HB14-1143

Colorado Legislative Council Staff Fiscal Note

STATE and LOCAL REVISED FISCAL IMPACT

(replaces fiscal note dated January 29, 2014)

Drafting Number:	LLS 14-0012	**Date:**	March 31, 2014
Prime Sponsor(s):	Rep. Saine Sen. Hodge	**Bill Status:**	House Appropriations
		Fiscal Analyst:	Marc Carey (303-866-4102)

SHORT TITLE: RESIDENTIAL STORAGE CONDO UNIT AS REAL PROPERTY

Fiscal Impact Summary*	FY 2014-2015	FY 2015-2016	FY 2016-2017	FY 2017-2018
State Revenue		**$21,200**	**$24,600**	**$28,000**
General Fund		$21,200	$24,600	$28,000
State Expenditures		**$348,200**	**$383,300**	**$418,400**
General Fund		$348,200	$383,300	$418,400
FTE Position Change				
Appropriation Required: None				

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

Summary of Legislation

This bill, ***as amended by the House Local Government Committee***, establishes that a residential storage condominium unit is a residential improvement. As a result, the unit will be assessed as residential real property at 7.96 percent of actual value instead of as nonresidential property at 29 percent of actual value.

The bill defines a residential storage condominium unit as a building that is:

- a unit under the "Colorado Common Interest Ownership Act;"
- used by its owner or a lessee with a lease term of at least a year to store items from or related to the owner's or lessee's residence; and
- not used for storage related to a business.

For a building unit to qualify as a residential storage condominium unit, the owner of the building unit must submit an affidavit stating that the building unit meets the definition of a residential storage condominium unit. The owner of the unit is also responsible for notifying the county assessor if the unit no longer qualifies as a residential storage condominium unit.

The amended bill requires that county assessors, upon request, must be granted reasonable access to the unit to confirm that it qualifies for the lower assessment rate. The Division of Property Taxation is required to publish standards for determining such qualification.

Background

Based on data from industry representatives, there are currently 30 storage condominium and large format storage facilities across 12 counties that would qualify for reclassification under this bill. Currently, these facilities include about 1,600 units, with another 250 units currently planned for build out. It is estimated that on average, each of these units is 1,200 square feet, and has a market value of $95,000. Of the current units, just over 1,000 are owned with an estimated market value of $98.7 million under these assumptions. An additional 20 percent of the current rental units are assumed to be sold over the next two years. At present, roughly 25 percent of these units are used for business storage, and thus would not qualify for the reclassification. This fiscal note assumes that the share used for business storage will decline to 20 percent over two years with passage of this bill so owners can take advantage of the property tax reduction.

In addition, large numbers of multi-unit self-storage facilities currently exist throughout the state that are rented by facility owners and have not been converted to condominiums. It is estimated that the total market value statewide for these facilities totals $696.4 million. These facilities, as they currently exist, are unaffected by this bill, since they typically rent storage units on a short-term, month-to-month basis. However, because the reduced property tax assessment rate contained in this bill provides an economic incentive for owners to "condominiumize" all or part of these facilities, it may be possible that such conversion would occur at some facilities. Those that do convert would need to restrict usage to residential storage with rental terms of longer than a year in order to take advantage of the reduced assessment rate. This fiscal note will be revised when more information becomes available regarding how much conversion would occur.

The tax incentive contained in this bill could cause additional residential storage condominium units to be built. It should be noted, however, that the revenue and expenditure estimates in this fiscal note do not account for either future residential storage condominium units or self storage facilities that are developed because of the tax incentives contained in this bill.

State Revenue

This bill will increase state income tax revenue by $21,200 in FY 2015-16, $24,600 in FY 2016-17, and $28,000 in FY 2017-18.

Because the bill reduces local property taxes and the available property tax deduction for taxpayers with sufficient income tax liability, the bill will increase state income tax collections. The impact in FY 2015-16 is a half-year impact. The estimated increase in state income tax revenue was reduced to account for the fact that not all affected taxpayers will have sufficient income tax liability to fully take advantage of the property tax deduction.

To the extent that the reclassification of storage condominium units incites the development of new storage condominium facilities that would not have otherwise occurred, the state may receive additional sales and income tax revenue.

State Expenditures

This bill will increase state expenditures by $348,200 in FY 2015-16, $383,300 in FY 2016-17, and $418,400 in FY 2017-18 as described below.

School Finance Impact. Based on average school operating mill levies for each county, the reduction in property taxes for school finance will require additional state aid of $348,200 in FY 2015-16, $383,300 in FY 2016-17, and $418,400 in FY 2017-18. This impact results from reclassifying residential storage condominium units as residential property. At current build-out levels, an estimated $22.7 million in assessed value for existing residential storage condominiums in 12 counties would be lost through this reclassification.

Department of Local Affairs, Division of Property Taxation. The division will incur nominal expenses from creating an affidavit form for ownership qualifications and updating various manuals, publications, and training materials. These tasks can be accomplished with existing appropriations.

Local Government Impact

This bill will reduce total property tax revenue for school districts, cities, counties, and special districts by $1.4 million in FY 2015-16, $1.5 million in FY 2016-17, and $1.7 million in FY 2017-18.

Beginning in property tax year 2015, the bill decreases property tax revenue by reclassifying residential storage condominium units as residential property, instead of nonresidential property. Residential property is assessed at 7.96 percent, while nonresidential property classes are assessed at 29 percent.

Local non-school finance property taxes are estimated to decline by up to $1.0 million in FY 2015-16, $1.2 million in FY 2016-17, and $1.4 million in FY 2017-18. This reduction will impact cities, counties, special districts, and school districts, and is not backfilled by state aid. However, property taxpayers in affected jurisdictions may experience an increase in mill levies to pay for any outstanding bonded debt or school district property tax overrides that were previously approved by voters.

To the extent that the reclassification contained in this bill spurs investment in residential storage condominium properties that would not have otherwise occurred, in the short term, local governments may receive additional property tax revenue that partially offsets the losses described above.

County Assessors. County assessor offices will incur nominal expenses from staff training and vendor system adjustments monitoring residential storage condominium accounts.

School District Impact

This bill is estimated to reduce the local share of funding for public schools by $348,200 in FY 2015-16, $383,300 in FY 2016-17, and $418,400 in FY 2017-18. This reduction will be replaced by state aid.

Pursuant to Section 22-32-143, C.R.S., as specified by House Bill 11-1277, school districts and Boards of Cooperative Educational Services (BOCES) may submit estimates of fiscal impacts within seven days of a bill's introduction. As of the date of this fiscal note, no summaries of fiscal impacts were submitted by districts or BOCES for this bill. If summaries of fiscal impacts are submitted by districts or BOCES in the future, they will be noted in subsequent revisions to the fiscal note and posted at this address: http://www.colorado.gov/lcs

Effective Date

The bill takes effect August 6, 2014, if the General Assembly adjourns on May 7, 2014, as scheduled, and no referendum petition is filed. The act applies to the classification of a residential storage unit for all property tax years beginning on or after January 1, 2015.

State and Local Government Contacts

Division of Property Taxation