

Proposition 120: Property Tax Assessment Rate Reduction

Placed on the ballot by citizen initiative • Passes with a majority vote

1 **Proposition 120 proposes amending the Colorado statutes to:**

- 2 • lower the property tax assessment rates for multifamily housing and lodging
3 properties; and
4 • allow the state to retain money above constitutional spending limits if it is
5 used to fund existing property tax exemptions.

6 **IMPORTANT NOTE:** *The description of the measure in this voter information guide differs*
7 *from the language in the ballot question because a law that changed the effect of the*
8 *measure was passed by the state legislature after the ballot question was written.*

9 **What Your Vote Means**

YES 10 A “yes” vote on
11 Proposition 120 lowers
12 property tax assessment
13 rates for multifamily housing and lodging
14 properties. It does not impact assessment
15 rates for other types of residential and
16 nonresidential property.

NO A “no” vote on Proposition 120
retains the assessment rates for
lodging and multifamily housing properties
that are in current law.

1 **Summary and Analysis for Proposition 120**

2 **Why is this description of Proposition 120 different from the ballot question**
 3 **and text of the measure?**

4 The effect of Proposition 120 changed due to a law passed by the state
 5 legislature during the 2021 session, after the ballot question was set.
 6 Specifically:

- 7 • Proposition 120 was initially written to permanently lower the assessment
 8 rates for all residential property and most nonresidential property.
- 9 • Senate Bill 21-293, enacted in June, established new categories of property
 10 so that the lower residential assessment rate in Proposition 120 (6.5 percent)
 11 applies only to multifamily housing properties, and the lower nonresidential
 12 assessment rate (26.4 percent) applies only to lodging properties.

13 Senate Bill 21-293 also temporarily lowers assessment rates for residential
 14 properties, agricultural properties, and renewable energy properties for 2022 and
 15 2023, after which the rates return to 2021 levels.

16 **What does this voter information guide describe?**

17 This voter information guide discusses the impact of Proposition 120 compared
 18 with existing law. Existing law includes the changes enacted in Senate Bill 21 -
 19 293.

20 **What happens if Proposition 120 passes?**

21 Proposition 120 will lower property tax assessment rates for multifamily housing
 22 and lodging properties, as shown in Table 1. Through state budget year
 23 2026-27, the measure also allows the state to retain \$25.0 million per year in
 24 revenue above the constitutional limit if it is used to fund existing reimbursements
 25 to local governments for property tax exemptions for seniors and veterans with a
 26 service-related disability.

27 **Table 1**
 28 **Assessment Rate Changes Under Proposition 120**

Type of Property	Without Proposition 120			With Proposition 120 Starting in 2022
	2021	2022 and 2023	2024	
Multifamily Properties	7.15%	6.8%	7.15%	6.5%
Lodging Properties	29%	29%	29%	26.4%

29 The following classes of property are not impacted by the measure:

- 30 • other residential properties, including single-family homes;
- 31 • agricultural land;
- 32 • mines and oil and gas properties; and
- 33 • other nonresidential properties, such as commercial property, industrial
 34 property, natural resources, and vacant land.

1 **What are property taxes?**

2 Residential and nonresidential property owners pay property taxes on a portion
 3 of their property’s value. Nonresidential property includes commercial, industrial,
 4 agricultural, and oil and gas property, vacant land, natural resources, and mines.
 5 Cities, counties, school districts, and special districts impose and collect the tax
 6 annually, and use the revenue to fund public schools and local services such as
 7 road and street maintenance, police departments, fire protection, water and
 8 sewer infrastructure, parks, and libraries.

9 **How are property taxes calculated?**

10 Figure 1 illustrates how property taxes are calculated. Property taxes are paid on
 11 a portion of a property’s actual value. This portion is known as the taxable value,
 12 or assessed value, and is calculated by multiplying the actual value by the
 13 assessment rate. The actual value of a property is determined by the county
 14 assessor or state property tax administrator; the assessment rate is a percentage
 15 set in state law. The taxable value is then multiplied by the local tax rate (known
 16 as a mill levy) to determine the taxes due. One mill equals \$1 for every \$1,000 of
 17 taxable value.

18 **Figure 1**
 19 **Property Tax Calculation**

20 *Example: Property value of \$300,000, taxed at 100 mills, using 2021 assessment rates.*

21 **Taxable value = Property value × Assessment rate**

22					
23	Residential	\$300,000	×	7.15%	= \$21,450 taxable value
24	Nonresidential	\$300,000	×	29%	= \$87,000 taxable value

25 **Property taxes = Taxable value × Tax rate (Mills/1000)**

26	Residential	\$21,450	×	0.100	= \$2,145 owed
27	Nonresidential	\$87,000	×	0.100	= \$8,700 owed

28 **How does Proposition 120 impact property taxpayers?**

29 Compared to what would be owed without the measure, Proposition 120 reduces
 30 property taxes for most owners of the following types of property:

- 31 • **Multifamily housing properties**, which include those with more than
 32 one housing unit such as duplexes, triplexes, or properties with four or more
 33 units, but do not include condominiums; and
- 34 • **Lodging properties**, which include hotels, motels, and bed and breakfasts.

35 The actual impact on an individual property owner will depend on several factors,
 36 including the local jurisdictions in which their property is located, actual future mill
 37 levies, and the actual value of their property. The taxpayer impact section below
 38 includes the estimated property tax decrease for several examples at different
 39 property values, assuming the statewide average mill levy for the 2020 tax year.

1 **How does Proposition 120 impact local governments?**

2 Proposition 120 reduces property tax revenue to most local governments,
3 compared to what would be collected without the measure, and may impact local
4 services such as education, fire protection, police, transportation, and libraries.
5 The impact on each individual local government's revenue and services will vary
6 across the state, depending on:

- 7 • **Mix of properties** – areas with a higher portion of multifamily housing and
8 lodging properties will be more heavily impacted.
- 9 • **Mill levies** – actual mill levies are determined at the local level. Local
10 governments could choose to ask voters to raise future mill levies. Some
11 local governments already have permission from their voters to adjust the tax
12 rate to make up for reductions in assessment rates, and thus may not
13 experience any revenue impacts.

14 Property values are growing at different rates around the state. In areas where
15 property values are growing quickly, the reduction in assessment rates in
16 Proposition 120 will cause property tax revenue overall to grow at a slower rate.
17 In areas where values are not growing quickly, this reduction could cause overall
18 property tax revenue to decrease from one year to the next.

19 **How does Proposition 120 impact school funding?**

20 Public schools are funded through a combination of state and local government
21 revenue. The state pays the difference between an amount of school district
22 funding required by a formula in state law, and the amount of local tax revenue
23 generated. A reduction in property tax revenue to school districts increases the
24 amount that the state must pay to make up the difference, although actual
25 funding is determined by the state legislature. Property tax reductions from
26 Proposition 120 that are not offset by additional state funding will result in lower
27 school funding for some districts. The impact will vary by district.

28 **What is the homestead property tax exemption?**

29 The homestead property tax exemption allows eligible veterans with
30 service-related disabilities and seniors to exempt 50 percent of the first \$200,000
31 of residential property value from property taxes. The average exemption was
32 \$584 in 2020.

33 In years the exemption is available, the state reimburses local governments for
34 the revenue reduction resulting from the property tax exemption. The state spent
35 \$157.9 million on local government reimbursements in state budget year
36 2020-21. In some years, the state legislature has made the exemption
37 temporarily unavailable as a budget balancing decision. The last year the
38 exemption was not available was 2011.

39 **Does Proposition 120 change the homestead property tax exemption?**

40 No. The measure does not change the homestead property tax exemption.
41 Rather, the measure allows the state to retain \$25.0 million above constitutional
42 spending limits per year through the 2026-27 state budget year if that amount is
43 spent on homestead exemptions.

For information on those issue committees that support or oppose the measures on the ballot at the November 2, 2021, election, go to the Colorado Secretary of State's elections center web site hyperlink for ballot and initiative information:

<http://www.sos.state.co.us/pubs/elections/Initiatives/InitiativesHome.html>

1 **Argument For Proposition 120**

- 2 1) The measure provides targeted tax relief for important sectors of Colorado's
3 economy. Reducing property taxes for most multifamily properties may ease
4 pressure on rents and encourage investment to address Colorado's housing
5 shortage. In addition, lodging owners may hire and retain more employees
6 and potentially reduce lodging rates, attracting additional visitors.

7 **Argument Against Proposition 120**

- 8 1) Permanently reducing property tax revenue to local governments may result
9 in cuts to important government services. Proposition 120 will pose
10 challenges for special districts, cities, or counties that rely on property tax
11 revenue from multifamily homes or lodging properties to maintain services,
12 such as water, transportation, education, and emergency services. In
13 particular, critical fire protection needs are increasing rapidly, and not all
14 areas of the state are able to generate the funding needed to support these
15 local services.

16 **Fiscal Impact for Proposition 120**

17 This measure decreases local government property tax revenue and increases
18 state spending requirements as described below.

19 **Local government impact.** Proposition 120 is expected to decrease property
20 tax revenue to local governments statewide by an estimated \$45.9 million in
21 2022, and \$50.3 million in 2023. The revenue decrease is expected to be larger
22 in later years, due to a scheduled increase in the assessment rate for multifamily
23 housing in 2024 under current law. Prior to the passage of Senate Bill 21-293,
24 the measure was expected to decrease property tax revenue to local
25 governments by an estimated \$1.03 billion, which is why this number appears in
26 the ballot question.

27 The impact will vary among local governments across the state, and the specific
28 impact on each city, county, special district, or school district will depend on
29 several factors, including mill levies and the composition of properties in each
30 jurisdiction.

31 **State spending.** The measure increases state spending to backfill lost property
32 tax revenue to school districts. If the measure passes, the state share of school
33 finance is estimated to increase by at least \$12.8 million in state budget year
34 2022-23, and \$14.1 million in state budget year 2023-24 and subsequent years
35 compared to what would have happened under current law. Additionally, the
36 measure will decrease state spending for the senior and disabled veteran
37 homestead exemption by a minimal amount, and increase workload for the

1 Division of Property Taxation to update forms and training materials and respond
2 to inquiries regarding the changes.

3 For up to five budget years, the measure allows the state to retain \$25.0 million
4 in revenue above constitutional spending limits, for the purpose of offsetting lost
5 local government revenue and funding state reimbursements through the
6 homestead exemption. In years when the state collects revenue above its
7 constitutional limit, this provision of the measure effectively has no net impact on
8 state spending or the availability of the homestead exemption.

9 The state's budget year runs from July 1 through June 30.

10 **Taxpayer impacts.** The measure lowers property taxes paid by owners of
11 multifamily housing and lodging properties. Table 2 shows the estimated
12 property tax decrease for example property values, assuming the statewide
13 average mill levy (83.537 mills) for the 2020 tax year. The actual impact on an
14 individual property owner will depend on several factors, including the local
15 jurisdictions in which their property is located, actual future mill levies, and the
16 actual value of the property.

17 **Table 2**
18 **Example Taxpayer Impacts – Proposition 120**
19 *Tax Year 2022*

Example Property Value	Estimated Change in Property Taxes	
	Multifamily Property	Lodging Property
\$500,000	(\$125)	(\$1,086)
\$1,000,000	(\$251)	(\$2,172)
\$10,000,000	(\$2,506)	(\$21,720)
\$50,000,000	(\$12,531)	(\$108,598)
\$100,000,000	(\$25,061)	(\$217,196)