



**Colorado
Legislative
Council
Staff**

SB16-067

**REVISED
FISCAL NOTE**

(replaces fiscal note dated March 30, 2016)

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

Drafting Number: LLS 16-0339 **Date:** April 15, 2016
Prime Sponsor(s): Sen. Scheffel; Heath **Bill Status:** House Business Affairs and Labor
 Rep. Williams **Fiscal Analyst:** Larson Silbaugh (303-866-4720)

BILL TOPIC: BROADBAND PERSONAL PROPERTY TAX EXEMPTION

Fiscal Impact Summary	FY 2016-17	FY 2017-18
State Revenue	See State Revenue section	
State Expenditures	Workload Increase	
TABOR Impact	See State TABOR section	
FTE Position Change		
Appropriation Required: None.		
Future Year Impacts: Potential ongoing revenue increase.		

Summary of Legislation

The **reengrossed** bill allows counties with a population of under 60,000 to grant a property tax exemption for personal property used to provide broadband service if the county has an agreement with a broadband service provider to provide service with the county. Municipalities and school districts within the county have 90 days to opt out of offering the exemption. The bill specifies that if school districts do not opt out, the state will not backfill the property tax reduction through the school finance formula. The exemption applies to personal property purchased on or after January 1, 2017, and is available for property tax years 2018 through 2025.

Background

Valuation of broadband property. The Department of Local Affairs (DOLA) values telecommunications companies that provide broadband services to multiple counties in Colorado, and apportions this value to counties for collection of property taxes. County assessors value property used to provide broadband services in a single county. The majority of locally 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. 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.

State Revenue

If all eligible local governments allow the broadband personal property tax exemption, **General Fund revenue will increase by up to \$12,978 in FY 2017-18, \$39,683 in FY 2018-19, and \$66,763 in FY 2019-20.**

Corporate income taxes. This bill may reduce property taxes paid by broadband corporations doing business in Colorado. The decrease in property tax liability will increase corporate income tax liability for these entities by reducing their property tax deduction. If all eligible local governments exempt all broadband personal property from property taxes, corporate income tax revenue will increase by \$25,955 in 2018, \$53,410 in 2019, \$80,116 in 2020, and \$106,821 in 2021. Accounting for state fiscal years, corporate income tax collection will increase up to \$12,978 in FY 2017-18, \$39,683 in FY 2018-19, \$66,763 in FY 2019-20, and \$93,468 in FY 2020-21.

TABOR Impact

This bill may increase state revenue from corporate income taxes, which would increase the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. Since the bill would increase 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 may 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

Department of Local Affairs. The bill results in a change in valuation procedures for the Division of Property Taxation in the DOLA. The division will rely on information provided by broadband companies to administer this exemption. This is similar to several other property tax exemptions and can be administered within existing appropriations.

Local Government and School District Impact

Table 1 summarizes the maximum conditional local government impact for the exempt property under the bill. In counties, cities, and school districts that allow the property tax exemption, local property tax revenue will be reduced each year beginning in property tax year 2018.

The local government impact in Table 1 is conditional on local governments choosing to provide the exemption. The bill specifies that the state is not required to backfill any school district property tax revenue foregone by school districts that exempt this property, so there is no state school finance impact.

Table 1. Maximum Local Government Impact of SB 16-067				
<i>Millions of Dollars</i>				
	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Exempt Broadband Personal Property				
Taxable Value	(\$27.8)	(\$55.6)	(\$83.4)	(\$111.2)
County and Special District Impact*	(\$0.6)	(\$1.3)	(\$1.9)	(\$2.6)
Municipal Impact*	(\$0.4)	(\$0.7)	(\$1.1)	(\$1.4)
School District Impact	(\$0.7)	(\$1.5)	(\$2.2)	(\$2.9)
Combined Impact	(\$1.7)	(\$3.5)	(\$5.2)	(\$6.9)

* 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.

Assumptions. In 2014, telecommunications companies accounted for 23.5 percent of state assessed value and 1.4 percent of total property in Colorado. Virtually all 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 in eligible counties was valued at \$397 million. An estimated 18.7 percent of total broadband business personal property is put into service each year.

If all eligible counties exempted broadband personal property, up to \$74.4 million in state assessed business personal property would be exempt from property taxation in 2017. The amount of exempt property will increase each year until all business personal property used to provide broadband service is exempt.

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. An estimated \$118 million in locally assessed business personal property for broadband services was located in eligible counties in 2015. Similar to state assessed telecommunications companies, 18.1 percent of locally assessed broadband property will be replaced each year. An estimated \$21.4 million would be exempt from property taxation in 2017 if all eligible counties allow the exemption.

If all broadband property in eligible counties is exempt, the amount of exempt property will increase by \$95.8 million annually between 2018 and 2020. 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 up to \$27.8 million in 2017, \$55.6 million in 2018, \$83.4 million in 2019, and \$111.2 million in 2020.

In addition, if eligible school districts chose to opt out, the overall local contribution to school finance will decrease, causing the negative factor to grow. This will cause all districts to lose additional total program funding.

Figure 1 on the following page shows the population in eligible counties and the percentage of households in the county with access to internet service capable of 10 megabits per second download speed and 1 megabit per second upload speed.

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.

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
Municipalities
Property Tax
Information Technology

Counties
Local Affairs
Special District Association

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.