Price-Cap Regulations on Property Taxes & Consequences

In February, proposals were put forward to address rising property taxes for Colorado property owners. While there are statutory and legal differences between the 8 initiatives filed, overall the proposals seek to impose:

1. An artificial cap that limits the annual assessment value of all properties to whichever is lower: 3 percent or the Denver-Metro consumer price index for all items
2. A mandate that the assessed/appraised value of the property will be the property's most recent sale + inflation, limited to three percent
3. That the assessed value of a property that has not sold since June 30, 2020 will be equal to the property's 2020 valuation.

Multiple states have implemented similar measures to address rising property taxes, including California, Oregon, Florida, and a similar ballot measure has been proposed in Montana. For the most part, these states imposed their caps under the same political backdrop: high inflation, a hot housing market, and a desire to give homeowners tax relief. However, the measures had unintended consequences, and the cascading impacts persist today. These consequences include substantial taxpayer inequities, local budget shortages, less local control, and disincentivization of new homeownership.

Here are some case studies that highlight these unintended consequences:

I. California's Prop 13

A statewide amendment passed in 1978, Proposition 13 (Prop 13) mandated four key functions to how property tax rates are assessed for California properties.

1. Prop 13 established the base year value for home assessment rates to be 1975, unless a change of ownership or construction occurs.
2. The assessed value of a property is capped at an increase no greater than 2 percent. The limitation occurs unless there is a change of ownership or construction occurs.
3. Property taxes are limited to 1 percent of the assessed value of a property. Additional local property taxes may be applied if approved by voters.
4. To approve any new tax, Prop 13 mandated that two-thirds of voters or government support would be needed to pass it.

Impacts of Prop 13

- California homes have substantially different assessed rates dictated by when a property was purchased, e.g. two adjacent and similar homes could have substantially different assessed values if one home was bought in 1975 and the other in 2018.
- After Prop 13, California went from fifth to forty-seventh in K-12 per pupil spending nationwide. Because property taxes could no longer be the main source of funding for public education in the state, California has been forced to find other funding mechanisms to address the huge funding gap caused by loss of property tax revenue, including relying on the state to backfill local funding shortages.
- The disproportionate impacts of Prop 13 fell on communities of color, who did not reap the benefits of the homeownership relief but felt the budgets cuts most severely.
- California has the largest state sales tax in the country at 7.25 percent. However, in 1970, California's sales tax was only 3.5 percent. That increase can, in part, be attributed to declining property tax revenue and a need to outsource funding.

II. Florida's Amendment 10

Known as the Save Our Homes Amendment, in 1992, Florida voters adopted the measure which mandated:

1. Home values cannot increase by more than 3 percent of the previous year's assessment value.
2. The base value for assessment value is 1995 or whenever a homeowner receives a homestead exemption.
3. After applying for a homestead exemption, applicants may transfer their exemption for up to $500,000 of new value.

Impacts Of Save Our Homes

- Homes that have seen the largest aggregate and percentage value gains are wealthier waterfront homes. Thus, the cap acts as a tax break for wealthier homeowners and is nicknamed the "Save Our Waterfront Homes Amendment." For instance, in 2016, Rush Limbaugh's home in Palm Beach was valued at $50.7 million, yet because of the cap, the assessed value for property taxes was only $27.7 million.
- While it benefits wealthier homeowners, the cap hurts local government revenue, as property taxes are the main conduit for local service funding. This is especially true during a recession or housing bubble like in 2008.
- The homestead exemption disincentivizes homeowners to move, as it triggers a reassessment of the new property, which is called the "lock-in" effect.
- Home values vary significantly if one home has the homestead exemption and another does not, creating an inequity of home value rates.

III. Oregon's Measure 5 & 50

Two measures that greatly complicate Oregon's property tax code were both passed in the 1990s:

1. Measure 5, passed in 1991, limits property taxes to $5 per $1,000 of real market value and $10 per $1,000 real market value for government taxes.
2. Measure 50, enacted in 1997, limits the annual growth in assessed value to 3 percent and rolled back property taxes to 90 percent of their 1995-96 level.

Impacts of Measure 5 & 50:

- While advocates of Measure 5 argued that it would not hurt revenue, ultimately it severely cut public school funding, and the state had to backfill funding. This was especially true for rural school districts who were hit hardest by Measures 5 & 50.
- Measure 50 created further inequities as similar properties located next to each other can have substantially different tax bills depending on aggregate growth rates. For instance, two homes have the same assessed value. However, Home A's market value could increase by $100K one year while Home B's increases by only $25K. Each homeowner would have the same tax savings, but vastly different levels of market value growth.

Exploring Montana's Proposed 2022 Cap

A Montana constitutional amendment is being proposed that caps property taxes at 2 percent and sets the base year for valuations to be 2019. Like Colorado, Montana has seen home values skyrocket since COVID and has seen property taxes double from 2002 to 2018. However, this measure has seen resistance from conservatives and progressives who understand how similar measures have impacted other states.

The unusual coalition from both the left and right uniting to defeat the measure includes: the Montana Association of Realtors, Montana Farm Bureau, Montana Farmers Union, Montana AFL-CIO, Montana Federation of Public Employees, Montana Infrastructure Coalition, Montana Chamber of Commerce, Montana League of Cities and Towns, Montana Bankers Association, Montana Contractors Association, Montana Rural Education Association, and Montana Budget and Policy Center.

On The Right: "Amending Montana's Constitution is not the place to establish complex tax policy," said Montana Bankers Association President Cary Hegreberg. "If this ballot measure were to pass, we would never be able to fix the unintended consequences that will hit first-time homebuyers, seniors, agricultural landowners, and small businesses."

On The Left: "Montanans should be aware there are major long-term impacts from this proposal," said Montana Budget and Policy Center Co-Director Heather O'Loughlin. "Declining to sign is the only option to keep bad tax policy out of our constitution."

Impacts Of The Proposal

- Montana is one of five states without a statewide sales tax. Opponents of the measure argue that if the artificial cap is passed, Montana would have to look to other and more regressive means to address budget shortfalls.
- The proposed measure rolls back property valuations to 2019, which benefits current homeowners and hurts new prospective buyers.

The unintended consequences in Oregon, California, and Florida reveal that artificial price-cap regulations shortchange local governments and essential government services, erode local control, create significant and stark taxpayer inequities, and benefit current homeowners while hurting new prospective owners. Colorado must do more to ensure that local governments and schools are adequately funded to provide for communities across the state, while also creating a property tax system that promotes equity and gives Coloradans an actual opportunity to build wealth through homeownership.