SB 23-107

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 23-0755	**Date:**	February 6, 2023
Prime Sponsors:	Sen. Liston	**Bill Status:**	Senate State Affairs
		Fiscal Analyst:	Elizabeth Ramey | 303-866-3522 elizabeth.ramey@coleg.gov

Bill Topic: **SENIOR & VETERANS WITH A DISABILITY PROPERTY TAX EXEMPTION**

Summary of Fiscal Impact:

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

The bill increases the homestead exemption for seniors and veterans with a disability from 50 percent of $200,000 to 50 percent of $300,000 in tax year 2023 and to 50 percent of $500,000 starting in tax year 2028. It allows seniors who qualify for the exemption to continue to claim it if they move for reasons of medical necessity. The bill will increase state expenditures to reimburse local governments for these exemptions. In years when there is not a sufficient TABOR surplus to fully fund the expanded exemption, it will increase state General Fund expenditures.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: The fiscal note reflects the introduced bill.

Table 1
State Fiscal Impacts Under SB 23-107

		Budget Year FY 2023-24	Out Year FY 2024-25
Revenue		-	-
Expenditures		-	-
Transfers		-	-
TABOR Refund	Homestead Exemption	$74.8 million	$78.9 million
	Other Refund Mechanisms	($74.8 million)	($78.9 million)
	Net TABOR Refund Change	**$0**	**$0**

Summary of Legislation

The bill increases the homestead exemption for seniors and veterans with a disability from 50 percent of $200,000 to 50 percent of $300,000 for property tax years 2023 through 2027, and 50 percent of $500,000 of actual value of the owner-occupied primary residence for property tax years 2028 and beyond. The bill allows seniors who qualify for the exemption to continue to claim the exemption if they move for reasons of medical necessity. It also replaces instances of "disabled veteran" with "veteran with a disability" in statute.

Background

Under current law, the homestead exemption reduces the actual value of a qualifying home for property taxation by 50 percent of the first $200,000 in actual value. For example, a home with an actual value of $150,000 is taxed as if it were worth $75,000, and a home with an actual value of $500,000 is taxed as if it were worth $400,000 using the maximum exemption.

Local government reimbursements. The state is required to reimburse local governments for the revenue reduction attributable to these exemptions. These reimbursements are made as expenditures from the state General Fund through the Department of the Treasury.

TABOR refund mechanisms. Reimbursements to local governments for the property tax exemptions are the first of two TABOR refund mechanisms under current law. A TABOR surplus collected in one fiscal year is set aside to fund these reimbursements in the following fiscal year.

Homestead exemption for seniors. A homeowner is eligible to claim the homestead exemption if they meet the following requirements:

- the homeowner is 65 years old as of January 1 of the tax year; and
- the homeowner has occupied the home as their primary residence for at least ten years.

Homestead exemption for veterans with a disability. A veteran with a disability is eligible to claim the homestead exemption if they are rated 100 percent permanently disabled by the U.S. Department of Veterans Affairs, and owned and occupied the property as their primary residence on January 1st of the year in which they apply for the exemption.

Assumptions

Expanded exempt value. The fiscal note uses Division of Property Taxation data on properties that qualified for the homestead exemption in 2021. These data were adjusted for forecast home price appreciation and the property tax benefit was recalculated under the bill.

Portability. Based on national data adjusted for Colorado's demographics when possible, this fiscal note assumes that:

- about 30 percent of homes sold in Colorado are sold by seniors aged 65 and above;
- about 71 percent of seniors selling their homes had satisfied the residency requirement and previously qualified for the exemption; and

- about 13 percent of sales by seniors are due to reasons of medical necessity, based on the national share of seniors who sold their home because upkeep had become too difficult due to health limitations.

Based on these assumptions, it is estimated that about 2,800 of the 103,000 home sales reported by the Colorado Association of Realtors for 2022 were made by seniors who previously qualified for the exemption and moved out of medical necessity. Based on national statistics, it is further assumed that about 55 percent of these home sellers bought another home in Colorado.

For property tax year 2023, the bill is expected to increase the value of the average homestead exemption from $561 under current law to $816. Caseload and average exemption amounts were grown through tax year 2025 by the December 2022 Legislative Council Staff forecast for senior homestead exemptions.

State Expenditures

In years when the state does not incur a TABOR surplus or when the surplus is not sufficient to fully fund reimbursements to local governments for the expanded property tax exemptions under this bill, the bill will increase state General Fund expenditures for these reimbursements. The bill increases reimbursements to local governments by $74.8 million in FY 2023-24 and $78.9 million in FY 2024-25. In subsequent years through FY 2027-28, the expenditure impact would be similar before accounting for future changes to property value, residential assessment rates, and increasing numbers of medical necessity exemptions; a forecast of these trends is not available beyond FY 2024-25. Reimbursements are expected to increase nearly 67 percent further in FY 2028-29, when the maximum exempt property value increases from $300,000 to $500,000. Workload and costs are also incurred in the Department of Local Affairs. These impacts are described below.

Local government reimbursements. Table 2 shows the increased homestead exemption, the effect of making the exemption portable, and the net impact of the bill, which is estimated to be $74.8 million in FY 2023-24 and $78.9 million in FY 2024-25, based on the assumptions described above. Payments to local governments from the increased exemption will be made by the State Treasurer and, based on the December 2022 LCS Economic and Revenue Forecast, it is assumed that these increased expenditures will be paid using available money set aside for TABOR refunds in both FY 2023-24 and FY 2024-25 and do not require appropriation in this bill, though an informational line in the Treasury budget may be adjusted. In years when the state is not required to make TABOR refunds, the bill will require increased General Fund expenditures compared to current law.

Table 2
Expenditures for Homestead Exemptions Under Current Law and SB 23-107

	FY 2023-24	FY 2024-25
Current Law Exemptions	$161.1 million	$170.0 million
Increased Exemptions Under SB 23-107	$72.3 million	$75.1 million
Portability for Medical Necessity Under SB 23-107	$2.5 million	$3.8 million
Net Change	**$74.8 million**	**$78.9 million**

Other impacts. Workload in the Division of Property Taxation will increase to develop a medical necessity form, to review and audit applications for expanded exemptions, to update informational materials, and to respond to questions from taxpayers. This workload increase is minimal and can be accomplished within existing appropriations.

Other Budget Impacts

TABOR refund. While the bill does not affect the total TABOR refund required in FY 2023-24 or FY 2024-25, it will increase the portion of the TABOR refund that will be paid using the homestead exemption mechanism, which is the first of two mechanisms used under current law to issue refunds. Based on the size of the projected TABOR refund in FY 2023-24 and FY 2024-25, this will in turn decrease the amount required to be refunded by the six-tier sales tax refund mechanism, which is the second means of refunding money to taxpayers after the homestead exemption. A forecast of TABOR revenue is not available beyond FY 2024-25.

Local Government

The bill has offsetting impacts on local government revenue that will not change net revenue to any jurisdiction. It decreases property tax revenue with offsetting increased state reimbursements to local governments by the amounts shown in Table 2. The bill may affect local government TABOR refunds if local voters have exempted one of, but not both of, property tax revenue and revenue received from the state government.

In addition, workload for county assessors will increase to administer additional exemptions.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contact

County Assessors	Information Technology	Local Affairs
Military Affairs	Personnel	Property Tax Division