Initiative 111

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Preliminary Fiscal Summary

Date: January 2, 2024 **Fiscal Analyst:** Greg Sobetski (303-866-4105)

LCS TITLE: PROPERTY TAX VALUATION

Fiscal Summary of Initiative 111

This fiscal summary, prepared by the nonpartisan Director of Research of the Legislative Council, contains a preliminary assessment of the measure's fiscal impact. A full fiscal impact statement for this initiative is or will be available at **leg.colorado.gov/bluebook**. The estimates in this fiscal summary are preliminary and may be revised with additional time for property tax modeling and/or new information from state and local government agencies. This fiscal summary identifies the following impact.

Local government impact. The measure reduces property tax revenue to local governments by an estimated \$3.4 billion in property tax year 2024, for which taxes are paid in 2025, and by larger amounts in later years. The measure is expected to slow growth in property tax revenue nearly to zero for 2025 and all later years.

Most of the lost property tax revenue, about \$2.6 billion, will be reimbursed by the state government. About \$900 million in lost school district revenue will be made up through state aid for total program funding for school finance as required under current law, and the measure requires that about \$1.7 billion be paid by the state to fully reimburse local governments other than school districts. The remaining \$800 million reduction is estimated to occur in school district revenue streams other than total program revenue and will not be reimbursed, as discussed below.

The measure increases expenditures for county assessors' offices to identify unusual conditions requiring property revaluations. For large counties, costs for software enhancements and personnel are estimated at \$500,000 annually.

For 2024 only, the measure requires that property revaluations occur in a short time period between its effective date, expected to be in late November or early December, and the end of the calendar year. This will require significant expenditures in local agencies. The compressed timeline could affect valuation accuracy, which would necessitate additional expenditures in 2025 to address assessment appeals.

The measure does not specify how reimbursement amounts will be calculated; however, the reimbursement requirement is expected to increase local expenditures for administration.

State expenditures. The measure increases state expenditures by an estimated $2.6 billion in FY 2024-25, and by larger amounts in later years. Of this amount, $1.7 billion is a General Fund expenditure to fully reimburse local governments other than school districts for their property tax revenue reduction as a result of the measure. The remaining $900 million is an expenditure for the increased state aid obligation for school finance as required under current law. Because the measure would take effect during the fiscal year when expenditures are required, appropriations would be made via supplemental appropriations acts. Assuming the General Assembly enacts a balanced budget for FY 2024-25 during the 2024 legislative session, the measure would require equivalent mid-year reductions in appropriations to other programs.

This preliminary fiscal summary assumes that the measure requires that complete reimbursements be paid only to local governments other than school districts, and that school districts will receive reimbursement only through the School Finance Act. If the measure is interpreted to require that complete reimbursements be paid to school districts, then the measure will increase state expenditures by a total of $3.4 billion in FY 2024-25, and by larger amounts in later years.

The measure does not specify how reimbursement amounts will be calculated; however, the reimbursement requirement is expected to increase state expenditures for administration. The measure increases expenditures for the Department of Local Affairs to update the Assessors' Reference Library to provide guidance to assessors concerning property valuations. For 2024 only, the measure will require these updates to occur immediately in order to allow time for properties to be revalued before the end of the calendar year.

Economic impacts. Limiting property valuations will increase the amount of after-tax income available for homeowners and business property owners to spend, save, or invest elsewhere in the economy.

The measure will decrease revenue collected by school districts under mill levy overrides and bond approvals, lowering the amount of funds available for school services. The measure obligates a significant portion of the state General Fund to reimburse lost property tax revenue to local governments, estimated at about 16 percent of the amount forecast to be collected in FY 2024-25 that the state is permitted to retain and spend under TABOR. This amount will be unavailable for other state services.

Any overall change in economic activity will depend on the net economic impacts of higher after-tax household and business income and reduced investment in public services.

The measure creates a strong financial disincentive against making improvements to one's property, since these would qualify as an "unusual condition" and significantly increase the amount of tax owed relative to if the improvement had not been made. As a result, the measure is expected to decrease demand for property improvements, which would shift consumption away from architects, general contractors and subcontractors, materials suppliers, and other businesses that produce or sell associated goods or services.

Technical notes. The measure requires that the 2021 reassessment be used for four property tax years, 2021 through 2024. However, the measure takes effect after property taxes for 2023 will have been paid, and elsewhere limits valuations for 2024 to no more than 4 percent more than their 2022 level. This preliminary fiscal summary anticipates that the four-year reassessment provision has no impact, and does not calculate an estimate for it. If the measure requires property tax paid for the 2023 tax year to be refunded, it will cause a much greater local revenue reduction and a much greater state and local expenditure increase than estimated here.

The measure repeals current law requiring a $146 million transfer to the State Education Fund in July 2024. Because the measure takes effect after this date, this transfer is expected to occur as scheduled in current law, and the repeal is assessed as having no fiscal impact.