
September 2025 Quarterly Economic & Revenue Forecasts

by Legislative Council Staff & Office of State Planning and Budgeting Staff

September 30, 2025

FORECAST PRESENTERS & MATERIALS

The charts and notes on the slide decks provide very good summaries of the individual forecasts, but the full forecast documents provide a wealth of detail.

→ Legislative Council Services

- ◆ Presenters: Greg Sobetski, LCS Chief Economist, and Louis Pino, LCS Principal Economist
- ◆ [LCS Forecast Slides](#)
- ◆ [LCS Full Forecast](#)

→ Office of State Planning & Budgeting

- ◆ Presenters: Mark Ferrandino, OSPB Executive Director; Bryce Cooke, OSPB Deputy Director; and Will Mixon, OSPB Manager
- ◆ [OSPB Forecast Slides](#)
- ◆ [OSPB Full Forecast](#)
- ◆ [OSPB Supplemental Materials](#)

MEMBERS PARTICIPATING

Senators Jeff Bridges, chair, and Representatives Shannon Bird, vice-chair; Senators Judy Amabile and Barbara Kirkmeyer; Representatives Emily Sirota and Rick Taggart; along with a handful of other members who sat in.

TOP LINE

Traditionally the September revenue forecasts primarily set the table for the Governor's November 1 budget plan and for the JBC work that begins in mid-November with staff budget briefings. Six months from now, in March 2026, another pair of forecasts will set the final baseline for balancing the FY26-27 long bill.

However, this September's forecasts were more noteworthy than usual - primarily due to the impact to state revenue impacts triggered by the federal HR 1, as well as ongoing spending demands like the relentlessly rising cost of Medicaid.

There were several adjustments to the special revenue forecasts issued in July, ahead of the August special session and the cuts ordered by Governor Jared Polis under his emergency powers. Many of those adjustments were good news, others were not. Broadly, higher-than-projected revenues plus revenue measures approved by the special session and gubernatorial actions have led to an improved fiscal situation.

Two Most Important Takeaways

- Legislative Council Services (LCS) projects the current, FY2025-26 budget has a **projected shortfall of \$307 million** below the 15% reserve. The Office of State Planning & Budgeting (OSPB) is more optimistic, **estimating only a \$192.5 million shortfall**. The July shortfall estimates ranged from \$692 million (LCS) to \$735.6 million (OSPB).

- The projected shortfall for FY2026-27 is a bigger problem - **LCS sets it at an \$841 million shortfall** and OSPB did not make any projections for the upcoming budget year.

Other Key Findings from the Forecasts

- General Fund revenue is expected to fall in FY2025-26 but rebound in FY2026-27.
- Revenue forecasts have a high degree of uncertainty and better information will not be available until early 2026, when actual tax collections and filings start.
- The Family Affordability Tax Credit and the expanded Earned Income Tax Credit will be turned off in tax year 2026 and only be partially available in tax years 2027 and 2028. The homestead exemption costs (\$198 million) will have to be covered by the General Fund in FY 2026-27.
- There will be no TABOR surplus in FY2025-26 - the downside of this is that if revenues come in lower than forecast, budget cuts will be required because there will be no TABOR refunds to help offset a loss of revenue.
- A positive side effect of HR 1 is that there will be a revenue increase (total exceeding \$150 million) for the healthy school meals program, even if the two November ballot measures do not pass.
- Reductions in local school district revenues means the state share of K-12 funding will need to increase by \$334 million in FY2026-27.
- Rising Medicaid costs threaten to crowd out most of state spending by the 2040s, according to Budget Director Mark Ferrandino, unless program changes are made
- Both forecasts projected continued state and local economic growth, but at lower rates than previously forecast.
- There is heightened uncertainty about the economy, with particular concerns about a weak labor market and the impact of tariffs.
- While neither forecast formally predicts a recession, speakers said the risk is heightened and seemed to indicate they expect one.

THE ECONOMY

LCS projects 1.6% economic growth this year and 1.4% next year. Their main LCS conclusions are:

- The U.S economy continues to expand but key economic indicators remain fluid (slide 3 of LCS deck)
- Consumer spending continues to support economic growth but has been slowing (slide 4)
- Business investment in nonresidential construction is down (slide 5)
- Residential construction is mixed but generally weak (slide 6)
- U.S. household savings remain below the historical average (slide 7)
- Loan delinquency rates are rising in the US (slide 8)
- Colorado and U.S. employment growth expected to decelerate into 2026 (slide 9)
- Labor market turnover activity is flat (slide 10)
- Share of foreign-born workers in the labor force has declined (slide 11)
- Colorado's unemployment rate ticked down in August, with decline in both unemployed and labor force (slide 12).
- Tariffs paid soar to near-century high (slide 13). There also was committee discussion on the impact to Colorado on tariffs - how much consumers will be directly affected and the impact on businesses' expansion and hiring.
- Inflation ticked up in July, muted tariff signals so far but near-term upward pressure expected (slide 15)
- The Federal Reserve has cut key interest rates and more are expected but inflation expectations remain high (slide 16). Because this just happened, Pino said staff is still researching potential impacts.

Director Ferrandino, *"This year, OSPB expects better wage growth and lower inflation than the prior outlook, resulting in more elevated consumer demand. However, turning to 2026, an economic slowdown is anticipated due to a weakening labor market, with re-inflation expected to discourage spending while trade policy and monetary policy may discourage capital investments."*

CHANCES OF RECESSION

Senator Bridges asked Sobetski about the prospects of recession. He replied, *"I would say a near-term recession is possible. ... We have some economic indicators that are relatively alarming."* But he stressed that LCS isn't formally predicting chances of recession. He did note that some individual members of his staff believe the chances are more than 50%.

Cooke from OSPB said *"Our expectation [of recession of any level] will remain at 50%."* He noted that is higher than projected by some outside forecasters, but he did mention that Moody's has increased its odds to 48%.

MEDICAID

The OSPB report provided a detailed examination of the challenges posed by rapid growth in Medicaid spending and Director Ferrandino gave a fairly alarming presentation (see OSPB slides 51-53) and indicated Medicaid growth could take all the "new" money available for FY2026-27.

- *"Medicaid caseload increases without policy changes eats up the entirety of increased retained GF underneath the spending cap."*
- *"In FY2025-26 and FY2026-27, there is no other budget availability if we meet the existing Medicaid caseload demand without policy changes"*
- *"Assuming medical expenditures from Medicaid grow at the same rates as the last 10 years (8.84%), and TABOR grows at rates of the last 10 years (4.38%), the state would be out of money for the rest of the state by the first half of the 2040 decade."*
- *"That's something that's not sustainable,"* Ferrandino said. *"This is not a future that's doable."*

Representative Bird asked which services are seeing the greatest cost growth. Ferrandino's response - elderly, disabled, and autism are among the largest, but they have hired an expert to examine this in detail. Colorado is squeezed because of having the lowest federal Medicaid match and limits to revenues.

Senator Amabile stated more people are being driven to Medicaid because Colorado does not have a state-funded mental health system.

Representative Taggart noted the federal government is seeing the same pressures. *"They are looking at a similar curve."* Ferrandino agreed.

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Questions or More Information

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