HB14-1001

Colorado Legislative Council Staff Fiscal Note

FINAL FISCAL NOTE

Drafting Number:	LLS 14-0729	**Date:**	June 12, 2014
Prime Sponsor(s):	Rep. Singer Sen. Nicholson	**Bill Status:**	Signed into Law
		Fiscal Analyst:	Alex Schatz (303-866-4375)

SHORT TITLE: TAX CREDIT FOR PROP DESTROYED BY A NATURAL CAUSE

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016
State Revenue		
State Expenditures General Fund	at least $2,166,828	Cannot be estimated.
FTE Position Change		
Appropriation Required: $2,166,828 - Department of Treasury (FY 2014-15)		

* *This summary shows changes from current law under the bill for each fiscal year.*

Summary of Legislation

This bill establishes a state reimbursement for certain property taxes owed or paid for real property and business personal property that has been destroyed in a natural disaster or by other cause beyond the control of the property owner. The bill applies to real property destroyed by a natural cause (e.g., buildings and other improvements), as well as business personal property listed on a single schedule (e.g., typical for businesses located in a single location). After county assessors and county treasurers compile a list of destroyed property and its tax liability, the state treasurer distributes to counties payments from the state General Fund for the tax liability of destroyed property, for the tax year in which it was destroyed. County treasurers, in turn, are required to pay the tax owed or reimburse each affected taxpayer.

The bill applies to tax years starting on or after January 1, 2013, and is subject to review by the finance committees of the General Assembly in the 2017 legislative session. Reimbursements from the state treasurer are subject to appropriation by the General Assembly.

Specific procedures required by the bill include the following:

- ***Assessor's report.*** By December 15 from tax years starting with 2014 (by July 1, 2014, for tax year 2013), the county assessor prepares and transmits to the county treasurer a report of all property in the county destroyed by natural causes, if any, in the current tax year. By July 1 of the next calendar year, the assessor may prepare and transmit a supplemental report with additional property destroyed in that previous calendar year. The final deadline for a report listing the property of state-assessed public utilities destroyed by natural causes is October 1 of the calendar year following the destruction of listed property.

- ***County treasurer's verification.*** Within 30 days after receiving the assessor's report, the county treasurer must verify the total amount of tax liability in the county subject to reimbursement under the bill. Once the treasurer has added his or her verification to the report, the county treasurer transmits it to the state treasurer.

- ***Reimbursement of tax liability.*** After receiving a verified assessor's report from a county, the state treasurer disburses from the state General Fund to the county treasurer funds in the total amount of tax liability for destroyed property in the county. Within 30 days of receiving the state reimbursement, the county treasurer credits the account of the taxpayer or, if the relevant property taxes have already been paid, reimburses the taxpayer directly. No interest accumulates on unpaid property taxes for an affected year, and any reimbursement amount that cannot be properly credited is returned to the state General Fund.

Background

Proration of property taxes. Property in Colorado is classified and valued for tax purposes on January 1 each year. Section 39-5-117, C.R.S., governs the valuation of property improvements destroyed after real property has been assessed at its improved value. Under this current statute, property taxes are not assessed for improvements as of the date they are destroyed, provided the owner promptly notifies the county assessor that an improvement has been destroyed. Section 39-5-104.5, C.R.S., prohibits such proration of tax liability for business personal property that is destroyed after being assessed.

State assessed property. The Division of Property Taxation (DPT) in the Department of Local Affairs is responsible for the valuation of real property and business personal property owned by public utilities, defined for the purposes of property taxation to include energy generation and transmission facilities, telephone companies, for-profit water suppliers, pipeline companies, railroads, airlines, and certain other similar entities. The DPT develops a unitary value for all taxable assets of each public utility and apportions that value between counties in which the public utility owns assets or operates.

Colorado property destroyed in 2013 natural disasters. The DPT surveyed county assessors in Colorado regarding properties destroyed by natural causes in 2013. Based on the preliminary response to this survey, it is estimated that at least $2.16 million in property tax liability in six counties is currently subject to the bill. As shown in Table 1, improvements to real property represent the bulk value of destroyed properties in 2013.

Table 1. Locally assessed tax liability for property destroyed by natural causes in 2013.

County	Improvements to real property	Business personal property	Total county tax liability
Adams	$1,614	$0	$1,614
Boulder	334,992	17,791	352,783
El Paso	1,558,370	410	1,558,780
Larimer	72,000	23,000	95,000
Logan	37,160	11,014	48,174
Weld	110,477	0	110,477
Total	**$2,114,613**	**$52,215**	**$2,166,828**

In addition to locally assessed property, a significant amount of transmission lines, pipelines, and other utility equipment was destroyed by natural causes in 2013. However, most state-assessed property, including equipment owned by utilities, is not listed on a single schedule and is therefore not subject to the bill.

State Expenditures

Increases in state costs and workload under the bill depend on the occurrence and extent of property damage due to natural causes affecting property tax-related activities in a given fiscal year. For FY 2014-15, based on events in 2013, the bill results in at least $2,166,828 in new state General Fund expenditures, as well as a workload increase for the DPT.

This estimate is based on a survey of counties, to which 42 counties did not respond, though nonresponsive counties are generally those not substantially affected by natural disasters in 2013. The bill's impact on state agencies in FY 2015-16 and future fiscal years cannot be estimated at this time.

Assumptions. The following assumptions apply to the analysis of both state and local fiscal impacts:

- Reimbursement under the bill is for tax liability in the portion of the assessment period prior to the destruction of real property, since taxes are already adjusted to eliminate tax liability for real property after the date of destruction.

- The fiscal note assumes, based on current law, that owners of improvements to real property destroyed by natural causes have promptly reported damage for 2013, and the estimates compiled by the DPT reasonably estimate the amount of 2013 property tax liability associated with real property subject to state reimbursement under the bill.

- Because no reporting requirement exists under current law to prorate destroyed business personal property (BPP), the estimate of BPP losses in this analysis may understate actual tax liability subject to reimbursement under the bill. Thus, the fiscal note presents a minimum reasonable estimate.

- Based on the timeframe required for verification of assessor's reports and the disbursement of reimbursement payments, no payments related to property destroyed in 2013 will be made until FY 2014-15.

- Property tax liability for improvements and BPP owned by certain public utilities is subject to state reimbursement under the bill. Because public utilities are state assessed property, the DPT will function in the role of a county assessor under the bill for such property.

DPT. Depending on the extent of state assessed property destroyed in a given year, workload in the DPT may increase. The DPT will prepare a separate report for the treasurer of each county in which taxable property of a public utility is destroyed. Because few public utilities affected by the 2013 flood list BPP on a single schedule, FY 2014-15 and state-assessed values subject to reimbursement are anticipated to be minimal. If additional resources are required to hire temporary staff, develop new processes, and perform other duties related to state assessed property, any necessary appropriations will be addressed in the annual budget process.

State treasurer. Subject to appropriation, the state treasurer will make reimbursement payments to counties based on the verified amount submitted by each county treasurer. This minimal increase in workload may be undertaken at any time as appropriations become available, and is not anticipated to require additional resources. In FY 2014-15, the state treasurer will issue at least six General Fund payments to counties, totaling at least $2,166,828.

Local Government Impact

Provided the state treasurer receives adequate appropriations, the bill has a minimal effect on local government revenue and increases workload for county assessors and treasurers when property is destroyed by natural causes. To process 2013 tax liabilities subject to reimbursement, the bill may result in significant one-time expenditures for county assessors and treasurers to prepare reports and meet the bill's deadlines in 2014.

Property tax revenue. If the General Assembly does not make appropriations in the full amount reported and expected by county treasurers, this will reduce revenue to affected local taxing entities. Depending on the total amount of such shortfall, the reduction of local government revenue may be significant. However, future fiscal conditions and other potential reasons for a shortfall in state appropriations cannot be anticipated or estimated for this analysis. As discussed in the Technical Notes section, local government revenue may also be affected by a lag in state appropriations.

If appropriations are provided in the full amount reported by county treasurers, the bill does not change property tax liability in any county. However, taxpayers affected by natural disaster or other significant loss of property may have difficulty meeting property tax obligations. By providing a reimbursement mechanism with a definite timeframe for state financial assistance, the bill may result in quicker or more complete collection of property taxes owed on properties destroyed in the previous property tax year. This local revenue effect is not estimated but is assumed to be minimal.

County assessors. Under the bill, any assessor's report of destroyed property is required to include a basic description of the affected property, including sufficient information to prorate tax liability relative to the assessment year. Current law requires owners to notify the assessor regarding the destruction of improvements, and assessors are already equipped to assign prorated values in the case of destroyed real property. Business personal property is not prorated under current law in any circumstance. Because tax liability for destroyed BPP is the tax liability for an entire tax year, it is not anticipated that new methods will be required to prorate BPP. To the extent that current law yields data that is readily assembled into an assessor's report, the increased workload of county assessors may be managed with existing resources.

County treasurers. When a county has reportable amounts of destroyed property, the county treasurer verifies tax liabilities, corresponds with the state treasurer, and manages the distribution of reimbursements. These tasks are generally compatible with the current capabilities of county treasurers.

Technical Note

Timing of state appropriations. Appropriations bills are enacted during a regular or special session of the General Assembly. Based on timeframes provided in the bill, the state treasurer will be aware of the amount of tax liability for destroyed property included in December 15 assessor reports within the duration of a regular legislative session, sufficient to avoid significant disruption of local property tax revenue. However, property reported in a supplemental report, potentially including a substantial portion of statewide tax liability for destroyed BPP and state-assessed real property, will not be reported to the state treasurer during a regular legislative session, potentially resulting in delays in the reimbursement of local property tax liability through state appropriations.

Effective Date

The bill was signed into law by the Governor and took effect on May 17, 2014.

State Appropriations

For FY 2014-15, the Department of Treasury requires a General Fund appropriation of $2,166,828. The bill includes a General Fund appropriation of $2,221,828.

Supplemental appropriations may be required in FY 2014-15 depending on new tax liability for 2013 listed in supplemental assessor reports, as well as any report of destroyed property in due to natural causes in 2014.

State and Local Government Contacts

Revenue	Local Affairs	Property Taxation
Assessors	Counties	