

# PROPERTY TAXES

Sustainable and Fair Relief Strategies





**Government Finance Officers Association**

## **Our Mission:**

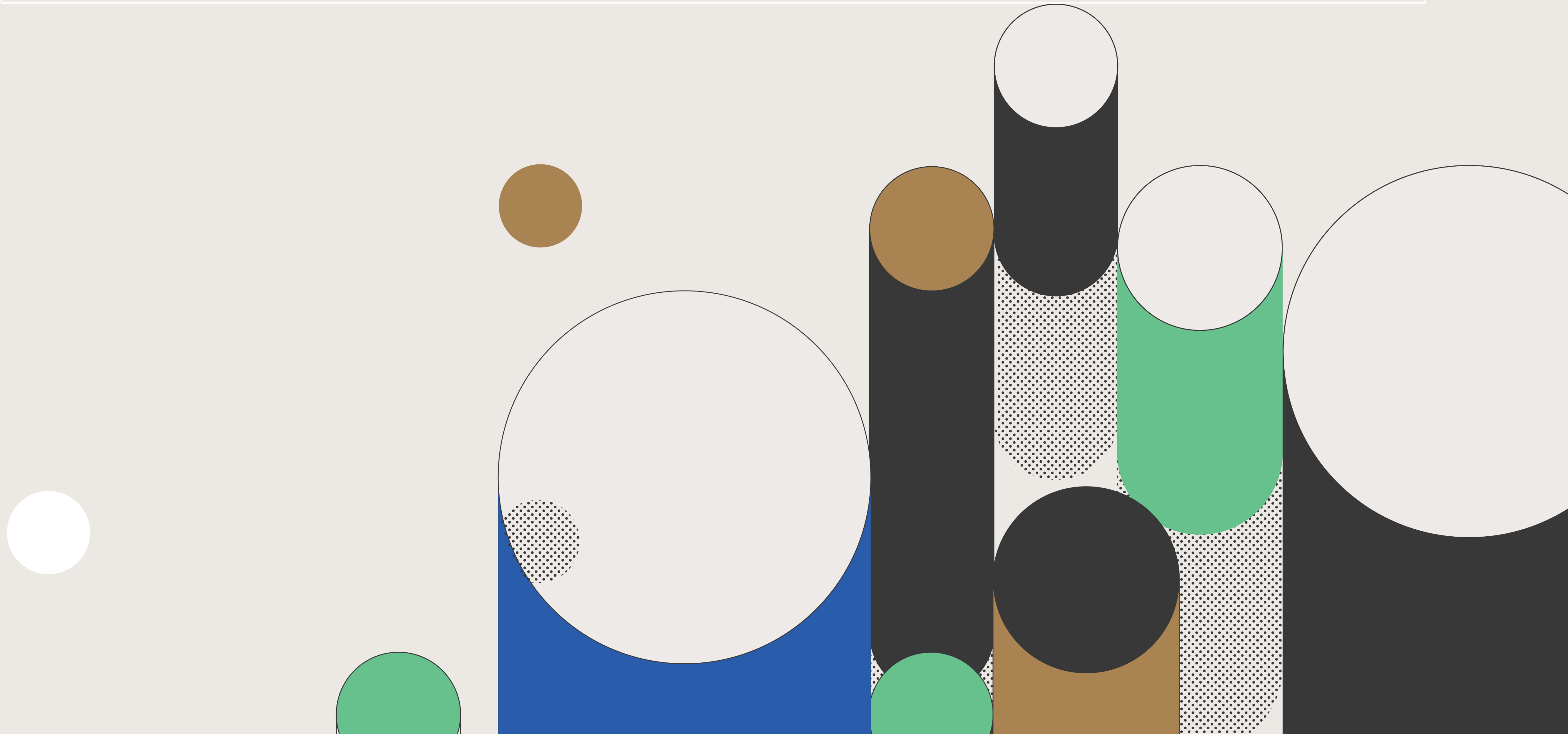
**To advance excellence in government  
finance to build thriving communities**



## Government Finance Officers Association

- ✓ Founded in 1906 as part of good gov't movement
- ✓ US and Canada
- ✓ 23,000 members
- ✓ States, provinces, counties, cities, special districts
- ✓ Advocate: Federal, MSRB, SEC, GASB
- ✓ Educate: Finance, budgeting, treasury & investments
- ✓ Research: Best practices, cyber-security, behavioral science

# ReThinking Local Government Revenues





CITIES STRONG TOGETHER



**American Planning Association**

*Creating Great Communities for All*

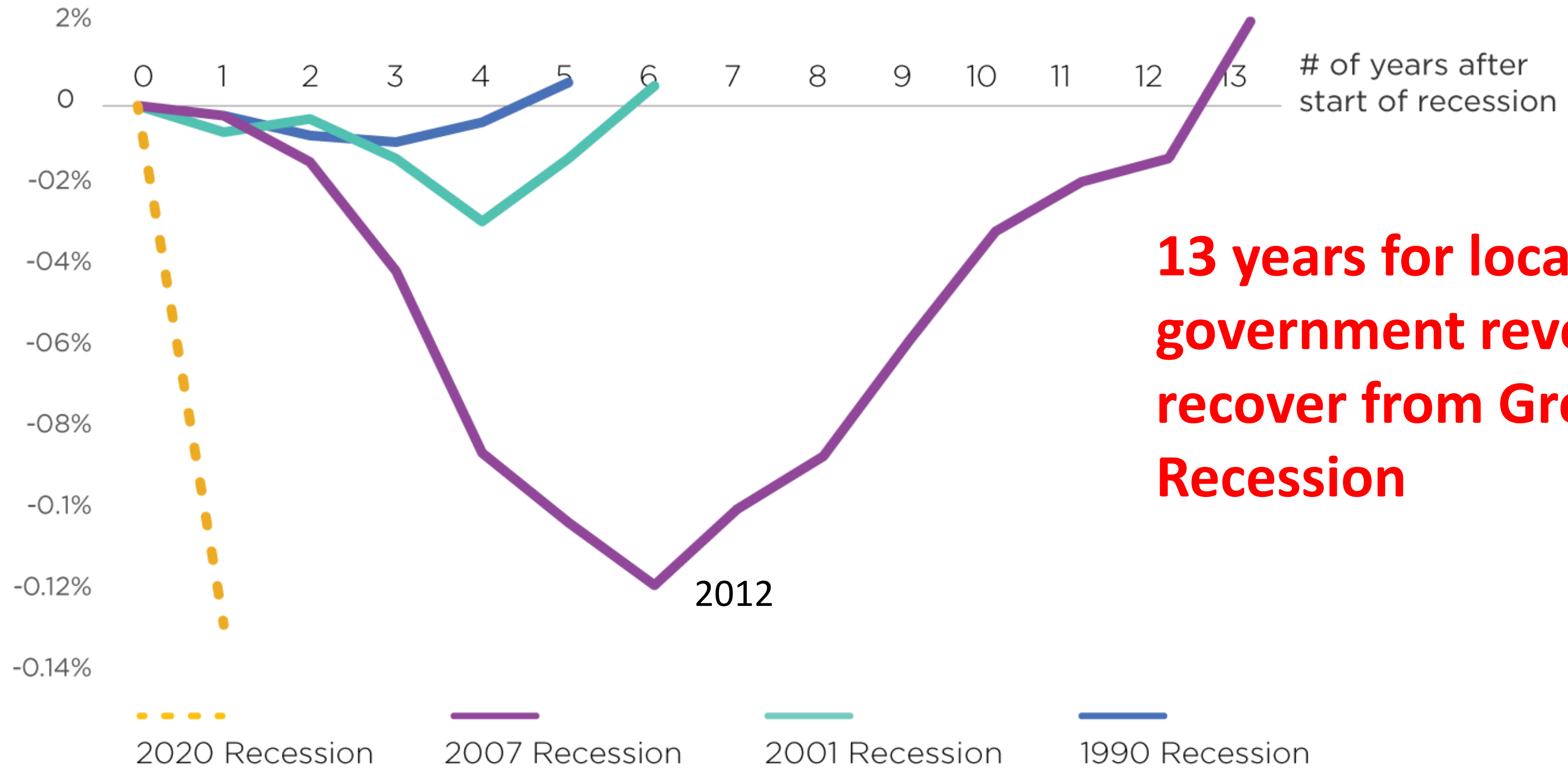


**THE UNIVERSITY OF CHICAGO**

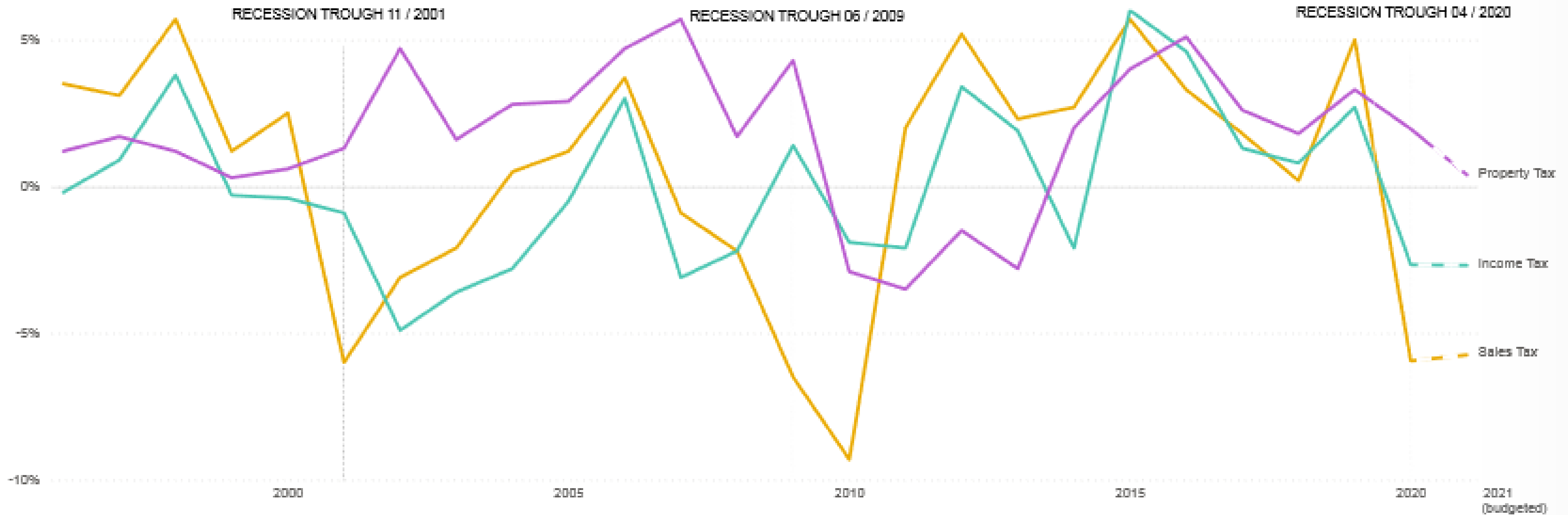
**HARRIS SCHOOL  
OF PUBLIC POLICY**

**CENTER FOR MUNICIPAL FINANCE**

# Comparative Revenue Trends During Recent Recessions



# Year-Over-Year Change in Municipal General Fund Sources of Revenue

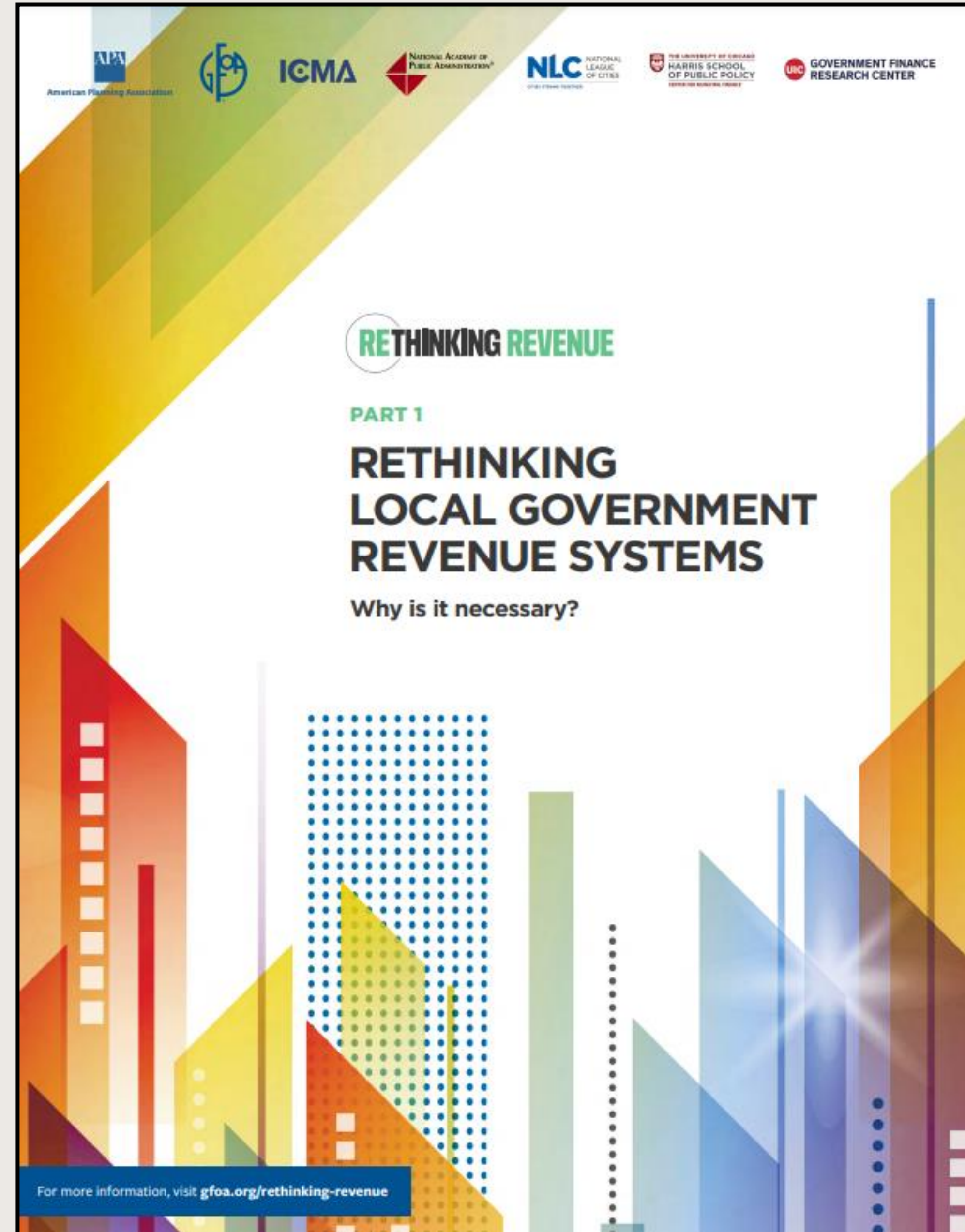


Source: NLC analysis of data from the City Fiscal Conditions survey and annual financial reports.

<https://www.gfoa.org/materials/rethinking-local-government-revenue-systems>

# PART 1

*Define the Problem*





# The Forces for Rethinking

Wealth less connected  
to real property



Overreliance on  
fines and fees

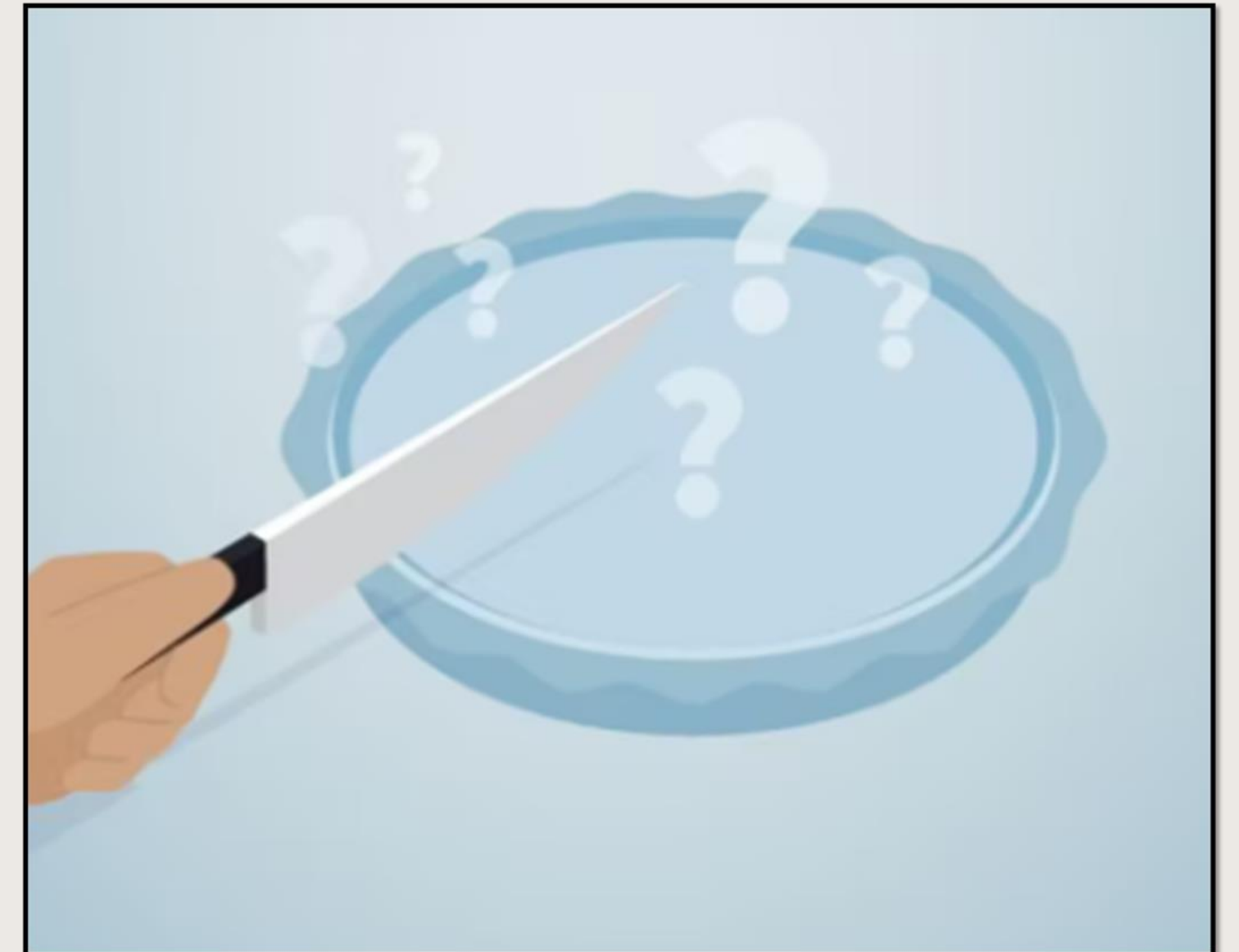


# The Forces for rethinking

Service needs



Fairness



# Can't local governments just spend less?

*Yes, but also necessary to look at the revenue side of the equation*

*There are opportunities to reduce costs, for example:*

➤ **Local government service fragmentation:** Tens of thousands of local governments

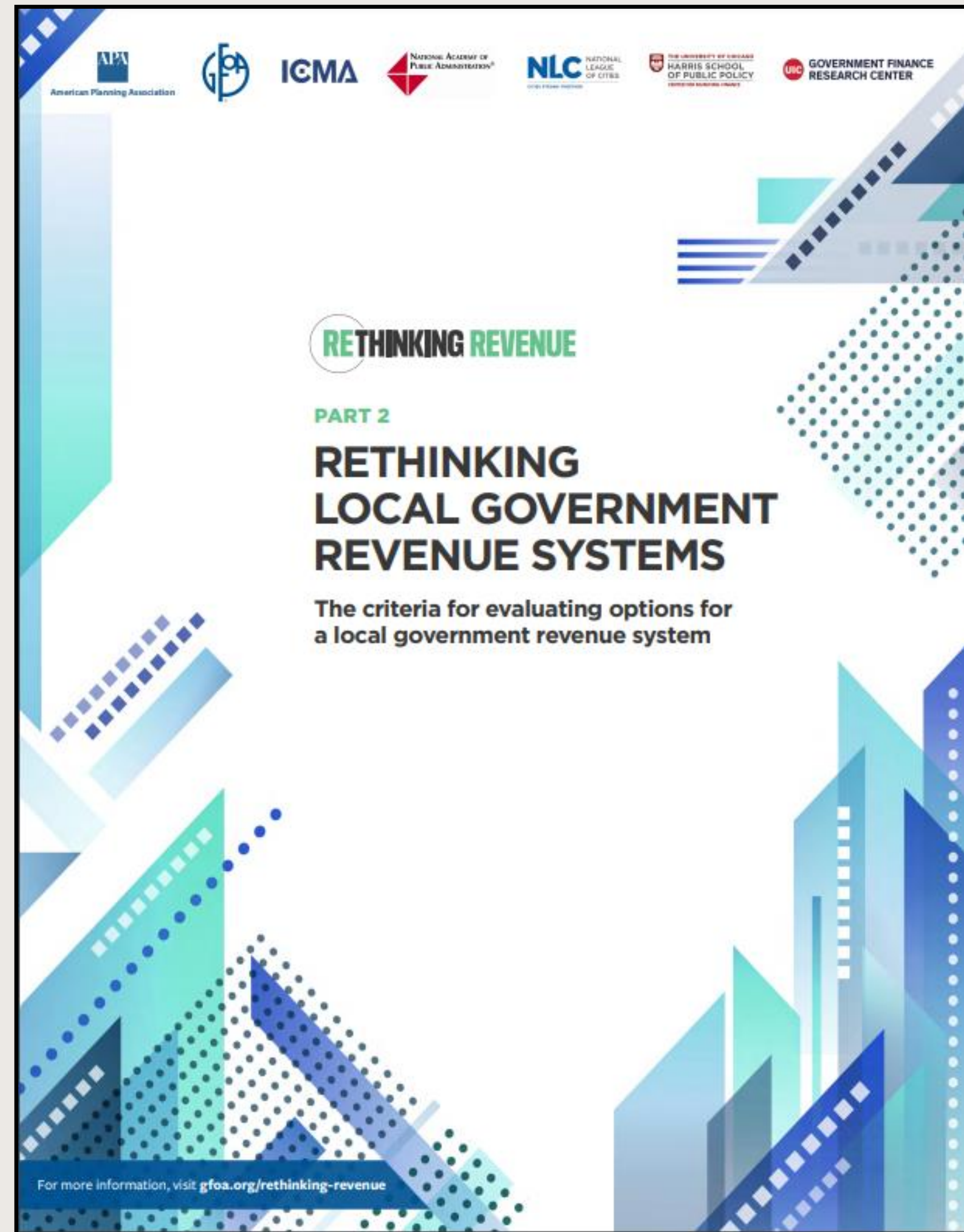
➤ **Pension reform:** Can be accomplished while still providing retirement security to public servants

➤ **Better budgeting:** move beyond traditional incremental budgeting (see ReThinking Budgeting research)

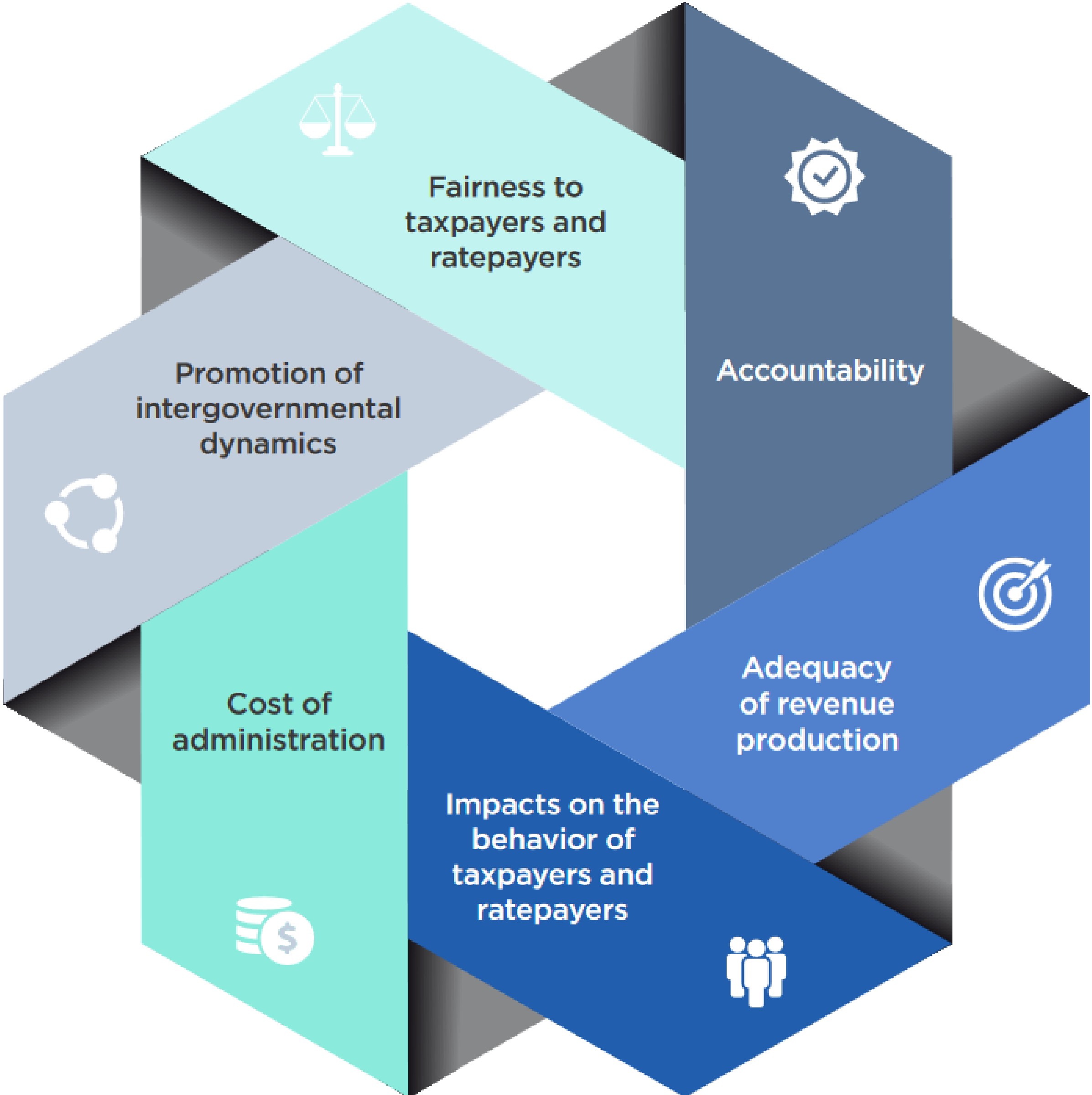
<https://www.gfoa.org/materials/rethinking-local-government-revenue-systems-p2>

# PART 2

*Define the criteria*

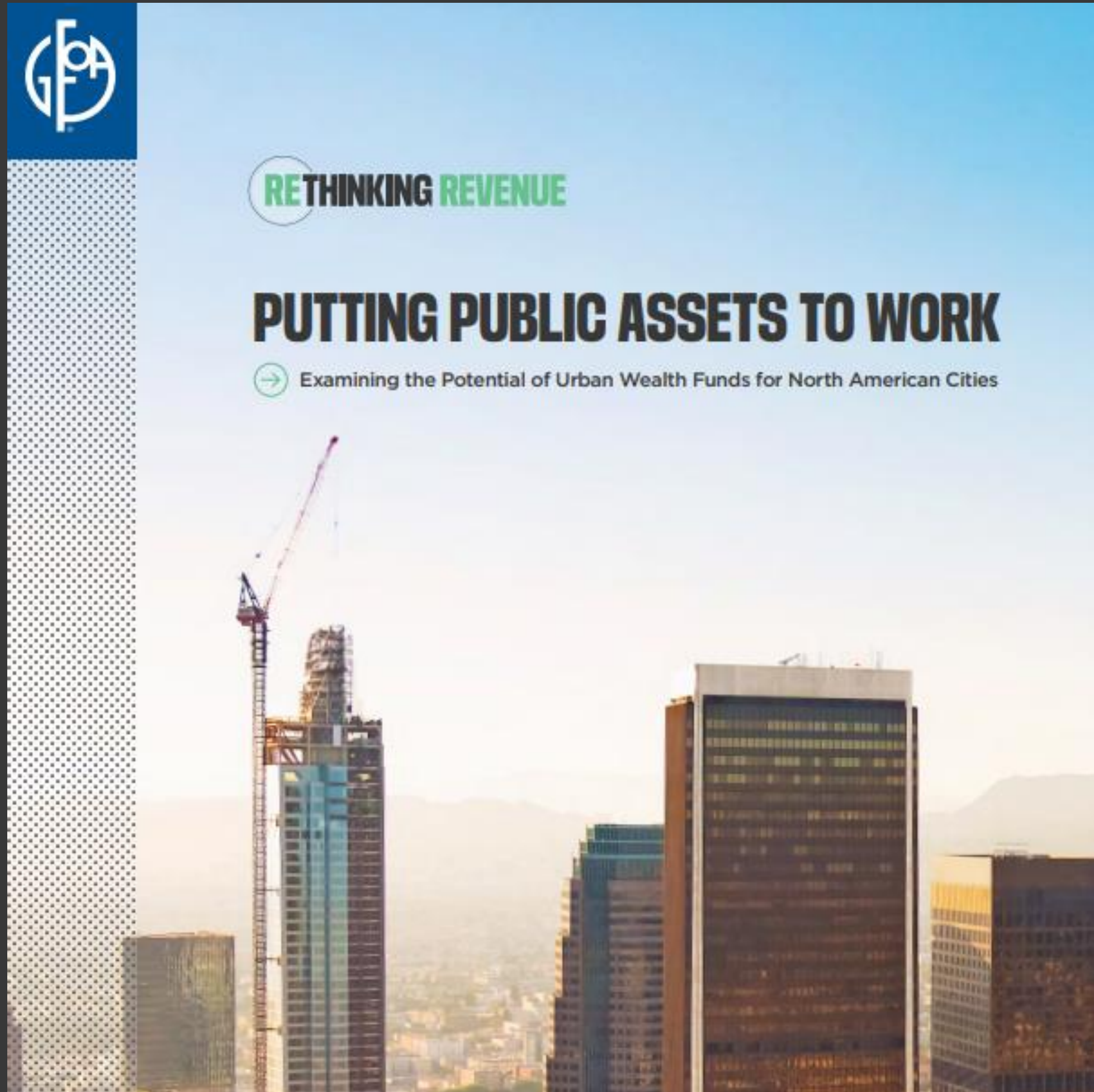



# SIX CRITERIA TO JUDGE LOCAL GOVERNMENT REVENUE



# PART 3

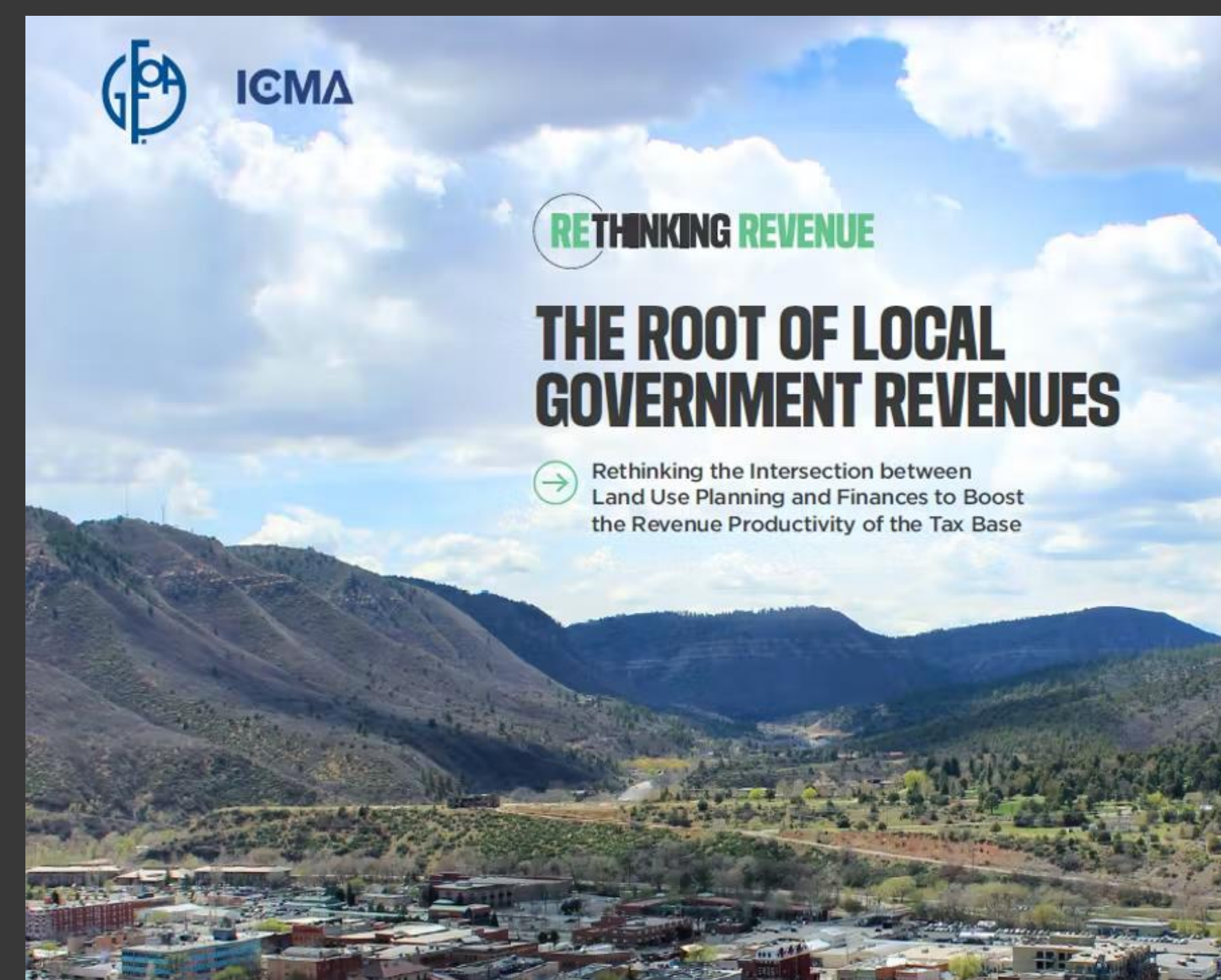
*The Solutions (so far)*




 **RETHINKING REVENUE**

## PUTTING PUBLIC ASSETS TO WORK

→ Examining the Potential of Urban Wealth Funds for North American Cities

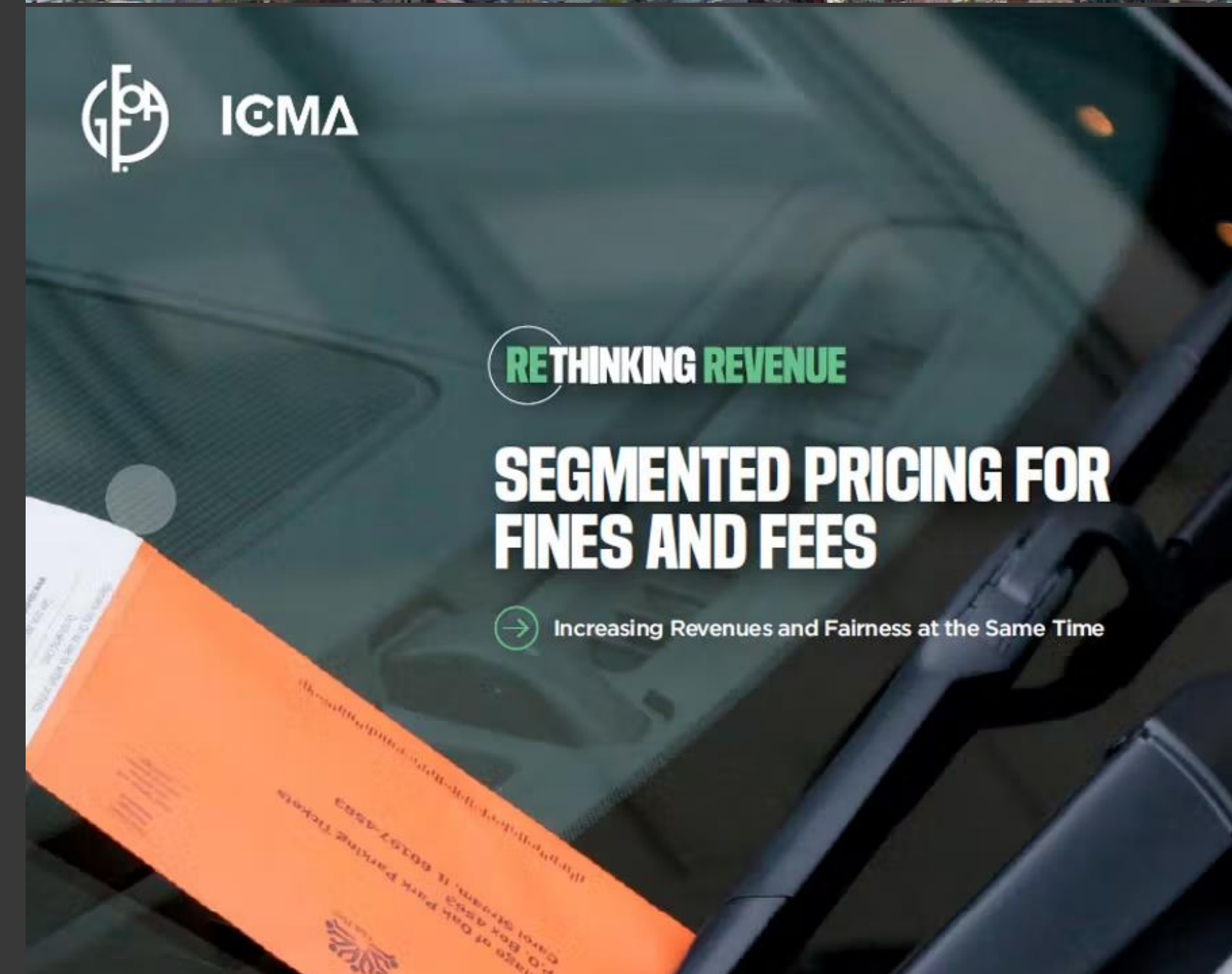



 **ICMA**

**RETHINKING REVENUE**

## THE ROOT OF LOCAL GOVERNMENT REVENUES

→ Rethinking the Intersection between Land Use Planning and Finances to Boost the Revenue Productivity of the Tax Base



 **ICMA**

**RETHINKING REVENUE**

## SEGMENTED PRICING FOR FINES AND FEES

→ Increasing Revenues and Fairness at the Same Time

# Key facts about property taxes



# Single largest “own-source” revenue for local governments

Revenue Sources	Percent of <b>General</b> Revenue		
	Cities	Counties	Schools
Property Tax	24%	28%	37%
All Sales Taxes (general and excise)	14%	9%	1%
Intergovernmental	24%	34%	55%
Charges	21%	21%	4%
Income Tax	6%	1%	0%
All Other	11%	7%	3%

All data in this section is drawn from the Urban Institute’s “State and Local Finance Data: Exploring the Census of Governments” tool. This tool is based on the Census of Governments State and Local Finance series, which comes from the U.S. Census Bureau.



# Importance of property tax varies by state

## Most & Least Important

	<b>Property Tax</b>
Top 3	NJ – 53%
	NH – 53%
	ME – 50%
Bottom 3	WY – 4%
	OK – 5%
	AK – 8%

## Large States

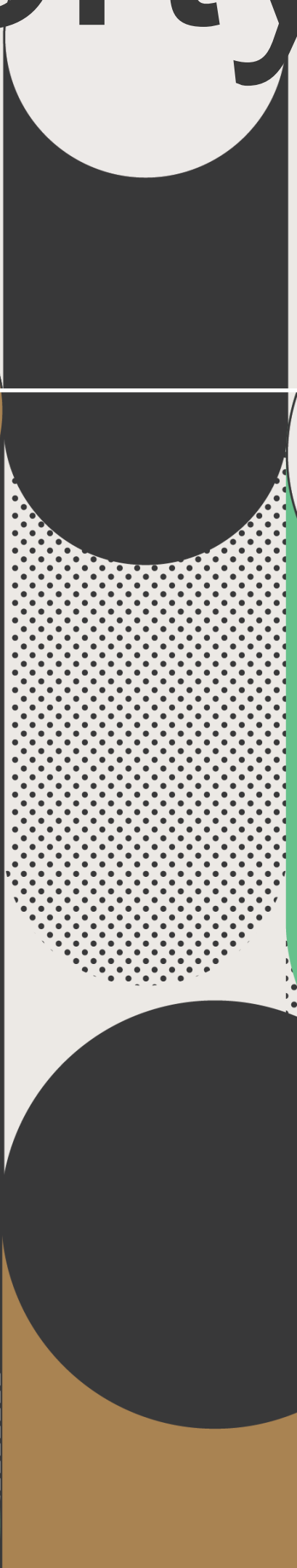
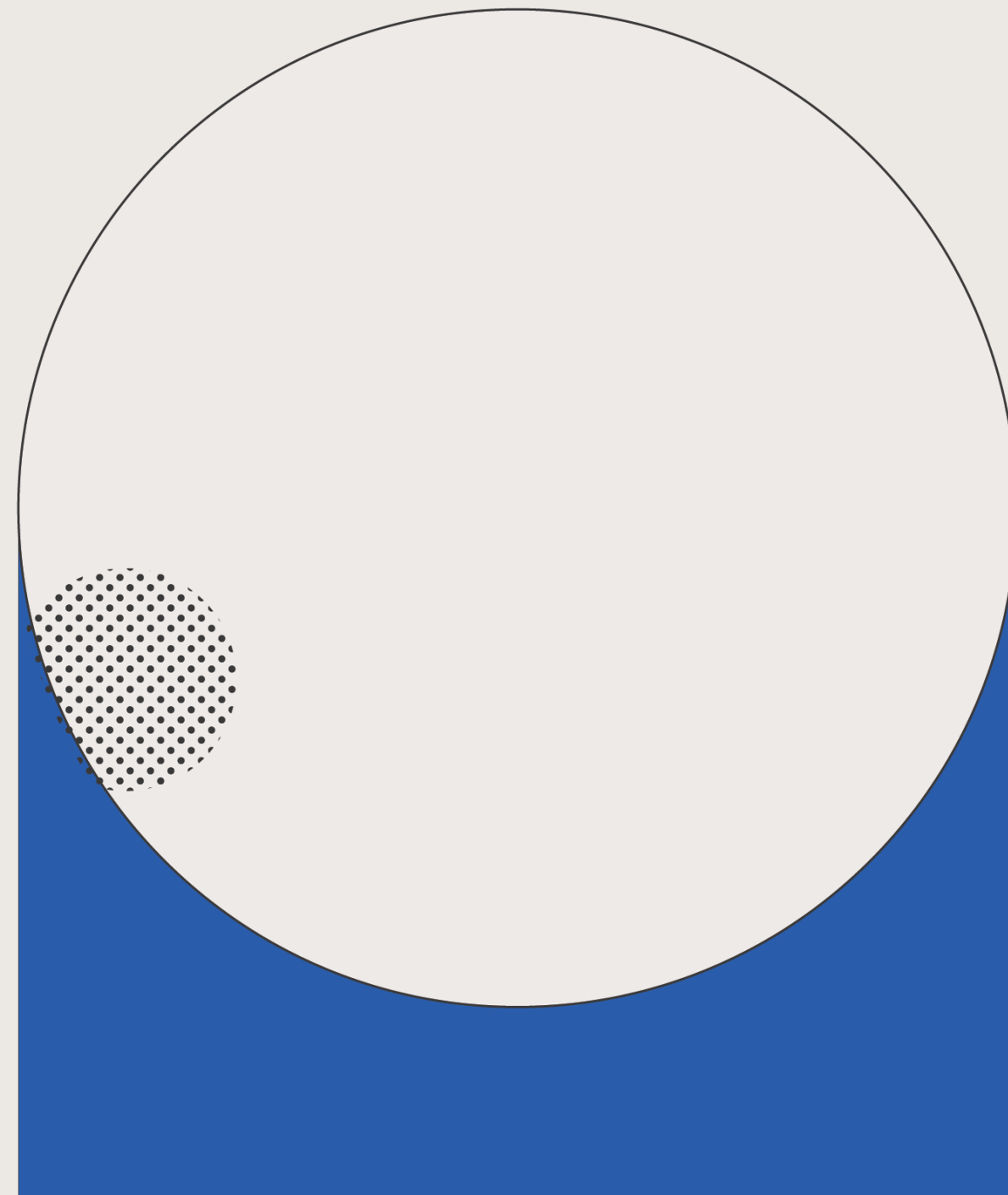
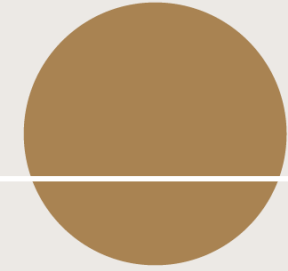
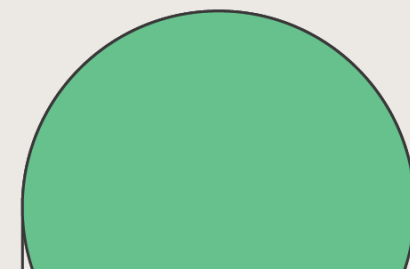
	<b>Property Tax</b>
California	20%
Texas	28%
Florida	24%
New York	24%
Pennsylvania	14%
Illinois	22%

All data in this section is drawn from the Urban Institute’s “State and Local Finance Data: Exploring the Census of Governments” tool. This tool is based on the Census of Governments State and Local Finance series, which comes from the U.S. Census Bureau.

Property taxes  
have actually  
gotten more  
important to local  
government over  
time

- Between 2007 and 2017 cities and counties became about 8% more reliant on property taxes. Schools remained about the same.
- Cities and counties became more reliant because of a much greater decline in intergovernmental revenue (-15%). The difference was made up with user fees.
- Property tax has advantages...
  - Large, immobile tax base
  - **Theoretically**, a progressive revenue

# Problems with current application of property taxes



*“A problem well stated is a problem half solved”*

*-Charles Kettering*

**Let's understand the problems with the  
property tax that demand relief**

# 1 - Mismatches between property wealth & Income

Increases in home values don't translate to increased ability pay

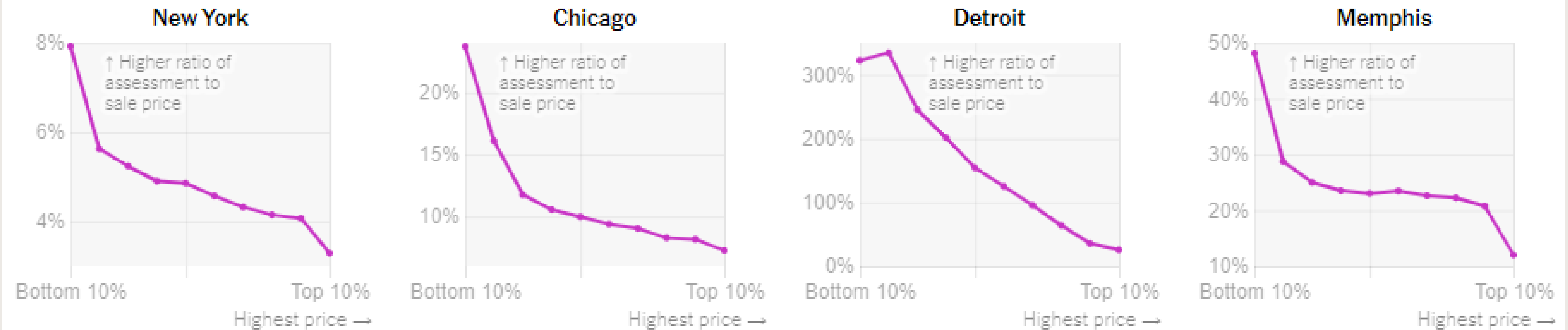
	<b>Real Median Family Income</b>	<b>Case Shiller Home Price Index</b>
2011	\$70,328	139
2020	\$84,008	212
<b>% Increase</b>	<b>19%</b>	<b>53%</b>

# 2 - (predictably) Inaccurate Assessments...

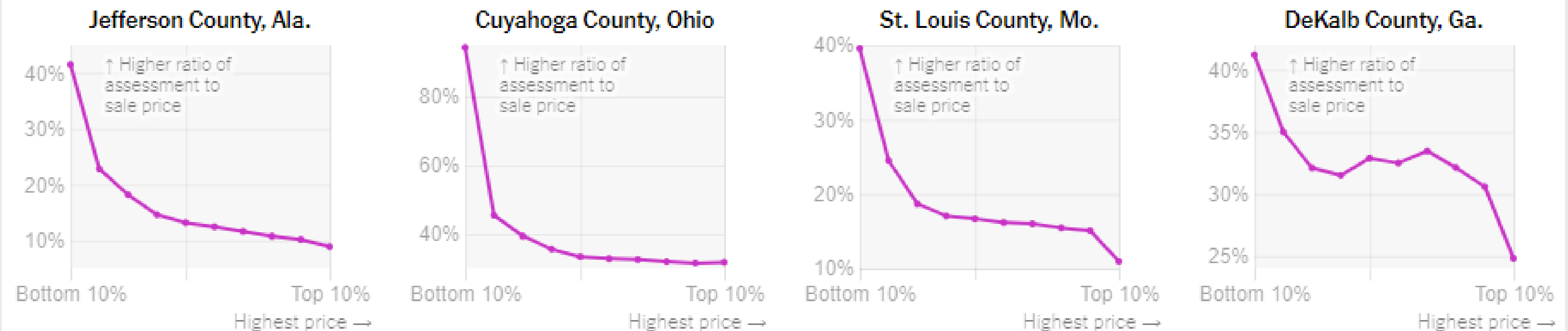
**Across the nation, lower-priced homes are assessed at a higher value relative to their actual sale price.**

Average assessed value, compared with the sale price

This is true for big cities...



...as well as some of the nation's most populous counties.



Note: In most U.S. counties, properties are assessed by a single office or under a uniform set of rules. - Source: Christopher Berry, University of Chicago

*“The art of taxation consists of plucking the goose so as to obtain the most feathers with the least hissing.”*

*— Jean-Baptiste Colbert, French statesman, 1661 to 1683*

Property tax...

...3- has potential for large year to year changes

...4 - Is often paid in large lump sums

...5 – Lots of exemptions (e.g. not for profits)



# Property tax relief should address the problems

But without “freezing” the status quo in place

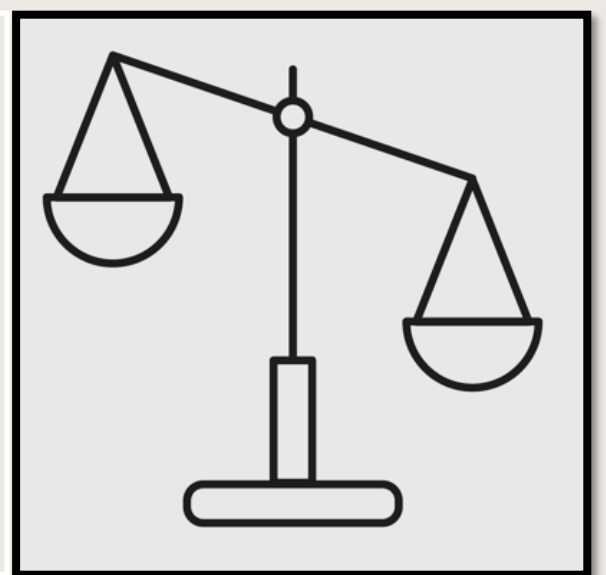
Tax limitations and assessment limits should be avoided



Expenditures don't freeze. Tax freezes shift revenues to less reliable, less fair sources



Sets the stage for very unfair property taxes in the future and bizarre financial outcomes



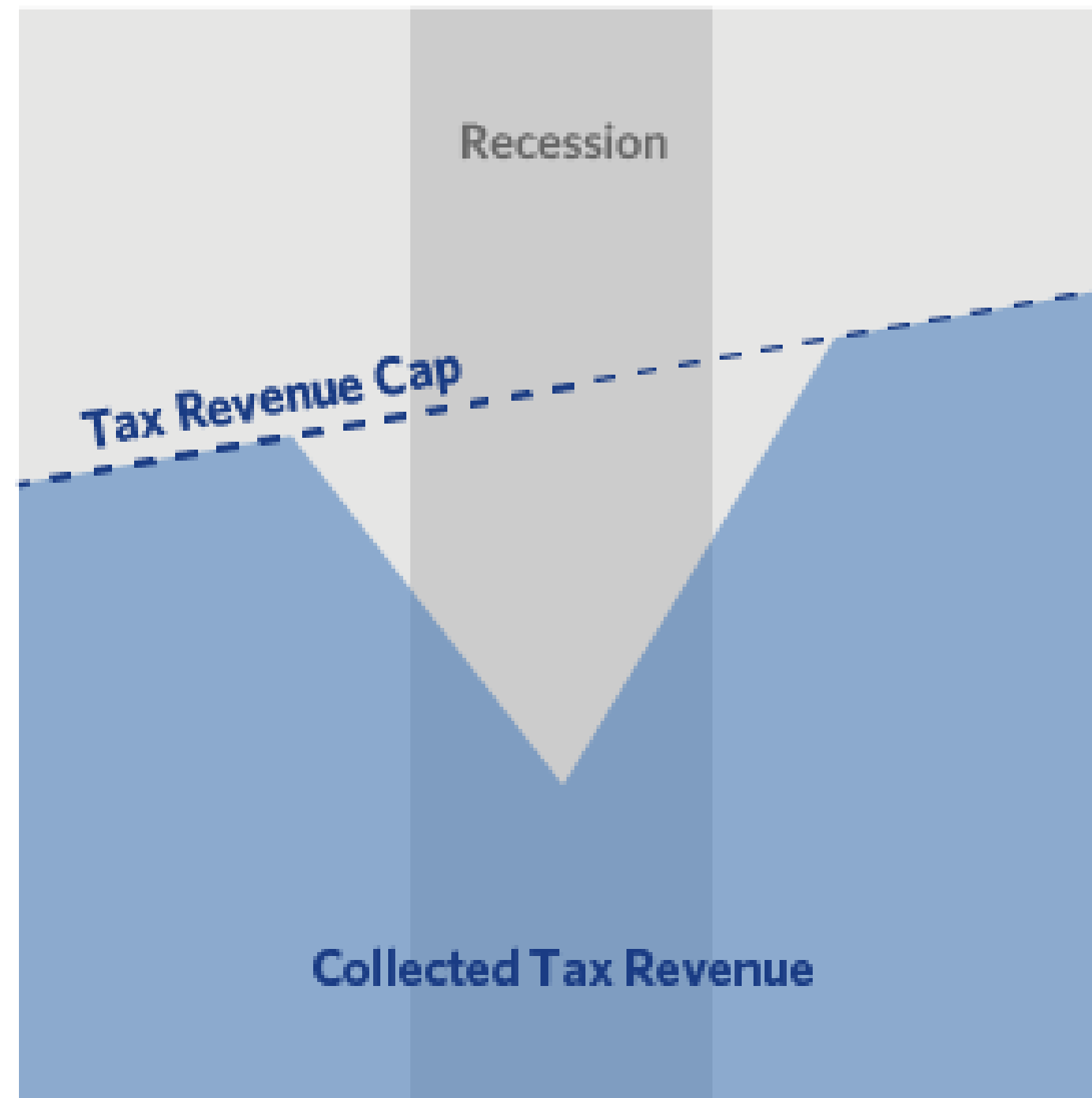


# State Imposed Limits

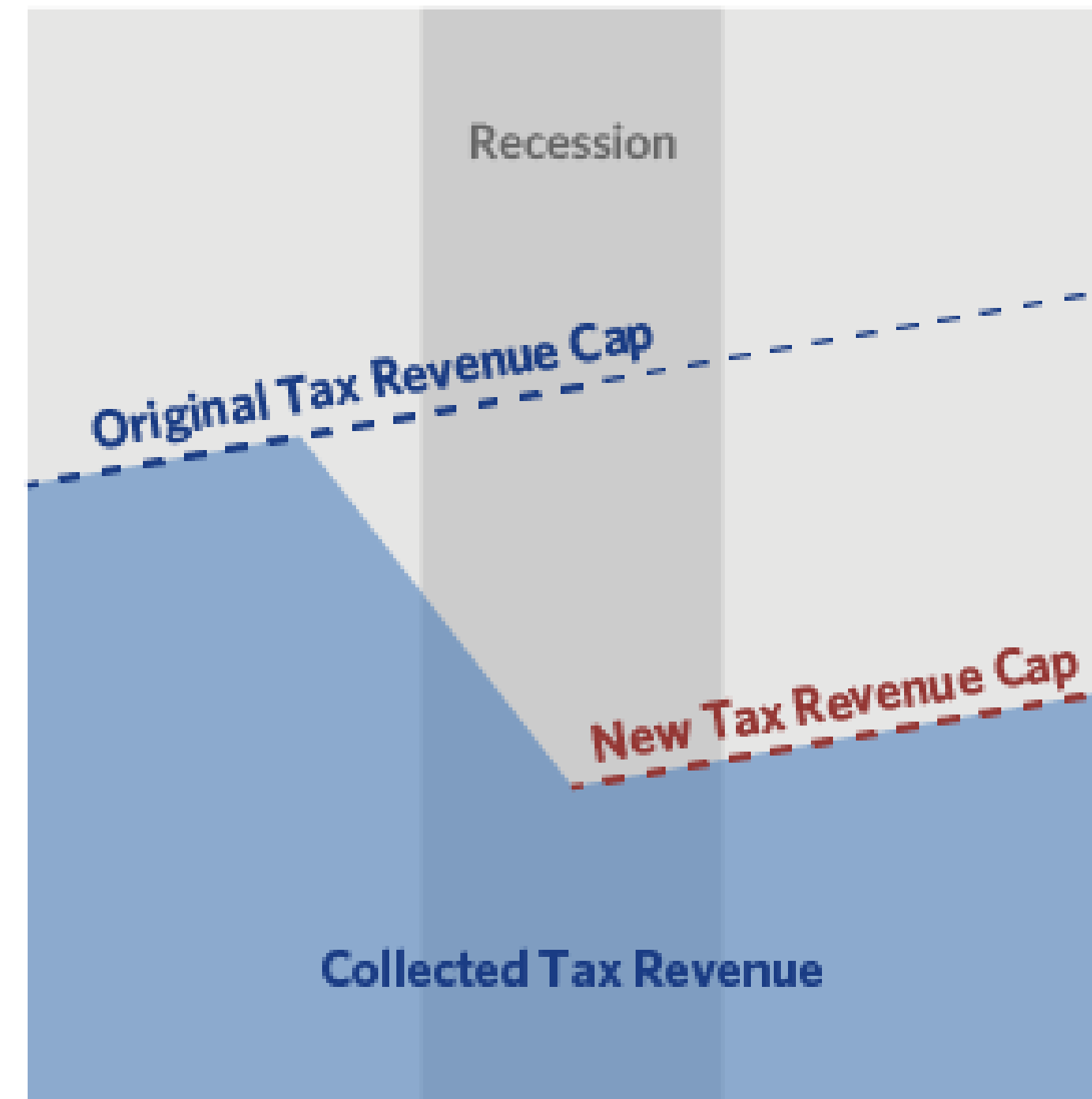
## Tax Limits Can Create 'Ratchet-Down' Effect on Local Revenue

State-imposed constraints hamper pace of revenue growth after a recession

Without ratchet effect, revenue is able to bounce back after a temporary drop



With ratchet effect, a temporary drop becomes a permanent reduction in cap



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<https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2021/07/local-tax-limitations-can-hamper-fiscal-stability-of-cities-and-counties>

*Tax burden is shifted to people with properties that aren't growing in value as quickly*

If two properties taxes are frozen at a point in time, the property that grows more quickly in value will pay a lower relative share of value in taxes

	House 1	House 2
Value in Year 1	\$ 200,000	\$ 200,000
Taxes at 2%	\$ 4,000	\$ 4,000
<b>Taxes Frozen at Year 1 Amount</b>		
Value in Year 10	\$ 225,000	\$ 300,000
Frozen Tax	\$ 4,000	\$ 4,000
Taxes as % of Property Wealth	1.8%	1.3%

# People in Similar Houses Can Have Very Different Tax Bills\*



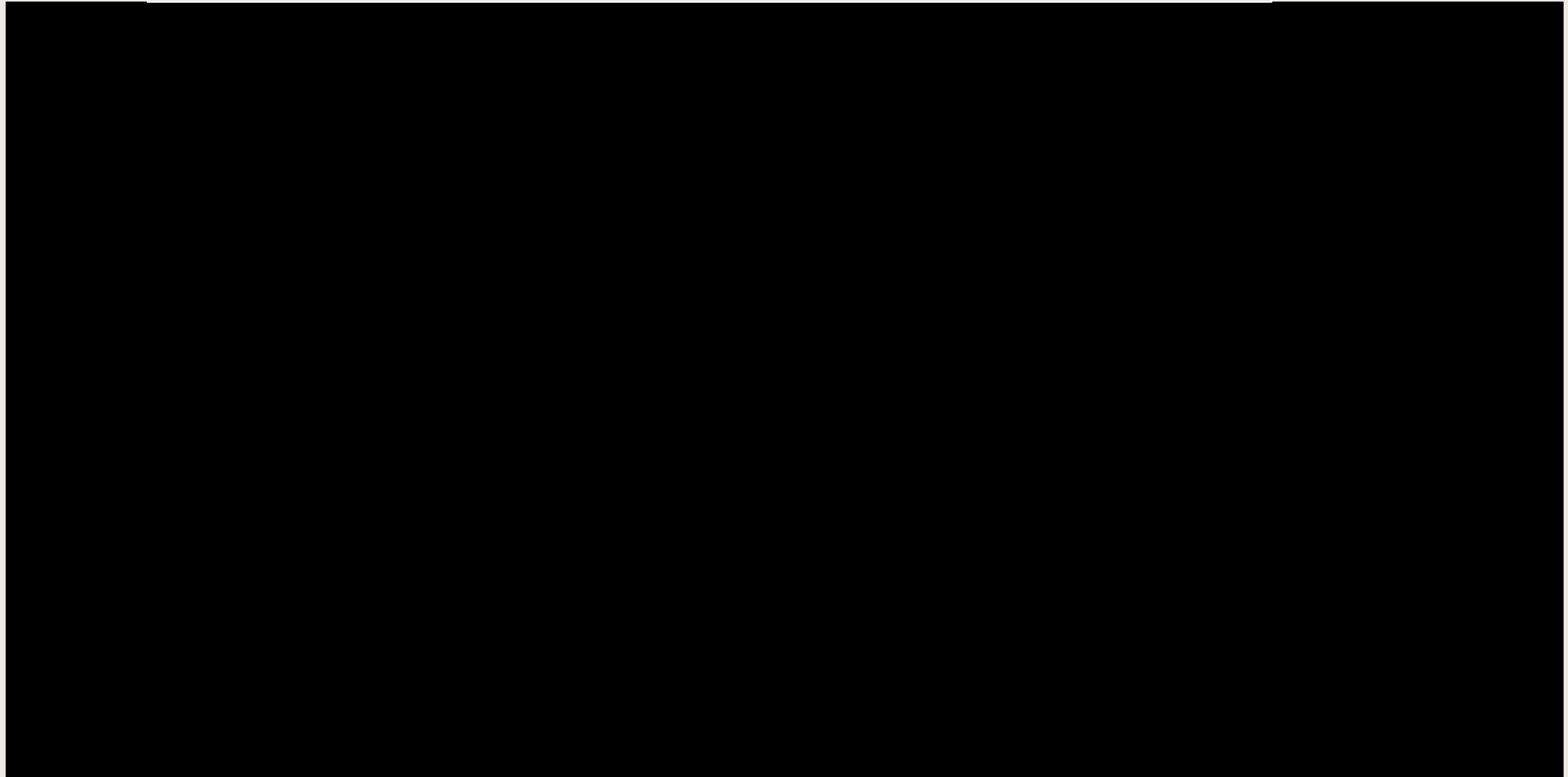
JAS JOHL IN NORTH OAKLAND PAYS **\$13,000** PER YEAR ON **1,400 SQ FT**



HER NEIGHBOR , DON, PAYS **\$7,000** PER YEAR ON **1,600 SQ FT**. BOTH HOUSES HAVE SIMILAR MARKET VALUE .

*\*Examples from CALmatters*

# Joe Minicozzi of Urban 3: The Asheville Story

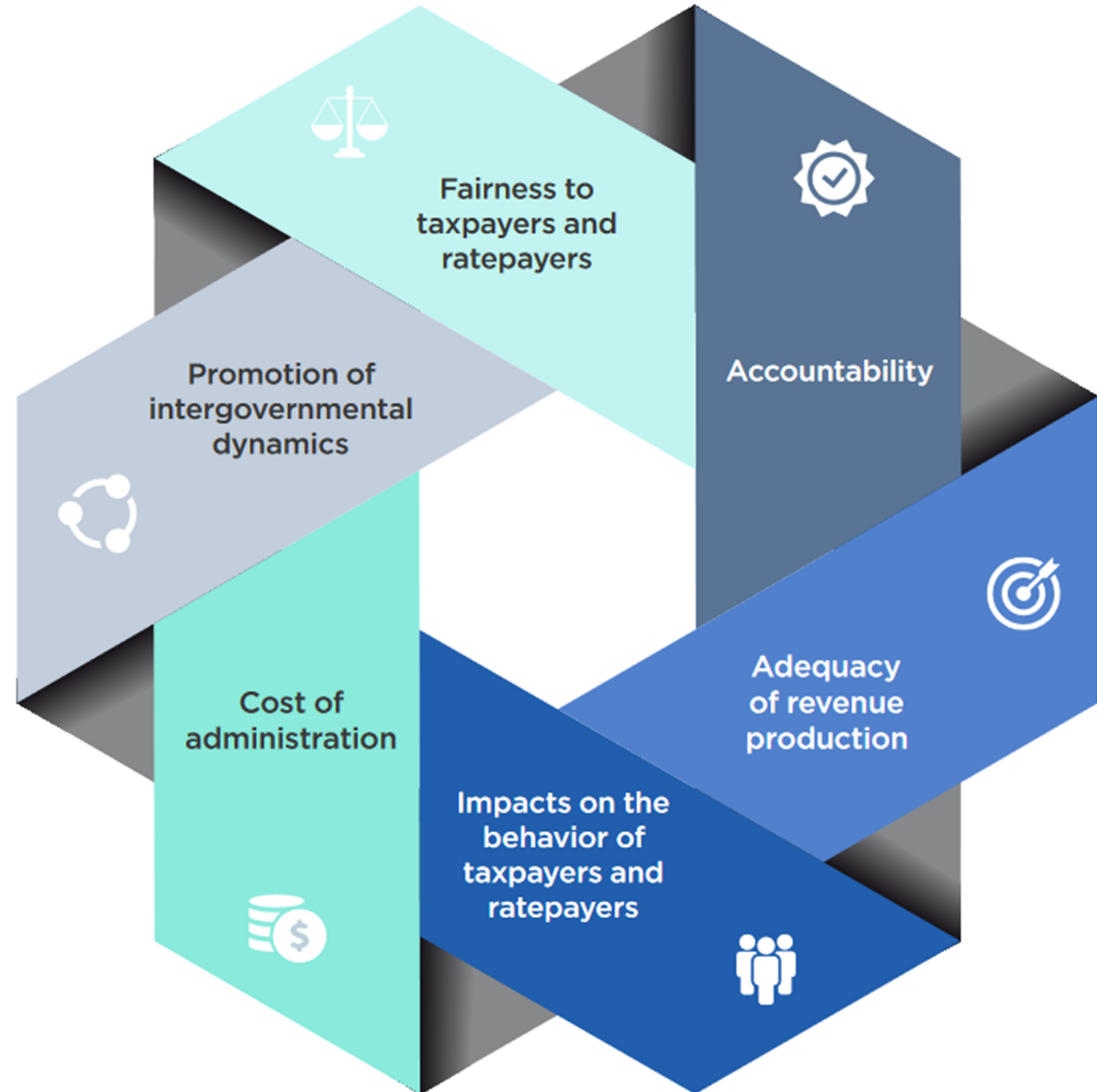


# Chris Berry, University of Chicago



***State governments could provide options to local governments for modern, responsive and fair revenue systems***

## SIX CRITERIA TO JUDGE LOCAL GOVERNMENT REVENUE



***“Accurate assessed values are the foundation of a fair property tax system”***

***-From Property Tax Relief for Homeowners***

# A better tax relief strategy

*“Property Tax Relief for Homeowners”*

*published by the Lincoln Institute of Land Policy*

- **Smart practices:** responsive rate setting, quality assessment practices, and regular revaluations
- **Smart tax relief strategies:** circuit breakers and deferrals
- Jenna Martin from Lincoln Institute is here to share copies of the report



# Payments in Lieu of Taxes (PILOTS)

<https://www.gfoa.org>



## Boston's PILOT Project

How the City of Boston and local tax-exempt institutions worked together to support the local budget using payments in lieu of taxes (PILOTs)

- Convened joint task force of city and NGO leaders
- Identified the cost and benefits NGO's bring to the city
- "The core principles of a fair and balanced pilot program are transparency and consistency" (Task Force final report)

# Boston PILOT Task Force Recommendations

1. PILOT Program should be voluntary
2. Program should be applied to all NGOs except very small (less than \$15 million in assessed value)
3. Contributions should be based on the value of real estate owned by the NGO. PILOT payments would be based on 25% of what similar non exempt property would pay in property taxes.
4. The benefits that the Boston community receives from the NGO would be recognized and applied as a credit up to 50% of payment.
5. Program phased in over 5 years

# Putting assets to work Incubator

<https://www.gfoa.org/paw>

- Six local governments working together to put in place an urban wealth fund:
  - Ann Arundel County, MD (Annapolis)
  - Atlanta, GA
  - Chattanooga, TN
  - Cleveland, OH
  - Harris County, TX (Houston)
  - Lancaster, CA
- First product is an “asset map”. First asset map on track to be ready by the end of July
- Second product will be governance system

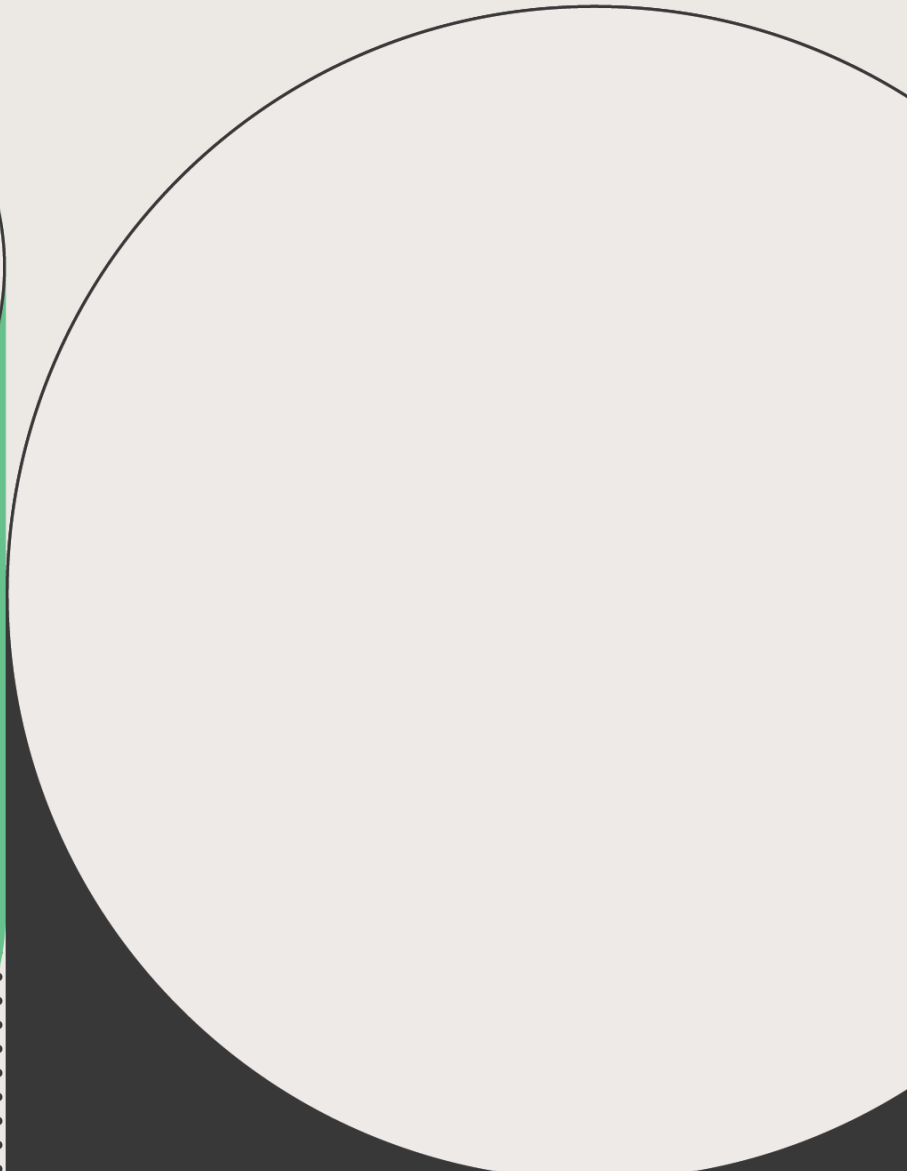
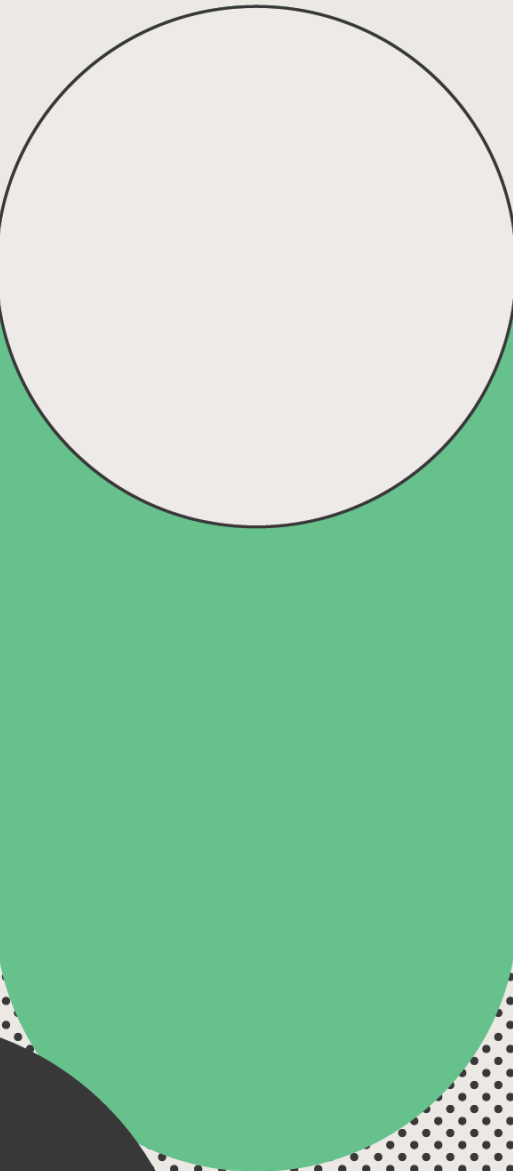
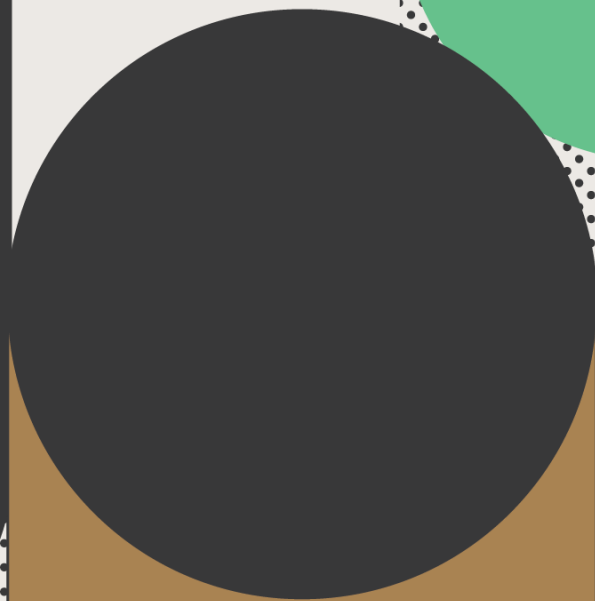
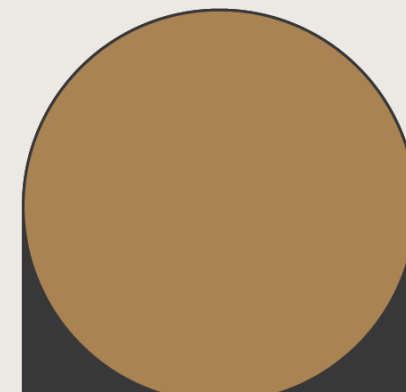
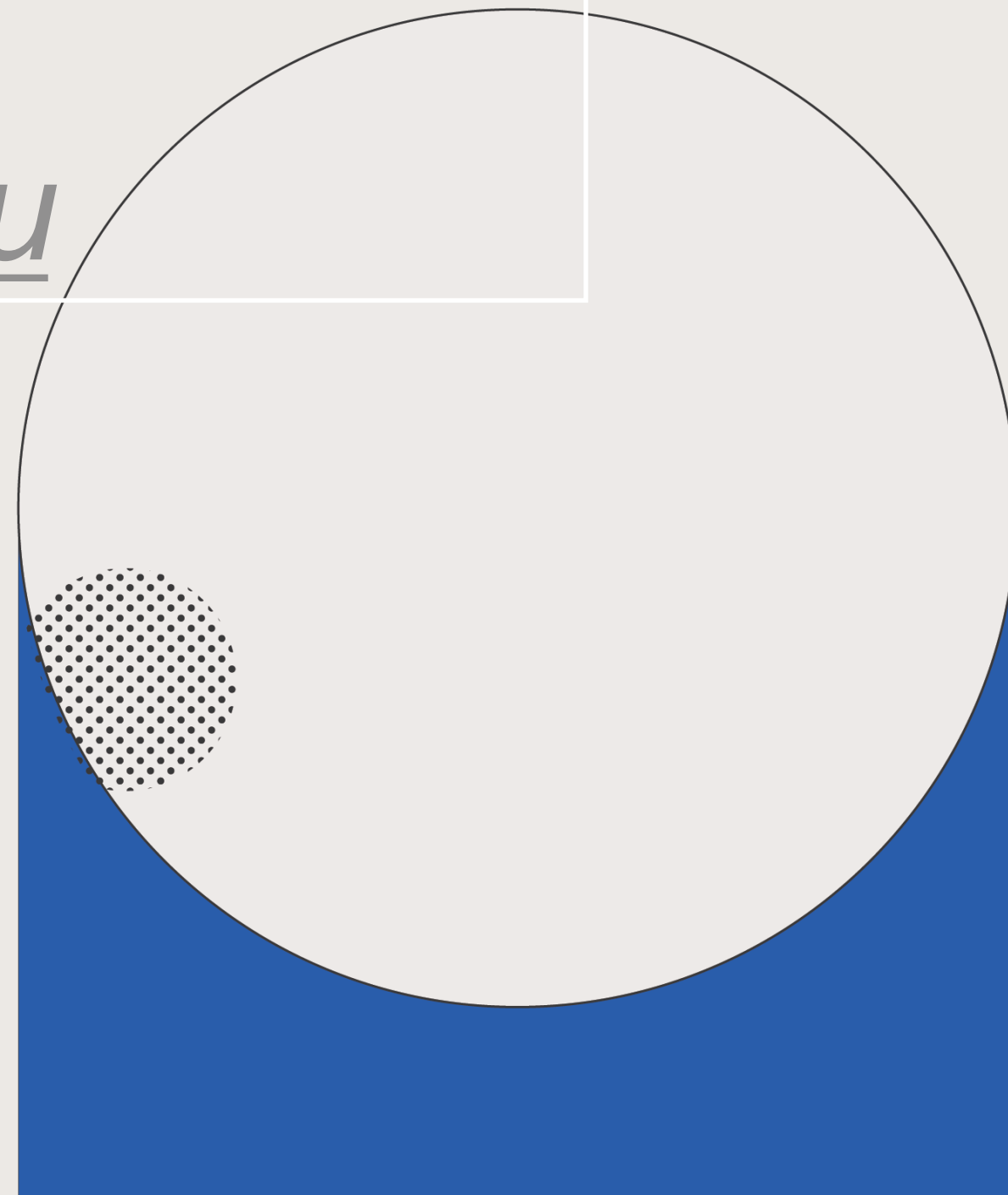
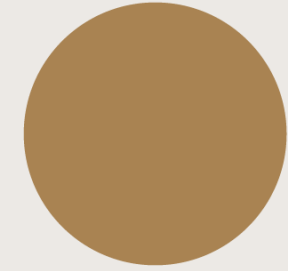
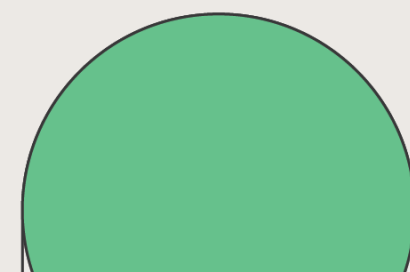
# QUESTIONS?

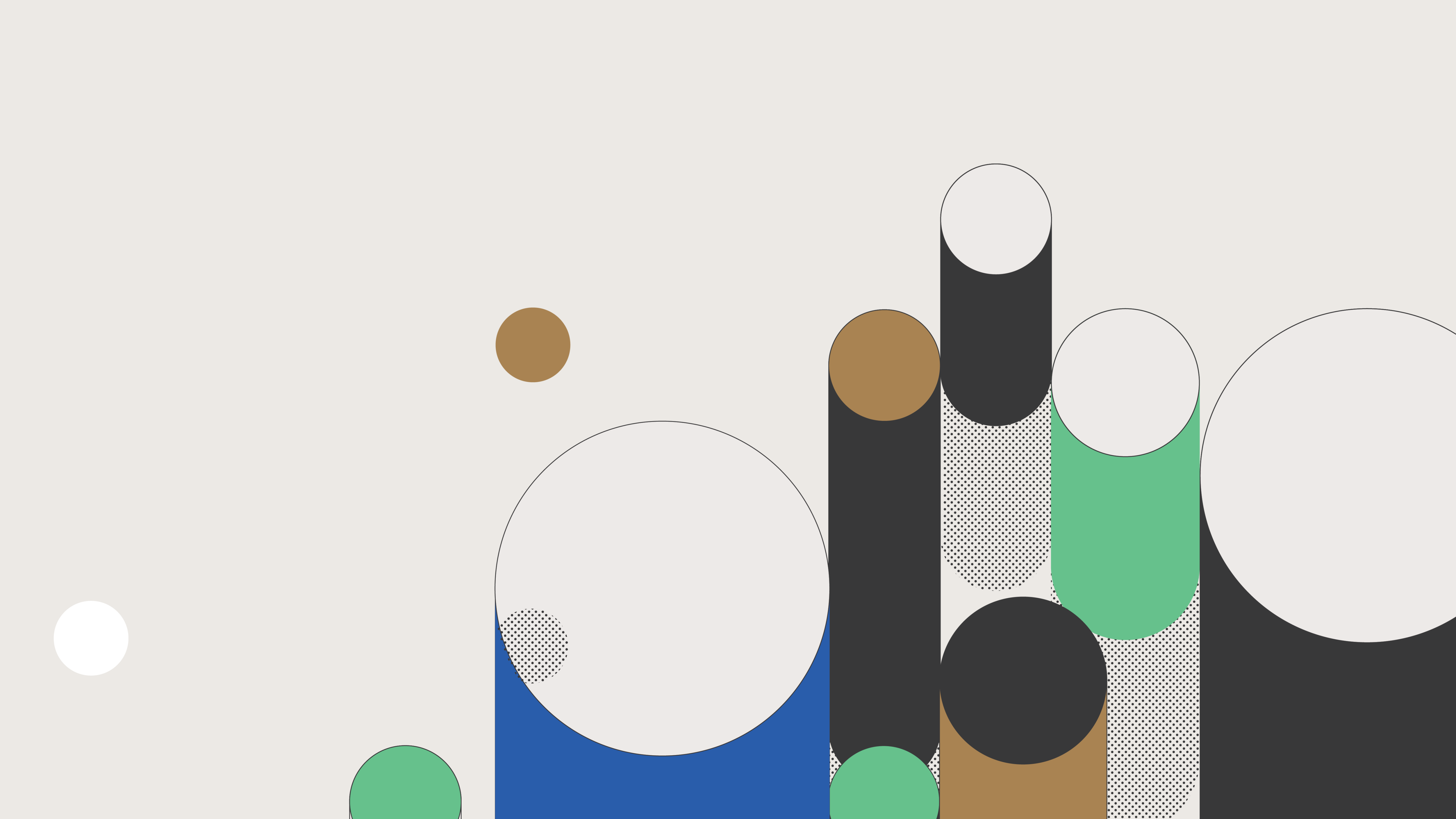
*If you would like more  
information or assistance:*

*[cmorrill@gfoa.org](mailto:cmorrill@gfoa.org)*

*[Joe@urbanthree.com](mailto:Joe@urbanthree.com)*

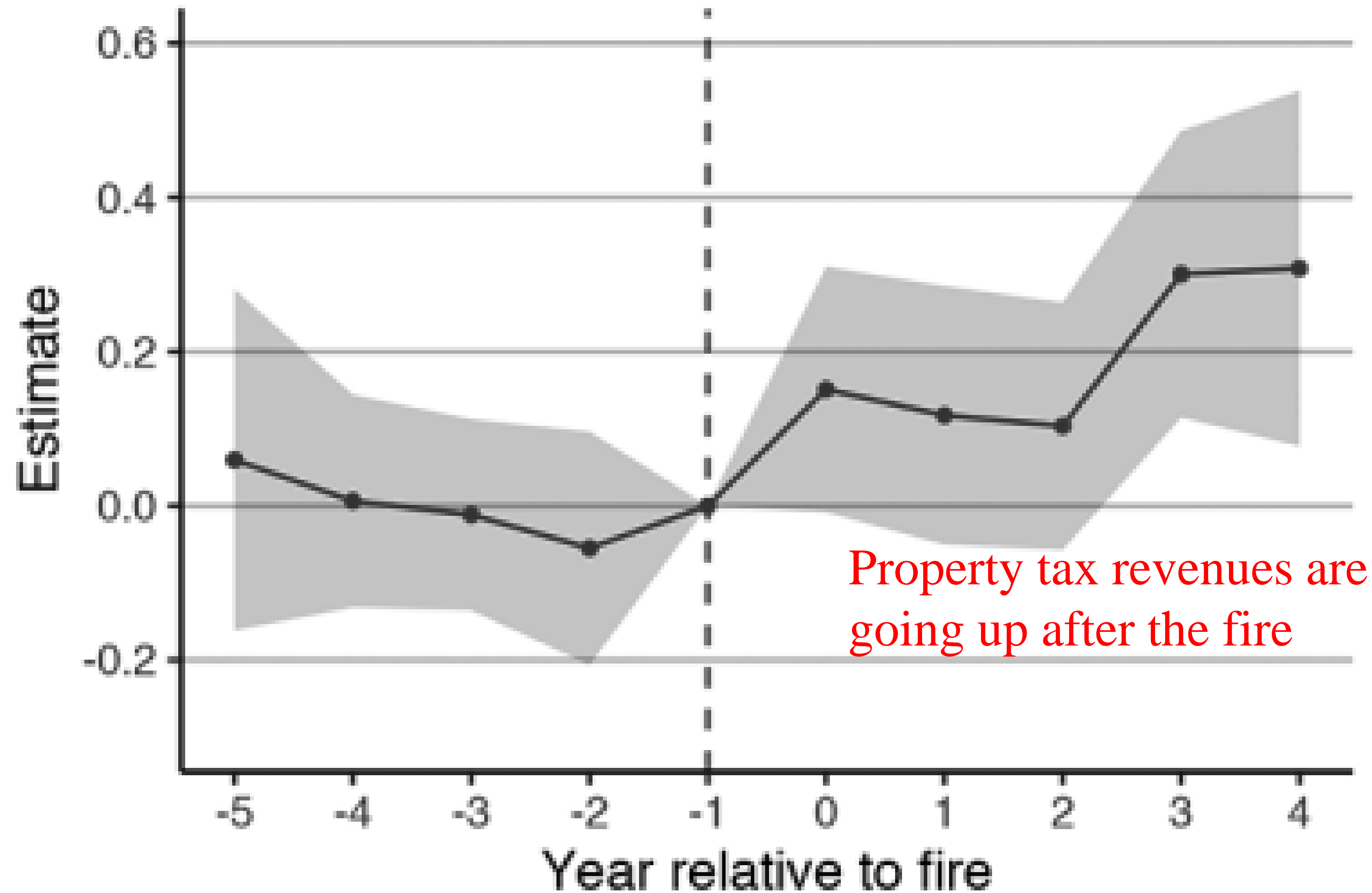
*[crberry@uchicago.edu](mailto:crberry@uchicago.edu)*





*In California, wildfires actually GROW the municipal property tax base!*

C



**SOURCE: THE FISCAL IMPACTS OF WILDFIRES ON CALIFORNIA MUNICIPALITIES BY YANJUN (PENNY) LIAO, CAROLYN KOUSKY**