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VIRTUAL SERIES
Economic Development Council of Colorado

MAIN SESSION OUTCOMES

Reeves Brown, Building A Better Colorado:

- 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 has not imposed a state level property tax since 1964.
- In 1982 when the Gallagher Amendment was proposed and passed
  - RESIDENTIAL property in the state constituted about 45% of the total assessed valuation of ALL property statewide.
  - The RESIDENTIAL assessment rate was assessed at 21% (which was the current rate at that time).
- Today,
  - RESIDENTIAL property in the state constitutes 80% of ALL property statewide.
  - Due to the constitutional mandate, the assessed rate can only be 45% of total property which means that today's assessed rate is 7.15% (how much of each house can be assessed).
  - Every two years, per the amendment, the legislature must calculate the assessment rate to keep the 45:55 ratio.
  - Due to the adaption of the TABOR amendment in 1992, the residential assessment rate has never gone up because TABOR states that taxes cannot increase without a statewide vote of the people.
  - RESIDENTIAL property values have increased rather significantly relative to the value of NON-residential property which 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. The estimated drop in the assessment rate is 19% which will drop today's assessed rate from 7.15% to 5.88%.
- How does a potential 19% drop in the Residential Assessment Rate (RAR) 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.
  - Local governments 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.
- The property tax burden has shifted from RESIDENTIAL to NON-RESIDENTIAL 4 to 1.
- How does this affect the Rural Communities?
  - Rural communities realize the same erosion in their Residential property tax base, but they do not enjoy the same subsequent growth in market value to mitigate that erosion.
  - Rural communities have a much smaller commercial property tax base which must bear a disproportionately larger share of the property tax burden whenever voters increase the local mill levy.

    - Because of the smaller number of commercial properties in rural communities (e.g. one hardware store) and the economic interdependence between those businesses, the loss of even one of those businesses potentially threatens the ability of others to survive.
- What does the proposed "Gallagher Repeal" ballot measure do?
    - 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% .
    - Repeals the constitution's reference to a "21%" Residential assessment rate which was the initial baseline rate established in 1982.
    - 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. Per TABOR, only the voters can raise any tax rate.)

Carol Hedges, Colorado Fiscal Institute:

Risks to putting tax policy in the constitution:

- Changing economic conditions like recessions and/or pandemics.
- Changing structure of the economy i.e. changing market conditions and outlayers
- Changing desires of the electorate.
- Changing service demands i.e. technology, environmental conservation, transportation alternatives.

Less local revenues shifts the burden of K-12 and special services to the State

- Takes money away from line items like Higher Education and Transportation.
- When state and local revenues are down, it impacts the ability to provide all services and economic stability that comes from public spending.

Colorado communities are diverse; uniform constitutional policies create unfair outcomes

- Variation in mix of property within an area ranges between 37 - 68% in residential property vs non-residential.
- Variation in value of residential property between different areas of the state ranges between $22b to $47m.
- Constitution based rules bias the system in favor of areas that match state averages in value and distribution of different types of property, i.e. larger populated areas.

Services are needed in good times and bad

- Fluctuations in assessed value are caused by all kinds of things that may or may not reflect economic reality for individual communities.
- Schools, health care and other services are needed in all times.
- The need is increasing for services because of demand and cost yet Gallagher is lowering collections.

Chief Steck, Elizabeth Fire Protection District:

- Growth in population = Growth in service demand
- The majority of the state, due to the percentage of rural communities to urban communities, is protected by emergency protection services (i.e. ambulatory, fire, law enforcement) which are service districts paid for by property taxes.
- Rural areas are being impacted at a faster rate than urban areas
    - Rural areas do not increase in assessed value as fast as urban areas
    - Businesses do not grow at the same pace as urban businesses do
    - The percentage between business property owners to homeowners is considerably less than its urban counterparts
    - Rural areas feel the burden of the statewide assessed reduction more over than urban areas
- What does this mean to Rural areas

  - They have more residential property owners paying less taxes but are needing more of the services which diminishes the capabilities and response times of the services being provided.
  - Title 32 districts like emergency services, parks and recreation, sanitation, water, etc. have very few options in gaining revenue but must provide the level of service the area requires.
  - Due to the lose in revenue to the decrease in assessed residential values, these service districts are forced to go out to the voter and ask for mill levy increases to off-set the budget constraint. As these communities grow, they must go back out to the voters and continue to ask for these increases which for some districts it puts them at a disadvantage.
  - With the looming decrease in the residential assessment rate, some of these districts are looking at a $780k lose in revenue.
  - This may force consolidation of services among communities

Leslie Colwell, Colorado Children's Campaign:

- Gallagher's permanent RAR reductions will be increasingly sustainable.
  - State's share which comes from the General Fund – 61%
  - Local share which comes from property taxes – 39%
  - Education is unlike other services in that the state is constitutionally required to backfill whatever is not raised locally.
  - If the assessed rate drops to 5.88% in the next assessment cycle that would mean K-12 education would lose $491m per year. The state would be required to backfill half, and the other half will have to come from local mill levy overrides.
- If left unchanged, Gallagher will exacerbate an already dire school funding situation. Even when our economy is doing well, Colorado is still below the national average in per-pupil funding by $2,703 spent per-pupil.
  - Colorado ranks dead-last in teacher wage competitiveness.
  - Over the last few years, the State legislature was making some headway towards increased spending towards education, but all of this has been wiped out by the pandemic.
- Gallagher contributes to funding inequity between school districts across Colorado
  - Districts increasingly rely on mill levy overrides to generate funding to fill the gaps.
  - In 2009, $580m were passed locally by voters. Fast forward to today, and that number has increased to $1.4b
  - Out of 178 school districts in Colorado, 52 of those districts have no mill levy funds to support students and to offset funding cuts. It's much harder for rural communities to raise funds through mill levy increases.
- Gallagher contributes to funding inequity between school districts
  - 35 of our lowest property wealth districts tax themselves 5x the rate as some of our highest property wealth districts, but they only generate 44% of the revenue to support their students.

Repealing Gallagher will not solve this problem entirely but what it would provide some stability and consistency in the assessment rate so that local communities won't have to continue to go back out to their voters for mill increases to make up for the assessment rate loses.

A quality education system is a pre-condition for a thriving economy. We need to stop the erosion of our public education funding if we want any hope of student outcomes and a prepared workforce that appeal to the business community.

Having our tax policy wrapped up in the constitution is not allowing us to be nibble and respond accordingly during times of crises like we are now during the pandemic.