

Amendment R

Colorado Legislative Council Staff
FISCAL IMPACT STATEMENT

Date: September 1, 2010

Fiscal Analyst: Josh Abram, 303-866-3561

BALLOT TITLE: EXEMPT POSSESSORY INTERESTS IN REAL PROPERTY

Fiscal Impact Summary	FY 2011-12	FY 2012-13	FY 2013-14
State Revenue			
State Expenditures			
General Fund	\$0	\$45,800	\$45,800
Local Government Impact: See Local Government Impact Section			

Summary of Measure

Amendment R amends the state constitution to create an exemption from property taxation for specified possessory interests in real property.

The amendment exempts a possessory interest from property taxation if the actual value of the interest is less than or equal to \$6,000 in tax year 2012. Beginning in property tax year 2013, the amount of the exemption is increased biennially by inflation. Possessory interests with an actual value greater than the specified exemption threshold are taxed at the full assessed value. Only those interests that have an actual value equal to or less than the threshold are exempt from the property tax.

Background

When an individual or business uses government-owned land or equipment for private purposes, a possessory interest is created. Although government-owned property is exempt from taxes, the benefit that a business or individual obtains from using that land or equipment is not. For example, some ranchers lease land from the federal government for cattle grazing. Other businesses lease land to provide a recreational activity, such as skiing or river rafting, or are given a contract to provide a specific service on public land, such as operating a snack bar at a national park. Under current law, the value of a private benefit is considered a possessory interest and is subject to property taxes.

State Expenditures

School Finance Act. If approved by the voters, this amendment is expected to increase state expenditures under the School Finance Act by approximately \$45,800 per year beginning in FY 2012-13. Public schools are funded from a combination of state and local revenue. Since

Amendment R reduces local revenue from certain possessory interests, it reduces the amount of local revenue for schools and the state's portion of school funding will increase by the same amount, beginning in budget year 2012-13.

Local Government Impact

Local governments will lose property tax revenue because of the resolution's provision to provide an exemption for specific possessory interests in real property. Beginning in FY 2012-13, property tax revenue for all local governments will decrease by \$159,800 statewide. Of this amount, school district revenue will be reduced by approximately \$45,800, which will be replaced by state aid.

This fiscal note assumes that all local governments are not at their revenue limit or have voted to exempt themselves from revenue limits, and all data are estimated based on the following:

- actual values for possessory interests on public lands as reported by the Division of Property Taxation in the Department of Local Affairs for calendar year 2008; and
- average county mill levy of 69.761 and an average school district operating levy of 20.

In addition, minor cost savings may occur in some counties due to a lighter workload, as the number of assessments would be reduced over time compared with the number of possessory interest valuations currently being prepared.

Impact on Taxpayers

The amendment creates a tax exemption for a small number of taxpayers. For local governments that consistently reach their revenue limit due to high assessed value growth, the impact of the amendment on remaining taxpayers will be felt through smaller decreases in the mill levy. This is so because a portion of the money that would have been received from possessory interests in real property will instead be spread out over the remaining tax bills in the form of higher mill levies than would have occurred otherwise.