



The Gallagher Amendment 2.0: A Closer Look

BY PAMELA M. FEELY, CPA, MBA, AF



During the late 1970s and early 1980s, Colorado home prices were rising. Interest rates were north of 12 percent. Coloradans became concerned seniors would not be able to stay in their homes because increased property taxes were forcing them out of those homes. In 1982, the Colorado legislature referred to the voters an amendment to the Colorado Constitution to limit residential property taxes. The voters overwhelmingly supported it.

The amendment basically requires commercial interests to pay 55% of the total property taxes statewide. Homeowners pick up 45% of the bill. Using the processes adopted in the referred measure, Colorado's actual property value in 1983¹ was over \$66 billion dollars. Residences composed over \$35.4 billion, and the remaining \$31.1 billion came from commercial interests. Assessed values combined were just over \$17.1 billion dollars. Homes accounted for \$7.4 billion, and the remaining \$9.7 billion dollars were attributable to businesses. Taxes were computed at the 21% rate on homes and the constitutionally mandated 29% for the business community.

Simply put, homes pay roughly \$45 while the business community pays \$55 for every \$100 of property tax collections. Currently, this ratio applies regardless of the number of homes added during the year.

The residential assessment rate stayed at 21% until 1987. Between 1986 and 1987, Colorado experienced huge economic and population growth, and actual value for homes increased 116.99%. Business value grew as well, but not as fast - growing by 69.53%. So the residential assessment rate was dropped to 18% for 1987 taxes and 16% for 1988.

From 1988 until 1995, both residential and commercial values changed in reasonable percentages. By 1995, residential home values and units grew 34.66% over 1994. Residential units and value increased each year through 2003. Every two years, the RAR (residential assessment rate) was adjusted downward, shifting more of the burden to the commercial community. Total valuation was \$478.5 billion with residences valued at \$371 billion.

In 2003, a ballot initiative would have frozen the RAR at 8.04%. Colorado legislators realized by continuing to lower the RAR, the state was backfilling more of the funds for schools. Also, the business community was contributing over \$3 for every \$1 homeowners paid. The ballot initiative overwhelmingly failed in part because the actual RAR adjustment came in at 7.96%.

Originally the Gallagher amendment provided a mechanism for the RAR to float up when needed to maintain the 45/55 ratio. The first opportunity to have the RAR float up occurred after passage of the Taxpayers Bill of Rights (TABOR) in 1992. TABOR provides that the

RAR cannot be raised without a vote of the people. In 2005, 2007, 2011, 2013, and 2015, the legislature chose to maintain the 7.96% RAR instead of asking voters for an increase.

Property values lag the greater economy by a few years. After the 2008-2009 financial crisis, it took until 2011 for property values to drop. Total actual value in 2010 was \$697 billion and \$640 billion in 2011. Residential values dropped to \$488 billion from \$536 billion. Fire districts, school districts, and other special districts felt the pain of less revenue.

As the economy recovered with increased jobs and population growth, more and more residential dwellings were built. By 2015, residential value grew by 18.93% with explosive growth along the Front Range. The first RAR reduction in 14 years occurred, dropping to 7.2% in 2017 and 2018. Continued residential growth in 2018 saw the RAR drop to 7.15%.

The 2019 total value was over a trillion dollars for the first time. Residential values are \$874 billion while the commercial sector is \$225 billion. The last decade of residential construction explosion has spread the 45% residential percentage over more units while requiring the business community to pay more. For 2020 and 2021, the business community pays \$4 for every \$1 a homeowner pays.

In addition, the growth in values is uneven across the state with the 11 Front Range counties generating the majority of the residential growth. Colorado is a growing state, and the population is expected to continue to grow. The state demographer expects the state will include over seven million people by 2035.² The Front Range is where 84% of the population will live.

Property values for the next RAR adjustment are being finalized as this article goes to press. Expectations are the RAR will decrease below 6% without the passage of the Gallagher Repeal on the 2020 ballot. Repeal means basically stabilizing the RAR at 7.15% and commercial property at 29%. Legislators say they will not be able to raise the RAR without going to the voters.

There's much more to come. Stay tuned. ▲

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¹ Excerpts from 2019 Annual Report to the Governor and General Assembly, Table 9, pages 15 and 16.

² <https://demography.dola.colorado.gov/population/population-totals-colorado-substate/#population-totals-for-colorado-and-sub-state-regions>