.

Figure 2
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 2021-22 differs from the surplus amount because it includes under-refunds of $119.7 million from prior TABOR surpluses.*
***The refund amount for FY 2022-23 differs from the surplus amounts because it includes expected under-refunds from the FY 2021-22 TABOR surplus.*

FY 2021-22. The audited Annual Comprehensive Financial Report shows that state revenue subject to TABOR exceeded the Referendum C cap by $3.73 billion in FY 2021-22. After accounting for an outstanding refund obligation attributable to under-refunds of prior TABOR surpluses, the state is obligated to refund $3.85 billion in the current FY 2022-23. The FY 2021-22 surplus is being refunded to taxpayers via the TABOR refund mechanisms under current law, which are explained in greater detail below.

Forecasts for FY 2022-23 through FY 2024-25. State revenue subject to TABOR is projected to exceed the Referendum C cap throughout the forecast period. In the current FY 2022-23, revenue is expected to exceed the Referendum C cap by $3.31 billion before exceeding the cap by $2.06 billion in FY 2023-24 and by $1.97 billion in FY 2024-25, even with high 2022 inflation resulting in a doubling of the growth rate used to calculate the FY 2023-24 Referendum C cap. Refunds of those amounts are expected to be returned to taxpayers in the fiscal year following each surplus. The actual refund obligation in any given year will incorporate any over- or under-refund of prior year surpluses.

Relative to the March forecast, expectations for revenue subject to TABOR were increased through the forecast period, by about $560 million in FY 2022-23, $30 million in FY 2023-24, and $170 million in FY 2024-25, primarily due to higher expectations for General Fund revenue subject to TABOR. The FY 2023-24 TABOR limit growth rate is 8.5 percent based on inflation and population growth for calendar year 2022.

Enterprise disqualification and requalification. When a state program no longer satisfies the requirements to qualify as a TABOR enterprise, it is "disqualified." The program's revenue becomes subject to TABOR and an upward adjustment equal to that revenue amount is also made to the Referendum C cap.[1] Similarly, downward adjustments are made to both revenue and the Referendum C cap when an enterprise requalifies. This forecast includes enterprise adjustments for the Auraria Higher Education Center's Tivoli Center and for Adams State University, which were disqualified in FY 2021-22 and are assumed to requalify in FY 2022-23. Single-year enterprise adjustments have no net impact on the amount to be refunded to taxpayers. However, if an enterprise remains disqualified for multiple years, growth in that enterprise's revenue between those years may increase (or decrease) the TABOR refund obligation if its revenue grows faster (or slower) than the TABOR limit.

Risks to the forecast. Estimates of the TABOR surplus and TABOR refund obligation represent the amount by which state revenue subject to TABOR is expected to exceed the Referendum C cap. Therefore, any error in the General Fund or cash funds revenue forecasts will result in an error of an equal amount in the TABOR refund forecast. Any forecast error for inflation or population growth will also impact the TABOR situation by resulting in higher or lower allowable growth in the Referendum C cap.

In an environment where large TABOR refunds are expected, TABOR insulates the General Fund budget from the impacts of error in the General Fund revenue forecast. Greater than expected General Fund revenue will result in a larger General Fund obligation for TABOR refunds, with no net impact on the amount available for the General Fund budget. Lower than expected General Fund revenue will result in a smaller obligation for TABOR refunds, and will impact the budget only if the error is great enough to erase the entire projected TABOR surplus.

By contrast, error in the forecast for cash fund revenue subject to TABOR poses a risk to the outlook for the General Fund budget. Greater than expected revenue from cash fund sources would increase the General Fund obligation for TABOR refunds, thereby reducing the amount available for the budget.

TABOR refund mechanisms. TABOR refund mechanisms and expected refund amounts are shown in Figure 3. Current state law includes two ongoing and two temporary TABOR refund mechanisms.

The two ongoing refund mechanisms include the property tax exemptions for seniors and veterans with a disability and the six-tier sales tax refund mechanism based on taxpayers' incomes. Amendment E, approved by voters in November 2022, extends property tax exemptions to Gold Star spouses starting in tax year 2023. A third refund mechanism, the temporary reduction in the income

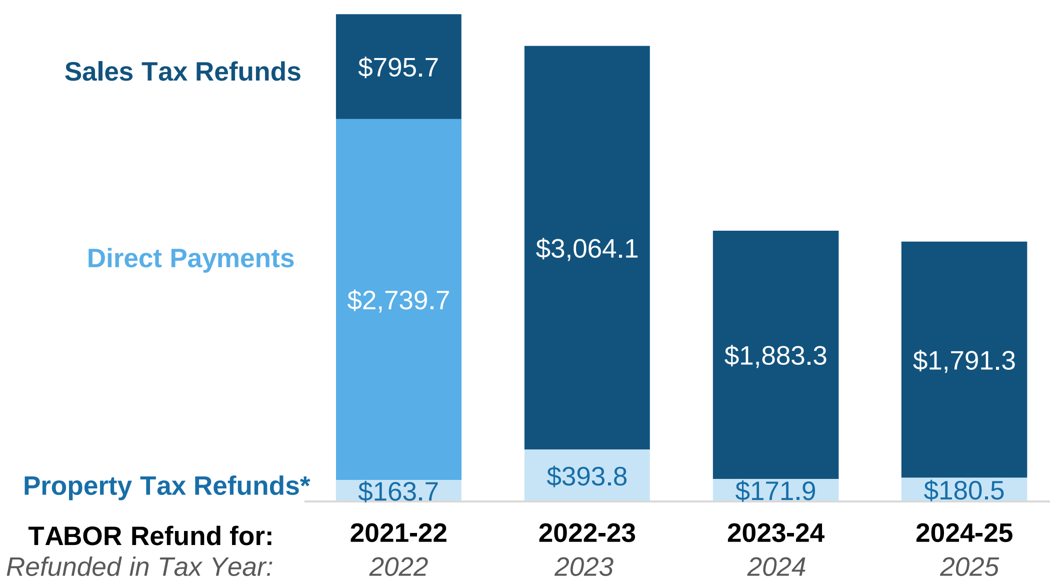
[1] For more information on TABOR and TABOR enterprises, see the Legislative Council Staff memoranda titled: "The TABOR Revenue Limit", available at: https://leg.colorado.gov/sites/default/files/r21-96_the_tabor_revenue_limit_0.pdf and "State Government Enterprises, available at: https://leg.colorado.gov/sites/default/files/r21-99_state_government_enterprises_0.pdf.

tax rate from 4.55 percent to 4.50 percent was rendered inoperable by Proposition 121, which permanently reduces the income tax rate to 4.40 percent beginning in tax year 2022.

Based on this forecast, both ongoing refund mechanisms are expected to be used for tax years 2023, 2024, and 2025. Table 8 on page 23 presents estimated six-tier sales tax refund amounts for each year of the forecast period. The $795.7 million in sales tax refunds for tax year 2022 set by the Department of Revenue in September 2022 is expected to result in an under-refund of $149.0 million in the current fiscal year, which would have been refunded via the temporary reduction in the income tax rate if not for the passage of Proposition 121 and is now expected to be refunded in FY 2023-24 instead.

Senate Bill 22-238 establishes an additional refund mechanism to refund a portion of the FY 2022-23 surplus for tax year 2023 through reductions in the assessed valuations of residential and nonresidential property, which determine property taxes. A portion of local governments' foregone property tax revenue as a result of the bill is reimbursed by the state government, and reimbursements up to $240 million are accounted as a TABOR refund mechanism under the bill. Figure 3 includes this mechanism with the "Property Tax Refunds" label. The mechanism is estimated to refund $230.6 million in property tax year 2023. This estimate includes a small downward revision relative to the March forecast because of a provision in **Senate Bill 23-303** that takes effect regardless of the electoral outcome of Proposition HH.

Figure 3
Expected TABOR Refunds and Refund Mechanisms
Dollars in Millions



Source: Legislative Council Staff June 2023 forecast.
**Includes $230.6 million to be refunded from the FY 2022-23 TABOR surplus under Senate Bill 22-238.*

Refunds made via property tax reductions reduce obligations that would otherwise be paid from General Fund revenue. Refunds made via the sales tax refund are paid to taxpayers when they file their state income tax returns. TABOR refund mechanisms are accounted for as an offset against the amount of surplus revenue restricted to pay TABOR refunds, rather than as a revenue reduction.

Therefore, the General Fund revenue forecast does not incorporate downward adjustments as a result of refund mechanisms being activated.

Senate Bill 23-303 refers a ballot measure ("Proposition HH") to voters in November 2023. If Proposition HH is approved by voters, **Senate Bill 23-303** and **House Bill 23-1311** make several changes to TABOR refunds and refund mechanisms. These changes are discussed below; however, this forecast does not incorporate these changes as they require voter approval in order to become law.

Senate Bill 23-303 changes property tax assessments beginning for the 2023 tax year, and allows the state to retain additional revenue subject to the TABOR limit beginning in FY 2023-24. For FY 2022-23, a portion of revenue that would otherwise be refunded via the six-tier sales tax refund mechanism would instead be paid as reimbursements to local governments for foregone property tax revenue. For TABOR refunds that would otherwise be paid in FY 2023-24 via the six-tier sales tax refund mechanism, House Bill 23-1311 establishes a new refund mechanism that would instead pay equal amounts to all taxpayers who qualify for the six-tier sales tax refund.

Proposition EE TABOR refund requirement. Revenue from the increased taxes on cigarettes, tobacco products, and nicotine products in Proposition EE totaled $208.5 million in FY 2021-22, exceeding the estimate of FY 2021-22 tax revenue published in the 2020 Blue Book by $21.5 million. TABOR requires that this amount be refunded to taxpayers, however, state law currently does not include a mechanism to issue this refund. **House Bill 23-1290** refers a ballot measure ("Proposition II") to voters in November 2023 which, if passed, would allow the state to keep and spend the excess revenue, plus interest, totaling $23.65 million. If Proposition II fails, the bill specifies that the $23.65 million would be refunded to sellers of cigarettes, tobacco products, and nicotine products. For more information on this requirement, see the General Fund Revenue section of this forecast document.

Table 8
Projected TABOR Refunds via the Six-Tier Sales Tax Refund Mechanism

Tax Year 2022 Refunds from FY 2021-22 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$48,000	$153	$306
$48,001	to	$95,000	$208	$416
$95,001	to	$151,000	$234	$468
$151,001	to	$209,000	$285	$570
$209,001	to	$268,000	$300	$600
$268,001	and up		$486	$972

Tax Year 2023 Refunds from FY 2022-23 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$50,000	$587	$1,174
$50,001	to	$99,000	$783	$1,566
$99,001	to	$157,000	$901	$1,802
$157,001	to	$218,000	$1,071	$2,142
$218,001	to	$278,000	$1,152	$2,304
$278,001	and up		$1,854	$3,708

Tax Year 2024 Refunds from FY 2023-24 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$52,000	$357	$714
$52,001	to	$103,000	$476	$952
$103,001	to	$163,000	$548	$1,096
$163,001	to	$226,000	$651	$1,302
$226,001	to	$289,000	$701	$1,402
$289,001	and up		$1,128	$2,256

Tax Year 2025 Refunds from FY 2024-25 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$53,000	$336	$672
$53,001	to	$105,000	$448	$896
$105,001	to	$167,000	$515	$1,030
$167,001	to	$231,000	$612	$1,224
$231,001	to	$297,000	$659	$1,318
$297,001	and up		$1,060	$2,120

AGI = Adjusted gross income.

Note: Amounts do not include estimates for taxpayer refunds via the 2022 direct payments under Senate Bill 22-233 or via reimbursements to local governments for property tax exemptions.

Table 9
TABOR Revenue Limit and Retained Revenue
Dollars in Millions

		Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
	TABOR Revenue				
1	General Fund[1]	$17,075.4	$17,195.2	$17,252.8	$17,999.1
2	Cash Funds	$2,665.9	$2,770.7	$2,875.3	$3,039.5
3	**Total TABOR Revenue**	**$19,741.3**	**$19,965.9**	**$20,128.1**	**$21,038.7**
	Revenue Limit				
4	Allowable TABOR Growth Rate	2.2%	4.2%	8.5%	5.5%
5	Inflation (*from Prior Calendar Year*)	2.0%	3.5%	8.0%	4.6%
6	Population Growth (*from Prior Calendar Year*)[2]	0.3%	0.7%	0.5%	0.9%
7	TABOR Limit Base	$12,930.3	$13,445.0	$14,587.8	$15,390.1
8	Voter Approved Revenue Change (Referendum C)	$3,082.6	$3,212.1	$3,485.1	$3,676.8
9	Total TABOR Limit / Referendum C Cap[3]	$16,012.9	$16,657.1	$18,072.9	$19,066.9
10	**TABOR Revenue Above** (Below) **Referendum C Cap**	**$3,728.4**	**$3,308.8**	**$2,055.2**	**$1,971.7**
	Retained/Refunded Revenue				
11	Revenue Retained under Referendum C[4]	$3,082.6	$3,212.1	$3,485.1	$3,676.8
12	Fiscal Year Spending (*revenue available to be spent or saved*)	$16,012.9	$16,657.1	$18,072.9	$19,066.9
13	Outstanding Underrefund Amount[5]	$119.7	$149.0		
14	**Revenue Refunded to Taxpayers**	**$3,848.1**	**$3,457.8**	**$2,055.2**	**$1,971.7**
15	TABOR Reserve Requirement	$480.4	$499.7	$542.2	$572.0

Totals may not sum due to rounding.

[1]Revenue differs from the amount in the General Fund revenue summaries because of accounting adjustments across TABOR boundaries.

[2]Following each decennial census, the April 1 census population counts are used instead of July 1 population estimates for purposes of calculating the growth factors for the TABOR limit. Population estimates are used in all other years for purposes of the growth calculation.

[3]This forecast 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.

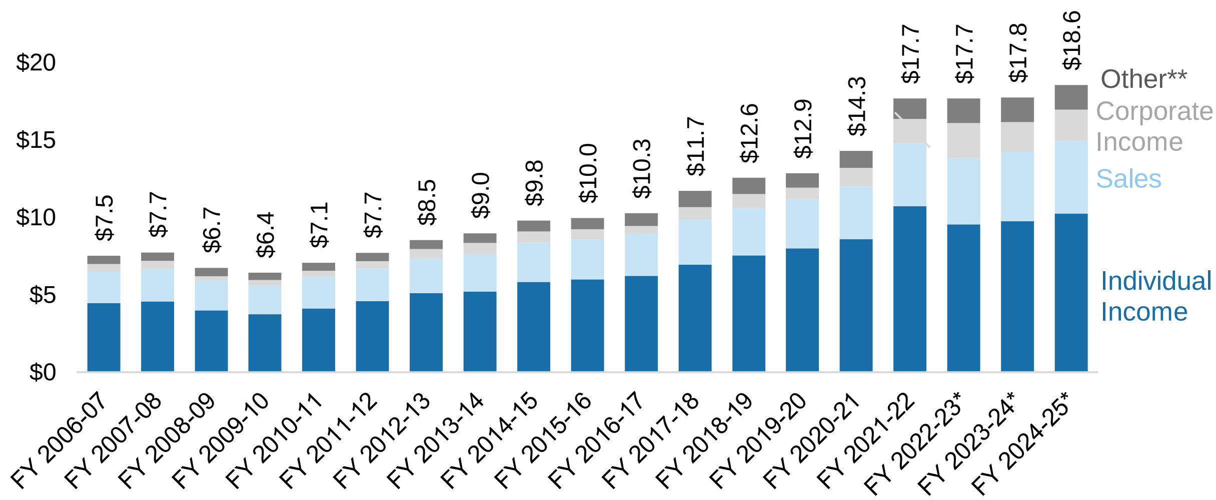
[4]Revenue retained under Referendum C is referred to as "General Fund Exempt" in the budget.

[5]This amount represents under-refunds from prior years. This forecast expects that tax year 2022 mechanisms will be insufficient to fully refund the FY 2021-22 refund obligation, resulting in an expected outstanding under refund amount to be refunded with the FY 2022 23 TABOR surplus in tax year 2023.

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. It also consists of excise taxes (retail marijuana, tobacco, and liquor) and other sources (insurance premium tax, pari-mutuel tax, court receipts, and investment income). Table 13 on page 33 summarizes actual General Fund revenue collections for FY 2021-22 and projections for FY 2022-23 through FY 2024-25; these are also illustrated in Figure 4, below.

Figure 4
General Fund Revenue Sources
Billions of Dollars



**Forecast.*
***Other includes: use tax; retail marijuana special sales tax; cigarette, tobacco, and liquor excise taxes; Proposition EE tobacco taxes; 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 June 2023 forecast.

FY 2021-22. As reported in the annual comprehensive financial report, General Fund revenue collections increased 23.7 percent over FY 2020-21 levels to total $17.7 billion in FY 2021-22.

Forecast for FY 2022-23 through FY 2024-25. General Fund revenue is expected to stay essentially flat in FY 2022-23, totaling $17.7 billion. Individual income tax receipts are expected to drop by 8.0 percent, reflecting the income tax rate cut in Proposition 121, and declines from last year's peak payments that reflected unusual taxpayer decision making in response to an uncertain economy and evolving tax policy environment. This decrease in revenue is expected to be fully offset by exceptional growth in corporate income tax revenue, which is projected to exceed last year's collections by $694 million. The forecast for FY 2023-24 and FY 2024-25 was also impacted by legislation passed in the 2023 legislative session, which is shown in Table 10.

General Fund revenue is forecast to increase by 0.4 percent in FY 2023-24 as corporate revenue regresses from its 2022 peak. Revenue is expected to grow 4.5 percent in FY 2024-25 as the economy is expected to return to a more moderate pace of expansion.

Table 10
2023 Legislation Impacting Sales, Use, and Income Tax Revenue

Bill Number	Bill Title	FY 2023-24	FY 2024-25
HB 23-1112	Earned Income & Child Tax Credits	($74.8 million)	($97.6 million)
HB 23-1272	Tax Policy that Advances Decarbonization	($52.8 million)	($76.3 million)
HB 23-1240	Sales & Use Tax Exemption Wildfire Disaster Construction	($6.3 million)	($4.4 million)
SB 23-016	Greenhouse Gas Emission Reductions	($5.4 million)	($11.2 million)
HB 23-1084	Military Retirement Benefit Deduction	($2.2 million)	($4.4 million)
HB 23-1189	Employer Assistance Home Purchase Credit	($0.4 million)	($0.9 million)
HB 23-1008	Food Accessibility	($0.2 million)	($0.4 million)
SB 23-196	Income Tax Credit Retrofitting Home Health	($0.02 million)	($0.03 million)
HB 23-1091	Child Care Contribution Tax Credit	-	($18.6 million)
HB 23-1121	Repeal of Infrequently Used Tax Expenditures	minimal increase	minimal increase
Total		**($142.1 million)**	**($213.8 million)**

Risks to the forecast. Risks to the General Fund revenue forecast are elevated as economic conditions remain uncertain. On the upside, revenue collections have consistently outperformed forecast expectations since the beginning of the pandemic recession. Higher inflationary pressures and stronger-than-expected wage gains could boost sales tax and individual income tax collections above the amounts projected in this forecast. Downside risks include depressed capital gains on ongoing near-term equity market volatility or slower-than-expected economic activity in response to monetary policy tightening.

Income Tax

Taxable income earned by all Colorado individuals and corporations is taxed at a flat rate. As a result of **Proposition 121**, approved by voters in November 2022, the income tax rate was lowered from 4.55 percent to 4.40 percent for 2022 and all future years. Revenue is credited to the General Fund and is subject to TABOR, except that:

- an amount equal to one third of one percent of taxable income is transferred to the State Education Fund (SEF) and exempt from TABOR under **Amendment 23**, approved by voters in 2000;
- beginning January 2023, an amount equal to one-tenth of one percent of taxable income is transferred to the State Affordable Housing Fund and exempt from TABOR under **Proposition 123**, approved by voters in November 2022; and
- beginning January 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. The additional revenue collected from this change is credited to the General Fund, exempt from TABOR, and required to be spent for the healthy school meals program created in **Proposition FF**, approved by voters in November 2022.

This section presents forecasts separately for income taxes paid by individuals and non-corporate businesses, and for income taxes paid by C corporations.

Individual Income Tax

Individual income tax revenue is the largest source of General Fund revenue, accounting for about 66 percent of revenue to the General Fund in FY 2021-22, net of the SEF transfer.

FY 2021-22. In FY 2021-22, individual income tax collections reached $11.72 billion before the SEF transfer, an increase of 23.6 percent over year-ago levels, as tax receipts surged. An increase in refunds was offset by significant increases in withholding, estimated payments, and final cash payments. The rapid increase in wage withholding is consistent with rapid wage and salary growth, estimated at 9.4 percent in 2021, compared with 2.5 percent in 2020 (Figure 5 on page 28, left). However, income tax revenue volatility that exceeds growth in personal incomes illustrates the effects of federal and state tax policy changes, as well as taxpayer decision making in response to an uncertain economy and evolving tax policy environment.

Forecast for FY 2022-23. Individual income tax collections are expected to decline by 8.0 percent in FY 2022-23 to total $10.78 billion before the SEF and affordable housing transfers. The forecast anticipates a $942 million decline in revenue relative to FY 2021-22, largely reflecting the reduced income tax rate in Proposition 121. Expectations for revenue were decreased by $235 million relative to the March 2023 forecast. During the spring tax filing season, revenue from cash with returns came in lower than the prior year while refunds came in higher (down 38.2 percent and up 48.5 percent, respectively, January through May 2023 compared with the same period last year). Estimated payments were also lower for tax year 2023 thus far (down 54.4 percent February through May 2023 compared with the same period last year). Growth in wage withholding is also dampened, and at 3.8 percent between February through May 2023, withholding is not keeping pace with the forecast increase of 7.2 percent in wage and salary income in 2023.

Beginning in FY 2022-23, the forecast for individual income tax revenue includes an upward adjustment for Proposition FF, which requires taxpayers with adjusted gross income over $300,000 to add back a portion of their federal standard or itemized deductions. This amount is accounted as General Fund revenue, but is TABOR-exempt and required to be spent for the healthy school meals program. The estimated half-year impact for FY 2022-23 is $48.7 million on an accrual accounting basis.

For most taxpayers, final payments for tax year 2022 were due on April 18, 2023. While data on final payments are incomplete, available data suggest that net tax receipts for the 2022 tax year were relatively flat compared with 2021 net tax receipts. Table 11 presents net tax receipts for tax years 2021 and 2022, including forecast expectations for the remaining final payments for tax year 2022. As shown in Table 11, an increase in refunds and reduction in cash with returns was offset by increases in wage withholding and estimated payments. The forecast of income tax revenue for FY 2022-23 is less than estimated tax year 2022 payments because it includes accruals of anticipated tax revenue for tax year 2023.

Table 11
Individual Income Tax Receipts by Source, Tax Years 2021 and 2022[1]
Dollars in Millions

	Tax Year 2021 Actual	Tax Year 2022 Estimated	Percent Change
Withholding	$8,510	$9,222	8.3%
Estimated Payments	$1,965	$2,484	26.4%
Cash With Returns[2]	$1,964	$1,282	-34.7%
Refunds[2]	($1,626)	($2,119)	30.3%
Total	**$10,813**	**$10,869**	**1.0%**

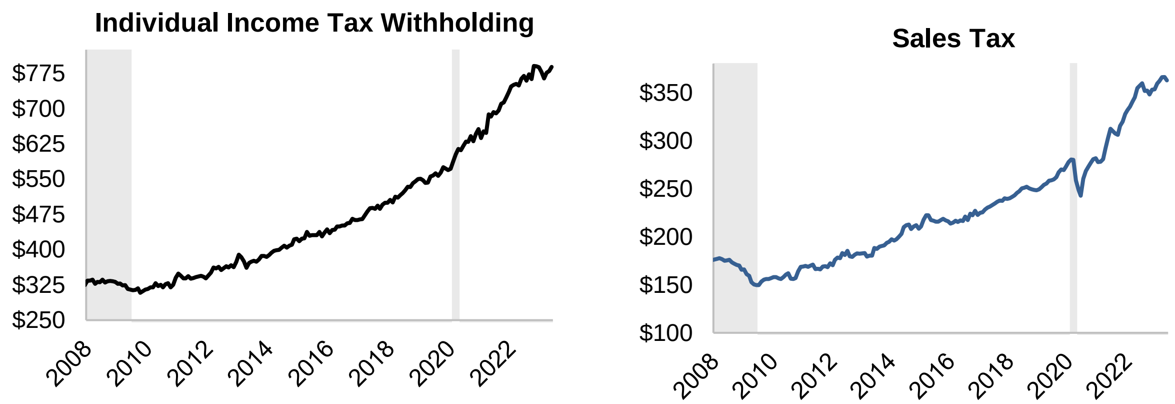
Source: Office of the State Controller; Department of Revenue; and June 2023 Legislative Council Staff forecast.

[1]For illustrative purposes, withholding and estimated payments for a tax year show receipts between February of that year and January of the following year. Cash with returns and refunds for a tax year show transactions between January and December of the following year. Tax received during these time periods may be for the current or any prior tax year, but are assumed to be representative of the tax years indicated.

[2]Cash with returns and refunds for tax year 2022 include preliminary data for May 2023 and forecasted transactions for June through December 2023. TABOR refund amounts that reduced final payments are added to refunds.

Forecast for FY 2023-24 and FY 2024-25. Individual income tax collections are expected to grow by 3.4 percent in FY 2023-24 to $11.1 billion, and by 5.1 percent in FY 2024-25 to $11.7 billion. Estimates for both years were revised downward on net relative to the March 2023 forecast, with expected declines reflecting expectations for slowing economic growth. The revenue outlook is less certain than normal, owing to significant changes in state and federal tax policy compounding already-high uncertainty in the underlying economic outlook, with the specter of financial instability significantly raising risks to the outlook.

Figure 5
Selected General Fund Revenue Sources
Millions of Dollars in Monthly Collections



Source: Office of the State Controller with Legislative Council Staff seasonal adjustments. Data are shown as a three-month moving average on a cash basis. May 2023 collections are preliminary.

Legislative adjustments. This forecast includes significant adjustments for the future impacts of recent legislation passed by the General Assembly on individual income tax revenue. For tax year

2024, **House Bill 23-1112** expands the state Earned Income and Child Tax Credits. **House Bill 23-1272** establishes several new tax credits including for innovative motor vehicles and trucks, industrial clean energy, electric bicycles, heat pumps, geothermal energy, and sustainable aviation fuel. Eight bills enacted during the 2023 legislative session establish or extend income tax credits, and are expected to reduce income tax revenue by between $136 million and $209 million annually during the forecast period. This forecast also includes adjustments for the federal tax treatment of retirement plans, which is expected to increase state tax revenue by between $20 million and $25 million in FY 2023-24 and FY 2024-25.

Anschutz v. Colorado Department of Revenue. The federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted in March 2020, retroactively expanded federal income tax deductions that reduced federal taxable income for tax years 2018 and 2019. The Colorado Department of Revenue issued an emergency rule in June 2020, interpreting state statute in a manner that prohibited taxpayers from applying the retroactive changes to federal taxable income to reduce their Colorado taxable income for tax years 2018 and 2019 and receive refunds of state income tax paid. The Legislative Council Staff June 2020 forecast included an upward adjustment to the income tax forecast as a result of the emergency rule.

On November 17, 2022, a three-judge panel of the Colorado Court of Appeals ruled in *Anschutz v. Colorado Department of Revenue* that the Colorado statute in question automatically incorporates Congressional amendments to the Internal Revenue Code, including retroactive amendments. This forecast assumes that the state will be required to pay the state income tax refunds sought by the plaintiffs in *Anschutz* and those sought by similarly-situated taxpayers and incorporates downward adjustments totaling $30 million for individual income tax revenue in FY 2022-23 and FY 2023-24. Any additional refunds issued pursuant to the decision will reduce revenue relative to the forecast and therefore pose a significant downside risk to the income tax revenue outlook.

Corporate Income Tax

Every C corporation that has property, payroll, or sales in Colorado is subject to the state corporate income tax. Corporate income taxes have historically been a volatile revenue source because they are highly responsive to economic conditions and to federal tax policy. In addition, many corporations have access to resources to make strategic tax decisions about when and how to claim credits and deductions, which makes it harder to estimate the amount of corporate tax revenue. Colorado corporate income tax revenue has exceeded expectations for the last two fiscal years. Revenue is expected to post a record high in the current FY 2022-23 and remain near historical highs through the forecast period. Between July 2022 and May 2023, the state collected almost $2 billion in corporate income taxes, nearly 60 percent more than the same period in the previous fiscal year.

Forecast for FY 2022-23. After two years of extraordinary growth, Colorado corporate income tax revenue is expected to total $2.3 billion in FY 2022-23, up 44.2 percent from the prior year. The surge in corporate revenue incorporates an anticipated $74.2 million reduction in corporate income taxes in FY 2022-23 attributable to the rate cut enacted in Proposition 121. Despite the rate cut, corporate income tax revenue expectations were revised upward by $775.2 million relative to the March forecast. Corporate estimated payments continue to come in much stronger than expectations. In April, corporate estimated payments came in close to $400 million, the highest amount on record.

Forecast for FY 2023-24 and FY 2024-25. Corporate income tax collections are expected to fall somewhat in FY 2023-24 but remain near historical highs. Revenue is expected to total $1.93 billion in FY 2023-24 and $1.99 billion in FY 2024-25. Relative to the March forecast, revenue was revised upward by $519.4 million in FY 2023-24 and $635.0 million in FY 2024-25.

Why does corporate revenue continue to exceed expectations? Corporate income tax revenue has been surprisingly high in many states across the country. Payments in the current fiscal year are up 8 percent in Arkansas, 55.4 percent in Florida, and 8.5 percent in Maine compared to previous fiscal year. State economists around the country are still investigating this surge, but some point to the 2017 Federal Tax Cuts and Jobs Act, which made changes to federal corporate credits and deductions, increasing federal taxable income. Colorado's corporate taxable income is based on federal taxable income such that any changes to federal additions and deductions will flow through to Colorado's tax base. Finally, some states report that corporations are overpaying their taxes to reduce their future tax liability.

This forecast anticipates that corporate income taxes will decline from their FY 2022-23 peak but remain well above trend levels from the 2010s. Recent volatility illustrates how sensitive corporate income tax collections are to policy changes and economic conditions, and points to elevated, bidirectional risk to the corporate income tax forecast.

Sales Tax

The 2.9 percent state sales tax is assessed on the purchase of goods, except those specifically exempted, and a relatively small collection of services. Growing throughout the pandemic and subsequent recovery, sales tax receipts have been supported by robust consumer and business activity, large fiscal stimulus measures, excess household savings, and a return by consumers to businesses selling taxable services. Boosted by inflation at four-decade highs, sales tax revenues were up 19.6 percent in FY 2021-22.

Relative to last year, growth has moderated as price pressures have eroded real wage gains and many households have spent down excess savings (Figure 5 on page 28, right). Retail sales are expected to slow further in FY 2023-24 as consumer activity weakens amid tighter lending standards, and as consumers shift away from some taxable goods and back to more nontaxable services after the pandemic. Additionally, households have expressed more trepidation over their expected financial situations in the year ahead, and spending expectations have moderated. Inflationary pressures continue to weigh on consumer confidence and interest rates have impacted household wealth and purchases of durable goods. The outlook anticipates these factors will continue to dampen purchases of goods amid softening price pressures. Growth will also be impacted by legislative adjustments, including new exemptions and temporary business tax relief.

Sales tax receipts are expected to increase 5.1 percent in FY 2022-23 and 4.4 percent in FY 2023-24. In FY 2024-25, sales tax receipts are expected to rise 5.2 percent as spending patterns normalize and consumers adjust to higher interest rates.

Use Tax

The 2.9 percent state use tax is due when sales tax is owed, but is not collected at the point of sale. Use tax revenue is largely driven by capital investment among manufacturing, energy, and mining firms.

Use tax revenues have recorded a strong start to the fiscal year, and are expected to increase 8.9 percent in FY 2022-23. Revenues have likely been supported by oil and gas investment and construction activity. However, rising interest rates are expected to weigh on investment during the forecast period as firms continue to manage rising costs and a tight labor market. Moving through the forecast period, oil and gas investment and construction activity is expected to slow significantly, putting downward pressure on use tax. In FY 2023-24, use tax is expected to grow at a slower pace of 4.1 percent, before increasing by 7.0 percent in FY 2024-25.

Proposition EE Cigarette, Tobacco, and Nicotine Taxes

Proposition EE increased cigarette and tobacco taxes, created a new tax on nicotine products, and created a minimum price for cigarette sales. Revenue from the new taxes is exempt from TABOR as a voter-approved revenue change. Proposition EE revenue is deposited in the General Fund, transferred to the 2020 Tax Holding Fund, and distributed to fund affordable housing, eviction legal defense, rural schools, tobacco education programs and, beginning in FY 2023-24, preschool programs. Table 13 shows expected revenue collections, while equivalent transfers from the General Fund to the 2020 Tax Holding Fund are shown in Table 7 on page 15. Proposition EE taxes totaled $208.0 million in FY 2021-22 on a cash basis.

The 2020 Blue Book estimated that Proposition EE would bring in $186.5 million in its first full fiscal year, FY 2021-22. However, actual revenue came in at $208.0 million in FY 2021-22, exceeding the Blue Book estimate. When a Blue Book estimate is exceeded, TABOR requires the General Assembly to refund the excess revenue to taxpayers and reduce the tax rates in proportion to the excess, or refer a ballot measure asking voters for permission not to do so. House Bill 23-1290 referred Proposition II to the 2023 ballot, which asks voters for permission to retain the excess revenue and maintain the tax rates that were approved in Proposition EE. House Bill 23-1290 also clarified that if that ballot measure fails, then the tax rates will be reduced by 11.53 percent. Therefore, this forecast assumes that each of the tax rates will be reduced by 11.53 percent beginning in January 2024. The tax rates approved in Proposition EE and the reduced tax rates are shown in Table 12. If Proposition II passes, the December 2023 forecast will reflect revenue collections at the higher rates that were approved in Proposition EE.

Table 12
Proposition EE Tax Rates

	Jan. 2024 - June 2024	July 2024 - June 2026	July 2026 Onward
Cigarettes *(per pack)*			
Original Prop EE Tax Rate	$1.10	$1.40	$1.80
Reduced Tax Rate	$0.97	$1.24	$1.59
Tobacco Products *(percent of price)*			
Original Prop EE Tax Rate	10%	16%	22%
Reduced Tax Rate	9%	14%	19%
Nicotine Products *(percent of price)*			
Original Prop EE Tax Rate	50%	56%	62%
Reduced Tax Rate	44%	50%	55%

Revenue from Proposition EE is expected to grow by 11.6 percent in FY 2022-23, mostly driven by a $33.9 million one-time accounting adjustment. Revenue is expected to fall by 17.0 percent in FY 2023-24 for three primary reasons. First, cigarette consumption tends to decline over time, but has fallen much more than anticipated over the past four months, resulting in a downward revision in expectations for consumption. Secondly, this forecast assumes that tax rates will be reduced by 11.53 percent beginning in January 2024, resulting in less revenue. Lastly, the $33.9 million accounting adjustment affects FY 2022-23 only, meaning that FY 2023-24 is growing off of an artificially high base. Revenue is expected to increase again in FY 2024-25 when higher tax rates go into effect.

Table 13
General Fund Revenue Estimates
Dollars in Millions

	Category	Actual FY 2021-22	Percent Change	Estimate FY 2022-23	Percent Change	Estimate FY 2023-24	Percent Change	Estimate FY 2024-25	Percent Change
	Excise Taxes								
1	Sales	$4,089.0	19.6	$4,297.2	5.1	$4,487.6	4.4	$4,721.8	5.2
2	Use	$232.6	8.6	$253.4	8.9	$263.7	4.1	$282.2	7.0
3	Retail Marijuana Sales	$258.7	-10.2	$220.6	-14.7	$218.6	-0.9	$230.1	5.3
4	Cigarette	$26.0	-13.8	$23.5	-9.5	$22.4	-4.9	$21.5	-3.9
5	Tobacco Products	$26.6	-8.3	$23.7	-11.0	$24.8	4.6	$25.8	4.0
6	Liquor	$56.3	5.6	$56.1	-0.4	$57.6	2.7	$59.4	3.1
7	Proposition EE Tobacco Taxes	$208.0	324.3	$232.2	11.6	$192.7	-17.0	$235.8	22.4
8	Total Excise	$4,897.2	20.0	$5,106.7	4.3	$5,267.3	3.1	$5,576.6	5.9
	Income Taxes								
9	Net Individual Income	$11,717.8	23.6	$10,775.6	-8.0	$11,139.0	3.4	$11,707.9	5.1
10	Net Corporate Income	$1,568.6	32.5	$2,262.6	44.2	$1,930.8	-14.7	$1,993.7	3.3
11	Total Income Taxes	$13,286.4	24.6	$13,038.2	-1.9	$13,069.7	0.2	$13,701.6	4.8
12	Less: Portion diverted to the SEF	-$993.5	13.6	-$1,066.4	7.3	-$1,060.3	-0.6	-$1,112.6	4.9
13	Less: Portion diverted for Affordable Housing	$0.0	NA	-$160.0	NA	-$318.1	98.8	-$333.8	4.9
14	Income Taxes to the General Fund	$12,292.9	25.6	$11,811.8	-3.9	$11,691.4	-1.0	$12,255.2	4.8
	Other Sources								
15	Estate	$0.0	NA	$0.0	NA	$0.0	NA	$0.0	NA
16	Insurance	$390.2	16.0	$501.8	28.6	$523.4	4.3	$540.2	3.2
17	Pari-Mutuel	$0.4	34.8	$0.4	-11.4	$0.4	3.5	$0.3	-25.0
18	Investment Income	$69.2	38.3	$191.0	175.9	$218.4	14.3	$136.5	-37.5
19	Court Receipts	$2.4	-31.4	$4.1	70.6	$4.3	6.1	$4.5	4.2
20	Other Income	$45.6	-10.1	$80.9	77.3	$58.4	-27.7	$55.3	-5.4
21	Total Other	$507.8	15.2	$778.2	53.2	$805.0	3.4	$736.8	-8.5
22	**Gross General Fund Revenue**	**$17,697.9**	**23.7**	**$17,696.6**	**0.0**	**$17,763.7**	**0.4**	**$18,568.6**	**4.5**

Totals may not sum due to rounding. NA = Not applicable. SEF = State Education Fund.

Cash Fund Revenue

Table 14 summarizes the forecast for cash fund revenue subject to TABOR. Typically, the largest cash fund revenue sources subject to TABOR are motor fuel taxes and other transportation-related revenue, gaming taxes, and severance taxes. The end of this section also presents the forecasts for marijuana tax revenue, federal mineral lease payments, the Unemployment Insurance Trust Fund, and the family and medical leave insurance program. These forecasts are presented separately because they are not subject to TABOR limitations.

Table 14
Cash Fund Revenue Subject to TABOR
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	CAAGR*
Transportation-Related	$1,239.5	$1,270.4	$1,434.5	$1,528.0	
Percent Change	7.2%	2.5%	12.9%	6.5%	7.2%
Severance Tax	$325.0	$355.6	$222.7	$230.7	
Percent Change	2113.0%	9.4%	-37.4%	3.6%	-10.8%
Gaming Revenue[1]	$115.4	$119.4	$123.0	$125.6	
Percent Change	13.3%	3.5%	3.0%	2.1%	2.9%
Insurance-Related	$24.3	$23.8	$21.9	$22.3	
Percent Change	15.4%	-1.9%	-8.0%	1.8%	-2.8%
Regulatory Agencies	$92.3	$83.4	$84.2	$85.2	
Percent Change	3.6%	-9.6%	0.9%	1.2%	-2.6%
2.9% Sales Tax on Marijuana[2]	$11.8	$8.1	$8.0	$8.5	
Percent Change	-23.9%	-31.4%	-1.4%	6.6%	-10.3%
Housing Development Grant Fund	$66.5	$70.8	$74.6	$79.1	
Percent Change	203.7%	6.5%	5.4%	6.0%	5.9%
Other Cash Funds[3]	$791.2	$839.2	$906.6	$960.2	
Percent Change	-5.0%	6.1%	8.0%	5.9%	6.7%
Total Cash Fund Revenue	**$2,665.9**	**$2,770.7**	**$2,875.3**	**$3,039.5**	
Subject to the TABOR Limit[3]	18.3%	3.9%	3.8%	5.7%	4.5%

Totals may not sum due to rounding.
** CAAGR: Compound average annual growth rate for FY 2021-22 to FY 2024-25.*
[1]Gaming revenue in this table does not include extended gaming revenue from Amendments 50 and 77, because it is not subject to TABOR.
[2]Includes revenue from the 2.9 percent sales tax collected from the sale of medical and retail marijuana. This revenue is subject to TABOR.
[3]For FY 2019-20 through FY 2021-22, includes transfers from the Unclaimed Property Trust Fund to the General Fund per SB 19-261 and HB 20-1381. Revenue to this fund is TABOR exempt, but becomes subject to TABOR when transferred out of the fund.

Forecast. Cash fund revenue subject to TABOR in the current FY 2022-23 is expected to total $2.77 billion. Revenue will increase by 3.9 percent with most of the growth occurring in transportation-related revenue and other cash funds revenue. Cash fund revenue growth is expected to increase by 3.8 percent in FY 2023-24 and by 5.7 percent in FY 2024-25. Relative to March, the cash fund forecast for FY 2022-23 was revised up by a modest $43.0 million, while forecast revisions were minimal for both FY 2023-24 and FY 2024-25.

Transportation-related revenue subject to TABOR is expected to increase by 2.5 percent in FY 2022-23 as travel activity continues to improve and road usage fees and retail delivery fees have taken effect. Revenue is expected to increase by 12.9 percent in FY 2023-24, when road usage fees will first apply for a full year, and by 6.5 percent in FY 2024-25. The forecast for transportation-related revenue is presented in Table 15.

Table 15
Transportation Revenue by Source
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	CAAGR*
Highway Users Tax Fund (HUTF)					
Motor and Special Fuel Taxes	$633.3	$630.7	$680.7	$687.9	1.7%
Percent change	6.7%	-0.4%	7.9%	1.1%	
Road Usage Fees	$0.0	$14.3	$92.9	$125.3	
Percent change	NA	NA	548.2%	34.9%	
Total Registrations	$387.8	$344.1	$377.1	$421.6	2.4%
Percent change	-3.1%	-11.3%	9.6%		
Registrations	*$244.2*	*$237.1*	*$232.8*	*$236.4*	
Road Safety Surcharge	*$110.4*	*$72.1*	*$108.3*	*$148.3*	
Late Registration Fees	*$33.2*	*$34.9*	*$36.0*	*$36.9*	
Other HUTF Receipts[1]	$51.6	$77.7	$80.6	$83.2	15.2%
Percent change	6.1%	50.4%	3.8%	3.1%	
Total HUTF	**$1,072.1**	**$1,066.8**	**$1,231.3**	**$1,318.0**	6.1%
Percent change	2.9%	-0.6%	15.4%	7.0%	
State Highway Fund (SHF)[2]	$21.3	$30.0	$28.9	$28.9	2.9%
Percent change	15.6%	41.1%	-3.8%	0.0%	
Other Transportation Funds	$145.5	$173.6	$174.3	$181.2	6.4%
Percent change	52.4%	19.3%	0.4%	3.9%	
Aviation Fund[3]	*$46.4*	*$62.3*	*$57.3*	*$58.7*	
Multimodal Transportation Options Fund[4]	*$0.0*	*$7.5*	*$7.7*	*$8.1*	
Law Enforcement-Related[5]	*$6.7*	*$7.0*	*$6.7*	*$6.5*	
Registration-Related[6]	*$92.5*	*$96.8*	*$102.6*	*$107.9*	
Total Transportation Funds	**$1,239.5**	**$1,270.4**	**$1,434.5**	**$1,528.0**	7.1%
Percent change	7.2%	2.5%	12.9%	6.5%	

Totals may not sum due to rounding. NA = Not applicable.
**CAAGR: Compound average annual growth rate for FY 2021-22 to FY 2024-25.*
[1]Includes daily rental fee, oversized overweight vehicle surcharge, interest receipts, judicial receipts, drivers' license fees, and other miscellaneous receipts in the HUTF.
[2]Includes only SHF revenue subject to Article X, Section 20, of the Colorado Constitution (TABOR). Beginning in FY 2019-20, SHF re subject to TABOR no longer includes local government grants and contracts.
[3]Includes revenue from aviation fuel excise taxes and the 2.9 percent sales tax on the retail cost of jet fuel.
[4]Retail delivery fee revenue credited to the fund under SB 21-260.
[5]Includes revenue from driving under the influence (DUI) and driving while ability impaired (DWAI) fines.
[6]Includes revenue from Emergency Medical Services registration fees, emissions registration and inspection fees, motorcycle and motor vehicle license fees, and POST Board registration fees.

Motor fuel tax revenue makes up about half of transportation-related revenue and is its largest component, followed by revenue from vehicle registrations. Fuel tax revenue dropped slightly to begin the current fiscal year due to low collections in July 2022, and is expected to end the year with down by 0.4 percent. While fuel consumption is expected to grow through the forecast period, improving vehicle fuel efficiency and permanent shifts to remote or hybrid work for some dampen expectations for growth.

Revenue collections in FY 2022-23 were influenced by multiple changes under Senate Bill 21-260 and other recent legislation. Policy changes bolstered revenue collections beginning in FY 2022-23 by creating retail delivery fees that went into effect on July 1, 2022, and road usage fees that began on April 1, 2023. The state retail delivery fee is assessed on all retail deliveries except deliveries from small businesses, and is expected to bring in $18.4 million to the Highway Users Tax Fund and $7.5 million to the Multimodal Transportation and Mitigation Options Fund in FY 2022-23. Road usage fees are applied to the purchase of gasoline and diesel, and are expected to bring in $14.3 million in FY 2022-23 and $92.9 million in FY 2023-24.

Growing revenue from fuel taxes, retail delivery fees, and road usage fees is expected to be partially offset by reduced revenue from the road safety surcharge through FY 2023-24. Senate Bill 21-260 and House Bill 22-1351 temporarily reduced the road safety surcharge by $11.10 in calendar years 2022 and 2023, and it will return to its original rate in 2024. Due to the rate reduction, revenue from registrations is expected to fall by 11.3 percent in FY 2022-23.

Most fuel taxes and vehicle registration fees are credited to the Highway Users Tax Fund (HUTF) and disbursed to the Department of Transportation, the State Patrol within the Department of Public Safety, the Division of Motor Vehicles within the Department of Revenue, the Department of Natural Resources, and to county and municipal governments. The State Patrol, Department of Revenue, and Department of Natural Resources receive HUTF funds through appropriations. The remaining revenue is allocated to the Department of Transportation via the State Highway Fund, counties, and municipalities based on how much revenue is collected. Revenue is distributed based on multiple formulas that differ between revenue streams. The estimated distribution summary is shown in Table 16.

Table 16
Highway Users Tax Fund Distribution
Dollars in Millions

HUTF Distribution Forecast	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
Department of Public Safety[1]	$171.9	$182.6	$196.4	$196.4
Department of Revenue[2]	$5.3	$4.7	$4.1	$4.1
Department of Natural Resources[3]	$0.3	$0.3	$0.3	$0.3
State Highway Fund	$553.9	$541.2	$631.8	$683.0
Counties	$223.4	$218.9	$235.0	$254.0
Municipalities	$156.4	$154.1	$167.2	$182.4
Total HUTF Distributions	**$1,111.2**	**$1,101.7**	**$1,234.8**	**$1,320.2**
Total Nonexempt Revenue	**$1,072.7**	**$1,066.8**	**$1,231.3**	**$1,318.0**
Assumed Exempt Revenue	$1.9	$3.5	$3.5	$2.2
Transfers to HUTF	$36.5	$31.4	$0.0	$0.0

[1] Allocations for CDPS made "off-the-top", regardless of the amount of revenue collected.
[2] Revenue is appropriated to the Department of Revenue in the long bill. The actual amount distributed to the department is often less than the amount appropriated due to lower revenue collections. The amount estimated in FY 2022-23 reflects the full appropriation.
[3] The Department of Natural Resources receives an ongoing appropriation of $300,000 for capital construction.

Severance tax revenue, including interest earnings, totaled $325.0 million in FY 2021-22, an increase from $14.7 million in the prior year. Severance tax revenue is expected to end FY 2022-23 up another 9.4 percent before declining in FY 2023-24 as oil and gas prices recede from historic highs and ad valorem tax credit utilization increases. Severance tax revenue is more volatile than other revenue sources due to the boom-bust nature of the oil and gas sector and Colorado's tax structure. The forecast for the major components of severance tax revenue is shown in Table 17.

Table 17
Severance Tax Revenue Forecast by Source
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	CAAGR*
Oil and Gas	$308.7	$335.8	$202.3	$210.5	-12.0%
Percent Change	54406%	8.8%	-39.8%	4.0%	
Coal	$3.2	$4.5	$4.6	$4.2	8.9%
Percent Change	68.3%	39.6%	2.0%	-9.2%	
Molybdenum and Metallics	$2.7	$0.8	$1.2	$1.3	-20.9%
Percent Change	22.0%	-70.9%	58.0%	7.5%	
Total Severance Tax Revenue	**$314.6**	**$341.1**	**$208.1**	**$216.0**	-11.8%
Percent Change	6591.5%	8.4%	-39.0%	3.8%	
Interest Earnings	$10.3	$14.5	$14.6	$14.7	12.6%
Percent Change	3.5%	40.4%	0.4%	1.2%	
Total Severance Tax Fund	**$325.0**	**$355.6**	**$222.7**	**$230.7**	-10.8%
Percent Change	2113.0%	9.4%	-37.4%	3.6%	

**CAAGR: Compound average annual growth rate for FY 2021-22 to FY 2024-25.*

Severance tax collections from **oil and natural gas** reached historic levels in FY 2021-22, totaling $308.7 million, as a result of skyrocketing oil and gas prices. Despite oil and gas prices falling significantly from highs recorded last summer, collections were up 12.3 percent through March year-to-date, and are expected to end the year up 8.8 percent. Collections are expected to decline in FY 2023-24 to $202.3 million as lower oil and natural gas prices, muted production, and increased ad valorem tax credits weigh on collections. Downward pressures are expected to be partially offset by legislative adjustments beginning tax year 2024. Higher natural gas prices and legislative adjustments are expected to contributed to growing collections in FY 2024-25.

After increasing by 68 percent in FY 2021-22 to $3.2 million, **coal severance tax** revenue is expected to increase in FY 2022-23 by another 39.6 percent, to $4.5 million. Similar to many other commodities, coal prices increased significantly in 2021 and 2022, which put upward pressure on coal severance tax revenue, and production in Colorado has trended upward since 2021. The market was also boosted by high natural gas prices that resulted in a short-term boost for coal electricity generation. Despite some price moderation, increased production through FY 2023-24 and legislative adjustments are expected to boost revenues. In FY 2024-25, ongoing reductions in demand from the electricity sector are expected to contribute to declines, consistent with the longer-term trend.

Metal and molybdenum mines paid approximately $2.7 million in severance taxes on the value of minerals produced in FY 2021-22 and are expect to pay $0.8 million in FY 2022-23, a decline of more than 70 percent. Prices rose significantly at the end of 2022 and into the first quarter of 2023 and are expected to boost severance tax collections in FY 2023-24.

Finally, **interest earnings** on severance tax revenue were approximately $10.3 million in FY 2021-22 and are forecast to increase to $14.5 million in FY 2022-23. Interest earnings are forecast to rise modestly through the forecast period.

Limited gaming revenue includes taxes, fees, and interest earnings collected in the Limited Gaming Fund and the State Historical Fund. The state limited gaming tax is a graduated tax assessed on casino adjusted gross proceeds, the amount of wagers collected less the amount paid to players in winnings. Casinos on tribal lands in southwestern Colorado are not subject to the state tax. Tax revenue is expected to grow by 6.8 percent in FY 2022-23, increase another 3.6 percent in FY 2023-24, then slow to 2.1 percent in FY 2024-25.

Gaming revenue is subject to TABOR except for revenue attributable to gaming expansions enacted under Amendment 50 and Amendment 77 (extended limited gaming), which is TABOR-exempt. Senate Bill 22-216 modified the allocation of limited and extended limited gaming revenue through the forecast period. The bill set limited gaming tax revenue subject to TABOR at about $117.4 million for FY 2022-23. With fees and interest, total limited gaming revenue subject to TABOR is estimated at $119.4 million in FY 2022-23. As tax revenues grow, total gaming revenue subject to TABOR is expected to increase by 3.0 percent in FY 2023-24 and 2.1 percent in FY 2024-25.

Sports betting was legalized in the state after the passage of Proposition DD at the November 2019 election. Betting launched on May 1, 2020, and has grown significantly since. Revenue collected from sports betting activity includes licensing fees set at between $1,200 and $2,000 per operator, a master license charged biannually, an operations fee, and tax revenue, which is set at 10 percent of casinos' net sports betting proceeds. As voter-approved revenue, sports betting tax revenue is not subject to the TABOR limit; however, fee revenues are subject to TABOR.

Sports betting revenue subject to TABOR ended FY 2021-22 up 2.7 percent over the prior fiscal year, reaching $2.3 million. Sports betting revenue subject to TABOR is expected to increase slightly in future years with a projection of $2.3 million in FY 2022-23, $2.3 million in FY 2023-24, and $2.4 million in FY 2024-25. This revenue is included in the Other Cash Funds forecast.

In FY 2021-22, sports betting taxes exempt from TABOR totaled $12.5 million, up about 52.5 percent from FY 2020-21. Betting activity continues to grow, and combined with legislative changes that will limit the amount of free bets that can be deducted from net sports betting proceeds, robust growth is anticipated through the forecast period. Sports betting revenue not subject to TABOR is expected to more than double in the current fiscal year, to $27.1 million. Exempt sports betting revenue is forecast to reach $32.7 million in FY 2023-24 and $34.6 million in FY 2024-25.

Marijuana tax revenue declined substantially beginning in August 2021, experiencing its first annual decline in revenue in FY 2021-22 since recreational marijuana was introduced in 2014. Marijuana collections increased dramatically during and after the COVID-19 recession, and have recently returned back to 2019 levels as travel and activity restrictions have faded. Concurrently, a growing number of states are legalizing recreational and medical marijuana use, including some of Colorado's bordering states, which has reduced marijuana tourism to Colorado. Revenue collections have stabilized in the previous three months, but remain well below 2021 levels. Marijuana tax revenue is expected to rebound throughout FY 2023-24 and FY 2024-25, albeit with slower growth rates than seen historically. The majority of the revenue from the marijuana industry is voter-approved revenue exempt from TABOR; however, the 2.9 percent state sales tax is subject to the state's revenue limit. Tax revenue from marijuana sales is shown in Table 18.

Table 18
Tax Revenue from the Marijuana Industry
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	CAAGR*
Proposition AA Taxes					
Special Sales Tax	$258.7	$220.6	$218.6	$230.1	-3.8%
State Share of Sales Tax	$232.9	$198.5	$196.8	$207.1	
Local Share of Sales Tax	$25.9	$22.1	$21.9	$23.0	
15% Excise Tax	$99.4	$56.9	$59.7	$65.5	-13.0%
Total Proposition AA Taxes	**$358.1**	**$277.5**	**$278.3**	**$295.6**	-6.2%
Percent Change	-12.4%	-22.5%	0.3%	6.2%	
2.9 Sales Tax (Subject to TABOR)					
2.9% Sales Tax on Medical Marijuana	$9.2	$5.9	$5.8	$6.2	-12.4%
2.9% Sales Tax on Retail Marijuana	$2.3	$2.0	$2.0	$2.1	-3.5%
TABOR Interest	$0.2	$0.2	$0.2	$0.2	
Total 2.9% Sales Tax	**$11.8**	**$8.1**	**$8.0**	**$8.5**	-10.3%
Percent Change	-23.9%	-31.4%	-1.4%	6.6%	
Total Taxes on Marijuana	**$369.9**	**$285.6**	**$286.3**	**$304.1**	-6.3%
Percent Change	-12.9%	-22.8%	0.3%	6.2%	

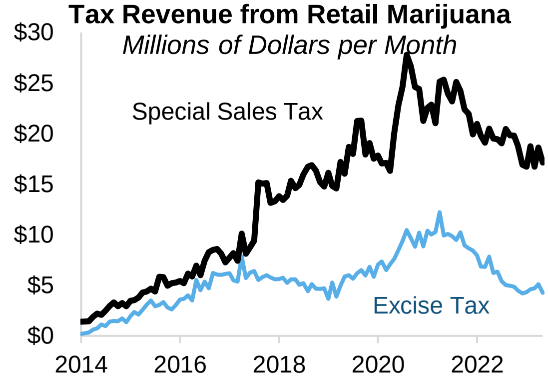
** CAAGR: Compound average annual growth rate for FY 2021-22 to FY 2024-25.*

Marijuana tax revenues declined by 12.9 percent in FY 2021-22 and are forecast to decline again in FY 2022-23 by 22.8 percent to $285.6 million, as shown in Table 18. The decline in marijuana tax revenue is largely due to a return to normal consumption patterns after the COVID pandemic, alongside reduced marijuana tourism from neighboring states.

The special sales tax is the largest source of marijuana revenue and is imposed at a rate of 15 percent of the retail price of marijuana. The special sales tax generated $258.7 million in FY 2021-22 (Figure 6). Revenue from the special sales tax is expected to decline to $220.6 million in FY 2022-23, a 14.7 percent decrease from the prior year. Revenue is expected to grow slowly month-over-month through the rest of the forecast period, for annual totals of $218.6 million in FY 2023-24 and $230.1 million by FY 2024-25. The state distributes 10 percent of the special sales tax to local governments and retains the rest in the Marijuana Tax Cash Fund, the General Fund, and the State Public School Fund.

The excise tax is the second-largest source of marijuana revenue and is dedicated to the BEST Fund for school construction. Marijuana excise tax revenue fell in FY 2021-22 and is forecast to fall again in FY 2022-23. Slowing demand and declining wholesale prices will continue to weigh on excise tax collections through the current year. Revenue from marijuana excise taxes totaled $99.4 million in FY 2021-22 (Figure 6), and is expected to fall further, to $56.9 million in FY 2022-23 and $59.7 million in FY 2023-24. Revenue collections are expected to grow modestly through the rest of the forecast period.

Figure 6
Tax Revenue from Retail Marijuana
Millions of Dollars per Month



The excise tax is based on the calculated or actual wholesale price of marijuana when it is transferred from the cultivator to the retailer. Therefore, the wholesale price is a significant determinant of excise tax revenue. After facing upward pressure in 2020 due to increased demand and constrained supply, the wholesale price has declined since. The wholesale price is down to $649 per pound in the most recent quarter, compared to its 2021 peak of $1,721.

The 2.9 percent state sales tax rate applies to medical marijuana and marijuana accessories purchased at a retail marijuana store. The medical marijuana sales tax generated $9.2 million in FY 2021-22, and is expected to bring in $5.9 million in FY 2022-23. The number of medical marijuana card holders has declined significantly in recent months, and is expected to result in falling medical marijuana tax revenue. Retail marijuana dispensaries remitted $2.3 million in sales tax in FY 2021-22. Collections are expected to decline in FY 2022-23 to $2.0 million and stay fairly flat throughout the rest of the forecast period. Revenue from the 2.9 percent sales tax is deposited in the Marijuana Tax Cash Fund and is subject to TABOR.

Federal Mineral Lease (FML) revenue is the state's portion of the money the federal government collects from mineral production on federal lands. Collections are mostly determined by the value of mineral production on federal land and royalty rates negotiated between the federal government and mining companies. Since FML revenue is exempt from TABOR, the forecast is presented separately from other sources of state revenue.

As shown in Table 19, FML revenue totaled $125.1 million in FY 2021-22, a 51.3 percent increase from FY 2020-21. In FY 2022-23, FML revenue is forecast to increase 30.3 percent to $163 million. The rapid increase in natural gas prices that started in 2021 has led to elevated FML revenues, though lower prices over the forecast period could drive down revenue. As of June, prices were down significantly from the peak of $8.81 per million BTU in August 2022, averaging about $2.00 for the month. Prices are expected to average about $2.91 in 2023, leading to declining FML revenues in FY 2023-24.

Table 19
Federal Mineral Lease Revenue Distribution
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
Total FML Revenue	**$125.1**	**$163.0**	**$120.7**	**$142.5**
Bonus Payments (portion of total revenue)	**$3.8**	**$4.9**	**$3.6**	**$4.3**
Local Government Permanent Fund	$1.9	$2.4	$1.8	$2.1
Higher Education FML Revenue Fund	$1.9	$2.4	$1.8	$2.1
Other (non-bonus) **FML Revenue**	**$121.4**	**$158.2**	**$117.0**	**$138.2**
State Public School Fund	$58.6	$76.4	$56.5	$66.8
Colorado Water Conservation Board	$12.1	$15.8	$11.7	$13.8
DOLA Grants	$24.3	$31.6	$23.4	$27.6
DOLA Direct Distribution	$24.3	$31.6	$23.4	$27.6
School Districts	$2.1	$2.7	$2.0	$2.3
Higher Education FML Revenue Fund	$1.9	$2.4	$1.8	$2.1

DOLA = Department of Local Affairs.

Note: The table shows the actual and projected revenue distributions to the various FML recipients. It does not reflect transfers of FML revenue from the recipients and funds to other funds, such as the General Fund, that have occurred.

Forecasts for **Unemployment Insurance (UI) Trust Fund** revenue, benefit payments, and year-end balances are shown in Table 19. Revenue to the UI Trust Fund is not subject to TABOR and is therefore excluded from Table 14. Revenue to the Employment Support Fund and Benefit Recovery Fund, which receive a portion of the UI premium surcharge, is subject to TABOR and is included in the revenue estimates for other cash funds in Table 14.

The UI Trust Fund began FY 2022-23 with a deficit of $133.1 million, improved from a deficit of $1.0 billion at the end of the previous fiscal year. Declining benefits payments combined with legislative measures helped restore the fund balance from pandemic-related disruptions in 2020 and 2021. **Senate Bill 20-207** suspended the solvency surcharge for 2021 and 2022, and, beginning in 2022, incrementally increases the chargeable wage base to $17,000 in 2022, $20,400 in 2023, and $23,800 in 2024. **Senate Bill 22-234** continued the suspension of the solvency surcharge for 2023, and allocated American Rescue Plan Act funds for repayment of interest and loans from the Federal Unemployment Account (FUA). Pursuant to Senate Bill 22-234, $580 million was used to repay outstanding FUA loans in May 2022, while $20 million was set aside for the required September 30, 2022, interest payment on remaining outstanding loans. Colorado repaid the remaining federal loan balance with a $33.1 million private loan in November 2022, but resumed FUA borrowing to cover benefits payments in the first quarter of 2023. Colorado has now repaid the outstanding federal loan balance of $77.0 million.

The amount of UI benefits paid is expected to increase to $509.9 million in FY 2022-23 as an uptick in the resolution of back payments and increasing average benefits paid offset continued strength in the state's labor market. Benefits paid are expected to increase in FY 2023-24 and FY 2024-25, to $535.1 million and $589.9 million, respectively, with softening labor markets expected as monetary policy slows economic growth and average weekly wages continue to rise with inflation. Revenues to the fund are expected to total $827 million in FY 2022-23, including a $33.1 million infusion of private loan funds to repay outstanding federal loans in 2022, thereby avoiding an increase in federal UI premiums that would have otherwise occurred on January 1, 2023.

The forecast includes estimated diversions to the UITF from the Employment Support Fund (ESF) pursuant to **Senate Bill 23-232,** which creates a new cap on the amount of money in the ESF at the end of any fiscal year beginning in FY 2023-24. The solvency surcharge is expected to be applied in FY 2023-24 and FY 2024-25, as the June 30, 2023, and June 30, 2024, fund balances are expected to fall short of the 0.7 percent of annual private wages threshold required to turn it off. The UI Trust Fund is expected to end FY 2022-23 with a balance of $73.9 million. Fund revenues are expected to increase through the forecast period, allowing continued improvement of the UITF balance. With a $1.2 billion balance expected on June 30, 2025, 0.60 percent of annual private wages, this forecast expects a shift to a lower premium rate schedule for calendar year 2026.

Table 20
Unemployment Insurance Trust Fund
Revenues, Benefits Paid, and Fund Balance
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	CAAGR*
Beginning Balance	($1,014.2)	($133.1)	$73.9	$577.6	
Plus Income Received					
UI Premium	$783.8	$793.9	$856.9	$937.9	6.2%
Solvency Surcharge	$0.0	$0.0	$129.6	$210.5	
Interest	$0.0	$0.0	$1.2	$9.2	
Other**	$581.1	$33.1	$51.0	$22.0	
Total Revenues	**$1,364.9**	**$827.0**	**$1,038.7**	**$1,179.7**	-4.7%
Percent Change	127.1%	-39.4%	25.6%	13.6%	
Less Benefits Paid	($483.8)	($509.9)	($535.1)	($589.9)	6.8%
Percent Change	-76.1%	5.4%	4.9%	10.3%	
Principal Loan Repayment	$0.0	($110.1)	$0.0	$0.0	
Ending Balance	**($133.1)**	**$73.9**	**$577.6**	**$1,167.3**	
Solvency Ratio					
Fund Balance as a Percent of Total Annual Private Wages	-0.09%	0.04%	0.31%	0.60%	

Totals may not sum due to rounding.
** CAAGR: Compound average annual growth rate for FY 2021-22 to FY 2024-25.*
***Other income includes Coronavirus Relief Funds, Title XII Repayment Funds, private loans applied to federal loans outstanding, and estimated diversions from the Employment Support Fund pursuant to SB 23-232.*

Family and Medical Leave Insurance. Proposition 118, approved by voters at the November 2020 election, created a paid family and medical leave insurance (FAMLI) program for Colorado employees that provides up to 12 weeks of paid leave for eligible employees to care for themselves or a family member. Starting January 1, 2023, employers and employees were required to begin paying a payroll premium for FAMLI benefits, for which eligible employees may file claims beginning January 1, 2024. Employers were required to remit payments by April 30, 2023, to the FAMLI Fund administered by the Colorado Department of Labor and Employment (CDLE). The fund balance in June 2023 is $358.6 million, and revenue is expected to total about $660 million in FY 2022-23. Revenue to the fund is exempt from TABOR because the program is administered by an enterprise.

Economic Outlook

The U.S. economy is entering a crucial stage. To this point, the nation has avoided a recession despite assertive actions by the Federal Reserve to rein in runaway inflation. Now inflation is finally beginning to cool, but the consequences of contractionary monetary policy are showing wear on business activity, investment, and construction. The second half of 2023 is a key period for the Fed to bring the economy to a soft landing. If the damage done to economic activity is too severe, the economy could enter a recession.

Some of the most significant downside risks to our March forecast have dissipated over the last three months. Congress and the Biden Administration reached an agreement to end the standoff over the federal debt ceiling. And, after worrying signs as three banks failed in March and April, the banking sector seems to have averted a cascading financial crisis. An overly restrictive course of monetary policy remains the primary risk to the economic expansion. At its June meeting, the Federal Reserve acknowledged falling inflation nationally and chose not to raise interest rates, characterizing this change as a “pause.” To this point, inflation, labor market data, and the Fed’s communicated monetary policy plans suggest that the probability of a near-term recession is receding, but the probability of continued inflation above the Federal Reserve’s target rate is high.

Consistent with our earlier forecasts, the U.S. and Colorado economies are slowing after a period of strong labor market growth and consumer spending along with record corporate profits. Employment and real GDP growth remain positive but have decelerated. This forecast anticipates further slow growth through 2023, and a return to a modest pace of expansion in 2024 and 2025. The expansion is expected to be supported by slowly dissipating inflation, a resilient labor market, and continued improvement in real wages, bolstering real spending.

Tables 21 and 22 on pages 67 and 68 present histories and expectations for key indicators for the U.S. and Colorado economies, respectively.

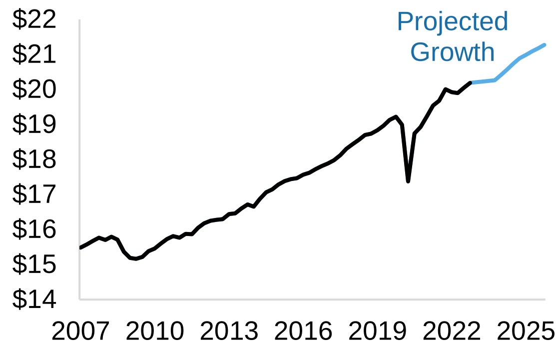
Gross Domestic Product

U.S. real gross domestic product (GDP) rose 2.1 percent in 2022, following a rebound of 5.9 percent in 2021 from the pandemic trough. GDP fell in the first two quarters of 2022 as the economy faced the war in Ukraine, elevated crude oil prices, inflation, and tighter monetary policy. Positive growth resumed in the second half of the year as inflation moderated and consumer demand remained firm. Though economic activity continues to grow, momentum has slowed. GDP increased at a 1.3 percent annualized rate in the first quarter of the 2023, compared to 3.2 percent and 2.6 percent in the third and fourth quarters of 2022, respectively.

- With inflation weighing on growth, real U.S. GDP growth is expected to increase by just 1.4 percent in 2023. As the pace of expansion slowly regains momentum, real economic output is projected to increase at rates of 1.7 percent in 2024 and 2.3 percent in 2025.

Consumer spending accelerates in the first quarter, bolstering growth. Consumer spending makes up more than two-thirds of total economic activity. Despite higher borrowing costs and prices, consumer spending increased by 2.8 percent in 2022, after growing by a brisk 8.3 percent in 2021. Consumer spending continued to pick up momentum in the first quarter of 2023, growing by 3.8 percent from the prior quarter. As high interest rates limit business investment, a strong dollar limits exports, and postpandemic federal spending wanes, consumer activity is expected to be the most important determinant of the economic expansion over the forecast period. This forecast expects consumer activity to strengthen as inflation recedes, but dwindling household savings could suppress consumer confidence.

Figure 7
U.S. Real Gross Domestic Product
Trillions of Dollars



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff June 2023 forecast. Data reflect seasonally adjusted annual rates.

Business investment declines in the first quarter. Business investment is an important contributor to GDP, but tends to be volatile quarter to quarter. In the first quarter of 2023, total business investment declined by 11.5 percent after growing by 4.5 percent in the previous quarter. Despite the drop in the most recent quarter, business investment is still up 2.5 percent compared to the same period one year ago.

A drop in residential investment continues to be offset by the improvement in intellectual property products (computer equipment and software). Inflation-adjusted residential outlays have steadily declined since the second quarter of 2021, as rising mortgage rates and borrowing costs have dampened demand for new and existing housing units. On the other hand, intellectual property investment increased by 8.8 percent in 2022, and grew at a 5.2 percent annualized rate in the first quarter of 2023. Investment in nonresidential structures remains strong, growing by 11.0 percent in the first quarter of the year, after improving by 15.8 percent in the last quarter of 2022. Outlays on private nonresidential structures like gas and oil well drilling continue to help boost total business investment.

International trade has contributed to growth, but now faces headwinds. Net exports, calculated as total exports minus total imports, improved in 2022. Exports significantly increased in the third and fourth quarters of the year. Many U.S. suppliers, specifically natural gas and fertilizer producers, have stepped up in providing key commodities to Europe. Though net exports are expected to continue to aid U.S economic growth, a strong U.S. dollar and weakening global demand are expected to raise headwinds for exports over the next year.

Government spending is no longer a major source of economic stimulus. Government expenditures declined by 0.6 percent in 2022 as various pandemic-era stimulus programs ended. Federal expenditures declined by 2.5 percent, while state and local government spending increased by 0.5 percent from the prior year. Total government spending grew by 5.2 percent in the first quarter of the 2023, with positive contributions from all government sectors (federal, state and local). Total government outlays have increased steadily since the third quarter of 2022. However, a debt ceiling agreement that limits new federal spending, together with sagging state revenue collections nationwide, suggests receding contributions from the public sector through 2024 at least.

Colorado's economic growth in perspective. Prior to the pandemic-induced recession, Colorado had enjoyed more than a decade of strong economic growth, outpacing most other states in the nation across economic indicators, including employment, personal income, and GDP growth. Coming off a period of very strong increases, growth rates for the state are expected to trend closer to the national average. This forecast anticipates that Colorado's economy will modestly outperform the U.S. economy through 2025, with faster income growth and lower unemployment rates balanced against higher inflation. The forecast expects faster job growth nationally than in Colorado, in part due to the presence of more labor market slack (share of the workforce that is unemployed or underemployed) at the national level.

Labor Markets

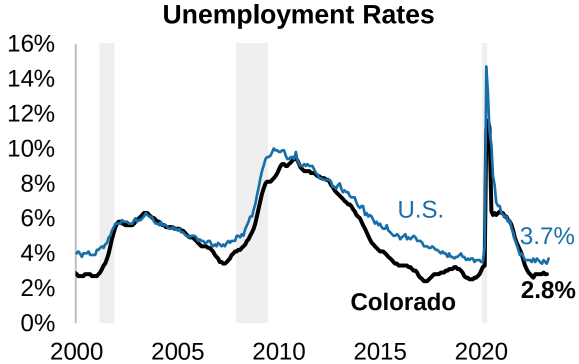
The labor market in the state and nation remains strong, but tightening monetary policy has triggered isolated job losses in certain industries. Sectors sensitive to interest rates like finance, insurance, and real estate have shed employees as interest rates rise. However, slower, persistent job growth alongside low unemployment rates suggest that a soft landing is possible for most areas of the economy. There are continued downside risks as confidence erodes and monetary policy tightens further. Employment growth is expected to slow in the near term for both Colorado and the U.S.

- U.S. nonfarm employment growth was 4.3 percent in 2022, and is expected to slow in 2023 and 2024, to 2.2 percent and 1.3 percent, respectively. The U.S. unemployment rate is expected to remain at its 2022 level, 3.6 percent, in 2023, before increasing to 3.8 percent in 2024.

- In Colorado, nonfarm employment grew by 4.2 percent in 2022. Employment is expected to grow at a slightly slower pace than the nation throughout the forecast period, with growth decelerating to 1.8 percent in 2023 and 1.2 percent in 2024. The Colorado unemployment rate is expected to fall from 3.0 percent in 2022 to 2.9 percent in 2023, before rising to 3.2 percent in 2024.

Colorado's unemployment rate remains low amid slowed job gains consistent with a soft landing. Colorado's unemployment rate has remained below 3.0 percent since April 2022, and at 2.8 percent, remains well below the nation's rate of 3.7 percent in May (Figure 8). Ranked lowest to highest, Colorado has the nation's 17th lowest unemployment rate, equal to Massachusetts and Oklahoma. The lowest unemployment rate belongs to Nebraska, New Hampshire, and South Dakota (1.9 percent), and the highest to Nevada (5.4 percent). Colorado's labor force participation rate ticked up to 68.7 percent in May 2023, well ahead of the nationwide rate of 62.6 percent and the fourth highest among the 50 states behind North Dakota (69.7 percent), Nebraska

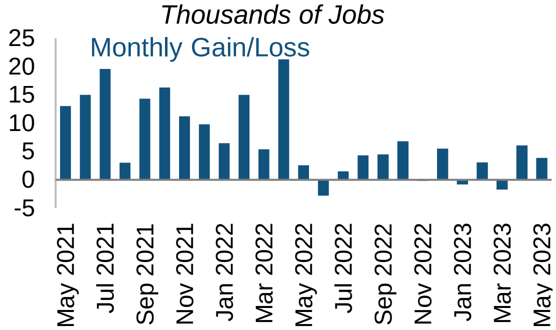
Figure 8
Unemployment Rates



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Colorado data are through May 2023. U.S. data are through May 2023.

(69.5 percent), and Utah (69.4 percent). At 54.6 percent, Mississippi and West Virginia have the lowest labor force participation rates. Colorado average hourly earnings grew by 3.9 percent year-over-year in May 2023, slowing, but still well above pre-pandemic levels. However, nominal wage growth has not kept up with inflation, resulting in a 1.9 percent decline in real wages.

Figure 9
Change in Colorado Nonfarm Employment
Thousands of Jobs



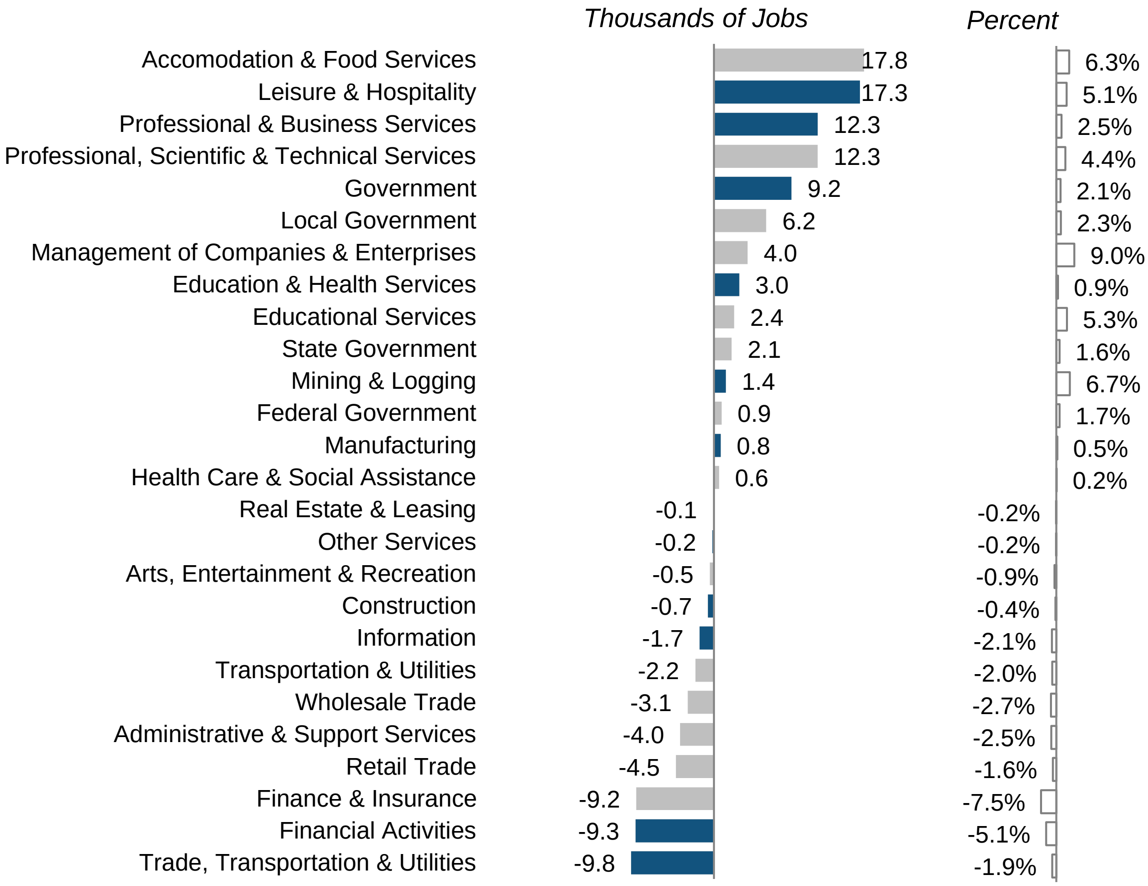
Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and through May 2023.

The employment recovery in Colorado continues to hold up, though job gains are slowing, consistent with monetary policy objectives to tame inflation with a soft landing. Employers added 3,900 jobs in May 2023, for an average monthly gain of 2,120 jobs this year. A marked slowdown in job gains has occurred since May 2022, which roughly coincides with the start of the Federal Reserve's interest rate hikes. In the past twelve months, Colorado gained 2,500 jobs on average compared with average monthly job gains of 12,500 in the twelve months prior (Figure 9).

Impacts of inflation, monetary policy tightening, and banking instability differ across sectors. Year-over-year, statewide job growth slowed to 0.8 percent in April 2023 (1.3 percent with expected revisions, as discussed below), below the pre-pandemic trend of about 2.4 percent. The largest job gains by supersector were in leisure and hospitality, up by 5.1 percent (17,300 jobs), and professional and business services, up by 2.5 percent (12,300 jobs), as shown in Figure 10. Employment in leisure and hospitality only just surpassed February 2020 levels in December 2022 and is now up by 5,400 jobs, while employment in professional and business services surpassed February 2020 levels in April 2021, and is now up by 49,100 jobs.

Supersectors with job losses year-over-year in April 2023 were trade, transportation, and utilities, down 1.9 percent (9,800 jobs); financial activities, down 5.1 percent (9,300 jobs); information, down 2.1 percent (1,700 jobs); construction, down 0.4 percent (700 jobs); and other services, down 0.2 percent (200 jobs). Inflation, high interest rates, and banking sector instability added to volatility in these supersectors, which include interest-sensitive activities such as construction, real estate, and information technology as well as banking and other financial activities. As discussed below, expected revisions in the March 2024 benchmarked job series may alter some of these results.

Figure 10
Colorado Job Gains and Losses by Industry
Year-over-Year Change, April 2023

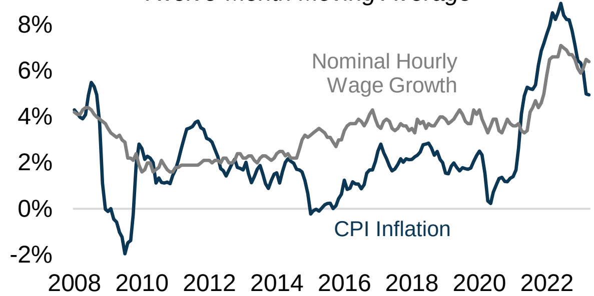


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Blue shading indicates a supersector, while grey shading indicates a subsector.

Nominal wage growth moderates nationally, while real wage growth turns positive. According to the Atlanta Federal Reserve Wage Growth Tracker, median nominal wage growth (not adjusted for inflation) was 6.4 percent year-over-year in April 2023, down from a peak of 7.1 percent in June 2022, while inflation was 5.0 percent, down from a peak of 8.9 percent in June 2022. Inflation exceeded nominal wage growth from April 2021 until February 2023, resulting in a declining real wage and the erosion of purchasing power for more than 50 percent of workers during that period. Prior to that period, the last time real wage growth was negative was in 2011 (Figure 12).

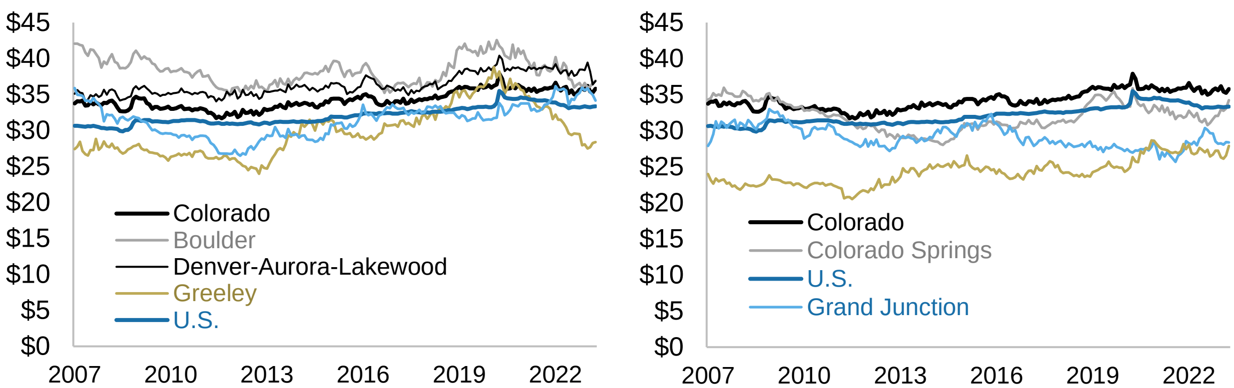
Wage growth varied across industries, ranging from 6.9 percent in leisure and hospitality and 6.7 percent in trade and transportation, to 5.8 percent in construction and mining, and education and health. Wage growth also varied across groups of workers, with workers aged 55 and over and job stayers experiencing the slowest wage growth at 4.7 percent and 5.6 percent, respectively, while workers aged 16 to 24, job switchers, and low wage workers (in the bottom half of the wage distribution) experiencing the highest wage growth at 11.5 percent, 7.6 percent and 6.9 percent, respectively. Workers in the mountain region, which includes Colorado, experienced 7.5 percent wage growth in April 2023, the highest among U.S. regions. It is important to note that there is wide variation in wage growth across individuals, but in general, groups of workers with the highest median wage growth are those with the highest share of positive real wage growth.

Figure 12
Median Nominal Hourly Wage Growth and CPI Inflation
Twelve-Month Moving Average



Source: Atlanta Fed Wage Growth Tracker. Data are through April 2023.

Figure 13
Real Average Hourly Wages by Region



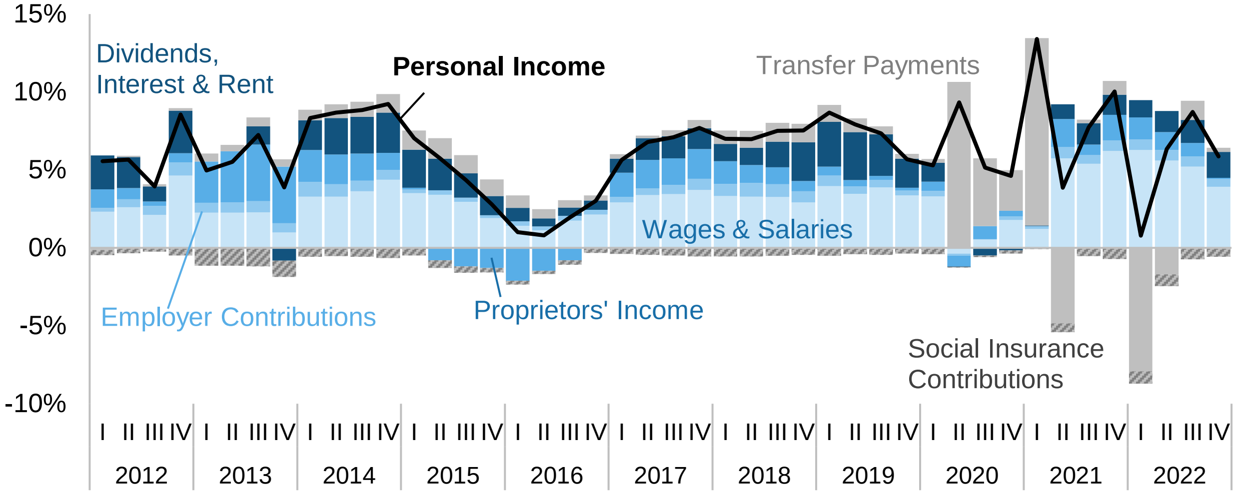
Source: U.S. Bureau of Labor Statistics. Data are adjusted for inflation using the U.S. city average CPI-U inflation index. U.S. data are seasonally adjusted. Colorado data are not seasonally adjusted.

Nominal wage growth continues to cool in Colorado, while real wages decline. Nominal wages were up by 4.5 percent in April 2023, up from 4.2 percent in March, with inflation adjusted wages down by 0.4 percent, and falling behind inflation since July 2022. Real wage growth within Colorado varied, with Colorado Springs, Pueblo, and Grand Junction showing year-over-year real wage increases. Notable declines in real wages occurred in Greeley, Boulder, Fort Collins, and the Denver metro area.

Personal Income and Savings

Personal income includes household income from wages and salaries, business ownership, investments, and government support. Personal income signals household contributions to income tax revenue, and foreshadows current and future consumer spending and sales tax receipts. A history of contributions to year-over-year growth in U.S. nominal personal income is shown in Figure 14.

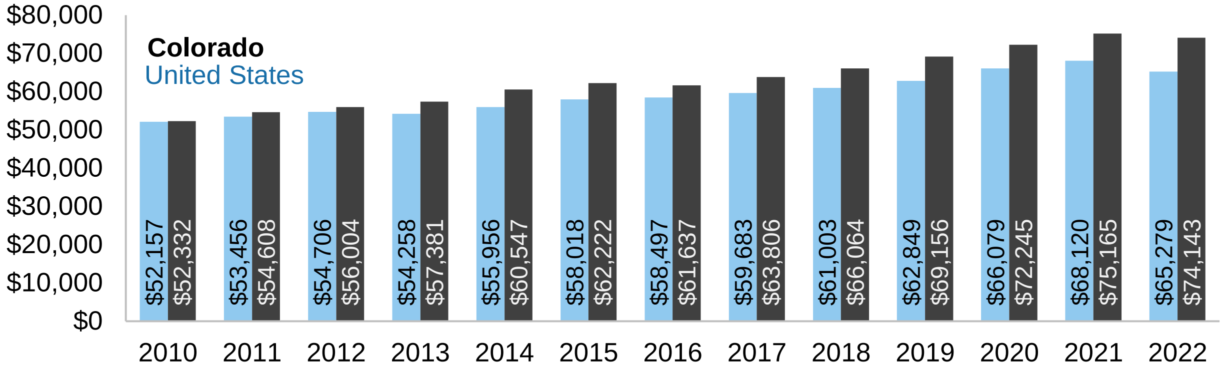
Figure 14
CO Nominal Personal Income and Its Contributions
Contributions to Percent Change, Year-over-Year



Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data are seasonally adjusted through 2022Q3.

Total Colorado personal income was 5.9 percent higher in the fourth quarter of 2022 compared to a year prior. Wage and salary income was up 7.6 percent compared to one year ago due to employment gains and strong nominal wage growth. Total nonfarm employment increased by 2.5 percent, while average hourly wages increased by 6.5 percent between the fourth quarter of 2021 and the fourth quarter of 2022. Proprietors' income, employer contributions, and dividends, interest, and rent have also contributed to positive gains in total personal income.

Figure 15
Real Per-Capita Personal Income
Constant 2022 Dollars



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.

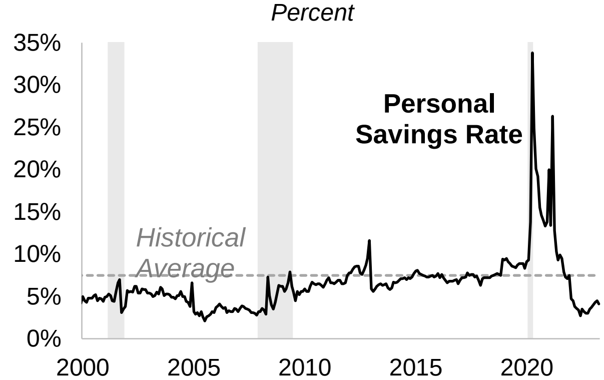
- Personal income in the United States is expected to grow 5.9 percent in 2023 before decelerating to 5.4 percent in 2024. Wages and salaries will contribute more than other sources of personal income, growing by 6.8 percent in 2023 and 5.8 percent in 2024.

- Incomes in Colorado will behave similarly, but outpace national growth levels. Personal income will rise 6.0 percent in 2023 and 5.7 percent in 2024, while wages and salaries will grow 7.2 percent this year and 5.9 percent next year.

Real incomes declined in 2022. Even with strong growth in nominal wage and salary earnings, households also contended with rapidly inflating prices in 2022. As shown in Figure 15, per-capita personal income adjusted for inflation fell in 2022 for both Colorado and the U.S. despite high nominal wage growth. However, Colorado's real per-capita income is still 2.6 percent higher than it was in 2020, due to strong growth in 2021. With real wage growth turning positive as of April 2023 and inflation expected to slow through the forecast period, real per-capita personal income is expected to rebound to positive growth for both the U.S. and Colorado in 2023 and 2024.

As real incomes stalled in 2022, households began spending a larger share of their disposable incomes, demonstrated by a drop in the personal savings rate. The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. The savings rate reached a trough at 2.7 percent in June 2022, its lowest level since 2005. Personal savings have rebounded since June, up to 4.1 percent in April, but are still well below the historical average of 7.5 percent. A low savings rate signals that high inflation is diminishing the purchasing power of household incomes, causing households to spend a higher percentage of their incomes.

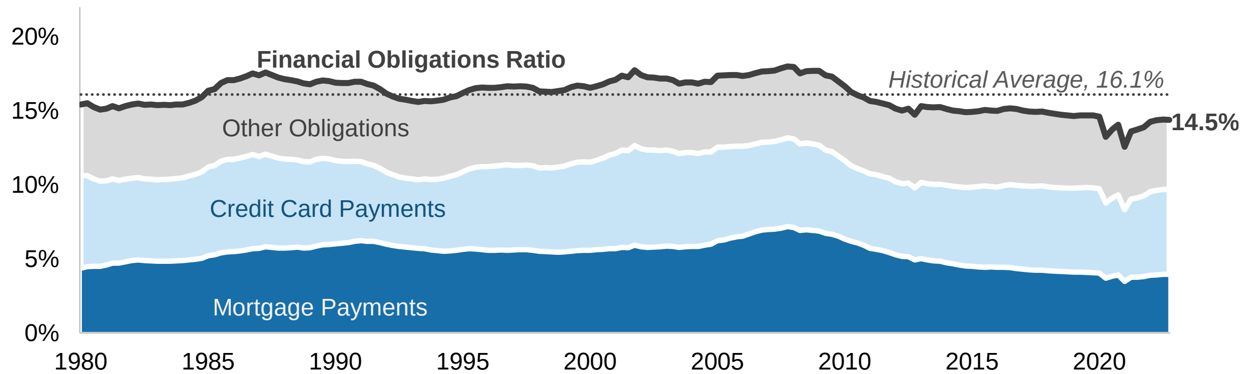
Figure 16
U.S. Personal Savings Rate
Percent



Source: U.S. Bureau of Economic Analysis. Data are shown as seasonally adjusted annual rates.

Household debt and financial obligations remain at a healthy level. Although the savings rate is low, the level of household debt is consistent with a healthy economy. The financial obligations ratio measures the percentage of disposable income that is obligated toward debt service payments, rental payments, and other financial obligations. Higher rates of financial obligations imply that households will have less available to spend on additional goods and services, and may be more likely to default on debt. The financial obligations ratio rose during 2022 after reaching historical lows in 2021, but remains 1.6 percentage points below the historical average as of the fourth quarter of 2022. This signals that households have more financial obligations than during the early days of the pandemic, but that borrowing remains at a healthy level.

Figure 17
U.S. Financial Obligations Ratio
Percent



Source: Federal Reserve Board of Governors.

Consumer Activity

Consumer spending is the main driver of the U.S. economy and continues to buoy the economic expansion. Consumers are adjusting to lower household savings, higher interest rates, tightening credit conditions and inflationary pressures. However, the strong labor market and healthy household balance sheets continue to drive demand. Downside risks remain present as household financial expectations worsen and consumer sentiment remains low.

Real U.S. consumer spending accelerates in the first quarter. In the first quarter of 2023, advanced estimates indicate real (inflation-adjusted) personal consumption expenditures rose at an annualized 3.8 percent rate, faster than the 1 percent pace in the prior quarter and the fastest pace posted since the second quarter of 2021. The surge in spending was largely due to a jump in spending on motor vehicles and parts, that rose at an annualized pace of 44.3 percent in the first quarter. Other durable goods categories performed well in the first quarter after weakness throughout 2022, including recreational goods and vehicles. The first quarter surge in durable goods spending will boost 2023 spending higher than anticipated in the March forecast. Despite the surge in durable goods, nondurable goods spending grew less than 1 percent in the first quarter, extending weaker activity following the surge in pandemic-related spending on food at home, and a post-pandemic bounce in clothing. Nondurable goods spending is expected to remain fairly flat in 2023 before picking up somewhat over the rest of the forecast period.

In the first quarter, spending on services continued to grow at a steady pace as consumers increasingly returned to pre-pandemic activities, led by resurgent spending on health care and food services and accommodations. Spending on health care was up 7.7 percent in the first quarter, and food services and accommodations rose 4.6 percent. Each sector has bounced back to trend growth recorded during the last economic expansion. Spending on services is expected to grow steadily through the forecast period, supporting overall consumer spending and economic growth as other areas of the economy fluctuate. Health care is expected to contribute to spending growth due to an aging population and rising demand, as many delayed elective procedures during the pandemic.

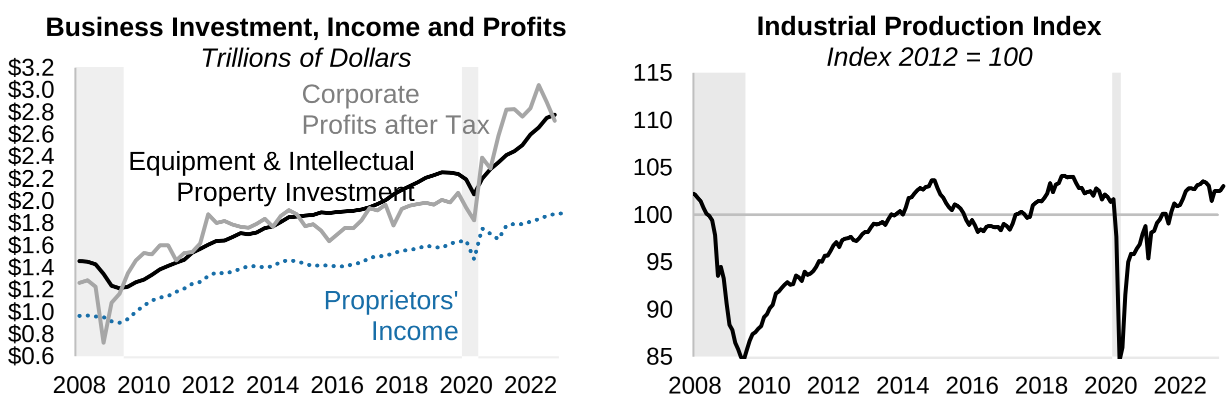
Inflation expected to outpace retail sales until 2024. Although the nation's retail trade and food services sales were up 4.1 percent through the first four months of the year, sales failed to keep pace with rising prices. Along with a slower residential real estate market and durable goods correction, sales were down in categories like furniture and home furnishings, electronics and appliances, and building materials and garden supplies. Lower retail gas prices impacted sales of gasoline, posing a drag on sales growth. In contrast, sales over the past year were largely boosted by spending at food services and drinking places, which were up 15 percent year-to-date.

Business Activity

Growth in business activity is slowing after its post-pandemic surge. Despite headwinds, business income and profits and industrial production continued to expand in 2022. Business incomes, including corporate profits and nonfarm proprietors' incomes, showed positive growth, setting record highs (Figure 18, left). Corporate profits fell by 5.9 percent in the fourth quarter of 2022 compared to the preceding quarter, but ended the year up 4.4 percent relative to 2021. Even as interest rates rose, nominal business investment in nonresidential intellectual property and equipment grew at a healthy pace, up 12.3 percent from the year prior.

Several key indicators show weakening business activity to begin 2023. Total industrial production, which measures real output from manufacturing, mining, and utilities, has stalled. Industrial production showed virtually no growth over the year ending in April 2023, with production up just 0.2 percent (Figure 18, right). Monthly data show that industrial output has flagged to begin the year. Declining production in utilities was just barely offset by increases in manufacturing and mining.

Figure 18
Selected U.S. Indicators of Business Activity

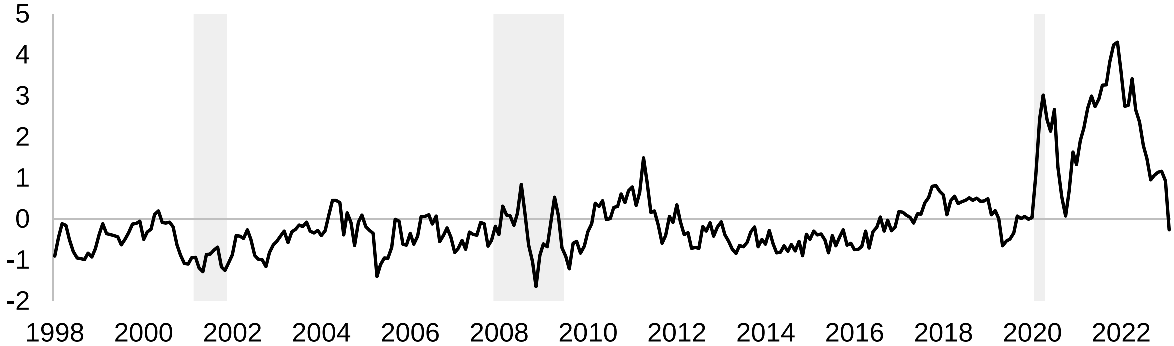


Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data through 2022Q4.

Source: Federal Reserve Board of Governors. Data through April 2023.

On the upside, disruptions to global supply chains are diminishing. Over the past two years, supply chain disruptions stalled deliveries and increased prices across the world as a result of labor shortages and restrictions from the COVID-19 pandemic. The Federal Reserve Bank of New York's index of global supply chain pressures measures the impact of global transportation costs, delivery times, and backlogs. Based on this measure, supply chain pressure has fallen dramatically since its peak in December 2021, and returned to normal levels (Figure 19). This decline is broad-based across most subcomponents of the index. As virus concerns wane and demand for labor comes more in line with supply, supply chains are expected to stabilize. However, a deteriorating global economic and political environment poses a risk to the supply chain outlook.

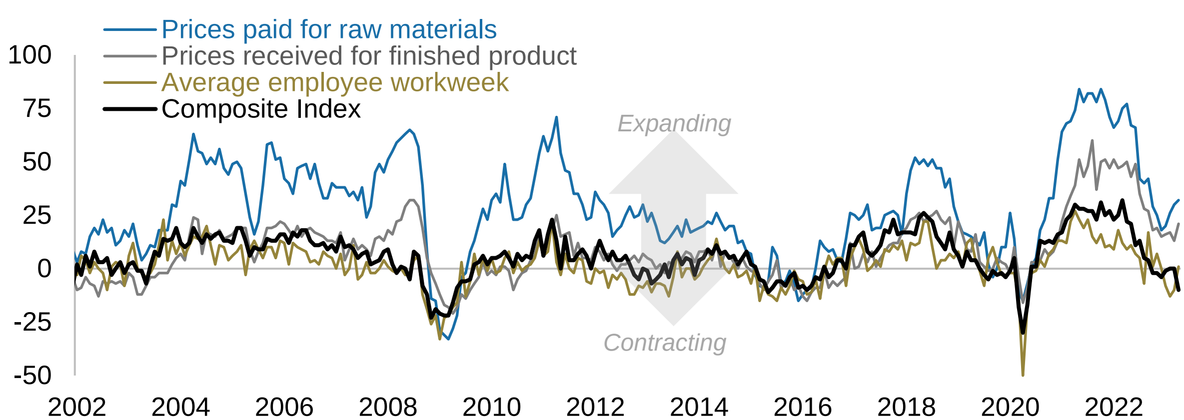
Figure 19
Global Supply Chain Pressure Index
Standard Deviations from Average Value



Source: Federal Reserve Bank of New York. Data through February 2023.

Despite strong growth in national business activity and slowing supply chain pressures, business activity in the Tenth Federal Reserve District (which includes Colorado and several surrounding states) has started to fall. The manufacturing index shown in Figure 20 represents the share of survey respondents reporting increases or decreases in various indicators of manufacturing activity compared to the month prior. Since October, the composite index had a value of zero or less, indicating that manufacturing is contracting slightly.

Figure 20
Tenth District Manufacturing Index
Diffusion Index, Change from a Month Ago



Source: Federal Reserve Bank of Kansas City. Data are seasonally adjusted. A value above zero indicates expansion; below zero indicates contraction in activity.

Many subcomponents of the index were negative, including production, volume of shipments, and volume of new orders, meaning that more respondents were seeing declines in these areas than were seeing increases. The majority of survey respondents indicated prices of raw inputs are still increasing, but the number of respondents reporting increases has declined sharply since April 2022, further evidence that supply chain issues are easing. The diffusion index for average employee workweek was negative, and the number of employees was positive, indicating that labor shortages may be less of a burden as businesses have been able to hire additional workers.

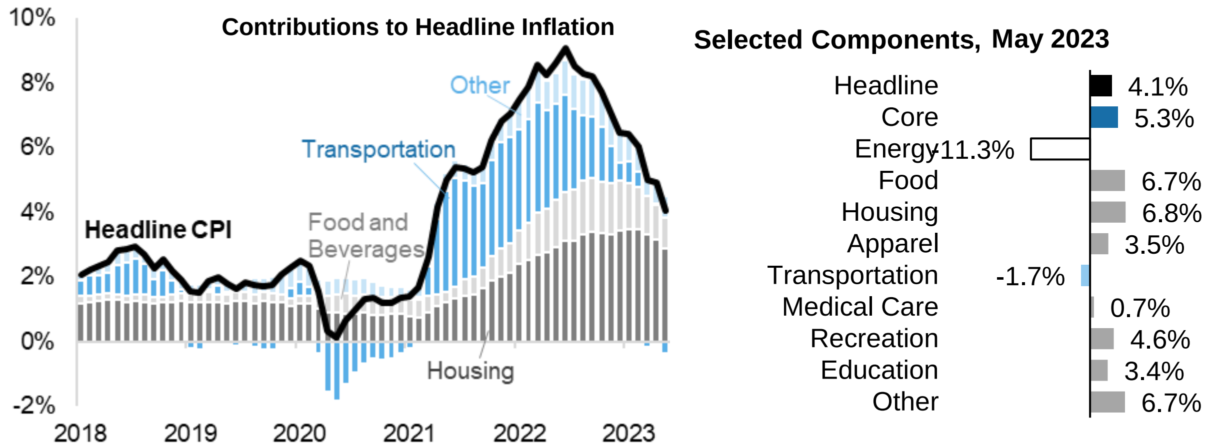
Monetary Policy and Inflation

Headline inflation is falling in the United States, but remains elevated. Following a historic rise in prices in 2022, data suggest that inflation is slowing. As measured by the U.S. city average consumer price index (CPI-U), the average change in the price of goods and services faced by consumers peaked in June 2022, with average prices 8.9 percent higher than they were in June 2021. Inflation has moderated considerably since, but remains well above the Federal Reserve's target with May 2023 prices 4.0 percent higher than they were a year ago.

- Headline prices for U.S. urban consumers are expected to rise by 4.4 percent in 2023 and 2.9 percent in 2024.

The surge in inflation in early 2022 was boosted by energy prices, which increased by 41.6 percent year-over-year in June 2022. Figure 21 (left) shows the contribution to headline CPI by major component of spending, where motor fuel prices are captured in the transportation component. Transportation was the largest contributor to inflation in 2021 and early 2022, but has dropped off steeply as gas and vehicle prices have stabilized over the past year.

Figure 21
U.S. Consumer Price Index (CPI-U) Inflation
Year-Over-Year Percent Change



Source: U.S. Bureau of Labor Statistics and LCS calculations.
** Headline inflation includes all products and services.*
*** Transportation includes new and used vehicles, vehicle parts, and motor fuel.*
**** Housing includes the cost of rent, homeowner rental equivalent, utilities, and other housing costs.*

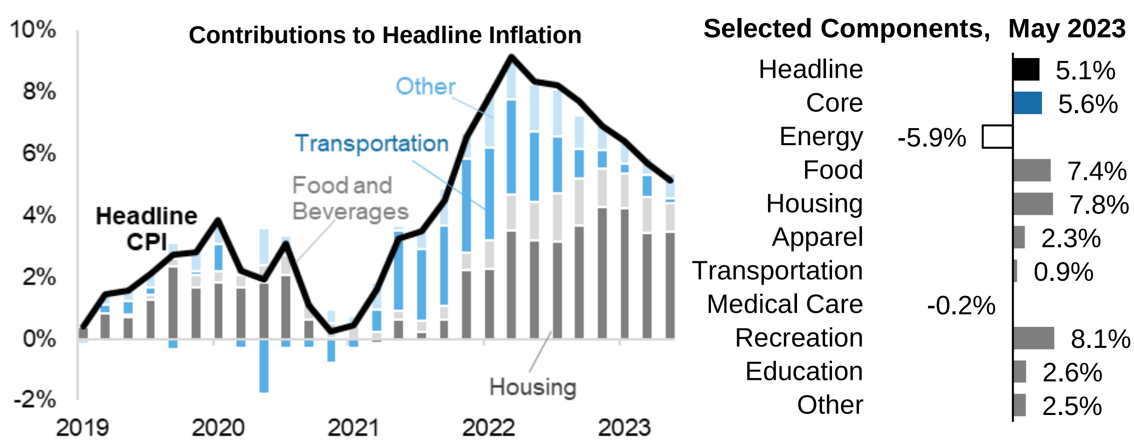
Despite the softening in transportation prices, inflation remains high by historical standards, driven primarily by rising housing costs. Housing is by far the largest component of CPI and currently makes up about 70 percent of U.S. headline inflation. The housing component includes costs for rent payments (or for homeowners, the income a homeowner foregoes by choosing not to rent out their home), utilities, and other housing-related goods and services. Because the housing component of the CPI includes prices paid by all households rather than just those moving to a new home, the housing component tends not to change quickly in aggregate, as most renters' payments are only subject to change once annually.

Housing costs are up 7.4 percent year-over-year in April, much higher than the typical rate of housing inflation before the pandemic, which was about 2.7 percent. A May 2022 study found that over half of the surge in rental and home prices can be attributed to the increase in remote work due to the pandemic.[2] Remote work increases demand for housing because it requires more space for work activities to be completed at home. Because the shift to remote work is expected to be permanent, demand for housing is likely to stabilize at this new higher level, meaning that prices are not likely to come back down but are expected to increase at a slower rate moving forward. Month-over-month growth in housing prices slowed in March and April, a trend that is expected to continue.

Inflation in Denver-Aurora-Lakewood remains elevated, driven by housing costs. As at the national level, headline inflation in Colorado peaked early last year but has fallen steadily since. Figure 22 shows the recent path of headline inflation and inflation among select components, as measured by the Denver-Aurora-Lakewood consumer price index. In March 2022, year-over-year headline inflation reached 9.1 percent and has since declined to 5.1 percent as of May 2023, still well above normal and well above the national average for urban consumers.

- Headline inflation in the Denver-Aurora-Lakewood combined statistical area is expected to be slightly higher than the U.S. at 4.6 percent in 2023 and 3.2 percent in 2024.

Figure 22
Denver-Aurora-Lakewood Consumer Price Index (CPI-U) Inflation
Percent Change in Prices, Year-over-Year



*Source: U.S. Bureau of Labor Statistics and Legislative Council Staff calculations. *Headline inflation includes all products and services. **Core inflation excludes food and energy prices.*

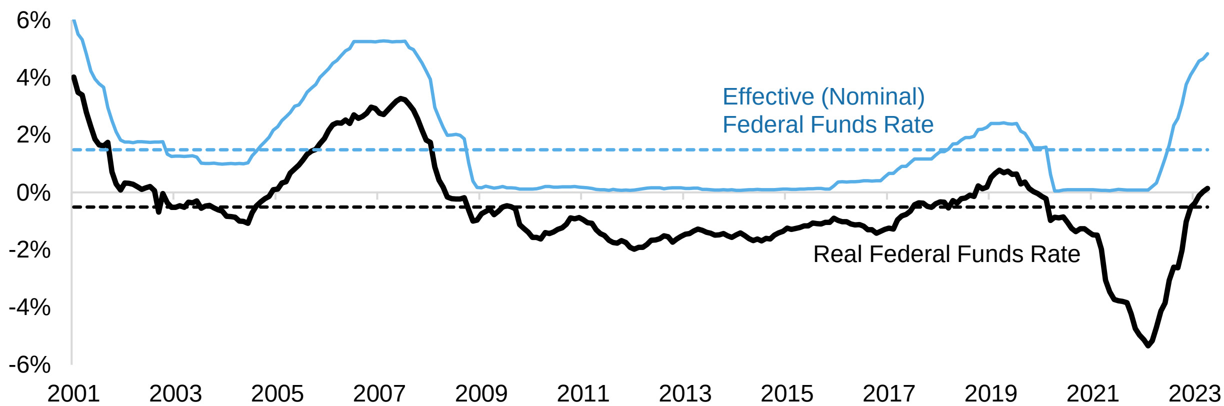
[2] Housing Demand and Remote Work. John A. Mondragon & Johannes Wieland. Working Paper 30041. http://www.nber.org/papers/w30041

As is the case nationally, housing and food and beverage prices are putting upward pressure on headline inflation, while softening motor fuel prices have reduced the impact of prices for transportation. Housing costs have had a greater impact in the Denver area as prices are up 7.8 percent year-over-year, compared to 6.8 percent for the nation, as the Denver area has a higher percentage of remote workers and tends to have a tighter housing market. Increases in rental prices were a large, sustained contributor to inflation throughout 2022. This forecast expects that housing inflation has passed its peak and will cool slowly throughout the forecast period.

The Fed did not hike rates at its June meeting, but the real federal funds rate is expected to rise. In response to accelerating inflation, the Federal Reserve began aggressively tightening monetary policy beginning in early 2022. Starting from near zero, the Federal Reserve has increased the range for its benchmark interest rate, the federal funds rate, by a combined 5.0 percentage points across ten rate hikes. The nominal federal funds rate is now at its highest level since 2007 (Figure 23). In conjunction with rate hikes, the Fed also began reducing its balance sheet, first by tapering asset purchases and then by beginning to allow a portion of its traditional portfolio of U.S. treasuries to run off.

In response to falling rates of inflation before its June 2023 meeting, the Fed chose to maintain its target percentage for the federal funds rate rather than increasing rates again. The Fed characterized the decision as a "pause" from rate hikes, rather than an end to them, as the Fed reevaluates what comes next for monetary policy in light of cooling inflation. This forecast expects that the nominal federal funds rate will remain near its current level for the remainder of the year.

Figure 23
Federal Funds Rate
Percent, Monthly Average



Source: Federal Reserve Bank of New York, Bureau of Economic Analysis, and Legislative Council Staff calculations.
**The real federal funds rate is the difference between the effective federal funds rate and inflation as measured by personal consumption expenditures, excluding food and energy.*
*** Dotted lines represent the historical average between 2000 and 2023.*

The real federal funds rate (the difference between the nominal effective federal funds rate and inflation) has turned slightly positive at 0.1 percent for the first time since 2019 (Figure 23). Having a federal funds rate that is below the rate of inflation is considered expansionary monetary policy, as the cost of borrowing is less than the rate of depreciation caused by inflation. On the other hand, a positive real federal funds rate is contractionary. The real federal funds rate is expected to increase through 2023 as inflation abates and the nominal federal funds rate remains near its current level.

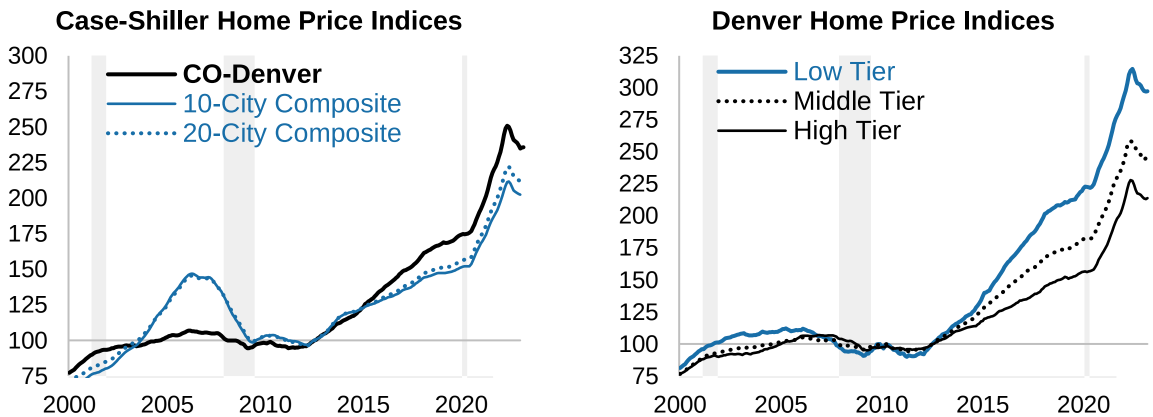
A rising real federal funds rate will raise the cost of borrowing and, in turn, help to ease inflationary pressures. However, there is still significant uncertainty regarding the effect of these changes on prices, and whether the Federal Reserve can engineer a soft landing amid shifting geopolitical tensions, banking liquidity concerns, and high housing costs. Tightening monetary policy raises new demand-side risks as access to credit for would-be borrowers, including homebuyers, becomes scarce. Inflation is expected to remain above the Federal Reserve's target through 2023 and into 2024.

Real Estate and Construction Activity

U.S. and Colorado home prices peaked in mid-2022. Housing prices around the country skyrocketed through early 2022, peaking in June, on high household savings and low interest rates. Both of these contributors changed direction over the course of the year. Prices in the Case-Shiller 20-city composite index increased by about 19 percent over the year ending in June 2022 (Figure 24, left). Prices in Denver surged even more than their national counterparts, up more than 19 percent over the same period, and increases were fairly consistent across homes priced at different levels (Figure 24, right).

The market entered a downturn over the summer as rising mortgage rates limited buying power for prospective purchasers. The number of homes available for sale jumped after hovering near historical lows, and prices began to fall. Through the end of the year, both Case-Shiller national home price indices showed prices down by almost 12.9 percent from their June peak, and prices in the Denver Metro area were down 15.7 percent from their May peak. Home prices stabilized over the first half of 2023, but have not returned to peak levels. New listings combined with a dearth of new builds are expected to keep prices from falling dramatically.

Figure 24
Selected Home Price Indicators
Index 100 = July 2012



Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through March 2023.

Interest rates are significantly higher than at this time last year. The average interest rate for a new 30-year mortgage was 6.7 percent in early June, up from 5.2 percent from the same period last year but below the peak of 6.9 percent in November 2022. High home prices coupled with rising borrowing costs are expected to squeeze many would-be homebuyers, especially first-time buyers, out of a wide array of markets across the United States. In Colorado, housing affordability is deteriorating even in previously affordable communities, and high housing costs are expected to constrain net migration into the state.

Homebuilders are responding with decreased activity. Sales of new single family houses in the U.S. were down 17.0 percent in 2022. In addition, the number of new housing permits issued has been on the decline since last March. Colorado's homebuilding collapse was more severe, with builders pulling just over 23,700 single family permits in 2022, down more than 30 percent from the prior year. Meanwhile, multifamily homebuilding was relatively resilient, remaining roughly flat year-over-year.

Builders continue to face considerable headwinds in responding to low inventory, including construction supply chain disruptions and a shortage of skilled labor. Home losses from natural disasters, including the December 2021 Marshall Fire, are expected to compound these pressures on home construction costs and exacerbate the existing backlog of pandemic-related delays in homebuilding.

- Residential construction activity in Colorado is expected to fall from its still-elevated level, with the number of permits issued declining by 21 percent in 2023 before rebounding to grow 10 percent in 2024.

Nonresidential construction activity continues to slow. U.S. nonresidential construction spending, not adjusted for inflation, was up 7.9 percent in 2022 compared to the previous year. Total spending slowed in the second half of the year as high interest rates weighed on the industry. Spending on new office and manufacturing properties has been strong, increasing by 39.7 percent and 53.6 percent, respectively, over the year ending in January 2023. Though vacancy rates for the office market continue to rise, firms with continued on-site work arrangements are seeking new, amenity-rich buildings. Activity for new commercial and education properties has slowed.

Colorado's nonresidential construction growth outpaced the nation's in 2022 – largely due to groundbreaking for a $400 million Pepsi manufacturing plant near Denver International Airport, the state's largest manufacturing project in at least the past ten years. According to Associated Builders and Contractors, many contractors continue to report that they are operating at capacity even as construction activity underwhelms, suggesting that the nonresidential construction market continues to be hindered by supply chain disruptions and worker shortages. Higher interest rates and deteriorating confidence in the economy are impacting profit margins, suppressing appetites for additional investment. There is a growing risk of project postponements as costs continue to increase.

Investors in nonresidential real estate anticipate a bumpy road ahead. Demand for hotels and other lodging is not expected to return to 2019 levels until beyond the current forecast period. Likewise, the shift toward remote work has dampened the outlook for office space. Low demand is expected to limit construction activity in these areas, suppressing headline figures despite growth opportunities in other areas, including warehouses and industrial space. Public sector investment is expected to remain elevated into 2024 as funds disseminated through the 2021 Infrastructure Investment and Jobs Act are spent.

- The value of nonresidential construction starts in Colorado is expected to decline in 2023, dropping by 20.5 percent in 2023 before rebounding to grow by 17.2 percent in 2024.

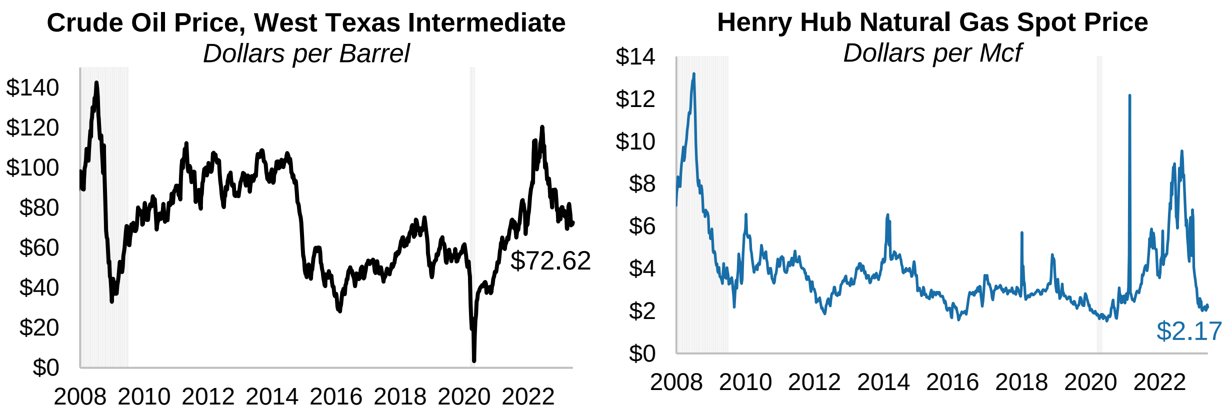
Energy Markets

Oil and gas prices are falling in 2023 after rapid post-pandemic price increases. Oil and gas prices have decreased significantly since peaking in mid-2022. The average monthly price of oil in May 2023 was down about 38 percent from its peak in June 2022 (Figure 25, left), and natural gas prices were down about 76 percent from their August 2022 peak (Figure 25, right). Both markets were impacted by supply and demand disruptions during the pandemic and subsequent recovery, as well as the war in Ukraine. In 2023, the price per barrel of West Texas Intermediate crude is expected to average $80 per barrel, a 16 percent decline from the average recorded in 2022.

The latest report from the Energy Information Administration (EIA) notes that oil prices continue to fall despite lower production from Russia and a planned cut from OPEC and partner countries through the end of 2023. Prices are down due to reduced demand with weakening global economic conditions, risks in the global financial sector, and persistent inflation. The forecast anticipates lower oil prices each year through the forecast period. On the natural gas side, prices in 2023 have been impacted by a relatively warm winter in Europe and many parts of the eastern and central United States that led to less consumption and rising natural gas inventories. Prices are expected to be further impacted by precipitation in the western U.S. that will boost hydropower and reduce demand for natural gas for electricity. The EIA predicts natural gas prices will average $2.91 in 2023, down about 55 percent from $6.42 in 2022. The EIA forecasts prices will rise to $3.72 in 2024, but prices will be influenced longer term by less demand from the electric power sector as more renewable sources of electricity come online.

Although oil prices have fallen, the retail price of gasoline increased between December and May, partly due to refinery outages to start the year, and later from revamped inventory and the seasonal lead up to higher summer gas prices. However, retail gas prices in 2023 are expected to average 16 percent lower than 2022, and fall further in 2024 along with lower crude oil prices. In Colorado, an outage at the Suncor refinery in Commerce City pushed the state's gasoline prices higher than the national average over the first three months of the year. The outage resulted in supplies being trucked and piped into the state from neighboring regions. Further maintenance at the refinery was announced in April. The shutdowns have impacted prices in the first half of 2023.

Figure 25
U.S. Energy Prices

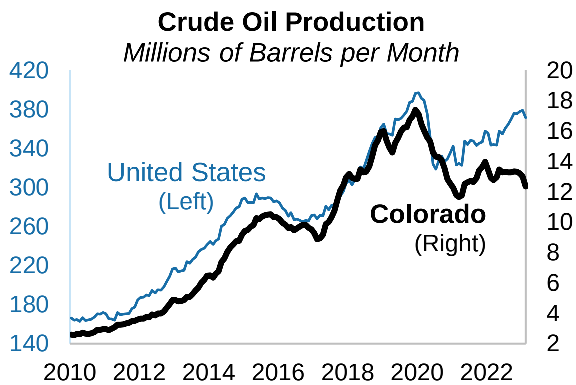


Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of May 26, 2023.

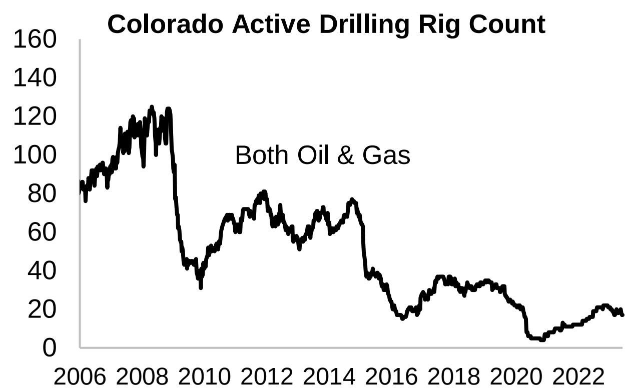
Recovery of oil and gas production in Colorado lags behind the nation. During the post-pandemic recovery, U.S. crude oil production rebounded, while Colorado's production experienced a larger pull-back and a slower recovery (Figure 26, left). Colorado's oil production stagnated over the latter half of 2022, and was down 3.7 percent year-to-date in February 2023. In contrast, U.S. production was up 7.4 percent year-to-date. As of June 2023, Colorado had 17 active drilling rigs, down from 22 as recently as December 2022, and from a monthly average of 30 active rigs in 2019 (Figure 26, right). Similarly, U.S. natural gas production has rebounded, while Colorado's production continues to trend downward.

Looking ahead, the EIA anticipated U.S. crude oil production will continue to increase through 2024, along with modest increases in natural gas. However, expected price declines are expected to weigh on Colorado's oil and gas production over the next year, resulting in flat or declining production in our state.

Figure 26
Select Energy Production Indicators



Source: U.S. Energy Information Administration. Data are shown as a three-month moving average and are not seasonally adjusted. Data are through February 2023.



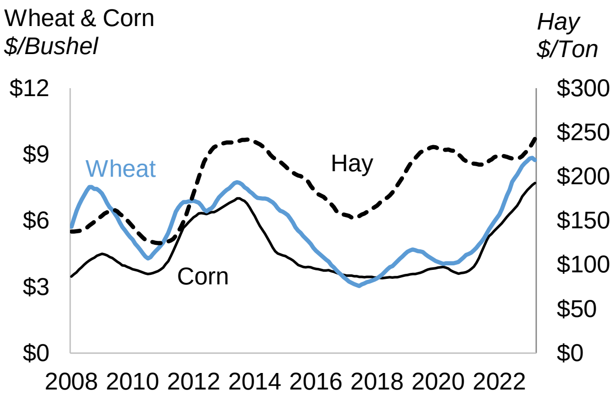
Source: Baker Hughes. Data are not seasonally adjusted. Data are through May 2023.

Agriculture

The outlook for the U.S. agricultural economy generally remains positive, with persistent headwinds expected to dampen farm income growth. Higher interest and other expenses increase the cost of production, yet prices of key crops and livestock remain elevated. Measures of financial stress remain historically low in the Federal Reserve's Tenth District, which includes Colorado, with balance sheets bolstered by multiple years of strong incomes.[3]

[3] The Tenth District includes western Missouri, Nebraska, Kansas, Oklahoma, Wyoming, Colorado and northern New Mexico. Data for Colorado are generally combined along with that of Wyoming and northern New Mexico into the category "mountain states" due to limited survey responses.

Figure 27
Prices Received for Colorado Crops



Source: National Agricultural Statistics Service. Data shown as twelve-month moving averages. Data through March 2023.

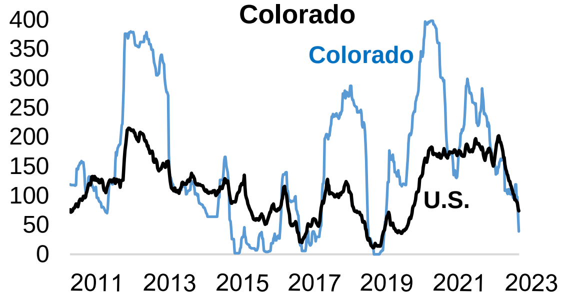
Agricultural prices remain elevated, but have started to fall. A nationwide index of agricultural prices declined in the first quarter of 2023, but remained almost 30 percent above the average of the past decade. Price declines in major commodities, including dairy, hogs, and chicken eggs offset increases in other categories, including corn, soybeans, and cattle.

Wheat prices have stabilized, with renewal of the Black Sea export corridor agreement between Russia and Ukraine through mid-July. Widespread drought in wheat- and cattle-producing regions in the U.S., including eastern Colorado, has impacted forage and hay production, and likely affected the winter wheat harvest, even as spring precipitation produced favorable conditions for spring corn planting. Colorado corn, wheat, and hay prices soared in 2021 and 2022, with twelve-month moving averages at or near new peaks through March 2023 (Figure 27). Colorado wheat came off a record high of $10.30 per bushel reached in June 2022 to settle at around $8.00 per bushel in 2023. Corn prices declined from highs of over $8.00 per bushel to $7.75 per bushel in March 2023, but hay prices have yet to peak, reaching a multi-year high of $274 per ton.

Agricultural credit conditions remained strong in the first quarter of 2023, despite rising interest costs. Nominal U.S. farm income reached a ten-year high in 2022, with existing operations receiving support from rising farm real estate values and strong commodity prices. Farm loan interest rates have risen sharply since early 2022, reaching their highest levels since 2007, creating headwinds for many producers. Costs associated with drought and feed purchases have limited profitability in the livestock sector, with lower cattle inventories expected to place downward pressure on meat production. Farmland values continued to grow, but at a slower pace, as farm income moderated alongside a slight pullback in commodity prices. Tenth District farm income and credit conditions remain strong but with financing costs softening the outlook. Some lenders are expecting deterioration in the months ahead, according to the Federal Reserve's Survey of Agricultural Credit Conditions.

Food price inflation is easing, led by falling egg prices. Food price inflation has slowed in recent months, but at 7.7 percent year-over-year in April 2023, remains well above the 20-year historical average of 2.8 percent. Month-over-month, prices for eight food-at-home categories declined, with the largest percentage decline, 1.5 percent, in egg prices. While the outbreak of highly pathogenic avian influenza (HPAI) has reduced the U.S. egg-layer flock, retail egg prices have declined since peaking in January 2023, with no new confirmed case of HPAI in egg layers since December 2022. Egg prices increased by 32 percent in 2022 and, according to the USDA food price outlook, are expected to increase a further 17 percent in 2023, a downward revision form the January 2023 forecast. Overall food price inflation is expected to slow to 6.2 percent, still well above historical rates.

Figure 28
Drought Severity and Coverage Index, Colorado



Source: United States Drought Monitor. Data through May 23, 2023.

Drought conditions substantially improved throughout Colorado. According to the U.S. Drought Monitor, the area of severe, extreme, or exceptional drought was 0.3 percent in early June, down from 7.9 percent in March, reflecting improved conditions across the state. The area of no drought has expanded to 98.7 percent, up from 63.5 percent three months ago and 16.4 percent one year ago. As indicated by the Drought Severity and Coverage Index, Colorado's drought conditions are substantially improved in 2023, to levels not seen since 2020 (Figure 28).

Global Economy and International Trade

Inflationary concerns, central bank tightening, the war in Ukraine, and slow growth in China detracted from global economic growth in 2022, with the added specter of financial market instability weighing further on global growth in 2023. Risks of an economic downturn remain elevated worldwide.

The International Monetary Fund downgrades 2023 outlook, citing financial sector instability amidst lackluster growth and sticky inflation. The International Monetary Fund (IMF) projects growth in global economic output will fall from an estimated 3.4 percent in 2022 to 2.7 percent in 2023 before rising to 3.0 percent in 2024, still well below the historical average of 3.8 percent. The IMF revised its 2023 expectations down by 0.1 percentage points since January 2023, citing recent financial sector turmoil amidst still historically slow economic growth and stubbornly high inflation requiring central banks to keep monetary policy tighter for longer. The slowdown is largely driven by advanced economies. The IMF anticipates global inflation to fall, but more slowly than anticipated in its January outlook, from 8.7 percent in 2022 to 7.0 percent in 2023 and 4.9 percent in 2024, still above the pre-pandemic level of about 3.5 percent.

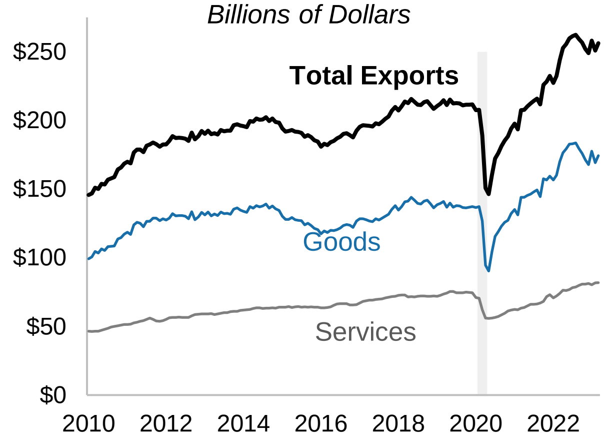
While the global economy's gradual recovery from both the pandemic and Russia's invasion of Ukraine remains on track, recent banking instability has tilted risks once again to the downside and highlighted the fragility of the still-nascent recovery. Inflation remains stickier than anticipated, with year-end core inflation expectations revised upward, to 5.1 percent, from the January outlook, suggesting that central banks will need to tighten monetary policy further and longer than previously anticipated. Last year's monetary policy tightening has raised funding costs, exposed vulnerability in some banks' bottom lines, and led to a reduction in lending and strained credit markets. A sharp tightening of global financial conditions triggered by nervous investors could slow GDP growth even further, and the risk of such a deterioration remains elevated amidst substantial uncertainty.

Slower economic growth is expected to weigh on trade as oil prices decline. In April, the IMF outlook for global trade growth remained little changed, at 2.4 percent in 2023, down from 5.1 percent in 2022. Slower growth in global output is expected to translate into fewer imports and exports of goods and services, with much of the slowdown concentrated in advanced economies. The oil price outlook is substantially downgraded from January, with a 24.1 percent decline in oil prices expected in 2023, following a 39.2 percent increase in 2022.

U.S. trade volume is flat in 2023. The dollar value of U.S. trade was flat through March 2023, after ending the year up by 16 percent from the 2021 level, according to data from WiserTrade. Key export markets include Canada, Mexico, and China, with exports to China up by 7 percent through March 2023 and showing signs of recovering on the heels of China's reopening. Exports grew by 7 percent through March 2023, while imports were down by 4 percent, reducing the trade deficit that widened during the pandemic. Notably, imports from China were down 28 percent through March 2023, potentially signaling shifting trade patterns as pandemic-related disruptions and U.S. trade policy spur companies to shift production hubs to Mexico and other markets closer to the U.S.

U.S. exports pulled back in the second half of 2022 due to easing energy prices, a strong dollar, and slowing global economic growth (Figure 29). Oil and gas products, industrial and electric machinery, vehicles, and aircraft comprise the top categories of U.S. exports. Exports of services continues a steady but slower recovery from pandemic disruptions, with the volume of international visitors to the U.S. still about 80 percent of 2019 levels. Net exports are expected to continue to increase slowly in 2023 as global growth outpaces that of the U.S.

Figure 29
U.S. Monthly Exports
Billions of Dollars



Source: U.S. Bureau of Economic Analysis (balance of payments basis). Data are through March 2023 and are seasonally adjusted but not adjusted for inflation.

Colorado import expenses are falling as crude oil prices decline. The nominal value of Colorado's exports and imports declined by 1.6 percent through March 2023, after finishing 2022 up 21 percent from 2021. Canada remains Colorado's largest trade partner, with exports up by 6 percent and imports down by 13 percent, largely due to falling oil prices reducing the dollar value of crude oil imports. Other significant trading partners in 2023 include Mexico, China, and Taiwan. Key export commodities include beef, electronic integrated circuits, aircraft, surgical instruments, and gold. The dollar value of crude oil imports, by far Colorado's most significant import, is down by 21 percent through March 2023.

Risks to the Forecast

This forecast expects the U.S. and Colorado economies to grow at a slow pace through 2023 as high interest rates limit business activity. Households are expected to contribute to growth, with low unemployment, rising wages, and dissipating inflation allowing sustained growth in real consumer spending. However, the expansion is fragile and risks to the forecast are significant.

Downside risks. The principal downside risk, discussed throughout this outlook, is that tightening monetary policy will trigger a recession. High interest rate environments raise the costs of borrowing, limiting business investment and economic dynamism. The goal of high rates is to constrain activity enough to rein in inflation, but too aggressive a course could break the expansion rather than nurturing its recovery.

Consumer spending is expected to drive growth if spending can outpace inflation. However, inflation remains high and is eroding the majority of the nominal increase in household incomes. Higher than expected inflation could cause spending to decline in real (inflation-adjusted) terms, a "stagflation" scenario where inflation subsumes growth opportunities.

Finally, the economy is in a fragile state. Outside shocks due to unforeseen national or international events are more likely than usual to push the economy off of its growth trajectory.

Upside risks. The forecast expects inflation to dissipate, but a faster-than-expected decline in inflation would allow for healthier economic gains while eliminating the need for further interest rate hikes. While supply chain constraints have improved, an end to Russia's war in Ukraine would alleviate the economic strain on Europe and resolve additional inflationary pressures in the U.S. Finally, the forecast expects that opportunities for further employment growth will be limited by business spending and labor supply, but sustained job growth would promote a stronger near-term expansion than expected.

Table 21
National Economic Indicators

						Legislative Council Staff Forecast		
Calendar Years	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Real GDP (*Billions*) [1]	$18,609.1	$19,036.1	$18,509.1	$19,609.8	$20,014.1	$20,294.3	$20,639.3	$21,114.0
Percent Change	2.9%	2.3%	-2.8%	5.9%	2.1%	1.4%	1.7%	2.3%
Nonfarm Employment (*Millions*) [2]	148.9	150.9	142.2	146.3	152.6	156.0	158.0	160.4
Percent Change	1.6%	1.3%	-5.8%	2.9%	4.3%	2.2%	1.3%	1.5%
Unemployment Rate [2]	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	3.8%	3.9%
Personal Income (*Billions*) [1]	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,777.2	$23,062.1	$24,307.4	$25,571.4
Percent Change	5.0%	5.1%	6.7%	7.4%	2.3%	5.9%	5.4%	5.2%
Wage and Salary Income (*Billions*) [1]	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,189.6	$11,950.5	$12,643.6	$13,339.0
Percent Change	5.0%	4.8%	1.4%	8.8%	8.7%	6.8%	5.8%	5.5%
Inflation [2]	2.4%	1.8%	1.3%	4.7%	8.0%	4.4%	2.9%	2.8%

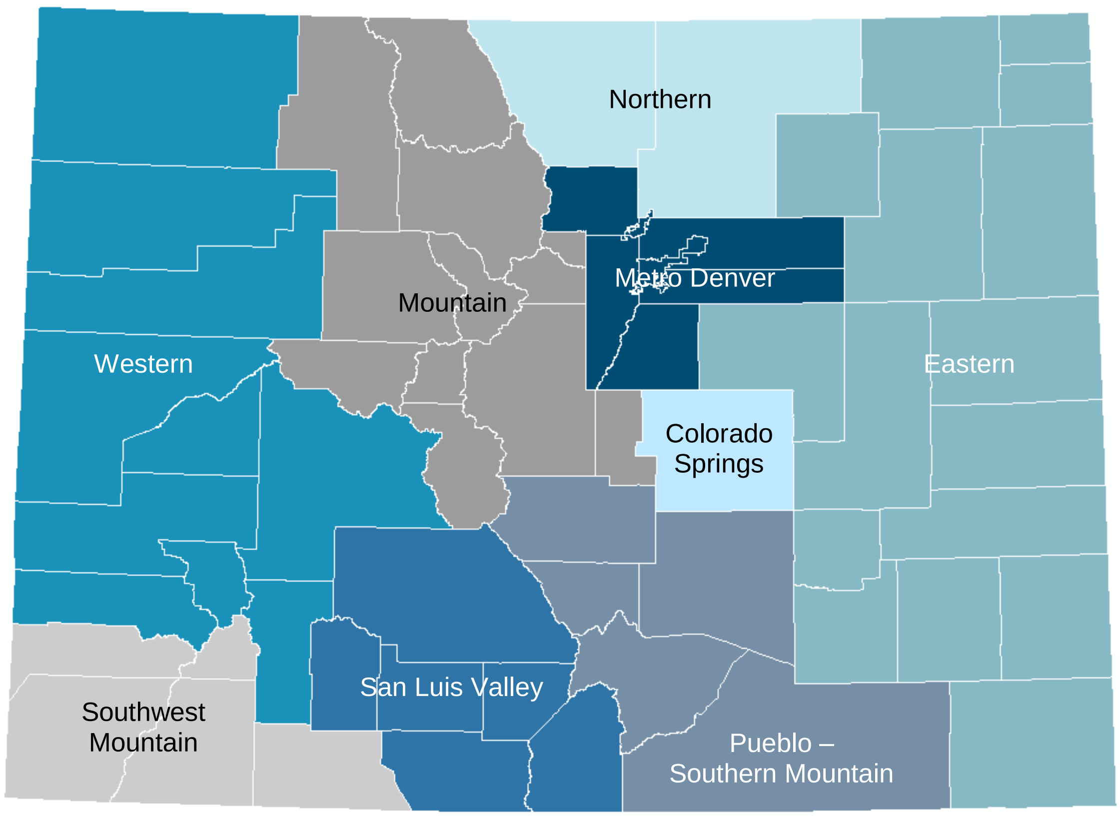
Sources
[1]*U.S. Bureau of Economic Analysis. Real gross domestic product (GDP) is adjusted for inflation and shown in 2012 dollars. Personal income and wages and salaries not adjusted for inflation.*
[2]*U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index for all urban areas (CPI-U).*

Table 22
Colorado Economic Indicators

						Legislative Council Staff Forecast		
Calendar Years	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Population (*Thousands, as of July 1*) [1]	5,697.2	5,758.5	5,773.7	5,811.3	5,839.9	5,895.4	5,955.9	6,016.4
Percent Change	1.4%	1.1%	0.3%	0.7%	0.5%	0.9%	1.0%	1.0%
Nonfarm Employment (*Thousands*) [2]	2,727.3	2,790.1	2,652.7	2,750.9	2,866.5	2,918.1	2,953.1	2,985.6
Percent Change	2.5%	2.3%	-4.9%	3.7%	4.2%	1.8%	1.2%	1.1%
Unemployment Rate [2]	3.0%	2.7%	6.8%	5.4%	3.0%	2.9%	3.2%	3.3%
Personal Income (*Millions*) [3]	$331,851	$356,341	$378,051	410,948	433,128	$459,116	$485,286	$512,462
Percent Change	7.3%	7.4%	6.1%	8.7%	5.4%	6.0%	5.7%	5.6%
Wage and Salary Income (*Millions*) [3]	$170,808	$182,958	$187,611	205,271	226,853	$243,186	$257,534	$272,471
Percent Change	6.1%	7.1%	2.5%	9.4%	10.5%	7.2%	5.9%	5.8%
Housing Permits (*Thousands*) [1]	42.6	38.6	40.5	56.5	48.8	38.5	42.3	47.8
Percent Change	4.8%	-9.4%	4.8%	39.7%	-13.6%	-21.1%	9.9%	12.9%
Nonresidential Construction (*Millions*) [4]	$8,151.0	$5,161.5	$5,593.7	$5,738.1	$6,640.6	$5,279.3	$6,187.3	$6,304.8
Percent Change	32.5%	-36.7%	8.4%	2.6%	15.7%	-20.5%	17.2%	1.9%
Denver-Aurora-Lakewood Inflation [5]	2.7%	1.9%	2.0%	3.5%	8.0%	4.6%	3.2%	2.5%

Sources
[1]U.S. Census Bureau. 2020 population numbers reflect the 2020 Census, while other numbers reflect the July 1 estimates. Residential housing permits are the number of new single- and multifamily housing units permitted for building.
[2]U.S. Bureau of Labor Statistics.
[3]U.S. Bureau of Economic Analysis. Personal income and wages and salaries not adjusted for inflation.
[4]F.W. Dodge.
[5]U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index.
Note: Legislative Council Staff has discontinued the Colorado retail trade forecast due to data limitations.

Colorado Economic Regions



A Note on Data Revisions

Economic indicators reported in this forecast document are often revised by the publisher of the data and are therefore subject to change. Employment data are based on survey data from a "sample" of individuals representative of the population as a whole. Monthly employment data are based on the surveys received at the time of data publication, and data are revised over time as more surveys are collected to more accurately reflect actual employment conditions. Because of these revisions, the most recent months of employment data may reflect trends that are ultimately revised away. Additionally, employment data are revised in March of each year. This annual revision may affect one or more years of data values.

Like the employment data, residential housing permits and agriculture data are also based on surveys. These data are revised periodically. Nonresidential construction data in the current year reflects reported construction activity. These data are revised the following year to reflect actual construction activity.

Metro Denver Region

The seven-county metro Denver region holds the largest share of the state's population, representing more than 60 percent of the state's workers. The region's economy is very diverse with major industry sectors including aerospace, health care, professional and business services, and financial services. The region showed strength in most areas despite a rocky economy in 2022. Job growth continued to advance and the average unemployment rate for the region fell by more than 2 percentage points. Nonresidential construction was mixed with some building types, such as warehouse construction, performing well, while new office building construction continued to struggle. Home price appreciation reversed at midyear and more houses became available on the market. Yet the region continues to struggle with housing affordability, causing potential homeowners to look for homes outside these counties, and in turn slowing the region's residential construction activity. Economic indicators for the region are summarized in Table 23.

Table 23
Metro Denver Region Economic Indicators
Adams, Arapahoe, Broomfield, Boulder, Denver, Douglas, and Jefferson Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]					
Denver-Aurora-Lakewood MSA	2.4%	-4.9%	3.9%	4.5%	1.2%
Boulder MSA	2.5%	-5.3%	3.5%	4.2%	2.1%
Unemployment Rate[2]	2.5%	7.0%	5.4%	2.9%	2.7%
Wages[3]					
Average Weekly Wage Growth	5.2%	7.8%	6.5%	7.6%	NA
Level	$1,328	$1,431	$1,524	$1,592	NA
Housing Permit Growth[4]					
Denver-Aurora-Lakewood Single Family	-6.1%	1.5%	16.3%	-22.3%	-47.4
Boulder Single Family	-9.5%	-6.2%	-34.4%	42.7%	181.9%
Nonresidential Construction Growth[5]					
Value of Projects	-37.2%	-9.7%	3.6%	34.8%	-36.7%
Square Footage of Projects	-8.3%	-6.9%	32.2%	28.4%	-44.6%
Level (*Thousands*)	15,763	14,683	19,410	24,932	4,188
Number of Projects	-11.5%	-0.6%	14.1%	14.7%	-31.4%
Level	682	686	783	898	203
Housing Market[6]					
Average Sale Price – Single Family	2.7%	8.0%	19.9%	10.3%	-4.4%
Level (Thousands)	$549	$597	$712	$790	$759
Inventory – Single Family	11.2%	-38.2%	-46.4%	102.3%	115.1%
Home Sales – Single Family	5.3%	7.8%	1.9%	-21.1%	-19.0%
Retail Sales Growth[7]	8.9%	0.1%	17.4%	11.4%	1.8%

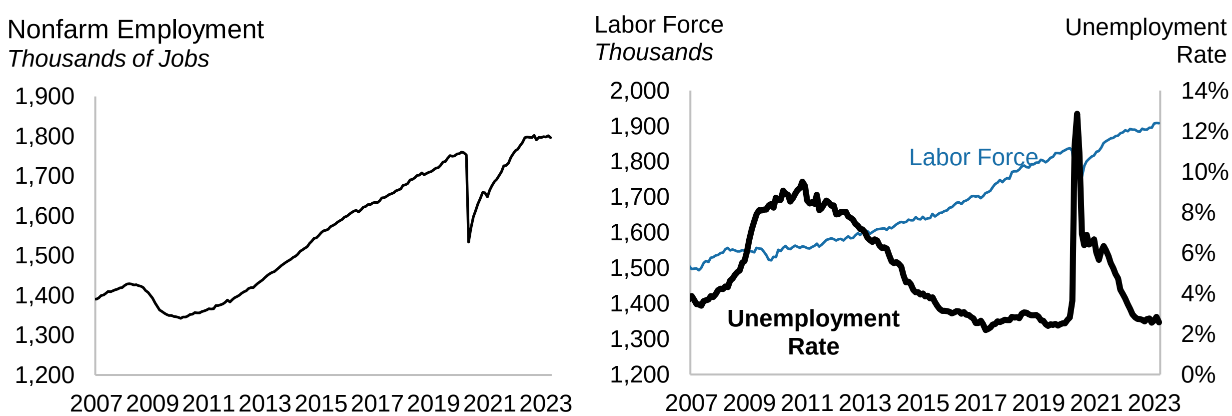
SA = Metropolitan statistical area. NA = Not available.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2023.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through July 2022.
[4]U.S. Census. Growth in the number of residential building permits. Data through March 2023.
[5]F.W. Dodge. Data through April 2023.
[6]Colorado Association of Realtors. Data through April 2023.
[7]Colorado Department of Revenue. Data through February 2023.

Labor market. The metro Denver labor market continues to add jobs at a steady pace. In 2022, the Denver-Aurora-Lakewood metropolitan statistical area added about 3,000 jobs per month and ended the year with close to 1.6 million total jobs, up 4.5 percent from the same period one year ago. Boulder County, meanwhile, added 3,400 new jobs, or 4.2 percent. After a slight dip in December 2020, the region has been steadily adding jobs with employment counts exceeding pre-pandemic levels in January 2022 (Figure 30, left). Job growth has occurred across most major industries, especially in the professional and business services and leisure and hospitality sectors, though the comparatively small information sector continues to shed jobs.

The unemployment rate continues to steadily tick down, averaging 2.7 percent in through the first quarter of the year, although it still remains higher than the pre-pandemic low of 2.5 percent (Figure 30, right). The number of workers in the labor force (those employed and those seeking employment) exceeded pre-pandemic levels in 2021 and continues to rise, a healthy sign of area labor market improvements. The metro Denver region's diverse economy supports multiple industries, promoting a faster recovery than most other regions in the state and nation.

Finally, the region's wage growth continued to increase in 2022, but was still behind the region's inflation rate. The region's average weekly wage in 2022 was $1,592, up 7.6 percent from the prior year. However, inflation for the Denver-Aurora-Lakewood metropolitan statistical area (all items less food and energy) was up 8.0 over the same period, suggesting that average wages actually declined on an inflation-adjusted basis.

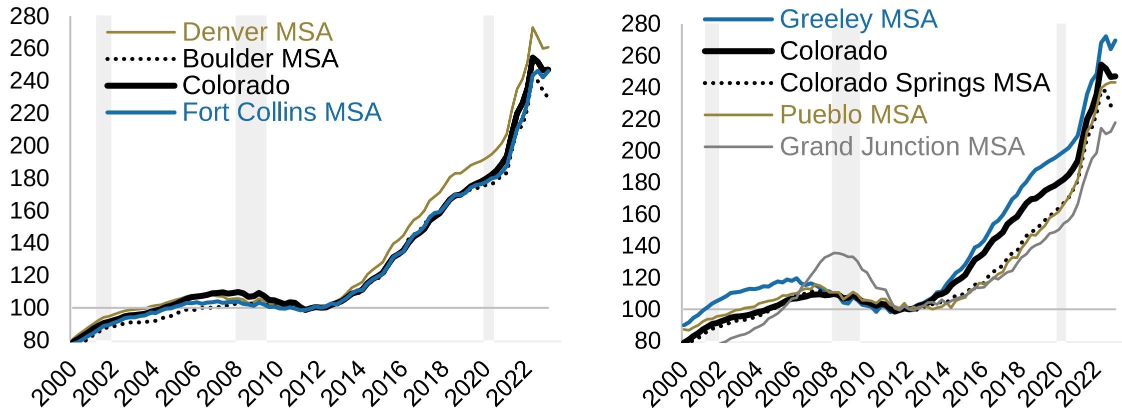
Figure 30
Metro Denver Region Labor Market Activity



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and shown through March 2023.

Housing market. After rapid home price appreciation through 2021 and into early 2022, the metro Denver housing market turned around sharply over last summer and fall. According to data from the Federal Housing Finance Agency, in the first quarter of this year, home prices were up 3.5 percent over year-ago levels in the Denver-Aurora-Lakewood metropolitan statistical area, and up 2.8 percent in Boulder. However, home price increases for both areas have slowed each quarter since the third quarter of last year (Figure 31). Higher mortgage rates and inflation has made purchasing a home more expensive for many buyers and quickly cooled the market. The number of single-family homes available in the region was up 115 percent in April from the same month one year prior, and home sales were down 19 percent. Despite these headwinds, housing remains expensive. The average single-family sale price settled at about $759,000 in April 2023.

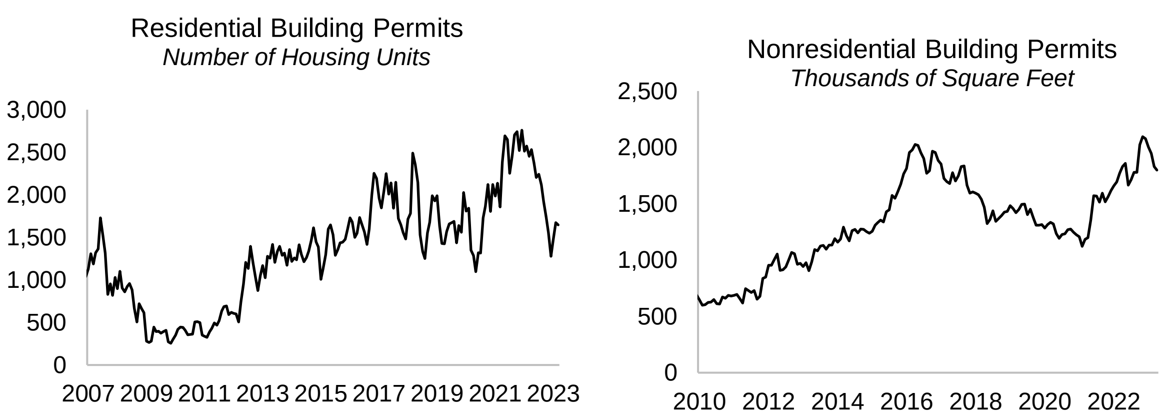
Figure 31
FHFA All-Transaction Home Price Indices
Index 100 = 2012Q1 (Recessionary Trough in Grey Bars)



Source: Federal Housing Finance Agency (FHFA). Data are seasonally adjusted and through 2023Q1.

Residential construction. After robust growth in 2021, residential construction activity in the Denver-Aurora-Lakewood metropolitan statistical area has cooled. The number of single-family permits pulled by homebuilders in 2022 was down 22.3 percent over year-ago levels and 47.4 percent through the first three months of the year. (Figure 32, left). In Boulder County, the number of new single-family permits rebounded in 2022 after falling 34.4 percent in 2021. The number of single permits in Boulder is significantly up through the first quarter of this year, but this is mainly housing permits to rebuild homes from the Marshall Fire. The lack of affordability continues to hamper new residential construction in the metro Denver region. Homebuyers are being pushed out to the suburban and exurban areas of the region that offer relatively more affordable options. Douglas, Arapahoe, and Adams counties and are seeing the highest levels of construction activity. In addition, remote work options are motivating many homebuyers to seek larger homes outside of crowded urban areas.

Figure 32
Metro Denver Region Construction Activity



Source: U.S. Census Bureau. Data shown as three-month moving averages. Data are not seasonally adjusted and are through March 2023.

Source: F.W. Dodge. Data shown as twelve-month moving averages. Data are not seasonally adjusted and are through April 2023.

Nonresidential construction. Despite higher construction costs and interest rates, nonresidential building activity in the metro Denver region was strong in 2022. The region added almost 25,000 new square footage to its nonresidential inventory, which represented almost 900 projects. However, though the first four months of this year, nonresidential construction has slowed (Figure 32, right). Through April 2023, the value of nonresidential projects in the metro Denver region is down 36.7 percent, with the number of new projects down 31.4 percent from year-ago levels. High vacancy rates, particularly in the downtown Denver area, are expected to put downward pressure on demand for new office space, slowing nonresidential construction activity in the years ahead. Future nonresidential building is expected to shift from office space and brick-and-mortar retail establishments to favor development that supports e-commerce, such as warehousing space. In addition, rising costs and shortages of both labor and construction materials, combined with rising interest rates, will continue to impede construction activity.

Retail sales. Despite higher prices and interest rates, consumer spending, as measured by retail sales, continued to grow at strong rates in the metro Denver region. Through February, retail sales were up 1.8 percent compared to the same period in 2022. The recovery continues to be aided by consumers returning to physical stores and spending at restaurants. Auto sales have also improved as supply shortages for vehicles have eased. While retail sales in the region have improved, many companies continue to struggle with labor shortages.

Northern Region

Larimer and Weld counties comprise the diverse economies of the northern region. The northern region's labor market continues to grow on strong wages and consumer activity, and the unemployment rate is at pre-recession levels. Despite the strong labor market, rising interest rates have impacted the residential real estate market, slowing sales and dampening prices, and construction has slowed significantly over the past year. Economic indicators for the region are summarized in Table 24.

Table 24
Northern Region Economic Indicators
Weld and Larimer Counties

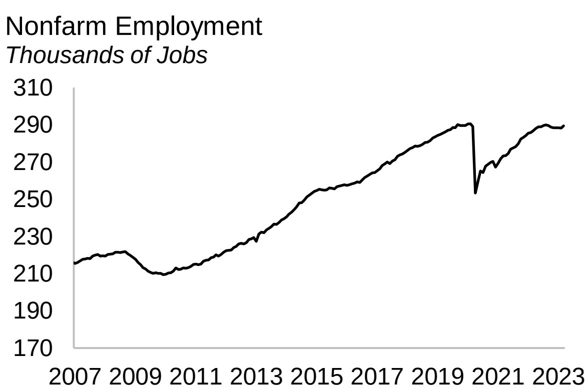
	2019	2020	2021	2022	YTD 2023
Employment Growth[1]					
Fort Collins MSA	2.3%	-4.7%	3.7%	3.7%	0.4%
Greeley MSA	3.7%	-7.2%	-0.3%	4.5%	1.8%
Unemployment Rate[2]	2.4%	6.2%	5.2%	2.9%	2.6%
Wages[3]					
Average Weekly Wage Growth	4.3%	6.4%	3.8%	7.7%	NA
Level	$1,040	$1,106	$1,149	$1,197	NA
State Cattle and Calf Inventory Growth[4]	8.0%	1.9%	4.0%	-1.0%	-9.6%
Natural Gas Production Growth[5]	22.0%	8.3%	-2.8%	-2.3%	-1.7%
Oil Production Growth[6]	10.7%	-11.9%	-10.3%	-0.1%	-8.7%
Housing Permit Growth[7]					
Fort Collins MSA	-18.2%	-0.3%	13.3%	-19.5%	11.4%
Greeley MSA	-2.2%	9.1%	15.5%	17.8%	3.4%
Nonresidential Construction Growth[8]					
Value of Projects	-71.6%	85.1%	-22.3%	51.9%	-85.3%
Square Footage of Projects	-16.2%	7.3%	10.0%	136.3%	-85.6%
Level (Thousands)	2,424	2,600	2,861	6,761	740
Number of Projects	-17.1%	-10.1%	-4.6%	21.8%	-43.0%
Level	267	240	229	279	45
Housing Market[9]					
Average Sale Price - Single Family	3.2%	6.9%	16.8%	12.2%	1.0%
Level (Thousands)	$426	$457	$532	$598	$588
Inventory - Single Family	14.5%	-21.7%	-44.3%	53.4%	86.7%
Home Sales - Single Family	2.7%	9.8%	2.3%	-20.4%	-20.7%
Retail Sales Growth[10]					
Larimer County	9.6%	7.6%	13.0%	12.3%	5.6%
Weld County	8.9%	-2.3%	13.6%	16.2%	13.1%

MSA = Metropolitan statistical area. NA = Not available.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2023.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through July 2022.
[4]National Agricultural Statistics Service. Cattle and calves on feed. Data through April 2023.
[5]Colorado Oil and Gas Conservation Commission. Data through February 2023.
[6]U.S. Census. Growth in the number of residential building permits. Data through March 2023.
[7]F.W. Dodge. Data through April 2023.
[8]Colorado Association of Realtors. Data through April 2023.

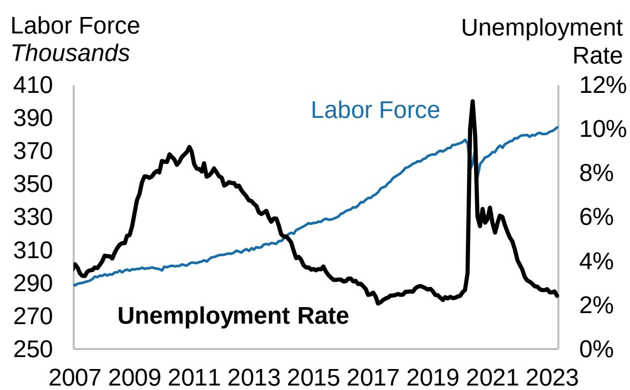
Labor market. The northern region is characterized by its agricultural base, oil and gas activity, and strong concentrations of employment in construction, manufacturing, and higher education. Since resurging following the recession, employment growth has continued to decelerate and is approaching a rate similar to the end of the last expansion in 2019. Recent data indicate employment was up 0.9 percent year-to-date in the first quarter of 2023 (Figure 33, left), but is expected to be revised higher based on estimates from the Colorado Department of Labor and Employment. Employment growth is expected to continue throughout the year with steady consumer spending and development around the Northern Colorado Regional Airport that is expected to further boosts jobs in the next year. Additionally, the region's labor force continues to grow and the unemployment rate has dropped to pre-pandemic lows (Figure 33, right).

Over the past year, employment growth in the region has been supported by strong wage growth, retail sales, and robust consumer spending as indicated by the retail trade and leisure and hospitality sectors that accounted for a significant portion of job gains. Additionally, data indicate that local government employment, including public education workers, has rebounded after lagging many other sectors during the economic recovery. However, multiple sectors have lagged the recovery and are expected to weigh on employment gains over the forecast period. Despite picking up somewhat over 2022, struggles in new home and building construction are expected to mute gains in the construction industry. Further, oil prices are expected to moderate through the forecast period and may dampen a partial rebound in natural resources employment. Another sector that may be challenged is state education employment as the region's colleges and universities continue to struggle with falling enrollment. The universities are major economic drivers for the region and each continues to be impacted by shifting demographic trends and the tight labor market that has deterred or delayed enrollment for some potential student groups.

Figure 33
Northern Region Labor Market Activity



Source: U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2023.

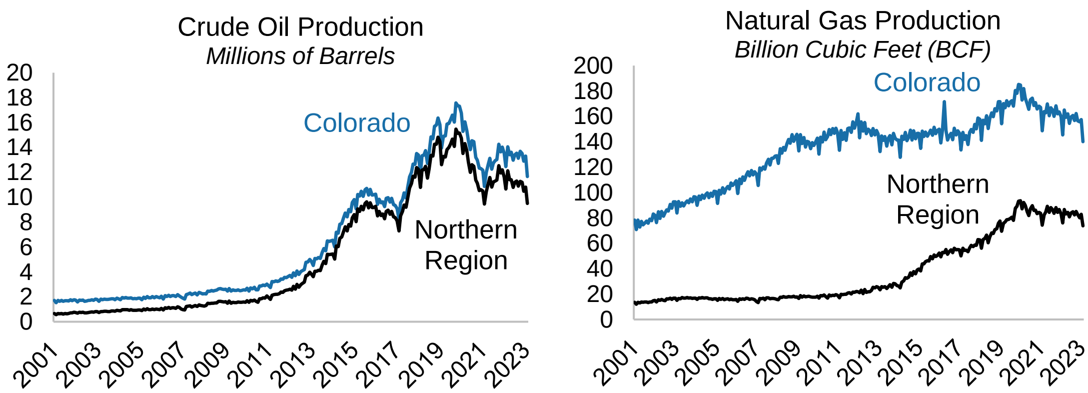


Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through March 2023. Includes Legislative Council Staff adjustments prior to 2010.

Agriculture. The northern region produces about a quarter of Colorado's agricultural value due to the heavy concentration of the livestock industry in Weld County. Ongoing drought conditions in the west for most of 2022 and high input prices led to reduced herds, and the state's cattle and calf inventory ended the year down 1 percent. In the first quarter of 2023, cattle and calf inventory was down 9.6 percent year-to-date due to lingering impacts of drought. Drought conditions appear to be improving across Colorado according to the U.S. drought monitor, with fewer areas in northeast Colorado that are abnormally dry. However, tighter supplies of cattle are expected to weigh on beef production through 2023 according to the USDA, despite raising price expectations. After a strong year, exports of beef products from Colorado have started the year down and will further constrain the region's market.

Energy sector. The northern region's oil and gas activity, largely from Weld County, accounted for about 84 percent of the state's oil production in 2022 and more than 52 percent of the state's natural gas production (Figure 34). The region's oil production was down slightly in 2022 and contracted for the third consecutive year along with natural gas production that was down for the second consecutive year. Despite lackluster production, the value of production rose significantly along with rapidly increasing energy prices over the last year, further contributing to economic growth. The sector drives economic activity in the region as it boosts local tax revenues, wages, and jobs in supporting industry. Between February and May 2023, the Energy Information Administration downgraded its crude oil price projection from $84 to $79, and natural gas more significantly from $3.40 to $2.91. Production in the region started the year down and is expected to fall further in 2023, remaining well below pre-pandemic levels, and lowering the value of production and its impact on the regional economy.

Figure 34
Colorado Energy Production



Source: Colorado Oil and Gas Conservation Commission. Monthly data through February 2023.

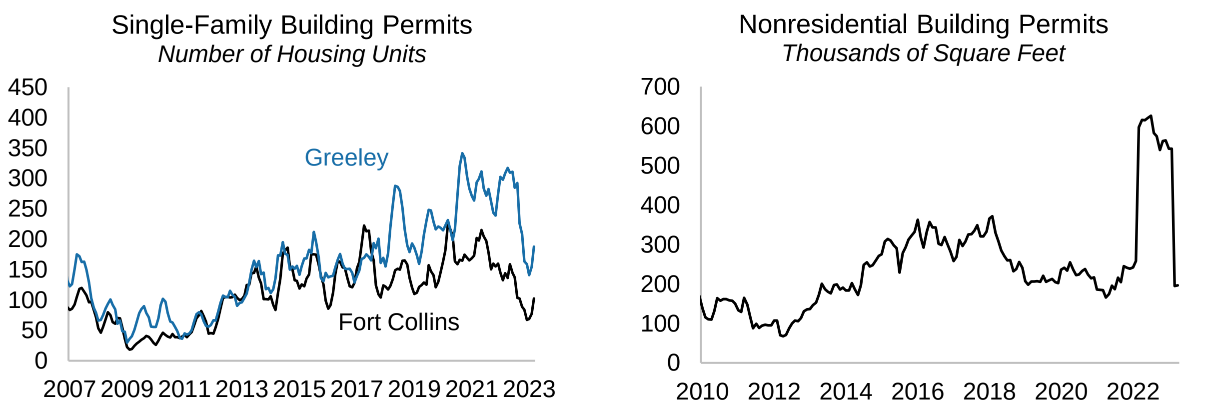
Housing. Rising interest rates continue to impact the housing market in the northern region. Despite rising 1 percent year-to-date through the first four months of 2023, data indicate further downward pressure on the average price of a single-family home through the year. In April, the average price was down about 4.9 percent year-over-year and sales were down about 25 percent. The average price was down about 5.3 percent since peaking in May 2022. As affordability eroded with rising interest rates, sales activity fell rapidly and inventory levels built up. Inventory levels were up nearly 87 percent year-to-date, but remained below pre-pandemic levels. The housing market correction is expected to continue through at least the latter half of 2023 while the Federal Reserve continues to raise rates in response to high inflation.

Rising interest rates and worsening affordability are also challenging residential construction activity (Figure 35, left), especially for single-family homes. Permits for single-family homes started 2023 down significantly, and are expected to remain depressed throughout the year. Positively, declining single-family permits were offset by continued growth in multifamily units in both Larimer and Weld counties. Overall, permits were up 11.4 percent Larimer County and were up 3.4 percent in Weld

County through the first quarter year-to-date. However, higher interest rates are expected to also impact multifamily projects over the next year.

Nonresidential construction. In 2022, nonresidential construction in the northern region was boosted significantly by 4.1 million square feet that broke ground in March (Figure 35, right). Most notably, an Amazon fulfillment center broke ground near the Northern Colorado Regional Airport north of Loveland. Besides the jump in nonresidential activity due to the facility, nonresidential construction in Weld County was down about 30 percent in 2022, and was more mixed in Larimer County. Nonresidential construction in both markets was largely from commercial projects. Looking ahead, the nonresidential market is expected to be impacted by higher interest rates that make financing more challenging, and by slower growth for some of the region's larger industries.

Figure 35
Northern Region Construction Activity



Source: U.S. Census Bureau. Data shown as three-month moving averages. Data are not seasonally adjusted and are through March 2023.

Source: F.W. Dodge. Data shown as twelve-month moving averages. Data are not seasonally adjusted and are through April 2023.

Colorado Springs Region

The Colorado Springs region encompasses El Paso County and is home to the state's second largest city. The regional labor market remains tight, but jobs are growing at a slower rate than they were a year ago. The housing market shows signs of loosening as building permits and average sale prices continue to decline. Likewise, nonresidential construction has fallen below pre-pandemic levels. Indicators for the Colorado Springs regional economy are presented in Table 25.

Table 25
Colorado Springs Region Economic Indicators
El Paso County

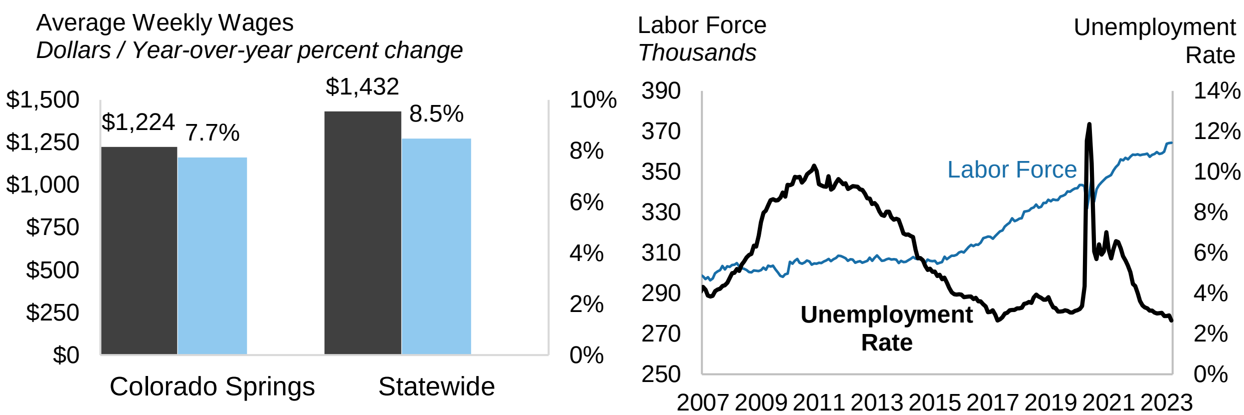
	2019	2020	2021	2022	YTD 2023
Employment Growth[1]					
Colorado Springs MSA	2.6%	-2.7%	4.1%	4.0%	1.8%
Unemployment Rate[2]	3.2%	6.8%	5.7%	3.2%	2.9%
Wages[3]					
Average Weekly Wages	4.3%	7.5%	4.8%	6.6%	NA
Level	$1,012	$1,088	$1,140	$1,175	NA
Housing Permit Growth[3]					
Total	-3.8%	25.7%	34.7%	-5.5%	-59.6%
Single Family	-4.1%	24.4%	0.7%	-28.4%	-58.3%
Nonresidential Construction Growth[4]					
Value of Projects	0.5%	47.1%	2.7%	-30.6%	20.8%
Square Footage of Projects	5.3%	124.5%	-45.8%	-34.7%	-48.3%
Level (Thousands)	2,992	6,719	3,640	2,377	405
Number of Projects	-31.1%	16.3%	-26.4%	18.1%	-50.6%
Level	374	435	320	378	76
Housing Market[5]					
Average Sale Price – Single Family	5.8%	13.2%	18.2%	10.2%	-3.2%
Level (Thousands)	$366	$417	$492	$542	$520
Inventory – Single Family	-9.8%	-34.7%	-30.0%	117.7%	99.3%
Home Sales – Single Family	1.9%	6.2%	4.0%	-17.5%	-26.1%
Retail Sales Growth[6]	6.5%	8.6%	18.3%	8.5%	1.3%

MSA = Metropolitan statistical area. NA= not available.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2023.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through March 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through the third quarter of 2022.
[4]U.S. Census Bureau. Growth in the number of residential building permits. Data through March 2023.
[5]F.W. Dodge. Data through April 2023.
[6]Colorado Association of Realtors. Data through April 2023.
[7]Colorado Department of Revenue. Data through February 2023.

Labor market. The labor market in Colorado Springs remains tight with an unemployment rate of 2.7 percent in March, but employment growth is slowing. The number of jobs grew steadily throughout 2022, but has remained essentially flat between January and March. The region's low unemployment rate may constrain employment growth due to a lack of available workers, but also puts upward pressure on wages. A quickly growing population may ease these labor constraints over time.

El Paso County is the state's most populous county and is expected to continue to grow. Regional population growth has outpaced that of the state every year since 2016, and is expected to continue to grow faster than the state between 2020 and 2030. The growing population contributed to a larger labor force (Figure 36, right) and slower growth in wages compared to the rest of the state (Figure 36, left).

Figure 36
Colorado Springs Labor Market Activity

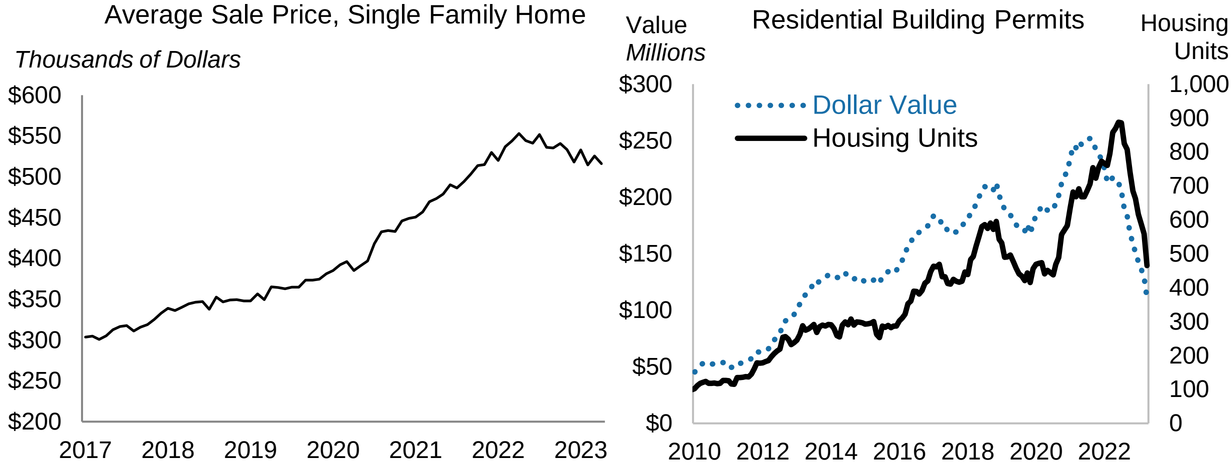


Source: U.S. Bureau of Labor Statistics; QCEW data for 2022 Q2 (left) and LAUS data, seasonally adjusted through March 2023 (right). LAUS data include Legislative Council Staff adjustments prior to 2010.

Housing market. Demand has outpaced the supply of housing in Colorado Springs in recent years, but the housing market has cooled since the peak in July 2022. Home prices tend to be lower in El Paso County than the statewide, averaging about $516,000 as of April 2023 compared to $708,000 for the state. Average home prices in El Paso County have fallen 6.5 percent since the peak in July 2022, after surging in 2021 and early 2022 (Figure 37, left). Additionally, homes are staying on the market longer, as the average time a single family home is on the market before sale is 37 days, up from 11 days at the same time last year.

Residential homebuilding has also dropped off since its July 2022 peak, down 42 percent as of March 2023. Most of this decline comes from single-family permits, as multifamily permits remain above pre-pandemic levels. The drop-off comes as higher interest rates increase the cost of financing construction, and lower home prices decrease the financial incentive to build new homes.

Figure 37
Colorado Springs Home Prices and Residential Construction



Source: Colorado Association of Realtors. Data are seasonally adjusted through April 2023.

Source: U.S. Census. Data shown as three-month moving averages. Data through April 2023.

Nonresidential construction. Nonresidential construction activity has declined for the past year, falling below pre-pandemic levels. Firms are expected to continue to face headwinds from inflation in construction materials, labor constraints, and high interest rates over the coming year. Public sector construction is expected to provide a small boost as funds from the 2021 Infrastructure Investment and Jobs Act are distributed and spent.

Pueblo – Southern Mountains Region

The Pueblo–Southern Mountains region encompasses five counties along the eastern slope of the Sangre de Cristo Mountains, and includes the City of Pueblo. Economic data over the past three months indicate a loosening labor market and a slowdown in residential building. Indicators for the regional economy are presented in Table 26 and discussed below.

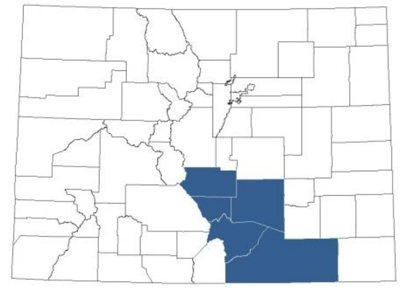


Table 26
Pueblo Region Economic Indicators
Custer, Fremont, Huerfano, Las Animas, and Pueblo Counties

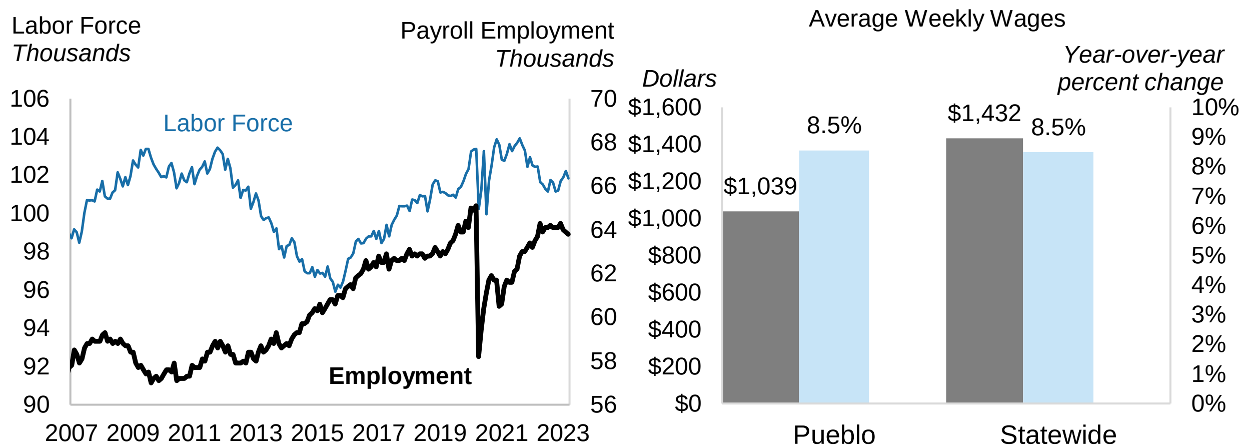
	2019	2020	2021	2022	YTD 2023
Employment Growth					
Pueblo Region[1]	1.0%	-2.5%	0.4%	2.0%	0.9%
Pueblo MSA[2]	1.1%	-2.8%	0.7%	2.8%	0.7%
Unemployment Rate[1]	4.0%	7.6%	7.8%	4.5%	4.1%
Wages[3]					
Average Weekly Wage	3.7%	7.0%	3.8%	7.0%	NA
Level	$845	$904	$939	$975	NA
Housing Permit Growth[3]					
Pueblo MSA Total	3.8%	18.4%	24.0%	-22.9%	-49.1%
Pueblo MSA Single Family	3.0%	19.4%	24.0%	-22.9%	-49.1%
Nonresidential Construction Growth[4]					
Value of Projects	45.2%	26.2%	175.3%	-63.6%	-22.1%
Square Footage of Projects	-19.7%	37.7%	278.3%	-69.4%	-46.6%
Level (*Thousands*)	318	438	1,658	508	66
Number of Projects	23.3%	86.5%	2.9%	-23.9%	25.0%
Level	37	69	71	54	25
Housing Market[5]					
Average Sale Price – Single Family	9.5%	16.2%	24.1%	4.4%	4.2%
Level (*Thousands*)	$226	$265	$326	$340	$351
Inventory – Single Family	-8.9%	-23.9%	-27.0%	68.7%	90.9%
Home Sales – Single Family	0.3%	14.1%	7.3%	-6.2%	-27.4%
Retail Sales Growth[6]	8.5%	4.2%	13.4%	14.5%	-1.6%

MSA = Metropolitan statistical area. NA = not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[2]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through the third quarter of 2022.
[4]U.S. Census Bureau. Growth in the number of residential building permits. Data through December 2022.
[5]F.W. Dodge. Data through March 2023.
[6]Colorado Association of Realtors. Data through April 2023.

Labor market. Labor market conditions stagnated in the second half of 2022 and employment has fallen for the past three months. The regional unemployment rate remains significantly higher in the Pueblo region than in any other region of the state, despite a downtick in March. Wages in the region are significantly lower than wages in the rest of the state, but grew by 8.5 percent year-over-year in the third quarter of 2022.

The size of the labor force declined by about 2,600 people between August 2021 and July 2022, but has rebounded slightly since. An additional 666 workers were laid off in early January upon termination of a contract for work on the Evraz solar-powered rail mill. Representatives from Evraz have stated that they plan to transition to a new contractor and retain many of the current subcontractors, which may result in many of the displaced workers being rehired in the coming months.[4] Additionally, CS Wind, the world's largest manufacturing plant for wind turbine towers which is located in Pueblo, has announced an expansion that is expected to double production and require at least 850 new employees over the next few years[5].

Figure 38
Pueblo Region Labor Market Trends



Source: U.S. Bureau of Labor Statistics; LAUS (left) and QCEW (right). Data are seasonally adjusted and are through December 2022.

The State Demography Office anticipates that population in the region will grow slowly between 2020 and 2030, by an average of 0.4 percent per year. Most of this growth is expected to occur in Pueblo County, slightly offset by population declines in Huerfano and Las Animas counties. The region has an older population and little in-migration relative to the state as a whole, contributing to this decline.

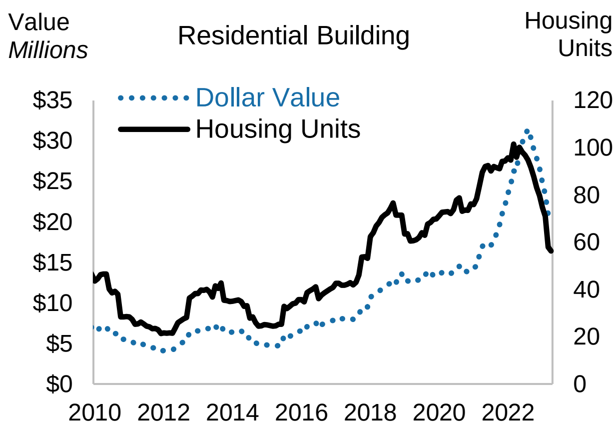
Housing market. The housing market in the Pueblo region boomed in 2020 and 2021, but has slowed since peaking in July 2022. Single-family home prices in the Pueblo region rose by 61.4 percent between January 2020 and July 2022 due to high demand, but have since dropped by 1.2 percent as of April. Despite the recent dip, the average price of a single-family home in the region is about $346,000, well above the average pre-pandemic price of $220,000. The recent slowing can be attributed to rising interest rates tempering demand which has been seen across the country. Home prices are expected to stay fairly flat during the forecast period as interest rates stabilize, inventories rebound, and population grows slowly.

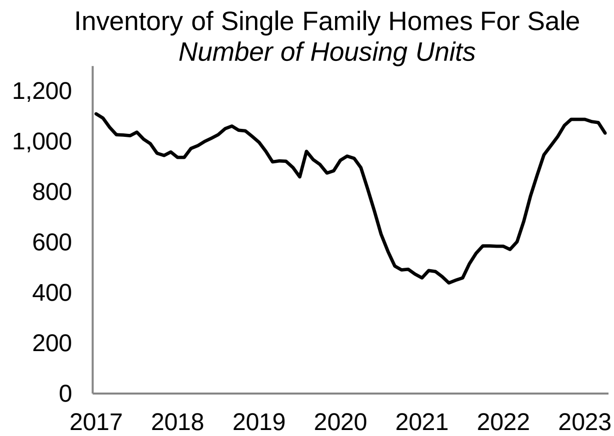
As demand for housing surged in 2020 and early 2021 with historically low interest rates, single-family housing inventory in the region was cut by more than half while housing supply struggled to keep up

[4]Lewis, Shanna. Lawsuits Cause Layoffs for Construction Workers at Steel Mill Pueblo. January 4, 2023. https://www.cpr.org/2023/01/04/lawsuits-cause-layoffs-for-construction-workers-at-steel-mill-in-pueblo/
[5] Van Dyne, Jessica. Pueblo Economy Growinf with Expansion of World's Largest Wind Tower Manufacturing Site. April 16, 2023. https://gazette.com/business/pueblo-economy-growing-with-expansion-of-worlds-largest-wind-tower-manufacturing-site/article_8baef9e2-d8e9-11ed-96e7-d32153598c72.html

(Figure 39, right). Since bottoming out, inventory rebounded sharply throughout 2022, exceeding the level of inventory seen in 2019, and are now beginning to fall again. Homes are sitting on the market longer and fewer sales are taking place compared with one year ago, contributing to rising inventory. Rising interest rates have increased the cost of funding building while falling home prices decrease the incentive to build, resulting in a sharp decline of residential building (Figure 39, left).

Figure 39
Pueblo – Southern Mountains Residential Construction and Inventory

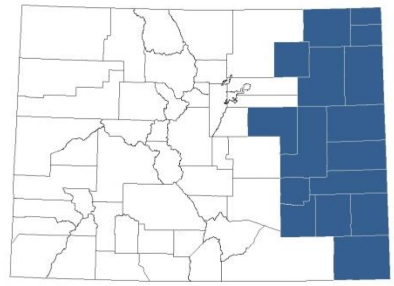




Source: Colorado Association of Realtors. Data are seasonally adjusted through January 2023.

Nonresidential construction. Nonresidential construction activity spiked in 2021, when builders added $415.8 million in new structures, headlined by the new long rail mill at the Evraz Pueblo steel mill. Nonresidential construction activity slowed dramatically in 2022, but is still slightly above its pre-pandemic level. Public sector construction is expected to rise as funds distributed through the 2021 Infrastructure Investment and Jobs Act are distributed and spent. CS Wind announced plans for a 900,000 square foot expansion, made possible by incentives from the Infrastructure Investment and Jobs Act. Despite this boost, private firms face headwinds from inflation in construction material costs and high interest rates going forward.

Eastern Region



The eastern region includes 16 rural counties on Colorado's eastern plains. Agriculture is the primary industry in the region, with local businesses and government operations supporting local farming and ranching communities. The labor market remains steady, with low unemployment and consistent job growth. Rising interest rates and weather conditions remain key risks for the region's agricultural outlook, even as spring precipitation substantially mitigated drought conditions. Regional housing markets are cooling, with declining home sales residential construction, and rising inventory of homes for sale. Economic indicators for the region are presented in Table 27.

Table 27
Eastern Region Economic Indicators
Baca, Bent, Cheyenne, Crowley, Elbert, Kiowa, Kit Carson, Lincoln, Logan, Morgan, Otero, Phillips, Prowers, Sedgwick, Washington, and Yuma Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	0.8%	-4.1%	-1.9%	1.7%	1.3%
Unemployment Rate[1]	2.4%	4.2%	4.5%	2.8%	2.4%
Wages[2]					
Average Weekly Wage	3.9%	5.4%	4.1%	6.5%	NA
Level	$795	$838	$872	$898	NA
Crop Price Changes[3]					
Wheat ($/Bushel)	-7.0%	6.3%	37.7%	42.2%	2.4%
Corn ($/Bushel)	9.3%	-4.6%	53.8%	30.9%	19.9%
Alfalfa Hay (Baled, $/Ton)	14.3%	-6.6%	2.5%	2.7%	25.2%
Livestock[3]					
State Cattle and Calf Inventory Growth	8.0%	1.9%	4.0%	-1.0%	-9.6%
Milk Production	5.5%	7.1%	2.4%	0.7%	-0.4%
Housing Permit Growth[4]	0.2%	22.3%	21.7%	-21.2%	-45.6%
Housing Market[5]					
Average Sale Price – Single Family	7.2%	6.3%	18.0%	7.2%	4.1%
Level (Thousands)	$303	$328	$382	$412	$413
Inventory – Single Family	3.5%	-22.6%	-28.9%	65.9%	86.6%
Home Sales – Single Family	0.6%	4.2%	9.9%	-6.8%	-19.0%
Retail Sales Growth[6]	13.6%	3.3%	12.5%	18.9%	7.8%

NA = not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[2]U.S. Bureau of Labor Statistics, QCEW. Data through the third quarter of 2022.
[3] National Agricultural Statistics Service statewide data. Data through March 2023.
[4] F.W. Dodge. Data through December April 2023.
[5] Colorado Association of Realtors. Data through April 2023.
[6] Colorado Department of Revenue. Data through February 2023.

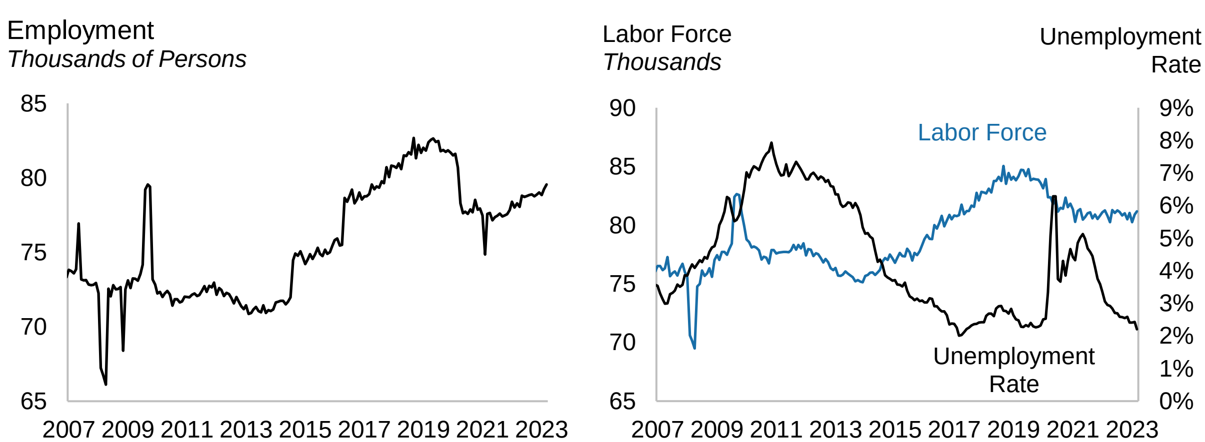
Agriculture and livestock. The eastern plains is the largest agricultural region in the state, and agriculture drives much of the region's economy. Adverse weather and widespread drought reduced supplies of major crops in 2022 and pressured agricultural prices, which rose further in 2022 from multiyear highs in 2021. Colorado corn and wheat prices are up 19.9 percent and 2.4 percent, respectively, through March 2023, compared to the same period last year. Persistent drought throughout the growing season is expected to impact the winter wheat harvest through lower yields and higher abandonment of planted acres, with production of hard red winter wheat nationwide forecast to be the lowest since the 1957-58 marketing year. At 73 percent, the harvest-to-planted ratio in Colorado is forecast at a historical low, although crop conditions are improved from last year, according to the U.S. Department of Agriculture Wheat Outlook. Wheat prices are expected to moderate slightly, but to remain at the second highest level on record, slightly lower than the record set in the prior year. Weather developments, as well as geopolitical and macroeconomic policy concerns, remain key risks for the region's farm price and profitability outlook.

Substantial spring precipitation across Colorado has brought relief to farmers and ranchers in the drought-plagued region, which one year ago suffered from large swathes of severe to exceptional drought. Through May 16, 2023, most of the region was either drought-free or abnormally dry with the exception of the southeast corner, according to the U.S. Drought Monitor, although the cumulative results of prolonged drought conditions continue to impact the region. Conditions for corn were favorable in early planting.

Labor market. The eastern plains region accounts for about 2 percent of statewide employment, as measured by the Quarterly Census of Wages and Employment (QCEW). Relative to the state as a whole, the region has a larger share of jobs in farming, manufacturing, and government, and a lower share of jobs in professional and business services and financial activities. Sectors with the largest share of jobs include education and health services; and trade, transportation, and utilities, which together account for almost half of the region's jobs.

As in other rural regions of the state, household survey data is subject to large revisions due to a small sample size. Through March 2023, this data suggests that the labor market remains stable, with employment up by 1.3 percent and the average unemployment rate at 2.4 percent. Employment growth in the region is expected to slow in 2023, as high interest rates and slowing economic conditions constrain consumer demand and hiring. The average weekly wage of $898 in July 2022 is among the lowest in the state's nine regions, and roughly 55 percent to 75 percent of average weekly wages along the Front Range regions.

Figure 40
Eastern Region Labor Market Activity

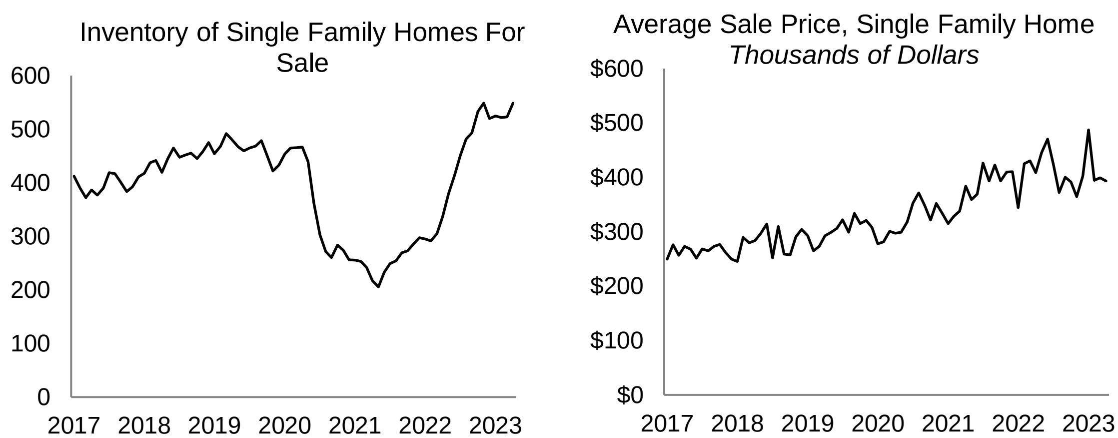


Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data are through March 2023. Includes Legislative Council Staff adjustments prior to 2010.

Retail sales. Most regions of the state have experienced moderating growth in retail sales in 2023, following strong retail sales activity in 2022. On the eastern plains, retail sales were up by 7.8 percent through February 2023, still outpacing inflation, after growing by 18.9 percent in 2022. Growth in retail sales is expected to continue to exceed inflation in 2023, but will remain constrained by the overall economic slowdown.

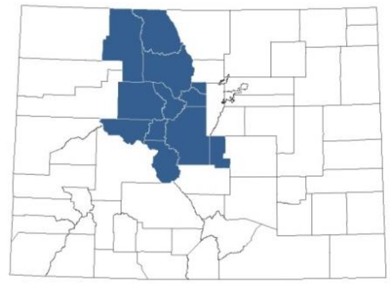
Housing and population. The eastern plains is the most sparsely populated of the state's regions, with its 16 counties accounting for about 3 percent of the state's population. As elsewhere in the state and nation, the region's housing market continues to cool in 2023. Home sales are down 19.0 percent through April 2023 as higher interest rates erode would-be buyers' purchasing power. Builders acquired 45.6 percent fewer residential building permits through April 2023, compared with the same period in 2022. Housing inventory for sale was up 65.9 percent in 2022, and 86.6 percent through April 2023, after declining in each of the prior two years (Figure 41, left). Home prices nevertheless continue to rise, up 4.1 percent through April 2023, compared with the same period in 2022, for an average sale price of $413,000 (Figure 41, right). As in other rural regions of the state, the Eastern Plains faces housing affordability challenges associated with an aging housing stock and low incomes. The housing market is expected to continue to be challenged by tightened monetary policy dampening construction and home-buying activity through 2023.

Figure 41
Eastern Region Housing Market Activity



Source: Colorado Association of Realtors. Data are seasonally adjusted and through April 2023.

Mountain Region



The mountain region comprises 12 counties stretching from Poncha Pass north to the Wyoming border. The region's tourism-dependent economy is sensitive to economic conditions worldwide. Employment levels are continuing their impressive recovery from immense pandemic losses, and the region's unemployment rate remains the lowest in the state. High interest rates and a slowing national and international economy have triggered a pronounced drop in construction, while helping to relax the region's pressure-cooker housing market. Economic indicators for the mountain region are presented in Table 28.

Table 28
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	1.7%	-7.7%	2.0%	3.7%	3.4%
Unemployment Rate[1]	2.3%	7.8%	4.7%	2.7%	2.2%
Wages[2]					
Average Weekly Wages	4.4%	11.6%	4.8%	10.7%	NA
Level	$879	$981	$1,028	$1,083	NA
Housing Permit Growth[3]	20.7%	-38.7%	30.7%	40.9%	-60.4%
Nonresidential Construction Growth[3]					
Value of Projects	40.6%	85.8%	-55.4%	27.3%	-42.0%
Square Footage of Projects	29.2%	22.9%	-22.1%	3.5%	-7.4%
Level *(Thousands)*	915	1,124	876	907	53
Number of Projects	-37.0%	71.7%	8.9%	10.5%	-16.7%
Level	46	79	86	95	15
Housing Market[4]					
Average Sale Price - Single Family	12.6%	19.1%	33.1%	5.5%	-9.7%
Level *(Thousands)*	$941	$1,261	$1,507	$1,568	$1,621
Inventory - Single Family	5.1%	-30.7%	-43.2%	29.6%	73.4%
Home Sales - Single Family	-1.6%	22.3%	1.3%	-27.0%	-25.0%
Retail Sales Growth[5]	12.1%	3.8%	21.0%	17.0%	9.7%

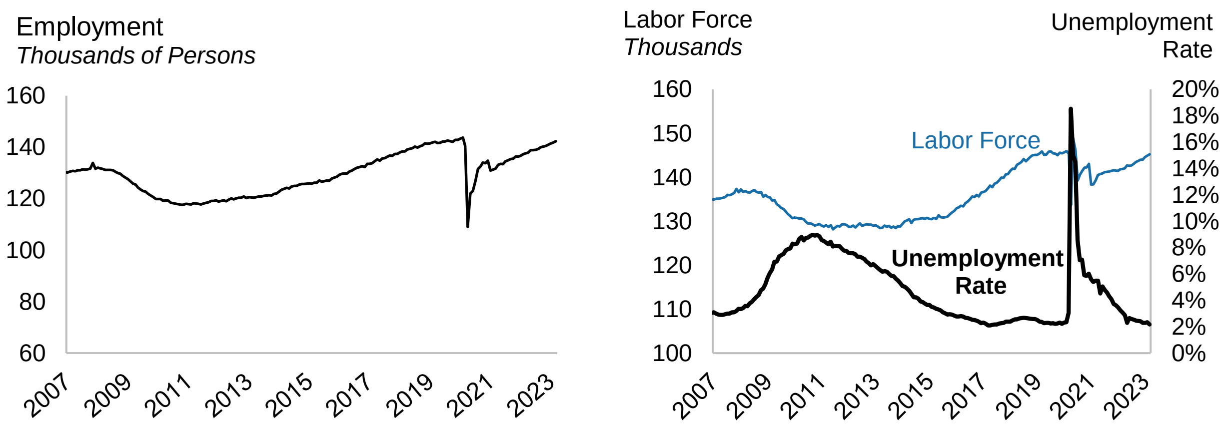
NA = Not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[2]U.S. Bureau of Labor Statistics, QCEW. Data through the third quarter of 2022.
[2]F.W. Dodge. Data through April 2023.
[3]Colorado Association of Realtors. Data through April 2023.
[4]Colorado Department of Revenue. Data through February 2023.

Labor market. The mountain region's labor market is out of-balance. Employers are demonstrating an appetite for new hires and building their payrolls where possible – but housing constraints limit the labor supply. The market is strong for workers who are able to find housing, and a difficult one in which for businesses to hire.

Employers added about 4,670 jobs over the year ending in March 2023, good for a 3.4 percent growth rate over that period, the state's second best after the southwest mountain region (Figure 42, left). Job gains continue to outpace growth in the regional labor force, shrinking the region's state-low unemployment rate to just 2.2 percent in March 2023 (Figure 42, right). Meanwhile, employers are struggling to find workers as demographic drag and very little affordable housing pose significant supply constraints. Some employers are now including employer-provided housing as a benefit offered to would-be employees, though scarce available units mean that even this option is not available to all employers. The tight labor market is also motivating businesses to pay higher compensation to attract workers, with average weekly wages rising 10.7 percent in the first three quarters of 2022, the most recent data available. That rate of increase was the greatest in the state by far, well exceeding the next-best western region.

Despite recent strength, employment growth is expected to slow considerably over the course of 2023. Hiring will face constraints from a slowing economy, slow growth in the labor force, and a low pool of job seekers upon whom to draw. While housing prices are falling, the region is also adding fewer homes than early last year when interest rates were lower. Further, high mortgage interest rates pose a major hurdle for would-be movers-in.

Figure 42
Mountain Region Labor Market Activity



Source: U.S. Bureau of Labor Statistics; LAUS. Data are seasonally adjusted and are through March 2023. Includes Legislative Council Staff adjustments prior to 2010.

Retail sales. Retail sales in the region grew at an impressive 17.0 percent clip in 2022, well in excess of the 8.0 percent inflation mark in Denver-Aurora-Lakewood consumer prices. Mountain region sales disproportionately reflect discretionary spending among wealthier consumers, and illustrate the statewide effect that purchases by that population had on overall consumer spending. So long as the national economy averts a recession, retail sales growth in the region is expected to outpace the state as a whole. However, a downturn would likely pose an immediate threat to many regional businesses, with retail sales data being among those that react most quickly to changing economic conditions.

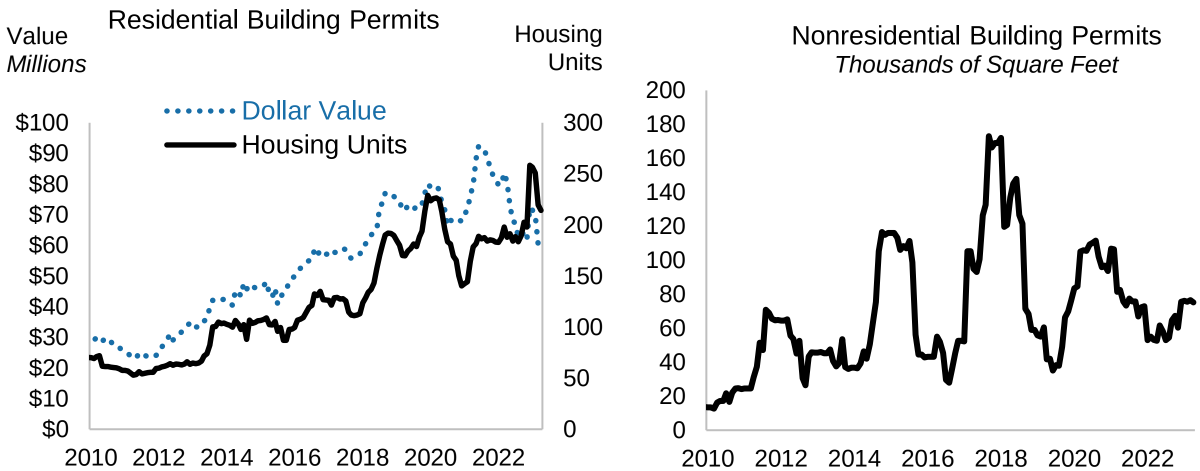
Excellent snow contributed to a long and prosperous winter ski season. Good snow conditions attract visitors from out-of-state and out-of-the-country, who tend to stay longer and spend more than daytrippers and weekenders from the Front Range.

Housing. Home prices in the region fell over the latter half of 2022, reversing a sustained trend of double-digit annual increases. However, prices appear to be stabilizing at a level about 10 percent below the peak price levels reached early last year. Homes are remaining on the market longer, contributing to rising inventory available for purchase. Nevertheless, homes remain unaffordable for all but the wealthiest buyers. The average single family home sells for over $1.5 million, and rising interest rates appear to be suppressing price growth rather than triggering sustained declines.

For years, the unavailability of housing in job-rich resort areas has pushed workers to seek housing in outlying communities, where prices have likewise surged. A lack of housing is limiting the labor force population, thereby limiting employment growth and overall growth in the regional economy.

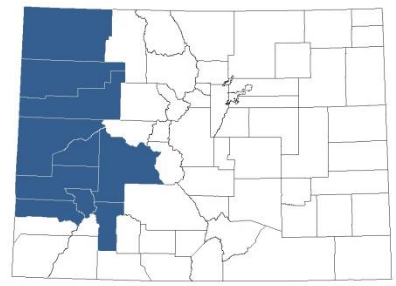
Construction. Building activity in the region has suffered with high interest rates weighing on builders' access to financing. Both residential and nonresidential permitting activity are down significantly: between January and April of 2023, residential building permits were down 60.7 percent compared with the same four months of 2022 (Figure 43, left). Likewise, the value of nonresidential projects permitted declined by 42.0 percent (Figure 43, right). Slowing construction activity is expected to persist over the remainder of 2023 and into 2024 as interest rates remain high and labor remains constrained. However, high demand for new projects will motivate resurgent construction activity when financial conditions cooperate.

Figure 43
Mountain Region Construction Activity



Source: F.W. Dodge. Data shown as twelve-month moving averages. Data are not seasonally adjusted and are through April 2023.

Western Region



The ten-county western region has a diverse economy. Key industries in the more northern counties of Garfield, Mesa, Moffat, and Rio Blanco include energy and agriculture, while the counties of Delta, Gunnison, Hinsdale, Montrose, Ouray, and San Miguel are more reliant on tourism, mining, and retiree-related spending. Following a strong recovery period, the regional labor market has decelerated over the past year. Slowing growth has impacted natural gas production, construction, and housing. Economic indicators for the region are summarized in Table 29.

Table 29
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

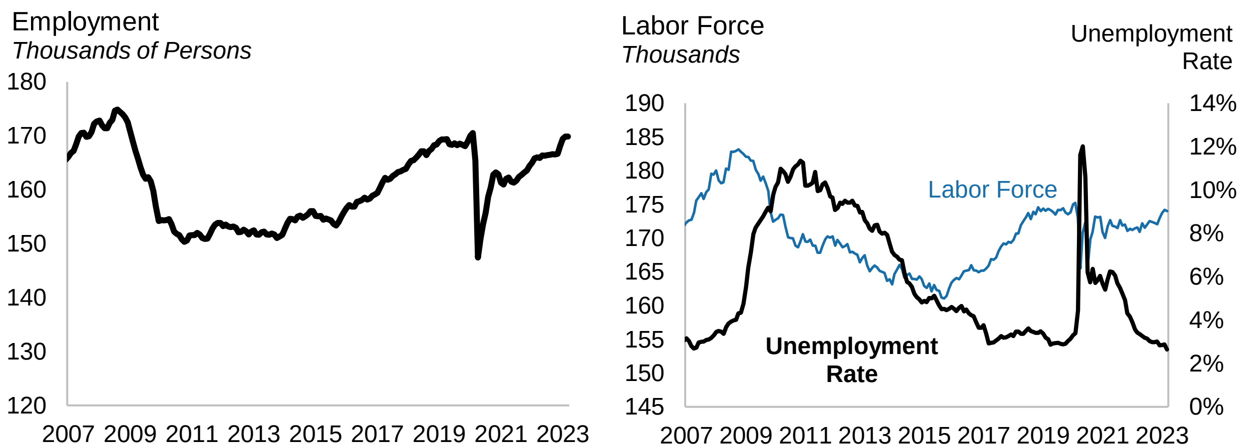
	2019	2020	2021	2022	YTD 2023
Employment Growth					
Western Region[1]	1.2%	-5.1%	1.4%	2.5%	2.5%
Grand Junction MSA[2]	1.4%	-5.2%	3.9%	2.5%	0.9%
Unemployment Rate[1]	3.0%	6.7%	5.4%	3.2%	2.8%
Wages[3]					
Average Weekly Wages	3.3%	5.7%	3.5%	8.8%	NA
Level	$872	$922	$954	$1,000	NA
Natural Gas Production Growth[4]	-0.9%	-7.7%	-9.1%	-5.8%	-3.9%
Housing Permit Growth[5]	-11.7%	31.5%	20.8%	-10.8%	-7.2%
Nonresidential Construction Growth[6]					
Value of Projects	64.7%	-66.9%	229.1%	1.9%	-10.3%
Square Footage of Projects	7.0%	-26.4%	55.4%	36.5%	15.6%
Level (*Thousands*)	651	479	744	1,015	162
Number of Projects	20.3%	22.5%	31.0%	10.5%	30.0%
Level	71	87	114	126	39
Housing Market[7]					
Average Sale Price - Single Family	3.3%	18.7%	26.1%	3.1%	2.8%
Level (*Thousands*)	$347	$421	$519	$536	$510
Inventory - Single Family	-12.3%	-26.9%	-42.4%	25.2%	61.4%
Home Sales - Single Family	-7.2%	12.4%	1.6%	-21.8%	-29.4%
Retail Sales Growth[8]	14.2%	1.7%	19.2%	11.4%	9.3%
National Park Recreation Visits[9]	2.3%	-0.1%	12.7%	-3.9%	1.7%

MSA = Metropolitan statistical area. NA = not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through March 2023.
[2]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through July 2022.
[4]Colorado Oil and Gas Conservation Commission. Data through February 2023.
[5]F.W. Dodge. Data through April 2023.
[6]Colorado Association of Realtors. Data through April 2023.
[7]Colorado Department of Revenue. Data through February 2023.
[8]National Park Service. Recreation visits for Black Canyon of the Gunnison National Park, Colorado National Monument, Dinosaur National Monument, and Curecanti National Recreation Area. Data through March 2023.

Labor market. Employment growth is decelerating in the western region after the unemployment rate fell below its pre-pandemic level. A survey of employers in the Grand Junction metro area (Mesa County) indicated jobs rose by 0.9 percent year-to-date through March 2023. However, jobs were up just 0.3 percent year-over-year, and have declined on a seasonally-adjusted basis over the past three months (Figure 44, left). Positively, employment for the entire region's households increased by 2.5 percent year-to-date and approached the pre-pandemic peak (Figure 44, right). Based on industry-level data through the fourth quarter of 2022, jobs in the region have been supported by strong consumer activity with growth in retail and wholesale trade, transportation, and warehousing. Although remaining below pre-pandemic levels, the resurgence in leisure and hospitality continues to provide job gains. Over the past year, data also indicate contributions from construction, resurging natural resources, and government. However, lower natural gas prices, slowing construction activity, and recent challenges in real estate and other financial services are expected to weigh on potential growth throughout the remainder of the year.

Despite slower employment growth, the region's unemployment rate continued to decline, falling to 2.7 percent by March 2023 (Figure 44, right). The unemployment rate in many of the region's communities is now around the pre-pandemic level. Over the past year, falling unemployment has been accompanied by a growing labor force, up about 1.5 percent year-to-date and nearing the pre-pandemic level.

Figure 44
Western Region Labor Market Activity



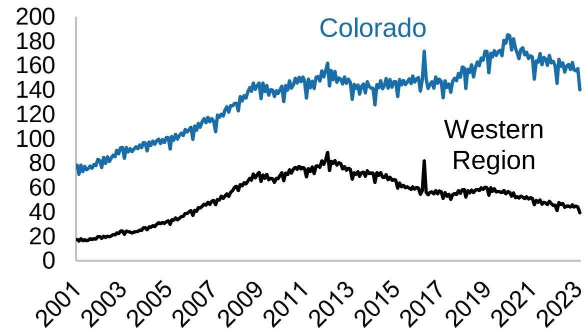
Source: U.S. Bureau of Labor Statistics; LAUS (household survey). Data prior to 2010 adjusted by Legislative Council Staff. Data are seasonally adjusted and are through March 2023.

Housing. Rising interest rates and eroding affordability have impacted the housing market in the western region, like the nation and many areas of the state. Sales of single family homes started the year down more than 29 percent year-to-date following a nearly 22 percent decline in 2022. In 2022, price growth also moderated significantly with the price of a single family home increasing just 3.1 percent. Prices continued to moderate into 2023 with prices up just 2.8 percent in March year-to-date. As the year progresses, home prices in the region are expected to end the year flat or down as the market continues to weaken compared with the summer 2022 peak level. As the market weakens, housing inventory for sale has risen, with the inventory of single family homes for sale up more than 61 percent year-to-date. The housing market correction is expected to persist until at least the latter half of 2023 while the Federal Reserve continues to raise rates in response to high inflation, with further impacts on sales and prices. With slower employment growth than other areas of the state and a faster run-up in prices following the pandemic, impacts to the housing market in the western region could be more severe than statewide.

Changes impacting the housing market are also affecting residential construction activity. In 2022, housing permits were down nearly 11 percent, reflecting a contraction in both single family and multifamily units. To start the year, permits were down more than 7 percent year-to-date through March 2023. Positively, the Grand Junction area posted higher multifamily building through the first three months of the year, partially offsetting declines in other areas. Like the market for existing homes, construction activity is expected to be muted in the western region until interest rates stabilize.

Nonresidential construction. In contrast to residential construction, nonresidential construction grew in 2022, with 1 million square feet of new construction underway. The expansion in 2022 marked the second year in a row of strong nonresidential construction. However, nonresidential construction is expected to be impacted by rising interest rates, higher construction costs, and slower employment growth in the year ahead. The value of construction projects started 2023 down about 10 percent year-to-date through March.

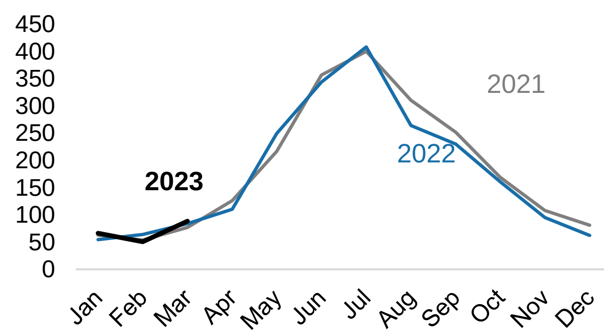
Figure 45
Natural Gas Production
Billion Cubic Feet (BCF)



Source: Colorado Oil and Gas Conservation Commission. Data through February 2023.

Retail sales. Retail sales activity ended 2022 on a high note, with sales up 11.4 percent and comfortably outpacing inflation. Surging retail activity continued into 2023 with sales up 9.3 percent year-to-date in March. However, a return to services spending, the drawdown in household savings, and a pullback on durable goods is expected to mute further growth in the year ahead.

Figure 46
Visits to Western Region National Parks
Thousands



Source: National Park Service. Recreation visits for Black Canyon of the Gunnison National Park, Colorado National Monument, Dinosaur National Monument, and Curecanti National Recreation Area. Data through March 2023.

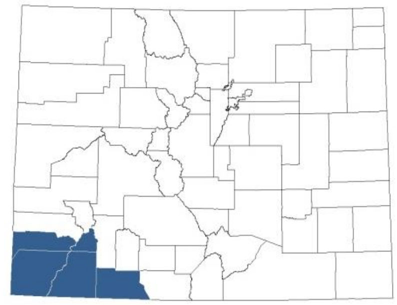
Energy sector. The western region produces a significant share of the state's natural gas, more than 28 percent in 2022 (Figure 45), and remains a significant contributor to the region's economic activity. Natural gas production supports tax revenue, jobs, and upstream and downstream support industries throughout the region. Although natural gas prices spiked upward in 2022, production for the year was down 6.1 percent, marking the fourth consecutive year of declining activity. Natural gas production in the region has generally declined since 2012.

Surging prices over the past year increased the region's value of production significantly, which likely supported some resurgence in natural resources employment. However, recent projections from the

Energy Information Administration indicate natural gas prices are expected to fall about 55 percent in 2023 and regional production is expected to fall further.

Tourism. Visits to national parks (Figure 46) appear steady after falling by 3.9 percent in 2022. The decline in visitation was likely attributable to ongoing roadwork on US 50 and high gas and fuel prices over the summer. More moderate gas prices in 2023 will help buoy visits heading into the summer months. A wet winter and receding drought conditions in the region may further boost tourist activity. Passenger traffic at the Grand Junction Regional Airport bounced back in the first three months of the year after struggling in 2022. In March, passenger traffic was up more than 17 percent. Airlines nationwide expect robust travel over the summer months.

Southwest Mountain Region



The southwest mountain region comprises five counties in the southwest corner of the state. The area boasts a diverse economy with significant contributions from agriculture, tourism, and natural gas extraction, as well as typical regional services like health care and social assistance. The region is isolated, with an economy that often behaves differently from the large Front Range metropolitan areas that heavily influence the statewide averages reported elsewhere in this document. While the region continues to post impressive employment gains, most other indicators for the region's economy show clear signs of a slowdown. Wage earnings and retail activity have not kept pace with inflation, and construction activity is on the decline. Economic activity will continue to slow over the remainder of 2023 and into next year. Indicators for the southwest mountain region are summarized in Table 30.

Table 30
Southwest Mountain Region Economic Indicators
Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	-0.3%	-5.1%	-0.4%	3.3%	3.5%
Unemployment Rate[1]	2.9%	6.7%	5.5%	3.2%	2.8%
Wages[2]					
Average Weekly Wages	2.4%	6.9%	4.8%	6.6%	NA
Level	$846	$904	$948	$955	NA
Housing Permit Growth[3]	-33.9%	12.4%	18.4%	-21.9%	-7.9%
Housing Market[4]					
Average Sale Price - Single Family	7.3%	16.0%	25.4%	14.2%	-0.7%
Level (Thousands)	$452	$541	$656	$750	$721
Inventory - Single Family	-10.4%	-29.3%	-47.5%	12.4%	30.2%
Home Sales - Single Family	-13.5%	31.3%	-1.2%	-23.3%	-40.0%
Retail Sales Growth[5]	5.6%	10.3%	20.1%	4.9%	4.9%
National Park Recreation Visits[6]	-2.1%	-48.1%	87.2%	-8.2%	-33.1%

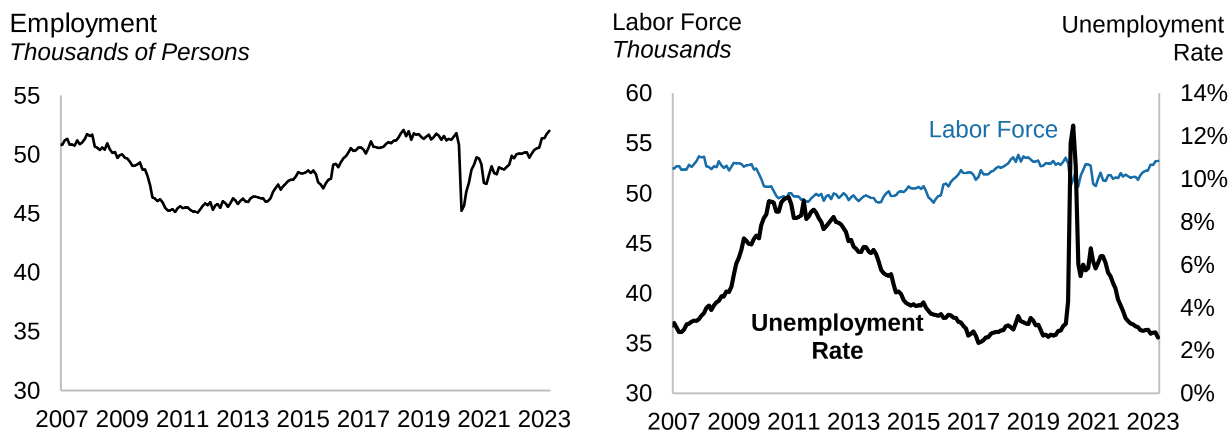
NA = Not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[2]U.S. Bureau of Labor Statistics, QCEW. Data through the third quarter of 2022.
[3]F.W. Dodge. Permits for residential units. Data through April 2023.
[4]Colorado Association of Realtors. Seasonally adjusted. Data through April 2023.
[5]Colorado Department of Revenue. Seasonally adjusted. Data through February 2023.
[6]National Park Service. Recreation visits for Mesa Verde National Park and Hovenweep National Monument. Data through March 2023.

Labor market. Revised household survey data show sustained growth in the number of employed persons since January 2021, with apparent sustained acceleration in job growth from July 2022 onwards. The number of employed persons increased by 3.5 percent in January through March 2023 compared with the same period last year, the best rate among the nine economic regions tracked in this document (Figure 47, left). Through March, the regional unemployment rate has averaged 2.8 percent in 2023, which would be its lowest since 2017. Sustained job growth and low unemployment have conspired to motivate additional labor force participation (Figure 47, right).

The regional labor market is firing on all cylinders but may be running out of space to expand, with low unemployment and high housing costs likely to impede labor supply. Employers will likely face tighter competition for workers, motivating wage increases to attract and retain talent. Regional wages had increased 6.6 percent through the first three quarters of 2022, the most recent data available, and likely grew at an even faster pace in the fourth quarter. Regional wages remain below the western region, despite higher costs of living in some southwest mountain communities, and are likely to post another large increase in 2023.

The March 2023 forecast identified a May 2022 peak in the labor force population and number of employed persons based on published data available at the time, and discussed a receding regional labor market over the latter half of 2022. Revised published data from the Bureau of Labor Statistics no longer show that trajectory. As the March forecast noted, household surveys rely on small samples that can incorrectly represent broader labor market conditions, especially in small regions like this one. The revised data more closely match labor market trends for larger geographies.

Figure 47
Southwest Mountain Region Labor Market Activity

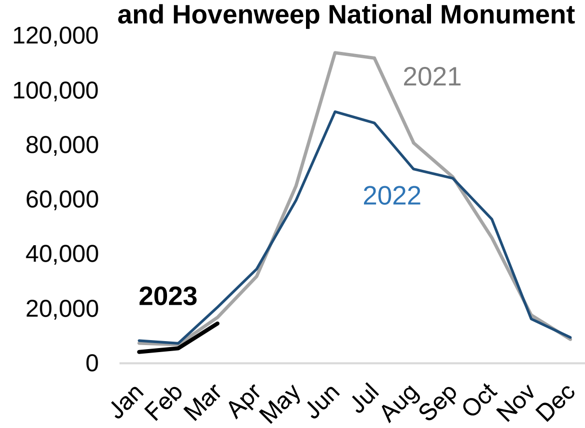


Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through March 2023. Includes Legislative Council Staff adjustments prior to 2010.

Housing. As elsewhere, home prices in the southwest mountain region reversed course in 2022 and remain well below last spring's peak level. Sales are down, reflecting the high interest environment for purchasers, resulting in a considerable increase in inventory for sale. Still, the region struggles with housing affordability and overall supply, and the rising cost of capital for builders is now dampening homebuilding activity. Through April, residential building permits fell 7.9 percent from their level in the first four months of 2022, portending a second consecutive annual decline in the number of residential construction permits issued. Declining construction further constrains the region's labor supply, limiting the potential for growth in the regional economy.

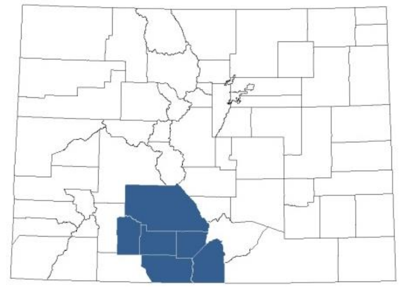
Tourism and consumer spending. Tourism-dependent spending is a significant economic driver in various communities throughout the southwest mountain region. Economic conditions nationwide pose a risk to tourist activity, as household savings are spent down in response to rising prices, leaving less for discretionary purchases. In 2022, regional retail sales increased by just 4.9 percent, a profound deceleration from the 20.1 percent growth rate posted in 2021. The slower increase in sales activity coincided with last year's high rate of inflation, such that the inflation-adjusted value of retail sales likely decreased during the year. As illustrated in Figure 48, visits to national park sites in Montezuma County fell well short of their 2021 peak level last summer, and were down over the winter months in early 2023 as well. The potential for even fewer visits in 2023 than in 2022 poses moderate downside risk to the region's near-term economic outlook.

Figure 48
Visits to Mesa Verde National Park and Hovenweep National Monument



Source: National Park Service. Data through March 2023.

San Luis Valley Region



Among the nine economic regions identified in this forecast, the San Luis Valley has the state's smallest population and its lowest household incomes. The economy of the region's six counties is largely agricultural. The region's housing market continues to slow in 2023 amidst higher prices and tighter monetary policy. Fluctuating weather conditions remain a key concern for the region's agricultural producers, although drought conditions were much improved through May 2023 compared with 2022. Economic indicators for the region are summarized in Table 31.

Table 31
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	0.8%	-4.2%	-1.8%	3.0%	2.0%
Unemployment Rate[1]	3.7%	6.0%	6.0%	3.7%	3.1%
Wages[2]					
Average Weekly Wages	3.1%	7.0%	4.6%	7.5%	NA
Level	$719	$770	$805	$833	NA
Barley[3]					
Acres Harvested	52,000	47,000	47,000	40,000	NA
Crop Value ($/Acre)	$672	$709	$548	$733	NA
Potatoes[3]					
Acres Harvested	51,000	53,800	52,400	52,800	NA
Crop Value ($/Acre)	$4,709	$4,494	$4,674	$6,360	NA
Housing Permit Growth[4]	-11.1%	13.9%	28.6%	-21.6%	-26.3%
Housing Market[5]					
Average Sale Price – Single Family	8.1%	18.7%	30.5%	2.9%	3.6%
Level (Thousands)	$226	$270	$343	$352	$366
Inventory – Single Family	-28.7%	-25.3%	-44.0%	18.6%	59.7%
Home Sales – Single Family	-15.9%	27.8%	7.1%	-25.4%	-26.2%
Retail Sales Growth[6]	5.0%	8.8%	17.1%	9.0%	5.0%
National Park Recreation Visits[7]	19.1%	-12.5%	30.6%	-18.1%	NA

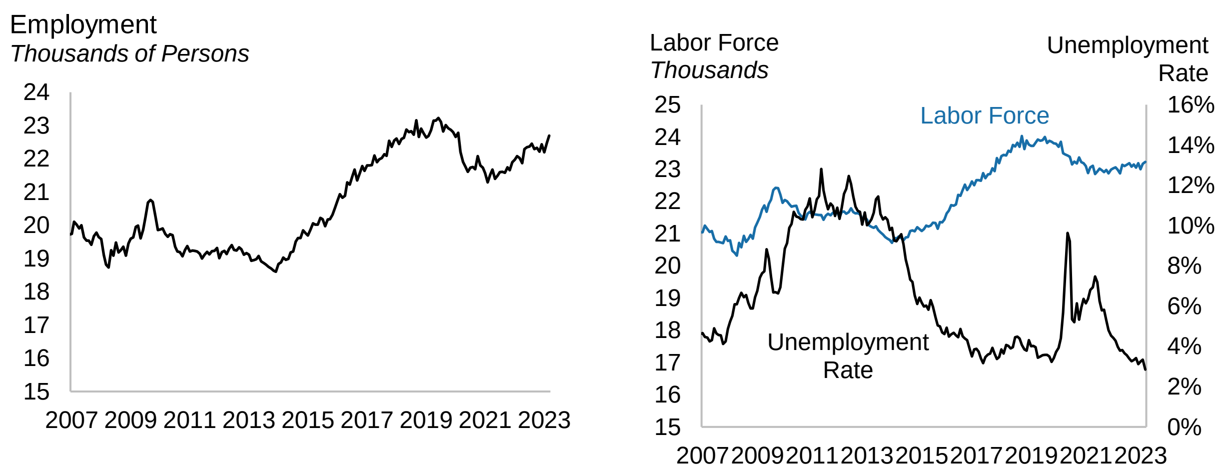
NA = Not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through March 2023.
[2]U.S. Bureau of Labor Statistics, QCEW. Data through the third quarter of 2022.
[2]National Agricultural Statistics Service, statewide data. Data through March 2023.
[3]F.W. Dodge. Data through April 2023.
[4]Colorado Association of Realtors. Data through April 2023.
[5]Colorado Department of Revenue. Data through February 2023.
[6]National Park Service. Data through December 2022. Recreation visits for Great Sand Dunes National Park and Preserve.

Agricultural industry. With over 70 varieties grown in the region, the San Luis Valley is the second biggest potato-producing area in the United States after Idaho. Other principal crops include hay, lettuce, wheat, and barley, a key input for Coors beer. Acreages for drought-tolerant crops such as quinoa and hemp are also on the rise, while water-thirsty crops such as barley have seen declining acreages.

The San Luis Valley is a high desert, typically receiving fewer than eight inches of precipitation annually. Irrigation for most crops relies on groundwater, reservoirs, and rivers fed by winter snowpack, which has been depleted by the impacts of climate change. Weather and access to water remain key concerns for San Luis Valley agricultural producers. Drought conditions continue to improve in the region compared to May 2022, when the entire region was in severe drought. Through May 16, 2023, the region is either drought free or abnormally dry, according to the U.S. Drought Monitor, with heavy snow melt contributing to flood risk in some areas. Drought conditions reduced last year's potato shipments by about 100 million pounds from the average of 1.6 billion pounds shipped annually. Potato shipments were up by 5.2 percent in the 2022-23 marketing year through May 23, 2023.

Labor market. As the state's least populous region, the San Luis Valley accounts for less than 1 percent of statewide employment. In addition to natural resources and mining (which includes agriculture), key sectors include education and health services; trade, transportation, and utilities; and public administration. As in other rural regions of the state, household survey data is subject to large revisions due to a small sample size. Through March 2023, these data suggest continued but slowing recovery in the labor market, with employment up by 2.0 percent compared to the same period in 2022, slowing from 3.0 percent growth in 2022. At 3.1 percent on average in 2023, the region's unemployment rate is the second highest among the state's nine regions behind the Pueblo-Southern Mountains region, but continues to decline steadily, supported by a relatively stable labor force. The average weekly wage of $833 in July 2022 is the lowest in the state's nine regions, roughly 50 percent to 70 percent of average weekly wages along the Front Range. The region's employment growth is expected to continue to moderate through 2023, as the Federal Reserve strives for a soft landing with tighter monetary policy constraining inflation and slowing consumer spending and business activity.

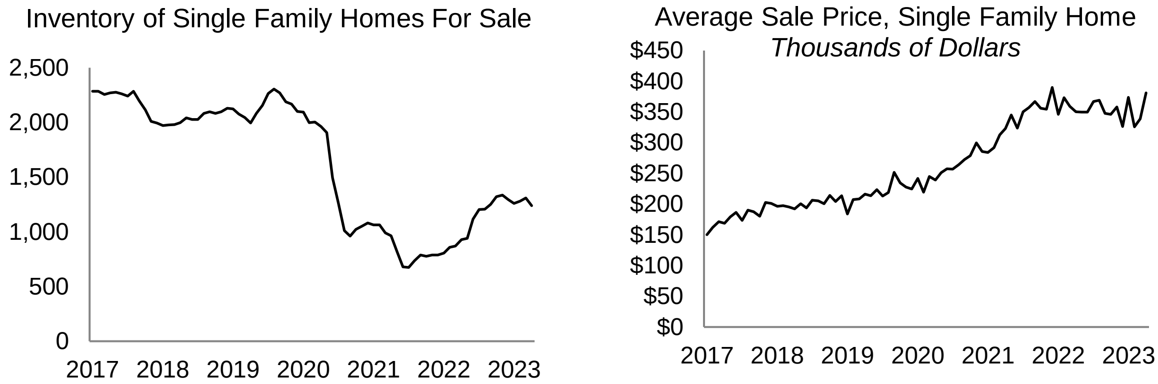
Figure 49
San Luis Valley Labor Market Activity



U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through March 2023. Includes Legislative Council Staff adjustments prior to 2010.

Housing and population. With 20 percent of its population aged 65 and over, compared with the statewide share of 16 percent, the San Luis Valley economy faces labor force challenges, as well as shifting demands for housing, health care, and other services associated with an aging population.

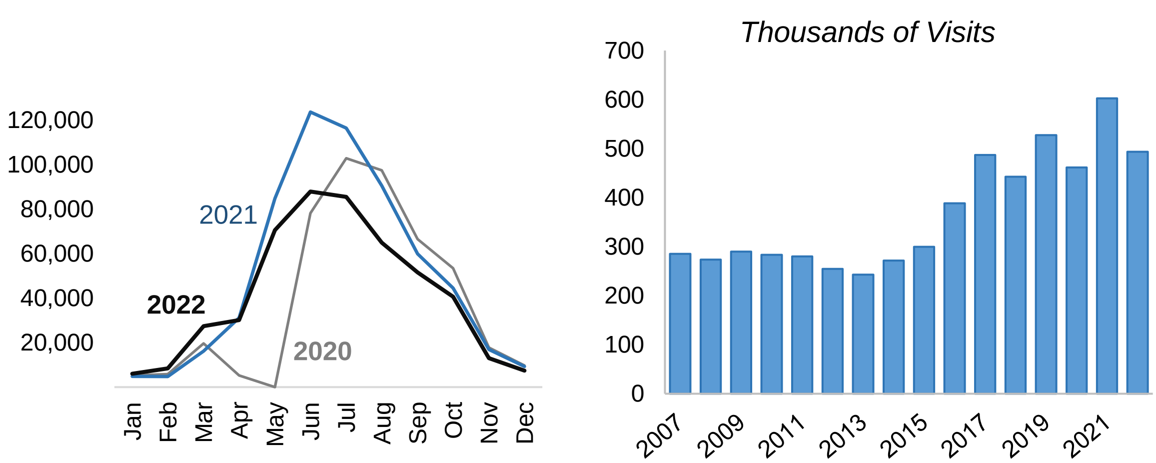
Figure 50
San Luis Valley Housing Market Activity



Source: Colorado Association of Realtors. Data are seasonally adjusted and through April 2023.

As in other regions of the state, housing markets and construction activity remain subdued as interest rate hikes tamp down demand against rising housing inventory. Builders acquired 26.3 percent fewer residential building permits through April 2023, compared with the same period in 2022. Housing inventory for sale was up 18.6 percent in 2022, and 59.7 percent through April 2023, after declining in each of the prior four years (Figure 50, left). Home prices were relatively flat, up 3.6 percent through April 2023, compared with the same period in 2022, following double-digit percentage increases in three of the previous five years (Figure 50, right). Hot housing markets in the region in recent years have eroded housing affordability, but with an average sale price of $366,000, the San Luis Valley remains one of the least expensive regions in the state. Regional housing markets are expected to remain subdued amidst a high interest rate environment in 2023, while housing affordability will remain a concern for residents of the region.

Figure 51
Visits to Great Sand Dunes National Park and Preserve



Source: National Park Service. Data through December 2022.

Tourism. Visits to the Great Sand Dunes National Park and Preserve were up 30.6 percent in 2021 following pandemic-related park closures and dampened tourist activity in early 2020 (Figure 51, left). In 2022, park visits moderated, finishing the year down 18.1 percent compared with 2021, mainly due to a lower number of visits during the peak season which also coincided with road construction activity obstructing park access (Figure 51, right). The San Luis Valley is also home to one of the nation's only alligator refuges outside of the southern U.S., the Colorado Gators Reptile Park, fed by geothermal springs and drawing around 40,000 visitors each year. The park suffered a devastating fire in April 2023. Tourist activity in 2023 is expected to more closely resemble 2022 than 2021, with persistent high prices eroding consumer confidence, household savings, and recreation spending.

Appendix: Historical Data

National Economic Indicators

Calendar Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP ($ Billions)[1]	$14,478.1	$15,049.0	$15,599.7	$16,254.0	$16,843.2	$17,550.7	$18,206.0	$18,695.1	$19,477.3	$20,533.1	$21,381.0	$21,060.5	$23,315.1	$25,462.7
Percent Change	-2.0%	3.9%	3.7%	4.2%	3.6%	4.2%	3.7%	2.7%	4.2%	5.4%	4.1%	-1.5%	10.7%	9.2%
Real GDP ($ *Billions*)[1]	$15,236.3	$15,649.0	$15,891.5	$16,254.0	$16,553.3	$16,932.1	$17,390.3	$17,680.3	$18,076.7	$18,609.1	$19,036.1	$18,509.1	$19,609.8	$20,014.1
Percent Change	-2.6%	2.7%	1.5%	2.3%	1.8%	2.3%	2.7%	1.7%	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%
Unemployment Rate[2]	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%
Inflation[2]	-0.3%	1.6%	3.1%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%
10-Year Treasury Note[3]	3.3%	3.2%	2.8%	1.8%	2.4%	2.5%	2.1%	1.8%	2.3%	2.9%	2.1%	0.9%	1.5%	3.0%
Personal Income ($ *Billions*)[1]	$12,080.4	$12,594.5	$13,339.3	$14,014.3	$14,193.7	$14,976.6	$15,685.2	$16,096.9	$16,839.9	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,777.2
Percent Change	-3.2%	4.3%	5.9%	5.1%	1.3%	5.5%	4.7%	2.6%	4.6%	5.0%	5.1%	6.7%	7.4%	2.3%
Wage & Salary Income ($ *Billions*)[1]	$6,249.1	$6,372.5	$6,626.2	$6,928.1	$7,114.0	$7,476.3	$7,859.5	$8,091.3	$8,474.4	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,189.6
Percent Change	-4.4%	2.0%	4.0%	4.6%	2.7%	5.1%	5.1%	2.9%	4.7%	5.0%	4.8%	1.4%	8.8%	8.7%
Nonfarm Employment (*Millions*)[2]	131.3	130.3	131.9	134.2	136.4	138.9	141.8	144.3	146.6	148.9	150.9	142.2	146.3	152.6
Percent Change	-4.3%	-0.7%	1.2%	1.7%	1.6%	1.9%	2.1%	1.8%	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%

Sources
[1]U.S. Bureau of Economic Analysis. Real gross domestic product (GDP) is adjusted for inflation. Personal income and wages and salaries not adjusted for inflation.
[2]U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index for all urban areas (CPI-U).
[3]Federal Reserve Board of Governors.

Colorado Economic Indicators

Calendar Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Nonfarm Employment (*Thousands*)[1]	2,244	2,221	2,257	2,312	2,381	2,464	2,541	2,602	2,660	2,727	2,790	2,653	2,751	2,867
Percent Change	-4.5%	-1.0%	1.6%	2.4%	3.0%	3.5%	3.1%	2.4%	2.3%	2.5%	2.3%	-4.9%	3.7%	4.2%
Unemployment Rate[1]	7.9%	9.2%	8.7%	8.0%	6.7%	5.0%	3.7%	3.1%	2.6%	3.0%	2.7%	6.8%	5.4%	3.0%
Personal Income ($ *Millions*)[2]	$199,352	$205,866	$223,493	$236,759	$249,513	$271,410	$284,837	$289,673	$309,417	$331,851	$356,341	$378,051	$410,948	$433,128
Percent Change	-5.1%	3.3%	8.6%	5.9%	5.4%	8.8%	4.9%	1.7%	6.8%	7.3%	7.4%	6.1%	8.7%	5.4%
Per Capita Income ($)[2]	$40,093	$40,790	$43,658	$45,630	$47,404	$50,797	$52,339	$52,390	$55,251	$58,453	$62,124	$65,352	$70,715	$74,167
Percent Change	-6.7%	1.7%	7.0%	4.5%	3.9%	7.2%	3.0%	0.1%	5.5%	5.8%	6.3%	5.2%	8.2%	4.9%
Wage & Salary Income ($ *Millions*)[2]	$112,228	$113,670	$118,414	$124,947	$129,521	$138,626	$146,578	$151,165	$160,931	$170,808	$182,958	$187,611	$205,271	$226,853
Percent Change	-3.8%	1.3%	4.2%	5.5%	3.7%	7.0%	5.7%	3.1%	6.5%	6.1%	7.1%	2.5%	9.4%	10.5%
Housing Permits[3]	9,355	11,591	13,502	23,301	27,517	28,698	31,871	38,974	40,673	42,627	38,633	40,469	56,524	48,839
Percent Change	-50.8%	23.9%	16.5%	72.6%	18.1%	4.3%	11.1%	22.3%	4.4%	4.8%	-9.4%	4.8%	39.7%	-13.6%
Nonresidential Construction ($ *Millions*)[4]	$3,354	$3,147	$3,923	$3,695	$3,624	$4,351	$4,991	$5,988	$6,151	$8,151	$5,161	$5,594	$5,738	$6,641
Percent Change	-18.5%	-6.2%	24.7%	-5.8%	-1.9%	20.1%	14.7%	20.0%	2.7%	32.5%	-36.7%	8.4%	2.6%	15.7%
Denver-Aurora-Lakewood Inflation[1]	-0.6%	1.9%	3.7%	1.9%	2.8%	2.8%	1.2%	2.8%	3.4%	2.7%	1.9%	2.0%	3.5%	8.0%
Population (*Thousands, July 1*)[3]	4,972.2	5,029.2	5,121.9	5,193.7	5,270.8	5,352.6	5,454.3	5,543.8	5,617.4	5,697.2	5,758.5	5,773.7	5,811.3	5,839.9
Percent Change	1.7%	1.1%	1.8%	1.4%	1.5%	1.6%	1.9%	1.6%	1.3%	1.4%	1.1%	0.3%	0.7%	0.5%

NA = Not available.
[1]U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index for Denver-Aurora-Lakewood metro area.
[2]U.S. Bureau of Economic Analysis. Personal income and wages and salaries not adjusted for inflation.
[3]U.S. Census Bureau. Residential housing permits are the number of new single and multi-family housing units permitted for building. 2010 and 2020 population numbers reflect the decennial Census, while other numbers reflect July 1 estimates.
[4]F.W. Dodge.