

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 11-0725
Prime Sponsor(s): Rep. DelGrosso

Date: February 16, 2011
Bill Status: House Finance
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TITLE: CONCERNING THE CIRCUMSTANCES IN WHICH A NONPROFIT HOUSING PROVIDER THAT SELLS LOW-COST HOUSING TO LOW-INCOME APPLICANTS WHO ASSIST IN THE CONSTRUCTION OF THE HOUSING IS ENTITLED TO THE PROPERTY TAX EXEMPTION FOR PROPERTY USED STRICTLY FOR CHARITABLE PURPOSES.

Fiscal Impact Summary	FY 2011-2012	FY 2012-2013
State Revenue		
State Expenditures School Finance Act*	\$845	\$845
FTE Position Change		
Effective Date: August 10, 2011, if the General Assembly adjourns on May 11, 2011, as scheduled, and no referendum petition is filed.		
Appropriation Summary for FY 2011-2012: None required.		
Local Government Impact: See Local Government Impact section.		

**This expenditure could be from either the General Fund or the State Education Fund.*

Summary of Legislation

Beginning with the 2011 property tax year, this bill provides a nonprofit housing provider a property tax exemption for a maximum of 5 consecutive property tax years for property:

- used for charitable purposes; and
- upon which the provider intends to construct or rehabilitate housing to be sold to low-income applicants, regardless of whether or not there is actual physical use of the property.

In determining exemptions for providers, the bill authorizes the State Property Tax Administrator to consider indicators of intent that show progress towards construction or rehabilitation of housing on the property. Such indicators may include:

- establishing a committee to plan housing on the property;
- obtaining local government approvals for housing construction on the property;
- developing a financing plan for construction on the property;
- hiring architects or contractors to prepare for construction; and
- soliciting applications from low-income applicants for the housing.

Finally, the bill specifies that a provider that is allowed an exemption and subsequently sells, donates, or leases the exempt property to someone other than a low-income applicant is liable for all unpaid property taxes due to the exemption.

State Expenditures

Under current law, charitable housing providers that are property owners (primarily Habitat for Humanity) qualify for a property tax exemption that begins at the time the property is first put to use, generally the point at which construction starts. This bill would move the point at which the exemption starts up to include the time period of preparation for construction, thereby decreasing property tax liability.

School Finance Impact. The state's share of public school total program funding will increase by the amount of local school district property taxes forgone by expanding the exemption period. Based on 2008 and 2009 data from the Division of Property Taxation, if the bill had been in place during that period, a total of 8 properties with an actual value of \$231,800 would have qualified for the expanded exemption. Prorating the value by the incremental period in which the exemption would apply under the bill yields an estimated incremental annual value that would now be exempt from property tax of \$145,798. If all of these properties were classified as vacant land, the loss in assessed value is \$42,281 and the property tax loss for school districts is \$845.

Local Government Impact

By expanding the time period in which the property tax exemption for charitable housing providers is applicable, this bill will reduce the amount of property tax collected by local governments. These 8 properties are located within 4 counties, each with their own average mill levy. This implies that local governments will see a reduction of \$3,451 in total property tax collections, including \$845 for school districts and \$2,606 for non-school local government entities. The total non-school district revenue loss will depend on whether or not the affected local governments are above their constitutional revenue limit, and whether they have received voter approval to exempt themselves from this limit.

It should be noted that these numbers may overstate the true impact. In some cases, the housing provider may hold the property in an LLC until the housing is constructed. In such cases, the exemption will not be granted until the property is in title of the housing provider.

Departments Contacted

Division of Property Taxation