



**Colorado  
Legislative  
Council  
Staff**

**SB17-078**

**FISCAL NOTE**

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

**Drafting Number:** LLS 17-0517  
**Prime Sponsor(s):** Sen. Gardner  
Rep. Melton; Van Winkle

**Date:** January 25, 2017  
**Bill Status:** Senate Finance  
**Fiscal Analyst:** Larson Silbaugh (303-866-4720)

**BILL TOPIC:** RESIDENTIAL STORAGE CONDO UNIT PROPERTY TAX

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2018-2019
<b>State Revenue</b> General Fund		<u>\$26,200</u> 26,200	<u>\$52,400</u> 52,400
<b>State Expenditures</b> General Fund	<u>Workload increase</u>	<u>\$940,600</u> 940,600	<u>\$940,600</u> 940,600
<b>TABOR Impact</b>		\$26,200	\$52,400
<b>Appropriation Required:</b> \$940,600 General Fund - CDE (See State Expenditure Section).			
<b>Future Year Impacts:</b> Ongoing revenue and school funding reimbursement increases.			

### 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. The bill impacts the classification of property starting in 2017.

### Background

**Assessed values.** This bill would 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, Douglas, and Weld counties, about 2.0 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 residential storage condominium units as residential property will reduce property tax revenue by an estimated \$3,387,800 in FY 2017-18 and FY 2018-19, of which \$940,600 is local program mills for K-12 education.

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

<b>Table 1. Change in Assessed Values under SB 17-078</b>			
<b>County</b>	<b>Assessed Value (Current Law - 29%)</b>	<b>Assessed Value (SB 17-078 - 6.85%)</b>	<b>Difference</b>
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	\$14,158,989	\$3,344,451	(\$10,814,538)
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)
<b>Total</b>	<b>\$49,230,296</b>	<b>\$11,628,536</b>	<b>(\$37,601,761)</b>

**Local government revenue.** Table 2 shows the property tax impact based on the changes in assessed value and average 2016 mills for each county. The impact is based on 2016 mills, however 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.

<b>Table 2: Change in Property Tax Revenue, assuming 2016 Mills</b>	
Local School Program Mill Levy	(\$940,600)
Other Local Government Revenue	(\$2,447,200)
<b>Total Change in Property Tax Revenue</b>	<b>(\$3,387,800)</b>

**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 2017-18. This increase is estimated at \$26,200 in FY 2017-18, and \$52,400 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**

This bill increases state revenue from income taxes, which will increase the amount of money required to be refunded under TABOR for FY 2017-18 and 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 2017-18, 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 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 \$940,600 in both FY 2017-18 and 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 \$37.6 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 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 2016 Legislative Council Staff assessed value forecast anticipates a reduction in the RAR from 7.96 to 6.85 for the 2017 assessment year and 6.10 for the 2019 assessment year. Reclassifying property may result in a larger decline in the RAR in 2019. 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.

**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.

### **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 at \$940,600 in FY 2017-18 and 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.

### **Technical Note**

The bill allows an owner of a residential storage condominium unit to file an affidavit of intended use by November 1, 2017 for the 2017 property tax year. This date is inconsistent with the 2017 property tax calendar. Values are certified by county assessors to taxing districts by August 25 of each year. Budgets and mills are developed based on the August 25 values, which would change following the receipt on November 1, 2017 of affidavits of intended use required by the bill.

### **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 2017 property taxes paid in the first half of 2018.

### **State and Local Government Contacts**

Counties  
Local Affairs  
School Districts

County Assessors  
Municipalities

Information Technology  
Property Tax