September 2026 | Legislative Council Staff

Economic & Revenue Forecast

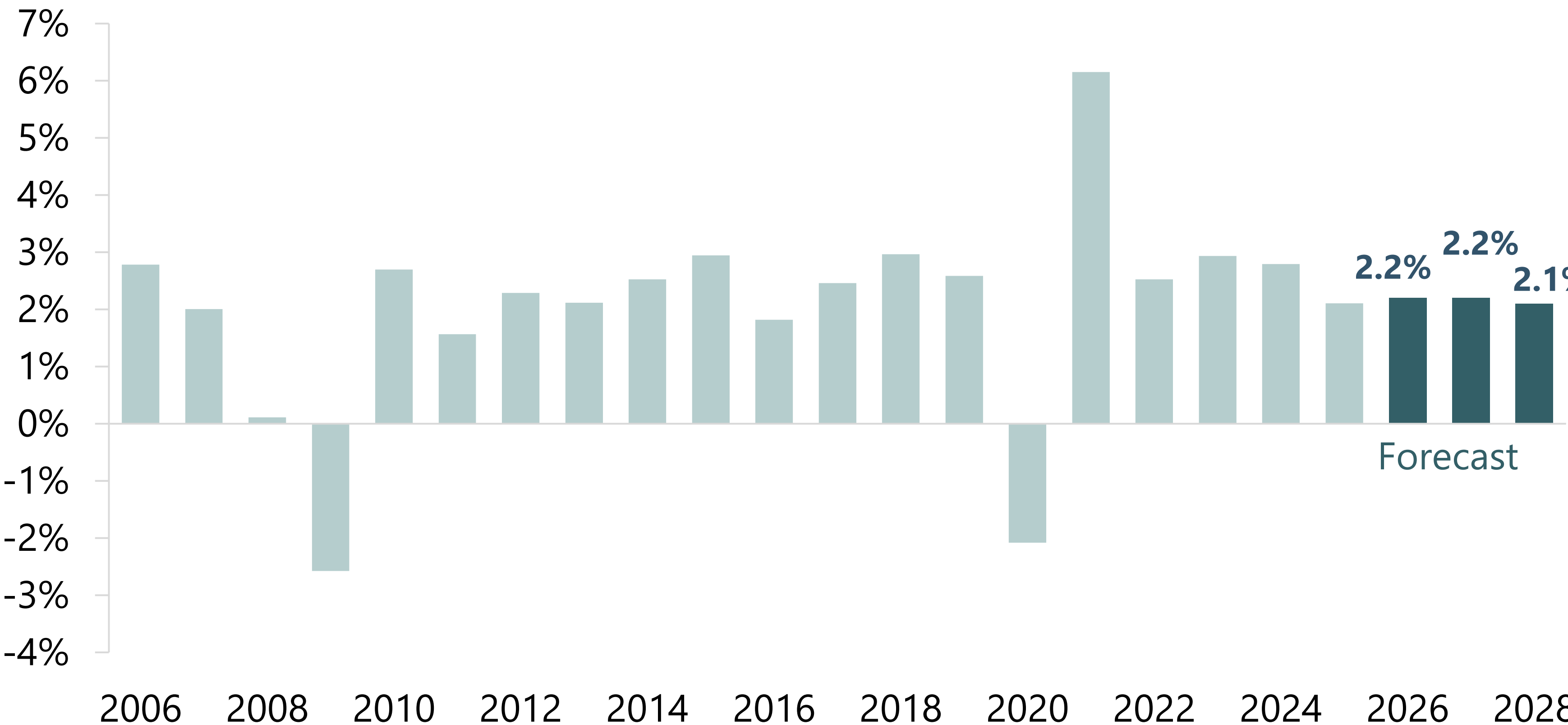
Presentation to the Joint Budget Committee

September 18, 2026

Economic Outlook

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

Real U.S. Gross Domestic Product
Annual Percent Change

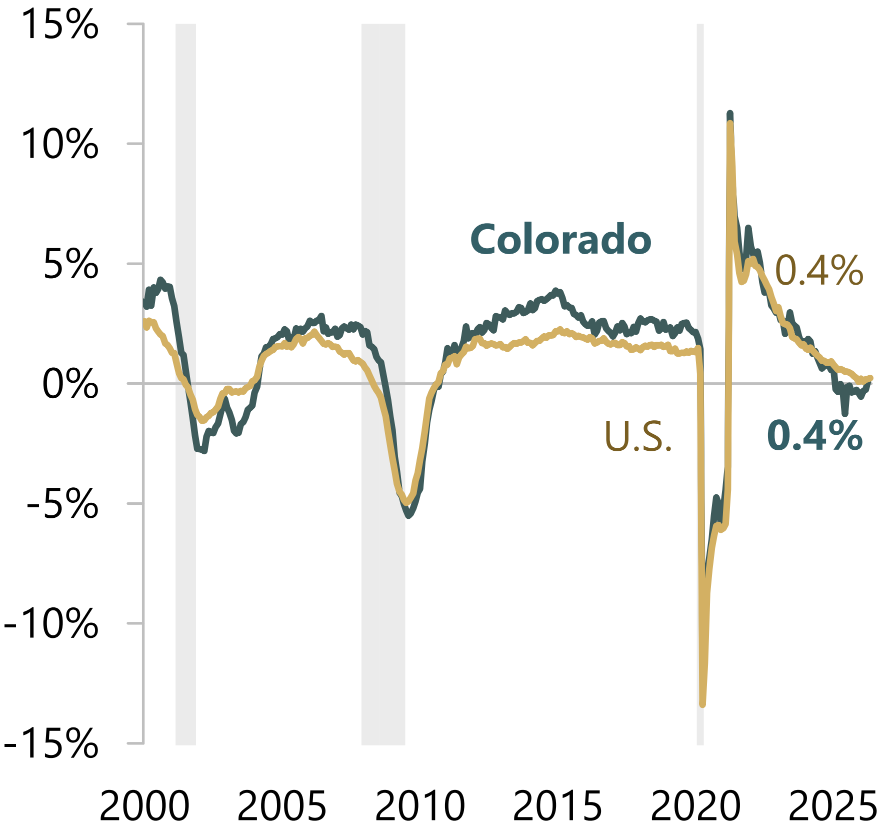


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections. Seasonally adjusted at annual rates. Real GDP is inflation-adjusted to chained 2017 levels.

Slow employment growth is consistent with a declining labor force

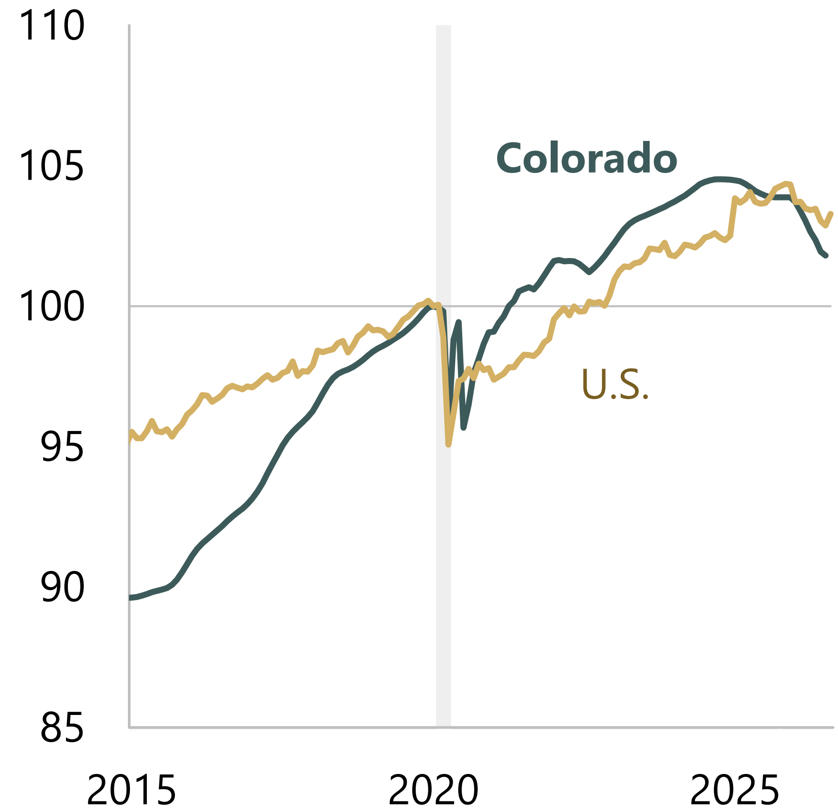
Nonfarm Employment Growth

Year-over-year percent change



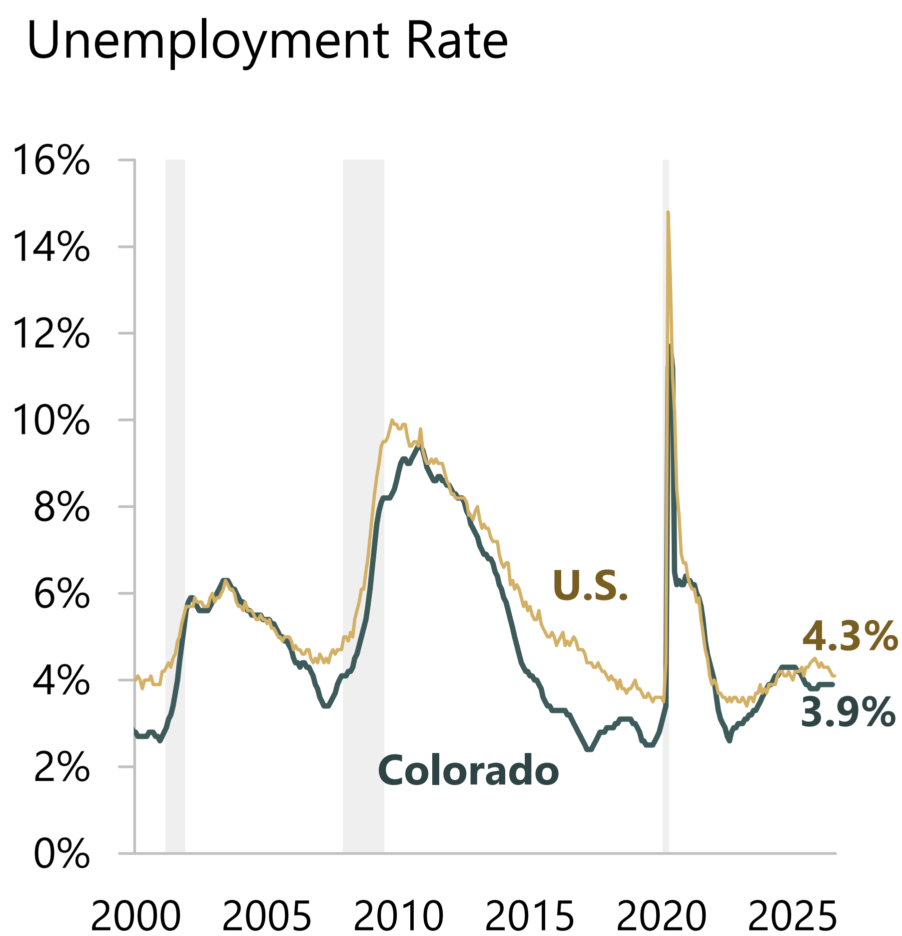
Labor Force

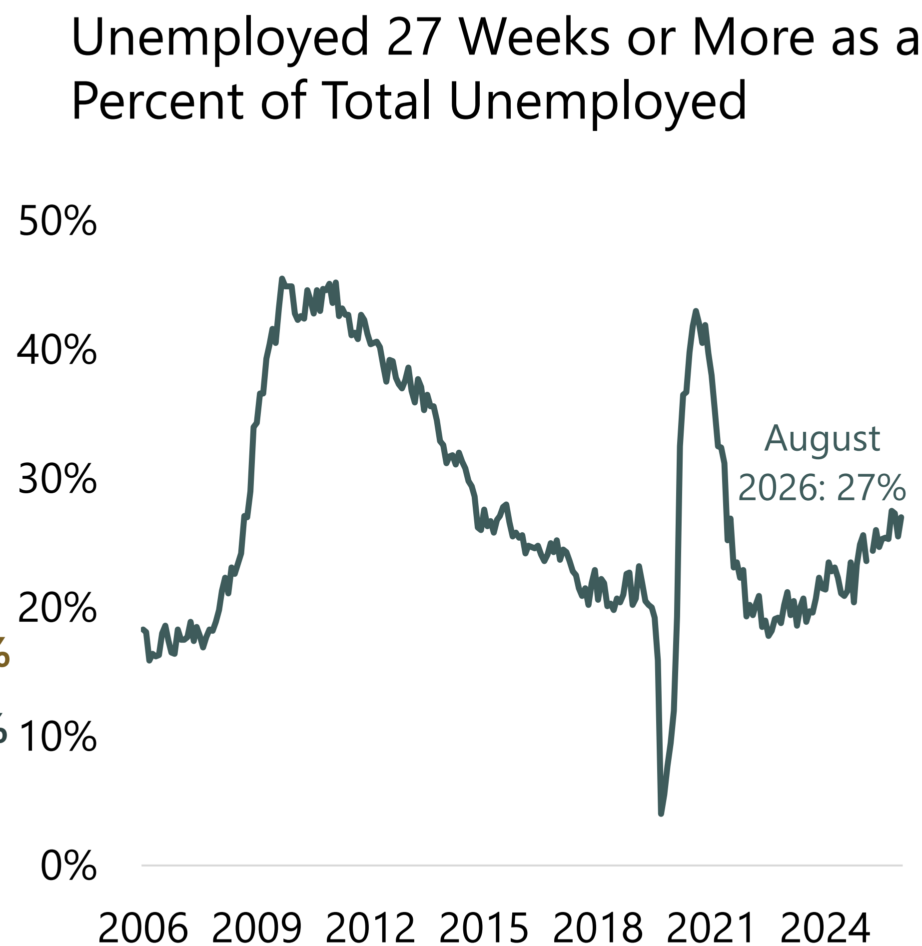
Index = January 2020



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

Low unemployment rate masks rising long term unemployment



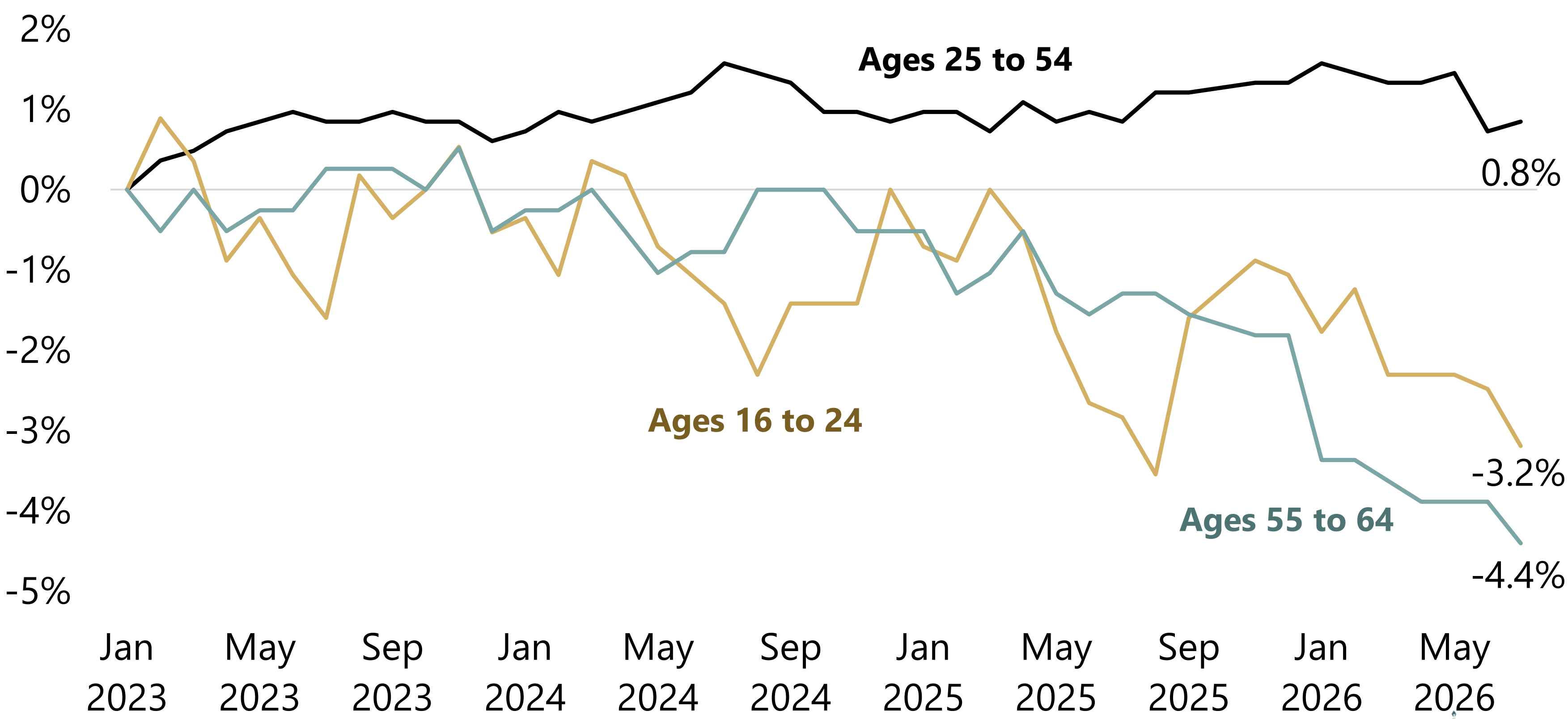


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Data for the U.S. are through August 2026. Data for Colorado are through July 2026.

Impacts of low-hire, low-fire labor market vary by age

U.S. Employment to Population Ratios by Age Group

Change in Share of the Civilian Population that is Employed since January 2023

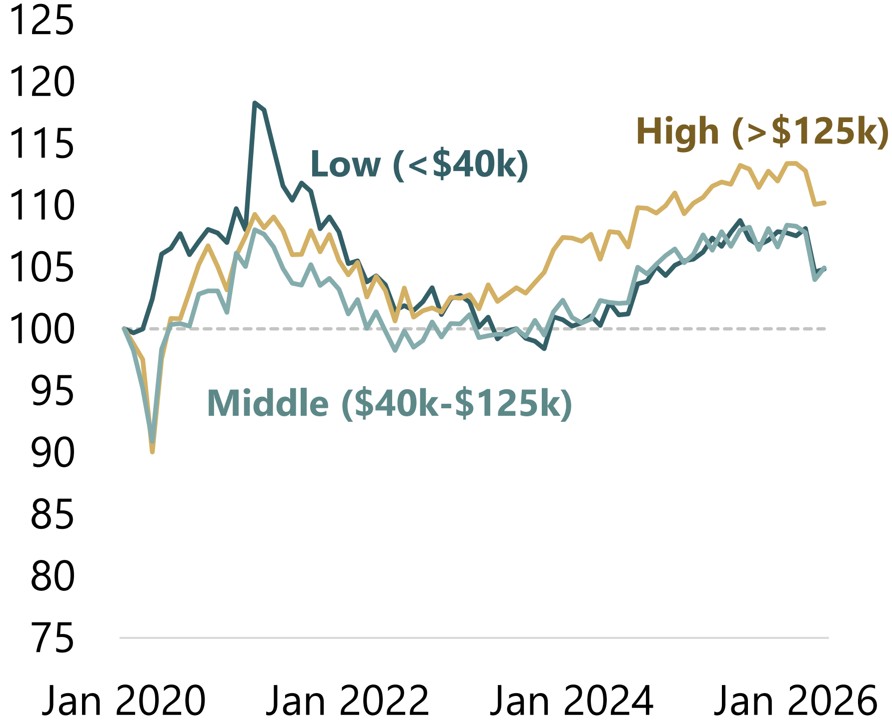


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and through July 2026.

High income households sustain consumer spending, despite historically low sentiment

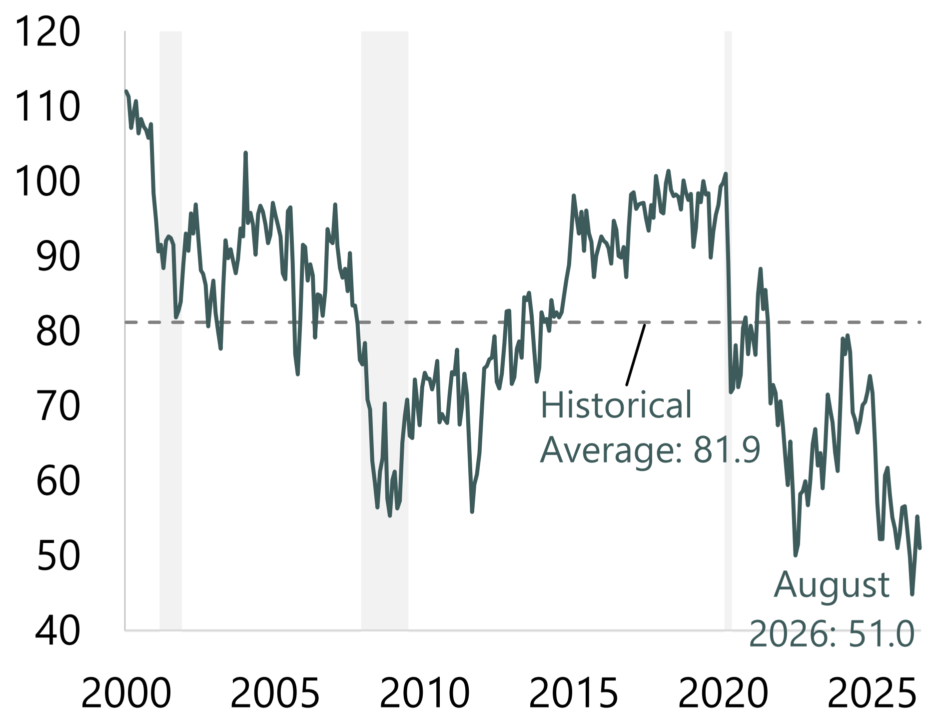
U.S. Real Retail Spending by Income Level

Index January 2020=100



Consumer Sentiment Index

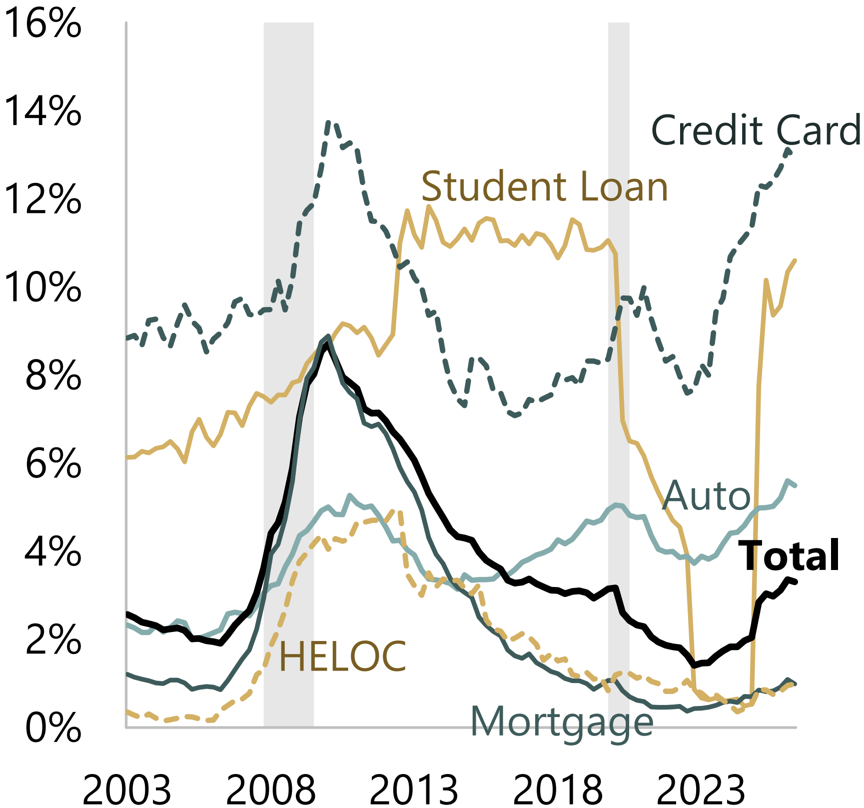
Index Value 1996 = 100



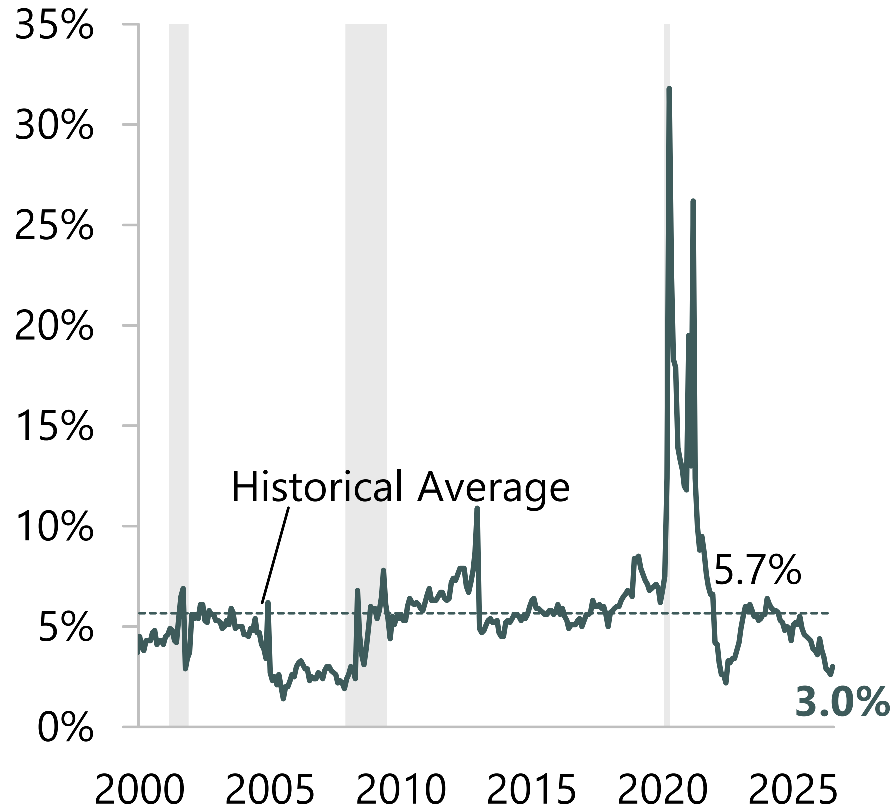
Source: Federal Reserve Bank of New York: Economic Heterogeneity Indicators; data is seasonally and inflation-adjusted through April 2026 (left). Data are shown as seasonally adjusted annual rates. University of Michigan, Survey of Consumers (right).

Delinquency rates remain elevated across all types of loans, while savings rates are historically low

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

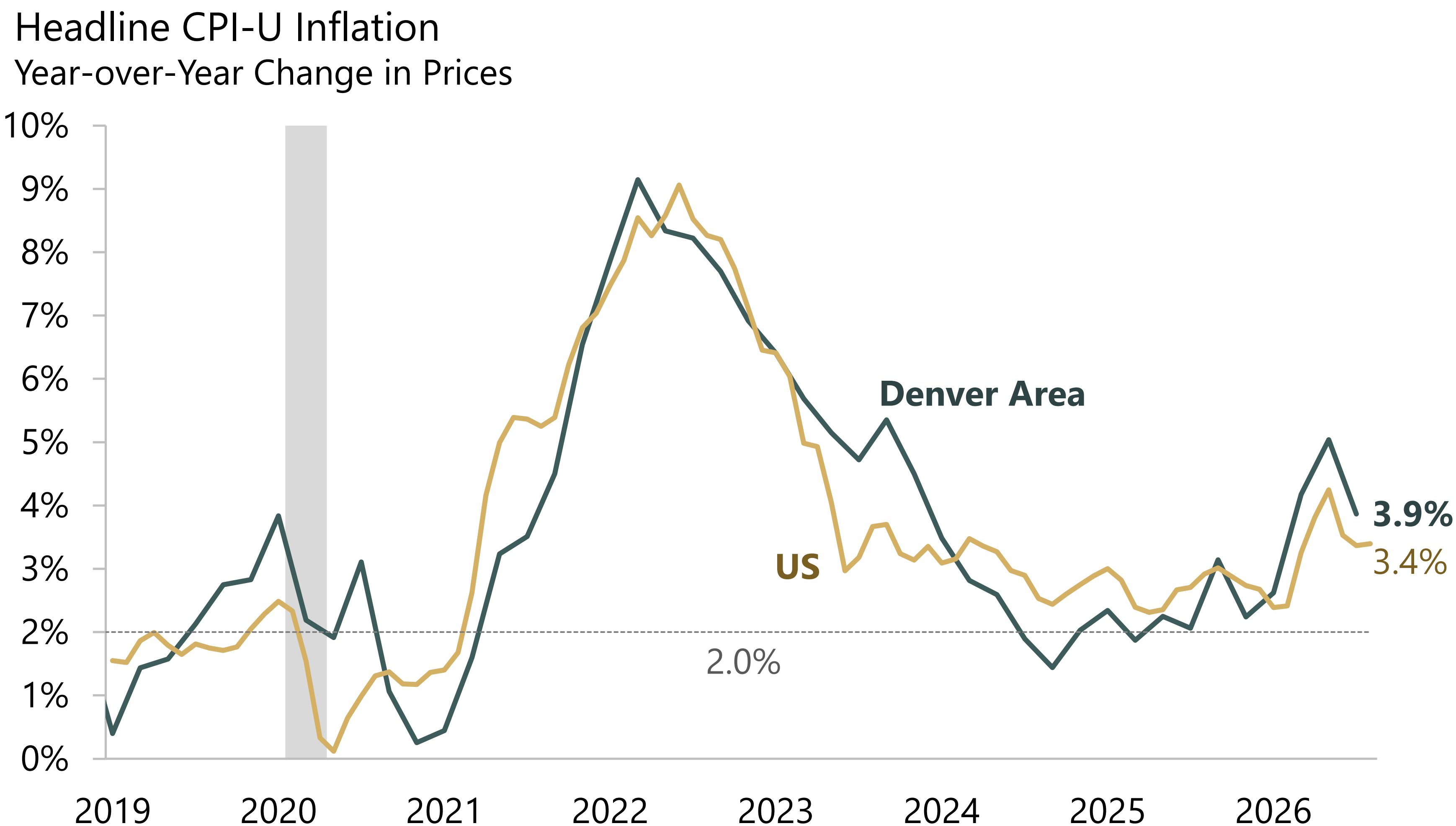


Historical Personal Savings Rate



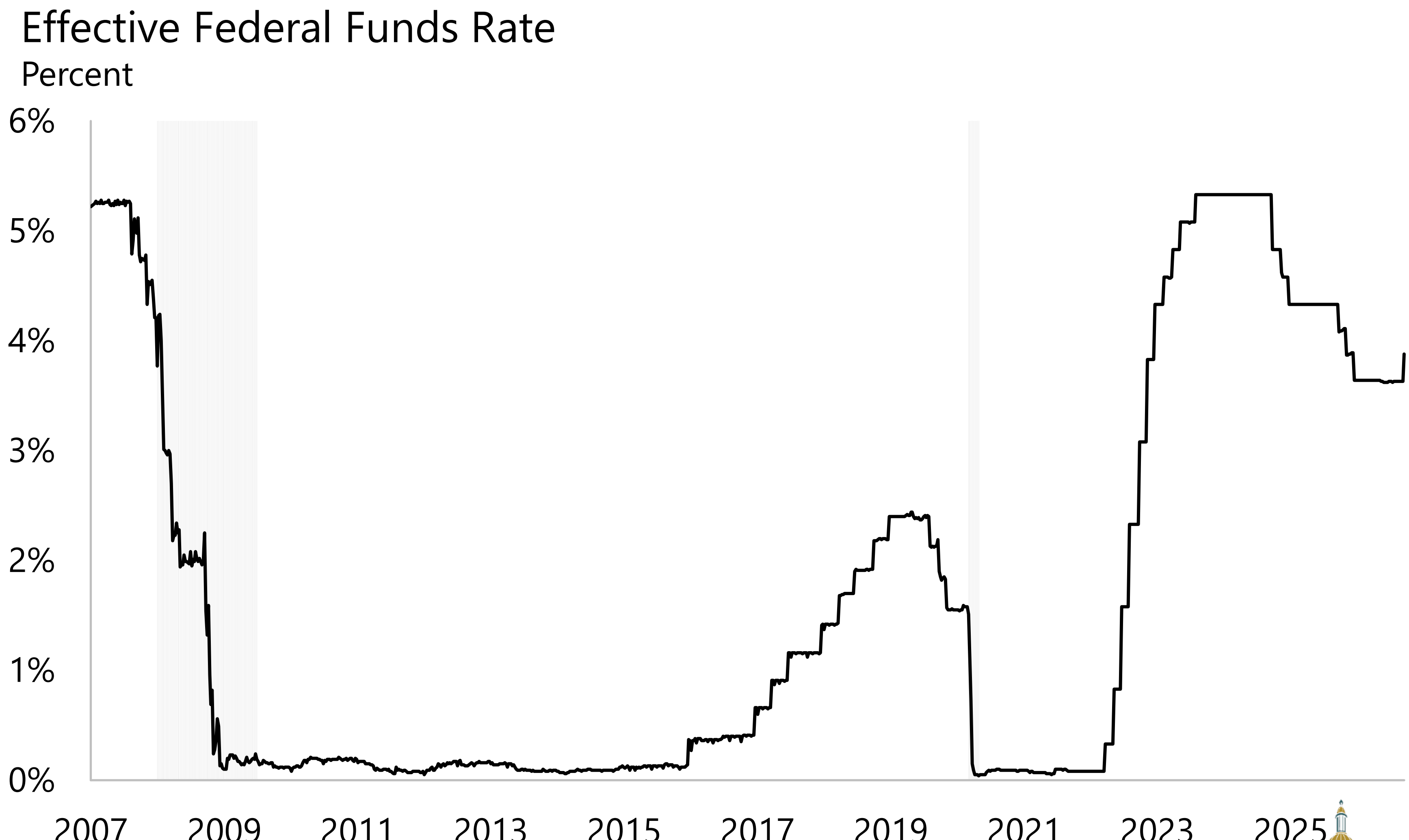
Source: New York Fed Consumer Credit Panel/Equifax. Data are through 2026Q2. Serious delinquency rates are the percentage of total debt that is delinquent by 90 days or more (left). U.S. Bureau of Economic Analysis. Data are through July 2026. Data are shown as seasonally adjusted annual rates (right).

Inflation recedes following oil shock, energy index still up 16 percent in U.S. year-over-year



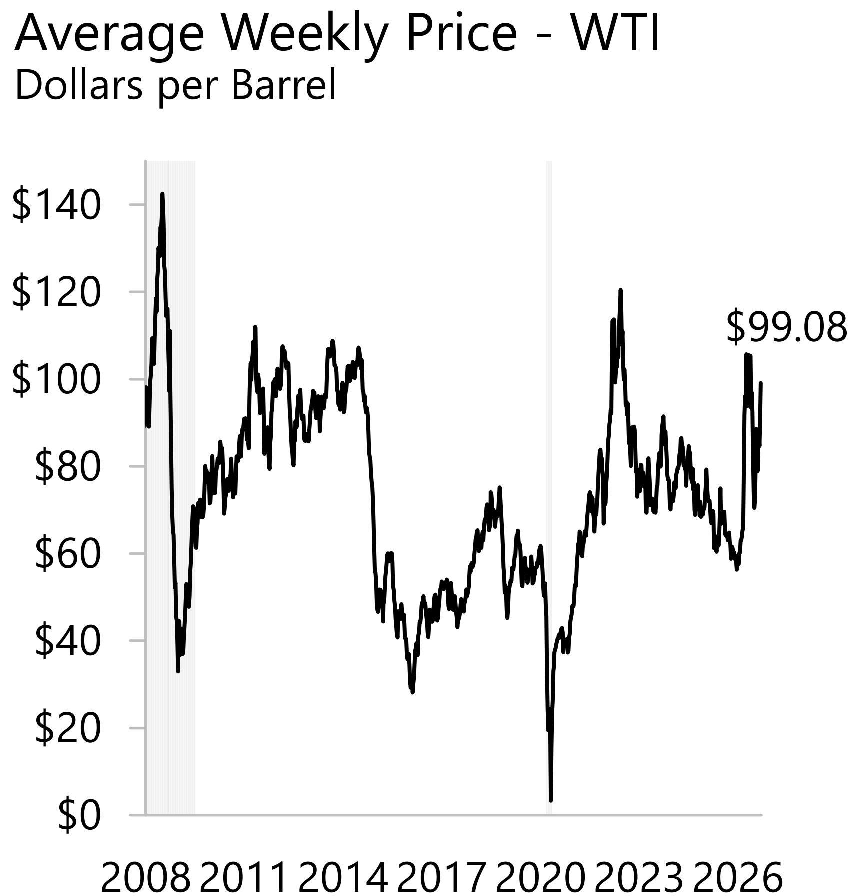
Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. U.S. data are through August 2026. Colorado data are through July 2026.

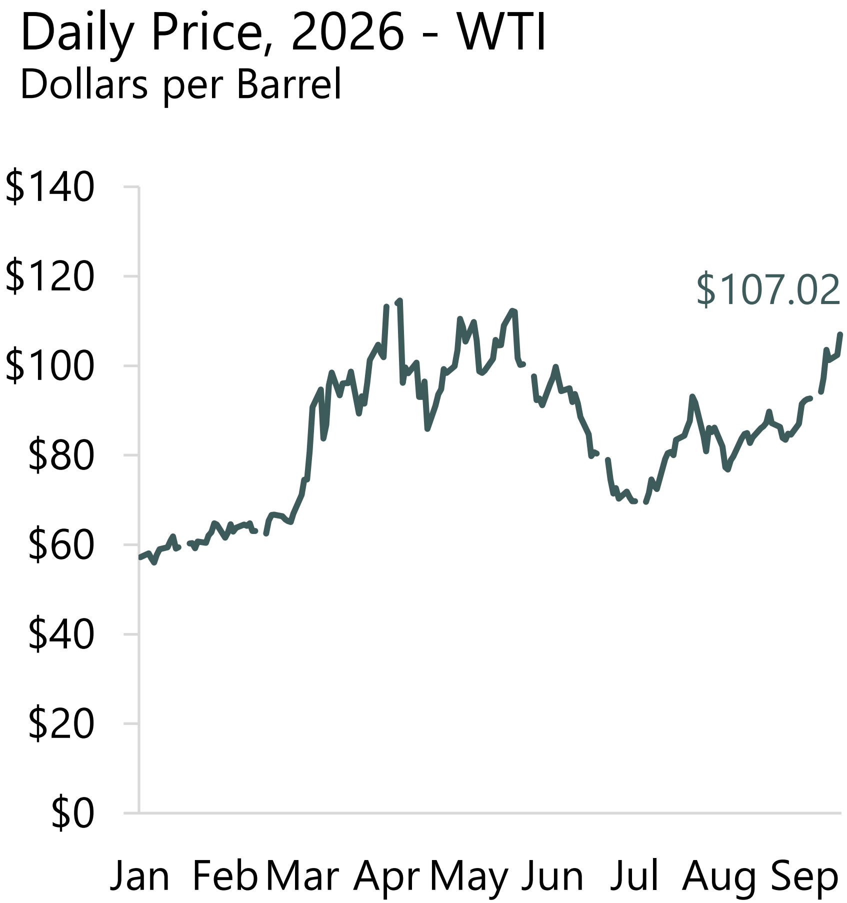
Federal Reserve raises interest rates, another increase likely in 2026



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

Crude oil prices volatile, heading higher

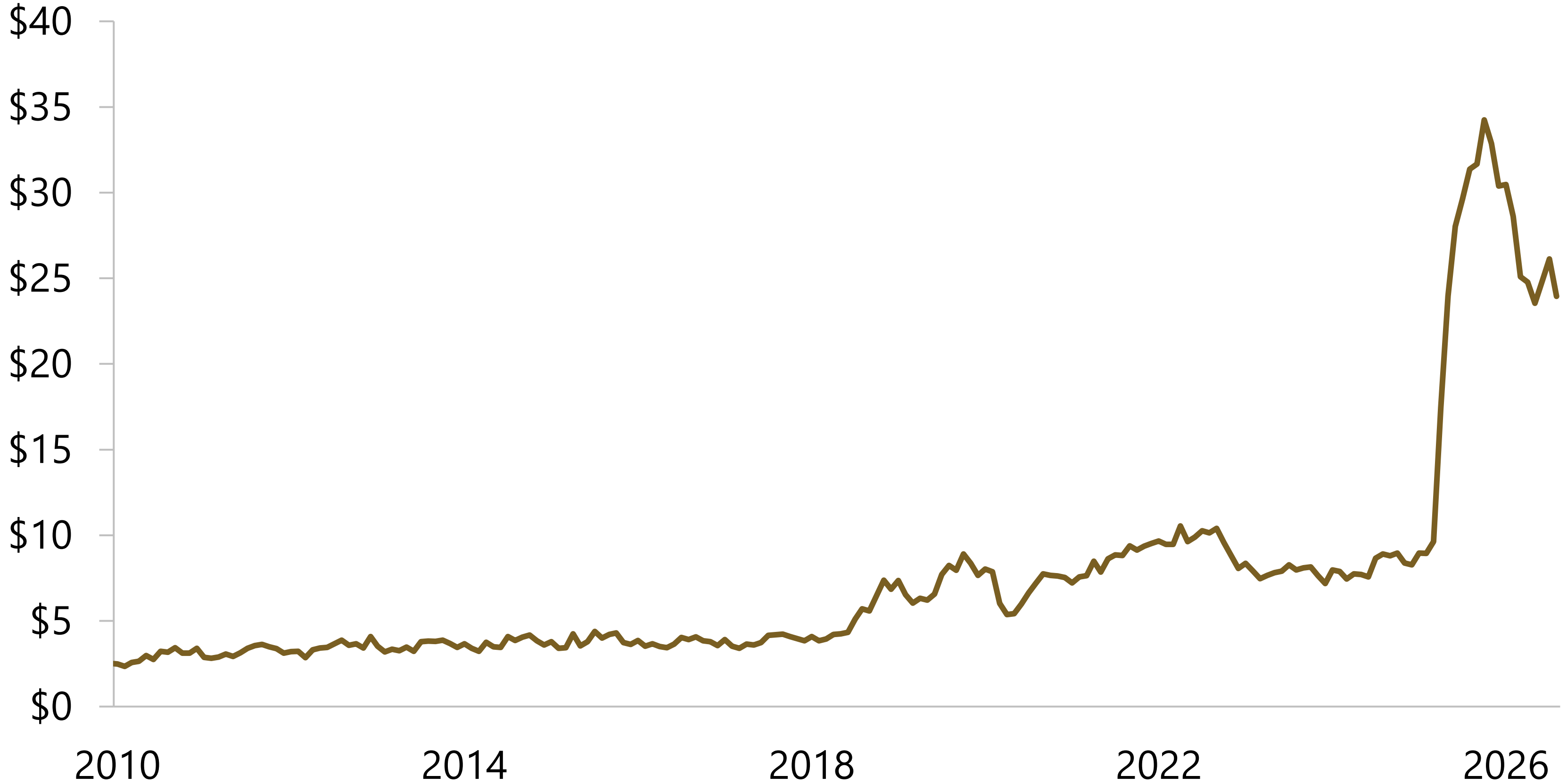




Source: Federal Reserve Bank of St. Louis, FRED Database for West Texas Intermediate price. Weekly average prices (left) through the week of September 11. Daily prices (right) through September 15.

Tariff payments recede from the peak in October 2025, but are expected to remain historically elevated

U.S. Customs and Certain Excise Tax Revenues
Billions of Dollars



Source: U.S. Treasury Department Fiscal Data, Daily Treasury Statements. Data August 2026.

The forecast carries both upside and downside risks

Upside Risks:

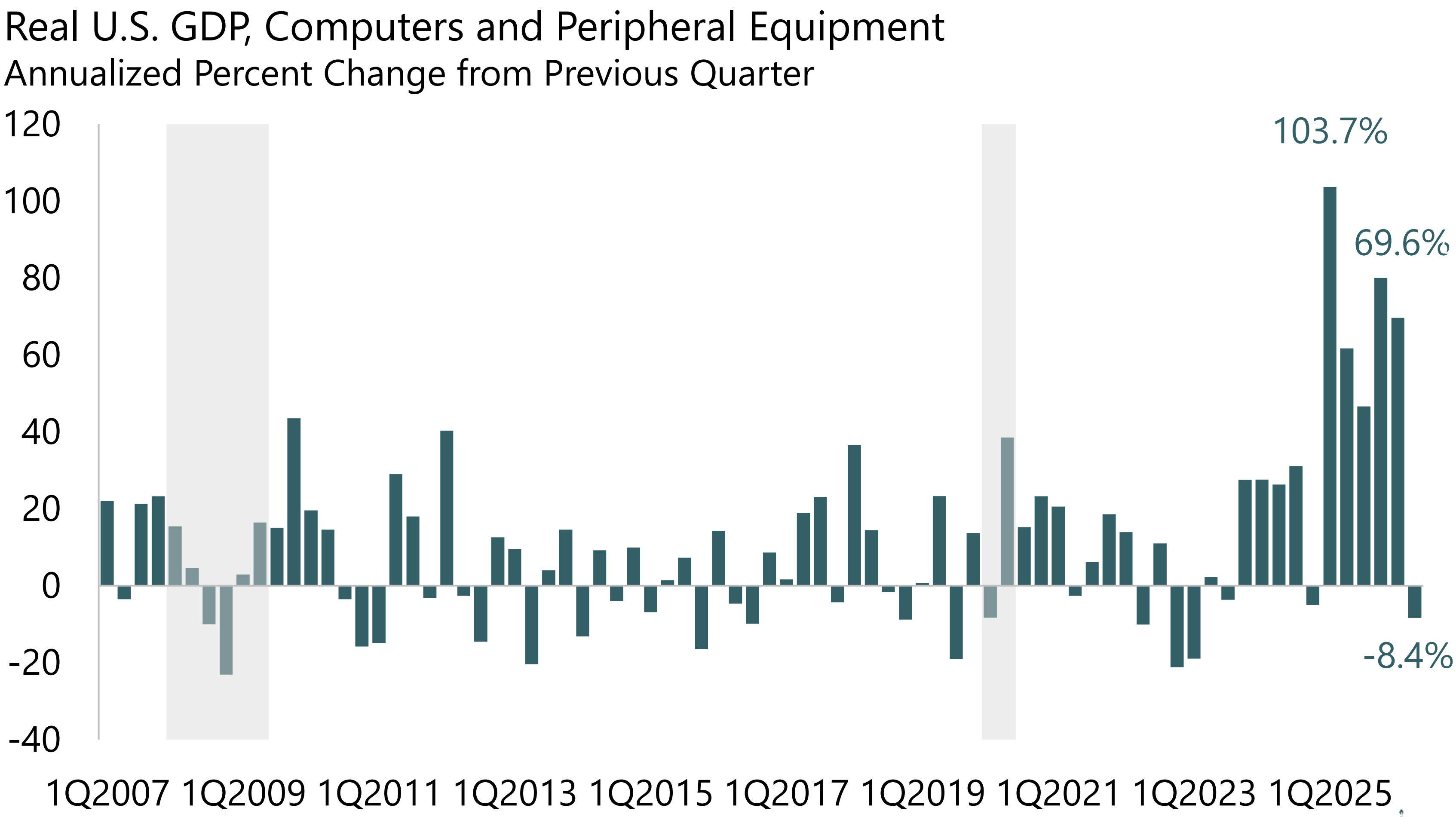
- Consumer activity reaccelerates as inflationary pressures subside
- AI-related investment boosts output above our GDP forecast
- AI rapidly boosts productivity, raising investment incomes

Downside Risks:

- Higher interest rates and persistent inflationary pressures weigh on spending and investment
- Weak household finances or weak labor markets impact consumer spending or financial stability
- AI-related disruptions, including financial market correction or broader impacts

Supplemental Slides

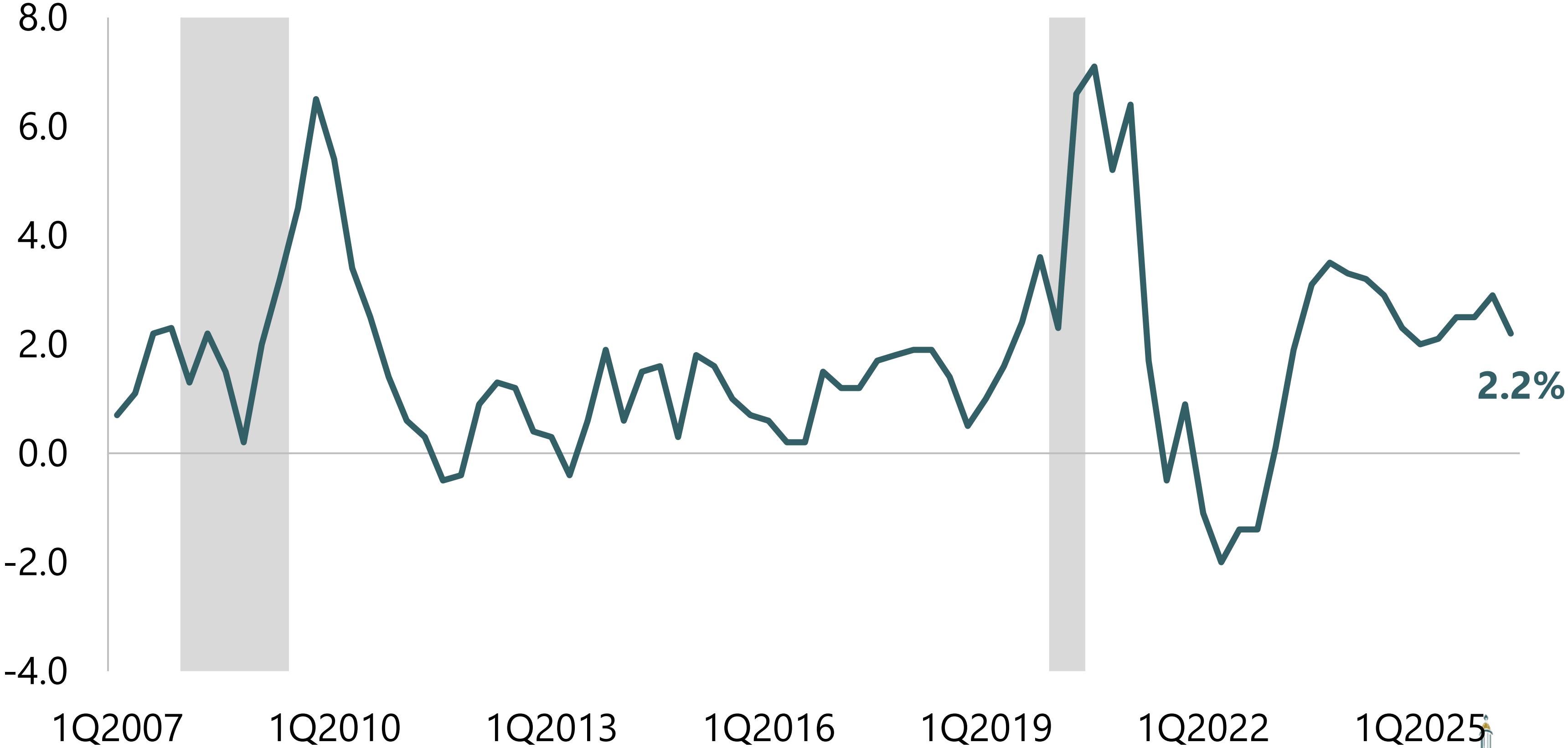
Business investment in computer equipment exploding over the past year



Source: U.S. Bureau of Economic Analysis. Seasonally adjusted at annual rates. Real GDP is inflation-adjusted to chained 2017 levels.

Productivity is elevated amidst strong business investment

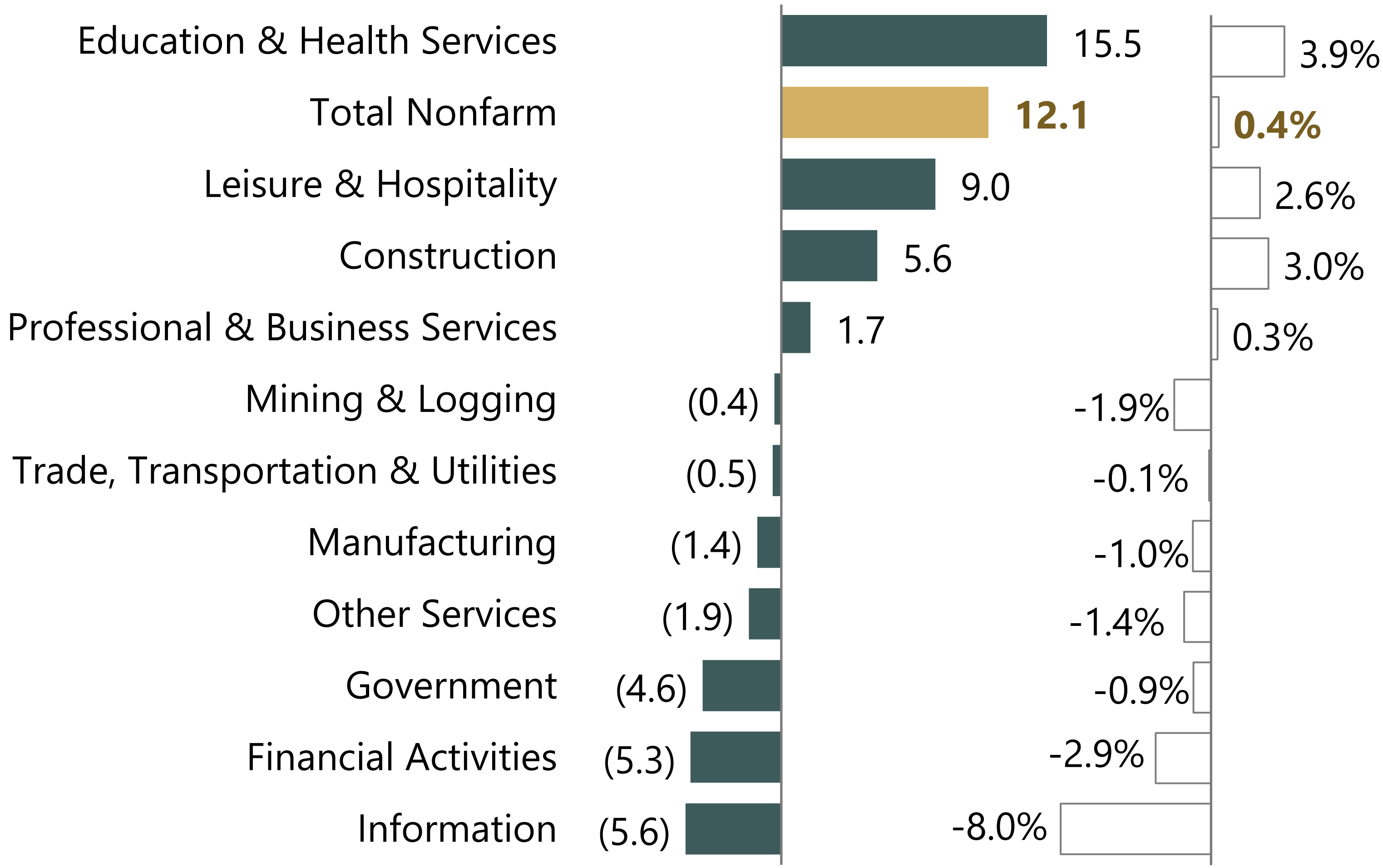
U.S. Nonfarm Labor Productivity
Year-Over-Year Percent Change



Source: U.S. Bureau of Labor Statistics. Nonfarm business sector productivity is measured as output per hour. Data are through the second quarter of 2026.

Colorado Jobs Gains and Losses by Industry – July 2026

Year-over-Year Change

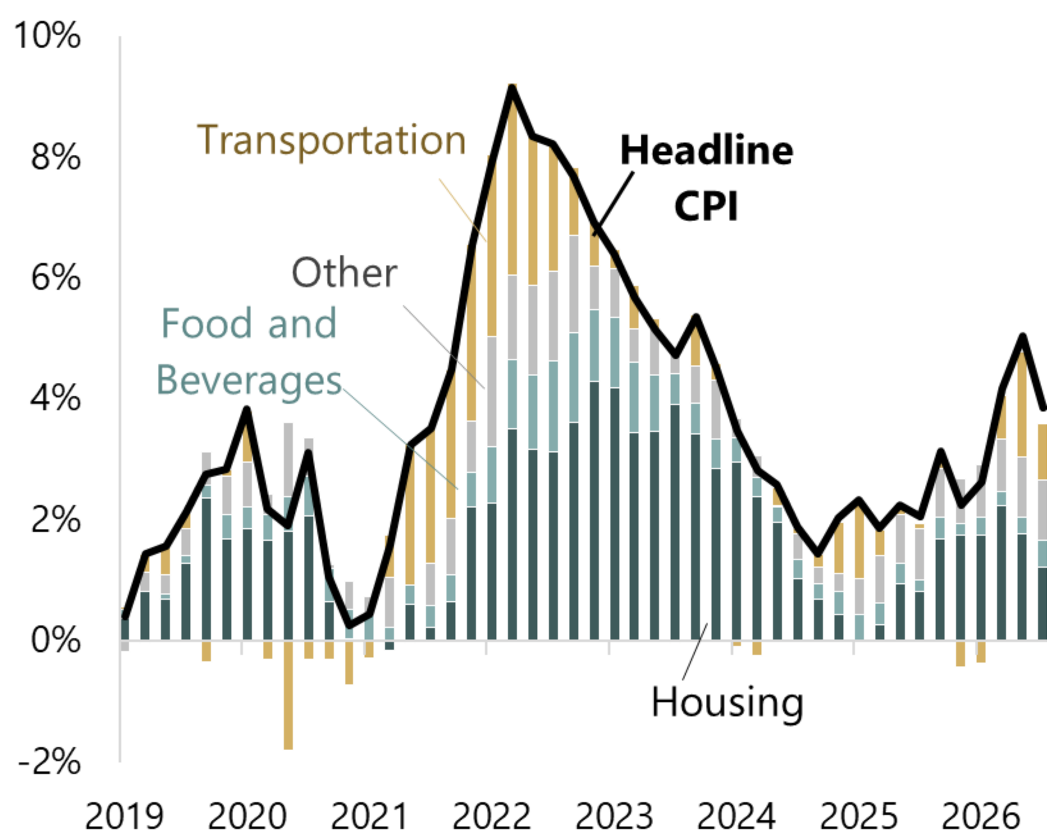


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Gold shading indicates a supersector, teal a subsector.

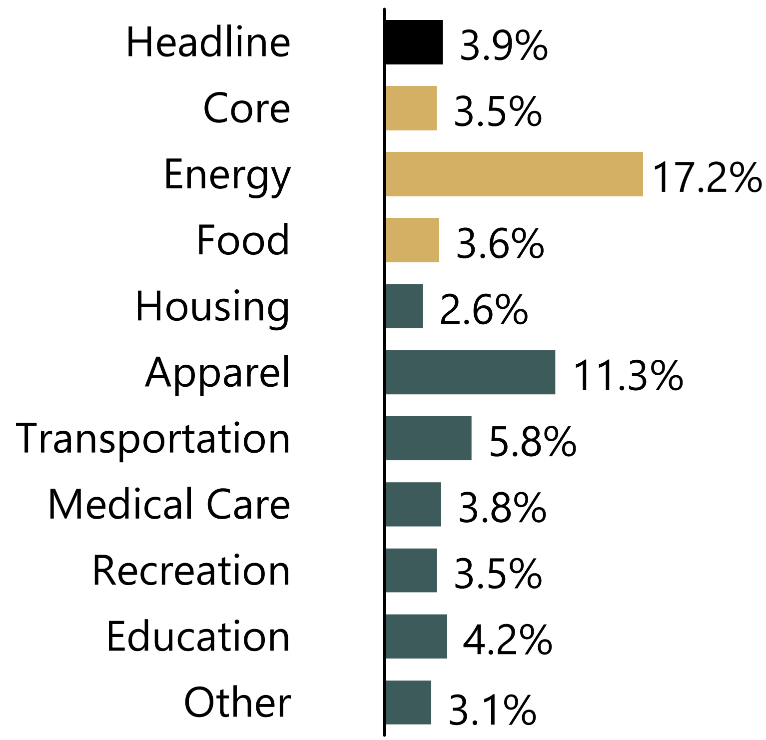
Inflation in the Denver area to be pushed up by energy prices through 2026

Denver-Aurora-Lakewood Consumer Price Index

Year-over-Year Percent Change in Prices



Selected Components, July 2026

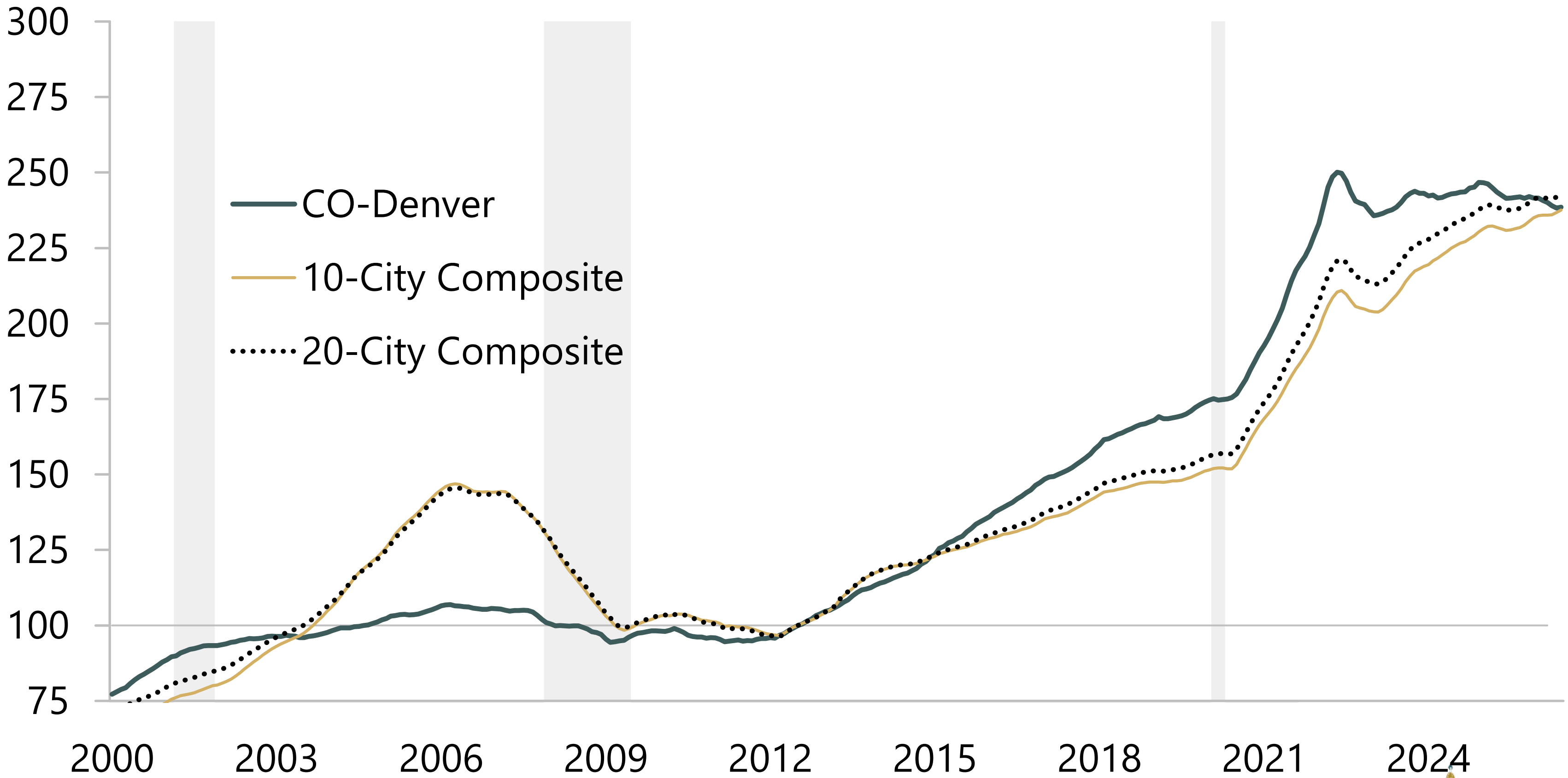


Source: U.S. Bureau of Labor Statistics and Legislative Council Staff calculations.
Headline inflation includes all products and services. Transportation includes new and used vehicles, vehicle parts, and motor fuel. Housing includes the cost of rent, homeowner rental equivalent, utilities, and other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

Home price growth remains muted in Denver and is slowing nationwide

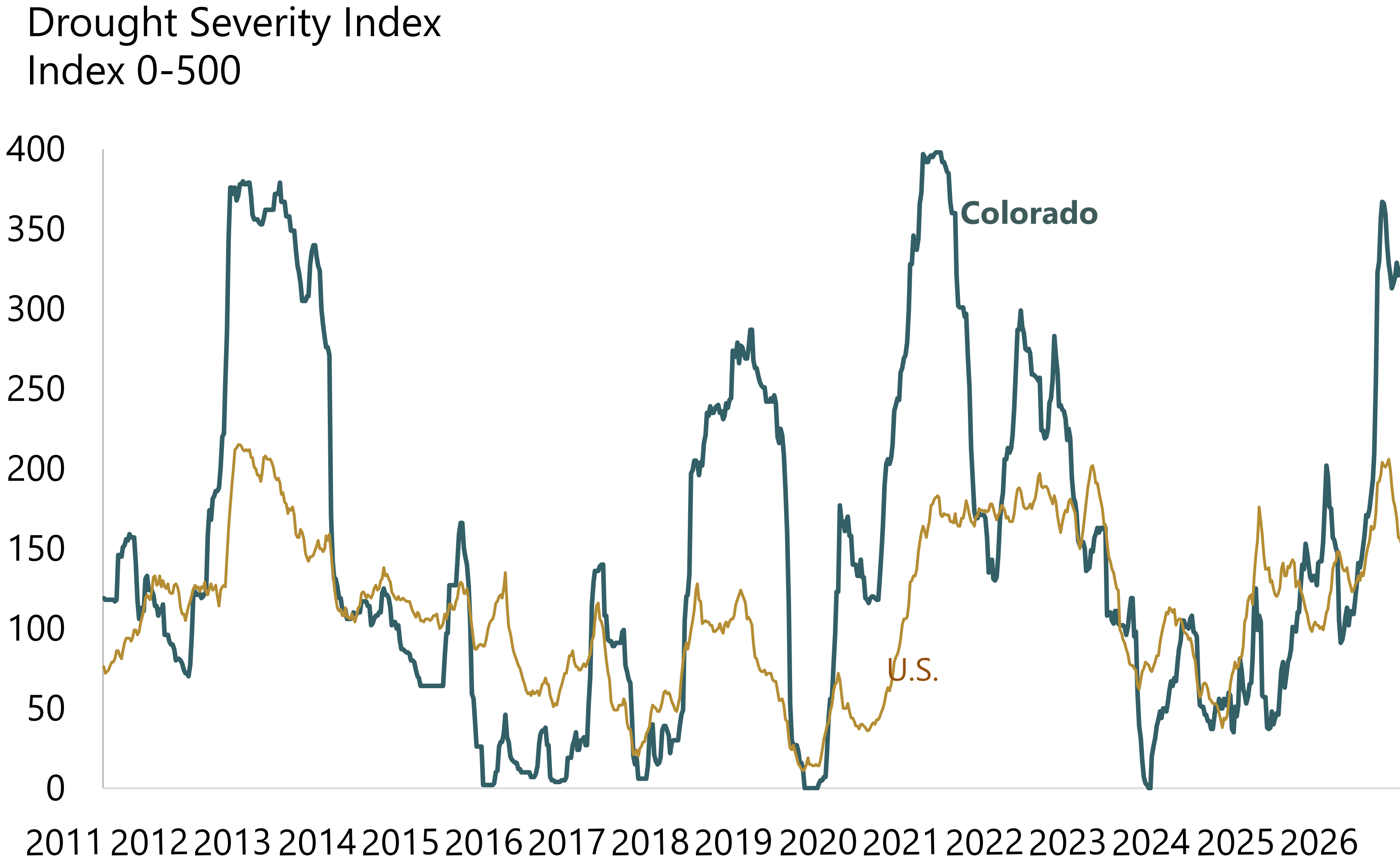
Case-Shiller Home Price Indices

Index 100 = July 2012



Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through June 2026.

Colorado drought conditions are among the most severe nationwide



Source: United States Drought Monitor. Data through August 2026. Zero indicates none of the area is abnormally dry or in drought and 500 indicates all of the area is in exceptional drought.

Revenue & Budget Forecast

What we know now…

FY 2025-26 preliminary revenue data

FY 2025-26 TABOR certification

- Audit incomplete, OSA has identified some deficiencies

FY 2025-26 transfer amounts not finalized

Important: No reversions yet

Forecast Takeaways

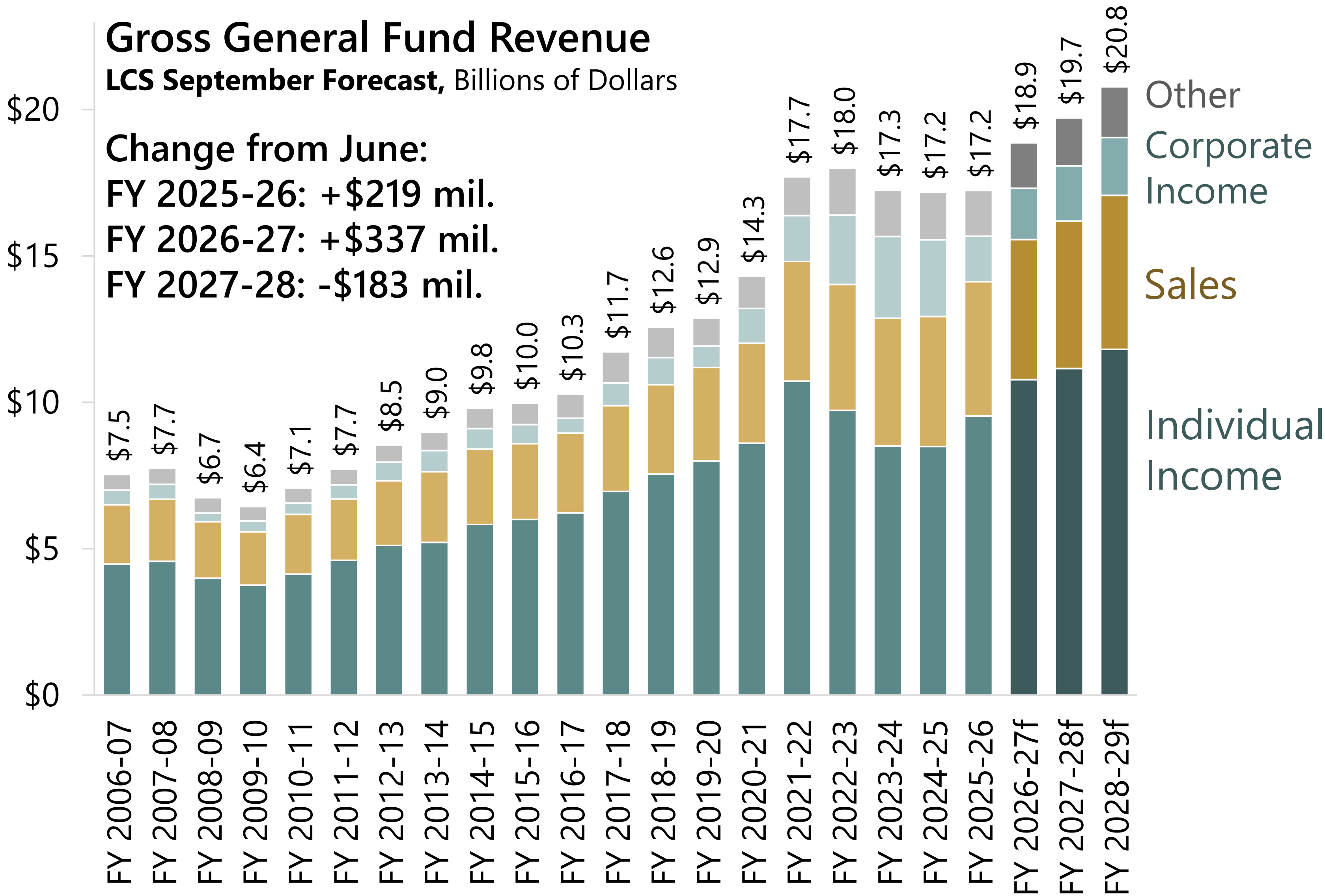
Revenue forecast has improved

- FY 2025-26 revenue beat June forecast by $220M
- FY 2026-27 revenue to grow 9.5%
- Growth for FY 2027-28 and FY 2028-29 moderated by triggered tax credits

Minor outlook changes from forecast

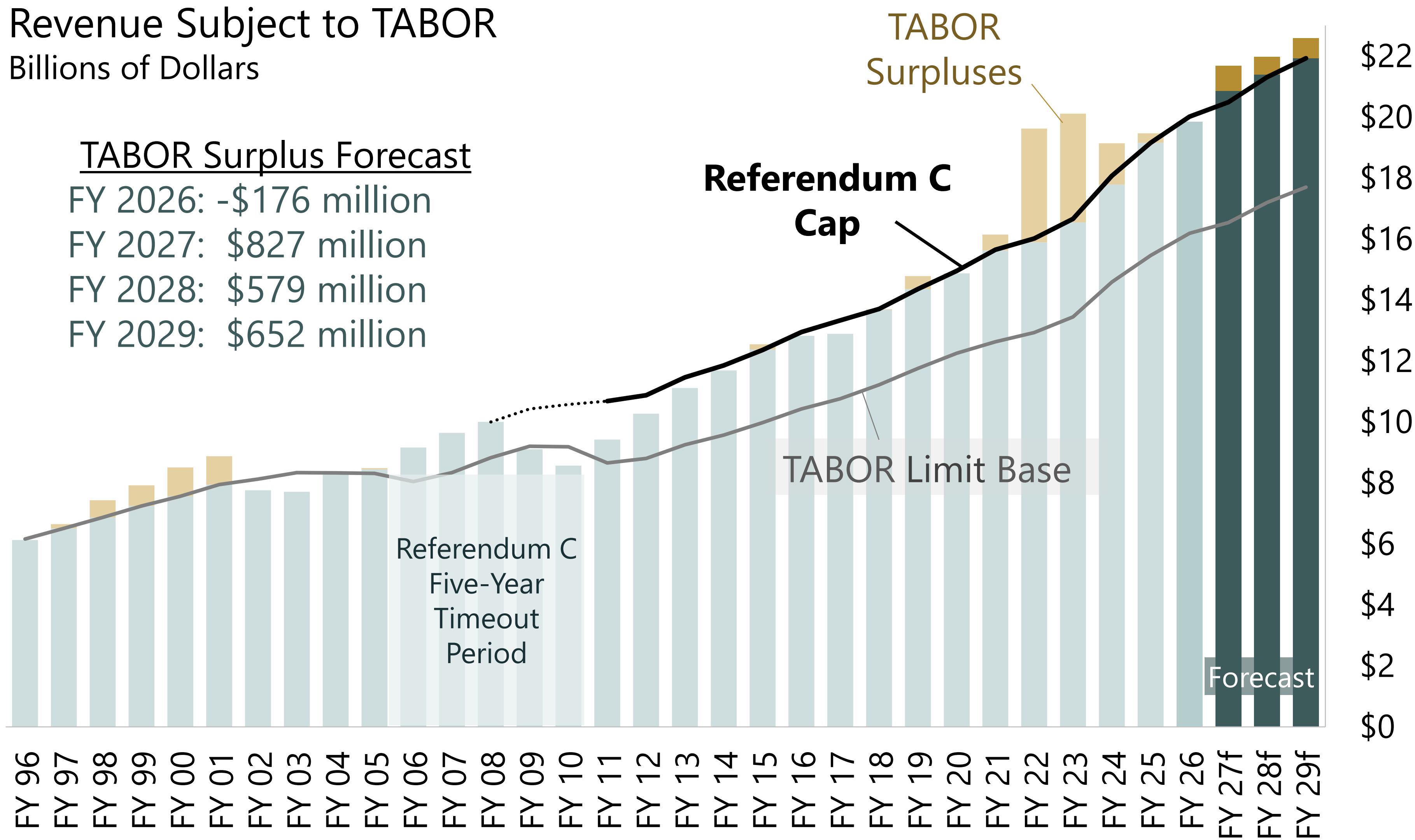
- Forecast alone would improve FY 2026-27 bottom line by $190M
- Minimal change (+$25M) for FY 2027-28

Revenue increases feel like a change of pace



Source: Colorado Office of the State Controller and Legislative Council Staff September 2026 forecast.

Revenue fell short of the Ref C cap in FY 2025-26, expected to exceed the cap going forward

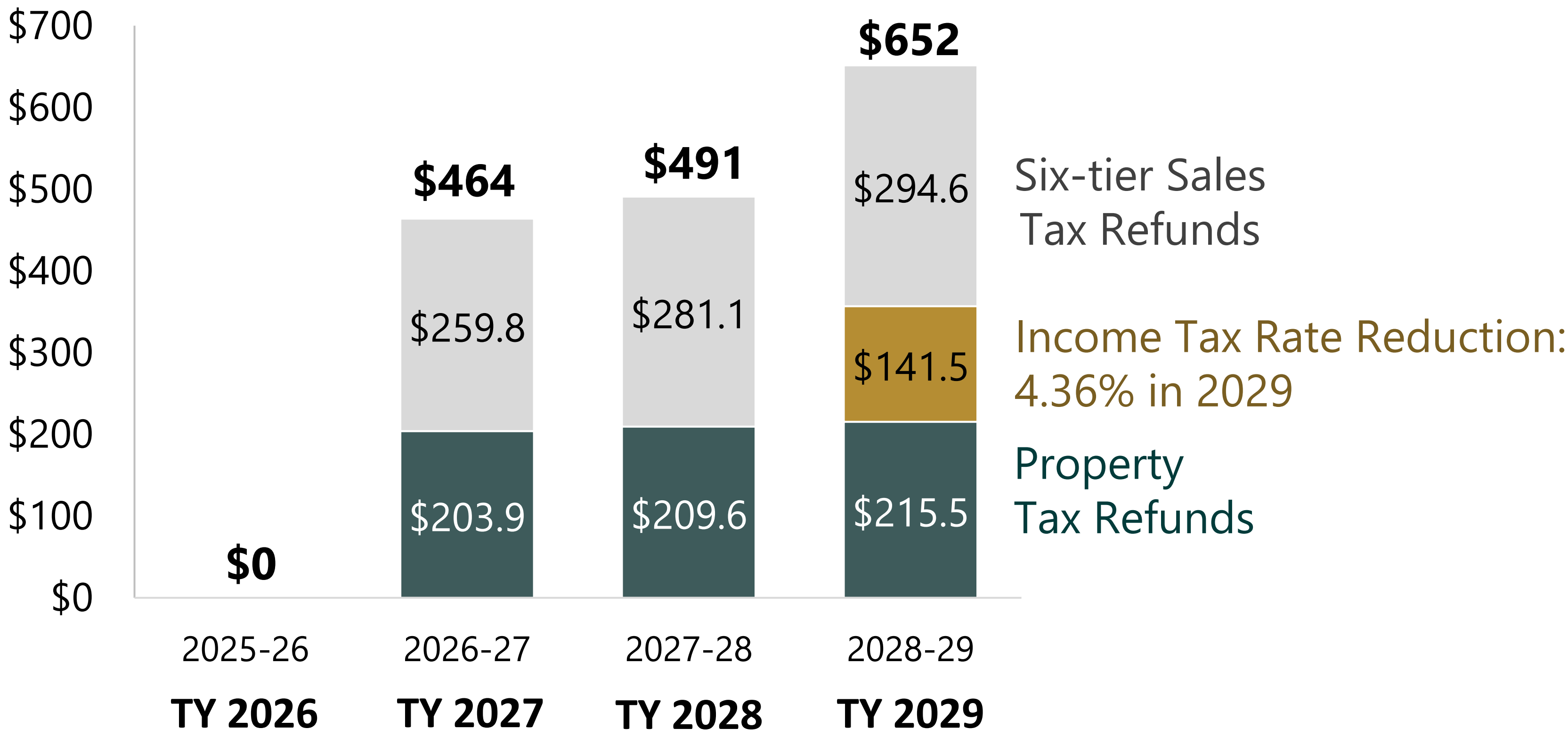


Source: Office of the State Controller and Legislative Council Staff. f = forecast

TABOR refunds are less than surplus amounts

Millions of dollars

1. HB 26-1419: reduces TABOR refunds by $88 mil. in each of FY 2026-27 and FY 2027-28
2. “Cumulative Over-Refunds”: $275.1 mil. in FY 2026-27



Source: Legislative Council Staff September 2026 forecast.

Revenue Forecast Policy Outcomes

Triggered Tax Credits

- FATC/Expanded EITC already **off** for tax year (TY) 2026
- FATC/Expanded EITC are projected:
  - **off** for TY 2027 (determined by December 2026 OSPB forecast)
  - **partially on** for TY 2028 (third-highest tier)
    - June forecast expected credits would be off
  - **partially on** for TY 2029 (second-highest tier)

Healthy School Meals for All

- Prop MM now forecast at **$132M** in FY 2026-27 (vs. $95M Blue Book estimate)

And now for the bad news…

Sorry, Goldilocks: the forecast is no longer "just right"

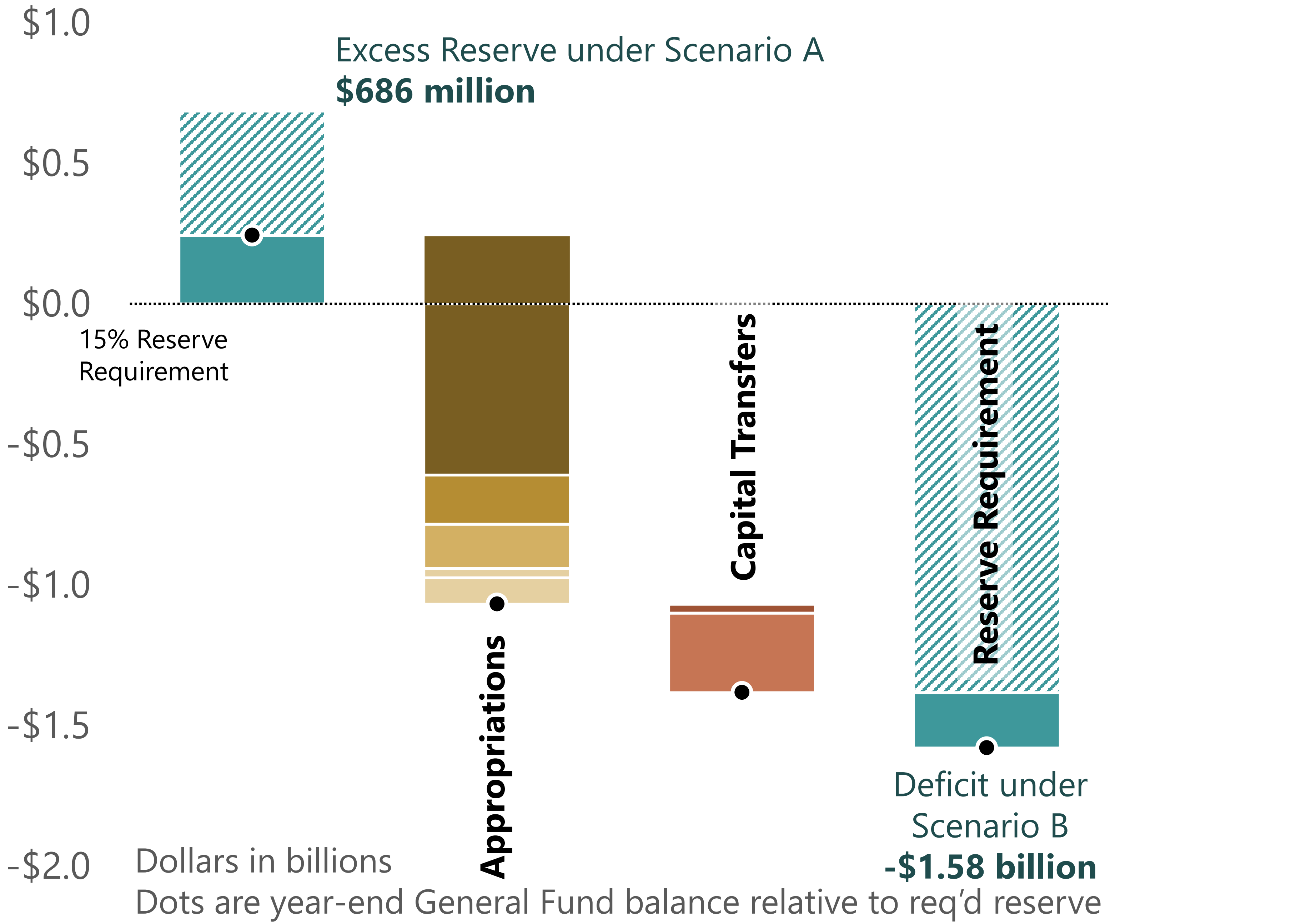
- FY 2025-26 overexpenditures: $213 mil.
- Reserve now ~$141 mil. below 13% requirement
- Expect this to improve with reversions

FY 2026-27: Excess reserve now estimated at $125 mil. above 13% requirement

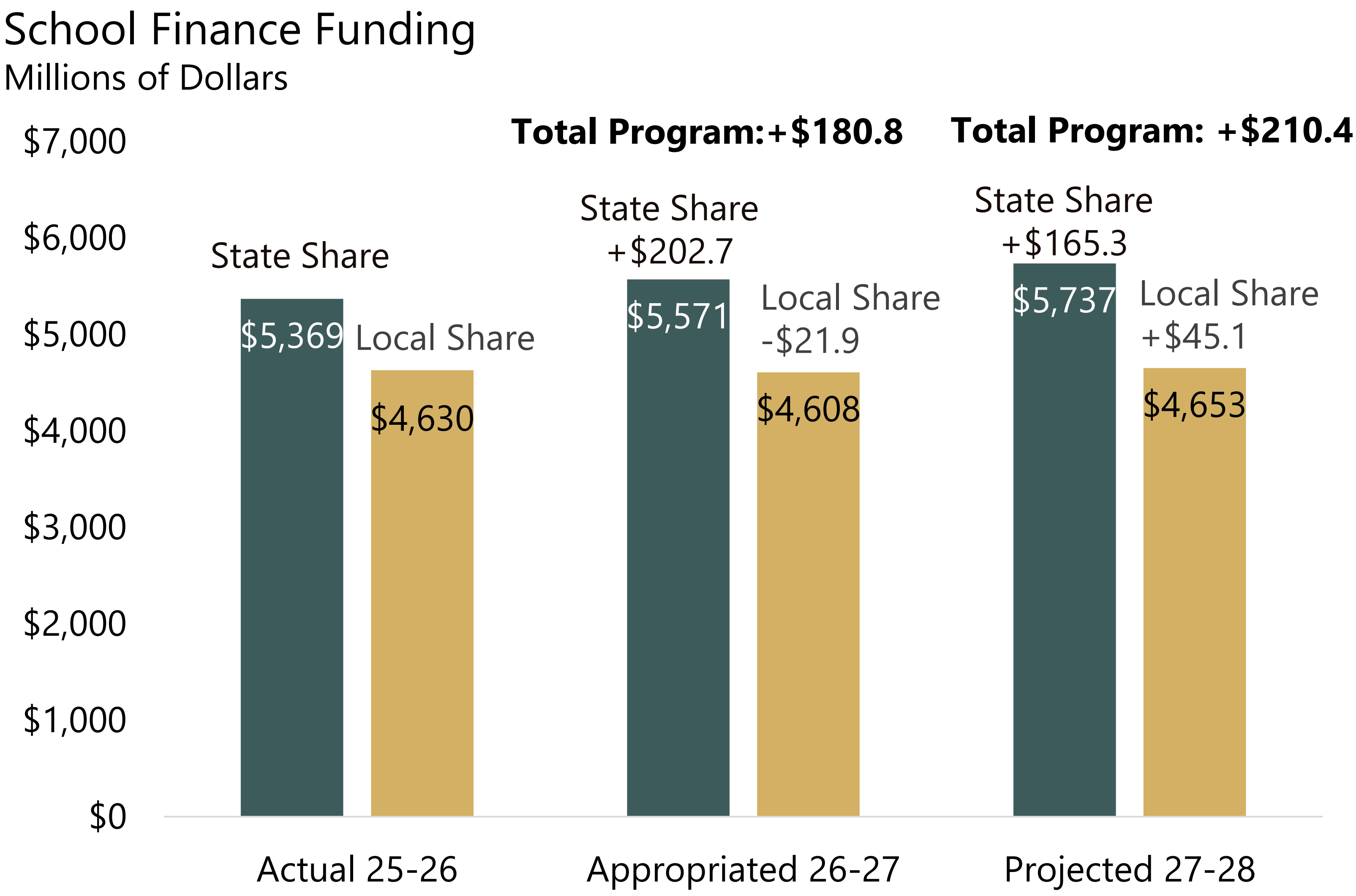
- Does not include $443 mil. HCPF overexpenditure
- With overexpenditure, $376 mil. below requirement

FY 2027-28: Amount available to spend or save (Scenario A) growing 3.7%, or $686 mil.

FY 2027-28 **Scenario B: -$1.58 B below 15% reserve**



State share of school finance estimated to increase $165M in FY 2027-28



Risks to the Budget Outlook

Revenue performance highlights bidirectional risk

- TY 2025 revenue differed greatly from prior forecasts
- There are multiple plausible explanations that carry directionally different risks

Late-breaking accounting changes

Pressures from expenditures are mounting

Recession risk is budget risk

Questions?

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