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Colorado revenue forecast worsens

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Budget shortfall nears \$1.5 billion

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The latest revenue forecasts from economists in both the governor's office and the Colorado legislature show that the state's budget predicament has worsened — by hundreds of millions of dollars more. That, in turn, means cuts programs and services in next year's fiscal budget will go much deeper.

The state's fiscal predicament also means no refunds for Colorado residents. Economists with the Legislative Council downgraded the forecast for the 2026-27 fiscal year by another \$643 million, bringing the total shortfall to nearly \$1.5 billion. *Note* ↗ ↖ *Note*

What's driving the downgrade? General fund revenues — dollars that come from tax collections for individual and corporate income tax, and sales and use taxes — came in lower for fiscal year 2025-26. The tax collection is \$354 million less than was estimated in December. *Note*

The estimate for 2026-27 is also coming in lower than the December forecast by about \$143 million, according to the latest numbers.

The March forecasts remain unpredictable, in part due to changes in tax law enacted by Congress and the Trump administration, according to budget analysts.

The Legislative Council forecast confirmed that Taxpayer's Bill of Rights (TABOR) refunds won't occur in 2026, since general fund revenue will not reach the cap in the 2025-26 fiscal year, with revenues nearly \$1 billion below the threshold.

Meanwhile, the tax revenues for K-12 from Amendment 23 are expected to drop by 5.3%, which could mean a one-year timeout on the new school finance formula adopted in 2024. The law requires a timeout if Amendment 23 — the 2000 measure requires per-pupil funding to keep pace with the inflation rate, plus a 1% added between 2002 and 2011 — revenues drop by 5%, as projected by the March revenue forecast. *Note*

But that also depends on which forecast budget writers choose. If they get better numbers from the governor's economists, for example, they could avoid that change. *Note*

That's what's happened in the last couple of budget cycles. Slightly better expectations led the JBC to use the Office of State Planning and Budgeting's numbers for its budget work.

What the phase-in delay means for the budget — according to the Legislative Council forecast — is the state would pay \$49 million less for schools, and total program funding (a combination of state and local dollars) would be reduced by \$52 million in the 2026-27 budget cycle.

The \$1.47 billion shortfall offers some wiggle room. It's based on actions taken by the JBC for the 2026-27 budget and some assumptions on items that haven't yet been finalized, such as corrections, school finance, and state employee compensation, as well as capital projects and across-the-board cuts to Medicaid providers. (The JBC has already made a number of decisions to cut Medicaid services).

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It also doesn't include the potential for money coming into the state from the separation of Pinnacle Assurance from the state, which the governor is backing and which could bring in about \$400 million to state coffers, according to the governor's budget request. Half of that would be used to pay for the property tax exemptions for senior and disabled veterans.

Chief Economist Greg Sobetski noted that the difference between his agency's forecast and the Office of State Planning and Budget's is about \$480 million, with OSPB estimating higher revenue.

The difference comes from how the two agencies view tax year 2025, which is already concluded, he explained. Legislative Council forecasts expect tax payments to be \$420 million lower than the Office of State Planning and Budget's numbers, based on filings through June 2026. That accounts for \$420 million out of the \$480 million difference.

"The good news is you'll know who's right in June," Sobetski said. "The bad news is that you're writing the budget now."

He also pointed out that the biggest "magnitude" risk to the forecast is changes to the economic forecast.

The governor's economists from the Office of State Planning and Budgeting (OSPB) are more optimistic.

They noted that economic growth exceeds prior expectations due to productivity increases, sustained consumption and investments. The downside is the war in Iran. OSPB also said it expects stagnation in the labor market and weaker consumer demand.

Similar to the legislative council forecast, OSPB noted higher credit card delinquency rates and tighter household finances, including a drop in family savings.

It estimated the chances of a recession at 40%, slightly below its December expectation. OSPB also pointed to elevated inflation due to oil price hikes because of the war, as well as in healthcare, which in Colorado (at 6.7%) is twice the national rate (3.2%). Note

In contrast to the Legislative Council forecast, the Office of State Planning and Budget revised its revenue forecast up by \$431 million for 2026-27. That's entirely occurring in the individual income tax area. Corporate income tax collections, which are a much smaller share of total tax revenue, are expected to decline sharply.

The Office of State Planning and Budget forecast for the state education fund showed a 2% decline in 2025-26, compared to the 5.3% decrease estimated by Legislative Council economists.

The biggest challenge to state spending is Medicaid caseload. Note

OSPB said expects that if, Medicaid caseload grew, at the 10-year historical average, the FY 2029-30 budget would see a \$3.48 billion deficit.

Democrats on the Joint Budget Committee called the forecasts "devastating."

"Between rising prices, federal cuts to essential programs, and global uncertainty, the state budget is getting squeezed from all sides," said JBC Vicechair Sen. Jeff Bridges, D-Arapahoe County. "The reality right now is that our budget constraints mean painful cuts. A dollar for one area is a dollar less for another, and under the TABOR cap, there simply isn't enough room to do it all." Note

JBC Chair Rep. Emily Sirota, D-Denver, echoed that sentiment and also blamed the "fiscal constraints of TABOR": "Today's economic forecast is a stark reminder that despite the cuts we've already made, we still need to close a staggering budget deficit of more than \$1 billion. It's impossible to balance our

budget without touching some of the core services for Coloradans, especially programs and services that have been proven effective.”

Republicans, meanwhile, have long maintained that Colorado’s budget woes are self-inflicted — the result, they said, of overspending by the majority, explosive growth in government in the last several years, and the refusal to make the painful decision to right the state’s fiscal ship.

