

CACTE BRIEF NARRATIVE

2017 Colorado Legislative Session

CACTE's 2017 state legislative topics, including the two significant budget issues briefly explained below and the more detailed CACTE Session Wrap-Up Power Point, will be reviewed during the **CACTE Legislative Webex on Wednesday September 20th at 4:00pm**. Following will be a discussion centered around establishing CACTE's state legislative priorities for the upcoming 2018 session.

Please stay tuned for the Webex access information. If you have any questions before that date, contact Stacey Lestina at Stacey@ColoradoConsulting.org.

Legislature Compromises on Rural Funding with SB17-267 Sustainability of Rural Colorado

With only days left before adjournment, the Republican-controlled Senate and Democrat-controlled House finally reached a compromise on the 2017 session's most notable piece of legislation: SB17-267, the rural funding bill that reclassifies the Hospital Provider Fee. Reclassifying the provider fee moves a substantial amount of state revenue out from the TABOR collection limit and consequently lowers the state's TABOR refund obligation, therefore making a downward adjustment to the Referendum C cap. Essentially, the state will not be required to issue the previously-required refunds to taxpayers for the next two fiscal years as state revenue will be below the amount requiring refunds. SB17-267 also impacts statewide program funding related to hospitals, transportation, K12 education, capital construction, and marijuana taxation.

* For specific details, please refer to *SB17-267 Summary Chart_FINAL.PDF.pdf*

Joint Budget Committee Avoids Gallagher Amendment Cuts in Fiscal Year 2017-18

Initially, Legislative Council Staff had forecasted a drop in the residential assessment rate of 3.1% between 2016 and 2017. **These original figures had triggered the Gallagher Amendment, which would have reduced the state's property tax revenues for FY17-18 by \$7.4 billion.** Fortunately, the last minute difference between the projected and actual assessed valuations for commercial and residential property tax meant the Gallagher Amendment was not triggered. **Without Gallagher being triggered, the FY17-18 budget includes an unexpected additional \$128 million in K12 education revenue. Using a portion of that \$128 million the legislature made an additional appropriation of \$48.8 million to K12 education, therefore eliminating the anticipated increase to next year's negative factor.**

In the final days of session the JBC unexpectedly made a number of technical changes to the FY17-18 state budget to address the Gallagher issue. Of significant importance was the April 17th release of the annual Residential Assessment Rate Study by the Division of Property

Taxation estimating a residential assessment rate of 7.2% for 2017 and 2018. In comparison to the December 2016 Legislative Council Staff assessed values forecast, an actual residential assessment rate of 7.2% projected a FY17-18 increase to the local share for school finance by an amount between \$48.7 million and \$214.2 million. To address this actual increase in local share projections, the JBC chose to make three separate changes to SB17-254 the Long Bill. First, they chose to adopt a forecast projecting a \$128 million increase to the local share for school finance. Second, the committee utilized \$48.8 million of that \$128 million to hold the FY17-18 negative factor amount constant at the FY16-17 amount of \$829 million. Lastly, the JBC decided to sweep the remaining \$79.2 million into the State Education Fund.

Issue Refresher – What is the Gallagher Amendment & Why Does it Matter?

The Gallagher Amendment, passed in 1982, was designed to maintain a constant ratio between the property tax revenue that comes from residential property and from business property. To simplify a set of complex formulas, the effect of Gallagher was to reduce the assessment rate (the percent of property value that is subject to taxation) whenever statewide total residential property values increased faster than business property values.

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.

The **45%-55% split** set by the Gallagher Amendment was determined by the property values at the time the bill was passed. 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.

As a result of the Gallagher Amendment, the assessment rate for residential property has declined by more than two-thirds over the years because of Colorado's population growth and because of increases in residential real estate values. The net effect has been a weakened property tax base for school districts and other local governments and, as a consequence, has forced the state to pay a larger portion of the total bill for educating children. That, in turn, has reduced money available for other areas of the state budget, such as human services, Medicaid, etc.

