

- business personal property tax exemptions that phase-out the tax;
- an analysis of the cumulative fiscal impact of the phase-out on state and local governments;
- methods to reimburse local governments for the loss in business personal property taxes; and
- a report to the General Assembly that includes its findings and recommendations for future legislation.

Legislative members of the interim commission will be compensated as provided in Section 2-2-307, C.R.S. The Legislative Council Staff and the Office of Legislative Legal Services are required to assist the committee in carrying out its duties.

State Revenue and Expenditures

General Fund Revenue. A decrease in property tax liability may increase a company's income tax liability if the company has an income tax liability. This is because of a lower property tax deduction from taxable income. The increase in state income taxes is estimated at \$105,000 in FY 2011-12. On an accrual accounting basis, one-half of this amount would be recorded in FY 2010-11. If the personal property exemption were fully phased-in as of 2011, the annual increase in income taxes would be estimated at \$17.1 million.

School Finance Act. The bill will increase expenditures under the school finance act by approximately \$2.2 million in FY 2011-12 and increasingly higher amounts in following years. The assessed value of personal property will drop under the bill, reducing school district operating property taxes, which the state is required to backfill. In 2011, the assessed value of personal property is estimated at \$11.6 billion. Exempting 1 percent of personal property will result in a loss of assessed value of about \$105 million, excluding the assessed value of personal property in eight counties that currently exceed the 30 percent threshold. At an average school operating mill levy of 20.566, the state would be required to backfill \$2.2 million in FY 2011-12. If the business personal property exemption were fully phased-in as of 2011, the school backfill requirement would be about \$350.7 million.

Interim Committee. The Legislative Branch is budgeted each year with resources to support six interim committees of the General Assembly as provided for by joint resolution of the Legislative Council, or by resolution of the Executive Committee of the Legislative Council as established by Section 2-3-303.3, C.R.S.

This interim committee was not designated by the Legislative Council at its April 21, 2009, meeting to be one of the prioritized committees, so the Legislative Branch will incur additional costs as shown in Table 1 to support the interim committee.

Table 1. Cost Components of SB09-085	
Cost Components	FY 2009-10
Personal Services Senior Research Assistant (0.3 FTE) and Staff Attorney (0.1 FTE)	\$20,288 0.4
Legislator Per Diem and Expenses (10 members * \$187 * 6 meetings)	11,220
TOTAL	\$31,508

Expenditures Not Included

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. The centrally appropriated costs subject to this policy are summarized in Table 2.

Table 2. Expenditures Not Included Under SB09-085*		
Cost Components	FY 2009-10	FY 2010-11
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$2,714	
Supplemental Employee Retirement Payments	591	
TOTAL	\$3,305	

*More information is available at: http://www.state.co.us/gov_dir/leg_dir/lcsstaff/2009/comsched/CommonPolicies2009.pdf

Local Government Impact

Local governments will lose property tax revenue because of the bill's provision to exempt an increasing percentage of business personal property. For local governments that do not reach their revenue limit or have voted to exempt themselves from revenue limits, the bill will reduce property taxes. If no local governments reach their revenue limit, the bill will reduce property taxes by \$7.6 million in FY 2012, \$7.8 million in FY 2013, and \$8.1 million in FY 2014. If the exemption were fully phased-in as of 2011, the annual property tax loss for all local jurisdictions, including school districts, would be up to \$1.2 billion.

For local governments that consistently reach their revenue limit due to high assessed value growth, the bill will not reduce property taxes. Instead, the impact will be felt through smaller decreases in the mill levy. A portion of the money that would have been received from taxpayers will instead be spread out over the remaining tax bills in the form of higher mill levies than would have occurred without the bill.

State Appropriations

In FY 2009-10, the Legislative Branch will require a General Fund appropriation of \$31,508 and 0.4 FTE.

Departments Contacted

Local Affairs