



Legislative Council Staff

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Fiscal Note

Drafting Number: LLS 22-0681
Prime Sponsors: Sen. Liston
Rep. Carver

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Bill Status: Senate SVMA
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Bill Topic: **EXPAND SENIOR & VETERAN PROPERTY TAX EXEMPTIONS**

Summary of Fiscal Impact:

- State Revenue
- State Expenditure
- State Transfer
- TABOR Refund
- Local Government
- Statutory Public Entity

This bill increases the senior and veterans with a disability homestead exemption from 50 percent of \$200,000 to 50 percent of \$400,000 starting with the 2022 tax year and allows seniors who qualify for the exemption to continue to claim it if they move for reasons of medical necessity. It will increase expenditures to reimburse local governments for these exemptions. In years when there is not a sufficient TABOR surplus to fully fund the expanded exemption, it will increase General Fund expenditures.

Appropriation Summary: For FY 2022-23, the bill requires an appropriation of \$38,400 to the Department of Local Affairs.

Fiscal Note Status: The fiscal note reflects the introduced bill.

**Table 1
State Fiscal Impacts Under SB 22-093**

		Budget Year FY 2022-23	Out Year FY 2023-24
Revenue		-	-
Expenditures	General Fund	\$89.4 million	\$98.9 million
Transfers		-	-
Other Budget Impacts	General Fund Reserve	\$5,760	-

Summary of Legislation

This bill increases the senior homestead and veterans with a disability homestead exemptions from 50 percent of \$200,000 to 50 percent of \$400,000 of actual value of the owner-occupied primary residence and allows seniors who qualify for the exemption to continue to claim the exemption if they move for reasons of medical necessity.

Background

Under current law, the senior homestead exemption reduces the actual value of a qualifying home for property taxation by 50 percent, up to a maximum of \$100,000. For example, a home with an actual value of \$150,000 is taxed as if it were worth \$75,000, and a home with an actual value of \$500,000 is taxed as if it were worth \$400,000 using the maximum exemption.

Local government reimbursements. The state is required to reimburse local governments for the revenue reduction attributable to these exemptions. These reimbursements are made as expenditures from the state General Fund via the Department of the Treasury.

TABOR refund mechanisms. Reimbursements to local governments for the property tax exemptions are the first of three TABOR refund mechanisms under current law. A TABOR surplus collected in one fiscal year is set aside to fund these reimbursements in the following fiscal year.

Senior homestead exemption. A homeowner is eligible to claim the senior homestead exemption if he or she meets the following requirements:

- The homeowner is 65 years old as of January 1 of the tax year; and
- The homeowner has occupied the home as his or her primary residence for at least ten years.

Disabled veteran homestead exemption. A veteran with a disability is eligible to claim the disabled veterans homestead exemption if he or she is rated 100 percent permanently disabled by the U.S. Department of Veterans Affairs, and owned and occupied the property as their primary residence on January 1st of the year in which they apply for the exemption.

Assumptions

Expanded exempt value. The Division of Property Taxation provided data on properties that qualified for the homestead exemption in 2020. These data were adjusted for forecast home price appreciation and the property tax benefit was recalculated under the bill.

Portability. Based on national data adjusted for Colorado's demographics when possible, this fiscal note assumes that:

- About 25 percent of homes sold in Colorado are sold by seniors aged 65 and above;
- About 68 percent of seniors selling their homes had satisfied the residency requirement and previously qualified for the exemption; and

- About 13 percent of sales by seniors are due to reasons of medical necessity, based on the national share of seniors who sold their home because upkeep had become too difficult due to health limitations.

Based on these assumptions, it is estimated that about 3,000 of the 131,000 home sales reported by the Colorado Association of Realtors for 2021 were made by seniors who previously qualified for the exemption and moved out of medical necessity. Based on national statistics, it is further assumed that about 54 percent of these home sellers bought another home in Colorado. For property tax year 2021, the estimated average expenditure per senior exemption, including the expanded exempt value under this bill, is \$902.

Caseload and average exemption amounts were grown to tax year 2023 by the December 2021 Legislative Council Staff forecast for senior homestead exemptions.

State Expenditures

In years when the state does not incur a TABOR surplus or when the surplus is not sufficient to fully fund reimbursements to local governments for the expanded property tax exemptions under this bill, the bill will increase state General Fund expenditures for these reimbursements. The bill increases reimbursements to local governments by \$89.3 million in FY 2022-23, \$98.9 million in FY 2023-24, and by similar amounts in future years before accounting for changes in property value. Workload and costs are also incurred in the Department of Local Affairs and Office of Information Technology. These impacts are described below.

Local government reimbursements. Table 2 shows the increased homestead exemption, the forecast for current law reimbursements, and the net impact of the bill, which is estimated to be \$89.3 million in FY 2022-23 and \$98.9 million in FY 2023-24, based on the assumptions described above. Payments to local governments from the increased exemption will be made by the State Treasurer and, based on the December 2021 LCS Economic and Revenue Forecast, it is assumed that these increased expenditures will be paid using available money set aside for TABOR refunds in both FY 2022-23 and FY 2023-24 and do not require appropriation in this bill. In years when the state is not required to make TABOR refunds, the bill will require increased General Fund appropriations compared to current law.

Table 2
Homestead Exemptions Under Current Law and SB 22-093

	FY 2022-23	FY 2023-24
Expanded Exempt Value Under SB 22-093	\$252.2 million	\$268.2 million
Portability for Medical Necessity Under SB 22-093	\$1.5 million	\$1.5 million
Current Law Exemptions	\$164.4 million	\$170.8 million
Net Change	\$89.3 million	\$98.9 million

Computer programming. This bill will increase costs in the Division of Property Taxation in the Department of Local Affairs by \$38,400 for changes to the homestead exemptions application. These system changes will allow the tracking of seniors' one-time use of the medical exemption. This upgrade is estimated to require 320 hours of time for computer programming at an estimated rate of \$120 per hour. This work will be performed or contracted for by the Office of Information Technology.

Other impacts. Workload in the Division of Property Taxation will increase to review and audit county data to ensure that property owners meet the qualifications to obtain this exemption, to update information on the division website, and respond to questions from taxpayers. This workload increase is minimal and can be accomplished within existing appropriations.

Other Budget Impacts

TABOR refund. While the bill does not affect the total TABOR refund required in FY 2022-23 or FY 2023-24, it will increase the portion of the TABOR refund that will be paid using the homestead exemption mechanism, which is the first of three mechanisms used under current law to issue refunds. Based on the size of the projected TABOR refund in FY 2022-23 and FY 2023-24, this will in turn decrease the amount required to be refunded by the six-tier sales tax refund mechanism, which is the third means of refunding money to taxpayers after the homestead exemption and the temporary income tax rate reduction. A forecast of TABOR revenue is not available beyond FY 2023-24.

General Fund reserve. Under current law, an amount equal to 15 percent of General Fund appropriations must be set aside in the General Fund statutory reserve beginning in FY 2022-23. Based on this fiscal note, the bill is expected to increase the amount of General Fund held in reserve by at \$5,760 in FY 2022-23, which will decrease the amount of General Fund available for other purposes.

Local Government

The bill has offsetting impacts on local government revenue that will not change net revenue to any jurisdiction. It decreases property tax revenue with offsetting increased state reimbursements to local governments by the amounts shown in Table 2. The bill may affect local government TABOR refunds if local voters have exempted one of, but not both of, property tax revenue and revenue received from the state government.

In addition, workload for county assessors will increase to administer additional exemptions. This work can be accomplished within current assessor staffing levels.

State Appropriations

For FY 2022-23, the bill requires a General Fund appropriation of \$38,400 to the Division of Local Government in the Department of Local Affairs, of which the whole amount is reappropriated to the Office of Information Technology.

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	County Assessors
Information Technology	Local Affairs
Military Affairs	Personnel
Property Tax Division - Local Affairs	Revenue
Treasury	