Colorado Legislative Council Staff

HB16-1132

FINAL FISCAL NOTE

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

Drafting Number:	LLS 16-0290	**Date:**	May 23, 2016
Prime Sponsor(s):	Rep. Van Winkle; Melton Sen. Grantham; Jahn	**Bill Status:**	Postponed Indefinitely
		Fiscal Analyst:	Larson Silbaugh (303-866-4720)

BILL TOPIC: RESIDENTIAL STORAGE CONDO UNIT AS REAL PROPERTY

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue		**$9,500**	**$22,200**
General Fund		9,500	22,200
State Expenditures	Workload increase.	**$314,200**	**$419,900**
General Fund		314,200	419,900
TABOR Impact		$9,500	Not estimated.
FTE Position Change			
Appropriation Required: None.			
Future Year Impacts: Ongoing revenue and school funding reimbursement increases.			

Note: This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

Summary of Legislation

This bill provides that one residential storage condominium unit per residence may qualify as a residential improvement for the purposes of property taxation. A residential storage condominium unit is qualified for treatment as a residential improvement under the bill if:

- the unit is part of a common interest community;
- the unit is more than 400 square feet in size, or any size if the unit is part of the same common interest community as the owner's residence;
- items from or related to the owner's residence are stored in the unit, and items related to a business are not stored in the unit; and
- by March 1 of each tax year in which status as a residential improvement is sought, the owner submits proof of ownership and an affidavit of intended use to the county assessor, stating that the property meets the definition of a residential storage condominium unit.

The owner must comply with all requirements and seek classification as a residential storage condominium unit for each property tax year that property tax treatment under the bill is sought. The assessor may inspect a property to confirm its qualifications as a residential storage condominium unit. An owner is required to notify the assessor any time his or her property no longer meets the definition of a residential storage condominium unit or if the property is transferred to a new owner.

The Division of Property Taxation (DPT) in the Department of Local Affairs (DOLA) is responsible for developing the affidavit of intended use and related standards to be used by assessors.

Background

Large format storage facilities. Self-storage is a type of building divided into numerous individual storage units that can be accessed by renters or owners. The self-storage industry is most commonly known for rental units that contain personal or business items. However, the industry also produces units for the storage of recreational vehicles and other items that require a large volume, known as large format storage facilities. If a large format storage facility is divided into condominium units, the storage user may purchase and own the unit. In addition to storage, and depending on local land use regulations, large format units may be used for business uses such as offices, showrooms, light manufacturing, and limited retail.

Based on data from industry representatives, in 2015 there were 33 large format storage facilities across 10 counties in Colorado. These facilities vary in size and number of condominium units. As summarized in Table 1, owner-occupied condominium units make up approximately two-thirds of the current stock in large format storage facilities and are concentrated in suburban Denver.

Table 1. Large format storage facilities in Colorado.

County	Number of facilities	Total number of units	Total number of owner-occupied condominium units*
Adams	2	98	49
Arapahoe	7	330	228
Boulder	1	27	27
Douglas	4	153	119
Eagle	1	60	48
El Paso	3	101	79
Jefferson	7	333	256
Mesa	1	42	34
Summit	1	40	32
Weld	6	431	182
Total	**33**	**1,615**	**1,054**

* *Includes units used for business purposes, as well as residential storage condominium units.*

Property tax assessments. 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. The residential assessment rate is currently set at 7.96 percent but is anticipated to decline to 7.78 percent in 2017. A property with an actual value of $100,000 has an assessed value of $29,000 in a nonresidential classification but only a $7,960 assessed value if it is classified as residential and the current residential assessment rate is applied. Thus, reclassification reduces property tax liability by 72.5 percent for an affected property at the existing residential assessment rate.

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.

Assumptions

Estimates contained in the fiscal note are based on the current geographic distribution of large format storage condominiums and the applicable average county mill rate for all non-school and school district taxing entities. In addition, the fiscal note assumes:

- Affidavits of intended use are initially filed by January 1, 2017, for the 2017 property tax year. Owners will file affidavits for an assumed 738 properties in 2017. This equates to 70 percent of built, owner-occupied large format condominium storage units in property tax year 2017, and the same ratio is assumed in all future property tax years.

- The initial property tax impact of the bill is the conversion of existing storage units to residential status. In future fiscal years, the impact is based primarily on new construction, though occasionally sales of nonresidential condominium units or conversion of rental units to condominiums will also result in potential new units affected by the bill.

- In addition to the current total number of owner-occupied large format condominium units, approximately 300 planned or converted units will be newly eligible for property tax treatment under the bill in property tax year 2018.

- The market for residential storage condominium units will support at least 10 percent annual growth in the number of available units in the next four fiscal years.

- The average residential storage condominium unit is 1,000 square feet in size and currently has an actual value of $90 per square foot. The value of a residential storage condominium unit appreciates at a rate of 3.0 percent each year.

- The residential assessment rate will decline from 7.96 to 7.78 percent for the 2017 assessment year. This is based on the December 2015 Legislative Council Staff assessed value forecast.

State Revenue

The bill increases state General Fund revenue from income tax, starting in FY 2017-18. This increase is estimated at $9,500 in FY 2017-18, and $22,200 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 one-third 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 2017-18 revenue impact is based on a half-year property tax impact to account for accrual accounting of the income tax.

TABOR Impact

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 2017-18, the bill increases state expenditures for school finance, as described below. In addition, the bill results in one-time workload for DOLA in FY 2016-17.

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 $314,200 in FY 2017-18 and $419,900 in FY 2018-19, with ongoing impacts in future fiscal years. In property tax year 2017, for example, the bill reduces assessed values of properties in 10 counties by a total of $20.1 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. Because residential 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. The December 2015 Legislative Council Staff assessed value forecast anticipates a reduction in the RAR from 7.96 to 7.78 for the 2017 assessment year. Reclassifying property may result in a larger decline. This additional reduction in assessed value would include both a reduction in school district property taxes that may be replaced by state aid, and a reduction in non-school operating property taxes that are not replaced. This would affect every county in the state to varying degrees. Many rural counties tend to be less dependent on residential property, while mountain resort communities are more dependent.

DOLA — Division of Property Taxation (DPT). In FY 2016-17, 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.

Local Government Impact

The bill reduces local property tax revenue for future property tax years, starting with property tax year 2017. The bill also increases costs and workload for county assessors.

Local taxing entities. Cities, towns, counties, and special districts that include within their taxing jurisdiction large format storage facilities with residential storage condominium units will experience a reduction in property tax revenue. Across the 10 counties affected by the bill, this reduction is estimated to be $0.9 million for property tax year 2017, and $1.25 million for property tax year 2018, with ongoing impacts in future property tax years. School districts experience similar effects, discussed separately in the School District Impact section below.

To the extent that the reclassification contained in this bill spurs investment in residential storage condominium properties that would not have otherwise occurred, in the short term, 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.

School District Impact

Based on reduced property taxes from residential storage condominium units, the bill reduces the local share of funding for public schools starting in FY 2017-18. This reduction is estimated as $314,200 in FY 2017-18, $419,900 in FY 2018-19, and $475,700 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 was postponed indefinitely by the House State, Veterans, and Military Affairs committee on February 3, 2016.

State and Local Government Contacts

Assessors	Colorado Counties	Colorado Municipal League
Education	Local Affairs	Information Technology
Property Tax	Revenue	Special District Association