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Revised Fiscal Note

(replaces fiscal note dated March 26, 2024)

Drafting Number: LLS 24-0454 Date: April 12, 2024
Prime Sponsors: Rep. Amabile; Weinberg Bill Status: House Second Reading
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Bill Topic: ACCESSORY DWELLING UNITS

Summary of Fiscal Impact:
State Revenue [ ] State Transfer [x] Local Government [x]
State Expenditure [x] TABOR Refund [ ] Statutory Public Entity [x]

The bill requires certain local governments to allow accessory dwelling units (ADUs), and creates a certification and grant program in the Department of Local Affairs to ensure local compliance, and encourage the construction, conversion, and use of ADUs. The bill increases state and local expenditures beginning in FY 2024-25.

Appropriation Summary: For FY 2024-25, the bill requires appropriations totaling \$8,537,246 to multiple agencies. See State Appropriations Section.

Fiscal Note Status: The revised fiscal note reflects the introduced bill, as amended by the House Transportation, Housing, and Local Government Committee, and by the House Appropriations Committee.

Table 1
State Fiscal Impacts Under HB 24-1152

Table with 4 columns: Category, Sub-category, Current Year FY 2023-24, Budget Year FY 2024-25, Out Year FY 2025-26. Rows include Revenue, Expenditures (General Fund, Cash Funds, Centrally Appropriated, Total Expenditures, Total FTE), Transfers (General Fund, Cash Funds, Net Transfer), and Other Budget Impacts (General Fund Reserve).

## **Summary of Legislation**

The bill requires that certain local jurisdictions allow accessory dwelling units (ADU), lays out requirements and restrictions for these jurisdictions related to the administrative process for approving ADUs, and creates a certification and grant program in the Division of Housing in the Department of Local Affairs (DOLA) to encourage the construction, conversion and use of ADUs. Subject jurisdictions are municipalities with at least 1,000 residents, and census designated places with at least 10,000 residents, that lay within a metropolitan planning organization (MPO).

**Local ADU requirements.** A subject jurisdiction must allow one ADU as an accessory use wherever the jurisdiction also allows single-unit detached homes. The bill prohibits subject jurisdictions from imposing new parking requirements or requiring that the ADU be owner-occupied. The administrative approval process must use objective standards only, and must not include design or dimension standards that are more restrictive than the standards for single-unit detached dwellings in the same zoning district. The bill specifies other restrictions on ADU construction or conversion that may not be part of a subject jurisdiction's code.

**Certified ADU supportive jurisdiction.** The bill creates a certification process for subject jurisdictions to submit a report to the Division of Housing in DOLA demonstrating the local government is in compliance with local ADU requirements, and is implementing one or more strategies that encourages the construction, conversion or use of ADUs. Subject jurisdictions must submit the report by June 30, 2025, again by December 31, 2029, and then by December 31 every three years thereafter. If the division approves the report, that local government is certified as an ADU supportive jurisdiction for three years. The division may give subject jurisdictions an extension of six months to meet reporting deadlines, and allow a local government time to cure deficiencies in a rejected report. The division may develop policies in consultation with the Colorado Department of Transportation (CDOT), the Energy Office, and the Office of Economic Development and International Trade (OEDIT).

**Grant program.** The bill creates the ADU Fee Reduction and Encouragement Grant Program in the division to provide grants to ADU supportive jurisdictions for activities that promote ADUs, including offsetting costs related to pre-approved plans, giving technical assistance, or reducing permitting fees and other development costs. The division must administer the program and award grants. The bill creates a new cash fund for the grant program and, in the current FY 2023-24, transfers \$5 million from the General Fund to the cash fund. The cash fund is subject to annual appropriations by the General Assembly. The grant program repeals on December 31, 2030.

**Colorado Housing and Finance Authority contract.** The bill authorizes the Colorado Economic Development Commission in OEDIT to expend up to \$8 million to contract with the Colorado Housing and Finance Authority (CHFA) to operate one or more programs to encourage ADUs in certified ADU supportive jurisdictions, such as affordable loans or down payment assistance.

**State Revenue**

The bill potentially increases state revenue to the ADU Fee Reduction and Encouragement Grant Program Fund from gifts, grants, or donations; however, no sources have been identified at this time. Gifts, grants, and donations are exempt from TABOR revenue limits.

**State Transfers**

In the current FY 2023-24, the bill transfers \$5 million from the General Fund to the ADU Fee Reduction and Encouragement Grant Program Cash Fund.

**State Expenditures**

The bill increases state expenditures by up to \$8.6 million in FY 2024-25 and about \$2.4 million in FY 2025-26 for administration of the certification process and grant program in the DOLA and for contracting with CHFA. Assuming that DOLA grant awards and reimbursements to ADU supportive jurisdictions begin following certification and that grant making will occur over four years, a total of \$7.6 million is available for grants beginning in FY 2025-26; however, the timing and annual amounts may differ from this fiscal estimate. Expenditures are from the General Fund, and the ADU Fee Reduction and Encouragement Grant Program Cash Fund.

The bill also increases expenditures by up to \$8 million for OEDIT to contract with CHFA to provide financial assistance programs, presumably in FY 2024-25. State expenses are displayed in Table 2, and described below.

**Table 2  
 Expenditures Under HB 24-1152**

	<b>FY 2024-25</b>	<b>FY 2025-26</b>
<b>Department of Local Affairs</b>		
Personal Services	\$365,194	\$343,621
Operating Expenses	\$6,272	\$6,016
Capital Outlay Costs	\$40,020	-
Travel	\$5,760	\$5,760
Information Technology	\$70,000	\$5,000
Consultant Assistance	\$50,000	\$20,000
ADU Encouragement Grants <sup>1</sup>	-	\$1,900,000
Centrally Appropriated Costs <sup>2</sup>	\$91,892	\$87,516
FTE – Personal Services	4.9 FTE	4.7 FTE
<b>DOLA Subtotal</b>	<b>\$629,138</b>	<b>\$2,367,913</b>

**Table 2**  
**Expenditures Under HB 24-1152 (Cont.)**

	FY 2024-25	FY 2025-26
<b>Office of Economic Development and International Trade</b>		
Contract with CHFA	\$8,000,000	-
<b>OEDIT Subtotal</b>	<b>\$8,000,000</b>	<b>-</b>
<b>Total</b>	<b>\$8,629,138</b>	<b>\$2,367,913</b>
<b>Total FTE</b>	<b>4.9 FTE</b>	<b>4.7 FTE</b>

<sup>1</sup> After accounting for administrative expenses, up to \$7.6 million is available for grants beginning FY2025-26. Assuming it is dispersed evenly over four years, around \$2.0 million per year will be awarded as grants. The actual timing of grants may vary from this estimate.

<sup>2</sup> Centrally appropriated costs are not included in the bill's appropriation.

Department of Local Affairs

**Administration.** The DOLA requires new staff across several program and administrative areas cumulatively representing about 5 FTE beginning in FY 2024-25. This includes program staff to work with partner agencies to develop the certification program, create report templates, adopt rules for compliance, determine protocols for local government review, and provide technical assistance to local planning agencies and governing bodies to bring local codes into compliance with new ADU requirements. In FY 2025-26, communications and contracting staff are required to assist program managers with the ADU grant program, process applications for reimbursement, and for budgeting and accounting. Personal services assume an August 1 start date, and include standard operating expenses, capital outlay costs, and travel.

**Information technology.** The Office of Information Technology (OIT) will update and expand the Local Government Information System in DOLA to allow the department to host ADU supportive jurisdiction certifications and manage the renewal and application process. This includes an initial cost in FY 2024-25, and a reduced cost in subsequent fiscal years for testing and maintenance.

**Consultant assistance.** DOLA will hire consultants to assist and advise staff with any complex technical guidance necessary to establish the certification process and grant program, and to assist the department with reviewing local codes and certification reports. Consultant assistance is only anticipated in FY 2024-25 and FY 2025-26.

**ADU encouragement grants.** Beginning in FY 2025-26, DOLA will have increased costs to award grants and reimbursements to ADU supportive jurisdictions. After accounting for administrative expenses for FY 2024-25 through FY 2028-29, approximately \$7.6 million will be available to assist certified ADU supportive jurisdictions, to be spent across multiple fiscal years. For informational purposes, the fiscal note assumed \$1.9 million per year will be awarded for four years. Grant awards and uses must be determined following certification has been verified by the department, and the actual timing and amount of grants may vary by year. DOLA may

seek adjustments to annual appropriations once more information on the timing of grants is known.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are shown in Table 2.

## Office of Economic Development and International Trade

**CHFA contract.** The bill increases state expenditures by up to \$8 million from the Economic Development Fund for OEDIT to contract with CHFA to administer additional programs supporting the financing of ADU construction. The total amount will depend on the contract established between the Economic Development Commission and the authority. This fiscal note assumes any administrative effort on the part of OEDIT to contract with CHFA will be spent from the authorized \$8 million amount.

## Other State Agencies

Workload also increases in CDOT, OEDIT, and the Department of Law to assist DOLA with the certification program design and implementation. This effort does not require any change in appropriations.

## Local Government

Subject jurisdictions will have increased costs to revise land use codes and zoning to accommodate the ADU requirement. Some jurisdictions may already be compliant, but for others, revising codes will increase costs and possibly staffing. Some of these costs will be offset with technical assistance provided by DOLA. Jurisdictions obtaining ADU supportive certifications will be eligible for additional grant assistance to implement strategies to encourage the construction or conversion of ADUs.

## Statutory Public Entity

Based on negotiations with OEDIT, CHFA will have increased administrative and program expenses up to \$8 million to establish one or more financial assistance programs for constructing ADUs. OEDIT does not require annual appropriations to spend from the Economic Development Cash Fund. This fiscal note assumes the contracted services will begin sometime in FY 2024-25.

## **Departmental Difference**

The Colorado Energy Office assumes that language in the bill authorizing DOLA to develop policies in consultation with the CDOT, the CEO, and OEDIT increase General Fund expenses for the CEO by \$73,226 and 0.3 FTE. Costs are estimated for a Climate Change Specialist and Analyst V to lead coordination with DOLA to create a subject jurisdiction certification process and grant program. This includes contributing to and reviewing all guidance documents, providing technical assistance, developing grant program rules and application reviews, reporting review and certification, and conducting other key implementation activities.

This fiscal note excludes additional appropriations to partner agencies to provide any consulting role. If partner agencies providing consultation to DOLA have costs greater than existing resources, it is assumed that these costs will be addressed through the annual budget process.

## **Effective Date**

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

## **State Appropriations**

For FY 2024-25, the bill includes an appropriation of \$537,246 from the ADU Fee Reduction and Encouragement Grant Program Cash Fund to the Department of Local Affairs, and 4.9 FTE. Of this amount, the Office of Information Technology requires \$70,000 in reappropriated funds.

For FY 2024-25, the bill includes a General Fund appropriation of \$8.0 million to the Office of the Governor.

## **State and Local Government Contacts**

Colorado Energy Office	Colorado Housing Finance Authority	Counties
Information Technology	Law	Local Affairs
Municipalities	Economic Development	Regulatory Agencies

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The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).