Colorado Legislative Council Staff

Amendment U

FISCAL IMPACT STATEMENT

Date: September 1, 2016 **Fiscal Analyst:** Josh Abram, 303-866-3561

BALLOT TITLE: EXEMPT CERTAIN POSSESSORY INTERESTS FROM PROPERTY TAXES

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures General Fund	(See discussion in the State Expenditures and School District Impact sections.)	
Future Year Impacts: Ongoing reduction in local property tax collections. Potential ongoing increase in state share of school finance funding.		

Summary of Measure

The measure amends the state constitution to create an exemption from property taxation for possessory interests in real property.

If approved by voters, Amendment U exempts a possessory interest from property taxation if the actual value of the interest is less than or equal to $6,000 beginning in property tax year 2018. Beginning with tax year 2019, the amount of the exemption is increased biennially by the amount of inflation. Possessory interests with an actual value greater than the specified exemption threshold are taxed at the full assessed value.

Background

A possessory interest is a private property interest in government-owned property, or the right to the occupancy and use of any benefit in government-owned property granted under lease or other agreement. Examples of taxable possessory interests in Colorado include private operation of a farm or ranch on government land, or the operation of a recreational activity (such as skiing) on government land that generates revenue for the private possessor.

State Expenditures

School Finance Act. There is no fiscal impact on state expenditures in the next two fiscal years. If approved by voters, this resolution is assumed to increase state expenditures under the School Finance Act by approximately $46,000 beginning with FY 2018-19. The state's share of public school total program funding will increase by the amount of local school operating property taxes foregone due to the amendment's exemption for possessory interests equal to or less than $6,000.

This fiscal note assumes an average school district mill levy for school finance of 20.6 mills, and that the General Assembly will not reduce total program funding under the School Finance Act by increasing the size of the negative factor in the affected fiscal years as a result of this measure. Expenditures for School Finance are primarily paid from the General Fund.

Local Government Impact

If approved by the voters, local governments that are not at their revenue limit will lose property tax revenue because of the resolution's provision to provide an exemption for specific possessory interests in real property. Beginning in FY 2018-19, local governments statewide will forego approximately $125,000 annually.

Of this amount, school districts could forego approximately $46,000 annually for school finance purposes if the General Assembly decides to increase the size of the negative factor in affected fiscal years strictly because of this measure. Increasing the size of the negative factor would essentially reduce the state's share of school funding that would otherwise be provided to "backfill" the local share of total program funding foregone as a result of Amendment U.

For local governments that consistently reach their revenue limit due to high assessed value growth, the impact of the bill will be felt through smaller decreases in the mill levy. For these governments, a portion of the money that would have been received from possessory interests in real property will instead by spread out over the remaining tax bills in the form of higher mill levies than would have occurred otherwise. The fiscal note does not anticipate that the magnitude of the loss in nonresidential assessed value will trigger a reduction in the residential assessment rate.

In addition, minor cost savings will occur in some counties due to a lighter workload, as the number of possessory interest valuations would be reduced over time compared with the number currently being prepared. Counties will no longer have research expenses related to identifying and locating possessory interest holders, or for postage, notifications to tax payers, or various other administrative expenses to collect the tax.

Effective Date

The amendment takes effect after the date of the official declaration of the vote by proclamation of the Governor, not later than 30 days after the vote have been canvassed.

State and Local Government Contacts

Counties	County Clerk and Recorders	Local Affairs
Revenue		