HB14-1001

Colorado Legislative Council Staff Fiscal Note

STATE, LOCAL, and STATUTORY PUBLIC ENTITY REVISED FISCAL IMPACT

(replaces fiscal note dated April 14, 2014)

Drafting Number:	LLS 14-0729	**Date:**	May 6, 2014
Prime Sponsor(s):	Rep. Singer Sen. Nicholson	**Bill Status:**	Senate Third Reading
		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 $927,923	Cannot be estimated.
FTE Position Change		
Appropriation Required: $927,923 - Department of Treasury (FY 2014-15)		

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

Summary of Legislation

This ***reengrossed*** bill, ***as amended on Senate Second Reading***, establishes a state reimbursement to county treasurers for property taxes forgone due to proration of assessed value after a property 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., a business 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 amount of property tax that would have otherwise been collected for the period after the date of proration, for the tax year in which the property was destroyed.

The bill requires assessors to prorate business personal property listed on a single schedule, valuing this property only for the portion of the property tax year prior to its destruction.

The bill applies to tax years starting on or after January 1, 2013, and reimbursement provisions are 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 property taxes lost after the date of proration for destroyed property in the county.

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 $927,923 in property taxes in six counties have been lost due to proration or will be lost under the bill. As shown in Table 1, improvements to real property represent the bulk value of destroyed properties in 2013.

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 public utilities, is not listed on a single schedule and is therefore not subject to the bill.

Table 1. Prorated losses of locally assessed property tax for property destroyed by natural causes in 2013.			
County	**Improvements to real property**	**Business personal property***	**Total county tax losses**
Adams	$696	$0	$696
Boulder	144,506	5,362	149,868
El Paso	672,238	124	672,362
Larimer	31,059	6,932	37,991
Logan	16,030	3,319	19,349
Weld	47,657	0	47,657
Total	**$912,186**	**$15,737**	**$927,923**

* Business personal property is prorated based on provisions of 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 $927,923 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 lost property tax revenue in the portion of the assessment period following the destruction of real property.
- 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 workload 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 increase in 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 $927,923.

Local Government, School District, and Statutory Public Entity Impact

The bill increases revenue to taxing entities that levy property taxes, as well as increasing workload for county assessors and county treasurers.

Property tax revenue. If appropriations are provided in the full amount reported by county treasurers, the bill increases revenue to local taxing entities by $927,923 in FY 2014-15 and an undetermined amount in future fiscal years. If the General Assembly does not make appropriations in the full amount reported by county treasurers, the bill increases local revenue, but by a lesser amount. Affected taxing entities include counties, municipalities, special districts, school districts, and statutory public entities.

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. The bill also increases assessor workload 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 (see Technical Note). These tasks are generally compatible with the current capabilities of county treasurers.

Technical Note

Distribution of reimbursement to taxing entities. The bill provides for a county treasurer to collect a reimbursement for all prorated losses of property tax, but does not direct the treasurer to distribute these funds to local taxing entities. The fiscal note assumes that such distribution occurs.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2014-15, the Department of Treasury requires a General Fund appropriation of $927,923.

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	