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Council  
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**MEMORANDUM**

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January 7, 2008

**TO:** Representative Cory Gardner

**FROM:** Deb Godshall, Assistant Director, 303-866-4776

**SUBJECT:** Updated Projections for the Property Tax Impact of Senate Bill 07-199

This memorandum is in response to your request for an update of the ten-year property tax projections for school finance under Senate Bill 07-199, the 2007 school finance bill. The memorandum first updates information provided to you on September 12, 2007, regarding the impact in the current year.<sup>1</sup> Next, it provides an estimate of the impact through FY 2016-17, incorporating Legislative Council Staff's December 2007 forecasts of inflation, assessed values, and pupil counts and research on the relationship between assessed value increases and property taxes when a constant mill levy is applied.

**Property Tax Impact of Senate Bill 07-199 in FY 2007-08**

Based on the assessed values and pupil counts available in late December for school district certification of mill levies, the property tax changes in Senate Bill 07-199 increased property tax revenue to school districts by \$117.8 million statewide. This figure compares to a projected amount during the legislative session of \$48.2 million.

The \$117.8 million impact takes into account two requirements of Senate Bill 07-199: first, that any district that received voter approval to exceed the property tax revenue limit in the state constitution impose the mill levy from the prior budget year, instead of allowing the levy to fall to meet the property tax revenue limit in the state

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<sup>1</sup> Legislative Council Staff memorandum, *Updated Estimates of the Impact of Senate Bill 07-199 on School District Property Taxes*, September 12, 2007

constitution, and second, that the maximum levy imposed by school districts is 27 mills. In total, 116 districts certified higher levies than would have been the case under the old law, generating \$123.2 million more in property tax revenue. The 27-mill cap reduced the levy in 30 districts for a property tax reduction of \$5.4 million. Thus, the \$117.8 million is the net impact of the two provisions. In the remaining 32 districts, the law change in Senate Bill 07-199 did not affect district property taxes. This last category includes the three districts—Cherry Creek, Colorado Springs, and Harrison—that did not approve a ballot question to override the constitutional property tax revenue limit.

The impact of the law change in each district depends on the district's change in assessed value relative to the sum of inflation plus its percentage change in enrollment. In general, however, the change in the impact from the legislative session to now is the result of assessed values that are \$3.8 billion higher than projected in December 2006.

### Updated Ten-Year Projected Impact of Senate Bill 07-199

Based on recently revised forecasts for inflation, pupil counts, and assessed value, the projected, cumulative ten-year impact of the property tax provisions of Senate Bill 07-199 is just under \$3.8 billion. This figure updates the \$1.7 billion amount provided in the spring of 2007. The primary reason for the increase is adjustments to assessed value forecasts: through FY 2011-12, the assessed value forecast increased by a cumulative total of about \$42 billion, or almost 10 percent. Table 1 presents the estimated annual impact of the law change in Senate Bill 07-199; it is followed by discussion on the methodology used in estimating the property tax impact.

**Table 1. Estimated Ten-Year Impact of the Property Tax Provisions of Senate Bill 07-199**

Year	Estimated Property Taxes Pre-SB 07-199	Estimated Current Law Property Taxes	Annual Change in Property Taxes	Cumulative Property Tax Change
FY 2007-08	\$1.638 billion	\$1.756 billion	\$118 million	\$118 million
FY 2008-09	\$1.674 billion	\$1.806 billion	\$131 million	\$249 million
FY 2009-10	\$1.744 billion	\$1.954 billion	\$210 million	\$459 million
FY 2010-11	\$1.808 billion	\$2.042 billion	\$234 million	\$693 million
FY 2011-12	\$1.894 billion	\$2.268 billion	\$375 million	\$1.067 billion
FY 2012-13	\$1.958 billion	\$2.360 billion	\$402 million	\$1.469 billion
FY 2013-14	\$2.040 billion	\$2.553 billion	\$514 million	\$1.983 billion
FY 2014-15	\$2.097 billion	\$2.620 billion	\$523 million	\$2.506 billion
FY 2015-16	\$2.193 billion	\$2.835 billion	\$642 million	\$3.148 billion
FY 2016-17	\$2.258 billion	\$2.908 billion	\$650 million	\$3.798 billion

**Methodology.** The projections provided during the 2007 legislative session were based on district-by-district estimates of the impact through FY 2011-12, using Legislative Council Staff's December 2006 forecast of inflation, pupil counts, and assessed value. The office's December 2007 forecast updated these estimates and extended them by one year. For years beyond the five-year forecast period, the original and current projections for the old law incorporate the property tax calculation from the model that predicts the balance of the State Education Fund. In reassessment years (odd-numbered years), the local share is increased by 85 percent of the sum of inflation and the statewide percentage change in the pupil count.<sup>2</sup> In nonreassessment years (even-numbered years), the annual increase is 55 percent of the sum of the two numbers.

To estimate property taxes beyond the forecast period under current law, property taxes are assumed to grow by the average assessed value increase over the last nine reassessment and nonreassessment years—9.3 percent and 3.2 percent, respectively—adjusted downward to account for the fact that property taxes are not likely to grow by the full percentage increase in assessed value. Property taxes are expected to grow by less than the statewide increase in assessed value for two reasons. First, property taxes in three districts continue to be governed by the constitutional limit on property tax revenue growth. Second, property taxes in other districts are capped by a provision in the current school finance act that limits district property taxes to the amount of funding received by the district through the school finance act and for categorical programs. Thus, once this maximum amount of property taxes is reached, mill levies in these districts will fall. This situation tends to occur in districts with disproportionately high property wealth, such as districts in resort communities or in areas rich in natural resources, and is more likely to occur in reassessment years than nonreassessment years. After accounting for these circumstances, property taxes are assumed to increase by 8.2 percent in reassessment years and 2.6 percent in nonreassessment years for FY 2013-14 through FY 2016-17. In the earlier projection, the comparable percentage increases were 8.0 and 3.0 percent, respectively.

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<sup>2</sup> The constitutional property tax revenue limit for each district is the sum of inflation plus the district's percentage change in enrollment.