SB 21-293

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Revised Fiscal Note

(replaces fiscal note dated June 3, 2021)

Drafting Number:	LLS 21-1030	**Date:**	June 7, 2021
Prime Sponsors:	Sen. Hansen; Rankin Rep. Esgar	**Bill Status:**	House Finance
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Bill Topic: **PROPERTY TAX CLASSIFICATION & ASSESSMENT RATES**

Summary of Fiscal Impact:

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

For 2022 and 2023, the bill reduces property tax assessment rates for residential property, agricultural property, and property used for renewable energy production. It also expands the state property tax deferral program to all homeowners whose property taxes increase by at least a certain rate each year, and requires a study of the program. The bill reduces local government revenue and increases state and local government expenditures.

Appropriation Summary: For FY 2021-22, the bill requires and includes an appropriation of $75,000 to the Office of the Governor.

Fiscal Note Status: This fiscal note reflects the reengrossed bill.

Table 1
State Fiscal Impacts Under SB 21-293

		Budget Year FY 2021-22	Out Year FY 2022-23	Out Year FY 2023-24
Revenue		-	-	-
Expenditures	General Fund	$75,000	-	-
	School Finance*	-	$50.9 million	$55.3 million
	Total	**$75,000**	**$50.9 million**	**$55.3 million**
Transfers		-	-	-
TABOR Refund		-	-	-

**School finance expenditures may be paid from the General Fund, the State Education Fund, the State Public School Fund, or a combination thereof.*

Summary of Legislation

The bill makes changes to property tax assessment rates and the property tax deferral program, as discussed below.

Assessment rates. To calculate property taxes, a property's actual value is multiplied by an assessment rate to determine its assessed value. The assessed value is then multiplied by applicable local mill levies to determine the amount of property tax due. Under current law, the assessment rate for residential property is 7.15 percent, and the assessment rate for most nonresidential property is 29.00 percent.

For property tax years 2022 and 2023, the bill temporarily reduces the assessment rates for certain subclasses of property as follows:

- the assessment rate for multifamily residential property, including duplexes, triplexes, and apartment buildings, is reduced to 6.80 percent;
- the assessment rate for all other residential property is reduced to 6.95 percent;
- the assessment rate for agricultural nonresidential property is reduced to 26.40 percent; and
- the assessment rate for nonresidential property used to produce renewable energy is reduced to 26.40 percent.

The Division of Property Taxation is required to prepare a description of the classes and their assessment rates, and county assessors are required to send the description with notices of valuation.

Property tax deferral program. Beginning for 2022 property taxes, which are due in 2023, the bill broadens the state property tax deferral program by allowing any homeowner to apply to have a portion of property taxes due on their primary residence deferred if their property tax liability grows by more than 4.0 percent from the average amount owed over the previous two years. At least $100 of any property tax increase that exceeds the 4.0 percent growth factor may be deferred. The total amount that may be deferred across multiple years is limited to $10,000 for the property. To qualify, a homeowner must apply with their county treasurer by April 1 of the year when tax is due.

The bill requires that the Governor's Office, in consultation with the state treasurer, commission a study of the deferral program and recommend possible changes to the program to the General Assembly by January 1, 2022.

Background

Property tax deferral program. Under the current deferral program, the state treasurer is required to make a loan to local governments for the amount of tax deferred, and a lien is placed upon the property in the amount of deferred tax, plus interest. The lien is collected by the local government when a taxpayer sells, collects rent on, or ceases to occupy the home as their primary residence, and the state loan is repaid at that time. This same procedure would apply to the expanded program.

The current law property tax deferral program for seniors and active duty military servicepersons is unaffected. Seniors and military servicepersons may defer the full amount of tax due, up to their home's actual value.

State Expenditures

The bill increases state expenditures by $75,000 in FY 2021-22, $50.9 million in FY 2022-23, and $55.3 million in FY 2023-24. Expenditures for FY 2021-22 are for the property tax deferral program study and paid from the General Fund. Expenditures for later years are primarily for the state share of school finance, which may be paid from the General Fund, the State Education Fund, the State Public School Fund, or a combination thereof.

School finance. The state aid requirement for school finance is expected to increase by $50.9 million in FY 2022-23 and by $55.3 million in FY 2023-24 to offset expected decreases in property tax revenue collected by school districts through the assessment of total program mills. If the General Assembly chooses to address the decreased local share by increasing the budget stabilization factor instead, then the expenditure increase will be less than estimated.

Estimates assume the property tax revenue decrease described in the Local Government section of this fiscal note and current school finance total program mills for each school district. If mill levies are increased or decreased, the state expenditure requirement will correspondingly increase or decrease.

Property tax deferral program. The expanded property tax deferral program will require loans from the state treasury to local governments beginning in FY 2022-23, when additional property taxes will first be deferred. The amount loaned will depend on the number of homeowners choosing to defer taxes. Based on utilization of the current law program available to senior citizens and military servicepersons, the amount loaned each year is expected to increase by less than $1.0 million. If utilization of the program increases, then the amount loaned will be greater than estimated. 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.

Study of deferral program. The bill increases General Fund expenditures for the Office of State Planning and Budgeting by $75,000 for FY 2021-22 only to commission a study of the property tax deferral program. In addition, costs for the Department of the Treasury to consult on the study are minimal and can be accomplished within existing appropriations.

Department of Local Affairs. Workload in the Division of Property Taxation will increase to update procedures, conduct training, and respond to inquiries from taxpayers. This workload increase is minimal and can be accomplished within existing appropriations.

Local Government

The bill is expected to decrease local government property tax revenue by $193.1 million in 2023 and by $209.5 million in 2024. Property tax impacts are presented in Table 2 and discussed below.

Table 2
Local Government Property Tax Revenue Impacts Under SB 21-293

	Property Tax Year 2022 *Taxes paid in 2023*	Property Tax Year 2023 *Taxes paid in 2024*
Multifamily Residential	($30.7 million)	($33.5 million)
All Other Residential	($151.5 million)	($164.5 million)
Agricultural Property	($9.2 million)	($9.6 million)
Renewable Energy Property	($1.7 million)	($1.8 million)
Total	**($193.1 million)**	**($209.5 million)**

Impacts on individual governments. The bill reduces revenue to all taxing jurisdictions, including counties, municipalities, school districts, and special districts, with one or more of the affected property subclasses. Revenue impacts for individual local governments depend on the amount of affected property located within their boundaries. Urban and suburban areas with significant residential property will experience the greatest losses in dollar terms, while eastern plains areas with significant agricultural and renewable energy production will experience the greatest losses in percentage terms. Table 3 shows the counties expected to experience the greatest impacts in dollar and percentage terms. The amounts in Table 3 combine revenue impacts to all taxing jurisdictions, not only county governments.

Table 3
Counties* with Largest Property Tax Revenue Impacts Under SB 21-293
Property Tax Year 2022; Tax Paid in 2023

Largest Impacts in Dollar Terms		Largest Impacts in Percentage Terms	
Denver	($27.4 million)	Elbert	(5.0 percent)
Arapahoe	($23.1 million)	Kiowa	(4.5 percent)
Jefferson	($22.2 million)	Phillips	(4.2 percent)
Boulder	($18.6 million)	Lincoln	(4.0 percent)
Adams	($16.9 million)	Prowers	(3.8 percent)

**Impacts shown are for all affected jurisdictions within each county, not only county governments.*

Data and assumptions. Revenue estimates are based on data reported by the Property Tax Administrator and the December 2020 Legislative Council Staff forecast for assessed values. Estimates assume the maintenance of constant mill levies over time. If mill levies are increased or decreased, the revenue decrease attributable to the bill will be correspondingly larger or smaller.

School districts. To the extent that school districts lose revenue collected through the assessment of total program mills, their revenue loss will be offset by increased state aid through the school finance act, as discussed in the State Expenditures section of this fiscal note. About 26.4 percent of the property tax revenue impact is expected to occur in school finance total program mills with an offsetting state aid requirement. If the General Assembly chooses to address the decreased local share by increasing the budget stabilization factor instead, then lost funding for school districts will not be offset.

There is no state offset for other school district revenue impacts. For example, there is no backfill requirement for override mills, which account for about 12.7 percent of total state property taxes, or for bond redemption mills, which account for about 11.6 percent of total state property taxes.

Deferral program. The expanded property tax deferral program has no local revenue impact, as deferred taxes are offset by state loans when initially collected, and later paid by taxpayers.

Administration. The bill increases workload for county assessors and treasurers to administer the assessment rate changes and expanded deferral program in the bill, and to communicate with taxpayers concerning these changes.

TABOR impacts. Where property tax revenue is subject to local government TABOR limits, local government revenue subject to TABOR will decrease. If the amount required to be refunded to taxpayers via reduced mill levies decreases, then mill levies may be set at higher levels than they otherwise would be under current law.

Technical Note

Interaction with initiative #27. The Secretary of State has approved petitions to be circulated for initiative 2021-2022 #27. If the initiative qualifies for the ballot and is approved by voters, it would reduce assessment rates for residential and nonresidential property. This bill amends the underlying statutes that the initiative proposes to change, such that the assessment rate reductions in the initiative would apply only to lodging, rather than all nonresidential property, and only to multifamily residential property, rather than all residential property.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature. The provision of the bill that reduces the assessment rate for multifamily residential property takes effect only if a ballot measure concerning property tax reductions is not approved at the November 2021 statewide election, or if no such measure is on the ballot.

State Appropriations

For FY 2021-22, the bill requires and includes a General Fund appropriation of $75,000 to the Office of the Governor.

State and Local Government Contacts

Counties
Education
Local Affairs
Office of State Planning and Budgeting
School Districts
Treasury
County Assessors
Governor
Municipalities
Property Tax Division - Local Affairs
Special Districts