SB15-227

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL FISCAL IMPACT

Drafting Number:	LLS 15-0964	**Date:**	April 6, 2015
Prime Sponsor(s):	Sen. Grantham; Jahn Rep. Melton; Van Winkle	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Alex Schatz (303-866-4375)

BILL TOPIC: RESIDENTIAL STORAGE CONDO UNIT AS REAL PROPERTY

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017	FY 2017-2018	FY 2018-2019
State Revenue		**$9,500**	**$22,300**	**$27,200**
General Fund		9,500	22,300	27,200
State Expenditures	Workload increase.	**$311,600**	**$416,300**	**$471,700**
General Fund		311,600	416,300	471,700
FTE Position Change				
TABOR Set-Aside		$9,500	$22,300	$27,200
Appropriation Required: None.				

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

Summary of Legislation

This bill provides that a residential storage condominium unit is a residential improvement for the purposes of property taxation. A residential storage condominium unit is qualified for treatment as a residential improvement under the bill if:

- the unit is part of a common interest community;
- the unit is more than 400 square feet in size;
- items from or related to the owner's residence are stored in the unit, and items related to a business are not stored in the unit; and
- by January 1 of each tax year in which status as a residential improvement is sought, the owner submits an affidavit of intended use to the county assessor, stating that the property meets the definition of a residential storage condominium unit.

The assessor may inspect a property to confirm its qualifications as a residential storage condominium unit. An owner is required to notify the assessor any time if his or her property no longer meets the definition of a residential storage condominium unit or if the property is transferred to a new owner.

The Division of Property Taxation (DPT) in the Department of Local Affairs (DOLA) is responsible for developing a form for the affidavit of intended use and related standards to be used by assessors.

Background

Large format storage facilities. Self-storage is a type of building divided into numerous individual storage units that can be accessed by renters or owners. The self-storage industry is most commonly known for rental units that contain personal or business items. However, the industry also produces units for the storage of recreational vehicles and other items that require a large volume, known as large format storage facilities. If a large format storage facility is divided into condominium units, the storage user may purchase and own the unit. In addition to storage, and depending on local land use regulations, large format units may be used for business uses such as offices, showrooms, light manufacturing, and limited retail.

Based on data from industry representatives, there are currently 33 large format storage facilities across 10 counties in Colorado. These facilities vary in size and number of condominium units. As summarized in Table 1, owner-occupied condominium units make up approximately two-thirds of the current stock in large format storage facilities and are concentrated in suburban Denver.

Table 1. Large format storage facilities in Colorado.

County	Number of facilities	Total number of units	Total number of owner-occupied condominium units*
Adams	2	98	49
Arapahoe	7	330	228
Boulder	1	27	27
Douglas	4	153	119
Eagle	1	60	48
El Paso	3	101	79
Jefferson	7	333	256
Mesa	1	42	34
Summit	1	40	32
Weld	6	431	182
Total	**33**	**1,615**	**1,054**

* *Includes units used for business purposes, as well as residential storage condominium units.*

Property tax assessments. Property taxation is based on the assessed value of land, improvements, and certain personal property. Under Colorado law, nonresidential property is assessed at 29 percent of its actual value. The residential assessment rate (RAR) is currently set at 7.96 percent. A property with an actual value of $100,000 has an assessed value of $29,000 in a nonresidential classification but only a $7,960 assessed value if it is classified as residential. Thus, reclassification reduces property tax liability by 72 percent for an affected property.

Property tax is collected by various local taxing entities, including municipalities, counties, school districts, and special districts. Each local taxing entity establishes a mill rate that is multiplied by the assessed value of all taxable property within the jurisdiction. One mill generates $0.01 for each $10.00 of value. Property taxes are collected in arrears, in the first half (February and May) of the calendar year following the property tax year.

Assumptions

Estimates contained in the fiscal note are based on the current geographic distribution of large format storage condominiums and the applicable average county mill rate for all non-school and school district taxing entities. In addition, the fiscal note assumes:

- Affidavits of intended use are initially filed by January 1, 2016, for the 2016 property tax year. Owners will file affidavits for an assumed 738 properties in 2016. This equates to 70 percent of built, owner-occupied large format condominium storage units in property tax year 2016, and the same ratio is assumed in all future property tax years.
- The initial property tax impact of the bill is the conversion of existing storage units to residential status. In future fiscal years, the impact is based primarily on new construction, though occasionally sales of nonresidential condominium units or conversion of rental units to condominiums will also result in potential new units affected by the bill.
- In addition to the current total number of owner-occupied large format condominium units, approximately 300 planned or converted units will be newly eligible for property tax treatment under the bill in property tax year 2017.
- The market for residential storage condominium units will support at least 10 percent annual growth in the number of available units in the next four fiscal years.
- The average residential storage condominium unit is 1,000 square feet in size and currently has an actual value of $90 per square foot. The value of a residential storage condominium unit appreciates at a rate of 3.0 percent each year.

State Revenue

The bill increases state General Fund revenue from income tax, starting in FY 2016-17. This increase is estimated at $9,500 in FY 2016-17, $22,300 in FY 2017-18, and $27,200 in FY 2018-19, with ongoing impacts in future fiscal years.

Many owners of condominium storage units currently realize income tax savings by deducting property taxes paid from taxable income. An estimated one-third of aggregate property tax liability for these units is currently deducted from the taxable income of owners.

Using accrual accounting, a half-year of income tax liability for residential condominium units in FY 2016-17 results in a potential aggregate deduction of $621,000 from the taxable income of individuals in Colorado. Multiplying this potential deduction by one-third and the state's 4.63 percent income tax rate yields an increase of $9,500 in state income taxes under the bill. Using the same formula, the revenue increase is $22,300 in FY 2017-18, the first full year of reduced property tax liability under the bill, and $27,200 in FY 2018-19.

TABOR Impact

This bill increases state revenue from income taxes, which will increase the amount required to be refunded under TABOR. TABOR refunds are paid from the General Fund.

State Expenditures

Starting in FY 2016-17, the bill increases state expenditures for school finance, as described below. In addition, the bill results in one-time workload for DOLA in FY 2015-16.

School finance impact. Based on average school operating mill levies in affected counties, the reduction in property taxes available for school finance will require additional state aid of $311,600 in FY 2016-17, $416,300 in FY 2017-18, and $471,700 in FY 2018-19, with ongoing impacts in future fiscal years. In property tax year 2016, for example, the bill reduces assessed values of properties in 10 counties by a total of $14.0 million. Adjustments to school finance will occur as part of the annual budget process, including the annual school finance bill, and do not require new appropriations with this bill.

DOLA - Division of Property Taxation. In FY 2015-16, the DPT will develop an affidavit of intended use, as well as standards to be included in publications and other guidance for county assessors who will be responsible for determining whether a property qualifies as a residential improvement under the bill. This one-time increase in workload will be accomplished by current DPT staff and does not require new appropriations.

Local Government Impact

The bill reduces local property tax revenue for future property tax years, starting with property tax year 2016. The bill also increases costs and workload for county assessors and has other potential long-term impacts, including new local property tax revenue and workload for other local agencies.

Local taxing entities. Cities, towns, counties, and special districts that include within their taxing jurisdiction large format storage facilities with residential storage condominium units will experience a reduction in property tax revenue. Across the 10 counties currently affected by the bill, this reduction is estimated to be $0.9 million for property tax year 2016, $1.3 million for property tax year 2017, and $1.4 million for property tax year 2018, with ongoing impacts in future property tax years. School districts experience similar effects, discussed separately in the School District Impact section below.

County assessors. Starting with property tax year 2016, costs and workload will increase for affected county assessors to conduct staff training and adjust software and other procedures to implement the bill. Specifically, assessor workload will increase to process annual affidavits, inspect residential storage condominium units as warranted, and make adjustments to property tax records.

Long-term local impacts. The tax incentive contained in this bill could prompt a higher rate of large format storage unit conversion and construction, resulting in an overall greater number of residential storage condominium units than would be produced under current law. To the extent that such new units do not displace development of other nonresidential uses, new residential storage condominium units will generate additional property tax revenue, effectively offsetting some amount of revenue lost due to the change in assessment rate. The fiscal note acknowledges the potential for development based on the tax incentive in the bill, but assumes 10 percent growth in the market for residential storage condominium units without attributing a specific amount of this growth to the tax incentive. This incentive effect may also increase the workload of other local agencies, such as county clerks to record condominium declarations or local zoning and building officials to review plans.

School District Impact

Based on reduced property taxes from residential storage condominium units, the bill reduces the local share of funding for public schools starting in FY 2016-17. This reduction is estimated as $311,600 in FY 2016-17, $416,300 in FY 2017-18, and $471,700 in FY 2018-19. State funding will replace this reduction in revenue through annual school finance legislation.

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed. The bill applies to all property tax years commencing on or after January 1, 2016.

State and Local Government Contacts

Property Taxation	Local Affairs	Assessors
Counties	Municipalities	Education
Special Districts	Regulatory Agencies	Law
Revenue	Personnel and Administration	Judicial Department