



**Colorado
Legislative
Council
Staff**

HB16-1175

**FINAL
FISCAL NOTE**

FISCAL IMPACT: State Local Statutory Public Entity Conditional No Fiscal Impact

Drafting Number: LLS 16-0453 **Date:** August 18, 2016
Prime Sponsor(s): Rep. Primavera; Nordberg **Bill Status:** Signed into Law
 Sen. Jahn; Neville T. **Fiscal Analyst:** Larson Silbaugh (303-866-4720)

BILL TOPIC: PROPERTY TAX EXEMPTION ADMINISTRATION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue		
State Expenditures	<u>\$29,270</u>	<u>(\$1,868,730)</u>
General Fund - Department of Local Affairs	\$29,270	\$29,270
General Fund - Reimbursement to Counties		(\$1,898,000)
FTE Position Change	0.5 FTE	0.5 FTE
Appropriation Required: \$29,270 - Department of Local Affairs (FY 2016-17)		
Future Year Impacts: Ongoing state expenditure increase and General Fund transfer decrease.		

Summary of Legislation

This bill, recommended by the **Legislative Audit Committee**, requires the sharing of information among state and local government agencies to help identify applicants that do not meet the legal requirements for the Senior and Disabled Veteran Homestead Exemptions. Specifically, this bill requires:

- The Division of Property Taxation within the Division of Local Affairs (DOLA) to provide a report to the Department of Revenue (DOR) with homeowners that have claimed a property tax exemption. The DOR is required to provide a report to the DOLA to identify applicants that may not qualify for the exemption based on the applicant's tax information.
- The DPT is required to provide a list of individuals receiving a senior or disabled veteran homestead exemption to the Department of Public Health and Environment (CDPHE). The CDPHE will identify individuals claiming an exemption that have died in the past year, and provide that report to the DOLA.
- The DOLA will notify county assessors of homeowners that do not meet all the legal requirements to receive the exemptions. The State Treasurer shall not reimburse counties for exemptions that do not meet all of the legal requirements. Future reimbursements to counties can be adjusted for over or under-payments from the State Treasurer.

The deadlines for administering the senior and disabled veteran property tax exemptions are aligned with the new requirements in the bill.

Background

Senior homestead exemption. The senior homestead property tax exemption is available to taxpayers in Colorado over the age of 65 who have owned and lived in their current residence for 10 years immediately preceding the tax year in which a claim is made. A taxpayer forfeits the exemption if and when they move to a different residence, even if that residence is in the state of Colorado. Under the exemption, 50 percent of up to \$200,000 of a residential property's market value is exempt from the property tax. In the circumstance of a death, a senior's surviving spouse may retain the exemption. The constitution authorizes the General Assembly to adjust the \$200,000 threshold for the market value of a home eligible for the exemption.

Exemption for disabled veterans. In November 2006, voters extended a property tax exemption to disabled veterans living in Colorado. Like the senior homestead exemption, the disabled veteran exemption is equal to 50 percent of the first \$200,000 of the value of the home. To qualify for the exemption, applicants must be rated permanently disabled by the U.S. Department of Veterans Affairs and must have owned and occupied the property as their primary residence on January 1st of the year in which they are applying for the exemption.

Budgeting considerations. The state is constitutionally required to reimburse counties for the reduction in property tax revenue resulting from the exemption. In FY 2014-15, the state reimbursed counties \$116.9 million for the senior and disabled veteran property tax exemption.

Senior and disabled veteran property tax exemption performance audit. The Office of the State Auditor (OSA) performed a performance audit on the administration of the senior and disabled veteran property tax exemptions for property tax year 2013. They used information from the DOR and CDPHE to verify that applicants were eligible for the exemption and identified \$57,800 non-qualifying exemptions. The OSA also found \$25.3 million for which they were unable to determine the eligibility of applicants. Table 1 shows the different reasons identified by the OSA that applicants may not be eligible for the exemption.

Some of the exemptions likely qualify, despite OSA's inability to verify the eligibility of the applicant. In some cases, the primary applicant had died but an additional occupant of the home was listed on the application. This is likely the surviving spouse who would qualify for the exemption with additional application material. Many applicants did not file an individual income tax return in 2013. However, many senior citizens are not required to file an income tax return. If a taxpayer has less than \$11,500 in income (\$21,000 for joint filers) they are not required to file a return.

Table 1. 2013 Reimbursements for Potentially Non-Qualifying Exemptions	
<u>Exemptions that do not qualify</u>	
Applicant does not own the property	\$31,200
Property is not the applicant's primary residence	\$26,300
Married couples applied on multiple properties	\$300
<u>Exemptions that likely do not qualify, but could not be verified</u>	
Property likely not primary residence	\$234,800
Death of applicant and no other occupant of home listed	\$1,000,000
Applicant filed out-of-state income tax return	\$82,600
<u>Exemptions that likely qualify, but could not be verified</u>	
Death of applicant and additional occupant of home listed	\$4,100,000
Applicant did not file income tax return	\$19,917,400

Source: Office of State Auditor, Senior and Disabled Veteran Property Tax Exemption Program Performance Audit.

State Expenditures

This bill increases General Fund expenditures and reduces a reimbursement to counties. **This bill will increase General Fund expenditures in DOLA by \$29,270 and 0.5 FTE in FY 2016-17, and by \$32,821 and 0.5 FTE in FY 2017-18 and thereafter.** The bill also reduces the reimbursement for the senior and disabled veteran property tax exemptions from the General Fund to counties by about \$1.9 million in FY 2017-18 and thereafter.

Table 2. Expenditures Under HB 16-1175		
Cost Components	FY 2016-17	FY 2017-18
Personal Services (DOLA)	\$26,443	\$26,443
FTE	0.5	0.5
Operating Expenses and Capital Outlay Costs (DOLA)	2,827	2,827
Reimbursement to Counties	0	(1,898,000)
Centrally Appropriated Costs*	6,272	6,378
TOTAL	\$35,542	(\$1,862,352)

* Centrally appropriated costs are not included in the bill's appropriation.

Department of Local Affairs, Division of Property Taxation. Performing the duties to help identify non-qualifying applicants will require 0.5 FTE from a Property Tax Specialist I beginning in FY 2016-17 and each following fiscal year. This bill requires the DOLA to coordinate compliance activities with state and local government agencies. This will require the division to provide lists of individuals claiming the exemption to DOR and CDPHE in order to determine if applicants have died, married couples have claimed multiple exemptions, or filed as non-residents. The DOLA will notify county assessors of applicants that may not qualify.

Reimbursements to counties. In 2013, reimbursements of \$1,375,200 were made to counties for property tax exemptions identified by the OSA that likely did not meet the requirements. The first year that exemptions will be impacted is property tax year 2017, which are paid in the first half of 2018. Based on historical and forecast growth rates for the property tax exemption, the reimbursements to counties will be reduced by \$1,898,000 in FY 2017-18, and similar amounts in future fiscal years.

Department of Revenue. The Department of Revenue is required to provide information to DOLA to help them identify married couples that claim more than one property tax exemption, file non-resident tax returns, and may not be using the property as a primary residence. This information from individual income tax returns can be provided with existing appropriations.

Colorado Department of Public Health and Environment. The registrar of vital statistics within CDPHE is required to provide a list to DOLA of applicants that have died within the last year. This information can be provided within existing appropriations.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 3.

Table 3. Centrally Appropriated Costs Under HB 16-1175		
Cost Components	FY 2016-17	FY 2017-18
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$4,009	\$4,009
Supplemental Employee Retirement Payments	2,263	2,369
TOTAL	\$6,272	\$6,378

Local Government Impact

County assessors may be required to share additional information with the DPT and may receive additional applications for the senior and disabled veterans property tax exemptions. If DPT determines that an applicant is not eligible for the exemption, the applicant may refile with the county assessor with additional documentation demonstrating that they do qualify.

The bill allows future payments from the General Fund to counties to be adjusted to account for overpayment or underpayment of the senior or disabled veteran property tax exemption. This provision will only be used if the county assessor does not remove non-qualifying property tax exemptions from the property tax rolls after being notified by the DPT.

Effective Date

The bill was signed into law by the Governor and took effect on June 10, 2016. It is effective beginning property tax year 2017.

State Appropriations

Consistent with this fiscal note, the Department of Local Affairs is appropriated \$29,270 from the General Fund and an allocation of 0.5 FTE in FY 2016-17.

State and Local Government Contacts

Assessors
Property Tax

Local Affairs
Revenue

Information Technology
Public Health & Environment

Research Note Available

An LCS Research Note for HB16-1175 is available online and through the iLegislate app. Research notes provide additional policy and background information about the bill and summarize action taken by the General Assembly concerning the bill.