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Colorado Proposition HH: A Tax Hike in Sheep's Clothing

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TOPLINE POINTS

- Proposition HH is a Colorado ballot measure that contains modest property tax relief—no actual cuts, just smaller hikes—in exchange for watering down the state's Taxpayer Bill of Rights (TABOR).
- The overall effect of Prop HH is to usher in net tax increases and higher state spending, leaving Coloradans with less disposable income over time.
- A "no" vote retains existing TABOR protections and allows the legislature to pass property tax cuts without economically damaging offsetting tax hikes.

America is experiencing a cost-of-living crisis, and Colorado workers and families are feeling the pinch. Decades-high inflation since 2021, fueled by massive federal spending and anti-work, anti-energy policies, has resulted in a 17% increase in consumer prices nationwide. Real household incomes for the typical family are down by about $4,000 from their 2019 peak. House prices have skyrocketed across the country, with Colorado house prices jumping by over 40% since COVID-19. Property taxes are poised to surge as a result.

This is where Proposition HH comes in. According to proponents of a "yes" vote, Prop HH will deliver much-needed property tax relief. That argument, however, paints a misleading picture. In reality, Prop HH will only moderate the *increase* in property taxes, and it does so by dramatically eroding TABOR refunds and allowing state government to grow at a faster rate. The likely result is a net decline in disposable income, harming Americans who are already being crushed by high inflation, high interest rates, and overregulation.

Elements of Prop HH

The Colorado General Assembly referred Prop HH to the voters via Senate Bill 23-303 during this year's legislative session. The 48-page bill contains several provisions that are anything but a straightforward "cut" in property taxes. Below is a description of Prop HH.

Partial, Temporary Relief from Property Tax Hikes

Coloradans are set to face steep property tax hikes because of the rapid rise in house prices. Prop HH would *partially* reduce the magnitude of the tax hikes by modestly lowering the assessment rate and increasing the exemption on residential property through 2032. In other words, property taxes will still increase for Coloradan homeowners—just by a little bit less than they otherwise would have. Starting in 2025, Prop HH also would allow seniors to transfer their homestead exemption if they change their primary residence. Non-primary residences would face a higher tax burden than primary residences under Prop HH. Local governments would also face limits on property tax revenue growth absent public approval.

Reduced or Eliminated TABOR Refunds Leading to Lower Disposable Income

Under the Colorado Constitution, the Taxpayer's Bill of Rights (TABOR) limits growth in government to the rate of population growth plus inflation. If money comes in above the limit, taxpayers receive a refund that, when the amount is based on the taxes they paid, acts as a reduction in their effective tax rate. For decades, Coloradans have been able to rely on the constitutional protections in TABOR to prevent government from taking a bigger bite out of their wallets.

Prop HH would dramatically erode these protections and hand over more power to the state to increase taxes and spending over time. While Prop HH would not be the first instance of weakening TABOR, it would be the most profound. It would boost the allowable annual *growth rate* of state revenues by a full percentage point, paving the way for larger and larger tax hikes to support more government spending and regulations. According to the official state Blue Book, Prop HH would allow the state to collect $2.2 billion more in taxes *per year* by 2031-32 without triggering any refunds. Lawmakers would also be allowed to extend Prop HH several years into the future *without subsequent voter approval*—meaning bigger government and fewer or no refunds for years to come.

Also, Prop HH would divorce the size of individual TABOR tax refunds from the amount each person paid in taxes and replace them with equal-sized checks. The effect of this change would be to transform TABOR refunds from effective tax rate reductions that boost growth and allow people to keep more of their hard-earned money into de facto stimulus checks.

Disguised Growth in State Government

The weakening of TABOR protections from Prop HH would allow for a net tax hike that would more than offset the slowdown in property tax increases. Up to 20% of the excess collected tax revenue would go to local governments to compensate them for not being able to raise property taxes as much as they otherwise could. A paltry $20 million (relative to the $2.2 billion mentioned earlier) would go to rental assistance, and the rest would go back to the state—on paper, for education, but money is fungible. Bottom line: According to the Blue Book, "the amount retained by the state will increase," with Prop HH "allowing the state to keep additional revenue that would otherwise be refunded to taxpayers."

Taxpayers are not the only ones who would be squeezed by Prop HH. Many localities would receive only partial reimbursements—in some cases, only 65%—for the revenues effectively taken over by the state with Prop HH. The Blue Book estimates that localities would lose, on net, $650 million in 2026, with the number continuing to rise over time.

Bottom Line

A recent independent report contains an even deeper quantitative breakdown of Prop HH. Its topline findings include a projection that the state could collect an additional $9 billion in tax hikes under Prop HH compared to current law, and the average household could lose more than $5,100 in TABOR refunds over the next decade. Even after taking into account the property tax savings, the typical household is estimated to lose out by nearly $500 per year.

For renters, the picture is even bleaker, because they do not directly benefit from property tax changes. While some of the slower growth in property taxes could percolate into rents, the pass-through of savings is uncertain and could be quite muted. Regardless, renters would still lose out from the reduction in TABOR refunds and would thus be exposed to the full brunt of effective tax hikes from Prop HH.

Conclusions and a Way Forward

Prop HH is not fundamentally a property tax cut bill. In reality, it is a tax swap that would trade modest property tax relief for higher overall taxes through the erosion of TABOR refunds. A substantial number of Coloradans stand to lose, while state government is poised to come out ahead with the ability to grow and tax at a more aggressive rate than in the past.

If Prop HH fails, the pressure to enact genuine property tax cuts will likely become stronger. Thankfully, alternatives exist. The state legislature is already discussing various options to cap or reform property taxes, and signatures are already being collected for alternative options that voters may see on the ballot in 2024.

In the grand scheme, government spending drives the need for revenue. Thus, when Prop HH allows state government to grow at a consistently faster rate, the historically inevitable byproduct is more and greater tax hikes. By contrast, if voters choose to retain the strengths of TABOR, they can move forward with greater reassurance that their wallets are protected.