

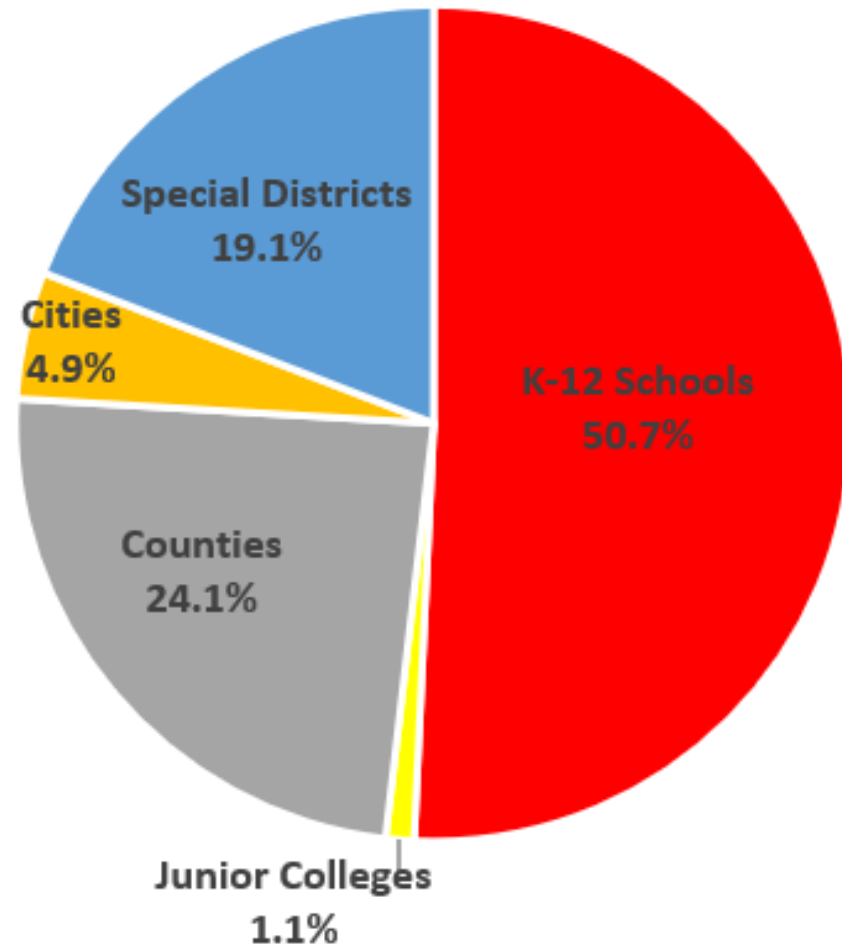


Building a Better
Colorado

What is the “Gallagher Amendment” and How will it impact Coloradans in 2021?

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
(The taxable value of property.)

**Base Property
Value**
(market value)

X

**Assessment
Rate**

X

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

Property Class	Assessment Rate
Agricultural	29.0
Commercial	29.0
Industrial	29.0
Residential	Fluctuates, currently 7.2%
State Assessed	29.0
Vacant Land	29.0

(1 Mil = \$1 of tax
for each \$1,000 of
a property's
"Assessed Value")

How is my property tax calculated?

\$2,160
Annual Property Tax Revenue

=

Assessed Property Value
(The taxable value of property.)

Base Property Value

\$500k

X

Assessment Rate

7.2%

X

Mill Levy

60 mils

Prop

Agri

Com

Indu

Resi

Stat

Vaca

=

\$36,000

Assessed Value

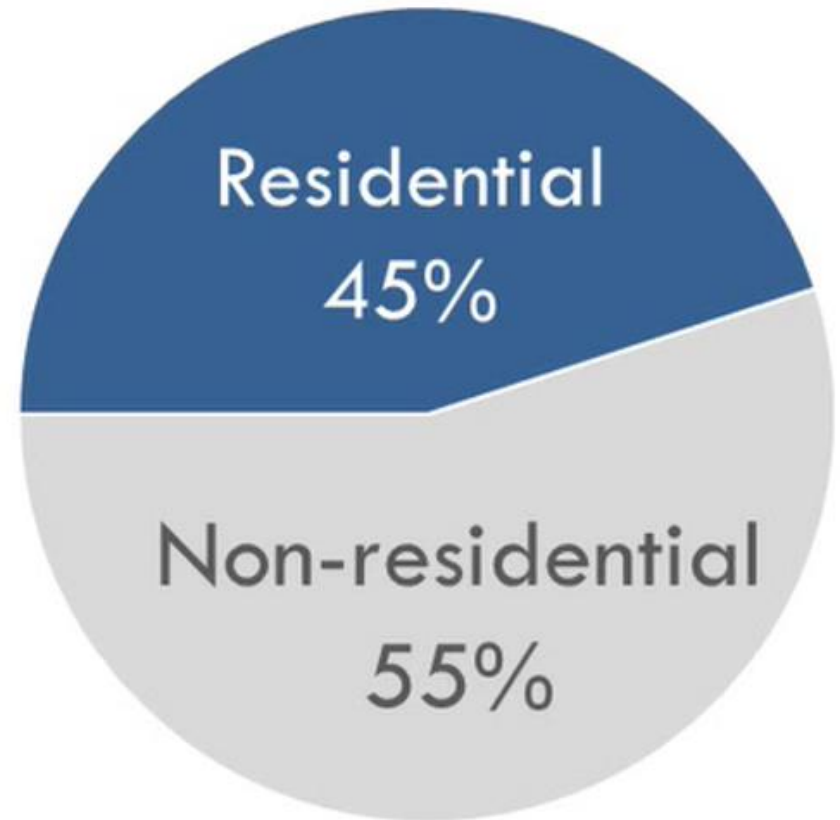
.2%

(1 Mil = \$1 of tax for each \$1,000 of a property's "Assessed Value")



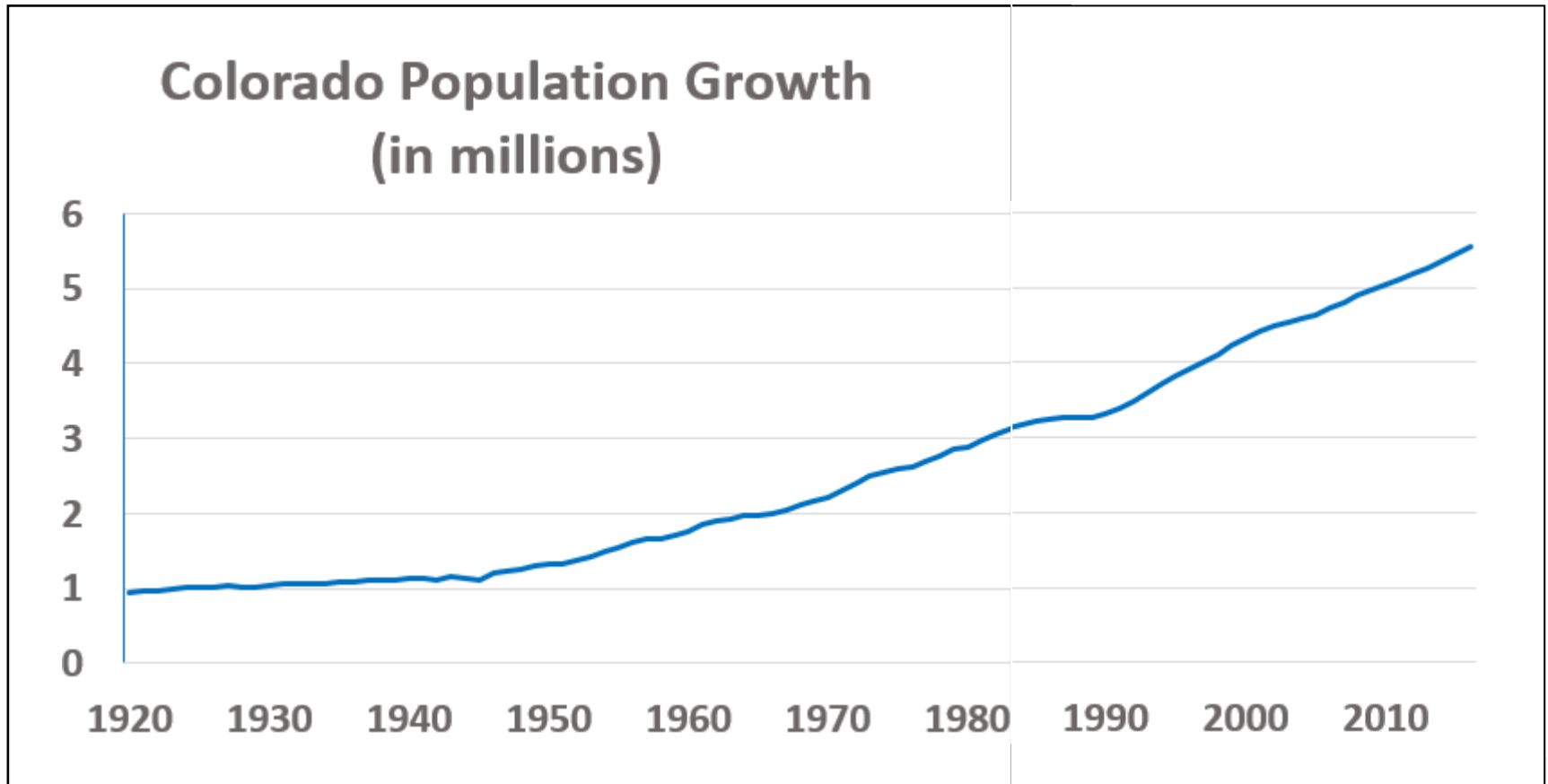
Gallagher: What does it do?

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.

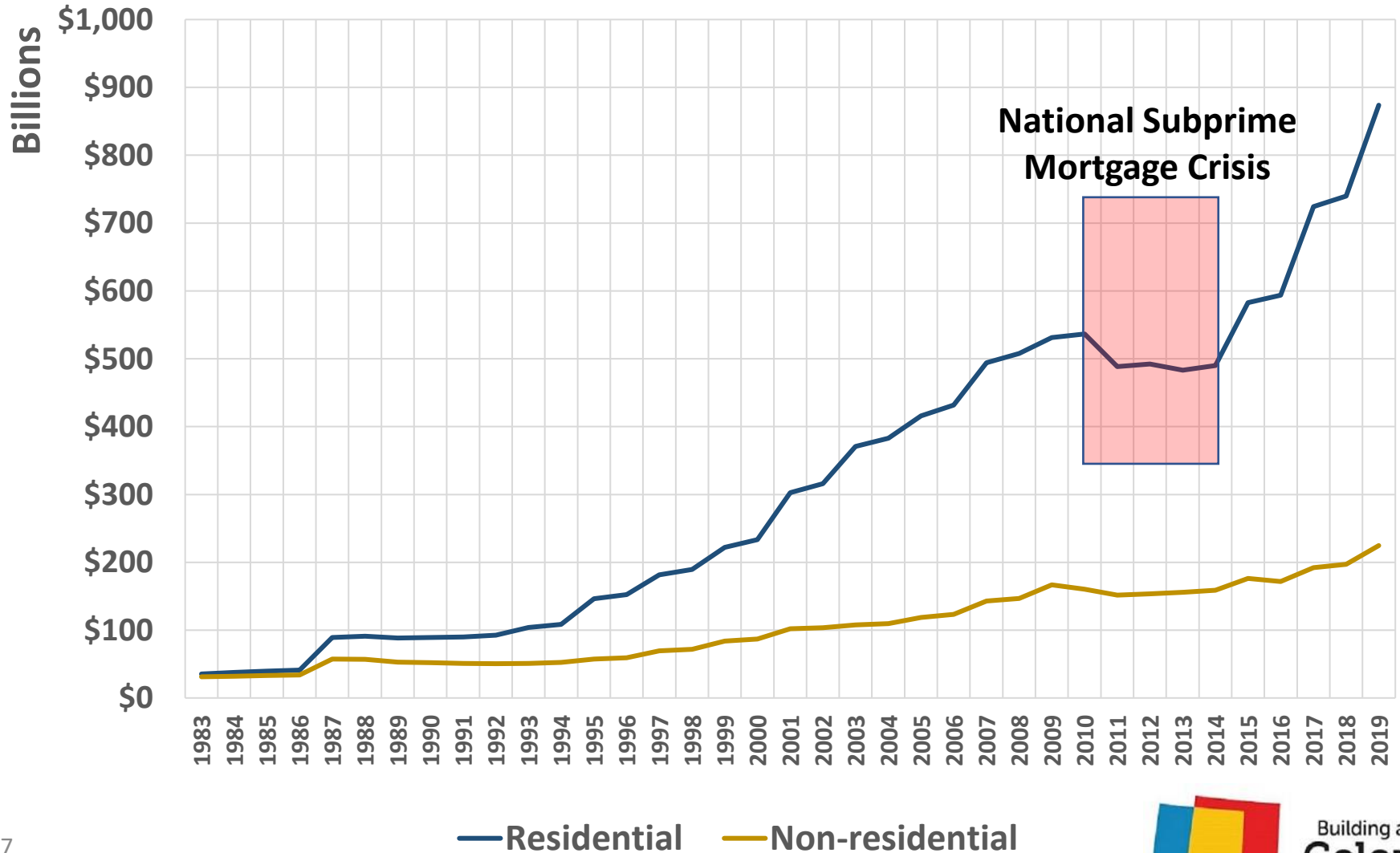


What prompted the Gallagher Amendment?

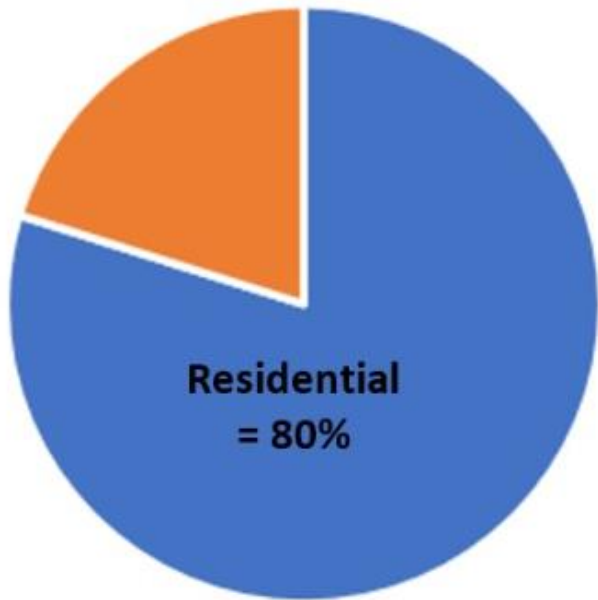
Gallagher was the culmination of a property tax revolt that began in Colorado in the late 1970's as a result of Colorado's robust population growth.



Actual Residential & Non-residential Values Statewide

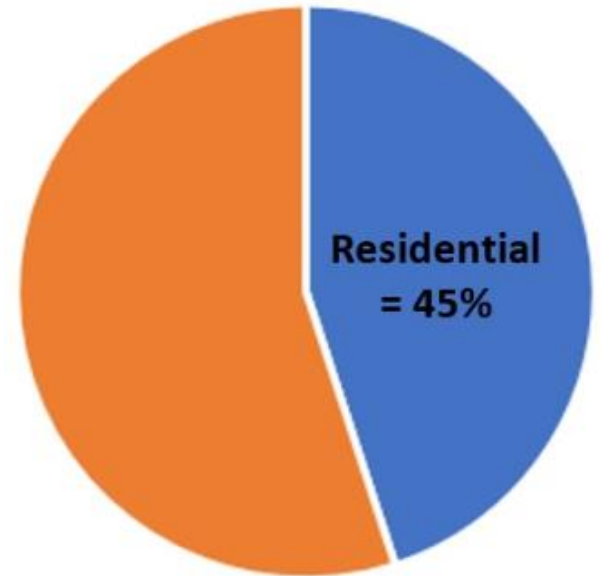


Residential Property currently makes up about 80% of total property values in Colorado.



2018

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



1982



■ Residential ■ NON-Residential



Building a Better
Colorado

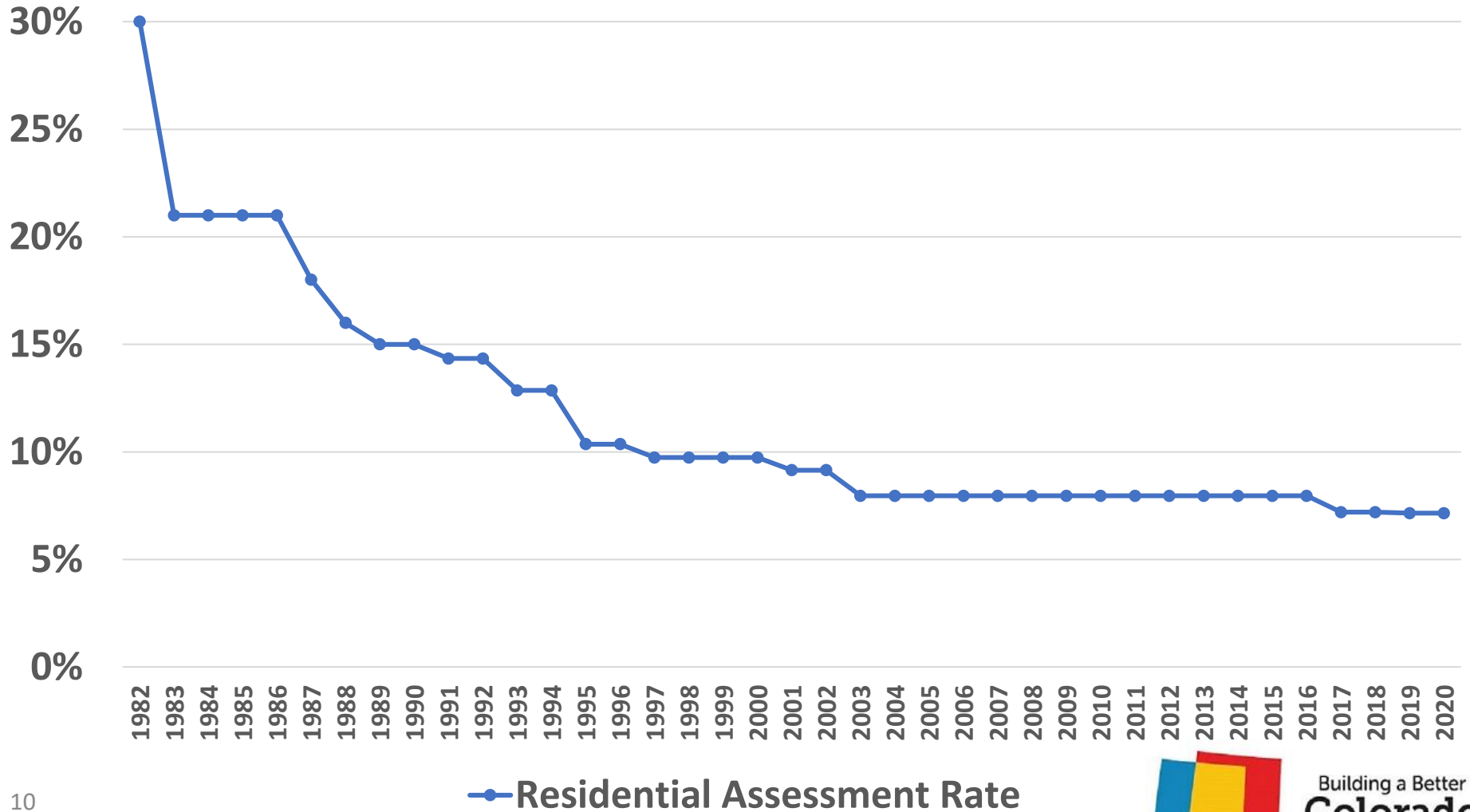
If Gallagher requires that the total value of all Residential property **MUST STAY** at 45%...

$$\begin{array}{c} \text{Assessed Property Value} \\ \text{(The taxable value of property.)} \\ \hline \begin{array}{c} \text{Base Property Value} \\ \text{(market value)} \end{array} \times \begin{array}{c} \text{Assessment Rate} \end{array} \end{array} = 45\%$$

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

Then the only way to maintain the 45% ratio is 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.



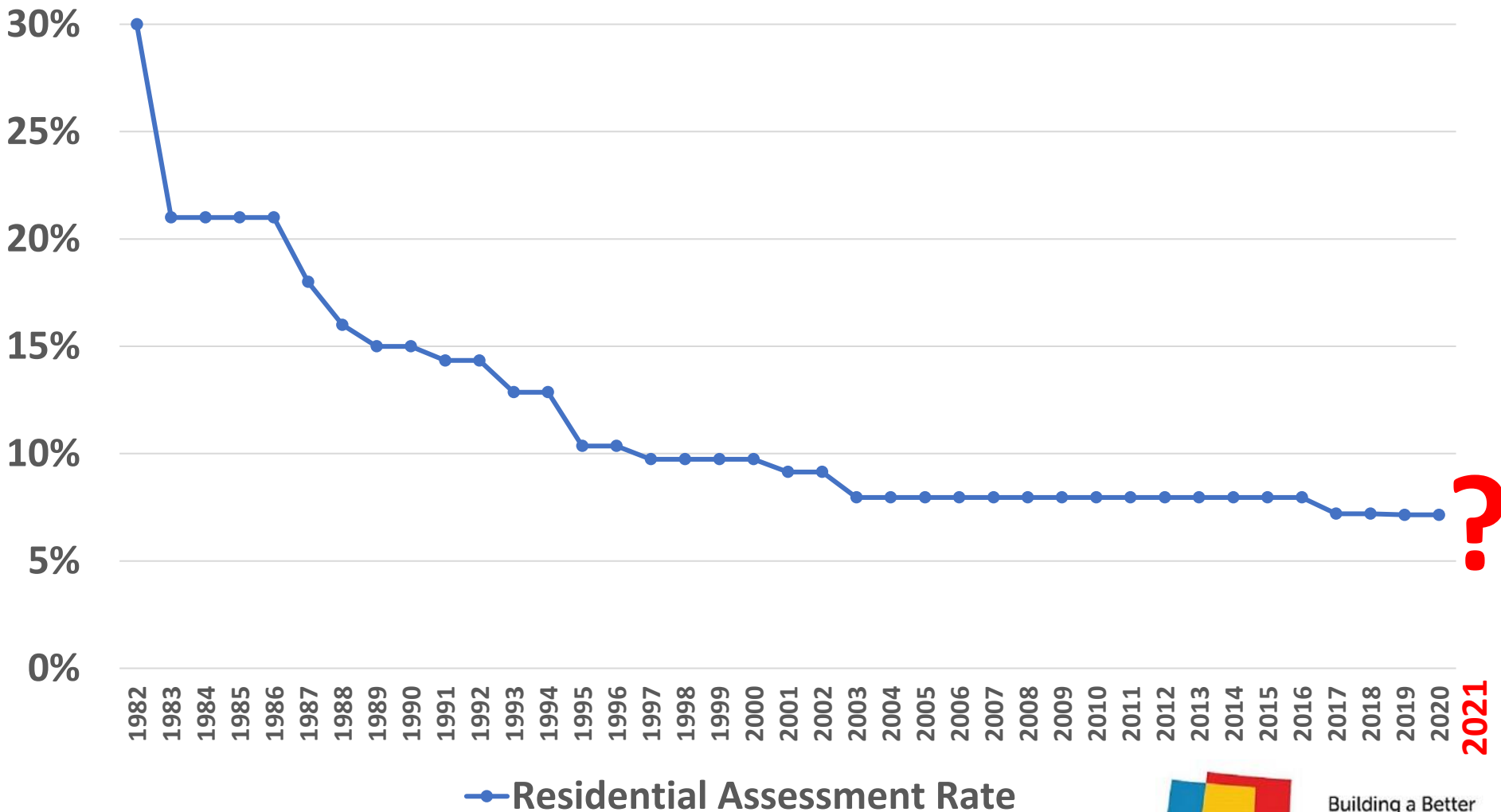
EXAMPLE:

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:

	<u>1981</u>	<u>2018</u>
Market Value of house	\$300,000	\$300,000
X Assessment Rate	30%	7.2%
X Mill Levy rate (60 mills)	<u>.06</u>	<u>.06</u>
= Annual Property Tax collected	\$5,400	\$1,296

(a reduction of over \$4,000 in property tax revenue annually)

How will Gallagher impact the NEXT Residential property tax assessment rate calculation in 2021?



—● Residential Assessment Rate

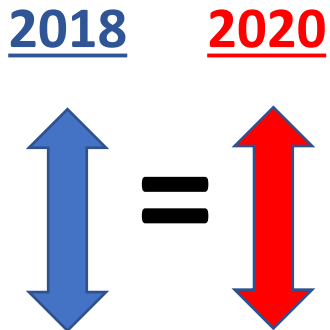


Factors to Consider:

1. Change in total market value of RESIDENTIAL property
2. Change in total market value of NON-Residential property

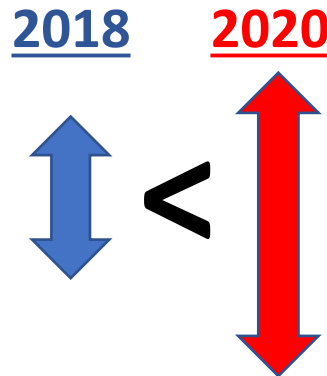
If the market value of Residential property relative to Non-residential property....

DOESN'T CHANGE...



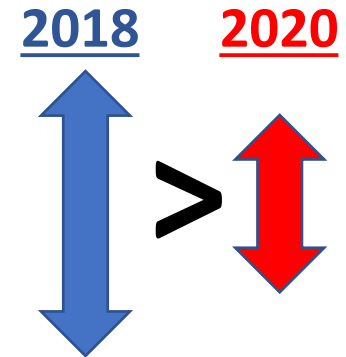
Then Gallagher **WON'T CHANGE** the Residential Assessment Rate.

INCREASES...



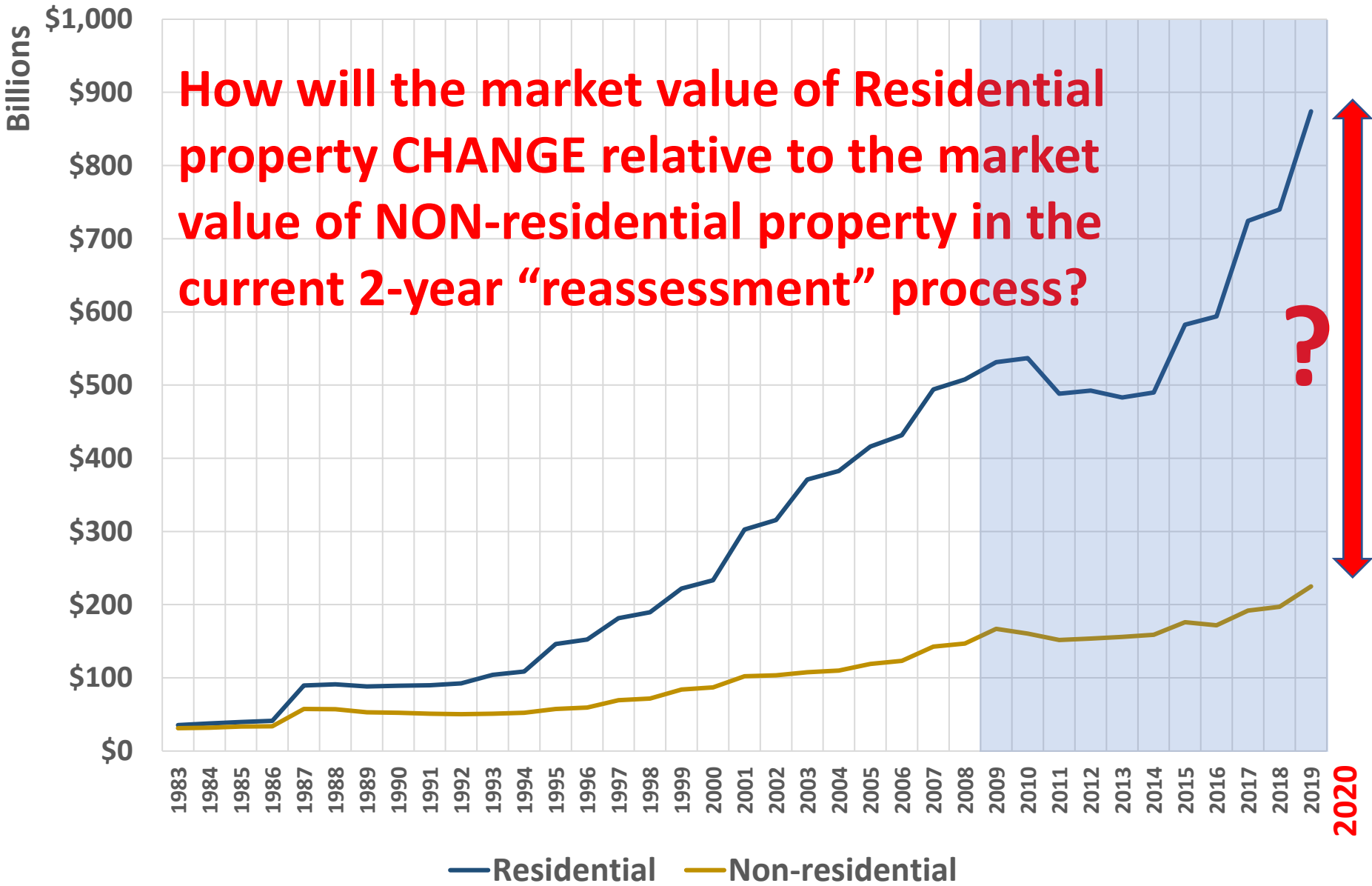
Then Gallagher **WILL REDUCE** the Residential Assessment Rate.

DECREASES...

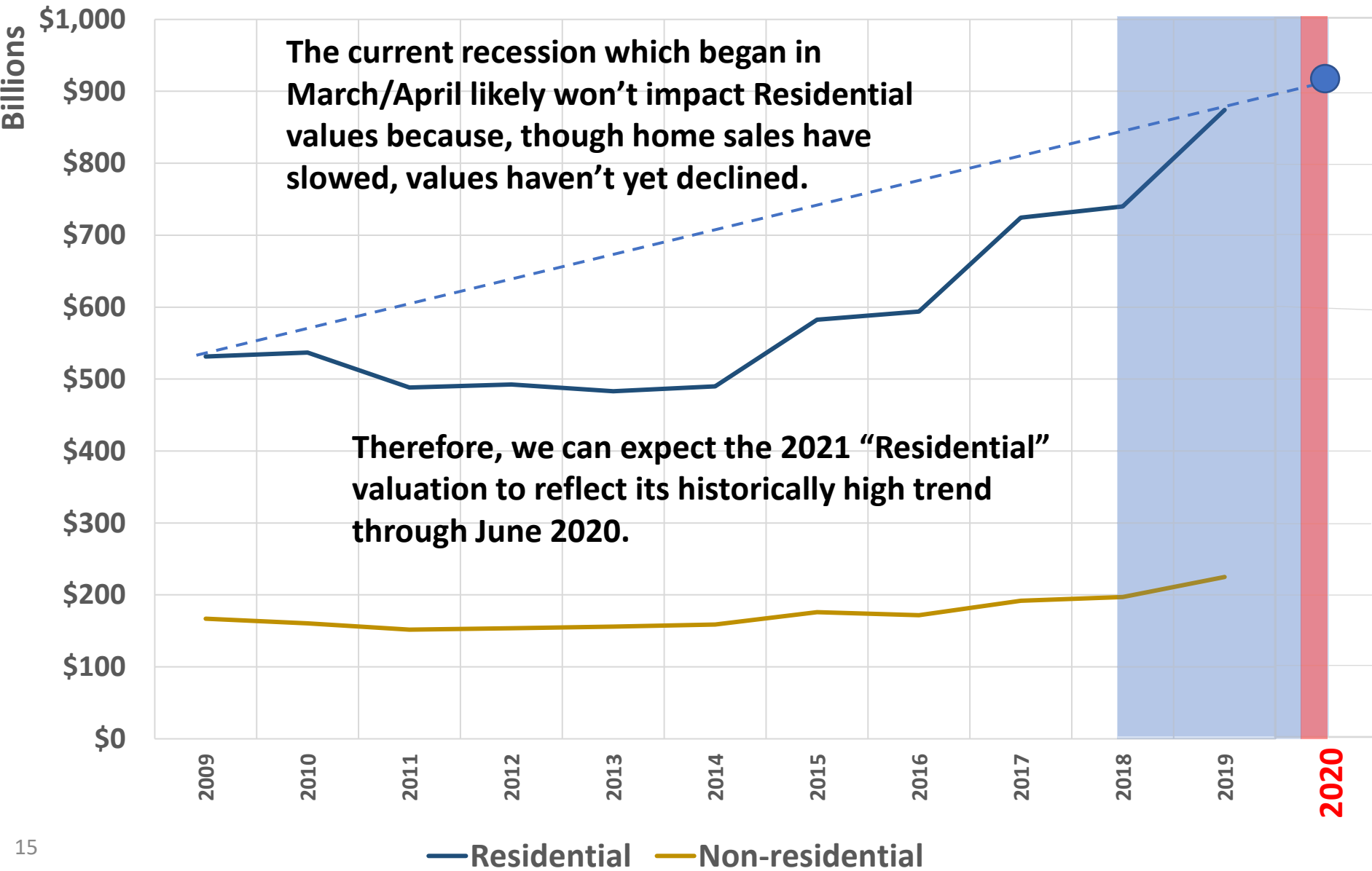


Then Gallagher **SHOULD** increase the Residential Assessment Rate, but **CAN'T** because of TABOR.

Statewide Value of Residential vs. NON-residential Property (1983-2018)



The 2021 RAR will be based on the value of **RESIDENTIAL** property during the 2-year period from July 2018 thru June 2020.



The 2021 RAR will be based on the value of **NON-Residential** property during TWO different timeframes, which will be affected differently by the current recession.

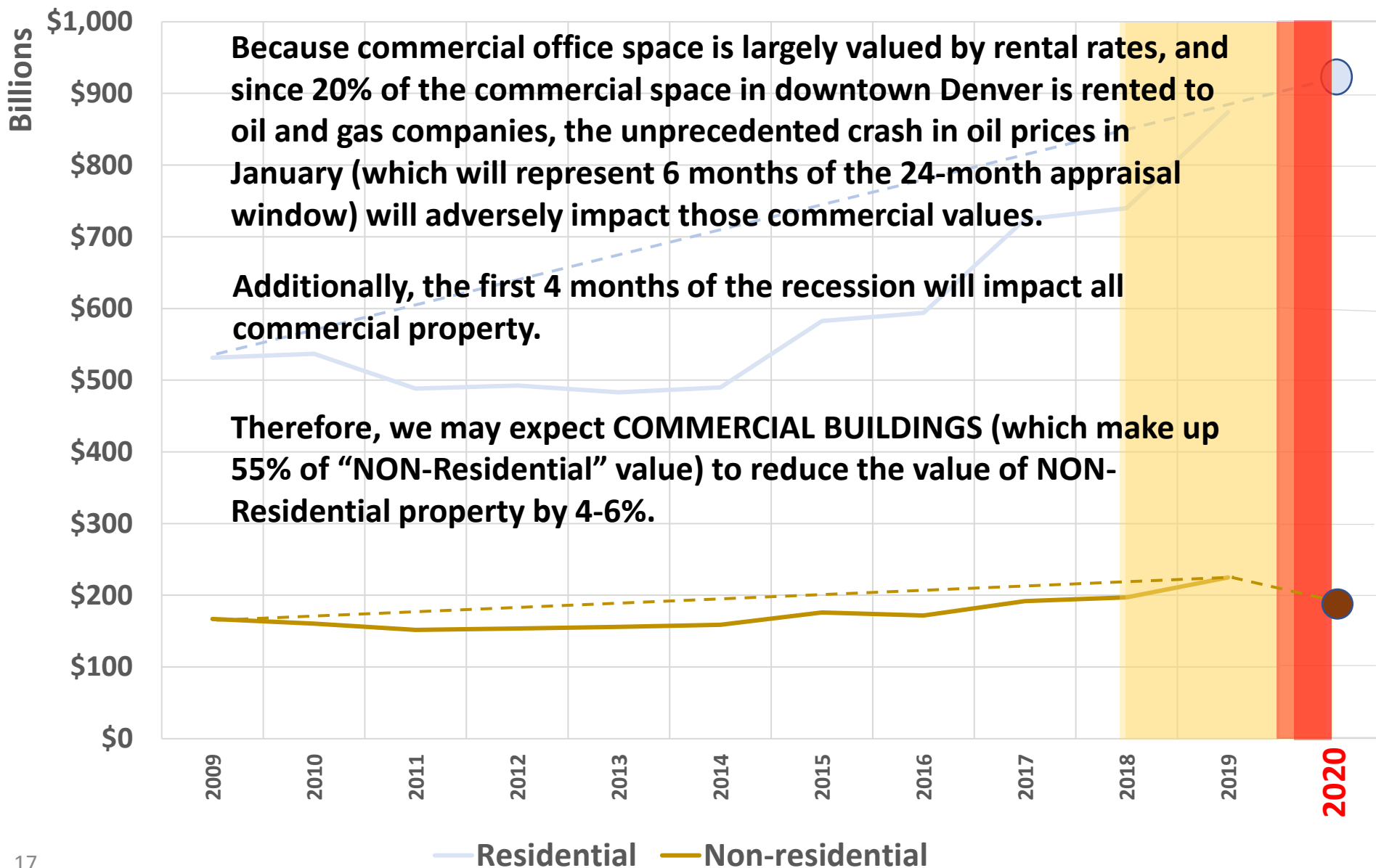
- **COMMERCIAL BUILDINGS**

- Makes up 55% of “NON-Residential” property value.
- Will be valued on the same 2-year timeframe as Residential property.

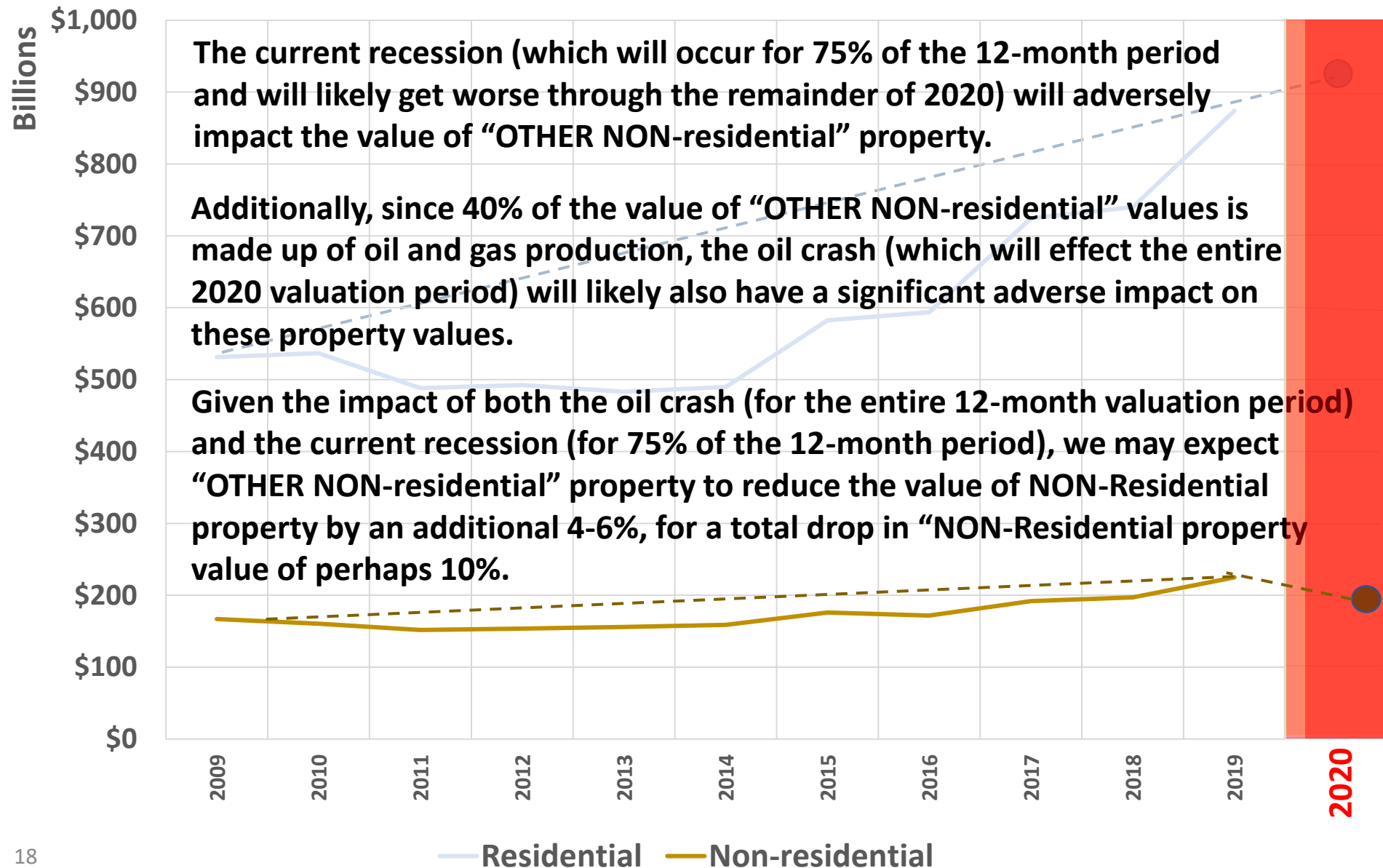
- **OTHER NON-residential property**

- Makes up 45% of “NON-Residential” property value.
- Will be valued on the 12-MONTH period of 2020.
- “Oil & Gas” constitutes almost 40% of OTHER NON-Residential property value.

The 2021 RAR will be based on the value of **COMMERCIAL BUILDINGS** during the 2-year period from July 2018 thru June 2020.



The 2021 RAR will be based on the value of **OTHER NON-residential** property for the 12 MONTHS of 2020.

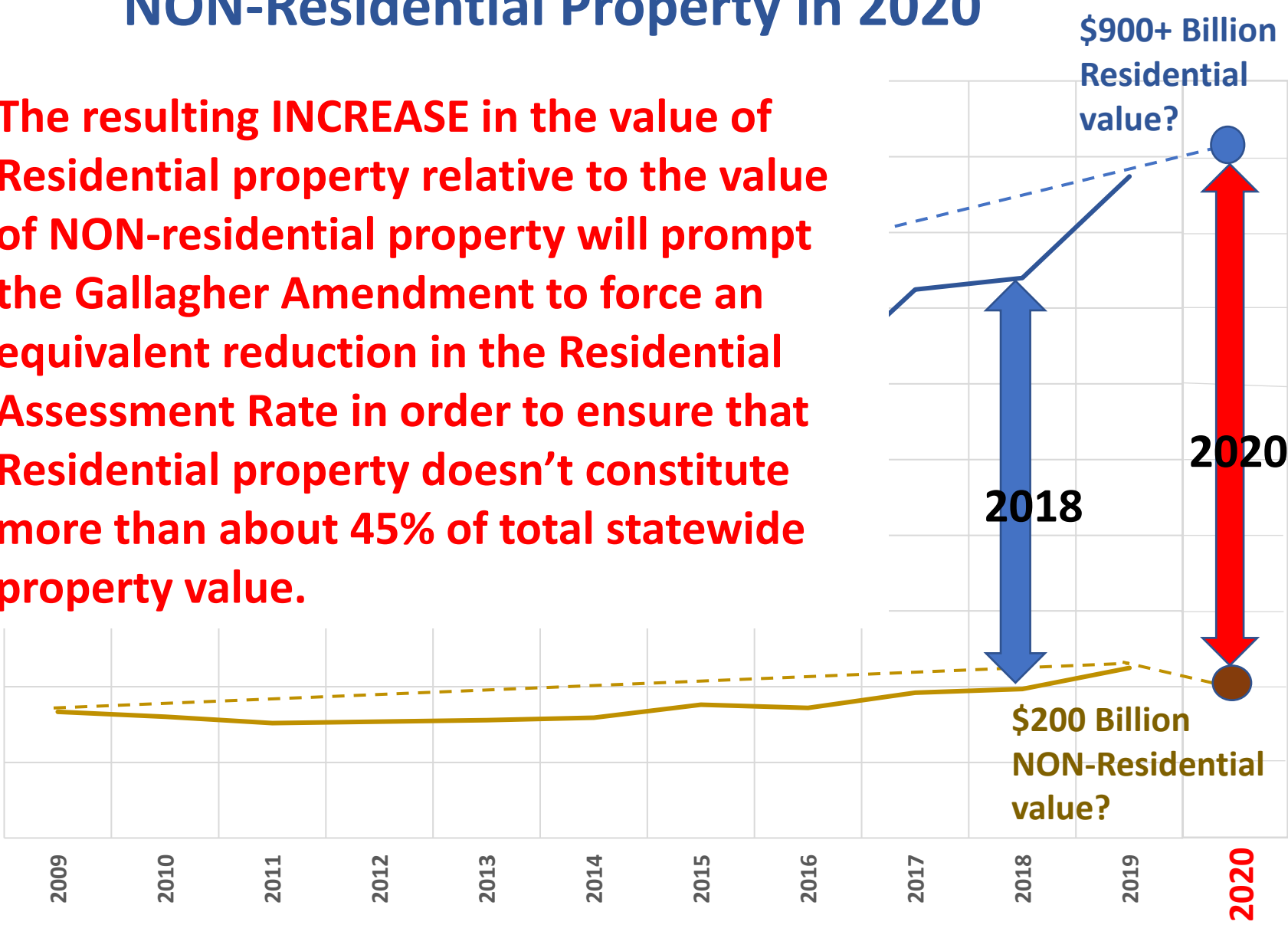


Projected Value of RESIDENTIAL and NON-Residential Property in 2020

Billions

The resulting INCREASE in the value of Residential property relative to the value of NON-residential property will prompt the Gallagher Amendment to force an equivalent reduction in the Residential Assessment Rate in order to ensure that Residential property doesn't constitute more than about 45% of total statewide property value.

\$1,000
\$900
\$800
\$700
\$600
\$500
\$400
\$300
\$200
\$100
\$0



— Residential — Non-residential

How much will Gallagher force the Residential Assessment Rate to go down in 2021?

(all values below shown in Millions of dollars)

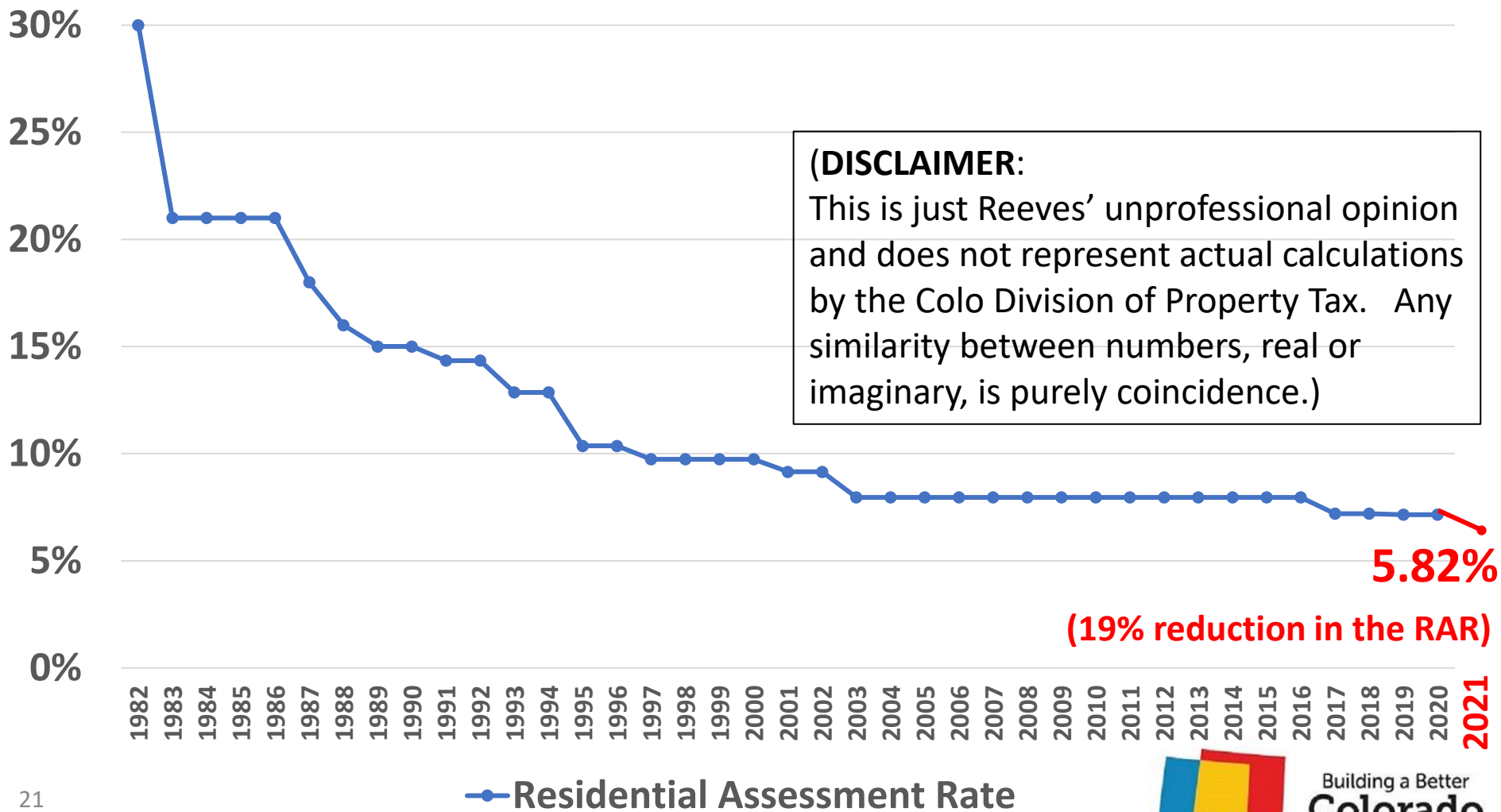
Year	NON-residential		RESIDENTIAL		
	ACTUAL Value (market)	ASSESSED Value (32%)	ACTUAL Value (market)	ASSESSED Value (Gallagher formula)	Assessment Rate required by Gallagher
2019	224,856	73,086	873,923	62,486	7.15%
2020	200,000 (est)	64,000	900,000 (est)	52,364	5.82%

(45% of total statewide property value)

(19% reduction in the RAR)

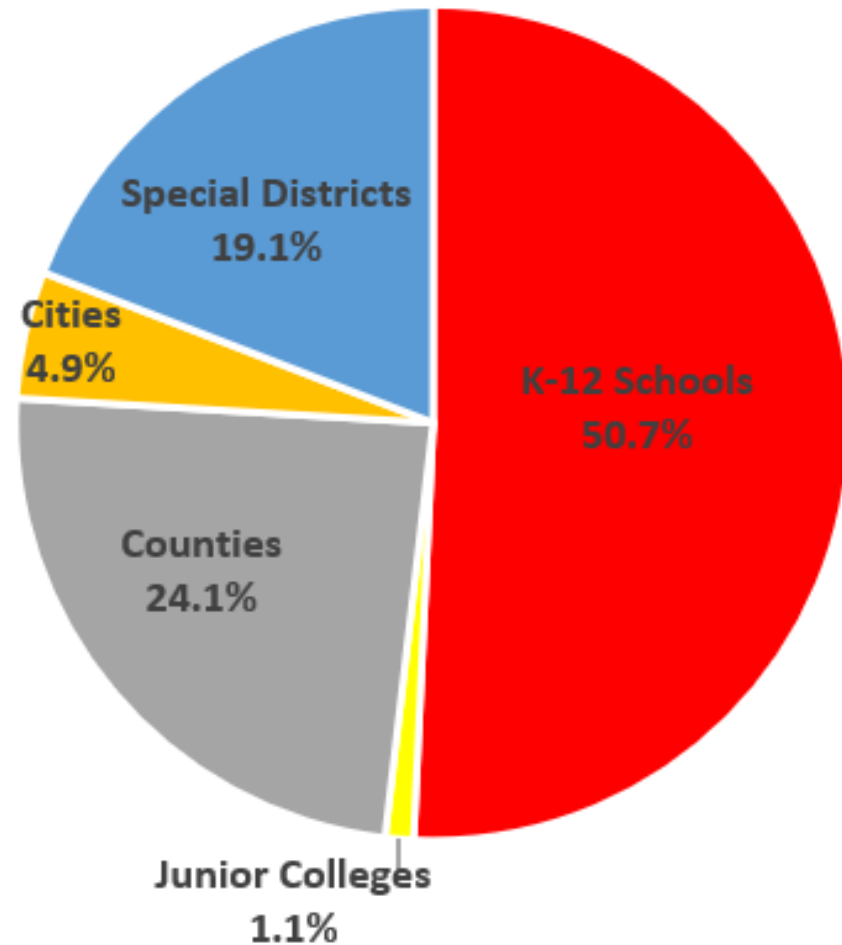
Because the value of Residential property will increase in 2020 relative to the value of NON-residential property, Gallagher will force the Residential Assessment Rate to be reduced in order to maintain the constitutional requirement that Residential property only constitutes about 45% of total statewide property value.

So, the answer to our initial question: *“How will Gallagher impact the NEXT Residential property tax assessment rate calculation in 2021?”*



And how does a potential 19% drop in the Residential Assessment Rate affect YOU?

...It depends on what county you live in, and how much your county's tax base relies on Residential properties (rather than NON-residential properties) to pay for local services.



A potential 19% drop in the RAR would affect different counties in different ways...

COUNTY	% of Total Property Tax Base made up of Residential Property	Impact of 19% drop in Residential Assessment Rate on Total County Budget
Adams	45%	9%
Bent	8%	2%
Chaffee	52%	10%
Eagle	67%	13%
Jefferson	60%	11%
La Plata	35%	7%
Mesa	45%	9%
Pitkin	69%	13%

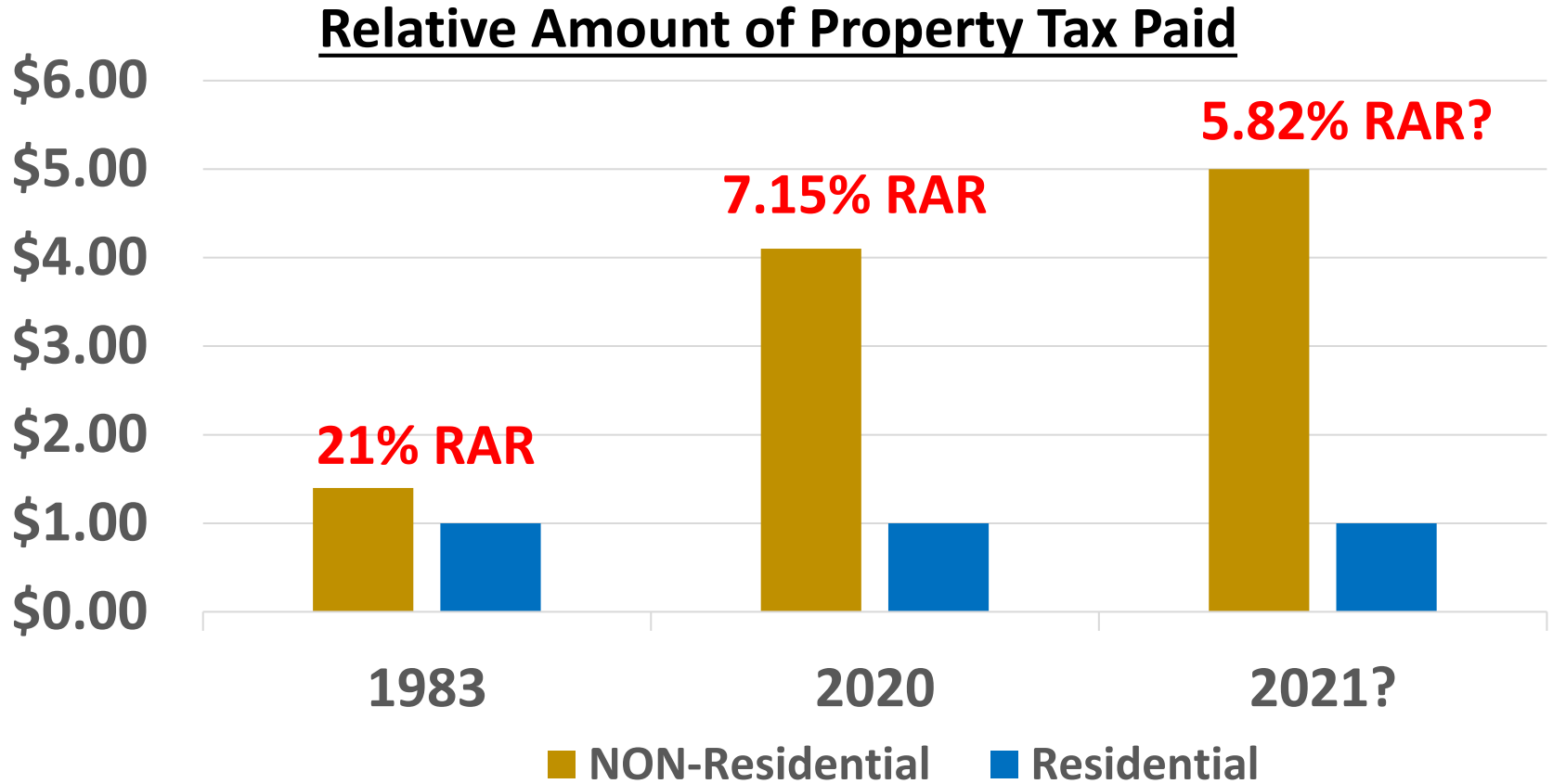
(These calculations assume that the average value of residential property in your county doesn't change. If the value of residential property in your county INCREASES, then the properties' HIGHER market value will help to offset the LOWER Residential Assessment Rate and thus mitigate the decline in total property tax revenues. Conversely, if the value of residential property in your county DECREASES, then the properties' LOWER market value compounds the reduction in total property tax revenues caused by the LOWER Residential Assessment Rate.)

This reduction in the Residential Assessment Rate is effectively a PERMANENT cut because TABOR requires a statewide vote to ever raise the RAR ...which will likely never happen.

Local governments, including Special Districts, will be faced with 3 options:

- 1. Permanently reduce services accordingly to balance their budget.**
- 2. Request local voters to raise the local mill levy enough to offset the reduction in the RAR.**
(While this would effectively be cost-neutral for homeowners, it would be a real tax increase for all other property owners, resulting in shifting more of the property tax burden to business owners.)
- 3. Hope that residential property values in their county rise faster than the continued reduction in the Assessment Rate by which each property is taxed.**

Every time we vote to raise our local mill levy to offset Gallagher's erosion of the Residential Assessment Rate, we increasingly shift the tax burden to the Business community.



(NOTE: This shift to business property owners occurs AUTOMATICALLY for any taxing jurisdictions which have tried to counter Gallagher's erosion of the RAR by allowing their local mill levy to "float" upward as it was allowed to do before the adoption of TABOR.)

LESSON LEARNED:

You can't get something for nothing.

(Who knew?)

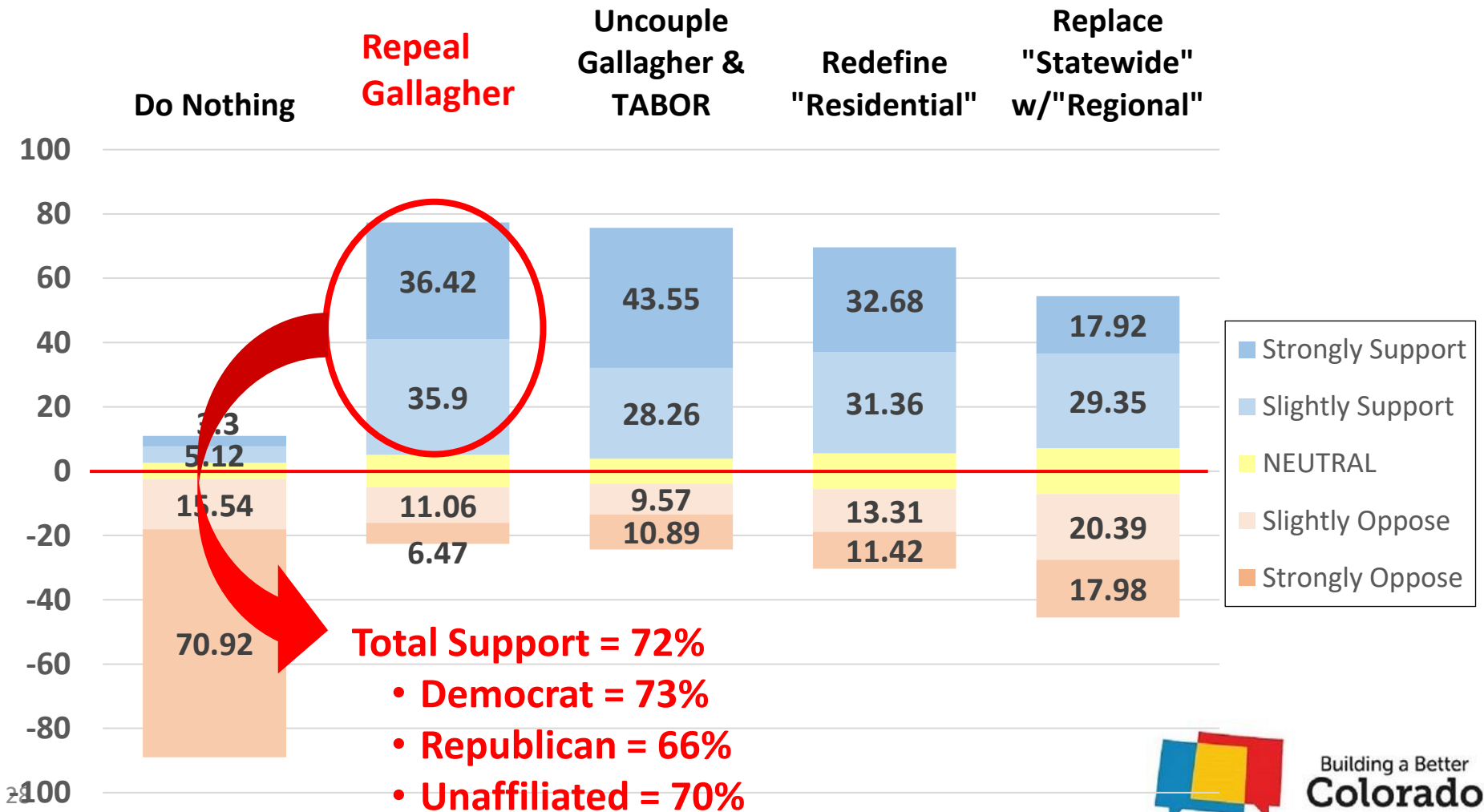
IF YOU...	WINNER	LOSER
Keep the Gallagher Amendment (which formulaically reduces the Residential Assessment Rate)	Homeowners (who pay less property tax)	Local service providers / Public (who have less tax revenue to support public svcs)
Pass a local mill levy increase to offset Gallagher's erosion of the RAR	Local service providers / Public (who receive more tax revenue to support public svcs)	Businesses (who pay more property tax and assume a larger share of the property tax burden)

Gallagher Amendment Conclusion

- **The Gallagher Amendment will continue to erode the Residential tax rate and corresponding tax base which funds local public services.**
- **Rural communities and residential metro communities will suffer the most loss of local revenues.**
- **Any efforts to raise local mill levies to offset Gallagher's erosion of the RAR will continue to shift the tax burden from homeowners to the business community.**
- **Because Gallagher is embedded into our state constitution, ONLY THE VOTERS can change this policy if they want to.**

“Building a Better Colorado” 2019 Statewide Consensus Opinion of Gallagher Options

- 37 communities across Colorado
- 1800 diverse community leaders



What does the proposed “Gallagher Repeal” ballot measure do?

1. Repeals the “Gallagher Amendment” from the constitution, thus stopping the continued formulaic erosion of the Residential assessment rate and freezing it at the current 7.15% .
2. Repeals the constitution’s reference to a “21%” Residential assessment rate which was the initial baseline rate established in 1982.
3. Repeals from the constitution the assessment rates for all OTHER classes of NON-residential property, thus leaving all property tax rates to be referenced only in STATUTE which would allow the legislature to potentially REDUCE any of those assessment rates in the future.

(NOTE: The measure does not raise or lower any tax assessment rate for any class of property.)





Building a Better
Colorado

For more information, visit BBCO online at

www.buildingabettercolorado.org

Reeves Brown, Project Manager

reeves@betterco.org

(5/2020)