SENIOR CITIZEN PROPERTY TAX EXEMPTION
DEPARTMENT OF THE TREASURY

To: Joint Budget Committee Members

From: Robin J. Smart, JBC Staff (303-866-4955)

Date: April 26, 2016

Subject: Senior Citizen Property Tax (Homestead) Exemption

In response to the Joint Budget Committee's (JBC) questions regarding the Senior Citizen Property Tax Exemption and potential legislation, JBC Staff has prepared the following summary.

What is the Senior Citizen Property Tax (Homestead) Exemption?
Section 3.5 of Article X of the Colorado Constitution grants a property tax exemption to qualifying senior citizens (frequently referred to as the Homestead Act). Current law includes the following provisions:

- 50.0 percent of the first $200,000 of actual home value is exempted from property tax. The State Treasurer is required to reimburse local governments for lost property tax revenues (Sections 39-3-201 to 208, C.R.S.).
- A senior property owner is eligible for the exemption if he or she is at least 65 years old and has occupied the property as a primary residence for the past ten years. An owner-occupier is also eligible for the exemption if he or she is the spouse or surviving spouse of a senior who previously qualified for the exemption.

How does the Homestead Exemption impact the annual budget?

- The amount identified in the Senior Citizen and Disabled Veteran Property Tax Exemption line item of the Long Bill is provided for informational purposes only and is based on the March Economic Forecast used for budget balancing purposes.
- The State must reimburse counties for the total value of lost property taxes as a result of this exemption, regardless of the amount of General Fund identified in the Long Bill.
- The reimbursement is subject to the TABOR limitation on fiscal year spending,
- The payments are not subject to any statutory limitation on General Fund appropriations because the enactment of the section of the State Constitution constitutes voter approval of a weakening of any such limitation.

What drives the cost of the Senior Homestead Exemption?
Three primary drivers impact the cost of this exemption:

1) The number of seniors qualifying for the exemption;
2) The property tax rate in each county; and
3) The maximum amount of residence value that the General Assembly determines to be exempt from taxation.

What is the current cost of the Senior Homestead Exemption?
According to the Department of Local Affairs, the estimated cost of the Senior Homestead Exemption in FY 2015-16 is $133.0 million General Fund. The FY 2016-17 projection is $142.7 million General Fund.

How much will the Senior Homestead Exemption cost the State of Colorado in the future?
Joint Budget Committee (JBC) Staff projects that, under current law, the cost of the Homestead Exemption will reach $172.4 million General Fund by FY 2019-20. This is based on an average annual growth rate of 6.5 percent in the number of seniors (65 and over) who qualify for the exemption.

What can the General Assembly do to reduce the fiscal impact of the Senior Homestead Act in the future?
Article X Section 3.5 (2) grants the General Assembly the power to raise or lower the maximum amount of residence value that is exempt from taxation. In the past, the amount has been lowered to zero for budget balancing purposes.

What is the projected General Fund savings if the General Assembly were to lower the maximum amount of qualifying residence value that is exempt from taxation by a specified amount?
Depending on the amount by which the General Assembly elects to lower the maximum exempted value (without eliminating it entirely), the savings is estimated to be between $40.0 million and $100.0 million General Fund. Projections are provided for three examples in the following table:

Senior Citizen and Disabled Veteran Homestead Property Tax Exemption JBC Estimates					
	FY 15-16 Estimated	FY 16-17 Projected	FY 17-18 Projected	FY 18-19 Projected	FY 19-20 Projected
Eligible Exemptions under current law (50.0% of first $200,000)	$132,992,452	$142,700,000	$151,975,519	$161,853,928	$172,374,433
Eligible Exemptions 50.0% of first $150,000	n/a	102,473,731	109,129,283	116,222,686	123,777,161
Eligible Exemptions 50.0% of first $100,000	n/a	69,346,808	73,846,489	78,646,511	83,758,534
Eligible Exemptions 50.0% of first $50,000	n/a	$36,138,685	$38,474,597	$40,975,446	$43,638,850

Can the General Assembly lower the maximum amount of qualifying senior citizen residence value that is exempt from taxation to zero?
Yes. The Colorado Constitution does not specify the amount to which the exempted value can be lowered (or raised).

Can the General Assembly create a new property tax exemption that includes the age requirement identified in the existing Homestead Exemption, but is also need-based and allows for portability?
No. Pursuant to Article 10 Section 6 of the Colorado Constitution "all laws exempting from taxation property other than that specified in this article shall be void."

Can the General Assembly permanently lower the amount of qualifying senior citizen residence value that is exempt from taxation to zero, and establish a housing tax credit for senior citizens?
Yes. This will require a bill to both lower the qualifying resident value that is exempt from taxation, and create the tax credit, including the establishing the eligibility provisions for the new tax credit, the number of tiers, and the rate that will be applied to income to determine each credit.

Will the tax credit address the issues of age eligibility, need, and portability?
The tax credit can be eligibility-based for both age and need. Portability is addressed insofar as the credit is available to qualifying individuals regardless of home-ownership and time in residence.

What is the fiscal impact of the tax credit?
The fiscal impact will be realized in the form of reduced revenue as opposed to decreased costs. The amount of this revenue reduction can be established by the General Assembly. The example provided by Legislative Council Staff included a revenue reduction of $100.0 million for FY 2016-17.

If revenue is reduced, will this result in a General Fund savings?
If the exempted taxable value of the Homestead Exemption were reduced to zero for the 2016 property tax year, and the tax credit were instituted for the 2016 tax year, the State will realize a General Fund savings in FY 2016-17, but not in FY 2015-16. Because the revenue for FY 2015-16 will be reduced by a value associated with six months of tax revenue from seniors that newly qualify for the tax credit, the revenue

projections for FY 2015-16 will be reduced by $50.0 million (if the total tax credit is established at $100.0 million; according to Legislative Council Staff).

Is there an option that will allow for the lowering of the cost of the Homestead Act and the creation of the tax credit that will not cause an issue with FY 2015-16 budget balancing?
Yes. This will require that:
1) The amount of qualifying senior citizen residence value that is exempt from taxation be lowered to zero for property tax year 2016, resulting in a savings of approximately $139.0 million General Fund in FY 2016-17.
2) The tax credit be instituted for tax year 2017, resulting in a revenue reduction of $50.0 million in FY 2016-17 and a net savings of $89.0 million General Fund for that fiscal year; and resulting in a savings of approximately $48.0 million General Fund in FY 2017-18.

Can the General Assembly lower the maximum amount of qualifying senior citizen residence value that is exempt from taxation by a specified amount to zero, and create a new housing program in the Department of Local Affairs?
Yes. This will require a bill to both lower the qualifying resident value that is exempt from taxation, and create the new program in the Department, including the administration of the program, the process through which eligibility is determined, and the process through which qualifying seniors will apply.

What is the fiscal impact of the program?
The fiscal impact will be realized in the form of costs subject to available appropriations determined annually by the General Assembly.

If costs are increased, will this result in a General Fund savings?
Yes, depending on the level to which the General Assembly chooses to fund the new housing program. If the exempted taxable value of the Homestead Exemption were reduced to zero for the 2016 property tax year, and the program were established in FY 2016-17, the State will realize a General Fund savings equivalent to the difference between the Homestead Exemption savings ($139.0 million) and the cost of the new program.

Will this cause an issue with FY 2015-16 budget balancing?
No. The creation of a new program will not impact state revenue.

Will the new program address the issues of age eligibility, need, and portability?
Yes, if the General Assembly elects to include language addressing these issues in its legislation.

What else should the General Assembly consider when discussing legislation that could make changes to the Homestead Act?
Current statute provides a property tax exemption for qualifying disabled veterans. Legislation lowering the maximum amount of qualifying senior citizen residence value that is exempt from taxation by a specified amount to zero will need to exclude disabled veterans from the change if the Committee so desires. The cost for the qualifying Disabled Veterans Property Tax Exemption is estimated at $3.0 million in FY 2016-17. The cost of this exemption will continue to be reflected for informational purposes only in the Department of the Treasury section of the Long Bill.

In addition, the Committee may wish to consider including in the legislation an amendment to H.B. 16-1161 stating that 100.0 percent of the un-expended funds identified in the Long Bill above that paid out in warrants to counties for a given tax year be transferred to the Veterans Assistance Grant Program Cash Fund.