COLORADO

Governor Jared Polis

FY 2026-27 BUDGET REQUEST

October 31, 2025

GOVERNOR JARED POLIS

OFFICE OF THE GOVERNOR

OCTOBER 31, 2025

To the Joint Budget Committee and the General Assembly:

I am proud to present my balanced budget proposal for Colorado's FY 2026-27 budget. This fiscally responsible balanced budget makes targeted investments to ensure that the state government provides opportunities for all Coloradans to feel safe in our communities, for all students to get a high quality education, for Coloradans to get trained for and find fulfilling work, to improve choice for affordable housing, and to grow our economy through entrepreneurship, innovation, and hard work.

Over the last seven years, and together with the General Assembly, we have made important funding decisions that have improved the lives of Coloradans. We fixed the glaring shortfall in financing K-12 education by eliminating the Budget Stabilization Factor (BSF), finally fulfilling the State's responsibility to fully fund schools, and we implemented a new school finance formula that ensures that funding reflects student needs and phases out the funding of non-existent phantom students to fund students where they actually are. We also provided free full-day kindergarten and universal free preschool. We expanded access to higher education and kept tuition increases for residents at or below the inflation rate. We've reduced crime and increased safety in our communities, with double-digit reductions in crime rates for auto theft, property crime, and violent crime. We helped fight the national tide of rising health insurance costs through initiatives like the Reinsurance Program and the Colorado Option health plan. And we cut income taxes three times (twice at the ballot box and once through bipartisan legislative action), including establishing additional rate cuts through a TABOR refund mechanism, and cut property taxes five times so Coloradans can keep more of their money. In all, an average Colorado family of four is saving over $600 dollars this year on income and property taxes, and last year Colorado taxpayers saved nearly $2.5 billion across both income and property taxes because of these rate reductions. And for hardworking families with young children who are eligible for the Family Affordability Tax Credit and Expanded Earned Income Tax Credit, we put an average of nearly $3,700 dollars back into their pockets last year.

I am proud of what we have done to improve the lives of Coloradans, even while the State faces adversity. Time and time again, Colorado has shown resilience. Our communities and economy recovered from the COVID-19 pandemic. We faced high inflation rates, but we worked hard to provide relief by cutting taxes, bolstering support for working families through the Family Affordability Tax Credit and Earned Income Tax Credit. We supercharged funding for more housing options people can afford, and in the last six years, we have passed landmark legislation that has invested more than $560 million in additional funding for our roads, bridges, and transit programs. And while we rose to the occasion and swiftly took bold actions, we also kept our eyes on future financial risks and built up Colorado's budget reserve, which stood at just 7.25 percent of General Fund expenditures when I took office, but increased to 15 percent when I signed the balanced budget bill passed by the General Assembly last spring. Coloradans are resilient.

We cannot, however, take these advances for granted. The progress and prosperity we have fought for is always at risk. And that is clear today: we are facing new and serious challenges due to recent federal policy and a tightening revenue picture. These federal actions — including H.R. 1, onerous tariffs, and the attempted impoundment of Congressionally appropriated funds to Colorado — have had immediate negative impacts on Colorado residents and businesses and the State's fiscal health. Since this new federal administration took office, Colorado has seen a loss of $207 million in federal funds, from programs ranging from key climate change initiatives to public safety. And while I'm proud we have been able to save $447 million from illegal federal cuts, we still have at least $23 million at risk of cancellation and anticipate ongoing attacks on our federal funding streams. Additionally, the passage of H.R. 1 created a $1.2 billion revenue shortfall, necessitating immediate action by my administration and the General Assembly to rebalance the current fiscal year 2025-26 budget, and created ongoing costs to the State in new Medicaid and SNAP administrative burdens. This proposed budget rises to these challenges, and Colorado will prove resilient yet again.

This budget addresses both immediate and long-term fiscal challenges:

- We are investing in kids and our future by protecting K-12 funding, including investing over $165 million in state funding for school finance while continuing to move towards a more student-centered approach to total program funding.

- We are protecting and advancing public safety in Colorado. This budget invests $7.1 million in the State's emergency preparedness, response, and recovery efforts if the federal government continues to withhold funding. Additionally, this budget invests $0.4 million to expand critical efforts to detect and disrupt extremism and domestic terrorism. We are also beginning the distribution of Proposition 130 funds to local law enforcement.

- This budget proposes numerous actions that reduce agency expenditures that are necessary and fiscally responsible responses to the sharp drop in State revenue created by federal tax policy changes.
- This budget proposes critical action to put Colorado's budget on a more sustainable budget trajectory by slowing the growth of the State's Medicaid spending.
- We propose a variety of fiscal actions that will help balance the FY 2026-27 budget: a spinoff and conversion of Pinnacol Assurance, the State's workers' compensation insurer of last resort; an adjustment for a TABOR refund overpayment; adoption of a statutory 13 percent budget reserve; and other actions including correction of the revenue classification under TABOR.

This budget requests total expenditures of $50.7 billion, including $18.6 billion General Fund. The table below shows the incremental requests for several categories of spending. The FY 2026-27 budget request is a $2.7 billion (5.6 percent) total funds increase over FY 2025-26. The General Fund obligations are increasing by $426 million (2.3 percent).

Table 1. Summary of FY 2026-27 Request

Description	Total Funds	General Fund
FY 2026-27 Budget Request	$50,671,574,032	$18,625,830,780
FY 2025-26 Appropriation	$47,962,983,359	$18,199,675,179
$ Change	$2,708,590,673	$426,155,601
% Change	5.60%	2.30%
FY 2026-27 Expense by Major Category (Not Exhaustive)		
Caseload	$3,165,074,646	$766,073,814
Common Policies	$180,056,375	$75,602,150
Annualizations	-$5,056,128	$12,374,444
Operating Adjustments	-$439,905,521	-$244,949,244
Capital	$224,372,698	$149,795,803
IT Capital	$33,110,129	$10,547,139
Change in GF Reserve Requirement	$55,706,912	$55,706,912

We will submit supplemental and budget amendment requests by January 2, 2026. That submission will incorporate potential changes stemming from ballot measures decided by voters on November 4, 2025 that could support the state's SNAP and free school meals programs.

Federal Policy and Budget Decisions Hurt Coloradans

The Trump Administration spent the last ten months slashing over $500 million in federal awards to Colorado for crucial programs including energy production, agricultural infrastructure, public health, and most critically public safety. Colorado was able to successfully defend against 85 percent of these cuts, but the attack on what we are owed continues. Colorado already only gets $0.90 for every $1.00 we pay into the federal government, and these federal actions only made this imbalance worse in exchange for less public safety and increased costs for consumers.

Last April, working with the General Assembly, we passed a balanced budget for FY 2025-26. But on July 4, 2025, President Trump and the Republicans in Congress unraveled that hard work by passing H.R. 1. In combination with executive actions taken by the President, these federal policies have had major negative impacts for Colorado, including:

- Withdrawal of federal support for critical initiatives and shift of costs to Colorado taxpayers and consumers;
- An immediate drop in state revenue and massive, long-term holes in the state budget; and
- Significant inflationary pressures and the risk of an economic recession due to tariffs.

H.R. 1 created an immediate and unexpected deficit for the State's FY 2025-26 budget. The federal tax changes will reduce state tax collections by $1.2 billion, which would have caused the State to dip significantly into its statutory budget reserve and put the State in a more precarious fiscal position in case of an economic recession.

In response to these federal actions, I called the General Assembly into a Special Legislative Session in August 2025. In bipartisan collaboration with the legislature, we took swift action, and through additional measures outlined in my executive order on August 28, 2025, we put the State's FY 2025-26 budget back into balance. We stabilized state revenue through a variety of fiscal actions, including transfers to the General Fund, reduced spending while fully preserving K-12 education and public safety funding, and used a modest amount of the budget reserve to balance the budget.

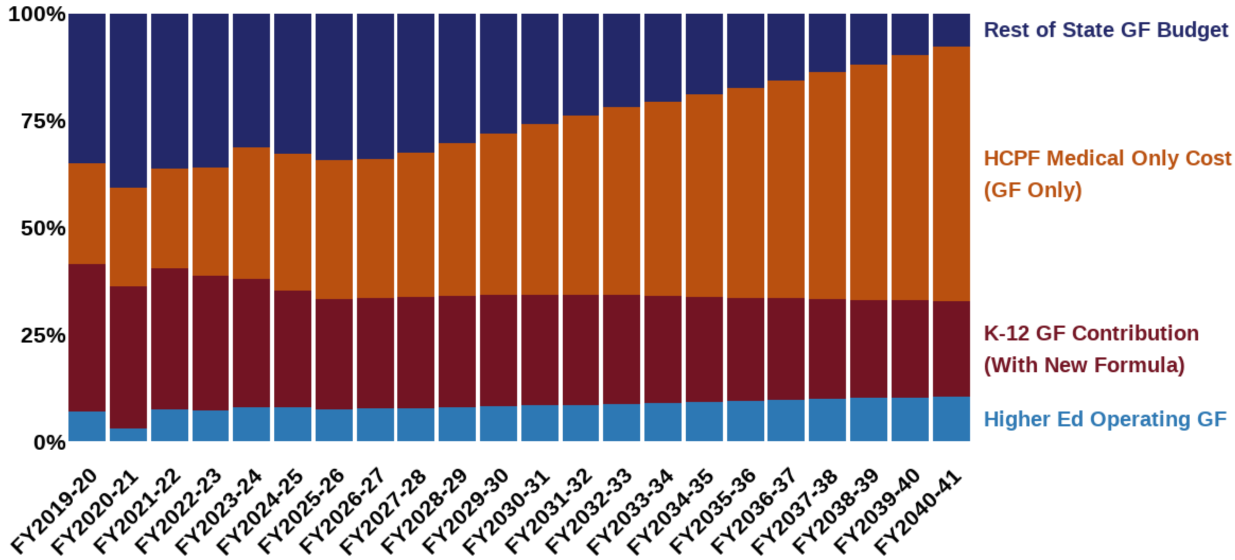
The impacts of these federal policy and budget changes are detailed further in Attachment 6.

Addressing Colorado's Long-Term Budget Pressures

Even as federal actions are rapidly changing the policy and budget landscape in Colorado, the State must also face head-on our long-term budget challenges. Colorado's Constitution requires that the State maintain a balanced budget every fiscal year. However, some of the largest and most critical state services and initiatives are growing too rapidly and are on a trajectory to exceed state revenue and TABOR limitations, creating a structural deficit. Spending growth is concentrated in Medicaid caseload, which can grow through demographic trends that increase the number of eligible people for these programs, as well as policy choices to expand services, eligibility, and payment rates.

The implications of staying on an unsustainable budget trajectory in the coming years are dire and unacceptable. To illustrate, consider the three largest categories of General Fund spending in Colorado: Medicaid, K-12 education, and higher education. The figure below shows the hypothetical expenditures through FY 2040-41 if spending in these three categories were to grow at the same rate as in the past ten years. It also shows the amount of General Fund available for all other state spending. The message is clear: the current trajectory of spending will crowd out General Fund spending for all other parts of state government, including public safety, human services, and criminal justice.

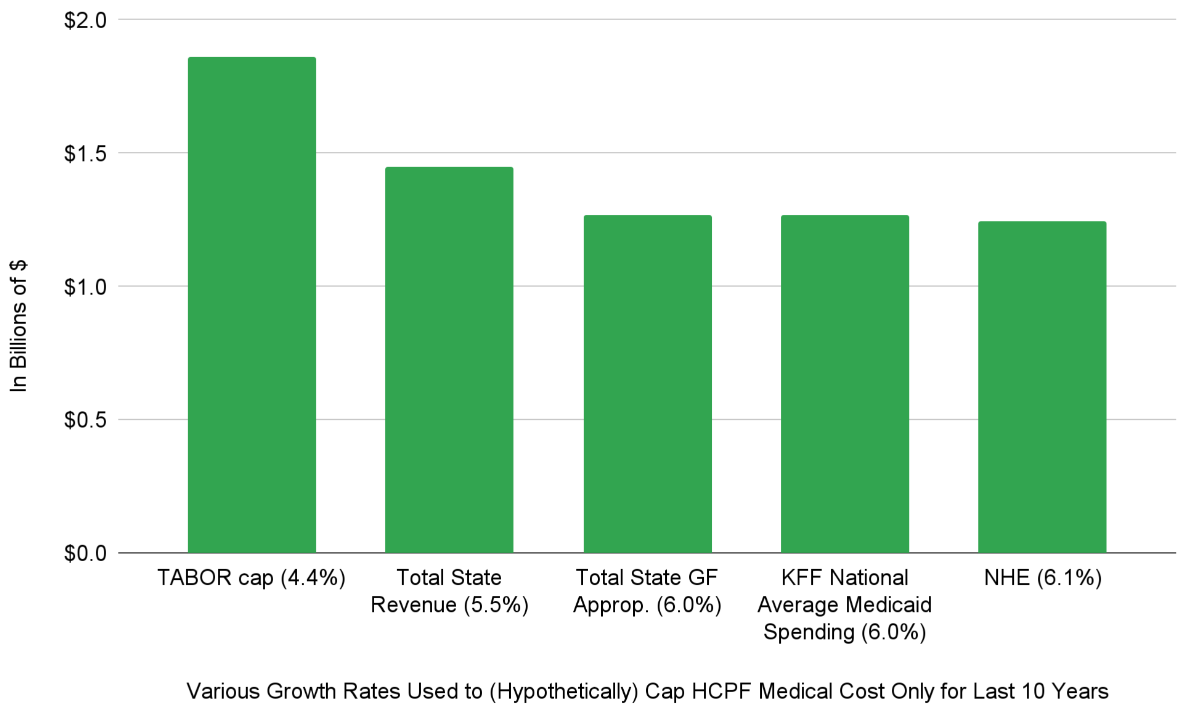
Figure 1: Hypothetical State Budget if HCPF Medical Cost Were To Continue Growing at Its Historical 10-Year Rate



My budget requests a General Fund increase to Medicaid services of 5.6 percent, equal to $298 million in overall growth (and over $2 billion in Total Funds), the largest increase of any program area in this budget submission. This increase exceeds the expected TABOR cap growth of 3.1 percent. But I am also proposing a number of actions and reductions to curb and manage long-term growth in Medicaid; without these reductions, the General Fund increase to Medicaid would have been $631 million, or a 11.9 percent increase. These measures are necessary because rapid growth in Colorado's Medicaid program poses the most significant challenge to the State's long-term fiscal health. Over the past ten years, General Fund expenditures for Medicaid services increased by an average of 8.8 percent per year (from $2.4 billion in FY 2015-16 to $5.5 billion in FY 2025-26). This growth trend is unacceptable and unsustainable and must be addressed. By comparison, over the same time period, on average General Fund revenue grew by 5.5 percent and the TABOR cap grew by 4.4 percent per year.

The impact of slower, hypothetical growth rates for Medicaid is illustrated below in Figure 2. If Medicaid spending over the last ten years had been lower, the State would have substantially more General Fund available to spend on other priorities. For example, if Medicaid had grown at the same rate as the TABOR cap, there would have been $1.9 billion more General Fund available for other priorities in FY 2025-26; if Medicaid had grown at the same rate as national health spending (as measured by the National Health Expenditures (NHE) data compiled by the federal government), $1.2 billion more General Fund would have been available for all other uses.

Figure 2: Additional General Fund Available in FY 2025-26 Under Alternative Scenarios for Medicaid Growth Rates



We have worked hard to expand access to care and improve health outcomes in Colorado, and a recent study ranked Colorado as the second healthiest state in the country. I am proud of the investments we have made in health care including in the health care workforce. These investments allow for the construction of the State's first College of Osteopathic Medicine at UNC and for MSU and Trinidad State to improve and expand their teaching facilities for health care programs to train more students. But it is important to remember that increased spending on health care does not always lead to better health outcomes. In the United States, we spend more on health care per capita than many other developed nations, but our performance on measures such as life expectancy and chronic disease prevalence is often worse. Multiple studies have shown that higher-cost areas within the United States are not always associated with better health outcomes; indicators suggest that Coloradans have not become healthier with increased spending.

For example, despite significant increases in state health care spending over the past decade, since 2018, the percentage of adult Coloradoans who report experiencing poor mental health over the past month has increased from 38 to 47 percent. During the same time, the percentage of adult Coloradans who report experiencing poor physical health over the past month has increased from 35 to 40 percent. Figures 3 through 5 further demonstrate these trends: health care spending in Colorado increased by nearly 50 percent between 2010 and 2020, while many key health indicators have remained largely stagnant or worsened during this time period.

Figure 3: Colorado Per Capita Health Care Spending

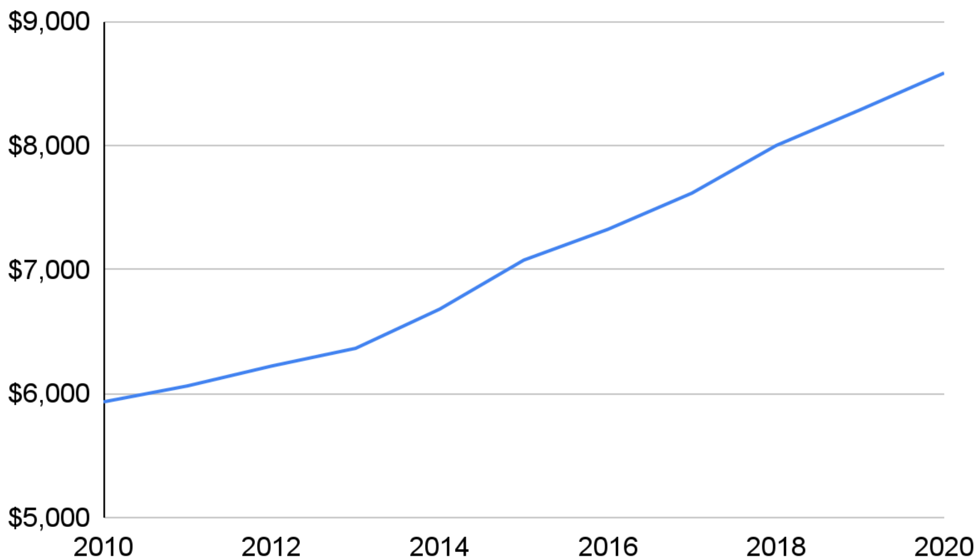


Figure 4: Colorado Mortality Rates per 100,000 People

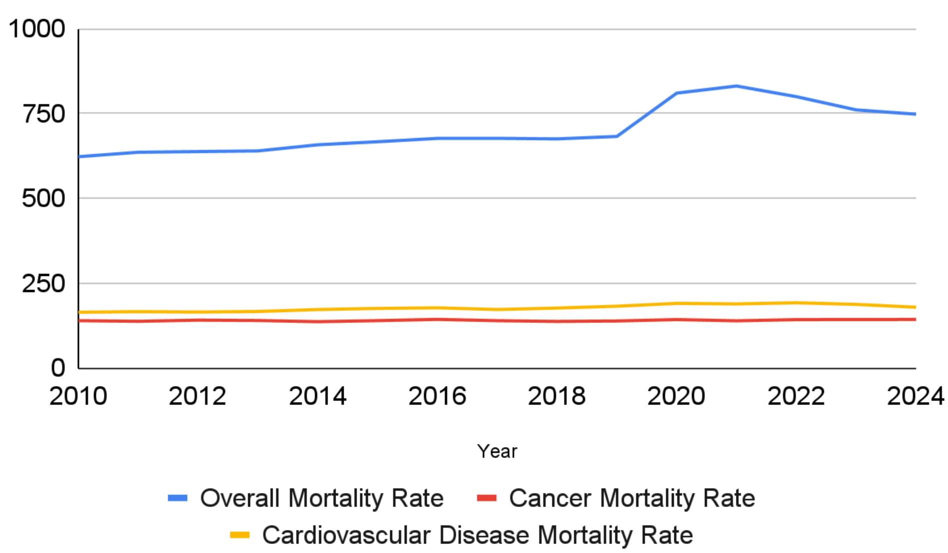
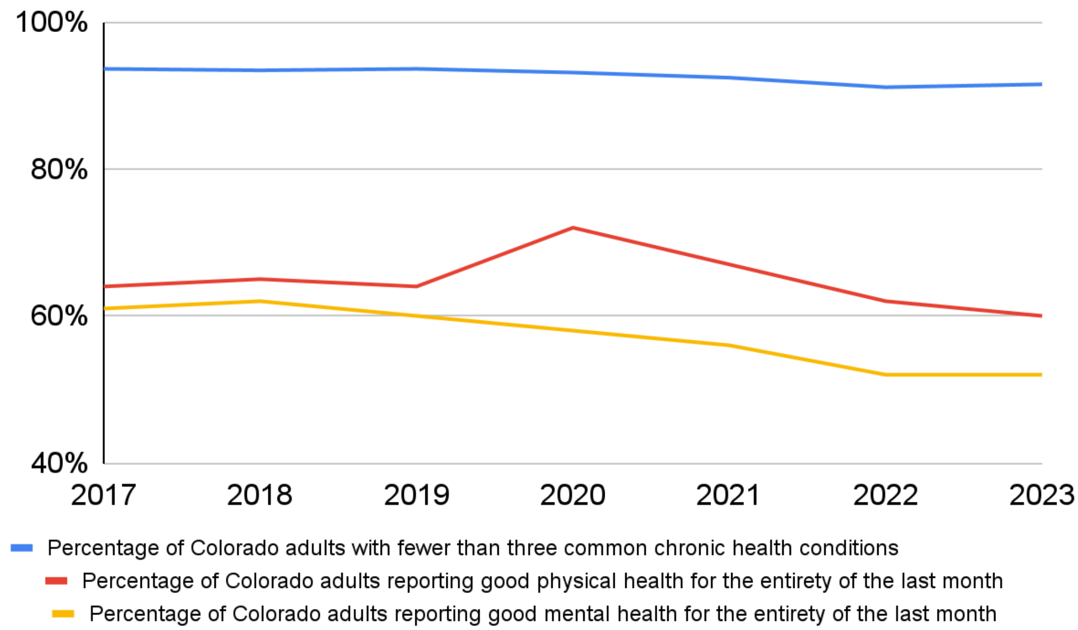


Figure 5: Colorado Adult Health Indicators



Sources: U.S. Census Bureau; and Centers for Medicare and Medicaid Services, Office of the Actuary, National Health Statistics Group; Colorado Health Information Dataset (CoHID), Colorado Department of Public Health and Environment; U.S. Department of Health and Human Services, Centers for Disease Control and Prevention, Behavioral Risk Factor Surveillance System

We remain deeply committed to a robust Medicaid program, and we are committed to keeping as many eligible people enrolled as possible, even as we manage and implement the difficult requirements of H.R. 1, in order to ensure Coloradans have access to health care. However, we must reduce the rate of spending growth. My administration is working closely with national experts to analyze our Medicaid spending trends and identify opportunities to slow expenditure growth while preserving key services, a strong provider network, and preventative care that are so important for keeping Medicaid members healthy. This project will include stakeholder engagement, and the preliminary results of the analysis will be completed this December and shared with the public and the General Assembly. This work will inform the discussion and collaboration between my administration, the Joint Budget Committee and General Assembly, and stakeholders as we chart a sustainable path for Colorado's Medicaid program.

Investing In and Protecting Colorado's Future

This proposed budget, at its core, is about investing in Colorado's future. Decisions coming out of Washington, D.C. have dramatically shifted the policy and budget landscape that we face, and we must take bold action that expands spending for the most urgent needs while carefully reducing expenditures to create a balanced budget and chart a sustainable path forward.

My administration developed these proposals by systematically asking these questions: (1) What are the most urgent and critical budgetary needs? (2) What opportunities do we have to refinance or reallocate underutilized funding or shift funding to more effective and/or urgent needs? (3) What initiatives or services can be curtailed while minimizing impacts on Coloradans to allow for investments with greater value?

The difficult and evidence-based choices embodied in this proposed budget are investments in our future, so that Coloradans can feel confident that their state government is responsive to their needs and is exercising fiscal discipline over the long term.

Investing in PreK-12 Education

In 2025, Colorado continued to make good on our promise to fully fund K-12 education and implement a more equitable, student-centered approach to school finance. With the passage of H.B. 25-1320, the State began implementation of its new, sustainable school finance formula designed to meet students where they are and bolster educational outcomes across Colorado. The new formula increased funding for rural schools and provided a critical boost for schools serving at-risk students and students enrolled in special education. This landmark action builds on our historic achievement in 2024, when Colorado fully funded schools pursuant to Amendment 23 for the first time since 2009 by eliminating the Budget Stabilization Factor (BSF). Since the beginning of my administration, we have partnered with the General Assembly to increase K-12 Total Program funding by $3.0 billion and increase average per pupil funding by over 45 percent to $11,858 in FY 2025-26. These investments continue to ensure that a good education is in reach for every child and family in Colorado.

This budget prioritizes protecting and ultimately increasing funding for K-12 education despite growing fiscal pressures. House Bill 25-1320 began implementation of the new school finance formula in FY 2025-26 by increasing Total Program funding by $252.6 million over FY 2024-25, including a $150 million investment from the General Fund. This budget stays true to the promise made to our public schools during the 2025 legislative session by implementing 30 percent of the new school finance formula in FY 2026-27 while moving to a three-year average enrollment method for the calculation of Total Program funding as put in place by H.B. 25-1320. This budget proposes a Total Program funding increase of $276 million, which is inclusive of a $50 million increase from the General Fund (CDE R-01) alongside an anticipated $221.6 million in the new non-exempt General Fund diversion. This results in a per pupil increase of $413 over FY 2025-26 to $12,272, representing more than 50 percent higher funding per pupil compared to the beginning of my administration.

We have also achieved full mill levy equalization for Charter School Institute (CSI) schools through implementation of S.B. 23-287, which ensured that students enrolled at CSI schools receive per pupil funding equal to the local district's per pupil funding. Beginning in FY 2024-25, this was accomplished by investing an additional $22.2 million (an 81 percent increase from FY 2023-24) towards CSI mill levy equalization, bringing the total investment to $49.2 million. This budget continues to fully fund mill levy equalization for all charter schools by investing $49.7 million for FY 2026-27 (CDE R-03). Additionally, as we continue to build on our commitment to bolstering funding for special education services, we propose an increase of $14.5 million for categorical programs, which provides funding to specific groups of students and student needs, including special education, transportation, English language proficiency, and career and technical education, among others (CDE R-02).

To support the State Education Fund, this budget also proposes to transfer any dollars remaining above the statutory reserve requirement in the Marijuana Tax Cash Fund (MTCF) at the end of each fiscal year to the State Education Fund. Since its passage, a core role of marijuana tax revenue has been intended to support education and this proposal upholds that promise. Our commitment to protecting K-12 education will always remain a priority and details of the total program submission will be updated during the January supplemental process once the most updated student count and assessed value estimates are published. Once we have updated information, the January submission will also lay out an implementation plan of the new School Finance Act for future years. To preserve a sustainable increase in the implementation, we are reviewing potential options to increase local share, including addressing property tax misclassifications, and will provide an update in our January update to the JBC.

More and more of our youngest Coloradans are able to take advantage of opportunities to begin their educational journey in preschool. We are now entering our third year of the Universal Preschool Program and continue to build on its successful implementation since its establishment in 2022.

Through Universal Preschool, all children in the year before kindergarten are eligible to receive at least 15 hours of free preschool services at participating licensed school-, community-, or home-based preschool providers of their choice. In school year (SY) 2024-25, the State served nearly 70 percent of all eligible four-year-olds and invested $340 million to provide Universal Preschool, saving the typical family about $6,200 each year.

This budget includes a request to increase Universal Preschool funding by $14.3 million for SY 2026-27 to serve all children enrolled in the program, especially our most vulnerable children in full-day preschool (CDEC R-03). The increase includes $10.5 million in anticipated Proposition EE revenue and $3.8 million in General Fund to increase the state investment by inflation as the General Assembly intended through H.B. 22-1295. We will submit a supplemental and budget amendment request by January 2, 2026 with updated information on enrollment, projected costs, and available revenue, and updated plans for supporting a robust local lead model.

Strengthening Opportunities in Higher Education and the Workforce

We have made tremendous progress delivering high-quality, affordable postsecondary education and workforce opportunities in Colorado. In partnership with the General Assembly, we created a refundable tax credit to cover tuition and fees for the first two years at Colorado public institutions of higher education for families making $90,000 or less per year (H.B. 24-1340). This coming spring will be the first year that students will be able to receive this tax credit to make college more affordable.

We have also made strides in Work-Based Learning and Skills-Based Hiring in the State to benefit both job seekers and state employers. One hundred percent of the State's eligible job postings have skills-based hiring qualifications, and we have created 27 new work-based learning programs in state agencies. These programs help job seekers gain the right skills and ensure that those skills are recognized in the hiring process, better connecting learning to employment.

The budget continues our commitment to support higher education and hold in-state tuition rates at or below the inflation rate. Since FY 2015-16, state support for higher education has increased by 94 percent. We propose a 2.6 percent in-state tuition increase, which is equal to the inflation rate, and an out-of-state tuition increase of 3.0 percent. This would fund an $81.9 million increase for institutional operating costs. My administration implemented a $9.5 million operating reduction via Executive Order following the Special Legislative Session in August. In this budget, I propose continuing this reduction, while also reallocating $10.6 million in operating support. (CDHE R-01)

We are committed to making higher education more affordable to students in multiple ways, and average student debt declined by roughly $1,000 last year. The budget proposes the continuation of the Zero Textbook Cost Degrees and Open Educational Resources initiative for five years, through FY 2030-31 (Legislative Placeholder). This $1.1 million investment will provide institutions and organizations with grants to create open educational resources, such as textbooks, so that students can save money by accessing content for free.

The budget also provides support to the disability community to expand and create initiatives to help those with disabilities find work, apply for benefits, and access other supports. We propose a $4.2 million one-time cash fund increase for grants that CDLE's Colorado Disability Opportunity Office (CDOO) and the Colorado Disability Funding Committee (CDFC) provide to organizations that support Coloradans with disabilities. (CDLE R-01) The budget also proposes creating a special purpose authority to continue these community grants to support organizations that provide Coloradans with assistance to access life-saving and -sustaining programs and foster independence and inclusion in our communities.

Reducing Crime and Improving Public Safety

All Coloradans should be safe in our communities. We have worked with the General Assembly to make crime prevention and public safety a priority, and we are making significant progress toward making Colorado one of the top ten safest states. For example, in the past year, we have seen a 33 percent decrease in the rate of auto thefts and a 14 percent drop in the number of deaths from opioid overdoses. Additionally, we will support local law enforcement as we continue implementation of voter-approved Proposition 130. On July 1, 2026, the first $15 million will be transferred to the Peace Officer Training and Support Fund, and the Colorado Department of Public Safety will begin the process of awarding grants of at least $15,000 to local law enforcement agencies, as specified in S.B. 25-310.

This budget makes a major investment in Colorado’s Division of Homeland Security and Emergency Management (DHSEM) in response to federal actions that threaten Colorado’s emergency preparedness, response, and recovery efforts. DHSEM is the coordinating agency for the State’s efforts to prevent and respond to emergencies and disasters, regardless of cause. The mission is accomplished through a comprehensive and coordinated program of mitigating hazards, preparing for emergencies, preventing violent extremism and other criminal activity, coordinating emergency operations, and supporting disaster response and subsequent recovery efforts. This budget proposes to provide DHSEM with $7.1 million if the federal government continues to withhold millions of federal dollars in public safety funding. While not fully backfilling the federal funds, this targeted state investment will help ensure that the State is prepared to act quickly when disasters strike, protect its residents and property, and prepare for and manage disasters wisely to avoid unnecessary costs. (DPS R-01)

This budget also includes $0.4 million to improve the State’s ability to proactively monitor and protect Coloradans from threats of domestic terrorism and extremism. The U.S. and Colorado are unfortunately witnessing increases in extremism, which necessitates continuous vigilance to detect extremist behavior, provide actionable intelligence to law enforcement, and disrupt acts of violence. (DPS R-02)

We also request funds to support and expand critical services and functions for public safety. This budget set aside $0.4 million to establish the Colorado Bureau of

Investigation (CBI) Laboratory as a separate division within the Department of Public Safety, creating new organizational efficiencies to improve public safety statewide. (Legislative item) Additionally, we propose to reallocate $0.4 million in funding to the School Security Disbursement Program, a grant program that makes schools safer through investment in physical security upgrades. (DPS R-05)

This budget sets aside $0.3 million for a bill to create a successor to the Commission on Criminal and Juvenile Justice, a non-partisan entity to research and make recommendations on criminal justice policies. (Legislative item)

We are committed to addressing public safety and gaps in our system related to the intersection of competency and our criminal justice system. When justice-involved individuals with behavioral health problems are unable to be restored to competency, we must ensure that those who pose a danger to themselves or others have access to appropriate placements and services. My administration, in concert with all of the relevant state agencies, is taking action prior to the legislative session to ensure that individuals who are a danger to themselves or others are connected to secure, safe and appropriate placements . This includes working directly with the district and county attorneys so that if charges are dismissed due to competency, the state works in partnership with local governments and the judicial branch to pursue care coordination, rehabilitation, guardianship, and secure placement or civil commitment where appropriate.

In addition, my administration is working in partnership with the legislature, local leaders, law enforcement, district attorneys and public defenders, and others to further strengthen our competency system and protect public safety. This proposal will be finalized in my January budget submission, to ensure that resources, including placements, are available to address the needs of individuals found incompetent to proceed and unlikely to be restored who pose a danger to themselves or others. The budget includes a placeholder for all supplementals, including the needs identified through this work.

The Department of Corrections continues to work through the results of the budget performance audit and looks forward to reporting to the General Assembly on progress made since May 30th on implementing the audit's findings. In this budget, we propose $13.9 million one-time capital construction funding for a new perimeter fence at Delta Correctional Complex as part of a cost-effective solution to convert underutilized minimum security bed capacity into more urgently needed medium security bed capacity. (DOC CC-02)

Protecting and Advancing Health, Families, and Public Health

My administration has continued to ensure that funding remains available for the Relative Guardianship Assistance Program (RGAP). The program is critical to removing barriers to adopting Colorado children and youth that would otherwise prevent youth from finding permanent homes and stable living conditions. The budget includes $15.4 million as a placeholder for assistance including monthly financial payments, non-recurring adoption expenses, and Medicaid coverage for all eligible families based on the needs of the youth.

Additionally, the budget includes $0.6 million to monitor the hundreds of day treatment programs that provide Applied Behavior Analysis (ABA) for children and youth with autism and other intellectual and developmental disabilities. Approximately 2,500 youth are authorized to receive 31 to 40+ hours of ABA therapy at stand-alone treatment centers through Medicaid's Pediatric Behavior Therapy (PBT) program, with countless others receiving the therapy through private insurance and private pay. However, to date, nearly all of the facilities are operating without licensure and oversight, raising serious concerns about children's safety and ability to access a free and appropriate public education. This budget allows for reasonable oversight of these facilities to examine billing practices, and monitor restraint, seclusion, nutrition, and ensure that children are receiving the education they deserve in these facilities. (CDHS R-02)

H.B. 22-1259 was essential to expanding access for households eligible for the Temporary Assistance for Needy Families Program (TANF), also known as Colorado Works and ensuring that funding rose with inflation. However, growing administrative and funding needs have put financial pressure on the financial sustainability of State and County TANF reserves. Since 1996, Colorado has received the same unchanged $136.1 million per year from the federal government despite rising costs. The budget includes a proposal to reduce financial pressure on TANF to preserve services for extremely low-income households. (CDHS R-05)

We also need to continue taking action to protect the long-term sustainability of the state's child care subsidy, the Colorado Child Care Assistance Program (CCCAP). This budget decreases federal Child Care Development Fund (CCDF) appropriations for programs other than CCCAP direct services by $0.9 million in FY 2025-26 and $4.5 million in FY 2026-27 and ongoing. Due to unfunded federal regulations, CCCAP is currently unable to serve all eligible children, leading to waitlists and freezes in 24 counties as of October 2025. Without further action to prioritize direct services, CCCAP will face increasingly dire budget shortfalls over the next several years. The cuts will reduce ongoing obligations for CCDF, thus freeing up additional funding to serve future CCCAP families. Simultaneously, we are working with our federal partners to seek relief from unfunded federal mandates that ultimately decrease access to care. (CDEC S-01/R-01)

This budget also takes steps to protect public health with a $5.0 million investment in Colorado's lab facilities at the Department of Public Health and Environment. Without this funding, the State will be unable to reopen the laboratory's Environmental Chemistry Unit and regain critical EPA certification, which is required for the State's authority to enforce Safe Drinking Water Act (SDWA) standards. These resources will strengthen our ability to identify health threats including environmental contaminants and bioterrorism and chemical threats and maintain a minimum viable state laboratory to protect public health. (CDPHE R-01)

Protecting Our Air, Water, and Lands, and Expanding Access to the Outdoors

Coloradans rightfully take pride in our natural environment. It is easy to take for granted the beautiful scenery that spans all four corners of our State, but we must stay committed to ensuring that Coloradans and visitors can enjoy clean air, clean and ample water, and access to the outdoors.

The State is doing our part to meet ambitious climate goals and improve air quality. We are a national leader in transitioning to a cleaner and more sustainable energy system. Utilities are on track to exceed their statutory goal of 80 percent emissions reductions by 2030 from 2005 levels, and the Governor is committed to strategies to build on this momentum for clean energy deployment over the coming decades.

My administration worked with the General Assembly to pass legislation in 2025 that continues our progress on clean energy leadership. For example, H.B. 25-1267 will help improve the electric vehicle (EV) charging infrastructure so that EV users have a more consistent and seamless charging experience. And S.B. 22-180 provided funding for a three-year pilot Bustang service expansion along I-25 and I-70. The expansion has been a notable success, with ridership levels increasing year over year. With the pilot period ending, CDOT is exploring options to continue offering expanded service.

In the third quarter of 2024, Colorado became the first state to surpass California in EV sales per capita, with EVs making up 25.3 percent of new vehicles sold. Once again in Q3 2025, Colorado leads the nation with 32.4 percent of new vehicle sales as EV. However, the federal H.R. 1 eliminated the federal EV tax credits at the end of September 2025. While EV sales remain strong in Colorado, we know there are more opportunities to strengthen Colorado's support of EVs. For example, through administrative action, Colorado expanded point-of-sale EV rebates through the Vehicle Exchange Colorado (VXC) program in October, increasing the rebate for eligible Coloradans from $6,000 to $9,000 for new EV purchases and leases and from $4,000 to $6,000 for used EV purchases and leases. This coming year, we will explore opportunities to modify Colorado's EV tax credit, with a goal of optimizing EV sales in a budget-neutral way, especially by augmenting tax credits for lower-MSRP vehicles.

This budget also builds on the recent investments and policies to protect Colorado's irreplaceable water resources. A key piece of these efforts is the Colorado Water Conservation Board (CWCB), which oversees the Colorado Water Plan Grant Program (WPGP). These grants provide matching dollars to public and private entities to undertake projects including water storage and supply, conservation and land use planning, agricultural projects, and watershed health and recreation projects. As required by voters' approval of Proposition DD, the WPGP receives dedicated funding from taxes on sports betting, and that funding is increasing rapidly. Sports betting revenue going into the WPGP more than tripled in the three years prior to FY 2025-26, and they are expected to grow by another 70 to 80 percent in the next three years. This dramatic growth in WPGP funds creates the opportunity to make more and faster progress on advancing the Colorado Water Plan, but only if the grants administration process can keep up. Therefore, this budget proposes $0.3 million dollars for the Department of Natural Resources to manage the growth in the grant program. (DNR R-02)

As the State continues to grow, so too does the need to protect and expand Colorado's world-class outdoor spaces and experiences. More people are taking advantage of the Keep Colorado Wild Pass, which halves the cost of a state parks pass while growing the resources to protect our outdoors and outdoor recreational opportunities across the state. Sales of state park passes generated $41 million in revenue in FY 2024-25, which supports the acquisition, expansion, and management of state parks. Furthermore, the oil and gas production fee (S.B. 24-230) will begin collecting revenues this year, and is anticipated to drive tens of millions in annual collections for Colorado Parks and Wildlife (CPW) for wildlife protection and preservation. Additionally, recent changes in the distributions of lottery revenues (H.B. 25-1215) are expected to direct at least $1 million in additional revenue to CPW, ensuring that Colorado's great outdoors can be enjoyed by all.

To continue to meet the needs of our outdoors and Coloradans who love them, this budget proposes a $2.2 million investment to staff, operate, and manage two new recreation areas within our state parks system, the first with the Pikes Peak region in El Paso County and the second at North Sand Hills in Jackson County. (DNR R-01) This will enhance the care of these special areas, advancing state leadership in caring for our public lands, and increase access to iconic Colorado areas and create memorable experiences for camping, off-highway vehicle (OHV) recreation, hiking, and fishing.

My administration worked with the General Assembly to create the Office of Sustainability in 2024 to streamline state agency sustainability efforts and support infrastructure projects in electric vehicle charging, energy efficiency, water reduction, waste diversion, and lawn equipment replacement and electrification. This budget proposes $0.2 million in funding to ensure that the Office of Sustainability can fulfill its statutory requirements and the ambitious sustainability goals my administration set in Executive Order 2025 D 003 (link to PDF). It provides funds for a grant coordinator who will put Colorado in a better position to bring federal grant dollars to Colorado to achieve our ten-year sustainability goals to cut emissions in half. These funds will also enable the State to analyze its energy usage to improve efficiency across its 28 million square feet of building space and reduce energy costs, translating into utility cost savings and a more efficient use of tax dollars. (DPA R-04) Complementing the State's focus on energy efficiency, efforts are also underway to reduce the State's physical footprint, reflecting a commitment to sustainability and fiscal responsibility. Already, total square footage of office space has been reduced by more than 640,000 square feet, with a target of one million square feet by 2027.

Protecting Medicaid While Slowing Its Rate of Growth

All people need health insurance to ensure access to acute and preventative medical and behavioral health services, and for protection against the risk of medical bankruptcies. Medicaid also pays for care and support needed by individuals with physical and intellectual disabilities, as well as elderly people who may need care in the community or in nursing facilities.

Over the past decade, since federal law enabled the expansion of Medicaid, Colorado has made important investments in this program, and it now provides insurance and health services to more than 20 percent of residents. My administration and the General Assembly have strengthened access to behavioral health and long-term care services; stabilized our provider network — including increasing wage support for our direct care workforce; and ensured access to critical services. We are proud of this progress and the resiliency shown in our health care system during the pandemic.

We are at a crossroads. First and foremost, my administration embraces the core principle of protecting access to health care and Medicaid insurance coverage, especially in the face of substantial pullback in support from the federal government. A compassionate society supports the most vulnerable among us.

In addition, we must ensure that every taxpayer dollar is put towards its highest and best use. With federal cuts to the program, this imperative is all the more important, as we anticipate federal dollars for the program to continue to tighten. This means that the State's Medicaid program must prioritize the services that provide the most value and are the most cost-effective for improving and protecting the health of Medicaid members.

These twin goals — protecting Medicaid while maintaining fiscal discipline — demand that we take action to put Medicaid expenditures on a sustainable path. As described above, allowing current spending trends to continue would result in an unsustainable fiscal future: Medicaid spending would outpace revenue growth and TABOR limits to such an extent that it would severely restrict spending on priorities such as education and eventually crowd out all other state spending. Federal Medicaid cuts in H.R. 1 only worsen these pressures, especially as the State must increase administrative spending on bureaucratic work requirements and manage the impacts of upcoming hospital provider fee restrictions. Unfortunately, changing our current budgetary trajectory involves difficult decisions. But by taking action now, we will avoid even more disruptive and difficult decisions in the future. To be clear, my goal is to maintain adequate funding so that we do not have to pare back eligibility for the program. But to ensure the program can keep up with demand and serve everyone eligible, we have to act.

This budget proposes to slow the year-over-year growth of state funding for Medicaid to 5.6 percent in FY 2026-27, which is significantly lower than the double-digit growth rates observed over the past several years, but still a faster pace than virtually every other state program. This high rate of growth is not sustainable, and we need to continue to reduce it in future years. Simply put, Medicaid must grow in line with the rest of the state budget. A 5.6 percent annual growth rate still represents an annual funding increase of $297.7 million in state General Fund relative to the current Long Bill appropriation. The proposed growth rate is also consistent with the annual average growth rate between 2025 and 2027 projected for National Health Expenditures, a measure of all private and public spending for health services in the United States.

Over the long-term, Colorado's health care budget cannot continue to grow substantially faster than the growth in the State's revenue or TABOR cap. My proposed budget for a 5.6 percent increase in FY 2026-27 is only a downpayment on the work we must do to better manage Medicaid spending to align more closely to the rate of growth in the TABOR cap. Had the Medicaid program grown at the same rate as the TABOR cap since FY 2015-16, the State's General Fund in FY 2025-26 would now have an additional $1.9 billion available for discretionary spending for education, human services, roads and highways, and all of the other important services of state government. This is why it is so important for Colorado to make the tough decisions to control the rate of growth in Medicaid.

My administration is working diligently with stakeholders and conducting a third party analysis to provide a global picture of the program, and identify where we are seeing exponential growth. Preliminary results will be completed in December 2025. Based on that forthcoming analysis, we are proposing to work with the General Assembly to pass legislation that will enable the State to achieve and maintain a sustainable rate of growth to Medicaid expenditures. This legislation should seek to establish a year-over-year growth rate in Medicaid General Fund spending. While this budget proposes a 5.6 percent growth rate for FY 2026-27, the growth rate should continue to ramp down rapidly and within the next few years align with growth in the TABOR cap. Such actions would still satisfy federal Medicaid requirements and maintain Medicaid's status as an entitlement with over-expenditure authority. My administration is working with national experts to examine the Medicaid program in Colorado in comparison to national benchmarks, which will inform discussions on options to bring cost growth in line with the rest of the budget; we will provide an update to the Joint

Budget Committee in our January 2, 2026 supplemental and budget amendment submission.

As the state continues to grapple with Medicaid's significant budget pressures, we are committed to following a core set of principles while considering targeted budget reductions. These core principles include:

1. **Maximizing Coverage:** Colorado's Medicaid program covers 1.2 million of our state's most vulnerable residents. Attempts to address Medicaid cost growth **should prioritize protecting coverage for as many Coloradans as possible who cannot afford insurance or care otherwise.**

2. **Prioritizing High-Value Services That Keep People Healthy:** Future budgets should focus on preserving and promoting evidence-based, high-value services that avoid more expensive care down the road, such as prevention of chronic disease. Relatedly, budget reductions can target overutilization patterns where the service need is not supported by data.

3. **Committing to Collaboration:** The administration is committed to collaboration with interested parties as the State implements these difficult but necessary reductions. Long-term changes to spending policy should include consultation with Medicaid members, stakeholders, and communities whenever possible, including with those most impacted by Medicaid budget reductions. The Department of Health Care Policy and Financing (HPCF) should maintain an open-door policy to hear the concerns of Medicaid enrollees and other stakeholders.

4. **Honoring Medicaid's Role for Critical Coverage:** My administration recognizes the importance of core Medicaid services that are not offered in commercial plans, such as residential care for youth, and long-term services and supports for people with disabilities and people who are aging. We also recognize the role of Medicaid in supporting Colorado's health economy.

5. **Enhancing Program Efficiencies and Integrity:** Providing quality and efficient care while minimizing wasteful spending in Medicaid remains a critical priority for the state. This includes streamlining administrative processes at the state and county levels to ensure that coverage is simple and easy to access and maintain, as well as cracking down on bad actors who take advantage of the Medicaid system.

6. **Promoting Long-Term Savings Over Short-Term Cuts:** Future budgets should focus on strategies that result in lowering costs over time, or at the very least,

slowing the rate of cost increases, rather than implementing short-term budget fixes.

Given the urgency for fiscal sustainability in our Medicaid expenditures — and compounded by the negative revenue impact that H.R. 1 imposed on state revenue — we are taking action in the current fiscal year, 2025-26. It is important to adopt measures to curb spending as soon as feasible, because spending would otherwise continue to grow and make it that much harder to reach a sustainable rate of growth in FY 2026-27 and beyond. The longer we wait to implement meaningful reductions, the larger the future reductions will need to be.

Through [Executive Order 2025 D 014 (link to PDF)] (signed August 28, 2025, and amended on October 31, 2025), I took administrative action to reduce the growth in Medicaid spending beginning this fiscal year. Despite these reductions, the Medicaid budget would still grow more than other state programs, with an increase of approximately $137.0 million General Fund more than what was appropriated during the 2025 legislative session. This is because HCPF anticipates a supplemental budget request of $230.7 million General Fund before these reductions, and the executive orders are moderating the supplemental increase to a more reasonable level.

The August 28, 2025 Executive Order returned many provider reimbursement rates to their FY 2024-25 levels by rolling back the 1.6 percent increase approved during the 2025 regular legislative session. The Department is also implementing cost containment strategies to curb the potential overuse of services and align with best practices, including the return of Prior Authorization Requests for outpatient psychotherapy services that exceed clinical best practices and implementing pre- and post-claim review of pediatric autism behavioral therapy codes.

The October 31, 2025 amendment to that August Executive Order takes additional actions to reduce the rate of growth in Medicaid spending in FY 2025-26.

The additional reductions are described below and are accounted for in this balanced budget proposal:

- Reduce provider rates to 85 percent of the Medicare reimbursement benchmark, the federal health insurance system for people 65 years and older. A 2024 study by the Urban Institute showed that, nationally, Medicaid fee-for-service rates averaged 75 percent of Medicare fees.
- Establish reasonable limits on services offered through Community First Choice, with an exceptions process for members who have extraordinary needs related to their disabilities or limited access to caregivers.

- Stop automatic enrollments from CES/CHRP to the DD Comprehensive waiver. Emergency enrollments, transitions from the youth foster care system, and transfers from institutions will still be available to members who meet the required criteria.
- Reduce "churn" enrollment into the DD Comprehensive waiver when current members leave the program. Emergency enrollments, transitions from the youth foster care system, and transfers from institutions will still be available to members who meet the required criteria.
- Adjust payment methodologies for home health nursing and therapy services to better align with the actual length of time a service is provided. This also aligns with current billing practices in the private insurance market.
- Implement changes to acute care services, including expanding coverage to include 3D mammography testing. This addresses an existing gap in Medicaid cancer screenings, and aligns coverage with current standards of care in the private insurance market.
- Introduce cost controls for Medicaid benefit categories that have seen disproportionate growth in recent years, indicative of inappropriate and potentially fraudulent billing practices. This includes implementing Prior Authorization Request (PAR) for definitive drug testing panels after 16 tests per member per year.
- Place a cap of $3,000 per person per year for the adult dental benefit for Medicaid members. This is higher than the $1,500 cap that existed previously in 2023.
- Place a cap of $750 per person per year in dental benefits for individuals in the Cover All Coloradans program.
- Change the behavioral health services provided to Cover All Coloradans program members from a capitated payment system to a fee-for-service system. Claims data indicate that utilization is lower than reflected in the capitated payments, so a fee-for-service model will result in savings.
- If and when the federal government approves Colorado's June 2025 request for State Directed Payments, we will review provider fees such as the Colorado Healthcare Affordability Sustainability Enterprise (CHASE), to explore potential ways to help address Medicaid budget sustainability.

My administration will propose additional measures as part of the January 2, 2026 supplemental and budget amendment submission and/or the updated HCPF caseload forecast in February 2026.

While this budget proposes important choices to slow the growth of Medicaid spending, we need to continue making strategic and necessary investments to improve the health of Medicaid members and improve the Department's operations.

- This budget requests additional spending authority of $11.3 million, which includes $7.8 million in federal matching funds, for an annual supplemental payment to Denver Health for physician services provided to Medicaid members enrolled in Denver Health's Elevate Medicaid Choice plan. Contingent upon federal approval, an additional state-directed payment to Denver Health would help strengthen Colorado's largest safety net hospital, at no cost to the State. (HCPF R-13)
- The budget requests $19.1 million, which includes $2.7 million in state General Fund, to improve the efficiency and processes for Colorado's eligibility and enrollment system used for Medicaid and other programs, including SNAP and TANF. Recent federal changes impose significant new burdens on the existing system, such as more frequent eligibility determinations and new work requirement provisions in Medicaid. We propose to streamline certain administrative functions that currently reside in every county. We will make additional requests in our January 2, 2026 supplemental and budget amendment submission. (HCPF R-07)
- We propose to finance additional housing vouchers (to be administered through the Department of Local Affairs) for persons with disabilities who require long-term services and supports to transition out of institutions, or prevent institutionalization in the first place. In addition to producing better long-term health and social outcomes, successful transitions reduce cost to the State because services received in the home or community are less than half the cost of those received in institutions like nursing facilities. Overall this is expected to save $3.5 million in FY 2026-27. We plan to submit this request in our January 2, 2026 budget amendment submission.

Improving the Efficiency and Cost of Government Services

All parts of this administration took a hard look at how the State can reduce its spending. We have sought to control the growth of caseload, reduce fraud and abuse, and we also examined each department's operating budget to find ways to control their expenses. We looked for opportunities to right-size programs and reallocate funds to more cost-effective uses. We sought ways to maximize the impact of every taxpayer dollar. Outside of caseload, this budget proposes a 2.0 percent decrease in statewide operating expenses. Examples include the following:

- The budget proposes to streamline the READ Act awareness campaign and reduce the frequency of evaluation work from an annual process to a biennial process. This will save $1.0 million while maintaining essential data collection that is done internally by CDE and will not negatively affect implementation of the READ Act. (CDE R-05)
- We propose restructuring administration of the Statewide Social Studies Assessment by shifting from sample testing of one-third of the students in fourth and seventh grades to administering the assessment to all students in only seventh grade. This change would streamline the assessment process, resulting in savings of $0.2 million while also providing the State with consistent and usable data on seventh grade social studies proficiency. (CDE R-06)
- We propose to eliminate the Employment Support and Job Retention Program and repurpose $0.3 million. This program supports unemployed and underemployed individuals to help them overcome barriers to employment, such as transportation, emergency housing, and work tools and equipment. The department will help these individuals obtain support through other means, including local area workforce centers, the Department of Human Services (DHS), and other community service providers. (CDLE R-03)
- We request a $1.0 million reduction for the Mobile Home Park Water Quality Program. This will not impact its ability to meet statutory requirements and timelines in testing water quality at all mobile home parks across the State. (CDPHE Legislative Placeholder)
- We propose to save $0.5 million by aligning spending with a reduction in demand for Home Care Allowance (HCA) funds. In April 2022, a federal rule change required applicants for HCA to first be evaluated for Medicaid-funded Home and Community-Based Services (HCBS) before qualifying for HCA resulting in a 90 percent decrease in caseload. The reduction more closely aligns the administrative appropriation with the cost of serving the volume of clients. (CDHS R-07)
- We request a $3.0 million reduction through consolidation and streamlining of Colorado's behavioral health care networks as envisioned with the creation of the Behavioral Health Administration Service Organizations (BHASOs). This

proposal would refinance funds from programs that cause undue administrative burdens to direct service provision. (BHA R-03)

- We propose to repeal the Childcare Facility Development Grant Program at DOLA. The funds allocated to this program are insufficient to support a robust capital grant program, so we are requesting legislation to repeal the program, allowing $0.3 million to be redirected to other more effective uses. (DOLA R-05)
- We request a reduction of $0.1 million for IT expenditures at DOLA. The Department is transitioning prior IT expansions into operations and maintenance the funds can be repurposed. (DOLA R-04)

Managing the State's Financial Assets More Effectively

This budget proposes that the State reform and tap into the financial value of a quasi-independent political subdivision, Pinnacol Assurance, which is the State's workers' compensation insurer of last resort. The General Assembly created and initially funded Pinnacol's predecessor state agency in 1915 and subsidized it in various ways since then. Approximately 49,000 Colorado businesses have workers' compensation coverage through Pinnacol. While workers' compensation systems in each state differ in structure, in recent decades many states — including Arizona, Maryland, Missouri, Nevada, Oklahoma, Utah, and West Virginia — have modernized their systems by mutualizing, privatizing, or otherwise achieving some level of separation from previously state-chartered funds.

Here in Colorado, there have been conversations for several decades on how to ensure that workers and businesses have access to good, affordable workers' compensation insurance, while also providing the flexibility needed for Pinnacol to succeed and to benefit the State. Now is the time to act. As the workplace has evolved to include more workers who work remotely and across state lines, Pinnacol faces challenges to its business model. For example, under Pinnacol's current structure, it is prohibited from providing insurance policies that cover workers outside Colorado, which hampers the ability of Colorado businesses with out-of-state employees to obtain affordable, high-quality workers compensation coverage. It is also prohibited from expanding into complementary lines of insurance that benefit employers.

This budget proposes a spinoff and conversion of Pinnacol that would remove coverage barriers and allow Pinnacol to better support the needs of Colorado employers and workers in a modern economy. It would further allow Pinnacol to diversify and balance its customer base; take advantage of economies of scale and a larger, multi-state risk pool; keep insurance premiums low while still providing exemplary service; and still play an essential role as Colorado's insurer of last resort. If we fail to act, Pinnacol will continue to lose market share, which over time will put upward pressure on premiums, downward pressure on benefit levels, and hurt employers and employees both.

As part of this conversion, Pinnacol would compensate the State in recognition of the State's contribution to creating Pinnacol's current economic value. This budget assumes that $400 million of the proceeds of this TABOR-exempt property transaction will be invested in FY 2026-27 for the following purposes: $193 million will be used to provide property tax relief for senior citizens through the senior homestead exemption; $109 million will be invested in controlled maintenance level 1 (preventative and repair work) for state-owned facilities; and $98 million will be used in various ways to balance the overall budget. Additionally, if the proceeds from the Pinnacol conversion are greater than $400 million, any amount above that level will be directed to increase the state budget reserve, which was reduced due in response to the dramatic reduction in state revenue caused by federal legislation. (Statewide R-01). We are also looking at other financial changes that can be made to benefit the state budget and will include more details in the January letter.

Additional Fiscal Actions to Balance the Budget

This budget proposes that the State maintain a budget reserve equal to 13 percent of General Fund appropriations for FY 2026-27. We believe that a 15 percent budget reserve is more prudent, particularly given the heightened economic recession risk caused by the gyrations in tariff policies. However, the negative impacts of H.R. 1 on state tax revenue and the ongoing fiscal needs of the State do not allow us to return the state budget to its prior 15 percent reserve. We propose that the State begin increasing the reserve in FY 2027-28 and achieve a 15 percent reserve over five years. This budget proposes a number of fiscally responsible proposals that help achieve a balanced budget.

We propose actions that address impacts of H.R. 1 on the calculation of TABOR refunds. The federal H.R. 1 had a significant and negative impact on the State's financial outlook. H.R. 1 was passed after the State's fiscal year ended and with insufficient time to adjust the certification of TABOR refunds. Therefore, even though the drastic revenue cuts more than eliminated the State's FY 2024-25 TABOR surplus of $296.1 million, the State is required to issue the refunds in FY 2025-26. This constitutes an overpayment of the State's TABOR obligation and should be credited back to the General Fund. I look forward to working with the General Assembly to pass legislation that will allow us to correct the overpayment over two fiscal years and help offset other cost drivers, such as Medicaid.

This budget proposes to make changes related to the unfunded liabilities in the public pension system. Currently, the State is obligated to pay an extra 10 percent of base salaries to PERA to draw down the State's unfunded liabilities in its pension system. Reducing this payment to just nine percent of salaries will not significantly disrupt the State's progress towards paying down its liabilities. These savings will be used to satisfy the State's obligations to its employees and the State's union through the Partnership Agreement signed in October of 2024.

My administration has worked tirelessly to balance this budget since the passage of H.R. 1 and succeeded. We are making targeted investments that will shore up the financial resilience of the Colorado budget, "bending the curve" on Medicaid costs to ensure a sustainable budget for the future, and tightening the belt at every state agency to streamline the overall cost of operations. But the Executive Branch cannot bear this burden on its own, and this budget assumes that other branches of government and offices of elected officials will be streamlining their budgets as well. Accordingly, I am assuming that these budgets will only grow by one percent in FY 2026-27.

My administration has also identified around $29 million in aviation tax revenue that is currently being counted against the TABOR cap. However, the revenue collected on gas and excise aviation fuel is used predominantly to support applicable local districts — essentially collected on their behalf — and therefore should not be counted against the State's TABOR cap. The Executive Branch welcomes the opportunity to work with the legislature to correct the classification of this revenue stream in the 2026 regular session.

This budget proposes $15 million in severance tax sweeps from revenue distributions in both FY 2025-26 and FY 2026-27. OSPB expects an 154.5 percent increase in revenue in FY 2025-26 and maintaining similar revenues. In both years, the Department of Local Affairs will transfer $10 million of their share to the General Fund, while the Department of Natural Resources will transfer $5 million of their share.

Improving the Efficiency of Government

My administration is dedicated to maximizing the impact of state dollars via the programs and services we administer. Each year, the Executive Branch agencies commit to a set of public-facing goals that capture how we are performing on priority initiatives and what impacts those initiatives have on critical outcomes for Coloradans.

Additionally, the Governor's Operational Agenda is our cross-cutting effort to reimagine how government works and deliver better results for Coloradans. Our focus is on improving the speed, ease, and trust of every interaction people have with state government. By measuring our collective efforts and impacts, we are able to quickly identify where state initiatives are not having the desired impacts and pivot accordingly to ensure we are being responsible stewards of taxpayer dollars, do more with less, all while improving the lives of Coloradans.

For example, we are strengthening Digital Government by improving the core digital services the State provides to people at various life stages as they live, work, and play in Colorado. We are also improving the experience that people have when they contact a state call center to get information, find help, and resolve problems. By collaborating with industry experts and leaders throughout the State, we are implementing best practices to reduce wait times, enhance customer satisfaction, and deliver more seamless services.

My administration seeks to identify opportunities to improve the efficiency of key agency functions, including human resources and finance. These duties currently reside in each agency, and consolidation of these functions in a centralized entity has the potential to leverage economies of scale, take advantage of specialized expertise, improve consistency, and create cost savings. This budget holds $250,000 for a bill to conduct an assessment of potential options that will inform consideration of further Legislative or Executive Branch actions.

Conclusion

Colorado's budget should reflect the values and priorities of its residents. Coloradans can agree that we want many of the same things: access to quality education, safe communities, access to affordable health care and housing, a clean environment, and economic opportunities. But it is a fact of life that choices have to be made to find a balance between what we want and what we can afford.

I believe this budget request finds the right balance. Even with the substantial negative impacts caused by recent federal decisions, this budget balances new investments to address critical initiatives while putting the State on a more sustainable budget path.

We look forward to working with the Joint Budget Committee and the General Assembly to pass a FY 2026-27 budget that enables all Coloradans to thrive.

This budget letter includes the following attachments:

1. Economic Conditions and General Fund Overview
2. How We Balance
3. Legislative Placeholders
4. Capital Request Overview
5. Marijuana Tax Cash Fund
6. Federal Policy and Budget Decisions Hurt Coloradans
7. Long-Range Planning
8. Evidence-Based Policy
9. Promoting a Colorado For All
10. Budget Tables (online only)
11. Decision Items by Department (online only)

Complete details of all requests, including financial schedules, may be found on the [OSPB website (www.colorado.gov/OSPB)](http://www.colorado.gov/OSPB).

Together, we can make Colorado a better place to live and do business.

Sincerely,

Jared Polis

Governor of Colorado

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Attachment 1
Economic Conditions and General Fund Overview

The General Fund budget request for FY 2026-27 is $18.6 billion, of which $17.1 billion is subject to the reserve and $1.5 billion is exempt. The total requested General Fund represents an overall increase of 2.3 percent from the FY 2025-26 estimated General Fund amount. The table below compares the FY 2025-26 appropriations from the Appropriations Report, as adjusted by Executive Order 2025 014 in response to S.B. 25B-001, to the FY 2026-27 budget request.

Table 1: General Fund overview

Description	FY 2025-26*	FY 2026-27	$ Change	% Change
General Fund Obligations - Subject to the Reserve	$16,702,592,800	$17,101,108,459	$398,515,659	2.40%
General Fund Obligations - Not Subject to the Reserve	$1,497,082,379	$1,524,722,321	$27,639,942	1.80%
Total Requested General Fund	$18,199,675,179	$18,625,830,780	$426,155,601	2.30%
Reserve Requirement	$2,130,087,064	$2,181,894,100	$51,807,036	2.40%
Total General Fund Obligation	$20,329,762,243	$20,807,724,880	$477,962,637	2.40%

Reserves

Despite the significant pressures from H.R. 1, the FY 2025-26 budget request is expected to maintain a 13.0 percent reserve after incorporating special session and executive actions. Given the continued outyear impacts in federal legislation, combined with the ongoing structural issues related to caseload expenditures outpacing the TABOR cap, this budget made difficult choices to maintain a statutory reserve of 13.0 percent given the current uncertainty in economic outcomes. Maintaining such a reserve for a future rainy day is critical to helping the State weather the next major downturn and prevent significant cuts to education, public safety, social safety net programs, and other core government services. Though the current targeted reserve is below the recent 15 percent target, this budget assumes that any excess proceeds from the conversion of Pinnacol will help rebuild the targeted reserve. It is expected that future budget submissions will gradually restore the 15 percent General Fund reserve balance.

Non-Discretionary Expenses

Caseload and non-discretionary expenses are consuming a considerable and rapidly growing amount of the General Fund available for appropriation in the FY 2026-27 budget. In fact, without the proposals incorporated into this budget to limit Medicaid cost growth, caseload expenses for that alone would outpace the entirety of the new available General Fund beneath the TABOR cap. In Table 2 below, non-discretionary expenditures include caseload adjustments, annualizations of previous appropriations or special bills, and changes in common policy allocations statewide (e.g., Total Compensation and Operating Common Policies).

Table 2: Non-Discretionary Expenditures in the FY 2026-27 Budget Without Offsets

Description	Amount	% of Available GF
Caseload	$766,073,814	607.36%
Annualizations	$12,374,444	9.81%
Common Policies	$75,602,150	59.94%
Total	**$854,050,408**	**677.11%**

Caseload Expenditures

Caseload expenditures include line items driven by demographic, inflationary, or other rule-based, statutory funding changes. This includes Medicaid caseload, K-12 Total Program, Corrections caseload, Higher Education cost growth, Employee Compensation, and Common Policies, among other line items. This budget contends with high growth rate in existing caseload cost drivers, particularly within Medicaid caseload, that crowd out discretionary spending.

Note that the $766 million caseload obligation in Table 3 is before accounting for budget savings proposals incorporated into the submission, and only outlines the General Fund component of the overall expense. In FY 2026-27, OSPB estimates that approximately $3.2 billion in Total Funds will be allocated to address the State’s growth in caseload expenditures.

Table 3: FY 2026-27 Caseload Growth Obligations Without Offsets

Department	Amount
Health Care Policy & Financing	$631,360,236
Education	$46,083,967
Human Services	$36,846,852
Corrections	$28,331,635
Higher Education	$17,491,800
Early Childhood	$5,959,324
Total	**$766,073,814**

Medicaid caseload costs continue to grow more quickly than previously anticipated. A major reason is that the utilization and costs of a small subset of enrollees are growing, making up a significant portion of the cost growth. These trends in Colorado are also being observed in other states, but the statewide cost increases are outpacing national trends.

After eliminating the Budget Stabilization Factor in FY 2024-25 and beginning implementation of the new School Finance formula in FY 2025-26, this budget continues the Governor's commitment to K-12 education by increasing new formula implementation to 30 percent. This is in line with the commitment made last legislative session, despite the significant budgetary pressures from both federal legislation and other State caseload pressures.

Economic and Revenue Conditions

This section discusses economic conditions for Colorado as well as General Fund and State Education Fund revenue based on the OSPB September 2025 forecast. The General Fund is the State's main source for funding its core programs and services, such as education, health and human services, and public safety. It also funds the majority of capital construction and maintenance needs for state facilities in addition to transportation projects.

The largest revenue sources for the General Fund are income and sales taxes paid by individuals and businesses in the State, which are heavily influenced by the performance of the economy. In addition to the General Fund, some state programs and services are funded from cash funds and federal government funds. Cash funds receive revenue from certain taxes, user fees, and charges that are generally designated for specific programs. The State Education Fund is a cash fund that receives one-third of one percent of taxable income from Colorado taxpayers with the revenue directed for the purpose of supporting K-12 education.

Income and Sales Taxes are the Largest Sources of General Fund Revenue

Based on OSPB's September 2025 forecast, income tax revenue from individual and corporate sources combined are the largest contributor to the State General Fund for FY 2026-27, at an expected 64.1 percent after accounting for the income diversions to the State Education Fund (including the Kids Matter account diversion), Proposition 123, and Healthy School Meals for all add-back. Sales and use tax revenue is the second largest source at a projected 27.7 percent of General Fund revenue in FY 2026-27. Income, sales, and use taxes make up more than 90 percent of General Fund revenues.

General Fund Revenue Diverted to Affordable Housing Programs

Per Proposition 123, one-tenth of one percent of total taxable income is diverted to affordable housing programs at the Department of Local Affairs and the Office of Economic Development and International Trade on an annual basis. This diversion is projected to be $340.9 million in FY 2026-27, an 8.9 percent increase from the current fiscal year's expected $313.1 million. Note that the September forecast did not include an adjustment to the FY 2025-26 diversion from [Executive Order D 2025 014 (link to PDF)], given that legislation is required to make the proposed reduction. In Attachment 2, the proposed reduction in the diversion is increased to $110 million from $105 million in the Executive Order, in part due to increases in the current fiscal year's expected diversion.

General Fund Revenue Diverted to the State Education Fund

The State Education Fund (SEF) receives one-third of one percent of total taxable income under the Colorado Constitution. Therefore, a portion of revenue from income taxes is diverted from the General Fund to the SEF every year. Because this revenue comes from taxable income, it generally follows trends in the State's individual income and corporate tax revenue collections. The diversion is forecast at $1,135.3 million in FY 2026-27, an 8.9 percent increase from the current fiscal year. In addition to the Amendment 23 diversion in the Colorado Constitution, legislation in the 2025 regular session (H.B. 25-1320) enacted an additional diversion to the Kids Matter Account within the State Education Fund on an annual basis. In FY 2026-27, the first year of the diversion, an expected $221.6 million is anticipated in non-exempt General Fund revenue dedicated to the Kids Matter Account for K-12 school finance costs.

General Fund Revenue Diverted to Support Healthy School Meals for All

This budget does not assume any changes are passed by voters this year. Proposition FF created the Healthy School Meals for All (HSMA) Program to provide access to free meals for all public school students in Colorado, funded by limiting the amount of tax deductions on filers earning over $300,000. Currently, OSPB expects $150.7 million in available revenues to support the program in FY 2026-27, which could change depending upon the result of Proposition LL and Proposition MM in the November 2025 election. If Proposition MM were to pass, HSMA revenue estimates in FY 2026-27 will increase, while failure of Proposition LL would result in lower revenue estimates. Increases in expected HSMA revenue under current law are largely a result of H.R. 1 extending and increasing higher federal standard deductions and the SALT cap.

Economic Conditions Affect Revenue to the General Fund and State Education Fund

General Fund revenue collections are heavily influenced by the performance of the economy. State tax revenue grows when more people earn and spend money, and businesses experience increased sales. Conversely, state revenue usually declines during economic slowdowns, sometimes by large amounts as income and spending levels weaken.

The most significant economic headwind currently is federal trade policy, which has created significant uncertainty among businesses and consumers alike. The additional costs of tariffs are likely to impact labor demand and consumer spending, alongside corporations' and proprietors' profits. The resulting economic environment is likely to negatively impact income and sales revenue collections. Note that federal and state tax policy changes, including the federal reconciliation bill, H.R. 1, and state legislation creating the Family Affordability Tax Credit and an expansion of the Earned Income Tax Credit are all expected to reduce individual income revenue in FY 2026-27.

Additionally, there are large anticipated impacts from H.R. 1 on corporate income, but forecasting corporations tax filing behavior is particularly difficult. Even without considering the impacts of federal legislation, corporate income tax revenue is particularly volatile and showing potential signs of weakness due to federal trade policy. The difficulty in attributing a confluence of events to the particular root cause, along with challenges in predicting businesses behavior, results in a greater risk for larger than normal revenue forecast errors in FY 2026-27.

Current Economic Conditions

OSPB views federal tariff and trade policy as the biggest risk to economic growth. Recent reports indicate that tariffs are starting to put upward pressure on month-over-month inflation growth on both producer and consumer products as inventories wane. OSPB expects peak month-over-month inflation growth to occur at the end of this year as stronger consumer demand from higher sustained wage growth allows for additional price passthrough of the costs businesses face from tariffs to consumers.

OSPB expects consumer demand to weaken in the first half of 2026 alongside worsening household finances, which is expected to result in slowing month-over-month inflation. However, due to OSPB reporting inflation growth for the consumer price index on an annual average basis, high inflation at the end of this year translates to elevated inflation in 2026 due to the timing of the expected level shift in prices. Such timing would result in year-over-year reports of both elevated inflation alongside weakening personal consumption and economic growth.

The tariffs and trade policy have downstream implications, leading to lower corporate profits and a weakening labor market, in addition to higher costs for consumers, which are also expected in 2026. Those conditions may put the Federal Reserve in a difficult decision-making environment by placing stress on both sides of their dual mandate, but OSPB expects a measured yet accelerated response – possibly reaching the terminal Federal Funds rate by the end of 2026. Declining interest rates could provide an impulse for business investment and increased consumer demand.

Another tailwind to investments and demand is H.R. 1, which should stoke additional investments given the tax incentives, all else held equal. Those two factors should lead to a slight rebound in residential and nonresidential construction, but there are tariff and immigration policy headwinds that are a drag on construction and the economy more broadly.

Federal Policy Revenue Impacts

As highlighted above, H.R. 1 creates an expansionary fiscal policy environment, but given Colorado's rolling conformity to Federal Taxable Income, the net impact on State tax revenue is expected to be significantly negative. Since H.R. 1 was enacted on July 4, 2025, all Tax Year 2025 revenue impacts are accounted for in FY 2025-26. Typically, revenue in a given tax year is split between two fiscal years since the tax year aligns with the calendar year, and the state fiscal year is from July 1 to June 30. Since H.R. 1 was enacted after June 30, 2025, when FY 2024-25 closed, the revenue impacts are fully realized in FY 2025-26. With a half-year impact from Tax Year 2026 also accounted for in FY 2025-26, the resulting impact in that fiscal year is especially pronounced, effectively leading to 18 months of negative revenue impacts from these tax policy changes being realized in that fiscal year.

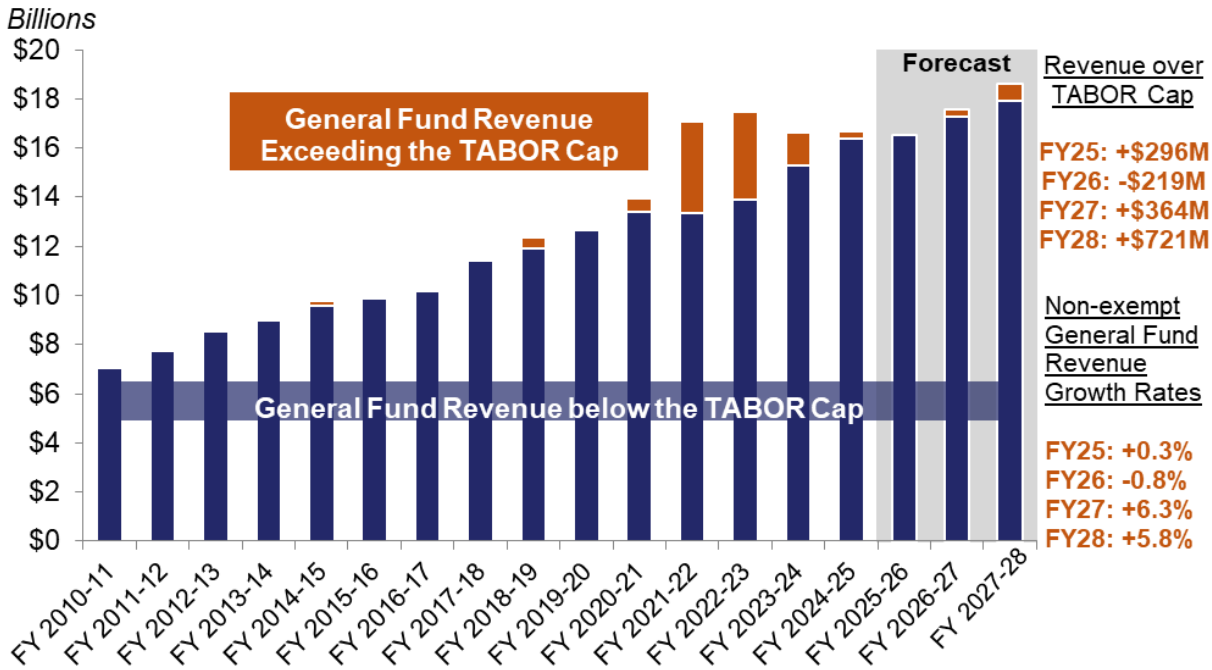
In subsequent fiscal years, the negative revenue impacts are expected to lessen but remain significant. As data is received, OSPB plans to refine the estimated revenue impacts, including the share of revenue that would have been accounted for in FY 2024-25. More information related to the tax policy changes within H.R. 1 and their subsequent revenue impact can be found in an OSPB publication to the Joint Budget Committee that took place on August 5th, 2025, entitled "Tax Policy Impacts from the Federal Reconciliation bill, H.R. 1." In total, H.R. 1 is projected to lead to a $1.2 billion reduction in income tax collections in FY 2025-26, of which $1.0 billion is a General Fund revenue loss. In FY 2026-27, it is expected to lead to a revenue loss of $676 million, of which approximately $610 million is General Fund revenue.

In addition to the negative revenue impacts from H.R. 1, federal trade policy is increasing the cost of imports significantly from 2024 levels. According to OSPB's report estimating the impacts from tariffs on Colorado's economy, published September 4, effective tariff rates faced in late August were seven times higher at that time in Colorado than they were last year. This is expected to lead to lower business profits, increased layoffs, reduced business investments, and increasing inflation that limits consumer demand - all of which would negatively impact revenue collections. Since that point, effective tariff rates have risen further, increasing the risk of weaker economic activity and lower General Fund revenues. Furthermore, labor supply is limited by immigration policy, which dampens job growth and individual income collections alongside it.

<u>Forecast for General Fund Revenue</u>

General Fund revenue in FY 2024-25 decreased 0.4 percent to $17,181.3 million and is expected to decline another 0.8 percent to $17,041.0 million in FY 2025-26. This declining-to-flat revenue growth is from the combination of increased tax credit usage in FY 2024-25, and the federal reconciliation bill, H.R. 1, leading to decreased individual and corporate income tax revenue in FY 2025-26. In FY 2025-26, total General Fund revenue is significantly revised down by $756.0 million since the June OSPB forecast from federal tax policy changes in H.R. 1., which was enacted on July 4, and will lead to decreased individual and corporate taxable income in Colorado, thus resulting in lower revenue. This overall downward revision would be larger if not for legislation enacted in the August 2025 extraordinary legislative session and other fundamental upward forecast revisions. General Fund revenue is projected to grow in FY 2026-27 by 6.1 percent to $18,078.7 million, but this is a downward revision of $295.4 million from the June forecast due to H.R. 1 provisions.

Figure 1: TABOR Revenue Collections by Fiscal Year



Individual Income Tax Revenue

Income tax paid by individuals is by far the largest source of tax revenue for the State, representing nearly two-thirds of all General Fund revenue. Individual income tax collections are also volatile during periods of economic change. Individual income tax is paid on most sources of household income, such as wages, investments, and royalties. Business income from sole proprietorships, fiduciaries, and individual profits passed through from partnership entities are claimed on individual tax forms.

After declining revenue in FY 2023-24 due to elevated refunds and tax policy changes, revenue declined again by 0.5 percent in FY 2024-25 to $9,997.9 million. The decrease comes from increased taxpayer refunds offsetting withholdings revenue growth. In FY 2025-26, revenue is projected to grow by 4.4 percent to $10,435.3 million, but this reflects a much lower growth forecast than previously expected due to the negative revenue impacts from H.R. 1. Accelerating growth of 7.1 percent is projected in FY 2026-27 with additional growth of 5.5 percent forecast in FY 2027-28.

Corporate Income Tax Revenue

C-corporations, S-corporations, and partnerships collections are categorized as corporate income tax revenue. Corporate income tax revenue is the most volatile source of a major General Fund revenue stream due to business-specific filing considerations and the structure of the corporate income tax code.

Following four consecutive years of elevated growth, corporate income tax revenue declined by 6.3 percent to $2,619.5 million in FY 2024-25 from the peak reached in FY 2023-24 of $2,796.6 million. Revenue fell in FY 2024-25 on slowing corporate profits growth and a reversion to trend, though an even more stark decline is projected in FY 2025-26 of 30.1 percent to $1,831.4 million due to a combination of H.R. 1 tax policy provisions and negative corporate profit growth expectations in 2026. Growth of 23.1 percent is projected in FY 2026-27 off a lower base before moderating growth of 6.2 percent is estimated in FY 2027-28.

Sales and Use Tax Revenue

The State's sales and use tax collections comprise around one-quarter of total General Fund revenue. Most consumer goods and a small number of services are subject to these taxes, with both households and businesses paying sales and use taxes. After tepid sales and use tax growth of 0.9 percent in FY 2023-24, revenue grew slowly again in FY 2024-25 by 1.3 percent to $4,657.7 million. Revenue growth is projected to grow more quickly, but below average, in FY 2025-26 by 3.2 percent to $4,804.7. These growth expectations are better than previously expected due to stronger recent collections and from legislation enacted in the August 2025 extraordinary legislative session. Growth is expected to return closer to average in FY 2026-27 and FY 2027-28 at 4.4 percent and 4.6 percent, respectively.

Other General Fund Revenue

Several smaller sources contribute to all other General Fund revenue. These include excise taxes on cigarette, tobacco, and liquor products, taxes paid by insurers on premiums, pari-mutuel wagering, interest income, and fines and fees. In FY 2024-25, other General Fund revenue continued on its previous strong gains from recent years with 4.1 percent growth to $885.0 million total. This growth in FY 2024-25 was impacted by accelerating insurance premium tax revenue growth, partially offset by interest income declining but remaining above the historical average. For FY 2025-26, OSPB expects 6.3 percent growth as increased insurance revenue is expected to more than offset declines in interest revenue, followed by slow growth of 0.7 percent in FY 2026-27. Note that the sale of tax credits in newly enacted legislation from the August 2025 extraordinary legislative session is expected to increase FY 2025-26 insurance revenue but dampen revenue in the out-years.

Attachment 2
How We Balance

Path to Balancing

The FY 2026-27 budget was significantly impacted by two primary drivers that combined to put additional stress on the State's finances. The federal government passed H.R. 1 in the middle of calendar year 2025 and after the State closed its books on FY 2024-25. The changes incorporated into H.R. 1 were retroactive to the beginning of the calendar year, and the impact on revenue was immediate and severe, causing a nearly $800 million General Fund budget shortfall. This budget incorporates the impacts of the federal H.R. 1, as well as the State's immediate response to the revenue shortfalls as adopted in the 2025 special session. Full implementation of H.R. 1 will also shift a considerable portion of the cost of safety net programs from the federal government's budget over to the State's budget. Currently, OSPB estimates that the federal H.R. 1 will increase the State's obligations by more than $2.5 billion by FY 2031-32.

The second primary driver in this budget is the caseload and financial requirements associated with the State's Medicaid programs. The growth of the State's Medicaid program has exceeded the allowable growth of the total State budget under TABOR for many previous years. Therefore, Medicaid caseload, as well as other non-discretionary expenditures, are crowding out spending in all other areas of State government. Without intervention, Colorado's non-discretionary budget obligations will eclipse all other programs and leave very little General Fund for the balance of State government programs.

This budget includes a number of balancing measures that provide for stable General Fund growth in the foreseeable future, as well as some immediate measures that provide necessary relief from the impacts of the federal H.R. 1. The State's Medicaid program has proposed reductions that bend the cost curve and take the first steps towards constraining the State's long-term financial obligations, all while maintaining as many services for Coloradans that are in need of support. Similarly, all State agencies were asked to turn a critical eye toward their operating obligations and make cuts to services and administrative costs wherever possible. Outside of non-discretionary obligations, state agencies cut their operating budgets by more than 2.0 percent, or nearly $25 million, and without H.R.1 impacts and partial backfill for federal FEMA funds it would be 2.77 percent or just over $34 million. Finally, because of the acute and severe nature of the impacts of the federal H.R. 1, this budget maintains a reduced General Fund reserve target of 13 percent in FY 2026-27. Future budget submissions will seek to gradually restore the General Fund reserve target to 15 percent.

Starting Point

OSPB estimates that all budgetary impacts included in the 2025 legislative session, the 2025 Special Legislative Session, the reductions promulgated by executive order, and operating activity will cause the State to end FY 2025-26 with a General Fund Statutory Reserve balance of 13 percent.

The following table provides an estimate of the General Fund available for appropriation in FY 2026-27 from the September 22, 2025 OSPB Economic Forecast (link to PDF). This table presents the General Fund detail before any balancing activity submitted in this November budget request.

Table 1. FY 2026-27 General Fund Available (Forecast)

Description	Amount
FY26: GF Ending Balance	$2,082,441,716
(+) FY27: GF Revenue + Transfers	$18,106,500,857
(-) FY27: GF Appropriations from FY26	$16,537,945,398
(-) FY27: Spending Outside the Limit	$1,416,183,334
(-) FY27: GF Reserve Requirement	$2,108,682,902
(=) FY27: Available General Fund	**$126,130,939**

This budget submission requests or assumes a number of actions in FY 2025-26 and FY 2026-27 that impact the revenue, expenditure, and General Fund balances used to calculate the State's overall budget position. The FY 2026-27 actions are described in this budget submission, and the FY 2025-26 impacts will be included in the Governor's January 2, 2025 supplemental budget submission.

Changes in Available General Fund

The FY 2026-27 budget submission includes multiple requests that increase the General Fund available for appropriation. These adjustments can be broken down into three categories: 1) Sweeps, Transfers, and Refinances, 2) unique balancing proposals that impact the General Fund, and 3) changes to General Fund transfer obligations. These categories are described below.

Sweeps, Transfers, and Refinances

This budget requests a number of sweeps, transfers, and refinances to create budgetary space to meet the non-discretionary costs and policy objectives outlined in the budget letter. The table above provides a summary of these adjustments by department, including the title and the request that outlines the proposal.

Table 2. Transfers into the General Fund (Table GFXfer - 1)

Department	Title	Request #	FY 2026-27 General Fund
Higher Education	Discontinue Limited Gaming Funding for CHECRA	NP-03	$2,100,000
Local Affairs	One-time Childcare Facility Grant Program CF sweep	R-05b	$112,807
Local Affairs	POMH One-time Reduction	R-03b	$400,000
OEDIT	Opportunity Next Transfer to New CF	-	-$1,226,224
OEDIT	SB 23-205 Opportunity Next Transfer to GF	Forecast Update	$4,226,224
Personnel and Administration	Supplier Database Cash Fund Sweep	R-09	$6,400,000
Statewide	Conversion of Pinnacol	R-01	$400,000,000
Statewide	DNR and DOLA Severance Tax Transfers for Budget Balancing	R-04	$15,000,000
Statewide	TABOR Overpayment	R-02	$148,025,059
Grand Total			$575,037,866

Balancing Proposals

Conversion of Pinnacol

Pinnacol Assurance provides workers' compensation insurance to employers in the State of Colorado. In Colorado, Pinnacol is also considered an "insurer of last resort" as it is generally prohibited from refusing to insure Colorado employers or canceling an insurance policy. Currently, Pinnacol can only issue policies in the State of Colorado, which is a statutory preclusion from expanding into other areas of the nation and offering its services to other customers. The FY 2026-27 budget proposes the sale of Pinnacol Assurance so that it can convert to a stock insurance company and expand its business. The State of Colorado would benefit from the initial one-time revenue generated by the sale, as well as the collection of premium tax assessments on an ongoing basis. The FY 2026-27 budget request assumes that the sale of Pinnacol will benefit the State by $400 million, net of all expenses. The funding, which is one-time in nature, allows this request to fund other one-time expenses such as Controlled Maintenance Level I and the State's obligation to the Senior and Veterans Homestead Exemption. Any unused proceeds above the $400 million should help make progress on re-establishing the State's 15 percent General Fund reserve target.

TABOR Refund Overpayment

The State certified an FY 2024-25 TABOR surplus of approximately $296.1 million, which does not account for the passage of H.R. 1 since the federal legislation passed after the state fiscal year closed. The certification requires the State to issue payments for the TABOR refund for 2025 taxes (filed in 2026), even though the Federal H.R. 1's retroactive impact back to the beginning of calendar year 2025 removed about $1.2 billion in revenue from the State's budget. The $296.1 million is now an overpayment of the State's TABOR obligation, and this budget seeks to account for that overpayment by including as part of the State's General Fund balance in FY 2026-27. These estimates will be revised as the revenue impacts from H.R. 1 become clearer in the coming months.

<u>Changes to General Fund Transfer Obligations</u>

The FY 2026-27 budget request includes three proposals to change General Fund transfer obligations. Those three proposals are shown in the table below and briefly described in the following text.

Table 3. Proposals Impacting Transfers (GFNSTR - 2)

Department	Title	Request #	FY 2026-27 General Fund
Corrections	Broadband Transfer	R-05	$684,297
Local Affairs	Reduction to Mobile Home Park Resident Empowerment Loan and Grant Program Fund	R-02	-$400,000
Statewide	Eliminate Business Personal Property Tax Backfill		-$18,600,000
Grand Total			-$18,315,703

Broadband Transfer (DOR R-05)

The Department of Corrections is continuing its implementation of broadband access across its facilities. For FY 2026-27, the DOC is requesting a transfer of $683,925 from the General Fund to install broadband at the Trinidad Correctional Facility. Please see the referenced request from the Department of Corrections for additional information.

Reduction to Mobile Home Park Resident Empowerment Loan and Grant Program Fund (DOLA R-02)

This proposal reduces the administrative resources available to the Mobile Home Park Loan Fund by $400,000 annually. The funds are instead transferred to the General Fund. See the referenced request in the Department of Local Affairs for more detail.

Eliminate the Business Personal Property Tax Backfill

The State of Colorado is currently required to reimburse local governments for various personal property tax exemptions that have been passed into law. This budget submission proposes the elimination of that backfill. The elimination of this backfill is expected to provide $18.6 million in additional General Fund for balancing. Please see Statewide Leg - 02 for additional information.

Cash Fund Revenue Changes the Impact General Fund Obligations

Enterprises & CF Revenue Adjustments that Impact TABOR Obligations

The FY 2026-27 budget request also proposes the creation of enterprises and some adjustments to cash fund revenue which decrease the State's General Fund obligations via the TABOR refund mechanism. The table below provides summary detail of these adjustments and the corresponding amounts.

Table 4. Proposals Impacting TABOR Obligations (GFNSTR - 1)

Department	Title	Request #	*FY 2026-27 Cash* Funds
Higher Education	DPOS Fee Request	n/a	$4,814
Higher Education	PSEP Program	NP-01	-$84,850
Labor	Eliminate CDOO Fee	R-01	-$14,699,490
Public Health & Environment	Stationary Source Control Fund Fees		$13,541,275
Public Health & Environment	Stationary Sources Forecast Offset		-$6,500,000
Statewide	Aviation Revenue Reclassification		-$29,000,000
Transportation	Fuel Deduction 2% to 1% revenue		$3,250,000
Grand Total			-$33,488,251

Aviation Revenue Reclassification

Revenue that is collected on behalf of another government is considered exempt in TABOR, per Article X, Section 20 (2)(e). In the legislative placeholder, 65 percent of aviation gas sales tax and 100 percent of the excise tax pursuant to C.R.S. 43-10-110 tax disbursements are collected and re-distributed to local airports. This legislation will clarify the disbursements fit under collections for another government, making approximately $29 million in aviation tax revenue exempt that is currently being counted against the TABOR cap. (Statewide Leg-02)

Resubmission of Previous Reduction Proposals

During the FY 2025-26 budget setting process, the Executive Branch collaborated with the Legislative Branch to develop a number of budget balancing proposals that could be deployed to balance the current year's budget. Due to changes in the State's overall balancing picture or circumstances that made some of the proposals less desirable than others, some of the budget balancing proposals were not deployed, or not fully utilized for the FY 2025-26 budget. Due to the passage of the Federal H.R. 1 and the State's increasing obligations to its non-discretionary expenses, circumstances required the State to reexamine these proposals. The following table shows the balancing impact of these proposals. Please see Statewide R-06 for any additional information required to justify the requests.

Table 5. Prior Reductions Proposed in FY 2026-27 Budget

Department	*Title*	*Final Request*	Recycle Increase GF	Recycle Spending Reduction STR
BHA	Reduce Recovery Support Service Grant Program	BHA NP-01		-$1,600,000
Early Childhood	Discontinue the Child Care Services and Substance Use Disorder Treatment Pilot	NP-01		-$500,000
Early Childhood	Reduce funding for Child Maltreatment Prevention	NP-02		-$480,000
Higher Education	Discontinue Limited Gaming Funding for CHECRA	NP-03	-$2,100,000	
Higher Education	Reduce Teacher Mentor Grants	NP-01		-$300,000
Higher Education	Reduction of Institutional Limited FFS Funding	S-02/R-06		-$1,880,267
Human Services	1% Reduction: Child welfare administration	NP-09		-$79,490
Human Services	Child Welfare and Neglect Hotline	R-16		-$400,000
Human Services	Collaborative Management Reduction	R-13		-$650,000

Department	*Title*	*Final Request*	Recycle Increase GF	Recycle Spending Reduction STR
Human Services	Forensic Community Based Services Reduction	R-15		-$300,000
Human Services	Reduce SNAP Outreach	R-18		-$480,000
Labor	Hospitality Education Grant Program Reduction	NP-09		-$426,057
Grand Total			**-$2,100,000**	**-$7,095,814**

Non-Executive Branch Growth at 1 Percent

The State's financial position has required "tightening the belt" across all state agencies. This budget proposal assumes similarly constrained growth across all other branches of state government, but still provides for one percent growth in General Fund appropriations in addition to the funds held for compensation related adjustments.

Non-Discretionary Expenses

Caseload obligations, and particularly those generated through the State's Medicaid program, and other non-discretionary expenses are consuming a considerable amount of the General Fund available for appropriation in the FY 2026-27 budget. This category of expenditures includes caseload adjustments, annualizations of previous appropriations or special bills that impact the operating budget, and changes in common policy allocations statewide (e.g., Total Compensation obligations pursuant to the State's Partnership Agreement and Operating Common Policies). Absent any other budget balancing measures, this category of expenditures would consume more than 677 percent of the total General Fund available for appropriation in FY 2026-27.

Table 6: Non-Discretionary Expenditures in the FY 2026-27 Budget (Before Offsets)

Description	Amount	% of Available GF
Caseload	$766,073,814	607.36%
Annualizations	$12,374,444	9.81%
Common Policies	$75,602,150	59.94%
Total	**$854,050,408**	**677.11%**

Caseload

The table below provides the General Fund impact of the State's total caseload obligations. The impact of the Federal H.R. 1 and the caseload obligations outlined below combine to make the FY 2026-27 budget one of the tightest budgets in the last decade. The volatility of caseload obligations makes them extraordinarily difficult to forecast and revisions to the caseload obligations outlined in the table below will be revised in subsequent budget submissions. The Executive Branch continues to work towards identifying ways to reduce current and long-term costs in its Medicaid programs, and $124 million in as-yet identified reductions (see Placeholders section below) are held as balancing offsets in the FY 2026-27 budget request.

Table 7. Caseload Obligations (Before Offsets)

Department	Amount
Health Care Policy & Financing	$631,360,236
Education	$46,083,967
Human Services	$36,846,852
Corrections	$28,331,635
Higher Education	$17,491,800
Early Childhood	$5,959,324
Total	**$766,073,814**

Note that the $766 million caseload obligation outlined above is only the General Fund component of the overall expense. In FY 2026-27, the State estimates that approximately $3.2 billion in Total Funds will be allocated to address the State's growth in caseload expenditures.

Annualizations

The annualizations included in the FY 2026-27 request includes $12.4 million in additional General Fund obligations. Relative to the prior year, this amount is considerably lower than the FY 2025-26 budget because the impact of the ARPA swap executed through H.B. 24-1466 has rolled off completely. The FY 2026-27 annualizations reflect a return to normal operating appropriations.

Common Policies

Common Policy expenditures include a number of internal services provided by central service agencies to all state agencies, and are broken into two broad categories: Operating Common Policies and Total Compensation Common Policies. Operating Common Policies include billings for state-owned leased space, support for the central financial system, administrative law judge services, and fleet management, to name a few. In this year's budget, Operating Common Policies comprise a relatively small portion of the overall increase for Common Policies, at $4 million in General Fund.

Total Compensation Common Policies include the State's salary adjustments, salary loading factors, and expenses for health care coverage. The FY 2026-27 budget requests the funding necessary to implement the renegotiated Partnership Agreement, which was signed on September 23, 2024. The renegotiated agreement includes a 3.1 percent across the board salary adjustment for all state employees, a continuation of the State's recently implemented step system, and a requirement that the State request no increase to employee contributions to health care. Total Compensation Common Policies comprise the largest part of the broader Common Policy budget. In addition to the amounts held for Executive Branch agencies (shown below), the FY 2026-27 budget request holds an additional $10.6 million General Fund for Institutions of Higher Education, and an additional $48.5 million General Fund for non-executive branch agencies and elected officials.

Table 8. Common Policy Expense for Executive Branch Agencies (excluding IHEs)

Common Policy Type	Amount
Total Compensation	$71,404,125
Operating Common Policies	$4,198,025
Total	**$75,602,150**

Unlike previous budget submissions, the Executive Branch is holding funds for compensation-related adjustments in non-executive branch agencies outside of the standard General Fund hold for growth, which is one percent in this request (see above). Please see the Placeholders section below for a complete list of non-executive placeholders, including those for Total Compensation.

Placeholders

The Executive Branch is aware of a number of potential areas of General Fund obligation that, if unaccounted for, may lead to an imbalanced budget in FY 2026-27.

This budget holds approximately one percent of FY 2025-26 General Fund appropriations for operating growth within non-executive branch agencies. This percentage is lower than previous budget submissions, but accounts for the State's tight fiscal outlook and is in addition to the funds held for compensation-related adjustments. In addition, this budget holds $2.5 million for legislative initiatives at non-executive agencies and other branches of government.

The FY 2026-27 budget request includes legislative placeholders for the Executive Branch, as outlined in Attachment 3 of this document.

The following table shows all FY 2026-27 placeholders for non-executive branch agencies, including Total Compensation, Operating, and legislation.

Table 9. Non-executive Placeholders (Table GFSTR - 2)

Department	*Title*	*Request #*	FY 2026-27 General Fund
Judicial	Judicial - 1% Non-executive Branch Hold	N/A	$8,360,142
Judicial	Judicial - Total Compensation Costs	N/A	$42,627,718
Law	Law - 1% Non-executive Branch Hold	N/A	$268,313
Law	Law - Total Compensation Costs	N/A	$1,651,880
Legislature	Legislature - 1% Non-executive Branch Hold	N/A	$804,166
Legislature	Legislature - Placeholder for Legislation	N/A	$2,500,000
Legislature	Legislature - Total Compensation Costs	N/A	$3,910,374
State	State - 1% Non-executive Branch Hold	N/A	$25,048
State	State - Total Compensation Costs	N/A	$0

Department	*Title*	*Request #*	FY 2026-27 General Fund
Treasury	Treasury - 1% Non-executive Branch Hold	N/A	$52,736
Treasury	Treasury - Total Compensation Costs	N/A	$289,571
Grand Total			**$60,489,948**

The FY 2026-27 budget request required a number of additional balancing actions to meet the Governor's Constitutional obligation to submit a balanced budget on November 1, 2025. Many of the placeholders below will be submitted in the Governor's January 2, 2026 supplemental budget request. The sections below provide a brief summary of the major balancing proposals included in this budget, as well as summaries of statewide balancing proposals that have been submitted as informational requests with the budget package.

Table 10. Operating & Balancing Proposals (GFSTR - 3)

Department	Title	Request #	FY 2026-27 General Fund
Corrections	Hold for Medical Caseload BA	TBD	$5,000,000
Health Care Policy & Financing	Additional Resources for Federal Compliance	TBD	$2,275,490
Health Care Policy & Financing	DOJ Settlement CAT Vouchers	TBD	-$3,526,181
Health Care Policy & Financing	HR1 Mitigation	TBD	$2,001,445
Health Care Policy & Financing	Joint HCPF/CDHS County Admin	TBD	$225,587
Health Care Policy & Financing	Placeholder for remaining savings from caseload for FY 2026-27 to hit 5.6% growth target	TBD	-$124,294,518
Human Services	Adoption and Relative Guardianship Assistance Entitlement	TBD	$8,235,489
Human Services	Joint HCPF/CDHS County Admin	TBD	$627,987
Public Safety	Community Corrections Caseload	TBD	$3,000,000
Statewide	Additional Hold for Future Obligations	N/A	$18,702,340
Statewide	PERA Reduction for Judicial	TBD	-$4,000,000
Statewide	ULAED Reduction	R-03	-$16,233,529
Grand Total			-$107,985,890

PERA Reduction for the Judicial Branch

The Judicial Division of the State's Colorado Public Employees' Retirement Association's (COPERA) portfolio is currently well ahead of its contribution requirements, as measured by its Automatic Adjustment Provision (AAP) ratio. A recent study published by COPERA outlines a proposal that would reduce the Judicial division's employer contribution to the retirement portfolio by one percent. The State estimates that this proposal will reduce the need for approximately $4.6 million in General Fund.

Unfunded Liability for Amortization Equalization Disbursement Payments

The funded ratio of the State Division of the COPERA portfolio has improved considerably since the passage of S.B. 18-200, due in large part to the increases in employer and employee contributions as well as the PERA Direct Distribution payment of $225 million that is issued to the retirement association each year. In addition to those payments, the State also pays an additional 10 percent of base salary above the standard retirement contribution to COPERA to offset unfunded liabilities. This budget proposes reducing that payment by one percent in FY 2026-27 to provide the funds necessary to comply with the economic provisions of the State's partnership agreement with Colorado WINS. This one-time reduction is not anticipated to significantly impact the amortization period of the State Division of COPERA.

Additional Hold for Future Obligations

The FY 2026-27 budget request anticipates additional expenses in FY 2025-26 and FY 2026-27 that will be identified during the supplemental and budget amendment submission on January 2, 2026. This request includes a buffer of more than $17 million in General Fund to help absorb these additional expenses. This hold will address priorities including civil competency for dangerous individuals, among others.

The Path to Balancing

This section summarizes the impact of all requested expenditures and balancing actions requested in the FY 2026-27 budget package. The table incorporates information into an overall reconciliation table that also shows the General Fund reserve requirement under the assumptions and balancing proposals deployed in this budget.

Table 11. FY 2025-26 and FY 2026-27 General Fund Balancing

Description	FY 2025-26 Enacted Appropriation	FY 2025-26 Supplementals & GF Reversions	FY 2025-26 Adjusted Total	FY 2026-27 Request	Change from FY 2025-26 Adjusted Total	% Change from Enacted
Total General Fund Available for Appropriation	$19,514,893,196	$280,970,127	$19,795,863,323	$20,232,688,045	$436,824,722	2.2%
Additional General Fund from Proposals				$575,037,866	$575,037,866	
Total General Fund Available for Appropriation			$19,795,863,323	$20,807,725,911	$1,011,862,588	
General Fund Expenditures						
Expenditures Subject to the Reserve	$16,537,945,398	$134,648,357	$16,672,593,755	$17,101,108,459	$428,514,704	2.6%
Expenditures Exempt from the Reserve	$1,497,082,380	$0	$1,497,082,380	$1,524,722,321	$27,639,941	1.8%
Total General Fund Expenditures	$18,035,027,778	$134,648,357	$18,169,676,135	$18,625,830,780	$456,154,645	2.5%
Ending General Fund	$2,082,864,793		$2,126,187,188	$2,181,895,131	$55,707,943	2.6%
Required/Requested Reserve %	13.0%		13.0%	13.0%		
Required/Requested Reserve Amount	$2,439,441,810		$2,126,187,188	$2,181,894,100	$55,706,912	2.6%
Above/(Below) Reserve Level	-$356,577,017		$0	$1,031	$1,031	

Attachment 3
Legislative Placeholders

The November 1 budget request includes a total of $7.0 million total funds (TF), $3.0 million General Fund (GF) in legislative placeholders, $1.9M GF of which is one-time. The legislative placeholders, inclusive of a 13 percent reserve, total $3.4 million GF. The budget also includes -$1.0 million total funds (TF)/General Fund (GF) in legislative savings placeholders. In addition to these placeholders, this budget also includes a $2.5 million GF placeholder for the Legislature's priorities, inclusive of a 13 percent reserve. The legislative placeholders and legislative savings placeholders are summarized in the tables below.

Table 1. Legislative Placeholders

Placeholder	*Department*	TF	GF
ZTC OER Continuation	CDHE	$1,108,200	$1,108,200
Transportation and Housing Investment Zones	DOR	$450,000	$450,000
Division of Forensic Services	DPS	$390,702	$390,702
Tax Policy Legislative Placeholder		$352,000	$352,000
CCJJ Successor	DPS	$300,000	$300,000
Shared Services Assessment	GOV	$250,000	$250,000
Direct-to-Consumer Sales of Raw Milk	GOV	$175,000	$175,000
Recovery Residence Certification Program	BHA	$0	$0
Other Legislative Placeholders		$702,965	$0
Opportunity Next Unused Funds	OEDIT	$1,226,224	$0
Office of Rail Safety Spending Cap Removal	DORA	$50,000	$0
Math Accelerator	CDE	$2,000,000	$0
ECMC Underground Injection Control (UIC) Well Regulation"	DNR	$0	$0
DMV DRIVES Cash Fund Stabilization	DOR	$0	$0
Grand Total		**$7,005,091**	**$3,025,902**

Table 2. Legislative Savings Placeholders

Placeholder	*Department*	TF	GF
Update Mobile Home Park Water Quality Program	CDPHE	-$1,000,000	-$1,000,000
Reductions to Colorado Workforce Development Council	CDLE	-$46,605	-$46,605
Grand Total		**-$1,046,605**	**-$1,046,605**

Additional details on select legislative placeholders are provided below.

- ZTC OER Continuation (CDHE), $1,108,200 TF/$1,108,200 GF: Extend the Zero Textbook Cost Open Educational Resources (ZTC OER) Program five years through FY 2030-31 to continue funding grants to IHEs and organizations to create open education resources such as textbooks and zero textbook cost degrees.
- Transportation and Housing Investment Zones (DOR), $450,000 TF/$450,000 GF: Create new state housing tax credits and tax increment financing (TIF) zones on the state sales tax to support local governments' buildout of physical infrastructure near rail and transit stations.
- Division of Forensic Services (DPS), $390,702 TF/$390,702 GF: Create a Division of Forensic Services in the Department of Public Safety to house the Colorado Bureau of Investigation laboratory. This move will result in organizational efficiencies for the CBI lab.
- Tax Policy Legislative Placeholder (Various), $352,000 TF/$352,000 GF: Support tax changes for tax policy legislative placeholder, including modifying innovative motor vehicle tax credits, eliminating 80/20 exclusion, decoupling opportunity zones (OZ) deduction for out-of state investments, reducing the fuel tax loss allowance, and fixing charitable contribution deduction for non-itemizers. This budget is committed to exploring additional options including broad-based tax relief to have a de minimis revenue impact from the tax policy package.
- CCJJ Successor (DPS), $300,000 TF/$300,000 GF: Implement and support an advisory body for criminal justice policy recommended by the task force created in EO B 2023-002.
- Shared Services Assessment (GOV), $250,000 TF/$250,000 GF: Conduct an assessment of potential options to improve the efficiency of key agency functions, including human resources and finance, that will inform consideration of further legislative or executive branch actions. These duties currently reside in each agency,

and consolidation of these functions in a centralized entity has the potential to leverage economies of scale, take advantage of specialized expertise, improve consistency, and create cost savings.

• Direct-to-Consumer Sales of Raw Milk (GOV), $175,000 TF/$175,000 GF: Authorizes raw milk producers that registers with the department of public health and environment to engage in direct-to-consumer sales of raw milk in the state if the producer complies with certain labeling, storage, handling, and transportation requirements.

• Recovery Residence Certification Program (BHA), $0 TF/$0 GF: Promulgate rules to begin moving recovery residence certification internally rather than contracting it out in FY 2026-27. Note, there is no fiscal impact until FY 2027-28, when fee revenue for certification is estimated at $0.35M.

• Other Legislative Placeholders (Various), $702,965 TF/$0 GF: Support other legislative placeholders.

• Opportunity Next Unused Funds (OEDIT), $1,226,224 TF/$0 GF: Transfer $1.2M from the Opportunity Next fund to a new OEDIT cash fund to support programs losing federal funding.

• Office of Rail Safety Spending Cap Removal (DORA), $50,000 TF/$0 GF: Increasing current state maximum match for federal required state Risk Based Inspection program by $50K FY 2026-27 and increasing $30K annually. The PUC is currently unable to meet a required match federal for rail safety grants within its current $150K limit, increasing the state maximum contribution allowed will allow the PUC to continue to pull down valuable federal dollars for rail safety.

• Math Accelerator (CDE), $2,000,000 TF/$0 GF: Provide one-time funding for schools to participate in an evidence-based math accelerator program that has shown positive results for students.

• ECMC Underground Injection Control (UIC) Well Regulation" (DNR), $0 TF/$0 GF: Expand the existing state injection regulatory oversight from Class II and VI to Classes I-VI. Senate Bill 23-016 directed ECMC to conduct a study concerning whether the State should pursue primary enforcement authority ("primacy") for all subsurface injection classes within the United States Environmental Protection Agency (EPA's) Underground Injection Control (UIC) Program. There are six "classes" of injection wells with regulatory requirements for injecting materials into subsurface formations. SB23-016 gave explicit direction for Colorado to pursue Class VI primacy, in addition to Colorado's existing Class II primacy. EPA requires that states who seek to adopt primacy beyond Class II or Class VI pursue primacy of all other classes and does not allow states to pursue primacy individually over Classes I, III, IV, and V. State primacy for subsurface injection activities would support emerging industries including geothermal, carbon storage, geologic hydrogen, and the storage of hydrogen in subsurface formations. Note, there is no fiscal impact until revenue is realized in FY 2028-29.

• DMV DRIVES Cash Fund Stabilization (DOR), $0 TF/$0 GF: Stabilize the DRIVES Cash Fund to ensure the Colorado Division of Motor Vehicles is funded properly to continue operations.

Additional details on legislative savings placeholders are provided below.

• Update Mobile Home Park Water Quality Program (CDPHE), -$1,000,000 TF/-$1,000,000 GF: Realize efficiencies in the Mobile Home Park Water Quality Program through program design changes and incorporation into CDPHE's water quality programs.

• Reductions to Colorado Workforce Development Council (CDLE), -$46,605 TF/-$46,605 GF: Streamline workload for postsecondary and workforce coordinator to align with current state workforce priorities. This realignment is also combined with reducing the required number of annual career pathways to be created in order to improve pathway quality.

Attachment 4
Capital Request Overview

The FY 2026-27 request includes the Governor's prioritized capital and IT capital construction requests. In total, OSPB received 56 regular Capital Construction requests and 19 IT Capital Construction requests from across the State. Agency requests for regular Capital Construction exceeded $497 million in total funds, while Institutions of Higher Education requests for Capital Construction exceeded $534 million total funds for a total Capital Construction request exceeding $1 billion. Agencies submitted 9 requests for IT Capital exceeding $30 million, while Institutions of Higher Education submitted 10 requests for IT Capital at around $30 million. In total, IT Capital Construction requests sought more than $60 million.

Capital Construction

To evaluate the capital construction requests, the Executive Branch continues to apply an evaluation rubric that includes the following criteria:

- Impact on health, life and safety;
- Cost;
- Project status;
- The Governor's Bold 5 priorities; and
- Input from legislative stakeholders from last year's session.

After evaluating each proposal, the Executive Branch has prioritized four regular Capital Construction projects in this year's budget, with a total General Fund request of $149.8 million.

The FY 2026-27 budget request scales back on the number of recommended projects. Controlled Maintenance (CM) Level 1 has been prioritized with full funding at a cost of $109.3 million for 59 projects. This includes Institutions of Higher Education for a total of $55.2 million for 33 projects and a total of $54 million for agencies for 26 projects. The prioritized list includes funding for the final phase of the CSU Clark Building that began in FY 2022-23. This year's budget also includes 2 DOC projects that are critical for caseload bed count.

Please see Tables 1 and 2 below for detail on the FY 2026-27 Prioritized Capital Construction projects.

Table 1. FY 2026-27 Prioritized State Funded Capital Construction Projects

OSPB Rank	Agency/ Ranking	Project Name	TF	CCF/GF	CF	FF	Total Outyear Cost
1	DPA/OS A-1	Controlled Maintenance Level 1	$109,322,986	$109,322,986	$0	$0	$0
2	IHE/CSU (FC)-	CSU Clark Building Renovation and Additions	$25,798,175	$25,798,175	$0	$0	$0
3	DOC-01	Colorado State Penitentiary (CSP) Electronic Security System Replacement	$748,289	$748,289	$0	$0	$6,832,186
4	DOC-02	Delta Correctional Center (DCC) Level II Perimeter Security	$13,926,353	$13,926,353	$0	$0	$0
Total Costs			$149,795,803	$149,795,803	$0	$0	$6,832,186

Table 2. FY 2026-27 Prioritized Cash Funded Capital Construction Projects

OSPB Rank	Agency/ Ranking	Project Name	TF	CCF /GF	CF	FF	Total Outyear Cost
1	CDHS-03	Depreciation Fund for Regional Centers and Group Homes	$832,718	$0	$832,718	$0	$0
2	DNR	Property Acquisition and Improvements	$12,100,000	$0	$12,100,000	$0	$0
3	DNR	Infrastructure and Property Maintenance	$10,993,800	$0	$10,993,800	$0	$0
4	DNR	Infrastructure and Property Maintenance	$300,000	$0	$300,000	$0	$0
5	DOC-11	Colorado Correctional Industries (CCi) Small Projects	$1,000,000	$0	$1,000,000	$0	$0
6	DPA-01	Capitol Complex Renovation & Footprint Reduction	$41,450,138	$0	$41,450,138	$0	$79,058,640
7	HC-01	Collections Care Facility-Construction Phase 2	$7,200,239	$0	$7,200,239	$0	$0
8	HC-02	Regional Property Projects	$700,000	$0	$700,000	$0	$0
Total Costs			$74,576,895	$0	$74,576,895	$0	$79,058,640

IT Capital Construction

The Executive Branch uses three guiding principles to evaluate the IT Capital

Construction projects submitted by state agencies. The three principles are:

1. Prioritize continuation funding over funding for new projects, especially those that are in mid-implementation with a high probability of successful completion;
2. Prioritize projects that are critical to state operations and/or regulatory compliance requirements; and
3. Fund projects that leverage cash funds and sources of funds besides the state General Fund.

As a result, the FY 2026-27 budget request includes 11 prioritized IT Capital Construction projects for a total General Fund cost of $10.5 million. Of the 11 projects, three are solely funded with cash funds.

Please see Tables 3 and 4 below for detail on the FY 2026-27 Prioritized IT Capital Construction request.

Table 3. FY 2026-27 Prioritized State Funded IT Capital Projects

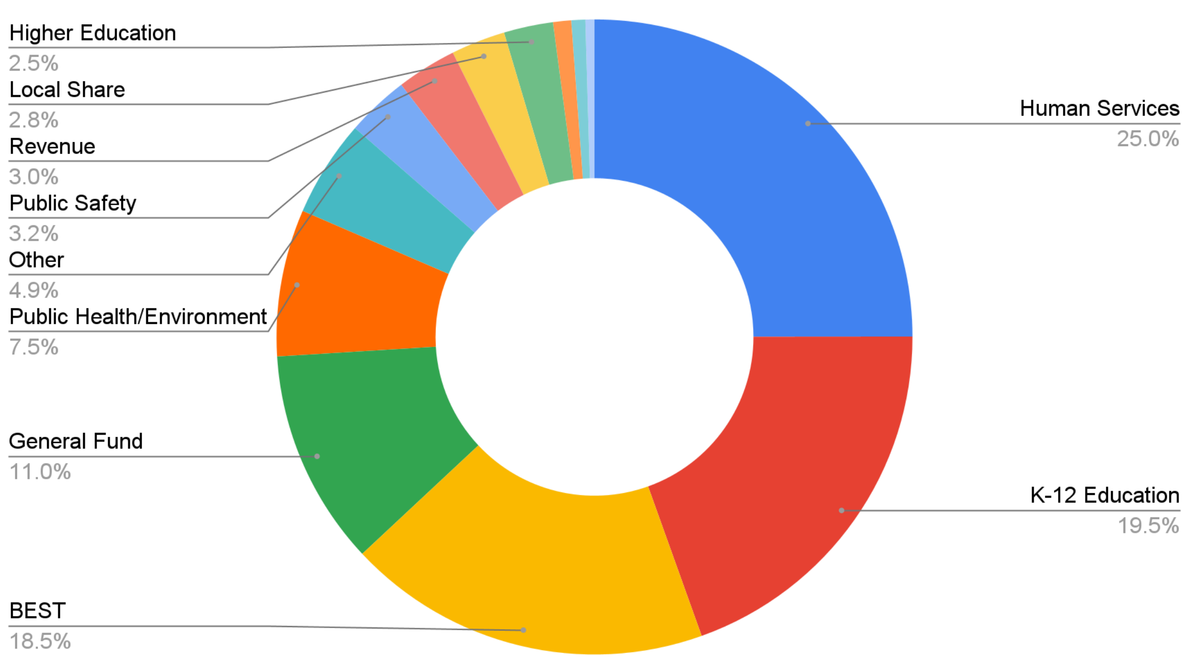
OSPB Rank	Agency/ Ranking	Project Name	TF	CCF/GF	CF	FF	Total Outyear Cost
1	HCPF-01	CBMS	$4,823,806	$905,237	$0	$3,918,569	$0
2	CDE-01	School Finance Modernization	$3,150,000	$3,150,000	$0	$0	$0
3	CDPHE-01	Stationary Sources Technology Modernization	$1,748,863	$1,748,863	$0	$0	$0
4	HCPF-02	CoSHIE	$4,049,989	$743,838	$0	$3,306,151	$0
5	DOC-01	Inspector General's Offense Reporting (IGOR) System	$510,669	$510,669	$0	$0	$0
6	DPA-01	Statewide Human Resources Information System	$955,500	$955,500	$0	$0	$63,676,122
7	IHE-01	University of Northern Colorado (UNC) - Life Safety Technology Modernization	$1,982,160	$1,861,248	$120,912	$0	$0
8	IHE-06	Fort Lewis College - Campus Wide Door Access Control Upgrade	$1,061,023	$671,784	$389,239	$0	$0
Total Costs			$18,282,010	$10,547,139	$510,151	$7,224,720	$63,676,122

Table 4 - FY 2026-27 Prioritized Cash Funded IT Capital Projects

OSPB Rank	Agency / Ranking	Project Name	TF	CCF/GF	CF	FF	Total Outyear Cost
1	DPS-01	Records Utilization Upgrade	$2,564,100	$0	$2,564,100	$0	$0
2	DPA-02	Statewide Procurement System	$2,299,500	$0	$2,299,500	$0	$0
3	CDLE-01	Colorado Division of Workers' Compensation (CoComp) Database Replacement System	$9,964,519	$0	$9,964,519	$0	$0
Total Costs			$14,828,119	$0	$14,828,119	$0	$0

Attachment 5
Marijuana Tax Cash Fund

FY 2026-27 Total Estimated Marijuana Revenue Allocation: $239,415,286



Introduction

Marijuana revenue stems from an excise tax and taxes charged on recreational and medical marijuana sales across the State. Despite a continued maturing of the marijuana market in Colorado, these revenue sources continue to fluctuate and are difficult to forecast. As medical and recreational marijuana sales increased precipitously during the height of the pandemic, revenue to the Marijuana Tax Cash Fund (MTCF) grew to a record high of $201.9 million in FY 2020-21, up 17.3 percent over FY 2019-20 levels. Revenue fell in FY 2021-22 by 11.2 percent to $179.2 million and by an additional $29.8 million to $149.0 million in FY 2022-23 as demand fell from its peak, resulting in oversupply and depressed prices. The trend of lower prices and weakened demand continued in FY 2023-24 with further decreases to MTCF collections with $135.5 million in revenue, a 11.0 percent year-over-year decrease. According to the September 2025 OSPB forecast, FY 2024-25 revenue collections are estimated to bottom out and stabilize at $129.0 million. OSPB forecasts a modest rebound in FY 2025-26 to $135.9 million, a 5.3 percent increase, in MTCF revenue, followed by $138.2 million of collections in FY 2026-27, which is still below FY 2022-23 revenue levels. The out-year forecast estimates modest growth of 2.7 percent to collections of $142.0 million in FY 2027-28. This growth beginning in FY 2025-26 is largely driven by the updated statutory distribution formula of the 15 percent special sales tax, from S.B. 25-268 Changes to Money in the Marijuana Tax Cash Fund, while marijuana demand is expected to stagnate this fiscal year and grow moderately in the out-years. The updated distribution formula decreases the local share of the special sales tax and allocates more revenue to the MTCF and Marijuana Cash Fund (MCF).

Figure 1. State Marijuana Revenues, FY 2017-18 through FY 2026-27 Forecast

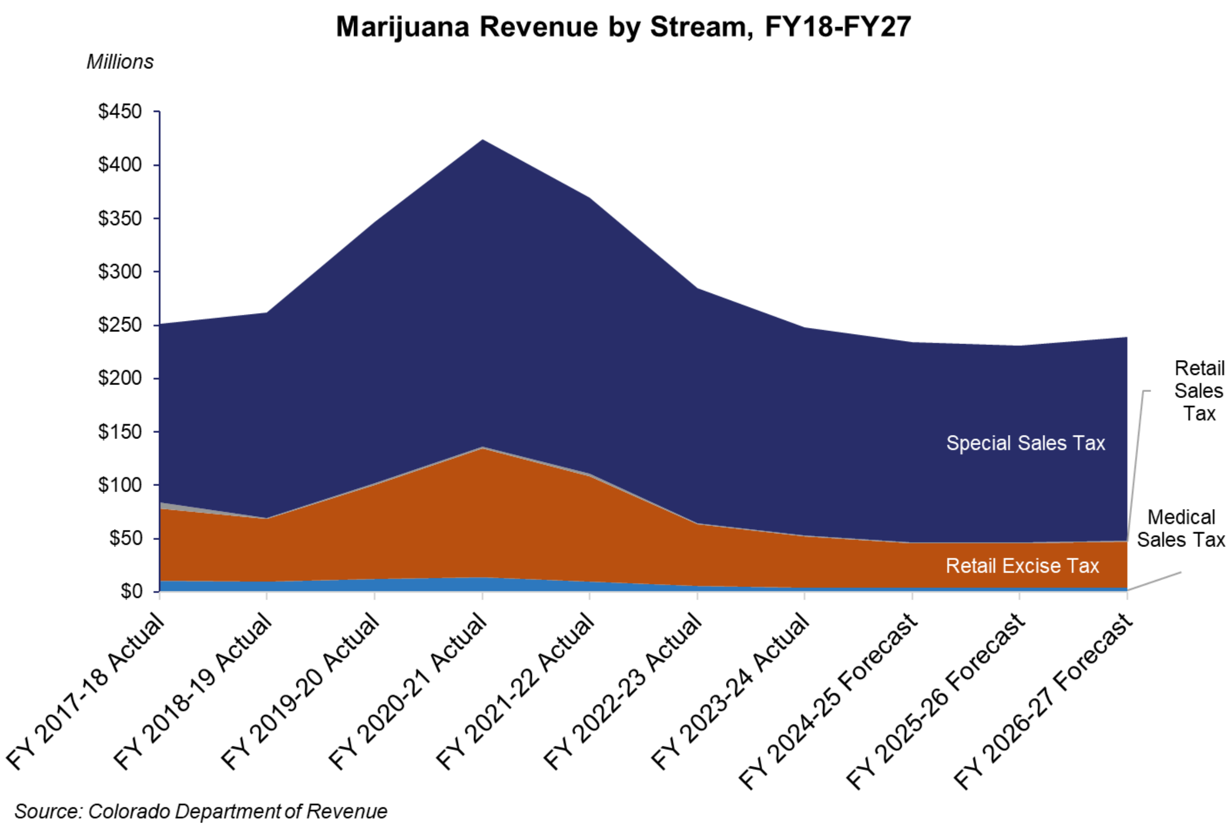


Table 1. State Marijuana Revenues, FY 2021-22 through FY 2026-27 Forecast

Tax Type (millions)	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Preliminary	FY 2025-26 Forecast	FY 2026-27 Forecast
Medical 2.9% Sales Tax	$9.2	$5.6	$3.9	$3.2	$3.6	$3.3
Retail 15% Excise Tax	$99.4	$57.8	$47.9	$42.2	$42.1	$44.3
Retail 2.9% State Sales Tax	$2.3	$1.1	$1.2	$1.5	$1.1	$1.1
Retail 15% Special Sales Tax	$258.7	$219.9	$195.0	$186.4	$183.0	$187.6
Total (Not Including Interest)	$369.6	$284.4	$248.0	$233.4	$229.9	$236.3
Portion of Total to the Marijuana Tax Cash Fund	$179.2	$149.4	$131.5	$129.0	$135.9	$138.2

Allocation of Marijuana Tax Revenues

The tax revenue from marijuana is allocated across State agencies via the Marijuana Tax Cash Fund, the General Fund, and into various funds for schools.

- **15% special sales tax:** 96.5 percent is retained by the State, and 3.5 percent is distributed directly to local governments. Of the 96.5 percent State share, 72.2 percent is directed to the MTCF. The other 27.8 percent is distributed to the Public School Fund (11.74 percent), Marijuana Cash Fund (1.55 percent), and to the General Fund (14.51 percent). This updated distribution, per S.B. 25-268 was first implemented in FY 2025-26.

- **15% excise tax:** The Colorado Constitution requires that the first $40 million in excise taxes be deposited into the Building Excellent Schools Today (BEST) Fund. The remaining revenue from this tax is subject to statutory distribution and has gone to various destinations over the years. Prior to FY 2017-18, revenues above the first $40 million were directed to the Public School Permanent Fund trust fund. In FY 2018-19, the portion sent to BEST was increased to 90 percent of total excise tax collections, with the remainder going to the Public School Permanent Fund. Beginning in FY 2019-20, statute was changed to direct all excise taxes to BEST, except during FY 2020-21 when all revenues above the first $40 million were diverted to the State Public School Fund. This diversion was a temporary measure to defray cuts made to public school operating budgets during the pandemic-induced state revenue contraction. Since FY 2021-22, all marijuana excise tax revenue has been directed to BEST, and this budget proposes to continue doing so in FY 2026-27.

Figure 2. State Marijuana Tax Distribution

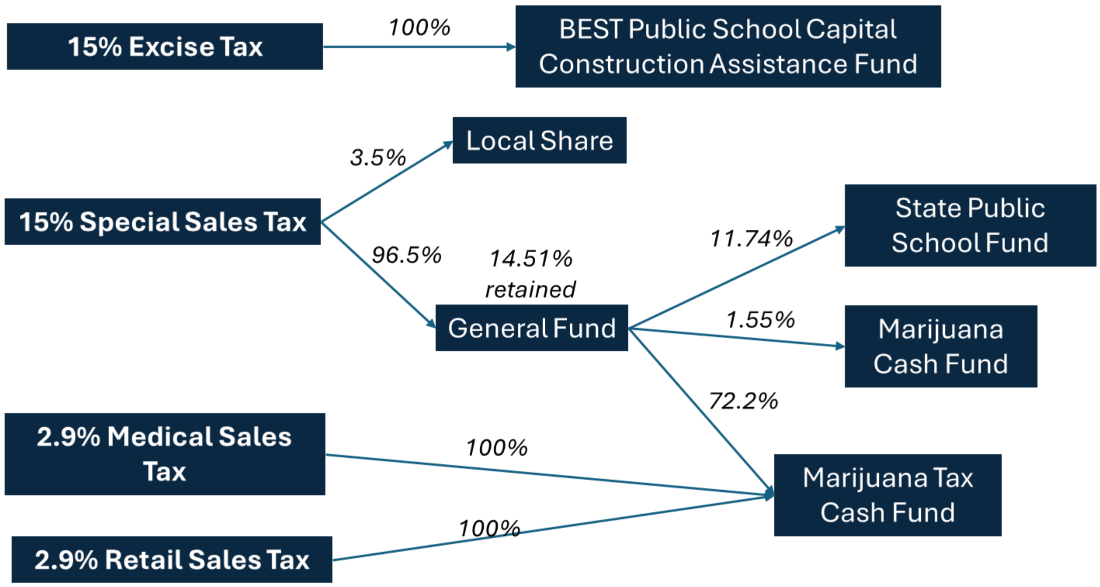


Table 2. State Marijuana Revenue Distribution, FY 2022-23 through FY 2027-28 Forecast

Marijuana Tax Revenue (September OSPB Forecast)	Total Revenue	Local Share	General Fund	BEST School Capital Construction	Public School Fund	MTCF	Marijuana Cash Fund
Actual FY 2022-23	$287.6	$22.0	$30.8	$57.8	$24.9	$152.1	$0.0
Actual FY 2023-24	$252.3	$19.5	$27.3	$47.9	$22.1	$135.5	$0.0
Preliminary FY 2024-25	$237.1	$18.6	$26.1	$42.3	$21.1	$129.0	$0.0
Forecast FY 2025-26	$233.5	$6.4	$25.6	$42.1	$20.7	$135.9	$2.7
Forecast FY 2026-27	$239.4	$6.6	$26.3	$44.3	$21.3	$138.2	$2.8
Forecast FY 2027-28	$246.5	$6.8	$27.1	$45.8	$21.9	$142.0	$2.9

Marijuana Tax Cash Fund

In recent fiscal years, the MTCF has experienced budget constraints due to declining marijuana revenue allocated to the fund. In order to maintain the statutorily required 15 percent reserve requirement, budget balancing measures have been made in the past four fiscal years. Despite marijuana revenue beginning to stabilize and expected to rebound in future years, there is still a need to take budgetary actions to ensure future fiscal stability and meet the statutory reserve requirements. The Governor's

Budget looks to continue funding for crucial programming while maintaining fiscal responsibility.

In FY 2024-25, the MTCF was forced to dip into the statutorily required reserve due to revenues coming in significantly below expectation. According to the OSPB September 2025 Forecast, FY 2025-26 is expected to also dip into the 15 percent reserve without further budgetary action. However, the FY 2026-27 budget is anticipated to be above the reserve limit, without further budget action.

For FY 2025-26, the budget assumes a conservative $1.0 million in reversions to the fund across all Department expenditures, which would represent approximately 0.8 percent of unexpended funds compared to the total appropriation. Base appropriations and transfers from the fund still outstrip anticipated revenue in FY 2025-26, which will require more balancing measures as outlined below. However, the fund is anticipated to be balanced in FY 2026-27, without further budget balancing measures. However, the Governor's budget proposes further stabilizing actions, as well as reasonable investments from the fund.

Governors Request for the Marijuana Tax Cash Fund

The Governor's FY 2026-27 MTCF budget and legislative agenda is firmly aligned with the intended uses of the Fund and creates financial sustainability during a time of uncertain revenue collections by one-time refinancing of MTCF appropriations and minimal new commitments of the fund. Overall, the Governor's request includes a net-total increase of $4.9 million, with appropriation reductions and restoring appropriations cut in prior fiscal years. The $2 million in reductions at CDHE below is ongoing, as well as the restoration of certain appropriations. This will maintain the fund's better position if revenue collections continue to stagnate while making reasonable investments of the fund. New items requested include the following:

- Resume the $5.4 appropriation from the MTCF to the Early Literacy Fund for the Colorado Department of Education.
- Eliminate the $2.0 million appropriation on an ongoing basis within the Colorado Department of Higher Education appropriation for the CU School of Public Health for the Regulation of Marijuana Concentrates.
- Restore the appropriation to the Institute of Cannabis Research at CSU Pueblo. This would increase the appropriation by $725,000, bringing it to a total of $3.8 million.

- Restore the appropriation for CDOT's Marijuana Impaired Driving Program. This increase of $500,000 will increase the total amount of funding to CDOT to $950,000.
- Increase CDPHE's appropriation for Public Awareness Campaign by $200,000.
- CDHS R-12 will increase the MTCF to the Tony Grampsas Youth Services Program by $0.2 million. This proposal will provide General Fund savings by utilizing more MTCF instead of GF.
- BHA R-03 will do a net zero realignment of MTCF, swapping $3 million from one program under the Treatment and Detox Program line to another. This will not have any impact on MTCF balancing.
- Continue the reduction from the Governor's Executive Order to lower HCPF's appropriation by $0.5 million to the Screening, Brief Intervention, and Referral for Treatment (SBIRT) program and transfer the savings to the General Fund. This will have essentially a net zero impact on the MTCF, but will provide ongoing GF savings.
- Last, the Governor's Budget proposes that any remaining funds in the MTCF above the 15 percent statutory reserve should be transferred to the State Education Fund. This proposal reaffirms voters' intent to utilize State Marijuana Revenues to help fund K-12 education.

As a technical note, the appropriations identified below in the FY 2026-27 budget request by the department do not include the legislative placeholders identified above. They only include decision items which require MTCF appropriations.

Table 3. Statewide Marijuana Tax Cash Fund: Appropriations and Request

Department	FY 2022-23 Appropriation	FY 2023-24 Appropriation	FY 2024-25 Appropriation	FY 2025-26 Appropriation	FY 2026-27 Request
Agriculture	$2,092,889	$2,138,015	$2,117,637	$2,141,511	$2,243,213
Early Childhood	$949,978	$950,063	$990,813	$1,009,059	$1,010,831
Education	$27,464,083	$22,159,936	$22,206,415	$17,242,066	$22,667,568
Governor's Office	$1,096,648	$1,142,532	$1,909,982	$934,346	$940,896
Health Care Policy and Financing	$1,500,000	$1,500,000	$1,500,000	$1,000,000	$1,000,000
Higher Education	$10,950,000	$11,950,000	$10,950,000	$7,225,000	$5,950,000
Human Services	$57,470,940	$59,744,410	$60,103,114	$58,736,106	$58,956,935
Judicial Branch	$2,734,691	$2,734,691	$2,734,691	$2,734,691	$2,734,691
Labor and Employment	$500,000	$500,000	$0	$0	$0
Law (Attorney General)	$1,830,814	$1,663,469	$1,709,610	$1,708,517	$1,708,517
Local Affairs	$17,540,619	$17,578,547	$2,243,268	$1,357,514	$1,123,119
Public Health and Environment	$22,694,467	$23,661,475	$23,773,746	$17,497,680	$17,697,680
Public Safety	$7,645,192	$7,751,798	$7,644,967	$7,488,239	$7,869,142
Regulatory Agencies	$120,807	$120,807	$120,807	$120,807	$120,807
Revenue	$1,026,920	$1,059,297	$4,559,855	$4,559,855	$4,559,855
Transportation	$1,701,649	$950,000	$950,000	$450,000	$950,000
Transfers in	$0	$0	$0	$0	$0
Transfers out	$598,000	$598,000	$1,598,000	$4,328,000	$1,098,000
Total	**$157,917,697**	**$156,203,040**	**$145,112,905**	**$128,533,391**	**$130,631,254**

The MTCF line-by-line document (link to spreadsheet) provides budget request details as well as historical and budget and expense detail by department.

Attachment 6
Federal Policy and Budget Decisions Hurt Coloradans

Recent federal policy and budget decisions, including passage of H.R. 1 and President Trump's executive orders, have many negative impacts for Coloradans. They also impact the state budget in the current fiscal year FY 2025-26 and over the long term. We summarize the major impacts below.

Withdrawal of Federal Support for Critical Initiatives

Approximately 30 percent of Colorado's state budget comes from federal sources, which fund critical initiatives that touch the lives of residents in every part of the State, such as health care and infrastructure. H.R. 1 will reduce federal support for these programs by $50 to $100 million this year, and the impact will grow over time, with lost federal dollars amounting to billions of dollars each year. While the federal government considers these cuts "savings," in reality, the bill shifted huge costs onto the states including Colorado, forcing all states to either pull back on the critical services provided to residents or find state dollars to backfill lost federal funds.

The withdrawal of federal support is particularly stark for Colorado's Medicaid program, which provides health insurance and services to more than 20 percent of residents. H.R. 1 imposed the largest cuts to Medicaid in history and significantly increased budget pressures on Colorado's Medicaid program. The bill will negatively impact the 1.2 million Coloradans with Medicaid, with hundreds of thousands of individuals at risk of losing their coverage.

Beginning as soon as January 2027, H.R. 1 requires Colorado to impose more federal red tape in order to implement work requirements for many adults with Medicaid coverage, and double the frequency of eligibility checks to every six months.

H.R. 1 also hamstrings Colorado's ability to finance its share of the Medicaid program due to new federal restrictions on the State's hospital provider fees. When fully implemented, these federal restrictions could cost the State as much as $2.5 billion annually in federal Medicaid funds by 2032, jeopardizing coverage for hundreds of thousands of Coloradans. Reducing federal support through provider fees will also jeopardize the financial stability of Colorado hospitals, in particular rural hospitals that are already facing financial challenges and may be forced to close as a result of these changes, as well as thousands of other medical providers around the state.

Many Coloradans who have private insurance through the exchange are also facing the prospect of huge increases to their insurance premiums due to federal inaction on extending enhanced premium tax credits (EPTCs). These tax credits help people afford insurance plans available through Connect for Health Colorado. Failure to extend EPTCs is expected to reduce federal funding available to Coloradans by approximately $105 million in 2026, resulting in premium increases of over 350 percent in some areas and more than 100,000 Coloradans becoming at risk of losing coverage. During the Special Legislative Session in August, I worked with the General Assembly to pass H.B. 25B-1006, which aims to partially mitigate the impact of these premium increases. However, Congress needs to extend EPTCs to ensure Coloradans can enroll in affordable coverage.

H.R. 1 also negatively impacts residents who receive critical support from Supplemental Nutrition Assistance Program (SNAP), shifting $250-$350 million per year of the cost of these benefits from the federal government onto Colorado taxpayers. Abruptly requiring Colorado to fund a portion of SNAP benefits and administrative costs will divert limited state funds away from other critical needs while jeopardizing families' access to food. By increasing work requirements, removing exemptions for vulnerable Coloradans, and cutting funding for nutrition education, an estimated 80,000 individuals will be stripped of their access to food assistance as a result of H.R. 1.

Federal actions will also place Coloradans at risk when they need to be able to rely on help from the government: when people are experiencing natural disasters like wildfires, tornadoes, and floods; when a public health crisis hits; and other emergencies regardless of cause. This federal funding is at the heart of Colorado's infrastructure for emergency preparedness, response, and recovery. However, President Trump has directed the withdrawal of $34 million in funds, which severely compromises Colorado's ability to provide grants to local authorities responsible for emergency management.

These are just some of the ways recent federal budget and policy decisions are hurting Coloradans. The State is involved in over 35 court cases challenging the president's illegitimate policies, including litigation to preserve funding dedicated by Congress. Through this work, the State successfully reversed the cancellation, suspension, or delay of more than $440 million of federal funds, which threatened serious harm to health care, education, and public safety. More information is available in my administration's online dashboard on federal funding cuts (link to website), which reflects our commitment to safeguarding the federal resources to which hardworking Coloradoans are entitled.

One example is the preservation of $4.9 million in AmeriCorps funding. This ensured that thousands of AmeriCorps members continued to provide tutoring, wildfire mitigation and disaster recovery support, and support for community health initiatives. The litigation protected vital resources that directly impact underserved communities and help build long-term civic capacity in the State. Colorado was one of only two states to continue critical AmeriCorps programming during this period.

Additionally, the State protected $212 million in critical public health grants used for a wide range of urgent public health needs such as infectious disease management, fortifying emergency preparedness, providing mental health and substance abuse services, and modernizing public health infrastructure.

Colorado also protected $27.5 million in Federal Emergency Management Agency (FEMA) funding for the Department of Natural Resources. These grants support accurate hazard mapping, risk assessment and mitigation planning — tools that are critical to reducing loss of life and property from natural disasters. By defending these funds, the State maintained its ability to prepare for and respond to the unique environmental risk Colorado faces.

The State also fought hard to secure the release of $80 million of withheld federal education funding for Colorado after-school programming and other critical services. Earlier, I had joined education leaders from across Colorado to hear how withholding this funding was hurting schools, educators, and students. Thankfully, these critical funds were released shortly after.

Federal Tax Policies Create Immediate Shortfalls in State Revenue

My administration has taken numerous actions to reduce the tax burden on residents and businesses, providing greater opportunities to invest and spend more of their money. H.R. 1 provides many tax cuts to businesses and corporations while cutting federal funding for health care and safety net programs. The expansion of federal corporate tax deductions means that while corporations will pay less in taxes, there was no across-the-board income tax cut that would benefit everyone and help grow the economy.

Because Colorado's tax system is closely aligned with the federal tax system, the federal changes result in an immediate $1.2 billion drop in state tax collections in FY 2025-26. As a result, Colorado's budget for the current fiscal year was no longer balanced. These federal actions effectively eliminate the TABOR refunds that were expected to be distributed to Colorado taxpayers. Additionally, Colorado would have to use about one-third of its budget reserve, leaving us at a $783 million deficit position below the statutory requirement to maintain a 15 percent reserve. The budget reserve is necessary to help the State weather economic downturns. The State would not be able to weather even a moderate economic recession with such a significantly diminished budget reserve.

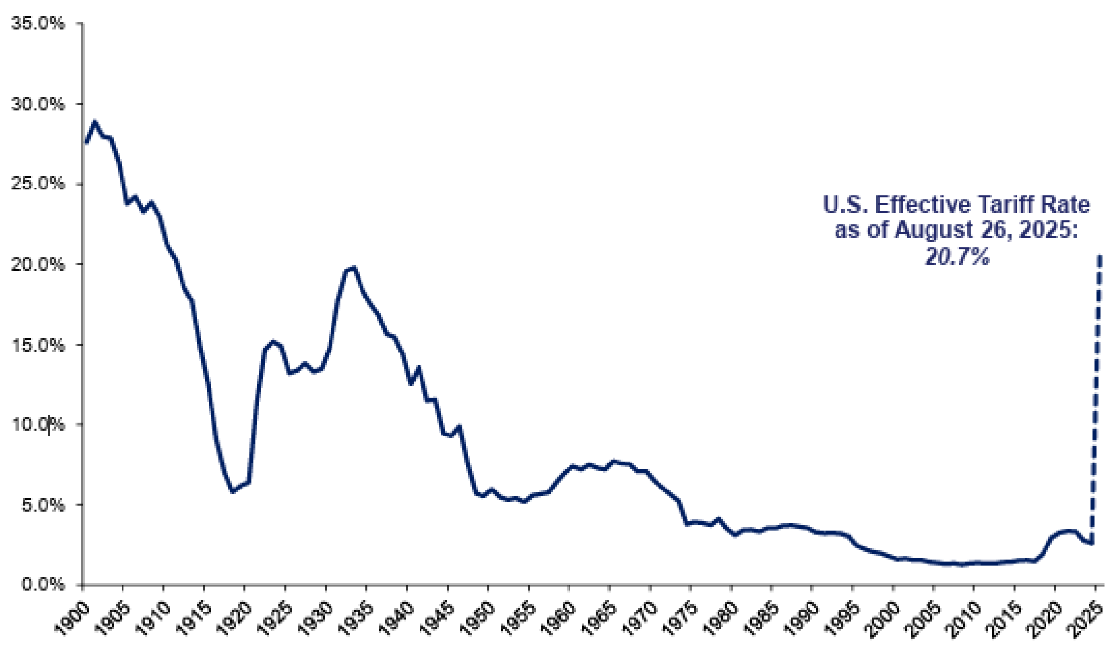
To address the harms passed down to the State as a result of H.R. 1, I called the General Assembly into a Special Legislative Session in August 2025, and I signed Executive Order 2025 D 014 (link to PDF) to take immediate action to balance the FY 2025-26 budget. Together, we took several difficult yet necessary actions to: (1) stabilize state revenue through a variety of fiscal actions, including transfers to the General Fund; (2) reduce spending while fully preserving K-12 education and public safety funding; and (3) use a modest amount of the budget reserve to balance the budget.

Tariff Policies Raise Prices for Coloradans and Our Economy at Risk

President Trump's approach to international trade and tariff policy has created unprecedented uncertainty and chaos for domestic businesses and consumers. Tariff tax threats, tariff increases, reciprocal tariffs, tariff delays, and tariff reinstatements pose a real threat to reignite inflation and could plunge the U.S. economy into a recession.

The effective U.S. tariff rate has skyrocketed, from 2.6 percent in 2024 to 20.7 percent as of August 2025. In fact, we have not seen tariffs this high in nearly 100 years, as shown in the figure below.

Figure 1: U.S. Effective Tariff Tax Rate, 1900 to 2025



Source: U.S. Customs and Border Protection, U.S. International Trade Commission, U.S. Census Bureau, OSPB calculations

My administration directed economists in the Office of State Planning and Budgeting to analyze the expected impacts of these tariff policies ("Estimating the Impacts of Changing U.S. Tariff Policy" link to PDF). This analysis concluded that important Colorado industries will see higher costs, lower profits, and lost jobs, including in key sectors like agriculture, construction, durable goods, technology and advanced industries. Consumers and employees will feel these impacts as well, with higher prices and layoffs. These and other impacts are likely to result in slower economic growth in Colorado that could result in a mild recession. These impacts on residents and businesses will create a drag on Colorado's economy.

Attachment 7
Long-Range Planning

Introduction

Executive Branch agencies have submitted Long Range Financial Plans along with their November 1 budget submissions since 2019 to provide additional context and information to the General Assembly for the purposes of:

- Strategically planning for future contingencies;
- Supporting Departments' annual budget requests;
- Informing the General Assembly and broader public of Departments' perspectives on long-range trends that influence their costs and revenues; and
- Informing effective resource allocation.

The FY 2026-27 Long Range Financial Plans describe the cost drivers that shape departmental budget needs, the revenue drivers that affect the levels of available cash funds, and the long-term trend expectations for both. They also consider recent and potential legislative Items, federal policy considerations, and ballot measures that may influence departmental operations and budgets, and scenario analysis and contingency planning. While the plans inherently inform the budgeting process due to their simultaneous development, information may not reflect all technical changes in the budget submission given their November 1 submission deadline.

Key findings from the FY 2026-27 Long Range Financial Plans indicate ongoing economic pressures associated with tariff-induced inflation and subsequent economic uncertainty, as well as budget-specific challenges arising from caseload growth (particularly from Medicaid), TABOR constraints on revenue collections, an aging population, slowing in-migration and birthrates, the increasing prevalence and intensity of disasters and emergencies associated with climate change, an aging infrastructure, and legislative items, federal policies, and ballot measures that place additional responsibilities and/or costs on departments and the broader General Fund.

Key Statewide Budget Drivers

<u>Economic Conditions, Revenue, and TABOR Implications for Long Term Planning</u>

OSPB's September 2025 Economic Forecast notes that federal tariff and trade policy is considered the biggest downside risk to economic growth. Tariff-related inflation is expected to peak at the end of this year as stronger consumer demand allows for additional price pass-through of tariffs, leading to elevated 2026 inflation despite weakening demand and the downstream implications of weakening corporate profits and labor market.

State revenue subject to TABOR is expected to drop below the Referendum C cap in FY 2025-26 for the first time in six years, due to Colorado's rolling conformity with federal tax policy changes in H.R. 1, however, revenue is expected to increase above the Referendum C cap once again in FY 2026-27. Slower revenue growth is expected to turn off the family affordability tax credit (FATC) and the expansion of the earned income tax credit (EITC) in Tax Year 2026, as well as reduce H.B. 24-1365 Opportunity Now workforce tax credits in that year.

In FY 2025-26, an unexpected revenue loss due to federal tax policy changes pushed revenue below the TABOR cap and left the remaining reserve at 10.0 percent based on the August 5th presentation to the Joint Budget Committee, which was prior to the special session or executive action. After such legislation and executive action, the current-year budget is expected to have a 13.6 percent reserve. However, turning to next year, the primary fiscal issue is not an unforeseen revenue impact, but a structural deficit issue where the increase in caseload costs outstrips TABOR cap growth. OSPB recommends significant spending cuts, specifically targeting Medicaid caseload and maintaining the General Fund reserve at 13 percent with a 5-year plan to meet the 15 percent requirement.

<u>Inflation</u>

The current federal tariff policy is expected to drive significant impacts to inflation, primarily concentrated in 2026 from a one-time price level increase as pre-tariff inventories are depleted this year, leading to higher costs being partially passed on to consumers in the months ahead.

Inflation directly affects the state budget through higher prices for service provision, wages, and supplies and materials. Many of the caseload departments with large budgets, including HCPF, CDE, DOC, and CDHS, are acutely sensitive to inflationary pressures, along with departments that conduct transportation construction projects like CDOT or affordable housing initiatives like DOLA and OEDIT. Inflation is also part of the formula that dictates annual growth of the TABOR cap.

<u>Federal & State Policy, Legislative Items, and Ballot Measures</u>

Federal tariff and trade policy is considered by OSPB to be the biggest downside risk to economic growth in the state. The passage of H.R. 1 resulted in a major loss of state tax revenue, requiring a special legislative session in August to address the FY

2025-26 shortfall. Further uncertainty on federal trade and immigration policy dampens economic activity, threatening the broader economy and state revenues. At the same time, forthcoming reductions to federal funding for programs like Medicaid, SNAP, and TANF will require the state to reduce benefits or shift state funding to support current service levels. Colorado policy and ballot initiatives can also introduce budget challenges through legislative items that create new funding needs, sometimes without creating or identifying corresponding revenues to support those needs.

<u>Demographic Trends and Caseloads</u>

Colorado's rapidly aging population will have increasing and multifaceted effects on the state economy and budget. Demographic trends are expected to strain the labor force as retirements outpace new entrants to the workforce, threatening workforce levels and state tax revenue growth in key sectors such as technology, health care, and construction. This growing cohort will also place increasing demands on the state budget via increasing participation in public health and social services programs provided through Medicaid, the Older Americans Act, and Old Age Pension.

On the opposite end of the age spectrum, an expected decline in the population of children in the state through the end of the decade will put downward pressure on caseload for CDE and DEC. Fewer students will also result in lower appropriations for these departments, as funding is largely allocated on a per-pupil basis, but fewer students will also result in lower costs for departments as well. The Colorado Department of HIgher Education anticipates an "enrollment cliff" starting in 2027, as the children born in the wake of the Great Recession reach college age. Birth rates were particularly low at that point, and have remained low in the years since. It will be particularly important to complete the work to end the funding of non-existent phantom students so that limited funding can be directed to serve actual students in schools.

The state faces significant caseload challenges as Medicaid costs continue to rise dramatically, and inmate capacity is strained within DOC. As non-discretionary expenditure items, major increases in caseload often require cost reductions elsewhere in the budget, especially when caseload expenditures grow at a higher rate than the TABOR cap, effectively consuming a larger portion of the available spending growth each year and crowding out spending growth in other departments. Over the last 10 years, the average annual growth in the TABOR cap was 4.4 percent, while Medicaid caseload grew by an average of 8.8 percent each year. In FY 2026-27, TABOR allowed for a total of $615 million in spending growth for FY 2026-27, while forecasted Medicaid caseload expenditures account for $627 million in spending growth. Long-term sustainability of Medicaid and other state programs requires that the growth of Medicaid spending must slow and align with the growth in the TABOR cap.

Population growth continues to slow through natural growth (births minus deaths), but also domestic in-migration from other states. Colorado attracts a much higher share of highly-educated workers than the U.S. as a whole. Colorado high school graduates are less likely than the national average to attend college, a perennial concern for CDHE; however, Colorado is one of the most educated states in the U.S., largely due to interstate in-migration, and as such the labor force remains strong in the near term. Going forward, Colorado will need to ensure an attractive and affordable economy for potential workers while also ensuring that local Coloradans have the skills and education they need to meet employer demand tomorrow.

Finally, it is important to note that new federal policy has introduced significant headwinds regarding immigration and international workers in the state. Since January, the federal government has introduced and rescinded multiple directives challenging or revoking current and prospective international students' status, as well as increasing the fee for employers to hire H-1B holders from $2,000-5,000 to $100,000. The initial lack of clarity on these policies, as well as their instability due to subsequent adjustments and amendments made after they were enacted, is likely to have a deterrent effect on the skilled workforce in Colorado and nationally.

<u>Climate, Energy, and Natural Resources</u>

Disasters and public emergencies related to climate risks and severe weather continue to increase in frequency, severity, duration, and complexity, including wildfires, drought, severe flooding, and avalanches. State spending on wildfire preparedness, risk mitigation and emergency response has quadrupled across DNR and DPS since 2019, and is expected to continue trending upwards. Meanwhile, shifting energy composition and other natural resource constraints also impact revenues related to Severance Tax and Federal Mineral Lease. The inherent volatility of oil, coal, and natural gas prices and production levels can create instability in these revenue streams and have significant impacts on department budgets that rely on these revenue streams. The Highway Users Tax Fund is more stable, but faces shifting revenue streams as the long-term transition from gas vehicles to EVs reduces fuel tax revenue but increases EV registration revenue. Colorado is also impacted by water policy as a headwater state where demand is growing steadily and drought can restrict supply. The agricultural sector uses a majority of Colorado's water supply, though municipalities' demand continues to increase. These factors place upward pressure on water costs and increase the need to upgrade aging infrastructure.

Capital Projects

Capital project expenses relate to the construction, renovation, and maintenance of the state's capital assets. The inventory of state-owned buildings has increased considerably in recent years and industry standards recommend annual expenditures of at least 1 percent of a building's current replacement value (CRV). Historically, funding for capital projects has been inconsistent due to a lack of available funds, with the state typically lagging the one percent CRV recommendation each year.

The State utilizes a master plan framework through a five year plan, updated annually, to submit capital project requests. Each year, the legislature approves funding for a limited amount of capital projects through a prioritization process. As buildings age, the lack of annual allocations to address deferred maintenance and regular building upgrades will likely result in higher repair and replacement costs of these state assets. While recent appropriations for capital projects are in the relevant departments' long range financial plans, projections of this funding stream are not, as funding for capital projects is a policy decision.

Available State Budget Tools in Case of Revenue Shortfall

OSPB's September 2025 forecast anticipates revenues below the TABOR cap (-$219 million) in FY 2025-26 for the first time since FY 2019-20, following the pandemic recession. While state revenue is expected to increase above the TABOR cap once again in FY 2026-27, there is still significant downside revenue risk, and it is important to analyze the various budget mechanisms that can be used to reduce spending or increase General Fund spending capacity in the case of a revenue shortfall:

Ongoing and One-Time Budget Decision Impacts

The nature of the budget decisions in each year can have compounding effects on future years, depending on whether they are one-time or ongoing. One-time budget balancing measures (such as cash fund sweeps or one-time spending reductions) or infusions (such as federal funds from ARPA, IIJA, IRA, etc.) can help balance the budget in a given year when they are utilized for one-time needs. However, when funds created by one-time infusions or savings are appropriated towards ongoing expenditures, they create a liability for future budget years without an accompanying ongoing funding source. A recent example is the use of one-time federal funds to create or expand ongoing programmatic expenditures.

Once the benefits of the one-time funding measures end, those ongoing commitments have to be funded from a different source, usually the General Fund. This shift of new ongoing expenditures onto the General Fund restricts other spending flexibility now and in the future, making future budget deficits increasingly difficult to balance. The best approach to prevent elevated cost growth is to contain new ongoing expenditures and maximize ongoing savings whenever possible.

Reduce State Spending

The Governor can implement certain spending freezes through executive authority, while the legislature can reduce appropriations through legislation.

Reduce Reserves

Current law requires the General Fund reserve to equal 15 percent of General Fund appropriations each fiscal year. A reduction of this 15 percent reserve requirement is a strategy that has been used by the General Assembly during recessions, allowing the reduced portion of the reserve to be used for balancing. This strategy was also utilized to address the FY 2025-26 budget shortfall created by the federal reconciliation bill, H.R. 1. This budget proposes to maintain a 13 percent reserve in FY 2026-27 with a 5-year plan to reach the 15 percent reserve requirement once again.

In the case of revenue loss caused by a recession, which can last for multiple years, the reserve should ideally be only temporarily reduced in conjunction with spending cuts, and accompanied by a feasible plan to return reserves back to 15 percent within a reasonable time frame. It is especially important to rebuild and maintain a full reserve during healthy budgeting years, considering that revenue declines during the 2001 and 2008 recessions were approximately 16 percent over two fiscal years in each case.

Transfers to the General Fund

Cash funds balances can be transferred to the General Fund for broader repurposing. To maintain programming, it is generally best to target cash funds with healthy ending balances.

Refinance Expenditures

Shifting General Fund expenditures to other funds is another tool that can address budget shortfalls in the short term. During economic downturns, additional short-term federal funding may be made available to the state, as was the case during and after the pandemic with the American Rescue Plan Act (ARPA), Infrastructure Investment and Jobs Act (IIJA) and Inflation Reduction Act (IRA).

Conclusion

The Long Range Financial Plans submitted by each department provide valuable insights into departmental cost and revenue drivers, as well as expectations for those drivers in the future. Key takeaways from the plans include budget pressures associated with caseload growth, inflation, staffing, an aging population alongside slowing population growth, natural disasters, aging infrastructure, and external legal and policy shifts. Each of these topics can create increasing operational strain on departments, as well as budgetary strain on the TABOR-limited General Fund.

Attachment 8
Evidence-Based Policy

It is the intent of the Governor that state budget and policy decisions be made using data, research, and evidence, and to invest in activities that allow the state to continually monitor, evaluate, and support its priorities. Evidence on the impacts of state programs and activities should be an integral part of the budget development process and ongoing performance management. OSPB has required evidence-related information in budget proposals since FY 2017-18. OSPB's budget development processes also adhere to provisions in H.B. 24-1428, Evidence-Based Designations for Budget.

Key Elements of H.B. 24-1428

Budget proposals that include information on the impacts or effectiveness of the proposed changes must use a specific set of "Evidence Designations" to characterize the methodological rigor of the best available research evidence relating to a budget proposal, when appropriate. The Evidence Designations are (1) Evidence-Informed, (2) Promising, (3) Proven, (4) Harmful, and (5) Insufficient Evidence. (Section 2-3-210(3)(a), C.R.S.) "Best available research evidence" is defined in statute as "the weight of the research evidence from the most rigorous and relevant studies available regarding a program or practice, which studies are identified using a systematic process." (Section 2-3-210(2)(a), C.R.S.).

The statute narrows the scope of budget proposals to which an Evidence Designation would apply. (Section 2-3-210(3)(a.5), C.R.S.) Specifically, Evidence Designations are used only when a budget proposal pertains to a "Program or Practice," which is newly defined in statute. (Section 2-3-210(2)(d), C.R.S.) If the budget request does not meet the definition of a program or practice, an Evidence Designation is "not applicable" for that budget proposal.

<u>Program or Practice</u>

There are three criteria for assessing whether a budget proposal relates to a program or practice as defined in statute:

- The proposal is hypothesized to improve specific outcomes. This is commonly articulated through a theory of change, logic model, and/or other conceptual frameworks.
- The proposal has a defined target population. Generally, this refers to an identifiable group of people with certain characteristics (e.g., low income) or

that share experiences (e.g., road users), or a target area (e.g., wildlife in a particular habitat).

- The proposal has defined and replicable elements. This may include program manuals, fidelity tools, process documentation, and/or training materials.

This statutory definition of program or practice effectively limits the budget proposals for which the best available research evidence should be included. Examples of proposals that typically will not meet the definition of a program or practice include: technical requests, such as adjustments to the organization of Long Bill lines that have no impact on resource allocation; FTE disconnected from a program or practice (e.g., administrative assistant to a Deputy Director); and software for managing daily operations.

It is important to emphasize that budget proposals may have significant value regardless of whether they are determined to pertain to a program or practice. To the extent possible, budget proposals should describe the value associated with the budget proposal even if it is not a program or practice as defined in statute.

Outcomes vs. Outputs

The distinction between outputs vs. outcomes relates to whether the best available research evidence measures solely the activities of the program/practice vs. the impacts on the target population. For example, for a program whose purpose is to increase the number of students attending college, output measures would be the number of students receiving a scholarship, number of students assisted in completing college applications, number of students assisted in filling out financial aid applications, and number of outreach events. Outcome measures typically reflect the objective of a program or practice and how it impacts the target population, such as increasing college graduation rates.

Evidence Designations

Evidence Designations are used in budget proposals if they pertain to a program or practice and if there are outcomes data available. The five Evidence Designations consist of the following:

- Evidence-Informed: The best available research evidence supports the effectiveness of the program or practice based on “at least one quality evaluation that shows improvement over time.” Pre-post studies that compare the outcomes observed for the study population before and after the intervention would typically fit this Evidence Designation.

- Promising: The best available research evidence supports the effectiveness of the program or practice based on "at least one quality evaluation with a strong comparison group." The key element here is the use of a strong comparison group that controls for potentially confounding factors and better enables the researcher to tease out the impacts of an intervention. Quasi-experimental study designs would generally satisfy this level of methodological rigor. Other observational study designs, such as difference-in-differences models, may also be considered if the study design controls for potentially confounding differences between the control and intervention groups (e.g., matching on relevant baseline characteristics and the use of propensity scores). In contrast, study designs that weakly control for differences between groups would more appropriately have an Evidence Designation of Evidence-Informed.

- Proven: The best available research evidence supports the effectiveness of the program or practice based on "at least one quality randomized controlled trial or at least two quality evaluations with a strong comparison group." Randomized controlled trials (RCTs) are not appropriate or feasible for many programs and practices. This is why having at least two studies using other types of strong comparison group designs is essential. For example, two quality quasi-experimental design studies would satisfy.

- Insufficient: The best available research evidence "is not yet robust enough to achieve" one of the other four Evidence Designations. This should be used when the evidence includes an evaluation(s) of program outcomes, but the best available research evidence provided is, for example: (a) not clearly connected to the program/practice; (b) the studies cannot be considered "quality" because they suffer from significant methodological weakness; and/or (c) the available research evidence includes several quality studies that directly disagree with one another so that no clear balance on effectiveness can be established.

- Harmful: The best available research evidence shows that the program or practice "is associated with harm, as demonstrated by at least one quality evaluation that shows harm over time."

Advancing the Use of Evidence in Colorado

Colorado continues to be a leading state in the use of data and evidence in the budget process, building on successes over the past ten years to embed the evidence mindset in every level of government.

Results for America (RFA), a non-profit organization devoted to helping governments use evidence and data to make better decisions, has recognized Colorado as a leading state in its annual Invest in What Works State Standard of Excellence. In 2025, RFA gave Colorado a “platinum” certification — its highest designation — as one of the three top states in the nation for building and using evidence and data to drive taxpayer dollars toward proven solutions. RFA has recognized Colorado for its use of evidence and data every year since 2018.

Colorado continues to partner with multiple organizations to build capacity and expertise, including the University of Denver’s Colorado Evaluation and Action Lab, the National Conference of State Legislature’s Governing for Results Network, and the National Association of State Budget Officers.

OSPB also advances evidence-based practices through its Implementation and Evaluation Grant, an annual appropriation that funds departments to perform evaluations and build evidence on state programs. Since FY 2017-18, OSPB has annually awarded grants to support state programs seeking to implement or evaluate program outcomes.

In FY 2024-25, OSPB awarded a grant to the Division of Housing (DOH) within the Department of Local Affairs (DOLA) to build an evidence portfolio, which will strengthen the Division's use of evidence in internal processes. These “evidence portfolios” will identify evidence for agency programs, determine opportunities to build evidence, and incorporate and align evidence across budgeting, performance management, and strategic planning activities. This will also place DOH in a position to engage in the annual budget process and the legislative process empowered with data and evidence underlying their work and proposals, and help the Governor, DOLA and the General Assembly make informed decisions about investments and policy developments around one of the most critical areas of focus for the state: housing. The first phase of this project was completed in FY 2024-25 using the OSPB Implementation and Evaluation grant funding.

Second, OSPB also awarded a grant to the Office of Economic Development and International Trade (OEDIT) to evaluate the employment impact of the Opportunity Now grant beginning in FY 2024-25. This evaluation project is expected to continue until FY 2026-27. Opportunity Now supports industry partners in creation of new training and credentialing opportunities for their potential workers. The evaluation project would collect and analyze job placement and wage data to identify the impact of grantee training and credentialing services on participant outcomes. Subject to continued appropriation to OSPB for these grants, OSPB expects to support this evaluation project through FY 2026-27.

One of the FY 2024-25 deliverables of the OEDIT project was a framework for an evaluation of the newly created Opportunity Now tax credit. Upon delivery of that framework, OSPB has awarded an additional grant to OEDIT for FY 2025-26 to include the Opportunity Now tax credit into this evaluation project as well.

Additionally, one previously awarded grant, for the Colorado Strategic Wildfire Action Program in the Department of Natural Resources (DNR), is continuing into FY 2025-26.

OSPB will be evaluating applications for new grants for FY 2026-27 in the first half of calendar year 2026, subject to continued appropriation for the program.

Attachment 9
Promoting a Colorado For All

The state budgeting process is a powerful tool to create a Colorado for All. Fiscal Year 2026-27 is the fourth budget cycle in which the Governor's Office formally required that departments consider the impact that every budget request would have on communities. Departments are required to categorize each request as either:

- Positive impacts,
- Negative impacts,
- Mixed impacts, or
- Neutral impacts on in-need groups.

A goal of these efforts is to identify positive impacts on either an in-need group or across communities within Colorado, identify disparities, and categorize the impact on those communities.

Departments can identify the impacts of a request by answering the following questions:

- Which populations do you anticipate may be disproportionately affected by this request, either positively or negatively? Provide quantitative estimates where possible.
- How is any disproportionate impact consistent with federal and state law?
- How does this request benefit all Coloradans?
- Does the request risk creating new disparities?
- How does this request narrow opportunity gaps for in-need populations in line with the Colorado for All policy?
- If there is a risk of negative impacts on in-need populations, what operational solutions will the Department implement to mitigate those negative impacts?
- If the request is characterized as having negative impacts on in-need populations, how do the net impacts of the request outweigh the negative impacts on those populations?

- If the request is identified as being neutral in its impact, why? How was this determined?

The Governor's Office worked diligently with departments to identify if a request was impact negative. This involved evaluating whether any request submitted to maintain a balanced budget was due to low utilization of a program, reorganizes a program to improve cost-efficiency, or requests a program to be downsized without significant disruption to services.

Advancing Colorado for All through the Governor's FY 2026-27 Budget

While maintaining a balanced budget, the Governor's budget makes crucial investments in programs for some of Colorado's most in-need residents and communities as a whole. Through investments in early childhood enrollment, clean water access and disparities in education, the budget will improve opportunities for all Coloradans. The following provides a sampling of ways in which our budget will advance Colorado for All impact.

<u>Department of Early Childhood</u>

This budget includes a request to increase Universal Preschool funding by $14.3 million for FY 2026-27 to serve all children enrolled in the program, which also benefits our most vulnerable children in full-day preschool. Per statute, the Universal Preschool Program prioritizes low-income children who are most at risk. The increase includes $10.5 million in anticipated Proposition EE revenue and $3.8 million in General Fund to increase state investment by inflation as the General Assembly intended through H.B. 22-1295.

<u>Department of Education</u>

This budget includes a request to support the continued implementation of the new School Finance Formula, reflecting Colorado's commitment to an efficient approach to funding public education. The New School Finance formula allocates more dollars to at-risk students, rural communities, and students receiving special education services, ensuring that resources are allocated where they are most needed.

<u>Department of Human Services</u>

This budget includes $0.6 million in FY 2026-27 and ongoing to protect child safety by licensing up to 500 facilities that provide Applied Behavior Analysis (ABA) therapy for youth with autism and other intellectual and developmental disabilities. This item will assist in reducing abuse and neglect of youth, and increase access to education within facilities. This oversight will prevent harm through regular visits and provide the State enforcement authority to protect thousands of vulnerable youth at risk of harm.

Department of Public Health and Environment

This budget includes a request to continue legislation and funding that supports the "Test and Fix Water for Kids Program" in schools, which promotes clean water access for preschools, licensed child care centers, and schools serving students up to eighth grade across Colorado. This program helps address the presence of lead in water systems through providing training, testing, and technical assistance. This program positively impacts Coloradans through addressing the negative health impacts lead in drinking water has on individuals.

Conclusion

As stated in [Executive Order D 2020 175 (link to PDF)](), "We will only reach our potential as a state when all Coloradans can live, work, learn, play, and thrive..." The intentional incorporation of Colorado for All principles throughout this budget builds on this Executive Order, moving our state towards a better future for all Coloradans. We look forward to continued partnership with the JBC, JBC Staff, and General Assembly to further incorporate Colorado for All based considerations into state budget decisions.

Attachment 10
Budget Tables

Budget Tables (link to spreadsheet) are only available online.

Attachment 11
Decision Items by Department

Decision Items by Department (link to spreadsheet) are only available online.

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