Residential Property Tax Rate

Colorado Legislative Council Staff

FISCAL IMPACT STATEMENT

Date: June 24, 2003 **Fiscal Analyst:** Josh Harwood

BALLOT TITLE: SHALL THERE BE AN AMENDMENT TO SECTION 3 (1) (B) OF ARTICLE X OF THE CONSTITUTION OF THE STATE OF COLORADO, CONCERNING THE RATIO OF VALUATION FOR ASSESSMENT FOR TAXATION OF RESIDENTIAL REAL PROPERTY, AND IN CONNECTION THEREWITH, SETTING THE RATIO AT EIGHT PERCENT OF ACTUAL VALUE FOR PROPERTY TAX YEARS COMMENCING ON OR AFTER JANUARY 1, 2004, AND ELIMINATING THE ANNUAL ADJUSTMENT OF THE RATIO THAT INSURES THAT THE PERCENTAGE OF THE TOTAL STATEWIDE ASSESSED VALUE ATTRIBUTABLE TO RESIDENTIAL REAL PROPERTY REMAINS THE SAME AS IT WAS IN THE PREVIOUS YEAR?

Fiscal Impact Summary	FY 2003/2004	FY 2004/2005	FY 2005/2006
State Revenues General Fund		($130,000)	($1,050,000)
State Expenditures General Fund		($3,400,000)	($23,400,000)
FTE Position Change	0.0 FTE	0.0 FTE	0.0 FTE
Other State Impact: Future TABOR Impact			
Effective Date: Applies to property assessments beginning January 1, 2004, and taxes collected in 2005.			
Appropriation Summary for FY 2003/2004: None			
Local Government Impact: Local government entities would collect an additional $6.2 million in non-school finance property taxes and homestead exemption reimbursements in the 2005 budget year.			

Summary of Initiative

The amendment to the Colorado Constitution, upon affirmative vote of the people in the November 2003 election, would permanently set the residential assessment rate (RAR) at 8.00% for residential property assessments beginning in 2004. By contrast, the rate is expected to be 7.96% for assessments made in 2004, and 7.60% for assessments made in 2005 and 2006.

Every odd numbered year, the Division of Property Taxation is required to adjust the RAR in order to maintain the 45% residential/55% nonresidential assessed value ratio prescribed by Section 3 (1) (b) of Article X of the State Constitution, more commonly referred to as the Gallagher Amendment. Therefore, whenever residential property values grow at a faster rate than nonresidential values, the RAR must decline to meet these provisions.

State Revenue and Expenditures

State expenditures related to school finance funding would decrease by $3.4 million in FY 2004-05 and $23.4 million in FY 2005-06. This occurs as a result of an increased local share of total program school funding. This increased level represents the amount of funding no longer needed from the state. This figure assumes that the state would still meet all necessary increased General Fund appropriation requirements prescribed by Section 17 (5) of Article IX of the State Constitution.

State revenues are estimated to decrease by $130,000 in FY 2004-05 as a result of increased deductions claimed by those paying higher property taxes. Total property taxes collected are expected to be $9.6 million higher in FY 2004-05. Taxpayers itemizing deductions may deduct the higher amount, thereby lowering their income tax liability. Also, for years in which it is funded, the state's obligation to reimburse local governments for the homestead exemption would also increase as a result of the higher RAR.

Local Government Impact

Due to the increase in residential assessed values, some government entities would reach their revenue limit in the 2005 budget year. In these cases, mill levies would be forced downward. In local governments that do not reach revenue limits would be able to keep the additional revenue. As a result, local governments are expected to collect an additional $6.2 million in nonschool finance property taxes in FY 2004-05. The estimate provided is based on the historical relationship between school finance property taxes collected and total property taxes collected.

State Appropriations

The fiscal note implies that no additional appropriation or spending authority is required in FY 2003-04 in order to implement the provisions of the constitutional amendment.