# HB 25-1274

# Fiscal Note

## Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

## HB 25-1274: HEALTHY SCHOOL MEALS FOR ALL PROGRAM

**Prime Sponsors:**
Rep. Garcia
Sen. Michaelson Jenet; Wallace

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**Bill Outcome:** Signed into Law
**Drafting number:** LLS 25-0133

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**Fiscal note status:** The final fiscal note reflects the enacted bill.

## Summary Information

**Overview.** The bill refers two ballot measures to voters at the November 2025 statewide election. Depending on the outcome of these ballot measures, the bill makes changes to the funding and scope of the Healthy School Meals for All program.

**Types of impacts.** The bill is projected to conditionally affect the following areas on an ongoing basis:

- State Revenue
- State Diversions and Transfers
- State Expenditures
- TABOR Refunds
- School Districts

**Appropriations.** Conditional upon approval of the ballot measures in the bill, for FY 2025-26, the bill requires a $64.1 million increase in appropriations to the Department of Education.

**Table 1**
**Conditional State Fiscal Impacts**

| Type of Impact | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|---|---|---|
| State Revenue | $51.7 million | $105.0 million |
| State Expenditures | $64.1 million | $116.9 million |
| Diverted and Transferred Funds | $5.1 million | $10.3 million |
| Change in TABOR Refunds | -$17.5 million | -$10.3 million |
| Change in State FTE | 0.0 FTE | 0.0 FTE |

1 Fund sources for these impacts are shown in the tables below.

**Table 1A
Conditional State Revenue**

| Fund Source | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|---|---|---|
| General Fund | $0 | $0 |
| Cash Funds (Healthy School Meals for All Cash Fund) | $51.7 million | $105.0 million |
| **Total Revenue** | **$51.7 million** | **$105.0 million** |

**Table 1B
Conditional State Diversions and Transfers**

| Fund Source | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|---|---|---|
| General Fund | -$5.1 million | -$10.3 million |
| Healthy School Meals for All Cash Fund (via State Education Fund) | $3.9 million | $7.9 million |
| State Affordable Housing Fund | $1.2 million | $2.4 million |
| **Net Diversions** | **$0** | **$0** |

**Table 1C
Conditional State Expenditures**

| Fund Source | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|---|---|---|
| General Fund | $0 | $19,684 |
| Cash Funds (Healthy School Meals for All Cash Fund) | $64.1 million | $116.9 million |
| **Total Expenditures** | **$64.1 million** | **$116.9 million** |
| **Total FTE** | **0.0 FTE** | **0.0 FTE** |

**Table 1D
Conditional Change in TABOR Refunds**

| TABOR Refund Source | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|---|---|---|
| TABOR (3)(c) Refund for Exceeding Blue Book Estimate | -$12.4 million | $0 |
| TABOR (7)(d) Refund for Exceeding State TABOR Limit | -$5.1 million | -$10.3 million |
| **Net Change in TABOR Refunds** | **-$17.5 million** | **-$10.3 million** |

## Summary of Legislation

The bill refers two ballot measures to voters at the November 2025 statewide election. Depending on the outcomes of the ballot measures, the bill makes different changes to the Healthy School Meals for All program initially created through Proposition FF, approved by voters in 2022.

Proposition FF currently requires taxpayers with adjusted gross income of $300,000 or more to add back a portion of their federal standard or itemized deductions when calculating their Colorado taxable income.

If at least one of the two measures is approved by voters, the bill extends the local school food purchasing program, which would otherwise repeal after FY 2025-26, and an associated reporting requirement.

### Retention Measure

The bill refers a measure ("retention measure") that, if approved, would allow the state to retain and spend revenue collected in FY 2023-24 in excess of the revenue estimate provided to voters in the 2022 Blue Book, and continue to require additions to taxable income as originally authorized in Proposition FF.

If the retention measure is approved, the retained revenue will be spent for the Healthy School Meals for All program. If the retention measure is not approved, the bill requires that $12.4 million be refunded to taxpayers in FY 2025-26 using a reasonable method to be determined by the Department of Revenue.

### Expansion Measure

The bill refers a measure ("expansion measure") that, if approved, would reduce the Proposition FF add back thresholds from $12,000 to $1,000 for single taxpayers and from $16,000 to $2,000 for joint taxpayers. If approved, the expansion measure increases Colorado taxable income and increases income tax revenue. Increased income tax revenue is credited to the Healthy School Meals for All (HSMA) Cash Fund.

By increasing taxable income, the expansion measure also increases diversions of General Fund revenue to the State Education Fund and the State Affordable Housing Fund. If the expansion measure is approved, the bill requires that an amount equal to the increased diversion to the State Education Fund be transferred to a new account in the Healthy School Meals for All Cash Fund.

If the expansion measure is approved, the bill includes formulaic allocations of the money remaining in the Healthy School Meals for All Cash Fund. The exact allocations depend on the amount remaining in the fund, as calculated by the Legislative Council Staff, after administrative costs and the payments of reimbursements for school meals. These allocations are shown in Table 2. If the calculated reserve amount decreases by certain levels specified in the bill, the bill reduces the allocation of revenue to the next-highest tier shown in Table 2.

**Table 2**
**Conditional Allocation of Remaining HSMA Cash Fund Revenue if Expansion Measure is Approved**

| Calculated Reserve Percentage | Money Source | Grants for Technical Assistance | Distribution for Wages or Stipends[1] | Local Food Purchasing Grants[1] |
|---|---|---|---|---|
| Less than 10% | Only New Account | $250,000 | 6¢/lunch | Any Amount Remaining |
| 10% to 25% | Entire Fund | $2,500,000 | 6¢/lunch | 10¢-12.5¢/lunch |
| 25% to 40% | Entire Fund | $3,750,000 | 9¢/lunch | 16¢-18.75¢/lunch |
| 40% to 50% | Entire Fund | $5,000,000 | 12¢/lunch | 25¢/lunch |
| 50% or more | Entire Fund | Greater than $5,000,000 | Greater than 12¢/lunch | Greater than 25¢/lunch |

[1] The bill specifies a minimum grant award to individual school food authorities for each tier. For some small districts, this may result in greater per lunch amounts than shown in this table.

Additionally, if the expansion measure is approved, the bill:

- allows school food authorities to contract for or collaboratively create an advisory committee in order to be eligible for a local school food purchasing grant;
- broadens the purposes for which a nonprofit organization may award grants under the local school food purchasing technical assistance and education grant program; and
- for purposes of grants made through the local school food purchasing program, clarifies how the Department of Education (CDE) must prioritize eligible providers.

## Election Outcome Scenarios

If neither the retention measure nor the expansion measure is approved, the bill requires that the Proposition FF add back thresholds be increased beginning in tax year 2026 to amounts calculated so that, if they were used in tax years 2023 and 2024, they would have resulted in a revenue increase equal to the amount of the 2022 Blue Book estimate.

If the retention measure is approved and the expansion measure is not approved, the bill implements several changes to the Healthy School Meals for All program, including requiring expenditures of $1 million per year for technical assistance and education grants, and changing the timing of when lunches are counted to determine eligibility and priority for the local food purchasing program.

## Background and Assumptions

### Healthy School Meals for All Program

Proposition FF, approved by voters in November 2022, created the Healthy School Meals for All Program in CDE. It provides reimbursement to participating school food authorities for offering free meals to all students, funding for school food authorities to increase wages or provide stipends to school meal employees, and grants for purchasing local food and technical assistance related to using local products. House Bill 24-1390 delayed implementation of the local school food purchasing grant program, the technical assistance grant program, and the employee wage program by one year to FY 2025-26. The program is paid for by a revenue mechanism created in Proposition FF.

### Proposition FF

Under current law enacted in Proposition FF, taxpayers with adjusted gross income of at least $300,000 are required to add back a portion of their federal standard or itemized deductions when computing their Colorado taxable income. Deductions over $12,000 ($16,000 if filing jointly) are required to be added back.

Income tax collected on the deductions required to be added back under Proposition FF is credited to the Healthy School Meals for All Cash Fund. Subject to annual appropriation, money in the cash fund is spent for the Healthy School Meals for All program, which provides funding to school districts to provide free breakfasts and lunches to public school students.

#### Interaction with House Bill 21-1311

A preexisting law enacted in HB 21-1311 requires taxpayers with adjusted gross income of at least $400,000 to add back the portion of their federal itemized deductions that exceed $30,000 (single filers) or $60,000 (joint filers). For taxpayers with income between $300,000 and $400,000, the full amount of income taxes on deductions added back is credited to the cash fund. For taxpayers with income of at least $400,000, only the portion of income taxes on deductions added back between $12,000 and $30,000 (single filers) or between $16,000 and $60,000 (joint filers) is credited to the cash fund.

### 2022 Blue Book Estimate of Proposition FF Tax Increase

The 2022 Blue Book estimated that Proposition FF would increase taxes by $100.7 million in FY 2023-24. Under subsection (3)(c) of TABOR, any amount collected over this limit is required to be refunded to taxpayers, and the tax increase reduced in proportion to the excess, unless voters approve a measure allowing the state to continue to collect and retain the full amount.

The actual FY 2023-24 collection amount was $112.0 million, or $11.3 million more than estimated. This amount, plus 10 percent simple interest, is required to be refunded to taxpayers if a measure to retain the excess does not pass. The collection amount was originally reported at $127.0 million, or $26.3 million more than estimated; however, this initial amount included an accrual adjustment that overestimated collections during the fall of 2024. The accrual adjustment was decreased in response to lower-than-expected collections, producing the $112.0 million total.

### Federal Tax Cuts and Jobs Act

Federal deductions were changed in the Tax Cuts and Jobs Act (TCJA) of 2017. Notably, the federal standard deduction was increased from $6,350 ($12,700 if filing jointly) in 2017 to $12,000 ($24,000 if filing jointly) in 2018. With inflation, the federal standard deduction is expected to reach $15,000 ($30,000 if filing jointly) in 2025. Due to the higher standard deductions, all Colorado taxpayers with incomes over $300,000 are required to make additions to their taxable income under Proposition FF.

Under current federal law, most changes to deductions in the TCJA will expire after tax year 2025, and the standard deduction is scheduled to fall to about $8,300 ($16,600 if filing jointly) for tax year 2026. The decrease lowers the share of taxpayers required to make additions under Proposition FF, the amounts of additions for those who are required to make them, and the amount of revenue collected for the Healthy School Meals for All Program.

This fiscal note assumes that the TCJA will expire as scheduled in current federal law. Congress is currently debating legislation to extend some provisions. If federal law is changed, the fiscal note will be revised accordingly.

## State Revenue

If both ballot measures fail, the bill has no impact on state revenue. Conditional on the passage of one or both measures, the bill increases income taxes collected by increasing the amounts of federal deductions required to be added back when calculating Colorado taxable income. Conditional revenue impacts are described below for FY 2025-26 and FY 2026-27 and presented in Table 3 for FY 2026-27, the first full year revenue changes would be in effect.

### Conditional Revenue Impact if Expansion Measure Passes

If the expansion measure passes, regardless of whether the retention measure passes, the bill increases revenue to the Healthy School Meals for All Cash Fund by an estimated $51.7 million in FY 2025-26, a half-year impact for tax year 2026 on an accrual accounting basis, by an estimated $105.0 million in FY 2026-27, and by similar amounts in subsequent years. Revenue is exempt from TABOR as a voter-approved revenue change.

With voter approval, the bill raises taxes for approximately 200,000 taxpayers with incomes greater than $300,000 in tax year 2026, including both single and joint filers. The amount of the increase for a taxpayer depends on the amount of their federal standard or itemized deductions. Among taxpayers with incomes greater than $300,000 in tax year 2026, the average tax increase for a single filer is estimated to be about $377, and the average tax increase for a taxpayer filing jointly is estimated to be about $560.

## Conditional Revenue Impact if Only the Retention Measure Passes

If the retention measure passes and the expansion measure does not pass, the bill increases revenue to the Healthy School Meals for All Cash Fund by $4.7 million in FY 2025-26, $9.6 million in FY 2026-27, and similar amounts in subsequent years. Revenue is exempt from TABOR as a voter-approved revenue change.

**Table 3**
**Conditional Revenue Impacts under HB 25-1274**
FY 2026-27

| Outcome | Retention Measure Passes | Retention Measure Fails |
|---|---|---|
| **Expansion Measure Passes** | $105.0 million | $105.0 million |
| **Expansion Measure Fails** | $9.6 million | $0 |

## State Diversions and Transfers

If both ballot measures fail, the bill has no impact on state diversions or transfers. Conditional on the passage of one or both measures, the bill increases Colorado taxable income, which results in the diversions and transfers described below.

Under current law, income tax revenue equaling a percentage of Colorado taxable income is diverted from the General Fund to the State Education Fund (one-third of 1 percent of taxable income) and the State Affordable Housing Fund (one-tenth of 1 percent of taxable income). If the expansion measure passes, the bill requires that revenue diverted to the State Education Fund as a result of the expansion measure be transferred to the Healthy School Meals for All Cash Fund.

Table 1B presents the bill’s conditional impacts on diversions if the expansion measure passes, regardless of whether the retention measure passes. In FY 2025-26, an estimated $5.1 million is diverted from the General Fund, of which $3.9 million is deposited in the State Education Fund and $1.2 million in the State Affordable Housing Fund. If the retention measure passes, but the expansion measure does not pass, then the diversion impacts will be smaller than shown in Table 1B.

Revenue diverted to the State Education Fund is exempt from TABOR under a constitutional provision enacted in Amendment 23. Revenue diverted to the State Affordable Housing Fund is exempt from TABOR as a voter-approved revenue change under Proposition 123.

## State Expenditures

Conditional on approval of the expansion measure, the bill increases Department of Education expenditures from the Healthy School Meals for All Cash Fund by $64.1 million in FY 2025-26 and $116.9 million in FY 2026-27. If the retention measure passes, and the expansion measure does not pass, the bill increases expenditures by $17.2 million in FY 2025-26 and by $9.6 million in FY 2026-27 instead. Conditional on approval of the expansion measure, the bill also increases Department of Revenue expenditures by about $20,000 in FY 2026-27 only for software updates. These impacts are shown in Table 4 discussed below. The impact of each of the measures passing individually is also discussed below.

The bill also requires expenditures for the 2025 statewide election, which are paid from existing appropriations, and increases workload for Legislative Council Staff.

**Table 4**
**Conditional State Expenditures**
**All Departments**

| Department | Budget Year FY 2025-26 | Out Year FY 2026-27 |
|---|---:|---:|
| Department of Education | $64.1 million | $116.9 million |
| Department of Revenue | $0 | $19,684 |
| **Total Costs** | **$64.1 million** | **$116.9 million** |

### Department of Education — Conditional

Conditional on approval of one or both ballot measures, the bill increases expenditures from the Healthy School Meals for All Cash Fund for the Healthy School Meals for All program. If both measures pass, $64.1 million is expected to be available for the program in FY 2025-26, from revenue increases under the expansion measure and the elimination of TABOR (3)(c) refunds under the retention measure. In FY 2026-27, $116.9 million is expected to be available for the program.

#### If the Expansion Measure Passes

If the expansion measure is approved, expenditures in the Healthy School Meals for All Program may increase by up to $64.1 million in FY 2025-26 and $116.9 million in FY 2026-27, the full amount of revenue retained and additional funding deposited in the cash fund under the bill. As shown in Table 1C, additional revenue credited to the cash fund is expected to first be spent in FY 2025-26, while diverted and transferred money is expected to first be spent in FY 2026-27.

If the expansion measure is approved, the new revenue for the program remaining in the cash fund after administrative costs and district reimbursements for school meals will be allocated to the grant and wage programs, according to the tiered formula shown in Table 2.

### If Only the Retention Measure Passes

If only the retention measure is approved, expenditures in the Healthy School Meals for All Program may increase by up to $17.2 million in FY 2025-26 and by up to $9.6 million in FY 2026-27, the amount of the revenue retention and increase attributable to that measure. Funding will be allocated as under current law, except that the bill requires that $1 million per year be spent for technical assistance and education grants.

### Department of Revenue — Conditional

Conditional on approval of the expansion measure, the bill requires one-time expenditures of $19,684 in FY 2026-27 to program, test, and update database fields in the Department of Revenue's GenTax software system. Programming costs are estimated at $13,905, representing 60 hours of contract programming at a rate of $231.75 per hour. Costs for testing at the department include $3,955 for 113 hours of innovation, strategy, and delivery programming support at a rate of $35 per hour, and $1,824 for 57 hours of user acceptance testing at a rate of $32 per hour.

### Election Expenditure Impact — Existing Appropriations

This bill includes two referred measures that will appear before voters at the November 2025 general election. While no additional appropriation is required, certain election costs are incurred by the state when ballot measures are referred. These include reimbursing counties for certain election costs; publishing the text and title of the measure in newspapers across the state; and preparing and mailing the ballot information booklet.

### Legislative Department

The bill increases workload for Legislative Council Staff to complete the HSMA Cash Fund reserve calculation that is specified in the bill. No change in appropriations is required.

## TABOR Refunds

The bill conditionally decreases refunds to taxpayers under subsection (3)(c) of TABOR if the retention measure is approved by voters. The bill conditionally decreases refunds to taxpayers under subsection (7)(d) of TABOR if either or both of the referred measures in the bill is approved. The conditional impacts of the bill on TABOR refunds are summarized in Table 1D and explained below.

### TABOR (3)(c) Refunds

Conditional on approval of the retention measure, the bill eliminates the refund obligation for exceeding the 2022 Blue Book estimate of the tax increase in Proposition FF. The refund obligation is $12.4 million and is scheduled to be refunded in FY 2025-26.

If the retention measure is not approved, the bill requires that the Department of Revenue identify a reasonable method to pay refunds to taxpayers in FY 2025-26. In this case, the bill has no impact on the amount of refunds in FY 2025-26, as the refunds are already required under current law. Under current law and if the retention measure fails, refunds are expected to affect the balance of the Healthy School Meals for All Cash Fund, with no impact on the General Fund.

### TABOR (7)(d) Refunds

The state incurs a refund obligation when state revenue exceeds the state TABOR limit. Under current law and the March 2025 LCS forecast, refunds are expected to be required for FY 2025-26 and FY 2026-27. If either of the referred measures passes, the state will collect more income tax revenue; however, this revenue is exempt from TABOR as a voter-approved revenue change. Because the measures each increase taxable income, they increase the amount of money diverted from the General Fund to the State Education Fund, which is counted as exempt under Amendment 23, and from the General Fund to the State Affordable Housing Fund, which is counted as exempt under Proposition 123. These increased diversions decrease state revenue subject to TABOR and thereby decrease the amount of the state TABOR refund obligation.

The amounts shown in Table 1D present the impact on TABOR (7)(d) refunds if the expansion measure passes, regardless of whether the retention measure passes. If the retention measure passes and the expansion measure does not pass, the impact on TABOR (7)(d) refunds will be less than the amounts shown in Table 1D.

TABOR (7)(d) refunds are paid from the General Fund. The decreased General Fund obligation for TABOR refunds is offset by an equal increase in the General Fund obligation for diversions to the State Education Fund and the State Affordable Housing Fund if either or both of the referred measures is approved by voters.

## School District

If either or both of the measures pass, participating school districts may receive additional funding for employee wages and local food purchasing grants. The amounts paid to districts depend on the outcomes of the ballot measures and the number of meals served. The Summary of Legislation and State Expenditures sections discuss the bill’s effects on payments to school districts in additional detail.

Under current law, the state has fully reimbursed school districts for meals served for students. If either or both of the measures pass, the additional revenue for the program will be available for the state to continue making meal reimbursements in the future.

## Technical Note

### Expansion Measure

The ballot question for the expansion measure begins with "[s]hall state taxes be increased by $95 million[…]" The fiscal note estimates that, if the TCJA expires as scheduled under current federal law, the retention measure in the bill fails, and the expansion measure passes, the expansion measure would increase taxes by $105.0 million in FY 2026-27. In this scenario, the voter authorization may not be sufficient to retain and spend all the revenue collected, which could require another refund to taxpayers under TABOR (3)(c), or the referral of another retention measure to authorize the retention and spending of the excess.

## Effective Date

The bill was signed into law by the Governor, and the provisions of the bill referring ballot measures to voters took effect on June 3, 2025. The remainder of the bill is conditioned on voter approval or rejection of the referred measures, and takes effect upon the Governor's proclamation of the election results.

## State Appropriations

Conditional on approval of the expansion measure, the bill requires an appropriation of $64.1 million from the Healthy School Meals for All Cash Fund to the Department of Education for FY 2025-26.

## State and Local Government Contacts

Education

Personnel

Revenue

Secretary of State

Treasury