IPTI Xtracts

Property Tax and Assessment News from Around the World

UNITED STATES – March 2022

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International Property Tax Institute

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The Toxic Consequences of Real Estate's Brownfield Tax Incentive

How a popular policy that promised to free communities from environmental blight become a tool to increase industrial pollution

Admittedly, brownfield sites aren't the most lively topics of real estate, in fact, many developers wince at the mere mention of them. Brownfields are the decaying, vacant industrial lots that developers shy away from revamping because the cost of cleaning up the contamination can easily add up to hundreds of thousands of dollars, depending on the size of the property and the extent of the pollution. To pad the sticker shock, the EPA launched a

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program called, you guessed it, the Brownfields Program in the early 1990s. The grants and loans provided through the program were touted as a means to rejuvenate brownfield properties for redevelopment. The federal government expanded the program in the early 2000s when it became clear that the Brownfield Program could accelerate toxic site cleanup. It was a glittering beacon of legislation for environmental sustainability and community revitalization, at least until you peered into the fine print.

Decay we go

Brownfield properties can inflict more damage than a regulatory headache for developers. Charles Bartsch, a senior program advisor for the EPA who was recognized as the nation's leading authority on brownfield redevelopments before his death in 2018, determined that most brownfield properties were caught in a "vicious cycle of decline," for a number of reasons. For one, once these properties go on the market, even if the pollution content is minuscule, they're already at a stark disadvantage since developers prefer clean, untouched terrain (known as "greenfields") where they can build brand-new properties. Because of this, brownfield property owners often struggle to find a buyer, to the point that many abandon their property altogether. These brownfields then begin to crumble from prolonged neglect, ultimately becoming the poster-child for the broken windows theory. "These vacant facilities invite abuse, unsupervised stripping of parts or material, vandalism or arson, and midnight dumping," continued Bartsch. Worse, the contamination within the property leeches further into the community in which it's located, threatening the health and well-being of community members.

Despite the challenges of brownfield projects, communities near brownfield sites don't have much choice but to advocate for their redevelopment. Just as Bartsch outlined, brownfields jeopardize morale and community cohesion. But scarier still, brownfields have the potential to poison a community due to contaminants that can affect on-and-off-site soil, air, and water. Even if community members never step foot on that contaminated site, there's still a danger of exposure since the wind can carry pollution off of the site or the pollution can seep into the community's water supply.

Continued deterioration of brownfield sites poses both a serious environmental and financial threat to their locale, which is why the Brownfield Program became a viable tool to make cleanup and redevelopment financially feasible. Redeveloping these sites boosts local tax bases, creates new employment opportunities, makes use of existing infrastructure, relieves development pressure on undeveloped land, and ultimately improves and protects the environment. Oh, and it literally saves the lives of local residents.

Power grant

To its credit, EPA's Brownfields Grant Program offers direct funding and technical assistance to communities in order to successfully remediate contaminated properties. There are

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multiple pages on the EPA's website dedicated to brownfield success stories, including a former power plant redeveloped into a rehabilitation center for marine wildlife and a slew of successful urban agriculture projects.

Since the inception of the Brownfields Program, an increasing number of federal and state initiatives offer a ray of hope for brownfield sites to be redeveloped into safe and useful properties. Most states allow buyers to negotiate important agreements and indemnities which allow them to reduce the timeframe for remediation and even protect them from legal liability associated with any existing damages that the site causes.

But, like any federal grant program, the tedious process of filing mountains of paperwork, the frustrating back-and-forth with various agencies, and the endless waiting period is too much of a hassle for developers. Especially when there's no guarantee that any funding acquired will mitigate the costs of cleanup. This brings us to the Brownfields Tax Incentives.

"Brown spots on the Big Apple"

In 1996, New York launched its own brownfield program, which provided tax incentives and limited liability certificates to developers that purchased, cleaned, and rebuilt Brownfield properties. The state expanded the program in 2003, allocating cash to wider tracts of land that held several contaminated sites. Both the program's launch and expansion were marketed as an environmental justice initiative geared toward revamping lower-income communities. But, in the words of Melissa Checker, author of The Sustainability Myth, Environmental Gentrification and the Politics of Justice, "as time wore on, the state's brownfield programs began to look a little tainted." Instead of the underserved communities they were intended for, most of New York's brownfield incentives went to wealthy developers and landowners.

In order to be eligible for incentives, developers had to show that they had a particular amount of financial, legal, and insurance resources, as well as a team of at least 25 full-time employees. Even if a nonprofit developer who wanted to revamp a lower-income neighborhood had that kind of manpower, nonprofit developers already had tax-exempt status, so a tax incentive would have been of no use.

Despite the fact that these incentives were designed to refurbish rotting industrial properties that jeopardized the health of the residents who lived near them, the way New York structured their brownfield program made it easy for certain developers to target "robust real estate markets" instead of fixing up areas that desperately needed redevelopment. Again, the brownfield program was created for the sole purpose of cleaning up contaminated industrial properties, but because of New York's blunder, one-third of the value of New York's Brownfield tax credits went toward market-rate residential development instead.

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The state of New York has since updated its brownfield eligibility guidelines, but developers taking advantage of a brownfield incentive is hardly an isolated incident. One of the major selling points for developers to take on a brownfield project is that brownfields are often set in desirable geographic locations. Again, these sites were once existing lots (factories, dry cleaners, gas stations, etc.), things that were generally located near major population centers. Plus, the area is already zoned for particular land use. For industrial warehouse developers, a brownfield incentive is particularly enticing.

You can drive trucks through those loopholes

In 2018, Amazon took over the dilapidated ConAgra factory in Wake County, North Carolina, which had sat vacant since its explosion in 2009. County officials were grinning ear-to-ear that Amazon had taken over the "eyesore to drivers along Jones Sausage Road," long overgrown with weeds. In order to entice the e-retail giant to take over the space, Wake County put together a handsome incentives package that included a hefty brownfield incentive. North Carolina's Department of Environmental Quality secretary, Michael Regan, said that Amazon's redevelopment validated the state's brownfield program. Regan had maintained that, without a brownfields incentive, the opportunity for Amazon to revamp the burned-out factory would not have happened.

Of course, that wasn't the only time Amazon jumped on a brownfield property with a corresponding tax reduction. In its latest redevelopment effort, a once-contaminated property in Rutherford, New Jersey June 3, 2021, Amazon announced it would be building a 360,000-square-foot warehouse.

While redevelopment of brownfield projects is hailed as a public good, converting a brownfield property into a fulfillment center is as ecologically beneficial as dousing a coral reef in crude oil. Amazon's warehouse boom is linked to extreme levels of pollution. "The warehouses, which bring severe truck pollution to neighborhoods," writes Sam Levin of The Guardian, "are correlated with bad air quality and related health problems that disproportionately affect people of color." While the rise of these warehouses has offered significant employment opportunities, critics say the environmental implications have been severe, and the jobs are sometimes dangerous or exploitative.

When the pandemic enlarged the e-commerce market while simultaneously shattering the global supply chain, the demand for "last-mile" urban warehouse and distribution center developments shot through the roof, and Amazon led the charge. The surge in carbon emissions from these new warehouse developments will be nothing to balk at. In 2020, Amazon's activities emitted the equivalent of 60.64 million metric tons of carbon dioxide, according to its annual sustainability report. This is up from 51.17 million metric tons in 2019, a 15 percent increase year over year, and that's just from one e-retailer.

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In the brownfield context, where a tax incentive intended for fortifying lower-income communities afflicted by industrial contaminants was instead being used for warehouse development, research compiled by the People's Collective for Environmental Justice unveiled a tragic irony. According to their findings, there was a significant divergence between warehouse locations and e-commerce sales, implying that communities that order the least online are exposed to the industry's direct pollution and health implications by living near these facilities.

Brownfield tax incentives are an incredibly valuable measure to restore sites that desperately need redevelopment for the health and safety of the people that live near them, not just as a means to rake in capital. But if a tax incentive that was meant to clean rotting properties can become a route to cause more pollution, then that completely undermines the entire point of the incentive. Just as New York had to revise their brownfield incentive program, if companies will ultimately use these incentives as a means to cause an environmental threat, then it's time for every brownfield program in the U.S. to reconsider their incentive requirements.

Tax the land

One radical idea to solve America's housing crisis.

The big question land value taxes help answer is: How can a government raise funds without distorting choices and possibly leaving people worse off? If you tax income, it provides a disincentive to work. If you tax property, it provides a disincentive to improve the physical buildings on top of the land. Sometimes the tax is intentionally disincentivizing an activity — think carbon taxes to reduce greenhouse gas emissions or so-called "sin taxes" on tobacco. But there are also taxes governments want to levy to pay for valuable services without changing behaviors too much (or at all).

One of the most straightforward solutions a land tax offers is to America's housing crisis. That crisis is caused, in part, by the failure to appropriately use valuable in-demand land for its best purpose. Millions of people want to live in New York City, Los Angeles, Washington, DC, or Seattle, but local tax regimes actually punish people for investing in their property. When people improve their property — either by adding a new room or building an entirely new structure like a multi-story apartment building, they'll pay higher property taxes.

But this isn't just a big-city problem. In small towns, vacant lots contribute to decline — and if there's no valuable structure on a property, its delinquent landlords likely only pay a nominal property tax. This both lowers tax revenue and hurts neighborhood quality for everyone else.

Here's where a land value tax can come into play.

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Taxing land value means separating out what land is worth without any of the improvements sitting on it (like homes or industrial plants). Most Americans are familiar with property taxes that tax the value of their homes and the land they sit on as one. As New York University economist Arpit Gupta explains, part of what makes land taxes so attractive is that "there should be no economic inefficiency" if you are able to tax "true land rents."

A land tax can't disincentivize anything — land will continue to exist regardless of any taxation scheme.

"Land doesn't move," University of Illinois economist David Albouy explained. "It doesn't disappear — so you can lower taxes on things that do go away."

As Jeff Spross explained in 2015 for The Week:

The key thing to realize about a land value tax (or LVT for short) is that nothing you do can affect it. ... This is why economists love it. By definition, an LVT only captures "rent" — in economics-speak, income you earn by happenstance or luck rather than by actually creating new wealth.

Your tax burden under an LVT goes up only if the value of the land itself — the one thing you have no control over — also goes up.

The LVT also has an appealing underlying moral framework: The luck to own a piece of land that happens to appreciate — say, you bought a house in San Francisco before the tech boom — should not come with it the ability to extract rents without providing value.

In other words, since people who own land aren't actually responsible for it increasing or decreasing in value, it's pretty absurd that they get to accrue all the benefits of owning a piece of land without having to do any work for it.

I want to again distinguish this idea from adding value to the land by building a business, farming the land, extracting natural resources, or a myriad other ways people use land. These things are obviously work, which is exactly why moving away from a property tax system — which taxes things people actually have control over — to a land tax system could be so efficient.

At this point, "land value tax could solve this" has become a meme in niche online communities, with its strongest adherents believing that one simple policy has the potential to solve some of the nation's biggest problems — including our housing crisis.

America's housing crisis

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At its core, America's housing crisis is about the nation's perennial failure to build enough homes. As of last year, Freddie Mac estimated that the country needs an additional 3.8 million homes to meet demand.

Because of our persistent failure to build, prices have skyrocketed. People are moving out of their parents' homes, starting families, moving to new jobs and competing over a scarce number of housing units. In a healthy market, this rising price signal would push developers to create more homes and prices would fall (or at least stop rising).

The American housing market is anything but healthy.

As a result of various rules and regulations mostly set at the local level, developers can't simply build and provide more homes. Instead, laws that make it illegal to develop land more intensely — that is, build multiple homes on a single lot of land like a duplex or an apartment building or build smaller single-family homes — keep prices high.

Land and property owners are often the most vocal opponents of liberalizing land use laws. Homeowners trend older and have stronger preferences for stability as well as negative attitudes towards renters and apartment buildings. Local governments, which have been granted near unchecked authority by state governments, are entirely captured by homeowners.

Boston University researchers Katherine Einstein, David M. Glick, and Maxwell Palmer looked at planning board and zoning meetings in nearly 100 Massachusetts cities and towns and found that meeting participants were disproportionately homeowners. Participants were consistently likelier to oppose new housing in their communities.

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So how could a land value tax help fix this?

Under a land value tax system, proponents say property owners would be clamoring to be allowed to develop their land more intensely — leading to more homes being built.

Here's the theory: Taxing land reduces the profit that comes from just owning a piece of property. Instead, you are incentivized to put that land to work. Let's take a plot of land near Times Square. That land is so valuable, basically anything you do with it will turn a massive profit so no need to develop it for its most valuable use.

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In a 2015 Slate article, Henry Grabar illustrated this point well, pointing to the case of a parking lot charging drivers $40 per day for parking and accruing under $10,000 in property taxes. That parking lot, Grabar writes, sits next to a seven-story building that requires more than a quarter of a million in taxes annually.

"It turns NIMBYs into YIMBYs," explained economist Noah Smith, who has written about land taxes. "You leverage the same toxic local politics that are now creating NIMBY-ism, you leverage for YIMBY-ism because now you have people wanting to build stuff."

In Allentown, Pennsylvania, the system worked! According to a 2019 Strong Towns article, after the city adopted an LVT (through a split-rate system that still kept some property taxes in place) in 1996, "construction returned to the city: the number of taxable building permits surged past neighboring Bethlehem, market investment returned and capital improvement reappeared in city budgets. ... The losers in this trade were absentee owners of vacant lots, who had to shoulder much more of the burden."

Sen. Pat Toomey (R-PA) is quoted touting the benefits of the tax: "The number of building permits in Allentown has increased by 32 percent from before we had a land tax."

So if this change to our taxation system is so simple, why don't more cities implement it? Well, property tax reform is the third rail of American politics. In California for instance, as Conor Dougherty explained for the New York Times, "In 1978, a Los Angeles businessman named Howard Jarvis led an insurgent campaign to pass Proposition 13, a ballot measure that limited California property taxes and inspired a nationwide tax revolt. The law has been considered sacrosanct ever since."

But beyond the political issues, there are also technical concerns: Firstly, valuing land separately from the improvements to it is not so simple, though proponents argue it can be done. Secondly, implementing a land tax right now, while fair in the medium and long term, could feel drastically unfair in the short term to property owners who paid a premium for their lots because of the value of the land only to see it depreciate in value as a new tax gets implemented.

So why is this meme becoming so popular (at least among some online communities)? Lars Doucet, a prominent land value tax proponent, explains that a big part of the reason is that for a long time the automobile made sprawling suburban development possible. That meant people could still access valuable labor markets even if they couldn't afford to live near their jobs (as long as they were willing to suffer long commutes, that is).

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"Now we've run out of suburbs," Doucet argued. "We can't push any further through expansion."

Remote work is a new development, which could buy us some more time, since it could allow many people to live even further away from city centers, but as rents skyrocket, people are desperately searching for radical solutions to America's housing crisis.

Tax the land

One radical idea to solve America's housing crisis.

A six-word phrase keeps popping up on my Twitter feed: "Land value tax would solve this."

In response to the inefficient use of land as parking lots. As a policy to help fund a universal basic income. And even (jokingly) as a prescription for the rise of virginity in young men.

The big question land value taxes help answer is: How can a government raise funds without distorting choices and possibly leaving people worse off? If you tax income, it provides a disincentive to work. If you tax property, it provides a disincentive to improve the physical buildings on top of the land. Sometimes the tax is intentionally disincentivizing an activity — think carbon taxes to reduce greenhouse gas emissions or so-called "sin taxes" on tobacco. But there are also taxes governments want to levy to pay for valuable services without changing behaviors too much (or at all).

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ARIZONA

Arizona House Approves Business Property Tax Cut

Republican backers of a big property tax break for businesses had to lean on a fellow GOP lawmaker to get her switch her vote, but the tax cut is now closer to heading to Republican Gov. Doug Ducey for his certain signature.

It took a lengthy filibuster on the Arizona House floor while Republican backers of a big business property tax break leaned on a fellow GOP lawmaker to switch her vote to yes, but the tax cut is close to heading to Republican Gov. Doug Ducey for his certain signature.

Wednesday's party-line 31-28 victory for Republican Sen. J.D. Mesnard's bill came after he teamed up with House GOP leaders on the House floor to pressure Rep. Brenda Barton to change her vote. A minor House amendment means a second Senate vote is needed before it goes to Ducey's desk.

After a half hour of speeches by Republicans extolling the virtues of giving the tax break, Barton broke and gave it the needed 31st vote. She did not immediately respond to a request for comment on her decision to change her vote.

The measure cuts an additional 1% from the property assessment ratio set last year when the Republican-led Legislature cut it from 18% to 16%, with a four-year phase-in in 0.5% increments each year.

That cut was to conclude in 2025, but Mesnard's new bill adds two more years of half-point cuts and leaves it at 15%.

Under the state's complicated property tax formula, any loss of revenue will be shifted to other classes of property, mainly residential. But in this case the state general fund will be tapped to make up the $88 million difference in state basic aid to schools.

"This bill is on the one hand nice for businesses who would pay lower property taxes," Democratic Rep. Mitzi Epstein said during floor debate Tuesday. "Yay!"

On the other hand, she said, tapping the general fund that is becoming more reliant on sales taxes means lower-income Arizonans are increasingly paying for the cost of government while businesses and the wealthy see income and property tax cuts.

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"The poor, shrinking middle class ends up having to pay more and more and more," Epstein said.

Rep. Ben Toma, the Republican House majority leader, said there's already a shift in property tax burden of about $1 billion — but it is from homeowners and owners of vacant and agricultural land to business property.

"There are winners and losers — I fully agree with that," Toma said. "The losers are the businesses."

And he said it isn't just the wealthy who are getting the break — all businesses pay the property taxes, not just wealthy business owners. He also said that because the new tax cut does not kick in until 2027, increasing property values will soften or eliminate the blow.

"The estimate of $48 million a year ... it's not going to be there," Toma said. "This is trying to right the ship a little bit and trying to make this a little but more fair."

CALIFORNIA

Property Tax Levies Increase Six Percent Statewide

Earlier this month, the California State Board of Equalization (BOE) released its Fiscal Year (FY) 2020-21 Annual Report, which reported that the total net statewide county-assessed property value was $7.1 trillion, resulting in $79.9 billion of local property tax levies. Those property tax levies contributed $43 billion to schools and $36.9 billion to local government. This is an additional $4.5 billion, or a 6 percent increase, in property tax levies from FY 2019-20 of $75.4 billion.

"The increase in property tax levies to almost $80 billion is a clear reflection of California's vibrant real estate market," said Chair Malia M. Cohen. "As we transition away from the disruptions of the COVID-19 pandemic, I am heartened that these additional property tax revenues will provide significant funding for our schools and critical local government services."

The BOE is constitutionally and statutorily responsible for the oversight of California's property tax system. The FY 2020-21 Annual Report includes state- and county-assessed property values, aggregate qualifying property tax exemptions, and other statewide property tax data. New in this Annual Report are the highlights of BOE's accomplishments in fulfilling its statewide role in the implementation of Proposition 19, The Home Protection for Seniors, Severely Disabled, Families and Victims of Wildfire or Natural Disasters Act. In November 2020, California voters approved Proposition 19, which made significant changes to certain property tax laws.

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Past annual reports and additional information can be found on the BOE website.

The California State Board of Equalization (BOE) is the only elected tax board in the country, and it is comprised of four Equalization District Members and the State Controller. Since 1879, the BOE's constitutional and statutory duties include the oversight of the 58 County Assessors to ensure assessment practices are uniform and consistent statewide. In addition, the BOE directly assesses the property of regulated railroads and certain public utilities, collects the Private Railroad Car Tax, and is responsible for the Alcoholic Beverage Tax and Tax on Insurers. BOE's critical role in property tax administration by promoting fair and equitable assessments protects the tax dollars that schools, local communities, and the State of California depend on every day.

CONNECTICUTT

Money for property tax reform is there for the asking

Where is the money going to come from to pay for the changes that need to be made to fundamentally reform Connecticut's unfair, inefficient and onerous property tax system?

That question has been asked repeatedly in the wake of a report – issued in December by The Property Tax Working Group of 1000 Friends of Connecticut – that called for an overhaul of the state's tax structure, beginning with three steps that should be taken immediately by Gov. Ned Lamont and the General Assembly: fully funding the Payments in Lieu of Taxes (PILOT) program; having the state kick in more money for local special education; and providing low-income households with a refundable property tax credit.

As it turns out, there could be more than enough money to implement those changes, even without dipping into the whopping $1.48 billion surplus that the state is projected to amass this fiscal year.

In Connecticut's roughly $23 billion operating budget, less than $18 billion is collected from residents and businesses. Tucked inside the voluminous budget document are $8.84 billion in tax breaks and credits – known as "tax expenditures" in legislative parlance – that are doled out annually to certain taxpayers and special interests.

Amazingly, while the many billions of dollars in state spending are scrutinized each year, there is no requirement that the tax breaks and credits be similarly evaluated. Thus, they simply roll over from year to year, without regard as to whether they are constructive or productive. They ought to be re-examined with an eye toward eliminating or modifying those that are not beneficial to the state's fiscal health. Of course, deciding which tax breaks to get rid of is a balancing act between sound policy and political judgments. But making those decisions is what lawmakers are elected to do.

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Additionally, there are hundreds of millions of dollars to be garnered using a variety of strategies. The problem is: The state doesn't act, ask or take. Policymakers need to be creative, collect what is rightly owed and shed tax breaks and credits that are counterproductive.

The following are some ideas worthy of consideration:

- Over the past decade, the Department of Revenue Services (DRS) has slashed its audit staff by 10 percent and its collection and enforcement staff by 25 percent. A 2021 study by The Boston Consulting Group, commissioned by the Lamont administration to address the expected wave of state employee retirements by June 30, estimated Connecticut fails to collect hundreds of millions of dollars annually. It's estimated that each dollar spent to hire more auditors would bring in $8. Restoring auditors to 2013 levels could bring in $200 million.
- The consultant's report also cited dozens of new initiatives and efficiencies that could produce more than a half-million dollars annually. Included are such items as digitizing services; pooling resources; consolidating the state's real estate holdings; and blocking payments to vendors who owe the state money. Many of the consultant's recommendations could be carried out without trimming the state workforce, which is already undermanned.
- The wealthy now pay a top income tax rate of 6.99 percent. Boosting it to 7.99 percent for wealthy filers and to 8.49 percent for the uber-wealthy — rates that would still be among the lowest in the Northeast — could generate an estimated $504 million a year.
- The one-week tax holiday on the sales tax, which typically occurs in August, could be eliminated for a savings of $5 million.
- Credit card processing companies could remit the sales tax collected by merchants directly to DRS rather than sending the taxes back to the merchant, who then has the responsibility to pay the state. Changing the procedure could reduce paperwork for the merchants and simplify the audits of sales tax receipts.
- A portion of the state surplus that is not designated for debt reduction could be targeted to cities and towns to help defray their borrowing costs.
- State police overtime costs have risen to about $30 million a year. Hiring 100 to 200 troopers would result in $5 to $10 million in net savings.
- Connecticut receives far less of its revenue from the federal government than most other states. Creating a federal funding liaison, both in Hartford and Washington D.C., could produce additional aid.
- Tax amnesty programs that allow scofflaws to escape paying interest and penalties on delinquent taxes, could be eliminated. Such programs, which have proliferated in recent years, essentially provide "get out of jail free" cards.

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- The state has roughly $700 million in outstanding revenue that's deemed "uncollectable" by DRS. Those funds could be securitized and sold for a significant one-time infusion of cash.

In sum, deep in the budget and the bureaucracy are the answers to the dilemma of how to rebalance the state's inequitable property tax, which accounts for a disproportionate 42 percent share of all state and local taxes. The property tax stifles business expansion and job growth; destroys open space by encouraging unwise land use; impoverishes cities; creates unequal educational opportunities; and has led to an outmigration of residents to no- or low-tax states.

Like buried treasure, the money to reform the state's property tax system is there for the asking. All it will take is some fortitude and digging.

Yale's tax-exempt property value surges by nearly $700 million

Over the last six years, the value of New Haven's tax-exempt property has risen — but the value of Yale's has risen faster.

The value of Yale's tax-exempt holdings has ballooned by nearly 20 percent, or by roughly $690 million, since 2016, according to an estimate by New Haven tax assessor Alex Pullen.

In the same timeframe, the value of Yale's taxable properties has also increased by around 28 percent to a total of roughly $161 million. But the University's tax-exempt holdings shot up in value at a rate above that of the average New Haven tax-exempt property. Meanwhile, the value of Yale's taxable properties climbed slower than average.

The new figures were released in the city's property revaluation for 2021. A revaluation is an assessment of local properties' official, taxable values, and it is meant to bring these properties in line with their actual market worth. The state requires that all properties are revalued every five years to reflect the changing market conditions.

The last time a revaluation was completed for New Haven was in 2016. In this latest assessment, New Haven's taxable grand list, which includes all of the taxable properties in the city, grew by over 32 percent — from $6.7 billion five years ago to nearly $8.9 billion. The city's tax-exempt properties, which include Yale properties and other properties, also increased by over 16 percent in value from $8.5 billion to $9.8 billion. Of the $9.8 billion valuation of the city's tax-exempt properties during the latest revaluation, 4.2 billion — or nearly 43 percent — are owned by Yale University.

The value of Yale's tax-exempt property has been an issue of contention in New Haven, especially among activists in the city's unions. Both city residents and politicians have

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repeatedly called on Yale to increase its voluntary contribution to New Haven's budget. A new town-gown deal introduced in November aims to alleviate the impact of Yale's tax-exempt properties. For properties taken off the tax roll in the next six years, the deal stipulates, the University will offset some of the lost tax revenue through additional voluntary payments.

Yale is among New Haven's top three taxpayers, Pullen said. But the University's tax-exempt properties continue to make up around a quarter of all city taxable and tax-exempt property.

The citywide increase in value of tax-exempt properties during the reevaluation was 16 percent — four percentage points below the increase of Yale's tax-exempt holdings.

"Yale's properties went up in value. But that doesn't mean they took anything off the tax rolls necessarily," said Henry Fernandez, executive director of LEAP. "It's that the areas where they are, the quality of the construction [and] the other things that have been built around them mean that their property values went up."

In the past, New Haven has removed properties from the tax roll due to their purchase by the University. In the 2017-18 fiscal year, six Yale buildings were taken off the grand list. The change meant that the Elm City lost $3 million that year in potential taxes.

In October of 2019, questions over Yale's tax-exempt status were a talking point in the year's Mayoral race. Cynthia Netercut, director of special projects at the University Controller's Office, wrote to Pullen that Yale "has backfilled and acquired" properties in New Haven "to provide stability in the market." But Ward 7 Alder Eli Sabin, who then represented Ward 1, called the University's removal of properties from the grandlist "short-sighted," noting that the decision could lead to cuts to services across the city.

Pullen told the News that an increase in private construction happening near University properties could also be a factor for the rise in property value.

Pullen explained that part of the reason for the difference between Yale's tax-exempt and taxable property increases is due to how tax-exempt property value is considered. Many of Yale's properties are tax-exempt and for academic use, which will be valued differently than commercial properties. Taxable properties like commercial properties are valued based on their income, while tax-exempt properties like schools are valued based on their construction costs. For example, while the recently developed Schwarzman building does not generate an income, it can be valued based on its $150 million construction costs. Pullen said that while commercial properties took a bigger hit during the pandemic as businesses closed down or had fewer customers, the value of tax-exempt properties is not as affected.

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According to the University, most of its recent developments since 2016 have been on Yale-owned property. Karen Peart, University spokesperson, said that the University added to the city's taxable grand list when it created the retail space L.L. Bean in 2018. It also developed its nontaxable property such as the project to open the Science Building in 2019.

"Like any taxpayer, the University will pay taxes on its properties," Peart said. "This will not impact our recent agreement with the City."

While the new numbers would not affect the details of the agreement, they could affect how much Yale pays under the agreement. Under the Yale-New Haven 2021 agreement, the university agreed to voluntarily offset the city's loss of tax revenues for any properties that Yale takes off the tax rolls in the next six years. The purpose of the agreement, Fernandez explained, was to ensure that if a property was taken off the tax rolls, it would not negatively affect the city, at least in the short-term. He added that if Yale decided to take a property off the tax roll after the latest revaluation, the amount that the University would have to compensate the city would now be higher than before.

Pullen expects the city's Mill rate, currently a $43.88 tax per every $1,000 in property value, to fall this year. He said that this is the usual result of a revaluation, but it is too early to tell by how much the mayor and Board of Alders will decrease it.

"Even with the mill rate going down, you may still see tax bills go up in some neighborhoods, and some may be closer to what they paid last time," Pullen said. "It is all going to be a function of how much your property went up and how much the mill rate went down."

The last time New Haven did a revaluation in 2016, the city's taxable grand list increased in value by around 11 percent.

IOWA

TIF has its uses, but an indoor-golf project starkly illustrates how we've gone astray

Iowa's Legislature has an opportunity to add common-sense guardrails around TIF.

Have you heard of Topgolf? It's essentially a driving range on steroids. You hit a golf ball from a climate-controlled bay that is serviced by a bar and restaurant. It's great fun, but Des Moines doesn't yet have one or a facility like it.

But it soon will.

In November, a golf entertainment venue called Suite Shots, which licenses Topgolf technology, announced it is developing a multimillion-dollar facility in West Des Moines. And

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just two weeks ago, officials in Johnston detailed the plans they were making with another company called Bombers to build something very similar in their city.

So now, the Des Moines metro might have two of these facilities. Sounds great — until you hear what is behind the second one and that some of your tax dollars will pay for it.

While Suite Shots in West Des Moines will be developed without government funding, Johnston is giving Bombers an incentive package that includes $14 million in tax increment financing, or TIF, rebates to build their facility across the street from an Audi dealership. It's not just the local taxpayers who are on the hook here. All Iowa taxpayers foot the bill because the state general fund has to "backfill" tax revenue that local school districts miss out on because of TIF.

TIF has existed in Iowa for decades. Originally designed to be deployed in blighted communities for projects that otherwise couldn't obtain financing, TIF works by allowing local governments to borrow money with debt secured by the future growth of taxes within that TIF district. Local governments can then pay for development by using new, or "incremental," property tax dollars.

TIF can be beneficial when used correctly in blighted communities and where development wouldn't otherwise occur. But this is precisely where communities in Iowa may have lost their way. Across Iowa, barely 15% of TIF districts were created with slum or blight conditions as a justification to create the district.

Even more concerning, Iowa has never had a "but for" requirement when creating a TIF district. Professors Craig Johnson and Kenneth Kriz write, "The idea behind the 'but for' test is that TIF should be used if, but only if, the development would not occur without the TIF subsidy. … TIF should not be used to subsidize development that was already going to occur. That would be a waste of taxpayer funds. It would also provide an unnecessary subsidy to private developers."

That academic thinking seems to make sense, but how could one ever know if a "development would not occur without the TIF subsidy?" Maybe if a similar project was already planned without subsidy in the same metropolitan area. From that perspective, the competing golf projects present an interesting case study.

Over time, TIF has become much less about developing blighted communities and more about affluent communities competing with each other so they can boast about lavish shopping malls, new hotels, bigger office buildings, and (soon) golf entertainment centers. The fact that a similar facility is being planned within the same metropolitan areas suggests that this type of venue doesn't need millions of dollars of TIF subsidy to come to Des Moines. It's hard not to wonder if this is the type of project Johnson and Kriz described as a waste of taxpayer funds and an unnecessary subsidy to private developers?

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Iowa's Legislature has an opportunity to add common-sense guardrails around TIF. The best place to start would be requiring a stringent "but for" test for TIF projects, forcing a local government to prove a proposed development truly wouldn't occur without the TIF subsidy. This requirement would need to have teeth behind it and not simply allow local governments to merely claim that TIF was necessary. Reforms to Iowa's TIF system would go a long way to leveling the playing field for private businesses while also protecting the taxpayer's best interests.

IDAHO

Idaho Bill Would End Most Property Taxes on Main Residences

A House committee has introduced sweeping tax legislation raising Idaho's sales tax to the highest in the nation as part of a plan to eliminate most property taxes on owner-occupied homes.

The House Revenue and Taxation Committee approved a possible hearing on the bill that also uses some of the increased sales tax money to raise the grocery sales tax credit from $100 to $175.

The move will bump Idaho's sales tax from 6% to 7.85%, the highest in the nation, according to the nonprofit Tax Foundation group that analyzes tax policy. California currently has the highest sales tax at 7.25%.

City and county taxes would be eliminated on primary residences in Idaho, but voter approved bonds and school levies would remain.

"The beauty of this is you're taking a narrow tax and you're replacing it with the broadest possible tax," said Republican Sen. Jim Rice. "So people that don't live in the state of Idaho that come visit in our state, vacation here, drive through, will help pay for the services that they get the benefit of in our state."

Many lawmakers appeared to have a hard time digesting the 41-page bill.

"Everything on this looks good, sounds good, but I just have this niggling feeling that it may not be as good as it all looks," said Republican Rep. Linda Hartgen.

Democratic Rep. Lauren Necochea said she was concerned Idaho businesses could be hurt because there would be an incentive for residents to buy items in other states with lower sales taxes.

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“This is going to increase people's incentive to go across the border to buy, especially big-ticket items and their regular groceries,” she said.

Rice said he didn't think it would make that much difference, noting in particular that residents who buy vehicles in other states have to pay Idaho taxes on them. That calculation involves sales tax in other states.

The measure has an unusual aspect in that, if lawmakers approve and it's signed into law by Republican Gov. Brad Little, voters will get a final say.

“We will put this on the ballot in November, and ask the public: ‘Do you agree that this was the right thing to do?’” Rice said. “This can be unwound after the first year.”

Property owners in Idaho for years have been asking the Legislature to do something about increasing property taxes caused by skyrocketing home prices.

But sales taxes are generally considered a regressive tax because low-income taxpayers pay a higher percentage of their income on sales taxes than high-income taxpayers.

The bill also includes the hot-button issue of the grocery sales tax credit, which is what Idaho tax filers must use to recover on taxes paid on food. Currently, the annual maximum credit people can receive is $100 for people under 65, and $120 for those 65 and over.

That would be upped to $175 under the proposed bill, which doesn't appear to have a difference for age groups.

Little briefly spoke about the food tax credit on Wednesday during a news conference with reporters, noting the complexities of doing away with the grocery sales tax.

“When you go to the grocery story, everything you buy there, is that exempt, or is it just food?” he said. “You have to define what you're exempting because people say groceries and they just look at their grocery bill.”

He noted that under the current plan, "if you've got a larger family, $120 per family member is significant.”

The bill could return to the House Revenue and Taxation Committee for a public hearing next week.

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KANSAS

"Truth in Taxation" helps cut property tax in 21 counties

The new Kansas law aimed at increasing transparency and accountability in local government taxing and spending decisions shows some promise in holding down property tax in its first year.

The bipartisan "Truth in Taxation" law, passed by a Republican legislature and signed into law by a Democrat governor, is delivering what it promised to many Kansas taxpayers, according to statistics by the state Department of Revenue. Taxpayers in 21 counties will see reduced property taxes earmarked for combined education and local government operations this year.

Education taxation includes that for public schools, and community colleges. Local government taxation covers cities, counties, townships, and special taxing districts such as sewers and fire.

Another 47 counties had net increases under 3%.

The law requires increased property valuations to be offset by reductions in mill levies, so the same amount of revenue is delivered to local governments. If more spending is proposed, a public meeting is required, and officials must vote on the entire tax increase to be imposed. No exceptions are allowed.

The American Legislative Exchange Council (ALEC) hailed the new Kansas law upon its passage as "a bipartisan win on property taxes for Kansas taxpayers."

"Kansas may have created the new "gold standard" model for state lawmakers throughout the country as they work to increase accountability and transparency and address escalating property tax burdens on behalf of their constituents."

Some local officials, however, defied taxpayers' desire for property tax relief. Four counties – Clay, Dickinson, Marion, and Miami – have double-digit increases. Other counties where local elected officials hit taxpayers hard include Coffey (9.9% hike), Cowley (9.3%), Washington (7.3%), and Greenwood (7.1%).

Housing valuations cause concern for area residents

Property valuations in Ellis County have been completed and notices sent, but after many in the area saw significant increases in the value of the residential and commercial properties they are asking why and what this will mean when property taxes come due.

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Ellis County Appraiser Lisa Ree recently appeared before the Ellis County Commission to explain the valuations and the reason behind the increases.

“Overall, in Hays you can figure a house has gone up 15 percent this year,” Ree said. “And we had an area east of Canterbury where we were seeing 25 percent or greater increases in their values because those homes are selling lot more than what they were last year.”

Those valuations are driven by property sales prices — what people are currently paying for property in the county.

Property valuations, by state statue, must be within 10 percent of sales price and, historically, appraisals have been right on the mark.

From 2009 to 2015, Ree said appraised values were within 5 percent of the sales price, until volatility in the oil market began impacting prices in 2016.

“Then we get to 2019 and 2020,” she said, when national and regional events significantly impacted home prices.

“For 2020, the state is telling us we were only 94 percent on average of the sale prices,” Ree said.

And preliminary reports from the state indicated valuations slipped even closer to the 10 percent threshold in 2021 with valuations coming in at only 91.2 percent of sales prices, she said.

The market

As home prices continue to rise, so do valuations, something Ree attributes to a “hot” real estate market since 2020.

Both the shortage of available homes and low interest rates, she said, are contributing factors.

“Sales prices for Ellis County have increased,” Ree said, “drastically, in my opinion.”

Since 2019, she said the average sale prices increased from $165,000 to $206,040 in 2021.

“I think that the price of housing is primarily based on two things,” said Grow Hays Executive Director Doug Williams. “One is replacement cost, the other is supply and demand. And we have not built enough new homes to have enough supply in our community.”

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That lack of supply has significantly increased demand, and the amount people are willing to pay for a home has followed.

“That's why houses sell for more than they're listed for,” Williams said.

He said prices will stabilize — and perhaps decrease — once housing supply is added, but until then prices will be driven by demand.

“Realtors don't set the prices of housing,” said Williams, who also has history as a real estate agent. “They don't determine what houses are going to sell for — the market does. And if you've got an unbalanced supply-and-demand situation where you've got way too little supply and way too much demand, what happens? It doesn't matter what commodity you're talking about, the price of the item goes up. And that's the situation we have here.”

With the rising prices, Ree noted the accuracy of the valuations continued to decline.

“You can just see month by month our value is just getting further and further away of the actual sales prices,” Ree said. “And since our job is to set a fair market value, what we need to do is be closer to that 100 (percent) mark.”

Along with demand driving prices higher for area homes, she said record-low mortgage rates were also affecting pricing.

“One loan officer told me that some of their clients were able to afford a larger purchase price for a home due to the low interest rates,” Ree said.

And those living outside of Hays in more rural parts of the county were not spared from the increase either with rural Ellis County properties also increasing around 15 percent, in general.

“It’s our job to keep up with that and were having to raise values considerable this year,” Ree said.

On the commercial side, she said the market has been far more variable over the years, and with more factors taken into account, valuations fluctuate more. But that sector also saw increases.

In 2020, valuations were only 81.5 percent of sales prices.

And again, this year another push was needed to continue to get closer to the 100 percent mark.

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"A lot of that increase is due to … construction costs," she said. "Construction costs have gone up and a lot of our commercial properties."

While residential and commercial valuations rose significantly, Ree said, agricultural land saw only a small jump after years of increases.

The big picture

As Ellis County saw higher property valuations, Ree said those adjustments affect far more than just the county.

"These headlines are not unique to us," she said. "That's statewide, even nationwide."

Johnson County — Kansas's most populous county — issued notices to area residents in late February that most valuations increased.

"In the county, about 95 percent of residential values increased for the 2022 valuation year, which reflects a robust residential real estate market in 2021," according to information released by the county. "The average increase across the county is around 11 percent (excluding sales and new construction), and approximately 50 percent of residential property values changed by 10 percent or less, or experienced a reduction in value."

Along with Ree, they attribute the increase to the housing market.

"We continue to experience a seller's market in Johnson County due to the low inventory," said Johnson County Appraiser Beau Boisvert. "This was also the situation in 2020, and similar real estate trends are expected as we continue into 2022."

Higher value, more taxes?

The most prevalent question around property valuations is the impact to taxes. And while most assume higher value will equate to higher taxes, Williams said that is assumption is not always true.

"I think the knee-jerk reaction for most of us, including me, is to think 'Oh my God, my property value went up,' " Williams said. "Yeah, it's a big jump. I can't believe this. But it doesn't necessarily mean you're going to have this huge increase in property tax.

"And it probably does actually reflect the true value of your property."

He said the belief that an increased valuation creates higher taxes is a common misconception.

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It’s “just not the case,” Williams said. “The only way their property tax goes up is if, in fact, the county spends more money next year than they spent this year.”

With the valuation spread across all property owners, their budget is spread across the valuation total.

“So if valuations double, and they spend the same amount of money, your property taxes don't go up,” Williams said. “By the same token, if valuations would be cut in half, and the county spent the same amount of money, your value your taxes don't go up or go down.”

However, he said property taxes may still rise, but due to other factors.

“I fully would expect property taxes to increase this next year because costs have increased,” Williams said. “But just because your property your valuation goes up 20 or 25 percent absolutely does not mean that your property taxes are going to go up 20 to 25 percent, and I think people need to understand that aspect of it.”

Along with property valuations, he said residents should consider the county’s mill levy as they understand the valuation increase.

“The mill levy in the city of Hays is the lowest mill levy in the state of Kansas,” Williams said. “I don't care where else you go, you can look at all the others. We are the lowest mill levy that exists in the state of Kansas for 2021.”

But, he said, that does not mean Hays residents are paying the lowest property tax rate.

“Valuation is a part of that component and how property taxes are calculated,” Williams said. “Our valuations are high relative to other places, but our mill levy is low relative to other places.

“I don't have information regarding valuation comparisons as far as what a three-bedroom, two-car garage house might sell for in Dodge City or Garden City, but I have looked at the property taxes on a $250,000 house in Dodge City and they are way higher than Hays. So, you know, it's just a matter of your perspective on some of these things. But I think it's important that people understand that an increase in valuation does not necessarily result in an increase in property tax.”

What now?

For Ellis County residents with questions about their property valuation, Ree said they should contact the Ellis County Appraiser's Office.

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April 14 is the deadline to discuss valuations in order to give the office the time needed to have valuations filed by May 15 with the county clerk.

“I would expect you will get a lot of phone calls,” said Ellis County Commission Chairman Butch Schlyer.

“I know you’re right,” Ree said.

“I encourage them to ask for their property record card, if they have a home, ask for their comparable sheet,” she said. “That will show a lot of that attributes for their house, plus it will show the same thing for five comparable home sales that were used to value their property.”

Topeka's residential appraisal values jumped 13.5%. One leader says deck is stacked against owners

Appraisal values rose by an average of about 13.5% per residential property in Shawnee County.

That concerns Topeka City Councilman Tony Emerson.

"This is something that really affects my constituents," Emerson told The Capital-Journal this past week. "People can't afford to pay more and more taxes year after year."

The new appraisal values — or revised versions of those values, if residents successfully appeal them — will be paired with mill levy levels local taxing entities set when they adopt 2023 budgets later this year to calculate the property tax bills for which Shawnee County residents will pay the first half beginning in December.

"If these huge valuations stick, I would hope that all taxing authorities in Shawnee County would lower their mill levies to blunt the impact of this increase," Emerson said. "There is no reason that taxes need to go up more than the rate of inflation, which this year is nearly 7.5%."

County appraiser Steve Bauman defended the higher valuations, saying his office continued its practice of using the process mandated by state law to appraise residential values.

"We are statutorily required to appraise property at what it should be able to sell for on the open market as of Jan. 1, representing real-life actions of buyers and sellers," Bauman said. "We use recent sale transactions occurring in the different market locations to help us determine our estimates of value."

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Bauman told Shawnee County commissioners about the higher valuations Feb. 28.

"Shawnee County has seen historical appreciation this year," he said. "Median sale price is the highest it's been."

That price was $179,000, up from $164,799 last year and $152,000 the year before, Bauman told commissioners.

He showed them a graphic pinpointing average increases in residential property values in each of various specific geographic areas throughout the county.

"Generally, trend indications are between 5% to 15% depending on different market areas, or more if the property has had updates or new construction," Bauman told The Capital-Journal.

The average increase in valuation for commercial properties was about 4.5%, he said.

Bauman said his office mailed out about 68,000 notices March 1 to owners of properties for which valuations are changing.

"Approximately 89% of properties will see an increase in appraised value," he said.

The rise in median sales price here was due in part to record low housing supply, near record low interest rates and increases in supply chain construction costs, Bauman said.

"When supply is low and demand is high, prices are affected," he said.

Here's how to appeal your property appraisal

An appeals process is available for property owners who think their appraisal value isn't in line with their real estate market value, Bauman said.

The deadline for filing an appeal is March 31.

Property owners who have questions or wish to appeal may call the appraiser's office's taxpayer assistance line at 785-232-4461, send an email to snappraiser@snco.us or fill out the back of their property valuation notice and mail it back to the appraiser's office.

"This appeal level is an informal and simple process where we will explain how we arrived at the appraised value, verify the property characteristics and consider any information the property owner feels will help," Bauman said.

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Property owners who miss the March 31 deadline may still appeal when they pay their first-half property taxes in December or when they make their second-half payment the following May, he said.

Further information is available on the appraiser's office website at snco.us/ap.

Property owners who aren't happy with whatever decision the appraiser's office makes on their appeal may appeal that decision to the Kansas Board of Tax Appeals, Bauman said.

If property owners aren't happy with the BOTA decision, they may continue to pursue the case in district court and appeals court, he said.

Bauman's office reduced appraisal values for 53% of residential properties and 27% of commercial properties for which appeals were filed last year, he said.

The median reduction in appraisal value was $7,875 for residential properties and $115,800 for commercial properties, Bauman said.

'Artificially inflate values'

But Councilman Emerson said he thinks the "deck is stacked" against individual property owners who go in to protest their valuations.

"You have to schedule an appointment, perhaps taking time off of work, to argue against professionals who have access to all the data and who know all the rules," he said.

The burden of proof also seems to be on the property owner to show that the valuation is wrong, Emerson said.

"And owners also have to go one at a time — whereas the reappraisals are done en masse with the stroke of a key," he said. "Perhaps a class-action lawsuit is the answer."

Emerson also suggested property appraisals tend to favor higher values.

"During times when sale prices are going down, the appraiser's office will say, 'We can't use this or that price because it was a 'distressed sale,'" he said. "This year, we have the opposite situation where ultra-low interest rates have stoked demand at a time when construction of new houses have slowed and costs have risen because of pandemic-related supply issues."

The result has been dramatically higher sales prices over the past year, Emerson said.

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"Just like the down years, I think these should be considered 'distressed buys' and not be considered or used to artificially inflate values," he said.

Rodger Love plans to appeal this year.

Love emailed The Capital-Journal to encourage it to get the word out about that option.

"A lot of people don't know you can appeal these things," he said.

Love said the appraiser's office informed him earlier this month that it had raised the appraisal value by about 15%, to $56,670 this year from $48,410 last year, for his home at 3136 S.E. Colorado.

That property's prior appraisal values were $47,000 in 2020, $40,250 in 2019 and $39,460 in 2018, according to appraiser's office records.

Love said he's spoken to others in southeast Topeka who are likewise unhappy about this month's rises in their appraisal values — and consequently their property taxes.

"The whole neighborhood's upset," he said.

Higher values not necessarily permanent

Love said he hasn't done much over the past year to raise his house's value.

In fact, he said, the house has tape over a front window, which remains cracked.

"Most of the people in my area who've seen their valuations rise haven't done any home improvements at all," Love said. "These increases are all just caused by inflation. Inflation's not permanent, so why should higher taxes be permanent?"

But Bauman said higher residential appraisal values aren't necessarily permanent.

"If the real estate market were to fall, our appraisals will then decrease to reflect that as well," he said. "They are based on our local market as of Jan. 1 of each year."

Meanwhile, gas rises in price daily

Also planning to appeal is Gail Fisher, who said she was shocked to learn the appraisal value had risen by 15%, to $92,510 from $80,440, for her home at 3836 S.E. Fremont.

That house was built in 1965, according to appraiser's office records.

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"I just don't understand where they're coming up with these numbers specifically for this particular neighborhood, which is older," Fisher said.

A single mother, she said she's finding it increasingly challenging to cover steadily rising costs for other necessities — particularly gasoline, which gets more expensive almost every day.

Local taxing entities will set mill levies

Residents here pay a total property tax bill that may include levies assessed by government entities that include the state of Kansas, the city of Topeka, Shawnee County, Washburn University, public school districts and local transit, library and airport authorities.

Levy rates won't be finalized until property valuations are finalized in November.

Property valuations determined by the appraiser's office are based strictly on market value, Bauman stressed.

"Our appraisal process is independent of the amount of taxes the schools, cities, county, townships and other taxing authorities are needing to collect," he said.

While the real estate market is very strong, and property values are increasing, the effect on tax statements won't be known until local taxing entities complete their budgeting processes later this year, Bauman added.

"After it's determined how much tax is needed by all our different local forms of governments and schools, the mill levies are then set based on the total assessed value in order to distribute the entire tax amount to the individual property owners," he said.

MAINE

Facing tremendous backlog, state tax review board hopes for a turnaround

'Big box' retailers routinely appeal to the Board of Property Tax Review. Cities and towns can't get answers if the board fails to hear cases.

Plagued by member vacancies, turnover and the pandemic, the new chair of the Maine State Board of Property Tax Review and the governor's office say they are working to move forward dozens of cases before the board that have been stalled for years.

The logjam of legal work has created uncertainty for towns waiting to hear if they will be allowed to keep more than a million dollars in tax revenue that's already been collected.

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"We're working on clearing up the backlog," said Chairperson Philip E. St. Onge. The board has heard only one of the more than 30 cases before it in the past two years.

The board is responsible for resolving disputes between taxpayers and municipalities that cannot be settled at the local level. A number of the cases are related to the "dark store" theory, an argument used by companies around the state, including Walmart, in an attempt to lower their tax bills.

Members hear appeals from property owners whose requests for tax relief were denied by assessors or local boards of assessment review. They deal only with non-residential property with a valuation of at least $1 million, as well as issues related to tree growth, farmland, open space, mine sites and property classified as working waterfront.

Governor's office trailing in appointments

Appointments to the board are made by the governor's office but have lagged for years. The LePage administration resisted making appointments, according to one board member, and the Mills administration has not appointed members as quickly as some hoped.

Of the 15 members, statute requires three from each of the following professions: attorneys, real estate brokers or appraisers, assessors and engineers, as well as three public representatives with knowledge of taxation, finance or property valuation.

Five seats are empty. Board member Kerry Leichtman and Chairperson St. Onge said they have never seen a full board, a large part of the reason for the backlog.

Cases are heard by a five-member panel including one member from each area of expertise. The only full slate at the moment is public representatives. Only one of the three attorney positions is filled.

"We have more people, we can hear more cases," said St. Onge. "It's simple math."

Members, whose terms last for three years (they can continue to serve beyond their expiration dates until they are reappointed or replaced), are paid $75 for hearing days but are not paid for preparing for a case, which can take days.

In some cases, appointments have taken years to move through the process. Leichtman said it took years for him to be appointed after applying. He applied during the LePage administration and didn't hear anything for two years. He was appointed by Gov. Janet Mills shortly after her administration took office, but then COVID happened and everything shut down.

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The governor's office did not grant The Maine Monitor's request for an interview. A Freedom of Access Act request for information on board vacancies and cases has been pending for more than a month.

The Mills administration has appointed three members, including Leichtman, broker Hoa Hoang and attorney John Shumadine, said the governor's office press secretary, Lindsay Crete, in an email.

Kirsten Figueroa, commissioner for the Department of Administrative and Financial Services, became aware of the lengthy list of unheard cases in late January. She wrote to the chair, "noting that the Department was ready to provide assistance, as able and appropriate, to remedy any barriers that stand in the way of clearing the bottleneck."

The governor has proposed two paid staff positions, a supervisor and a clerical staffer, in her supplemental budget. "If approved by the Legislature, the goal would be to move forward with that hiring as soon as possible," Crete wrote.

Leichtman and St. Onge welcomed the proposed paid staff positions, which they said would help address a number of issues and create some institutional memory.

Time frames, training suggested

Leichtman said he also would like to see the board implement time frames to resolve cases. That's how it's done at the local level, which keeps requests from languishing.

"When I get an application for an abatement, I have 60 days to respond," said Leichtman. "The reason for that is so that I don't drag my feet." No time frames exist at the state board level.

"With the state board it's not finite and it needs to be. It needs to follow the same guidelines that assessors follow, that are typical in a local board of assessment review," said Leichtman. "Why should the local board have these strict deadlines and the state board not?"

There is also no formal training for members, even as cases have become increasingly technical and complex, with millions of dollars in abatements at stake. A preparation packet for a case involving Walmart was several inches thick, full of dense legal and assessing documents, said Leichtman.

"This was kind of a sleepy back office board that wasn't doing things of the size and magnitude we're being asked to do now, and we haven't caught up," said St. Onge. "This board wasn't dealing with cases of the size and magnitude we are today. The bigger the numbers the more important it is, both to the business and the town."

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Despite the increasingly technical nature of the issues before it, board members, even those who may have little experience in tax law or assessing, are expected to learn on the job.

“We were on our own,” said St. Onge, whose background is in education. He taught himself by listening to testimony, attending meetings and seeking advice from other board members, but said he has only attended “a couple” of actual case hearings.

Backlog holds municipalities ‘hostage’

Assessors around the state expressed frustration with the years-long wait to have cases heard, which is causing uncertainty for municipalities wanting to know whether they will have to return revenue from disputed property tax cases.

“Municipalities are held hostage” while waiting for a decision, said Leichtman, who also serves as assessor for Camden and Rockport. “Do we have this revenue or don’t we? They need to know … when the money comes in it’s theirs to keep and use, and spend on the budgeted items.”

It’s likely that taxpayers wind up picking up the slack, he added, because local officials might not feel comfortable spending money they may eventually have to return.

Thomaston is one of the communities waiting on hearings for several cases involving Walmart, with more than $8 million in abatements and hundreds of thousands of dollars in property tax revenue at stake.

The earliest Thomaston case before the board, dating back four years, was finally scheduled in February for a hearing at the end of this month. That hearing was recently postponed at Walmart’s request, said the Thomaston assessor, Dave Martucci, in an email. Martucci was not given a reason. The decision to postpone is made by the chair of the panel assigned to the case, in consultation with the Maine Attorney General’s Office.

“The state board has been dysfunctional for many years,” said Martucci in an interview earlier this year.

Assessors say cases like the one in Thomaston, in which companies argue that their thriving, open stores should be compared to empty warehouses for the purposes of tax assessment, have little merit and the company is likely to lose. But without a decision from the state board, they have little to prevent subsequent appeals. Walmart filed similar appeals in Thomaston in 2019, 2020 and 2021.

Had the board heard the 2018 Thomaston Walmart case in a timely fashion, it likely would have prevented those subsequent appeals, said Martucci, by providing a clear answer for

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assessors not just in Thomaston but around Maine. Since 2015, companies have filed more than 60 such requests in communities around the state, according to data compiled by The Maine Monitor, costing taxpayers tens of thousands of dollars in staff time and legal fees.

Last week, the state Senate passed a bill by a 21-13 margin that will curtail the ability of big box retailers to file "dark store" challenges to local property tax bills. The bill previously passed the House, 77-55.

St. Onge was confident that adding members and paid staff to the state Tax Review board will help move cases forward, and provide relief to towns and property owners waiting for answers.

"The board is great, they're fantastic people, really giving of their time and expertise," said St. Onge. "We're going to get this stuff cleared up with the help of the governor's office filling these seats."

Legislature moving to curb 'dark store theory' tax assessments

The challenges to assessments of large retail operations can cost communities million in property tax collections.

A bill advancing in the Legislature would limit the ability of big box stores in Maine to use the so-called "dark store theory" to challenge property tax evaluations, a maneuver that results in the loss of hundreds of thousands of dollars in municipal tax revenue.

The bill to keep big retailers from claiming that their stores are worth much less than their town and city assessments cleared the House 77-55 last week and is expected to be voted on in the Senate this week.

Retailers use the "dark store theory" in bids to lower their property taxes. It's a practice that began about a decade ago, primarily in the Midwest, in which large retailers appeal their assessments, arguing that their properties are worth far less than town and city assessments because the value should be based on a comparison with other large, but empty, stores nearby.

"The theory? These facilities are fundamentally useless to any other business and should therefore be assessed as empty or dark stores," Rep. Ann Matlack, D-St. George, told the Taxation Committee earlier this year. Matlack is the chief sponsor of the legislation that would curb the practice by spelling out what kind of property assessors should use as comparisons when they set valuations.

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A similar bill was introduced last year, but with the Legislature operating under a pandemic-shortened schedule, the legislation was never taken up, Matlack said.

Matlack said she saw the theory in practice in her part of Maine, when a retailer operated a big box store in Rockland and then moved to a larger one in Thomaston. The retailer appealed the higher tax appraisal in Thomaston, saying the property's value should be based on comparisons to the values of vacant stores, some of which had limitations on the size of businesses that could operate in them.

Matlack said the retailers also base their appeals on the belief that the towns will retreat when faced with large legal bills over the contested assessments.

"The towns feel outgunned," she said, and sometimes back down and roll back the assessments rather than face a long and costly court battle over the valuations.

"This dark store theory is (in operation) all over the country, and it happens far too regularly," she said.

A message left for Walmart was not returned Monday.

Matlack's bill would reiterate that towns and cities should base assessments on a property's highest and best use. It also would say that assessments can't be based on comparisons to any properties that have restrictions on them.

A report on "dark store theory" by the Maine Center for Economic Policy said that when a big box retailer moves to a new location, it often puts restrictions on the businesses that can move into the space they own but are leaving behind. That's so that the original retailer doesn't face competition from another large retailer that buys the space, but it also results in a lower value for the property.

The center's report said retailers "dark store theory" has been mostly successful in the Midwest, particularly in Michigan, where assessors and courts have upheld the valuation arguments of the retailers. An association of county governments in the state estimated that valuation appeals based on the theory cost local governments $100 million in tax revenue over four years.

SHIFTING COSTS TO TAXPAYERS

The report by the Maine Center for Economic Policy said that large retailers in Maine sought $184 million in lower valuations from 2015 to 2019, and the average reduction sought was 34 percent. Successful valuation appeals resulted in assessment reductions of 2 to 30 percent, the report said, with the average settlement resulting in a reduction of 8 percent.

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That means less money for towns' budgets, and the municipalities either need to reduce services or shift the cost to other taxpayers, the policy center said.

The organization has urged lawmakers to make some simple fixes to property tax valuation procedures to eliminate or limit the use of the dark store practice to cut property tax bills.

"Simple legislative language to clarify which properties can be used in the price analysis during assessment will ensure that these large retail corporations can't game the system at the expense of communities and other property taxpayers," MECEP's report concluded.

Matlack said her bill will make sure that retailers are paying their fair share of taxes, based on honest assessments of the value of the properties. That, she said, would restore fairness to property taxes.

"I told a friend who's a lawyer about it and they said, 'They can't do that,' but I said, 'They are doing that,'" Matlack said.

'Dark store theory' leaves local residents paying more than their fair share in taxes

Even if you have never heard of the "dark store theory," odds are you're paying the price for it.

While everyday Mainers and small business owners pay property taxes in order to support their municipalities' schools, parks and emergency services, many large corporations are using the dark store theory to avoid paying their fair share.

Across the state, municipal assessors are tasked with determining the value of properties on which to base property taxes. Property owners have the right to appeal the value that assessors determine. Unfortunately, large corporations have started to use this appeal process to push for property values that are a fraction of what towns determined their value to be.

When a municipal assessor establishes the value of a piece of property, whether it's land or property with buildings and fixtures, there are a set of factors used to determine its value. One factor is comparable sales — looking at what similar properties in similar areas have sold for. Many times, the comparable property is a good fit for the comparison. But when the similar property has been unused for several years, or there are deed restrictions that limit the size of a store's footprint or the nature of the business that occupies the space, two properties that may have been built for a similar purpose no longer have a similar value.

In Maine and across the country, there is a trend where owners of large commercial properties, like big box stores, question the assessed value of their property based on

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comparisons with "dark stores" or "failed stores," that is stores that have been closed and sold for much less than their former value. They take a newly built property and compare its value to a decrepit, long-abandoned one. Or they impose deed restrictions on the store they just moved out of for the "supercenter" they built nearby, then use the restricted property as comparable to the unrestricted new store.

Local assessors are at a disadvantage when national corporations use the dark store theory and appeal the value of their property. Many towns are intimidated by the big dollar abatement requests made on behalf of big box stores by a team of lawyers, some of whom are paid a percentage of whatever concessions are made.

It is expensive for municipalities to litigate these types of appeals and they can take years to resolve. Many municipalities settle these appeals for a reduced value rather than spend tens of thousands of dollars or more in legal fees, while appeals are just a cost of doing business for these large corporations. In the end, the average taxpayer is the one who gets the bill, whether the municipality agrees to pay for the litigation or agrees to a settlement.

Hundreds of thousands of property tax dollars are at stake. When big box stores succeed with their abatement requests, those taxes have to be paid by everyone else in the community. While big box stores benefit from municipal services such as police and fire protection, it's the municipality's residents who are paying for those services.

In states where assessors have successfully fought off these spurious abatement claims, there are laws that address and combat these tactics. In the Maine Legislature, we have a bill, LD 1129, written in consultation with Maine assessors, that would give Maine municipalities the ability to clarify what makes a similar property comparable. Every property owner would continue to have the right to appeal; this bill would simply ensure everyone is playing by the same rule book.

Property owners in Maine pay their fair share in taxes. But shifting the tax liability from a successful, profitable, ongoing business to local taxpayers needs to be stopped before it even gets started. LD 1129 will clarify the law for assessors and property owners alike and improve the fairness of valuations across the state.

'Dark store' theory: Large retailers push to cut millions in property taxes

It's Wednesday afternoon at Walmart in Thomaston, and shoppers are rushing around — grabbing dog food, picking up prescriptions, perusing the towel aisle. It's clear that the store, less than a decade old, is busy if not thriving.

That's not the case according to attorneys representing Walmart, who have filed appeals arguing that the Thomaston location, and a number of other stores around Maine and the

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country, should, for the purposes of property tax assessment, be compared to a shuttered warehouse rather than an open store.

"They say we should be valuing their store equivalent to a store that's been closed and sold with restrictions on it," said Dave Martucci, the Thomaston assessor who called the situation "absurd."

Known as the "dark store" theory, the argument being made by retailers is that their open, bustling stores are equivalent to ones that failed and closed. Companies argue that the stores are so specially designed that they are functionally obsolete nearly as soon as they are built, and will lose much of their value as soon as the retailer leaves. Corporate attorneys are deploying the strategy in an effort to slash property taxes, often by hundreds of thousands of dollars, in communities around the country.

Despite an outcry over the problem several years ago, and a vow by Maine lawmakers to help towns fight the appeals, the onslaught of requests has continued around the state. They are overwhelming assessors and creating a years-long backlog at a state board that hears the cases, as well as costing taxpayers hundreds of thousands of dollars in lost tax revenue and legal fees.

Since 2015, according to data collected by The Maine Monitor, large retailers have succeeded in lowering the valuation of their properties by more than $16 million in communities from Biddeford to Bangor, resulting in hundreds of thousands of dollars in tax reductions. Hundreds of millions of dollars in abatement requests are still outstanding around the state.

Take Thomaston. Looking to expand beyond its successful Rockland location just a few miles away, Walmart opened a Supercenter there in 2013, complete with a pharmacy, grocery store, garden center, hair salon and vision center. The 150,000-square-foot building cost roughly $28 million to construct.

Thomaston officials gave a warm reception to the company, which promised to employ 300 people. "Welcome Wal-Mart," shouted then-Thomaston Town Manager Valmore Blastow to a crowd that gathered on opening day, according to the Bangor Daily News. "We have been pursuing this day for 13 years." The town even spent $3 million on a sewer extension to reach that section of Route 1, in an effort to entice Walmart and other large retailers to locate there.

Then, five years after the store opened, attorneys representing Walmart filed an appeal with the town's assessing department. They argued that the Supercenter was worth $8.9 million, $7 million less than the $15.89 million that Martucci, the assessor, had come up with. The proposed valuation would cut the company's annual tax bill nearly in half, by $172,354, meaning less money for schools, government, roadwork, and police and fire departments, and more profit for Walmart.

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The company has filed nearly identical appeals every year since.

"This is all a strategy to wear down the town," said Martucci.

Retailers, assessors disagree on approach

Assessors determine property value in a number of ways. They take into account the cost to replace the facility, subtracting value for depreciation and adding improvements that have been made. For retail properties, they might also look at the revenue the property generates, or at sales of comparable properties on the market. All of those factors are considered and reconciled to arrive at a final figure.

Companies, however, say depreciation is a much bigger factor than assessors take into account, and the revenue a business generates is not meaningful in valuing a property. They also argue that it's hard to get someone to rent or buy a defunct big box store and when stores do sell, it's for much less than the original owners paid to get the place up and running.

That's often true. The former Walmart site in Rockland, which closed when the Thomaston store opened down the street, was valued at $10.1 million when it was open, but sold to Ocean State Job Lot for just $3.13 million in 2013. A shuttered Walmart in Ellsworth sold for $3.6 million in 2009, $1.6 million less than the company paid a decade earlier, not including improvements. The building now houses a Marden's and a Tractor Supply.

But assessors say comparing sales of former big box stores to thriving open stores doesn't make much sense for the purposes of property valuation. Location is everything in real estate, and those stores may have closed because their location was less desirable. Assessing rules require property to be valued as it exists on the date of valuation, not what it might look like at some future date. And the market for second-generation big box stores is different, meaning they may have a different "highest and best use" than when they were built.

Also, stores may close because they don't meet certain benchmarks or a company wants to expand, which Martucci pointed out is "purely a business decision and does not necessarily reflect any market condition that affects value." Plus, most former big box stores are encumbered by deed restrictions that prevent other companies from operating anything similar in that space, a common tactic for large retailers when they vacate a property.

Deed restrictions put in place by Walmart on the former Rockland store, for instance, prohibit anyone from using the facility as a grocery store, a discount department store, a wholesale club, a pharmacy or a recreational facility, among others.

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That makes it almost impossible to tell what the property would have sold for without limitations.

“It’s understandable that they don’t want competition,” said Rep. Ann Matlack, D-St. George, who has sponsored legislation that aims to help assessors fight the requests. But because of the deed restrictions Walmart placed on the property, “what the city of Rockland eventually got was a building that was of a lesser value,” said Matlack.

“Then the Super Walmart of Thomaston said, ‘This is what our building will look like in the future. We think this is comparable and we want our assessment lowered because we may be wonderful right now, but eventually we’re going to look like that.’ ”

‘Either way the taxpayer is going to lose’

At first, New Jersey-based tax firm Stavitsky & Associates, representing Walmart, offered little reasoning on why it felt the Thomaston store was overvalued. When the town said it would deny the request without more information, Stavitsky provided an analysis that compared the Thomaston Walmart to six stores that recently sold or were for sale, only one in Maine.

Asked about the Thomaston case, Bruce Stavitsky said he was not authorized to speak on behalf of Walmart. Walmart and Lowe’s did not return requests for comment.

Most stores used for comparison were decades old. None had a supermarket, as the Thomaston building does. Some properties being offered as comparisons for assessing purposes were vacant, with deed restrictions intentionally limiting how the properties could be used.

The Stavisky filing also claimed, according to the Thomaston Board of Assessors, that “the real estate has expenses but no income attributable to it,” an assertion the board called “astonishing.” The local board denied the appeal.

Walmart’s attorneys pressed on. The company took the matter to the State Board of Property Tax Review, which nearly four years later has yet to hear the case. Every year since, Walmart has filed nearly identical abatement requests, costing the town tens of thousands of dollars in staff time and legal fees. All are pending review by the state board.

If the town loses, said Martucci, “We’ve got almost $900,000 in tax rebates we’d have to make, plus another $71,000 in interest. That’s real money.” That doesn’t include the loss in taxes going forward.

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Martucci estimated that Thomaston taxpayers have spent $30,000 in legal fees alone in the past few years to deal with the requests. Other assessors said it was difficult to estimate their costs but that they were often “significant.”

“If we stick to our guns,” said Martucci, “we incur tremendous amounts of cost. If we don’t, then we lose a tremendous amount of tax value. Then everybody else in town has to pick up that slack. That tax money has to come from somewhere.”

The tactic of regularly appealing abatements is common and growing. Since 2015, retailers including Shaw’s, Walmart, Home Depot, Lowe’s Walgreens, Sam’s Club and BJ’s have filed at least 66 abatement requests in 17 communities around the state, according to records compiled by The Maine Monitor.

In some cases they’ve prevailed, at least in part. In 2018, Bangor agreed to a $2.19 million reduction in value for Walmart; the next year it reduced the value further, an additional $1.33 million. Scarborough, faced with requests from Walmart, Lowe’s and Sam’s Club, agreed to a $2.7 million reduction in Walmart’s value in 2018 and a $1.76 million reduction for Lowe’s in 2021.

Martucci understands why towns want to settle, but he worries that doing so may not actually be legal. It may also set a precedent that would make it easier for others to make a similar case, shifting more and more property tax burden onto residents.

“If we arbitrarily reduce the value to settle with them, we’re not basing that on any of the facts we’re supposed to use,” said Martucci. “If we don’t settle with them, the taxpayer is funding the bill for the legal process. Either way the taxpayer is going to lose.”

State board that hears cases is ‘non-existent’

Complicating matters in Maine is that the State Board of Property Tax Review, which hears requests that have been denied at the local level, has not heard a case in at least two years, according to several assessors.

Tens of millions of dollars in abatement requests and more than 30 cases dating to 2018 are still pending review and have not been scheduled for a hearing, according to documents obtained by The Maine Monitor.

The board, which has 15 members serving three-year terms, was created in 1986 to hear appeals from denials of tax abatements by assessors or local boards of assessment review. The state board deals only with non-residential property with a valuation of at least $1 million, as well as cases related to tree growth, farmland, open space, mine site and working waterfront classified property.

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Assessors around the state are frustrated with the backlog.

"The state board has been dysfunctional for many years," said Martucci. Several assessors said they thought staffing issues, underfunding, board vacancies and the pandemic contributed to the problem.

Thomaston is still waiting to have the 2018 Walmart case heard by the state board. While it waits, Walmart continues to file abatement requests — one each year since 2018, all pending review.

Had the board heard the 2018 case in a timely fashion, it likely would have prevented those subsequent appeals, said Martucci, by providing a clear answer for assessors not just in Thomaston but around Maine. That could have saved taxpayers a lot of time and money in staff time and legal fees.

Rep. Matlack said that cases before the board, which was conceived to deal primarily with land use issues, had become increasingly technical and complex.

"It's morphed over time to deal with other tax implications, so it's more difficult for them, although they're very smart people. They don't really have the staff. They don't have anybody that can really help them."

There is funding in the 2022-23 state budget for two positions, a supervisor to oversee the board's process and clerical staffing, said Matlack. That will hopefully help alleviate some pressure.

When asked about the backlog, vacancies and the Thomaston case, spokesperson for the Department of Administrative and Financial Services Kelsey Goldsmith told The Maine Monitor in an email the board "will not be able to comment about this ongoing legal matter."

Legislation aims to help assessors

Assessors hope legislation carried over from last session will provide some relief to communities. LD 1129, which recently passed out of committee, would require assessors to "consider age, condition, use, type of construction, location, design, physical features and economic characteristics" when valuing a property. It would apply to all property assessments, not just retail facilities, and would also bar companies from making the argument that restricted properties (such as the former Rockland Walmart) are comparable for assessing purposes to those that aren't under such limitations.

The bill would allow assessors to "have another weapon in our arsenal to say you can't take a thriving store or retail store that's doing well, that was built to do what it's doing, and is

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still operating, and then tell me that the value of that should be the same as a store that failed or a store that's old and no longer functional," said the Camden and Rockport assessor, Kerry Leichtman, during a work session on the legislation earlier this month.

That would be nothing new. It would codify what assessors already do, said Leichtman, "but put it into statute rather than common practice."

The legislation wouldn't prevent anyone from appealing the assessment of their property, but would save municipalities a lot of money in court proceedings and staff time, said Leichtman, by giving assessors something to point to if a company makes an argument that its open business is equivalent to a vacant store.

Towns shouldn't expect the legislation to prevent all big box abatement requests, however, said Peter Lacy, an attorney with Maine Revenue Services, during a committee hearing.

"Municipalities not being able to have the time or the wherewithal to go head to head against a Fortune 500 company is not necessarily something that you could solve statutorily," said Lacy.

Adding statutory language may even be a setback because it means new language that hasn't been interpreted by the courts, Lacy added.

"It's not clear that there is a silver bullet for this issue."

MASSACHUSETTS

2022 Residential, Commercial Property Tax Rates MA Cities, Towns

Residential tax rates decreased in most Massachusetts communities for 2022.

The median residential tax rate for the communities with available information as of March. 14 is $14.58 per $1,000 in assessed value, according to the latest data on the Department of Revenue's Division of Local Services. That's down from the $15.24 per $1,000 of assessed value in 2021.

The town with the lowest residential tax rate is Chilmark, a community on Martha's Vineyard. The tax rate in Chilmark is $2.82.

Joining Chilmark in the top ten are communities in Western Massachusetts, the Cape, as well as one of the state's biggest cities in Cambridge.

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The people of Longmeadow once again have the highest residential tax rates at $24.64, a 10-cent from 2021. Most of the communities that make up the high end of the list are in Western Massachusetts.

Boston's residential tax rate is $10.88, 21 cents higher than last year. Most surrounding suburbs are between about $9 and $14. The residential tax rate in Worcester is $15.21.

Tax bills reflect the tax rate being applied to the assessed value of the land and buildings on a given property. For example, for the owner of a property assessed at $250,000, a tax rate of $15.48 would result in a tax bill of $3,870.

Full details of all tax rates are available via the link below:

Tax Rates by Class (state.ma.us)

Boston Mayor Wu Wants Tax on Pricey Real Estate to Fund Low-Cost Homes

Boston's new progressive mayor, swept in on a wave of resentment over soaring housing costs, pushed forward a plan Friday to pay for low-cost homes by taxing high-dollar real-estate sales.

Mayor Michelle Wu signed the City Council's formal request asking state lawmakers for permission to impose a transfer tax of as much as 2% on property sales of $2 million or more, including high-end condos, office buildings, retail and multifamily rentals. Sellers would bear the cost, which would apply only to the amount above $2 million.

"This is another run that we're making at the legislation at a moment that's more important than ever," Wu said at the Foley Senior Residences, an affordable community in the Mattapan neighborhood. "This fee will generate tens of millions of dollars each year, creating housing safety and stability and allowing people to stay in neighborhoods to put down roots and help them grow."

The tax is similar to ones proposed by the last two mayors that faced strong opposition from the real-estate lobby. Republican Governor Charlie Baker, who would also need to sign off, said Thursday that "as a rule, I don't support these sorts of things."

Based on 2021 sales in Boston, a 2% fee would have raised an estimated $99.7 million, according to the mayor's office. The proposal also includes expanding property-tax exemptions for seniors. But the state is sitting on a budget surplus with swelling tax receipts and billions in unspent federal Covid relief money.

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"I especially wonder why we're doing this at a point in time when we have billions of dollars available to us to spend on housing," Baker said Thursday on WGBH, a Boston public radio station.

While people think the tax would just hit the rich, it also would make rentals more expensive by increasing costs for buyers of multifamily buildings, said Greg Vasil, chief executive officer of the Greater Boston Real Estate Board, a local trade association.

Vasil suggested the city focus instead on changing zoning to make it easier for developers to build more dense affordable-housing projects.

"It puts an additional cost on an already expensive market," Vasil said.

Wu's housing agenda also includes rent control, which would also require state approval.

MICHIGAN

Wyoming voters to decide on slashing property taxes, enacting income tax

Wyoming is proposing to slash its property tax in half but enact an income tax in a move that would allow the city to hire 27 more firefighters, 13 more police officers and invest further in parks.

City officials say the change would generate an additional $6 million in revenue annually. Residents will be asked two questions on the Tuesday, May 3 election ballot to provide the funding.

Largely, homeowners would benefit from the move more than renters and people who live outside Wyoming but work in the city, as they were previously untaxed by the municipality.

On Tuesday, April 19, Wyoming residents can attend the city's final public information session on the two ballot proposals that generally ask the following:

1. If city leaders approve and levies a city income tax, do you want to lower the maximum property tax millage it can levy to no more than 7.545 mills beginning July 1, then further limited to no more than 5.0 mills beginning Jan. 1, 2023?
2. Should the city be able to levy an income tax of up to 1% for residents and up to .5% for non-residents who work in the city beginning Jan. 1, 2023?

If residents pass the income tax, Wyoming would be the third city in Kent County that levies a local income tax. The others are Grand Rapids and Walker.

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The information meeting – the seventh one hosted by the city on the tax proposals – starts at 6 p.m. at Kent District Library's Wyoming Branch, 3350 Michael Ave. SW.

Wyoming officials say the proposed tax restructuring would benefit the city in three ways.

It would provide more funding toward public safety and parks; make the city more financially sustainable by diversifying its revenue sources; and reduce the overall tax burden on Wyoming residents and businesses.

Currently, the city levies a property tax of 11.8 mills. For a home with a market value of $200,000 and a taxable value of $100,000, the current millage equates to about $1,180 in taxes each year.

At the proposed millage limit of 5 mills, that same homeowner would pay about $500 in taxes each year.

If voters shoot down the proposals, Wyoming officials say the alternative is to increase the city's property taxes by an additional 2.5 mills.

While the second ballot proposal would allow Wyoming to levy an income tax up to 1% on corporations and residents and up to 0.5% on non-residents who work in the city, city leaders say they would likely only levy up to a 0.8% income tax on residents and 0.4% on non-residents.

For an individual earning $60,000 a year and living in Wyoming, the income tax translates to about $464 a year. For someone who lives outside of the city and earns the same amount, the income tax translates to roughly $232 a year.

Grand Rapids has an income tax of 1.5% for residents and 0.75% for those who live outside the city but work in it. Walker's income tax is 1% for residents and 0.5% for those who live outside the city but work in it.

Wyoming officials say the tax proposal has a number of benefits for the city and its services.

The roughly $6 million in additional revenue each year would allow the city to hire 27 more firefighters, 13 more police officers and one crime analyst.

About $3.3 million each year would allow the fire department to hire the additional staffing, which would increase the number of firefighters each shift, reduce response times, reduce reliance on other communities and staff all four fire stations 24/7.

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About $2.1 million each year would go toward the police hires, which would increase the number of officers each shift, give officers time for proactive activities like traffic enforcement and neighborhood patrols and further data-driven decision making.

The remaining $600,000 each year would go toward capital investments in Wyoming parks, helping maintain the parks system and fully funding the parks capital plan.

The tax proposals would significantly change the city's revenue sources.

Currently, the majority of revenues, about 64% of them, come from property taxes. If an income tax is passed and property taxes are decreased, income taxes would account for about 48% of revenues and property taxes would be about 22% of revenues.

"By adding an income tax, we can add another revenue stream, protecting the city against adverse impacts of another drop in housing prices," city officials said.

City officials also say the shift to income tax revenues support long-term growth and spending flexibility.

MINNESOTA

Skyrocketing property values in Minnesota leading to big changes in tax rates

"Agricultural property is about 22 percent, residential 20 percent, commercial, it varies with the type of property," said Mark Krupski, Olmsted County's Director of Property Records and Licensing.

Most of southern Minnesota and Olmsted County is seeing a year-over-year increase of 20 percent.

"Ensure it's homesteaded. If it's your principal residence, that can reduce your property taxes by a percentage, by around seven percent," said Ben Oertli, a tax accountant at Oertli & Pleschourt, LLP.

Though that number may sound alarming, property taxes will not increase by the same rate because they are largely determined by budgets, and budgets are independent of property values.

"I would estimate that I would probably see seven to ten percent, maybe seven to eight percent increase in my property tax," said Krupski. "That's an estimate at this point, I can't really say with any certainty because there are a lot of moving parts."

These rising values will also have an impact on property tax refunds.

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"There is what's called a special refund, which is when your taxes increase more than 12 percent, so that's something to be aware of," said Oertli.

This increase in property value won't just leave a mark on taxes, as it's impacting decisions on the housing market as well.

"There are a large amount of buyers out there that need to buy a property. And even with this increase in home values, they're still gonna purchase properties," said Chris Schmidt, a realtor with the Schmidt Group at REM/AX Results.

These trends do bode well for sellers.

"We're seeing record profits right now, record equity," said Schmidt.

But according to data, it's making it harder to purchase something ideal even on the outskirts of Rochester. Some properties are increasing by $50,000 in value year-over-year.

"Previously you would get more bang for your buck, but now they're kind of catching up," said Schmidt.

With current inflation rates, this looks like a trend that will continue, at least into the near future.

"We've seen double-digit inflation on residential property," said Krupski.

Krupski added that property owners are able to appeal their assessed value at local boards over the next month.

A 93-Year-Old Woman Couldn't Pay Her $2,300 Tax Bill - The Government Sold Her Home and Kept the Money

"This is very bad for property rights."

Whether or not Geraldine Tyler will live to see the resolution of her case remains unclear.

The 93-year-old left her Minneapolis condominium in 2010 after a nearby shooting and a disturbing encounter left her uneasy. But she was unable to finance both her new apartment and the property tax on her erstwhile condo, accruing $2,300 in debt.

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Over the course of the next five years, the government raised that debt by over 550 percent, tacking on almost $13,000 in additional penalties, fines, and interest. And when Tyler couldn't pay that, it seized her property, sold it for $40,000—and kept the profit.

Last month, a federal appeals court ruled that was OK.

"Tyler does not argue that the county lacked lawful authority to foreclose on her condominium to satisfy her delinquent tax debt," wrote Judge Steven Colloton of the U.S. Court of Appeals for the 8th Circuit. "Rather, Tyler argues that the county's retention of the surplus equity—the amount that exceeded her $15,000 tax debt—is an unconstitutional taking."

Put more plainly, Tyler is not contesting that she failed to pay her property taxes, nor is she trying to evade responsibility for doing so. Her suit doesn't seek the full $40,000 value of the condo but rather the excess proceeds that the government made from the sale of her property.

The court's conclusion: She has no right to that cash.

"It's pretty shocking," Christina Martin, an attorney representing Tyler with Pacific Legal Foundation, tells Reason. "This is very bad for property rights."

Tyler's situation may sound absurd. Yet she is not alone. Although most states' tax-foreclosure systems don't keep the profits from such seizures, there are about a dozen that do, sometimes turning homeowners into the homeless over a forgotten tax bill.

Consider the case of Bennie Coleman, who, at 76 years old, was tossed from his Washington, D.C., home by the U.S. Marshal Service over $134 in unpaid property taxes. The residence was valued at $197,000, all of which initially went into government coffers. Coleman reportedly spent months living on the front porch, sleeping on a lawn chair, suffering from dementia, and under the impression that he had locked himself out of his home.

"I see this all the time. Most people don't know, they don't understand what's going on," says Martin. "And no matter what, the government should not be able to take everything from you just because you owe them money….What I've seen in other cases like this is most people who lose their property this way are suffering from medical issues, or they're elderly. It also tends to affect the poor."

In other words, the tactic is often used against those who stand to lose the most from it. Though Tyler doesn't have any severe medical issues, she is not far off from her 100th birthday. "She said to me, 'How much longer is this going to take?'" Martin adds, noting that they are requesting a rehearing and will consider taking it up to the U.S. Supreme Court if that fails. "'I haven't got forever.'"

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Tyler's experience is somewhat evocative of civil forfeiture, the process which allows the government to seize assets from people who police may suspect of committing a crime. Law enforcement can take wads of cash, people's life savings, vehicles, personal possessions, and more—often without criminal charges, much less a conviction. But her case takes it a step further, because this was not a punishment. It was a taking, one for which Tyler no longer has any recourse.

"[Let's say] you owe [the government] $15,000, so they seize all your mutual funds and then keep the change. How is this any different?" asks Martin. "For them to be able to do that is shocking, and it ought to worry people, because if they can do this to your house, what stops them from doing this to your mutual funds, your bank account, your car. You name it."

NEW JERSEY

Gov. Murphy unveils new property tax relief program

Gov. Phil Murphy has unveiled the ANCHOR Property Tax Relief Program, a new initiative that will distribute $900 million in property tax relief to nearly 1.8 million homeowners and renters across New Jersey during Fiscal Year 2023.

The ANCHOR (Affordable New Jersey Communities for Homeowners and Renters) Property Tax Relief Program is part of Murphy's FY2023 budget proposal, according to a March 3 press release from Murphy's office.

Under the program, homeowners making up to $250,000 per year are eligible to receive an average $700 rebate in FY2023 to offset property tax costs, lowering the effective average property tax cost back to 2016 levels for many households that were previously ineligible for property tax relief, according to the press release.

Also, renters making up to $100,000 per year are eligible for a rebate up to $250 to help defray the cost of rent increases due to property taxes.

"This program will provide direct property tax relief to households regardless of whether they own or rent," Murphy said. "While the state does not set property taxes, we believe we must take action to offset costs and make life in New Jersey more affordable. Through this program, we can provide real support for families and seniors, helping them stay in the homes and communities they love."

Murphy proposes a three-year ramp up for ANCHOR. By FY2025, property tax rebates provided as part of the program would increase to $1,150 on average per eligible household, with the annual state investment in the program up to $1.5 billion annually, according to the press release.

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The ANCHOR program expands on and replaces the Homestead Rebate Program, which serves 470,000 homeowners annually and provides an average benefit of $626, according to the press release.

Renters are not eligible for the current program, but ANCHOR recognizes that rents are often raised to offset rising property taxes. ANCHOR will make nearly four times more New Jerseyans eligible to receive a property tax rebate, when compared with the Homestead Rebate Program, according to the press release.

Atlantic City Casino Property Tax Adjustment Violates 2018 Consent Order, Judge Rules

Atlantic City casinos were dealt a great hand by New Jersey lawmakers late last year. That's when legislation to substantially reduce their annual property tax liabilities was signed by Governor Phil Murphy (D). This week, a state judge ruled that the tax amendment runs afoul of a 2018 consent order.

In 2016, New Jersey and the casinos reached a payment-in-lieu-of-tax (PILOT) structure. That levies an annual property tax sum on the nine casinos based not on their resort assessments, but on the gross gaming revenue they generated in the previous year. The program settled casino property tax assessment disputes.

Atlantic County sued the state the following year, saying the 10.4% distribution to the county under the PILOT program was far inadequate. The lawsuit resulted in the state settling with the county and increasing its share to 13.5%.

The 2021 PILOT adjustment strips GGR from iGaming and mobile sports betting from the annual property tax calculation. As signed by Murphy, the bill will result in the casinos saving $55 million in 2022 alone. But it also slashes the county's property tax receipts from the casinos.

Amending Amendment

Atlantic County contends that the adjustment to the PILOT law last year will cost county taxpayers between $5 million to $7 million annually. The PILOT program is to run through 2026.

Responding to Atlantic County suing the state for a second time regarding the PILOT, New Jersey Superior Court Judge Joseph Marczyk in December issued his opinion that the two sides settle their differences in mediation. However, the state refused, resulting in Marczyk being required to resolve the matter.

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After weeks of consideration, the judge has come down in favor of Atlantic County. Marczyk says the most recent PILOT calculation change violates the county and state's 2018 settlement.

The court order does not annul the 2021 PILOT amendment, but requires the state to make Atlantic County whole, based on the amount it would have received with iGaming and online sports betting revenue included in the calculation.

What this means is they are going to decide now what damages we can collect and how we are harmed by this," explained Atlantic County Executive Dennis Levinson.

State attorneys did not immediately comment on the Marczyk order.

Can't Take Gaming Out of iGaming

The 2018 PILOT consent between New Jersey and Atlantic City mandates the county collect 13.5 percent of the collective property tax bill based on total gross gaming revenue. During hearings on the lawsuit, Marczyk questioned whether the state had the legal authority to redefine GGR.

State attorneys said it was their opinion that lawmakers can indeed decide what does and doesn't constitute gross gaming revenue. Marczyk ultimately disagreed when it comes to the state's 2018 agreement with the county.

"All we want them to do is keep their agreement, honor their commitments," Levinson said.

The casinos successfully lobbied lawmakers to remove iGaming and mobile sports betting income from the PILOT calculation. The gaming industry argued that much of that revenue goes to third-party operators like DraftKings and therefore shouldn't be included in the property taxes.

Tax Court Shuns Traditional Survey Derived Capitalization Rate Determinations and Champions Reliance Upon The Band of Investment Technique Instead

In a recently decided case 3 University Plaza SPE, LLC v. City of Hackensack 5002-2014, 1670-2015, 3553-2016, 1163-2017, 3768-2018, 12891-2019 – 3 University Plaza SPE LLC, et al. v. Hackensack City (njcourts.gov) concerning a large 225,000 square foot class A office building, the Tax Court addressed the valuation community's on-going debate as to whether certain reoccurring expenses (such as tenant improvement allowances and brokers' commissions) should be treated as so called "above" or "below" the line adjustments when calculating the all-important net operating income of an asset. Due to the fact that the

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Income Approach to value is the well-recognized leading methodology employed when dealing with income-producing properties, the determination of a property's stabilized net operating income is critical to arriving at an appropriate and supportable fair market value determination.

Because the 3 University Court concluded that these categories of expenses are "in the competitive market" "annually reoccurring" operating expense and "needed to stabilize occupancy and preserve the value" of the property, they must be treated as "above-the-line" adjustments affecting net operating income. In addition, because the Tax Court recognized that the major industry surveys report capitalization rates based upon the survey participants' treatment of tenant improvement allowance and brokers' commission expenses as "below-the-line" adjustments, (therefore not impacting net operating income), these surveys (e.g., American Council of Life Insurers Investor Bulletin Tables and PwC Real Estate Investor Survey) cannot be relied upon in concluding appropriate capitalization rates for use in the Income Approach valuation method.

On the other hand, the Band of Investment technique for deriving capitalization rates is a method that relies upon market determinations of appropriate mortgage interest rates and equity dividend rates, neither of which are directly impacted by a property's net operating income and the divergent treatment of tenant improvement allowance expenses or brokers' commissions. As such, the Court concluded that the Band of Investment technique "provides the most accurate and reliable method of deriving a capitalization rate because it is not polluted or impacted by questions of how potential survey recipients perceived hypothetical transactional questions or how a market perceives an annually reoccurring operating expense."

As a result, the Tax Court's holding in this case, although a trial level decision and not binding on other courts, does provide a well-reasoned analysis and approach that should serve to better guide the valuation community as to best practices when determining stabilized net operating income and fixing appropriate capitalization rates — two integral components of the Income Approach to value.

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NEW YORK

Can NYC Live Without Its $1.7-Billion-A-Year Developer Tax Break? Dueling Claims Define Budget Talks

Real estate interests say they remain confident they can get the program extended.

To the Citizens Budget Commission, the controversial property tax break called 421-a for developers of new rental buildings, including affordable apartments is essential to increase the city's too-small housing supply.

"Allowing 421-a to lapse would significantly reduce rental housing development, worsen the city's existing housing supply shortage and make New York City's already scarce and costly rental housing scarcer and more expensive," the CBC said in a report titled "Amend it, Don't End It" issued Wednesday.

To City Comptroller Brad Lander, the program is a waste.

"421-a is expensive and inefficient," he said Wednesday in his own report on the issue, issued one hour before the CBC released its assessment. "Most of the income-restricted units are unaffordable to the vast majority of New Yorkers, and especially to residents in the neighborhoods where they are built."

Lander wants to see 421-a vanish in a trade-in for a broader property tax fix.

Gov. Kathy Hochul proposed to extend the program in her budget, with some tweaks and also a rebrand as Affordable Neighborhoods for New Yorkers. She's making tougher affordable housing demands on developers, who must set aside at least 20% of their apartments for people at designated income levels.

Her plan would no longer count middle-income apartments as affordable housing and would require more units at lower income tiers.

Indeed, the fate of the tax break, which expires this summer and will reduce city property tax revenue by $1.77 billion in the year ending June 30, is likely to be decided by the end of the month, when the state is required to adopt a budget for the fiscal year that begins April 1.

That's because many moderate Democrats in the Assembly and state Senate may have reservations about being on record voting for the developer tax abatement, exposing them to attacks from candidates running to their left in the June Democratic primary, both supporters and opponents say.

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A budget agreed to by the governor and legislative leaders with some version of the tax break folded in doesn't pose the same political problem come election time — and progressives are not likely to oppose the deal because of 421-a either.

In an important win for the proponents of the program, Mayor Eric Adams endorsed the Hochul proposal last month.

"We need to build more rental housing, and without this kind of tool, the housing crisis will only get worse. While the administration may suggest tweaks in the future, this proposal is incredibly important, and the Adams administration supports it," a City Hall spokesman said Wednesday in a statement to THE CITY.

500K+ New Homes Needed

State lawmakers first enacted the 421-a tax exemption in 1971, with the city's economy in its most severe post-war economic downturn, to spur developers to build apartments. It has continued in various iterations since, with occasional periods when the program lapsed amid disputes over its requirements.

The tax break now helps pay to build the vast majority of new housing. In the 10 years ending in 2020, 421-a accounted for 68% of all new apartments in buildings with at least four units, according to a report released last month by the NYU Furman Center. A related program accounted for an additional 21% — meaning nine out of every 10 new units benefited from some kind of tax break.

And half of all affordable units since 2014 have been built under 421-a and a locally administered tax break, according to data from the city.

Despite the tax break, the city is not building enough new residences.

New York needs 560,000 new units of housing by 2030 to make up the deficit in new construction over the past decade and accommodate expected population and job growth in the post-pandemic city, according to a study by the consulting firm AKRF commissioned by the Real Estate Board of New York.

The problem, says the new CBC report, is that New York has high costs to build and operate apartment buildings because of the cost of land, construction and property taxes. It estimates that without a tax break, rents on average would have to increase 75% to make development economically feasible.

"Most rental housing and especially housing that includes affordable housing simply would be too expensive to build," said Andrew Rein, president of the CBC.

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Lander disagrees, saying reducing property taxes on rental buildings would be sufficient to make new apartment construction affordable. The problem, he says, is that the city's property tax system levies comparatively low taxes on single-family homes, condos and coops, then makes up the lost revenue with property taxes on rental buildings that can consume 30% or more of operating income.

Lander proposes letting 421-a lapse when it expires at the end of June, and urges state lawmakers to set an end-of-year deadline for comprehensive property tax reform.

He points to key recommendations from a property tax commission convened by former Mayor Bill de Blasio, including a single tax rate and valuation system for co-ops, condos, homes and small apartment buildings. Such a step would reduce taxes on rental buildings by 30%, his report contends.

He meanwhile urges a new affordable housing tax break to be targeted project by project, with the details worked out in negotiations with the city.

"We aren't proposing nothing," he told THE CITY in an interview. "We are proposing good property tax reform that solves a significant chunk of the problem.

Opponents of providing a new-development tax break include the Legal Aid Society and Sen. Michael Gianaris (D-Queens), the deputy Senate majority leader.

While Lander dismisses the Hochul changes as inconsequential, the CBC believes they go too far in requiring more affordable apartments be set aside for lower-income New Yorkers no matter where they are built.

Its study says that only developments in high-rent areas like Chelsea and downtown Brooklyn would be viable while the proposed new rules would deter new construction in places like Bushwick and Gowanus, where a new rezoning pushed by Lander is expected to produce thousands of new apartments.

Union Label

The key may be whether the state's powerful labor unions decide to support or oppose an extension.

The building service workers union SEIU 32BJ — which secured a living wage guarantee in a previous 421-a extension — has come out strongly in favor of the Hochul plan.

"The worst thing we can do is to let the program expire without a replacement in place and see both good jobs and affordable housing production fall off a cliff — stripping our

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communities of much-needed affordability and leaving workers in the lurch," said union president Kyle Bragg.

The New York City District Council of Carpenters denounced the Hochul plan earlier this week, calling for a more extensive overhaul. Still yet to weigh in are the rest of the building trades unions, whose support is crucial if the program is to be extended, insiders say.

Real estate interests say they remain confident they can get the program extended.

"We must seize this opportunity right now — regardless of long-term policy ideas, no matter how well-intended," said James Whelan, president of the Real Estate Board of New York. "We are confident that the Governor's proposal will be included in her final budget later this month."

Parks Boost NYC Property Values by $15B: Report

New York City's more than 30,000 acres of parks increase the Big Apple's residential property values by about $15.2 billion, according to a report by the Trust for Public Land, a pro-park nonprofit organization.

Using property tax assessment data from the New York City Department of Finance, the nonprofit estimated that a residential home's proximity to a park boosted its value and increased the amount of property tax paid by about $101 million.

"New Yorkers, they need to get out — partly to make the city livable" Carter Strickland, New York state director for the trust, said in a statement. "You can't have a great city without great parks. We put a number to it, but really that feeling is what's important. People love their parks."

The nonprofit looked at about 400,000 homes that had enough property tax data to evaluate, Strickland said. It estimated that about 5 percent of the value of those homes came from being within 500 feet of a local park — which Strickland said is a conservative figure because its previous research found increases of even 20 percent. The total market value of those properties was about $303 billion, according to the report.

Central Park, in particular, has historically driven up property values as the New York Economic Development Corporation found in 2014 that condominium units with views of Central Park sold for 20 to 70 percent more than units with views of the city. But because not every park is Central Park, Strickland said the trust used a lower estimation of what percentage of a property's value came from its proximity to a park.

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The city’s parks are visited about 527 million times per year and also provide recreational activities, drive up tourism, lower health care costs, and absorb stormwater, limiting repair costs to the city’s drainage system, according to the study.

“Our expansive and varied parks system is one of the most valuable public assets New Yorkers have access to — it’s where they connect with the community, stay fit and explore the wonders of nature,” New York City Department of Parks and Recreation Commissioner Sue Donoghue said in a statement.

Outdoor space has been increasingly valued by residents of New York City during the pandemic, which forced many residents to remain inside their homes out of fear of catching the deadly virus in the early days of the pandemic. Outdoor terraces in office buildings have grown in popularity and has helped buoy leasing at office campuses that have it, like Industry City in Sunset Park, Brooklyn.

But the city’s green space is not equally distributed among its residents. The study found that communities of color have more than 33 percent less park space within a 10-minute walk per person compared to white neighborhoods. It also found that the same discrepancy was true for low-income areas, which have more than 21 percent less park space per person within a 10-minute walk.

And new parks — like the High Line — can drive up property values enough to make neighborhoods unaffordable for current residents, according to the study. That can be avoided if the area creates an affordable housing component before a new park is built, Strickland said.

More Not-for-Profit Hospitals Lose Property Tax Exemptions

In my January 24 Health Law column, I discussed a recent case involving the revocation of the property tax exemption of three not-for-profit (NFP) hospitals in Pennsylvania. State and local taxing authorities across the country are taking a closer look at how NFP hospitals, nursing homes, clinics, and other health care providers operate. If they determine that these organizations are not providing enough charity care, are operating more like a business than a charity, are overly aggressive in their collection of patient bills, are paying excessive compensation to executives, are allowing profit-making organizations like private physician practices to operate on their premises, or are engaging in other activities inconsistent with their charitable purpose, the property tax exemption of these health care providers could be in jeopardy. Federal exemption from income tax offers absolutely no assurance that their property tax exemption is safe.

All NFP organizations that have property tax exemptions should periodically review the requirements of state and local laws governing their continuing eligibility for such

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exemptions. New York City and every other county or municipality in New York state may have their own eligibility standards for these exemptions. This column will review the property tax exemption eligibility requirements of New York state, and guidance from the state and New York City on how NFPs qualify for such exemptions.

State

Property tax exemptions for charitable organizations are embedded in Article XVI, Section 1 of New York state's Constitution:

Exemptions from taxation may be granted only by general laws. Exemptions may be altered or repealed except those exempting real or personal property used exclusively for religious, educational or charitable purposes as defined by law and owned by any corporation or association organized or conducted exclusively for one or more of such purposes and not operating for profit.

N.Y. Real Property Tax Law (RPTL) §420-a1(a) specifies a mandatory class of NFP organizations entitled to a property tax exemption:

Real property owned by a corporation or association organized or conducted exclusively for religious, charitable, hospital, educational, or moral or mental improvement of men, women or children purposes, or for two or more such purposes, and used exclusively for carrying out thereupon one or more of such purposes either by the owning corporation or association or by another such corporation or association as hereinafter provided shall be exempt from taxation as provided in this section.

Although both the Constitution and the RPTL require that such property must be used "exclusively" for charitable purposes, the Court of Appeals has interpreted the word as meaning principally or primarily. See, e.g., Matter of Association of the Bar of the City of New York v. Lewisohn, 34 N.Y.2d 143 (1974).

RPTL §420-a1(b) states that the real property of a NFP shall not be exempt:

… if any officer, member or employee of the owning corporation or association shall receive or may be lawfully entitled to receive any pecuniary profit from the operations thereof, except reasonable compensation for services in effecting one or more of such purposes, or as proper beneficiaries of its strictly charitable purposes; or if the organization thereof for any such avowed purposes be a guise or pretense for directly or indirectly making any other pecuniary profit for such corporation or association or for any of its members or employees; or if it be not in good faith organized or conducted exclusively for one or more of such purposes.

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RPTL §420-a2 requires that if any portion of the organization's real property is not used exclusively for its charitable purposes, then that portion is subject to taxation unless it is used by another NFP for its own qualified charitable purpose "so long as any moneys paid for such use do not exceed the amount of carrying, maintenance and depreciation charges for the property or portion thereof, as the case may be."

We should point out that court decisions interpreting the provisions of the RPTL use the broad definition of "hospital" set forth in New York Public Health Law §2801 when assessing eligibility for tax exemption. Matter of San Simeon by the Sound v. Russell, 250 A.D.2d 689 (2d Dept. 1998). Included under the statutory definition of a "hospital" are the following licensed providers: general hospital; public health center; diagnostic center; treatment center; dental clinic; dental dispensary; rehabilitation center; nursing home; tuberculosis hospital; chronic disease hospital; maternity hospital; midwifery birth center; lying-in asylum; out-patient department; out-patient lodge; laboratory or central service facility serving one or more such institutions.

Cases

A look at some cases offers examples of situations where the property tax exemption of NFP hospitals and other health care facilities has come under challenge.

In Matter of St. Luke's Hospital v. Boyland, 12 N.Y.2d 135 (1962), a NFP hospital claimed a property tax exemption for ten apartment buildings it owned in close proximity to the hospital's location on the upper West Side of Manhattan. The apartments in these buildings were occupied partly by physicians, nurses, and other employees of the hospital, and partly by regular tenants with no connection to the hospital. The Court of Appeals found that providing housing for its staff was reasonably incident to the hospital's charitable purposes. It held that each of the apartment buildings was entitled to a partial tax-exemption for the units occupied by hospital personnel, and that the remainder that were occupied by regular tenants could be taxed.

In Genesee Hospital v. Wagner, 47 A.D.2d 37 (4th Dept. 1975); aff'd 39 N.Y.2d 863 (1976), a NFP hospital had built on its campus a medical office building that was occupied primarily by physicians for their private medical practices, and partly by the hospital's ambulatory X-ray unit, dietary unit, and a prospective space for an ambulatory care unit.

The court found that the physicians' practice of medicine was primarily a commercial enterprise only incidentally related to the hospital's function of providing health care services to its community, and thus the units occupied by the physicians were not eligible for tax exemption. The court held that the units occupied by the various hospital departments were entitled to tax exemption as they were used in fulfilling the hospital's primary purposes.

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One of the more interesting cases involved a NFP home that originally served indigent women, but then evolved into a large Continuing Care Retirement Community serving primarily wealthy seniors. In re: Miriam Osborn Memorial Home Association; 80 A.D.2d 118 (2d Dept. 2010). A wealthy New Yorker named Miriam Osborn bequeathed part of her fortune to be used to build and operate a home in Westchester for “gentlewomen of needy circumstances.”

The Osborn home was opened in 1908 and had a 100% charitable use property tax exemption until 1996. By the late 1980s, it had run into significant financial issues and its buildings were badly in need of renovation and remodeling. The Osborn embarked on a major project costing $135 million to build a new 84-bed nursing home, as well as 188 independent living units for older people. In 1997, entrance fees for the independent living units ranged from $229,000 to $550,000, and monthly fees on top of the entrance fees ranged from $1,850 to $2,500. Three of the original buildings were also renovated into independent living units and assisted living units. There was no entrance fee for these units but residents paid monthly fees that in 1997 ranged from $2,400 to $4,300 for independent living units and $3,600 to $2,950 for assisted living units.

The assessor of the City of Rye revoked the Osborn’s property tax exemption in 1997. The Rye Board of Assessment Review thereafter determined that the Osborn was entitled to a partial hospital use tax exemption for its nursing home. The Osborn challenged the revocation, seeking restoration of its full charitable tax exemption, or alternatively, a hospital use tax exemption.

After a lengthy trial, the Westchester County Supreme Court concluded that the Osborn was not entitled to a 100% charitable tax exemption, and that the overwhelming evidence established that admission to the Osborn was restricted to wealthy and relatively healthy seniors. The court did find that the Osborn was entitled to a partial hospital use tax exemption for its licensed nursing home.

On appeal, the Appellate Division, in a unanimous decision, held that the Osborn was not only not entitled to a charitable use exemption, it was also not entitled to a whole or even partial hospital use exemption either:

The rule is the property principally or primarily used for an exempted purpose is entitled to a full exemption. This includes portions of the property that are devoted to a use which would otherwise be non-exempt but is reasonably incidental to the major purpose [citation omitted] … .

… However, where, as here, the primary use of the property is not for an exempted purpose, the property owner is not entitled to any exemption even if a small portion of the property is used for an exempted purpose.

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Assessment Criteria

New York State's Department of Taxation & Finance includes among its Tax Assessor Manuals one for "Exemption Administration." This manual can be very useful when a NFP health care organization performs a compliance review of its continuing eligibility for a property tax exemption, since it details what tax assessors should be examining. These include reviewing the organization's: IRS filings and annual returns; certificate or articles of incorporation and bylaws; actual pursuit of its charitable purposes; use of its property principally or primarily for its exempt purposes.

The manual specifically advises assessors to determine whether a portion of a hospital's property is being used by physicians for their private practices, in which case the portion being used for private practices is subject to taxation. With regard to the operation of the hospital itself, the manual states:

Factors indicating that a hospital is operated for exempt purposes, that is, for the benefit of the public and not the private interest of those in control of the hospital are: (1) the control of the hospital rests in a board of trustees composed of civic leaders who have no direct economic interest in the hospital; (2) the hospital maintains a medical staff with privileges available to all qualified physicians consistent with the size and nature of the facilities; (3) any member of the medical staff has the privilege of renting office space, if available; (4) the hospital operates an active emergency room and/or outpatient department accessible to the general public; (5) the hospital is engaged in medical training, research and education; and (6) the hospital is involved in various projects and programs to improve the health of the community.

New York City

The website of New York City's Department of Finance offers guidance on the eligibility of hospitals and other NFP organizations for exemption from New York City property taxes.

The guidance includes the following:

- Legal title for the parcels for which exemption is sought must be in the name of the NFP organization.
- The organization has to belong to one or more of the exempt categories found in RPTL §420-a or 420-b.
- The property must be used for the exemptible purposes of the organization. Portions of the property that have no exempt use and are not actively being contemplated for exempt use, and any portions leased to a commercial non-exempt organization are not eligible for tax exemption.

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- Unimproved land and/or vacant buildings may be eligible for tax exemption but only if the organization submits documentation of contemplated use or construction for exempt purposes.

In addition, a property owned by one NFP may be eligible for a tax-exemption if all or a portion of it is rented to another qualified NFP as long as the rent paid does not exceed the maintenance, depreciation, and carrying costs of the property. Ascertaining these carrying costs and allocating them to the portion of the property leased to the other NFP can be problematic.

Conclusion

As noted in Part 1 of this column, states and localities are always on the lookout for new sources of tax revenues, and they have every incentive to look at whether properties owned by NFP health care providers—and particularly those of large health care systems—are being used principally or primarily for the organization's exempt purposes. As such, every NFP health care provider should periodically review how each of its tax-exempt properties is being utilized, and whether its tax-exempt status can be justified and defended.

Francis J. Serbaroli is a shareholder in Greenberg Traurig and the former vice chair of The New York State Public Health Council.

New York City Tax Assessments Disregard Reality

New York City has published three tax-year assessments since COVID-19 swept into our world. The New York City Tax Commission and New York City Law Department have had ample opportunity to reflect and refine their thinking on those assessments.

The disease broke out in Wuhan, China, in the fall of 2019 and soon spread around the world. Most of New York City noticed its impact in February and March of 2020 as businesses shut down at an accelerating rate, warranting government mandates and additional closures.

So, what did New York City do for the 2020/2021 tax year? It significantly raised tax assessments. The Tax Commission and other review bodies refused to base their valuations upon the devastating catastrophic effects of COVID-19 that had ravished the city.

Why do this, you ask? The answer is technical. New York City values real estate on a taxable status date, which is Jan. 5 each year. On Jan. 5, 2020, COVID-19 did not exist in assessors' evaluation process. Nor did it exist in the review of assessments later in the year.

Employment restrictions, masks and lockdown requirements made it impossible to operate theaters, hotels, restaurants and many other business enterprises. These restrictions took effect long before the first installment of property tax payments for the 2020/2021 year had to be paid. Yet hotels found that their tax bills exceeded their total revenue. Other businesses had similar experiences.

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The city's next assessment, for the 2021/2022 tax year, reduced assessments by 10 to 15 percent in some sectors, and by as much as 20 percent for hotels. It was too little, too late, and many businesses were failing. The assessment review process was slow and unsympathetic to the plight of businesses devastated by COVID-19.

The Jan. 5, 2022, assessment roll attempted to recoup a modest amount of the value trimmed from taxpayers' properties the previous year. This, in spite of the destructive effects of the Omicron variant that were at their height on the Jan. 5 valuation date. That is the truth: New York City's newly released fiscal 2022/23 property tax assessment roll presents a market value of almost $1.4 trillion, an 8 percent increase in taxes and estimated taxable assessments of $277.4 billion. That sounds like too much!

Real estate tax increases have come at a time when most property owners and businesses have not even begun to recover from the pandemic's economic impact. Foreign and business travel have disappeared, street traffic is down and empty storefronts abound.

Commercial rents in Herald Square are down 27 percent from pre-pandemic levels. However, high bills due to ever-increasing inflation remain to be paid. Mortgages, payrolls and maintenance costs add to the burden of businesses in New York City. Most properties are still struggling, and many are falling behind.

Hospitality has been hit especially hard. Hotel revenues and prices have dropped to unsustainable levels. COVID rules and fears have evaporated any growth in tourism. One example of the pandemic hotel market value decline is the recent sale price of the DoubleTree Metropolitan at 569 Lexington Ave., which was 50 percent less than the price it sold for in 2011.

While a few market values have increased, tax increases should have been delayed. For Class 1 real estate, which includes residential properties of up to three units, total citywide market value rose 6.7 percent to $706.8 billion from the previous year's tax roll. For Class 2 properties (cooperatives, condominiums and rental apartment buildings), the total market value registered $346.9 billion, an increase of $27.8 billion, or 8.7 percent, from the 2022 fiscal year. For Class 3 properties, which include properties with equipment owned by a gas, telephone or electric company, market value is tentatively set by the New York State Office of Real Property Tax Services at $43.6 billion.

Last but definitely not least, total market value for commercial properties (Class 4) increased by 11.7 percent citywide to $300.8 billion. Manhattan had the smallest percent increase in market value at 10.3 percent. Class 4 market value is down $25.2 billion, or 7.7 percent, below its level for the 2021 fiscal year. Hotels registered a market value increase of only 5.3 percent.

These slight increases in market value do not warrant this year's increase in taxes. Businesses are still affected by the economic impact of the pandemic and need time to recuperate. The city's Department of Finance admits that although values increased for the 2023 fiscal year, they remain below the 2021 fiscal year values for many properties due to the impact of the pandemic.

The Department of Finance also acknowledges in its announcement of the tentative tax roll that commercial property values remain largely below pre-pandemic levels. This underscores why the increase in taxes should have been delayed, at least until properties and businesses attain pre-pandemic values.

Strategies for Relief

In appealing assessments, property owners can improve their chances for obtaining relief by quantifying property value losses. For hotel owners and operators, this means gathering documentation showing closure dates, occupancy rates and any special COVID-19 costs incurred. Most industry forecasts anticipate at least a four-year recovery period for hotels to reach pre-pandemic revenues.

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Retail and office property owners should be prepared to show any declines in gross income and rents received or paid on their financial reports filed with the city. Residential landlords should list tenants that vacated and those that are not paying rent.

In conclusion, tax assessments must reflect the entirety of what this pandemic has done to the real estate industry over the past 22 months. New York City authorities must provide tax relief for property owners, and taxpayers and their advisors will need to take an active part in obtaining reduced assessments.

Revaluation Proposal Receives No Support

The revaluation of property in the city of Jamestown will not start this year.

On Monday, the Jamestown City Council unanimously voted down the proposal to hire GAR Associates for $285,000 for the reassessment of city property. During the meeting, no council members announced why they voted no on the proposal.

Following the meeting, Anthony Dolce, council president, said he believes people are against the property revaluation starting this year because of the COVID-19 pandemic and the rise in inflation. He said it's never a good time to do a revaluation, but especially right now wouldn't be a good time to raise property taxes for some homeowners.

"I think people were kind of torn on it," he said.

Dolce said city officials understand a reassessment needs to happen at some point because one hasn't been done since 2006. He said city officials will look into other options in the future, which might include hiring temporary employees to possibly do the reassessment in-house.

Dolce also said housing data from 2006 was going to be used if a revaluation was done this year. He said, when the reassessment is done, new housing data instead of 16-year-old information probably should be used.

After the meeting, Jamestown Mayor Eddie Sundquist said his administration's intent on proposing the revaluation this year was to try and do it at a lower cost because it will be more expensive in the future. He said city officials were trying to avoid "sticker shock" on how much a reassessment might cost once the state forces the city to perform one. State officials recommend that municipalities do a revaluation every five years.

Earlier this month during the council's work session meetings, there had been discussions on if this was the best time to start a revaluation process in the city. According to Lisa Volpe, city assessor, if the city waits another year to do the reassessment, it might cost the city an additional $400,000 because of how old the housing data is on city properties.

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"Because New York state only allows you to use data for six years, and since it's been 15 (since the last revaluation), they were willing to let it go this year, but next year they're going to want an entire project, and the previous project cost $1 million, but (GAR Associates) is able to get it down because New York is acknowledging what they now have," she said.

Also earlier this month, Jeff Russell, At-Large councilman, asked Volpe why the city doesn't do the reassessment of property in-house. Volpe said the city's assessors office doesn't have the staff necessary to meet the state's timetable to do the revaluation program on its own.

Russell said people who have recently purchased a house in the city of Jamestown for more than the asking price because of low-interest rates are concerned about the revaluation. He said that he is worried the revaluation might drive people out of the city.

Last fall when the reassessment was first discussed by the council, Volpe said the last time a reassessment was done the total assessed property value in the city increased 263%. She said performing a reassessment could also lower the city's tax rate.

Volpe said a house assessed at $70,000 that saw no change in its value could see a tax decrease of $112. She said the equivalence rate in the city is 93%, which contributes to a higher tax rate due to inequity in values.

How NYC property tax bill is calculated

The New York City property tax is the city's main source of revenue. When viewing a property listing online, the NYC property tax is provided as a monthly amount but is paid quarterly. Your property tax bill shows your current and past due property tax charges, exemptions, abatements, credits and general information about how your property tax is calculated.

Below are guidelines on how the NYC Class 2 property tax bill is calculated. Class 2 property is defined as coop, condo and rental buildings with 4+ units.

1. Determine market value
The market value of a Class 2 property is determined based on its income producing potential. The income and expenses of rental properties that are similar in size, location, number of units, and age are used as comparables in the statistical modeling.

2. Determine assessed value
The actual assessed value of Class 2 properties is calculated by multiplying the property's market value by 45 percent. According to New York state law, assessed value increases for buildings with 10 or less units is limited to 8 percent per year or 30 percent over five years.

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3. Determine transitional assessed value
Changes to the assessed value of Class 2 properties with 11+ units are phased in over a five-year period. If there are multiple phase-ins in a year, this results in a transitional assessed value. To arrive at your property tax bill, NYC takes the lower of the actual assessed value or the transitional assessed value.

4. Apply exemptions on file
Seniors, veterans, clergy members, persons with disabilities, and homeowners can benefit from tax exemptions and abatements offered by the City of New York. The condo/coop abatement is a key exemption for property owners using the property as their primary residence.

If you are given an exemption, it is deducted from your property's assessed value, lowering the taxable value.

5. Property Tax Bill
To calculate your annual property tax, NYC multiplies the taxable value of your property by the current tax rate for your property's tax class. The rate for Class 2 properties as of 2022 is 12.235 percent. Any abatement is deducted from your tax bill if your property is eligible.

Note that property tax rates change each year, as well as the value of exemptions and abatements.

Property tax calendar

January: Notice of property value sent to property owners.

February 15: Deadline to apply for condo/coop abatement. Managing agents apply on behalf of unit owners.

March 1: Deadline to challenge your market or assessed value.

May: Final assessment roll released.

June: Mailing of first property tax bill for upcoming tax year.

July: New tax year begins.

November: New tax rate is determined, if July bill is based on the prior year's tax rate.

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NORTH CAROLINA

Soaring Property Values Could Mean Soaring Revenue For Greensboro

Property owners in Greensboro who have received the 2022 value of their property from Guilford County don't need to be told that the Guilford County revaluation has sent their property values soaring.

The increased value of individual property varies, but at the City Council retreat on Wednesday, March 23, Greensboro Financial and Administrative Services Director Marlene Druga said, "It will be an overall average in the range of a 15 to 20 percent increase. A lot of people are above that and a lot of people are below that."

She added that while all the figures were not complete, it appeared the increase would be closer to 20 percent, and that it was possible it could go higher.

The City Council has the opportunity to offset what will be a sizable increase in property tax bills for property owners in Greensboro by lowering the current Greensboro property tax rate from the current rate of 66.25 cents to the property neutral tax rate. If the increase is 15 percent, the reduction would be to 58 cents, and if the increase is 20 percent, the revenue neutral property tax rate would be 56 cents.

The revenue neutral rate is the rate that would raise about the same amount of revenue for the city as if there had been no revaluation. The revenue neutral rate allows for growth but would result in the average property owner paying about the same in Greensboro property taxes in 2022 as in 2021.

If the City Council does not lower the tax rate, then the city will see an increase in property tax revenue of between 15 percent and 20 percent, and there doesn't appear to be any support on the City Council for lowering the tax rate to the revenue neutral rate, which would provide tax relief for all the property owners in Greensboro.

However, the City Council did discuss establishing programs for low-income property owners, particularly senior citizens who would have difficulty handling the massive tax increase.

Councilmember Justin Outling suggested Greensboro establish a program similar to one in Charlotte where low-income property owners "effectively at the end of the day would pay the same taxes."

Such a program would offer no relief for moderate income property owners, who also might struggle with a property tax increase of 15 percent, 20 percent or more.

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PENNSYLVANIA

City Council members call for wealth tax in Philadelphia

Philadelphia City Councilmembers Kendra Brooks and Jamie Gauthier joined Massachusetts Senator Elizabeth Warren, and local union leaders today in calling for a wealth tax on Philadelphia residents who hold stocks and bonds.

The bill would revive an old statewide Personal Property Tax at a rate of 0.4%. Under the tax, someone holding $1,000 worth of stock would pay $4, for example.

The tax would apply to all Philadelphia residents, but the idea is that it would mostly affect the wealthiest, who are much more likely to directly own stocks or bonds. The tax would not affect retirement accounts, pensions, or bank checking or savings accounts. Federal Reserve data from 2021 shows that the wealthiest 10% of Americans hold almost 90% of the stock on the market.

The wealth tax would make the richest residents pay taxes to fund services for those most in need, said Brooks, who lives in Nicetown.

"The long shadow of trickle-down economics haunts my community to this day," she said. "You can see it in the widening racial wealth gap, you can see it in the way billionaires have increased their wealth over the pandemic, while my neighbors are on the brink of eviction."

The City Council members point out the city budget has fallen by $220 million from 2020 to 2021, leading to cuts in homeless services, street cleaning, and public libraries. They estimate that the hundreds of millions of dollars from the tax would be able to fund at least homeless services, libraries, and the parks department, based on the city's 2021 budget.

Councilmember Jamie Gauthier said she sees the impact of losing these services every day in west and southwest Philadelphia, which she represents.

"Fixing these issues requires resources and that's exactly what the wealth tax will bring to our communities that are most in need," she said. "I want to be very clear that this is not charity — it's what Philadelphians and Black and Brown Philadelphians in particular are owed."

After years of drama over unfair property taxes, Council considers a land tax that advocates believe could lower assessments for some property owners.

As Billy Penn's Jordan Levy explained, the Personal Property Tax in Pennsylvania goes back to 1913, from an even older policy that taxed "intangible and tangible personal property."

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Legislators changed the law so individual counties could decide whether or not to enforce it; Philadelphia chose to keep the tax. Companies challenged the tax in the 1990s, leading to a U.S. Supreme Court decision that a policy in North Carolina was unconstitutional because it exempted businesses based in-state and run by state residents. Pennsylvania had a similar exemption; a judge ruled the exemption illegal but not the tax, and Philadelphia and most counties just chose not to enforce it.

Brooks had called for bringing back the tax in 2020, but that never got a hearing. Brooks said there is a broader base of support for the bill this time, including from two local municipal employee unions, whose leaders were at the press conference, as well as Massachusetts Senator Elizabeth Warren.

Warren said she is working on similar legislation at the federal level, and said that President Biden's proposed minimum tax on billionaires is a good sign. The wealth tax supporters also point to similar efforts in California and Washington state as a sign that this is not a unique policy idea.

Will Pa. ever get serious about property tax reform?

School property taxes are the most hated levies in Pennsylvania.

Senior citizens who don't have any children in the schools pay a large part of the taxes whose constant increases makes it hard for them to stay in their houses.

On the other end, high property taxes make in increasingly difficult for young people to buy houses.

Their elimination or at least reduction of property taxes has been talked about for decades but nothing significant has been done to solve this ever-growing problem.

Over the years, lawmakers have unable to agree on a viable alternative to the taxes. One legislator, state Rep. Frank Ryan, R-Lebanon, has come up with a serious plan, much better than others which failed to come up with any realistic way of replacing the $16 million raised by school property taxes.

However, his plan, which is now before the House Finance Committee, has almost no chance of ever becoming law.

Ryan's plan calls for increases in the income and sales taxes, which have been talked about endlessly in the past.

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But he threw a new wrinkle in, taxing income for retirees. While his plan would exempt Social Security benefits, employee contributions to defined contribution plans, and military pension or survivor benefit payments, it would include all types of other income earned by retirees. Currently retirees pay no income taxes, and any type of change will certainly be controversial.

Ryan maintained that some tax increases are needed, contending that school property tax rates are forecast to double in 17 years and triple in 30 years.

Pennsylvania must institute the tax or face long-term consequences, Ryan said.

“Everybody wants to get rid of property taxes as long as the other person is the one who is going to pay the replacement tax,” Ryan said. “It is clear that any solution will require sacrifice on the part of all Pennsylvanians.

“Pennsylvania is not a growth state. We are attracting seniors. You know why? We don’t tax retirement income. We’re one of six states in the United States that don’t.”

“I’m going to guarantee you this, the next recession we’ll have to start taxing retirement and you’ll still have property taxes. You can see the handwriting on the wall,” added Ryan.

Recognizing the complexity of his plan, Ryan unveiled a calculator that allows homeowners to calculate the impact the plan would have on their tax bill.

In a statement, Ryan outlined the benefits of his plan.

“House Bill 13 would end Pennsylvania’s archaic reliance on property taxes that unfairly burden our growing population of seniors and stifle our economy,” said Ryan. “It would enable us to transition to fair and reliable funding sources for our schools, which will provide more effective management at the local level. If we do nothing, Pennsylvania residents will continue to lose their homes and the precarious nature of school funding will continue.”

However, no matter the benefits, it’s very unlikely that Republicans will do anything that remotely resembles passing a tax increase, especially with the governor’s race on the ballot in November and many legislative seats up for grabs.

Consider that Senate President Pro Tempore Jake Corman, R-Centre, is making his opposition to Gov. Tom Wolf’s proposed tax increases one the biggest parts of his campaign to become the state’s next governor.

But Wolf’s biggest proposed tax increase was actually very close to Ryan’s plan to eliminate property taxes. He also wanted to increase sales and income taxes to reduce property taxes. Republicans refused to negotiate with Wolf and the impasse eventually caused the longest

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budget stalemate in the state's history. And Wolf's proposal contained no tax increases for retirees.

A budget wasn't passed until the following spring and was never signed into law by Gov. Wolf. It became law when Wolf refused to veto the measure.

So, it seems very unlikely that Republicans would now go along with taxing the income of senior citizens for the first time. Furthermore, the plan comes up at about the worst time ever with inflation soaring and all the uncertainty surrounding the war in Ukraine.

Also as usual is the Legislature's light schedule, which makes it hard to do anything never mind something as complex as property tax reform.

The House will only be in session for 15 days until budget talks begin in June. It will only be in session for six days in September and three in October.

The Senate will only be in session for 12 days until June. No schedule has been announced for the fall.

Such inaction makes it very likely that school property taxes will continue to be the most hated levies in Pennsylvania for years to come.

TEXAS

Property tax values hit historic levels in Williamson County

It's no secret the price for a home in the Austin area has dramatically increased. The price jump has even caused some sticker shock at the Williamson County Appraisal District.

"We have been surprised," said Deputy Chief Appraiser Chris Connelly.

2021 was a record year in Williamson County with a nearly 20% jump in appraisals from the previous year. The increase, for 2022 Williamson County appraisals, is tracking at more than 40%. The notices start going out in April and Connelly said residents should not panic

"I don't expect it to go through the roof. There will be an increase, but again we have to wait for the values ae certified in July and then the taxing entities take all the market value that we have set in the county, and they begin the process of setting their rates," said Connelly.

State lawmakers limited how much local governments can rake in. Budget amounts above set caps must go before voters to approve the larger tax hike. A homestead exemption also caps property valuation increases at 10% a year.

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But over time the steady climb could be too much to bear.

"Well I feel bad about it because I'm retired and it's going to be going up 10% a year and that's probably going to be beyond what we can afford right now," said Georgetown resident Hugh Wilson.

The new spike in valuation may even make filing a challenge not worth the effort. That only adds to the frustration.

"With all the variables involved, I don't know if there is a solution that is that easy," said Williamson Co Resident Jennifer Van Pelt.

The tax bill increase for those who own rental property could also mean a higher bill for those living in apartments. One owner told FOX 7 he estimates a rent rate increase by more than $200 is possible.

In Travis County, the number crunching on valuations is still going on, but the collection for 2021 is wrapping up. That process has a surprise result and an offer for some help.

The payment rate for 2021 in Travis County is at almost 98%, a big achievement considering the pandemic. But about 32,000 property owners are delinquent as of Monday which concerns Travis Co Tax Assessor-Collector Bruce Elfant.

"We absolutely encourage people to come to us to talk about their issues and put them on a payment plan," said Elfant.

Elfant told FOX 7 there is also federal pandemic relief money. The grant program is currently only for tax delinquency in 2020-21. Those who apply must prove how COVID caused a financial burden.

"For some people this could be the difference between keeping their house and not keeping their house. So we think it's that important," said Elfant.

The federal grant money can also be used to pay overdue bills for medical treatment and insurance payments as well as HOA and condo fees.

Elfant went on to urge those who need serves to first go to the county website. A staffing problem has created long lines at the office.

Texas government's favorite local tax

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State lawmakers will tell you they hate property taxes as much as anyone. But the state itself doesn't levy the tax — local governments do. And lowering it in a meaningful way would require state officials to raise taxes or cut programs. For them, talking about it is easier than doing something.

If you think about it, property taxes in Texas are a pretty sweet deal for the state government.

Owners of homes and other properties don't like it so much, and neither do renters, who pay the tax invisibly through the owners of the properties they rent. Texans pay some of the highest property taxes in the U.S. The state ranks sixth nationally in property taxes paid as a percentage of owner-occupied housing value, according to the Tax Foundation. That organization ranks Texas 13th among the states in property tax collections per capita. It also says only three states rely more heavily on property taxes than Texas, where 44% of all local and state tax collections come from property taxes.

But the state of Texas itself doesn't levy a property tax. Only school districts, counties, hospital districts and local government entities can do that — and they often use those locally raised property tax dollars to cover holes left in their budgets by the state.

It has proven almost impossible to get meaningful property tax relief from the same state politicians who campaign on that issue every two years. Not only are they insulated from collecting property taxes, but the only way to lower property taxes is to either cut services and programs that Texans want, like public schools and public health, or to raise other taxes themselves.

Making sympathetic noises about Texans' high property taxes while not actually doing anything meaningful to lower them is much easier — and, so far, has provided legislative and statewide incumbents with a powerful and perennial political issue that doesn't require them to do anything they'd consider painful.

In the case of school district taxes in particular, that means Texans pay higher property taxes because the state relies on school districts to lower its own bill for public education. It's baked into the state budget, as pointed out, most recently, by the Texas Association of Appraisal Districts.

"An increase in property taxes is sometimes needed to keep the police and fire departments adequately funded, along with our schools, hospitals, and other vital services for our communities," TAAD wrote in a recent news release. "The State of Texas also benefits from property taxes to the tune of over $5.6 billion in a two-year budget cycle. That's 75% more than the state makes from the lottery."

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That money is the difference between what the state spent on local schools and what it would have spent without increases in local property values. If you haven't been looking, those values are soaring, which has the effect of raising property tax bills and lowering what the state needs to send to your local school district for its share of the costs.

The state has more money to spend — $5.6 billion — as a direct result of higher property taxes. And state officials don't have to answer for it, really: They just say theirs is not the government collecting property taxes. They have cleverly outsourced that political liability — collecting a hated tax — to your local school board.

Schools is the big one, but not the only case where what happens in Austin affects the size of your local property tax bill.

For years, the Legislature has refused to expand Medicaid to cover more people, or do much else to get the state out of its worst-place position when it comes to the number and rate of people without health insurance. Those 5.4 million people — that's a bigger population than 28 states — instead rely on uncompensated health care, when they get any health care at all. Who pays for uncompensated health care? County hospital systems and other patients. Those county systems are funded, in large measure, with property taxes.

It's a roundabout circuit, but it's safe to say there would be less pressure on your local property taxes if the state government would find a solution to the uninsured care problem. Other states have done it, with varying effects: All 49 of them have better results than we do when it comes to health insurance coverage.

State officials in Texas like to say that they hate property taxes just as much as you do.

Maybe.

Property taxes are levied by local officials, and state officials can complain about it without being blamed for the trouble taxpayers have with it. Texas doesn't have a personal income tax, a bragging point for everyone involved in economic development, and a relief for anyone with a personal income. The cost of that is higher-than-average sales and property taxes.

The state sets sales taxes, though changes in the rate are rare. And it more or less requires property taxes by requiring local governments to provide services and programs and to rely so heavily on those taxes to pay for the work. And state officials get a bonus: Their local counterparts get stuck with the blame.

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Harris County homeowners should expect a big spike in value on their new property appraisals

The surging cost of homes is not only hitting the wallets of homebuyers — it's poised to increase costs for the majority of existing property owners in Harris County.

On Friday, the Harris County Appraisal District will begin sending letters to property owners notifying them of their new appraised values — off of which taxes are calculated. The average home value increase was a staggering 21 percent. The average apartment value rose 24 percent.

"Value increases this year have been unprecedented," said Roland Altinger, HCAD's chief appraiser, in a statement. "In my almost 40 years in the real estate business, I have never, ever seen such large increases in market values."

While most property owners will see their taxes rise, there are a number of mitigating factors that will limit their taxes from rising in proportion to their market values. However, data shows that property owners in more affluent areas are much more likely to take steps to lower their taxes.

How to protest taxes and file for exemptions

Homeowners can either protest their taxes themselves or arrange for a tax consultant to protest on their behalf. It is free to protest taxes, and consultants are usually paid a cut of any money they save their clients.

Protesting taxes involves arguing which recent home sales are most comparable to the property in question and providing information about the current condition of a home. Erwin McGowan, a State Farm agent who has worked with homeowners in the Fifth Ward area for two decades, recommends anyone with damage or maintenance issues to bring quotes for how much it would cost to repair and photos of the damage to the protest - such issues can lower a home's value.

Homestead exemptions limit appraised value increases to 10 percent a year for a home that is a primary residence, and there are exemptions that reduce taxes for those who are 65 and older or have a disability. But there are many who don't know to apply for their exemptions, said Chris Compton, a property tax consultant who protests taxes on homeowners' behalf.

"Without the homestead exemption - Lord have mercy," he said of how much property taxes can surge. Last year, he saw 25 percent increases on some homes without homestead exemptions.

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When he encounters a homeowner who should have an exemption, he helps them file for it. Homestead exemptions can be filed for the current year and retroactively for the year before, which can lead to getting some tax money back. Forms for exemptions can be found on HCAD's website, and they are free to file.

Real estate experts warn homeowners not to throw away the letter they receive from HCAD in the coming weeks. The letters contain not only the new appraised value, but also directions on how to file a protest if a property owner believes the new value is inaccurate.

The percentage of people who file protests — and the average money they knock off their appraisal — differs dramatically between different neighborhoods, according to a 2019 analysis by Houston-based data science consulting firm January Advisors.

A map of the homeowner protest rates show the county's protests are concentrated in the more affluent western side of town, in a wedge stretching from downtown northwest toward Jersey Village and southwest toward Meyerland. In 2019, around 60 percent of homeowners in neighborhoods including Bellaire, River Oaks, West University Place and Bunker Hill Village protested their taxes. Less than 10 percent of homeowners in neighborhoods including Sunnyside, Acres Homes and Gulfgate Riverview — where the median income is below that of the Houston area — protested their taxes.

"A lot of the upper income areas, they protest. A lot of the lower income areas, they don't," said Chris Compton, a property tax consultant who protests taxes on homeowners' behalf. "And a lot of the lower income areas — they get the biggest tax hit" because of the especially rapid rise in property values in certain neighborhoods that had long been affordable.

Often, homeowners who live in areas where protesting taxes is not the norm are unfamiliar with how the process works or are employed at jobs that make it difficult to take the time to go protest in the middle of a business day, said Erwin McGowan, a State Farm agent who has worked with homeowners in the Fifth Ward area for two decades. There, 4 to 12 percent of homeowners protest their taxes.

Many people are also unaware of homestead and senior exemptions, which limit tax increases, Compton said. A homestead exemption is free to file and limits appraised value increases to 10 percent a year.

City, county will likely have to reduce their tax rates

A shortage of homes for sale — the culmination of a perfect storm of world events and demographic change — has caused home prices to soar. Years of underbuilding came to a head when millennials began reaching home-buying age at the same time seniors shifted toward aging in place, which kept their homes off the market. The pandemic caused

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mortgage rates to fall to historic lows and motivated people to move to more spacious accommodations. It also caused supply chain shortages that increased the cost of new construction.

“Residential properties have gone up about 15 to 30 percent in value, depending on where they are located,” said Altinger, meaning homestead exemptions will make a big difference in this year’s taxes.

But just because the average home’s value increased 21 percent doesn’t mean the average homeowner’s taxes will go up 21 percent.

In addition to exemptions for those living in their home as their primary residence and owners over the age of 65 and the ability to protest, a recent state law will likely mitigate property taxes.

In 2019, the state legislature passed a law effectively capping the growth of property tax revenue raised by cities, counties and other taxing entities 3.5 percent a year. (Houston also has its own city voter-imposed law from 2004 that limits property tax revenue growth through a calculation involving inflation and population increases, so it will be bound by whichever is smaller.)

That means Harris County, Houston and other taxing entities would likely have to lower the rate at which they tax homes to stay within the cap. Tax rates are set in the fall, after most protests have been completed.

How Texas Uses Commercial Property Tax Code to Fast Track Growth

Everything’s bigger in Texas, including the tax code. Unique provisions in a state funded primarily by property taxes give commercial owners more control over how and where local government dollars are spent. The Lone Star state is using more than 200 Tax Income Reinvestment Zones (TIRZ, pronounced like turs) to keep up with the growing appetite for new development and better public spaces.

A TIRZ is a political subdivision of a city most commonly initiated by property owners that allow the TIRZ itself to collect a portion of incremental tax increases funded through the appreciation of the appraised property within the zone. In layman’s terms, a TIRZ functions like an HOA, diverting a portion of tax revenue from its municipality to fund improvements with the zone’s boundaries. The funding comes from taxes attributed to new improvements, so the process fuels itself. The more tax revenue generated, the more money for the area, the more it can invest locally to generate more tax revenue. Because taxes are levied on the value of the properties, the system works by garnering a portion of appreciation of the commercial value of the buildings. In effect, a TIRZ gives owners a

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greater say on how to spend tax revenue being generated by their properties to benefit their properties. Similar to a Public Improvement District but with more funding and power akin to a redevelopment authority.

Tax Income Reinvestment Zones of Texas have been a hot-button issue within the state since they were first established in the early 1990s. Developer Robert Silvers wanted to transform the rundown Lamar Terrace neighborhood in Houston but the city's notorious lack of zoning left him with few options to create a planned community. After acquiring more than 100 plots, he began working with the city of Houston to establish the states' first Tax Income Reinvestment Zones: TIRZ Number One. The city agreed to levy the same tax receipts on the zone for the next 40 years. Receipts above that level would go towards funding water, electricity, transportation, drainage, and sewer upgrades within the area. Silvers' plan worked and shortly the TIRZ was raking in millions, expanding to include all of Lamar Terrace Neighborhood, rapidly changing it to the upscale St. George Place neighborhood that exists today. In its first 10 years, the TIRZ generated $40 million in incremental taxes, most of which went directly towards improving the TIRZ.

Combined with a lack of zoning laws, reinvestment zones give commercial owners outsized power in how local dollars are spent. Originally pitched as a way to transform downtrodden areas in desperate need of redevelopment, many of today's TIRZ have established themselves as stewards of some of the state's most valuable real estate. This led to allegations that a TIRZ is just a cash grab from commercial owners tired of forking over taxes that improve areas their assets aren't in. But in a state defined by property tax collection, a collective organization designed to reinvest in an area is actually a way to expand municipal funding. That's exactly what Houston is doing.

Houston has made more use of TIRZ than any other city, now 27 different of them exist in the city covering 90 squares miles. Those TIRZ generate an additional $200 million in tax revenue annually, outside the city's budget. That's the key here. Houston's finances have been hobbled by a state-imposed property tax revenue cap. No matter what the cities finances are like or how fast property values are appreciating in Houston, the city can only raise property taxes by a maximum amount every year. That's left the city scrambling for funding as the area's population explodes but its budget stays stagnate. The last few Houston mayors have struggled with high-profile disputes between the firefighter union, police, and other municipal employees over who gets a larger share of a pie piece that isn't getting bigger. TIRZ funds are exempt from the revenue cap, allowing rapidly appreciating property values to generate additional tax revenue. In Houston, the TIRZ isn't subverting funds, without it more than $200 million in annual tax revenue would not even exist.

"The City Council has been trying to minimize the impact of the revenue cap by the utilization of the TIRZs, that just points to the structural inequity that exists. But you can only do that for so long without hurting the city as a whole," Houston Mayor Sylvester

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Turner told the Houston Chronicle. "So I do think once the revenue cap is removed, then the necessity for the TIRZs is not nearly as great."

It isn't just Houston, across the state cities are working with property owners to establish TIRZ to manage the state's robust growth. Texas' population has grown by more than 4 million people over the last 10 years. Twenty-three U.S. states don't even have a total population of 4 million. Frisco, Texas, is the poster child of explosive growth in the state. The most recent U.S. Census found Frisco is the nation's fastest-growing city with a 71.1 percent population growth rate over the past decade. Frisco formed its first TIRZ in 1997, 713 acres of an undeveloped area bounded by some of the area's most trafficked highways. That Tax Income Reinvestment Zones is now home to the third-largest mall in Texas, Dr. Pepper Ballpark, Dr. Pepper Arena, and many other commercial properties. The zone has generated tens of millions in additional tax revenue that the city has used to keep property taxes for families low and invest back into the community. The TIRZ also has an added benefit for the school district. Money generated by the TIRZ is not counted in the state's Robin Hood formula that redistributes funds from richer school districts to poorer ones. That allows Frisco to keep an outsized portion of tax revenue to fuel further growth. Earlier this year Frisco moved to expanded TIRZ by 583 acres to include 3 golf courses nearby.

In Texas, a TIRZ is akin to a public-private partnership. Private property owners can establish greater local control over an area, freeing some of the financial burdens of the city at large. More and more property owners and commercial developers are establishing TIRZ to help seal in some of an area's prosperity. As Tax Income Reinvestment Zones proliferate, their purpose and mission have been clouded. Like any tool, a TIRZ can be used for good or evil. By and large, most throughout the state have improved and maintained their areas but they are not without drama. Tax Income Reinvestment Zones have faced accusations of improper development, favoring their own developments and projects at the expense of surrounding areas that have greater need. In heavily developed areas, a TIRZ is a way for the rich to get richer but that's not always a bad thing if the TIRZ is reinvesting to facilitate growth.

In a state defined by property taxes that are growing faster than any other, TIRZ has proven to be a useful tool for Texas to manage its growth. By working with commercial property owners and cutting them in on the success of the neighborhood through incremental tax revenue, municipalities are giving property owners additional equity in the prosperity and growth of urban areas.

$4 Million Property Tax Abatement Approved for Georgetown Circuit Manufacturing Facility

The county and city governments approved the 50 percent reductions in the facility's taxable property value.

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Williamson County commissioners and the Georgetown City Council approved 50 percent property tax abatements for a 300,000 square-foot circuit-manufacturing facility to be built in Georgetown.

CelLink, the California-based tech company receiving the abatements, pegs the total capital investment at $130 million over five years. They further state that 800 people will be employed by the operation in five years, with the potential to reach 2,000 in 10 years. Construction for the building is expected to be completed by June.

“We are excited to see Georgetown become part of the growing electric vehicle and energy storage industries,” Georgetown Mayor Josh Schroeder said. “Companies like CelLink and industrial park developers like Titan will strengthen the economic foundation of our community bringing sales tax revenue, creative talent, and good jobs to our city.”

The facility will be leased by CelLink from Titan Development. Both agreements are Chapter 312 agreements, abatements available to cities and counties in the Texas Tax Code.

The combined fiscal impact of the two deals is about $4.3 million, meaning the company will save that much money in city property taxes during the period.

Williamson County’s agreement states that in the abatement’s sixth year, the property’s taxable value must be at least $80 million. CelLink will also benefit from a $2.5 million infrastructure grant from the Georgetown Economic Development Corporation.

Records from the Texas Comptroller of Public Accounts show no Chapter 313 application from CelLink with Georgetown Independent School District. Chapter 313 of the tax code was not renewed by the Texas legislature last year, but Chapter 312 was renewed for 10 years back in 2019.

“This new manufacturing facility is ideally located in Central Texas to serve our customers, many of whom are electric vehicle manufacturers,” CelLink CEO Kevin Coakley said. “Georgetown provides access to a skilled and educated workforce in the region fostered by advanced Texas State Technical College and Austin Community College curriculums in high-tech manufacturing. It has all the amenities of a vibrant city, making Georgetown a perfect fit for our expansion.”

The abatements also include a 75 percent reduction in the taxable value of business personal property — all pieces of property a business owns and uses in its operations that isn’t the land on which they sit.

CelLink’s circuits will be used in electric vehicles and battery storage products. The facility’s location is between I-35 and State Highway 130. Williamson County’s population is growing rapidly, ranked in the top six nationally for growth rate.

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WEST VIRGINIA

West Virginia Legislature Passes Bill Changing Oil and Gas Property Tax Valuation Methodology

On Friday, March 11, 2022, the West Virginia Legislature passed H.B. 4336, which changes the methodology the State Tax Commissioner utilizes for oil and gas property tax valuation.

Specifically, H.B. 4336 requires the West Virginia State Tax Commissioner to develop a valuation approach for properties producing oil, natural gas, natural gas liquids, or any combination thereof, at its fair market value determined through the process of applying a yield capitalization model to net proceeds.

H.B. 4336 specifies that net proceeds would be determined based on the actual gross receipts on a sales volume basis determined from the actual price received by the taxpayers as reported on the taxpayer's return, less royalty interest receipts, and less actual annual operating costs.

Further, H.B. 4336 specifies that the yield capitalization model will be composed of a working interest model and a royalty interest model and that the summation of the working interest model and royalty interest model shall represent the fair market value of the property.

The Bill also provides a safe harbor provision for marginal well costs, limitations on calculations by the Tax Commissioner, annualized gross receipts and operating expenses before calculation of the models, limitations on minimum well valuations, an effective date for all assessments made on or after July 1, 2022, and a sunset date of July 1, 2025.

H.B. 4336 also requires the Tax Commissioner to propose legislative rules, including emergency rules, to implement the new law.

The Bill will now be forwarded to Governor Justice for his signature.

VIRGINIA

Land value tax helps realize the Richmond 300 vision

Since the 1990s, Richmond's story largely has been one of success. Spurred and supported by the expansion of the Mid-Atlantic Interstate 95 corridor, the city saw employment increase, population loss reverse and median incomes increase from $24,000 in 1990 to $54,000 in 2020.

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Yet, as often is the case, Richmond's rising tide failed to lift all ships. Today, the city's poverty rate remains at roughly 25%, with areas in decline standing in noticeable contrast to their more affluent counterparts. Add to this the prevalence of undesirable land uses — including vacant and blighted parcels, and surface parking lots; and very real concerns about continued sprawl development — and it is clear that, despite its progress, Richmond's efforts to become an equitable, vibrant, sustainable urban center have yet to come to full fruition.

Of course, many people remain committed to bettering the city, as evidenced by the local adoption of the "Richmond 300: A Guide for Growth" plan in 2020, and the General Assembly's passage of Chapter 790 in the same year, which enables the city to adopt a land value tax (LVT) in place of its current property tax system.

Why mention a single tax policy alongside an ambitious strategic plan meant to direct the city's development, growth and change through 2037? The simple act of adopting the LVT will prove a fundamental step toward realizing the 17 goals, 73 objectives and 415 strategies contained in the Richmond 300 plan. Here's how:

In academic studies of U.S. cities and towns that use it, the LVT has been shown to yield a variety of desirable outcomes, including increased home values, reductions in tax delinquency, enhanced tax equity, and increases in infill development paired with reductions in sprawl. The key to all of this is the LVT's practice of untaxing improvements — the homes and businesses people work and borrow to create — while more heavily taxing land, an inelastic good whose value derives mostly from the community in which its located.

Confused? Think about what the old real estate adage "location, location, location" really means. It turns out that untaxing private buildings encourages investment in improvements, and upping taxes on land returns more of the value created by public investments, in things like parks, schools and roads, to the public coffers.

This all probably sounds good, so what's the catch? If there is one, adopting the LVT would change the tax bills of virtually every property owner in Richmond. The policy can (and should) be implemented in a revenue-neutral fashion, and it will rely on current property assessment data, so neither of those factors explains the anticipated changes. The changes will result from the fact that the LVT relies on new tax rates to generate property owners' tax bills: It's simply a matter of different math producing different numbers.

Change can be scary, and any change that affects people's pocketbooks can be especially so. But an analysis of what the LVT would mean for Richmond is far from scary. In fact, it's downright exciting.

Our New Jersey-based nonprofit has been working with City Councilman Andreas Addison, 1st, on research and analysis of a land value tax in Richmond. Using the city's 2022

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assessment data, we ran some analyses based on a conservative version of the LVT — one in which 50% of the total tax revenue comes from the value of land.

Here's what we found: Richmond is home to about 6,000 vacant lots. With no improvements to speak of, the associated tax bills for these parcels currently are quite low, making them easy to hold onto until "the market is right."

Under the LVT, owners of vacant land will see their bills go up by an average of $387 annually. This shifts roughly $6 million of tax burden away from productive land uses and incentivizing redevelopment, which in turn can reduce development pressure at the city's periphery.

Like vacant lots, surface parking — of which Richmond has about 1,000 lots — also will pay more under the LVT. An inefficient use of urban space, these lots will collectively pay about $3 million more each year, further reducing tax pressures on owners of improved properties and (likely) spurring better land use decisions.

Finally, let's consider the effects of the LVT on Richmond's lifeblood: homeowners and business owners. Most residential property owners will see reductions in their tax bills of about 2%, on average. Commercial land does even better. Downtown's flagship spaces, Class A and B office buildings, would see their current tax bills reduced by an average of almost 50%.

More in-depth analysis, and a lot of public outreach and education, are needed before the city of Richmond can implement the land value tax it authorized in 2020. As experience and the city's actual tax data make clear, however, adopting this policy will be an important step toward realizing the vision encapsulated in the Richmond 300 plan.

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