

Amendment ? : Repeal the Gallagher Amendment

- 1 **Amendment ? proposes amending the Colorado Constitution to:**
- 2 • remove the requirement that the statewide property tax base be composed of a
- 3 constant ratio of about 45 percent residential and 55 percent nonresidential
- 4 property;
- 5 • repeal the requirement that the residential assessment rate be adjusted based on
- 6 a mathematical formula to maintain the constant ratio; and
- 7 • repeal the requirement that the assessment rate for most nonresidential property
- 8 be fixed at 29 percent.

9

10 **What Your Vote Means**

YES

A “yes” vote repeals sections of the Colorado Constitution related to property taxes, including the provision known as the Gallagher Amendment that contains the mechanisms for setting the assessment rates used to calculate property taxes. As a result, the residential assessment rate will remain constant.

NO

A “no” vote leaves the Gallagher Amendment in place, maintaining current mechanisms for setting the assessment rates used to calculate property taxes. This is expected to result in a decreasing residential assessment rate over time.

1 **Summary and Analysis for Amendment ?**

2 **What does Amendment ? do?**

3 In Colorado, property taxes fund local governments, including schools, cities,
 4 counties, and special districts, such as local fire and police districts. The Gallagher
 5 Amendment to the Colorado Constitution, adopted by voters in 1982, sets various
 6 requirements for the calculation of property taxes, including:

- 7 • requiring that the taxable value of residential property make up about 45 percent
 8 and the taxable value of all other property be about 55 percent of the total
 9 statewide taxable value;
- 10
- 11 • requiring that the state legislature adjust the assessment rate for residential
 12 property every two years, if necessary to maintain the constant ratio between
 13 residential and nonresidential taxable value; and
- 14
- 15 • fixing the assessment rate for most nonresidential property at 29 percent.

16 Amendment ? repeals these provisions. Without the measure, the residential
 17 assessment rate is expected to fall over time. As a result, Amendment ? has the
 18 effect of preventing these decreases, which in some cases will result in higher
 19 property tax revenue to local governments.

20 **How are property taxes calculated?**

21 Property taxes are paid by residential homeowners, and nonresidential property
 22 owners, including farmers, ranchers, oil and gas operators, and other businesses.
 23 Property taxes are paid on a portion of a property’s market value, which is known as
 24 taxable value, or assessed value. Taxable value is calculated by multiplying the
 25 market value by an assessment rate. The assessment rate is currently 7.15 percent
 26 for residential properties, and is fixed at 29 percent for most nonresidential
 27 properties, excluding mines and lands producing oil and gas.

28 Taxable value is then multiplied by the tax rate, called a mill levy, to determine the
 29 property taxes owed. One mill equals \$1 for each \$1,000 dollars of taxable value.
 30 The tax rate varies for each property based on the local taxing districts in which it is
 31 located. Figure 1 provides an example of how property taxes are calculated.

32 **Figure 1. Property Tax Calculation**

33 *Example: Home valued at \$300,000 and taxed at 100 mills*

$$\text{Taxable value} = \text{Property value} \times \text{Assessment rate}$$

$$\$300,000 \quad \times \quad 7.15\% \quad = \$21,450 \text{ taxable value}$$

$$\text{Property taxes} = \text{Taxable value} \times \text{Tax rate (Mills/1000)}$$

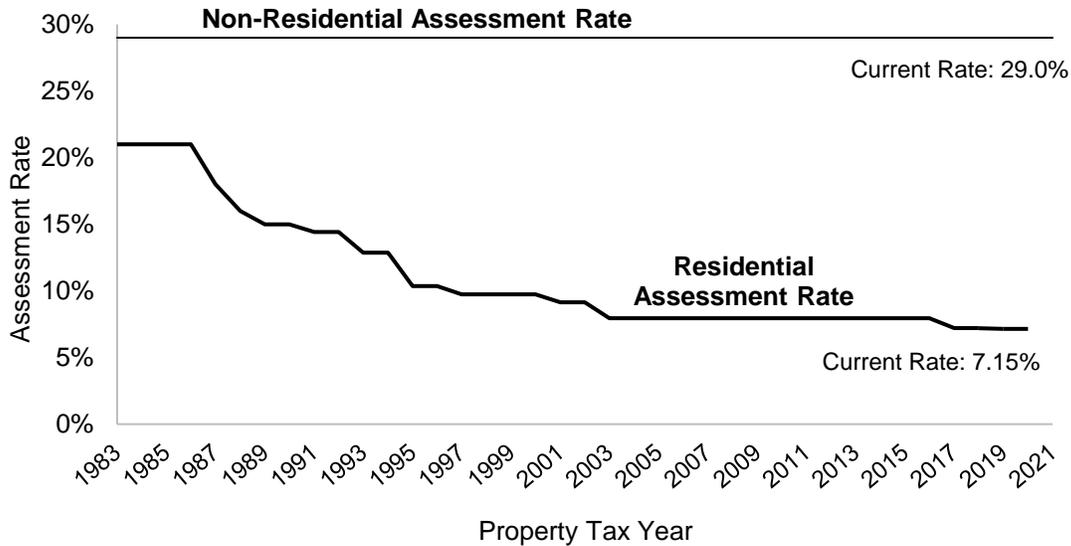
$$\$21,450 \quad \times \quad 0.100 \quad = \text{\$2,145 owed}$$

34 **How has the residential assessment rate changed over time?**

35 In most years, residential property values have grown faster than nonresidential
 36 values, causing the residential assessment rate to be lowered so that residential
 37 properties make up about 45 percent of statewide taxable value. As shown in Figure
 38 2, the residential assessment rate has been reduced from 21 percent when the
 39 Gallagher Amendment was passed in 1982 to a current rate of 7.15 percent. The

1 downward trend of the residential assessment rate is expected to continue in future
 2 years.

3 **Figure 2. History of Assessment Rates**



4 When nonresidential property values grow faster than residential property values, the
 5 residential assessment rate must increase to maintain the constant ratio; however,
 6 other constitutional provisions require that voters approve such an increase. As a
 7 result, the state legislature may only decrease or hold flat the residential assessment
 8 rate, as any increase requires voter approval. Since 1999, there have been six
 9 instances when the residential assessment rate would have increased under the
 10 Gallagher Amendment, but the legislature was instead required to hold it flat.

11 **How does Amendment ? affect residential property taxpayers?**

12 Under Amendment ?, the residential assessment rate will remain at the current 7.15
 13 percent for residential property. In future years, the residential assessment rate is
 14 projected to decrease due to the relative growth of residential property compared to
 15 nonresidential property. As a result, maintaining the current residential assessment
 16 rate results in a higher residential assessment rate, and thus higher property taxes,
 17 than there would be in future years without the measure.

18 **How does the measure affect nonresidential taxpayers?**

19 Under Amendment ?, the assessment rate will remain at 29 percent for most
 20 nonresidential property. Repealing the Gallagher Amendment will have no impact on
 21 the amount of taxes paid by most nonresidential property owners.

22 In some parts of the state, voters have approved tax rate (mill levy) increases to
 23 offset declines in the residential assessment rate. These tax rate increases apply to
 24 both residential and nonresidential taxpayers. In these areas, Amendment ? may
 25 result in lower property taxes for businesses, farmers, and other nonresidential
 26 property owners, as higher mill levies would have been triggered by decreases in the
 27 residential assessment rate under the Gallagher Amendment.

28 **How does Amendment ? impact local government revenue?**

29 Under Amendment ?, higher property taxes will result in more revenue to local
 30 governments, including school districts. Historically, the decline in the residential

1 assessment rates under the Gallagher Amendment has decreased property tax
2 revenue to some local governments. This is especially true in small and rural areas
3 that do not have a lot of residential property, or in areas where overall property
4 values have not grown as quickly.

5 **How does Amendment ? impact state government spending for schools?**

6 Schools are funded through a combination of state and local revenue, with the state
7 making up the difference between an amount of school district funding identified
8 through a formula in state law and the amount of local tax revenue generated. By
9 preventing future decreases in the residential assessment rate, Amendment ?
10 increases local property tax collections for school districts, and reduces the amount
11 the state must pay to make up the difference.

12 **If Amendment ? passes, can the state legislature change the assessment rates?**

13 Under Amendment ?, the state legislature may decrease the assessment rates, but
14 cannot increase them without voter approval. Currently, assessment rates are set at
15 7.15 percent for residential property and 29 percent for most nonresidential property.

For information on those issue committees that support or oppose the measures on the ballot at the November 3, 2020, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

16 **Arguments For Amendment ?**

17 1) The Gallagher Amendment disproportionately impacts rural and poor communities.
18 Increases in home values on the Front Range result in a lower residential
19 assessment rate for the whole state, driving down the property tax base for rural
20 areas. If the residential assessment rate drops further, local services such as fire
21 protection, sanitation, and library services, may be reduced or eliminated.
22 Amendment ? prevents further reductions in these important services as a result
23 of residential assessment rate decreases under the Gallagher Amendment.

24 2) Amendment ? makes property taxes more equitable. Nonresidential property
25 owners, including businesses, farmers, and ranchers have paid an increasingly
26 higher proportion of property taxes over time relative to residential property
27 owners. Currently, nonresidential property taxpayers pay 55 percent of the tax
28 burden, but represent only 20 percent of total property value. Conversely,
29 residential property owners only pay 45 percent of the tax burden and make up
30 80 percent of property value in the state.

31 3) Amendment ? prevents a school funding shortage from becoming a state budget
32 crisis. With each decline in the residential assessment rate, the local contribution
33 for school funding decreases and the state funding requirement increases. The
34 state share of school finance rose from 48 percent in 1982 to 60 percent in 2019,
35 and is expected to continue to grow. The higher state share for school finance
36 has shifted funding from other important state programs and services, such as
37 transportation infrastructure, human services, and public safety.

1 **Arguments Against Amendment ?**

- 2 1) Amendment ? results in higher property taxes for homeowners by preventing
3 future drops in the residential assessment rate. Increasing home values have
4 already resulted in higher property taxes for many homeowners. Higher taxes for
5 homeowners mean that they will have less money to spend or save, at a time
6 when many are already struggling to make ends meet.
- 7 2) The Gallagher Amendment is working as it was intended. It keeps residential
8 property taxes low, and prevents special interests from obtaining tax breaks at
9 the expense of homeowners. Repealing the Gallagher Amendment from the
10 Constitution removes an important protection for homeowners. Without this
11 protection, homeowners may end up paying an increasing share of property
12 taxes.
- 13 3) There are better alternatives to fully repealing the Gallagher Amendment. Local
14 governments can instead ask their voters to raise taxes or seek other solutions
15 that would ensure that services such as fire protection districts are covered.
16 These alternatives would allow voters in each local jurisdiction to decide for
17 themselves how to best fund services for their community.

18 **Estimate of Fiscal Impact of Amendment ?**

19 **Local revenue and spending.** For many local governments, including counties,
20 cities, school districts, and special districts, Amendment ? will result in increased
21 property tax revenue. The amount of any increase will depend on what the
22 residential assessment rate would have been in the future without the measure, as
23 well as whether voters have already approved local tax increases to counteract
24 future potential decreases in the residential assessment rate.

25 **State spending.** To the extent that Amendment ? increases property tax revenue to
26 school districts, additional funding will be available for the local share of the state's
27 system of school finance, which will reduce pressure on state funding requirements
28 for K-12 education. Any potential decrease or downward pressure on the state share
29 of school finance will depend on school districts receiving additional revenue under
30 the measure as a result of Amendment ? preventing future decreases in the
31 residential assessment rate.

32 **Taxpayer impacts.** Maintaining the current residential assessment rate results
33 higher property taxes for many residential property owners compared to what they
34 would have owed if residential assessment rates were lowered in the future, as
35 expected under the Gallagher Amendment. The impact on property owners from
36 holding the residential assessment rate constant in the future will vary based on
37 several factors, including what future decreases in the residential assessment rate
38 would have been required without the measure, the actual value of the property, and
39 the tax rates of the local taxing districts. The measure does not impact the
40 assessment rate for most nonresidential taxpayers.