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Final Fiscal Note

Drafting Number: LLS 21-0981 Date: August 25, 2021
Prime Sponsors: Sen. Zenzinger; Scott Bill Status: Signed into Law
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Bill Topic: SPECIAL MOBILE MACHINERY REGISTRATION EXEMPTION

- Summary of Fiscal Impact: [X] State Revenue [X] State Expenditure [] State Transfer [] TABOR Refund [X] Local Government [] Statutory Public Entity

The bill exempts certain owners of special mobile machinery from registration. The bill reduces state and local government revenue and increases state expenditures beginning in FY 2022-23.

Appropriation Summary: No appropriation is required.

Fiscal Note Status: This fiscal note reflects the enacted bill.

Table 1
State Fiscal Impacts Under SB 21-257

Table with 4 columns: Category, Budget Year FY 2021-22, Out Year FY 2022-23, Out Year FY 2023-24. Rows include Revenue (General Fund, Total Revenue), Expenditures (General Fund, Centrally Appropriated, Total Expenditures, Total FTE), Transfers, and TABOR Refund.

Summary of Legislation

Under current law, owners of special mobile machinery are required to register the machinery and pay the associated specific ownership taxes (SOT), fees, and surcharges. This bill exempts owners of special mobile machinery from registration if the owner qualifies and applies for a registration exempt certificate from the Department of Revenue (DOR). In order to qualify for the certificate, an owner of special mobile machinery must:

- have 1,000 or more items of special mobile machinery in Colorado;
- clearly mark every piece of special mobile machinery with the identity of the owner;
- ensure that the machinery bears a visible and readily identifiable identification number; and
- visibly include the owner's toll-free telephone number on each piece of the machinery.

Owners that qualify for the registration exempt certificate must pay all applicable fees, surcharges, and SOT, except for fees imposed for the purpose of covering the direct costs of license plates, decals, or validating tabs, or fees associated with the direct costs incurred by an authorized agent of the DOR in registering or issuing license plates, decals, or validating tabs for the item. However, unlike under current law, they are not required to maintain license plates or validating tabs for the equipment.

Background

Specific ownership tax is imposed on every motor vehicle, trailer, semitrailer, or vehicle that is operated on any state highway. This tax is levied on vehicles in lieu of a property tax and is paid each year a vehicle is registered. The tax was enacted in 1937 and is found in Article X, Section 6 of the Colorado Constitution. Most of the revenue from the SOT is collected and distributed by counties to taxing jurisdictions within a county (cities, school districts, special districts, and the county) based on the percentage of total property taxes collected for each political subdivision in the county.

Special mobile machinery and self-propelled construction equipment are classified as Class F personal property for purposes of the SOT. The SOT for Class F personal property is calculated based on a percentage of the vehicle's taxable value. Once the taxable value is established, it remains the same for the life of the vehicle. The tax rate applied to Class F personal property is based on years of vehicle service. Table 2 highlights the tax rates for special mobile machinery.

Table 2
SOT Rates for Class F Personal Property

Vehicle Model Year	Class F
1st Year	2.10 percent
2nd Year	1.50 percent
3rd Year	1.25 percent
4th Year	1.00 percent
5th Year - 8th Year	0.75 percent
9th Year and thereafter	0.50 percent or not less than \$5.00

However, if the owner of special mobile machinery regularly rents or leases the equipment, a different method can be used to calculate the SOT. In this case, rather than paying SOT based on the schedule above, the owner can collect from the user an amount equal to two percent of the rental or lease payment, which is remitted to the county where the equipment is used. Participants in this program also pay a \$5.00 fee, of which \$3.00 is remitted to the General Fund and \$2.00 is retained by the county that registers the machinery.

Currently, 11 companies may qualify for the registration exemption certificate under this bill, meaning they have at least 1,000 pieces of special mobile machinery that they regularly rent or lease this equipment. These 11 companies own a total of 36,964 pieces of special mobile machinery.

Assumptions

This fiscal note assumes that no credit or refund of registration will be issued to any owner of special mobile machinery that qualifies for a registration exemption certificate. In addition, the fiscal note assumes that all 11 companies with their 36,964 pieces of equipment will apply for and qualify for the registration exemption certificate, resulting in lower revenue from the two percent rental program and license plate fees. Finally, the fiscal note assumes the same number of companies and pieces of special mobile machinery in future fiscal years.

State Revenue

Beginning in FY 2022-23 and each year thereafter, the bill will reduce state General Fund revenue by \$110,592 and will minimally reduce cash fund revenue to the HUTF.

Special mobile machinery rental program. Beginning in FY 2022-23, General Fund revenue from the special mobile machinery rental program will decrease by an estimated \$110,592 annually as individuals shift to the new registration exemption certificate. This revenue is subject to TABOR.

License plates. The bill will decrease annual revenue to Colorado Correctional Industries (CCi) in the Department of Corrections beginning in FY 2022-23. CCi is the state's license plate manufacturer and will receive fewer orders for license plates for special mobile machinery license plates from the DOR. Any decrease in state revenue for license plates will be offset by reduced expenditures for the production of license plates.

Fines. To the extent that special mobile machinery is exempt from fines for registration violations, fine revenue will decrease to the HUTF, of which 65 percent goes to the State Highway Fund. The bill may also minimally decrease revenue to the Fines Collection Cash Fund and other funds in the Judicial Department from court fees and surcharges. This decrease is expected to be minimal.

State Expenditures

The bill will increase state expenditures by \$220,177 in FY 2022-23, and by \$134,591 in FY 2023-24 and subsequent years. Table 3 summarizes these expenditures.

**Table 3
Expenditures Under SB 21-257**

	FY 2021-22	FY 2022-23	FY 2023-24
Department of Revenue			
Personal Services	-	\$95,965	\$104,689
Operating Expenses	-	\$2,430	\$2,430
Capital Outlay Costs	-	\$12,400	-
DRIVES Programming	-	\$83,700	-
Centrally Appropriated Costs ¹	-	\$25,682	\$27,472
Total Cost	-	\$220,177	\$134,591
Total FTE	-	1.7 FTE	1.8 FTE

¹ Centrally appropriated costs are not included in the bill's appropriation.

Department of Revenue. The bill increases state General Fund expenditures for DOR by \$220,177 and 1.7 FTE in FY 2022-23, and by \$134,591 and 1.8 FTE in FY 2023-24 and each year thereafter.

- **Personal services.** DOR will require 1.8 FTE program assistant to process registration exemption certificate applications; handle monthly SOT, fee, and surcharge remittance; provide account maintenance; and manage other vehicle support services. Standard operating and capital outlay costs are included for these FTE and FY 2022-23 costs are prorated for the General Fund pay date shift.
- **Computer programming.** In FY 2022-23, one-time programming costs of \$83,700 are required to update the Driver License, Record, Identification and Vehicle Enterprise Solutions (DRIVES) system. Programming costs are calculated at 372 hours at a rate of \$225 per hour.
- **License plate production.** Beginning in FY 2022-23, the bill will reduce cash fund expenditures for license plate and tab production as individuals shift to the registration exempt certificate, which does not require a license plate.

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 \$25,682 in FY 2022-23 and \$27,472 in FY 2023-24.

TABOR refunds. The bill decreases state revenue subject to TABOR. For FY 2022-23, the March 2021 LCS forecast projects revenue to fall short of the TABOR limit by \$28.6 million, or 0.2 percent of the limit. If actual revenue exceeds the limit, the bill will decrease the amount required to be refunded to taxpayers from the General Fund in FY 2023-24. If the bill causes revenue to fall below the limit by \$30 million, it will trigger a transfer of up to \$30 million from the Unclaimed Property Trust Fund to the Housing Development Grant Fund under current law enacted in House Bill 19-1322.

Local Government

Beginning in FY 2022-23, the bill will reduce local government revenue and expenditures. These impacts will occur in local governments where companies with special mobile machinery are located.

Revenue. The bill will reduce overall local government revenue by an estimated \$221,184. Owners of special mobile machinery with a registration exempt certificate will no longer be required to pay the \$4.00 clerk hire registration fee to counties, resulting in an estimated revenue decrease of \$147,456 annually. Participants in the two percent rental program also pay a \$5.00 registration fee, of which \$2.00 is retained by the county that registers the machinery, resulting in a decrease of \$73,728 annually.

Expenditures. The bill will reduce overall expenditures for local governments by approximately \$59,945. As individuals shift to the registration exempt certificate, workload associated with registrations will decrease for county clerks.

Effective Date

The bill was signed into law by the Governor and takes effect July 1, 2022.

State and Local Government Contacts

Counties	County Clerks	Information Technology
Personnel	Revenue	Transportation