SB 23B-006

Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Final Fiscal Note

Drafting Number:	LLS 23B-0020	**Date:**	December 5, 2023
Prime Sponsors:	Sen. Van Winkle Rep. Soper	**Bill Status:**	Postponed Indefinitely
		Fiscal Analyst:	Local Government David Hansen | 303-866-2633 david.hansen@coleg.gov Matt Bishop | 303-866-4796 matt.bishop@coleg.gov

Bill Topic: **REAL PROPERTY VALUATION CAP**

Summary of Fiscal Impact:

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

The bill would have limited the rate at which property values could grow from 2022 to 2023. It would have increased state expenditures in FY 2023-24 and FY 2024-25 only.

Appropriation Summary: The bill would have required appropriations of $803.4 million for FY 2023-24 and $24 million in FY 2024-25 to the Department of Education. See State Appropriations section.

Fiscal Note Status: The fiscal note reflects the introduced bill. This bill was postponed indefinitely by the Senate Local Government and Housing committee on November 17, 2023; therefore, the impacts identified in this analysis do not take effect.

Table 1
State Fiscal Impacts Under SB 23B-006

		Current Year FY 2023-24	Budget Year FY 2024-25	Out Year FY 2025-26
Revenue		-	-	-
Expenditures	General Fund	($4.0 million)	-	-
	School Finance[1]	$803.4 million	$24.0 million	-
	Total Expenditures	**$799.4 million**	**$24.0 million**	**-**
Transfers		-	-	-
Other Budget Impacts		-	-	-

[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.*

Summary of Legislation

The bill limits the growth of actual value for most properties from 2022 to 2023 to six percent, unless the property has a condition, as specified in the bill, that would increase its value. The limitation does not include certain properties, such as mines, lands producing oil or gas, public utilities, personal property, or properties that are improved, renovated, or reclassified during 2023.

Background

Property assessment. Property valuations ("actual values") are usually determined by county assessors. Valuation methods depend on the property class. For example, residential and commercial property is valued biennially in each odd-numbered year based on market conditions as of June 30 of the preceding even-numbered year.

Actual values are multiplied by assessment rates, set by the state, to determine assessed values. Assessment rates may vary across property classes. Assessed values are multiplied by mill levies, set by local governments, to determine the amount of tax due. The same mill levies are applied to assessed values in all property classes.

Property taxes are paid in arrears. For example, a residential property's valuation for the 2023 tax year is based on market conditions as of June 30, 2022, and taxes for the 2023 tax year are paid to local governments in the first half of 2024.

School finance. Public schools in Colorado are funded through a combination of state and local government revenue. A formula in state law determines the amount of total program funding that each district should receive. District property taxes and specific ownership taxes make up the local share of funding, and a state aid requirement is set to equal the difference between the local share and the total program funding amount. Changes to property taxes affect the local share of school finance. Reductions (or increases) in the local share of total program funding require an equivalent increase (or decrease) in the state aid requirement.

TABOR refunds for the FY 2022-23 surplus. In September, the State Controller certified a $3.68 billion state TABOR refund obligation, primarily for excess revenue collected during FY 2022-23. This obligation is payable to taxpayers in the current FY 2023-24. Under current law, refunds will be paid via the homestead exemptions for seniors, veterans with a disability, and Gold Star surviving spouses ($163.2 million), reduced property assessments under Senate Bill 22-238 ($240.0 million), and the six-tier sales tax refund mechanism ($3.28 billion).

State Expenditures

The bill increases state expenditures for the state share of school finance and decreases state expenditures for reimbursements to local governments. Expenditures are shown in Table 2 and detailed below.

Table 2
Expenditures Under SB 23B-006

	FY 2023-24	FY 2024-25	FY 2025-26
Department of Education			
State Share of School Finance[1]	$803.4 million	$24.0 million	-
Department of the Treasury			
Local Government Reimbursements	($4.0 million)	-	-
Total Cost	**$799.4 million**	**$24.0 million**	-

[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.

School finance. The bill 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 $803.4 million in FY 2023-24. 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. The state aid obligation is expected to increase by $24.0 million in FY 2024-25.

Local government reimbursements. The bill decreases the state obligation for reimbursements to local governments for property tax revenue reductions under SB 22-238 by $17.5 million. Of this amount, $4.0 million is a General Fund expenditure expected in FY 2023-24 under current law. The remaining $13.5 million reduces TABOR refunds paid to taxpayers via property tax reductions, and must be refunded by other means. See the Other Budget Impacts section below.

Other Budget Impacts

TABOR refunds. The bill has no impact on the amount required to be refunded under TABOR for FY 2022-23; however, it changes the mechanisms used to pay that obligation to taxpayers. The bill decreases refunds via property tax reductions by an estimated $13.5 million, and correspondingly increases refunds using income tax returns for the 2023 tax year.

Local Government

The bill is expected to reduce local property tax revenue by net amounts of $1.64 billion for property tax year 2023 and $47.6 million for property tax year 2024. The total revenue loss will be partially offset by increased state aid to school districts and local government reimbursements. These components are summarized in Table 3.

Table 3
Local Government Revenue Impacts

	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	($2,427.5 million)	($71.6 million)	-
School Districts – State Aid	$803.4 million	$24 million	-
State Backfill to Local Govt's*	($17.5 million)	-	-
Net Revenue Impact	**($1,641.7 million)**	**($47.6 million)**	**-**

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

Property tax revenue. Changes to assessment rates and property values under the bill are expected to reduce local property taxes by $2.4 billion for the 2023 property tax year and $71.6 million for the 2024 property tax year.

For property tax year 2024, SB 22-238 requires the Division of Property Taxation in the Department of Local Affairs to set the assessment rate for residential property, except multifamily property, to a level that results in a $700 million reduction under that bill in property tax revenue over the 2023 and 2024 property tax years. The 2024 rate is currently estimated at 7.08 percent under current law. Changes to assessed values under the bill are expected to result in a lower assessment rate of 7.00 percent in the 2024 property tax year, reducing property tax revenue compared with current law. The fiscal note assumes 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.

State aid to school districts. The bill is expected to increase the required amount of state aid to school districts by $803.4 million for property tax year 2023 and $41.9 million for property tax year 2024 as a result of reduced property tax revenue from total program levies.

State reimbursements to local governments. During the 2022 session, the General Assembly passed SB 22-238, which made temporary changes to assessment rates and property valuation for the 2023 and 2024 property tax years. The bill also included a state reimbursement requirement to compensate local governments and property tax districts, other than school districts, for revenue decreases under the bill. By limiting the growth of property values for property tax purposes, this bill reduces the required state reimbursement by an estimated $17.5 million for the 2023 property tax year.

Local workload and expenditures. The bill increases expenditures for county treasurers and assessors to implement the property tax changes in the bill and certify values by December 29. County assessors may need more staff and personnel to administer the bill.

Technical Note

Property valuations for 2024. This fiscal note assumes that the bill does not limit property valuations for 2024, and that 2024 actual values will not change from those that would be expected under current law. However, because the bill reduces valuations for 2023, this assumption implies that valuations would increase in 2024. The bill may require amendments to allow county assessors to issue new valuations for the 2024 property tax year. If actual values are reduced for 2024 relative to current law, the bill will have a much larger effect on 2024 property tax revenue than estimated.

TABOR refunds. The bill is expected to decrease the amount of TABOR refunds paid to taxpayers from the FY 2022-23 state surplus via property tax reductions. Under current law, this would therefore increase the amount refunded to taxpayers via the six-tier sales tax refund mechanism to be used on income tax returns for tax year 2023. Six-tier amounts for 2023 were set by the Department of Revenue in September 2023 following a process in current law, and it is unclear whether the amounts can be adjusted before tax forms are printed if this bill becomes law. If six-tier amounts are not adjusted, the state may underrefund revenue for the current year. Current law requires that refund amounts in later years be adjusted so that the total amount refunded under TABOR is corrected across multiple years.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For the current FY 2023-24, the bill increases the required state aid appropriation for school finance by $803,389,257 relative to current law. However, based on updated local share data, the current FY 2023-24 appropriation for state aid is estimated to exceed the current law requirement by $262,081,945. Therefore, the bill may only require that the state aid appropriation in current law be increased by $541,307,312. Appropriations for school finance may be paid from the General Fund, the State Education Fund, the State Public School Fund, or a combination of these.

For FY 2024-25, the bill increases the required state aid appropriation for school finance by $24,037,526.

State and Local Government Contacts

Counties	County Assessors	Information Technology
Local Affairs	Revenue	Treasury