

Colorado Legislative Council Staff Fiscal Note
NO FISCAL IMPACT

Drafting Number: LLS 11-1051	Date: April 26, 2011
Prime Sponsor(s): Rep. DeGrosso Sen. Johnston	Bill Status: House Finance Fiscal Analyst: Harry Zeid (303-866-4753)

TITLE: CONCERNING THE ADJUSTMENT OF THE RATIO OF VALUATION FOR ASSESSMENT FOR RESIDENTIAL REAL PROPERTY.

Summary of Legislation

This bill addresses property taxes for residential real property. Section 3 (1) (b) of Article X of the State Constitution, more commonly referred to as the Gallagher Amendment, requires the General Assembly to establish the ratio of valuation of assessment for residential real property, or residential assessment rate, every two years at a rate that satisfies the requirements of the amendment. HB 11-1305 establishes the residential assessment rate at **7.96 percent** for tax years 2011 and 2012, the same rate in place since 2003.

The bill becomes effective upon signature of the Governor or upon becoming law without his signature.

Background

A property's taxable value is determined by multiplying the property's actual value by the relevant assessment rate. Therefore, under this bill, a home worth \$100,000 would have a taxable value of \$7,960. That home's property tax bill would then be determined by multiplying this amount by the relevant mill levy. If that mill levy were equal to 100 mills, the tax bill would equal \$796.

The Gallagher Amendment, approved by voters in 1982, restrains growth in residential property taxes by establishing the residential share of the statewide property tax base. When the amendment was first implemented, residential property comprised roughly 45 percent of all taxable value statewide. Gallagher limits the residential share of taxable values to this historical proportion, with adjustments for new construction and changes in the volume of minerals and oil and gas produced in the state. Since the amendment was implemented, these adjustments have shifted the proportions so that the residential share now accounts for 46.53 percent of statewide taxable values. This percentage is referred to as the "residential target percentage."

Because residential property values do not increase over time at the same rate as nonresidential property values, the Gallagher Amendment requires that the residential assessment rate be adjusted over time to ensure that the residential target percentage is met. If the value of residential property increases at a faster rate than the value of nonresidential property and the residential assessment rate were not adjusted, the percentage of the state tax base attributable to residential property would rise above the target percentage. In order to make sure the target percentage is met, the residential assessment rate is lowered. This occurred every two years between 1985 and 2003, during which time the residential assessment rate decreased from 21 percent to 7.96 percent.

Since 2003, however, actual values for residential property have been increasing at rates *lower* than that for nonresidential property. Therefore, in order to maintain the approximate 45 percent residential target percentage, it is necessary to *increase* the residential assessment rate. The residential assessment rate that produces the target percentage of 46.53 percent required for 2011 and 2012 is 8.77 percent. However, TABOR requires voter approval for any increase in the assessment rate for a class of property.

Assessment

Since the bill implements requirements set forth in the State Constitution, it is assessed as having no fiscal impact.

Departments Contacted

Local Affairs

Legislative Council Staff