HB14-1074

Colorado Legislative Council Staff Fiscal Note

FINAL FISCAL NOTE

Drafting Number:	LLS 14-0266	**Date:**	June 11, 2014
Prime Sponsor(s):	Rep. Court; DelGrosso Sen. Johnston	**Bill Status:**	Signed into Law
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SHORT TITLE: ALLOWABLE EXPENSES RENTING TAX EXEMPT PROPERTY

Fiscal Impact Summary	FY 2014-2015	FY 2015-2016
State Revenue		
State Expenditures General Fund	Minimal workload increase. Up to $11,838 per year school finance impact.	
FTE Position Change		
Appropriation Required: None.		

Summary of Legislation

Under current law, when a nonprofit organization owns real property and leases the property to another nonprofit organization, the landlord organization is limited to the collection of certain "reasonable expenses" for the use of its property by a tenant nonprofit organization. This bill modifies and expands the list of reasonable expenses provided by statute. The bill permits landlord nonprofit organizations to charge for:

- depreciation;
- long-term maintenance;
- capital for refurbishing the property; and
- expenses incurred for conservation measures.

Background

In the Department of Local Affairs (DOLA), the Exemptions Section of the Division of Property Taxation (DPT) makes determinations of tax-exempt eligibility and administers property tax exemptions for nonprofit and charitable organizations.

State Expenditures

DOLA. The bill results in a minimal increase in costs for the Department of Local Affairs. As discussed in the Local Government Impact section, there may be a small amount of new activity in the Exemptions Section of DPT, driven by changes in tax-exempt status affecting $563,715 in assessed property value statewide. The DPT would also update manuals, publications, and training materials to reflect the changes in the bill. Capacity for both these activities is included in the annual budget for DOLA and does not require new appropriations.

School finance. State General Fund expenditures may increase to cover potential school finance shortfalls. To the degree the bill results in additional tax-exempt properties, the local share of school finance will decrease, requiring additional state funding. Based on DPT statistics discussed below, the potential school finance impact, using a statewide average school finance levy of 21 mills applied to $563,715 in assessed value that may become tax-exempt, is estimated at $11,838 or less.

Local Government, School District, and Statutory Public Entity Impact

The bill results in a minimal reduction to the size of the local property tax base. To maintain the tax-exempt status of its property, Colorado nonprofit landlords may not lease to organizations or individuals that use the property for anything other than nonprofit activity. There is a significant amount of leasing activity between tenant and landlord nonprofit organizations. By modifying the relationship between landlord and tenant nonprofit organizations, the bill could drive taxable property held by nonprofit organizations back into tax-exempt status, as rental prices paid by nonprofit tenants are permitted to become more competitive. Statistics provided by DPT indicate that the net amount of property subject to the new exemptions has a minimal effect on local tax collections, limited to $563,715 in assessed value statewide.

Effective Date

The bill was signed into law by the Governor and took effect on March 14, 2014, and applies to property tax years starting January 1, 2014.

State and Local Government Contacts

Property Taxation	Local Affairs	Revenue
Counties	Assessors	Municipalities
Special Districts		