Colorado Legislative Council Staff

SB17-078

REVISED FISCAL NOTE

(replaces fiscal note dated January 25, 2017)

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

Drafting Number:	LLS 17-0517	**Date:**	February 14, 2017
Prime Sponsor(s):	Sen. Gardner Rep. Melton; Van Winkle	**Bill Status:**	Senate Appropriations
		Fiscal Analyst:	Larson Silbaugh (303-866-4720)

BILL TOPIC: RESIDENTIAL STORAGE CONDO UNIT PROPERTY TAX

Fiscal Impact Summary	FY 2017-2018	FY 2018-2019
State Revenue		**$54,430**
General Fund		54,430
State Expenditures	**Workload increase.**	**$700,051**
General Fund		700,051
TABOR Impact		$54,430
Appropriation Required: None.		
Future Year Impacts: Ongoing revenue and school funding reimbursement increases.		

Note: The fiscal note was revised to reflect amendments adopted in the Senate Finance Committee and additional information received since the initial fiscal note was published.

Summary of Legislation

This bill treats storage units as residential property for property tax purposes if:

- the unit is owned as an individual condominium unit;
- its owner stores items related to the owner's residence;
- the unit is not used for storage related to a business; and
- the owner submits an affidavit to the county assessor that the conditions are met.

Based on the December 2016 Legislative Council Staff Assessed Value forecast, qualifying storage units would be assessed at the residential assessment rate of 6.85 percent for 2017 and 2018 rather than 29 percent.

The Property Tax Administrator within the Department of Local Affairs (DOLA) is responsible for preparing standards and forms to determine which storage units qualify. The bill also specifies that there are penalties for owners of storage condominium units that provide false information to the county assessor. ***As amended in the Senate Finance Committee***, the bill impacts the classification of property starting in 2018.

Background

Assessed values. This bill will reclassify some self-storage condominium units from industrial or commercial property to residential property. Based on property tax data from DOLA and property tax records from Arapahoe, Denver, Douglas, Jefferson, and Weld counties, about 1.5 percent of the value of industrial condominiums and storage and warehouse property may be reclassified as residential property.

There is self-storage property in each county in the state, however the bill only estimates the impact for 10 counties. There is a potential impact in other counties, however the impact is not quantified because self-storage condominium units are not prevalent in rural areas of the state.

Assessment rates. Property taxation is based on the assessed value of land, improvements, and certain personal property. Under Colorado law, nonresidential property is assessed at 29 percent of its actual value. Based on the December 2016 Legislative Council Staff forecast, the residential assessment rate will be 6.85 percent for tax years 2017 and 2018. Reclassification reduces property tax liability by 76.4 percent for an affected property at the forecast residential assessment rate.

Local Government Impact

Reclassifying eligible storage condominium units as residential property will reduce property tax revenue by an estimated $2,612,451 in FY 2018-19 and future years, of which $700,051 is local funding for K-12 education under the school finance act.

Table 1 shows the assessed value of condominium units that may qualify as residential property under the bill.

Table 1. Change in Assessed Values under SB 17-078

County	Assessed Value (Current Law - 29%)	Assessed Value (SB 17-078 - 6.85%)	Difference
Adams	$10,369,189	$2,449,274	($7,919,915)
Arapahoe	$5,898,945	$1,393,371	($4,505,573)
Boulder	$3,127,069	$738,635	($2,388,433)
Broomfield	$876,601	$207,059	($669,541)
Denver	$1,827,615	$431,695	($1,395,920)
Douglas	$2,537,242	$599,314	($1,937,928)
El Paso	$1,965,853	$464,348	($1,501,505)
Jefferson	$7,697,544	$1,818,213	($5,879,331)
Mesa	$706,486	$166,877	($539,609)
Weld	$1,892,379	$446,993	($1,445,386)
Total	**$36,898,923**	**$8,715,780**	**($28,183,143)**

Local government revenue. Table 2 shows the property tax impact based on the changes in assessed value and average 2016 mills for each county. However, these mills may change depending on the local budgeting decisions within each taxing jurisdiction. Some jurisdictions are allowed to float mill rates to collect a certain amount of property tax revenue, such as the case when voters have approved a mill levy to repay debt or collect a certain dollar amount of override revenue.

Table 2: Change in Property Tax Revenue, assuming 2016 Mills	
Local School Program Mill Levy	($700,051)
Other Local Government Revenue	($1,912,400)
Total Change in Property Tax Revenue	**($2,612,451)**

To the extent that the reclassification contained in this bill spurs investment in residential storage condominium properties that would not have otherwise occurred, local governments may receive additional property tax revenue that partially offsets the losses described above.

County assessors. Starting with property tax year 2017, costs and workload will increase for affected county assessors to conduct staff training and adjust software and other procedures to implement the bill. Specifically, assessor workload will increase to process annual affidavits, inspect residential storage condominium units as warranted, and make adjustments to property tax records. In addition, software would need to be updated to include a residential classification code for residential storage condominium units.

State Revenue

The bill increases state General Fund revenue from income tax, starting in FY 2018-19. This increase is estimated at $54,430 in FY 2018-19, with ongoing impacts in future fiscal years.

Many owners of condominium storage units currently realize income tax savings by deducting property taxes paid from federal taxable income. The reduction in property taxes from this bill reduces the deduction owners will be allowed to take, increasing their Colorado income tax liability. An estimated 90 percent of aggregate property tax liability for these units is currently deducted from the taxable income of owners. The revenue impact is calculated by applying the state's 4.63 percent income tax rate to the reduced property tax liability. The FY 2018-19 revenue impact is based on a half-year property tax impact to account for accrual accounting of the income tax.

TABOR Impact

This bill increases state revenue from income taxes, which will increase the amount of money required to be refunded under TABOR for FY 2018-19. 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 when the state does not collect money above the TABOR limit.

State Expenditures

Starting in FY 2018-19, the bill potentially increases state expenditures for school finance, as described below. In addition, the bill results in one-time workload for DOLA in FY 2017-18.

School finance impact. Based on average school operating mill levies in affected counties, the reduction in property taxes available for school finance may require additional state aid of $700,051 in FY 2018-19, with ongoing impacts in future fiscal years. In property tax year 2018, for example, the bill reduces assessed values of properties in 10 counties by a total of $28.2 million. If the negative factor remains unchanged, state aid will increase to offset the property tax loss.

An indirect impact of changing the classification of residential storage condominium units is the potential reduction in the residential assessment rate (RAR). Because reclassified storage condominium units will no longer be classified as nonresidential property in the RAR calculation, the RAR could decline in order to maintain the residential/nonresidential assessed value ratio required by the state constitution under the Gallagher Amendment. Based on the assumptions above, the value of reclassified storage condominium units is not large enough to change the RAR forecast in 2019.

DOLA — Division of Property Taxation (DPT). In FY 2017-18, the DPT will develop an affidavit of intended use, as well as standards to be included in publications and other guidance for county assessors who will be responsible for determining whether a property qualifies as a residential improvement under the bill. This one-time increase in workload can be accomplished within existing appropriations.

School District Impact

Based on reduced property taxes from reclassified storage condominium units, the bill reduces the local share of funding for public schools starting in FY 2018-19. This reduction is estimated at $700,051 in FY 2018-19. 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 or none of the property tax loss.

Effective Date

The bill takes effect August 9, 2017, if the General Assembly adjourns on May 10, 2017, as scheduled, and no referendum petition is filed. The bill applies beginning with 2018 property taxes paid in the first half of 2019.

State and Local Government Contacts

Counties	County Assessors	Information Technology
Local Affairs	Municipalities	Property Tax Division
School Districts		

Research Note Available

An LCS Research Note for SB17-078 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.
