



Colorado Legislative Council Staff Fiscal Note
FINAL
FISCAL NOTE

Drafting Number: LLS 10-0419
Prime Sponsor(s): Sen. Scheffel
 Rep. Priola

Date: May 24, 2010
Bill Status: Postponed Indefinitely
Fiscal Analyst: Todd Herreid (303-866-2633)

TITLE: CONCERNING THE CREATION OF A BUSINESS PERSONAL PROPERTY TAX EXEMPTION REIMBURSEMENT PILOT PROGRAM.

| Fiscal Impact Summary | FY 2010-2011 | FY 2011-2012 | FY 2012-2013 | FY 2013-2014 | FY 2014-2015 |
|--|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| State Revenue General Fund | \$0.0 to \$0.6 million | \$0.6 to \$1.2 million | \$0.6 to \$1.2 million | \$0.6 to \$1.2 million | \$0.6 to \$1.2 million |
| State Expenditures General Fund | | \$4.7 to \$72.0 million | \$3.7 to \$56.2 million | \$2.6 to \$38.9 million | \$1.3 to \$20.3 million |
| Effective Date: The bill was postponed indefinitely by the Senate State, Veterans, & Military Affairs Committee on February 17, 2010. | | | | | |
| Appropriation Summary for FY 2010-2011: None required. | | | | | |
| Local Government Impact: See Local Government section of fiscal note. | | | | | |

Summary of Legislation

The bill creates a pilot program for counties that choose to temporarily provide a business personal property tax exemption. The program is restricted to five counties, and only those with a population greater than 20,000 or under 500,000 are eligible to participate. In order for a county to participate, it must enact an ordinance that fully exempts business personal property from property taxes for five years, beginning in property tax year 2011, and it must submit a written request with the Property Tax Administrator. Qualifying counties will be selected in the order received. The bill also specifies that the state will reimburse participating counties for lost property taxes at the following amounts:

- 100 percent in FY 2011-12;
- 75 percent in FY 2012-13;
- 50 percent in FY 2013-14; and
- 25 percent in FY 2014-15.

In addition, Legislative Council Staff is required to prepare a study on whether the business property tax exemptions stimulated economic growth in the state as a whole as well as in participating counties. This report must be prepared by April 1, 2017.

State Expenditures and Revenue

The bill is expected to increase state expenditures by an amount ranging from \$4.7 million to \$72.0 million in FY 2011-12 and from \$3.7 million to \$56.2 million in FY 2012-13 to reimburse counties for lost property taxes. Table 1 shows the 21 counties that would be eligible to participate in the pilot program based on 2010 county population estimates. The table also shows for each eligible county the assessed value of business personal property, the 2008 county mill levy, and the property tax revenue estimated from business personal property. Since only five eligible counties can participate, Table 1 ranks them from smallest to largest in terms of property taxes from business personal property. If the five smallest qualified for the program, the state's reimbursement in FY 2011-12 would be \$4.7 million. Assuming no change in county mill levies and 4 percent growth in the assessed value of business personal property, the state's reimbursement in FY 2012-13 would be \$3.7 million. If the five largest counties qualified for the program, the state's reimbursement in FY 2011-12 would be \$72.0 million. Under the same assumptions, the state's reimbursement would be \$56.2 million in the following year.

Table 1.
Counties Eligible to Participate in the Pilot Program Specified in SB10-085

| County | Population | Business Personal Property (BPP) Assessed Value (millions) | County Mill Levy, 2008 | Property Tax from BPP (millions) |
|---|-------------------|---|-------------------------------|---|
| Elbert | 23,715 | 20.6 | 28.158 | 0.6 |
| Teller | 22,915 | 54.3 | 14.813 | 0.8 |
| Delta | 32,737 | 51.2 | 18.137 | 0.9 |
| Summit | 29,951 | 99.1 | 11.448 | 1.1 |
| Montezuma | 26,243 | 90.8 | 14.254 | 1.3 |
| Subtotal for 5 smallest counties | | | | 4.7 |
| Fremont | 48,819 | 105.8 | 12.438 | 1.3 |
| Eagle | 56,674 | 157.0 | 8.499 | 1.3 |
| Montrose | 43,218 | 85.6 | 18.039 | 1.5 |
| Routt | 24,340 | 142.4 | 13.163 | 1.9 |
| Broomfield | 58,629 | 158.0 | 17.511 | 2.8 |
| La Plata | 52,114 | 396.4 | 8.564 | 3.4 |

| | | | | |
|--|----------------|--------------|---------------|-------------|
| Logan | 21,924 | 118.9 | 29.877 | 3.6 |
| Mesa | 150,430 | 281.2 | 14.890 | 4.2 |
| Morgan | 28,953 | 178.6 | 28.948 | 5.2 |
| Douglas | 296,072 | 408.2 | 19.774 | 8.1 |
| Larimer | 300,804 | 421.1 | 22.395 | 9.4 |
| Pueblo | 162,385 | 308.6 | 31.195 | 9.6 |
| Garfield | 60,110 | 858.0 | 13.655 | 11.7 |
| Boulder | 305,268 | 549.5 | 23.067 | 12.7 |
| Weld | 263,429 | 872.8 | 16.804 | 14.7 |
| Adams | 447,760 | 870.2 | 26.809 | 23.3 |
| Subtotal for 5 largest counties | | | | 72.0 |

Legislative Council Staff may also incur additional expenditures to prepare the report on how the exemption affects economic growth statewide and in the participating counties. These costs will be addressed through the annual budget process, if necessary.

In addition, beginning in FY 2011-12, if eligible counties choose to participate in the program, there could be an increase in state income tax revenue because of a decrease in property tax deductions from taxable income. The annual increase in income tax revenue ranges from \$66,000 to \$1.2 million during the five-year period of the pilot program, depending on which counties choose to participate. On an accrual accounting basis, one-half of these amounts could be received in FY 2010-11. The fiscal note did not include any revenue increases due to economic growth possibly resulting from the business personal property tax exemption.

Local Government Impact

County governments that choose to participate will see a reduction in local property taxes, starting in FY 2011-12 and continuing through FY 2015-16. However, the reduction in property taxes in the first four years of the program will be offset by state reimbursements. The range of net impacts is identified in Table 2. In the first year, FY 2011-12, participating counties will be fully reimbursed for any reduction in property taxes. However, in each of the following three years, participating counties will be reimbursed at 75 percent, 50 percent, and 25 percent of their estimated property tax loss. In FY 2012-13, participating counties could lose between \$1.2 million and \$18.7 million. In the final year of the pilot program, participating counties could lose between \$5.6 million and \$84.2 million. However, it should also be noted that because the pilot program is

voluntary, the minimal impact identified in the fiscal note could be zero if no counties choose to participate in the program.

Table 2
Net Impact of SB10-085 on Participating Counties (millions)

| | FY 2011-12 | FY 2012-13 | FY 2013-14 | FY 2014-15 | FY 2015-16 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Estimated Property Tax Loss for smallest counties | (\$4.7) | (\$4.9) | (\$5.1) | (\$5.3) | (\$5.6) |
| State reimbursement | \$4.7 | \$3.7 | \$2.6 | \$1.3 | \$0 |
| Net impact | \$0.0 | (\$1.2) | (\$2.6) | (\$4.0) | (\$5.6) |
| Estimated Property Tax Loss for largest counties | (\$72.0) | (\$74.9) | (\$77.9) | (\$81.0) | (\$84.2) |
| State reimbursement | \$72.0 | \$56.2 | \$38.9 | \$20.3 | \$0 |
| Net impact | \$0.0 | (\$18.7) | (\$38.9) | (\$60.7) | (\$84.2) |

County treasurers are also required to annually certify the amount of each county's lost property tax revenue. This could create additional administrative costs for a participating county. The fiscal note assumes that these expenses will be absorbed within existing resources of the county.

State Appropriations

No new appropriations are needed in FY 2010-11.

Departments Contacted

Local Affairs

Property Tax Administrator