IN THE KNOW: PROPERTY TAXES

Property taxes have become a hot topic as property values – especially those for residential property – have significantly risen in many parts of Colorado over the last few years. While Colorado does have the 2nd lowest residential property taxes in the nation, the steep rise in property taxes certainly has impacted household budgets. Just as notable, property tax revenues are a crucial source of funding for local services in a state with many fiscal issues.

Property value is an important part of the formula in determining property taxes. Property taxes are calculated using the following formula:

(Value X Assessment Rate) X (Mill divided by 1000)

For example, for a home valued at $500,000, in a locality with 83 mills (the state average) that is in Colorado and therefore subject to the 6.7 percent assessment rate starting in 2023 with a $50,000 value subtraction for primary residences, the formula would be: ($500,000 - $50,000 x 6.7%) X (83/1000). That homeowner would owe $2,506 in property taxes. A few important points to clarify:

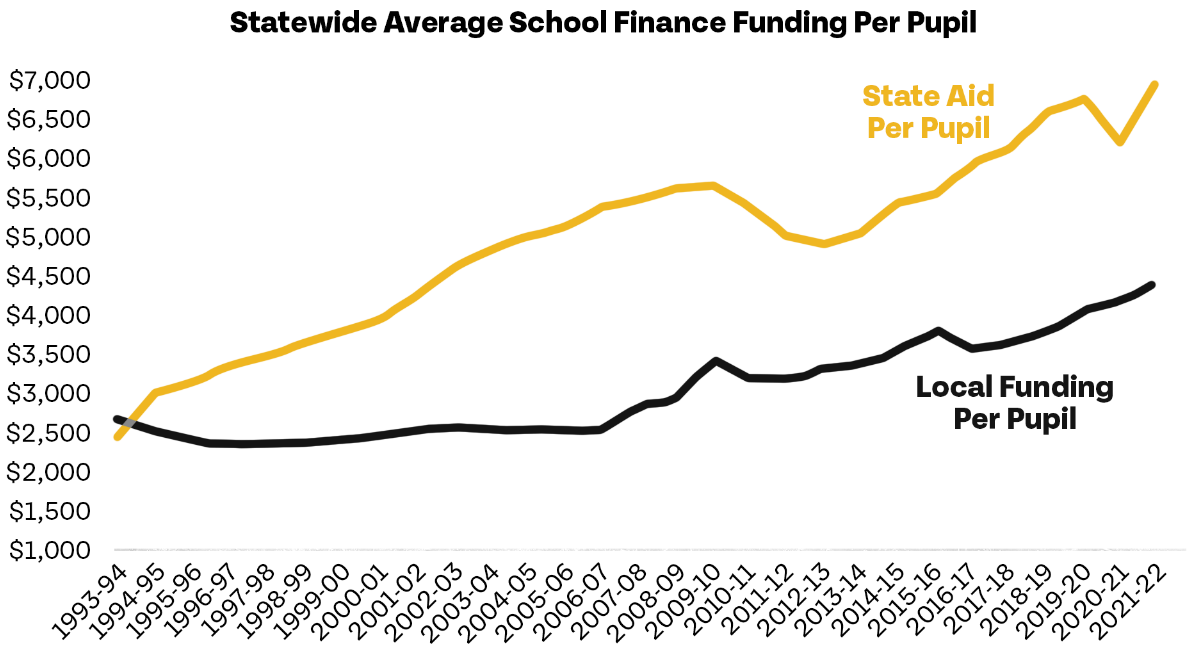
- Assessment rates are set statewide and vary between different types of property, whether they be residential or commercial, or even multi-family residential or single-family residential. Commercial rates are much higher than residential rates due to the Gallagher Amendment, which was in place from 1983 to 2020.
- Mill rates are set by local governments, like cities, counties, fire and police districts, water districts, and special districts. They conform to the revenue needed by the local governments to maintain or expand local services.
- As noted above, both state and local governments play an important role in determining property taxes. But the local governments are the entities that benefit from the revenue from property taxes. However, when property tax revenue decreases, oftentimes the state must backfill the lost revenue to ensure local services.
- Property taxes are vital sources of revenue for communities. They pay for local transportation and water infrastructure, public safety, schools, local parks, mental health services, and many other functions of local government. Local shortfalls in school funding are made up by the state. As a result, local school cuts increase state funding obligations.

Rising property values have led to rising property taxes. Over the course of three Colorado General Assembly sessions, lawmakers have passed legislation that reduces property tax growth while trying to preserve critical funding for local communities.
These are the pertinent bills:

- SB21-293 reduced assessment rates from 7.15 percent to 6.80 percent for multi-family homes and from 7.15 percent to 6.95 percent for single-family homes. This reduced property taxes paid by those property owners by about $200 million in both 2022 and 2023. This measure required more than $50 million in state dollars to backfill the property tax revenue that local governments would have gotten without the legislation.
- SB22-238 reduced property taxes for 2023 and 2024 through a mixture of assessment rate reductions and exempting a portion of property value from taxation, which reduces the overall value used for tax purposes. State assessment rates for residential properties were reduced further to 6.765 percent for both multi-family and single-family homes. The state also reduced assessment rates for commercial properties. In total, the legislature delivered $700 million in tax relief for property owners over 2023 and 2024. It's important to know that $300 million of 2023 TABOR rebate was committed to backfilling local communities' revenue losses.
- SB23-303 Reduce Property Taxes and Voter-approved Revenue Change is dependent on voter passage through Proposition HH in November 2023. If enacted, residential and commercial property tax rates will be reduced through 2032. It represents a medium-term response to changing the property tax system. New property types are enacted and assessment rates will be gradually ratcheted down (more information can be found here.) Overall, the effect will be significant with the average household paying $600 less in property taxes than they would have without Prop HH. The net property tax revenue impact would reduce local government revenue by $788 million in 2024, and $980 million in 2025. This figure would increase in subsequent years. TABOR surplus funding will be diverted to backfill local government losses.

Key Context

- The Gallagher Amendment was in place from 1983 – passed by voters at the ballot in November 1982 – until it was repealed by voters in November 2020. During this time, a strict ratio between residential and commercial assessment rates limited the legislature's ability to make changes in rates. Since its repeal, legislators have an opportunity to redesign the property tax system to make it fairer and more responsive to economic conditions.
- Various constitutional provisions significantly limit our options for a fairer property tax system. The state's uniformity clause prevents us from applying higher tax rates on high-value homes or lower tax rates on lower-value homes. TABOR explicitly prohibits the use of real estate transfer taxes or statewide property taxes that could help balance the different mill rates in different parts of the state that have led to unequal services for different local communities.
- Oftentimes in K-12 public education, the state has had to increase the amount contributed to local school districts because property tax revenue has not kept pace, as seen in the chart below.



Source: Legislative Council Staff