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M E M O R A N D U M

April 18, 2017

TO: Interested Persons
FROM: Larson Silbaugh, Senior Economist, (303) 866-4720
SUBJECT: Impact of Final Residential Assessment Rate Study on Local Share

Summary

The final Residential Assessment Rate Study released by the Division of Property Taxation on April 17, 2017 estimates a residential assessment rate of 7.20 percent for 2017 and 2018. The General Assembly must pass a bill before this rate becomes law. Compared with the baseline forecast which was predicated on the December 2016 Legislative Council Staff assessed values forecast, the local share for school finance with a residential assessment rate of 7.20 percent will increase by between \$48.7 million and \$214.2 million in FY 2017-18. The actual increase in the local share for school finance will depend on the accuracy of the forecast used to estimate the local share.

Assessed Values Forecasts

There are two forecasts available for 2017 assessed values: Legislative Council Staff and the Division of Property Taxation (DPT) within the Department of Local Affairs. Actual values for school districts and other local districts will be certified to local taxing districts in August 2017.

Legislative Council Staff Forecast. The December 2016 Legislative Council Staff assessed value forecast estimated the 2017 property tax base for school finance at \$98.8 billion, which results in \$2.281 billion in the local share for school finance. The December 2016 forecast is based on the following factors:

- Residential actual value growth of 12.6 percent between 2016 and 2017;
- A residential assessment rate of 6.85 percent in 2017; and
- Nonresidential assessed value growth of 2.5 percent between 2016 and 2017.

These factors were derived from economic trends across the state, expectations for future economic activity, and recent reassessment cycles by school district. The Legislative Council Staff assessed value forecast is the baseline forecast for the FY 2017-18 school finance model.

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Division of Property Taxation final report. The division released a final residential assessment rate study on April 17, 2017. Based on this report, the estimated 2017 property tax base for school finance is \$110.4 billion. The DPT report is based on the following factors:

- Residential actual value growth of 20.8 percent between 2016 and 2017;
- A residential assessment rate of 7.20 percent in 2017;
- Nonresidential assessed value growth of 13.1 percent between 2016 and 2017; and
- Assessed values for oil and gas property, a component of nonresidential property, to grow 8.3 percent between 2016 and 2017.

Residential actual values in the DPT report are based on data provided by county assessors after conducting the 2017 reassessment of residential property. Assessors will mail notices of valuation on May 1.

Different Scenarios

Based on the difference in the assessed value forecasts and a new residential assessment rate, the estimated local share for school finance is provided for several scenarios. Table 1 compares the estimated local share for school finance between the different assessed value forecasts and the baseline.

Baseline forecast. The baseline forecast is the December 2016 Legislative Council Staff assessed values forecast. The long bill budget package was written to this forecast, however county assessors have provided new information to the Division of Property Taxation and the final report contains a higher residential assessment rate for 2017.

Baseline forecast adjusted for higher residential assessment rate. Applying the 7.20 percent residential assessment rate to the Legislative Council Staff forecast of residential market values results in a local share of \$2.330 billion in 2017, \$48.7 million higher than the baseline forecast.

Blended forecast. Incorporating the residential market value growth of 20.8 percent reported by county assessors to DPT and the 7.20 percent residential assessment rate into the baseline forecast results in a local share of \$2.410 billion, \$128.4 million higher than the baseline forecast.

Adjusted DPT forecast. In general, the final report from DPT includes more recent information provided by county assessors for residential, commercial, industrial, agricultural, and vacant land classes of property. The report projects growth for oil and gas, natural resources, producing mines, and state assessed property. The projected growth rate for oil and gas property is 8.3 percent, however based on production and price data the value of oil and gas produced between 2015 and 2016 declined by 8.5 percent. Staff therefore believe the DPT report overestimates the assessed value for oil and natural gas property in 2017, which is based on the prior year's production. Adjusting the DPT final report to account for oil and gas production data, the local share would be an estimated \$2.496 billion, \$214.2 million higher than the baseline forecast.

Table 1
Comparison between Estimated Local Share for School Finance

	Estimated Local Share for School Finance	Difference from Baseline
Baseline Forecast	\$2,281,512,223	\$0
LCS Forecast with 7.20% RAR	\$2,330,238,197	\$48,725,974
Blended Forecast	\$2,409,944,058	\$128,431,835
DPT Forecast adjusted for Oil & Gas	\$2,495,688,676	\$214,176,453

Sources: December 2016 LCS Assessed Value Forecast and Division of Property Taxation Final 2017 Residential Assessment Rate Study.