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COLORADO PROPERTY TAX PRIMER: WHERE DO PROPERTY TAXES STAND AND WHERE ARE THEY GOING?

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ABOUT THE AUTHORS



Chris Brown is Vice President of Policy and Research for Common Sense Institute (CSI) Colorado. With an extensive background in economics and public policy, Brown has made significant contributions to understanding complex economic issues within Colorado and beyond. Highlights of his work include reports on the economic effects of major ballot measures and legislation including, Proposition HH on property tax reform, Proposition 118 on the creation of a state paid leave program, predictive scheduling legislation, the Colorado option health plan among many more. Prior to joining CSI, Brown spent close to a decade working for REMI (Regional Economic Models Inc), establishing their Washington D.C. office.



Steven Byers, Ph.D. is the Common Sense Institute (CSI) Chief Economist. Prior to joining CSI, Steven spent three years working for the Coalition for a Prosperous America, a nonprofit organization consisting of manufacturing, agricultural, labor, consumer, and citizen interest groups, where he conducted research on the U.S. economy, international trade, and tariffs. Highlights of this research include a paper titled, “Decoupling from China – An Economic Analysis of the Impact on the U.S. Economy of a Permanent Tariff on Chinese Imports” for which he and a co-author won the National Association for Business Economics Edmund A. Mennis Contributed Paper Award. Dr. Byers’ experience as an economist spans twenty-three years, including work at federal regulatory agencies (SEC, CFTC, PCAOB) and quantitative economic analysis supporting international trade litigation cases brought before the U.S. International Trade Commission. His Ph.D. dissertation topic was based on a computable general equilibrium model (CGE) he developed to evaluate the economic impact of regional tax incentives in a small city (Fort Collins, CO).

ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Colorado's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Coloradans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

TEAMS & FELLOWS STATEMENT

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit with academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

INTRODUCTION

Rising property taxes are part of a larger housing challenge in Colorado. Colorado continues to grapple with an acute housing shortage, resulting in sky-high home prices and an alarming affordability crisis for owners and renters.

In January, Common Sense Institute calculated the number of hours that one would have to work while earning the average hourly wage in each year from 2013 to 2023 to cover the monthly mortgage payments. In the Denver metro area, the increase was 172%, from 42 to 114.

For decades, the calculation of residential property taxes in Colorado was dictated by a voter-approved formula known as the Gallagher Amendment. The interaction between that formula, disparate growth in home prices, and TABOR led the state legislature to refer a measure

to Colorado voters to repeal the Gallagher Amendment in 2020. Voters ultimately voted to approve the repeal of the Gallagher Amendment without a long-term replacement.

While nobody could have predicted the events that transpired in 2020, leading to a sudden surge in home values, repealing the Gallagher Amendment without a replacement always risked uncontrolled increases in property taxes. This year's tax bills following the latest re-assessment period reveal how costly this policy change—and the lack of substantive taxpayer protections—is for homeowners. Estimates from the Colorado Legislative Council staff indicate residential property assessed value increased over 27% in 2023. Data compiled by CSI from just three counties shows actual property taxes increased an average of 36% in Douglas County and by over 18% in both Boulder and Arapahoe counties, surpassing inflation and wage growth.

KEY FINDINGS

- Property taxes are a primary driver of Colorado homeowners' cost of living increase this year.
 - > Property taxes alone account for 17% of the increase in household expenses this year.
 - > Property taxes combined with other housing expenses accounted for 66% of the increase in average homeowner expenses.
 - > Through 2023, the number of hours of work at the average weekly wage to afford the median-priced home increased 2.7 times since 2013, increasing from 42 to 114 hours.
- The property tax burden on middle-income Coloradans is growing at a staggering pace.
 - > Homeowners face an estimated 32% to 54% cumulative increase in their property tax bill between 2024 and 2026 for a \$500,000 home.
- In 2021, 63% of Coloradans lived in a county where the property tax to income ratio was above the national average.
- Denver County has a higher property tax-to-income ratio than 63% of all U.S. counties.

WHERE DID COLORADO PROPERTY TAXES STAND BEFORE 2024?

Many Coloradans pay higher than average taxes, even adjusted for income. Despite effective tax rates being lower than average, the rapid increase in home values in Colorado over the past decade has made an impact.

Colorado has the 27th lowest median property tax payment in the nation. Statewide, the median property tax payment as a percent of median income ranks as the 20th lowest.

However, the 12 Colorado counties that are home to 63% of the state's population rank above the U.S. average for median tax as a percentage of median household income.

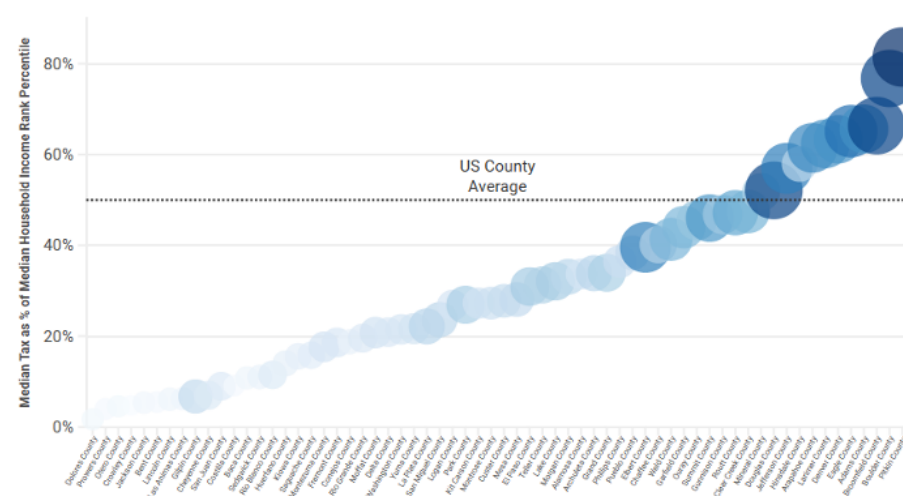
Denver had the second lowest effective property tax rate among the largest cities in every state in 2021, yet it had the 20th lowest payment, increasing four spots over the prior four years.ⁱ Denver County has a higher property tax-to-income ratio than 63% of all U.S. counties.

Maintaining steady and competitive property tax payments is critical for the state's competitiveness in attracting and retaining a growing workforce.

FIGURE 1

Property Tax Payments as a Percent of Income National Ranking

63% of Coloradans live in 12 counties that have a median property tax to median income ratio above the national average.



Source: U.S. Census Bureau, 2021 American Community Survey, datasets B25103 & S1903

HOW WILL COLORADO PROPERTY TAXES COMPARE GOING FORWARD WITHOUT A MEANINGFUL GROWTH LIMIT?

The Gallagher Amendment's repeal precipitated Colorado's property tax situation.

Before its repeal, the Gallagher Amendment forced down residential property tax rates over time, keeping the growth in property tax bills below the growth in home values. This provided more predictability and stability for taxpayers. However, it made revenue less predictable and stable for local jurisdictions.

The Gallagher Amendment was one of several types of property tax limiting measures in use across the U.S. According to research by the

Tax Foundation, all but three states have limiting factors governing annual property tax increases.ⁱⁱ There are three categories: assessment, rate, and levy.

Assessment limits typically restrict the increase in the assessed value of individual properties. Rate limits restrict changes in property tax millage, either at the level of individual taxing authority or in aggregate. Levy limits or revenue limits restrict the amount of revenue increases for individual authorities or groupings of taxing authorities.

FIGURE 2

Growth in Property Tax Under Current Law				
	2022	2023	2024	2025
Home Price - Scenario 1	\$500,000	\$700,000	\$700,000	\$749,000
Home Price - Scenario 2	\$500,000	\$600,000	\$600,000	\$642,000
Assessment Rate	0.0695	0.067	0.07061	0.0715
Exemption		\$55,000		
Mill Levy	0.085	0.085	0.085	0.085
Property Tax - Scenario 1	\$2,954	\$3,673	\$4,201	\$4,552
Property Tax - Scenario 2	\$2,954	\$3,104	\$3,601	\$3,902
Property Tax Increase - Scenario 1		\$720	\$528	\$351
Property Tax Increase - Scenario 2		\$150	\$497	\$301
Property Tax Increase % - Scenario 1		24.4%	14.4%	8.3%
Property Tax Increase % - Scenario 2		5.1%	16.0%	8.3%

The repeal of the Gallagher Amendment left Coloradans without a meaningful tax limitation structure. Coloradans now likely face some of the fastest-growing property taxes anywhere. Despite some mill levies coming down to offset assessed value growth, most homeowners saw significant property tax increases that outpaced inflation.

Over the next two years, the statewide assessment rate is set to increase from 6.7% to 7.15%. The temporary \$55,000 exemption applied in 2023 will end at the same time. Under current law, Colorado homeowners will face large property tax increases even if their assessed values stay flat.

The owner of a \$500,000 home in 2022 that saw their value increase 40% in 2023, then just 7% in 2025, will see a 54% increase in their property tax bills over a three-year period. The owner of a different \$500,000 home in 2022 that saw their value increase 20% in 2023, then 7% in 2025, will see a 32% increase in their property taxes over a three-year period.

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IMPACT OF PROPERTY TAXES ON AFFORDABILITY OVER RECENT HISTORY

Housing affordability has declined significantly under the recent growth in home prices and mortgage interest rates. CSI housing affordability reports have shown just how much the cost of purchasing a home in Colorado has outpaced incomes.

A current homebuyer earning the average hourly weekly wage would need to commit

114 hours of their work each month towards purchasing the median-priced home today – 2.7 more than a decade ago.ⁱⁱⁱ

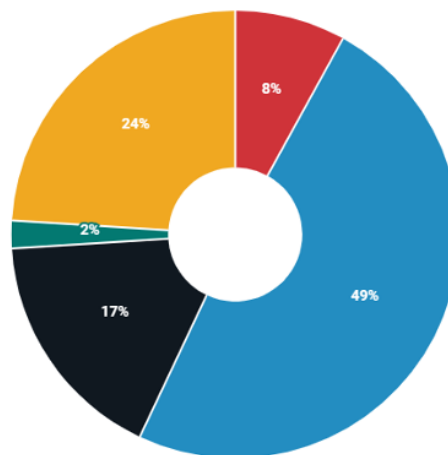
With the removal of the Gallagher Amendment, the growth in property taxes this year will meaningfully affect affordability. Property taxes will account for 17% of the average homeowner’s increase in expenditures this year. While household expenditures have increased by over \$3,700 in the last year, the average property tax increased by nearly \$650.

FIGURE 3

Property Taxes Account for 17% of the Increase in Household Spending

While some expenses such as utilities and transportation have declined, the cost of housing, including taxes, account for 2/3 of the increased costs on household budgets. Given the rapid increase in property taxes for 2024, they alone account for 17% of total expense increases.

■ Food ■ Housing ■ Property Taxes ■ Recreation ■ All other expenditures



Source: Census, BLS CPI, CSI Property Tax Calculations



BOTTOM LINE

Voters and elected officials expected something to replace the longstanding formula governing property taxes leading up to the Gallagher Amendment's repeal.

It has yet to come, leaving no long-term fix that can provide stability and predictability to both taxpayers and local governments.

Nearly every state property tax system has meaningful tax growth limitations that provide greater certainty and avoid the recurring need for last-minute property tax relief legislation. Though Colorado has promulgated annual policy changes that offer temporary and limited relief, Colorado homeowners still face large increases in taxes under current law. These increases will likely further lower Colorado's relative property tax competitiveness and strain overall affordability.

APPENDIX

COLORADO PROPERTY TAX RANKINGS

County	Median Tax Payment, 2021	Median Household Income, 2021	Median Tax Rank	Median Tax Rank Percentile	Median Tax as % of Median Household Income	Median Tax as % of Median Household Income Rank (out of 3221 counties)	Median Tax as % of Median Household Income Rank percentile
Dolores County	\$470	\$62,500	200	6.21%	0.75%	55	1.71%
Prowers County	\$445	\$44,984	176	5.46%	0.99%	129	4.00%
Otero County	\$473	\$45,826	204	6.33%	1.03%	148	4.59%
Crowley County	\$394	\$37,870	133	4.13%	1.04%	155	4.81%
Jackson County	\$480	\$44,667	215	6.67%	1.07%	173	5.37%
Bent County	\$443	\$40,972	174	5.40%	1.08%	177	5.50%
Lincoln County	\$527	\$46,894	263	8.17%	1.12%	197	6.12%
Las Animas County	\$509	\$45,118	237	7.36%	1.13%	200	6.21%
Gilpin County	\$1,121	\$96,784	1234	38.31%	1.16%	217	6.74%
Cheyenne County	\$803	\$69,063	734	22.79%	1.16%	225	6.99%
San Juan County	\$791	\$63,333	715	22.20%	1.25%	290	9.00%
Costilla County	\$440	\$35,000	169	5.25%	1.26%	294	9.13%
Baca County	\$522	\$39,891	256	7.95%	1.31%	349	10.84%
Sedgwick County	\$584	\$44,405	342	10.62%	1.32%	355	11.02%
Rio Blanco County	\$781	\$58,239	693	21.52%	1.34%	370	11.49%
Huerfano County	\$654	\$45,724	463	14.37%	1.43%	451	14.00%
Kiowa County	\$679	\$45,476	506	15.71%	1.49%	502	15.59%
Saguache County	\$726	\$48,413	575	17.85%	1.50%	509	15.80%
Montezuma County	\$906	\$58,335	896	27.82%	1.55%	569	17.67%
Fremont County	\$844	\$53,411	787	24.43%	1.58%	600	18.63%
Conejos County	\$610	\$38,536	378	11.74%	1.58%	604	18.75%
Rio Grande County	\$805	\$50,287	737	22.88%	1.60%	630	19.56%
Moffat County	\$956	\$58,583	973	30.21%	1.63%	670	20.80%
Delta County	\$848	\$51,803	798	24.77%	1.64%	673	20.89%
Washington County	\$893	\$54,141	871	27.04%	1.65%	693	21.52%

Yuma County	\$931	\$56,327	937	29.09%	1.65%	698	21.67%
La Plata County	\$1,250	\$75,089	1439	44.68%	1.66%	714	22.17%
San Miguel County	\$1,208	\$70,965	1357	42.13%	1.70%	761	23.63%
Logan County	\$916	\$50,998	915	28.41%	1.80%	864	26.82%
Park County	\$1,401	\$77,775	1694	52.59%	1.80%	867	26.92%
Kit Carson County	\$958	\$52,917	979	30.39%	1.81%	878	27.26%
Montrose County	\$1,036	\$57,225	1094	33.96%	1.81%	879	27.29%
Custer County	\$1,095	\$59,877	1196	37.13%	1.83%	895	27.79%
Mesa County	\$1,139	\$62,127	1271	39.46%	1.83%	904	28.07%
El Paso County	\$1,449	\$75,909	1785	55.42%	1.91%	996	30.92%
Teller County	\$1,318	\$68,677	1545	47.97%	1.92%	1008	31.29%
Lake County	\$1,420	\$73,099	1729	53.68%	1.94%	1034	32.10%
Morgan County	\$1,238	\$62,914	1410	43.78%	1.97%	1066	33.10%
Alamosa County	\$918	\$46,217	918	28.50%	1.99%	1085	33.69%
Archuleta County	\$1,252	\$62,907	1442	44.77%	1.99%	1091	33.87%
Grand County	\$1,381	\$69,353	1662	51.60%	1.99%	1094	33.96%
Phillips County	\$1,051	\$50,951	1124	34.90%	2.06%	1173	36.42%
Pueblo County	\$1,134	\$53,430	1264	39.24%	2.12%	1235	38.34%
Elbert County	\$2,481	\$114,904	2683	83.30%	2.16%	1275	39.58%
Chaffee County	\$1,331	\$61,216	1569	48.71%	2.17%	1294	40.17%
Weld County	\$1,784	\$80,843	2203	68.39%	2.21%	1331	41.32%
Garfield County	\$1,759	\$77,212	2169	67.34%	2.28%	1418	44.02%
Ouray County	\$1,552	\$67,228	1915	59.45%	2.31%	1466	45.51%
Summit County	\$2,174	\$93,505	2511	77.96%	2.33%	1482	46.01%
Gunnison County	\$1,484	\$63,341	1829	56.78%	2.34%	1507	46.79%
Routt County	\$1,974	\$83,725	2386	74.08%	2.36%	1520	47.19%
Clear Creek County	\$1,803	\$76,313	2220	68.92%	2.36%	1528	47.44%
Mineral County	\$1,384	\$55,556	1666	51.72%	2.49%	1666	51.72%
Douglas County	\$3,187	\$127,443	2921	90.69%	2.50%	1678	52.10%
Jefferson County	\$2,490	\$93,933	2690	83.51%	2.65%	1835	56.97%
Hinsdale County	\$1,228	\$45,714	1389	43.12%	2.69%	1866	57.93%
Arapahoe County	\$2,378	\$84,947	2625	81.50%	2.80%	1980	61.47%
Larimer County	\$2,281	\$80,664	2575	79.94%	2.83%	2008	62.34%
Denver County	\$2,234	\$78,177	2548	79.11%	2.86%	2040	63.33%
Eagle County	\$2,657	\$91,338	2761	85.72%	2.91%	2098	65.14%
Adams County	\$2,292	\$78,304	2580	80.10%	2.93%	2114	65.63%
Broomfield County	\$3,179	\$107,570	2919	90.62%	2.96%	2137	66.35%
Boulder County	\$3,164	\$92,466	2917	90.56%	3.42%	2472	76.75%
Pitkin County	\$3,400	\$92,708	2967	92.11%	3.67%	2624	81.47%

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