

**Gallagher Amendment
(1982)**

**TABOR Amendment
Tax Payers Bill of Rights
(1992)**

**Referendum C
(2005)**

Colorado's cities and towns face some of the most restrictive constitutional limits on spending in the nation. In 1982, the State of Colorado passed the Gallagher Amendment, which mandated that residential real estate only account for 45% of the total assessment of property taxes. In 1992, Colorado passed the Tax Payers Bill of Rights (TABOR), which additionally restricts incremental tax increases by tying tax revenue to inflation and population growth. Due to these constitutional limitations on spending, the effective property tax rate on residential properties dropped from just over 1.01% in 1995 to .53% for the 2007 assessment (Table I).

What does this mean to apartment owners in Colorado?

Due to these constitutional and statutory limitations, Colorado is a great place to own apartments for two

major reasons. First, multifamily units are taxed based on the residential assessment ratio of 7.96% of the property's total value (compared to 29% for commercial), making Colorado multifamily taxes one of the lowest in the nation. Secondly, due to TABOR, revenue increases greater than the mandated growth and inflation must be voter approved. These statutory limitations have created favorable tax benefits for multifamily owners now and well into the future.

On the following pages we will show how property taxes for the same property would have decreased in 20 years (1987-2007) and how Colorado's tax law is favorable to the multifamily investor.

PROPERTY TAX COMPARISON - THEN AND NOW

1987



Apartment Value: \$100,000
Assessed Tax Rate: 30%
Mill Levy: 49.745 (1987)

Annual Tax:
\$1,492.35

2007



Apartment Value: \$265,330
Assumed 5% per annum average appreciation
Assessed Tax Rate: 7.96%
Mill Levy: 66.897 (2007)

Annual Tax:
\$1,412.72

GALLAGHER AMENDMENT

The Gallagher Amendment Mandates (1982)

(Table I and Table II)

-The Gallagher mandates that residential properties will pay 45% of all property tax assessed statewide and commercial properties will pay the remaining 55% of the taxes.

-Multifamily properties are considered residential in the state of Colorado.

-In order to accomplish and maintain the 44/55% split, commercial properties are assessed at 29% while the residential ratio is adjusted to maintain the balance.

-The Gallagher Amendment mandates that all property values be reassessed every two years to maintain the mandated ratio, which occurs in every odd year. In order to reassess value, the assessor is required to use a "base period" to re-evaluate comparable sales. The base period is the 18 month period through June preceding the reassessment year.

-Since 1987 the assessment ratio has gone from 18% to its current level 7.96% (Table II).

-Due to the commercial assessment rate being locked in at 29% and subsequent increases in the value of residential property across the state, the residential assessment ratio has been declining since 1985 (Table II and Table III).

-Due to the passage of the Gallagher Amendment the effective tax rate for multifamily properties peaked at 1.1% in 1991 and is currently at .53%, one of the lowest in the nation.

TAXPAYERS BILL OF RIGHTS (TABOR)

-Prior to the passage of TABOR, local municipalities could "float" their property tax rates (mill levies) to keep residential revenue steady even as increasing home values and Gallagher drove assessments lower.

-Created "ratchet effect" during 2001-2003 economic downturn by limiting revenues to the previous years declining property values.

-The TABOR amendment limits the revenues that municipalities can keep and spend based on last years amount, plus a percentage based on inflation and the change in property value within the municipality.

-TABOR is an amendment to Colorado's Constitution that limits tax increases to the tax rate determined by a combined rate of population growth and inflation.

-Limits increases for the General Fund to 6% per year.

-Requires voter approval to raise taxes or adjust spending limits

BUDGET PROCESS - DETERMINING MILL LEVY

Each year county commissioners, city councils, school boards and special districts hold public budget hearings to determine the dollars needed for next year's operations. The assessor then reports the total assessed value to each taxing entity to determine the appropriate mill levy.

Example:

Denver's Required Budget - 2008 (determined 2007) = \$836,657,000

Total Assessed Value - 2007 reassessment = \$10,250,664,000

Mill Levy required to satisfy budget:

$\$836,657,000 / \$10,250,664,000 =$

.066897 or 66.897 mills

Each taxing entity determines the revenue needed to operate the entity during the fiscal year.

CALCULATING PROPERTY TAXES

In order to calculate a property's yearly taxable rate:

Example:

The city/county reassesses property's every two years on the odd year. The property's value is determined by studying sales from the base period and the condition of the property. The base period is the 18 month prior to the assessment date, which is the first day in January of the assessment year.

Actual Value = \$37,000,000

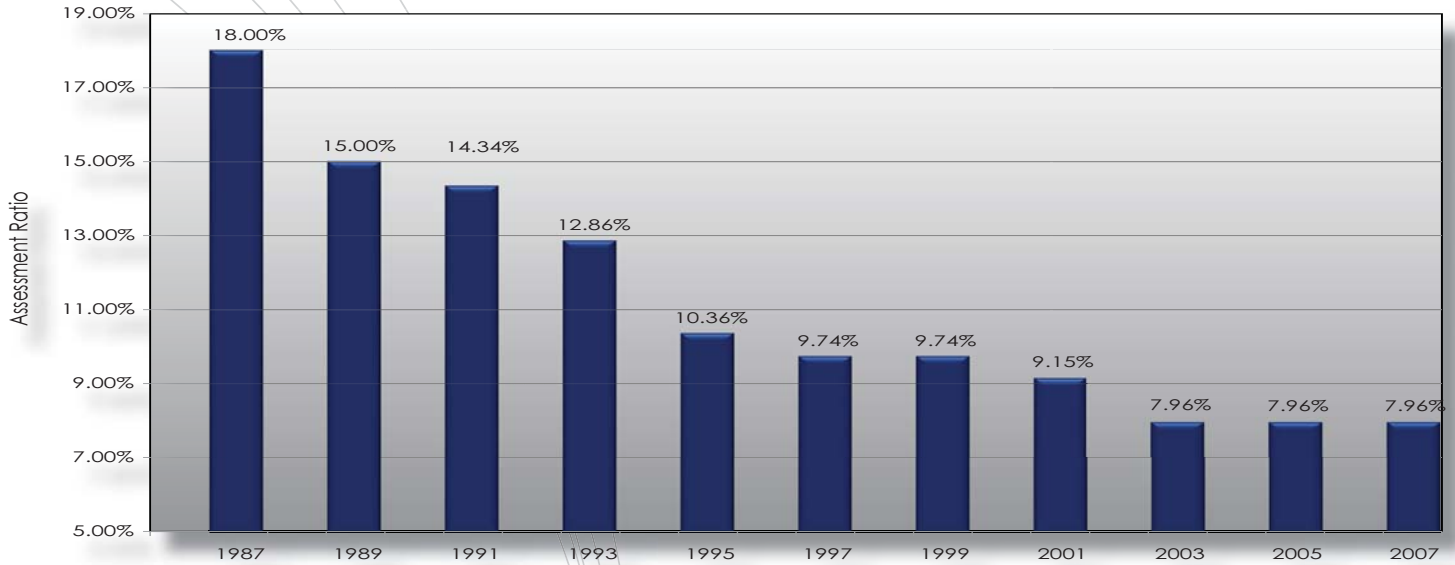
Assessment Ratio (Residential) = Actual Value X Assessment Ratio = \$37,000,000 X .0796 = \$2,945,200

Tax Due for Current Year = Assessed Value X Mill Levy = \$2,945,200 X 66.897 mills = \$197,025

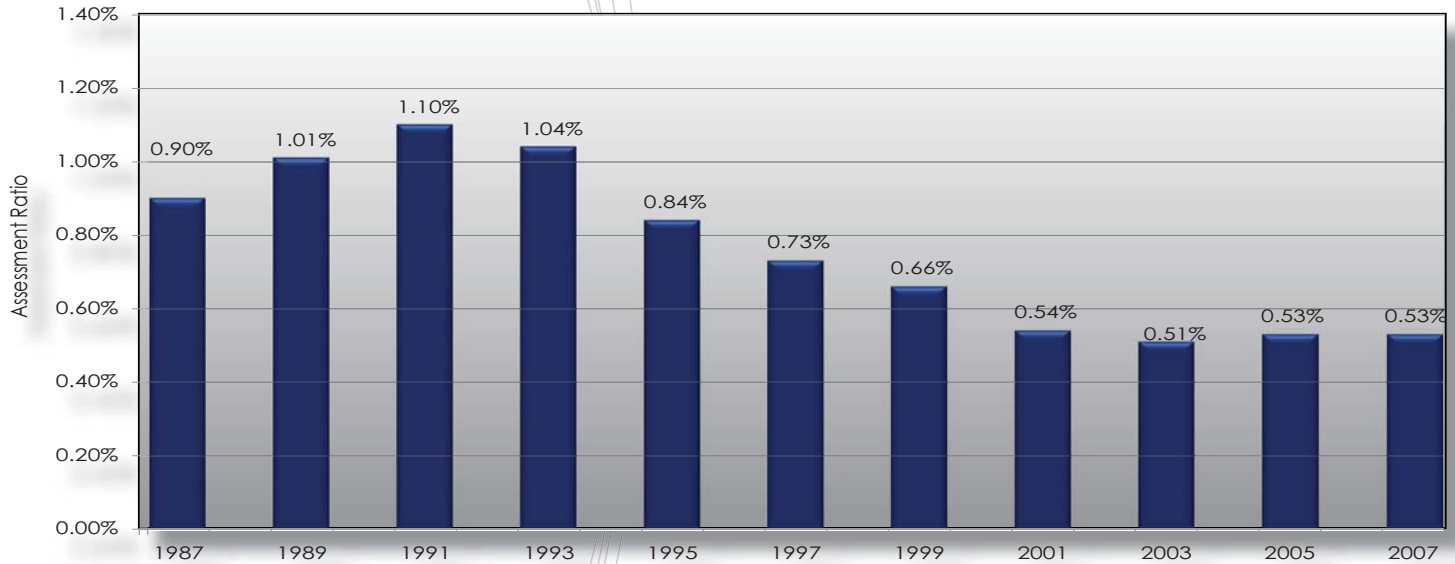
The example property had 241 units or \$817.53 per unit

The average tax rate for stabilized multifamily properties of 50 units or greater is \$751 per unit in 2007.

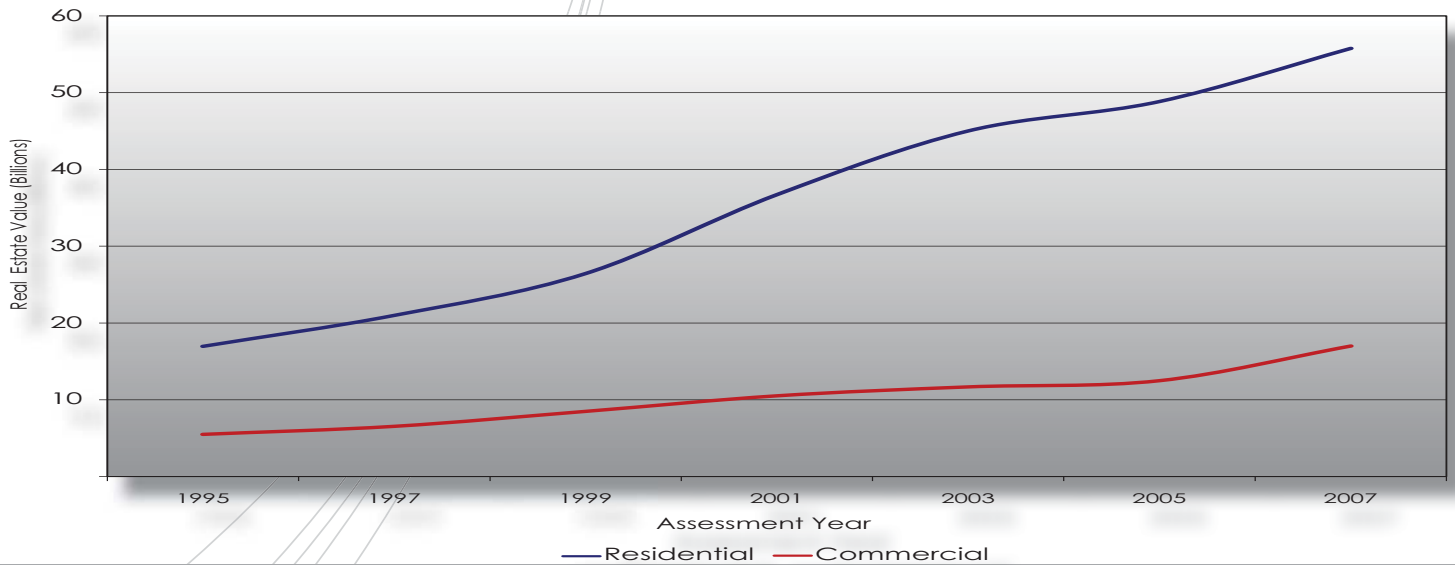
EFFECTIVE TAX RATE (TABLE I)



GALLAGHER AMENDMENT (TABLE II)



DENVER COUNTY REAL PROPERTY VALUES (TABLE III)



COLORADO PROPERTY TAX EXAMPLE

2007 Mill Levy For Property Taxes Payable in 2008

City & County of Denver

General Fund	6.306
Bond Principal	4.750
Bond Interest	3.683
Social Services	3.630
Developmentally Disabled	1.013
Fire Pension	1.345
Police Pension	1.607
Capital Improvement *	2.285
Capital Maintenance *	2.500
Total	27.119
School District #1	
General Fund	33.611
Bond Redemption	5.599
Total	39.210
Urban Drain & Flood	
Control District	0.568
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TOTAL LEVY	66.897



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