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Constraints on Local Authority to Raise Revenue Through the Property Tax: An Empirical Study

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Constraints on Local Authority to Raise Revenue Through the Property Tax: An Empirical Study

Abstract:

This study uses a new collection of state-level data on the property tax to describe a relatively overlooked constraint on the ability of local government to raise revenue through the property tax. Much has been written about conventional property tax limitations, such as rate limitations, assessment limitations, and other mechanisms. Relatively little has been written about the extent to which states mandate relief from local residential property taxes, as opposed to giving local taxing districts the flexibility to decide for themselves whether such relief is warranted and fiscally manageable. While typically not as draconian as general property tax limitations can be, property tax relief programs can erode the property tax base significantly.

Introduction

Much has been written about conventional property tax and expenditure limitations (TEs), such as rate limitations, assessment limitations, and other mechanisms. Relatively little has been written about the extent to which states mandate relief from local residential property taxes, as opposed to giving local taxing districts the flexibility to decide for themselves whether such relief is warranted and fiscally manageable. While typically not as draconian as TEs can be, property tax relief programs can erode the property tax base significantly.

Local autonomy is worth studying because it can have an impact on the local fiscal bottom line, and it can influence the mix of taxes and revenue sources that a local government uses. It is an important characteristic of the relationship between state and local governments, which may (or may not) contribute to the flexibility of local governments to address a broad range of local conditions and circumstances.

The exercise of local autonomy can indicate a local government's decisions on the tradeoffs implicit in the property tax. All else being equal, more property tax revenue can pave the way to improved services and facilities, including and especially schools. Reducing the property tax bill of commercial properties "buys" increased economic activity (or the potential for it). Reducing the property tax bill of residents may make them happier voters, but reduces the financial resources available to the local government, or motivates the local government to seek alternative sources of funding. Differentiation through tax policy can allow local governments to compete. More differentiation gives residents and businesses more selection choices and better opportunity to match their preferences in the market, as long as they have the means to do so.

Data and Scope of Study

This study makes use of a new collection of state-level data on the property tax, *Significant Features of the Property Tax*, undertaken by the George Washington Institute of Public Policy, and made possible through the support of the Lincoln Institute of Land Policy. The data collection consists of highly detailed profiles of property tax arrangements and characteristics in all 50 states. The project is modeled after the US Advisory Commission on Intergovernmental Relations (ACIR) two-volume annual report titled *Significant Features of Fiscal Federalism*. The ACIR report was largely a compilation and organization of data on federal, state, and local revenues and expenditures, the institutional structure through which these fiscal flows occurred and important changes in them. The last volume was published in 1995, and no other publication has since replaced it. Whereas ACIR focused on the federal as well as state and local fiscal features, the new data collection focuses on state-level local property tax features, except where they are affected by the federal government. Data collection efforts emphasized thoroughness, accuracy, consistency, and comparability across states. Hence, the data are well-suited for the comparative study undertaken here.

The scope of this study is limited to examining property tax arrangements established at the state level. Local governments derive authority from the states in which they are located, and the local property tax operates within the context of the state constitution, statutes, administrative rules, practices, and judicial actions. In states where Dillon's Rule prevails, this approach should capture reasonably well the circumstances and dynamics of local autonomy because local governments are limited to authority specifically granted by the state¹. By contrast, in Home Rule states, local governments are granted a higher base level of autonomy, which can mean that local governments have more flexibility to raise revenue through the property tax as they see fit. Yet recognizing this distinction is only modestly helpful in shedding light on where the gaps lie. States do not identify themselves as Dillon's Rule or Home Rule, and in fact, each of the states is somewhere along a continuum between the two extremes. Most states give municipalities some measure of home rule, and some even extend some home rule to counties (McCabe, 2000), but even these arrangements vary by functional area. A substantial literature exploring many facets of home rule, including state-level characteristics (notably Krane, Rigos, & Hill, 2001) provides insight but falls short of providing a satisfactory gradation of levels of home rule. A 1981 report by the now defunct Advisory Commission on Intergovernmental Relations addressed many dimensions of local autonomy, including the authority to tax and borrow. Based on a survey of state and local officials, this report may come as close to any in the literature to establishing an adequate means of characterizing and operationalizing a measure of home rule with respect to state and local public finance, even if the findings of that particular survey are out of date.

Therefore, this paper does not purport to fully characterize local ability to raise revenue through the property tax as it see fit. Rather, this paper attempts to expand understanding of the ways in which states explicitly provide or deny such flexibility to local governments. Comparing arrangements at the state level provides insight on the ground rules, rather than the implementation of the property tax at the local level.

Local Use of the Property Tax

As Brunori (2007) and many others have noted, the local property tax is a key source of revenue for local governments in the U.S. Real property is immobile, difficult to conceal, and because of an extensive system of land records, easy to track ownership. Although local governments have other sources of revenue, the property tax represents the largest share. Therefore the ability of local government to set the property tax as it sees fit is essential to its fiscal health.

The basic setup is essentially the same in all states. The assessor calculates the aggregate taxable value of property, the local taxing district² sets a tax (or millage) rate, and expected revenue is the product of

¹ Schoettle (2003) characterizes Dillon's Rule as mandating "strict construction of state statutes that grant authority to local governments," (p 34), while Home Rule "is a statutory or constitutional grant of power that gives municipalities independence and control as to their own local affairs," (p 37, citing Reynolds 1995). Tennessee and Virginia are strong Dillon's Rule states (Schoettle, 2003), while Illinois, for example, is considered to be a strong home rule state (Temple, 1996).

² The primary local taxing district is usually the county or a municipality. Many states provide for the establishment of additional, overlapping districts for education and special purposes.

those two figures, after accounting for revenues, credits, and the like. Actual revenue is diminished by successful appeals, non-compliance, and other miscellaneous leakages.

Constraints on Local Use of the Property Tax

Beyond this basic setup, however, all states have enacted measures that limit the ability of local governments to raise revenue through the property tax as they see fit. These mechanisms have the effect of reducing the local property tax base or reducing the property tax revenue that can be realized from the existing base. A key point for this study, for later elaboration, is that some of these mechanisms can and have been established as state mandates, but they can and have also been established as local option. Among the programs mandated at the state level, some have override provisions that allow the local taxing district or the local electorate to loosen the constraints.

Tax and expenditure limitations limit aggregate property tax revenues by limiting growth in property values, tax rates or overall tax revenues. By their nature, TELs are almost always state mandates, although many states allow an override of the limitation through a public notification process, public hearing, resolution adopted by the local governing body, or referendum. In the research community, there is some variation in the use of terminology to identify the different types of TELs. The following typology is introduced here:

- **Rate Limits:** The state can limit local discretion in use of the property tax as a source of revenue by limiting the property tax rate. Rate limits can be set as a percentage of market value, a specific millage rate, or a mill levy freeze.
- **Levy Limits:** Property tax levy limits cap the growth rate of total property tax revenue independent of tax rate. By comparison, general revenue or general expenditure limit sets the maximum growth rate of total revenue and expenditure. The latter is usually tied to inflation.
- **Revenue / Expenditure Limits:** General revenue or general expenditure limit sets the maximum growth rate of total revenue and expenditure. A few states limit property taxes implicitly by imposing a limit on the growth of local government spending. In many cases, the rate is tied to population growth or inflation.
- **Full disclosure:** Full disclosure, or truth-in-taxation, requires public notice of an increase in tax rate or overall tax levy. Approval may require a public hearing and an affirmative vote by the local governing body.
- **Phasing of Assessment Increases:** Changes in property values are phased in over a period of years, instead of all at once at the time of revaluation.
- **Assessment Limitations:** Growth in assessed values are limited.

Residential relief programs reduce the property tax bill of individual eligible properties or individual eligible applicants, more or less permanently. Many of these programs are mandated by the state, and only some states soften the fiscal impact by offsetting any of the property tax revenue lost by local governments. Although the community of property tax researchers and officials make a clear distinction between TELs and residential relief programs, the two broad program types can be very similar. Residential relief programs can be much more flexible in implementation, targeting specific taxpayers with specific characteristics and adjusting benefits according to some measure of need. Another

distinction is that residential relief programs typically require the taxpayer to submit an application and possibly demonstrate eligibility. On the other hand, TELs can be designed to require the local taxing district to meet some standard, such as limiting the growth in overall property tax revenues to a fixed percentage, giving the district some limited flexibility in how to reach that standard. From the taxpayer's viewpoint, the difference is technical and possibly irrelevant.

By the end of 2006, states had established approximately 232 separate programs that provide property tax relief to residents. States provide relief on residential property taxes through a number of mechanisms. Here again, terminology is not completely standard, with notable and sometimes vexing variations across states. This paper recognizes the following residential relief program types:

An **assessment freeze** locks in the valuation of a property as of some date, typically triggered by the applicant attaining some status, such as senior. At present, 6 states offer an assessment freeze to eligible taxpayers.

A **credit** is a reduction of a current or future property tax or other tax bill, such as an income tax bill. A program is categorized as a credit even if the benefit is refundable, i.e., the beneficiary receives a payment if the benefit exceeds the taxes towards which the credit is applied. Benefits provided as a credit through state income tax often allow property owners who do not have to file state income taxes to file a separate form to request a direct payment. Residents of 23 states can apply for a property tax credit.

Many states set up **deferral** programs to allow the property owner to delay paying the property taxes due in any year. These programs are generally only available to senior citizens, and generally require a lien granted to the state. At least 18 states allow eligible residents to request deferral of their property taxes.

Partial **exemptions** are very common. The property tax bill is reduced through a dollar-value reduction in the assessed valuation of the property. A total of 44 states offer partial exemptions, and many of those states offer different levels according to resident status.

Some states provide a **rebate or refund** directly to taxpayers after property taxes are paid. The state offsets some portion of a property tax bill already paid through a rebate or refund paid directly to the taxpayer. This arrangement is available in 19 states.

Economic development programs reduce the property taxes payable on a property, usually for a limited period of time, and usually contingent on some performance standard, such as a dollar value of investment or the creation of some number of jobs. The decision to provide incentives in a specific geographic area or to businesses in a specific industry may or may not occur with input from the local government.

Full exemption permanently excuses specific classes of property owners or specific types of property from the property tax altogether. Common beneficiaries are religious institutions, schools, libraries, nonprofit organizations, cultural organizations, but a few states allow full, permanent exemption for

uses that include or support apparently desirable economic activity.³ It is observed that very few states allow local taxing districts to either opt in or opt out of full exemption programs.

Fiscal equalization arrangements attempt to even out the resources available to localities within a state. Although not a source of erosion of the property tax base, per se, these arrangements can loosen substantially the relationship between the property tax base within a taxing district and its revenue from the property tax. When equalization arrangements are in place, changes to the property tax base within a taxing district are likely to have little impact on the net revenue that that taxing district realizes from the property tax. As a result, local governing bodies are unable to take action that would be effective in increasing their property tax revenue.

Flexibility within the Constraints: State Mandate or Local Option?

These provisions may be either mandated by the state or provided as option for local taxing districts. When mandated by the state, these provisions can be interpreted as a constraint on local taxing districts' autonomy to raise revenue through the property tax as they see fit. Provisions that are available as a local option increase local flexibility, especially when those provisions allow local taxing districts to target specific groups for relief.

Focus on Residential Relief Programs

Although all of these constraints hold potential for providing insight into state financial systems, this paper will focus only on residential relief programs. Limitations and fiscal equalization arrangements are not a viable entry point for this line of research because only a portion of states have either type of arrangements. In addition, fiscal equalization arrangements are often the result of judicial action requiring the redistribution of resources within the state, and flexibility is not possible. Economic development programs have the added complexity of an entailing an implicit tradeoff between property tax revenues and expected economic activity. To accurately characterize the relative roles of state and local government would require study of broader state and local economic development strategies. Residential relief programs are a good option because there is substantial variation across programs, yet the components of those programs are reasonably straightforward.

This section describes generally the mechanisms that states employ to provide property tax relief to residents. A prerequisite statement to this section is that states do not use terms consistently. A "credit," for instance, is a reduction in the property tax bill for the taxpayer, but the means of providing that reduction can vary. In some states, a credit is a rebate paid directly by the state after property taxes are paid. A credit can also be a reduction at the time taxes are due, possibly with compensation from the state to the local government, or a voucher that the taxpayer can present as partial payment. This ambiguity of terminology, and associated lack of consensus among researchers about the precise definition of many terms, means that researchers come to vastly different conclusions about the number and types of programs.

³ According to the *Significant Features* data set, Mississippi and South Dakota offer full exemption to eligible business incubators, while Kansas exempts the offices of many medical professionals. Some states identify specific organizations that are exempt, in addition to exempting entire classes of users or uses from the property tax.

Local Autonomy

While many of these programs operate under state mandate, some states allow local taxing districts some flexibility in implementation. Two terms are introduced. "Local option" means that the state authorizes local taxing authorities to provide this form of relief and the local taxing authority has to take some action to opt into the program to provide these benefits to homeowners. "Local design" means that the local taxing authority has the authority to set at least some program parameters, such as eligibility criteria, application requirements, and benefit levels.

A critical characteristic of local option and local design arrangements is that in all cases, the state offers the local government the opportunity to provide more substantial relief than is otherwise available.

Figure 1 (below) lists the 22 states that allow local governments some discretion in providing residential relief, either through local option or local design. The other 28 states do not provide any flexibility to local governments in offering residential relief; all such programs are state mandated. Most of the states listed below are located in the Northeast and Mid-Atlantic: Maine, Massachusetts, New Hampshire, Connecticut, New York, Delaware, Maryland, Virginia.

Figure 1: Local Option or Local Design in Residential Relief Programs

<i>State</i>	<i>Local Option</i>	<i>Local Design</i>		
	Choice to Offer Benefits	Eligibility Standards	Benefit Levels	Administrative Arrangements
Alabama	✓	✓	✓	
Alaska		✓		
Colorado	✓	✓		✓
Connecticut	✓			
Delaware	✓			
Florida	✓			
Georgia			✓	
Hawaii	✓			
Illinois				✓
Maine	✓	✓		
Maryland	✓	✓		
Massachusetts	✓	✓	✓	
Michigan	✓	✓		
New Hampshire	✓	✓		
New York	✓	✓		
North Dakota				✓
Ohio	✓			
Pennsylvania	✓			
South Dakota	✓			
Utah				✓
Vermont			✓	
Virginia	✓			

Of the 22 states listed above, eight states have only established local-option residential relief programs, six states have only established residential relief programs that allow some local design of program parameters, and eight states offer both.

Figure 2 (below) lists some very basic characteristics of the property tax, comparing averages and means for states that offer some autonomy (as listed above) and states that offer no autonomy. These measures provide evidence that some autonomy in a state correlates with greater reliance on the property tax. Per capita taxes are almost one-fourth higher (+ \$228.02), the share of general revenue provided by the property tax is one-eighth higher, and the shares of personal income and own-source taxes are also higher. It should be noted that one of the “some autonomy” states (Alabama) has among the lowest level of per capita property taxes (\$344.98). The only state with a lower level of per capita property taxes is Arkansas (\$223.89).

**Figure 2. Local Property Tax Revenue by State
Census of Governments 2005**

	<i>AVERAGES</i>			
	Per Capita	Percentage of General Revenue	Percentage of Personal Income	Percentage of Own Source Taxes
Some Autonomy	\$1,171.27	33.70%	3.31%	17.31%
No Autonomy	\$943.25	25.43%	2.90%	14.05%
Difference	\$228.02 (+ 24.17%)	+ 8.27%	+ 0.41%	+ 3.26%

	<i>MEDIANS</i>			
	Per Capita	Percentage of General Revenue	Percentage of Personal Income	Percentage of Own Source Taxes
Some Autonomy	\$1,074.63	28.98%	3.29%	17.12%
No Autonomy	\$889.10	26.88%	2.96%	13.97%
Difference	\$185.53 (+20.87%)	2.10%	0.33%	3.15%

Median figures tell a similar story. Smaller gaps for all measures (median is less than the mean) belie a positively skewed distribution, in which there are more states clustered at the lower end of the distribution and relatively few states with large values are drawing the averages up.

There are a number of possible explanations for these seemingly counterintuitive findings. It may be that local autonomy is a release valve in higher property tax states. Examination of the context in which the programs were initially adopted would provide insight into the relevance of this interpretation.

Another possibility is that local governments are not using their autonomy. There may not be a viable alternative to reliance on the property tax. Finally, not accounting for home rule states in which local governments have devised their own relief mechanisms outside of state authorization may be skewing the results. Maine, Maryland, Hawaii and Alaska stand out as examples of states in which local governments have substantial baselines autonomy to use the property tax to raise revenue as they see fit. Three of these states are characterized as having local autonomy as defined in this paper; Alaska is not.

Implications and Next Steps

The implications of this very modest research effort are that states that allow local governments to choose whether to offer residential relief programs and/or to set at least some program parameters do differ significantly from states that mandate residential relief. The next step is to analyze and characterize local discretion with respect to economic development programs and limitations, to develop a more sophisticated typology. Does autonomy correlate with other characteristics of the property tax system? Do fiscal outcomes vary systematically by autonomy type? Do local government service measures vary systematically by autonomy type? These are among the broadest questions that come to mind.

Appendix 1: Significant Features of the Property Tax

This study makes use of a new collection of state-level data on the property tax, undertaken by the George Washington Institute of Public Policy, and made possible through the support of the Lincoln Institute of Land Policy.

Project Background

Prior to its demise in the mid-1990s, the United States Advisory Commission on Intergovernmental Relations (ACIR) published a widely used and acclaimed two-volume annual report, *Significant Features of Fiscal Federalism*. The report was largely a compilation and organization of data on federal, state, and local revenues and expenditures, the institutional structure through which these fiscal flows occurred, and important changes in these data sources. *Significant Features* has been missed by both researchers and practitioners. No other publication has taken its place, but this is about to change.

The Lincoln Institute of Land Policy and the George Washington Institute of Public Policy are producing a partial replication of *Significant Features*, to appear both in print and on the Web. While users will see some resemblance in this guidebook to the former ACIR reports, they will find the Web site to be distinctly new, providing useful capabilities unavailable a decade ago to screen and sort, search and query, create reports, download a data set, and provide easy feedback.

The purpose of this data collection project is to bring readily accessible state-level local property tax information to the public without charge, for use by researchers, the media, tax specialists, and others interested in property taxation and valuation in the United States. Immediate benefits include scholarship in property tax administration, quicker trend recognition and analysis, and facilitation of civic use of property tax data.

Overview of the Data

This data collection project is modeled after ACIR's *Significant Features* volumes. Whereas ACIR focused on the federal as well as state and local fiscal features, this project focuses on state-level local property tax features.

Presentation of the Data

Like ACIR's reports, this publication and associated Web site present two sets of data:

- key features of the local property tax systems in the 50 states; and
- data from the U.S. Census Bureau that puts the property tax in the overall context of state and local finances.

While we focus primarily on the property tax at the state and local level, we also provide a broader context by including other revenue sources for those state and local governments that have the property tax. The project sets the property tax in the framework of the full range of state and local revenue sources, thus permitting analysis of the property tax relative to other revenue sources. In addition, this guide includes information on the institutional structure under which the property tax operates and information on changes in that structure.

This same material will be available through an interactive Web site, scheduled for launch in 2008. Originally conceived as a print document, like the former ACIR reports, the project evolved to take advantage of contemporary electronic data collection and retrieval opportunities. Preformatted tables and state profiles provide easy access to the key features of tax relief programs, structural arrangements, tax rates and limitations, and annual statistics. Users can utilize the material presented in the tables through mechanisms such as search and query, sort and screen, and data report generation, to focus on a subset of results. A feedback mechanism allows users to comment on changes. Once the site is fully implemented, we expect to post updates quarterly. Following initial release, a downloadable data set will be available to allow researchers to perform basic quantitative analysis.

Data Collection Process

During FY2006–2007, the Lincoln/GWIPP project team designed and implemented a plan to collect data on the local property tax systems in all 50 states. Data collection efforts emphasized thoroughness, accuracy, replication over time, and comparability across states. Preliminary results of the data collection reveal substantial variation across states in procedures and governance, complex rate and levy structures within states, and a proliferation of special treatment for certain classes of property and property owners aimed at shifting the tax burden and encouraging certain types of activities.

Researchers started with state statutes, administrative codes, and constitutions. States' annual reports, statistical reports, program applications, and departmental Web sites also provided much of the material included in the data collection. Secondary sources helped us develop and refine our typologies, and were consulted as a check to ensure that we had found all of the relevant material for each topic. Tax policy officials in each state were given the opportunity to review the information collected for each state.

This initial year of data collection describes the legal and structural arrangements for calendar year (CY) 2006. Statistical data and program characteristics that change from year to year are designated "most recent available." During the second year of data collection, we will collect data for earlier and later years, and we will identify the actual calendar year of both new data and the data previously presented as "most recent available." We will monitor the release of data from all states.

The collection process for the data was designed to ensure consistency across tables in the types of data collected. This data includes structural elements, such as who collects the taxes, what is taxed, and any limitations on taxes; application, approval, and appeals processes; and lines of authority, highlighting the relative roles of state and local taxing authorities, with an emphasis on the constraints upon local autonomy and on any prerogatives to levy property taxes.

Content of the Data Collection

Availability of detailed profiles of property tax systems in all 50 states and the District of Columbia is a major driver of this research. The purpose of this section is to provide an overview of the data set.

1. General Characteristics of Local Taxation of Property

Property tax systems vary substantially across states, but most systems feature a common set of features. Variation in the specific structural arrangements of those features can be a useful way to understand the differences in those systems.

1.1 Legal Definitions of Real Property across States

Real property generally includes land and improvements, buildings, and other structures. Real property may be defined in state statutes, or the state may have a working definition. The state definition may include a list of categories of property that are treated as real property.

1.2 Personal Property Tax

Personal property includes tangible and intangible possessions. Tangible personal property includes property such as motor vehicles or equipment, and intangible personal property includes property such as stocks and bonds or brand franchise names. Personal property may be defined in state statutes, or the state may have a working definition. Because taxation status and legal definitions of personal property vary so much from state to state, material presented here is limited to the four most common types of personal property that people possess. These include mobile homes; inventory; machinery and equipment; and motor vehicles. This table refers only to the annual tax based on the personal property's value, and does not include taxes levied at the point of transfer or sale of a personal property. Within this personal property topic, "yes" denotes that that the particular type of personal property is taxed under at least some circumstances, not that the type of property is universally taxed under all circumstances.

1.3 The Number of Jurisdictions with Property Tax Authority

Thousands of local governments have the legal authority to tax real property. Some states also authorize special taxing districts to generate revenue for specific types of funding.

1.4 Actual Property Tax Rates

Local taxing jurisdictions charge property owners a tax on their property to collect revenue to pay for the services that they provide. The amount of tax owed is based on the property's value, and is taken as a percentage of the value the jurisdiction assesses it to be, called the tax rate. Local governments usually explain the tax rate as the number of dollars owed per \$1000 of assessed property value, or sometimes per \$100. There is a further refinement of the tax rate in some states, and local taxing jurisdictions will state the tax rate in tenths of a cent - a mill - and the tax rate is then called the millage rate. This means one mill is 0.100¢ of tax owed per \$1 of assessed property value; doing the computation, this is the same as \$1 of tax owed per \$1,000 of assessed property value.

The tax rate or millage rate is generally set by the local taxing jurisdiction after the amount of revenue needed to balance the local budget has been determined. In many local taxing jurisdictions, the tax rate is determined by dividing the required amount of revenue for the budget year by the total value of property assessments, with adjustments for anticipated delinquencies in payments. All pertinent tax rates are then applied to the assessed value of the property to determine the amount of total taxes due on a property. A tax rate applies within the legal boundaries of the local taxing jurisdiction, the tax rates can differ by class of property, and local taxing jurisdictions can overlap. The substantial variation in

property tax structures across states precludes the compilation of comparable property tax rates across states.

1.5 Limitations on Local Authority to Raise Revenue through the Property Tax

States curtail the ability of local governments to impose property taxes through placement of limitations on tax rates, assessment growth, and on property tax revenue. Some states also require full disclosure to the public of any changes in the tax rate. Tax rate limits can be implemented through three mechanisms. These include placing a limit on the dollar amount of a property tax payment relative to the assessed value of the property, placing a cap on millage rate increases, and freezing millage tax rates.

1.6 Real Estate Transfer Charges

Local taxing jurisdictions impose real estate transfer charges. These are taxes or fees collected when ownership of real property is transferred between parties. Also called real estate conveyance taxes, mortgage transfer taxes, documentary stamp taxes, and property transfer taxes, among other terms, these charges often fund specific initiatives.

1.7 Full Exemptions

All states exempt from taxation those properties owned and used by nonprofit organizations and government entities, as long as the use of the property is consistent with the owner's mission, that is, it will not be used for profit or it will have some element of public service or benefit, or both. Nonprofit and government use of properties identified as exempt by states include religious, literary, educational, parks, open space, or cultural purposes: housing for vulnerable populations; health and care facilities; associations; emergency services, and military installations. Some states also provide exemptions for uses that support commercial activity or promote industry.

2. Property Assessment

The amount of total taxes due on a property is calculated by applying all applicable tax rates to the assessed value of the property. Rates are district-wide, and can differ by class of property. By comparison, assessed value is determined for each property individually. States establish guidelines, regulations, staffing requirements, procedures, and performance standards to ensure that property is assessed consistently.

2.1 Assessment Standard

The standard that a local taxing jurisdiction is required by the state to use to place a value on real property is different, often uniquely so, from state to state. Some states set the standard of real property assessment at 100% of fair market value (FMV); some states use a percentage of fair market value, others use true tax value; still others use taxable value.

2.2 Classifications of Property for Assessment

Land use classifications include categories such as residential, agricultural, commercial, or industrial. Comparison across states is very problematic because both the standards for assessment of property value and the groupings of land uses into classifications across states vary tremendously. For example, "residential" may or may not include rental property, multi-family or group dwellings, and vacation

homes. Some states establish one or more separate classifications for residential property other than single-family, owner-occupied units, while other states include one or more of these sub-classes in commercial property, and yet other states allow local assessing units to establish whatever set of classes they deem appropriate.

2.3 Agricultural Assessment Programs

Most states have an agricultural land use classification for purposes of assessments. Because the assessments reached under agricultural land classification may be less than the market value of the land, this practice provides a tax benefit to farmers. States vary on the kind of commitment to stay on the land that the property owner must make in order to qualify the property for agricultural assessment. Many states with substantial agricultural land use do not require the property owner to make a commitment to keep the land in agricultural use beyond the year for which the assessment is being made, and many play little practical role in ensuring that the land remains agricultural. In such states, the purpose of the agricultural assessment is to ensure that such land is assessed consistently within a state. Some states, however, offer agricultural assessment to property owners who are willing to commit to continued agricultural land use over a period of several years, often with a substantial penalty for early withdrawal. In effect, these programs are more like preferential assessment programs in that they provide an incentive to the property owner to hold the land in its current use, rather than converting it to its highest and best potential use to recoup its market value.

2.4 Preferential Assessment Programs (Non-Agricultural)

Preferential assessment programs, also known as use value assessments, allow for property valuation on the basis of its current use rather than its market value which measures the highest and best potential use of the property. The lower valuation associated with its current use reduces the owner's tax from what it would be at market value. The lower tax burden provides the property owner an incentive or a means to hold the land in its current use. In exchange, the property owner in most cases has to continue to hold the land in its current use for a period of several years. Implicit in the establishment of a preferential assessment program is the recognition that there is public benefit in ensuring that some lands remain in a relatively low intensity use, rather than being converted to their highest and best use in the land market.

3. Land Usage Incentive Programs and Property Tax Relief Programs

All states provide tax relief that by its nature encourages specific types of economic activity. Three kinds of programs are highlighted in the data. Property tax relief programs can be grouped according to their objectives and/or program structures, such as programs intended to provide relief to homeowners, to encourage economic development, or to encourage relatively low intensity use (and discourage redevelopment to the "highest and best" use). Land use promotion programs apply their usage influence through the assessment process (see above), while most of the relief programs apply exemptions, credits, or rebates to the property tax payment that is otherwise due.

3.1 Programs to Encourage Specific Types of Property Improvements

States create special incentive programs for property owners to encourage them to undertake a particular type of investment that benefits the larger community, usually rehabilitation or renovation of

historic properties, or the use of energy-efficient climate control systems. As the incentive, the state exempts from taxation for a period of time the increased valuation that results from the targeted investment in the property. These programs are not intended to increase economic activity, per se, as much as they are meant to offset some of the private costs of providing a public good.

3.2 Residential Property Tax Relief Programs

Tax relief for owner-occupied residential property is a common means for states to encourage homeownership and to ease the tax burden on homeowners. Many states have multiple programs, with different levels of benefit available to different classes of residents. A handful of states extend eligibility to renters, if the property tax is part of their rent payment, and a handful of states provide relief on any property owned by some classes of residents. Most relief programs are in the form of an exemption of a portion of assessed value. Credits and rebates are also provided in some states, and some states have property tax freezes. Deferrals are also used by some states.

3.3 Economic Development Programs

Many states offer local property tax relief to encourage new business investment and commercial activity. Availability of this relief can be limited by geographic area (such as an enterprise zone), targeted to businesses in specific industries, and tied to some performance measure such as creation of new jobs or to a level of capital investment. One such program is tax increment financing (TIF). TIFs provide benefits to participants by using the tax revenues generated from their new investment in the TIF district to fund facilities and services in that TIF district rather than adding them into the overall property tax revenue fund for general expenditure.

Appendix 2. Property Tax Measures by Incidence of Local Autonomy

	Total (millions of dollars)	Per Capita (dollars)	Percentage of General Revenue	Percentage of Personal Income	Own-Source Taxes Property
United States	\$324,328.97	\$1,104.45	27.95%	3.34%	16.61%

Some Autonomy					
State	Total (millions of dollars)	Per Capita (dollars)	Percentage of General Revenue	Percentage of Personal Income	Own-Source Taxes Property
Alabama	\$1,561.18	\$344.98	11.34%	1.23%	6.49%
Colorado	\$4,940.40	\$1,073.57	26.35%	3.00%	16.58%
Connecticut	\$7,155.64	\$2,045.07	55.95%	4.51%	25.91%
Delaware	\$485.85	\$585.31	21.41%	1.66%	7.31%
Florida	\$20,089.29	\$1,155.52	29.50%	3.56%	18.19%
Hawaii	\$818.24	\$648.30	43.32%	1.99%	8.56%
Maine	\$2,108.31	\$1,603.29	53.03%	5.37%	21.84%
Maryland	\$5,065.73	\$910.88	25.07%	2.30%	14.24%
Massachusetts	\$10,341.06	\$1,613.93	43.84%	3.86%	21.05%
Michigan	\$10,766.87	\$1,065.58	27.45%	3.36%	19.29%
New Hampshire	\$2,258.06	\$1,738.08	53.98%	4.78%	34.36%
New York	\$34,149.97	\$1,771.20	26.71%	4.60%	17.92%
Ohio	\$11,936.81	\$1,042.50	26.55%	3.39%	15.52%
Pennsylvania	\$13,332.55	\$1,075.69	28.46%	3.22%	15.93%
South Dakota	\$730.12	\$947.45	34.74%	3.04%	16.14%
Virginia	\$8,371.52	\$1,118.99	31.56%	3.14%	17.65%

No Autonomy					
State	Total	Per Capita	Percentage of General Revenue	Percentage of Personal Income	Own-Source Taxes Property
Alaska	\$849.40	\$1,291.35	29.66%	3.82%	9.08%
Arizona	\$4,752.05	\$827.90	23.44%	2.90%	15.18%
Arkansas	\$615.70	\$223.89	8.94%	0.87%	7.31%
California	\$31,894.04	\$889.85	17.57%	2.52%	12.61%
Georgia	\$8,147.52	\$913.59	27.64%	3.08%	16.37%
Idaho	\$1,153.84	\$827.04	27.52%	3.02%	13.90%
Illinois	\$18,634.00	\$1,465.86	38.28%	4.21%	23.15%
Indiana	\$7,630.12	\$1,225.42	33.85%	4.07%	19.53%
Iowa	\$3,302.27	\$1,118.31	31.58%	3.62%	17.00%
Kansas	\$3,029.83	\$1,108.33	31.47%	3.54%	18.26%
Kentucky	\$1,771.37	\$427.68	18.65%	1.58%	9.43%
Louisiana	\$2,383.99	\$528.99	16.52%	1.96%	8.13%
Minnesota	\$4,631.75	\$908.80	22.06%	2.51%	14.04%
Mississippi	\$1,923.38	\$663.06	22.10%	2.77%	11.07%
Missouri	\$4,672.24	\$811.22	26.24%	2.70%	13.83%
Montana	\$812.10	\$876.13	31.32%	3.15%	15.86%
Nebraska	\$2,099.43	\$1,201.25	33.80%	3.76%	17.14%
Nevada	\$2,171.77	\$930.93	20.01%	2.74%	15.09%
New Jersey	\$19,193.12	\$2,209.87	51.31%	5.29%	28.89%
New Mexico	\$822.32	\$432.11	13.25%	1.62%	6.16%
North Carolina	\$6,449.62	\$755.18	22.67%	2.56%	12.19%
North Dakota	\$618.38	\$971.82	31.91%	3.34%	13.52%
Oklahoma	\$1,718.63	\$487.76	18.29%	1.72%	8.42%
Oregon	\$3,538.53	\$985.29	26.73%	3.18%	15.27%
Rhode Island	\$1,817.83	\$1,683.30	54.09%	4.96%	22.33%
South Carolina	\$3,729.19	\$888.35	28.01%	3.28%	13.54%
Tennessee	\$3,894.42	\$660.82	23.23%	2.23%	11.57%
Texas	\$30,275.68	\$1,347.29	39.78%	4.38%	22.88%
Utah	\$1,792.45	\$740.47	25.62%	2.82%	11.94%
Vermont	\$311.82	\$501.94	16.93%	1.60%	21.89%
Washington	\$5,046.58	\$813.04	21.16%	2.33%	15.70%
West Virginia	\$1,004.77	\$554.34	23.51%	2.19%	8.17%
Wisconsin	\$7,683.86	\$1,396.17	35.90%	4.35%	21.23%
Wyoming	\$709.89	\$1,403.26	22.80%	4.01%	12.72%

Source: U.S. Census of Governments, 2005

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