September 2025 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

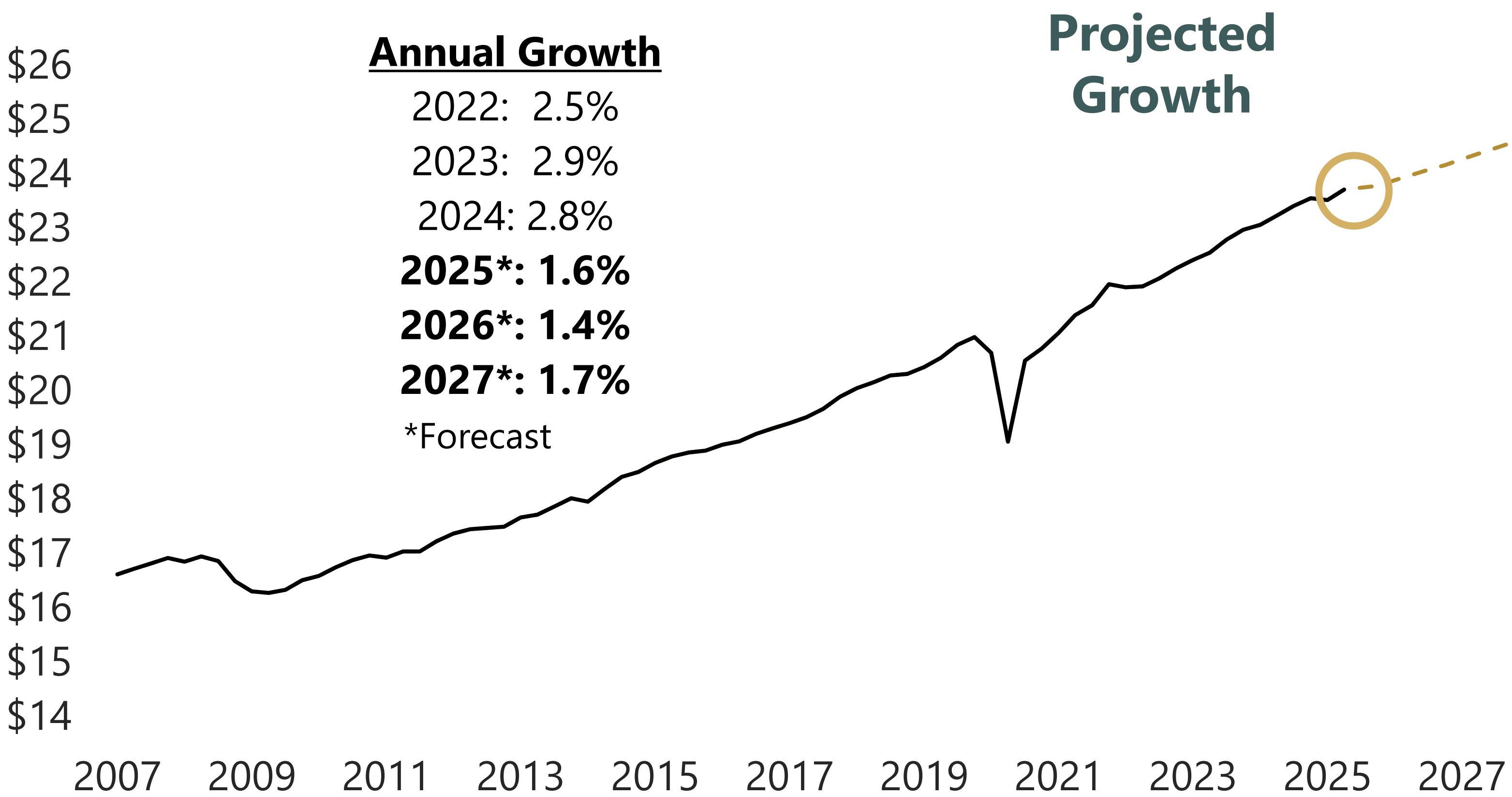
September 22, 2025

Economic Forecast

The U.S economy continues to expand but key economic indicators remain fluid

Real U.S. Gross Domestic Product

Trillions of Dollars, Adjusted for Inflation



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

Consumer spending continues to support economic growth but has been slowing

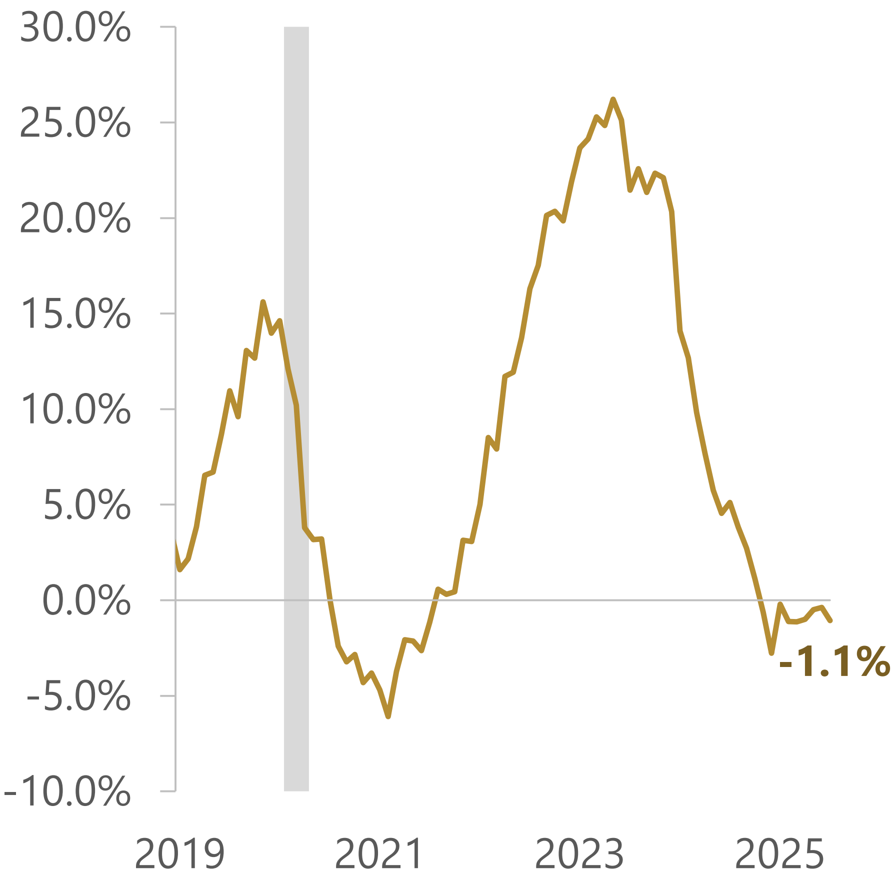
Retail Trade Sector Sales (Nominal)

Year-over-year Percent Change

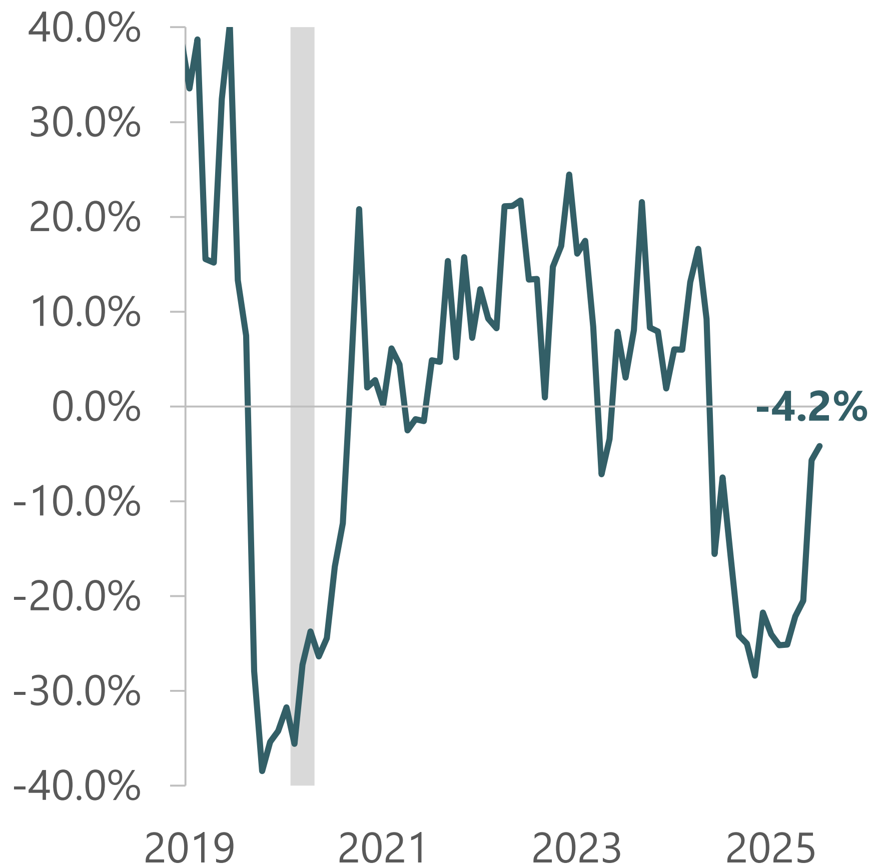
Source: U.S. data from U.S. Census Bureau, seasonally adjusted through July 2025. Colorado data from Colorado Department of Revenue through May 2025. Data seasonally adjusted using a 12-month moving average.

Business investment in nonresidential construction is down

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



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

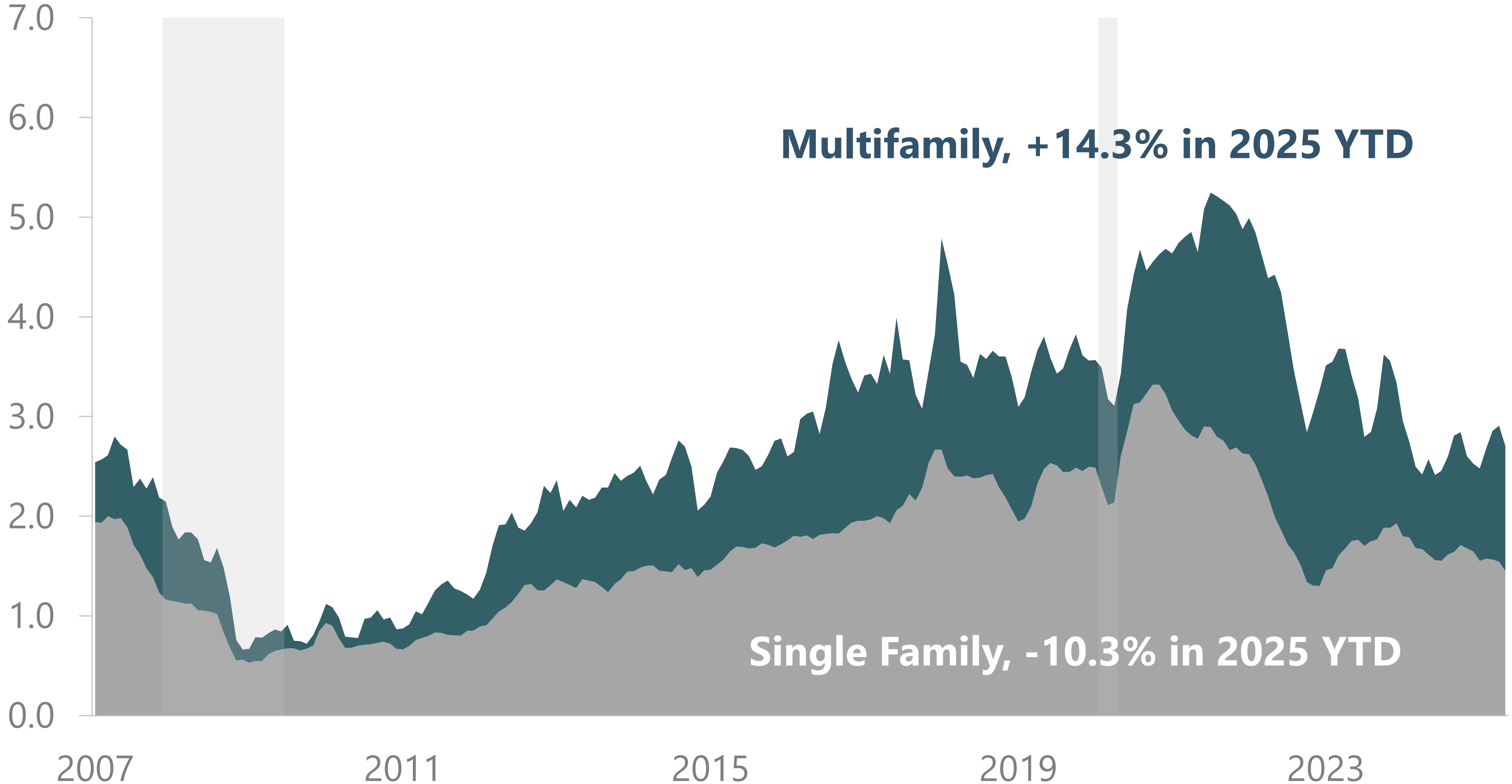


Source: U.S. Census Bureau, data through July 2025; F.W. Dodge, data through July 2025.
Note: U.S. data represents year-over-year percent changes in the seasonally adjusted annual rate of value. Colorado data represents year-over-year percent changes in the 12-month moving average value of nonresidential construction starts.

Residential construction is mixed but generally weak

Colorado Residential Building Permits

Thousands of Units, Three-Month Moving Average

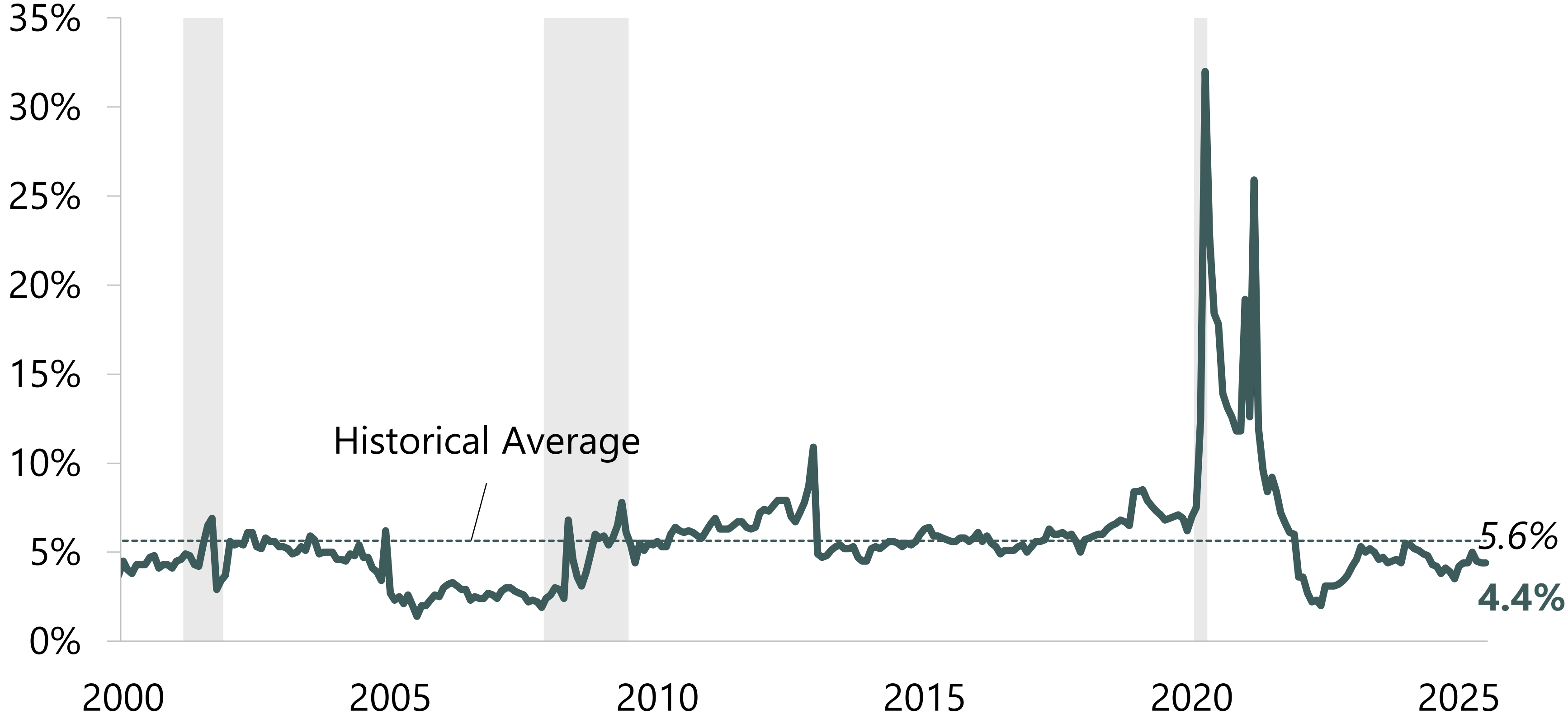


Source: U.S. Census Bureau and LCS calculations. Data are three-month moving averages through July 2025.

U.S. household savings remain below the historical average

Personal Savings Rate

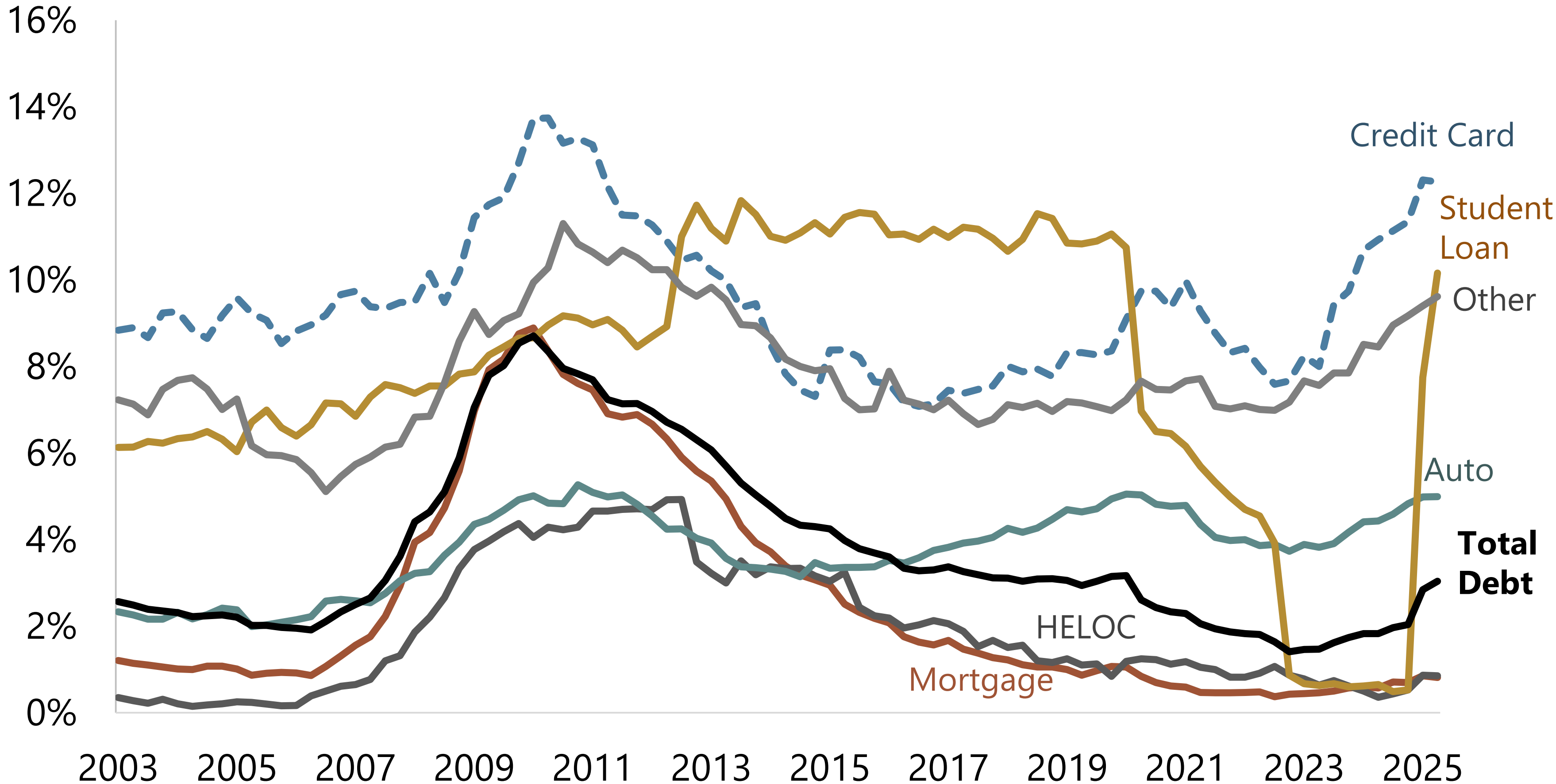
Percent



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

Loan delinquency rates are rising in the US

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

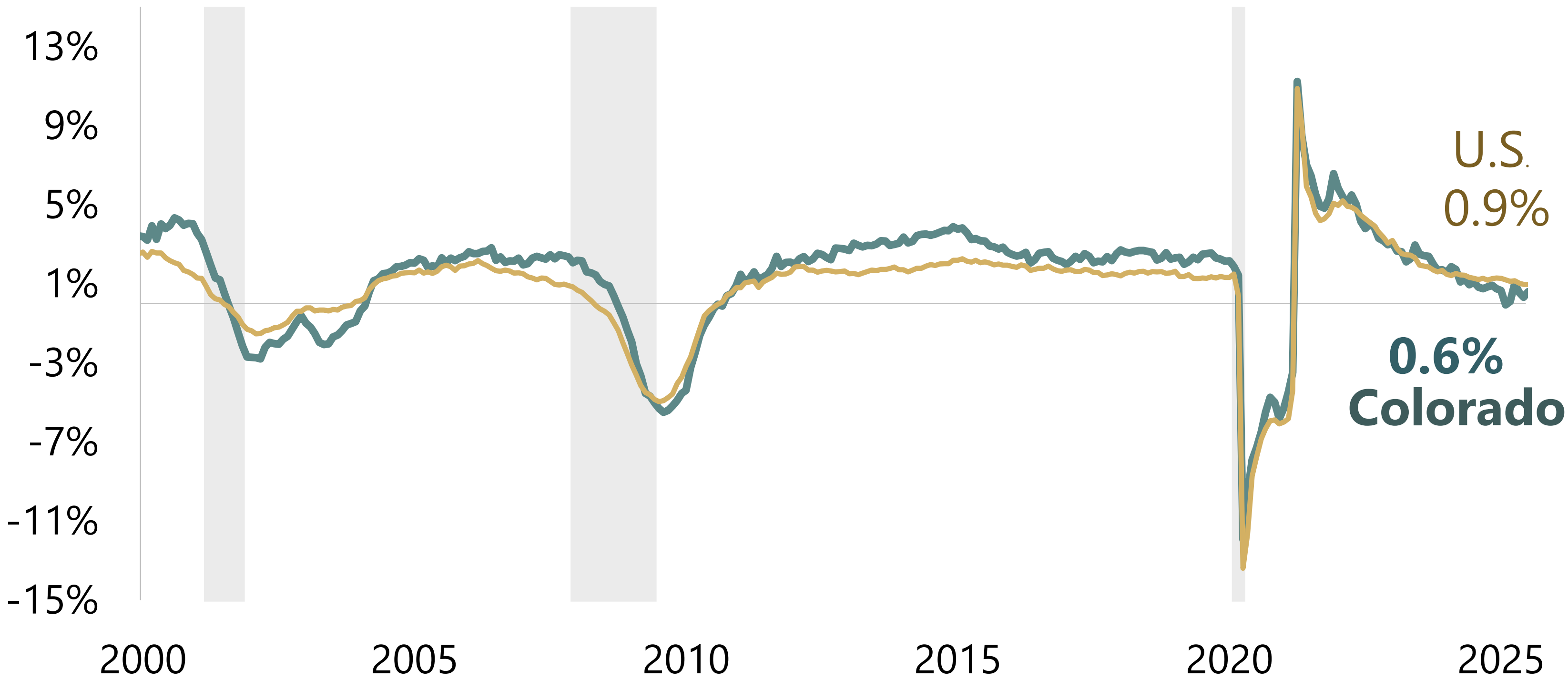


Source: New York Fed Consumer Credit Panel/Equifax. Data are through 2025Q2.
Serious delinquency rates are the percentage of total debt that is delinquent by 90 days or more. “Other” refers to retail cards and consumer finance loans

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

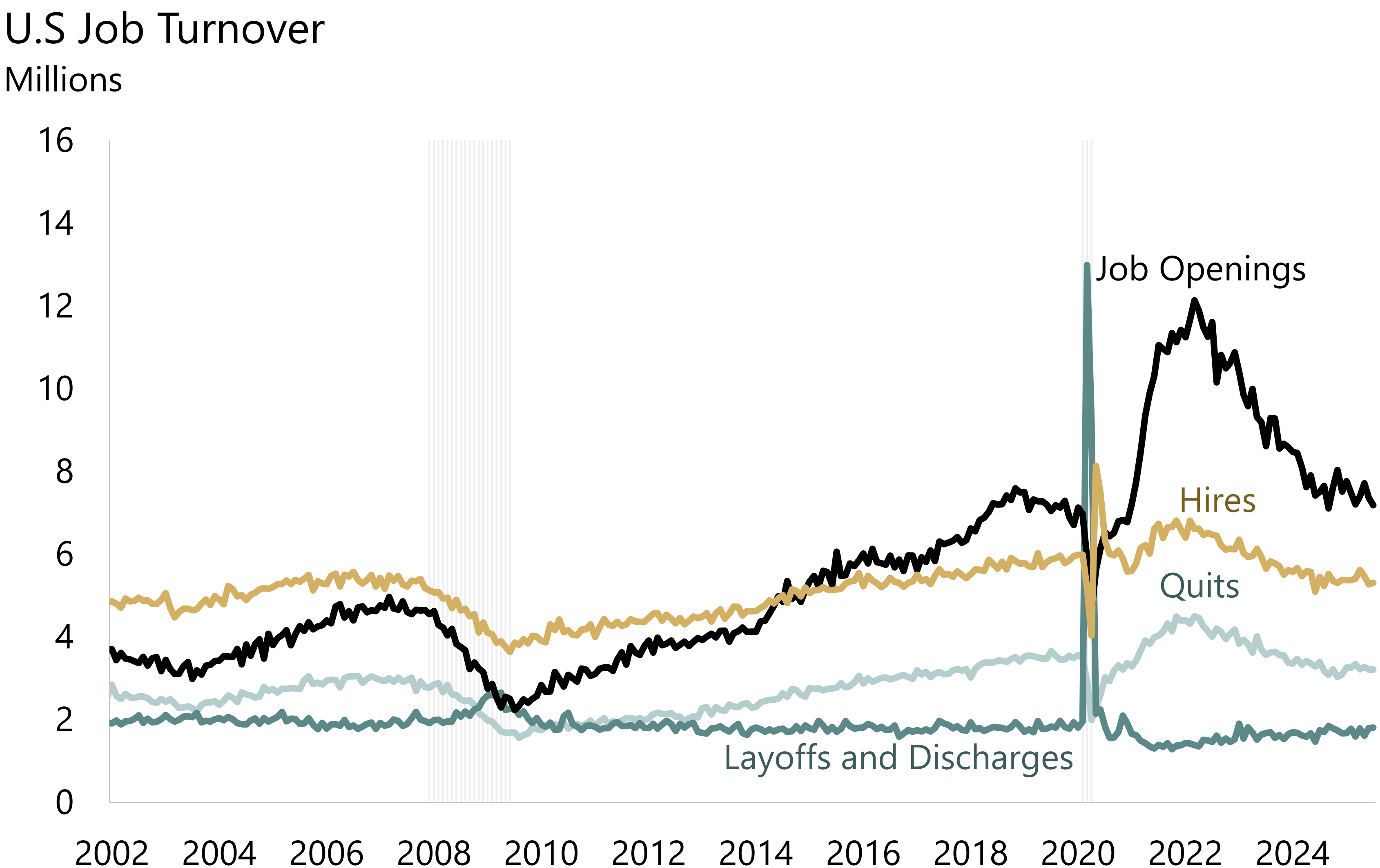
Year-over-Year Nonfarm Employment Growth

Percent



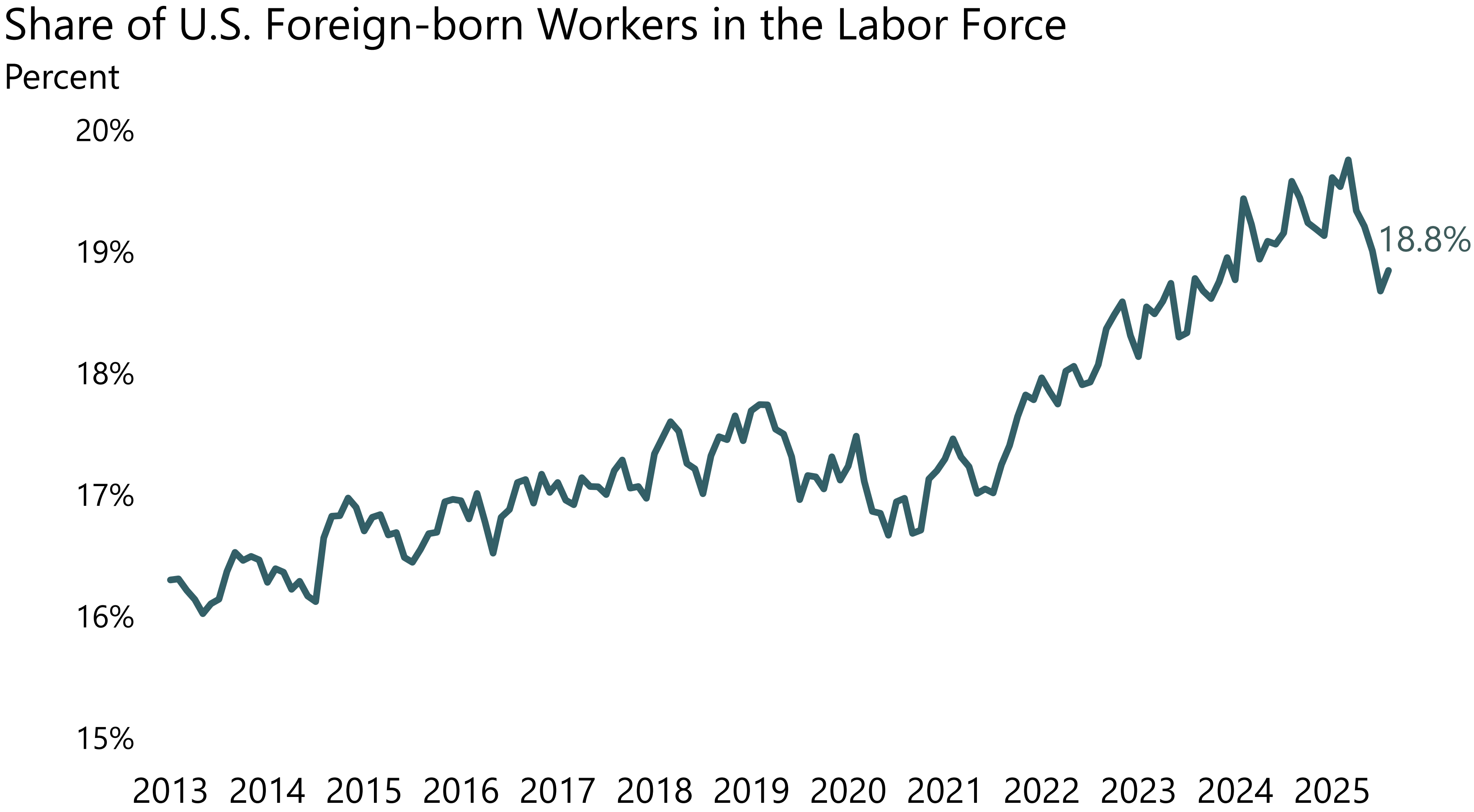
Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data are through August 2025.

Labor market turnover activity is flat



Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS). Data are for total nonfarm employment and are seasonally adjusted through July 2025.

Share of foreign-born workers in the labor force has declined

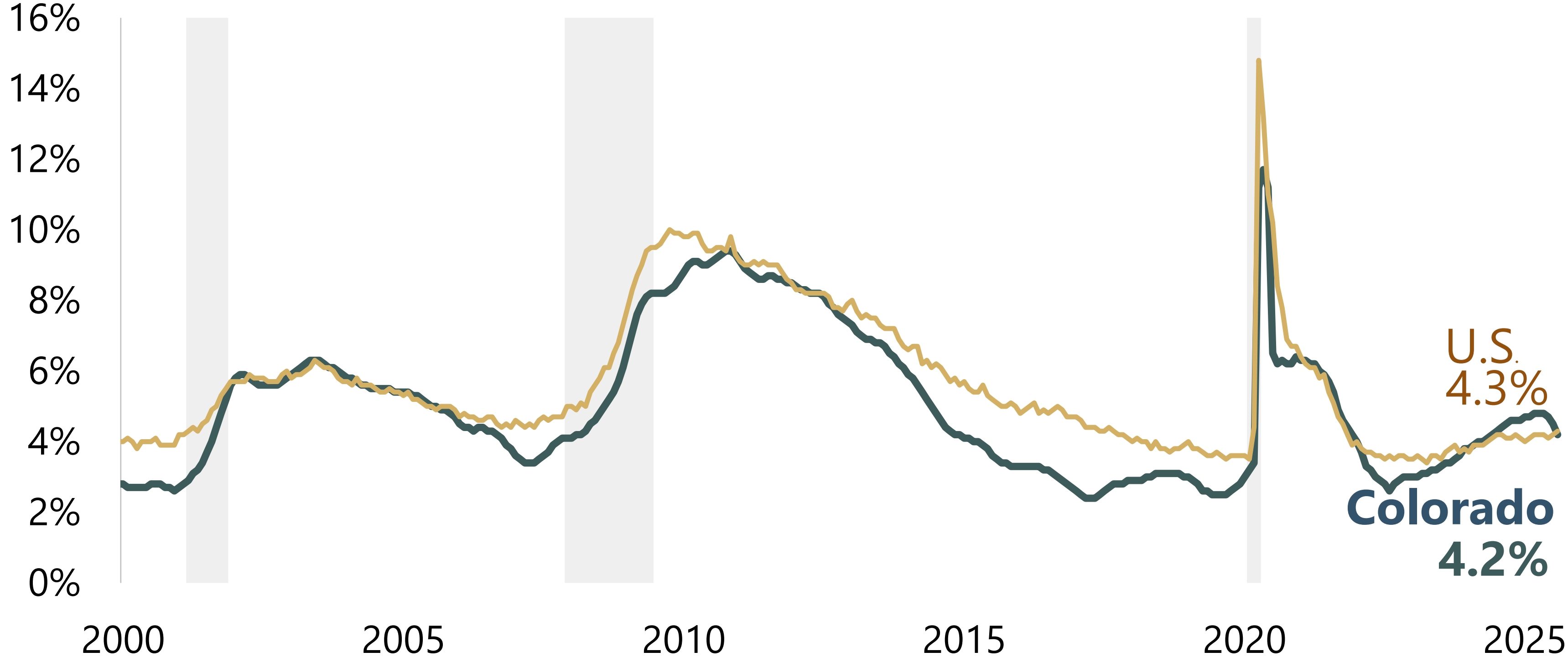


Source: U.S. Bureau of Labor Statistics. Data are not seasonally adjusted.

Colorado's unemployment rate ticks down in August, with decline in both unemployed and labor force

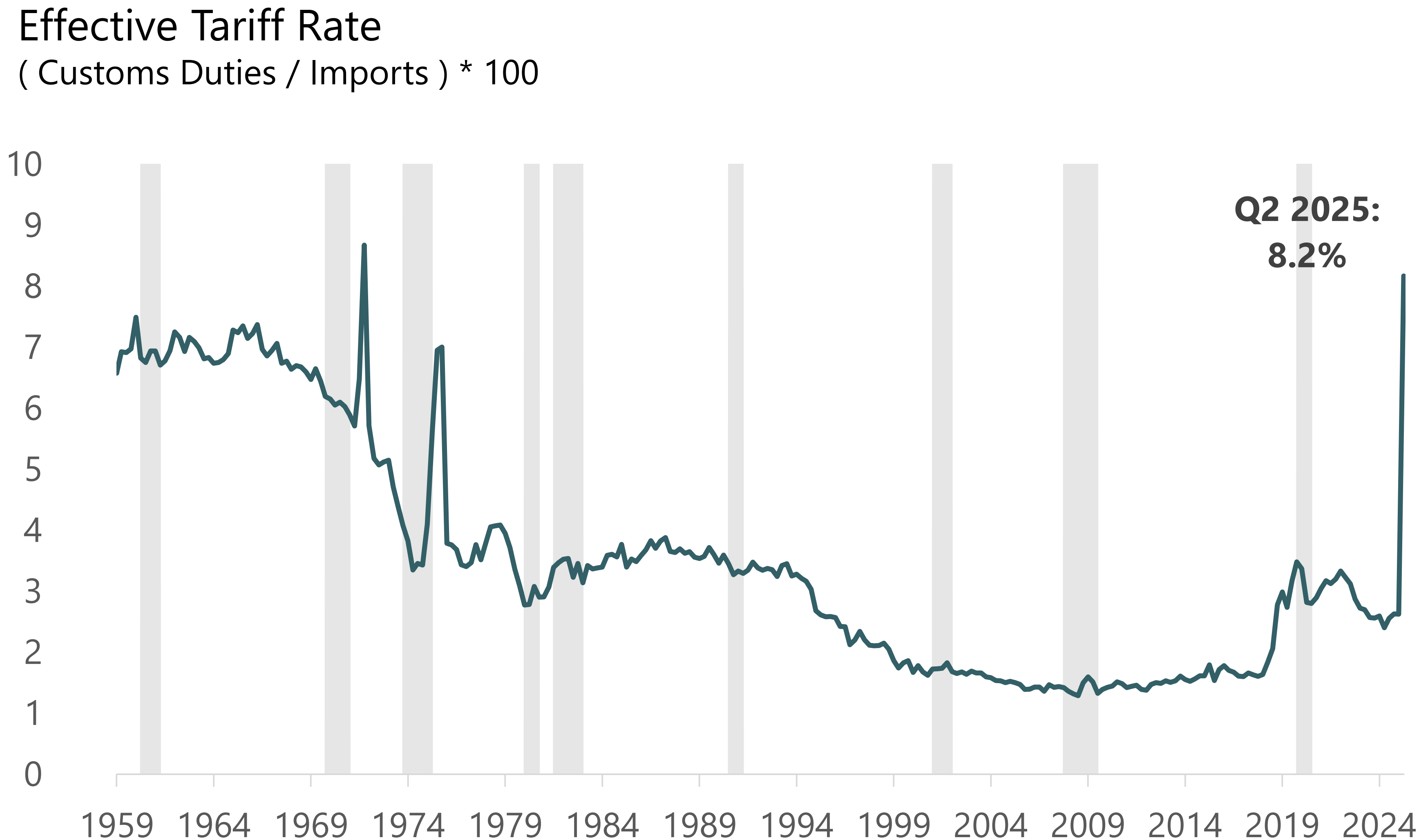
Unemployment Rates

Percent



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data are through August 2025.

Tariffs paid soar to near-century high



Source: U.S. Bureau of Economic Analysis. Federal government current tax receipts: Taxes on production and imports: Customs duties / Current payments to the rest of the world: Imports of goods. Retrieved from FRED, Federal Reserve Bank of St. Louis. Data through Q2 2025.

Tariff Policy Changes in the Second Half of 2025

Product-Specific

- 8/1/25 – 50pp increase in tariff rate on copper
- 8/18/25 – extension of steel and aluminum tariffs to aerosol containers
- 8/29/25 – end of the *de minimis* exemption
- 9/8/25 – added and removed product exemptions from country-specific reciprocal tariffs

Country-Specific

- 8/1 – increase to 35% tariff rate on USMCA non-compliant goods from Canada
- 8/6 – additional 40% tariff rate on select goods from Brazil
- 8/7 – reciprocal tariff rates imposed on over 70 different countries, ranging from 15-50%
- 8/27 – increase to 25% tariff rate on most goods from India
- 9/17 – tariffs on Japanese automobiles reduced to 15 percent
- 11/1 – end of 90-day pause on scheduled 30% tariff rate for Mexican imports
- 11/10 – end of pause of 125% tariff on Chinese imports

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

Headline CPI-U Inflation

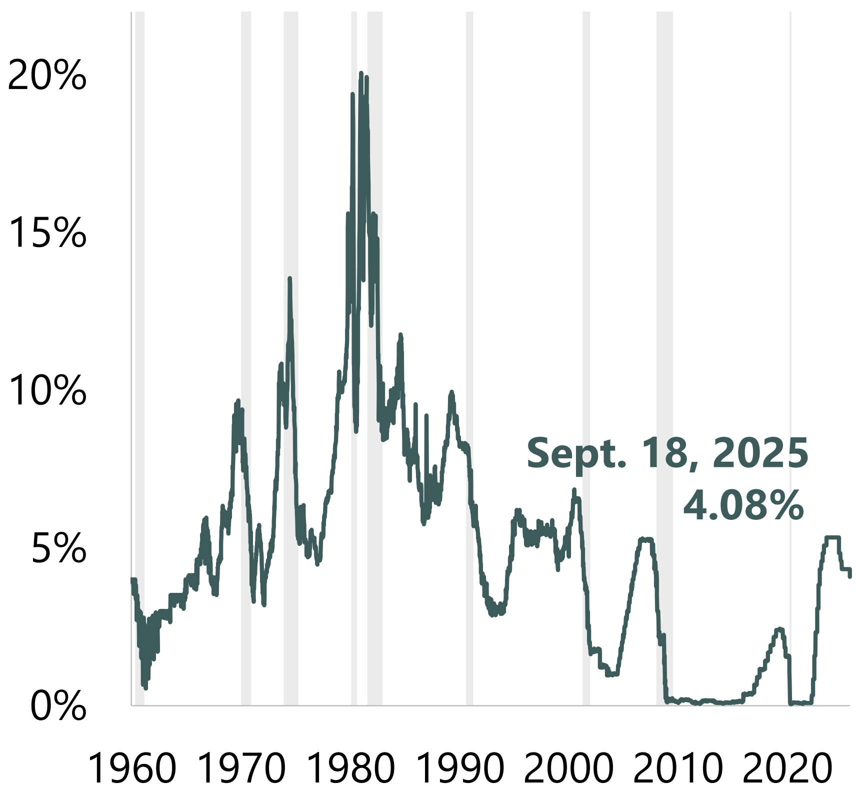
Year-over-Year Change in Prices

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

Federal Reserve has cut key interest rates and more are expected but inflation expectations remain high

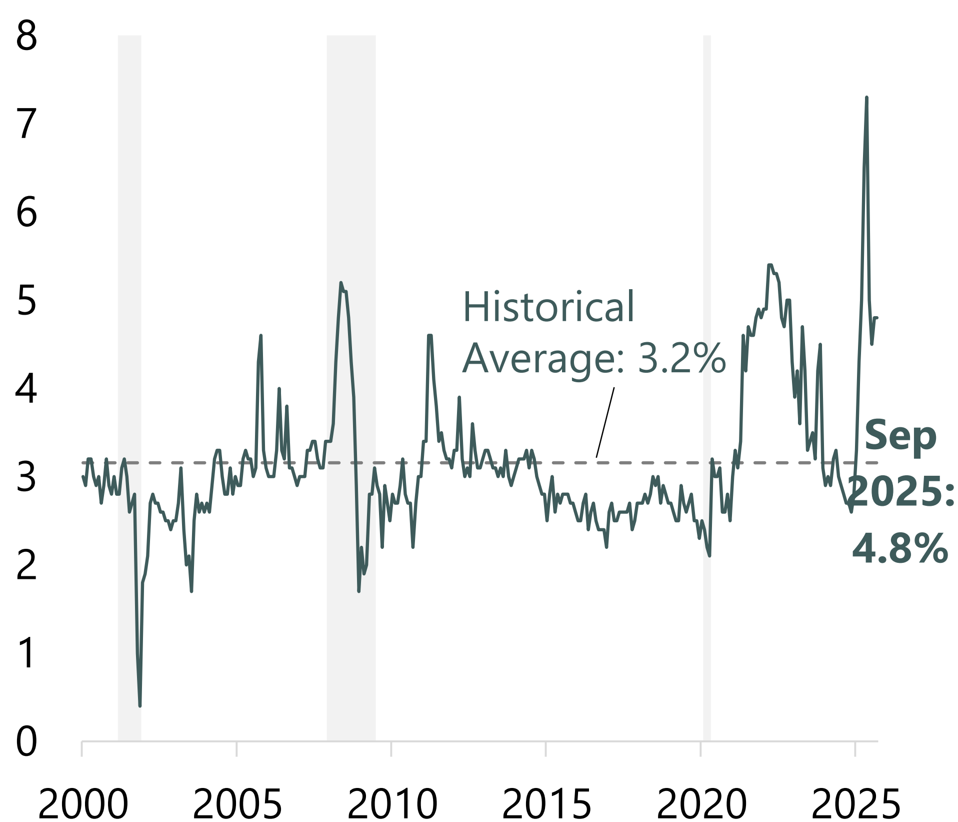
Effective Federal Funds Rate

Percent



Year-Ahead Inflation Expectations

Percent



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

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

Downside Risks:

- Uncertainty, persistent inflation
- Deteriorating labor market conditions (reduced productivity)
- Federal policy changes, esp. trade policy
- Geopolitical tensions

Upside Risks:

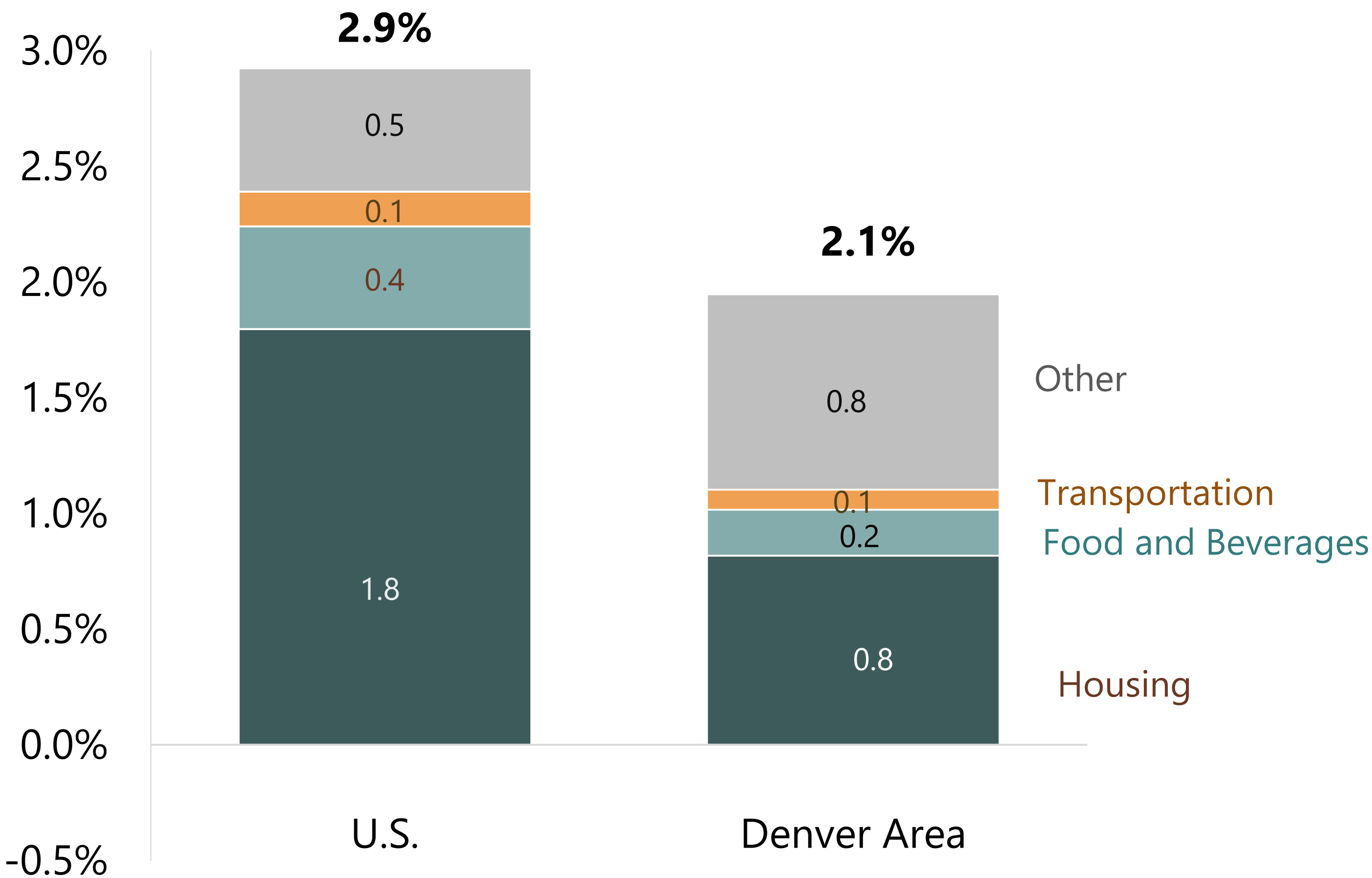
- Clear and stable federal policies
- More monetary policy easing
- Faster labor market response to monetary policy easing

Supplemental Slides

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

Contributions to Inflation

Percent / Percentage Point Contributions



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

Current U.S. Investigations of Imported Goods

- Timber/lumber
- Semiconductors
- Pharmaceuticals
- Critical minerals
- Heavy trucks
- Aircraft
- Drones
- Polysilicon
- Foreign digital services
- International seafood
- Wind turbines

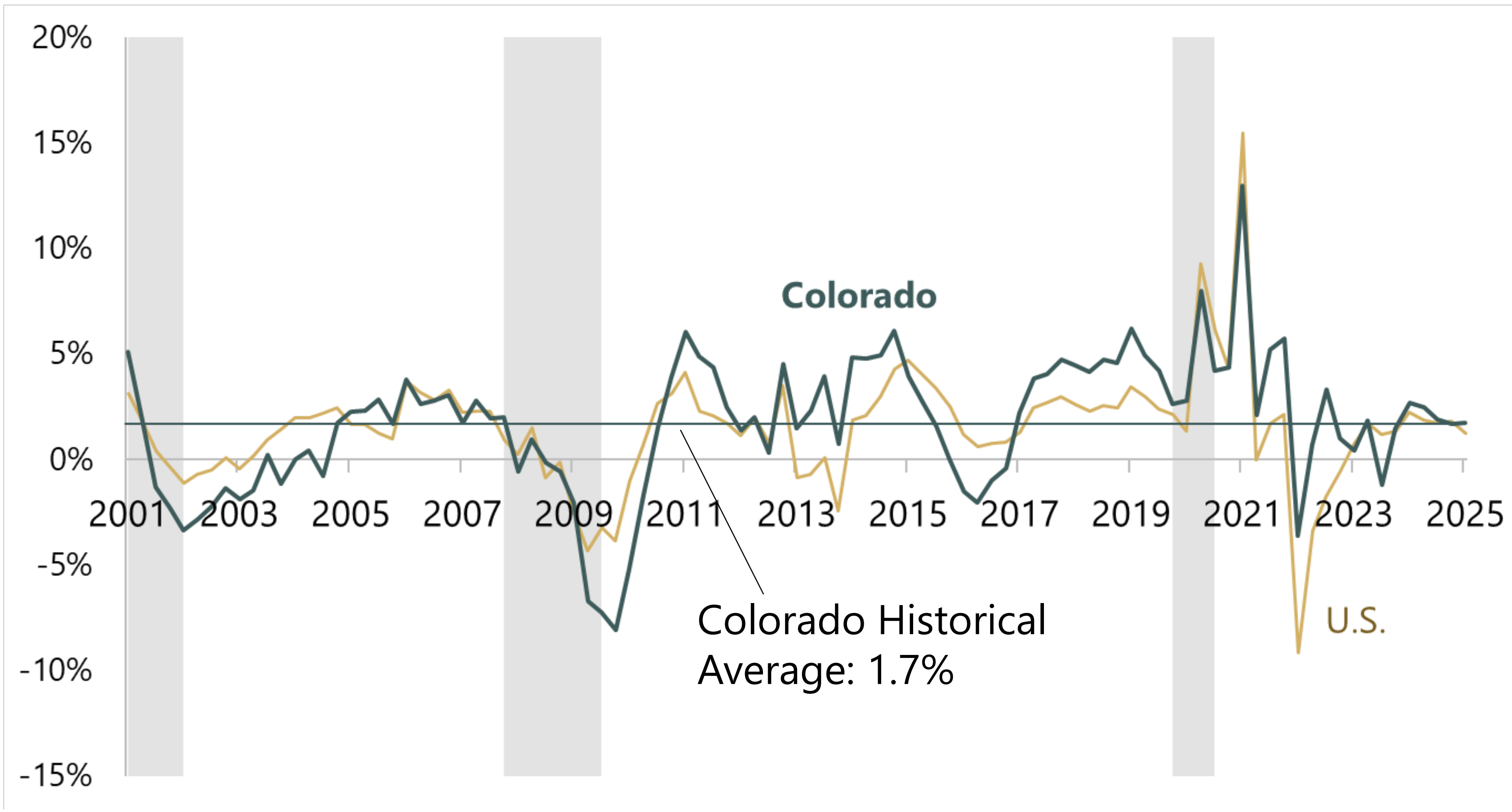
Active Trade Negotiations

- Indonesia
- Vietnam
- Philippines
- South Korea
- Japan
- Mexico
- China
- Canada
- India

Colorado's real personal income growth hovers at the historical average

Real Per-Capita Personal Income

Year-over-year Percent Change

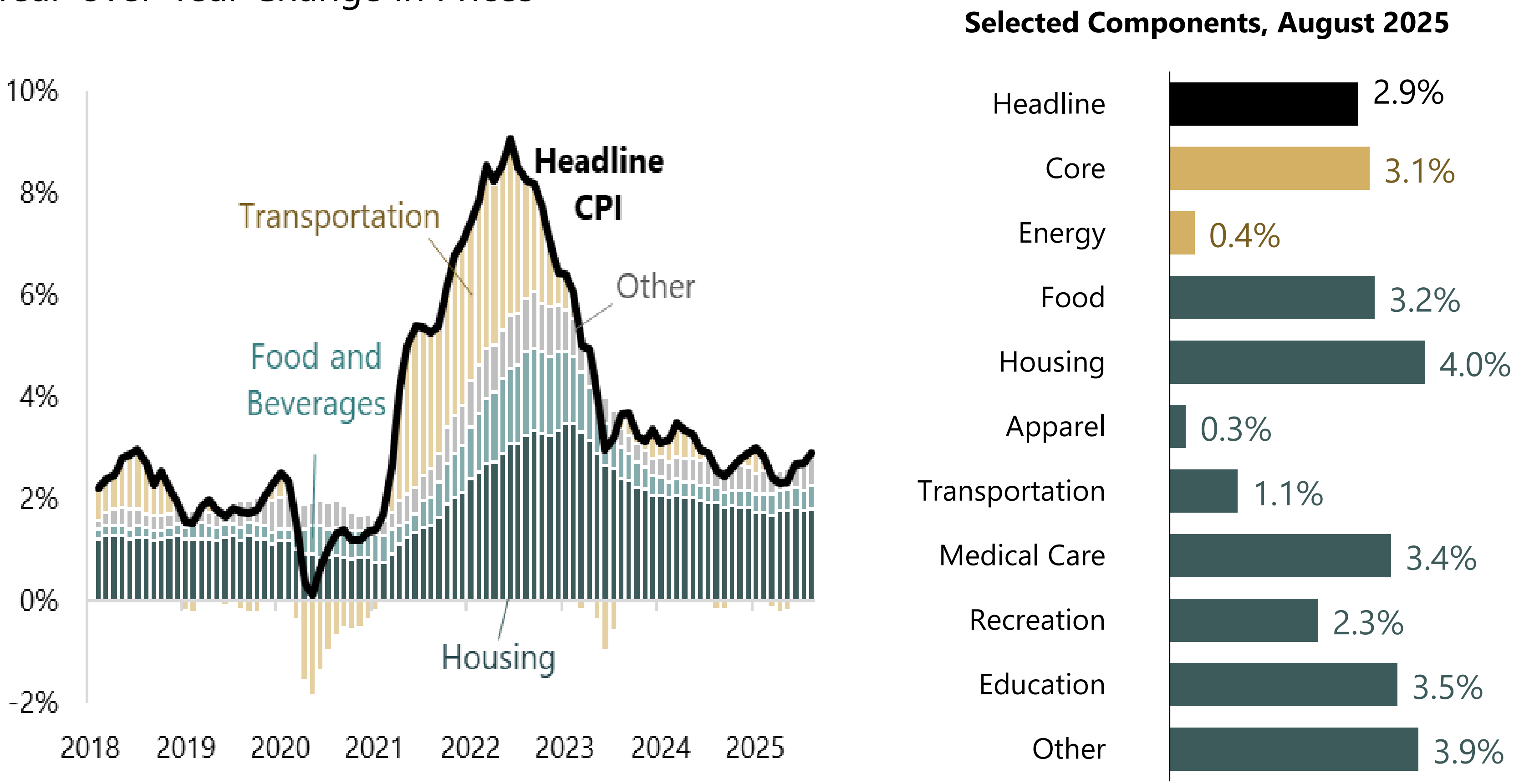


Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and LCS calculations. Data are adjusted for inflation using the national PCE price index. Data for the U.S. are through Q2 2025. Data for Colorado are through Q1 2025.

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

Contributions to Denver-Aurora-Lakewood CPI-U

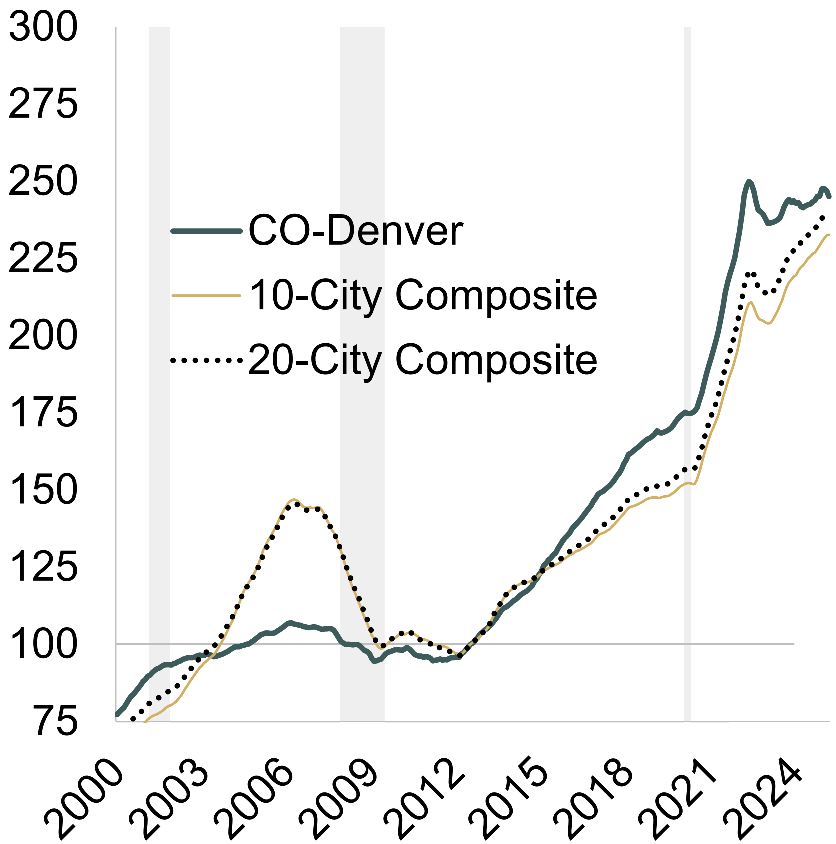
Year-over-Year Change in Prices



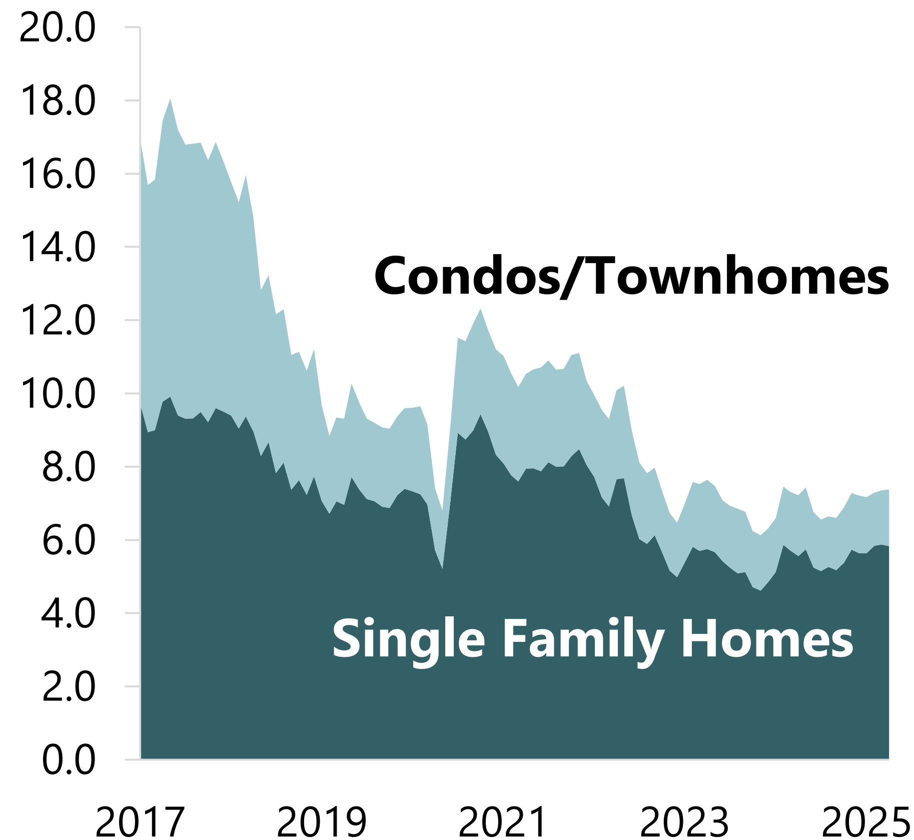
Source: U.S. Bureau of Labor Statistics and LCS calculations.

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

Home Price Indices
Index 100=July 2012



Colorado monthly home sales
Thousands of homes

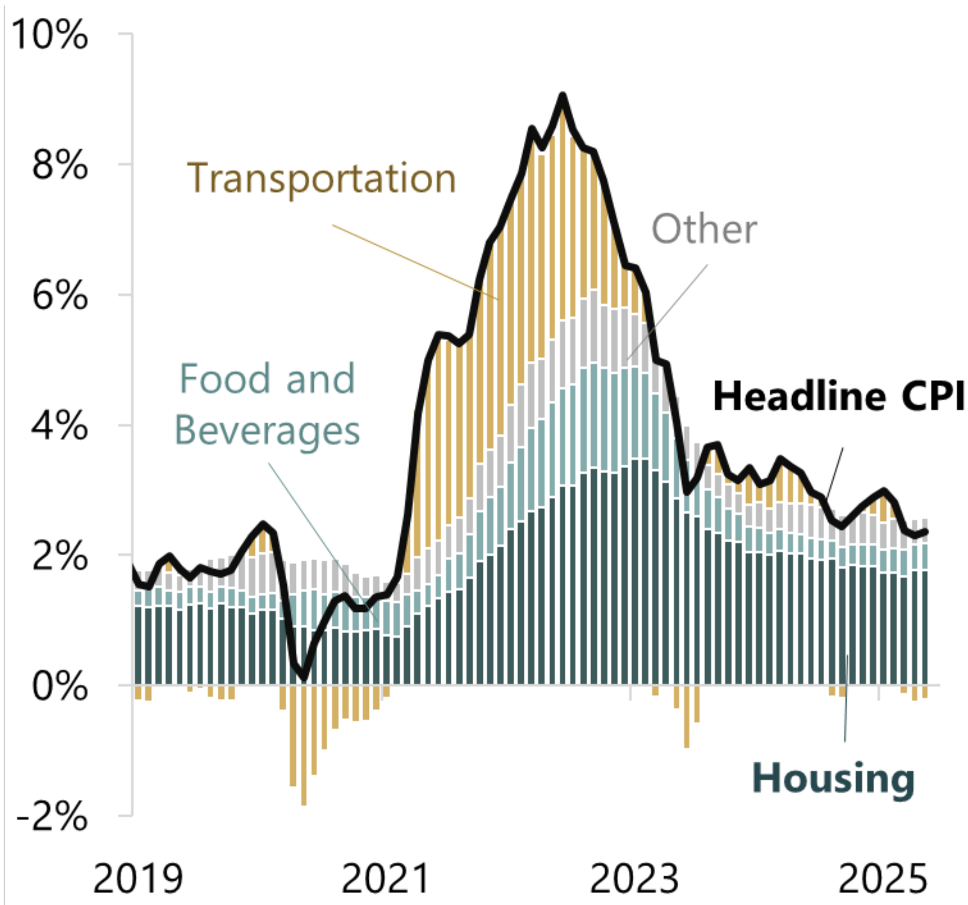


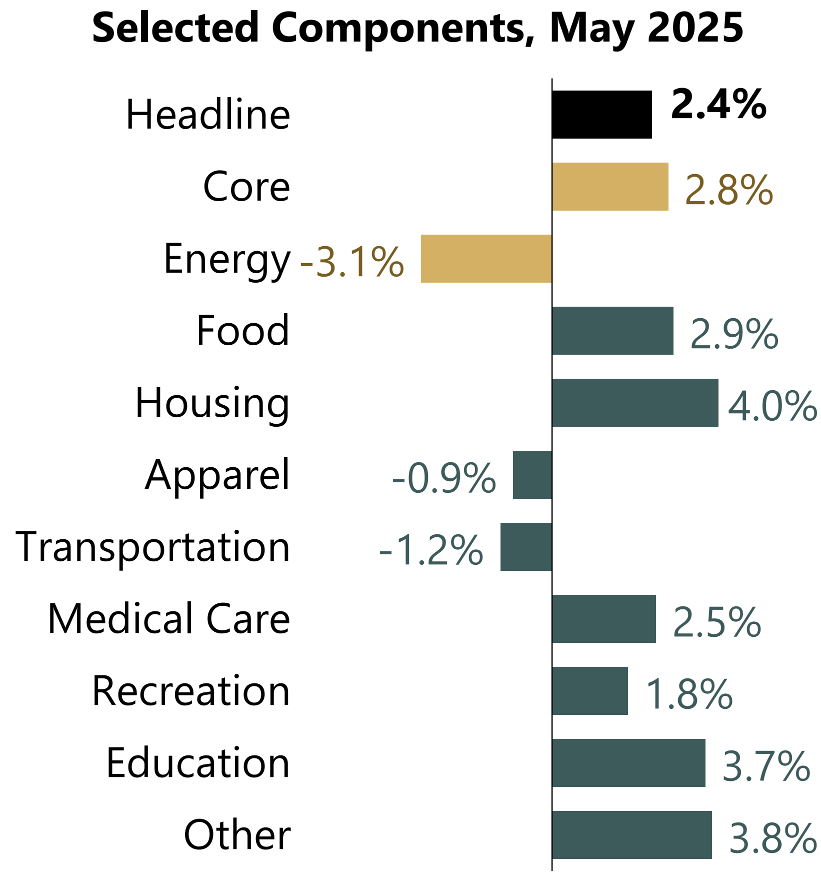
Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through March 2025 (left). Colorado Association of Realtors. Data are seasonally adjusted by LCS and are through April 2025 (right).

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

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

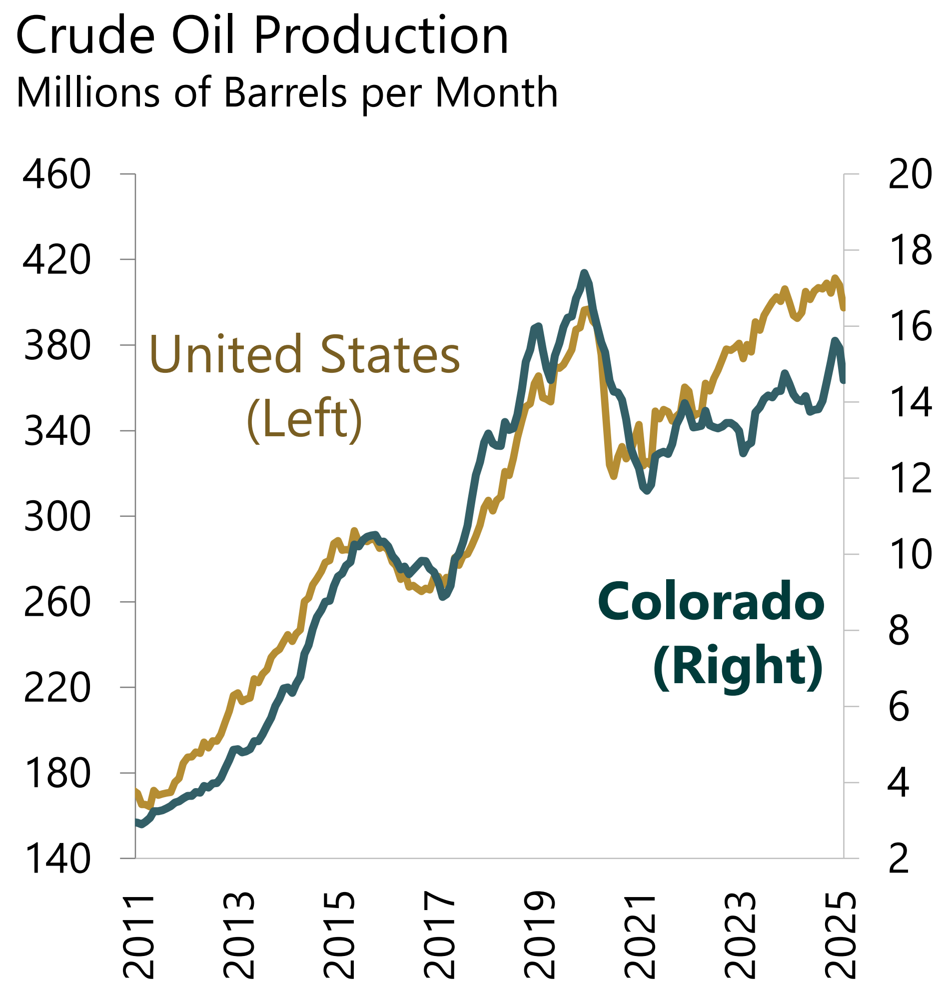
Year-over-Year Change in Prices





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

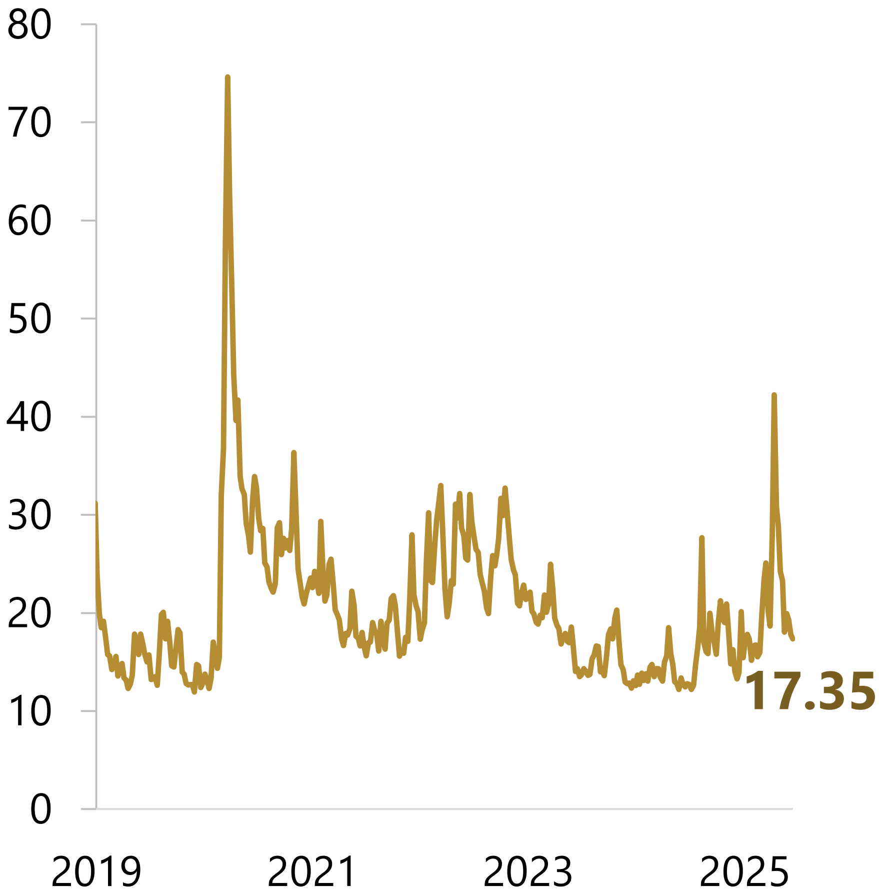
Crude oil prices down, expected to impact production



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

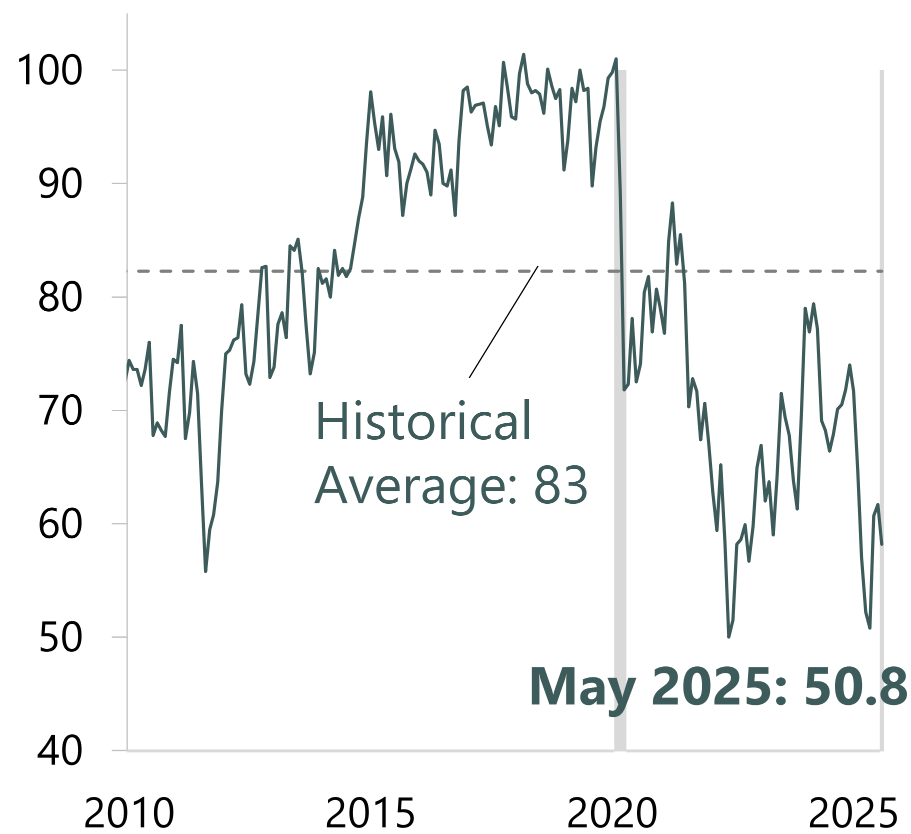
Market volatility recedes after April spike, consumer sentiment still down

CBOE Volatility Index



Consumer Sentiment Index

Index Value 1996 = 100



Source: Chicago Board Options Exchange via FRED, data through the week ending June 13, 2025; University of Michigan Survey of Consumers, data through May 2025.

Revenue & Budget Forecast

Forecast Highlights

General Fund Revenue Forecast

- revised up in FY 2025-26
- tax credits triggered down or off for TY 2026
- OBBBA contributes to forecast uncertainty

TABOR Outlook

- Controller confirms FY 2024-25 TABOR surplus
- no TABOR surplus expected in FY 2025-26

Budget Bottom Line

- FY 2025-26 deficit expectation revised to $307M
- scenarios for FY 2026-27

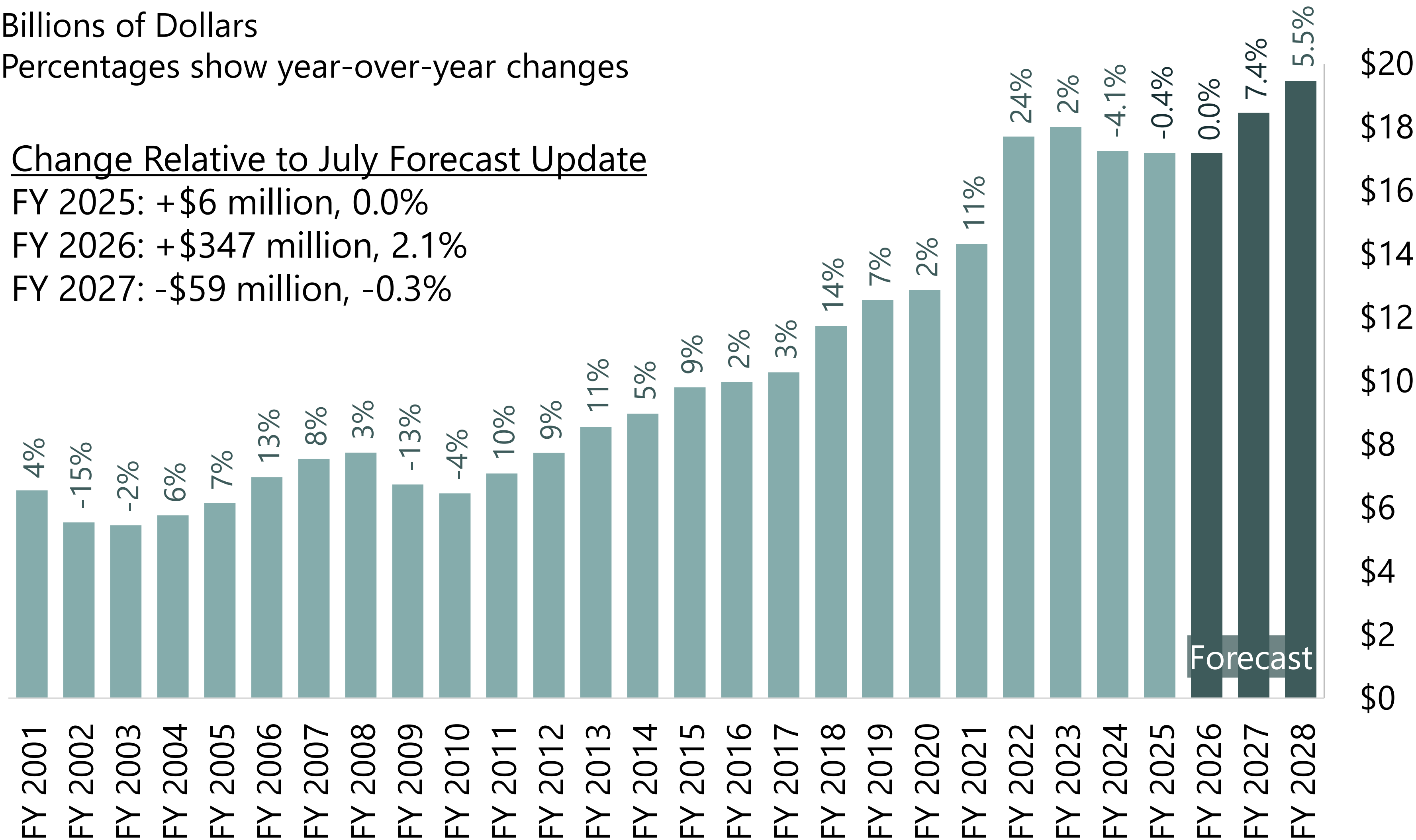
School Finance Preview

Budget Simulator Preview

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

Gross General Fund Revenue
Billions of Dollars
Percentages show year-over-year changes

<u>Change Relative to July Forecast Update</u>
FY 2025: +$6 million, 0.0%
FY 2026: +$347 million, 2.1%
FY 2027: -$59 million, -0.3%



Source: Colorado Office of the State Controller and Legislative Council Staff September forecast. FY 2024-25 collections are preliminary.

Special Session General Fund Impacts

Dollars in Millions

Bill Number & Title	FY 2025-26	FY 2026-27	FY 2027-28
HB 25B-1001 Qualified Business Income	$45.9	$95.5	$101.6
HB 25B-1002 Foreign Derived Intangible Income	$35.6	$72.2	$73.0
HB 25B-1003 Regional Home Offices	$44.1	$91.1	$97.0
HB 25B-1004 Sale of Tax Credits	$100.0	-$75.0	-$50.0
HB 25B-1005 Eliminate Sales Tax Vendor Fee	$26.3	$54.6	$54.6
HB 25B-1006 Health Insurance Affordability Enterprise	$0	-$75.0	-$50.0
Total	**$251.9**	**$163.4**	**$226.2**

- **HB 25B-1006** also disqualifies the Health Affordability Enterprise for FY 2025-26 only, increasing the Ref C cap and CF revenue subject to TABOR for one year.
- **Proposition FF** revenue is projected to exceed $150 million in FY 2025-26 under current law.

Certain tax credits depend on revenue forecasts

Electric vehicle, E-bike, and heat pump credits (**HB 23-1272**)

- Credits will be reduced by 50% in TY 2026 only
- Determined by **June** forecasts

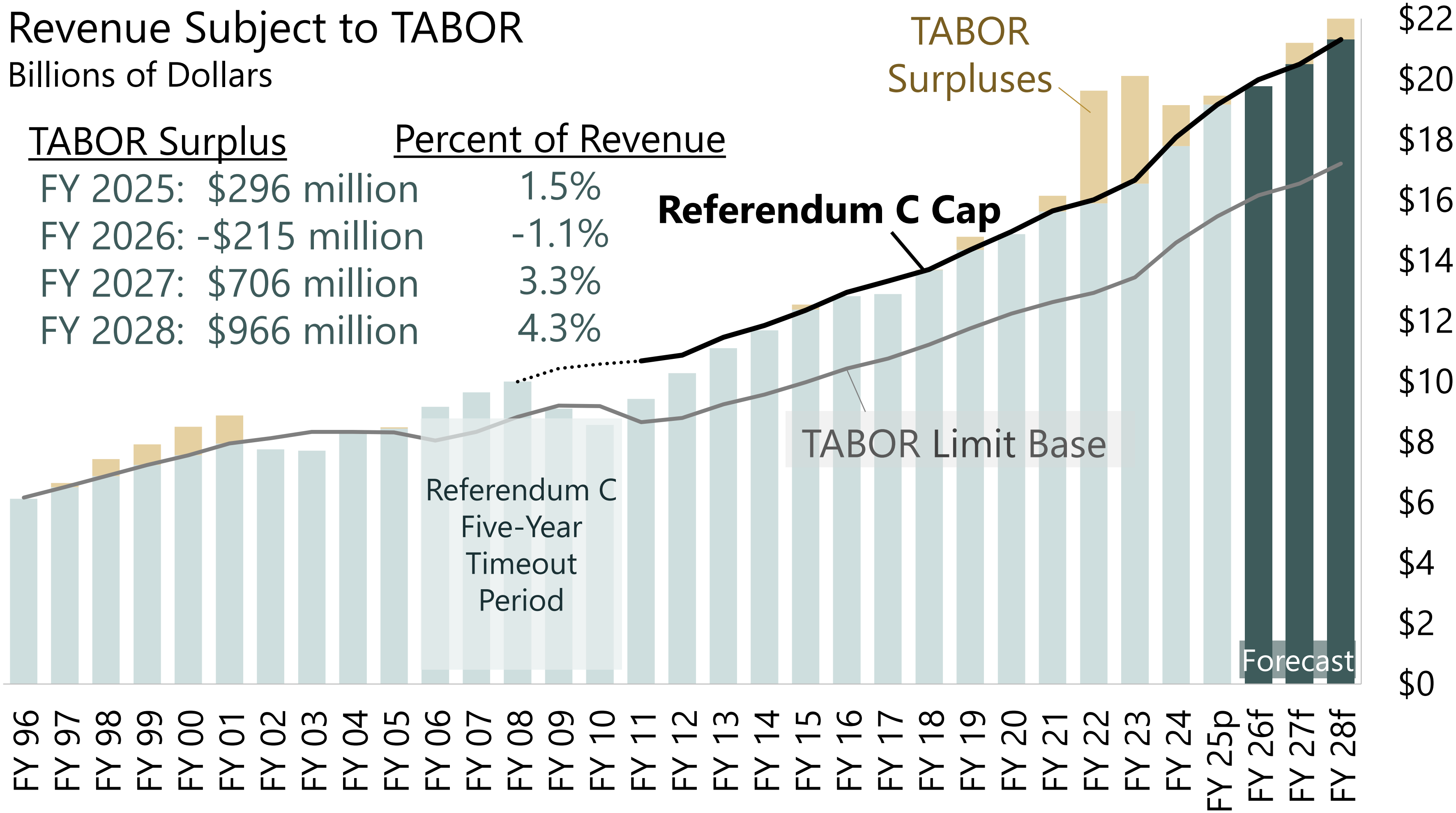
Workforce shortage tax credit (**HB 24-1365**)

- Credit cap will be reduced from $15 million to $7.5 million in tax year 2026 only
- Determined by **September** forecasts

Family affordability tax credit (**HB 24-1311**) and expanded earned income tax credit (**HB 24-1134**)

- Credits expected to be unavailable in TY 2026, partially available in TY 2027 and TY 2028
- Determined by the **December** forecast from the agency selected to balance the budget in March

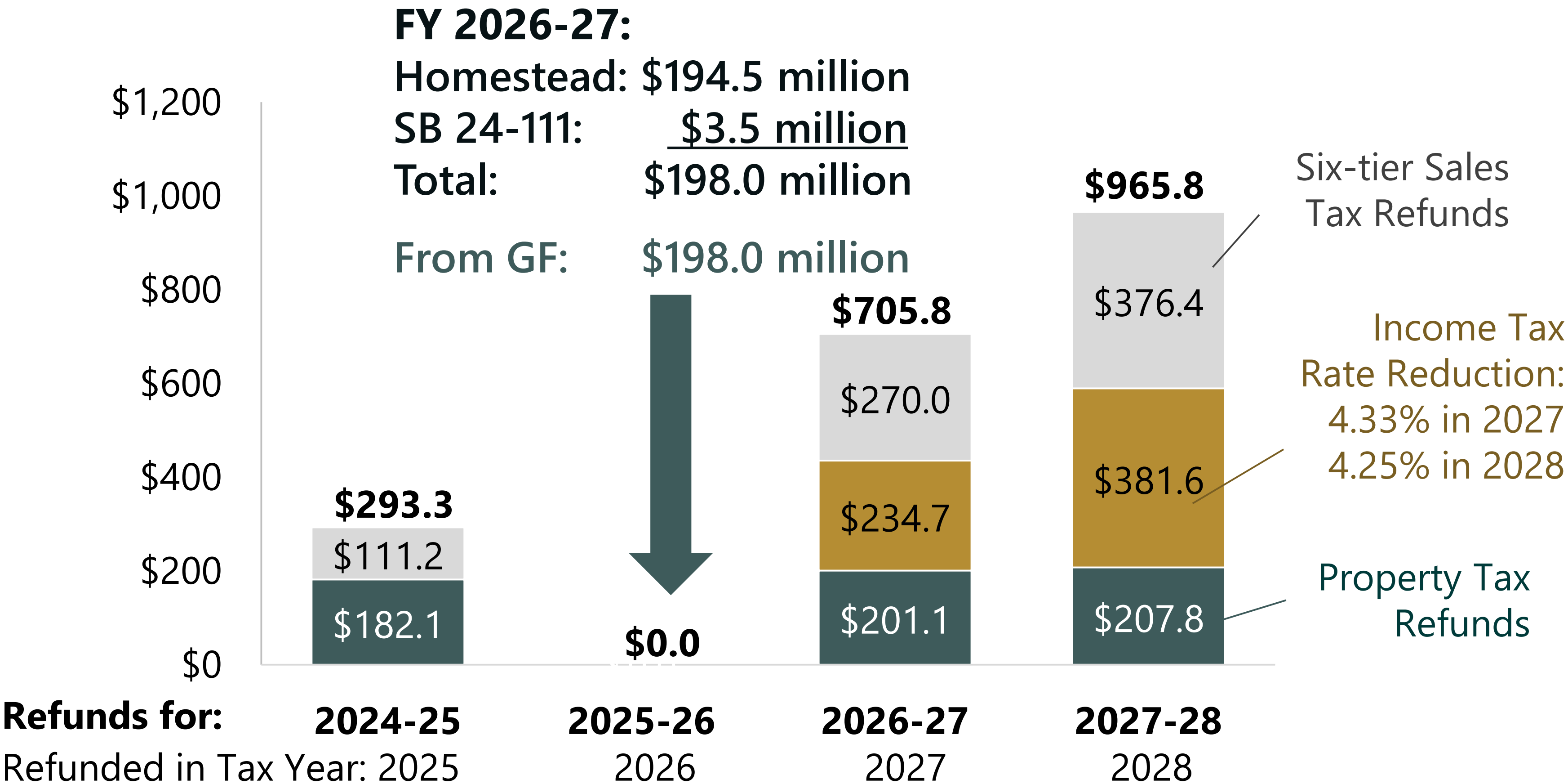
Revenue expected to fall below Referendum C Cap in FY 2025-26



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

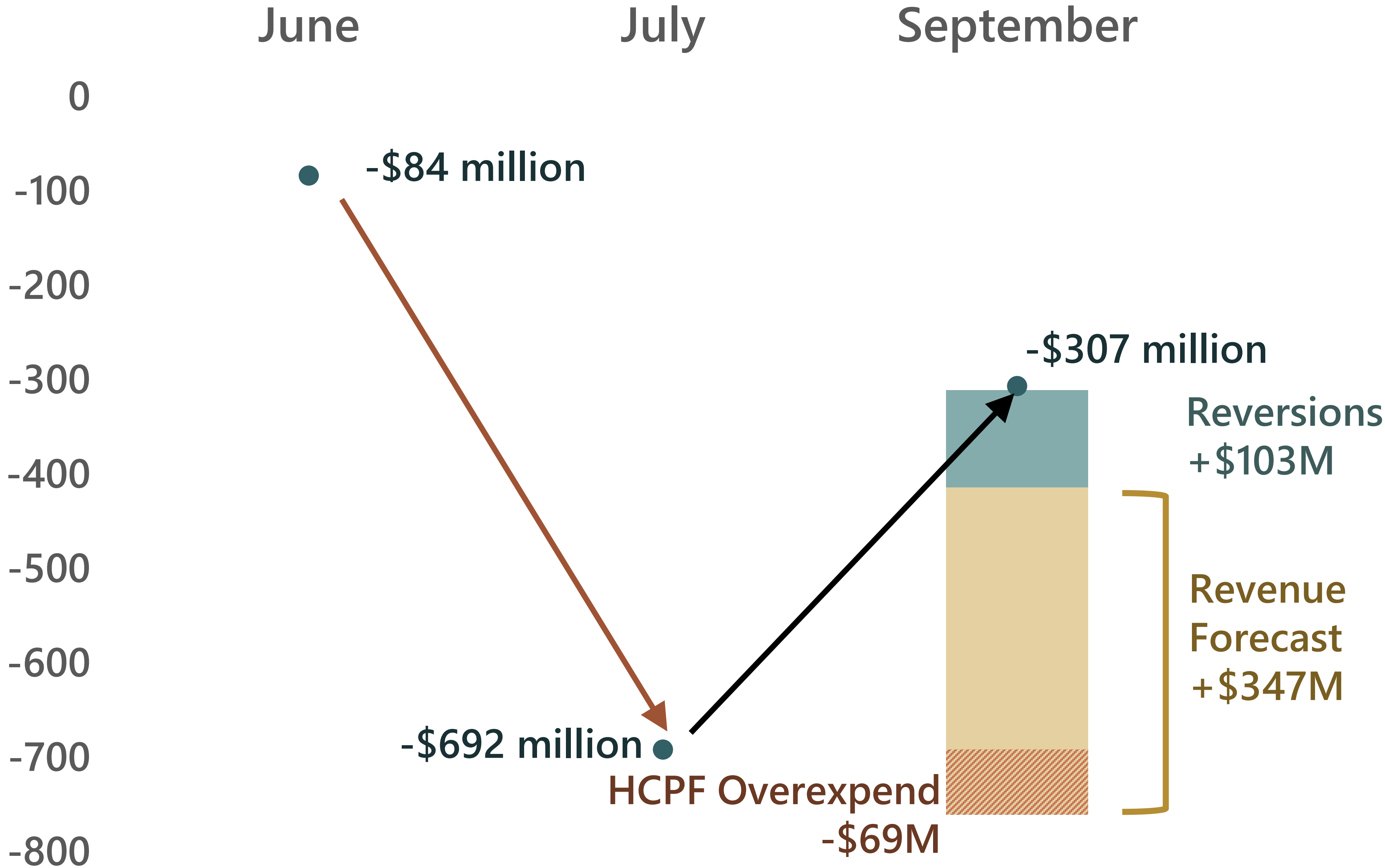
General Fund required to fund property tax exemptions in FY 2026-27

TABOR Refund Mechanisms
Millions of Dollars

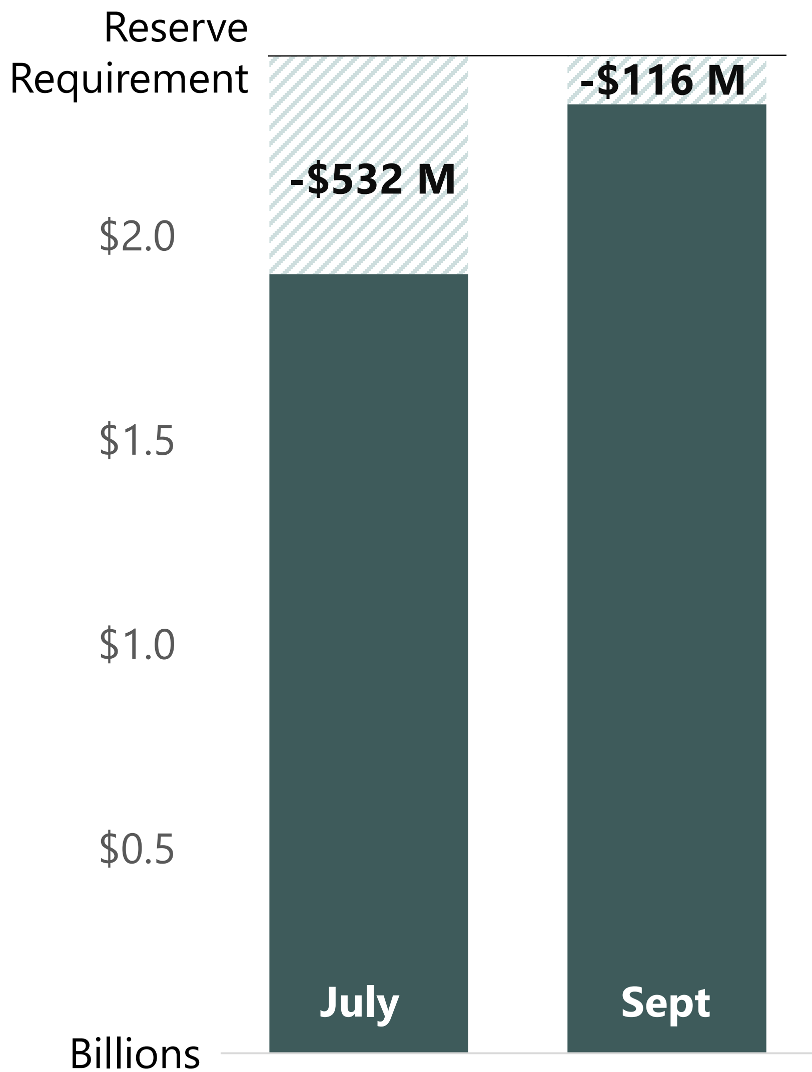


Property tax refunds include the homestead exemption for seniors, veterans, and Gold Star spouses, and for TY 2025, property tax reimbursements to local governments under SB 24-111.

FY 2025-26 budget outlook has improved since July
General Fund reserve deficit relative to requirement
Dollars in Millions



FY 2026-27 Scenario A | General Fund Reserve



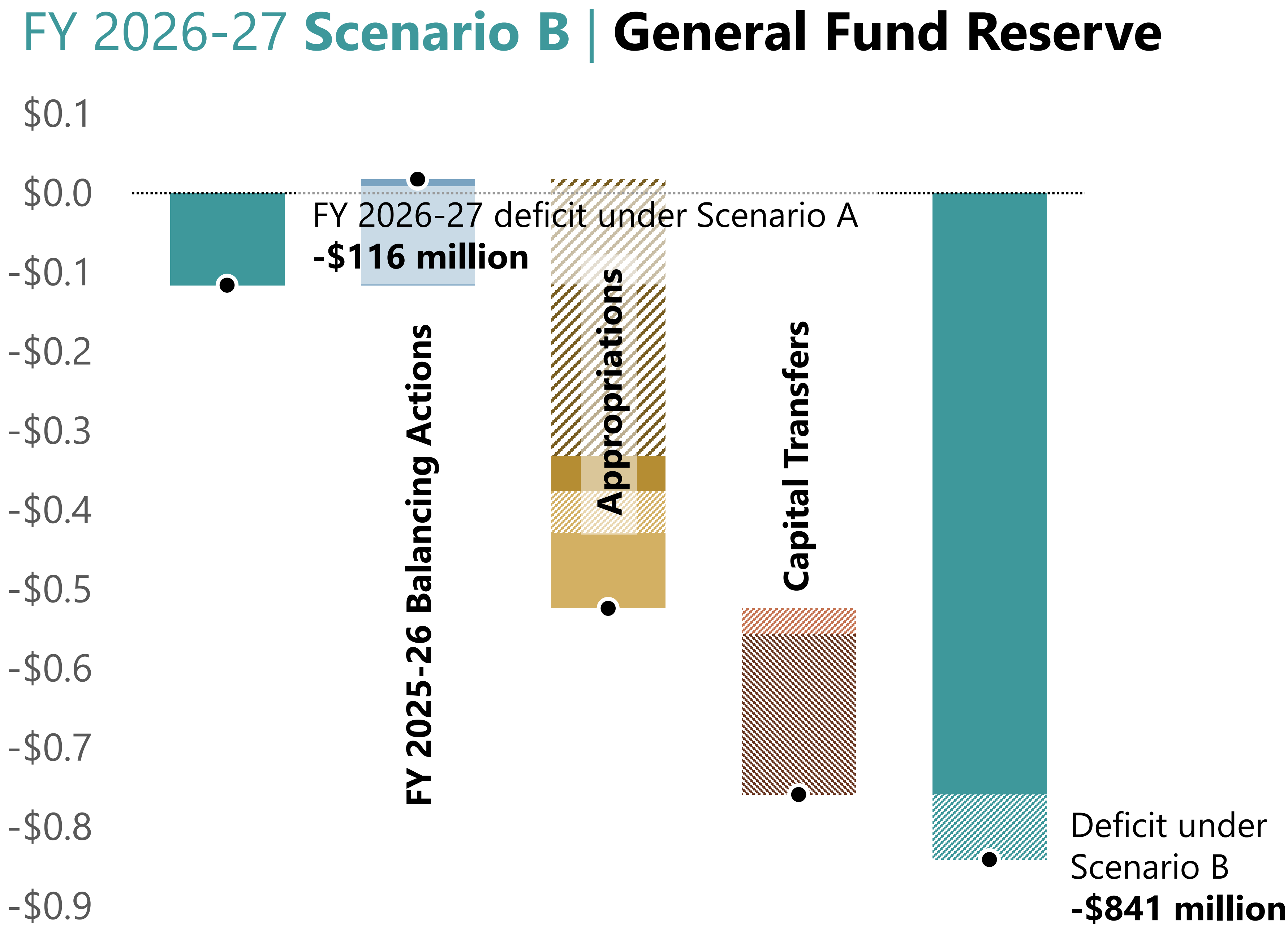
Change since the July forecast update (Scenario A)

Net **+$416 million** change in GF reserve relative to requirement

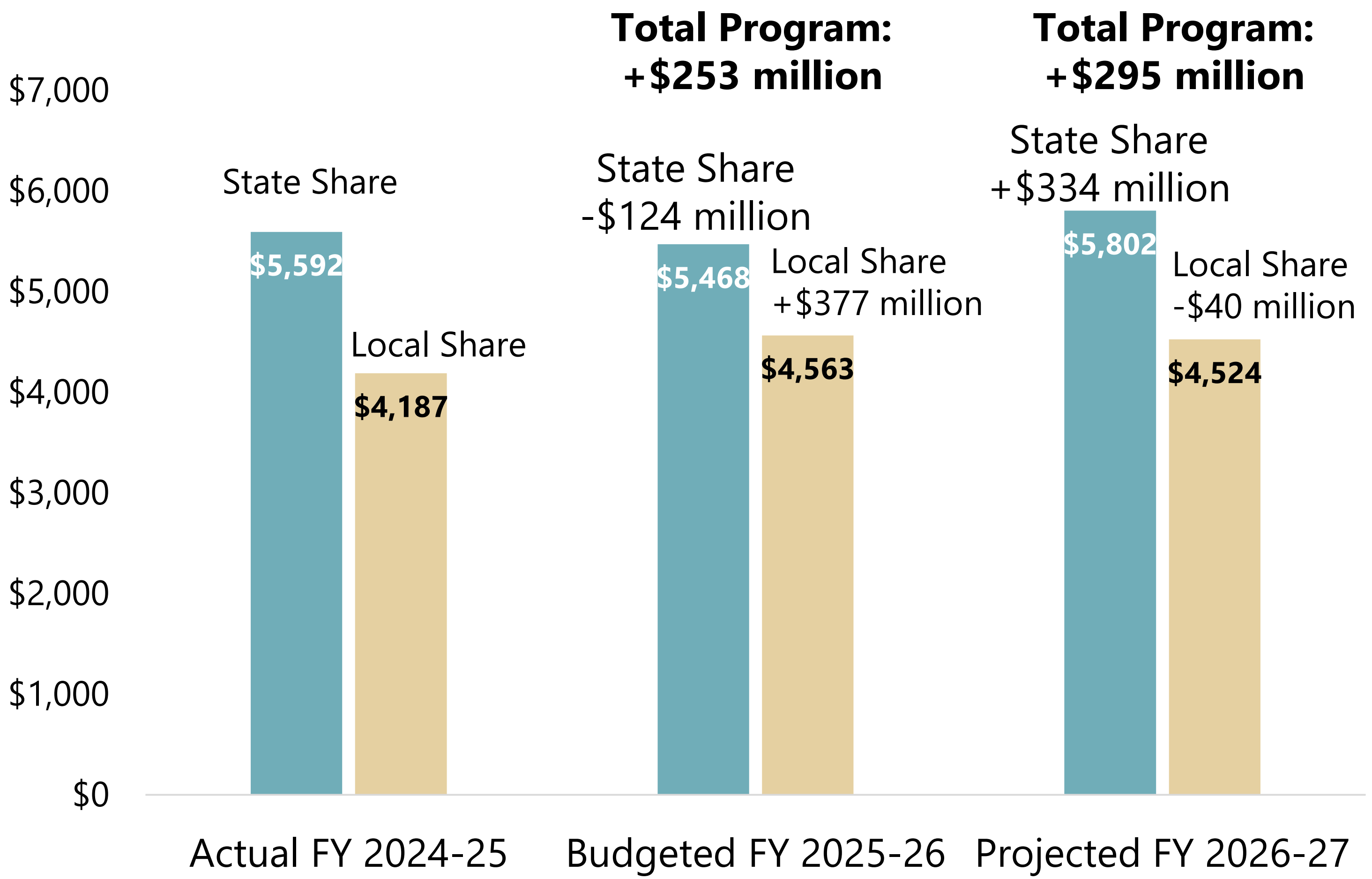
What Changed?

Increased **beginning balance**	**+$385 mil.**
Increased **TABOR limit**	**+$52 mil.**
Increased **cash funds subject to TABOR**	**-$50 mil.**
Decreased **rebates and expenditures**	**+$36 mil.**

Source: Legislative Council Staff forecasts based on current law.


FY 2026-27 Scenario B | General Fund Reserve
$0.1
$0.0
-$0.1
-$0.2
-$0.3
-$0.4
-$0.5
-$0.6
-$0.7
-$0.8
-$0.9
FY 2026-27 deficit under Scenario A
-$116 million
FY 2025-26 Balancing Actions
Appropriations
Capital Transfers
Deficit under
Scenario B
-$841 million

State share of school finance preliminarily estimated to increase $334M in FY 2026-27



Forecast Takeaways

The economic outlook has weakened and a near-term recession is possible

Budget outlook is unusually sensitive to the revenue forecast

Revenue forecast is uncertain, with bidirectional risk

Different FY 2025-26 balancing decisions impact FY 2026-27 budget differently

Preview: LCS General Fund Budget Simulator

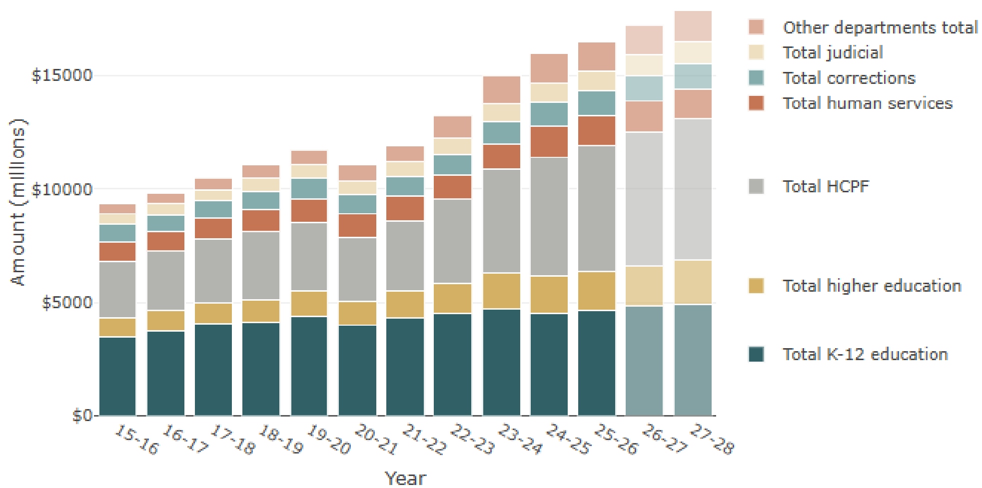
Budget Assumptions Budget Analysis Download Data

Revenue TABOR Expenditures Reserve

Expected General Fund Appropriations

To the six largest departments and all other departments

	26-27	27-28
Total K-12 education	+3.2%	+2.1%
Total higher education	+6.6%	+7.3%
Total HCPF	+6.5%	+5.2%
Total human services	+1.2%	+0.9%
Total corrections	+2.9%	-0.7%
Total judicial	+6.5%	+6.9%
Other departments total	+1.9%	+1.5%



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NOTE: FY 2026-27 and FY 2027-28 values shown here are simulations to demonstrate the functionality of the tool. They are not part of the LCS forecast.

Colorado Budget Explorer | Budget Assumptions | Budget Analysis | Download Data | Calculation Details | About

Staff compensation

Salaries | Insurance | Retirement (PERA)

Salary increases for many state employees across many departments are determined by a collective bargaining agreement and implemented by the legislature. Those increases are meant to account for cost of living changes and a step system of promotions. Departments have flexibility in how they actually distribute salary funding. The salary increases set here will be reflected in the compensation costs in many of the other parts of the budget.

The collective bargaining agreement calls for an across the board 2.5% increase in salaries this year and 3.1% increase in the following year. The constitution requires a similar increase for non-qualifying employees. The step increases for promotions increase those amounts slightly. By default, these projections align with the collective bargaining agreement but custom changes can be entered instead.

Total salary change

JBC assumption | Custom

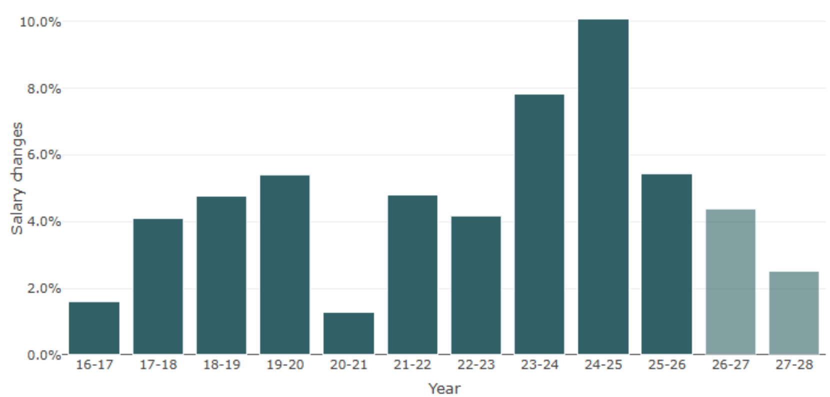
26-27: 4.4%

27-28: 2.5%

Expected changes

	26-27	27-28
Salary changes	+4.4%	+2.5%

Historical Amounts



Overview

As you input budget assumptions on the left, these high level budget totals update to reflect the scenario you've created. Colorado currently requires 15% of appropriations to be held in the general fund as a reserve. That requirement can be changed below.

Reserve requirement (as a percentage of appropriations):

26-27: 15.0%

27-28: 15.0%

Year	Reserve percentage	Excess reserve
25-26	+12.9%	-$307 million
26-27	+9.5%	-$913 million
27-28	+6.6%	-$1.461 billion

"Excess reserve" is any reserve beyond the required reserve set above.

Save and Load

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Judicial

Judicial includes state courts (trial, appeals, and supreme courts), public defense (public defenders and alternate defense council), probation, and various independent agencies.

The tool automatically grows compensation in each division by the amount specified in the "Staff compensation" section of the tool. Otherwise, by default, budgets are held flat, but there are options to increase by the 10-year average increase or a custom amount.

For state courts, custom increases are in number of judges based on the typical cost of a judge's compensation. For public defense the custom adjustments are in dollars. For probation and other independent agencies increases are a percent change from the previous year.

State courts (number of judges)

Flat | 10-year average | Custom

Public defense ($)

Flat | 10-year average | Custom

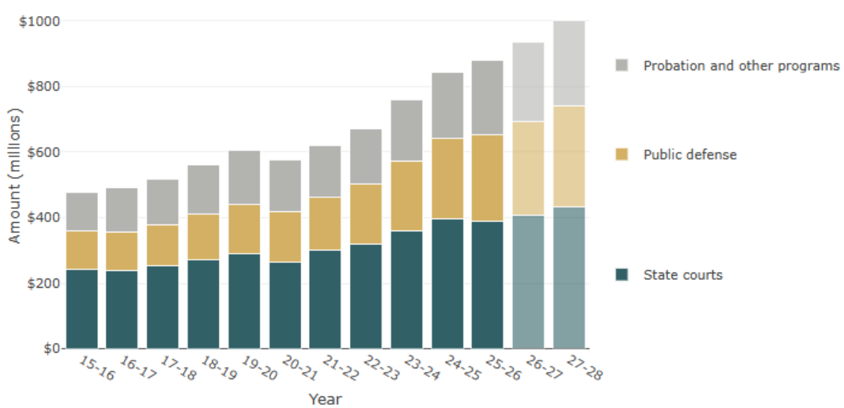
Probation and other (%)

Flat | 10-year average | Custom

Expected changes

	26-27	27-28
State courts	+4.9%	+5.6%
Public defense	+8.5%	+9.3%
Probation and other programs	+6.8%	+6.3%
Total judicial	+6.5%	+6.9%

Historical Amounts



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15.0%	15.0%

Year	Reserve percentage	Excess reserve
25-26	+12.9%	-$307 million
26-27	+9.5%	-$897 million
27-28	+6.7%	-$1.437 billion

"Excess reserve" is any reserve beyond the required reserve set above.

Save and Load

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Questions?

Greg Sobetski

Chief Economist

Greg.Sobetski@coleg.gov | 303-866-4105

Louis Pino

Principal Economist

Louis.Pino@coleg.gov | 303-866-3556

Interested in the Budget Simulator?

Thomas Rosa

Data Scientist

Thomas.Rosa@coleg.gov | 303-866-3140