

COLORADO SCHOOL FINANCE PROJECT

Support Children - Support The Future

PROPERTY TAX TALKING POINTS & BACKGROUND FOR DISTRICTS

Version: June 2023, following the June revenue forecast

Purpose: The purpose of this document is to provide talking points and background regarding potential changes to property taxes coming in the fall of 2023, how these changes would impact districts, and how they interact with previous legislation and other economic factors. There is the possibility of two property tax-related measures on the November ballot: Proposition HH and [Initiative 21](#). Initiative 21 requires signature collection before being placed on the ballot. This document focuses on Proposition HH, referred by Senate Bill 23-303.

Top-Level Talking Points:

- The passage of SB23-303 and the referral of Proposition HH results in uncertainty for local communities between now and November as the passage of HH would change property tax revenues.
- If Proposition HH passes, three things will happen:
 - Property tax assessment rates, and therefore Assessed Valuations and individual property tax bills, will be lower than they would have been without the measure; and
 - Additional revenue will be retained by the state to backfill local governments and school districts due to a reduction in local share; and
 - Any revenue retained above the requirements for backfill will go into the State Education Fund and can, long-term, result in additional funding for K-12.
- In crafting 23-303, the legislature stated an intent to protect, and ideally increase, funding available for schools.
- There are unknowns that could impact the outcome for districts. The potential for an economic recession and/or the potential for sustained high rates of inflation could put additional pressure on funding for the state share of total program.
- SB23-303 also includes changes to mill levy certification timelines for 2023, if HH passes. Counties will have until December 29, 2023 (instead of December 10) to provide final Assessed Valuations, and school districts will have until January 5, 2024 (instead of December 15) to certify their mills. This will be in place just for the 2023 year, it then reverts back to the original timeline.
- There are some complexities that districts with specific circumstances should be aware of (see below).

SB23-303 & Proposition HH Additional Background and Impacts for Districts:

[Link to bill text and fiscal note](#)

[Link to Chalkbeat article explaining HH impacts](#)

If HH passes, what happens, and how will it impact districts' local and state share?

Assessment rates for both residential and non-residential properties will be lowered. In addition, the amount that is exempted from the assessed property value increases (to \$50,000 for residential property). A lower assessment rate plus reduced assessed property value result in a lower Assessed Valuation for counties and districts to levy their mills against. This results in the generation of less property tax than if the assessment rate and ensuing Assessed Valuation had remained at the current level. For example:

Without HH, a district levies 27 mills on \$100,000,000 of Assessed Valuation:

$.027 \times \$100,000,000$ in AV = \$2,700,00 raised in local share

With HH, a district levies 27 mills on \$90,000,000 in Assessed Valuation:
.027 x \$90,000,000 in AV = \$2,430,000 raised in local share

The state backfills total program funding for all districts if the local share is not sufficient to cover the cost. If HH passes, the state will have to provide more state share to meet the district's total program needs, because the local share is lower than it would have been otherwise.

If HH passes, where will the state get the money to cover the increased need for state share?

The state will have the ability to retain an additional amount of revenue if HH passes. The new revenue cap will be inflation plus growth plus 1% for the next ten years. The revenue cap that triggers TABOR refunds will be increased, meaning that the state can hold back additional revenue before refunding the remainder to taxpayers. Projections indicate that, in the first few years, the extra revenue the state retains will likely not be sufficient to backfill state share for school districts. Therefore, the legislature intends to use funds from the State Education Fund to complete the backfill and keep districts whole from a total program perspective.

The legislature and the Governor's Office have also stated an intent to buy down the remaining Budget Stabilization Factor (BSF) in future years, also potentially using funds from the State Education Fund.

What happens if inflation remains high?

If inflation remains high, base funding will be required to grow at a faster rate, putting additional pressure on funding for the state share of school district total program. This pressure could intersect with other priorities for the State Education Fund, including buying down the BSF and/or backfilling the reduction in local share that will take place if HH passes.

What happens if there is an economic recession?

State revenue growth will slow if there is a recession. Depending on the severity of a recession, this could reduce or eliminate revenue available for TABOR refunds, potentially in addition to the amount of revenue the state can retain under the TABOR refund cap if HH passes. This retained revenue is what will be used to backfill state share for school districts, as described above, if HH passes.

What should we do right now?

There aren't specific urgent actions for school districts right now. It would be a good idea to touch base with your county assessor about proposition HH and potential impacts on Assessed Valuation. There is also the potential for another ballot initiative related to property taxes (Initiative 21), however at this point signature collection has not started. It is worth paying attention to both potential election items, however the exact impacts will not be known until after the November election.

If proposition HH passes, county assessors will be under pressure to revise Assessed Valuations in time for mill levy certifications. If HH passes, SB23-303 extends the deadline for the county to provide districts with final Assessed Valuations from December 10, 2023 to December 29, 2023. It then extends the deadline for mill levy certification from December 15, 2023 to January 5, 2024. It is recommended to discuss this possible extension with your assessor as well as your Board of Education, as it will likely impact the timing of the Board meeting when mill levy certifications are approved, and could cause significant scheduling issues due to the holidays.

What if we are pursuing a mill levy override or bond election in November?

If your election language requests that the taxpayers approve a dollar amount to be raised for the school district, the passage or failure of HH should not impact the amount you are able to raise. This is because the mills for the bond or the mill levy override will adjust, or “float,” to generate the required dollar amount in the election question based on the actual Assessed Valuation finalized by the county in December.

It may be challenging to explain to voters the complexities described above related to their property tax bills, and TABOR refunds, with or without the passage of HH. This may add complexity to a local election campaign in 2023.

Special Considerations for Districts that are Fully Locally Funded:

Districts that are fully locally funded have sufficient local share to cover their entire total program amount. As a result, they are not subject to the impact of the BSF, because the BSF is a percentage reduction applied to state share only. If HH passes, local share will grow at a slower rate than it would have otherwise. This is likely to change the local share/state share split for many districts, and could result in districts that are fully locally funded now becoming partially locally funded and partially state funded.

Districts that move from fully locally funded to partially state funded incur the impact of the BSF in one year when they did not incur the impact previously. This obviously results in fiscal volatility. If these districts have been fully locally funded for some time, they will ideally have funds in their Total Program Reserve fund to help mitigate this impact.

Special Considerations for Districts that are implementing Mill Levy Correction:

[Link to 2022-23 mill levy table with mill levy tax credits highlighted](#)

For the 2023 mill levy certifications, there are 93 Colorado school districts (see link above) that have temporary tax credits related to HB20-1418 and mill levy correction. These districts are continuing, each year, to reduce their temporary tax credits by 1 mill per year, while increasing their total program mill by 1 mill per year, until the temporary tax credits are zero and the district has reached its legislated mill levy target.

The intent of legislation was to increase local share by correcting inaccurate reductions in mill levies by districts, at the direction of CDE, over the course of many years. Districts continuing to implement mill levy correction may face explaining to their communities why the district’s total mill is rising at the same time local property taxes are being reduced by the passage of HH. This is a conflicting and confusing message as the two pieces of legislation are pushing property taxes in opposite directions.

The best approach is likely to explain to your community that, when legislation passed, the exorbitant increases in property assessed values we are seeing in 2023 was not predicted. SB23-303 and Proposition HH are designed to react quickly to these rises in assessed values to protect Colorado taxpayers from crippling increases in their property tax bills. In contrast, the prior legislation was designed to correct a long-standing error about how much local capacity should be directed to school districts and to make this more equitable across the state.

Please reach out if we can advise or answer any questions.