Proposition HH

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Fiscal Impact Statement

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LCS TITLE: REDUCE PROPERTY TAXES AND RETAIN STATE REVENUE

Fiscal Impact Summary		FY 2023-24	FY 2024-25	FY 2025-26
Revenue		-	-	-
Expenditures	General Fund	$0.1 million	$0.2 million	$0.2 million
	Prop HH GF Exempt Account	-	$5.9 million	$71.7 million
	School Finance[1]	$133.0 million	$310.7 million	$364.8 million
	Local Gov't Backfill Cash Fund	-	$128.0 million	-
	Total	**$133.1 million**	**$444.8 million**	**$436.7 million**
Transfers	General Fund	($200.0 million)	-	-
	Prop HH GF Exempt Account	-	($160.7 million)	($286.9 million)
	Local Gov't Backfill Cash Fund	$128.0 million	-	-
	State Public School Fund	$72.0 million	-	-
	Housing Development Grant Fund	-	$8.3 million	$17.9 million
	State Education Fund	-	$152.3 million	$269.0 million
	Net Transfers	**$0**	**$0**	**$0**

[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 sources.*

Summary of Measure

If approved by voters, Proposition HH allows the state to retain more state revenue through at least FY 2031-32. In addition, the approval of the measure by voters will effectuate changes to state law that were included in Senate Bill 23-303 and House Bill 23-1311 concerning property taxes and TABOR refunds. The property tax provisions include changes to assessment rates, valuations, classification, deadlines for administering property taxes for the 2023 property tax year, and local government reimbursements. The measure also establishes a new local property tax revenue limit, creates a new cash fund, initiates transfers of state funds, and modifies TABOR refund mechanisms. These changes are discussed in more detail below.

Proposition HH cap. The measure allows the state to retain and spend revenue in excess of the current law limit, or Referendum C cap. The Referendum C cap is adjusted annually for inflation, population growth, qualification and disqualification of enterprises, and debt service changes. In addition to these adjustments, the Proposition HH cap includes an additional adjustment of 1 percentage point per year. Growth in the Proposition HH cap is cumulative, such that each annual 1 percentage point increase adds to the prior year's cap and allows a greater amount to be retained.

The property assessment reductions under the measure apply through tax year 2032. Beginning in FY 2032-33, the Proposition HH cap is set to the level of the Referendum C cap unless the General Assembly acts to extend the assessment rate reductions under Proposition HH that apply for tax year 2031, or acts to reduce property assessments in a different way that accomplishes an equal or greater reduction in assessed values.

Under the measure, revenue retained in excess of the Referendum C cap, up to the Proposition HH cap, is deposited in a newly created Proposition HH General Fund Exempt Account. Revenue in the account is first used to partially reimburse local governments for their lost property tax revenue that results from the assessment rate and value reductions that take effect under the measure. Lost property tax revenue that results from reduced mill levies, for example as a result of the local property tax limit in the measure, are not reimbursed. Second, the measure requires a transfer of 5 percent of the amount retained under Proposition HH, or $20 million, whichever is smaller, to the Housing Development Grant Fund. Any retained amount remaining after reimbursements and the transfer to the Housing Development Grant Fund each year is transferred to the State Education Fund. Money transferred to the fund cannot replace current General Fund spending for public school finance.

Local property tax limit. The measure creates a new limit for local property taxes beginning in property tax year 2023. The limit applies by default to most local governments, but does not apply to school districts and home rule cities and counties. Under the limit, growth in revenue is limited to the rate of inflation in the Denver-Aurora-Lakewood Consumer Price Index over the prior year's property tax revenue. There are several exceptions when calculating the limit including revenue from new construction, changes in classification, annexations, refunds, oil and gas, producing mines, and for bonds and contractual obligations. To exceed the limit, a local government must provide notice, conduct a public hearing, and hear testimony before adopting a resolution or ordinance.

Residential real property subclasses. The measure creates two new subclasses of residential property for owner-occupied primary residences and qualified senior primary residences. The new subclasses are effective beginning with the 2025 property tax year. For their property to be assessed under the new subclasses, property owners must complete and file an application with their local county assessor. The measure creates new criminal offenses for giving false information for a property tax reduction related to these new property subclasses, similar to an existing offense for false information related to the existing senior homestead exemption in current law.

Property tax assessment for residential property. The measure applies temporary assessment rate reductions for residential property classes and expands reductions in valuation. Table 1 presents residential assessments implemented by the measure and compares these assessments to those in current law. Under both current law and the measure, a dollar amount set in statute may be subtracted from a property's market valuation before application of the assessment rate.

Table 1
Residential Property Assessments Under Proposition HH
Amounts in italics show changes from current law

Property Tax Year	2023	2024	2025-2032	2033 and later
Owner-Occupied Primary Residence	6.7% after $50,000 reduction *from 6.765% after $15,000 reduction*	6.7% after $40,000 reduction *from 7.063%* for single family, 6.8% for multifamily*	6.7% after $40,000 reduction *from 7.15%*	7.15% *unchanged*
Senior Owner-Occupied Primary Residence	6.7% after $50,000 reduction *from 6.765% after $15,000 reduction*	6.7% after $40,000 reduction *from 7.063%* for single family, 6.8% for multifamily*	6.7% after $140,000 reduction *from 7.15%*	7.15% *unchanged*
Other Multifamily	6.7% after $50,000 reduction *from 6.765% after $15,000 reduction*	6.7% after $40,000 reduction *from 6.8%*	6.7% after $40,000 reduction *from 7.15%*	7.15% *unchanged*
Other Residential	6.7% after $50,000 reduction *from 6.765% after $15,000 reduction*	6.7% after $40,000 reduction *from 7.063%**	6.7% *from 7.15%*	7.15% *unchanged*

* *Current law requires the Property Tax Administrator to determine the 2024 assessment rate for residential property other than multifamily property so as to accomplish a cumulative $700 million property tax reduction attributable to Senate Bill 22-238 over the 2023 and 2024 property tax years. Based on preliminary assessed value data, this rate is projected at 7.063%. Proposition HH would repeal this requirement.*

Renewable energy agricultural land. The measure creates a new subclass of agricultural property for renewable energy agricultural land. The actual value of the new subclass will be based on the waste land subclass valuation formula from the Division of Property Taxation.

Property tax assessment for nonresidential property. The measure applies temporary assessment rate reductions for most nonresidential property classes. Table 2 presents nonresidential assessments implemented by the measure and compares these assessments to those in current law.

Table 2
Nonresidential Real Property Assessment Under Proposition HH
Amounts in italics show changes from current law
Omits producing mines and oil & gas, as these are not affected

Property Tax Year	2023	2024-2026	2027-2028	2029-2030	2031-2032
Lodging and Other Improved Commercial Property	27.85% after $30,000 reduction *from 27.9% after $30,000 reduction*	27.85% *from 29%*	27.65% *from 29%*	26.9% *from 29%*	26.9% or 25.9%[1] *from 29%*
Other Commercial, Industrial, Natural Resources, State Assessed	27.85% *from 27.9%*	27.85% *from 29%*	27.65% *from 29%*	26.9% *from 29%*	26.9% or 25.9%[1] *from 29%*
Vacant Land	27.85% *from 27.9%*	29% *unchanged*	29% *unchanged*	29% *unchanged*	29% *unchanged*
Agricultural, Renewable Energy Producing Property	26.4% *unchanged*	26.4% *from 29%*[2]	26.4% *from 29%*	26.4% *from 29%*	26.4% or 25.9%[1] *from 29%*
Renewable Energy Agricultural Land[3]	26.4%	21.9%	21.9%	21.9%	21.9%

[1] *For 2031 and 2032, assessment rates for these classes are reduced to 25.9% if growth in assessed values among the 32 counties with the least growth in assessed values between 2030 and 2031 is greater than or equal to 3.7%.*
[2] *For 2024, the current law assessment rate for these classes is 26.4% under both current law and under the measure.*
[3] *This property subclass is created under the measure in 2024 and is assessed as agricultural property under current law.*

Local government reimbursements. The measure implements a number of modifications to the local government reimbursement mechanisms created in Senate Bill 22-238 for lost property tax revenue, expands the reimbursements to include reductions in value made under the measure, and extends reimbursements for eligible local governments through the 2032 property tax year. Modifications to the reimbursement mechanism include:

- specifying that lost property tax revenue be calculated based on 2022 mill levies, and must exclude mill levies for bonds and contractual obligations;
- allowing all reimbursements required for the 2023 property tax year to be reimbursed from the FY 2022-23 TABOR surplus as a TABOR refund, up from a limit of $240 million under SB 22-238;
- paying reimbursements for the 2024 and 2032 property tax years from a one-time transfer of $128 million from the General Fund to a new cash fund in FY 2023-24, and up to 20 percent of TABOR surplus revenue retained under the Proposition HH cap in FY 2023-24 through FY 2031-32;

- specifies that for local governments that have an increase in real property valuation of more than 20 percent from 2022 to 2023, reimbursements for the 2023 property tax year will be based only on revenue reductions under SB 22-238 and not the changes made under Proposition HH;

- allowing ambulance, fire protection, and health services districts to receive 50 percent reimbursements after their assessed valuation increases more than 20 percent from 2022 levels;

- beginning tax year 2024, designating local government entities in counties with population over 300,000 as ineligible to receive reimbursement payments if and when the increase in the entities' assessed valuation from the 2022 level exceeds 20 percent, but allowing entities in counties with a population under 300,000 to again become eligible if their valuation falls below the threshold; and

- reducing reimbursements payments as necessary to any districts where the payments would cause it to exceed its TABOR revenue limit;

Local Government Backfill Cash Fund and State Public School Fund transfers. The measure creates the Local Government Backfill Cash Fund and transfers $128 million from the General Fund into the new fund in FY 2023-24. Additionally, the measure transfers $72 million from the General Fund to the State Public School Fund in FY 2023-24.

Property tax administration. For the 2023 tax year, the measure implements delays in several deadlines for property tax reporting and administration, including certification of revenues, mill levies, and levying of taxes for school districts and other local governments.

Primary residence real property working group. The measure creates a working group to be convened by the Division of Property Taxation to streamline and improve administration of the primary residence real property class created by the measure. The working group will include assessors and elected county officials that will make recommendations to House and Senate committees by January 1, 2024.

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. The bill also set up reimbursements to local governments, except for school districts, for lost property tax revenue as a result of the bill. The reimbursements are paid as a TABOR refund mechanism to refund a portion of the state's FY 2022-23 TABOR surplus, up to $240 million. If the reimbursements exceed $240 million or the total amount of state TABOR refunds, the remainder is required to be paid from the General Fund. Other changes are detailed below.

For the 2023 property tax year, the bill:

- reduced the valuation of each residential property by up to $15,000;

- reduced the valuation of improved nonresidential commercial property by up to $30,000;

- temporarily lowered the assessment rate for all residential property to 6.765 percent, from 6.8 percent for multifamily property and 6.95 percent for all other residential properties; and

- temporarily lowered the assessment rate for most nonresidential property classes, excluding oil and gas, producing mines, agricultural, and renewable energy producing property to 27.9 percent from 29 percent.

For the 2024 property tax year, the bill:

- 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, projected at 7.063 percent; and

- temporarily reduced the assessment rate for agricultural and renewable energy property to 26.4 percent from 29 percent.

Housing Development Grant Fund. Created in 2009, the Housing Development Grant Fund provides grants to eligible entities to acquire, rehabilitate, and construct affordable housing projects. The fund is administered by the Division of Housing in the Department of Local Affairs.

Assumptions

Assessed value impacts. Based on preliminary 2023 assessed values reported by counties and a Legislative Council Staff (LCS) forecast for 2024 and 2025 assessed values, the measure is expected to reduce assessed values by amounts shown in Table 3.

Table 3
Assessed Value Impacts Under Proposition HH
Millions of Dollars

	Current Law		Proposition HH	
Year	Assessed Value	Percent Change	Assessed Value	Percent Change
2022	$150,166		$150,166	
2023*p*	$193,737	29.0%	$188,002	25.2%
2024*f*	$205,999	6.3%	$192,257	2.3%
2025*f*	$214,609	4.2%	$198,957	3.5%

Source: Colorado Legislative Council Staff. p=preliminary data. f=forecast.

Property tax revenue impacts. The measure affects property tax revenue both through reduced assessed values and application of a 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 and school district override mill levies if a district is already at its override revenue cap or where voters have approved overrides to generate fixed dollar amounts or inflation-adjusted dollar amounts. Districts that are constrained by revenue limitations under TABOR, the 5.5 percent property tax growth limit in current law, or other local policy are also not expected to generate less revenue under the measure. Districts that experienced a reduction in mill levies from the 2020 to 2021 property tax year, adjusted to exclude general mill levies from school districts, are assumed be unaffected under the measure. Actual levies that will be impacted by the measure depend on local policy constraints and decisions and could vary from the estimate in this analysis.

The property tax revenue limit is assumed to reduce revenue to statutory counties, municipalities, and special districts that do not opt out of the limit's constraints on mill levies as discussed in the Taxpayer Impact and Local Government sections below. Reduced property tax revenue attributable to the revenue limit has no direct state fiscal impact. Lost revenue due to reduced mill levies is not reimbursed, as reimbursement amounts are based on 2022 mill levies. 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.

Estimates assume preliminary 2023 assessed values reported by counties and a Legislative Council Staff forecast for 2024 and 2025 assessed values by school district, prorated to counties according to each school district's share of county assessed valuation for the 2022 property tax year. The estimates assume weighted average mill levies by county for the 2022 property tax year from the Division of Property Taxation, except that school district total program mills are adjusted where required under current law enacted in House Bill 21-1164.

Taxpayer Impact

TABOR Refunds

TABOR refunds for FY 2022-23. The measure does not change the total amount to be refunded to taxpayers for FY 2022-23. However, the measure implements changes to the refund mechanisms. Under the measure, an estimated $59 million that would otherwise be refunded via the six-tier sales tax refund mechanism will instead be refunded via property tax reductions, paid via reimbursements to local governments for their losses. Additionally, the measure implements a change in the six-tier refund mechanism for the 2023 tax year only, instead making refunds of equal amounts to all qualifying taxpayers. Table 4 shows the combined impact to taxpayers for the 2023 tax year. The actual amounts refunded will depend on the final state revenue amount for the 2022-23 budget year.

Table 4
Six-Tier TABOR Refund Impacts Under Proposition HH
Tax Year 2023

Adjusted Gross Income	Current Law Refund Estimate *Single / Joint*	Proposition HH Refund Estimate *Single / Joint*	Change in Refund Estimate *Single / Joint*
Up to $50,000	$628 / $1,256	$898 / $1,796	+$270 / +$540
$50,001 to $99,000	$838 / $1,676	$898 / $1,796	+$60 / +$120
$99,001 to $157,000	$964 / $1,928	$898 / $1,796	-$66 / -$132
$157,001 to $218,000	$1,146 / $2,292	$898 / $1,796	-$248 / -$496
$218,001 to $278,000	$1,233 / $2,466	$898 / $1,796	-$335 / -$670
$278,001 and up	$1,984 / $3,968	$898 / $1,796	-$1,086 / -$2,172

This impact occurs because of increases in the amount of the TABOR surplus refunded via property tax reductions paid via reimbursements to local governments, and because of refunds paid to all qualifying taxpayers in equal amounts. The total amount of TABOR refunds required for FY 2022-23 is unchanged.

TABOR refunds for FY 2023-24 through FY 2031-32. The measure allows the state to retain revenue that would otherwise be refunded to taxpayers for these fiscal years. Based on the June 2023 Legislative Council Staff forecast, the estimated amounts to be retained are:

- $166.6 million for FY 2023-24;
- $358.6 million for FY 2024-25; and
- larger amounts in subsequent fiscal years through at least FY 2031-32.

A forecast of state revenue is not available beyond FY 2024-25. Based on the State Demographer's forecast for state population, and assuming annual inflation of 2.5 percent for years beyond the current forecast period, the Proposition HH cap is estimated to exceed the Referendum C cap by $2.2 billion in FY 2031-32, the last year when it applies. Through FY 2031-32, in years when revenue would be refunded to taxpayers under current law, the measure allows for a portion of this revenue, up to the Proposition HH cap, to be retained. The actual amount retained will depend on revenue collections, inflation, population growth, and any later fiscal policy changes.

Through at least FY 2024-25 and for all years when the measure allows for revenue to be retained, the measure will reduce the amount refunded to taxpayers via the six-tier sales tax refund mechanism. The impact on these refunds is equal to the amount of revenue retained by the state under Proposition HH. Estimated TABOR refund impacts for tax years 2024 and 2025 are presented in Table 5 for taxpayers of different incomes.

Table 5
Six-Tier TABOR Refund Impacts Under Proposition HH

Tax Year 2024

Adjusted Gross Income	**Current Law Refund Estimate** *Single / Joint*	**Proposition HH Refund Estimate** *Single / Joint*	**Change in Refund Estimate** *Single / Joint*
Up to $52,000	$357 / $714	$326 / $652	-$31 / -$62
$52,001 to $103,000	$476 / $952	$434 / $868	-$42 / -$84
$103,001 to $163,000	$548 / $1,096	$500 / $1,000	-$48 / -$96
$163,001 to $226,000	$651 / $1,302	$594 / $1,188	-$57 / -$114
$226,001 to $289,000	$701 / $1,402	$639 / $1,278	-$62 / -$124
$289,001 and up	$1,128 / $2,256	$1,028 / $2,056	-$100 / -$200

This impact occurs because Proposition HH reduces the amount of TABOR refunds required for FY 2023-24.

Tax Year 2025

Adjusted Gross Income	Current Law Refund Estimate *Single / Joint*	Proposition HH Refund Estimate *Single / Joint*	Change in Refund Estimate *Single / Joint*
Up to $53,000	$336 / $672	$269 / $538	-$67 / -$134
$53,001 to $105,000	$448 / $896	$358 / $716	-$90 / -$180
$105,001 to $167,000	$515 / $1,030	$412 / $824	-$103 / -$206
$167,001 to $231,000	$612 / $1,224	$490 / $980	-$122 / -$244
$231,001 to $297,000	$659 / $1,318	$527 / $1,054	-$132 / -$264
$297,001 and up	$1,060 / $2,120	$848 / $1,696	-$212 / -$424

This impact occurs because Proposition HH reduces the amount of TABOR refunds required for FY 2024-25.

Property Taxes

Lower assessment rates and reduced property values. Changes to assessment rates and property values under the measure are expected to reduce local property taxes owed by taxpayers by $399.2 million for the 2023 property tax year, $956.2 million for the 2024 property tax year, and $1,087.7 million for the 2025 property tax year.

Local property tax limit. The measure creates a local property tax revenue limit that conditionally reduces local property tax revenues. Limits on property tax revenue begin with property tax year 2023 for local governments excluding school districts and home rule cities and counties. Except for certain exclusions, property taxes are limited to the prior years' property tax revenue increased by the rate of inflation based on the Denver-Aurora-Lakewood consumer price index. Sources and uses of revenue excluded from the limit include:

- revenue from new construction;
- revenue from changes in property tax classifications or annexations;
- revenue that has been abated or refunded;
- revenue from properties that were previously exempt and became taxable;
- payments or expenses incurred for reappraisals ordered or conducted by the State Board of Equalization;
- revenue from producing mines or oil and gas production;
- revenue for payment of bonds, interest, and other contractual obligations approved by voters; and;
- revenue from mill levies approved by voters under certain conditions.

Local governments may exceed the property tax limit with adoption of a resolution or ordinance after conducting a public hearing. Local governments will also be allowed to create temporary property tax credits to refund revenue over the limit without reducing the permanent mill levy. Reduced local property tax revenue under the measure depends on the number of local governments that adopt resolutions or ordinances to exceed the limit, on the amount of revenue derived from exclusions, and whether the local government employs property tax credits to meet limitations under the measure rather than reducing its mill levy permanently. To the extent that local governments abide by the property tax limit and do not opt out, property tax revenue will be reduced. Assuming all impacted local governments abide the limitation, local property taxes owed by taxpayers could be further reduced by an estimated $511 million for property tax year 2023, $474 million in property tax year 2024, and $520 million in property tax year 2025.

To the extent local governments opt out of the limit, derive large portions of revenue from property excluded from the limit, or are constrained by revenue limitations under TABOR or the 5.5 percent property tax growth limit in current law, the reduced tax revenue from the local limit provision will be less than estimated.

Assumptions. This analysis is based on revenue collected for impacted local governments for property tax year 2022, less mill levies assessed for bonds and contractual obligations, inflated by forecast increases in the Denver-Aurora-Lakewood consumer price index from 2022 to 2024 based on the June 2023 LCS forecast. Forecast revenue collections under the measure were inflated further utilizing the increase in assessed values by county from 2019 to 2020 to estimate potential increases from new construction, changes in use, and other increases from a previous intervening year. Revenue losses under the measure were estimated utilizing changes in assessed value under the measure through the forecast period, less estimated assessed value from oil and gas and producing mines.

State Transfers

Propositions HH creates the Local Government Backfill Cash Fund. In FY 2023-24, the measure transfers $128 million from the General Fund to the Local Government Backfill Cash Fund and $72 million to the State Public School Fund.

State revenue retained under the Proposition HH cap will be used to reimburse local governments for lost property tax revenue under the bill, and make transfers to the Housing Development Grant Fund and the State Education Fund. Transfers to the Housing Development Grant Fund will be the lesser of 5 percent of revenue retained under the Proposition HH cap or $20 million.

For FY 2024-25, this analysis estimates transfers from the Proposition HH General Fund Exempt Account of about $8.3 million to the Housing Development Grant Fund and $152.3 million to the State Education Fund. In FY 2025-26, transfers are estimated at $17.9 million to the Housing Development Grant Fund and $269.0 million to the State Education Fund. In future years, transfers to the Housing Development Grant Fund are expected to reach $20 million and increasing amounts are expected to be transferred to the State Education Fund. A forecast of state revenue is not available beyond FY 2024-25 and a forecast of state assessed valuation is not available beyond property tax year 2025. Transfers estimated under the measure are summarized in the table on Page 1.

State Expenditures

State expenditures will increase under the measure by $133.1 million in FY 2023-24, $444.8 million in FY 2024-25, $436.7 million in FY 2025-26. Expenditures are shown in Table 6 and detailed below.

Table 6
State Expenditures Under Proposition HH

	FY 2023-24	FY 2024-25	FY 2025-26
Local Government Reimbursements			
Proposition HH General Fund Exempt Account	-	$5.9 million	$71.7 million
Local Government Backfill Cash Fund	-	$128.0 million	-
Reimbursement Subtotal	**-**	**$133.9 million**	**$71.7 million**
School Finance			
State Share of School Finance[1]	$133.0 million	$310.7 million	$364.8 million
School Finance Subtotal	**$133.0 million**	**$310.7 million**	**$364.8 million**
Department of Local Affairs			
Personal Services	-	$26,385	$116,091
Operating Expenses	-	$675	$2,430
Capital Outlay Costs	-	$6,670	-
Computer Programming	$62,426	$154,891	$10,560
Employee Insurance / Supplemental Retirement	-	$6,877	$30,698
FTE – Personal Services	-	0.4 FTE	1.8 FTE
DOLA Subtotal	**$62,426**	**$195,498**	**$159,779**
Total Costs	**$133.1 million**	**$444.8 million**	**$436.7 million**
Total FTE	**-**	**0.4 FTE**	**1.8 FTE**

[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. Under Proposition HH, an estimated $152.3 million in FY 2024-25 and $269.0 million in FY 2025-26 will be transferred into the State Education Fund from the Proposition HH General Fund Exempt Account.*

Property tax reimbursements to local governments. The measure increases state expenditures by an estimated $133.9 million in FY 2024-25 and $71.7 million in FY 2025-26 to reimburse local governments for lost property tax revenue. Lost property tax revenue reimbursed by the state in FY 2024-25 for property tax year 2024 will first be paid from the Local Government Backfill Cash Fund prior to reimbursements from the Proposition HH General Fund Exempt Account in an amount up to 20 percent of the revenue retained under the Proposition HH cap. Beginning for tax year 2025 reimbursements paid in FY 2025-26, the entire amount of the reimbursements is expected to be paid from the Proposition HH General Fund Exempt Account.

School finance. The measure 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 $133 million in FY 2023-24, $310.7 million in FY 2024-25, and $364.8 million in FY 2025-26, and larger amounts in future years as temporary nonresidential assessment rates decrease. 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. Beginning in FY 2024-25, the measure may result in transfers to the State Education Fund from revenue retained under the Proposition HH cap. As described in the State Transfer section, an estimated $152.3 million will be transferred to the fund in FY 2024-25, and $269.0 million will be transferred in FY 2025-26, with increasing amounts expected in future years. Transfers may exceed increased expenditures for school finance due to reduced local property tax revenue prior to FY 2032-33, after which revenue retained under the cap is set to expire.

Department of Local Affairs. General Fund expenditures in the Department of Local Affairs Division of Property Taxation are expected to increase by $62,426 in FY 2023-24, $195,498 in FY 2024-25, $159,779 in FY 2025-26, and $86,897 in FY 2026-27 and subsequent years.

The entire amount of costs for FY 2023-24 is for the development of a software system to track residential property that is taxed as primary residence property. These costs will occur in the Office of Information Technology (OIT), paid using reappropriated funds from DOLA. Ongoing costs for system maintenance are expected in later years as shown in Table 6.

The remaining costs are for the addition of staff in the division. Beginning in January 2025, the division will require 1.0 FTE to process and validate tax applications for primary residence properties. Costs for FY 2024-25 are prorated to reflect the start date and the General Fund pay date shift. Costs for FY 2025-26 only include an additional 0.8 FTE, representing two temporary staff required between August 2025 and December 2025 when the majority of applications from property owners are expected to arrive. Beyond the additional staff requirements, division workload will increase to convene the primary residence real property working group, review and update procedures, forms, manuals, and to provide technical assistance to local governments.

Department of Treasury. The measure is expected to increase department workload to administer reimbursements to local governments through FY 2032-33. This workload increase can be accomplished within existing appropriations.

Department of Public Health and Environment. The department is required to compare the Division of Property Taxation's records of homeowners who qualified for reduced taxation due to ownership of their primary residence against lists of persons who have died. This workload increase can be accomplished within existing appropriations.

Department of Revenue. The measure requires that the department prepare two sets of six-tier sales tax refund amounts for the 2023 tax year when these amounts are provided to the Executive Committee of the Legislative Council in September 2023, to provide contingencies in case the ballot measure passes or fails. This workload increase can be accomplished within existing appropriations.

Employee insurance and supplemental retirement payments. As shown in Table 6, DOLA will have costs for employee insurance and supplemental employee retirement payments. Actual costs for these employee benefits and payments may vary from this estimate.

Local Government

Local Revenue

Lower assessment rates and reduced property values. On net, the measure is expected to reduce local property tax revenue by net amounts of $237.9 million for property tax year 2023, $511.6 million for property tax year 2024, and $651.2 million for property tax year 2025 from the impact of lower assessment rates and reduced property values that will be partially offset by increased state aid to school districts and local government reimbursements. These components are summarized in Table 7.

Table 7
Local Government Revenue Impacts of Assessment Provisions in Proposition HH

	FY 2023-24 *Property Tax Year 2023 Collected in 2024*	**FY 2024-25** *Property Tax Year 2024 Collected in 2025*	**FY 2025-26** *Property Tax Year 2025 Collected in 2026*
Property Tax Revenue	($399.2 million)	($956.2 million)	($1,087.7 million)
School Districts – State Aid	$133.0 million	$310.7 million	$364.8 million
State Backfill to Local Govt's*	$28.3 million	$133.9 million	$71.7 million
Net Local Revenue Impact	**($237.9 million)**	**($511.6 million)**	**($651.2 million)**

** Reimbursements to counties, municipalities, and special districts only, excludes mill levies for bonds and contractual obligations.*

Property tax revenue. As noted in the Taxpayer Impact section, the measure is expected to reduce property tax revenue to local governments by $399.2 million for property tax year 2023, $956.2 million for property tax year 2024, and $1,087.7 million for property tax year 2025.

State aid to school districts. As noted in the State Expenditure section, the measure is expected to increase the required amount of state aid to school districts by $133.0 million for property tax year 2023, $310.7 million for property tax year 2024, and $364.8 million for property tax year 2025, as a result of reduced property tax revenue from total program mill levies.

State reimbursements to local governments. The measure requires the state to reimburse county treasurers for revenue reductions in 2023 from changes due to the measure that extend reductions from Senate Bill 22-238. The measure also requires reimbursements for property tax years 2024 through property tax year 2032 to the extent local governments remain eligible. The amount of reimbursements to counties, municipalities, and other property tax districts is determined by various thresholds as noted in the Summary section above. For property tax years 2024 through 2032, the amount of reimbursement is limited by available funds.

In FY 2023-24, available funds comprise $128 million from the Local Government Backfill Fund and an estimated $5.9 million of the amount retained under the Proposition HH cap. In FY 2024-25, an estimated $71.7 million is expected to be available for local government reimbursements from the amount retained under the Proposition HH cap. In summary, estimated reimbursements to local governments, except school districts, are expected to increase by an estimated $28.3 million for property tax year 2023, $133.9 million for property tax year 2024, and $71.7 million for property tax year 2025.

Local property tax limit. As noted in the Taxpayer Impact section, the measure creates a local property tax revenue limit that conditionally reduces local property tax revenues. Assuming all impacted local governments implement the limitation, local property taxes could be further reduced by an estimated $511 million for property tax year 2023, $474 million in property tax year 2024, and $520 million in property tax year 2025.

Local Expenditures

The measure increases expenditures for county treasurers and assessors to implement the property tax changes. County assessors estimate the need for more staff and personnel to administer the measure and may also incur software and technology costs.

Effective Date

If approved by voters at the 2023 general election, Proposition HH 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

Information Technology	Property Tax Division	Judicial
Public Health and Environment	Local Affairs	Treasury
Personnel		