



Legislative Council Staff

Nonpartisan Services for Colorado's Legislature

Memorandum

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TO: Interested Persons

FROM: Larson Silbaugh, Principal Economist, (303) 866-4720

SUBJECT: Impact of Final Residential Assessment Rate Study on Local Share

Summary

The final Residential Assessment Rate (RAR) Study released by the Division of Property Taxation (DPT) on April 10, 2019, estimates an RAR of 7.15 percent for property tax years 2019 and 2020. The General Assembly would have to pass a bill for this rate to become law. The anticipated assessed values associated with this study have a significant impact on the local share for school finance. Compared with the December 2018 Legislative Council Staff assessed value forecast, the local share for school finance (local share) with a residential assessment rate of 7.15 percent increases by \$107.6 million in FY 2019-20. The actual local share will depend on the accuracy of the forecast and the RAR set by the General Assembly.

Assessed Values Forecasts

Two projections are available for 2019 assessed values: one produced by Legislative Council Staff (LCS) and the other produced by the Division of Property Taxation within the Department of Local Affairs. Actual assessed values for school districts and other local districts will be certified to local taxing districts in August 2019.

Legislative Council Staff forecast. The December 2018 LCS assessed value forecast estimated the 2019 property tax base for school finance at \$128.8 billion, resulting in a local share of \$2.851 billion. The December 2018 forecast is based on the following assumptions:

- residential actual value growth of 16.3 percent between 2018 and 2019;
- a residential assessment rate of 6.78 percent in 2019; and
- nonresidential assessed value growth of 10.5 percent between 2018 and 2019.

These assumptions were derived based on observed economic trends across the state, and expectations for future economic activity. The December 2018 LCS assessed value forecast is the baseline forecast for the FY 2019-20 school finance model.

Division of Property Taxation final RAR study. The DPT released its final RAR study on April 10, 2019. Based on this report, the estimated 2019 property tax base for school finance is \$132.9

billion, \$4.1 billion higher than the baseline forecast. The DPT report is based on the following assumptions:

- residential actual value growth of 17.2 percent between 2018 and 2019;
- a residential assessment rate of 7.15 percent in 2019; and
- nonresidential assessed value growth of 17.7 percent between 2018 and 2019.

Residential actual values in the DPT report are based on data provided by county assessors after conducting the 2019 reassessment of residential property. Assessors will finalize values before mailing notices of valuation on May 1. Taxpayers may appeal their property values before they are certified to taxing districts in August.

Scenarios for School Finance

Based on the difference in the expected assessed values and using two residential assessment rates, the estimated local share is provided under three scenarios. The scenarios combine information from the LCS forecast and the DPT report to produce an adjusted forecast of school district assessed values consistent with recent values provided by county assessors. Table 1 compares the estimated local share between two different assessed value forecasts and the baseline.

Baseline LCS forecast. The baseline forecast is the December 2018 LCS assessed value forecast with an RAR of 6.78 percent. The Long Bill budget package utilized this forecast, as well as the fiscal analyses of school finance related bills.

Adjusted forecast with 7.15 percent RAR. The final report from DPT includes more recent information from county assessors for residential, commercial, industrial, agricultural, and vacant land classes of property. Based on the valuation information, DPT estimated a residential assessment rate of 7.15 percent. The General Assembly would have to pass a bill to set the rate at 7.15 percent in 2019. Adjusting the baseline forecast to reflect the property values in the DPT final report, the local share increases by an estimated \$107.6 million.

Adjusted forecast with 7.20 percent RAR. Unless changed by the General Assembly, the residential assessment rate will remain at 7.20 percent in 2019. Adjusting the baseline forecast to reflect the property values in the DPT final report and a residential assessment rate of 7.20 percent, increases the local share by \$116.4 million.

Table 1
Estimated Local Share for School Finance under Three Forecast Scenarios

	Estimated Local Share for School Finance	Difference from Baseline
Baseline (LCS) Forecast	\$2.851 billion	\$0
Adjusted Forecast with 7.15% RAR	\$2.958 billion	\$107.6 million
Adjusted Forecast with 7.20% RAR	\$2.967 billion	\$116.4 million

Sources: December 2018 LCS Assessed Value Forecast, Division of Property Taxation Final 2019 Residential Assessment Rate Study, and LCS calculations based on information from both estimates.

Senior and Disabled Veteran Property Tax Exemption Impacts

The March 2019 LCS forecast incorporated the assumption of a 6.78 percent RAR into the expectations for state expenditures for reimbursements to local governments for the senior homestead and disabled veteran property tax exemptions. The current law 7.20 percent RAR and DPT's estimated 7.15 percent RAR would require reimbursements that are \$8.7 million and \$7.7 million higher than published numbers in the LCS forecast, respectively.