

# Legislative Look Ahead: Budget strain sets tone for 2026 Session

SARAH HUBER | LAW WEEK COLORADO

When the Colorado General Assembly convenes this month for the 2026 session, lawmakers will confront a crowded agenda shaped by fiscal pressure, escalating costs and legal and regulatory change.

Health care spending is expected to take center stage, followed by education, housing affordability and tax reform. Questions about wildfire insurance, labor and employment law, construction regulations and artificial intelligence are also expected to be prioritized this session.

## Medicaid and the State Budget



COOPER REVELEY

“The elephant in the room is Medicaid,” said Cooper Reveley, a senior policy adviser with Brownstein in Denver. “It’s what everyone is looking at and thinking about and the biggest line item in the state budget.”

Federal changes under H.R.1, dubbed the “One Big Beautiful Bill Act,” passed on July 4, 2025, have intensified pressure on the state’s

finances. Reveley said Medicaid spending is squeezing other priorities, such as education and transportation.

In response, the 2026–27 budget proposed by Colorado Gov. Jared Polis calls for slowing Medicaid’s growth rate, capping benefits, freezing provider reimbursement increases and cutting funding for local public health agencies.

“Even if you’re not directly impacted, you should be thinking about Medicaid,” Reveley said. “The Medicaid budget has grown because of many individual and well-intentioned efforts to provide services, and it is very difficult to peel back.”

## Education and Fiscal Tradeoffs

Education is the second-largest line item in the budget. School districts “have a loud voice and are experienced at advocating, so this will have a big impact on the budget,” Reveley said.

As in 2025, lawmakers are expected to balance the budget without raising taxes or breaching limits set by the Taxpayer’s Bill of Rights, or TABOR. Last year, unspent cash-fund balances were swept into the General Fund, a strategy likely to resurface.

To help close the budget gap, Polis has proposed privatizing the state’s workers’ compensation insurance, drawing concern from

labor unions, according to Reveley. Without privatization, lawmakers would need to identify about \$400 million in additional alternative savings or revenue.

## Housing Affordability

Housing and insurance affordability are at the forefront of the Colorado Chamber of Commerce’s 2026 Legislative Agenda. “Colorado ranks among the most expensive states in the nation for homeowners’ insurance, which, combined with other cost-of-living pressures, places significant strain on the state’s economy and workforce,” said Meghan Dollar, the chamber’s senior vice president of government affairs.

Business leaders warn that costs are undermining workforce recruitment and retention. “Increased costs are making it harder to grow and compete for top talent,” said Loren Furman, chamber president and CEO.

The chamber’s priorities include lowering homeowners’ insurance premiums through disaster mitigation incentives, expanding funding for residential resiliency, streamlining housing development and increasing supply. They are urging lawmakers to oppose new local taxes and fees, including vacancy taxes, short-term rental taxes and real estate transfer fees.

## Commercial Real Estate

New compliance demands have commercial real estate owners bracing for potential impacts.

HB 25-1090, effective Jan. 1, requires landlords to provide all-inclusive pricing for advertised goods and services, including new rules for leases and utility charges. While the intent is transparency, the law may prove difficult to implement.

“Compliance will present significant challenges and expenses for



MARK BELL

landlords as the bill’s parameters are not clearly delineated,” said Mark F. Bell, a partner at Stinson LLP. He added that “sound legal advice to navigate compliance and risks will rise to the forefront, and litigation to test the bill’s limits will certainly ensue.”

Separately, HB 25-1240 expands protections for tenants using housing subsidies and

strengthens enforcement of the warranty of habitability — changes that could influence investment decisions in the multifamily sector.

“2026 will likely be a transitional year for Colorado’s multifamily and residential rental market,” Bell said, noting landlords and investors should expect greater scrutiny of lease terms and eviction processes. As a result, “careful lease drafting and proactive compliance will be essential.”

### Wildfire Insurance and Liability

A wildfire-liability bill is intended to change wildfire insurance and liability in the state.

“Wildfire insurance is going to be on the legislative agenda in 2026 whether policymakers like it or not,” said Jason Wesoky, president of the Colorado Trial Lawyers Association.

One proposal for insurance is a state-administered wildfire fund. Utilities that opt into the fund could access a structured recovery mechanism after catastrophic fires, even as they remain accountable under existing liability law.

“The goal isn’t to take risk away from utilities,” he said. “It’s to manage financial risk across the system so victims aren’t left waiting years for compensation and utilities remain solvent enough to pay valid claims.”

Recent legislation, including HB 25-1182, has increased transparency about how insurers use wildfire risk models and factor mitigation into rates. Wesoky said these changes could lead to more targeted underwriting and fewer non-renewals.

### Corporate Tax Pressures

Fiscal pressures are driving tax changes for Colorado businesses. David Strong, a tax partner with WilmerHale in Denver, explained the “One Big Beautiful Bill Act” has “created a projected shortfall in Colorado state tax revenues.” A special state legislative session in the fall produced multiple laws in response to the shortfall, each effective for tax years beginning Jan. 1.

Strong highlighted key provisions of those laws: “Colorado corporations and businesses will need to add back the federal qualified business income deduction and the foreign-derived deduction eligible income amount to state taxable income. Several new jurisdictions have been added to Colorado’s expanded tax haven list.”

Colorado will replace the multistate tax commission “3-of-6 test” with a unitary reporting regime based on the “single economic enterprise” concept. Strong said, “This should make it easier for multi-state businesses to align Colorado filings with other states.”

Start-up and early-stage founders, employees and investors may benefit from taxpayer-favorable changes to the Internal Revenue Code Section 1202, and companies with research and development spending may benefit from updates to IRC Section 174.

“Executives and boards will need to be proactive to manage compliance and anticipate budget impacts,” Strong said.

### Labor and Employment Law Changes

In addition to tax changes, employers are eyeing a shifting labor landscape. HB 5-1001, which took effect near the end of 2025 and amended the Colorado Wage Claim Act,



SARAH ANDRZEJCZAK

increases penalties for misclassification, tightens limits on wage deductions and allows individuals who own or control at least 25% of a business to confront personal liability for certain violations.

“Employers now face higher financial, reputational and operational risk for wage violations,” explained Rob Hinckley and Sarah Andrzejczak, shareholders at Buchalter’s Denver office, by email.

The amended wage claim act also expands enforcement authority for the Department of Labor and Employment, which will be able to adjudicate wage claims up to \$13,000 as of July 1, nearly doubling the previous cap.

Two additional employment law changes may make the 2026



ROB HINKLEY

ballot. A right-to-work initiative would affect unionized workplaces, while a just-cause employment proposal would

eliminate at-will employment for many private employers.

“That would fundamentally change the employer-employee relationship,” Hinckley and Andrzejczak said.

In 2026, they also will be watching measures that would cut income taxes and exempt tips and overtime pay from state taxation.

### Construction Law

Construction law practitioners are watching as new statutes and court rulings reshape housing development.

Two 2025 developments set the stage for 2026, said Zubin Chadha, an attorney at Hall Booth Smith, P.C.’s Denver office. In April, the Colorado Supreme Court decision in Mid-Century Insurance Co. v. HIVE Construction Inc. reinforced limits on negligence claims in



ZUBIN CHADHA

construction defect cases. “The court took a more restrictive view of tort claims tied to contractual duties,” Chadha said. The ruling clarified that willful and wanton conduct is not exempt from the economic loss rule when the duty allegedly breached arises from a contract.

The Colorado American Dream Act, establishing the Multifamily Construction Incentive Program, took effect Jan. 1. “The MCIP promises a more predictable litigation environment for multifamily builders, while still offering heightened consumer protections,” Chadha said. Amendments to the Colorado Common Interest Ownership Act raise the threshold for homeowner associations to pursue construction defect litigation from a simple majority to 65% of unit owners.

### **AI and Regulatory Uncertainty**

Colorado’s Consumer Protections for Artificial Intelligence law, SB4-205, was set to take effect on June 30 of this year, but its future is uncertain.

The law was challenged by President Trump’s December 2025 executive order, which aimed to nullify state regulations around AI.

If the Colorado law takes effect, employers, public agencies and health care providers would encounter reporting obligations, data governance requirements and scrutiny over automated decision-making.

“Lawmakers increasingly see AI as a cross-cutting issue rather than a standalone one,” Reveley said. “It touches everything from health care delivery to employment practices to how the state itself operates.”

### **A Consequential Session Ahead**

Taken together, the 2026 legislative session is shaping up to be a defining moment for Colorado policymakers, especially for those up for re-election this year. Budget pressures tied to Medicaid, mounting affordability concerns and evolving legal frameworks are converging at a time when lawmakers have limited fiscal flexibility and high political stakes.

“With so many issues intersecting — from health care and housing to labor, insurance and construction — there are no easy answers,” Reveley said. “What happens in 2026 will set the tone for years to come.”