HB 24-1299

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Fiscal Note

Drafting Number:	LLS 24-0428	**Date:**	April 18, 2024
Prime Sponsors:	Rep. Bird Sen. Mullica	**Bill Status:**	House Finance
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Bill Topic: **SHORT-TERM RENTAL UNIT PROPERTY TAX CLASSIFICATION**

Summary of Fiscal Impact:

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

The bill classifies certain short-term rental properties that are not first or second homes as lodging properties. On net, the bill decreases state expenditures, increases local property tax revenue, and increases costs for local governments.

Appropriation Summary: No appropriation is required.

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

Table 1
State Fiscal Impacts Under HB 24-1299

		Budget Year FY 2024-25	Out Year FY 2025-26
Revenue		-	-
Expenditures	School Finance[1]	-	($21.4 million) – ($51.4 million)
Transfers		-	-
Other Budget Impacts		-	-

[1] This decrease in school finance expenditures may reduce appropriations from the General Fund, the State Education Fund, the State Public School Fund, or a combination of these.

Summary of Legislation

The bill assesses commercial short-term rental units – or units designed for residential use that are leased for short-term stays and are not the primary or secondary residence of a property owner – at the commercial lodging assessment rate beginning for the 2025 property tax year.

The bill adds several definitions for property tax purposes including for commercial short-term rental units, short-term rental units, short-term stays, and secondary residences. The bill also creates a process for short-term rental owners to submit an affidavit to the county assessor specifying whether the property will be used for short-term rentals in the following property tax year and whether the property is the owner's primary or secondary residence. The affidavit will be filed annually beginning in November 2024 for the 2025 property tax year.

Comparable Crime Analysis

Legislative Council Staff is required to include certain information in the fiscal note for any bill that creates a new crime, changes the classification of an existing crime, or creates a new factual basis for an existing crime. The following section outlines crimes that are comparable to the offense in this bill and discusses assumptions on future rates of criminal convictions resulting from the bill.

Prior conviction data. The bill creates the new basis for second degree perjury by prohibiting giving false information on an affidavit identifying the use of a property as a short-term rental and its residency status, a class 2 misdemeanor. To form an estimate of the prevalence of this new crime, the fiscal note analyzed the existing offense of false swearing. From FY 2020-21 to FY 2023-24, 3 individuals have been convicted and sentenced for this existing offense. Of the persons convicted, 1 was male and 2 were female. Demographically, 2 were white and 1 was Hispanic.

Based on the low number of sentences for the comparable crime, the bill is not expected to have a tangible impact on criminal justice-related expenditures or revenue at the state or local levels, these potential impacts are not discussed further in this fiscal note. Visit leg.colorado.gov/fiscalnotes for more information about criminal justice costs in fiscal notes.

State Expenditures

The bill decreases state expenditures between $21.4 million and $51.4 million beginning in FY 2025-26, and by similar amounts in future years. This impact is detailed below.

School finance. The bill increases property tax collections from school district total program mill levies, allowing an equivalent decrease in the state share of total program funding for school finance. The state aid obligation is expected to decrease between $21.4 million and $51.4 million in FY 2025-26, with similar amounts in future years. The range reflects the assumption for the percentage of short-term rental properties that would be taxed as lodging property under the bill, explained further in the Local Government section below. 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 funds.

Fully locally funded school districts. The decrease in the state share of school finance will partially depend on the number of school districts that are fully locally funded in property tax year 2025 and subsequent years. There were 12 fully locally funded school districts in FY 2023-24, several which are resort communities that have higher concentrations of short-term rentals. Based on the LCS December 2023 forecast, about half of these districts are projected to again receive state aid for school finance, and no longer be locally funded, in FY 2024-25. A forecast of fully-locally funded districts beyond FY 2024-25 is not available.

To the extent that the fully-locally funded districts in the 2025 property tax year are those with a significant number of short-term rentals, the expected decrease in the state share will be less than estimated above.

Division of Property Taxation. The bill is expected to minimally increase workload in the Department of Local Affairs, Division of Property Taxation. Workload will include reviews and updates of procedures, forms, and manuals, and to provide technical assistance to local governments. The bill does not specify the agency responsible for creating an affidavit for use in determining the classification of short-term rentals. Assuming the division is required to create an affidavit, it will further increase workload.

Local Government

Property tax revenue. The bill increases property tax revenue for local taxing jurisdictions between $82.2 million and $197.2 million beginning in property tax year 2025, with similar impacts in subsequent years, by assessing homes that are commercial short-term rental properties as lodging property.

Assumptions – properties impacted. The estimate is based on short-term rental listings by county based on an analysis by Deckard Technologies. The data encompasses about 74,300 listings in Colorado from several short-term rental listing platforms. Based on an analysis of Colorado short-term rental listings from AirDNA, about 93 percent of listings are for entire homes, or an estimated 69,300 listings if applied to listing data from Deckard.

Of these, between about 10 percent and 24 percent of properties are assumed to be owned by individuals and institutions with 3 or more short-term rental properties, properties that are not considered as primary or secondary homes. The lower end of the range is based on an analysis by RRC Associates for the Western Mountain Resort Alliance on the short-term rental market in Summit County. The upper end of the range is based on national home purchasing patterns by investors as tracked by CoreLogic, adjusted downward to account for investors that are either flipping homes or are instant buyers.

Assumptions – assessed values. Based on the affected properties as a percent of 2023 estimated housing units in each county and residential valuation estimates from the LCS December 2023 forecast for assessed values, residential assessed value for affected short-term rental units will total between about $560 million and $1.3 billion in property tax year 2025. After applying the higher assessment rate for lodging properties, assessed value would increase to between $2.3 billion and $5.4 billion.

Assumptions – property taxes. Property tax impacts were estimated assuming 2022 weighted average mill levies by county. Property tax revenue is expected to increase for local governments that levy fixed mills that are not constrained by revenue limitations under TABOR or the 5.5 percent property tax growth limit under current law. Local government where revenue is expected to reach the applicable limit under current law will not experience a revenue increase, as they are assumed to lower their mill levies to continue to collect revenue up to their limit. School finance impacts were estimated using projected total program mill levies in 2025 for impacted school districts under current law. Actual impacts may differ from estimates to the extent that the bill decreases sales prices and subsequent assessed valuations that may partially offset the increase in local property tax revenue estimated.

The bill may influence other market dynamics, which are not estimated in this analysis. These include the impacts on supply and demand, lodging and home prices, local regulations, tourist activity, and population growth, among other factors.

School districts. The bill is expected to increase the local share of school finance, and correspondingly decrease the state aid requirement, for school districts between $21.4 million and $51.4 million for property tax year 2025 as a result of increased property tax revenue from total program mill levies as noted in the State Expenditures section.

County assessors. Assessors anticipate the need for additional staff depending on the prevalence of short-term rentals in each county. Staff would be needed to process affidavits each year and handle a likely increase in abatement protests and appeals.

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 Contacts

Counties	County Assessors	Information Technology
Judicial	Local Affairs	Municipalities
Property Tax Division – Local Affairs	Special District Association	

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.