Colorado State Demography Summit

November 2, 2018
WHO is BBCO?

“Building a Better Colorado” was created to provide Coloradans a safe place to engage in an honest conversation about how we can improve public policies for our state and, in so doing, create a brighter future for us all.

Check out BBCO and Join the Conversation!

www.betterco.org
The “Gallagher Amendment”

What is it?

What does it do?

Why does it matter?

What can we do?
What is property tax used for?

- Property taxes pay for local government services. 50% of property tax revenues were used to fund local K-12 school districts.

- Property tax revenues do NOT pay for any state services like highways, prisons, or higher education. Colorado hasn’t imposed a state level property tax since 1964.
How is my property tax calculated?

Property Tax Revenue = Assessed Property Value \times Assessment Rate \times Mill Levy

Assessed Property Value (The taxable value of property.)

Base Property Value (market value)

Assessment Rate

Mill Levy (The rate of taxation approved by local voters.)

1 Mil = $1 of tax for each $1,000 of a property’s “Assessed Value”

<table>
<thead>
<tr>
<th>Property Class</th>
<th>Assessment Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural</td>
<td>29.0</td>
</tr>
<tr>
<td>Commercial</td>
<td>29.0</td>
</tr>
<tr>
<td>Industrial</td>
<td>29.0</td>
</tr>
<tr>
<td>Residential</td>
<td>Fluctuates, currently 7.2%</td>
</tr>
<tr>
<td>State Assessed</td>
<td>29.0</td>
</tr>
<tr>
<td>Vacant Land</td>
<td>29.0</td>
</tr>
</tbody>
</table>
How is my property tax calculated?

Assessed Property Value
(The taxable value of property.)

Base Property Value: $500k
Assessment Rate: 7.2%

Mill Levy: 60 mils

1 Mil = $1 of tax for each $1,000 of a property’s “Assessed Value”

\[ \text{Annual Property Tax Revenue} = \text{Mill Levy} \times \text{Assessed Property Value} \]

\[ \text{Assessed Property Value} = \text{Base Property Value} \times \text{Assessment Rate} \]

\[ \text{Mill Levy} = 60 \text{ mils} \]

\[ \text{Assessed Property Value} = \$500k \times 7.2\% = \$36,000 \]

\[ \text{Annual Property Tax Revenue} = 60 \text{ mils} \times \$36,000 = \$2,160 \]
The Gallagher Amendment was part of a package of property tax changes in our state constitution which the Colorado legislature referred to voters as Amendment #1 on the 1982 ballot.

Colorado voters later adopted this proposal with 65.5% support.
What prompted Amendment 1?

Amendment 1 was the culmination of a property tax revolt that began in Colorado in the late 1970’s.

- There was growing frustration among Colorado voters about the increasing property tax which they were paying as their property values grew.

- There was no statewide oversite to ensure that each county assessed property values in a consistent manner.
What did Amendment 1 do?

1. Reduced the Assessment Rate on all classes of property.

2. Created a statewide audit to ensure consistent property assessment across counties.

3. Simplified the assessors’ methodology for determining property value.

4. Exempted certain smaller classes of property from taxation (i.e. residential personal property, ag equipment).

5. The “Gallagher Amendment” froze the ratio of the state’s Commercial Value and Residential Value.
Gallagher: What does it do?

The Gallagher Amendment froze the ratio of the total value of Non-Residential and Residential property to 1982 levels, so that Residential property in Colorado would always constitute approximately 45% of the total property valuation.
Gallagher: Why does it matter?

1. Gallagher is forcing down the Assessed Value of houses and this erosion of the Residential property tax base is jeopardizing local funding for essential community services like schools and fire protection.
Colorado’s robust population growth has resulted in the state’s total Residential property value significantly outpacing the growth of the state’s total Non-residential property value.
Residential Property currently makes up about 80% of total property values in Colorado.

BUT... Gallagher limits Residential property value to represent only 45% of total property value.

- 2018: Residential = 80%
- 1982: Residential = 45%
If the Total Value of all Residential Property MUST STAY @ 45%,

<table>
<thead>
<tr>
<th>Assessed Property Value</th>
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</tr>
</thead>
<tbody>
<tr>
<td>(The taxable value of property.)</td>
<td>45%</td>
</tr>
</tbody>
</table>

And Residential Property values are growing FASTER than Non-Residential values,

Then you HAVE to lower the Assessment Rate for Residential Property.
When the growth in value of Residential property in the state outpaces the growth in the value of Non-Residential property, the only way to maintain Gallagher’s forced “45:55” ratio is to reduce the Residential Assessment Rate.
EXAMPLE:
The property tax collected on a $300,000 house in a local taxing district that collects 60 mills (mill rate of 60/1000 = .06) would be:

\[
\text{Market Value of house} \times \text{Assessment Rate} \times \text{Mill Levy rate (60 mills)} = \text{Annual Property Tax collected}
\]

1981:
- Market Value of house: $300,000
- Assessment Rate: 30%
- Mill Levy rate: .06
- Annual Property Tax collected: $5,400

2018:
- Market Value of house: $300,000
- Assessment Rate: 7.2%
- Mill Levy rate: .06
- Annual Property Tax collected: $1,296

(a reduction of over $4,000 in property tax revenue annually)
Gallagher: Why does it matter?

2. The forced decline in the Residential Assessment Rate disproportionately and adversely impacts the poorest communities with the lowest rates of growth in Residential property values.
Rising Property Values in Some Communities Can Help Offset Declining Residential Property Tax Revenues

If the Residential Assessment Rate DECLINES by 10%...

... But property values INCREASE by 8%...

The result is a NET 2% DECREASE in taxable property value.
...But Communities with Slower Growth Realize a More Severe Reduction in Property Values

If the Residential Assessment Rate DECLINES by 10%...

... And property values DECREASE by 5%...

The result is a NET 15% DECREASE in taxable property value.
... And the state’s poorest communities are typically located in rural areas which have the slowest growth in Residential market values.
3. Efforts by local taxing authorities to increase their mill levy to offset the erosion of their Residential tax base decline, shifts the property tax burden to Commercial/Business property owners which creates an unfriendly tax environment for growing and attracting businesses.
Commercial and Industrial properties bear over 4X the property tax burden of Residential property owners on property with the same market value.

Property Tax on $1 Million Property at 100 Mills

- Commercial or Industrial: $30,000
- Residential: $7,500
Gallagher: Why does it matter?

4. The Taxpayers Bill of Rights (TABOR) further complicates the property tax challenge created by the Gallagher Amendment.
TABOR Challenge #1:
Ratcheting down of the Residential Assessment Rate

GALLAGER says...
the Residential Assessment Rate has to AUTOMATICALLY DECLINE when the value of residential property rises faster than non-residential property.

TABOR says...
the Residential Assessment Rate CAN’T INCREASE without a vote of the people.
Prior to TABOR, local Mill Levies used to be able to float up and down to maintain consistent funding for the services which voters have approved.

**When Property Values ROSE**...
...Taxing jurisdictions could choose to LOWER their Mill Levy.

**When Property Values DECLINED**...
...Taxing jurisdictions could RAISE their Mill Levy.

TABOR REQUIRES Mill Levies to DECREASE when property values rise.

TABOR PROHIBITS Mill Levies from INCREASING without a vote of the people when property values decline.
5. The declining ability of local school districts to adequately fund K-12 education has shifted the K-12 funding burden from local school districts to the State.
Gallagher’s forced shift in K-12 funding from Local to State government has forced a reduction in funding for other state priorities like Higher Education.
Gallagher: What can we do?

Because the Gallagher Amendment is an amendment to our state’s constitution, and since ONLY the voters can amend our constitution, it will be up to Colorado voters – NOT their elected legislature – to change the Gallagher Amendment IF they desire a different outcome.