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DENVER METRO HOUSEHOLD BUDGET PRESSURE

INFLATION, TAXES, AND SHIFTING SPENDING PATTERNS

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ABOUT COMMON SENSE INSTITUTE

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Colorado's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Coloradans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so Coloradans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

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CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit of academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

TABLE OF CONTENTS

INTRODUCTION

Over the past several years, the financial landscape facing households in the Denver metropolitan area has shifted: residents are saving less and spending more than in previous economic cycles. Inflation alone cannot explain this phenomenon, but it does contribute to it. Prices across the board rose 30% since 2016, but large household expenses such as housing costs and personal insurance grew even faster. Other pressures at play include shifting spending priorities, slower real income growth, and an increase in tax burdens.

Despite reductions in the state income tax rate, the combined effect of higher federal liabilities, sharply higher property taxes, local sales tax hikes, and expanded state fees has pushed the total tax burden significantly upward. Taxes have become the single most important factor determining what remains after essential spending—the reserve of money that typically goes into savings or charitable giving. These trends are widespread across other metropolitan areas in western states, not just Denver. Many of those other cities, however, are historically high-tax: Los Angeles, San Diego, San Francisco, and Seattle. Denver's household spending patterns, it appears, are becoming more like those in California and Washington.

Drawing on seven years of consumer expenditure data, federal records, and state/local revenue history, this report provides a clear and comprehensive picture of how household finances have evolved and what those changes mean for the long-term economic health of the region.

KEY FINDINGS

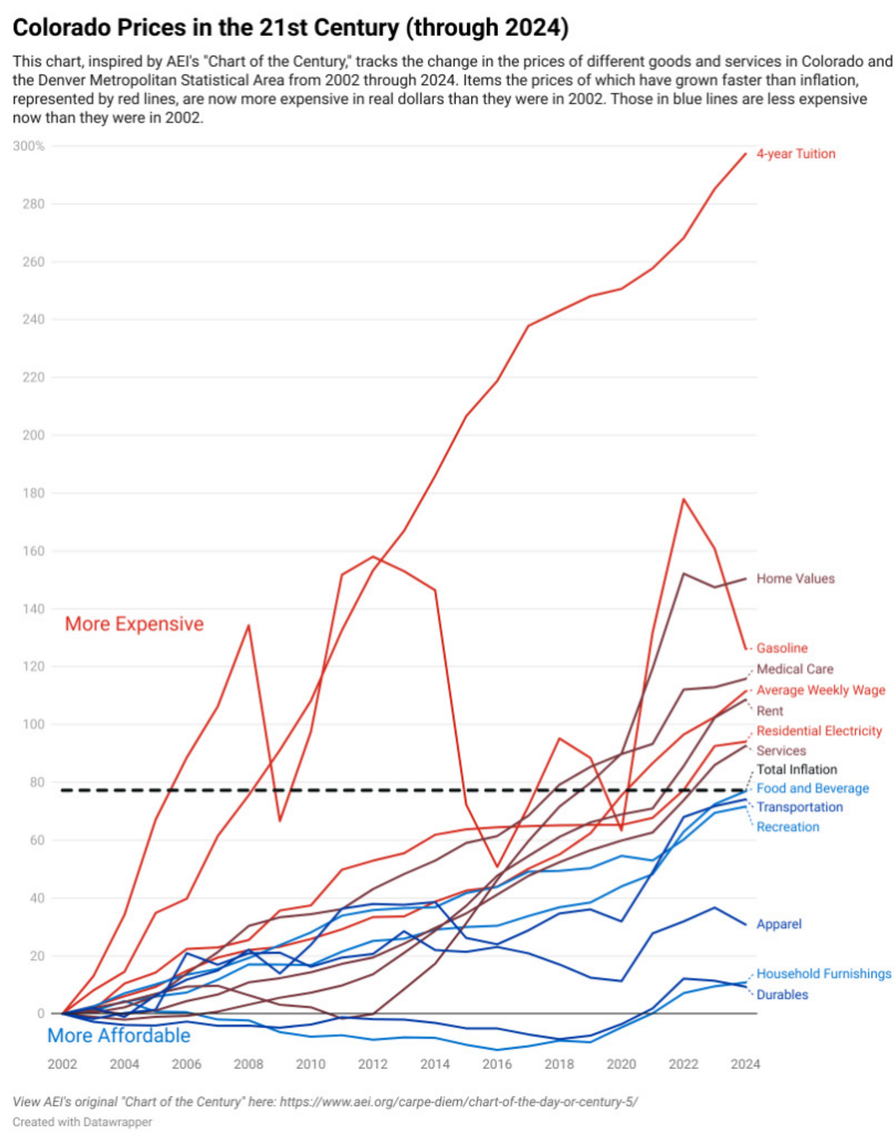
- Education, housing, health care, and energy have become less affordable in Colorado since the turn of the century, while most durable goods have become more affordable.
- Since 2016, spending has risen 30% faster than income among households in the Denver metro area.
  - Real household income fell between 2016 and 2023, largely because of regression during the COVID-19 pandemic.
- The composition of the average household's budget has changed due to inflation, tax changes, and consumer behaviors. Between 2016 and 2023:
  - Cumulative inflation was 29.9%,
  - Spending on food rose by 35.2%,
  - Housing spending rose by 45.9%,
  - Transportation spending rose by 33.5%,
  - Personal insurance and pension payments rose by 58.5%,
  - Entertainment spending rose by 49.1%,
  - Spending on apparel products fell by 0.4%, and
- Between 2016 and 2023, state, local, and federal tax increases crowded out savings among Denver residents.
  - Between 2016 and 2023, the average household's state, local, and federal tax/fee obligation rose by 48%, from $34,440 to $51,001, while its pre-tax income rose by just 27%.
  - Household savings fell to 5.1% of pre-tax income in 2023 after averaging 6.9% between 2016 and 2020.
- Had consumption taxes and fees remained at their 2016 shares of the average income, Denver households would have spent $4,165 (4.4%) less on the goods and services they purchased in 2023.

INFLATION

The graph below, inspired by the American Enterprise Institute's "Chart of the Century," displays 21 years of changes in wages, inflation, and the prices of consumer goods and services in Colorado through 2024. As real wages have risen locally, most durable and nondurable goods have become more affordable; conversely, the rising costs of housing, health care, and higher education over time have crowded out more and more of every dollar of spending.[i]

2025 marks CSI's fifth annual release of these calculations. Within the last four years, 10 of the 14 spending items represented on the graph experienced record single-year price growth. This observation reflects high rates of inflation in the years after 2020: 3.5% in 2021, 8% in 2022, and 5.2% in 2023. The growth of tuition at four-year institutions continues to dominate, having reached roughly 300% since 2002, double that of the second-highest cost-increase item (owner-occupied housing).

FIGURE 1.



Apparel, durables, and household furnishings remain very affordable, though all are now nominally more expensive than they were in 2002. Food and beverages, which during the recent period of high inflation became less affordable than they were in 2002, is now back on pace with the general price level; residential electricity, however, remains 17 percentage points above inflation because of steep price increases in 2022 and 2023.

The rest of this report examines how these price changes and other factors have affected household budgets in the Denver metropolitan area and other cities across the western states.

THE HOUSEHOLD BUDGET OVER TIME

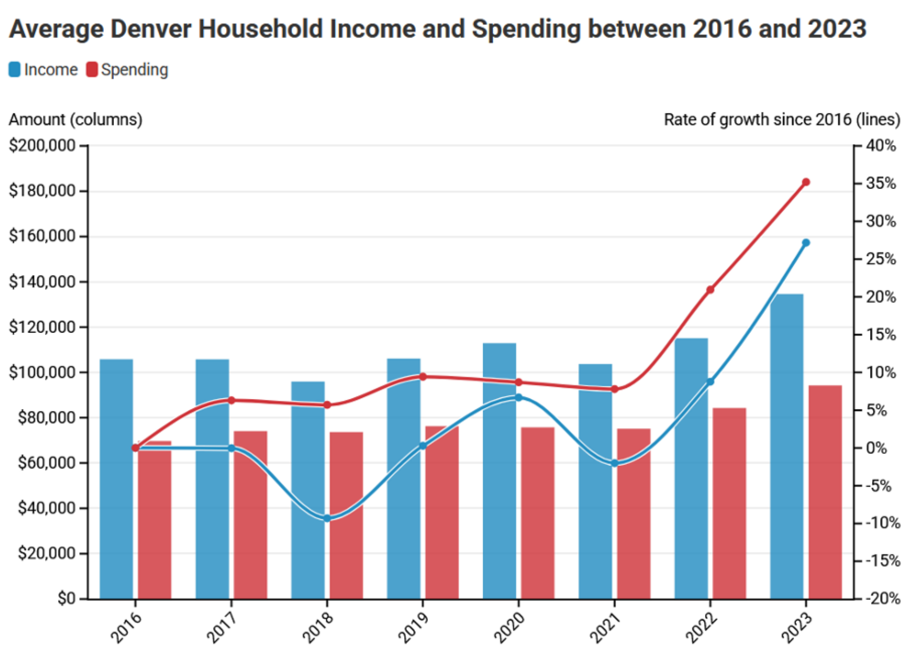
High prices, slow income growth, and a growing tax burden have tightened household budgets in Denver. Simply put, households in Denver are saving less and spending more. Housing costs, education spending, and tax payments take up increasing shares of the average income at the expense of savings and charitable contributions.

Spending Patterns

Record-high inflation since 2020 contributed to overall price increases that outpaced income growth between 2016 and 2023, the first and latest years for which consumer expenditure data about the Denver metropolitan area are available. The effect of this trend on local spending habits is evident: since 2016, spending has grown about 30% faster than earnings. The average Denver household spent 66% of its income in 2016 and 70% in 2023, according to annual releases of data from Bureau of Labor Statistics' (BLS) Consumer Expenditure Surveys.[ii]

Spending growth seems generally to be a product of inflation, but the composition of the average Denver household's spending has changed in ways that price levels alone cannot explain. Some of the changes are intuitive—housing and personal insurance now occupy much larger shares of budgets than they did in 2016, while apparel and durable goods receive less spending even in nominal terms. Others, like a high increase in entertainment spending and a steep decline in cash contributions,[1] defy any singular explanation.

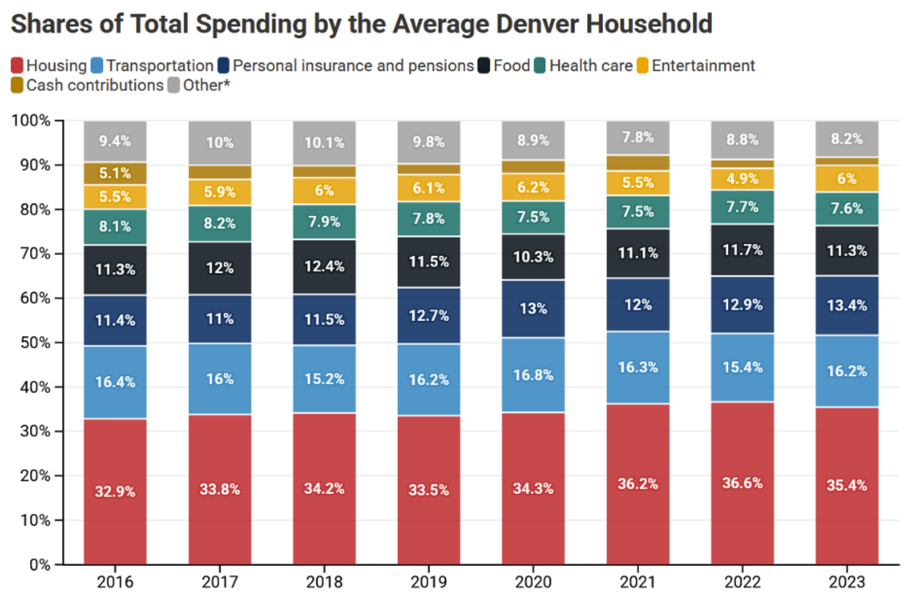
FIGURE 2.



[1] BLS' Consumer Expenditure (CE) survey defines "cash contributions" as gifts, donations, and court-ordered payments to individuals (alimony and child support). According to a summary of 2016 CE survey results published by the BLS, gifts and donations account in value for about 85% of all cash contributions

Although the Consumer Expenditure Survey does not isolate outflows from households to governments (taxes, fees, and penalties), some of these are reflected in the spending amounts that it reports. Property taxes are included in housing spending, sales taxes are included in spending on taxable goods and services, and fees, a method of revenue collection upon which Colorado's state government has become increasingly reliant, count toward their matching spending items as well. Between 2016 and 2023, these three have grown higher for residents of the Denver metropolitan area: property taxes spiked across Colorado in 2023, local sales tax rates increased several times over the last decade, and fee revenue per Coloradan rose by 84% across the whole period.[iii] The following graph estimates the costs per Denver household associated with each of these three factors over time.

FIGURE 3.



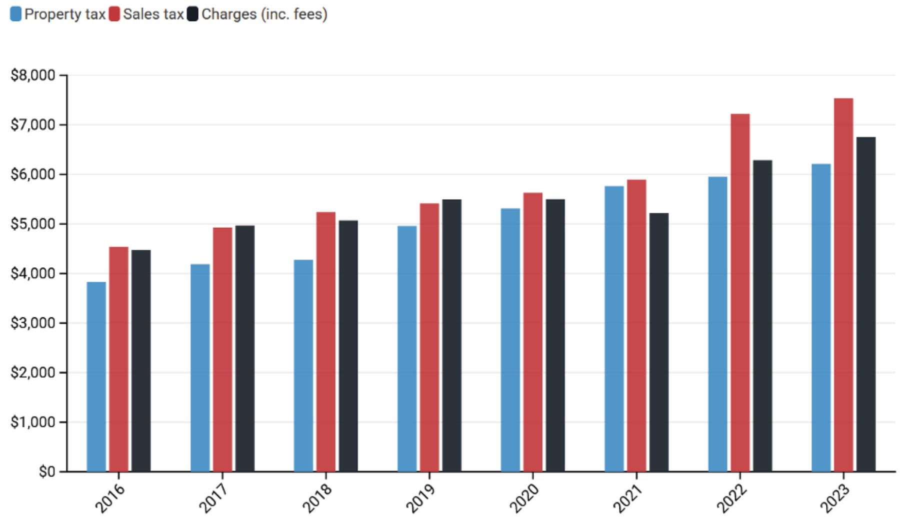
* From largest to smallest in 2023: apparel and services, education, miscellaneous, personal care products and services, alcoholic beverages, tobacco products and smoking supplies, reading

Consumer Spending by the Average Denver Household					
Spending item	2016		2023		2016–2023
	Spending	Share of total spending	Spending	Share of total spending	Change in share of total (percentage points)
Food	$7,882	11.3%	$10,658	11.3%	0
Alcoholic beverages	$638	0.9%	$921	1.0%	0.1
Housing	$22,898	32.9%	$33,407	35.4%	2.6
Apparel and services	$1,997	2.9%	$1,989	2.1%	-0.8
Transportation	$11,434	16.4%	$15,264	16.2%	-0.2
Healthcare	$5,616	8.1%	$7,118	7.6%	-0.5
Entertainment	$3,805	5.5%	$5,672	6.0%	0.6
Personal care products and services	$970	1.4%	$1,309	1.4%	0
Reading	$162	0.2%	$151	0.2%	-0.1
Education	$1,072	1.5%	$1,806	1.9%	0.4
Tobacco products and smoking supplies	$354	0.5%	$258	0.3%	-0.2
Miscellaneous	$1,332	1.9%	$1,326	1.4%	-0.5
Cash contributions	$3,576	5.1%	$1,734	1.8%	-3.3
Personal insurance and pensions	$7,963	11.4%	$12,625	13.4%	2.0
Total spending	$69,699		$94,238		

Together, the increases between 2016 and 2023 are larger than the overall difference between the growth rates of spending and income. Had these taxes and fees per household remained at their 2016 shares of income, Denver households could have spent $4,165 (4.4%) less on the goods and services they purchased in 2023 and total spending growth across those seven years would have been just 29%, instead of 35%.

FIGURE 4.

Average Property Taxes, Sales Taxes, and Current Charges* per Denver Household



* A U.S. Census datum that includes most fees, apart from postsecondary tuition, collected by state-owned enterprises in Colorado

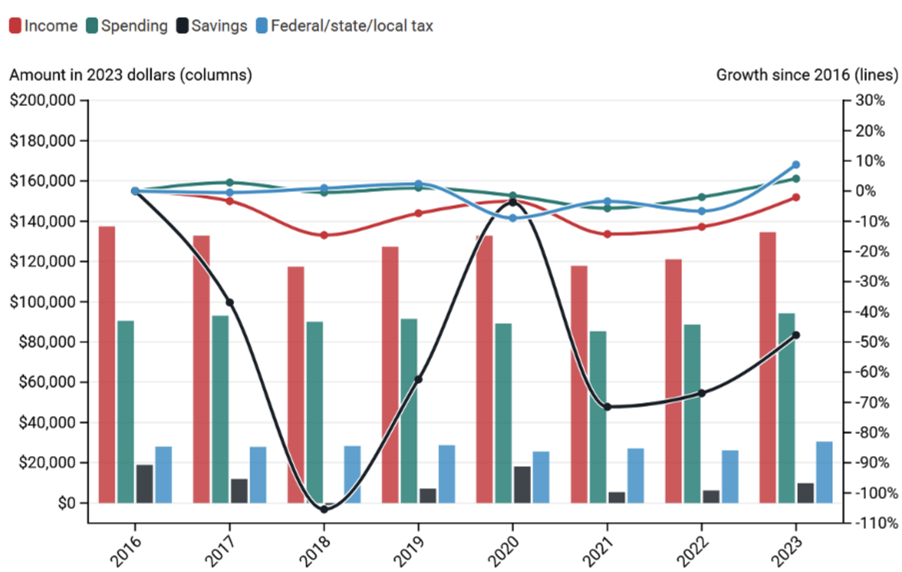
The Consumer Expenditure Survey offers an important, but incomplete, overview of the average household budget. The next section of this report considers income taxes and personal savings, both of which are beyond the BLS' scope.

Income, Savings, and Taxes

Alongside inflation, higher direct taxes and lower savings have changed households' spending habits in Denver. The BLS Consumer Expenditure tables that supply most of the information treated in the previous section of this report include pre-tax income levels and comprehensive measures of spending but do not account for savings nor non-consumptive tax payments to local, state, and federal governments. CSI has estimated both of these by applying data from outside sources, including the U.S. Census Bureau, the Internal Revenue Service, and Federal Reserve Economic Data (FRED). [iv v vi vii]

FIGURE 5.

Amounts of and Changes in Real Average Household Income, Spending, Savings, and Tax Payments

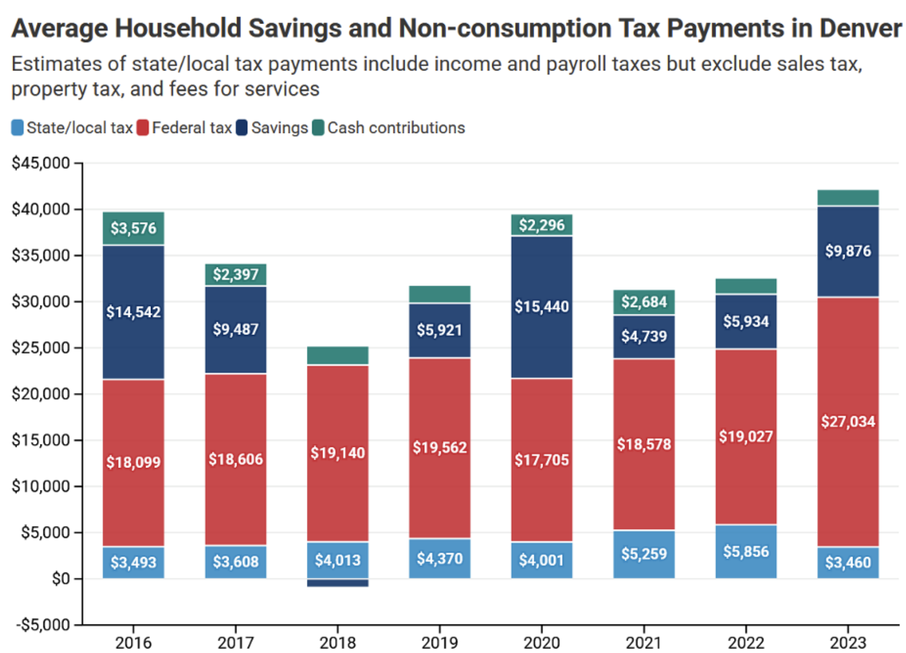


According to CSI's analysis, the average Denver household in 2023 earned less, saved less, and paid more in real income and miscellaneous taxes than it did in 2016. In 2023 dollars, pre-tax income fell from $137,438 to $134,607, savings plummeted from $18,885 to $9,876, and total state, local, and federal taxation rose from $28,039 to $30,493. The decline in savings, which is larger than the increase in the tax burden, reflects an increase in the average share of income dedicated to consumer spending.

When prices rise faster than incomes, as they did for Denver households between 2016 and 2023, the savings rate can be expected to fall. Naturally, tax increases have similar effects, as other research has established.[viii] Over just the last several years, the amounts that Denver households have saved and given in cash contributions (a category of non-essential spending that generally rises with disposable income and is subject to similar influences as savings) have fallen as effective tax rates have increased. Given relatively steady real income levels over the term of this analysis, the data presented in the following graph suggest that the combined rate of saving and giving may be highly responsive to taxation at the household level in Denver. The high rate of savings in 2020, which on its surface thwarts this explanation, reflects instead the extraordinary events of that year.

In Denver, both state/local and federal taxes have generally grown to occupy larger shares of household budgets since 2016. Colorado's income tax rate was permanently reduced three times between 2016 and 2023, but other tax increases at the state and local levels, like the new statewide paid family and medical leave payroll tax approved in 2020 and some miscellaneous taxes levied by municipalities in the Denver metro area, offset those decreases until the statewide income tax rate was temporarily reduced, several new tax credits came into force, and broad economic weakness suppressed capital gains in 2023.[ix] The effective rates that Denver residents pay in federal income tax also rose after 2020, probably because of expiring tax credits and insufficient inflationary adjustments to federal tax brackets. The steep federal tax increase in 2023 coincides with a post-pandemic rise in real average income which also, amid temporarily low state taxes, caused savings to rebound.

FIGURE 6.



COMPARING DENVER TO OTHER CITIES

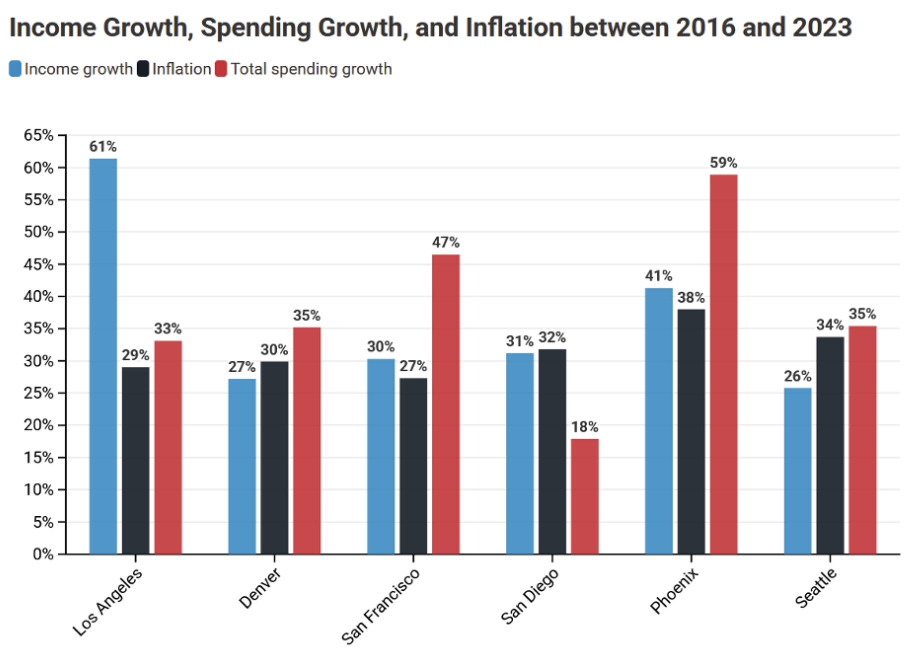
Alongside findings from the Denver metropolitan area, the BLS collects and publishes identical consumer spending data about a selection of other urban areas across the western states. This enables direct comparisons between Denver and several of its regional counterparts: Los Angeles, San Francisco, San Diego, Phoenix, Seattle, Honolulu, and Anchorage. This section examines Denver's status among those cities save Honolulu and Anchorage, whose unique geographical circumstances exempt them from comparison to the others.

The analysis examines differences in inflation, household spending, income growth, and effective state and local tax burdens. These variables allow a consistent comparison of how each city's cost structures, tax environments, and economic conditions shape household financial health.

There are clear relationships between income, inflation, and spending in western cities. In all but one city, San Diego, total spending by the average household rose by more than prices between 2016 and 2023. Earnings, however, grew more slowly than spending in four of the six, suggesting that something other than income and the price level drove household spending up in most places. Los Angeles and San Diego break the other cities' mold: average household income in Los Angeles rose at twice the local rate of inflation and dwarfed spending growth while, in San Diego, spending grew no more than half as fast as it did in other cities despite near-average income growth and inflation.

Relative to earnings, a localized change in spending likely reflects changes in either the cost of living or consumer confidence, either of which could explain outlying results like those from California cities and Phoenix. Insofar as intercity migration reflects economic attitudes, there is evidence that consumer confidence is behind the spending boom in Phoenix, whose population has risen substantially faster than the U.S. city average since 2016. Conversely, high living costs and pessimistic financial outlooks may explain results in the three California cities, each of whose population has declined sharply despite high net international migration.[x]

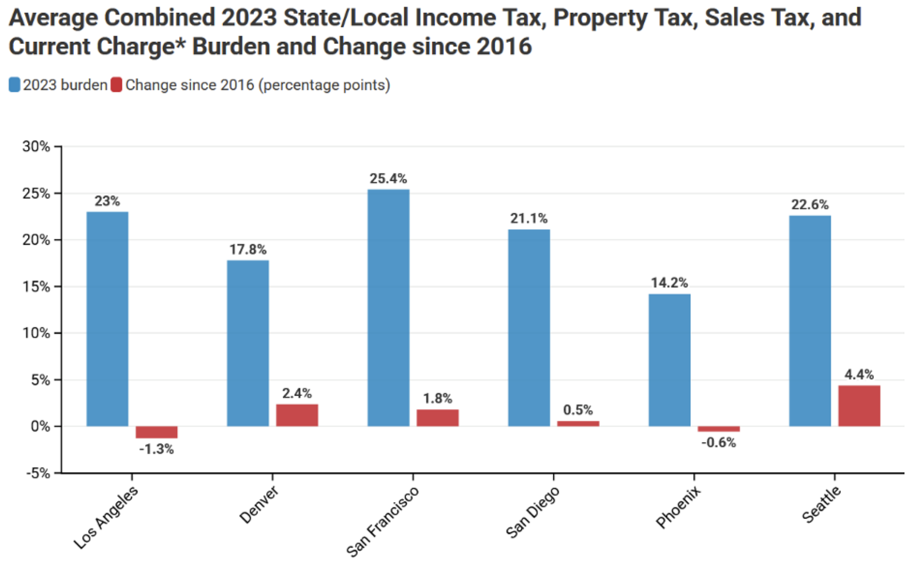
FIGURE 7.



These patterns may have something to do with taxation, since local changes in property taxes, sales taxes, and fees affect consumer prices while income taxes affect residents' abilities to spend. In total, these tax rates are highest in California, lowest in Phoenix, and growing fastest in Seattle and Denver.

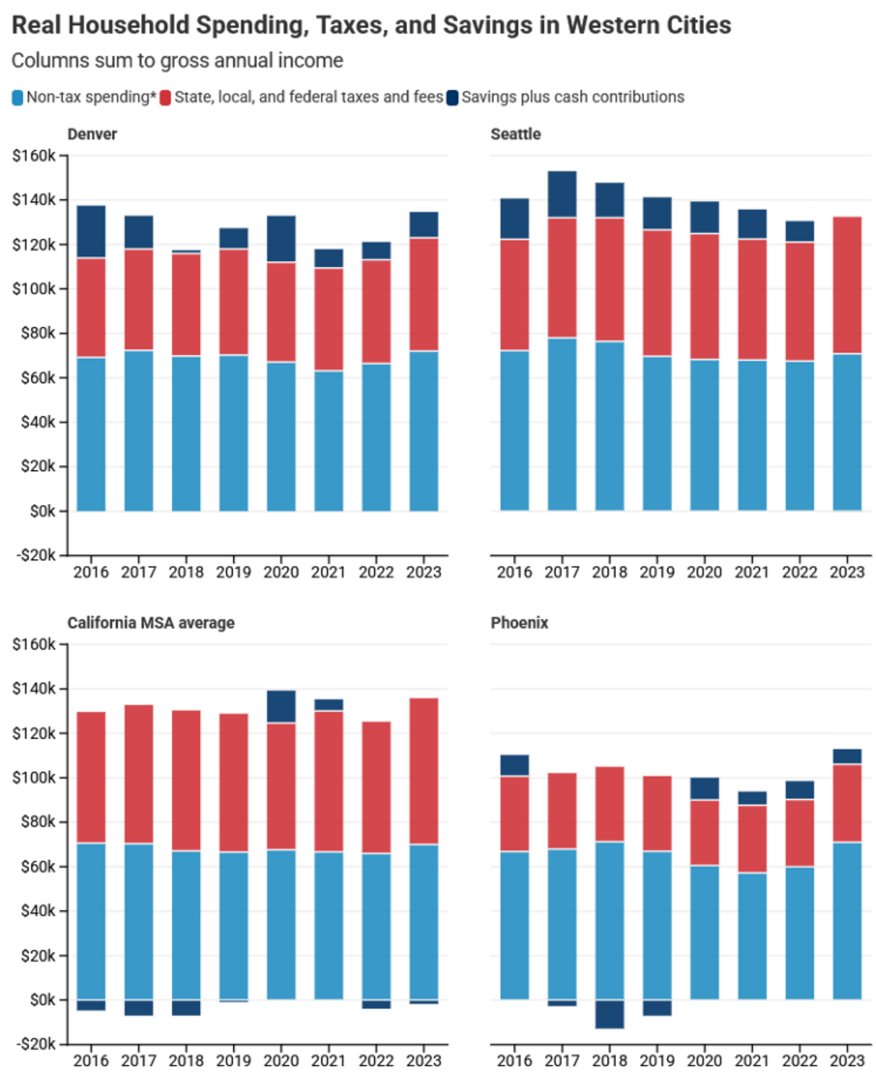
Although Colorado remains a relatively low-tax state, Denver's total state and local tax burden rose by 2.4 percentage points between 2016 and 2023. As discussed earlier in this report, the rising effective tax rate appears to have depressed personal savings in Denver; that pattern holds across other western cities where taxes have increased. Even though savings rates increased across the country in 2020 and 2021 due to business closures and widespread financial panic, taxes clearly crowded out savings in Denver and Seattle, the two that experienced the steepest tax hikes since 2016 (even despite three successive income-tax cuts in Colorado). California, which has had higher tax rates but more modest increases, maintains a negative savings rate of pre-tax income (debt). Phoenix, conversely, has parlayed a slight tax decrease and substantial post-pandemic income growth into positive savings rates and the group's highest average cash contributions.

FIGURE 8.



* A U.S. Census datum that includes most fees, apart from postsecondary tuition, collected by state-owned enterprises in Colorado.

FIGURE 9.



* Except cash contributions

RECOMMENDATIONS

As CSI has documented consistently since 2020, Coloradans have been increasingly burdened by taxes and fees. Fees, particularly, have generated recurring interest ever since the before Proposition 117, which attempted to restrict how the state government uses them. Traditionally, fees are payments that citizens make for the voluntary use of government services and facilities, like parks, but fee enterprises are increasingly being used in ways that more closely resemble direct taxation.[xi] They have become means of raising state revenue while sidestepping the Taxpayer Bill of Rights, which is designed to mitigate tax increases.

Between 1994, when TABOR was enacted, and 2024, fee revenue to the state had increased by almost 3,400% to $25.8 billion while the state's population growth plus inflation totaled just 196% over the same time. Although much of this increase comes from tuition paid to public universities, which are classed as fee enterprises, the increase is still dramatic without that portion. If all Colorado's fee enterprises, apart from those in higher education, were instead funded by the state income tax, the income tax rate would need to reach 5.98%, which is 41% more than the current rate of 4.25%.

One reason Denver residents have a higher tax burden than most other Coloradans is because its residents routinely vote to increase taxes. Denver's city-specific sales tax rate (not including the 2.9% statewide rate) includes voter-approved taxes for preschools, parks and open spaces, mental health, climate protection, homelessness, and more. As such, Denver's combined sales tax rate (including the state and special districts) is 9.15%, versus 8.2% in Colorado Springs, 8% in Aurora, and 8.05% in Fort Collins.[2]

One way to boost savings rate in Denver would be to reduce these special use taxes.

State lawmakers also have imposed taxes for special purposes and voters have approved measures at the ballot. Colorado's Family and Medical Leave Insurance Program (FAMLI), for example, levies a 0.9% payroll tax to fund guaranteed paid leave for new parents and sick or injured workers. Considering that Colorado's income tax rate is 4.25%, FAMLI adds more than 20% to taxes on earnings for most working Coloradans. Coloradans also voted to give no-cost school lunch to all public-school students regardless of income (kids from low-income families were already eligible for free meals). The program, which raises taxes on certain households, ran a deficit in its first year so legislators went back to the voters for another tax hike, which passed easily.[xii]

As the role of government grows, taxes must follow. As CSI has reported, state-government employment rose by more than 20% from FY2013 to FY2023, a trend that will continue under the governor's most current budget proposal.[xiii]

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[1] BLS' Consumer Expenditure (CE) survey defines "cash contributions" as gifts, donations, and court-ordered payments to individuals (alimony and child support). According to a summary of 2016 CE survey results published by the BLS, gifts and donations account in value for about 85% of all cash contributions

Another concern is that Colorado policymakers build permanent spending programs upon volatile revenue streams. Leaders had hoped marijuana sales and excise taxes, for example, would provide a steady stream of revenue for Colorado and the cities that allowed its sale, but marijuana sales and associated tax revenue have declined for four years in a row. This decline has contributed to Denver's budget troubles by flattening revenue growth from sales taxes, despite expectations of modest increase, forcing the city to cut its budget by more than $200 million. In 2022, Denver's marijuana tax revenue, which is used to fund items including affordable housing, various city services, and education, was $42.6 million. By 2024, and 2025 is likely to be similar, this revenue source had plunged to $27 million. Similarly, some Colorado cities and the state government used one-time federal funds from pandemic-relief programs to expand ongoing obligations.

If Coloradans generally, and Denverites specifically, feel pressure from rising prices and rising taxes, one solution is to reduce the cost of government or, at least, to reduce its share of the economy. In other words, keeping government the same size (and cost) for even a short time while the private-sector economy grows allows a gradual but potentially significant reduction in the burden of government and its impact on our standard of living.

THE BOTTOM LINE

Denver households are being squeezed from multiple directions. Inflation has raised the cost of necessities and a growing tax burden has started to crowd out savings. While the city remains relatively competitive in its overall tax structure, the pace of change since 2016 threatens that advantage.

SOURCES

i. For a full list of sources, see: https://www.commonsenseinstituteus.org/colorado/research/jobs-and-our-economy/colorado-prices-in-the-21st-century

ii. Table 3033. Selected western metropolitan statistical areas: Average annual expenditures and characteristics, Consumer Expenditure Surveys

iii. https://www.commonsenseinstituteus.org/colorado/research/taxes-and-fees/snapshot-of-fees-in-colorado-2025-update

iv. https://www.census.gov/data/datasets/2023/econ/local/public-use-datasets.html

v. https://www.irs.gov/statistics/soi-tax-stats-adjusted-gross-income-agi-percentile-data-by-state

vi. https://fred.stlouisfed.org/

vii. https://www.nationalpriorities.org/interactive-data/taxday/average/2023/co/receipt/

viii. https://www.imf.org/external/pubs/ft/wp/wp9836.pdf

ix. https://leg.colorado.gov/bills/hb23b-1005

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xi. https://www.commonsenseinstituteus.org/colorado/research/taxes-and-fees/snapshot-of-fees-in-colorado-2024-update

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