Improving the Property Tax: Lessons from Other States

Texas Commission on Public School Finance Reform
April 19, 2018

Daphne A. Kenyon, Resident Fellow in Tax Policy
Lincoln Institute of Land Policy
Source: U.S. Census
### Selected Texas Property Tax Statistics, 2015

<table>
<thead>
<tr>
<th></th>
<th>Texas</th>
<th>U.S. Average</th>
<th>Texas Rank (of 51) 1 is highest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita property tax</td>
<td>$1,734</td>
<td>$1,521</td>
<td>14</td>
</tr>
<tr>
<td>Property tax percentage of personal income</td>
<td>3.7%</td>
<td>3.1%</td>
<td>12</td>
</tr>
<tr>
<td>Median owner-occupied home value</td>
<td>$136,000</td>
<td>$178,600</td>
<td>39</td>
</tr>
<tr>
<td>Effective tax rate, median owner-occupied home</td>
<td>1.9%</td>
<td>1.2%</td>
<td>6</td>
</tr>
</tbody>
</table>

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey
Effective Property Tax Rates, Texas and the U.S., Taxes Paid in 2017

<table>
<thead>
<tr>
<th></th>
<th>Houston, Texas Rate</th>
<th>Ave for largest city in each state</th>
<th>Houston Rank (from highest)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Median Value Home</td>
<td>1.80%</td>
<td>1.50%</td>
<td>16</td>
</tr>
<tr>
<td>Urban Commercial: $25M Value</td>
<td>2.36%</td>
<td>2.09%</td>
<td>19</td>
</tr>
<tr>
<td>Urban Industrial: $25M Value</td>
<td>2.53%</td>
<td>1.53%</td>
<td>4</td>
</tr>
<tr>
<td>Urban Apartment: $600,000 Value</td>
<td>2.35%</td>
<td>1.83%</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence 2018
Types of Residential Property Tax Relief

Direct Property Tax Relief
- Real Property Tax Classification
- Circuit Breakers
- Homestead Exemptions or Credits
- Tax Caps
- Tax Deferral
  - Levy Caps
  - Mill Rate Caps
  - Assessment Caps
  - Other Taxes
  - General Sales Tax

Indirect Property Tax Relief
- Increase Other Local Taxes
- Increase User Fees
- Increase Governmental Transfers
- Decrease Spending
  - Federal Aid
  - State Aid
One can argue for reduced reliance on the property tax.

But there are advantages to relying on property taxes. Property taxes:

• promote local fiscal autonomy
• promote civic engagement
• provide stable revenue
Volatility of State and Local Tax Revenue, 1990-2017

- Income
- Sales
- Property

Recession July 1990-March 1991
Recession March-November 2001
Recession December 2007-June 2009
Massachusetts

Properties, used by the property owner as the personal residence, are tax-exempt in Massachusetts.

Massachusetts’ property tax structure is a property assessment, which is calculated on the basis of the market value of the property. The tax rate is determined by the local government based on a percentage of the property's assessed value. This rate is applied to the assessed value to determine the amount of property tax due.

Massachusetts uses a tax rate that is assessed on the value of the property, which is determined by the local government. The tax rate is applied to the property's assessed value to determine the amount of property tax due.

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Possible Lessons from Other States

- Improve transparency: NH
- Revise Truth in Taxation/Rollback: UT
- Adopt circuit breaker: 32 other states
- Protect property tax base: WI, OH
- Reduce recapture: VT?
- Make paying property tax easier: Milwaukee
- Adjust property tax more quickly in the face of natural disaster: MN?
Article 5:

To see if the Town will vote to authorize the Selectmen to enter into up to a five (5) year lease/purchase agreement to purchase and equip a new Fire Engine to replace Engine 1 for the Fire Department in the amount of Four Hundred and Fifty Thousand ($450,000) Dollars, to include the engine, engine detailing, and lender legal fees, said amount to be offset by trading in Engine 1 for approximately Ten Thousand ($10,000) Dollars, said lease to be payable over a term of up to five (5) years with annual payments in years two (2) through five (5), if needed, of approximately Ninety-Three Thousand Two Hundred Fifty-Five ($93,255) Dollars, and further to raise and appropriate up to One Hundred Thousand Seven Hundred and Fifty-Five ($100,755) Dollars for the first or down payment for purchasing and detailing said engine. The lease agreement contains an escape clause.

(Not recommended by the Budget Advisory Committee, 2 in favor, 4 opposed, One Abstention.)
(Majority vote required)

The Town will own the fire truck at the end of the five year lease term. This is a “lasing lease” i.e. there is an escape clause requiring an annual appropriation for the each year’s lease payment. The approximate interest rate is 2.80% per annum. The proposed appropriation of $100,755 represents an increase of $38.00 on the tax bill for a $200,000 house.
2018 Jaffrey-Rindge Cooperative School District Ballot

ARTICLES

ARTICLE II: Shall the school district raise and appropriate as an operating budget, not including appropriations by special warrant articles and other appropriations voted separately, the amounts set forth on the budget posted with the warrant or as amended by vote of the first session, for the purposes set forth therein, totaling $25,385,854? Should this article be defeated, the default budget shall be $25,851,720, which is the same as last year, with certain adjustments required by previous action of the school district or by law; or the governing body may hold one special meeting, in accordance with RSA 40:13, X and XVI, to take up the issue of the revised operating budget only.

(Majority vote required)
(Recommended by the Jaffrey-Rindge Cooperative School Board by a vote of 5-2-0)
(The estimated tax impact of passing this article is an increase of $.33 per $1000 assessment for Jaffrey and an increase of $.52 per $1000 assessment for Rindge. The estimated tax impact of not passing this article is an increase of $.87 per $1000 assessment for Jaffrey and an increase of $.99 per $1000 assessment for Rindge.)

This operating budget warrant article does not include appropriations contained in any other warrant articles.
The New Hampshire Paradox

- New Hampshire depends more heavily on the property tax than any other U.S. state, but there is no property tax revolt
- For NH towns, property tax is transparent
- For NH towns, no dollar of property tax is raised without voter approval
- Sometimes approval on a project basis
Utah’s “Truth in Taxation”

Truth in Taxation designed to generate the same revenue each year unless:

• There is new growth

• Taxing district goes through Truth in Taxation process to ask voters to approve an increase in property taxes

Like having a 0% rollback rate
Utah’s “Truth in Taxation”

• From mid-1970s to mid-1980s, assessed values were increasing an ave of 13%/yr

• Truth in Taxation passed in 1985

• In decade prior to legislation, property taxes increased 12% annually; in decade after legislation, property taxes increased 4% annually

• How much of this change was due to “truth in taxation”? 
Utah’s “Truth in Taxation”

Some concerns with Utah’s system:

• Does it inappropriately stunt revenue growth?
• Are the requirements for notifying taxpayers too expensive?

• For details see Significant Features of the Property Tax at www.lincolnninst.edu
Types of Residential Property Tax Relief

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- Other Taxes
- General Sales Tax
- Income Tax
- Federal Aid
- State Aid
Property Tax Relief Tools Have Different Effects

- *Fixed-Dollar Homestead Exemptions*: Provide property tax relief that is more progressive than percentage homestead exemptions

- *Tax Caps*: Provide property tax relief to nonresidential property owners including nonresidents

- *Assessment Limits*: Largely benefit homeowners with rapidly appreciating home values
Property Tax Circuit Breakers

- Classic circuit breaker: Taxpayer ends up paying no more than x% of income in property tax
- Provide households with direct property tax relief that increases as household income declines, for a given property tax bill
- Prevent taxpayers from being overburdened by property taxes
Circuit Breakers “Do More With Less”

- Target property tax relief more precisely to those with a limited ability to pay property taxes than other common forms of property tax relief
- Reduce the cost of tax expenditures
- Best way to help those who are housing rich and income poor
- Have been enacted by states without income taxes
The head of the League of Wisconsin Municipalities says they've set aside a day next week to prod the legislature to act on closing tax loopholes that are called 'dark stores'.

League Executive Director Jerry Deschane explains what they're hoping to accomplish by declaring December 11 as Dark Store Day in Wisconsin.
Dark Stores Assessment Theory

- Asserts that best comparable sales for valuing big box stores are those of vacant or abandoned big box stores (dark stores)
- Dark store assessment appeals on the rise, affecting at least 12 states
- Successful appeals diminish local tax bases and threaten municipal credit
Evaluation of Property Tax Abatements in Franklin County, Ohio
Tax Incentive Review Councils (TIRCs)

1. Agreement on payroll, investment, and # of jobs is made
2. Yearly review to assess performance
3. TIRC makes recommendation
Rethinking Property Tax Incentives for Business

Daphne A. Kenyon, Adam H. Langley, and Bethany P. Paquin
Other states have dealt with “recapture”

- In NH it was called donor towns
- In VT it was called Gold towns
- Both states appear to have resolved this problem
- My hypothesis is that it is more politically palatable to have implicit rather than explicit redistribution through the tax system
A Resort Says It's Been Driven To the Last One: Secession

By KATIE ZEZIMA
MARCH 3, 2004

At the annual town meeting on Tuesday, the agenda moved quickly from item to item: elect a library trustee, discuss grants and serve the coffee and doughnuts.

But even before all that, the residents decided literally to move on, by deciding to secede from Vermont and join New Hampshire, to escape to the east.

The overwhelming voice vote will most likely prove only symbolic. Although a secession would require approval from the legislatures of both states, and Vermont lawmakers have given every indication that it will not be taken up, the vote is meaningful. The town is home to more than 1,100 people.

The vote was the latest salvo in a tax battle that has endured since 1997, when the law that sparked it all first took effect. Act 60 transformed the state’s school finance system, forcing local school districts to close gaps in their budgets through state aid, and increasing property taxes in all towns, as a result. The residents of property-rich towns like Killington began paying significantly higher taxes, in effect subsidizing less affluent towns.

Killington challenged the law in court, and a judge ruled in its favor in 2002. But the state appealed the decision, which the Vermont Supreme Court ultimately overturned last year.
Current Situation: \(\frac{1}{2}\) homeowners pay property tax in 1-2 large lump sums each year

Problem: Billing taxes on annual/biannual basis…

- Creates financial challenges for some households
- Increases property tax delinquency rate
- Fosters political opposition to property tax & erodes fiscal health
- Requires local gov’ts to deal with irregular revenue inflows
Solution: Allow monthly property tax payments

- Prepayment programs (Allowed in 16+ states; including Travis County, TX)
- Monthly property tax installments (Milwaukee, WI)
Monthly Installments in Milwaukee, WI

- Successful program
  - Milwaukee has a low (3.9%) property tax delinquency rate
- Automatic enrollment w/out application
  - Tax bill includes monthly option
  - Automatically enrolled in monthly payment plan after making first monthly installment
- Several payment options
  - Automated payments by EFT
  - Check
  - Pay at 13 U.S. Bank branches

Milwaukee Tax Bill Has Option to Pay in Full or Installments

<table>
<thead>
<tr>
<th>Monthly Installment Payment Due: February through July 2017</th>
<th>483.98</th>
<th>Net Assessed Value Rate Before Credits</th>
<th>28.704</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Installment Payment Due: August, September, and October 2017</td>
<td>335.25</td>
<td>25.000</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL DUE**

- **FULL PAYMENT DUE ON OR BEFORE JAN. 31, 2017**: 4,393.64
- **FIRST INSTALLMENT PAYMENT DUE ON OR BEFORE JAN. 31, 2017**: 484.01

**2016 CITY OF MILWAUKEE COMBINED PROPERTY TAX PAYMENT COUPON**

- **ACCOUNT TYPE**: REAL ESTATE
- **LOCATION OF PROPERTY**: 
- **TAX KEY/ACCOUNT NO.**: 

**Make Check Payable and Mail to:**

CITY OF MILWAUKEE
OFFICE OF THE CITY TREASURER
P O BOX 78776
MILWAUKEE, WI 53278-0776

**FULL PAYMENT DUE 01/31/2017**: 4,393.64
**1ST INSTALLMENT DUE 01/31/2017**: 484.01

**PLEASE WRITE IN AMOUNT ENCLOSED**

- **S**
- **M**
Improving the Property Tax by Expanding Options for Monthly Payments

Working Paper WP18-11

Adam H. Langlois
Lincoln Institute of Land Policy

January 2018

The findings and conclusions of this Working Paper reflect the views of the author(s) and have not been subject to a detailed review by the staff of the Lincoln Institute of Land Policy. Contact the Lincoln Institute with questions or requests for permission to reprint this paper.

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Property Tax Adjustments in Wake of Natural Disaster

- Is special legislation required?
- Does taxpayer or taxing unit initiate appeal or reappraisal?
- Does state reimburse local governments?

From “Property Tax’s Disaster Year” in Major Property Tax Developments 2017-18, by Collins, Kenyon & Paquin, forthcoming
Extra slides
## Circuit Breaker Use in States without an Income Tax

<table>
<thead>
<tr>
<th>State</th>
<th>Circuit Breaker?</th>
<th>Federal Tax Return Required?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alaska</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Florida</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Nevada</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>New Hampshire</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>South Dakota</td>
<td>Yes</td>
<td>Yes, if required to file</td>
</tr>
<tr>
<td>Tennessee</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Washington</td>
<td>Yes</td>
<td>Yes, if required to file</td>
</tr>
<tr>
<td>Wyoming</td>
<td>Discontinued 2016</td>
<td>Yes</td>
</tr>
</tbody>
</table>
State Assessment Limits, 2016

Source: Paquin 2015 and Significant Features of the Property Tax
State Annual Assessment Limit Percentages for Residential Property, 2016

<table>
<thead>
<tr>
<th>Assessment Limit Percentage</th>
<th>Number of States</th>
</tr>
</thead>
<tbody>
<tr>
<td>up to 5%</td>
<td>9</td>
</tr>
<tr>
<td>6% to 9%</td>
<td>1</td>
</tr>
<tr>
<td>10%+</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Significant Features of the Property Tax
Reliance on the property tax varies markedly across the U.S. In New England, local governments rely heavily on the property tax, with local governments in five of the six New England states (Connecticut, Massachusetts, Maine, New Hampshire, Rhode Island, and Vermont) deriving at least half of their general revenue from the property tax. In contrast, local governments in the East South Central region (Alabama, Kentucky, Mississippi, and Tennessee) rely on property taxes for less than one quarter of their general revenues, lower than the U.S. average of 30 percent (from US Census Bureau, M. S. Current, 2016).
Contact Information

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