



March 2026 | Legislative Council Staff
Economic & Revenue Forecast

Presentation to the Joint Budget Committee
March 19, 2026



Economic Outlook



The U.S. economy is expected to continue expansion at a slow-to-moderate rate

Real U.S. Gross Domestic Product
Percent Change

Annual Growth

2024: 2.8%

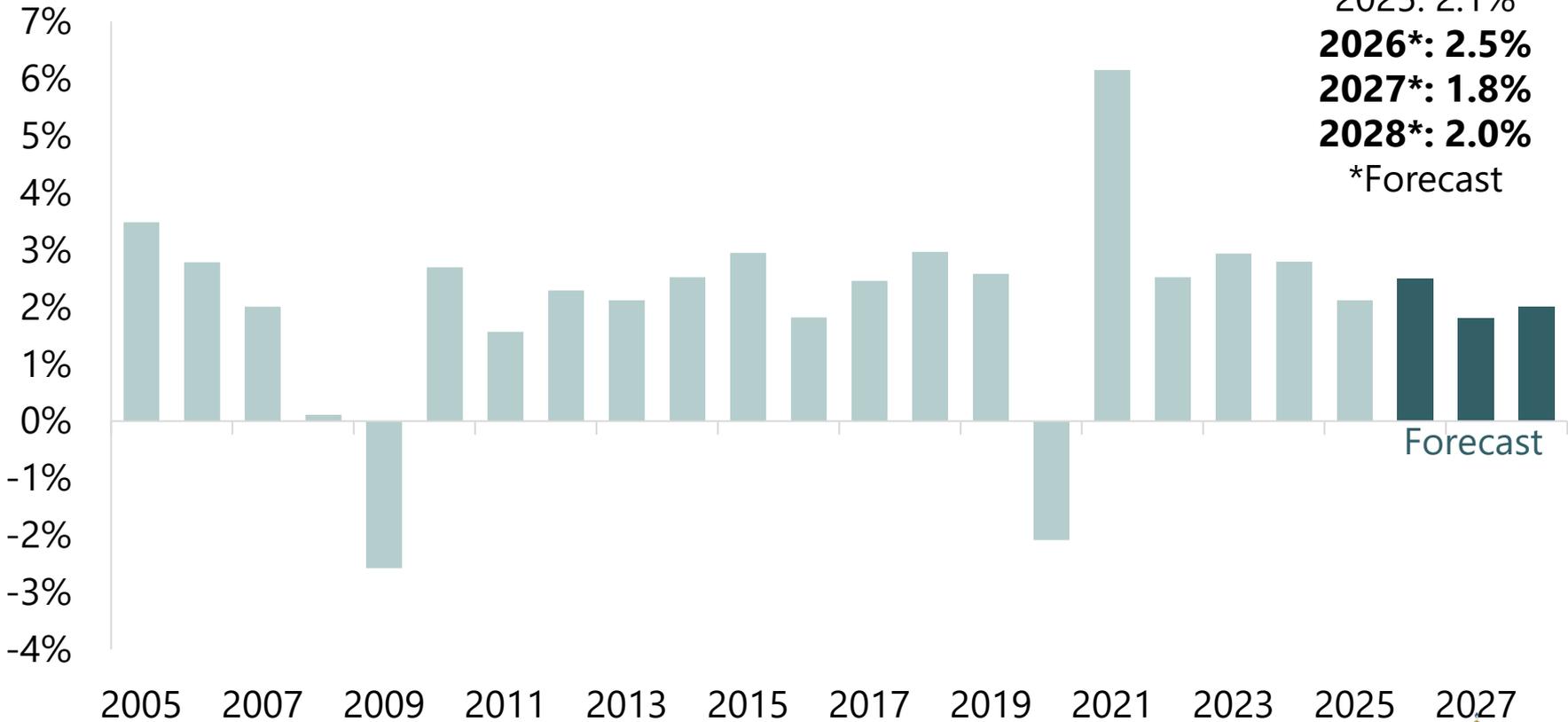
2025: 2.1%

2026*: 2.5%

2027*: 1.8%

2028*: 2.0%

*Forecast

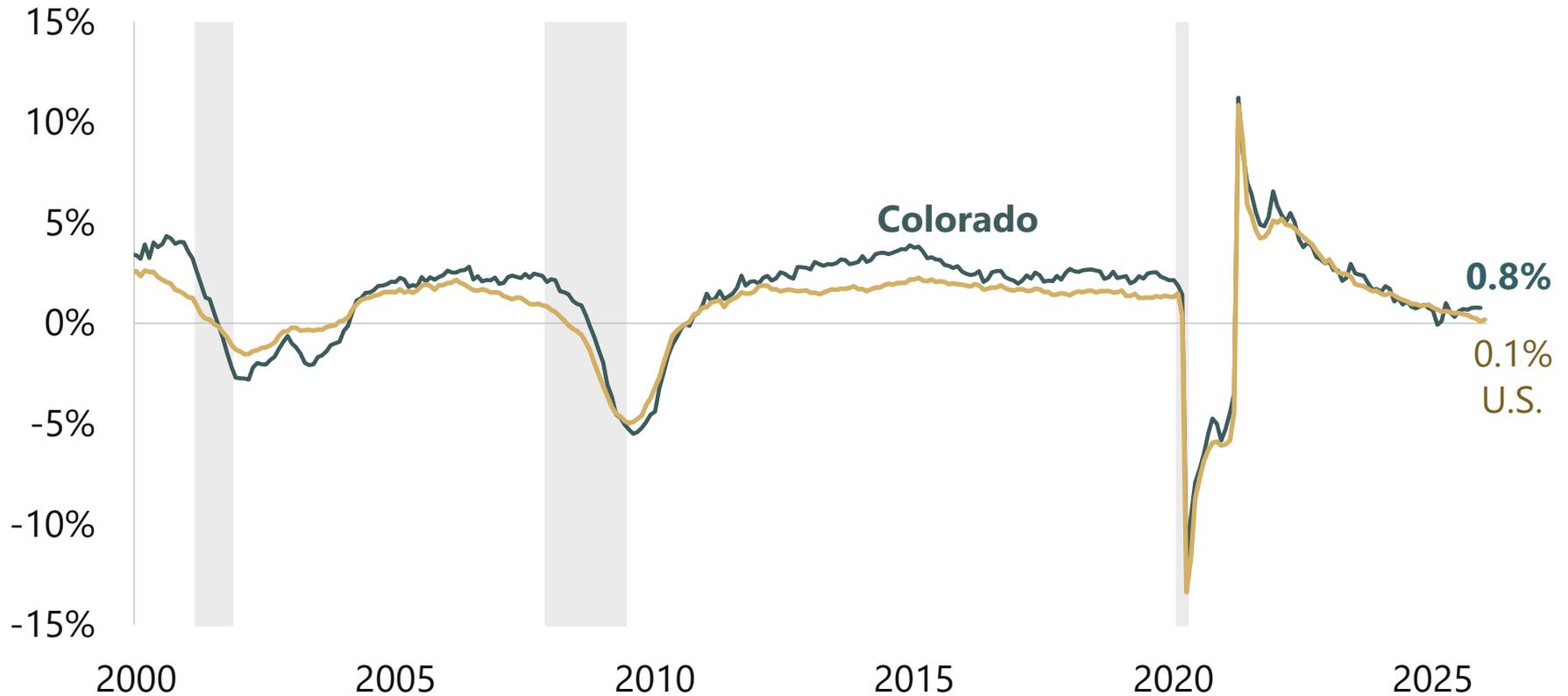


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections. Real GDP is inflation-adjusted to chained 2017 levels and shown at seasonally adjusted annualized rates.



Slow employment growth expected to continue in the state and nationwide

Nonfarm Employment Growth Year-over-year percent change



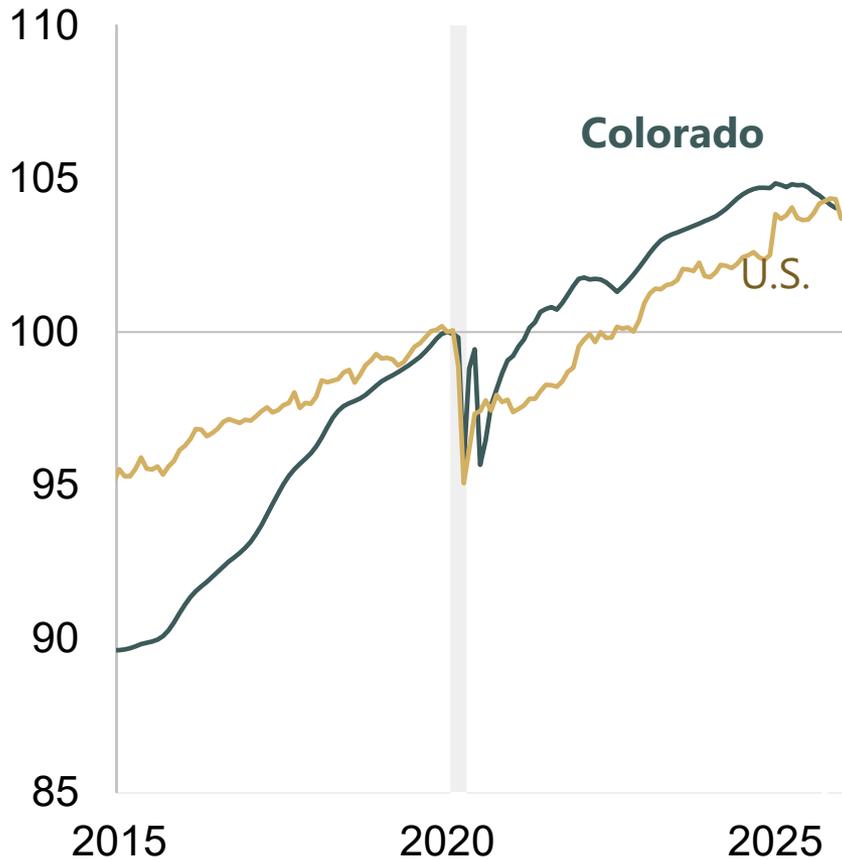
Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data for the U.S. are through February and data for Colorado are through December.



Unemployment rate falls as people leave the labor force

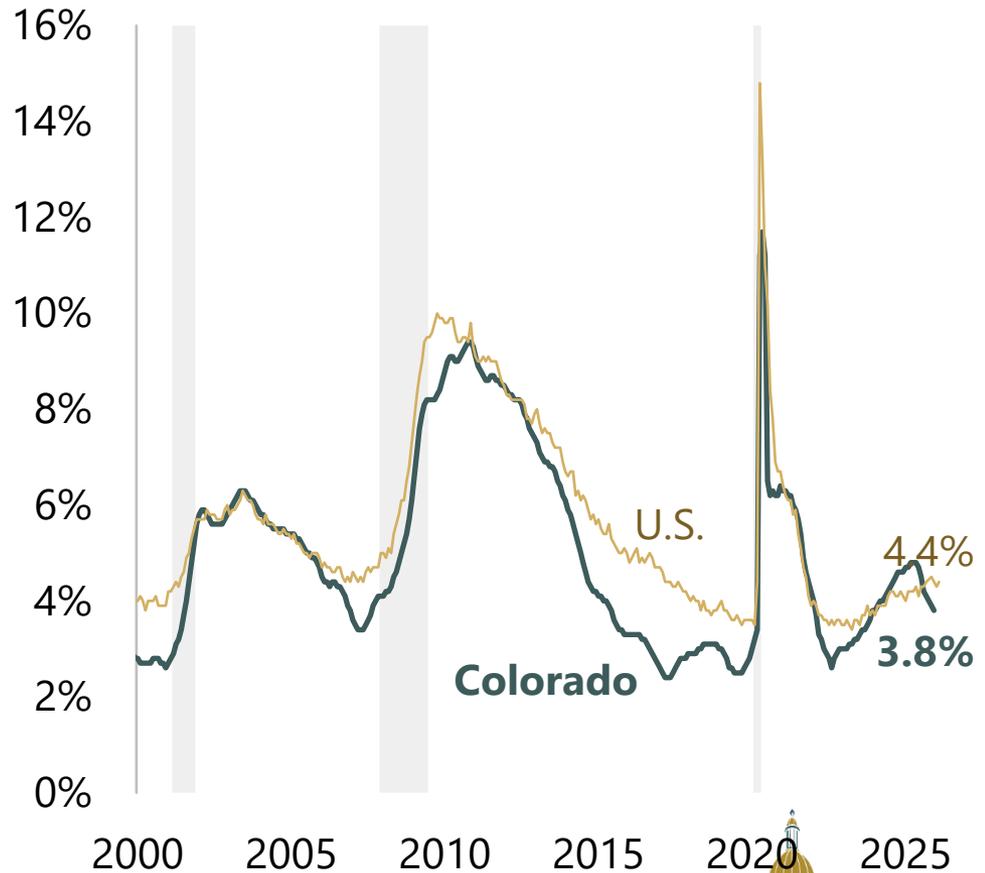
Index of Civilian Labor Force

Index 100 = January 2020



Unemployment Rate

Percent

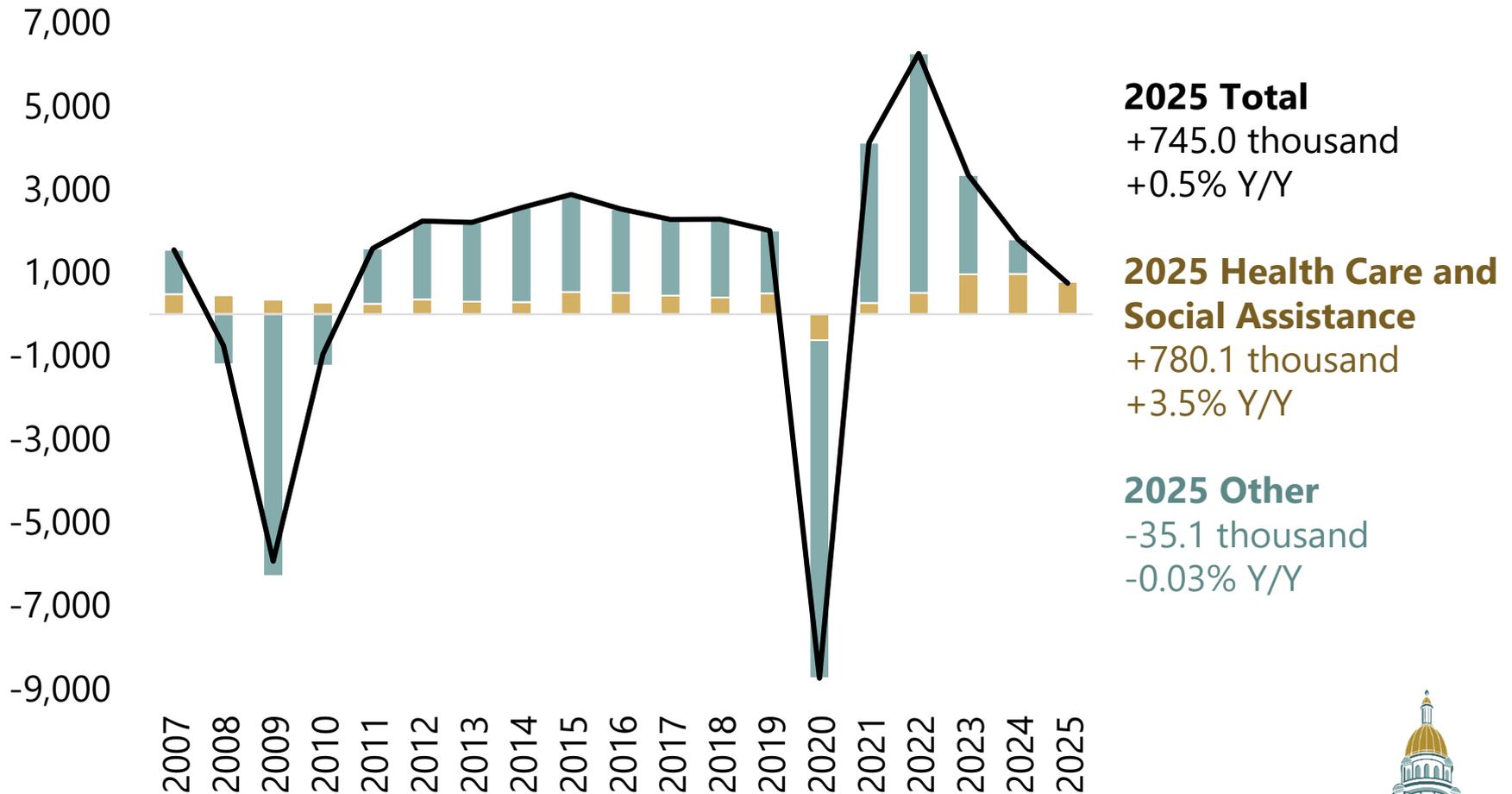


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data for the U.S. are through February and data for Colorado are through December.



Employment gains in health care reflect demographic shifts and offset broader weakness

Year-over-year Level Changes to U.S. Nonfarm Employment
Thousands of Jobs

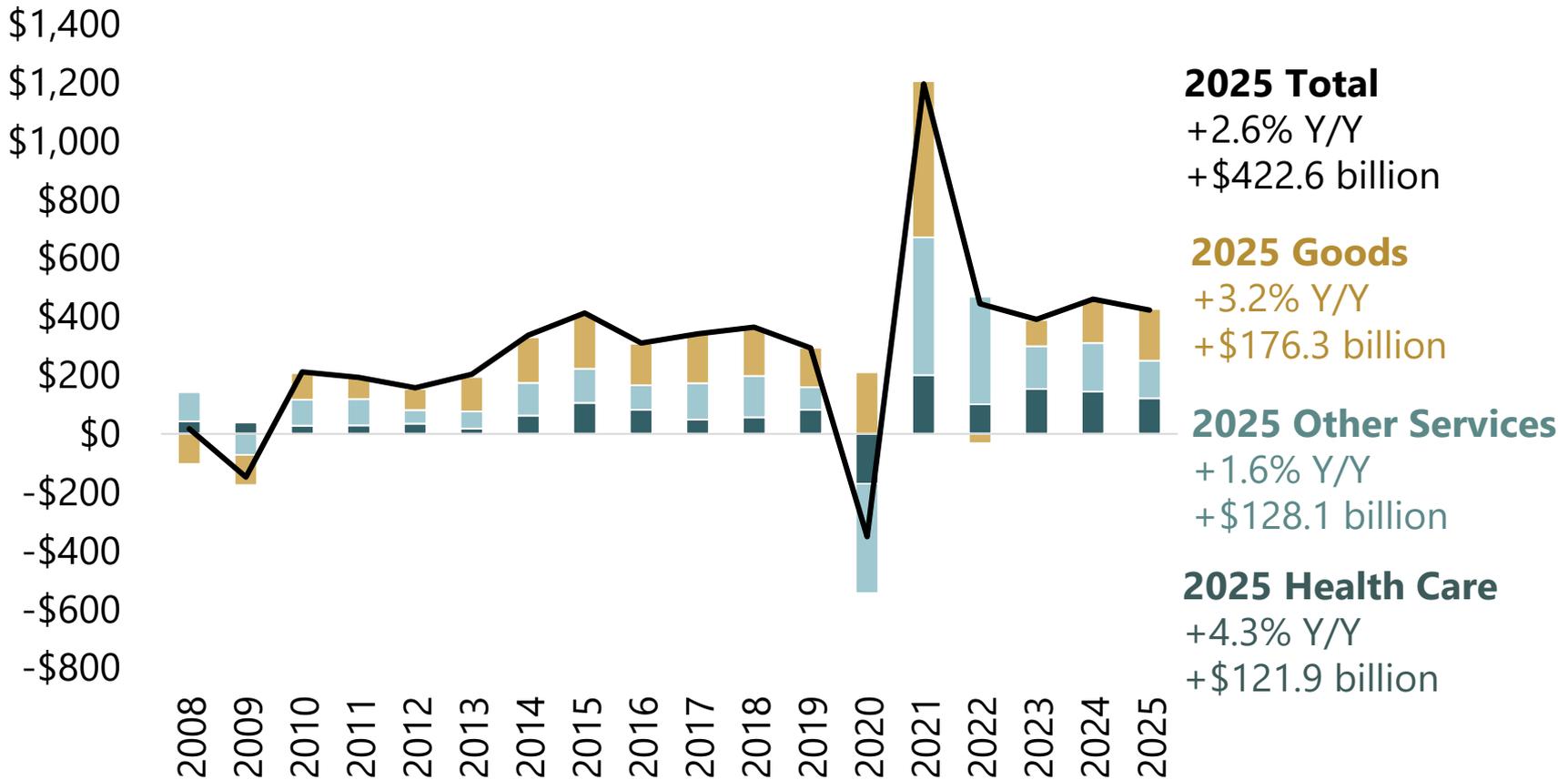


Source: U.S. Bureau of Labor Statistics. Data through 2025.



Non-cyclical growth in health care spending buoys national consumer spending

Year-over-Year Level Changes to U.S. Personal Consumption Expenditures
Billions of Dollars

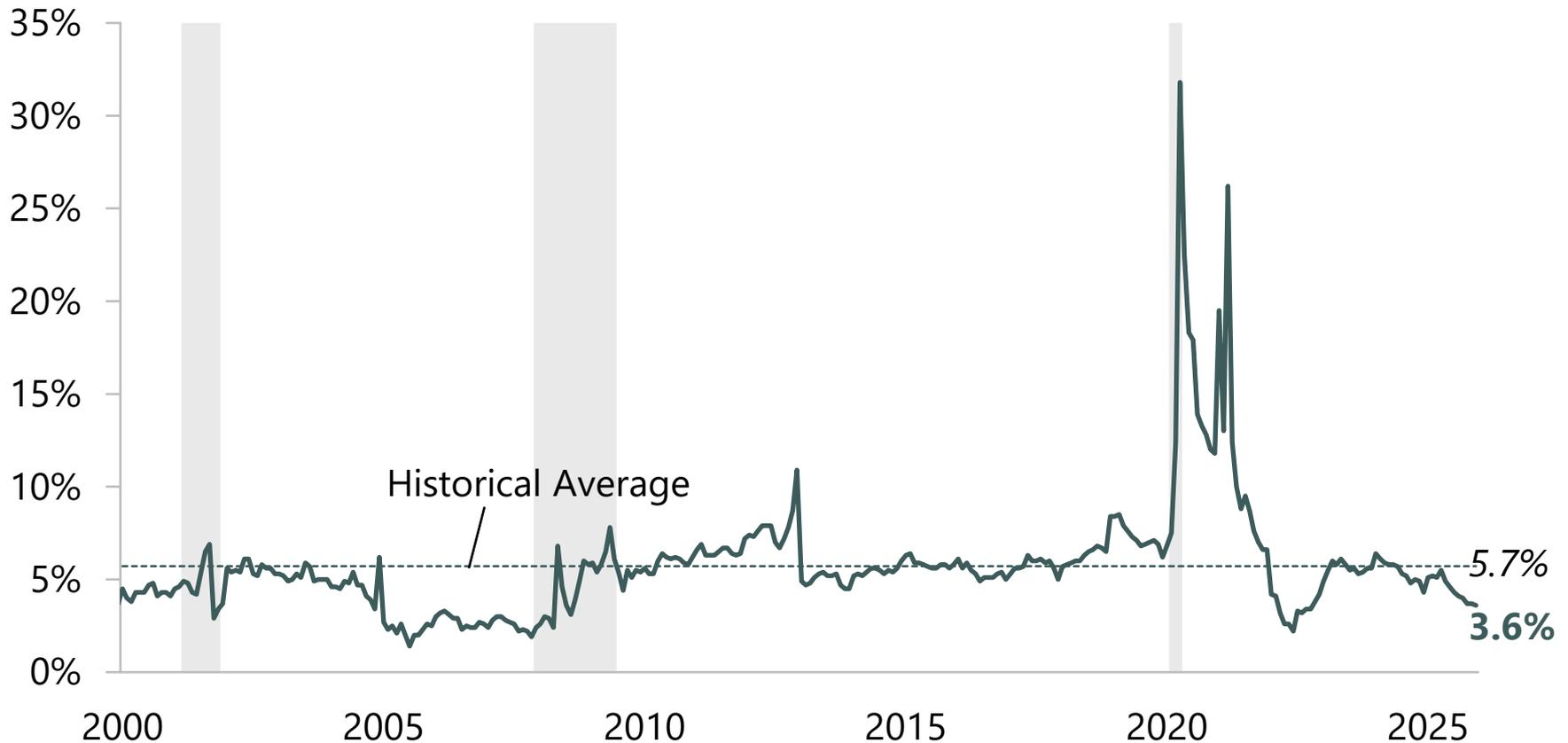


Source: U.S. Bureau of Economic Analysis data through 2025. Data are inflation-adjusted to chained 2017 levels.



Real U.S. household savings are declining

Historical Personal Savings Rate

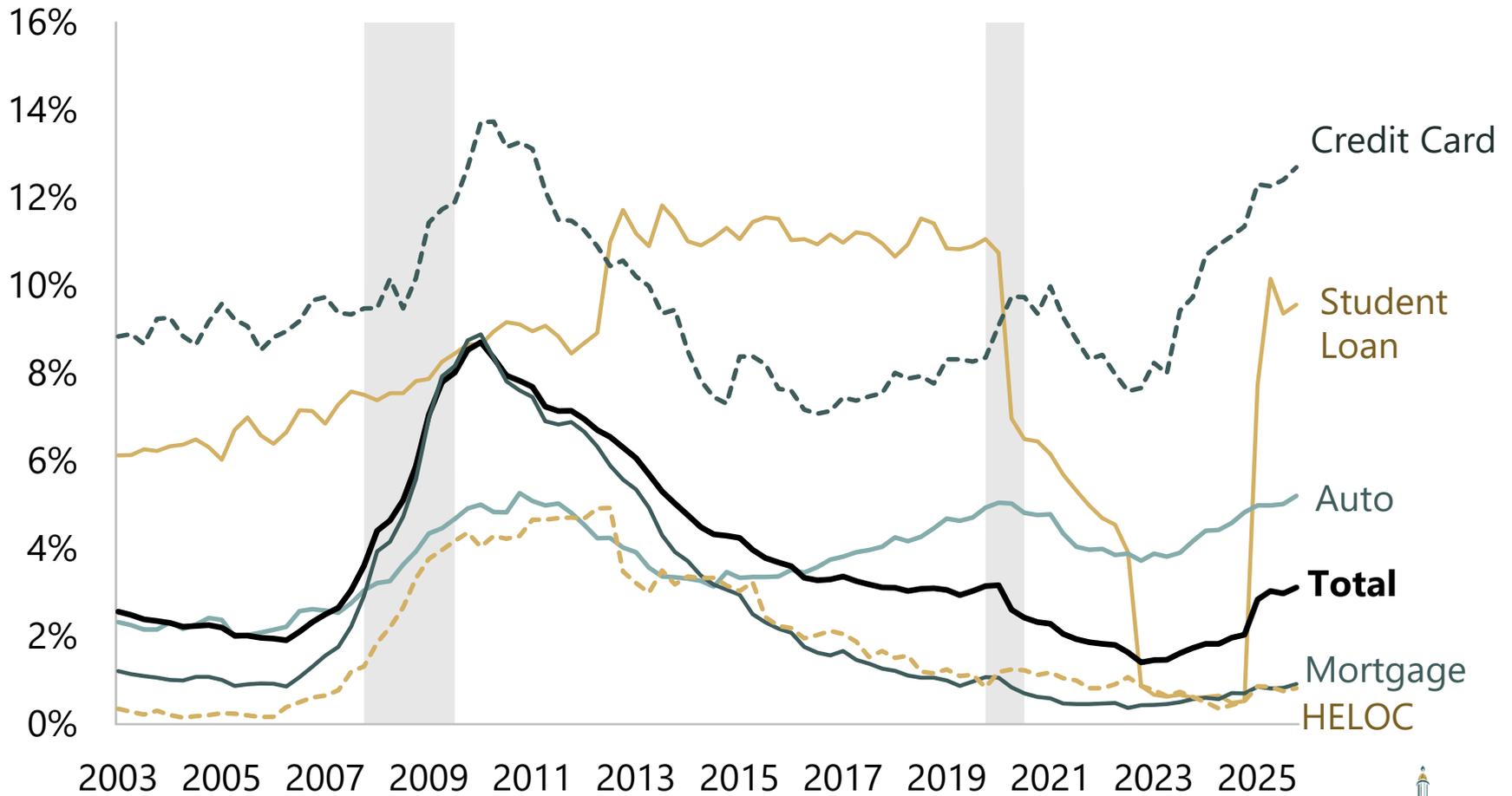


Source: U.S. Bureau of Economic Analysis. Data are through December 2025. The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates.



Credit card delinquencies are rising nationwide

U.S. Serious Delinquency Rates by Loan Type
Percent of Loans

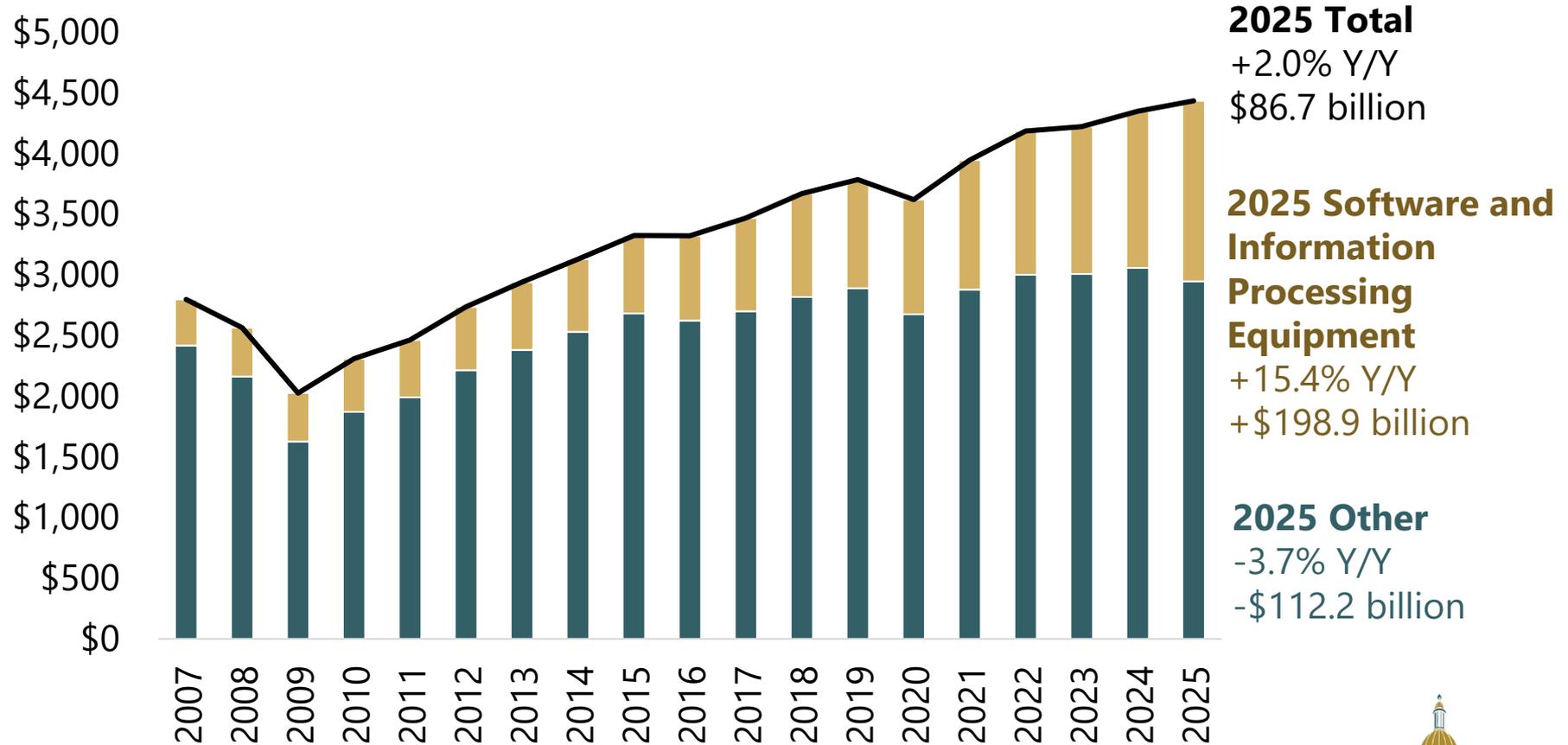


Source: New York Fed Consumer Credit Panel/Equifax. Data are through 2025Q4. Serious delinquency rates are the percentage of total debt that is delinquent by 90 days or more.



Downward pressures on broader business investment offset by AI-related investments

Gross Domestic Private Investment Billions of Dollars

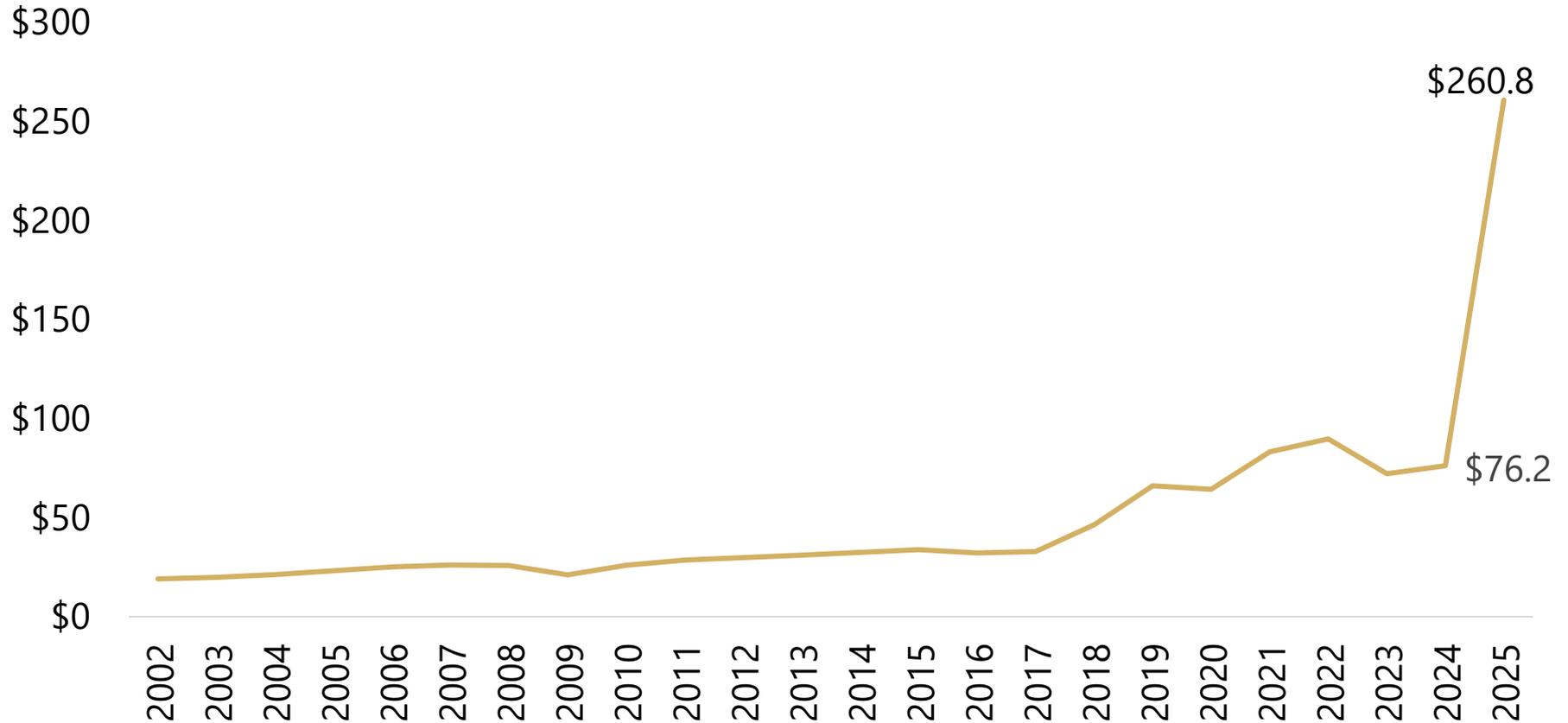


Source: U.S. Bureau of Economic Analysis data through 2025. Data are inflation-adjusted to chained 2017 levels.



Tariff payments expected to remain at historical highs despite IEEPA tariff ruling

U.S. Tariffs Paid
Billions of Dollars

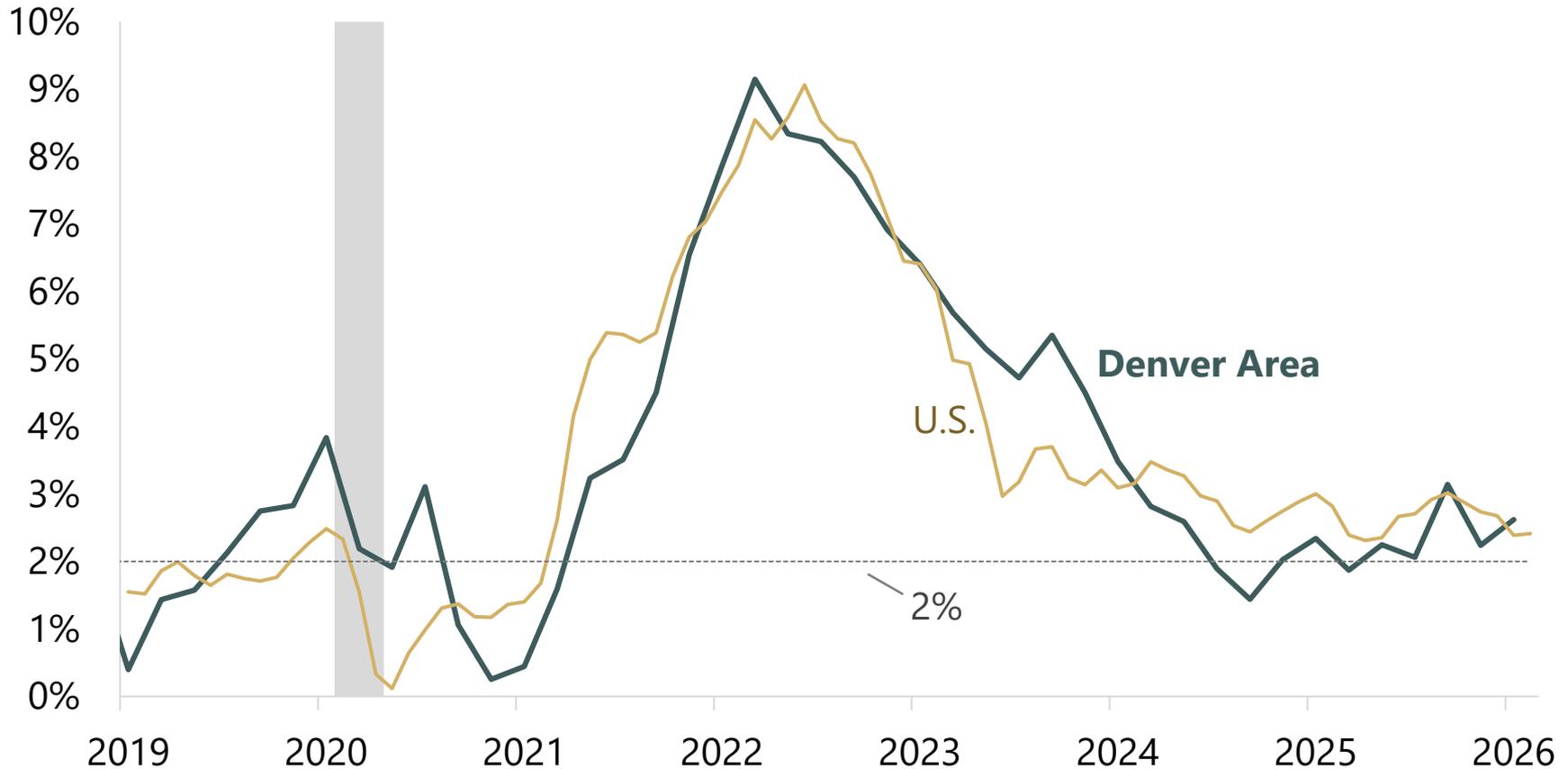


Source: U.S. Census Bureau, Economic Indicators Division; U.S. Import and Export Merchandise trade statistics through December 2025.



Inflation hovers above target and expected to creep up in 2026

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



Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. Data are through January 2026 for the Denver area and February 2026 for the U.S.

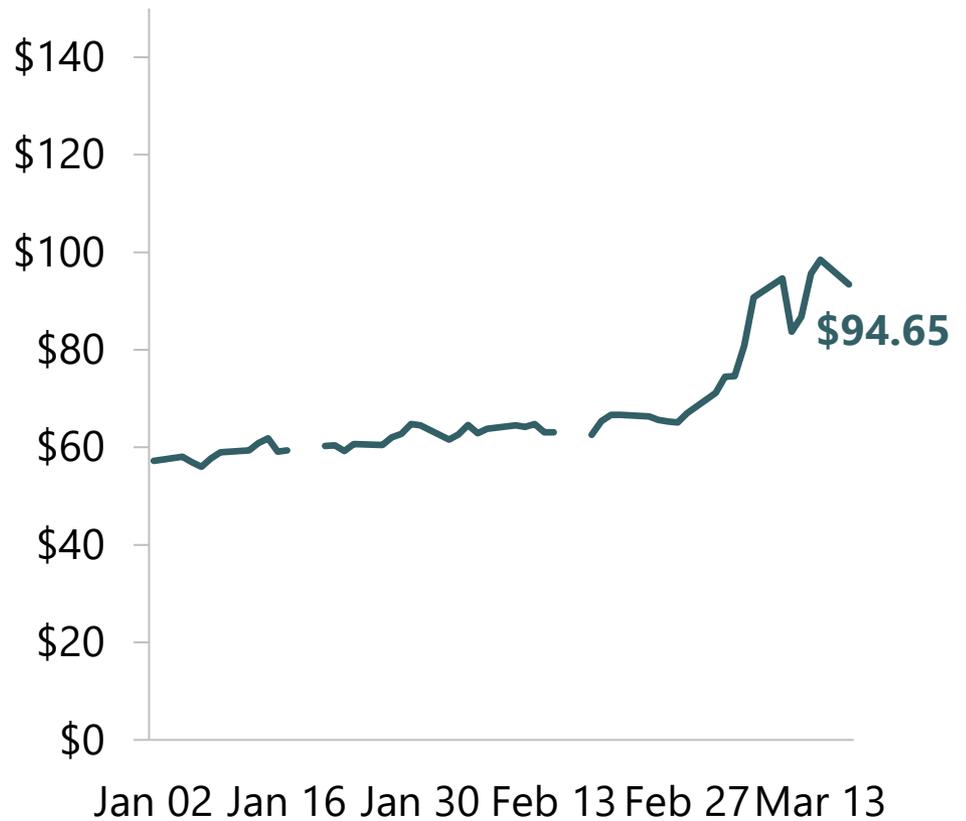


Crude oil prices spike in March

Average Weekly Price - WTI
Dollars per Barrel



Daily Price, 2026 - WTI
Dollars per Barrel



Source: Federal Reserve Bank of St. Louis, FRED Database for West Texas Intermediate price. Weekly average prices (left). Daily prices (right).



The forecast anticipates a continued, slowing expansion, with balanced risks more severe on the downside

Downside Risks:

- Escalating conflict in Middle East disrupts oil supply and trade flows
- Weak household finances impact consumer spending
- AI market correction

Upside Risks:

- Shift in trade policy
- Wealth gains from AI investment accelerate consumer spending
- Inflation eases, with monetary policy following

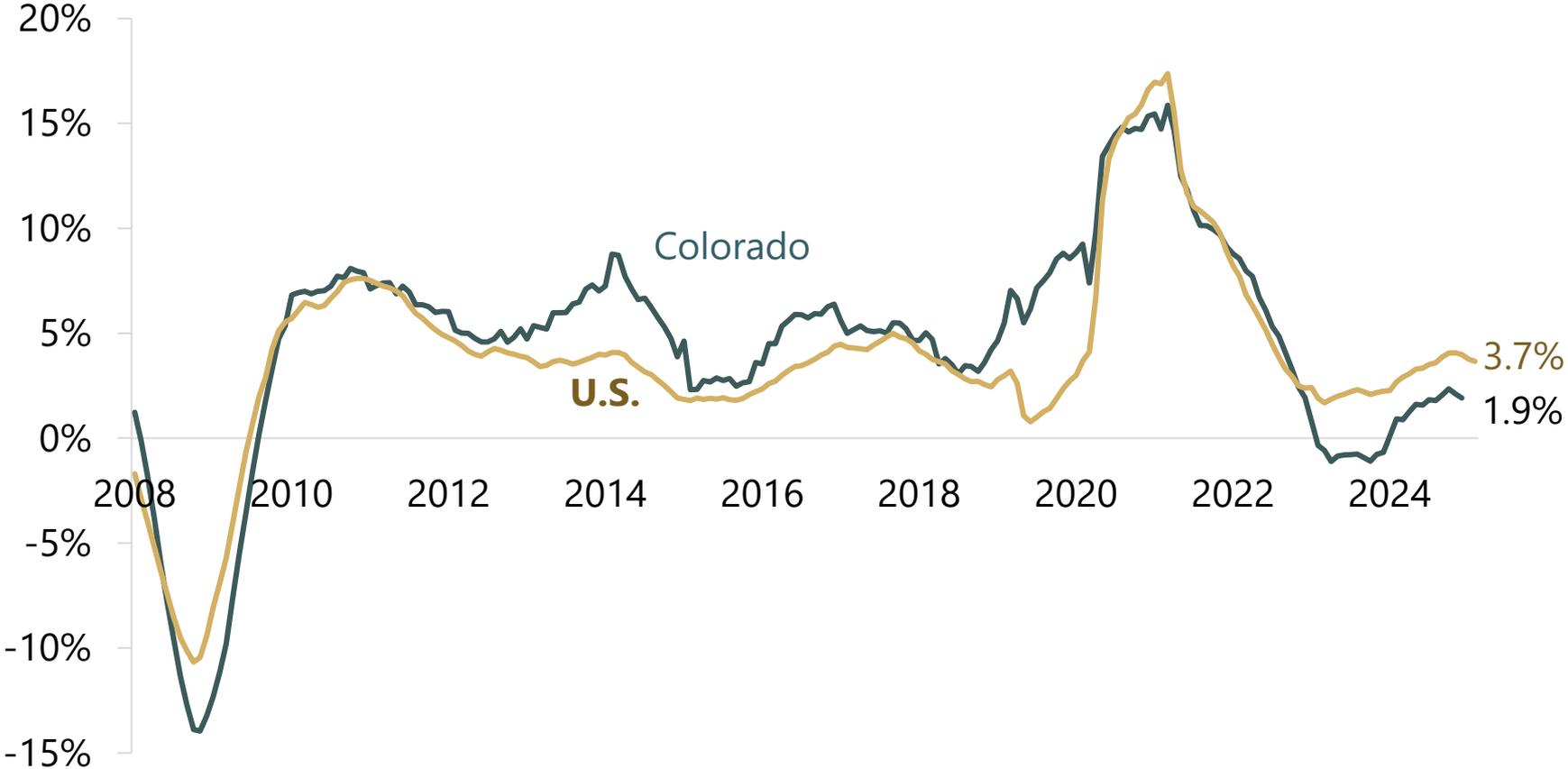


Supplemental Slides



Colorado retail spending continues to underperform the nation

Monthly Nominal Retail Trade Sector Sales
Year-over-year Percent Growth



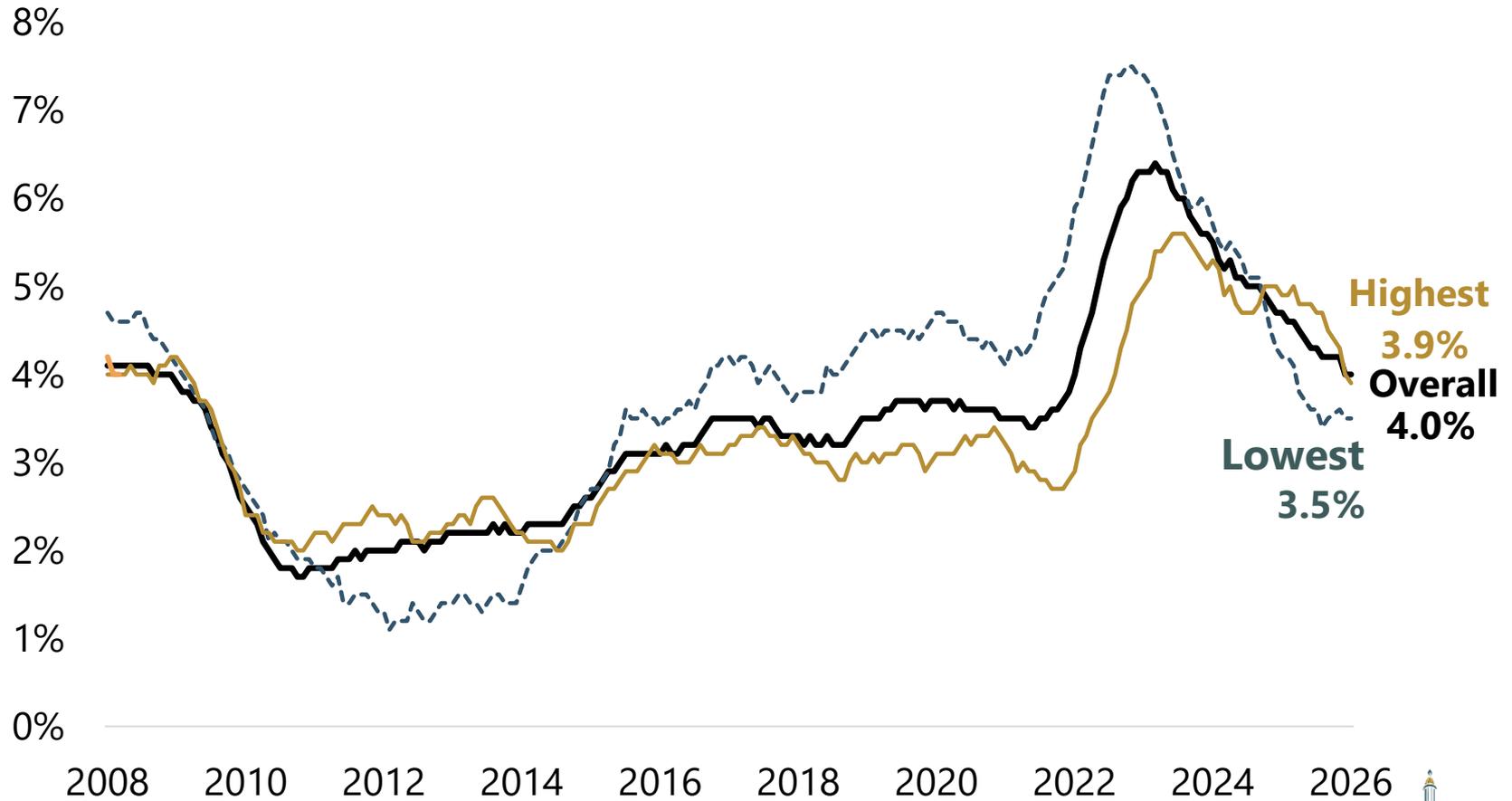
Source: U.S. data from U.S. Census Bureau through January 2026, Colorado data from Colorado Department of Revenue through November 2025. Data are seasonally adjusted.



Wage growth for highest-earners slows but still outpaces that for lowest-income

Nominal Hourly Wage Growth by Wage Quartile

Year-over-Year Percent Change, 12-Month Moving Average



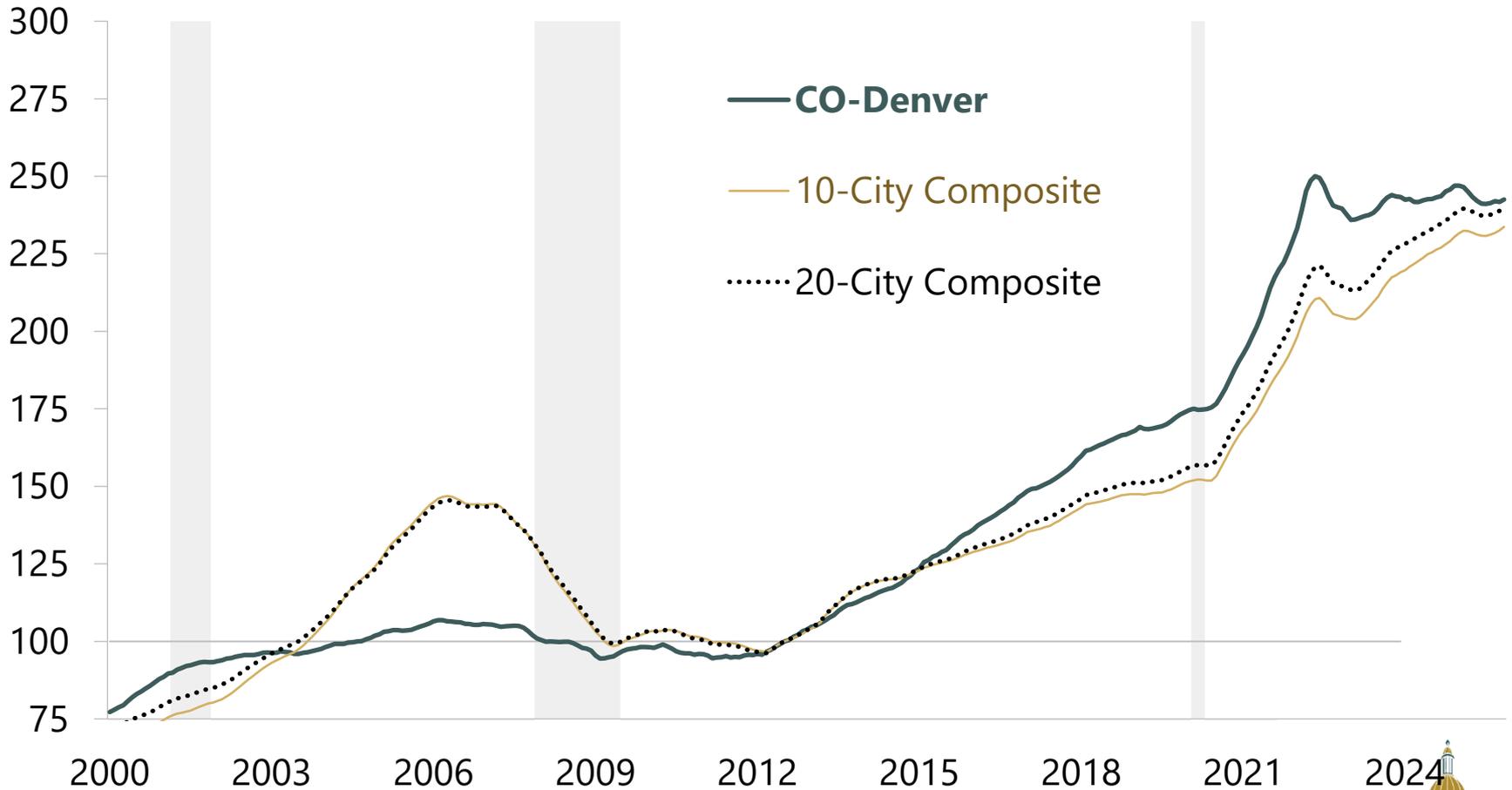
Source: Atlanta Fed Wage Growth Tracker. Data are through January 2026.



Home price growth remains muted in Denver and nationwide

Case-Shiller Home Price Indices

Index 100 = July 2012



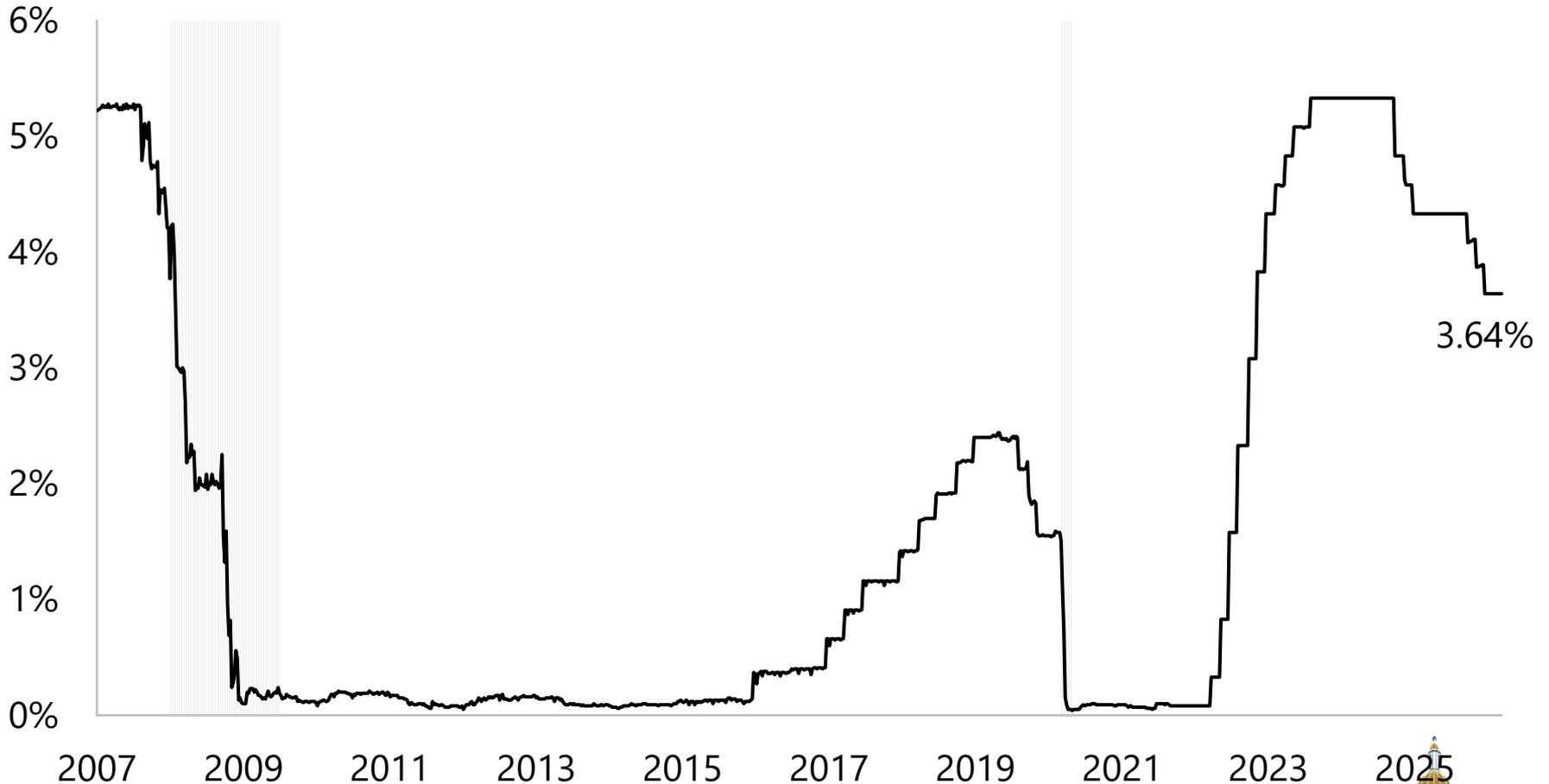
Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through November 2025.



Federal Reserve cuts interest rates in 2025, but path remains unclear

Effective Federal Funds Rate

Percent

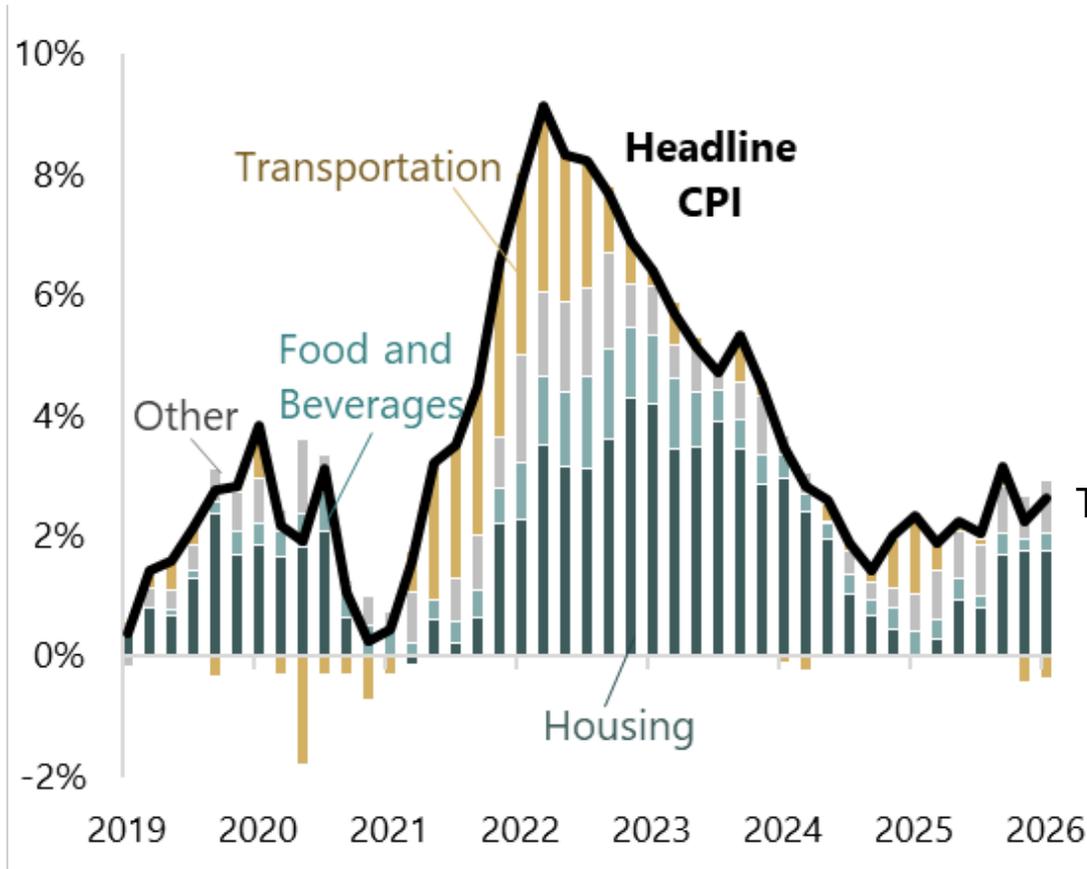


Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates

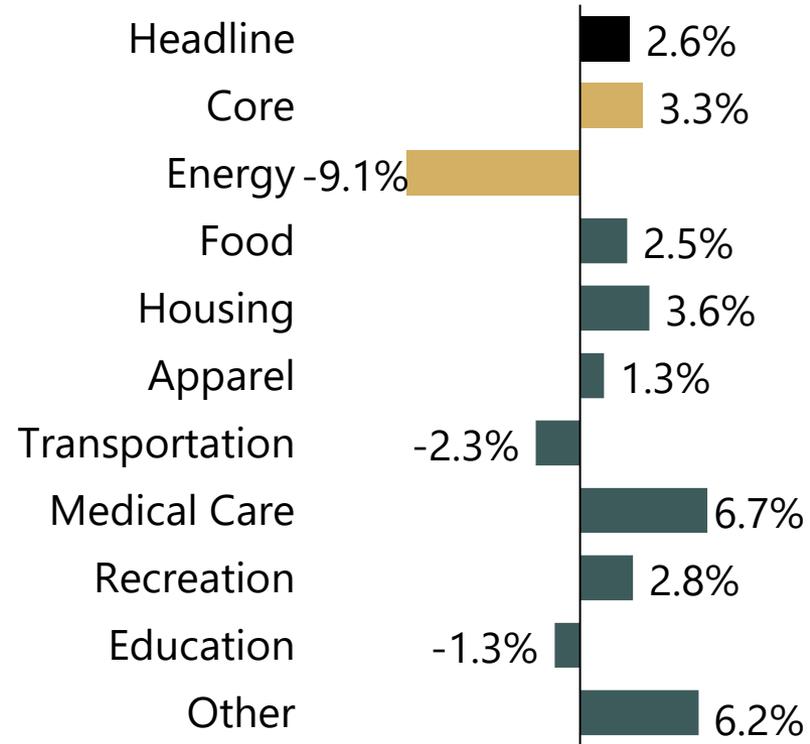


Inflation in the Denver area is expected to continue creeping up through 2026

Denver-Aurora-Lakewood Consumer Price Index Year-over-Year Percent Change in Prices



Selected Components, January 2026



Source: U.S. Bureau of Labor Statistics and Legislative Council Staff calculations.

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

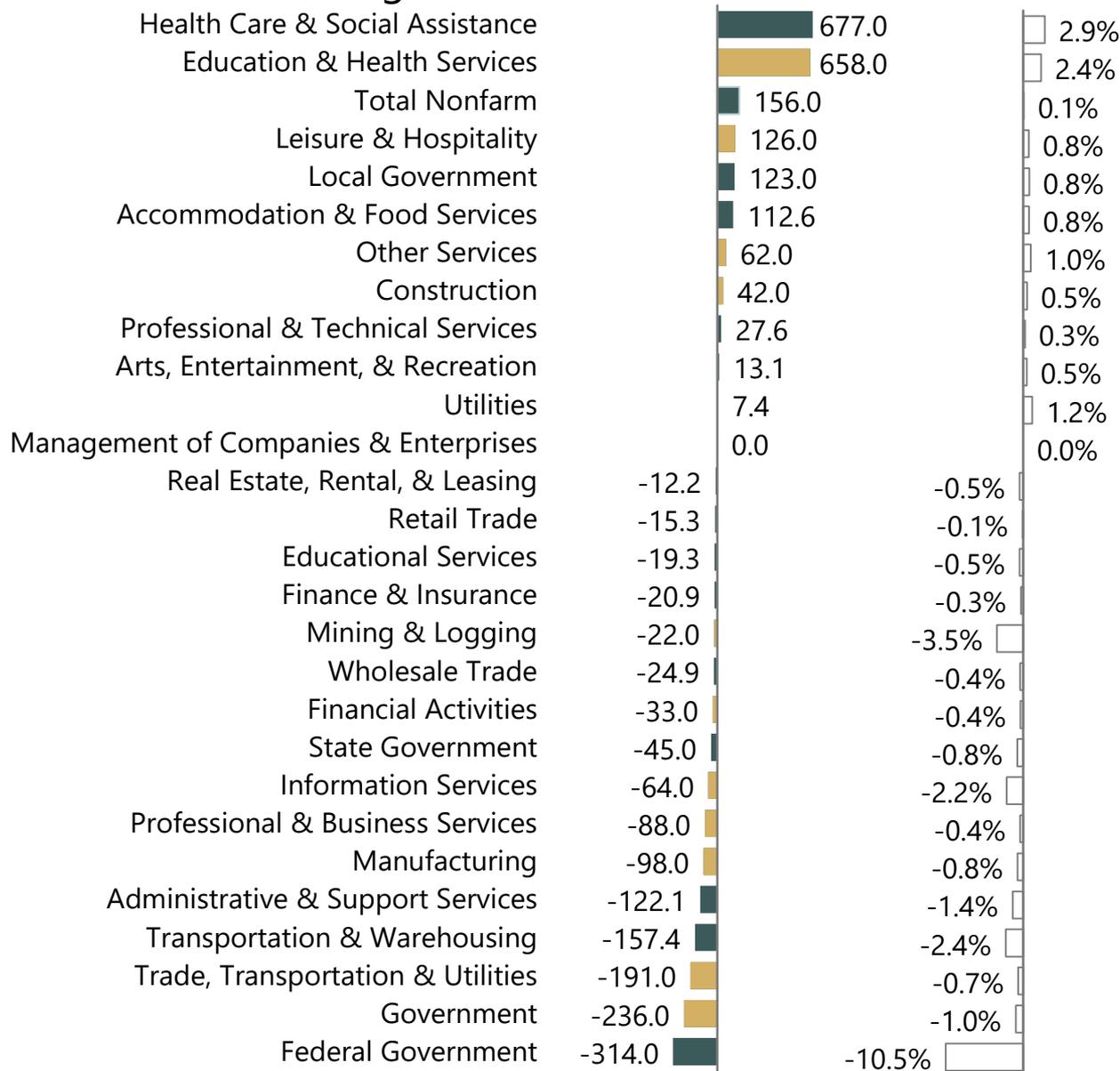


U.S. Jobs Gains and Losses by Industry - February 2026

Year-over-Year Change

Thousands of Jobs

Percent Change



Revenue & Budget Forecast



Forecast Takeaways

General Fund Revenue Forecast

- revised down in FY 2025-26 & FY 2026-27
- OBBBA driving forecast uncertainty
- tax credits triggered off for TY 2027, TY 2028
- HSMA revenue above expectations

TABOR Outlook

- **no TABOR surplus expected** in FY 2025-26; forecast now below limit by **\$914M**
- FY 2026-27 surplus **\$276M**, just enough to fund FY 2027-28 homestead



More Forecast Takeaways

School Finance

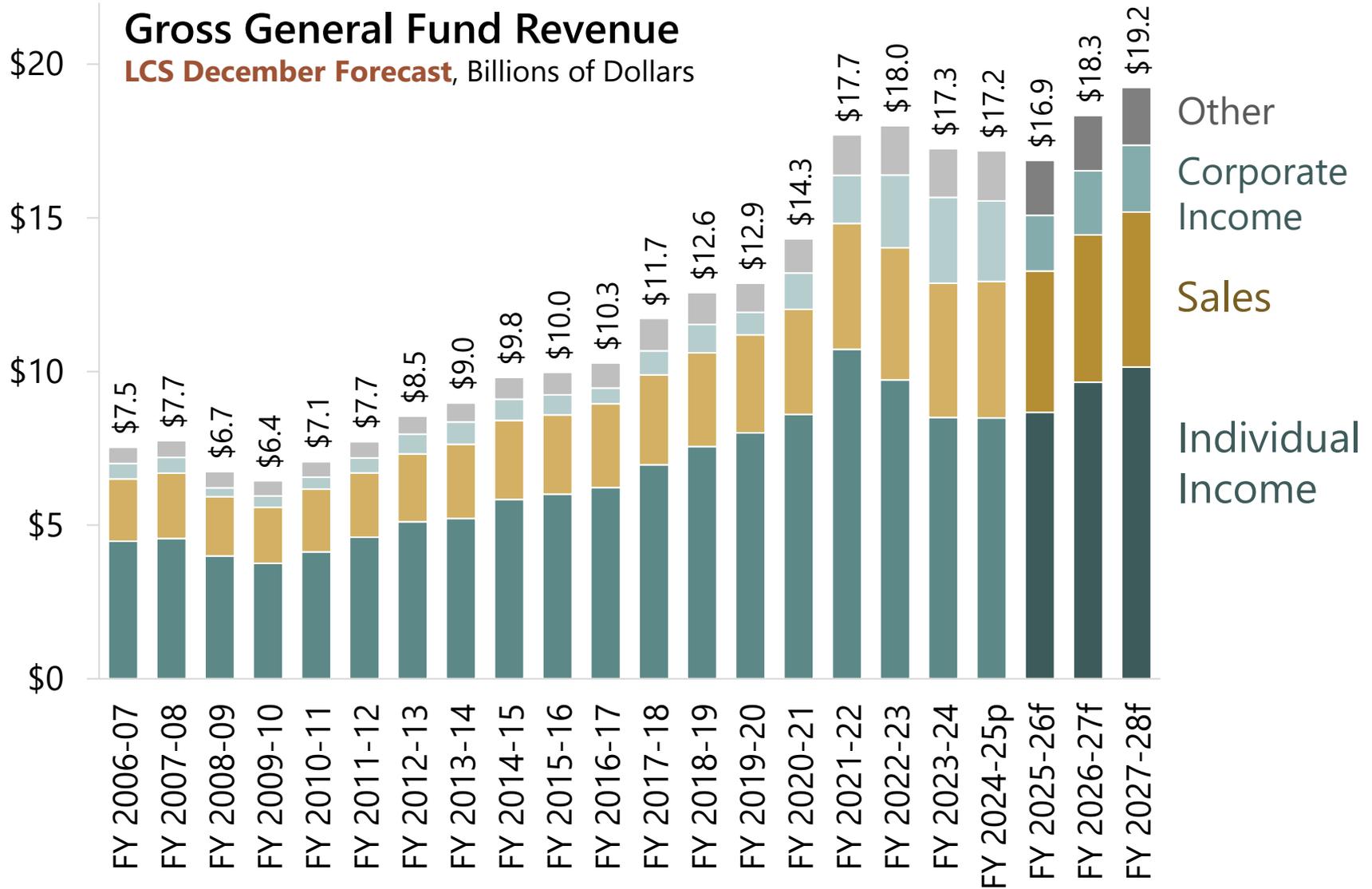
- SEF revenue projected to fall 5.3% in FY 2025-26
- phase-in schedule for new school finance formula would stop

Budget Bottom Line

- Revenue forecast revisions increase projected FY 2026-27 deficit by ~\$262M
- With supplementals, projected deficit increased by ~\$643M relative to Dec forecast

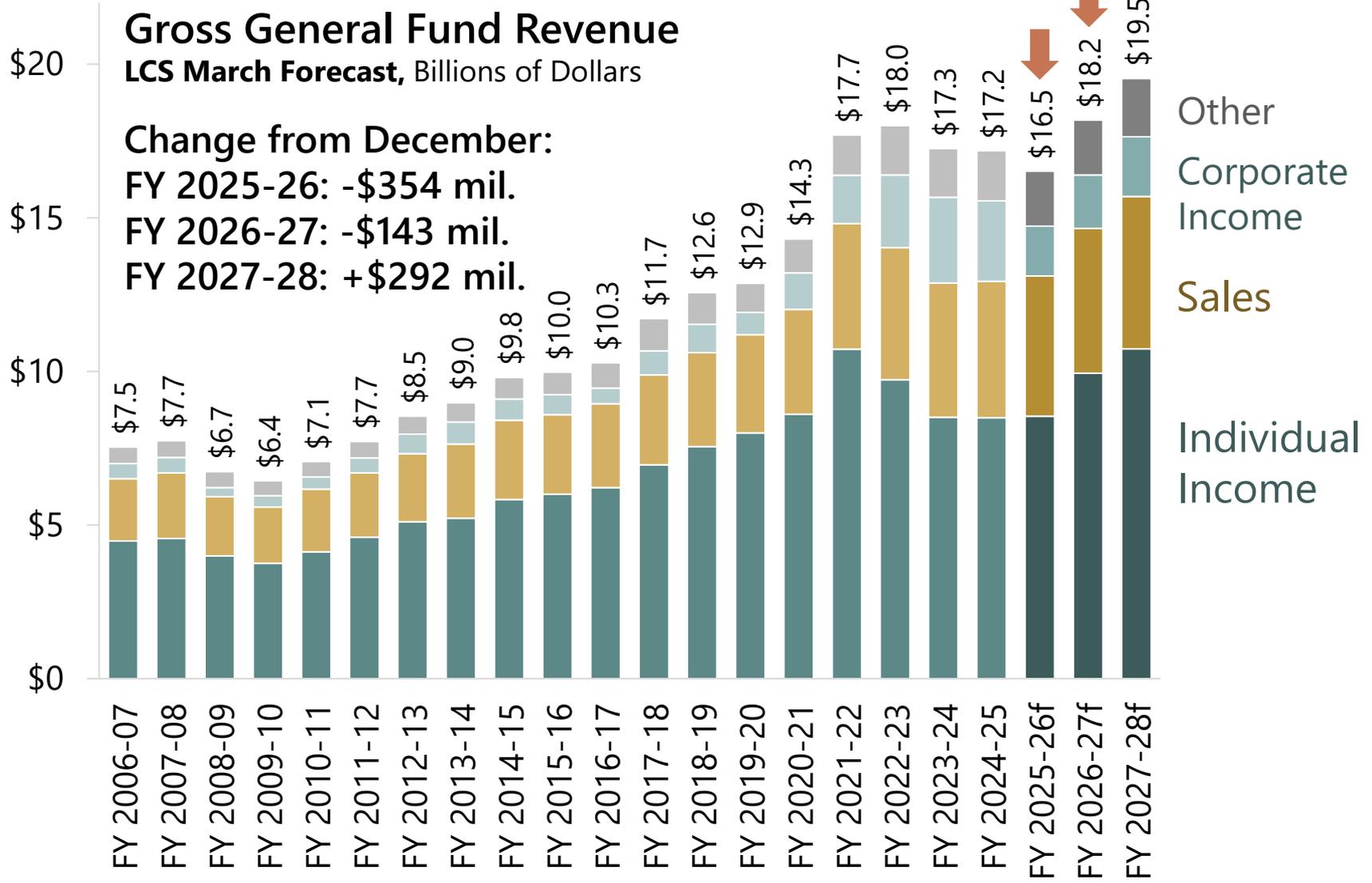


General Fund revenue expected to fall in FY 2025-26 and rebound in FY 2026-27



Source: Colorado Office of the State Controller and Legislative Council Staff March forecast.

General Fund revenue expected to fall in FY 2025-26 and rebound in FY 2026-27

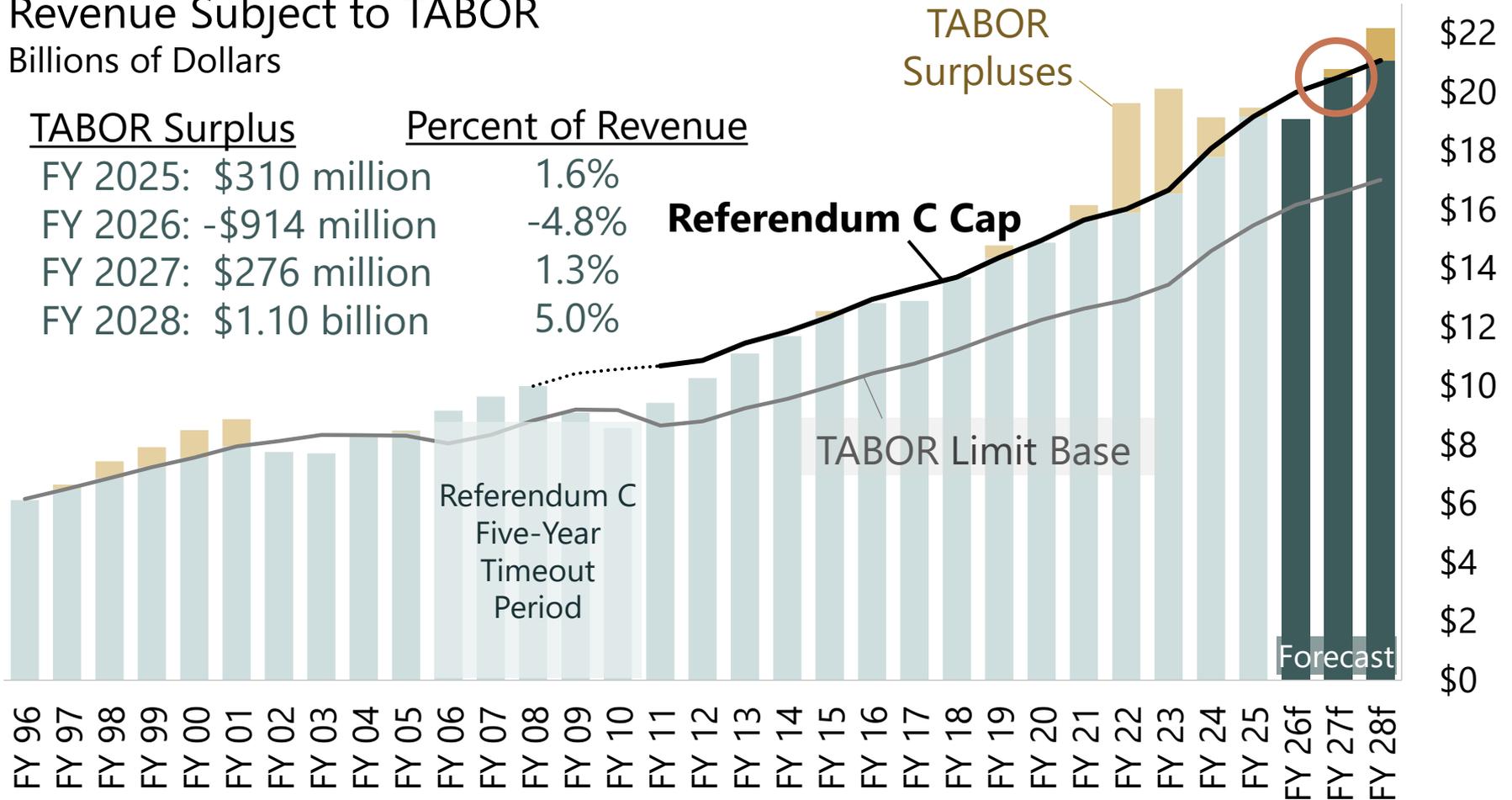


Source: Colorado Office of the State Controller and Legislative Council Staff March forecast.

Revenue below Referendum C Cap in FY 2025-26; could fall below in FY 2026-27

Revenue Subject to TABOR
Billions of Dollars

<u>TABOR Surplus</u>	<u>Percent of Revenue</u>
FY 2025: \$310 million	1.6%
FY 2026: -\$914 million	-4.8%
FY 2027: \$276 million	1.3%
FY 2028: \$1.10 billion	5.0%



Source: Office of the State Controller and Legislative Council Staff. f = forecast

Revenue Forecast Policy Outcomes

Triggered Tax Credits

- FATC/Expanded EITC already **off** for tax year (TY) 2026
- FATC/Expanded EITC projected **off** for TY 2027, TY 2028
 - TY 2027 determined by **December 2026** forecast
- Our forecast assumes credits off and adjusts (increases) revenue forecast. **If we assumed credits will be available, then we would downgrade our forecast.**
(No TABOR surplus for FY 2026-27)

Healthy School Meals for All

- Prop MM now forecast at **\$132M** in FY 2026-27
(vs. \$95M Blue Book estimate)
- Program reserve projected **>35%** for FY 2026-27

School Finance

- New formula phased in at **15%** for FY 2025-26, scheduled to increase to **30%** for FY 2026-27
- HB 24-1448 directs the phase-in to be stopped if:
 - Either of two property tax conditions are met; or
 - **SEF revenue from Amendment 23** projected to **decrease by $\geq 5\%$** in **current year** or **budget year**
- **LCS forecasts SEF at -5.3% for FY 2025-26**
- Adopting LCS forecast would stop additional phase in (results in continuation of 15% phase in) and retains four-year averaging
 - Reduces total program by **\$52M** for FY 2026-27
 - Reduces state aid by **\$49M** for FY 2026-27

FY 2025-26 Current Year | General Fund Reserve

Reserve Requirement



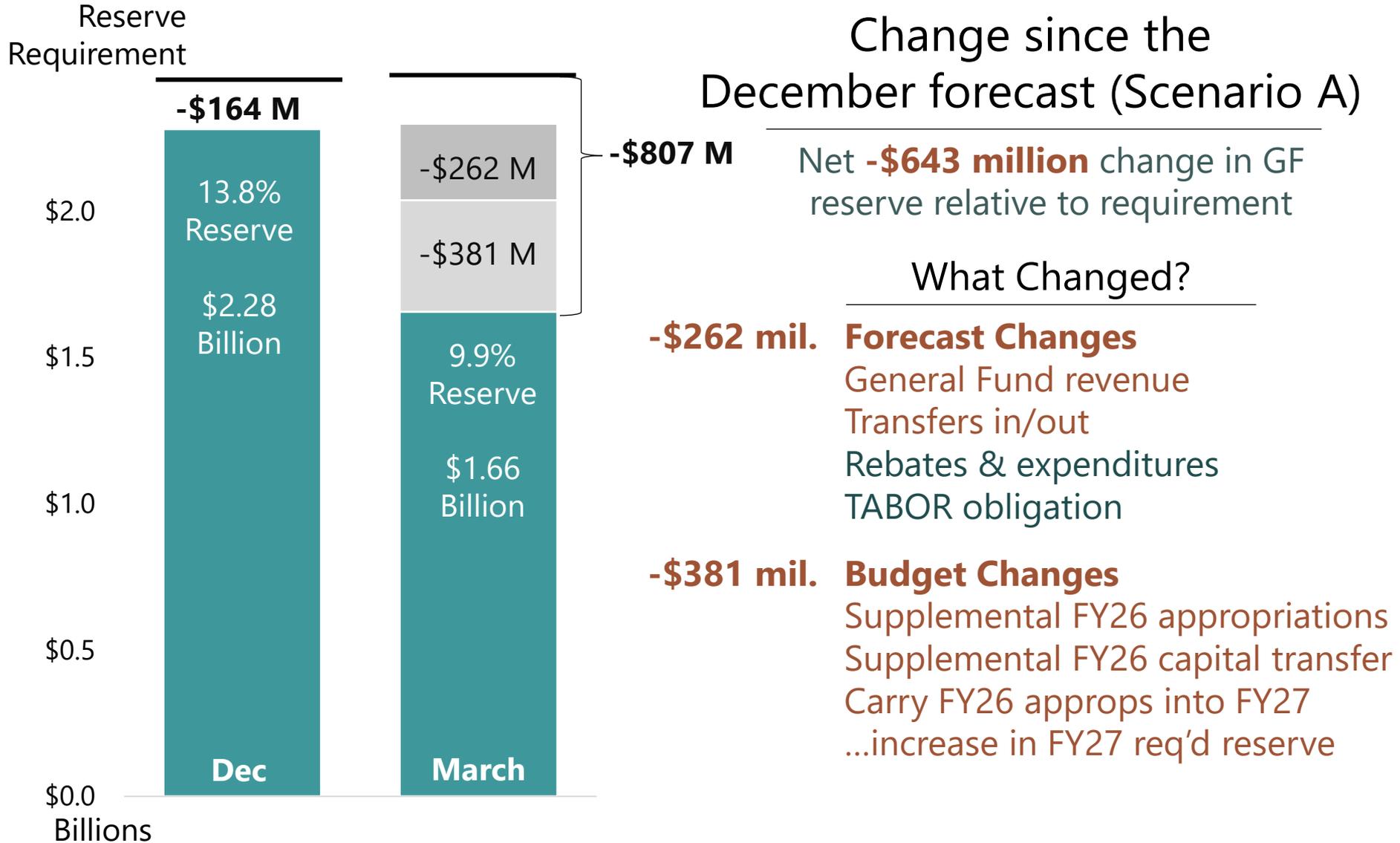
Change since the December forecast (Scenario A)

Net **-\$613 million** change in GF reserve relative to requirement

What Changed?

- \$360 mil. Forecast Changes**
 - General Fund revenue
 - Transfers in/out
 - Rebates & expenditures
- \$253 mil. Budget Changes**
 - Supplemental appropriations
 - ...increase in req'd reserve
 - ...remove expected reversion
 - Supplemental capital transfer

FY 2026-27 Scenario A | General Fund Reserve



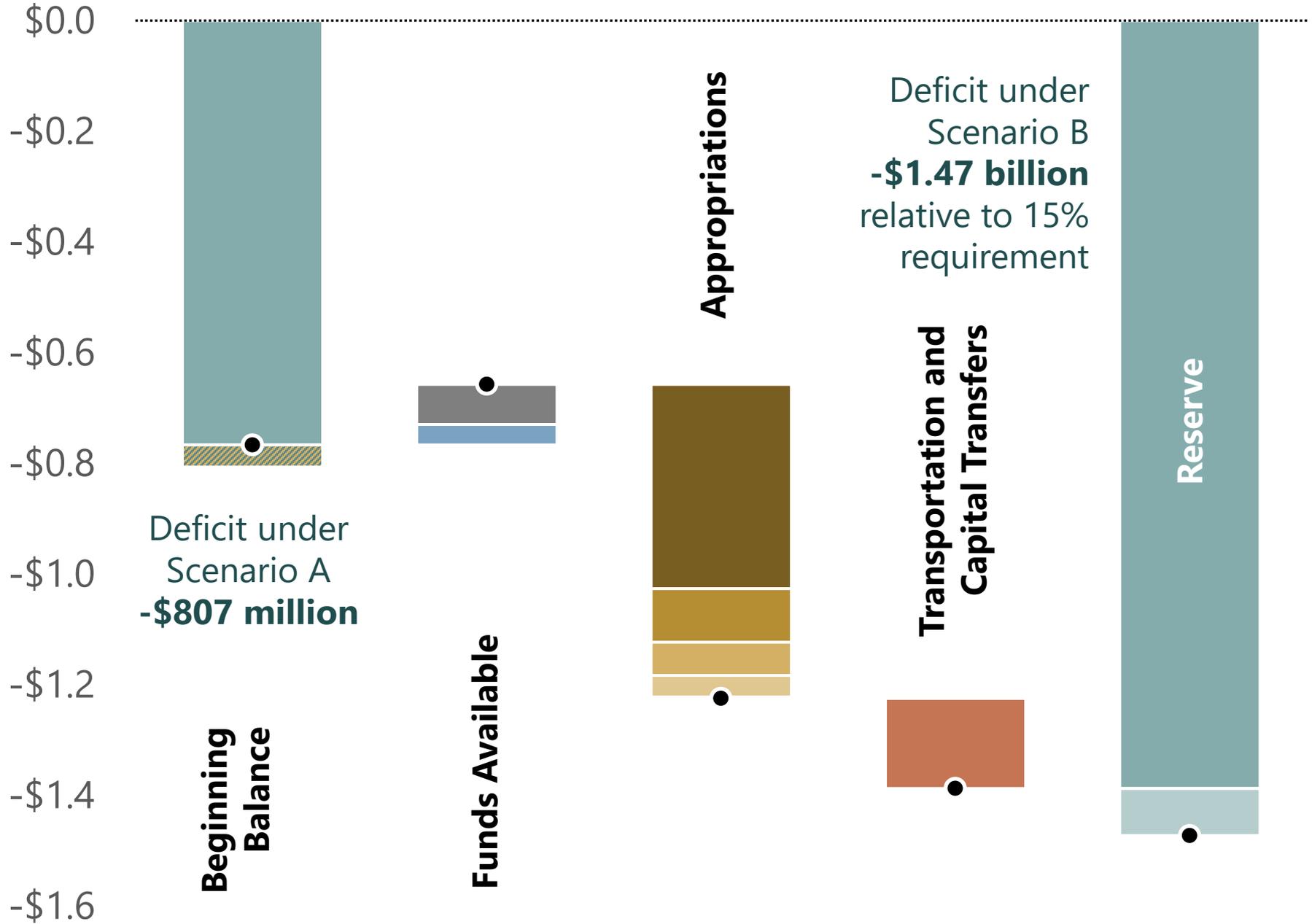
FY 2026-27 Scenario B: JBC Budget Actions Through March 16

Includes:

- Everything in Scenario A
- For FY 2025-26 Long Bill supplementals and FY 2026-27 Long Bill appropriations:
 - Where JBC has acted, **JBC action**
 - Where JBC has not acted, **JBC Staff recommendation** (mostly...)
 - Total Comp: Exec. request/Colorado WINS agreement
 - Corrections: \$34M staff rec. for capacity
 - School Finance: Exec. requested \$50M GF increase
 - HiEd Institutions: Flat
 - Homestead: Continuation of current program
 - HCPF: No across-the-board provider rate cuts
- Only budget package legislation and legislative content **approved for introduction** (notably omits FY26 transfers from Prop 123)
- Capital transfers recommended by **CDC** and **JTC**

LCS is not opining on the merits of the assumed budget actions.

FY 2026-27 Scenario B



Budget Risks

Highest probability risk is OBBBA estimation error

- We have a tiny window into actual impacts
- Because we're below TABOR limit in FY 2025-26, estimation error impacts budget directly

Highest magnitude risk is economic forecast

- With economic forecast downgrade, revenue would fall below Ref C cap in FY 2026-27

Questions?

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