SB 24-233

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Revised Fiscal Note

(replaces fiscal note dated May 6, 2024)

Drafting Number:	LLS 24-1148	**Date:**	May 6, 2024
Prime Sponsors:	Sen. Hansen; Kirkmeyer Rep. deGruy Kennedy; Frizell	**Bill Status:** **Fiscal Analyst**:	Senate Appropriations David Hansen | 303-866-2633 david.hansen@coleg.gov

Bill Topic: **PROPERTY TAX**

Summary of Fiscal Impact:

☒ State Revenue ☒ State Transfer ☒ Local Government
☒ State Expenditure ☐ TABOR Refund ☐ Statutory Public Entity

The bill makes reductions in valuations for residential and commercial property taxation beginning with the 2024 property tax year, and starting in the 2025 property tax year makes reductions that impact schools and local government entities separately. The bill introduces a local revenue growth limit and makes other changes to property tax law. The bill increases state expenditures, and makes transfers. The bill decreases local property tax revenue and increases local expenditures.

Appropriation Summary: For FY 2024-25, the bill requires appropriations totaling $352.0 million to multiple agencies.

Fiscal Note Status: The revised fiscal note reflects the introduced bill. It has been updated to reflect new information.

Table 1
State Fiscal Impacts Under SB 24-233

		Budget Year FY 2024-25	Out Year FY 2025-26	Out Year FY 2026-27
Revenue		-	-	-
Expenditures	General Fund	$260,669	$75,587	$56,206
	Cash Funds	$10.3 million	-	-
	School Finance[1]	$351.7 million	$74.1 million	$113.1 million
	Centrally Appropriated	$38,401	$19,018	$13,705
	Total Expenditures	**$362.2 million**	**$74.2 million**	**$113.2 million**
	Total FTE	**2.0 FTE**	**1.1 FTE**	**0.8 FTE**
Transfers	General Fund	($157.7 million)	$147.4 million	-
	Cash Funds	$157.7 million	($147.4 million)	-
	Net Transfer	**$0**	**$0**	**$0**
Other Budget Impacts	General Fund Reserve	($157.7 million)	($157.7 million)	($157.7 million)

1 This amount may be paid from the General Fund, the State Education Fund, the State Public School Fund, or a combination of these. See State Appropriations Section.

Summary of Legislation

Property tax assessment for residential property. The bill lowers assessment rates and extends value reductions beginning in the 2024 property tax year.

Property tax year 2024. For the 2024 property tax year, the bill carries over temporary assessment rates and actual value subtractions from the 2023 property tax year. This includes:

- for multifamily residential property, a 6.7 percent assessment rate applied to the actual value of the property minus $55,000 or the amount that reduces assessed value to $1,000, down from 6.8 percent with no subtraction under current law;
- for other residential property, a 6.7 percent assessment rate applied to the actual value of the property minus $55,000 or the amount that reduces assessed value to $1,000, down from an estimated 7.06 percent rate with no subtraction under current law.

Property tax years 2025 and after. Beginning with the 2025 property tax year, the bill creates two assessed values for each residential property: one that is used for mill levies assessed by school districts, and one that is used for all other local government entities.

- **Local government entities**. For local government entities other than school districts, the bill reduces the assessment rate for all residential property to 6.7 percent for property tax year 2025 only. For property tax year 2026 and all later years, the residential assessment rate is 6.95 percent applied to the actual value of the property minus 10 percent of the property's actual value, up to $70,000, or an amount that reduces assessed value to $1,000. Beginning with the 2027 property tax year, the $70,000 maximum is increased annually by inflation.
- **School districts.** For school district mill levies, the bill sets the assessment rate for all residential property to 7.15 percent, equal to the permanent residential assessment rate under current law. If the local share of total program funding for school finance reaches 60 percent in 2026 or a later property tax year, then for subsequent property tax years, the residential assessment rate for school districts is adjusted annually so that the local share equals 60 percent of total program funding. The bill specifies that this adjustment cannot cause the rate to exceed 7.15 percent.

Property tax assessment for improved commercial property. For the 2024 property tax year, the bill carries over the temporary assessment rates and actual value subtractions so that they apply to improved commercial property for the 2023 property tax year. This includes a 27.9 percent assessment rate applied to the actual value of the property minus $30,000 or the amount that reduces assessed value to $1,000, down from 29 percent with no subtraction under current law.

Beginning with the 2025 property tax year, the assessment rate for improved commercial property is reduced from 29 percent under current law to 27 percent, then further each year until reaching a 25 percent rate in 2027, as shown in Table 2.

Table 2
Improved Commercial Assessment Rates Under SB 24-233

Property Tax Year	2024	2025	2026	2027
Assessment Rate	27.9% (after $30,000 adjustment)	27.0%	26.0%	25.0%

Local government reimbursements. The bill creates a process for local government reimbursements for local government entities, except school districts, that had a decline in assessed value from the 2022 property tax year to the 2024 property tax year. Reimbursements will be based on the decline in assessed value and the entity's 2022 mill levy, less mills for bonds and contractual obligations.

General Fund reserve. For FY 2024-25 and all future years, the bill lowers the General Fund reserve requirement to 14 percent of appropriations, from 15 percent under current law. For FY 2024-25, the increased amount of General Fund available to spend under the lower reserve requirement will be transferred to the Local Governmental Entity Backfill Cash Fund described above.

Local Governmental Entity Backfill Cash Fund. The bill creates the Local Government Backfill Cash Fund and transfers an amount equal to 1 percent of General Fund appropriations to the fund in FY 2024-25. The fund is used to pay the reimbursements described above, and any amount remaining in the fund after reimbursements are paid is transferred back to the General Fund.

Property tax revenue limit. Beginning with the 2025 property tax year, the bill limits property tax revenue growth for local governments, other than school districts, home-rule jurisdictions, and local governments where revenue is already limited by TABOR or by the 5.5 percent revenue limit in current law. The limit is equal to the level of the local government's 2023 property tax collections, plus any reimbursements received by the state for that year, grown annually by 5.5 percent.

Certain sources and uses of property taxes are excluded from the limit. The limit excludes revenue from oil and gas and producing mines, as well as new construction, changes in classification, annexations, formerly exempt property that becomes taxable, corrections and refunds, abatements, and bonds and contractual obligations, among other sources. Beginning in 2025, revenue from new voter-approved mill levy increases is also excluded.

In order to meet the limit, a local government is required to either enact a temporary property tax credit or temporarily reduce its mill levy. Revenue collected in excess of the limit must be refunded. Enacting a credit or temporarily reducing a mill levy does not change the underlying mill levy, so these credits or reductions may revert in later years if allowed by the cap.

With voter approval, the bill allows local governments to waive the limit for a single property tax year or all future property tax years. If local voters temporarily waive the limit, the base year for calculation of the 5.5 percent growth cap is reset to the year when the waiver last applied.

Property tax deferral. The state property tax deferral program allows homeowners to defer a portion of their property tax to be paid with interest when the property is sold or transferred.

For those over 65 and those who are active duty military personnel, any tax may be deferred, subject to limits relating to the value of the home. For other homeowners, tax deferral is allowed only for the increment by which property taxes increase by more than 4 percent from the average of the person's property taxes for the two prior property tax years. The bill removes the 4 percent cap for these homeowners starting with the 2025 property tax year.

Background

Senate Bill 22-238. During the 2022 session, the General Assembly passed Senate Bill 22-238, which made temporary changes to assessment rates and property valuation for the 2023 and 2024 property tax years. For the 2024 property tax year, SB 22-238:

- temporarily reduced the assessment rate for multifamily residential property to 6.8 percent from 7.15 percent;
- set the assessment rate for other residential property to a level that would result in a $700 million reduction in revenue attributable to the bill over the 2023 and 2024 property tax years, estimated at 7.06 percent; and
- temporarily reduced the assessment rate for agricultural and renewable energy property to 26.4 percent from 29 percent.

School finance. Public schools in Colorado are funded through a combination of state and local government revenue. A formula in state law determines the amount of total program funding that each district should receive. District property taxes and specific ownership taxes make up the local share of funding, and a state aid requirement is set to equal the difference between the local share and the total program funding amount. Changes to property taxes affect the local share of school finance. Reductions (or increases) in the local share of total program funding require an equivalent increase (or decrease) in the state aid requirement.

Assumptions

Assessed value impacts. Based on the December 2023 Legislative Council Staff (LCS) forecast for assessed values, the bill is expected to reduce assessed values by amounts shown in Table 3.

Table 3
Assessed Value Impacts Under SB 24-233
Millions of Dollars

	Current Law		Non-School Gov'ts Under SB 24-233		School Districts Under SB 24-233	
Year	Assessed Value	Percent Change	Assessed Value	Percent Change	Assessed Value	Percent Change
2023	$187,315		$187,315		$187,315	
2024*f*	$200,214	6.9%	$185,425	-1.0%	$185,425	-1.0%
2025*f*	$203,846	1.8%	$194,161	4.7%	$200,836	8.3%
2026*f*	$205,495	0.8%	$190,968	-1.6%	$200,928	0.0%

f=forecast

Property tax revenue impacts. The bill affects property tax revenue through reduced assessed values and application of the property tax revenue limit.

Reduced assessed values are assumed to reduce property tax revenue for local governments that levy fixed mills, including most counties, municipalities, and special districts. School districts are assumed to experience reductions in revenue generated from their total program mills, as well as from override mills in districts where voters have approved fixed mill overrides.

Some levies are not expected to generate less revenue from reduced assessed values. These include bond indebtedness mills for many local governments, metropolitan districts, and school districts. School district override mills are assumed not to generate less revenue if the school district is already as its statutory override revenue cap, or where voters have approved overrides to generate fixed dollar amounts or inflation-adjusted dollar amounts.

In years when market conditions drive sufficient growth in assessed values, the property tax revenue limit is assumed to reduce revenue to statutory counties, municipalities, and special districts as discussed in the Local Government section below. Reduced property tax revenue attributable to the revenue limit has no direct state fiscal impact. School districts are excluded from the property tax revenue limit, so the limit has no direct impact on the state aid requirement for school finance.

State Revenue

Property tax deferral. The bill will increase state revenue by the amount of property tax deferred, estimated in the State Expenditure section, plus interest. However, the amount and timing of this impact depends on when liens are collected, which is usually when the property is sold or transferred. Impacts beginning with the 2025 property tax year are assessed as minimal, but will exceed the expenditure impact by a margin of interest over all fiscal years. Revenue from interest payments is subject to TABOR.

State Transfers

On April 1, 2025, the bill transfers an amount equal to one percent of appropriations used for calculating the FY 2024-25 General Fund reserve from the General Fund to the Local Governmental Entity Backfill Cash Fund created in the bill. Incorporating the 2024 Long Bill and orbital package, this amount is estimated at $157.7 million in FY 2024-25 only. Any increase or decrease in appropriations will correspondingly increase or decrease this amount.

At the end of the fiscal year, any amount not expended for local government reimbursements is transferred back to the General Fund. This amount is estimated at $147.4 million, based on an assumed $10.3 million expenditure for reimbursements.

State Expenditures

The bill increases state expenditures by $362.3 million in FY 2024-25, $74.2 million in FY 2025-26, and $113.2 million in FY 2026-27, and by greater amounts in later years. Costs are for the state share of school finance and local government reimbursements. The bill also increases administrative expenditures for the Department of Local Affairs and Department of Treasury. Expenditures are shown in Table 4 and detailed below.

Table 4
Expenditures Under SB 24-233

	FY 2024-25	FY 2025-26
State Share of School Finance	**$351.7 million**	**$74.1 million**
Department of Local Affairs – DPT		
Personal Services	$31,661	-
Operating Expenses	$640	-
Capital Outlay Costs	$6,670	-
Office of Information Technology	$112,726	$17,444
Centrally Appropriated Costs[1]	$30,581	$4,114
FTE – Personal Services	0.5 FTE	-
FTE – Information Technology	1.0 FTE	0.2 FTE
DPT Subtotal	**$182,278**	**$21,558**
Department of Local Affairs – DLG		
Personal Services	-	$25,329
Operating Expenses	-	$512
Centrally Appropriated Costs[1]	-	$7,084
FTE – Personal Services	-	0.4 FTE
DLG Subtotal	**-**	**$32,925**
Department of Treasury		
Personal Services	$31,661	$31,661
Operating Expenses	$640	$640
Capital Outlay Costs	$6,670	-
Software Programming	$70,000	-
Local Government Reimbursements	$10,311,233	-
Centrally Appropriated Costs[1]	$7,820	$7,820
FTE – Personal Services	0.5 FTE	0.5 FTE
Treasury Subtotal	**$10,428,024**	**$40,121**
Total	**$362.3 million**	**$74.2 million**
Total FTE	**2.0 FTE**	**1.1 FTE**

[1] Centrally appropriated costs are not included in the bill's appropriation.

School finance. The bill decreases property tax collections from school district total program mills, requiring an equivalent increase in the state share of total program funding for school finance. The state aid obligation is expected to increase by $351.7 million in FY 2024-25, $74.1 million in FY 2025-26, and $113.1 million in FY 2026-27. 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 sources.

Department of Local Affairs — Division of Property Taxation. In FY 2024-25, the bill requires the addition of temporary staff, estimated at 0.5 FTE, to calculate reimbursement amounts for local governments. Table 4 shows expenditures for these staff and standard operating and capital outlay costs. The Division will also have increased workload to review and update procedures, forms, manuals, and to provide technical assistance to local governments. Additionally, the Division will require an update to their portal system that will require 1.0 FTE and other costs, with this work done by the Office of Information Technology using reappropriated funds. Beginning in FY 2025-26, the Office of Information Technology will require 0.2 FTE for ongoing maintenance of the portal system.

Department of Local Affairs — Division of Local Government. The bill requires 0.4 FTE in FY 2025-26 to provide technical assistance to local governments for the property tax revenue limit. After an initial increase in technical assistance requirements in the first year of the limit's implementation, the bill requires a lower 0.1 FTE in future years to provide technical assistance.

Department of Treasury. The bill requires that the Treasurer issue warrants from the Local Governmental Entity Backfill Cash Fund to reimburse revenue losses for local governments other than school districts where assessed valuations decrease between 2022 and 2024. For property tax year 2023, when similar reductions were in place, the DPT reports that the total amount by which revenue decreased in districts experiencing a valuation decrease was $10.3 million. Because property tax year 2024 is an intervening year when most assessments remain constant, the fiscal note likewise expects a $10.3 million expenditure for reimbursements. Because these reimbursements are paid via a warrant, they do not require an appropriation.

Treasury expenditures will increase to rebuild the software system for the property tax deferral program to accommodate the changes in the bill, and to administer the program due to an expected increase in participation. Contract software programming costs, estimated at $70,000, are required because the current system cannot accommodate a change to the 4 percent threshold in current law without significant changes. Personnel costs are shown for the addition of 0.5 FTE administrator beginning in July 2024, and include standard operating expenses and capital outlay costs.

Property tax deferral. The expanded property tax deferral will require loans from the state treasury to local governments beginning in FY 2025-26 when additional property taxes will first be deferred. This impact is estimated at between $500,000 and $1.0 million in FY 2025-26 and subsequent years. Any amount loaned will be repaid by local governments to the state upon their collection of deferred tax and interest when the property is sold.

Because loans to local governments for deferrals are temporary obligations that are eventually repaid, they are not appropriated in the state budget.

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 4.

Other Budget Impacts

General Fund reserve. The bill reduces the statutory reserve requirement from 15 percent of appropriations under current law, to 14 percent of appropriations for FY 2024-25 and all later fiscal years. For FY 2024-25, this provision is expected to reduce the reserve requirement by $157.7 million. The reduction in reserves in FY 2024-25 is equal to the amount transferred to the Local Governmental Entity Backfill Cash Fund, identified in the State Transfers section above.

In future years, the reduction to the reserve will be similar in scale, but the exact amount will depend on future year General Fund appropriations. Because the bill continues the 14 percent reserve requirement in FY 2025-26 and later years, the state is not required to rebuild the General Fund reserve back to the 15 percent level in future budget years.

Local Government Impacts

Local government revenue. The bill decreases revenue to local governments compared with current law, on net, beginning with 2024 property taxes payable in 2025. The bill decreases property tax revenue to all local governments that levy a property tax. These revenue reductions are offset by state funds to school districts from state aid payments for school finance and to local governments other than school districts for those that lost value from 2022 to 2024. Local government revenue impacts are summarized in Table 5.

Table 5
Local Government Revenue Impacts under SB 24-233

	Property Tax Year 2024	Property Tax Year 2025	Property Tax Year 2026
Property Taxes – Local Gov't Entities	($390.5 million)	($250.2 million)	($385.4 million)
Property Taxes – School Districts	($559.0 million)	($124.5 million)	($188.7 million)
Property Taxes – Revenue Limit	($0)	($0)	($0)
State Aid for School Finance	$351.7 million	$74.1 million	$113.1 million
State Reimbursements to Other Local Gov'ts	$10.3 million	$0	$0
Total	**($587.5 million)**	**($300.6 million)**	**($461.0 million)**

Property tax — assessments. The bill decreases revenue from property taxes due to actual value subtractions and assessment rate reductions. The revenue estimates in Table 5 show changes relative to current law, under which property tax reductions enacted for 2023 and 2024 are scheduled to expire. Estimates assume the December 2023 LCS forecast for assessed values.

One source of estimation uncertainty is that some mill levies remain constant, while others move, or “float,” in response to changes in assessed values in order to generate a certain amount of tax revenue. For municipalities and special districts, and for school district override mills, the analysis excludes mill levies that floated down from 2022 to 2023, which are assumed to float up in response to the assessed value reductions in the bill. County impacts are based on county mill levies where voters have waived TABOR limitations or that remained fixed between the 2022 and 2023 property tax years; therefore, the bill is assumed not to affect revenue collected under these levies. If fewer levies float than assumed, the revenue impact will be greater than estimated, and if more levies float, the revenue impact will be less than estimated.

Property tax — revenue limit. The bill limits each affected local government’s property tax revenue to its level for property tax year 2023, plus state reimbursements for 2023, grown by 5.5 percent annually. With the tax cuts in the measure, the fiscal note estimates that no local governments will be affected by the limit through tax year 2026; however, there may be impacts in some areas with unusually volatile real estate markets. The 2025 reassessment may impact some local governments, as growth is projected to average 4.7 percent statewide as shown in Table 3. This provision is expected to reduce local government revenue in future years when market conditions drive revenue growth that would otherwise exceed the limit.

State aid for school districts. The school finance act requires the state government to pay the difference between a district’s property tax revenue collected from its total program mill levy, and the amount of total program funding calculated for the district under state law. The bill decreases school district property tax revenue, thereby increasing the state aid requirement as shown in Table 5. Other mill levies assessed by school districts, such as override mills, are not reimbursed.

State reimbursements. For property tax year 2024 only, the bill requires that the state reimburse lost revenue to local governments, other than school districts, for which property tax revenue decreases between 2022 and 2024 as a result of the assessed value reductions in the bill. For property tax year 2023, when similar reductions were in place, the DPT reports that the total amount by which revenue decreased in districts experiencing a valuation decrease was $10.3 million. Because property tax year 2024 is an intervening year when most assessments remain constant, the fiscal note expects a similar $10.3 million in total reimbursements, as shown in Table 5.

Property tax deferral. The bill expands the state’s property tax deferral program, under which taxpayers may defer the increment by which their property taxes increase each year. The program has no net impact on local revenue, since the decrease in property tax is offset by a payment from the state.

Local government expenditures. The bill increases expenditures for county treasurers and assessors to implement the property tax changes in the bill. The bill requires local governments to update software systems, calculate assessed value subtractions, calculate and receive reimbursements, coordinate with the state and other affected local governments, and respond to taxpayer inquiries. Assessors estimate aggregate implementation costs for these across counties could total between $3 million and $10 million.

Technical Note

The bill requires that payments for local government reimbursements be paid from the Local Governmental Entity Backfill Cash Fund, which receives a transfer in FY 2024-25. This fiscal note estimates that the transfer amount will be more than sufficient to pay reimbursements. However, the bill does not specify how reimbursements will be paid if the amount of the transfer is insufficient.

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 requires that the appropriation for the state share of total program funding for school finance be increased by $351,661,729. This appropriation may be made from the General Fund, the State Education Fund, the State Public School Fund, or a combination of these.

In addition, for FY 2024-25, the bill requires General Fund appropriations totaling $260,669, and 2.0 FTE, including:

- $151,698 to the Department of Local Affairs, and 0.5 FTE. Of this amount, $112,726 is reappropriated to the Office of Information Technology, with an additional 1.0 FTE.
- $108,971 to the Department of Treasury, and 0.5 FTE.

State and Local Government Contacts

Counties	County Assessors	Information Technology
Judicial	Local Affairs	Municipalities
Property Tax Division	Special Districts	Treasury

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.