Colorado Legislative Council Staff

SB16-067

FISCAL NOTE

FISCAL IMPACT: ☒ State ☒ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number: LLS 16-0339
Prime Sponsor(s): Sen. Scheffel; Heath
Rep. Williams

Date: March 30, 2016
Bill Status: Senate Finance
Fiscal Analyst: Larson Silbaugh (303-866-4720)

BILL TOPIC: BROADBAND PERSONAL PROPERTY TAX EXEMPTION

Fiscal Impact Summary	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
State Revenue	**$181,500**	**$534,500**	**$3,102,500**	**$5,650,000**
Corporate Income Tax - GF	$181,500	$534,500	$897,500	$1,271,000
Individual Income Tax - GF			$2,205,000	$4,379,000
State Expenditures	**$14,656,000**	**$104,307,000**	**$120,011,000**	**$134,667,000**
General Fund	$14,656,000	$104,307,000	$120,011,000	$134,667,000
TABOR Impact	$181,500	$534,500	Not estimated.	
FTE Position Change				
Appropriation Required: None.				
Future Year Impacts: Ongoing state expenditure increase.				

Summary of Legislation

This bill creates a property tax exemption for personal property used to provide broadband service. The exemption applies to personal property purchased on or after January 1, 2016.

Background

Valuation of broadband property. The Department of Local Affairs (DOLA) values all public utilities and rail transportation companies doing business in Colorado. The company valuations are apportioned to the counties for collection of the local property tax. DOLA values telecommunication companies that provide broadband services in multiple counties and then provides the state assessed values to each county. County assessors value property used to provide broadband services in a single county. The majority of county assessed broadband property is broadband equipment owned by service providers that connect homes and businesses to the larger broadband networks.

Property tax assessment rates. Property taxation is based on the county or state assessed value of property. Under Colorado law, nonresidential property is assessed at 29 percent of its actual value. The state constitution requires that residential property make up about 47 percent of the property tax base and nonresidential property make up the remaining 53 percent. The residential assessment rate is adjusted every two years to maintain this ratio. Removing nonresidential property from the tax base impacts the calculation of the residential assessment rate. Under current law, the residential assessment rate is 7.96 percent and is forecast to decline to 7.78 percent in 2017, the next reassessment year.

Property tax is collected by various local taxing entities, including municipalities, counties, school districts, and special districts. Each local taxing entity establishes a mill rate that is multiplied by the assessed value of all taxable property within the jurisdiction. One mill generates $1.00 for each $1,000 of value. Property taxes are collected in arrears, in the first half (February and May) of the calendar year following the property tax year.

Exempt state assessed property. In 2014, telecommunications companies accounted for 23.5 percent of state assessed value and 1.4 percent of total property in Colorado. While telecommunications companies provide services other than broadband internet, virtually all of the property purchased by these companies can be used to provide internet service and would be eligible for the exemption in this bill. In 2015, state assessed business personal property used to provide broadband service was valued at an estimated $5.0 billion. Some of this property includes towers which have a 20 year economic life and cabling and wiring with a 10 year economic life. The majority of broadband personal property has a 4 year economic life. Based on the value of new equipment reported by telecommunication utilities to the DOLA in 2015, it is estimated that 18.7 percent of total broadband business personal property is put into service each year.

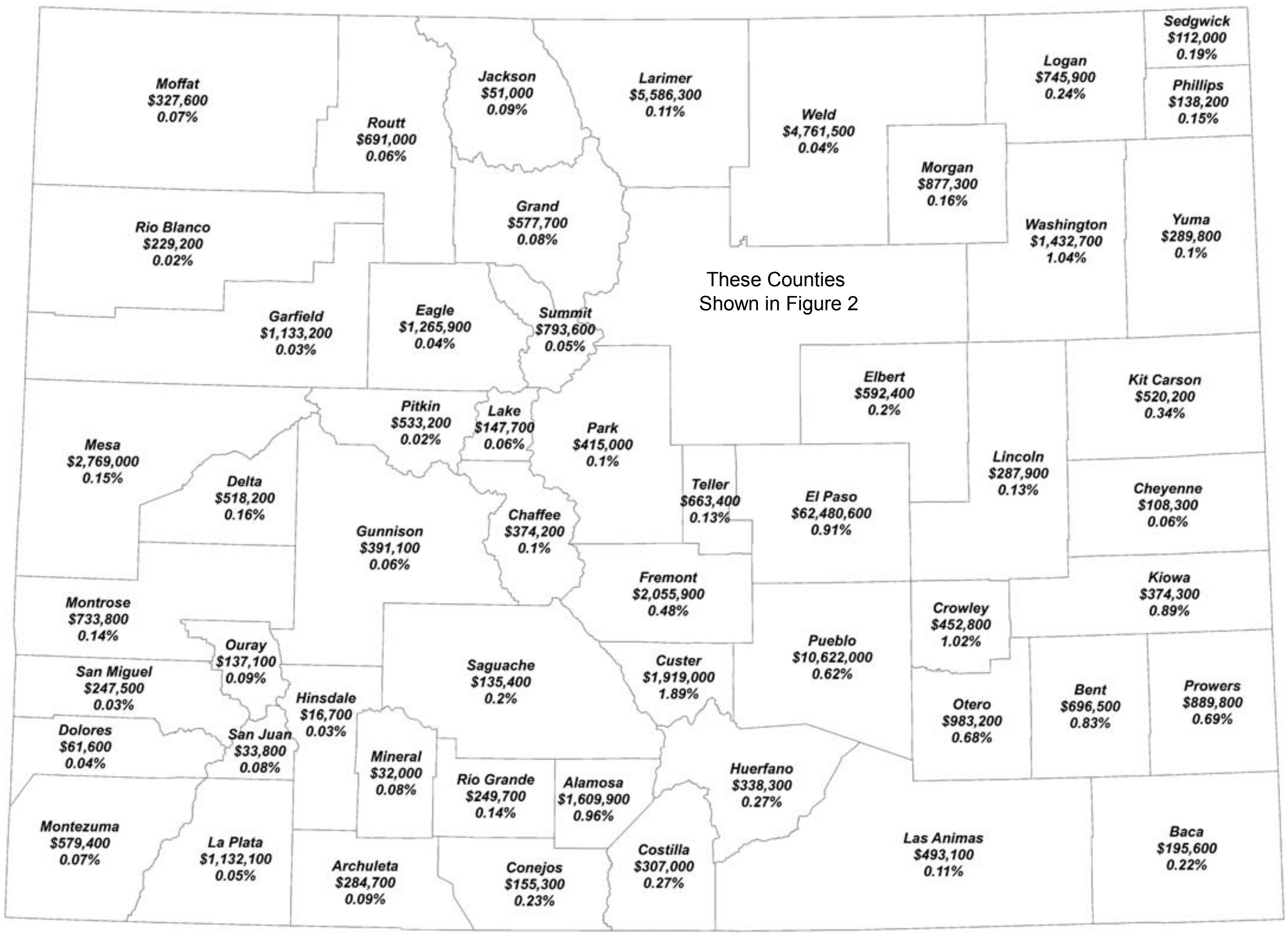
Based on these assumptions, a total of $945 million in state assessed business personal property would be exempt from property taxation in 2016. The amount of exempt property will increase each year until all business personal property used to provide broadband service is exempt.

Exempt locally assessed property. Locally assessed broadband property is generally the equipment used to connect customers to the internet, therefore the value of locally assessed broadband property is allocated to each county based on population. Using the value of locally assessed broadband personal property reported by the Denver assessor and the population of each county, there was an estimated $826.7 million in locally assessed business personal property used to provide broadband internet services in 2015. Similar to state assessed telecommunications companies, most of this property has a 4 year economic life. Based on the amount of new locally assessed property placed in service, $149 million would be replaced in the first year.

The combined actual value of state and county assessed business personal property used to provide broadband internet service is expected to be $1.1 billion in 2016, and increase by this amount each year between 2017 and 2019. Exempting $2.2 billion in actual value from nonresidential property when the residential assessment rate (RAR) is calculated in 2017 will result in a residential assessment rate of 7.50 percent, compared with 7.78 percent forecast under current law. The decrease in the RAR results in a further reduction in assessed value equal to $1.8 billion in 2017, $1.9 billion in 2018, and $1.9 billion in 2019.

Applying the 29 percent assessment rate to the exempt business personal property used to provide broadband internet service results in a reduction in taxable value of $317.3 million in 2016, $634.6 million in 2017, $951.9 million in 2018, and $1.3 billion in 2019. The maps in Figures 1 and 2 on the following two pages show the estimated taxable value that would be exempt in 2016, the first year of the exemption, and the percentage of the total tax base in each county that is exempt. Property tax bills for 2016 will be mailed in January of 2017, and paid in the first half of 2017.

Figure 1
Taxable Value of Exempt Broadband Property in 2016 and Percentage of Tax Base, By County



Source: Legislative Council Staff Estimates

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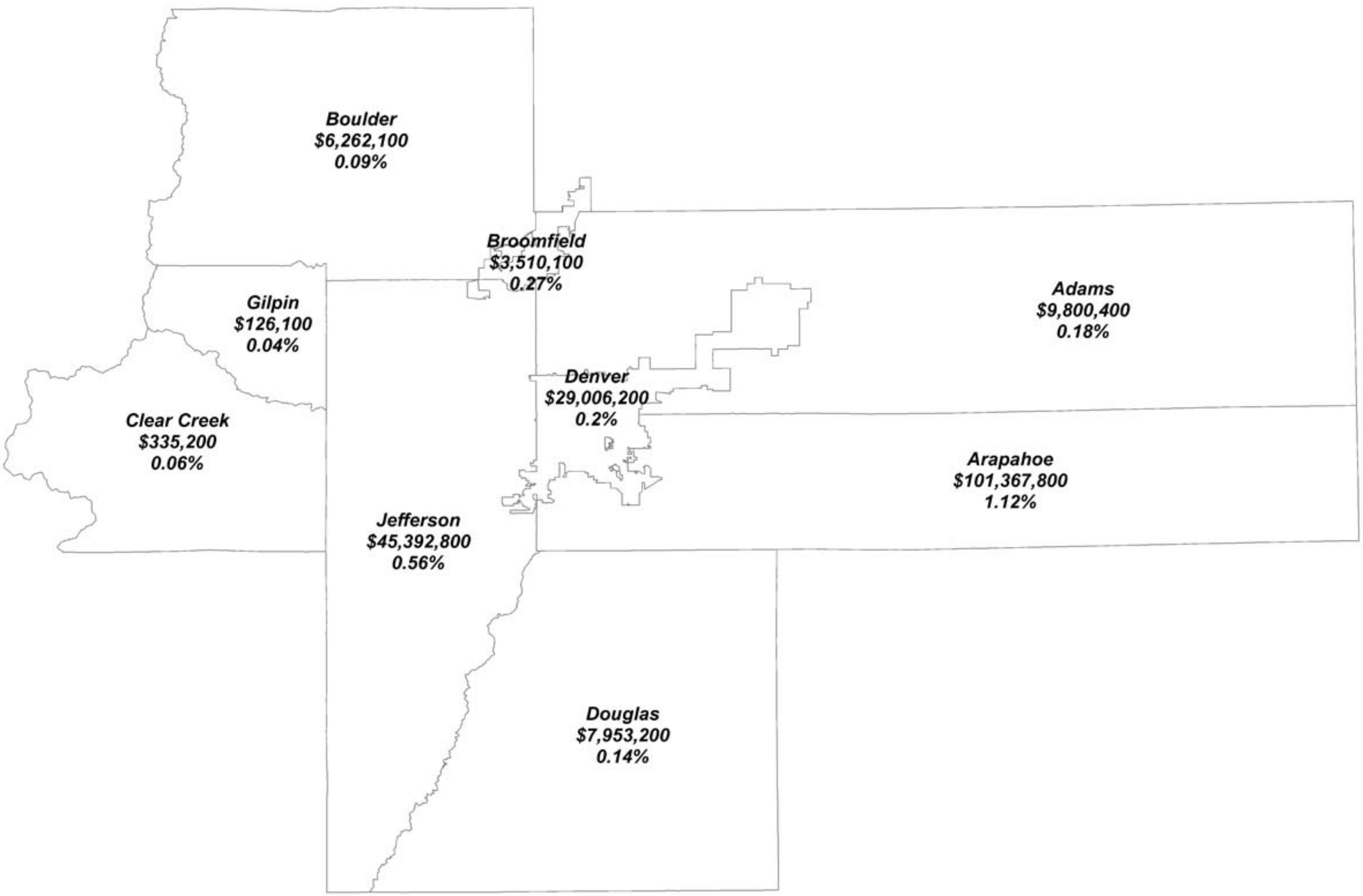
Figure 2
Taxable Value of Exempt Broadband Property in 2016 and Percentage of Tax Base, By County in Metro Region



Source: Colorado Legislative Council Staff Estimates

State Revenue

This bill will increase **General Fund revenue by an estimated $181,500 in FY 2016-17, $534,500 in FY 2017-18, $3.1 million in FY 2018-19, and $5.6 million in FY 2019-20.** This impact is from both corporate income taxes and individual income taxes.

Corporate income taxes. This bill will reduce property taxes paid by corporations doing business in Colorado. The decrease in property tax liability will increase a state's income tax liability by reducing the deduction allowed for property taxes. This will increase corporate income taxes by $363,000 in 2017, $706,000, in 2018, $1.1 million in 2019, and $1.5 million in 2020. Accounting for state fiscal years, the impact is expected to be $181,500 in FY 2016-17, $534,500 in FY 2017-18, $897,500 in FY 2018-19, and $1.3 million in FY 2019-20.

Individual income taxes. The reduction in the residential assessment rate will reduce the amount of property taxes that homeowners can deduct from their individual income taxes. This will increase federal taxable income and Colorado individual income tax liability starting with 2018 tax returns. Individual income taxes will increase by $4.4 million in 2018, $4.3 million in 2019, and $4.5 million in 2020. Adjusting for state fiscal years, this bill will increase individual income taxes by $2.2 million in FY 2018-19, and $4.4 million in FY 2019-20.

TABOR Impact

This bill increases state revenue from corporate and individual income taxes, which will increase the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill increases both revenue to the General Fund and the refund obligation by equal amounts, there is no net impact on the amount of money available in the General Fund for the budget. However, the bill will increase money available for the General Fund budget in the future during years the state does not collect money above the TABOR limit.

State Expenditures

Starting in FY 2016-17, the bill increases potential state expenditures for school finance, as described below. In addition, the bill results in a change in valuation procedures for DOLA.

School finance impact. Based on average school operating mill levies in each county, the reduction in property taxes available for school finance may require additional state aid of $14.7 million in FY 2016-17, $104.3 million in FY 2017-18, $120.0 million in FY 2018-19 and $134.7 million in FY 2019-20, with ongoing impacts in future fiscal years. To the degree that the state does not backfill these property tax losses, the negative factor would increase, resulting in less money for school districts.

This impact results from a decrease in property tax collections by school districts from both broadband personal property (direct impact of the bill) and residential property throughout the state (indirect impact of the bill). The decrease in taxes from broadband personal property is expected to increase possible state aid by $14.1 million in FY 2016-17, $29.3 million in FY 2017-18, $44.0 million in FY 2018-19, and $58.6 million in FY 2019-20. The decrease in statewide residential property taxes is expected to increase possible state aid by $75.0 million in FY 2017-18, $76.0 million in FY 2018-19, and $76.0 million in FY 2019-20.

DOLA — Division of Property Taxation. The Division of Property Taxation will rely on information provided by companies that provide broadband service to administer this exemption. This is similar to several other property tax exemptions and can be administered within existing appropriations.

Local Government Impact

Table 1 summarizes the local government impact for the exempt property under the bill and the impact of exempting the property on the residential assessment rate.

Table 1. Local Government Impact of SB 16-067
Millions of Dollars

	FY 2016-17	FY 207-18	FY 2018-19	FY 2019-20
Exempt State Assessed Broadband Personal Property				
Taxable Value	($274.0)	($547.0)	($821.9)	($1,095.9)
School Impact	($12.6)	($25.3)	($38.0)	($50.6)
Cities, Counties and Special Districts*	($7.7)	($15.3)	($23.0)	($30.6)
Exempt Locally Assessed Broadband Personal Property				
Taxable Value	($43.3)	($87.6)	($130.0)	($173.3)
School Impact	($2.1)	($4.0)	($6.0)	($8.0)
Cities, Counties and Special Districts*	($1.2)	($2.4)	($3.6)	($4.9)
Reduction in Residential Assessment Rate				
Taxable Value		($1,828.4)	($1,854.2)	($1,854.2)
School Impact		($75.0)	($76.0)	($76.1)
Cities, Counties and Special Districts*		($52.0)	($52.7)	($52.7)
Combined Impact				
Taxable Value	($317.3)	($2,463.0)	($2,806.1)	($3,123.4)
School Impact	($14.7)	($104.3)	($120.0)	($134.7)
Cities, Counties and Special Districts*	($8.9)	($69.7)	($79.3)	($88.2)

* *Actual impact to cities, counties, and special districts may vary depending on if the mill levies are allowed to float based on changes in assessed values.*

The bill reduces local property tax revenue each year beginning property tax year 2016. Local revenue will be reduced by up to $8.9 million in FY 2016-17, $69.8 million in FY 2017-18, $79.4 million in FY 2018-19, and $88.2 million in FY 2019-20. The bill also changes the workload for county assessors.

Impact on local taxing entities. Business personal property used to provide broadband service is in every county in the state. Exempting this property from property taxes will reduce property tax revenue to cities, counties, and special districts by up to $8.9 million in FY 2016-17, $17.7 million in FY 2017-18, $26.6 million in FY 2018-19, and $35.5 in FY 2019-20. Some mills are levied to pay for bonded debt. These mills are allowed to increase to mitigate the reduced taxable value and make debt payments, which will somewhat reduce the revenue impact for local taxing jurisdictions.

Impact of lower RAR on local taxing entities. The residential assessment rate is expected to decrease from 7.78 percent to 7.50 percent based on the exemption in broadband property. This reduction in residential taxable value will reduce property tax revenue to cities, counties, and special districts by up to $52.0 million in FY 2017-18, $52.7 million in FY 2018-19, and $52.7 million in FY 2019-20.

County assessors. Starting with property tax year 2017, costs and workload will increase for county assessors to conduct staff training and adjust software and other procedures to implement the bill. Specifically, personal property tax schedules will need to be modified with updated instructions and assessment staff will need to identify locally assessed property exempt under the bill.

School District Impact

This bill is expected to decrease school property tax revenue by $14.7 million in FY 2016-17, $104.3 million in FY 2017-18, $120.0 million in FY 2018-19 and $134.7 million in FY 2019-20, with ongoing impacts in future fiscal years. This impact is from the broadband property exemption under the bill and the reduction in the RAR.

Reduction in local school property taxes from exempt broadband property. Based on reduced property taxes from exempt broadband business personal property, the bill reduces the local share of funding for public schools starting in FY 2016-17. This reduction is estimated as $14.7 million in FY 2016-17, $29.3 million in FY 2017-18, $44.0 million in FY 2018-19, and $58.6 million in FY 2019-20. State funding may replace this reduction in revenue if the negative factor remains unchanged. However, if the General Assembly increases the negative factor, state aid may offset only a portion of the property tax loss.

Reduction in local school property taxes from reduced RAR. Based on reduced property taxes from a lower residential assessment rate, the bill reduces the local share of funding for public schools starting in FY 2017-18. This reduction is estimated as $75.0 million in FY 2017-18, $76.0 million in FY 2018-19, and $76.0 million in FY 2019-20. State funding may replace this reduction in revenue if the negative factor remains unchanged. However, if the General Assembly increases the negative factor, state aid may offset only a portion of the property tax loss.

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State and Local Government Contacts

Assessors	Counties	Municipalities
Local Affairs	Property Tax	Special Districts
Information Technology		

Research Note Available

An LCS Research Note for SB 16-067 is available online and through the iLegislate app. Research notes provide additional policy and background information about the bill and summarize action taken by the General Assembly concerning the bill.