# SB 18-070

Legislative
Council Staff
*Nonpartisan Services for Colorado's Legislature*

# REVISED FISCAL NOTE

(replaces fiscal note dated January 24, 2018)

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|---|---|---|---|
| **Drafting Number:** | LLS 18-0203 | **Date:** | February 20, 2018 |
| **Prime Sponsors:** | Sen. Neville T.<br>Rep. Leonard; Humphrey | **Bill Status:** | Senate Appropriations |
| | | **Fiscal Analyst:** | Chris Creighton \| 303-866-5834<br>Chris.Creighton@state.co.us |

**Bill Topic:** CHURCH PROPERTY TAX EXEMPTION

**Summary of Fiscal Impact:**

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

This bill creates a property tax exemption for property that is leased and used solely for religious purposes. This bill increases state revenue and expenditures beginning in FY 2018-19. This bill also reduces local government revenue beginning in FY 2019-20. These impacts continue in future years.

**Appropriation Summary:** For FY 2018-19, the bill requires an appropriation of $100,926 and 1.7 FTE to the Department of Local Affairs.

**Fiscal Note Status:** This fiscal note has been revised to correct an error in the previous version and include new information.

**Table 1**
**State Fiscal Impacts Under SB 18-070**

| | | FY 2018-19 | FY 2019-20 |
|---|---|---|---|
| **Revenue** | Cash Funds | $33,600 | $14,400 |
| **Expenditures** | General Fund | $100,926 | $4,955,786 |
| | Centrally Appropriated | $22,950 | $27,193 |
| | **Total** | **$123,876** | **$4,982,979** |
| | **Total FTE** | **1.7 FTE** | **2.0 FTE** |
| **Transfers** | | - | - |

## Summary of Legislation

Under current law, property that is owned and used exclusively for religious purposes is exempt from property taxes. This bill eliminates the ownership requirement thus allowing a property that is leased and used solely for religious purposes to be exempt from property tax.

## Background and Assumptions

There are 3,973 tax exempt religious organizations in Colorado and 3,571 nonresidential buildings that are exempt from property taxes because of their religious affiliation. The exact number of properties leased and used exclusively for religious purposes is unknown, but is estimated to be at least 192 based on existing exemptions for personal property that is stored or used in a building that is taxed. It is assumed that at least these 192 properties will qualify for the exemption created by this bill.

**Property taxes.** Nonresidential property is assessed at a fixed rate of 29 percent of its actual value under current law. Therefore the assessed (taxable) value of nonresidential property with an market actual value of $100,000 is $29,000. 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 taxable value of all taxable property within the jurisdiction. One mill generates $1.00 for each $1,000 of assessed value. Property taxes are collected in arrears, in the first half of the calendar year following the property tax year. For example, 2019 property taxes will be collected in the first half of 2020.

## State Revenue

This bill increases state cash fund revenue from property tax exemption application fees by at least $33,600 in FY 2018-19 and at least $14,400 in FY 2019-20, assuming at least 192 applications and renewals will be received per year.

**Fee impact on property tax exemption applications**. Colorado law requires legislative service agency review of measures which create or increase any fee collected by a state agency. By creating a property tax exemption for property owners that lease property for religious purposes, this bill will increase the number of exemption applications received by the Division of Property Taxation in the Department of Local Affairs (DOLA). Table 2 estimates the fee impact of this bill using the fee tax exemption application ($175) and renewal fee ($75) under current law.

**Table 2**
**Fee Impact on Property Tax Exemptions**

| Fiscal Year | Type of Fee | Current Fee | Number Affected | Total Fee Impact |
|---|---|---|---|---|
| FY 2018-19 | Property Tax Exemption Applications | $175 | 192 | $33,600 |
| | | | **FY 2018-19 Total** | **$33,600** |
| FY 2019-20 | Property Tax Exemption Renewals | $75 | 192 | $14,400 |
| | | | **FY 2019-20 Total** | **$14,400** |

## TABOR Refund

The bill increases state cash fund revenue subject to TABOR by at least $33,600 in FY 2018-19 and at least $14,400 in FY 2019-20. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years. However, refunds in future years when the state next collects a TABOR surplus will be increased.

## State Expenditures

This bill increases the DOLA General Fund expenditures by at least $123,876 and 1.7 FTE in FY 2018-19 and at least $136,979 and 2.0 FTE in 2019-20 and in future years. State General Fund expenditures will also increase by at least $4,846,000 beginning in FY 2019-20 and continuing in future years to fund school finance equalization. These impacts are shown in Table 3 and are discussed below.

**Table 3**
**Expenditures Under SB 18-070**

| | FY 2018-19 | FY 2019-20 |
|---|---|---|
| **Department of Local Affairs** | | |
| Personal Services | $89,905 | $107,886 |
| Operating Expenses and Capital Outlay Costs | $11,021 | $1,900 |
| Centrally Appropriated Costs* | $22,950 | $27,193 |
| FTE – Personal Services | 1.7 FTE | 2.0 FTE |
| **Subtotal** | **$123,876** | **$136,979** |
| **Total FTE** | **1.7 FTE** | **2.0 FTE** |
| **Department of Education** | **-** | **$4,846,000** |
| School Finance Impact | - | $4,846,000 |
| **Total Cost** | **$123,876** | **$4,982,979** |

** Centrally appropriated costs are not included in the bill's appropriation.*

**DOLA - Division of Property Taxation.** The Division of Property Tax in the DOLA requires at least 2.0 FTE to implement this bill. This is for Property Tax Specialist staff to review, inspect, and approve property tax exemptions from property owners claiming the new exemption. On average, a Property Tax Specialist can process 96 applications per year, therefore 2.0 FTE are required to process 192 exemption applications. Future staffing needs will depend on the number of exemption applications received and will be adjusted through the annual budget process. Funds may also be needed for additional office space and to expand the divisions fleet, however this exact cost is unknown and will be requested through the annual budget process once known. Costs in year one are prorated for the August effective date of the bill and the General Fund paydate shift.

**School Finance Impact.** Under current law, the money to fund the school finance act comes from a combination of local and state sources. The local share, primarily from property taxes, is counted first. State aid provides the difference between a district's total funding and the district's local share. In school finance, this concept of state assistance supplementing local resources is called "equalization."

This bill will reduce the amount of property taxes collected, and therefore the amount of revenue available for the local share of school finance by at least $4,846,000 beginning in FY 2019-20, with ongoing impacts in future fiscal years. This reduction in the amount of local share increases the amount of state equalization by $4,846,000 under the assumption that the school finance budget stabilization factor will remain unchanged in FY 2018-19. To the extent that more than 192 properties qualify for this property tax exemption, the school finance impact will increase and it is assumed that future appropriations, if needed, will be addressed through the annual budget process.

**Centrally appropriated costs.** Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be $22,950 in FY 2018-19 and $27,193 in FY 2019-20.

## Local Government

Local government property tax revenue will be reduced by $18.4 million beginning in FY 2019-20 with ongoing annual impacts. These impacts are shown in Table 4 and described below.

**Assessed values.** There are currently 192 tax-exempt religious organizations that qualify for a property tax exemption on personal property that is stored or used in a building that is taxed. It is assumed that these 192 organizations lease buildings that will be eligible for the property tax exemption created in this bill. Using the location of the exempt personal property reported to the Division of Property Taxation, and property value information from county assessors offices, it is estimated that the bill will reduce assessed values by $229.0 million per year.

**Property tax revenue.** Cities, counties, schools, and special districts receive property taxes. Using the weighted average mills for school districts and other local governments, exempting $229.0 million in assessed values will reduce local government property tax revenue by $13.5 million and local school share by $4.9 million per year as shown in Table 4. The bill is effective for tax year 2019, and 2019 property taxes will be paid in the first half of 2020.

**Table 4**
**Change in Property Tax Revenue Under SB 18-070**

| | FY 2018-19 | FY 2019-20 |
|---|---|---|
| **Property Tax Revenue** | | |
| Cities, Counties, Special Districts | - | ($13,505,000) |
| School Districts | - | ($4,846,000) |
| **Total Revenue** | **-** | **($18,351,000)** |

**Residential Assessment Rate.** The residential assessment rate (RAR) will be recalculated in 2019 to comply with the Gallagher Amendment in the State Constitution. In the spring of 2019, the Division of Property Taxation will estimate the RAR for 2019 and 2020 using data provided by each county assessor for the purpose of adjusting the RAR through future legislation. For informational purposes, this bill's indirect local government revenue impact on the RAR is shown in Table 5. The Gallagher Amendment requires that the share of residential and nonresidential assessed values remain constant between reassessment cycles. Reducing nonresidential assessed values by $229.0 million will reduce the RAR by 0.02 percent compared with the current forecast of 6.11 percent in the December 2017 Legislative Council Staff assessed values forecast. This reduction in the residential assessment rate will reduce statewide residential assessed values by an estimated $172.7 million in the 2019 property tax year affecting taxes collected in FY 2019-20.

**Table 5**
**Change in Property Tax Revenue with a 6.09 percent RAR**

| | FY 2018-19 | FY 2019-20 |
|---|---|---|
| **Property Tax Revenue** | | |
| Cities, Counties, Special Districts | - | ($10,359,000) |
| School Districts | - | ($3,717,000) |
| **Total Revenue** | | **($14,076,000)** |

## Effective Date

The bill takes effect August 8, 2018, if the General Assembly adjourns on May 9, 2018, as scheduled, and no referendum petition is filed. It applies to property tax years after this date.

## State Appropriations

For FY 2018-19, the bill requires a General Fund appropriation of $100,926 and 1.7 FTE to the Department of Local Affairs.

## State and Local Government Contacts

Counties
Information Technology
Special Districts
County Assessors
Property Tax Division