

Gallagher: is it Time for Change?

How property taxes work: It seems to be almost deliberately complicated: You take the value of the property, multiply it by the “assessment rate” which is the portion of the value of the property that gets taxed, and multiply that by the “mill levy” divided by 1,000. So if you have a \$200,000 house, with an 8% assessment rate and a total mill levy of 80, the property tax you owe is:
 $\$200,000 \times 0.08 \times 80 \div 1000 = \1280 annual property taxes due.

Gallagher: Enacted in 1982, Gallagher says business will pay 55% of total statewide property taxes and homeowners will pay 45%. To accomplish this, assessment rates (which had long been fixed at 30% for all types of property) were locked at 29% for commercial and initially set at 21% for residential. Over the past 20 years, the value of homes increased much faster than values of commercial property. Since the 29% commercial rate was locked in, the only way to accommodate the rise in home values while maintaining the 55-45 split in total property taxes paid was to drop the residential assessment rate. As a result, the residential assessment rate is now down to a little less than 8%. In addition, the combined effect of TABOR and Gallagher has resulted in a substantial inflation-adjusted decrease in total property tax revenue. Property tax revenue is the primary funding source for local government services such as roads, police, fire protection and especially public schools.

Problem? Here is how different constituencies tend to see Gallagher:

- **Homeowners:** Gallagher has saved us nearly \$7 billion in the past 20 years.
- **Business:** We now pay over three and a half times as much as homeowners for every dollar of property owned. Since business equipment is also taxed at the commercial property rate, this drives capital-intensive companies out of Colorado and hurts new business recruitment.
- **Local government:** Our property tax revenues continuously shrink.
- **State government:** Colorado law requires us to make up any loss in public school funding. State government has gone from paying 40% of public school costs in 1982 to paying 60% today. Also, Amendment 23 requires per-student funding to grow by inflation plus 1%, so the state must pay an ever-increasing percentage of a bigger and bigger bill. This has forced even deeper cuts upon our universities, health services, the courts and probation system, etc.

(OVER)

The background information in the packet describes some of the critical issues surrounding the Gallagher Amendment. The following options are not exhaustive. They are offered as suggestions and a way to stimulate your thinking about the Gallagher Amendment.

Option #1:

Repeal Gallagher. Allow state and local officials along with citizen review boards to work together to rebalance Colorado’s property tax policy.

Option #2:

Reduce the residential property tax assessment rate to 7.25% and freeze the rate thereafter. This will provide homeowners an immediate 9% tax cut but prevents a further erosion of the residential property tax assessment rate. Retain the 29% non-residential property tax assessment rate. Note that under current law it is estimated that the residential property tax assessment rate will drop to 7.25% by 2007.

Option #3:

Reduce and freeze the residential property tax assessment rate at 7.25%. Abolish the business personal property tax. To compensate for the loss of business personal property tax revenue, increase the non-residential property assessment rate to 36% and freeze both rates thereafter. (Note: an increase to 38.6% would be required to fully compensate for the loss of the business personal property tax, but resulting stimulation of business activity might make up the shortfall.)

Option #4:

Reduce and freeze the residential property tax assessment rate at 7.25%. Abolish the business personal property tax but allow local governments to float the mill levies to provide a consistent revenue stream for local governments. Would this pass?

Option #5:

Reduce and freeze the residential property tax assessment rate at 7.25%. To eliminate the biennial reassessment cycle “saw tooth effect”, adjust mill levies only in reassessment years to account for cumulative inflation and local growth since the last property assessment.

Other considerations:

Should local governments be allowed to reduce or abolish the business personal property tax and optionally increase the non-residential property tax assessment rate to compensate for the resulting revenue loss?

Should property tax documents specify a simple percentage of real property value instead of assessment rates and mill levies?

What are your opinions and ideas?
