

EVERYTHING YOU ALWAYS WANTED TO KNOW ABOUT THE GALLAGHER AMENDMENT ...

but were afraid to ask!

Q: When was the Gallagher Amendment adopted?

A: The Gallagher Amendment was adopted in 1982 when Colorado voters approved the measure. The amendment is named for state senator Dennis Gallagher, who was one of the primary sponsors of the measure.

Q. Why was the Gallagher Amendment passed?

A: The passage of the Gallagher Amendment by the voters of Colorado in 1982 was the culmination of a property tax revolt that originated in the late 1970's. Homeowners, concerned about skyrocketing residential property taxes, pressured the state legislature to address the problem.

As a result, in 1982 Speaker of the House, Bev Bledsoe appointed nine members from the General Assembly to study the problem and recommend solutions. The Gallagher Amendment was the culmination of the panel's effort to find a workable solution to skyrocketing residential property taxes.

Q: What does the Gallagher Amendment do?

A: The Gallagher Amendment divides the state's total property tax burden between residential and nonresidential (commercial) property. According to the Amendment, **45%** of the total amount of state property tax collected must come from residential property, and **55%** of the property tax collected must come from commercial property.

Further, the Amendment mandates that the assessment rate for commercial property, which is responsible for 55% of the total state property tax burden, be fixed at **29%**. The residential rate, on the other hand, is annually adjusted to hold the 45/55 split constant.

Q: How was the 45%-55% split set by the Gallagher Amendment determined?

A: In 1982, residential property was responsible for 45% of the state's total property value, and commercial property was responsible for 55% of the state's total property value. The authors of the Gallagher Amendment believed that the overall property tax burden should continue to reflect this split. As a result, with the passage of the Gallagher Amendment, the 45/55 split was set in stone.

Q: How is property tax calculated?

A: Property tax = (market value of property) X (assessment rate) X (mill levy)

For example, in order to calculate the residential property tax on a \$100,000 home, the market value of the property is multiplied by the assessment rate and the mill levy. By multiplying the value of the home (\$100,000) by the 2003 residential assessment rate (7.96%), we get the assessment value (\$7,960), or the amount of value subject to taxation. This amount multiplied by the mill levy equals total tax liability. Using a mill levy rate of 100 mills for this example, the total tax burden for a \$100,000 home in 2003 would be \$796.

A commercial property valued at \$100,000 would be subject to the same formula, but would be taxed on 29% of its worth, or \$29,000. Multiplied by the 100 mills, the total tax liability for the commercial property in 2003 would be \$2,900.

Q. How is the market value of a property determined for purposes of property taxes?

A. Under the Gallagher Amendment, properties must be reassessed every two years by the county assessor of the county in which they are located. Market values are determined based on recent sales of similar property in the area.

Q: What is the assessment rate?

A: The assessment rate (sometimes called the assessment ratio) is the percentage of the property's assessed value that is taxed. For example, under Gallagher, the assessment rate for nonresidential property is fixed at 29%. That means that of the total market value of the property, 29% is subject to taxation.

The residential property assessment rate floats each year in order to meet the 45/55 split mandated by Gallagher. Because of rapidly increasing residential property values, the residential assessment rate has sunk from approximately 21% in 1982 to around 7% today.

Q: What is a mill levy?

A: A mill levy is a property tax rate based on dollars per thousand of assessed valuation. For example, a mill levy of 50 means \$50 of tax per \$1,000 in assessed value.

Mill levies are levied by a taxing district such as a school district on property owners in the district. By law, each taxing district must set a single mill levy that applies uniformly to all property within the district.

Q: Why has the residential assessment rate gone down since 1982?

A: In 1982, the first year of Gallagher, the residential property assessment rate was 21% (and the nonresidential property assessment rate was 29%, as fixed by Gallagher in perpetuity). However, the rapid escalation in residential property values, combined with the growth boom of the 1990's, led to the 45% share of property tax collected from residential properties being dispersed across more and more residences that were worth more and more money. Something had to give in order to maintain the 45/55 split.

In Colorado, in order to maintain the 45/55 split, the residential property assessment rate has dropped from 21% in 1982 to the current level of 7.96%.

Q: Does residential property still account for 45% and commercial property 55% of the state's total property value?

A: No. In the twenty years since Gallagher passed, increases in residential property values have significantly outpaced the increases in the value of commercial property. In fact, residential property, which made up only 45% of the state's total property value in 1982, today accounts for **75%** of the state's total property value. However, due to the Gallagher Amendment, residential property is only responsible for 45% of the state's total property tax burden. Conversely, commercial property, which now accounts for only 25% of total property value in the state, is still responsible for 55% of the state's total tax burden.

Q: What services and entities do property taxes fund?

A: Property taxes are local governments' primary source of funding. Local governments are responsible for providing a host of different services, ranging from police and fire protection to street repair.

Public schools are very dependent upon property tax revenues. Sixty cents of every dollar collected in property tax revenue is dedicated to K-12 funding.

Q: What impact has the TABOR Amendment had on Gallagher?

A: Traditionally mill levies were allowed to float to counteract cyclical economic cycles and help protect local government's primary revenue source. However, TABOR has been interpreted by many as preventing mill levies from increasing without a vote of the people.

As a result, if the assessed value of a property declines, as happened in some areas of Colorado in 2002, the mill levy can no longer counteract the effect that reduced values have on the amount of property tax collected. In addition, if overall property values located in a jurisdiction go up so fast that the tax revenue would outpace TABOR's allowable revenue limit, the jurisdiction may need to lower the mill levy. In this case, TABOR prevents the jurisdiction from raising the mill levy to its previous levels without a vote.

As a result, the collision between TABOR and Gallagher has led to a structural ratcheting down effect on funding for local governments.

Q: What is the interaction between Gallagher and Amendment 23?

A. Property taxes used to be the primary funding source for K-12 education in Colorado. In 1982, property taxes funded 60% of education, and the state General Fund provided 40% of funding.

However, with decreasing property tax revenue caused in part by Gallagher and TABOR, the state has been required by the state School Finance Act to "backfill" an ever-increasing amount of funding for schools, resulting in a reversal of state and local funding roles. The state now provides 60% of funding for K-12 schools, with local property taxes providing 40% of funding. This eats up a significant amount of the General Fund -- spending on K-12 education now takes up 40% of General Fund dollars.

Amendment 23, with its requirement of increased state funding for schools, has magnified the difficulty in coming up with the required state General Fund dollars for education.

http://www.coloradobudget.com/gallagher_101.cfm