Initiative 21

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Impact Statement

Date: August 18, 2023 **Fiscal Analyst:** David Hansen (303-866-2633)

LCS TITLE: LIMITATION ON PROPERTY TAX INCREASES

Fiscal Impact Summary		FY 2024-25	FY 2025-26
Expenditures	School Finance[1]	$113.6 million	$209.5 million

[1] *Expenditures for the state share of school finance may be paid from the General Fund, the State Education Fund, the State Public School Fund, or a combination of these.*

Disclaimer. *This initial fiscal impact statement has been prepared for an initiative approved for petition circulation by the Secretary of State. If the initiative is placed on the ballot, Legislative Council Staff may revise this estimate for the ballot information booklet (Blue Book) if new information becomes available.*

Summary of Measure

The measure modifies the state constitution to limit growth in property tax revenue on a property to no more than 3 percent annually, unless the property is improved by adding more than 10 percent to the square footage of the existing buildings or structures on a property, or the property's use is changed. If the measure's improvements or use thresholds are met, it triggers a reappraisal of the property's actual value.

The measure allows the state to retain and spend revenue, up to $100 million each year beginning in FY 2024-25, in excess of the current law limit ("Referendum C cap") to offset reduced property tax revenue and to reimburse local governments for fire protection.

Local Government

Property tax revenue. The measure is expected to reduce local property tax revenue by limiting annual growth in property taxes. The amount of the impact will depend on how the measure is implemented. Assuming the measure first applies to 2024 property taxes paid in 2025, it is expected to reduce property tax revenue by $426.3 million in 2025 and $775.1 million in 2026. Impacts are expected to vary based on market conditions and mix of property classes within each tax district. Areas with rapid growth in market values or large amounts of revenue from oil and gas or producing mines may experience a proportionally larger decrease. Expanding areas with large amounts of new construction or areas with slow growing or declining values could experience a proportionally smaller decrease.

Assumptions. The estimates are based on the December 2022 Legislative Council Staff forecast for assessed values. A forecast of assessed values is not available beyond the 2025 property tax year. The analysis assumes growth in projected actual values for residential and nonresidential property types between tax years 2023 and 2024 by school district represent aggregate percentage changes due to improvements and use under the measure through the forecast period. Further, the analysis assumes increases in assessment rates and changes to valuation under current law contribute to growth in property tax revenue up to the measure's limitations.

School districts. By reducing property tax revenue to school districts, the measure impacts total program funding for school finance, and a portion of lost school district revenue will be offset by increased state contributions to total program funding. Based on the share of 2022 total program mill levies to average mill levies by county and estimated revenue loss, the measure would decrease the local share of the school funding formula and increase the state aid to school districts by an estimated $113.6 million in FY 2024-25 and $209.5 million in FY 2025-26. Actual changes will depend on the interaction of the measure with school finance.

Local expenditures. The measure is expected to require changes to the statutes that direct how county assessors determine the amount of property tax due and will likely require costs to upgrade software systems and procedures. The measure may also require increased workload and costs for county treasurers.

State Revenue

The measure will reduce local property taxes paid by oil and gas producers, thereby reducing future ad valorem tax credits that they can claim when calculating state severance taxes. This will increase state cash fund revenue from severance taxes beginning in FY 2024-25. The amount of this impact will depend on producers' specific tax situations and has not been estimated.

State Expenditures

School finance. As noted in the Local Government section, the measure is expected to reduce the local share of total program funding for school finance, which will result in a corresponding increase in the state aid requirement. The measure will increase state expenditures for school finance by an estimated $113.6 million in FY 2024-25 and $209.5 million in FY 2025-26. The state aid obligation may be paid from the General Fund, the State Education Fund, the State Public School Fund, or a combination of these.

State workload. The measure is expected to increase workload for the Division of Property Taxation to update manuals and procedures and to provide technical assistance to local governments.

Taxpayer Impact

Property taxes. The measure reduces property taxes paid by property owners, increasing the amount of after-tax income available for some property owners to spend, save, or invest elsewhere in the economy in certain years. Based on the assumptions in the Local Government section, after tax income could increase by $426.3 million in 2025 and $775.1 million in 2026.

The measure will decrease revenue available for counties, municipalities, school districts, and special districts relative to current law, lowering the amount of funds available for public services and potentially impacting certain taxpayers.

TABOR refunds. The measure allows the state to retain and spend up to $100 million per year above the Referendum C cap beginning in FY 2024-25, decreasing the amount of state revenue required to be refunded to taxpayers when revenue subject to TABOR is above the cap. For FY 2024-25, the measure is projected to allow the state to retain $100 million based on the June 2023 Legislative Council Staff forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25.

The measure may interact with state backfill requirements and reimbursements to local governments under Senate Bill 22-238. The fiscal impact of this interaction, if any, will depend on how the measure is implemented and is not estimated here.

Effective Date

If approved by voters at the 2024 general election, this measure takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State and Local Government Contacts

Counties	County Assessors	Information Technology
Property Tax Division	School Districts	Special Districts

Revisions from Fiscal Summary

This analysis was updated to reflect a change in its assumed implementation date. This analysis assumes that the measure will apply beginning with property tax year 2024, rather than 2023.