Economic & Revenue Forecast

September 2023

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

September 2023 | Economic & Revenue Forecast

Contents

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Executive Summary

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

General Fund Budget Outlook

FY 2022-23

Preliminary, unaudited reports from the Office of the State Controller indicate that the General Fund ended FY 2022-23 with a 17.6 percent reserve, $345.2 million above the statutory requirement. General Fund revenue grew 1.7 percent and totaled $18.00 billion. State TABOR revenue exceeded the Referendum C cap by $3.57 billion, triggering a $3.68 billion TABOR refund obligation for FY 2023-24 that incorporates underrefunded prior year surpluses.

FY 2023-24

The General Fund is expected to end FY 2023-24 with a 15.01 percent reserve, $1.5 million above the statutory requirement. General Fund revenue is expected to decrease by 3.1 percent, mostly on an expected decline in corporate income tax collections, and total $17.44 billion. Revenue is expected to exceed the Referendum C cap by $1.70 billion after the cap rises by 8.5 percent.

FY 2024-25 Unbudgeted

General Fund revenue is expected to grow 6.0 percent and total $18.49 billion, with state revenue subject to TABOR exceeding the Referendum C cap by $1.77 billion. The General Fund is projected to have $1.20 billion, or 6.8 percent, more available to spend or save relative to what is budgeted to be spent in FY 2023-24 after the application of current law transfers, rebates, and expenditures, and the 15.0 percent statutory reserve requirement. This amount does not incorporate caseload growth, inflationary, or other budgetary pressures.

The General Fund Budget Overview section presents an alternative scenario that projects additional FY 2024-25 budget obligations based on current law. Under this scenario ("Scenario B"), the year-end General Fund reserve would exceed the statutory requirement by $23.4 million. Additional discussion can be found in budget Scenario B (see Table 2 on page 8).

FY 2025-26 Unbudgeted

General Fund revenue is expected to grow 6.1 percent and total $19.61 billion, with state revenue subject to TABOR exceeding the Referendum C cap by $2.28 billion. The budget outlook for this year is largely a function of budget decisions made for FY 2024-25.

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

Cash Fund Revenue

Preliminary, unaudited reports indicate that cash fund revenue subject to TABOR totaled $2.76 billion in FY 2022-23, an increase of 3.5 percent from the year prior. Revenue is expected to increase by 3.0 percent in FY 2023-24, with a jump in transportation-related revenue more than offsetting an expected drop in severance tax collections. Cash fund revenue subject to TABOR is expected to grow 4.9 percent in FY 2024-25 and 6.7 percent in FY 2025-26. In the current TABOR environment, rising cash fund revenue expectations create a corresponding General Fund obligation to pay refunds to taxpayers, so higher expectations limit General Fund budget flexibility, while lower expectations expand budget flexibility. The forecast for cash fund revenue is presented beginning on page 35, and summarized in Table 13 on page 35.

Economic Outlook

The economy continues to navigate successfully between inflation and recession. The enduring strength of the labor market is supporting incomes and fueling consumer spending. To this point, economic activity has decelerated more smoothly than feared, carefully following the path to a soft landing.

Downside risks have dissipated since the June forecast. Economic news indicates a slowing, yet resilient economy despite aggressive Federal Reserve action to cool last year's overheating. Inflationary pressure is abating, albeit at a slower pace in Colorado than nationally, with moderate pressure from energy prices expected to apply pressure in the near-term. The Fed is expected to slow further interest rate hikes, but not to make rate cuts until inflation approaches its 2 percent target.

The principal downside risk to the economic outlook is that tightening monetary policy could trigger a recession. The economy remains in a delicate state, and outside shocks due to unforeseen national or international events are more likely than usual to push the economy off of its growth trajectory.

Discussion of the economic outlook begins on page 47, and summaries of expectations for the U.S. and Colorado economies are presented, respectively, in Tables 20 and 21 on pages 70 and 71.

General Fund Budget Overview

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

- a budget scenario for FY 2024-25 that incorporates General Fund obligations expected under current law (Table 2);
- a summary of changes in expectations relative to the June 2023 forecast (Table 3);
- transfers to the State Education Fund (Figure 1);
- transfers to transportation and capital construction funds (Table 4);
- the disposition of fiscal policies dependent on revenue conditions;
- 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 incorporates all 2023 legislation that became law. The forecast does not account for provisions that would only take effect if voters approve ballot measures (Propositions HH and II) at the November election.

FY 2022-23

Preliminary, unaudited reports from the Office of the State Controller indicate that the General Fund ended FY 2022-23 with a 17.6 percent reserve, $345.2 million above the statutorily required 15.0 percent reserve (Table 1, line 20). The reserve exceeded the June forecast expectation by $9.7 million. General Fund revenue grew 1.7 percent and totaled $18.00 billion. Both individual and corporate income tax revenue exceeded June forecast expectations, and revenue came in $305.5 million above the June forecast.

On September 1, 2023, the State Controller certified a state TABOR surplus of $3.57 billion for FY 2022-23, equal to about 17.6 percent of state revenue subject to TABOR, or about 19.8 percent of gross General Fund revenue. The TABOR surplus surpassed the June forecast expectation by $259.8 million, with the General Fund and cash fund portions of state revenue subject to TABOR coming in above and below the June forecast, respectively. The Controller's certification also indicated an outstanding refund obligation of $114.4 million for prior, underrefunded TABOR surpluses, for a total refund obligation of $3.68 billion in FY 2023-24.

FY 2023-24

Incorporating appropriations adopted in the Long Bill and other 2023 legislation, as well as forecast expectations for revenue, transfers, rebates and expenditures, and the TABOR refund obligation, the General Fund is expected to end FY 2023-24 with a 15.01 percent reserve, $1.5 million above the 15.00 percent reserve requirement (Table 1, line 20). In addition to normal forecast revisions, ballot measures approved at the November 2023 election, supplemental appropriations adopted during the 2024 legislative session, and other legislative changes to appropriations and transfers will affect this amount.

Table 1
General Fund Overview
Dollars in Millions

	Funds Available	FY 2022-23 Preliminary	FY 2023-24 Estimate	FY 2024-25 Estimate	FY 2025-26 Estimate
1	Beginning Reserve	$3,203.2	$2,341.4	$2,214.3	*
2	General Fund Revenue *(Table 12)*	$18,002.2	$17,439.5	$18,486.2	$19,609.6
3	Transfers from Other Funds *(Table 6)*	$53.5	$71.3	$82.7	$79.3
4	**Total Funds Available**	**$21,258.9**	**$19,852.2**	**$20,783.3**	*****
5	Percent Change	1.5%	-6.6%	4.7%	*
	Expenditures	**Preliminary**	**Budgeted**	**Estimate**	**Estimate**
6	General Fund Appropriations Subject to the Limit[1]	$13,308.1	14,752.2	*	*
7	Appropriations from Healthy School Meals Account[1]		$115.3	*	*
8	TABOR Refund Obligation Under Art. X, §20, (7)(d)	$3,683.1	$1,700.0	$1,774.3	$2,280.4
9	Rebates and Expenditures *(Table 5)*	$168.7	$218.2	$180.6	$176.8
10	Transfers to Other Funds *(Table 6)*	$1,005.7	$514.8	$415.5	$424.6
11	Transfers to the State Education Fund[2]	$290.0	$0.0	$0.0	$0.0
12	Transfers to Transportation Funds *(Table 4)*	$88.0	$5.0	$117.5	$117.5
13	Transfers to Capital Construction Funds *(Table 4)*	$488.3	$332.4	$20.0	$20.0
14	**Total Expenditures**	**$19,031.9**	**$17,637.9**	*	*
15	Percent Change	6.7%	-7.3%	*	*
16	Accounting Adjustments[3]	$114.4	*	*	*
	Reserve	**Preliminary**	**Estimate**	**Estimate**	**Estimate**
17	Year-End General Fund Reserve	$2,341.4	$2,214.3	*	*
18	Year-End Reserve as a Percent of Appropriations	17.6%	15.0%	*	*
19	Statutorily Required Reserve[4]	$1,996.2	$2,212.8	*	*
20	**Amount in Excess or (Deficit) of Statutory Reserve**	**$345.2**	**$1.5**	*	*
21	Excess Reserve as a Percent of Expenditures	1.8%	0.0%	*	*
	Perspectives on FY 2024-25 (Unbudgeted)			**Estimate**	
	Scenario A: Holds FY 2023-24 Appropriations Constant[5]				
22	Amount in Excess or (Deficit) of 15% Reserve Requirement			$1,195.0	
23	As a Percent of Prior-Year Expenditures			6.8%	
	Scenario B: Projected Obligations Based on Current Law[6]				
24	Amount in Excess or (Deficit) of 15% Reserve Requirement			$23.4	
25	As a Percent of Prior-Year Expenditures			0.1%	
	Addendum	**Preliminary**	**Estimate**	**Estimate**	**Estimate**
26	Percent Change in General Fund Appropriations	10.5%	10.9%	*	*
27	5% of Colorado Personal Income Appropriations Limit	$18,902.6	$20,547.4	$21,656.4	$22,760.9
28	Transfers to State Education Fund per Amendment 23	$1,066.4	$1,053.8	$1,100.8	$1,164.3

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

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

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

[3]FY 2022-23 includes $114.4 million underrefunded from the TABOR refund obligation, mostly due to the passage of Proposition 121.

[4]The required reserve is calculated as 15 percent of operating appropriations. Appropriations from the Healthy School Meals Account (line 7) are exempt from the reserve requirement.

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

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

General Fund revenue collections are expected to decrease by 3.1 percent, mostly on a projected decline in corporate income tax collections. State revenue subject to TABOR is expected to exceed the Referendum C cap by $1.70 billion.

FY 2024-25 (Unbudgeted)

General Fund revenue is expected to grow 6.0 percent, roughly in line with its historical trend growth rate, based on this forecast's expectations for a stabilizing economy. Collections from individual income and sales taxes are expected to accelerate from the pace of growth expected in FY 2023-24. State revenue subject to TABOR is expected to exceed the Referendum C cap by $1.77 billion. Because a budget has not yet been enacted for FY 2024-25, this forecast presents two scenarios for the General Fund budget outlook.

Scenario A: Holds appropriations constant in FY 2024-25. Table 1 (lines 22 and 23) shows the amount of revenue available to be spent or saved in FY 2024-25 relative to the amount appropriated in FY 2023-24. Based on this forecast, the General Assembly will have $1.20 billion, or 6.8 percent, more available to spend or save than in FY 2023-24. This amount assumes current law obligations for FY 2024-25, including transfers, rebates, and expenditures (Table 1, lines 9 through 13), as well as a 15.0 percent reserve requirement and the projected TABOR refund obligation. The $1.20 billion amount is a cumulative amount that reflects the FY 2023-24 budget situation and projected year-end balance. Any changes in revenue or adjustments made to the budget for FY 2023-24 will carry forward into FY 2024-25. This amount holds FY 2023-24 appropriations constant and therefore does not reflect any caseload, inflationary, or other budget pressures.

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

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

In total, the assumptions in Scenario B add $1.17 billion in General Fund obligations for appropriations, transfers, and the statutory reserve in excess of the current law appropriations and transfers incorporated in Scenario A (Table 2, line 13). Under Scenario B, the year-end General Fund reserve would exceed the 15 percent statutory requirement by $23.4 million (Table 2, line 14, and Table 1, line 24).

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

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

		FY 2024-25
1	**Excess Reserve Under Scenario A**	**$1,195.0**
	Change in Appropriations[1]	
2	Change in Budget Requests Funded through Long Bill (primarily Medicaid and K-12 Education)	$371.8
3	Estimated Inflationary Increase for Higher Education	$42.3
4	Change in Employee Compensation at 3.0% Increase	$224.2
5	Change in Community Provider Rates	$127.5
6	**Total Change in Appropriations**	**$765.8**
	Change in Capital Transfers[1]	
7	FY 2024-25 Costs for FY 2023-24 Approved Capital Construction	$90.4
8	FY 2024-25 Costs for FY 2023-24 Approved IT Capital	$44.2
9	State Architect Recommendation for Controlled Maintenance[2]	$156.5
10	**Total Change in Capital Transfers**	**$291.1**
11	**Change in Expenditures** (Line 6 plus Line 10)	**$1,056.8**
12	**Change in Required Reserve** (15% of Line 6)	**$114.9**
13	**Total Change in General Fund Obligations**	**$1,171.7**
14	**Excess Reserve Under Scenario B** (Line 1 minus Line 13)	**$23.4**

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

FY 2025-26 (Unbudgeted)

Our expectations for FY 2025-26 debut with this September forecast. General Fund revenue is projected to grow 6.1 percent and total $19.61 billion, with moderate contributions from all major revenue streams. State revenue subject to TABOR is expected to exceed the Referendum C cap by $2.28 billion. The amount available for the budget depends on the FY 2024-25 year-end reserve, which will depend on budget decisions made for FY 2024-25.

Risks to the General Fund Budget Outlook

Recession risk threatens the budget outlook. Near-term recession risk is less severe than in earlier forecasts, and this forecast projects that the economy will navigate the narrow path to a soft landing. However, recession risk remains high by historical standards, and the economy is still susceptible to a downturn if confronted with major shocks. A recession would likely reduce revenue below the Referendum C cap, thereby reducing the amount available for the General Fund budget beginning in the year when a recession occurs.

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

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

The corporate income tax outlook is especially uncertain. Preliminary reporting indicates that corporate income tax collections increased 50.9 percent in FY 2022-23, an unprecedented rise that follows another mammoth increase in FY 2021-22. Corporate collections are surging around the country with record profits in 2022. The forecast anticipates a 20.7 decline in this year's collections, but identifies significant bidirectional risk. In the near term, forecast error would initially result in a higher or lower TABOR refund obligation with no downstream impact on the state budget. However, especially volatile corporate collections could exacerbate the budget consequences of a potential recession.

Changes Between the June and September Forecasts

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

FY 2022-23. As shown in Table 3, preliminary data indicate that the year-end General Fund balance exceeded the statutory reserve requirement by $7.7 million more than expected in the June forecast. This amount is the net impact of:

- General Fund revenue, which came in $305.5 million above the June forecast (Table 1, line 2);
- a $225.2 million increase in the TABOR refund obligation (Table 1, line 8); this amount is net of a $34.6 million reduction in expectations for the outstanding TABOR refund obligation for FY 2021-22 and prior fiscal years, which was offset by an equivalent accounting adjustment (Table 1, line 16);
- $13.3 million in JBC-approved FY 2022-23 overexpenditures for the Department of Corrections and the Department of Human Services (Table 1, line 6), and an associated $2.0 million increase in the statutory reserve requirement (Table 1, line 19);

- $15.2 million in additional rebates and expenditures, mostly for the Old Age Pension program (Table 1, line 9); and
- changes to transfers that, on net, reduced the General Fund balance by $7.5 million (Table 1, lines 3 and 10).

FY 2023-24. Expectations for the amount of the excess reserve were decreased by $24.5 million from the June forecast. Expectations for General Fund revenue were downgraded by $324.2 million, but expectations for the TABOR refund obligation were reduced by $355.2 million, more than offsetting the downward revision to the revenue forecast.

The forecast includes important adjustments to expectations for constitutionally and statutorily required rebates and expenditures, which are presented in Table 5. Rebates and expenditures are now expected to obligate $66.5 million more from the General Fund than projected in the June forecast. Expectations for Old Age Pension payments were revised up and are now expected to decrease more slowly than previously forecast in order to satisfy federal maintenance of effort requirements. Expectations for interest payments for school loans, sometimes called the ETRANs program, were revised up on assumed higher interest rates through the forecast period.

Additionally, this forecast incorporates preliminary assessed value data for the 2023 property tax year reported by 56 of the state's 64 county assessors. Based on these data, the requirement for property tax reimbursements to counties under **Senate Bill 22-238** is now expected to reach $270.7 million in FY 2023-24. Statute limits the amount that may be accounted as a TABOR refund mechanism to $240.0 million, and this forecast expects that the difference, $30.7 million, will be financed as a General Fund expenditure.

Finally, the forecast includes modest changes to assumptions for transfers. Expectations for transfers of severance tax revenue into the General Fund under **House Bill 23-1272** were increased. This forecast also shows a $10 million General Fund warrant payable to PERA under **Senate Bill 23-056**, which was incorrectly omitted from the June forecast.

FY 2024-25. Table 3 presents a like-to-like comparison between the FY 2024-25 General Fund budget outlook under Scenario A in the June and September forecasts. Expectations for revenue available to be spent or saved were increased by $101.0 million, mostly because of reduced expectations for the TABOR refund obligation (-$195.7 million) that more than offset reduced expectations for General Fund revenue (-$82.3 million). As for FY 2023-24, rebate and expenditure obligations for the Old Age Pension and ETRANs programs were revised up, and expected transfers of severance tax revenue into the General Fund under HB 23-1272 were also revised up.

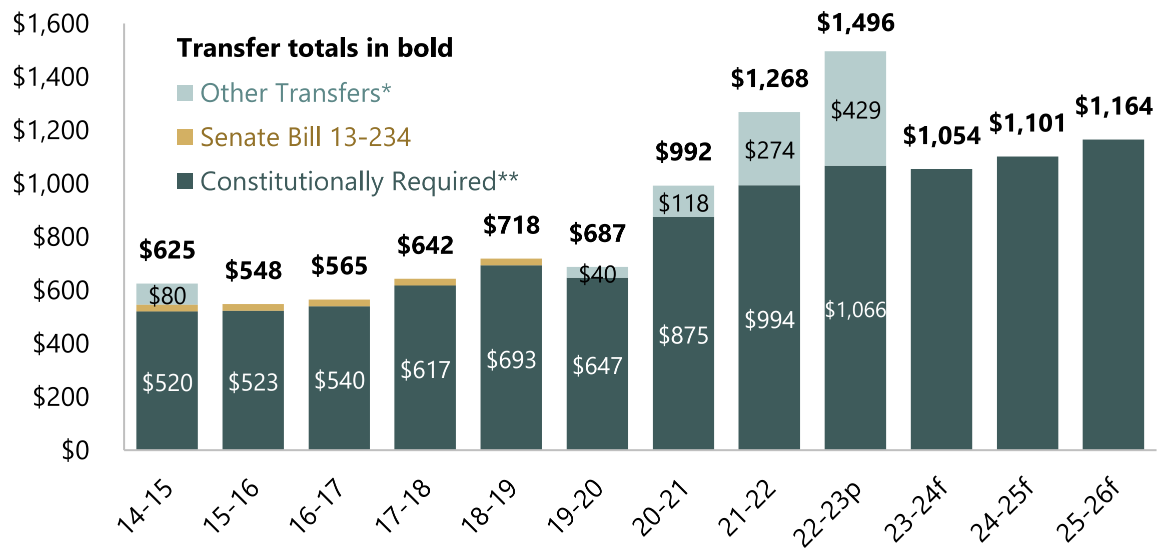
Table 3
Changes in the General Fund Budget Relative to the June 2023 Forecast (Scenario A)
Dollars in Millions, Positive Amounts Reflect an Increase Relative to June

Components of Change	FY 2022-23	FY 2023-24	FY 2024-25	Description of Changes
Funds Available	**$300.2**	**-$300.5**	**-$84.2**	
Beginning Reserve	$0.0	$9.7	-$24.5	Carries forward anticipated year-end balances.
General Fund Revenue	$305.5	-$324.2	-$82.3	Primarily reflects changes to income tax revenue forecasts; see Table 12.
Transfers from Other Funds	-$5.3	$13.9	$22.7	Reflects upgraded expectations for transfers in HB 23-1272; see Table 6.
Expenditures	**$256.0**	**-$276.0**	**-$185.2**	
Operating Appropriations	$13.3	$0.0	$0.0	JBC-approved overexpenditures for Corrections and Human Services.
TABOR Refund Obligation	$225.2	-$355.2	-$195.7	Changes to General Fund and cash fund revenue forecasts. See Table 8.
Rebates and Expenditures	$15.2	$66.5	$29.1	Increased expenditures for Old Age Pension program, interest payments for school loans (ETRANs program), and SB 22-238 property tax reimbursements. See Table 5.
SEF Transfers	$0.0	$0.0	$0.0	
Transportation Transfers	$0.0	$0.0	$0.0	
Capital Const. Transfers	$0.0	$0.0	$0.0	
Other Cash Fund Transfers	$2.2	$12.7	-$16.8	Largest changes are for HB 20-1427, HB 23-1290, and SB 23-056. See Table 6.
Required Reserve	$2.0	$0.0	$0.0	Reflects JBC-approved overexpenditures identified above.
Accounting Adjustment	-$34.6	$0.0	$0.0	Smaller unrefunded TABOR refund obligation than previously forecast.
Surplus Relative to Required Reserve	**$7.7**	**-$24.5**	**$101.0**	Nets the above changes.

State Education Fund Transfers

The Colorado Constitution (**Amendment 23**) requires that one-third of 1 percent of taxable income be credited to the State Education Fund (SEF). The SEF received $1.07 billion in FY 2022-23 via the transfer requirement. The amount credited to the SEF is expected to fall to $1.05 billion in FY 2023-24, and to grow to $1.10 billion in FY 2024-25 and $1.16 billion in FY 2025-26. Figure 1 shows revenue and transfers to the State Education Fund. Money in the SEF is required to be used to fund kindergarten through twelfth grade public education.

Figure 1
Revenue and Transfers to the State Education Fund
Dollars in Millions



Source: Colorado State Controller's Office and Legislative Council Staff forecast. p = Preliminary. f = Forecast.
**Includes transfers under 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 transferred to the State Education Fund under Article IX, Section 17, of the Colorado Constitution (Amendment 23).*

In addition, the General Assembly has at different times authorized additional transfers from the General Fund to the SEF (see Table 1, line 11). **House Bill 22-1390**, as modified by **Senate Bill 22-202**, transferred $290 million in FY 2022-23.

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 SEF for three fiscal years. The Proposition EE transfer was $139.3 million in FY 2022-23, the final year for which a transfer will be made. This amount represents a portion of the FY 2022-23 transfer 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 12 and 13. Other non-infrastructure-related transfers to and from the General Fund are summarized in Table 6, and shown on lines 3 and 10 of Table 1.

Table 4
Infrastructure Transfers from the General Fund
Dollars in Millions

Transportation Funds	2022-23	2023-24	2024-25	2025-26
SB 21-260	$2.5		$117.5	$117.5
HB 22-1351	$78.5			
SB 22-176	$7.0			
SB 23-283		$5.0		
Total	**$88.0**	**$5.0**	**$117.5**	**$117.5**

Capital Construction Funds	2022-23	2023-24	2024-25	2025-26
HB 15-1344*	$20.0	$20.0	$20.0	$20.0
HB 22-1340	$462.2			
SB 23-141	$6.1			
SB 23-243		$294.2		
SB 23-294		$18.2		
Total	**$488.3**	**$332.4**	**$20.0**	**$20.0**

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

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

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

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

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

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

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

Fiscal Policies Dependent on Revenue Conditions

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

Partial refundability of the conservation easement tax credit. 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 FY 2022-23, and this forecast expects a TABOR surplus in each of FY 2023-24, FY 2024-25, and FY 2025-26. Therefore, partial refundability of the credit is expected to be available for tax years 2022 through 2026.

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 the June forecast is published, if revenue subject to TABOR is projected to fall below a “cutoff” amount equal to the projected Referendum C cap minus $30 million dollars, a transfer will be made. The transfer is equal to the lesser of $30 million or the UPTF fund balance.

Based on the June 2023 LCS forecast, no transfer was made for FY 2022-23. Based on this forecast, no transfer is expected for FY 2023-24, FY 2024-25, or FY 2025-26, as revenue subject to TABOR is expected to come in well above the cutoff amount in all three years.

Table 5
General Fund Rebates and Expenditures
Dollars in Millions

Category	Preliminary FY 2022-23	Percent Change	Estimate FY 2023-24	Percent Change	Estimate FY 2024-25	Percent Change	Estimate FY 2025-26	Percent Change
Senior and Veterans Property Tax Exemptions	$163.7	1.0%	$163.2	-0.3%	$174.0	6.6%	$180.1	3.5%
TABOR Refund Mechanism[1]	-$163.6		-$163.2		-$174.0		-$180.1	
Property Tax Assessed Value Reductions			$270.7		$0.0			
TABOR Refund Mechanism[2]			-$240.0		NA			
Cigarette Rebate	$7.7	-7.0%	$6.3	-18.1%	$5.8	-7.7%	$5.5	-4.2%
Old Age Pension Fund	$84.9	10.4%	$85.0	0.0%	$84.9	-0.1%	$83.8	-1.3%
Aged Property Tax and Heating Credit	$12.0	105.2%	$10.2	-15.3%	$10.1	-0.7%	$10.0	-1.1%
Older Coloradans Fund	$10.0	0.0%	$10.0	0.0%	$10.0	0.0%	$10.0	0.0%
Interest Payments for School Loans	$10.5	952.4%	$32.6	209.0%	$23.2	-28.7%	$19.1	-17.7%
Firefighter Pensions	$4.3	-5.0%	$4.6	7.4%	$4.6	0.0%	$4.6	0.0%
Amendment 35 Distributions	$0.7	-6.9%	$0.6	-5.4%	$0.6	-4.6%	$0.6	-1.7%
Marijuana Sales Tax Transfer to Local Governments	$21.9	-14.5%	$21.7	-1.1%	$22.8	5.3%	$24.2	5.9%
Business Personal Property Exemptions[3]	$16.6	-0.5%	$16.6	-0.3%	$18.6	12.0%	$19.0	2.2%
Total Rebates and Expenditures	**$168.7**	**12.8%**	**$218.2**	**29.3%**	**$180.6**	**-17.2%**	**$176.8**	**-2.1%**

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. The amount of the TABOR refund mechanism is limited to $240 million.

[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		2022-23	2023-24	2024-25	2025-26
HB 92-1126	Land and Water Management Fund	$0.1	$0.0	$0.0	$0.0
HB 05-1262	Amendment 35 Tobacco Tax	$0.7	$0.6	$0.6	$0.6
SB 13-133 & HB 20-1400	Limited Gaming Fund	$21.6	$23.1	$23.5	$25.5
HB 17-1343	Repeal of Intellectual and Developmental Disabilities Services Cash Fund	$16.9			
HB 20-1427	2020 Tax Holding Fund	$4.1	$4.1	$4.1	$4.1
SB 20B-002	Repeal of Emergency Direct Assistance Grant Fund	$0.02			
SB 21-209	Repealed Cash Funds	$0.1			
SB 21-213	Use of Increased Medicaid Match	$10.0	$8.3	$7.4	$1.0
SB 21-222	Repeal of Recovery Audit Cash Fund	$0.03			
SB 21-251	Loan Family Medical Leave Program		$1.5		
SB 21-260	Community Access Enterprise	$0.1			
HB 23-1272	Decarbonization Tax Credits Administration		$28.7	$47.2	$48.2
SB 23-215	State Employee Reserve Fund		$4.9		
Total Transfers to the General Fund		**$53.5**	**$71.3**	**$82.7**	**$79.3**

Transfers from the General Fund		2022-23	2023-24	2024-25	2025-26
SB 11-047 & HB 13-1001 & SB 23-066	Bioscience Income Tax Transfer to OEDIT	$17.6	$18.4	$19.5	$20.6
SB 14-215	Marijuana Tax Cash Fund	$142.2	$140.1	$147.6	$156.3
SB 15-244 & SB 17-267	State Public School Fund	$24.9	$24.6	$25.9	$27.4
HB 20-1116	Procurement Technical Assistance Program Extension	$0.2	$0.2	$0.2	
HB 20-1427	2020 Tax Holding Fund	$235.0	$191.5	$220.7	$218.6
HB 20-1427[1]	Preschool Programs Cash Fund	$0.0			
SB 21-281	Severance Tax Trust Fund Allocation	$9.5			
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 22-1298	Fee Relief for Nurses, Nurse Aides, and Technicians	$11.7			
HB 22-1299	Fee Relief for Mental Health Professionals	$3.7			
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			

[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 (Continued)		2022-23	2023-24	2024-25	2025-26
SB 22-036	State Payment Old Hire Death and Disability Benefits	$6.7			
SB 22-130	Authority For Public-Private Partnerships	$15.0			
SB 22-151	Safe Crossings for Colorado Wildlife and Motorists	$5.0			
SB 22-163	Establish State Procurement Equity Program	$2.0			
SB 22-183	Crime Victims Services	$1.0			
SB 22-191[1]	Procurement of Information Technology Resources				
SB 22-193	Air Quality Improvement Investments	$1.5			
SB 22-195	Conservation District Grant Fund	$0.1	$0.1	$0.1	$0.1
SB 22-202	State Match for Mill Levy Override Revenue	$10.0			
SB 22-214	General Fund Transfer to PERA Payment Cash Fund	$198.5			
SB 22-215 & SB 23-283	Infrastructure Investment and Jobs Act Cash Fund		$84.0		
SB 22-238	State Public School Fund	$200.0			
HB 23-1041	Prohibit Greyhound Wagering			$0.03	$0.05
HB 23-1107	Crime Victim Services		$3.0		
HB 23-1269[2]	Extended Stay & Boarding Permits				
HB 23-1273	Wildfire Resilient Homes Grant Program		$0.1		
HB 23-1290[3]	Proposition EE Revenue Retention		$5.6		
HB 23-1305	Continue Health Benefits in Work-Related Death		$0.2	$0.2	$0.2
SB 23-001	Public-Private Collaborations for Housing		$5.0		
SB 23-005	Forestry and Wildfire Mitigation Workforce	$1.0	$1.0	$1.0	$1.0
SB 23-044	Veterinary Education Loan Repayment Program		$0.5		
SB 23-056[4]	Compensatory Direct Distribution to PERA		$10.0		
SB 23-137	Colorado Economic Development Fund	$5.0			
SB 23-141	DMVA Real Estate Proceeds Cash Fund	$4.9			
SB 23-161	Firefighting Aircraft	$26.0			
SB 23-166	Wildfire Resiliency Code Board		$0.3		
SB 23-199[5]	Marijuana Cash Fund				
SB 23-205	Universal High School Scholarship Program		$25.0		
SB 23-246	State Emergency Reserve	$20.0			
SB 23-255	Wolf Depredation Compensation Fund		$0.2	$0.4	$0.4
SB 23-257	Auto Theft Prevention Cash Fund		$5.0		
SB 23-275	Wild Horse Management Project	$1.5			
Total Transfers from the General Fund		**$1,005.7**	**$514.8**	**$415.5**	**$424.6**
Net General Fund Impact		**-$952.2**	**-$443.5**	**-$332.8**	**-$345.3**

[1]Beginning in FY 2023-24, SB 22-191 directs transfers of unspent prior year General Fund appropriations for IT procurement. Any transfer amount for FY 2023-24 is included in the FY 2022-23 General Fund appropriation amount and not included here.
[2]For FY 2022-23 and FY 2023-24, HB 23-1269 requires transfers from unexpended funds appropriated for county child welfare programs. Any transfer amount is already included in General Fund appropriations amounts and not counted again here.
[3]HB 23-1290 required that $23.65 million be transferred to the Proposition EE Refund Cash Fund on September 1, 2023. Of this amount, $18.03 million was transferred from the Preschool Programs Cash Fund, and the remaining $5.62 million was transferred from the General Fund.
[4]SB 23-056 requires that a $10.0 million warrant be paid from the General Fund to PERA. This amount is shown in this table as a General Fund obligation that is not included in the appropriations amount in Table 1, line 6.
[5]For FY 2022-23 only, SB 23-199 requires transfers from unexpended funds appropriated to the Department of Revenue. Any transfer amount is already included in the General Fund appropriations amount and not counted again here.

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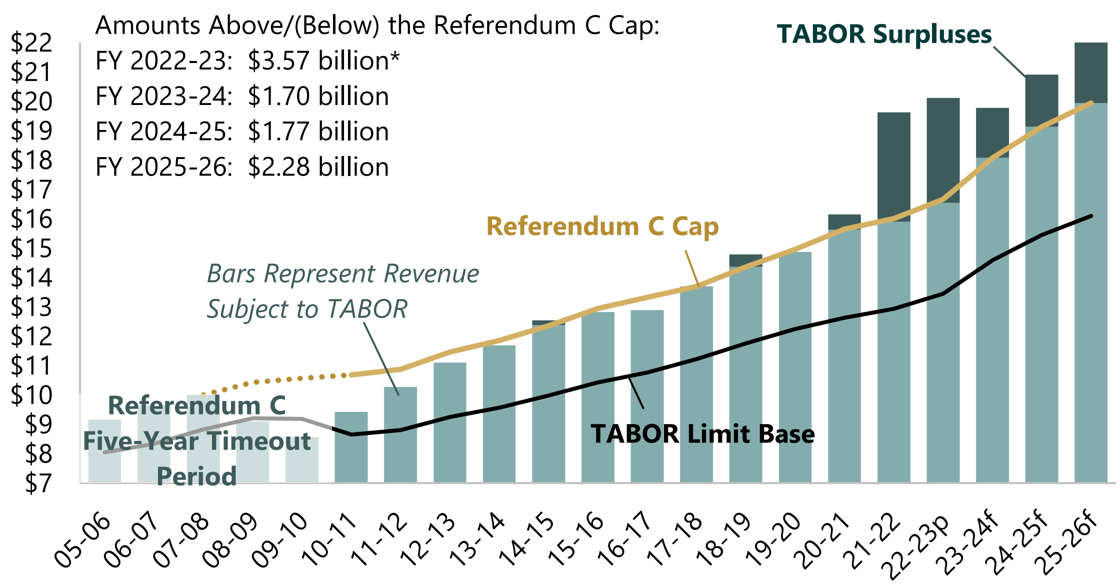
TABOR Outlook

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 2022-23, state revenue subject to TABOR exceeded the Referendum C cap, creating a state obligation for TABOR refunds to taxpayers in FY 2023-24. State revenue subject to TABOR is projected to exceed the Referendum C cap in each of FY 2023-24, FY 2024-25, and FY 2025-26, creating a state obligation for TABOR refunds to taxpayers in each of FY 2024-25, FY 2025-26, and FY 2026-27.

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. P = preliminary; f = Forecast.
**The refund amount for FY 2022-23 differs from the surplus amounts because it includes $114.4 million in under-refunds from prior TABOR surpluses.*

FY 2022-23. On September 1, 2022, the State Controller certified that state revenue subject to TABOR exceeded the Referendum C cap by $3.57 billion in FY 2022-23. After accounting for an outstanding refund obligation attributable to under-refunds of prior TABOR surpluses, the state is obligated to refund $3.68 billion in the current FY 2023-24. The FY 2022-23 surplus is expected to be refunded to taxpayers via the TABOR refund mechanisms under current law, which are explained in greater detail below.

Forecasts for FY 2023-24 through FY 2025-26. State revenue subject to TABOR is projected to exceed the Referendum C cap throughout the forecast period. Even with high 2022 inflation resulting in a doubling of the growth rate used to calculate the FY 2023-24 Referendum C cap, revenue in the current FY 2023-24 is expected to exceed the Referendum C cap by $1.70 billion. Revenue is projected to exceed the cap by $1.77 billion in 2024-25 and by $2.28 billion in FY 2025-26. 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 June forecast, expectations for revenue subject to TABOR were decreased in FY 2023-24 and FY 2024-25 by about $355 million and $200 million, respectively, reflecting lower expectations for General Fund revenue subject to TABOR. The FY 2024-25 TABOR limit growth rate is estimated to be 5.9 percent, down from 8.5 percent in FY 2023-24, based on forecasted inflation and population growth in calendar year 2023.

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

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

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

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

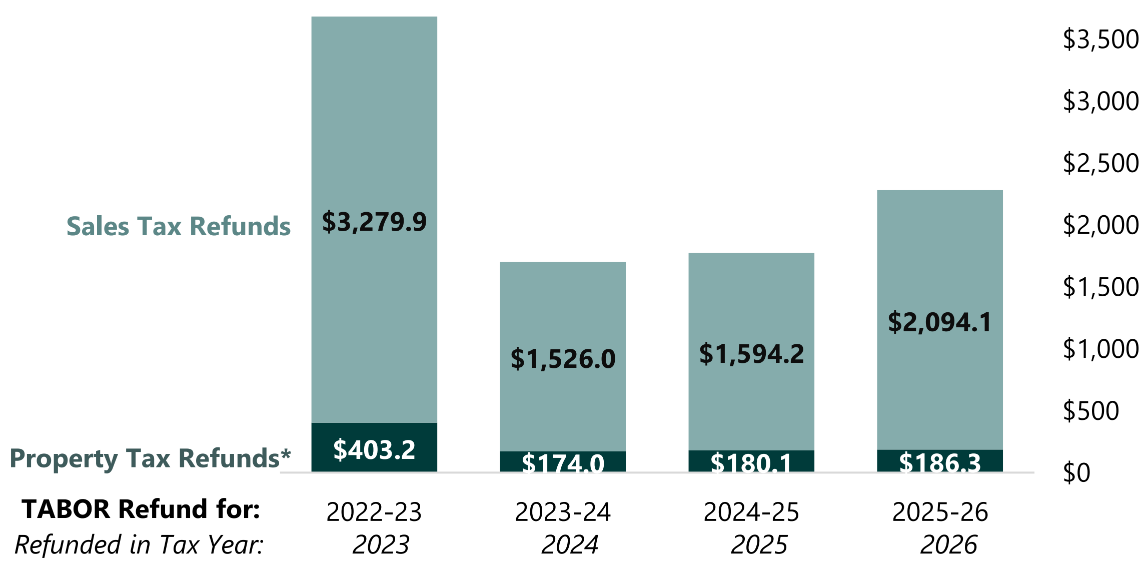
[1]For more information on TABOR and TABOR enterprises, see the Legislative Council Staff memoranda titled: "The TABOR Revenue Limit", available at: *https://leg.colorado.gov/sites/default/files/r21-96_the_tabor_revenue_limit_0.pdf* and "State Government Enterprises, available at: *https://leg.colorado.gov/sites/default/files/r21-99_state_government_enterprises_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

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

The two ongoing refund mechanisms include the property tax exemptions for seniors, veterans with a disability, and Gold Star spouses, and the six-tier sales tax refund mechanism based on taxpayers' incomes. Based on this forecast, both ongoing refund mechanisms are expected to be used for tax years 2024, 2025, and 2026. Table 7 on page 23 presents estimated six-tier sales tax refund amounts for each year of the forecast period.

Senate Bill 22-238 establishes an additional refund mechanism to refund a portion of the FY 2022-23 surplus for tax year 2023 through reductions in the assessed valuations of residential and nonresidential property, which determine property taxes. A portion of local governments' foregone property tax revenue as a result of the bill is reimbursed by the state government, and reimbursements up to $240 million are accounted as a TABOR refund mechanism under the bill. Figure 3 includes this mechanism with the "Property Tax Refunds" label. The mechanism is estimated to refund the full $240 million in property tax year 2023. This estimate includes an upward revision relative to the June forecast due to updated estimates of assessed valuations.

Figure 3
Expected TABOR Refunds and Refund Mechanisms
Dollars in Millions



Source: Legislative Council Staff September 2023 forecast.
** Includes $240.0 million to be refunded from the FY 2022-23 TABOR surplus under Senate Bill 22-238.*

Refunds made via property tax reductions reduce obligations that would otherwise be paid from General Fund revenue. Refunds made via the sales tax refund are paid to taxpayers when they file their state income tax returns. TABOR refund mechanisms are accounted for as an offset against the amount of surplus revenue restricted to pay TABOR refunds, rather than as a revenue reduction. Therefore, the General Fund revenue forecast does not incorporate downward adjustments as a result of refund mechanisms being activated.

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

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

Proposition EE TABOR refund requirement. Revenue from the increased taxes on cigarettes, tobacco products, and nicotine products in Proposition EE totaled $208.5 million in FY 2021-22, exceeding the estimate of FY 2021-22 tax revenue published in the 2020 Blue Book by $22.0 million. TABOR requires that this amount be refunded to taxpayers, however, state law currently does not include a mechanism to issue this refund. **House Bill 23-1290** refers a ballot measure ("Proposition II") to voters in November 2023 which, if passed, would allow the state to keep and spend the excess revenue, plus interest, totaling $23.65 million. If Proposition II fails, the bill specifies that the $23.65 million would be refunded to distributors of cigarettes, tobacco products, and nicotine products.

Table 7
Projected TABOR Refunds via the Six-Tier Sales Tax Refund Mechanism

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

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$51,000	$586	$1,172
$51,001	to	$104,000	$769	$1,538
$104,001	to	$166,000	$900	$1,800
$166,001	to	$236,000	$1,053	$2,106
$236,001	to	$310,000	$1,143	$2,286
$310,001	and up		$1,834	$3,668

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

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$53,000	$268	$536
$53,001	to	$108,000	$357	$714
$108,001	to	$172,000	$411	$822
$172,001	to	$243,000	$489	$978
$243,001	to	$320,000	$526	$1,052
$320,001	and up		$846	$1,692

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

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$54,000	$277	$554
$54,001	to	$110,000	$369	$738
$110,001	to	$177,000	$425	$850
$177,001	to	$250,000	$505	$1,010
$250,001	to	$329,000	$543	$1,086
$329,001	and up		$874	$1,748

Tax Year 2026 Refunds from FY 2025-26 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	$55,000	$359	$718
$55,001	to	$113,000	$479	$958
$113,001	to	$181,000	$551	$1,102
$181,001	to	$256,000	$655	$1,310
$256,001	to	$337,000	$705	$1,410
$337,001	and up		$1,134	$2,268

AGI = Adjusted gross income.
Note: Amounts do not include estimates for reimbursements to local governments for property tax exemptions.

Table 8
TABOR Revenue Limit and Retained Revenue
Dollars in Millions

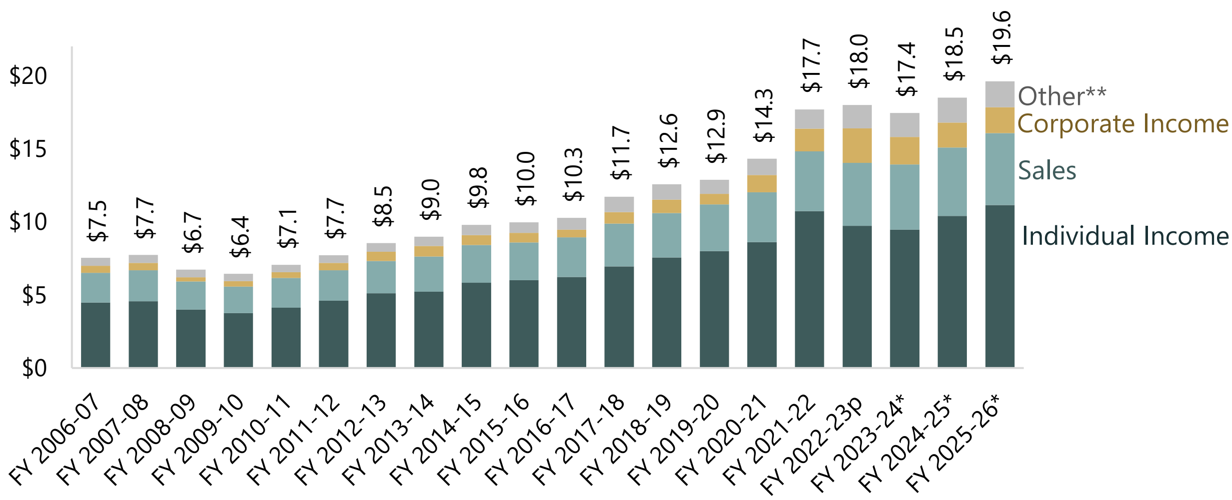
		Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
	TABOR Revenue				
1	General Fund[1]	$17,468.0	$16,931.6	$17,933.5	$19,042.4
2	Cash Funds	$2,758.0	$2,841.5	$2,980.3	$3,181.4
3	**Total TABOR Revenue**	**$20,225.9**	**$19,773.1**	**$20,913.7**	**$22,223.8**
	Revenue Limit				
4	Allowable TABOR Growth Rate	4.2%	8.5%	5.9%	4.2%
5	Inflation (*from Prior Calendar Year*)	3.5%	8.0%	4.9%	3.2%
6	Population Growth (*from Prior Calendar Year*)[2]	0.7%	0.5%	1.0%	1.0%
7	TABOR Limit Base	$13,445.2	$14,588.1	$15,448.7	$16,097.6
8	Voter Approved Revenue Change (Referendum C)	$3,212.1	$3,485.1	$3,690.7	$3,845.7
9	Total TABOR Limit / Referendum C Cap[3]	$16,657.3	$18,073.2	$19,139.5	$19,943.3
10	**TABOR Revenue Above** (Below) **Referendum C Cap**	**$3,568.6**	**$1,700.0**	**$1,774.3**	**$2,280.4**
	Retained/Refunded Revenue				
11	Revenue Retained under Referendum C[4]	$3,212.1	$3,485.1	$3,690.7	$3,845.7
12	Fiscal Year Spending (*revenue available to be spent or saved*)	$16,657.3	$18,073.2	$19,139.5	$19,943.3
13	Outstanding Underrefund Amount[5]	$114.4			
14	**Revenue Refunded to Taxpayers**	**$3,683.1**	**$1,700.0**	**$1,774.3**	**$2,280.4**
15	TABOR Reserve Requirement	$499.7	$542.2	$574.2	$598.3

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.

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 12 on page 33 summarizes preliminary General Fund revenue collections for FY 2022-23 and projections for FY 2023-24 through FY 2025-26; these are also illustrated in Figure 4, below.

Figure 4
General Fund Revenue Sources
Billions of Dollars



**Forecast. Data for FY 2022-23 are preliminary.*
***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 September 2023 forecast.

FY 2022-23 collections. Based on preliminary data from the State Controller, General Fund revenue collections in FY 2022-23 increased by 1.7 percent over FY 2021-22 levels to total $18.00 billion. A modest decline in individual income revenue was more than offset by strong collections in sales tax revenue and corporate income tax revenue. Individual income tax receipts dropped by 6.5 percent, reflecting the income tax rate cut in Proposition 121, and declines from last year's peak payments that reflected unusual taxpayer decision making in response to an uncertain economy and evolving tax policy environment. Corporate income tax revenue jumped 50.9 percent compared to the year prior, fully offsetting the decline in individual income.

Revenue forecast. General Fund revenue is expected to fall by 3.1 percent in FY 2023-24, as corporate revenue regresses from its 2022 peak, and then increase by 6.0 percent and 6.1 percent in FY 2024-25 and FY 2025-26, respectively. Individual income tax is the largest component of General Fund revenue and is expected to fall slightly in the current year, but bolster collections with strong growth through the rest of the forecast period. General Fund revenue is expected to reach $19.61 billion in FY 2025-26.

Legislative adjustments. The General Fund forecast was impacted by legislation passed in the 2023 legislative session, which is shown in Table 9.

Table 9
2023 Legislation Impacting Sales, Use, and Income Tax Revenue

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

Risks to the forecast. Risks to the General Fund revenue forecast are elevated as economic conditions remain uncertain, but downside risks continue to dissipate. On the upside, collections have consistently outperformed forecast expectations over the past year, especially in corporate income tax. Elevated inflationary pressures and stronger-than-expected wage gains could boost sales and income tax collections above the amounts projected in this forecast. Downside risks include monetary policy being a drag on business activity, consumer spending, and employment, which would result in lower General Fund collections.

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 55 percent of revenue to the General Fund in FY 2022-23, net of the SEF and affordable housing transfers.

FY 2022-23. In FY 2022-23, individual income tax collections totaled $10.95 billion before the SEF and affordable housing transfers, a decrease of 6.5 percent from year-ago levels, as tax receipts receded from a high of $11.72 billion reached in the previous fiscal year. Revenue exceeded the June 2023 forecast by $177 million, with higher withholding and cash with returns net of refunds to close the fiscal year. Across the fiscal year, growth in wage withholding resulting from continued strength in the labor market and elevated inflation rates was more than offset by declines in estimated payments and cash returns, and an increase in refunds. Volatility in estimated payments, cash with returns, and refunds largely reflects the impacts of Proposition 121 and other federal and state tax policy changes on taxpayers' decision-making and ability to anticipate tax liability in an evolving tax policy and economic environment.

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 half-year impact for FY 2022-23 is $42.7 million, and is expected to reach $99.8 million in the first full fiscal year, FY 2023-24.

Forecast for FY 2023-24. Individual income tax collections are expected to decline by 1.1 percent in FY 2023-24 to total $10.83 billion before the SEF and affordable housing transfers. Expectations for revenue were decreased by $312 million relative to the June 2023 forecast. The downward revision reflects further expected dampening in wage withholding, cash with returns, and estimated payments as tax policy surprises dissipate while economic growth slows and inflation abates. Through August 2023, fiscal year growth in wage withholding is 5.7 percent, compared with 9.2 percent during the same period last year. Moderating growth in wage withholding is consistent with moderating wage and salary growth, down to an estimated 5.5 percent in 2023, from 10.5 percent in 2022 (Figure 5 on page 15).

For most taxpayers, final payments for tax year 2022 were due on April 18, 2023. While data on final payments are incomplete, available data suggest that net tax receipts for the 2022 tax year were relatively flat compared with 2021 net tax receipts. Table 10 presents net tax receipts for tax years 2021 and 2022, including forecast expectations for the remaining final payments for tax year 2022. As shown in Table 10, an increase in refunds and reduction in cash with returns was offset by increases in wage withholding and estimated payments. The preliminary estimate for income tax revenue for FY 2022-23 is greater than estimated tax year 2022 payments because it includes accruals of anticipated tax revenue for tax year 2023.

Table 10
Individual Income Tax Receipts by Source, Tax Years 2021 and 2022[1]
Dollars in Millions

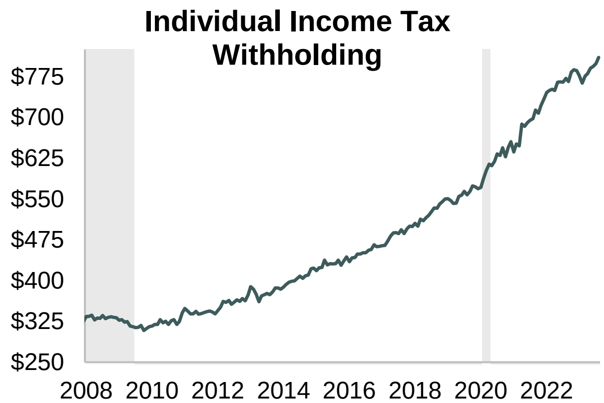
	Tax Year 2021 Actual	Tax Year 2022 Estimated	Change
Withholding	$8,510	$9,222	8.4%
Estimated Payments	$1,965	$2,484	26.4%
Cash With Returns[2]	$1,964	$1,275	-35.1%
Refunds[2]	($1,471)	($2,113)	44.0%
Total	**$10,968**	**$10,868**	**(1.0%)**

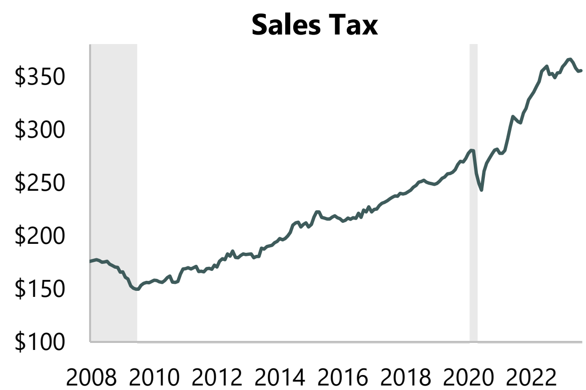
Source: Office of the State Controller; Department of Revenue; and September 2023 Legislative Council Staff forecast.

[1]For illustrative purposes, withholding and estimated payments for a tax year show receipts between February of that year and January of the following year. Cash with returns and refunds for a tax year show transactions between January and December of the following year. Tax received during these time periods may be for the current or any prior tax year, but are assumed to be representative of the tax years indicated.
[2]Cash with returns and refunds for tax year 2022 include preliminary data for August 2023 and forecasted transactions for September through December 2023. TABOR refund amounts that reduced final payments are added to refunds.

Forecasts for FY 2024-25 and FY 2025-26. Individual income tax collections are expected to grow by 9.4 percent in FY 2024-25 to $11.85 billion, and by 6.9 percent in FY 2025-26 to $12.66 billion. Estimates for FY 2024-25 were revised upward on net relative to the June 2023 forecast, with expected increases reflecting improved expectations for a soft landing with lower inflation, while estimates for FY 2025-26 are debuting with this forecast. The revenue outlook is less certain than normal. Significant changes in state and federal tax policy are compounding already-high uncertainty in the underlying economic outlook, with the specter of persistent inflation along with tightening monetary policy significantly raising risks to the forecast.

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





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

Legislative adjustments. This forecast includes significant adjustments for the future impacts of recent legislation passed by the General Assembly on individual income tax revenue. For tax year 2024, **House Bill 23-1112** expands the state Earned Income and Child Tax Credits. **House Bill 23-1272** establishes several new tax credits including for innovative motor vehicles and trucks, industrial clean energy, electric bicycles, heat pumps, geothermal energy, and sustainable aviation fuel. Eight bills enacted during the 2023 legislative session establish or extend income tax credits, and are expected to reduce income tax revenue by between $136 million and $209 million annually during the forecast period. This forecast also includes adjustments for the federal tax treatment of retirement plans, which is expected to increase state tax revenue by between $21 million and $24 million in FY 2023-24 and FY 2024-25.

Anschutz v. Colorado Department of Revenue. This forecast assumes that the state will be required to pay retroactive state income tax refunds sought by the plaintiffs and other similarly-situated taxpayers pursuant to the November 2022 *Anschutz v. Colorado Department of Revenue* ruling, and incorporates downward adjustments of $23 million for individual income tax revenue in FY 2023-24. Any additional refunds issued pursuant to the decision will reduce revenue relative to the forecast and therefore pose a significant downside risk to the income tax revenue outlook.

Corporate Income Tax

Every C corporation that has property, payroll, or sales in Colorado is subject to the state corporate income tax. Corporate income taxes have historically been a volatile revenue source because they are highly responsive to economic conditions and to federal tax policy. In addition, many corporations make strategic tax decisions about when and how to claim credits and deductions, which makes it harder to estimate the amount of corporate tax revenue. Colorado corporate income tax revenue has greatly exceeded expectations for the last two fiscal years, posting record highs in both years. This forecast anticipates that corporate income taxes will decline from their FY 2022-23 peak but remain well above trend levels from the 2010s. Recent volatility illustrates how sensitive corporate income tax collections are to policy changes and economic conditions, and points to elevated, bidirectional risk to the corporate income tax forecast.

FY 2022-23. Preliminary corporate income tax collections increased by a stunning 50.9 percent in FY 2022-23. The surge in corporate revenue nets out a reduction in tax revenue due to the rate cut enacted in Proposition 121, now estimated at about $80 million. Corporate income tax revenue expectations were revised upward by $104.1 million relative to the June forecast. Corporate estimated payments continue to come in much stronger than expected. In April, corporate estimated payments came in close to $400 million, the highest amount on record.

Forecast for FY 2023-24. Corporate income tax collections are expected to fall in the current FY 2023-24 but remain high by historical standards. Revenue is expected to total $1.88 billion in FY 2023 24, a decline of about 20.7 percent from the prior year. Relative to the June forecast, revenue was revised downward by $53.5 million.

Forecast for FY 2024-25 and FY 2025-26. Corporate income tax collections are expected to reach near $1.70 billion in FY 2024-25 and $1.77 billion in FY 2025-26. Relative to the June forecast, revenue was revised upward by $294.5 million in FY 2024-25 and $635.0 million.

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

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. Sales tax revenue has 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, and grew at a robust 19.6 percent rate in FY 2021-22. As interest rates increased and inflation began to ease, growth in nominal sales tax revenue slowed to 5.6 percent in FY 2022-23, based on preliminary data from the State Controller.

In FY 2022-23, growth moderated as price pressures eroded real wage gains and many households spent down excess savings. Slower growth is expected to continue at a 3.9 percent pace in FY 2023-24 as high interest rates lead to tighter lending standards and employment growth continues to slow. Sales tax revenue growth is expected to reaccelerate slowly, growing 4.6 percent in FY 2024-25 and 5.3 percent in FY 2025-26 as inflation wanes and interest rates moderate. Sales tax revenue positively correlates with real personal income, which is expected to rebound through 2023 and 2024 despite recent consumer trepidation over expected financial situations in the year ahead.

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 revenue increased at a solid 8.0 percent rate in FY 2022-23, based on preliminary collections data, with collections supported by oil and gas investment and construction activity. Use tax revenues weakened over the spring and summer months, posting year-over-year declines from May through August 2023. Use tax revenues are expected to increase by 3.0 percent in FY 2023-24, a considerable slowdown from last year's rate. Growth is expected to remain subdued through 2023 as rising interest rates weigh on investment. Moving through the forecast period, fixed investment activity is expected to increase, putting upward pressure on use tax as the labor market relaxes and monetary policy loosens. Use tax is forecasted to grow at a faster pace of 7.9 percent in FY 2024-25 and at 5.1 percent in FY 2025-26.

Proposition EE Cigarette, Tobacco, and Nicotine Taxes

Proposition EE increased cigarette and tobacco taxes, created a new tax on nicotine products, and created a minimum price for cigarette sales. Revenue from the new taxes is exempt from TABOR as a voter-approved revenue change. Proposition EE revenue are deposited in the General Fund, transferred to the 2020 Tax Holding Fund, and distributed to fund tobacco education programs, the General Fund and preschool programs.

Revenue from Proposition EE taxes totaled $235.0 million in FY 2022-23, and is expected to decrease to $191.5 million in the current fiscal year due to lower tax rates and a smaller accounting adjustment, described in more detail below. Table 12 shows expected revenue collections, while equivalent transfers from the General Fund to the 2020 Tax Holding Fund are shown in Table 6 on page 16.

This forecast assumes that the tax rates will be reduced by 11.53 percent compared to what was approved in Proposition EE. The 2020 Blue Book estimated that Proposition EE would bring in $186.5 million in its first full fiscal year, FY 2021-22. However, actual revenue came in at $208.0 million in FY 2021-22, therefore exceeding the Blue Book estimate. When a Blue Book estimate is exceeded, TABOR requires the General Assembly to refund the excess revenue to taxpayers and reduce the tax rates in proportion to the excess, or refer a ballot measure asking voters for permission not to do so.

House Bill 23-1290 referred Proposition II to the 2023 ballot, which asks voters for permission to retain the excess revenue and maintain the tax rates that were approved in Proposition EE. House Bill 23-1290 also clarified that if that ballot measure fails, then the taxes will be reduced by 11.53 percent. Therefore, this forecast makes the assumption that each of the tax rates will be reduced by 11.53 percent beginning in January 2024. The tax rates approved in Proposition EE and the reduced tax rates are shown in Table 11.

Table 11
Proposition EE Tax Rates

		Jan. 2024 – June 2024	July 2024 – June 2026	July 2026 Onward
Cigarettes	*Original Prop EE Tax Rate*	$1.10	$1.40	$1.80
	Assumed Reduced Tax Rate	$0.97	$1.24	$1.59
Tobacco	*Original Prop EE Tax Rate*	10%	16%	22%
	Assumed Reduced Tax Rate	9%	14%	19%
Nicotine	*Original Prop EE Tax Rate*	50%	56%	62%
	Assumed Reduced Tax Rate	44%	50%	55%

Cigarette revenue is the largest portion of Proposition EE, making up 62 percent of total revenue in FY 2022-23. Cigarette use tends to decline over time, but consumption has fallen more steeply than normal so far in 2023. Nicotine is the next largest revenue stream, with revenue increasing as consumption continues to grow. Nicotine revenue is expected to continue to increase over the forecast period due to consumption and price increases, and further tax rate increases. Tobacco makes up the rest of the Proposition EE revenue, bringing in $16.9 million in FY 2022-23. The minimum price for cigarettes is not expected to bring in additional sales tax revenue through the forecast period, as high inflation has resulted in very few cigarette sales being impacted by the price floor.

Table 12
General Fund Revenue Estimates
Dollars in Millions

	Category	Preliminary FY 2022-23	Percent Change	Estimate FY 2023-24	Percent Change	Estimate FY 2024-25	Percent Change	Estimate FY 2025-26	Percent Change
	Excise Taxes								
1	Sales	$4,301.6	5.2	$4,470.8	3.9	$4,677.8	4.6	$4,923.7	5.3
2	Use	$251.2	8.0	$258.7	3.0	$279.2	7.9	$293.5	5.1
3	Retail Marijuana Sales	$219.9	-15.0	$216.7	-1.5	$228.2	5.3	$241.7	5.9
4	Cigarette	$23.9	-7.9	$22.3	-6.9	$20.5	-7.7	$19.7	-4.2
5	Tobacco Products	$23.7	-11.0	$22.4	-5.5	$24.3	8.5	$25.1	3.1
6	Liquor	$56.3	-0.1	$56.0	-0.6	$57.9	3.5	$59.6	2.9
7	Proposition EE Tobacco Taxes	$235.0	13.0	$191.5	-18.5	$220.7	15.3	$218.6	-1.0
8	Total Excise	$5,111.7	4.4	$5,238.3	2.5	$5,508.7	5.2	$5,781.8	5.0
	Income Taxes								
9	Net Individual Income	$10,952.7	-6.5	$10,827.0	-1.1	$11,846.3	9.4	$12,660.5	6.9
10	Net Corporate Income	$2,366.7	50.9	$1,877.2	-20.7	$1,699.2	-9.5	$1,773.5	4.4
11	Total Income Taxes	$13,319.5	0.2	$12,704.2	-4.6	$13,545.5	6.6	$14,433.9	6.6
12	Less: Portion diverted to the SEF	-$1,066.4	7.3	-$1,053.8	-1.2	-$1,100.8	4.5	-$1,164.3	5.8
13	Less: Portion diverted for Affordable Housing	-$160.0	NA	-$310.9	94.3	-$330.2	6.2	-$349.3	5.8
14	Income Taxes to the General Fund	$12,093.1	-1.6	$11,339.5	-6.2	$12,114.5	6.8	$12,920.4	6.7
	Other Sources								
15	Estate	$0.0	NA	$0.0	NA	$0.0	NA	$0.0	NA
16	Insurance	$516.7	32.4	$587.0	13.6	$644.3	9.8	$702.7	9.1
17	Pari-Mutuel	$0.3	-20.4	$0.3	0.9	$0.3	-1.6	$0.3	0.8
18	Investment Income	$192.8	178.5	$211.5	9.7	$163.2	-22.8	$153.9	-5.7
19	Court Receipts	$3.1	30.6	$3.2	0.8	$3.1	-0.4	$3.2	0.2
20	Other Income	$84.5	85.3	$59.9	-29.1	$52.1	-13.1	$47.3	-9.1
21	Total Other	$797.4	57.0	$861.8	8.1	$863.0	0.1	$907.4	5.1
22	**Gross General Fund Revenue**	**$18,002.2**	**1.7**	**$17,439.5**	**-3.1**	**$18,486.2**	**6.0**	**$19,609.6**	**6.1**

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

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Cash Fund Revenue

Table 13 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, severance taxes, and gaming taxes. The end of this section also presents the forecasts for sports betting revenue, marijuana tax revenue, federal mineral lease payments, the Unemployment Insurance Trust Fund, and the family and medical leave insurance (FAMLI) program. These forecasts are presented separately because they are not subject to the state TABOR limit.

Table 13
Cash Fund Revenue Subject to TABOR
Dollars in Millions

	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	CAAGR*
Transportation-Related	$1,266.8	$1,435.5	$1,524.1	$1,584.0	
Percent Change	2.2%	13.3%	6.2%	3.9%	7.7%
Severance Tax	$374.5	$232.6	$245.6	$241.9	
Percent Change	15.2%	-37.9%	5.6%	-1.5%	-13.6%
Gaming Revenue[1]	$121.3	$125.2	$128.3	$132.1	
Percent Change	5.2%	3.2%	2.5%	2.9%	2.9%
Insurance-Related	$26.5	$22.5	$22.9	$22.3	
Percent Change	9.3%	-15.2%	1.8%	-2.6%	-5.6%
Regulatory Agencies	$89.4	$90.2	$91.3	$183.6	
Percent Change	-3.1%	0.9%	1.2%	101.2%	27.1%
2.9% Sales Tax on Marijuana[2]	$7.2	$7.8	$7.5	$7.5	
Percent Change	-39.2%	8.5%	-3.8%	-0.3%	1.3%
Housing Development Grant Fund	$71.7	$73.6	$77.0	$81.1	
Percent Change	7.9%	2.6%	4.6%	5.3%	4.2%
Other Cash Funds	$800.6	$854.2	$883.6	$928.9	
Percent Change	1.2%	6.7%	3.4%	5.1%	5.1%
Total Cash Fund Revenue	**$2,758.0**	**$2,841.5**	**$2,980.3**	**$3,181.4**	
Subject to the TABOR Limit	3.5%	3.0%	4.9%	6.7%	4.9%

Totals may not sum due to rounding.
** CAAGR: Compound average annual growth rate for FY 2022-23 to FY 2025-26.*
[1]Gaming revenue in this table does not include extended gaming revenue from Amendments 50 and 77, because it is not subject to TABOR.
[2]Includes revenue from the 2.9 percent sales tax collected from the sale of medical and retail marijuana. This revenue is subject to TABOR.

FY 2022-23. Preliminary figures from the Office of the State Controller indicate cash fund revenue subject to TABOR totaled $2.76 billion in FY 2022-23, an increase of 3.5 percent from the prior fiscal year. All major cash fund categories grew, though there were slight declines in the 2.9 percent tax on marijuana and revenue from regulatory agencies. The two largest sources were transportation-related cash funds and other miscellaneous cash funds, together making up about 75 percent of the total.

FY 2023-24 through FY 2025-26. Total cash fund revenue subject to TABOR in the current FY 2023-24 is expected to total $2.84 billion, an increase of 3.0 percent from FY 2022-23. Cash fund revenue growth is expected to accelerate modestly through the forecast period, increasing by 4.9 percent in FY 2024-25 and 6.7 percent in FY 2025-26. Total cash fund revenue subject to TABOR is expected to be near $3.2 billion by FY 2025-26.

Relative to June, total cash fund forecasts were slightly revised downward for FY 2023-24 and the out years. Cash fund revenue came in below the June forecast by about $13.0 million in FY 2022-23, and the forecast was revised downward by $34.0 million for FY 2023-24 and by just over $59.0 million for FY 2024-25.

Transportation-related revenue subject to TABOR is expected to increase by 13.3 percent in FY 2023-24 following a 2.2 percent increase in FY 2021-22. The anticipated increase is driven primarily by legislative changes including the implementation of road usage fees, retail delivery fees, and the end of a temporary reduction in the road safety surcharge. The forecast for transportation-related revenue is presented in Table 14.

Motor fuel revenue is the largest component of transportation revenue, making up nearly half of total collections. Collections for taxes on both gasoline and diesel fuel have been strong in recent months. Additionally, road usage fees were introduced in April 2023 at 2 cents per gallon and will increase by 1 cent per gallon in FY 2023-24 and each year after through the forecast period. Road usage fees are expected to bring in $91.2 million in FY 2023-24, the first full year of implementation. 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.

Growing revenue from motor fuel 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 full amount in 2024. Due to the end of the rate reduction in January 2024, revenue from the road safety surcharge is expected to increase by 50.8 percent in FY 2023-24 and another 36.4 percent in FY 2024-25.

Lastly, retail delivery fees created by Senate Bill 21-260 went into effect on July 1, 2022. The retail delivery fees totaled 27 cents per delivery in FY 2022-23 and increased to 28 cents in FY 2023-24. This forecast includes only the portion of the retail delivery fee that is subject to TABOR. Of this amount, $18.5 million was distributed to the HUTF and $12.3 million to the Multimodal Transportation Mitigation Options Fund in FY 2022-23.

Overall transportation-related revenue subject to TABOR is expected to increase by 13.3 percent in FY 2023-24 as travel activity continues to improve and road usage fees are in effect for the full fiscal year. Revenue is expected to increase by 6.2 percent in FY 2024-25 and 3.9 percent in FY 2025-26.

Table 14
Transportation Revenue by Source
Dollars in Millions

	Estimate FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	CAAGR*
Highway Users Tax Fund (HUTF)					
Motor and Special Fuel Taxes	$652.3	$676.9	$684.0	$690.1	
Percent change	3.0%	3.8%	1.1%	0.9%	1.9%
Road Usage Fees	$12.7	$91.2	$123.0	$164.4	
Percent change	NA	617.9%	34.8%	33.7%	
Total Registrations	$328.6	$379.4	$421.5	$427.2	
Percent change	-15.3%	15.5%	11.1%	1.4%	9.1%
Registrations	*$219.9*	*$232.5*	*$234.1*	*$236.4*	
Road Safety Surcharge	*$72.4*	*$109.1*	*$148.8*	*$151.5*	
Late Registration Fees	*$36.3*	*$37.7*	*$38.7*	*$39.4*	
Other HUTF Receipts[1]	$72.4	$82.9	$86.0	$89.0	
Percent change	40.2%	14.5%	3.8%	3.5%	7.1%
Total HUTF	**$1,066.0**	**$1,230.4**	**$1,314.5**	**$1,370.8**	6.1%
Percent change	-0.6%	15.4%	6.8%	4.3%	
State Highway Fund (SHF)[2]	$27.5	$30.8	$30.0	$26.8	2.9%
Percent change	29.4%	11.7%	-2.4%	-10.7%	
Other Transportation Funds	$173.3	$174.3	$179.6	$186.4	6.4%
Percent change	19.1%	0.6%	3.0%	3.8%	
Aviation Fund[3]	*$60.8*	*$51.6*	*$52.6*	*$54.5*	
Multimodal Transportation Options Fund[4]	*$12.3*	*$13.7*	*$15.2*	*$16.9*	
Law Enforcement-Related[5]	*$7.3*	*$7.2*	*$7.0*	*$6.8*	
Registration-Related[6]	*$92.9*	*$101.9*	*$104.8*	*$108.2*	
Total Transportation Funds	**$1,266.8**	**$1,435.5**	**$1,524.1**	**$1,584.0**	7.1%
Percent change	2.2%	13.3%	6.2%	3.9%	

Totals may not sum due to rounding.
** 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 revenue 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.

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 county and municipal governments. The State Patrol, Department of Revenue, and Department of Natural Resources receive HUTF funds through appropriations that are set in statute. The remaining revenue is allocated to the Department of Transportation via the State Highway Fund, counties, and municipalities based on how much revenue is collected. Revenue is distributed based on multiple formulas that differ between revenue streams. The estimated distribution summary is shown in Table 15.

Table 15
Highway Users Tax Fund Distribution
Dollars in Millions

HUTF Distribution Forecast	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
Department of Public Safety[1]	$181.9	$196.4	$196.4	$196.4
Department of Revenue[2]	$4.7	$4.2	$4.2	$4.2
Department of Natural Resources[3]	$0.3	$0.3	$0.3	$0.3
State Highway Fund	$539.7	$631.2	$680.0	$714.0
Counties	$218.5	$235.2	$253.5	$266.5
Municipalities	$153.6	$166.6	$181.6	$191.8
Total HUTF Distributions	**$1,098.7**	**$1,233.9**	**$1,316.0**	**$1,373.1**
Total Nonexempt Revenue	**$1,066.0**	**$1,230.4**	**$1,314.5**	**$1,370.8**
Assumed Exempt Revenue	$1.3	$3.5	$1.5	$2.3
Transfers to HUTF	$31.4	$0.0	$0.0	$0.0

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

Severance tax revenue, including interest earnings, totaled $374.5 million in FY 2022-23, an increase from $325.0 million in the prior year. Severance tax revenue is expected to decline by 37.9 percent in FY 2023-24 as the value of oil and gas production falls 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 16.

Severance tax collections from **oil and natural gas** reached historic levels in FY 2022-23, totaling $347.1 million despite prices falling from highs posted in 2022. Collections are expected to decline in FY 2023-24 to $210.5 million due to several factors. Natural gas prices continue to decline. Oil production is expected increase modestly and the price of oil is expected to be fairly steady; however, the rapid increase in production in 2022 is expected to increase credits from ad valorem taxes that will further weigh on oil severance tax collections. Downward pressures are expected to be partially offset by legislative adjustments beginning in tax year 2024. Higher natural gas prices and legislative adjustments are expected to contribute to growing collections in FY 2024-25, before payments fall again on lower prices in FY 2025-26.

Table 16
Severance Tax Revenue Forecast by Source
Dollars in Millions

	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	CAAGR*
Oil and Gas	$347.1	$210.5	$223.3	$217.9	-14.4%
Percent Change	12.5%	-39.4%	6.1%	-2.4%	
Coal	$4.5	$3.4	$3.4	$3.3	-9.4%
Percent Change	38.6%	-22.7%	-2.6%	-1.0%	
Molybdenum and Metallics	$0.6	$1.2	$1.9	$2.1	50.0%
Percent Change	-77.5%	103.3%	50.2%	10.5%	
Total Severance Tax Revenue	**$352.2**	**$215.2**	**$228.5**	**$223.3**	-14.1%
Percent Change	11.9%	-38.9%	6.2%	-2.3%	
Interest Earnings	$22.5	$17.4	$17.1	$18.6	-6.1%
Percent Change	117.7%	-22.7%	-1.4%	8.7%	
Total Severance Tax Fund	**$374.7**	**$232.6**	**$245.6**	**$241.9**	-13.6%
Percent Change	15.3%	-37.9%	5.6%	-1.5%	

**CAAGR: Compound average annual growth rate for FY 2023-23 to FY 2025-26.*

After increasing by 38.6 percent in FY 2022-23 to $4.5 million, **coal severance tax** revenue is expected to decrease in FY 2023-24 by another 22.7 percent, to $3.4 million. In Colorado and nationally, coal production rose rapidly in 2022 on favorable prices emerging from the pandemic, increased electricity use due to weather, and global disruptions such as reduced Russian imports to European countries. Market conditions have been less favorable recently, with some downstream impacts on prices for both thermal and metallurgical coal. Production in Colorado is also expected to be shaped by the shift away from coal-fired electricity generation in the state. In FY 2024-25 and FY 2025-26, 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 $0.6 million in severance taxes on the value of minerals produced in FY 2022-23, a decline of 77.5 percent. Tax revenue is expected to rebound somewhat in FY 2023-24, reaching an estimated $1.2 million. The market for metals and molybdenum are expected to contribute to further gains in FY 2024-25 and FY 2025-26, bringing tax collections closer to a long-term average.

Finally, **interest earnings** on severance tax revenue were approximately $22.5 million in FY 2022-23 and are forecast to decrease to $17.4 million in FY 2023-24. Interest earnings are forecast to decline 1.4 percent in FY 2024-25, before rising 8.7 percent in FY 2025-26.

Limited gaming revenue includes taxes, fees, and interest earnings collected in the Limited Gaming Fund and the State Historical Fund. Gaming revenue subject to TABOR grew 5.2 percent in FY 2022-23 and totaled $121.3 million. Gaming revenue is expected to grow at slower rates of 3.2 percent in FY 2023-24 and 2.5 percent in FY 2024-25. These estimates reflect only revenue subject to TABOR, while a significant portion of gaming tax revenue is TABOR-exempt, as discussed below.

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. The state does not collect gaming revenues from casinos on tribal lands in southwestern Colorado. 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 how limited and extended gaming revenues are calculated beginning in FY 2021-22. In years of fast growth in gaming taxes, the portion of gaming tax revenue that is subject to TABOR grows more slowly than overall tax revenue. In this case, a greater share of revenue is directed to the state and local government programs that receive revenue through Amendment 50 and Amendment 77.

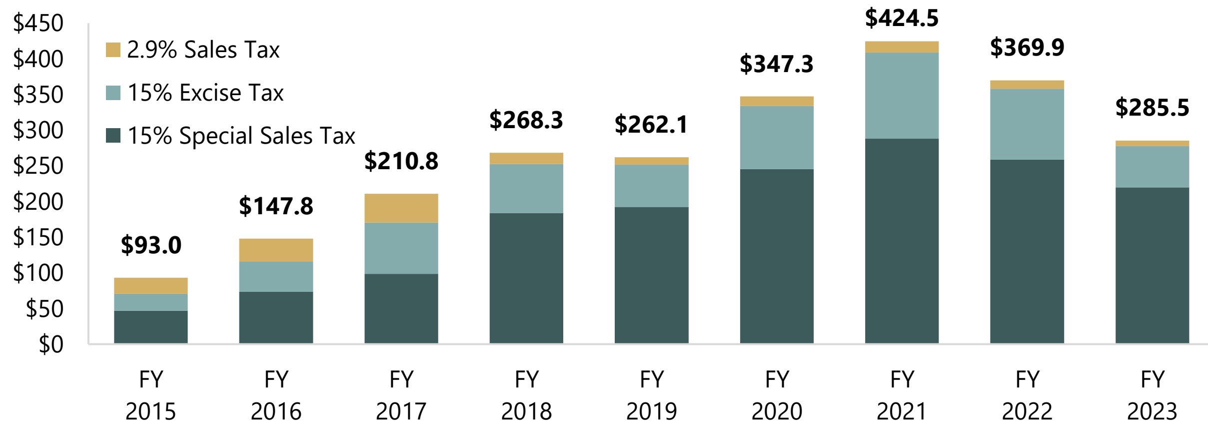
Sports betting was legalized after the passage of **Proposition DD** at the November 2019 election. Betting launched on May 1, 2020, and has grown significantly since its inception. Revenue collected from sports betting activity includes licensing fees, an operations fee, and tax revenue, which is set at 10 percent of casinos' net sports betting proceeds. As voter-approved revenue, sports betting tax revenue is not subject to the TABOR limit; however, fee revenues are subject to TABOR.

In FY 2022-23, **sports betting taxes** exempt from TABOR totaled $26.0 million, up 107.6 percent from FY 2021-22. Betting activity continues to grow and can be partially attributed to legislative changes limiting the amount of free bets that can be deducted from net sports betting proceeds. Betting activity partly depends on the popularity of state sports teams and may also see strong growth in the short term due to its recent introduction. Sports betting taxes are expected to increase by 44.4 percent in FY 2023-24, 11.3 percent in FY 2024-25, and 2.8 percent in FY 2025-26.

Sports betting fee revenue subject to TABOR ended FY 2022-23 down 3.5 percent from the prior fiscal year, hovering around $2.3 million. Sports betting revenue subject to TABOR is expected to increase in future years and is included in the Other Cash Funds forecast in Table 13.

Marijuana tax revenue has declined substantially since peaking in August 2021, experiencing a 22.5 percent annual decline in revenue in FY 2022-23. 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. Revenue is expected to rebound slowly through the forecast period.

Figure 6
Tax Revenue from Retail Marijuana
Millions of Dollars

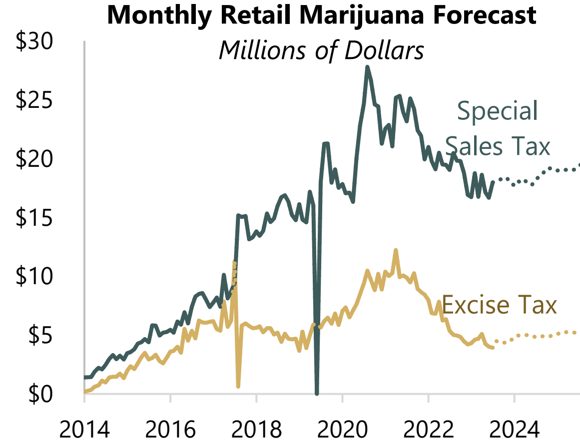


Source: Colorado Office of the State Controller.

Marijuana collections increased dramatically during the pandemic, and have fallen over the past two years 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 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 17.

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 brought in $219.9 million in FY 2022-23. Revenue is expected to grow slowly month-over-month through the rest of the forecast period, for annual totals of $216.7 million in FY 2023-24 and $228.2 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.

Figure 7
Monthly Retail Marijuana Forecast
Millions of Dollars



Source: Colorado Office of the State Controller and LCS September 2023 forecast.

The excise tax is the second-largest source of marijuana revenue and is dedicated to the BEST Fund for school construction. Similar to the special sales tax, marijuana excise tax revenue fell in FY 2021-22 and again in FY 2022-23. The excise tax is based on the calculated or actual wholesale price of marijuana when it is transferred from the cultivator to the retailer. Therefore, the wholesale price is a significant determinant of excise tax revenue. After facing upward pressure in 2020 due to increased demand and constrained supply, the wholesale price underwent a multi-year decline. However, the wholesale price increased in the third quarter of 2023 for the first time since 2021 – an indication that excise tax revenue may pick up moving forward. Revenue collections are expected to grow modestly through the rest of the forecast period.

Table 17
Tax Revenue from the Marijuana Industry
Dollars in Millions

	Preliminary FY 2022-23	Forecast FY 2023-24	Forecast FY 2024-25	Forecast FY 2025-26
Exempt Tax Revenue				
15% Special Sales Tax	$219.9	$216.7	$228.2	$241.7
State Share of Sales Tax	$197.2	$194.7	$204.3	$216.9
Local Share of Sales Tax	$21.9	$21.6	$22.7	$24.1
15% Excise Tax	$57.8	$57.0	$62.3	$65.9
Total Exempt Revenue	**$277.7**	**$273.7**	**$290.6**	**$307.6**
Percent Change	*-22.5%*	*-1.4%*	*6.2%*	*5.9%*
Nonexempt Revenue				
2.9% Sales Tax on Medical Marijuana	$5.6	$5.6	$5.2	$5.1
2.9% Sales Tax on Retail Marijuana	$2.1	$2.0	$2.1	$2.3
TABOR Interest	$0.1	$0.1	$0.1	$0.1
Total Nonexempt Revenue	**$7.8**	**$7.8**	**$7.5**	**$7.5**
Percent Change	*-33.2%*	*-0.9%*	*-3.8%*	*-0.3%*
Total Taxes on Marijuana	**$285.5**	**$281.4**	**$298.0**	**$315.1**
Percent Change	***-22.8%***	***-1.4%***	***5.9%***	***5.7%***

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 brought in $5.6 million in FY 2022-23, a 38.8 percent decline compared to the year prior. 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 also remitted $2.1 million in general sales tax in FY 2022-23. Collections are expected to 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 18, FML revenue totaled $173.6 million in FY 2022-23, a 38.8 percent increase from FY 2021-22. In FY 2023-24, FML revenue is forecast to decrease about 34 percent to $115 million. The rapid increase in natural gas prices that started in 2021 led to elevated FML revenues, though lower prices over the next year are expected to drive down revenue. As of August, prices were down significantly from the peak of $8.81 per million BTU in August 2022, averaging about $2.59 for the month. Prices are expected to average about $2.60 in 2023. Prices are expected to increase beginning in 2024 and through the forecast period.

Table 18
Federal Mineral Lease Revenue Distribution
Dollars in Millions

	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26
Total FML Revenue	$173.6	$114.8	$132.3	$144.9
Bonus Payments (portion of total revenue)	**$1.3**	**$1.1**	**$4.0**	**$4.3**
Local Government Permanent Fund	$0.6	$0.6	$2.0	$2.2
Higher Education FML Revenue Fund	$0.6	$0.6	$2.0	$2.2
Other (non-bonus) **FML Revenue**	**$172.4**	**$113.7**	**$128.4**	**$140.6**
State Public School Fund	$83.3	$54.9	$62.0	$67.9
Colorado Water Conservation Board	$17.2	$11.4	$12.8	$14.1
DOLA Grants	$34.5	$22.7	$25.7	$28.1
DOLA Direct Distribution	$34.5	$22.7	$25.7	$28.1
School Districts	2.9	1.9	2.2	2.4
Higher Education FML Revenue Fund	$0.6	$0.6	$2.0	$2.2

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

Forecasts for **Unemployment Insurance (UI) Trust Fund** revenue, benefit payments, and year-end balances are shown in Table 19. Revenue to the UI Trust Fund is not subject to TABOR and is therefore excluded from Table 13. 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 13.

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. An unprecedented increase in benefit payments triggered by the pandemic-related shutdowns led to the fund becoming insolvent in August 2020. Colorado began to borrow from the Federal Unemployment Account (FUA) in order to fund benefits payments, reaching a maximum principal loan balance of $1.014 billion by April 30, 2021.

Declining benefits payments combined with legislative measures helped restore the fund balance, with all loans repaid by the end of FY 2022-23. **Senate Bill 20-207** suspended the solvency surcharge for 2021 and 2022, and, beginning in 2022, incrementally increased the chargeable wage base to $17,000 in 2022 and $20,400 in 2023. **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. Employer unemployment premiums were used to pay $400 million in outstanding loans in June and August 2022, and the remaining federal loan balance was repaid with a $33.1 million private loan in November 2022. Colorado resumed FUA borrowing to cover benefits payments in the first quarter of 2023, and repaid the loan balance of $84.0 million by May 2023.

Table 19
Unemployment Insurance Trust Fund Revenues, Benefits Paid, and Fund Balance
Dollars in Millions

	Preliminary FY 2022-23	Estimate FY 2023-24	Estimate FY 2024-25	Estimate FY 2025-26	CAAGR*
Beginning Balance	($133.1)	$286.6	$699.5	$1,185.3	
Plus Income Received					
UI Premium	$807.2	$798.1	$832.3	$809.9	0.1%
Solvency Surcharge	$0.0	$89.6	$169.5	$179.4	
Interest	$1.1	$5.7	$11.7	$19.9	
Other**	$113.7	$51.0	$22.0	$22.5	
Total Revenues	**$922.0**	**$944.5**	**$1,035.5**	**$1,031.7**	3.8%
Percent Change	-32.4%	2.4%	9.6%	-0.4%	
Less Benefits Paid	($502.3)	($531.6)	($549.7)	($637.2)	8.2%
Percent Change	3.8%	5.8%	3.4%	15.9%	
Principal Loan Repayment	($110.1)	$0.0	$0.0	$0.0	
Ending Balance	**$286.6**	**$699.5**	**$1,185.3**	**$1,579.8**	
Solvency Ratio					
Fund Balance as a Percent of Total Annual Private Wages	0.17%	0.39%	0.62%	0.78%	

Totals may not sum due to rounding.
**CAAGR: Compound average annual growth rate for FY 2022-23 to FY 2025-26.*
***Other income includes private loans applied to federal loans outstanding, and estimated diversions from the Employment Support Fund; the Employment, Training and Technology Fund; and the Benefit Recovery Fund pursuant to SB 23-232.*

The amount of UI benefits paid increased to $502.3 million in FY 2022-23 due to an uptick in the resolution of back payments, along with increasing average benefits paid and growth in insured employment due to a strong state labor market. Benefits paid are expected to continue to increase throughout the forecast period, as average weekly wages continue to rise with inflation alongside continued growth in insured employment and an uptick in the unemployment rate.

Revenues are expected to increase to $944.5 million in FY 2023-24, and $1.0 billion in FY 2024-25 as diversions from the Employment Support Fund (ESF) pursuant to **Senate Bill 23-232** and revenue from the solvency surcharge offset a lower employer premium rate schedule due to the repayment of loans. Senate Bill 23-232 created a new cap on the amount of money in the ESF at the end of any fiscal year beginning in FY 2023-24. The solvency surcharge will be applied, and employers shifted down from the highest premium rate schedule, on January 1, 2024. The solvency surcharge is expected to be applied throughout the forecast period, as 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 2024-25 with a balance of $699.5 million. The fund balance is expected to improve throughout the forecast period, meeting the thresholds to shift to a lower premium rate schedule in calendar year 2026 and to turn the solvency surcharge off in calendar year 2027.

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 were required to remit payments by April 30, 2023, to the FAMLI Fund administered by the Colorado Department of Labor and Employment (CDLE). The fund balance in September 2023 is $717 million. Revenue to the fund is exempt from TABOR.

Economic Outlook

The economy continues to navigate successfully between the Scylla and Charybdis of inflation and recession. Output grew at an annualized rate of 2.1 percent in the second quarter of 2023 with inflation receding. The enduring strength of the labor market has supported incomes and fueled consumer spending. To this point, activity in the economy has decelerated more smoothly than feared, carefully following the path to a soft landing in the wake of post-pandemic job gains, spending surges, and record corporate profits.

Downside risks have continued to dissipate since the June forecast. Consistent with earlier forecasts, economic news indicates a slowing, yet resilient economy in spite of aggressive Federal Reserve action to raise interest rates and restrain economic activity. Inflationary pressure is abating, albeit at a slower pace in Colorado than in the nation, and with some moderate pressure from energy prices on the horizon. Restrictive monetary policy in the face of stickier-than-expected inflation remains the primary risk to economic activity. At its July meeting, the Federal Reserve raised interest rates. The Fed is expected to slow further increases, while maintaining rates at existing levels until inflationary pressures approach its target of 2 percent average inflation.

The forecast expects continued slowing as the delayed effects of tightening monetary policy dampen economic activity at least through the remainder of 2023. Inflationary pressures in Colorado are expected to continue to outpace those in the nation, as housing costs remain the key inflationary component throughout the forecast period.

Tables 20 and 21 on pages 70 and 71 present histories and expectations for key indicators for the U.S. and Colorado economies, respectively.

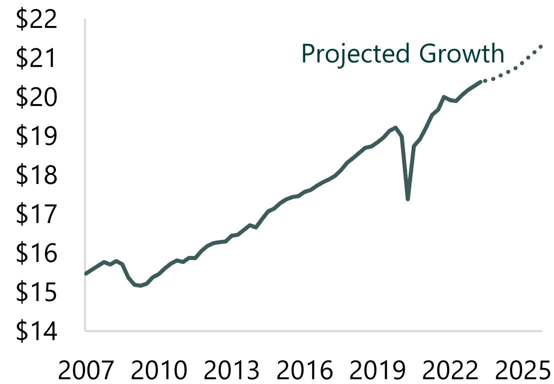
Gross Domestic Product

Despite tighter monetary policy alongside still-elevated inflation, U.S. real gross domestic product (GDP) continued to beat expectations through the first half of the year. Gross domestic product, the broadest measure of economic output, grew at a seasonally adjusted, annualized rate of 2.1 percent in the second quarter of 2023, after increasing by an annual rate of 2.0 percent in the previous quarter. Economic growth in the second quarter was driven by business investment, government purchases, inventory investment, and consumer spending, though the latter grew at a much weaker pace than in the first quarter. Growth was held down by a decrease in exports and a continual decline in residential investment. U.S. real gross domestic product (GDP) rose 2.1 percent in 2022, following a rebound of 5.9 percent in 2021 from the pandemic trough.

- With inflation weighing on growth, real U.S. GDP growth is expected to increase by 2.0 percent in 2023. As the pace of expansion slowly regains momentum, real economic output is projected to increase at rates of 1.2 percent in 2024 and 2.2 percent in 2025.

Consumer spending continues to support economic growth, but cooled in the second quarter of 2023. Despite higher borrowing costs and prices, consumer spending, which makes up more than two-thirds of total economic activity, grew at an annual rate of 1.7 percent in the second quarter. However, this represents a slower pace compared with the brisk 4.2 percent rate in the previous quarter. A strong labor market and increasing wages supported consumer spending through the first half of the year. Consumers continued to shift their spending patterns from goods to services. In the second quarter, consumer spending on goods increased by 0.7 percent, while spending on services increased by 2.2 percent in the same period. This forecast expects consumer activity to strengthen as inflation recedes, but dwindling household savings could suppress consumer confidence.

Figure 8
U.S. Real Gross Domestic Product
Trillions of Dollars



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

Business investment improved in the second quarter after declining in the first period. Business investment is an important contributor to GDP, but tends to be volatile quarter to quarter. In the second quarter of 2023, total business investment increased by 3.3 percent after declining by 11.9 percent in the previous quarter. Businesses continue to spend on new structures and invest in intellectual property products. Investment in structures has been propped up in recent quarters because of federal fiscal stimulus, including from the 2021 infrastructure bill and the 2022 CHIPS and Science Act. Manufacturers' spending on construction rose 76.3 percent in May from the same month last year. Outlays on private nonresidential structures like gas and oil well drilling continue to help boost total business investment. Finally, after declining in the previous two quarters, spending on business equipment picked up in the second quarter.

Residential investment continues to drag business investment down. Inflation-adjusted residential outlays have steadily declined since the second quarter of 2021, as rising mortgage rates and borrowing costs have dampened demand for new and existing housing units.

International trade has contributed to growth, but now faces headwinds. Though net exports, calculated as total exports minus total imports, are expected to continue to aid U.S. economic growth, a strong U.S. dollar and weakening global demand are expected to raise headwinds for exports over the next year. In the second quarter of 2023, spending on U.S. exports declined by 10.6 percent after growing by 7.8 percent in the previous quarter. Spending on U.S. imports dropped by 7.0 percent in the second quarter after increasing by 2.0 percent in the first quarter.

Government spending has stabilized, but is no longer a major source of economic stimulus. The massive economic supports erected during the pandemic have now mostly been removed. Government expenditures declined by 0.6 percent in 2022, with federal expenditures down 2.5 percent and state and local expenditures up 0.5 percent from the prior year. Spending has stabilized and begun to grow from its new, lower level. Total government spending grew by 3.3 percent in the second quarter of the 2023, with positive contributions from all government sectors (federal, state and local). Total government outlays have increased steadily since the third quarter of 2022.

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

Labor Markets

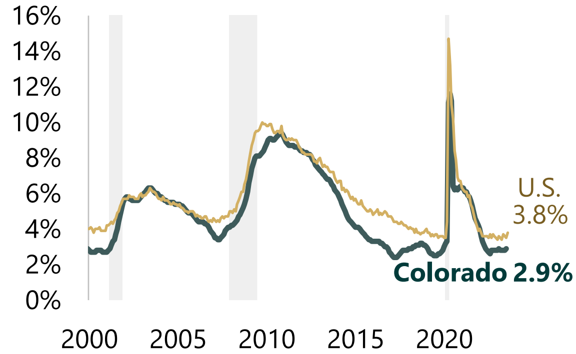
The labor market in the state and nation remains resilient, with tightening monetary policy resulting in job losses in certain industries. Sectors sensitive to interest rates like finance, insurance, real estate, information, and construction have shed employees as interest rates rise. However, slower, persistent job growth alongside low unemployment rates suggest that a soft landing is increasingly possible for most areas of the economy. Employment growth is expected to continue to slow in the near term for both Colorado and the U.S.

- U.S. nonfarm employment growth was 4.3 percent in 2022, and is expected to slow in 2023 and 2024, to 2.4 percent and 1.3 percent, respectively. The U.S. unemployment rate is expected to tick down to 3.5 percent in 2023 before increasing to 3.6 percent in 2024.

- In Colorado, nonfarm employment grew by 4.1 percent in 2022. Employment is expected to decelerate throughout the forecast period, with growth of 2.2 percent in 2023 and 1.3 percent in 2024. The Colorado unemployment rate is expected to fall from 3.0 percent in 2022 to 2.9 percent in 2023, before rising to 3.1 percent in 2024.

Colorado's unemployment rate remains low as job gains continue to slow. Colorado's unemployment rate ticked up slightly in July, but at 2.9 percent remained well below the U.S. rate of 3.5 percent. Ranked lowest to highest, Colorado has the nation's 23rd lowest unemployment rate, just below Minnesota, Mississippi, and Wyoming. At 1.7 percent, New Hampshire's unemployment rate is the nation's lowest, while the highest rate continues to belong to Nevada (5.3 percent). Colorado's labor force participation rate held steady at 68.7 percent in July, still well above the national rate of 62.6 percent. Among the 50 states, Colorado has the fifth highest labor force participation rate, behind Utah (69.8), North Dakota (69.7), Nebraska (69.4), and Iowa (68.8). Mississippi has the lowest labor force participation rate at 54.4 percent. Colorado real average hourly earnings are down 1.9 percent year-over-year in July 2023.

Figure 9
Unemployment Rates

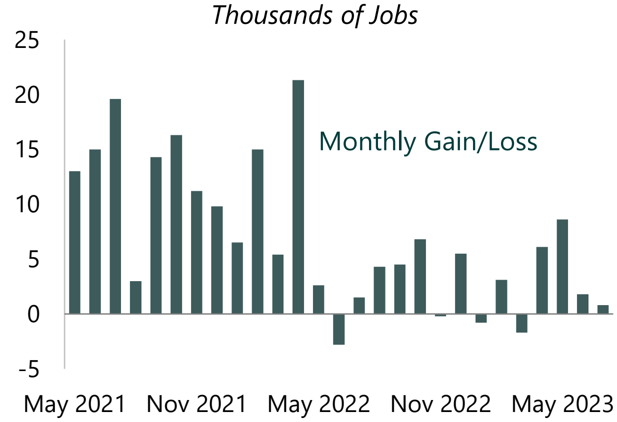


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Colorado data are through July 2023. U.S. data are through August 2023.

The employment recovery in Colorado continues to hold up, although job gains are slowing, consistent with monetary policy objectives to tame inflation and engineer a soft landing. Employers added 800 jobs in July 2023, for an average monthly gain of 2,560 jobs this year. A marked slowdown in job gains has occurred since May 2022, which roughly coincides with the start of the Federal Reserve's interest rate hikes. Average monthly job gains were 2,670 between May 2022 and July 2023, compared to average monthly gains of 12,500 in the 12 months prior (Figure 10).

Monetary policy impacts continue to vary across sectors. Year-over-year, statewide job growth has accelerated since falling to 1.0 percent in April, and was 1.4 percent in July 2023 (2.2 percent with expected revisions, as discussed below). Job growth was mixed across industries in July, with the largest gains in government, up 2,700 jobs and professional, scientific, and technical services, up by 2,300 jobs. The biggest job losses during the month were in accommodation and food services (down by 3,700 jobs) and private health care and social assistance, down by 1,200 jobs.

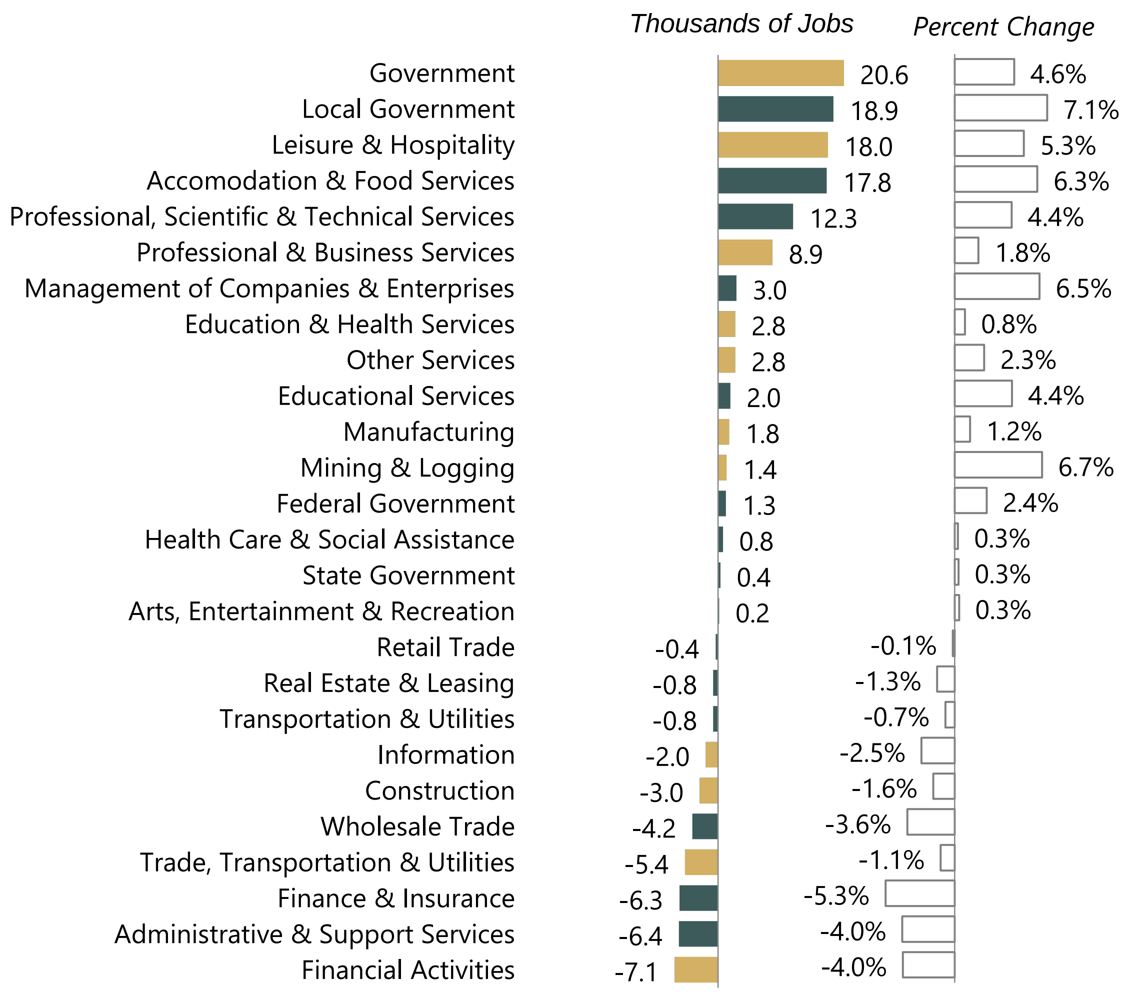
Figure 10
Change in Colorado Nonfarm Employment
Thousands of Jobs



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

Supersectors with job losses year-over-year in July 2023 were financial activities, down by 4.0 percent (7,100 jobs); trade, transportation, and utilities, down by 1.1 percent (5,400 jobs); construction, down by 1.6 percent (3,000 jobs); and information, down by 2.5 percent (2,000 jobs) (Figure 11). These sectors are among those most sensitive to interest rates with activities such as construction, real estate, and information technology, as well as banking and other financial activities. The largest job gains over the year were in government, up by 4.6 percent (20,600 jobs) and leisure and hospitality, up by 5.3 percent (18,000 jobs). Both of these sectors were among those hardest hit during the pandemic, and have been slow to recover pre-2020 levels of employment. As discussed below, expected revisions in the March 2024 benchmarked job series may alter some of these results.

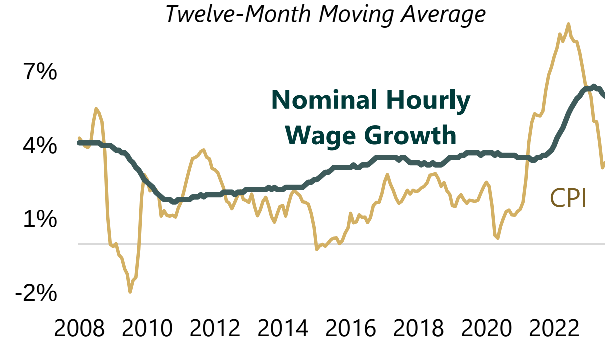
Figure 11
Colorado Job Gains and Losses by Industry
Year-over-Year Change, July 2023



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

Real wage growth continues, with nominal wage growth continuing to moderate. According to the Atlanta Federal Reserve Wage Growth Tracker, median nominal wage growth (not adjusted for inflation) was 6.0 percent year-over-year in July 2023, down from a peak of 7.1 percent in June 2022, while inflation was 3.3 percent, down from a peak of 8.9 percent in June 2022. Inflation exceeded nominal wage growth from April 2021 until February 2023, resulting in a declining real wage and the erosion of purchasing power for more than 50 percent of workers during that period. Prior to that period, the last time real wage growth was negative was in 2011 (Figure 12).

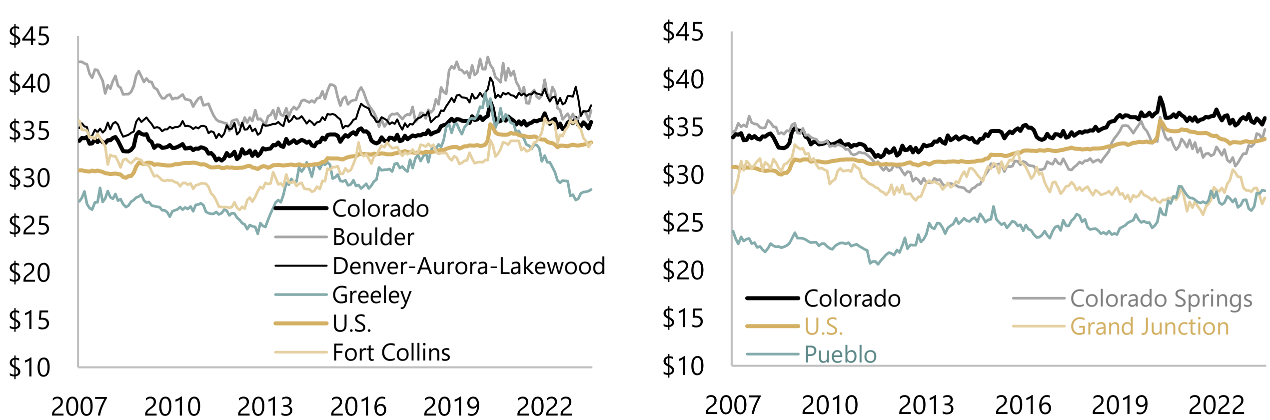
Figure 12
Median Nominal Hourly Wage Growth and CPI Inflation
Twelve-Month Moving Average



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

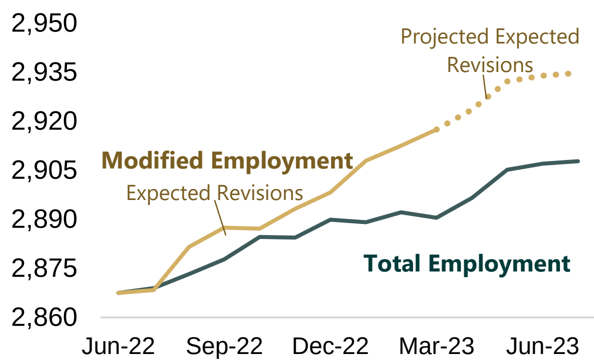
Wage growth varied slightly across industries, ranging from 6.6 percent in finance and business services and 6.4 percent in public administration, to 5.5 percent in education and health. At 6.2 percent in July 2023, wage growth in leisure and hospitality has cooled since reaching 7.2 percent in January 2023. Wage growth also varied across groups of workers, with workers aged 55 and over, those with an associate's degree, and job stayers experiencing the slowest wage growth at 4.6 percent, 5.5 percent, and 5.5 percent, respectively, while workers aged 16 to 24 and job switchers experienced the highest wage growth at 10.1 percent, 7.1 percent, respectively. Workers in the mountain region, which includes Colorado, experienced 7.2 percent wage growth in July 2023, the highest among U.S. regions. It is important to note that there is wide variation in wage growth across individuals, but in general, groups of workers with the highest median wage growth are those with the highest share of positive real wage growth.

Figure 13
Real Average Hourly Wages by Region



Source: U.S. Bureau of Labor Statistics. Data are adjusted for inflation using the U.S. city average CPI-U inflation index. U.S. data are seasonally adjusted. Colorado data are not seasonally adjusted. Data are through July 2023.

Figure 14
Nonfarm Employment and Expected Revisions
Jobs in Thousands



Source: Colorado Department of Labor and Employment.

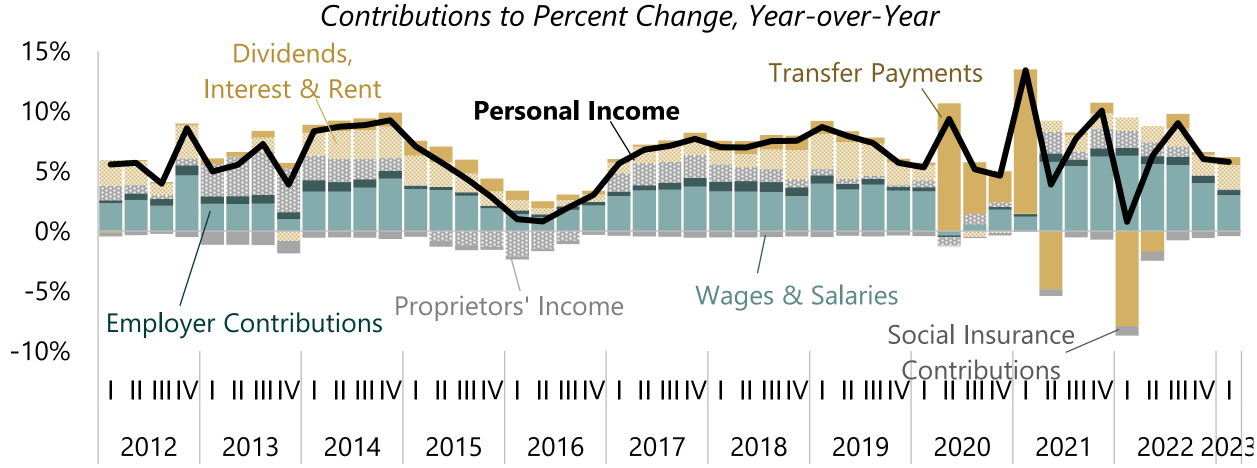
Nominal wage growth cools, while statewide real wages flatten. Nominal wage growth cooled to 3.8 percent year-over-year in July 2023, down from 5.0 percent in January, with inflation-adjusted wages flattening, at 0.5 percent growth, after declining throughout 2023. Real wage growth across Colorado's regions varied, with notable declines occurring in Grand Junction, Greeley, Fort Collins, and the Denver-Aurora-Lakewood areas (Figure 13).

Expected revisions to nonfarm employment. Due to an undercount of employment impacting the 2022 employment benchmark in March 2023, corrected Quarterly Census of Employment and Wages (QCEW) results for the third and fourth quarters of 2022 indicate that nonfarm payroll job estimates will be revised up for these periods with the March 2024 benchmark. The revision is expected to be larger than in prior years, with expected revisions in March 2023 of 27,000 jobs. Applying these revisions through July 2023 brings the year-over-year job growth in July to 2.2 percent, up from 1.4 percent in current official data (Figure 14).

Personal Income

Personal income measures the aggregate amount of income received by individuals and households from wages and salaries, business ownership, investments, and other sources. Personal income influences state revenue streams such as household contributions to income tax revenue, and foreshadows consumer spending and contributions to sales tax receipts. A history of year-over-year growth in nominal personal income in Colorado is shown in Figure 15.

Figure 15
Colorado Nominal Personal Income and Its Contributions
Contributions to Percent Change, Year-over-Year

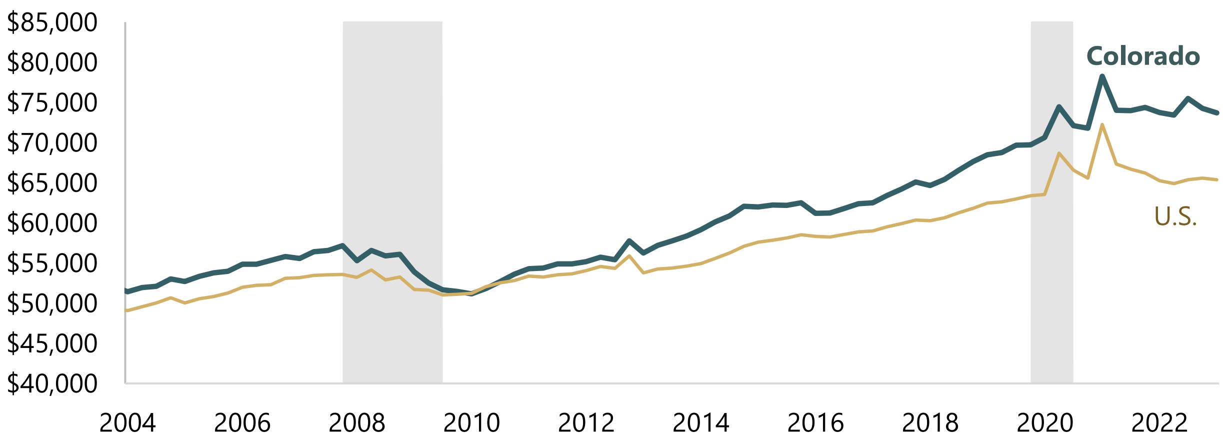


Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data are seasonally adjusted through 2023Q1.

Total Colorado personal income is 5.8 percent higher in the first quarter of 2023 compared to a year prior. Wages and salaries are the largest source of personal income, and are up 5.7 percent compared to one year ago. This amount of growth is similar to pre-pandemic growth, but is much slower than the 10.5 percent growth in 2022 due to slowing employment gains and nominal wage growth. Dividends, interest, and rent are up 9.4 percent from a year ago as rents and interest rates rise. Proprietors' income and employer contributions have also contributed to positive gains in total personal income.

Alongside consistently strong growth in nominal personal income, households have contended with rapidly inflating prices in 2022. Figure 16 shows per-capita personal income in Colorado and the U.S., adjusted for inflation. After adjusting for population and inflation, personal incomes have been roughly flat or fallen slightly in Colorado since mid-2021, aside from a bump from Colorado Cash Back payments in 2022. Real per-capita personal income in the U.S. fell throughout 2021 and early 2022, but has started to rebound, up 1.2 percent over the past year. With a tight labor market and inflation expected to slow through the forecast period, real personal income is expected to rebound to positive growth for both the U.S. and Colorado in 2023 and 2024.

Figure 16
Real Per-Capita Personal Income
Constant 2022 Dollars

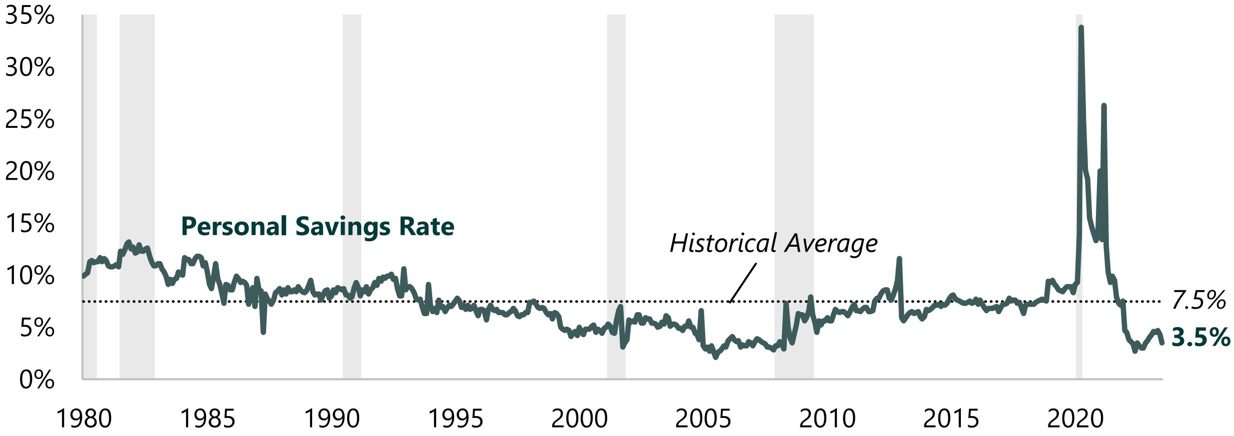


Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and LCS calculations. Data are adjusted for inflation using the national PCE price index.

Household Finance and Debt

Personal savings are low by 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 17). The end of pandemic restrictions and high inflation caused a rebound in consumption and spending down of excess savings.

Figure 17
U.S. Personal Savings Rate*
Percent

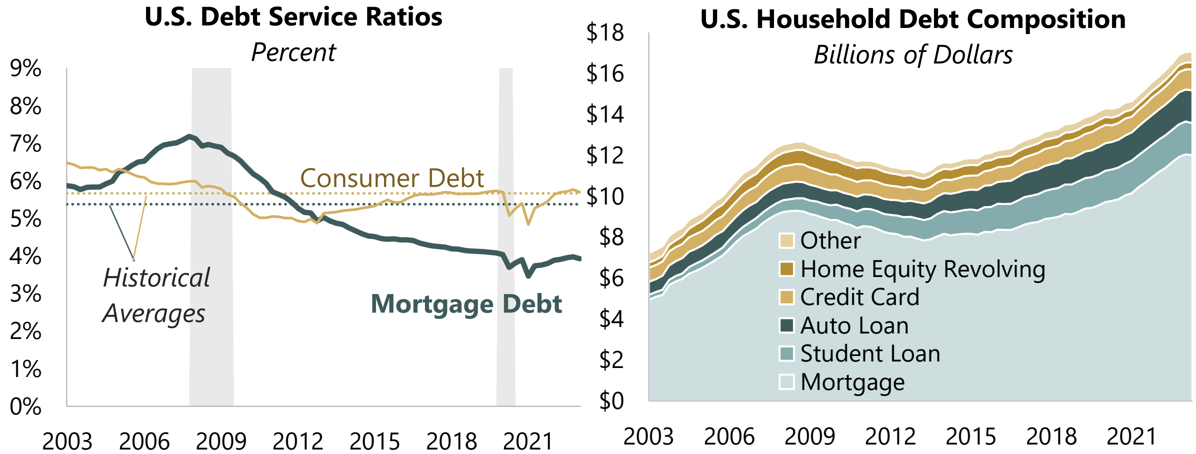


Source: U.S. Bureau of Economic Analysis. Data are shown as seasonally adjusted annual rates.
**The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. The historical average is the average from 1980 to present.*

The savings rate reached a trough of 2.7 percent in June 2022, its lowest level since 2005. Personal savings rebounded through March 2023 reaching 4.6 percent, still well below the historical average of 7.5 percent. However, the personal savings rate has stagnated since March, falling to 3.5 percent in August. 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. This is one sign that household finances may be strained.

Despite low savings, the level of household debt is consistent with a healthy economy. Debt service ratios measure the percentage of households' disposable income that is obligated toward mortgage payments and consumer debt. Higher ratios imply that households will have less available to spend on additional goods and services, and may be more likely to default on debt. Consumer debt as a percentage of disposable income is on the rise since dropping substantially in 2020, but remains similar to the historical average and pre-pandemic levels. Mortgage debt fell steadily between the 2008 financial crisis and the 2020 pandemic-induced recession. The mortgage debt ratio has risen slightly in the past year, but remains well below the historical average. Overall, 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 18
Household Debt



Source: Federal Reserve Board of Governors. Data are through 2023Q1 (left) and 2023Q2 (right).

Consumer Activity

Consumer spending is the main driver of the U.S. economy and remains relatively stable amidst lower household savings, higher interest rates, tightening credit conditions, and fluctuating inflationary pressures. The resilient labor market and healthy household balance sheets continue to drive year-over-year growth in consumer demand. Despite recent improvements in consumer confidence, overall consumer sentiment remains significantly lower than during the pre-pandemic period and consumer expectations of a recession remain elevated. Low household financial expectations and consumer confidence pose downside risk to consumer activity.

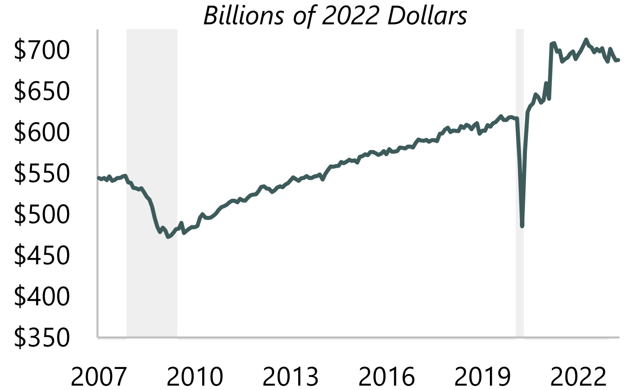
Real U.S. consumer spending continues to grow, but at a decelerating pace. In the second quarter of 2023, advanced estimates indicate real (inflation-adjusted) personal consumption expenditures rose at an annualized 1.7 percent rate, slower than the 4.2 percent pace in the prior quarter but consistent with growth rates in 2022. Durable goods spending contributed to the slower growth in the second quarter following a spike in first quarter durables spending at an annualized growth rate of 16.3 percent. The first quarter surge was largely due to exuberant sales of motor vehicles and parts, contributing to the fastest rate of durables spending growth since early 2021. Growth in nondurable goods spending remains low following the spike in nondurable goods spending during the pandemic. The forecast expects positive yet decelerating growth in consumer spending through 2023 before consumer activity picks up again and inflation recedes.

Spending on services also contributed to the positive but slowing second quarter growth rate. Services spending has increased each quarter from 2021 through the first half of 2023, likely as a result of pent-up demand and a rebound in employment following the pandemic. However, consumer activity has slowed with sticky inflation, rising interest rates, and the recently relaxing labor market. In the second quarter, services spending grew at an annualized rate of 2.2 percent compared to 4.6 percent and 12.3 percent in the second quarters of 2022 and 2021, respectively.

Services are bolstered by spending on health care, transportation, and recreation, and are dampened by a decline in spending on food services and accommodations. The latter saw an annualized decline of 1.1 percent in the second quarter of 2023. Growth is expected to slow through the forecast period as pent-up demand for services wears off.

Inflation is expected to outpace retail sales until 2024. Although the nation's retail trade and food services sales were up 3.2 percent through July 2023, sales failed to keep up with prices. In fact, accounting for inflation, the nation's real retail trade and food services sales were down by 0.1 percent through the first seven months of 2023. Sales were down in areas such as gasoline stations, furniture and home furnishings, electronics and appliances, and building materials and garden supplies. In contrast, spending continues to grow in areas such as nonstore retailers and food services and drinking places, which realized year-over-year growth rates of 10.3 percent and 11.9 percent, respectively, in July 2023.

Figure 19
Real U.S. Retail and Food Service Sales
Billions of 2022 Dollars



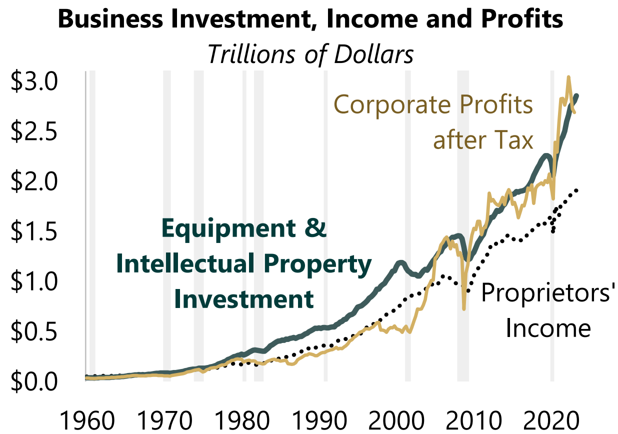
Source: U.S. Census Bureau. Adjusted for inflation using the CPI-U for all U.S. urgan areas. Seasonally adjusted data through July 2023.

Business Activity

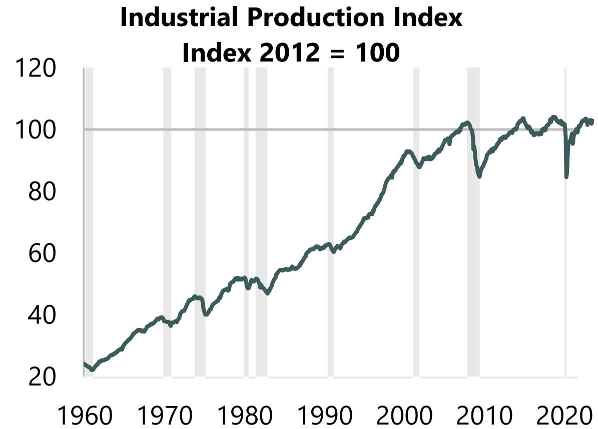
Growth in business activity is slowing after its post-pandemic surge but remains near historical highs. After unprecedented growth beginning in mid-2020, U.S. corporate profits after tax have slowed but still remain near historical highs (Figure 20, left). In the first quarter of 2023, U.S. corporations reported profits close to $2.7 trillion, down 5.1 percent from the same quarter one year ago, but still well above pre-pandemic levels. Corporate profits after tax have been bolstered by higher prices, and despite inflationary pressures easing, many companies have maintained or continued raising prices. Similar to U.S. corporate profits after tax, proprietors' income has been steadily growing since mid-2020. U.S proprietors' income was $1.9 billion in the second quarter of 2023, up 3.8 percent compared to same quarter last year. Finally, despite higher interest rates, businesses continued to invest., Significantly, investment in nonresidential intellectual property and equipment grew at a healthy pace, up 12.3 percent from the year prior.

Several key indicators show weakening business activity in the first half of 2023. Total industrial production, which measures real output from manufacturing, mining, and utilities, has stalled. Industrial production showed virtually no growth over the year ending in July 2023, with production up just 0.2 percent (Figure 20, right). Monthly data show that industrial output has flagged, with declining production in utilities barely offset by increases in manufacturing and mining output.

Figure 20
Selected U.S. Indicators of Business Activity



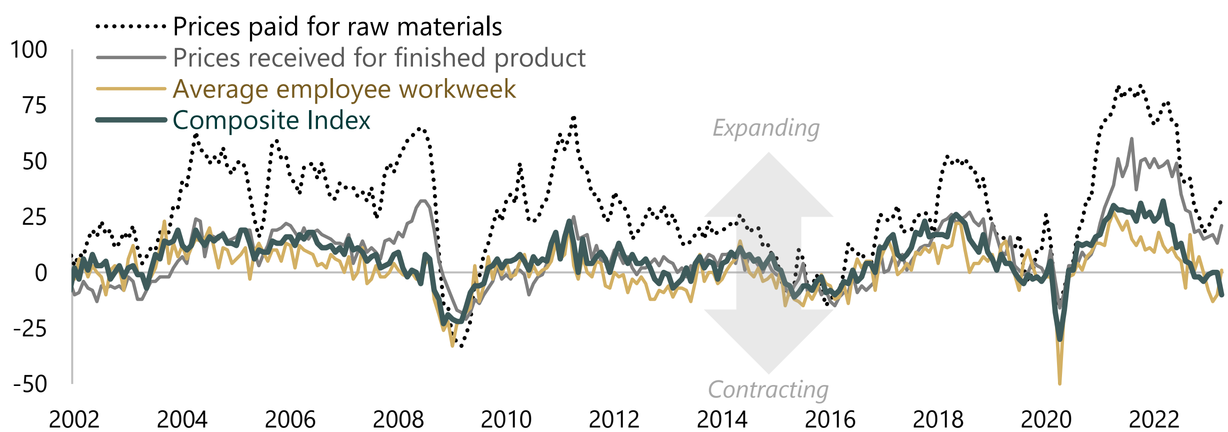
Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data through 2023Q1.



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

Reflecting signs of weakening business activity at the national level, business activity in the Tenth Federal Reserve District (which includes Colorado and several surrounding states) has started to decline. The manufacturing index shown in Figure 21 represents the share of survey respondents reporting increases or decreases in various indicators of manufacturing activity compared to the month prior. Since October, the composite index has had a value of zero or less, indicating that manufacturing is contracting slightly.

Figure 21
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 reported declines in these areas than increases. The majority of survey respondents indicated prices of raw inputs were still increasing, but the number of respondents reporting increases has declined sharply since April

2022, evidence that supply chain issues are easing. The diffusion index for the 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.

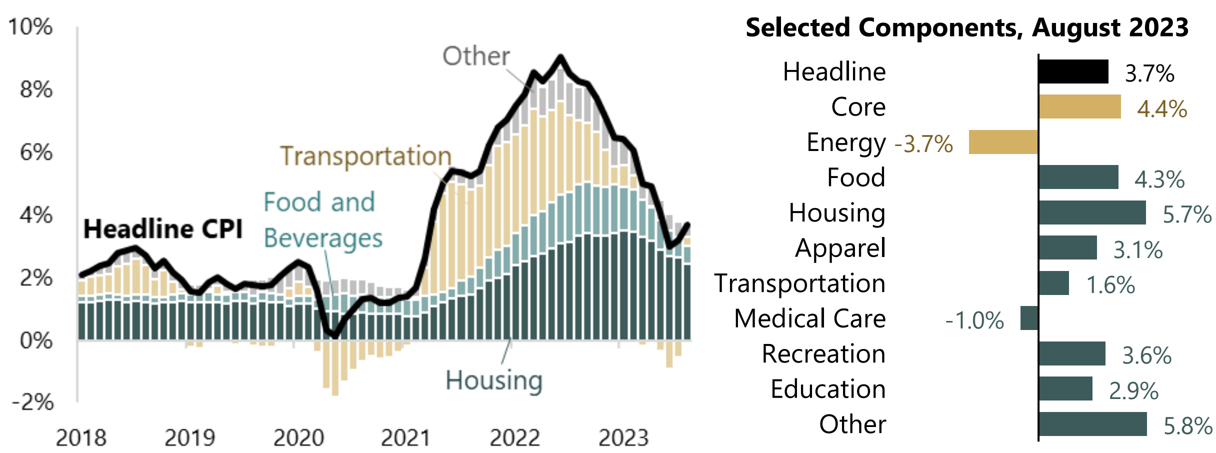
Inflation

Inflation remains elevated nationwide, and has ticked up in the past two months. Inflation has slowed significantly since its historic surge in 2022, but remains higher than its historical normal level. As measured by the U.S. city average consumer price index (CPI-U), the average change in the price of goods and services faced by consumers peaked in June 2022, with average prices 8.9 percent higher than they were in June 2021. Inflation has moderated considerably since, to 3.7 percent year-over-year, but remains higher than it was pre-pandemic.

- Headline prices for U.S. urban consumers are expected to rise by 4.6 percent in 2023 and 3.0 percent in 2024.

Housing costs are the primary driver of inflation in recent months. The surge in inflation in early 2022 was boosted by energy prices, but inflationary pressure from energy dissipated quickly after. However, gas prices increased by 10.5 percent between July and August, pushing up headline inflation in August. Figure 22 (left) shows the contributions to headline CPI by major components.

Figure 22
Contributions to U.S. Consumer Price Index (CPI-U) Inflation
Percent Change in Prices, Year-over-Year



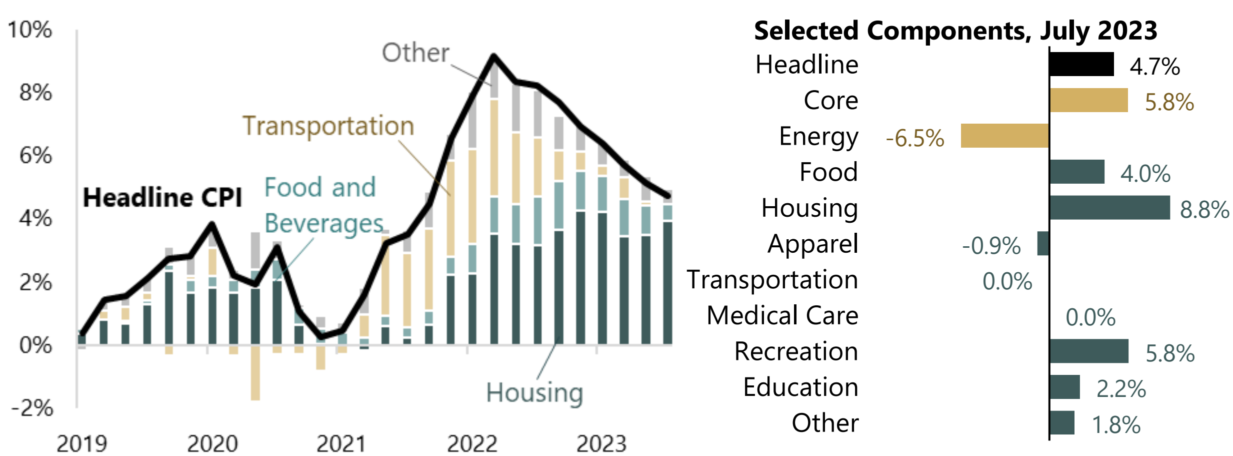
Source: U.S. Bureau of Labor Statistics.
Headline inflation includes all products and services. Transportation includes new and used vehicles, vehicle parts, and motor fuel. Housing includes the cost of rent, homeowner rental equivalent, utilities, and other housing costs.

High year-over-year inflation is still driven primarily by rising housing costs. Housing is by far the largest component of the CPI and currently makes up about 44 percent of U.S. consumer prices. The housing component includes costs for rent payments (or for homeowners, the cost a homeowner would pay to rent their home), utilities, and other housing-related goods and services. Because the housing component of the CPI includes prices paid by all households rather than just those moving to a new home, the housing component tends not to change quickly in aggregate, as most renters' payments are not subject to change on a monthly basis. Housing costs are up 5.7 percent year-over-year in August, 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 working at home requires more space. Because the shift to remote work is expected to be persistent, demand for housing is likely to stabilize at this new, higher level, meaning that prices are not likely to come back down but are expected to increase at a slower rate moving forward. However, month-over-month growth in housing prices increased slightly in each of the last three months, suggesting that housing inflation may persist.

Inflation in Denver-Aurora-Lakewood is higher than the nation, and falling more slowly. As at the national level, headline inflation in Colorado peaked early last year and has fallen steadily, but more slowly, since. Figure 23 shows the recent path of headline inflation and inflation among select components, as measured by the Denver-Aurora-Lakewood consumer price index. In March 2022, year-over-year headline inflation reached 9.1 percent and has since declined to 4.7 percent as of July 2023, significantly higher than the nation's 3.3 percent.

- Headline inflation in the Denver-Aurora-Lakewood combined statistical area is expected to be slightly higher than the U.S., at 4.9 percent in 2023 and 3.2 percent in 2024.

Figure 23
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.

As is the case nationally, housing 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. Housing prices are up 8.8 percent year-over-year,

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

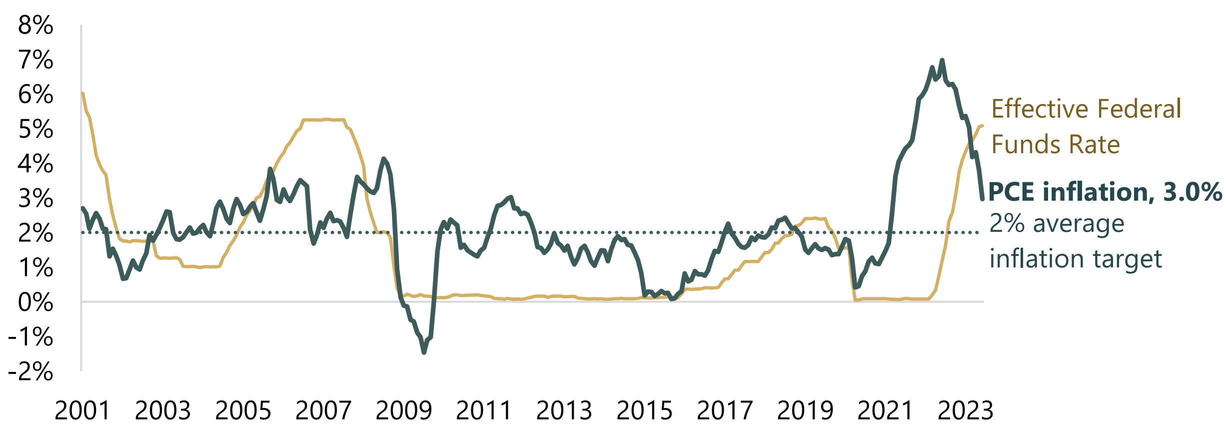
compared to 6.2 percent for the nation, as the Denver area has a higher percentage of remote workers and tends to have a tighter housing market. Increases in rental prices have been a large, sustained contributor to inflation over the past year. Housing inflation is expected to cool slowly throughout the forecast period, but will put upward pressure on inflation in the near term.

Monetary Policy

The Federal Reserve is expected to slow rate hikes moving forward. The Federal Reserve uses changes to its balance sheet and its benchmark interest rate, the federal funds rate, to promote maximum employment and a long term average of 2 percent inflation. In response to high inflation, the Federal Reserve has increased the range for the federal funds rate by a combined 5.25 percentage points across eleven rate hikes since the beginning of 2022. In conjunction with rate hikes, the Fed also began reducing its balance sheet, first by tapering asset purchases and then by allowing a portion of its traditional portfolio of U.S. treasuries to mature without replacement. Increasing the federal funds rate increases other short- and medium-term interest rates and asset prices, while reducing the balance sheet is more likely to impact long-term interest rates and assets.

The effective federal funds rate is now at its highest level since 2007, while inflation, as measured by the personal consumption expenditures price index, remains above the Federal Reserve's 2 percent average inflation target (Figure 24). Rising interest rates tend to impact the economy with a lag, such that impacts of interest rate hikes in the past year may further slow inflation moving forward, even in the absence of more rate hikes. However, the Federal Reserve targets inflation *averaging* 2 percent over time, meaning that the Fed may aim to have inflation fall below 2 percent after having inflation persistently above the target, which could result in more aggressive monetary policy if above-target inflation persists.[3]

Figure 24
Personal Consumption Expenditures Inflation and the Federal Funds Rate
Percent / Year-Over-Year Percent Change



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

[3] Federal Open Market Committee. Statement on Longer-Run Goals and Monetary Policy Strategy. https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf

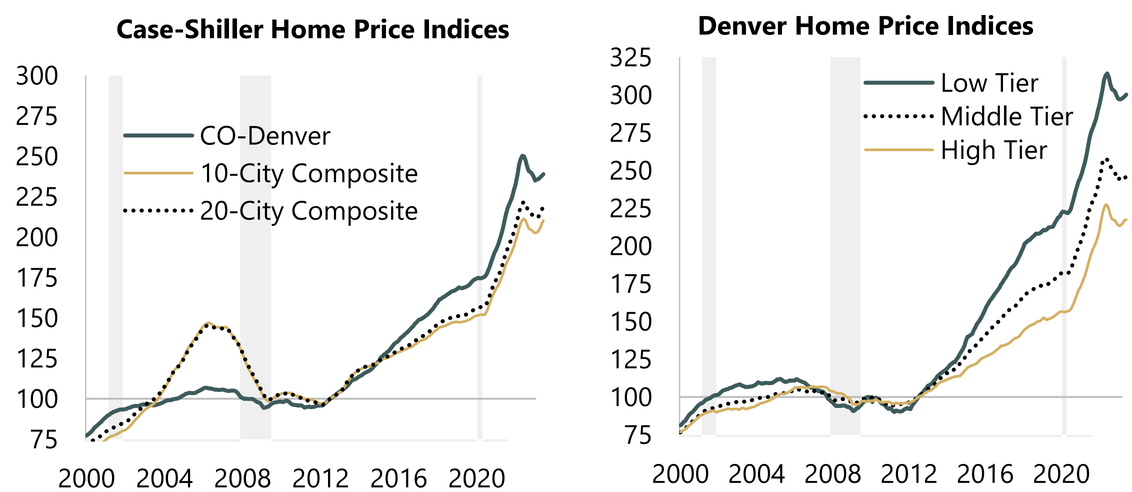
There is still uncertainty regarding the effect of these changes on prices, and whether the Federal Reserve can engineer a soft landing amid shifting geopolitical tensions, banking liquidity concerns, and high housing costs. Tightening monetary policy raises new demand-side risks as access to credit for would-be borrowers, including homebuyers, becomes scarce. Inflation is expected to remain above the Federal Reserve's target through 2023 and well into 2024.

Real Estate and Construction Activity

U.S. and Colorado home prices remain down in 2023. Home prices have fallen since peaking in mid-2022, but have increased somewhat since January 2023. In June, prices in the Case-Shiller 20-city composite index were up 3.3 percent since January, but remained down 1.2 percent year-over-year (Figure 25, left). Denver posted larger declines after surging faster than the nation during the post-pandemic recovery, and has posted a slower increase over the first five months of 2023. In Denver, the Case-Shiller index showed prices were up 1.7 percent from January to June, but were down 4.4 percent year-over-year (Figure 25, right).

Interest rates have impacted prices and home sales throughout Colorado and the nation. In August, the rate for a new 30-year mortgage was 7.0 percent, up from 5.2 percent from the same period last year. Although the forecast assumes that the Federal Reserve will slow the pace of its rate hikes, further rate increases, monetary tightening, and jumps in mortgage rates could further impact prices over the forecast period. The outlook anticipates prices will remain down from 2022 levels in 2023. Prices are expected to decrease nationally in 2024, though Colorado home values are expected to remain stable as an end to interest rate hikes will lead to sturdier demand.

Figure 25
Selected Home Price Indicators
Index 100 = July 2012



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

Homebuilders are responding with decreased activity. According to the U.S. Bureau of Economic Analysis, real (inflation-adjusted) residential investment activity for the nation remained down through the second quarter of 2023, falling 4.2 percent on an annual basis from the first quarter. Correspondingly, new housing starts in the U.S. were down nearly 19 percent through July year-to-date for single family homes, and were down 5.2 percent for multifamily units. Housing starts for the nation are expected to end the year down about 11 percent compared with 2022. In 2024, a rebound is expected for single family housing, while multifamily housing is expected to contract. Overall, housing starts are expected to fall by about 1 percent in 2024 before rebounding in 2025.

In Colorado, builders continue to face considerable headwinds in responding to low inventory, including construction supply chain disruptions and a shortage of skilled labor. However, the outlook for 2023 has improved with recent data, with a smaller drop in construction activity expected for the year.

- Residential construction activity in Colorado is expected to fall from its still-elevated level, with the number of permits issued declining by 11 percent in 2023 before rebounding to grow 2 percent in 2024.

Nonresidential construction expands in the U.S., but slows in Colorado. U.S. nonresidential construction spending, not adjusted for inflation, was up 9 percent in 2022 compared to the previous year, and was up by 17.6 percent year-to-date through the first half of 2023. Over the past year, spending was boosted by manufacturing and highway and street infrastructure, up about 80 percent and 20 percent, respectively. Real spending on nonresidential structures as measured by the U.S. Bureau of Economic Analysis was up 9.7 percent in the second quarter of 2023 on a seasonally adjusted annual basis, and is expected to grow at a strong pace through the year as the market rebounds from the post-pandemic slump. However, nonresidential investment in structures is expected to decelerate in 2024 with elevated interest rates.

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

- The value of nonresidential construction starts in Colorado is expected to decline in 2023, dropping by 5 percent in 2023 before rebounding to grow by 2.7 percent in 2024.

Energy Markets

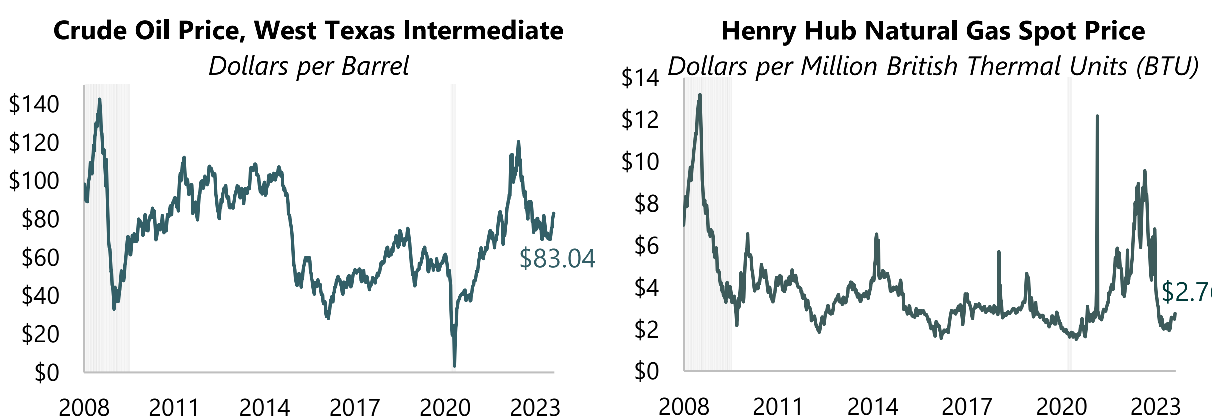
Oil and gas prices are falling in 2023; a moderate rebound is expected for 2024. Oil and gas prices have decreased significantly since peaking in mid-2022. The average monthly oil price in July 2023 was down 34 percent from its peak in June 2022 (Figure 26, left). Natural gas prices were down 71 percent from their August 2022 peak (Figure 26, right). Both markets reflected 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 $78 per barrel, an 18 percent decline from the 2022 average, and the Henry Hub spot price is expected to decline by nearly 60 percent to $2.68 per million British thermal units (BTU).

The latest report from the Energy Information Administration (EIA) expects higher oil prices over the next year than in prior forecasts. Notably, voluntary production cuts from Saudi Arabia combined with higher forecast global demand have raised the EIA's latest forecast for 2024 to $81.48 per barrel, up from $69.47 in May. The forecast now anticipates modest price growth in 2024, before a contraction in 2025 to around $73.84. The higher price outlook is expected to support more U.S. oil production in addition to gains from improved well productivity.

Natural gas production continues to increase in the U.S. while declining in Colorado. The EIA notes that a large contributor to national growth has been gas produced from oil wells, which has increased along with rising oil production. The influx of supply has dampened prices, set to fall by nearly 60 percent in 2023 to $2.68 per million BTU, steeper than the 55 percent decline the EIA projected in May. Low prices and rising production will contribute to larger-than-average inventories through 2024 and moderate price pressure. Although prices are expected to grow modestly in 2024 to $3.22, the EIA downgraded its outlook for the year by 13 percent since May. For Colorado, low prices will continue to impact the state's production.

Refinery outages have put upward pressure on retail gasoline prices in 2023. After rising to start 2023 due to refinery outages, lower crude oil prices have begun to lead to lower retail gasoline prices. In August, the average price of a gallon of regular gasoline in the U.S. was down 15.3 percent year-to-date. However, gasoline prices are expected to fall by a smaller percentage than oil prices by the end of 2023. Retail gasoline prices in 2023 are expected to average just 10 percent lower than 2022 due to summer and fall refinery outages that will lead to lower inventories. Easing price pressures in 2024 are expected to cause the price of gas to fall by just over 3 percent over the next year. In Colorado, retail regular gasoline prices have averaged about 3 percent higher than the U.S. average in 2023 year-to-date due in part to outages at the Suncor Refinery in the first half of the year.

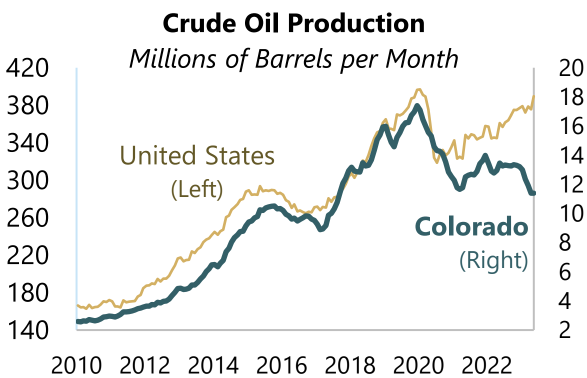
Figure 26
U.S. Energy Prices



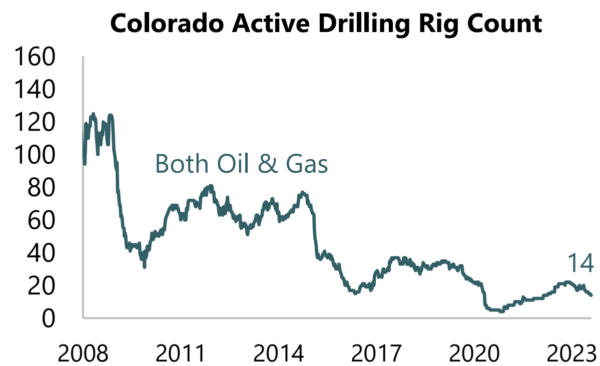
Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of August 11, 2023.

Recovery of oil and gas production in Colorado lags behind the nation. During the post-pandemic recovery, U.S. crude oil production rebounded, while Colorado's production experienced a larger pull-back and a slower recovery (Figure 27, left). Colorado's oil production stagnated over the latter half of 2022, and was down 15.3 percent year-to-date in May 2023. In contrast, U.S. production was up 7.9 percent year-to-date. As of June 2023, Colorado had 14 active drilling rigs, down from 22 as recently as December 2022, and from a monthly average of 30 active rigs in 2019 (Figure 27, right). Like oil, U.S. natural gas production has rebounded, while Colorado's production continues to trend downward. The EIA anticipates U.S. crude oil and gas production will continue to increase through 2024. However, price declines are expected to weigh on Colorado's oil and gas production over the next year, resulting in flat or declining production in the state.

Figure 27
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 May 2023.



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

Agriculture

The outlook for the U.S. agricultural economy generally remains positive, with persistent headwinds dampening farm income in 2023 following multiple years of strong growth. Higher interest and other expenses increase the costs of production, yet prices of key crops and livestock remain elevated. Measures of financial stress remain historically low in the Federal Reserve's Tenth District, which includes Colorado, with balance sheets bolstered by multiple years of strong incomes.[4]

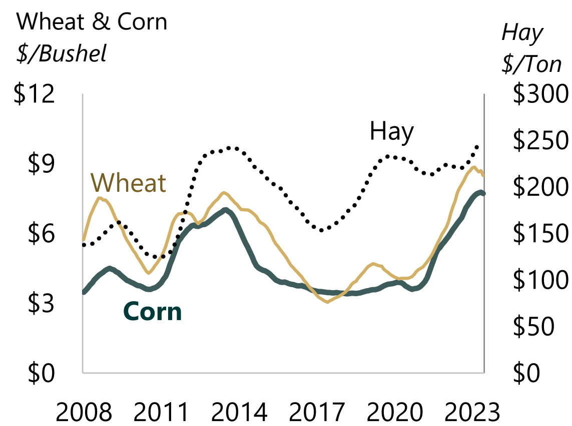
Most agricultural prices remain elevated, but milk and egg prices retreat. A nationwide index of agricultural prices declined by less than 1 percent in the second quarter of 2023, remaining well above recent historical averages. Price declines in major commodities, including dairy, corn, and chicken eggs offset increases in broilers and cattle. Growth in crop supplies during 2023 is expected to put downward pressure on prices, while ongoing disruptions in the Black Sea region and weather developments in the U.S. contribute to heightened uncertainty.

[4] 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.

Declining beef cow herds have pushed cattle prices to historically high levels. Wheat prices have seen increased volatility following the expiration of the Black Sea export corridor agreement between Russia and Ukraine in mid-July.

Colorado corn, wheat, and hay prices soared in 2021 and 2022, with 12-month moving averages still at or near new peaks through June 2023 (Figure 28). Colorado wheat came off a record high of $10.30 per bushel reached in June 2022 to settle just below $8.00 per bushel in June 2023, while corn prices declined from highs of over $8.00 per bushel to $7.24 per bushel. Hay prices, however, have yet to peak, reaching a multi-year high of $279 per ton in May and June 2023.

Figure 28
Prices Received for Colorado Crops



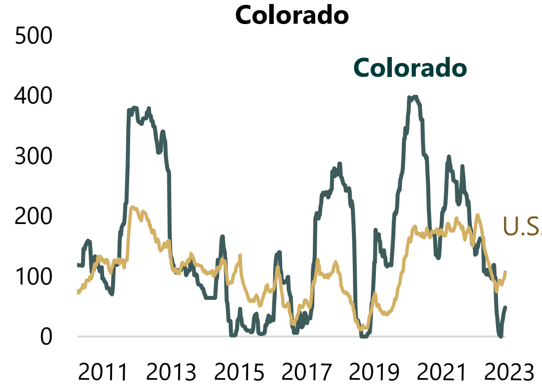
Source: National Agricultural Statistics Service. Data shown as twelve-month moving averages. Data through June 2023.

Farm income moderates in 2023 with thinner profit margins for major commodities. After multiple years of strong growth, U.S. farm income moderated during the first half of 2023 as commodity prices softened and production costs remained elevated. Higher farm loan interest rates and weather volatility are key headwinds for producers. Drought followed by heavy rains interfered with the winter wheat planting and harvest in Colorado and elsewhere. Tenth District farmland values continued to grow, but at a slower pace than the surge of recent years. Strength in farm finances during recent years continued to support agricultural credit conditions, with farm loan performance measures softening, but remaining historically strong through early 2023.

Food price inflation continues to ease. Food price inflation continues to ease, but at 4.9 percent in July 2023 remains above the 20-year historical average of 2.8 percent. Month-over-month, prices for four food-at-home categories declined, with the largest percentage decline, 2.2 percent, in egg prices. While an outbreak of highly pathogenic avian influenza (HPAI) reduced the U.S. egg-layer flock in 2022, retail egg prices have declined since peaking in January 2023, with no new confirmed case of HPAI in egg layers since December 2022. Egg prices increased by 32 percent in 2022 and, according to the USDA food price outlook, are expected to increase by only 1.0 percent in 2023. Overall food price inflation is expected to slow to 5.9 percent, with expected price increases for ten food-at-home categories, ranging from 3.0 percent for poultry to 9.3 percent for sugar and sweets.

Drought conditions shift from the eastern plains to southwest Colorado. For the first time since 2019, Colorado was drought free in July 2023, according to the U.S. Drought Monitor. The area of no drought has since declined, to 70 percent in early August. Drought has receded entirely from the eastern plains during the summer, but reappeared in the southwest mountain and San Luis Valley regions due to a weak summer monsoon. The area of moderate to exceptional drought has expanded from 1 percent in early June to 16 percent in late August 2023, but conditions remain much improved over recent years, according to the Drought Severity and Coverage Index (Figure 29).

Figure 29
Drought Severity and Coverage Index, Colorado



Source: United States Drought Monitor. Data through August 22, 2023.

Global Economy and International Trade

Lackluster economic growth, sticky inflation, and the ongoing central bank tightening continue to weigh on global growth in 2023. Risks of an economic downturn remain elevated worldwide. The International Monetary Fund (IMF) projects growth in global economic output will fall from an estimated 3.5 percent in 2022 to 3.0 percent in both 2023 and 2024, still well below the historical average of 3.8 percent. The resolution of U.S. and Swiss banking failures in early 2023 reduced immediate risks of turmoil in the financial sector. Despite this, the IMF identifies instability in China's real estate sector plus policy tightening by central banks as ongoing downside risks to the global financial sector.

Despite a short rebound of activity in early 2023, China's economy is faltering. As supply chains normalized following the end of China's lockdown policies during the pandemic, manufacturing and consumption rebounded in the first quarter of 2023. However, with one quarter of China's gross domestic product reliant on real estate, China's struggling housing sector is weighing on foreign demand, investment, and unemployment. Two of China's major property developers—Evergrande and Country Garden—have respectively either filed for bankruptcy or are at risk of default. Youth unemployment rates were at a record high of 21.3 percent prior to China pausing reportage of the data in August 2023, and the Chinese economy faces deflation.

While China battles economic instability and deflation, the rest of the world is experiencing varying rates of inflation across borders and industries. The normalization of supply chains has contributed to declining headline inflation in the majority of countries. However, core inflation remains sticky and central banks continued to implement restrictive monetary policy through July 2023. The IMF anticipates global inflation will fall, but more slowly than anticipated in previous outlook reports and well above central bank targets. The IMF expects global headline inflation to fall from 8.7 percent in 2022 to 6.8 percent in 2023 and 5.2 percent in 2024, well above pre-pandemic levels of about 3.5 percent.

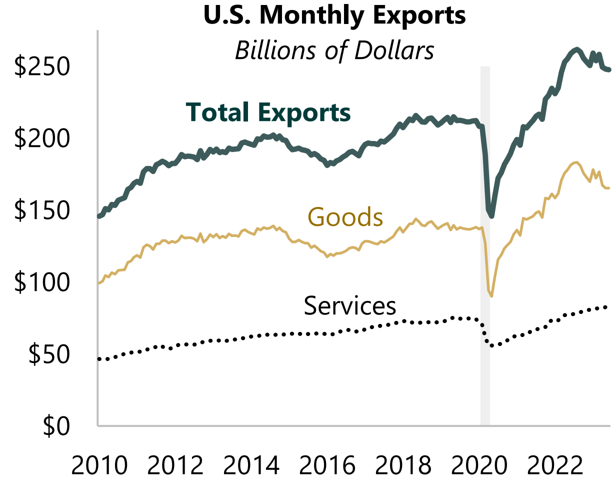
Stickier inflation raises the risk of further central bank tightening. Monetary policy tightening in 2022 through July 2023 has raised funding costs, exposed vulnerability in some banks' bottom lines, and led to a reduction in lending and strained credit markets. A sharp tightening of global financial conditions triggered by nervous investors could slow GDP growth even further, and the risk of such a deterioration remains elevated amidst substantial uncertainty.

The global economy continues to teeter between recession and a soft landing. Weakness in manufacturing led to an economic contraction in Germany in early 2023. In contrast, the IMF revised its 2023 growth expectations upward for Italy, Spain, and Japan as tourism and services expenditures exceeded expectations. Because of the resiliency of consumer activity and labor markets for most countries amidst tightening credit markets, expectations for the global economy are more optimistic than previously forecast. Still, downside risks from financial sector instability, China's slowing economy, and Russia's war in Ukraine remain and outweigh upside risks.

Slower economic growth is expected to weigh on trade. In July, the IMF outlook for global trade growth was revised downward to 2.0 percent in 2023 and 3.7 percent in 2024, down from 5.2 percent in 2022. Slower growth in global output is expected to translate into fewer imports and exports of goods and services, with much of the slowdown concentrated in advanced economies.

U.S. trade volume declined in the first half of 2023. The dollar value of U.S. trade was down 4 percent in the first half of 2023, after ending 2022 up by 16 percent from the 2021 level, according to data from WiserTrade. Key export markets include Canada, Mexico, and China, with exports to China up by just over 1 percent through June 2023, after significantly slowing from 22 percent growth in 2021 to less than 2 percent growth in 2022. Notably, imports from China are down over 25 percent through June 2023, potentially signaling shifting trade patterns as pandemic-related disruptions and U.S. trade policy spur companies to shift production hubs to Mexico and other markets closer to the U.S. Exports were down 0.8 percent through June 2023, after ending 2022 up by 17.5 percent. Comparatively, total U.S. imports are down by more than 6 percent through June 2023.

Figure 30
U.S. Monthly Exports
Billions of Dollars



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

Exports began pulling back in the second half of 2022 and have continued to decline on easing energy prices, a strong dollar, and slowing global economic growth (Figure 30). Oil and gas products, industrial and electric machinery, vehicles, and aircraft comprise the top categories of

U.S. exports. However, U.S. exports of oil and gas products are down 14 percent through June 2023. Export volumes are expected to continue to decline as tightening monetary policy slows global economic growth.

Colorado imports contract as crude oil prices decline. The dollar value of Colorado's exports and imports declined by 6 percent through June 2023, after finishing 2022 up 20 percent from 2021. Canada remains Colorado's largest trade partner. Exports to Canada were up by 9 percent and imports from Canada were down by 19 percent through June 2023, largely due to falling oil prices reducing the dollar value of crude oil imports. Other significant trading partners in 2023 include Mexico, China, and Taiwan. Key export commodities include beef (down 8 percent), surgical instruments (up 14 percent), electric machinery (up 16 percent), industrial machinery (up 12 percent), and aircraft (down 16 percent).

Risks to the Forecast

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

Downside risks. The principal downside risk, discussed throughout this outlook, is that tightening monetary policy will trigger a recession. High interest rate environments raise the costs of borrowing, limiting business investment and credit-sensitive consumer activity. The goal of high rates is to constrain activity enough to rein in inflation, but too aggressive a course would break the expansion rather than nurturing its recovery. Because the impacts of monetary policy occur with a lag, the risks of recession are expected to persist throughout the forecast period.

Consumer spending is expected to drive growth if spending can outpace inflation. However, inflation remains high and is eroding the majority of the nominal increase in household incomes, while households spend down the savings cushion built up during the pandemic. Stickier inflation than expected could erode household balance sheets further and cause spending to decline in real (inflation-adjusted) terms, a "stagflation" scenario where inflation subsumes growth opportunities.

Finally, the economy is in a fragile state. Outside shocks due to unforeseen national or international events are more likely than usual to push the economy off of its growth trajectory. China's faltering economy has emerged as one key risk in this regard.

Upside risks. The forecast expects inflation to dissipate, but a faster-than-expected decline in inflation would allow for healthier economic gains while eliminating the need for further interest rate hikes. The forecast expects that opportunities for further employment growth will be limited by business spending and labor supply, but a rebound in productivity growth, or higher-than-expected job growth would promote a stronger near-term expansion than expected.

Table 20
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	$20,014.1	$20,414.4	$20,659.4	$21,124.2
Percent Change	2.9%	2.3%	-2.8%	5.9%	2.1%	2.0%	1.2%	2.2%
Nonfarm Employment *(Millions)*[2]	148.9	150.9	142.2	146.3	152.6	156.3	158.3	159.9
Percent Change	1.6%	1.3%	-5.8%	2.9%	4.3%	2.4%	1.3%	1.0%
Unemployment Rate[2]	3.9%	3.7%	8.1%	5.3%	3.6%	3.5%	3.6%	3.8%
Personal Income *(Billions)*[1]	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,777.2	$22,974.9	$24,215.6	$25,474.8
Percent Change	5.0%	5.1%	6.7%	7.4%	2.3%	5.5%	5.4%	5.2%
Wage and Salary Income *(Billions)*[1]	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,189.6	$11,849.8	$12,513.4	$13,189.1
Percent Change	5.0%	4.8%	1.4%	8.8%	8.7%	5.9%	5.6%	5.4%
Inflation[2]	2.4%	1.8%	1.3%	4.7%	8.0%	4.6%	3.0%	2.8%

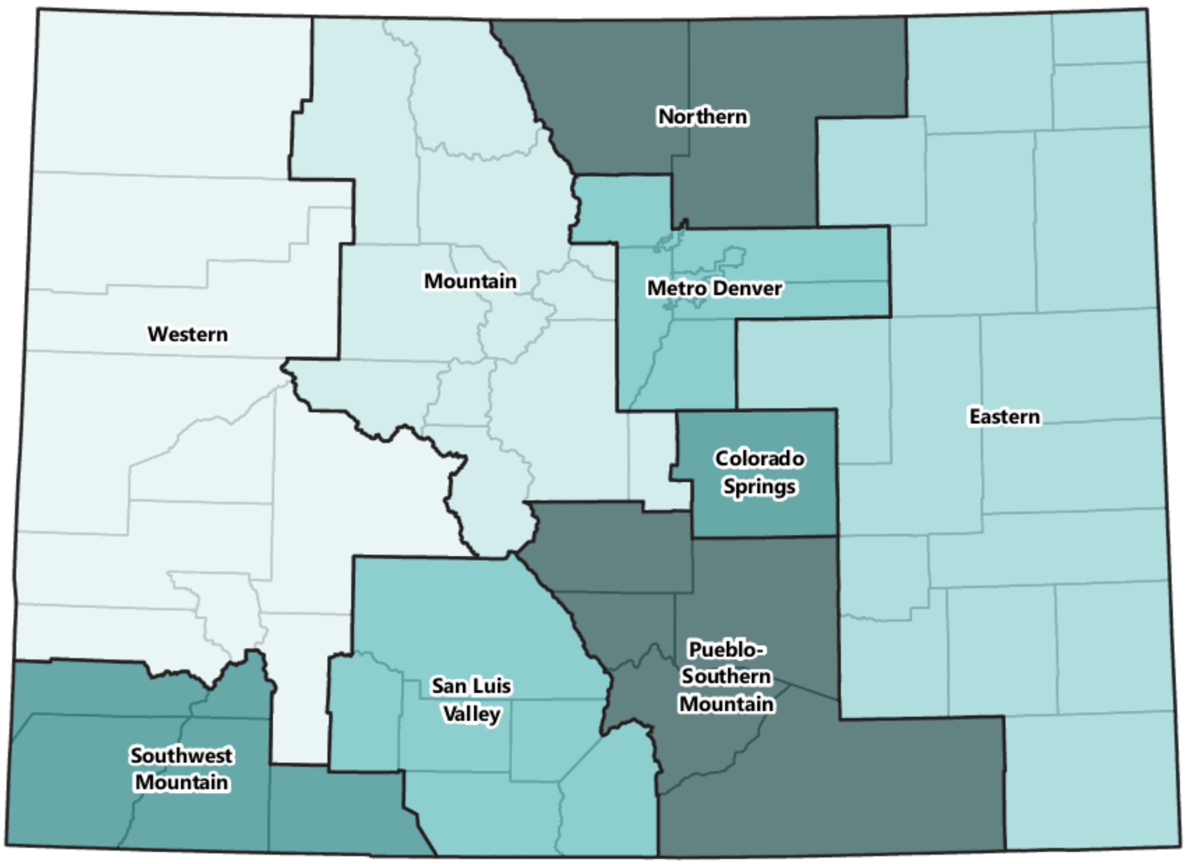
[1]U.S. Bureau of Economic Analysis. Real gross domestic product (GDP) is adjusted for inflation and shown in 2012 dollars. Personal income and wages and salaries not adjusted for inflation.
[2]U.S. Bureau of Labor Statistics. Inflation shown as the year-over-year change in the consumer price index for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

Table 21
Colorado Economic Indicators

						Legislative Council Staff Forecast		
Calendar Years	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Population (*Thousands, as of July 1*)[1]	5,697.2	5,758.5	5,773.7	5,811.3	5,839.9	5,895.4	5,956.1	6,016.9
Percent Change	1.4%	1.1%	0.3%	0.7%	0.5%	1.0%	1.0%	1.0%
Nonfarm Employment (*Thousands*)[2]	2,727.3	2,790.1	2,652.7	2,750.9	2,864.9	2,927.9	2,966.0	2,998.6
Percent Change	2.5%	2.3%	-4.9%	3.7%	4.1%	2.2%	1.3%	1.1%
Unemployment Rate[2]	3.0%	2.7%	6.8%	5.4%	3.0%	2.9%	3.1%	3.3%
Personal Income (*Millions*)[3]	$331,851	$356,341	$378,051	410,948	433,128	$455,218	$481,621	$505,220
Percent Change	7.3%	7.4%	6.1%	8.7%	5.4%	5.1%	5.8%	4.9%
Wage and Salary Income (*Millions*)[3]	$170,808	$182,958	$187,611	205,271	226,853	$239,330	$252,732	$267,896
Percent Change	6.1%	7.1%	2.5%	9.4%	10.5%	5.5%	5.6%	6.0%
Housing Permits (*Thousands*)[1]	42.6	38.6	40.5	56.5	48.8	43.5	44.4	49.1
Percent Change	4.8%	-9.4%	4.8%	39.7%	-13.6%	-10.9%	2.0%	10.6%
Nonresidential Construction (*Thousands*)[4]	$8,151.0	$5,161.5	$5,600.0	$5,682.0	$6,710.0	$6,374.5	$6,546.6	$6,664.5
Percent Change	32.5%	-36.7%	8.5%	1.5%	18.1%	-5.0%	2.7%	1.8%
Denver-Aurora-Lakewood Inflation[5]	2.7%	1.9%	2.0%	3.5%	8.0%	4.9%	3.2%	2.7%

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

Colorado Economic Regions

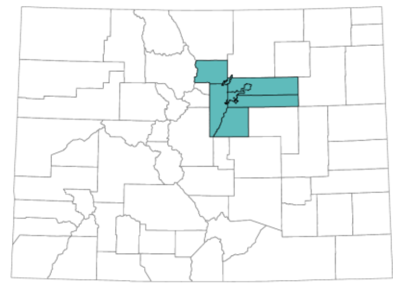


A Note on Data Revisions

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

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

Metro Denver Region



The seven-county metro Denver region holds the largest share of the state's population, representing more than 60 percent of the state's workers. The region's economy is very diverse with major industry sectors including aerospace, health care, professional and business services, and financial services. The region showed strength in most areas despite a rocky economy in 2022. Job growth continued to advance and the average unemployment rate for the region fell by more than 2 percentage points. Nonresidential construction was mixed with some building types, such as warehouse construction, performing well, while new office building construction continued to struggle. Home price appreciation reversed at midyear and more houses became available on the market. Yet the region continues to struggle with housing affordability, causing potential homeowners to look for homes outside these counties, and in turn slowing the region's residential construction activity. Economic indicators for the region are summarized in Table 22.

Table 22
Metro Denver Region Economic Indicators
Adams, Arapahoe, Broomfield, Boulder, Denver, Douglas, and Jefferson Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]					
Denver-Aurora-Lakewood MSA	2.4%	-4.9%	3.9%	4.7%	1.0%
Boulder MSA	2.5%	-5.3%	3.5%	4.2%	1.7%
Unemployment Rate[2]	2.5%	7.0%	5.4%	2.9%	2.8%
Wages[3]					
Average Weekly Wage Growth	5.2%	7.8%	6.5%	5.2%	NA
Level	$1,328	$1,431	$1,524	$1,603	NA
Housing Permit Growth[4]					
Denver-Aurora-Lakewood Single Family	-6.1%	1.5%	16.3%	-22.3%	-38.9%
Boulder Single Family	-9.5%	-6.2%	-34.4%	42.7%	107.3%
Nonresidential Construction Growth[5]					
Value of Projects	-37.2%	-9.7%	2.9%	36.5%	-23.6%
Square Footage of Projects	-8.3%	-6.9%	32.1%	29.0%	-46.6%
Level (*Thousands*)	15,763	14,683	19,410	24,932	4,188
Number of Projects	-11.5%	-0.6%	15.2%	14.2%	8.2%
Level	682	686	790	902	474
Housing Market[6]					
Average Sale Price – Single Family	2.7%	8.0%	19.9%	10.3%	-2.5%
Level (Thousands)	$549	$597	$712	$790	$787
Inventory – Single Family	11.2%	-38.2%	-46.4%	102.3%	34.6%
Home Sales – Single Family	5.3%	7.8%	1.9%	-21.1%	-18.5%
Retail Sales Growth[7]	8.9%	0.1%	17.4%	11.4%	2.5%

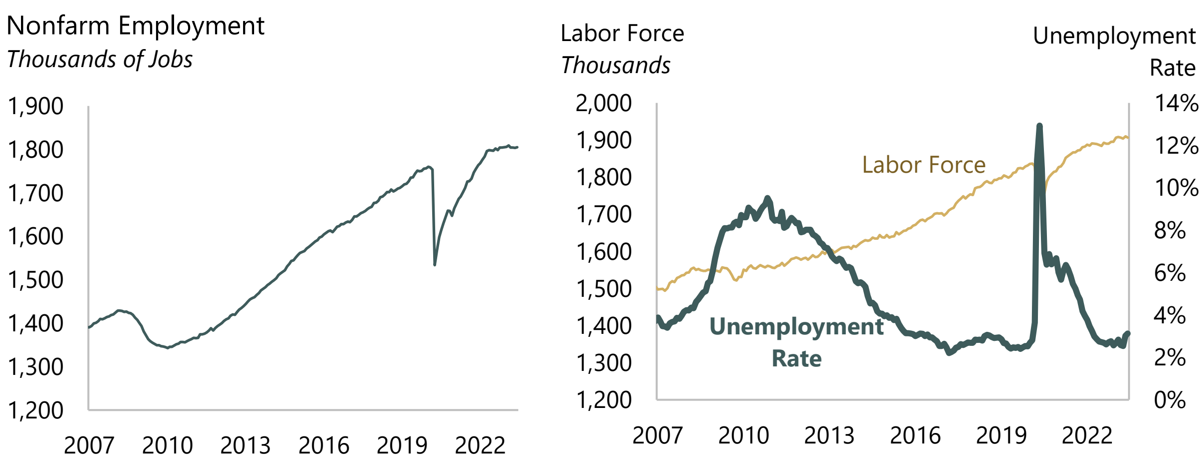
MSA = Metropolitan statistical area. NA = Not available.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through June 2023.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through June 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through 2022Q4.
[4]U.S. Census. Growth in the number of residential building permits. Data through June 2023.
[5]F.W. Dodge. Data through June 2023.
[6]Colorado Association of Realtors. Data through July 2023.
[7]Colorado Department of Revenue. Data through May 2023.

Labor market. The metro Denver labor market continues to add jobs at a steady pace. In 2022, the Denver-Aurora-Lakewood metropolitan statistical area added about 3,000 jobs per month and ended the year with close to 1.6 million total jobs, up 4.5 percent from the same period one year ago. Boulder County, meanwhile, added 3,400 new jobs, or 4.2 percent. After a slight dip in December 2020, the region has been steadily adding jobs with employment counts exceeding pre-pandemic levels in January 2022 (Figure 31, left). Job growth has occurred across most major industries, especially in the professional and business services and leisure and hospitality sectors, though the comparatively small information sector continues to shed jobs.

The unemployment rate continues to steadily tick down, averaging 2.8 percent in through the first six months of the year, although it still remains higher than the pre-pandemic low of 2.5 percent (Figure 31, right). The number of workers in the labor force (those employed and those seeking employment) exceeded pre-pandemic levels in 2021 and continues to rise, a healthy sign of area labor market improvements. The metro Denver region's diverse economy supports multiple industries, promoting a faster recovery than most other regions in the state and nation.

Finally, the region's wage growth continued to increase in 2022, but was still behind the region's inflation rate. The region's average weekly wage in 2022 was $1,603 up 5.2 percent from the prior year. However, inflation for the Denver-Aurora-Lakewood metropolitan statistical area (all items less food and energy) was up 8.0 over the same period, suggesting that average wages actually declined on an inflation-adjusted basis.

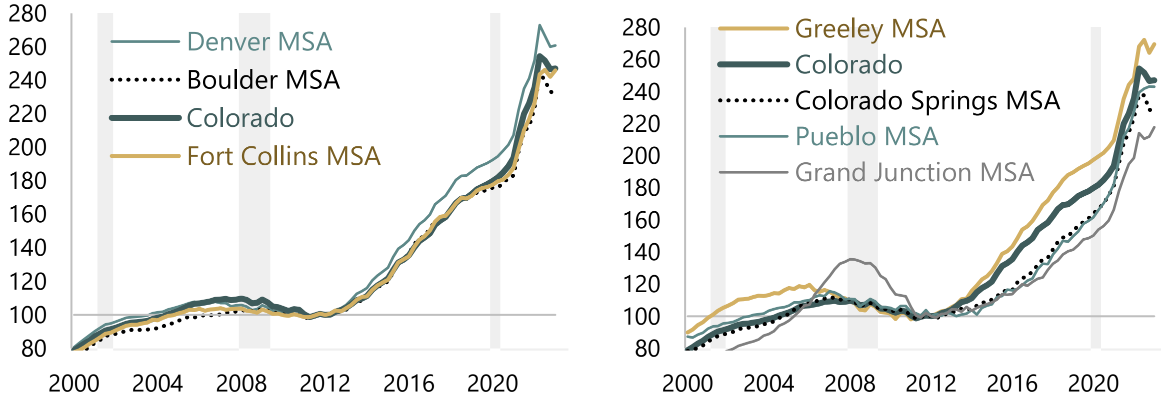
Figure 31
Metro Denver Region Labor Market Activity



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

Housing market. After rapid home price appreciation through 2021 and into early 2022, the metro Denver housing market turned around sharply over last summer and fall. According to data from the Federal Housing Finance Agency, in the first quarter of this year, home prices were up 3.5 percent over year-ago levels in the Denver-Aurora-Lakewood metropolitan statistical area, and up 2.8 percent in Boulder. However, home price increases for both areas have slowed or reversed each quarter since the third quarter of last year (Figure 32). Higher mortgage rates and inflation has made purchasing a home more expensive for many buyers and quickly cooled the market. The number of single-family homes available for sale in the region was up 34.6 percent in July from the same month one year prior, and home sales were down 18.5 percent. Despite these headwinds, housing remains expensive. The average single-family sale price settled at about $787,000 in July 2023.

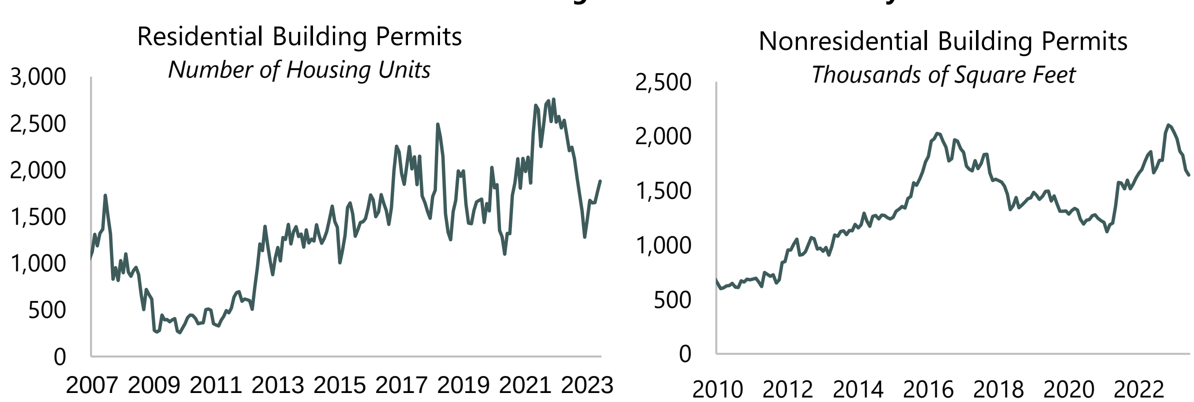
Figure 32
FHFA All-Transaction Home Price Indices
Index 100 = 2012Q1 (Gray Bars Indicate Recessions)



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

Residential construction. After robust growth in 2021, residential construction activity in the Denver-Aurora-Lakewood metropolitan statistical area has cooled. The number of single-family permits pulled by homebuilders in 2022 was down 22.3 percent over year-ago levels and 38.9 percent through the first six months of the year. (Figure 33, left). In Boulder County, the number of new single-family permits rebounded in 2022 after falling 34.4 percent in 2021. The number of single permits in Boulder is significantly up through the first six months of this year, but this mainly reflects housing permits to rebuild homes destroyed in the Marshall Fire. The lack of affordability continues to hamper new residential construction in the metro Denver region. Homebuyers are being pushed out to the suburban and exurban areas of the region that offer relatively more affordable options. Douglas, Arapahoe, and Adams counties and are seeing the highest levels of construction activity. In addition, remote work options are motivating many homebuyers to seek larger homes outside of crowded urban areas.

Figure 33
Metro Denver Region Construction Activity



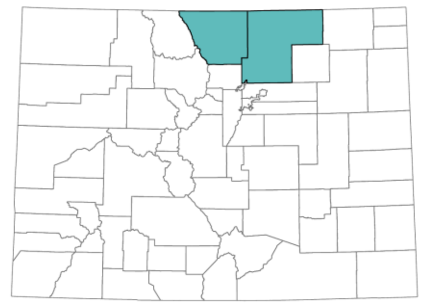
Source: U.S. Census Bureau. Data shown as three-month moving averages. Data are not seasonally adjusted and are through June 2023.

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

Nonresidential construction. Though the first six months of this year, nonresidential construction had slowed (Figure 33, right). Through June 2023, the value of nonresidential projects in the metro Denver region is down 23.6 percent. 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. Higher prices and interest rates have caused consumer spending, as measured by retail sales, to slow in the metro Denver region. Through May, retail sales were up 2.5 percent compared to the same period in 2022. The recovery continues to be aided by consumers returning to physical stores and spending at restaurants. Auto sales have also improved as supply shortages for vehicles have eased. While retail sales in the region have steadied, many companies continue to struggle with labor shortages.

Northern Region



Larimer and Weld counties comprise the diverse economies of the Northern Region. The region's labor market continues to thrive, with strong wages and consumer activity, and its unemployment rate is down to pre-recession levels. Despite the strong labor market, rising interest rates have softened the residential real estate market, slowing sales, dampening prices, and slowing construction significantly over the past year. Economic indicators for the region are summarized in Table 23.

Table 23
Northern Region Economic Indicators
Weld and Larimer Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]					
Fort Collins MSA	2.3%	-4.7%	3.7%	3.7%	1.1%
Greeley MSA	3.7%	-7.2%	-0.3%	4.5%	1.4%
Unemployment Rate[2]	2.4%	6.3%	5.2%	2.9%	2.7%
Wages[3]					
Average Weekly Wage Growth	4.3%	6.4%	3.8%	6.2%	NA
Level	$1,040	$1,106	$1,149	$1,219	NA
State Cattle and Calf Inventory Growth[4]	8.0%	1.9%	4.0%	-1.0%	-9.1%
Natural Gas Production Growth[5]	22.0%	8.3%	-2.8%	-2.3%	-3.1%
Oil Production Growth[5]	10.7%	-11.9%	-10.3%	-0.1%	-8.8%
Housing Permit Growth[6]					
Fort Collins MSA	-18.2%	-0.3%	13.3%	-19.5%	-10.6%
Greeley MSA	-2.2%	9.1%	15.5%	17.8%	-18.5%
Nonresidential Construction Growth[7]					
Value of Projects	-71.6%	85.4%	-26.9%	61.3%	-27.6%
Square Footage of Projects	-16.2%	8.1%	-1.5%	162.3%	-78.2%
Level (Thousands)	2,424	2,619	2,581	6,770	1,234
Number of Projects	-17.1%	-9.7%	-5.0%	21.8%	-27.0%
Level	267	241	229	279	89
Housing Market[8]					
Average Sale Price - Single Family	3.2%	6.9%	16.8%	12.2%	0.7%
Level (Thousands)	$426	$457	$532	$598	$605
Inventory - Single Family	14.5%	-21.7%	-44.3%	53.4%	39.9%
Home Sales - Single Family	2.7%	9.8%	2.3%	-20.4%	-20.4%
Retail Sales Growth[9]					
Larimer County	9.6%	7.6%	13.0%	12.3%	3.3%
Weld County	8.9%	-2.3%	13.6%	16.2%	6.5%

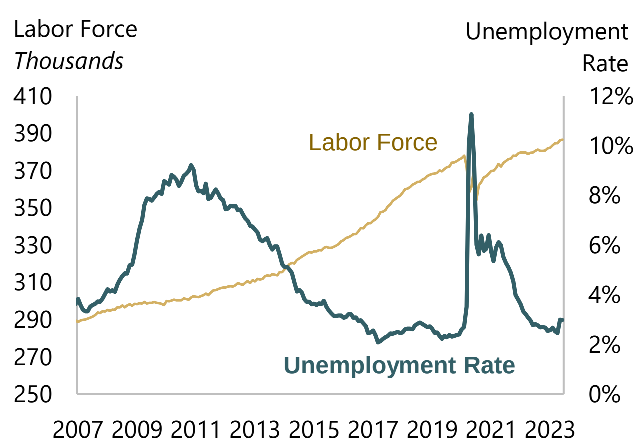
MSA = Metropolitan statistical area. NA = Not available.
[1]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through June 2023.
[2]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through June 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through 2022Q4.
[4]National Agricultural Statistics Service. Cattle and calves on feed. Data through July 2023.
[5]Colorado Oil and Gas Conservation Commission. Data through May 2023.
[6]U.S. Census. Growth in the number of residential building permits. Data through June 2023.
[7]F.W. Dodge. Data through June 2023.
[8]Colorado Association of Realtors. Data through July 2023.

Labor market. The northern region is characterized by its agricultural base, oil and gas activity, and strong employment concentrations in construction, manufacturing, and higher education. Since resurging following the recession, employment growth has decelerated and approached a rate similar to the end of the last expansion in 2019. Employment was up 1.2 percent year-to-date in the first quarter of 2023 (Figure 34, left), but is expected to be revised higher based on estimates from the Colorado Department of Labor and Employment, and to rank among the fastest growing regions in the state in 2023. Employment growth is expected to continue throughout the year with steady, but slower consumer spending and a boost from development around the Northern Colorado Regional Airport and the opening of an Amazon fulfillment center. However, data indicate challenges in several sectors that will weigh on growth through the forecast period. Positively, the region's labor force continues to grow and the unemployment rate remains near pre-pandemic lows. (Figure 34, right).

Over the past year, employment growth in the region has been supported by strong wage growth, lively retail sales, and robust consumer spending. Additionally, local government employment, including in public education, has rebounded after lagging many other sectors during the economic recovery. However, multiple sectors are expected to weigh on employment gains over the forecast period. Following double-digit growth in retail sales activity in 2021 and 2022, sales growth has slowed significantly and is expected to impact employment in the retail trade sector. Despite growth through the first half of 2023, struggles in new home and building construction are expected to mute gains in the construction industry over the next year. The correction in the housing market has also impacted financial activities employment in the region, and tech layoffs have hurt growth in the information industry. Another sector that may be challenged is state education employment, as the region's colleges and universities continue to struggle with falling enrollment. Colorado State University and the University of Northern Colorado are major economic drivers for the region. Each continues to be impacted by shifting demographic trends and the tight labor market, both of which have deterred or delayed enrollment for some potential student groups.

Figure 34
Northern Region Labor Market Activity

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

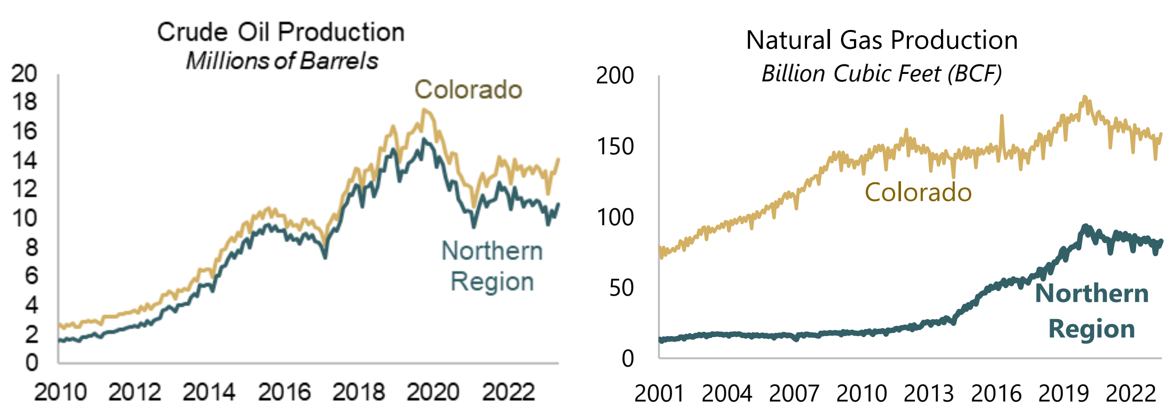


Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through June 2023. Includes Legislative Council Staff adjustments prior to 2010.

Agriculture. The northern region produces about a quarter of Colorado's agricultural value due to the heavy concentration of the livestock industry in Weld County. Combined with high input prices, ongoing drought conditions in the West for most of 2022 led to reductions in herd size, and the state's cattle and calf inventory ended the year down 1 percent. In the first quarter of 2023, cattle and calf inventory was down 9.1 percent year-to-date due to the lingering impacts of drought. Although drought conditions have improved across Colorado according to the U.S. drought monitor, the decline in herd size is expected to reduce beef production through 2023, even with ongoing price strength. After a strong year, Colorado beef exports were down through the first half of the year and will likely decline further in the near term.

Energy sector. The northern region's oil and gas activity, largely located in 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 35). This sector drives significant economic activity in the region, as it boosts local tax revenues, wages, and jobs in supporting industries. In 2023, recent data point to better-than-expected conditions for oil production during the forecast period, but worsening conditions for natural gas. Between May and August 2023, the Energy Information Administration upgraded its 2023 crude oil price projection from $74 to $78 per barrel, but continued to downgrade natural gas from $2.91 to $2.58 per million BTU. Although production of oil in the region is expected to remain well below pre-pandemic levels, higher-than-expected oil prices and recent production gains are expected to bring the region's oil production closer to 2022 levels in 2023. Continued weakness is expected for natural gas production through the latter half of the year.

Figure 35
Colorado Energy Production



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

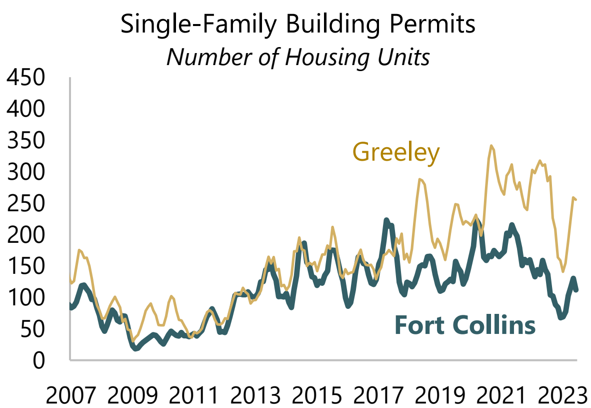
Housing. While rising interest rates continue to soften the regional housing market, home values proved more resilient than expected through the first half of 2023. While prices were expected to decline, the average price of a single-family home increased 0.7 percent year-to-date, and is expected to post slow growth for the year. Sales are expected to decline in 2023, although monthly sales have improved since a trough in December 2022. Improved sales activity has whittled away some of the region's home inventory, but inventory remains up nearly 40 percent year-to-date.

Further rate hikes by the Federal Reserve could dampen the region's housing market and pose a risk to this outlook.

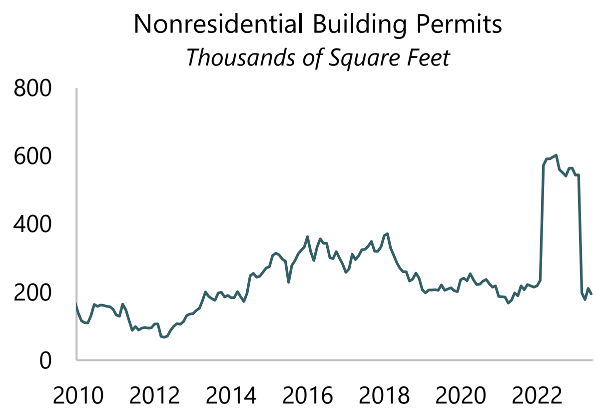
Rising interest rates and the resulting affordability issues continue to dampen construction activity (Figure 36, left), especially for single-family homes. Permits for single-family homes started 2023 down significantly, and are expected to remain depressed throughout the year. Although declining single-family permits were partially offset by growth in multifamily units in both Larimer and Weld counties, permits overall were down 10.6 percent and 18.5 percent through June in Larimer and Weld County, respectively.

Nonresidential construction. Regional nonresidential construction in 2022 was boosted significantly by 4.1 million square feet of groundbreakings in March 2022 (Figure 36, right). Most notably, an Amazon fulfillment center broke ground near the Northern Colorado Regional Airport north of Loveland. Excluding the facility, nonresidential construction in Larimer County was down about 63 percent through June 2023. In contrast, construction activity in Weld County was up through June 2023 after a large project began in May. Higher interest rates are expected to soften construction activity in both counties through the remainder of the year.

Figure 36
Northern Region Construction Activity



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



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

Colorado Springs Region

The Colorado Springs region encompasses El Paso County and is home to the state's second largest city. The regional labor market remains tight, but is growing at a slower rate than it was year prior. The housing market has loosened since its 2022 peak, but construction has ticked up in recent months. Nonresidential construction has fallen below pre-pandemic levels, and continues to fall. Indicators for the Colorado Springs regional economy are presented in Table 24.

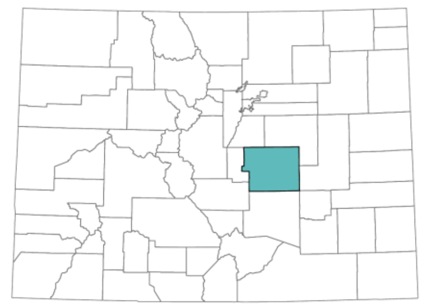


Table 24
Colorado Springs Region Economic Indicators
El Paso County

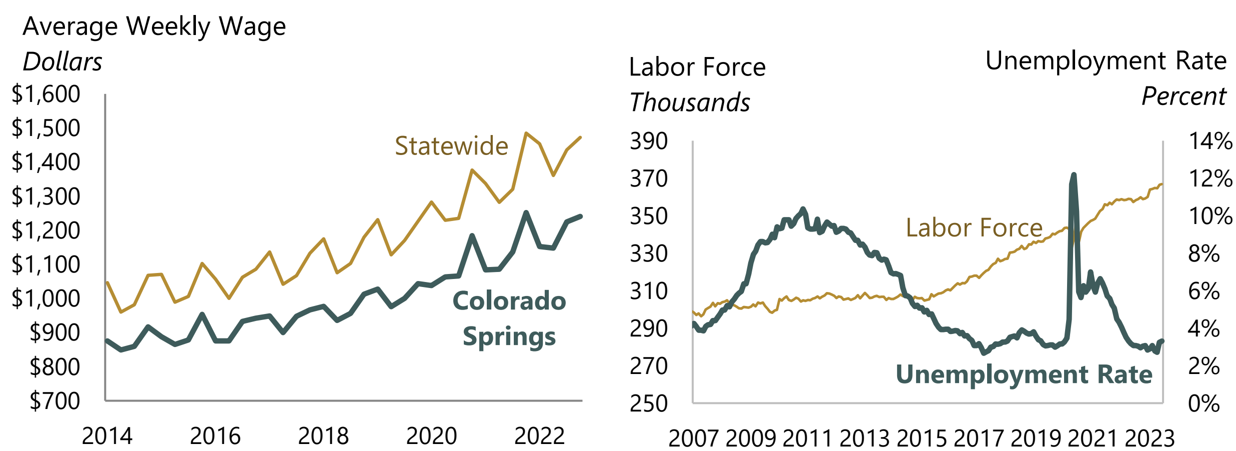
	2019	2020	2021	2022	YTD 2023
Employment Growth[1]					
Colorado Springs MSA	2.6%	-2.7%	4.1%	4.0%	1.8%
Unemployment Rate[2]	3.2%	6.8%	5.7%	3.2%	3.0%
Wages[3]					
Average Weekly Wages	4.3%	7.5%	4.8%	4.6%	NA
Level	$1,012	$1,088	$1,140	$1,192	NA
Housing Permit Growth[4]					
Total	-3.8%	25.7%	34.7%	-5.5%	-36.2%
Single Family	-4.1%	24.4%	0.7%	-28.4%	-35.9%
Nonresidential Construction Growth[5]					
Value of Projects	0.5%	47.1%	2.7%	-27.4%	9.2%
Square Footage of Projects	5.3%	124.5%	-45.8%	-34.8%	-31.2%
Level (Thousands)	2,992	6,719	3,640	2,374	780
Number of Projects	-31.1%	16.3%	-26.4%	18.1%	-55.0%
Level	374	435	320	378	99
Housing Market[6]					
Average Sale Price – Single Family	5.8%	13.2%	18.2%	10.2%	-2.3%
Level (Thousands)	$366	$417	$492	$542	$536
Inventory – Single Family	-9.8%	-34.7%	-30.0%	117.7%	29.1%
Home Sales – Single Family	1.9%	6.2%	4.0%	-17.5%	-25.7%
Retail Sales Growth[7]	6.5%	8.6%	18.3%	8.5%	-0.1%

MSA = Metropolitan statistical area. NA = Not available.
[1] U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through June 2023.
[2] U.S. Bureau of Labor Statistics, LAUS (household survey). Data through June 2023.
[3] U.S. Bureau of Labor Statistics, QCEW. Data through 2022Q4.
[4] U.S. Census. Growth in the number of residential building permits. Data through June 2023.
[5] F.W. Dodge. Data through June 2023.
[6] Colorado Association of Realtors. Data through July 2023.
[7] Colorado Department of Revenue. Data through May 2023.

Labor market. The labor market in Colorado Springs remains tight, but growth is slowing. The unemployment rate stands at 3.3 percent as of June, having ticked up slightly throughout 2023, but remaining low. The number of jobs continues to grow steadily in 2023, up 1.7 percent compared with a year ago. El Paso County is the state's most populous county and is expected to continue to grow, contributing to a healthy labor force (Figure 37, right). Regional population growth has outpaced that of the state every year since 2016, and is expected to continue to grow faster than the state between 2020 and 2030.

President Biden recently reversed a decision to move the Space Command headquarters from Colorado Springs to Huntsville, Alabama. This allows its nearly 1,400 employees to remain in the region, and may provide a boost to the local economy.

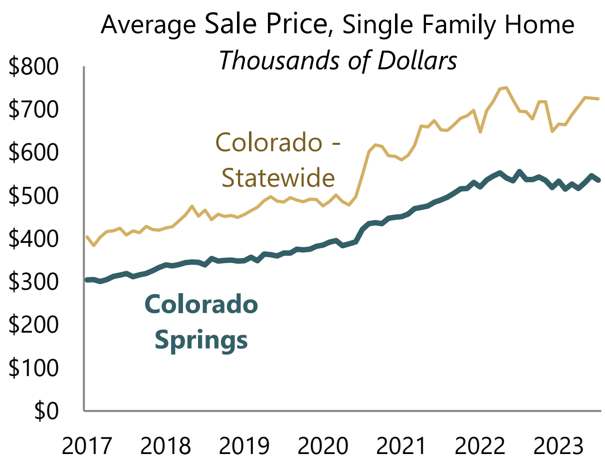
Figure 37
Colorado Springs Labor Market Activity



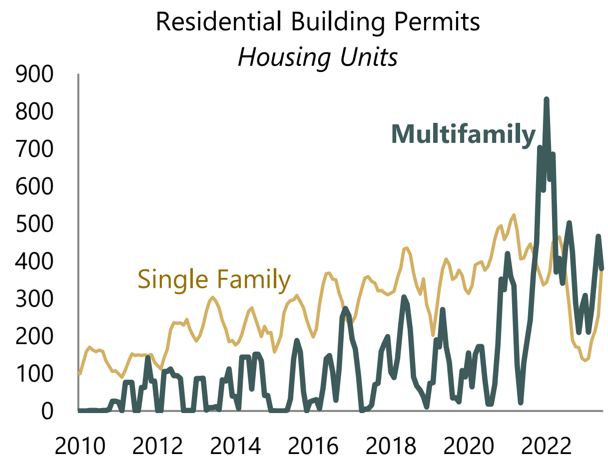
Source: U.S. Bureau of Labor Statistics; QCEW data through 2022 Q4 (left) and LAUS data, seasonally adjusted through June 2023 (right). LAUS data include Legislative Council Staff adjustments prior to 2010.

Housing market. Home prices in Colorado Springs are on the rise in recent months, but remain below the July 2022 peak. Home prices tend to be lower in El Paso County than the statewide, averaging about $535,000 as of July 2023 compared to $723,000 for the state. Average home prices in El Paso County are slightly higher than they were at the beginning of the year, but still down by 3.7 percent compared to a year prior (Figure 38, left). Additionally, homes are staying on the market longer and fewer homes are being sold than a year ago, further signaling a looser housing market. Despite a looser market, residential permitting is up in recent months, for both single family and multifamily homes (Figure 38, right).

Figure 38
Colorado Springs Home Prices and Residential Construction



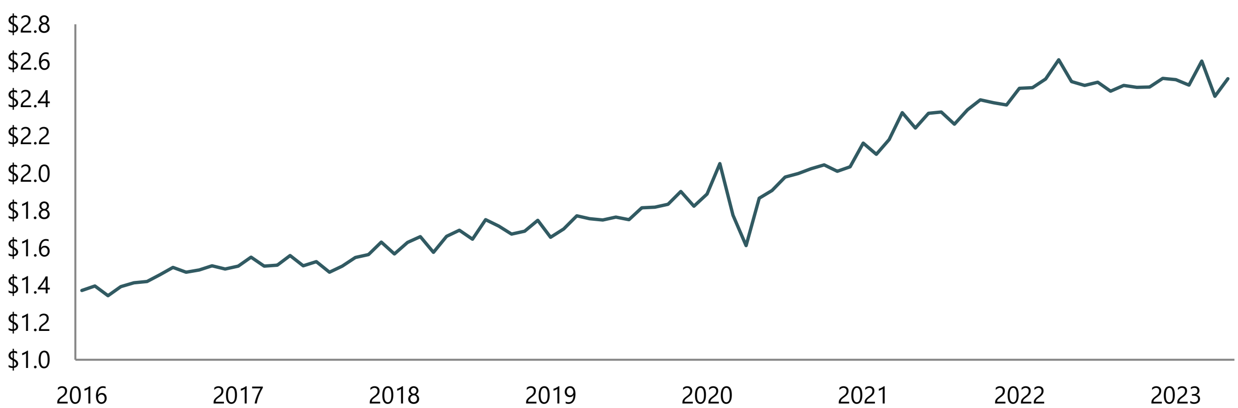
Source: Colorado Association of Realtors. Data are seasonally adjusted through June 2023.



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

Retail sales. Retail sales in Colorado Springs have been stagnant over the past year after steep increases in 2021 and early 2022. Retail sales are up 0.7 percent from one year ago, compared to an 11.1 percent increase in the 12 months prior. This is a similar trend to what is happening nationwide, as consumer spending shifts towards services rather than goods.

Figure 39
Colorado Springs Retail Sales
Billions of Dollars



Source: Colorado Department of Revenue.

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 slowing labor market and a continued drop in housing prices. Nonresidential construction has shown strong growth in recent months from a variety of projects, a pattern that is expected to continue. Indicators for the regional economy are presented in Table 25 and discussed below.

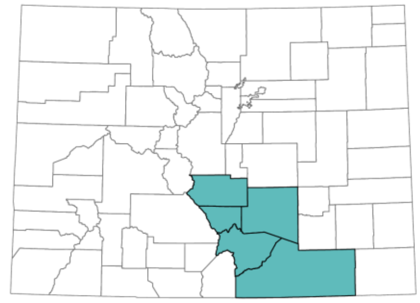


Table 25
Pueblo Region Economic Indicators
Custer, Fremont, Huerfano, Las Animas, and Pueblo Counties

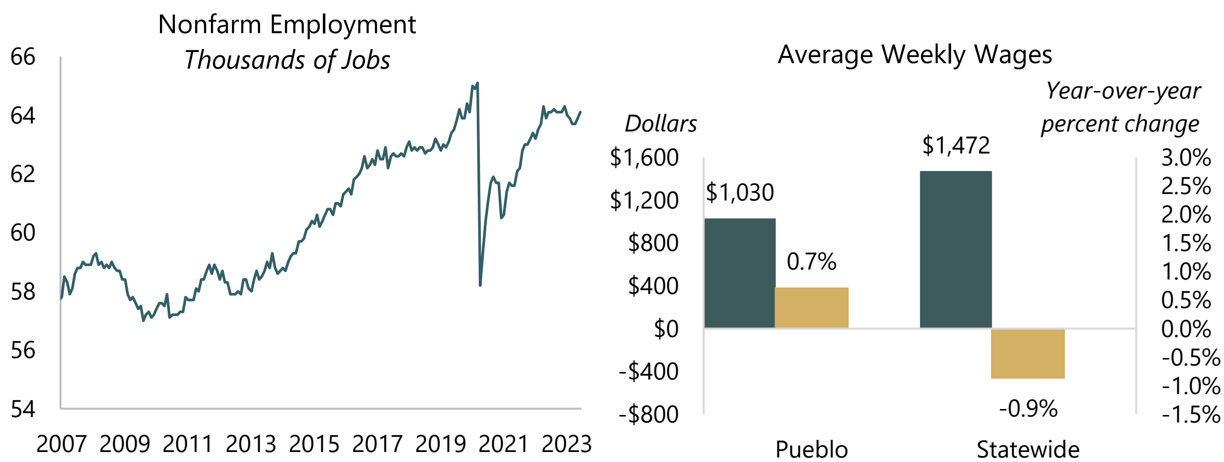
	2019	2020	2021	2022	YTD 2023
Employment Growth					
Pueblo Region[1]	1.0%	-2.5%	0.4%	2.0%	0.5%
Pueblo MSA[2]	1.1%	-2.8%	0.7%	2.8%	0.2%
Unemployment Rate[1]	4.0%	7.6%	7.8%	4.5%	4.1%
Wages[3]					
Average Weekly Wage	3.7%	7.0%	3.8%	5.3%	NA
Level	$845	$904	$939	$989	NA
Housing Permit Growth[4]					
Pueblo MSA Total	3.8%	18.4%	24.0%	-22.9%	-47.5%
Pueblo MSA Single Family	3.0%	19.4%	24.0%	-22.9%	-47.5%
Nonresidential Construction Growth[5]					
Value of Projects	45.2%	26.2%	175.3%	-63.6%	319.6%
Square Footage of Projects	-19.7%	37.7%	278.3%	-69.4%	474.5%
Level (*Thousands*)	318	438	1,658	508	1,260
Number of Projects	23.3%	86.5%	2.9%	-23.9%	44.8%
Level	37	69	71	54	42
Housing Market[6]					
Average Sale Price – Single Family	9.5%	16.2%	24.1%	4.4%	1.3%
Level (*Thousands*)	$226	$265	$326	$340	$347
Inventory – Single Family	-8.9%	-23.9%	-27.0%	68.7%	56.0%
Home Sales – Single Family	0.3%	14.1%	7.3%	-6.2%	-21.7%
Retail Sales Growth[7]	8.5%	4.2%	13.4%	14.5%	1.1%

MSA = Metropolitan statistical area. NA = Not available.
[1] U.S. Bureau of Labor Statistics, LAUS (household survey). Data through June 2023.
[2] U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through June 2023.
[3] U.S. Bureau of Labor Statistics, QCEW. Data through 2022Q4.
[4] U.S. Census. Growth in the number of residential building permits. Data through June 2023.
[5] F.W. Dodge. Data through June 2023.
[6] Colorado Association of Realtors. Data through July 2023.
[7] Colorado Department of Revenue. Data through May 2023.

Labor market. Labor market conditions in the Pueblo region are generally looser than the statewide average, and have been fairly stagnant over the past year. The regional unemployment rate remains significantly higher in the region than in any other region of the state, at 4.4 percent in July compared to the state's 2.9 percent. Regional wages are significantly lower than average wages statewide, but grew by 0.7 percent year-over-year in the fourth quarter of 2022 compared to a slight statewide decline.

Total employment in Pueblo has been flat over the past year, up just 0.2 percent compared to a year ago, and remains below pre-pandemic levels. The largest industry in the Pueblo region is trade, transportation, and utilities. CS Wind, the world's largest manufacturing plant for wind turbine towers, which is located in Pueblo, has announced an expansion that is expected to double production and require at least 850 new employees over the next few years.[5]

Figure 40
Pueblo Region Labor Market Trends



Source: U.S. Bureau of Labor Statistics; LAUS (left) and QCEW (right). Data are seasonally adjusted and are through May 2023 (left) and 2022 Q4 (right).

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

Housing market. The housing market in the Pueblo region boomed in 2020 and 2021, but has slowed since peaking in July 2022. Single-family home prices in the Pueblo region rose by 21.4 percent in 2021 and 4.4 percent in 2022 as demand for housing soared. The housing market has generally cooled since despite an anomalous spike in March, with prices down

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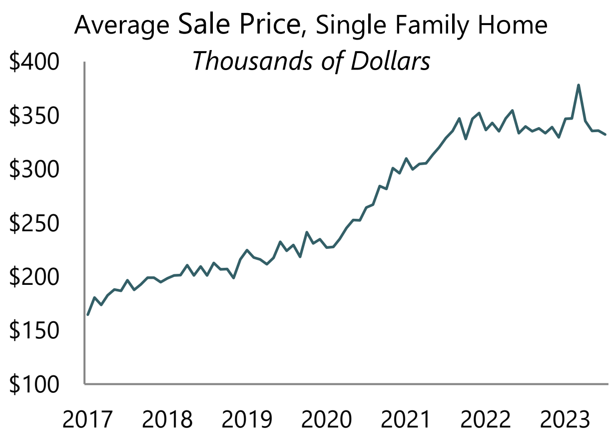
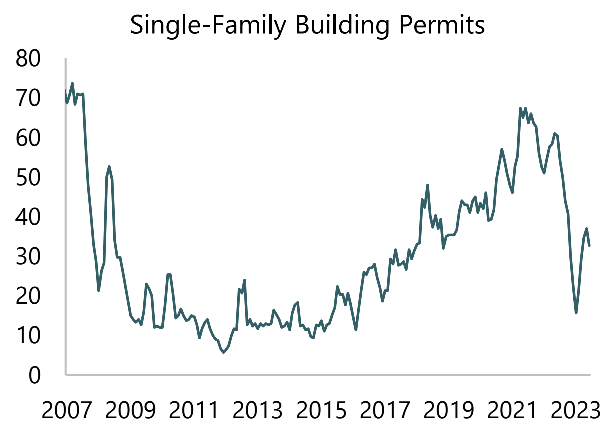
[5]Van Dyne, Jessica. Pueblo Economy Growing with Expansion of World's Largest Wind Tower Manufacturing Site. April 16, 2023. *https://gazette.com/business/pueblo-economy-growing-with-expansion-of-worlds-largest-wind-tower-manufacturing-site/article_8baef9e2-d8e9-11ed-96e7-d32153598c72.html*

2.2 percent as of July compared to the year prior (Figure 41, left). Despite the recent dip, the average price of a single family home in the region is about $332,000 in July, well above the average pre-pandemic price of $220,000. The recent slowing can be attributed to rising interest rates tempering demand, which has been seen across the country. Home prices are expected to stay fairly flat during the forecast period as interest rates stabilize, inventories rebound, and population grows slowly.

Rising interest rates have increased the cost of building while falling home prices decrease the incentive to build, resulting in a sharp decline of residential building permits in 2022 (Figure 41, right). As supply chain pressures have eased, building permits have started to rebound in 2023, but remain slightly below 2019 levels, a time when interest rates were more accommodative than current conditions.

Figure 41
Pueblo – Southern Mountains Residential Construction and Inventory



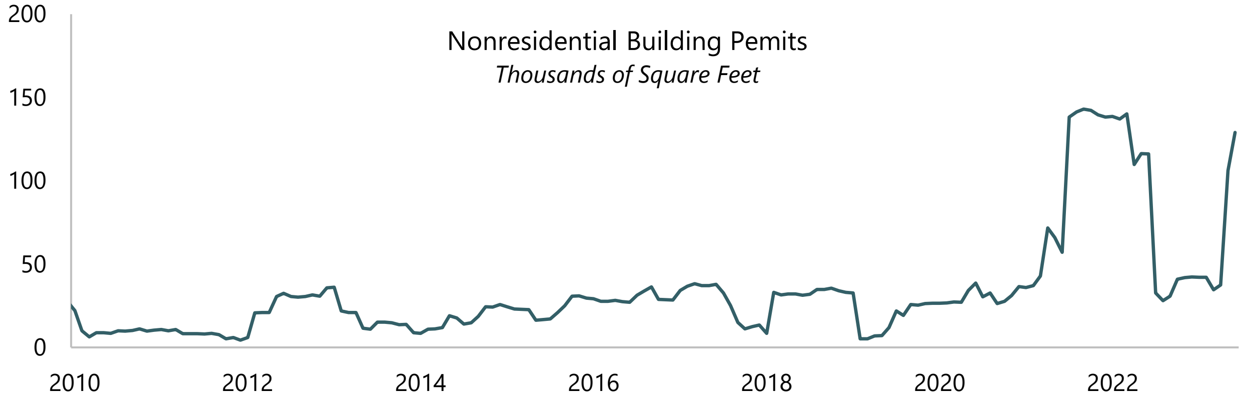


Source: Colorado Association of Realtors. Data are seasonally adjusted through July 2023.

Nonresidential construction. Nonresidential construction is showing strong activity in recent months from a variety of projects. Nonresidential building permits spiked in 2021, when builders added $415.8 million in new structures, headlined by the new long rail mill at the Evraz Pueblo steel mill. In recent months, permits have been issued for four new schools, a Walmart, community center, and other projects. The Infrastructure Investment and Jobs Act (IIJA) will provide additional opportunities for nonresidential construction in Pueblo. CS Wind announced plans for a 900,000 square foot expansion, made possible by incentives from the IIJA. Additionally, the Department of Energy has awarded $32.6 million for development of a potential carbon storage hub located in Pueblo.[6]

[6] U.S. Department of Energy. Biden-Harris Administration Invests $251 Million to Expand Infrastructure to Support CO_2 Transport and Storage. May 17, 2023. *https://www.energy.gov/articles/biden-harris-administration-invests-251-million-expand-infrastructure-support-co2*

Figure 42
Pueblo Region Nonresidential Building Permits
Thousands of Square Feet



F.W. Dodge. Data shown as twelve-month moving averages. Data through June 2023.

Eastern Region

The eastern region includes 16 rural counties on Colorado's eastern plains. Agriculture is the primary industry in the region, with local businesses and government operations supporting local farming and ranching communities. The labor market remains steady, with low unemployment and slow but positive job growth. Weather conditions, as well as geopolitical and policy uncertainty, remain key risks for the region's agricultural outlook. Regional housing markets are cooling, with declining home sales residential construction, and rising inventory of homes for sale. Economic indicators for the region are presented in Table 26.

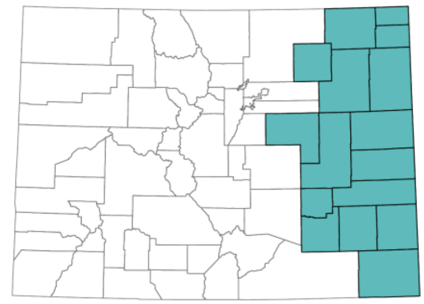


Table 26
Eastern Region Economic Indicators
Baca, Bent, Cheyenne, Crowley, Elbert, Kiowa, Kit Carson, Lincoln, Logan, Morgan, Otero, Phillips, Prowers, Sedgwick, Washington, and Yuma Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	0.7%	-3.8%	-1.9%	1.7%	0.9%
Unemployment Rate[1]	2.4%	4.2%	4.5%	2.8%	2.5%
Wages[2]					
Average Weekly Wage	3.9%	5.4%	4.1%	5.4%	NA
Level	$795	$838	$872	$918	NA
Crop Price Changes[3]					
Wheat ($/Bushel)	-7.0%	6.3%	37.7%	42.2%	-4.5%
Corn ($/Bushel)	9.3%	-4.6%	53.8%	30.9%	9.3%
Alfalfa Hay (Baled, $/Ton)	14.3%	-6.6%	2.5%	2.7%	27.6%
Livestock[3]					
State Cattle and Calf Inventory Growth	8.0%	1.9%	4.0%	-1.0%	-9.1%
Milk Production	5.5%	7.1%	2.4%	0.7%	-0.2%
Housing Permit Growth[4]	0.2%	22.3%	21.7%	-21.2%	-38.0%
Housing Market[5]					
Average Sale Price – Single Family	7.2%	6.3%	18.0%	7.2%	0.2%
Level (Thousands)	$303	$328	$382	$412	$419
Inventory – Single Family	3.5%	-22.6%	-28.9%	65.9%	52.3%
Home Sales – Single Family	0.6%	4.2%	9.9%	-6.8%	-16.4%
Retail Sales Growth[6]	13.6%	3.3%	12.5%	18.9%	3.6%

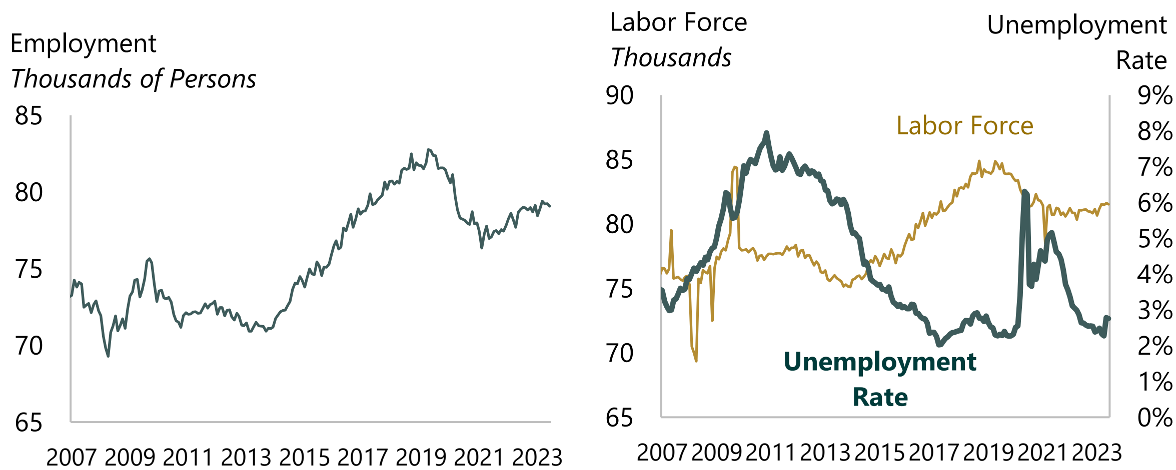
NA = not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through June 2023.
[2]U.S. Bureau of Labor Statistics, QCEW. Data through the fourth quarter of 2022.
[3] National Agricultural Statistics Service statewide data. Data through June 2023.
[4] F.W. Dodge. Data through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

Agriculture and livestock. The eastern plains is the largest agricultural region in the state, and agriculture drives much of the region's economy. While spring and summer precipitation has brought relief from the drought that has plagued the region since June 2019, torrential rain, hail, and tornadoes have challenged the region's farmers this season, damaging crops and delaying the wheat and melon harvests. The winter wheat harvest was only 85 percent complete in early August, compared with the five-year average of 95 percent completion. As of August 15, 2023, the entire region was drought-free, according to the U.S. Drought Monitor. However, the cumulative results of prolonged drought conditions continue to impact the region, with 20 percent of the state's wheat crop abandoned before the rain began. Farmers with surviving crops benefit from record yields. Weather developments, as well as geopolitical and policy concerns, remain key risks for the region's farm price and profitability outlook.

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

As in other rural regions of the state, household survey data is subject to large revisions due to a small sample size. Through June 2023, these data suggest that sluggish labor force growth, 0.5 percent, may be constraining job growth, up by only 0.9 percent and still considerably below pre-pandemic levels (Figure 43, left). The average unemployment rate remains low, at 2.5 percent (Figure 43, right). Employment growth in the region is expected to continue at a slow pace in 2023 and 2024, as high interest rates slow economic activity and dampen hiring. The average weekly wage of $918 in the fourth quarter of 2022 is among the lowest in the state's nine regions, and roughly two-thirds of the statewide average weekly wage of $1,472.

Figure 43
Eastern Region Labor Market Activity

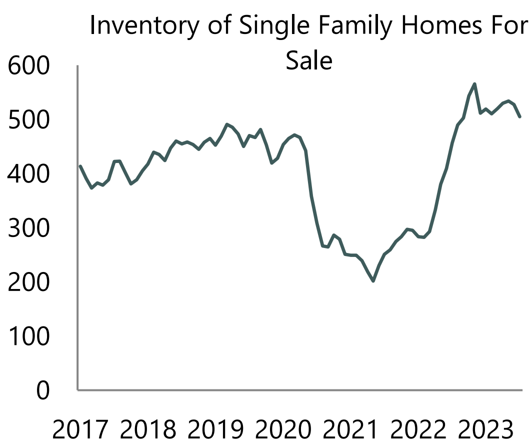


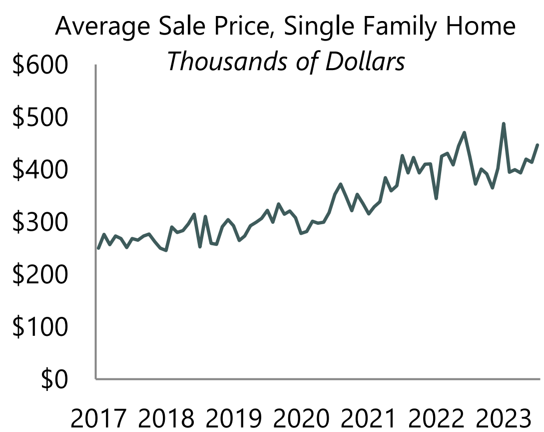
Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data are through June 2023. Includes Legislative Council Staff adjustments prior to 2010.

Retail sales. Retail sales have slowed throughout 2023, as tightening monetary policy dampens economic activity. In the eastern plains, retail sales were up by 3.6 percent through May 2023, indicating an actual decline in inflation-adjusted terms, following strong retail sales growth in the previous two years well in excess of inflation. Growth in retail sales is expected to continue to moderate in 2023, remaining constrained by the overall economic slowdown.

Housing and population. The eastern plains is the most sparsely populated of the state's regions, with its 16 counties accounting for about 3 percent of the state's population. The region's housing market has been sluggish in 2023, as U.S. average mortgage interest rates reach 20-year highs, eroding would-be buyers' purchasing power and discouraging home-building activity. Housing inventory for sale was up 52 percent through July 2023 (Figure 44, left). Home price increases are moderating, up just 0.2 percent through July 2023, compared with the same period in 2022, for an average sale price of $419,000 (Figure 44, right). Residential housing permits are down 38.0 percent through June 2023, compared with the same period in 2022. As in other rural regions of the state, the Eastern Plains faces housing affordability challenges associated with an aging housing stock and low incomes. The housing market is expected to continue to be challenged by tightened monetary policy dampening construction and home-buying activity through 2023.

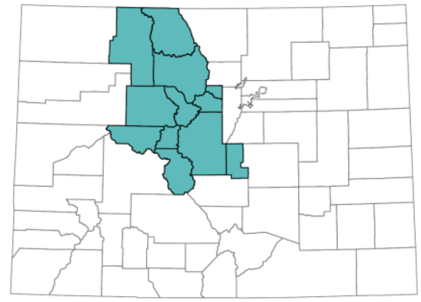
Figure 44
Eastern Region Housing Market Activity





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

Mountain Region



The mountain region comprises 12 counties stretching from Poncha Pass north to the Wyoming border. The region's tourism-dependent economy is sensitive to economic conditions worldwide. The labor market continues to see consistent employment growth following significant job losses from the pandemic, and the region's unemployment rate remains the lowest in the state. High interest rates are cooling the region's housing market and the uncertain national and international economy are likely contributors to declining construction. Economic indicators for the mountain region are presented in Table 27.

Table 27
Mountain Region Economic Indicators
Chaffee, Clear Creek, Eagle, Gilpin, Grand, Jackson, Lake, Park, Pitkin, Routt, Summit, and Teller Counties

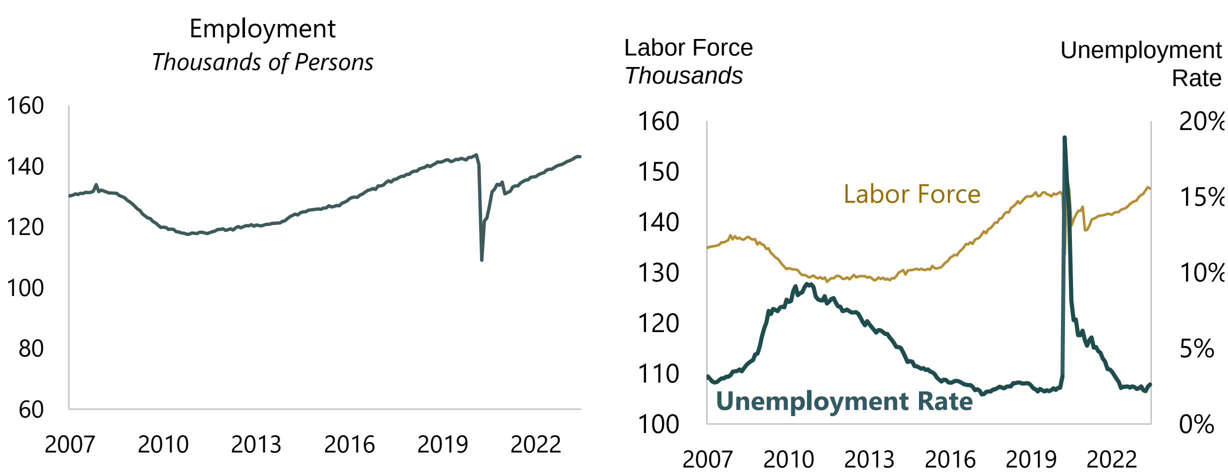
	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	1.7%	-7.7%	2.0%	3.8%	3.4%
Unemployment Rate[1]	2.3%	7.8%	4.7%	2.7%	2.4%
Wages[2]					
Average Weekly Wages	4.4%	11.6%	4.8%	8.1%	NA
Level	$879	$981	$1,028	$1,111	NA
Housing Permit Growth[3]	20.7%	-38.7%	30.7%	42.2%	-30.5%
Nonresidential Construction Growth[3]					
Value of Projects	40.6%	87.8%	-55.8%	33.0%	17.9%
Square Footage of Projects	29.2%	24.7%	-23.2%	12.2%	86.6%
Level *(Thousands)*	915	1,141	876	983	401
Number of Projects	-37.0%	76.1%	6.2%	14.0%	-18.9%
Level	46	81	86	98	30
Housing Market[4]					
Average Sale Price - Single Family	12.6%	19.1%	33.1%	5.5%	-6.6%
Level *(Thousands)*	$941	$1,261	$1,507	$1,568	$1,545
Inventory - Single Family	5.1%	-30.7%	-43.2%	29.6%	33.5%
Home Sales - Single Family	-1.6%	22.3%	1.3%	-27.0%	-19.9%
Retail Sales Growth[5]	12.1%	3.8%	21.0%	17.0%	6.7%

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

Labor market. Labor market indicators continue to show sustained recovery in the region as unemployment remains low and a growing labor force is paired with rising employment. Employers are demonstrating an appetite for new hires and building their payrolls where possible; however, lack of available housing constrains the labor supply. The market is strong for workers who are able to find housing, and a difficult one in which for businesses to hire. Employers added about 4,100 jobs over the year ending in June 2023, good for a 3.0 percent growth rate over that period—the state's second best after the southwest mountain region (Figure 45, left). With labor force growth at 2.8 percent, job gains continue to narrowly outpace growth in the regional labor force, and the regional unemployment rate remains at a state-wide low of 2.4 percent (Figure 45, right). Meanwhile, employers are struggling to find workers as demographic drag and little affordable housing pose significant supply constraints. Some employers have included housing as a benefit offered to would-be employees, though scarce available units mean that even this option is not open to all employers. The tight labor market is also motivating businesses to pay higher compensation to attract workers, with average weekly wages rising 8.1 percent in calendar year 2022. That increase was the greatest for any region in the state, exceeding the next-best western region by just over one percentage point.

Consistent with recent strength, employment growth is expected to remain relatively steady through 2023. While interest rates are rising, jobs have continued to be supported by strong consumer activity with regional retail sales growing faster year-over-year than every region except the Pueblo-Southern Mountains and the San Luis Valley. Despite this, high mortgage interest rates pose a major hurdle for would-be buyers and exacerbate the ongoing risk for a low pool of job seekers.

Figure 45
Mountain Region Labor Market Activity

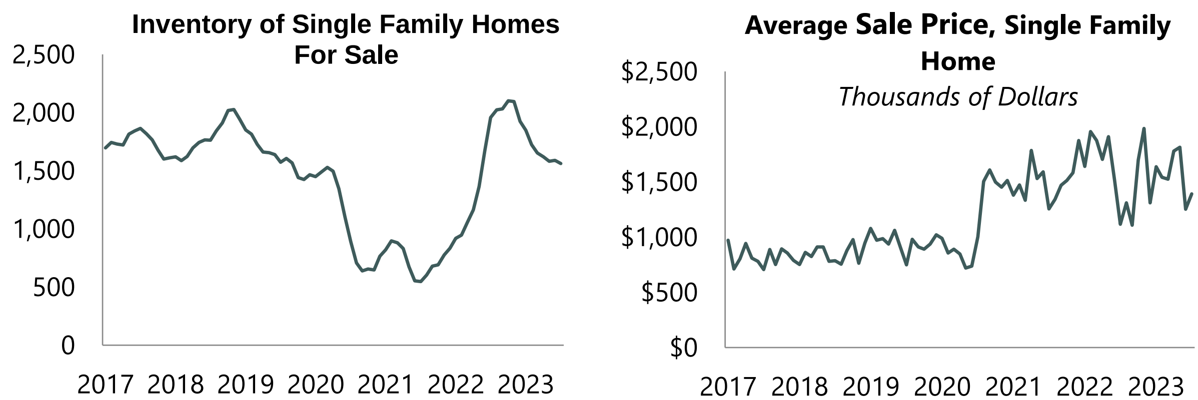


Source: U.S. Bureau of Labor Statistics; LAUS. Data are seasonally adjusted and are through June 2023. Includes Legislative Council Staff adjustments prior to 2010.

Retail sales. Mountain retail sales grew at an impressive 17.0 percent in 2022, well in excess of the 8.0 percent inflation mark in Denver-Aurora-Lakewood consumer prices. Mountain region sales disproportionately reflect discretionary spending among wealthier consumers and illustrate the statewide effect that purchases by that population had on overall consumer spending. Regional retail sales were up 8.8 percent year-over-year in June 2023. Comparatively, the Denver-Aurora-Lakewood consumer price index—the closest indicator of inflation in the region—was up 4.7 percent year-over-year at the end of July 2023, indicating growth well beyond inflationary contributions. Retail sales growth in the region is expected to continue outpacing the state as a whole, so long as the nation averts a recession. A downturn would likely pose an immediate threat to regional businesses, with mountain region spending patterns being among those that react most quickly to changing economic conditions.

Housing. Home prices in the region have fallen by 6.6 percent thus far in 2023 compared to 2022, reversing a sustained trend of annual increases. Despite the recent decline, homes remain unaffordable for all but the wealthiest buyers with the average single family home selling for about $1.5 million (Figure 46, right). Rising interest rates are negatively impacting home prices and constraining the supply of houses on the market; the inventory of single family homes for sale declined from over 1,900 homes at the end of 2022 to less than 1,600 homes in July 2023 (Figure 46, left).

Figure 46
Mountain Region Housing Activity

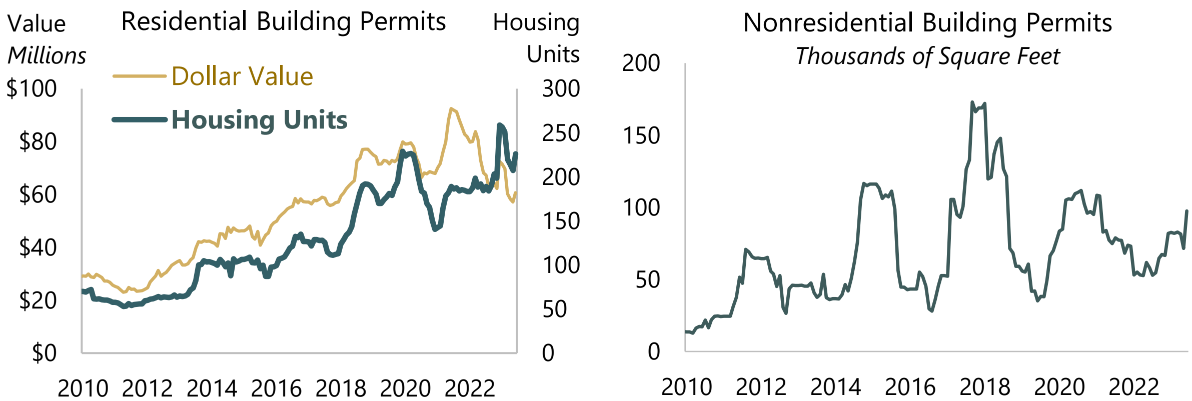


Source: Colorado Association of Realtors. Data is seasonally adjusted. Data through July 2023.

Construction. Unlike other regions in the state, residential construction in the mountain sharply declined in 2020 despite price growth and strong sales. Although activity rebounded in 2021 and continued to increase through 2022, permit issuances are down 30.5 percent year-to-date through the first half of 2023 (Table 27). The number of permits are expected to continue to be limited by higher interest rates and a cooling housing market. Downside pressures are expected to be partially offset by efforts to expand affordable housing in many mountain communities.

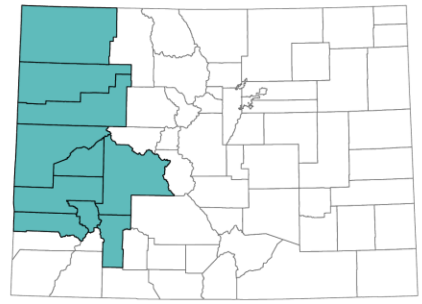
Nonresidential construction activity declined from mid-2020 through mid-2022. Since then, however, the number of nonresidential has increased by 68 percent year-over-year through June 2023. Demand for new projects is expected to motivate construction activity through the remainder of 2023, with slowing construction activity expected to persist in 2024 as interest rates remain high and labor supply remains constrained.

Figure 47
Mountain Region Construction Activity



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

Western Region



The ten-county western region has a diverse economy. Key industries in the more northern counties of Garfield, Mesa, Moffat, and Rio Blanco include energy and agriculture, while the counties of Delta, Gunnison, Hinsdale, Montrose, Ouray, and San Miguel are more reliant on tourism, mining, and retiree-related spending. Following a strong recovery period, the regional labor market has decelerated over the past year. Slowing growth has impacted natural gas production, construction, and housing. Economic indicators for the region are summarized in Table 28.

Table 28
Western Region Economic Indicators
Delta, Garfield, Gunnison, Hinsdale, Mesa, Moffat, Montrose, Ouray, Rio Blanco, and San Miguel Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth					
Western Region[1]	1.2%	-5.1%	1.4%	2.5%	2.3%
Grand Junction MSA[2]	1.4%	-5.2%	3.9%	2.5%	0.7%
Unemployment Rate[1]	3.0%	6.7%	5.4%	3.2%	3.0%
Wages[3]					
Average Weekly Wages	3.3%	5.7%	3.5%	7.2%	NA
Level	$872	$922	$954	$1,023	NA
Natural Gas Production Growth[4]	-0.9%	-7.7%	-9.1%	-5.8%	-7.5%
Housing Permit Growth[5]	-11.7%	31.5%	20.8%	-10.8%	18.6%
Nonresidential Construction Growth[6]					
Value of Projects	64.7%	-66.9%	231.3%	1.2%	-33.3%
Square Footage of Projects	7.0%	-26.4%	57.3%	34.9%	-36.6%
Level (*Thousands*)	651	479	753	1,015	356
Number of Projects	20.3%	22.5%	33.3%	8.6%	21.6%
Level	71	87	116	126	62
Housing Market[7]					
Average Sale Price - Single Family	3.3%	18.7%	26.1%	3.1%	4.7%
Level (*Thousands*)	$347	$421	$519	$536	$554
Inventory - Single Family	-12.3%	-26.9%	-42.4%	25.2%	28.7%
Home Sales - Single Family	-7.2%	12.4%	1.6%	-21.8%	-21.0%
Retail Sales Growth[8]	14.2%	1.7%	19.2%	11.4%	6.3%
National Park Recreation Visits[9]	2.3%	-0.1%	12.7%	-3.9%	-18.4%

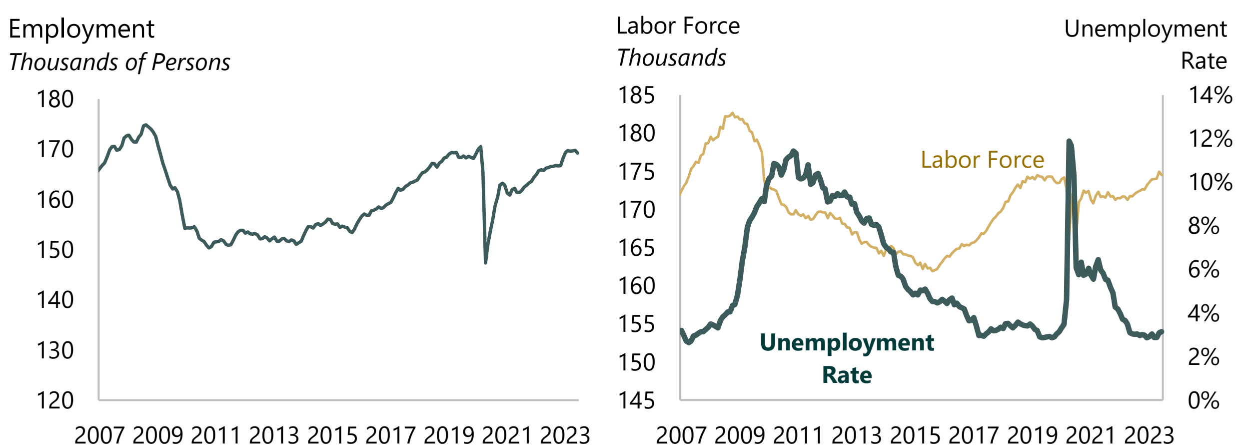
MSA = Metropolitan statistical area. NA = not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through June 2023.
[2]U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through June 2023.
[3]U.S. Bureau of Labor Statistics, QCEW. Data through 2022Q4.
[4]Colorado Oil and Gas Conservation Commission. Data through May 2023.
[5]F.W. Dodge. Data through June 2023.
[6]Colorado Association of Realtors. Data through July 2023.
[7]Colorado Department of Revenue. Data through May 2023.
[8]National Park Service. Recreation visits for Black Canyon of the Gunnison National Park, Colorado National Monument, Dinosaur National Monument, and Curecanti National Recreation Area. Data through June 2023.

Labor market. Employment for the region's households increased by 2.3 percent in June year-to-date and remained near the pre-pandemic peak despite decelerating over the past few months. Additionally, the unemployment rate has fallen to pre-pandemic levels (Figure 48, right). Less labor market slack and shifting economic conditions are likely impacting employment, and data indicate regional employment has sputtered slightly in the past few months (Figure 48, left). In the Grand Junction metro area (Mesa County), the region's most populous area, the survey of employers indicated jobs were up just 0.7 percent year-to-date through June 2023. Like the broader region, month-to-month job growth has also been mixed in the Grand Junction metro area, declining on a seasonally-adjusted basis for three of the past six months.

Based on industry-level data through the fourth quarter of 2022, jobs in the region have been supported by strong consumer activity with growth in retail and wholesale trade, transportation, and warehousing. Although it remains below its pre-pandemic employment level, the resurgence in leisure and hospitality continues to provide job gains. Data also indicate contributions to job growth from construction, natural resources, and government. However, lower natural gas prices, slowing construction activity, and recent challenges in real estate and other financial services are expected to weigh on potential growth throughout the remainder of the year.

Slower employment growth has coincided with a tick up in the region's unemployment rate, which rose to 3.1 percent in June from 2.9 percent in April (Figure 48, right). The unemployment rate in many of the region's communities is now around the pre-pandemic level. Over the past year, falling unemployment has been accompanied by a growing labor force, up about 1.5 percent year-to-date and nearing the pre-pandemic level.

Figure 48
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 June 2023.

Housing. Rising interest rates and eroding affordability have impacted the housing market in the western region, like the nation and many areas of the state. However, prices have remained elevated through the first half of the year. Sales of single family homes were down 21 percent year-to-date in July following a nearly 22 percent decline in 2022. Contrary to expectations, the average price of a single family home accelerated from 2022 levels through the first half of the 2023, and was up 4.7 percent year-to-date and reached an all-time high in June on a seasonally-adjusted basis. Prices are now expected to continue to grow at a firm pace through the remainder of the year.

Slower sales activity has contributed to rising inventory, up 28.7 percent in July year-to-date. However, inventory in 2023 has averaged only about 54 percent of pre-pandemic levels recorded in the latter half of 2019.

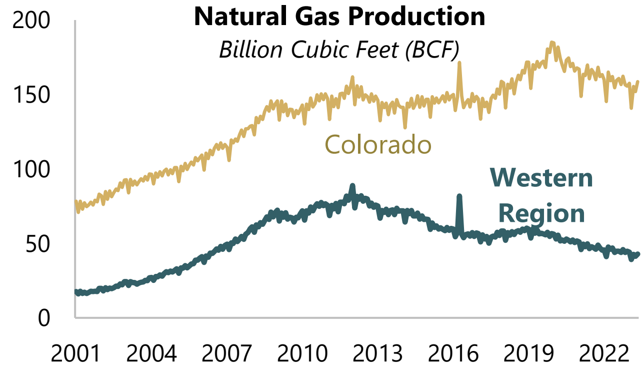
Residential construction has also performed better than expected through the first half of 2023, as multifamily apartment projects in Mesa County that have added nearly 700 new units. In July, permitted units were up 18.6 percent.

Nonresidential construction. Nonresidential construction grew in 2022, with 1 million square feet of new construction underway. The expansion in 2022 marked the second year in a row of strong nonresidential construction. However, nonresidential construction is expected to be impacted by rising interest rates, higher construction costs, and slower employment growth in the year ahead. In June, the value of construction projects was down about 33 percent year-to-date accompanying a decline of about 37 percent in square footage.

Retail sales. The pace of retail sales is slowing after the double-digit growth rates posted in 2021 and 2022 following the pandemic. The expected return to services spending, drawdown in household savings, and pullback on durable goods is likely impacting sales activity. In May, retail sales were up 6.3 percent year-to-date. While faster than the 3.0 percent pace posted statewide, sales for the region are expected to slow further in the year ahead. A dip in tourism following the post-pandemic surge may also impact retail sales for some of the region's communities.

Energy sector. The western region produces a significant share of the state's natural gas, more than 28 percent in 2022 (Figure 49), and remains a significant contributor to the region's economic activity. Natural gas production supports tax revenue, jobs, and upstream and downstream support industries throughout the region. Although natural gas prices spiked 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

Figure 49
Natural Gas Production
Billion Cubic Feet (BCF)



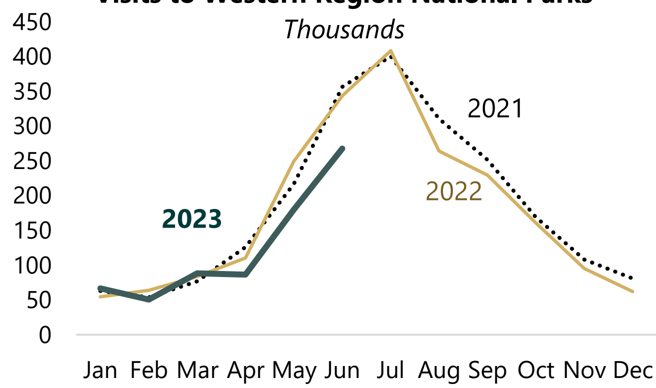
Source: Colorado Oil and Gas Conservation Commission. Data through May 2023.

declined since 2012 despite price gains in some years. Nationally, a greater quantity of natural gas is coming from gas-producing oil wells with the penetration of shale and hydraulic fracturing technology, a trend that has increased production and pushed down prices, generally. This dynamic may be limiting investment and production in the region.

Surging prices over the past year increased the region's value of production significantly, which likely supported some resurgence in natural resources employment. However, recent projections from the Energy Information Administration indicate natural gas prices are expected to fall about 60 percent in 2023 to $2.60, and regional production is also expected to fall. As of May 2023, natural gas production in the western region was down 7.5 percent year-to-date.

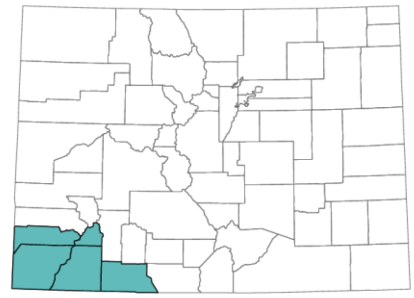
Tourism. Visits to the region's national parks (Figure 50) are on pace to fall for a second-consecutive year and were down 18.4 percent year-to-date in June. Despite easing gasoline prices compared with the summer of 2022 and better water conditions, a return to competing activities for would-be visitors may be impacting park visitation. Passenger traffic at the Grand Junction Regional Airport continues to outpace 2022, with passenger traffic up about 15 percent year-to-date. Although the pace was slower in June, up just 6.1 percent year-over-year, growth in passenger traffic is encouraging for the regional economy.

Figure 50
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 June 2023.

Southwest Mountain Region



The southwest mountain region comprises five counties in the southwest corner of the state. The area boasts a diverse economy with significant contributions from agriculture, tourism, and natural gas extraction, as well as typical regional services like health care and social assistance. The region is isolated, with an economy that often behaves differently from the large Front Range metropolitan areas that heavily influence the statewide averages reported elsewhere in this document. While the region continues to maintain a strong labor market, most other indicators for the region's economy show clear signs of a slowdown. Wage earnings and retail activity have not kept pace with inflation, construction is decreasing, and national park visits continue to slow in 2023. Slower economic performance is expected to persist through 2023 and into next year. Indicators for the southwest mountain region are summarized in Table 29.

Table 29
Southwest Mountain Region Economic Indicators
Archuleta, Dolores, La Plata, Montezuma, and San Juan Counties

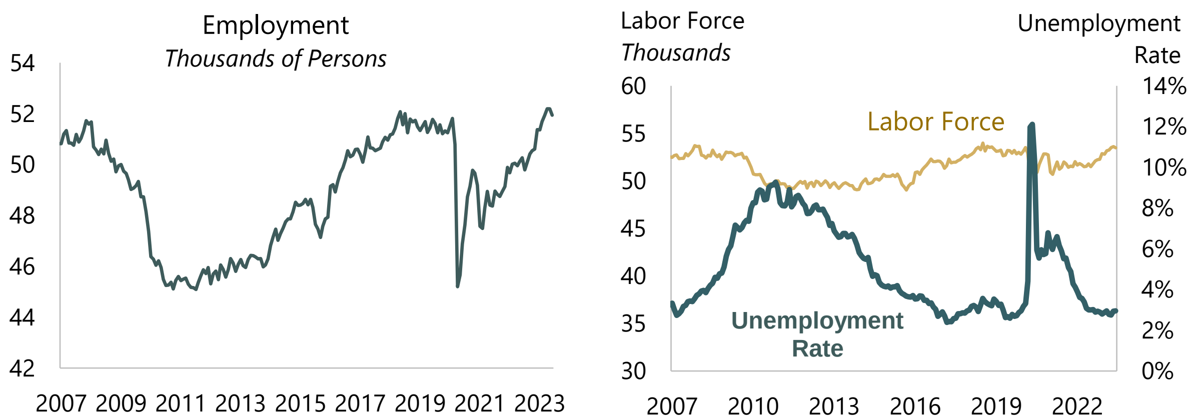
	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	-0.3%	-5.1%	-0.4%	3.3%	3.7%
Unemployment Rate[1]	2.9%	6.7%	5.5%	3.2%	2.8%
Wages[2]					
Average Weekly Wages	2.4%	6.9%	4.8%	4.5%	NA
Level	$846	$904	$948	$990	NA
Housing Permit Growth[3]	-33.9%	12.4%	18.4%	-21.9%	-7.6%
Housing Market[4]					
Average Sale Price - Single Family	7.3%	16.0%	25.4%	14.2%	3.2%
Level (Thousands)	$452	$541	$656	$750	$774
Inventory - Single Family	-10.4%	-29.3%	-47.5%	12.4%	12.9%
Home Sales - Single Family	-13.5%	31.3%	-1.2%	-23.3%	-29.6%
Retail Sales Growth[5]	5.6%	10.3%	20.1%	4.9%	2.2%
National Park Recreation Visits[6]	-2.1%	-48.1%	87.2%	-8.2%	-8.6%

NA = Not available.
[1]U.S. Bureau of Labor Statistics, LAUS (household survey). Data through June 2023.
[2]U.S. Bureau of Labor Statistics, QCEW. Data through the 2022Q4.
[3]F.W. Dodge. Permits for residential units. Data through June 2023.
[4]Colorado Association of Realtors. Seasonally adjusted. Data through July 2023.
[5]Colorado Department of Revenue. Seasonally adjusted. Data through May 2023.
[6]National Park Service. Recreation visits for Mesa Verde National Park and Hovenweep National Monument. Data through June 2023.

Labor market. The region's labor market rebounded strongly through 2022 after seeing unemployment rates above 12 percent following the beginning of the public health emergency in 2020. The regional unemployment rate has remained under 3 percent in 2023 and is in line with Colorado's average unemployment rate. At 2.8 percent, the regional unemployment rate is at its lowest level since 2017. Low unemployment and sustained job growth have worked together to motivate additional labor force participation (Figure 51, right). Employment growth has slowed from being up 3.8 percent year-over-year through March 2023 to being up 3.3 percent year-over-year through June 2023 (Figure 51, left). Still, the region maintains the highest year-over-year employment growth rate in the state.

Eventually, the labor supply may be impeded by consistent low unemployment paired with persistent rising housing costs. Employers may face tighter competition for workers, motivating wage increases to attract and retain talent. However, many areas in the region rely heavily on tourism; therefore, a larger economic downturn would likely negatively impact employment and wage growth. Regional wages increased 4.5 percent in 2022, slightly slower than the region's average yearly wage growth of 4.7 percent for 2019 through 2021 (Table 29). Regional wages remain below the western region, despite higher costs of living in some southwest mountain communities. Similar to other regions across the state, real wage growth in the southwest mountain region is challenged by high inflationary pressures. Inflation is slowing, but prices in the Denver area—the closest available indicator for the southwest mountain region—remained up 4.7 percent over the year as of July 2023.

Figure 51
Southwest Mountain Region Labor Market Activity

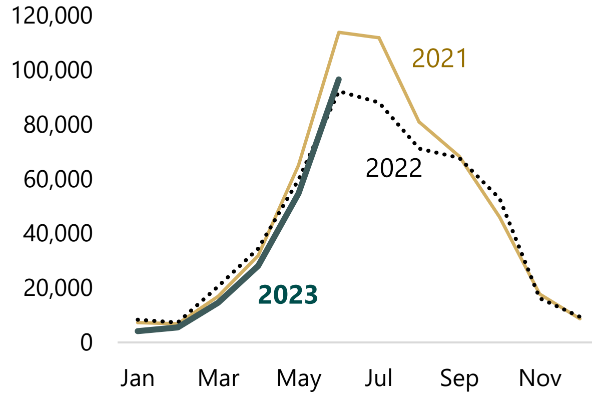


Source: U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through June 2023. Includes Legislative Council Staff adjustments prior to 2010.

Housing. The southwest mountain region has experienced yearly home price increases in the double digits from 2019 through 2022. Sales are down by almost 30 percent, reflecting the high interest environment for purchasers and resulting in a considerable increase in inventory for sale. Still, the region struggles with housing affordability and overall supply, and the rising cost of capital for builders is now dampening homebuilding activity. Housing permit growth declined by nearly 22 percent in 2022 and has continued to fall another 7.6 percent through June 2023. The decline in housing permits through June 2023 shares the same trend as single family housing permit growth across Colorado.

Tourism and consumer spending. Tourism-dependent spending is a significant economic driver in various communities throughout the southwest mountain region. Economic conditions nationwide pose a risk to tourist activity, as household savings are spent down in response to rising prices, leaving less for discretionary purchases. In 2022, regional retail sales increased by just 4.9 percent, a significant deceleration from the 20.1 percent growth rate posted in 2021. At just 2.2 percent through May 2023, low retail sales growth continues to collide with higher rates of inflation such that the inflation-adjusted value of retail sales likely decreased in 2022 and into 2023. As illustrated in Figure 52, 2023 visits to national park sites in Montezuma County have mostly declined in most months compared to 2022, although the 2023 summer peak surpassed the peak in 2022. Fluctuating gas and energy prices over the summer may additionally reduce visitor traffic through 2023.

Figure 52
Visits to Mesa Verde National Park and Hovenweep National Monument



Source: National Park Service. Data through June 2023.

San Luis Valley Region

Among the nine economic regions identified in this forecast, the San Luis Valley has the state's smallest population and its lowest household incomes. The economy of the region's six counties is largely agricultural. The region's housing market continues to cool in 2023, amidst higher interest rates dampening demand. Fluctuating weather conditions remain a key concern for the region's agricultural producers, with a weak monsoon season bringing drought back to the area over the summer. Economic indicators for the region are summarized in Table 30.

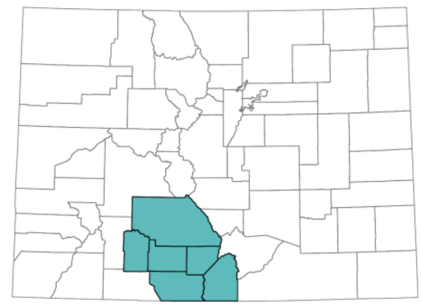


Table 30
San Luis Valley Region Economic Indicators
Alamosa, Conejos, Costilla, Mineral, Rio Grande, and Saguache Counties

	2019	2020	2021	2022	YTD 2023
Employment Growth[1]	0.8%	-4.2%	-1.8%	3.0%	2.5%
Unemployment Rate[1]	3.7%	6.0%	6.0%	3.7%	3.1%
Wages[2]					
Average Weekly Wages	3.1%	7.0%	4.6%	6.4%	NA
Level	$719	$770	$805	$857	NA
Barley[3]					
Acres Harvested	52,000	47,000	47,000	40,000	NA
Crop Value ($/Acre)	$672	$709	$548	$733	NA
Potatoes[3]					
Acres Harvested	51,000	53,800	52,400	52,800	NA
Crop Value ($/Acre)	$4,709	$4,494	$4,674	$6,360	NA
Housing Permit Growth[4]	-11.1%	13.9%	28.6%	-21.6%	-1.6%
Housing Market[5]					
Average Sale Price – Single Family	8.1%	18.7%	30.5%	2.9%	-0.2%
Level (Thousands)	$226	$270	$343	$352	$353
Inventory – Single Family	-28.7%	-25.3%	-44.0%	18.6%	41.5%
Home Sales – Single Family	-15.9%	27.8%	7.1%	-25.4%	-22.7%
Retail Sales Growth[6]	5.0%	8.8%	17.1%	9.0%	3.9%
National Park Recreation Visits[7]	19.1%	-12.5%	30.6%	-18.1%	NA

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

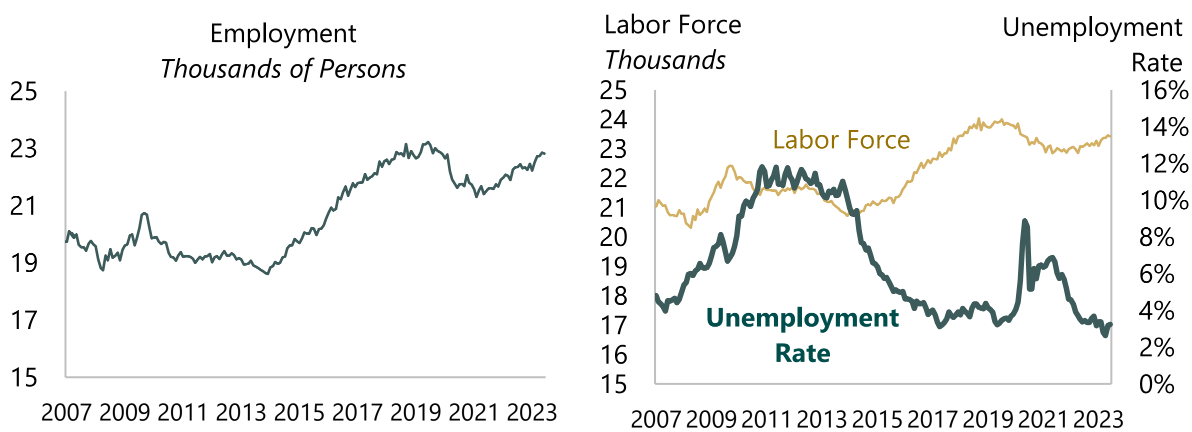
Agricultural industry. With over 70 varieties grown in the region, the San Luis Valley is the second biggest potato-producing area in the United States after Idaho. Potato shipments were up by 7.9 percent in the 2022-23 marketing year through August 18, 2023, ahead of the annual potato festival in September. Other principal crops include hay, lettuce, wheat, and barley, a key input for beer. Acreages for drought-tolerant crops such as quinoa and hemp are also on the rise, while water-thirsty crops such as barley have seen declining acreages.

The San Luis Valley is a high desert, typically receiving fewer than eight inches of precipitation annually. Irrigation for most crops relies on groundwater, reservoirs, and rivers fed by winter snowpack, which has been depleted by the impacts of climate change. Weather and access to water remain key concerns for San Luis Valley agricultural producers. With a weak monsoon season, moderate drought returned to much of the area over the summer months, 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, household survey data is subject to large revisions due to a small sample size. Through June 2023, these data suggest a steady labor market, with employment growth up 2.5 percent in 2023 compared with the same period last year (Figure 53, left). At an average of 3.1 percent through June 2023, the region's unemployment rate is the second highest among the state's nine regions, behind the Pueblo-Southern Mountains region (Figure 53, right). Employment growth is expected to continue at a slow pace in 2023 and 2024, as the Federal Reserve aims to slow economic activity in order to tame inflation. The average weekly wage of $857 in the fourth quarter of 2022 is the lowest in the state's nine regions, and is roughly 58 percent of the statewide average weekly wage of $1,272.

Figure 53
San Luis Valley Labor Market Activity



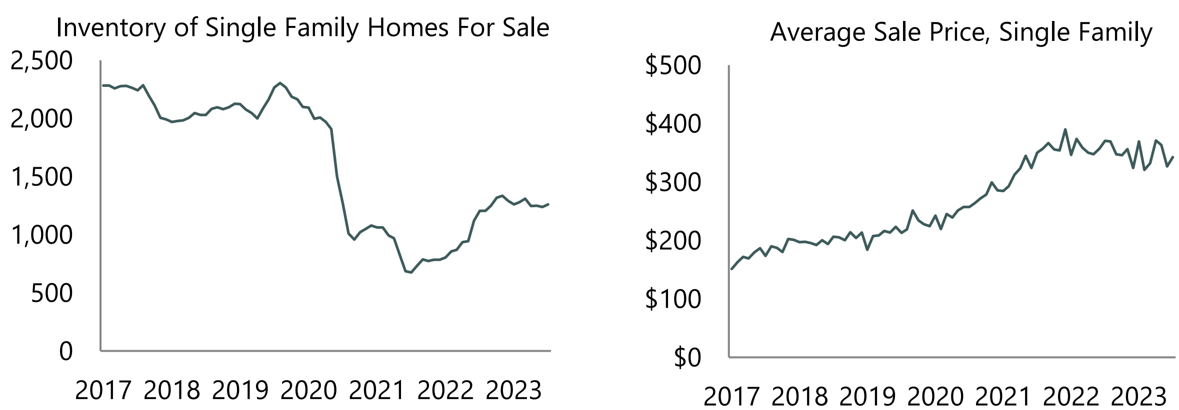
U.S. Bureau of Labor Statistics, LAUS (household survey). Seasonally adjusted. Data through June 2023. Includes Legislative Council Staff adjustments prior to 2010.

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

As in other regions of the state, housing markets and construction activity continue to fall off as average U.S. fixed mortgage rates top two-decade highs. After declining by 25.4 percent in 2022, San Luis Valley home sales are down 22.7 percent further through July 2023, compared with the same period last year, while housing inventory is up by 41.5 percent during the same period, as would-be buyers delay home purchases as rising interest rates erode purchasing power (Figure 54, left).

Construction activity is also subdued, with building permits down 1.6 percent through June 2023, after declining by 21.6 percent in 2022. Home prices have yet to respond significantly to demand conditions and are down by only 0.2 percent through July 2023, compared with the same period in 2022 (Figure 54, right). Hot housing markets in the region have eroded housing affordability in recent years, but with an average home price $353,000, the San Luis Valley remains one of the least expensive regions in the state. Regional housing markets are expected to remain sluggish in 2023 amidst a continued high interest rate environment, while housing affordability will remain a challenge for local residents.

Figure 54
San Luis Valley Housing Market Activity



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

National Economic Indicators

Calendar Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GDP ($ Billions)[1]	$14,478.1	$15,049.0	$15,599.7	$16,254.0	$16,843.2	$17,550.7	$18,206.0	$18,695.1	$19,477.3	$20,533.1	$21,381.0	$21,060.5	$23,315.1	$25,462.7
Percent Change	-2.0%	3.9%	3.7%	4.2%	3.6%	4.2%	3.7%	2.7%	4.2%	5.4%	4.1%	-1.5%	10.7%	9.2%
Real GDP ($ *Billions*)[1]	$15,236.3	$15,649.0	$15,891.5	$16,254.0	$16,553.3	$16,932.1	$17,390.3	$17,680.3	$18,076.7	$18,609.1	$19,036.1	$18,509.1	$19,609.8	$20,014.1
Percent Change	-2.6%	2.7%	1.5%	2.3%	1.8%	2.3%	2.7%	1.7%	2.2%	2.9%	2.3%	-2.8%	5.9%	2.1%
Unemployment Rate[2]	9.3%	9.6%	8.9%	8.1%	7.4%	6.2%	5.3%	4.9%	4.4%	3.9%	3.7%	8.1%	5.3%	3.6%
Inflation[2]	-0.3%	1.6%	3.1%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.4%	1.8%	1.3%	4.7%	8.0%
10-Year Treasury Note[3]	3.3%	3.2%	2.8%	1.8%	2.4%	2.5%	2.1%	1.8%	2.3%	2.9%	2.1%	0.9%	1.5%	3.0%
Personal Income ($ *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	$16,839.8	$17,683.8	$18,587.0	$19,832.3	$21,294.8	$21,777.2
Percent Change	-3.2%	4.3%	5.9%	5.1%	1.3%	5.5%	4.7%	2.6%	4.6%	5.0%	5.1%	6.7%	7.4%	2.3%
Wage & Salary Income ($ *Billions*)[1]	$6,249.1	$6,372.5	$6,626.2	$6,928.1	$7,114.0	$7,476.3	$7,859.5	$8,091.3	$8,474.4	$8,900.0	$9,324.6	$9,457.4	$10,290.1	$11,189.6
Percent Change	-4.4%	2.0%	4.0%	4.6%	2.7%	5.1%	5.1%	2.9%	4.7%	5.0%	4.8%	1.4%	8.8%	8.7%
Nonfarm Employment (*Millions*)[2]	131.3	130.3	131.9	134.2	136.4	138.9	141.8	144.3	146.6	148.9	150.9	142.2	146.3	152.6
Percent Change	-4.3%	-0.7%	1.2%	1.7%	1.6%	1.9%	2.1%	1.8%	1.6%	1.6%	1.3%	-5.8%	2.9%	4.3%

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

Colorado Economic Indicators

Calendar Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Nonfarm Employment (*Thousands*)[1]	2,244	2,221	2,257	2,312	2,381	2,464	2,541	2,602	2,660	2,727	2,790	2,653	2,751	2,865
Percent Change	-4.5%	-1.0%	1.6%	2.4%	3.0%	3.5%	3.1%	2.4%	2.3%	2.5%	2.3%	-4.9%	3.7%	4.1%
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	$433,128
Percent Change	-5.1%	3.3%	8.6%	5.9%	5.4%	8.8%	4.9%	1.7%	6.8%	7.3%	7.4%	6.1%	8.7%	5.4%
Per Capita Income ($)[2]	$40,093	$40,790	$43,658	$45,630	$47,404	$50,797	$52,339	$52,390	$55,251	$58,453	$62,124	$65,352	$70,715	$74,167
Percent Change	-6.7%	1.7%	7.0%	4.5%	3.9%	7.2%	3.0%	0.1%	5.5%	5.8%	6.3%	5.2%	8.2%	4.9%
Wage & Salary Income ($ *Millions*)[2]	$112,228	$113,670	$118,414	$124,947	$129,521	$138,626	$146,578	$151,165	$160,931	$170,808	$182,958	$187,611	$205,271	$226,853
Percent Change	-3.8%	1.3%	4.2%	5.5%	3.7%	7.0%	5.7%	3.1%	6.5%	6.1%	7.1%	2.5%	9.4%	10.5%
Housing Permits[3]	9,355	11,591	13,502	23,301	27,517	28,698	31,871	38,974	40,673	42,627	38,633	40,469	56,524	48,839
Percent Change	-50.8%	23.9%	16.5%	72.6%	18.1%	4.3%	11.1%	22.3%	4.4%	4.8%	-9.4%	4.8%	39.7%	-13.6%
Nonresidential Construction ($ *Millions*)[4]	$3,354	$3,147	$3,923	$3,695	$3,624	$4,351	$4,991	$5,988	$6,151	$8,151	$5,161	$5,600	$5,682	$6,710
Percent Change	-18.5%	-6.2%	24.7%	-5.8%	-1.9%	20.1%	14.7%	20.0%	2.7%	32.5%	-36.7%	8.5%	1.5%	18.1%
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.