Fiscal Note

Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

HB 26-1301: HOSPITAL FUNDING

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Summary Information

Overview. The bill refers a ballot measure to voters at the November 2026 statewide election. If approved, the measure would increase sales and excise tax on retail marijuana and liquor products to fund the construction and operation of the Colorado Mental Health Institute at Aurora.

Types of impacts. The bill is projected to affect the following areas on an ongoing basis:

- State Revenue
- State Expenditures
- TABOR Refunds
- Local Government

Appropriations. Conditional upon approval of the referred measure, the bill requires an appropriation of $14,934 to the Department of Revenue in FY 2026-27.

Table 1
Conditional State Fiscal Impacts

Type of Impact	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
State Revenue	$30,411,000	$61,698,000	$63,023,000	$64,208,000
State Expenditures	$14,934	$2,925,000	$3,040,000	$16,031,250
Transferred Funds	-$326,000	-$662,000	-$689,000	-$689,000
Change in TABOR Refunds	$0	$0	$0	$0
Change in State FTE	0.0 FTE	0.0 FTE	0.0 FTE	0.0 FTE

Fund sources for these impacts are shown in the tables below, and are conditional upon voter approval of the bill's referred measure. Expenditures assume project completion in FY 2032-33, with operating costs beginning in FY 2033-34.

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Table 1A
State Revenue

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
Capital Construction Fund	$30,874,000	$62,637,000	$63,998,000	$65,188,000
General Fund	-$379,000	-$770,000	-$801,000	-$801,000
BEST Fund	-$84,000	-$169,000	-$174,000	-$179,000
Equipment Replacement Fund	Indeterminate	Indeterminate	Indeterminate	Indeterminate
Net Transfers	**$30,411,000**	**$61,698,000**	**$63,023,000**	**$64,208,000**

Table 1B
State Expenditures

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
General Fund	$14,934	$1,500,000	$0	$0
Cash Funds	$0	$1,425,000	$3,040,000	$16,031,250
Federal Funds	$0	$0	$0	$0
Centrally Appropriated	$0	$0	$0	$0
Total Expenditures	**$14,934**	**$2,925,000**	**$3,040,000**	**$16,031,250**
Total FTE	**0.0 FTE**	**0.0 FTE**	**0.0 FTE**	**0.0 FTE**

Table 1C
Transferred Funds

Fund Source	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
General Fund	$326,000	$662,000	$689,000	$689,000
Marijuana Tax Cash Fund	-$264,000	-$536,000	-$558,000	-$558,000
State Public School Fund	-$43,000	-$87,000	-$91,000	-$91,000
Marijuana Cash Fund	-$6,000	-$12,000	-$12,000	-$12,000
Local Distributions	-$13,000	-$27,000	-$28,000	-$28,000
Net Transfers	**$0**	**$0**	**$0**	**$0**

Summary of Legislation

The bill refers a ballot measure to voters at the November 2026 statewide election. If approved, the measure would increase taxes on retail marijuana and alcohol to fund the construction and operation of the Colorado Mental Health Institute at Aurora and another mental health facility in Mesa County.

Alcohol and Marijuana Taxes

Beginning January 1, 2027, the bill increases taxes by the following amounts:

- 7.33¢ per gallon excise tax on malt liquor and hard cider;
- 8¢ per liter excise tax on vinous liquor;
- 60.26¢ per liter excise tax on spiritous liquor;
- 0.42 percent special sales tax on retail marijuana; and
- 0.42 percent excise tax on retail marijuana.

Revenue collected from these increased taxes is credited to the newly created Hospital Support Account in the Capital Construction Fund. Revenue from the new taxes is exempt from TABOR as a voter approved revenue change.

Fund Expenses

The Colorado Department of Human Services (CDHS) is authorized to expend funds from the Hospital Support Account for the construction and operation of the Colorado Mental Health Institute at Aurora, and for operational expenses for long-term civil commitment facilities in Mesa County, in this priority order. Expenditures are subject to approval by the Capital Development Committee, and annual appropriations by the General Assembly. CDHS is required to report the fund balance to the Joint Budget Committee at the end of each fiscal year.

Mental Health Institute

The bill establishes the Colorado Mental Health Institute at Aurora to provide treatment for individuals who have a behavioral or mental health disorder and are committed to a state institution on an inpatient or outpatient basis or required to participate in state substance use disorder programs.

Facility Requirements

The facility's administrative body must hire and staff the institute, may contract with the University of Colorado to provide medical professional services, and must collaborate with the CDHS on hiring decisions for at-risk patients. The facility must be constructed to have at least 50, and no more than 70, beds. If resources at the facility exceed immediate needs, the institute

may provide up to 10 beds for educational purposes coordinated with the University of Colorado.

Additionally, the CDHS must develop admission criteria that ensures individuals have been evaluated prior to admission for the least restrictive level of care and that other factors are not the primary reason for an individual's access to an inpatient bed.

Permitted Uses

The bill permits the institute to provide treatment for individuals committed to the custody of the CDHS or Department of Corrections if deemed appropriate. Additionally, individuals under the care or custody of the federal government may also receive treatment from the institute, so long as the federal agency covers all costs and pays a fee. Fee revenue collected from these agencies is credited to the newly created Equipment Replacement Fund, which may be used to replace existing equipment.

Funding

The General Assembly must annually appropriate funds to the CDHS for general medical expenses at the institute, based on projections of total patient load and associated costs. Further, the facility is authorized to receive gifts, legacies, devises, and conveyances of property.

Background and Assumptions

Project Plan

If the referred measure is approved by voters at the November 2026 election, funds from the increased tax will be used to construct the Colorado Mental Health Institute at Aurora at the existing Aurora Mental Health and Recovery Campus in Aurora, Colorado. The property currently includes a 50,000 square foot building that houses a crisis walk-in clinic, a 16-bed crisis stabilization unit, and a 45-bed withdrawal management unit. A 43-bed supportive housing unit is also under construction on the campus. The newly built institute would provide approximately 50 civil beds for short-term inpatient treatment services to alleviate the mental health bed shortage in the state.

Timeline

The fiscal note assumes that the CDHS will submit the first capital construction request for approval in the FY 2028-29 budget cycle, and that the project will be completed in FY 2032-33. Beginning in FY 2033-34, the Colorado Mental Health Institute at Aurora will begin hiring staff, incurring operating expenses, and accepting patients.

Mesa County Facility

The bill permits the CDHS to use collected tax revenue to fund operating expenses for long-term civil commitment facilities in Mesa County. However, no such facility has been identified and the fiscal note assumes that revenue remaining after construction and operating expenses for the Colorado Mental Health Institute at Aurora will accrue in the Capital Construction Fund until a facility is built in Mesa County.

Downstream Impacts

Upon completion of the Colorado Mental Health Institute at Aurora, the facility will generate a wide range of standard revenue and expenditure impacts associated with medical facility operations, including Medicaid and other third-party reimbursements, federal grants, non-standard operating costs, insurance, and applicable taxes and fees. Costs for state agencies that interface with the new facility will also increase, including human resource and fleet vehicle management in Department of Personnel and Administration, facility licensure and compliance in Department of Public Health and Environment, and Medicaid utilization in the Department of Health Care Policy and Financing. However, the fiscal note does not contemplate these downstream impacts due to a wide range of potential scenarios, actions, and outcomes. Instead, these impacts are assumed to be addressed through the annual budget process once the facility is ready to begin operations, which is assumed to be in FY 2033-34.

Capital Development Committee Analysis

CDC staff prepared an analysis of this bill for CDC members, which is available here. Estimates reflected in this memo have since been adjusted based on new information.

Alcohol Tax Revenue

Excise taxes on alcohol are assessed by volume, and the tax rate depends on the type of alcoholic beverage. Revenue from taxes on alcohol is deposited in the General Fund and is subject to the TABOR limit. The tax rates depend on the type of alcohol as follows:

- 8¢ per gallon of fermented malt beverages (beer) and hard cider;
- 7.33¢ per liter (plus surcharges totaling between 1¢ and 6¢) for vinous liquors (wine); and
- 60.26¢ per liter of spirits (hard liquor).

The tax rate increases in the bill may reduce alcohol consumption. The tax rate increases are small enough relative to the total prices of these products that any impact to consumption is expected to be minimal. The fiscal note assumes the December 2025 Legislative Council Staff forecast for alcohol tax revenue. Tax revenue for each type of alcohol is projected to grow by 2 percent per year beyond the forecast period.

Marijuana Tax Revenue

Retail marijuana is subject to a voter-approved excise tax of 15 percent and a voter-approved special sales tax of 15 percent, in lieu of the general state sales tax. This revenue is exempt from TABOR as a voter-approved revenue change.

The 15 percent excise tax is due when retail marijuana is first transferred from a cultivator to a processor or distributor. The excise tax is applied to the wholesale price of retail marijuana. All revenue from the 15 percent excise tax is deposited into the Public School Capital Construction Assistance Fund, commonly known as the fund used for the Building Excellent Schools Today (BEST) program, or the "BEST Fund." The first $40 million of excise tax revenue each year is constitutionally dedicated to school construction.

The 15 percent special sales tax is paid by consumers when retail marijuana is sold. The tax applies similar to a general sales tax. Revenue from the 15 percent special sales tax is shared between the state and local governments. Beginning in FY 2025-26, the state share is 96.5 percent and the local share is 3.5 percent. The state share is deposited into the General Fund, and then distributed as follows:

- 72.20 percent is deposited into the Marijuana Tax Cash Fund;
- 11.74 percent is deposited into the State Public School Fund;
- 14.51 percent remains in the General Fund; and
- 1.55 percent is deposited into the Marijuana Cash Fund.

The fiscal note assumes the December 2025 Legislative Council Staff forecast for marijuana tax revenue. Revenue from the marijuana excise tax is projected to grow by 3 percent per year beyond the forecast period, and special sales tax revenue is projected to grow by 4 percent per year beyond the forecast period.

The fiscal note also assumes that marijuana consumption has a price elasticity of -0.6, meaning that for every 1 percent increase in the price of marijuana, marijuana consumption decreases by 0.6 percent. Therefore, the fiscal note estimates that marijuana consumption will decrease by 0.4 percent as a result of the increased tax.

State Revenue

Conditional on voter approval, the bill increases revenue on net by $30.4 million in FY 2026-27 (a half-year impact), $61.7 million in FY 2027-28, and increasing amount in future years. The net changes in revenue from each tax are shown in Table 2 below.

Table 2
State Revenue Changes by Tax

Department	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
Malt Beverages and Hard Cider	$4,441,000	$9,010,000	$9,190,000	$9,374,000
Vinous Liquors	$2,868,000	$5,818,000	$5,934,000	$6,053,000
Spirits	$20,627,000	$41,849,000	$42,686,000	$43,540,000
Marijuana Special Sales Tax	$2,028,000	$4,118,000	$4,283,000	$4,283,000
Marijuana Excise Tax	$447,000	$903,000	$930,000	$958,000
Total Revenue	**$30,411,000**	**$61,698,000**	**$63,023,000**	**$64,208,000**

Alcohol Tax Revenue

Increasing taxes on alcohol is expected to increase revenue by $27.9 million in FY 2026-27 (a half-year impact), $56.7 million in FY 2027-28, and increasing amounts in later years. This revenue is deposited in the General Fund and transferred to the Hospital Services Account within the Capital Construction Fund. Any reduction in consumption due to the new taxes is expected to be minimal. See Assumptions section for more detail.

Marijuana Special Sales Tax Revenue

Increasing the marijuana special sales tax is expected to increase revenue on net by $2.0 million in FY 2026-27 (a half-year impact), $4.1 million in FY 2027-28, and increasing amounts in later years. This estimate includes the assumption that raising taxes on marijuana will reduce marijuana consumption by 0.4 percent, as described in the Assumptions section.

As a result of reduced consumption, the bill is expected to reduce distributions from the existing special sales tax to the General Fund by $379,000 in FY 2026-27, $770,000 in FY 2027-28, and increasing amounts in later years. This revenue is then transferred to the MTCF, State Public School Fund, Marijuana Cash Fund, and local governments, and a portion remains in the General Fund. This revenue loss is more than offset by the new revenue from the tax increase, which is expected to increase revenue to the Hospital Services Account by $2.4 million in FY 2026-27, $4.9 million in FY 2027-28, and increasing amounts in later years.

Marijuana Excise Tax Revenue

Increasing the marijuana special sales tax is expected to increase revenue on net by $447,000 in FY 2026-27 (a half-year impact), $903,000 in FY 2027-28, and increasing amounts in later years. This estimate includes the assumption that raising taxes on marijuana will reduce marijuana consumption by 0.4 percent, as described in the Assumptions section.

As a result of reduced consumption, the bill is expected to reduce distributions from the existing tax to the BEST fund by $84,000 in FY 2026-27, $169,000 in FY 2027-28, and increasing amounts in later years. This is more than offset by the new revenue from the tax increase, which is expected to increase revenue to the Hospital Services Account by $531,000 in FY 2026-27, $1.1 million in FY 2027-28, and increasing amounts in later years.

Maximum Dollar Change

The estimates in the previous paragraphs represent the highest probability tax revenue impact of the bill based on the assumptions used in this fiscal note. Based on forecast error that could occur, the maximum dollar amount of the tax increase for FY 2027-28 is estimated to be $71.3 million.

Federal Agency Fees

State revenue will increase to the extent that federally committed individuals are placed in the new institute and the federal government pays a fee to the CDHS. Revenue is collected in the Equipment Replacement Fund and may be expended for the maintenance and replacement of existing equipment. This revenue depends on actions taken by federal agencies, the availability of civil beds, and fees set by the department; therefore, the fiscal note cannot estimate these impacts. It is assumed that any fee revenue paid by the federal government is not subject to TABOR.

State Expenditures

Conditional upon voter approval of the referred measure, the bill increases state expenditures by about $15,000 in FY 2026-27, and an estimated $2.9 million in FY 2027-28, $3.0 million in FY 2028-29, $16.0 million in FY 2029-30 and increasing amounts in future years. These costs, shown in Table 3 and paid from the Capital Construction Fund and the General Fund, will be incurred in the CDHS and the Department of Revenue (DOR). The bill also increases expenditures for the 2026 statewide election, which are paid from existing appropriations.

Table 3
State Expenditures
All Departments

Department	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
Department of Human Services	$0	$2,925,000	$3,040,000	$16,031,250
Department of Revenue	$14,934	$0	$0	$0
Total Costs	**$14,934**	**$2,925,000**	**$3,040,000**	**$16,031,250**

Department of Human Services

Beginning in FY 2027-28, the department will have costs for land acquisition and construction-related expenses, as shown in Table 4 and discussed below. Operating expenses for the new facility will begin after the new facility is occupied, which is estimated to be FY 2033-34.

Table 4
State Expenditures
Department of Human Services

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2029-30
Land Acquisition	$0	$1,500,000	$0	$0
Construction	$0	$1,425,000	$3,040,000	$16,031,250
Total Costs	**$0**	**$2,925,000**	**$3,040,000**	**$16,031,250**
General Fund	$0	$1,500,000	$0	$0
Capital Construction Fund	$0	$1,425,000	$3,040,000	$16,031,250

Land Acquisition

The intended parcel of land for the project is located at 1290 S. Potomac Street, Aurora, and was assessed in 2025 at a value of $518,000. Based on Aurora's assessment rate and the parcel's Fair Market Value, the fiscal note estimates that CDHS will purchase the land for $1.5 million in FY 2027-28. The bill does not explicitly permit the CDHS to use collected tax revenue for the purchase of property; therefore, the fiscal note assumes the General Fund will be required.

Construction

The fiscal note estimates that the project's total cost will be around $95 million for 50 beds, or $1.9 million per bed after adjusting for inflation, spread across pre-design, design, professional services, construction, equipment, and contingency. If 70 beds are constructed, costs are estimated at $133 million.

This estimate is based on capital construction costs from newly built facilities in other states, including a New Hampshire forensic hospital, a Texas behavioral health center, and a Washington behavioral health teaching facility. Table 5 represents one possible outlay of construction expenditures over the next seven years, and is based on standard cost allocations for new capital construction projects.

Table 5
Potential Itemized Cost Information
Department of Human Services

Category	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33
Design	$1,425,000	$0	$0	$0	$0	$0
Professional Services	$0	$3,040,000	$4,560,000	$0	$0	$0
Construction	$0	$0	$10,687,500	$24,937,500	$24,937,500	$10,687,500
Equipment	$0	$0	$0	$0	$0	$9,500,000
Miscellaneous	$0	$0	$0	$0	$0	$0
Contingency	$0	$0	$783,750	$1,828,750	$1,828,750	$783,750
Total Costs	**$1,425,000**	**$3,040,000**	**$16,031,250**	**$26,766,250**	**$26,766,250**	**$20,971,250**

Budget Year FY 2026-27 is not shown in the table above, as costs are not expected to begin before FY 2027-28.

Operating Expenses

The project is expected to take five years to complete. Upon occupancy in FY 2033-34, the CDHS will begin using tax revenue to fund ongoing operating expenses, which are estimated to range between $23.7 million per year and 165.5 FTE for 50 beds to $33.2 million per year and 231.7 FTE for 70 beds. This estimate is based on actual costs for the Colorado Mental Health Hospital in Fort Logan, and represent about $1,300 per patient per day. In addition to staff, costs include contract medical services, capital and operating expenses, pharmaceuticals, and training.

Fund Surplus

As discussed in the Background and Assumptions section, the bill permits the CDHS to use the remaining collected tax revenue to fund operating expenses for long-term civil commitment facilities in Mesa County. However, because no facility currently fits this description, the Hospital Support Account of the Capital Construction Fund is expected to begin accruing a surplus in FY 2026-27, which will continue to build even after accounting for the costs of the Aurora project. If no facility in Mesa County facility is built or identified, and no other legislative action is taken to distribute these funds, the balance in the account upon completion of the Aurora project in FY 2032-33 is expected to be over $329 million, as outlined in Table 6 below.

Table 6
Cumulative Fund Balance After Estimated Expenditures
Department of Human Services

Cost Component	Budget Year FY 2026-27	Out Year FY 2027-28	Out Year FY 2028-29	Out Year FY 2032-33
Estimated Annual Revenue	$30,874,000	$62,637,000	$63,998,000	$68,974,762
Estimated Annual Expenditures	-$0	-$2,925,000	-$3,040,000	-$20,971,250
Annual Fund Surplus	$30,874,000	$59,712,000	$60,958,000	$48,003,512
Prior Year Balance	$0	$30,874,000	$90,586,000	$281,283,499
Cumulative Fund Balance	**$30,874,000**	**$90,586,000**	**$151,544,000**	**$329,287,011**

Department of Revenue

Conditional on measure approval, the bill requires one-time expenditures of $14,934 in FY 2026-27 to program, test, and update database fields in the DOR's GenTax software system. Programming costs are estimated at $9,768 representing 40 hours of contract programming at a rate of $244.19 per hour. Costs for system testing include $3,444 for 84 hours of innovation, strategy, and delivery programming support and $1,722 for 42 hours of user acceptance testing, both at a rate of $41 per hour.

Legislative Department

The bill increases workload for members and staff of the Capital Development Committee to review annual capital requests from the CDHS for this project. No change in appropriations is required.

Election Expenditure Impact — Existing Appropriations

This bill includes a referred measure that will appear before voters at the November 2026 general election. While no additional appropriation is required, certain election costs are incurred by the state when ballot measures are referred. These include reimbursing counties for certain election costs, publishing the text and title of the measure in newspapers across the state, and preparing and mailing the Blue Book.

Other State Agencies

Workload will increase for the Departments of Personnel and Administration (DPA) and Treasury to manage and perform accounting for the cash fund account created in the bill. While no appropriation is required at this time, these departments may seek additional funding through the annual budget process based on the cumulative impact of all cash funds created through legislation.

Workload in the DPA will also minimally increase to assist the CDHS with land acquisition contracts, construction management, and third-party partner agreements. This workload is expected to be minimal and not change in appropriations is required.

BEST Fund

The bill reduces revenue available to spend or save from the BEST Fund by the amounts shown in Table 1A. The BEST fund is continuously appropriated to the Department of Education to fund competitive grants to public schools for construction projects. The timing and amount of spending decreases is not estimated here.

Marijuana Tax Cash Fund

The bill reduces the amount of revenue available to spend or save from the MTCF by the amounts shown in Table 1C. The MTCF is annually appropriated by the General Assembly to a variety of departments and programs, and the fund carries a 15 percent reserve. The timing and amount of spending decreases is not estimated here.

State Public School Fund

The bill reduces the amount of revenue available to spend or save from the State Public School Fund by the amounts shown in Table 1C. The State Public School Fund is used for a portion of the state share of school finance and for other education-related programs and functions. The timing and amount of spending decreases is not estimated here.

Transfers

The bill reduces expected revenue from the existing special sales tax on revenue, which is deposited into the General Fund and then transferred to the MTCF, State Public School Fund, Marijuana Cash Fund, and local governments, and a portion remains in the General Fund. Therefore, the bill reduces transfers by the amounts shown in Table 1C.

Local Government

Of the marijuana special sales tax revenue, 3.5 percent is distributed to local governments. The bill is expected to reduce distributions to local governments by $13,000 in FY 2026-27 (half-year impact), $27,000 in FY 2027-28, and increasing amounts in future years.

Technical Note

TABOR requires voter approval for any new tax, tax rate increase, extension of an expiring tax, or tax policy change causing an increase in net tax revenue. TABOR further requires that prior to any election seeking such voter approval, voters be provided with 1) an estimate of the amount of revenue generated by the proposed tax increase and 2) an estimate of fiscal year spending without the proposed tax increase, each for the first full fiscal year of such an increase. If either of these estimates is exceeded in the first full fiscal year of a new tax, the amount of the excess is required to be refunded to taxpayers and tax rates adjusted accordingly, unless there is subsequent voter approval to retain the revenue.

The ballot question in the bill asks whether taxes may be increased by $44 million. Based on the statutory tax increases listed in the bill, the fiscal note estimates that over $44 million will be collected in the first full fiscal year, FY 2027-28. For fiscal note purposes, it is assumed that the ballot question will be amended to reflect the fiscal note estimate or that voters will permit the state to keep excess funds if the ballot question is not amended.

Effective Date

If approved by voters at the 2026 election, the bill takes effect upon proclamation of the Governor, no later than 30 days after the official canvass of the vote is completed.

State Appropriations

For FY 2026-27, the bill requires a conditional General Fund appropriation of $14,934 to the Department of Revenue. If the referred measure is not approved by voters at the November 2026 election, this appropriation will not be used and revert back to the General Fund.

State and Local Government Contacts

Corrections

Counties

Health Care Policy and Financing

Higher Education

Human Services

Personnel

Revenue

State Auditor

Treasury