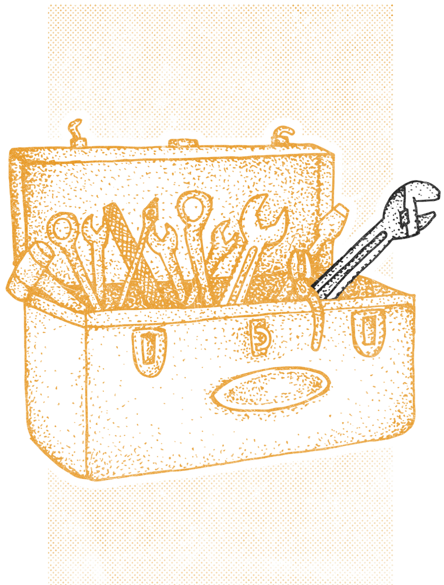
Luxury Residential Property:

THE MISSING TOOL FROM COLORADO'S TOOLBOX

THE PROBLEM

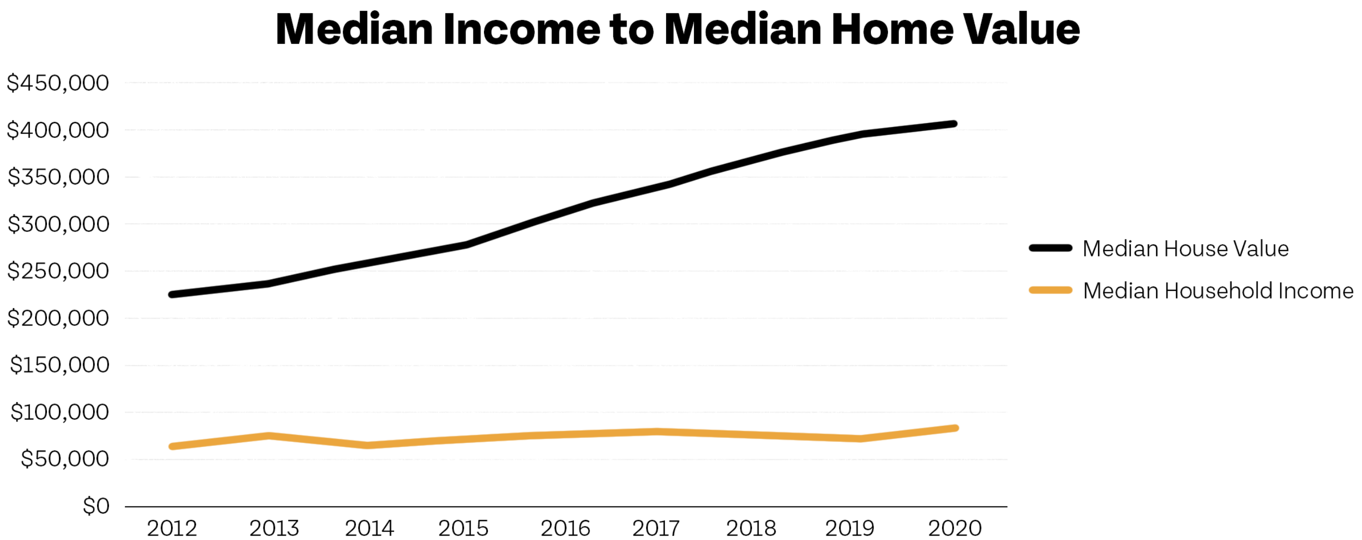
Colorado currently lacks the tools it needs to effectively support communities as they face housing shortages and climbing property values. Lack of affordable housing impacts people across the state, from our mountain communities to our cities.



The Bell Policy Center has initiated two proposals for ballot measures in the 2022 election. Both are designed to help communities deal with the challenges in our housing market and the undeniably large wealth gaps that have emerged in Colorado. These wealth gaps make it harder for low- and middle-income people to buy homes. Half of Colorado renters are cost-burdened and homeownership is increasingly out of reach as house prices skyrocket in an increasingly tight housing market and the rate of first-time homebuyers plummets. Affordable and stable housing and homeownership are essential for the social and economic well-being of Coloradans. Failing to address these issues will exacerbate existing inequalities in Colorado.

WHAT DO INITIATIVES 104 AND 106 ACCOMPLISH?

Years of fixed ratios for property taxes, under the now-repealed Gallagher amendment, have left commercial assessment rates extremely high and while Colorado's residential assessment rates are among the lowest in the nation, rapidly rising home values have burdened low- and middle-income homeowners with new costs.



Source: Bell Policy Analysis of FRED and Zillow

However, adjustments to this status quo mean revenue reductions for communities around the state and increased costs for state government. Governments heavily rely on property tax revenue to fund public schools, fire and police departments, local mental health services and more.

These proposed measures put new options on the table and are designed to generate new revenue from high-value homes for efforts to build new and/or maintain existing affordable housing.

Both measures define luxury residential property as a residential property valued at over $2 million in 2022, adjusted for inflation moving forward. This is expected to impact approximately the top 1 percent of homes, roughly 17,000 luxury homes, across the state.

INITIATIVE 104

Initiative 104 creates a new statewide tax on luxury homes. The Bell Policy Center estimates that a 0.57 percent tax on luxury residential homes across the state would generate $400 million annually. The proposal directs the state to distribute the statewide proceeds back to local districts in a manner that acknowledges community housing needs as well as the impacts of residential displacement between communities.

Example Tax Burden on $5 Million Luxury Home

Home Value	Tax Rate	Tax Burden
$5,000,000	0.57%	$28,500

The measure makes changes to our state constitution, allowing for a statewide property tax, and creates an exception in our state's uniformity clause for luxury properties.

INITIATIVE 106

This proposal takes a different approach, using a fee on luxury homes to create a new housing affordability fund. This luxury property fee is a 1.1 percent fee on a luxury residential property's value beyond $2 million. For example, a home valued at $2.5 million would be subject to a 1.1 percent fee on $500,000 of value.

Example Fee Burden on $5 Million Luxury Home

Home Value	Fee Rate	Exempt Value	Applicable Value	Fee Burden
$5,000,000	1.1%	-2,000,000	$3,000,000	$33,000

Since fees can be created statutorily, no constitutional changes are needed for this proposal. There are, however, specific legal criteria for the creation of a fee. Revenue cannot be used for general purposes and there must be a clear nexus between the fee and the problem being solved. In this case, luxury homes are displacing affordable housing and making it more difficult for community services professionals like teachers and maintenance workers to live in the community. The proceeds of the fee can be used to alleviate that dynamic.

BOTTOM LINE

Colorado must address affordable housing. However, decades of self-imposed fiscal restraints make it nearly impossible for the state to generate sufficient resources for tackling housing affordability without implementing regressive taxes, which would exacerbate current inequalities, or without cuts to essential services that communities rely on. A luxury property tax or a luxury property fee are important tools to consider for ensuring progressive revenue generation for this critical issue.