



“Gallagher”

How did we get here and Where do we go?

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Building a Better
Colorado

Building a Better Colorado
September 18, 2018

Property Taxes in Colorado

Actual Values



×

Assessment Rate

7.2% Residential *
29% Nonresidential
87.5% Oil and Gas

=

Assessed Values



Assessed Values



×

Local
Mill Levy

=

Taxes
Owed

*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...**

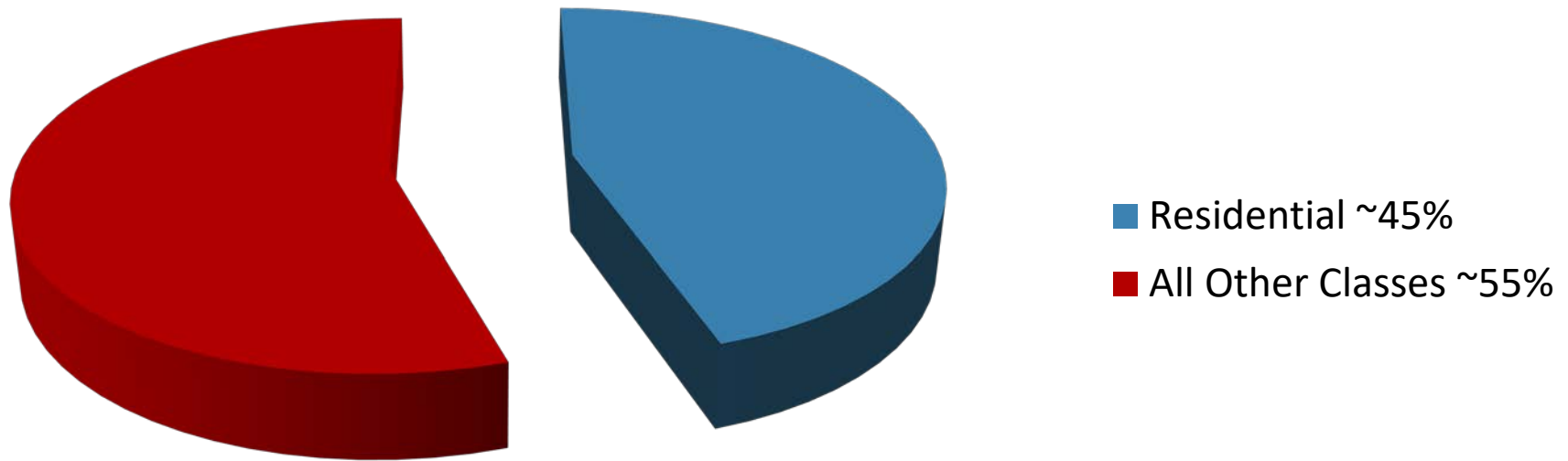
Constitutional Amendment 1 (1982) Cont.

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”



Balance of Property Tax Base Burden



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.



CO Const. Art. X, Section 3(b) cont.

...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.

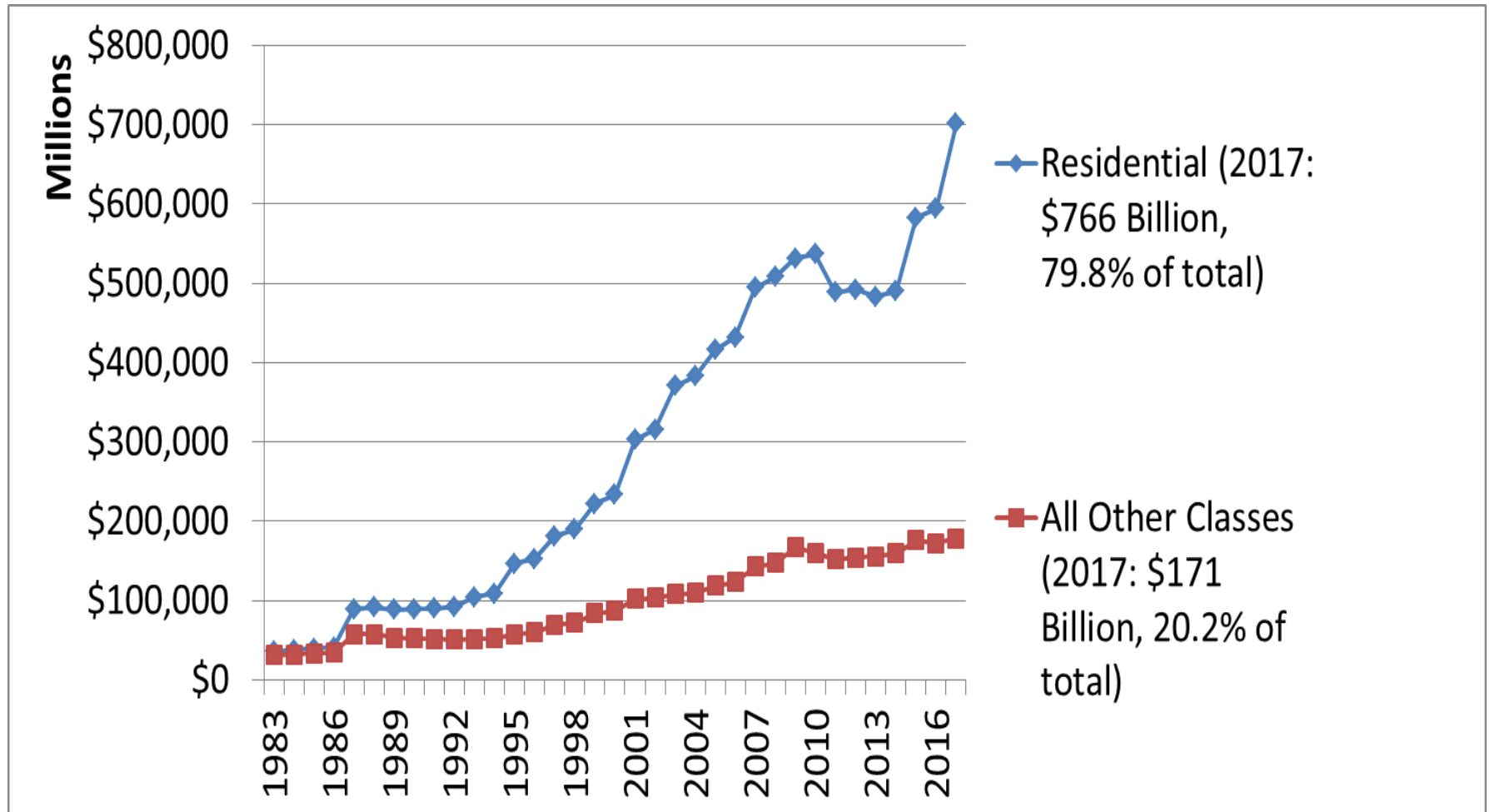
Res Rate Enacted Vs. Recommendation

<u>Years</u>	<u>Rate enacted into law</u>	<u>Rate calculated by Preliminary RAR Study</u>	<u>Rate calculated by Final RAR Study</u>
1983-86	21.00%		
1987	18.00%	16.74%	
1988	16.00%	15.62%	
1989-90	15.00%	15.04%	
1991-92	14.34%	14.34%	
1993-94	12.86%	12.86%	12.16%
1995-96	10.36%	10.50%	10.02%
1997-98	9.74%	9.71%	10.08%
1999-2000	9.74%	9.81%	9.83%

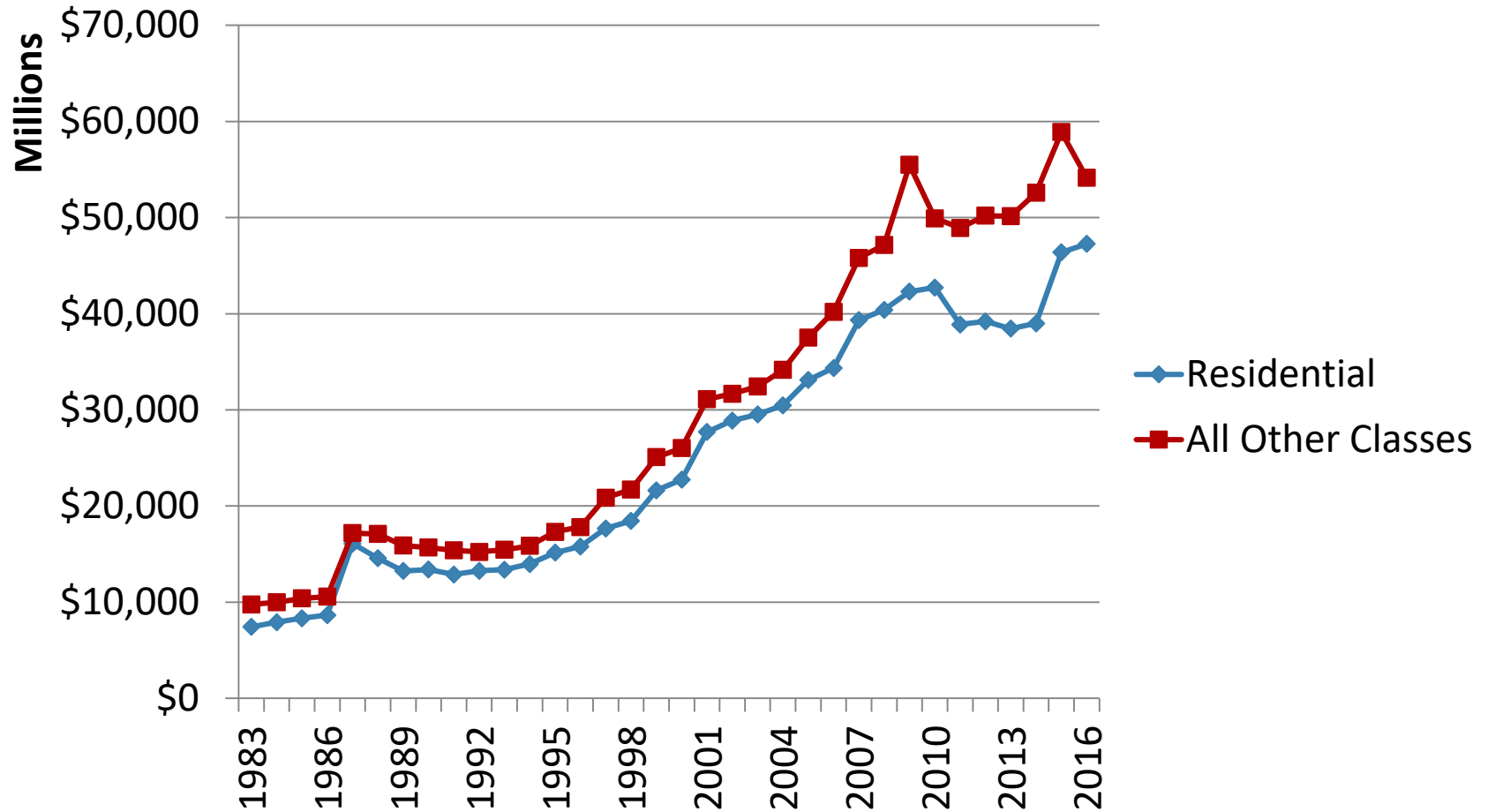
Rate Enacted Vs. Recommended Cont.

<u>Years</u>	<u>Rate enacted into law</u>	<u>Rate calculated by Preliminary RAR Study</u>	<u>Rate calculated by Final RAR Study</u>
2001-02	9.15%	9.35%	9.15%
2003-04	7.96%	8.18%	8.04% (rev. 4/23/2003 to 7.96%)
2005-06	7.96%	8.15%	8.17%
2007-08	7.96%	8.00%	8.19%
2009-10	7.96%	8.91%	8.85%
2011-12	7.96%	8.59%	8.77%
2013-14	7.96%	9.09%	9.13%
2015-16	7.96%	8.30%	8.24%
2017-18	7.20%	6.56%	7.20%

Colorado Actual Values Trend



Colorado Assessed Values Trend:



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**

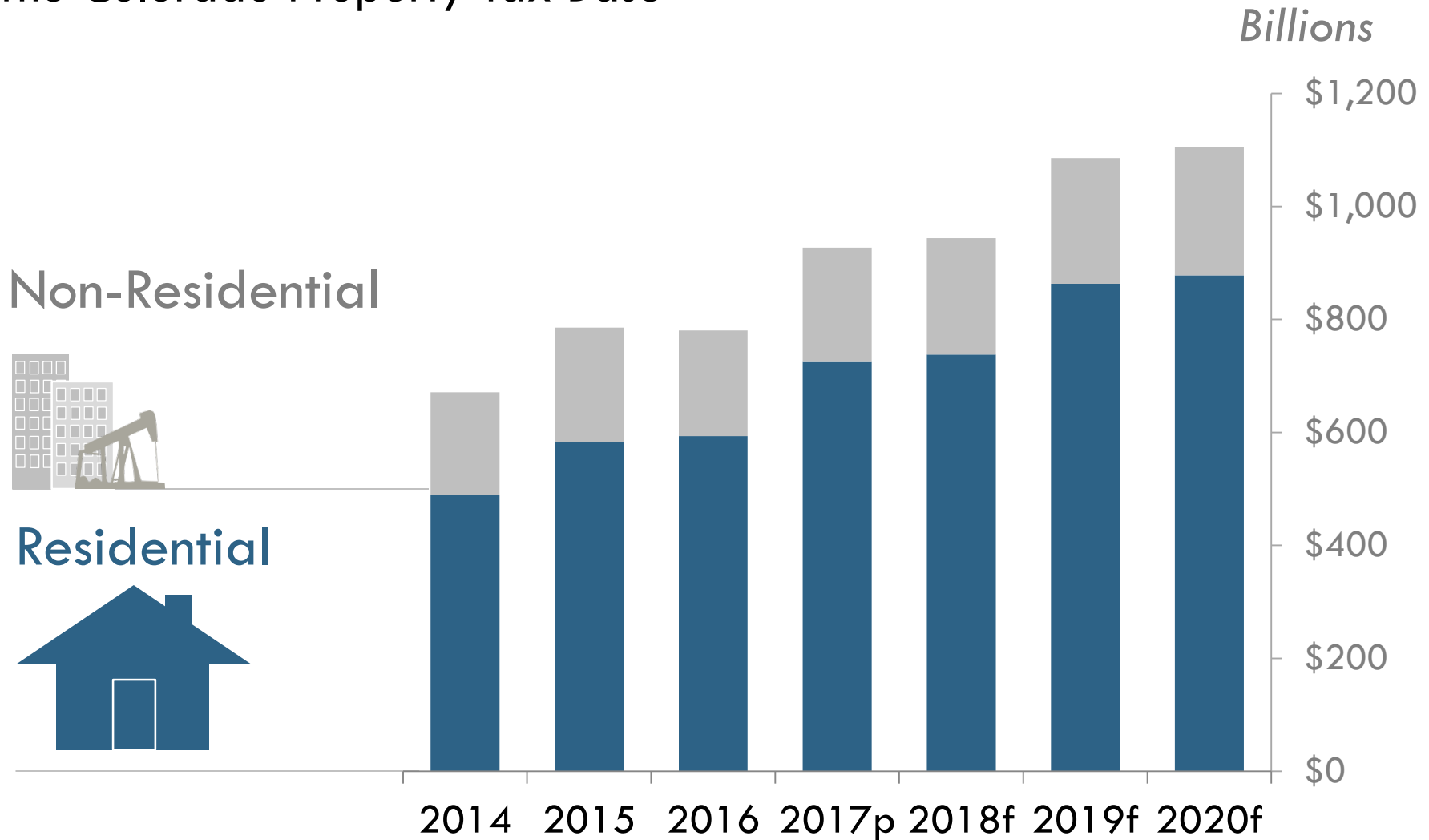
- 6.11% (NO DPT estimate until January, 2019)

- **December 2018 Forecast fro 2019/20 RAR**

- ??

Actual (Market) Values

The Colorado Property Tax Base



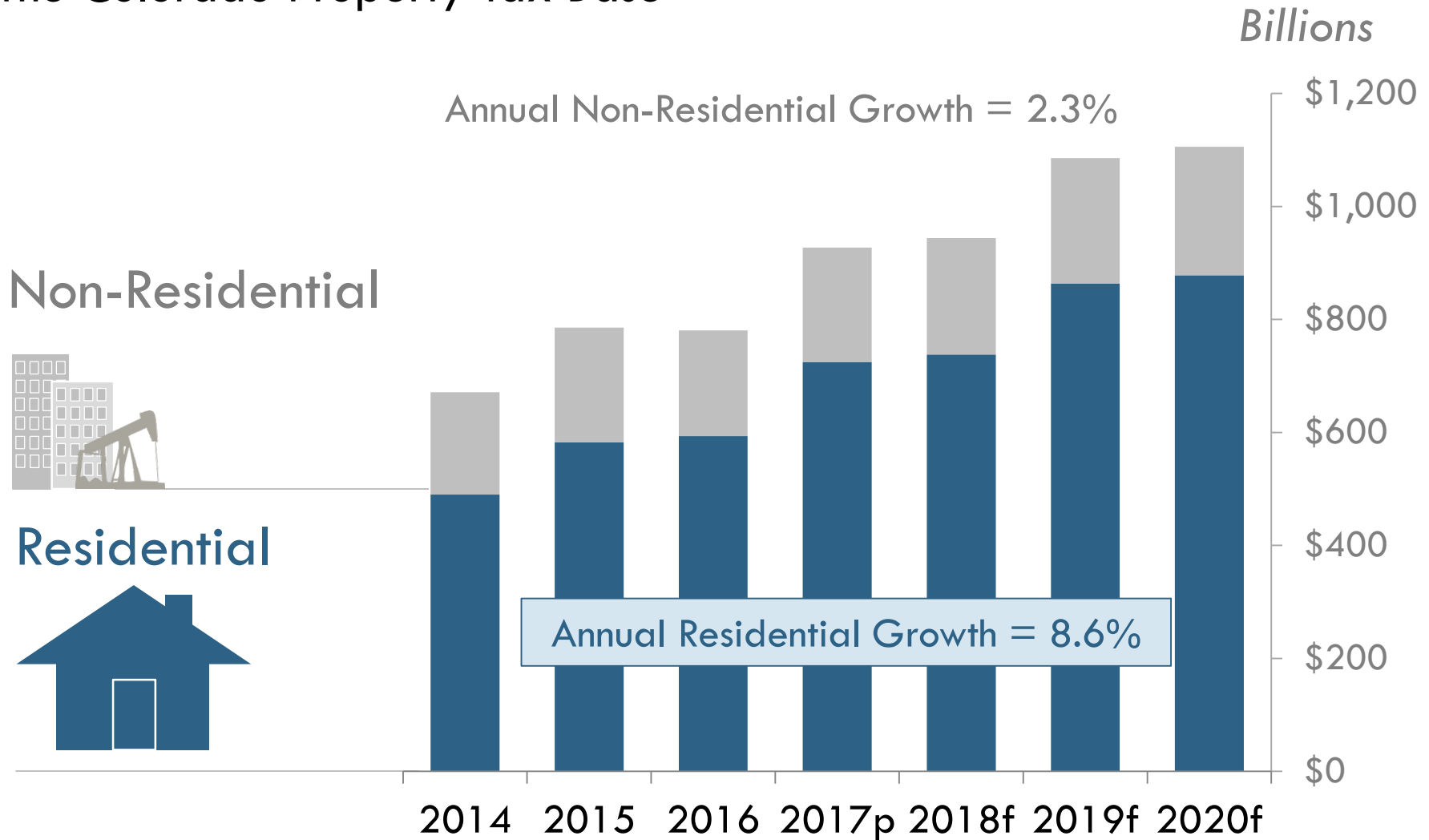
Source: Division of Property Taxation and Legislative Council Staff forecast.

*Calculated as assessed values divided by an assumed 29 percent assessment rate.

<http://betterco.org>

Actual (Market) Values

The Colorado Property Tax Base



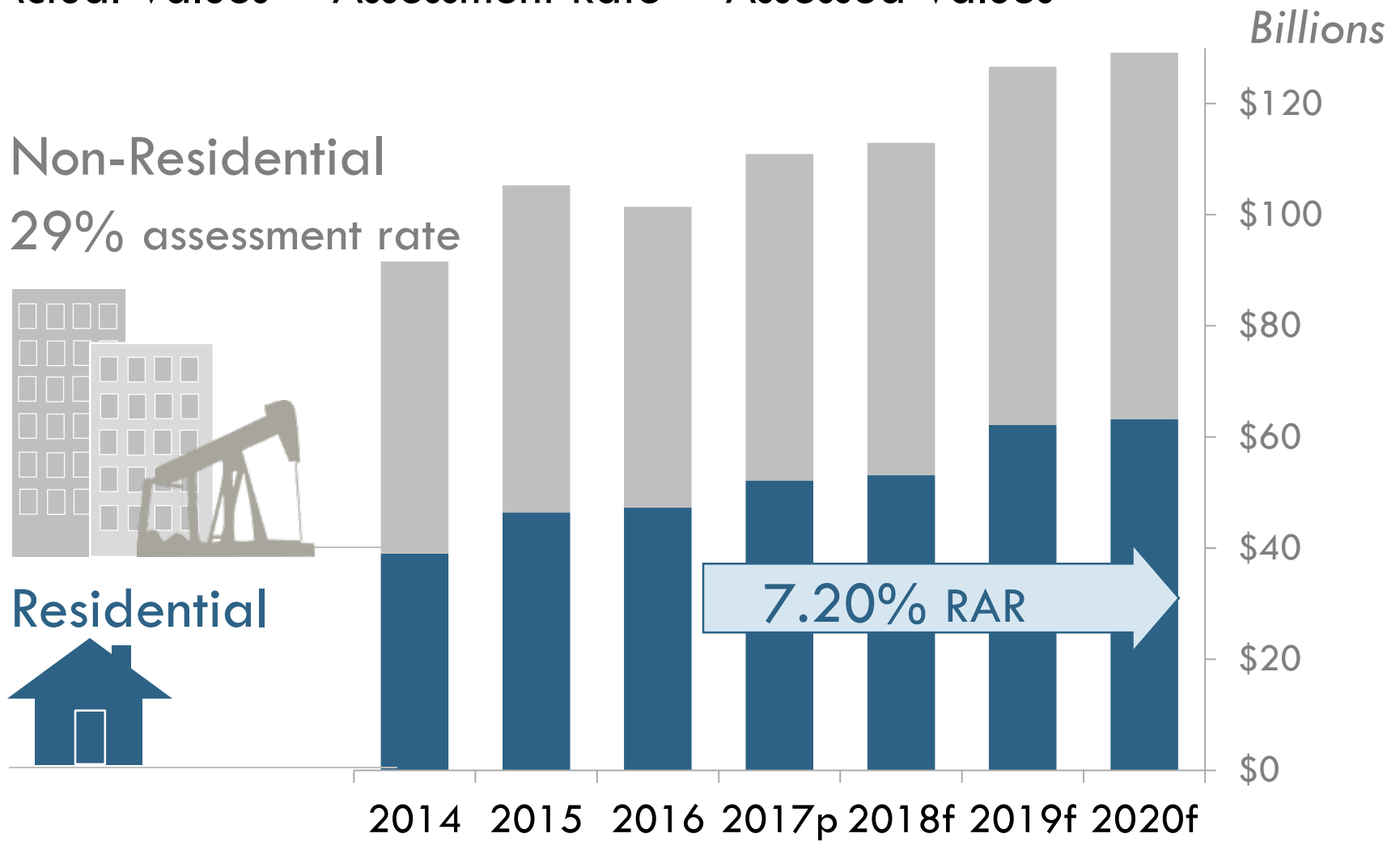
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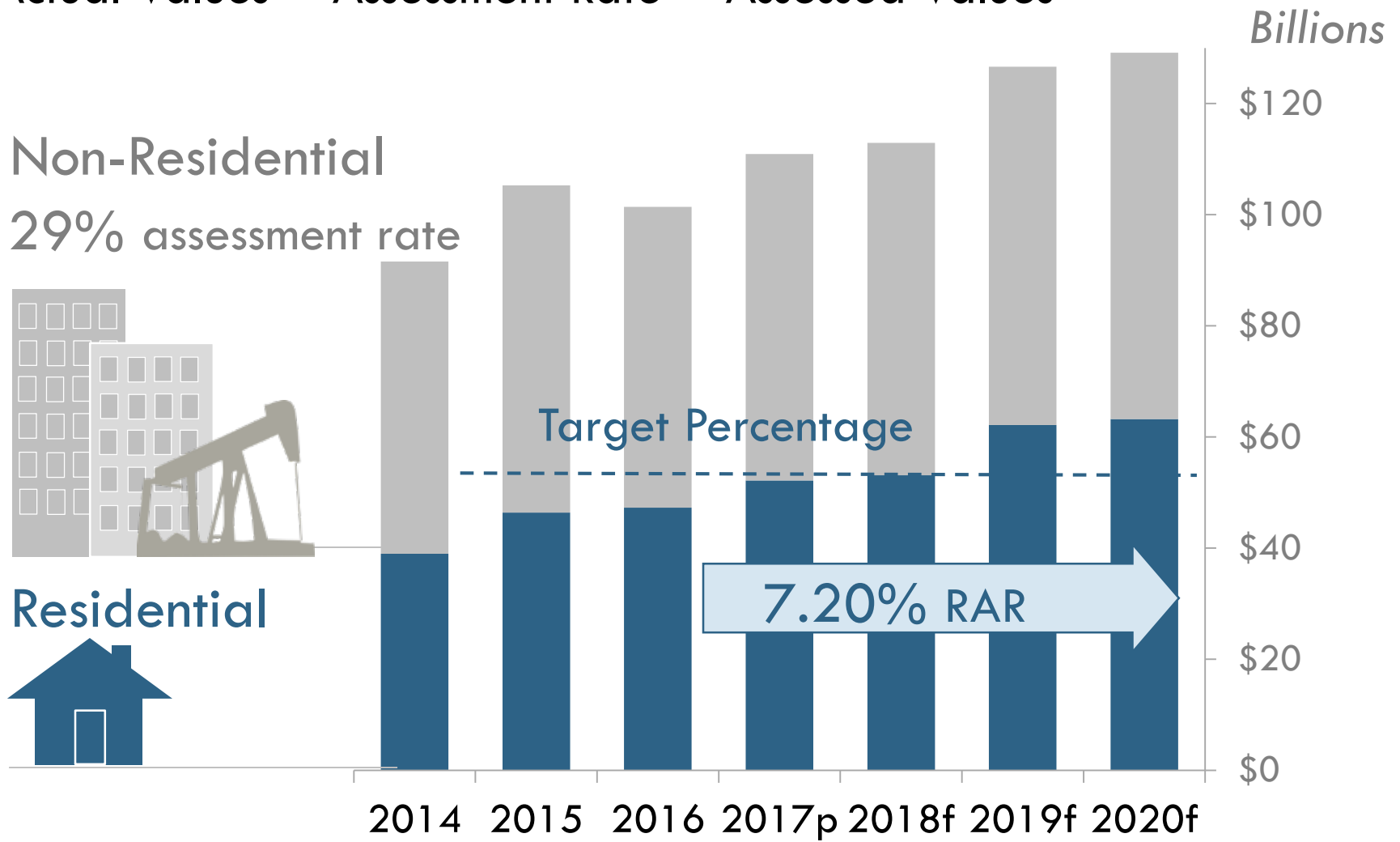
Assessed Values

$$\text{Actual Values} \times \text{Assessment Rate} = \text{Assessed Values}$$



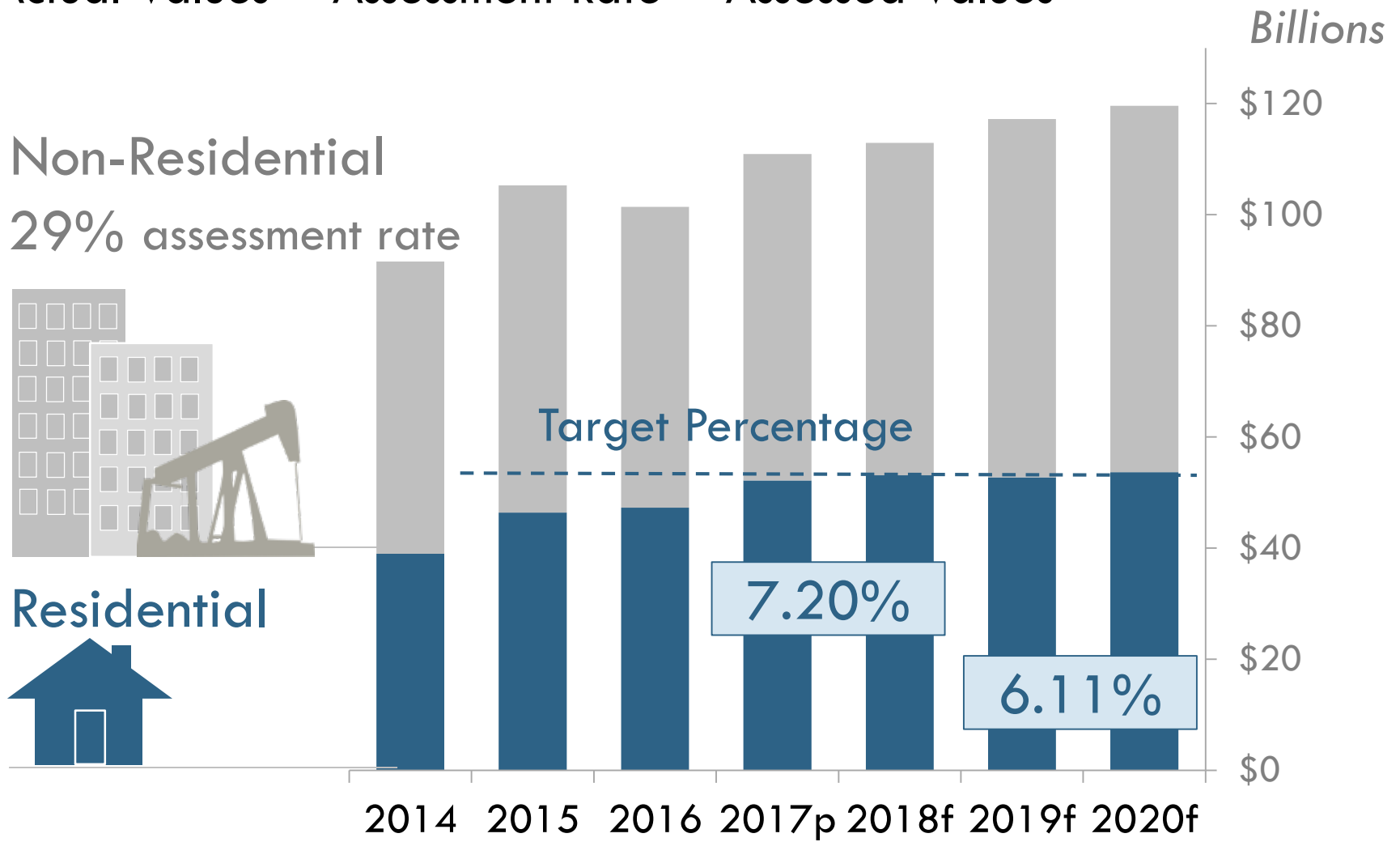
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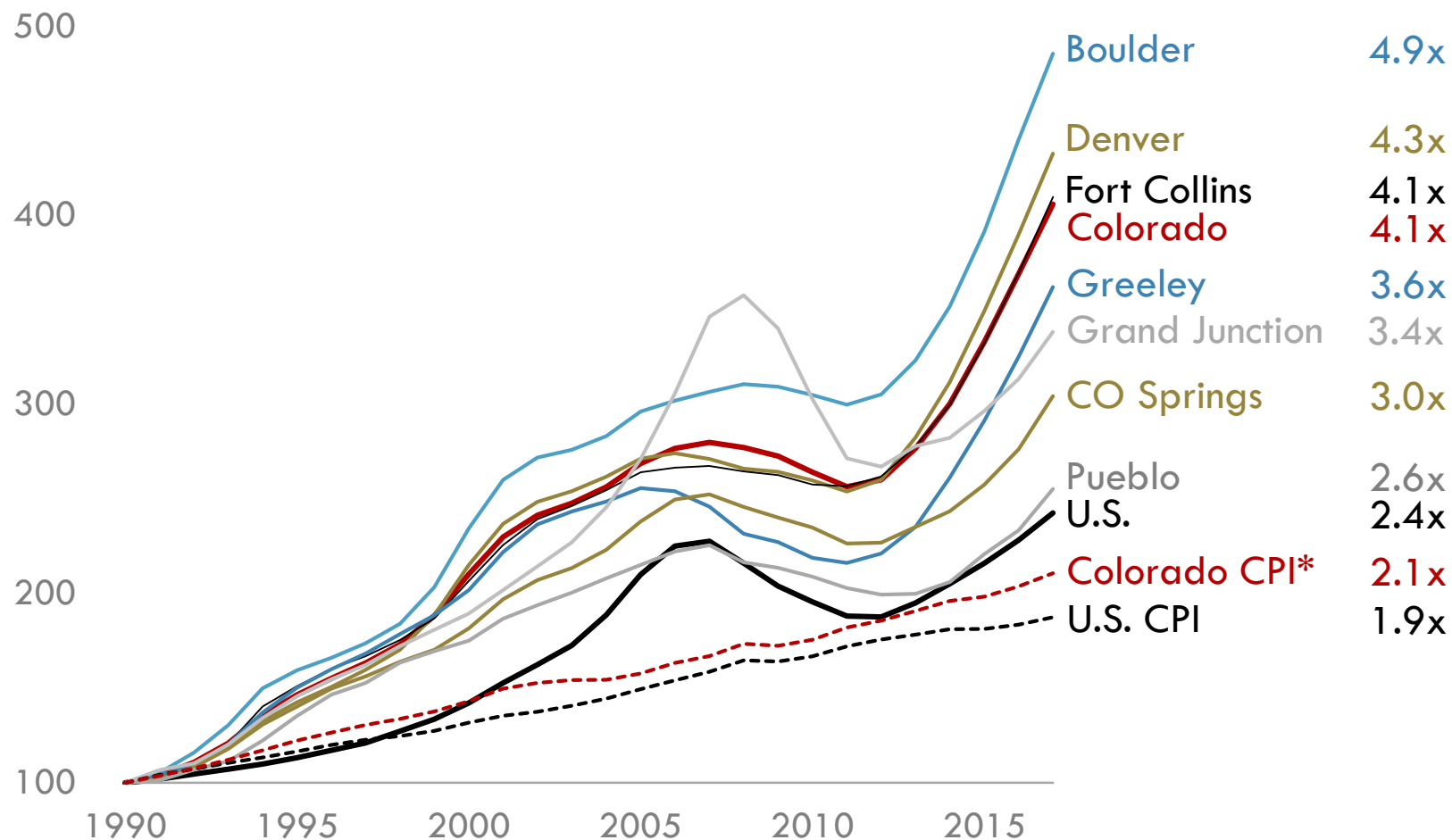
Residential and Nonresidential Assessed Values

Year	Residential Assessed Value		Nonresidential Assessed Value		Total Assessed Value	
2016	\$47,261	1.9%	\$54,157	-8.1%	\$101,419	-3.7%
2017	\$52,199	10.4%	\$58,698	8.4%	\$110,897	9.3%
2018*	\$53,126	1.8%	\$59,799	1.9%	\$112,925	1.8%
2019*	\$52,748	-0.7%	\$64,449	7.8%	\$117,197	3.8%
2020*	\$53,662	1.7%	\$65,921	2.3%	\$119,583	2.0%

Regional Home Price Appreciation & Inflation

Growth Comparisons over the Past 27 Years

Index 100 = 1990



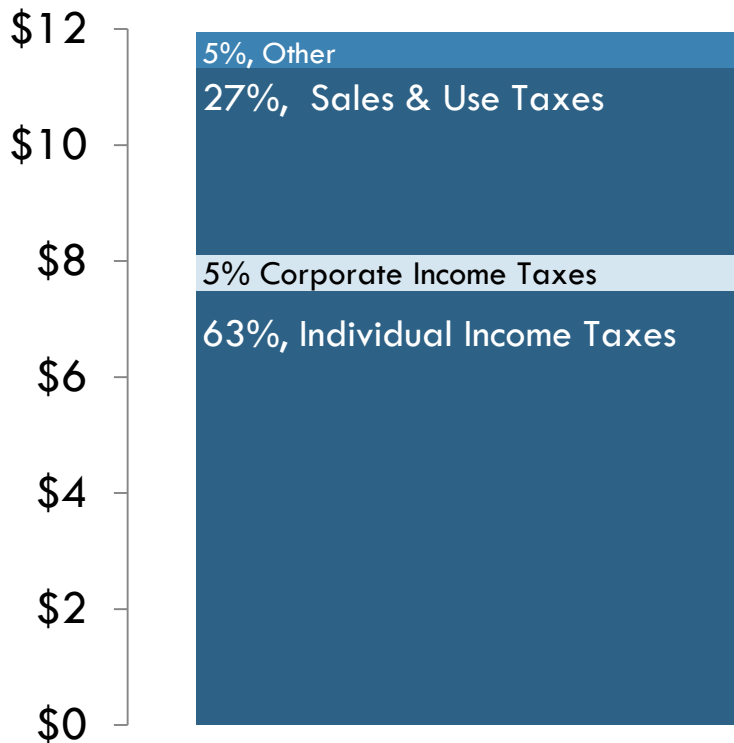
<http://betterco.org>

Source: U.S. Federal Housing Finance Agency (FHFA) and U.S. Bureau of Labor Statistics. *Denver-Boulder-Greeley CPI-U.

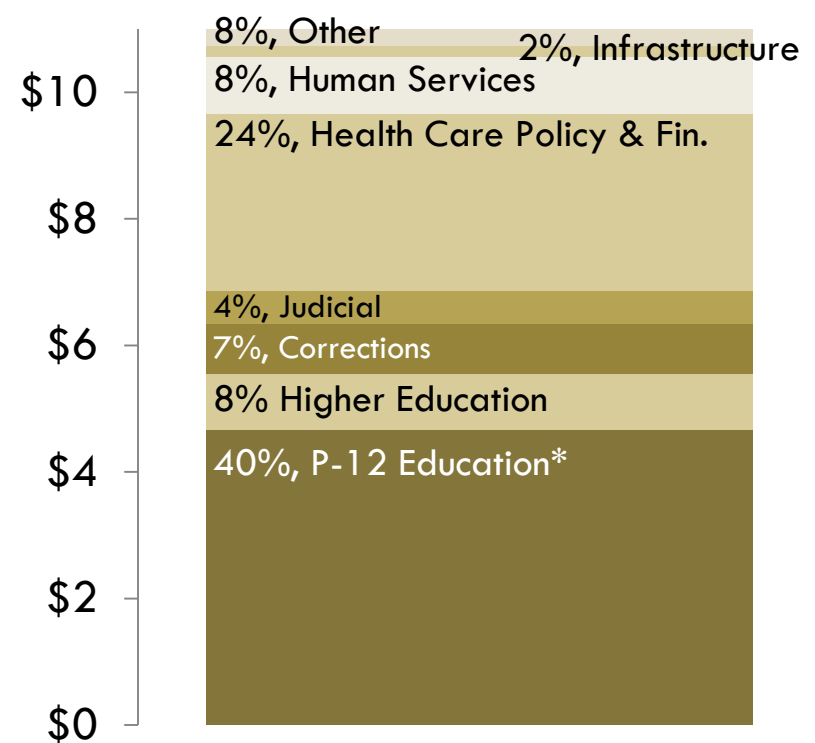
General Fund Revenue and Expenditures

FY 2017-18

Revenue, \$11.9 Billion*



Expenditures, \$11.7 Billion*



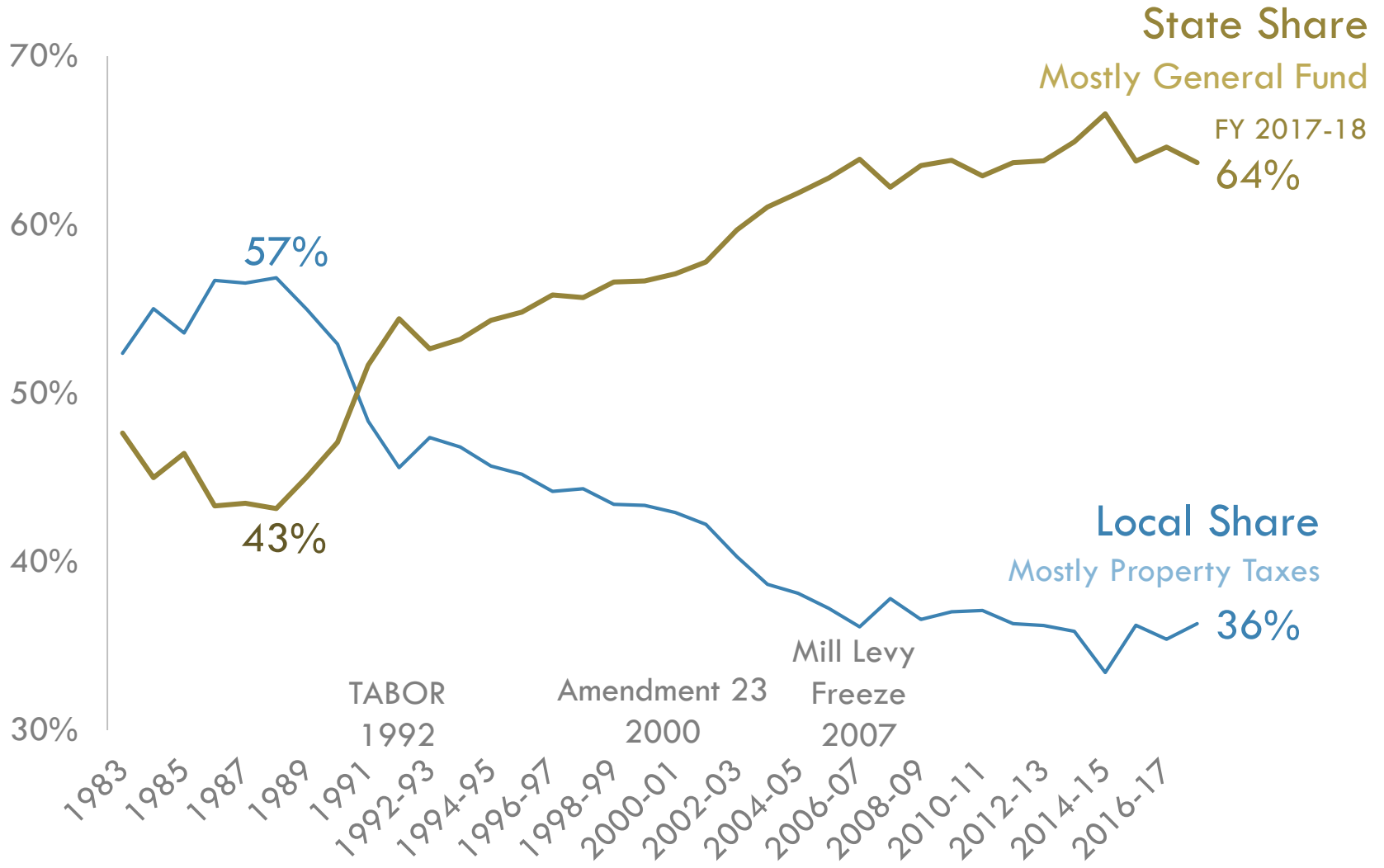
Totals may not sum due to rounding. Source: Joint Budget Committee and March 2018 Legislative Council Staff Forecast.

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

<http://betterco.org>

How does this affect the legislative process?

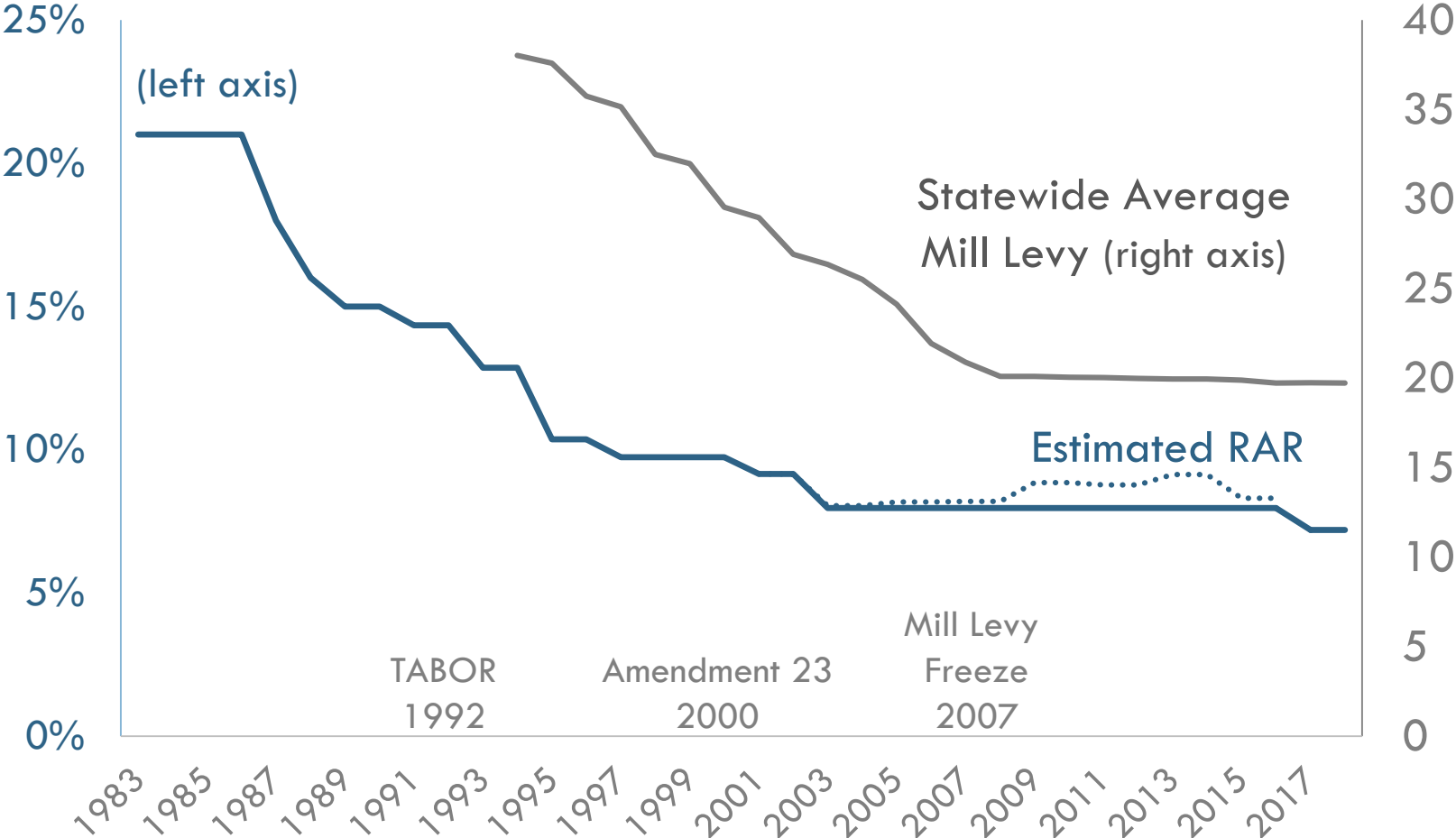
State and Local Shares of School Finance



Note: Prior to 1993, K-12 funding was allocated on a calendar year basis. <http://betterco.org>

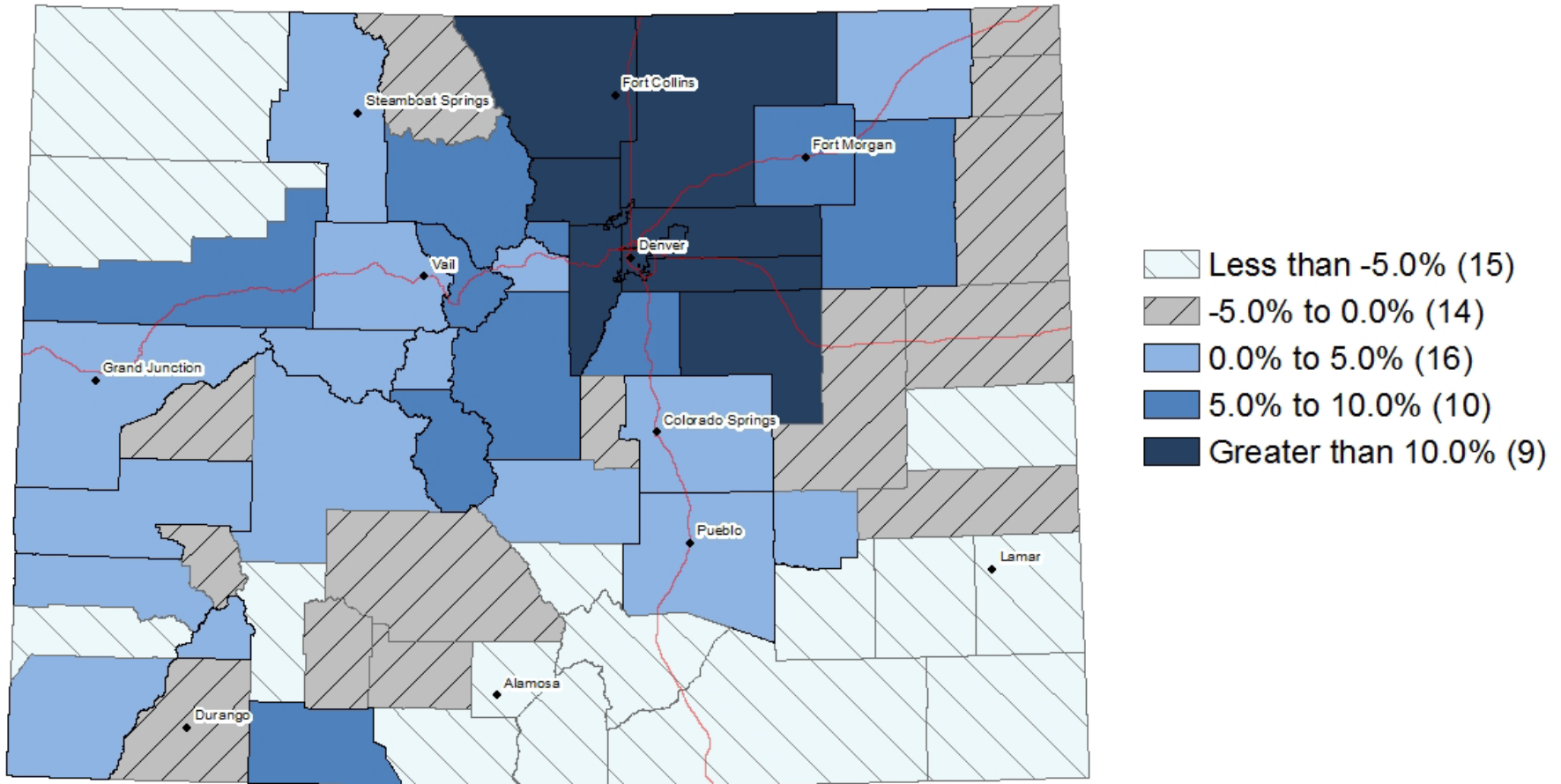
The residential assessment rate and mill levies have declined over time, pushing down the local share of school finance funding.

Residential Assessment Rate



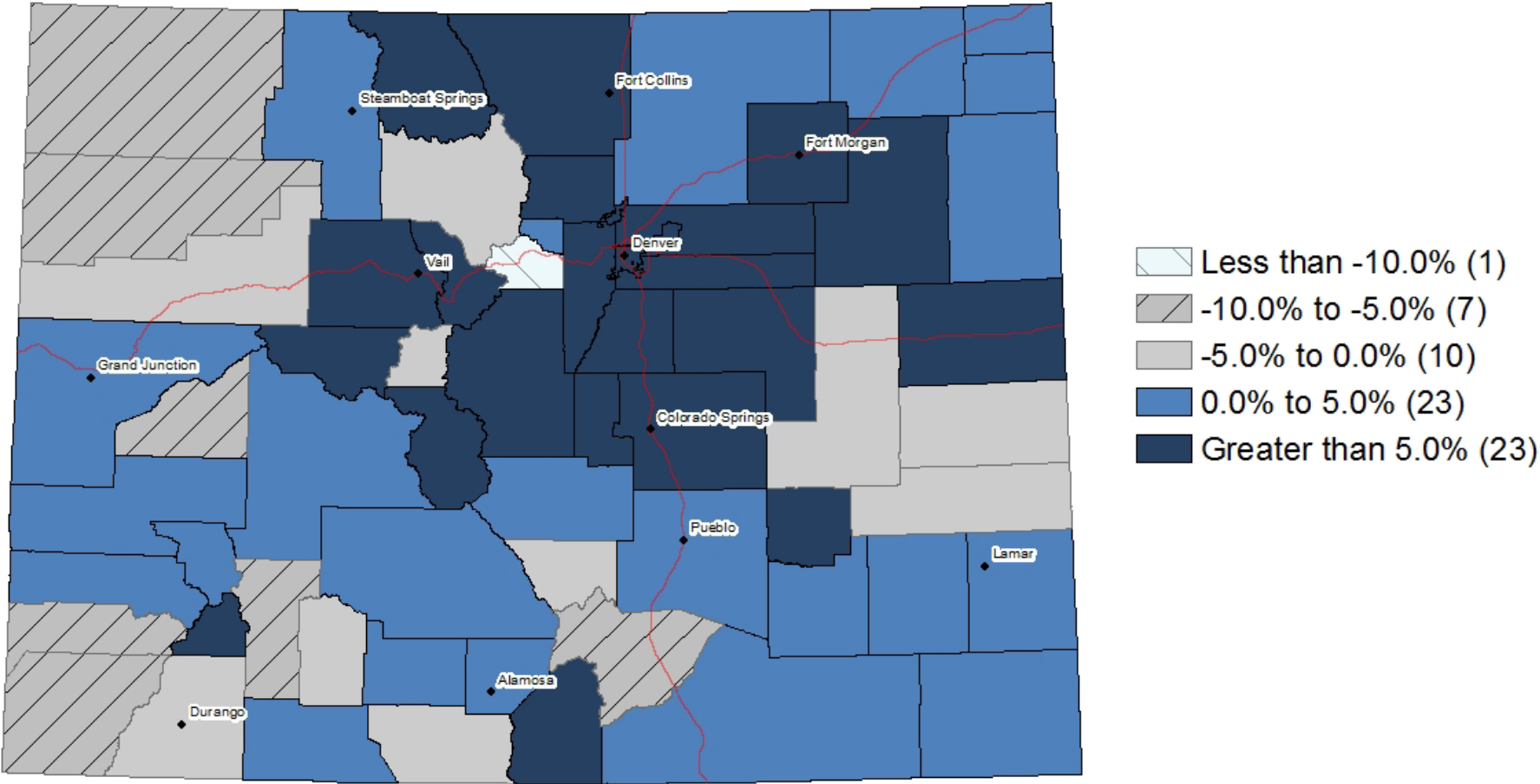
Source: Colorado Department of Local Affairs, Division of Property Taxation. <http://betterco.org>

Change in Residential Assessed Values by County 2016 to 2017



Change in Total Assessed Values by County

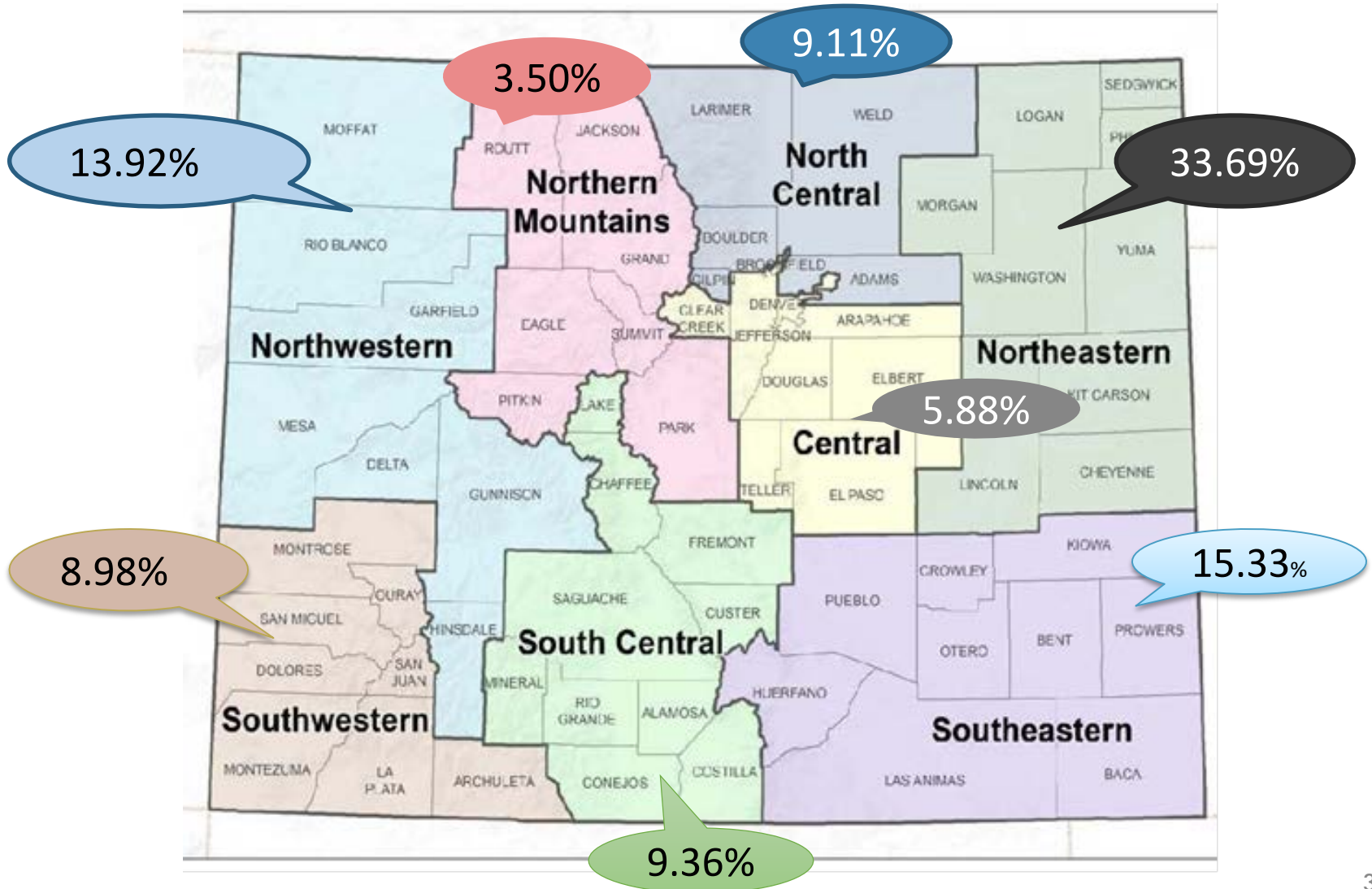
2016 to 2017



Alternatives to the Gallagher Amendment Interim Study Committee – Bill Requests

- Repeal the Gallagher Amendment
- Property tax classification of short-term rental units
- Property tax residential assessment rate for 2019 and 2020
- Concerning the establishment of regional residential assessment rates

Sample of Regional RAR rates



Bill Draft Requests cont.

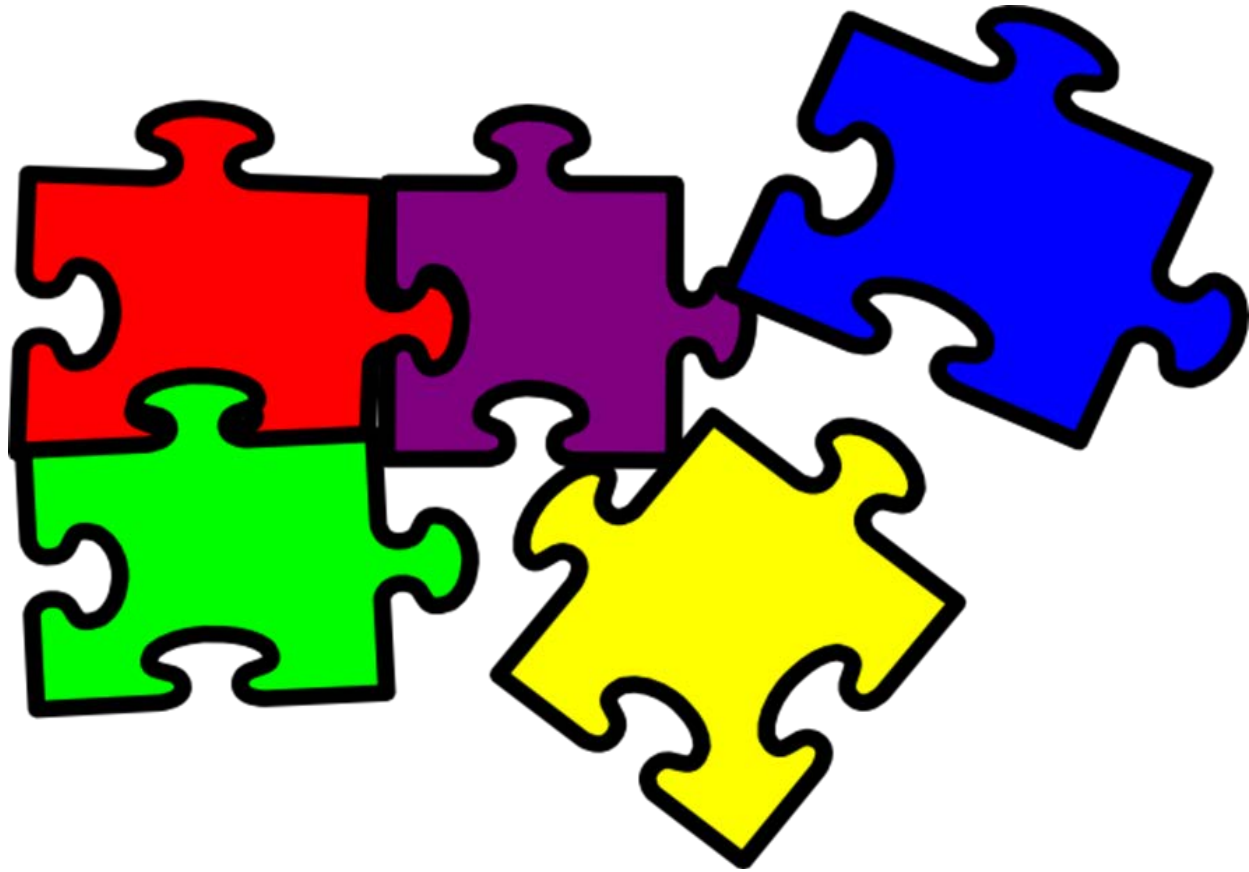
Backfill bills:

- Backfill property tax loss to fire protection districts
- Backfill property tax loss to library districts
- Backfill property tax loss to certain special districts

Final Meeting of Committee

- Wednesday, October 3 8:30 am | SCR 357
- Other Ideas?
 - Can still be shared with committee members, but no other legislation will come out of committee

No Easy Answers...



Questions?

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