Initiative 21

Legislative
Council Staff
Nonpartisan Services for Colorado's Legislature

Fiscal Summary

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LCS TITLE: LIMITATION ON PROPERTY TAX INCREASES

Fiscal Summary of Initiative 21

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 www.colorado.gov/bluebook. This fiscal summary identifies the following impact.

Local government impact. The measure is expected to reduce local property tax revenue by limiting annual growth in property taxes on a property to three percent in most situations. The amount of the impact will depend on how the measure is implemented. Assuming that the measure first applies to 2023 property taxes paid in 2024, it is expected to reduce property tax revenue by at least $2.2 billion in 2024, at least $2.9 billion in 2025, and larger amounts in future years. These estimates are based on the December 2022 Legislative Council Staff forecast for assessed values. Impacts are expected to vary based on market conditions and mix of property classes within each tax district. Areas with rapid growth in market values or large amounts of revenue from oil and gas or producing mines may experience a proportionally larger decrease. Expanding areas with large amounts of new construction or areas with slow growing or declining values could experience a proportionally smaller decrease. For school districts only, a portion of lost revenue will be offset by increased state contributions to school finance, as discussed below.

The measure will require changes to the statutes that direct how county assessors determine the amount of property tax due. Administrative costs in assessors' offices will depend on implementing legislation, and are expected to be significant in the initial years of implementation.

State revenue. The measure is assumed to reduce local property taxes paid by oil and gas producers, thereby reducing future ad valorem tax credits that they can claim when calculating state severance taxes. This will increase state cash fund revenue from severance taxes beginning in FY 2024-25. The amount of this impact will depend on producer's specific tax situations and has not been estimated.

State expenditures. The measure reduces the local share of total program funding for school finance, correspondingly increasing the state aid requirement. The amount of this impact will depend on how the measure is implemented. If the property tax revenue impact is distributed across taxing entities proportionally to current mill levies, the measure is expected to increase the state aid requirement by at least $525 million in FY 2023-24 and at least $715 million FY 2024-25, and by larger amounts in future years.

TABOR refunds. The measure allows the state to retain and spend up $100 million per year above the Referendum C cap beginning in FY 2024-25, decreasing the amount of state revenue required to be refunded to taxpayers when revenue subject to TABOR is above the cap. In FY 2024-25, the measure is projected to allow the state to retain $100 million based on the March 2023 Legislative Council Staff forecast. A forecast of state revenue subject to TABOR is not available beyond FY 2024-25.

The measure may interact with state backfill requirements and reimbursements to local governments under Senate Bill 22-238. The fiscal impact of this interaction, if any, will depend on how the measure is implemented and is not estimated here.

Economic impacts. Limiting property tax growth will increase the amount of after-tax income available for homeowners and business property owners to spend or save, increasing their spending, saving, or investment elsewhere in the economy. The measure will decrease revenue available for counties, municipalities, school districts, and special districts relative to current law, lowering the amount of funds available for public 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 is also expected to reduce property improvements and changes in use, as these changes could result in large increases in property tax.