The Gallagher Amendment and Local Tax Revenues: Issues and Solutions?

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**Property Taxes in Colorado**

*7.2% is the 2017-2018 assessment cycle residential assessment rate*
Constitutional Amendment 1 (1982)

Referendum Passed 65.5% to 34.5%

Referendum (HCR 82-1005) made several changes to the property tax laws of Colorado

- Exempted Certain Personal Property
- Established the annual assessment audit
- Reconstituted the State Board of Equalization
- Took the Property Tax Administrator out of personnel system and appointed by SBOE
- AND...

GALLAGHER AMENDMENT

• Created a floating residential assessment rate (RAR) to maintain a (somewhat) fixed relationship between the tax base of residential property and all other classes

• Referred to as the “45/55 split”
In late 1969, market values of properties began rising at a rate of 1% per month, and this trend continued through much of the 1970s and beyond.

In 1982, Gallagher was supposed to stabilize residential value contribution to property tax values. Changing the RAR keeps the assessed values relatively balanced in this relationship.
CO Const. Art. X, Section 3(b)

... the general assembly shall determine the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property. For each subsequent year, the general assembly shall again determine the percentage of the aggregate statewide valuation for assessment which is attributable to each class of taxable property, after adding in the increased valuation for assessment attributable to new construction and to increased volume of mineral and oil and gas production.
...For each year in which there is a change in the level of value used in determining actual value, the general assembly shall adjust the ratio of valuation for assessment for residential real property which is set forth in this paragraph (b) as is necessary to insure that the percentage of the aggregate statewide valuation for assessment which is attributable to residential real property shall remain the same as it was in the year immediately preceding the year in which such change occurs. Such adjusted ratio shall be the ratio of valuation for assessment for residential real property for those years for which such new level of value is used.
How do we do it? 2 Steps

Step 1
Establish the non-residential assessed value. Calculate the **residential Target Percentage** for the previous assessment cycle with information from counties’ Abstracts of Assessment (AKA the PIE!)

Step 2
Calculate the new **Residential Assessment Rate** based on estimated property value increases/decreases from assessors’ offices and other sources to meet the target percentage.
Who Does Study? What Study Is Used?

§ 39-1-104.2(4)(a) and (5)(b) and (c), C.R.S. :

• 4(a) the administrator shall determine the target percentage...

• 5(b) The residential rate shall be based on a documented estimate of the total valuation for assessment of all taxable property in the state arrived at by projecting the percentage of change in the level of value for each class of taxable property to all taxable property in such class in the state.

• 5(c) The administrator shall be responsible for ensuring that a documented estimate study is completed by the division of property taxation.
Gallagher with TABOR

Constitutional Amendment 1 (1992)
Initiative Passed 53.68% to 46.32%

Taxpayer Bill of Rights was meant to restrain most growth of government and limits were only to be weakened by voter approval.
Actual TABOR Language

• (4) Required Elections.
  – (a) … any new tax, tax rate increase, mill levy above that for the prior year,
    valuation for assessment ratio increase for a property class,
    or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.
Res Rate Enacted Vs. Recommendation

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## Res Rate Enacted Vs. Recommended Cont.

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<td>7.20%</td>
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Colorado Actual Values Trend

- Residential (2017: $766 Billion, 79.8% of total)
- All Other Classes (2017: $171 Billion, 20.2% of total)
Colorado Assessed Values Trend:

Millions


- Residential
- All Other Classes
Legislative Council Estimates on RAR

Due to impacts to state contribution to Schools, Legislative Council Staff have been including an estimate of the upcoming RAR in their December Forecasts.

– December 2016 Forecast for 2017/18 RAR
  • 6.87% (initial DPT estimate, 6.56%, ultimately 7.20%)

– December 2017 Forecast for 2019/20 RAR
  • 6.11% (NO DPT estimate until January, 2019)

– December 2018 Forecast for 2019/20 RAR
  • ??
**Actual (Market) Values**
The Colorado Property Tax Base

Source: Division of Property Taxation and Legislative Council Staff forecast.
*Calculated as assessed values divided by an assumed 29 percent assessment rate.*
Assessed Values

Actual Values $\times$ Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Residential

Source: Division of Property Taxation and Legislative Council Staff forecast.
Assessed Values

Actual Values × Assessment Rate = Assessed Values

Non-Residential
29% assessment rate

Residential

Source: Division of Property Taxation and Legislative Council Staff forecast.
General Fund Revenue and Expenditures
FY 2017-18

Revenue, $11.9 Billion*

- 5%, Other
- 27%, Sales & Use Taxes
- 5%, Corporate Income Taxes
- 63%, Individual Income Taxes

Expenditures, $11.7 Billion*

- 8%, Other
- 2%, Infrastructure
- 8%, Human Services
- 24%, Health Care Policy & Fin.
- 4%, Judicial
- 7%, Corrections
- 8%, Higher Education
- 40%, P-12 Education*

Totals may not sum due to rounding. Source: Joint Budget Committee and March 2018 Legislative Council Staff Forecast.

*Revenue and P-12 education expenditures are gross of income taxes transferred to the State Education Fund.
Statewide Funding Sources
Billions of Dollars

Source: Legislative Council Staff Calculations.
State and Local Shares of School Finance

Note: Prior to 1993, K-12 funding was allocated on a calendar year basis.
Local Share of School Finance and Residential Assessment Rate

Source: Department of Local Affairs, Division of Property Taxation, and Colorado Legislative Council Staff Calculations
Statewide Total Assessed Values and Nonresidential Actual Values

Index 1983=1.0

Source: Department of Local Affairs, Division of Property Taxation.
Property Tax Revenue in Colorado

Source: Department of Local Affairs, Division of Property Taxation.
Real Statewide Tax Base per Capita and Recessions
1983 dollars

Sources: Colorado Department of Local Affairs, Division of Property Taxation, U.S. Census Bureau, Bureau of Labor Statistics, National Bureau of Economic Research.
Change in Residential Assessed Values by County
2016 to 2017

Source: Division of Property Taxation, Department of Local Affairs.
Change in Total Assessed Values by County
2016 to 2017

Source: Division of Property Taxation, Department of Local Affairs.
Market Value, Actual Value, and Taxable Value of Typical Home in La Plata County

Index 1983=1.0

Source: Taxable values are calculated by Colorado Legislative Council Staff based on FHFA home price indices.
### Estimated Change in Taxable Value of a Typical Home between Reassessment Cycles

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Source: Taxable values are calculated by Colorado Legislative Council Staff based on FHFA home price indices.
Change in Per Capita, Inflation Adjusted Property Tax Base
2004 to 2017

Sources: Colorado Department of Local Affairs, Division of Property Taxation, U.S. Census Bureau, Bureau of Labor Statistics, National Bureau of Economic Research.
2018 Gallagher Alternative
Legislative Interim Committee

25+ ideas brought to the committee

7 bills were drafted

3 bills were referred out of committee
Repeal the Gallagher Amendment
- Constitutional measure referred to voters in 2019

Regional Assessment Rates
- Conditional on voter approval of 2019 ballot measure
- RAR sets for 8 regions across

Backfill Property Taxes to Fire and Library Districts
- 95% backfill for reduced property taxes
2018 Legislative Interim Committee

• Repeal the Gallagher Amendment
  — Constitutional measure referred to voters in 2019

• Regional Assessment Rates
  — Conditional on voter approval of 2019 ballot measure
  — RAR sets for 8 regions across

• Backfill Property Taxes to Fire and Library Districts
  — 95% backfill for reduced property taxes
Regional Assessment Rates

• Conditional on repeal of the Gallagher Amendment

• Creates 8 regions in the state
Regional Assessment Rates
Regional Assessment Rates

• If regional RAR reduction is calculated, then:
  – Rate is reduced by 5% per cycle (i.e. 7.20% fall to 6.84%)
  – Can only fall to 5%

• If regional RAR increase is calculated, then:
  – Coordinated regional election
  – If election fails, than RAR stays the same
Sample of Regional RAR rates

- Northern Mountains: 3.50%
- North Central: 9.11%
- Northwestern: 13.92%
- Northeastern: 33.69%
- Central: 5.88%
- South Central: 15.33%
- Southwestern: 9.36%
- Southeastern: 8.98%
Property Tax Issues on 2018 Ballot
Simple to Complex

• Run of the “mill” mill levy increases

• “De-Gallagher” ? Mostly De-Bruce
  – Most tied to a 7.2% residential assessment rate
    • Some tying to Property Tax Administrator’s Study…

• Amendment 73
  – 7% fixed Residential/24% fixed all other except oil and gas-extracted mineral
    • Impact on other taxing jurisdictions?
No Easy Answers...
Questions?

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