

The Gallagher Amendment

Homeowners love low property taxes, but what is the cost to schools and business?

By 1982, Colorado homeowners had become fed up with rising residential property taxes and passed a constitutional amendment that has sent their property tax assessment rates spiraling downward ever since. Many now believe the amendment has gone too far and that, in conjunction with TABOR, passed ten years later, it undermines Colorado businesses and schools. The provision is known as the Gallagher Amendment.

Understanding property tax

Property tax is probably the least popular and least understood tax in the state. Yet it is a very important source of revenue, paying for schools, roads, fire and police protection and other local services.

By law, property tax doesn't directly support any state services.

- About 60% of all property tax goes to schools; the remainder goes to other local government functions like fire protection, police and sanitation.
- The actual value of property is assessed statewide every two years by each county's assessor. Only part of the actual value is taxed; this is known as the *assessed value*.
- The *assessment rate* determines how much of the actual value of a home or business is to be taxed.
- A tax rate – a percentage known as a *mill levy* – is then applied to the assessed value to arrive at the actual tax bill.

Why did my home assessment go up so much?

Residential properties are assessed every two years in Colorado. This creates a lag between changes in the real estate market and when houses are finally assessed. Today, the hot real estate market has cooled off but we are all seeing assessments based on the real estate boom market of two years ago.

Here's what Gallagher does

- Locks down the portion of a commercial property's value that is subject to property taxes (the assessment rate) at 29%;
- Requires that out of all taxable value assessed statewide, the assessed value on residential property can account for only 45% of the total, while the assessed value of commercial property makes up the remaining 55%;
- Mandates that all property values be reassessed every two years;
- Because the commercial assessment rate is locked in at 29%, and because over the years the increase in value of residential

property across the state has far outstripped the increase in value of commercial property, the assessment rate of residential property has been forced downward each year in order to maintain the statewide 45/55 percent assessed value ratio. In 1982, the year Gallagher was adopted, the assessment rate for homes was 30%. The Gallagher Amendment immediately lowered the assessment rate to 21%; today it is around 8% and falling;

- Residential property owners pay about 45% of all property taxes. Business property values make up only 25% of total property value, but pay about 55% of all property taxes;
- Because the commercial property tax assessment rate remains at 29%, commercial property tax has not increased except in proportion to the increase in total statewide property value. Nevertheless, commercial property owners contend they are bearing a disproportionate share of the property tax burden in Colorado;
- Gallagher worked as designed, holding property taxes steady – until the residential housing boom of the 1990s. Home prices skyrocketed, while commercial property prices rose modestly. In 1982, residential property value was responsible for only 45% of total property value in the state (hence the Gallagher ratio). Because of the hot housing market, residential property now accounts for 75% of total property value in the state but only pays about 45% of the tax bill.
- The Gallagher Amendment has saved homeowners money. Without the Gallagher amendment, experts estimate that Colorado homeowners would have paid about \$7 billion more in property taxes since 1987.

Assessment Rate v. Tax Rate: What's the Difference?

The assessment rate determines how much actual value of a property will be taxed. This is known as the *assessed value* of a property. Say you have a home worth \$200,000. At the current statewide assessment rate of about 8% you'd be taxed on \$16,000 – this is your assessed value.

The tax rate or *mill levy* is determined by the local government and is applied to the assessed value, not the actual value of your home. Using the example above, if local government determines that your mill levy is \$70 per every \$1,000 of assessed value, then your property tax is \$1,120.

Are Colorado's Residential Property Taxes Too High?

A recent study by the Wyoming Taxpayer's Association concludes that forty-six of the fifty states pay more than Colorado. Only Hawaii, Alabama and South Carolina have lower residential property tax rates. California, even after the Proposition 13 "Tax Revolt," pays 45% more than Colorado per dollar of assessed value.

1992: TABOR arrives

Prior to the passage of the TABOR Amendment, local governments could "float" their property tax rates (called mill levies) to keep revenues steady even as increasing home values and the Gallagher Amendment drove residential assessments further down. Since 1992, the TABOR Amendment has required a vote of the people

Can the residential property assessment rate ever go up?

Before TABOR, if residential property values went down or if commercial property values went up at a faster pace than residential values, the Gallagher Amendment would have required the residential assessment rate to increase to accommodate the 45/55% ratio. Since TABOR, however, an assessment rate can't increase without a vote of the people. So, if a "housing bubble" bursts or if commercial property value experiences stronger growth than residential, TABOR prevents the residential assessment rate from going up as would otherwise be required by Gallagher. This has actually happened once already. In the 2000 assessment, the residential assessment rate should have increased from 9.74% to 9.9% but it could not do so without a statewide vote.

to increase taxes including property tax rates. Even if the adjustment is revenue neutral, mill levies can no longer "float" to accommodate changes in the economic climate and decreases in home assessment rates. The average mill levy in 1982 was \$40 per \$1000 of assessed property value to fund K-12 schools. Today that average is \$26 for K-12 and TABOR will not allow local government to increase the mill levy without a vote of the people.

2000: Amendment 23 arrives

The law requires Colorado to equalize funding among school districts by backfilling dollars not generated by local property taxes. With diminished property tax revenue as a result of Gallagher and TABOR, the state has become responsible for more and more school funding. In fact, the state now pays about 60% of K-12

funding, up from 40% in 1987. Now consider what happened in 2000, when Colorado voters required the state to put the top spending priority on what is already the state's most expensive program—K-12 education.

Amendment 23 requires the state to fund K-12 education at inflation plus 1% for ten years and at least the rate of inflation thereafter. Gallagher and TABOR have moved most of the burden of funding schools away from property taxes, requiring the state to "backfill" with income and sales taxes from the General Fund. Now, Amendment 23 compels the state to pour even more General Fund into K-12 education. With state revenues falling, other state programs like health care and Higher Education must bear General Fund budget cuts.



With a one-two punch to local government property tax revenues, the Gallagher Amendment drives down the percentage of home value to be taxed while TABOR drives down the tax rate applied to that lower home value.

1982 – 2003: A Comparison

Recall that in 1982, prior to Gallagher, the residential assessment rate was 30%. So if your home's actual value was \$100,000 in 1982, your assessed value was \$30,000. At the average K-12 school finance tax rate (mill levy) of \$40 per \$1,000 of assessed home value your tax would be \$1,200. After 21 years of Gallagher, the residential assessment rate has plummeted even as home values have dramatically increased. Today, the same house might be worth \$278,000 but Gallagher has driven the assessment rate down to about 8%. Furthermore, after TABOR, the average tax rate (mill levy) for K-12 is only \$26 per \$1000 of assessed home value. So, 21 years later your property tax is only \$578.

Now consider:

1. The number of K-12 students in Colorado is 28% greater than in 1982 and,
2. Because of inflation it would take about \$5,700 to buy what \$1,200 would buy in 1982.

PROPERTY TAX COMPARISON	
	
1982	2003
Home Value: \$100,000	Home Value: \$278,000
Assessed tax rate: 30%	Assessed tax rate: 8% <small>(after Gallagher Amendment)</small>
Mill levy rate: \$40 per \$1000	Mill levy rate: \$26 per \$1000 <small>(after Tabor Amendment)</small>
Annual Tax: \$1200	Annual Tax: \$578