

STATE OF COLORADO

DEPARTMENT OF REVENUE

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September 28, 2012

The Honorable Cheri Gerou
Chair, Joint Budget Committee
Colorado General Assembly

The Honorable Brian DelGrosso
Chair, House Finance Committee
Colorado General Assembly

The Honorable Michael Johnston
Chair, Senate Finance Committee
Colorado General Assembly

Dear Senators and Representatives:

Section 39-22-522.5(12), C.R.S., requires the Department of Revenue (DOR) to submit a quarterly report to the Joint Budget Committee and the Finance Committees of the General Assembly which details the following information:

a) CASE SPECIFIC INFORMATION

The number of tax credits claimed pursuant to section 39-22-522 for which the Executive Director mailed a notice of deficiency, notice of rejection of refund claim, or notice of disallowance pursuant to section 39-21-103.

- As of 09/10/12, the Department has disallowed conservation easement tax credits in 638 cases, which includes cases that are subject to the provisions of HB11-1300 and those that are not.

b) APPRAISAL SPECIFIC INFORMATION

The number of such cases sent to the Conservation Easement Oversight Commission (CEOC) for review pursuant to section 12-61-721, C.R.S.

- The Department sent appraisals to the CEOC and the Division of Real Estate (DRE) for review of all of the 638 cases for which credits have been disallowed.
- As of 09/10/12, the Department sent 699 appraisals (or partial appraisals) to the CEOC for review. Of these 699 appraisals, 9 were for a 2nd or 3rd review. The Department, in its 06/29/12 report, had categorized 12 of these reports as a 2nd review, but with input from the CEOC and DRE, the Department has determined that 3 of those appraisals were not 2nd reviews but instead appraisals of new donations. Therefore, 690 appraisals of unique easement donations were sent to the CEOC for review.
- NOTE: Some of these appraisals were sent to the CEOC for review prior to the Department disallowing any credits.

c) CEOC RECOMMENDATIONS

The number of such cases returned to the Executive Director with the advice of the CEOC created in section 12-61-721(1), C.R.S., and the action, if any, taken by the Department of Revenue on the cases returned by the commission.

- The CEOC returned recommendations to the Executive Director on 684 of the 690 appraisals of unique easement donations sent for review. The review & discussion of the remaining 6 appraisals was postponed to the next CEOC meeting scheduled for December 3, 2012.
- The CEOC recommendations are to "Reject" or "Accept" the tax credits.
- The DRE recommendations are whether or not it appears there may be material violations of the Uniform Standards of Professional Appraisal Practice (USPAP) that could adversely impact the analyses and conclusions in the appraisal (designated in the Table below as "May Violate" or "Appears OK", respectively).
- The CEOC and/or DRE recommendation of "No Opinion" is typically rendered when insufficient information is provided on which to make a recommendation.
- The chart below details the recommendations of the CEOC and the DRE as well as the action taken by the Department:

UNIQUE CONSERVATION EASEMENT DONATIONS								
CEOC/DRE RECOMMENDATION:								
CEOC Recommendation	REJECT	REJECT	REJECT	ACCEPT	ACCEPT	ACCEPT	NO OPINION	TOTALS
DRE Recommendation	MAY VIOLATE	NO OPINION	APPEARS OK	MAY VIOLATE	NO OPINION	APPEARS OK	NO OPINION	
Total Unique Donations Reviewed	527	40	1	36	0	35	45	684
INITIAL DEPARTMENT ACTION:								
Credit Not Used/Not Disallowed	1	0	0	2	0	18	1	22
Still Under Review	21	0	0	3	0	0	0	24
Total Cases Disallowed	505	40	1	31	0	17	44	638
FINAL DEPARTMENT/COURT ACTION:								
Allowed in Full by Revenue	2	0	0	2	0	6	3	13
Settled by Revenue	14	8	0	9	0	1	1	33
Allowed in Part/Full by Court	0	0	0	0	0	0	0	0
Disallowed in Entirety by Court	0	0	0	0	0	0	0	0
Total Active Cases	489	32	1	20	0	10	40	592

- Of the 35 appraisals involving a favorable recommendation from the CEOC which don't appear to violate USPAP, 10 cases remain to be resolved because the Tax Matters Representative(s) either made more than one donation or claimed credits for more than one donation in the same tax year.

d) MEDIATION PROCESS

The number and progress of any cases that are in a mediation process and the status of such mediation.

- No new cases have been sent to mediation.
- NOTE: Per Regulation 39-21-522, enacted September 1, 2011, the Department will treat a request for mediation as an agreement to extend the statutory deadline to hold administrative hearing.

e) REFERRALS TO THE ATTORNEY GENERAL'S OFFICE

The number of cases referred to the Attorney General's office for resolution.

- The chart below details the number of cases sent to the Office of the Attorney General (OAG) under the provisions of HB11-1300 and under the provisions for formal hearings pursuant to Section 39-21-103, C.R.S. or the provisions for appeals of final agency action pursuant to Section 39-21-105, C.R.S.:

Conservation Easement Cases sent to the OAG				
HB11-1300		Non HB11-1300		Total
Elected District Court	478	On Appeal/Transferred to Court	14	492
Elected Expedited Hearing	29			29
Total # making an Election	507			
Made No Election	36	Remain in Admin Process	81	117
Total # of Cases	543		95	638

- Elections have been made pursuant to Section 39-21-522.5, C.R.S. in 507 of the 543 cases subject to the election provisions of HB11-1300: 478 made an election to waive the administrative hearing and appeal to District Court and have therefore been transferred to the OAG; 29 made an election to remain in the administrative process and requested an expedited hearing; 36 made no elections.
- As of 09/10/12, 492 cases, including both those subject to the election provisions of HB11-1300 and those outside the scope of those provisions, have been sent forward to the OAG for resolution.
- Fourteen of the 492 cases are not subject to HB11-1300. The Department transferred jurisdiction to District Court pursuant to Section 39-22-522.5(5)(b), C.R.S. in 10 cases. Four cases had a formal hearing pursuant to Section 39-21-103, C.R.S. in which the Executive Director's designee ruled in favor of the Department. These 4 cases are currently on appeal in District Court.
- As of 09/10/12, the Department has received 30 petitions by Transferees to change the Tax Matters Representative in the cases involving no elections. Eighteen of these 30 petitions have been granted, 10 have been denied, and the remaining 2 are being reviewed.
- NOTE: The numbers may differ from previous reports due to consolidation of district court cases and changes in Tax Matters Representatives.

f) CASES RESOLVED BY THE DEPARTMENT OF REVENUE

The number of cases resolved by the Department of Revenue.

- The Department has resolved 50 cases: 13 cases were allowed the tax credits in full, 4 cases were settled prior to input from the CEOC or DRE, and 33 cases were settled after consultation with the CEOC and DRE.
- The Department sent Notices of Final Determination in 4 of the cases sent to the Attorney General's office prior to the effective date of House Bill 11-1300. These 4 cases are currently on appeal in District Court.
- The Department sent Notices of Final Determination to the Tax Matters Representative (TMR) and Transferees in 1 case not subject to House Bill 11-1300 that was not timely protested.
- The Department sent Notices of Final Determination to the TMR and Transferees in 1 case subject to House Bill 11-1300 per Section 39-22-522.5(5)(e) when the TMR failed to provide required documentation within 60 days of the Department's written request.

g) DOLLAR AMOUNTS OWED OR WAIVED

The amount of deficient taxes, interest, and penalties determined to be owed or waived by the Department of Revenue in administering the resolution of cases.

- The 6 cases in which Notices of Final Determination were issued by the Department involved a total assessed amount of \$2,176,145 (\$1,359,028 in taxes, \$662,410 in interest, and \$154,707 in penalties); \$2,469 was waived (\$1,440 in taxes, \$856 in interest, and \$173 in penalties).
- In the 37 cases settled by the Department (33 with CEOC/DRE input and 4 prior to consultation), \$2,995,612 was determined to be owed (\$2,875,385 in taxes, \$102,259 in interest, and \$17,968 in penalties); \$7,176,576 was waived by the Department (\$4,620,132 in taxes, \$1,805,709 in interest, and \$750,735 in penalties).

h) CREDITS ALLOWED IN FULL

The number and total amount of credits that were originally contested but subsequently allowed to be claimed in full.

- Of the 684 appraisals of unique easement donations which were reviewed by the CEOC and DRE, 22 were reviewed without having any credits disallowed. Therefore, credits were disallowed and contested in 662 cases. Of these 662 cases, 13 cases, consisting of \$3,394,950 in tax credits, were subsequently allowed in full.

i) DOLLAR AMOUNTS EXPENDED

The amount of moneys expended by the Department of Revenue in administering the resolution of cases.

- During FY 2012, the Department spent \$2,757,251 on the resolution of disputed conservation easement cases as follows:
 - DOR Salary and Benefits: \$532,169;
 - Appraisals and Other Litigation Costs: \$746,676;
 - Attorney General Costs: \$1,466,610; and
 - General Operating Expenses: \$11,796
- Between July 1, 2012 and August 31, 2012, the Department spent \$424,268 on the resolution of disputed conservation easement cases as follows:
 - DOR Salary and Benefits: \$134,558;
 - Appraisals and Other Litigation Costs: \$14,688;
 - Attorney General Costs: \$275,022; and
 - General Operating Expenses: \$0

Sincerely,



Barbara J. Brohl
Executive Director
Colorado Department of Revenue

Cc: Members of the Joint Budget Committee, Colorado General Assembly
Members of the House Finance Committee, Colorado General Assembly

Members of the Senate Finance Committee, Colorado General Assembly
Mr. David Meng, Staff, Joint Budget Committee, Colorado General Assembly
Mr. Erick Scheminske, Office of State Planning & Budget
Ms. Jillane Hixson

Joint Budget Committee Members:

The Honorable Jon Becker, Joint Budget Committee, Colorado General Assembly
The Honorable Mary Hodge, Joint Budget Committee, Colorado General Assembly
The Honorable Kent Lambert, Joint Budget Committee, Colorado General Assembly
The Honorable Claire Levy, Joint Budget Committee, Colorado General Assembly
The Honorable Pat Steadman, Joint Budget Committee, Colorado General Assembly

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The Honorable Don Beezley, House Finance Committee, Colorado General Assembly
The Honorable Kathleen Conti, House Finance Committee, Colorado General Assembly
The Honorable Chris Holbert, House Finance Committee, Colorado General Assembly
The Honorable Dickie Lee Hullinghorst, House Finance Committee, Colorado General Assembly
The Honorable Janak Joshi, House Finance Committee, Colorado General Assembly
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The Honorable Spencer Swalm, House Finance Committee, Colorado General Assembly
The Honorable Keith Swerdfeger, House Finance Committee, Colorado General Assembly

Senate Finance Committee Members:

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The Honorable Angela Giron, Senate Finance Committee, Colorado General Assembly
The Honorable Lucia Guzman, Senate Finance Committee, Colorado General Assembly
The Honorable Cheri Jahn, Senate Finance Committee, Colorado General Assembly
The Honorable Keith King, Senate Finance Committee, Colorado General Assembly
The Honorable Mark Scheffel, Senate Finance Committee, Colorado General Assembly