



Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 25-1120: SEPTIC-SYSTEM REPLACEMENT ENTERPRISE

Prime Sponsors:

Rep. Smith
Sen. Roberts

Fiscal Analyst:

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Published for: House Energy & Environment**Drafting number:** LLS 25-0584**Version:** Initial Fiscal Note**Date:** February 11, 2025**Fiscal note status:** The fiscal note reflects the introduced bill.

Summary Information

Overview. The bill creates an enterprise to make loans for replacing septic systems.**Types of impacts.** The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- State Expenditures
- Local Government

Appropriations. No appropriation is required, as the Septic-System Replacement Loan Program Fund is continuously appropriated to the Department of Local Affairs.

Table 1
State Fiscal Impacts

Type of Impact¹	Budget Year FY 2025-26	Out Year FY 2026-27
State Revenue	\$159,733	\$319,181
State Expenditures	\$159,733	\$319,181
Transferred Funds	\$0	\$0
Change in TABOR Refunds	\$0	\$0
Change in State FTE	0.8 FTE	1.0 FTE

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

**Table 1A
State Revenue**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	\$0	\$0
Cash Funds	\$159,733	\$319,181
Total Revenue	\$159,733	\$319,181

**Table 1B
State Expenditures**

Fund Source	Budget Year FY 2025-26	Out Year FY 2026-27
General Fund	\$0	\$0
Cash Funds	\$143,413	\$298,781
Federal Funds	\$0	\$0
Centrally Appropriated	\$16,320	\$20,400
Total Expenditures	\$159,733	\$319,181
Total FTE	0.8 FTE	1.0 FTE

Summary of Legislation

The bill creates the Septic-System Replacement Enterprise and Loan Program in the Department of Local Affairs (DOLA). The enterprise is overseen by a governing board which includes representatives of local government officials, state agencies, and consumers. Beginning in FY 2025-26, the enterprise will collect a surcharge on permits issued by local governments for new septic systems, in coordination with the Water Quality Control Commission and local boards of health. Local governments may retain up to 5 percent of the fee to cover their administrative costs. The remaining money accrues to the new Septic-System Replacement Loan Program Fund, which is continuously appropriated to the enterprise.

The enterprise operates a program that makes interest-free or low-interest loans to low-income or low-credit-score households to replace failing septic systems. It must contract with at least two community development financial institutions to administer the loan program. The enterprise must submit an annual report to the Governor and the General Assembly beginning January 15, 2027, and continuing for two additional years.

Background and Assumptions

Permits for septic systems are typically granted by counties. Based on permit issuances for new septic systems or septic system replacements, the fiscal note estimates there will be about 4,300 permits per year subject to the enterprise fee. The fee is established by the bill based on the permit fee charged by counties. The median permit fee paid to install a septic system is about \$500. It is assumed that fee collection will begin on January 1, 2026.

State Revenue

The bill increases state revenue from fees on septic system installations by about \$160,000 in FY 2025-26 and \$320,000 in FY 2026-27 and future years. Additional revenue may be received from the interest income on loans or money held in the program cash fund, the issuance of bonds, and gifts, grants, or donations to the enterprise. These impacts are shown in Tables 2A and 2B and discussed below.

Fee Impact on Septic System Installations

Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. These fee amounts depend on the cost for a septic system permit and are established by the bill, though the enterprise may reduce the fees if the fee revenue is projected to exceed expenditures. The tables below identify the fee impact of this bill. Revenue is lower in the first year to reflect the assumed fee start date. Of the total revenue, 95 percent accrues to the enterprise and 5 percent is retained by local governments.

Table 2A
Fee Impact on Septic System Owners
FY 2025-26 (Half-Year Impact)

Cost of Local Gov. Permit	Enterprise Fee	Number Affected	Total Fee Impact
Less than \$500	\$10	464	\$4,640
Less than \$1,000	\$50	718	\$35,900
Less than \$1,400	\$100	624	\$62,400
At least \$1,400	\$200	326	\$65,200
Total Fee Revenue¹ – FY 2025-26			\$168,140

¹ Of this projected fee revenue, \$159,733 is received by the state and \$8,407 is retained by counties.

Table 2B
Fee Impact on Septic System Owners
FY 2026-27

Type of Fee	Estimated Fee	Number Affected	Total Fee Impact
Less than \$500	\$10	928	\$9,280
Less than \$1,000	\$50	1,436	\$71,800
Less than \$1,400	\$100	1,247	\$124,700
At least \$1,400	\$200	651	\$130,200
Total Fee Revenue¹ – FY 2026-27			\$335,980

¹ Of this projected fee revenue, \$319,181 is received by the state and \$16,799 is retained by counties.

Interest Income

If a contracted administrator charges interest on a loan, that interest will increase the amount of money available to make future loans. The fiscal note assumes that administrators' contracts will generally be renewed, and that this revenue will accrue to the administrator rather than the state. If a contract is cancelled or not renewed, this revenue will be paid to the Septic-System Replacement Loan Program Fund until the enterprise selects one or more new administrators. This revenue is not subject to TABOR. In addition, any money held in the program's cash fund will also accrue interest.

Bond Revenue

The enterprise is allowed to issue revenue bonds, which are not subject to TABOR. The decision to issue bonds and the amount of any bonds will be made by the enterprise board; thus, bond revenue, if any, cannot be predicted at this time.

Gifts, Grants, and Donations

The bill potentially increases state revenue to the Septic-System Replacement Loan Program Fund from gifts, grants, or donations; however, no sources have been identified at this time. Gifts, grants, and donations are exempt from TABOR revenue limits.

State Expenditures

The bill increases state expenditures in the Department of Local Affairs by about \$160,000 in FY 2025-26 and \$320,000 in FY 2026-27 and subsequent years. These costs, paid from the Septic-System Replacement Loan Program Fund, are summarized in Table 3 and discussed below. The bill also minimally affects workload in the Department of Public Health and Environment and the Governor's Office.

**Table 3
State Expenditures
Department of Local Affairs**

Cost Component	Budget Year FY 2025-26	Out Year FY 2026-27
Personal Services	\$68,624	\$85,780
Operating Expenses	\$1,024	\$1,280
Capital Outlay Costs	\$6,670	\$0
Loan Program (additional detail below)	\$67,095	\$211,721
Centrally Appropriated Costs	\$16,320	\$20,400
Total Costs	\$159,733	\$319,181
Total FTE	0.8 FTE	1.0 FTE

Staff

DOLA requires 1.0 FTE beginning in FY 2025-26 to administer the enterprise. This includes liaising with the board, contracting with two or more community development financial institutions, entering into memorandums of understanding with local boards of health to collect the fee, responding to inquiries from local governments and the public, and preparing the annual report. Standard operating and capital outlay costs are included, and costs have been prorated for the bill's effective date.

Loan Program

After the enterprise's administrative costs, the remaining money generated by fee is available for the loan program, which is operated by community development financial institutions. Those institutions will offer loans to eligible participants for replacing or constructing septic systems. The number of loans made will depend on the number of applications received and the size of the loans sought, after accounting for the institutions' administrative costs.

Alternatively, the enterprise can issue revenue bonds, and reserve some of the fee revenue each year to make bond payments. The decision to issue bonds and the principle sought will be determined by the enterprise's board. For illustrative purposes, allocating \$100,000 in fee revenue annually to make bond payments for 20 years at 3 percent interest could generate about \$1,650,000, which would fund about 110 septic system loans at \$15,000 per loan.

Legal Services

DOLA may requires legal services, provided by the Department of Law, which can be accomplished within existing legal services appropriations.

Other Agency Impacts

The bill increases workload in the Department of Public Health and Environment to serve on the enterprise's governing board and for the Water Quality Control Commission to coordinate the fee with the enterprise. This workload is expected to be accomplished within existing appropriations.

Workload will minimally increase for the Governor's Office of Boards and Commissions to make the required appointment under the bill. This work can be accomplished within existing appropriations.

Centrally Appropriated Costs

Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which may include employee insurance, supplemental employee retirement payments, leased space, and indirect cost assessments, are shown in the expenditure table above.

Local Government

The bill increases revenue and expenditures for counties to collect the new fee on behalf of the enterprise. Local governments may retain 5 percent of the revenue to cover their administrative costs. As discussed in the State Revenue section, this is estimated at about \$8,400 in FY 2025-26 (a half-year impact) and \$16,800 in future years across all counties.

Effective Date

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

State and Local Government Contacts

Counties	Local Affairs
Governor's Office of Boards and Commissions	Municipalities
Law	Personnel
Legislative Council Staff	Public Health and Environment
	Treasury

The revenue and expenditure impacts in this fiscal note represent changes from current law under the bill for each fiscal year. For additional information about fiscal notes, please visit the [General Assembly website](#).

