Economic & Revenue Forecast

March 2023

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

March 2023 | Economic & Revenue Forecast

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Executive Summary

This report presents the budget outlook based on current law and the March 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 2021-22

The General Fund ended FY 2021-22 with a reserve of $3.20 billion, or 26.6 percent of appropriations, exceeding the statutorily required 13.4 percent reserve by $1.59 billion. State revenue exceeded the Referendum C cap by $3.73 billion, triggering a General Fund obligation to pay TABOR refunds during FY 2022-23.

FY 2022-23

Following adoption of the supplemental budget package, the General Fund is expected to end FY 2022-23 with a 16.6 percent reserve, $213.3 million above the statutorily required 15.0 percent reserve. Further adjustments to appropriations would change this amount. General Fund revenue collections are expected to fall by $532.2 million, or 3.0 percent, primarily as a result of policy changes enacted through ballot measures approved at the November 2022 general election. Despite the decrease in revenue, collections are expected to exceed the Referendum C cap by $2.75 billion.

FY 2023-24 Unbudgeted

General Fund revenue is expected to exceed FY 2022-23 collections by 3.3 percent as economic growth continues to slow; however, the FY 2023-24 Referendum C cap will increase by 8.5 percent, reflecting inflation and population growth for calendar year 2022. The General Assembly is projected to have $1.79 billion, or 9.8 percent, more available to spend or save relative to what is budgeted to be spent or saved in FY 2022-23 after the application of current law transfers, the 15.0 percent statutory reserve requirement, and the supplemental budget package. This amount does not incorporate caseload growth, inflation, or other budgetary pressures. The General Fund Budget Overview section also presents the budget outlook in the context of Joint Budget Committee actions through March 10, 2023. Incorporating those actions, the General Fund would end FY 2023-24 with a $628.3 million excess reserve. This amount may be appropriated, transferred, or held in the General Fund to contribute to the FY 2024-25 budget and beyond.

FY 2024-25 Unbudgeted

General Fund revenue is expected to grow 4.0 percent and total $18.45 billion, with state revenue subject to TABOR exceeding the Referendum C cap by $1.75 billion. The budget outlook for this year will depend on budgetary decision making for the year prior. Based on Joint Budget Committee actions through March 10, 2023, the General Fund is projected to end FY 2024-25 with an excess reserve of between $383 million, if the entire amount of the FY 2023-24 excess reserve is spent, and $1.01 billion, if the entire amount of the FY 2023-24 excess reserve is carried forward into FY 2024-25.

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 income tax collections is especially uncertain, as discussed in detail in the General Fund Budget Overview and General Fund Revenue sections. Risks arise both from an uncertain economy and an evolving tax policy environment.

Cash Fund Revenue

Cash fund revenue subject to TABOR is expected to total $2.73 billion in the current FY 2022-23. Revenue will increase by 2.3 percent, with most of the growth occurring in transportation-related and other miscellaneous cash funds. Cash fund revenue growth is expected to accelerate to 6.1 percent in FY 2023-24, before slowing in FY 2024-25 to 4.4 percent. Relative to December, cash fund forecasts were relatively unchanged for the current FY 2022-23, with a downward revision of $14.1 million. For FY 2023-24 and FY 2024-25, cash funds were revised upward by $26.0 million and $40.6 million, respectively. 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 33, and summarized in Table 11 on page 33.

Economic Outlook

Though they have stabilized somewhat since our December forecast, the U.S. and Colorado economies continue to face many challenges. Certain areas of the economy, including labor markets and business profits, show considerable strength, but entrenched inflation continues to erode many economic gains. However, this forecast identifies a rising chance for a soft landing. The outlook foresees continued growth, albeit slow growth, through 2023, and a return to a more moderate pace of expansion in 2024 and 2025. Expansion will be supported by falling inflation, a resilient labor market, and continued improvement in real wages.

The primary risk to the economic expansion is the Federal Reserve's ability to rein in inflation without triggering a recession. The Fed's approach risks both underreacting, in which case it would fail to contain inflation, and overreacting, in which case it would depress demand so severely as to trigger a downturn. To this point, inflation and labor market data suggest that the probability of a near-term recession is receding, but the probability of continued inflation above the Fed target rate is high. Further, the significant monetary policy intervention will have lasting consequences. Real estate values will continue falling, with minimal affordability benefits for would-be homebuyers because of rising mortgage costs. Reducing demand likewise drains consumer and business confidence, which could worsen further as the pace of growth slows. And, while it has entered a less precarious phase than in 2022, the economy remains fragile. An unforeseen outside shock could push the economy off its path of growth.

Discussion of the economic outlook begins on page 43, and summaries of expectations for the U.S. and Colorado economies are presented, respectively, in Tables 18 and 19 on pages 68 and 69.

General Fund Budget Overview

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

- a budget scenario for FY 2023-24 that accounts for budget actions taken by the Joint Budget Committee through March 10 (Table 2);
- a budget scenario that illustrates the FY 2024-25 budget effect if the maximum amount allowed under current law is expended in FY 2023-24;
- a summary of changes in expectations relative to the December 2022 forecast (Table 3);
- discussion of the forecast adjustments made as a result of ballot measures passed at the November 2022 general election;
- 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;
- General Fund rebates and expenditures (Table 5); and
- cash fund transfers to and from the General Fund (Table 6).

Legislative Assumptions

This forecast is based on current law and includes the FY 2022-23 supplemental budget package.

FY 2021-22

The annual comprehensive financial report published in December shows that the General Fund ended FY 2021-22 with a reserve of $3.20 billion or 26.6 percent of appropriations, exceeding the statutorily required 13.4 percent reserve by $1.59 billion (Table 1, lines 16 through 19). State revenue exceeded the Referendum C cap by $3.73 billion, triggering a General Fund obligation to pay TABOR refunds to taxpayers during FY 2022-23.

FY 2022-23

Assuming current law, the General Fund is expected to end FY 2022-23 with a 16.6 percent reserve, $213.3 million above the statutorily required 15.0 percent reserve (Table 1, line 19). Expectations for the year-end excess reserve were revised up by $268.9 million over the December forecast, which had anticipated a $55.6 million deficit relative to the reserve requirement, mostly because of reductions in FY 2022-23 appropriations enacted in the supplemental budget package. General Fund revenue collections are expected to fall by $532.2 million from their FY 2021-22 level, but state revenue subject to TABOR is still expected to exceed the Referendum C cap by $2.75 billion.

FY 2023-24 (Unbudgeted)

General Fund revenue is expected to modestly exceed FY 2022-23 collections as economic growth continues to slow. Meanwhile, the annual adjustment to the Referendum C cap for FY 2023-24 will incorporate 8.0 percent inflation in Denver-Aurora-Lakewood consumer prices for calendar year 2022. As a result, state revenue subject to TABOR is expected to exceed the Referendum C cap by $2.02 billion. This forecast presents three scenarios for the FY 2023-24 General Fund budget outlook.

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	$2,235.9	*
2	General Fund Revenue	$17,697.9	$17,165.7	$17,740.1	$18,445.7
3	Transfers from Other Funds *(Table 6)*	$71.3	$58.9	$39.7	$34.6
4	**Total Funds Available**	**$20,950.8**	**$20,427.8**	**$20,015.7**	*
5	Percent Change	27.2%	-2.5%	-2.0%	*
	Expenditures	**Actual**	**Budgeted**	**Estimate**	**Estimate**
6	General Fund Appropriations	$12,041.2	$13,484.2	*	*
7	TABOR Refund Obligation Under Art. X, §20, (7)(d)	$3,848.1	$2,902.3	$2,023.8	$1,747.6
8	Rebates and Expenditures *(Table 5)*	$149.6	$151.6	$151.5	$151.6
9	Transfers to Other Funds *(Table 6)*	$837.9	$938.9	$523.9	$585.0
10	Transfers to the State Education Fund[1]	$123.0	$290.0	$0.0	$0.0
11	Transfers to Transportation Funds *(Table 4)*	$484.9	$88.0	$0.0	$117.5
12	Transfers to Capital Construction Funds *(Table 4)*	$354.0	$488.3	$20.0	$20.0
13	**Total Expenditures**	**$17,838.7**	**$18,343.2**	*	*
14	Percent Change	33.9%	2.8%	*	*
15	Accounting Adjustments[2]	$91.1	$151.3	*	*
	Reserve	**Actual**	**Estimate**	**Estimate**	**Estimate**
16	Year-End General Fund Reserve	$3,203.2	$2,235.9	*	*
17	Year-End Reserve as a Percent of Appropriations	26.6%	16.6%	*	*
18	Statutorily Required Reserve[3]	$1,613.5	$2,022.6	*	*
19	**Amount in Excess or (Deficit) of Statutory Reserve**	**$1,589.7**	**$213.3**	*	*
20	Excess Reserve as a Percent of Expenditures	8.9%	1.2%	*	*
	Perspectives on FY 2022-23 (Unbudgeted)		**Estimate**	**Estimate**	**Estimate**
	Scenario A: Holds FY 2021-22 Appropriations Constant[4]				
21	Amount in Excess or (Deficit) of 15% Reserve Requirement		$213.3	$1,789.7	*
22	As a Percent of Prior-Year Expenditures			9.8%	*
	Scenario B: Assumes JBC-Approved Actions to Date[5]				
23	Amount in Excess or (Deficit) of 15% Reserve Requirement		$430.6	$628.3	$1,011.2
24	As a Percent of Prior-Year Expenditures			3.5%	5.8%
	Scenario C: Assumes JBC-Approved Actions to Date and $628.3 Billion in One-Time Spending in FY 2023-24[6]				
25	Amount in Excess or (Deficit) of 15% Reserve Requirement		$430.6	$0.0	$382.8
26	As a Percent of Prior-Year Expenditures			0.0%	2.1%
	Addendum	**Actual**	**Estimate**	**Estimate**	**Estimate**
27	Percent Change in General Fund Appropriations	9.7%	12.0%	*	*
28	5% of Colorado Personal Income Appropriations Limit	$17,817.1	$18,902.6	$20,547.4	$21,670.6
29	Transfers to State Education Fund per Amendment 23	$993.5	$1,019.4	$1,036.7	$1,075.1

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

[1]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 29.

[2]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 $151.3 million expected to be underrefunded from the current year TABOR refund obligation due to the passage of Proposition 121.

[3]The required reserve is calculated as a percent of operating appropriations: 13.4 percent in FY 2021-22, and 15 percent each year thereafter.

[4]This scenario holds appropriations in FY 2023-24 equal to appropriations in FY 2022-23 (line 6) to determine the total amount of money available relative to FY 2022-23 expenditures, net of the obligations in lines 7 through 12.

[5]This scenario assumes JBC actions approved to date, as detailed in the March 14, 2023, JBC Staff memorandum available at: https://leg.colorado.gov/sites/default/files/overview-03-14-23.pdf. See Table 2 for additional discussion.

[6]This scenario assumes Scenario B, and $628.3 million in one-time spending in FY 2023-24. The $628.3 million amount is equal to the FY 2023-24 excess reserve amount under Scenario B.

Scenario A: Holds appropriations constant in FY 2023-24. Because a budget has not yet been enacted for FY 2023-24, Table 1 (lines 21 and 22) shows the amount of revenue available to be spent or saved in FY 2023-24 relative to the amount appropriated in FY 2022-23. Based on this forecast, the General Assembly will have $1.79 billion, or 9.8 percent, more available to spend or save than in FY 2022-23. This amount assumes current law obligations for FY 2023-24, including transfers, rebates, and expenditures (Table 1, lines 8 through 12), as well as a 15.0 percent reserve requirement and the projected TABOR refund obligation. The $1.79 billion amount is a cumulative amount that reflects the FY 2022-23 budget situation and projected year-end balance. Any changes in revenue or adjustments made to the budget for FY 2022-23 will carry forward into FY 2023-24. This amount holds FY 2022-23 appropriations constant and therefore does not reflect any caseload, inflationary, or other budget pressures.

Scenario B: JBC-approved budget actions to date. Scenario B, shown on lines 23 and 24 of Table 1, presents the amount of revenue in excess or deficit of the statutorily required 15 percent reserve for FY 2022-23 through FY 2024-25 assuming all budget actions approved by the Joint Budget Committee through March 10, 2023, as reported by the Joint Budget Committee Staff. The inclusion of Scenario B is intended to be illustrative and should not be considered an endorsement by Legislative Council Staff.

- **FY 2022-23.** Scenario B reflects a $188.9 million reduction in FY 2022-23 appropriations, primarily for Medicaid, relative to current law. Together with the corresponding reduction in the amount of the reserve requirement, the scenario increases the expected General Fund excess reserve amount for FY 2022-23 to $430.6 million, as shown in Table 1, line 23, resulting in a higher beginning balance for FY 2023-24.

- **FY 2023-24.** The effects of Scenario B on the FY 2023-24 budget outlook are summarized in Table 2. Scenario B assumes General Fund appropriations of $14,673.4 million for FY 2023-24. This amount encompasses all budget actions taken through March 10, 2023, except that it excludes $226.0 million in appropriations for budget line items included in this forecast as rebates and expenditures (Table 1, line 8). The amount includes placeholders for budget package bills ($131.0 million), of which $115.3 million is for a bill to implement the Healthy School Meals Program in Proposition FF. The amount includes JBC-approved placeholders for other legislation ($130.3 million), the largest of which are for the legislative appropriations act ($65.2 million) and House Bill 23-1228 ($30.5 million).

  Relative to Scenario A, Scenario B includes $1,189.2 million more in total expenditures for FY 2023-24. The entire difference is in appropriations, including $115.3 million in appropriations for the Healthy School Meals Program that are not expected to be subject to the statutory reserve requirement. The changes in appropriations are expected to result in a $161.1 million higher reserve requirement than in Scenario A. Net of the changes, this forecast calculates a $628.3 million excess reserve outstanding under Scenario B. This amount may be spent or saved; the scenario assumes that it is saved and contributes to the beginning balance for FY 2024-25 (for an alternative assumption, see Scenario C below).

  As the JBC and the General Assembly work to complete the FY 2023-24 budget, the $628.3 million amount may be interpreted as sufficient to cover up to $546.4 million in additional FY 2023-24 appropriations with their corresponding reserve requirement, or up to $628.3 million in additional transfers from the General Fund, or some combination of these. Notably, Scenario B does not include transfers to the Capital Construction Fund for capital projects recommended by the Capital Development Committee and the Joint Technology Committee. Any additional capital transfers for FY 2023-24 beyond the $20.0 million shown in Table 1, line 12, would debit the $628.3 million excess reserve calculated in Scenario B.

Table 2
FY 2023-24 Budget Scenario B: JBC Budget Actions to Date
Dollars in Millions

		FY 2023-24
1	**Excess Reserve Under Scenario A**	**$1,789.7**
	Change in Beginning Balance	
2	Effect of Proposed FY 2022-23 Appropriations Reductions	$188.9
	Appropriations	
3	Change in Appropriations Funded through Long Bill[1]	$927.8
4	Placeholder for Budget Package Bills	$131.0
5	JBC-Approved Placeholders for Other Legislation	$130.3
6	**Total Change in Appropriations**	**$1,189.2**
7	Change in Required Reserve (15% of Line 6)[2]	$161.1
8	**Total Change in General Fund Obligations**	**$1,350.3**
9	**Excess Reserve Under Scenario B** (Line 1 plus Line 2 minus Line 8)	**$628.3**

Source: March 2023 LCS Forecast and Joint Budget Committee Staff Overview of JBC Actions as of March 10, 2023.
[1]Nets out $226.0 million from the JBC's current proposed appropriations for General Fund rebates and expenditures, which LCS forecasts independently.
[2]A portion of the amount shown on line 4, $115.3 million, is assumed to be appropriated from a General Fund exempt account created to accommodate Proposition FF. Appropriations from the account do not contribute to the statutory reserve requirement, so the amount on line 7 is actually less than 15 percent of line 6.

- **FY 2024-25.** Scenario B assumes that the General Fund will begin FY 2024-25 with a balance of $2,812.0 million, carrying forward the projected FY 2023-24 excess reserve amount. The scenario assumes General Fund appropriations of $15,365.4 million for FY 2024-25. This amount includes all out-year changes to appropriations approved to date, except $226.0 million in proposed appropriations for budget line items included in this forecast as rebates and expenditures. It also includes placeholders for budget package bills ($84.9 million) and JBC-approved placeholders for other 2023 legislation ($113.6 million). As for FY 2023-24, the scenario does not include adjustments for capital transfers beyond those shown in Table 1, line 12.

  Under Scenario B, the General Fund is expected to end FY 2024-25 with a $1.01 billion excess reserve.

Scenario C: $628.3 million in additional one-time spending in FY 2023-24. To illustrate the multi-year effects of budget decisions and provide a contrast with Scenario B, Scenario C, on lines 25 and 26 of Table 1, presents the FY 2024-25 outlook if the total $628.3 million excess reserve amount estimated for FY 2023-24 under scenario B is spent. Under Scenario C, the General Fund would end FY 2023-24 with no excess reserve, carrying forward only the $2.18 billion statutorily required reserve into FY 2024-25. In this scenario, the General Fund would end FY 2024-25 with an excess reserve of

$382.8 million, assuming no other change to FY 2024-25 appropriations beyond what is included in Scenario B.

Risks to the General Fund Budget Outlook

Recession risk threatens the budget outlook. While near-term recession risk has diminished over the past six months, the forecast acknowledges that the economy remains fragile, and an unforeseen shock could push the economy into a downturn. A recession would most likely reduce revenue below the Referendum C cap, thereby reducing the amount available for the General Fund budget in FY 2023-24 and beyond.

Consumer price inflation has begun to moderate, but costs for governments may continue to rise. Energy prices have cooled since the beginning of the summer, leading consumer price indices for the national economy and Denver-Aurora-Lakewood area to show less inflation since June. Still, prices for many services continue to increase as labor and capital costs rise. Costs borne by state agencies will likely continue to increase, pressuring many General Fund budget items.

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 income tax outlook is especially uncertain. This forecast is prepared based on actual revenue tracking data through February 2023, before most taxpayers filed returns for the 2022 tax year. Returns for the 2021 tax year significantly exceeded expectations included in the March 2022 forecast used to set the FY 2022-23 budget. This forecast anticipates the receipt of less revenue on 2022 returns than 2021 returns, but acknowledges the possibility of another increase or a much larger decrease than forecast. Compounding uncertainty, the state is obligated to pay refunds to taxpayers who are able to benefit from certain retroactive provisions in the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act) for tax years 2018 and 2019 following a court decision for the plaintiffs in *Anschutz v. Colorado Department of Revenue*. More illuminating data will become available to reset income tax expectations before publication of the June forecast.

Changes Between the December and March Forecasts

Table 3 presents revisions to the General Fund budget outlook relative to the December 2022 forecast. These changes are explained below.

FY 2021-22. The Annual Comprehensive Financial Report was published on December 20, 2022, the same day as the December forecast. Final accounting adjustments for the fiscal year were minor, resulting in a $1.3 million increase in the FY 2022-23 beginning balance. This amount mostly reflects a downward adjustment to cash fund revenue subject to TABOR, which resulted in a slightly lower FY 2021-22 obligation for TABOR refunds.

FY 2022-23. Expectations for the year-end excess reserve were revised up by $269.0 million relative to the December 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 increase of $12.7 million in the year-end balance.

The more impactful changes are in operating appropriations, transfers, and rebates and expenditures. Most importantly, this forecast reflects a $189.7 million reduction in FY 2022-23 operating appropriations included in the supplemental budget package, which also reduced the year-end reserve requirement by $28.5 million. Expectations for transfers out of the General Fund were increased slightly, on net, with the incorporation of transfers out in two supplemental package bills (Senate Bills 23-137 and 23-141) more than offsetting correction of an omitted transfer into the General Fund (Senate Bill 21-213).

Finally, for all years, this forecast removes General Fund expenditures for the Healthy School Meals Program funded in Proposition FF from the rebates and expenditures line. Consistent with the Joint Budget Committee's approach, this forecast assumes that the program will be funded with annual General Fund appropriations. This change reduces the General Fund rebates and expenditures obligation beginning in FY 2022-23, but requires a corresponding increase in the appropriations amount.

FY 2023-24. Budget Scenarios B and C differ from the scenarios used in the December 2022 forecast, so only Scenario A allows for a like comparison. The amount of General Fund revenue available to spend or save under Scenario A increased by $468.2 million. Most of the change was attributable to three factors, as shown in Table 3.

First, the increased expectation for General Fund revenue (+$390.1 million) was more than offset by an increased expectation for the TABOR refund obligation (+$490.2 million), for a net $100.1 million decrease in the available General Fund balance. A majority of the difference, $66.9 million, was attributable to a downward revision in expectations for the Referendum C cap, reflecting lower 2022 inflation and population growth than forecast in December. Most of the remaining difference results from an increase in expectations for cash fund revenue subject to TABOR.

Second, the reduced General Fund appropriations in the FY 2022-23 budget package (-$189.7 million) and attendant decrease in the reserve requirement (-$28.5 million), resulted in $218.2 million more in the expected FY 2022-23 year-end reserve carried forward to FY 2023-24. Further, since Scenario A assumes a continuation of current law expenditures, this adjustment also reduced FY 2023-24 General Fund obligations by an additional $218.2 million, or a cumulative $436.5 million over the two-year period.

Third, the aforementioned removal of the Healthy School Meals Program expenditures from the rebates and expenditures calculation resulted in a cumulative $146.1 million more available for appropriation over the two years, while requiring a corresponding increase in appropriations to be handled through the annual budget process.

Table 3
Changes in the General Fund Budget Scenario A Relative to the December 2022 Forecast
Dollars in Millions, Positive Amounts Reflect an Increase Relative to December

Components of Change	FY 2022-23	FY 2023-24	Description of Changes
Funds Available	**$313.8**	**$642.5**	
Beginning Reserve	$1.3	$240.5	FY 2021-22 final TABOR surplus revised down slightly.
General Fund Revenue	$295.9	$390.1	See Table 10. Mostly increased expectations for income tax revenue.
Transfers from Other Funds	$16.6	$11.9	See Table 6. Forecast incorporates SB 21-213 transfers.
Expenditures	**$71.4**	**$202.9**	
Operating Appropriations	-$189.7	-$189.7	FY 2022-23 supplemental budget package.
TABOR Refund Obligation	$283.2	$490.2	See Table 8. Increased forecast for revenue subject to TABOR.
Rebates and Expenditures	-$42.3	-$94.2	See Table 5. Removes Healthy School Meals to avoid double-counting.
SEF Transfers	$0.0	$0.0	
Transportation Transfers	$0.0	$0.0	
Capital Const. Transfers	$6.1	$0.0	See Table 4. Adds Senate Bill 23-141.
Other Cash Fund Transfers	$14.1	-$3.4	See Table 6. Adds Senate Bills 23-137 and 23-141.
Required Reserve	-$28.5	-$28.5	FY 2022-23 supplemental budget package.
Accounting Adjustment	-$1.9		Upward adjustment for TABOR refunds via homestead exemptions.
Surplus Relative to Required Reserve	**$269.0**		Nets the above changes.
Amount Available – Scenario A		**$468.2**	Nets the above changes.

Adjustments for 2022 Ballot Measures

Colorado voters approved eight statewide ballot measures at the November 2022 general election. This forecast makes adjustments for:

- **Proposition 121**, which reduces the state income tax rate to 4.4 percent for 2022 and later years. The measure is expected to reduce revenue by about $670 million in FY 2022-23. However, that amount represents a one-and-a-half-year impact, including the effect on tax due for the first half of calendar year 2022, which cannot at this point be accrued back to FY 2021-22. The revenue impact for FY 2023-24 and later years is expected at roughly $440 million. Because the measure reduces General Fund revenue subject to TABOR, it reduces TABOR refund obligations through the forecast period by an equal amount, with no net impact on the budget.

- **Proposition 123**, which requires a portion of income tax revenue equal to one-tenth of one percent of taxable income to be deposited in a new State Affordable Housing Fund beginning in 2023. The diversion amount is estimated at $151.8 million in FY 2022-23 and $311.0 million in FY 2023-24, as shown in Table 10, line 13, on page 31. The measure also exempts this revenue from TABOR as a voter-approved revenue change, meaning that the General Fund revenue decrease is offset by a decrease in TABOR refund obligations, with no net impact on the budget.

- **Proposition FF**, which increases income taxes by requiring taxpayers with adjusted gross income over $300,000 to add back a portion of their federal standard or itemized deductions when computing Colorado taxable income. The measure is estimated to increase taxes by $48.7 million in FY 2022-23 and by $99.8 million in FY 2023-24. These amounts are included in the General Fund revenue forecast, but they are exempt from TABOR. The revenue is required to be appropriated annually for the healthy school meals program.

- **Amendment E**, which modestly increases General Fund rebates and expenditures for the homestead property tax exemption.

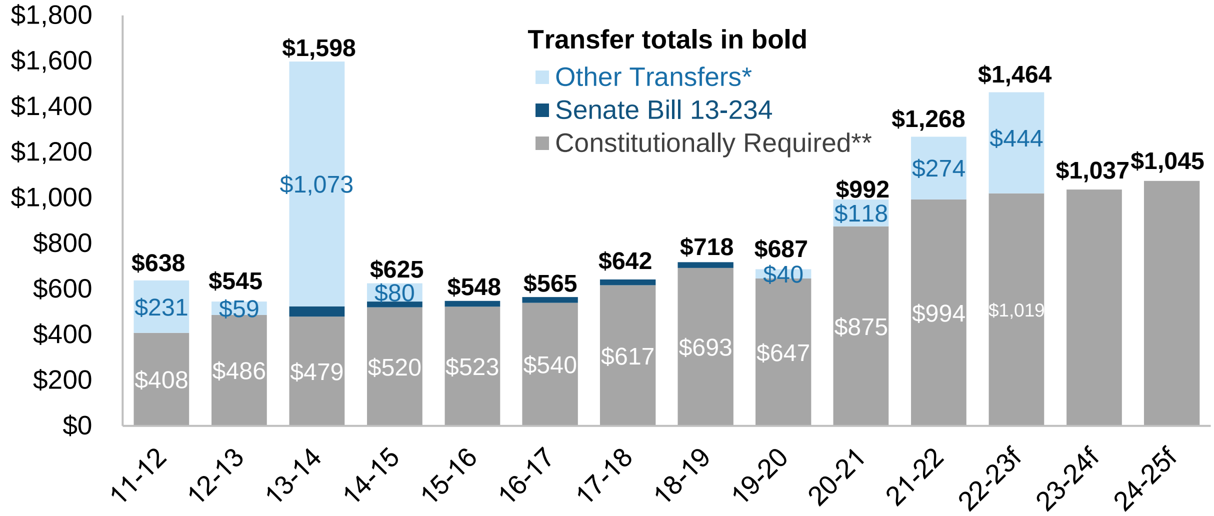
- **Proposition 125**, which modestly increases expectations for General Fund revenue from excise taxes on wine.

The forecast does not include adjustments for **Amendment D**, **Proposition GG**, or **Proposition 122**, which are not expected to have significant direct impacts on the budget.

State Education Fund Transfers

The Colorado Constitution requires the State Education Fund to receive one-third of 1 percent of taxable income. In FY 2022-23, the State Education Fund is expected to receive $1.02 billion as a result of this requirement, with higher amounts in the following year resulting from growth in taxable income among Colorado taxpayers. 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.*

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 10). House Bill 20-1420 includes a transfer of $113 million in FY 2020-21 and $23 million in FY 2021-22 to the State Education Fund, and Senate Bill 21-208 includes a $100 million transfer in FY 2021-22. Also, House Bill 22-1390 transferred $290 million in FY 2022-23 from the General Fund to the State Education Fund. 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 $154.2 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 6 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 11 and 12. Other non-infrastructure-related transfers to and from the General Fund are summarized in Table 6, and shown on lines 3 and 9 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			
Total	**$484.9**	**$88.0**	**$0.0**	**$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		
Total	**$354.0**	**$488.3**	**$20.0**	**$20.0**

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

General Fund contributions to transportation. Legislation enacted in 2022 directs $78.4 million to transportation-related cash funds in FY 2021-22, and $85.5 million to transportation-related cash funds in FY 2022-23. In FY 2021-22, transfers enacted in 2022 direct:

- $40.0 million to the State Highway Fund (SB 22-180);
- $36.5 million to the Highway Users Tax Fund (HB 22-1411); and
- $1.9 million to the Southwest Chief Rail Line Economic Development, Rural Tourism, and Infrastructure Repair and Maintenance Fund (SB 22-176).

In FY 2022-23, transfers enacted in 2022 direct:

- $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).

General Fund transfers for capital projects. Legislation enacted in 2022 directs $5.1 million in FY 2021-22 and $462.2 million in FY 2022-23 for capital construction and IT capital projects. Legislation enacted in 2023 as part of the FY 2022-23 supplemental budget package directs an additional $6.1 million for capital projects in FY 2022-23 only.

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 the Legislative Council Staff June 2023 forecast and subsequent June forecasts. For the fiscal year in which a relevant 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 greater of $30 million, or the UPTF fund balance. Based on this forecast, no transfer is expected for FY 2022-23 through FY 2024-25, as revenue subject to TABOR is expected to come in well above the cutoff amount.

Table 5
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%	$161.3	-0.5%	$160.7	-0.4%	$169.2	5.3%
TABOR Refund Mechanism[1]	-$162.1		-$161.3		-$160.7		-$169.2	
Property Tax Assessed Value Reductions					$238.6		$0.0	
TABOR Refund Mechanism[2]					-$238.6		NA	
Cigarette Rebate	$8.2	-11.2%	$7.2	-12.5%	$7.0	-2.7%	$6.8	-2.8%
Old Age Pension Fund	$76.9	-2.5%	$69.2	-10.1%	$68.5	-1.0%	$67.0	-2.1%
Aged Property Tax and Heating Credit	$5.9	-8.0%	$9.9	70.0%	$10.0	0.9%	$9.9	-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%	$4.7	3.3%	$4.8	2.0%	$4.8	0.0%
Amendment 35 Distributions	$0.7	-6.9%	$0.7	-2.4%	$0.7	-1.3%	$0.7	-0.8%
Marijuana Sales Tax Transfer to Local Governments	$25.6	-11.7%	$22.1	-13.7%	$22.1	-0.2%	$23.1	4.8%
Business Personal Property Exemptions[3]	$16.7		$17.3	3.4%	$18.0	4.0%	$18.7	4.0%
Total Rebates and Expenditures	**$149.6**	**-49.4%**	**$151.6**	**1.4%**	**$151.5**	**-0.1%**	**$151.6**	**0.0%**

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 6
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	$0.7	$0.7
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	$21.7	$22.0
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			
Total Transfers to the General Fund		**$71.3**	**$58.9**	**$39.7**	**$34.6**

Transfers from the General Fund		2021-22	2022-23	2023-24	2024-25
SB 11-047 & HB 13-1001	Bioscience Income Tax Transfer to OEDIT	$14.6	$17.6		
SB 14-215	Marijuana Tax Cash Fund	$165.7	$142.9	$142.7	$149.5
SB 15-244 & SB 17-267	State Public School Fund	$29.0	$25.0	$25.0	$26.2
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	$215.8	$216.8	$263.0
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 6 (Cont.)
Cash Fund Transfers
Dollars in Millions

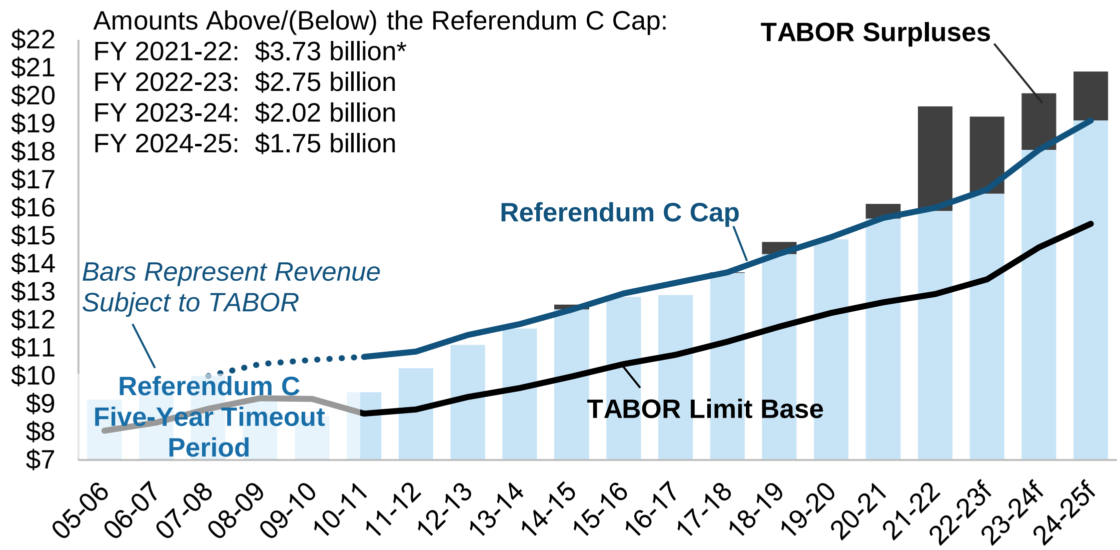
Transfers from the General Fund (Cont.)		2021-22	2022-23	2023-24	2024-25
HB 22-1001	Reduce Fees For Business Filings		$8.4		
HB 22-1004	Driver License Fee Reduction		$3.9		
HB 22-1011	Wildfire Mitigation Incentives for Local Governments		$10.0		
HB 22-1012	Wildfire Mitigation and Recovery		$7.2		
HB 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 22-1295[1]	Preschool Programs Cash Fund			$139.1	$145.9
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[2]	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	Infrastructure Investment and Jobs Act Cash Fund	$80.3			
SB 22-238	State Public School Fund		$200.0		
SB 23-137	Colorado Economic Development Fund		$5.0		
SB 23-141	DMVA Real Estate Proceeds Cash Fund		$4.9		
Total Transfers from the General Fund		**$837.9**	**$938.9**	**$523.9**	**$585.0**
Net General Fund Impact		**-$766.6**	**-$880.0**	**-$484.2**	**-$550.4**

[1]The transfer required in HB 22-1295 may be made from the General Fund or the State Education Fund.
[2]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.

TABOR Outlook

The state TABOR outlook is presented in Table 8 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 surplus amount because it includes $119.7 million in under-refunds from prior TABOR surpluses.*

FY 2021-22. The audited Annual Comprehensive Financial Report released in March 2023 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 $2.75 billion before exceeding the cap by $2.02 billion in FY 2023-24 and by $1.75 billion in FY 2024-25, even with high 2022 inflation resulting in a doubling of the TABOR growth rate impacting the FY 2023-24 Referendum C cap allowable growth. 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 December forecast, expectations for revenue subject to TABOR were increased through the forecast period, by about $285 million to $425 million per year through the forecast period, primarily due to higher expectations for General Fund revenue subject to TABOR associated with an improved economic outlook. The FY 2023-24 TABOR limit growth rate is 8.5 percent based on inflation and population growth for calendar year 2022. Both inflation and population growth were less than expected in the December forecast, reducing the expected FY 2023-24 Referendum C cap by $66.9 million.

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, which was disqualified in FY 2020-21 and requalified in FY 2021-22, and for Adams State University, which was disqualified in FY 2021-22 and is 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 allowable growth.

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.

[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.

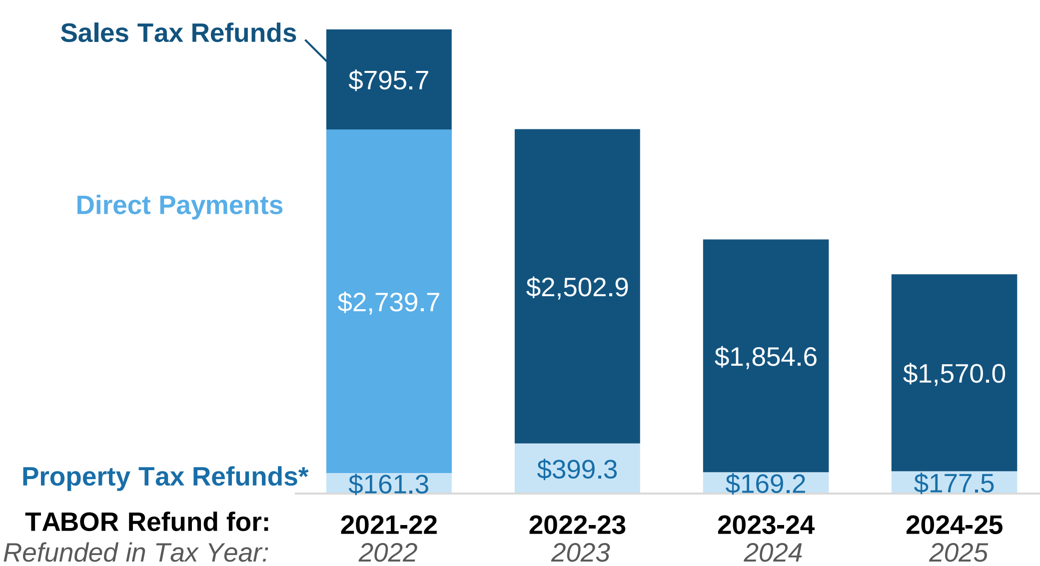
Amendment E, approved by voters in November 2022, extends property tax exemptions to Gold Star spouses starting in tax year 2023. A third refund mechanism, the temporary reduction in the income tax rate from 4.55 percent to 4.50 percent was rendered inoperable by Proposition 121, which permanently reduces 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 2022, 2023, 2024, and 2025. Table 7 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 $151.3 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 22-233 establishes an additional refund mechanism to refund a portion of the FY 2021-22 surplus for tax year 2022 through direct payments to taxpayers, after funding the property tax exemptions and before funding the six-tier sales tax refund mechanism. Direct payments in 2022 are $750 for single-filing taxpayers and $1,500 for households filing jointly.

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. This mechanism is estimated to refund $238.6 million in property tax year 2023. Figure 3 includes this mechanism with the "Property Tax Refunds" label.

Figure 3
Expected TABOR Refunds and Refund Mechanisms
Dollars in Millions



**Includes $238.6 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. Direct payments were required to be sent to most taxpayers by October 2022. 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.

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 $22.0 million. TABOR requires that this amount be refunded to taxpayers in the current FY 2022-23; however, state law currently does not include a mechanism to issue this refund. The refund amounts in this section do not include this obligation because it is unknown at this time how this refund will be paid. These amounts will be updated in the future if the refund is paid from the General Fund, or uses any of the mechanisms in place to issue refunds of TABOR surplus amounts. For more information on this requirement, see the General Fund Revenue section of this forecast document.

Table 7
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	$480	$960
$50,001	to	$100,000	$639	$1,278
$100,001	to	$157,000	$736	$1,472
$157,001	to	$219,000	$875	$1,750
$219,001	to	$279,000	$941	$1,882
$279,001	and up		$1,514	$3,028

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

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$52,000	$352	$704
$52,001	to	$103,000	$469	$938
$103,001	to	$164,000	$540	$1,080
$164,001	to	$227,000	$642	$1,284
$227,001	to	$291,000	$690	$1,380
$291,001	and up		$1,111	$2,222

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

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$54,000	$294	$588
$54,001	to	$106,000	$392	$784
$106,001	to	$168,000	$452	$904
$168,001	to	$233,000	$537	$1,074
$233,001	to	$299,000	$577	$1,154
$299,001	and up		$929	$1,858

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 8
TABOR Revenue Limit and Retained Revenue
Dollars in Millions

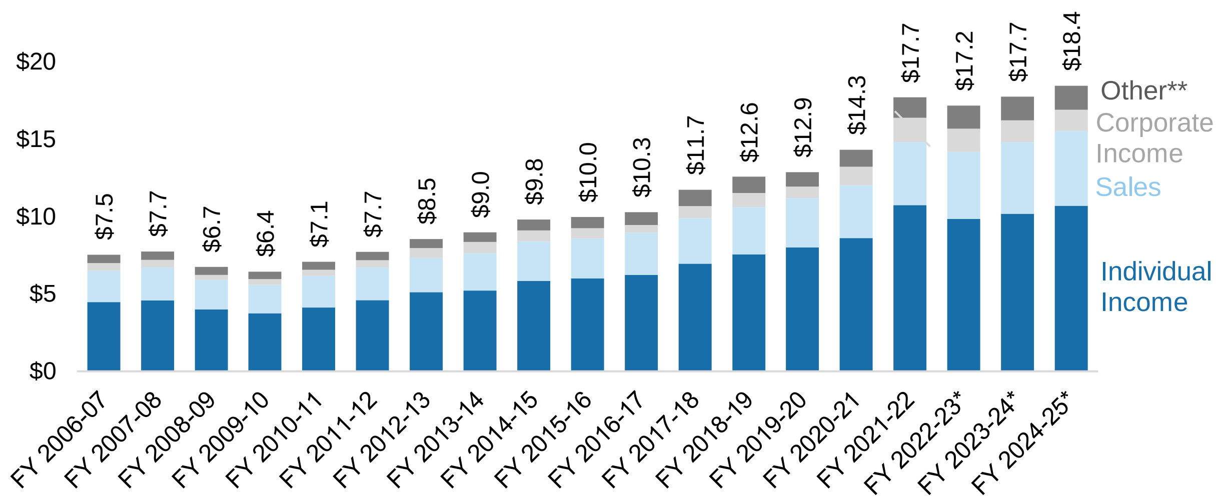
		Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25
	TABOR Revenue				
1	General Fund[1]	$17,075.4	$16,680.2	$17,202.9	$17,847.6
2	Cash Funds	$2,665.9	$2,727.8	$2,893.8	$3,021.2
3	**Total TABOR Revenue**	**$19,741.3**	**$19,408.0**	**$20,096.7**	**$20,868.7**
	Revenue Limit				
4	Allowable TABOR Growth Rate	2.2%	4.2%	8.5%	5.8%
5	Inflation (*from Prior Calendar Year*)	2.0%	3.5%	8.0%	4.9%
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	$15,433.9
8	Voter Approved Revenue Change (Referendum C)	$3,082.6	$3,212.1	$3,485.1	$3,687.2
9	Total TABOR Limit / Referendum C Cap[3]	$16,012.9	$16,657.1	$18,072.9	$19,121.1
10	**TABOR Revenue Above** (Below) **Referendum C Cap**	**$3,728.4**	**$2,750.9**	**$2,023.8**	**$1,747.6**
	Retained/Refunded Revenue				
11	Revenue Retained under Referendum C[4]	$3,082.6	$3,212.1	$3,485.1	$3,687.2
12	Fiscal Year Spending (*revenue available to be spent or saved*)	$16,012.9	$16,657.1	$18,072.9	$19,121.1
13	Outstanding Underrefund Amount[5]	$119.7	$151.3		
14	**Revenue Refunded to Taxpayers**	**$3,848.1**	**$2,902.3**	**$2,023.8**	**$1,747.6**
15	TABOR Reserve Requirement	$480.4	$499.7	$542.2	$573.6

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 10 on page 31 summarizes actual General Fund revenue collections for FY 2021-22 and projections for FY 2022-23 through FY 2024-25.

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 March 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. The extraordinary revenue increase was broad-based among the largest categories, reflecting much higher than expected individual and corporate income tax payments, alongside impressive increases in sales and use taxes and the first full year of tobacco tax collections under Proposition EE.

Forecast for FY 2022-23 through FY 2024-25. General Fund revenue is expected to fall 3.0 percent and total $17.2 billion in FY 2022-23. The decrease is attributable to the passage of Proposition 121 at the November 2022 General Election, which reduced the state income tax rate for individuals and corporations from 4.55 percent to 4.40 percent beginning in tax year 2022. Proposition 121 reduced projections for individual and corporate income tax revenue by about $670 million, or 5.1 percent, in FY 2022-23.

General Fund revenue is forecast to increase by 3.3 percent in FY 2023-24 and by 4.0 percent in FY 2024-25 as the economy is expected to return to a more moderate pace of expansion.

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.

Limited information is available to confirm the impact of recent income tax policy changes and the extent to which federal fiscal stimulus has supported state income taxes over the past two years. These policy impacts complicate the ability to assess the underlying strength of the state tax base, which could be stronger or weaker than currently forecast.

Income Tax

Taxable income earned by all Colorado individuals and corporations is taxed at a flat rate. Under **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, an amount raised by requiring non-corporate taxpayers with adjusted gross incomes over $300,000 to add back a portion of their federal standard or itemized deductions when computing their Colorado taxable income 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 61 percent of revenue to the General Fund in FY 2021-22, net of the SEF transfer.

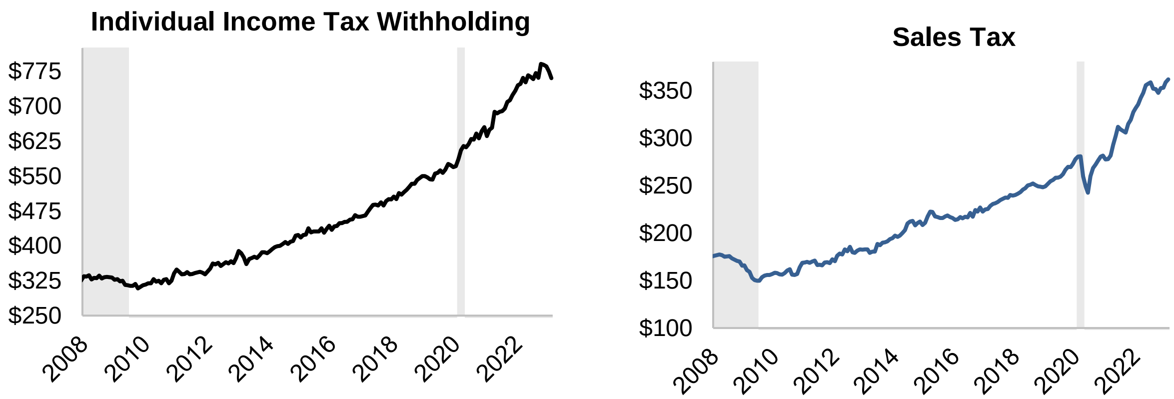
FY 2021-22. In FY 2021-22, individual income tax collections reached $11.72 billion before the SEF transfer, an increase of 23.6 percent over the year prior, as tax receipts continued to exceed expectations. Significant increases in withholding, estimated payments, and final cash payments far exceeded an increase in refunds. The 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, left). However, income tax revenue volatility that exceeds growth in personal incomes reflects the impacts 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 $707 million, a 6.0 percent decrease, in FY 2022-23 to total $11.01 billion before the SEF and affordable housing transfers. The decline is mostly attributable to the reduction in the state income tax rate from 4.55 to 4.40 percent, including the refund of overpaid taxes for the 2022 portion of FY 2021-22, which can no longer be accrued back to that fiscal year. Expectations for revenue were increased by $72.5 million relative to the December 2022 forecast, reflecting an improved economic outlook for 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.

Forecast for FY 2023-24 and FY 2024-25. Individual income tax collections are expected to grow by 4.7 percent in FY 2023-24 to $11.53 billion, and by 4.8 percent in FY 2024-25 to $12.08 billion. Estimates for both years were revised upward on net relative to the December 2022 forecast, with expected increases reflecting a slightly improved economic outlook along with a change in the federal tax policy treatment of retirement plans. 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 recent financial developments significantly clouding expectations.

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



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. February 2023 collections are preliminary.

Legislative adjustments. In addition to the ballot measures discussed above, this forecast includes significant adjustments for the impacts of 2022 legislation on individual income tax revenue. For tax year 2022, **House Bill 22-1205** creates a refundable, means-tested income tax credit for senior Coloradans who do not claim a homestead property tax exemption. **House Bill 22-1010** creates a refundable income tax credit for early childhood educators for tax years 2022 through 2025. Twelve bills enacted during the 2022 legislative session establish or extend income tax credits or deductions, many temporarily, and are expected to reduce income tax revenue by between $55 million and $140 million annually during the forecast period. This forecast also includes adjustments to the federal tax treatment of retirement plans, which are expected to increase state tax revenue by between $20 million and $24 million in FY 2023-24 and FY 2024-25.

Court ruling. 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. 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 this forecast incorporates a downward adjustment of $40 million for individual income tax revenue in FY 2022-23. 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 susceptible to changes in the broader economy and to federal tax policy. After growing at a brisk pace in the prior fiscal year, corporate income tax revenue surged at a rate of 32.5 percent in FY 2021-22, totaling $1.57 billion, a record high for Colorado corporate income tax revenue. High inflation and record profit margins contributed to the strong growth.

Forecast for FY 2022-23. After two years of extraordinary growth, inflationary pressures, and as subsidies from federal aid diminish, corporate income tax revenue is expected to fall by 5.2 percent in FY 2022-23. The decrease incorporates an anticipated $73.3 million reduction in corporate income taxes in FY 2022-23 attributable to the rate cut established by Proposition 121. However, despite the rate cut, corporate income tax revenue expectations were revised upward by $153.7 million relative to the December forecast. Corporate estimated payments continue to come in stronger than expectations.

Forecast for FY 2023-24 and FY 2024-25. Corporate income tax collections are expected to fall again in FY 2023-24 but remain near historical highs. Revenue is expected to total $1.41 billion in FY 2023-24. Corporate income taxes are expected to slightly fall again in FY 2024-25.

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. Paralleling inflation at four-decade highs, sales tax revenues were up 19.6 percent in FY 2021-22.

Sales tax receipts were up 10.5 percent fiscal year-to-date through February 2023. Relative to last year, growth has moderated as price pressures have eroded real wage gains and many households have spent down excess savings. Retail sales are expected to slow further through the forecast period as consumer activity weakens and consumers shift away from some sales 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. Growth will also be impacted by legislative adjustments, including new exemptions and temporary business tax relief.

Sales tax receipts are expected to increase 6.3 percent in FY 2022-23 and 6.2 percent in FY 2023-24. In FY 2024-25, sales tax receipts are expected to grow in line with personal income and increase by 4.8 percent.

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 9.9 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 2.8 percent, before increasing by 6.4 percent in FY 2024-25.

Proposition EE Cigarette, Tobacco, and Nicotine Taxes

Table 10 includes a line for Proposition EE taxes, which are 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, in the future, preschool programs. Table 10 shows expected revenue collections, while equivalent transfers from the General Fund to the 2020 Tax Holding Fund are shown in Table 6 on page 17. Proposition EE taxes totaled $49.0 million in FY 2020-21 and $208.0 million in FY 2021-22 on a cash basis, and are expected to total $215.8 million in FY 2022-23 and $216.8 million in FY 2023-24.

Proposition EE was referred to voters under House Bill 20-1427 and approved in November 2020. The measure 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. Beginning January 1, 2021, the cigarette tax increased from $0.84 to $1.94 per pack; the tax for tobacco products increased from 40 percent to 50 percent of manufacturer's list price (MLP); and the new tax for nicotine products, 30 percent of MLP, was instituted. The measure stated that the tax rates should continue to increase incrementally until FY 2027-28, reaching $2.64 per pack for cigarettes and 62 percent of MLP for tobacco and nicotine products.

Table 9
Assumed Proposition EE Tax Rates

	July 2023 - June 2024	July 2024 - June 2026	July 2026 Onward
Cigarettes			
Original Prop EE Tax Rate	$1.10	$1.40	$1.80
Reduced Tax Rate	$0.99	$1.26	$1.61
Tobacco			
Original Prop EE Tax Rate	10%	16%	22%
Reduced Tax Rate	9%	14%	20%
Nicotine			
Original Prop EE Tax Rate	50%	56%	62%
Reduced Tax Rate	45%	50%	56%

The 2020 Blue Book estimated that total Proposition EE revenue would bring in $186.5 million in its first full fiscal year, FY 2021-22. Because actual revenue came in at $208 million in FY 2021-22, TABOR requires the General Assembly to either refer a ballot measure to retain the excess revenue, or refund the excess revenue to taxpayers and reduce the tax rates in proportion to the excess. The Blue Book estimate was 10.3 percent lower than actual revenue. Therefore, this forecast makes the assumption that each of the tax rates will be reduced by 10.3 percent beginning in July 2023. The assumed reduced tax rates are shown in Table 9. This assumption reduces Proposition EE revenue by $18.6 million in FY 2023-24 and $22.0 million in FY 2024-25 relative to if the tax rates were unchanged.

Table 10
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	$4,347.1	6.3	$4,618.4	6.2	$4,841.2	4.8
2	Use	$232.6	8.6	$255.5	9.9	$262.7	2.8	$279.5	6.4
3	Retail Marijuana Sales	$258.7	-10.2	$221.0	-14.6	$220.6	-0.2	$231.2	4.8
4	Cigarette	$26.0	-13.8	$25.6	-1.6	$24.9	-2.7	$24.2	-2.8
5	Tobacco Products	$26.6	-8.3	$24.0	-9.9	$26.1	8.8	$27.3	4.6
6	Liquor	$56.3	5.6	$55.7	-1.2	$57.7	3.7	$59.7	3.4
7	Proposition EE Tobacco Taxes	$208.0	324.3	$215.8	3.8	$216.8	0.5	$263.0	21.3
8	Total Excise	$4,897.2	20.0	$5,144.6	5.1	$5,427.2	5.5	$5,726.1	5.5
	Income Taxes								
9	Net Individual Income	$11,717.8	23.6	$11,010.9	-6.0	$11,525.0	4.7	$12,083.9	4.8
10	Net Corporate Income	$1,568.6	32.5	$1,487.3	-5.2	$1,411.3	-5.1	$1,358.7	-3.7
11	Total Income Taxes	$13,286.4	24.6	$12,498.2	-5.9	$12,936.3	3.5	$13,442.5	3.9
12	Less: Portion diverted to the SEF	-$993.5	13.6	-$1,019.4	2.6	-$1,036.7	1.7	-$1,075.1	3.7
13	Less: Portion diverted for Affordable Housing	$0.0	NA	-$151.8	NA	-$311.0	104.8	-$322.5	3.7
14	Income Taxes to the General Fund	$12,292.9	25.6	$11,327.0	-7.9	$11,588.6	2.3	$12,045.0	3.9
	Other Sources								
15	Estate	$0.0	NA	$0.0	NA	$0.0	NA	$0.0	NA
16	Insurance	$390.2	16.0	$441.4	13.1	$472.3	7.0	$500.6	6.0
17	Pari-Mutuel	$0.4	34.8	$0.4	-6.9	$0.4	3.5	$0.4	4.0
18	Investment Income	$69.2	38.3	$192.4	177.9	$204.5	6.3	$125.9	-38.4
19	Court Receipts	$2.4	-31.4	$2.2	-7.5	$2.2	0.7	$2.2	-1.7
20	Other Income	$45.6	-10.1	$57.7	26.6	$44.9	-22.3	$45.5	1.4
21	Total Other	$507.8	15.2	$694.1	36.7	$724.3	4.4	$674.6	-6.9
22	**Gross General Fund Revenue**	**$17,697.9**	**23.7**	**$17,165.7**	**-3.0**	**$17,740.1**	**3.3**	**$18,445.7**	**4.0**

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

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Cash Fund Revenue

Table 11 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.

FY 2021-22. Cash fund revenue subject to TABOR totaled $2.67 billion in FY 2021-22. Nearly 70 percent of the increase in cash fund revenue in FY 2021-22 is attributable to the resurgence in severance tax revenue, which rose by $310.3 million as a result of significantly elevated energy prices.

Table 11
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	$1,273.7	$1,429.9	$1,521.3	
Percent Change	7.2%	2.8%	12.3%	6.4%	7.1%
Severance Tax	$325.0	$309.6	$244.8	$217.3	
Percent Change	2113.0%	-4.7%	-20.9%	-11.2%	-12.6%
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	$23.9	$22.0	$22.3	
Percent Change	15.4%	-1.5%	-7.9%	1.4%	-2.8%
Regulatory Agencies	$92.3	$82.0	$82.7	$83.7	
Percent Change	3.6%	-11.1%	0.9%	1.2%	-3.2%
2.9% Sales Tax on Marijuana[2]	$11.8	$7.7	$7.6	$7.8	
Percent Change	-23.9%	-34.3%	-2.1%	3.0%	-12.8%
Housing Development Grant Fund	$66.5	$72.2	$76.7	$80.9	
Percent Change	203.7%	8.5%	6.3%	5.5%	6.8%
Other Cash Funds[3]	$791.2	$839.2	$907.0	$962.2	
Percent Change	-5.0%	6.1%	8.1%	6.1%	6.7%
Total Cash Fund Revenue	**$2,665.9**	**$2,727.8**	**$2,893.8**	**$3,021.2**	
Subject to the TABOR Limit[3]	18.3%	2.3%	6.1%	4.4%	4.3%

Totals may not sum due to rounding.
** CAAGR: Compound average annual growth rate for FY 2021-22 to FY 2024-25.*
[1]Pursuant to Senate Bill 17-267, the Hospital Provider Fee subject to TABOR has been repealed.
[2]Gaming revenue in this table does not include extended gaming revenue from Amendments 50 and 77, because it is not 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.

FY 2022-23 through FY 2024-25. Cash fund revenue subject to TABOR in the current FY 2022-23 is expected to total $2.73 billion. Revenue will increase by 2.3 percent with most of the growth occurring in transportation-related revenue and other cash funds revenue. Cash fund revenue growth is expected to accelerate to 6.1 percent in FY 2023-24, before slowing in FY 2024-25 to 4.4 percent. Relative to December, cash fund forecasts were relatively unchanged for the current FY 2022-23, with a downward revision of $14.1 million. For FY 2023-24 and FY 2024-25, cash funds were revised upward by $26.0 million and $40.6 million, respectively.

Transportation-related revenue subject to TABOR increased by 7.2 percent in FY 2021-22. The revenue increase was driven by motor fuel and aviation fuel tax revenues as commuter traffic and travel activity continued to normalize after plummeting in 2020. Energy prices spiked in the second quarter of 2022, reducing motor fuel consumption but boosting sales tax revenue from aviation fuel, which is assessed as a percentage of the price of the fuel. Revenue is expected to increase by 2.8 percent in FY 2022-23 as travel activity continues to improve and road usage fees and retail delivery fees go into effect. Revenue is expected to increase by 12.3 percent in FY 2023-24 and 6.4 percent in FY 2024-25. The forecast for transportation-related revenue is presented in Table 12.

Motor fuel tax receipts grew by 6.7 percent in FY 2021-22, and are expected to approach pre-pandemic peak levels in FY 2022-23. 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.

Additionally, Senate Bill 21-260 created a road usage fee on gasoline and diesel fuel that will bolster transportation revenue going forward, starting at two cents per gallon and increasing over time. House Bill 22-1351 delayed the implementation of Road Usage fees such that they will go into effect in April 2023. Senate Bill 21-260 also created retail delivery fees that went into effect on July 1, 2023. The state retail delivery fee is expected to bring in $17.6 million to the Highway Users Tax Fund and $7.4 million to the Multimodal Transportation and Mitigation Options Fund in FY 2022-23.

Growing revenue from motor fuel, retail delivery fees, and road usage fees is expected to be partially offset by reduced revenue from the 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 11.1 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, 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 for transportation purposes. 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. Different revenue streams are distributed using different formulas. The estimated distribution summary is shown in Table 13.

Table 12
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	$643.0	$683.3	$690.6	1.7%
Percent change	6.7%	1.5%	6.3%	1.1%	
Road Usage Fees	$0.0	$14.6	$93.3	$125.8	
Percent change	NA	NA	538.0%	34.9%	
Total Registrations	$387.8	$344.7	$377.5	$420.3	2.4%
Percent change	-3.1%	-11.1%	9.5%		
Registrations	*$244.2*	*$235.2*	*$230.2*	*$233.8*	
Road Safety Surcharge	*$110.4*	*$73.9*	*$110.5*	*$149.0*	
Late Registration Fees	*$33.2*	*$35.6*	*$36.8*	*$37.6*	
Other HUTF Receipts[1]	$51.6	$74.2	$77.7	$80.8	15.2%
Percent change	6.1%	45.6%	4.7%	4.0%	
Total HUTF	**$1,072.7**	**$1,076.6**	**$1,231.8**	**$1,317.5**	6.1%
Percent change	2.9%	0.4%	14.4%	7.0%	
State Highway Fund (SHF)[2]	$21.3	$27.4	$25.7	$25.0	2.9%
Percent change	15.6%	28.8%	-6.3%	-2.5%	
Other Transportation Funds	$145.5	$169.7	$172.5	$178.8	6.4%
Percent change	52.4%	16.6%	1.6%	3.7%	
Aviation Fund[3]	*$46.4*	*$58.2*	*$54.7*	*$56.0*	
Multimodal Transportation Options Fund[4]	*$0.0*	*$7.4*	*$8.2*	*$8.9*	
Law Enforcement-Related[5]	*$6.7*	*$6.8*	*$6.6*	*$6.4*	
Registration-Related[6]	*$92.5*	*$97.2*	*$103.0*	*$107.5*	
Total Transportation Funds	**$1,239.5**	**$1,273.7**	**$1,429.9**	**$1,521.3**	7.1%
Percent change	7.2%	2.8%	12.3%	6.4%	

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.

Table 13
HUTF Distribution Forecast
Dollars in Millions

	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24
Department of Public Safety[1]	$171.9	$182.6	$182.6
Department of Revenue[2]	$5.3	$10.3	$9.1
Department of Natural Resources[3]	$0.3	$0.3	$0.3
State Highway Fund	$554.1	$543.8	$637.8
Counties	$223.3	$219.7	$237.4
Municipalities	$156.3	$155.0	$168.3
Total HUTF Distributions	**$1,111.2**	**$1,111.7**	**$1,235.5**
Total Nonexempt Revenue	**$1,072.7**	**$1,076.6**	**$1,231.8**
Assumed Exempt Revenue	$2.0	$3.8	$3.8
Transfers to HUTF	$36.5	$31.4	$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 decline throughout the forecast period 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 14.

Table 14
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	$291.5	$225.0	$198.0	-13.8%
Percent Change	54406.3%	-5.6%	-22.8%	-12.0%	
Coal	$3.2	$4.1	$5.1	$4.8	14.5%
Percent Change	68.3%	28.7%	22.6%	-5.0%	
Molybdenum and Metallics	$2.7	$1.3	$1.3	$1.3	-21.1%
Percent Change	22.0%	-53.3%	0.0%	5.0%	
Total Severance Tax Revenue	**$314.6**	**$296.9**	**$231.3**	**$204.2**	-13.4%
Percent Change	6591.5%	-5.6%	-22.1%	-11.8%	
Interest Earnings	$10.3	$12.7	$13.5	$13.2	8.4%
Percent Change	3.5%	23.0%	6.2%	-2.5%	
Total Severance Tax Fund Revenue	**$325.0**	**$309.6**	**$244.8**	**$217.3**	-12.6%
Percent Change	2113.0%	-4.7%	-20.9%	-11.2%	

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. Collections are expected to decline modestly in FY 2022-23 to $291.5 million as oil and natural gas prices decline, production remains muted, and ad valorem tax credit utilization increases. Following 2022, falling energy prices are expected to result in more significant declines in oil and natural gas severance tax revenue in FY 2023-24 and 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 28.7 percent, to $4.1 million. Similar to many other commodities, coal prices increased significantly in 2021 and 2022, which put upward pressure on coal severance tax revenue. 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 and tepid production, legislative adjustments are expected to boost revenues in FY 2023-24. 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 $1.3 million in FY 2022-23. In 2021, prices for molybdenum increased nearly 100 percent. Prices have since come down from this peak, but still remain elevated.

Finally, **interest earnings** on severance tax revenue were approximately $10.3 million in FY 2021-22 and are forecast to increase to $12.7 million in FY 2022-23. Interest earnings are forecast to rise again in FY 2023-24 before falling in FY 2024-25.

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.

Emerging from the recession, gaming revenues have more than rebounded due to recent legislation and pent-up demand following the pandemic-induced shutdowns and capacity restrictions. Amendment 77 allowed gaming communities to remove bet limits and permit more games beginning in May 2021, which brought new investment into each area. Along with renovations of existing properties, the Monarch Casino recently finished its multi-year expansion project, and the construction of the new Chamonix casino hotel in Cripple Creek will double the town's room capacity and is expected to boost gaming revenues into the next fiscal year. 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 gaming), which is TABOR-exempt. Senate Bill 22-216 modified the allocation of limited and extended gaming revenue through the forecast period. The bill set limited gaming revenue subject to TABOR at about $117.4 million for FY 2022-23. As tax revenues grow, gaming revenue subject to TABOR – including fees and interest – is expected to increase by 3.5 percent in FY 2022-23 to $119.4 million. Through the forecast period, gaming revenue subject to TABOR is expected to grow 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 its inception through October 2022. 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 a state tax 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 over the forecast period, forecast at $2.3 million in FY 2022-23, $2.4 million in FY 2023-24, and $2.5 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 $27.9 million, as tax collections so far have far exceeded the same period in FY 2021-22. Exempt sports betting revenue is forecast to reach $33.2 million in FY 2023-24 and $36.3 million in FY 2024-25.

Marijuana tax revenue has been on the decline since 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-induced 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. Marijuana tax revenue is expected to rebound slowly 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 15.

Marijuana tax revenues declined by 12.9 percent in FY 2021-22 and are forecast to decline again in FY 2022-23 by 22.3 percent to $287.3 million, as shown in Table 15. 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. Revenue from the special sales tax is expected to decline to $221.0 million in FY 2022-23, a 13.7 percent decrease from the prior year. Revenue is expected to grow slowly month-over-month through the rest of the forecast period, reaching $220.6 million in FY 2023-24 and $231.2 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

Table 15
Tax Revenue from the Marijuana Industry
Dollars in Millions

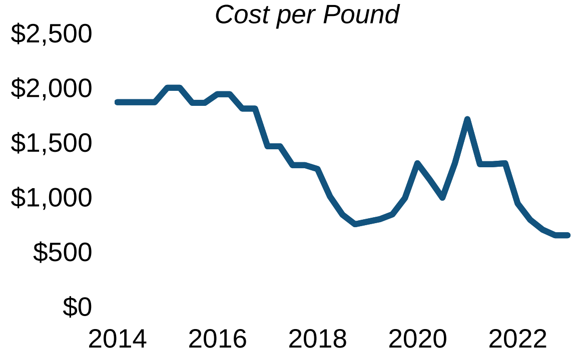
	Actual FY 2021-22	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	CAAGR*
Proposition AA Taxes					
Special Sales Tax	$258.7	$221.0	$220.6	$231.2	-3.7%
State Share of Sales Tax	$232.9	$198.9	$198.5	$208.1	
Local Share of Sales Tax	$25.9	$22.1	$22.1	$23.1	
15% Excise Tax	$99.4	$58.6	$60.3	$63.5	-13.9%
Total Proposition AA Taxes	**$358.1**	**$279.5**	**$280.9**	**$294.7**	-6.3%
Percent Change	-12.4%	-21.9%	0.5%	4.9%	
2.9 Sales Tax (Subject to TABOR)					
2.9% Sales Tax on Medical Marijuana	$9.2	$5.5	$5.4	$5.5	-15.9%
2.9% Sales Tax on Retail Marijuana	$2.3	$2.0	$2.0	$2.1	-3.3%
TABOR Interest	$0.2	$0.2	$0.2	$0.2	
Total 2.9% Sales Tax	**$11.8**	**$7.7**	**$7.6**	**$7.8**	-12.8%
Percent Change	-23.9%	-34.3%	-2.1%	3.0%	
Total Marijuana Tax Revenue	**$369.9**	**$287.3**	**$288.4**	**$302.5**	-6.5%
Percent Change	-12.9%	-22.3%	0.4%	4.9%	

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

The excise tax is the second-largest source of marijuana revenue and is dedicated to the BEST Fund for school construction. After several years of strong growth, 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 fiscal year. Revenue from marijuana excise taxes totaled $99.4 million in FY 2021-22, and is expected to fall significantly further, to $58.6 million in FY 2022-23. Revenue collections are expected to grow modestly through the rest of the forecast period.

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. There is considerable uncertainty about the trajectory of the calculated price due to a lack of available information. The wholesale price stayed steady at $658 per pound for the first quarter of 2023 as shown in Figure 6. After facing upward pressure in 2020 due to increased demand and constrained supply, the wholesale price has declined since.

Figure 6
Calculated Average Wholesale Rate
Cost per Pound



Source: Colorado Department of Revenue.

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 generate $5.5 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 16, 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 23.5 percent to $154.5 million. The rapid increase in natural gas prices that started in 2021 has led to elevated FML revenues. Prior to the recession, natural gas prices were around $2.20 per million BTU. As of February, prices were down significantly from the peak of $8.81 per million BTU in August 2022, averaging about $2.38 for the month. Prices are expected to average about $3.40 in 2023, leading to declining FML revenues in FY 2023-24.

Table 16
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	$154.5	$120.2	$123.8
Bonus Payments (portion of total revenue)	**$3.8**	**$4.6**	**$3.6**	**$3.7**
Local Government Permanent Fund	$1.9	$2.3	$1.8	$1.9
Higher Education FML Revenue Fund	$1.9	$2.3	$1.8	$1.9
Other (non-bonus) **FML Revenue**	**$121.4**	**$149.9**	**$116.6**	**$120.1**
State Public School Fund	$58.6	$72.4	$56.3	$58.0
Colorado Water Conservation Board	$12.1	$15.0	$11.7	$12.0
DOLA Grants	$24.3	$30.0	$23.3	$24.0
DOLA Direct Distribution	$24.3	$30.0	$23.3	$24.0
School Districts	$2.1	$2.5	$2.0	$2.0
Higher Education FML Revenue Fund	$1.9	$2.3	$1.8	$1.9

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 17. Revenue to the UI Trust Fund is not subject to TABOR and is therefore excluded from Table 11. 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 11.

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 has since resumed FUA borrowing to cover benefits payments in the first quarter of 2023. As of March 13, 2023, Colorado has an outstanding federal loan balance of $27.2 million, extended at an interest rate of 1.66 percent, and is expected to borrow up to $60 million total before premium revenues allow for the repayment of all outstanding loans by June 30, 2023.

The amount of UI benefits paid is expected to decline in FY 2022-23, to $469.3 million, as continued strength in the state's labor market offsets increases in average benefits paid. Benefits paid are expected to increase in FY 2023-24 and FY 2024-25, to $529.1 million and $618.8 million, respectively, with softening labor markets expected as monetary policy slows economic growth alongside continued inflation boosting average weekly wages. Revenues to the fund are expected to reach $833.6 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 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 $176.2 million. Fund revenues are expected to increase through the forecast period, allowing continued improvement of the UITF balance and shifting employers to lower premium rate schedules in January 2024 and January 2026. At $1.2 billion on June 30, 2025, and 0.64 percent of annual private wages, the UITF balance is forecast to exceed the $1.1 billion pre-pandemic fund balance, which was then 0.87 percent of annual private wages.

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, which eligible employees may use beginning January 1, 2024. Employers are required to remit payments by April 30, 2023 to the FAMLI Fund administered by the Colorado Department of Labor and Employment (CDLE), so initial revenue tracking data are not yet available at the time of this forecast. The fund balance in March 2023 is $58.8 million, consisting primarily of $57 million in prepaid state employer premiums made pursuant to **House Bill 23-1133**, as well as interest and prepaid private employer premiums. Revenue to the fund is exempt from TABOR, and is expected to total approximately $600 million in FY 2022-23.

Table 17
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)	$176.2	$665.1	
Plus Income Received					
UI Premium	$783.8	$833.6	$881.7	$965.1	7.2%
Solvency Surcharge	$0.0	$0.0	$133.4	$216.6	
Interest	$0.0	$0.0	$2.8	$10.6	
Other**	$581.1	$33.1			
Total Revenues	**$1,364.9**	**$866.7**	**$1,017.9**	**$1,192.3**	**-4.4%**
Percent Change	127.1%	-36.5%	17.4%	17.1%	
Less Benefits Paid	($483.8)	($469.3)	($529.1)	($618.8)	8.6%
Percent Change	-76.1%	-3.0%	12.7%	17.0%	
Principal Loan Repayment	$0.0	($88.1)	$0.0	$0.0	
Ending Balance	**($133.1)**	**$176.2**	**$665.1**	**$1,238.6**	
Solvency Ratio					
Fund Balance as a Percent of Total Annual Private Wages	-0.09%	0.10%	0.36%	0.64%	

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, and private loans applied to federal loans outstanding.*

Economic Outlook

It has been three years since the COVID-19 pandemic wreaked havoc on the world economy. The pandemic triggered quarantines, snarled supply chains, and forced many businesses to close. A sharp decline in aggregate demand, especially for energy products and in-person services, caused a fall in prices for many goods and services. To offset the rapid contraction, the federal government provided trillions of dollars of direct support to individuals, businesses, and state and local governments.

By early 2021, the U.S. economy showed signs of improvement as pandemic restrictions eased. However, revived consumer demand further strained global supply chains, awakening a broad-based rise in prices. Inflation built momentum, careening to its highest rate in 40 years. Then in late February 2022, the war in Ukraine sent shock waves through the energy and agricultural markets, driving prices still higher. Last March, the Federal Reserve increased interest rates for the first time since 2018. The Fed would go on to increase rates six more times over the course of the year. Despite the aggressive monetary policy change, inflation remained near historical highs, though it began to cool over the latter half of 2022.

Though they have stabilized somewhat since our December forecast, the U.S. and Colorado economies continue to face many challenges. To this point, the ongoing monetary treatment regimen looks to be erring toward being too conservative, allowing the economy to continue to overheat. However, the probability of a soft landing has risen. This forecast anticipates continued growth, albeit slow growth, through 2023, and a return to a more moderate pace of expansion in 2024 and 2025. Expansion will be supported by falling inflation, a resilient labor market, and continued improvement in real wages.

The primary risk to the economic expansion is the Federal Reserve's difficult balancing act: to rein in inflation by raising interest rates without triggering a recession. The intent of this monetary policy "tightening" is to suppress economy-wide demand. The Fed's approach risks both underreacting, in which case it would fail to contain inflation, and overreacting, in which case it would depress demand so severely as to trigger a downturn. To this point, inflation and labor market data suggest that the probability of a near-term recession is receding, but the probability of continued inflation above the Fed's 2 percent target rate is high. Further, the significant monetary policy intervention will have lasting consequences. Real estate values will continue falling, with minimal affordability benefits for would-be homebuyers because of rising mortgage costs. Reducing demand likewise drains consumer and business confidence, which could worsen further as the pace of growth slows. And, while it has entered a less precarious phase than in 2022, the economy remains fragile. Any number of unforeseen outside shocks could push the economy off its path of growth.

Tables 18 and 19 on pages 68 and 69 present histories and expectations for key indicators for the U.S. and Colorado economies, respectively.

Gross Domestic Product

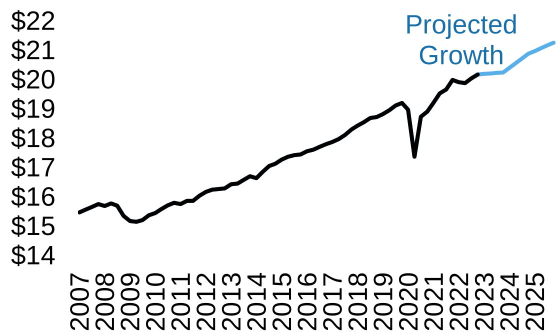
Despite severe headwinds, U.S. gross domestic product (GDP), the most commonly cited indicator of total economic activity in the U.S, rose 2.1 percent in 2022, following a rebound of 5.9 percent in 2021 from the pandemic trough. Challenged by the war in Ukraine, elevated crude oil prices, inflation, and tighter monetary policy, the economy contracted in the first two quarters of the year. However, activity picked up in the second half of the year, as inflation moderated and consumer demand remained firm. Finally, higher government spending offset declining investment in business and residential real estate.

- With inflation weighing on growth, real U.S. GDP growth will increase by just 1.1 percent in 2023. As the pace of expansion slowly regains momentum, real economic output is projected to increase at rates of 2.1 percent in 2024 and 2.3 percent in 2025.

Consumer spending continues to grow, but at a slower pace. 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.

Consumers continue to shift their spending away from goods and back to services. In 2022, spending on goods declined by 0.5 percent after increasing by 12.2 percent in the prior year, while services spending increased by 4.5 percent. During the height of the pandemic, consumers purchased electronics, appliances, furniture, and food at grocery stores, while service-related businesses, such as restaurants, entertainment, and hotels and tourism suffered. Since late 2021, spending habits have shifted as consumption patterns return to their pre-pandemic balance between goods and services.

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



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

Bearish investment continues to impede U.S. economic growth. After declining for two consecutive quarters in 2022, business investment ended the year on a positive note, increasing 3.7 percent from the previous quarter. For the year, business spending was up 3.9 percent, slower than the 9.0 percent increase in 2021. The deceleration in business investment is primarily from a significant pullback in residential investment. 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. The fourth quarter decline in residential investment (-25.9 percent) was the largest since the second quarter of 2020. Residential investment was down 10.7 percent in 2022 after increasing at an equivalent rate in 2021.

Improvement in business investment was led by outlays in equipment and intellectual property products (computer equipment and software). In 2022, intellectual property investment increased by 8.9 percent, while equipment investment improved by 4.3 percent from the prior year.

U.S. trade balance narrows. Net exports, a measure of the country's total trade calculated as total exports minus total imports, improved in 2022. Exports significantly increased in the third and fourth quarters as the war in Ukraine and high energy prices caused buyers around the world to seek American products. 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 in the next year.

Overall government spending was relatively flat in 2022. 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.

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.

Labor Markets

The labor market in the state and nation remains strong, even as tightening monetary policy begins to bite into employment growth in some sectors. Elevated job openings continue to indicate that there is room to rein in inflationary pressures without decreasing employment levels, though sectors sensitive to interest rates like finance, insurance, and real estate have begun to falter. A persistently strong labor market widens pathways to a soft landing. However, there are continued downside risks as confidence erodes and household balance sheets deteriorate. Colorado outpaces the nation on most labor market measures. Employment in Colorado reached its pre-pandemic level in February 2022, and will reach its pre-COVID trend level in late 2023 as employment growth slows.

- U.S. nonfarm employment growth was 4.3 percent in 2022, and is expected to slow in 2023 and 2024, to 1.9 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 3.7 percent in 2024.

- In Colorado, nonfarm employment grew by 4.1 percent in 2022. Although growth will slow to 2.6 percent in 2023 and 1.4 percent in 2024, job gains will continue to outpace the national trend. The Colorado unemployment rate is expected to fall from 3.0 percent in 2022 to 2.9 percent in 2023, before rising to 3.1 percent in 2024.

Colorado's employment recovery remains strong, widening the path for a soft landing. Colorado's unemployment rate was unchanged in January 2023, compared with the revised December 2022 rate of 2.8 percent, well below the historically low national rate of 3.4 percent in the same period (Figure 8, top left). Newly released re-benchmarked estimates indicate that Colorado's unemployment rate has remained below 3.0 percent since April 2022, leading to a downward revision in the annual average unemployment rate, to 3.0 percent from 3.6 percent in 2022. Colorado is one of thirteen states with unemployment rates below that of the U.S. Ranked lowest to highest, Colorado has the nation's tenth lowest unemployment rate, equal to New Hampshire. At 2.1 percent, North and South Dakota have the lowest unemployment rates, while Nevada has the highest rate (5.5 percent). Colorado's labor force participation rate in January ticked up to 68.1 percent, compared to the revised December rate of 68.0 percent, well ahead of the nationwide rate of 62.4 percent, and the third highest among the 50 states behind Nebraska (69.5 percent) and Utah (68.6 percent) and equal to Iowa and Minnesota.

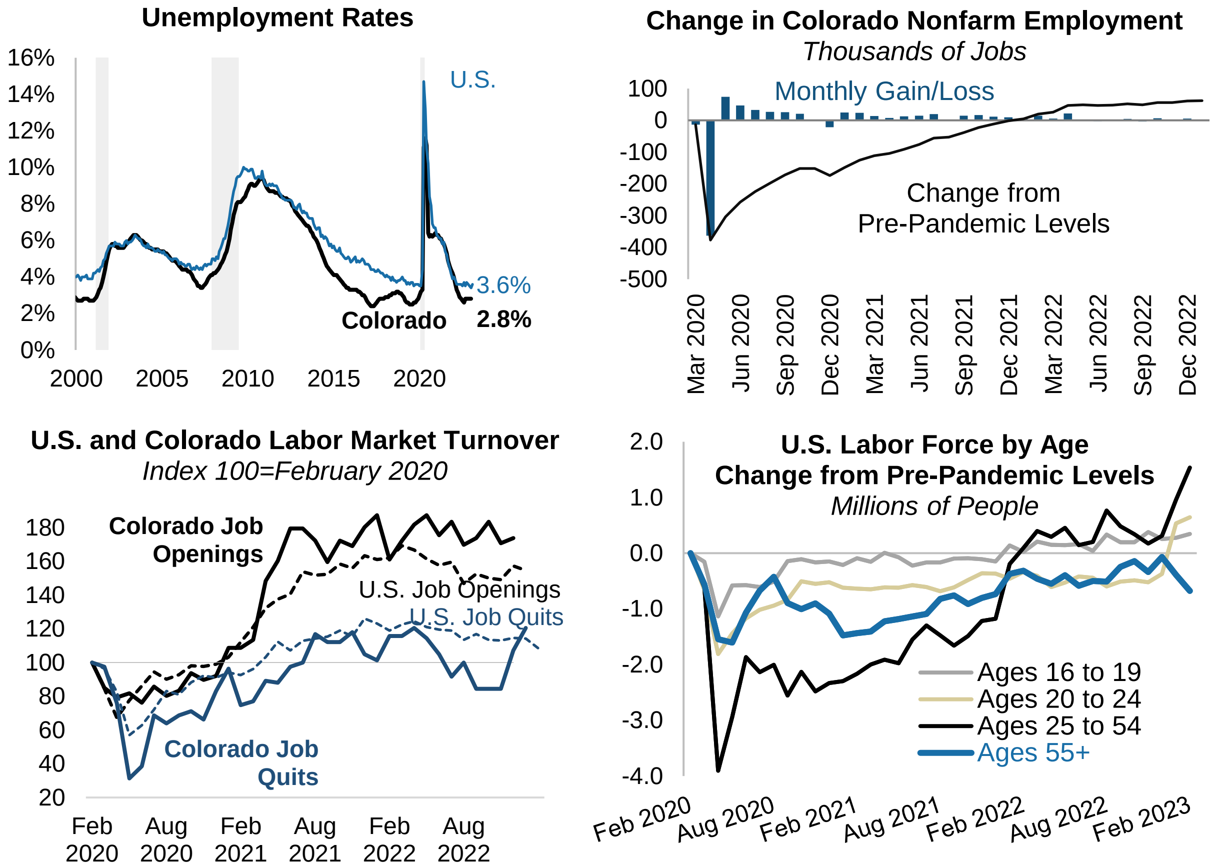
The employment recovery in Colorado held up through 2022, despite downward revisions in monthly jobs growth in the latter half of 2022. Employers added 5,500 jobs in December for an average monthly gain of 5,225 during the year. Employment growth slowed in January 2023, with employers adding only 800 jobs over the month. The state has gained 438,800 jobs since losing an upwardly revised 376,900 jobs between February and April 2020, for a recovery rates of 116.4 percent, compared with the national rate of 112.3 percent through January 2023 (Figure 8, top right). Colorado average hourly earnings grew by 5.7 percent year-over-year in January 2023, still well above pre-pandemic growth and continuing to signal a tight labor market but resulting in a 0.7 percent decline in real wages.

Job openings and older workers send mixed signals. Both job openings and job quits have fallen from mid-2022 peaks, but remain well above pre-pandemic levels (Figure 8, bottom left). Job openings, a measure of labor demand, increased in 2022 to surpass 11.0 million in the U.S. and 219,000 in Colorado. Openings remain historically high and well above pre-pandemic monthly averages. There were two job openings per unemployed person in Colorado from March through December 2022. Job quits had fallen below pre-pandemic levels in Colorado before rising again in November and December. Rising quits and elevated job openings may indicate that workers are willing and able to continue switching jobs, a sign of continued labor market momentum in the face of tightening monetary policy. Elevated job openings in weakening sectors may conversely indicate that employers are delaying filling open positions due to a cooling outlook.

The U.S. prime age labor force participation rate continues to improve above pre-pandemic levels. Meanwhile, the participation rate for older workers once again bucked the trend, declining in January and February 2023 and remaining stubbornly subdued. Participation rates for 20-to-24-year-olds had remained sluggish as well, indicating some long-term scarring impacts of pandemic disruptions during the transition from school into the workforce. However, participation among these younger workers surged above pre-pandemic levels in January (Figure 8, bottom right).

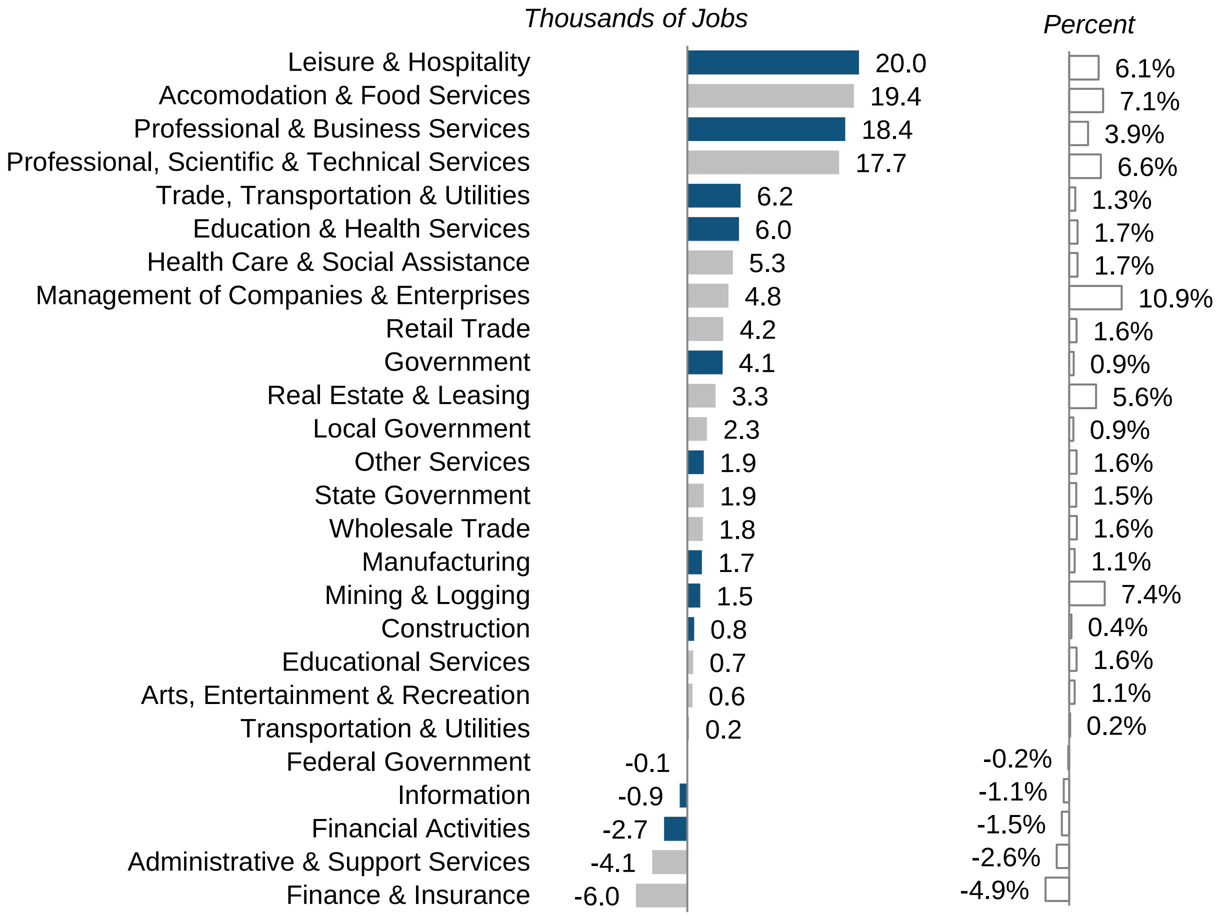
Colorado job growth slows in some sectors while leisure and hospitality employment reaches pre-pandemic levels. Year-over-year, statewide job growth was 2.0 percent in January 2023, still above its long-term trend, with the largest job gains in leisure and hospitality, up by 6.1 percent (20,000 jobs), and professional and business services, up by 7.1 percent (19,400 jobs), as shown in Figure 9. Employment in the latter sector overtook February 2020 levels in April 2021, and is now up by 44,100 jobs, while employment in the former sector only just overtook February 2020 levels in December 2022, but fell back to February 2020 levels in January 2023. The only private supersectors with job losses year-over-year through January 2023 were financial activities, down by 1.5 percent (2,700 jobs) and information, down by 1.1 percent (900 jobs). Inflation and high interest rates added to volatility in these supersectors, which include the finance and insurance sector and the real estate and leasing sector. Other flagging sectors included transportation and utilities and construction.

Figure 8
Selected U.S. and Colorado Labor Market Indicators



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Colorado unemployment and employment data and U.S. job openings are through January 2023. Colorado job openings are through December 2022. All other U.S. data are through February 2023.

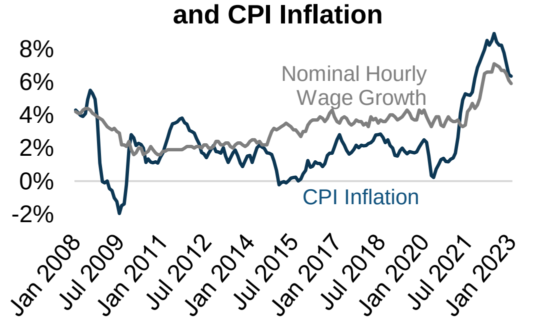
Figure 9
Colorado Job Gains and Losses by Industry
Year-over-Year Change, January 2023



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, real wages decline for a majority of workers. According to the Atlanta Federal Reserve Wage Growth Tracker, median nominal wage growth (not adjusted for inflation) was 5.9 percent in January 2023, down from a peak of 7.1 percent in June 2022, while inflation was 6.3 percent, down from a peak of 8.9 percent in June 2022. Inflation has exceeded nominal wage growth since April 2021, resulting in a declining real wage and the erosion of purchasing power for more than 50 percent of workers. Prior to that period, the last time real wage growth was negative was in 2011 (Figure 10).

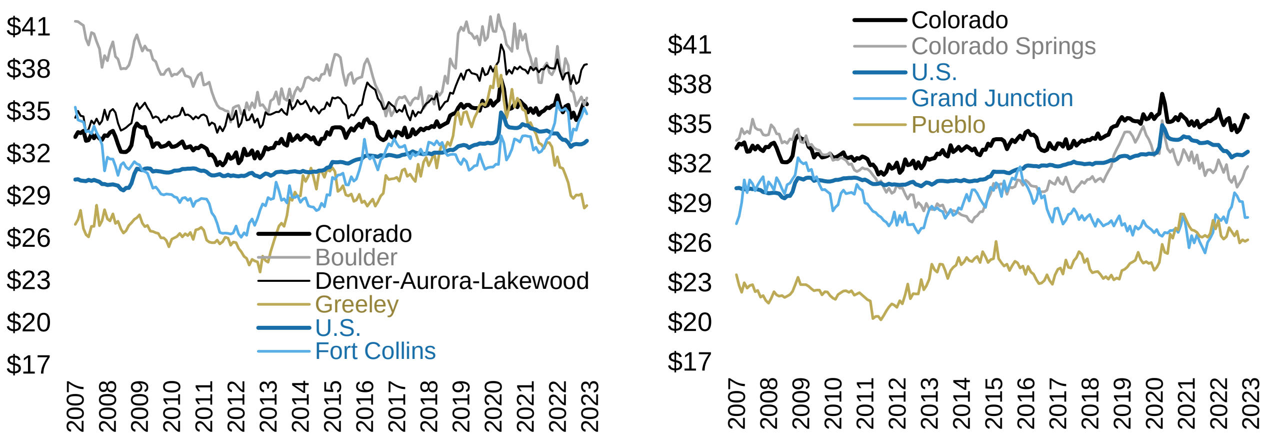
Figure 10
Median Nominal Hourly Wage Growth and CPI Inflation



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

Wage growth varied across industries, ranging from 7.2 percent in leisure and hospitality and 6.9 percent in trade and transportation, to 5.5 percent in construction and mining and 5.7 percent in 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 4.4 percent and 5.4 percent, respectively, while job switchers and low wage workers (in the first and second quartiles) were among the groups experiencing the highest wage growth at 7.3 percent and 7.1 percent, respectively. At 7.4 percent, earners in the mountain region, which includes Colorado, experienced the highest wage growth 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 11
Real Average Hourly Wages by Region



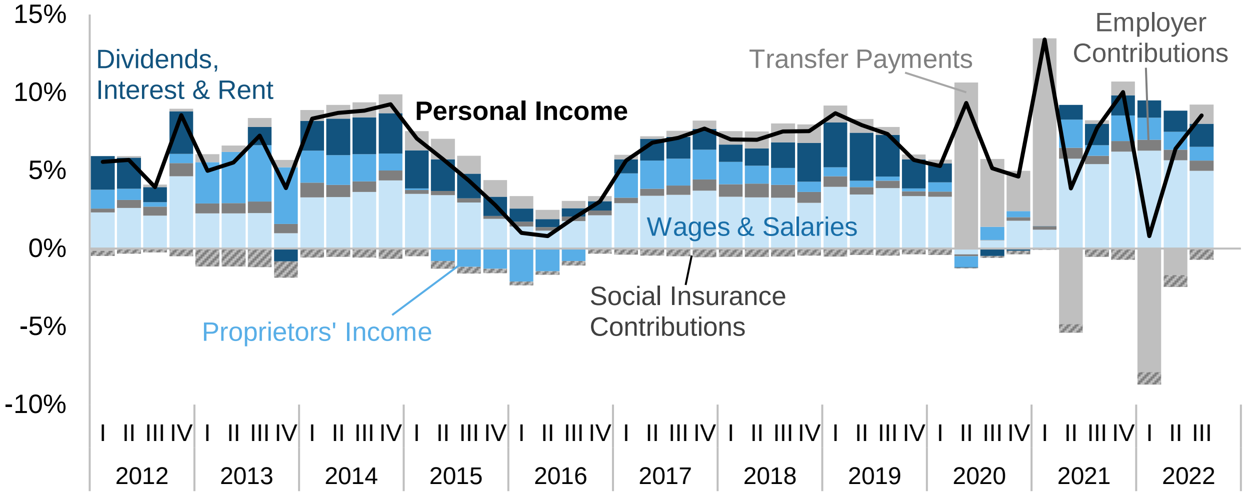
Source: U.S. Bureau of Labor Statistics. Data are adjusted for inflation using the U.S. city average CPI-U inflation index. U.S. data are seasonally adjusted. Colorado data are not seasonally adjusted.

Nominal wage growth cools, leaving real wages flat statewide, with differences narrowing across most regions. Statewide, nominal wages were up by 6.5 percent in December 2022, down from 8.1 percent in November, with inflation-adjusted wages up by just 0.1 percent. Real wage growth within Colorado varied, with Colorado Springs, the Denver metro area, and Fort Collins showing year-over-year real wage increases. Notable declines in real wages were experienced in Greeley, Boulder, and Pueblo. With the exception of Greeley, regional differences in real wages have compressed during the recent inflationary period.

Personal Income

Personal income measures revenue to households by source, including wage and salary income, business ownership, investments, and government support. Personal income signals household contributions to income tax revenue, and foreshadows current and future consumer spending and contributions to sales tax receipts. A history of contributions to year-over-year growth in Colorado nominal personal income is shown in Figure 12.

Figure 12
Contributions to Colorado Nominal Personal Income Growth
Contributions to Percent Change, Year-over-Year

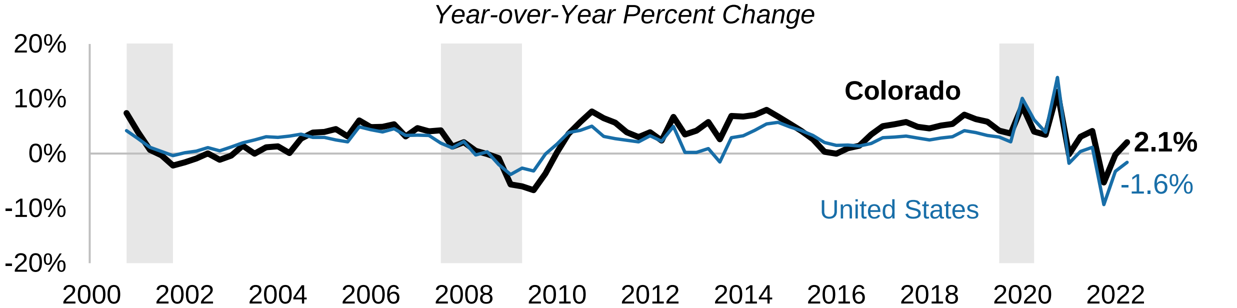


Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data are seasonally adjusted through 2022Q3.

Total Colorado personal income was 8.5 percent higher in the third quarter of 2022 than a year prior. Transfer payments were boosted in the third quarter on direct TABOR refunds to households under Senate Bill 22-233. Wage and salary income was up 9.8 percent compared to one year ago due to employment gains and surging nominal wage growth. Proprietors' income, employer contributions, and dividends, interest, and rent also contributed to positive gains in total personal income.

Even with strong growth in nominal wage and salary earnings, households must also contend with rapidly inflating prices for many goods and services. As shown in Figure 13, U.S. personal income adjusted for inflation fell for the first three quarters of 2022. In contrast, real personal income in Colorado increased by 2.1 percent year-over-year, despite high inflation. With a tight labor market and inflation expected to slow through the forecast period, real gains are expected to continue to improve in Colorado and rebound to positive territory for the nation as a whole.

Figure 13
Real Personal Income
Year-over-Year Percent Change



Source: U.S. Bureau of Economic Analysis. Data are seasonally adjusted and adjusted for inflation using the national personal consumption expenditures price index.

- U.S. personal income growth is expected to modestly outpace inflation, increasing 5.9 percent in 2023. The nominal rate of growth is expected to slow to 5.4 percent in 2024, but a greater divergence from the lower forecast inflation rate represents an acceleration in real (inflation-adjusted) income. U.S. wage and salary growth will outpace broader personal income, rising 6.2 percent in 2023 and 5.5 percent in 2024.

- Colorado personal income growth will outpace the national growth rate, adding 6.7 percent in 2023 and 5.5 percent in 2024. As nationally, wage and salary growth in Colorado will exceed broader personal income growth, adding 7.5 percent in 2023 and 5.5 percent in 2024.

Consumer Activity

Consumer spending is the main driver of the U.S. economy. Over the course of 2022, consumer spending outpaced inflation, offsetting declines in other measures of economic activity. As the year drew to a close, spending activity began to slow as consumers adjusted to lower household savings, higher interest rates, tightening credit conditions, and weighty inflationary pressures. Consumer activity is expected to slow over the next year before rebounding later in the forecast period. Downside risks remain present as household financial situations worsen and consumer sentiment remains low.

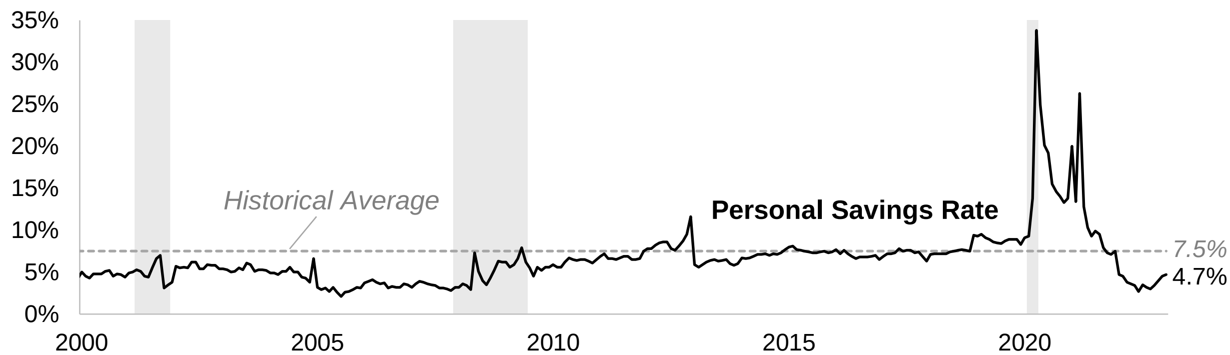
Real U.S. consumer spending continues to grow as demand for services resurges. In the fourth quarter of 2022, advanced estimates indicate real (inflation-adjusted) personal consumption expenditures rose at an annualized 1.4 percent rate, slower than the 2.3 percent pace in the third quarter. In the fourth quarter, spending on services continued to grow as consumers increasingly returned to pre-pandemic activities. Resurgent spending on health care and food services and accommodations was noteworthy. Spending on health care was up 5.9 percent in the fourth quarter, and food services and accommodations rose 1.9 percent. Each sector has bounced back to trend growth recorded during the last economic expansion. Over the forecast period, health care is expected to continue to contribute to spending growth due to an aging population and rising demand, as many delayed elective procedures during the pandemic. The services sector is also expected to benefit from the recovery in transportation and recreation services, which remain well below pre-pandemic spending levels.

Consumer spending on services continued to offset declines in real spending on goods in the fourth quarter of 2022. For the year, real spending on goods contracted 0.5 percent. In the fourth quarter, spending on motor vehicles, household durable goods, food and beverages, and gasoline were below year-ago levels. In 2023, durable goods spending is expected to contract further as consumers revert back to services spending and pare back purchases in response to rising interest rates and inflationary pressures. Meanwhile, real spending on nondurable goods is expected to remain flat.

Household Finance and Debt

Household debt remains in check, and personal savings have started to rebound, although they remain depleted relative to historical standards. Household balance sheets were bolstered in a few ways over recent years, including by government transfer payments during the COVID-19 pandemic and by exceptionally strong nominal wage and salary growth in 2022. Additionally, COVID restrictions and virus concerns encouraged less spending on services in 2020 and 2021, resulting in a spike in household savings well above the historical average savings rate (Figure 14). However, a return to economic normalcy following the end of pandemic restrictions allowed for more spending activity and, alongside surging prices, quickly eroded the personal savings rate.

Figure 14
U.S. Personal Savings Rate*
Percent

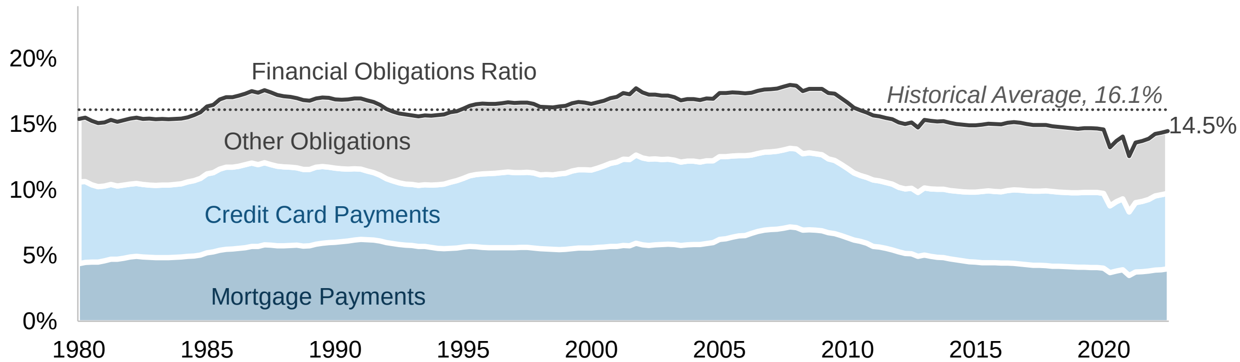


Source: U.S. Bureau of Economic Analysis. Data are shown as seasonally adjusted annual rates.
**The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. The historical average is the average from 1980 to present.*

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 4.7 percent in January, 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 for the same level of real consumption. Some households may still have excess savings, but most lower income households have spent down the excess savings acquired early in the pandemic, according to checking account balances.

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 is on the rise since reaching historical lows in 2021, but remains 1.6 percentage points below the historical average and slightly below pre-pandemic levels. 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 15
U.S. Financial Obligations Ratio
Percent of Disposable Personal Income



Source: Federal Reserve Board of Governors.

Banking and Financial Stability

The collapse of Silicon Valley Bank has increased concerns about financial stability, which is considered a downside risk to the forecast. Aggregate financial stability tends to be difficult to measure due to the complex interactions between different elements of the financial system and the economy. Therefore, the full picture of current financial stability is difficult to determine, and whether this bank closure is a symptom of a larger problem remains unclear.

What happened with Silicon Valley Bank? Silicon Valley Bank (SVB) failed with little notice on March 10, 2023, the largest bank to do so since the Financial Crisis of 2008. The failure occurred when the depositors of SVB withdrew their money more quickly than the bank could acquire the cash to meet these withdrawal requests, resulting in a bank run. The run occurred soon after SVB announced a plan to raise equity through bonds and investment from another venture capital firm, shaking clients' confidence in the bank. The unexpected failure was made possible by the interaction of two primary factors: (1) niche clientele that were quick to withdraw deposits en masse, and (2) the bank's reliance on low-interest, long-term bonds that had to be sold at a loss.

First, SVB's customer base was highly concentrated in the technology sector, a group that had required more cash over the previous year as cryptocurrency prices crashed, resulting in lower deposits into the bank and more withdrawals. The highly concentrated clientele also contributed to the sudden nature of the depositors' withdrawals, as suspicion about the bank's shortage of cash was able to spread rapidly.

Secondly, the bank had invested heavily in low-interest, long-term bonds that were purchased when the federal funds rate was near zero. These bonds are worth less in a high interest rate environment, so SVB lost money when it sold them in an attempt to acquire cash quickly, further hurting the bank's balance sheet.

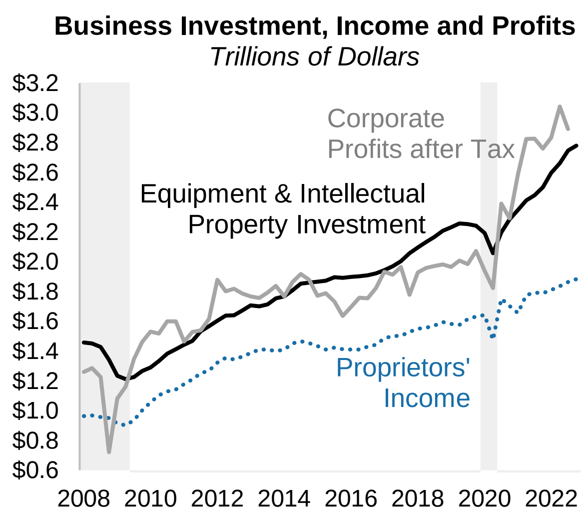
What does this mean for the financial sector? Silicon Valley Bank is an outlier among larger banks in that most banks have a much more diverse clientele, making bank runs this swift much less likely. Smaller banks could have some risk of this type of behavior, particularly if confidence in the banking system generally has been shaken. However, the risk stemming from long-term bonds has been largely abated by emergency actions taken by the Federal Reserve following SVB's collapse.

The Fed initiated an emergency lending to ensure that banks are not forced to take losses on federal bonds in the event of large customer withdrawals. Additionally, the Federal Deposit Insurance Corporation (FDIC) took emergency measures to ensure that SVB's clients will not take losses as a result of the bank's failure, which may improve customer confidence. In short, Silicon Valley Bank appears to be an outlier in the financial sector, but shaken confidence could impact financial stability moving forward, and is considered a downside risk to the forecast.

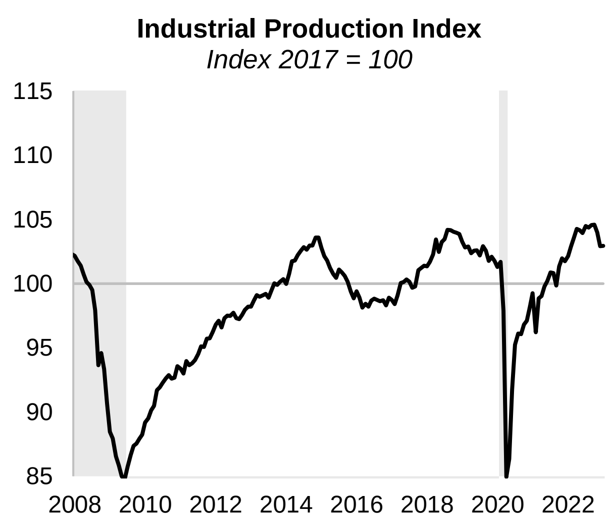
Business Activity

After surging above pre-pandemic levels in 2021, growth in business activity has begun to slow with both bright spots and dark spots on the horizon. On the upside, supply chain disruptions, labor shortages, and high input prices appear to be easing. Alternatively, waning demand may become a bigger concern for businesses as inflation reduces the purchasing power and excess savings of many households. Additionally, rising interest rates will increase costs for corporate investment and expansion.

Figure 16
Selected U.S. Indicators of Business Activity



Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data through 2022Q3.



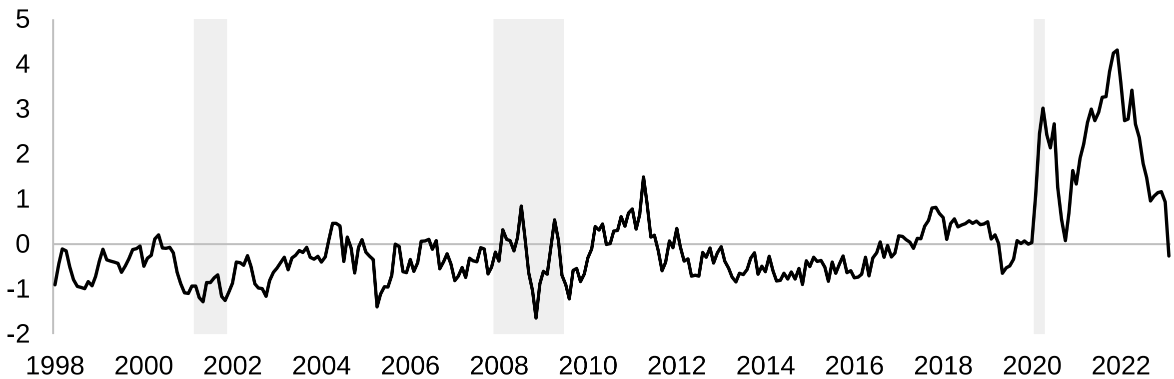
Source: Federal Reserve Board of Governors. Data through January 2023.

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 16, left). Corporate profits fell by 1.1 percent in the third quarter of 2022 compared to the preceding quarter, but remained up 4.4 percent from one year before. 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.

Total industrial production, which measures real output from manufacturing, mining, and utilities has slowed. Total industrial production was up by just 1 percent in January 2023 compared to January 2022, and total production month-over-month was negative in the last two months of 2022 and flat in the first month of this year. The decline in utilities was just barely offset by increases in manufacturing and mining.

Disruptions to global supply chains are diminishing. Over the past two years, supply-chain disruptions stalled deliveries and increased prices across the globe 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 (Figure 17). Based on this measure, supply chain pressure has fallen dramatically since its peak in December 2021, and returned to normal levels. 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 volatile global economic and political environment poses risk to the supply chain outlook.

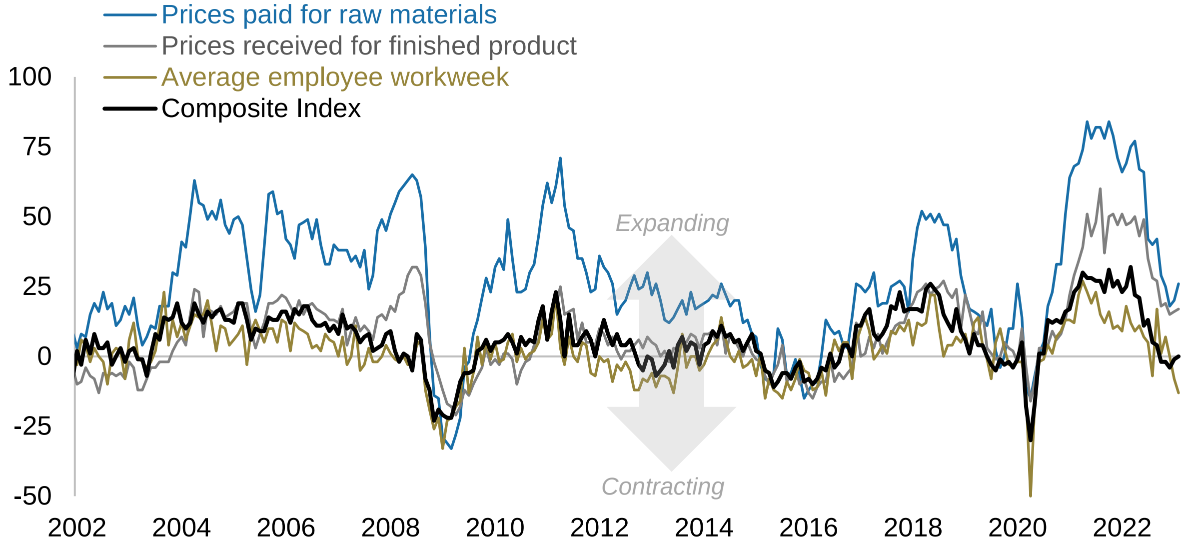
Figure 17
Global Supply Chain Pressure Index
Standard Deviations from Average Value



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 contract. The manufacturing index shown in Figure 18 represents the share of survey respondents reporting increases or decreases in various indicators of manufacturing activity compared to the month prior. In February, the composite index had a value of zero, indicating that activity in this sector neither expanded nor contracted that month (Figure 18). However, the manufacturing index in the Tenth District registered in contractionary territory between October and January, suggesting that the industry faces significant obstacles.

Figure 18
Tenth District Manufacturing Index
Diffusion Index, Change from a Month Ago



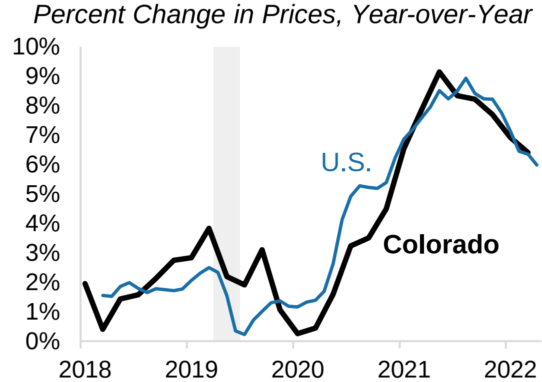
Source: Federal Reserve Bank of Kansas City. Data are seasonally adjusted. A value above zero indicates expansion; below zero indicates contraction in activity.

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 falling in the United States, but remains elevated. Following a historic rise in prices over the past year, 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 (Figure 19). However, inflation moderated considerably over the latter half of the year, and remains on a downward trajectory at the start of 2023.

Figure 19
Headline Consumer Price Index Inflation
Percent Change in Prices, Year-over-Year



Source: U.S. Bureau of Labor Statistics.

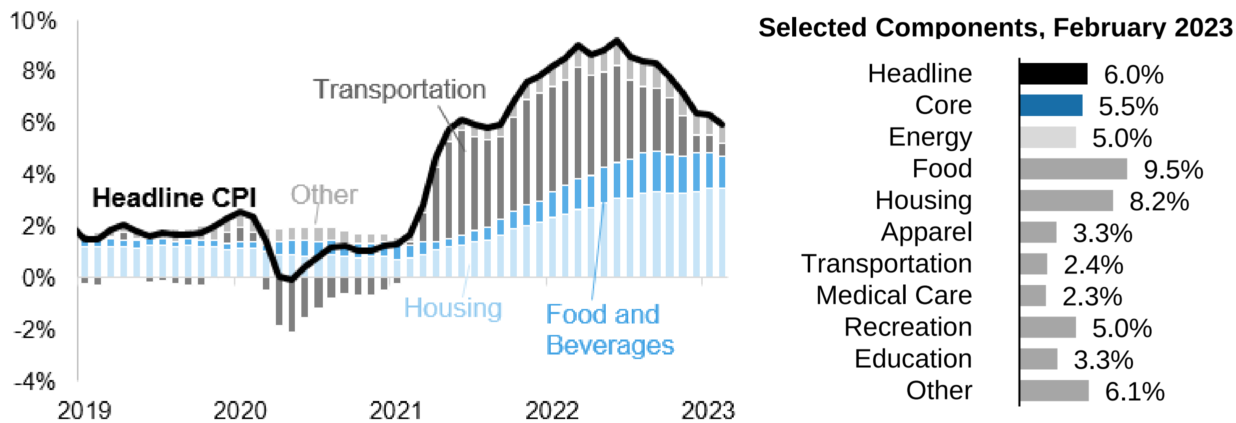
The surge in inflation in 2022 was primarily driven by prices for energy, transportation, and housing. Energy prices increased by 41.6 percent year-over-year in June 2022, but decreased over much of the second half of the year. Declining energy prices were the primary source of reprieve for headline inflation in the past six months. However, prices are still 6.0 percent higher on average than in February 2022, with core inflation up 5.5 percent over the same time period.

Despite the drop in energy prices, inflation remains high by historical standards, driven primarily by housing costs and food prices (Figure 20, left). The housing component includes costs for rent payments, utilities, and other shelter-related goods and services. For homeowners, the housing component reflects the cost the homeowner would pay to rent their home, or the income the homeowner foregoes by not renting their home to someone else. Housing is by far the largest component of CPI and currently makes up about 42 percent of headline inflation.

Housing costs are up 8.2 percent year-over-year in February, 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, this surge in demand is not likely to reverse.

The housing component of the CPI includes prices paid by all renters, which tend not to change quickly in aggregate, as most renters' payments are only subject to change once annually. Therefore, the housing component tends to be quite stable and is not likely to dissipate rapidly. However, housing inflation is expected to cool slowly throughout the forecast period, as monetary policy takes effect and demand stabilizes at this new, higher level. Additionally, rental prices for new tenants showed substantial slowing in the second half of 2022, an encouraging sign moving forward.

Figure 20
Contributions to U.S. Consumer Price Index (CPI-U) Inflation
Percent Change in Prices, Year-over-Year



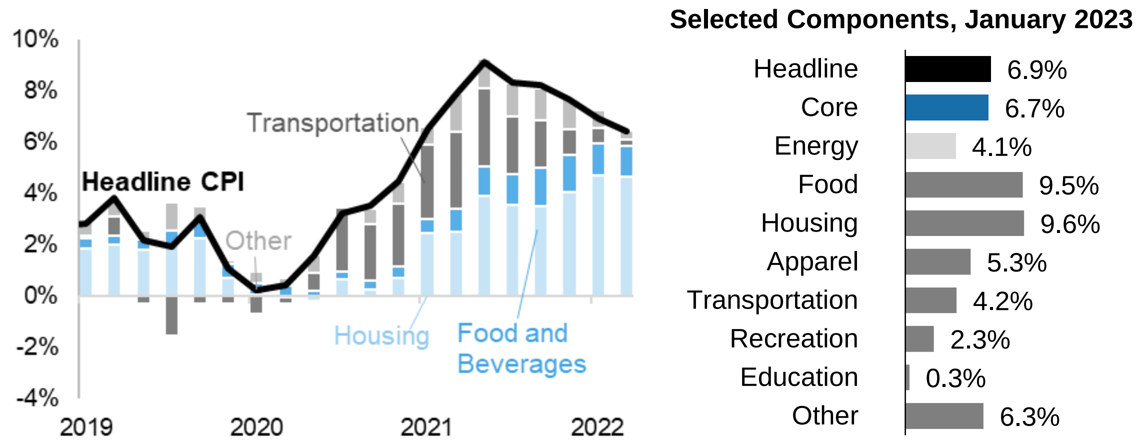
Source: U.S. Bureau of Labor Statistics.
[1]Headline inflation includes all products and services. [2]Transportation includes new and used vehicles, vehicle parts, and motor fuel. [3]Housing includes the cost of rent, homeowner rental equivalent, utilities, and other housing costs.

Inflation in Denver-Aurora-Lakewood remains elevated, driven by housing costs. As at the national level, inflation in Colorado peaked early last year. Figure 21 shows the recent path of inflation as measured by the Denver-Aurora-Lakewood consumer price index and inflation among select

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

components. In March 2022, year-over-year headline inflation reached 9.1 percent and core inflation reached 8.0 percent. By January 2023, year-over-year headline inflation declined to 6.4 percent, and core inflation registered 5.9 percent. Headline inflation includes prices for all consumer goods and services, while core inflation omits the food and energy components, which tend to be more volatile.

Figure 21
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.*

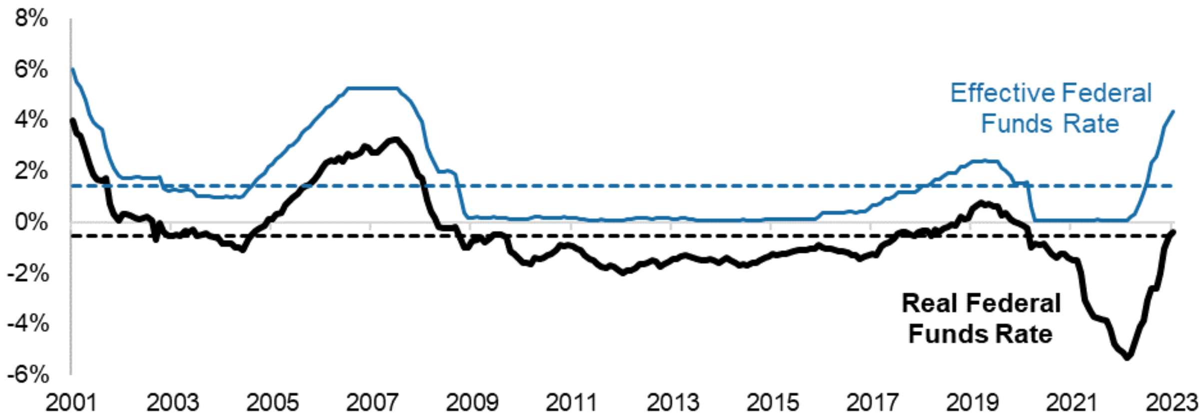
As is the case nationally, housing and food and beverage prices are putting upward pressure on headline inflation, while softening motor fuel prices have reduced the impact of prices for transportation. Housing costs have had a greater impact in the Denver area as prices are up 9.4 percent year-over-year, compared to 8.3 percent for the nation. 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. Housing inflation is expected to cool slowly throughout the forecast period.

How long will inflationary pressures last? As discussed above, inflationary pressures from energy and transportation have started to wane. Additionally, demand pressure may abate as consumers shift their consumption activity in response to still-rising prices and higher interest rates, and as the global economy slows. However, pressure from housing is expected to remain through 2023 and into 2024.

- Headline prices for U.S. urban consumers are expected to rise by 4.8 percent in 2023 and 3.3 percent in 2024. Headline inflation in the Denver-Aurora-Lakewood combined statistical area is expected to be slightly higher at 4.9 percent in 2023 and 3.5 percent in 2024.

Additional monetary policy tightening expected into 2023. 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 4.5 percentage points across eight rate hikes. The nominal federal funds rate is now at its highest level since 2007 (Figure 21). 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.

Figure 22
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.*

Despite recent rate hikes, the real federal funds rate (the difference between the nominal effective federal funds rate and inflation) remains slightly negative at –0.4 percent (Figure 22). 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. The real federal funds rate is expected to increase through 2023 as inflation abates and the Federal Reserve increases the effective federal funds rate.

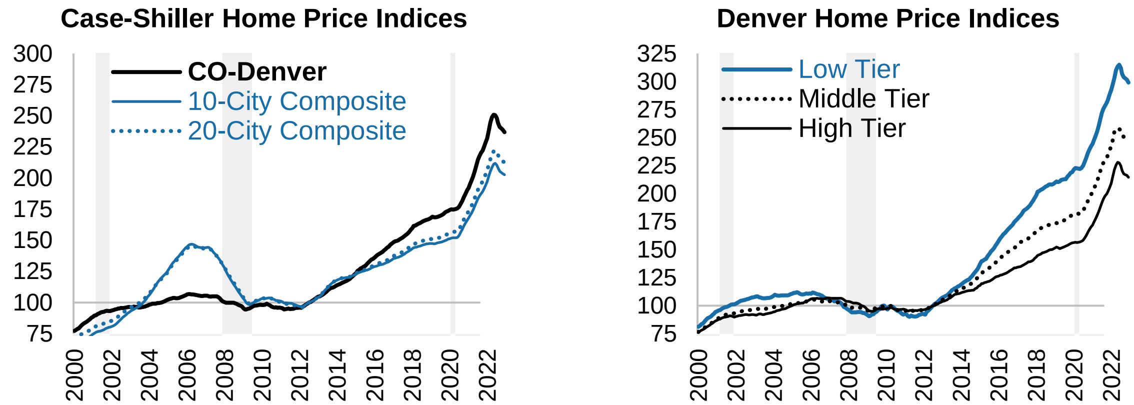
This forecast expects the Federal Reserve to increase interest rates at its March and June meetings, with the potential for additional rate hikes later in 2023. Interest rates will rise at a slowing pace, concurrent with reductions in the Fed's balance sheet. Tighter monetary policy will raise the cost 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 and high housing costs. Rapid tightening in 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 of 2.0 percent through 2023 and well 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 18 percent over the year ending in June 2022 (Figure 23, 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 23, 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 price appreciation began to slow. Through the end of the year, the Case-Shiller national composite indices both 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. Mortgage rates fell slightly in December 2022 and January 2023 with anticipation that less restrictive monetary policy could be on the horizon; however, home prices are expected to continue to fall through at least the first half of 2023 as interest rates rise and the market adjusts toward a new, lower equilibrium. In addition, new listings, a measure of sellers putting up homes for sale, has been slowing in recent months. Combined with a dearth of new builds, this effect should keep prices from falling dramatically.

Figure 23
Selected Home Price Indicators
Index 100 = July 2012



Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through December 2022.

The effect of interest rate increases on homebuyer purchasing power is severe. In early March, the average interest rate for a new 30-year mortgage stood at 6.7 percent, up from 3.8 percent in early March 2022. For perspective, an interest rate increase of this magnitude raises the monthly payment for principal and interest on a 30-year, fixed-rate, $440,000 mortgage by $790. Put another way: a purchaser who was able to afford a $550,000 home with a 20 percent down payment ($110,000) in March 2022 would have had $2,050 per month to commit to principal and interest. For the same down payment and monthly payment, that purchaser can afford a $427,500 home in March 2023 – a decrease of over 22 percent.

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 in 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 a declining trend 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, demand for 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 the Marshall Fire in late December 2021, as well as losses from natural disasters in other states, are expected to compound these pressures on home construction costs and exacerbate the existing backlog of pandemic-related delays in homebuilding. However, the cooling construction market looks to be providing a little relief regarding building materials.

- Residential construction activity in Colorado is expected to fall severely from its still-elevated level, with the number of permits issued contracting by 30 percent in 2023 before rebounding to grow 11.5 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. However, total spending slowed in the second half of the year. High interest rates continue to weigh on the industry. Spending on new office and manufacturing properties has been strong, increasing by 39.7 percent and 53.6 percent, respectively, in January 2023 from the same month last year. Though vacancy rates for the office market continue to rise, many firms are seeking new, amenity-rich buildings for reopening workplaces. 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. Contractors have been able to pass along these higher costs to project owners for now, but continued monetary policy tightening and deteriorating confidence in the economy could begin to impact 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 flatten out, growing by just 3.3 percent in 2023 before declining by 1.8 percent in 2024.

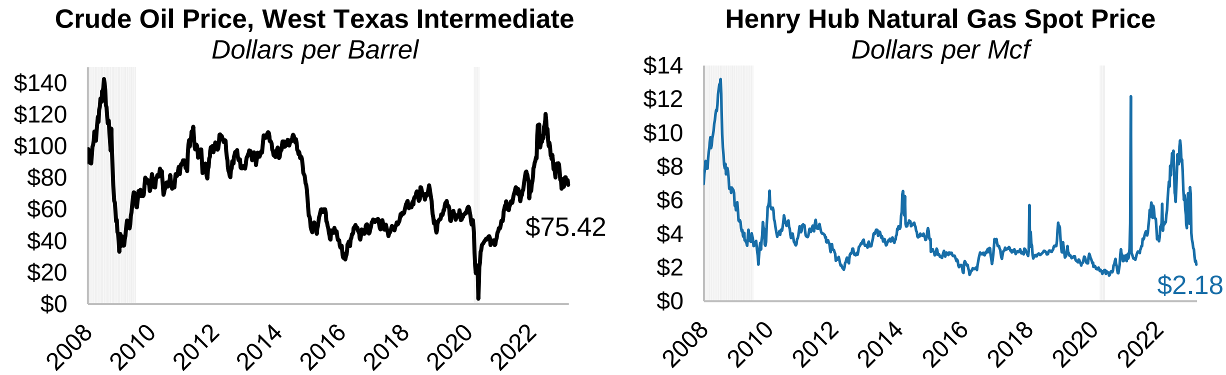
Energy Markets

Oil and gas prices expected to fall 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 February 2023 was down about 33 percent from its peak in June 2022 (Figure 24, left), and natural gas prices were down about 73 percent from their August 2022 peak (Figure 24, 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 $84 per barrel, a fall of about 12.5 percent from the average recorded in 2022.

The latest report from the Energy Information Administration (EIA) notes that oil production has outpaced demand despite relaxed COVID restrictions in China, lower production in Russia, and a better global economic outlook. However, China's economic growth and the impact of sanctions on Russian oil also pose some of the greatest risks to the forecast. On the natural gas side, a relatively warm winter in Europe led to less consumption and rising natural gas inventories. In 2023, the EIA predicts natural gas prices will average $3.40, down about 47 percent from $6.42 in 2022. The EIA forecasts somewhat higher prices in 2024, but prices will be influenced over the forecast period 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 jumped between December and January due in part to several refinery outages. Cold weather and delayed maintenance from 2022 resulted in outages and less capacity utilization. The EIA expects capacity to reach more normal levels by April. In Colorado, an outage at the Suncor refinery in Commerce City pushed the state's gasoline prices higher than the national average. The outage resulted in supplies being trucked and piped into the state from neighboring regions. The EIA noted the potential for extended reductions in capacity at the refinery, which could impact prices in the first half of 2023.

Figure 24
U.S. Energy Prices



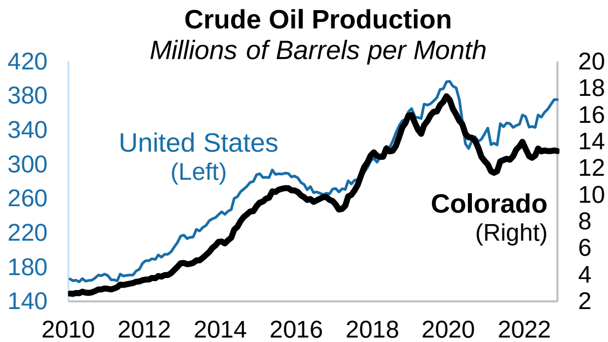
Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of February 24, 2023.

Recovery of oil and gas production in Colorado lags behind the nation. Following the pandemic, oil and gas production in both the U.S. and Colorado fell. During the subsequent recovery, U.S. crude oil production rebounded following the pandemic, while Colorado's production experienced a larger pull-back and a slower recovery (Figure 25, left). Through November 2022, Colorado's oil production was up just 5.4 percent year-to-date, and had stagnated over the latter half of the year. As of February

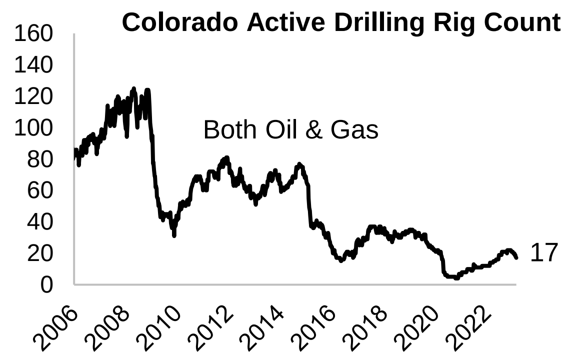
2023, Colorado had 17 active drilling rigs, down from 22 as recently as December 2022, and from a monthly average of 30 active rigs in 2019 (Figure 25, right). Similarly, U.S. natural gas production rebounded, while Colorado's production continued to trend downward.

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 25
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 November 2022.



Source: Baker Hughes. Data are not seasonally adjusted. Data are through February 2022.

Agriculture

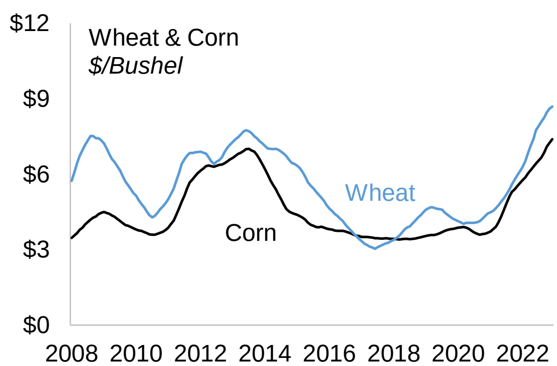
The outlook for the U.S. agricultural economy generally remains positive, although persistent risks are expected to dampen farm income growth. Producers face headwinds from volatile crop prices, higher interest and other expenses, and adverse weather. However, prices of key crops and livestock remain elevated. And measures of financial stress remain historically low in the Federal Reserve's Tenth District, which includes Colorado, with balance sheets bolstered by a surge in agricultural real estate values over the past two years.[3]

Agricultural prices ease, remain at multiyear highs. A nationwide index of agricultural prices declined in the second half of 2022, but remained 6 percent higher at the end of the year than at the beginning of 2022. Declines in the prices of several major commodities, including corn, hogs, and broilers, offset large increases in other categories including eggs and cattle. Wheat prices eased but remain at multiyear highs, as the Black Sea export corridor agreement between Russia and Ukraine is renegotiated ahead of its March 2023 expiration. Adverse weather and widespread drought reduced supplies of major crops in 2022 and continued to pressure agricultural prices, which rose further in 2022 from multiyear highs in 2021.

[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.

Colorado corn and wheat prices finished the year well above historical averages, with 12-month moving averages pushed to new peaks (Figure 26). Colorado wheat came off a record high of $10.30 per bushel reached in June to settle at $8.17 per bushel in December. Corn prices declined from highs of over $8.00 per bushel to $7.36 per bushel in December.

Figure 26
Prices Received for Colorado Grain Crops



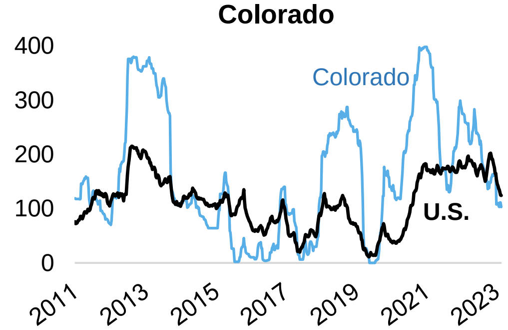
Source: National Agricultural Statistics Service. Data shown as twelve-month moving averages. Data through December 2022.

Farm outlook remains solid despite persistent risks. 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. Costs associated with drought and feed purchases have limited profitability in the livestock sector. Farm loan interest rates rose sharply in 2022, reaching their highest levels since 2007. Yet farmland values continued to grow in spite of tightening credit conditions, albeit at a tempered pace. Farm income and finances remain strong, with slowing improvement in the fourth quarter softening the outlook for farm income in the year ahead.

Food price inflation remains elevated, little easing in egg prices expected. Food price inflation remains elevated, at 9.9 percent in 2022, well above the 20-year historical average of 2.8 percent. But food inflation has slowed in recent months. The contribution of food prices to the headline inflation rate of 6.0 percent in February 2023 is second only to that of housing. The ongoing outbreak of highly pathogenic avian influenza continues to impact the poultry industry, with over 58 million birds, 317 commercial flocks, and 47 states impacted – including 6.3 million birds affected in Colorado. The outbreak has contributed to skyrocketing egg prices, which increased 32 percent in 2022, the largest increase of any good or service tracked by the Bureau of Labor Statistics. Egg prices are predicted to increase a further 38 percent in 2023, and are up 70 percent year-over-year in January 2023. Overall, ongoing economy-wide supply chain issues and energy, transportation, and labor costs have contributed to inflation across food categories. But recent declines in agricultural commodity and energy prices alongside rising interest rates are expected to ease price pressures in 2023. According to the USDA food price outlook, food price inflation is expected to slow to 7.9 percent, still well above historical rates.

Drought conditions retreat throughout most of Colorado. According to the U.S. Drought Monitor, the area of severe, extreme, or exceptional drought was 7.9 percent in February, down from 25.2 percent in November, reflecting improved conditions across most of the state. The area of no drought has expanded to 44.8 percent, up from 16.3 percent three months ago and 0.0 percent one year ago. As indicated by the Drought Severity and Coverage

Figure 27
Drought Severity and Coverage Index, Colorado



Source: United States Drought Monitor. Data through February 21, 2023.

Index, Colorado's drought conditions are substantially improved in 2023, to levels not seen since 2020, but remain worse than in most years since 2013 (Figure 27).

Global Economy and International Trade

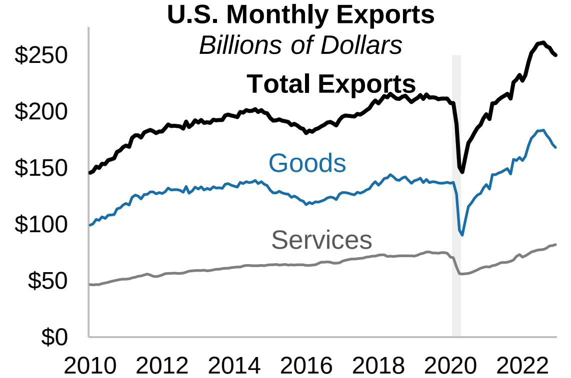
Inflationary concerns, central bank tightening, the war in Ukraine, and slow growth in China weighed on global economic growth in 2022, with further slowing expected in 2023. Risks of an economic downturn remain elevated worldwide.

The International Monetary Fund upgrades 2023 outlook, but notes risks remain tilted to the downside. The International Monetary Fund (IMF) projects growth in global economic output will fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023 before rising to 3.1 percent in 2024. The IMF revised its 2023 expectations up by 0.2 percentage points since October 2022, citing the recent reopening in China as paving the way for a faster-than-expected recovery. Much of this slowdown is driven by advanced economies, 90 percent of which are projected to see a slowdown in growth in 2023. In comparison, only about half of emerging market and developing economies are expected to have slower growth in 2023 than in 2022, as many bottomed out earlier. The IMF notes that its outlook for 2023 is well below the historical average of 3.8 percent.

Economic activity in China was dampened in 2022 amid multiple large COVID-19 outbreaks, subdued consumer and business sentiment, and struggling real estate markets. China's slowdown impacted the global trade recovery significantly. China's reopening is expected to boost its growth in 2023, but rising interest rates to combat inflation and Russia's invasion of Ukraine are expected to continue to weigh on global economic activity. The persistence of inflation has led central banks, including the U.S. Federal Reserve, to raise rates faster than initially expected and to signal that rates will stay elevated for longer, which will weigh on consumption and investment worldwide. The disruption of European energy markets due to the war in Ukraine will continue to weigh on stretched budgets in European households, amid high inflation and tightening financial conditions.

Risks to the outlook remain weighted to the downside, but have moderated since October 2022, with severe health outcomes in China, Russia's war in Ukraine, tighter global financial conditions, and debt distress presenting key risks. Upside risks include a stronger boost from pent-up demand or a more rapid decrease in inflation. The IMF anticipates that global inflation will fall from 8.8 percent in 2022 to 6.6 percent in 2023 and 4.3 percent in 2024, still above pre-pandemic levels of about 3.5 percent. Headline inflation is estimated to have peaked in 2022, with core inflation still on the rise in most economies.

Figure 28
U.S. Monthly Exports
Billions of Dollars



Source: U.S. Bureau of Economic Analysis (balance of payments basis). Data are through December 2022 and are seasonally adjusted but not adjusted for inflation.

U.S. trade volume declined in the latter half of 2022 amid easing energy prices and slowing global economic growth. The dollar value of U.S. trade declined in the second half of 2022, 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 export volume to China notably slowing in 2022, expanding by 2 percent, compared with 22 percent in 2021. Export growth (18 percent) outpaced import growth (15 percent) in 2022. The rapid rise in oil and gas prices and resurging global demand contributed to an expansion in the nation's export volumes following the pandemic recession. But exports pulled back in the second half of 2022 on easing energy prices, a strong dollar, and slowing global economic growth (Figure 28). Oil and gas products, industrial and electric machinery, vehicles, and aircraft comprise the top categories of U.S. exports. Energy exports to European countries expanded notably in 2022, as the Russian invasion of Ukraine disrupted European oil and gas trading patterns. Export volumes are expected to continue to decline as tightening monetary policy slows global economic growth.

Colorado exports expand, led by high-tech products and beef. The dollar value of Colorado's exports and imports finished the year up 21 percent, compared with 25 percent from 2020 to 2021. Canada remains Colorado's largest trade partner, with exports and imports up by 7 and 27 percent, respectively, largely due to crude oil imports. Other significant trading partners in 2022 included Mexico, China, and Taiwan. Key export commodities included beef (up 28 percent), aircraft (up 58 percent), and gold (up 7,000 percent, with Switzerland accounting for 99 percent of the increase). Various surgical instruments, industrial and electric machinery, and chemical products were also key contributors. Key imports include crude oil (up 40 percent) and electronic integrated circuits (up 55 percent).

Summary

Given all the headwinds throughout the year, the economy closed out 2022 with solid growth and momentum heading into 2023. Unemployment rates remain healthy, job openings remain plentiful, and most other sources of household income were able to offset falling government transfers as COVID-era stimulus programs expired. Households have been able to sustain just enough consumer spending to keep the economic expansion afloat. Looking abroad, Europe appears to have averted an energy crisis over the winter, helped by above-normal temperatures. Energy prices continue to fluctuate but are stabilizing, shoring up the level of household income available for other purposes.

The Fed's approach to inflation management is working for now. Inflation has finally responded to interest rate hikes, but more aggressive action may be needed to cool the economy further, as current inflation remains far above the Fed's target rate. Even in the best-case scenario, the aggressive monetary policy intervention will have lasting consequences. Home prices are likely to continue falling as interest rates creep up, with minimal affordability benefits for would-be homebuyers because of rising mortgage costs. Suppressing inflation by motivating pullbacks of consumer and business capital has drained consumer and business confidence as the pace of expansion slows considerably. And the economy remains fragile; any number of unforeseen outside shocks could push the economy into a recession.

Risks to the Forecast

Several factors could result in either stronger or weaker economic activity than forecast. Risks to the forecast remain elevated and skewed to the downside with current, pervasive inflation; tighter monetary policy expected to suppress demand; financial disruptions; an ongoing housing market correction; the war in Ukraine; and ongoing pandemic-related uncertainty.

Downside risks. Inflation remains elevated and is contributing to current economic overheating across the United States. While inflationary pressures are moderating, the monetary policy regimen needed to keep them in check continues to pose risks to the economic outlook. Further, tight labor markets and high commodity prices may spark a wage-price spiral that could result in even stronger and more durable inflation than forecast. In this instance, more aggressive monetary policy tightening is likely, which could strangle economic growth. Anticipation of monetary policy missteps elevates the risk of financial market instability, dampening economic activity.

Current economic vulnerabilities were highlighted by two recent bank failures. The extent of the shock to the financial system is uncertain at the time of publication, and further elevates downside risks to the forecast. Fallout from these bank failures, or further shocks that disrupt commodities markets, debt products, lending, and capitalization could quickly destabilize the economic outlook, likely triggering a recession.

The war in Ukraine continues to pose a sizable risk to price stability, particularly in energy and food markets. Countries in the Euro area remain highly vulnerable to disruptions in Russian energy imports, and many countries rely on Ukrainian wheat and other commodities. Higher tensions with China may also pose a risk to the U.S. economy.

Borrowing by the federal government reached the legal debt ceiling on January 19, 2023. In the months since, the U.S. Department of the Treasury has enacted temporary measures to avoid a default. This forecast assumes that Congress will negotiate a compromise that prevents a default later in the year, when short-term remedies will be exhausted. Failure to avert a default would have unpredictable, but significant, consequences for the Colorado, U.S., and global economies.

Upside risks. Energy prices have moderated since the last forecast, and a sustained drop over the next year would ease inflationary concerns and reduce risks of more aggressive monetary policy responses. Further, a resolution to the war in Ukraine and accompanying drop in commodity prices pose an upside risk to the forecast, especially with more energy stability for European markets. Faster-than-expected resolution of labor market imbalances could enable a stronger economic recovery than expected. Over the longer term, pandemic-related shifts toward remote work, technological change, and simpler, more localized supply chains could result in stronger productivity gains and economic growth.

Table 18
National Economic Indicators

Calendar Years	2018	2019	2020	2021	2022	Legislative Council Staff Forecast 2023	2024	2025
Real GDP (*Billions*) [1]	$18,609.1	$19,036.1	$18,509.1	$19,609.8	$20,015.4	$20,235.5	$20,660.5	$21,135.7
Percent Change	2.9%	2.3%	-2.8%	5.9%	2.1%	1.1%	2.1%	2.3%
Nonfarm Employment (*Millions*) [2]	148.9	150.9	142.2	146.3	152.6	155.5	157.5	159.6
Percent Change	1.6%	1.3%	-5.8%	2.9%	4.3%	1.9%	1.3%	1.3%
Unemployment Rate [2]	3.9%	3.7%	8.1%	5.4%	3.6%	3.6%	3.7%	3.8%
Personal Income (*Billions*) [1]	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,806.3	$23,092.9	$24,339.9	$25,556.9
Percent Change	5.0%	5.1%	6.7%	7.4%	2.4%	5.9%	5.4%	5.0%
Wage and Salary Income (*Billions*) [1]	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,224.3	$11,920.2	$12,575.8	$13,267.5
Percent Change	5.0%	4.8%	1.4%	8.8%	9.1%	6.2%	5.5%	5.5%
Inflation [2]	2.4%	1.8%	1.3%	4.7%	8.0%	4.8%	3.3%	2.7%

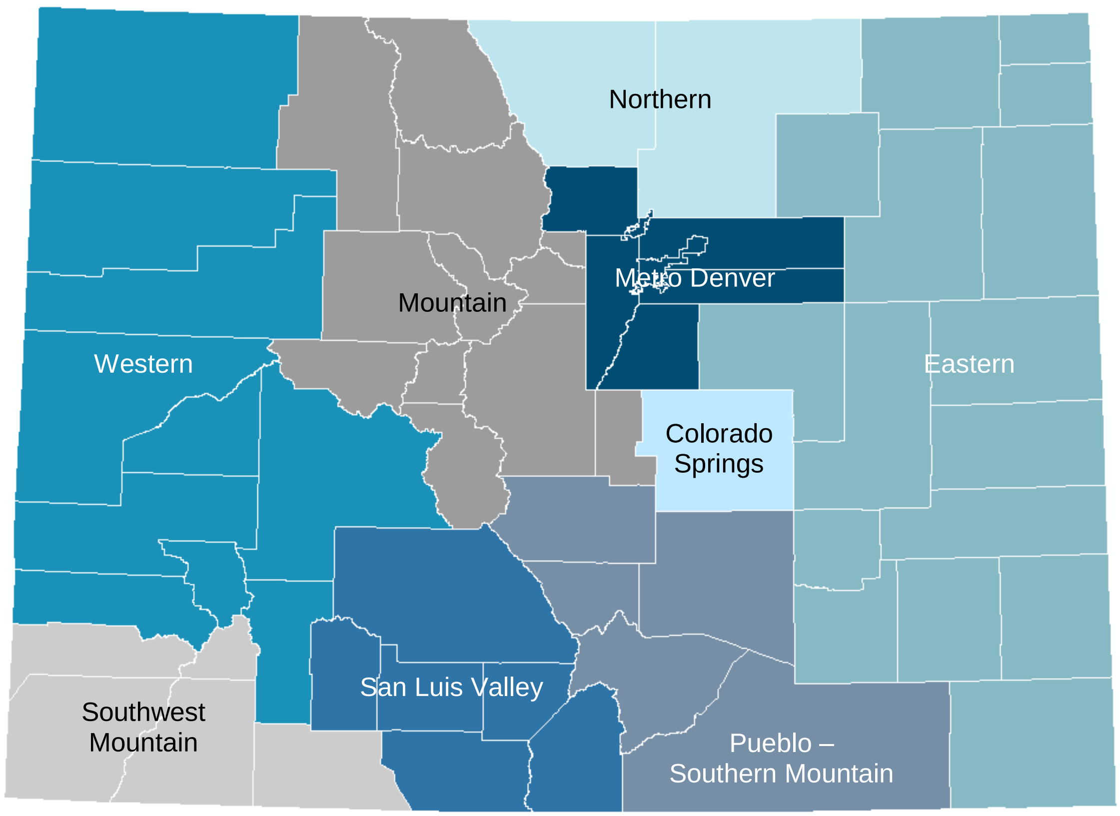
Sources
[1]U.S. Bureau of Economic Analysis. Real gross domestic product (GDP) is adjusted for inflation and shown in 2012 dollars. Personal income and wages and salaries not adjusted for inflation.
[2]U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price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

Table 19
Colorado Economic Indicators

Calendar Years	2018	2019	2020	2021	2022	Legislative Council Staff Forecast 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	2,789.8	2,652.8	2,751.1	2,863.9	2,938.4	2,978.7	3,018.2
Percent Change	2.5%	2.3%	-4.9%	3.7%	4.1%	2.6%	1.4%	1.3%
Unemployment Rate [2]	3.0%	2.7%	6.8%	5.4%	3.0%	2.9%	3.1%	3.2%
Personal Income (*Millions*) [3]	$331,851	$356,341	$378,051	410,948	$433,412	$462,506	$488,058	$513,793
Percent Change	7.3%	7.4%	6.1%	8.7%	5.5%	6.7%	5.5%	5.3%
Wage and Salary Income (*Millions*) [3]	$170,808	$182,958	$187,611	205,271	$226,546	$243,537	$256,964	$271,365
Percent Change	6.1%	7.1%	2.5%	9.4%	10.4%	7.5%	5.5%	5.6%
Housing Permits (*Thousands*) [1]	42.6	38.6	40.5	56.5	49.0	34.3	38.2	45.1
Percent Change	4.8%	-9.4%	4.8%	39.7%	-13.3%	-30.0%	11.5%	18.1%
Nonresidential Construction (*Millions*) [4]	$8,151.0	$5,161.5	$5,585.6	$5,729.3	$6,615.7	$6,831.5	$6,711.8	$6,813.2
Percent Change	32.5%	-36.7%	8.2%	2.6%	15.5%	3.3%	-1.8%	1.5%
Denver-Aurora-Lakewood Inflation [5]	2.7%	1.9%	2.0%	3.5%	8.0%	4.9%	3.5%	2.7%

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

Of the nine economic regions identified in this forecast, Colorado's diverse 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 that include 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 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, specifically Denver and Boulder, continue 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 20.

Table 20
Metro Denver Region Economic Indicators
Adams, Arapahoe, Broomfield, Boulder, Denver, Douglas, and Jefferson Counties

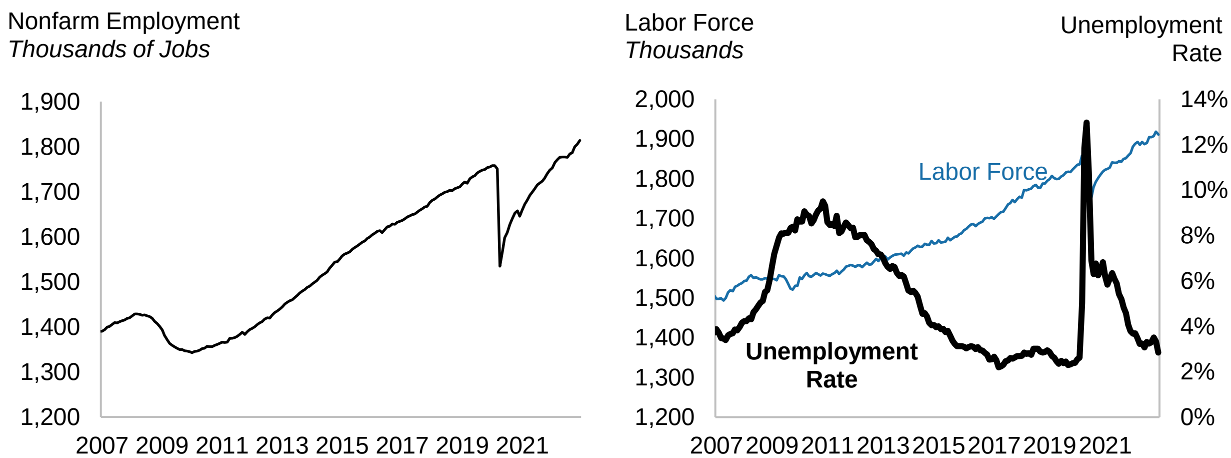
	2018	2019	2020	2021	2022
Employment Growth[1]					
Denver-Aurora-Lakewood MSA	2.6%	2.3%	-5.0%	3.5%	4.3%
Boulder MSA	2.9%	2.3%	-5.6%	3.5%	4.5%
Unemployment Rate[2]	2.9%	2.5%	7.1%	5.4%	3.3%
Housing Permit Growth[3]					
Denver-Aurora-Lakewood Single Family	7.9%	-6.1%	1.5%	16.3%	-22.3%
Boulder Single Family	15.7%	-9.5%	-6.2%	-34.4%	42.7%
Nonresidential Construction Growth[4]					
Value of Projects	46.8%	-37.2%	-9.9%	4.7%	33.0%
Square Footage of Projects	-10.7%	-8.3%	-7.0%	33.5%	26.9%
Level (*Thousands*)	17,193	15,763	14,664	19,582	24,853
Number of Projects	-18.3%	-11.5%	-0.3%	14.9%	14.8%
Level	771	682	684	786	902
Housing Market[5]					
Average Sale Price – Single Family	8.2%	2.7%	8.0%	19.9%	10.3%
Level (Thousands)	$535	$549	$597	$712	$790
Inventory – Single Family	7.2%	11.2%	-38.2%	-46.4%	102.3%
Home Sales – Single Family	-5.2%	5.3%	7.8%	1.9%	-21.1%
Retail Sales Growth[6]	4.9%	8.9%	0.1%	17.4%	12.8%

MSA = Metropolitan statistical area.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through December 2022.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through December 2022.
[3]U.S. Census Bureau. Growth in the number of residential building permits. Data through December 2022.
[4]F.W. Dodge. Data through December 2022.
[5]Colorado Association of Realtors. Data through December 2022.
[6]Colorado Department of Revenue. Data through November 2022.

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 5,000 jobs per month and ended the year with close to 1.6 million total jobs, up 4.3 percent from the same period one year ago. Boulder County, meanwhile, added 6,000 new jobs, or 4.5 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 29, left). Job growth has been seen 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 3.3 percent in 2022, although it still remains higher than the pre-pandemic low of 2.5 percent (Figure 29, 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.

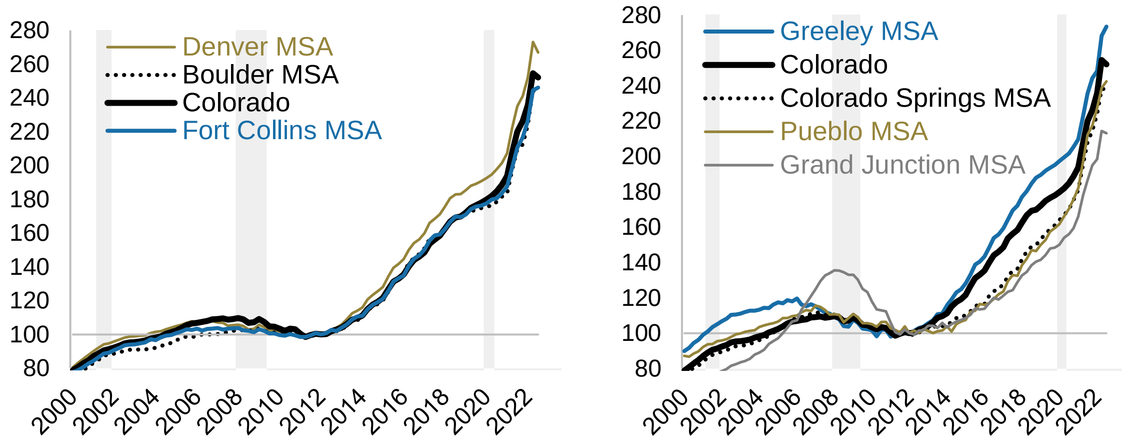
Figure 29
Metro Denver Region Labor Market Activity



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and shown through December 2022.

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 third quarter of the year, home prices were up 13.5 percent over year-ago levels in the Denver-Aurora-Lakewood metropolitan statistical area, and up 14.8 percent in Boulder, but down from the previous quarter (Figure 30). Recent increases in mortgage rates and inflation has made purchasing a home more expensive for many buyers and quickly cooled the market. In 2022, the number of single family homes available in the region was up 102.3 percent, home sales were down 21.1 percent. Despite these headwinds, housing remains expensive. The average 2022 single-family sale price was about $790,000.

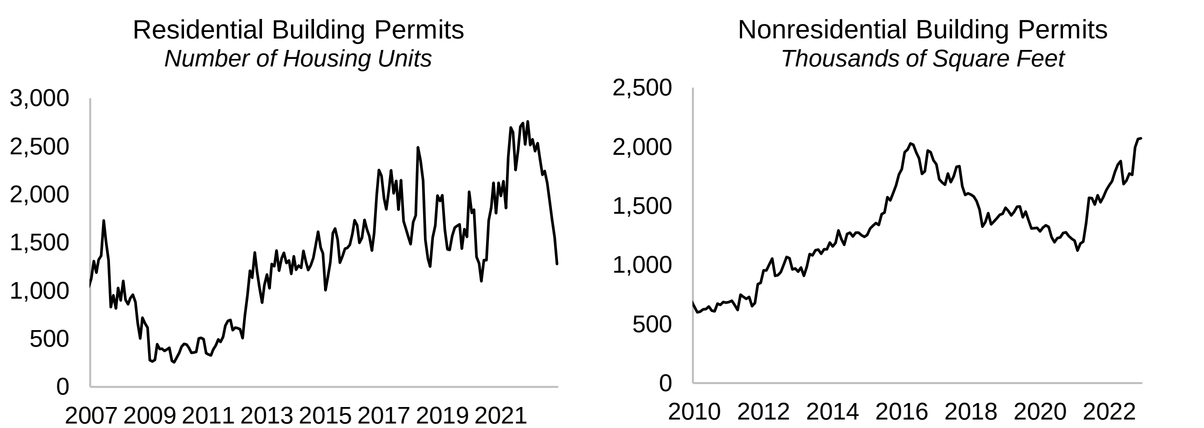
Figure 30
FHFA All-Transaction Home Price Indices
Index 100 = 2012Q1 (Recessionary Trough in Grey Bars)



Source: Federal Housing Finance Agency (FHFA). Data are seasonally adjusted and through 2022Q3.

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 (Figure 31, left). In Boulder County, the number of new single-family permits rebounded in 2022 after falling 34.4 percent in 2021. 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 31
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 December 2022.

Source: F.W. Dodge. Data shown as twelve-month moving averages. Data are not seasonally adjusted and are through December 2022.

Nonresidential construction. Nonresidential building activity in the metro Denver region was mixed in 2022 (Figure 31, right). The number of new nonresidential building permits in the metro Denver region was up 14.8 percent from year-ago levels and these projects are expected to add nearly 25 million square feet to the region's nonresidential inventory, a 26.9 percent increase from last year. Though the overall the number of new nonresidential projects was high in 2022, certain projects, such as new office development, continued to struggle. 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 November, retail sales were up 12.8 percent compared to the same period in 2021. 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 improve and the unemployment rate is approaching pre-recession levels. Despite the strong labor market, rising interest rates have impacted the residential real estate market, slowing sales and dampening prices, and single family residential construction has slowed significantly over the past year. Economic indicators for the region are summarized in Table 21.

Table 21
Northern Region Economic Indicators
Weld and Larimer Counties

	2018	2019	2020	2021	2022
Employment Growth[1]					
Fort Collins MSA	2.6%	2.2%	-4.7%	3.5%	4.1%
Greeley MSA	4.7%	3.6%	-7.1%	-0.4%	3.0%
Unemployment Rate[2]	2.7%	2.3%	6.3%	5.1%	3.2%
State Cattle and Calf Inventory Growth[3]	2.6%	8.0%	1.9%	4.0%	-1.0%
Natural Gas Production Growth[4]	17.1%	22.0%	8.3%	-2.8%	-1.9%
Oil Production Growth[4]	29.5%	10.7%	-11.9%	-10.3%	1.1%
Housing Permit Growth[5]					
Fort Collins MSA Total	8.4%	-18.2%	-0.3%	13.3%	-19.5%
Fort Collins MSA Single Family	-14.1%	-4.9%	34.7%	-0.1%	-36.1%
Greeley MSA Total	25.0%	-2.2%	9.1%	15.5%	17.8%
Greeley MSA Single Family	32.1%	-8.4%	28.1%	3.8%	-9.8%
Nonresidential Construction Growth[6]					
Value of Projects	64.9%	-71.6%	84.2%	-23.3%	53.5%
Square Footage of Projects	-27.6%	-16.2%	6.8%	9.6%	136.2%
Level (Thousands)	2,892	2,424	2,589	2,838	6,705
Number of Projects	13.4%	-17.1%	-10.9%	-5.5%	23.6%
Level	322	267	238	225	278
Housing Market[7]					
Average Sale Price - Single Family	7.4%	3.2%	6.9%	16.8%	12.2%
Level (Thousands)	$412	$426	$457	$532	$598
Inventory - Single Family	6.3%	14.5%	-21.7%	-44.3%	53.4%
Home Sales - Single Family	0.8%	2.7%	9.8%	2.3%	-20.4%
Retail Sales Growth[8]					
Larimer County	5.3%	9.6%	7.6%	13.0%	12.1%
Weld County	9.5%	8.9%	-2.3%	13.6%	17.1%

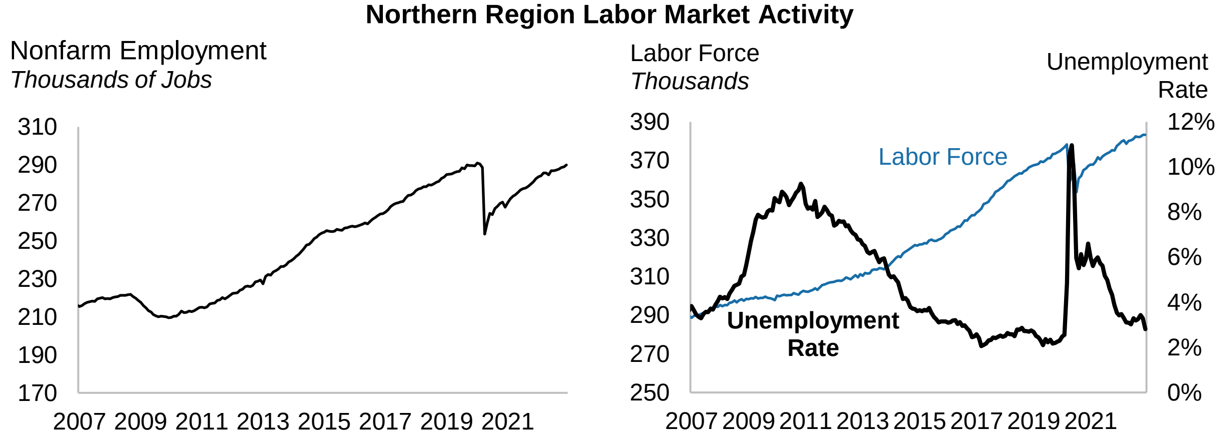
MSA = Metropolitan statistical area. NA = Not available.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through December 2022.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through December 2022.
[3]National Agricultural Statistics Service.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

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. Employment in the northern region continued to grow at a solid pace in the fourth quarter of 2022, despite natural resources employment, which includes oil and gas, lagging the recovery. Buoyed by industry sectors such as professional and business services, manufacturing, and transportation and warehousing, current survey data indicate employment was up 3.6 percent in 2022 and the unemployment rate for the year averaged 3.2 percent (Figure 32, left). Based on more complete employer data through the third quarter of 2022 from the Quarterly Census of Employment and Wages, employment gains in the northern region slightly outpaced growth statewide. Encouragingly, the leisure and hospitality sector in the region appears to have recovered jobs lost during the pandemic, and strength in energy prices likely supported more oil and gas jobs over the latter half of the year. Development around the Northern Colorado Regional Airport is also expected to boost jobs in the next year.

Another positive is continued growth in the region's labor force. The labor force population rose 2.3 percent in 2022, marking the third-fastest growth posted in the state. The growing labor force is indicative of households' robust participation in the job market and ample job opportunities. Concurrently, the regional unemployment rate fell as low as 2.8 percent in December, nearing pre-pandemic expansionary levels (Figure 32, right).

Although many sectors have exceeded pre-pandemic levels, the region's colleges and universities continue to struggle with falling enrollment and lagging employment growth. During the 2021-22 school year, enrollment at Colorado State University and the University of Northern Colorado fell for the fourth consecutive year and state education employment tracked by the Current Employer Survey remained 2,600 jobs below pre-pandemic February 2020 levels. 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 32
Northern Region Labor Market Activity



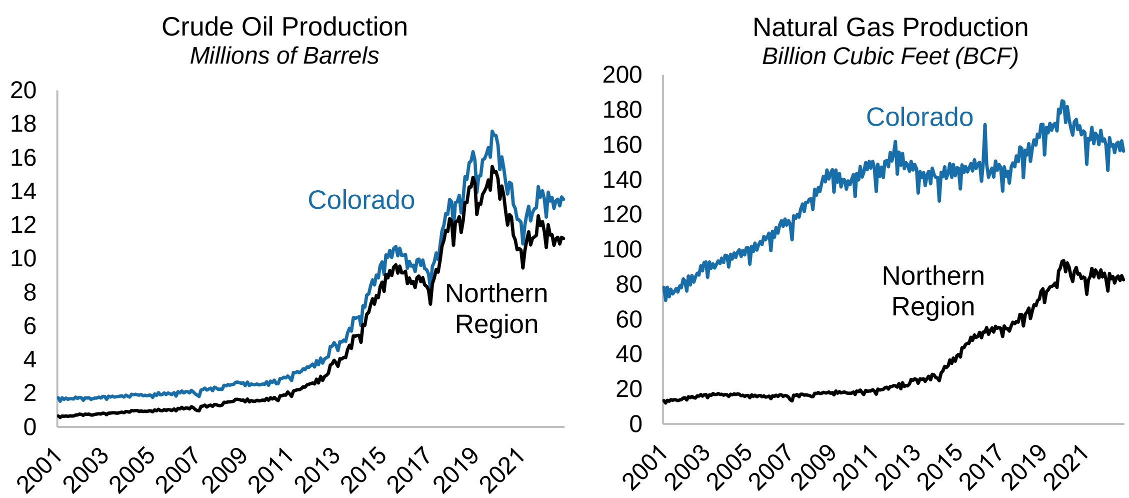
Source: U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through December 2022.

Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through December 2022. 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. Although conditions have improved in areas of Colorado, the U.S. drought monitor still shows conditions in northeast Colorado as abnormally dry. Encouragingly, exports of beef products were up in 2022 and drought conditions are expected to abate further. The USDA projects livestock supplies will remain constrained in 2023 and that prices will remain stable.

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 33). The region's oil production was on pace to increase slightly in 2022 after contracting for two consecutive years; however, natural gas production was set to end the year down. Despite tepid growth, 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. Looking ahead, the Energy Information Administration projects crude oil prices to moderate in 2023 along with the price of natural gas. Production in the region is expected to remain flat and below pre-pandemic levels, lowering the value of production and its impact on the regional economy.

Figure 33
Colorado Energy Production



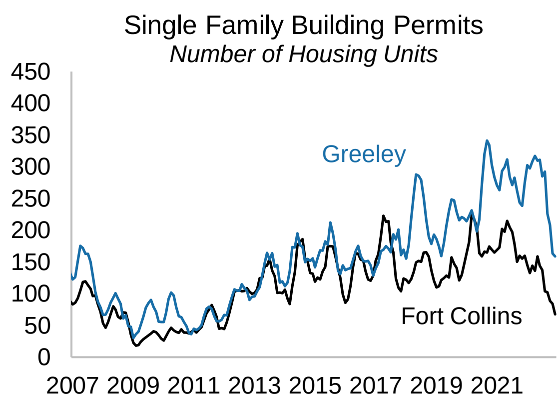
Source: Colorado Oil and Gas Conservation Commission. Monthly data through November 2022.

Housing. Rising interest rates continue to impact the housing market in the northern region. Although the average sales price of a single family home in the region was still up by double digits in 2022 compared with 2021 (Table 21), the average price declined about 8 percent since peaking in May 2022. As affordability eroded with rising interest rates, sales activity fell rapidly and inventory levels built up. In 2022, home sales were down 20 percent compared with 2021 levels, and inventory rose by more than 53 percent. Despite improvement, inventory levels in December were only about 75 percent of pre-pandemic levels. Challenges in the housing market are expected to persist in the region through at least the latter half of 2023 while the Federal Reserve continues to raise rates in response to high inflation.

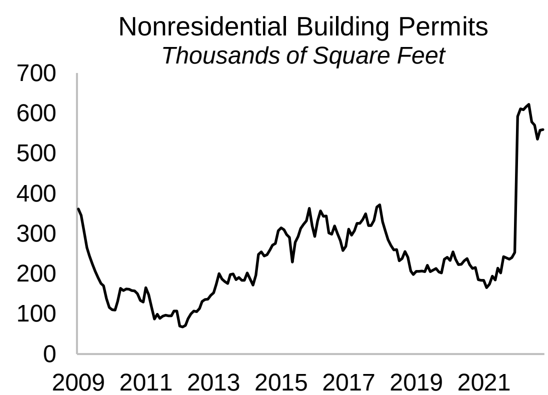
Rising interest rates and worsening affordability are also challenging residential construction activity (Figure 34, left). In 2022, Larimer County residential permits were down by nearly 20 percent. More permit activity in Weld County partially offset that decline, but permits remain down overall. In Weld County, residential construction over the past year was boosted by a surge in multifamily permits that masked a nearly 10 percent decline in permits for single family homes. The Fort Collins market also benefited from multifamily construction as single family permits were down by more than 36 percent from 2021.

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 34, 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 34
Northern Region Construction Activity



Source: U.S. Census Bureau. Data shown as three-month moving averages. Data are not seasonally adjusted and are through December 2022.



Source: F.W. Dodge. Data shown as twelve-month moving averages. Data are not seasonally adjusted and are through December 2022.

Colorado Springs Region

The Colorado Springs region encompasses El Paso County and is home to the state's second-largest city. The regional economy recovered quickly from the pandemic-induced recession, and continued to grow at a steady pace through 2022. The tight housing market shows signs of loosening as building permits and average sale prices decline. Likewise, nonresidential construction showed signs of decline in 2022. Indicators for the Colorado Springs regional economy are presented in Table 22.

Table 22
Colorado Springs Region Economic Indicators
El Paso County

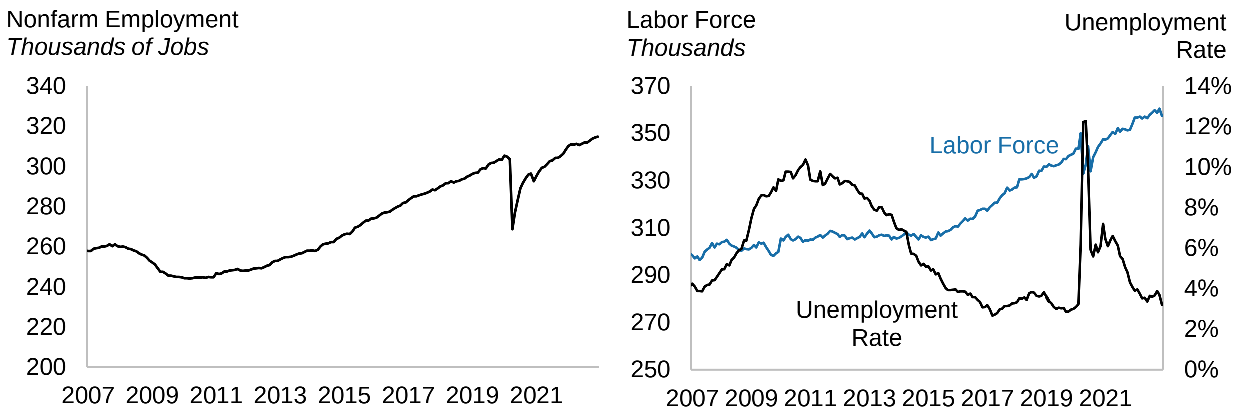
	2018	2019	2020	2021	2022
Employment Growth[1]					
Colorado Springs MSA	2.2%	2.5%	-2.7%	3.5%	3.3%
Unemployment Rate[2]	3.6%	3.1%	6.9%	5.6%	3.6%
Housing Permit Growth[3]					
Total	15.4%	-3.8%	25.7%	34.7%	-5.5%
Single Family	9.6%	-4.1%	24.4%	0.7%	-28.4%
Nonresidential Construction Growth[4]					
Value of Projects	20.9%	0.5%	47.1%	2.3%	-29.4%
Square Footage of Projects	9.3%	5.3%	124.5%	-46.6%	-32.0%
Level (Thousands)	2,841	2,992	6,719	3,584	2,442
Number of Projects	-1.3%	-31.1%	16.3%	-26.7%	18.8%
Level	543	374	435	319	379
Housing Market[5]					
Average Sale Price – Single Family	9.9%	5.8%	13.2%	18.2%	10.2%
Level (Thousands)	$346	$366	$417	$492	$542
Inventory – Single Family	3.0%	-9.8%	-34.7%	-30.0%	117.7%
Home Sales – Single Family	-5.3%	1.9%	6.2%	4.0%	-17.5%
Retail Sales Growth[6]	9.2%	6.5%	8.6%	18.3%	8.9%

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

Labor market. The labor market in Colorado Springs remains tight with an unemployment rate of 3.2 percent in December and steady employment growth. The sectors with the largest employment in El Paso County are professional and business services and trade, transportation, and utilities, both of which have had strong recoveries from the pandemic-induced recession. The addition of an Amazon fulfillment center in the summer of 2021 also brought more jobs to the region. Low unemployment rates may constrain employment growth due to a lack of available labor in future years, although a quickly growing population may ease the constraints over time.

El Paso County is the state's most populous county and is expected to continue to grow. Population growth has outpaced that of the state every year since 2016, and is expected to exceed that of the state as a whole between 2020 and 2030. The growing population contributed to a larger labor force (Figure 35, right), which has bolstered employment growth in recent years and may help ease labor shortage issues going forward.

Figure 35
Colorado Springs Labor Market Activity



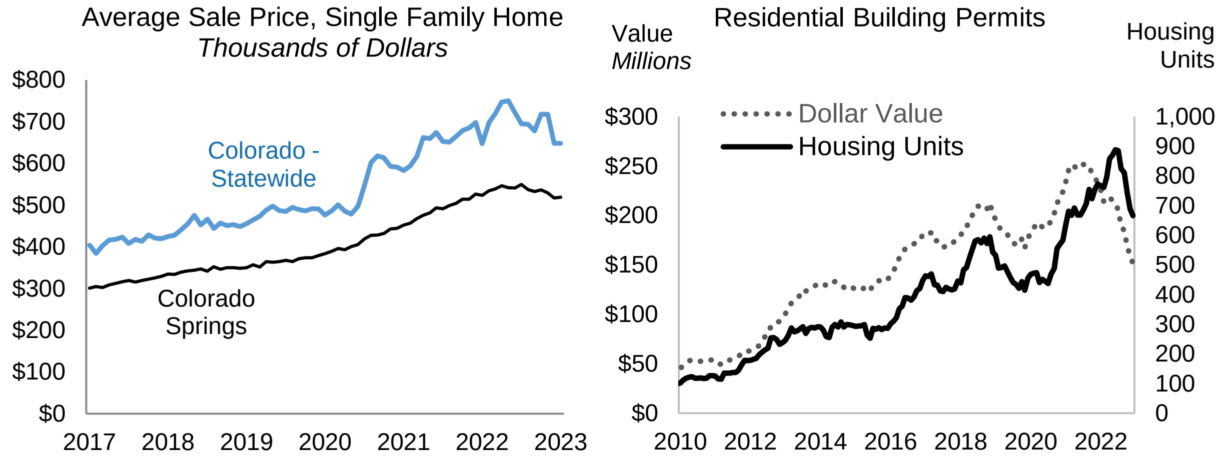
Source: U.S. Bureau of Labor Statistics; CES data (left) and LAUS data (right). Data are seasonally adjusted through December 2022. LAUS data include Legislative Council Staff adjustments prior to 2010.

Housing market. Demand has outpaced the supply of housing in Colorado Springs over the past two years, but the housing market showed signs of cooling in 2022. Average home prices in El Paso County have fallen 5.6 percent since the peak in July 2022, after surging in 2021 and early 2022 (Figure 36, left). Home prices tend to be lower in El Paso County than statewide, averaging about $518,000 as of January 2023.

The supply of homes available to buyers plummeted in 2020 and 2021 as demand rose steeply, but has rebounded in 2022. Inventory of single-family homes has now surpassed pre-pandemic levels; in January 2023, inventory was more than double what it was a year prior. Additionally, homes are staying on the market longer, as the average time a single family home is on the market before sale is 50 days, up from 14 days at the same time last year.

Residential homebuilding has also dropped off since its July 2022 peak, down 48 percent over the second half of the year. Most of this decline comes from single-family permits, as multi-family 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 36
Colorado Springs Home Prices and Residential Construction



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

Source: U.S. Census. Data shown as three-month moving averages. Data through December 2022.

Nonresidential construction. Nonresidential construction activity also declined through the second half of 2022, falling below pre-pandemic levels. Nonresidential construction saw an unprecedented surge in activity in 2021 due to Amazon's new 3.7 million square foot fulfillment center. 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 drop in labor force participation and a slowing housing market after surging prices in 2021. Indicators for the regional economy are presented in Table 23 and discussed below.

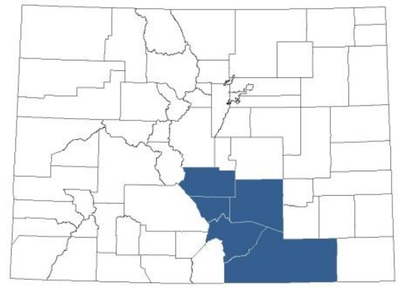


Table 23
Pueblo Region Economic Indicators
Custer, Fremont, Huerfano, Las Animas, and Pueblo Counties

	2018	2019	2020	2021	2022
Employment Growth					
Pueblo Region[1]	0.5%	1.0%	-2.6%	2.4%	4.0%
Pueblo MSA[2]	0.5%	1.2%	-2.7%	1.2%	3.9%
Unemployment Rate[1]	4.5%	3.9%	7.7%	7.6%	5.3%
Housing Permit Growth[3]					
Pueblo MSA Total	30.2%	3.8%	18.4%	24.0%	-22.9%
Pueblo MSA Single Family	36.2%	3.0%	19.4%	24.0%	-22.9%
Nonresidential Construction Growth[4]					
Value of Projects	222.9%	45.2%	26.2%	175.3%	-65.5%
Square Footage of Projects	145.1%	-19.7%	37.7%	278.3%	-73.7%
Level (*Thousands*)	397	318	438	1,658	436
Number of Projects	50.0%	23.3%	86.5%	2.9%	-23.9%
Level	30	37	69	71	54
Housing Market[5]					
Average Sale Price – Single Family	9.6%	9.5%	16.2%	24.1%	4.4%
Level (*Thousands*)	$206	$226	$265	$326	$340
Inventory – Single Family	-1.2%	-8.9%	-23.9%	-27.0%	68.7%
Home Sales – Single Family	-3.8%	0.3%	14.1%	7.3%	-6.2%
Retail Sales Growth[6]	8.4%	8.5%	4.2%	13.4%	16.1%

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

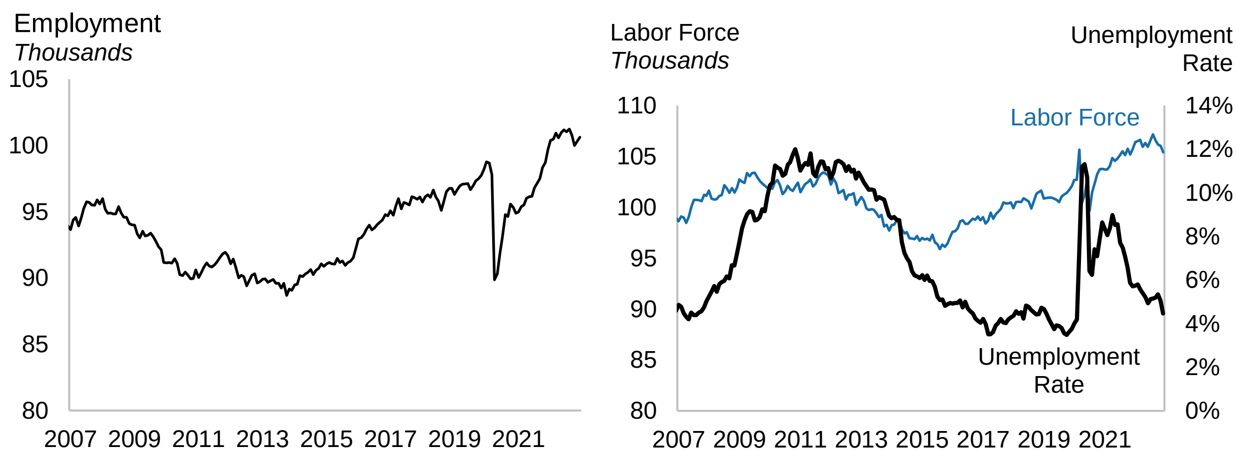
Labor market. Labor market conditions improved through the first half of 2022, but data for the last few months of the year suggest signs of slowing. Pueblo county's three largest sectors by employment are health care and social assistance, retail trade, and accommodation and food services, all of which were heavily impacted during the pandemic-induced recession. Employment fully recovered from the pandemic in 2021, and remains 2.0 percent higher than pre-pandemic levels as of December 2022, despite a small decline in September and October (Figure 37, left).

The regional unemployment rate remains significantly higher in the Pueblo region than in any other region of the state, despite a downtick in December (Figure 37, right). The seasonally adjusted unemployment rate was 4.5 in December 2022, down from 5.3 percent in September, but still exceeding the state's unemployment rate by 1.6 percentage points.

The size of the labor force declined by 1,766 people between August and December, roughly offsetting the employment growth that had occurred during the year prior. 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]

The State Demography Office anticipates that population in the region will grow slowly between 2020 and 2030, by about 4.0 percent over the entire decade. Most of this growth is expected to occur in Pueblo County, offset by slight 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.

Figure 37
Pueblo Region Labor Market Trends



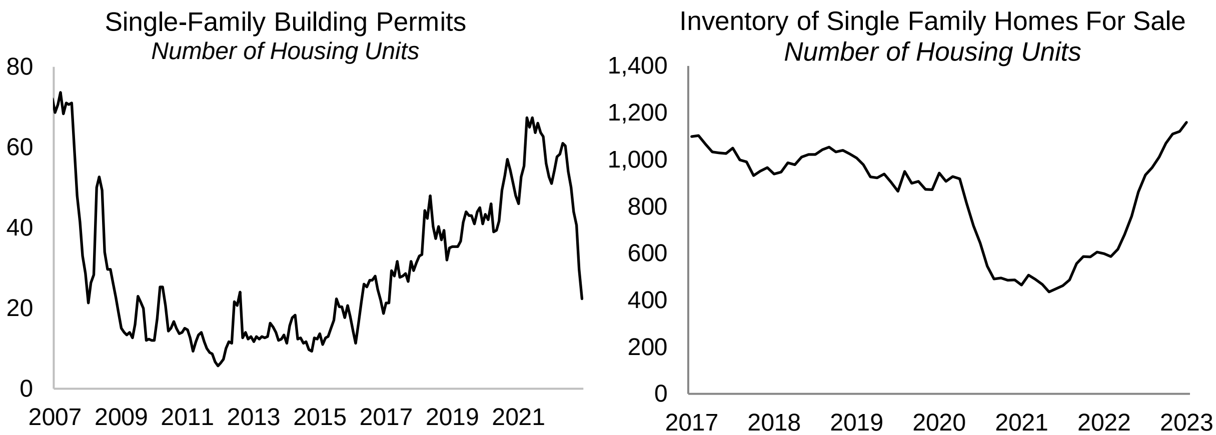
Source: U.S. Bureau of Labor Statistics; LAUS (household survey) for LCS Pueblo – Southern Mountains Region. Data are seasonally adjusted and are through December 2022.

Housing market. The housing market in the Pueblo region boomed in 2020 and 2021, but showed signs of slowing across a range of metrics over the second half of 2022. Single-family home prices in the Pueblo region rose by over 55 percent between January 2020 and May 2022 due to high demand, but have since dropped by 7.1 percent. Despite the recent dip, the average price of a single-family home in the region was about $326,000 in January 2023, well above the average pre-pandemic price of $234,000. The recent slowing can be attributed to rising interest rates tempering demand which has been seen across the country. Home prices are expected to moderate during the forecast period as interest rates rise, inventories rebound, and population declines in some counties.

[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/

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 (Figure 38, right). Since bottoming out, inventory rebounded sharply throughout 2022, now exceeding the level of inventory seen in 2019 and still growing. Homes are sitting on the market longer and fewer sales are taking place compared with one year ago, contributing to rising inventory. As inventory rose, the number of single-family building permits dropped precipitously between June and December 2022 (Figure 38, left). Rising interest rates have increased the cost of funding building while falling home prices decrease the incentive to build.

Figure 38
Pueblo – Southern Mountains Residential Construction and Inventory

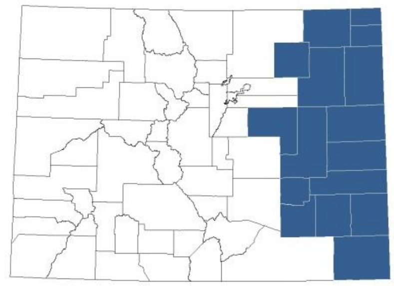


Source: U.S. Census. Data shown as three-month moving averages. Data through December 2022.

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

Nonresidential construction. Nonresidential construction activity peaked 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 has since slowed in 2022, and is roughly back in line with its pre-pandemic level. Private firms face headwinds from inflation in construction material costs and rising interest rates going forward. Public sector construction is expected to rise as funds distributed through the 2021 Infrastructure Investment and Jobs Act are distributed and spent.

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 recovery stalled in 2022, as in other rural regions of the state, while rising feed costs, interest rates, and ongoing drought conditions dampen the region's agricultural outlook. Regional housing markets show signs of cooling, with declining home sales and rising inventory of homes for sale. Economic indicators for the region are presented in Table 24.

Table 24
Eastern Region Economic Indicators
Baca, Bent, Cheyenne, Crowley, Elbert, Kiowa, Kit Carson, Lincoln, Logan, Morgan, Otero, Phillips, Prowers, Sedgwick, Washington, and Yuma Counties

	2018	2019	2020	2021	2022
Employment Growth[1]	2.1%	0.9%	-4.0%	1.9%	1.6%
Unemployment Rate[1]	2.7%	2.3%	4.3%	4.2%	2.9%
Crop Price Changes[2]					
Wheat ($/Bushel)	34.6%	-7.0%	6.3%	37.7%	42.2%
Corn ($/Bushel)	2.8%	9.3%	-4.6%	53.8%	30.9%
Alfalfa Hay (Baled, $/Ton)	23.5%	14.3%	-6.6%	2.5%	2.7%
Livestock[2]					
State Cattle and Calf Inventory Growth	2.6%	8.0%	1.9%	4.0%	-1.0%
Milk Production	8.8%	5.5%	7.1%	2.3%	0.9%
Housing Permit Growth[3]	43.4%	0.2%	22.3%	21.7%	-19.4%
Housing Market[4]					
Average Sale Price – Single Family	6.7%	7.2%	6.3%	18.0%	7.2%
Level (Thousands)	$283	$303	$328	$382	$412
Inventory – Single Family	12.8%	3.5%	-22.6%	-28.9%	65.9%
Home Sales – Single Family	5.1%	0.6%	4.2%	9.9%	-6.8%
Retail Sales Growth[5]	9.4%	13.6%	3.3%	12.5%	15.5%

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

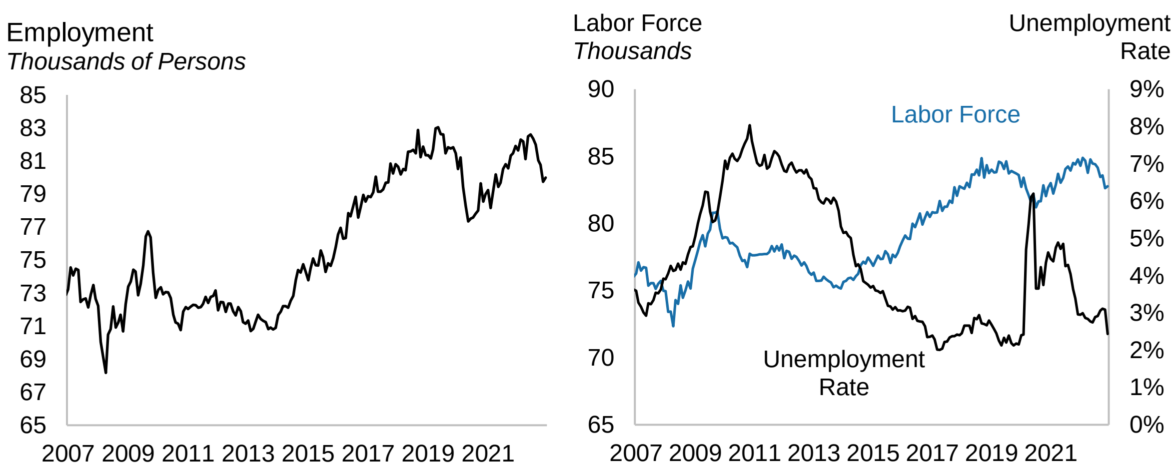
Agriculture and livestock. The eastern plains is the largest agricultural region in the state, and agriculture drives much of the region's economy. Adverse weather and widespread drought reduced supplies of major crops in 2022 and continued to pressure agricultural prices, which rose further in 2022 from multiyear highs in 2021. Colorado corn and wheat prices finished the year up 30.9 percent and 42.2 percent, respectively, from 2021. Costs associated with drought and feed purchases have limited profitability in the livestock sector while farm loan interest rates rose sharply in 2022, softening the outlook for farm income in the year ahead.

Drought conditions have improved throughout the winter in much of the eastern plains, with the central and northeastern portions of the region in particular seeing the retreat of severe drought. Nevertheless, drought continues to challenge the region's farmers and ranchers, with moderate drought characterizing much of the region, and no areas having improved substantially enough to become drought-free through February 14, 2023, according to the U.S. Drought Monitor.

Labor market. The eastern plains region accounts for about 2 percent of statewide employment. Relative to the state as a whole, the region employs a greater share of its population in farming (9.2 percent compared with 1.7 percent statewide), manufacturing (8.8 percent compared with 5.5 percent statewide), and public administration (11.4 percent compared with 5.4 percent statewide).

As in other rural regions of the state, household survey data suggest that the eastern plains labor market experienced a change in direction in 2022, with the labor force population peaking in February 2022 and the number of employed persons peaking in June 2022 (Figure 39). Regional employment finished the year up 1.6 percent compared with 2021, the lowest growth rate among the state's nine regions, and compared with 4.7 percent growth statewide during 2022. A declining labor force partially offset declines in employment, leaving the unemployment rate at 2.9 percent, below the statewide average and well below 2021's 4.2 percent. Employment growth in the region is expected to resume at a slow pace in 2023, as high interest rates and slowing economic conditions will constrain consumer demand and downstream hiring decisions.

Figure 39
Eastern Region Labor Market Activity

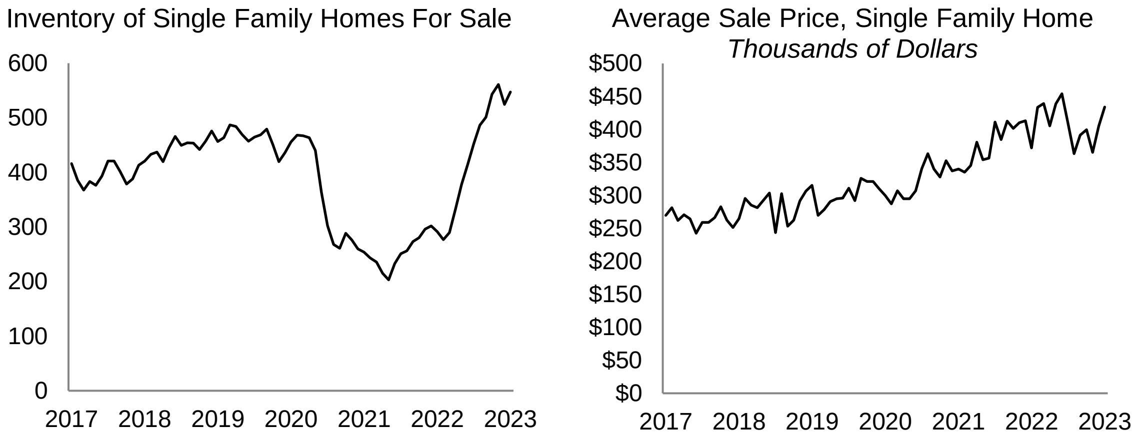


Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data are through December 2022. Includes Legislative Council Staff adjustments prior to 2010.

Retail sales. Most regions of the state experienced strong retail sales activity in 2022, including the eastern plains, where retail sales grew by 15.5 percent through November year-to-date after growing by 12.5 percent in 2021. The rate of growth was faster than consumer price inflation. Growth in retail sales is expected to continue to exceed inflation in 2023, but will remain constrained by the overall economic slowdown.

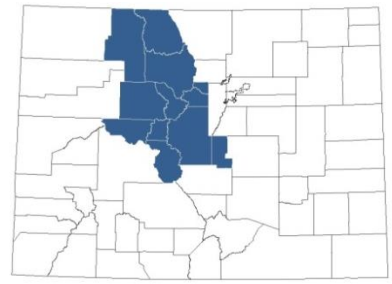
Housing and population. The eastern plains is the most sparsely populated of the state's regions, with its 16 counties accounting for 2.8 percent of the state's population in 2021. As elsewhere in the state, the region's housing market shows signs of cooling. Higher interest rates are slowing home sales, which were down 6.8 percent through December 2022, and builders acquired 19.4 percent fewer residential building permits in 2022 than the prior year. Housing inventory for sale was up by 65.9 percent in 2022 after declining in each of the prior two years (Figure 40, left). Home prices finished 2022 up by 7.2 percent from the prior year, for an average sale price of $412,000 (Figure 40, right).

Figure 40
Eastern Region Housing Market Activity



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

Mountain Region



The mountain region comprises twelve counties stretching from Poncha Pass north to the Wyoming border. The region's tourism-dependent economy is sensitive to national and international economic conditions, experiencing higher highs and, on occasion, lower lows than the state as a whole. Regional employment rebounded impressively from its deep pandemic trough, ending 2022 with the lowest unemployment rate in the state. A reversal in home values is helping to relax the region's pressure-cooker housing market, while a slowing global economy raises headwinds for regional economic performance over the short- and medium-term. Economic indicators for the mountain region are presented in Table 25.

Table 25
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

	2018	2019	2020	2021	2022
Employment Growth[1]	2.9%	1.6%	-7.6%	7.1%	5.2%
Unemployment Rate[1]	2.6%	2.2%	8.1%	4.5%	2.7%
Housing Permit Growth[2]	68.0%	20.7%	-38.7%	30.7%	37.7%
Nonresidential Construction Growth[2]					
Value of Projects	-78.0%	40.6%	85.8%	-55.4%	22.0%
Square Footage of Projects	-65.1%	29.2%	22.9%	-22.1%	-2.2%
Level *(Thousands)*	708	915	1,124	876	857
Number of Projects	17.7%	-37.0%	71.7%	8.9%	8.1%
Level	73	46	79	86	93
Housing Market[3]					
Average Sale Price - Single Family	2.5%	12.6%	19.1%	33.1%	5.5%
Level *(Thousands)*	$842	$941	$1,261	$1,507	$1,568
Inventory - Single Family	-7.4%	5.1%	-30.7%	-43.2%	29.6%
Home Sales - Single Family	-3.0%	-1.6%	22.3%	1.3%	-27.0%
Retail Sales Growth[4]	7.3%	12.1%	3.8%	21.0%	16.5%

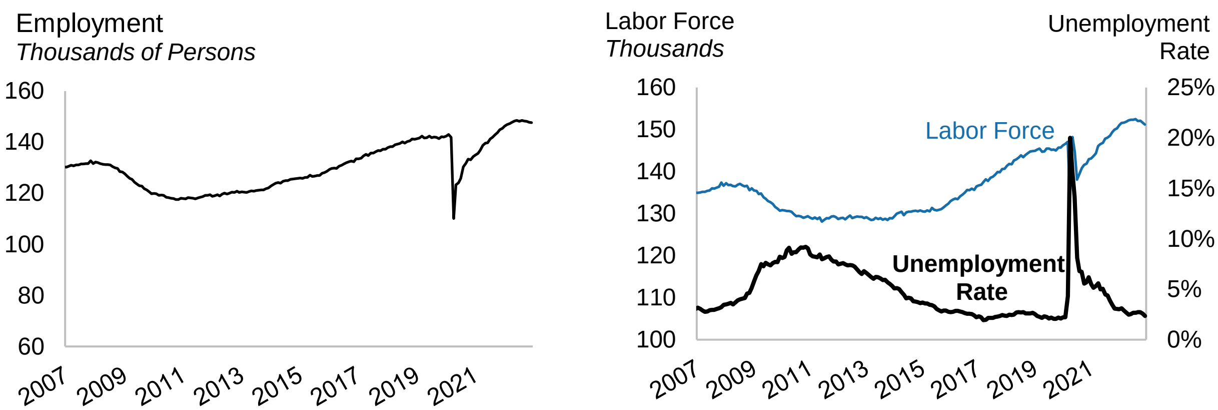
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through December 2022.
[2]F.W. Dodge. Data through December 2022.
[3]Colorado Association of Realtors. Data through December 2022.
[4]Colorado Department of Revenue. Data through November 2022.

Labor market. Regional employers recovered impressively following devastating job losses in 2020. Employment plunged by 32,900 jobs, or 23 percent, between February and April 2020 at the height of pandemic-era economic restrictions. Employers added jobs in 25 of the next 26 months, setting a new peak level in the summer of 2022. During that span, employment grew by over 38,000 jobs, surpassing the pre-pandemic peak by 5,500, or 3.9 percent. The regional unemployment rate averaged 2.7 percent in 2022, the lowest rate among Colorado's regional economies, and ended the year at a December rate of 2.3 percent, also the state's lowest.

As shown in Figure 41, employment growth has flagged since the summer, concurrent with a dip in the regional labor force population. This pattern is apparent in household surveys of other rural Colorado labor markets, including the neighboring western and southwest mountain regions. Data in these low-population regions are imprecise due to sample size limitations, and often undergo significant revisions. Assuming their accuracy, the reported data may reflect an actual contraction in payrolls among the region's employers, out-migration among remote workers who had relocated to the region during the pandemic, or a combination of these.

Employment is expected to grow at a much slower pace in 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. One positive contributor to the labor supply is expected continued home price relief, discussed below. However, high mortgage interest rates pose a major hurdle for would-be movers-in.

Figure 41
Mountain Region Labor Market Activity



Source: U.S. Bureau of Labor Statistics; LAUS. Data are seasonally adjusted and are through December 2022. Includes Legislative Council Staff adjustments prior to 2010.

Retail sales. Retail sales in the region grew at an impressive 16.5 percent clip through the first eleven months of 2022, well in excess of the 8.1 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.

An excellent year of snowfall is contributing to near-term strength in consumer activity. Steamboat Ski Resort, for example, is poised to surpass its all-time snowfall record. 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. The regional real estate market changed in 2022. Average single family home sale prices increased by 5.5 percent, after rising 19 percent and 33 percent in 2020 and 2021, respectively. Likewise, the inventory of single family homes for sale rose nearly 30 percent, after falling to historically low levels in 2021. The direction of these changes matches the national and Front Range housing markets, but the transformation is starker in the supercharged mountain region's housing market.

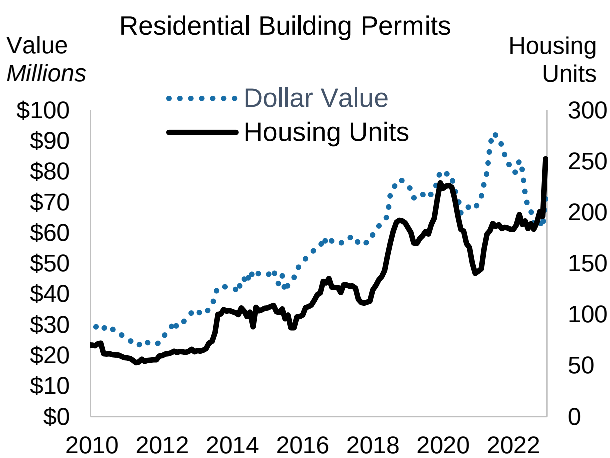
Homes remain unaffordable for all but the wealthiest buyers. The average single family home sold for over $1.5 million in each of 2021 and 2022. But interest rate hikes have cooled the market significantly and are expected to do so over 2023 as well, perhaps resetting prices to a new baseline before interest rates ultimately fall.

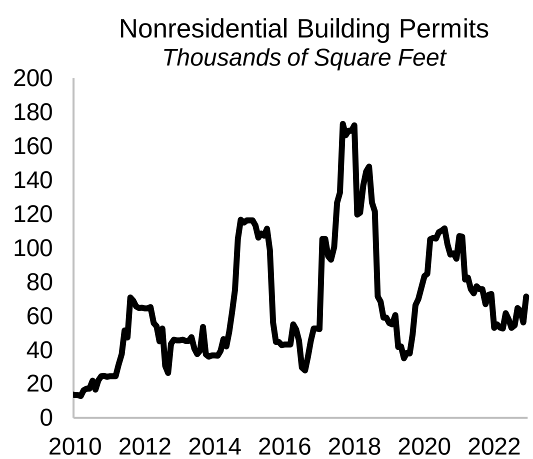
For years, the unavailability of housing in job-rich resort areas has pushed workers to seek housing in outlying communities, where prices have likewise surged. A lack of housing appears to be limiting the labor force population, thereby limiting employment growth and overall growth in the regional economy. Changes in market conditions are not expected to overcome this constraint, though expanded housing stock could ease pressure in this area.

Construction. Residential construction continued its long crescendo in 2022, with builders increasing permitted residential units by nearly 40 percent (Figure 42, left). This forecast anticipates a significant statewide decline in the number of housing permits issued in 2023, as high interest rates both limit homebuilders' access to capital and reduce the principal sale prices at which buyers can also afford their interest payments. The mountain region is expected likewise to experience a decline in permit issuances, with capital constraints, labor constraints, and raw materials and transportation prices all limiting homebuilder capacity. Demand remains extremely high, which may motivate continued building at or near present levels even in the face of these significant limitations.

Nonresidential construction indicators were likewise strong in 2022, with the number and value of nonresidential projects both showing significant gains from the 2021 level. However, the square footage of new projects was down (Figure 42, right), with no flagship casino or resort property to boost the annual average. The outlook for nonresidential construction has likewise dimmed in the face of high input costs and rising interest rates.

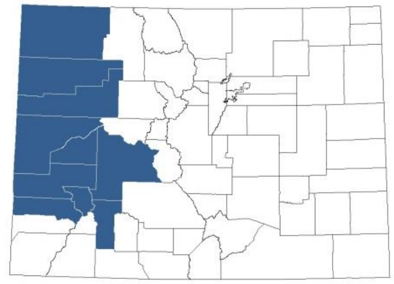
Figure 42
Mountain Region Construction Activity





Source: F.W. Dodge. Data shown as twelve-month moving averages. Data are not seasonally adjusted and are through December 2022.

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 the pandemic-induced recession, the western region's labor market recovered faster than the state overall, but stalled over the course of 2022. While the housing market struggled over the past year, nonresidential construction activity recorded another year of strong growth. Economic indicators for the region are summarized in Table 26.

Table 26
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

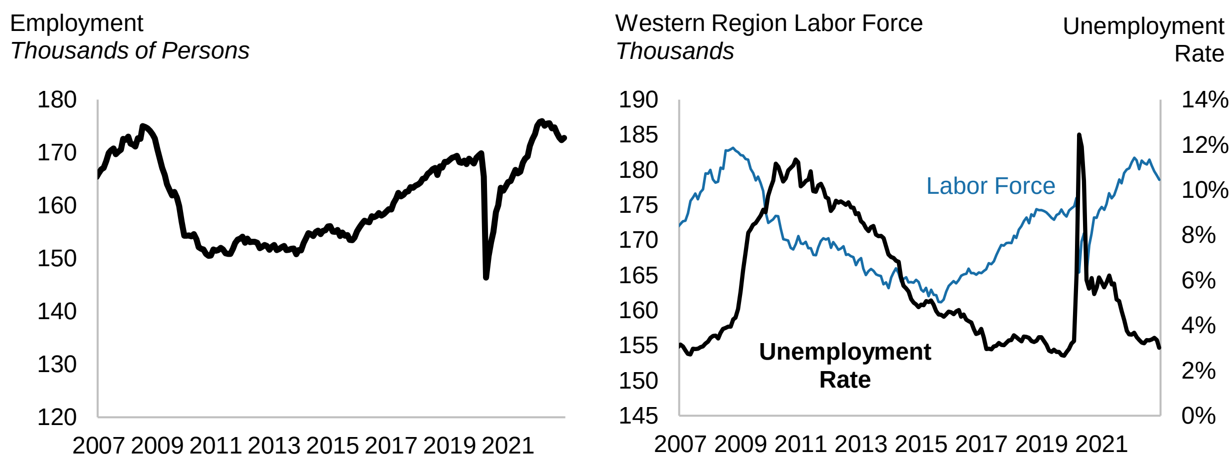
	2018	2019	2020	2021	2022
Employment Growth[1]					
Western Region	2.6%	1.3%	-5.2%	5.2%	3.8%
Grand Junction MSA	2.5%	1.4%	-5.0%	4.5%	3.3%
Unemployment Rate[2]	3.4%	2.9%	6.9%	5.2%	3.4%
Natural Gas Production Growth[3]	5.2%	-0.9%	-7.7%	-9.1%	-6.1%
Housing Permit Growth[4]	15.5%	-11.7%	31.5%	20.8%	-15.7%
Nonresidential Construction Growth[4]					
Value of Projects	2.8%	64.7%	-66.9%	225.3%	2.1%
Square Footage of Projects	27.4%	7.0%	-26.4%	53.1%	37.8%
Level (*Thousands*)	608	651	479	733	1,010
Number of Projects	18.0%	20.3%	22.5%	29.9%	8.0%
Level	59	71	87	113	122
Housing Market[5]					
Average Sale Price - Single Family	0.8%	3.3%	18.7%	26.1%	3.1%
Level (*Thousands*)	$334	$347	$421	$519	$536
Inventory - Single Family	-9.2%	-12.3%	-26.9%	-42.4%	25.2%
Home Sales - Single Family	3.3%	-7.2%	12.4%	1.6%	-21.8%
Retail Sales Growth[6]	7.1%	14.2%	1.7%	19.2%	11.4%
National Park Recreation Visits[7]	-5.8%	2.3%	-0.1%	12.7%	-3.9%

MSA = Metropolitan statistical area.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through December 2022.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through December 2022.
[3]Colorado Oil and Gas Conservation Commission. Data through November 2022.
[4]F.W. Dodge. Data through December 2022.
[5]Colorado Association of Realtors. Data through December 2022.
[6]Colorado Department of Revenue. Data through November 2022.
[7]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 December 2022.

Labor market. In 2022, employment growth decelerated in the Western region. Job growth measured through a survey of employers in the Grand Junction metro area (Mesa County) indicated jobs rose by 3.3 percent through December 2022, slower than the 4.3 percent pace recorded statewide over the same period (Figure 43, left). Changes in the employment situation for the region's households indicated a similar trend, with the pace of those finding employment decelerating amid slower-than-statewide job growth. Based on industry-level data through the second quarter of 2022, several sectors remain challenged after the pandemic. Through the second quarter, data indicate that employment in natural resources, manufacturing, and leisure and hospitality remained below pre-pandemic levels. Additionally, government employment, which is one of the region's largest sectors, recorded just 1.2 percent growth year-to-date, lower than the 2.2 percent rate recorded statewide over the same period.

Despite slower employment growth, the region's unemployment rate continued to decline, falling to 3 percent by December 2022 (Figure 43, right). The unemployment rate in many of the region's communities is now around pre-pandemic levels. Over the past year, falling unemployment has been accompanied by a growing labor force that was up about 1.9 percent in 2022. Over the next year, the labor market is expected to slow along with a forecast decrease in natural gas prices. Labor force growth is expected to continue to moderate and employment gains will slow as the region remains near full employment.

Figure 43
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 December 2022.

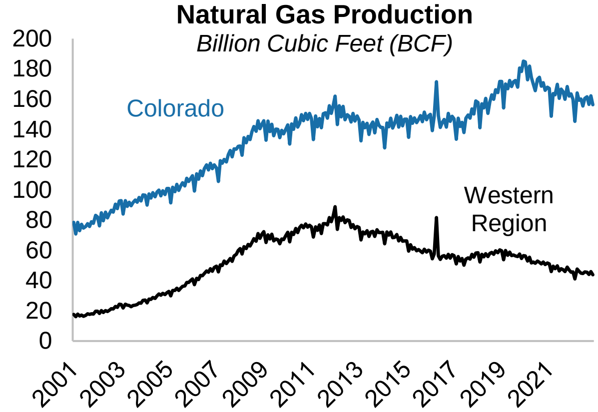
Housing. Rising interest rates and eroding affordability have impacted the housing market in the western region, like the nation and many areas of the state. In 2022, sales of single family homes were down nearly 22 percent and prices rose just 3.1 percent, the smallest annual increase recorded since 2019 (Table 26). Concurrently, housing inventory rose in the western region, with the inventory of single family homes up nearly 25 percent for the year. Challenges in the housing market are 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 16 percent, reflecting a contraction in both single family and multifamily units. For the region's largest counties, permits were down in Garfield (-6.8 percent), Mesa (-15.6 percent), and Montrose (-22 percent) counties, but were up Delta County (+5.5 percent). 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. The western region recorded both more projects and more square footage over the past year. Construction was supported by a wide range of public and private projects including expanded manufacturing and warehouse development, health care, schools, and continued solar development. However, commercial construction was down more than 54 percent in 2022. The commercial market has likely been impacted by rising interest rates and rising construction costs.

Retail sales. Retail sales activity jumped in the western region in 2021 following the recession as households in the region were bolstered with stimulus payments and strong job growth following the pandemic-induced recession. Nationwide, consumers substituted spending on many services for retail goods as lingering pandemic conditions and restrictions influenced business activity and consumer behavior. Retail sales were up another 11.4 percent year-to-date in the western region by November 2022. Ongoing growth was likely due in large part to higher prices that offset downward pressure from a return to services spending, the drawdown in household savings, and a pullback on durable goods. Sales activity began to slow over the latter half of 2022, and is expected to slow further over the year ahead.

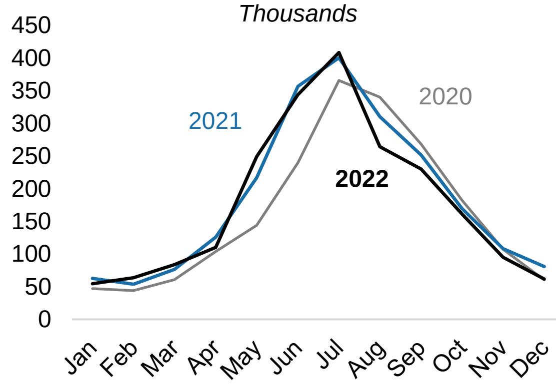
Figure 44
Natural Gas Production
Billion Cubic Feet (BCF)



Source: Colorado Oil and Gas Conservation Commission. Data through August 2022.

Energy sector. The western region produces a significant share of the state's natural gas, more than 28 percent in 2022 (Figure 44), and remains a significant contributor to the region's economic activity. Natural gas production supports tax revenue, jobs, and 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.

Figure 45
Visits to Western Region National Parks
Thousands

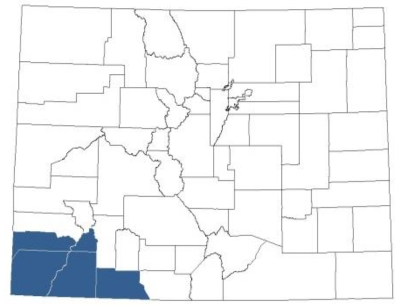


Source: National Park Service. Recreation visits for Black Canyon of the Gunnison National Park, Colorado National Monument, Dinosaur National Monument, and Curecanti National Recreation Area. Data through December 2022.

Surging prices over the past year increased the region's value of production significantly, which likely supported some resurgence in natural resources employment. Industry data indicate that natural resources employment was up nearly 16 percent through the second quarter of 2022. However, employment remains less than half of the 10,100 employees recorded in 2012. According to projections from the Energy Information Administration, natural gas prices are expected to fall about 47 percent in 2023.

Tourism. Visits to national parks (Figure 45) fell by 3.9 percent in 2022. The decline in visitation is likely attributable to ongoing roadwork on US 50, which restricted travel to the Black Canyon of the Gunnison National Park and the Curecanti National Recreation Area. However, travel to the region overall was also likely impacted by high gas and fuel prices over the summer. For the Grand Junction Regional Airport, enplanements and deplanements were down significantly beginning in May, and ended the year down by 12.1 percent and 13.6 percent, respectively. Airlines and regional airports have struggled over the past year with the pilot shortage and tight labor market.

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 regional economy reached an inflection point in 2022. Survey data indicate that the job market peaked, and then began to cool, while housing inventory for sale rose for the first time in years. The economic outlook for the remainder of 2023 is less certain, and the regional economy is isolated enough from the large Front Range metropolitan areas that it could experience significantly different economic conditions than the statewide averages reported elsewhere in this document. Economic indicators for the southwest mountain region are summarized in Table 27.

Table 27
Southwest Mountain Region Economic Indicators
Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

	2018	2019	2020	2021	2022
Employment Growth[1]	1.7%	-0.3%	-5.1%	5.4%	2.8%
Unemployment Rate[1]	3.2%	2.8%	6.8%	5.2%	3.3%
Housing Permit Growth[2]	24.1%	-33.9%	12.4%	18.4%	-23.1%
Housing Market[3]					
Average Sale Price - Single Family	7.1%	7.3%	16.0%	25.4%	14.2%
Level (Thousands)	$416	$452	$541	$656	$750
Inventory - Single Family	-3.7%	-10.4%	-29.3%	-47.5%	12.4%
Home Sales - Single Family	-0.3%	-13.5%	31.3%	-1.2%	-23.3%
Retail Sales Growth[4]	2.6%	5.6%	10.3%	20.1%	5.3%
National Park Recreation Visits[5]	-7.6%	-2.1%	-48.1%	87.2%	-8.2%

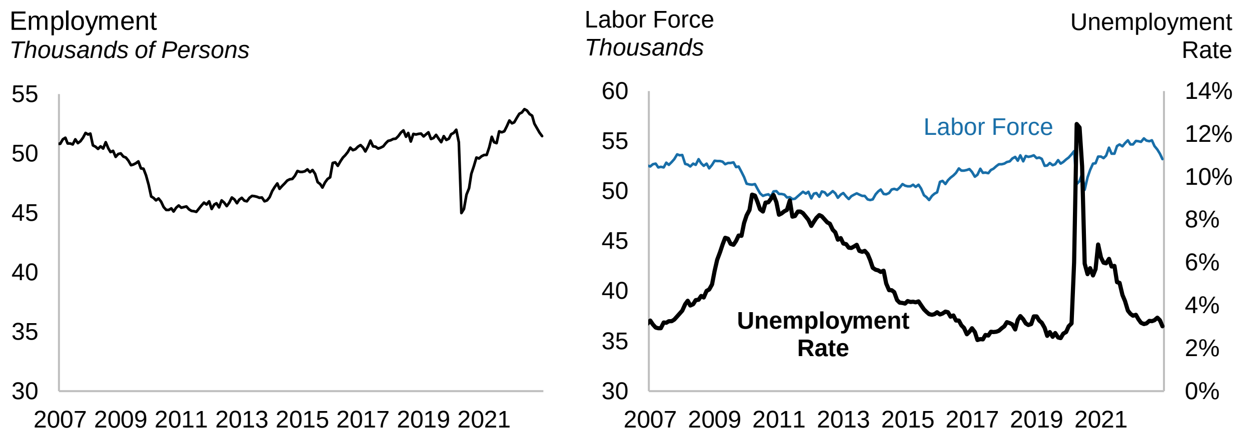
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through December 2022.
[2]F.W. Dodge. Permits for residential units. Data through December 2022.
[3]Colorado Association of Realtors. Seasonally adjusted. Data through December 2022.
[4]Colorado Department of Revenue. Seasonally adjusted. Data through November 2022.
[5]National Park Service. Recreation visits for Mesa Verde National Park and Hovenweep National Monument. Data through December 2022.

Labor market. Household survey data show that the region's labor force population and number of employed persons both peaked in May 2022 (Figure 46). Because of the region's relatively small population, the survey data may not be as reliable as for other, larger regions. However, they suggest that the regional labor market experienced a pronounced change in direction during the summer and fall of 2022. This may reflect an actual contraction in payrolls among the region's employers, out-migration among remote workers who had relocated to the region during the pandemic, or a combination of these. Notably, the same pattern can be seen in other rural regions of Colorado, including the neighboring western and mountain regions.

To this point, concurrent decreases in the labor force population and number of employed persons have kept the unemployment rate low. The region posted an average 3.3 percent unemployment rate in 2022, below the statewide average and well below 2021's 5.2 percent unemployment rate.

Employment growth in the region is expected to resume at a slow pace in 2023, as high interest rates and slowing economic conditions will constrain consumer demand. Travel activity could be dampened after the nation's households have largely drawn down savings accumulated during the pandemic; further, high prices and high interest rates constrain wealth-effect spending on discretionary purchases. Meanwhile, communities in the region still contend with the high cost of housing for many workers, further limiting employment growth.

Figure 46
Southwest Mountain Region Labor Market Activity



Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through December 2022. Includes Legislative Council Staff adjustments prior to 2010.

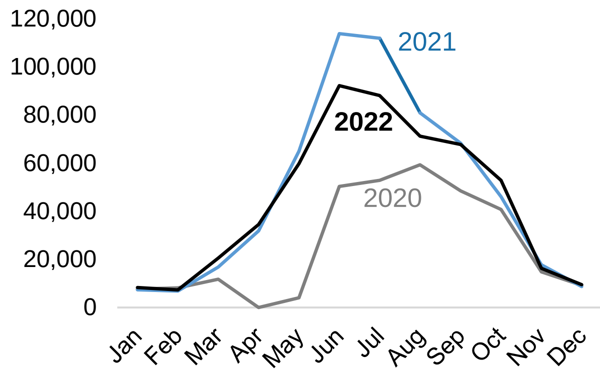
Retail sales. Retail sales activity slowed markedly in 2022, growing just 5.3 percent through November after surging by 20.1 percent in 2021. The rate of growth was slower than consumer price inflation and represents a decline in the real, inflation-adjusted value of goods and services sold at retail. The decline is attributable in part to high levels of tourist visitations during 2021, which contributed to high retail sales that year that were not matched in 2022. Sales are expected to bounce back and exceed inflation in 2023, but will remain constrained by the overall economic slowdown, as well as a softer outlook for tourist visitations.

Housing. Home prices have surged in the region, the product of robust demand and limited supply. The Colorado Association of Realtors reports an average 2022 sale price of $750,000 for single family homes in the region, up nearly $100,000 from the 2021 level. The December 2022 Legislative Council Staff forecast for assessed values projected the fastest rates of increase in San Juan County, Archuleta County, and the Durango and Bayfield areas of La Plata County.

Like the rest of the state, the region saw its housing market peak in 2022, with prices expected to fall year-over-year in 2023. Builders already responded by acquiring 23.1 percent fewer residential building permits in 2022 than the year prior, signaling ongoing supply constraints for an already housing-needy part of the state. Market conditions also reflect the slowdown, with the inventory of single family homes for sale rising 12.4 percent in 2022 after falling in each of the prior four years.

Tourism. Figure 47 compares monthly visits to Mesa Verde National Park and nearby Hovenweep National Monument from 2020 to 2022. Visits in 2022 significantly lagged prior year levels during the peak summer visitation season, but otherwise kept pace with 2021 levels in the spring and fall. Visitations ended the year down 8.2 percent. Tourist traffic in 2023 is expected to more closely resemble 2022 than 2021, with persistent high prices and disappearing household savings nationwide. The potential for even fewer visits in 2023 than in 2022 poses moderate downside risk to the region's near-term economic outlook.

Figure 47
Visits to Mesa Verde National Park and Hovenweep National Monument



Source: National Park Service. Data through December 2022.

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 cooled in 2022 as did employment and tourism amidst higher prices and tighter monetary policy. Fluctuating weather conditions remain a key concern for the region's agricultural producers. Economic indicators for the region are summarized in Table 28.

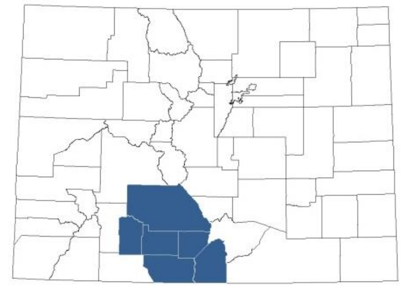


Table 28
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2018	2019	2020	2021	YTD 2022
Employment Growth[1]	2.8%	0.9%	-4.1%	3.1%	2.9%
Unemployment Rate[1]	4.0%	3.6%	6.3%	5.6%	3.9%
Barley[2]					
Acres Harvested	53,000	52,000	47,000	47,000	NA
Crop Value ($/Acre)	$660	$672	$709	$548	NA
Potatoes[2]					
Acres Harvested	55,000	51,000	53,800	52,400	NA
Crop Value ($/Acre)	$3,942	$4,709	$4,494	$4,674	NA
Housing Permit Growth[3]	16.3%	-11.1%	13.9%	28.6%	-23.5%
Housing Market[4]					
Average Sale Price – Single Family	11.9%	8.1%	18.7%	30.5%	2.9%
Level (Thousands)	$203	$226	$270	$343	$352
Inventory – Single Family	-9.5%	-28.7%	-25.3%	-44.0%	18.6%
Home Sales – Single Family	0.6%	-15.9%	27.8%	7.1%	-25.4%
Retail Sales Growth[5]	10.1%	5.0%	8.8%	17.1%	7.4%
National Park Recreation Visits[6]	-9.0%	19.1%	-12.5%	30.6%	-18.1%

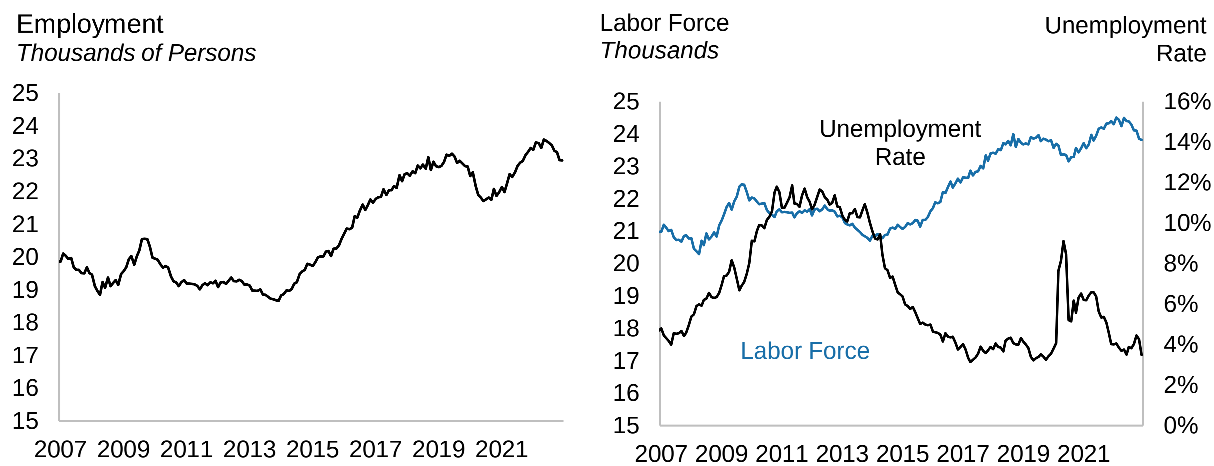
NA = Not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through December 2022.
[2]National Agricultural Statistics Service, statewide data. Data through December 2022.
[3]F.W. Dodge. Data through December 2022.
[4]Colorado Association of Realtors. Data through December 2022.
[5]Colorado Department of Revenue. Data through November 2022.
[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, with hemp and quinoa acreages on the rise. 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 are up by 2.7 percent in the 2022-23 marketing year through February 20, 2023.

The region is a high desert, typically receiving less than eight inches of precipitation annually. Irrigation for 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 have deteriorated over the past three months, with abnormally dry or moderate drought conditions characterizing most of the region in February 2023, according to the U.S. Drought Monitor.

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, the number of employed persons as measured by household survey data reached an inflection point in mid-2022, and has declined since then (Figure 48), although employment finished 2022 up by 2.9 percent over the prior year. The decline in the region's labor force has outweighed the decline in the number of employed persons, keeping the average unemployment rate at 3.9 percent for 2022, the second highest among the state's nine regions, but well below the Pueblo-Southern Mountains region's 5.3 percent.

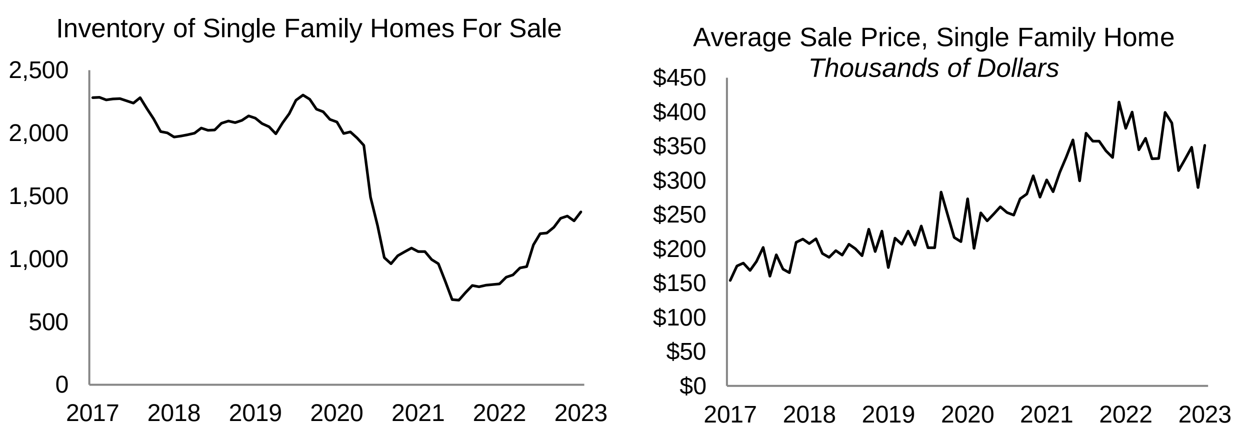
Figure 48
San Luis Valley Labor Market Activity



Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through December 2022. 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.

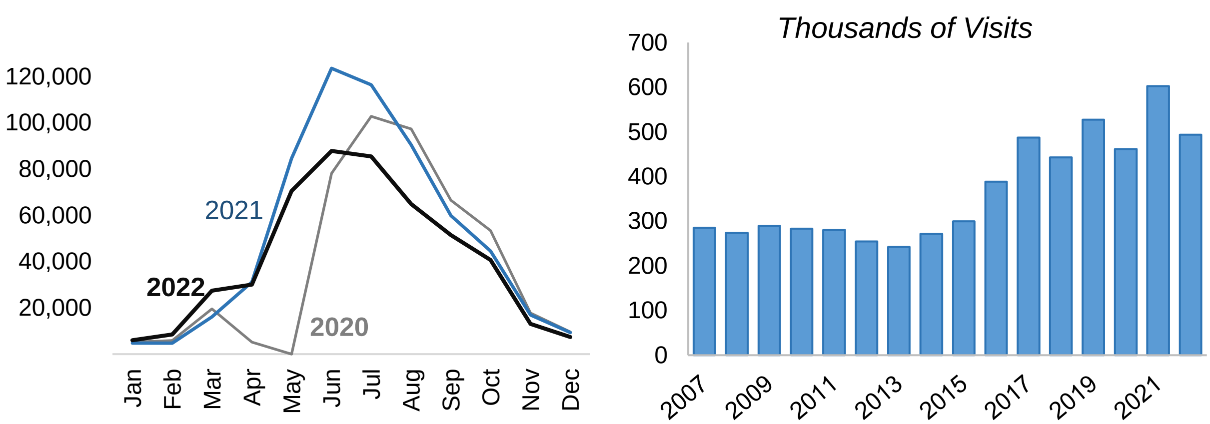
Figure 49
San Luis Valley Housing Market Activity



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

After increasing by 28.6 percent in 2021, housing permits issued in the San Luis Valley are down by 23.5 percent in 2022. As in the state's other regions, housing markets in the region were hot in 2021, with declining inventory pushing up housing prices (Figure 49). Housing markets cooled in 2022 as interest rate hikes tamped down demand against rising housing inventory. Single family home prices were up by 2.9 percent in 2022, according to the Colorado Association of Realtors. With an average sale price of $352,000, the San Luis Valley remains one of the most affordable regions in the state.

Figure 50
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 50, 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 (Figure 50, right). The San Luis Valley is home to the Monte Vista National Wildlife Refuge, as well, and is estimated to host 95 percent of the Rocky Mountain population of the Greater Sandhill Cranes during their spring migration, which is accompanied by the annual Monte Vista Crane Festival in early March. Tourist activity in 2023 is expected to more closely resemble 2022 than 2021, with persistent high prices and disappearing household savings nationwide.

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	$25,464.5
Percent Change	-2.0%	3.9%	3.7%	4.2%	3.6%	4.2%	3.7%	2.7%	4.2%	5.4%	4.1%	-1.5%	10.7%	9.2%
Real GDP ($ *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	$20,015.4
Percent Change	-2.6%	2.7%	1.5%	2.3%	1.8%	2.3%	2.7%	1.7%	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%
Unemployment Rate[2]	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%	8.1%	5.4%	3.6%
Inflation[2]	-0.3%	1.6%	3.1%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%
10-Year Treasury Note[3]	3.3%	3.2%	2.8%	1.8%	2.4%	2.5%	2.1%	1.8%	2.3%	2.9%	2.1%	0.9%	1.5%	3.0%
Personal Income ($ *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	$21,806.3
Percent Change	-3.2%	4.3%	5.9%	5.1%	1.3%	5.5%	4.7%	2.6%	4.6%	5.0%	5.1%	6.7%	7.4%	2.4%
Wage & Salary Income ($ *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	$11,224.3
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%	9.1%
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	2,463	2,541	2,602	2,660	2,727	2,790	2,653	2,751	2,864
Percent Change	-4.5%	-1.0%	1.6%	2.4%	3.0%	3.5%	3.2%	2.4%	2.2%	2.5%	2.3%	-4.9%	3.7%	4.1%
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	$410,948	NA
Percent Change	-5.1%	3.3%	8.6%	5.9%	5.4%	8.8%	4.9%	1.7%	6.8%	7.3%	7.4%	6.1%	8.7%	
Per Capita Income ($)[2]	$40,093	$40,790	$43,658	$45,630	$47,404	$50,797	$52,339	$52,390	$55,251	$58,453	$62,124	$65,358	$70,706	NA
Percent Change	-6.7%	1.7%	7.0%	4.5%	3.9%	7.2%	3.0%	0.1%	5.5%	5.8%	6.3%	5.2%	8.2%	
Wage & Salary Income ($ *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	$205,271	NA
Percent Change	-3.8%	1.3%	4.2%	5.5%	3.7%	7.0%	5.7%	3.1%	6.5%	6.1%	7.1%	2.5%	9.4%	
Housing Permits[3]	9,355	11,591	13,502	23,301	27,517	28,698	31,871	38,974	40,673	42,627	38,633	40,469	56,524	48,995
Percent Change	-50.8%	23.9%	16.5%	72.6%	18.1%	4.3%	11.1%	22.3%	4.4%	4.8%	-9.4%	4.8%	39.7%	-13.3%
Nonresidential Construction ($ *Millions*)[4]	$3,354	$3,147	$3,923	$3,695	$3,624	$4,351	$4,991	$5,988	$6,151	$8,151	$5,161	$5,586	$5,729	$6,616
Percent Change	-18.5%	-6.2%	24.7%	-5.8%	-1.9%	20.1%	14.7%	20.0%	2.7%	32.5%	-36.7%	8.2%	2.6%	15.5%
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.