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Colorado property owners to face astronomical tax increases next year

Big jump in home values during pandemic will result in bigger tax bills absent relief

Property taxes are expected to rise sharply in Colorado next year, with mountain resort areas, like Steamboat Springs, expected to see some of the biggest hits based on higher home values during the pandemic.

By **ALDO SVALDI** | asvaldi@denverpost.com | The Denver Post

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Colorado homeowners, no longer protected by the Gallagher Amendment, face unprecedented and unsettling increases in their property taxes next year as the run-up in home prices during the pandemic works its way into the state's tax base.

"We know we will have this issue, but it is like a train wreck about to happen where you have no brakes and you can't do anything to stop it," said Glen Weinberg, owner of Fairview Commercial Lending in Evergreen and Steamboat Springs, who has blogged about the slow-motion crisis.

County assessors in late April will mail out valuation notices based on property values as of June 30, 2022, which also happens to be close to when home values peaked in Colorado. Although not one-for-one, looking at how much home values rose in Colorado over the two years prior to the date offers a rough proxy for potential property tax increases in 2023 and 2024.

Using the median sales price numbers from the Colorado Association of Realtors, homes prices are up 55.9% in Boulder, 45.1% in Denver, 43.65% in Adams, 41.2% in Jefferson, and 36.6% in Arapahoe and Douglas counties. In seven counties, the median price of a home sold has more than doubled over the two-year valuation cycle — Bent, Castilla, Otero, Pitkin, Routt, San Juan, San Miguel and Otero.

Homes sales prices help determine home values, but they can be skewed by the mix of homes selling in a given period. Assessors obtain a value for every property, and although different in its approach, Zillow also tries to do the same with its Home Price Index. The values there are then aggregated up to the county level. While not as extreme as the gain in the sales numbers, they are big too.

Over the two-year valuation period, Zillow has home values up 31% in Boulder, 29% in Adams and Broomfield; 27% in Arapahoe, Denver and Jefferson counties. And those are restrained compared to other parts of the state, especially the resort areas. Zillow has Bent County home prices doubling in the two-year period, while home values in San Miguel, Pitkin, Eagle and Routt counties are up 75% or more over the two-year period.

"What we are looking at now is a statewide average increase of about 36% on valuation. The property tax will track with that in great part," estimates Mike Kopp, CEO of Colorado Concern, an alliance of CEOs and other business leaders focused on improving the state's business climate.

Colorado Concern modeled the tax hit from rising property values early last year, but its study underestimated the impact and the group is now calling for urgent action from the legislature, or absent that, for a ballot measure next year. The earliest any measure could go before voters would be in November 2024, long after property tax bills have gone out.

Colorado Concern was among the groups that fought to repeal the Gallagher Amendment, which for years split the property tax base at a fixed 45% to residential and 55% to nonresidential. The problem was that residential actually represented 80% of property values in the state, leaving commercial property owners, including many small businesses, with crushing tax bills.

"Everybody that worked on the Gallagher repeal knew there had to be a second act or there would be upward pressure on residential property taxes," said Kopp. That second act didn't come, although the Colorado legislature did provide relief last year by shaving $15,000 off residential values and lowering the share or ratio of residential property value subject to property taxes.

Those moves will save property owners $700 million in taxes over two years, Kopp said, but represent "tire patches" rather than permanent fixes. More needs to be done given that most households don't have the financial capacity to absorb a big increase in their taxes. And renters won't be immune either as costs get passed through to them in one form or another.

A fundamental flaw of Colorado's property tax system is that changes in property values, either up or down, have little bearing on how much local governments require in funding, said Chris Brown, director of policy and research with the Common Sense Institute, a pro-business think tank.

"Under the current system we are now dependent on the price of the asset, and that is a policy choice," Brown said. "What if you start with the question of budgets and elected officials and voters have a say on what the appropriate funding level is and then you approve property taxes to achieve that?"

Home values are driven by forces far removed from the needs of local government budgets. In the ’00s, loose lending standards set off a wave of foreclosures that pushed home prices down, crimping property tax revenues at a time when demand for public assistance rose. During the pandemic, record low interest rates and supply-chain disruptions that slowed new construction contributed to historic price increases.

“From a state policy perspective, there is no question that we need a reset. What is a fair and sustainable reset that doesn’t overreact to one moment in time?” asked Scott Wasserman, president with The Bell Policy Center, which has a more progressive bent. “If something is not done there will be some really big sticker shock.”

Bell is trying to find a middle ground, aware of the squeeze that low and middle-income families in particular face, but also mindful that schools and local governments have to maintain adequate funding to provide needed services. Kopp said the issue is one that goes beyond the usual Republican and Democratic divide.

Determining property taxes in Colorado involves a three-step process, starting with setting a real value on properties, which assessors are now doing. The legislature sets a ratio of what part of that value is taxable or subject to local mill levies. That ratio would have been 7.15 last year but it was temporarily lowered to 6.95 and is set to go down to 6.76 this year, saving taxpayers millions of dollars.

The third step comes from the mills on that assessed value that local taxing entities set where a property is located. That is where it gets really complicated, but it is also where the greatest relief could be provided.

“The problem is we have nearly 3,000 special districts across the state. Each one of them is running its own unique algorithm. They also have different property mixes,” Wasserman said.

Most school districts, counties or special districts probably don’t need a 20% or 40% increase in revenues, which some critics call a “windfall,” to meet their expenses. But they also face inflationary pressure on their costs and are in a predicament. If a fixed mill is adjusted lower, even temporarily, the concern is that the Taxpayer’s Bill of Rights will prevent them from restoring it again without taking it to a vote.

Senate Bill 23-108 seeks to address those concerns by allowing local governments to temporarily lower the mill levy or provide property tax credits and then adjust them higher if needed. But even if it passes, local jurisdictions will still get to decide on how much they are willing to give up, if anything.

All of that variability, both in how much home values rose in a given area, how much the relief the legislature is able to approve, and how much local governments are willing and able to bend, could result in widely varying property tax increases.

“Your actual value increase doesn’t reflect in a linear fashion what your property tax increases will be,” cautioned JoAnn Groff, Colorado’s Property Tax Administrator.

Denver County assessor Keith Erffmeyer said it is too early still to know where Denver property value increases are going to come in, although the increases captured in the home sales numbers look to be on the high side. That said, most owners probably aren’t going to be happy with the valuation notice they receive, and that discomfort will be felt across much of the state.

“What I can tell you from talking to other assessors is that they are seeing increases as high as they have seen in quite some time, if not ever,” he said.

Home values are down noticeably from the June date used for property valuations, and that could create huge headaches for assessors. In Denver County, the median sales price of a single-family home sold in June 2022 was $750,000, according to CAR. By January that number had fallen to $590,000 and could go even lower before valuation notices come out.

A perception of “phantom” value may push taxpayers to protest what is otherwise a completely valid assessment and clog up government resources.

Weinberg also notes that the big jump creates a double whammy for those who have their property taxes escrowed by a mortgage lender. Property taxes are paid in arrears in Colorado, which requires mortgage companies to try to make their best estimate and then square up.

For example, someone paying $6,000 a year in property taxes who faces a 50% increase, which could happen in some mountain counties, will have to pay $3,000 more a year. Not only is that extra amount levied going forward, but the shortfall from taxes collected in 2022 once the bill arrives in 2023 must also be collected. And if that weren’t enough, higher home values also mean higher home insurance premiums.

“Now you have higher taxes, higher insurance, and that will push some borrowers over the edge,” Weinberg said he fears.

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Author **Aldo Svaldi** | Economy and Residential Real Estate Reporter — The Denver Post

Aldo Svaldi has worked at The Denver Post since 2000. His coverage areas have included residential real estate, economic development and the Colorado economy. He's also worked for Financial Times Energy, the Denver Business Journal and Arab News.

asvaldi@denverpost.com

Follow Aldo Svaldi @AldoSvaldi