



**FINAL  
FISCAL NOTE**

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**Drafting Number:** LLS 13-1008  
**Prime Sponsor(s):** Rep. Court  
Sen. Johnston

**Date:** June 14, 2013  
**Bill Status:** Signed into Law  
**Fiscal Analyst:** Chris Ward (303-866-5834)

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

### Summary of Legislation

Section 3 (1) (b) of Article X of the State Constitution, commonly known as the Gallagher Amendment, requires the General Assembly to set the residential assessment rate every two years at a rate that satisfies the requirements of the amendment. This bill establishes the residential assessment rate at **7.96 percent** for tax years 2013 and 2014, the same rate in place since 2003. The bill was signed into law by the Governor and took effect on May 28, 2013.

### Background

A property's taxable value is determined by multiplying its actual value by the relevant assessment rate. A residential assessment rate of 7.96 percent means that a home worth \$100,000 has a taxable value of \$7,960. If the mill levy, or property tax rate, for that home is equal to 100 mills, the yearly tax bill would be \$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 45.86 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 is 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 in most 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 nonresidential property. Therefore, in order to maintain the approximate 45 percent residential target percentage, it is necessary to *increase* the residential assessment rate. An assessment rate of 9.13 percent would produce the residential target percentage required for 2013 and 2014. However, Article X, Section 20 (4) (a) of the state constitution 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. Property taxes will not change as a result of this bill because the residential assessment rate remains unchanged at the current level of 7.96 percent.

**Departments Contacted**

Local Affairs

Legislative Council Staff