RETHINKING LOCAL GOVERNMENT RELIANCE ON THE PROPERTY TAX*

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Abstract

Historically, local governments in the United States have relied on the property tax as one of their main sources of own-source revenues. However, the recent collapse of housing prices and the resulting negative impact on local government budgets suggest that it may be opportune to rethink this strategy. In this paper we document the overall decline in property values in the United States in recent years, and we find that the impact is in the aggregate negative but that the impact varies significantly by state and by locality. We also examine the resulting impact on local government revenues, and we again find substantial regional and local variation. Indeed, our data indicate that substantial numbers of local governments seem to have avoided the significant and negative budgetary impacts seen most clearly for state and federal governments, at least to date. We then focus specifically on the State of Georgia, in order to determine the ways in which local governments have responded to the economic recession. We conclude that local government reliance on the property tax has in fact been an advantage for many local governments in the current economic environment, and that such reliance is likely to continue in at least some form for the immediate future.

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I. Introduction

There is little doubt that the recession that began in December 2007 and continued into 2009 has had major effects on the fiscal position of federal and state governments. At the federal level, the deficit grew from $459 billion in FY2008 to $1.4 trillion in FY 2009, which was the largest dollar magnitude in history and also the largest as a percentage of GDP (10.6 percent) since the end of World War II; the federal deficit is forecast to grow to $1.6 trillion in FY2011, and is projected to remain at high levels for the next decade (Office of Management and Budget, 2010). At the state level, the recession has caused the steepest decline in state tax revenues in memory, and states have responded by making major cuts in spending (Table 1). Despite these cuts, state budget deficits for the current and immediately future years remain at alarmingly high levels (The Nelson A. Rockefeller Institute of Government, 2010; Center on Budget and Policy Priorities, 2010).

It is widely perceived that local governments have also been severely affected by these same forces. The bursting of the housing bubble and the resulting decline in economic activity should, it is believed, have a serious negative impact on local governments, especially those dependent on local property taxes as a major source of revenues. It is this issue that we examine here. We first use data from the Department of the Census to examine the trends of local government revenues (especially the property tax) over the last decade. We find that there is great diversity in the experiences of local governments over this period and especially in the immediate past several years. However, we also find that the widespread expectation that most local governments have suffered the same fate as state and federal governments is not generally supported, at least to date. We then focus more specifically on the State of Georgia by examining detailed information on housing values, property tax assessments and property tax

rates for local school districts in the state. We find that property values declined in Georgia (as in many other parts of the country), but we also find that local school districts were in many cases able to maintain a steady pattern of collections by increasing millage rates. We conclude that local government reliance on the property tax rather than more elastic revenues sources like income, sales, and excise taxes may in fact have been a significant advantage for local governments in the current economic situation.

II. A Brief Note on Data and Sources

For national trends, we obtained quarterly tax collection data from the Government Finances Division of the Census Bureau for each quarter 1998 through 2009. These data are collected from a sample of tax collecting jurisdictions. For the purposes of this paper, we weighted the collections from each jurisdiction, summed over the four quarters of the calendar year, and aggregated by state. (Going forward, we hope to use collections from individual jurisdictions to explore the effect of the housing collapse on property tax collections). We refer to these data as the quarterly collections data, or QCD.

Property tax collections are reported by the Census Bureau by state by fiscal year through 2007 on its webpage. For simplicity we refer to these data as the Census data. We first compared the Census property tax collections for the U.S. with the total we generated using the QCD, comparing fiscal year to the same calendar year, i.e., FY 1998 for the Census data and 1998 for the QCD. Figure 1 shows the total property tax collections for the U.S. for each year, 1998 to the most recent year available, 2007 for the Census data and 2009 for the QCD. As can be seen, these data tract pretty closely, particularly in the more recent years for the Census data. (For 1998, the data for South Dakota are missing for QCD, so we excluded it from the Census

data.) Some difference is expected since one uses fiscal years and the other uses calendar years. Figure 2 shows the percentage change in the two series, and there are some large differences in the growth rates implied by the two series. These trends are discussed in section III.

For Georgia trends, we obtained from the Georgia Department of Revenue the annual property tax base for each of the 180 school districts in Georgia for 1997 through 2009. We also obtained property tax rates and property tax liability for school districts for 2006 through 2009, although we are missing data for 8 school districts for 2009. The base is as of January 1 of the respective year. The millage rate is set in the spring, with tax bills being paid in the fall, the revenue from which would be reported in the following fiscal year. (School districts are on a July 1 to June 30 fiscal year.) Thus, the 2009 base would generate revenues for FY 2010. We report tax liability in the calendar year in which they are due, not the fiscal year. These trends are discussed in section IV.

III. National Trends in Property Tax Collections

Overall collections of local property taxes rose steadily over the last decade to about $440 million in 2009, roughly doubling over this period (Figure 1). The annual percentage change in local collections has always exceeded 4 percent, and has often been even greater (Figure 3). Even in the last two years, the growth rate has been greater than 4 percent. Real per capita collections also rose from $1000 per capita in 1998 to nearly $1400 per capita in 2009 (Figure 3).

These national trends hide significant state variation. Charts 1 to 8 show the annual percentage change in local property tax collections by state, from 2006. Charts 1 to 3 show the weighted growth rates for the individual periods 2006-2007, 2007-2008, and 2008-2009, and Chart 4 shows the cumulative weighted growth rates over the 3 years; charts using unweighted

data show the same patterns. Even in the most recent period (2008-2009), well over half of the states experienced a growth in property tax revenues (Chart 3). Those states that suffered a loss in revenues tended to be concentrated in the southeast and somewhat erratically in the midwest and the northeast. For the entire 3 year period, only 12 states experienced a decline in revenues (Idaho, North Dakota, Texas, Michigan, Indiana, Ohio, Kentucky, Tennessee, South Carolina, Florida, Pennsylvania, and Maine); see Chart 4.

As a very preliminary investigation of factors that might explain differences in the growth rate of property tax collections between 2008 and 2009, we considered two factors: assessment limitations and housing price changes. In states with assessment limitations, the taxable value based on the limited assessed values may be below the taxable value based on market value. Thus, when market value falls, it may well be that taxable value is not affected. Figure 4 is a simple plot of the percentage change in property tax collection between 2008 and 2009 by state for state with and without statewide assessment limitations. The presence of property tax assessment limits did not prevent increases in property tax revenues, but also did appear to prevent decreases in property tax revenue. A number of jurisdictions with no limits (denoted "0" in Figure 4) experienced significant declines in property tax revenues. Indeed, those jurisdictions with limits (denoted "1") in most all cases had increases in revenues.

The other factor we considered was the change in housing value. Using the housing price index by state from the Federal Housing Finance Agency, we constructed the annual percent change in housing prices. Figure 5 shows a plot of the percentage change in housing prices and in property tax collections for 2008-2009. Based on Figure 5, there does not seem to be much of a relationship between changes in the index of housing prices and growth in property taxes.

Both of these factors require further investigation, and there are of course additional factors that may explain the national trends.

IV. A Case Study: Property Tax Collections in the State of Georgia

As noted earlier, we use data from the Georgia Department of Revenue on the annual property tax base for each of the 180 school districts in Georgia for 1997 through 2009, and on property tax rates and property tax liability for school districts for 2006 through 2009, although we are missing data for 8 school districts for 2009.

Figure 6 shows the growth rates in the real aggregate property tax base over the period 1997 through 2009. (Note that the growth from 2008 to 2009 is based on the same set of school districts because the 2009 data exclude 8 districts.) As can be seen, the growth rate declined following the 2001 recession, with a low growth rate of 2.45 percent for 2003 to 2004, which was only slightly larger than the growth rate of 2.11 percent reached in for 2007 to 2008. The growth in the real base became negative for 2009.

Figure 7 shows the annual growth rate in real aggregate property tax base and tax liability for school districts between 2006 and 2009. As can be seen, the growth in tax liabilities is less than the growth in the tax base for 2007 and 2008, implying that tax rates fell each year. For 2009, the aggregate property tax base and tax liability both fell, but the liability fell by less, suggesting the school districts increased property tax rates on average. We do not have any information on the property tax base for 2010, other than newspaper reports about budget cuts, largely from metro Atlanta. Judging from these accounts, it appears that the property tax base and the expected property tax liabilities will decline for 2010, in the absence of adjustment of millage rates.

At the aggregate level, between 2006 and 2007, 15 of the 180 school districts had decreases in their property tax base. In the following period (between 2007 and 2008) 22 had decreases, and between 2008 and 2009, 86 of the 172 school district for which we had property tax information suffered a decrease in property tax base. Nine districts had decreases in two of those three years, while only one district had a decrease in all three years.

Figure 8 shows the distribution of growth in the nominal property tax base for each Georgia school district for 2006 to 2007 and 2007 and 2008, while Figure 7 shows the distribution of growth in the nominal property tax base for each Georgia school district for 2007 to 2008 and 2008 and 2009. Consider Figure 8 first. As noted above, only one school district experienced declines in its base in both 2007 and 2008. Most districts had similar growth rates in both years, if the growth rate was less than 20 percent. Districts that had high (low) growth rates in 2007 had small or negative (large and positive) growth rates in 2008. This later pattern perhaps reflects periodic assessments of the district's property.

Figure 9 shows a somewhat different pattern. A larger number of districts had decreases in the property tax base in both years. Districts that had large increases in their property tax base in 2008 were more likely to have decreases in 2009 than districts with small increases in 2008, although many districts with small increases in 2008 had decreases in 2009. Compared to Figure 8, in Figure 9 we see few districts with large increases in 2009; indeed, most districts (all but 15) had either small increases (e.g., less than 5 percent) or decreases.

Table 2 shows the number of school that changes millage rates. Between 2006 and 2007, only 33 of the 180 school districts increased their property tax rate, and between 2007 and 2008, 41 school districts raised their property tax rate. What is surprising is that despite the decrease in the property tax base between 2008 and 2009, about the same number of school districts

increased their rates in 2009 (39 districts) as in 2008 (41 districts), and nearly two-thirds of the districts that did not change rates in 2008-2009. However, substantially fewer districts reduced property taxes rates in 2009 (23 districts) than in the previous two years (79 and 60 districts, respectively).

Figures 10, 11, and 12 show the relationship between the growth in the property tax base and the percentage change in the property tax rate for 2007, 2008, and 2009, respectively. For 2007 (Figure 10), we see a very significant negative relationship between the growth in the property tax base and the change in the property tax rate. Districts that had a large percentage increase in the property tax base were inclined to lower their property tax rate, while those districts with a small or negative change in the property tax base were inclined to raise the property tax rate. A similar pattern is observed in 2008 (Figure 11) and for 2009 (Figure 12), although as noted above for 2009 there were fewer districts that changed property tax rates.

V. Conclusions: Whither the Property Tax?

Using data from the Department of the Census on the trends of local government revenues (especially the property tax) over the last decade, we find that there is great diversity in the experiences of local governments over this period and especially in the immediate past several years. However, we also find that the widespread expectation that most local governments have suffered the same fate as state and federal governments is not generally supported, at least to date. Indeed, large numbers of local governments have continued to experience increases in property tax revenues, some quite significant, even if the face of the bursting of the housing bubble and the national recession. Focusing more specifically on the State of Georgia, our data indicate that local governments in Georgia have seen property tax

revenues increase by 0.75 percent between 2008 and 2009, following increases of 5.72 percent and 3.19 percent in the immediately preceding years. Detailed data on housing values, property tax assessments and property tax rates for local governments in the state show that property values declined in Georgia (as in many other parts of the country), but that local governments were in many cases able to maintain a fairly steady pattern of collections by increasing millage rates. As with national trends, the Georgia patterns may well change as property value declines force reactions by local governments. However, to date any declines in property tax revenues seem isolated and due to very specific local developments.

The property tax is often portrayed as an unpopular, hard-to-administer, and inelastic tax. This last feature in particular has proven an important advantage in the recent recession. Indeed, local government reliance on the property tax rather than more elastic revenues sources like income, sales, and excise taxes has – so far, in any event – helped local governments to avoid some of the more severe difficulties experience by many other governments in the current economic situation. Given the institutional realities of its administration, it may take several assessment cycles (e.g., years) before changes in market values of properties are accurately reflected in assessed values and, ultimately, in property tax collections. Further, local jurisdictions routinely adjust millage rates to bring revenues in line with expenditures. This feature is of course available for other taxes, but it seems a more common – and politically viable – occurrence for the local property. Local government reliance on the property tax is likely to continue in at least some form for the immediate future, and we believe that this reliance should not be discouraged.

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Chart 1. Percentage Change in Local Government Property Tax Collections, 2006-2007, by State (weighted)

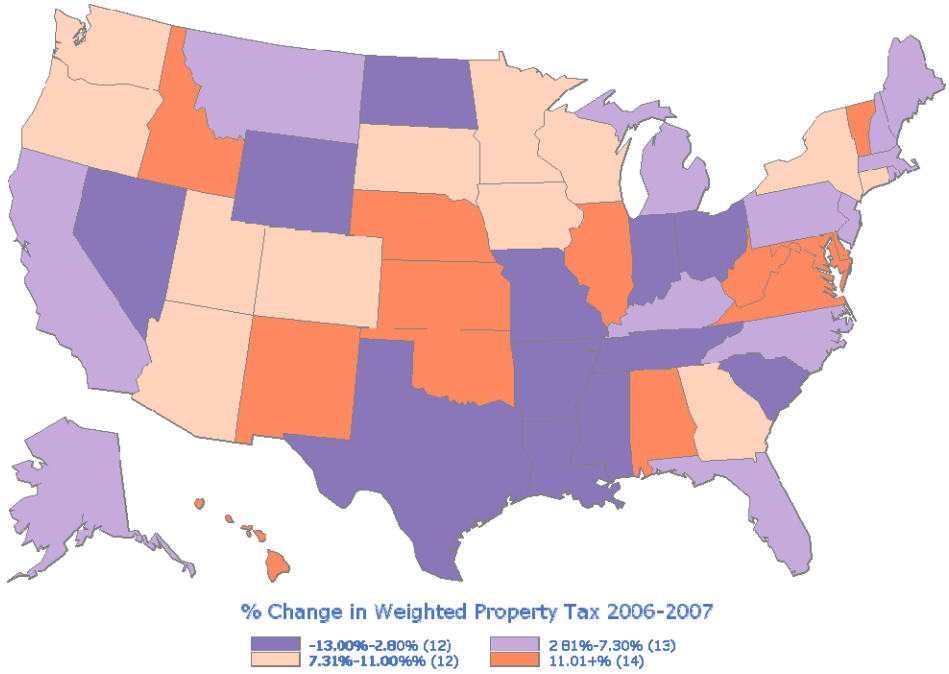

Chart 2. Percentage Change in Local Government Property Tax Collections, 2007-2008, by State (weighted)

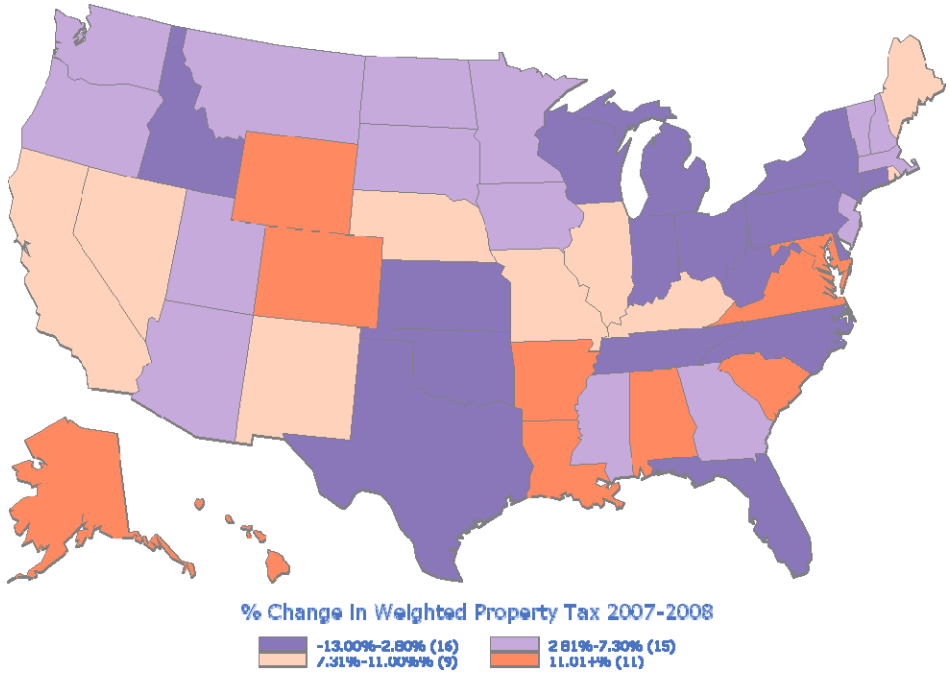

Chart 3. Percentage Change in Local Government Property Tax Collections, 2008-2009, by State (weighted)

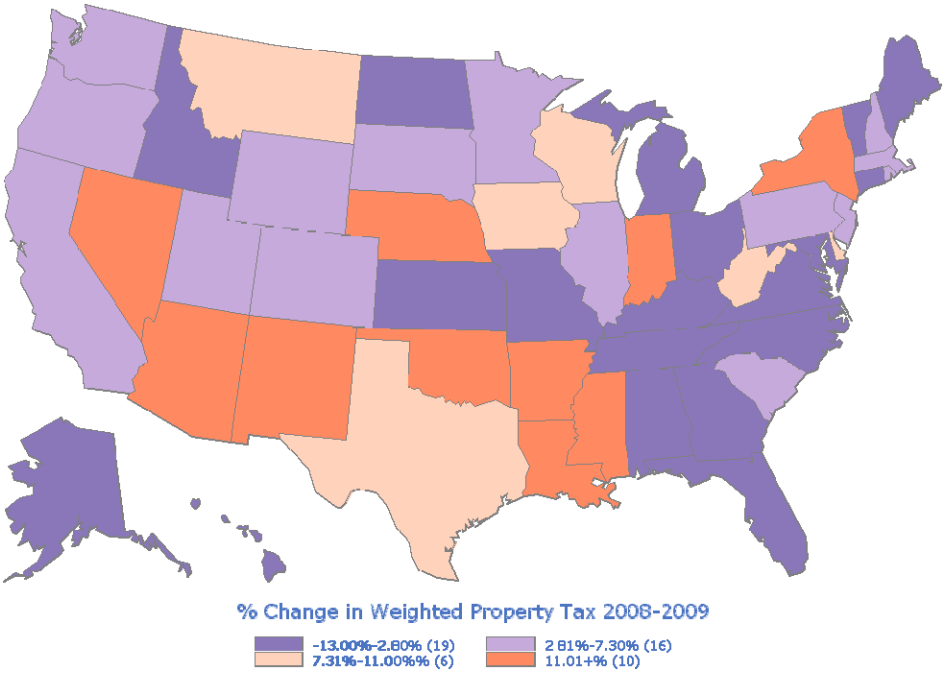

Chart 4. Percentage Change in Local Government Property Tax Collections, 2006-2009, by State (weighted)

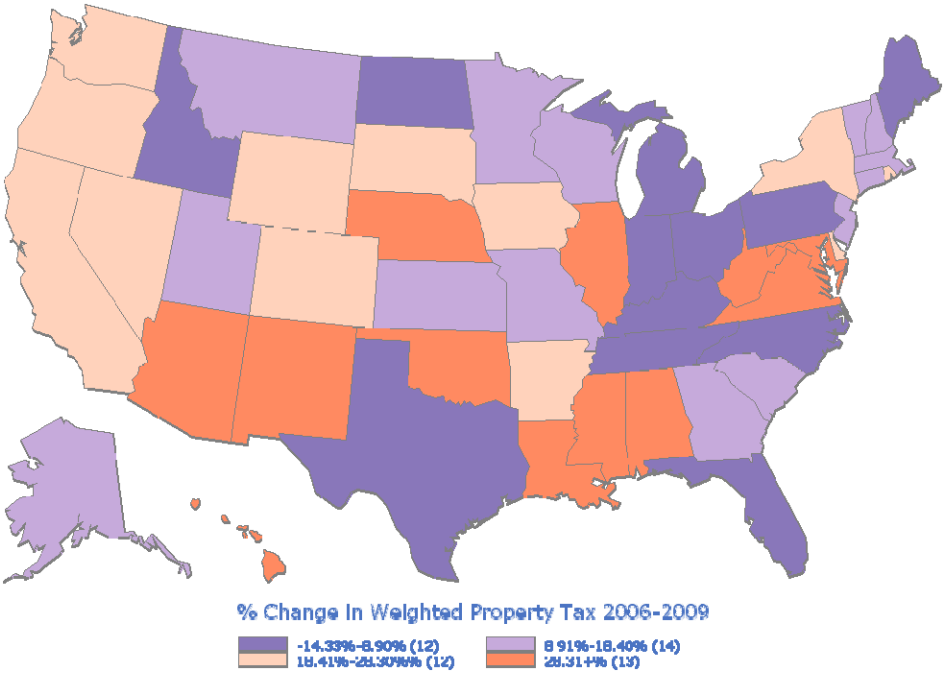

Figure 1. Local Government Real Property Tax Revenues, 1998 to 2009

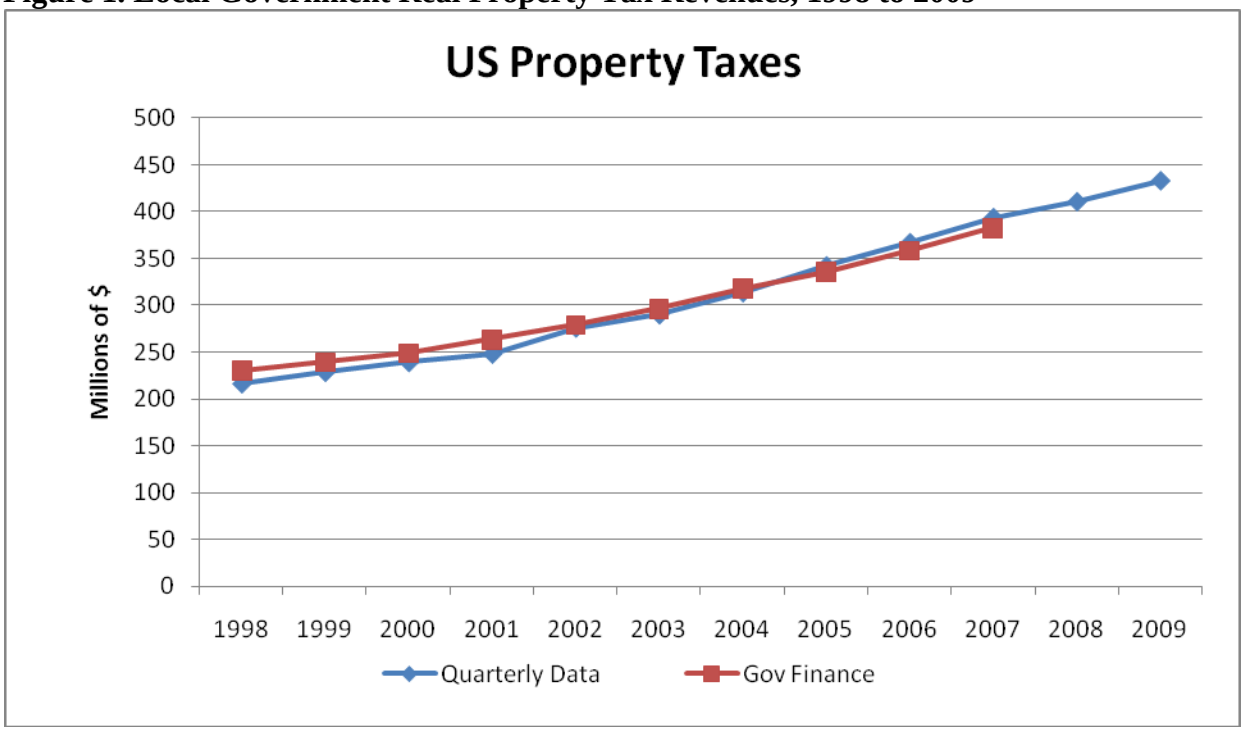

Figure 2. Annual Percentage Change in Local Government Real Property Tax Revenues, 1998 to 2009

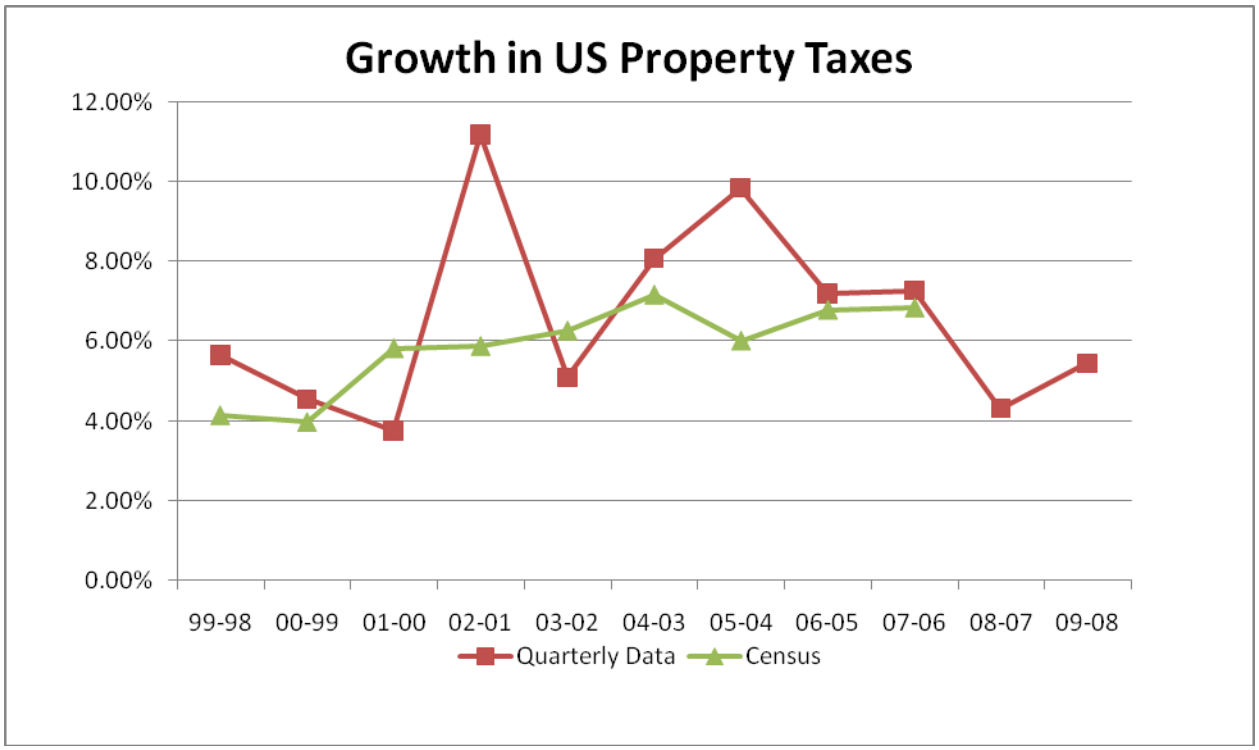

Figure 3. Local Government Real Property Tax Revenues Per Capita, 1998-2009

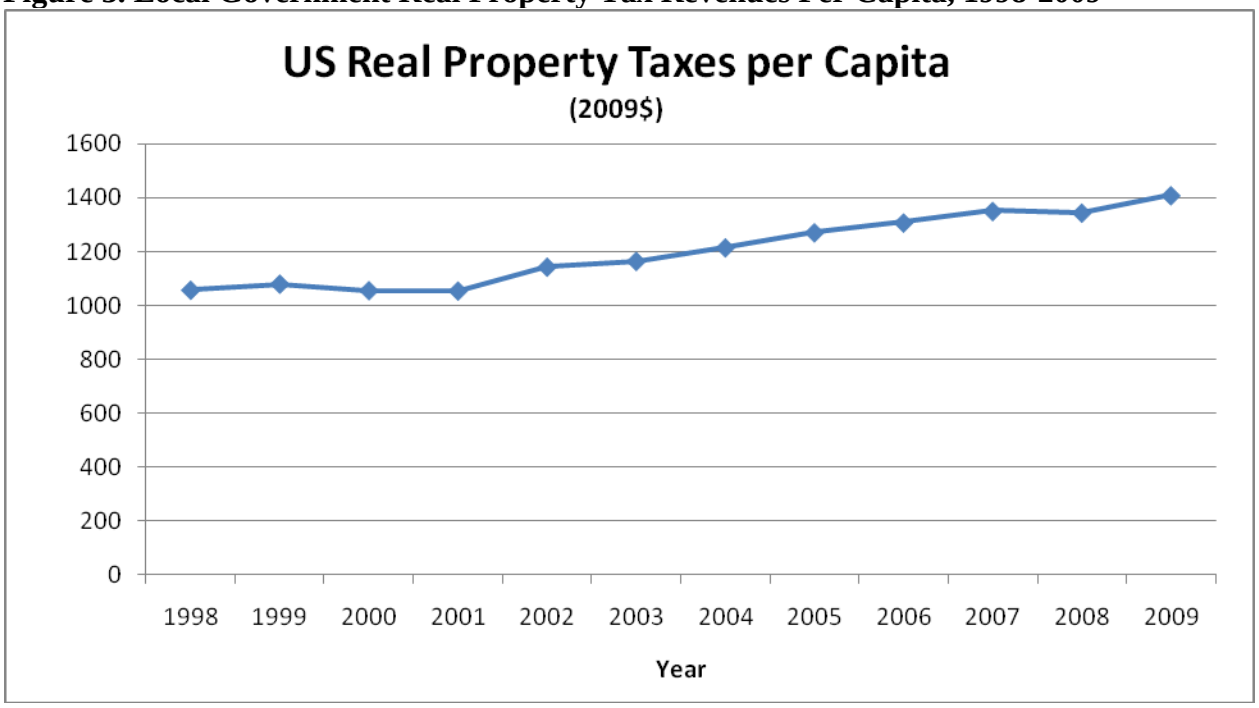

Figure 4. Growth in Property Taxes and Assessment Limitations

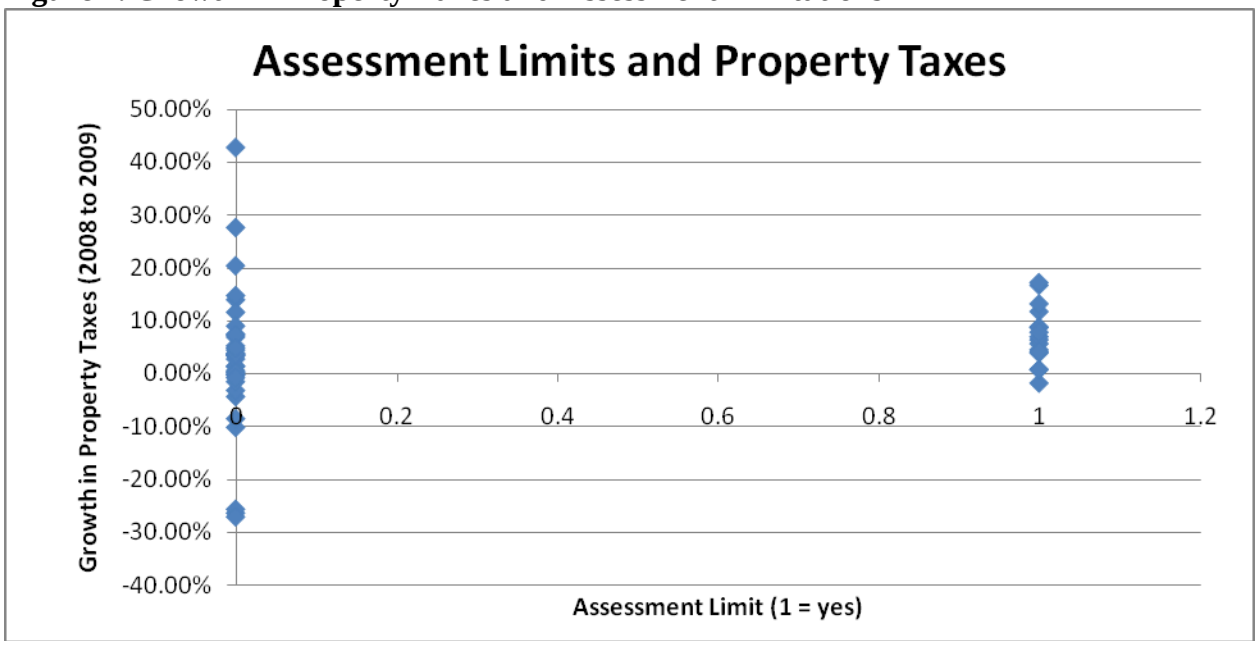

Figure 5. Housing Price Increases and Growth in Property Taxes

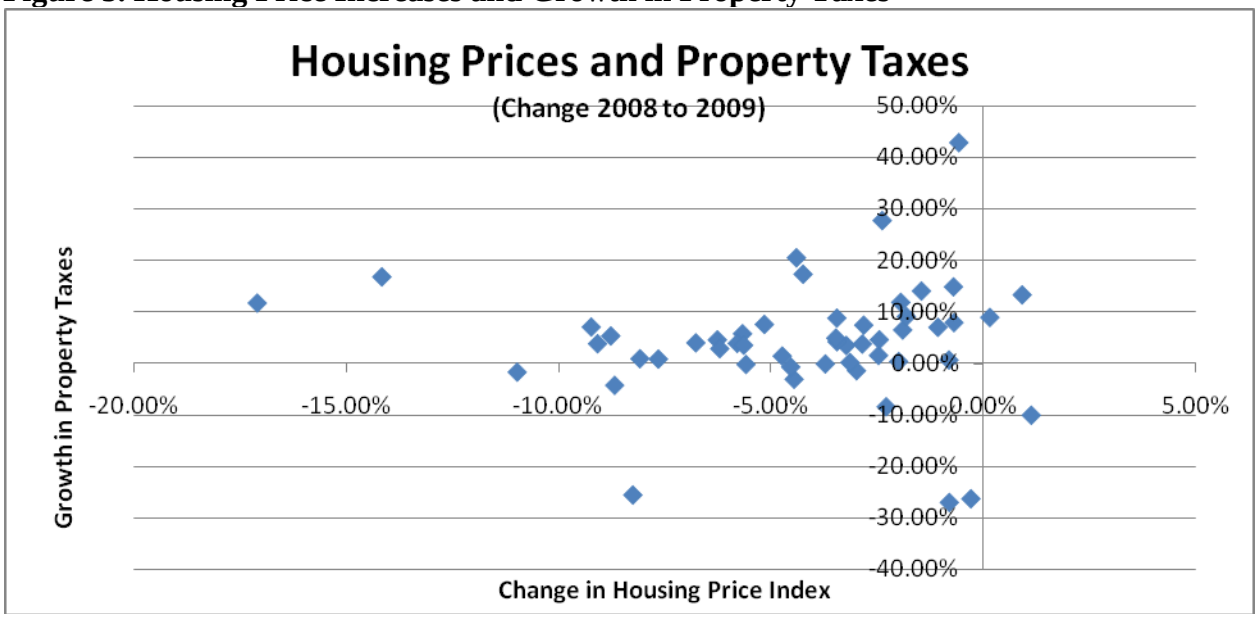

Figure 6. Growth in Georgia's Property Tax Base

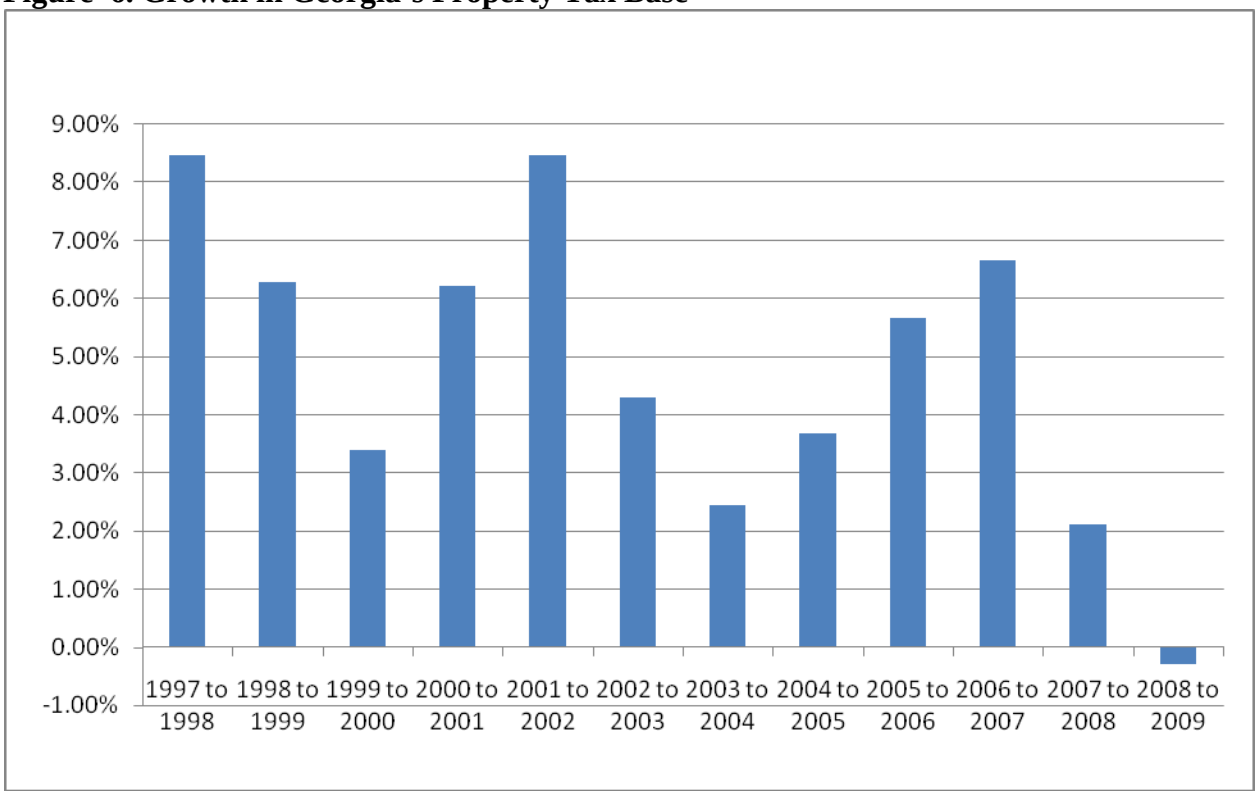

Figure 7. Growth in Georgia's Property Tax Base and Property Tax Liability

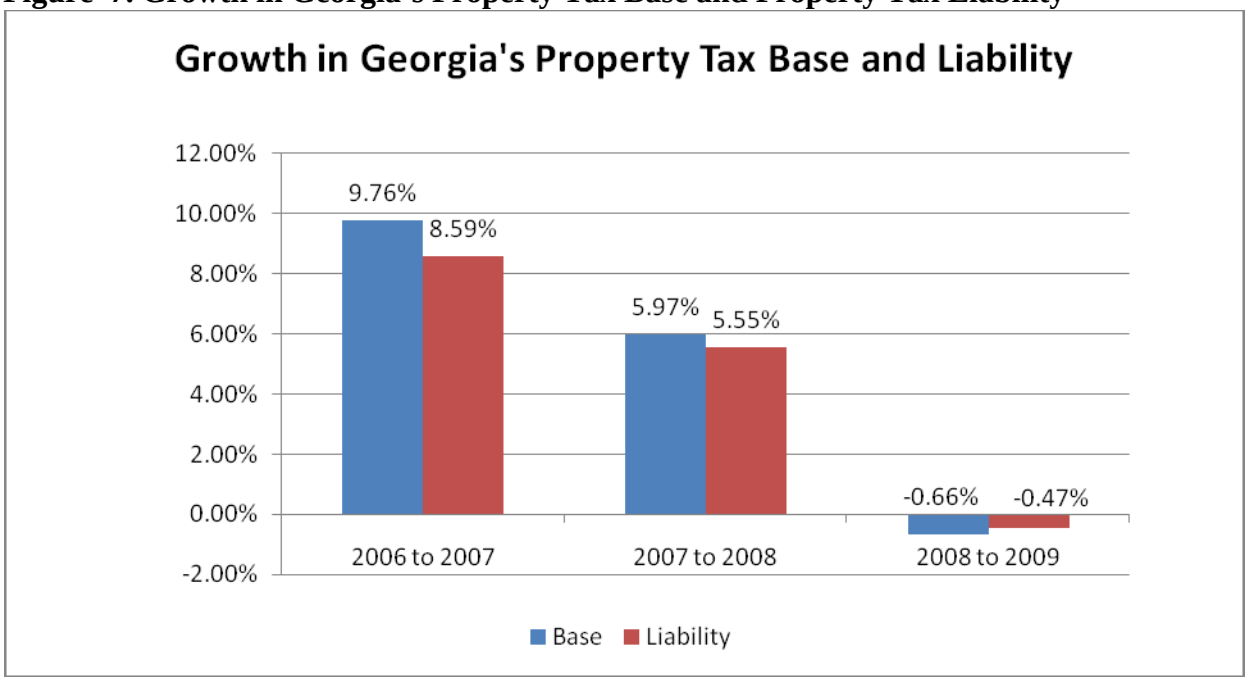

Figure 8. Percent Changes in Georgia's School Property Tax Base, 2006-2007 versus 2007-2008

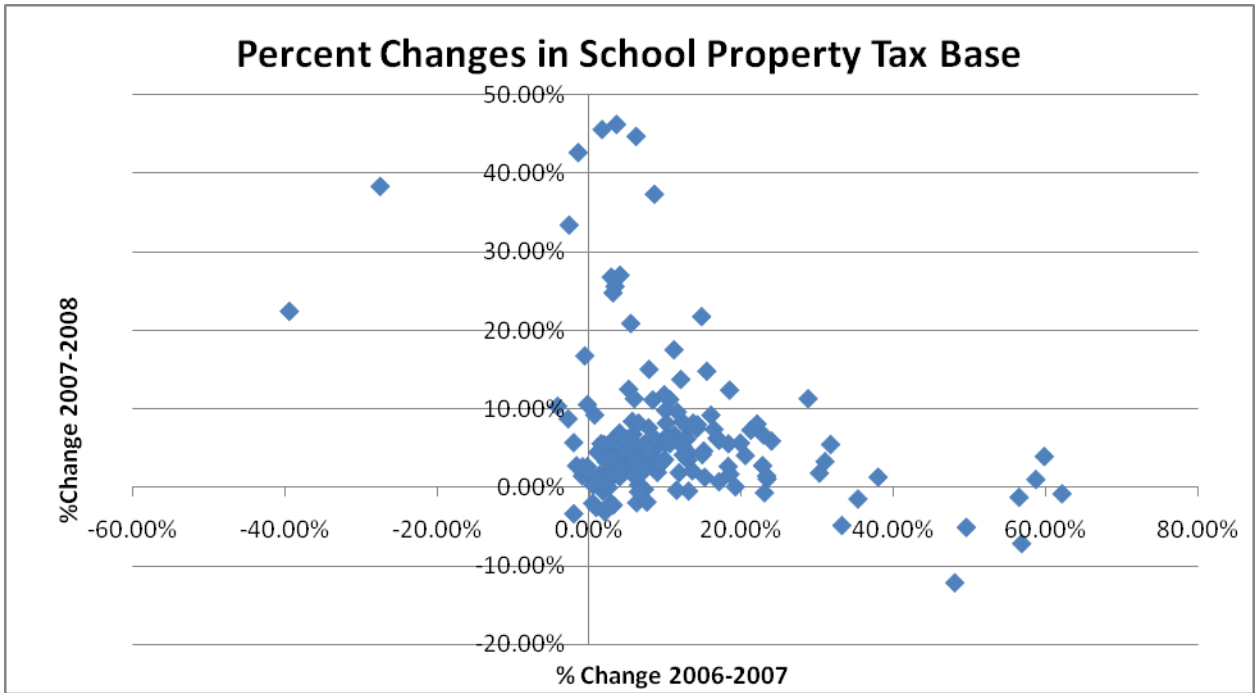

Figure 9. Percent Changes in Georgia's School Property Tax Base, 2007-2008 versus 2008-2009

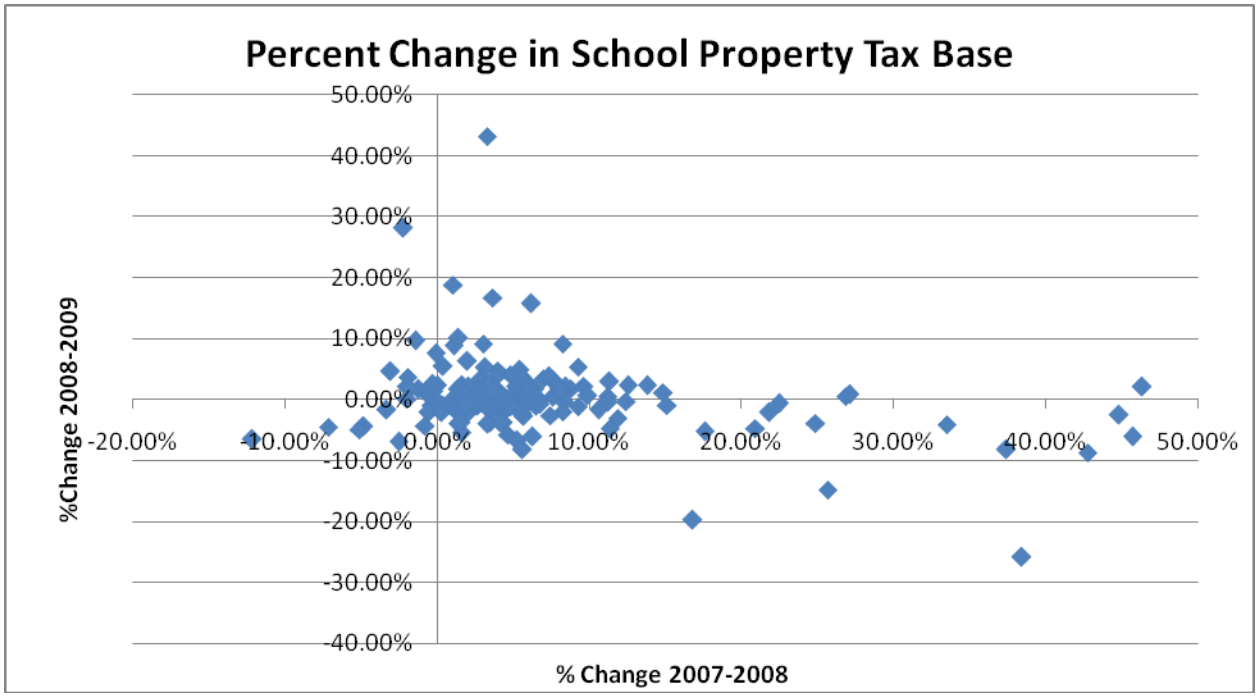

Figure 10. Growth in Base and Change in Tax Rate, 2006 to 2007, Georgia

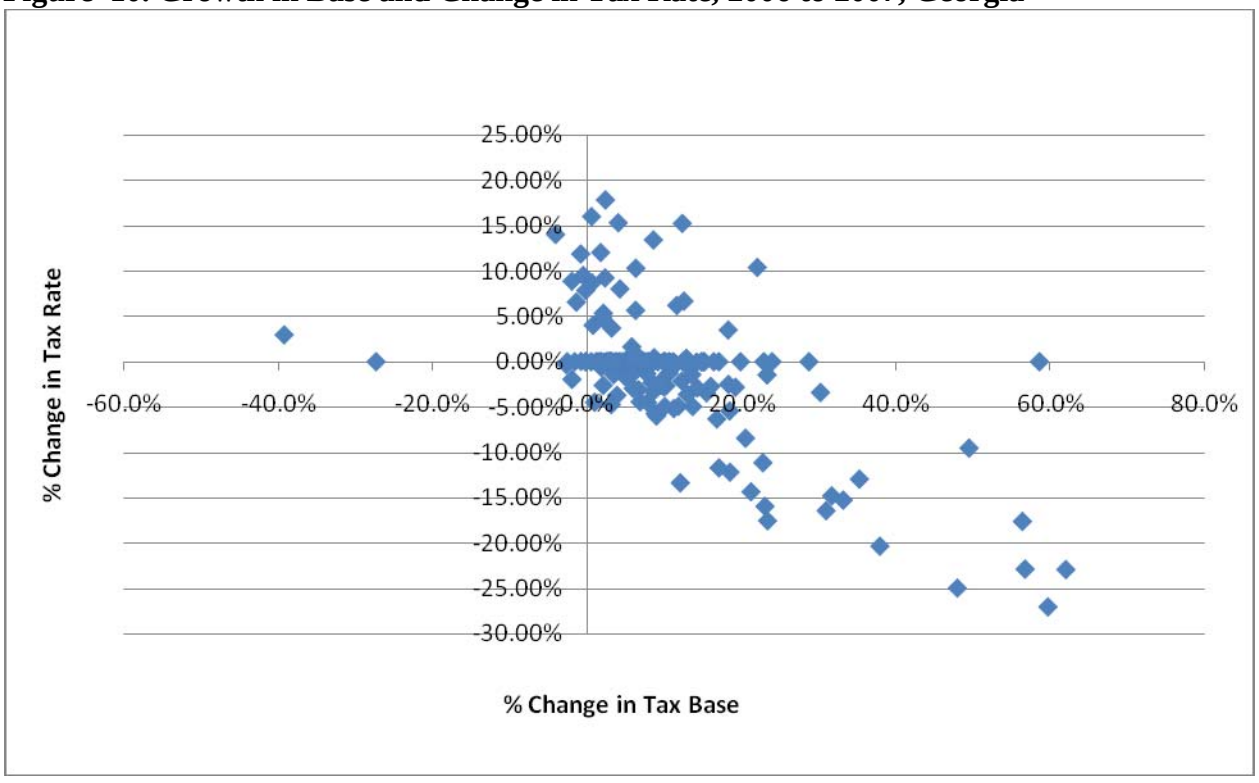

Figure 11. Growth in Base and Change in Tax Rate, 2007 to 2008, Georgia

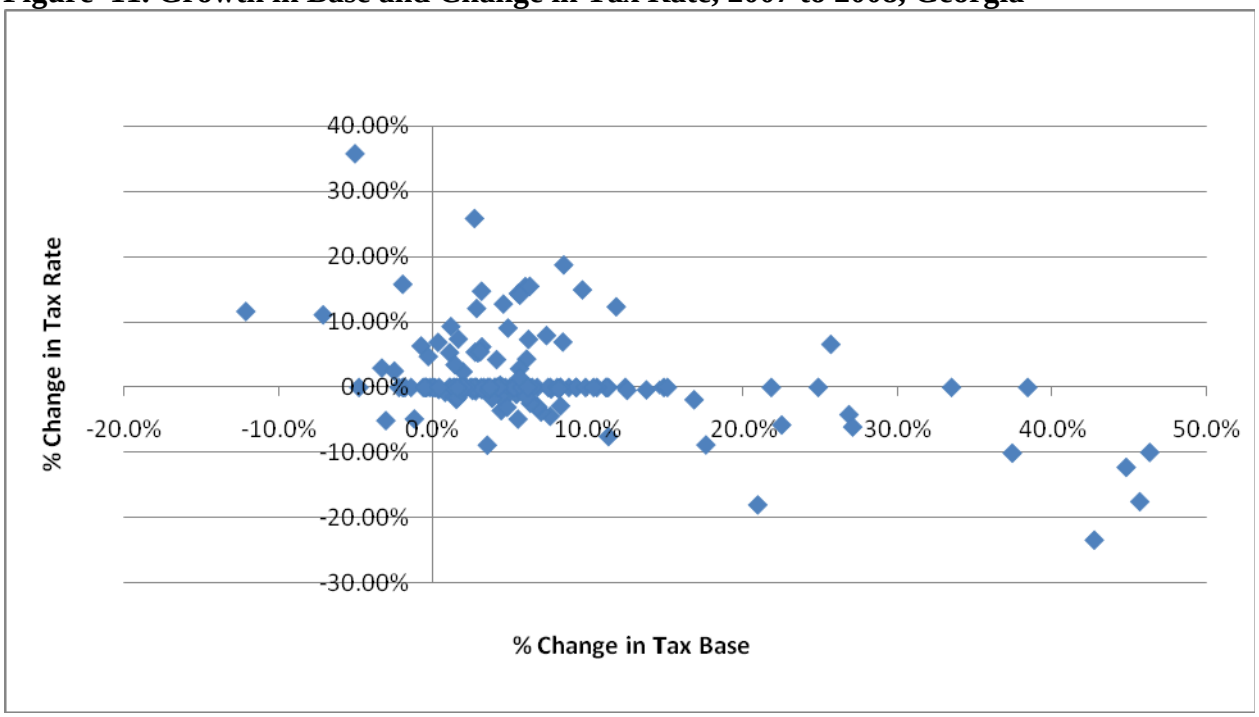

Figure 12. Growth in Base and Change in Tax Rate, 2008 to 2009, Georgia

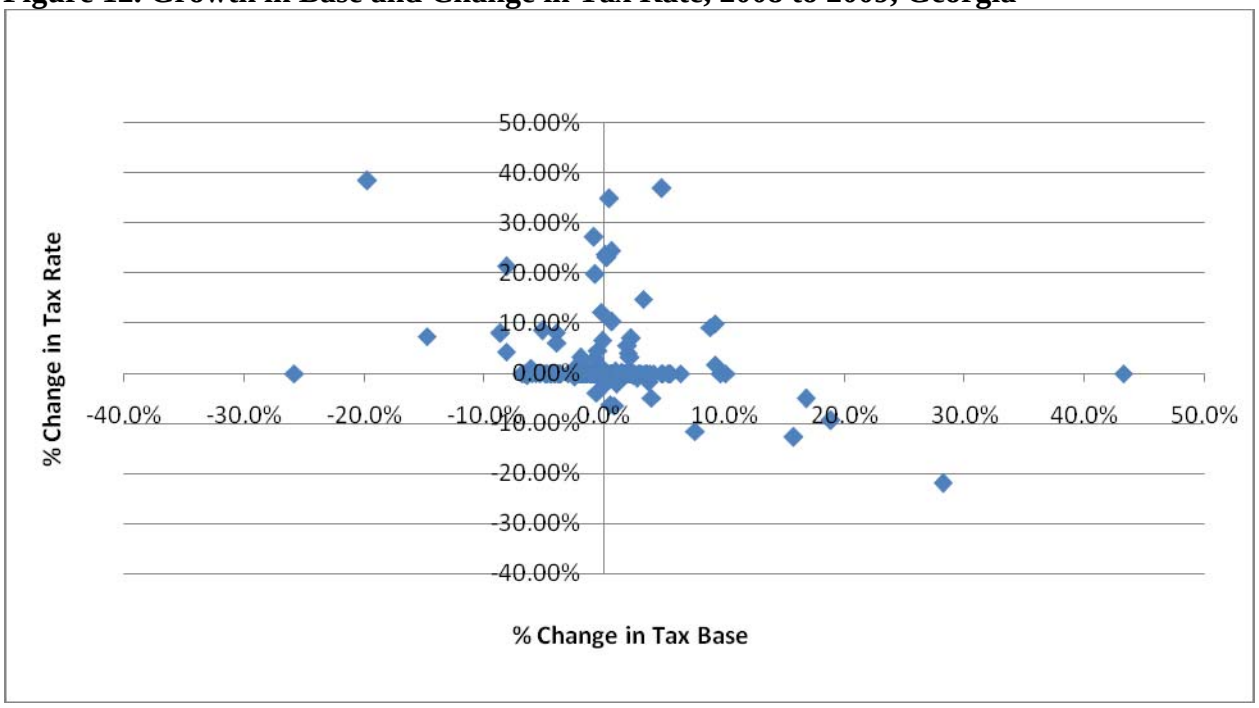

Table 1. State Government Budgets and ExpenditureResponses

State	FY2010 Total Budget Gap (in $ millions)	FY2010 Gap (as % of budget)	Tax revenue (% change Oct-Dec 2008 to 2009)	Personal Income Tax (% change)	Corporate Income Tax (% change)	Sales Taxes (% change)	Cuts for Public Health Programs	Cuts for K-12 and Early Education	Cuts for Higher Education	Cuts in State Work Force
Alabama	1,600	22.2	-0.4	4.4	24.0	-2.5		X	X	X
Alaska	1,300	30.0	-14.5	NA	196.5	NA				
Arizona	5,100	52.2	-17.1	-10.3	-96.6	-13.7	X	X	X	X
Arkansas	308	6.8	0.5	-4.6	50.0	-10.9			X	
California	52,000	56.5	1.5	-4.6	6.5	5.2	X	X	X	X
Colorado	1,600	21.5	-9.1	-8.2	-52.2	-5.7	X			X
Connecticut	4,700	26.8	-2.1	0.6	299.1	-6.6		X	X	X
Delaware	557	17.6	-6.6	-10.0	-40.4	NA		X		X
District of Columbia	817	13.0	No data	No data	No data	No data		X		X
Florida	6,000	23.3	-0.9	NA	-15.8	-5.1	X	X	X	X
Georgia	4,500	26.1	-12.8	-8.5	-40.1	-17.7	X	X	X	X
Hawaii	1,200	23.7	-6.9	-11.8	-413.3	-7.4		X	X	X
Idaho	562	22.4	-8.8	-9.9	-29.4	-8.4	X	X	X	X
Illinois	14,300	40.9	-6.9	-3.3	-1.8	-12.0	X	X	X	X
Indiana	1,400	9.6	-7.9	-9.4	-31.2	-5.7	X	X	X	
Iowa	1,300	22.2	-0.6	1.0	135.7	-4.7		X	X	X
Kansas	1,800	30.0	-5.1	-7.7	18.1	-0.4		X	X	X
Kentucky	1,200	12.9	-3.5	-8.3	-32.7	-3.5		X	X	X
Louisiana	1,900	24.1	No data	No data	No data	No data	X		X	X
Maine*	849	26.9	-1.6	-4.7	16.6	-2.6	X	X	X	X
Maryland	2,800	20.4	-3.1	-5.0	33.7	-4.3	X	X	X	X
Massachusetts	5,600	20.0	2.8	-6.5	30.1	20.8	X	X	X	X
Michigan	2,800	12.4	-6.5	-9.4	-17.1	-0.4	X	X	X	X
Minnesota	3,400	22.3	-5.2	-6.2	-7.6	-6.7	X		X	X
Mississippi	917	18.4	-4.5	-2.7	-4.6	-7.8		X	X	X
Missouri	1,500	16.4	-9.3	-12.6	-11.7	-7.3	X			X
Montana**	NA	NA	-11.5	-15.9	-67.2	NA				
Nebraska	305	8.6	-3.8	-4.5	-51.8	-1.5		X	X	
Nevada	1,500	50.3	No data	NA	NA	No data	X	X	X	X
New Hampshire	310	20.1	3.6	NA	-3.5	NA	X			X
New Jersey	11,000	37.3	-5.8	-2.3	-24.1	-6.3	X	X	X	X
New Mexico	995	18.1	No data	No data	No data	No data			X	X
New York	21,000	38.0	-1.6	2.8	-40.4	-0.3	X		X	X
North Carolina	4,600	21.9	11.4	-5.2	458.5	19.7	X		X	X
North Dakota**	NA	NA	No data	No data	No data	No data				
Ohio	3,600	13.4	-6.0	-10.9	64.6	-0.2	X	X	X	X
Oklahoma	1,600	28.7	-26.9	-24.0	-29.2	-15.4	X		X	X
Oregon*	4,200	29.0	-5.1	-5.9	7.3	NA		X		X
Pennsylvania	5,300	19.9	-5.5	-4.8	-27.0	-4.3			X	X
Rhode Island	990	32.2	-1.8	-5.0	1.6	-3.3	X	X	X	X
South Carolina	1,200	20.1	-4.6	-1.1	-201.3	-4.0	X	X	X	X
South Dakota	48	4.3	6.6	NA	NA	7.4				X
Tennessee	1,100	10.7	-2.6	NA	22.1	-5.1	X		X	X

State	FY2010 Total Budget Gap (in $ millions)	FY2010 Gap (as % of budget)	Tax revenue (% change Oct-Dec 2008 to 2009)	Personal Income Tax (% change)	Corporate Income Tax (% change)	Sales Taxes (% change)	Cuts for Public Health Programs	Cuts for K-12 and Early Education	Cuts for Higher Education	Cuts in State Work Force
Texas	3,500	9.5	-16.8	NA	NA	-12.7			X	
Utah	1000	19.8	-2.9	-9.3	79.5	-0.6	X	X	X	X
Vermont	306	27.3	-2.1	-8.3	79.5	-4.9			X	X
Virginia	3,600	22.0	-0.4	-4.9	144.4	-0.2		X	X	X
Washington*	6,200	26.7	-1.4	NA	NA	-12.0	X	X	X	X
West Virginia	304	8.0	-3.9	-3.8	11.1	-5.8				
Wisconsin	3,200	23.2	3.4	7.7	8.7	-6.6	X		X	X
Wyoming	32	1.7	-14.5	NA	NA	-19.8	X			X

Sources: The Rockefeller Institute of Government (for revenue shortfalls), the Center on Budget and Policy Priorities (for budget gaps and spending cuts).

* The state has a two-year budget ending in FY2011.

** Only two states, Montana and North Dakota, have not reported budget shortfalls.

Note: Fiscal years begin on July 1 and conclude on June 30 of the following year, with the exception of New York (May to April), Texas (September to August), and Alabama and Michigan (October to September).

Table 2. Georgia School Districts, Millage Rate Changes

	Increase	Decrease	No Change
2006 to 2007	33	79	68
2007 to 2008	41	60	79
2008 to 2009	39	23	110

Note: Property tax information is missing for 8 districts in 2009.
Source: Calculations by authors from State of Georgia information.